



## ▶▶ Newsletter Turkey October 2016

Please find below our latest newsletter covering economic and political developments in Turkey. If you would like to see our previous newsletters since 2006, [please click here](#). Do not hesitate to [forward](#) our newsletter to interested persons.

Best regards,

FMConsulting Team

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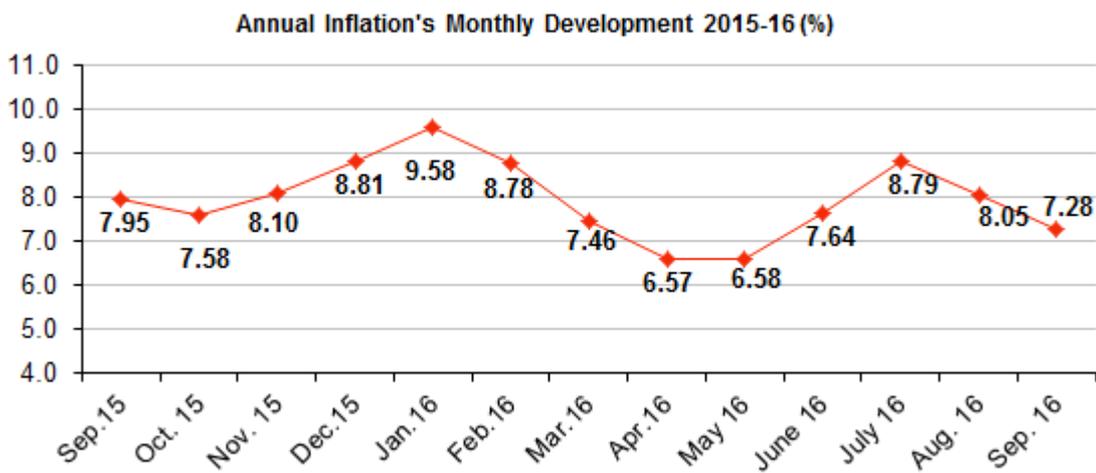
## ▶▶ Economy

### Overview of Monthly Data

Exchange Rates	31/08/2016	30/09/2016	Change in %
TRY per Euro	3.2970	3.3608	1.94%
TRY per USD	2.9597	3.0058	1.56%
Stock exchange index	75,967.63	76,488.38	0.69%

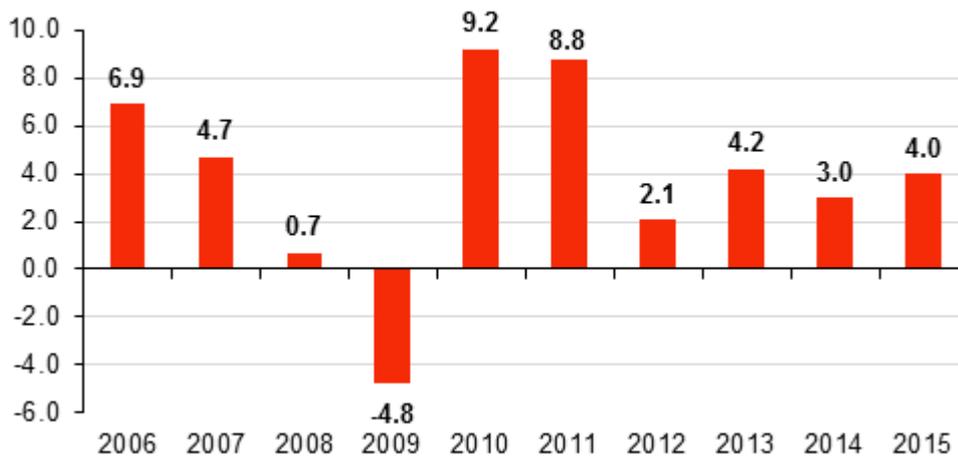
Inflation in %	Monthly inflation	Annual inflation
Domestic producer prices	0.29	1.78
Consumer prices	0.18	7.28

## Inflation



## Growth Rates

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
2005	8.5	7.7	7.6	9.8	8.4
2006	5.9	9.7	6.3	5.7	6.9
2007	8.1	3.8	3.2	4.2	4.7
2008	7.0	2.6	0.9	-7.0	0.7
2009	-14.7	-7.8	-2.8	5.9	-4.8
2010	12.6	10.4	5.3	9.3	9.2
2011	12.4	9.3	8.7	5.3	8.8
2012	3.1	2.7	1.5	1.3	2.1
2013	3.1	4.7	4.3	4.6	4.2
2014	5.2	2.4	1.8	3.0	3.0
2015	2.5	3.7	3.9	5.7	4.0
2016	4.7	3.1			



### Turkish economy continues to grow

In the second quarter of 2016, Turkey's GDP at constant prices increased by 3.1% compared with the same period of the previous year (YOY), and the GDP at current prices reached TRY 525.9 bn (USD 181.6 bn). The main contribution to the growth rate came from private and government consumption expenditures (5.2 points in total). The contributions of investment expenditures (-0.1 points) and foreign trade (-2.1 points) were negative. According to the production approach, the industry grew by 3.9%. The growth rates in the agriculture and service sectors were -1.0% and 3.6%, respectively. The Turkish economy has been in an uninterrupted positive growth trend for 27 quarters. The government's 2017-2019 Medium Term Programme stipulates a growth rate of 3.2% for 2016, and 4.4% for 2017. Meanwhile, Fitch has reviewed its 2016 growth forecast as 3.0%.

