

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	30.09.2011	31.10.2011	Change in %
TL pro Euro	2,5128	2,4569	-0,0224
TL pro USD	1,8601	1,7542	-0,0569

Stock exchange index	59,693.40	56,061.50	-0,6084
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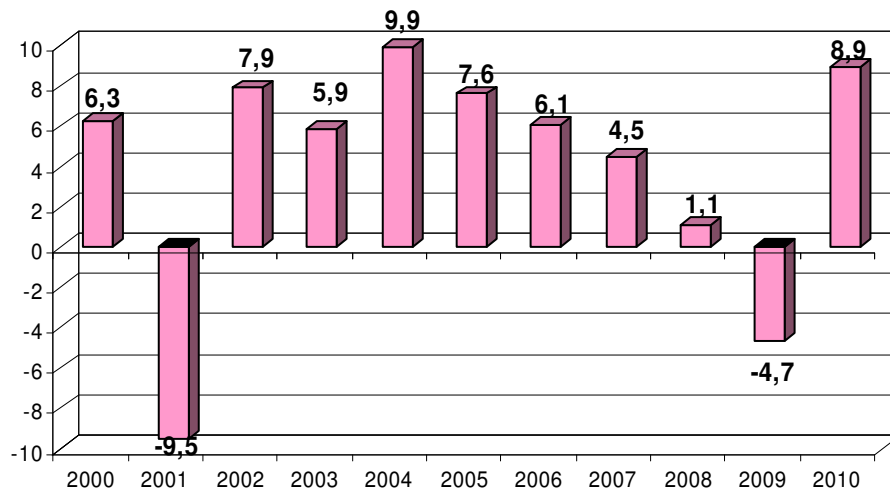
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1,60	12,58
Consumer prices	3,27	7,66

### Growth Rates

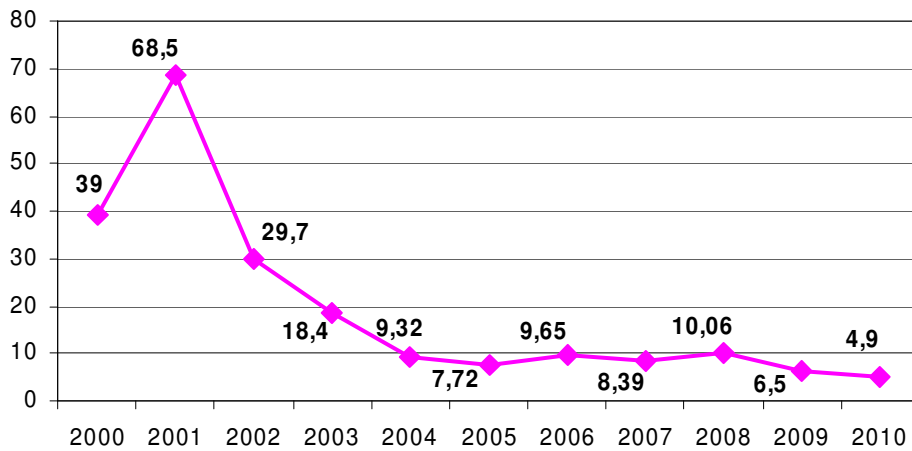
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9
2004	13.9	15.7	8	6.6	9.9

