



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

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Newsletter April 2009

Economy

Overview of Monthly Data

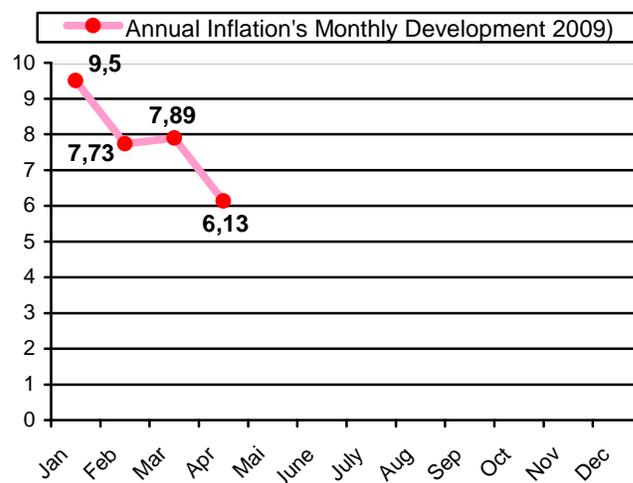
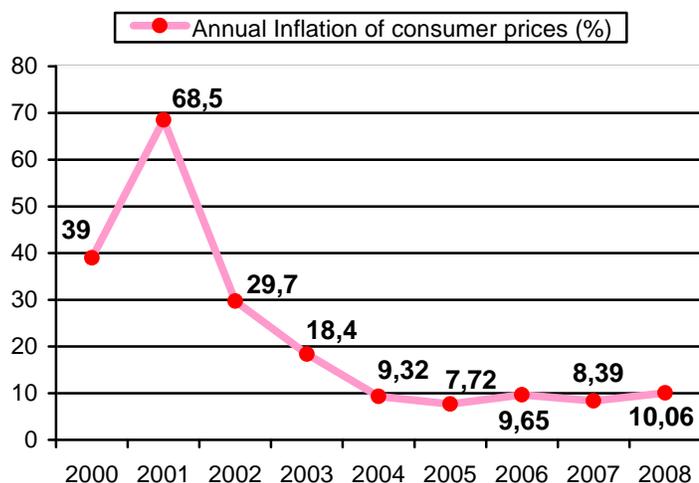
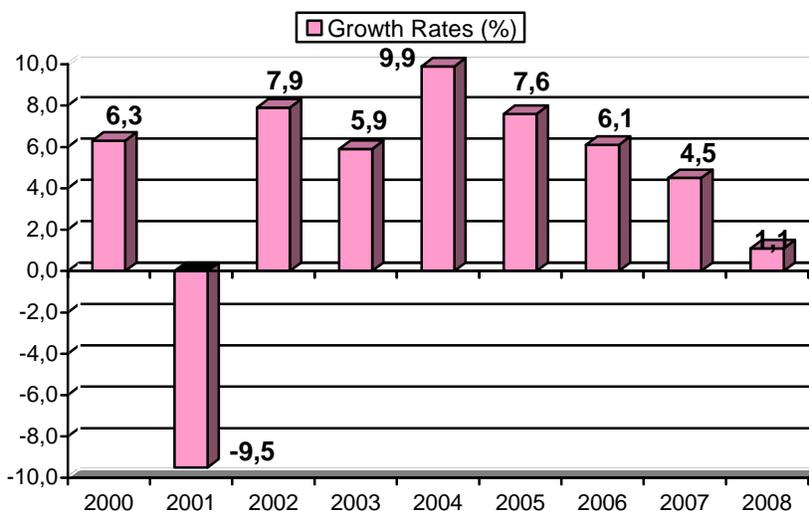
| YTL-Rates | 31.03.2009 | 30.04.2009 | Change in % |
|--------------|------------|------------|-------------|
| YTL pro Euro | 2,2364 | 2,1215 | -5,14 |
| YTL pro USD | 1,6646 | 1,6045 | -3,61 |

| Inflation in % | Monthly inflation | Annual inflation |
|-----------------|-------------------|------------------|
| Producer prices | 0.65% | -0.35% |
| Consumer prices | 0.02% | 6.13% |

