



Please find attached our latest newsletter about recent economic and political developments in Turkey.

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Please note that we also offer 2-day intensive seminars on 'Business in Turkey' presented at our offices in Istanbul. Click [here](#) further information on these seminars, or contact us for more information about our wide range of services.

Best regards,

Your FMConsulting Team

## Newsletter July 2008

# Economy

## Overview of Monthly Data

YTL-Rates	06.30.2008	07.31.2008	Change in %
YTL pro Euro	1.9370	1.8169	-6.2
YTL pro USD	1.2263	1.1637	-5.1

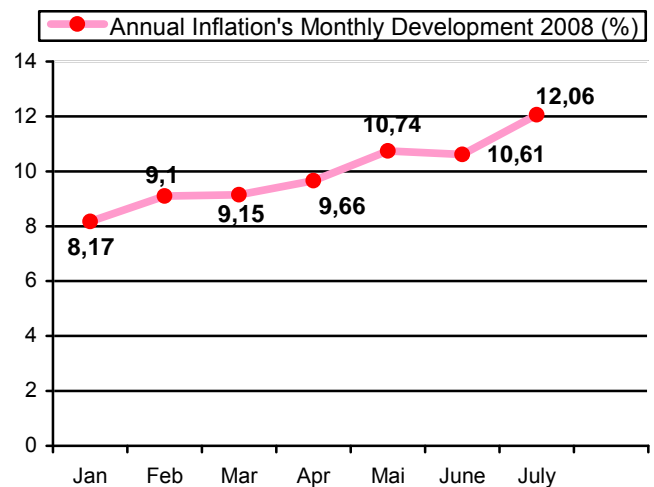
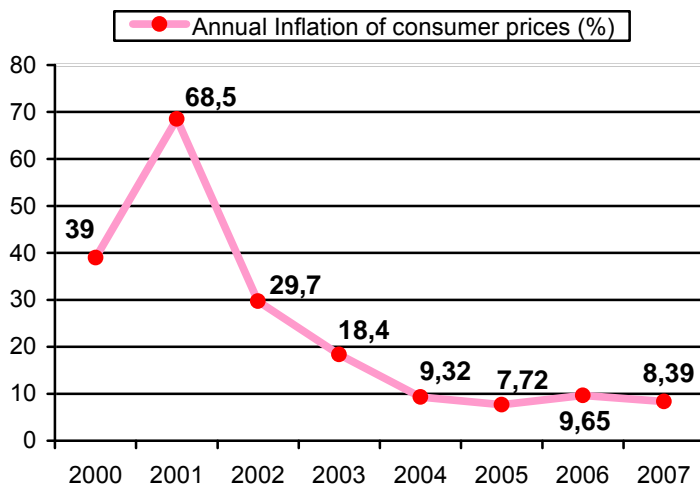
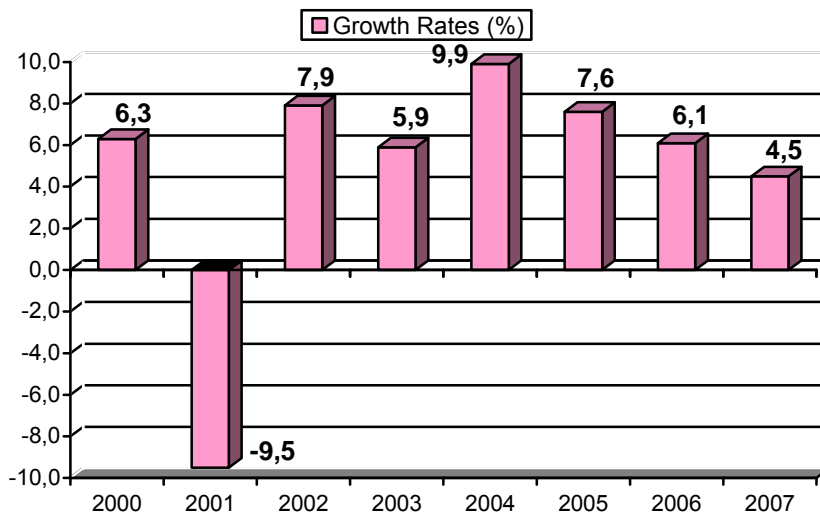
Stock exchange index	35,090	42,200	20.26
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.25	18.41
Consumer prices	0.58	12.06

