

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	30.11.2011	31.12.2011	Change in %
TL pro Euro	2.4636	2.4556	- 0.3247
TL pro USD	1.8498	1.8980	2.6056

Stock exchange index	54.517,80	51.266,60	-5.9635
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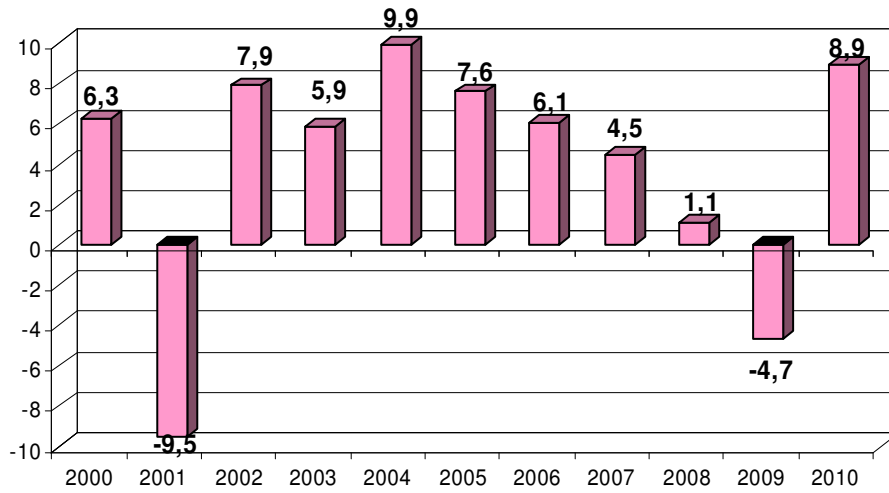
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.00	13.33
Consumer prices	0.58	10.45

Growth Rates

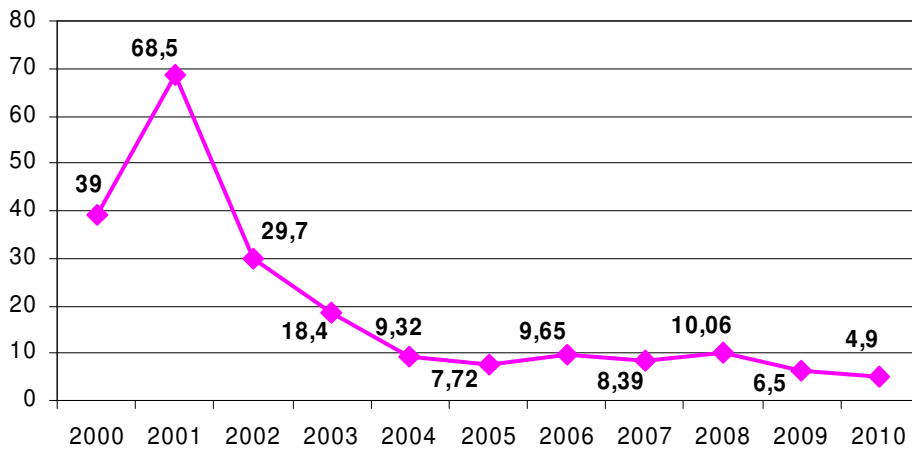
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9
2004	13.9	15.7	8	6.6	9.9

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		

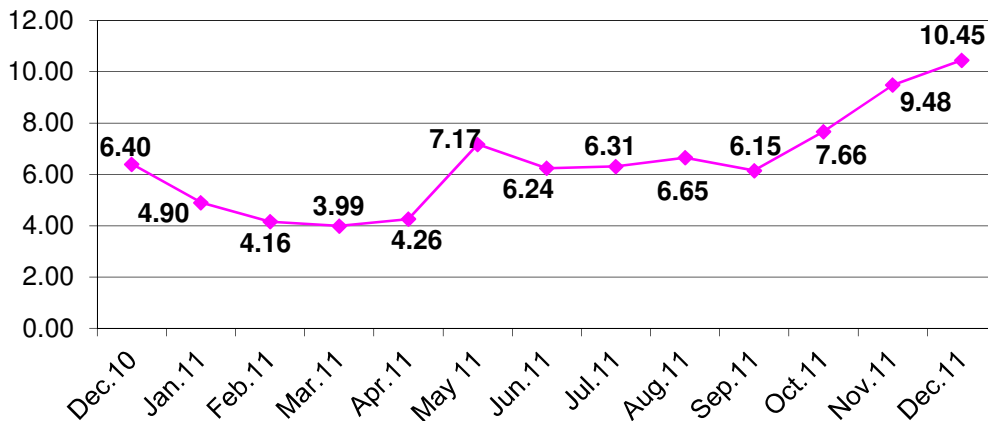
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



