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FOCUS ON TURKEY

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Turkey is attracting increasing numbers of visitors to its sunny beaches, historic sites and bustling cities.

IMPROVED INFRASTRUCTURE POWERS AN ECONOMIC BOOM

SLEW OF NEW AIRPORTS, AIR ROUTES, TUNNELS AND HIGHWAYS BOOSTS TOURISM AND ECONOMY

By Catherine Bolgar

The sun is shining on Turkey, literally and figuratively. Turkey's strong economic performance makes it a bright spot amid the global economic storm. Its robust economy, political stability and improvements in infrastructure are attracting more and more visitors to the country's sunny beaches, historic sites and bustling cities.

Turkey's gross domestic product grew 8.5% last year, and is expected to grow at a slower, but still enviable, 2.3% this year, according to the International Monetary Fund. Further brightening the picture, job creation continues to be strong while inflation is cooling.

"The 2012 growth rate may come down to between 2% to 4%, which would be low by Turkish but high by EU standards," says Josef Pöschl, economist at the Vienna Institute for International Economics. "The good performance of exports is most remarkable," he adds, and, along with a drop in demand for imports, has narrowed the trade deficit.

Exports in August were down 4.6% from a year earlier, however, and if the trend continues could slow GDP growth.

"Overall, Turkey's growth will continue to be based on competitiveness, which is well established, and a continual increase in labor productivity," notes Michael Davey, director for the European Bank for Reconstruction and Development in

June 2011, from 6,101 kilometers in 2003.

Other transport connections are improving as well. A tunnel through the Ovit Mountain will reduce the travel time between the province of Mardin, in the southeast, to the Black Sea province of Rize, in the northeast, to 4.5 hours from 11. Construction on the tunnel, which will be the world's third longest, began in

"VISITORS ARE COMING FROM AN INCREASINGLY BROAD BASE OF COUNTRIES, BRINGING WITH THEM DIFFERENT EXPECTATIONS AND REQUIREMENTS FOR THEIR ACCOMMODATION, WHICH WILL OPEN UP NEW POCKETS OF DEMAND."

Turkey, based in Istanbul.

The government has focused on keeping the budget deficit low and avoiding stimulus measures, but that hasn't slowed its infrastructure program. Investments in road transportation alone accounted for close to 1% of GDP in 2010, or €6.3 billion. Turkey's dual-carriage highways had expanded to 19,775 kilometers by

May. Another tunnel, the Marmaray, under the Straits of Bosphorus, is expected to open next year. It will accommodate a commuter rail line linking the European and Asian sides of Istanbul.

"The realization of construction projects can be surprisingly fast in Turkey," Dr. Pöschl says. "As soon as trains coming from Europe can enter

Anatolia, this may be an incentive to put more emphasis on the construction of high-speed railway connections."

The government plans to add more airports as well, including three new airports for Istanbul, to increase passenger capacity to 400 million a year by 2023, from 165 million today. Out of 45 airports, 13 serve international flights.

Turkish Airlines serves more than 200 destinations around the world and has seen passenger growth more than double to 32.6 million in just six years, notes Serdar Sayan, professor of economics at TOBB University of Economics and Technology in Ankara. "A recent phenomenon is that every province—81 of them—has connecting flights."

Infrastructure used to be a constraint on many sectors, especially tourism, but not any more, he says.

Turkey is bigger than Germany, Poland and Austria combined, so good highways and air connections are vital to getting around to its many sights. Turkey had 31.5 million foreign tourists last year,

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more than triple the number in 2000, Dr. Sayan notes. Even during the recent global recession, the number of tourists increased steadily, though the spending per visitor dropped slightly in 2009 and 2010. Istanbul alone welcomed more than 10 million visitors last year.

Turkey was the sixth most popular international tourist destination last year, moving up a notch from 2010, according to the United Nations World Tourism Organization.

Tourism is no small part of Turkey's economic success story. Travel and tourism's direct contribution to GDP was 55.1 billion lira (€24.4 billion), or 4.3% of GDP, in 2011 and accounted for 509,500 jobs, or 2.1% of total employment, according to the Travel and Tourism Economic Impact 2012: Turkey report by the World Travel and Tourism Council, a London-based industry group.