## 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				



### Increases in Oil and Commodities prices cause diversions from the inflation targets

The volatility in the global markets and the internal developments in Turkey has made it difficult to achieve the inflation targets set out by the Central Bank. As a result of this, the Central Bank has revised and increased their inflation targets in a third report. In the second report this year, the Central Bank predicted that the year end inflation would be 9.3% in 2008, 6.7 % in 2009; however, these figures were revised so that the year end inflation would be 10.6% in 2008, and 7.6 % in 2009. The revision was caused largely by the change in assumption of the price of oil, which increased from \$105 per barrel to \$140 per barrel and causing the inflation predictions to change

by 1.8 points in 2008 and 0.6 points for 2009. The increase of food prices has also increased the predictions of inflation by 0.3 points per year. The recent decreasing trend of inflation has resulted in a drop the figure by 0.8 points.

### Foreign Investment has dropped by 45.5% in the first 5 months

The level of foreign investment for the same period last year has nearly halved. This is due to the fact that there is no longer a portfolio of companies to be privatized, an increase in political and economical volatility in Turkey and the outlook of negative volatility in the global economic markets. The Treasury has stated that the period for the Foreign Direct Investments for January-May 2008 has decreased by 45.5% to \$6,053 billion for compared with the same period for last year.

### Ban lifted - real estate sales to foreigners escalate

There has been a rise in opportunities in real estate sales to foreigners with the new legislation. The numbers of title deed registrations indicate a huge bang in the sales of real estate to foreigners in the last 6 months. During the period 1923- 2002, 11.9 million square meters was sold, but in the last six months sales of 3.3 million square meters were realized.

### Foreign Trade Deficit rose to 37 billion dollars

Compared to the month of June of the previous year, for the same month this year exports have risen by 31% to 11.8 billion dollars. Imports increased by 36.4% to 19.47 billion dollars. According to figures released by the Turkish Statistical Institute, for the same period the foreign trade deficit increased by 45.7% resulting in an increase of 5.29 billion dollars to a total amount of 7.7 billion dollars. In June 2007, the export coverage import average was 62.9% and fell to 60.4% in the same month in 2008.

### The Istanbul Chamber Of Commerce and Industry announces Turkey's top 500 industrial establishments

The top 500 industrial establishments announced according to sales, export and earnings:

Sales First 10 (billion YTL)			Export First 10 (billion YTL)			Earnings First 10 (billion YTL)		
2007 Sales	Company		2007	Enterprise	Export	2007	Enterprise	Profit for the period
1	Tupras	18.4	1	Ford	3.4	1	Tupras	1,252
2	Ford	6.2	2	Tupras	3.3	2	Erdemir	784
3	EUAS	4.6	3	Toyota	3.0	3	Ford	600
4	Oyak-Renault	4.1	4	Oyak-Renault	2.5	4	Philsa	531
5	Toyota	3.9	5	Vestel	1.6	5	Petrol Ofisi	508
6	Erdemir	3.9	6	Arcelik	1.6	6	Shell Turcas	468
7	Arcelik	3.9	7	Tofas	1.6	7	TPAO	411
8	Tofas	3.0	8	Mercedes-Benz	0.9	8	-	
9	Aygaz	2.8	9	Bosch	0.9	9	Anadolu Efes	307
10	Icdas	2.4	10	Habas	0.9	10	Unilever	268

### Istanbul competes with New York to be most expensive

Just behind New York, Istanbul has risen by 15 points to become the 23<sup>rd</sup> most expensive city in the world. Moscow is rated the most expensive city at present.