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



Turkey and Germany sign new Double Taxation Agreement

In Berlin, Germany and Turkey have entered into a new "Agreement on the Avoidance of Double Taxation on Income between the Federal Republic of Germany and the Republic of Turkey", in short: Double Taxation Agreement (DTA), on September 19, 2011. The new DTA, which will come into force with retroactive effect from January 1, 2011 once the ratification documents have been exchanged, has been adapted to the OECD Model Convention. It involves reduction of withholding tax rates on dividends and interest, introduction of a limited taxation of retirement benefits in the country of source, elimination of the possibility to be credited with fictive Turkish taxes that have not actually been paid, introduction of a so-called turn-around clause, which – to the benefit of Germany – provides for switching from the exemption to the credit method, and an increased exchange of tax information along the lines of the currently applicable OECD standard. The new DTA is intended to further the intensification of bilateral economic relations.

2 December 2011

Turkish trade deficit set to surpass 100 billion dollars

In October, the global recession – particularly in the EU, its main trade partner – made a big impact also on Turkey. The country's imports (US\$19bn 915mn) increased significantly less (+15.1%) than in the months before. However, since exports (US\$11bn 953mn) grew even slower (+8.9%), despite the on-going devaluation of the Turkish currency, the import surplus continued to mount. Consequently, Turkey's trade gap registered as US\$7bn 979mn, 26% up from October 2010. With the deficit for the first 10 months already adding up to US\$90bn, it has become very probable that the 100-billion-dollar mark for the total year will be surpassed for the first time ever. At the same time, the country's current account deficit keeps increasing, too. While in October the increment over the same month of the previous year slowed down to 24.5%, bringing the deficit to US\$4bn 151mn, there was a total increase of 93.9% in the first 10 months of the year, spelling a record current account deficit of US\$78bn 611mn for the last 12 months.

December 1/13, 2011

Unemployment drops to lowest level in a decade

According to Turkey's Statistical Office, unemployment in the country dropped to the the lowest level in 10 years in September. At 8.8%, the unemployment rate was 0.4% lower than in August,

and 2.5% below the rate in the same month of the previous year. The number of registered jobless fell by around 536,000 over September 2010 to now 2.398,000 persons, whereas the actual unemployment rate dropped from 17.3% to 14.3%. Unemployment among the urban population was down 2.8%, to 11.1%, while in the rural areas there was a 1.8% decrease, to 4.5%. Remarkably, unemployment among youth (15-24-year olds) declined even 3.9% to reach 17.3%. At the same time, the labour force participation rate rose by 1.3%, to 50.4% on a national scale; for men the participation rate is now 72.2% (+1.1%), whereas for women it is still only 29.5% (+1.6%). The working population increased 1,776,000, to 24,749,000 persons. While the percentage of people employed without state insurance declined by 1.2%, it is still at the high level of 42.8%. Of the people employed in agriculture, as many as 84.6% had no social security (previous year: 85.5%).

Key data of the Turkish labour market (September 2011, in 1,000 persons)

	Turkey		Urban		Rural	
	2010	2011	2010	2011	2010	2011
Non-institutional population	71,508	72,625	49,248	49,677	22,260	22,948
Population over 15 years	52,718	53,832	36,598	37,072	16,120	16,760
Working population	22,973	24,749	14,792	15,753	8,181	8,996
Registered jobless	2,934	2,398	2,387	1,977	548	421
Employment rate	43.6%	46.0%	40.4%	42.5%	50.8%	53.7%
Unemployment rate	11.3%	8.8%	13.9%	11.1%	6.3%	4.5%
Non-agricultural unemployment rate	14.3%	11.3%	14.4%	11.6%	13.8%	10.1%
Youth unemployment rate	21.2%	17.3%	25.3%	21.2%	13.1%	10.1%
Economically inactive population	26,810	26,685	19,419	19,342	7,391	7,343

December 16, 2011

Turkey's growth performance outpaces China

The Turkish economy has grown by 9.6% combined in the first three quarters of the year, outperforming China (9.4%), though by a small margin. While the speed of growth slowed to 8.2% in the third quarter, making Turkey fall behind China (9.1%) to rank 2 again, Turkey's growth target of 7.5% for 2011 has come within grasp: a GDP increment of just 1.8% in Q4 would suffice. Nonetheless Turkey will have to adapt to severely reduced economic growth in the coming year. In the words of its Managing Director, Christine Lagarde, the International Monetary Fund (IMF) anticipates a growth rate of only 2%. This anticipation is based on insufficient capital inflow due to the high current account deficit, which amounts to 10% of the GDP. Lagarde voiced the expectation that the current account deficit will decrease to 8% of the GDP, and that inflation will recede to about 6.5% in 2012. She expressed her satisfaction with the crisis management and structural reforms in Turkey, particularly praising the stability of the country's banking sector.

