



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

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Best regards,  
Your FMConsulting Team

## Economy

### Overview of Monthly Data

| YTL-Rates   | 31.08.2010 | 30.09.2010 | Change in % |
|-------------|------------|------------|-------------|
| TL pro Euro | 1.9371     | 1.9788     | 2.1527      |
| TL pro USD  | 1.5282     | 1.4504     | -5.0909     |

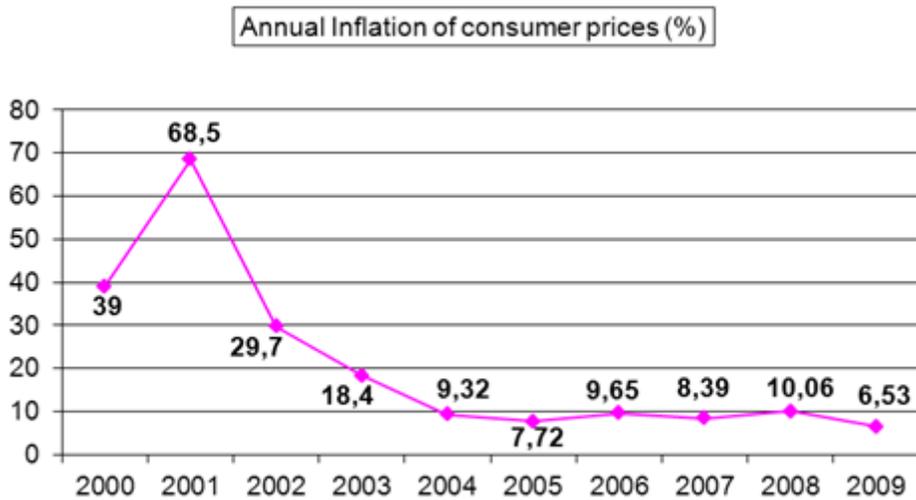
|                      |           |           |        |
|----------------------|-----------|-----------|--------|
| Stock exchange index | 59.345.93 | 64,289.57 | 8.3302 |
|----------------------|-----------|-----------|--------|

| Inflation in %  | Monthly inflation | Annual inflation |
|-----------------|-------------------|------------------|
| Producer prices | 0.51%             | 8.91%            |
| Consumer prices | 1.23%             | 9.24%            |

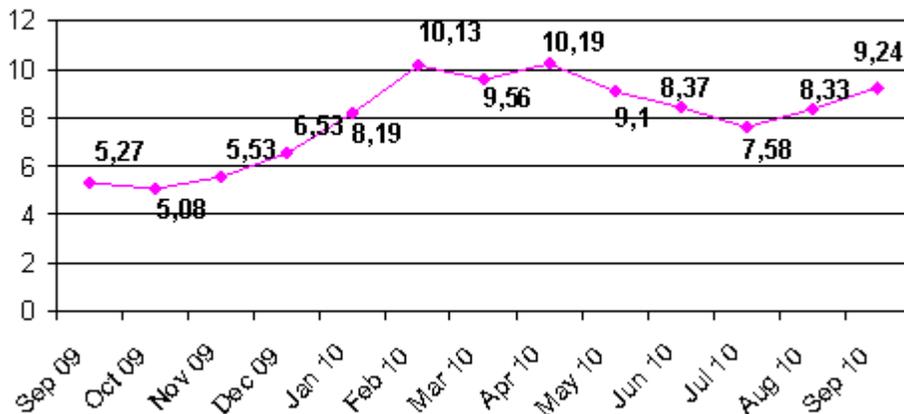
### Growth Rates

| 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 | 11,7  | 10,3  |      |       |      |



Annual Inflation's Monthly Development 2009-10 (%)



