

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	31.08.2012	29.09.2012	Change in %
TL pro Euro	2.2860	2.3196	1.47
TL pro USD	1.8198	1.7933	-1.46

Stock exchange index	67.367,90	66.770,60	-0.89
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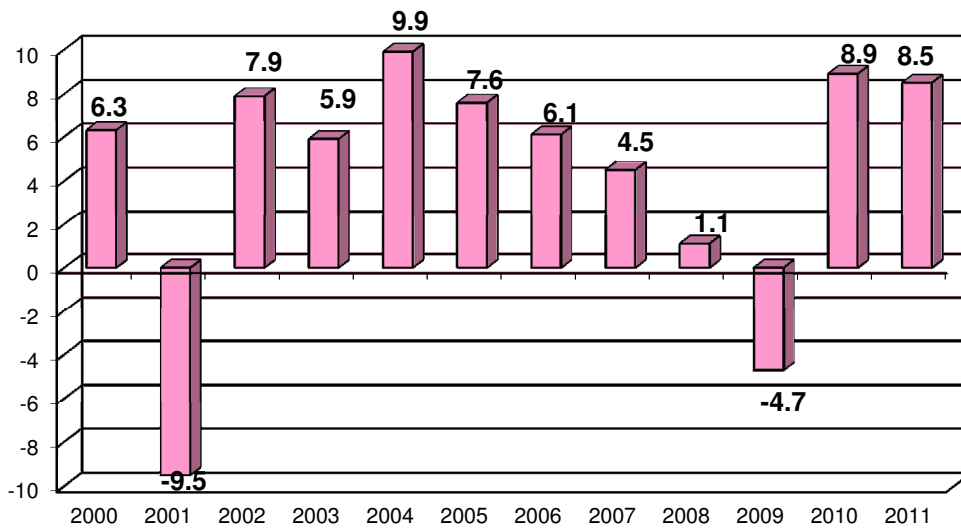
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.03	4.03
Consumer prices	1.03	9.19

### Growth Rates

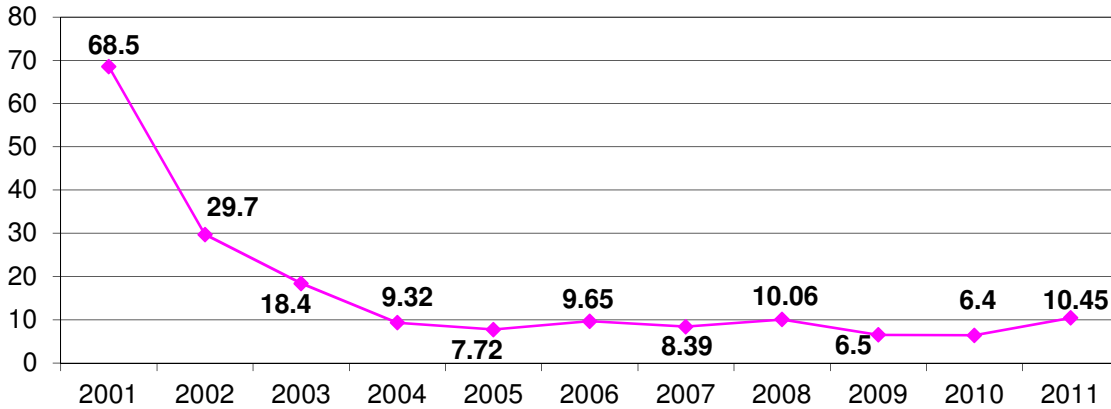
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5

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	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	5.2	8.5
2012	3.2	2.9			

