



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

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We wish you and your family a happy Bayram Holiday

Best regards,
Your FMConsulting Team

Economy

Overview of Monthly Data

YTL-Rates	30.09.2010	28.10.2010	Change in %
TL pro Euro	1,9788	1,9841	0,2678
TL pro USD	1,4504	1,4370	-0,9238

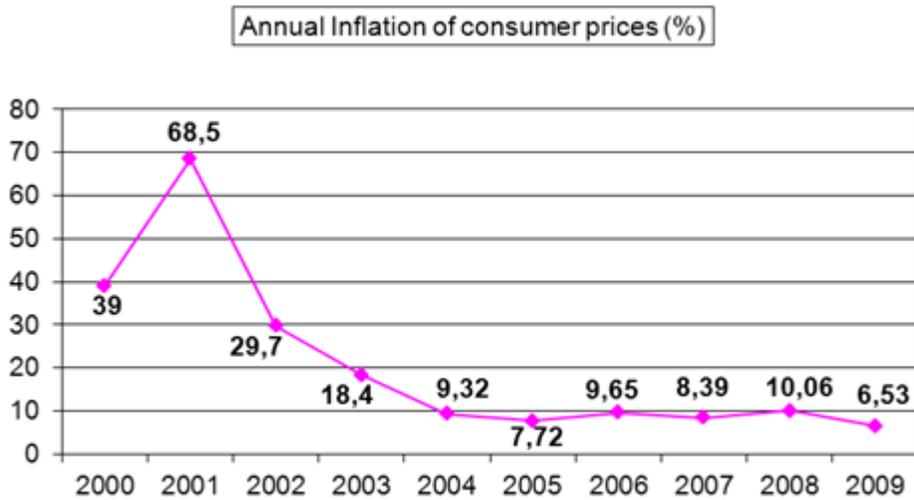
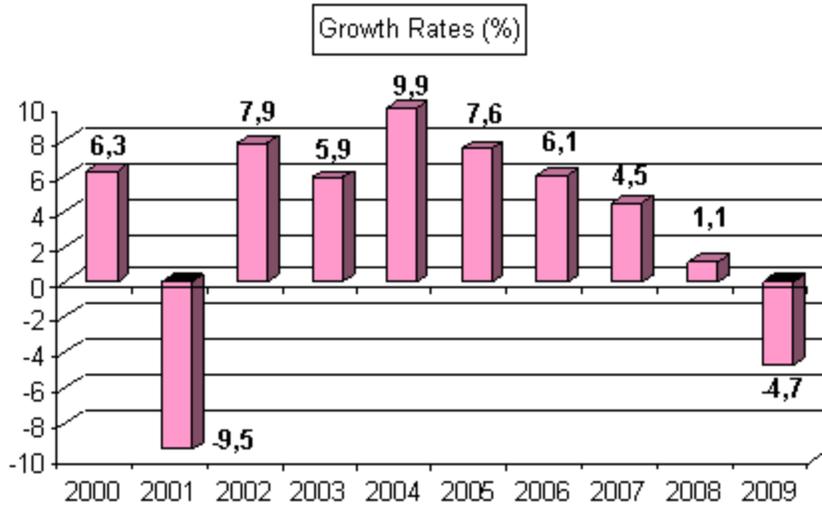
Stock exchange index	64.289,57	68.588,51	6,6868
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	1,21%	9,92%
Consumer prices	1,83%	8,62%

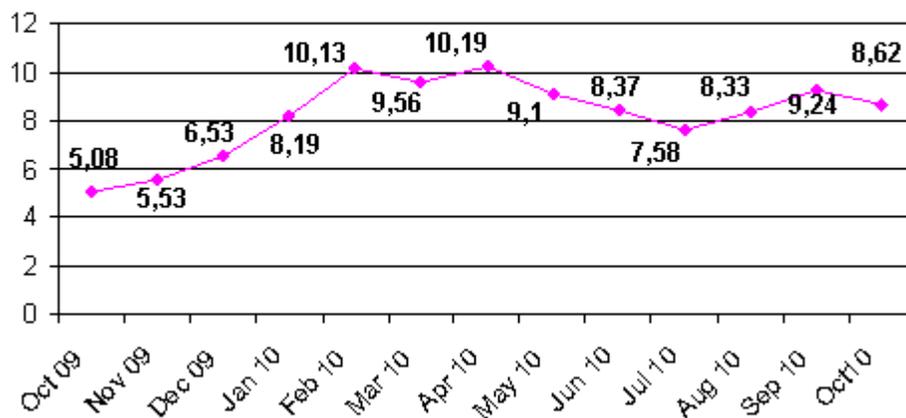
Growth Rates

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	8	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	8.1	4.1	3.3	3.6	4.5
2008	6.7	1.9	0.5	-6.2	1.1
2009	-14.5	-7.7	-2.9	6	-4.7
2010	11,7	10,3			



