



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

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Your FMConsulting Team

Newsletter September 2009

Economy

Overview of Monthly Data

YTL-Rates	31.08.2009	30.09.2009	Change in %
YTL pro Euro	2.1380	2.1707	1.53
YTL pro USD	1.4900	1.4891	- 0.06

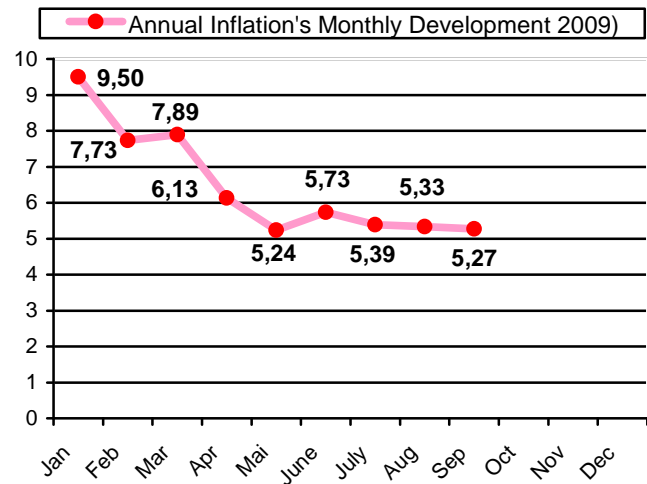
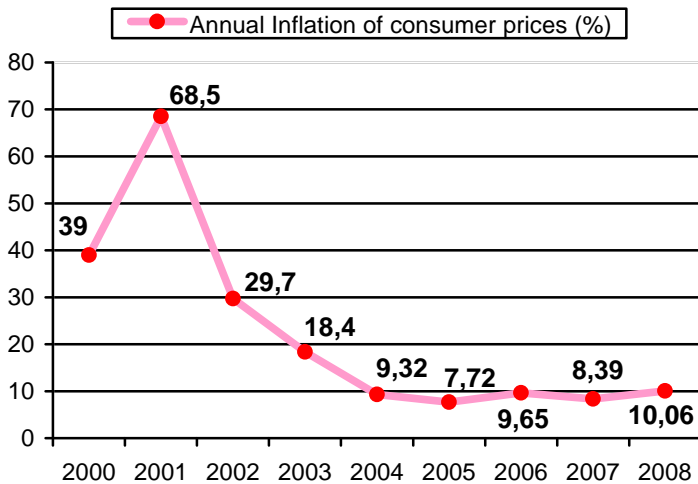
Stock exchange index	46.551	47.910	2.92
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.62%	0.47%
Consumer prices	0.39%	5.27%

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			



Turkish economy in for a slow recovery

According to the latest data provided by the Turkish Statistical Institute, the country's economy registered a negative growth of -7% in the second quarter of 2009, while the figure for the first quarter was revised to -14.3%. In total, the economy shrank by 10.6% in the first half of the year, earning Turkey the rank of 5th in the list of poorest-performing OECD countries. The wholesale and retail sector (-20.6%) and the construction industry (-19.9%) were affected most. Another course for concern is capacity utilization in industry, which dropped back to below 70% after having improved slightly in June and July. The phasing-out of special incentive tax breaks has made the

capacity utilization rate in the automotive sector drop to 51.2% in August, from 70.3% in June.

Change in the Gross Domestic Product according to industries (in %)

	2008					2009		
	I	II	III	IV	Year	I	II	1 st half
Agriculture, hunting & forestry	6.3	-0.7	5.5	3.3	3.9	-0.5	6.6	4.0
Fishing	-7.7	11.8	-6.9	-10.4	-5.7	10.8	8.4	9.7
Mining & quarrying	8.4	7.7	3.9	2.7	5.4	-13.0	-15.3	-14.3
Manufacturing industry	9.1	4.8	0.3	-10.8	0.8	-20.2	-8.7	-14.4
Production & distribution of electricity, gas, steam and hot water	8.3	5.9	4.0	-1.2	3.7	-6.1	-6.0	-6.0
Construction industry	-3.3	-5.2	-9.8	-14.0	-8.2	-18.9	-21.0	-19.9
Wholesale & retail business	9.9	4.5	-1.5	-15.9	-1.1	-26.4	-15.0	-20.6
Hotel & catering industry	2.2	1.5	-3.0	3.5	0.1	3.0	1.9	2.5
Transport, warehousing & communications	7.9	4.2	1.2	-7.4	1.3	-17.6	-11.5	-14.5
Operations of finance broker institutions	9.3	9.6	8.0	9.4	9.1	10.9	7.5	9.2
Ownership of residential property	1.5	1.6	2.5	3.5	2.3	4.5	4.8	4.6
Real estate, leasing & management	7.4	9.4	7.6	3.6	6.8	-0.3	2.3	0.9
Public administration & defense, social security	6.5	-0.3	-2.8	0.6	0.9	0.9	1.2	1.0
Education	1.4	0.7	-1.2	1.5	0.7	-0.2	0.7	0.2
Healthcare and welfare	5.5	2.6	1.9	1.9	3.0	0.0	2.0	0.9
Other social, community and personal services	3.1	3.1	0.2	0.6	1.7	-2.9	-1.9	-2.4
Households with domestic staff	6.8	7.9	5.7	2.8	5.7	-1.7	0.7	-0.8
Industries total	7.0	3.7	1.2	-5.1	1.5	-11.9	-6.2	-9.0
Indirectly measured finance broker services	8.0	9.9	6.7	9.2	8.4	10.7	6.6	8.6
Taxes/subsidies	9.9	-2.6	2.4	-10.1	-0.3	-22.0	-6.5	-14.4
Change in GDP (= economic growth)	7.2	2.8	1.0	-6.5	0.9	-14.3	-7.0	-10.6

