



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

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Your FMConsulting Team

Newsletter April 2010

Economy

Overview of Monthly Data

YTL-Rates	31.03.2010	30.04.2010	Change in %
TL pro Euro	2.0622	1.9711	-4.2
TL pro USD	1.5288	1.4810	-3.12

Stock exchange index	56.754	47.720	-15.92
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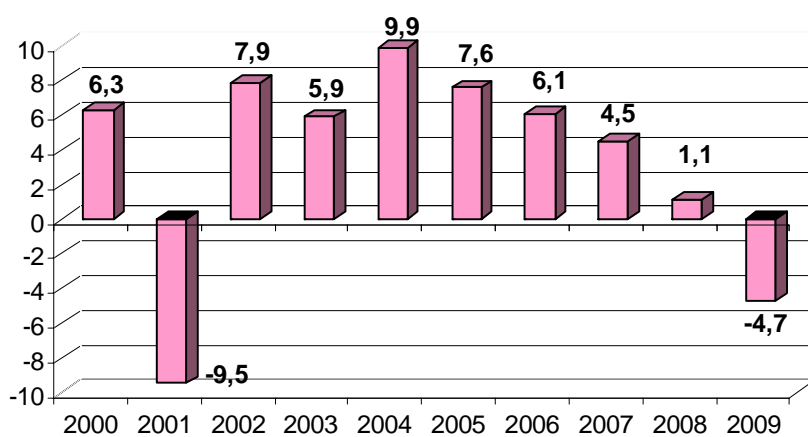
Inflation in %	Monthly inflation	Annual inflation
Producer prices	2.35%	10.42%
Consumer prices	0.60%	10.19%

Growth Rates

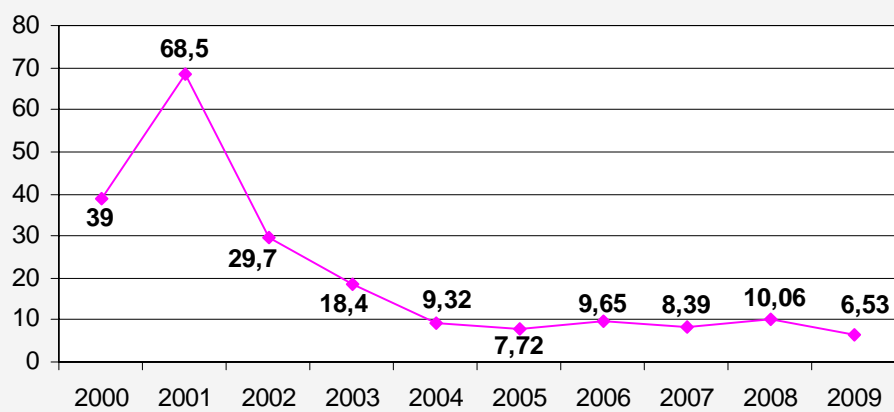
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9

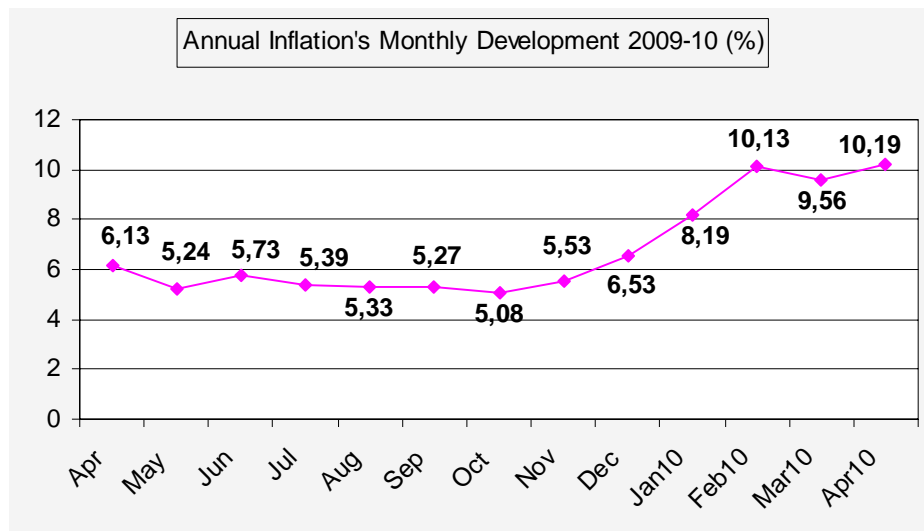
2004	13.9	15.7	5.7	6.6	9.9
2005	7.5	4.7	8.0	10.0	7.6
2006	6.3	9.3	4.3	4.6	6.1
2007	6.7	3.9	2.0	3.4	4.5
2008	6.6	1.9	0.5	-6.2	1.1
2009	-14.5	-7.7	-2.9	6,0	-4.7

Growth Rates (%)



Annual Inflation of consumer prices (%)





Growth result for 2009 better than expected

The State Statistical Institute has announced its revised figures for Turkey's economic growth in 2009, correcting the total growth rate for the past year as -4.7%, from an initial -5.1%. This is attributable to the fact that the 4th-quarter boost (+6%) turned out to be a full percentage point higher than previously assumed. Growth in 2010 is generally anticipated to remain at 2.5-3.0% because the upward trend experienced in the first quarter of the year is unlikely to continue unabated. On the other hand, the Turkish government is still expecting the country's growth rate to exceed 3.5%, as Ali Babacan, Minister for Economic Affairs, reasserted. However, it seems clear that this would require both domestic demand and the export business to pick up beyond expectations.

