



Please find attached our latest newsletter about recent economic and political developments in Turkey.

We welcome your feedback on our Newsletter and comments on anything that you consider may improve or add to this service.

If you know anyone else who would be interested in receiving this free newsletter, please send their email address to newsletter@fmconsulting.info so that we can include them on our distribution list. Alternatively, please feel free to forward this newsletter to them directly.

Best regards,

Your FMConsulting Team

Newsletter October 2008

Economy

Overview of Monthly Data

YTL-Rates	09.26.2008	10.31.2008	Change in %
YTL pro Euro	1.8092	1.9969	10.37
YTL pro USD	1.2394	1.5678	26.50

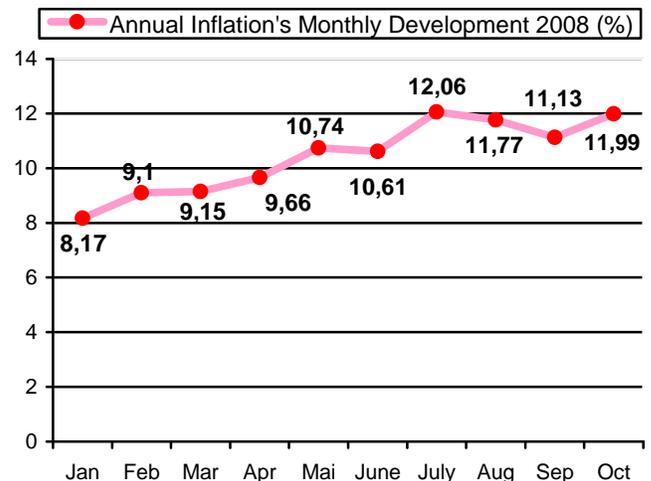
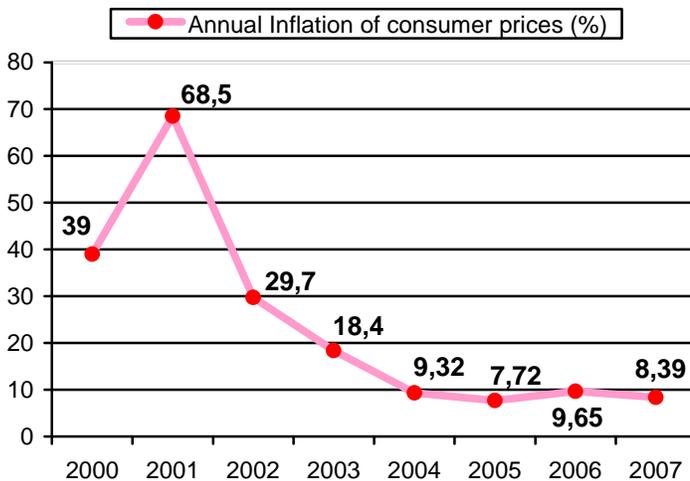
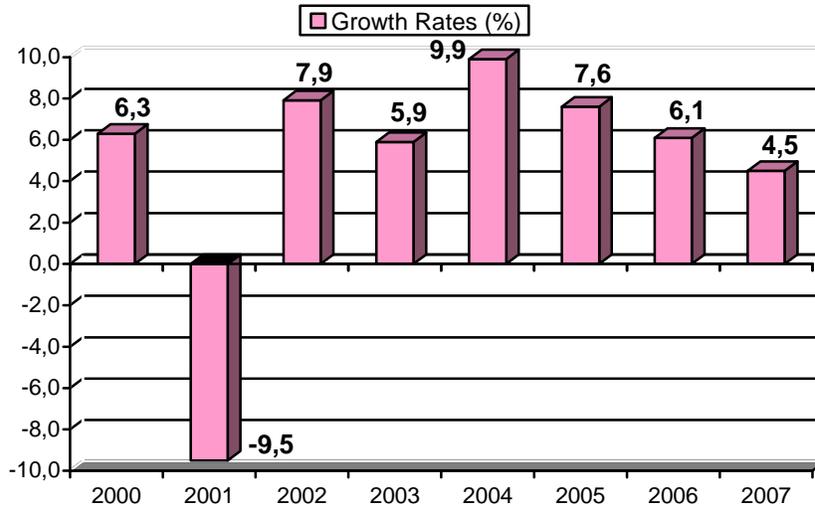
Stock exchange index	36.557	27.833	-23.86

Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.57	13.29
Consumer prices	2.60	11.99

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			



World Bank president labels Turkey's financial structure as stable

At a gathering in Washington Robert Zoellick, President of the World Bank, praised the Turkish financial system, stating that Turkey has accomplished remarkable economic change in recent years. In particular the structural reforms carried out in the field of finance, he said, have resulted in a stable and resilient system. Mr. Zoellick is claimed to support Turkey's membership in an alternative G-7.

