



with our last Newsletter in 2008 we wish you:

**a merry Christmas and  
best wishes for a successful 2009.**

Attached is our latest monthly newsletter providing summaries of recent economic and political developments in Turkey.

We would welcome your feedback on our Newsletter and any other matters that you consider may improve or add to our newsletter service. Please also do not hesitate to contact us if you wish to learn about our wide range of available services.

If you know anyone else who would be interested in this free service, please forward this newsletter to them or alternatively, provide us with their e-mail address (to [newsletter@fmconsulting.info](mailto:newsletter@fmconsulting.info)), so that we can include them on our distribution list.

Best regards,

Your FMConsulting Team

**Newsletter November 2008**

## Economy

### Overview of Monthly Data

YTL-Rates	10.31.2008	11.29.2008	Change in %
YTL pro Euro	1.9969	2,0136	0,84%
YTL pro USD	1.5678	1,5699	0,13%

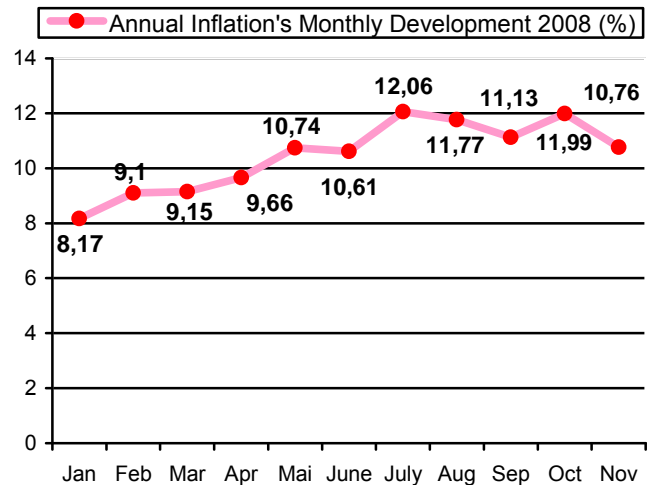
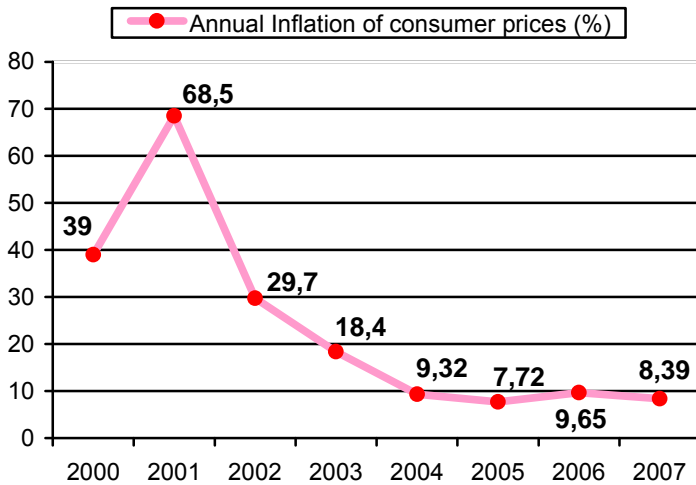
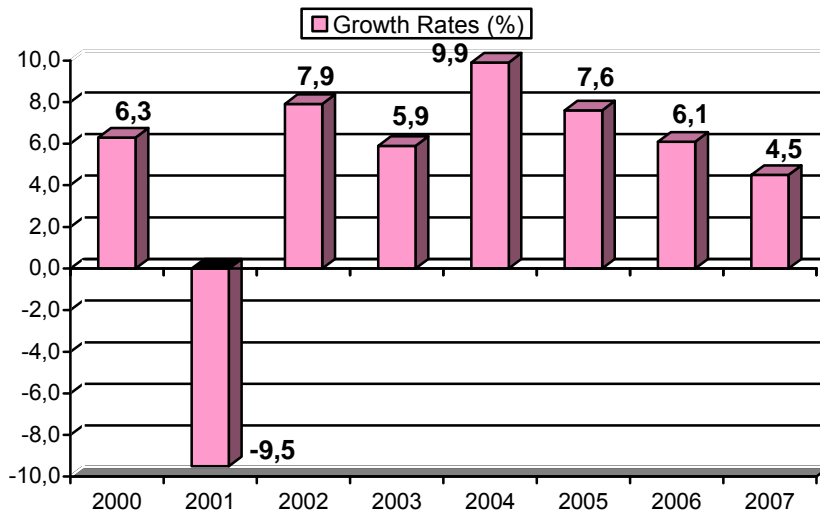
<b>Stock exchange index</b>	27.833	25.715	-7,61%
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0,03	12,25
Consumer prices	0,83	10,76

