

MONTHLY BRIEF



OCTOBER
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

17.9%

August 2018 CPI inflation is registered as 17.9% in Turkey. The year-end inflation expectation of the government is 20.8%.

10.2%

Unemployment in Turkey is registered as 10.2% in June 2018. Year-end unemployment expectation of the government for 2018 is 10.9%.

3.8%

2018 growth expectation of the government in the New Economic Program is 3.8%. Growth is expected to slow down to 2.3% in 2019.

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.

**\$170
BILLION**

Annual exports by the end of 2018 are expected to register \$170 billion according to the New Economic Program. Turkey's annualized exports are registered as \$165.6 billion as of September 2018 with an increase of 7.6%.

24%

Turkey's policy rate now stands at 24%, after the rate hike decision of the Central Bank by 625 basis points on September 13th.

As the Dust Settles

September has been another busy month for Turkey. The Central Bank's rate hike of 625 basis points on September 13 provided some relief to the volatility observed in exchange rate for the last two months. The value of the dollar which was 4.90 liras at the beginning of August has been on a constantly increasing trend. The currency which was traded around 6.70 against the dollar in the first week of September has started to gradually appreciate in response to the hike decision and currently trades around 6 liras. As the dust started to settle on exchange rate side, its implications on inflation, interest rates, and the real sector have been major indicators to watch in order to make sound predictions about the new course of the economy. The annual consumer price index inflation registered an increase of 2.1% points in August and reached 17.9%. As producer price index now stands at 32.1%, it is safe to argue that increasing costs will continue to put pressure on producers. To what extent such pressure will be passed on consumer prices will however be determined by demand conditions.

The rise in inflation also resulted in increasing interests on both deposits and credits. The commercial credit interest rates which stood around 20% by the end of May, has continuously increased to 22% in July, 32% in August, and 34% by mid-September. It must be particularly noted that rising interest rates are severely restraining the credit channel, as the annual credit growth rate with exchange rate adjust-

ment has now diminished to 6%. The real rate of decrease in credit growth becomes more important in a high inflation environment. A deeper look into the credit market within the last 3 months indicates that credit growth rates might further diminish in the coming days. Such a credit crunch also comes at a time when the number of companies announcing concordat or applying for debt restructuring are on the rise; hence increasing the risk of further contraction in the credit channel due to additional erosion in confidence.

Implications on Growth and Foreign Trade

Growth expectations are also revised downwards due to the contraction in the credit channel. There are several predictions made for Turkey's economic growth in the upcoming period but the most negative forecast is made by the Institute of International Finance (IIF). The IIF predicts that there may be quarters in which Turkish economy might contract at double digit levels, mainly due to credit impulse. The Institute's growth expectation for 2019 is -2%. Nevertheless, despite strong slow-down of economic activity as seen in indicators such as capacity utilization, real sector confidence, consumer confidence, and PMI; we still cannot conclude that indicators necessarily signify negative growth at this stage.

Turkey's upcoming economic growth story will now come to be defined with the word "rebalancing". The term in general refers to slowing (and in some cases contracting) domestic demand, whereas net external demand would stand as the main driver of growth or the main factor to slow down potential contraction. Within this new level of exchange rate, net external demand with increasing exports and decreasing imports is expected to positively contribute to growth, while also decreasing the country's risk due to declining current account deficit. In fact, this mechanism has worked strongly and quickly during previous economic troubles Turkey has faced.

However, it seems like increasing exports have not been at play for the country this time. We measure the country's export performance by excluding gold exports and euro/dollar parity effect in order to make more realistic projections. Hence, a closer look into Turkey's export performance - excluding gold exports and the parity effect - demonstrates that growth rate of exports is on a declining trend since November 2017 and is registered as 6.7% in July 2018. In other words, contrary to the expectations for acceleration in exports, export growth is declining.

There might be several reasons for the declining rate of export growth in an environment where the local currency is depreciating. The first is that, the reflection of the change in the value of lira on export contracts would take time (on average 6 months) and hence export growth could accelerate in the coming months. Nevertheless, it must also be noted that lira's depreciation has not been sudden, as the currency lost more than 20% of its value within 2017. Another possible reason of decelerating export growth is that Turkish exports' dependence on intermediary imports might be resulting in rising input costs for exports, hence overshadowing the positive effect expected from depreciating currency. Divergent evaluations based on different sectors can be made with regard to this explanation, however it must be noted that Turkish exports have always been rather quickly responsive to previous exchange rate effects.

