



▶▶ Newsletter Turkey October 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

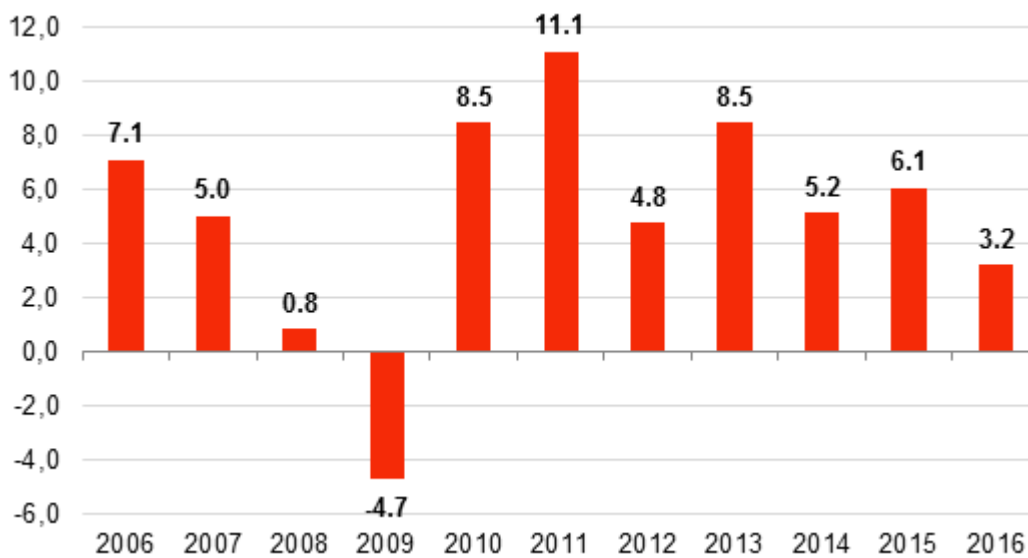
Exchange Rates	29/08/2017	29/09/2017	Change in %
TRY per Euro	4.1504	4.2000	1.20%
TRY per USD	3.4472	3.5585	3.23%

Stock Exchange Index	29/08/2017	29/09/2017	Change in %
BIST 100	110,423.11	102,907.73	-6.81%

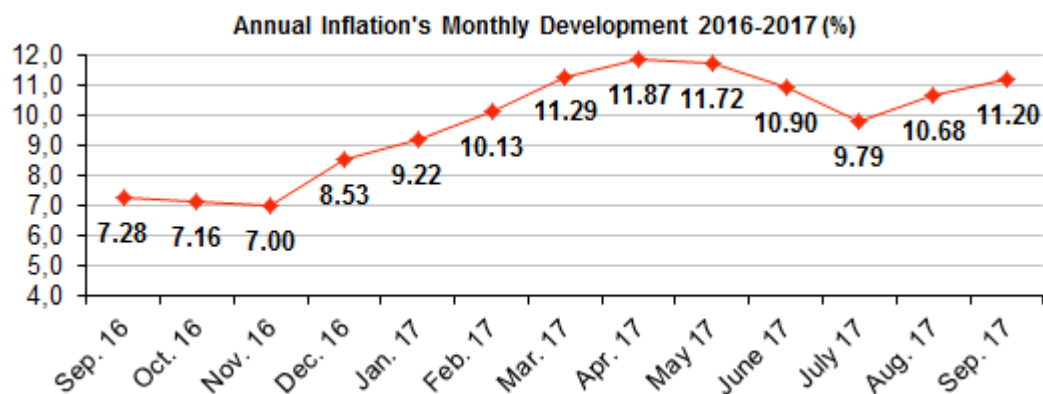
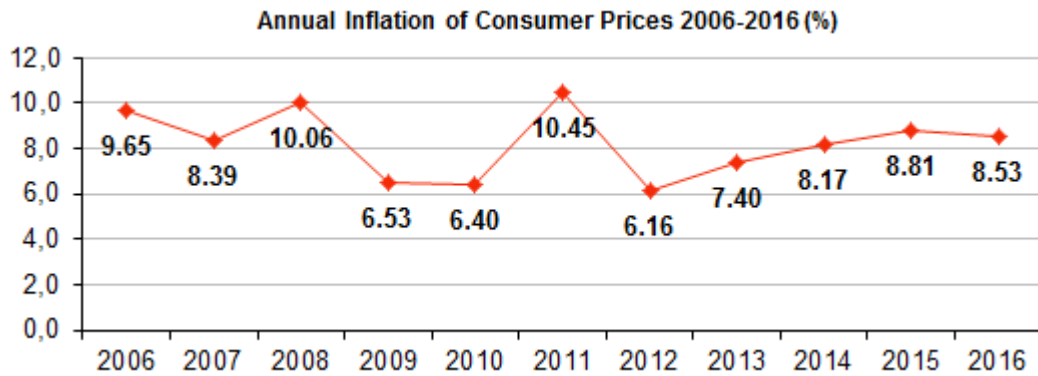
Inflation in %	Monthly inflation	Annual inflation
Domestic producer prices	0.24	16.28
Consumer prices	0.65	11.20

