

MONTHLY BRIEF



AUGUST
2018



MONTHLY BRIEF

ABOUT **DEİK**

Foreign Economic Relations Board of Turkey (DEİK) is responsible for leading foreign economic relations of Turkish private sector in a myriad of sectors particularly foreign trade, international investment and services, international construction activities and logistics, exploring inward and outward investment opportunities as well as increasing the export volume of Turkish businesses and coordinating similar business development activities.

ABOUT **TAİK**

The Turkey-U.S. Business Council (TAİK), operating under the umbrella of the Foreign Economic Relations Board of Turkey (DEİK) was formed in 1985 as the first council, with the aim to enhance trade and investment relations between the U.S. and Turkey.

TAİK operates with a mission to create a platform to facilitate development of economic relations between the U.S. and Turkey through its wide spectrum of activities such as conferences, forums, business summits, lobbying visits, networking luncheons and dinners, educational site visits, etc. With its broad range of activities and worldwide network, TAİK represents a role model for other organizations in pursuit of similar goals.



UPDATE ON TURKISH ECONOMY

15.85%

July 2018 CPI inflation is registered as 15.85%. This figure is expected to increase in the upcoming period.

9.7%

Unemployment in Turkey is registered as 9.7% in May 2018, up from 9.2% in April.

**\$161.8
BILLION**

Turkey's annualized exports stand at \$161.8 billion in June 2018, marking a 8.4% increase from its level in June 2017.

96.4

Real sector confidence index decreased by 6.3 points to 96.4 in August compared to previous month. Values below 100 in this index indicate negative expectations on the economic outlook.

19.25%

The weighted average cost of funding (WACF) of the Turkish Central Bank stands at 19.25%. We have witnessed an implicit rate hike of 150 basis points in August.

August Fire!

August has been such a volatile month that it can be recorded as a landmark period in Turkish economic history. Economic vulnerabilities have been exacerbated by the political rift between Turkey and the U.S., which seems to stem from American pastor Brunson's detainment in Turkey, whereas a deeper lack of confidence between the parties has been in the making for quite some time. Turkey's refusal of the U.S. request to release pastor Brunson resulted in the sanctioning of Turkish interior and justice ministers under the Global Magnitsky Act on August 1, and triggered lira's free fall. U.S. decision to double tariffs on steel and aluminum imports from Turkey on August 10, to postpone the delivery of F35 striker jets to Turkey, and the signaling of new sanctions unless pastor Brunson is released, escalate the risk of further tensions. The conciliatory messages given by Germany, France and Russia in support of Turkey on the other side, has been another important dimension of the spat with the U.S.

