

## Macroeconomic and Sectoral Overview

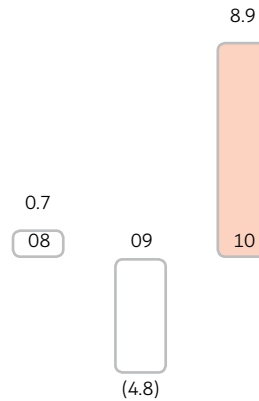
**strong growth  
performance in the  
economy**

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**With its relatively (compared with other countries) strong financial structure, healthy banking system, and the potential of a youthful population, Turkey promises to be a strong growth performer in 2011 as well.**



### GDP Growth Rates – Fixed Prices (%)



**In 2010, the Turkish economy grew by 8.9% which made it the best-performing economy among all European countries.**

### International and national economic review

**The global economy began to recover in 2010, with both the world and the Turkish economies growing and performing more strongly than expected.**

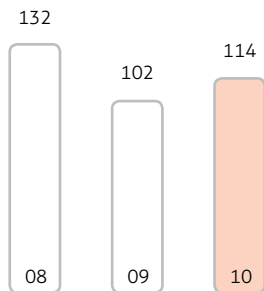
Global growth, which is thought to have been on the order of 5% in 2010, is expected to slow down somewhat in 2011 but still be around 4.4%. Although economic growth remained slow in the USA and most European countries last year, overall economic activity was lively in Germany, in Asian countries other than Japan, and in developing market economies such as Turkey.

In 2010 the developed countries continued to inject liquidity into their markets through economic support programs while simultaneously seeking to keep their policy interest rates at low levels.

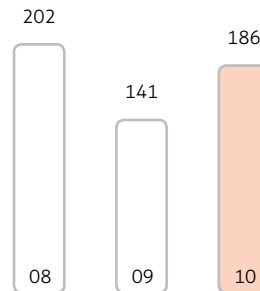
**The Turkish economy grew by 8.9% in 2010.**

Having registered year-on rates of growth averaging 6% in 2002-2008, the Turkish economy shrank by some 4.8% in 2009 as a result of the sharp contraction experienced in domestic and foreign demand brought on by the global crisis of 2009. The recovery that got under way in the last quarter of that year however reversed the growth trend to positive and this situation continued into 2010.

Due both to strong economic recovery and to base year effects, the Turkish economy registered quarter-to-quarter growth rates of 12% in the first quarter of 2010 and of 10.3% and 5.2% respectively in the second and third. A hefty 9.2% rate in the last quarter brought the overall performance for the year to 8.9%, which made Turkey's economy the best-performing among all European countries in 2010. This was also the fastest rate of economic growth witnessed in Turkey since 2004.

**Total Exports (USD billion)**

Turkey's total exports increased by 11.6% in 2010 and reached USD 114 billion.

**Total Imports (USD billion)**

The rise in total imports that reached USD 186 billion in 2010 was 31.7%.

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**CPI performance was within targets.**

Due to the effects of tax increases and continuing high food prices, one-month inflation rates surged in the first two months of 2010. Thereafter they tended to subside for the rest of the year with the 12-month rise in consumer prices ending up at the 6.4% level. The 12-month rate of inflation in the first quarter of 2011 was 4%. For the second half of the year, it is expected that the inflationary outlook will begin to worsen, especially as base effects are eliminated in April, and that it will start to rise again due to the effects of loose monetary and fiscal policies. By the end of the year, it is likely that the 12-month rise in inflation will be around 5.5% or so.

**CBT: Using interest rate and other market tools to achieve stability**

In November 2010 the Turkish Central Bank (CBT) lowered its overnight borrowing rate to 1.75% while still holding the line on its policy interest rate. Taking this action to stem a tide of capital inflows, the bank lowered the overnight rate another 25 basis points to 1.50% on 23 March 2011. These tweakings had the effect of driving short-term lending rates down as well with the result that the Turkish lira lost a great deal of its attractiveness for the many international investors who were taking a short-term view.

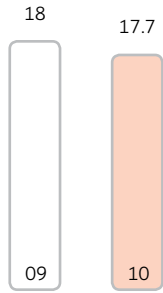
In the last quarter of 2010, CBT launched another round of policy interest rate cuts while simultaneously speeding up its hikes in the banks' reserve requirement rates in order to impose some order on the expansion in credit that was resulting from lower interest rates.

Short-term capital inflows into Turkey nevertheless remained strong in 2010, with a total of USD 10.7 billion worth of foreign liquidity entering the bond & bill market during the 12 months to year-end. Nevertheless, CBT's loose-money policy worked to keep the interest rates on such instruments low. Indeed the benchmark interest rate on bonds, which was around 9% at the beginning of the year, slipped almost two whole points to 7.1% in December.

Turning now to currency markets, the USD/TL exchange rate, which was around 1.45 at the beginning of 2010, rose as high as 1.60 in parallel with a weakened global appetite for risk brought on by concerns about Eurozone countries' problems with debt. The rate began to fall again when Greece and Ireland were included in the IMF and EU rescue packages. By November, the rate fell below the 1.40 level, only to rebound to 1.55 or so by year-end in response to CBT's relaxation of its monetary policy.

