



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

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Please note, we have moved office and our new address is below. However, our telephone numbers will remain the same.

Best regards,
Your FMConsulting Team

Economy

Overview of Monthly Data

YTL-Rates	30.04.2010	31.05.2010	Change in %
TL pro Euro	1.9711	1.9366	-1.75
TL pro USD	1.4810	1.5741	6.29

Stock exchange index	47.720	54.385	13.96
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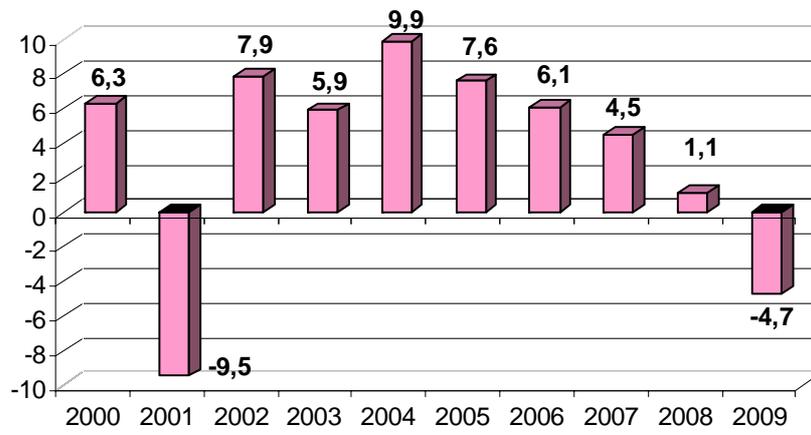
Inflation in %	Monthly inflation	Annual inflation
Producer prices	-1.15%	9.21%
Consumer prices	-0.36%	9.10%

Growth Rates

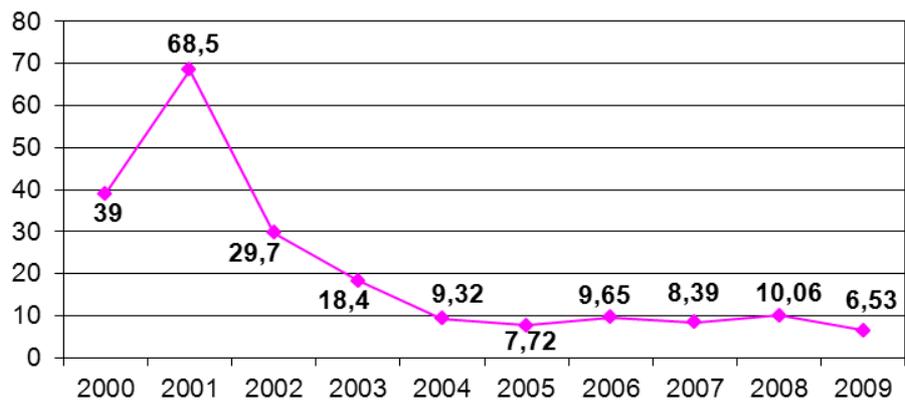
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9

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

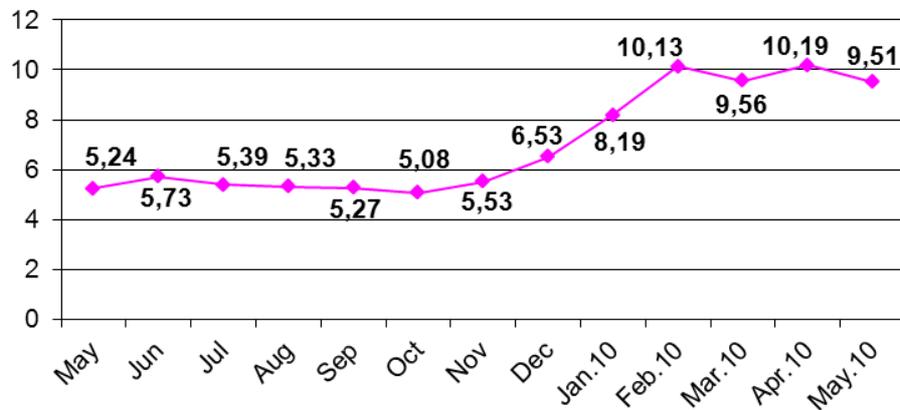
Growth Rates (%)



Annual Inflation of consumer prices (%)



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



Germany remains Turkey's export partner number one

According to the Turkish Statistical Institute, Germany remains unchallenged as Turkey's chief export partner, accounting for exports of over US\$2.6bn in the first quarter of 2010. Iraq outperformed Russia and the USA to take rank 5, while exports to China amounted to a mere US\$455.7mn. Among Turkey's direct neighbours, Iran (US\$597.2mn), Syria (US\$418mn), Greece (US\$401mn) and Bulgaria (US\$327.7mn) trailed a long way behind Iraq.

