



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

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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

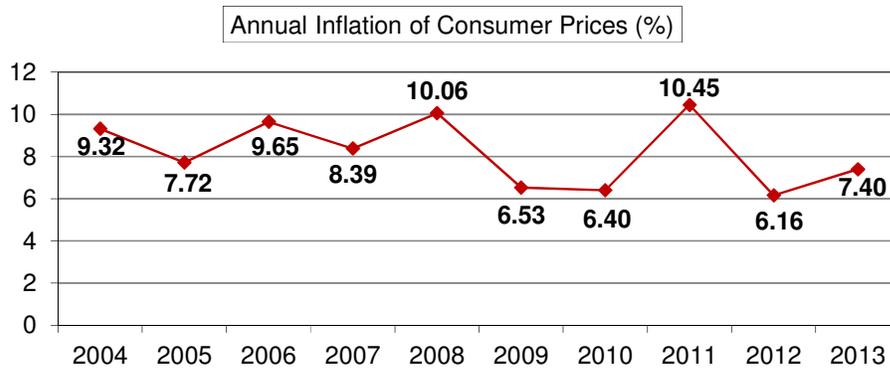
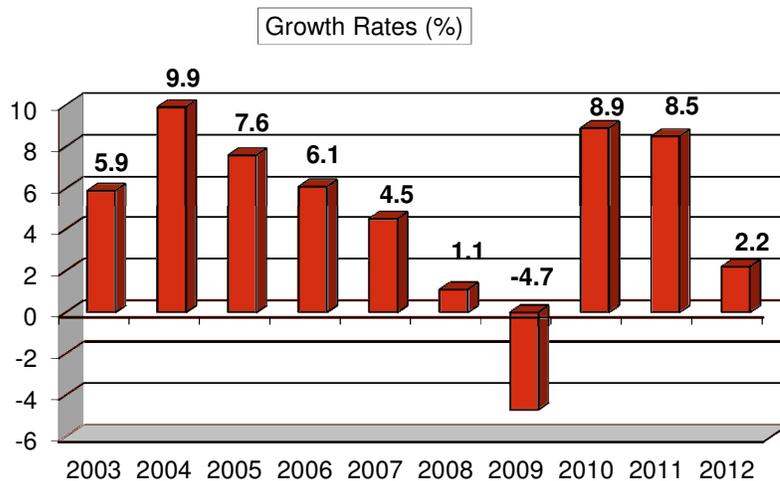
TL-Rates	31.01.2014	28.02.2014	Change in %
TL per Euro	3.0782	3.0532	-0.81
TL per USD	2.2737	2.2168	-2.50

Stock exchange index	61,858.20	62,603.88	1.21
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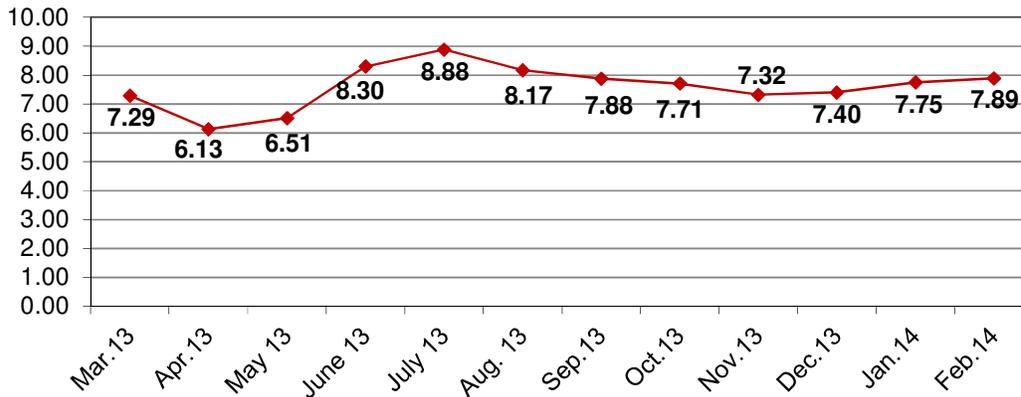
Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.38	12.40
Consumer prices	0.43	7.89

