



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

If you know anyone else who would be interested in receiving this free service, please send their email address to newsletter@fmconsulting.info and we'll add them to our distribution list. Alternatively, please feel free to forward this newsletter to them directly.

We welcome your feedback on this Newsletter or any aspect of the services we offer. Please email your thoughts and comments to: info@fmconsulting.info.

Best regards,

Your FMConsulting Team

Newsletter August 2009

Economy

Overview of Monthly Data

YTL-Rates	31.07.2009	31.08.2009	Change in %
YTL pro Euro	2.0878	2.1380	2.40
YTL pro USD	1.4841	1.4900	0.39

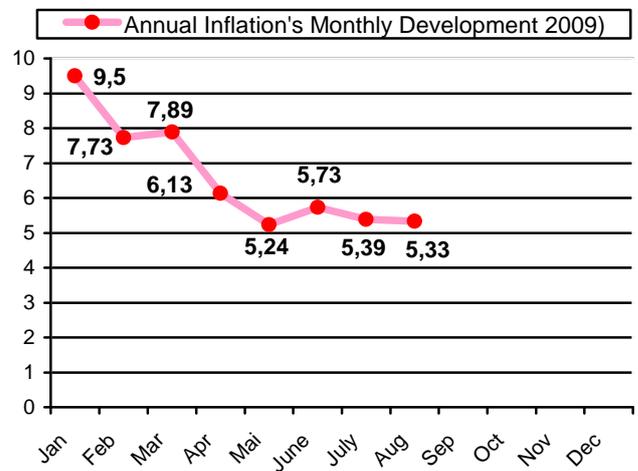
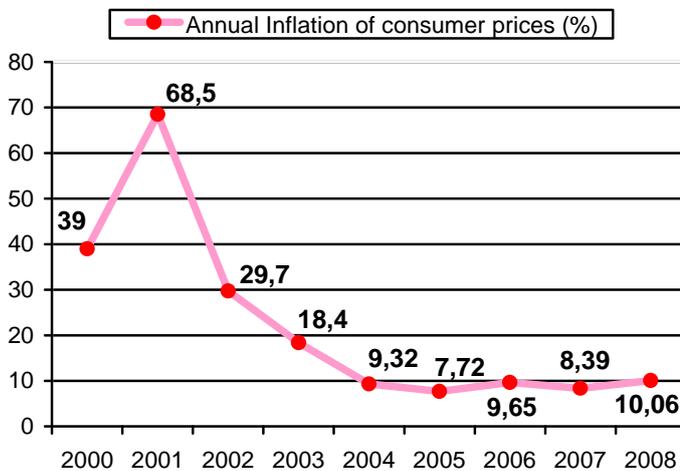
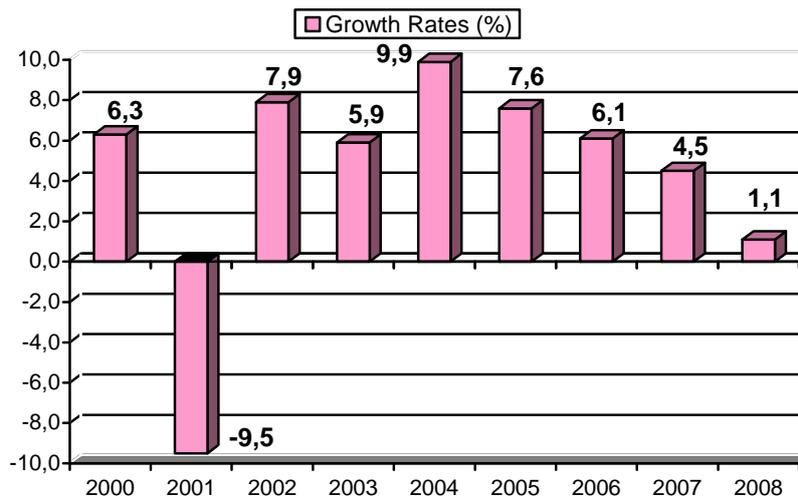
Stock exchange index	42,641	46,551	9.17 %
----------------------	--------	--------	--------

Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.42%	-1.04%
Consumer prices	-0.3%	5.33%

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	-13,8				



Istanbul Stock Exchange riding the wave of success

The World Federation of Exchanges (WFE) is reporting a positive trend. 52 of the 61 stock exchanges associated with the organization registered growth in the first half of 2009. With a gain of 37.54%, the Istanbul Stock Exchange (IMKB) performed very well, ranking 11th among the world's most successful exchanges. The ranking is headed by the Peruvian stock exchange, followed by the share markets of China and South Asia. By contrast, traditional stock exchange centers such as Zurich, Frankfurt, and London continued to run a deficit.

