

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

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Your FMConsulting Team

## Newsletter May 2009

# Economy

## Overview of Monthly Data

YTL-Rates	30.04.2009	29.05.2009	Change in %
YTL pro Euro	2.1215	2.1759	2.56%
YTL pro USD	1.6045	1.5698	-2.16%

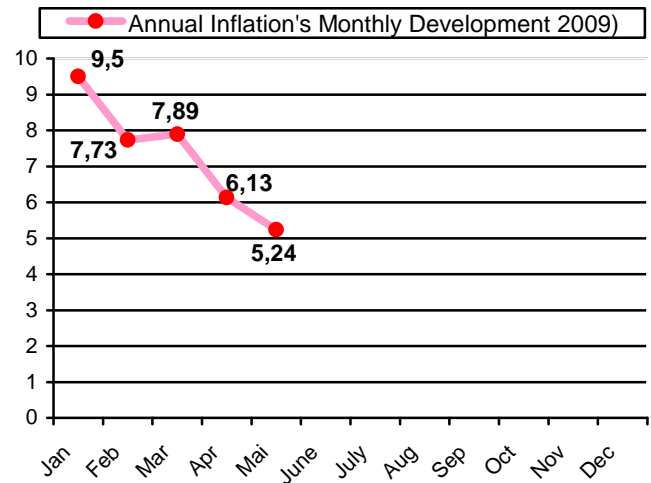
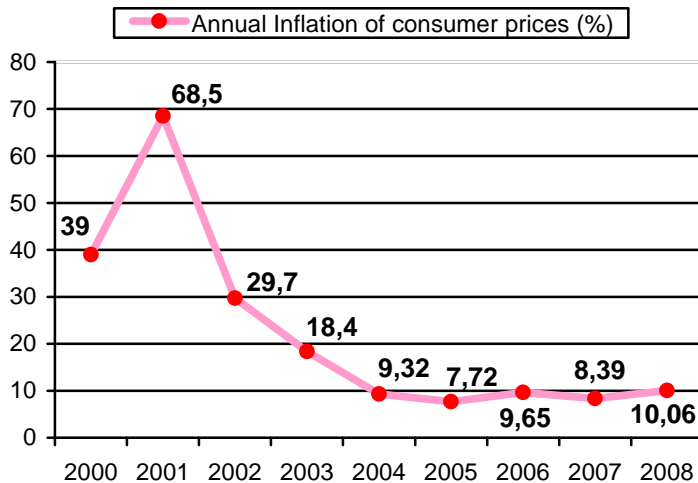
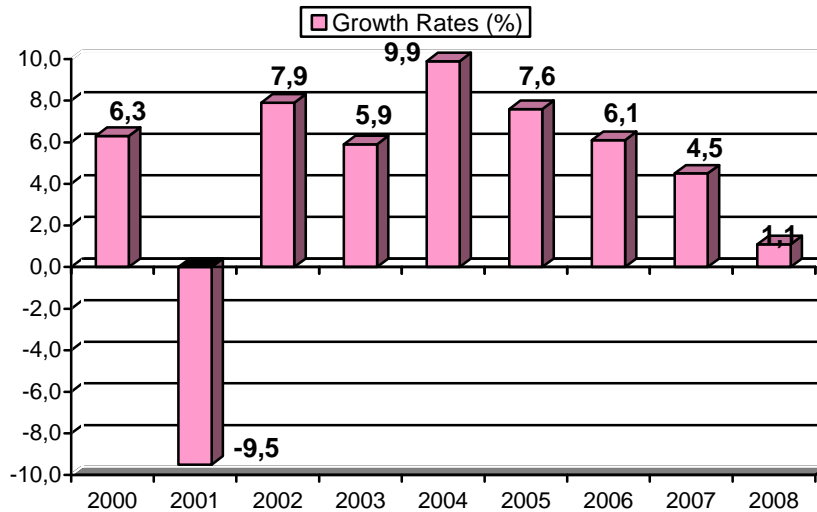
Stock exchange index	31,483	35,002	11.17%
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.05%	2.46%
Consumer prices	0.64%	5.24%

