



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

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## Newsletter March 2009

# Economy

## Overview of Monthly Data

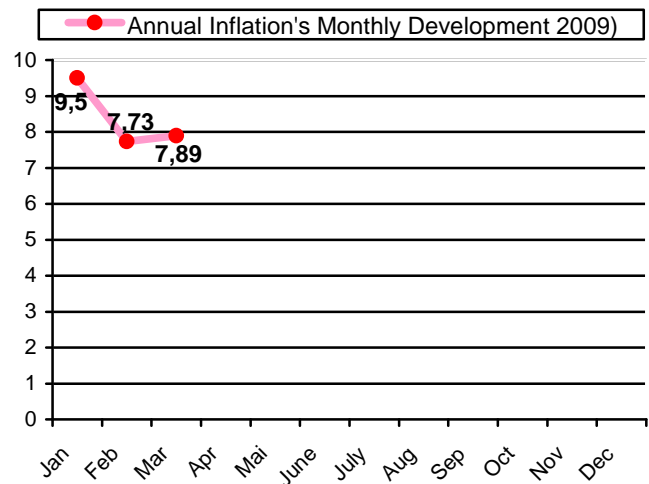
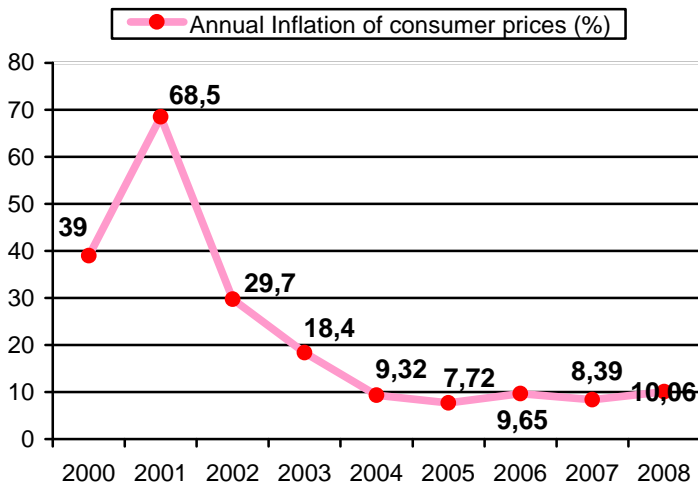
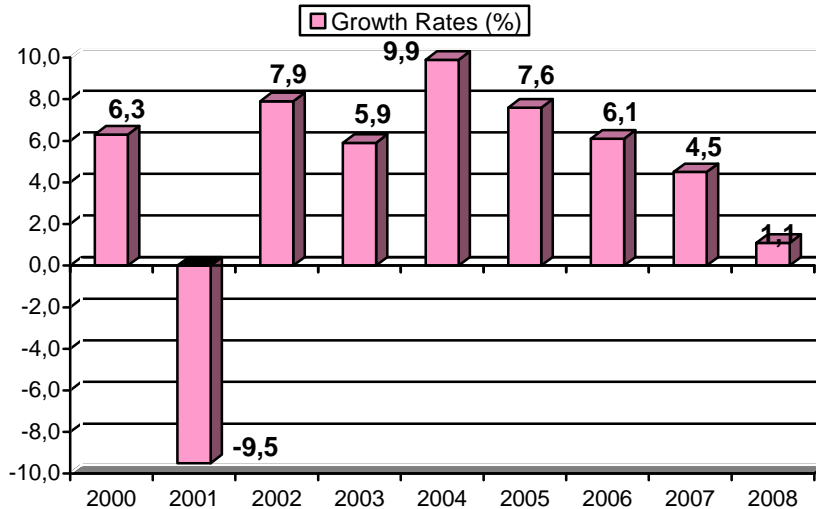
YTL-Rates	27.02.2009	31.03.2009	Change in %
YTL pro Euro	2,1545	2,2364	3,80
YTL pro USD	1,6894	1,6646	-1,45

Inflation in %	Monthly inflation	Annual inflation
Producer prices	0,29%	3,46%
Consumer prices	1,10%	7,89%

## 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



### Turkish economy shrinks for the first time in 7 years

In the final quarter of 2008, the Turkish economy experienced negative growth for the first time since 2001. Due to a 4<sup>th</sup> quarter slump of 6.2%, the total growth rate for the year dropped to 1.1%, falling considerably short of the initial 4% target. Positive growth was only made possible by an increase of 26.5% in public-sector investments, while the private sector invested 12.6% less than in the previous year. At the same time, average income in Turkey rose by 11.8% to US\$10,436.

