



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

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Your FMConsulting Team

## Economy

### Overview of Monthly Data

TL-Rates	30.04.2012	31.05.2012	Change in %
TL pro Euro	2.3244	2.2840	- 1.7381
TL pro USD	1.7573	1.8404	4.7288

<b>Stock exchange index</b>	60.010,40	55.099,33	-8.1837
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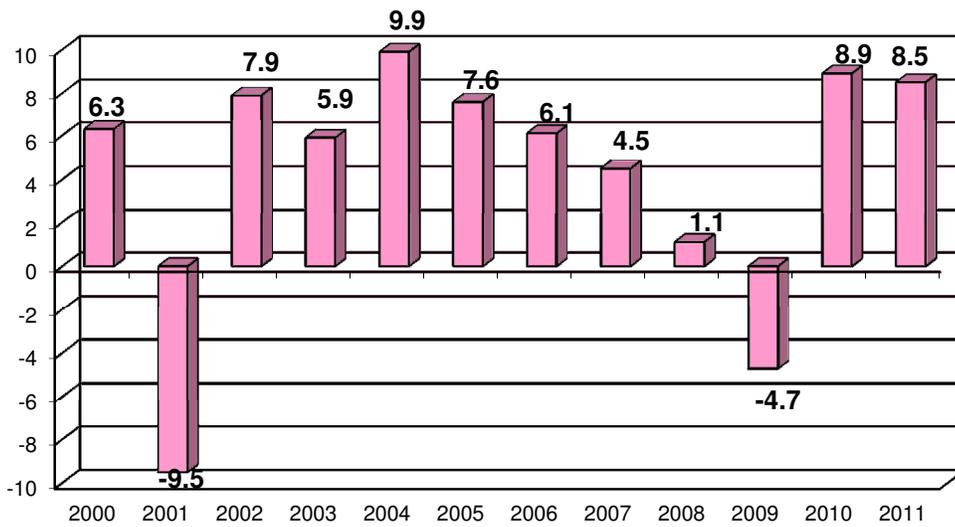
Inflation in %	Monthly inflation	Annual inflation
Producer prices	0.53	8.06
Consumer prices	-0.21	8.28

### Growth Rates

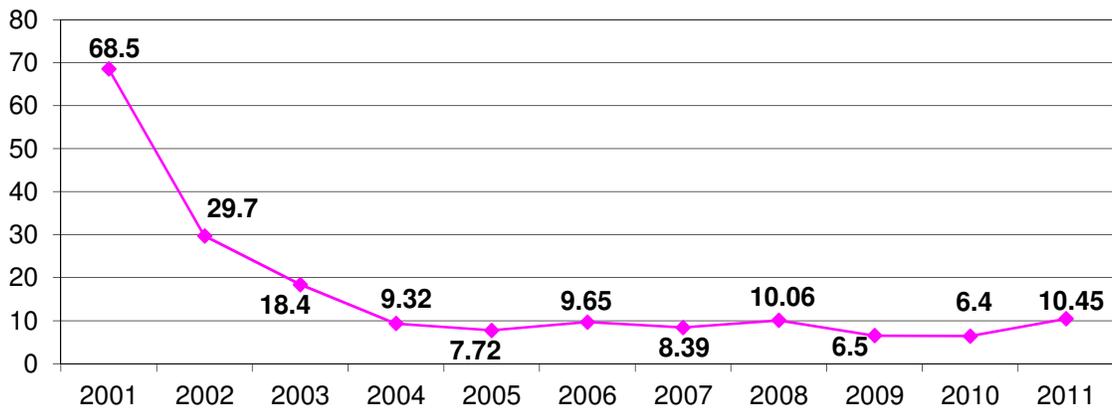
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9
2004	13.9	15.7	8	6.6	9.9

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	12.2	10.2	5.3	9.2	9.0
2011	11.6	8.8	8.2	5.2	8.5

