

## FOREIGN MARKET CONSULTING



Danismanlik ve Tic. Ltd. Sti.

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](mailto:newsletter@fmconsulting.info)), so that we can include him/her in our distribution list.

Best regards,

Your FMConsulting Team

**Newsletter February 2007**

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## Economy

### Overview of Monthly Data

YTL-Rates	31.01.2007	27.02.2007	Change in %
YTL per Euro	1.8521	1.8247	-1.48
YTL per USD	1.4290	1.3860	-3.01

Stock exchange index	41,357.49	43,736.78	5.75
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.95	10.13
Consumer prices	0.43	10.16

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	10.02	7.6
2006	6.3	8.5	3.0		

### €159 Million Rural Progress Aid for Turkey from The EC

It was announced that €159 million aid is going to be allotted to Turkey in 2007-2009 period in the scope of Pre-Join Financial Tools (IPA) rural progress component (IPARD) that was put together by the European Council for the purpose of supporting the integration process of candidate countries. The goals of this aid was set up as, the modernization of the agricultural facilities, offering support for the farmers in terms of catching up with the EC standards and creating employment in the rural areas.

### The Country's Potential for Attracting Foreign Capital

The results of the Ernst & Young group's research of "The Investment Opportunities in Southeast European Countries" were announced. Here are the latest data according to the report:

**Turkey:** Sleeping giant

**Greece:** It succeeds in quality, although cannot reflect it to the actuality.

**Bulgaria:** It surprises. It is rising.

Preferred countries of foreign investors for building a factory

Countries	%
Romania	13
Turkey	7
Bulgaria	5
Serbia	3
Moldavia	1,5
Greece	1,5
Unknown	0,5

Most attractive investment regions

Countries	%
Romania	24
Poland	21
Russia	19
Czech Republic	15
Croatia	13
Sweden	13
Germany	10
Hungary	10
Bulgaria	9
Turkey	9

How attractive is it for foreign countries? (%)

	Bulgaria	Greece	Moldavia	Romania	Croatia	Turkey
<b>Local Market</b>	6	19	2	20	7	26
<b>Transportation and logistics</b>	5	28	-	13	8	18
<b>Telecommunication</b>	5	37	1	12	5	16
<b>Information</b>	7	18	1	19	7	25
<b>Qualified work force</b>	8	22	1	22	11	16
<b>Life quality</b>	6	46	-	8	5	13
<b>Taxing</b>	12	11	1	15	10	10
<b>Cost of work force</b>	19	9	7	23	9	11
<b>Interest in foreign managers</b>	6	21	1	13	6	13
<b>Flexibility in labor laws</b>	7	13	2	20	8	18
<b>Political transparency and stability</b>	4	36	1	13	3	14
<b>Stability in social life</b>	6	42	1	16	4	11
<b>The support of public authorities</b>	8	24	1	17	5	14
<b>Research – Development possibilities</b>	6	22	-	13	4	17
<b>Increase in productivity</b>	9	11	2	27	9	20
<b>Religion, culture and ethics</b>	5	27	1	19	7	16
<b>Access to financial investors</b>	4	24	2	18	3	17
<b>Land opportunities, the prices</b>	12	11	3	26	9	12

### The Distribution of Foreign Capital in Turkey

Organized by YASED (International Investors Association), meetings with title "Turkey, The Land of opportunities is on the way to success" were held in two consequent days in Istanbul. Foreign investment atmosphere in Turkey according to the tables quoted from the Central Bank and YASED:

Foreign Capital Flow (billion USD)

	Direct Investment	Portfolio Investment	Credit
<b>2006</b>	18,8	7,0	18,8
<b>2005</b>	8,6	13,5	21,0
<b>2004</b>	2,0	8,0	7,7
<b>2003</b>	1,2	2,4	3,5
<b>2002</b>	1,0	-0,6	0,8

What is the reason for foreign capital flow (million USD)

	2003	2004	2005	2006
<b>1-Bank Finance</b>	51	69	4.016	7.002
<b>2-Communication, transportation</b>	2	639	3.285	6.303
<b>3-Retail, trade</b>	92	103	68	1.495
<b>4-Production</b>	448	214	788	1.395
<b>5-Oil-Chemistry</b>	9	39	174	600
<b>Subtotal</b>	602	1.064	8.331	16.795

