

Turkey

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most countries remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic country with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining India at the top for the first time (also +95 per cent), whilst Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in Turkey are more optimistic about 2008 (+28 per cent) than they were about 2007 (0 per cent).

Levels of optimism have fallen amongst European Union (EU)² businesses. This year a balance of +34 per cent of EU businesses are positive about their country's economy compared to a balance of +46 per cent in 2007. However, levels of optimism vary extensively throughout the EU countries with Denmark recording the highest balance with +74 per cent optimistic, while Spanish PHBs are most pessimistic about their economy over the next year (-5 per cent).

The Turkish economy

Economic growth continued to slide in the third-quarter of 2007, rising by only 1.5 per cent year-on-year in real terms, following a rise of 4.1 per cent in the previous three months. In stark contrast to the second quarter, when slower growth was driven primarily by weak consumer demand, a consumer recovery in the second half of 2007 meant that imports skyrocketed, with net exports serving as a major drag on headline growth.

Consumer demand rebounded strongly in the third quarter, expanding by 3.6 per cent following a contraction of 0.8 per cent in the previous three months. This is the strongest rise in household spending since the second quarter of 2006.

Although headline growth appears to have held up in the fourth quarter, forward-looking indicators have deteriorated in recent months particularly in terms of industrial production. Inflation has skyrocketed since the summer of 2007, increasing the risk that expected interest rate cuts may not be forthcoming. Sentiment indicators are also deteriorating.



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¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

² for the purposes of IBR, the term 'EU' refers to those EU economies covered by our survey – Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

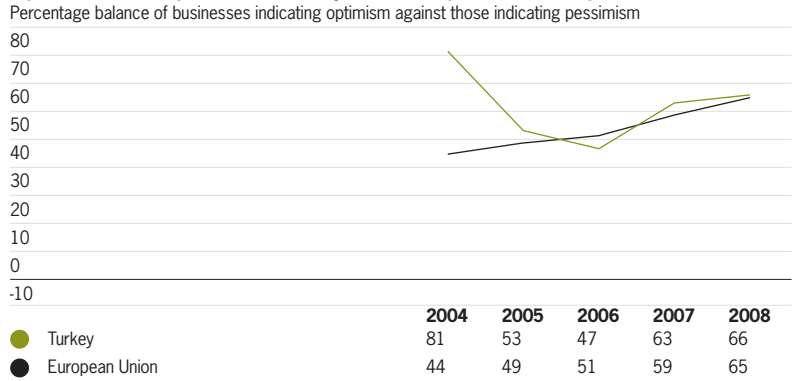
Business expectations/revenue

- PHBs in Turkey are slightly more optimistic about revenue prospects (+66 per cent) compared to 2007 (+63 per cent).
- Optimism levels regarding turnover performance remain just above the EU regional average of +65 per cent.
- Turkish businesses are more optimistic about exports (+34 per cent) than businesses in the EU (+28 per cent).

Employment

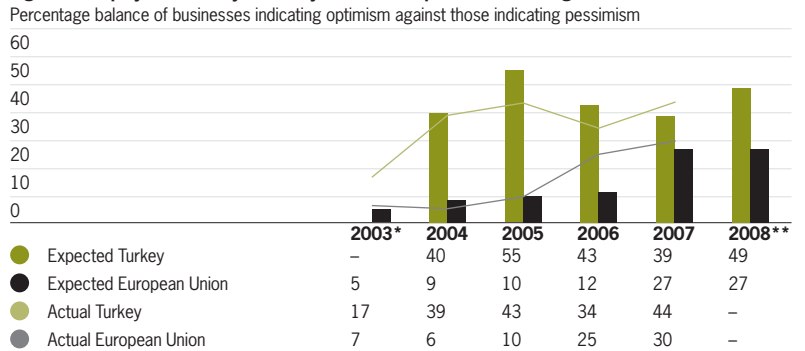
- A balance of +49 per cent of PHBs in Turkey expect employment to grow in 2008 compared to +39 per cent in 2007.
- PHBs in Turkey are much more positive regarding employment in 2008 compared to businesses in the EU (+27 per cent).
- Actual reported employment growth in Turkey in 2007 (+44 per cent) was greater than expected.

