

FOREIGN MARKET CONSULTING



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Today you are receiving our latest newsletter about recent economic and political developments in Turkey.

We would like to hear your opinions about our newsletter and about any important issues that you would like to draw our attention to. In addition, we will be pleased to inform you about the services of Foreign Market Consulting.

If you know any other people that would be interested in this free service, please forward this newsletter to him/her or provide us with the e-mail address of the interested person (to newsletter@fmconsulting.info, so that we can include him/her in our distribution list.

Best regards,

Your FMConsulting Team

Newsletter June 2006

Economy

Overview of monthly data

YTL-Rates	31.5.	1.7.	Change in %
YTL per Euro	1.9843	2.0059	1.1
YTL per USD	1.5442	1.5773	2.1

Stock exchange index	37,860.80	35,453.31	-6.4
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	4.02	12.52
Consumer prices	0.34	10.12

(Dünya/DİE 31.5./1.7./4.7.06)

Foreign trade figures

Export	June	July 2005 - June 2006
Export (in Milliarden USD)	7.7	78.3

(Dünya TIM data, 2.7.06)

In million USD	May		Increase in %
	2005	2006	

Export	5,977	6,838	14.4
Import	9,812	12,206	24.4
Deficit	-3,835	-5,368	40.0

(www.die.gov.tr)

The law reducing corporate tax to 20% was finally passed

The law promised by Erdogan at the New Year's Eve for the reduction of corporate tax from 30% to 20% starting from 2006 was finally passed in the Turkish parliament and will be applied retrospectively from 1.1.2006.

Economic growth in Turkey in the first quarter again exceeded expectations with 6.3%, the highest increase was recorded again by the construction sector with 25.9%

According to information from the Statistics Institute TÜİK the real increase in GNP in the first quarter of this year was 6.3%, the real increase in GDP was 6.4%. The experts in fact admitted that these values were over the expected 5-6% however will expectedly slow down in the second quarter. The money of the population was mainly spent in the first quarter for real estate and durable consumption goods. The result is that again the construction sector recorded the highest sector growth with 25.9%.

Sector	Growth 1st Quarter 2006 (%)
Agriculture	0.6
Industry	4.5
Construction industry	25.9
Trade	7.4
Transportation-Communication	4.0
Financial institutions	-0.5
Real estate	2.0
Services and trade	5.8
Public services	1.6
Import tax	14.7
GDP	6.4
GNP	6.3

(Dünya, 1.7.2006)

Zero tax for foreigners

When the fluctuations in markets could not be stopped despite interest rate increase and intervention in foreign currency the government could only solve the problem by taking fiscal measures. In order to prevent hot money outflow, the 15% stoppage applied on the gains and income obtained by foreigners from financial instruments has been zeroed. 10% stoppage will be applied to locals. The existing stoppage rates will be applied until the amendments disclosed by the Minister of Finance Kemal Unakıtan and Minister of State Ali Babacan come into force. The 15% stoppage collected until now will not be refunded. The draft relating to the arrangement has been prepared as a legislative proposal and was rapidly included in the agenda of the Planning and Budget Commission. (Dünya 23.06.2006)

The fewest Part-Time jobs are in Turkey

Where the governments in many countries promote part-time jobs to lower the unemployment rate, according to the figures of OECD Turkey is the country with the lowest number of part-time jobs among member countries. Turkey ranks at the bottom with 7% with respect to the ratio of part-time workers to total work force. This ratio is 36% in Holland, 28% in Australia, 27% in Japan and 21% in Norway. The

other countries with a low number of part-time workers are Greece, Portugal and Finland, respectively. (*Dünya 26.06.2006*)

Permanent foreigners liked it in Turkey

Despite an exit movement in short-term capital called hot money there is a reverse process in mid- and long-term permanent foreign capital. While 5588 foreign capital firms entered Turkey between the years 1954-2002, 2003, this number was 7140 in the period covering 2004, 2005 and January-April of 2006. The foreign capital firms operating in Turkey predominantly prefer wholesale and retail trade, followed by manufacturing industry, real estate leasing and business activities as the other most preferred sectors. (*Dünya 26.06.2006*)

DPT will issue the individual typology of 81 provinces

DPT has started preparations for issuing the typology of 81 provinces. Provinces will be grouped with this study and it will be determined in which province agriculture, industry or natural resources will be focused on. In this classification, apart from the grouping of metropolitan cities including provinces such as Ankara, Istanbul , İzmir, the provinces Denizli, Gaziantep and Kayseri , called the Anatolian Lions, will establish another group. (*Dünya 27.06.2006*)