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 |



Growth targets scaled back

The persistent crisis has forced the Turkish government to scale down its target of 4% growth in 2009. The revised Pre-Accession Economic Program target will now proceed on the assumption of 3.6% negative growth. The government also expects to rise to 13.5%. Deputy Prime Minister Nazim Ekren has announced a 6th package of economic measures which is to bring the total volume of special subsidies to US\$36.3bn. His government's policy is to create additional incentives for foreign investors without tax increases (as far as possible).

Target figures of the revised Pre-Accession Economic Program

| | 2009 | 2010 | 2011 |
|-----------------|--------|------|------|
| Economic growth | - 3.6% | 3.3% | 4.5% |

| | | | |
|--------------------------------|-----------|------------|------------|
| Unemployment rate | 13.5% | 13.9% | 13.9% |
| Inflation rate | 6.9% | 6.5% | 5.5% |
| Export volume | US\$104bn | US\$111bn | US\$120bn |
| Current account deficit | US\$11bn | US\$18.6bn | US\$26.4bn |
| Foreign trade deficit | US\$34bn | US\$43bn | US\$54bn |

Jobless figures hit new high in Turkey

According to official figures, 3,650,000 people were out of work in Turkey as of January. Thus unemployment ran 2 percentage points above government forecasts, reaching a new record high. With an unemployment rate of now 15.5%, Turkey ranks worst among the OECD countries. The unofficial real unemployment rate has reached 24.1%, even though the number of employed persons has remained virtually unchanged (see table).

Employed person according to sectors

| Sector | January 2008 | | January 2009 | |
|---------------|---------------------|----------|---------------------|----------|
| | Number | % | Number | % |
| Agriculture | 4,083,000 | 20.6 | 4,342,000 | 21.8 |
| Industry | 4,427,000 | 22.4 | 4,111,000 | 20.7 |
| Construction | 1,029,000 | 5.2 | 990,000 | 5.0 |
| Services | 10,259,000 | 51.8 | 10,429,000 | 52.5 |
| Total | 19,798,000 | | 19,873,000 | |

Single-digit overnight interest for first time ever

The Monetary Policy Committee of the Turkish Central Bank has lowered the overnight rates to 9.5%, chopping 0.75 percentage points. Thus overnight interest dropped to single digits for the first time since 1986, the year overnight lending was introduced to the Turkish market. This measure is intended to stimulate the economy, while cautious further interest rate cuts are not being ruled out.

VAT cut proves an instant success

The reduction of value added tax on motor vehicles, from 18% down to 8% (limited to the 1st quarter of 2009) has proved successful. According to the Turkish Automotive Industry Association, passenger car sales in March already improved by 180% over the previous month, while for light commercial vehicles the increase amounted to around 100%. This was enough to prevent the market from collapsing. In view of massive drops in production and exports of the automotive sector, by 59.4% and 56%, respectively, it can be regarded as good news that the market has contracted by only 22.3%, for passenger cars even by a mere 7.6% over the previous year.

IMF forecast bleak

The worldwide recession will last long and strike fiercely and recovery after the crisis will take place very slowly. The International Monetary Fund (IMF) is drawing this disheartening conclusion in its latest "World Economic Outlook". And the economic forecast for Turkey does not look very

bright either. According to the IMF analysis, this year will bring negative growth of 5.1%, and only 1.5% growth can be expected for 2010. By contrast, the Turkish government had anticipated a negative growth of 3.6% in 2009, and 3.3% growth in 2010. In terms of consumer inflation, the IMF forecast for the present and the next year reads 6.9% and 6.8% respectively. The analysts also predict a current account deficit for Turkey of 1.2% and 1.6% (resp.), of its gross domestic product.