Figure 1: Revenue expectations for Turkey and the European Union average 2004-2008

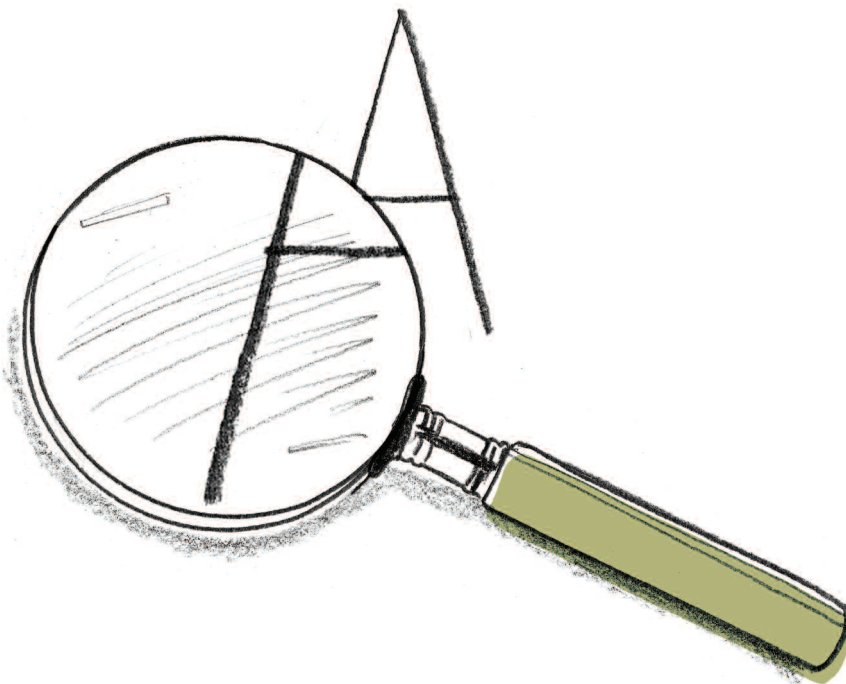


Source: Grant Thornton IBR 2008

Figure 2: Employment history of Turkey and the European Union average 2002-2008



*no data available for Turkey
 **2008 data will be documented in IBR 2009
 Source: Grant Thornton IBR 2008



Constraints

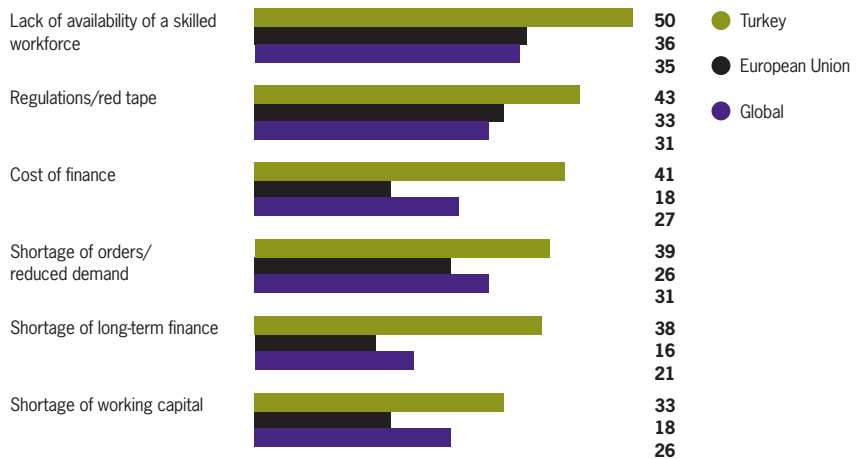
- The availability of a skilled workforce is viewed as the major constraint on expansion for PHBs in Turkey (50 per cent), as is true of businesses globally and in the EU.
- Regulations/red tape is viewed as the second largest constraint (43 per cent). This is higher than the EU average (33 per cent) and the global averages (31 per cent).
- PHBs in Turkey rate all constraints above the EU average and the global average.

Emerging markets

- The most important factor for Turkish businesses, when determining whether to invest internationally, is the market's regulatory environment (83 per cent).
- The proportion of Turkish businesses which export (49 per cent) is up by two per cent from 2007. This is higher than the global average (39 per cent).
- 50 per cent of PHBs in Turkey import, compared to 39 per cent of businesses globally.
- 42 per cent PHBs in the Turkey see their primary competition coming locally.