### Economic forecasts revised down

The *Economist* had to revise its estimate regarding the growth of the Turkish gross domestic product in 2008 from 2.3% down to 1.5%. The official figures will be announced at the end of March. The authoritative weekly news magazine is now forecasting an economic growth of minus 1.5% for 2009 while its original estimate stood at plus 0.4%.

### **Decline of Turkish exports continues**

In February and March, exports from Turkey decreased by 35% and 34.9%, respectively, over the same months of 2008. The volume of exports was down to approx. US\$6.9bn and US\$7.1bn respectively, of which some US\$1.1bn and US\$ 1.25bn were automotive. Thus, the automotive industry again accounted for the largest share in Turkish exports though with over 50% it suffered the heaviest losses of all sectors. The country's second largest export industry was clothing, with just under US\$1bn. While exports of all industrial sectors dropped, there was a positive trend in some agricultural sectors. Exports to the EU countries decreased the sharpest, whereas certain non-European export markets gained considerably. Regional distribution was highly heterogeneous: notably, exports from some provinces located close to the country's south eastern borders soared.

### **Exports by business sectors**

<b>Sector</b>	<b>Export volume in March 2009 (US\$)</b>	<b>Change from March 2008 (%)</b>
Agriculture	974,414	-3.07
Textiles and raw materials	415,018	-36.67
Leather and leather goods	65,156	-32.31
Carpets	77,822	-10.50
Chemicals	580,645	-49.99
Clothing and ready-wear	975,266	-30.40
Vehicles and accessories	1,258,400	-50.15
Electrics – Electronics	610,245	-27.15
Machinery and equipment	458,099	-27.66
Ferrous and non-ferrous metals	316,544	-44.44
Iron and steel products	929,208	-30.89
Cement and ceramics	238,948	-16.81
Precious metals and jewellery	77,483	-35.65
Other industrial products	3,942	-55.13
Mining	145,597	-33.78
<b>TOTAL</b>	<b>7,126,788</b>	<b>-34.93</b>

### **Slowing consumption curtails inflation**

The crisis-induced decrease in consumer demand is reflected in lower inflation. In February, Turkey's inflation rate according to the consumer price index (TÜFE) dropped to 7.73% from 9.10% in the same month of the previous year and even to 6.43% on the basis of the producer price index (ÜFE). Falling by 5.58%, consumer prices for clothing and footwear saw the highest decrease in February, while on an annual basis residential property topped the list of spending categories affected by inflation, with 17.04%.

### **Current account continues to improve by falling imports**

Turkey's imports plummeted in January, from US\$15.8bn to roughly US\$8.8bn on a monthly basis. With exports in the same period amounting to around US\$8.7bn, the foreign trade balance was almost even. Subsequently the current account deficit, which had stood at approx. US\$41.6bn in

December, dropped to about US\$37.2bn in January, the lowest level since 12 months.

### **Jobless figures on the rise**

The decline in industrial production and capacity utilization has had an immediate effect on the number of unemployed - delayed by 1 and 2 months respectively. In December, Turkey's unemployment rate rose to 13.6%, while in the industrial sector the 2008 annual average even reached 22.1%. The official figures indicate that in the course of last year 838,000 employed persons lost their job. Considering that there were another 2,298,000 people who gave up looking for work, the number of Turks effectively out of work must be put at 5,662,000. In the past eight months 1.1 million people joined the ranks of the unemployed, 279,000 of them in February alone. In view of the economic data, the labour market is bound to deteriorate still further.