Growth Rates

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
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	3.6	7.2	5.8	7.5	6.1
2016	4.8	4.9	-0.8	4.2	3.2
2017	5.2	5.1			



Inflation



Inflation continues to accelerate

In September 2017, consumer prices in Turkey increased by 0.65% in comparison to the previous month, and by 11.20% over the same month of the previous year (YOY). Accordingly, the increase in CPI-YOY continued its upward trend. The highest monthly increases were registered in education (2.08%) and transportation (1.58%). The only monthly decrease took place in food & non-alcoholic beverages (-0.23%). The highest annual increase was in transportation (16.10%). The domestic producer price index (D-PPI) increased by 16.28% YOY, and 0.24% monthly.

Oct. 3, 2017

10.7% unemployed in July

In July 2017, 3.4 million people in Turkey aged 15 and older were officially out of work, 119,000 more than in the same month of 2016. The unemployment rate of 10.7% did not show any change YOY. The youth unemployment rate in the 15-24 age bracket increased to 21.1%. The labour force participation rate rose to 53.7% in total, and to 34.3% for females. Of those with employment in this period, 52.8% were employed in the services sector, 18.6% in industry, 20.9% in agriculture, and 7.6% in construction. Oct. 16, 2017

Foreign trade deficit increases by 22.8% in August

In August 2017, Turkey's exports increased by 12.3%, while imports increased by 15.3%, YOY. With exports increasing to USD 13.3 bn and imports increasing to USD 19.2 bn, the trade deficit increased by 22.8%, up to USD 5.9 bn. The main partner for exports continued to be Germany (USD 1.3 bn), followed by Iraq (USD 971 mn), the UK (USD 849 mn), and the USA (USD 717 mn), whereas China remained the country most of Turkey's imports came from (USD 2.1 bn), ahead of Germany (USD 1.9 bn), Russia (USD 1.6 bn), and Italy (USD 986 mn).

Sep. 29, 2017

Politics

Germany limits Hermes credit guarantees for investments and exports to Turkey

In order to increase the economic pressure on Turkey due to the recent political developments, the German government has lowered the upper limit of the Hermes credit guarantees provided to German investments and exports to Turkey to EUR 1.5 bn, down from EUR 2.1 bn. Hermes guarantees are provided by the federal government in order to secure German companies in case of default in payments of their foreign debtors. In the first half of 2017, EUR 680 mn of Hermes credits have been allocated to German companies doing business in Turkey.

Sep. 22, 2017

Turkey refuses to recognize the independence referendum held by the Kurdistan Regional Government

The Turkish Ministry of Foreign Affairs has announced that it regards the referendum held by the Kurdistan Regional Government (KRG) in Northern Iraq, which it said endangered stability in the region, null and void in terms of its consequences. Flights from Turkey to Erbil and Sulaymaniyah have been stopped as Iraq's central government has suspended all international flights to these cities. The security controls at the Habur border crossing have been stepped up. Turkish President Recep Tayyip Erdoğan stated that they consider closing the border as well as stopping oil exports from the Kurdistan Region via the pipeline through Turkey.

