



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

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Newsletter July 2009

Economy

Overview of Monthly Data

YTL-Rates	30.06.2009	31.07.2009	Change in %
YTL pro Euro	2.1469	2.0878	-2.75 %
YTL pro USD	1.5301	1.4841	-3.00 %

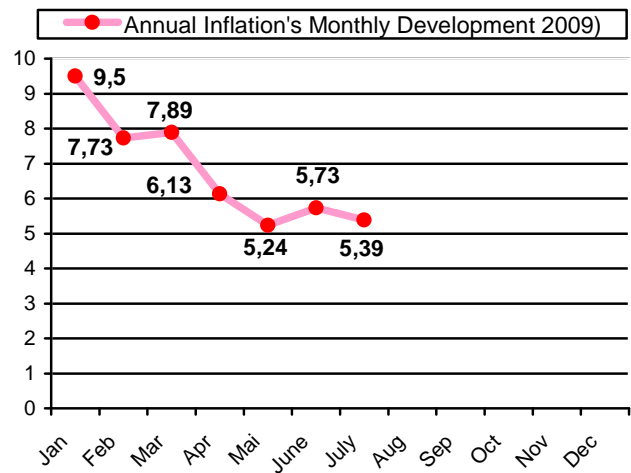
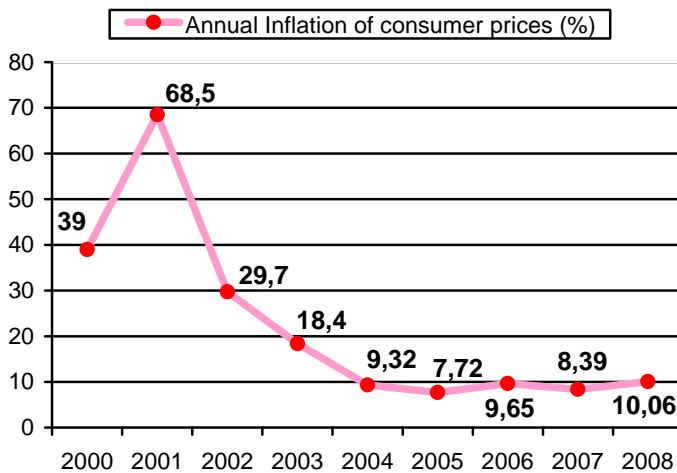
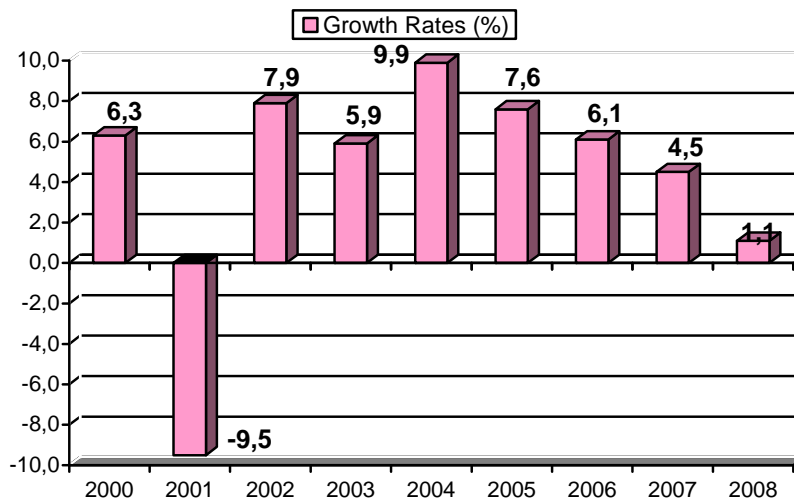
Stock exchange index	36,949	42,641	15.40 %
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.71%	3.75%
Consumer prices	0.25%	5.39%

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	-6.2	1.1
2009	-13,8				



Wage agreement for public sector workers

Following lengthy negotiations which were accompanied by occasional walkouts, the social partners have reached a wage agreement for some 300,000 workers in Turkey's public sector. Wages were increased by 3.5% retrospectively for the first six months of 2009 and will be raised by 5.5% in the second half of the year. The settlement fell well short of labor union demands, which had called for a 20% pay hike.

