

▶▶ Hello!

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

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Best regards,
Your FMConsulting Team

▶▶ Economy

Overview of Monthly Data

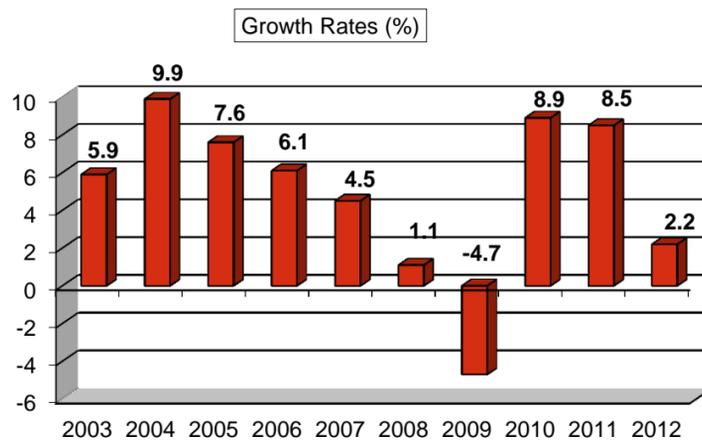
TL-Rates	31.12.2013	31.01.2014	Change in %
TL per Euro	2.9397	3.0782	4.71
TL per USD	2.1343	2.2737	6.53

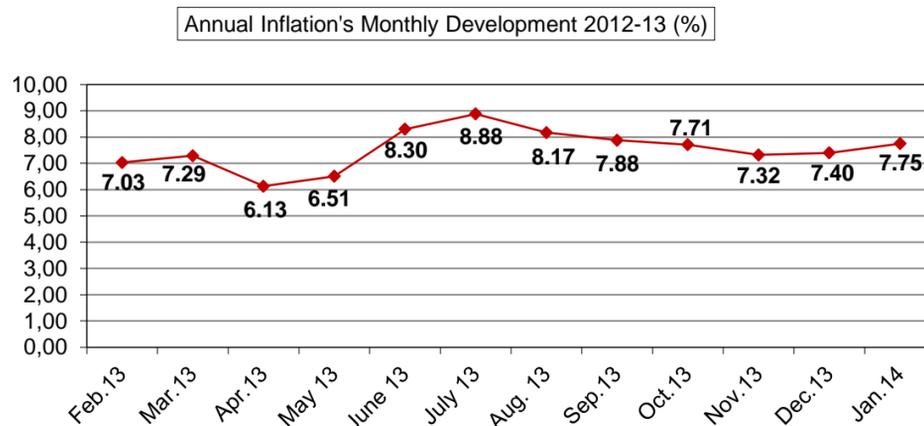
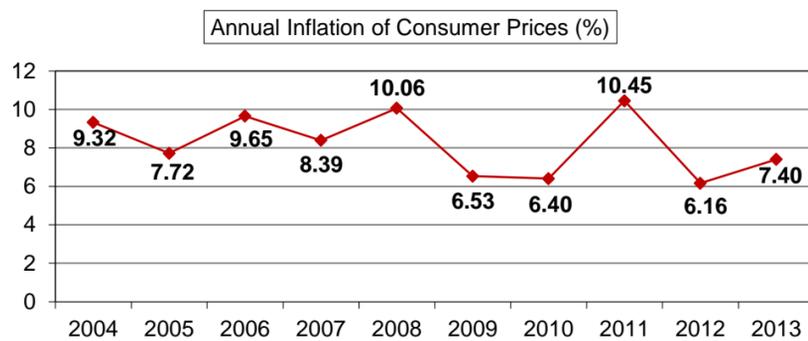
Stock exchange index	67,801.60	61,858.20	-8.77
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	3.32	10.72
Consumer prices	1.98	7.75

Growth Rates

Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
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	8.0	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	6.0	-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	3.4	3.0	1.6	1.4	2.2
2013	3.0	4.5	4.4		





2013 inflation off target

According to the Turkish Statistical Institute (TurkStat), monthly inflation in December increased by 0.46% in consumer prices, and 1.11% in producer prices. The annual inflation by the end of 2013 was recorded at 7.40% in consumer prices, and 6.97% in producer prices. The highest monthly increase was 1.46% in food and non-alcoholic beverages, and the highest annual increase was 10.52% in alcoholic beverages and tobacco. The Central Bank of the Republic of Turkey (CBRT) had revised its inflation forecast up to 6.8% in the government's medium-term programme published in October. This means that the end-of-year inflation is well above the revised anticipation, and that the CBRT has missed its annual inflation target for the third year in a row.