### **Tax relief to provide consumption stimulus**

The Turkish government has announced its 5<sup>th</sup> package of economic measures. This includes a VAT cut of 10 percentage points, down to 8 percent, for certain products such as furniture, computers and construction machinery, valid for three months. In the past three months, the same tax relief applied to motor vehicles, household appliances and residential property. In addition, only a third of the usual registry fees will be charged in the case of real estate purchases. Business circles greeted the news with cautious optimism.

## **Politics**

### **5<sup>th</sup> World Water Forum in Istanbul**

Between March 16 and 22, the triennial World Water Forum was held in Istanbul. The city hosted some 20,000 participants from all over the world, among them 25 heads of state and the Lord Mayors of 20 major cities. The forum's focus was on the role of local government for water and wastewater services. To interconnect the venues located on opposite banks of the Golden Horn, part of the historic Galata pontoon bridge was moved there – true to the forum's motto “bridging divides for water”.

### **Gül on surprise visit to Iraq**

Turkish president Abdullah Gül became his country's first head of state in 33 years to visit Baghdad where he was welcomed by his Iraqi counterpart Jalal Talabani. Topics discussed at the unscheduled meeting included cross-national trade, petrol deals and especially internal security. Both leaders emphasized the importance of their countries' mutual co-operation in the fight against terrorism. Talabani, himself of Kurdish descent, reiterated his appeal to the PKK to abandon its armed struggle.

### **Right-wing politician killed in accident**

Muhsin Yazicioglu, founder and leader of the nationalist-islamic Great Union Party (BBP), died in a helicopter crash just a few days ahead of local elections in Turkey. The 55-year-old was returning from a campaign event in Kahramanmaraş province in the company of fellow party members. Due to heavy snow conditions in the remote mountain region, it took rescue teams two days to reach

the wreck of the aircraft and recover the frozen bodies of the pilot and all five passengers. There was widespread criticism that the authorities were unable to locate the scene of the accident sooner even though an injured survivor had placed an emergency call via cell phone.

### **Turkish entrepreneurs appeal to Obama over Armenian issue**

The president of the Turkish Entrepreneurs' Association TÜSIAD, Arzuhan Dogan Yalcindag, has sent a letter to US President Barack Obama regarding the recent submission to the US House of Representatives regarding recognition of the Armenian genocide of 1915. Describing the proposal as "unfortunate", she explains the parliamentary initiative is biased and fails to recognize the recent rapprochement between Turkey and Armenia. It is also likely, she said, to harm relations between Turkey and the United States which are more vital than ever in order to establish lasting peace in the region.

### **AKP loses ground in local elections**

In the elections held on March 29 the ruling Justice and Development Party (AKP) won some 39 percent of votes nationwide, thus defending its position as the strongest political power despite falling 8 percentage points short of the result of the 2007 general elections and clearly failing their own expectations. The Lord Mayor elections in Istanbul and Ankara, which have considerable symbolic significance, ended in victories of the AKP incumbents with only a slight margin over their challengers from the secular Republican People's Party (CHP), while in Izmir the CHP candidate claimed a sweeping victory. Also notable was the vote gain achieved by the Nationalist Movement Party (MHP).

### **Opposition: Elections have been manipulated**

In the aftermath of Turkey's local elections, there was no lack of criticism from the defeated parties. They claimed that the transmission of data from Istanbul, Ankara and Adana to the central election board was hampered by computer failure due to power cuts, rendering a correct count of votes impossible. Elsewhere there were reports of stolen ballot boxes. Election results in several municipalities were contested. Prior to the elections there had been doubts about the accuracy of the electoral registers, some of which apparently contained the names of non-existent and deceased citizens.

## **Other Topics**

### **Turkish plane narrowly escapes full-fledged disaster**

A Boeing 737 of Turkey's national airline THY, carrying 131 passengers and 7 crew, has crashed on approach to Amsterdam's Schiphol International Airport. Only about a kilometre short of the runway, the airliner hit the ground and broke into three parts - killing all 3 pilots as well as 6 passengers and injuring dozens of others, some severely.

