



F M C O N S U L T I N G

▶▶ Newsletter Turkey April 2015

Please find below our latest newsletter covering economic and political developments in Turkey. Do not hesitate to forward our newsletter to interested persons.

Best regards,

FMConsulting Team

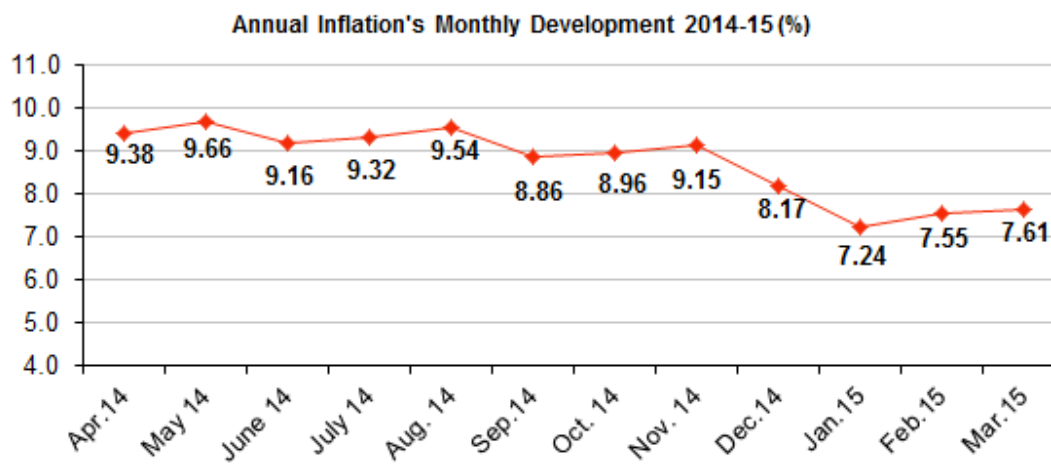
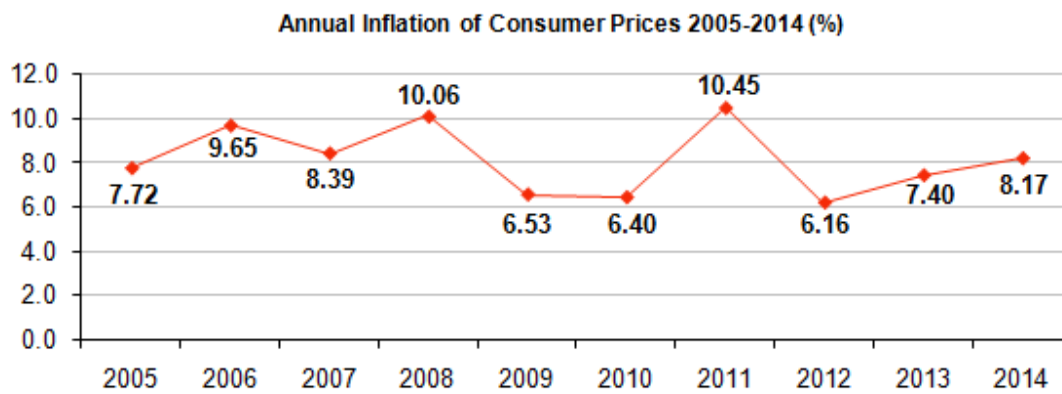
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▶▶ Economy