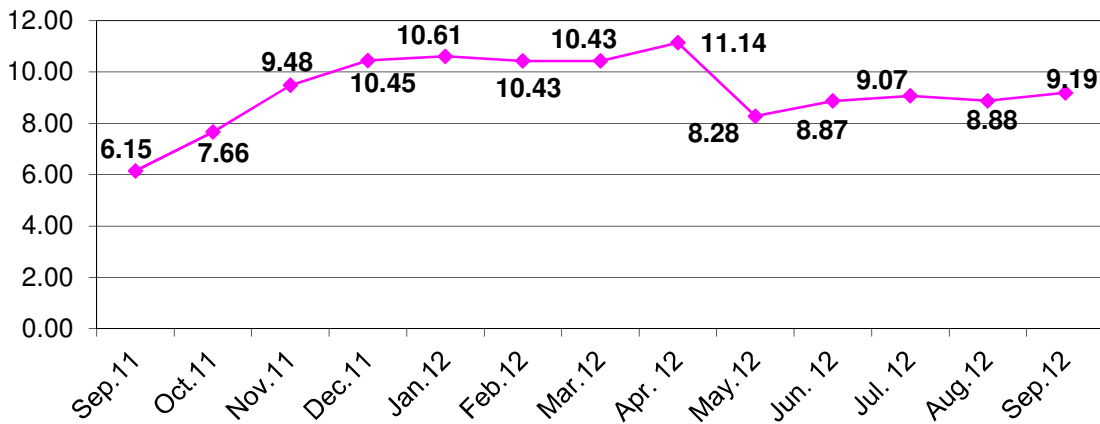
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



Annual Inflation's Monthly Development 2011-12 (%)



### Budget deficit climbing relentlessly

The deficit of Turkey's national budget has already exceeded TL8.5bn in the first 8 months of the year. One reason for this is that tax revenue, due to the tight economic situation, is much lower than expected, having increased by 7.5%, but in fact decreased by falling short of the inflation rate of 8.9%. Another reason is that manpower costs (+18.8%) and interest expenses (+14.2%) continued to rise. In the period January-August, public expenditure amounted to TL229bn (16.3% more than in the same period of the previous year), while revenues were just under 220.5bn TL (+10.8%). According to the Minister for Economic Affairs, Mehmet Simsek, the government is trying to counteract this situation with austerity measures in the public sector. Tax increases, he said, are still not on the agenda – ever heavier indirect taxation especially of energy sources, however, tells a different story.

(September 7/18, 2012)

### **Growth figures potentially misleading**

In the 2<sup>nd</sup> quarter of 2012, Turkey's gross domestic product in fixed prices has officially increased by 2.9%, and by 3.1% in the first half-year. But analysts have now calculated that there was actually negative growth, saying that while oil and gas shipments from Iran were paid in gold, the transaction was posted as exports. This also offers an explanation of why gold exports increased so implausibly in this period. Overall, foreign trade contributed 5.7 percentage points to growth, a 4.6% increase of total exports in the 2<sup>nd</sup> quarter combining with a decrease of 1.1% in imports. This means that the real GDP has shrunk by 2.8% in the 2<sup>nd</sup> quarter and by 2.1% in the first six months. In order to achieve real growth, domestic consumption would need to be stimulated, but to the contrary it decreased by 0.5% in the 2<sup>nd</sup> quarter.

(September 11, 2012)

### **Uncovered cheques an increasing problem**

As of the beginning of this year, cheque fraud is no longer a criminal offence in Turkey – since then, the number of bouncing cheques continues to rise conspicuously. According to the Turkish Central Bank 56.4% more incidents were reported between January and August than in the 2011 reference period. In the 8 months in question, a total 561,702 of “bad” cheques were written, up from 359,184 in the previous year. This is so worrisome because cheques play an enormously important role for business life in Turkey, since they are also used in particular for deferred payments.

(September 14, 2012)

### **Labour market continues to send positive signs**

Unemployment in Turkey has reached the lowest level in 11 years. The unemployment rate went down 8.0% in June, 1.2% less than a year before. This means that 2,226,000 people were registered as looking for work. Since calculations show that another 1,777,000 people were out work, the number of actual jobless now must be put at some 4 million, a rate of 13.5% (-1.6%). In urban areas, the unemployment rate dropped to 10.0% (-1.6%), in rural areas to 4.3% (-0.6%), and among youth to 15.7% (-2.3%). Out of the working population, 25.6% were employed in agriculture, 18.6% in industry, 7.5% in construction, and 48.2% in the service sector.