### **Altimeter malfunction ruled cause of Amsterdam aircraft accident**

The Dutch aviation authorities have now issued their preliminary report regarding the recent crash of a THY passenger plane at Schiphol. The analysis of the flight recorder revealed that a

malfunctioning altimeter conveyed incorrect information, prompting engine power to be cut back automatically. This caused the aircraft to lose vital speed, to which the pilots did not respond in time to avoid the crash. The Turkish Association of Airline Pilots questioned this account, saying that one would have to wait for the final accident report.

### **Istanbul office market expands beyond the Bosphorus**

Soaring rents and limited availability of office space in the European part of Istanbul cause more and more companies to move their headquarters to the Asian part of the megacity. On the other side of the Bosphorus, there is an abundance of class A offices at substantially lower prices and still more new business districts are being built. Moreover, transport facilities have improved continuously, e.g. through the second international airport and many employees live on the Anatolian side anyway. Therefore, vacancy rates even in top-quality offices on the European side have begun to rise, if only slightly.

### **Average office rents in Istanbul**

4<sup>th</sup> quarter 2008 (US\$/sq m per month)

	Class A	Class B
Asian part	22.4	14.5
European part	32.7	17.5

### **Ipek Kagit rises to the occasion**

Ipek Kagit, a joint operation of Atlanta-based pulp and paper company Georgia-Pacific and the Turkish Eczacibasi Holding, keeps pursuing its expansion course. With an investment of US\$400m, Turkey's leading manufacturer of hygiene paper is currently building a new plant in Manisa twice the size of the existing production site in Yalova. Eventually this will generate employment for 1,000 people. In addition, the company has opened a production facility in Almaty/Kazakhstan and is striving to become the market leader in Central Asia and the Caucasus region.

### **EnBW acquires 50% of Borusan Enerji**

German power giant Energie Baden Württemberg AG and Turkish holding Borusan have signed a memorandum of understanding regarding the acquisition of a 50% share in electric provider Borusan Enerji. Within the scope of this strategic partnership the two companies are planning investments aimed at producing 2,000 megawatts of electricity, the bulk of which will be from renewable energy sources.

### **Modernization of rail travel advancing**

Of the 12 state-of-the-art train sets the Turkish Transport Ministry has purchased in South Korea, 6 have started serving the railway that links the southern cities of Adana and Mersin. The handicapped-accessible trains offer enhanced safety and convenience and include air-conditioning. Although the track has not yet been upgraded, travel time is also reduced by up to 27 minutes, to 47 minutes, thus considerably increasing the appeal of rail travel.

### **Banker Özyegin again Turkey's richest man**

The Forbes list of the 100 richest Turks is headed, once again, by Hüsnü Özyegin, founder of Finansbank and Fiba Group. With personal assets of US\$2.9bn, the 65-year-old narrowly leads

his former classmate, Mehmet Emin Karamehmet, who as owner of Cukurova Holding has US\$2.8bn to his name. A year earlier, Karamehmet had topped the list with US\$4.3bn. The overall wealth of Turkey's super rich diminished by almost half. Take for example Rahmi Koc (of Koc Holding), who has dropped from rank 1 with US\$1.7bn in 2006 all the way down to rank 24, with his fortune reduced to a mere US\$700m.

### **BIM supermarkets on expansion course at home and abroad**

Turkish supermarket chain BIM has been able to boost its sales volume by 42% to over TL4.2bn in 2008. In the first 15 years of its existence the discounter opened 2,330 stores, employing over 14,000 personnel today. Net profits for 2008 were TL114m, of which TL110m will be reinvested to add another 350 markets and create 2,000 new jobs in 2009. Moreover, the chain is now expanding to Morocco where it will start operating its first market in April. The number of Moroccan BIM markets is to reach 40 by the end of the year and 250 within the next 4 to 5 years.

### **Number of Carrefoursa markets to continue growing**

With an investment of TL135m, Turkey's second-largest holding Sabanci is set to open 70 more Carrefoursa supermarkets in the course of this year. According to the holding's chairwoman, Güler Sabanci, the company is aiming for double-digit growth figures. Especially in times of crisis, economic shopping is essential to many, she said, adding that Carrefoursa is accommodating consumers' need, in particular those of women, through a lowest-price guarantee, bargain offers and its own brands.

