



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

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Best regards,

Your FMConsulting Team

Newsletter October 2009

Economy

Overview of Monthly Data

YTL-Rates	30.09.2009	30.10.2009	Change in %
YTL pro Euro	2.1707	2.2161	2.09
YTL pro USD	1.4891	1.4894	0.02

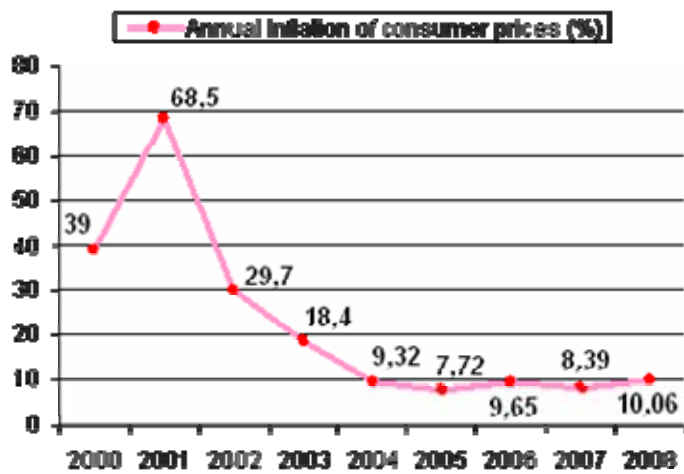
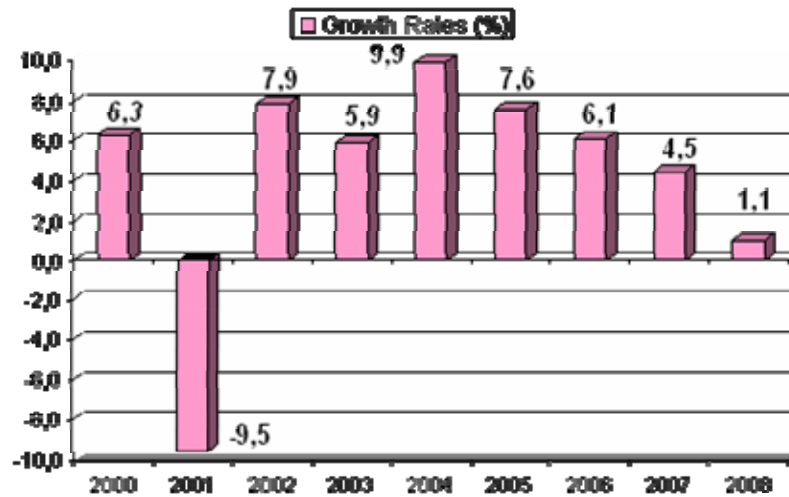
Stock exchange index	47,910	49,577	3.48
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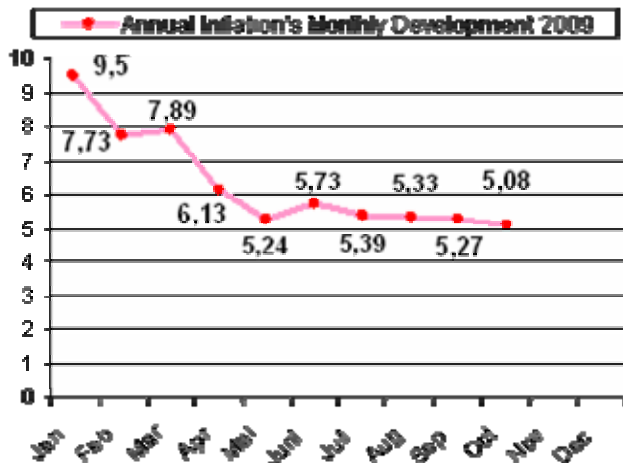
Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.28%	0.19%
Consumer prices	2.41%	5.08%