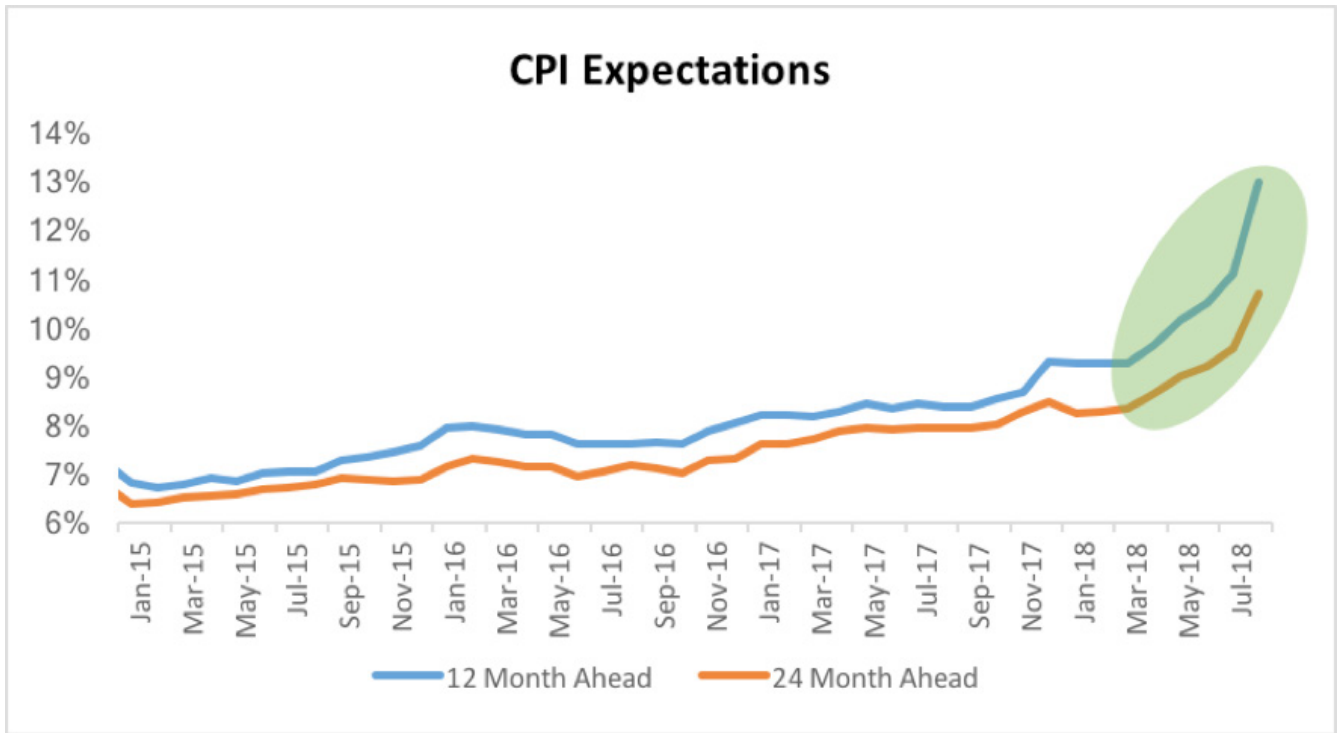
Under such circumstances, the value of lira against dollar which was at 4.90 on July 31 depreciated at a staggering rate of 40% within two weeks to hit 7.23 as its lowest point on August 13. The country's credit default swaps standing at 195 basis points at the beginning of April, gradually climbed up to 320 points in early August, and again soared to 542 basis points as their highest level in mid-August. Benchmark bond interest rates also jumped from 21% in early August to 28.27% on August 15.

Deteriorating Indicators and Immediate Policy Response

The major indicator monitored within such an economic environment is inflation figures. Turkey's CPI inflation increased by 40 basis points from June to July and now stands at 15.85%. Annual core inflation indicators also soared by 370 basis points within the last five months, while services and rent inflation are also on the rise. The level of annual producer price increases - now standing at 25% - signifies that cost side pressure over prices is still enduring. Moreover, the currency shock experienced in August is expected to push these figures further upward. As a matter of fact, inflation expectations for the next 12 months already increased by 189 basis points to 12.96% in August. Inflation expectations for the next 24 months have also hit double-digits at 10.67%, indicating that the peak level of inflation is yet to come. Within this trajectory, starting from August 13, Turkey's economy administration took several measures in response to this financial tension and economic turmoil. Such measures currently seem to calm the markets. An important policy action within this context, was the Banking Regulation and Supervision Agency's (BRSA) decision to limit swap transactions in the banking system. More precisely, the threshold for swap transactions is first set to 50% of the banks' paid-in capital, then this limit was further decreased to 25%. The BRSA additionally included forward FX transactions into this limitation with a subsequent regulation. Such measures resulted in meaningful increases in two-year interest rates, relative stability in the value of lira, and a small revaluation of the currency from its 40% depreciation. Meanwhile, the Central Bank also announced a reduction in required reserve ratios, thus providing liquidity in the market and avoiding the transformation of the financial tension into a liquidity crisis. Another policy action taken by the Central Bank has been to change the composition of the liquidity it provides to banks while increasing the Weighted Average Funding Rate from 17.75% to 19.25%. It must be noted that such decision signifies an implicit rate hike of 150 basis points.

