



Please find below our latest newsletter covering recent economic and political developments in Turkey.

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Your FMConsulting Team

Newsletter March 2010

Economy

Overview of Monthly Data

YTL-Rates	28.02.2010	31.03.2010	Change in %
TL pro Euro	2.0962	2.0622	-1.62
TL pro USD	1.5435	1.5288	-0.95

Stock exchange index	49,705	56,754	14.18
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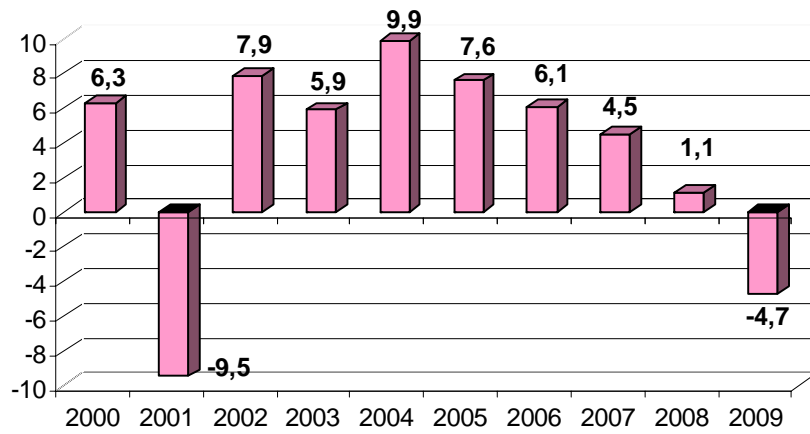
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.94%	8.58%
Consumer prices	0.58%	9.56%

Growth Rates

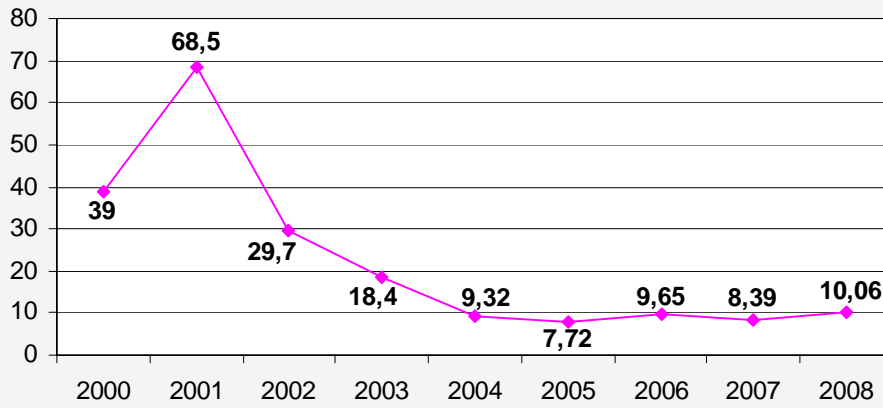
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9

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	1.9	0.5	-6.2	1.1
2009	-14.5	-7.7	-2.9	6,0	-4.7

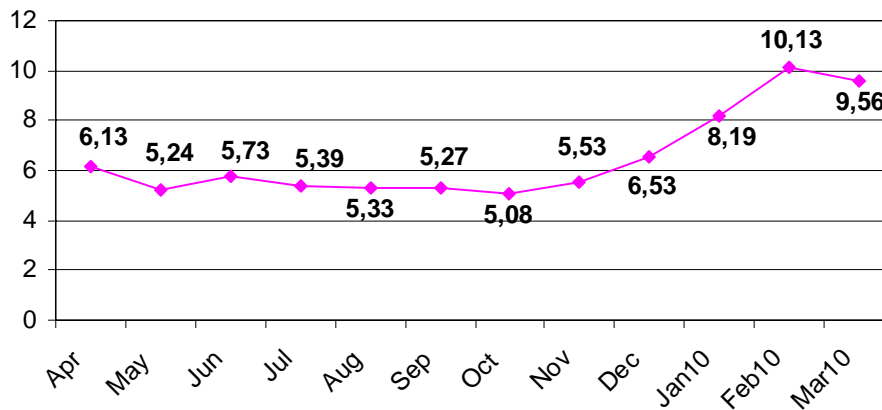
Growth Rates (%)