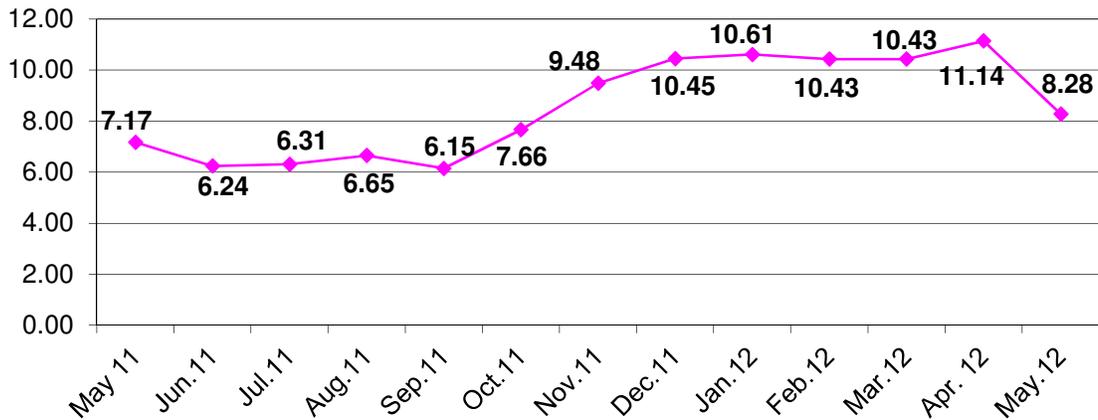
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



Annual Inflation's Monthly Development 2011-12 (%)



### Unemployment still on the rise

Turkey's unemployment rate continued to rise in February, if only by 0.2 percentage points over the previous month, to reach the highest level in 11 months at 10.4%. Unemployment among youth increased to 18.3%. With 2,721,000 persons officially jobless now, the number of people actually out of work came close to the 5-million mark again. Remarkably the share of industry in total employment has decreased in recent years. Out of around 1 million new jobs created between January 2011 and January 2012, 849,000 were in the service sector but merely 29,000 in industry.

### Employment by sectors, thousand persons

	2008	2009	2010	2011
<b>Total</b>	<b>21.194</b>	<b>21.277</b>	<b>22.594</b>	<b>24.110</b>
Construction	1.242	1.306	1.431	1.676
Industry	4.440	4.079	4.496	4.704
Agriculture	5.016	5.240	5.683	6.143
Services	10.495	10.650	10.986	11.586

(April 30/May 16, 2012)

### Istanbul Stock Exchange performing strongly

The benchmark index of the Istanbul Stock Exchange (IMKB-100) exceeded expectations in the first 4 months of the year, climbing by 17% to surpass 60,000 points. 9 of the listed companies even gained more than 100%, of which the largest were Brisa (+201.79%), Netas Telekom (+109.8) and Koza Madencilik (+108.28%). The outlook for the end of the year has been adjusted to 65,000 index points, corresponding to an annual gain of 27%. Meanwhile the idea of establishing a third stock exchange – in addition to the Futures Exchange (VOB) and the IMKB – specifically catering to the energy market is being debated vigorously. While the IMKB and the Ministry of Economy would like to see such an exchange incorporated into the Istanbul Stock Exchange, the Ministry of Energy favours an independent institution, possibly based in Ankara. A draft law regarding this topic is currently being prepared.

(May 2/25, 2012)

### **Erdogan lashes out against S&P**

Turkish Premier Erdogan is furious about Standard & Poor's surprisingly lowering Turkey's credit rating from "positive" down to "stable". He fumed that this decision was motivated by ideology and as a consequence Turkey would now longer accept S&P's ratings. Standard & Poor's had based its adjustment on Turkey's high foreign debt and low export figures. According to Eileen Zhang, S&P chief economist for Turkey, a BBB rating is usually contingent on a per-capita income of at least 15,000 dollars – which in Turkey currently is US\$10,444. By contrast Timothy Ash, a market strategist for the Royal Bank of Scotland, called Erdogan's reaction understandable and attested to Turkey's high credit standing. The country continues to be highly attractive for international investors, he said, and besides, Turkey has proved that it takes its repayment commitments very seriously. Anyway the markets have lots of sympathies for Erdogan and Turkey, he concluded. Meanwhile Erdogan announced plans for Turkey to establish its own credit rating agency.

