

Please find below our latest newsletter covering recent economic and political developments in Turkey.

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Your FMConsulting Team

Economy

Overview of Monthly Data

TL-Rates	31.05.2012	29.06.2012	Change in %
TL pro Euro	2.2840	2.2852	0.0525
TL pro USD	1.8404	1.8152	-1.3693

Stock exchange index	55.099,33	62.543,50	13.51

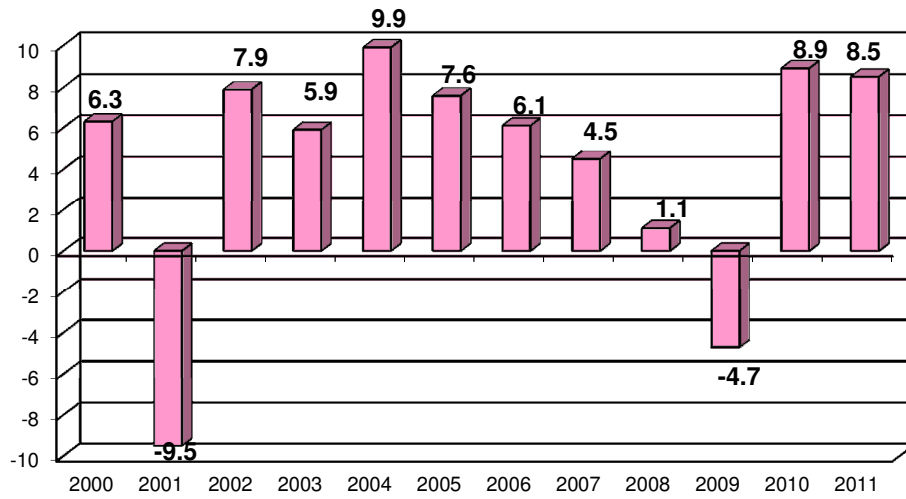
Inflation in %	Monthly inflation	Annual inflation
Producer prices	-1.49	6.44
Consumer prices	-0.90	8.87

Growth Rates

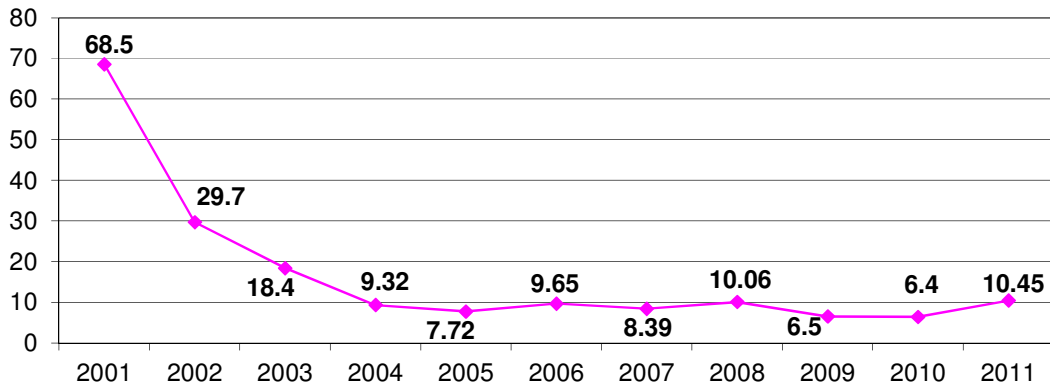
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9
2004	13.9	15.7	8	6.6	9.9
2005	7.5	4.7	8.0	10.0	7.6

2006	6.3	9.3	4.3	4.6	6.1
2007	8.1	4.1	3.3	3.6	4.5
2008	6.7	1.9	0.5	-6.2	1.1
2009	-14.5	-7.7	-2.9	6	-4.7
2010	12.2	10.2	5.3	9.2	9.0
2011	11.6	8.8	8.2	5.2	8.5
2012	3.2				

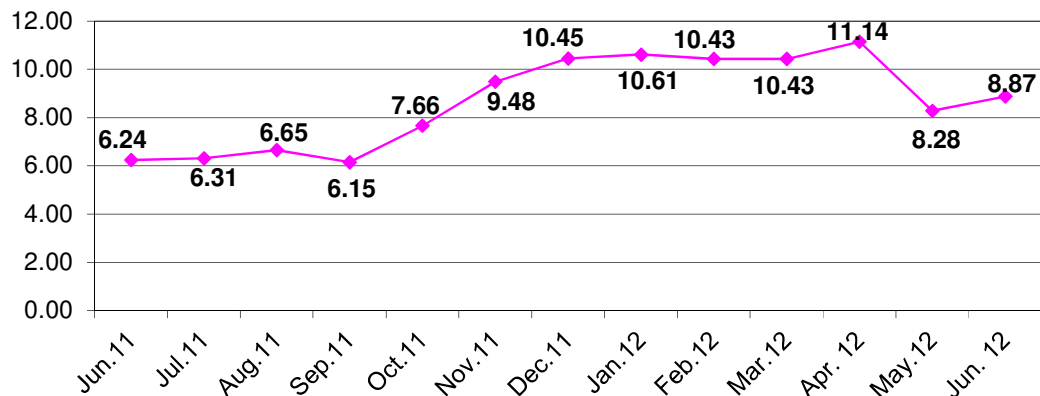
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



