



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

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Best regards,
Your FMConsulting Team

Economy

Overview of Monthly Data

YTL-Rates	28.01.2011	28.02.2011	Change in %
TL pro Euro	2.1821	2.2132	1.4252
TL pro USD	1.5909	1.6005	0.6034

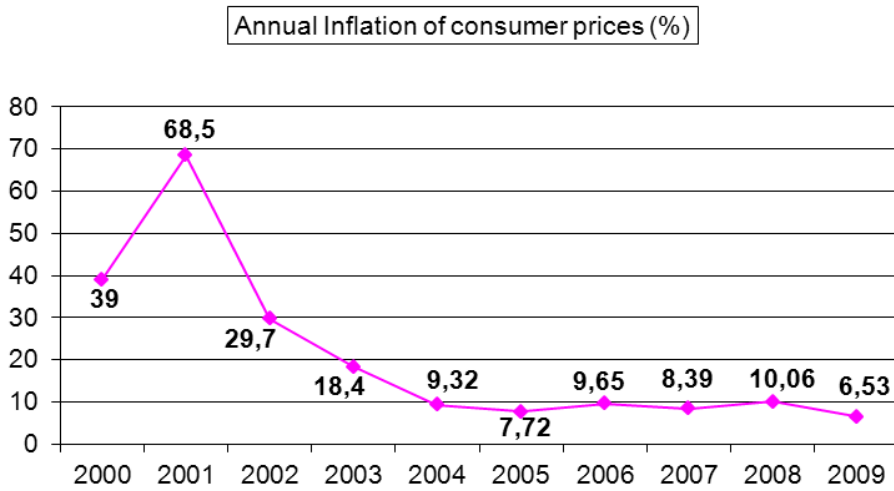
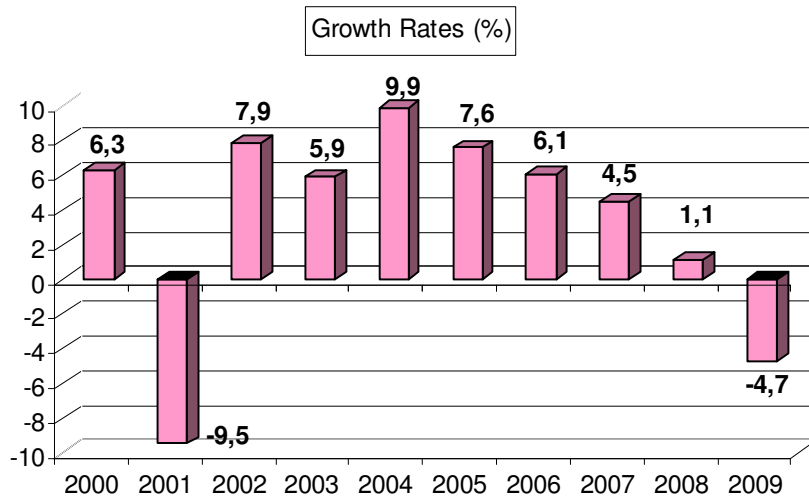
Stock exchange index	63.690,81	61.149,40	-3.990
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.72	10.87
Consumer prices	0.73	4.16