Annual Inflation's Monthly Development 2009-10 (%)



IMF predicts significantly higher growth for Turkey in 2010

In its World Economic Outlook of October 2010, the International Monetary Fund has corrected its forecast regarding the growth rate of the Turkish economy in the current year from initially 5.2% to a record-breaking 7.8%, while revising the growth expectation for 2011 from 3.6% to 3.8%. The IMF's worldwide forecast predicts 4.8% growth in 2010 and 4.2% in 2011 (but only 2.7% and 2.2%, respectively, in the developed countries). At the same time, this year's inflation projection for Turkey has been reduced from 9.7% to 8.7%, while next year consumer prices are to rise more slowly, by just 5.7%. However, according to the IMF, Turkey's negative current account balance is going to keep deteriorating, from 5.2% of the Gross Domestic Product in 2010 to 5.4% in 2011. Despite substantial improvement over the previous year (14%) the IMF report sees the unemployment rate at a continued high level of 11.0%, which is to drop only slightly in 2011, to 10.7%.

SEPTEMBER - 2010

Turkish Lira considerably over-valued

Recent years have seen the Turkish Lira gain tremendously in value. Since 2003, the Real Exchange Rate Index as calculated by the Central Bank on the basis of the consumer price index increased by 26.95%. Relative to a basket of hard currencies, which account for most of both flight capital inflow and foreign debt of Turkey, the TL even gained by 36.5%. While the government keeps coming out in favour of a "strong" national currency that has the benefit of boosting popular spending power and national growth figures, experts warn of a vicious cycle: The over-valued currency causes imports to soar (+30.5% in the first 8 months of the year alone) and the current account balance to worsen, having a negative impact on the competitiveness and thus the exports of the domestic industry. At the same time, this increases the country's dependence on raw materials and intermediate goods from abroad.

SEPTEMBER / OCTOBER - 2010

Central Bank curbs unchecked rise of Turkish Lira

As anticipated, Turkey's Central Bank has now intervened to absorb surplus liquidity from the market by raising the required reserve ratio for foreign currencies to 11%, and for the local currency to 5.5%. This move is expected to drain liquidity worth US\$1.5bn in foreign exchange and 2.1bn in TL from the market. At the same time, the cancellation of interest payments on the reserve requirement has been extended to the Turkish Lira. This is likely to prompt the banks to increase their loan interest rates, which will act as a brake on consumption. The measures are intended to curb domestic demand, and consequently the demand for imported goods, thus helping to contain the current account deficit.

SEPTEMBER - 2010

New record inflow of foreign flight capital

Considerably more short-term speculative capital from abroad will find its way into Turkey in 2010. Up to and including September the record sum of US\$115.4bn has already flown, primarily benefiting trade at the Istanbul Stock Exchange. The stock portfolio held by foreign investors increased by 17.3% in September, and another 11.5% by mid-October. The increased inflow of "hot money" from outside the country leads to an artificial appreciation of the Turkish Lira, with unfavourable outcomes for the country's export industry and trade balance. The only remedy would be regulatory measures – such as the introduction of some sort of Tobin tax, or a restrictive exchange rate policy – which are rather incompatible with the principles of a free market economy.

Inflow of hot money into Turkey (bn US\$)

	Stock exchange	Government bonds	Bank deposits	Total
2002	3.5	3.6	1.8	8.9
2003	8.7	5.2	3.0	16.9
2004	15.4	13.7	3.7	32.8
2005	33.8	20.4	3.9	58.2
2006	35.1	26.2	4.2	65.4
2007	70.3	31.8	5.0	107.1
2008	27.5	19.9	6.1	53.4
2009	55.6	20.7	7.1	83.4
- Sept. 2010	73.9	31.8	9.7	115.4
Change (%)	2,011	783	438	1,196

