



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

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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 September 2008

Economy

Overview of Monthly Data

| YTL-Rates | 08.29.2008 | 09.26.2008 | Change in % |
|--------------|------------|------------|-------------|
| YTL pro Euro | 1.7424 | 1.8092 | 3.83 |
| YTL pro USD | 1.1821 | 1.2394 | 4.85 |

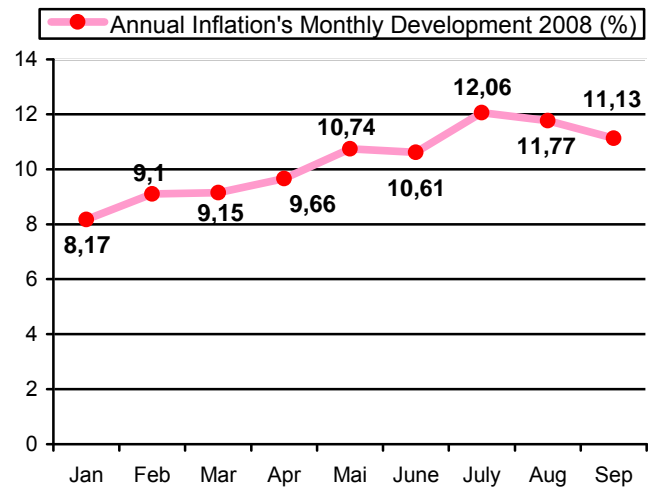
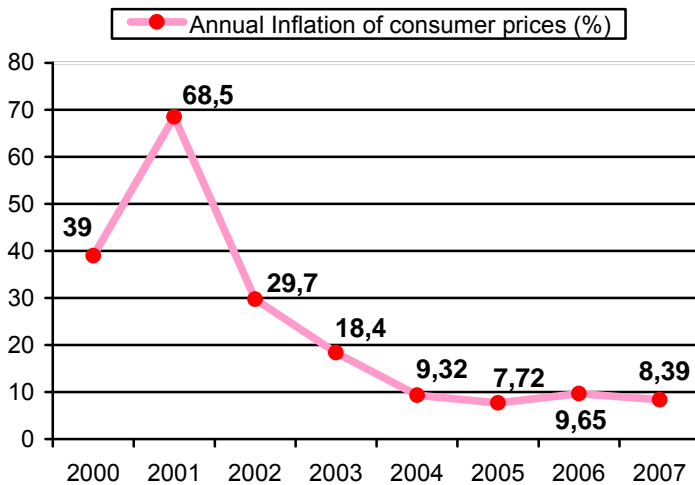
| | | | |
|----------------------|--------|--------|-------|
| Stock exchange index | 39,845 | 36,557 | -8.25 |
|----------------------|--------|--------|-------|

| Inflation in % | Monthly inflation | Annual inflation |
|-----------------|-------------------|------------------|
| Producer prices | -0.90 | 12.49 |
| Consumer prices | 0.45 | 11.13 |

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 | | | |



Economic Growth shrunk in 2nd Quarter

Whilst the Turkish economy has had an unexpectedly high growth in Quarter 1, the growth has dropped in Quarter 2 to 1.9%. For this period public investment has decreased by 16.8% and construction investment by 25.1%; the government's total production expenditure has fallen by 7%. The expansion of construction has remained static at 0.9% and the agricultural sector decreased by 3.5% during the second quarter of this year. The manufacturing sector has also experienced the smallest growth of recent times (2.5%).