GDP according to spending (Q1-3/2010, million TL in constant prices)

	2010	2011	Difference	Change (%)	Contribution (points)
Private consumption	53,824.4	58,783.4	4,959.0	9.21	6.4
State consumption	7,576.5	8,348.9	772.4	10.19	1.0
Gross investments	18,887.3	23,017.0	4,129.6	21.86	5.3
Exports	18,610.0	19,855.1	1,245.1	6.69	1.6
Imports (-)	21,192.2	24,865.1	3,672.9	17.33	-4.7
<i>GDP</i>	<i>77,706.01</i>	<i>85,139.3</i>	<i>7,433.3</i>	<i>9.57</i>	<i>9.6</i>

December 9/13, 2011

Central Bank puts brake on decline of Turkish currency

The Turkish Central Bank has started the new year just like it ended the old one, that is, by putting large amounts of dollars on the market in an attempt to back the national currency. The value of the Turkish Lira had continued to erode; while the US-dollar exchange rate had just obliterated the 1.60 TL mark as recently as in June, it continued to soar, to reach a new historical high of 1.9150 TL/US\$ by the end of the year. Meanwhile the intervention measures have succeeded in pushing the dollar rate back to considerably below 1.90 TL; at the same time, the stock exchange has begun to recover. According to Central Bank President Erdem Basci, the Turkish Lira is still clearly undervalued. Emphasizing that no particular target has been set as to the exchange rate, he said that the devaluation trend is still not expected to continue. Basci announced that the Central Bank intends to follow a more calculable course in 2012, but is going to stick with the flexibility of its monetary policy.

December 28/29, 2011 / January 3/4, 2012

Inflation rising above all expectations

For the first time in 8 years, annual inflation in Turkey went double-digit again in 2011. Whereas the monthly inflation rate as to consumer prices dropped to 0.58% in December, on aggregate for the year it was 10.45% for consumer prices, and 13.33% for producer prices. Thus the annual inflation rate was almost double of what had been provided for in the government's economic programme and predicted by the Central Bank (5.3% and 5.5%, respectively). Most recently these forecasts had been adjusted to 7.8% and 8.3%, respectively, which has now proved to be still much too optimistic. Already there are indications that the government's inflation target for 2012 – 5.2% – has probably been set too low.

January 4, 2011

Turkey sets export record

In 2011, Turkey's export volume has increased by 18.17% over 2010, reaching a record level of US\$134bn 571mn never before achieved in the history of the Republic. The largest export share of 15.16% (some US\$20.4bn) was attributable to the automotive industry (+17.41%), followed by the chemical industry with 12.15% (US\$16bn 347mn), a 28.93% plus as against the previous year, the clothing industry with US\$16bn 186mn (+10.7%), and the steel industry with approx. US\$15.4bn. The ranking of Turkey most important export partners is – as always – topped by Germany (10.41%), followed by Iraq (6.21%) and the UK (5.82%). On another note, imports of energy – mostly petrol and natural gas – which are of vital importance to the country and its industry have increased by 41.4% in the first 11 months of the year. Turkey is forced to spend about 40% of its export revenue on the energy it imports.

Total exports and energy imports of Turkey 2007-2011 (billion US\$)

Year	Total exports	Energy imports
2007	107.3	33.9
2008	132.0	48.3
2009	102.1	29.9
2010	113.9	38.5
2011	134.6	49.1 (Jan.-Nov.)

January 5, 2011

Politics

Turkey's relations with France strained over new version of "Armenian Law"

The French National Assembly has adopted a law which, among other things, makes the denial of any genocide a punishable offence. In particular, this also includes the crimes against the Armenian population in the years 1915 and 1916 which Turkey is being charged with. While the French parliament had officially labelled those historical events "genocide" already in 2001, there had so far not been any threat of punishment. As previously announced, the Turkish government reacted by immediately recalling its ambassador from Paris and suspending all political, military, economic, and cultural relations with France. Turkey feels wronged and discriminated by the new law. Prime Minister Recep Tayyip Erdogan stated that "In the history of our country, no genocide has been committed", in turn accusing France of having committed its own genocide in the Algerian War. The hopes for a quick normalization now rest on the Senate, dominated by the opposition socialist party, which will also have to approve this law.