Despite the immediate relief provided by these policies, the main message expected by the markets was that of the Minister of Treasury and Finance as the captain of the economy administration. The minister gave a presentation about Turkey's "new economic model" on August 10th, outlining the government's outlook and held a teleconference with foreign investors the following week. Accordingly, two topics have been at the forefront in the government's messages. The first was the government's dismissal of speculations on potential capital controls, and the second was the announcement of the decision to take action for economic rebalancing in the coming days. Apparently, the notion of "rebalancing" refers to pulling growth rates down to sustainable levels, resorting to fiscal discipline, and prioritizing policies to manage inflation. Regarding the potential rate hike decisions of the Central Bank, the minister's messages on designing the fiscal policy to supplement monetary policy and within the context of supporting the Central Bank's fight against inflation also need to be highlighted.

With an aim to control the implications of financial volatility over the real economy, the Ministry of Industry and Technology also announced a 16-bullet action plan. Furthermore, a new credit program labeled as "breath credit" and spearheaded by banks and the Union of Chambers and Commodity Exchanges to ease the access of SMEs to low-interest rate financing opportunity is announced. The government is also expected to introduce policies to resolve the issue of excess supply in the housing industry.



Source: [InnoNative Advisors](#)



UPDATE ON TURKEY-U.S. TRADE RELATIONS

\$20.4
TRILLION

U.S. Real GDP increased at an annual rate of 4.1% in the second quarter of 2018, according to “advance” estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.2% (revised).

3.9%

U.S. total nonfarm payroll employment increased by 157,000 in July, and the unemployment rate edged down to 3.9%. Employment increased in professional and business services, manufacturing, health care, and social assistance.

2.9%

U.S. Consumer Price Index for all urban consumers increased 0.2% in July on a seasonally adjusted basis. Over the last 12 months, the all items index rose 2.9% before seasonal adjustment.

\$4.40
BILLION

U.S. imports of goods from Turkey in May 2018 decreased by 7.6% to \$892 million compared to previous month. **Total U.S. imports from Turkey in the first five months of 2018 has reached to \$4.40 billion.**

\$143.2
BILLION

U.S. exports of goods in June 2018 decreased by 1.2% to \$143.2 billion compared to previous month.

\$212
BILLION

U.S. imports of goods in June 2018 increased by 0.7% to \$212 billion compared to previous month.

\$5.1
BILLION

U.S. exports of goods to Turkey in June 2018 decreased by 9.1% to \$783 million compared to previous month. **Total U.S. exports to Turkey in the first half of 2018 have reached to \$5.1 billion.**

\$5.4
BILLION

U.S. imports of goods from Turkey in June 2018 increased by 6.2% to \$947 million compared to previous month. **Total U.S. imports from Turkey in the first half of 2018 have reached to \$5.4 billion.**

31st

Turkey is U.S.’s 31st largest export market in the first half of 2018. **Leading U.S. exporting industries to Turkey in June 2018 are cotton** (\$106 million), **aircrafts and spare parts** (\$102 million), **machinery and spare parts** (\$90 million), **mineral fuels** (\$61 million), **and iron and steel products** (\$51 million) which **in total comprise 52.4% of overall exports to Turkey in June.**

30th

Turkey is U.S.'s 30th largest sourcing market in the first half of 2018. Leading Turkish exporting industries to U.S. in June 2018 are **mineral fuels** (\$98 million), **machinery and spare parts** (\$92 million), **imports of previously exported products / U.S./foreign government agency imports, etc.** (\$89 million), **motor vehicles and spare parts** (\$69 million), and **carpets and other textile floor coverings** (\$48 million) which in total comprise 41.8% of overall exports to the U.S. in June.

48.1%

Texas (\$998.9 million), New York (\$505.4 million), California (\$382.4 million), Georgia (\$305.7 million), and New Jersey (\$246.7 million) are the leading states in exports to Turkey in the first half of 2018 which in total comprise 48.1% of U.S. exports to Turkey.

46.0%

California (\$608.3 million), Texas (\$592.1 million), New York (\$481.7 million), New Jersey (\$462.3 million), and Georgia (\$272.7 million) are the leading states in imports from Turkey in the first half of 2018 which in total comprise 46.0% of U.S. imports from Turkey.