March sees substantial gain in exports

According to National Exporters' Association TIM, Turkey's exports increased substantially in March, with a total volume of more than US\$9.5bn as against some US\$7.9bn in January and roughly US\$8.2bn in February. This spells a 34.3% gain over the same month of the previous year. TIM president Buyukeksi claimed this to be "proof that Turkey can well do without the IMF". The fact that a new standby agreement failed to materialize has made a positive impact, he said. On this occasion, State Minister Caglayan criticized the policy of high interest rates pursued by his country's Central Bank.

Turkey back to single-digit inflation

Having hit double digits in February, inflation in Turkey returned to single digits in March. The consumer price index (TÜFE) rose by 0.58% and the producer price index (ÜFE) by 1.94%, translating into an annual inflation rate of 9.56% based on consumer prices, or 8.58% based on producer prices. The sector with the highest price hike in March (3.14%) was telecommunications, with the food service industry and transportation sector trailing at 0.98% and 0.73%, respectively.

Industrial output set for slow recovery

In February Turkey's industrial production index increased by 18.1% over the same month of the previous year. However, one needs to bear in mind that February 2009 marked the bottom of the global crisis, when the industrial production index slumped to 84.6, from 111.1 in February 2008.

In the meantime it at least has recovered to 99.9, which is practically the same level as 5 years ago (2005 = 100).

Unemployment continues to rise

In January 2010, the number of unemployed in Turkey reached almost 3.6 million, 230,000 more than the year before, raising the jobless rate by one percentage point to 14.5%. Unemployment among the urban population stood at 16.5% as compared to 10.3% in rural areas. At the same time, the number of people effectively out of work continued to approach to 6-million mark. Though the total number of unemployed dropped 1% over the same month of last year, the government reckons that even with a steady decrease it will take several years to reach the pre-crisis level again.

Global cost of crisis exceeds Turkey's economic capacity more than 5-fold

In its World Economic Outlook of April 2010, the International Monetary Fund calculated the cost of the global crisis. According to the report, the GDP of all the world's countries has plummeted by around 3.3 trillion US dollars in current prices, more than 5 times the Turkish GDP (615.3bn US\$ in 2009). The GDP dropped in 133 out of 182 countries – including Turkey, which nonetheless maintained its rank as the world's 17th largest economy.

Development of Gross Domestic Product and Per-Capita Gross National Income in the world's 10 largest economies and in Turkey

	GDP (billion US\$)		Per-capita GNI (US\$)	
	2008	2009	2008	2009
1. USA	14,441.4	14,256.3	47,393	46,381
2. Japan	4,887.0	5,068.1	38,271	39,731
3. China	4,519.9	4,909.0	3,404	3,678
4. Germany	3,673.1	3,352.7	44,729	40,875
5. France	2,866.8	2,675.9	46,035	42,747
6. UK	2,684.2	2,183.6	43,736	35,334
7. Italy	2,307.4	2,118.3	38,887	35,435
8. Brazil	1,635.5	1,574.0	8,626	8,220
9. Spain	1,602.0	1,464.0	35,377	31,946
10. Canada	1,499.6	1,336.4	45,064	39,669
17. Turkey	730.3	615.3	10,484	8,723

Politics

Turkey and Armenia to carry on with normalization process

On the sidelines of the Nuclear Security Summit in Washington, DC, Turkish Prime Minister Erdogan met for one and half hours with Armenian President Serzh Sargsyan. The relations of the two countries had recently been strained by the resolution of the U.S. House of Representatives to recognize the 1915 events as "genocide", as well as by a ruling of Armenia's Constitutional Court declaring the existing border line invalid. The neighbours now mutually agreed to continue the normalization process which had been initiated with the protocols signed in October 2009.

Erdogan volunteers to mediate in nuclear dispute

Also at the Nuclear Summit, US President Barack Obama and Turkish Prime Minister Recep Tayyip Erdogan had a 45-minute “constructive and positive” one-on-one conversation. The two statesmen discussed issues such as the Turkish-Armenian relations, the security situation in the Caucasus, and the Middle East peace process. Obama praised the level of co-operation between both countries, and commended Turkey for assuming an active role. Erdogan on his part voiced his opposition to stepping up sanctions against Iran for its nuclear policy, and volunteered to mediate in the dispute, saying he was confident that a diplomatic solution can be reached along the lines of the Nuclear Non-Proliferation Treaty.