The Growth numbers for 2007 and 2008 have been revised

TÜİK has revised the growth rates related to the four quarters for 2007 as well as the first quarter

of 2008. According to these revisions the growth for 2008's first quarter is 6.7% instead of 6.6%.

| % | 07/01 | 07/02 | 07/03 | 07/04 | 08/01 | 08/02 | 2008 ort. |
|--|-------------|-------------|-------------|-------------|------------|-------------|--------------|
| Agriculture hunting and forestry | -5.1 | -1.2 | -8.2 | -10.9 | 2.6 | -3.5 | -1.5 |
| Fishing | 5.9 | 5.9 | -6.9 | -1.0 | 4.7 | 12.4 | 8.1 |
| Mining | 9.3 | 9.4 | 10.9 | 2.7 | 8.4 | 7.7 | 8.0 |
| Manufacture | 10.4 | 4.1 | 4.6 | 4.0 | 7.0 | 2.5 | 4.7 |
| Energy | 6.6 | 8.3 | 6.6 | 5.8 | 9.9 | 5.1 | 7.3 |
| Construction | 12.7 | 7.3 | 3.9 | 0.3 | 3.1 | 0.9 | 2.0 |
| Trade | 6.8 | 2.6 | 6.9 | 6.7 | 9.1 | 3.3 | 6.1 |
| Hotels and restaurants | 8.8 | 0.6 | 0.5 | 1.8 | 1.3 | 0.6 | 1.0 |
| Media communication ve news | 8.4 | 5.3 | 6.7 | 7.2 | 7.8 | 3.2 | 5.4 |
| Intermediary financial institution activities | 12.7 | 7.8 | 10.6 | 8.3 | 8.8 | 9.4 | 9.1 |
| Home ownership | 2.6 | 2.4 | 2.6 | 1.0 | 1.5 | 1.6 | 1.6 |
| Real estate rents | 15.1 | 11.9 | 13.6 | 14.5 | 7.5 | 15.1 | 10.9 |
| Public administration, defense, social security | 0.3 | 1.0 | 3.9 | 0.4 | 3.7 | 5.0 | 4.3 |
| Education | 8.9 | 5.1 | 1.8 | 3.0 | 3.1 | -6.1 | -2.3 |
| Health and social services | 0.7 | 1.3 | 2.6 | 2.3 | 11.6 | 5.0 | 8.5 |
| Other public services | 6.5 | 3.7 | 5.5 | 5.6 | 1.9 | 1.4 | 1.7 |
| Domestic workers | 13.2 | 9.8 | 12.5 | 12.7 | 6.4 | 11.9 | 8.6 |
| Total according to sector | 8.2 | 4.3 | 3.5 | 3.7 | 6.6 | 3.2 | 4.8 |
| Indirect financial intermediation | 13.2 | 6.2 | 10.1 | 7.1 | 8.0 | 9.9 | 8.9 |
| Tax- subvention | 10.2 | 3.5 | 5.3 | 5.2 | 9.1 | -6.9 | 0.8 |
| Gross domestic product (GDP) | 8.1 | 4.1 | 3.3 | 3.6 | 6.7 | 1.9 | 4.2 |

The change of GDP according to expenditure groups (in %)

| % | 2007/2 | 2008/2 | | 2007/2 | 2008/2 |
|---|--------|--------|-------------------------|--------|--------|
| Gross domestic product (GDP) | 4.1 | 1.9 | Gross fixed investments | 3.9 | -1.5 |
| Indirect activity of the intermediary financial institutions. | 1.8 | 2.8 | State sector | 8.2 | -16.8 |
| Household consumption | 1.4 | 2.2 | - Equipment lease | 8.8 | 33.9 |
| | | | - Construction | 8.1 | -25.1 |
| Domestic consumption | -4.0 | -11.0 | Private Sector | 3.4 | 0.6 |

Since 2007 Turkey drops 6 places for Foreign Investment

In 2007 Turkey had the highest amount of foreign investment totaling an amount of 1.8 trillion. However, Turkey has dropped from the 17th to the 23rd ranked country for foreign investment. During the last year Turkey has received 22 billion USD of foreign investment and according to "The 2008 World Investment Report" (published by UNCTAD) Turkey's position has fallen from 5th to 9th. Irrespective of these reports, Turkey is still among the 15 countries that are considered to an investment advantage for 2008-2010.

