



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

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Your FMConsulting Team

Newsletter February 2010

Economy

Overview of Monthly Data

YTL-Rates	31.01.2010	28.02.2010	Change in %
TL pro Euro	2.0724	2.0962	1.15
TL pro USD	1,4904	1.5435	3.56

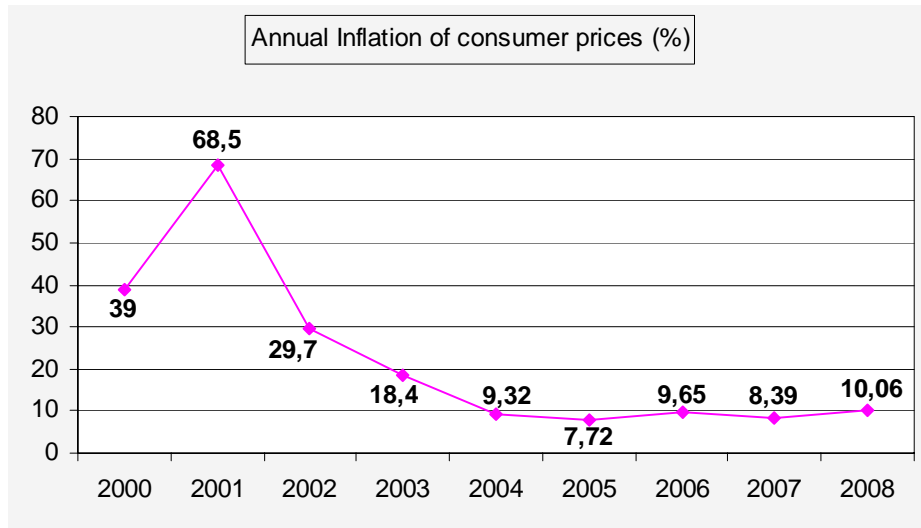
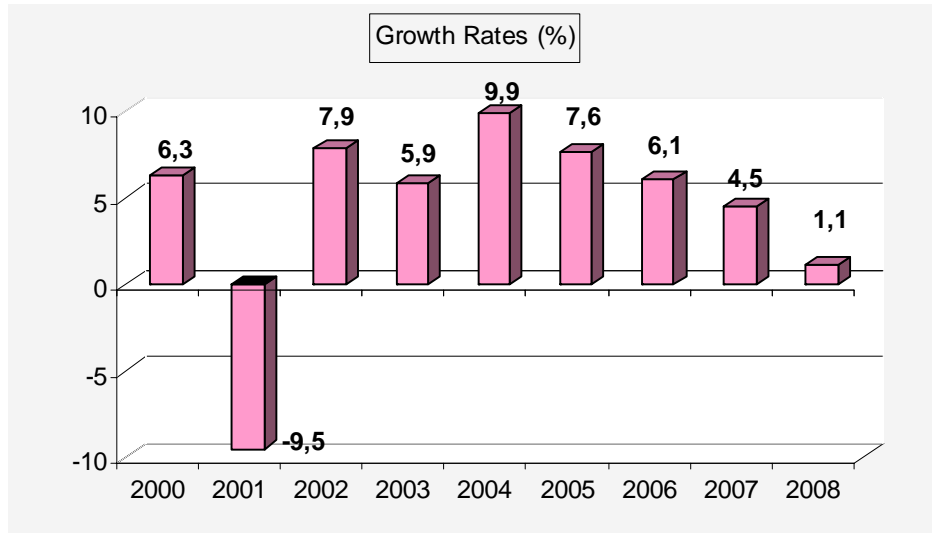
Stock exchange index	54,193	49,705	-8.28
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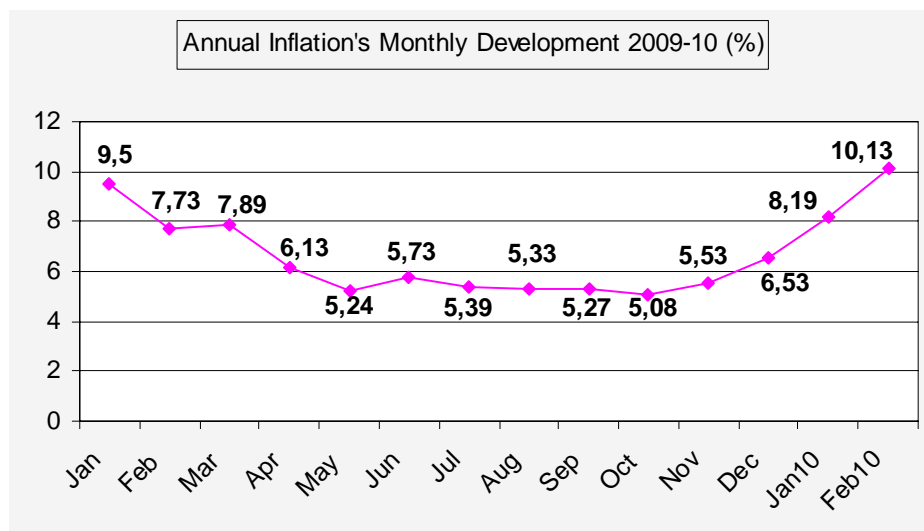
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.66%	6.82%
Consumer prices	1.45%	10.13%

