FMCONSULTING

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 February 2009

Economy

Overview of Monthly Data

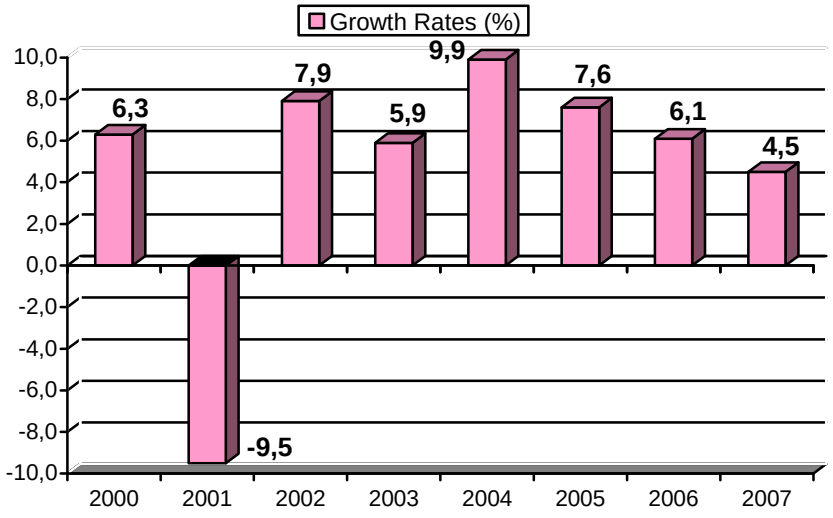
YTL-Rates	30.01.2009	27.02.2009	Change in %
YTL pro Euro	2.1160	2.1545	1.82
YTL pro USD	1.6449	1.6894	2.71

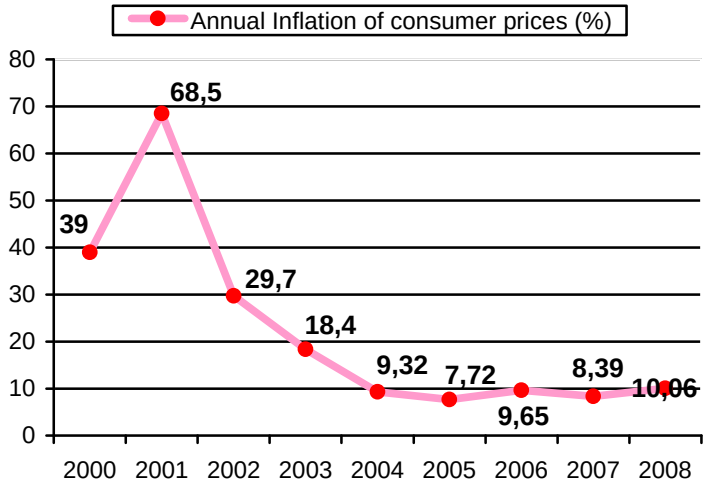
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.17	6.43
Consumer prices	-0.34	7.73

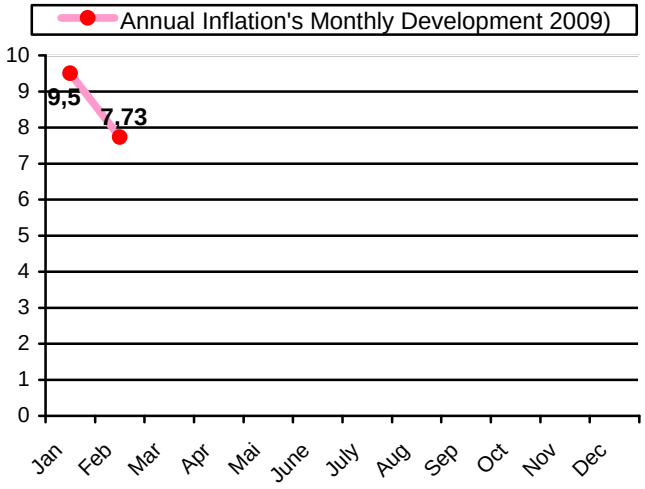
Growth Rates

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		







New consumer loans to help reduce car stockpiles

In Turkey, a total of 157,000 cars built in 2008 still remain unsold. As Ozcan Keklik, managing director of GM Turkey, said, the current stockpiles are expected to be sold by August. Since Turkish banks have resumed their practice of providing low-cost automobile loans, the industry is confident that car sales will go up again. No major price hikes are in the pipeline.

Emerging countries likely to overcome the crisis more easily

The crisis provides a great opportunity for emerging market countries, asserts Turkish-born economist Dr. Ibrahim Eris, former president of the Brazilian Central Bank. The economic importance of countries such as Brazil, Turkey, China, and India is going to grow. As long as oil prices remain at a low level, the current account deficit poses no obstacle to growth. Turkey's advantage over Brazil, however, is the country's markedly strong banking system, Eris said.