(May 2/3/17, 2012)

### **Consumers have reason to worry about inflation**

Consumer prices in Turkey were up 1.52% in April. Based on the past 12 months they rose by 11.14%, which marks the highest level in 3.5 years. The inflation rate has been back to double digits for 5 months now. On the other hand, producer prices only increased by 0.08% in April and have been declining on an annual basis for the 6th month in a row, to 7.65%.

### **Trend of inflation in the past 13 months (%)**

	Consumer prices (TÜFE)		Producer prices (ÜFE)	
	per month	per year	per month	per year
April 2011	0.87	4.26	0.61	8.21
May 2011	2.42	7.17	0.15	9.63
June 2011	-1.43	6.24	0.01	10.19
July 2011	-0.41	6.31	-0.03	10.34
August 2011	0.73	6.65	1.76	11.00
September 2011	0.75	6.15	1.55	12.15
October 2011	3.27	7.66	1.60	12.58
November 2011	1.73	9.48	0.65	13.67
December 2011	0.58	10.45	1.00	13.33
January 2012	0.56	10.61	0.38	11.13
February 2012	0.56	10.43	-0.09	9.15
March 2012	0.41	10.43	0.36	8.22
April 2012	1.52	11.14	0.08	7.65

(May 4, 2012)

### **Turkey determined to become independent from IMF funding by 2013**

Prime Minister Erdogan has issued a statement that his country will have paid back its debts to the International Monetary Fund by no later than April 2013, adding that Turkey has received total loans of US\$46bn from the IMF in the past 50 years of which presently just US\$2.3bn are left to repay, whereas the debt amounted to US\$23.5bn when the AKP took power in 2002. In the past few years Turkey was no longer able to negotiate financial aid from the IMF because it refused to accept the restrictions that would have been imposed on spending. But thanks to massive foreign investments, the country no longer relies on cash infusions from the IMF. Obviously the government is not concerned about the dependency of Turkey's economy on foreign capital –

Economy Minister Caglayan contended that in order to further boost investments, investors must be accommodated as much as possible to do business in Turkey.

(May 5/16, 2012)

### **OECD forecast for 2012: 3.3% growth, 7.5% inflation**

According to the OECD's economic outlook for the first quarter of 2012, the growth rate of Turkey's economy, having reached a stunning 8.5% in 2011, will slow down to 3.3% this year to rise again to 4.6% in 2013. However, the organisation does not fail to point out that this forecast is subject to uncertainties such as the development of the oil price and the economic situation in the Euro zone. Turkey's current account deficit, which last year climbed to a new historical high of 9.8% of GDP, is expected to decline to 8.9% in 2012 and 8.3% in 2013. The OECD estimates that Turkey's unemployment rate will drop to 9.5% this year and 9.1% the next year. On the other hand, the inflation rate is forecast to be around 7.5% by the end of the year, significantly higher than the original target of 5%.

(May 23, 2012)

## **Politics**

### **EU to liberalise visa regime**

Members of the business community and politicians in Turkey are increasingly voicing demands for the EU countries to ease their entry restrictions on Turkish citizens. The strict visa regulations are causing severe travel limitations to private persons and businesspeople that are mutually detrimental to relations between Turkey and EU at all levels. At a meeting with a European Parliament commission, Turkish EU Minister Egemen Bagis now called on Europe to "stop the nonsense". The EU Commission has already since last September been working on an action plan for a reform of the visa regime. However, Turkey will be required in return to ratify a treaty for readmission of illegal immigrants from the EU. The UK has already relaxed its rules for business travel within the scope of the "Business Bridge" scheme as of May 1, and, following a Supreme Court ruling, the Netherlands have completely lifted the visa requirement for Turkish businesspeople.

