

FOREIGN MARKET CONSULTING

Danismanlik ve Tic. Ltd. Sti.



Attached is our latest monthly newsletter providing summaries of recent economic and political developments in Turkey.

Please note that beginning from this year we also offer 2-day intensive **seminars on 'Business in Turkey'** presented at our offices in Istanbul. Please find further information **Seminar - Info**

We would welcome your feedback on our Newsletter and any other matters that you consider may improve or add to our newsletter service. Please also do not hesitate to contact us if you wish to learn about our wide range of available services.

If you know anyone else who would be interested in this free service, please forward this newsletter to them or alternatively, provide us with their e-mail address (to newsletter@fmconsulting.info), so that we can include them on our distribution list.

Best regards,

Your FMConsulting Team

Newsletter January 2008

Economy

Overview of Monthly Data

YTL-Rates	12.31.2007	01.31.2008	Change in %
YTL pro Euro	1.7168	1.7467	1.74
YTL pro USD	1.1666	1.1754	0.75

Stock exchange index	55.538	42.698	-23.91
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.42	6.44
Consumer prices	0.8	8.17

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		

Fund market grows with 21%

In 2007 the investment funds net asset value rose by 21% to 26.4 billion YTL. The numbers of investors are 3 million. The Association of Capital Market Intermediary Institutions of Turkey President Gür Çağdaş stated that worldwide the investment fund share was an amount of 23 trillion USD and according to the EFAMA-European Funds and Asset Management Association 6.4 trillion Euro was in the EU region.

5 major export sectors also a leader in imports

Turkey's exports exceed an amount of 106 billion USD and therefore took front place among 5 sectors and it also has become a major importer. It has been in the first 5 sectors namely textile-clothing, automotive, iron- steel, machinery and axles and electronics for some time and furthermore in 2007 realized a total amount of 75 billion USD of imports.

Foreign trade amounts according to sector (billion USD)

Sector	Export	Import
Textile-clothing	22.6	7.6
automotive	21.2	10.8
Iron- steel	16.5	14.7
Machinery and axles	5.5	20.2
Electronics	9.1	12.1

Changes in Free Zone Regulation applications

The Directorate of Customs has recently implemented laws dating from 1999 and started collecting VAT on goods and services in the free trade zones. Such goods and services have been exempt from VAT and manufacture in free trade zones have now turned disadvantageous for producers. This application is furthermore considered negative during the negotiating of ascension of Turkey to the EU.

Growth and current account deficit during industrial progress

Turkey's vital problem with its current account deficit has not been solved in the last 11 months. For the January- November period the current account deficit rose with 11.6% to 32.8 billion USD. For November the current account deficit rose by 9.1 to nearly 3 billion USD.

2007 growth and industrial production rates

Period	Growth (%)	Industrial production (%)
1. quarter	6.80	8.40
2. quarter	4.10	3.16
3. quarter	2.00	4.06
9 month average.	4.00	5.20

Turkey may only grow by 5.4% this year

According to the World Bank, Turkey's growth will fall behind Pakistan and Egypt in the next 2 years. The bank in its Global Economic Prospects 2008 report stated the expected growth will for 2008 be 5.4% and is projected to be 5.7% for 2009.

The performance in 2007

Consumer price index	8.39%
Producer price index	5.94%
Foreign trade deficit (Jan-December)	49.6 billion\$
Current account deficit (Jan-December)	32.7 billion\$
9 month growth	4%
9 month unemployment	9.3%
9 month industrial manufacture	5.2%

Government reveals 5 year action plan for 'social upliftment'

Prime Minister Erdogan revealed the foundations of his social upliftment plan for the period 2008-2012. The main aims are:

- The reserve and state banks to relocate to Istanbul
- Direct income support to agriculture to come to an end; support to products will be given
- A reduction of 5 points to the Social Security premiums to start in 2008
- A strong effort to be continued to become a full EU member
- Full support for foreign investment

The leasing sector expectant about the VAT situation

Goods leased by financial means have experienced a recent increase in VAT from 1% to 18%. A strong reaction was shown and it is hoped that the government will take a step back from this decision. Prime Minister Erdogan announced that an influential committee including Nazım Eken, Zafer Çağlayan and Kemal Unakıtan is to be established to investigate this issue. The Turkish Leasing association and other consultants in the industry have expressed their hope that counter measures to this decision will be taken.

Prison sentences for employers who shows lower than real salaries on payroll

The state senate has enacted a bill which would allow for prison sentences for employers who shows lower than real salaries on payroll. This law was promulgated in the Government Gazette no 5728. Accordingly, such an employer may be given a prison sentence for 1 to 3 years. Moreover, wage taxes on the amount will be three times and overdue interest will be imposed. Fines on insurances premiums will also be collected.