Dervis: The financial crisis has developed into a crisis of the real sector

UNDP Administrator Kemal Dervis, former Turkish Minister for Economic Affairs, said the financial crisis in the rich nations would inevitably lead to a slump in demand. This is expected to impact on exports and consequently the current account of countries such as Turkey. The exchange rate has already soared in response. Therefore, measures are now required to stabilize the real sector. The Turkish banks, said Dervis, are not directly affected. Thus there is no sign of an acute crisis.

PwC says financial crisis is damaging Turkey's growth potential

According to PricewaterhouseCoopers, Turkey still ranks 17th among the world's largest economies. However the growth potential of the Turkish economy is now being seriously damaged by the global financial crisis. As per PwC's assessment Turkey's banking sector has been significantly stabilized through the reforms carried out following the 2001 crisis.

Tüzmen: Exports/imports expected to drop by US\$2 and US\$10bn respectively

On the occasion of a meeting with the Pakistani Prime Minister Gilani, Minister of State Kürsad Tüzmen has emphasized the importance of regional cooperation for overcoming the global financial crisis. The following figures summarize the projected impact of the crisis on Turkey's economy: a drop of imports by US\$10bn to US\$220bn, a drop of exports by US\$2bn to US\$138bn, and a decline of the growth rate to 4–4.5 percent due to the high export share.

UniCredit to continue its involvement in Turkey

In the eyes of UniCredit Group, Turkey continues to be a significant market. The Italian financial services provider has no intention of selling off its shares in Yapi Kredi Bank. The group is planning a long-term involvement in the investment business while continuing to extend credits – albeit whilst applying stricter criteria. Although the growth rate of the Turkish economy is expected to decrease as a secondary consequence of the financial crisis, there is no danger of a recession. Given the right circumstances, Turkey may even profit from the crisis.

Withdrawal of hedge funds causes US\$ to jump the 1.50 Turkish Lira mark

Once again, foreign exchange rates have soared rapidly. This was caused by hedge funds withdrawing capital from the emerging market countries, starting in South Africa. Overnight the US dollar jumped from 1.4080 to 1.5080 YTL, with the Euro reaching the 2-Lira mark. Compound interest rose by one point to 21.30, while the stock market continued to crumble. Since the beginning of this year, the Istanbul Stock Exchange has dropped by over 50%.

Turkish Central Bank discontinues foreign exchange purchases by auction

Since the beginning of this year, the Central Bank held auctions every business day, purchasing a total of US\$7.5bn in foreign exchange. This practice has been discontinued in October in order to strengthen bank liquidity. At the same time the current account deficit in the period January–August 2008 was announced to have increased by 46.5% over the same period of the previous year to reach US\$34bn 838 mn.

Sharp decline in private borrowing

Private citizens in Turkey increasingly tend to take out less consumer loans and use their credit cards more economically. During the week of October 10-17, the volume of granted consumer loans dropped by over 50%. In the same period, credit card spending decreased by YTL369mn.

Industry voices demands for “crisis package”

The Turkish government still has not decided on how to deal with the financial crisis. Both the real sector and the financial industry are now urgently calling for a “crisis package”, which is to include measures such as: extension of the stand-by agreement with the IMF in a timely manner, widening of the state guarantee for bank deposits, elimination of the withholding tax, mitigation of the disadvantages of foreign currency loans, tax amnesty for foreign currency assets brought into the

country, incentives for the opening up of new export markets, and low-interest loans for SMEs.

Minister of Finance: No unlimited state guarantee for bank deposits

Minister of Finance Kemal Unakitan declared that the Turkish government has no plans for introducing an unlimited state guarantee for bank deposits. He also announced that the withholding tax on stock shares, which currently amounts to 10%, will be abolished. While no enterprise, bank or insurance company in Turkey has been forced into bankruptcy by the global crisis, economic growth will certainly slow down and unemployment is bound to rise. The rising exchange rates, the minister said, will be an advantage for Turkey's economy as they enhance the competitiveness of Turkish exporters and help to reduce the current account deficit.