OCTOBER - 2010

Turkey's current account deficit rising inexorably

In the IMF database, Turkey ranked 13th among the countries with the highest current account deficit in 2009, with US\$13bn 959mn. According to projections, the country will enter the Top Ten this year with a deficit of US\$38bn 15mn, and continue to climb in the ranking over the years ahead. Turkish government forecasts assume a similar,

though less rapid development: Under the Medium-Term Economic Programme, the deficit is expected to be US\$39.3bn in 2010, US\$42.2bn in 2011, US\$45.1bn in 2012, and US\$47.8bn in 2013. Out of a total of 183 countries included in the IMF World Economic Outlook, 130 – with the United States the front runner – have a negative current account balance. The 10 countries with the largest current account surplus in 2010 will be China (US\$269.9bn), Germany (US\$200.2bn), Japan (US\$166.5bn), Russia (US\$69.8bn), Norway (US\$68.6bn), Switzerland (US\$50bn), Singapore (US\$44.5bn), the Netherlands (US\$44bn), Taiwan (US\$42.6bn), and Kuwait (US\$35.3bn), with China set to further extend its lead in the next few years.

The 10 countries with the highest current account deficit in 2009 and IMF outlook for 2010-2013 (bn US\$)

Rang	2009	2010	2011	2012	2013
1	USA -378.4	USA -466.5	USA -400.4	USA -419.8	USA -465.6
2	Spain -81.2	Spain -71.9	Brazil -65.0	Brazil -76.8	Brazil -80.6
3	Italy -67.2	Italy -58.3	Spain -64.9	Spain -63.7	Australia -64.8
4	France -51.3	Brazil -51.8	Italy -55.4	Italy -55.3	Spain -62.0
5	Australia -43.7	UK -50.3	India -49.9	India -53.8	Italy -54.8
6	Canada -38.1	France -45.7	UK -48.8	Australia -51.5	India -53.4
7	Greece -37.1	Canada -44.2	France -45.5	Turkey -47.5	Turkey -53.1
8	India -35.7	India -44.1	Canada -44.4	France -45.7	France -47.6
9	Brazil -24.3	Turkey -38.0	Turkey -42.7	UK -44.8	Canada -37.8
10	UK -24.3	Greece -33.1	Australia -29.4	Canada -40.9	UK -36.3
(13)	Turkey -14.0				

OCTOBER - 2010

Turkish Stock Exchange hits all-time high

Thanks to the ongoing economic boom, the Turkish stock market continues to fly high. Though the benchmark index of the Istanbul Stock Exchange – the IMKB 100, or ISE 100 – had for the first time ever surpassed the 60,000 point mark only as recently as the beginning of the August, by mid-October it reached the next milestone of 70,000 points. The index made a big leap in the first 8 trading days in October, gaining more than 4,000 points, or almost 6 percent. Overall, the ISE 100 has improved 33 percent since the beginning of the year. In terms of Euro and US dollars, investors chalked up gains of 44 and 41 percent, respectively. If the upswing is to continue as at present, the 80,000 point mark may soon come within reach.

OCTOBER - 2010

Consumption boom helps to relieve Turkey’s national budget

Not only have consumption-minded Turkish consumers invigorated the economy, they have also provided for a 30% increase in revenue from indirect taxes in the first 8 months of the year. Since indirect taxes account for 70% of the total tax revenue and 54% of budget revenues, this significantly helped to ease the strain on the national budget. Although government spending increased by 6.8% on a TL basis, additional

revenues of 20.4% allowed the budget deficit to be cut by more than half (54.1%). The net financing requirements of the Turkish state decreased by 60.5% compared to the same period of the previous year. With 46.2% less money needing to be borrowed, the state was able to repay 103% more of its debt.

OCTOBER - 2010

Politics

Praise and a warning from the head of the IMF

In the eyes of Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, Turkey's economic and financial policy is basically headed in the right direction. On the sidelines of the G-20 Finance Ministers and Central Bank Governors Meeting in Gyeongju, South Korea, the head of IMF voiced his content with the good economic development and low inflation in Turkey. However, he added, in order to ensure sustainable economic growth the government would have to see to it that the current account deficit does not grow too large due to excessive imports. Strauss-Kahn also said that within the scope of the monetary fund's forthcoming reform, Turkey stands a good chance of being offered a seat on the IMF's Executive Board, not failing to mention that the decision in this matter lies with the European Union.

