

# 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 March 2008

# Economy

## Overview of Monthly Data

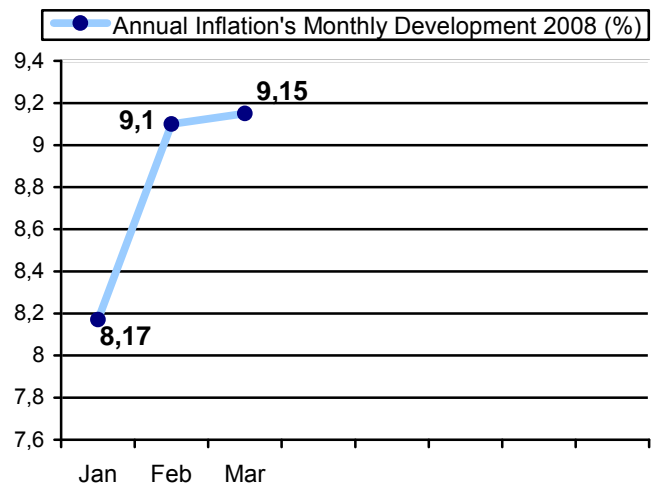
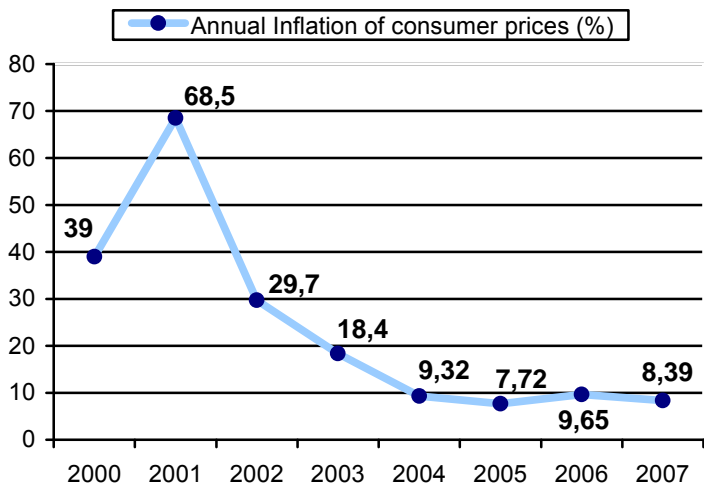
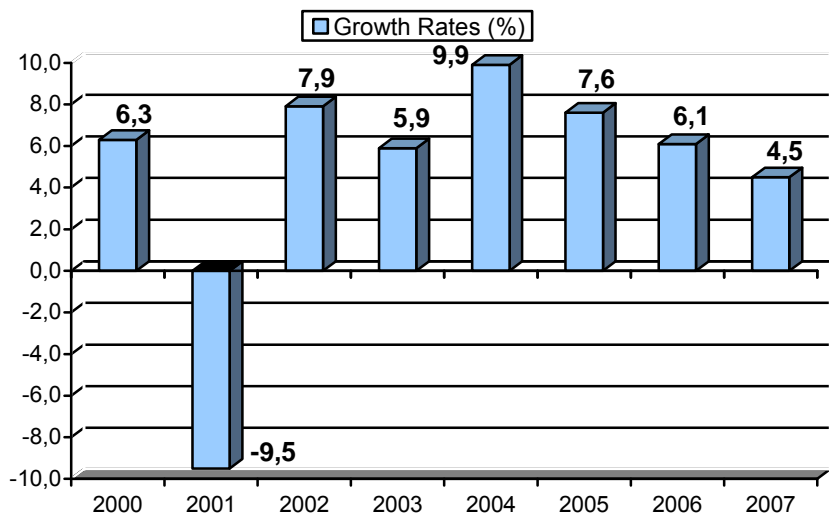
YTL-Rates	02.29.2008	03.31.2008	Change in %
YTL pro Euro	1.7885	2.0774	16.15
YTL pro USD	1.1842	1.3147	11.02

<b>Stock exchange index</b>	45,823	39,015	-14.86
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	3.17	10.50
Consumer prices	0.96	9.15

## 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



### Surprise at ban on foreign investment in real estate

YASED (Foreign Investors Association) members have been alarmed by the decision of the Constitutional Court of Turkey issued on 12th March which overturned an article of the law that enabled foreigners or foreign institutions to freely buy or own real estate in Turkey. The Former General Secretary of YASED Mr. Abdurrahman Ariman stated that the prohibition of the foreign

direct investment will come into effect in the next six months and it will put on the full breaks on foreign direct investment. This decision will be an obstruction to the foreign investor and it will hamper the economy.

