



Please find attached our latest newsletter about recent economic and political developments in Turkey.

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Best regards,

Your FMConsulting Team

Newsletter June 2008

Economy

Overview of Monthly Data

YTL-Rates	05.31.2008	06.30.2008	Change in %
YTL pro Euro	1.8796	1.9370	3.05
YTL pro USD	1.2125	1.2263	1.14

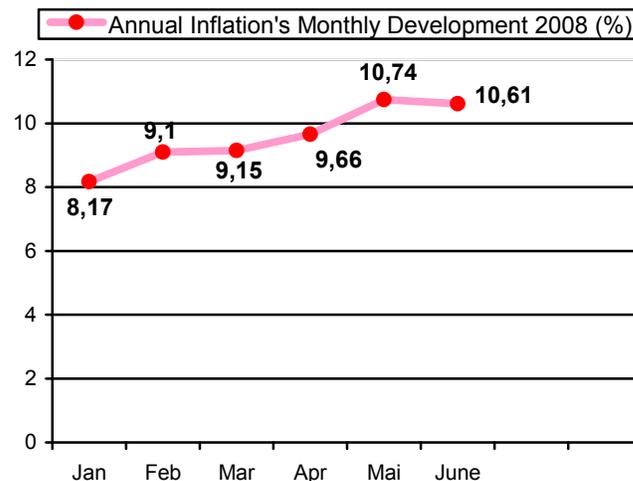
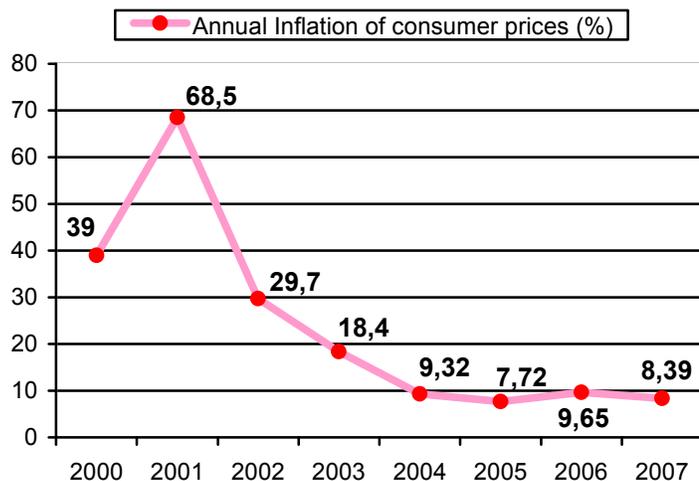
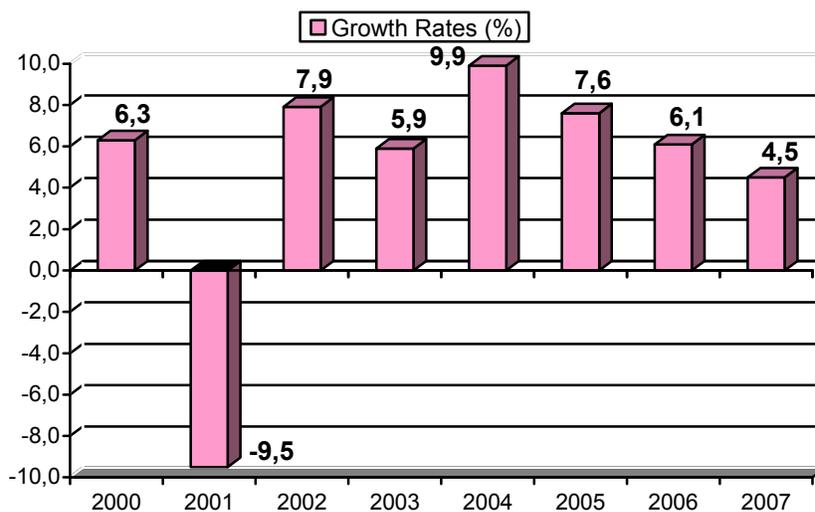
Stock exchange index	39,970	35,090	-12.21
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.32	17.03
Consumer prices	-0.36	10.61

Growth Rates

Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly

2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9
2004	13.9	15.7	5.7	6.6	9.9
2005	7.5	4.7	8.0	10.0	7.6
2006	6.3	9.3	4.3	4.6	6.1
2007	6.7	3.9	2.0	3.4	4.5
2008	6.6				



Recommendations from Kemal Dervis for the Next 10 Years

Economic and political difficulties encountered by Turkey were in focus during the Turkish Industrialists and Businessmen Association (TUSIAD) High Consultation Council meeting. UNDP's Administrator Kemal Derviř, presented his recommendations for 2010-2020, and explained that internal savings would be increased and emphasis placed on the importance of economic growth. He noted that a 7% growth rate within the period of 2010-2015 would see employment rates

increase by 2.5%.