Turkish businesspeople complain about liquidity problems due to the crisis

A survey among 356 business people in 51 Turkish provinces revealed that only 6.46% think that there is no crisis in Turkey. 57.02% of respondents, however, state a contradictory opinion, and 53.37% say that they have been affected themselves. Close to 70% identify the shortage of liquid funds as the main problem. At the same time, 42.70% believe that the crisis will have less impact on Turkey than on the Western states, while 25.84% oppose this view.

Minister of State calls for measures to invigorate the economy

Minister of State Mehmet Simsek, who is in charge of the Treasury, said the global economic climate does not call for measures to restrict economic activities, but rather for their invigoration. Like the entire region, Turkey has been less affected by the financial crisis account of its economic structure combined with financially sound banks. This could prove an advantage.

World Bank to continue support for Turkish SMEs

Ulrich Zachau, the World Bank country director for Turkey, urged small and medium enterprises to make increased use of the low-interest loans his organization offers. For the period 2008–2011, the World Bank has committed itself to financial support for Turkey with a total volume of US\$6.2bn. Zachau emphasized the World Bank's trust in Turkey, saying that the country has always repaid its debts on time. Therefore, further funds would be made available to Turkish SMEs.

Anticipated effects of the international financial crisis on Turkey

There will be at least three ways in which the global crisis will affect Turkey. First come foreign trade and tourism, the sectors that will suffer most from diminished spending power in the rich countries. The second factor is the insecurity of investors and consumers who will think twice before they make sizeable investment or purchase decisions. And thirdly it will become increasingly difficult to obtain foreign loans. This will particularly affect private enterprises. Economic growth is going to decline further and drop below 4-4.5%, and in 2009 even to below 3%. In a parallel development, jobless figures are going to rise. Turkey would need a growth rate of around 7% in order to reach the income level of the EU countries. Although is there no acute crisis in Turkey, the impact of the crisis will be clearly noticeable.

Turkey elected to the UN Security Council

Along with Austria, Turkey is going to represent Western Europe in the Security Council for a period of 2 years as of January 1, 2009. For the first time since 1961 the country is again featuring in the most powerful organ of the United Nations. When the UN General Assembly voted on the non-permanent members, Turkey received 151 votes while 132 countries cast their vote in favor of Austria. Also Japan, Uganda and Mexico were elected.

5 soldiers die in the line of duty in the Southeast of Turkey

Four members of the security forces were killed when PKK fighters opened fire on an army vehicle in Kavakli (Hakkari province). Five of the assailants were also killed when fire was returned. During the pursuing reinforcement operation another soldier lost his life and 15 military personnel were injured when their helicopter crashed.

Police vehicle ambushed: 6 dead, 21 wounded

In Diyarbakir a bus carrying personnel of a police college was shot at from an ambush. The bus driver and five police officers were killed, and 21 more persons sustained wounds, some of them serious. An undetonated hand grenade was found at the scene of the assault.

General Staff: No military intelligence deficit

Following up on its new communication strategy, the Turkish General Staff held a press conference regarding the latest incidents. At the conference, details were released concerning the PKK assault on the army post of Aktütün near the border to Iraq. The Deputy Chief of the General Staff denied accusations that lack of cooperation with US military intelligence sources was partly responsible for the heavy losses sustained. 15 soldiers were killed during the mortar and rocket attack.

Ergenekon trial gets under way

The mammoth trial of 86 people accused of being members of the terrorist organization dubbed "Ergenekon", has got under way under strict safety precautions. Due to the size of the trial, it is being held in a courthouse on the premises of the correctional facility in Silivri outside of Istanbul. Still the courtroom was too small to hold the army of lawyers, reporters, friends, relatives, and interested observers that turned out. Thus the first day of the trial was dominated by procedural motions and decisions. None of the 46 defendants who were remanded in custody has yet been released.

Other Topics

Hattat Holding agrees on investment cooperation with Chinese coal giant

Hema Enerji, a subsidiary of Hattat Holding, wants to jointly invest EUR2.5bn over the next few years with China's second-largest coal mining corporation Datong. This sum is earmarked for developing new coal mines within the scope of the "Western Black Sea Energy Projects". The mid-term targets are a total of 11,000 jobs and a yearly production of 10mn tons. The project also involves building a 1,200MW coal-fired power plant.

Strategic new investment by Oschatz to create 450 jobs

The Essen-based Oschatz Group continues to invest in Turkey. The production capacity of Oschatz GmbH Plant Engineering – Energy and Environmental Technology at its Gebze site is being boosted with an investment of US\$ 80 mn. This is to increase annual sales of the company's Turkey branch to US\$ 35 mn. With over 95% of the production being exported, Turkey is a key location within the plant construction company's global growth strategy. At the same time, 450 new jobs are being created.