## 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



### Stock exchange and currency recovering, profits in the dumps

Climbing above 35,000 points, the Istanbul Stock Exchange reached an 8-month high, showing clear signs of recovery. Also in May, the US dollar dropped to the lowest level since the beginning of January with 1.52 against the Turkish lira – having peaked at 1.83 TL on March 9. On the other hand, balance sheet figures provided a less cheerful picture. Profits posted by the companies listed on the exchange were down to 4.5bn TL in the first quarter of 2009, 22% below the result of the same period of the previous year. Moreover, the banking sector accounted for almost 4bn TL thereof while the real sector reported significant losses. Total sales dropped by 19%, and even by 27% in the industrial sector.

### Corporation revenues dwindle

The Turkish Ministry of Finance has announced the 100 corporations paying the most taxes on their income in 2008. As usual, the “Top Ten” are dominated by banks. Turkey’s Central Bank made the largest leap forward, from 39<sup>th</sup> place in the previous year to rank 6 now. For the first time in years, Türk Telekom does not top the ranking, having been surpassed by mobile phone operator Turkcell which improved from rank 12 in 2007. Overall taxed corporate income, however, has declined considerably.

#### Top Ten of corporate income tax payers (million TL)

Rank in 2008	Corporation	Rank in 2007	Paid tax in 2007	Paid tax in 2008
1	Turkcell	12	143.8	675.8
2	Türk Telekom	1	820.8	641.6
3	Ziraat Bankasi	2	650.4	598.3
4	Is Bankasi	5	368.3	369.8
5	Garanti Bankasi	4	493.6	361.9
6	Central Bank	39	41.1	339.8
7	Akbank	3	548.7	338.3
8	Halk Bankasi	6	292.4	243.3
9	Türkiye Petrolleri AO	-	-	204.8
10	VakifBank	7	254.1	198.9

#### Turkey commits to Nabucco unconditionally

At long last the Nabucco pipeline, which is to transport natural gas from the Caspian Sea resources to EU countries, has been given the go-ahead. An agreement to this effect is scheduled to be signed in Ankara on June 25. At the final negotiations, held in Prague at the invitation of the EU council presidency, Turkey abandoned its previously tough stance. Initially the country had intended to levy a tax on the pipeline, half of which will run through Turkish territory, and demanded a 15% gas price discount for itself. Further delay of the project would have caused construction cost to rise even higher, while prolonging the dependency on Russian natural gas. The pipeline is to be built and operated by a multinational consortium of 6 companies, including Turkish BOTAS.

#### The Nabucco pipeline project in numbers

<b>Investment cost:</b>	9bn Euro
<b>Transport capacity:</b>	30bn m <sup>3</sup> /year
<b>Total length:</b>	3,300 km (from Erzurum/Turkey up to the Austrian border)
<b>Pipe diameter:</b>	1.42 m
<b>Steel consumption:</b>	2mn tons

### **Private sector to pay back US\$40bn in foreign debt over the next 12 months**

Turkey's private sector is facing a heavy burden in the next 12 months due to the repayment of its foreign debt. Total debt has already been reduced to approx. US\$135.3bn in March, from US\$142bn at end of 2008. Approx. US\$133.4bn are long-term liabilities, the bulk of US\$104.3bn with a maturity of 60 months. In the next 12-month period repayments totaling some US\$40bn are required, of which US\$28.7bn are to be made by the real sector – US\$12.7bn by the industrial sector and US\$16bn by the services sector. The highest repayments are due for June, September, and October, with over US\$4bn each.

### **Investments in the Turkish energy sector continue to boom**

Of the US\$2bn foreign capital inflow into Turkey in the first quarter of 2009, a remarkable US\$1.2bn went into the energy sector. The Turkish private sector is set to invest TL1.8bn into this attractive growth industry by the end of the year. This sum is to create new power generation capacities of 1,100 MW – for the most part from sustainable sources. 6 more wind power plants with a total installed capacity of 240 MW are scheduled to go on line in the coming months. Hydroelectric facilities with 700 MW of output are to follow until the end of next year. There is no shortage of investment capital: Turkish banks have already provided over US\$7bn in loans for renewable energies.