Turkish Lira trade commences at Chicago exchange
For the first time, futures and options transactions in Turkish Lira (TL) have been introduced at the Chicago Mercantile Exchange (CME). This provides foreign investors with an attractive hedge instrument facilitating their access to the Eurasian growth market. Another big advantage is that TL papers can be traded almost around the clock due to the time zone difference.

Export figures show a bleak outlook
Turkey's exports dropped by 27.9% in January, down to US$7.51bn. The sector most affected was the automotive industry and its suppliers which suffered losses of 53.24%. With a share of now US$1.4bn, it has lost its traditional position as the industry accounting for the largest share in exports. The clothing industry which, although suffering a loss of 19.6%, accounted for US$1.152bn of exports is now Turkey's leading export sector. In the year before, Turkey's total exports had increased by 14.3% to reach US$124.768bn.

"Buy Turkish" initiative by Turkey's machine builders
The Central Anatolian Machinery and Accessories Exporters' Union has launched a campaign with a budget of TL10mn to promote the idea of buying domestically produced machines among Turkish businesses. Another objective is to win new customers abroad. According to the association's president, Adnan Dalgakiran, the machine building industry's foreign trade deficit currently stands at US$13.4bn. Exports worth US$10.6bn are outbalanced by imports of US$24bn. Dalgakiran complained the fact that whereas state assistance to domestic machine builders is taken for granted in Europe, there is no such thing in Turkey. This, he said, is one of the reasons why the Turkish private sector is burdened by debts of US$200bn.

Turkish chrome exports have collapsed
The impact of the global crisis has brought chrome exports to China to a grinding halt. Turkish exports of the metal, which was over 186,000 tons as recently as August, slumped to around 1,000 tons a month by December. In the southern city of Mersin where 80% of Turkish chrome exports are handled, some 150 companies are about to go bankrupt. Stockpiles of 60,000 tons of chrome ore have accumulated and world market prices have also dropped considerably.

Turkish government ties up large subsidy package
The draft legislation just submitted to parliament by the government involves 34 assistance measures, including a variety of tax reliefs. Measures proposed include a full VAT return until the end of 2011 on all machine and plant investments exceeding TL200mn. Another proposal is to authorize the cabinet to remit payment of up to 90% of corporate income tax under certain circumstances. In addition, the government plans to grant a 75% corporate income tax deduction for 5 years to companies from the textile, clothing and leather industries willing to relocate their manufacturing facilities to certain regions. Furthermore, short-time allowances are to be raised by 50% and extended to 6 months.

Revision of national budget required
The expectation that the Turkish national budget would increase by 4% in 2009 will likely have to be severely revised downwards. The IMF even anticipates a negative growth of 1.5%. A thorough revision of budget plans has therefore become imperative.

No positive signs yet from the real sector

There is more bad news from Turkey's real sector. Measures taken in response to the dwindling demand range from short-time work and production stops to mass layoffs. Even at large industrial companies such as Fiat, Renault and Bosch – all of them located in Bursa – production lines have come to a halt. Industrial production fell by 17.6% in December – although the State Statistics Institute had first quoted the figure as 11.9% due to a calculation error. Apart from the automotive sector, most notably the textile industry is affected: While a first, erroneous report asserted that production was up 40%, this figure had then to be corrected as minus 23.7%.

Gross domestic product growth around 2.3% expected

At the end of March the key data of the Turkish national economy for 2008 will be announced. *The Economist* is expecting the gross domestic product to have grown by around 2.3%. This reflects the fact that there was zero growth in the final quarter of the year.

Capacity utilization at lowest level since 2001

Ever since the crisis year of 2001, capacity utilization of the Turkish industry has not been as poor as in January. Compared to the same month of the previous year it decreased by 16.5 percentage points, down to 63.8%. Even more dramatic was the setback in the automotive industry – from 88.8% down to 41.6%. With total capacity utilization dropping to 68.8% over 88.7% in the previous year, the public sector was also severely affected.

