

FOREIGN MARKET CONSULTING



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Today you are receiving our latest newsletter about recent economic and political developments in Turkey.

We would like to hear your opinions about our newsletter and about any important issues that you would like to draw our attention to. In addition, we will be pleased to inform you about the services of Foreign Market Consulting.

If you know any other people that would be interested in this free service, please forward this newsletter to him/her or provide us with the e-mail address of the interested person (to newsletter@fmconsulting.info), so that we can include him/her in our distribution list.

Best regards,

Your FMConsulting Team

Newsletter May 2006

Economy

Overview of monthly data

YTL-Rates	1.5.	31.5.	Change in %
YTL per Euro	1.6586	1.9843	19.6
YTL per USD	1.3218	1.5442	16.8

Stock exchange index	43,880.43	37,860.80	-13.7
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	2.77	7.66
Consumer prices	1.88	9.86

(*Dünya/DİE 4.5./1.5./3.6.06*)

Foreign trade figures

Export	April	Mai 2005 - April 2006
Export (in Billion USD)	7.3	76.4

(*Dünya, 2.6.06*)

In Million USD	März		Increase in %
	2005	2006	
Export	6,128	5,754	-6.1

Import	9,595	10,954	14.2
Deficit	-3,467	-5,200	50.0

(www.die.gov.tr)

Stock Index dropped by %13.7, Euro exceeded 2.00 YTL

The sales reaction initiated by foreigners last week due to reduction of fund flow to developing markets caused a sharp increase in F/X prices. Sales by foreigners exiting YTL based investment instruments such as shares and bonds and heading towards the purchase of dollar amounted to 5.5 billion dollars in just one week. Stock index devalued by %13.7 in a month and declined to its lowest level since November 2005. Dollar quotations in Interbank market rose to 1.58 YTL and reached its highest level since May 2003. Dollar/YTL rate fell down later to 1.56 level. Euro rate increased to 2.0360 YTL and experienced its historical peak. The interest rates also reached the top level of the year with 17.15%. (Dünya 16./23.5./1.6.2006)

Banks are resistant against fluctuations

The President of BDDK Tevfik Bilgin said "Our banks are more efficient than never before and resistant against fluctuations. Therefore we are very confident". Bilgin also stated that the open position fell to 7 billion from 9 billion dollars the previous week. (Dünya 27.05.2006)

The Central Bank emphasized its sovereignty and raised interest rates by 1.75 %

The appointment of Durmus Yilmaz as the Chairman of the Central Bank pleased the business world. The business world made very positive comments about the appointment pointing out that Yilmaz has been working for 26 years at the Central Bank and that an ambiguity has disappeared with this appointment. The Chairman of the Central Bank Para Durmus Yilmaz in his one sentence statement about the fluctuations in money markets at the end of May said, "exchange regime is determined with the government however its execution is directly under our bank's authority and responsibility". The Central Bank opted to intervene in the rapid increase in dollar rate by stopping foreign exchange purchase tenders instead of directly entering the market. The experts and business world supported the decision of the Central Bank by stating that the mobility in the market will soon come to an end. However, the Central Bank reacted to the movements in the exchange rate and increase in inflation by increasing the interest rates by 1.75 points i.e. from 13.25% to 15% on June 8. (Dünya 20.4./16./25.05./8.6.2006)

IMF pointed to the increase in expenditures, foreign trade deficit and the most expensive gas in the world; growth is expected to be 6%

In the World Economic Outlook report published by the IMF, Turkey's current high deficit was indicated as the main risk for the economy. It was also stated that the most expensive gas in the world is sold in Turkey and the highest fuel tax is being levied in Turkey as well. The IMF also commented on the increase in budgetary expenditures in May and asked for a precautionary package amounting to 4.5 billion YTL. Accordingly, the health expenditures will be curtailed and the unspent items in the budget will be transferred to the deficit. It is expected that the growth figure for 2006 of 5% will be 6% by a one point increase and the ratio of current deficit to GDP determined as 5.8% will reach 7%. (Dünya 20.4./23.05.2006)

Confidence for Turkey increased

"We are now ranking 13th in the world investment map by jumping 16 places"