The determined attitude of the Central Bank subdued the market turmoil

The decisions taken by the Chairman of the Central Bank towards subduing the turmoil in the US Dollar started to show its effects at the end of June. By selling 1.5 billion dollars in total to the markets in the last week of June, the exchange rate of dollar, once 1.77, was again lowered below 1.6 YTL. (*Dünya 28.06.2006*)

YASED: We are expecting 12 billion dollars of foreign capital in 2006

YASED Chairman Saban Erdikler stated that foreign investors trust in the Turkish economy and said, "Direct foreign capital inflow will continue at the same pace. I am expecting 12 billion dollars at the end of this year". Erdikler drew attention to the fact that in the first 5 months of this year, together with the privatizations, 7.5 billion dollars of direct foreign capital inflow was realized. Stating that the executives of 20 multinational companies representing 11 countries and 20 different sectors will participate in Investment Counseling Meeting, Erdikler said Prime Minister Erdogan will hold a round table meeting with foreign investors. (*Dünya 28.06.2006*)

Turkey is going through a test

Stating that the Turkish economy is going through a test, the Minister of State Ali Babacan said, "In open economies capital inflow as well as capital outflow are normal day events. However, capital coming to Turkey will always exceed the capital leaving it". Commenting that 2007 will be an election year Babacan said they won't be engaged in election economics or compromise budgetary policies and fiscal discipline. Minister Babacan, speaking at a meeting of Turkish Banks Association and International Finance Institute in a period when the fluctuations in markets are deeply felt in various segments of the economy from finance to industrial sector, tried to boost the confidence of the markets. Babacan stated there is also no loosening of control with respect to EU. (*Dünya 29.06.2006*)

Unemployment went down to 10.9% in March

Due to season reasons the unemployment rate went down to 10.9% as of March., having been 11.9% in February. According to the Household Work Force Survey conducted by the Statistics Institute of Turkey, the participation rate to work force was 46.5% and non-registered employment decreased by 2.8 points and reached to 46.8%. (*Dünya 21.06.2006*)

	March 2005	March 2006
Non-corporate civil population	71,294	72,323
Population in age group of 15 and above	50,530	51,408
Work force	23,784	23,883
-employment	21,190	21,272
-unemployed	2,594	2,611
Participation rate to work force (%)	47.1	46.5
Employment rate (%)	41.9	41.4
Unemployment rate (%)	10.9	10.9
Young population (%)	20.5	19.2

(Dünya, 21.6.2006)

Politics

Invitation for a diplomatic solution from Gül to Iran on nuclear issues

The Minister of Foreign Affairs Abdullah Gül, visiting Iran to convey the message of Prime Minister Erdogan, said the solution of Iran's nuclear issues via diplomatic means will be in favor of Iran in the first place, then Turkey, the region and the world in general. At a meeting with the Minister of Foreign Affairs Manucehr Mutteki in Iran's capital Tehran, Abdullah Gül emphasized that after overcoming the nuclear crisis a new era will start in the region aimed at economic development. (Dünya 26.06.2006)

Turkey is the fastest growing market in Europe

The Guardian newspaper published in England described Turkey as the fastest growing market in Europe and stated European Union's non-admission of this country as a member will pose a great threat. The Guardian newspaper remarks that many European Union member countries think they could not absorb such a big country. It stated that they published a Turkey Supplement to prove that those fears are in vain. Olli Rehn, Commissioner of EU Commission in charge of Expansion in his statement in this Turkey supplement stated that Europe has to stick to its commitments to have an honest line in relations with Turkey. (Dünya 27.06.2006)

Negotiations may come to a halt because of Cyprus issue

Olli Rehn, Commissioner of EU Commission in charge of Expansion stated that the accession negotiations with Turkey may come to a halt because of Cyprus issue. Rehn said in case the obligations are not fulfilled the negotiations may be suspended. Rehn signaled a solution should be found with respect to the additional protocol by the end of the summer otherwise a crisis may occur in October or November. As a reply to Rehn, Prime Minister Erdogan said "I can assure him that everything requested from us will be realized". (Dünya 30.06.2006)

