

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

| TL-Rates | 29.09.2012 | 30.10.2012 | Change in % |
|-------------|------------|------------|-------------|
| TL pro Euro | 2.3196 | 2.3328 | 0.5690 |
| TL pro USD | 1.7933 | 1.8014 | 0.4517 |

| | | | |
|----------------------|-----------|-----------|--------|
| Stock exchange index | 66.770,60 | 71.716,90 | 7.4079 |
|----------------------|-----------|-----------|--------|

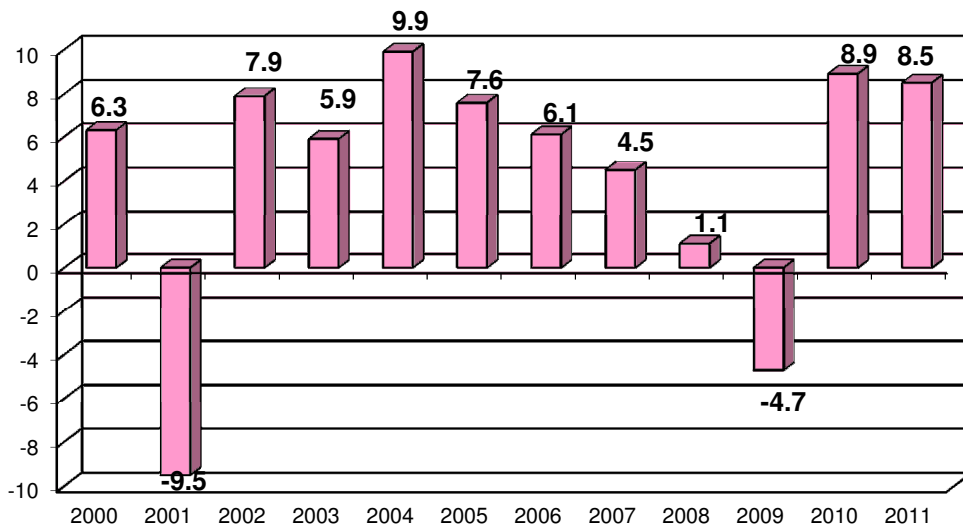
| Inflation in % | Monthly inflation | Annual inflation |
|-----------------|-------------------|------------------|
| Producer prices | 1.17 | 2.57 |
| Consumer prices | 1.96 | 7.80 |

Growth Rates

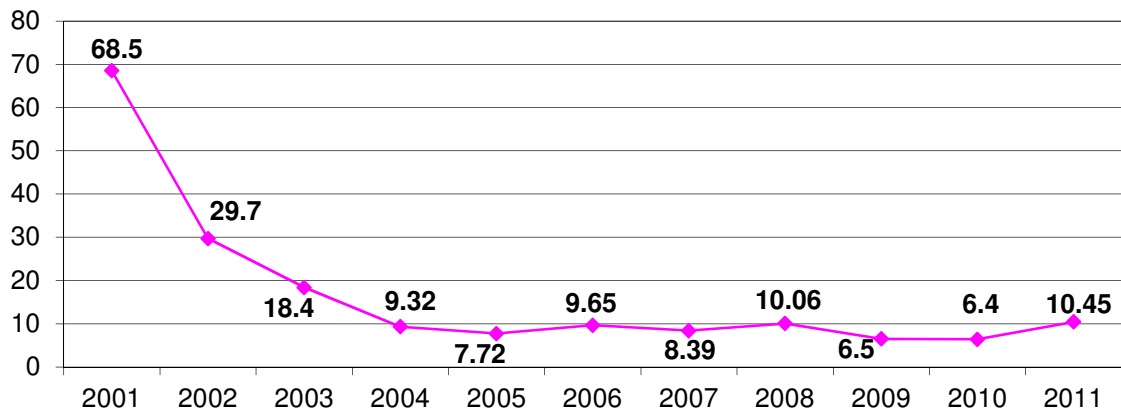
| Economic Growth Rates (%) | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|--------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Yearly |
| 2000 | 4.2 | 5.4 | 7.2 | 7.8 | 6.3 |
| 2001 | -3.3 | -12.3 | -9.1 | -12.3 | -9.5 |

| | | | | | |
|------|-------|------|------|------|------|
| 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 | 12.2 | 10.2 | 5.3 | 9.2 | 9.0 |
| 2011 | 11.6 | 8.8 | 8.2 | 5.2 | 8.5 |
| 2012 | 3.2 | 2.9 | | | |