Sep. 9 – Oct. 4, 2016

### Inflation is decreasing

Consumer prices in Turkey increased by 0.18% over the previous month and 7.28% YOY. Accordingly, the increase in CPI-YOY has been in a downward trend for the last two months. The highest monthly increases were observed in transportation (2.70%), education (1.98%), and hotels, cafés and restaurants (0.67%). The decreasing items were clothing and footwear (-3.49%), food and non-alcoholic beverages (-0.70%), and recreation and culture (-0.43%). The increase in the domestic producer price index (D-PPI) YOY also continued its downward trend and was 1.78% in September. The rate of monthly change in D-PPI was recorded as 0.29%.

Oct. 3, 2016

### Unemployment rate was 10.2% in June

In June, 3.127 million people in Turkey aged 15 and older were out of work, 247,000 more than in the same month of 2015. The unemployment rate was 10.2% with a 0.6 point increase YOY. The youth unemployment rate in the 15-24 age bracket amounted to 19.4%. The labour force participation rate stood at 52.4%, but only 33.0% for females. Of those with employment in this period, 53.1% were employed in the services sector, 20.2% in agriculture, 19.3% in industry, and 7.5% in construction.

Sep. 19, 2016

### **Foreign trade deficit shrinks by 5.3% in August**

In August, Turkey's exports and imports increased by 7.7% and 3.7%, respectively, YOY. With exports increasing to USD 11,867 mn and imports to USD 16,554 mn, the trade deficit shrank by 5.3%, down to USD 4,687 mn. The main partner for exports was Germany (USD 1,193 mn), followed by the UK (USD 921 mn), Iraq (USD 708 mn), and the USA (USD 606 mn), whereas the top country Turkey's imports came from was China (USD 2,531 mn), followed by Germany (USD 1,738 mn), Russia (USD 1,378 mn), and Italy (USD 823 mn).

Sep. 30, 2016

### **New investment incentives for special projects and eastern provinces**

A new project-based incentive package has been introduced through the Law No. 6745, published on Sep. 7. Main instruments to support eligible projects shall include corporate tax exemption up to 100%, investment contribution rate up to 200%, income tax withholding support, customs duty exemption, free land allocation, social security premium support, energy expenditures support, loan interest support, salary support for qualified employees, state partnership up to 49% and purchase guarantee for the products. In addition to this, Prime Minister Yildirim announced another incentive package of TRY 140 bn, which is designated specifically to support the development of the country's eastern provinces.

Sep. 5-8, 2016

### **Income distribution worsens**

In 2015, the share of the richest 20% in Turkey increased to 46.5%. up from 45.9%, whereas the share of the poorest 20% decreased to 6.1%, down from 6.2%. At the same time, the country's Gini coefficient increased by 0.006 points to 0.397. 14.7% of the population live below the poverty line.

Sep. 21, 2016

### **Central Bank announced new interest rates**

The Central Bank of the Republic of Turkey reduced the overnight lending rate by 25 points, down to 8.25%, but kept the one-week repo rate (policy rate) at 7.5%.

Sep. 23, 2016

### **Moody's cuts Turkey's rating**

Moody's has cut the Turkish government's long-term credit rating to non-investment grade Ba1 from Baa3, stating concerns about external financing, a decreasing growth rate, and the rule of law. Nevertheless, the agency kept the outlook as "stable" thanks to the large size of the economy and a strong fiscal discipline. As S&P had already cut the rate following the coup attempt, Fitch remains the only agency still keeping Turkey at investment grade.

Sep. 24, 2016

# Politics

## **State of emergency extended by three months**

The council of ministers has decided to extend the state of emergency for another three months, which allows them to issue statutory decrees which come into force before parliament's approval. The reason for the extension was stated to be facilitating the continuing fight against terrorist organisations, in particular against the purported armed terrorist organisation led by U.S.-based Islamist preacher Fethullah Gulen, and thus dubbed Fethullah Terror Organisation (FETO).