Source: [InnoNative Advisors](#)



BUSINESS GROUPS URGE TRUMP, ERDOGAN TO MEET AS DISPUTE HITS INVESTMENTS

The heads of the American Turkish Council and Turkey-U.S. Business Council, which jointly represent 250 companies, called on President Donald Trump and President Recep Tayyip Erdoğan to meet to end the dispute over the release of American pastor Andrew Brunson.

U.S.-Turkey business groups warned that a political dispute between the NATO allies was affecting investor confidence and had forced some firms to suspend investment plans.

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TURKEY'S FOREIGN TRADE DEFICIT NARROWS 58 PCT IN AUGUST

Turkey's foreign trade deficit in August fell 58 percent on a yearly basis, according to the trade ministry's preliminary data on Sept 1.

Trade Minister Ruhsar Pekcan said in a statement that the trade deficit of \$2.48 billion last month was the lowest monthly figure in the last nine years. "In the same month, exports coverage ratio to imports reached 83.3 percent," Pekcan said. "It is also the highest level over the past nine years." She added that Turkish exports amounted to \$12.4 billion in August, with a yearly fall of 6.5 percent, while the country's imports declined by 22.4 percent to \$14.8 billion.

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MAJOR ECONOMIC STEPS, MEDIUM-TERM PROGRAM HIGH ON TURKEY'S AGENDA AFTER BAYRAM BREAK

In the aftermath of the nine-day Kurban Bayram (also known as Eid al-Adha) break, the economy administration is expected to take steps in economic policy and launch the new medium-term program, which the markets have been waiting for.

In the coming period, efforts to prepare the medium-term program will intensify, and the new economic program will cover the three-year period from 2019 to 2021. When the program is unveiled, revised figures for 2018 and targets for next year will be clarified. According to last year's medium-term program, which covers the period of 2018 to 2020, the growth target for 2018, 2019 and 2020 was set at 5.5 percent. Inflation estimates were 7 percent for 2018, but 6 and 5 percent, respectively, for 2019 and 2020.

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TURKEY'S CONSUMER CONFIDENCE INDEX DROPS 6.5 PERCENT IN AUGUST

Turkish consumers' confidence in the country's economy dropped in August, down 6.5 percent, month-on-months, Turkey's statistical authority said.

The consumer confidence index stands at 68.3 this month, versus 73.1 in July. The index value is calculated through collaboration between TurkStat and the Central Bank by measuring consumers' tendencies. Last month, the consumer confidence index rose 4 percent from 70.3 in June. Since the beginning of this year, the index value has hovered between 73.1 and 68.3 – the highest in July and the lowest this month. Consumers' assessments and expectations on nearly 20 economic and financial items are measured in monthly tendency surveys. According to TurkStat, the consumer confidence index calculated from the survey results is evaluated on a range of 0-200, indicating an optimistic outlook when the index is above 100, and a pessimistic outlook when below.

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TURKEY, QATAR CENTRAL BANKS SIGN CURRENCY SWAP DEAL

Qatar and Turkey's central banks have signed a currency swap agreement to provide liquidity and support for financial stability days after Doha pledged \$15 billion in support.

The agreement, which was signed by the heads of the two central banks will establish a two-way currency exchange line, the Qatar Central Bank said in a statement posted on its website. The deal will facilitate trade between the two allies as the Turkish currency is battered by a deepening spat with Washington, the Central Bank of the Republic of Turkey (CBRT) said. "The swap agreement has been signed over Turkish lira and Qatari Riyal and concluded with an overall limit of \$3 billion," the CBRT said. "Core objective of the agreement is to facilitate bilateral trade in respective local currencies and support financial stability of the two countries."

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POLITICAL TENSION FRAYS US AND TURKEY COTTON TRADE

The sharp decline in Turkey's lira and worsening tensions between President Recep Tayyip Erdoğan and his US counterpart Donald Trump are fraying one of the most important trade relationships between the two countries – cotton sales.

