



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

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Please note that we also offer 2-day intensive seminars on 'Business in Turkey' presented at our offices in Istanbul. Click [here](#) further information on these seminars, or contact us for more information about our wide range of services.

Best regards,

Your FMConsulting Team

**Newsletter August 2008**

## Economy

### Overview of Monthly Data

YTL-Rates	07.31.2008	08.29.2008	Change in %
YTL pro Euro	1.8169	1.7424	-4.10
YTL pro USD	1.1637	1.1821	1.58

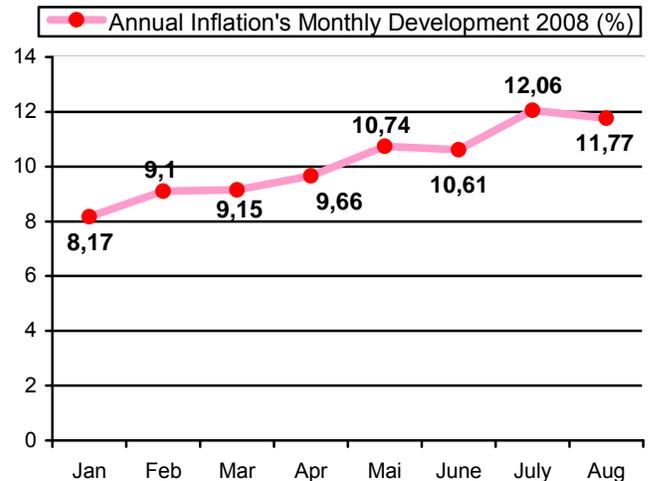
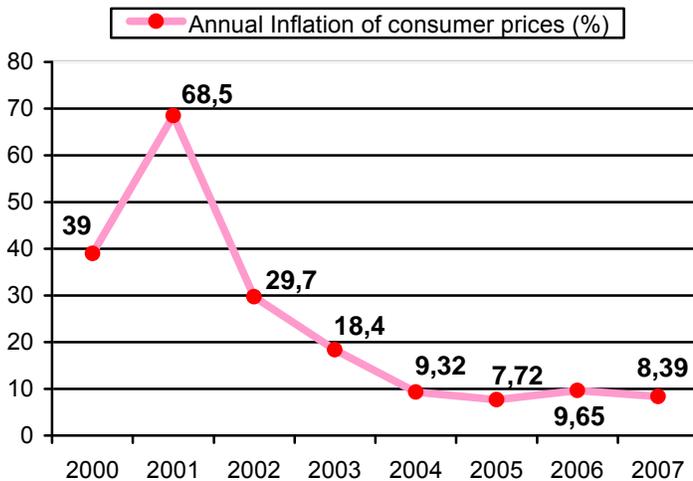
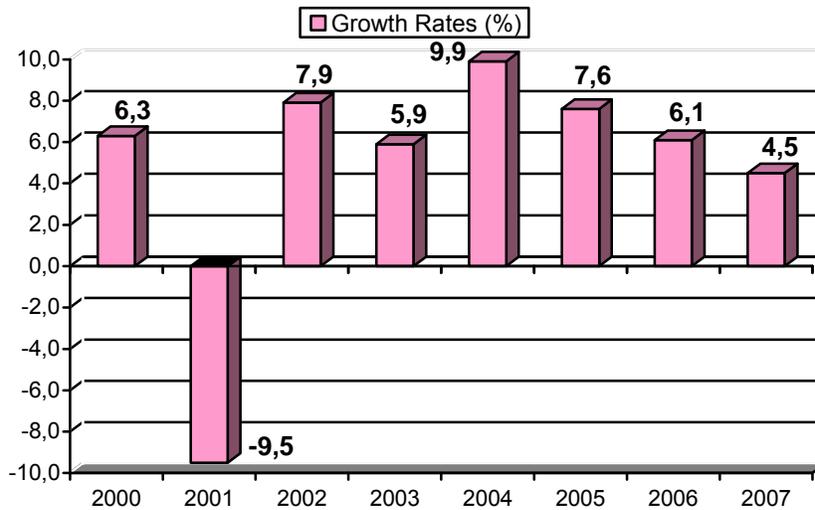
<b>Stock exchange index</b>	42,200	39,845	-5.58
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	-2.34	14.67
Consumer prices	-0.24	11.77

### 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				



### Manufacturers under pressure because of increasing gas prices

In early August, the national supplier of natural gas, BOTAS, increased household gas prices by 16.88% and industrial prices by 18.77%. When added to previous rises, the total increase since Jan 2008 now adds up to 33.57%. There are 52 areas in Turkey are using gas for production and manufacturers are complaining - their international competitiveness is being impacted. In spite of these complaints, there are further price increases expected at the beginning of November.

### Environmentalism is setting a trend; organic cultivation increases as well

Due to international trends, even in Turkey, investments in the environment are coming to the fore in terms of international competitiveness. Many companies are taking the increasing environmental awareness under consideration and changing their strategies. In particular, ecological products are becoming a trend. More ecologically friendly products are being developed and investments in environmental working processes are also increasing.