Oct. 3, 2016

## **Terrorist attack on the convoy of main opposition leader**

Opposition leader Kemal Kilicdaroglu has escaped unharmed a terrorist attack targeting his convoy near the city of Artvin, located in the northeast of Turkey. One soldier was killed and two soldiers were injured in the firefight. The PKK (Kurdistan Workers' Party) claimed responsibility for the attack but declared that the target had not been Kilicdaroglu, but rather the military vehicle in the convoy. Both Turkish President Recep Tayyip Erdogan and Prime Minister Binali Yildirim conveyed their sympathy to Kilicdaroglu.

Aug. 25-26, 2016

## **Prime Minister talks with opposition leaders**

Prime Minister Yildirim and opposition Republican People's Party (CHP) leader Kilicdaroglu have met and agreed to reach a consensus on the mini-constitutional amendment package as soon as possible. The leaders also discussed the latest situation in the FETO investigation and the military operations in Syria. Yildirim also spoke to Devlet Bahceli, the chairman of MHP (Nationalist Movement Party), on the phone.

Sep. 9, 2016

## **Erdogan blames EU in refugee crisis**

President Erdogan has claimed that the EU has not kept its promise to support Turkey in the refugee crisis. He said that Turkey had spent more than USD 12 bn but received only USD 512 mn in support from other countries. 3 million Syrian refugees currently live in Turkey.

Sep. 22, 2016

## Other Topics

### **Turkey opts for permanent summer time**

In order to benefit more from the daylight and increase energy saving, the Turkish government has decided to adopt permanent summer time, or Daylight Saving Time (DST). Accordingly, clocks will not be set back on Oct. 30, when most countries in the northern hemisphere shift back to normal time for the winter, so Turkey's time difference will then be 2 hours with continental Europe and three hours with the UK.

Sep. 9, 2016

### **New bridge on Bosphorus commissioned**

The third bridge on Bosphorus, named Yavuz Sultan Selim Bridge after the 16<sup>th</sup> century Ottoman ruler, has officially been put into operation. The opening ceremony was attended by President Erdogan and Prime Minister Yildirim, as well as top state officials from Bahrain, Bosnia and Herzegovina, Macedonia, the Turkish Republic of Northern Cyprus, Bulgaria, Pakistan, Serbia, and Georgia. The bridge is expected to relieve the heavy vehicle load traffic in Istanbul. The bridge toll was fixed as USD 3 + VAT for passenger cars. The state guaranteed the operators a daily passage of vehicles equivalent to 135,000 passenger cars.

Aug. 25-27, 2016

### **BSH to continue investing in Turkey**

Dr. Karsten Ottenberg, CEO of BSH Home Appliances Group, stated that despite the recent political developments, BSH will not change its investment plans in Turkey, which is the largest global production centre of the company that manages operations in 89 countries and hosts two R&D centres. BSH has invested EUR 1 bn in Turkey since 2005 and generates an annual turnover of EUR 1.6 bn here.

Sep. 7, 2016

### **Turkey ranks 18<sup>th</sup> among automotive exporters**

Turkey is one of the top 20 automotive exporters in the world according to the 2015 statistics of the International Trade Centre. Germany is the top country in the list with a volume of USD 241.4 bn and an 18.4% share in the world, whereas Turkey ranks 18th with USD 17.5 bn and 1.3%. 75.4% of Turkish exports were destined to the EU countries according to the Turkish Statistical Institute, with France being the main destination of passenger car exports.

Sep. 30, 2016

## Other Headlines

- All assets of the owners of Dumankaya Construction Group have been seized due to allegations of providing financial support to FETO. Aug. 25, 2016
- Enerjisa, one of the largest private energy companies in Turkey with an expected turnover of TRY 12.5 bn in 2016, announced a TRY 4.5 bn investment in its local electricity distribution subsidiaries until 2020. Aug. 29, 2016
- Russia has lifted its ban on charter flights to Turkey. Aug. 29, 2016
- A consortium of six Turkish banks lent EUR 1.02 bn for the Galataport project, which will be a centre of tourism, culture and commerce to be built on an 112,000 sqm open area on the shore of the Bosphorus. Sep. 1, 2016
- Yildiz Holding announced to make a TRY 5 bn investment in its biscuit, chocolate and cake plants in Turkey until 2021. Sep. 5, 2016
- Korea Development Bank pledged to fund EUR 100 mn for Samsung's health campus project in the southeastern city of Gaziantep. Sep. 7, 2016
- Heinz-Jurgen Löw, member of the executive board of MAN, stated that MAN's presence in Ankara is a tradition and the company will continue its investments here. MAN Turkey is targeting a production volume of 1,800 units in 2016, 1,650 of which are to be exported. Sep. 26, 2016
- The number of foreign tourists coming to Turkey decreased by 38% in August YOY, down to 3.2 million. Sep. 30, 2016

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**FOREIGN MARKET CONSULTING Ltd. Sti.** is a German-Turkish consulting company located in Istanbul. Our wide range of services give our clients the option of having a single local service partner in Turkey. If you need further information, please do not hesitate to contact Mr. Peter Heidinger.

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