

MONTHLY BRIEF



NOVEMBER
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

25.24%

October 2018 **CPI inflation** is registered as 25.24% in Turkey.

11.1%

Unemployment in Turkey is registered as 11.1% in August 2018. Unemployment rate was 10.6% in August 2017.

**\$166.8
BILLION**

Turkey's annualized exports are registered as \$166.8 billion as of October 2018 with an increase of 7.9%.

**\$85.8
BILLION**

Turkish bank's aggregate credit stock has been registered as \$85.8 bln in September 2018, with a 9.5% decrease from the previous month.

74.1%

Capacity utilization rate of the manufacturing sector in Turkey has been registered as 74.1% in November, marking a 1.3% decrease from the previous month.

CREDIT MARKET AND BEYOND

The currency volatility in August was expected to cause a slowdown in Turkish economy. Leading indicators suggest that such slowdown might even be stronger than expected. Industrial production index in September has been registered below expectations for instance, which also resulted in downward revisions of third quarter growth predictions to 0%-1% range. November data on capacity utilization rate of manufacturing sector also suggests that the slowdown might further continue into the fourth quarter, even pulling growth down to the negative zone. Such developments also feed expectations that the Turkish economy might complete the next year with a negative growth rate as well.

Another major indicator about the pace of slowdown is the weekly data on loans provided by the banking system. The annual growth rate of loans granted in local currency - which was around 25% at the start of 2018, decreased to 5.4% by mid-November. Given the CPI inflation around 25%, it becomes clearer that the real contraction rate in loans granted by banks is quite high. Loans granted in foreign currency also tapered from a 5.4% annual growth rate by the start of 2018 to a 3.1% contraction by mid-November. Such clogging in the credit channel which seems to deepen on a weekly basis, further increases the downward risks on Turkey's overall growth performance.

While there are several reasons behind this credit crunch, the major culprit is soaring credit interest rates following August. The interest rate on commercial loans for instance - which was around 20% by the end of May - hit around 39% by mid-October, mainly due to the currency volatility and rising inflation. Despite a recent drop to around 32%, interest rates on commercial loans are still much above their levels

during the first half of 2018. Such high rates naturally lead to declining demand on loans intended for investments or consumption.

Another reason of the recent credit crunch can be attributed to the present cautious behavior in the banking industry. Recent rise in concordat and debt restructuring requests – especially in sectors where input costs are reliant on foreign exchange rate – and several bankruptcies, led banks to behave more selectively in granting loans. Such reluctance in the supply side and the increasing interest rates fed vulnerabilities – in particular of companies with high working capital requirement – and transformed into a vicious cycle.

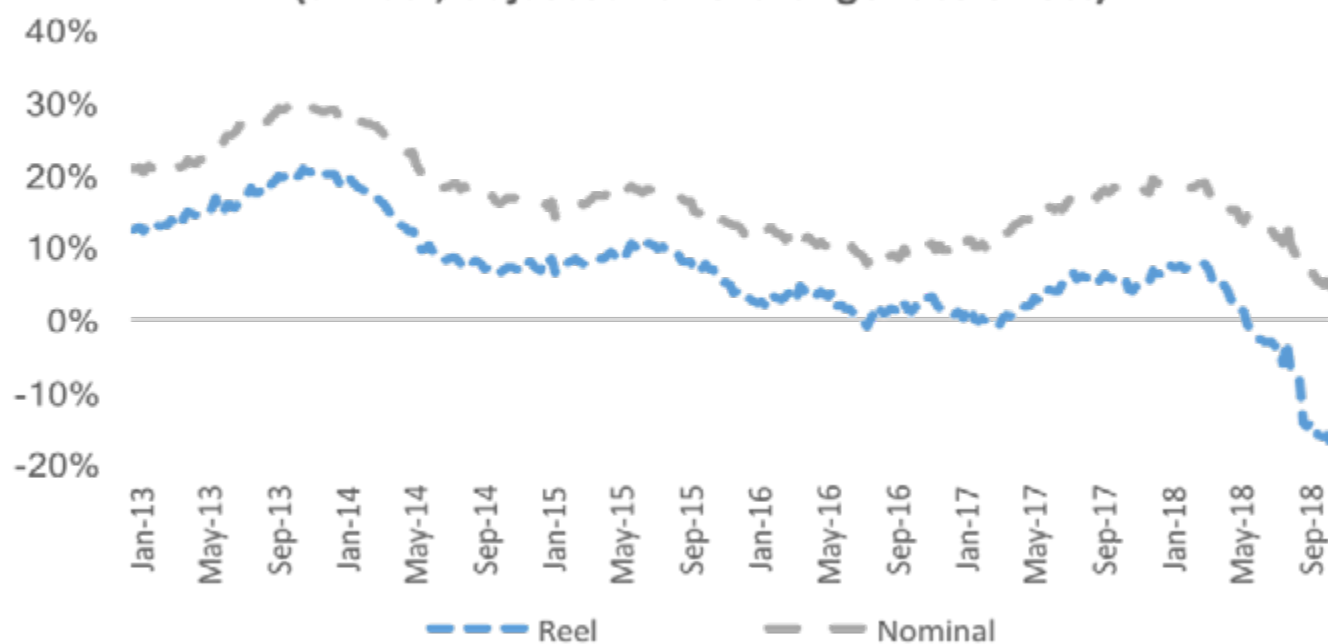
The findings of the Central Bank Survey on the Tendency of Banking Credits for the third quarter of 2018 also confirm such circumstances. While 39% of banks tightened credit standards, such tightening is more stringent in long-term and foreign currency loans. The main reasons for tightening on the other hand, emerge as “risks about overall economic activity” and “industry or company outlook”.