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			

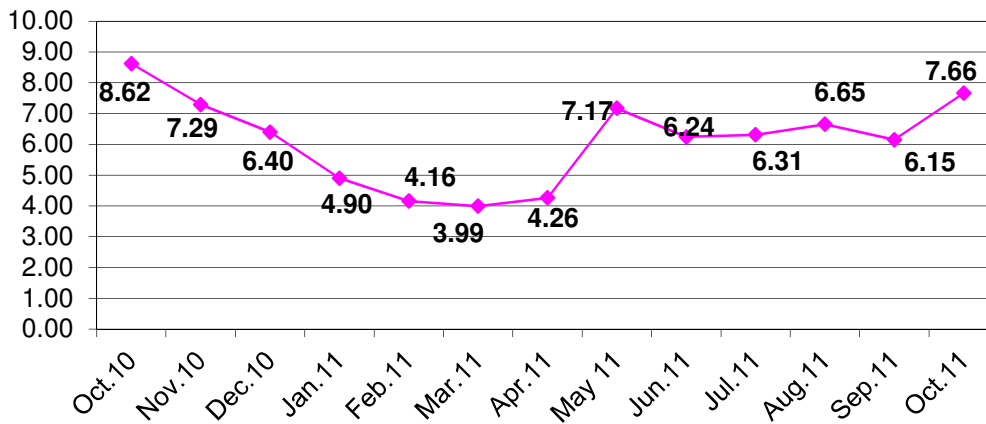
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



Annual Inflation's Monthly Development 2010-11 (%)



### Turkey's trade gap soars past hundred-billion-dollar mark

Although Turkey's imports in August, at US\$19.5bn, were substantially higher than expected, reaching a new all-time high of US\$230.7bn on an annual basis, the increment slowed down some more. While total imports in the first half of the year were up 43.6% over the first half of 2010, the increase in July and August dropped to 29.9% and 26.3%, respectively. As for exports, it was the other way around, due to further depreciation of the Turkish currency. Having increased 19.9% over the same period of the previous year in the first six months of 2011, exports rose 24.1% in July, and 32.2% in August. Still, despite the improved import/export ratio, the foreign trade deficit for the last 12 months exceeded the 100-billion-dollar mark for the first time ever, as compared to US\$75bn at the onset of the year.

### Turkey's trade deficit in the last 12 months, Jan.–Aug. 2010/2011 (mn US\$)

	Exports			Imports			Deficit		
	2011	2010	Increase (%)	2011	2010	Increase (%)	2011	2010	Increase (%)
January	115,602	102,088	13.2	190,756	143,339	33.1	75,154	41,251	82.2
<b>February</b>	<b>117,400</b>	<b>101,916</b>	<b>15.2</b>	<b>196,493</b>	<b>146,046</b>	<b>34.5</b>	<b>79,093</b>	<b>44,130</b>	<b>79.2</b>
March	119,327	103,647	15.1	203,114	150,546	34.9	83,787	46,899	78.7
<b>April</b>	<b>121,801</b>	<b>105,481</b>	<b>15.5</b>	<b>209,123</b>	<b>155,369</b>	<b>34.6</b>	<b>87,322</b>	<b>49,888</b>	<b>75.0</b>
May	122,943	107,935	13.9	215,501	159,227	35.3	92,558	51,292	80.5
<b>June</b>	<b>124,757</b>	<b>109,148</b>	<b>14.3</b>	<b>221,871</b>	<b>161,959</b>	<b>37.0</b>	<b>97,114</b>	<b>52,811</b>	<b>83.9</b>
July	127,063	109,657	15.9	226,685	165,181	37.2	99,622	55,524	79.4
<b>August</b>	<b>129,808</b>	<b>110,340</b>	<b>17.6</b>	<b>230,749</b>	<b>167,804</b>	<b>37.5</b>	<b>100,941</b>	<b>57,464</b>	<b>75.7</b>

(3 October 2011)

### Sharp rise in foreign direct investments

The net inflow of foreign direct investments to Turkey amounted to over US\$8.4bn in the first 8 months of the year, almost 169% more than in the same period of the previous year. 92.2% of accrued capital originated in the 26 member states of the European Union.