### Number of unemployed in Turkey drops below 3 million

As per Turkish Statistical Institute data, there has been a further drop in unemployment, with the number of registered unemployed decreasing by 536,000 to reach 2,846,000 in May. The country's unemployment rate improved to 11.0%, over 12.0% in April, surpassing even the pre-crisis level of 11.2% in October 2008. Provided that this trend continues as it has from the beginning of the year, the government's stated target may well be attained: to cut the unemployment rate to below 10% by the end of July. However, the actual jobless rate – which includes out-of-work people not registered as unemployed – tells a different story, even though it has eased off from 18.4% to 17.9%. While there was a substantial decline of 5.1 percentage points compared to the same month of the previous year, unemployment among youth continued to run high, at 19.8%. In urban areas this rate was still higher, reaching 23.2% (May 2009: 28.7%) against 12.8% (May 2009: 16.6%) in rural areas.

AUGUST-2010

### 10 million Turkish workers without social security

Turkey's jobless statistics also reveal the bitter truth that out of a working population of some 23 million, around 10 million are not state-insured (as of May 2010). This means that 43.6% of the labour force are employed in the realm of the shadow economy. While this share decreased by one percentage point as compared with the same month of the previous year, absolute numbers saw an increase: today there are 122,000 men and 368,000 women more working without social security coverage than a year ago. Female employees, freelancers, agricultural sector workers and unpaid family workers are much more likely to lack social security. The practice that those with no chance of employment in the regular labour market are classified as "unpaid family workers" makes the dimensions of unemployment in Turkey appear less severe than they actually are.

### Share of employees without social security of Turkey's total labour force

(May 2010, in 1,000 persons)

|  | Total labour | Without social | Share of |
|--|--------------|----------------|----------|
|  |              |                |          |

|                       | <b>force</b> | <b>security</b> | <b>employees w/o social scty. (%)</b> |
|-----------------------|--------------|-----------------|---------------------------------------|
| Total                 | 23,055       | 10,055          | 43.6                                  |
| Men                   | 16,373       | 6,121           | 37.4                                  |
| Women                 | 6,682        | 3,934           | 58.9                                  |
| Wage earners          | 13,998       | 3,652           | 26.1                                  |
| Businesspeople        | 1,225        | 311             | 25.4                                  |
| Freelancers           | 4,604        | 3,111           | 67.6                                  |
| Unpaid family workers | 3,228        | 2,911           | 92.3                                  |
| Agricultural          | 5,831        | 5,004           | 85.8                                  |
| Non-agricultural      | 17,224       | 5,051           | 29.3                                  |

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### Turkey's trade deficit reaches new annual high

Turkey's trade balance continued to deteriorate in July: While there was only a slight increase in exports, imports reached the highest level of the year so far. This caused the trade deficit to surge 69% over the same month of the previous year, or even 89.4% when considering the entire 7-month period. Germany remained Turkey's number one export partner, with a 23.3% increase to US\$1.065bn, followed by Great Britain with US\$623mn, Italy (US\$539mn), and Iraq (US\$519mn). The country's principal export items in July were motor vehicles (US\$1.201bn), machinery & equipment (US\$753mn), and garments & apparel (US\$715mn). The largest volume of imports was from the Russian Federation, with US\$1.721bn (+4%), Germany with US\$1.556bn, China (US\$1.445bn), and the United States (US\$978mn). The ranking of import items was led by mineral fuels & oils (US\$3.176bn), with machinery & equipment (US\$1.848bn), iron & steel (US\$1.2bn), and motor vehicles (US\$1.145bn) trailing behind.