City	Country	Points
1	Moscow	142.4

	Russia	
2	Tokyo Japan	127.0
3	London UK	125.0
4	Oslo Norway	118.3
5	Seoul South Korea	117.7
6	Hong Kong China	117.6
7	Copenhagen Denmark	117.2
8	Geneva Switzerland	115.8
9	Zurich Switzerland	112.7
10	Milan Italy	111.3
22	New York USA	100.0
23	Istanbul Turkey	99.4

### Women withdraw from workforce

The Turkish Industrialists' and Businessmen's Association (TUSIAD) and the Women's Entrepreneurs Association of Turkey recently published a report that compared the percentage of women between the ages of 15-49 who are not receiving any education. The report shows that the total figure has risen from 16.7% (period 2000-2006) to 21.8% for the 2006-2007 periods. The number of women in the workforce has fallen from 34.3% in 1988 to 24.9% in 2006. In 1988, 31% of women were employed whereas in 2006 this figure is 22%.

### Istanbul carries the burden of taxes in Turkey

For every 100 YTL of taxes, 43 YTL is contributed by residents of Istanbul – 79,6% of the total is comprised by contributions from Istanbul, Kocaeli, Ankara and Izmir. For the first half of this year, public coffers were boosted by corporate and transportation taxes.

Province	Revenue YTL	Total Share (%)
Ankara	9,841,588	11.89
Antalya	1,026,593	1.24
Bursa	2,035,596	2.46
Mersin	1,665,983	2.01
Istanbul	35,381,433	42.76
Izmir	8,625,504	10.42
Kocaeli	12,042,474	14.55

## Politics

### Casualties incite anger

17 people were killed and around 140 were wounded on 27 July in the attacks in Gungoren. Seven people were severely injured and along with 50 other were treated in various hospitals

around Istanbul. Strong criticisms were voiced both nationally and internationally and links between the attacks and the PKK organization are being investigated.

### **AKP not be shut but fined for having an anti-secular focus**

The case at the Constitutional Court to close down the AKP reached a conclusion in record time. Hasim Kilic the Head of the Court announced the result last night. Out of 11 votes, 6 voted to close the AKP, but as 7 votes are needed, the AKP will not be shut. Sabih Kanadoglu the Honorary Chief Public Prosecutor of the Supreme Court said that the AKP had been found guilty of being anti-secular focused by the Constitutional Court. The Constitutional Court's decision regarding closing AKP was that 10 out of 11 voters decided that AKP was anti-secular focused. The governing party should learn a lesson from this. He hopes that in the future AKP will avoid issues that attack the secular republic. As a punishment AKP has to reimburse half the money that they received from the treasury last year - 22.8 million YTL.

### **Sener to go ahead with new party**

Former Deputy Premier of the ruling Justice and Development Party (AKP) Abdullatif Sener, resigned after scathing criticism over his recent announcement to resume work on the formation of a new political party. In his comments to the press Sener stated that in this group there was a huge amount of politeness and he showed the same regard. He pointed out the importance of harmony between society and its institutions in ethical politics and stated that there should be a continual search for systematic solutions.

### **France: draft statement released**

It has been announced that in Paris, Prime minister Recep Tayyip Erdogan has asked French President Nicholas Sarkozy (who is this term's Head of European Union) to stay faithful to their commitment to Turkey becoming a full member of the EU. At the meeting, the Turkey - EU relationship, France and Turkey's relationship and the Middle Eastern peace process were on the agenda. Erdogan informed Sarkozy of Turkey's expectations regarding the EU membership consultations. Sarkozy announced that issues regarding the consultation would proceed as before during his term of office. He reinforced once more that that the so called 'Union for the Mediterranean' project was not related to the EU issue.

### **Azerbaijani Petrol will reach India with a Mediterranean pipe line**

Hilmi Guler, Minister of Energy and Natural Resources has declared that the Mediterranean pipeline feasibility study will be completed in 10 months. The negotiations between the two parties will happen fast. The pipeline between Turkey and Israel is also related to India. In 10 days the three countries' ministers will meet. The meeting will cover the pipeline between Turkey and Israel, electricity, natural gas and petrol. The energy relationship between the two countries is becoming closer. This project is seen as a positive thing because the petrol transportation time will be reduced from 40 to 19 days. Ben Binyamin Eliezer Minister for Underground Construction announced that this project will help the peace process.

### **'Iron Silk Road' to connect Europe with Asia**

At the ground breaking ceremony of the new railway that will pass through Turkey, the Turkish President Abdullah Gul, Georgian President Mihail Saakasvili and Azerbaijani President Ilham Aliyev, met in Kars. All three countries expect economic stimulation as a result of the project known as the 450 million dollar Baku-Tbilisi-Kars or 'Iron Silk Road'.