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	-14,3	-7			





IMF and World Bank vow reforms to meet new challenges

The Annual Meeting of the IMF and the World Bank took place in Istanbul amidst calls for closer international co-operation and more accountability. World Bank Group President Robert B. Zoellick, drew attention to the humanitarian consequences of the crisis, saying that up to 59 million people across the globe are going to lose their jobs this year. Due to the crisis, another 90 million people might be pushed into extreme poverty by the end of next year and an additional 30 to 50,000 babies may die in Sub-Saharan Africa, he warned. Zoellick pledged that the poorer countries will be given more say in the development aid organization. "The international system needs a World Bank Group that represents the economic realities of the 21st Century", he said. Likewise, IMF Managing Director Dominique Strauss-Kahn committed his institution to award increased voting rights to newly industrialized and developing countries awarding major emerging markets such as China, India and Brazil more weight. The president of the German Central Bank, Axel Weber, objected to this plan, arguing it would unfairly curtail the influence of Germany and the EU.

Turkish Central Bank lowers base rates by 50 basis points

As expected, Turkey's Central Bank has cut both of its key interest rates by half a percentage point. This brings the overnight lending rate down from 9.75% to 9.25% while the overnight borrowing rate is reduced from 7.25% to 6.75%. Since the latest data points to a gradual recovery of the Turkish economy, the Monetary Policy Council has indicated that future base rate cuts are likely to be below this level.

Turkey's fiscal deficit reaches all-time high

In the first 9 months of the year the deficit of Turkey's national budget has increased 7.5 time more than the same period of the previous year, reaching a record level of TL40.8bn. According to the Ministry of Finance, revenues decreased by 2.7% to some TL156bn whereas public spending of over TL197bn translated into a 19.2% rise. However, in September, public revenue increased at a higher rate than expenditure for the first time since April.

Petrol prices at record level

At the end of October the price for one litre of unleaded premium petrol was raised by TL0.08-0.10 to as much as TL3.36, a new record level on a Turkish Lira basis. Turkey's consumers' associations deplored a rise of almost 15% in the price of petrol since July, saying that fuel taxation continues to increase to the detriment of consumers. In the wake of the latest petrol price hike, prices of many other consumer goods can be expected to rise as well.

Where is Turkey's national economy heading?

The Turkish government has based its macro-economic targets for 2010 on an average dollar exchange rate of just over TL1.60. This would translate into an exchange loss of as little as 3% for the Turkish Lira - considerably less than the forecast inflation rate of 5.9%. This essentially means that the value of Turkey's currency would increase against the US-dollar. The gross domestic product for 2009 is estimated to drop by US\$123bn, or 17%. This decline is due to the Turkish Lira losing almost 20% in value on the US-dollar. Next year the GDP is expected to rise again, by 5.5% on a US-dollar basis. The per capita income is also to increase, if only slightly. The distribution of taxes appears to remain an issue. When Mehmet Simsek, the Minister of Finance, took office in May, he voiced his intention to reduce the share of indirect taxes, which neared 65% in 2008. However, the government's programme sees this share rise to 66.5% in 2010 after dropping to 63.8% this year. 29.8% of internal revenue is supposed to come from direct taxes and 3.7% from taxes on assets.

Macro-economic figures

	2010 (targeted)	2009 (projected)	2008	2007
Growth rate (%):				
Agriculture	3.0	2.7	3.5	-6.7
Industry	4.4	-8.5	1.1	5.8
Services	3.3	-6.2	0.4	6.0
GDP	3.5	-6.0	0.9	4.7
GDP (million TL at current prices)	1,028,802	946,678	950,098	843,178
GDP (million US\$ at current prices)	641,278	607,936	731,070	647,851
Average dollar exchange rate (US\$/TL)	1.6043	1.5572	1.2996	1.3015
Population (1,000 inhabitants)	72,698	71,897	71,079	70,256
GDP per capita (US\$ at current prices)	8,821	8,456	10,285	9,221
GDP deflator (increase in %)	5.0	6.0	11.7	6.2
TÜFE* at year end (increase in %)	5.3	5.9	10.1	8.4

* Consumer price index

Future prospects of Turkey are bright

2010 is set to bring a significant upturn to Turkey with its national economy expected to grow by 3.5%. Therefore the official Agency for the Promotion of Trade, Industry and Investments, ISPAT, is anticipating foreign direct investments to increase again as early as the end of the year. In particular, it is German companies that are keen on realizing

their investment projects in Turkey. As the agency's director Alpaslan Korkmaz put it: "The global economy as a whole is facing a huge challenge. But what counts now is future viability: According to a study conducted by Goldman Sachs, by 2050 Turkey will have become the world's ninth-largest economy and the third-largest in Europe."

