

FOREIGN MARKET CONSULTING



Danismanlik ve Tic. Ltd. Sti.

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Today you are receiving our latest newsletter about recent economic and political developments in Turkey.

We would like to hear your opinions about our newsletter and about any important issues that you would like to draw our attention to. In addition, we will be pleased to inform you about the services of Foreign Market Consulting.

If you know any other people that would be interested in this free service, please forward this newsletter to him/her or provide us with the e-mail address of the interested person (to newsletter@fmconsulting.info), so that we can include him/her in our distribution list.

Best regards,

Your FMConsulting Team

Newsletter September 2006

Economy

Overview of monthly data

YTL-Rates	1.9.	30.9.	Change in %
YTL per Euro	1.8810	1.9055	1.3
YTL per USD	1.4753	1.5043	1.9

Stock exchange index	36,897.20	36,924.86	0.07

Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.29	10.55
Consumer prices	-0.23	11.19

Export	September
Export (in million USD)	7.68

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	10.02	7.6
2006	6.3	8.5			

State Revenues are Mostly Obtained From Consumers

The majority of the state revenues are obtained from the consumption expenditures. 60 % of total tax revenues (such as VAT, Special Consumption Tax, Special Transaction Tax) are gained from the purchase of the goods and the services. The amount of Special Consumption Tax collected from the end users and transferred to the Ministry of Finance has reached to 20.9 billion YTL with an increase of 16.4 %, within the first 7 months of this year. The amount of VAT has also reached to 9.6 billion YTL with an increase of 25.4%. Furthermore, a drastic increase has been noticed in the tax figures which collected by the state from the imported goods in parallel with a growth in import figures. Income tax and corporation tax which paid by the companies over their profits are remained as 24.8 billion YTL and therefore formed as 30.9 % of the total tax revenues and 24.9 % of the general budget revenues.

Breakdown of Tax Revenues

	Millions of YTL	Share (%)	Increase (%)
Special Consumption Tax	20,934.4	26.9	16.4
VAT	9,600.4	12.3	25.4
Taxes, levied on imported products	15,428.1	19.8	32.1
Special Communication Tax	2,065.4	2.7	24.2
Aggregate of Taxes obtained from Consumption	48,033.3	61.7	23.2
Charges	2,231.9	2.9	22.2
Stamp Tax	1,785.6	2.3	28.0
Banking Insurance Transactions Tax	1,480.6	1.9	29.0
Game of Chance Tax	215.2	0.3	22.3
Total Non-wealth Taxes	53,746.6	67.1	23.5
Income Tax	15,415.9	19.8	18.7
Corporation Tax	6,516.2	8.4	19.3
Tax, levied on property	2,152.1	2.8	18.0
Other	38.4	0.0	134.1
Total Tax	77,869.2	100.0	22.0
Tax revenues	77,869.2	80.4	22.0
Non-tax revenues	18,408.2	19.0	37.9
Capital Revenues	199.1	0.2	50.9
Special revenues (i.e., donations, aids)	422.9	0.4	-42.7
General Budget Revenues	96,899.4	100.0	24.2

Istanbul Attracts Foreign Capital

While the number of foreign investors in Istanbul has decreased by 8 % with comparison to the last six months of 2005, although the value of the foreign capital has increased by 5,37%. Between January & June 2006, companies and institutions from Luxembourg, The Netherlands, Italy, Germany and Azerbaijan brought in 56.99% of the foreign investments to Turkey and ranked as the top 5 countries. The Commercial Registry Records indicate that 'Istanbul Chamber of Commerce' has announced its semi-annual foreign investment report which comprising from January to June 2006. According to the report; 1027 foreign investors have made an aggregate investment of 83.1 million YTL in Istanbul within the first 6 months of 2006.

The sectors, attracting foreign investors;

Sector	Share (%)
Electricity-Electronics-Information	11.10
HConsultancy Services	10.52

Construction	8.96
Textile	8.96
Other	12.66

Turkey and China in Globalization

Guillame Daudin, the Economist of French Economic Conjunctures Research Center (OFCE) has stated that Turkey stood up rapidly against the surge of China. He said that Turkey resisted successfully against the Chinese products in particular in the textile sector. Daudin says that "The main reason for such stand out of Turkey in textile sector is the development of vertical integration, particularly in denim clothing. The proximity to the European Markets is a great advantage for Turkey. Speed and flexibility are as important as cheap labor nowadays. As long as the Turkish Government provides a stable macroeconomic and corporate environment, there is no reason for the failure of the Turkish businessmen. The fast provision of quality products by Turkish businessmen and the diversification in the exported products may provide significant advantage within the competitive market."