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Exports of Turkey according to country (January-March 2010)

Rank	Country	Export volume (million US\$)
1	Germany	2,620.0
2	Italy	1,752.2
3	France	1,641.1
4	Great Britain	1,531.4
5	Iraq	1,256.0
6	Russian Federation	907.4
7	Spain	852.5
8	USA	825.9
9	UAE	745.9
10	Egypt	632.7

Labour market gets some spring relief

The upswing of the economy has brought some measure of improvement to the jobless issue. The unemployment rate dropped to 14.4% in February, 1.7 percentage points less than in the same month of the previous year. Seasonally adjusted data show a minimal decrease of 0.4 points, to 12.7%. While the labour force participation rate rose by 0.2% to reach 49.1%, a 0.4% increment lifted the employment rate to 42.9%. Unemployment among youth, officially running at 25.5%, continues to pose a huge structural problem.

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Increased consumer spending boosts tax revenue

Turkey's Treasury announced that the country's internal revenue increased by 24.1%, or TL12.2bn, in the first four months of the year. Most of it (US\$10.1bn) was on account of the sales tax or VAT (KDV) and the Special Consumption Tax (ÖTV) levied on consumer durables, motor

vehicles, and luxury goods. The share of indirect taxes went up from 63% in the same period of the previous year to 67%. At the same time the budget deficit dropped 21%. But while the “Consumer Confidence Index” calculated by the State Statistical Institute rose to 85.8 points, it is still well below the index benchmark of 100.

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Increase of Turkey’s tax revenue (January-April 2010)

Type of tax	Increase (%)
Direct taxes	9.4
- Income tax	0.4
- Corporate income tax	34.5
Indirect taxes	31.5
- Domestic sales tax	23.7
- Special Consumption Tax	30.2
- Sales tax on imported goods	57.8
- Customs duties	24.0
Total tax revenue	24.1

New law to provide for systematic tax audits

A draft bill comprising a total of 51 amendments to the tax legislation has been submitted to the Turkish parliament by the Ministry of Finance. The centrepiece of the reform package consists of comprehensive, systematic company audits. Until today only about 3 percent of taxable corporations were subject to auditing on a national average. As Minister of Finance Mehmet Simsek pointed out, all taxpayers must expect to be audited in future. Special focus will be placed on the companies that are classified as “large taxpayers”, which currently applies to 853 companies, including by definition all banks and insurance companies. Large-scale enterprises will be audited on site at least once every 3 years, medium-sized companies at least once every 6 years, and small businesses at least once every 9 years. This task will require revenue authorities that are restructured, better staffed and more co-ordinated. The stated aim is to prevent wide-spread tax evasion and fraud and to permanently boost state revenue.

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World Bank director: Turkey headed in the right direction

The World Bank’s director for Turkey, Ulrich Zachau, sees a positive trend in the country’s economic development. With a national debt amounting to around 45% of the Gross Domestic Product, which is a still manageable figure, Zachau – while not expressly mentioning Greece – said Turkey compares favourably with some of the Eurozone countries. On the other hand, rising inflation and a high unemployment rate, in particular among the youth, are being regarded as serious issues. The World Bank aims to be part of the solution by working with the Turkish employment authorities to better qualify young people and make them fit for professional life. The bank also supports the reform of the health care system and wants to assist in keeping the system financially feasible in the long term.

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Politics

Turkey extends its economic and political co-operation with Russia

During his first visit to Turkey, Russia's president Dmitry Medvedev put his name to a whole array of landmark agreements. Medvedev praised the reciprocal lifting of the visa requirement for tourist purposes as "historic step". But of much greater economic significance are mutual undertakings in the energy sector, notably the pipeline projects "Blue Stream", "South Stream" and Samsun-Ceyhan, and joint construction of a oil refinery in Ceyhan. Moreover, Russia is now officially to build and operate the nuclear power plant in Akkuyu near Mersin which has been on the agenda for quite some time. Medvedev's host, Turkish Prime Minister Erdogan, said that the goal is to gradually increase the volume of trade between the two countries over the next 5 years, to US\$100bn per year. The previous all-time high of US\$38bn dates to pre-crisis 2008.

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Cyprus reunification talks enter new stage

The negotiations between the two populaces in Cyprus were resumed after an intermission due the presidential elections in the northern part of the island. The newly elected President of the Turkish Republic of Northern Cyprus, Dervis Eroglu, met in the UN delegation with the President of the Republic of Cyprus, Dimitris Christofias. Eroglu, who is considered a hardliner, reaffirmed that Northern Cyprus aspires to come to a solution that is acceptable for both sides as soon as possible. In a personal message, UN Secretary-General Ban Ki-moon voiced his conviction that an agreement can be reach before the end of this year.

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Opposition leader steps down after alleged sex scandal

Deniz Baykal resigned from the presidency of Ataturk-founded Republican People's Party (CHP), which he had held intermittently since 1992, after a compromising video tape had been leaked to the media. The clandestine recording ostensibly depicts the 71-year-old party leader in a hotel room in a sexual encounter with a CHP member of parliament who is married like himself. There were different speculations about who took the video that had been briefly posted on YouTube: While some, including Baykal, believe that this attack on his private life was a government plot, others suspect the tape was released by inner-party opponents wanting to topple Baykal who was reputed for his autocratic style of leadership.

