

# FOREIGN MARKET CONSULTING



Danismanlik ve Tic. Ltd. Sti.

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

Please note that beginning from this year we also offer 2-day intensive **seminars on 'Business in Turkey'** presented at our offices in Istanbul. Please find further information **Seminar - Info**

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@fmconsult.net](mailto:newsletter@fmconsult.net)), so that we can include them on our distribution list.

Best regards,

Your FMConsult Team

## Newsletter September 2007

# Economy

## Overview of Monthly Data

YTL-Rates	08.31.2007	09.28.2007	Change in %
YTL pro Euro	1.7743	1.7168	-3.24
YTL pro USD	1.2976	1.2106	-6.70

<b>Stock exchange index</b>	50.198	54.044	7.66
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.03	5.02
Consumer prices	1.02	7.12

## 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	10.02	7.6
2006	6.3	9.3	4.3	4.6	6.1
2007	6.7	3.9			

### Turkey has moved up the 'Doing Business' ladder by 34 places.

Turkey has moved up in the rankings of the World Bank's "Doing Business" report from Number 91 to Number 57. This report which identifies the top reformers in business regulations stated that the three countries top ranked countries were Singapore, New Zealand and the United States. It was further identified that China was just behind the United States and that Turkey had moved up in the rankings due to its regulation reforms concerning taxes and the incentives concerning foreign trade.

### 381 000 persons employed in the last year

For July the rate of unemployment settled at 8.8% with no change compared to the same period last year. The number of unemployed has risen with 40 000 to a total of 2.285.000. For this period, compared to 2006 the number of people employed rose with 381 000 to a total of 23.581.000.

2007	Official Rate of Unemployment (%)	Real Rate of Unemployment (%)
January	11.0	19.0
February	11.4	19.3
March	10.0	17.8
April	9.8	16.8
May	8.9	15.9
June	8.8	15.7

### The yearly expenditures of Turkish households

For the year 2006 the Turkish household spent 27.2% of their earnings on accommodation and rent. The money spent on foodstuffs came up to 24.8%. In 2005, the average household spent 1.091YTL whereas in 2006 this figure rose to 1.225YTL.

Expenditures	2005	2005	2006	2006
	Amount in ytl	%	Amount in ytl	%
Foodstuff including soft drinks	271	24.9	304	24.8
Alcohol and tobacco products	45	4.1	50	4.1
Clothing	68	6.2	72	5.9
Accommodation and rent	283	25.9	333	27.2
Household items	74	6.8	76	6.2
Health	24	2.2	27	2.2
Transport	138	12.6	160	13.1
Communication	47	4.3	51	4.2

<b>Culture and Entertainment</b>	28	2.5	27	2.2
<b>Education</b>	20	1.9	26	2.1
<b>Hotels and restaurants</b>	48	4.4	51	4.2
<b>Other items and services</b>	45	4.1	49	4.0

### **Foreign Direct Investment rise to 12.7 million USD**

Compared to the corresponding months of the previous year, the flow of foreign direct investment into Turkey for the January-July period of 2007 has risen by 35.2% to a total of 12.7 billion USD. Of this amount, 11.65 billion USD is a direct capital invested of which 251 million USD was borrowed from multinational company's foreign partners. For the month of July a total of 855 million USD of foreign direct investment was realized. In this 7 month period, the majority of direct foreign investments, amounting 7,26 billion USD, came from the sales of banks and the operations of financial and brokerage firms. The production related investments rose to 1.9 billion USD.

### **A decrease in Social Security premiums planned**

The World Bank agreed to the planned reduction of the social security premiums as was stated by the AKP during their election campaign. According to a report prepared by the World Bank, the cost of the planned 5 point decrease in social security premiums, along with the removal of the employers 2 point contribution will not be above 0.2% of the Gross Domestic Product. The World Bank Report states that officials could consider the reducing the tax levels on lower income employees. According to the AKP election promises, the premiums will come down with 5 points. The reductions will go down step by step until 10% is reached.

### **YASED: The decrease in the cost of employment will prevent unregulated economy.**

Mustafa Alper the General Secretary of the International Investment Association ( YASED ) stated that in order to increase the foreign direct investments, the unregulated economy needs to be reduced, and lowering taxes on the employment will help to be lowered unregulated economy. He further went on to say that patents and industrial ownership rules and regulations had been legislated properly but there were still some problems regarding their applications.

