

MONTHLY BRIEF

TURKEY-U.S.
ECONOMIC OUTLOOK



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Monthly Brief

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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

7.4%

Turkey's economic growth has been registered as 7.4% in 2017, indicating one of the strongest performances among both developed and developing economies.

\$53.3 Billion

Turkey's annualized current account deficit is registered as **\$53.3 billion** in February 2018. This figure was \$34.1 billion in February 2017.

10.2%

Turkey's CPI inflation is registered as %10.2 in March 2018.

10.8%

Unemployment in Turkey is registered as 10.8% in January 2018, marking a **decline of 2.2 percentage points** compared to the same month of the previous year.

9.9%

Turkey's industrial production index registered an **increase of 9.9%** in February 2018 (seasonally adjusted), compared to the same month of the previous year. This figure indicates that economic growth is ongoing, albeit in a more moderate manner, in the first quarter of 2018.

Growth...

Turkey's economic growth has been registered as 7.4% in 2017, indicating one of the strongest performances among both developed and developing economies. This impressive performance nevertheless, further flamed ongoing discussions about the country's economic growth potential, in particular, concerns about the negative effects of above-the-potential growth. Here, "potential growth" as an economic term, mainly refers to the sustainability of growth - without creating macro-economic imbalances - with the utilization of available factors such as productive, technological and institutional capacity of a country. Hence, the term "above-the-potential" mainly refers to an unsustainable, extraordinary and transient growth performance. Studies on Turkish economy indicate that, given its productive, technological and institutional capacity, the country's growth potential would revolve around 5%. Therefore, in the absence of structural economic transformation that would result in boosting Turkey's economic growth potential, any growth figure above 5% might also carry the risk of creating macro-economic imbalances.

...and Its Discontents

Current Account Deficit

Accordingly, a major macro-economic imbalance created by a growth figure over 7% is Turkey's widening current account deficit (CAD). CAD excluding gold and energy items also seems to increase mainly due to strengthening domestic demand. Such a development indicates growing vulnerability of Turkish economy due to its cumulative impact on Turkey's foreign borrowing requirement, especially within current global economic circumstances indicating ongoing rate hikes in the United States, while similar decisions of the European Central Bank is looming.

Inflation

The second side effect of this above-the-potential growth is seen in persistent inflation which is triggered by strong increase in demand. Consumer price inflation in Turkey is registered as 10.2% in March 2018 and is expected to remain at two-digit levels at least until the final months of this year. Despite a similar upward trend in interest rates is a natural outcome of relatively high inflation, the economy administration's tendency to use rate hikes as a last resort is also well-known. Turkish Central Bank's track record in recent years also signify that the government's mentioned policy stance affects monetary policy implementation as well. Hence, the administration's decision to opt for relatively stagnant interest rates albeit increasing inflation, fuels economic conditions convenient for currency depreciation.

Interest Rates and Currency Valuations

Lira's depreciation as a natural outcome of stagnant interest rates despite rising inflation, also fuels concerns about the medium to long-term sustainability of the private sector's debt in foreign currency. Turkish private sector's foreign debt is particularly concerning as net foreign exchange position of the non-financial private sector stands above \$220 billion (around 25% of GDP) and the outstanding external debt of both the public and private sector stands around \$450 billion (around 53% of GDP).

In very simplistic terms, the choice for the economy administration is twofold: either pursuing a policy of high interest rate-valuable currency or a policy of low interest rate-cheap lira. Today, Turkey tends towards the second option which seems to be an outcome of the economy administration's assessment that high interest rates damages the economy more than cheap lira.

Geopolitical Risks

In an era of regional and global uncertainties, Turkey's tough neighborhood carries further geopolitical risks not only for the country itself but also for both regional and global stability. The protracted civil war in Syria, the tensions it creates among actors including the U.S., Russia, Turkey, Iran, Israel as well as the war's potential repercussions for Turkey's immediate neighborhood and beyond, is not helpful in terms of creating a predictable and stable economic outlook either. The immediate effects of such geopolitical tensions - such as occasionally increasing domestic security concerns - are seen in Turkey's increasing CDS premiums, while the loss of potential foreign trade and tourism revenues are only a couple of indirect results of such regional unpredictability. Recent U.S. strikes in Damascus and Homs, Russia and Iran's direct involvement in Syria, Turkey's military operations in Northern Syria, as well as the ongoing proxy war among all these parties also suggest that the end of the Syrian conflict is nowhere near yet. Hence, any evaluation on Turkish economy - either on domestic policy-making or international risk assessments - also takes such realities into account now.