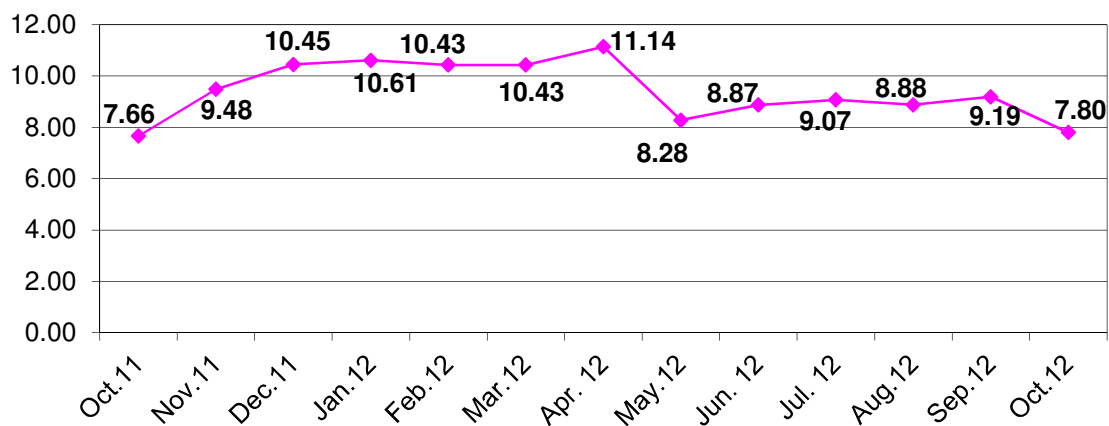
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



Annual Inflation's Monthly Development 2011-12 (%)



Turkey aims for moderate growth and innovation

In its newly presented medium-term programme (OVP) for the period 2013-2015, the Turkish government has adjusted its growth targets slightly downwards while correcting inflation expectations upwards. According to Deputy Prime Minister Ali Babacan, his government is planning to employ specific measures in order to achieve its main objectives of increasing growth, despite the global economic crisis, and creating new jobs – 1.6 million overall – while lowering inflation and reducing the current account deficit. Great hopes are attached to the contribution to be made by an increase of exports. Both politicians and the business community agree that restructuring the Turkish industry through technological innovation will play a crucial role.

Key indicators of Turkey's medium-term government programme

| | 2012 | 2013 | 2014 | 2015 |
|---------------------------------------|-------|-------|-------|-------|
| GDP (billion TL, at current prices) | 1,435 | 1,571 | 1,740 | 1,933 |
| GDP (billion US\$, at current prices) | 799 | 858 | 919 | 998 |

| | | | | |
|---|--------|--------|--------|--------|
| Gross national income per capita (US\$) | 10,673 | 11,318 | 11,982 | 12,859 |
| GDP growth (%) | 3.2 | 4.0 | 5.0 | 5.0 |
| Unemployment rate (%) | 9.0 | 8.9 | 8.8 | 8.7 |
| Exports (FOB, billion US\$) | 149.5 | 158 | 172.3 | 187.1 |
| Imports (CIF, billion US\$) | -239.5 | -253 | -272.2 | -291.2 |
| Foreign trade balance (billion US\$) | -90.0 | -95.0 | -99.9 | -104.1 |
| Tourism earnings (billion US\$) | 23.5 | 25.4 | 27.0 | 28.4 |
| Current account (billion US\$) | -58.7 | -60.7 | -63.6 | -64.7 |
| Current account/GDP ratio (%) | -7.3 | -7.1 | -6.9 | -6.5 |
| Export/import ratio (%) | 62.4 | 62.5 | 63.3 | 64.3 |
| Annual inflation (consumer prices, %) | 7.4 | 5.3 | 5.0 | 5.0 |
| Fiscal balance (share of GDP, %) | -2.3 | -2.2 | -2.0 | -1.8 |

October 10, 2012

Slight rise in unemployment

While in June unemployment in Turkey had dropped to 8.0%, the lowest level since 2001, it rose again by 0.4% in the month after. In July 97,000 more people were looking for work, bringing the total of registered job seekers to 2,323,000. In addition to this, around 1.9 million more people were unemployed without being officially registered. In the non-agricultural sector the official unemployment rate stood at 10.7%, and the share of informally employed dropped to 24.7% from 28.3% in the same month of the previous year. On the other hand, in agriculture there was only a minimal decrease in the percentage of the working population lacking social security, from 84.4% to 84.2%; the aggregate rate amounted to 40.2%.