A third reason related to the supply side of the credit market relates to foreign capital inflows. Data on Turkey’s balance of payments also indicate a slowdown of international resources obtained by the banks. Following the month of July for instance, net foreign borrowing of the Turkish banking sector turned negative, corresponding to a net repayment. More precisely, foreign debt repayment figures of Turkish banks are registered as \$900 million in June, \$1.1 billion in July, \$2.2 billion in August, and \$5.1 billion in September. Increasing international borrowing costs of Turkish banks seem to be a major reason behind such behavior.

Rising interest costs not only suppress demand, but also decrease the banking industry’s appetite for foreign funds. The declining accuracy of prediction in times of financial volatility further decreases credit supply due to cautious behavior and therefore obstructs the companies’ ease of access to credit.

The pace of potential upturn in the credit market will also determine the rate of the Turkish economy’s recovery from this strong slowdown. In case specific measures to overcome the clogging in the credit market are introduced and the credit channel starts to operate more easily, overall economic recovery might be in V shape – as has been the case in Turkey’s previous economic hardships. Otherwise, it is possible to argue that the country might face the risk of experiencing a U-shaped recovery for the first time in history.

Loan Growth (annual, adjusted for exchange rate effect)



Source: [InnoNative Advisors](#)



UPDATE ON TURKEY-U.S. TRADE RELATIONS

\$20.66
TRILLION

U.S. real gross domestic product (GDP) increased 3.5 percent in the third quarter of 2018, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter of 2018, real GDP increased 4.2 percent.

3.7%

U.S. total nonfarm payroll employment increased by 250,000 in October, and the unemployment rate was unchanged at 3.7%. Employment increased in health care, manufacturing, construction, transportation and warehousing.

2.5%

U.S. Consumer Price Index for all urban consumers increased 0.3% in October on a seasonally adjusted basis. Over the last 12 months, the all items index rose 2.5% before seasonal adjustment.

\$141.9
BILLION

U.S. exports of goods in September 2018 increased by 2.1% to \$141.9 billion compared to previous month.

\$219.1
BILLION

U.S. imports of goods in September 2018 increased by 1.6% to \$219.1 billion compared to previous month.

\$7.64
BILLION

U.S. exports of goods to Turkey in September 2018 increased by 19.7% to \$920.4 million compared to previous month. Total U.S. exports to Turkey in the first three quarters of 2018 has reached to \$7.64 billion

\$8.08
BILLION

U.S. imports of goods from Turkey in September 2018 decreased by 18.4% to \$803.4 million compared to previous month. Total U.S. imports from Turkey in the first three quarters of 2018 has reached to \$8.08 billion.

27th

Turkey is U.S.'s 27th largest export market in the first three quarters of 2018. **Leading U.S. exporting industries to Turkey** in September 2018 are **aircrafts and spare parts** (\$309 million), **iron and steel products** (\$113 million), **mineral fuels** (\$105 million), **machinery and spare parts** (\$63 million), and **electrical machinery and equipment** (\$34 million) which in total comprise 67.8% of overall exports to Turkey in September