### **Decline in capacity utilisation**

According to the Turkish Institute for Statistics (TUIK), the capacity utilisation – compared to the previous year – has declined (by 1.9% to 80%) due to a decreasing demand. Noticeable decreases in capacity utilisation are evident in transport vehicles (12.9%) and the textile industry (7.1%).

### **Turkey exports reach 400 million USD per day, but the proportion of imported intermediate goods is increasing**

The minister of state, Kursad Tuzmen explained that Turkey exports 400 Million USD per day. However, over recent months exporters are preferring more and more imported goods. The main reason is because of the TRY, which gained strength, making these cheaper than similar Turkish goods. The minister is not happy about the increasing number imports, though seeks consolation from the fact that the number of jobs in the export industry can be kept nevertheless.

### **War in Georgia affects Turkish investors and cross-border trade**

The president of the Turkish-Georgian working-council, Tugrul Ekin, explained in the middle of August, that many Turkish companies have invested in Georgia, but the war with Russia prevents those investors from reaping the fruits of their investment. 150 Turkish companies invested in Georgia and normally there is an average of 500 loaded trucks crossing the border per day. The cross-border trade and the heavy traffic appear to have ground to a halt.

### **Exports increase by 46% in the south-east**

The association of exports in the south-east of Anatolia declared that in the period between January and July 2008, the exports increased by 46% to a total of 2.13 billion USD compared to the previous year. 39.9% of these exports - which mainly consisted of machine-manufactured carpets, chemical substances and clothes - are freighted to Iraq, Syria, Saudi Arabia and the UAE. 29.1% are exported to the EU, which makes a total value of 554.6 million USD. Compared to the previous year, this equals an increase of 23%.

### **The New Turkish Lira becomes the Turkish Lira**

It was the first January of 2005, when six decimal places of the old Turkish Lira have been removed and the “New Turkish Lira” was born. Now, at the first January of 2009, this new currency is going to be re-named into “Turkish Lira”, and the abbreviation as it is used in Turkey is going to be changed from “YTL” to “TL”. Moreover 200 TL notes are going to be introduced. The old YTL-notes are valid for ten more years, but the coins are just valid until the end of 2010.

### **Seasonally-caused increase of occupation by 627,000 people in the second quarter**

But because of the fact, that 390 thousand of these have not been registered, the black labour market has experienced an increase. Moreover, the unemployment rate, which was more than 10% in the first quarter, declined to 8.9% in the second quarter.

## Good performance at the stock market during the first half of the year.

### IS-Bank declared a net profit of 1.1 bn. TRY

170 of the 327 companies which are listed at the stock market published their balance sheets. It seems that the international crisis on the finance market has had no affect on these companies. The IS-Bank in particular, should be very happy about their results. In the second quarter, the IS-Bank achieved a net profit of 598 Million TRY, which equals a half-year profit of 1.15 billion TRY in 2008. This is an increase of 51% to 2007. Furthermore, the bank increased its asst portfolio by 24% to 42.15 billion TRY during the first half-year.

### Companies with the highest profit

Net profit in TRY	1. Half-year 2007	1. Half-year 2008	Increase (%)
İş Bankası	765,755,000	1,153,151,000	50.59
Akbank	1,188,720,000	1,146,603,000	-3.54
Turkcell	757,118,000	1,124,592,000	48.54
Garanti Bankası	1,502,932,000	995,269,000	-33.78
Yapi Kreid Bankasi	400,535,000	719,536,000	79.64
Tüpras	609,,153,000	717,870,000	17.85
Halk Bankası	535,416,000	641,923,000	19.89
Vakıflar Bankası	478,549,000	472,736,000	-1.21
Carrefoursa	-35,798,225	353,913,772	-
Ford Otosan	203,274,424	299,059,507	47.12
<b>TOTAL</b>	<b>6,405,654,199</b>	<b>7,624,653,279</b>	<b>19.03</b>

### Companies with the highest deficit

Net profit in TRY	1. Half-year 2007	1. Half-year 2008
T. Tuborg	-14,653,314	-53,603,546
Grundig	-26,939,000	-42,760,000
Tukaş	395,089	-25,589,356
Advansa Sasa	-6,811,000	-18,244,000
Petkim	72,042,884	-17,562,595
Karsan Otomotiv	-1,374,384	-17,451,927
İş Yat. Ort.	20,777,894	-14,190,090
Viking Kağıt	-5,698,300	-12,746,652
Favori	1,052,939	-11,758,908
Tümteks	-528,757	-11,140,842
<b>TOTAL</b>	<b>38,264,051</b>	<b>-225,047,916</b>

### CORRECTION TO THE JUNE-NEWSLETTER: Minimum wage increases in July 2007

Like every half year, the calculation of the minimum wage and the costs for the employers has been actualised:

<b>Gross minimum wage (YTL / month)</b>	<b>638.70</b>
Social insurance contribution EMPLOYEES % 14	- 89.42
Fund for unemployment insurance % 1	- 6.39
Income tax %15	- 81.43
Steamp duty % 0.6	- 3.83
Total deductions	181.07
<b>Net minimum wage (YTL / month)</b>	<b>457.63</b>
Incl. Income-tax exemption	45.63