Strong economic growth in 2010 nourished strong demand for imported goods, which pushed the ratio of the current account deficit to GDP up from 2.3% in 2009 to 6.4% in 2010. It is expected that the current account deficit will continue to widen in 2010 and that it will approach the 7% of GDP level.

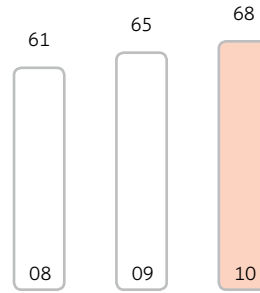
### Share of Meat Products in FMCG Spending (%)



While the turnover of the FMCG (excluding tobacco) grew by 8.9% and reached TL 34 billion in 2010, food and beverages accounted for 78.2% in the total.

Source: Nielsen

### Share of Packaged Charcuterie Products (by volume-%)

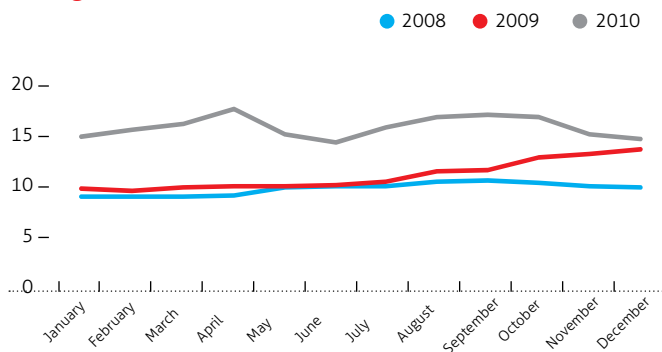


Another trend observed in the charcuterie market in 2010 was the ongoing increase in the sales of packaged products.

Source: IPSOS

**While the charcuterie market shrank by 2.7% in terms of tonnage in 2010, there was actually a 10.8% rise in its overall turnover.**

### Average Price of Boneless Meat (TL)



### The processed meat sector

#### Rapid rises in red meat prices shaped the course of the sector's developments in 2010.

In the second half of 2009, red meat prices in Turkey embarked upon a rising trend. Having already risen by about 35% in the twelve months to end-2009, by the spring of 2010 the 12-month increase reached the 70% range. The most important cause of these price increases was a contraction in the supply of red meat. Beginning in the second half of 2009 and continuing into 2010, supply was simply unable to keep up with demand. A natural outcome of this development was that there were also cost-based increases in the prices of products whose raw materials consist of meat and these rises in turn suppressed the demand for such products. With growth thus depressed, other problems with which the market also had to contend were price speculation and volatility and exacerbated uncertainties, which in turn triggered a surge in adulteration by a number of producers hoping to give themselves a leg up over their competitors.

Seeking to bring mounting meat prices under control and to restore some stability to them, in late April of the year the government authorized first the Meat and Fish Authority and then the private sector to start importing live animals while also reducing the customs duty on meat carcasses from 135% to 30%. As a result of these developments, about 70,000 tons of carcass meat entered the market in the second half of the year and this succeeded in lowering the shelf price of boneless meat to the TL 18-20/kg range by year-end. Originally announced to expire as of end-2010, the importation licensing was extended to the end of 2011. However taking note of the difficulties that price competition were causing for local producers, the customs duty rate was boosted by half to 45% as of 18 March 2011.

### Raw material price rises were only partially reflected in product prices.

Processed meat industry producers naturally sought ways to reflect the higher costs of their inputs in their product prices. However because consumer purchasing power was unable to keep pace with these rises, only a fraction of the higher cost of raw materials could actually be passed on to customers.

### Turnover increase in the charcuterie market

The upshot of all these developments was that, while the charcuterie market shrank by 2.7% in terms of tonnage in 2010, there was actually a 10.8% rise in its overall turnover. Another development observed in the charcuterie market was that there was a sustained rise in the percentage rates of packaged products, which accounted for a 68% share of total tonnage last year. Discount markets and sales outlets with less than 400 m<sup>2</sup> of floor space played a significant role in this growth in share. In the case of the frozen meat products market, the supermarket chains covered by the Nielsen Scantrack report showed growth rates of 7% and 17% respectively on a tonnage and turnover basis.

### Soudjouk accounts for the biggest share at 45%.

There was a one-point year-on rise in the soudjouk category in 2010, making it the biggest segment accounting for a 45% share of the sector. Similarly there was also a one-point rise in the salami category, whose market share reached 26% last year. Sausages on the other hand were down by two percentage points though they still ranked in second place with salamis with a 26% market share.

One of the main reasons for the growth in the salami group was the launching of many brands' new products in the middle-to-low price ranges. Although soudjouks were the product line the most affected by price increases, they still managed to boost their market share on a tonnage basis. It is thought that the sector's concentrated marketing efforts in this line all year long was instrumental in this growth.

