



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

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Best regards,

Your FMConsulting Team

## Newsletter January 2010

# Economy

## Overview of Monthly Data

YTL-Rates	31.12.2009	31.01.2010	Change in %
TL pro Euro	2.1707	2.0724	-4.53
TL pro USD	1.5130	1,4904	-1.49

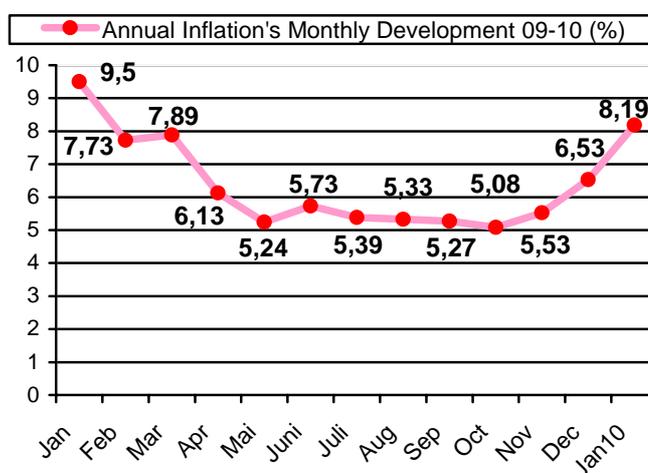
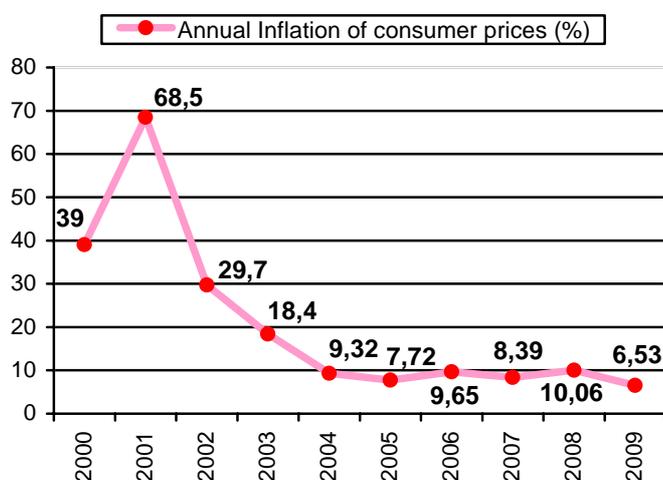
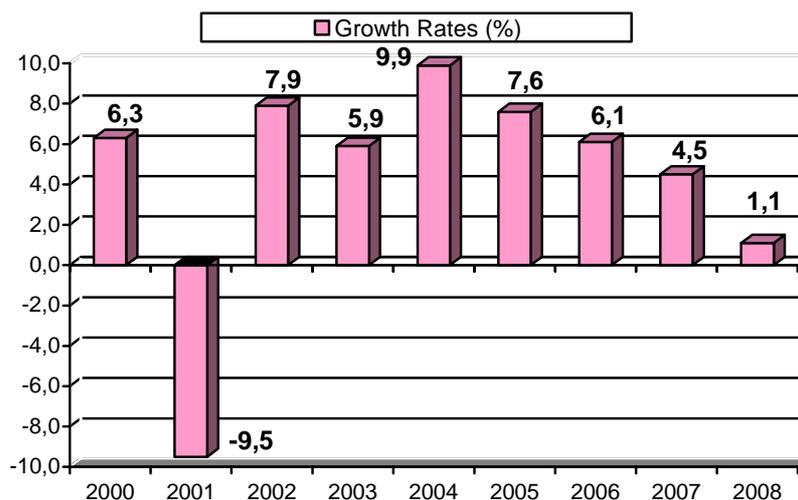
Stock exchange index	52,825	54,193	2.59
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.58%	6.30%
Consumer prices	1.85%	8.19%

## 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	5.7	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	6.7	3.9	2.0	3.4	4.5
2008	6.6	1.9	0.5	-6.2	1.1
2009	-14.3	-7	-3.3		



### Exports to reach 100 billion dollar target after all

According to the latest data published by the State Secretariat for Foreign Trade (DTM), Turkey's total exports in 2009 — contrary to previous statements — will have passed the psychologically important mark of US\$100bn after all. The export figures for the first 11 months of the year, which had been given as US\$87.5bn by the Exporters' Association TIM, were considerably corrected upwards to US\$92.1bn. Last year DTM and TIM figures had also differed by US\$4bn. In comparison with the same period of the previous year, exports were down 25.9% in 2009, while imports dropped by 34.1% in the same period, to US\$125.6bn.