### 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			



### Global crisis puts a brake on exports; November sees exports slump by almost 20%

According to figures released by the Turkish Exporters' Association, Turkey's exports decreased in October for the first time in years to US\$9.5bn - a 4.9% decrease when compared to October 2007 figures. The industries hit hardest were clothing (-21.6%), automotive (-22.9%), and textile and raw materials (-12.5%). At US\$7.4bn, exports in the period November 1-26 were 17.8% below the same period of the previous year. However, the initial annual exports target of US\$125bn will most

likely be attained. The export value so far stands at US\$ 111 bn.

### **EU progress report: Turkey's economy is proving resilient**

The latest progress report issued by the EU Commission for Enlargement contains both criticism and praise for Turkey. From the European Union's perspective, the report says, Turkey's strategic importance as a stability factor in the region has further increased. However, cooperation in the field of energy needs to be intensified, with Turkey acting as a bridge between Europe and the Middle East. According to the report, Turkey's economy is handling the global financial crisis comparatively well and despite decelerated growth, can be rated as macro-economically stable. In the EU enlargement strategy 2008, Turkey for the first time ever was afforded the status of a "functioning market economy" according to the Copenhagen criteria.

### **Natural gas and electricity prices dropping**

Some good news from the energy market: Natural gas from Russia is going to get significantly cheaper due to falling oil prices. Gazprom is set to cut prices by 20% in 2009. Currently Turkey pays US\$400 per 1000 cubic meters of Russian natural gas. And for businesses located in one of Turkey's 261 organized industrial estates there may be reason to rejoice, too: From the beginning of next year they will supposedly benefit from the lowest electricity tariff, according to a new ordinance adopted by parliament. This would translate into 12-13% of electricity savings.

### **October with 5-year low in capacity utilization**

In October, capacity utilization in Turkey dropped to 76.7%, the lowest in the past 5 years. This was the first-ever month of October with a utilization rate below 80%. At 83.5%, utilization in the public sector was somewhat higher than in the private sector (75.8%). The automotive and the textile industries saw the largest declines (traditionally the locomotive sectors of the manufacturing industry are worst hit). Production of motor vehicles and bodies dropped to 75.3% from 90.2% in the same month of the previous year. In the textile industry, capacity utilization was down to 75.5% from 82.2% in last October. Production is expected to drop even further in November.

### **Jobless figures continue to rise**

In August, the unemployment rate rose to 9.8% over 9.4% in the previous month and 9.2% in the same month of the previous year. The total number of unemployed increased by 207,000 to over 2.4 million people. Urban unemployment was up by 0.4% to 12.5%, while rural unemployment stood at 6.3%, an increase of 0.7%.

### **Private sector not fully satisfied with new Free Trade Zone law**

The new law regarding the Free Trade Zones will be passed shortly. While the private sector welcomes some of the new provisions, such as the extension of the concession periods to 49 years and the elimination of the Special Consumption Tax, there is dissatisfaction with the planned partial cancellation of tax privileges. Also, taxes are to be imposed on part of the workers' wages from now on. Currently 53,438 people, 43,423 of them blue-collar workers, are employed in Turkey's 20 free zones. The companies operating in the free zones (3,041 domestic and 637 foreign) generated a trade volume of over US\$21.5bn in the first 10 months of this year.

### **Turkish government to negotiate new financial program with the IMF**

Minister of State Mehmet Simsek said his government is in intense negotiations with the International Monetary Fund (IMF). He pointed out that IMF funding is important in order to restore

confidence in the markets and to ensure short-term liquidity. A new, tentative stand-by agreement with the IMF is likely to be concluded, the previous agreement having expired in May. However, as Simsek emphasized, the financial program's framework conditions must be adjusted to the fact that Turkey's debt repayment record has considerably improved over the past few years. Unlike the public sector, the private sector still requires assistance because the crisis has derailed the usual market mechanisms. What is now needed is a viable financial program that benefits Turkey's real sector and fosters economic growth.