In the "Foreign Investor Confidence Index", carried out by US investment consultancy firm AT Kearney which reveals the country choices of investors, Turkey

at 29th rank last year ascended 16 ranks and is now at 13. Turkey , ranking 7th among the most trusted countries of European investors, did not enter the confidence ranking of US investors. The investors stated that Turkish market became 19% more optimistic in the last year. (*Dünya 09.05.2006*)

38.7 billion YTL tax evasion has occurred in 2005

The tax examinations of inspection units of Ministry of Finance in 2005 revealed that for each 100 YTL earning being taxed in the country 119 YTL has not been paid, meaning 54.23% of real earnings have been not been declared. The warnings of tax offices from 2005 onwards did also not work and there was an increase of 8.5% in tax loss and evasion. (*Dünya 2.5.06*)

The increase in unemployed figures continues

The unemployment rate as of January was 11.8%. The number of employed in January increased by 19,000 whereas the number of unemployed increased by 102,000. Official figure of unemployed increased from 2,697,000 to 2,799,000. The number of people employed in agriculture decreased by 1,085,000 where the number of people employed in other sectors increased by 1,104,000. (*Dünya 26.4.06*)

The board of a JSC can be comprised of a single member

According to the draft of Turkish Commercial Code discussed at TBMM Justice Sub-Committee the board of joint stock companies can be comprised of a single member. According to the adopted articles of the draft, the existing provision stating that the board should comprise of at least 3 members will be abandoned and through harmonization with EU legislation, boards with just 1 member will be enabled.

(*Dünya 13.4.06*)

Politics

Negotiations with EU start on June 12

According to "EU News" internet site an important decision was taken during the meeting of EU Ministers of Foreign Affairs in Austria. Sources providing information to the internet site said the final decision will be taken on June 12 at the Council Meeting of EU Ministers of Foreign Affairs to convene in Luxembourg. If decision is taken actual negotiations will start under the "science and research" heading during the Turkey -EU Accession Council Meeting to be held on the same day. (*Dünya 30.05.2006*)

Ecevit's condition is critical

Former Prime Minister and Honorary Chairman of DSP Bülent Ecevit has been operated on at Gülhane Military Medicine Academy (GATA) after suffering from apoplexy. Currently hospitalized at GATA, Ecevit's condition is still serious. (*Dünya 20.05.2006*)

Germany's support will continue

Prime Minister Erdogan had a meeting with German Chancellor Merkel at the Prime Ministry building which lasted one hour. Speaking during the joint press conference held after the meeting Erdogan stated that the meeting covered political, commercial, economical, cultural and regional issues. Erdogan mentioned the issue

with highest priority in his agenda is the relations with the EU. He said Germany had always been on Turkey 's side and that he believed Germany 's support would continue. Furthermore, he explained that Germany is one of Turkey 's most significant partners in terms of politics, culture and economy and also the most significant investor country. Meanwhile Merkel emphasized that she fully agreed with Erdogan with respect to EU related and international current issues and that Turkey contributes to inter-cultural dialogue. (*Dünya 27.05.2006*)

Further Topics

AB approved TSE's CE mark

The auditors of the European Accreditation Institution have approved TSE providing the CE mark and that they will submit their report to European Commission. Following this announcement of TSE by EU Commission as an accredited institution the business world will be relieved of the burden to go to European countries for obtaining the CE mark. (*Dünya 20.05.2006*)

German DZ Bank is in Turkey

German finance group DZ opened a representative office in Turkey. Turkey representative Ata Murat Kudat stated that the opening of an office in Istanbul is just the first step and DZ Bank's activities in Turkey can be diversified to include establishing, acquiring and participating in a bank. (*Dünya 2.5.06*)

Action plan for tourism sector

The downfall experienced in the tourism sector in the past 3 months has activated both the ministry and the sector. A four-phased action plan has been formed for stimulating tourism during the meeting the ministry and sector held in tourism week. The Capital of Culture saved the day for tourism in the first quarter. The number of tourists decreased by 39% in Antalya in the first quarter and increased by 11.6% in Istanbul. (*Dünya 17.4.06*)