January 3, 2014

Turkey's exports fail to reach annual target in 2013

The Turkish Exporters' Assembly (TIM), joined by Minister of Economy Nihat Zeybekci, stated that provisional data show that exports in December amounted to USD12.9 billion, an increase of 9.8% over the same month of the previous year. On the other hand, total annual exports were approximately at last year's level of USD152.5 billion, thus failing to reach the USD153.5 billion target that had been revised down in October from USD158 billion. Regarding the contribution of sectors, the ranking has not changed much from that of 2012. Automotive was the leader with USD21.3 billion, followed by chemicals with USD17.44 billion, and ready wear with USD17.37 billion. As to target markets, Turkey mainly exported to Germany, Iraq, and the UK, with export volumes of USD13.7 billion, USD11.9 billion, and USD8.8 billion, respectively. The shares of regions to which Turkish goods and services were exported are 41.7% to the EU, 12.4% to the Middle East, 9.4% to European countries other than EU, 7.9% to Asia, and 6.6% to North Africa. TIM Chairman Mehmet Buyukeksi pointed out that they organized 29 trade missions and 19,000 bilateral commercial meetings in 2013, and that Turkish exporters have accomplished a difficult feat by selling to 250 regions and countries during this period of world-wide economic stagnation.

January 3&8, 2014

Unemployment rate drops to 9.7% in October

In October 2013, the number of unemployed reached 2.27 million, increasing by 202,000 compared to the same period of previous year. Turkey's unemployment rate amounted to 9.7%, falling for the first time in 4 months. However, despite the 0.2% decrease compared to the previous month, it recorded an increase of 0.6% over the same month of the previous year, and it is very likely that the end-of-year unemployment rate will be double-digit. Non-agricultural unemployment stood at 11.9%, and the youth unemployment rate was 19.3%.

January 16, 2014

Central Bank takes measures against sharp depreciation of Turkish Lira

Starting from the corruption operations on December 17th, the Turkish lira has been devaluating sharply. The Central Bank of the Republic of Turkey (CBRT) began selling reserves on January 23rd after the US dollar had peaked at 2.29 against the lira, whereas the average rate of 2013 was 1.90. The exchange rate went down to 2.26 after the intervention. This was CBTR's first direct intervention to foreign exchange rates in two years which it had signalled one week after the first wave of detentions. But despite CBRT's selling of USD3 billion, the devaluation did not come to a halt. Thus, CBTR Governor Erdem Basci stated that the sudden meltdown of the foreign exchange reserves may have side effects, so they will start intervening with interest rates to control the weakening of the lira. One day later the Turkish lira hit a record low of 2.39 against the U.S. dollar. Therefore, early on January 28th, the Bank more than doubled the weekly repo rate to 10% from 4.5%, increased the overnight lending rate to 12% from 7.75%, and increased overnight borrowing rate

to 8% from 3.5% despite warnings from PM Recep Tayyip Erdogan, who prior to the decision said: "I am against increasing interest rates. If something happens in the future, CBRT will be responsible". Although the hike in interest rates rallied the currency to 2.16 the next day, the day after it hit 2.32 and closed the day at 2.25. Economists still argue the effectiveness of CBRT's policy, pointing to the negative effects of high interest rates on economic growth. The business community also expressed its concerns regarding the sharp increase in interest rates. They criticized the policy as putting the entire burden on the real sector, and pointed out that the cost of financing for SMEs will increase so much that it will be impossible to accomplish the exports target. They also said that they expect the government to take necessary steps to support SMEs, and to boost employment and economic growth.

January 23&29&30, 2014

Politics

Turkish Prime Minister visits Japan

Prime Minister Recep Tayyip Erdogan started his tour of the Far East in Tokyo. The visit's main aim was to seek stronger economic relations between the two countries, and energy affairs were on the top of his agenda. During the PM's visit to Tokyo, he and Japanese Prime Minister Shinzo Abe both underlined that establishing an economic partnership agreement would strengthen the two countries' bilateral ties. Turkey's premier invited Japanese companies to invest in Turkey, adding that his government is ready to support these firms during all stages. The two heads of government also signed an agreement for a science and technology university in Istanbul, which will be co-funded by Japan. This university in Istanbul is intended to facilitate the technology transfer that will help Turkey learn more about nuclear energy. Abe and Erdogan also agreed on the importance of the construction of the USD22 billion nuclear plant, which Japan's Mitsubishi Heavy Industries and Areva of France won the bidding for.