## Politics

### **Alliance of Civilizations to become “the peace project of the century”**

At the United Nations headquarters in Geneva, the “Room of Human Rights and the Alliance of Civilizations” was inaugurated in the presence of, among others, the Prime Ministers of Turkey and Spain, Recep Tayyip Erdogan and José Luis Zapatero, the initiators of the UN Initiative “Alliance of Civilizations”. On this occasion a positive summary of the project work carried out in the past 3 years was given. Erdogan reported that more and more countries actively support the initiative which is based on the principles of dialogue, cooperation and mutual tolerance. Therefore, the initiative has the potential to become “the peace project of the 21<sup>st</sup> century”. UN Secretary-General Ban Ki-moon emphasized the importance of human rights for this initiative, and underscored the special role Turkey plays in this context.

## Other Topics

### **Celebi awarded contract for ground handling services at Mumbai Airport**

A consortium led by the Turkish company Celebi Air Services has been awarded the contract for performing ground handling services at Mumbai International Airport—India's largest with a passenger volume of 22.3m and a cargo volume close to 0.5m tons. After Budapest International Airport, this is another milestone in the company's globalization strategy. News of the award further boosted the company's share value which had already been gaining strength.

### **Textile giant Sahinler manages to stave off insolvency procedure**

The postponement order issued by a court has prevented Sahinler Holding, Europe's third-largest textile company, from having to go into insolvency for the time being. The company faced severe liquidity problems due to the government's low exchange rate policy and crisis-induced market dynamics. However, the company's current debt of YTL150m is covered by four times this amount in assets. To help stabilize the company, which was founded in Aachen (Germany) in 1982 and now has 12,000 employees and annual sales of US\$1.5bn, the management proposes to enhance productivity and to increase equity capital. Meanwhile, production continues at full capacity.

### **Turkish automobile market shrinks sharply in October**

The Turkish Automotive Industry Association has presented alarming figures: In October the motor vehicle market shrunk by a total of 37.3% and the automobile market by 39.2%. While the total production figure for the first 10 months of the year increased from the previous year, there has been a sharp decline since August. In October, total vehicle production declined by 20.5% and automobile production by 24.2%. This is mainly caused by the high dependence of the sector on exports, at around 80%, with the plummeting demand in Europe making an immediate impact. Total motor vehicle exports have dropped 27.5%, automobile exports by 32.5%, and there is no end in sight. As the general secretary of the Automotive Industry Association pointed out, the motor vehicle market in Turkey has deteriorated even more than in the EU countries.

### **Shrinkage of the market in October (%)**

	<b>EU and EFTA countries</b>	<b>Turkey</b>
Light commercial vehicles	18.7	35.0
Commercial vehicles	17.6	34.6
Heavy commercial vehicles	13.0	32.0
Total motor vehicle market	14.5	39.2

### **Textile associations call for urgent measures**

Two of Turkey's leading textile associations have warned of the cumulative effects of the crisis on the clothing industry. Since 2004, some 10,000 textile businesses have had to shut down, equaling a loss of 500,000 jobs. The number of unemployed in this industry threatens to rise to 1 million unless appropriate countermeasures are taken immediately. Among the measures proposed are for the state to shoulder up to 50% of the employers' contribution to social security and to step up its export assistance. The industry also calls for a new stand-by agreement with the IMF.

### **One of the labels on the new NATO jet reads "Made in Turkey"**

Kale Havacilik, supplier to the aviation industry, has invested US\$50m into its new production plant in Tuzla, near Istanbul, where the company manufactures flight critical components for major clients such as Boeing and Airbus. The company's production range also includes 80 different flight critical components for NATO's Joint Strike Fighter, the Lockheed Martin F35, and from the year 2014 as many as 300.

### **Mitsubishi joins forces with Intercity**

Another example of Japanese-Turkish business cooperation: the Mitsubishi Group has acquired 45% of rental car company Intercity. Investments into vehicles totaling US\$3.5bn are planned over the next 7 years, resulting in 4,000 new jobs. The invigorated company also intends to expand into Russia, Kazakhstan and the Ukraine. Intercity has a longstanding reputation in the field of individual car and car fleet rental.