Politics

Suspense building before the 1st of May

Just like every year, the Turkish labor union syndicates want to celebrate May Day in Taksim Square in Istanbul. The city's largest square has symbolic power for the workers' movement since the carnage of 1977, when 34 people were randomly killed by security forces opening fire on the crowd. Never again did the authorities permit the rally to take place in Taksim Square, which has been the regular scene of violent clashes between demonstrators and the police. On the other hand, the government proclaimed the 1st of May a public holiday for the first time since 1978.

Renowned government critics arrested

Within the scope of investigations due to an alleged conspiracy to overthrow the government, another wave of arrests has taken place. Among those arrested were both active and retired rectors of several universities. In addition, offices of the Kemalist "Society to Support a Modern Lifestyle (CYDD) and the "Foundation for Contemporary Education" (CEV) as well as the residences of leading members were searched. Numerous persons were indicted, among them Tijen Mergen who is in charge of the campaign "Daddy, send me to school" that promotes the schooling of girls. Incidentally, she is also member of the executive board of Dogan Media Group which is critical of the current government. The temporary arrest of seriously ill CYDD founder-president Prof. Türkan Saylan, an internationally acclaimed leprosy expert, caused a public outcry.

Turkish entrepreneur' associations disquieted about Ergenekon investigations

The liberal entrepreneurs' associations TÜSIAD and TÜRKONFED expressed their disquiet at the recent arrests associated with the investigation against the alleged Ergenekon group of conspirators. The president of TÜSIAD, Arzuhan Dogan Yalcindag, stated that her association had initially welcomed the crackdown, hoping that it would shed a light on coup ambitions and unsolved violent crimes. In the meantime, however, there were widespread concerns in the general public regarding the scope of the investigation and the way potential suspects are treated. The latest wave of arrests, she said, targeted civil society organizations which many TÜSIAD members support with their donations. The task before us now is to see that those organizations are exonerated and able to continue their valuable work. Celal Beysel, president of TÜRKONFED, deplored that society was increasingly falling into camps, saying that the Prime Minister failed to prevent this.

"Turkish Armed Forces were never antireligious"

In a keynote speech delivered at the Military Academy in Istanbul, the Turkish Chief of Staff, General Ilker Basbug, stated that the Turkish Armed Forces are in no way antireligious, and that

the country's founding father, General Mustafa Kemal Atatürk, was not either. Attempts to portray the armed forces as opposed to religion, he said, are irresponsible and an assault on the memory of Atatürk. However, Basbug stressed that the military are stout defenders of the principle of laicism, that is, the separation of state and religion, and strictly opposed to the misuse of religion for political ends. There must be a response against anti-secular activities, but within the scope of democracy and the law. In his speech, Basbug also elaborated on the Kurdish issue. Neither the Ottoman Empire nor Atatürk's republic, he said, had practiced anything that could be termed assimilation policy. But in the fight against PKK terrorism one must not neglect the underlying socio-economic and cultural causes.

Chief of Staff cautions the media

In connection with the discovery of a weapons and ammunition stash outside the village of Poyrazköy, north of Istanbul, Turkish Chief of Staff Ilker Basbug cautioned the media against drawing rash conclusions. At a press conference dubbed "communications encounter", the armed forces commander-in-chief complained about incorrect information disseminated by the media. Contrary to assertions, the place where the weapons were found was not in an area solely accessible to military personnel. Aside from that, none of the weapons discovered were registered in the inventory of the Turkish Armed Forces, said the general.

Obama leaves a good impression

During his first official visit to Turkey, US president Barack Obama visited Ankara and Istanbul. The visit was carried out in a thoroughly positive climate. Obama reaffirmed the friendship between the two allied countries and emphasized the importance of a democratic Turkey for stability and peace in the Middle East and Southern Caucasus. The United States, he said, wishes for a partnership with the Islamic West, and wants Turkey to help build bridges where there were walls before. The USA also regards Turkey as a crucial economic partner, and strongly advocates Turkey's membership in the European Union. On a number of occasions Obama voiced his reverence for Mustafa Kemal Atatürk.