Overview of Monthly Data

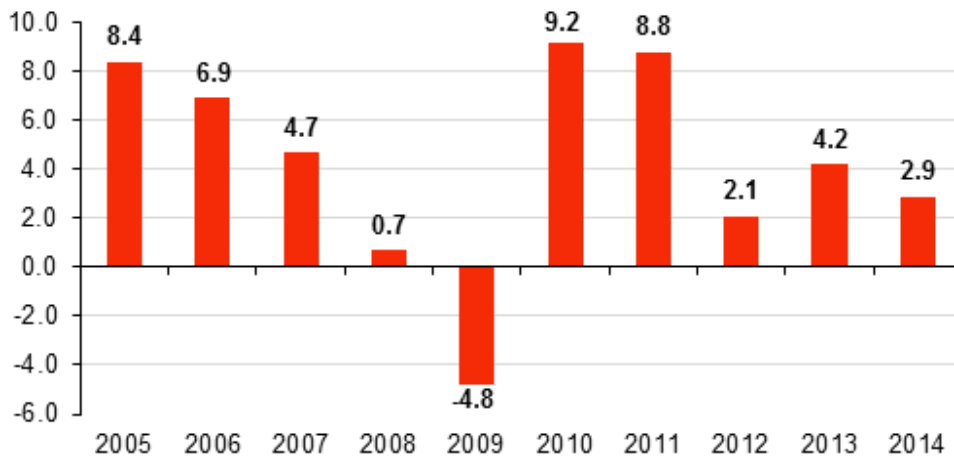
| TL-Rates | 27.02.2015 | 31.03.2015 | Change in % |
|----------------------|------------|------------|-------------|
| TL per Euro | 2.8198 | 2.8125 | -0.26 |
| TL per USD | 2.5123 | 2.6181 | 4.21 |
| Stock exchange index | 84,147.50 | 80,846.00 | -3.92 |

| Inflation in % | Monthly inflation | Annual inflation |
|-----------------|-------------------|------------------|
| Producer prices | 1.05 | 3.41 |
| Consumer prices | 1.19 | 7.61 |



Growth Rates

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Annual |
|------|-------------|-------------|-------------|-------------|--------|
| 2004 | 10.0 | 11.9 | 8.1 | 8.0 | 9.4 |
| 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 | 4.9 | 2.3 | 1.9 | 2.6 | 2.9 |



Growth of Turkish economy in 2014 short of target

According to the latest data, Turkey's GDP has grown by 2.6% in the 4th quarter of 2014, and by 2.9% in the entire year on a TL basis, which means that not even the revised target of the government has been achieved: The growth target for 2014 as stated in the Medium-Term Economic Programme (OVP) had been corrected down to 3.3% from an initial 4.0%. Still, the expectations of banks and analysts, which were between 2.5% and 2.7%, were slightly surpassed. On a US dollar basis, however, the Turkish economy contracted 2.8%. As a result, the per capita income, which was USD 10,822 in 2013, has dropped to USD 10,404 (22,753 TL), clearly short of the OVP target of USD 10,537.

March 31, 2015

Exports decline 13% in February

The Turkish Exporters' Assembly TIM has reported that Turkey's exports have dropped to USD 10 billion 495 million in February, marking a decline of 13% over the same month of the previous year. In the first two months of the year, the export volume totalled USD 22 billion 826 million, 6.7% less than in January and February 2014 together. As cause of the decrease, TIM President Mehmet Buyukeksi named the unfavourable weather conditions with heavy snowfalls, but even more so the increased value of the US dollar against the Euro. Turkey's exports to the EU countries alone decreased by USD 900 million (-11.2%), while exports to the USA increased by 16.5%. In the words of Buyukeksi, the export industry seeks to recover from the 2nd or 3rd quarter onward, but this also depends on the interest rate policy of the Central Bank. In order to stimulate the real economy, a near-term reduction of the base rate by at least 1 point is needed, he said.

March 2, 2015

Slight increase in inflation

As per the Turkish Statistical Institute (TurkStat), consumer prices in Turkey increased 0.71% in February compared to the month before and 7.55% over the same month of the previous year. Following the decrease in January, this again marks a slightly increasing tendency. It also increases pressure on the Central Bank to reduce the interest base rate. In terms of product groups, food and non-alcoholic beverages experienced the highest price rise, with 2.59%. 9 of 10 products whose prices increased the most in February were agricultural products, headed by tangerines (+28.22%), bell peppers (+27.72%), and aubergines (+20.67%). Despite the fall in oil prices, the petrol price also increased by 4.83%. While the Domestic Producer Price Index gained 1.2% on a monthly basis, the increment over same month of the previous year was only 3.10%.