Politics

Heavy Criticism from TUSIAD to MHP leader and to AKP

The president of the Turkish Industrialists' and Businessmen's Association (TUSIAD) Ms. Yalcindag is critical of the fact that the headscarf issue is on top of the agenda while unemployment and the global crisis should be priority. She also criticized comments made by the leader of the Nationalist Movement Party (MHP), Mr. Devlet Bahçeli, for the support on the proposal to lift the headscarf ban. TUSIAD accused the Justice and Development (AK) Party negligence on such a delicate issue. It was stated that those who try to take Turkey away from the European Union process can not say they are supporting of democracy.

Supreme Court, Opposition Parties and Armed Forces Challenge Lifting of the Headscarf Ban

The Supreme Court of Appeals chief public prosecutor Mr. Abdurrahman Yalçınkaya emphasized that the lifting of the headscarf ban would violate the secular unitary structure of Turkey. Ms. Yalçınkaya in his written statement said that the lifting of the headscarf ban in higher education institutions will only pave the way for religious fanaticism. He indicated that the use of certain types of clothing in educational institutions under the pretense of freedom, can cause that society's racist and discriminative forces can easily use these symbols and they can make educational institutions their active fields. Ms. Yalçınkaya also added that there should be no actions taken that aim to destroy the indivisible unity of the state, the country and its citizens. Turkey's the chief of the general staff Yaşar Büyükanıt also commented on the military's opposition on the lifting the headscarf ban in universities. He told the press that all segments of Turkish society know what the military thinks about the headscarf issue. The bill has also prompted criticism from the two left-wing, opposition parties in parliament, the Republican People's Party (CHP) and Democratic Left Party who, immediately after this law was passed in parliament took it to the Supreme Court.

After 49 Years , Greek Prime Minister Visits Turkey

The Greek Prime Minister Kostas Karamanlis makes the country's first official visit to Turkey after 49 years. The last Greek Prime Minister to visit Turkey was Mr. Karamanlis's uncle, Konstantin Karamanlis, in 1959.

Energy Plans Layed Out in Gul-Bush Meeting

Abdullah Gul – George W. Bush talks focused on Turkey's energy cooperation between Central Asia, the Middle East and the Caucasus. Turkey is seen as an important energy corridor in the transportation of energy sources from East to West. Bush stated the need for Turkey and the USA to develop the energy sector in Pakistan, Iran and Iraq.

Turkey's important energy cooperation pipelines

Baku- Tiflis –Ceyhan
Kerkuk- yumurtalik- Ceyhan
Sahdeniz Project
Samsun – Ceyhan

Nabukka
Blue line
Egypt- Europe
Iraq – Europe

Another important issue high on the agenda was terrorism. Bush stated that USA would continue to stand by Turkey in its struggle against the terrorist organisation, the PKK. He also emphasised that PKK were a “common enemy” and that from this time on the United States government would also help the fight against terrorism with intelligence cooperation. According to news fed into the media, in return of this intelligence cooperation support, USA wants Turkey to redefine its military role in Afghanistan by increasing its military force with fighting troops.

Other Topics

Akbank aims for 20% market share

Akbank is celebrating its 60th year since its foundation. At a press conference at the Istanbul Sabancı centre Akbank General Manager Zafer Kurtul stated that in the last 10 years the bank grew by acquiring banks on almost a yearly basis. He further announced the bank accumulated assets to the value of 56.5 billion USD and that it aims to capture 20% of the market in the next 5 years.

Zurich Financial Services Group acquire 100% of general insurer TEB Sigorta

Zurich Financial Services Group has signed an agreement to acquire 100% of general insurer TEB Sigorta, a general insurance company according to an announcement by TEB Sigorta. Premiums collected in 2007 were approximately USD 130 million (YTL 155 million). It currently distributes its products through an extensive network of regional offices, agents, brokers and financial institutions offering access to more than 600 points-of-sale. Zurich considers Turkey an attractive growth market. Between 2003 and 2006, the Turkish insurance sector grew at a cumulated average growth rate of 24% while the insurance penetration is considerably lower compared to other Central and Eastern European countries.

Nagel: Turkey to be the leader in region

The chairman of Multi Turkmall Hans Otto Nagel held talks with the IMP (Istanbul Greater Municipality Metropolitan Planning and Urban Design Centre) coordinator Prof. Dr. Hüseyin Kaptan. Nagel stated that Turkey will become the leading nation of this area and may even become ‘Europe’s China’. He further stated that Turkey has a positive reputation for investors and that finance can be obtained both from inside and from outside the country. He said that the banking sector was operating satisfactorily but the lack of projects in Turkey was an issue.

Turkey to be the new regional headquarter for French Averys SA

Europe’s 4th biggest industrial warehousing manufacturer French Averys SA acquired all the shares of Turkey’s leading company Standart Depo ve Raf Sistemleri AŞ, a specialist in the field of materials handling equipment and entered thereby into the Turkish market. Once Averys SA has established itself in the market it is planning to make Turkey its regional headquarters for

manufacture and export.

Social protest by pensioners against AKP

A group consisting of members of the pensioners union protested in front of the AKP Istanbul governor offices regarding an insufficient raise in pensions. They stated that the inflation in water, electricity and natural gas rates were forcing retired people into poverty.

