



▶▶ Newsletter Turkey February 2017

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

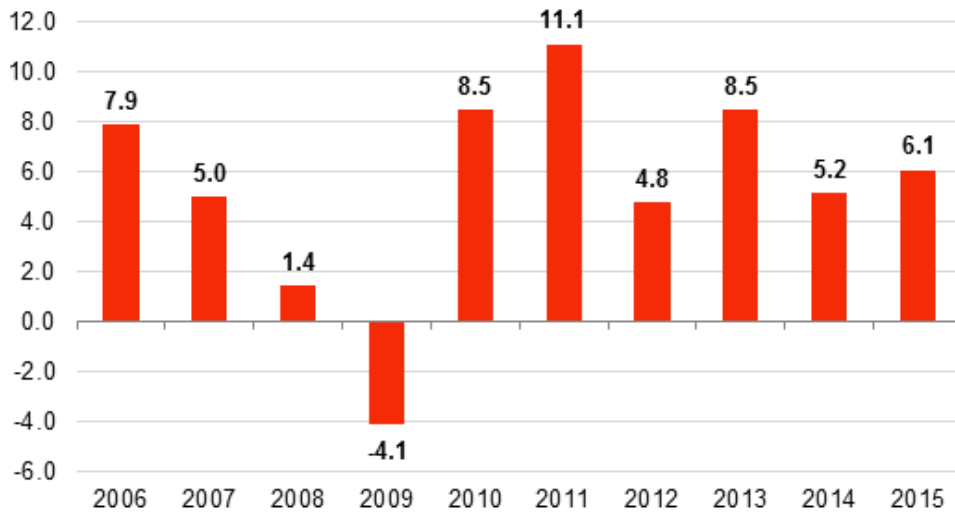
Exchange Rates	30/12/2016	31/01/2017	Change in %
TRY per Euro	3.7166	4.0632	9.33%
TRY per USD	3.5255	3.7942	7.62%

Stock Exchange Index	30/12/2016	31/01/2017	Change in %
BIST 100	78,138.66	86,295.72	10.44%

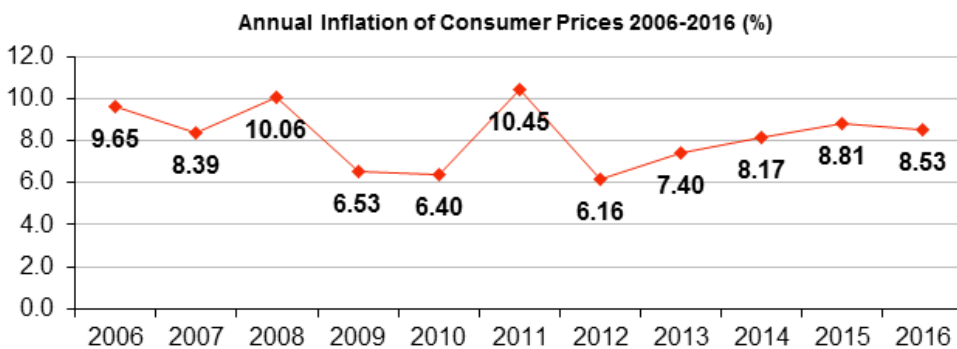
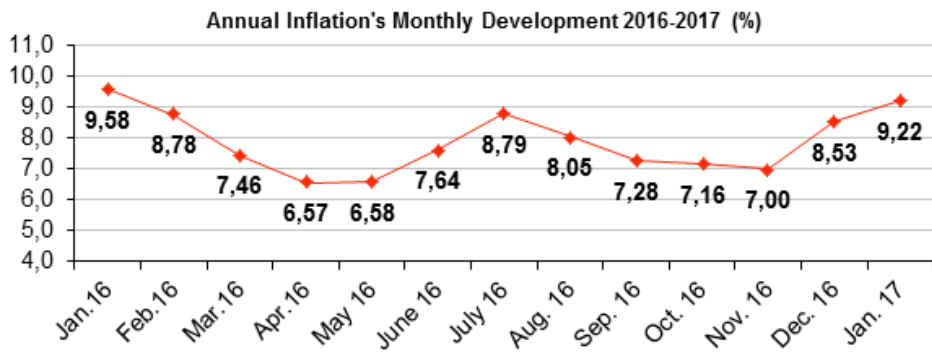
Inflation in %	Monthly inflation	Annual inflation
Domestic producer prices	3.98	13.69
Consumer prices	2.46	9.22