In case exports are not reacting to exchange rate effects now – contrary to their previous performance, it must be a result of conditions peculiar to the current economic atmosphere. Within this context, two issues come to the fore. The first is that Turkey’s exporter companies might be producing at a level close to their capacity limits. If this is the case, exchange rate effect would have negligible impact on productive capacity and the only method to increase exports would be building additional productive capacity specifically geared towards exports. The second reason related to the current economic conditions might be related to foreign trade financing. In an environment where credit channels are contracting – as previously mentioned, banks mainly tend to cut credits granted for foreign trade financing as a first resort, which creates a huge burden on export activities. Therefore, we think that addressing potential obstacles related to foreign trade financing seems to stand as a primary policy tool to achieve the positive effects of currency depreciation on exports.

New Economic Program

Turkey’s New Economic Program, portraying the government’s predictions for 2019-2021 periods has also been announced in September. The predictions and projections outlined within the program seem to be found reasonable and realistic by the markets. The country’s economy administration is expecting the growth rate to be 3.8% in 2018 and 2.3% in 2019. Such expectations demonstrate that a potential negative growth in the fourth quarter is also projected by the government. According to the program, year-end inflation expectations for 2018 is 20.8% and for 2019 is 15.9%, which signify that the economy administration is also aware of the fact that fight against inflation will not bear fruits immediately. Within this framework, perhaps the most important message taken by investors has been that Turkey’s economy administration is aware of the problems and solutions are expected to follow.



Source: [InnoNative Advisors](#)



UPDATE ON TURKEY-U.S. TRADE RELATIONS

\$20.41
TRILLION

U.S. Real GDP increased at an annual rate of 4.2% in the second quarter of 2018, according to “third” estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.2%.

3.7%

U.S. total nonfarm payroll employment increased by 134,000 in September, and the unemployment rate declined to 3.7%. Job gains occurred in professional and business services, health care, transportation, and warehousing.

2.3%

U.S. Consumer Price Index for all urban consumers increased 0.1% in September on a seasonally adjusted basis. Over the last 12 months, the all items index rose 2.3% before seasonal adjustment.

\$138.9
BILLION

U.S. exports of goods in August 2018 decreased by 1.4% to \$138.9 billion compared to previous month.

\$215.6
BILLION

U.S. imports of goods in August 2018 increased by 0.8% to \$215.6 billion compared to previous month.

\$769
MILLION

U.S. exports of goods to Turkey in August 2018 decreased by 12% to \$769 million compared to previous month. Total U.S. exports to Turkey in the first eight months of 2018 has reached to \$6.72 billion.

\$985
MILLION

U.S. imports of goods from Turkey in August 2018 increased by 5.1% to \$985 million compared to previous month. Total U.S. imports from Turkey in the first eight months of 2018 has reached to \$7.27 billion.

33rd

Turkey is U.S.’s 33rd largest export market in the first eight months of 2018. Leading U.S. exporting industries to Turkey in August 2018 are aircrafts and spare parts (\$175 million), mineral fuels (\$97 million), iron and steel products (\$90 million), machinery and spare parts (\$67 million), and organic chemicals (\$47 million) which in total comprise 61.9% of overall exports to Turkey in August.