Protocol partly resolves customs problems between Russia and Turkey

There have been difficulties for Turkish products to get through Russian customs since August. Turkish trucks have been kept waiting at the customs and have incurred losses of more than a billion dollars. According to government minister Kursad Tuzmen, it was noted that Turkey has responded with the same actions towards Russia since 1 September. However, this problem was solved due the signing of a protocol in the middle of the month. Simpler customs procedures are to be applied and companies will notify Customs of the products they intend to export; firms will

provide this information voluntarily and those who do not wish to do so will be required to proceed through the “red line”.

Change in Export rankings

Only a few years ago the automobile sector was leading exporting industry from the readymade textiles industry and soon after superseded by the iron and steel industry. In August of this year 10.9 billion USD of exports was made, of which 2.5 billion was from the iron and steel sector. In August when the annual exports reached 129.5 billion USD, the automobile and spare parts sector reached 1.4 billion USD. The readymade textiles industry fell from last year’s figure to 1.35 billion USD. The majority of Turkey’s Iron and Steel exports head towards the Gulf States. On the other hand, it is noticeable that chemical materials exports are gaining important momentum.

Electricity price hike of 9.27%

On October 1st, the price of electricity rose by 9.07% for households and 9.27% for industry. Thus, since the beginning of the year, there has been a total rise of 57.72% for homes and 49.31% for industry.

A Watchful Eye on Luxurious Lifestyles

Answers are going to be expected from those who declare a small income but spend ferociously: mechanisms are going to be put in place to detect tax fraud. Gross income is to be compared to net expenditure. Questions of how things are financed are also expected to be asked.

Ozince, Is Bank’s General Manager announces that this is the worst crisis he has ever experienced:

Ersin Ozince, the General Manager of Is Bank and the Chairman of the Turkish Banks Association (TBB), stated that since this crisis is not going to dissipate easily, it is expected that the government gives priority to the economy. He further stated that there are difficulties finding foreign resources for the banks and that there is no time to spare. He said that in the following period the labor credit cost may increase to levels of + 1-1.5.

Ekren states the crisis is probably under control but the real sector should beware

State minister Nazim Ekren, stated that the financial crisis is under control due to Turkey’s financial discipline and structural reforms. He said he could not say the same thing about the real sector; and that debts are the biggest concern.

New Investment Incentives law is being prepared

The new system of investment incentive instruments has been discussed with the private sector and have been identified such instruments as VAT, deductions in corporate income tax, customs exemptions and land allocation for large investments. The uncertainty about cheaper electricity rates still continue. The new investment incentive law will also include previous instruments such as subsidizing the interest payments in whole or in part of the credits taken to create the investments. The government has excluded any further reduction of cost of employment in this new investment incentives law as these were taken up in the Social Insurance package.

Occupational schools now a concern for the military

General Chief of Staff, Ilker Basbug, stated that if the vulnerable 14-18 year old group received a decent occupational education, terrorist organizations can be rendered ineffective in very short time. Basbug's remarks were reminiscent of Koc Holding's 'Occupational schools are the concern of the country' campaign.

Gül visits Armenia

The world's attention was on the fact Turkey's President Abdullah Gül has accepted an invitation from the President of Armenia, Serj Sarkisyan, and will travel to Yerevan on the occasion of the Turkey-Armenia qualifying match for the World Soccer Cup. This visit's potential effects on the Turco-Armenian relations are being watched closely. The Center for Eurasian Strategic Studies Institute for Armenian Research's (ERAREN) Serdar Palaybiyik stated that Turkey is becoming more pro-active regarding Armenian issues while recently Armenia is moving to a more neutral stance.

Zapatero: A clear decision regarding Turkey's EU membership expected

During the opening of the University of Bahcesehir Besiktas campus, The Prime Minister of Spain, Jose Luis Rodiruez Zapatero who attended the ceremony by invitation from Prime Minister Recep Tayyip Erdogan, stated that his government fully supports Turkey's membership application for EU membership.

