



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

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Newsletter January 2009

Economy

Overview of Monthly Data

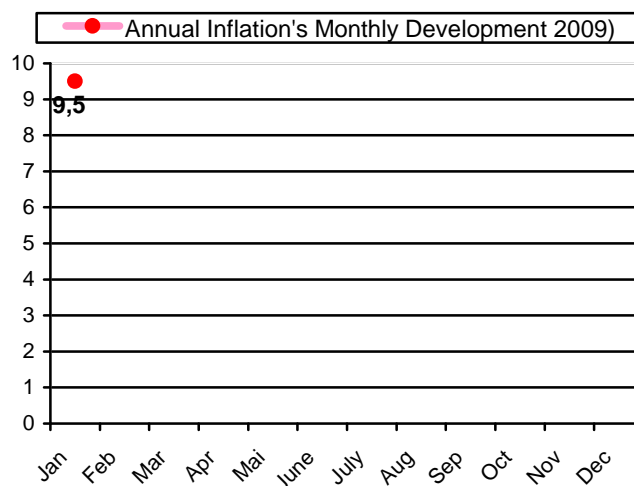
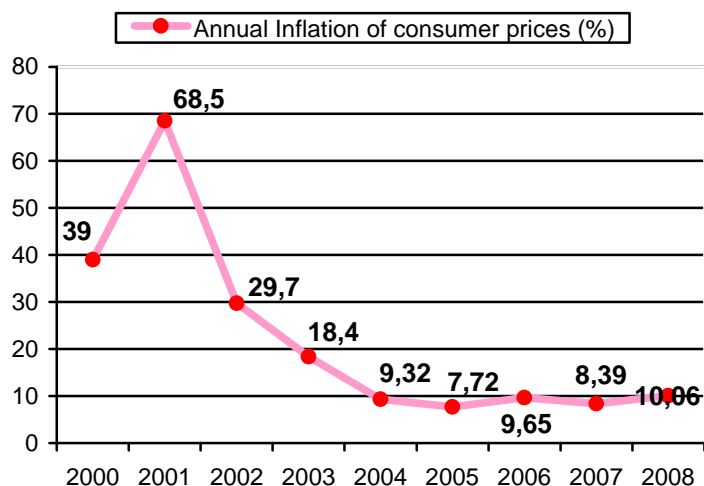
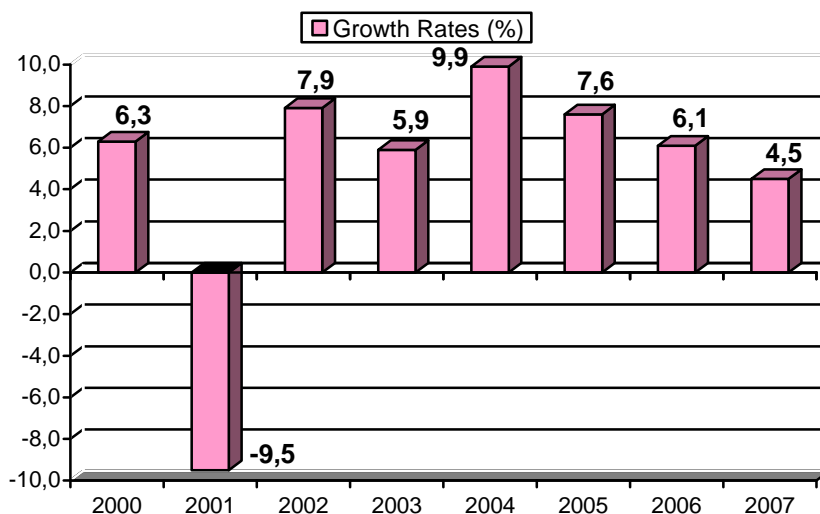
YTL-Rates	31.12.2008	30.01.2009	Change in %
YTL pro Euro	2.1467	2,1160	-1,43
YTL pro USD	1.5314	1,6449	7,41

Inflation in %	Monthly inflation	Annual inflation
Producer prices	0,23	7,90
Consumer prices	0,29	9,50

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 money for Turkey

At the beginning of 2009, new banknotes and coins were issued in Turkey. The paper money and coinage provisionally labeled “Yeni Türk Lirası – New Turkish Lira” (YTL), which had been introduced four years ago, will be withdrawn from circulation by the end of the year. As before, the new notes are available in units of 200, 100, 50, 20, 10 and 5 Turkish Lira (TL). They are slightly smaller in size and have improved security features. In the transition period TL and YTL will be used concurrently; however, all accounting entries will be in TL as of now. In everyday life, most Turks still refer to their national currency as “million Lira”.