(Invest in Turkey)

Politics

Turkish government seeking to reach compromise with IMF

In an interview with the "Wall Street Journal" Turkish Prime Minister Erdogan stated that his government intends to enter into a new agreement with the International Monetary Fund "soon". The differences caused by the IMF's demand for Turkey to turn its Revenue Administration into autonomous institution have now been settled he said. Unofficial sources speak of a US\$45bn credit line. Following Mr Erdogan's announcement, demand for the newly issued comparatively high-interest government bonds soared. The Istanbul stock market also reported substantial gains.

IMF and World Bank Meetings accompanied by violent protests

The autumn meetings of the International Monetary Fund and the World Bank in Istanbul were overshadowed by severe riots. Violence-prone groups mingling with peaceful protesters clashed with the police force which made massive use of water cannons, tear gas and pepper spray. A large number of properties were vandalized, particularly banks, and several police vehicles were set on fire. At least 100 militant anti-IMF activists were taken into custody. Trade union circles also voiced criticism of the security forces' course of action. While Prime Minister Erdogan told delegates they should heed the voices of protest raised outside the heavily guarded meeting venue and be mindful the innocent victims of the global crisis, he expressly excluded violent protesters.

First group of PKK defectors returns to Turkey

Within the scope of the Turkish government's opening policy, a first group consisting of eight former PKK fighters and 26 residents of an UN-sponsored Kurdish camp in Northern Iraq, including four children, has returned to Turkey. They were met by an army of officials, state attorneys and lawyers, family members, and a delegation of Turkey's legal Kurdish party DPT at the Habur border crossing. After having been interviewed by the judicial authorities, all returnees were released and free to go – according to the existing reintegration law, PKK members turning themselves in to the authorities go unpunished provided that they have not participated in armed actions.

Kazakhstan's head of state visits Ankara

While on a visit to Ankara, the President of the Republic of Kazakhstan, Nursultan Nazarbayev, addressed the assembly of the Turkish parliament. In his speech he pledged his government's support for the Samsun-Ceyhan pipeline which is to link the Black Sea and the Mediterranean. Mr Nazarbayev not only emphasized Turkey's

importance as transit country for petrol and natural gas, but also its role as mediator in the conflicts of the region. While speaking in favour of Turkey's EU ascension, he also called on Turkish policymakers not to neglect the East, and to continue strengthening their ties with Russia, China and the Turkic republics of Central Asia. He also welcomed the Turkish business community to participate in large-scale projects in Kazakhstan.

Natural gas deal with Iran raises many questions

On an official visit by Prime Minister Erdogan to Iran, the Turkish Minister of Energy and his Iranian counterpart signed an important memorandum. The document provides for Turkey's national oil and gas company TPAO to exploit certain natural-gas fields in Southern Persia and for Iranian natural gas to be transported to Europe via Turkey. Furthermore, natural gas from Turkmenistan is to be carried to Turkey through Iranian territory. While the agreement was met with a positive response from business circles, political observers question its practicality, pointing out that a similar deal struck in 2007 had not been implemented to date. What is more, due to the ongoing international embargo it would be virtually impossible to raise the required billion-dollar loans.

Other Topics

Private construction sector in the midst of crisis

Turkey's leading building material institute has issued data indicating an increase of close to 17% in public-sector construction investments in the first half of 2009. New residential buildings commissioned by the State Housing Authority TOKI are springing up all over the country. By contrast, construction spending of private investors has declined by nearly 30% in the same period. Industry associations are now calling for special subsidies and tax relief's in order to revitalise private-sector construction activity.