### **New Year sees the state digging deep into consumers' pockets**

The start of the new year had an unpleasant surprise for Turkish citizens with their government opting for massive hikes in taxes and fees. Apart from motor vehicle tax, numerous indirect taxes and administrative fees were increased. Among the expenditure items affected are fuel, cigarettes, alcohol, bridge and motorway tolls and passports. Also affected are various procedures that are subject to stamp duty, such as balance sheets, tax returns and social security declarations. Most of the hikes are well in excess of the revaluation rate, which had been fixed at 2.2% for 2010 based on the annual increase in consumer prices as per the end of October. Administrative fees, for example, went up by an average 10%. Commerce and industry criticized the move for being a step in the wrong direction.

### **Government fosters employment, increases pensions**

Turkey's Prime Minister Recep Tayyip Erdogan has announced further measures to boost the labour market. With regard to employers that have generated new jobs since October 2009, the Treasury will absorb the social security contributions for the entire year (2010). The practice of short-time allowances will be continued in 2010, having proved a suitable instrument. Erdogan also said that pensions will be increased by 4.5% to 20.4% — depending on level — for the first six months of the year.

### **Inflation sent soaring by tax increases**

Turkey's Central Bank anticipates the tax hikes effected at the beginning of the year raising monthly inflation in January by some 1.5 percentage points. Accordingly the consumer price index (TÜFE), on an annual basis is likely to rise to 8% in January, and to 9.2% by June. Meanwhile the Central Bank has revised its inflation forecast for 2010, from 5.5% to 6.9%. Subsequently the inflation rate is to drop to 5.2% in 2011, and to 4.8% in 2012. On the other hand, interest rates are expected to stay single-digit for at least the next 3 years.

### **Sustained population growth in Turkey**

According to the Turkish Statistical Institute, the country's population has grown by 1.46% in 2009 to reach 72,561,312 persons, of which 50.3% are male and 49.7% female. The average age of Turkey's population is 28.8 years. Data also shows that the rural exodus trend remains unbroken: While some of Turkey's Eastern and South-Eastern provinces suffered population losses of up to 40%, the population of many western and southern towns and cities increased substantially, as for instance in new metropolises such as Antalya, with an increase of 32%.

### **New system to make input tax deduction easier**

Minister of Finance, Mehmet Simsek, has announced improvements to the system for input tax deduction. The so-called code system is being replaced with the group system. This means that applications are processed wholly electronically, rather than manually as before and thus they can be made online. Calculation and risk analysis will be done by way of new software. The new system will reduce processing time from up to 10 days to a few minutes. Furthermore, it will enable more effective control due to improved traceability whilst releasing staff for other tasks.

### **Business People say extension of subsidy law insufficient**

Further to lobbying by the Anatolian business community, Subsidy Law No. 5084 has been extended for a second time - up until 2012. Accordingly the industry in 49 Turkish provinces (out of a total of 81), which have been designated as priority regions, will continue to benefit from special

abatements as an investment incentive. Minister of Labour and Social Affairs, Ömer Dincer, stated that 47,000 new jobs have been generated in those regions as of November 2009. Members of the business community welcomed the extension but did not fail to criticize the significant cuts made with respect to, among other things, reduced electricity rates and allocations of land. Extending the scope of subsidies, rather than restricting it as required to effectively promote the economy, particularly in the eastern regions, they said.

## Politics

### **Strike of TEKEL workers continues**

There is no prospect to an end of the strike conducted by 12,000 employees of former public enterprise TEKEL, which has been on-going since December 15. Within the scope of privatization, the Turkish government had sold what used to be the state monopoly enterprise for alcohol and tobacco products to global tobacco company BAT (British American Tobacco). This involved substantial cuts to employee rights as well as redundancies, eventually leading to industrial action. Attempts by riot police to forcefully repress the strike sparked an unprecedented wave of solidarity. The country's major labour unions issued an ultimatum to the government (which regards the workers' demands as unjustified), threatening a general strike.