### The Top 10 of direct investments, January–August 2011 (mn US\$)

Outflow of Turkish capital to:		Inflow of foreign capital from:	
France	529	Austria	2,185
Azerbaijan	187	Spain	2,164
Switzerland	126	Belgium	1,448
Netherlands	123	Netherlands	1,009
Germany	75	France	858
Russia	74	Great Britain	614
Kazakhstan	72	USA	360
Luxembourg	69	Ireland	337
Poland	44	Germany	280
Macedonia	34	Luxembourg	253
First 10 countries' total	1,333	First 10 countries' total	9,508
Other countries	380	Other countries	854
<b>TOTAL</b>	<b>1,713</b>	<b>TOTAL</b>	<b>10,362</b>

(13 October 2011)

### Significant revisions to medium-term programme

The Turkish government was forced to make considerable adjustments to the targets of its medium-term economic programme for 2012–2014. Growth expectations for the current year were significantly corrected upwards, from 4.5% to now 7.5%, while in 2012 Turkey's GDP is to grow by only 4.0%, rather than 5.0%, in 2013 by 5.0% instead of 5.5%, and in 2014 again by 5.0%. The 2011 per-capita income was revised from US\$10,624 to US\$10,363, but is scheduled to rise to US\$12,412 by 2014 as previously. The unemployment rate, which at 10.5% will likely be much lower at the close of year than the forecast 12.0%, is to drop further to reach 9.9% by 2014. Inflation is headed for 8.0% this year, substantially higher than the programmed 5.8%, and has been rescheduled to drop to 7.0% (rather than 5.3%) in 2012, and then to 5.0% (instead of 4.8%) in 2013. Domestic demand, anticipated to rise by 9.4% this year (as opposed to the forecast of 4.8%), is to decrease again in 2012, to 3.9% instead of initially 5.2%. On the other hand, while investments in fixed capital are expected to increase greatly in 2011 (by 19.3% instead of 5.5% as projected), the rate of increment is to drop to 6.2% in 2012. The overall objective appears to be continued financial stability in order to fend off any crisis, as well as reduction of the current account deficit, which is likely to reach a level of US\$71.7bn by the end of the year, much higher than the programmed US\$42.2bn.

(14 October 2011)

### Government counters trade deficit with luxury tax hike and rise of the KKDF

The Turkish cabinet has enacted an increase of the Resource Utilization Support Fund (KKDF) contribution and the Special Consumption Tax (ÖTV), also dubbed Luxury Tax, imposed on certain goods. The government expects to raise additional revenue of TL5.5bn through this measure, which applies to cars with large engines, mobile telephones, tobacco products, and

alcoholic beverages. The KKDF rate was increased from 3% to 6%: This means that during import of non-prepaid goods, a fund contribution of 6% instead of 3% will be levied. Cars with over 2 litres of cylinder capacity have become 25% more expensive due to a luxury tax rate increase from 84% to 130%. For cars with an engine size between 1,600 and 2,000 cm<sup>3</sup>, the ÖTV rate has been raised to 80%, up from 60%, resulting in a price rise of 12.5%. Light commercial vehicles with combustion engines now cost around 3.5% more, while electrically powered vehicles are exempt from the tax hike. ÖTV on cigarettes was increased from 63% to 69%, with the same rate now applying also to cigars and cigarillos that used to be taxed with 30%. The tax rate for mobile telephone sales was raised from 20% to 25%, with the minimum blanket amount going up from 40 TL to 100 TL. Flat-rate taxation of alcoholic beverages also increased considerably. Obviously the tax increases are intended to curb the drain of funds to other countries. The main objective is to cut the trade deficit by reducing imports of consumer goods, since the depreciation of the Turkish Lira had not rendered the desired results.

(14 October 2011)

### **Finance Minister does not rule out tax increases for 2012**

Presenting the budget proposal for the year 2012, Minister of Finance Mehmet Simsek, unlike in the previous year, did not categorically rule out tax increases. His government, he said, wants to leave this door open, since it may not be right to offset public spending solely by debts. The budget provides for a national expenditure of TL350.9bn, TL50.3bn of which will go into interest payments. According to the minister, the government shall again exercise strict fiscal discipline, having primarily budgeted expenses that will serve to further economic growth and employment. Budget revenue was put at TL329.8bn, TL277.7bn of which is to be raised through tax receipts – among them TL53.8bn in income tax and TL27.2bn in corporate income tax, TL33.6bn in domestic sales tax and TL53.9bn in import sales tax, and TL70.6bn in special consumption – or luxury – tax. The primary budget surplus is scheduled to increase considerably, to TL29.2bn, while the budget deficit (TL21.1bn) is to be cut to almost half.