### Turkey's foreign trade by sectors (mn)

| Sector                       | July 2010        |                 |             | January-July 2010 |                  |             |
|------------------------------|------------------|-----------------|-------------|-------------------|------------------|-------------|
|                              | 2009             | 2010            | Change (%)  | 2009              | 2010             | Change (%)  |
| <b>Exports</b>               | 9,056.2          | 9,596.8         | 6.0         | 56,778.2          | 64,406.8         | 13.4        |
| Agriculture & forestry       | 258.6            | 287.7           | 11.2        | 2,065.0           | 2,646.5          | 28.2        |
| Fishery                      | 10.7             | 10.1            | -6.0        | 113.6             | 86.1             | -24.2       |
| Mining & quarrying           | 172.6            | 255.9           | 48.3        | 770.7             | 1,510.9          | 96.0        |
| Manufacturing industry       | 8,568.6          | 8,986.4         | 4.9         | 53,590.4          | 59,768.5         | 11.5        |
| Others                       | 45.6             | 56.7            | 24.4        | 238.4             | 404.8            | 69.8        |
| <b>Imports</b>               | 12,852.6         | 16,013.3        | 24.6        | 75,219.0          | 99,337.3         | 32.1        |
| Agriculture & forestry       | 408.4            | 507.3           | 24.2        | 2,626.7           | 3,821.9          | 45.5        |
| Fishery                      | 2.7              | 2.6             | -4.7        | 16.5              | 20.7             | 25.5        |
| Mining & quarrying           | 1,646.1          | 2,096.1         | 27.3        | 11,616.5          | 13,740.6         | 18.3        |
| Manufacturing industry       | 10,383.1         | 12,927.9        | 24.5        | 58,611.2          | 77,782.8         | 32.7        |
| Others                       | 412.2            | 479.5           | 16.3        | 2,348.2           | 3,971.4          | 69.1        |
| <b>Foreign trade balance</b> | <b>-3,796.41</b> | <b>-6,416.5</b> | <b>69.0</b> | <b>-18,440.8</b>  | <b>-34,930.5</b> | <b>89.4</b> |

SEPTEMBER-2010

### **Decelerated growth of Turkish economy**

Turkey's GDP continued to grow in double digits also in the 2<sup>nd</sup> quarter of 2010. However, following the record set in the 1<sup>st</sup> quarter (11.7%), the speed of growth slowed down slightly to 10.3%. Although further deceleration of growth is expected for the 3<sup>rd</sup> and 4<sup>th</sup> quarters, growth forecasts for the full year 2010 have already been revised upwards from originally 3.5% to now 5-6%. This would bring Turkey's economy back to where it stood before the global crisis. The fastest-growing sector in the 2<sup>nd</sup> quarter of 2010 was the construction industry, while public sector spending also increased considerably.

### **Turkey's economic growth by quarters**

| Quarter | Growth rate |
|---------|-------------|
| 2/2010  | 10.3        |
| 1/2010  | 11.7        |
| 4/2009  | 6.0         |
| 3/2009  | -2.9        |
| 2/2009  | -7.7        |
| 1/2009  | -14.5       |
| 4/2008  | -6.2        |
| 3/2008  | 0.5         |
| 2/2008  | 1.9         |
| 1/2008  | 6.7         |

SEPTEMBER-2010

### **FDI slump continues**

In the first half of 2010, foreign direct investments in Turkey dropped 50% compared to the first half of 2009. The big investment wave of recent years that saw the FDI volume zoom up from US\$1.2bn in 2004 to US\$8.5bn in 2005, US\$17.6bn in 2006, and US\$19.1bn in 2007 has all but died down. While in 2008 the sum of investments had already receded to US\$14.7bn, a crash to US\$6bn followed in 2009, and this downward trend seems to continue this year. The European Union countries, which traditionally have the lion's share of investments in Turkey, having accounted for US\$2.826bn out of US\$3.245bn in the first half of 2009, now mustered US\$1.370bn out of US\$1.644bn. There were particularly sharp drops in investments from Italy (from US\$218mn to US\$19mn), Austria (from US\$543mn to US\$62mn), Belgium (from US\$135mn to US\$35mn), Luxembourg (from US\$306mn to US\$132mn), and France (from US\$534mn to US\$236mn). But the most severe decline was in the investments of EFTA member Norway, which virtually evaporated from US\$105mn down to US\$2mn. The only sub-region to register an upswing were the Gulf States, from US\$57mn to US\$91mn.

