



Dear Sir

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

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Best regards,

Your FMConsulting Team

Newsletter December 2008

Economy

Overview of Monthly Data

YTL-Rates	28.11.2008	31.12.2008	Change in %
YTL pro Euro	2.0166	2.1467	6.45
YTL pro USD	1.5723	1.5314	-2.60

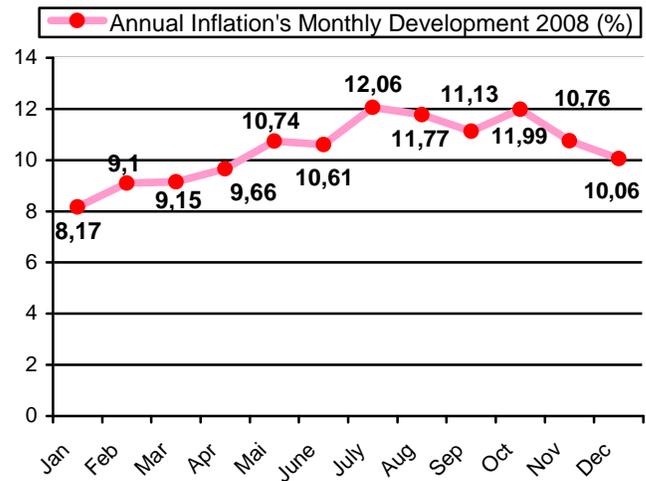
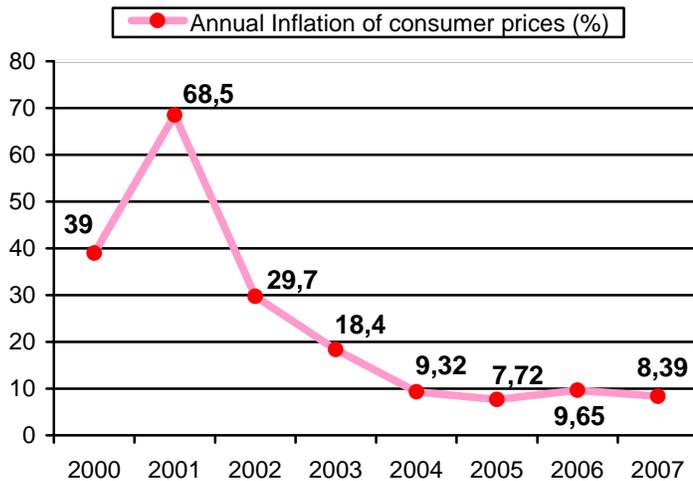
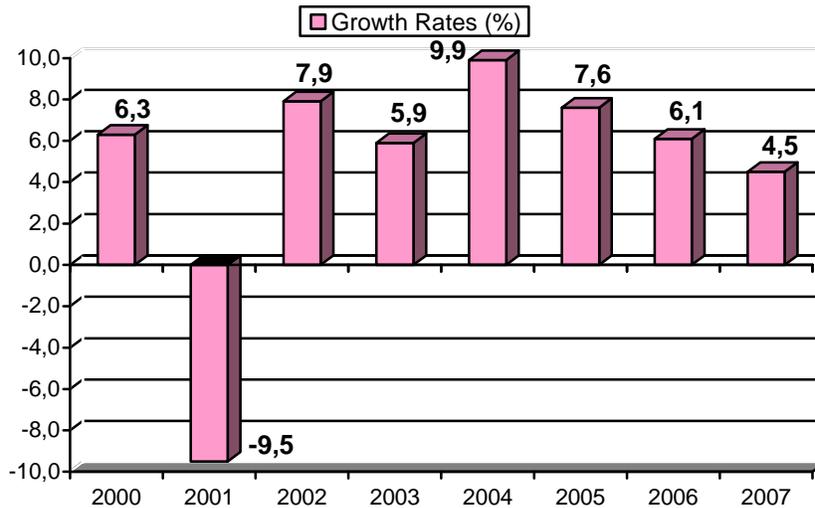
Stock exchange index	25.715	26.309	2.31
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	3.54	8.11
Consumer prices	0.41	10.06

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			



Private sector burdened by some US\$145bn in foreign loan debts

The volume of foreign loans raised by the Turkish private sector—not including banks – totaled US\$144.8bn at the end of September, of which US\$46.1bn were financial and US\$98.6bn commercial loans. With 25.5%, the Netherlands were the largest loan provider, followed by Germany with 20.8%, Great Britain with 14%, Switzerland with 13.9%, and Northern Cyprus with 11%. Further down the ranks were Malta (6%), Bahrain (3.2%), France (1.7%) and Italy (1.5%), while 1.6% of funding came from other countries.