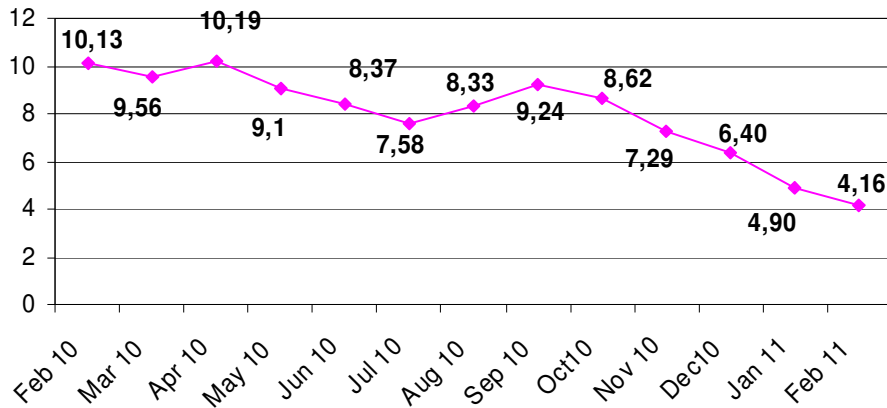
Growth Rates

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	8	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	8.1	4.1	3.3	3.6	4.5
2008	6.7	1.9	0.5	-6.2	1.1
2009	-14.5	-7.7	-2.9	6	-4.7
2010	11.7	10.3	5.5		



Annual Inflation's Monthly Development 2010-11 (%)



Turkish government's focus on stability

State Minister Ali Babacan, who is in charge of Turkey's economic policy, has announced that his government's priority for 2011 is on stability. The goal, he said, is to keep the economy growing not too fast, but in a controlled manner. Anyhow, the projected growth rate of 4.5% would translate into the best performance of any European country. In his words, a current account deficit of 5 or 6% has proved to be financially feasible. Babacan stated that the national debt will be further reduced in the present year, and that the fiscal deficit is expected to drop to 2.8%, with interim results to be assessed at the end of March to enable a response to current developments.

February-2011

Turkey's account deficit continues to rise

As anticipated, the current account deficit of the Turkish economy hit an all-time high in December with US\$7.529bn, causing the year 2010 to close with a record deficit of US\$48bn 557mn – 247% over the previous year (13.991bn). In the same period, Turkey's foreign trade deficit rose from US\$24bn 850mn to US\$56bn 320mn. The country's exports increased by 11.5% over 2009, to around US\$114bn on an FOB basis; in addition to that, there were private exports amounting to some US\$5bn. In parallel, imports gained 31.6% to reach about US\$185.5bn on a CIF basis. However, the recent depreciation of the national currency has restored a measure of hope to exporters.

February-2011

Computers and motor vehicles are the drivers of growth

Following the crisis year of 2009, almost all of Turkey's industrial sectors started growing again in 2010, in terms of output, sales, exports, and order. The average production increase in the manufacturing industry amounted to 14.4%, and the gain in sales to 17.5%. The best-performing subsectors were computers, electronics & optical devices (+34.9% / + 62.8%), motor vehicles (+32.9% / +24.9%), machinery & equipment (+ 32.9% / + 22.5%), wood (+ 28.6% / + 25.9%), and the primary metal industry (+ 10.8% / + 28.1%). As for exports, the highest increment was recorded by the subsectors office & electronic data processing machines (+34.2%), chemical

substances & products (+32.7%) and tanned leather & leather goods (+31.7%). Only a few subsectors, including other vehicles, tobacco products, and parts of the pharmaceutical industry, did not yet show signs of recovery.

February-2011

Record increase in subsidized investments

According to the statistics issued by the Undersecretariat for the Treasury, investment subsidies in Turkey rose sharply in 2010. The number of subsidized investment projects increased by 120%, to 4,289, their total volume soaring by 191% to reach some US\$57.5bn. While the lion's share of subsidies went to the manufacturing industry, with US\$33.2bn (+338%), the highest increment of 653% was in agriculture, to US\$2.9bn. Regional investments accounted to around US\$19bn of subsidies, while the share of large-scale investments such as oil refineries, power plants, and commercial ports was about US\$21.9bn.