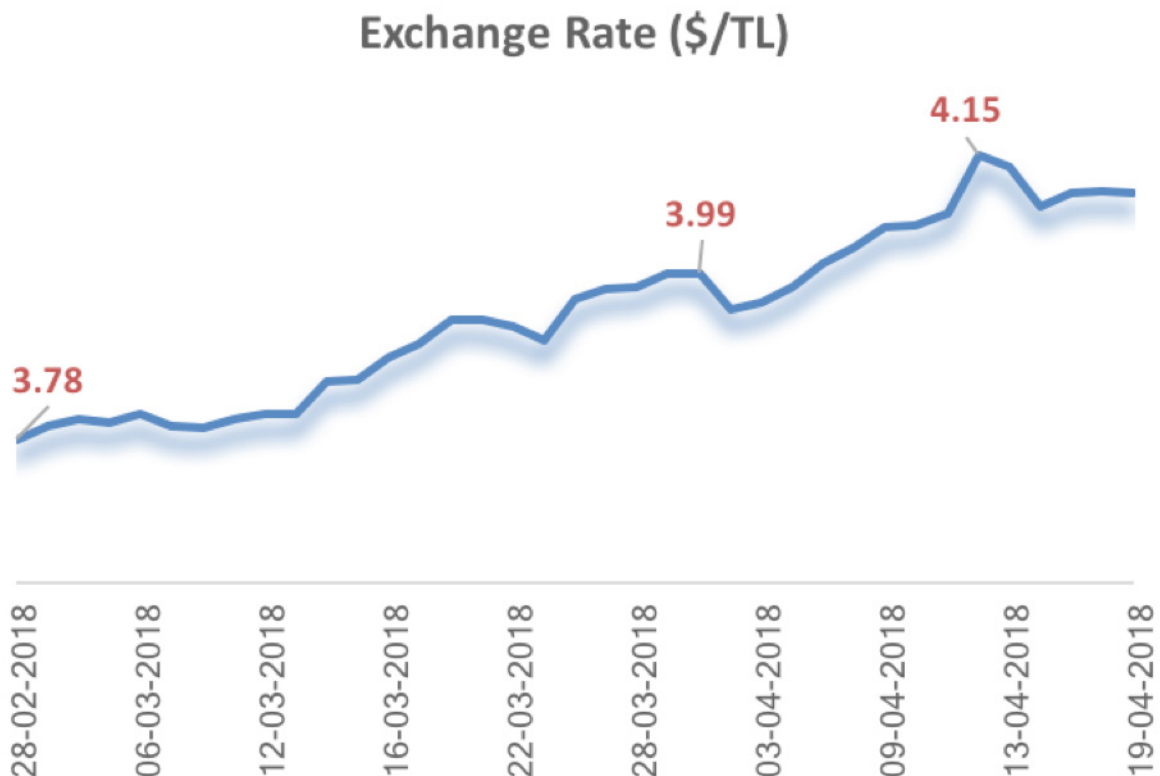
Domestic Policy

News on Turkey's Economy Coordination Council's (ECC) recent meetings with an aim to find ways to further decrease interest rates also made headlines lately. According to these news, the country's economy administration has been in the opinion that the current level of interest rates was not amicable for investment and the ECC was working on the means to reduce interest rates. Hence, a quest for further lowering interest rates in a policy environment where the economy administration is already pursuing a policy of low interest rate-cheap lira has directed the spotlight on the rationality of such a decision. Questions on the rationality of economic decision-making on top of current macro-economic imbalances have thus been another important source of concern on Turkey's economic outlook. A major reflection of such concerns was seen on the depreciation of lira. Accordingly, the value of the dollar against the lira increased by 10% over the course of 2 months from 3.74 in mid-February to 4.15 in mid-April (see chart below).