March 4, 2015

Measures of Central Bank prove less than successful

The steps taken by the Turkish Central Bank (CB) in order to counteract the deterioration of the Turkish Lira have so far not brought the desired success. The CB had intervened 5 times since December 2014, most recently by reducing the interest rate for foreign exchange depots with one-week maturity, hoping to improve liquidity and to stifle demand. Nevertheless it did not succeed in effectively slowing down the collapse of the national currency against the US-Dollar and Euro. Meanwhile the President of Entrepreneurs Association TUSIAD, Cansan Basaran Symes, cautioned that interferences with the independence of the CB are bound to restrict the effectiveness of the monetary policy. Therefore efforts to assign economic policy tasks to the CB are counterproductive, she said. Also, explaining the depreciation of the Lira only with global developments would be taking the easy way out. Instead, structural reforms and better coordination of the economic policy are required.

March 10/13, 2015

Current account deficit drops to USD 2 billion in January

According to the CB, the current account deficit of the Turkish economy has fallen to USD 2.0 billion in January, decreasing by USD 2.98 billion as compared to the same month of the previous year. This was mainly due to the decline in imports by USD 2.56 billion, combined with a slight increase in exports. A significant contribution was also made by the increase in foreign direct investments, from USD 458 million to USD 1.79 billion. The current account deficit on a yearly basis as calculated in January has dropped by USD 19.29 billion over the same month of the previous year, from USD 62.16 billion to USD 42.87 billion.

March 12, 2015

Preparations for government employment programme completed

Turkish Labour and Social Affairs Minister Faruk Celik has announced that the government's employment programme drawn up in the responsibility of his Ministry will shortly be presented by Prime Minister Davutoglu. The programme, which contains employment as well as investment incentives, aims at streamlining and simplifying the regulations to ensure easier practical applicability. The controversial new regulation regarding severance pay, he said, is more advantageous to employees than before, despite being perceived otherwise by the trade unions. Celik also stated that 120,000 unemployed people have already been enrolled in a 6-month job-creation scheme sponsored by the labour administration through which millions of trees are being planted in Anatolia and subsequently cared for.

March 12, 2015

Almost 11 percent unemployed in December

The trend of growing joblessness, which had continued since June, persisted also in the last month of 2014. The official unemployment rate yet increased by 0.2% to reach 10.9%, 1 percent over the annual average of 9.9%. At 12.6%, the jobless rate for women was 2.4% higher than for men, while unemployment among youth between the ages of 15 and 24 even climbed to 20.2%. The number of unemployed people increased to 3,145,000, 355,000 more than in the same month of the previous year. Particularly hit by joblessness was the service industry with a share of 45.4% in total unemployment against 19.3% in the manufacturing industry, 16.1% in the construction sector, and 6.9% in agriculture. According to the statistics, 11.3% of university graduates but only 7.1% of illiterate people were out of work and looking for a job.

March 17, 2015

Politics

Relations with Turkmenistan to be further intensified

During an official visit by the President of Turkmenistan, Gurbanguly Berdimuhamedow, several agreements between the two states were signed in presidential palace in Ankara. In a joint press conference Turkish President Recep Tayyip Erdogan, stated that Turkey's cooperation with Turkmenistan has reached a strategic dimension, especially in the fields of transportation and energy, and that it will be further expanded in all areas. He voiced his satisfaction that the bilateral trade with the petrol- and gas-rich country has increased by 26% in the past year, saying that to this day contracts worth USD 46 billion have been awarded to Turkish construction companies. Both countries share the vision for Turkmen natural gas to be transported to Europe over Turkey.