### **Colin's jeanswear defies crisis**

Istanbul-based Eroglu Group is turning the crisis into an opportunity. The company, which sells its clothing brands Colin's and Loft through 440 outlets in 30 countries, intends to benefit from plummeting store rents and decreased competition. Of the 70 new sales outlets to be opened, only 15 will be in Turkey – the majority will be spread to countries like Russia, Ukraine, Kazakhstan, Malaysia, Egypt and Tunisia. The group's ready-wear sales target for 2009 is US\$600m, up 20% from the previous year.

### **Barsan Lojistik pushes ahead with globalization**

Globally operating logistics service provider Barsan has acquired a 50% share in Hungarian haulier Transemex. This move is intended to strengthen the company's strategic position in Central and Eastern Europe. As of today, Istanbul-based Barsan Lojistik operates logistics hubs in various countries, including the UK, Germany, France, Spain, Italy, China, Uzbekistan and the United States. Negotiations concerning further world-wide co-operations and participations are ongoing.

### **Juicy growth at Tamek**

No wonder the executives of Tamek in Bursa are all smiles: their company's sales figures continue to rise at full speed. The preserved food and fruit juice manufacturer, which was founded in 1955, has set a sales target of TL280m for 2009, almost 20% more than 2008 (TL237m). The company has boomed in recent years, especially in the fruit juice segment - up from 34.5m litres in 2003 to 115m litres in 2008. Partly due to the crisis, the demand for canned food has also increased. The company's latest consumer product is canned tuna fish. In co-operation with a Thai company, Tamek is aiming for a 20% share in the Turkish tuna market.

### **Turkish hospital group launches Iraq offensive**

Istanbul based Universal Hospital Group, already comprising 83 hospitals at home and abroad, has been awarded a US\$750m contract to build five new health facilities in Iraq. The Turkish group, which is recently reorganized as a holding company, has great plans, aiming for a total of 100 hospitals in the neighbouring country. Just recently the company commissioned a state-of-the-art hospital centre in the Albanian capital city of Tirana; another on the Nile in Khartoum/Sudan is to be completed shortly. According to Dr Azmi Ofluoglu, chairman of the group's board of directors, they are currently forced to expand abroad since the legal basis in Turkey is still lacking.

### **Nappy market on the rise despite crisis**

The Turkish market for disposable diapers has expanded 14% in 2008, still improving on the 9% growth rate of the previous year. This market segment has reached a volume of over US\$800m, with 6 large manufacturers accounting for 90% of sales. Since the country's birth rate is only slightly declining and disposable nappies are becoming ever more popular, there is still tremendous potential in this line of business. However, competition is getting fiercer and with the pressure on prices intensifying, the market share of low-cost brands is expected to increase.

### **Car prices start accelerating again**

Several car manufacturers have announced a price hike of 1-3% on a TL basis as of April 1, stating cost increases for imported cars, particularly due to the dwindling value of the Turkish Lira against the Euro and US dollar. The automobile market had just been cranked up – a substantial cut in the luxury tax ÖTV helped to sell 20,000 new cars, reducing stockpiles by around 15%. Nonetheless, other manufacturers are expected to follow suit with price increases.

### **Exports of fresh fruit and vegetables soar**

One of the few Turkish business sectors currently not struggling are the exporters of fresh fruit, fresh vegetables and citrus fruits. According to their association chairman, combined exports of January and February have increased by 47% in volume and by 29% in value over the same period of the previous year. This keeps the sector on track for this year's export target of US\$2bn. The only things that fruit and vegetable exporters have to worry about are bureaucratic restrictions and constant exchange rate fluctuations.

### **Bursa turning into city of unemployed**

One of Turkey's foremost industrial centres is Bursa, located some 100 km south of Istanbul. In recent decades the historic capital city has evolved into the centre of the Turkish automotive, machine and textile industries and is now the country's fourth largest agglomeration with around 1.5 million inhabitants. Due to the crisis Bursa is now in danger of turning into a city of the unemployed. Last year about 57,000 people lost their jobs here, while 14,000 more workers joined the ranks of the unemployed in the first two months of this year already. Furthermore, hundreds of businesses have applied for short-time work affecting over 35,000 employees.

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