### A historic collapse at the stock market

The instability of the financial markets in the American and other world markets has started to negatively affect the Turkish markets. Investors tended to avoid shares, bonds as well as derivatives and instead preferred valuable metals and commodities. The movement to ban the ruling AKP party has also had an effect of a rapid fall in the Istanbul stock exchange (IMKB). In March the IMKB fell with 3,176 points and this fall of 7.46% is the worst daily fall in the last 5 years. For the last 2 years, the Euro reached peak of 2.0088 YTL and the dollar has had its highest level for the last 3 months of 1.2740 YTL.

### Capacity utilization drops to 79.3% in February

The capacity utilization in the industrial production sector has dropped to 79.3% with 0.8 points compared to the same month in the previous year. However, for the month of January, compared to the previous year it went up by 2.2 points to 80.5%.

#### Capacity utilization rates cording to month (%)

Month	2007	2008
January	78.3	80.5
February	80.1	79.3
March	82.0	
April	81.7	
May	83.3	
June	83.5	
July	81.9	
August	80.3	
September	83.2	
October	83.1	
November	82.6	
December	81.1	

### 2007: Economy in Turkey grows with 4.5%, per capita income reaches 9,000 USD

Not only was it the economy's worst performance since 2001, but in 2007 it grew only by 4.5%, which was less than expected. On the other hand, according to a new method of calculation domestic income has beaten previous records - the per capita income went up to 9000 USD and the GDP of Turkey reached 650 billion USD. Accordingly, Turkey is placed as 17<sup>th</sup> according to domestic income and for per capita income it has gone up by 10 places to the 54<sup>th</sup> position.

#### Growth according to production sector

Sector	Last quarter 2006 (%)	2006 (%)	Last quarter 2007 (%)	2007 (%)
Agriculture	6.3	1.3	-9.7	-7.3
Production	6.0	8.4	3.6	5.4
Construction	18.5	18.5	0.5	5.0
Commerce	2.7	6.3	6.6	5.5
Transportation-Communication	3.8	6.8	6.7	6.9
Financial institutions	11.2	14.0	7.8	9.6

<b>Leasing</b>	9.6	12.6	11.0	13.7
<b>Property ownership</b>	3.3	2.7	1.0	2.0
<b>GDP</b>	5.7	6.9	3.4	4.5

### **Stimulation packet for the free trade zone**

After the recent removal of certain advantages, the government has made a comprehensive arrangement for the reactivation and stimulation of investment in the free trade zones. Five state ministers have attended a summit where the paper that was created by the civil servants responsible for economy namely the "Draft of the changes to the law on Free Trade and Customs" was presented.

The draft law includes the following:

- Tax incentives will continue until membership to the EU is realised
- Rental of public domain areas belonging to the treasury valid for 49 years
- Export of goods to the value of 5,000 USD without paperwork

Free trade zones will fall outside of custom control.

## **Politics**

### **Prosecutor asks Supreme Court to ban ruling AKP**

Abdurrahman Yalcinkaya, chief prosecutor of the court of appeals, asked the constitutional court on to ban the ruling AKP due to the party's anti-secular activities. The prosecutor also demands that 71 individuals from the AKP, including State president Abdullah Gül and the former speaker of the parliament Bulent Arinc be banned from politics. In order to assess the situation, the leader of the ruling AKP party and Prime Minister Erdogan held talks but did not make any statements after the party's conference. According to AKP State minister Dengir Mir Mehmet Firat the AKP has initiated constitutional changes that will make it difficult to put such a ban into place. Abdurrahman Yalcinkaya, chief prosecutor of the court of appeals announced his intentions on January 17<sup>th</sup>. Yalcinkaya warned that political parties should not try to change the structure of the secular republic as this will not be permitted by the judiciary; if these changes were to be overlooked it will become impossible to maintain secularism and these activities will be just unlawful, arbitrary actions.