Development of investment subsidies in 2010 vs. 2009

Sectors	Subsidy amount (million TL)			New jobs created		
	2009	2010	Change	2009	2010	Change
Agriculture	390.5	2,940.3	+652.9%	2,317	14,946	+545.1%
Mining	800.3	1,986.0	+148.2%	3,503	5,662	+61.6%
Manufacturing industry	7,587.9	33,246.9	+338.2%	40,219	67,563	+68.0%
Energy	4,649.1	6,766.7	+45.5%	1,595	2,637	+65.3%
Services	6,310.7	12,518.1	+98.4%	27,204	48,540	+78.4%
TOTAL	19,738.5	57,458.1	+191.1%	74,838	139,348	+86.2%

February-2011

50% more SME loans in 2010

Turkey's banks granted 50% more loans to small and medium enterprises (SME) in 2010. While the loan volume had dropped to some TL83bn in 2009, it increased to a level of TL125bn in the past year. This can be regarded as a distinct sign of economic recovery. The number of SME benefitting from bank loans rose by around 150,000, to 1,374,838, an increase of 40% for micro-enterprises, 54% for small enterprises, and 56% for medium enterprises. At the same time, the volume of defaulted loans declined by 13.4%, to TL5.9bn, more than half of which was attributable to micro-enterprises.

February-2011

New Commercial Code generates market for websites and brand registrations

Following the recent reform of the Turkish Commercial Code (TTK), formal requirements for capital companies have increased. Once the law comes into effect on July 1, 2012, they will have 3 months to register their brand and company name, and to set up a website, ending in .tr as standard. Currently only 200,000 out of 1.2 million Turkish companies entertain a website. 75% of SME are not yet featured in the world wide web, and 59% not even have an e-mail address. An estimated 900,000 companies have not yet registered their brand with the Patent Office. This results in a huge potential for companies offering this type of services. Turkey's Information Industry Association (TÜBISAD) expects sales revenue in its sector to increase by some 25%.

February-2011

Politics

Ties with Syria grow ever closer

Syria and Turkey are jointly building a “Dam of Friendship” on the transnational Orontes or Asi River. The heads of government of the two countries, al-Otari and Erdogan, participated in the ground-breaking ceremony for the long-desired project. Following the mutual abolition of visa requirements, the economic relations of Turkey with its southern neighbour have gained considerable momentum. More projects are in the making, namely the establishment of a joint bank, a large-scale loan to Syria by Turkey’s Ex- and Import Bank, the interconnection of the natural gas grids, construction of a new border crossing between Nusaybin and Qamishli, and an express train connecting the cities of Gaziantep and Aleppo.

February-2011

Turkey and Iran to expand trade relations

During an official visit to Iran, Turkish President Abdullah Gül attended a Business Forum in Teheran together with his counterpart Mahmoud Ahmadinejad. The Iranian President took this opportunity to argue the case for collaboration of the two countries in building a new economic system as an alternative to capitalism. He called on Turkish companies to invest in his country within the scope of a US\$120bn privatisation programme, for instance in the areas of construction, tourism, and mining. President Gül stated his country’s intention of increasing the trade volume with neighbouring Iran from now US\$10bn to US\$30bn. However, he said, Iran will have to remove obstacles to trade such as high customs duties and slow customs procedures, which he claimed amount to a self-imposed embargo far more effective than that enforced by the United States. Meanwhile, Turkish companies complain about the difficulty of borrowing money from banks for investments in Iran.

February-2011

Turkey evacuates citizens from Libya

Following restrictions in air transport, Turkey has deployed 2 fast ferries from Marmaris to bring home several thousand of its citizens from troubled Libya. The successful operation met with enthusiasm by the Turkish media. When civil unrest started, a total of roughly 25,000 Turks lived in the North African country, most of them working on construction sites. Turkey is concerned about the current developments in the Arab world not least because Egypt, Libya, Algeria, and Syria in particular are of considerable importance to its economy: Turkey’s trade volume with the 11 so-called “domino states” affected by political turmoil has almost doubled since 2005 to currently around US\$16.1bn.