Flooding wreaks havoc at the heart of Turkish economy

Severe rainfalls have caused disastrous floods in parts of Thrace and in western districts of Istanbul, claiming more than 30 casualties. The main approach road to Istanbul's Atatürk Airport was suddenly submerged under 6 feet of water, with cars and people swallowed by the floods. Numerous businesses operating in this area, such as textile and trucking companies, suffered heavy losses. A switching facility of network operator Vodafone was also hit, resulting in days of disruptions to mobile communications. Preliminary economic loss was estimated at US\$80-90mn by the Istanbul Chamber of Commerce. The natural disaster relentlessly exposed serious flaws in the megacity Istanbul's infrastructure.

Exports at stake as customs is crippled by flood disaster

Flash floods triggered by torrential rains caused severe damage also to Istanbul's main customs office located in the district of Halkali, where normally some US\$50mn worth of exports are

handled every single business day. This particularly affects the clothing and textile industry, with up to US\$150mn of export business at risk according to an industry spokesman. Turkey's International Transporters' Association (UND) put the damage to the trucking industry at €25mn. Huge losses were also suffered by the agriculture and livestock breeding sectors.

Tense labour market situation continues despite drop in number of jobless

Following its historical peak of 16.1% in February 2009, the official unemployment rate in Turkey has continuously declined. However, unemployment still stood at 13% in June. According to the most recent survey carried out by the Statistics Institute, the actual jobless rate, including hidden unemployment, can be put at 18.9%. This means that currently, over 5 million Turks are still out of work, with the country's eastern and southeastern regions bearing the brunt. There was also a slight increase in the share of the labour force employed without social security cover, which is now 45.7% - and in agriculture as high as 86.7%.

FDI expected to drop significantly

Foreign Direct Investments to Turkey, are likely to fall below the US\$10bn mark by the end of the year. FDI had already declined by 18% in 2008 to US\$18.2bn (the world average is at 14%). This figure was announced by the Turkish Association of International Investors at the presentation of the latest World Investment Report issued by the United Nations Conference on Trade and Development, UNCTAD. As from 2011, foreign investments to Turkey are forecast to increase again, with a strong focus on the energy, tourism and construction sectors.

Turkey proposes major investments in its infrastructure

Turkey plans to invest a total of US\$350bn over the next 25 years to improve its transport and communications infrastructure. Turkish Prime Minister Recep Tayyip Erdogan announced this target at the 10th International Transport Conference in Istanbul. The plan involves extending the grid of motorways and dual carriageways from 6,000km to 16,000km and through an allocation of US\$45bn, doubling the length of the national railway network. This includes reconstruction and new construction of the Ankara-Antalya route, cutting travel time between the two cities to a mere 2.5 hours. It is intended to realize the construction projects within the scope of Public-Private Partnerships under the Build-Operate-Transfer scheme.

No extension of VAT and luxury tax breaks

The Turkish cabinet has decided to phase out the reduction of VAT and luxury consumption tax on certain commodity groups (including motor vehicles, electronic items, and white goods), which had been limited to an initial three months. As the Minister for Industry and Commerce, Nihat Ergün, pointed out, a "cash-for-clunkers" scheme for vehicles older than 16 years is under consideration as an alternative incentive measure.

IMF: Turkish companies need better refinancing

The Director of the International Monetary Fund's Monetary and Capital Markets Department has warned of certain weaknesses in Turkey's financial sector. On the one hand, owing to good

liquidity position, the Turkish finance system has remained strong both in terms of domestic and of foreign currency, and displays a good profit-earning capacity, he said. Turkey has managed to completely keep away from so-called “toxic” instruments. All in all, the measures taken by the Turkish Central Bank have proved successful, according to the IMF official. However, in comparison to other emerging markets, the private sector is clearly showing a refinancing deficit.