6-Other (Real Estate)	1.350	1.773	1.355	2.922
<b>Total</b>	<b>1.752</b>	<b>2.837</b>	<b>9.686</b>	<b>19.797</b>
Turkey's overseas investments	-499	-859	-1.078	-934
<b>NET</b>	<b>1.253</b>	<b>1.978</b>	<b>8.608</b>	<b>18.863</b>

The sector based distribution of direct foreign capital flow (million USD)

Sectors	2002	2003	2004	2005	January- November 2006
Agriculture, hunting, forestry	-	1	4	5	2
Fishing	-	-	2	-	1
Mining	2	14	75	40	85
Manufacturing industry	110	448	214	788	1.161
Food and beverage	14	249	78	68	238
Textile	10	8	14	183	23
Chemical substance	9	9	39	174	552
BYS Machine	13	17	8	13	23
Electrical optical equipment	2	4	2	13	46
Motorized vehicle	33	145	35	106	83
Furniture production	-	2	0	4	3
Other production	19	14	38	227	193
Electricity, gas, water	68	86	69	4	60
Construction	3	8	23	100	403
Wholesale, retail	89	92	103	68	1.438
Hotel, restaurant	0	4	1	42	15
Transportation, communication, storage	1	2	639	3.250	6.271
Financial subcontractors	260	51	69	4.016	6.115
Real Estate leasing	0	6	3	29	35
Education services	0	0	0	17	-
Health and social services	5	23	53	74	178
Social and personal services	84	10	36	86	103
<b>TOTAL</b>	<b>622</b>	<b>745</b>	<b>1.291</b>	<b>8.519</b>	<b>15.867</b>

### Erdogan Received 'Investment Promises' from the World's Famous Companies

Prime Minister Recep Tayyip Erdogan's negotiations with the CEO's of the world's famous companies that manage an approximate value of 20 million USD regarding making investments in Turkey yielded results. Erdogan took 10 minutes for each CEO listening to their problems and they made investment promises to him in return. Aarel Bank announced that it would offer support for financing, logistics, hotel and shopping center projects. Euro Hypo stated that they would be determined to grow in Turkey. Germany based Ece on the other hand affirmed that it would undertake projects worth 200 million USD annually. European Nickel also announced that it would make an investment worth 300 million USD.

### The Foreigners Bought Real Property with a Value of 7.1 Billion Dollars in 4 Years

Following the simplification of real property sales procedures to foreigners with the law numbered 4916 in 2003, sales figure of 30 thousand real properties were registered according to the official sources. 7.1 billion USD of foreign currency flown in Turkey as a result of these transactions.

Property sales to foreigners

Years	Number of property	Area (1000 square meters)
2003	3.887	2.038
2004	8.808	4.655
2005	6.290	3.880
2006	11.167	4.602
1923-2006	66.256	181.484
The share of the last 4 years	51.5	8,2

Property sales to foreigners and foreign capital investments

Years	Real Property Sales	Direct investment
2003	998	745
2004	1.343	1.291
2005	1.841	8.546
2006	2.922	17.446
1923-2006	7.104	28.028

Foreigner's first preferences

Top 10 cities	Number of properties
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Antalya	14.610
Istanbul	10.695
Muğla	8.251
Aydın	5.839
İzmir	4.572
Bursa	4.310
Hatay	3.852
Mersin	1.740
Ankara	1.034
Gaziantep	1.013
<b>Total of 10 cities</b>	<b>55.916</b>

### The Industrial Production Grew by 6 % in 2006

Turkish Statistics Institute (TUIK) has announced the results of Industrial Index as of December 2006. Accordingly, the industrial production was increased by 0.6 points with comparison to the previous year and rose by 6 %.

Branch of operation	2006	2005
Mining	4,3	13,8
Manufacturing industry	5,8	4,8
Electricity, gas, water	8,8	7,6
Total Industry	6,0	5,4

### Our Highest Foreign Trade Deficit; Russia and China

Turkey's export to 214 countries was worth 85.1 billion USD and import from 209 countries was worth 137 billion USD In 2006. Based on the countries, the highest foreign trade deficit occurred with Russia with a value of 14.3 billion USD which was followed by China with 8.9 billion USD.