February-2011

Erbakan dies at 84

Former Turkish Prime Minister Necmettin Erbakan has died in Ankara at the age of 84. The

politician, who trained as a mechanical engineer and earned his Ph.D. from Aachen University in Germany, had been one of the key players of Turkish politics since the early 1970s. Mr Erbakan is considered to have blazed the trail for political Islam of nationalistic style in Turkey. He is also regarded the political foster-father of current Prime Minister Erdogan. As the mastermind of the National View (Milli Görüş) movement, he founded a number of political parties, most of which were banned for being anti-constitutional. Right up to his death, Erbakan acted as chairman of his Felicity Party (Saadet Partisi). Several hundred thousand people gathered for his funeral in Istanbul.

February-2011

Other Topics

Turkey one of the leaders in voluntary emissions trading

After China and India, Turkey is the leading country in voluntary carbon dioxide emissions trading. According to Bahar Ubay, Regional Director of certification body Gold Standard, there are currently more than 150 voluntary projects in the field of emissions trading in Turkey. Starting in 2005, she said, her organization has been able to issue certificates amounting to 2.5 million VER (Voluntary Emission Reductions), which equals 2.5 million tons of carbon dioxide. Since Turkey is not included in Annex I of the Kyoto Protocol, it is not yet subject to the Clean Development Mechanism (CDM). However, the country will have to participate in the global system as from 2012.

February-2011

RWE to invest half a billion Euro in Turkey

Turkey's energy market remains highly attractive to foreign investors. German RWE, one of Europe's leading public utility companies, is currently building a modern natural gas power plant with an efficiency factor of 55 percent near the city of Denizli in southwestern Turkey. The €500mn investment, which has a capacity of 850 megawatt (MW), is to supply power to 3.5 million inhabitants of the region by the end 2012. Turkey plays an important role in the international growth strategy of his company, said the executive director of RWE Turkey, Andreas Radmacher, adding that more investments are planned within the scope of the liberalisation and privatisation of the Turkish market.

February-2011

British corporation takes over Turkish liquor market

London-based Diageo, the world's largest producer of spirits, has taken over the biggest producer of alcoholic beverages in Turkey, Mey İcki. The company, which used to be state-owned under the name of Tekel, had been acquired for US\$292mn by a Turkish consortium in 2004. In 2006, 90% of shares were sold to US investment fund TPG Capital for US\$810mn. Diageo now paid a stunning US\$2.1bn for 100% of shares in the company, which boasted sales of some US\$500mn in 2010. The new owners see a big growth potential, especially in the Turkish middle class, beyond the national drink, Raki. Mey İcki, they say, is a very well-placed and highly profitable company that also presents a good platform for Diageo's own products.

February-2011

IBM: Turkey must intensify its IT efforts

IBM, the second-largest IT company in the world, will be celebrating its 100th anniversary this year. The company has been active also in Turkey as early as in 1935, and is keeping a close eye on the developments in this country. The managing director of IBM Turkey, Michel Charouk, stated that Turkey has registered considerable growth in the IT sector, clearly indicated by investments of US\$6bn. However, much larger investments are needed if Turkey wants to avoid falling behind other emerging economies, he said, noting that while in China and India IT investments amount to around 1.8% of national income, this share is currently only 0.8% in Turkey. According to Charouk, Turkey needs to increase its investments in the IT industry to US\$10bn by 2015 in order to remain competitive in the long term.

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Shopping Fest aims high

Between March 18 and April 26, Istanbul is going to turn into the ultimate shopping paradise for forty days and forty nights. The first Shopping Fest on both sides of the Bosphorus hopes to attract bargain hunters from all over the Middle East and Southeast Europe. The timing of the event was made to coincide with the Easter and Passover season. During the event, shopping centres and brand stores will stay open until 11 p.m., some even until 2 a.m. for late hour shopping. The campaign will be accompanied by numerous street shows and cultural events. This marketing gig, which has already been practised in other cities such as Dubai, is to generate an additional US\$3bn in sales to retailers. The stated aim of the organizers is to develop Istanbul into a top-notch shopping location the like of London, Paris or New York. The event has the full support of both the municipal and the central government.

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