### **Vestel experiences unexpected boom in LCD TVs**

According to Ömer Yüngül, chairman of the Executive Committee of the consumer electrics and household appliance manufacturer Vestel, the company's exports have soared despite or rather

due to the global crisis. This applies to both kitchen ranges and washing machines but in particular to LCD television sets. While in August the number of exported LCD TVs stood at 200,000, it rose to 600,000 in September and October after the financial crisis had erupted, and stayed as high as 500,000 in November. Mr. Yüngül offered the explanation that out of the 33 LCD TV production plants that were built in Central Europe over the past two and a half years, only one is currently producing. Orders have shifted to Turkey from Hungary, Poland and the Czech Republic. The smaller physical distance to the market and the strong US dollar constitute competitive advantages for Turkey over the Far East. However, what is missing in the current volatile situation is planning security.

### **Turkish energy companies to tap Iraqi natural gas resources jointly with Shell**

The petrol company TPAO and the gas distribution company BOTAŞ have entered into a preliminary agreement with Shell Energy Europe to jointly prospect, process, transport, and market Iraqi natural gas. The aim is to tap new resources and to transport all gas not required by the country itself to Turkey and from there to Europe. TPAO has in-depth knowledge of Iraq's oil and gas reserves, having been involved in business activities in the country as early as 1990. While BOTAŞ provides the infrastructure, Shell will be in charge of marketing. A similar cooperation may also be feasible when tapping new oil resources, commented energy minister Güler who attended the contract signing ceremony.

### **Pistachio exports rise by 50%**

This year exports of pistachios from Turkey have soared by 45% in terms of quantity and by 51% in terms of value. According to the Southeast Anatolian Exporters Association, this has been due to the fact that the competitor countries, like Iran and the USA, have not been able to meet the demand. Some 75% of Turkish pistachios are produced in the Southeast Anatolia region, hence the Turkish name "Antep pistachio". There is still considerable potential for expansion of the cultivation areas - export earnings in the vicinity of US\$100m, as opposed to the current US\$15m, are not out of reach.

### **Pistachio export figures for the first 10 months of 2007 & 2008**

Product	January-October 2007		January-October 2008		Change (%)	
	Qty (kg)	Value (US\$)	Qty (kg)	Value (US\$)	Qty	Value
Shelled pistachios	283,455	3,726,886	625,745	6,945,347	+ 121	+ 86
Pistachios in shell	641,209	6,557,463	731,589	8,567,307	+ 11	+ 31
<b>Total</b>	<b>924,664</b>	<b>10,284,349</b>	<b>1,339,334</b>	<b>15,512,654</b>	<b>+ 45</b>	<b>+ 51</b>

### **Axel Springer acquires interest in Dogan Publishing**

Berlin-based Axel Springer Publishing House has acquired a share of 9.8% in the Dogan Publishing Group for EUR47m and will be given a seat on the company's board of directors. In turn, Axel Springer has sold a stake of 5.1% in Dogan TV Holding, in which it holds an interest of 25%, to the Dogan Publishing Group for EUR77m. The balance of EUR30m is payable by 2012.

### **Renewable energies are a prerequisite to sustainable development**

The importance of renewable energies was stressed at a conference held in Istanbul by the

financial newspaper “Dünya” in cooperation the German Development Bank KfW. As the energy consultant to the Turkish president pointed out, Turkey’s annual energy consumption amounts to the equivalent of 100 million tons of oil. Therefore, renewable energies are absolutely essential for sustainable development. The representative of KfW stated that her organization extends loans on a large scale and that 50% of the funds it makes available to the energy sector are allocated to renewable energies. Turkey, she said, is only just beginning to move away from fossil fuels. Nuclear energy would be an alternative, but at a much higher cost.

**Gulf States invest in Turkish agriculture**

“Vision 3”, a consortium of 3 Gulf State banks, has signed an investment agreement with the Turkish government. In the initial stage, US\$3bn are to be appropriated for agricultural and livestock breeding projects. The main focus will be on the Southeast Anatolia Project (GAP) which is to generate 1.8m hectares in new irrigation area (to date, around 60% of this mammoth project which involves building 22 reservoir dams and 19 hydroelectric power plants, has been completed). Further investments of the Gulf banks in the areas of energy, health care and tourism are to follow.

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