Vestel Beyaz (active in White Goods) raised 124 million USD

Vestel Beyaz Esya earned public offering revenue of 124 million dollars. Of 52 million shares offered to public 36.4 million were sold to 25 corporate investors resident abroad. The remaining 15.6 million shares were allocated to small individual investors in Turkey. The public offering brought in 124 million dollars for Vestel. (*Dünya 15.4.06*)

47% of the Turkish private banks are directed by banks belong to foreigners

Foreign capital is in a position to directly control the management of 31% of the Turkish banking system. This ratio is 46.90% in private sector banks. The agreements of Oyakbank and Sekerbank with foreigners will increase the control by foreigners in private sector to 51%. As no domestic bidder is expected, the privatization of Halkbank and Ziraat will increase the share of foreigners. Influence of foreigners in the system will exceed 70%. Foreigners have at least 50% influence in 7 out of 13 largest banks in the system. (*Dünya 01.06.2006*)

Denizbank sold to Dexia

75% of Denizbank was sold to Dexia with Belgium-French capital for 2,437 million dollars. So Zorlu Holding left the banking sector. Dexia Member of Board Xavier De Walgüe said that they have confidence in Turkey and the Turkish market. (*Dünya*

01.06.2006)

SOME ECONOMIC INDICATORS OF TURKEY

		Jan	Feb	März	April	Mai	Juni	Juli	Aug	Sep	Okt	Nov	Dez
Monthly inflation producer prices (%)	2004	2.63	1.64	2.1	2.65	-0.03	-1.05	-1.52	0.79	1.85	3.23	0.75	0.13
	2005	-0.41	0.11	1.26	1.21	0.2	-0.48	-0.74	1.04	0.78	0.68	-0.95	-0.04
	2006	1.96	0.26	0.25	1.94								
Annual inflation producer prices (%)	2004	10.76	9.14	7.97	8.91	9.56	10.53	9.44	10.52	12.5	15.48	14.4	13.84
	2005	10.7	10.58	11.33	10.17	5.59	4.25	4.26	4.32	4.38	2.57	1.6	2.66
	2006	5.11	5.26	4.21	4.96								
Monthly inflation consumer prices (%)	2004	0.74	0.55	0.89	0.59	0.38	-0.13	0.22	0.58	0.94	2.22	1.54	0.45
	2005	0.55	0.02	0.26	0.71	0.92	0.1	-0.57	0.85	1.02	1.79	1.4	0.42
	2006	0.75	0.22	0.27	1.34								
Annual inflation consumer prices (%)	2004	16.22	14.28	11.83	10.18	8.88	8.93	9.57	10.04	9	9.86	9.79	9.32
	2005	9.23	8.69	7.94	8.18	8.7	8.95	7.82	7.91	7.99	7.52	7.61	7.72
	2006	7.93	8.15	8.16	8.83								
Export (Monthly) (in Mil. USD)	2004	4619	3665	5218	5072	517	5284	5632	4707	5656	5867	5734	6541
	2005	4997	5652	6592	6128	5977	6034	5763	5552	6814	6772	5938	7194
	2006	5077	5932	6975									
Import (Monthly) (in Mil. USD)	2004	633	6139	8452	7932	7991	8468	8728	7883	8487	8088	8568	10474
	2005	7212	8323	10196	9595	9812	9867	9596	10271	10361	10069	9651	11599
	2006	8138	9796	11189									
Trade deficit (Monthly) (in Mil. USD)	2004	-1711	-2474	-3234	-286	-2821	-3184	-3096	-3176	-2831	-2221	-2834	-3933
	2005	-2215	-2671	-3604	-3467	-3835	-3833	-3833	-4719	-3547	-3297	-3713	-4405
	2006	-3061	-3864	-4214									
Export (Annual) (in Mil. USD)	2004	48339	49079	50389	51780	53109	54598	55994	56873	58414	59457	61221	63167
	2005	63543	65530	66904	67960	68767	69517	69648	70493	71651	72556	72755	73413
	2006	73493	73773	74156									
Import (Annual) (in Mil. USD)	2004	71244	73198	75894	78615	81073	83814	86275	88184	90465	91977	95300	97540
	2005	98422	100606	102350	104013	105834	107233	108101	110489	112362	114344	115427	116552
	2006	117478	118951	119.944									
Trade deficit (Annual) (in Mil. USD)	2004	-22905	-24119	-25505	-26835	-27964	-29216	-30281	-31311	-32051	-32520	-34079	-34373
	2005	-34879	-35076	-35446	-36053	-37067	-37716	-38453	-39996	-40712	-41788	-42667	-43149
	2006	-43985	-45178	-45788									
Interest rate for domestic borrowing (%)	2004	25.52	23.99	24.44	23.15	28.82	27.5	26.32	24.85	25.42	22.79	22.88	23.12
	2005	19.43	17.58	17.01	17.17	17.31	15.61	16.02	16.07	14.84	14.55	14.1	14.19
	2006	14.02	13.97	13.89	13.88								
Index for real exchange rate (1995=100)	2004	147	149.1	154.2	152.5	138.2	137.5	140.5	140.1	138.1	139.9	141.3	143.2
	2005	150.7	156	154.7	151.8	153.3	159.5	163	160.9	162.2	165.7	170.8	171.3
	2006	172.1	174.6	172.9	171.9								
Monthly average exchange rate for USD (YTL)	2004	1.3434	1.3238	1.3159	1.3514	1.5013	1.4887	1.4482	1.4674	1.4983	1.4847	1.4454	1.3933
	2005	1.35	1.3102	1.305	1.3535	1.365	1.3547	1.3327	1.3366	1.3342	1.3512	1.3537	1.3457
	2006	1.3279	1.3202	1.3287	1.3309								
Monthly average exchange rate for EURO (YTL)	2004	1.6962	1.6773	1.6155	1.6235	1.8015	1.8078	1.7774	1.788	1.8286	1.8501	1.8735	1.8639
	2005	1.7787	1.704	1.7219	1.752	1.7376	1.6501	1.605	1.6435	1.6365	1.6242	1.5955	1.5961
	2006	1.6067	1.5786	1.5962	1.6289								
Number of uncovered checks in creditor proceedings	2004	46766	41093	45626	39356	41595	44625	47710	48316	56695	52721	58363	67026
	2005	62735	58485	69542	60489	67837	73111	75402	78793	88467	89684	96762	99334
	2006	91851	86589	93382									
Number of uncovered checks	2004	78219	69047	106557	64827	65647	67453	84894	66343	91597	74668	77869	117490
	2005	69910	84465	115147	88387	86004	99537	88530	78848	102859	90959	90854	107354
	2006	87327	97674	95433									
Number of tourists	2004	534	608	784	1104	1799	1898	2591	2493	2125	1842	949	789
	2005	700	697	1107	1348	2303	2403	3179	2861	2502	2108	1053	862

