

# FOREIGN MARKET CONSULTING



Danismanlik ve Tic. Ltd. Sti.

Attached is our latest monthly newsletter providing summaries of recent economic and political developments in Turkey.

Please note that beginning from this year we also offer 2-day intensive **seminars on 'Business in Turkey'** presented at our offices in Istanbul. Please find further information **Seminar - Info**

We would welcome your feedback on our Newsletter and any other matters that you consider may improve or add to our newsletter service. Please also do not hesitate to contact us if you wish to learn about our wide range of available services.

If you know anyone else who would be interested in this free service, please forward this newsletter to them or alternatively, provide us with their e-mail address (to [newsletter@fmconsulting.info](mailto:newsletter@fmconsulting.info)), so that we can include them on our distribution list.

Best regards,

Your FMConsulting Team

## Newsletter February 2008

# Economy

## Overview of Monthly Data

YTL-Rates	01.31.2008	02.29.2008	Change in %
YTL pro Euro	1.7467	1.7885	2.39
YTL pro USD	1.1754	1.1842	0.75

<b>Stock exchange index</b>	42,698	45,823	7.32
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	2.56	8.15
Consumer prices	1.29	9.10

## 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	5.7	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	6.7	3.9	2.0		

### **Economy is strong enough to close the current account deficit.**

The President of the Central Bank Mr. Durmus Yilmaz has stated that the Turkish economy is strong enough to cope with larger current account deficits. Yilmaz further went on to defend the Central Banks policies and stated that the bank was committed to the inflation targets and that it was better to miss the target rather than revise it half way through the year.

### **Foreign Investment Environment of Turkey in 2007**

The Treasury has announced that Foreign Direct Investment including real-estate had increased by 9.8% compared to the previous year and reached \$21.9 billion USD and \$19.2 billion USD of that was committed in cash with EU countries leading the investment tally. The International Direct Foreign Investment Figures Bulletin published by the Treasury stated that direct capital investment has increased by 11.3% reaching 18.9 USD, if the 770 million USD worth of capital that has left Turkey is deducted, the net direct capital investment into the country would have gone up by 8.4% and that would result in a total of 18.4 billion USD. During this period, 2.95 billion USD worth of real estate was sold. Foreign Investors created 3,051 new companies and 651 local companies had Foreign Investors joining in their capital structure. The overall figure of 3,702 new companies with foreign direct investment has been observed participating in real-estate rentals, wholesale, retail outlets, construction and production. The foreign direct investors ranked according to their nationality are as follows; 1. Germany 3,125 2. United Kingdom 1,831 3. Holland 1,419. Geographically their distribution was to the following cities respectively Istanbul, Antalya Ankara and Mugla.

*Direct Investment rose to 9.8% (Million USD)*

	2006	2007	%change
International direct investment	19,918	21,873	9.8
International direct capital investment	16,996	18,921	11.3
Capital (net)	16,988	18,420	8.4
Capital going in	17,645	19,190	8.8
Capital going out	-657	-770	17.2
Other Capital	8	501	6,162.5
Real estate(net)	2,922	2,952	1.0

### **Novelli: Politics should not overshadow business**

The French foreign minister Herve Novelli visited Turkey with 40 representatives of major companies. He stated that economic relations that have been affected negatively by politics

should be restored. Novelli further said that it will not be in anyone's benefit to concentrate on those things keeps the countries divided but rather concentrate on those things that are uniting and enables the countries to work more closely together. He visited Istanbul, Adana and Mersin and showed interested in the renewal of the policies of THY as well as in projects such as the construction of nuclear power stations.

**Turkey's population count down; but higher rate of unemployment**

The latest address based census indicated that there is a 10% rise in the rate of unemployment but that the Turkish population not taking the population at schools, hospitals and the military into account amounts to a total of 69 million. This calculation has a big influence on previously determined statistic. The previous census had the population at 73 million and unemployment figure of 9.4% but with the new census it goes up to 10.4%. According to TUIK, this November, compared to the same period last year, the number of employed have decreased with 368 thousand to 20.86 million people.