### **Protests against Social Security Law**

Following a call by trade unions and professional chambers, people from all walks of life, all around Turkey, protested against the draft Law on Social Security and General Health Insurance. The protest took the form of a two hour strike. According to the new law workers and trade unions will lose certain rights and this caused the huge reaction and ensuing protests. This decision originates from the central board and implementation committee of the AKP. AKP Central Decisions and Executions Committee has decided to review the law in question from scratch. Prime Minister Erdogan stated in a recent speech that these protests were illegal.

### **A wave of arrests begins with Ergenekon**

The police investigation that began with the seizure of several hand grenades in a shanty house in

Istanbul was broadened to include 12 more people including public figures yesterday, among them the Workers' Party leader Dogu Perincek, former Istanbul University Rector, Professor Kemal Alemdaroglu and Cumhuriyet's lead columnist Ilhan Selcuk. It was reported that Istanbul Prosecutor Zekariya Ozun ordered the arrests. Regardless of the addresses, business places and whereabouts of the suspects being known, the operation began with the detainment of Perincek, Selcuk and Alemdaroglu in the morning at 04.30 am. The homes of those under arrest were searched for 3 hours and they were taken to Istanbul police headquarters for the prevention of terrorism. There has been a strong reaction by the public since this early raid was not supported by any tangible evidence and is considered by some as reminiscent of conditions of a civil coup. There has been speculation in the press whether this was a reaction due to the closure case initiated against the AKP. Following these arrests the readers of the Cumhuriyet newspaper, members of the Labour party and NGO's have protested in front of the Cumhuriyet newspaper's headquarters and in other locations in Turkey. Consequently, a lot of citizens have participated in a march protesting the undermining of the secular republic and these unlawful arrests. After the statements of Selcuk, Perincek and Alemdaroglu were taken, Ilhan Selcuk was released at 2 am, 24<sup>th</sup> of March but prohibited from leaving the country as was Alemdaroglu who was released on the 25<sup>th</sup>. The leader of the Workers' Party Dogu Perincek was charged and sent to Bayrampasa prison. Since that managers and some employees of the television station Ulusal Kanal and the Aydinlik newspaper were also taken into custody. Some have since been charged and others released. The leader of the opposition Deniz Baykal stated that the AKP has created a secret state within a state while claiming that Turkey is entering into an instable situation. He also said that it is totally unacceptable that governing party is using its instruments to put pressure on the Turkey's respected writers, philosophers and other people who believe in democracy.

### **Talat and Hristofyas meet to determine the course of Cyprus negotiations**

The Turkish side is hopeful and is closely observing the meeting between Talat and Hristofyas to determine if the recent political changes in the Cypriot leadership and election of Hristofyas, will have a positive impact on the negotiations between the two sides to resolve the Cyprus problem in this new chapter for the island.

### **Civilian organizations initiate actions against polarization**

The Turkish industrial producers and businessmen organization (TÜSİAD) warned that recent events are beginning to create a climate of chaos undermining the unity of Turkey step by step. TÜSİAD declared the following:

- The solution to the tensions lie in negotiation
- Banning a political party doesn't solve any problems

Unconditional respect for the law must exist, until changes to laws are made within the legal framework. The attempt to create a new constitution and new laws and regulations aimed at overcoming the current problems not only worsens them but also displays the fundamental weaknesses of the foundation of democracy while ruining political ethics that we (TUSIAD) have desired for so long. On the other hand the Prime Minister Erdogan rejected the idea of finding a compromise that was put forward by the Civil Society representatives and the opposition parties by stating that he did not even understand what is was to take a step backwards and it is out of the question for them to do such a thing.