(in thousand)													
	2006	667	626	922									
	2004	602	503	608	773	1165	1332	2155	3024	2483	1729	856	658
Tourism income (in Mil. USD)	2005	690	548	757	860	1400	1500	2602	3453	2762	1899	944	737
	2006	718	554	731									
	2004	-170	-210	-175	-172	-207	-241	-324	-236	-175	-198	-213	-203
Tourism expenditures (in Mil. USD)	2005	-214	-275	-190	-186	-228	-264	-316	-238	-209	-238	-255	-259
	2006	-218	-164	-186									
	2004	1514	1696	2064	1594	1156	1038	1333	1020	1854	1691	1965	2472
Purchase of shares by foreigners (in Mil. USD)	2005	3626	4116	3316	1904	2183	2510	3436	3511	4927	4151	4636	4278
	2006	4242	4348	4683	3925								
	2004	1533	1332	1908	1690	1216	907	1243	1065	1671	1654	1754	1998
Purchase of shares to foreigners (in Mil. USD)	2005	2817	3632	3164	1865	1994	2193	3009	3033	4503	4334	3955	4009
	2006	3863	4109	4671	3716								

(Dünya, 12.5.2006)

Sources: Dünya Newspaper April / May / June 2006

The Team: This Newsletter has been prepared and distributed by Yesim Tektasli, Müge Tas and Ceyhan Karaduman with the contributions of Uta Beyer, Serap Aslan and Peter Heidinger.

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