### **Realignment of government assistance in the making**

The labour-intensive industries are expected to benefit most from the Turkish government's new assistance package, which is to be passed shortly. The aim is to relieve the burden of employers in certain sectors of the economy such as tourism, and to protect jobs in the long run. The financial newspaper "Dünya" reported that the extent to which the textile and clothing industry will be included in the assistance measures are ongoing. In view of the weight of this sector within Turkey's national economy, some of the parties involved fear that this would put too much a strain on state resources.

### **Global business conference to be held in Istanbul**

A global business conference entitled "Turkey: Bridge to World Trade" will be held in Istanbul's "World Trade Center" from June 2-5. The event was hosted by Turkish Entrepreneurs' Confederation TUSKON under the aegis of the Undersecretariat of Foreign Trade. Representatives of 2,139 companies from 115 countries, with a strong emphasis on Russia, as well as 3,000 Turkish firms are expected to attend, 400 of which with exhibition stands. The event's importance is manifested by the fact that ministers of commerce from 44 countries have scheduled a visit. The main purpose of the conference is the development of new export markets: an estimated 120,000 face-to-face meetings will take place to establish business relations in the order of US\$7bn– equaling the total of the 8 preceding events.

### **Turkey is global player in patents**

With 337 patents issued, Turkey again ranked 6<sup>th</sup> among the world's most innovative countries in 2008. Germany, where 1128 new patents were granted, headed the ranking by a large margin, trailed by the United States (646 patents), Switzerland (416), France (414), and Italy (398). Almost two thirds of Turkish patents were granted to applicants from the Istanbul area, the region with by far the highest innovative strength in the country.

## Politics

### **Resolution of the Nagorno-Karabakh conflict at hand**

Mediated by the OSCE Minsk Group, the presidents of Azerbaijan and Armenia, Ilham Aliyev and Serzh Sargsyan, have met in the US Embassy in Prague. In a joint statement, the parties declared that the talks were constructive and fruitful and that both countries have agreed on the modalities to resolve their conflict over the enclave of Nagorno-Karabakh which is being controlled by ethnic Armenians. The United States representative, Ambassador Matthew Bryza, said that the recent rapprochement between Turkey and Armenia, while certainly having a positive effect, must be regarded as a separate process.

### **Erdogan dispels concerns in Baku**

During a visit to "little brother country" Azerbaijan, Turkish prime minister Erdogan reasserted the two countries' historic ties. He refuted speculations alleging that Turkey was about to reopen its border crossings with Armenia. The closing of the borders, he said, has been a result of the Armenian intervention in Nagorno-Karabakh and could be reversed only on the condition that Armenia withdraws its troops first. It was now vital, Erdogan said, to bring the mediation efforts of the Minsk Group, which have been going on for 18 years, to a rapid close. His host, Azerbaijani president Aliyev, expressed relief at his Turkish guest's clear commitment. The two statesmen also discussed the issue of lifting the natural gas supply price. Turkey currently pays US\$300-350 and US\$400-450 for natural gas supplied by Algeria and Russia, respectively, but only US\$120 for gas from Azerbaijan (per 1,000 cubic meters).

### **Yet another assault on Turkish troops**

In southeastern Turkey another 7 Turkish soldiers were killed by a mine planted by Kurdish PKK guerillas and 8 more were injured. The midnight ambush took place in Cukurca district in Hakkari province near the Iraqi border. The General Staff issued a bulletin stating that following the incident, Turkish air force fighter planes flew an air strike on northern Iraq territory.

## Other Topics

### **Turkish bank profits increase substantially**

According to the banking supervisory body, Turkish banks drew profits of US\$5.2bn in the first quarter of 2009, spelling a 33% increase over the same period of the previous year (US\$3.9bn). At the same time, the banks' capital cover ratio rose to an average 18.52% by the end of March, up from 17.27% a year ago. These figures are seen as indications that the Turkish banking sector has succeeded in mastering the crisis.