Imports and exports suffer slump in November

The full impact of the crisis on Turkey’s foreign trade is starting to unfold. The State Statistical Institute has just published the import and export figures for November 2008. The data show that overall exports have decreased by 17.5% over the same month of the previous year, from

US\$11.3bn to US\$9.3bn. Exports to the EU countries even dropped by 31.9%, from around US\$6.4bn to US\$4.3bn. In the same period, imports from the EU slumped by 32.7% from US\$6.8bn to approx. US\$4.6bn, as compared to overall imports which were down by 27.5%, from US\$16.6bn to US\$12bn. While within exports motor vehicles and equipment formed the largest product segment at US\$939m, mineral fuels and oil constituted the largest share in imports (US\$2.9bn).

Crisis hits Turkish labor market hard

The predominant impact of the global crisis in Turkey is on foreign trade and unemployment. According to the official data of the Turkish Statistical Institute and the Social Security Agency more than 124,000 regular employees with social security cover lost their job in October. At the same time, 5,805 companies ceased operations.

Exports continued to decline in December

In the month of December, exports of the Turkish national economy slumped by almost 25% to roughly US\$7bn. While in October there had been a decrease of just 1.7%, it jumped to 17.5% in November. Despite the poor performance in the final quarter, a new export record was set in 2008 with an anticipated US\$127bn. This translates into a plus of 20.5% over the previous year when the 100 billion dollar mark had been passed for the first time. Only the clothing industry recorded an overall minus of 2.0%. The automotive industry, while suffering a heavy loss of 47.1% in December, improved its annual total export volume by 16.6%.

Jobs lost in the manufacturing industry, gained in the service industry

In October 2008 the number of regular jobs in Turkey's manufacturing industry has decreased by 190,000, while 170,000 jobs were gained in the service industry. With the construction industry and the other sectors added in, the balance stands at minus 44,000 jobs. In the same month of the previous year there had been a lower drop of 22,000 jobs, 90% of which were seasonal. Now, according to the Metal Workers' Union, 79% of those losing their jobs are steady employees. The metal industry and the clothing sector have been hit particularly hard by the layoffs.

Many closedowns in the textile industry

The dire effect of the crisis has led to increasing numbers of businesses closing down in Turkey's textile and clothing sector. Textile and clothing sector. In the first 10 months of 2008, 598 enterprises operating in this line of business had to close down. In the same period, only 195 businesses were newly established.

Decline in capacity utilization illustrates extent of crisis

Capacity utilization rate (%) of the manufacturing industry according to months		
Month	2007	2008
1	78.3	80.3
2	80.1	79.3
3	82.0	81.2
4	81.7	81.7

5	83.3	82.4
6	83.5	82.3
7	81.9	80.0
8	80.3	76.2
9	83.2	79.8
10	83.1	76.7
11	82.6	72.9
12	81.1	64.7

Decline of the capacity utilization rate in December (%)					
	According to businesses		According to production		Average 2007
	2007	2008	2007	2008	
Monthly average	71.0	63.6	81.1	64.7	81.8
Food	63.3	60.7	71.3	68.1	72.6
Textile	75.0	67.6	79.3	71.4	81.5
Clothing	76.2	61.7	83.2	76.4	83.9
Key metal industry	72.0	62.3	85.0	65.2	85.7
Automotive	74.7	59.1	90.6	44.7	88.0

New regulation enhances allowances of workers on short-time

By issuing a new regulation, the Turkish government has taken into account the development of the crisis, and revised the legal provisions concerning short-time work allowances. In future, all social security contributions of workers on short-time will be covered by the unemployment insurance. Jobholders whose working hours are reduced by at least one third or whose employer interrupts production for a minimum of four weeks can individually apply for short-time work allowances on the condition that the practice of short-time work in their company has been approved.

