

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	29.07.2011	26.08.2011	Change in %
TL pro Euro	2.3995	2.5307	5.47
TL pro USD	1.6814	1.7538	4.31

Stock exchange index	62.295,68	53.707,60	-13.79
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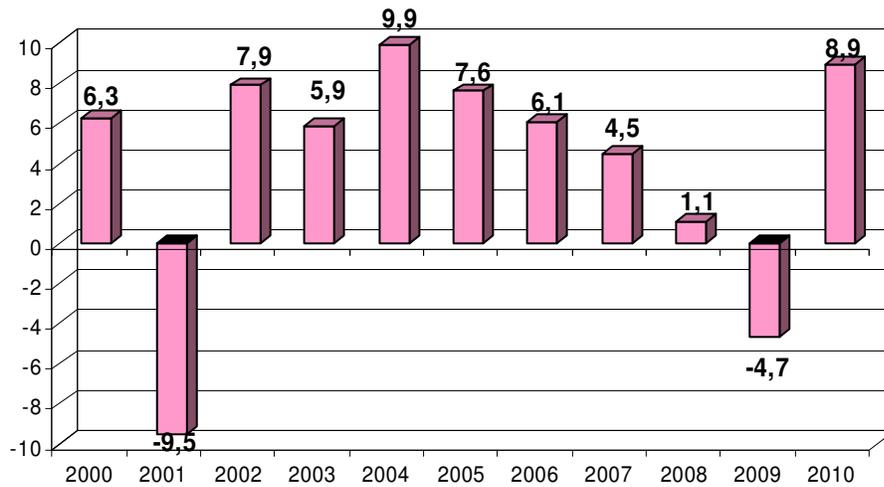
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.76	11.00
Consumer prices	0.73	6.65

Growth Rates

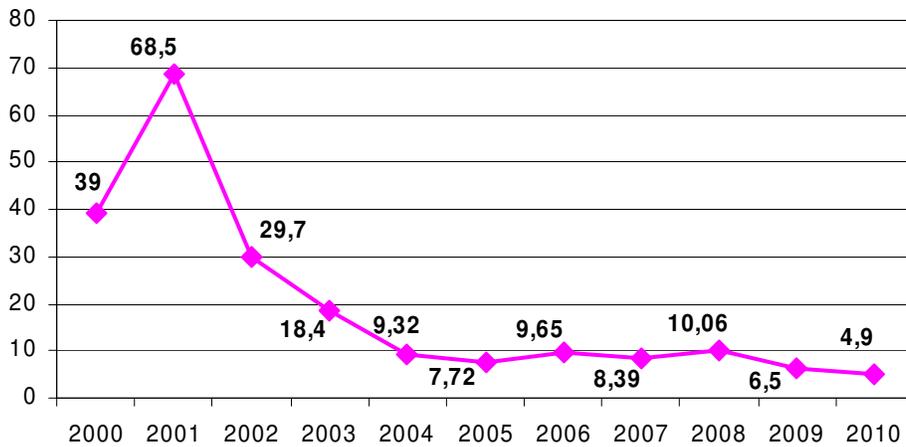
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9

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	9.2	8.9
2011	11.0				

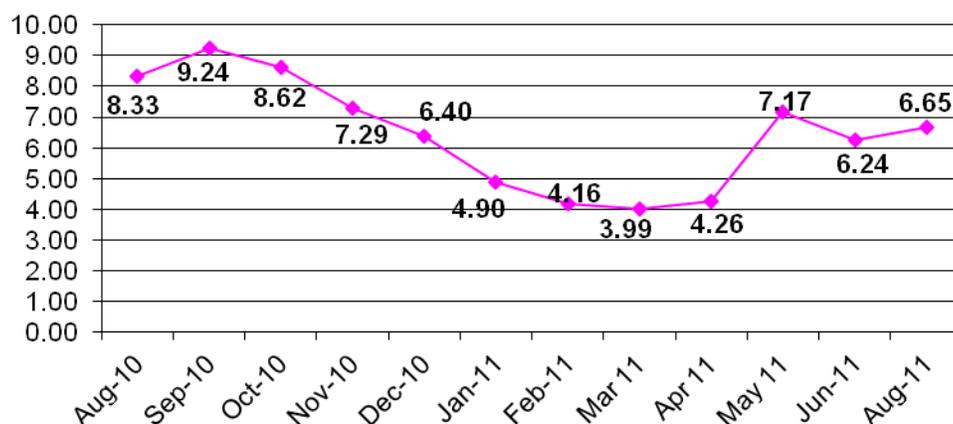
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



