

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

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Your FMConsulting Team

## Newsletter June 2009

# Economy

## Overview of Monthly Data

YTL-Rates	29.05.2009	30.06.2009	Change in %
YTL pro Euro	2.1759	2.1469	-1.33%
YTL pro USD	1.5698	1.5301	-2.53%

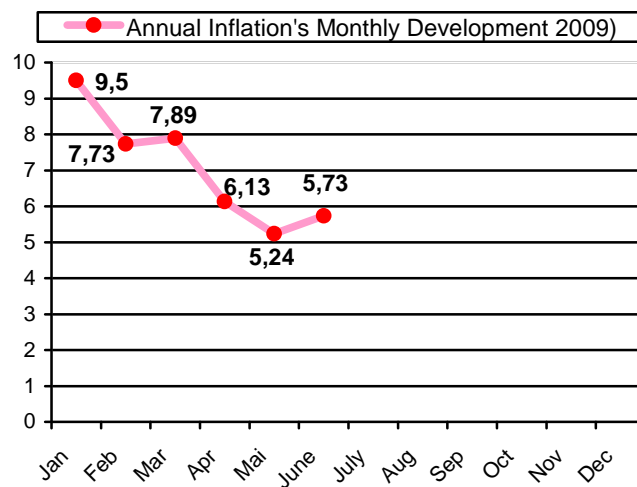
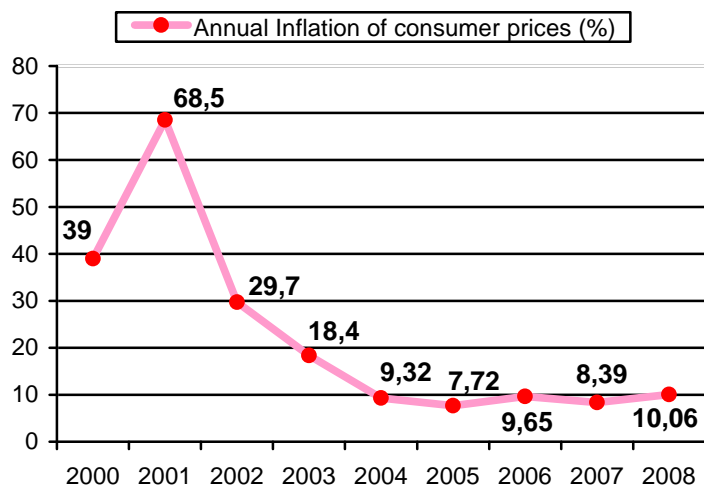
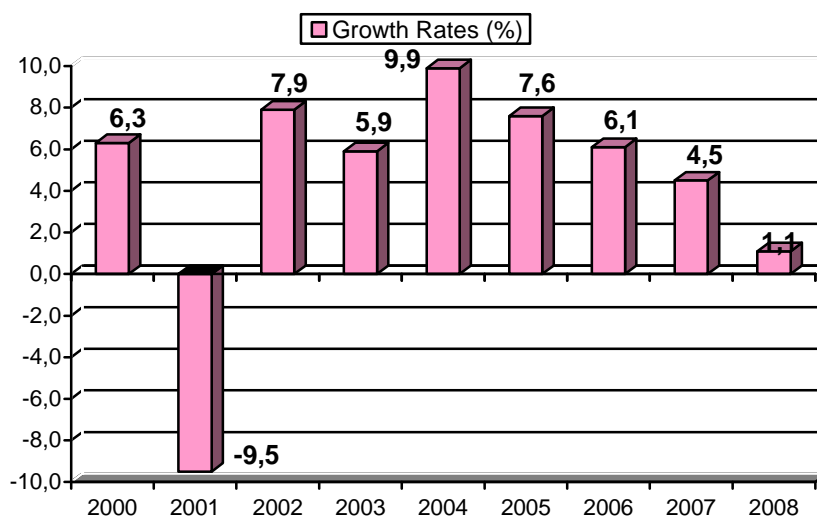
<b>Stock exchange index</b>	35,002	36,949	5.56%
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.94%	1.86%
Consumer prices	0.11%	5.73%

## 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	3.4	4.5
2008	6.6	1.9	0.5	-6.2	1.1



### System of state subsidies in Turkey reorganized

The Turkish government has presented its new system of subsidies, effective until the end of 2010. For this purpose, the country has been divided into 4 regions with different degrees of priority. Furthermore, 12 industrial sectors of particular strategic importance are to receive special subsidies whilst investments over a certain size will benefit from subsidies regardless of their regional location. For the time being, the VAT and luxury tax reduction applied to specific branches of industry will also be maintained – at least at some level.