The costs for employers increase as follows:

<b>Gross minimum wage (YTL / month)</b>	<b>638.70</b>
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Fund for unemployment insurance EMPLOYER% 2	12.77
<b>Total costs for employers (YTL/month)</b>	<b>776.02</b>

## Politics

### **Visit of the Iranian president: Economic, cultural and police co-operation should be enlarged**

The Iranian president Mahmud Ahmedinejad visited Turkey in August and explained during a press conference that natural gas and electricity agreements are going to be negotiated. He also mentioned that the trade volume with Turkey has already exceeded 10 bn. USD and that, in another four years, 20-bn should be achieved. Furthermore, he mentioned that a Turkish EU-membership would be an advantage for the region as well as for the EU. It was recognised that Turkey is an important bridge in the region. During his meeting with the Turkish president, Abdullah Gul, several agreements in terms of drug traffic, organised crime and terrorism were signed. Moreover, the cooperation between libraries, the transportation and the tourism sectors should be developed.

### **War in Georgia causes anxiety in Turkey**

The surprising war in the neighbour-country has affected Turkey economically as well as politically. 55 km of the Baku-Tiflis-Ceyhan gas pipeline runs through South-Ossetia. In addition, the war jeopardises the Kars-Tiflis-Baku train project.

### **Africa summit in Istanbul**

Ministers of the African countries met in Istanbul for the Turkish-African summit and invited Turkish companies to invest in Africa. They declared that in particular, the energy industry, the infrastructure and the usage of the rank land are promising areas to invest in.

### **General Basburg warns about the laicism and the religious communities**

General Ilker Basburg pointed out, that the laicism is one of the fundamental values of the republic. This is way this strong opinion of the military in terms of laicism it is fixed in the 24<sup>th</sup> paragraph of the constitution. One part of the population is anxious, because they hold the opinion that the establishment of a new more religious life-style is a main focus. In order to save the freedom, it is an absolute must to take this anxiety seriously.

### **Three attacks within one month**

**Mine-explosion:** 9 soldiers died after a military aircraft had been hit by a remote-controlled mine, two more soldiers are hurt.

**Bomb-attack:** An attack with a plastic-bomb, which was remote-controlled by a mobile phone, was launched on the 21st of August in Izmir/Konak. Probably, the attack was organised by the PKK. The object of the attack was a police vehicle.

**Military area in Selimiye, Istanbul, attacked:** At the beginning of August, three people were hurt during an attack on the military area in Selimiye/ Usküdar. The attack was co-ordinated from the neighboured graveyard in Karacaahmet.

## Other Topics

### **Steel industry becomes a main export sector. Export increases by 75.37%**

The increasing steel prices around the world have affected the foreign demand in Turkey. Compared to the previous year, the steel and iron exports have increased by 75.37% during the first seven months. This equals a value of 11.8 bn. USD of exports. For this reason the steel and iron industry overtook the textile industry, and is now second only to the automotive industry (17.1 bn. USD).

### **Alcohol consumption decreases by 11.7%**

According to a Nielsen study in the retail industry about the consumption of different goods, there was only a decrease in the alcohol consumption compared to 2007. In the year before, the decline was already by 1.2%.

### **Sabancı sells Bossa; stocks lose value**

Sabancı Holding has sold their Bossa-shares of 50.12% to V. Faruk Ebubekir (Akardan San. ve Tic. AS) for 76.4 million USD. Bossa is one of Turkey's biggest textile companies, but after the company has been sold, the shares lost 10% of their value.

### **Saudi-Arabian company thinks of cultivating dates in Adana**

An unknown Saudi-Arabian company is working on a feasibility plan for the cultivation of dates in Adana, Turkey. The CEO of the Turkish date-supplier Hacibey Hurmacilik, Mustafa Ince, explained, that due to the growth at an average of 10% per year, the Turkish market becomes more and more interesting for foreign investors.

### **With a capacity of 60 bn. USD, Africa has become an attractive target market for Turkish building companies**

The Turkish industry for building companies and technical consultants receive projects in the amount of 60 bn. USD per year from Africa. This means, that Turkey is in strong competition with the Republic of China. The industry plans to achieve a growth of 10% with the help of the African projects, which are mainly from Libya, Algeria and other South-African countries and Nigeria.

### **Geothermal areas are going to be tendered for the usage of private companies**

The minister for energy and natural springs, Hilmi Guler, explained that 33 geothermal areas and 32 geothermal springs are going to be tendered for the usage by private companies. The tender for the first seven areas in Aydin and Manisa have already been announced at the end of August. The tenders include usage rights for thirty years.

### **Number of tourists has increased by 15.3% to July 2008**

The number of foreign tourists who visited Turkey during the first seven months of the year was 14.77 Million people. The number of visitors from OECD countries increased by 9.76% and from East-European countries by 16.7%. During July, 1.7 million tourists came to Turkey. 658,000 of these came from Germany, 472,000 from Russia, and 377,000 from UK. They are followed, in descending order, by the Dutch, French, Iranian, Belgian, Austrian, Ukrainian and Bulgarian visitors.

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