(19 October 2011)

## **Politics**

### **Turkey's conflict with Kurds continues to escalate**

Kurdish terrorist organisation PKK keeps committing new acts of terror on an almost daily basis. Most recently, 5 police officers and at least 3 civilians lost their lives in a bombing in the town of Güroymak, in the south-eastern province of Bitlis. The day after, still further east in Cukurca (Hakkari province) on the Iraqi border, 24 soldiers were killed and 18 wounded when a military outpost came under massive attack at night. This assault involved the heaviest losses of the Turkish army in a single incident since 1993. During the counter-strike that followed, with Turkish troops in battalion strength advancing into northern Iraq. 21 PKK militants were killed. President Gül, who together with the military leadership had visited the same area just a few days before, had vowed dire revenge following the Cukurca incident. Turkish trade associations, labour unions and civil society organisations all condemned the latest attacks, calling for national unity and appealing for an end to violence. Entrepreneurs' Association TÜSIAD released a statement saying that Turkey refuses to bow to terrorism.

(19/20 October 2011)

### **Severe earthquake hits eastern Turkey**

On 23 October, an earthquake of magnitude 6.6 on the Richter scale (7.2 moment magnitude) struck the province of Van in eastern Turkey, officially causing 2,262 buildings to collapse, with 604 people confirmed killed and 4,152 injured. Especially hard hit was the town of Ercis, 90 km north of the provincial capital. The disaster prompted a huge wave of charity and solidarity throughout Turkey. On the other hand, there were complaints about shortcomings and arbitrariness in the distribution of relief supplies, and the government was criticized for initially having turned down international offers of aid. Experts pointed out the fact that building regulations are still widely ignored, and that state monitoring is sporadic and highly insufficient. The Prime Minister's announcement to have all non-quakeproof buildings identified and demolished, first and foremost in the highly vulnerable megacity of Istanbul, met with scepticism. Meanwhile, at least 40 more people were killed in another earthquake that struck on 9 November. Among the buildings that collapsed were two evidently pre-damaged hotels that, among others, hosted international aid workers; two reporters and a Japanese doctor were among those who perished.

(23 October/9 November 2011)

### **Quarrel ahead of Erdogan's visit to Germany**

Ahead of Prime Minister Recep Tayyip Erdogan's visit to Berlin on the occasion of the 50<sup>th</sup> anniversary of the German-Turkish Worker Recruitment Agreement, there were dissonances between the two countries. To begin with, Speaker of Parliament Cemil Cicek, of the ruling AKP, while on a highly symbolic train journey from Istanbul to Munich, made his mark with derogatory comments. He alleged that Germany was harbouring Kurdish terrorists, saying that it was refuge to twice as much PKK members as the Qandil Mountains in northern Iraq. Erdogan himself had recently caused widespread irritation by claiming that party-sponsored German foundations were indirectly financing the PKK. In addition, the Prime Minister had criticised Germany's policy of integration, saying that Germans do not sufficiently appreciate the contributions of Turkish migrants. He called mandatory language tests a "violation of human rights" and argued that Turkish children in Germany needed to learn Turkish first. German politicians protested vehemently, accusing Erdogan of populism for the sake of domestic politics.