Deniz Feneri case: 3 get prison sentences

Three people have been convicted on accusations of fraud in Germany regarding the Deniz Feneri Case. The judge remarked that this was the biggest case of its type in Germany. For 5 years over 20,000 donors have been defrauded due to their trust in this organization. The German judge stated that of the total 41 million Euro donations, Deniz Feneri held on to 8 million and 17 million was sent to Turkey. He also stated that even though Mehmet Gurhan was the director of the company these fraudulent actions were orchestrated from Turkey, especially by Zekeriye Karaman.

Bill for cross border operations to be extended for 1 more year

State and Deputy Prime Minister, Cemil Cicek, confirmed that the bill issued that allows cross-border operations that combat terrorism originating from the north of Iraq has been extended for one more year. He announced that the bill will be debated at the opening of the General Assembly.

Tuncay Ozkan ve Gurbuz Capan arrested under ERGENEKON CASE

During the middle of September, 16 more people were arrested in simultaneous operations in Istanbul, Ankara and Izmir. In this second wave of arrests, journalist Tuncay Ozkan, the former mayor of Esenyurt, Gurbuz Capan, the former police commissioner Adil Serdar Sacan and former narrator Duygu Dikmenoglu were among the arrested.

Firat and Kilicdaroglu in parliamentary debate

Journalist Ugur Dundar moderated a 1 hour 35 minute televised debate between AKP deputy Dengir Mir Mehmet Firat and CHP deputy Kemal Kilicdaroglu. Kilicdaroglu made accusations regarding ghost exports and drug trafficking.

Other Topics

Nuclear Power Plant Tender ends in Failure

Due to the difficulties of finding credit in the current unstable financial climate, 4 of the 13 companies who purchased the tender documents for the Mersin Akkuyu nuclear power plant asked for an extension of the September deadline. Their request for a six month extension was refused by the treasury. Consequently, the only proposal submitted by the deadline came from a consortium led by Russia's Atoms troy export and Inter Rao, together with Turkey's Park Teknik Group. It was reported in the Financial Times that Turkey has suffered a setback in its efforts to reduce a costly dependence on energy imports by not extending the deadline. The tender might now be suspended or cancelled, since without genuine competition, anti-nuclear campaigners would find it easier to take court action.

Ro-Ro Ferry sinks due to unsecured vehicle

The Bandirma – Istanbul Ro-Ro ferry named 'Hayat- N', captained by Mithat Altin, sank late on 14 September in the Marmara Sea about 30 meters away from Bandirma harbour. It was reported that there were 73 trucks, 2 cars and 94 passengers on board. Hayat-N was carrying 73 vehicles, 67 drivers and 27 members of staff – 89 people were rescued and 5 people died.

Motor vehicle orders halts: 70% of orders are from Europe

The Turkish auto trade industry, which is the most important export industry of the country, is being affected negatively by the economic crisis which originated in the US; European trade has been adversely affected and has shrunk by approximately 15%. The Turkish auto export sector has nearly come to a total stop. This shrinking demand will be reflected in the last quarter of the year and will also influence related industries. The General Secretary of the OSD, Prof. Dr. Ercan Tezer stated that from Europe there was a 15% decrease compared to the same period last year and in some countries like Spain and Italy, this drop is between 25% and 30%. He further stated that there is also a decrease in the local market and manufacturers should take note.

French CICOM plans to build a Technopark in Urla

An agreement was signed for CICOM to build a techno village on Izmir Yuksek Teknoloji Enstitüsü's (IYTE) campus in Urla. CICOM already operate the Sophia Antipolis and 18 other techno villages in various. On 10 September 2008, a protocol was signed between Izmir Teknoloji Gelistirme Bolgesi AŞ and CICOM for an investment of 40 million Euro with completion in 10 years. Future plans include the integration into Cesme to form a techno city. The aim is to create a foundation for international companies, hospitals and hotel chains to realize major projects in the region.

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