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



Profit rises of large-scale enterprises outperform turnover increase

The Istanbul Chamber of Industry (ISO) has just published its annual report on the 500 largest industrial companies of Turkey. The report says that while the ranking enterprises posted net sales for 2010 that were 21.8% higher than the year before; their profits surged by 39.8%. The Top 500 also reported growth in workforce and exports, by 10% and 16.5%, respectively, and now account for 44.4% of total export volume. By contrast, smaller businesses employing less than 250 people suffered profit declines of 20% on average, and were forced to cut jobs to the same extent.

The 10 largest companies of Turkey by sales 2010

Rank	Company (sector)	Sales from production (TL)
1	TÜPRAS (mineral oil)	20,819,067,010
2	EÜAS (electricity)	9,740,496,745
3	Ford (automotive)	6,004,619,331
4	Oyak Renault (automotive)	5,871,042,516
5	TOFAS (automotive)	5,448,847,625
6	Arcelik (electronics)	5,108,831,127
7	Aygaz (gas)	3,969,130,023
8	Eregli Demir-Celik (steel)	3,715,823,817
9	ICDAS (steel)	3,523,477,229
10	Iskenderun Demir-Celik (steel)	3,239,662,761

The 10 largest companies of Turkey by exports 2010

Rank	Company (sector)	Exports (1,000 US\$)
1	Oyak Renault (automotive)	3,236,949
2	TÜPRAS (mineral oil)	2,849,093
3	Ford (automotive)	2,643,720
4	TOFAS (automotive)	2,346,818
5	Arcelik (electronics)	1,748,437

6	Name not disclosed	Figure not disclosed
7	Vestel (electronics)	1,380,261
8	ICDAS (steel)	1,219,899
9	Petrol Ofisi (mineral oil)	1,076,638
10	HABAS (gas)	1,065,159

The 10 largest companies of Turkey by profits 2010

Rank	Company (sector)	Annual profit (before taxes, TL)
1	EÜAS (electricity)	4,850,920,203
2	TPAO (mineral oil)	1,297,369,534
3	TÜPRAS (mineral oil)	929,422,037
4	Ford (automotive)	708,287,230
5	Philsa (cigarettes)	544,110,632
6	Eti Maden (mining)	439,378,567
7	Anadolu Efes (brewery)	376,091,158
8	Arcelik (electronics)	346,612,388
9	Oyak Renault (automotive)	341,287,590
10	TKI (coal)	340,110,127

July – 2011

Government set to review its employment strategy

The Turkish Ministry of Labour has drawn up a strategic paper on employment policy that is likely to bring about major changes on the job market should it be adopted by lawmakers. The new strategy has already been deliberated by the Council for Economic Coordination (EKK), though not by the cabinet. Its keystones are the promotion of flexible working hours, easier access to unemployment benefits, a cutback of severance payments to the OECD level, and the introduction of different minimum wages according to region. It sets targets for the year 2023 such as reducing unemployment to 5%, increasing the employment rate to 50%, and curbing informal employment to 15% outside the agricultural sector.

July - 2011

Level of imports continues to be cause for concern

Turkey's imports are still on the rise, jacking up the country's trade gap – in the first six months of 2011 it almost doubled over the previous year to reach close to US\$54bn. Economy minister Zafer Caglayan stated that the foreign trade deficit does not pose a threat since the government's debt has been reduced considerably and financial stability prevails, claiming that the principal reason for the deficit was the overvaluation of the Turkish Lira due to a misguided monetary policy in the past. Representatives of the business community, however, contradicted the minister, called for interventions to strengthen the national currency and to cut back the trade deficit, and demanded structural changes, which they say should not be put off any longer. Exchange rate interventions already resulted in a considerable slowdown of deficit growth in July and August.