December 22/23, 2011

Turkish air force makes deadly mistake

35 civilians have perished in a night-time attack by Turkish fighter planes on North Iraq territory not far from the district of Uludere (province of Sirnak). The thermal imaging camera of an unmanned aerial vehicle had detected a larger group with pack animals approaching the Turkish border in the uninhabited, mountainous terrain. But what appeared to be a band of Kurdish PKK rebels about to infiltrate into Turkey turned out to be local men with mules trying to smuggle fuel and cigarettes. Following the fatal incident, pro-Kurdish groups rallied in major cities around the country to protest the military. The Turkish government expressed its regret and offered to pay compensation to the families of the deceased. Still it is to be feared that this incident will trigger a renewed escalation of violence in the Kurdish conflict.

December 30, 2011

Former top military commander detained for alleged coup plans

For the first time in the history of Turkey, a former Chief of Staff has been put in jail. Four-star general Ilker Basbug, who had retired in August 2010, had been summoned by the special prosecutor to testify in connection with his alleged involvement in a clandestine organisation dubbed Ergenekon. Following 7 hours of interrogation, he was brought before a judge, remanded in custody and taken to Silivri, Europe's largest prison. Basbug is being charged with leadership of a terrorist organisation and conspiracy to overthrow the government. Other military officers charged with the same offences had incriminated him, saying that he had knowledge of a campaign aiming to discredit the ruling AKP party, which also included covert support for subversive webpages. Within the scope of the Ergenekon probe and associated investigations, thousands of people have been arrested in recent years, among them journalists, lawyers, politicians, and army and police officers, many of them high-ranking. Some of the defendants have been in prison without verdict for as long as 4.5 years.

January 4/6, 2012

Other Topics

Clothing industry contests tax on imported fabrics

While Turkey's total exports increased by 13.9% in November, the Turkish clothing industry suffered a decline in its exports of 2.54%. Since 2002, when the clothing sector accounted for 25.4% of Turkey's entire exports, its share has more than halved, to around 12%. The special tax of 20% on imported fabrics introduced by the government as of December 15 aims at curbing imports of fabrics and promoting exports. However, people in the industry believe that this is the wrong approach, and caution against a cost explosion and losses against international competitors. Economy minister Zafer Caglayan defended the measure, calling it necessary in order to improve the current account deficit and to secure jobs. He responded to the criticism by saying that he is happy if the import lobby is not happy with it.

December 2/16 / January 5, 2011

Automotive market reports 20% growth

The Turkish market for passenger cars and light commercial vehicles has expanded by 20% between January and November 2011. A total of 735,033 motor vehicles were sold in Turkey, 504,208 passenger cars (+22.88%) and 230,825 light commercial vehicles (+14.14%). Of the passenger cars sold, 61% (309,224 units) had diesel engines, 41% more than in the same period of the previous year. 34% (+3%) of all passenger cars were equipped with an automatic transmission, and 89% had an engine displacement of under 1.6 litres, mostly due to the tax benefits associated with this. The best-selling cars were classical sedans (49%) in the C segment (47%). According to a statement issued by the Turkish Association of Automobile Distributors (ODD), the automotive market has dwindled 2.97% in the third quarter, after having grown by almost 83% in the first quarter and around 40% in the second quarter. A slight decline in sales figures is also anticipated for the coming year.

December 7, 2011

Animal products are 2011 export champion

The share of agricultural products in Turkey's exports has reach an all-time high in 2011, valuing US\$17bn 887mn and accounting for 13.29% of all exports. In 2002 the share had been 12.6% and then dropped gradually to 10.63% by 2008. This record is mostly owed to exports of animal products, which registered a 47.73% plus. Exports of cereals, legumes, oilseeds and oilseed products (+33%) as well as hazelnuts and hazelnut products (+13.92%) also increase above average, whereas exports of tobacco and tobacco goods (-3.0%) as well as olives and olive oil (-4.25%) even dropped.

Agricultural exports of Turkey 2002-2011 (in 1,000 US\$)

Year	Agricultural exports	of which animal products
2002	4,572,540	280,038
2003	6,086,113	335,256
2004	7,591,806	357,778
2005	9,668,441	412,942
2006	9,771,947	463,572
2007	11,357,288	592,115
2008	13,558,893	854,194
2009	13,260,372	828,729
2010	15,039,712	962,309
2011	17,887,224	1,421,426

January 5, 2011

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