January 8, 2014

Government changes structure of country's top independent judicial body

The ruling Justice and Development Party (AKP) has introduced a bill that involves changes in the structure of the Supreme Council of Judges and Prosecutors (HSYK), the country's top independent judicial body. The bill calls for a greater government say in appointments at the HSYK. Recently, Turkey has been facing a purge of the police and judiciary following investigations into a corruption scandal that involves dozens of people, including the sons of ministers and the head of a state-owned bank, on allegations of bribery, money laundering, gold smuggling, and illicit dealings with Iran.

January 9, 2014

Erdogan assures EU on separation of powers

Turkish PM Erdogan visited Brussels for the first time in 5 years for talks with José Manuel Barroso, Herman van Rompuy, and Martin Schulz, and to advance Turkey's EU membership bid. He informed the EU executives about the latest developments in Turkey and defended his government's moves to tighten control of the judiciary. The EU expressed strong concerns about the controversial reforms that the Turkish government is trying to impose, and set the independence of the judiciary as a key criterion for Turkey's membership into the EU. Erdogan stated that his government believes in the separation of powers. "The judiciary should not go beyond its defined mission and mandate. This is what we're doing. Anything else is misinformation and disinformation," he said.

January 22, 2014

Iranian President Hassan Rohani hosts Turkish PM for the first time

Turkish PM Erdogan visited Tehran after two years with the aim of strengthening trade relations with Iran, and met with new Iranian President Hassan Rohani for the first time. The prime minister expressed his hope for the trade volume between the two countries to reach \$30 billion by the end of 2015, stating that due to the economic sanctions against Iran, the trade volume fell to USD13.8 billion in 2013 from USD21.8 billion in 2012. During the visit of the Turkish delegation to Iran, a cooperation agreement to form a joint trade committee and a preferential trade agreement (PTA) were signed.

January 30, 2014

Turkish army attacks ISIL convoy in Syria

The Turkish Armed Forces (TSK) in the southern border province of Kilis are reported to have opened fire on an Islamic State of Iraq and the Levant (ISIL) convoy on Syrian territory. A truck, a pick-up and a bus were destroyed in the attack, while human casualties were not disclosed. Apparently the strike was in response to cross-border fire from the al-Qaeda-linked rebel forces during a fight with Free Syrian Army (FSA) troops. Other media reports say that ISIL militants had fired rifle rounds on border patrol soldiers in Turkey, prompting the TSK to retaliate with artillery fire.

January 30, 2014

▶▶ Other topics

Monthly minimum wage increase defined as 5% and 6% for H1 and H2 2014

Turkey's Minimum Wage Determination Commission has decided to raise the gross minimum wage by 5% to TRY1,071 (EUR351) in the first half of 2014, and 6% in the second half, bringing the total amount to TRY1,134 (EUR372). According to these figures, the net salaries for an unmarried worker will be TRY846 (EUR277) and TRY891 (EUR292), respectively. The net salaries of married workers will be higher due to the incentives given according to the number of children. On the other hand, the cost of minimum wage to the employer will be TRY1,258 (EUR413) in the first half of the year. The Commission has also lifted the difference in the minimum wage for workers over and under the age of 16, a distinction that previously accounted for a 10-15% difference in salaries. The two-stage raise of 5+6% is an improvement over 2013, which saw an increase of 4.1+4.4%.

January 1, 2014

Northern Iraqi oil begins to flow to Turkey

According to Turkish Energy Minister Taner Yildiz, crude oil has started flowing from Northern Iraq to the Turkish Mediterranean port of Ceyhan via the new pipeline, but it is being stored at the moment. Yildiz stated that he hopes the negotiations between the central Iraqi government and Northern Iraqi regional government that started at the end of last year will soon be completed, and that the oil will be shipped to the world markets within one month. He also underlined that initial flow rates of 300,000 bpd should increase to 400,000 bpd.