Layoffs haunt Turkey's "motor city"

In the city of Bursa, the heart of the Turkish automotive industry which is home to large production plants of companies such as TOFAS-Fiat, OYAK Renault and Bosch, a total of 56,700 jobs were abolished in 2008. According to the relevant trade union, who called this development "alarming", the last quarter of the year saw a significant rise in layoffs at vehicle manufacturers and suppliers.

Sharpest base rate reduction since four years

As of 15/01/2009 the Turkish Central Bank has lowered the base rate by as much as 200 points, greatly exceeding the market's expectation of 75-100 points. Overnight interest rates are down to 13% from 15%, while loan interest rates fell from 17.5% to 15.5%. With this move, the Money Market Council seeks to counteract the deteriorating financing conditions.

Competition and custom laws to be reformed

Two of the legislative changes long awaited by the Turkish business community will be passed shortly. Within the scope of harmonization with EU legislation, amendments will be made to the

Competition Law in order to facilitate company mergers. The forthcoming changes to the Customs Law are intended to ease the burden on businesses and to reorganize the activities of customs agents.

Turkish banks have overcome their liquidity problems

The Turkish Association of Banks has announced that the Turkish banking system is currently not facing any more liquidity problems. No support was needed to overcome the temporary shortage in foreign currency liquidity. Boasting a liquidity reserve of around US\$18bn, the system is said to be able to meet its own needs at any time. Also, no drop in profitability is anticipated for the first half of 2009.

Politics

Erdogan: History will judge Israel

In strong language, Prime Minister Erdogan urged Israel to immediately stop its assaults on the Gaza Strip. He called the incursion a calculated effort by Israel's government ahead of the upcoming parliamentary elections. Claiming to speak as descendant of the Ottomans who harbored the Jews that had been expelled from Spain, Erdogan said that Turkey has always sided with the oppressed. He also asserted that the Israeli aggression will remain as a stain on history, and that it must be condemned by the international community.

New wave of arrests in Ergenekon probe

In another large-scale crackdown, police simultaneously arrested some 40 persons, among them former high-ranking officers as well as journalists and academics. They are suspected of being involved with Ergenekon, an alleged group of conspirators. Several houses were searched and personal notes as well as computer records were confiscated. Investigators also searched Istek Educational Foundation and Yeditepe University, both founded by former Istanbul Lord Mayor Dalan, looking for incriminating evidence. In the wake of the arrest, Chief of Staff General Basbug paid a visit to both Prime Minister Erdogan and President Gül.

Majority of Ergenekon suspects released

While most of the persons detained three days earlier within the scope of the Ergenekon investigation were released following questioning, 4 suspects were remanded in custody. Among them was the former deputy of a police anti-terror unit, Ibrahim Sahin, who had already been investigated in connection with the Susurluk affair. In his house, police discovered sketches containing references to arms and ammunition caches. Consequently large-scale searches were conducted at various locations, leading to the recovery of substantial hidden stockpiles.

Opposition leader says Ergenekon probe is politically motivated

Deniz Baykal, chairman of the largest opposition party in Turkey, the Republican People's Party (CHP), asserted that Ergenekon investigators were directly instructed by Prime Minister Erdogan. He suggested that the investigation was a campaign against political opponents of ruling party AKP. However, under pressure from the military Erdogan had been forced to back down and order

the release of prominent detainees. On the other hand, he said, the government was obstructing the prosecution in the donation fraud affair involving pro-AKP aid organization Deniz Feneri.

Labor union leader remains in custody

There seems to be no end to the waves of arrests in the Ergenekon investigation. In various parts of the country, another 30 people were taken into custody, among them labor union officials and police officers serving on an anti-terror unit. Meanwhile another prominent suspect, sociologist and publicist Prof. Yalcin Küçük, was released from custody. In connection with the arrest of Mustafa Özbek, head of the Metal Workers' Union, the president of the Federation of Labor Unions called for adherence to the principles of law and democratic rules. At the same time, the powerful liberal entrepreneurs association TÜSIAD also urged the authorities to treat Ergenekon suspects as required by the rule of law.

Quarrel in Davos

At a discussion panel at the World Economic Forum, Turkish Prime Minister Erdogan offered sharp criticism of Israel's policies towards Palestine. The Israeli president Peres justified his country's course of action, claiming that the other side had attacked first. A visibly annoyed Erdogan walked out of the televised debate, having unsuccessfully demanded equal speaking time for himself. Apparently Peres later apologized by phone for the tone he used. Both in Turkey and in the Arab world, Erdogan was celebrated for his tough stance. The traditionally close relations between the two countries do not seem to have been impaired by the incident.