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Yet another mining disaster in Turkey

In the Black Sea coal region of Zonguldak, 30 miners have been killed in an underground explosion in a state-owned coal mine. Rescue operations were hampered by the fact that part of the facilities had collapsed in the explosion. It took 3 days to retrieve 28 of the casualties from under the rubble, while the bodies of two more miners have yet to be located. Prime Minister Erdogan's comment that "people in this region are used to incidents like this", which are "the fate of this profession" caused widespread outrage. Critics say that accident prevention rules are habitually ignored in Turkish underground mining. As is the case in other industries (e.g. shipbuilding), the violation of occupational safety regulations frequently results in fatal accidents.

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New opposition leader challenges the government

Following the resignation of the long-time chairman of opposition party CHP, Deniz Baykal, the overwhelming majority of party delegates voted Kemal Kilicdaroglu to become their new leader. The 61-year-old is not a career politician but a renowned administrative and financial expert and former head of the Social Security Agency. He was elected to parliament in 2002 on a CHP ticket,

and in 2009 ran unsuccessfully for Lord Mayor of Istanbul, however scoring a remarkable result against the incumbent of ruling party AKP. Immediately after his election Kilicdaroglu started to travel the breadth and length of the country to promote himself and his party and to mobilize against the government of Recep Tayyip Erdogan whom he provocatively calls "Mister Recep".

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Other Topics

Shopping centre to spur cross-border trade with Caucasias

At the Sarp border crossing, Turkey's gate to the Caucasus countries the first and only shopping centre of the country's northeasternmost province Artvin, "Istanbul Bazaar", has opened its doors. On 8,000sq.m of retail space, 80% of which has already been leased, more than 100 reputed Turkish and international brands offer their products (predominantly textiles) and services. In addition to border crossers from neighbouring Georgia who enter Turkey (an average of 15,000 a day), the principal target group are potential buyers from Russia, Armenia, Iran, and Azerbaijan. The TL10m investment is supposed to increase the volume of cross-border trading in the region from US\$1.5bn to US\$2bn. At the same time it will help to legalize duty-free short-range border traffic which so far has mainly taken place in the form of "suitcase trading".

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Bureaucracy delays construction of giant bridge project

The long-discussed bridge to be built across the Gulf of Izmit is apparently being delayed by demands of the highest planning authority for changes of an undisclosed nature. Although the contract had been awarded to a Turkish-Italian consortium a year ago, the first sod is yet to be turned. The bridge project is the expensive centrepiece of a planned motorway connection from Istanbul via Bursa to Izmir, Turkey's largest BOT project to date with a total investment volume of US\$6bn. It involves the construction of the world's longest suspension bridge with a main span of 3 kilometres to interconnect the districts of Gebze and Yalova.

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First Turkish-built HP PCs available soon

Computer giant Hewlett Packard's PC factory in Corlu (in conjunction with its Taiwanese partner Foxconn) is nearing completion. The first trial run is scheduled for the end of the summer, and the first HP computers "made in Turkey" are to be delivered to stores in December. Apart from lower labour costs and incidental expenses it is particularly the proximity to the European, North African, and Middle Eastern sales markets that accounts for Turkey's appeal as a manufacturing location for computer makers - just like it had been for the automotive industry. 85-90% of the planned annual production of 2.4 million units - three times the current annual output of Turkey's computer industry - are earmarked for export. Another consideration for global companies such as HP is the fast-growing domestic market: US\$4.9bn worth of computers are expected to be sold in Turkey in 2012, which is 54% more than in 2009.

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Turkey's shoe exports up 45%

35,000 visitors are expected to attend this year's 43rd International Shoe Fashion Fair (AYMOD) in Istanbul with 292 exhibitors from all over the world. According to the chairman of the Turkish Shoe Industry Association (TASD), Islam Seker, the sector has started a recovery that began in the autumn season. In the first 4 months of the year exports of Turkish footwear manufacturers have grown by 45.1% over the same period of the previous year. However, Seker deplored that profit margins had to be lowered. Moreover, the industry is facing many obstacles, from a sharp rise in leather prices, high interest rates and energy costs to difficulties with customs clearance in Russia.

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Bursaspor redraws the map of Turkish football

In the final game of the season, Bursaspor snatched a 2:1 home win over last year's champion Besiktas Istanbul to cause a veritable sensation and win the Turkish Super League for the first time ever. Fenerbahce Istanbul with German Trainer Christoph Daum let the championship slip away by drawing 1:1 at home with cup winners Trabzonspor. In the 51-year history of Turkey's First Football League, the "Big Three" – Besiktas, Fenerbahce and Galatasaray Istanbul – won 45 titles amongst them. Only Trabzonspor had so far managed to break up this phalanx by winning 6 championships between 1976 and 1984. Bursaspor will now compete in the UEFA Champions League guaranteeing them a multi-million Euro revenue. While the club will be publicly offering stock at the Istanbul Stock Exchange, the shares of opponents Fenerbahce slumped by 18.5%.

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