Growth Rates

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
2011	11.7	11.5	11.6	9.9	11.1
2012	6.8	5.0	3.6	4.2	4.8
2013	8.5	9.8	8.9	6.9	8.5
2014	8.7	2.9	3.7	5.9	5.2
2015	3.5	7.2	5.9	7.4	6.1
2016	4.5	4.5	-1.8		



Inflation



Inflation rises above expectations

In January, consumer prices in Turkey increased by 2.46% over the previous month, and by 9.22% over the same month of the previous year (YOY). The highest monthly increases were observed in food and non-alcoholic beverages (6.37%) and health (4.66%). The only decreasing item was clothing and footwear (-6.99%). The highest annual increase was in alcoholic beverages and tobacco (22.90%). The domestic producer price index (D-PPI) drastically increased by 13.69% YOY and 3.98% monthly.

Feb. 3, 2017

11.8% unemployed in October

In October, 3.647 million people in Turkey aged 15 and older were out of work, 500,000 more than in the same month of 2016. The unemployment rate was 11.8% with a 1.3-point increase YOY. The youth unemployment rate in the 15-24 age bracket increased to 21.2%. The labour force participation rate rose to 52.4% in total and to 33.1% for females. Of those with employment in this period, 53.6% were employed in the services sector, 19.5% in agriculture, 19.4% in industry, and 7.6% in construction.

Jan. 16, 2017

Foreign trade deficit decreases by 10.3% in December

In December, Turkey's exports increased by 9.0% and imports increased by 2.3%, YOY. With exports increasing to USD 12.8 bn and imports increasing to USD 18.4 bn, the trade deficit decreased by 10.3%, down to USD 5.6 bn. Accordingly, the annual volume of exports decreased by 0.9% to USD 142.6 bn, imports decreased by 4.2% to USD 198.6 bn and the foreign trade deficit decreased by 11.7% to 56.0 bn. In December, the main partner for exports was Germany (USD 1.2 bn), followed by Iraq (USD 795 mn), the UK (USD 768 mn), and the UAE (USD 759 mn), whereas the top country Turkey's imports came from was China (USD 1.9 bn), followed by Germany (USD 1.8 bn), Russia (USD 1.4 bn), and Italy (USD 902 mn).

Jan. 31, 2017

Central Bank increases interest rates

The Central Bank of the Republic of Turkey has increased the overnight lending rate from 8.5% to 9.25% and the late liquidity window lending rate from 10.0% to 11.0%, whereas the one-week repo rate (policy rate) has been kept at 8.0%. The bank stated that there have been some recent indications of a partial recovery in the economic activity and the demand from the EU countries is supporting Turkish exports. Even though the domestic demand has weakened, the upside risks for the inflation have increased due to the excessive fluctuations in the exchange rate. Hence, the bank decided to strengthen the

monetary tightening.

Jan. 24, 2017

Fitch cuts Turkey's rating and S&P downgrades the outlook to negative

Rating agency Fitch has cut Turkey's Long-Term Foreign Currency Issuer Default Rating to non-investment grade BB+ due to political and security developments that have undermined economic performance and institutional independence, and kept the outlook as "stable". In addition to that, S&P has revised Turkey's outlook to negative because of policy makers' decreased ability to curb inflation and exchange rate pressures.

Jan. 27, 2017

Politics

Turkish parliament approves constitutional amendments

The constitutional amendment package planning a transformation of Turkey's political system into a presidential model has been approved by the Turkish Parliament with 339 votes in favour and 142 against. The amendments will now be put to referendum, expected to be held in April.

Jan. 21, 2017

UK Prime Minister visits Turkey

Theresa May, Prime Minister of the UK, has met with Turkish President Recep Tayyip Erdoğan and Prime Minister Binali Yıldırım. During the negotiations, a GBP 100 million agreement has been signed regarding the development of a Turkish warplane through a cooperation between the British defence and aerospace company BAE Systems and TUSAŞ/TAI - Turkish Aerospace Industries. In her speech, May underlined the importance of the rule of law and compliance with international human rights.