Development recommended by Dervis

%	Today	2010-2015	2015-2020
Growth	4-4.5	7	8
Employment increase	2	2.5	2.5
Investment environment	21-22	26-28	28-30
Savings	16-17	23-25	25-27
Balance of payments	6-7	2-4	2-4

Electric shock hits the real sector

Industrialists rebelled after a 22% increase in electricity prices. It is stated that initially the Textile sector will be hit hardest due to competition with the Far East, but many sectors shall be affected negatively and none of the sectors will be able to tolerate these price rises

Turkish economy grows beyond the expectations by 6.6% in the first quarter of the year. Private investors induces and construction sector recesses

Private sector investments increased by 11.3%, affecting the growth and purchases of the private sector by 15.6% and 37.2%. The biggest industrial growth has been experienced in the health sector and social services activities (11.8%). The agricultural sector, which saw a 6.9% recess in the first quarter of 2007 grew by 5.6% in the same period of 2008. However the construction sector grew by only 2.8%.

How did the economy grow in the first 3 months of the year? (%)

1. Quarter	Share (velocity) of the sector in total amount	2008 growth rate	2007 growth rate
GDP	100,0	6,6	7,6
Agriculture	3,9	5,6	-6,9
Fishery	0,2	-4,4	-2,3
Mining	0,7	8,4	9,3
Industry	25,8	7,0	10,2
Energy-water	1,8	8,5	7,0
Construction	6,3	2,8	8,8
Retail	14,1	9,9	6,3
Hotel- restaurant	1,4	5,2	7,3
Transportation	15,4	7,7	8,4
Financial intermediary	10,3	8,9	12,7
House ownership	5,0	1,5	2,6
Real estate leasing	3,8	-0,5	15,9
Public administration	3,1	3,6	-1,0
Education	2,2	0,6	7,6
Health	1,5	11,8	2,8
Social services	1,7	-0,8	6,8
In-house personnel	0,2	-0,5	14,1
Sector total	97,4	6,4	7,6
Intermediation services	6,6	8,0	13,2
Tax office	9,0	9,6	9,7

Domestic consumption of residents and non-residents (YTL one thousand on the basis of current prices) 1st period- 2008

Consumption of residents and non-residents	170.560.156
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Food, drink and tobacco	45.440.115
Garment and shoes	11.257.781
Energy in the houses	33.904.525
Furniture, housing appliances and house maintenance services	14.014.063
Health	7.211.438
Transportation and communication	28.982.671
Leisure and culture	7.180.976
Education	3.005.021
Restaurants and hotels	8.222.341
Various goods and services	11.341.224

How did we spend income in the first 3 months of the year? (%)

	Share (velocity) of the sector in expenditures	Increase in Expenditures in 2008	Increase in Expenditures in 2007
Total	100,0	6.6	7.6
Private Consumption	73.8	7.3	5.5
Public consumption	8.9	4.2	4.7
-Salary, wage	5.2	0.4	0.8
-Goods, service	3.6	10.1	11.5
Investment	25.7	9.5	2.0
Public investment	2.1	-7.7	4.3
-Machinery, equipment	0.3	37.2	-3.6
-Construction	1.8	-12.1	5.1
Private investment	23.6	11.3	1.8
-Machinery, equipment	14.7	15.6	-4.5
-Construction	8.9	4.8	12.9
Stock exchange	-2.9	44.9	-47.7
Export	25.3	12.2	12.5
Import	30.8	11.9	8.6

Both warning and assurance messages from the foreign investor

Senior managers of 19 international companies with a total turnover of 777 billion dollars, met in Istanbul for the 5th Investment Consultation Council and giving their backing to Turkey. Vice-President of Danone, Jacques Vincent stated that they would open a new factory in Turkey and President of Mango, Isac Andic Ermay said "We increased the number of our stores in Turkey". Vice-President of Cisco, Mohsen Moazami stated that political development did not discourage them from making investments in Turkey whilst some of the financial investors warned the government "Return to the inflation targets, determine financial rule".

Iron-steel incites, export increases by 34.8% in June

Turkish exports in June realized 12.7 billion dollars after increasing by 34.88% compared to the same period of the last year. Year to date exports reached 67.14 billion dollars with an increase by 36.07% in the first 6 months of 2008. Exports for 12 months increased to 123,76 billion dollars with an increase by 29.93%. The sectors with the highest export volume were transportation (2.4 billion dollars), iron-steel with 2.29 billion dollars and chemical substances and products (1.34 billion dollars).