10 countries which Turkey has the highest foreign trade deficit (Million USD) in 2006

	Export	Import	Deficit
<b>Russia</b>	3.226,5	17.493,6	-14.267,2
<b>China</b>	693,0	9.553,5	-8.860,5
<b>Germany</b>	9.673,1	14.554,3	-4.881,3
<b>Iran</b>	1.058,2	5.623,5	-4.565,2
<b>S. Korea</b>	155,7	3.478,3	-3.322,6
<b>Switzerland</b>	880,5	3.997,4	-3.117,0
<b>Japan</b>	263,1	3.172,6	-2.909,5
<b>France</b>	4.602,3	6.601,2	-1.998,9
<b>Ukraine</b>	1.119,9	3.011,9	-1.892,0
<b>Italy</b>	6.748,9	8.568,8	-1.819,8
<b>10 countries</b>	<b>28.421,2</b>	<b>76.055,2</b>	<b>-47.634,0</b>

### Half of the Foreign Trade is with 10 Countries (2006)

#### EXPORT

#### IMPORT

	Million \$	Share %		Million \$	Share %
<b>Germany</b>	9.673,1	11,4	<b>Russia</b>	17.493,6	12,8
<b>Great Britain</b>	6.811,9	8,0	<b>Germany</b>	14.554,3	10,6
<b>Italy</b>	6.748,9	7,9	<b>China</b>	9.553,5	7,0
<b>USA</b>	4.995,8	5,9	<b>Italy</b>	8.568,8	6,3
<b>France</b>	4.602,3	5,4	<b>France</b>	6.601,2	4,8
<b>Spain</b>	3.679,2	4,3	<b>USA</b>	5.920,4	4,3
<b>Russia</b>	3.226,5	3,8	<b>Iran</b>	5.623,5	4,1
<b>Iraq</b>	2.567,1	3,0	<b>Great Britain</b>	5.081,9	3,7
<b>Holland</b>	2.536,5	3,0	<b>Switzerland</b>	3.997,4	2,9
<b>Romania</b>	2.341,8	2,8	<b>Spain</b>	3.789,1	2,8
<b>10 countries</b>	<b>47.183,0</b>	<b>55,4</b>	<b>10 countries</b>	<b>81.183,7</b>	<b>59,2</b>
<b>Other countries and free zones</b>	<b>37.958,5</b>	<b>44,6</b>	<b>Other countries and free zones</b>	<b>55.848,5</b>	<b>40,8</b>
<b>Total</b>	<b>85.141,5</b>	<b>100,0</b>	<b>Total</b>	<b>137.032,2</b>	<b>100,00</b>

### Free Zones Demand Tax Exemption until EC Membership

Wishing to revive the free zones which lost blood with the issuance of Encouragement Law in 2004, the government initiated the operations to extend the tax exemption was granted to the establishments until Turkey's full EC membership. Income and institutional tax exemption for non-manufacturing companies which were granted operation licenses in the free zones after the date of 6 February 2004 was discontinued with the law numbered 5084. While the income

accrued from these zones were exempted from income and institutional tax for the establishments that were granted licenses before February the 6<sup>th</sup> limited to their license periods, the exemption brought on personnel wages employed in these zones was limited to the date of 31.12.2008. The manufacturers on the other hand will take advantage of the exemption until the full EC membership. Thus the free zones were no longer attractive with the implementation of the law and the government initiated the extension procedures for the exemption was granted to the establishments operating in the free zones until the full membership in the EC. The sector representatives stressed that the law should be implemented before waiting for 2008 to come. Moreover, following the necessary changes the fee which the companies pay, corresponding to 0.5 % of the value of the goods they bring in or out of the region will be suspended, except for the manufacturers that became operational after the date of 6 February 2004.