Annual Inflation's Monthly Development 2011-12 (%)



1st quarter growth well on target

Turkey's economy grew by 3.2% in the first quarter of 2012, even slightly surpassing expectations. While the fastest growth was in the energy sector (+8.4%), the building trade grew by 2.8%, and the manufacturing industry by 2.7%. On the other hand, mining & quarrying was the only sector to register negative growth in the first three months of the year (-0.6%). According to the president of Turkey's Central Bank, Erdem Basci, the moderate growth experienced so far is congruent with this year's growth target of 4%, pursuant to the government's medium-term economic programme. With 4.5 points, foreign demand contributed exceedingly to the growth rate of the first quarter whereas the contribution of domestic demand, mainly from the public sector, lingered at only 0.9 points. As in the two quarters before, the existing stocks remained an impediment to growth.

July 3, 2012

Revised Commercial Code in effect

As of July 1, a total of 55 formal and material changes to the Turkish Commercial Code, which has only just been adopted last year, have come into effect. One of the modifications is that the general obligation for companies and merchants to operate a web site has been revoked. The rule that one quarter of the board members of any company must hold a university degree was disestablished as well. Shareholders of a company are also not prohibited from taking out loans any more. The period prescribed for aligning existing articles of association with the new law was extended beyond October. An extension until January 1, 2014 was granted for the adaptation of all business stationery to the statutorily required information. Other changes concern the certification of account books, independent auditing, and the electronic trade register; among other things, improvements to data protection were also made.

May 14/18, 2012

Free zones in uproar over supplementary fund payments

The Turkish tax authorities have caused considerable uproar by announcing that the exemption of enterprises operating in one of the country's free zones from payment of the Resource Utilisation Support Fund (KKDF) contribution will be reviewed. Spokespeople for the zones involved pointed to the fact that the KKDF rate had only recently been raised from 3% to 6%. They said that they were going to lodge objections and, if required, seek legal remedies against

the retroactive reassessment of the past 3 years, arguing that this would put an end to the advantageous status of the free zones. Furthermore they indicated that many companies were seriously considering relocation from those tax-privileged special zones.

May 30, 2012

Turkey's foreign trade deficit continues to shrink

The sharp decline of exports to the EU states in April (-17.8% compared to April 2011) has caused the share of this group of countries in Turkey's total exports in the same period to drop from 48.9% to 37.6%. By contrast, exports to Iran skyrocketed by 438.2%. This put Iran (US\$1bn 471mn) clearly in the lead over Germany (US\$1.1bn) as Turkey's primary export partner, trailed by Iraq (US\$806mn) and the UK (US\$651mn), whereas the ranking of import partners saw Russia (US\$1bn 983mn) ahead of Germany (US\$1bn 610mn), China (US\$1bn 583mn), and Iran (US\$1bn 467mn). Due to the fact that in April Turkey's imports decreased by 8.0% over the same month of 2011, to US\$19bn 274mn, while exports increased by 6.8%, to US\$12bn 676mn, the country's foreign trade deficit continued to shrink. The negative balance, which had been US\$9bn 80mn in April of last year, narrowed to only US\$6bn 597mn (-27.3%). The export-import ratio stood at 65.8%, a 9.1% improvement over the same month of the previous year.

Foreign trade balance according to months (in million US\$)

	Exports	Imports	Balance
April 2011	11,873.5	20,953.5	-9,080.0
May 2011	10,943.6	21,107.0	-10,163.4
June 2011	11,351.1	21,605.3	-10,254.2
July 2011	11,863.1	21,061.3	-9,198.2
August 2011	11,245.6	19,679.4	-8,433.8
September 2011	10,751.1	21,203.6	-10,452.6
October 2011	11,908.4	19,919.2	-8,010.8
November 2011	11,079.7	18,649.3	-7,569.6
December 2011	12,479.5	20,593.9	-8,114.4
January 2012	10,355.4	17,376.2	-7,017.5
February 2012	11,754.5	17,719.9	-5,960.4
March 2012	13,230.8	20,598.6	-7,346.1
April 2012	12,676.3	19,273.6	-6,597.3

June 1, 2012

Significant improvement to Turkey's current account balance

As a result of lower imports due to the persistent recession, the negative balance of Turkey's economy continues to diminish. The country's current account deficit declined to just below US\$5bn in April, 35.3% below the level of the same month of the previous year. The combined deficit for the first four months of the year was around US\$21.2bn, which is 25.1% lower than in the same period of the previous year. On an annual basis the deficit reached almost US\$, 69.2bn which is the lowest since 11 months. In the same period exports of goods increased to some US\$50.9bn (+11.6%), while imports of goods decreased to around US\$72.9bn (-1.7%).