Head of Central Bank warns: Crisis far from over

The head of the Turkish Central Bank, Durmus Yilmaz, cautioned against the idea that the worst of

the crisis is already over. At a conference on monetary policy, Yilmaz said that the next stage will affect the real sector hardest. In a kind of boomerang effect, this is bound to impact on the banks, which should brace themselves for rising costs and dwindling profits. If required, the Central Bank is ready to lower the prime rate. Other support measures such as extended export credits and the provision of longer-term funding are also under consideration.

Lowest growth for 27 quarters

In the third quarter of 2008, the Turkish economy has grown by a mere 0.5%, little short of stagnation. While the first quarter had seen a growth rate of 6.7%, it slumped to 2.3% in the second quarter. This brings the average of the first three quarters to 3.0%, with a year-end expectation of 2.2%. Since 2004 when annual growth peaked at 9.4%, there has been a steady decline. Meanwhile the growth rate has almost dropped back to the level of 7 years ago (1st quarter 2002: 0.3%). A big factor was the ongoing crisis in the construction industry (-4.3%), once the engine of economic growth. Increased spending of the public sector in the third quarter was counteracted by a severe decline in private-sector investment. In any case, the worst-case scenario for the fourth quarter is zero growth.

Foreign investors withdraw stock capital from Turkey

In the first 11 months of the year, the volume of purchases made by foreign investors at the Istanbul Stock Exchange amounted to some US\$68bn while sales totaled about US\$71bn. On balance, US\$3.15bn in foreign capital were pulled out of the country. Foreign buyer interest focused on Türk Telekom and Dogan Holding stocks (US\$153.2m and US\$133.0m respectively). As for sold stocks, Migros was the lonely leader with US\$869m, trailed by Akbank, Garanti Bankasi and Vakiflar Bankasi with US\$264m, US\$198.8m and US\$185.7m respectively. Transactions with foreign investor participation accounted for 27.7% of the total trading volume that stood at roughly US\$250bn. In November, however, this share fell to the year's record low of 18.4%.

OECD: Turkey has developed immunity to the crisis

On the occasion of a visit to Turkey, OECD Secretary-General Angel Gurría stated that the country has developed a sort of immunity to the global crisis on account of the economic crisis suffered in 2001. In his view, the banking sector has grown stronger and more resilient, with a capital structure much more stable than before. Another bonus, he said, is the increased flexibility of the labour market.

Unemployment to reach record high in February

With the official unemployment rate in September rising one percentage point over that in the same month of the previous year, a further significant increase is anticipated. Seasonally induced joblessness, particularly in agriculture, will add to the effects of the world-wide economic crisis which are becoming increasingly manifest, with companies closing down on a daily basis. Experts expect a record unemployment rate of between 13 and 15 percent for February.

	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
2006	11.8	11.9	10.9	9.9	8.8	8.8	8.8	9.1	9.1	9.3	9.6	10.5
2007	11.0	11.4	10.4	9.8	8.9	8.8	8.8	9.2	9.3	9.7	10.1	10.6
2008	11.3	11.6	10.7	9.6	8.9	9.0	9.4	9.8	10.3			

New tax provisions for Turkish free zones

An amendment to the Free Zone Law has been enacted: Earnings and wage costs of the firms operating in the free zones are now exempt from income tax, provided that at least 85% of the products manufactured there – in terms of FOB value – are exported.

Minimum wage raised – workers' representatives boycott talks

The relevant committee has raised the statutory minimum wage for the first and second half year of 2009 by 4.3% and 4.1% respectively. To protest, the workers' representatives did not attend the negotiations. Over 16 year olds are required to be paid at least 666TL gross or 527.13TL net per month as of January 1st 2009 (the costs to the employer are 809TL). As of July 1st 2009, the minimum wage will be 693TL gross or 546.48TL net, with employer costs of 842TL. The cumulative increase of 8.5% is still lower than the inflation rate of the first 11 months of 2008 (10.52%).