Turkey's foreign trade balance for the period January-June 2011 (bn US\$)

	2010	2011	Change
<i>Exports</i>	54,717.3	65,632.1	19.9%
Investment or capital goods	5,796.7	6,944.5	19.8%
Raw materials (intermediate goods)	27,318.0	33,304.8	21.9%
Consumer goods	21,401.3	25,148.5	17.5%
Other	201.4	234.2	15.3%
<i>Imports</i>	83,397.7	119,610.2	43.4%
Investment or capital goods	11,911.7	18,822.5	58.0%
Raw materials (intermediate goods)	60,378.0	84,976.2	40.7%
Consumer goods	10,856.1	15,352.7	41.4%
Other	251.9	458.8	82.2%
<i>Balance</i>	-28,680.4	-53,978.2	88.2%
Relation of exports to imports	65.6	54.9	

July/August – 2011

Exports keep booming

Turkey's export volume continued to rise in August, reaching US\$11bn 78mn, a 29.89% increase over the previous year. According to the Turkish Exporters' Association TIM, the country's exports totalled US\$88bn 550mn in the first eight months of the year, up 21.63% from the same period of 2010. Exports of the 12-month period climbed 17.48%, to US\$129bn 628mn. While TIM's president expressed his appreciation of the fact that exports for this year look certain to exceed by far the annual increment of 12% targeted until the year 2023, he also gave out a warning: Since exports are lagging well behind imports, he said, it is imperative for Turkey to enter new export markets, and to increase government aid to the export-oriented industries to a minimum 1% of the export target.

July/August - 2011

Focus of state subsidies on railway and energy projects

In July the Turkish Ministry of Economy authorized subsidies of TL4.8bn for a total of 300 investment projects that will create some 8,000 new jobs. The largest sum, TL1.1bn, was allotted to the measures taken by State Railway Company TCDD for the modernization of short-distance public transport. Another TL384mn went into a joint project of TCDD and the Municipality of Izmir towards the procurement of trains for the light rail system that is being built in the Aegean metropolis. And TL730mn were appropriated for a reservoir dam and hydropower venture which the energy subsidiary of Dogus Holding is implementing in the province of Artvin near the border with Georgia.

September - 2011

Public sector encouraged to meet its needs domestically

Goods manufactured in Turkey are to be increasingly considered in future public tenders. The Prime Minister's Office has just issued a decree stipulating that products of the national industry shall be treated as equal with imported goods. With due regard to the efficiency and competition principle, Turkish products are even to be given priority. This initiative met with a positive response throughout the business community; hopes are high that this will significantly stimulate domestic industry and help reduce the country's foreign trade deficit. In addition experts pointed

out that the decree will serve to draw even more foreign investments to Turkey. This measure must be viewed within the framework of the government's strategy to gradually turn Turkey into an exporting country by the year 2023.

September - 2011

Politics

Turkish entrepreneurs' association insists on reforms

President Abdullah Gül has granted a 1.5 hour audience to the board members of Turkish Entrepreneurs' Association TÜSIAD which is known for its critical stance on the government. Subsequently Ümit Boyner, the chairwoman of the association, declared that the entrepreneurs had communicated to the head of state their expectations for the time period up until 2015, which she summarized under 5 headings: democratisation, growing closer to the EU, sustainable growth, transition to a low-carbon economy, and increased productivity. Turkey's continually growing trade deficit, she said, should prompt the country to reconsider its concept of industry and to carry on with its economic reforms, proceeding to say that there can be no talk of an economic crisis in Turkey at the present time, especially by international measure.

July - 2011

Erdogan: There is no such thing as a state of "Cyprus"

On the occasion of the 37th anniversary of the Turkish military intervention in Cyprus, Prime Minister Erdogan paid a visit to the Turkish Republic of Northern Cyprus. In the Northern section of the divided capital of Nicosia he delivered a keynote speech in which he reiterated Turkey's patronage of the entire island as its guarantor and protecting power. On a different note he urged Southern Cyprus and the EU to return to the negotiation table. The EU has granted full membership to the Republic of Cyprus as of May 1, 2004, effectively recognizing the claim to sole representation put forward by the Greek-dominated South – in stark contrast to Turkey. However, in actuality the island continues to be split in two, and all efforts for reunification have so far failed due to opposition by the ethnic Greek: 76% of Greek Cypriots rejected the Annan Plan in the referendum of April 24, 2004, while 65% of Turkish islanders voted in favour.

