



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

We welcome your feedback on our Newsletter and comments on anything that you consider may improve or add to this service.

If you know anyone else who would be interested in receiving this free newsletter, please send their email address newsletter@fmconsulting.info, so that we can include them on our distribution list. Alternatively, please feel free to forward this newsletter to them directly.

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 May 2008

Economy

Overview of Monthly Data

YTL-Rates	04.30.2008	05.31.2008	Change in %
YTL pro Euro	2.0120	1.8796	-6.58
YTL pro USD	1.2930	1.2125	-6.23

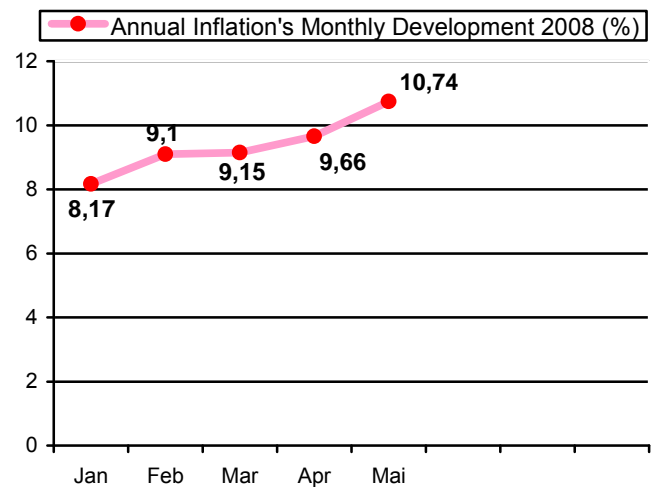
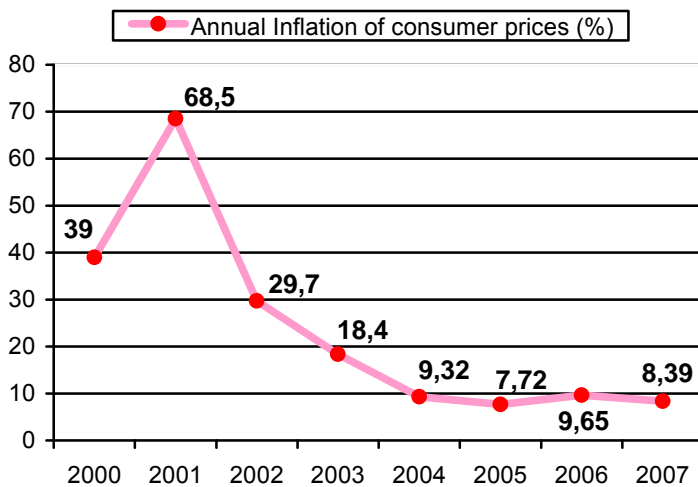
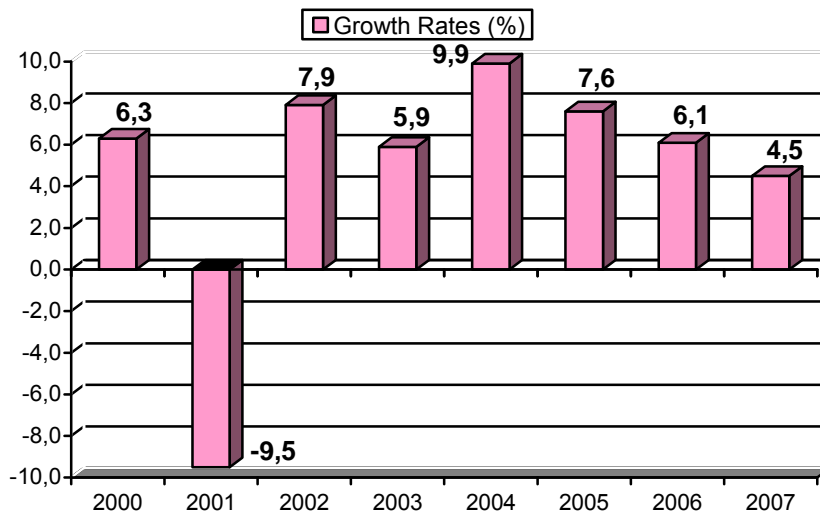
Stock exchange index	43,468	39,970	-8.05
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	2.12	16.53
Consumer prices	1.49	10.74