30th

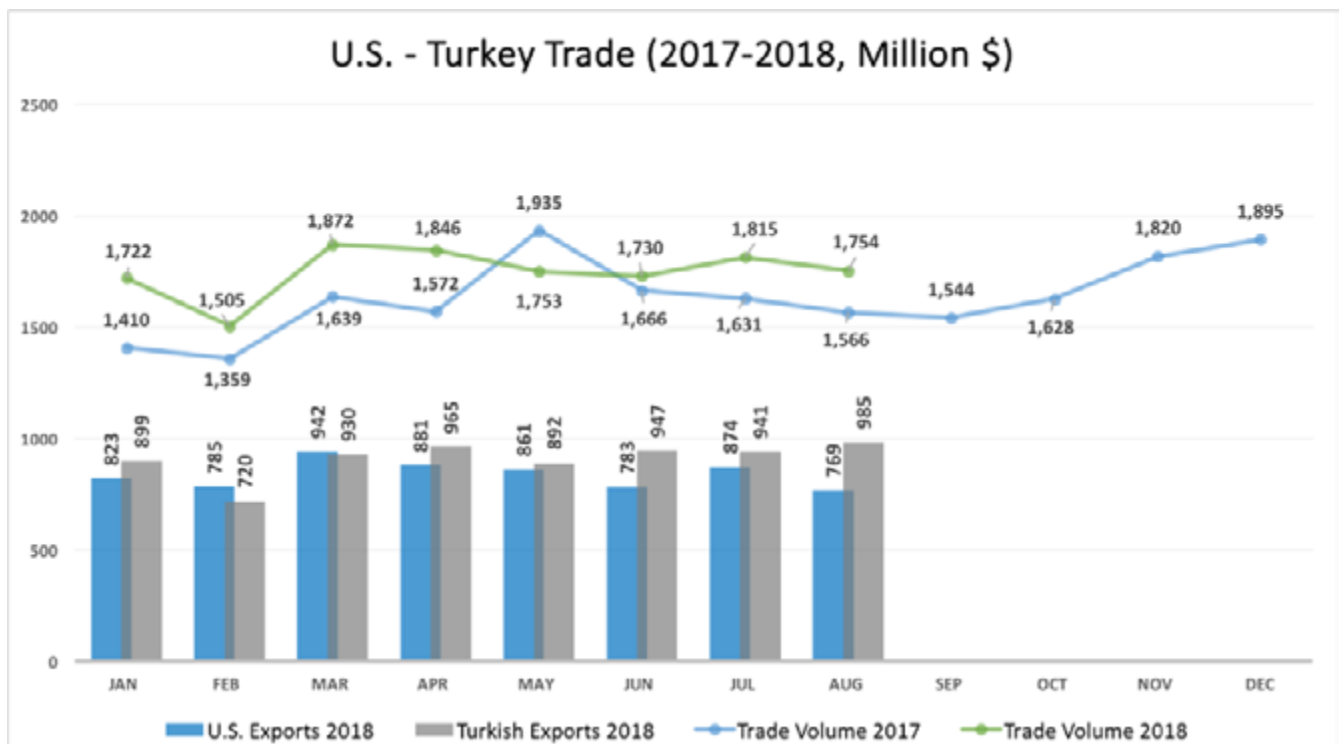
Turkey is U.S.'s 30th largest sourcing market in the first eight months of 2018. Leading Turkish exporting industries to U.S. in August 2018 are mineral fuels (\$114 million), machinery and spare parts (\$97 million), motor vehicles and spare parts (\$95 million), iron and steel products (\$71 million), and carpets and other textile floor coverings (\$50 million) which in total comprise 43.4% of overall exports to the U.S. in August.

1827

The number of companies with U.S. capital operating in Turkey as of June 30th, 2018 is 1827; according to the latest data released by Turkish Ministry of Industry and Technology. This figure marks an increase of 31 companies from 1796 companies in December 31st, 2018.

239.257

The number of visitors from the U.S. to Turkey in 2017 was 329.257 according to the statistics of Turkish Ministry of Culture and Tourism. The U.S. has been the 19th largest tourist generating country for Turkey in 2017, down from 13th in 2016 with a decline of 28.3%.



Source: [InnoNative Advisors](#)



ON TURKEY'S NEW DEVELOPMENT PATH

German Economic Affairs and Energy Minister Peter Altmaier visited Turkey with a group of CEOs of Germany's largest companies. As part of his perspective, Turkey is in favor of strong and sustainable growth – the main dynamic of which is a fully open and competitive economy.

The Turkish economy under the Justice and Development Party (AK Party) governments could be evaluated in three main periods. The first was the "Program for Transition to Strong Economy" (GEGP), which was introduced immediately after the 2001 crisis, and the steps taken in the following years. The second was Erdoğan's termination of the 19th stand-by agreement with the International Monetary Fund (IMF) in 2008 and avoidance of signing the 20th standby agreement despite the insistence by big capital – which was followed by Turkey's endeavor to achieve high growth and development pace starting in 2010 and 2011. Today, however, Turkey and other developing countries need to open their traditional growth and development models up for discussion. Under Erdoğan's administration, Turkey has started to move away from the orthodox understanding of growth in practical terms as well as of 2010 and 2011.

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TURKEY'S ECONOMY PLAN IS GOOD, PRACTICE TO MATTER: EBRD

The head of the European Bank for Reconstruction and Development Bank, one of the top investors in Turkey, has praised the country's new economic program, while stressing "implementation will matter."

EBRD President Suma Chakrabarti called the recent economic troubles in Turkey a "slowdown" rather than a "crisis," for which he said "Turkey probably has the right policies to recover well." He told in Istanbul on the sidelines of a summit on Oct. 18: "There has been a lot of economic turbulence in recent months in Turkey but I think the government has gripped the agenda. I praise the government for gripping the agenda. I think it is very much shifting towards a rebalancing and reform agenda."