Growth Rates

Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
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	8.0	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	6.0	-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	3.4	3.0	1.6	1.4	2.2
2013	3.0	4.5	4.4		



Annual Inflation's Monthly Development 2013-14 (%)



Record-high domestic producer price index in January

According to the Turkish Statistical Institute (TurkStat), monthly inflation in January was 1.98% in consumer prices (CPI), and 3.32% in domestic producer prices (D-PPI). The monthly D-PPI hit its highest level in 6 years. The annual inflation rate accelerated to 7.75% in January from 7.40% in December for consumer prices, and 10.72% for producer prices. The highest monthly CPI increase was 7.45% in alcoholic beverages and tobacco, followed by 5.16% in food and non-alcoholic beverages, 2.50% in transportation, 2.43% in miscellaneous goods and services, and 1.86% in health. The highest monthly decrease, on the other hand, was observed in clothing & footwear, with 7.59%. TurkStat started publishing the D-PPI, which covers selling prices received by domestic producers in industry, in order to construct an index comparable with the other related indicators and to ensure compliance with European Union (EU) norms.

February 3, 2014

Turkey posts larger-than-expected deficit of USD65 billion in 2013

With an increase by 34%, Turkey's current account deficit in 2013 amounted to USD65 billion, second-highest in the Republic's history. The current account deficit/GDP ratio almost reached 8%, well above the 7.1% Medium Term Programme forecast. In December, the current account deficit climbed to USD 8.3 billion, the highest level in 33 months. Despite decreasing domestic demand due to increased exchange rates, the country's imports are still high. Turkey's foreign trade deficit is the main reason of its huge CAD, and the main reason of the foreign trade deficit is the dependency on foreign oil and natural gas.

February 13, 2014

Unemployment rate increased to 9.9% in November

Turkey's unemployment rate amounted to 9.9% in November 2013, 0.1% higher than expected. According to TurkStat, the number of unemployed reached 2.78 million, increasing by 154,000 compared to the same period of the previous year. The youth unemployment rate stood at 19.3% whereas the non-agricultural unemployment rate was 12%. On the other hand, the number of employed people increased by 152,000 compared to November 2012, reaching 25,443,000. The employment rate declined to 45.5%, recording a 0.4% decrease compared to the same period of the previous year.

February 17, 2014

Two months' extension for capital increase liability

According to a statement from the Turkish Ministry of Customs and Trade, the companies which have not fulfilled their obligations of capital increase until February 14th but intend to continue their commercial activities will be granted two months' extension. Official notification questioning whether they intend to continue their activities will be given to those companies that have gone into liquidation. According to the new Turkish Commercial Code, the minimum capital requirement for a limited company is TRY 10,000 whereas for incorporated companies it is TRY 50,000.

February 27, 2014

Politics

Positive expectations on Turkish economy from BCCT

Chris Gaunt, the Chairman of the British Chamber of Commerce in Turkey (BCCT), has commented favourably on the Turkish economy and trade relations between the UK and Turkey. "All emerging markets are risky; yet Turkey is among the advantageous ones", Gaunt said, adding that he believes the Turkish economy will become even stronger in the long run. Over 2,600 British companies operate in Turkey, second only to German companies in terms of the number of companies owned/partnered by foreigners. Gaunt underlined that Turkey is still attractive for investors from the UK, and added that BCCT's target for 2015 is to double the trade between Turkey and the UK.

February 3&23, 2014

Merkel positive on Turkey talks but reiterates doubts over EU accession

Turkish Prime Minister R. Tayyip Erdogan met with German Chancellor Angela Merkel in Berlin. During a joint press conference after the meeting, Merkel said that she supports the opening of new chapters within Turkey's EU accession talks; however, she also expressed her doubts about Turkey's EU membership. Merkel reiterated her belief that Turkey must do more if it wants to join, and underlined that the focus must be on civil liberties and an independent judicial system. Both leaders agreed on the importance of the integration of people of Turkish origin in Germany without being assimilated.