Unaccounted influx of foreign currency mends gap in Turkey's current account

An influx of foreign currency from sources unaccounted for, amounting to US\$18.3bn in the period October 2008 - May 2009, has treated the Turkish economy to a much-needed cash injection. While Central Bank officials attributed this item, which figures as “net error amount” in the current account, to “under-the-mattress” savings of the common people, financial experts expressed their doubts, pointing to the informal economy. Owing to this foreign currency accrual the country was able to fully absorb its current account deficit, totaling US\$10.3bn. Official foreign currency revenue stood at US\$92.9bn in the stated period, whereas foreign currency expenditure listed as US\$105.2bn. Had it not been for the foreign currency from unaccounted sources, the Turkish government would probably have had to borrow more money from the IMF in order to keep the national currency from deteriorating.

-13.8% recession in the first quarter of 2009

According to the official statistics, Turkey’s economy has shrunk by 13.8% in the 1st quarter of 2009. This makes Turkey the OECD and G20 member country the hardest hit by the global crisis. However, as industry begins to recover, negative growth is expected to recede to around 7% by the end of the year.

Exports of US\$8.1bn in June

In June, Turkey’s exports again fell considerably short of the previous year’s figure. Turkish Exporters’ Association TIM announced that exports dropped to US\$8.1bn, almost a third (32.78%) less than in the reference month of 2008. However, there was an increase of 10% over the previous month, so exporters are possibly seeing the light at the end of tunnel.

Foreign capital influx decreases by over half

According to the Turkish Association of International Investors, the target of US\$10bn in foreign direct investments set for 2009 will most likely have to be corrected downwards. In the first five months of the year just over US\$3.8bn flowed into Turkey, 52.2% less than in the same period of the previous year. The real estate even registered a drop of 62%. The association called for comprehensive reforms in order to reverse this trend. Only investments in the energy and environmental sectors showed a strong increase, reaching 6.5 times the sum of the same period of the previous year until the end of May.

Slump of automotive production continues

Turkey’s automotive industry, which is dependent on exports by two thirds, is still suffering severely from the global crisis. In the first six months of 2009, the total production of motor vehicles declined by almost 45%. As for commercial vehicles, the drop was much worse; -96% for minivans, -87% for minibuses and -86% for trucks, the latter slumping to the lowest level for 10 years. Cars (-35.3%) and coaches (-25%) were comparatively less affected. While the temporary tax breaks granted by the government helped to reduce automobile stockpiles and boosted domestic car sales (+15.4% over the same period of the previous year), sales of commercial vehicles – especially heavy trucks – hardly benefited from those measures at all.

Consumption share in imports on the rise

Due to the crisis, not only have imports to Turkey declined severely, their composition has also changed. In May, the share of consumer goods in total imports rose by 15.4% against a 10.6% average the year before. By contrast, the share of raw materials dropped to 69.8% from 77.0% in the same month of the previous year.

Istanbul Stock Exchange still on the upswing

Since the beginning of this year, the index of the Istanbul Stock Exchange (IMKB) has soared by almost 40%. At the same time, the value of its portfolio grew from TL61.7bn to TL88.2bn. Despite a slight increase in the number of domestic investors, the IMKB is still firmly in foreign hands: More than TL58bn, or 65.81% of its portfolio, is held by international investors.

Subsidy scheme put into effect – with some unexpected changes

The new subsidy system of the Turkish government, in a revised form, has now come into effect by virtue of a statutory decree. A number of details have been modified against the proposals which had been presented a month ago. Certain industries such as knitwear and copper wire production are now included in the scheme. The most important change, however, is that contrary to the draft a minimum investment sum – TL1m for the 1st and 2nd regions, and TL500,000 for the 3rd and 4th regions – has been introduced. This means that small investors will not be entitled to subsidies.

Severe profit losses for the Top 500

The Istanbul Chamber of Industry (ISO) has announced the 500 largest industrial companies of Turkey. Oil and gas giant TÜPRAS ranks first yet again, and by a large margin having posted sales of some TL27.7b. Five of the top 10 companies are part of Koc industrial group. The Top 500 had to cope with severe profit losses in 2008. Their profits before taxes, said ISO president Tanil Küçük, dropped by 40.1% over the previous year, to TL11.2b from TL19.2b in 2007.