Snap Elections

The decision to call snap elections on June 24th against this backdrop, seems to result in a variety of outcomes. On the currency side for instance, the instant reaction has been strengthening lira which might partially be attributed to the expectation that policies resulting in macro-economic instability may not be carried on for another 18 months until November 2019 - the original date for elections. The value of dollar against the lira decreased from 4.09 to 4.01 on Wednesday, April 18th (the day snap election decision is announced), before climbing up close to 4.04 on Thursday.

Nevertheless, snap elections might also create an expectation on the erosion of the country's efforts to carry on recent rounds of structural reforms, such as improving the investment environment, climbing up the ladder on the ease of doing business index, granting new incentives specifically geared towards start-ups, and decreasing the CAD via the introduction of project-based investment incentive system, at least until the last quarter of this year.



Source: [InnoNative Advisors](#)



\$137 Billion

U.S. exports of goods in February 2018 increased by 2.2% to \$137 billion compared to previous month.

\$214 Billion

U.S. imports of goods in February 2018 increased by 1.6% to \$214 billion compared to previous month.

\$1.61 Billion

Total U.S. exports to Turkey in the first two months of 2018 has reached to \$1.61 billion. U.S. exports of goods to Turkey in February 2018 decreased by 4.8% to \$785 million compared to previous month.

\$1.62 Billion

Total U.S. imports from Turkey in the first two months of 2018 has reached to \$1.62 billion.

U.S. imports of goods from Turkey in February 2018 decreased by 24.9% to \$720 million compared to previous month.

28th

Turkey is U.S.'s 28th largest export market in February 2018. Leading U.S. export industries to Turkey in February are iron and steel products (\$111 million), mineral fuels (\$93 million), cotton (\$77 million), aircrafts and spare parts (\$64 million), and machinery and spare parts (\$53 million) which in total comprise 50.7% of overall exports to Turkey in February.

33rd

Turkey is U.S.'s 33rd largest sourcing market in February 2018. Leading Turkish exporting industries to U.S. in February are motor vehicles and spare parts (\$101 million), machinery and spare parts (\$76 million), carpets (\$45 million), articles of apparel and clothing (\$33 million), and iron and steel products (\$31 million) - Turkish iron and steel exports to the U.S. declined by 164.5% from \$82 million in January 2018 and by 180.6% from \$87 million in February 2017. The first five chapters in Turkish exports comprise 39.7% of overall exports to the U.S. in February.

\$171 Million

Foreign direct investments (FDI) of U.S. nationals in Turkey is registered as \$171 million in 2017, according to the interim data released by the Turkish Central Bank. This figure corresponds to 2.3% of \$7.4 billion total FDI invested in Turkey in 2017, and marks a decline of 97.7% from its level of \$338 million in 2016. U.S. cumulative FDI holds a share of 7.6% with an amount of \$11.3 billion, among a total FDI of \$148.1 billion invested in Turkey since 2002.

\$ 820 Million

Foreign direct investments (FDI) of Turkish nationals in U.S. is registered as \$820 million in 2017, according to the interim data released by the Turkish Central Bank. This figure corresponds to 25.8% of \$3.2 billion total FDI invested outside Turkey in 2017, and marks a decline of 2.1% from its level of \$837 million in 2016. U.S. holds 12% of cumulative FDI outflow from Turkey with an amount of \$4.8 billion out of a total \$39.9 billion since 2002.

Source: [InnoNative Advisors](#)



ECONOMY MINISTER SAYS TURKEY'S EXPORTS HAVE INCREASED BY 5 FOLD IN LAST 15 YEARS

Nihat Zeybekci, Turkey's Economy Minister addressed the Ordinary General Assembly of the Foreign Economic Relations Board (DEİK), attended by President Erdoğan as well.



In his speech, Zeybekci explained that 63 of the 100 largest Turkish companies and 28 of the largest 45 international contracting companies were DEİK members. He also added that DEİK, with its new concept, continued to serve as one of Turkey's most important soft powers, in 6 continents.

In his speech Zeybekci evaluated the effects of the macroeconomic steps introduced in the business world for last 15 years, informed that investments had increased by 82 percent in monetary terms, in 2017. Based on data provided by official authorities Turkey is the fastest growing country in G20 and Turkey's exports and national income have increased by 5 times and 3.5 times respectively, in last 15 years. On the other hand investments in have increased by 82 percent, in 2017.