October 16, 2012

Turkey to improve current account by expanding its export markets

In August Turkey's current account deficit was well below expectations, dropping to US\$1.18bn, the lowest level in 34 months – by contrast, the deficit had amounted to US\$4.03bn a year ago. According to an IMF report, this is mainly owed to a much slower growth of the GDP. However, the current account deficit remains the Achilles' heel of Turkey's economy. The Turkish government is trying to come to grips with the problem by expanding its export markets. So although the EU, which remains Turkey's prime trade partner accounting for 40 per cent of transaction volume, is deep in crisis, Turkey succeeded in boosting its export figures. Even now it has become clear that the record mark of US\$135bn from 2011 is going to fall by the end of year. Turkish enterprises are currently expanding especially into the markets of the Near and Middle East, such as Iraq and Iran, but also to Russia and Africa. "By increasing our exports, we will be able to stimulate domestic demand while preventing the trade gap from increasing", stated the head of Turkey's Central Bank, Erdem Basci, in an interview with the *Financial Times*.

October 18/25, 2012

Turkish stock market flying high

The Istanbul Stock Exchange (IMKB/ISE) is currently flying higher than ever – its benchmark index, the ISE-100, gained a stunning 42 per cent in the first ten months of the year. Scoring 72,738 points at the beginning of November, it cracked the standing record from October 2010,

while the Turkish Top 30 index rose to over 90,000 points. This new historical high came in the wake of announcements of strong quarterly results. Most remarkably Garanti Bankasi, the country's third-largest financial institute by total assets, reported a 52 per cent profit leap amounting to the equivalent of €314mn. Furthermore the stock market profited from speculations regarding the imminent upgrading of the country's credit rating by Fitch Ratings. Meanwhile preparations for the reorganisation and consolidation of the Turkish stock exchange continue at full blast. The securities and the gold exchange will soon operate jointly under one umbrella under the name of "Borsa Istanbul".

October 19/November 1, 2012

Turkey's credit rating upgraded for the first time in 18 years

Following market expectations, credit rating agency Fitch has upgraded Turkey's creditworthiness. Fitch now rates the long-term government bonds in foreign currency one grade higher ("BBB-"), and Turkish Lira bonds even two grades higher ("BBB"). The reasons stated for this decision were Turkey's low and decreasing indebtedness, its stable banking system, and the country's favourable growth outlook. The new rating categorizes investments in these types of securities no longer as highly speculative, but rather as "average investments". Turkey had lost this "investment grade" status following the severe economic crisis in 1994. Vice Premier Babacan called the upgrading "the beginning of a new era for access of our public and private sector to the international capital markets". Experts are confident that the two other big rating agencies, Moody's and Standard & Poor's, will follow suit in raising Turkey's credit rating.

November 5, 2012

Politics

Violence overshadows national holiday celebrations

October 29, the 89th anniversary of the founding of the Republic of Turkey, saw heavy clashes between security forces and demonstrators. The police had sealed off the "Place of the Nation" in Ankara to prevent anti-government protesters from marching as announced from the historical parliament building to the mausoleum of Atatürk, the founder of modern Turkey. The AKP-ruled city government of Ankara had banned the Kemalist rally. When a group attempted to overcome the barricades, riot police responded, using water cannons and irritant gas. Later the barriers were lifted, allowing the crowd of over 50,000 to proceed with their march. Prime Minister Erdogan has come under fire from the opposition for becoming the first head of government in the history of the country not to attend the commemorative celebrations on this day – he preferred to accept an invitation of the Sultan of Brunei instead.

October 30/ November 9, 2012

Mass hunger strike in Turkish prisons abandoned

Imprisoned supporters of Kurdish terrorist organisation PKK abandoned their 68-day hunger strike before there were any casualties. Most recently 683 people in 66 different prisons all over Turkey had refused the intake of food, primarily to protest against the isolation imposed on PKK leader Abdullah Öcalan, the lone inmate of the prison on Imrali island, who has not been allowed visits

from his lawyers since over a year ago. Further demands were for permitting the Kurdish language in courts and educational institutions. Öcalan himself is reported to have ordered the end of the protest, claiming that it had accomplished its purpose. Politicians representing pro-Kurdish party BDP had sided with the hunger strikers. By contrast, Prime Minister Erdogan had dismissed the strike as “pure show”, whereas President Gül called it a serious matter requiring top-level attention.

November 1/18, 2012

Syrian conflict continues to dominate the headlines

Once again thousands of Syrians have fled across the border to Turkey to escape heavy fighting between Free Syrian Army rebels and the Assad regime. By now the number of Syrian refugees in Turkey has risen to around 120,000. According to the Ministry for Disaster Management, 158,940 refugees have come to Turkey during the 20 months since the outbreak of the conflict. 46,057 of them have since then returned to their homes, while 112,883 are still in the country. Those that cannot stay with family members are being accommodated in 13 tent cities and one container camp in seven Turkish border provinces. Meanwhile Turkey’s relief efforts are being supported by the Refugee Agency of the United Nations (UNHCR) and the World Food Programme (WFP). Meanwhile for the third time in a month the Turkish Air Force has forced a foreign airplane to land in Turkey to search its cargo for weapons. Two of the planes were from Armenia, while one was en route from Moscow to Damascus. Also NATO-supplied Patriot-anti-aircraft missiles are soon to be stationed along the 900-kilometre-long border to help the country shield itself against potential attacks from Syria.