### **Constitutional Court agrees to case against the AKP**

The Constitutional Court unanimously agreed to hear a legal case against the AKP that may lead

to the closure of the ruling party. Now, the AKP has one month to present its defence to the Supreme Court. After that, the chief prosecutor of the court of appeals Abdurrahman Yalcinkaya will deliver his response. In his statement Mr. Yalcinkaya has stated that AKP government has displayed serious anti-secular behaviour led by the Prime Minister Recep Tayip Erdogan and that this anti secular approach has been observed in the Ministry of Education, anti-secular restructuring of the civil service and anti-secular statements in the press by 71 members of the AKP.

## Other Topics

### **Metro: we take the Turkish economy, not politics into account**

Dr. Eckard Cordes the CEO of Metro AG stated that their approach is based on fundamental economic indicators; their business is above politics and that Turkey is a great country and that up to now their investments we made up to date are the best indicators of their faith in Turkey. Cordes further announced that approximately 100 million Euro will be invested and that 6 Media Markt, 2 Real and 2 Cash&Carry stores will be opened.

### **1.2 Billion Euro investment from the automotive sector brings good news**

The minister of Industry and Trade Zafer Caglayan announced that contact has been made with 3 automotive companies who are considering investing in Turkey. Caglayan who did not reveal the names of the three companies further stated that the companies that he is in touch with intend to invest between 800 million and 1.2 billion Euro. These investors have 4-5 countries in their portfolio and he stated that the conditions in Turkey have been explained to them and they are busy doing their research at present. He concluded that Turkey will be the centre of production and it will have an effect of attracting further investment with an effect of stabilizing the economy.

### **Turkish Eximbank signs 250 Million Euro syndicated loan**

Turkish Eximbank signed Thursday a loan agreement with 22 foreign banks in London, worth 250 million USD. Turkish Eximbank DG Ahmet Kilicoglu announced that last year's credit of 225 million Euro increased to 250 million Euro this year.

### **According to Jon Edwards for Turkish companies the right address for expansion is the LSE**

At the fundamental market of the London Stock Exchange the 9 Turkish companies represented' value is approximately 400 million sterling. Edwards stated that Turkey is one of the fast growing markets that investors are interested in. On the other hand, the available capital in London attracts the interest of many companies. Edwards pointed out that the SME's have become more important during the EU accession process and the capital requirements of the SME's could be met through the AIM funds, Edwards further pointed out that the London Stock Exchange model had high levels of transparency.

## Ukraine

## **Ukraine' Prime Minister Tymoshenko cites achievement in first 100 days; observers give mixed assessment**

Ukrainian Prime Minister Yulia Tymoshenko has stated that economic growth and more government revenues were clear successes during her first 100 days as Ukraine's prime minister, but observers warn that spiralling inflation and uncertainty over Russian gas imports threaten to undo her achievements.

The return of the fiery Tymoshenko last year was viewed an opportunity for pro-Western forces of the 2004 Orange Revolution to reunite and push through much-needed reforms. Tymoshenko claims she's achieved economic growth, fought corruption, replenished state coffers with customs revenues and moved to clean up the country's shady natural gas trade with Russia. Since her appointment, Tymoshenko has begun compensating people for all or parts of savings lost amid the hyperinflation caused by the 1991 Soviet break up, earning praise from ordinary Ukrainians. She also has scored an important victory in her drive to rid the country's natural gas trade with Russia of intermediaries, which are believed to just siphon money into private pockets. Observers and critics note that the savings compensation program is fuelling high inflation that has soared to more than 20 percent. The new gas agreement with Russia, while bringing more transparency, could leave Ukraine with higher gas prices nationwide. Still, many analysts say Tymoshenko's anti-corruption efforts are noteworthy.

Tymoshenko was allied with President Viktor Yushchenko in the 2004 demonstrations that came to be known as the Orange Revolution, but the alliance soon shattered and he fired Tymoshenko after only seven months as his premier. She returned to the post in December after her parties joined with Yushchenko's in a coalition government, and pledged to leave disagreements behind. The coalition, however, is showing cracks, with Yushchenko accusing Tymoshenko of plotting intrigues. Both politicians are potential rivals in the 2010 presidential elections, and observers say the president is trying to limit her.