Further Topics

"denim" boost for confection exports

“Denim” exports where Turkey has left its mark in recent years reached a level of 1.4 billion dollars in 2005. Board Member of Istanbul Ready Wear and Confection Exporters Union, Ahmet Akbalik stated that the share of denim trousers was 9% in 1999 and Turkey’s total woven confection exports increased to 28% in 2005. (*Dünya* 23.06.2006)

Turkey’s denim trousers exports broken down in to years:

Year	Quantity (Piece)	Amount (USD)
1997	16,914,925	162,193,070
1998	21,83,963	202,215,754
1999	24,472,222	213,110,309
2000	33,799,996	265,269,871
2001	40,438,446	361,048,589
2002	60,485,561	535,973,011
2003	65,682,242	671,676,607
2004	83,885,957	1,059,325,321
2005	96,086,039	1,377,831,564

(*Dünya*, 23.6.2006)

Dogan-Pakdemirli agreed on bio diesel

Aydin Dogan and Ekrem Pakdemirli, a former Minister, established a partnership to produce bio diesel. Pakdemirli has a 10% share in Çevresel Kimya, where the holding chaired by Aydin Dogan has a 90% share. Ekrem Pakdemirli, announcing that they will start with bio diesel production in Bandırma in July, said they will plant kanola, the raw material of bio diesel, on an area of 1 million hectares with 100 thousand tones production capacity. (*Dünya* 28.06.2006)

The biggest IT company of Turkey is Telekom

The results of the comprehensive study “Informatics 500” reflecting the Turkish informatics market have been announced to the public. According to the study the first three ranks were occupied by Telekom, Turkcell and Telsim (Vodafone). They were followed by KVK Teknoloji, Genpa, Avea, Netcell, Indeks Bilgisayar, A-tel Pazarlama, Hewlett-Packard. (*Dünya* 28.06.2006)

SOME ECONOMIC INDICATORS OF TURKEY

		Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
Monthly inflation producer prices (%)	2004	2.63	1.64	2.1	2.65	-0.03	-1.05	-1.52	0.79	1.85	3.23	0.75	0.13
	2005	-0.41	0.11	1.26	1.21	0.2	-0.48	-0.74	1.04	0.78	0.68	-0.95	-0.04
	2006	1.96	0.26	0.25	1.94	2.77							
Annual inflation producer prices (%)	2004	10.76	9.14	7.97	8.91	9.56	10.53	9.44	10.52	12.5	15.48	14.4	13.84
	2005	10.7	10.58	11.33	10.17	5.59	4.25	4.26	4.32	4.38	2.57	1.6	2.66
	2006	5.11	5.26	4.21	4.96	7.66							
Monthly inflation consumer prices (%)	2004	0.74	0.55	0.89	0.59	0.38	-0.13	0.22	0.58	0.94	2.22	1.54	0.45
	2005	0.55	0.02	0.26	0.71	0.92	0.1	-0.57	0.85	1.02	1.79	1.4	0.42
	2006	0.75	0.22	0.27	1.34	1.88							
Annual inflation consumer prices (%)	2004	16.22	14.28	11.83	10.18	8.88	8.93	9.57	10.04	9	9.86	9.79	9.32
	2005	9.23	8.69	7.94	8.18	8.7	8.95	7.82	7.91	7.99	7.52	7.61	7.72
	2006	7.93	8.15	8.16	8.83	9.86							
Export (Monthly) (in Mil. USD)	2004	4619	3665	5218	5072	517	5284	5632	4707	5656	5867	5734	6541
	2005	4997	5652	6592	6128	5977	6034	5763	5552	6814	6772	5942	7243
	2006	5097	6004	7327	5754								
Import (Monthly) (in Mil. USD)	2004	633	6139	8452	7932	7991	8468	8728	7883	8487	8088	8568	10474
	2005	7212	8323	10196	9595	9812	9867	9596	10271	10361	10075	9652	11601