Figure 3: Largest constraints on growth for Turkish businesses compared to the European Union and the global average

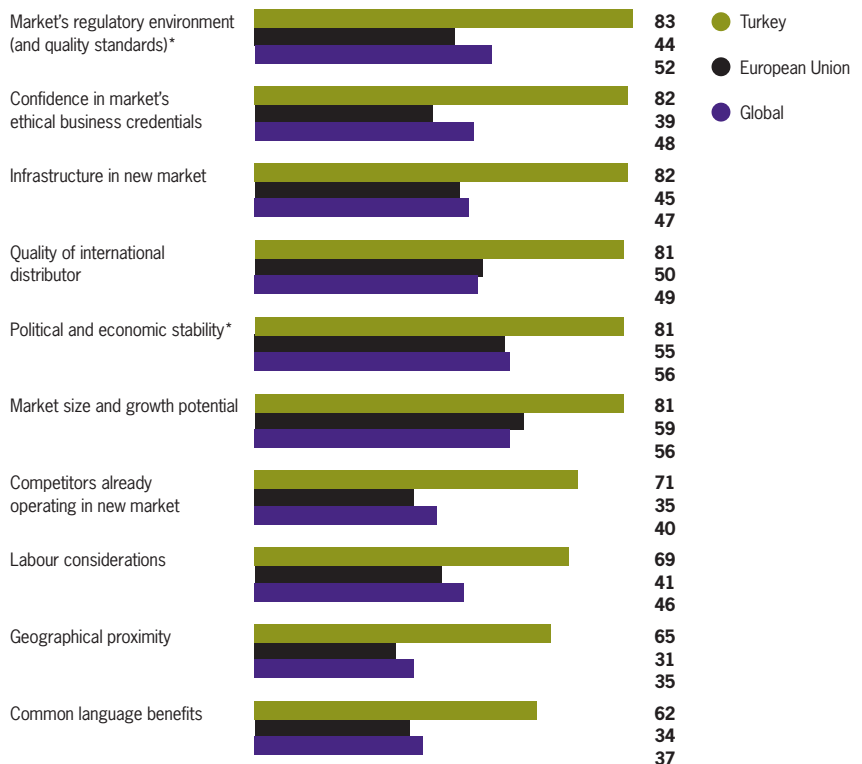
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



*excluding mainland China

Source: Grant Thornton IBR 2008

Competitiveness

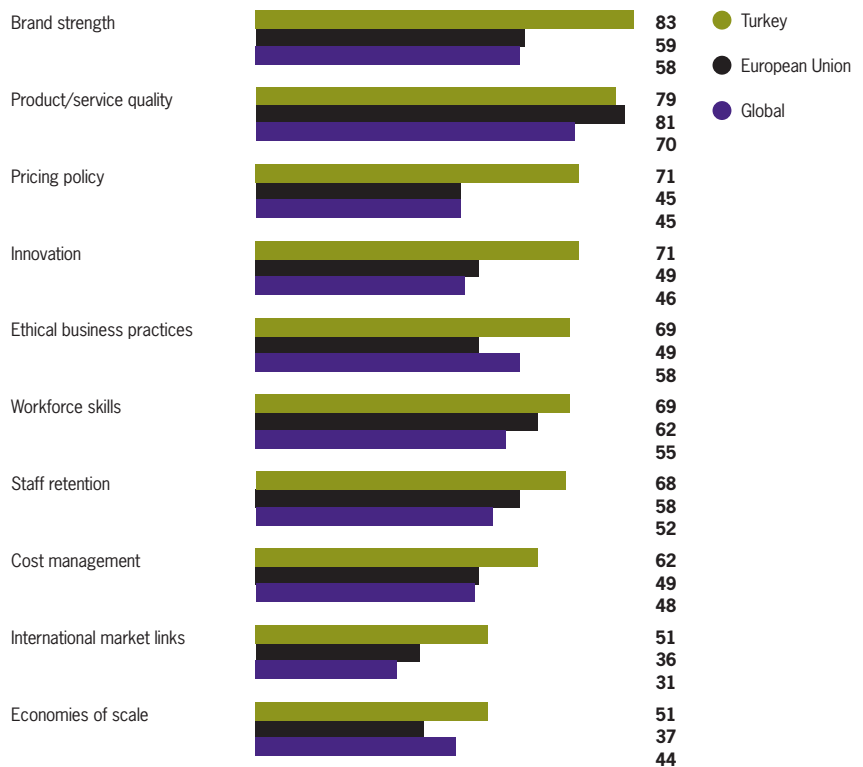
- PHBs in Turkey see their greatest source of competitive advantage as brand strength (83 per cent).
- Similarly to businesses in the EU, 79 per cent of PHBs in Turkey cite product/service quality as a source of competitive advantage.
- PHBs in Turkey rate every source of competitive advantage above the global average.

Corporate social responsibility (CSR)

- The recruitment/retention of staff is viewed as the biggest driver towards more ethical practices by PHBs in Turkey (86 per cent), as is true of businesses in the EU and globally.
- 82 per cent of PHBs in Turkey actively promoted workforce health and well being in the past year, as opposed to around 70 per cent of businesses both in the EU, and globally.
- 40 per cent of PHBs in Turkey have incorporated their policies into a written CSR document, compared to 56 per cent of businesses globally.