Ukraine

EU opens WTO door for Ukraine

The European Union agreed Jan. 17 on the final terms for Ukraine's accession to the World Trade Organization (WTO), the supposed last hurdle on its path toward membership. The EU was the last trade partner to have reservations towards Ukraine, specifically export duties on metals, seed, live animals, and other agricultural goods. Ukraine's WTO entry would open the doors to a free trade agreement between Ukraine and the EU, which may become the core of a New Enhanced Agreement, a substitute to the Partnership and Cooperation Agreement that was signed in 1998 and planned for 10 years. The final agreement on Ukraine's WTO accession, following the working group report, came at the General Council meeting in Geneva Feb. 5 and 6. The Ukrainian Parliament would have to ratify the accession agreements into law. Ukraine, the biggest country besides Russia and Iran outside the 151-member trading bloc, has been negotiating for WTO entry for 14 years. The long-awaited membership to the WTO is expected to bring global trade benefits for the country's economy in the mid- and long-term.

Moscow warns Kyiv on NATO

Russia's foreign ministry issued a stern warning in response to a controversial NATO letter signed by Ukrainian leadership asking to be considered for eventual membership in the alliance. The statement mentioned friendship, cooperation, and partnership agreement signed between the two countries. In this context the possibility of Ukraine's integration into NATO will seriously complicate the multi-dimensional relations between Russia and Ukraine. Ukrainian leadership sent the Jan. 2 letter to NATO headquarters appealing for accession to the alliance's Membership Action Plan (MAP) at the Bucharest summit scheduled for April 2-4.

President at World Economic Forum in Davos

President Victor Yushchenko participated in the World Economic Forum in Davos. One of the president's earliest official meetings was with U. S. Secretary of State Condoleezza Rice. The president expressed gratitude to the United States for showing active support to Ukraine in its efforts to join the WTO. Rice expressed hopes that democratic transformation within the country continues. She also affirmed that the United States would participate at a high level in the Kyiv Energy Summit in May 2008. One of the matters under discussion was preparation for President George Bush's visit to Ukraine, at least scheduled after another European meeting in April.

Payment of Compensations to USSR's Saving Bank Depositors

The return of depreciated deposits kept at the former USSR's Saving Bank goes very effectively. All problems encountered by people during the payment process in the first days have been removed quickly and effectively. Payments will be made in full volume. The prime minister denied

the forecast that these payments will cause inflation. The 2008 national budget has a UAH 6 billion provision for payment of compensations to the former USSR's Saving Bank depositors. Oschadbank started paying compensations on January 11. Their full amount is estimated at over UAH 120 billion.

Investors cautiously optimistic

Prime Minister Yulia Tymoshenko consults with Vice Prime Minister for Euro-Integration Hryhoriy Nemyria at a Jan. 24 conference. The increasingly influential Nemyria has served as a point man for investors and diplomats. As more wide scale business reforms are unveiled by Prime Minister Yulia Tymoshenko with every passing day, investors are both hopeful for improvement and concerned about radical steps. More than 350 businessmen filled the Cabinet of Ministers Club on Jan. 24 to get a direct impression of Tymoshenko's business agenda, including vows to improve rule of law, combat corruption, and create more favorable investment conditions. While businessmen and lawyers were largely hopeful of such change, some recoiled at the more radical measures, particularly an initiative to allow government officials to ignore what she deemed illegal court rulings that would undermine that very goal.

French investment in Ukraine to continue rising

France and Ukraine are becoming closer economic partners. France is currently the eighth- to ninth-ranked economic investor in Ukraine in terms of market share. Exchanges between two countries keep growing in number. About 120 French companies are now doing business in Ukraine. Companies in the agribusiness sector – Danone, Lactails, Bel, Bongrain, Soufflet – are doing very well, as are the French banks. BNP Paribas recently took over UkrSybbank and Credit Agricole Calyon took over Index Bank. Last year, the French consortium Novarka (Bouygues, Vinci) won the tender to design and erect a new safe shell for the damage fourth reactor unit of the Chernobyl nuclear power plant. This five-year contract amounts to \$505 million.

Government earmarks billions to prepare for Euro-2012 Tournament

Foreign investment will cover most of the cost needed to transform Ukraine into a suitable host for what is considered the world's second largest football tournament behind the World Cup. In the coming months, Ukraine's task is to prove UEFA that the football governing body was correct in awarding the tournament to the joint Ukraine-Poland bid. Renovation and reconstruction of Ukraine's transportation network, including the road systems and airports, is atop priority. Boryspil International Airport needs expansion to for terminals by 2012. It is envisioned that new terminals will be built by private investment infused by the Ukrainian Aerosvit airline and by the state-controlled airport itself.

Please note that we also offer our full range of services from our partner firms' offices in **Krakov/Poland, Prague/Czech Republic, Kiev/Ukraine and Bucharest/Romania.**

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Our Services:

- Market Research
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- Recruitment Projects
- Employee Administration
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- Office Services
- Management
- Financial Services

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