	2006	8138	9796	11424	10954								
Trade deficit (Monthly) (in Mil. USD)	2004	-1711	-2474	-3234	-286	-2821	-3184	-3096	-3176	-2831	-2221	-2834	-3933
	2005	-2215	-2671	-3604	-3467	-3835	-3833	-3833	-4719	-3547	-3303	-3710	-4358
	2006	-3041	-3792	-4097	-5200								
Export (Annual) (in Mil. USD)	2004	48339	49079	50389	51780	53109	54598	55994	56873	58414	59457	61221	63167
	2005	63543	65530	66904	67960	68767	69522	69653	70499	71657	72562	72770	73472
	2006	73572	73924	74659	74285								
Import (Annual) (in Mil. USD)	2004	71244	73198	75894	78615	81073	83814	86275	88184	90465	91977	95300	97540
	2005	98422	100606	102350	104013	105834	107233	108101	110489	112363	114350	115434	116561
	2006	117487	118960	120.188	121.547								
Trade deficit (Annual) (in Mil. USD)	2004	-22905	-24119	-25505	-26835	-27964	-29216	-30281	-31311	-32051	-32520	-34079	-34373
	2005	-34879	-35076	-35446	-36053	-37067	-37711	-38448	-39990	-40706	-41788	-42664	-43089
	2006	-43915	-45036	-47262									
Interest rate for domestic borrowing (%)	2004	25.52	23.99	24.44	23.15	28.82	27.5	26.32	24.85	25.42	22.79	22.88	23.12
	2005	19.43	17.58	17.01	17.17	17.31	15.61	16.02	16.07	14.84	14.55	14.1	14.19
	2006	14.02	13.97	13.89	13.88	14.36							
Index for real exchange rate (1995=100)	2004	147	149.1	154.2	152.5	138.2	137.5	140.5	140.1	138.1	139.9	141.3	143.2
	2005	150.7	156	154.7	151.8	153.3	159.5	163	160.9	162.2	165.7	170.8	171.3
	2006	172.1	174.6	172.9	171.9	158.7							
Monthly average exchange rate for USD (YTL)	2004	1.3434	1.3238	1.3159	1.3514	1.5013	1.4887	1.4482	1.4674	1.4983	1.4847	1.4454	1.3933
	2005	1.35	1.3102	1.305	1.3535	1.365	1.3547	1.3327	1.3366	1.3342	1.3512	1.3537	1.3457
	2006	1.3279	1.3202	1.3287	1.3309	1.4138							
Monthly average exchange rate for EURO (YTL)	2004	1.6962	1.6773	1.6155	1.6235	1.8015	1.8078	1.7774	1.788	1.8286	1.8501	1.8735	1.8639
	2005	1.7787	1.704	1.7219	1.752	1.7376	1.6501	1.605	1.6435	1.6365	1.6242	1.5955	1.5961
	2006	1.6067	1.5786	1.5962	1.6289	1.8035							
Number of uncovered checks in creditor proceedings	2004	46766	41093	45626	39356	41595	44625	47710	48316	56695	52721	58363	67026
	2005	62735	58485	69542	60489	67837	73111	75402	78793	88467	89684	96762	99334
	2006	91851	86589	93382	80519								
Number of uncovered checks	2004	78219	69047	106557	64827	65647	67453	84894	66343	91597	74668	77869	117490
	2005	69910	84465	115147	88387	86004	99537	88530	78848	102859	90959	90854	107354
	2006	87327	99759	101312									
Number of tourists (in thousand)	2004	534	608	784	1104	1799	1898	2591	2493	2125	1842	949	789
	2005	700	697	1107	1348	2303	2403	3179	2861	2502	2108	1053	862
	2006	667	626	922	1373								
Tourism income (in Mil. USD)	2004	602	503	608	773	1165	1332	2155	3024	2483	1729	856	658
	2005	690	548	757	860	1400	1500	2602	3453	2762	1899	944	737
	2006	718	554	731	912								
Tourism expenditures (in Mil. USD)	2004	-170	-210	-175	-172	-207	-241	-324	-236	-175	-198	-213	-203
	2005	-214	-275	-190	-186	-228	-264	-316	-238	-209	-238	-255	-259
	2006	-218	-164	-186	-171								
Purchase of shares by foreigners (in Mil. USD)	2004	1514	1696	2064	1594	1156	1038	1333	1020	1854	1691	1965	2472
	2005	3626	4116	3316	1904	2183	2510	3436	3511	4927	4151	4636	4278
	2006	4242	4348	4683	3925	4729							
Purchase of shares to foreigners (in Mil. USD)	2004	1533	1332	1908	1690	1216	907	1243	1065	1671	1654	1754	1998
	2005	2817	3632	3164	1865	1994	2193	3009	3033	4503	4334	3955	4009
	2006	3863	4109	4671	3716	4991							

(Dünya, 9.6.2006)

Sources: Dünya Newspaper May / June / July 2006

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