Turkey is the third-largest market for the cotton farmers of the southern US, but some buyers are holding back on signing contracts after the currency plunge, while some international merchants fear existing deals could fall apart. The lira has fallen 37 per cent against the dollar this year. That makes importing bales more expensive, as global cotton deals are transacted in dollars. Turkey's textile mills can offset part of the effect with exports of fabric and garments to Europe, but inflation is hitting domestic consumption, analysts said. "Definitely, cotton imports would be less attractive following such a steep depreciation in the Turkish lira," said Leon Picon, cotton purchasing director at Orta Anadolu, a denim manufacturer based in Istanbul.

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US DOLLAR HAS LOST ITS CREDIBILITY: TURKISH FINANCE MINISTER

Turkey will continue to take steps to protect Turkish lira's value in international trade, Treasury and Finance Minister Berat Albayrak said.

Speaking at a symposium in capital Ankara, Albayrak said: "The U.S. dollar has been turned into a tool for diplomatic punishment. The U.S. dollar has lost its credibility." The minister said Turkey will take steps keeping in view the free-market to reduce currency risk of companies. "We will determine companies affected by rising foreign currencies and we will continue to put them at ease," he added. He also said tangible and effective reforms will be the most important part of Turkey's economic policy in the coming period.

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TURKEY'S CHERRY EXPORTS INCREASE 27 PERCENT IN 2018

Turkey's cherry exports increased to some 76,000 tons this year – amounting to \$161.7 million, vice chairman of the Uludağ Fresh Fruit and Vegetable Exporters' Association (UYMSIB) said.

In an interview to Anadolu Agency, Senih Yazgan said this year broke the 2016 record of 78,700 tons worth \$182.7 million. Yazgan said several seasonal problems made it very difficult to grow cherries this year, including sudden rain and hail. "If we had the same climatic conditions this year as they were in the past years, these 76,000 tons would have certainly exceeded 80,000 tons," Yazgan said. He added: "We had the product ready, but the exporters held it back instead of exporting sub-standard goods, so as to not lose its place in the European market."

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UPCOMING EVENTS

9TH TURKEY INVESTMENT CONFERENCE, 26 September 2018



9th Turkey Investment Conference, organized by the Turkey-U.S. Business Council (TAİK), will take place at Gotham Hall, New York on September 26, 2018. The Conference will be honored by the President of the Republic of Turkey, H.E. Recep Tayyip Erdoğan, the Minister of Commerce H.E. Ruhsar Pekcan and the Minister of Treasury and Finance H.E. Berat Albayrak.

This forum is principally designed to bring Turkish senior government officials and highly regarded corporate executives together with American investors interested in better understanding the investment landscape in Turkey. Please contact taik@deik.org.tr for further information.

37TH ATC-TAİK ANNUAL CONFERENCE ON U.S.-TURKEY RELATIONS, 22-24 October 2018



The Turkey – U.S. Business Council (TAİK) & American Turkish Council's (ATC) flagship event is the Annual Conference on U.S.-Turkey Relations. Held every year in Washington DC, the Conference convenes hundreds of U.S.-Turkey stakeholders and thought leaders to address key commercial and diplomatic topics between the two countries.

37th ATC-TAİK Annual Conference on U.S.-Turkey Relations will be held between at the Trump International Hotel, Washington D.C.

Please visit <http://atctaikconference.com/> for more information. You can take a look at the [sponsorship opportunities here](#).



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DEPUTY SECRETARY GENERAL

Merih KEPEZ ÖRNEK

mkepez@deik.org.tr

BUSINESS COUNCIL COORDINATORS

Murat Can MENTEŞ

mmentes@deik.org.tr

Melike HOCAOĞLU

mhocaoglu@deik.org.tr

BUSINESS COUNCIL ASSISTANT COORDINATOR

Selin ERGENE

sergene@deik.org.tr

RIVER PLAZA Büyükdere Cad. Bahar Sok. No: 13/10 34394 Levent / İSTANBUL / TURKEY

T: +90 212 339 50 00

F: +90 212 270 35 92

E-mail : americas@deik.org.tr | taik@deik.org.tr

Web : www.deik.org.tr | www.taik.org.tr

Twitter : @deikiletisim | @taikofficial