Annual Inflation of consumer prices (%)



Annual Inflation's Monthly Development 2009-10 (%)



Turkey's economy rapidly catching up on Europe

According to a report of the International Monetary Fund, the gap between the Turkish economy and the European economies is increasingly closing. Between 1992 and 2009, Turkey's gross domestic product at purchasing power parity in current prices increased by 163.12%. By comparison, in the same period the increase in Spain amounted to 125.74%, in France 89.64%, and in Germany only 71.4%. While Germany's economic power was 5.49 times higher than that of Turkey in 1985, the advantage decreased to 3.23 times in 2009, and is set to drop to 1.92 times by 2014.

Inflation goes double-digit again

For the first time in 13 months, Turkey's inflation has again reached double digits. This is primarily to be blamed on the massive tax hikes for tobacco products and spirits introduced at the beginning of the year, which were accordingly reflected in prices, but also on the increase in public transport fares. The higher inflation trend that had started in January continued in February.

Changes in the consumer price index (%)

	Monthly change		
	2010	2009	2008
January	1.85	0.29	0.80
February	1.45	-0.34	1.29
March		1.10	0.96
April		0.02	1.68
May		0.64	1.49
June		0.11	-0.36
July		0.25	0.58
August		-0.30	-0.24
September		0.39	0.45
October		2.41	2.60
November		1.27	0.83
December		0.53	-0.41
Change over December of the previous year			

	2010	2009	2008
January	1.85	0.29	0.80
February	3.32	-0.06	2.11
March		1.05	3.09
April		1.07	4.82
May		1.71	6.38
June		1.83	6.00
July		2.08	6.61
August		1.78	6.35
September		2.18	6.83
October		4.64	9.60
November		5.96	10.52
December		6.53	10.06

Change over the same month of the previous year			
	2010	2009	2008
January	8.19	9.50	8.17
February	10.13	7.73	9.10
March		7.89	9.15
April		6.13	9.66
May		5.24	10.74
June		5.73	10.61
July		5.39	12.06
August		5.33	11.77
September		5.27	11.13
October		5.08	11.99
November		5.53	10.76
December		6.53	10.06

Capacity utilisation of Turkish industry stagnating

A survey among enterprises carried out by Turkey's Central Bank revealed that the average capacity utilisation in industry has practically remained static over the past few months. Following an interim high of 69.2% in November, it slightly decreased to 67.9% in the month of March. Although the utilisation rate was 8.7% higher than the all-time low of 59.2% that had been reached exactly a year ago, in March 2009, it is still considerably below the pre-crisis level of 78.1% in August 2008.

Outflow of hot money appears to be transitory

Foreign capital in Turkey has decreased by 8.4% or US\$7.4bn to US\$80.3bn in February. The level of this flight capital, most of which is "hot money" invested in stocks and bonds, had soared to US\$87.7bn by the end of January, nearly as much as before the crisis. Peaking at US\$89.6bn in August 2008, it had then crashed to US\$43.5bn in February 2009 due to the global crisis. Recent instabilities in Turkey's domestic policy may well have induced a number of investors to withdraw their hot money from Turkey. However, in the longer term flight capital from Europe can be expected to flow increasingly into Turkey. Reasons to believe this include the continuing devaluation of the Euro, the excellent performance of the Istanbul stock exchange, and the quickly fading appeal of Chinese stocks.

Over 5.5 million effectively unemployed in Turkey

In 2009, an annual average total of 3.5 million people were registered as unemployed in Turkey. The official unemployment rate stood at 14.0%, 3 percentage points higher than in the year before. However, the number of Turks effectively out of work exceeded the 5.5-million mark, bringing the actual jobless rate to 20.6%. Following a crisis-induced increase at the beginning of 2009, the number of unemployed decreased significantly in mid-year to gradually rise again towards the end of the year.