March 4, 2015

Construction on the “Silk Road of Energy” begins

Turkey's President Erdogan and his Azerbaijani and Georgian counterparts, Ilham Aliyev and Giorgi Margvelashvili, have laid the foundation for the Trans-Anatolian Pipeline (TANAP) in Selim (province of Kars) in the far east of Turkey. The natural gas pipeline will lead 1850 kilometres from the Georgian border across the entire Turkish territory up to the border with Greece near Ipsala, where it joins the Trans Adriatic Pipeline (TAP), which is to transport 10–20 billion cubic metres of gas per year to Western Europe. But Turkey is not only a transit country for the gas, it also secures its own supply through this pipeline. The natural gas comes from Section 2 of Shah Deniz, Azerbaijan's largest gas field. Completion of the pipeline, most of which is to be built by Turkish and Azerbaijani construction companies and with pipes of which 80% are manufactured in Turkey, is scheduled for 2018.

March 18, 2015

100th anniversary of the successful defence of the Dardanelles

The 100th anniversary of what is known as the “Victory at Sea in Canakkale” on March 18, 1915 has been commemorated with ceremonies throughout Turkey. On that day, a British-French fleet returning from an attack was destroyed at the mouth of the Dardanelles by a minefield laid by the Turkish Navy, assisted by the Germans. This event forced the Entente powers to give up their plans of reaching Constantinople (Istanbul) by sea in order to invade the weakening Ottoman Empire, consequently leading to the legendary Battle of Gallipoli (Gelibolu) with heavy losses suffered on both sides. The celebrations on this year's “Day of the Martyrs” were held in Canakkale with great participation of the population and in the presence of Prime Minister Ahmet Davutoglu. The Turkish parliament in Ankara assembled for a special session to commemorate the significance of this day for the independence and freedom of Turkey.

March 19, 2015

Erdogan: Turkey needs system change to achieve higher national income

Turkish President Erdogan has again spoken out vehemently in favour of the presidential system. Before leaving for an official visit to Slovenia he proclaimed: “The parliamentary system is now effectively obstructing us. We must henceforth lift ourselves to the level of modern civilizations by overcoming this period of treading water and making a leap forward“. Erdogan argued that this is the only way of warranting stability and being able to achieve the aim of USD 1 trillion GDP in the year 2023. He said that a system change is also needed to look ahead to, as he put it, “USD 2, 3, 4 trillion” with a view to the year 2053. Turkey should model itself on the economically most successful countries of the world with a per capita income of USD 40,000, 50,000, 60,000,

Erdogan continued. The election manifesto of ruling AKP party, which supposedly was written by Premier Ahmet Davutoglu himself, also contains the demand for a presidential system.

March 31, 2015

▶▶ Other topics

Syrians make up one quarter of foreign company founders in Istanbul 2014

By account of the Istanbul Chamber of Commerce (ITO), 4,487 foreign nationals have founded a company in the Turkish metropolis last year, bringing in a total capital of 1 billion 222 million TL. With 1,131 company founders (25.21%), Syrian nationals were the largest group numerically, followed by 399 Iranians and 289 Germans. However, 39 investors from Luxembourg accounted for the highest share in brought-in capital (14.90%) with TRY 182.1 million; with investors from China (TRY 138 million), Italy (TRY 123 million) and Kuwait (TRY 116.1 million) occupying ranks 2–4. 30.15% of the foreign company founders invested in the service industry, 15.82% in trade businesses of all kinds, and 14.82% in the construction sector.

March 16, 2015

Record increase in supply of Class A office space

The market for prime office space in Turkey is currently growing at a record pace, faster than in European countries. This is the unanimous result of detailed reports by 3 different international real estate companies. According to analyses, the stock of Class A office space in Istanbul has increased by 680,000 sqm in the past year to reach 4.1 million sqm. Following completion of the current construction projects, this number is said to increase to over 5 million sqm by the end of this year, and 6.5 million sqm by the end of 2017. The premium net rents held steady at EUR 35/sqm in 2014, and it can be expected that this trend will continue this year and beyond.