Turkish Economy has Grown 8.5 % in The Second Quarter and 7.5 % in The First Half

The growth in the economy has also continued in the term of April-June which witnessed market fluctuations. GNP that calculated according to the production method has grown 8.5 % in the second quarter.

Growth Rates (%)	1st Quarter	2nd Quarter	First 6 months
Agriculture	6.2	-1.1	1.3
Industry	4.5	10.5	7.7
Construction	26.7	13.7	19.3
Commerce	7.0	7.3	7.2
Transportation-Communication	3.3	4.3	3.8
Financial Institutions	-0.5	-1.3	-0.9
Residence ownership	2.0	2.1	2.1
Self-employment and services	4.9	4.4	4.6
Public Services	1.6	2.2	1.9
Non-Profit Organisations	1.0	1.1	1.1
Import Tax	15.3	13.1	14.2
GDP	6.5	7.5	7.0
GNP	6.4	8.5	7.5

Source: TUIK

Industry has Grown 9.4 % in the Second Quarter

Industrial production has increased by 9.4% in the same period. Production figures have increased 11.8% in public sector and 8.8% in private sector.

Industrial Production Index

Years	1st Quarter	2nd Quarter	Annual Average
2004	113.4	127.6	123.5
2005	120.3	131.5	130.0
2006	124.5	143.8	-
Difference 05/06(%)	3.5	9.4	-

A Capital Inflow of USD 26 billion From Non-Financial Sector

In the first 8 months of the year, resource of more than USD 26 billion entered into the economical figures through company charters and capital increases. An increase of 49 % on YTL basis and 41% on USD basis have been recorded in the amount of total resource inflow with respect to the same period of the previous year.

The input, provided by the companies for Economy

	Newly Chartered/ number	Newly chartered/amount (billions of USD)	Capital Increase/ number	Capital Increase/ amount	Total number	Total Amount
2000	33,161	4,091	13,815	13,326	46,976	17,417
2001	29,665	1,983	12,295	10,523	41,960	12,506

2002	30,842	1,407	42,354	15,638	73,196	17,045
2003	32,259	1,924	43,637	19,836	75,896	21,760
2004	40,919	3,391	41,326	21,541	82,245	24,931
2005	47,401	5,754	34,587	21,997	81,988	27,751
2005*	32,187	3,781	17,664	14,951	49,851	18,732
2006*	37,033	4,765	38,260	21,580	75,293	26,346
Increase (%)**	15.1	26.0	116.6	44.3	51.0	40.6

(January-August** (2006/2005))

New Taxes are on TheWay

With the draft that is expected to be passed in the new legislative year, aiming to increase the revenues of special provincial administrations and municipalities, estates, environmental cleaning, games of chance, announcement and advertisement taxes and construction charges will be considerably increased and new tax classifications, such as temporary park, electricity*, natural gas, entertainment, accommodation, processed water are considered.

Until 2010, Foreign Capital of USD 48 billion is Expected

A foreign capital inflow of 48 billion USD is expected in Turkey which has attracted direct foreign capital investments, up to 7.4 billion USD within the first 6 months of the year. According to the projections based on the assumptions that an average share of 9.6 billion USD will be obtained annually from the global investments which will put Turkey in the 23rd rank among the countries, attracting the highest amount of foreign investment.

Target Incentive System is Prepared

Target incentive system will be introduced instead of investment tax credit, annulled on the New Year's Day. A 5-step corporation tax application is proposed in the proposal, prepared by Tax Council. Council proposes the application of a tax rate of 4-14% instead of 20% for the investments between 2 million-600 million YTL. According to the proposal which will be submitted to the Ministry of Finance; the condition of employing 10 - 1,200 persons will be required. The application will be valid until the realization of full membership of Turkey to The EU.

IMF: Current Account Deficit in Turkey will Decrease

According to the report published just before the annual fall meetings held by IMF and World Bank in Singapore this year, the current account deficit which is proposed to be realized this year as 6.7 % of the GNP is expected to decrease to 5.8 % next year. According to the report of IMF, growth and inflation projections for some countries are as follows;

Countries	GDP Increase 2006 (%)	GDP Increase 2007 (%)	Inflation Consumer Price Index (%) 2006	Inflation Consumer Price Index (%) 2007
USA	3.4	2.9	3.6	2.9
Germany	2.0	1.3	2.0	2.6
France	2.4	2.3	2.0	1.9
United Kingdom	2.7	2.7	2.3	2.4
Turkey	5.0	5.0	10.2	7.2
Estonia	9.5	8.0	4.6	3.8
Czech Republic	6.0	4.7	2.9	3.3
Hungary	4.5	3.5	3.5	5.8
Poland	5.0	4.5	0.9	2.3
Bulgaria	5.6	6.0	7.4	3.8
Romania	5.5	5.5	7.8	5.7