Actual unemployment in Turkey (in 1,000 persons)

	Registered as looking for a job	Given up on looking for work	Actual number of jobless	Actual jobless rate
2009				
January	3,650	2,394	6,044	23.3
February	3,802	2,486	6,288	24.1
March	3,776	2,345	6,121	23.3
April	3,618	2,137	5,755	21.8
May	3,382	1,944	5,326	19.9
June	3,269	1,848	5,117	18.9
July	3,267	1,817	5,084	18.6
August	3,429	1,860	5,289	19.3
September	3,396	1,850	5,246	19.2
October	3,299	1,897	5,196	19.1
November	3,270	1,951	5,221	19.4
December	3,361	2,067	5,428	20.2
Total year	3,471	2,061	5,532	20.6

Automotive industry is the engine of economic recovery

In January 2010, key data for received orders, sales, production and exports indicated the beginning of recovery in an increasing number of Turkish industrial sectors. With 46.4% more orders received than in the previous month, and a sales plus of 43.6%, the automotive sector continued to be the locomotive of Turkish industry.

Production, Export and Sales in the Manufacturing Industry (January, %)

	Production	Exports	Sales
Automotive	66.8	64.0	43.6
Medical, optical & precision instruments	18.2	19.3	36.0
Tobacco products	-6.2	-2.6	35.6
Office machines & computers	-25.0	20.2	35.6
Coke & refined petroleum products	-9.2	94.5	28.9
Radio, TV, & communications equipment	72.9	7.9	27.6
Plastics & rubbers	22.6	19.0	26.4
Vehicles	26.9	20.8	24.5
Machines & equipment	15.5	1.3	24.0
Furniture	27.1	6.0	21.0
Textile products	19.4	12.4	20.4
Paper	8.4	12.3	17.1
Chemicals	11.7	45.5	15.0
Leather	24.8	27.8	9.3
Electric machines & devices	11.9	5.9	6.9
Food	12.2	-1.3	2.7
Primary metal industry	-1.1	-54.8	0.5

Metal products	18.1	6.8	0.3
Non-metal minerals	14.2	9.6	-0.6
Clothing	-0.4	-2.3	-0.9
Printing & publishing	-8.9	-1.0	-4.1
Other means of transportation	-13.0	-44.4	-35.3
TOTAL	14.4	-1.3	11.8

Experts call Turkish government's growth forecast too optimistic

The ambitious target of double-digit economic growth that Minister of Finance Mehmet Simsek had announced for 2010 is being disputed by experts. As Turkey's leading business newspaper "Dunya" commented, certainly further growth can be expected in Q1/2010 following the positive development in the 4th quarter of 2009 (+ 5%). However, the growth rate will probably be around 8.5-9.0%, considerably short of the government's forecast. Subsequently growth is likely to slow down again, dropping to 4.0-4.5% in Q2, and 1.5-2.0% in Q3. Currently all signs are pointing to a strong revival of the Turkish economy, the newspaper wrote, warning that should this not materialize to the extent expected, 2010 may see a growth of merely 2.5-3.0%. Nevertheless, considering the negative total growth of 5.2% in 2009 this still gives reason for optimism.

Politics

U.S. Congress resolution causes dissonance

By the slightest of margins, the Foreign Affairs Committee of the United States House of Representatives has passed a resolution calling the killing of Armenians in 1915 'genocide'. Leading politicians, most notably President Barack Obama, had made unsuccessful efforts to stop the resolution in order to prevent harm to Turkish-American relations. To protest the decision, Turkey recalled its ambassador from Washington and cancelled the scheduled visit of a high-ranking delegation. At the same time, relations with Armenia – which voiced satisfaction over the resolution – chilled considerably. Turkish Prime Minister Erdogan threatened to retaliate by expelling up to 100,000 Armenian citizens purportedly residing in Turkey illegally.

Foreign investors concerned about political instability in Turkey

The latest investor mood survey conducted by the Turkish Association of International Investors (YASED) shows that its members are currently regarding the increasing instability of domestic affairs as the largest single threat to the investment environment in Turkey. Even so, 42% are contemplating new investments in the coming six months. Unemployment, sustainable growth and structural reforms are being considered the primary challenges facing the Turkish government, with foreign investors seeing an urgent need for reform regarding the Commercial Code, the income tax legislation, and the regulation of the energy markets.