Performance of stock exchanges around the world (selection, 1st half of 2009)

Rank	Name of exchange	Change in%
1	Bolsa de Valores de Lima (BVL)	+ 85.28
2	Shenzhen Stock Exchange (SZSE)	+ 73.91
3	Shanghai Stock Exchange (SSE)	+ 62.33
4	Colombo Stock Exchange (CSE)	+ 61.82
5	Bombay Stock Exchange (BSE)	+ 52.69
11	Istanbul Menkul Kıymetler Borsasi (IMKB)	+ 37.54
56	London Stock Exchange (LSE)	- 1.68
57	Frankfurt Stock Exchange (FWB)	- 3.23
58	Malta Stock Exchange (MSE)	- 8.37
59	Swiss Stock Exchange (SIX Swiss)	- 15.75
60	Nordic Exchange Iceland (OMX)	- 21.90
61	Bermuda Stock Exchange (BSX)	- 31.84

Turkish industry beginning to see the light

Over the past three months, positive signs in Turkey's industrial sector have been increasing. In the period May to July, production volume, domestic sales and export orders gained considerably, while costs decreased. The mood of the manufacturing industry is also starting to be more optimistic. In Central Bank's monthly poll on the economic trend (July), only 18.1% of the enterprises surveyed were pessimistic about the prospects in their line of business, compared to 65.9% in October 2008. 24.7% were even outright optimistic, as against 3.9% nine months ago.

Turkish Central Bank resumes foreign exchange buying

As from August 4, Turkey's Central Bank has resumed the practice of holding auctions for the purchase of foreign exchange. This instrument of monetary policy had been abandoned in October 2008. The volume of foreign exchange purchases is now limited to US\$60mn per day - US\$30mn through auctions and US\$30mn in options. With this change in policy, the Central Bank responded to longstanding demands by the exporting community. The Turkish Exporters' Association TIM called the move a small but significant step in the right direction. TIM is seeking to achieve a competitive US-dollar exchange rate in the region of TL1.55-1.60.

Increasing number of bank customers unable to repay loans

The crisis has resulted in what must be called a dramatic increase in the number of loans that borrowers have become unable to service. Since September 2008 the total amount of loans for which coercive measures have been initiated to collect them increased by 61.62% to reach TL18.6bn. On the other hand, the volume of cash loans granted by banks dropped by 3.45%.

Germany terminates tax treaty with Turkey

The German government has unilaterally terminated the Agreement between the Federal Republic of Germany and the Republic of Turkey for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital of 16/04/1985, which had been in effect since 1990. Germany's Minister of Finance, Peer Steinbrück, said his government had determined a lack of responsiveness and interest on the part of Turkey to renegotiate the tax treaty. The termination will be effective as from 01/01/2011. According to the Federal Ministry of Finances, notice of termination has been given this far in advance to give enough time for new treaty negotiations and to ensure that German companies investing in Turkey benefit from legal certainty. According

to the Turkish side, negotiations are still continuing. The business community fears that the termination of the treaty will have a negative impact on the commercial relations between the two countries.

Germany is largest direct investor in Turkey

According to data provided by the Turkish Agency for the Promotion of Trade, Industry and Investments, ISPAT, there are currently 22,250 foreign enterprises conducting business in Turkey, of which 12,199, or 54.8%, are from EU countries. Germany has by far the largest share, with 3,806 companies, followed by the U.K. (2,110) and the Netherlands (1,721). About half of the German companies in Turkey have just been established in the past 3 years. In 2008, around €881mn have flowed from Germany to Turkey – 1315 percent more than in 2002. This development has been facilitated by the investor-friendly reforms carried out in recent years, extensive tax breaks, and new incentive systems implemented by the Turkish government. Turkey is also set to become an increasingly attractive sales market in the future.