Istanbul is the top city for high-end products or focused service products in business zones and fast-developing areas, such as around airports and along the new metro line, says Oliver Thiele, head of T&T Hotel Consulting in Istanbul. Four-star projects are strong in the other big cities, such as Bursa, Ankara and Izmir, as well as in smaller cities in the western part of the country.

STILL ROOM TO GROW

Even though tourism has grown in both intensity and quality in the 20 years he has worked in Turkey, Mr. Thiele says the country "has a large range of areas and sources which are not touched now."

Hilton Worldwide opened Turkey's first internationally branded hotel in 1955 in Istanbul. Today, Hilton Worldwide operates 22 hotels, with more than 3,500 employees, across the country, notes Michael Collini, vice president, development, Turkey, Russia and Eastern Europe for Hilton Worldwide. The hotels range from luxury to mid-range and family-oriented.

Hilton Worldwide, based in McLean, Virginia, has an additional 17 hotels under development in Turkey, all of which expect to begin welcoming guests by 2014, he adds.

"We have aggressive growth plans in Turkey and believe there is particular potential for our Hilton Garden Inn and Hampton by Hilton portfolios," Mr. Collini says. "Turkish people are incredibly entrepreneurial and I believe that both models, on either a franchised or managed basis, provide potential investors the opportunity to gain entry with these brands at a relatively early stage in their Turkish growth story."

Paris-based Accor SA has grown to nine mid-range and economy business-oriented hotels



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since arriving in Turkey in 2007. It has a new hotel opening this year and two more next year, with plans for a network of 20 hotels by 2015, says Christian Karaoglanian, executive vice president, hospitality development, at Accor.

"Demand on the market is strong with the growth of GDP and the attractiveness of the country," he says. "The growing middle class triggers the development of the domestic market and offers great potential for the

expansion of our economy brand Ibis."

Wyndham Hotel Group, based in Parsippany, New Jersey, also entered Turkey in 2007: it now counts 10 upper-midscale Ramada hotels across the country and is growing. "Not only are we set to more than double our room count in Turkey by the end of next year, but we'll be introducing two additional brands to the market," says Bob Loewen, executive vice president and chief financial officer, Wyndham Hotel Group. The brands are the upscale Wyndham Hotels and Resorts and the select-service urban TRYP by Wyndham. In addition, franchise agreements will bring aboard another 12 Ramada hotels.

"Our pipeline speaks to the scale of the opportunity in Turkey," Mr. Loewen says. "In just 18

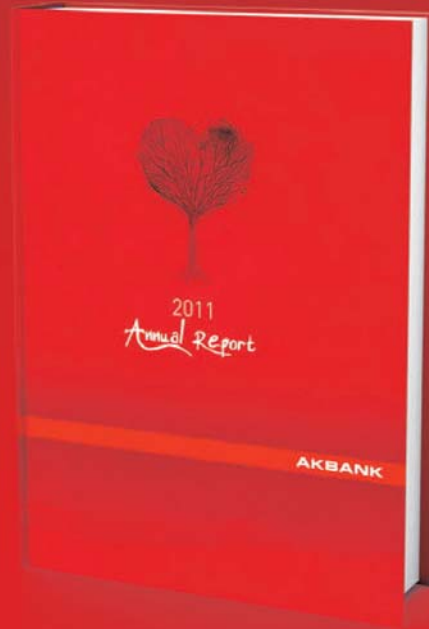
months, our portfolio will have more than doubled in size in the country, which is a real testament to the country's potential."

A GOOD PLACE TO INVEST

Many things make Turkey a good place to invest, he says. "Firstly, the demand is there. Visitors are also coming from an increasingly broad base of countries, no doubt bringing with them different expectations and requirements for their accommodation, which will open up new pockets of demand."

"Market conditions are also favorable. The potential for a rapid return on investment, attractive construction prices, government support and the availability of qualified employees have all contributed to the upsurge in development."

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