Mercer survey: 9.2% average pay rise in 2009

The consulting firm Mercer HR has polled human resources managers of 100 multinational and large Turkish companies about the wage increases planned for 2009. The survey revealed an average rise of 9.2% for the multinationals, but only 6.5% for the big Turkish firms. Also in October the share of companies intending to hire new workers in the next year was down to just 21%, from 64% in April. However, a mere 4% expect lay-offs.

Politics

Erdogan on peace mission to the Middle East

Following the alarming developments in the Gaza Strip, Turkey's Prime Minister Erdogan embarked on a 2-day trip to the region. He visited Syria, Jordan, Egypt and Saudi Arabia to hold high-level talks. The Turkish government is seeking to facilitate a peaceful settlement of the conflict as soon as possible. Not naming Israel explicitly, the government's spokesman condemned the use of disproportionate force.

Egypt and Turkey jointly appeal for an end to violence in Gaza

On an unscheduled visit to Ankara, Egyptian foreign minister Ahmed Aboul Gheit met with his Turkish counterpart Ali Babacan. Both countries are trying to mediate a ceasefire between Israel and Palestine. In a joint declaration the two statesmen called for the immediate cessation of hostilities. Meanwhile protests against the Israeli aggression continued in many parts of Turkey.

Other Topics

Billion-euro UMTS license auction

The Turkish Telecommunications Agency has conducted a tender procedure to award licenses (20-year leases) for third-generation (3G) mobile networking. This technology, also known as UMTS, enables extended multimedia applications. The Type A license (45 MHz band) was acquired by Turkcell for EUR321m while Vodafone obtained the Type B license (40 MHz band) for EUR250m. Avea was awarded the Type C license (35 MHz band), having placed a bid of EUR214m. The 25 MHz license remains to be auctioned.

Ekol forwarding company opens new route to Germany

Following 4 years of preparation, Turkish freight forwarding and logistics company Ekol has established a new, timesaving route for its European combined freight transports. From now on, special semi-trailers will be used to ship goods by sea from Istanbul to Trieste (Italy). From there they will be transported by rail to the destination terminal in the southern German city of Mannheim to be distributed by truck to the consignees. Considering annual cost savings of 20%, the investment of EUR25m will be cleared very quickly. Other forwarders will also be able to benefit from this infrastructure for a fee.

Crisis has not spoiled appetite for pizza – market expected to boom

With increasing urbanization, the eating habits of the Turks, in particular the young generation, are changing. This applies not only to the country's big cities, but increasingly to Anatolia as well. The large pizza chains keep opening new branches all over the country. The pizza sector is turning into a veritable growth industry: In the next three years, the market is expected to expand from now US\$250m to US\$600 m. Optimism is running high in this line of business, for the conviction is that the growing appetite for pizza will prove stronger than the crisis.

More Germans to travel to Turkey in the coming year

According to leading tour operator Öger Tours the global economic crisis means new opportunities for Turkish tourism. According to the managing director of the company's Turkey operations, a recent survey indicates that the number of Germans considering to spend their holidays in Turkey has significantly increased. The main focus of interest is on "all-inclusive" vacations, an area where the chief competitors – Tunisia and Egypt – are still lagging behind.

Financial Times recommends purchase of real estate in Turkey

The Financial Times has published tips for where to buy permanent and holiday homes in 2009. Because the crisis has sent real estate prices tumbling in many parts of the world, the property market offers ever more attractive investment opportunities, says the paper. Its list of recommendations is headed by London, followed by Paris, New York, Montenegro, Mallorca, Austria, Southern Cyprus, Costa Rica, Turkey and Cambridge. Within Turkey, Belek, Altinkum and Bodrum are named as favorite locations.

GE locomotives to be built in Turkey

General Electric has signed a strategic partnership agreement with the state-owned Turkish Locomotive and Engine Industry Corporation (TÜLOMSAS). With an initial investment von approx. US\$5m, GE will have high-tech locomotives built in Eskisehir starting from the first quarter of 2010. In the first 5 years, the US-based corporation guarantees minimum annual purchases of 50 units and then orders for at least 100 locomotives per year for each additional 5-year period.

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