February 4, 2014

President Abdullah Gul approves new regulations on Internet

President Abdullah Gul has approved the regulations on tightened control of Internet usage, announcing this via his Twitter account, which many thought to be ironic. When the bill was first submitted to him, Gul expressed his concerns regarding two articles in the law, which gave hope to many who oppose the law. "In order to allow these amendments to be made rapidly, I approved the law waiting on my desk as soon as I returned from Hungary," Gul wrote on his Twitter account. Communications Minister Lutfi Elvan said the government would present

amendments to the Internet law to parliament after Gul's approval. These amendments will bring the requirement of a court order for authorities to access people's Internet traffic data. Deputy PM Bulent Arinc said "Turkey is a country which expands the freedom of press and makes comprehensive progress to this end", adding that the main purpose of the new Internet regulation is to protect the rights of individuals.

This restrictive Internet law has been criticized by opposition parties, many journalists, a large portion of the public as well as European institutions including the EU due to concerns about free speech and increased censorship. The groups who are against the law argue that the government is uneasy about Internet-based criticism, especially on the latest corruption scandals, and believe that with the government's strong control over the mainstream media, the Internet is the only source of independent information. Police fired water cannons and teargas to disperse hundreds of demonstrators protesting against the Internet law in Istanbul.

February 8&19, 2014

Voice recordings are fake, says Turkish PM

A voice recording claimed to belong to five wiretapped phone conversations between Turkish Prime Minister Recep Tayyip Erdogan and his son Bilal has been leaked on the Internet. The recording allegedly features the PM instructing his son to hide vast amounts of cash from police, who recently raided a number of places as part of a corruption inquiry that has incriminated the sons of three Turkish ministers as well as businessmen and the head of a state bank. PM Erdogan insists that the recordings are not genuine but montaged, and without giving any names, implies that the "Service Movement (Hizmet hareketi)", an Islamic network managed by US-based cleric Fethullah Gulen, a former ally of the ruling Justice and Development Party (AKP), is responsible for these fabrications. After the alleged leak, opposition parties held emergency meetings and called on Erdogan to resign.

February 24-26, 2014

Encrypted official lines under investigation

It is claimed that the PM's secure phone line was tapped, and that cryptology experts who designed his crypto phones at the Scientific and Technological Research Council of Turkey (TUBITAK), the country's main research funding and science management agency, left the line open to be bugged. The crypto lines are used to protect their users from wiring, and Turkish government officials believe that other official crypto phones were bugged as well by what they describe as the "parallel state", meaning a state within the state, mainly the judiciary system and police force. The Turkish Minister of Science, Industry and Technology Fikri Isik stated that he had instructed the newly appointed director of TUBITAK's Informatics and Information Security Research Centre (BILGEM) to conduct a thorough investigation on the encrypted telephone system before the recording scandal arose, just after the former BILGEM director was unseated on February 1st. He also added that 5 cryptology experts who designed the crypto phones at BILGEM have been suspended until the investigation is completed.

February 27, 2014

▶▶ Other topics

Turkey plans liberalization of livestock imports

Since the number of livestock of the biggest ranches in the country has decreased by 50% and the price of carcass meat has increased to TRY 18 (EUR 6) per kilogram, imports of livestock are back on the Turkish government's agenda. The government intends to make the necessary changes to decrease the customs duties to 0% from its current level of 15%, thus making imports of cattle possible. However, sector representatives believe that high exchange rates will prevent the ranches from importing livestock.

February 5, 2014

German Media Markt plans to expand business in Turkey in 2014

25% of total investments made by German electronics retailer Media Markt in 2013 were in Turkey. Despite the fact that foreign electronics retailers Best Buy, Electro World, Saturn, and Darty have left the Turkish market in the last few years, Media Markt opened 10 new stores in Turkey in 2013 and announced plans of opening 10 more stores in 2014. Among the company targets is raising Turkey to 2nd place in terms of country sales turnover, from 7th place in 2013. The company entered the Turkish market in 2007 with its first store in Istanbul and then expanded into Anatolia, opening 37 new stores. Turkey with its young, dynamic population and high interest in technology products ranks at the top of the company's long-term investment plans.

February 10, 2014

Thousands of Fenerbahce fans marched for justice

An estimated 400,000 fans of Fenerbahce football club gathered on Istanbul's Anatolian side with the motto of "Justice for Turkey, Justice for Fenerbahce" to protest a verdict related with alleged match-fixing, which would put the club's chairman Aziz Yildirim at risk of a lifetime ban from football. The supporters rallied for the right to a fair trial, at the same time protesting the government and police brutality. The march was arranged by Fenerbahçe Fans Lawyer's Association and lasted around 3 hours. A number of fans of rival clubs Galatasaray and Besiktas also attended the protest march in their club's colours to show their support.