Newly elected President of Northern Cyprus vows to resume negotiations

In the presidential elections held in the Turkish Republic of Northern Cyprus, outgoing Prime Minister Dervis Eroglu won over 50% of all votes to replace his incumbent opponent, Mehmet Ali Talat. Eroglu, who is considered a nationalist, immediately declared his intent to resume the negotiations on the reunification of the separated nation, getting ahead of the EU Commission which hastened to urge him to the same effect. While according to international law the entire island of Cyprus is considered to be a member of the European Union, the Northern section remains effectively isolated. The government of Greek-speaking Southern Cyprus responded by expressing its concern regarding the future of the peace process.

Parliamentary vote on constitutional reform enters second round

Following lengthy debates in parliament, voting on the constitutional reform the Turkish government is pushing for has now reached the critical stage. Since the ruling party AKP presently holds 336 of the seats in parliament, marginally more than the 330 votes required, it doesn't need to rely on other parties in order to carry through with its reform package. Still there are fierce discussions about the individual components of the package. Turkey's current constitution dates back to the period immediately after the last military coup of September 12, 1980.

Government announces details of 3rd Bosphorus bridge

The Turkish Ministry of Transport has announced the planned location for the 3rd bridge to be built across the Bosphorus. It is to run between the fishing villages of Poyrazky on the Asian and Garipce on the European side of the strait close to the Black Sea. The giant construction project, which involves 260 kilometres of new feeder roads and will take 4-5 years to complete, comes with a minimum price tag of US\$6bn. The contract for the project, which is highly controversial among environmentalists, urban planners, and transportation experts, is set to be awarded before the end of the year.

Other Topics

Aydin Dogan is Turkey's top tax payer

According to a popular statistic issued by the tax revenue service, media mogul Aydin Dogan was the country's top income tax payer in 2009, with TL19.1mn. Last year's number one Rahmi Koc, former boss of Turkey's largest industrial conglomerate Koc Holding, was relegated to 3rd place, with TL11.1mn. All in all, 4 members of the Koc dynasty rank among the Top Ten. Second in the

list, with TL 15.6mn in income tax paid, is financier Salvo Taragano, Chairman of the Board of Kurtulus Factoring, a surprise name hitherto known only to insiders, while Turkey's richest man according to the Forbes list, banker Husnu Ozyegin, is listed at rank 10.

Turkish tea growers call for expansion of cultivation areas

Increased domestic demand for black tea has mobilized the producers. According to the Chamber of Commerce in Rize, the country's largest tea cultivation area, black tea consumption in Turkey was around 240,000 tons in 2009, as compared with a home production of merely 210,000 tons. Mehmet Erdogan, president of the chamber, said that official tea imports to Turkey were only 5,000 tons while the remainder was contraband. He called on the government to authorize the expansion of cultivation areas by 15-20%, both to thwart smuggling and to ensure that the demand is met. This would also create jobs in the underdeveloped Eastern Black Sea region, and prevent further rural exodus.

Business community disagrees with government's employment policy

The Turkish government's employment policy continues to meet with strong criticism from the business community, in particular the Union of Chambers and Commodity Exchanges (TOBB). Few agree with Prime Minister Erdogan's bold assertion that "the unemployment issue could be resolved if every enterprise were to create just one job". In a survey conducted by the TOBB, 94% of the polled businesses disagreed with this approach. According to the association, the government apparently fails to recognize the fundamental structural problem of the Turkish economy, which is that small and medium-sized enterprises constitute the large majority in all lines of business. 80% of the 1.3 million-odd businesses there are in Turkey have 1-9, and 65% even only 1-3 employees. TOBB claims that this is the main reason why the state's employment promotion measures have so far fallen short of what is required.

Number of Turkish bank personnel at record level

More people than ever are employed in Turkey's banking sector. According to a study published by the Turkish Association of Banks, the number of bank employees reached 174,493 in the 1st quarter of 2010, thus surpassing the previous high dating from the end of 1999. 48% of bank employees are employed by private-sector deposit banks, 26% by public-sector deposit banks, 23% by banks with foreign equity participation, and 3% by development and investment banks. Remarkably, half of Turkey's total banking personnel is female.

High price of meat serves as incentive for livestock breeders

While Turkish consumers and hospitality industry complain of the high price of meat, investors are seizing the opportunity. Livestock breeding has become a profitable business again. In the course of last year, the number of large stock farms with over 100 head of cattle increased by 147 to 944. 347 additions brought the number of medium-sized farms with 50-100 head of cattle to 2.669. Meanwhile Turkish Minister of Agriculture, Mehdi Eker, vindicated the regulatory measures taken by his government, which favours imports of meat. The aim, he said, is to cut the ground from under speculators' feet, and thus to protect producers and consumers alike.

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