Capacity Utilization Rate by month (weighted by production value)

Month	2001*	2004	2005	2006	2007	2008	2009
January	70.5	77.2	76.6	75.4	78.3	80.3	63.8
February	70.9	73.5	77.1	77.2	80.1	79.3	
March	70.7	82.1	80.5	80.7	82.0	81.2	
April	68.5	76.5	79.8	82.3	81.7	81.7	
May	70.4	84.3	81.3	82.6	83.3	82.4	
June	71.3	85.3	81.4	83.1	83.5	82.3	
July	83.9	83.9	80.6	81.8	81.9	80.0	
August	71.7	81.4	79.8	79.4	80.3	76.2	
September	72.9	84.3	82.7	82.7	83.2	79.8	
October	74.2	82.4	82.3	82.4	83.1	76.7	
November	74.6	83.5	80.9	82.8	82.6	72.9	
December	84.0	84.0	80.7	81.8	81.1	64.7	

Source: State Statistics Institute

* Data from the time of the last big economic crisis

Capacity Utilization by Sector

	2008	2009		2008	2009		2008	2009
Manufacturing industry	80.3	63.8	Printing	73.6	66.6	Office/computer supplies	82.5	40.7
Food	70.5	66.9	Coal	88.2	62.9	Electrical goods NOC	83.3	66.7
Tobacco	69.0	81.1	Chemical	75.7	65.0	Radio & television	83.0	64.4
Textile	77.6	67.5	Plastics	81.2	67.3	Medical optics	84.4	80.0
Clothing	82.2	74.9	Minerals	74.0	62.8	Road vehicles/bodies	88.8	41.6

Leather	66.9	58.4	Main metal	86.0	66.9	Other vehicles	91.1	82.0
Wood	85.4	73.1	Metal goods	78.0	62.1	Furniture	79.1	59.3
Paper	84.9	72.8	Machines NOC	73.2	61.2	NOC = not otherwise covered		

State budget deficit rocketing

Turkey's budget deficit soared to US$2.967mn in January, 28.5% of the total deficit of US$10.398mn earmarked for 2009, and a shocking 465% more than in the same month of the previous year. The reason is that expenses rose sharply while income remained roughly the same. At the same time, tax revenue dropped more than 2%. Therefore the original target of 4% revenue growth needs to be corrected.

Number of "actual jobless" reaches 5 million mark

According to the State Statistics Institute, the unemployment rate rose to 12.3% in November, up from 10.1% in the same month of the previous year, translating into almost 3 million people out of work. But when taking account of the close to 2 million people that are willing to work but have given up looking for a job, figures must be adjusted to some 5 million "actual jobless" and an unemployment rate of 19.9%. Unemployment among youth increased by 3.9% to reach 23.9%.

30% more foreign funds flowing to Istanbul

Although the number of foreign investors dropped by 4.23% in 2008, the volume of foreign capital registered with the Istanbul Chamber of Commerce (ITO rose to over TL 533mn, thus increasing by 29.92%. Both in terms of number and invested amount German companies rank first, followed by Bahrain and the Netherlands. As to fields of business activity, consulting leads electrics-electronics-IT and construction, while in terms of invested amount, the banking and insurance industry comes before the construction industry and transportation.

Politics

Erdogan: We can do without the IMF

With local government elections coming up, Turkey's Prime Minister Erdogan is taking a hard-line stance in public. While behind the scenes bureaucrats are working to negotiate a new stand-by agreement, he told the audience at a convention that Turkey is not dependent on the IMF. He claimed that if no agreement is reached, the country is quite capable of paying off its debts of US$8bn without foreign assistance. Erdogan emphasized the package of measures taken by his government, which he said involved budget resources amounting to TL10bn that were allocated to support private businesses in the second half of 2008.

AKP: Industry is pushing for IMF agreement

To the mind of Mustafa Elitas, deputy parliamentary leader of the ruling AKP party, the desire for a new agreement with the IMF, as voiced by business circles, is a psychological phenomenon. While he does not see a need for additional IMF funding, he acknowledges that the Turkish business community currently lacks confidence. Therefore, he said, a stand-by agreement is likely to reassure the market. On the other hand he warned that the IMF might want to impose overly rigid austerity measures.

Inaugural phone call by President Obama
Turkish president Abdullah Gül received his first call from Barack Obama. According to the PR department of the president's office, the new US President stressed the importance of the relations between Turkey and the United States. He is also said to have voiced his appreciation of the leadership that Turkey has assumed with regard to regional issues.

Turkish businesspeople may soon be able to travel to the EU without a visa
The preliminary ruling by the European Court of Justice which under certain conditions affirms the right of Turkish nationals to travel to Germany without a visa, has found a positive echo in Turkey. Two Turkish truck drivers employed in cross-border traffic had sued the Federal Republic before the administrative court in Berlin. While all sides agree that this is a principal decision with a definite legal effect, it remains unclear to what extent it will result in easements for Turkish businesspeople. The Turkish business community expects trade relations with Germany to be stimulated by a relaxation of the one-sided visa requirement.

Other Topics

Shopping center boom is over – overcapacity to be converted
The shopping center construction boom Turkey has seen in recent years is over for now. While new developments may still be required locally, the market is oversaturated in most places, said Emre Camlibel, CEO of Turkish construction giant Soyak. He stated that some of the developments lacked a sufficient analysis of feasibility from the start. Shopping centers that have proved to be unviable may now have to be converted into hospitals, schools, offices, etc. Due to the current difficulties in project financing, new private investments can hardly be expected in the next two years.

