

MONTHLY BRIEF



SEPTEMBER
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

\$20.4
TRILLION

U.S. Real GDP increased at an annual rate of 4.1% in the second quarter of 2018, according to “second” 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 201,000 in August, and the unemployment rate edged down to 3.9%. Job gains occurred in professional and business services, health care, wholesale trade, transportation and warehousing, and mining.

2.7%

U.S. Consumer Price Index for all urban consumers increased **0.2% in August** on a seasonally adjusted basis. Over the last 12 months, the all items index rose 2.7% before seasonal adjustment.

\$140.8
BILLION

U.S. exports of goods in July 2018 decreased by 1.6% to **\$140.8 billion** compared to previous month.

\$213.9
BILLION

U.S. imports of goods in July 2018 increased by 0.9% to **\$213.9 billion** compared to previous month.

\$5.95
BILLION

U.S. exports of goods to Turkey in July 2018 increased by 11.6% to **\$873.7 million** compared to previous month. **Total U.S. exports to Turkey in the first seven months of 2018 have** reached to **\$5.95 billion**.

\$6.28
BILLION

U.S. imports of goods from Turkey in July 2018 decreased by 0.5% to **\$940.6 million** compared to previous month. **Total U.S. imports from Turkey in the first seven months of 2018 have** reached to **\$6.28 billion**.

28th

Turkey is U.S.’ 28th largest export market in the first seven months of 2018. **Leading U.S. exporting industries to Turkey in July 2018 are aircrafts and spare parts** (\$162.3 million), **mineral fuels** (\$134.5 million), **iron and steel products** (\$126.1 million), **cotton** (\$60.2 million), and **machinery and spare parts** (\$52.8 million) which in **total comprise 61.3% of overall exports to Turkey** in July.

33rd

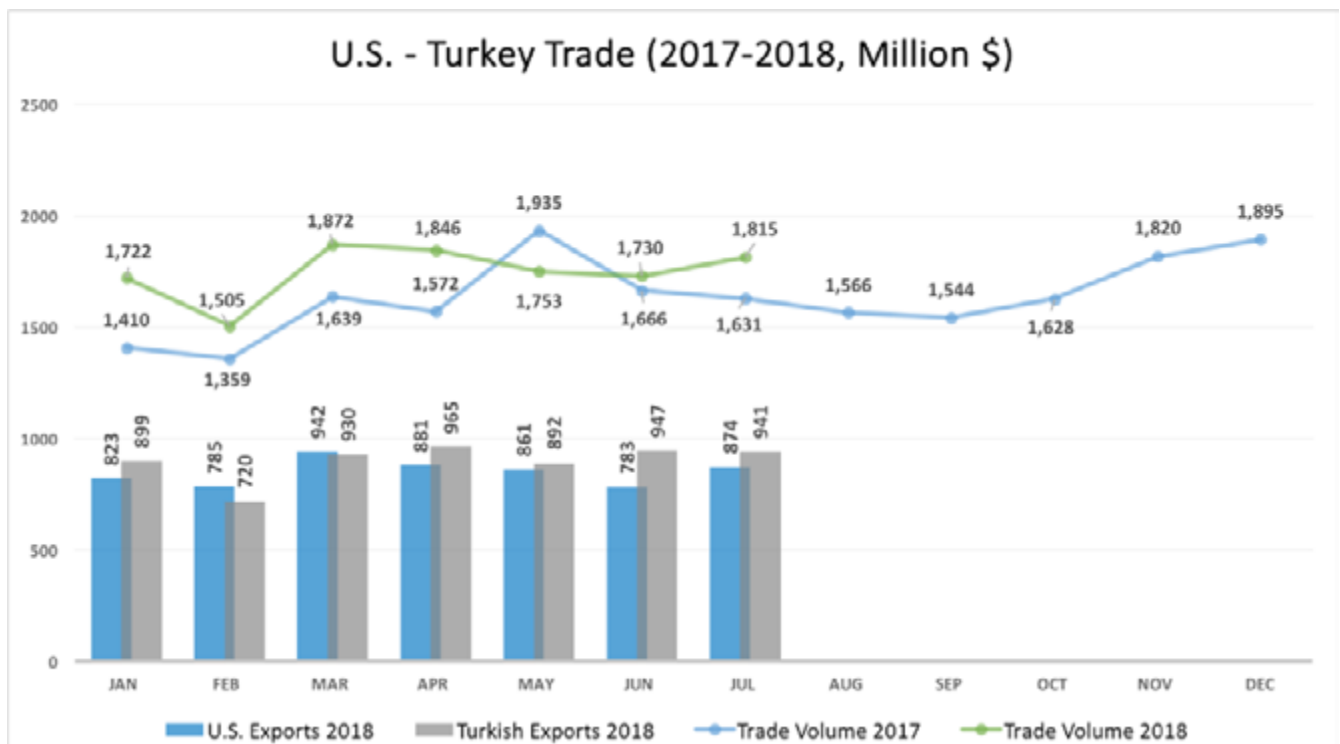
Turkey is U.S.' 33rd largest sourcing market in the first seven months of 2018. Leading Turkish exporting industries to U.S. in July 2018 are imports of **previously exported products / U.S./foreign government agency imports, etc.** (\$115.7 million), **machinery and spare parts** (\$115.3 million), **mineral fuels** (\$58.6 million), **motor vehicles and spare parts** (\$54.2 million), and **carpets and other textile floor coverings** (\$46.2 million) which **in total comprise 41.5% of overall exports to the U.S.** in July.