Other Topics

AKSA puts new natural gas power plant in operation

Turkish utility company AKSA has started operating the first stage of a new natural gas-fired power plant in Selimiye near Antalya. It is the 16th power plant the company has built, both at home and abroad. For the first time, however, the combined heat and power technology is being employed. With an installed capacity of 1,150 MW the powerhouse – with construction costs totaling some US\$1.1bn – is capable of supplying electricity to the entire Antalya region. The plant's power output equals 5% of Turkey's overall consumption.

Cosmetics sector continues to grow

There is still keen demand for cosmetics and personal care products in Turkey. Seemingly unaffected by the crisis, the Turkish market has continued its growth in 2008, by 11% to US\$1,8bn. Avon Turkey even anticipates an increase in sales of close to 30%. A key factor for this is the steadily rising number of female professionals in Turkey. However, at 24 Euros per year, Turkish women and men still spend a whole lot less on cosmetics and personal care than the European average of 156 Euros.

Aegon has ambitious plans for Turkey

With its takeover of Ankara Emeklilik pension fund, Netherlands-based insurance group Aegon has expanded into the Turkish market. With 40 million customers worldwide, the company is

already one of the largest players in the global life and private pension insurance business. Through its latest expansion move, Aegon intends to secure its share in this growth market in Turkey. Within five years, it wants to turn its Turkish subsidiary into one of the top five companies in its field.

Tourism revenue up 18.5%

The State Statistical Institute announced that some 31 million foreign tourists visited Turkey in the previous year, earning the country revenues of US\$21.9bn, an average of US\$708 per holidaymaker. This translates into an 18.5% increase in tourism industry turnover for the year 2008 as compared to the previous year.

Sabancı and Verbund realize largest privatization to date in the Turkish electricity market

EnerjiSA, a joint venture of Sabancı Holding and Austria's largest electric power company Verbund, have just signed an agreement with the Turkish Privatization Agency for the purchase of distribution grid operator Baskent (BEDAS). This wraps up the largest privatization deal to date in the Turkish energy market, which is to be fully deregulated by 2011. The consortium had been awarded the contract for US\$1.125bn. BEDAS supplies electricity to 3 million end customers in the greater Ankara region. To put this into perspective, there are about 4 million electricity customers in the whole of Austria. EnerjiSA has targeted a minimum share of 10% in Turkey's power market by 2015, which would make it the market leader.

Month	Public holiday's 2009 in Turkey
January 1	New Year's Day
April 23	Children's Day
May 19	Youth and Sports Day
August 30	Victory Day
September 19 (p.m.) through September 22	Ramadan Holiday (end of Islamic month of fasting)
October 28 (p.m.) and October 29	Republic Day
November 26 (p.m.) through November 30	Islamic Feast of Sacrifice
December 31 (p.m.)	New Year's Eve

Turkish rotor blades for Japanese wind turbines

Izmir-based construction company Alke Insaat, which has successfully completed numerous major projects, started building towers and rotor blades for wind power plants only recently. The company provides one-stop services ranging from manufacturing and construction to assembly and maintenance. It has now received its first foreign order for 48 2-MW turbine blades from Fuji Heavy Industries in Japan. Negotiations about the delivery of 350 900-kW rotor blades to a large German plant construction firm are to be finalized shortly. The company sees a tremendous expansion potential both for the growth of the wind energy sector in Turkey and for the country's role as a manufacturing base. Planned investments of EUR20m are a clear indicator of their confidence.

ADAC establishes roadside assistance network in Turkey

Germany's largest automobile association ADAC, seeking to benefit from increasing motorization in Turkey, has founded a subsidiary in Istanbul for this purpose. The goal is to provide road assistance services according to German standards to a steadily growing number of motorists. One of the system's vital components is the gradual introduction of a nationwide service number: 444-2322. The association's emergency call center which assists sick and injured German holidaymakers in Turkey also operates under the umbrella of the newly established ADAC Service A.S. Additional projects include a truck service for TIR drivers and intensified cooperation with carmakers in the field of motoring assistance.

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