Unakitan explains the financial budget figures for the first 5 months

Minister of Finance, Unakitan stated that fluctuations in the world markets did not affect Turkey. Holding a meeting on 11th June about the budget realizations for January-May 2008, Minister Unakitan stated that the primary budget surplus, which was YTL 2.04 billion YTL in May last year,

has increased to YTL 3.39 billion this year. On the other hand, when the balances for the first five months are examined, it is seen that budget deficit has decreased to YTL 2 billion and non-interest surplus to YTL 17.5 billion compared to the previous year. In the same period interest expenses were decreased to YTL 19.6 billion.

Budget realizations (Million YTL)

	2007			2008			
	Annual	January-May	Rate to the target (%)	Target	January-May	Rate to the target (%)	Increase (%) May
Budget Expense	203.501	83.493	41.0	222.553	86.023	38.7	3.0
Non-interest Expenses	154.769	59.828	38.7	166.553	66.425	39.9	11.0
Interest Expenses	48.732	23.665	48.6	56.000	19.598	35.0	-17.2
Budget Incomes	189.617	80.150	42.3	204.556	83.962	41.0	4.8
Budget Balance	-13.883	-3.334	24.1	-17.997	-2.060	11.4	38.4
Non-Interest Balance	34.848	20.321	58.3	38.003	17.538	46.1	-13.7

Companies with tax liabilities are restricted

A law on making amendments to some of the public receivables' collection laws was published and enacted on 6th June. The law including various penalties besides the conveniences and shall affect the business life in many respects. What does the law number 5766 stipulate for the taxpayers?

- It prohibits those indebted to the public by more than YTL100,000 from traveling abroad.
- Those who have tax liability may not benefit from some facilities; government assistance, incentives and support.
- Old and new shareholders shall be jointly responsible in terms of transfer of the shareholding rights in the limited liability companies.

TÜSİAD: Majority of the young generations prevents saving

Member of the Board of Directors of TUSIAD, Ali Kibar, stated that investments were insufficient due to the young generation majority. Consequently, expenditures were financed from abroad and that resulted in a fragile economy due to increase in current deficit.

Politics

Turban in universities is rejected, AKP (Justice and Development Party) is on alert

The turban shall not be accepted in universities any more after the resolution made by the Constitutional Court, even though some universities used to accept students wearing the turban in lessons before the discussions. Resolution of the Constitutional Court had repercussions in the foreign press, as well. Foreign media made comments about the resolution, defining it as "very thorough", "coup", "the worst scenario", "serious setback" and "hurtful slap". Furthermore, they made statements such as "seculars won an important combat" and "the Court made the strictest comment".

Ergenekon custodies causes tension

The 1st July saw a second round of shock arrests within the scope of the ERGENEKON

investigation that started several months before the hand grenades and detonators were found in a slum house in Ümraniye. In simultaneous operations starting at 7am, houses and business places were searched. 21 people including were taken in custody, including the President of Ankara Chamber of Commerce, Sinan Aygun, retired Full General Sener Eruyur, previous 1st Army Commander retired Full General Hursit Tolon and Ankara Representative of Cumhuriyet Gazetesi (newspaper) Mustafa Balbay resulting in tension. Consequently, the Stock Exchange started the day with an increase by 2% whilst the Index decreased to 33.208 points.

Armed Attack to American Consulate in Istinya

An armed attack was made on the police in front of the Chief Consulate of USA in Istanbul/Istinye. People getting out of a grey Ford Focus car shot bullets from a long range, injuring 3 police officers. In the ensuing exchange with the attackers, 3 were killed and 3 people were injured. The conflict was reported to last 7-8 minutes. Identities of the attackers were determined: Erkan Kargin registered with Bitlis Birth Registry (26); Raif Topcil, born in Bitlis and Bulent Cinar, born in Igdir.

Other Topics

Diamond market reached to turnover of 1 billion dollars

The diamond jewelry sector, (total market volume of c.68 billion worldwide) has seen faster growth in Turkey than elsewhere in the world. While the worldwide market has grown 3 fold in the last 25 years, it has developed 2 fold in 4 years in Turkey. It is expected that diamond sector in Turkey will reach a market of 1 billion dollars and shall grow by 40% within the next period.

Change has been backdated, Oyak Bank shall be 'ING Bank' on 7th July

ING Bank, the Dutch international banking chain, entered the Turkish market by purchasing Oyak Bank and shall realize its official name change on 7th July 2008. Oyak Bank (est. in 1996) shall officially be terminated at the same time. General Director Eminsoy, giving information about increasing capital power of the bank and its targets in the new period, stated that: "Your growth in banking is determined by capital efficiency ratio. With ING, lack of capital, which is an obstacle for growth of the bank, has been covered. Capital of YTL 250 million was received immediately in January and growth started.