Figure 5: Main sources of competitive advantage for Turkish businesses compared to the European Union and the global average

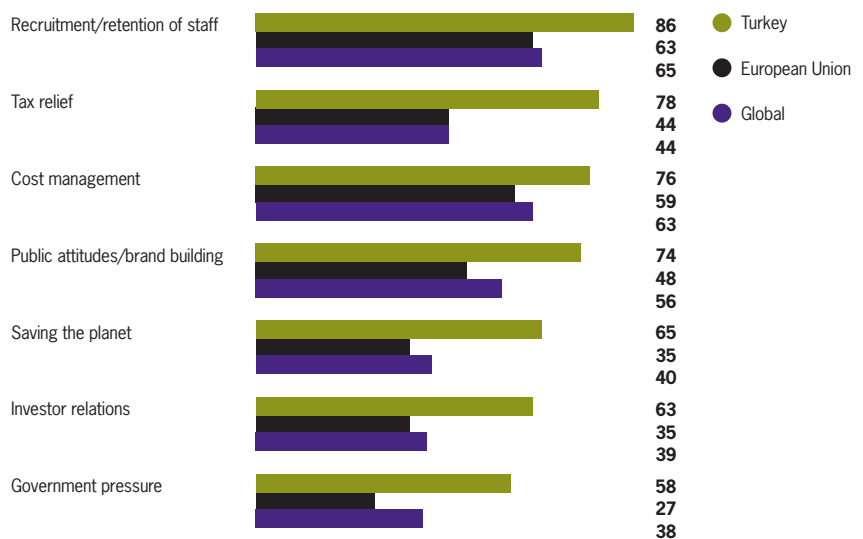
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Turkish businesses compared to the European Union and the global average

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



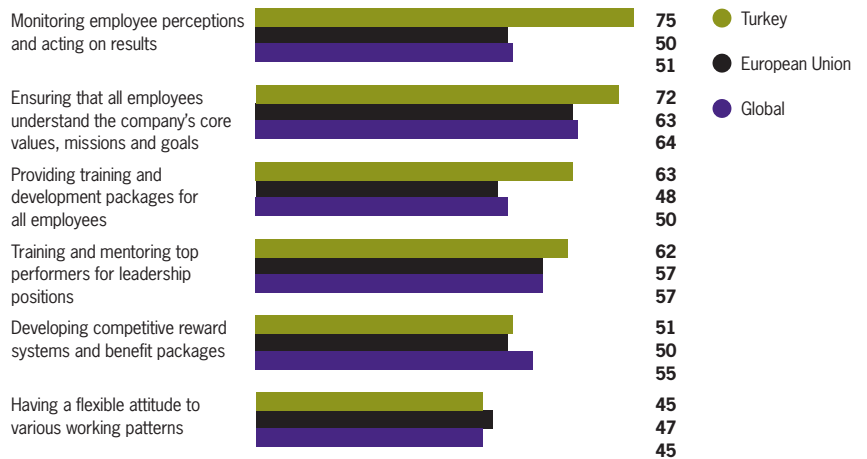
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in Turkey more focused on retention that they were one year ago is has risen from +51 per cent in 2005 to +64 per cent in 2008. This is higher than both the EU (+52 per cent) and global (+59 per cent) averages.
- Three-quarters of PHBs in Turkey monitor employee perceptions and act on the results to aid recruitment and retention.
- The increased workload for remaining staff is viewed as the major problem staff retention issues have caused PHBs in Turkey (66 per cent).
- It is costing 83 per cent of PHBs in Turkey significantly more to pay their staff than it was 12 months ago. This is well above both the EU (58 per cent) and global (63 per cent) averages.

Figure 7: Usage of recruitment and retention tools for Turkish businesses compared to the European Union and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Turkish economy

It seems that the Turkish economy is in for another year of growth that is well below trend. Despite the rebound in consumer demand in late 2007, consumer confidence is taking a hit as higher inflation erodes income gains. Strong headwinds from the global economy are also playing a role. Growth of only four per cent is expected this year.

Next year should see the beginnings of a recovery as falling inflation and resulting interest rate cuts boost consumer demand and private sector investment activity. The external sector will continue to act as a drag to growth as domestic demand picks up more strongly, thereby sucking in more imports. As a result, growth is expected to accelerate to 'only' five per cent in 2009.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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