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TURKEY KEEPS RATES ON HOLD AS ECONOMY SLOWS

Turkey's central bank kept its benchmark lending rate on hold as the country braced for a sharp slowdown in economic growth.

The central bank said economic data showed a slowdown was under way but added that there was a need to keep interest rates high because of the "significant risks" to price stability in the period ahead.

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TURKEY PUTS IMPORT QUOTAS ON STEEL: WTO FILING

New import quotas will be introduced for steel as a part of many safeguard measures. On the other hand, some trade barriers in some areas will be lowered as a compensation for trade partners.

Turkey will introduce quotas on the amount of steel it imports from Oct. 17, with an additional 25 percent duty levied on any imports above the quotas, it said in a filing published by the World Trade Organization, blaming a surge in imports. Turkey's steel quotas are a provisional safeguard measure, permitted under WTO rules if a country wants to shield a particular industry at risk from a sudden, unforeseen and damaging surge in imports. It is expected to compensate trade partners who lose out by lowering trade barriers in other areas.

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TURKISH TRADE BALANCE CONTINUE TO IMPROVE

External imbalances started to improve in the second half of this year. Trade deficit has decreased which is the lowest number since 2017. Improvements will continue at a rapid pace with increasing exports.

Slower growth and a weaker currency lead to a contraction in Turkey's foreign trade deficit, a trend we've seen since June, and the latest September figures show a further acceleration. External imbalances had already started to improve in the second half of this year and this trend turns more visible with a plunge in the September trade deficit to USD1.9bn, pulling the 12M rolling figure to USD74bn, the lowest since Nov-17. Accordingly, coverage of imports by exports stood at 69% on a 12M rolling basis, up from 66.9% a month ago. We expect the improvement to continue at a rapid pace with the slowdown in growth weighing on import demand and strong exports on the back of increased price competitiveness and the ability of Turkish companies to diversify export markets.

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ISTANBUL'S NEW AIRPORT WILL BE ONE OF THE LARGEST

Istanbul's new airport was officially opened and it will be functioning till the end of the year. The new airport establish itself as a major travel hub and one of the world's largest and expecting to grow continuously.

It's ambitious, award-winning and already hit with controversies. Istanbul's new airport was officially inaugurated - although it won't be fully functioning until the end of the year. The swanky new airport aims to establish itself as a major travel hub and a key player on the world aviation stage, thanks to Turkey's East-meets-West location. Once completed, the airport will be pretty huge - the total project area is 76.5 million square meters. It's supposed to have the world's largest terminal under one roof, although it's opening in phases and only limited flights will take off at first.

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TURKEY PERFORMS RECORD NUMBER OF REFORMS

New Economic Reforms has paid off and a noticeable progress has been made. All improvements led Turkey to have a place on this year's "Top 10 Global Improvers" list. Furthermore, Turkey advanced to 43rd place in the global ease of doing business ranking and performs best in the areas of enforcing contracts, with a global rank of 19, and protecting minority investors.

Turkey showed a notable progress in reforms to enhance the business climate, the World Bank announced. "Turkey carried out a record number of business reforms in the past year, earning the country a spot in this year's top 10 global improvers," the bank said in a statement. According to the Doing Business 2019 - Training for Reforms report, last year's reforms accelerated Turkey's efforts to improve the business climate for domestic small and medium enterprises.

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TURKISH ECONOMY IS NORMALIZING

Minister of Treasury and Finance of the Republic of Turkey Mr. Berat Albayrak attended a broadcast by CNNTurk and stated that there is no problem to not overcome. Turkish economy began to stabilize and the currency continues to appreciate against U.S. Dollar.

Turkey's economy began to normalize in October and markets are likely to be reassured about its prospects next year, Treasury and Finance Minister Berat Albayrak was quoted as saying by broadcaster CNN Turk. The lira slumped in August and at one stage was down 47 percent since the start of the year on investor concerns over the Turkish central bank's independence and a deterioration in U.S.-Turkish ties. The currency has since recovered some of those steep losses with a mammoth 6.25 percentage point rate hike in September and an improvement in relations with the United States.

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UPCOMING EVENTS

37TH ATC-TAIK 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-TAIK Annual Conference on U.S.-Turkey Relations will be held 14-16 April 2019 at the Trump International Hotel, Washington D.C.

Please visit <http://atctaikconference.com/> for more information.



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