The Minister pointed out that Turkey had become an economic and political hub in its region main-

ly and shared that they had received demand from four international investors regarding the "Project Based Incentive System". He stated that with the "Project Based Investment Incentive System" great opportunities were introduced for the Turkish business world. He went on to say "Today we see we will break records in exports, every consecutive month and reach 170 billion dollars by the end of the year. We also see the growth for the first quarter of 2018 will be slightly more than 7 percent as per our expectations.

The Minister also said the following: "Now is the time to make an intercontinental breakthrough. It is time for the star of the Turkish business world to shine more distinctly. DEİK will continue to wave the flags of the Turkish economy in 6 continents during this rising period of Turkey. That is why we say that DEİK is the raider of the economy world.

CANAL EDIRNE PROJECT BY TURKEY-GREECE BORDER ALMOST COMPLETE

The Canal Edirne project located near the Turkey-Greece border has been 99 percent finalized, Murat Acu, General Directorate for State Hydraulic Works (DSİ), said on April 28.



“The digging [for the canal] is 99 percent complete as of this day,” Acu said, referring to the canal, which is 7,800 meters long. The canal is being built on the Meriç (Evros) River, which is notorious for its flooding. With the project, which was initiated in November 2015 with a budget of 45 million Turkish liras (roughly 11.1 million U.S. dollars), the canal will be able to hold up to 2,500 cubic meters per second. The Meriç is known to flood around up

to 2,000 cubic meters of rainfall when it does overflow.

Also, four of the five bridges planned as part of the project are also complete, Acu said. Backing Acu’s statement, the project will come to completion by July, Forestry and Water Affairs Minister Veysel Eroğlu said on April 29. “95 percent of Canal Edirne is completed. Only one bridge and 100 meters of it are left,” Eroğlu said.

Meanwhile, another canal project—Canal Istanbul—will be a post-election priority, President Recep Tayyip Erdoğan said on April 28. His government’s first initiative after winning the elections will be the construction of Canal Istanbul, an artificial sea-level waterway that will connect the Black Sea to the Sea of Marmara, Erdoğan said. Once completed, Canal Istanbul will reduce shipping traffic, particularly oil tanker traffic, passing through the Bosphorus Strait.

U.S. CONGRATULATES TURKISH AIRLINES DEAL WITH AEROSPACE GIANT BOEING

The United States Department of State on April 26 praised Turkey’s national flag carrier for purchasing \$10 billion worth of aircraft from the U.S. aerospace giant Boeing Co.



“We congratulate Turkish Airlines on its March 12 announcement to order 25 Boeing 787-9 Dreamliners with an option for five more airplanes, and its

subsequent agreement on April 25, to purchase GE engines for those planes,” it said in a written statement.

The statement noted the deal creates and sustains more than 25,000 U.S. jobs, and underscores the expanding economic cooperation between the U.S. and Turkey, state-run Anadolu Agency reported. It also said American companies such as Boeing and General Electric (GE) are dedicated to the Turkish market, and their investment in Turkey has built capacity, trained talent and provided innovative solutions to fuel the region’s socio-economic growth.

“We congratulate GE, Boeing, Turkish Airlines, and the Government of Turkey on this important announcement and look forward to working with Turkey to deepen the U.S.-Turkey economic relationship,” it added. Boeing and Turkish Airlines finalized an order for 25 787-9 Dreamliner aircraft with options for five more airplanes in March.

Boeing’s newest and fastest-selling Dreamliner planes will render service to Turkish Airlines pas-

sengers at Istanbul’s third airport, which is planned to be the largest airport in the world with a capacity of 150 million passengers annually. The inauguration of the airport is planned to take place on Oct. 29, 2018. The sale agreement between Boeing and Turkish Airlines was signed during a visit by Turkish President Recep Tayyip Erdogan to the U.S. in September 2017.

WORLD BANK CONTINUES TO SUPPORT TURKISH CITIES

The World Bank’s board of executive directors approved on Thursday a \$91.54 million loan for the sustainable cities project in Turkey, according to the bank’s announcement.

“This is the second project in a series of projects under the program for sustainable cities, which aims to improve the economic, financial, environmental, and social sustainability of Turkish cities by enabling interested municipalities to access financing for their investments and to deliver improved services to their citizens,” the bank said.

