

## Macroeconomic and Sectoral Overview

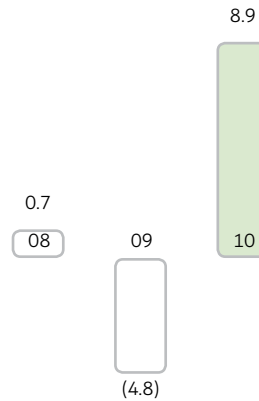
# strong growth performance in the economy

**The economic growth in 2010 was the fastest rate of economic growth witnessed in Turkey since 2004.**

**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.

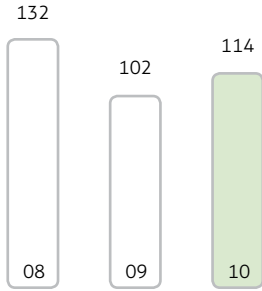
In 2010 the developed countries continued to inject liquidity into their markets through economic support programs while simultaneously seeking to keep their policy interest rates at low levels.

**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.

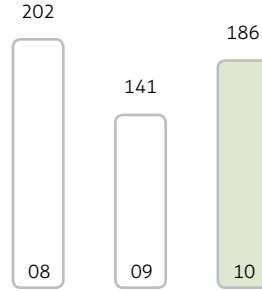
Due both to strong economic recovery and to base year effects, the Turkish economy registered quarter-to-quarter growth rates of 12% in the first quarter of 2010 and of 10.3% and 5.2% respectively in the second and third. A hefty 9.2% rate in the last quarter brought the overall performance for the year 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%.

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.

**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.

# Consumers' two most basic expectations are quality and health

Looking at market share developments in the Turkish milk and dairy products industry, there was growth in terms of turnover in nearly every market segment.

**8%** growth rate in 2010 packaged dairy products market

Source: Nielsen



## Milk Consumption per Capita (liter)

Ireland	<b>132</b>	Argentina	<b>46</b>
Pakistan	<b>110</b>	India	<b>43</b>
Sweden	<b>90</b>	Saudi Arabia	<b>31</b>
Portugal	<b>83</b>	Turkey	<b>25</b>
USA	<b>69</b>	Iran	<b>19</b>
Brazil	<b>53</b>	Thailand	<b>10</b>
Russia	<b>50</b>	China	<b>5</b>

## The dairy industry

Averaging growth rates on the order of 9% a year over the last decade, the dairy industry is one of the world's fastest-growing sectors. In Turkey, the market for packaged dairy products grew by 8% in 2010.

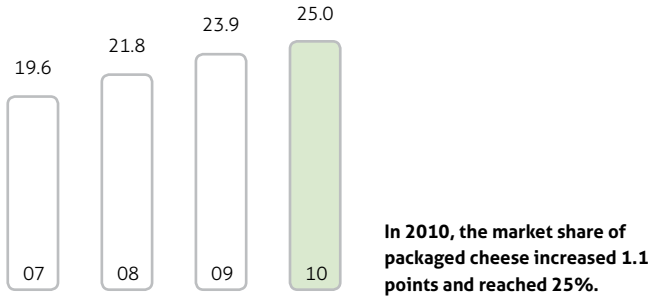
Global raw milk production amounts to about 714 million tons, to which Turkey contributes about 12 million tons, a performance that ranks it in 15th place in the world.

During 2010, 6.7 million tons of raw milk was acquired by integrated dairy processors. From this raw milk were produced 1 million tons of drinking milk, 437 thousand tons of cheese, 908 thousand tons of yoghurt, and 398 thousand tons of ayran.

Demand for branded dairy products is growing steadily for such reasons as improved consumer purchasing power, a greater preference for individualized choices, heightened concerns about health and food safety issues, and consumer awareness of innovations resulting from global communication.

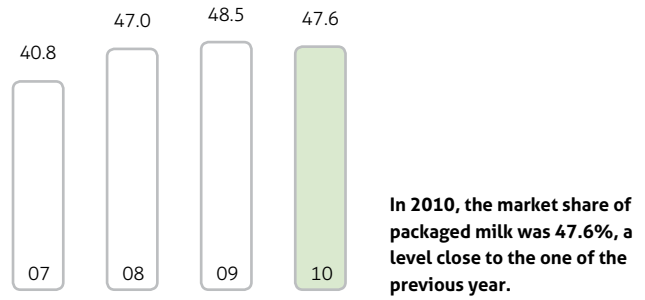
Paralleling such developments, the packaged milk market in Turkey increased by 8% on a turnover basis last year. Looking at the situation in world markets, consumption of packaged milk increased by an annualized compound rate of 5.3% in the years between 2006 and 2009. (Source: Compass Products and Packages 2009.) The fastest growth rates are to be observed in milk specially made for infants and young children.

**Market Share of Packaged Cheese (volume-%)**



Source: IPSOS

**Market Share of Packaged Milk (volume-%)**



Source: IPSOS

**Trends in packaged dairy products**

When consumers' habits change, so too do their expectations about their food. One of their most fundamental concerns is the quality and healthfulness of the food that one eats. At the same time, there has also been a significant increase in the demand for foods which have health benefits that go beyond their nourishment value. New consumer preferences are seen to be steering food markets in new ways.

Among the most outstanding trends in 2010 were weight-control (light) products, energy-enhancing products, and products that address problems with consumers' digestions. (Source: Health Focus International.)

Particularly in the plain milk category, there appeared to be an increased tendency on the part of consumers to simultaneously prefer brands with different price structures. House (private) brands also continued to gain strength in this category.

Looking at market share developments in the Turkish milk and dairy products industry, there was growth in terms of turnover in nearly every market segment.

**In the case of the plain milk segment,** tonnage was down by 5% in 2010 and amounted to 458 million liters even though there was a 4% rate of growth in total turnover, which reached a total of TL 812 million in value. While the more expensive brands lost market share in this category, brands in the medium-price range registered strong increases in market share, a performance that may be partly attributed to aggressive pricing.

**In the light milk category,** tonnage was up by 6% and turnover by 12% year-on.

**In the enriched children's milk category,** tonnage grew by 11% and turnover by 16% in 2010.

**The market for enriched milk targeted at adults accounted** for only 0.5% of the entire milk market's total turnover. (This figure does not include kefir however.) This market amounted to 1.6 million liters on a tonnage basis and to TL 5.1 million on a turnover basis in 2010.

**Growth in the demand for flavored milk gained still more impetus and this segment accounted** for a 10% share of the packaged milk market's turnover. This segment amounted to about 26 million liters on a tonnage basis and to about TL 105 million on a turnover basis in 2010.

**Pasteurized day-fresh milk accounted** for 5.8% of the entire milk market's turnover last year. In the twelve months to end-2010, this segment's turnover increased by 17% and reached TL 63 million in value.

**The organic milk segment** contributed only a 0.8% share of the milk market's turnover in 2010.

**The cheese market** amounted to 430 thousand tons and was worth TL 3.5 million overall. Looking at individual categories, packaged cheeses grew by 8% while unpackaged varieties remained at their previous year's level. Packaged cheeses accounted for a 25% share in the market and spreadable cheeses had an 11% share in the packaged cheese market.

Sources: Turkish Statistical Institute, IPSOS, Nielsen