### **Development of unemployment in the last 18 months**

	Official unemployment		Actual joblessness	
	Number (1,000)	Rate (%)	Number (1,000)	Rate (%)
January '11	3,044	11.9	5,253	19.0
February '11	2,964	11.5	5,195	18.6
March '11	2,816	10.8	5,000	17.7
April '11	2,637	9.9	4,667	16.3
May '11	2,550	9.4	4,462	15.4
June '11	2,537	9.2	4,427	15.1
July '11	2,509	9.1	4,424	15.1
August '11	2,521	9.2	4,344	14.9
September '11	2,398	8.8	4,140	14.3
October '11	2,454	9.1	4,208	14.7

November '11	2,429	9.1	4,251	14.9
December '11	2,576	9.8	4,562	16.2
January '12	2,664	10.2	4,816	17.0
February '12	2,721	10.4	4,993	17.6
March '12	2,615	9.9	4,774	16.7
April '12	2,425	9.0	4,380	15.1
May '12	2,272	8.2	4,043	13.8
June '12	2,226	8.0	4,003	13.5

(September 18, 2012)

### Energy price hikes force up inflation

The recent price hikes of electricity and natural gas have met with severe criticism throughout Turkey's business community. It is feared, among other things, that this will cause inflation to directly increase by around one percentage point, and indirectly by up to two percentage points at the end of the year. The energy price hikes can be attributed to an increased tax component, which now is 18.0% for natural gas, 20.5% for electricity, and 69.0% for petrol. By raising those taxes, the government is obviously trying to balance the national budget. While inflation had dropped between May and July, it started to rise again in August, if only slightly (0.56% for consumer prices, and 0.26% for producer prices). On a yearly basis, the consumer price index increased by 8.88% and the producer price index by 4.56%, while on a 12-month average the increase amounted to 9.29% and 9.33%, respectively.

(September 4/October 2, 2012)

### Significantly higher exports in September

According to Turkish Exporters' Association TIM, Turkey's exports in September amounted to around US\$11.4bn, 7.4% more than in the same month of 2011. In the first nine months of the year, there was a total increase of 12.1% to almost US\$111.5bn. This puts the Turkish economy straight on course for its annual export target of US\$150bn. In September, the automotive industry reclaimed 1<sup>st</sup> place, with exports of over US\$1.5bn, but fell short 8.14% of its performance in the same month of the previous year. For the second-ranking chemical industry, it was quite different, it having been able to increase its export volume over 2011 by 21.83%. The ranking of the principal export countries (Germany ahead of Iraq and the UK) remained unchanged in September.

### Turkey Top 5 export sectors

<i>Rang</i>	<i>Sector</i>	<i>September 2011</i>	<i>September 2012</i>
1	Automotive	1,636,396	1,503,171
2	Chemical	1,221,971	1,488,785
3	Clothing	1,102,805	1,373,867
4	Steel	1,271,759	1,223,221
5	Electrics/Electronics	1,003,802	983,598
<i>Total exports (US\$1,000)</i>		<i>10.622.687</i>	<i>11,408,551</i>

(October 2/5, 2012)

## Politics

### **Blast in ammunition depot raises questions**

25 soldiers, most of them young conscripts, perished in a horrific blast in an army ammunition depot near the city of Afyonkarahisar in Central Anatolia. Considering that there has been an increasing incidence of attacks on military installations recently, the possibility of sabotage by extremist groups was not ruled out at first. This suspicion was also initially voiced by the chairman of main opposition party CHP. In the course of the investigation, however, the probability that it was an accident, caused by negligence and a breach of rules, became almost a certainty. Four officers in charge have already been transferred to other places for disciplinary reasons by order of the General Staff.

(September 7/9, 2012)

### **Normalisation of relations with Israel a long way off**

Ever since the bloody raid by Israeli naval commandos on a Turkish ship belonging to the Gaza Flotilla in May 2010, relations between Turkey and Israel have been rather tense. At a press conference on the occasion of a visit by Ukrainian President Viktor Yanukovych, Turkish Prime Minister Recep Tayyip Erdogan once again spelled out his government's terms: First, an official apology, second, compensation payments, and third, the lifting of the embargo against Palestine. Turkey, he said, is only willing to re-enter into negotiations – as suggested by third countries offering to act as mediators - when all three of these terms are guaranteed. Israel on its part does not see any reason to apologize for its actions, which in its eyes were legitimate.