## 20 October – First date for Ergenekon Trial

The 13<sup>th</sup> Court of the High Criminal Court has accepted the prosecutors' accusations which consisted of 2,445 page and 441 files which was brought to it concerning the so called Ergenekon case. The trial will take place in the Silivri punishment and rehabilitation complex. The first trial date is on 20<sup>th</sup> October 2008. The leading suspect in the case is Veli Küçük, followed by the leader of the Turkish Workers party Dogu Perincek. Veli Kucuk is accused of instigating the attacks on the Cumhuriyet Newspapers and Doğu Perincek is accused of inciting members of the military and others for an armed coup.

## Extensive solution negotiations to start in Cyprus

TRNC President Mehmet Ali Talat and the Leader of Greek Cypriot Administration Dimitris Hristofyas have announced the decision to start solution negotiations on the 3<sup>rd</sup> of September. They also decided that the results hammered out between them will be put to referendums in their two communities. Concessions concerning the boundaries of the constituent states, cultural heritage, crisis management, subjects related to crime and punishment were also among the 16 issues that will be negotiated.

## Other Topics

### Turk Tuborg sold to Israeli Giant

96.36% of Carlsberg Breweries A/S, Turk Tuborg Bira ve Malt Sanayii AS was sold to the CBC group's Israel Beer Breweries Limited for 80 million dollars. The share transfer agreement was signed on 22 July 2008.

### Tasyapi-Goldman Sachs to produce 12% of enenergy output

The energy company Cogentrix Energy, which is part of the Goldman Sachs Group, has signed a 50% joint venture with the Tasyapi Group. In the next 5 -7 years Tasyapi aims to invest 4,000 Megawatt and to produce 12% of Turkey's total energy output.

### Electricity sources according to year (1000 Kwh)

Years	Imported coal	Lignite	Natural gas	Geothermal	LPG	Naphta
2004	22,424,531	57,058,804	93,181	415,708	1,309,454	22,424,531
2005	29,843,854	70,656,825	94,627	449,776	1,963,973	29,843,854
2006	32,242,268	77,233,418	99,804	452,007	2,009,955	32,242,268
2007	38,289,362	92,820,915	158,241	477,681	632,830	38,289,362
2008	20,171,689	46,762,015	86,940	254,555	373,613	20,171,689

Years	Fuel-Oil	Diesel	Bineral coal	Biogas	Hydraulic	Wind
2004	7,335,004	19,952	2,447,624	38,123	46,046.712	55,147
2005	5,759,321	-	2,851,999	38,226	39,572.013	56,031
2006	5,324,110	18,207	2,854,910	39,161	44,153.551	129,039
2007	7,581,956	8,281	3,137,483	42,291	35,779.326	357,551
2008	4,696,254	68,157	1,504,796	56,981	19,219.399	255,855

### Increase in Auto Production and sales

The total number of transport vehicles sold in the January to June period as compared to the

same period of the previous year, increased by 12% and reached a total of 281,000. Similarly, an increase of 18% led to a number of 164,000 cars sold. The market share of imported cars was 66%. According to statements from the Automotive Manufacturers' Association for the January to June period there was a 51% market increase for minibuses, a 12% increase for buses but for trucks a decrease of 5.3%. The market for tractors fell by 17.1%.

#### **A 500 million dollar deal for Turkcell and BeST**

Turkcell, the biggest mobile phone operator in Turkey, is fast increasing its investments abroad. It has agreed to acquire 80% of the Belarusian government owned mobile service operator BeST for 500 million dollars.

#### **Arms manufacture Steyr to bring investment to Turkey**

Steyr, one of world's leading arms and defense industry equipment producers has started initiatives towards establishing long term investments in manufacture and sales in the Turkish market. Emphasizing the power of the Turkish defense force and defense industry, Christian Simku, senior executive of Steyr, has stated that they intend to cooperate with the Turkish defense industry and develop the civilian market which is their true aim. He also stated that the Turkish military industry has shown a rattling rate of development.

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