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



Swiss investment in Turkey doubles in 5 years, a new double taxation agreement signed

Monika Rühl, the ambassador of the Swiss State Secretariat for economic affairs announced that compared to 2002 the direct foreign investment by Switzerland in Turkey has increased by 100% and has reached 2 billion USD in 2007. Trade volume between Switzerland and Turkey has also increased (to a figure of 3 billion USD) thus making Turkey the number one supplier to Switzerland. Furthermore, in 2007 exports to Turkey have increased by 14% and imports from Turkey have risen by 27%. Rühl said that Swiss companies active in Turkey reached 400 and have provided employment for 11,000 people. Due to these economic developments Turkey signed a new double taxation agreement with Switzerland in Bern on the 22nd of May 2008. The

main purpose of this agreement is being to stimulate further development of economic relations and help strengthen the ties between the two countries.

Foreign trade deficit reaches 22.5 billion USD in 4 months

According to the figures published by the Turkish Statistical Institute (TurkStat), foreign trade in April reached 6.5 billion USD and for the first 4 months of the year a total of 22.5 billion USD. Exports grew by 37% and reached a total of 11,375 billion USD compared to the same month last year. Imports grew by 38.3% and reached 17,896 billion USD. The foreign trade deficit rose by 40.8% and totalled 6,494 billion USD. In April 2008 export coverage imports was 63.7%. For the first 4 months of 2008 the proportion of exports coverage imports compared to the same period in the previous year rose from 65.4% to 66.4%.

May exports set new record with 12.3 billion USD

The year-on-year export rate surpassed 120 billion for the first time. In Ardahan, State Minister Kürşat Tüzmen and Turkey's exporters asseby (TİM) chairman Oğuz Satıcı stated that for the month of May, Turkey's exports increased 34.48% to 12.281 billion USD. Tüzmen further stated that Turkey is second only to China in terms of exports and this succes has been achieved regardless of the value of the YTL. Chairman Satıcı said that Turkey's economy has still not managed to shake of its fragility.

Parliament approves new employment package

Parliament has approved the Labour law that is commonly known as new employment package. In a surprise addition, the law facilitates easier payments for employers with premium debts to the Social Security Institution. According to the new law, from the 1st of October the employers socials security premiums will be cut by 5 percent and be paid by the Treasury to the Social Security Institution.

Turkey surpasses China

Turkey has surpassed China in the number of patent applications and became number 3 in Europe. The president of the Turkish Patent Institute Yusuf Balci stated that Turkey became the third country in Europe after 72 thousand brand applications were made and over 30 thousand industrial designs were registered.

Food crisis leads to renewed interest in Turkey

Countries with high agricultural output are being viewed differently due to the rising food prices. The idea that the current food crisis makes Turkey joining the EU advantageous has led to some political debate. Professor Norbert Walker, chief economist at Deutsche Bank, stated that it would be positive if countries with fertile soil join the EU.

11.6% hike unemployment rate leads to 75 thousand more unemployed

The Turkish Statistical Institute has published in its Household Labour Force Survey that February's unemployment rate was 11.6% - a 0.2 percent increase. The number of unemployed persons increased by 55,000 compared to the same period last year and has reached 2,642,000.