July - 2011

Kurdish conflict back to full scale

A political solution to the Kurdish conflict in Turkey appears to be less likely than ever. Since mid-July a series of attacks by Kurdish terrorist organisation PKK has claimed the lives of at least 40 Turkish military personnel, mostly young conscripts. In the fiercest assault in three years, 13 soldiers were ambushed and massacred near Diyarbakir. In the Hakkari region, 12 members of the security forces were killed in a bombing raid on a military convoy. Subsequently there were protests all over Turkey, with occasional attacks on offices of pro-Kurdish party BDP, which many regard as political branch of the PKK. The Kurds, on the other hand, blamed the AKP government for having failed to keep its pre-election promises. Prime Minister Erdogan announced drastic measures; from now on, he said, there will not be any more words, but rather actions. In the last days of August Turkish fighter jets again carried out airstrikes against alleged PKK strongholds in Northern Iraq, officially killing up to 100 militants.

July/August - 2011

Erdogan family pays solidarity visit to Somalia

In an act of solidarity Turkish Premier Recep Tayyip Erdogan ostentatiously travelled to famine-stricken Somalia in the fasting month of Ramadan. Despite all security concerns, the rare visitor brought along his wife Emine and three of his four children as well as his foreign minister and two planeloads of relief supplies to the Islamic country. In the capital Mogadishu, the delegation visited, among other things, a camp for famine victims erected by the Turkish Red Crescent. Turkey takes an active interest in the tragedy unfolding at the Horn of Africa. A donation campaign supported by the media and the government aims to raise US\$200mn of aid by the end of Ramadan. Aside from that, the Organisation of Islamic Cooperation (OIC) was convened for two Somalia conferences in Istanbul, resulting in donor pledges for another US\$150mn.

August - 2011

Frosty atmosphere between Turkey and Israel

The traditionally close relations between Israel and Turkey are currently undergoing a real test. As a result of the controversy about last year's assault on the Gaza Freedom Flotilla, Ankara has expelled the Israeli ambassador and withdrawn its own high-ranking diplomats. At the same time, military co-operation with Israel was preliminarily discontinued. Foreign minister Ahmet Davutoglu stated that Israel must finally pay a price for its violations of international law and the killing of civilians, which means, first and foremost, to risk losing Turkey as a friend and ally. In May of 2010 Israeli naval commandos had shot and killed nine Turkish activists in a raid on the Turkish ship "Mavi Marmara" carried out in international waters. For this reason Turkey demands a formal apology and compensatory damages from the Israeli government, which Israel has so far refused. Now the Turkish government is on a collision course also with the UN whose fact-finding commission, while criticizing Israel's action as "excessive force", still called the blockade off the coast of Gaza legitimate. Prime Minister Erdogan announced an official visit to the Gaza Strip for mid-September. His government, he said, will do everything in its power to make Israel lift the embargo.

September - 2011

Other Topics

New airport for Black Sea region

Construction of yet another international airport will be completed in the Eastern Black Sea region of Turkey by the beginning of 2014. On July 15, the first spadeful of earth for the project, which involves infrastructure investments of some 150mn TL, was turned. A site 20 km east of the city of Ordu and 25 km west of the city of Giresun was chosen as location. Since due to the topographic conditions only a narrow coastal strip is available, the sea needs to be filled in order to build the 3000 m runway – following the airport in Kansai/Japan, which is located on an artificial island, this is only the second time in the world for a similar engineering challenge to be tackled. The new Ordu-Giresun Airport is supposed to relieve the existing airports in Samsun and Trabzon and with its capacity of 2 million passengers per year to serve an area with a population of around 1.5 million.

July - 2011

Chemical industry is export champion of the first half-year

In the first 6 months of the year, Turkey's chemical industry recorded the highest increase in exports of any industry, surpassing even the automotive sector (+ 26%) with a record gain of 41,17% over the same period of 2010. However, in absolute numbers the motor industry still comes first, with exports of US\$10bn 340mn as against US\$8bn 278mn. In June, Turkish car makers exported US\$1bn 799mn worth of goods, as compared to US\$1bn 466mn for the chemical manufacturers, whose main customers were Greece, Iraq, Malta, Saudi Arabia, and Germany. The Turkish Automotive Industry Association revised its export target for 2011 from US\$18bn to US\$20bn, provided that the Euro exchange rate which is favourable for the export-oriented industries can be sustained.