The 10 largest companies of Turkey

Rank 2008	Company	Sales (TL)
1	TÜPRAS	27,732,857,295
2	EÜAS	6,249,112,724
3	Ford	6,005,491,010
4	Eregli Demir-Celik	5,014,572,054
5	OYAK Renault	4,710,974,763
6	Tofas	4,184,361,976
7	Arcelik	4,068,892,569
8	Icdas	3,828,300,738
9	Habas	3,476,676,147
10	Aygaz	3,279,709,953

Rank 2008	Company	Exports (US\$1,000)
1	TÜPRAS	4,471,014
2	Ford	3,759,804
3	Oyak	3,268,915
4	Tofas	2,564,804
5	Toyota	1,786,223
6	Habas	1,715,422

7	Arcelik	1,713,736
8	Icdas	1,991,957
9	Petrol Ofisi	1,423,963
10	Vestel	1,404,878

Rank 2008	Company	Period profit before taxes (TL)
1	TPOA	1,772,395,715
2	Philsa	729,201,066
3	Ford	616,510,110
4	TÜPRAS	517,000,444
5	Colakoglu Metal	333,534,990
6	Unilever	323,935,921
7	Mercedes-Benz Türk	319,136,868
8	Habas	317,673,953
9	Anadolu Efes	307,963,121
10	Kardemir	307,718,769

Politics

G8 countries acknowledge Turkey as “regional power”

Analysts are regarding the fact that Turkey has been invited to attend the G8 summit in L'Aquila (Italy) as a clear sign that the country is being acknowledged as “regional power” by the rich industrial nations. This places Turkey on the same level with other emerging countries such as Brazil, Mexico, China, India, and South Africa, being the countries that the G8 states are set to increasingly consult in crucial matters of the future. Moreover, Turkey serves as a bridge between Western and Eastern civilization.

Erdogan demands “end to brutality” against Uyghurs

The Turkish Prime Minister vehemently criticized China's actions against the Uyghur population in the Autonomous Region of Xinjiang (also referred to as East Turkestan). On the occasion of a meeting of the foreign ministers of the Gulf Cooperation Council in Istanbul, Mr. Erdogan said that his government expects the deplorable incidents to come to an end soon. He spoke of horrible pictures on television, stating that the Turkish people were right to side with the Uyghurs. Turkey harbors a small minority of some 500 members of this Turkic people that numbers around 10 million world-wide.

New Foreign Minister Davutoglu comments on current foreign policy issues

Meeting with journalists in Ankara, the new Turkish Foreign Minister, Ahmet Davutoglu, elaborated on the foreign policy of his government. Turkey wants to see relations with Armenia, and also relations between Azerbaijan and Armenia, rebuilt. His country, the minister said, regards the resolution of the long-standing Nagorno-Karabakh conflict as a regional matter. The same applies to the Georgia's disputed autonomous republic of Abkhazia. Mr. Davutoglu stated that his country

is seeking to further strengthen its ties with Russia, Turkey's No. 1 trading partner. However, this does not mean that the country is moving away from the European Union. Turkey continues to actively pursue the EU ascension process. Also relations with the United States and with China are continuously improving. Last but not least, Turkey has succeeded in defusing the conflict with neighboring Iraq in the Kurdish issue.

Other Topics

Growth trend in household air cons interrupted

The Turkish market for household air conditioners, which had grown tremendously up until 2008, has shrunk by at least 30% due to the crisis. Fewer and fewer building contractors fit newly built housing with the devices that are still regarded as luxury goods. Nonetheless, Turkey continues to be one of Europe's most important A/C markets, along with Spain and Italy. However, industry insiders say that it will not be possible to realize the additional growth potential for another few years.

Tobacco-processing industry obtain highest ROI

An analysis of the operating results of the Turkish top 500 companies has revealed that the tobacco-processing industry, alcoholic beverages and mining were the sectors that made the largest profits in 2008. While the average return on sales of the 500 largest industrial companies stood at 3.9%, return on assets and return on equity declined by around one half each over the previous year, to 4.8% and 10.0%, respectively.