Turkish government pushing for constitutional reform

The government of Prime Minister Erdogan is seeking a constitutional reform to aid Turkey's bid for full EU membership. Deputy Prime Minister Cemil Cicek declared that the proposed reform of the current constitution, which was established in the wake of the military coup in 1980, aims at "raising the standards of democracy". Among other things, the ruling party is proposing changes

that would make it more difficult to disband political parties. In future, part of the constitutional judges and other key positions are to be appointed by parliament and the President of the Republic. Opposition members and liberal entrepreneur associations are criticizing the move as an attack on judicial independence. The government's true aim, they claim, is to secure its own power.

Germany and Turkey agree closer economic co-operation

During her recent visit to Turkey, German Chancellor Angela Merkel held intensive talks with Prime Minister Recep Tayyip Erdogan. The chancellor, who was accompanied by a sizeable business delegation, and her Turkish counterpart declared their intent to strengthen the strategic partnership and to further improve the good economic and trade relations between the two countries. The parties also made some headway in the dispute about Turkish secondary schools in Germany which Erdogan is keen to establish. If Germany has expatriate schools in other countries, for instance in Turkey, then of course Turkey can also have schools in Germany, Merkel said, adding that the key issue is that students in such schools learn both languages, the prerequisite of successful integration being that no one lives in Germany without being able to speak German.

Other Topics

Ban on imports of genetically manipulated products in immediate effect

The provisions of the regulation of October 26, 2009 banning imports of genetically modified products, which had been temporarily suspended, have been put into effect again by court order. The regulation prohibits imports of genetically engineered products to Turkey, with animal feed and soybeans being the crops most affected. The agricultural community is now concerned that the ban will result in price hikes and thus lead to an increase in costs.

Growing discrimination of Turkish women in the labour market

On the occasion of the International Women's Day, the Istanbul Chamber of Certified Public Accountants presented a report entitled "Woman, unemployed, unhappy". The report says that the share of gainfully employed women in Turkey has dropped by 4 percentage points over the last decade, to 26%. In the meantime, one third of unemployed are female. Fewer opportunities for education, as well as limitation to the traditional role of housewife continue to dominate the picture. Professional women are still up against massive discrimination, earning 27% less on average than their male colleagues.

Industry demands measures to promote health tourism

Turkey's health tourism has a bright future ahead of it. By now Turkey already ranks among those countries that manage to attract patients from abroad by offering a high standard of medical services at comparatively low cost. An increasing number of Europeans is having their teeth fixed by Turkish dentists, their eyes looked after by Turkish ophthalmologists, or surgical procedures carried out in Turkish hospitals. The Turkish Council for Foreign Trade Relations has now called on the government to enact tax reliefs in order to give the industry further competitive edge.

Provided appropriate incentive measures, the council stated, Turkey has the potential of attracting 1 million foreign patients a year, generating estimated earnings of US\$8bn for the country.

World's largest household appliance fair moves to Turkey

From now on Istanbul will host the world's largest international trade show for white goods, Domotechnica. The fair had traditionally been organized by Kolnmesse GmbH and held in Köln-Deutz, where it was scheduled to take place at the end of March before being cancelled on short notice and relocating to Turkey. The reasons behind this decision were certainly the size of the Turkish consumer market as well as Turkey's function as bridge to the markets in the Middle East, Asia and North Africa. In addition, due to the momentum of Turkish household appliance manufacturers it can be expected that the old-established trade show will be successful at its new location. The first Domotechnica Istanbul, which will be featuring exhibitors from 13 countries, will be held April 22-25 in the Fair Centre next to Ataturk Airport.

Turkish investment bankers' heart set on attracting Islamic capital

Turkish investment bank Unicorn is making a targeted effort to lure capital from the Gulf States to Turkey by offering investment vehicles suitable to Islamic principles. In particular ostensibly interest-free bonds called "sukuk" are to gain considerably in importance. In co-operation with Deutsche Bank and Goldman Sachs, Unicorn has already brokered the emission of a sukuk for US\$450mn on the part of a leading construction company in Saudi Arabia. Turkey's Capital Market Agency SPK is already doing the groundwork for the emission of sukuk by the private sector, which is likely to happen before the end of the year.

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