ING plans to expand its activities in Turkey

Following the takeover of Oyakbank, the Dutch ING-Bank is determined to expand on the Turkish market in spite of the financial crisis. Plans are to open 150 new branches in the next 2 years. Replying to the question as to whether this involvement is aimed at raising capital in Turkey, a high-ranking executive of the bank commented that money will not be transferred from Turkey to the Netherlands, but the other way around.

Bosch to produce gasoline injection systems in Bursa

For the second time, the Bursa plant of Bosch Turkey has won the "Excellence Award" of the European Foundation for Quality Management (EFQM). On the occasion of the award ceremony, Franz Fehrenbach, chairman of the Board of Management of Robert Bosch GmbH, emphasized that his company employs 8,500 personnel in Turkey. The importance Bosch attaches to this location can be seen from additional investments. In Bursa, where diesel injection components have been manufactured since 1972, the production of gasoline injection systems is to be launched next year.

Strategic partnership of Akenerji with Czech energy giant

Turkey's largest private-sector power supply company Akenerji has entered into a strategic partnership with the Czech power corporation CEZ, currently number 7 in Europe. Within this scope, CEZ has acquired a 37.4% share in Akenerji for US\$302,6mn, raising the company's market value to US\$810mn. Through joint investments of around US\$ 3 bn, the power production of Akenerji is to be increased to 3,000MW by 2013.

Turkish literature in Frankfurt

Turkey, the Guest of Honor of this year's 60th Frankfurt Book Fair, presented itself under the motto "captivatingly colorful". Some 700 Turkish artists featured at 300 different events. In his opening address, Turkish President Abdullah Gül underscored the significance of literature for the freedom of thought and expression. On the other hand, Nobel laureate Orhan Pamuk deplored the repressions which writers in Turkey have had to face in the past century.

10 advance orders from Turkey for the latest Ferrari

At the presentation of the Ferrari California at the Istanbul Car Show, 10 buyers made down payments on the luxury convertible. Apart from a 350,000 Euro price tag, the roadster sports a 460 hp mid-front mounted 8-cylinder engine as well as a fancy aluminum folding roof supplied by Webasto. However, delivery of the super car will not start until the beginning of next year.

Foreign Market Consulting Ltd. Sti. does not give any guarantee with respect to the correctness of individual figures and statements.

FOREIGN MARKET CONSULTING Ltd. Sti. is a German-Turkish consulting company. We specialize in providing competent consultancy services for foreign companies towards opening up to Turkish market, lastingly consolidating the market position and concluding strategic alliances between foreign and Turkish companies. If you need further information, please do not hesitate to contact Mr. Peter Heidinger.

Our Services:

- Market Research
- Business Partner Search
- Outsourcing Projects
- Company Foundation
- Recruitment Projects
- Employee Administration
- Marketing Activities
- Sales Support
- Office Services
- Management
- Financial Services

In a joint-venture with **SPRINGER&JACOBY**, Foreign Market Consulting offers the production of:

Our Services:

- TV commercials
- Radio spots
- Press and magazine ads
- Direct marketing
- Point of purchase/sales materials
- Catalogues, brochures

FOREIGN MARKET CONSULTING Ltd. Sti.

Managing Director: Peter J. Heidinger

Address:

Koybasi Cad.
Keresteci Z. Sok. 28
34464 Yenikoy-Istanbul
Turkey

Telephone: +90-212-36 38 052

Fax: +90-212-36 38 056

E-Mail: info@fmconsulting.info

Internet: www.fmconsulting.info

SPRINGER&JACOBY Reklamcilik Ltd.Sti. Istanbul

Managing Directors: Uta Beyer, Yesim Tektasli

Address:

Koybasi Cad.
Keresteci Z. Sok. 28
34464 Yenikoy-Istanbul
Turkey

Telephone: +90-212-36 38 010

Fax: +90-212-36 38 522

E-Mail: istanbul@sj.com

Internet: www.sj.com

This newsletter is for general information purposes only. The views expressed in this newsletter are not necessarily those of Foreign Market Consulting Ltd Sti. Foreign Market Consulting Ltd Sti has taken all reasonable measures to ensure that the material contained in this newsletter is correct. However, Foreign Market Consulting Ltd Sti gives no warranty and accepts no responsibility for the accuracy or the completeness of the material. Readers are advised not to rely solely on this information when making any decision. Readers should seek independent advice before making any decision. Foreign Market Consulting Ltd Sti reserves the right at any time to make changes as it deems necessary.