Sep. 25-28, 2017

Turkey and Iran agree to conduct their trade in local currency

President Erdoğan has visited Iran and met Hassan Rouhani, President of the Islamic Republic of Iran. Both leaders agreed to conduct the trade between the two countries in local currencies from now on, in order to overcome the exchange rate pressure. The parties also agreed to work on the possibility for Turkish banks to establish branches in Iran, and for Iranian banks to establish branches in Turkey. Oct. 5, 2017

USA and Turkey mutually suspend visa services

Following the arrest of a local US consulate employee in Istanbul by the Turkish police based on his alleged links to FETÖ (Fethullah Terror Organisation), the US Embassy in Ankara announced that the visa services for new applications have been suspended as the US government needs to “reassess the commitment of the government of Turkey to the security of U.S. mission and personnel”. The Turkish Embassy in Washington responded with the same statement, only reversing the countries’ names. Following this visa crisis, the Turkish lira sharply depreciated against the US dollar.

Oct. 9, 2017

Other Topics

The scope of grants for rural investments has been extended by a programme of the Ministry of Food, Agriculture and Livestock. Accordingly, grants for 50% of the investment amounts will be available for fixed investments in agriculture. In order to benefit from these grants, the investments need to be completed by October 1, 2018, and the deadline for applications is December 11, 2017. Sep. 14, 2017

Austrian paper and packaging giant Prinzhorn Holding has announced a EUR 300 mn greenfield investment in the province of Kütahya. The containerboard plant with 480,000 tons production capacity will begin operation in 2020 and employ 500 people. Cord Prinzhorn, CEO of Prinzhorn Holding, stated that a good market and a stable team constitute the base for their growth in Turkey. He added that paper plant investments are planned with a long-term perspective, independent from the political circumstances. Prinzhorn had already acquired Dentaş in 2012 and operates packaging and paper plants in the provinces of Denizli, Tekirdağ, Adana, and Eskişehir. Sep. 14, 2017

Toyo Matbaa, a Japanese-Turkish partnership, has officially registered the first ink R&D centre in Turkey. The centre employs 27 people and cooperates with two universities, the Izmir Institute of Technology and Istanbul Technical University, as well as with the R&D centres of the group in Japan, Belgium, Thailand, China, India, Indonesia, Brazil, and the USA. Sep. 14, 2017

Indian Mahindra & Mahindra (M&M) has acquired Turkish tractor manufacturer Erkunt for USD 76 mn. Rajesh Jejurikar, M&M’s President of the Farm Equipment Sector, stated that Turkey is a valuable strategic market for production and marketing, emphasizing that the tractor market has grown more than 35% in the last three years. Erkunt is the first Turkish-designed tractor, and the company is the third largest player in the Turkish tractor market. Sep. 21, 2017

KOSGEB (SME Development and Support Agency) has announced two new support programmes for the manufacture of advanced technology products. Accordingly, investment projects to manufacture products substituting import products shall receive funds of up to TRY 5 mn each. In addition to that, within the scope of SME Development Support Programme (KOBİGEL), manufacturing industry SMEs aiming to enhance their technological capabilities will be able to benefit from support up to TRY 1 mn each. The deadline for applications for KOBİGEL is Oct. 20. Sep. 21, 2017

The Turkish government has announced new tax rates in line with the Medium Term Programme (2018-2020). According to the programme, the Turkish economy is expected to grow by 5.5% each year starting from 2017, and the inflation rate is forecast to decrease to 5.0% by 2020. In line with the programme, the corporate tax rate in the finance sector has been raised to 22%, up from 20%. In addition, undistributed dividends shall be subject to 1% withholding tax, the motor vehicle tax on passenger cars shall be increased by 15-50% as from Jan. 1, 2018, and the personal income tax tariff shall be amended. Sep. 28-Oct. 15, 2017

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