## Politics

### **Gül's Visit to USA**

Gül received the "One will suffer the consequences of engaging in operations across the border" message during his USA visit. USA's Foreign Affairs Vice Minister Dan Fried who is responsible for Europe and Eurasia said that Turkey should be carefully considering the responsibility of the consequences of an operation across the border. Answering a question about the bill presented to the USA Representatives Council regarding the assumed Armenian genocide, Fried said, "We do not support this bill and doing everything we can do to prevent its issuance." Fried also added that Turkey should research its own history not because of foreign pressures, but based on its progress and democratic values. Fried expressed that they continued their endeavors to prevent the issuance of the bill presented to Representatives Council.

### **Ismail Cem Passed Away**

Former minister of Foreign Affairs Ismail Cem who had left his mark on a certain period of Turkey's foreign policy passed away at the end of January. Loosing the fight against lung cancer he struggled for a while, Cem was being treated since December the 26<sup>th</sup> in Istanbul Medical Operations Hospital.

## Further Topics

### **Turkey's Possible Influence on the Agriculture if it becomes a Member in the EC in 2015**

Turkey was assumed to be a member in the EC in 2015 in the report that was prepared by the agriculture experts of the European Committee aiming at displaying the panorama of European agriculture in 2020. It was stated in the report that Turkey's agriculture was the equivalent of 10 countries entering the EC. It was emphasized that there would be a general decrease in the traditional northern products such as legumes and meat, Turkey on the other hand would have an advantage in terms of production following the EC membership. It was pointed out in the report that the market price subvention in Turkey was higher in comparison to the other EC countries.

### **Akfen will be engaged in Hotel Business in Cooperation with the French**

Signing a deal with French hotel chain Accor, Akfen will be constructing 60 hotels under the brand name Novotel and Hotel Ibis throughout Turkey until the year 2010. Akfen will be undertaking the construction and Accor the management of the hotels with a projected building cost of 350 million dollars.

### **WSJ: It will be Investing 4 Million Euros in Real Estate in Turkey**

The growing economy and the increased consumer demand made the shopping centers more attractive in Turkey. The projected amount of investment in the commercial real property in Turkey is 3-4 billion Euros, 80 % of it would be spent in shopping centers according to the assessment in the Wall Street Journal.

### **Marc Uzan: Turkey will be An Important Player in International Finance**

With several members from international establishments working on the reshaping of the international financial system that was formed after the 2<sup>nd</sup> World War, the Reinventing Bretton Woods Committee Chairman Marc Uzan said Turkey would be one of the most important players in the international finance arena which was in the process of reshaping. Stressing that international finance arena was in the process of being newly shaped and newly rising powers outside the G-7 countries would be found in this shaping, Marc Uzan stated that Turkey, China, India, Brazil, Russia and the countries with raised IMF quota such as Korea and Mexico would be among the countries in this new arena.

#### **Boyner and Citigroup Venture Signed a Mutual Goodwill Letter**

Boyner Holding signed a goodwill letter regarding the sales of 30 % of the jointly owned Boyner Büyük Mağazacılık A.Ş. and 50 % of Beymen A.Ş. to Citigroup Venture Capital International. It was underlined in the announcement that an amount of 48 million USD was projected for 30 % of Boyner Büyük Mağazacılık A.Ş. with a total value of 160 million USD and 145 million USD for 50 % of Beymen A.Ş. with a total value of 290 million USD; the final values of the shares would be determined upon the deliberations of the parties and the final contract would be signed.

#### **Income Distribution:**

Despite the increased income level per person, the unevenness of income distribution continues to be a significant problem in Turkish economy. According to the questionnaire of TÜLK (state statistics institute) accomplished in 720 homes in 2005, the wealthy people in the country earn 21 times more than the poor in the average of daily income per person. The annual income of the poorest 5 % of the inhabitants is 1.999 million YTL (approximately € 1.175 Million), whereas the average daily income is approximately 1.6 YTL (nearly € 0.94). The annual income of the wealthiest 5 % of the inhabitants is 46.958 million YTL (approximately 27.662 million Euros), whereas the average daily income is 34.9 YTL (approximately € 20.53). The wealthiest part earns as much as 7.35 times more than the poorest part if the income distribution of the year 2005 is regarded as a part of 20 %. (See the table) Accordingly, 18 million people had an income below the poverty line of 4 USD. Notwithstanding, the improvement of income distribution is a pleasing development.

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