*Labor Force Indicators (November/ thousand)*

	2006	2007
Civilian population	68,426	69,185
People over 15 years of age	48,771	49,511
Labor Force	23,500	23,217
-Employed	21,235	20,867
-Unemployed	2,265	2,350
Labor force participation rate(%)	48.2	46.9
rate of employment(%)	43.5	42.1
Rate of unemployment (%)	9.6	10.1
- Rate of unemployment outside of agriculture(%)	12.2	12.6
- Youth unemployment (%)	19.0	20.0
Missing Employed (%)	3.0	2.8
-Missing Employed among youth (%)	3.4	2.6
Those not part of the labor force	25,271	26,294

**Rise in Capacity Utilization**

Compared to the same period last year, in January, there was a rise in the capacity utilization in industrial production with an increase of 2.2 points to 80.5%.

*Capacity utilization by month (%)*

Month	2007	2008
January	78.3	80.5
February	80.1	
March	82.0	
April	81.7	
May	83.3	
June	83.5	
July	81.9	
August	80.3	
September	83.2	
October	83.1	
November	82.6	

December	81.1	
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### Foundations of Industrial inventory ready for EU

From 1 January 2008 the 'EU statistical classification system for economic activities' (NACE) has come into force in Turkey. According to this system, a code is allocated to all business activities that companies undertake. The minister of Industry Zafer Caglayan stated that NACE is able to publish figures based on industry type of operation and income which enables comparison on regional and international levels. He further stated that the NACE coding system will be the foundation of the industrial inventory system.

### February inflation higher than expected

The inflation in February has realized at a much higher level than predicted. The expected inflation of 4.7% has had a 1.295 increase. The expected 0.7% increase for production price realized at a level of 2.65%. Due to these increases the yearly *consumer price index rose to 10.9% and the yearly producer price index to 8.15%*. For the 2 month period the consumer price index increased to 2.11%, and the producer price index to 3%. The producer price index rose due to electricity hikes and the consumer price index due to an increase in prices of food.

#### Yearly Inflation (consumer price index)

Months	2007	2008
January	9.93	8.17
February	10.16	9.10
March	10.86	
April	10.72	
May	9.23	
June	8.60	
July	6.90	
August	7.39	
September	7.12	
October	7.70	
November	8.40	
December	8.39	

#### Monthly Inflation - producer price index (PPI)

Months	2007	2008
January	1.00	0.80
February	0.43	1.29
March	0.92	
April	1.21	
May	0.50	
June	-0.24	
July	-0.73	
August	0.02	
September	1.03	
October	1.81	
November	1.95	
December	0.22	

### Free trade zones seek a VAT formula

According to the statement of the General Directorate of free Trade zones, in accordance the

Customs law article 158, they have seized to be flexible regarding the issue of VAT. The further went on to say that consumer goods coming into the country must have VAT on their invoices. This disagreement is due to commercially consumed products and the Undersecretary is working to resolve the issue.

### **Yalçındağ: Invest in Turkey for production**

The president of the Turkish Industry and Business Association (TÜSİAD) Arzuhan Dogan Yalcindag, addressed Mr Bernard Wientjes, Chairman of the Netherlands Confederation of Industry and Employers, VNO-NCW along with 200 leaders of the business world. She stated that regardless of the recent economic slowdown Turkey still offers good investment opportunities. She issued the following warning based on Turkey's ascension process for the EU and its vulnerability regarding exterior economic shocks. She said that if Turkey fails in its structural reforms or if it fails in the EU ascension process the Turkish economy will plunge into a vulnerable period. Yalcindag stated that supporters in the EU are expected to help the negotiation process so that it will be a smooth transition. She stated further that investors should not only buy banks but should invest in research and development, technology and production.

## **Politics**

### **Merkel: Turkey's accession process to EU should be envisioned**

The German Chancellor Angela Merkel stated that it could be envisioned that Turkey will gain full membership in the European Union. However, the German Chancellor also went on to say that membership negotiations would be a "long process" and throughout this process confidence must be built upon. In regard to the tragedy in Germany involving the "suspicious" deaths of the nine Turkish citizens who lost their lives in a blaze in Germany, Ms. Merkel promised a full enquiry to establish the circumstances surrounding the deaths.