Babacan: Turkey's priority is its economic program

State Minister Ali Babacan, who is in charge of the economy, has stated that his government's priority is on drawing up a medium-term economic program. While a new borrowing agreement with the IMF would be helpful to some extent, it would not suffice by itself. Turkey itself, said Babacan, must determine which future measures to take. Thanks to the host of preventive instruments available to the government, there is no longer a risk of deflation, he asserted. However, particular attention needs to be given to inflation, which must be kept in single digits permanently.

Politics

Erdogan intensifies dialog with representatives of Kurds

In his capacity as leader of the ruling party (AKP), Turkey's Prime Minister Recep Tayyip Erdogan met with a delegation of the Kurdish party DTP, which also holds seats in parliament. Both the premier and his dialog partners expressed their views with the one-hour meeting. Erdogan said that both sides have found new hope for the future and will continue to take concrete steps to promote the policy of openness towards the Kurds which he initiated. DTP chairman Ahmet Türk acclaimed the government's willingness for dialog, pointing out that both sides bear responsibility for the process of finding a solution to the Kurdish issue. On the other hand, nationalist circles criticized that the DTP is not an acceptable negotiation partner as long as does not explicitly denounce PKK terrorism. Meanwhile Turkey's National Security Council endorsed the continuation of the open policy.

Historic economic cooperation between Russia and Turkey

At the invitation of his Turkish counterpart Erdogan, Russian Prime Minister Putin came to Ankara to negotiate a number of trade agreements of strategic importance. The main focus was on energy issues, in particular with the transport of petroleum and natural gas from the Russian Federation to and through Turkey. Following what Putin called "tough negotiations", the two countries signed a

total of 20 agreements concerning, inter alia, the construction of new and the extension of existing pipelines, e.g. “Blue Stream 2”, as well as cooperation in the field of nuclear power. The signing ceremony was also attended by Italian leader Silvio Berlusconi, whose country is involved in the pipeline projects.

Customs agreement with Russia caught in red tape

The implementation of the new customs agreement, signed by Turkey and Russia on the occasion of Prime Minister Putin’s visit to Ankara, has not proved successful. The agreement provides for speedy processing of Turkish goods to be imported to Russia, with the convenience of any required paperwork being dealt with in advance in a computerized way. Evidently, however, the new procedure is still caught in red tape and is not yet being implemented in practice. Therefore, the Turkish Association of International Shippers (UND) called for re-negotiation of the agreement.

Death of 4 recruits was no accident

4 soldiers were killed in an explosion in an army camp near Elazig in Southeastern Turkey. However, as it turned out, this was not a tragic accident, as the official version would have it, but rather the result of an exceptionally cruel punishment. To “discipline” a conscript who had fallen asleep on his watch, his commanding officer made him hold on to a hand grenade, after having removed the safety pin. Apparently the recruit was not aware of the lethal danger, and after some time he dozed off again. As soon as he let go of the safety lever the grenade exploded, ripping him and three fellow soldiers apart. This scandalous incident has triggered a public debate regarding the training methods of the Turkish army.

Other Topics

Turkish retailers association relies on new shopping centers

According to a study carried out by Turkish non-food retailers association BMD, between 2009 and 2012, 112 new shopping centers are to add to the 217 existing countrywide. 96 shopping centers with a leasable area of 3.8 million square meters are expected to open in the current and the coming year. According to BMD chairman Ekrem Akyigit, leases for some 2,000 of the more than 10,000 newly created retail units have already been signed by member businesses. Akyigit also pointed out the issue of vacancy, which he said depends on a number of factors including a lack of professionalism in the marketing of the rental property.

Ban on smoking jeopardizes Turkish coffeehouse culture

The strict ban on smoking in the public sphere which has recently been extended to all venues is meeting with fierce resistance by Turkish coffeehouse, cafe and restaurant operators. Representatives of the concerned professional organizations claimed that 60,000 venues in Istanbul alone are threatened by closing, with patrons staying away. A quarter of a million jobs, they say, are in imminent danger. The affected industry is calling for the ban to be handled more flexibly. Otherwise they see the Turkish coffeehouse culture, which has played an important role in society since Ottoman times, as doomed to vanish.