Employment according to month (thousand)

							Stopped		Real
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	Months	Population	Workforce	Employed	Unemployed	looking for work (%)	Unemployed (%)	Unemployment (%)
2007	January	73.112	24.424	21.749	2.675	8.0	11.0	19.0
	February	73.190	24.158	21.398	2.760	7.9	11.4	19.3
	March	73.260	24.559	21.997	2.562	7.4	10.1	17.8
	April	73.339	25.087	22.638	2.450	7.0	9.8	16.8
	May	73.414	25.574	23.309	2.265	7.0	8.9	15.9
	June	73.492	25.866	23.581	2.285	6.9	8.8	15.7
	July	73.567	26.043	23.747	2.296	7.0	8.8	15.8
	August	73.643	25.931	23.548	2.383	6.6	9.2	15.8
	September	73.719	25.766	23.361	2.405	6.5	9.3	15.8
	October	73.792	25.208	22.750	2.458	6.3	9.7	16.0
	November*	69.185	23.217	20.867	2.350	6.4	10.1	16.5
	December	68.897	23.523	21.189	2.333	7.0	9.9	16.9
2008	January	69.309	22.679	20.112	2.567	7.3	11.3	18.6
	February	69.372	22.804	20.162	2.642	8.0	11.6	19.6

Source: TÜİK 2007 November and ADNKS.

*Data correction after implementation of a new IT system to avoid double counting of citizens (each citizen has a number)

Central Bank raises interest rate with 0.5 point

Turkey's Central Bank raised its benchmark interest rate by 0.5% and its overnight borrowing rate to 15.75%. The lending rate has been increased to 19.75%. After one month's respite Turkey once more became the interest rate champion.

Fall in foreign investment

The record rate of foreign direct investment that Turkey has experienced since 2005 has slowed down in the first quarter of 2008. According to the Central Bank, compared to the January to March period last year, the direct foreign investment has fallen from 8.229 million USD to 3.484 million USD. The biggest share of actual entry for the first 3 months of this year was in the service sector and amounted to 2.979 million USD. This represents a decrease of 55% compared to last year. In the industrial production sector investment fell by 71%. The agricultural sector experienced a 14 million USD foreign investment in the first 3 months of 2008.

Politics

The Supreme Court issues a harsh message to the AK Party

With reference to the closure case against the AK party (linked with the proposed reforms to The Constitution and the intervention of the judicial authority), the supreme court has issued a harsh message. On 21 May the Chairman of the Board of the Supreme Court issued a statement regarding the fair, tolerant and unbiased formation and execution of the judicial system. The presentation of the Strategic Draft of the Judiciary Reform to Olli Rehn, EU commissioner for enlargement was also criticised by the board.

Discussion of the closure case against the AK party doesn't stop at us

Discussion of the Chief of Public Prosecution's closure case against the AK Party is not only a major talking point in Turkey, it is also a daily topic in the EU. Misunderstanding of the closure case within the EU will potentially damage Turkey's image as a democratic nation and slow down

reforms. However things look different from a legal point of view. According to Dr K. Paul Lasok, formerly of the Court of Justice of the EU (ECJ) and President of the Association of European Jurists, the closure case is an interesting one for non-Turks. Dr K. Paul Lasok, who visited Istanbul last week, said that the case was effecting Turkey's inner dynamics. Those who don't understand the background, the history and the cultural connections, may not understand the source of the problem. This issue is unique to Turkey and it is a completely political one.

Turkey to sign the Kyoto Protocol

Government spokesperson, state minister and assistant to the Prime Minister, Cemil Çiçek has announced that a plan to ensure the clean supply of domestic and industrial water to 81 provincial centres has been set up. Minister Çiçek's administration has approved the Kyoto Protocol. It will be sent to parliament in the near future for government approval.

Other Topics

Producer of the first Turkish Lira, De La Rue, now a candidate for Turkey's cash

The English company De La Rue, printers of Turkish money up to 1960, now aim to provide the security services for the circulation of Turkish cash. Managing director of De La Rue's cash system, Tracey Graham, told newspapers: Fortis and HSBC Europe use De La Rue's services. The general manager of Simga Limited, De La Rue's business partner in Turkey, Ahmet Ruta said: In 2009 if New Turkish Lira (YTL) is to become Turkish Lira there will be a significant increase in interested banks. It means banks will require a faster and safer system of banking and our products will be at the forefront.

Springer&Jacoby in Istanbul

Springer and Jacoby, the legendary german advertising agency, the former agency of Mercedes Benz, is now in Istanbul as a joint venture of FMConsulting. S&J Istanbul serves as a full service agency.