### Reduced corporate income tax

	According to region and sector		For large-scale projects	
Region	Investment subsidy (%)	Tax rate (%)	Investment subsidy (%)	Tax rate (%)
1	20	10	30	10
2	30	8	40	8
3	40	4	50	4
4	60	2	70	2

### Subsidization of employers' contributions to social security

Period for which the employers' contributions to social security (at the minimum wage level) will be fully absorbed by the Treasury:

Region	According to region and sector	For large-scale projects
1	2 years	2 years
2	3 years	3 years
3	5 years	5 years
4	7 years	7 years

### Interest subsidy

	According to region and sector (percentage points)	
Region	TL loans	Foreign currency loans
3	3	1
4	5	2

#### 1) Limits

- For R&D and environmental investments 300,000TL, for other investments 500,000TL.
- Term limited to a maximum of 5 years.
- The minister in charge of the Treasury is authorized to raise or lower interest rates, depending on the economic trend.

2) The interest subsidy is applicable to the portion of each loan principal equivalent to at most 70% of the fixed asset investment

### The new subsidy system: support for 12 industrial sectors, 500,000 new jobs

1<sup>st</sup> degree    2<sup>nd</sup> degree    3<sup>rd</sup> degree    4<sup>th</sup> degree



### **Slight decrease of export losses in June**

In parallel with capacity utilization and industrial production, Turkey's exports have seen a slight recovery. Even with taking into account the automotive industry which had been hit particularly hard by the export losses (-50.6% in the same period), the negative trend has slowed noticeably in June. In the first 12 days of June, exports dropped by only 27.66% as compared to 39.9% in May. The total decrease against the previous year in the period 01/01/09-12/06/09 amounted to more than a third, at 34.2%.

With regard to exports, the agricultural sector is in the most comfortable position, with individual branches such as dried fruit (+ 39.6%) and cut flowers (+ 69.3%) boasting considerable gains.

### **Industry ailing from sales crunch and declining orders**

The Turkish Statistics Institute has announced its "Monthly Industrial Sales and Orders Index" for April of this year. While there were no significant changes from the previous month, losses against the previous year were substantial: Whereas the sales index was down to 140.4 points (17.1%), the orders index dropped 20.4%, to 137.9 points. The heaviest sales decreases compared to April of 2008 were suffered in the manufacture of coke and refined petroleum products (-39.9%), followed by the primary metal industry (-39.2%) and the motor vehicles, trailers and semi trailers manufacturing sector at -27.7% (of which trailers and semi-trailers were worst hit with dwindling orders of -38.4% and -28% respectively).

### **VAT and luxury tax relief extended**

The Turkish government has decided to extend temporary reduction of the value added and luxury consumption taxes applied to certain products until the end of September of this year. Promising further stimulation of the economy and domestic demand, this measure met with the unanimously positive response of the business community. Although the reduction percentage will be at a lower level than in the previous quarter, entrepreneurs expect it to have a psychologically important

signal effect on consumers and the labor market.

### Commodity groups with reduced tax rate (%) in new subsidization period

Commodity groups to which the luxury consumption tax reduction applies	Normal tax rate	Reduced tax rate up until now	Reduced tax rate from now on
Automobiles (w/engines under 1600 cc)	37	18	27
Light closed-body trucks	10	1	3
Light open-body trucks	4	1	2
Tractor units, minibuses, trucks	4	1	1
Buses	1	0	0
Minibuses	9	2	4
Motorcycles (w/engines under 250 cc)	22	11	15
Household appliances (white goods)	6.7	0	2
VAT:			
Computers	18	8	8
Furniture	18	8	8

### Tax reduction helps spur domestic car sales

The tax reduction for new cars, introduced in March as a temporary measure, has boosted automobile sales figures. With +40% over the same month of the previous year, some 44,000 cars were sold in Turkey in May (15,000 of which were manufactured domestically). Since the Turkish automotive industry has depended heavily on exports in recent years, it has been hit particularly hard by the slump in the export business. To illustrate this: Of a total of 317,000 automobiles manufactured in the first 5 months of 2008, 46,000 were sold in Turkey and 255,000 abroad, while in the same period of 2009, production was down to 192,000 units, of which 50,000 were sold on the domestic market and 143,000 exported. This shows that the export decline (around -44%) is solely responsible for the decline of the total sales volume.

### OECD: Economic forecast for Turkey

In its latest Economic Outlook, the Organization for Economic Cooperation and Development (OECD) painted a rather less optimistic picture of the economic development in Turkey. According to the semi-annual report, this year will see a negative growth of 5.9%, whereas the World Bank forecasts minus 5.5%. In the coming year the economy is expected to grow again, by 2.6%. The unemployment rate, however, is to rise still further, from 15.4% to 16.4%. On the other hand, inflation is forecast to decrease slightly in 2010, down to 5.9% from 6.3% in 2009.

### Unemployment nears record level

According to the latest statistics, Turkey's unemployment rate in March rose by 4.8 percentage points over the same month of the previous year, reaching 15.8%. This is just below the record level of 16.1% in February. The official number of jobless stood at approximately 3.8million. Yet counting in some 2.3million people who have not registered with the employment agency due to lack of prospect of finding a job, the actual unemployment rate must be put at 24.3%.