Istanbul maintains its appeal to real estate investors
In its current survey "Emerging Trends in Real Estate", PricewaterhouseCoopers polled 500 real estate decision makers about the attractiveness of investments in 27 European cities. Trailing only Munich and Hamburg but leaving Zurich and London behind, Istanbul came 3rd in the overall score. Since real estate demand in the emerging countries continues to grow steadily, Istanbul is certain to stay in the focus of investor interest for a long time to come.

Offices	Hotels	Retail	Rental housing	Industry/sales
Istanbul	Istanbul	Moscow	Munich	Istanbul
Moscow	Moscow	Munich	Istanbul	Moscow
London	Munich	Warsaw	Hamburg	Hamburg
Munich	London	Hamburg	Rome	Warsaw
Warsaw	Hamburg	Istanbul	Zurich	Prague

Turkish organic farmers are losing ground
Although Turkey's climate offers optimum conditions for organic farming, the country has been

unable, as of yet, to establish itself on the world market. Quite the contrary, in the ranking of countries producing organic goods, it has dropped from 20th place 5 years ago down to 36th place. Turkey's share in the US$48bn market, which is growing at a rate of 15% each year, is a mere US$200mn. 90% of the production, mainly foodstuffs and clothing, are being exported. In order to be able to utilize the existing potential, government assistance and coordination are vital, representatives of the sector argue.

Rent payers benefit from the crisis – real estate market makes slow recovery

Housing prices in Turkey have plummeted since the beginning of the financial crisis. Drops of up to 40% are being reported from some neighborhoods of Istanbul. Rents have fallen at a similar rate, much to the delight of tenants. However, Real estate insiders believe that the market is beginning to make a recovery. There are first signs that demand is slowly picking up again.

Turkey extends its market position for rose oil and rose water

Turkey's Isparta region is famous for products such as rose oil (rose otto) and rose water which are in worldwide demand. Roses have been grown there since the end of the 19th century, with the initial know-how provided by immigrants from Bulgaria, which is still the main competitor. Meanwhile, Turkey accounts for 60% of global rose oil production. The company Gülbirlik has a 40% share in that, making it the world's largest producer and exporter in its field. Apart from that, several international companies also produce in Turkey or buy their raw material from there. Currently 40,000 people have secure employment in this line of business.

Turkish olive oil is on top

Turkey's olive growers belong to the lucky few who at present are strangers to the word "crisis" because they are clearly on an expansion course. However, the 28% production increase over the previous year for the period November to January is not the result of mere chance. 35-40 million new olive trees have been planted in the country over the past 5 years. This brings Turkey's olive tree population to around 150 million, second only to Spain with 175-180 million trees. Granted, most of young trees do not yet bear fruit and that productivity of the older trees is only half the European average. This said, there is still considerable room for growth. The sector is now seeking additional state subsidies in order to exploit the huge potential.

Private sector's R&D budget has tripled in 5 years

The president of Turkey's State Research Institute TÜBITAK, Prof. Dr. Nuket Yetis, announced that 2007 was the first year the Turkish private sector allocated more funds to research and development than the public sector did. According to a study conducted by her institute, private sector R&D spending increased from TL961mn to TL3.100bn between 2002 and 2007. In the same period, public R&D spending increased by TL1.188bn to reach TL3.012bn, while the number of private sector R&D personnel quadrupled, from 5,918 to 24,261.

Turkish Central Bank lowers interest rates by 1.5 points

The Council for Monetary Policy has reduced overnight interest rates from 13% to 11.5%, and short-term loan interest rates from 15.5 to 14%, responding to the course of inflation which at the end of year was more favorable than anticipated. Even further interest rate cuts are possible as long as the prime goal of securing price stability is not at stake, say Central Bank officials.

3,000 new jobs in Aegean Free Zone

5 major companies, including automotive suppliers Gates (USA) and Eldor (Italy), are set to build new manufacturing plants in the Aegean Free Zone in Izmir. 3,000 new jobs are expected to be created by the year 2010.

Turkish-Russian joint venture in steel production

A new large steel works is currently being built in the Gulf of Iskenderun, by a joint venture of Turkey's Atakas Group of Companies with Russia's largest steel manufacturer Magnitogorsk Iron and Steel Works (MMK). The facility is scheduled to go into operation next year, and to produce a yearly output of between 2.5mn and 3.6mn tons of flat-rolled steel. Eventually the plant is to provide over 2,000 new jobs, and to generate an added value of US$1.7bn.

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

SPRINGER&JACOBY Reklamcilik Ltd.Sti. Istanbul
Managing Directors: Uta Beyer, 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: info@fmconsulting.info
Internet: www.fmconsulting.info

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.