Jan. 28, 2017

Other Topics

Japanese logistics giant Yusen is to merge with Turkish İnci Logistics. Yusen started its operations in Turkey in 2012 and already acquired 32% stakes in İnci in 2014. The merger is expected to be completed in April 2017. Jan. 5, 2017

Brazilian BRF acquires 79.48% of Turkey's largest poultry producer Banvit. The value of the acquisition has been announced as TRY 915 mn. BRF stated that the acquisition would pave the way for their entry to the world's largest halal poultry market. Jan. 11, 2017

Iranian biotechnological pharmaceutical manufacturer CinnaGen has decided to make its first abroad investment in Çerkezköy, Turkey. The investment with an estimated cost of USD 30 mn shall start in 2017 and the production is expected to commence in 2018. The Çerkezköy plant is to employ 100 people initially and make exports to 20 countries worldwide. Jan. 18, 2017

Oracle has decided to establish three data centres in Turkey in 2017. Loic Le Guisquet, Oracle's EMEA and Asia Pacific President, stated that Turkey is an important market for Oracle, and that through the new data centres, Turkish clients will have the opportunity to accelerate their digital transformation. These investments are planned to expand Oracle's cloud platform in the region. Jan. 19, 2017

Indian Mahindra & Mahindra, the world's largest tractor manufacturer, has acquired 75.1% of the leading Turkish agricultural machinery manufacturer Hisarlar. Rajesh Jejurikar, President and Chief Executive, Farm Equipment & Two Wheelers, stated that the partnership will help the company to expand its footprint in Turkey and Europe, making the entity a global manufacturing hub. Mahindra & Mahindra announced that it will invest TRY 71 million in Hisarlar. Jan. 23, 2017

BKM (Interbank Card Centre) has announced that the volume of expenditures by cards has increased by 12% in 2016 up to TRY 587 billion. The leading items in card expenditures and their respective shares have been retail/food (26.4%), gasoline/fuel (8.7%), and clothing (8.2%). Turkey is the largest card market in Europe with 176 million cards in 2016, 3% higher than in 2015. BKM expects a 12-15% growth in card expenditures in 2017. Jan. 25, 2017

1.3 million residences have been sold in Turkey in 2016, with a 4% increase compared to 2015, thanks to higher loan usage and low loan rates below 1%, as well as campaigns of building contractors. The main markets and their respective shares in housing sales were Istanbul (17.3%), Ankara (10.8%), and Izmir (6.1%). 34% of the sales were mortgaged sales. Jan. 25, 2017

Turkish-S. Korean consortium has won the tender to build and operate Çanakkale Bridge. The consortium, which is constituted by Turkish Limak and Yapı Merkezi and S. Korean SK and Daelim, has offered a project value of TRY 10.4 bn and 5.5 years of construction period. The project includes 101 km of highways and the longest suspension bridge in the world with 2,023 m of centre span. The bridge toll has been fixed as the equivalent of EUR 15 + VAT. Jan. 31, 2017

PwC Turkey has acquired Turkish management consultancy company Opsago, which is specialized in supply chain, sales operations and digitalization. This is PwC's first acquisition of a local company in Turkey. Jan. 31, 2017

Turkey's population as of 2016 year-end has been announced as 79.8 mn, increasing by 1.35%. The largest cities are Istanbul with (officially) 14.8 mn residents, Ankara with 5.3 mn, and Izmir with 4.2 mn. The median age is 31.4. Jan. 31, 2017

In 2016, Turkey's tourism revenues declined by 29.7% to USD 22.1 bn, and the number of foreign visitors by 24.6% to 31.4 mn. Average expenditure of foreign visitors per capita has been USD 705. The number of tourists visiting Istanbul has decreased drastically by 25.8% down to 9.2 million in 2016 as a result of the terror attacks, the coup attempt, and the political crisis with Russia in late 2015. The loss was even higher for the Antalya region with almost 5 million fewer tourists in 2016. Jan. 31, 2017

A new campaign to grant 20-year housing loans has been initiated by Emlak Konut Real Estate Investment Trust, a subsidiary of the Turkish Prime Ministry. The monthly interest rate would be 0.45% for 120-month payment plans, and 0.79% for 240-month plans. Also, some private companies have announced that they will offer the same conditions for some of their projects. The campaign will be valid through March 31. Jan. 31-Feb. 2, 2017

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