Sanko Cimento shall be Italian, too

Cimko Cimento ve Beton Sanayi AS. within Sanko Holding has concluded a partnership agreement with Italian Cementerie Aldo Barbetti. Cimko Company, have Sanko cement factories in Adiyaman and Kahramanmaras and have a total company value of 1.3 billion dollars at the rate of 30%.

Electricity distribution tenders does not attract the foreigners

German E.ON, American AES, Spanish Iberdrola and Italian Enel, qualified preliminarily for Baskent and Sakarya electricity distribution privatizations, but did not make any offers. It is expected that the prices will be very low due to the fact that offers for the two big tenders were less than expected. The reasons why these institutions, who are competing with each other, did not make offer for the tender are presented as question marks in the automatic prizing and

uncertainties in the policy.

Turkish Air-Conditioner Market grows 15 fold in 10 years

The air-conditioner sector has grown 15 fold since 1998. The sector reached 1.9 billion turnover and is getting prepared to be the production base of Europe. Stating that the number of big and small distributors exceeded 50, Yuksel added that "It can be said that every international big companies are located in Turkey".

Automotive export is leading for 25 billion dollars

Turkish automotive sector has not minimized its targets due to fluctuations encountered in the world markets. The sector, which aims to produce 1.3 million vehicles this year, struggles to meet the target of 1 million vehicles export. It is expected that the export income of the sector, which was approximately 20 billion dollars last year, shall exceed 25 billion dollars. It is forecast that by 2012, Turkey will exceed England and Italy with a production target of 2 million vehicles.

Turkey shall be main base of GE Healthcare

GE Healthcare, the General Electric company providing health services across the world, elected Turkey as base for its international operations. In the first stage, 240 people shall be recruited in the Istanbul-based offices that have received investment of 17 billion dollars. GE Healthcare CEO, Richard di Benedetto and President of Prime Ministry Investment Support and Promotion Agency, Alpaslan Korkmaz has explained the investment resolution by holding a mutual press conference in Istanbul. GE Healthcare with more than 46 thousand employees across the world and operations in more than 100 countries provides services in many fields ranging from patient care to medical technologies to health professionals and patients.

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Ukraine

High inflation - an unavoidable component in Ukraine's economic growth

Consumer prices continue to grow sharply in Ukraine in 2008. This rise in food prices is a consequence of greater demand as disposable incomes continue to rise steeply, on one hand, and a tighter supply of agricultural products, on the other. In addition, world inflationary processes are having a major impact on domestic prices due to the openness of Ukraine's economy. Growing demand for agricultural and food products on world markets and the resulting rise in prices are encouraging greater exports from Ukraine. Such exports are growing both in value and in volume. To slow down inflation, the NBU has been tightening monetary policy; while the Government has put together an anti inflation plan and restricted exports of sunflower oil and seed.

Forecast for Ukraine's economic for 2008–2010

GDP is expected to grow 6.7% in 2008, 6.6% in 2009 and 5.9% in 2010. Consumption will continue to be the main driver of economic growth throughout the forecast period, but the relative role of investment will continue to rise. Investment share of GDP will grow from 26% in 2007 to 31% by 2010, while consumption will decline slightly, from. Analysts expect imports to continue to grow faster than exports in 2008–2010. As a result, the negative trade and current account balances will continue to grow. The forecast is for the current account deficit to be compensated for by a major inflow of investment and debt capital on the capital account of the balance of payments over 2008–2009. In 2010, currency reserves will shrink because of the need to cover the trade deficit and the repayment of foreign loans by the private sector. NBU is expected to keep the hryvnia exchange rate unaltered at UAH 5.05/USD for the entire forecast period. Pressure to reevaluate will ease as the trade deficit grows and by 2010 it will change to pressure to devalue. The undervalued hryvnia and a slowdown in inflation will make it possible to keep the exchange rate stable. Despite the growth of social outlays in the Budget, rising public sector salaries and growing defense expenditures, the Consolidated Budget deficit will remain below 2% of GDP throughout the forecast period. With better oversight of tax payments, the GDP share of Consolidated Budget revenues will grow. The main source of financing the deficit will be privatization revenues in 2008 and an equal share of internal and external borrowings in 2009–2010. Consumer prices will continue to grow at a relatively high pace throughout the forecast period because of the continuing rapid rise in disposable incomes, high inflationary expectations, and inflationary processes worldwide. They also expect the effect of all these factors to weaken over the forecast period. Incomes and consumption will both grow more slowly, the 2008–2010 harvests will be better than in 2007, and world prices will begin to slow down. The forecast is for the CPI to rise 19.5% in 2008, 12% in 2009, and 10% in 2010. Rapid economic growth and the crisis hitting developed economies will spark demand for Ukrainian assets.