Progress of Turkey's current account balance (million US\$)

	Current account balance of the month	Current account balance of the last 12 months
April 2011	-7,661	-62,338
May 2011	-7,862	-67,349
June 2011	-7,612	-71,640
July 2011	-5,529	-73,702
August 2011	-4,021	-74,797
September 2011	-6,364	-77,423
October 2011	-4,500	-78,631
November 2011	-5,436	-78,134
December 2011	-6,643	-77,238
January 2012	-5,743	-76,962
February 2012	-4,265	-75,190
March 2012	-6,245	-71,881
April 2012	-4,956	-69,176

June 12, 2012

Dramatic rise in number of bad cheques

The prevalence of uncovered cheques has reached an unprecedented level in Turkey. As of the end of May, there was a 56.4% increase in the percentage of cheques with insufficient coverage over the same period of the previous year. According to the Istanbul Chamber of Commerce (ITO), 83,080 bad cheques with an equivalent total value of more than 11 billion Euros were written in May alone. At the beginning of the year this wrongful act had been removed from the catalogue of criminal offences within the scope of the legal reform. However, since the government's preventive measures, in particular the cheque information system, in the words of ITO chairman Murat Yalcintas, has proved inadequate, a risk insurance scheme is urgently required. The president of the Union of Chambers and Commodity Exchanges (TOBB), Rifat Hisarciklioglu, emphasized the central role cheques have in Turkey's business life, since they are not only used as instrument for cash payments, but also for deferred payments. For this reason, he said, it is essential to restore the business community's trust in cheques.

May 11/June 18, 2012

New system for investment incentives installed

The new investment incentive system just adopted by the Turkish government once again places special emphasis on the development of the country's structurally weak regions. This is why regional grading of the support measures plays a large role. For this purpose, each of Turkey's 81 provinces has been categorized into one of 6 zones. In addition to this, large-scale investments – starting from 50mn TL depending on sector – as well as strategic, export-focussed projects that make a large contribution to lowering the current account deficit, receive special support, including VAT refunds, low interest rates, subsidies for employers' contributions to social insurance, and allocation of building plots for industrial settlement. The 15 provinces which constitute the least developed Zone 6 are without exception located in the country's Southeast and East. Economy minister Zafer Caglayan, who presented the new system in the Southeastern city of Sanliurfa, said that his government deliberately opted for practicing affirmative action in favour of those regions. Labour minister Faruk Celik for his part stated that the system was also aimed at harnessing the potential available in those provinces, in order to achieve the export target of 500 billion US dollars.

June 19, 2012

Politics

More high-ranking military men arrested

In a 5th wave of arrests in connection with the so-called “postmodern coup” of February 28, 1997, the special prosecutor of the public prosecution department at Ankara ordered the arrest of 6 more retired generals, among them a former Secretary General of the National Security Council and two ex-army and air force commanders. Contrary to the usual practice, no searches of the suspects’ houses were carried out; instead they were summoned by the judicial authorities to deliver testimony. Subsequently 3 of the men who made a voluntary appearance were, while the 6 retired generals and a former colonel were arrested. They are being charged with being actively involved in the clandestine “Task Force West” (BCG), which is said to have clamped down on Islamist foes of the system with illegal means. In a previous wave of arrests, 75 high-ranking BCG personnel had been taken into custody on May 8, 51 of whom remain in prison awaiting trial.

May 30, 2012

Protests against plans for ban on abortion in Turkey

With its plans to make abortions more difficult, the Erdogan administration has triggered a fierce debate throughout society. Scores of women took to the streets in protest. In a speech before the Women’s Congress of his conservative Islamic party, the Prime Minister had labelled abortions “murder”. Up to this day, abortion in Turkey is legal up to the 10th week of pregnancy. Reducing this deadline to four weeks, as publicly discussed, would effectively be tantamount to a ban on abortion. Erdogan also came out in opposition of Caesarean deliveries that are very common in his country – in his view, women who have given birth this way cannot have as many children as desirable. Apparently he does not want to compromise his avowed goal of increasing Turkey’s population from currently just under 75 million to 90 million by 2023, the 100th anniversary of the Republic.