January 3, 2014

Turkish energy imports fell in 2013

Despite the fact that the total amount of imports to Turkey has increased, the value of imported energy products has fallen in the same period. While total imports of Turkey reached USD228.5 billion in the first 11 months of 2013 with a 5.4% increase over the same period of the previous year, imports of energy products diminished by 7.8% to USD50.6 billion. The rate of contribution of energy imports to Turkey's total foreign trade deficit fell from 62.2% in 2012 to 49.7% in 2013. Turkey is heavily dependent on foreign energy resources, thus energy imports always play an important role in its balance of trade.

January 3, 2014

Prices are being revised due to higher exchange rate

The sharp increase in exchange rates will eventually lead to an increase in prices. The construction and tourism sectors have already signalled the price hike. Textile sector representatives agree that price increases are inevitable, whereas machine manufacturers believe that the only way to survive is to focus on exporting. The first price increases in the automotive sector came from Ford (10%) and Toyota (4-5%), and further rises are on the way. The energy market regulatory authority (EPDK) stated that the higher exchange rates will soon be reflected in electricity prices. The Association of International Forwarding and Logistics Service Providers in Turkey expressed their concerns of a heavy burden on their members with higher costs due to higher exchange rates.

January 7, 2014

25 detained in operations in 5 different cities

A total of 25 people, including the İzmir Port operating manager of the Turkish State Railways (TCDD) and 7 other TCDD officers, have been detained as a result of the anti-corruption operation. İzmir was at the centre of the operations which were simultaneously conducted in Istanbul, Ankara, Hatay, and Van. The detainees are accused of bribery, corruption, embezzlement, malpractice, and bid rigging. Former Minister of Transportation, Maritime affairs and Communications. Binali Yildirim, who is the mayoral candidate for İzmir metropolitan municipality of the ruling Justice and Development Party (AKP), stated that investigations into the issue had started in 2011, and that he believes the detentions have been timed so as to sabotage the election process.

January 8, 2014

Foreign portfolio in Istanbul Stock Exchange shrank 13% in 2013

The total value of the foreign portfolio in Borsa Istanbul (BIST), the stock exchange market of Turkey, has shrunk by 13%, dropping to TRY 122.2 billion (EUR40.1 billion). In contrast, the number of foreign investors increased by 1,264, reaching 9,568, with the number of Turkish investors increasing by 20,591 to 1,100,853. The total value of the portfolio of Turkish investors, on the other hand, remained virtually unchanged, with only a 0.5% increase. Foreign investors still control a big share of the exchange. The shares of the foreign and Turkish investors' portfolio values in the market are 62.6% vs. 37.4%. 20.6% of BIST is controlled by 1,312 investors from the USA, 12.7% by 515 investors from the UK, and 4% by 329 from Luxemburg.

January 8, 2014

Household consumption down 3% in December

According to the Household Consumption Index (HCI) released by the marketing research firm Ipsos, the total consumption of Turkish households increased by 2% with fixed prices in 2013, half of the rate of anticipated growth for the country's economy. Mr Vural Cakir, the CEO of Ipsos, pointed out that the HCI has shrunk by

3% compared to the previous month, adding that although it is early to comment on the long-term effects, this might be a sign that Turkey has entered a period of cautious spending.

January 20, 2014

Other Headlines

- Deputy Prime Minister Ali Babacan stated that the corruption operations have brought a high burden to the country's economy due to over USD49 billion loss of value of the stock listed companies. January 1, 2014
- Automotive sector professionals agree that sales, after hitting a record high in 2013, will drop 20% in 2014 as a result of high exchange rates, the new regulation that limited the number of instalments, and increased luxury tax. January 6, 2014
- Real growth of the total credit volume of the Turkish banking sector was 24.8%, whereas nominal growth was 34.1% in 2013. January 2, 2014
- Mercedes-Benz Turk sold a total of 52,262 vehicles in 2013, a record in its 46 years in Turkey. January 21, 2014
- Turkey suffers from the driest winter in years; the level of Istanbul's water supply dams is down to 31.7% which can meet the city's water needs only for 110 days. January 22, 2014
- Hitachi Europe's CEO Klaus Dieter Renner said that Turkey still preserves its appeal to investors despite the latest political developments, and that the 3rd airport of Istanbul is their "target project". January 27, 2014

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▶▶ Newsletter

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