Dervis: Current Account Deficit Causes Fragility

Kemal Dervis, Chairman of UNDP said that the countries with a high current account deficit along with a high level of debts are more prone to fragility. Dervis says "Recently, Turkey has relieved a portion of fragility by decreasing its debts in terms of foreign currency. However, the maintenance of such current account deficit has always caused fragility. Because of this, I wish that the current account deficit will be reduced in time to a sustainable level. I do not want the current account deficit to be covered completely. Turkey must become a capital importing country

without a doubt. Stating that disturbing events could be experienced when the current account deficit exceeds 3-4%. Dervis added that the current account deficit had to be reduced with various measurements.

Politics

Gul: Turkey will Protect Kurds in Northern Iraq

Abdullah Gul, The Minister of Foreign Affairs, making official contacts in The United States, said that "In case Iraq is disintegrated, a severe civil war will emerge in the region. Turks will protect Kurds in case of a disorder to emerge in the region today,." Despite the conflict between the sects in Iraq, Gul stated that the conflict was not only dangerous for the Iraqis, but for entire region and the world. Reminding that more than 500,000 Iraqi Kurds had taken refuges in Turkey during the Halepce massacre. Gul said that "In case something happens tomorrow, Turkey will help the Kurds."

Further Topics

Volvo Selected Turkey as It's Regional Base

Volvo, among the leading commercial vehicle, machine and aircraft engine producers of the world, has selected Turkey as its regional base. Volvo World President Lars Haglung who has come to Turkey to open the new showroom of Ceylan Otomotive, among the main dealers of Volvo Otomotive Turk Limited Sirketi which is based in Adana-Mersin Highway. Lars Haglung stated that they had decided to leap to other countries, including Turkish Republic over Turkey and they were planning to commence production activities in Turkey in the near future.

Koc is selling Izocam

Koc Holding has announced that it had signed a contract for selling 61.2 % of their share in IZOCAM, operating under their structure. The contract was signed with French St. Gobain Isover and Kuwaiti Alaman Industriese for a price of 171.3 million USD. Reporting that the total value of Izocam figured as 280 million USD. The Purchasers in their statements made to the stock exchange said that a share assignment agreement was signed between the parties.

Increase in Alcoholic Beverages

While the argument stating that the high rate of tax on alcoholic beverages increased unregistered consumption. The increase has been experienced in the first six months of this year in both production and importation. The importation of alcoholic beverages has increased by 85 % and up to 18,460,000 USD between January & June 2006, with comparison to the same period of the previous year. The production, which was 54.9 million liters in January 2006, has increased by 97 %, up to 108.2 million liters in June.

Merrill Lynch Purchased Tatbank

Merrill Lynch, one of the greatest investment banks of the world has purchased Tat Investment Bank. According to the agreement which was signed yesterday; Merrill Lynch will acquire 100 % of Tatbank including Tat Menkul. The issuance of necessary permits by the authorities is expected for the conclusion of the acquisition.

Zorlu Has Found Natural Gas in Cerkezkoy

Amity Oil, purchased by Zorlu Petrogas, under the structure of Zorlu Energy Group of Companies has found natural gas at a depth of 950 meters in Adatepe-6 well in Cerkezkoy. In the statement of Zorlu Energy, it is stated that the drilling works were concluded in 16 days. The natural gas production in Turkey which amounted to 761 million m³ in 2005 would increase by 7 % with the last well that found by Zorlu Petrogas. Amity Oil will continue its works in the region by drilling three more wells this year.

Turkish TV Producers in IFA

Turkish television producers that producing every 6 out of 10 televisions sold in Europe, displayed their new technologies in IFA, the largest consumer electronics fair in Berlin. Vestel with its Pixellence software, enhancing the image quality and Profilo which has obtained the license of Telefunken trademark in Europe by increasing the number of basic colors to 6, have assumed first in the world.

Privilege for Technology Investments in Kayseri Organized Industrial Zone

All kind of support will be given to those who wish to make production in Kayseri Organized Industrial Zone by using advanced technology. Support will be given particularly in land allocation. Stating that they were ready to provide conveniences to the persons who want to make production by using advanced technology. The Chairman of the Board of Directors of Kayseri Organized Industrial Zone, Ahmet Hasyuncu, said that "All kind of support will be provided to those who wish to make investments in the fields of electronics, computers and other advanced technology fields.

FMCon News

With the increasing team of FMCon we decided to change into a new office.

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These information have been researched from different international publications. Foreign Market Consulting Ltd. Sti. does not give any guarantee with respect to the correctness of individual figures and statements.

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