The most profitable sectors 2008

Sector	ROS (%)	ROA (%)	ROE (%)
Tobacco-processing industry	18.5	10.4	26.5
Alcoholic beverages	16.3	9.0	13.4
Mining	11.1	7.4	12.4
Glass and glass processing	9.0	6.9	12.2
Petroleum products	7.7	19.7	34.5
Apparel	4.9	5.7	12.7
Primary metal industry	4.9	6.3	12.7
Machine building	4.2	4.8	12.9
Rubber products	4.0	5.2	10.7
Motor vehicles	3.9	6.4	15.3

Turkish-American company to build long-distance water supply in Jordan

GAMA Enerji in Ankara, a joint venture of Turkish GAMA Holding and US-based GE Energy Financial Services, has started construction of a long-distance water supply for Amman, the capital city of the Kingdom of Jordan. It will take 4 years to build the pipeline which is to carry over 100 million cubic meters of water a year over a distance of 325km from a region in the south of the country where ground water is abundant. The project requires a capital expenditure of US\$1bn, US\$190m of which are funded by GAMA Enerji from its own resources, while US\$300m are

contributed by the Jordanian Ministry of Water and Irrigation. Loans of US\$445mn have already been raised. Gama Enerji has entered into a 25-year license agreement with the Jordanian government regarding construction and operation of the water pipeline.

TUI survey: 20 Turkish hotels among the 100 best in the world

In a survey conducted by TUI AG, Turkish hotels again performed extraordinarily well. The survey polled 35 million TUI customers all over the world who had traveled with Europe's largest tour operator in 2008. The "100 most popular holiday hotels" that were elected according to the degree of holidaymakers' satisfaction include 20 Turkish hotel enterprises, which received the "TUI Holly" award for their performance.

The mobile revolution has already begun

Third-generation (3G) mobile networking has become possible in all parts of Turkey. All 3 providers (Turkcell, Vodafone and Avea) are now offering the new service without extra charges since the UMTS licenses auctions (20-year leases) at the end of last year,. The state-of-the-art technology opens up entirely new multimedia possibilities, among them sending of image files and video messages, visual telephony, TV by cell phone, and super fast internet access. There are already 5 million 3G-capable cell phones in Turkey.

Chaos surrounds determination of gasoline price

The gasoline price cap introduced by Turkey's Energy Market Regulatory Authority (EPDK) for consumer protection reasons, proved short-lived. Since the Ministry of Finance single-handedly stepped up the luxury tax levied on petroleum products (ÖTV), the EPDK was forced to immediately raise the maximum permitted price it had just announced, from TL2.93 to TL3.16 for 1 liter of unleaded gasoline (95 Octane). At 67%, Turkey now has the highest taxation of gasoline anywhere in Europe.

Composition of gasoline price in Turkey

Gasoline sales price (unleaded, 95 Octane)	(TL)
Crude oil price	0.75
Refinery	0.04
Distribution company	0.25
Taxes (ÖTV and VAT)	2.12

Turkish cement exports booming

Turkey's cement producers are currently experiencing an unforeseen boom. While demand on the home market has virtually come to a standstill, exports are expected to reach about 15m tons by the end of the year - 50% more than in 2008. The increase in the export volume, which soared to record levels in June, is attributable to two factors: brisk construction activity in the Middle East and elsewhere, and a slump in prices. In particular the cement works located in the border region with Syria and Iraq are already having difficulties meeting the heavy foreign demand for low-cost Turkish cement.

Cement exports in the past 12 months

	Quantity (tons)	Value (US\$1,000)
July 08	1,033,915	94,202
August 08	848,921	72,377
September 08	778,652	65,299
October 08	755,307	56,999
November 08	818,009	55,712
December 08	960,009	65,025
January 09	1,075,277	74,140
February 09	1,235,146	81,447
March 09	1,340,209	84,380
April 09	1,494,989	89,711
May 09	1,437,620	85,495
June 09	1,685,199	107,267

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