(29 October/2 November 2011)

## **Other Topics**

### **Istanbul increasingly popular travel destination**

According to a global study conducted by MasterCard, 9.4 million foreign visitors are expected to have come to Istanbul by the end of this year, giving the local economy revenues of US\$10.2bn. The study also says that with a visitor plus of 20.4%, the city on the Bosphorus comes 3<sup>rd</sup> in the global ranking of cities enjoying increasing popularity, behind only Barcelona and Kuala Lumpur. By contrast, the Turkish Association of Tourism Operators (TUROB) estimates 8 million visitors for 2011, about 1 million more than in 2010. This roughly 15% increment in the number of visitors is likely to be accompanied by an increase in spending of some 10%. While tourists in other parts

of the country spend US\$794 per person on average, individual spending exceeds US\$1,000 in Istanbul. The city is also home to around a quarter of the country's 10,500 hotels, with an average occupancy rate of 85–90%. Tourists from the Arab countries are most welcome visitors also in the Bazaar, in shopping centres and in restaurants, since they spend considerably more than others. However, Germans formed the largest group of visitors in the first 7 months of 2011, with 12.3%, followed by Russians (6.2%), US-Americans (5.4%), French (5.3%) and Italians (5.1%).

(5 October 2011)

### **Business association underscores saving potential of heat insulation**

Energy demand in Turkey continues to grow rapidly, by an average 6 to 8% a year. This calls for a more efficient use of resources and possibly even reduced energy consumption, complementary to the massive expansion of production capacities as pursued by the government. Though in 2009 an energy pass requirement was introduced for newly constructed housing, which by 2017 will apply to all buildings, the insulation sector's business association IZODER points out that only around 10% of the country's 18-odd million housing units so far feature any heat insulation to speak of. However, proper insulation measures – not just of the building shells, but also of roofs, ceilings, and piping – hold the potential of up to 50% in energy savings, equivalent to annual costs of TL10bn. Against this background, IZODER chairman Ertugrul Sen expressed his industry's discontent with the fact that insulation materials are taxed no differently than luxury goods, urging the government to lower the VAT rate to 1%.

(10 October 2011)

### **Ferrero goes Turkey**

The world's fourth-largest producer of chocolate and other confectionery, Ferrero, has decided to take up manufacture also in Turkey. Following a thorough search for a suitable location, the Italian company has now acquired a 150,000 square-metre site in the Organised Industrial Estate (OSB) of the city of Manisa, in the Aegean region. An investment sum of 95 million Euros has been earmarked to build what will be Ferrero's 18<sup>th</sup> plant in than 14 countries. As Carlo Marsili, spokesman for the group of companies, said, the good infrastructure already in place plus the available logistics, in particular the proximity to the seaport of Izmir, were instrumental in the location decision. Starting in February 2013, an initial 200 employees are to turn out two product brands – Nutella and Kinder chocolate – in Manisa. According to Marsili, who was Italy's ambassador to Ankara from 2004 to 2010, the Ferrero Group also views Turkey as gateway to the countries of the Middle East.

(14 October 2011)

### **Turkish Telekom on growth course**

Telecommunications company Türk Telekom has presented its financial report for the first 9 months of the year. The report says that the company's consolidated investments increased by 80%, reaching TL1.5bn. This enabled the company to hire some 1,500 new employees, bringing the total workforce of Telekom Group to 35,614. Consolidated sales for Q1–Q3/11 were up 12%, to TL8.9bn. According to CEO Hakam Kanafani, with the solid growth yielded in the last quarter, both in conventional and in mobile telephony, the group has meanwhile adjusted its full-year targets accordingly.

(19 October 2011)

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**FOREIGN MARKET CONSULTING Ltd. Sti.**

Managing Director: Peter J. Heidinger

Address:

Sumer Korusu Evleri  
Kasimpatı Sokak No: 25  
34457 Tarabya - Istanbul  
Turkey

Telephone: +90-212-36 38 052

Fax: +90-212-36 38 056

E-Mail: [info@fmconsulting.info](mailto:info@fmconsulting.info)

Internet: [www.fmconsulting.info](http://www.fmconsulting.info)

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