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	-14.3	-7	-3.3		





Two-digit increase of exports in January

In January, Turkey's exports increased by 12.5% over the same month of the previous year, reaching some US\$7.9bn. The sectors with the largest shares in exports were Motor Vehicles & Accessories, with over US\$1.4bn, and Clothing & Ready Wear, with nearly US\$1.2bn. Exports in the last 12-month period totalled about US\$98bn, a drop of 21.6% over the preceding period. Turkish Exporters' Association TIM, while setting the target of US\$111bn for 2010, cautioned against excessive optimism. New strategies, they said, are required to keep the competition from China at bay in particular with regard to automobiles and white goods. The State Secretariat for Foreign Trade announced that Turkey's five most important export partners have remained unchanged apart from their ranking: In January, Germany held on to the pole position with US\$841mn (+6.7%), followed by Italy with US\$599mn (+42.0%), France with US\$547mn (+38.7%), and the U.K. with US\$481mn (+45.9%), while Iraq (US\$382mn) has been relegated to 5th place, from 2nd in January 2009.

Industrial production sends positive signals

In December 2009, Turkey's industrial production index scored a new record increase. According to the State Statistical Institute, the index rose by 8.7% over the previous month to 117.1 points. This is 25.2% more than in December 2008, when the index had slumped 17.8%, and even higher than the pre-crisis figure from December 2007 (113.8). While on balance there has been a total decrease of 9.6% in 2009, industrial production has been on the upswing again since October (October +6.5%, November -2.2%), following a continuous decline over 14 consecutive months.

Industrial production according to sub-sectors (%)

Sub-sector	December 2009	2009 average
Mining	15.4	-2.7
Manufacturing industry	28.0	-10.9
Motor vehicles	85.3	-30.2
Tobacco products	45.7	-1.5
Plastics & rubber	44.7	-9.3
Leather	41.8	-7.8
Electric machines & devices	39.2	-8.6
Textile products	36.2	-10.0
Chemicals	34.4	1.0

Metal products	34.3	-19.1
Paper	34.2	-1.9
Printing & publishing	29.2	0.0
Wood	28.2	-1.5
Non-metal minerals	28.0	-12.5
Machines & equipment	24.1	-10.4
Food & beverages	19.5	-1.3
Furniture	17.8	-4.7
Primary metal industry	15.0	-15.2
Clothing	13.0	-9.3
Medical, optical & precision instruments	11.2	-4.6
Coke, refined petroleum products	4.2	-25.2
Radio, television, communications	-5.0	-18.0
Other means of transport	-29.2	-24.0
Office machines and computers	-31.3	-22.0
Electricity, gas & water	10.9	-2.3

Current account deficit on the rise again

After starting to rise slightly in November, Turkey's current account deficit increased by 4.5% in December over the same month of the previous year. This turnaround is attributable to the beginning recovery in foreign trade. Still the year closed at the lowest level in 5 years: Having reached almost US\$42bn in the preceding year, the deficit plummeted by 67% in 2009 to just under US\$14bn.

Current account deficit according to years (million US\$)

2003	7,515
2004	14,431
2005	22,198
2006	32,193
2007	38,311
2008	41,947
2009	13,854

Unemployment hovers at 13%

In November, Turkey's official unemployment rate registered as 13.1%, half a percentage point higher than in the same month of the previous year. Unemployment in rural areas was down 0.4%, to 8.7%, significantly lower than in urban regions where it increased by a whole percentage point, to 15.3%. Discounting the agricultural sector, the jobless figure even stands at 16.2% (+0.7%). All in all 3,270,000 Turks were still seeking a job, 233,000 more than in November 2008. However, the number of people actually out of work was estimated at 5,221,000, which translates into a real jobless rate of 19.4%. Of the working population, 49.5% (-0.4%) were employed in services, 24.5% (+1.1%) in agriculture, 19.8% (-0.9%) in industry, and 6.2% (+0.3%) in construction.