This forecast is based on eight main assumptions:

- the price of imported natural gas will remain at US \$179.50/1,000 cu m in 2008, rising to US \$250–270 in 2009 and US \$290–320 in 2010;
- steel prices will continue to rise for the entire forecast period;
- prices for mineral fertilizers will continue to grow during the forecast period;
- the accumulative pillar of the pension system will be launched in 2009;
- a Tax Code will be adopted no earlier than 2009 and come into effect only in 2010;
- compensation for depreciated deposits at the Soviet State Savings bank will be UAH 12bn per annum over 2008–2010;
- the National Bank will maintain the hryvnia-dollar exchange rate at its current level for the entire forecast period.
- major unanticipated inflows of foreign currency.

NBU pledges to maintain 4% hryvnia band

The National Bank of Ukraine pledged to keep the hryvnia from appreciating or falling against the U.S. dollar more than 4% this year, ending six weeks of uncertainty over its exchange rate policy. The pledge, a compromise between the NBU's two conflicting policy bodies, means the hryvnia will be allowed to trade between 4.65 and 5.05 hryvnias to the dollar through the end of the year. This replaces a previous currency trading band of 4.95 and 5.25 to the dollar that was supposed to be in effect through end-2008, but had been unexpectedly cancelled by the NBU's Board. The official exchange rate will be 4.85 (to the dollar) with possible deviation of plus-minus 4%.

Poland interested in cooperation with Ukraine in nuclear power engineering

Poland is interested in cooperation with Ukraine in nuclear power engineering. Polish energy firms are showing the greatest interest in cooperation with the Ukrainian nuclear power industry. Poland is ready to invest in the construction of new generating capacities and infrastructure development. Due to rising environmental problems and the growth of electricity consumption, Poland plans to revisit its nuclear program, which was blocked in the early 1990s. There are plans for the development of Ukraine's nuclear-industrial complex in compliance with the country's energy strategy until 2030, and of the implementation of a project to complete the third and fourth power generating complexes at the Khmelnytsky nuclear power plant.

Ukraine to UEFA: We're ready for Euro 2012

Ukraine is moving rapidly towards building stadium projects and improving infrastructure to be able to co-host the Euro-2012, a major soccer tournament. The next three months will be very important for Ukraine. Things can advance in very positive manner. Ukraine will do everything, even the impossible, to make sure that the tournament turns out to be a great party for the whole world and so that Ukraine looks as a decent partner. It is the first time over the past 34 years that UEFA has granted the right to hold the major soccer tournament in Eastern Europe after Yugoslavia had staged Euro-1974. That provides many challenges as Poland and Ukraine, following decades of Communist rule, have to bring their air, rail and road transport services and hotel sectors up to scratch to cope with the influx of fans. The fact that the process has moved from the dead point centre, and is coming along, is very encouraging. As to economic growth, this is such a great chance for Ukraine to make a breakthrough. This is construction of infrastructure that will keep working for the economy for decades. This is very important. Overall, Ukraine may require investments totalling more than \$20 billion to host the tournament, of which \$3.4 billion are needed in 2008 alone, according estimates by government officials. The government apparently plans to spend only a fraction of that perhaps up to 20%, while the remaining cash must come from private and mostly foreign investors. "A very important thing is to get private investors in Ukraine to finance the required infrastructure projects. That's why the country needs to have the respective investment climate. The plans for the development of cities hosting Euro-2012 must also be drafted.

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FOREIGN MARKET CONSULTING Ltd. Sti.

Partners: Peter J. Heidinger, Yesim F. Tektasli, Uta Beyer

Address:

Koybasi Cad.
Keresteci Z. Sok. 28
34464 Yenikoy-Istanbul
Turkey

Telephone: +90-212-36 38 052

Fax: +90-212-36 38 056

E-Mail: info@fmconsulting.info

Internet: www.fmconsulting.info

SPRINGER&JACOBY Reklamcilik Ltd.Sti. Istanbul

Address:

Koybasi Cad.
Keresteci Z. Sok. 28
34464 Yenikoy-Istanbul
Turkey

Telephone: +90-212-36 38 010

Fax: +90-212-36 38 522

E-Mail: istanbul@sj.com

Internet: www.sj.com

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