### **100 days in figures**

According to the Ukrainian State Statistics Committee, in January and February practically all basic economic development indices increased. The increase, however, barely exceeded last year's.

- GDP totalled UAH118,600M [\$1 = UAH5.05]; corrected for inflation it totals 5.8% growth vs. January-February of 2007
- Consumer prices grew by 5.7% (in January-February of 2007 they grew by 1.1%), having exceeded half the limit set by the government for 2008; at such a rate the annual price growth index may well total 21.9%
- Nominally, the average wage rose by 39.9% (vs. 27.4% in January-February of 2007), but the real increment barely exceeded that of 2007 (15.5% vs. 13.2%)
- National industries sold UAH54,100M worth of products and services; considering the price hikes, the real sum exceeded last year's by 8.8%

- The agricultural sector sold UAH7,100M worth of products - a mere 0.7% more than in January-February of 2007 when the increment versus the same period of 2006 was 5.6%
- Construction practically remained at the same level, real growth being 0.4% - even less than in the agricultural sector (last year's growth rate was far more impressive - 20.1%)
- What did grow more significantly in January and February was retail trade; stimulated by increased social welfare outlays and bank loans, it reached UAH56,200M (28.3% of real increase vs. 2007)
- According to the Finance Ministry, national exporters received UAH4,100M in reimbursements for VAT, which was UAH900M more than planned and UAH1,600M more than was reimbursed in January-February of 2007
- By March 14 the State Customs Service had fulfilled the quarterly plan by 102%, having transferred UAH15,160M to the national budget - 70% more than in the same period of last year.

### **Bush to met with Orange Revolution leaders in Ukraine**

US President George Bush on met with the leaders of Ukraine's Orange Revolution during a state visit. The US leader spend some 1 day in the former Soviet republic, While on his way to a NATO summit in Bucharest, Romania.

NATO consideration of a Ukrainian application to join the Atlantic alliance, and a "road map" of future US-Ukraine relations, were the top topics on the two presidents' discussion agenda. Bush also met with Yulia Tymoshenko. Yushchenko and Tymoshenko both support an early entrance of Ukraine into NATO, though nationwide two out of every three Ukrainians oppose the idea, according to polls. Some Ukrainian leftist fringe organised small scale demonstrations against Bush's presence in Kiev.

### **Ukraine and U.S. sign intergovernmental agreement on trade, investment cooperation**

KYIV - Ukraine and the United States signed an intergovernmental agreement on trade and investment cooperation. Ukrainian Economy Minister Bohdan Danylyshyn and U.S. Trade Representative Susan Schwab signed the agreement. The main goal of the document is extending and strengthening economic relations between the countries upon Ukraine's accession to the World Trade Organization. The signed agreement will deepen trade and investment cooperation between Ukraine and the United States. The document also foresees the creation of the permanently operating Ukrainian-U.S. council on trade and investment.

Representatives of the Ukrainian Economy Ministry and the Office of the United States Trade Representative will head the council. Another goal of the document is a start of talks on signing a free trade agreement with the United States.

### **Ukraine and U.S. sign intergovernmental agreement on space cooperation**

KYIV - Ukraine and the United States have signed a new framework agreement on cooperation in the exploration and use of space for peaceful purposes.

Head of the National Space Agency of Ukraine Yuriy Alekseev and U.S. Ambassador to Ukraine

William Taylor signed the document in Kyiv on Monday, an Interfax-Ukraine correspondent has reported.

The agreement is expected to favour the overall development of long-term space cooperation between Ukraine and the United States and to ensure the possibility of the proper implementation of joint projects and initiatives representing mutual interest for the countries' scientific, technical, industrial and investment activities.

The new agreement was drawn up because the validity period of a similar document, signed in November 1994 expired, and because of new opportunities to extend partnership between the countries.

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