### **A high level of Interest in the Kars-Tiflis-Bakü railway**

Leading local and foreign construction companies have expressed an interest to tender for the construction of the Kars-Tiflis-Bakü railway project that will connect Turkey and Azerbaijan directly. Nearly 50 companies procured the tender documents since the bid submission date on the 20<sup>th</sup> of September. The project which is due to be completed in 2010 will bring back to life the historical 'Silk Road'. A proposed project that will connect London to Shanghai by train is to be completed in the next 2 years.

### **3.9% economic growth in the second quarter**

In the second quarter of the year the increase of Turkey's Gross National Product (GNP), continued growth by 3.9% as per market expectations. This means that Turkey's economy continued to grow for 22 quarters in a row. However, the rate of growth has slowed down. The reason for the slowdown has been the reaction of The Central Bank to the turbulence in the market by raising its interest rates and implementing a strict monetary policy. The further the uncertainty about the elections also played a role.

### **Turkey in 15th place for Import, 22nd place for Export**

For the previous year, Turkey has taken its place as the 15th biggest importer and the 22nd biggest exporter in the world. The increase of Turkey's exports, which is catching up with the world average of 16%, has also placed the country among the world's 10 countries with the biggest export increase. Turkey with its average import increase of 17% has gained two points with regards to the international average.

## Politics

### **New Program for a new period concerning European Union**

The Foreign Minister and Chief Negotiator Ali Babacan has stated that there will be new program for the new period concerning European Union. Babacan further stated that the government would announce a 3 month program to be initiated up due to the fact that the next phase of the accession process would require a tighter schedule. Minister Babacan stated that the reform program was one of the most important aspects in bringing Turkey's laws and regulations in line to those of the EU; and that no time should be wasted in implementing this program.

### **Constution shall be changed**

Prof. Dr. Ergun Özbudun the head of the Scientific Committee responsible for the draft of the new constitution announced the draft on a television program. The draft which is made up of 137 articles and 47 pages of reasoning covers several areas ranging from the limits of the Presidential powers to women wearing the turban at Universities. Other issues, such as the parliamentary waiver rights, as well as new regulations are contained in this draft. A summary of the information that Mr.Ozbudun is as follows:

- Religious Studies to become optional
- Redefining the "Turkishness" concept as "Constitutional loyalty and Citizenship"
- Parliamentary waivers are not to be abolished but reduced
- Presidents role is to be stated as symbolic
- Students are to be allowed to wear turban at the Universities.
- Limitations are to be brought to the Higher Education Council.

## Other Topics

### **5,300 TV sets were sold in the first 30 minutes of the opening of Media Mark**

Media Markt, a leading company in electronics in Europe, has opened its first store in Istanbul Ümraniye. The store experienced a stampede by the crowds due to the product's low prices. The crowds were so enthusiastic that adjacent roads came to standstill. Media Markt officials stated that even though they had planned to continue their campaign until the 28th September, they ran out of stock in the first two hours. Mr. Jan Mitilyan stated that they would continue to conduct similar campaigns.

**Indesit will wake up in the Turkish market with a €30 million investment.**

Mr. Marco Milani, the CEO of the Indesit company, which the 5th largest in the World and 2nd in Europe, stated that they were not able to use the potential of the Turkish market up to now due to the fact that they had given priority other markets. Mr. Milani further stated that the company was 'asleep' in Turkey. However, if the company invests €30 million in the next 3 years and its market share in Turkey will be brought to the European standard of 10%.

### **With support from the EU, the organization DESIRE initiates the eradication of erosion**

The DESIRE project, which falls under the 6th Program of the EU, is the largest of its kind that has received support by the EU and will work towards the eradication of erosion. The project encompasses 11 countries and comprises 19 research areas of which 2 are in Turkey. These are in Konya Karapınar and Eskişehir Keskin Lake districts. The General Secretary of the Nature and Environment Trust stated that the study was conducted in cooperation with the Osman Gazi University and that if solutions are found with the people who are living in these habitats; it would be an important "first" for Turkey. A successful outcome would serve as a model for similar projects worldwide.

### **Record Profits at Erdemir**

The Turkish steel giant Erdemir that operates under the Oyak Group stated that its first 6 months consolidated profits jumped by 266% to 375,82 million YTL. The company's net income rose by 26% to 2.84 billion YTL.

## Ukraine

### **OSCE endorses Ukraine's election as open and competitive**

Observers from the Organization for Security and Cooperation in Europe stated that Ukraine's parliamentary elections were conducted in an "open and competitive environment". Their observations of Sunday's vote are potentially important to the country's political stability since a favorable assessment could limit the opportunity for disappointed parties to argue that the elections were flawed.