Turkish trade gap narrows by 57%

According to recently published figures, in the period January-August 2009 Turkey’s foreign trade volume has decreased by 36% - from around US\$238bn to US\$152.2bn. In the same period, exports dropped by 30.1% to reach US\$64.6bn and imports were up by 39.9%, to US\$87.5bn. This translates into a foreign trade deficit of approximately US\$22.9bn - 56.9% less than in the same period of the previous year.

Politics

Erdogan: Terrorist acts will fail to spoil opening process

In various places in the Southeast of Turkey, notably in Siirt and Hakkari provinces, there have been more assaults by PKK rebels on the Turkish security forces, in which several soldiers lost their lives. Prime Minister Erdogan condemned the attacks as acts of terrorism, emphasizing that his government would not be forced to abandon its policy of opening toward the Kurdish population. This opening, he said, is essential to the furtherance of the democratic process and the PKK will never succeed in sabotaging this development. The fight against terrorism and for national unity will continue, affirmed Erdogan.

Turkey and Armenia to establish diplomatic ties

Under Swiss mediation, Turkey and Armenia have signed a protocol concerning the establishment of diplomatic ties and to promote their bilateral relations. This also involves reopening the border which had been shut down by Turkey in response to Armenia’s intervention in Nagorno Karabakh in 1992. The agreement, which is not tied to any conditions other than the joint condemnation of violence and terrorism, has meanwhile been signed following approval by the Turkish parliament. Both the European Commission and the U.S. State Department voiced their support for the normalization process between the two countries. Prime Minister Erdogan asserted that the rapprochement between Turkey and Armenia would also bring the Turkish and the Armenian people, including the minority in his country, closer together. Foreign minister Davutoglu on his part reiterated Turkey’s call for a quick resolution of the conflict between Azerbaijan and Armenia.

Record tax strafe for Dogan Media Group

individual companies associated with leading Turkish media group, Dogan Yayin Holding during 2005, 2006, and 2007 have been ordered to pay arrears and penalties in excess of TL3.7bn. The market did not take this news very well, and the group’s stocks plummeted by up to 20%. A

spokesperson for DYH announced that all legal means available would be used to fight the sanctions. Industrial tycoon Mustafa Koc in his capacity as chairman of the advisory board of liberal entrepreneurs' association TÜSIAD voiced his concern that the fiscal authorities are increasingly being instrumentalized for political purposes. Dogan Group founder Aydin Dogan is known for his critical stance towards the ruling party; his daughter is president of TÜSIAD.

Other Topics

Big firms from the Far East embarking on investments in Turkey

For the first time in the company's history, Korean steel giant POSCO is about to embark on a business venture in Turkey. With an initial investment of US\$24mn, the world's second-largest steel maker intends to build a steel-rolling plant in Bursa - Turkey's "motor city". Starting from 2010, the plant is to turn out 170,000 meters of flat-rolled steel per year. China's third-largest automobile manufacturer, Dongfeng Motor (DFM), has also decided to take up manufacturing operations in the country. The company which recently started to sell its light commercial vehicles on the Turkish market, is currently scouting an appropriate location to build a factory where it intends to produce 52,000 units per year with a staff of 1,000 and an initial investment of US\$250mn. The head of Turkey's Investment Agency said he is confident that these large-scale investments will have a signal effect on the international business community.

Turkish tea market growth defies crisis

In 2008, the year of crisis, Turkey's market for tea has grown by 17%. In absolute numbers, Turkey is the world's fifth-largest producer and fourth-largest consumer of tea. However, with an annual per-capita consumption of 2.8 kg, Turks drink more tea per member of the population than any other nation, and in times of crisis, they appear to consume more tea than ever. This is reflected by a yearly consumption of 200,000 tons, worth over TL1bn - 94% of which is black tea.

Renault to build first electric car in Turkey

The French carmaker Renault announced at the IAA International Motor Show in Frankfurt that its first electrically-powered production car will be produced in Bursa with its Turkish partner Oyak. The company has been manufacturing motor vehicles in Bursa for 40 years. Its new mid-range sedan, Fluence, will initially be launched exclusively for the Turkish market in November and from 2011 onwards, an electric version of the car, dubbed ZE Fluence, is to roll off the production lines. For this purpose, more investments are to follow the €110mn that have already been invested in Turkey. By the year 2020, Renault is aiming for 10% of all new cars it manufactures to run on electricity. 10,000 orders for the electric Fluence have already been received from Israel and Denmark.

Electricity prices raised by almost 10%

Turkey's Energy Market Regulatory Authority (EPDK) has approved of a proposal to increase wholesale electricity prices by 21.8%. This price hike, which comes into effect on October 1, is reflected in an increase in electricity retail prices amounting to 9.68% for private and 9.85% for industrial consumers. Business circles warned that a price rise of this scale is bound to result in factory closures and mass layoffs particularly in industries with high power consumption such as textile, leather, ceramics, steel, chemicals, plastics and marble-processing. The common people also have reason to complain, with the price for household electricity having gone up by 70.3% cumulatively since the beginning of 2008.

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