"We will avoid anything that would aggrieve Azerbaijan"

State minister and government spokesman Cemil Cicek deplored distorted press reporting about the normalization process between Turkey and Armenia. It is unthinkable, he said, that Turkey would take any steps jeopardizing Azerbaijan's national interests. Due to the brotherly ties with its neighbor Azerbaijan, Turkey will avoid anything that could possibly aggrieve that country.

Terrorism claims new lives

In the southeastern part of Turkey another bloody attack on the security forces was carried out. On a road in Lice district (Diyarbakir province), 7 privates and 2 non-commissioned officers were killed when the military vehicle carrying them hit a mine. The day before, a soldier had been shot and killed in an ambush in Semdin (Hakkari). In Ankara police managed to foil an attempted suicide bombing at the last minute – a young woman apparently wanted to blow herself up next to former Minister of Justice Hikmet S. Türk.

Other Topics

Arcelik remains best-known Turkish brand

For the 15th time, market research company Nielsen has conducted its annual brand awareness survey in Turkey. Just like in the past 10 years, white goods and electronics manufacturer Arcelik, a Koc Holding company, turned out to be Turkey's best-known and most popular brand by far. 21.3% of respondents named Arcelik the first brand coming to their minds, while Adidas trailed in second place with 8.6%.

Sabanci continues to rely on its retail business

Sabanci Holding's retail division is becoming the company's biggest mainstay. Its strongest assets are CarrefourSA, a joint venture with Europe's largest retailer, the French Carrefour group, and its own consumer electronics chain TeknoSA. In the newly built Neomarin Shopping Center in Pendik/Istanbul, CarrefourSA branch no. 163 – the group's 23rd hypermarket nationally – and TeknoSA store no. 225 were now inaugurated. At the opening ceremony, Sabanci chairwoman Güler Sabanci said the division aims for a double-digit sales growth in 2009. The sales targets are TL2.6bn for CarrefourSA and TL1.2bn for TeknoSA. Within the scope of this expansion move, 2,500 new jobs are expected to be generated at CarrefourSA, and 1,000 more at TeknoSA.

Energy industry full of energy

The Turkish energy industry continues its expansion course: Akfen Construction is set to invest US\$222mn into new hydroelectric power plants. The corporation just signed an agreement with a consortium of banks for a loan covering three quarters of the investment volume. On the other hand, Borusan Holding and EnBW AG aim to strengthen their market position with a capital expenditure of US\$2.5bn by the year 2020, in particular in the area of renewable energy sources. And the Agaoglu Energy Group intends to invest an even larger sum, US\$6bn, to extend its production capacity to 5,000 MW. In this endeavor, the company is seeking to cooperate with an adequate foreign partner.

Turkey's export hit no. 1: fruit & vegetables

Exports of fresh fruit and vegetables from Turkey continue to flourish. In the first quarter of 2009, exporters had cause to rejoice at an overall increase of 13% over the same period of the previous year. Exchange gains of both Euro and US dollar against the Turkish Lira contributed much to this increase. Exports to the neighboring countries of Bulgaria (+ 214%) and Iraq (+ 124%) soared, while other markets receded. Meanwhile the industry's trade associations cautioned that a high level of harmful substance residue in some Turkish fruit and vegetables constitutes an issue yet to be resolved. They called on the state to perform stricter controls in order to avoid export obstacles.

Exports of fresh fruit and vegetables (\$US million)

| Exports to | 2008 | 2009 | Change (%) |
|-------------------|-------------|-------------|-------------------|
| Russia | 142.7 | 155.0 | + 8.6 |
| Iraq | 34.9 | 78.2 | + 124 |
| Germany | 76.4 | 71.4 | - 6.5 |
| Bulgaria | 19.8 | 62.4 | + 214 |

| | | | |
|---------|------|------|------|
| Romania | 53.2 | 39.9 | - 25 |
| Total | 660 | 746 | + 13 |

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