34th

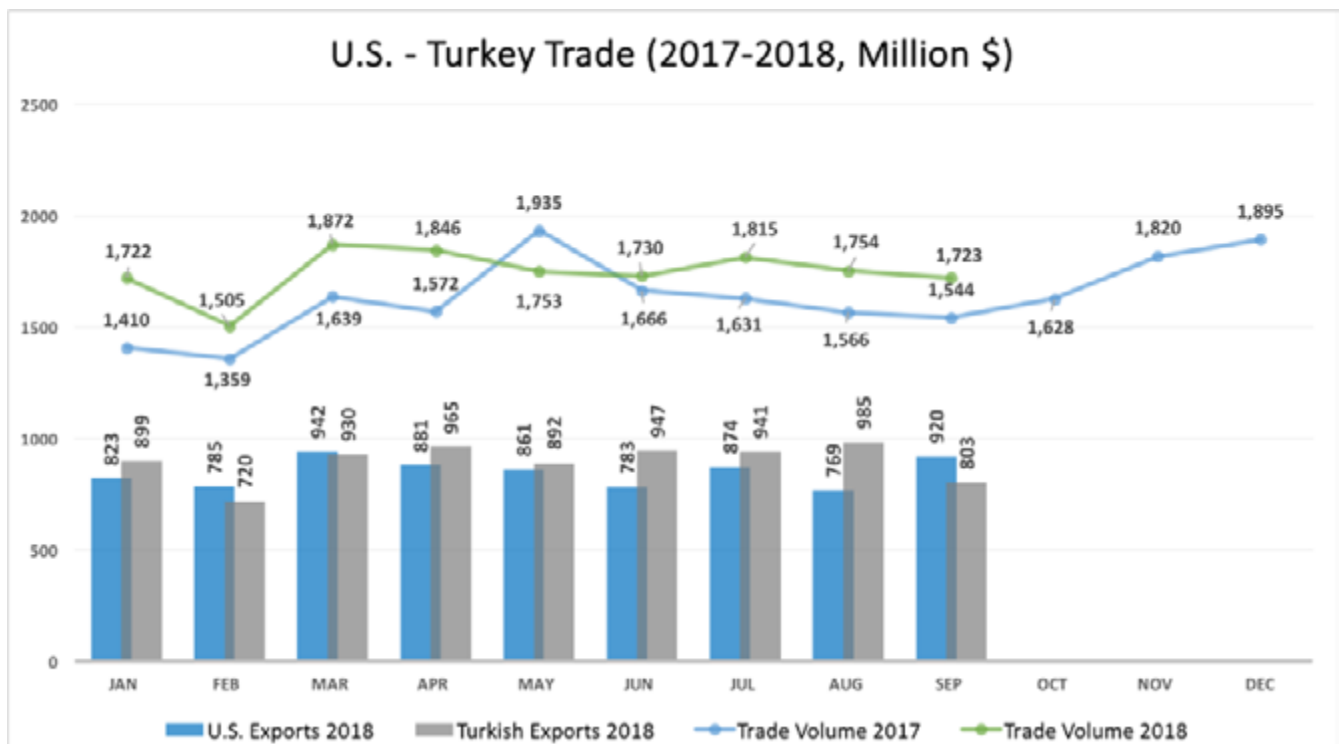
Turkey is U.S.'s 34th largest sourcing market in the first three quarters of 2018. Leading Turkish exporting industries to U.S. in September 2018 are **motor vehicles and spare parts** (\$85.6 million), **machinery and spare parts** (\$83 million), **iron and steel products** (\$59.2 million), **articles of iron and steel** (\$45.8 million), and **carpets and other textile floor coverings** (\$45.3 million) which in total comprise 39.7% of overall exports to the U.S. in September.

46.6%

Texas (\$1.4 billion), New York (\$689.3 million), Washington (\$516.5 million), California (\$505.8 million), and Georgia (\$429.5 million) are the leading states in exports to Turkey in the first three quarters of 2018 which in total comprise 46.6% of U.S. exports to Turkey.

48.0%

Texas (\$937.9 million), California (\$802 million), New York (\$745.2 million), New Jersey (\$687.4 million) and Florida (\$506.6 million) are the leading states in imports from Turkey in the first three quarters of 2018 which in total comprise 48.0% of U.S. imports from Turkey.



Source: [InnoNative Advisors](#)



TURKEY: BANKING SECTOR NET PROFIT HITS \$8.3B IN JAN-OCT

Turkey's banking sector's net profit totaled nearly 45.9 billion Turkish liras (\$8.3 billion) in the January-October period, the country's banking watchdog reported.

The banking sector's 10-month net profit climbed 11.5 percent annually, up from 41.2 billion liras (\$10.9 billion) over the same period in 2017, according to the Banking Regulation and Supervision Agency (BDDK). The banking sector's total assets amounted to 3.99 trillion liras (\$720.2 billion) as of Oct. 31 this year, surging 25.9 percent on a yearly basis. As the biggest sub-category of assets, loans rose by 20.4 percent to reach 2.46 trillion liras (\$444.5 billion) in the same period.