### **Turkey's operation to North Iraq at the end of February**

The Turkish Armed Forces launched a surprise ground force operation in Northern Iraq against the PKK terrorist organization. The General Chief of Staff explained the objectives of the operation and stated that the troops will return home immediately after the armed forces achieved their aims. The particulars of the operation are;

- To disable terrorist organizations connected with the PKK and render them ineffective
- To completely destroy organizational infrastructure within the region
- To prevent terrorist bases operating within the region
- To contribute to enduring stability of a united Iraq

Turkish special forces took part in a cross-border ground operation from the Hakkari district, Cukurca on 23.02.2008 at 19.00. The operation again continued in the border districts of Uzumlu and Semdinli when troops started entering at lightning speed.

### **Chief of General Staff: No influence from USA**

The Chief of General Staff Yasar Buyukanit announced that the USA did not influence the

withdrawal of the Turkish Armed Forces from Northern Iraq. He objected by stating "Turkey is not a tribal state" This operation finished exactly as planned. At a press conference held in Ankara, lasting one and a half hours, the Chief of General Staff stated that the core camp of the PKK terrorist organization was the aim of the operation. During the operation 240 terrorists were killed, but there were more casualties since the casualties caused by the Turkish Air Force was not included in these figures. The beginning and the ending of the operation was fully coordinated, was the reaction of Yasar Buyukanit to the USA claims that the operation was terminated because of their influence.

### **Constitution does not allow lifting of headscarf ban**

Sabih Kanadoglu, Honorary Chief Prosecutor of the Supreme Court of Appeals, said that the constitutional amendment would not free the headscarf ban. Even if the constitution is changed, this will not be enough to lift the ban on headscarves in universities. Mr. Kanadoglu reiterated that the High Court decided that the lifting of the headscarf ban is violating religious principles and the principles of equality. Kanadoğlu stated that President Abdullah Gul's statements regarding taking the headscarf issue to a referendum has destroyed the Presidency's position as a by-partisan office and that it was not possible to take an issue that covered fundamental rights and freedoms and if anyone tried to do this, they would face a strong resistance from everyone with ethical background and knowledge of law.

## **Other Topics**

### **UK Company BC Partners buys Migros for 2 billion YTL**

Koc Holding has agreed to sell Migros Turk, Turkey's largest supermarket chain, to Moonlight, a company controlled by the British Company, BC Partners. The British company will acquire 50.8 percent of Migros Turk for 1,977 YTL (New Turkish Lira), a figure which is 10 percent higher than the market value. Moonlight is buying Migros, along with minority investors, Turkven and DEA Capital. The former chief executive of Koc Holding and Migros, Mr. Bulend Ozaydinli will become the chairman of the executive board. Bulent Bulgurlu, CEO, stressed that with the Migros sale, Koc Holding will strengthen its financial structure.

### **Profit increase for Banking Sector in 2007**

The Banking Sector in 2007 saw a 31.3% increase from the previous year; a jump from 11.4 billion YTL (New Turkish Lira) to 14.9 billion. The report in December conducted by the showed that at the end of November profits reached a level 559.6 billion YTL and in December increased by 3.9% to 581.4 billion YTL. The volume of credit increased by 3.8%, reaching a total of 285.7 billion YTL.

### **Efes buys Lomisi Beers and enters the Georgian market**

Anadolu Efes Breweries has agreed to buy 100% of Lomisi Ltd, the leader in the Georgian beer market, which has an estimated market value of 42%. This means that Efes, after entering the Russian and Kazakhstan market will now penetrate into Georgia. The President of Efes Beer Group, Mr. Alejandro Jimenez said that this will increase the value of EBI (Efes Beer International) which in turn will mean bigger profits for the company.

## **Mahle choose Turkey for its Middle Asian plant**

Mahle, one of the biggest automotive suppliers in the world, purchased a 60% share of Mopisan, a company that produces engine parts for the Aegean Free Trade Zone. Mahle aims to turn Izmir into a production and logistics base for the Middle East and Central Asia. The company will direct 50 million dollars into the establishment of logistics in Turkey. Last year, Mopisan and Mahle exports totaled 25 million Euro, and in 2012 aims to increase its exports to 100 million Euro.

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- Market Research
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