### **Turkey and Russia agree on nuclear power co-operation**

The process of convergence between Turkey and the Russian Federation is continuing at full speed. Meeting in Moscow, the Turkish Prime Minister Erdogan, his Russian counterpart Putin and President Medvedev declared their intent to raise the volume of bilateral foreign trade to 100 billion US-dollars in the next 5 years. The main focus will be on the energy sector, involving increased natural gas purchases by Turkey, co-operation in the crude oil segment—including a jointly operated refinery—and now also nuclear power. A joint declaration on co-operation regarding the construction of nuclear power plants in Turkey has already been signed. When journalists reminded Erdogan that the tender for a first Turkish nuclear power station had been stopped by the supreme administrative court, he stated that intense efforts of his government are under way to remove the barriers.

### **PwC: E7 will have overtaken G7 by 2020**

The weight of the global economy is shifting more and more towards the East and the South. The major emerging nations, dubbed the E7 — China, India, Russia, Brazil, Mexico, Indonesia and Turkey — will likely surpass the G7 countries by 2020 in terms of economic strength. At the same time, China is set to take over from the USA as the world's leading industrial power, according to the latest global economy report published by PricewaterhouseCoopers. By 2030 the E7, will even outperform the G7 by 30%, whereas at the beginning of the millennium their economic power was only half of that of the G7.

### **Supreme Court: Civil Courts have no jurisdiction over military personnel**

Turkey's Constitutional Court has unanimously ruled to reverse a new provision that would have allowed military personnel to be tried before civil courts. Consequently all legal proceedings

instituted by civil justice against members of the armed forces will have to be reassigned to military prosecutors and courts. This affects the so-called Ergenekon lawsuit in particular, where a large number of high-ranking officers are accused of having plotted to overthrow the AKP government.

### **Again, a woman at the head of Turkish Industrialist Organisation**

TUSIAD, the liberal entrepreneurs' association which is considered to be Turkey's most powerful trade association, has yet again elected a woman president. Umit Boyner is a 46-year-old textile entrepreneur and the wife of industrial tycoon Cem Boyner. She follows in the steps of Arzuhan Dogan Yalcindag who had led the organisation for three years before taking over at the helm of the media group owned by her father, Aydin Dogan, at the beginning of the year. In her inaugural address, Ms Boyner levelled criticism at the Erdogan government, calling for more democracy in Turkey. She also appealed for stepping up efforts to overcome the economic crisis, to battle unemployment and to prevent so-called "honour killings".

## **Other Topics**

### **World's second-largest oil rig to drill for oil in the Black Sea**

Under comprehensive safety precautions the Norwegian oil rig "Leiv Eiriksson", arriving from Stavanger, has passed the straits of the Dardanelles and the Bosphorus and entered the Black Sea. Commissioned by Turkish-Brazilian oil consortium TPAO-Petrobras, the rig is to drill for oil and natural gas resources in deep-sea waters off the city of Sinop. At approx. 120 m in length and 85.5 m in width, the "Leiv Eiriksson" is the world's largest self-propelled semi-submersible oil platform. Standing 122 metres high, its tower had to be capped to allow passage under the Bosphorus bridges. Turkish Minister of Energy, Taner Yildiz, stated that the exploratory drillings will take at least 3 years. The platform is said to rent for 1 million US-dollars per day.

### **New arrangement for imports of second-hand machines**

As of January 1, 2010 a new regulation issued by the State Secretariat for Foreign Trade has come into force. The regulation allows second-hand machines to be imported without prior permission, on condition that this type of machine is not being manufactured in Turkey. However, to protect the Turkish machine-building industry, imports of machines that are being produced in Turkey will be subject to the approval of the domestic manufacturers. Furthermore, the regulation also provides for tests of imported second-hand machinery, which are to be conducted on site once they have been put into operation.

### **Crisis turns into opportunity for Koc Holding**

Turkey's largest group of companies, Koc Holding, has succeeded in making the largest operating profit ever in 2009, the year of crisis. In 2010, the group's profitability is yet to top this new record of 7.8%. In the current year, Koc Group wants to grow by another 20%, generate 1,200 new jobs, and increase their sales turnover to TL53bn. In the Fortune 500 list for 2009, the corporation has improved 14 ranks and now takes 172<sup>nd</sup> place among the world's highest turnover companies. Despite its heavy involvement in the automotive industry, Koc Holding has boosted its performance through systematic consolidation and alignment of its policy with strategic targets.

## Internet banking enjoys increasing popularity

The Turkish Association of Bank (TBB) has announced a large increment in the number of bank customers who make use of internet banking. The number of online customers in the final quarter of 2009 increased by some 17%. Meanwhile almost 45% of all bank customers are said to benefit from this facility, in particular with regard to investment and foreign currency transaction. At the turn of the year the safety precautions in online banking were further improved in order to minimize the threat posed by data piracy.

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