SEPTEMBER-2010

### **Inequitable income distribution remains unchanged**

According to data recently published by the State Statistical Institute for 2008, there has been hardly any improvement to the distribution of income in Turkey. While in

2008 the richest 20% of the population had over 46.7% of the national income at their disposal (0.2% less than in 2007), the poorest 20% had to manage with just 5.8%, with no change over the previous year. The average annual income per household member was TL6,174 in the lowest income group, while in the highest income group it was almost eight times that much, or TL43,834. In addition to that, a geographical divide between the Western and Southeastern parts of the country continues to exist. Scoring a Gini coefficient – the measure commonly use to quantify income inequality – of 0.41, Turkey ranks just below the median of 124 surveyed countries. 16.7% of the Turkish population are threatened by poverty.

JULY-2010

## Politics

### **Government's position consolidated by constitutional referendum**

On September 12, which marked the 30<sup>th</sup> anniversary of the last military coup d'état in Turkey, the majority of citizens came out in favour of the government's proposals for changes to the constitution that had been established in the wake of the coup. 77% of registered voters participated in the plebiscite, with 58% of them casting a blanket Yes vote for the reform package. As opposition groups criticised, the 26 individual amendments were not polled separately, thus denying voters the possibility to approve only part of the package. The outcome of the referendum shows a well-defined political landscape: While in Western Turkey – in the Aegean region, Thrace, and along the Mediterranean coast – most voters rejected the proposals, approval reached up to 95% in the Black Sea region and in Central and Eastern Anatolia, while in the predominantly Kurdish-populated area in the South East, the majority of voters chose to boycott the referendum. Following a fierce propaganda campaign by all sides involved, the atmosphere has calmed down again in the aftermath of the referendum. The business community now urged the politicians to speedily return to the economic agenda, which they say had been put on the back burner for too long.

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### **Turkish business community calls for a new constitution**

In the words of Ümit Boyner, president of Turkey's influential entrepreneurs' association TÜSIAD, the package of constitutional amendments submitted for referendum by the AKP government is inadequate. In a telephone interview with the *Wall Street Journal*, she said that Turkey instead needed an entirely new, liberal constitution that would institute a clear separation of powers, guarantee the freedom of expression and religious freedom, and safeguard the ethnic identity of its nationals. Also the threshold or barring clause for parliamentary elections – which at 10% is Europe's highest – needed to be abolished, Mrs Boyner said.

SEPTEMBER-2010

### **No end to terrorist attacks in Turkey**

A particularly vicious attack has taken place in the province of Hakkari in Turkey's extreme Southeast. 28 kilometres away from the provincial capital, between the village of Gecitli and the town of Dumankaya, a van was literally torn into pieces when it hit a landmine planted on the dirt road it was travelling on. 9 people were instantly killed, and 4 more, including a 15-month old baby girl, sustained serious injuries. The ambush was presumably set up by members of the Stalinist terror organization PKK, which keeps operating in small groups in this inaccessible mountainous region near the border to Iran and Iraq. In addition to armed raids on police stations and military outposts, the terrorists of this so-called "Kurdistan Workers' Party" frequently carry out brutal attacks against civilians.

SEPTEMBER-2010

## Other Topics

### Revival of economy in almost every part of Turkey

If we take tax revenue as an indicator, a revival of the economy in the first half of 2010 has taken place in 79 out of Turkey's 81 provinces – with the exception only of Karabük and Kastamonu. While there was a 23.8% increase in total assessed tax revenue, to around TL134.7bn, the collected tax revenue improved by 24.7% to reach TL98.6bn. This means that on a national average, the revenue service is able to collect 73.6% of the taxes assessed. In other words, the non-collectable share still stands at 26.4%, which leaves ample room for further improvement.