According to the statement, the first sustainable cities project valued at \$132.7 million was approved on December 20, 2016. “Today, more than 75 percent of Turkey’s citizens live in cities, which have become strong drivers of economic growth,” said Johannes Zutt, World Bank Country Director for Turkey.

According to the bank, the project will assist the Turkish resort cities of Antalya and Mugla through financing investments in infrastructure needed to meet service delivery requirements. “The project thus supports the World Bank’s objective under the maximizing finance for development approach through this public-private investment coordination platform,” the bank said.

“The project is also consistent with the Turkish Government’s 10th Development Plan (2014-2018), particularly its ‘Livable Spaces/Sustainable Environment’ pillar, which recognizes the challenges of rapid urbanization and maximizing its benefits for people and economy,” it added.

NEW COMPANY LAUNCHES RISE NEARLY 23 PCT IN TURKEY

The number of newly formed companies in Turkey rose nearly 23 percent year-on-year in March, the Turkish Union of Chambers and Commodity Exchanges (TOBB) announced.

In March, 7,469 new companies were established, compared to 6,075 businesses starting in the same month of 2017. The chamber’s figures showed that the top three sectors the new companies have chosen to operate in were wholesale and retail, construction, and manufacturing. “In March 2018, 974 companies with foreign partners were established,” the report said.

It said, “511 of these companies had Turkish partners, 139 had Syrian partners, 103 had Saudi Arabi-

an partners.” The union also noted that the number of company shutdowns in March was up 9.75 percent on a yearly basis.

In 2017, 72,871 companies were established, up 14.4 percent from 2016, while 13,517 companies went out of business. TOBB’s next batch of data on newly launched business figures for April is scheduled for May 18.

TURKEY EXPECTS 40 MILLION TOURISTS IN 2018

The number of foreign visitors to Turkey is expected to see a record high in 2018, according to experts and politicians.

While the country hosted 36.8 million foreigners in 2014 and 36.3 million in 2015, the figure decreased sharply to 25.3 million in 2016 but rose again to 32.4 million last year, according to the Turkish Statistical Institute data.



“Turkey will see 40 million foreign visitors, and its income will climb over \$30 billion by the end of 2018,” Association of Turkish Travel Agencies (TURSAB) President Firuz Baglikaya told Anadolu Agency. Baglikaya said the number of foreign visitors, which increased by 34.91 percent, year-on-year, in the first two months, indicates the target of 40 million tourists would be achieved this year.

Turkey welcomed 3 million foreign visitors in the first two months of 2018 during its winter period, according to the Culture and Tourism Ministry. Reservation demand for 2018 summer period was also positive, he said. “Demands from Germany and Russia, which are Turkey’s main tourism market, are very positive. Germany’s demands increased by 60 percent and Russia by 30 percent.” Turkey also expects the number of visitors from U.K. and the Netherland to rise in 2018, he said, adding that Turkey’s southern province Antalya and Aegean region are the leading tourist destinations in the country.

Etem Hakan Duran, president of the Professional Hotel Managers Association of Turkey, also said reservations had increased in 2018 compared with last year. “Turkey’s Europe tourism market will rise 15-20 percent and the country will host 38 million guests in this year.” Culture and Tourism Minister Numan Kurtulmus had said Turkey’s 2023 targets for tourism sector are 50 million tourists and \$50 billion income.

RUSSIA LIFTS SANCTIONS ON TURKISH TOMATO EXPORTERS: MINISTRY

Russia has lifted sanctions on Turkish tomato exporters, state-run Anadolu Agency reported on April 27.

Russia’s decision will completely pave the way for Turkey’s tomato export to Russia, the Minister of Economy Nihat Zeybekci said in a statement. The move came after a technical meeting held between officials from Turkish Economy Ministry and Russian Agricultural Ministry on April 26, the statement said.

It recalled that a limited number of Turkish tomato exporters were allowed by the Russian Agricultural Ministry to sell products to Russia. Russia also

imposed a 50,000-ton quota on imported tomatoes from Turkey in October 2017. In January 2016, after Turkey downed a Russian fighter jet violating its airspace, Russia banned imports of Turkish fruits and vegetables including tomatoes, oranges, apples, apricots, cabbage, broccoli, mandarins, pears, peaches, cucumbers, plums, strawberries, onions, cloves, and poultry. However, Russia relaxed trade sanctions placed on Turkey during the summer of 2017.