**\$4.27
BILLION**

U.S. foreign direct investment (FDI) in Turkey is registered as **\$4.27 billion** in 2017, according to the latest data released by the U.S. Bureau of Economic Analysis. This figure corresponds to 0.07% of total U.S. FDI abroad and 0.12% of U.S. FDI in Europe

**\$1.97
BILLION**

Turkish foreign direct investment (FDI) in the U.S. is registered as **\$1.97 billion** in 2017, according to the latest data released by the U.S. Bureau of Economic Analysis. This figure corresponds to 0.05% of total FDI in the U.S. and 0.07% of FDI from Europe.



Source: [InnoNative Advisors](#)



9TH TURKEY INVESTMENT CONFERENCE HELD IN NEW YORK

The 9th Turkey Investment Conference, organized by the Turkey-U.S. Business Council (TAK), gathered Turkish and American executives on September 26, at Gotham Hall in New York to discuss investment opportunities in Turkey and Turkey-US business ties.

In a boost for commercial ties between the two nations, the Conference – held on the sidelines of the United Nations General Assembly – connected senior government officials and businesses from Turkey with American investors and corporate leaders interested in better understanding the business landscape in Turkey. Those in attendance heard from Turkey's President H.E. Recep Tayyip Erdoğan, Minister of Treasury and Finance H.E. Berat Albayrak, and Minister of Trade H.E. Ruhsar Pekcan.

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'IT'S TIME TO INVEST IN TURKEY,' TURKISH MINISTER TELLS US BUSINESSPEOPLE

Turkey's trade minister has invited businesspeople from the United States to invest in her country. "Our trade volume with the U.S. has doubled in the last 10 years to reach over \$20 billion, but there are still plenty of opportunities to move that figure up," Ruhsar Pekcan said at the 9th Turkey Investment Conference held by the Turkey-U.S. Business Council (TAK) in New York.

"I want to see more U.S. companies and [their] investments in Turkey. Now is the time to come and invest in Turkey," she added. Speaking at the same event, Turkish President Recep Tayyip Erdoğan said Turkey and the U.S. would overcome the current "turbulent period" in their relations through their strategic partnership. Our strategic partnership, which has gone through difficulties so many times, will overcome this turbulent period," he said.

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TURKEY TO LAUNCH GLOBAL MINING BUSINESS

Turkey will establish a mining company in order to conduct exploration and mining operations abroad, Deputy Energy Minister Mithat Cansız announced.

"This new company will obtain mining licenses in Africa and Central Asia, and start to operate as soon as possible," Cansız announced on his official Twitter account. The goal is to become an influential actor in the global mining market, and ensure supply security of raw materials, the deputy minister added. The new company will be established under the umbrella of Turkey's General Directorate of Mineral Research and Exploration (MTA).

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TURKISH AIRLINES TOPS COUNTRY'S FORTUNE 500 LIST

Turkey's national flag carrier Turkish Airlines topped the Fortune 500 list for Turkey based on exports volume, the company announced on September 27.

Turkish Airlines has been leading the Turkey's Fortune 500 list since 2008, and again ranked first with an exports volume of \$8.05 billion in 2018, the statement read. "Our efforts being deemed worthy of such precious awards give us courage while preparing to reach our new targets," said Turkish Airlines CFO Murat Şeker.

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TURKISH STOCKS CLOSE AT 4 - MONTH HIGH, LIRA GAINS GROUND

Turkey's benchmark stock index ended up 1.16 percent to close at 100,298.73 points – the highest close over the past four months.

The market value of listed stocks on the BIST 100 amounted to some 655 billion Turkish liras (\$107 billion) with a total trade volume of 11.17 billion Turkish liras (\$1.84 billion). Turkish conglomerate Koc Holding was the most valuable company with around \$7.06 billion of market capitalization, followed by iron and steel producer Eregli Demir Celik (\$6.43 billion) and energy giant Tupras (\$5.54 billion). Top listed companies with regards to trade volume were private lender Garanti, telecommunication giant Turk Telekom, national flag carrier Turkish Airlines, top defense company Aselsan, and another private lender Akbank.

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AMAZON LAUNCHES ACTIVITIES IN TURKEY

Amazon.com announced that it had launched activities in Turkey, offering products across 15 categories to customers throughout the country.

"We are committed to building our business in Turkey in the coming months by expanding our selection and delivery options," Sam Nicols, country manager for Amazon.com.tr said in a written statement.

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TURKEY MINISTER SEES 'NO ECONOMIC RISK' AMID ROW WITH US

Turkey's Treasury and Finance Minister Berat Albayrak said his government does not see a big risk to the country's economy and financial system, amid a diplomatic fall-out with the United States.

Albayrak's comments came after credit rating agency Moody's downgraded 20 Turkish financial institutions. "We do not see a big risk about Turkey's economy and financial system," the minister was cited as saying when he was asked about the biggest risk for 2019. He said Turkey's net public debt and household debt were low and its financial system was very strong. "Our economy has strong fundamentals. The main point here is for us to examine what our deficiencies are ... In this regard, we will realize the required structural reforms," he said.

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TRADE WAR: TURKEY URGES GERMANY TO JOIN FORCES

Turkish President Recep Tayyip Erdoğan has urged Germany to unite alongside other "responsible" nations to avoid a hugely destructive trade war with the United States. On the eve of his state visit to Germany, the Turkish leader said Donald Trump's "reckless" policies are pushing the world towards financial meltdown.

President Erdogan warned the looming trade war would ultimately harm every nation involved. Writing in the Frankfurter Allgemeine Zeitung, he singled out the Trump administration's "one-sided and irresponsible" approach to trade. He called on Angela Merkel to join forces with Turkey and other "responsible" states to take all necessary steps to prevent a global trade war. Mr. Erdogan's comments come as both Turkey and the European Union are engaged in economic spats with the United States.

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UPCOMING EVENTS

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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