March 16, 2015

Bombardier wants to have share in expansion of Turkey's railway system

Berlin-headquartered rail vehicle manufacturer Bombardier Transportation intends to get increasingly involved in the growth market that is Turkey. In particular, the aim is to make a bid in the tender of Turkish State Railways TCDD for the delivery of 80 high-speed trains. Since for this project a domestic share of 50% is mandatory, the company is going to cooperate with a competent Turkish partner whose name has not been disclosed for strategic reasons. For this purpose, investments of over € 100 million are planned in order to set up a manufacturing base in Turkey, with the required plot already having been procured. Bombardier also wants to gain a

foothold in the field of light rail vehicles in Turkey: At the Eurasia Rail 2015 fair in Istanbul, the company recently presented its new metro car C30 MOVIA.

March 16, 2015

Citibank: Foreign investors recognise Turkey's long-term potential

Citibank's Country Director in Turkey, Serra Akcaoglu, is confident that international investors will continue to be extremely interested to get involved in this country. She said that she arrived at this conclusion in countless conversations with foreign CEOs and CFOs, who acknowledge the medium- and long-term potential regardless of any short-term volatility. There are three factors in favour of Turkey, Akcaoglu concluded: its geopolitical situation, a qualified workforce and a young population as well as the wide range of its economic activities, spanning from the automotive industry to tourism and agriculture. She also pointed out to forecasts according to which 80 percent of the world trade will shift to the emerging and developing countries by the year 2050.

March 18, 2015

Plans for Turkey's biggest industrial zone begin to take shape

In the next few years, what is to become by far Turkey's biggest contiguous industrial zone will be established between the cities of Canakkale and Bandirma on the southern shore of the Sea of Marmara. A 1:100.000 scale regional development plan to this effect has now been approved by the Ministry of the Environment. An area of 4.800 hectares has been earmarked for a general industrial zone, while 3.000 hectares shall accommodate a special industrial zone for large chemical enterprises. Investments of up to USD 15 billion are supposed to go into the latter project, dubbed Chemport, which also comprises a new large-scale port. Planning is already in progress for the construction of additional power plants, with large coal reserves available in the hinterland. Several major industrial companies have by now secured plots about 800 hectares in size. On the other hand, environmentalists and conservationists have voiced severe criticism of the project.

March 24, 2015

Working mothers to be granted more legal rights

The draft law termed "family package", which has now been submitted to parliament following consultation in the relevant committee, is mainly intended to improve the situation of working mothers. After giving birth, they will by law be entitled to part-time employment and flexible working hours until their children are required to attend school. Also, additional funding shall be provided for nursery schools and day care centres. Furthermore the position of private employment agencies was strengthened by allowing them to hire temporary workers for a period of up to 6 months. At the

same time it is being reported that according to TurkStat, around 155,000 or 13.6% of all businesses with some 330,000 employees were not officially registered at the end of 2014. It is said that this costs the state at least TRY 2 billion in revenue every year.

March 27, 2015

Other Headlines

- Net sales of the world's third-largest glass producer, Turkish Sisecam Group, have increased by 15% in 2014 to reach some TRY 6.9 billion, with a net profit of TRY 420 million, while the company's exports reached a share of 52% (USD 837 million) of total revenue, thereby exceeding domestic sales for the first time ever. March 5, 2015
- The first 10 domestically manufactured "trambus" trolley busses have been put into service by the Malatya Municipality. The eco-friendly electrically powered vehicles, which save up to 75% of energy compared to conventional diesel busses, were developed and produced by the company Bozankaya in Ankara. March 12, 2015
- EPIAS, the company that will operate the future energy exchange at Borsa Istanbul, has been founded with a seed capital of approx. TRY 61.5 million. The electricity exchange already existing under the aegis of state-owned distribution company TEIAS with the name of PMUM will also be integrated there. March 18, 2015
- As of May 1, a law prohibiting companies on pain of penalty from sending e-mails or SMS for promotional purposes without prior consent of the addressees shall come into effect. The retail sector, which will be stripped of a major marketing instrument, fears a substantial decline in sales. March 23, 2015

▶▶ About us

FOREIGN MARKET CONSULTING Ltd. Sti. is a German-Turkish consulting company located in Istanbul. Our wide range of services gives 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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