### **Edison reaffirms involvement in Turkish energy sector**

Italian energy giant Edison is determined to pursue its project of building the so-called ITGI

(Interconnector Turkey-Greece-Italy) natural gas pipeline, which is to carry primarily Azerbaijani natural gas from Turkey via Greece through the Ionian Sea to Italy. Together with its Greek joint venture partner, Edison intends to invest a total sum of 7.2bn Euro by the year 2014. 15% of the planned transport capacity of 10bn cubic meters per year is to remain in Turkey. Edison has also expressed great interest in the Turkish electricity market which has been growing consistently. The company has already earmarked further investments of 1bn Euro for thermoelectric and hydroelectric power generation in Turkey.

### **Car sales make rapid recovery**

The reduction of the luxury tax that was implemented on March 15<sup>th</sup> by the Turkish government to boost the automotive industry, made an immediate impact. By the end of April, almost 100,000 new motor vehicles were sold, bringing the total vehicle sales in the first 4 months of the year to 149,099 (according to Turkish Automotive Industry Association). Since the drop of 11.3% over the same period 2008, optimism has returned to the industry. For the first time Hyundai led the pack, selling more cars (16,122) than Renault (13,669), the sales champion of the entire past decade. As for light utility vehicles, Fiat sold 11,913 units, thus getting ahead of traditional market leaders Ford-Otosan, with 9,709 sold LUV units.

### **Sales of new motor vehicles, January-April 2009**

<b>Manufacturer</b>	<b>Sold units (cars &amp; light utility vehicles)</b>
Fiat	19,781
Renault	18,015
Hyundai	17,456
Ford	17,239
Volkswagen	11,564
Toyota	8,947
Peugeot	8,940
Opel	6,535
Honda	5,905
Citroën	3,909

### **Turkey's largest wind farm goes on line**

With an investment of about US\$100mn, Gaziantep-based conglomerate Sanko Holding has built Turkey's largest wind farm to date. It took just 1.5 years from the project stage to commissioning. The power plant facility is located in Catalca district, some 60 miles west of Istanbul. It consists of 20 wind turbines delivering 3 MW each – enough to supply 122,000 households with clean electricity.

### **Turkish-Greek construction consortium lands major contract**

A Turkish-Greek consortium, led by Turkish construction corporation Tepe-Akfen Ventures (TAV), has been awarded a contract for a US\$1.1bn-project in the Sultanate of Oman. TAV and its Greek

partner CCC are to build runways and infrastructure facilities for the new international airport of the capital city of Muscat. This brings TAV Construction's current project volume to over US\$9bn. Besides Turkey, the focus of the group's activities is on the Middle East, North Africa and the Caucasus region.

### **Tommy Hilfiger repurchases distributions rights for Turkey**

Tommy Hilfiger Group has repurchased its distribution rights for Turkey from Turkish textile corporation Unitim. The company's CFO for Europe emphasized that this move was not in response to the continuing crisis, but rather a strategic decision in view of the fact that within a span of 10 years, the brand in Turkey has developed into a highly successful operation with a sales volume in excess of 20mn Euro. Unitim is going to continue to represent the designer fashion brand in Russia, Ukraine, Moldova, Kazakhstan, and Azerbaijan.

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**FOREIGN MARKET CONSULTING Ltd. Sti.**

Managing Director: Peter J. Heidinger

Address:

Koybasi Cad.  
Keresteci Z. Sok. 28  
34464 Yenikoy-Istanbul  
Turkey

Telephone: +90-212-36 38 052

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**SPRINGER&JACOBY Reklamcilik Ltd.Sti.** Istanbul

Managing Directors: Uta Beyer, Yesim Tektasli

Address:

Koybasi Cad.  
Keresteci Z. Sok. 28  
34464 Yenikoy-Istanbul  
Turkey

Telephone: +90-212-36 38 010

Fax: +90-212-36 38 056  
E-Mail: [info@fmconsulting.info](mailto:info@fmconsulting.info)  
Internet: [www.fmconsulting.info](http://www.fmconsulting.info)

Fax: +90-212-36 38 522  
E-Mail: [istanbul@sj.com](mailto:istanbul@sj.com)  
Internet: [www.sj.com](http://www.sj.com)

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