HP to build computer plant near Istanbul

Hewlett Packard, one of the world's IT giants with over 300,000 personnel and US\$118bn yearly turnover, is set to become the first foreign manufacturer to produce computers in Turkey. Together with its Taiwanese partner Foxconn, the US-based company is spending US\$60mn to build a factory in the European Free Trade Zone in Çorlu. Part of the monthly output of 200,000 PCs that will be manufactured from 2010 onwards is earmarked for export to the Middle East and Africa. The main factors in this groundbreaking investment decision were Turkey's strategic location, the dynamism of its labour and sales market plus extensive government subsidies. HP will not only create 2,000 new jobs, but is also working closely with local universities. As early as this November HP will launch a Research & Development Centre to be jointly operated with the Technical University in nearby Istanbul.

Istanbul jewellery fair proves centre of attraction for the region

The "Istanbul Jewellery Show", which ranks among the worlds four largest jewellery and accessory fairs, takes place twice a year, in March and October. Generating a business

volume of US\$400mn, this spring's fair, held at the CNR Expo exhibition centre, was a thorough success. The event provides vital impulses to the jewellery sector both in Turkey and in the entire region. Again, over 10,000 professional visitors are expected to attend the autumn fair, with more than 400 domestic and international exhibitors. For the first time, trade delegations from Iraq, Iran and Albania will participate.

British automotive supplier takes up production in Anatolia

GKN Driveline, a company with 250 years of heritage, has taken up production at its new location in the Anatolian city of Eskisehir. GKN Driveline is one of the world's leading manufacturers of drive shafts for motor vehicles, with some 40,000 employees in more than 30 countries and annual revenue of approx. €7bn. The corporate decision in favour of this location was guided by the good air and rail travel connections available and the potential of qualified labour in this city with over half a million inhabitants and 2 large universities. With its new plant the company is mainly targeting Turkey's domestic car-making industry: Fiat TOFAS and Ford Otosan are already being supplied with components from Eskisehir, while Toyota and Hyundai are to follow in the near future.

Vaillant continues to expand its Turkey business

The Vaillant Group, based in Remscheid/Germany, continues to invest large sums in the promising Turkish market. In October 2007, the group acquired over 96% of shares in DemirDöküm, one of Turkey's leading heating and air-conditioning manufacturers, from Koç Holding for about €281mn. Christoph M. Grosser, chairman of Vaillant Turkey, said his company has invested another €30.5mn since. A full modernisation of DemirDöküm's main production facilities, located in Bozüyük near Eskisehir, has laid the foundation for further expansion. The company's target is to increase the current annual sales of €450mn, half of which is from exports, to €1bn by 2015.

Mövenpick Istanbul voted Europe's leading business hotel

The Mövenpick hotel in Istanbul has been won the "Oscar" of the tourism industry: At the prestigious World Travel Awards, the hotel received the award as "Europe's Leading Business Hotel". The hotel, located in the booming commercial district of Maslak, was distinguished for the excellent quality of its service and facilities. Managing Director Frank Reichenbach said that he and his staff take special pride in the fact that over 50% of guests keep coming back, adding that his company is going to stay true to this philosophy with the Mövenpick Hotel in Izmir and the Mövenpick Ankara, opening in 2010.

Second German electronics giant enters Turkish market

Two years after its sister company Media Markt, Saturn has become the second electronics store chain of Metro Group to enter the Turkish market. The two companies jointly form Media Saturn Holding, which is Europe's largest retailer of consumer electronics with over 60,000 employees in close to 800 stores and an annual turnover of €19bn (2008). Even though they belong to the same parent company, there is a formidable rivalry between Media Markt and Saturn that has been given an extra edge by the recent market entrance of "Best Buy", the largest consumer electronics retailer in the United States. On this background, Saturn intends to establish itself in the market by a guaranteed lowest-price policy, a free-of-charge home delivery and installation service,

plus an optional 5-year warranty. The first Saturn specialty retail store just opened in the new "Forum Istanbul" shopping centre.

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