## Politics

### **Erdogan flexes muscle at IMF**

In reply to a question asked in a television interview, Prime Minister Recep Tayyip Erdogan said that Turkey is not willing to submit to the dictate of the International Monetary Fund. His government, said Erdogan, is certainly in a position to stand up to the IMF and not to concede to all of its demands. He reported to personally have made clear to the IMF's top management that Turkey's national interests take priority in any event. Thus the Turkish government has, for instance, refuted the request to turn its Revenue Administration into an autonomous institution. It would not allow anyone to interfere in decisions of that kind.

### **General Staff denies authenticity of disputed document**

A document entitled "Action Plan to Fight Political Reaction", published by the Turkish daily newspaper "Taraf" (which is considered to be leftist-liberal), continues to charge the political atmosphere. The Turkish General Staff, supposedly the source of the highly controversial paper, announced that there is no evidence whatsoever which would prove that any such document has in fact been drafted in the highest military body. Ruling party circles registered its doubts about the denial, while the main opposition party demanded clarification from the newspaper. Meanwhile, military and civil prosecutors are investigating the genuineness of the Staff Officer's signature which was printed at the end of the document.

## Other Topics

### **Norwegian Statkraft invests in Turkish hydropower**

Statkraft Group is Norway's largest energy corporation and Europe's biggest producer of electrical power from renewable energy sources. The former state owned enterprise has now acquired 95% of shares in Turkish hydropower investors Yesil Enerji ("Green Energy") from Global Yatirim Holding investment group for €98.1m plus additional bonus payments. Over the next 5 years, the new majority shareholder intends to invest US\$5bn in 6 hydro-electric plants that are currently built or planned across Turkey, with a total installed capacity of 560MW. Statkraft, whose core business activity is hydropower, has recently increased its investments in wind and solar power projects both at home and internationally; however, there are no such plans for Turkey as yet.

### **Renewable Energies law draft put on hold**

Literally at the last minute, the draft for a revised Renewable Energies Law was dropped from the agenda of the Turkish parliament's plenary session. Opposition circles reported that State Minister Ali Babacan, who is in charge of the economy, had initiated this move, fearing objections by the World Trade Organization due to a passage in the draft that would provide for additional subsidies if a certain percentage of domestically manufactured equipment is employed in energy production. Moreover, the designated improved feed-in rates were apparently deemed too high – in contrast to the industry's call for further adjustments. For instance, power generated from solar energy was to

be purchased at a rate of 25 Euro-Cent per kilowatt hour in the first 10 years of operation, and 20 Cent per kilowatt hour in the second 10-year-period. So far the feed-in rates for electricity from renewable energy sources had been subject to a blanket cap of 5.5 EURct/kWh. A much lower improvement was proposed for other renewables, e.g. for hydropower 7, wind power 8-12, geothermics 9, and biomass 14 EURct/kWh. Now domestic and foreign investors are left in limbo, and Turkey is missing out on several billion Euros in potential investments in renewable energies.

### **Celebi set to become world's No. 3 in ground handling services**

Turkish airport service provider Celebi Hava Servisi (CHS) is at the point of taking over the ground handling business of Spanish Acciona Group, an aim it has pursued for more than two years. This would almost double the company's sales volume, from €200m to €350m, making it No.3 in the world market. Following Hungary and India, CHS would be extending its international activities to two major countries: Spain and Germany. With a current staff of 3,200, Acciona Airport Services is currently operating at the international airports of Madrid, Palma and Ibiza, but also operates in Frankfurt, Hamburg, Berlin-Tegel and Berlin-Schönefeld. Financing of the takeover is to be brokered by Citigroup Global Markets.

### **Turkey to receive second hazardous waste facility**

In view of the depleted capacity of Turkey's only and municipally-owned hazardous waste treatment plant in Izmit, a private investor is now spending €50m to build a second large-scale facility, which is to serve the country's Aegean and Western Mediterranean region. Several hundred tons of industrial and hazardous waste a year are to be deposited, incinerated and recycled in the 157-hectare facility currently being developed near the town of Kula (Manisa province). According to developers and operators Serdar Atik A.S., industrial hazardous waste had been provisionally disposed of in cement factories, while part of it was shipped to Germany for treatment prior to disposal.

### **Increased presence of Tata in the Turkish car market**

In times of crisis, demand for affordable cars is bound to rise. One of the companies benefiting from this development is Indian carmaker Tata, who wants to start selling its new compact car model Indica Vista in Turkey in the first months of 2010. The brand has established itself firmly on the Turkish market for cars and light trucks. Owing to the reduction of the luxury tax, the distributing company Isotlar managed to sell all stockpiled vehicles, said their marketing director Ms Banu Eresen. Still, a slight decrease of sales figures against the previous year is to be expected in 2009. The anticipation for the year to come is that the automotive sector, being the industry hit hardest by the recession, will also gradually recover.

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