Turk Telekom gains largest income from emissions on stock exchange market

The largest income ever from emissions on the Turkish Stock Market, amounting to 1.9 billion US Dollars, was achieved by Turk Telekom. Istanbul Stock Market chairman Huseyin Erkan said, along with Turk Telekom's emission, around 30.000 new investors entered the Stock Market. The realized sales revenue of 1.9 billion Dollars makes this transaction the fifth largest stock market emission in the World.

1.15 billion dollars from overseas

Country	Distribution (%)	Turkey Sales	Distribution (%)
UK	30	Postal Services	1,75
UAE	15	TT Services*	5,60
USA	11	Small saving accounts	15,10
Sweden	10	Individual investors**	9,70
Lebanon	9	Corporate Investors	6,80
S.Arabia	6	*Turkish Telekom	**Investors with a high buying power
Singapour	6		
Other Countries	13		

Decrease in production of white and brown products

Increase for first 3 months of 2008 (%)		Decrease for first 3 months of 2008 (%)	
Dishwashers	28,2	Television	22,0
Vacuum cleaners	21,0	Refrigerator	17,0
Ovens	9,6	Washing machines	13,2
Beer	20,0	Raki	25,0
Wine	7,8	Cigarettes	4,0
Normal Petrol	11,2	Fuel oil	6,0
Unleaded Petrol	18,0	Crude oil	0,1
Coal	7,7	Natural gas	19,6
LPG	9,6	Gas oil	76,7
Jet Full	23,0	Sugar	46,9
Sugar cubes	156,8		

ING Bank to employ 1000 people

The buyers of Oyakbank, ING group will, as of July, open an operation as part of their enterprise in Kahramanmaraş. 1000 people are needed for the 12 million dollar holding.

Crooked Phase at ATV and Sabah

The newspaper, television and publishing group that includes ATV, Sabah and Turkuaz radio has been taken over by state receivers. On 22 April state receivers recovered a debt of 1.1 billion dollars and made a bid for the company in accordance with the specifications. The takeover came into effect as of 24 April.

Hyundai, Rotem and SK looking to invest in Turkey

South Korean giants Hyundai, Rotem and SK groups intend to make a new investment in the Turkish market. Seo Jae Seo, vice president of the SK group is specifically interested in Turkey's telecommunication sector, gas pipelines and highway projects. The CEO of Rotem Yeo Sung Lee has expressed an interest in investing in future projects.

The lion's share of The Turkish Armed Forces - 60% new bank agreement goes to Akbank

Galip Tözgede, Akbank's vice president has emphasised the importance of Turkish Armed Forces as a business opportunity. 'Resulting from the Turkish Armed Forces decision to withdraw from Oyakbank, Akbank has gained the lion's share of the business'.

Veziroglu has been chosen as 'Iraq's best working company'

Veziroglu has been chosen from amongst other foreign companies as the best working company in Iraq according to criteria such as quality of work and meeting deadlines. Veziroglu's agent in Iraq, Suheyl Necim El Kurevsi has three projects underway (T6 highway project, Kerbela water project, and Diyale and Mendili dam connection project)

Baxi's Danish factory to be moved to Turkey after France

British group Baxi, who has a 50% partnership with Baymak, is to move its factory from Denmark to Turkey. Previously the French factory moved to Turkey as well. Dr Murat Akdoğan, chairman of the Board of Directors at Baymak stated: Around 60 heavy vehicles have been dispatched from the Danish factory and are transporting products to a 30 thousand meter squared factory in Tuzla Tepeören.

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Ukraine

NBU: inflation rate will be 15-16% in 2008

The inflation rate decreased almost in 2 times - NBU expects the inflation rate 2008 at 15-16%. This summer, heavy harvest will be one of the positive factors which can influence on the slow down of inflation rate. According to the State Statistics Committee, the inflation rate was 1.3% in May to April 2008 (3.1% - in April to March) while the growth of consumer prices totaled 13.1% in April to the beginning of the year.

Ukraine will receive from the World Bank USD 140 million for the development of cities' infrastructure.