OCTOBER - 2010

Integration debate leaves mark on visit of German President to Turkey

The recent integration debate clearly reverberated in the visit of Germany's new President Christian Wulff to Turkey, only his third official visit so far. Remarkably, in a diplomatic but definite way he seized the occasion to advocate the rights of the Christian minority in Turkey, putting a degree of pressure on his hosts. Wulff became the first German head of state to speak before the Turkish Parliament. In his speech, he addressed the long tradition of German-Turkish relations as well as the topic of immigration to Germany, the shared problem of extremism and terrorism, and current conflicts in the region. He emphasized the need for mutual tolerance and pointed out that just as Islam is a part of Germany, Christianity is also a part of Turkey. President Wulff's visit also took him to the city of Tarsus in Southern Turkey, the birthplace of St Paul the Apostle, where he and his wife attended an ecumenical service. At the close of the visit, Wulff and his counterpart Abdullah Gül jointly laid the foundation stone for a Turkish-German University in Beykoz/Istanbul.

OCTOBER-2010

Suicide attack in the heart of Istanbul

More than 30 police officers and passers-by were injured, some of them seriously, in a suicide bombing carried out at Taksim Square in central Istanbul. The assassin, a young Kurd, was killed when he detonated the explosives he was carrying near a police bus. As with earlier attacks, responsibility for the bombing was claimed by a breakaway faction of terrorist organisation PKK calling themselves the "Freedom Falcons of

Kurdistan” (TAK). The PKK itself, which had announced a ceasefire not long ago, disassociated itself from this act of violence. However, the government asserts that the suicide bomber had been trained by the PKK. Turkish Prime Minister Erdogan declared that his government will crack down on the masterminds of the attack. In this connection he blamed Europe for not sufficiently supporting Turkey in its fight against PKK terrorism. In some European countries, he said, the banned Kurdistan Workers Party continues to operate under the guise of foundations and media.

OCTOBER-2010

Other Topics

International focus on Turkey's oil sector

In Turkey, unprecedented efforts to prospect for petroleum and natural gas – both on land and at sea – are currently underway. An unexpected petroleum find during explorations in a formerly unknown rock stratum has led to a veritable oil rush. State-owned mineral oil company TPAO has already entered into co-operation agreements with multinational oil corporations such as Petrobras, Chevron, and Exxon. In the 5 years ahead, TPAO intends to invest several billion US dollars to drill 500 new oil wells in various parts of the country. News of the upcoming privatisation of TPAO, possibly in 2011, has also boosted interest in the sector.

OCTOBER-2010

Licensing for Turkish wind energy sites coming along slowly

Turkey's Energy Market Regulatory Authority (EPDK) has granted 16 more licenses for wind power plants with a total installed capacity of 919 MW and an investment volume of TL2.5bn. When the first of the tendering procedures required for further licensing are completed, the total licensed capacity will have increased from 3,700 MW to 8,488 MW. Since 1 November 2007, applications for 751 wind energy licenses had been lodged, of which 695 projects totalling 31,268 MW passed the pre-selection procedure. The largest wind energy site in Turkey to date is operated by Zorlu Holding, the country's third-biggest corporate group. The wind farm, which consists of 54 2.5 MW turbines and is located at an altitude of up to 1700 m on the slopes of the Central Taurus mountain range in Osmaniye province, is set to generate 500mn kWh per year, 10% of Turkey's current wind power production. In the same region, Zorlu is building another large-scale plant with an installed capacity of 120 MW.

SEPTEMBER / OCTOBER-2010

Turkey is Number 3 in Europe for patent applications

A record number of applications for industrial property rights have been filed with the Turkish Patent Institute in the first nine months of the year. More than 61,000 patent and 22,500 utility model applications marked an increase of 19.6% and 14%, respectively, over the same period of the previous year. In the words of the Minister for Industry and Commerce, Nihat Ergün, Turkey now ranks among the three leading countries in Europe. As for general inventions, there has been a 9% increment so far, indicating that this year the 11,000 mark will be broken for the first time. The share of local applicants is said to have increased by 19.2% to reach around 55%.

OCTOBER-2010

Number of new car registrations falling again

Data of the European Automobile Manufacturers Association ACEA show that in September the number of new car registrations in Turkey dropped twice as fast as in Europe overall, by 18.6% as compared to 9.2% in the EU-27/EFTA countries. However, as the Turkish Association of Automobile Distributors (ODD) pointed out, Turkey compares favourably looking at the first three quarters of 2010: In the first 9 months 312,403 cars were newly registered in Turkey, 11.2% more than in the same period of

2009, while 10,564,453 new registrations in the EU-27/EFTA countries signified an overall decrease of 3.7%. Behind Germany (-27.5%), France (+0.8%), the UK (+7.8%), Italy (-4.4%), Spain (+16.2%), Belgium (+15.8%) and the Netherlands (+23.7%), Turkey ranked 8th in the number of new car registrations Europe-wide.

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