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ISTANBUL AIRPORT TO BECOME 'MEGA HUB' OF AVIATION SECTOR

The new Istanbul Airport will be a megahub in the world and locomotive for the Turkish aviation sector, said İlker Aycı, TAIK Board Member and Chairman of the Board of Directors of Turkish Airlines

"Turkey will become one of the important centers of the commercial aviation sector in the world," he told Anadolu Agency in an exclusive interview. The first phase of the airport opened on Oct. 29 and commercial flights started early November. The airport has the potential to welcome 90 million passengers annually and following the second phase of construction, expected to be completed in 2023, this number will rise to around 200 million.

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TURKEY CALLS FOR FORMING CLEARING HOUSE WITHIN D-8

Turkey calls for forming a clearing house within Developing Countries (D-8) to conduct trade in local currencies, Minister of Foreign Affairs Mevlüt Çavuşoğlu said on Nov 3.

"We are experiencing a period of trade wars. The best response against this would be using our local currencies in trade. Turkey is preparing to do trade in local currencies with countries such as China, Russia, Iran and Ukraine. We also continue such negotiations with other countries...It is possible to realize this within D-8. Therefore, we propose to form a clearing house within D-8," Çavuşoğlu said at the opening speech of the 18th Meeting of the Council of Foreign Ministers of the Organization of D-8 in southern Antalya province.

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TURKEY EXEMPT FROM US SANCTIONS ON IRAN OIL: MINISTER

The United States will grant temporary waivers for Iranian oil purchases to eight countries, Secretary of State Mike Pompeo told reporters. Sanctions on Iran's petroleum sector were scheduled to snap back into effect on November 5.

Pompeo said the exceptions were temporary and allotted to countries that had made progress toward cutting their dependence on Iranian supplies. The top US diplomat did not name the countries granted waivers, but Turkish Minister of Energy Fatih Dönmez announced that Turkey had secured an exception through negotiations with US officials. "We always stated that such sanctions could negatively impact peace, stability and economies in neighboring countries like Turkey, and we elaborated this reality during the talks with US officials," he said in comments published by state news agency Anadolu.

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TURKEY'S CONSUMER CONFIDENCE INDEX GOES UP IN NOVEMBER

The consumer confidence index in Turkey went up month-on-month in November, according to official data released by the Turkish Statistical Institute (TÜİK) on Nov. 22. The index rose 4 percent to hit 59.6 this month from 57.3 points in October, TÜİK's report said.

The consumer confidence index is seen as a vital gauge of the overall health of the economy, indicating people's sentiments about spending their money, which in turn gives clues about economic vitality. It indicates an optimistic outlook when the index is above 100, but it indicates a pessimistic outlook when it is below 100. All sub-indices of the main index, except number of people unemployed expectation index, were higher in the month. The general economic situation expectations index saw the largest improvement, up 6.2 percent to reach 77.4 points.

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TURKEY: UNEMPLOYMENT RATE AT 11.1 PCT IN AUG

Turkey's unemployment rate stood at 11.1 percent in August, Turkish Statistical Institute (TÜİK) announced.

The number of unemployed persons aged 15 years and over increased by 266,000 year-on-year to reach 3.67 million in August. The non-agricultural unemployment rate also rose 0.4 percentage points to 13.2 percent during the same period.

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TURKEY GETS \$200M FINANCING FOR ENERGY EFFICIENCY INVESTMENTS

Turkey reached an agreement with the World Bank for \$200 million in funding for public sector energy efficiency investments, Turkey's Minister of Energy and Natural Resources Fatih Dönmez said on Nov 11.

Speaking at 5th Extraordinary General Assembly of the Energy Efficiency Association, Dönmez declared that energy efficiency is the key to lowering consumption, which in turn will enable a cleaner environment. "Energy efficiency is a common target for the whole country to ensure less energy imports and a better economy," he said. "We saved \$122 million thanks to energy efficiency investments in 2017 and prevented \$500 million worth of gas imports." Turkey plans investments of around \$11 billion for energy efficiency projects in all related sectors by 2023 in line with the National Energy Efficiency Action Plan announced earlier this year.

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UPCOMING EVENTS

37TH ATC-TAİK ANNUAL CONFERENCE ON U.S.-TURKEY RELATIONS, 14-16 April 2019



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 14-16 April 2019 at the Trump International Hotel, Washington D.C.

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



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