(May 18/21/25, 2012)

### **Erdogan advocates strong Islamic world**

Turkish Prime Minister Recep Tayyip Erdogan has delivered a speech to a joint session of the Pakistani Senate and Parliament. He made the case for intensified economic relations between the two countries, which are traditionally on friendly terms, saying that the current bilateral trade volume of 1 billion US dollars should be doubled as soon as possible. He also dwelled on the importance of democracy and emphasised that governments cannot defy the will of the people. In his words, a strong Islamic world could prove a recipe for the peaceful resolution of conflicts such as in Syria, Palestine and Yemen. Just a few days earlier, the second Istanbul World Political Forum (IWPF) under the motto "Building a new world" had been held in Istanbul with 300 representatives of politics, economy and society from 56 countries. Apparently Turkey would like to establish this event as antithesis to the World Economic Forum meetings in Davos and install itself in a leadership role.

(May 22, 2012)

### **Civil servants strike against proposed wage increase**

Almost 700,000 unionised civil servants in all corners of Turkey have gone on strike to protest the wage increase proposed by the government. Particularly in the face of the high inflation forecast they feel that the proposal of a 3.5% raise in the first and 4.0% in the second half of 2012 is utterly unacceptable. The walkout caused some delays in train service but also disruptions of the school and health system. In some places police interfered with protest marches, also using chemical mace against the crowd. Members of the government indicated the difficult budget situation to justify their offer while promising that they will accept the award of the arbitration committee which is now being called upon.

(May 24, 2012)

## **Other Topics**

### **Istanbul awaits record number of 9 million tourists**

Istanbul is becoming an increasingly popular travel destination. While a record-breaking 8 million foreign tourists visited the city in 2011, 16% more than the year before, 2012 is expected to see at least one million more – congress and exhibition visitors included. Thus the metropolis accounts for close to 30 per cent of Turkey's aggregate number of tourists which is put at 32 million for 2012. In April Istanbul already registered 818,787 visitors, a 17.8% increase over the same month of the previous year, while the first 4 months of the year totalled some 2.5 million tourists. The city's accommodation capacity, which in 2011 had been augmented by 3.5% to 114,000 beds, was 90% full. The largest group of visitors to Istanbul continues to be from Germany, followed by Russia and Iran, while there is also a considerable inflow from the Arab countries.

(May 22, 2012)

### **1 billion dollars' worth of boron to be mined in 2012**

Responding to a parliamentary inquiry, Turkey's Ministry of Energy and Natural Resources has announced that Turkey has mined some US\$828.5mn worth of boron in 2011, 97% of which were exported. This year production is to rise to US\$1bn, and the state-owned mining company Eti Bor looks to increase its capacity fourfold to 5.5 million tons by 2023. While an amendment to the relevant law has been introduced to enable outsourcing of certain services, privatisation is not on the horizon, stated the Ministry. Turkey owns 72% of world-wide boron reserves and has been the world's largest exporter of this rare metalloid since 2005. Boron and its compounds have a wide variety of uses, from detergents and enamel glazes to nuclear fuel rods and rocket propellants.

(May 22, 2012)

### **“Ramadan in Istanbul” to stimulate the retail business**

An extra campaign is scheduled to aid Istanbul's retail businesses in the upcoming month of Ramadan, the Islamic month of fasting (starting from July 20). The aim is to draw tourists particularly from Arab and other Islamic countries to the Bosphorus during this time. Besides special offers, including reduced plane tickets on offer from Turkish Airlines, there will be a supporting programme of cultural and religious events specifically tailored to this target group. The campaign is being organised by the same team that has successfully proved its skills in two “Shopping Fest” campaigns, under the direction of Turkish Exporters' Association TIM in co-operation with the Ministry of Culture and Tourism, the Istanbul Municipality and Governorate, various retailing organisations, and others.

(May 23, 2012)

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