Politics

TEKEL workers' strike gains momentum

The strike carried out by employees of the former state monopoly enterprise for alcohol and tobacco (TEKEL), to protest against job cuts and the erosion of social rights, is becoming more

and more symbolic. The labour conflict, which has attracted heavy media attention, seems to be heading for a showdown. Turkey's largest trade union federation, Türk-İs, deplored the government's lack of willingness to negotiate, and announced a half-day general strike of blue-collar and white-collar workers. Prime Minister Erdogan continued to take an uncompromising stance, calling the strike a politically motivated campaign which, if necessary, would be terminated forcibly by the end of the month. Meanwhile some of the strikers went on an open-ended hunger strike to lend weight to their demands.

Conflict in Turkish justice system broadens

The arrest of the Chief Prosecutor for Erzincan, İlhan Cihaner, on charges including membership in the alleged terrorist organization "Ergenekon", has caused widespread reverberations. The Supreme Board of Judges and Prosecutors (HSYK), which is in charge of disciplinary matters of the judiciary, responded by removing several special prosecutors from their office and initiating proceedings against them. Minister of Justice Sadullah Ergin, who is the ex-officio chairman of the HSYK, qualified the decision as "unlawful", saying that the board has clearly exceeded its authority, and pointing out that his ministry has been bypassed. By contrast, the action was endorsed by spokespersons for the highest court of appeals (*Yargıtay*) and high administrative court (*Danıştay*). Turkey's highest judiciary bodies are renowned for their critical attitude toward the government.

More high-ranking militaries arrested on coup charges

Within the scope of an investigation by the Chief Prosecutor's Office in Istanbul dozens more high-ranking military officers around the country – most of them retired – have been arrested and interrogated. They are being accused of plotting a coup plan in March 2003 under the code name of "Balyoz" (Sledgehammer). The investigation is being conducted independently of the Ergenekon case that has been continuing since 2007. In response, the Turkish General Staff convened all armed forces commanders for an emergency meeting to "discuss the serious course of events". Opposition leader Deniz Baykal (CHP) asserted that the government's true purpose was to get even with the military in political terms, while Devlet Bahçeli, chairman of nationalist MHP, said that he sees the continuity of the state and the independence of justice at stake.

Markets upset by domestic political tensions

On-going tensions between the government and the military are having an adverse effect on the financial markets in Turkey. In the wake of the latest wave of arrests, the Istanbul stock exchange shares dropped by over 7% in just one week. Accordingly the Turkish Lira lost ground against the US dollar. The international credit rating agencies voiced their concern, warning of a loss of stability. According to Barclays, Turkey is currently undergoing the worst domestic political crisis since 2008, when the Constitutional Court came within an inch of banning the ruling party AKP. Now there is a possibility of early elections, which would cause even more uncertainty on the markets.

Other Topics

Istanbul Fashion Week raises great expectations

The second Istanbul Fashion Week (IFW) was hosted by the association of clothing and textile exporters. The organizers anticipated some 40,000 visitors, almost double the number of the first fashion week in August 2009. Simultaneously a special event was held for professional purchasers in which representatives of 213 companies from 29 countries were expected to participate. The sector pursues ambitious goals: According to Foreign Trade Secretary Zafer Caglayan, Istanbul is well on its way to becoming an international fashion capital. The textile sector is to make a vital contribution to the government's announced target of boosting Turkey's export volume to US\$500bn by 2023 and figuring among the world's 10 largest economic powers.

Turkish Airlines still in the ascendant

At Turk Hava Yollari (THY), Turkey's partly privatized national airline, growth continues unabated. The company is trying to keep abreast of the pace of change by further expanding its fleet of aircraft. 89 new airliners are to be acquired by 2015, of which 64 have already been ordered firmly, with delivery starting in 2011. THY have just placed an order for 20 new medium-range jets of Boeing's 737 Next Generation, plus an option for another 15. Before, they had commissioned Airbus to build 30 narrow-body aircraft of the A320 family, 20 by firm order and 10 on option. This is complemented by 24 new wide-body aircraft – 12 Boeing 777-300 ER and 10 Airbus 330-300 – for long-haul routes, plus 2 Airbus 330-200 F cargo planes.