July - 2011

Compass Group sees bright future on Turkish market

UK-based Compass Group, the world's biggest food service company with around 428,000 employees in 50 countries and an operating income of approx. US\$25bn in 2010, is highly satisfied with the development of its Turkish business. In the 5 years since Compass purchased 50% of shares in Turkey's leading caterer Sofra Grup, the average annual growth rate was twenty percent. 5 years from now, says CEO Richard Cousins, Turkey will have become one of the top five or six markets for Compass. A logical consequence thereof was the recent acquisition of the remaining interests in Sofra Grup, which with its 16,500 employees delivers some 550,000 meals a day to schools, hospitals, and factories. This was shortly afterwards followed by the buyout of long-established catering company Obasan in Bursa with 1,500 personnel and a capacity of 100,000 meals per day, which from now on will operate under the umbrella of Sofra Grup.

July/August - 2011

bauMax relies on Turkey

Austria's bauMax AG, one of Europe's largest retail chains for home improvement and DIY goods, currently operates a total of 153 outlets in nine countries: Austria, the Czech Republic, Slovakia, Hungary, Romania, Croatia, Bulgaria, Slovenia and Turkey. In 2010 the family-owned enterprise generated approx. 1.5bn € of sales revenue with around 11,000 employees. Rather than building new operations in Serbia and the Ukraine, as had been scheduled, bauMax now first wants to benefit from the political stability and outstanding economic trend in Turkey. According to its chief executive Martin Essl, the company plans to open 72 new stores over the next decade, 30 of them in Turkey alone, where bauMax has been operating since 2010, employing some 500 personnel in its 3 stores in Izmir, Izmit and Samsun. Around three out of four products on offer are supplied by domestic manufacturers, with an extremely short supply chain of only 3-4 days.

August - 2011

High-speed railway line Ankara-Konya put into service

After 5 years of construction, the high-speed railway line linking the capital with the big industrial city of Konya in Central Anatolia has now commenced operations. The new stretch of track, which is a strategic link in the Turkish rail network, reduces the distance between the two cities to 306 kilometres and travel time to initially 90 minutes. Travelling the previous route took 10.5 hours, particularly due to the required 380-kilometre detour via Eskisehir and Afyon. For the time being, 10 high-speed trains by Spanish manufacturer CAF, which allow top speeds of up to 300 km/h, will

be operating on the new route. In future there will be an hourly train service, and the journey will be cut by another 15 minutes. Construction cost of the railway project amounted to around TL1bn.

August – 2011

Solar power plants in the pipeline

As soon as the required bureaucratic arrangements have been completed, Turkey intends to issue licences for solar power stations in 2012, initially limited to a total installed capacity of 600 MW. Industry experts anticipate a keen interest, especially on the part of foreign investors. In view of the high solar irradiation given in most parts of the country, they say, investments in solar power plants appear profitable even at a scale of 5-10 MW. It is expected that a market with a volume of the order of €2bn will emerge. Nevertheless, solar energy plays only a minor part in the energy concept of the Turkish government, which is reflected in the comparatively low feed-in tariff of 0.13 US\$ per KWh.

August – 2011

Bridges and motorways to be privatised

The operating rights of the two Bosphorus bridges and over 2,000 kilometres of motorway are about to be auctioned off for a period of 25 years. Following a lengthy legal battle involving consumers' associations and the proper government authority, the legislation was amended to include this vital piece of the transport infrastructure in the scope of privatisation. Proceeds from the auction, which is to be held on December 15, are expected to run at about US\$5-6bn. Currently Turkey's bridges and motorways generate annual revenues of some US\$500mn. There will be no explosion in toll fees, since they have been regulated by law. However, private cars crossing the new bridge across the Gulf of Izmit, which is scheduled to be completed some four years from now, will be charged US\$35 each. The US\$1.4bn construction contract for this bridge, with the second-longest span world-wide, has just been awarded to Japan's IHI Corporation, which had already built the second Bosphorus bridge.

August/September - 2011

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