November 8/9/20, 2012

Other Topics

Netherlands absolute favourite of Turkish investors

Turkish direct investments abroad have soared by 78.8% in the first 8 months of the year to reach US\$2bn 754mn, almost a third of the foreign direct investments in Turkey which in the same period dropped by 8.8% to US\$9bn 587mn. Turkish investors preferred the food, beverage and tobacco sector by a long way, investing US\$1bn 905mn or 85 times as much as in the previous year. The finance and insurance industry came a distant second with only US\$236mn. Still by a larger margin the Netherlands are the country most favoured by Turkish investors, apparently offering an ideal climate for foreign investments, including substantial tax breaks.

Top 10 of direct capital transfers (January-August 2012, million US\$)

| Turkish capital went to... | | Foreign capital came from... | |
|-----------------------------------|-------|-------------------------------------|-------|
| Netherlands | 2,103 | UK | 1,966 |
| Azerbaijan | 245 | Austria | 1,430 |
| Croatia | 93 | Netherlands | 931 |
| Russia | 58 | Luxembourg | 919 |
| USA | 41 | Lebanon | 312 |
| UAE | 30 | Switzerland | 302 |
| UK | 28 | Germany | 299 |
| Switzerland | 26 | Azerbaijan | 282 |

| | | | |
|--------------|--------------|--------------|--------------|
| Germany | 25 | USA | 253 |
| India | 23 | Malaysia | 230 |
| Total | 2,970 | Total | 7,712 |

October 18, 2012

Golden Horn to receive fresh water infusion

Turkish Prime Minister Recep Tayyip Erdogan has inaugurated a tunnel which is part of a system transporting fresh sea water into the Golden Horn, a 7-kilometre-long inlet of the Bosphorus. Erdogan recalled the fact that 20 or 30 years ago this body of water on the coast of which he grew up was a foul-smelling open sewer. Since 1994, when he took office as Lord Mayor of Istanbul, the city government spent US\$758mn on its rehabilitation. Today the Golden Horn, which again has become a popular recreation spot for Istanbulites as well as a major tourist attraction, is home to 48 species of fish. To keep it this way, a permanent supply of fresh water is essential, specifically in times of low precipitation. The required water – up to 260,000 cubic metres a day – is taken from the Northern part of the Bosphorus, pumped up a hill for about 5 kilometres, and then directed to the inlet by means of a creek.

October 22, 2012

More and more Turkish companies insure their receivables against default

Turkish companies are increasingly taking out credit insurance. In uncertain times this type of risk management gains in importance, since Turkey, although less than other countries, feels the impact of the world-wide crisis, too. In particular for smaller enterprises it can become a matter of survival to protect themselves against the risk of financial default through non-payment of their trade receivables. At the same time this helps them to stay competitive and reduces their risks when opening up new alternative markets. The internationally operating French company Coface, which has been operating in Turkey since 1997, added credit insurance to its portfolio 5 years ago. Meanwhile, the world's industry leader manages risks totalling around €5bn on behalf of some 20,000 Turkish companies. Coface Turkey currently employs 50 staff in its Istanbul office, but wants to continue expanding in order to be able to offer its services nationwide across the whole country.

October 29, 2012

Turkish banks campaign for private clients' gold deposits

Turkey's banks are currently campaigning to draw the gold assets of the common man into their financial flow. Their aim is to minimize the country's gold imports, thus helping to balance the current account deficit. Private households in Turkey are estimated to sit on 5,512 tons of gold, with a total value of US\$302bn. In previous years and decades, with inflation running as high as 70 per cent or more, it was common practice to give gold rather than cash on special occasions, such as wedding or circumcision celebrations, and to invest any savings in gold. Among other big banks, Is Bankasi and Garanti Bankasi are now trying to gain access to these hidden treasures. They offer their clients loans which they can back with their gold jewellery and coins. UniCredit affiliate Yapi Kredi Bankasi has already invested 51 per cent of its assets in precious metals, and Is Bankasi has increased its gold reserves ten-fold in the last 10 years. Turkey managed to curb gold imports by 4.8% in August, while at the same time exports of gold particularly to Iran and the UAE soared from US\$645mn to US\$9.2bn.

October 31, 2012

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