Privatization of energy sector makes fast progress

At the latest public sale held in Ankara by Turkey's Privatization Agency, electricity distribution rights for 4 regions of the country were auctioned. First of all AKSA Energy overcame fierce competition with their bid of nearly US\$100mn for the area of Van Gölü (Lake Van) Power Co., which encompasses the Eastern provinces of Van, Bitlis, Hakkari and Mus, totalling 402,976 customers and a net power consumption of 1,137,226 MW (in 2008). In this area, losses during power transmission and through unauthorized use stand at a staggering 55.9%. Subsequently, for a price of just over US\$230mn, the same company purchased the distributions rights for the area of Firat (Euphrates) Power Co. comprising the provinces Bingol, Elazig, Malatya and Tunceli in Eastern Anatolia. Here 659,497 customers account for a consumption of roughly 2,150,000 MW, with grid losses of 10.5%. The contract for the area of Camlibel Power Co. – Sivas, Tokat and Yozgat provinces – was awarded to Kolin Construction Co. for US\$258.5mn. Electricity consumption in this area totals around 2 million MW per year with 734,673 consumers and grid losses of 8.8%. The 4th and largest area, that of Uludag Power Co. with 2,278,524 customers in the provinces of Bursa, Balikesir, Canakkale and Yalova, was acquired by Limak Construction Co. for US\$940mn. Annual net consumption in this Western area is 10,940,535 MW, while losses figure at 6%. Also imminent is the privatization of a total of 45 thermal and hydroelectric power plants, which is expected to generate TL10-15bn in revenues.

Turkish hotel industry invests into the future

With an estimated capital expenditure of US\$3bn, 124 new hotels are currently being built in Turkey, among them 22 five- and 36 four-star hotels. This will augment the country's hotel bed capacity by 50,000 and create some 10,000 new jobs. Another US\$500mn is to be spent on the renovation and modernization of 54 existing hotels. According to a recent study, the trend in this sustainably profitable sector is for the increasing involvement of hotel chains. For example the hotel division of French corporation Accor, which owns brands such as the Ibis business hotels, has commissioned Akfen construction company to build 50 new hotels, some of which have

already been completed.

Turkish cement manufacturers brimming with optimism

Following his re-election as chairman of the Turkish Association of Cement Manufacturers (TCMB), Adnan Ignebekcili delivered a positive summary of the previous year. Turkey's cement exports reached a new record level of 16.5 million tons in 2009. In addition to increasing demand from the traditional export countries Syria and Iraq, he said, the African market has gained in importance. The outstanding export performance was more than enough to absorb the slump in inland sales. But domestic demand is also set to pick up in 2010, which will see an increase in building activity. For the current year, the association expects the sector to recover considerably, while from 2011 onwards they forecast a construction boom due to the pending renewal of urban housing and the implementation of numerous large-scale projects.

GE Capital to divest its shares in Garanti Bank

The financial branch of General Electric, GE Capital Global Banking, has announced its intent to sell its shares in Garanti Bank A.S., which is part of the Dogus group of companies. According to GE Turkey's CEO Kursat Ozkan, this decision is not associated with the bank's performance, which has been highly successful, but rather due to a strategic change of policy. At the same time, GE continues to regard Turkey as important and exceedingly attractive location for its industrial investments. GE holds 20.85% of shares in Turkey's third-largest private bank, which it had acquired in 2005 for US\$1.8bn. At the current equity price, this stock is now worth around US\$3.3bn. It is understood that potential buyers are already lining up, notably Italy's second-largest financial institution Intesa Sanpaolo as well as an investment fund from the Gulf States. Some of the foreign banks operating in Turkey are also said to be interested.

Turkish movie wins Berlinale

Rather surprisingly, "Bal" ("Honey") by Turkish director Semih Kaplanoglu was voted best motion picture at this year's 60th Berlin International Film Festival. It was the first Turkish movie since "Susuz Yaz" ("Reflections") by Metin Erksan in 1964 to receive the prestigious 'Golden Bear' award. The Turkish-German co-production, which was supported with grants by Eurimages, the North Rhine Westphalia Film Foundation, and TV channels ZDF and ARTE, is the third part – after "Yumurta" ("Eggs") and "Sut" ("Milk") – of a trilogy about the rediscovery of rural life in Anatolia.

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