Ukraine will receive from the World Bank USD 140 million for the development of cities' infrastructure. The finance would be provided for projects on reconstruction of water supply and sewage facilities, as well as solid house waste treatment. USD 60 million of the sum declared has already been spent on the efforts in Chernivtsi, Ivano-Frankivsk and Odesa. The loans are provided for maximum 30 years, the average term for Ukraine being 17 years with five-year grace periods, when only interest is paid, without capital repayment, the department head said adding that interest rates are relatively not high.

Ukraine was elected to the UNO Commission for stable development

Ukraine was elected to the UNO Commission for stable development for 2009-2012. At the session of the UNO Economic and social council Ukraine was unanimously elected as a member of the Committee on program and coordination for 2009-2011. According to the Ukrainian Foreign Ministry, Ukraine's election to these organs shows its high authority in the UNO and support of international community of Ukraine's activity in social-economic and financial directions.

Industrial Output

In May 2008, industrial output grew by 8.3%, on May 2007, and rose by 2.2% in May, compared to April. In January-May 2008 industrial output rose by 8.0%, compared to January-May 2007. In April 2008, industrial output grew by 8.3%, on April 2007, in January-April 2008 industrial output rose by 8.0%, compared to January-April 2007. In 2007, industrial output rose by 10.2% compared with the year 2006. In 2006, industrial output went up by 6.2% against the year 2005. In 2005 industrial output rose by 3.1%, compared to 2004.

Annual real GDP growth is likely to average over 6% in 2007-12, helped by solid domestic demand and, in the latter part of the forecast period, improving export prospects. Broad currency stability and a sound monetary stance should help to alleviate the inflationary impact of higher natural gas prices. However, although inflation is expected to ease from 2008 onwards, it will remain high, at over 5% at the end of the forecast period.

Turkey is interested in opening of Turkish-Ukrainian ferry crossing

Turkey is interested in opening of Turkish-Ukrainian ferry crossing, Creation of ferry crossing would allow reduction of harmful air emissions. Ukraine and Turkey earlier announced plans to develop cooperation in energy and transport sectors.

Ukraine, US sign trade cooperation memorandum

The Economics Ministry of Ukraine and the US Department of Commerce signed a memorandum of understanding. This document would help develop bilateral trade on the basis of free and honest partnership. Preparations for Euro-2012 football championships in Ukraine opened up broad and unique opportunities for investors. Ukraine is ready for extensive cooperation with the USA to attract investment and create independent market conditions for US capital in Ukraine. Trade between the countries had grown by 56.7% since last year (3.32bn dollars in 2007). The two countries also signed a joint statement to enhance bilateral cooperation in areas where both have mutual interests.

The price of gas for Ukraine will grow significantly

The price of gas for Ukraine will almost double from January 1, 2009, as a result of greater costs for Russia in acquiring the gas. The price Ukraine pays "will grow significantly for objective reasons. Russia holds massive gas reserves of its own beneath its vast Siberian expanses it also imports large amounts of gas from Central Asian neighbours due to a lack of investment in developing its own reserves. Ukraine currently pays Russia 179.5 dollars (115 euros) per thousand cubic metres of gas. An energy price hike would put further pressure on Ukraine's overheating economy, which is struggling under soaring inflation that saw consumer prices climb 30 percent in the year to April.

Government will improve investment climate in Ukraine

The Ukrainian Government will take resolute measures to improve investment climate in Ukraine. The Government's Action Program contains "20 initiatives of transparency" aimed at improving Ukrainian business environment. Privatization in Ukraine will continue. The state is interested in the creation of favorable conditions for denationalization of the key branches of industry on the principles of transparency and justice.

One of the measures will be to ease administrative pressure on business. There is a need for perfection of taxation system, particularly, the functioning system of value added tax refunds. Another priority is to arrange a dialogue between the Government and business.

Privatization of most powerful and attractive state-run enterprises must be completed in the coming months. Meanwhile, privatization rules will be entirely changed. The state will set forth rather serious terms to future company owners, and the winners will be called only in open tenders.

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