The OSCE conducted the observation mission jointly with the European Parliament and the parliamentary assemblies of the Council of Europe and NATO. In all, nearly 770 observers took part. In a statement from the mission it was said the vote was conducted mostly in line with international standards for democratic elections and confirmed that an open and competitive environment for the conduct of election processes existed.

It was further noted that voters had a diverse choice of candidates and parties and that freedoms of assembly and expression were respected. The result of the Ukrainian elections is such that there is good chance of an "Orange" coalition government being formed. However, for this to realize many political obstacles will have to be overcome.

### **Ukrainian-Russian steel giants eye multi-billion-dollar merger deals**

One of Ukraine's leading steel groups announced a multi-billion-dollar merger deal with a Russian group this week, while the country's largest steel group was said to be holding continued negotiations with yet another Russian group on a big merger deal. If they go through both deals

could produce two new top 10 world steel-producing companies that would be better able to compete in a global market shaken up by consolidation.

Metinvest, the steel holding controlled by Ukraine's top billionaire, Rinat Akhmetov, revealed on Sept. 25 plans to merge with Smart-Holding, a Russian-Ukrainian steel group. Metinvest is managed by System Capital Management (SCM), Ukraine's biggest holding, which controls Akhmetov's more than \$15 billion in assets in energy, telecommunication, banking, media and retail.

Sources stated Ukraine's largest steel producer, Industrial Union of Donbass (ISD), was still in merger talks with Russia's Gazmetal, controlled by billionaire Alisher Usmanov. ISD is controlled by Ukrainian billionaires Serhiy Taruta and Vitaliy Haiduk.

The Ukrainian-Russian deals follow the 2006 merger of Mittal Steel and Arcelor, where the world's largest and second largest steel groups consolidated into a single company

### **The promised roads**

The Ukrainian government continues approving billions in loans despite its pledges to discontinue the practice of providing guarantees on loans to state monopolies. This time the Cabinet has authorized the State Automobile Road Service (UkrAvtoDor) to be issued a government-backed loan of US \$465 ml from the Morgan Stanley International Ltd Company for the construction, reconstruction and repair of Ukraine's highways. This money is the first part of a UAH 4.7 billion loan. According to the national budget, UkrAvtoDor has the right to receive loans under state guarantees for the development of highways of general use.

UkrAvtoDor's chief Volodymyr Demishkan said the allocated funds of UAH 2.2 billion were earmarked for the reconstruction of the M-02 international transport corridor through the territory of the Chernihiv and Sumy administrative regions. A significant part of Russian transit passes through this Ukrainian route. Furthermore, around UAH 1 billion is planned for the construction of the Kharkiv-Novomoskovsk highway, which is likely to replace the construction of a Kharkiv-Dnipropetrovsk highway. In June 2006, UkrAvtoDor attracted 300 million Euro in loans for the construction of the Kharkiv- Dnipropetrovsk highway.

### **New stadiums to be up to standard**

The capital of Ukraine will be hosting the final game of Euro 2012. Kiev authorities have promised to reconstruct the largest Ukrainian sports arena Olimpiyskiy (Republican) Stadium and build a new stadium with a seating capacity of 50,000. After the reconstruction the number of seats will decrease from 84,000 to 70,000 but the arena will comply with European standards.

### **Donetsk**

In 2008, Ukraine will have its first soccer stadium that that complies with current European standards. The Shakhtar Stadium will go through accreditation in order to qualify for the five-star standards of UEFA and will be equal to the best stadiums in Europe. The stadium will be eligible to host the final matches of the most important competitions on the continent. The stadium will have a seating capacity of approximately 50,000.

The construction of the new stadium is currently under way and on schedule. The spokesmen of

the Donetsk Shakhtar soccer team stated that the construction is nearly half way done. The foundation of the upper level of seats on the northern side and lower levels on the western and southern stands has been laid. The construction of reinforcements for the roof has started in the northern sectors of the stadium. The total cost of the project is estimated at US \$250 million.

### **Dnipropetrovsk**

Reconstruction of the Metallurg Stadium continues in Dnipropetrovsk. The new arena will have a seating capacity of 35,000–40,000. The plans call for the reconstruction of the soccer field, roofed stands, service premises and the lighting system and a number of other works. According to the contract, Metallurg is scheduled to be commissioned in 2007.

Please note that we also offer our full range of services from our partner firms' offices in **Krakow/Poland, Prague/Czech Republic, Kiev/Ukraine and Bucharest/Romania.**

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- Market Research
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- Company Foundation
- Recruitment Projects
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- Sales Support
- Office Services
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