AZERBAIJAN 'TO BECOME TOP INVESTOR IN TURKEY'

Azerbaijan is set to become the leading foreign investor in Turkey, Turkish President Recep Tayyip Erdoğan said on April 25, hosting his Azeri counterpart Ilham Aliyev in Ankara.

"We will soon launch TANAP," Erdoğan said during a joint press conference, referring to the Trans Anatolian Natural Gas Project that will carry Caspian gas to Turkey before it reaches Europe.

This will be good news for both our nation and the world ahead of the [July 24] elections. Azerbaijan will therefore become the largest investor in Turkey," he added. For his part, Aliyev said the energy and transportation map of the Eurasia region is being "reshaped." "Such projects will increase our power, improve regional cooperation, and bring in sustainability," he added.

TANAP will start to operate at the end of June, General Manager Saltuk Düzyol had said on April 18. Aliyev said Turkey has invested some \$12 billion into Azerbaijan and investments in the oppo-

site direction stood at around \$14 billion. Turkey hopes the Karabakh issue between Azerbaijan and Armenia will be resolved urgently within the scope of U.N. resolutions, Erdoğan also said. "Our biggest desire about the issue is that it will be resolved urgently within the scope of Azerbaijan's territorial integrity, inviolability of its borders, and within the scope of U.N. resolutions," he added.

The Khojaly Massacre is seen as one of the bloodiest and most controversial incidents of the war between Armenia and Azerbaijan for control of the now-occupied Upper Karabakh region. On Feb. 26, 1992, on the heels of the Soviet Union's dissolution, Armenian forces took over the town of Khojaly in Karabakh after battering it with heavy artillery and tanks, assisted by an infantry regiment.

TURKEY RECEIVED OVER \$500M IN FOREIGN INVESTMENT IN FEB

Turkey received \$511 million in net international direct investment this February, the Ministry of Economy announced.

In February, the amount of net foreign direct investment (FDI) rose by nearly 12 percent year-on-year, from \$457 million in the same month of 2017, while the amount was \$602 million in the first month of this year.

In terms of equity investment -- the main component of overseas direct investment -- direct inflow to Turkey stood at \$280 million, with 71.4 percent of this amount coming from the European Union. Direct capital inflow from EU countries increased by 40.8 percent month-on-month, with the Netherlands, Austria, and Germany as the top three sources of capital inflow.

"In February, \$98 million of the total equity capital entry was in the manufacturing sector," the ministry said, followed by the hotels/restaurants sector with \$80 million and the transport/communication/storage sector with \$44 million. Official data showed that a total of 651 new foreign-backed companies were founded in Turkey -- including eight branch offices -- while another nine domestic

companies benefited from overseas participants in the second month of the year.

As of February, 60,280 companies with international capital were operating in Turkey -- 37.7 percent of them linked to EU member states. Nearly 23,000 of these companies are operating in the retail and wholesale trade sector. The other major sectors are real estate rental and business activities with 9,783 firms, and manufacturing with 7,115 companies.

Official figures also showed that the Economy Ministry issued 16 incentive certificates in February for investment projects of international investors. The ministry said the investment value of these certified projects -- within the framework of FDI legislation and the incentives regime -- reached \$4.76 billion in February. Last year, Turkey attracted \$10.93 billion in net international direct investment, \$7.44 billion of which was equity investment inflow, and 339 incentive certificates for projects valued at \$25.6 billion were issued by the Economy Ministry.



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 between at the Trump International Hotel, Washington D.C.

Please visit <http://atctaikconference.com/> to take advantage of the discounted rates.



9TH TURKEY INVESTMENT CONFERENCE, September 2018

9th Turkey Investment Conference, organized by the Turkey-U.S. Business Council (TAİK), will take place in New York.

This forum is principally designed to bring highly regarded Turkish opinion leaders, senior government officials, and corporate executives together with institutional investors interested in better understanding the investment landscape in Turkey.





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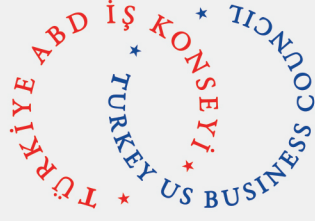
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