February 17, 2014

Turkish companies engaged in foreign mergers worth USD 6.5 billion

Turkish companies made 106 transactions of merger and sales abroad in 2012 and 2013, according to Deloitte's report "Turkish Outbound M&A Review". The total transaction value over the two years is about USD6.5 billion. In recent years, Turkish companies have become increasingly eager to expand their global presence through outbound acquisitions in line with their fast local growth. Cheaper prices of attractive assets following the financial crisis in developed countries have also been effective in this trend. The transactions mostly took place in the manufacturing, energy, real estate, food & beverage, infrastructure and tourism sectors. Europe has

been the favourite target for Turkish investors (56 deals), followed by the CIS countries (12 deals). Emerging countries such as Brazil, Mexico and Thailand received investments from Turkey for the first time.

February 21, 2014

Antalya the third most visited city in 2013

Antalya, the biggest international sea resort in Turkey, hit a record and welcomed 11,680,000 tourists in 2013. This made Antalya the third most visited city after Paris and London. According to Tourism Report 2013 published by the Turkish Hoteliers Federation, the number of visitors increased 8% (approx. 1 million) compared to 2012. Antalya is located in the south of the country and has approximately 650 kilometres of coast on the Mediterranean.

February 24, 2014

Household consumption remained at the same level

In January, the household consumption index (HCI) increased only by 1% in fixed prices and 3% in current prices compared to the previous month. The political and economic unrest that started with the corruption scandal of December 17th was reflected in the consumption patterns of the Turkish people and they started spending conservatively. The index is expected to remain static in the months to come, especially due to the new regulations on consumer credits and credit cards. Jointly published by Ipsos research and Dunya newspaper, the HCI is calculated on the basis of purchasing data gathered from 13,000 households.

February 24, 2014

High exchange rate and interest rates hit automotive sector

High interest rates and expensive foreign currency have immediately shown their negative effects on Turkey's automotive sector. The market for passenger cars and light commercial vehicles has shrunk by 8% in January. Financing is hampered by higher exchange rates, increased luxury tax (OTV), higher interest rates, and the new regulation that limits the number of credit instalments. The Turkish Automotive Distributors' Association (ODD) has decided to postpone the Istanbul Autoshow fair, which was planned for October, until the spring of 2015.

February 7&27, 2014

Other Headlines

- Yapı Kredi Bank, jointly owned by Italy's UniCredit SpA and Turkish Koc Holding, has posted net profits of approx. TRY 3.7 billion (EUR 1.22 billion) with an increase of 74% in 2013. February 11, 2014.
- Rolls-Royce Motor Cars Istanbul celebrated the opening of its new authorised dealer showroom by the Bosphorus. February 11, 2014.
- 50% of Turkish eye hospital chain Avrupagoz has been acquired by Saudi-based Nesma Holding and Reaya Holding for TRY 52 million (EUR 17.2 million). February 17, 2014
- Wuppermann Group, the German steel processor, has taken over a share of 35% in Galva Metal A.S., an international steel distributor and steel service

- centre located in Kocaeli, Turkey. February 17, 2014
- Tesco, Britain's biggest supermarket chain, which operates in Turkey under the Kipa brand, has started negotiations over its Turkish operations with the London private equity house BC Partners, the majority owner of Turkey's market-leading supermarket chain Migros. February 21, 2014.
- Turkcell, Turkey's leading mobile, operator has been the fastest growing telecommunications company in Europe with 9% growth in 2013. The company intends to make investments of TRY 2.1 billion (EUR 0.7 billion) in 2014. February 21, 2014
- Ford Otosan, the manufacturer of the New Ford Transit, aims at sustainable growth for 2014 with an investment target of USD 435 million. February 24, 2014
- Italian house appliances maker Indesit has announced the launch of construction of its second production plant in Turkey with an investment of EUR 35 million. The new facility is expected to start producing washing machines in October 2014. February 27, 2014.

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