Hyundai to build new compact car in Turkey

Korean carmaker Hyundai is possibly going to build its new i20 compact car in Turkey. The successor to Hyundai's success Getz model is currently being built exclusively in India. In parallel with the car's launch in Europe, the company is now looking for a manufacturing location affording accessibility of the EU market. Provided appropriate assistance from Ankara, Turkey stands every chance of attracting this 200-million-Euro investment. The Czech Republic and Slovakia are regarded as Turkey's main competitors for this deal.

Explosion of profits for Turkish banks

As opposed to many banks in other parts of the world, Turkey's banks have emerged strengthened from the crisis. In an analysis of the interim financial statements of privately-owned banks in the first half of this year, the economic newspaper "Dunya" assessed that their profitability increased by 28.86% over the same period of 2008. Total profits soared to TL7,929bn, from TL6,153bn in the first half of 2008. According to their unconsolidated balance sheets, Garanti Bankasi, Is Bankasi and Akbank were the top earners. Denizbank and Finansbank posted the largest gains, while Albaraka, Fortis and TKB made less profit than in the year before. In total, the banks' assets rose from TL493bn to TL567bn, while the volume of granted loans increased from TL282bn to TL300bn, and deposits reached TL358bn, over TL308bn in the same period of the previous year.

The 10 most profitable banks in the 1st half of 2009 (profit in million TL)

Garanti Bankasi	1,415
Is Bankasi	1,370
Akbank	1,348
Yapi Kredi	923
Halkbank	787
Vakifbank	595
Finansbank	527
Denizbank	265
Bank Asya	142
TEB	139

Tourism revenues drop despite growing number of tourists

In the first 7 months of the year, the number of foreigners coming to Turkey to spend their holidays has increased by 1.1% over the same period of 2008, to reach about 15 million. However, the stronghold of the Turkish hospitality industry – the Antalya region – registered 6% less visitors. At the same time, tourism revenues dropped by approximately 10% due to the general deterioration of prices induced by the crisis. In terms of the entire year, this translates into a decline in sales amounting to some US\$2bn. The relevant industry associations call for improved planning and coordination in order to be able to counter this development. They also propose that special emphasis is placed on services with a high added value, in particular health and wellness tourism.

Foreign Market Consulting Ltd. Sti. does not give any guarantee with respect to the correctness of individual figures and statements.

FOREIGN MARKET CONSULTING Ltd. Sti. is a German-Turkish consulting company. We specialize in providing competent consultancy services for foreign companies towards opening up to Turkish market, lastingly consolidating the market position and concluding strategic alliances between foreign and Turkish companies. If you need further information, please do not hesitate to contact Mr. Peter Heidinger.

Our Services:

- Market Research
- Business Partner Search
- Outsourcing Projects
- Company Foundation
- Recruitment Projects
- Employee Administration
- Marketing Activities
- Sales Support
- Office Services
- Management
- Financial Services

In a joint-venture with **SPRINGER&JACOBY**, Foreign Market Consulting offers a complete range of marketing services:

Our Services:

- TV commercials
- Radio spots
- Press and magazine ads
- Direct marketing
- Point of purchase/sales materials
- Catalogues, brochures

FOREIGN MARKET CONSULTING Ltd. Sti.

Managing Director: Peter J. Heidinger

Address:

Koybasi Cad.
Keresteci Z. Sok. 28
34464 Yenikoy-Istanbul
Turkey

Telephone: +90-212-36 38 052

Fax: +90-212-36 38 056

E-Mail: info@fmconsulting.info

Internet: www.fmconsulting.info

SPRINGER&JACOBY Reklamcilik Ltd.Sti. Istanbul

Managing Director: Yesim Tektasli

Address:

Koybasi Cad.
Keresteci Z. Sok. 28
34464 Yenikoy-Istanbul
Turkey

Telephone: +90-212-36 38 010

Fax: +90-212-36 38 522

E-Mail: istanbul@sj.com

Internet: www.sj.com

This newsletter is for general information purposes only. The views expressed in this newsletter are not necessarily those of Foreign Market Consulting Ltd Sti. Foreign Market Consulting Ltd Sti has taken all reasonable measures to ensure that the material contained in this newsletter is correct. However, Foreign Market Consulting Ltd Sti gives no warranty and accepts no responsibility for the accuracy or the completeness of the material. Readers are advised not to rely solely on this information when making any decision. Readers should seek independent advice before making any decision. Foreign Market Consulting Ltd Sti reserves the right at any time to make changes as it deems necessary.