(September 14, 2012)

### **Turkish retaliatory strike against Syria**

After Syrian artillery had again fired shots on the border town of Akcakale in Sanliurfa province, claiming the lives of five civilians – two women and three children – the Turkish Armed Forces felt compelled to retaliate. They responded by shelling Syrian army positions, with 14 soldiers reported killed. However, there does not seem to be any real danger of war between the two countries, which used to be on friendly terms up until a short time ago. While the majority of the Turkish parliament passed a resolution allowing the deployment of troops abroad for a limited period of 1 year, Prime Minister Erdogan immediately made it clear that while Turkey is going to repulse any attacks, it has no intention whatsoever to start a war. Meanwhile, leading names of the Turkish business community called on the politicians to let reason prevail. They all agreed that an armed conflict with its neighbour is not in Turkey's best interest.

(October 4/5, 2012)

## Other Topics

### **Banking sector grows 5-fold in past decade**

Total assets of Turkey's banks have risen five-fold since December 2002. In the last 12 months alone, they increased by 10.8% to now over 1.2 trillion Turkish Lira. While bank deposits quadrupled in the last 10 years, the volume of granted loans even increased 12-fold. Loans now

account for 98.6% of deposits, while 10 years ago it was only 39.6%. Although since then the number of banks has dropped from 54 to 44, almost 50% more people (more than 183,000, up from then 123,000) are employed in banking now. The banks continue to make hefty profits – 13.4bn TL net profit in the first 7 months of the year spell an increase of 12.1% over the same period of 2011.

(September 10/11, 2012)

### **Crisis in Syria makes Turkish Investors lose millions**

Investors from Turkey are severely affected by the civil war-like conditions in Syria. Güris Holding was forced to shut down its cement plants, and totals investments of €285mn are at risk. Akteks company had no other choice but to cease operations of its two textile factories due to heavy clashes. The same is true for the noodle factory owned by investor Mehmet Salih, also hailing from Gaziantep, which additionally suffered damages of US\$5mn following rocket fire from government troops. Dedeman Holding was forced to retreat from operating its hotels in Aleppo, Damascus and Palmyra. Data are available for the first 5 months of the year, according to which Turkey's exports to Syria have dropped by 62%, and imports from Syria even by 88%. The number of vehicles passing through the 6 border crossings between the two countries has diminished by 71%.

(September 13, 2012)

### **Alkim invests in a promising future**

Turkish chemical company Alkim Kimya is set to become the world's fifth-largest producer of sodium sulfate by the end of the year when its new facility in Cayirhan (Ankara province) has reached its full annual capacity of 150,000 tons. Combined with the existing Alkim plants in Konya and Afyon, the annual output of refined sodium sulfate will then increase to 410,000 tons. For this purpose, the company has invested roughly €22mn since June 2010, taking out a €9mn loan with the European Investment Bank for the first time ever. This appears an investment in a promising future because there are 195 million tons of proven glauberite reserves in Cayirhan, the base mineral from which some 65 million tons of pure sodium sulfate can be obtained. This chemical is used e.g. in detergent production as well as in the paper, glass and textile industry. Alkim exports 20% of its production to countries in the region, such as Bulgaria, Romania, Greece, Lebanon, Egypt, and Israel.

(September 13, 2012)

### **Exports of white goods “made in Turkey” on the rise**

In the first 8 months of the year, Turkey's production of washing machines, refrigerators, dish washers and the like increased by 7.5% over the same period of the previous year, from around 13.1 to 14.1 million units. At the same time exports increased by 13.4%: Between January and August 2012 some 10.3 million household appliances manufactured in Turkey were sold abroad. Domestic sales decreased by 1% to 4,282,000 units in the same period, and 606,000 devices (+0.4%) were imported.

(September 24, 2012)

### **Parts of Turkey's economy firmly in foreign hands**

According to a study by the State Statistical Institute, foreign companies now control 15.4% of

Turkey's economy, which does not include the banking, insurance, and media sectors. Foreign companies are particularly operating in the manufacturing industry (56.4%), with the wholesale and retail trade trailing in second place (14.3%). There are two branches of industry with a majority of foreign companies – 51% in the pharmaceutical sector and even 90.4% in the tobacco industry. In a total of 9 industries the share of foreign companies exceeds 30%; coming close to 50% in the automotive, telecommunications and computer industry, but also in the banking, sector. With 17.1%, Germany holds the largest share in the foreign-controlled portion of Turkey's economy, followed by the United States with 14.9%, and France with around 13%.  
(September 24, 2012)

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