JULY-2010

### Over 100 billion in loans for Turkish SMEs

In the period January-June 2010, the total amount of loans granted to small and medium enterprises (SME) by Turkish banks reached TL100.6bn, spelling an increase of 20.9%. This can be regarded as a sign for a continuous boom. All in all, out of the 1,231,169 SMEs that have borrowed from banks, 207,014 defaulted on their loan payments. Nonetheless, the volume of loan defaults has taken a positive course, with their share dropping from 7.7% at the end of last year to 5.9% by the end of June.

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### Garanti Bankasi expands its position

Private-sector Garanti Bankasi has replaced public-sector Ziraat Bankasi to become Turkey's most profitable bank, boosting its profits by 35.97% in the first half of 2010, more than any competitor. Having posted a record profit in the crisis year of 2009, Ziraat Bankasi registered comparatively humble growth so far in 2010, but nevertheless remained the bank with the largest net assets. Total net assets of the Turkish banking sector amounted to TL870bn as of June 2010, yielding a profit of TL11.8bn. Most of the larger banks were able to increase their profits considerably, while profits of many of the smaller banks took a tumble (e.g. Citibank -58.43%). Overall sector loans totalled TL441.14bn, of which TL57bn were accommodated by Is Bankasi, TL56bn by Garanti Bankasi, and TL47.2bn by Akbank. Ziraat Bankasi boasted the highest deposits, accounting for TL106.7mn out of a total TL560.4bn, followed by Is Bankasi with TL80.4bn, and again Garanti Bankasi with TL67.7bn.

### 10 most profitable banks of Turkey

| Bank                  | Net assets<br>(mn TL) | Net profit (mn TL)              |                                 | Change<br>(%) |
|-----------------------|-----------------------|---------------------------------|---------------------------------|---------------|
|                       |                       | 1 <sup>st</sup> half of<br>2009 | 1 <sup>st</sup> half of<br>2010 |               |
| Garanti Bankasi       | 108,136               | 1,415.86                        | 1,925.21                        | 35.97         |
| Ziraat Bankasi        | 132,869               | 1,785.19                        | 1,910.72                        | 7.03          |
| Is Bankasi            | 123,953               | 1,370.41                        | 1,801.55                        | 31.46         |
| Akbank                | 105,532               | 1,348.46                        | 1,726.85                        | 28.06         |
| Yapi ve Kredi Bankasi | 75,017                | 923.76                          | 1,190.00                        | 28.82         |
| Halk Bankasi          | 68,080                | 787.37                          | 1,035.21                        | 31.48         |
| Vakiflar Bankasi      | 71,270                | 595.04                          | 539.69                          | -9.30         |
| Finans Bank           | 32,004                | 527.53                          | 343.75                          | -34.84        |

|               |        |        |        |        |
|---------------|--------|--------|--------|--------|
| Denizbank     | 23,519 | 265.64 | 274.51 | 3.34   |
| Türk Eximbank | 6,396  | 199.99 | 127.71 | -36.14 |

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### **Turkish car industry posts high profits**

The Turkish automotive sector keeps sending positive signals. 3 prominent examples for the upswing: In the first half of 2010, the consolidated net profit of Dogus Oto – a leading importer of vehicles, mostly of manufacturers belonging to Volkswagen Group – skyrocketed by 261% as compared to the same period of the previous year to reach TL72.5mn. Having generated net sales of some TL1.4bn in the first 6 months, the company revised its sales target for 2010 to between TL2.7bn and TL2.9bn. In the same period of time, the non-consolidated net profit of industry leader Ford Otomotiv increased to TL196.3mn, 69% more than in the first half of 2009. The commercial vehicle manufacturer expanded its market share to 15.3%; exports were already surpassed the 1-billion-Euro mark in the first half of the year. And FIAT licensee manufacturer TOFAS enhanced its consolidated net profit to around TL191.5mn, improving 90.47% on the 1<sup>st</sup> half of 2009, with sales increasing by 32.9% to reach TL3.125bn.

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