June 6, 2012

USA encourage Turkey to take leadership role in the Middle East

On the side-lines of the 31st annual conference of the American-Turkish Council (ATC) in Washington, DC, US Defence Secretary Leon Panetta stated that the United States encourage Turkey as a democratic country to take on a decisive leadership role for prosperity and security in the Middle East. Panetta promised to uphold support for his NATO partner in its fight against the terrorist organisation PKK as long as it continues to be a threat to the Turkish people. He emphasized that Turkey has an important role to play in ridding Syria of its current regimes in Syria, and acknowledged the country’s efforts to increasingly put pressure also on the ruling powers in Iran. In addition, he called for the normalization of relations between Turkey and Israel. At the same event, his Turkish counterpart Ismet Yilmaz declared that the Assad regime had lost its legitimacy, calling on the international community to act quickly in order to prevent further bloodshed.

June 13, 2012

Turkey wants to reduce dependence on Iranian oil and gas

According to Turkish Energy Minister Taner Yildiz, his country has taken further steps to become independent from Iranian petrol and gas. Turkey’s public mineral oil company Tüpraş has just

signed a contract with Libya regarding the supply von 1 million tons of crude oil, and is currently negotiating a long-term procurement agreement with Saudi Arabia. Yildiz stated that his government is seeking additional, alternative sources of supply for oil and gas. While considering itself a strategic partner of the United States, he said, Turkey always keeps its own interests in mind, too, and wishes to foster its traditionally good-neighbourly relations with Iran also in future.
June 13, 2012

Other Topics

Turkish-Italian consortium awarded contract for third Bosphorus bridge

Although the issue of funding is still unresolved, a preliminary contract for construction of a third road bridge across the Bosphorus has now been awarded. The contract also includes 35 kilometres of access roads and a 60-kilometre section of the Northern Marmara Motorway. For a long time it appeared as if the Turkish state would be forced to assume financing for the centrepiece of the megaproject, which will cost around US\$2.5bn. Now Ankara-based construction company ICTAS intends to fund a quarter of the capital requirements from its own resources in a joint venture with Italian Astaldi Group. According to Transport Minister Binali Yildirim, the company has been granted six months' time to obtain the additional credits that will be necessary. Construction is to begin before the end of the year, and completed within 36 months. The successful bidder's offer provides for the operating rights to be transferred back to the principal after just 10 years, 2 months, and 20 days. During this period, the operator will be contractually guaranteed a minimum volume of 135,000 vehicles per day.

May 30, 2012

Turkish shopping centres still on the rise

In April the Turkish Shopping Centre Index, issued by the Association of Shopping Centre Investors (AYD) in co-operation with the market research company Akademetre, climbed by 13 points over the same month of last year to reach 123 points. The sales index discriminates between Istanbul and Anatolia, with the increase in Istanbul being 16%, and in Anatolia 12%. As to product groups, clothing and accessories lead the way with a 19% increase in turnover, followed by shoes and bags with +17%, catering with +12%, and high-tech products & household appliances with +7%. On the other hand, hypermarkets, supermarkets and delicatessens recorded sales losses of 3%, while other stores positioned in shopping centres chalked up an average increase in sales of 5%.

June 5, 2012

Strategic partnership between Dogus and SK Group

Turkish conglomerate Dogus Holding has agreed a strategic partnership with SK Group, one of Korea's biggest groups of companies. The two multi-corporate enterprises whose co-operation only dates back to the beginning of this year, have established a venture capital trust, with both partners pledging to contribute US\$50mn each. The purpose of this trust, which was increased to US\$500mn with external funds, is to provide funding for investment projects involving Turkish companies. One of the projects currently under consideration is the production of semi-conductors in Turkey. Dogus and SK Group are also working on a joint e-commerce platform, which is to gain them industry leadership in the near future.

June 5, 2012

Bridge maintenance causes Istanbul traffic to collapse

Maintenance and repair work on the 2nd Bosphorus bridge as well as the bridge of the urban motorway across the Golden Horn, which had been scheduled well in advance, is heavily impairing traffic in Turkey's metropolis as expected. 3 of the 8 lanes of the Fatih Sultan Mehmet Bridge were fully closed, leading to extremely long waits for motorists crossing from Europe into Asia and vice versa. Following a public outcry, a number of measures, though belatedly, were taken to ease the situation. Tour buses are now permitted to use the 1st Bosphorus bridge, if only after midnight, which is not affected by closure this year. Passenger and car ferries on certain routes have started to operate around the clock. The maintenance and repair work is scheduled to be completed by September 17 – just in time before the summer holidays are over.

June 13, 2012

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