

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

9.8%

Consumer Price Index in Turkey is registered as 9.8% in July 2017.

₺55.6 BILLION

Turkey's annualized budget deficit reached 55.6 billion TL in June 2017.

\$35.4 BILLION

Turkey's annualized current account deficit reached \$35.4 billion in May 2017.

\$148.4 BILLION

Turkey's annualized exports reached \$148.4 billion in June 2017.

15%

Annualized loan growth rate with exchange rate adjustment in Turkey is at 15%.

Inflation Outlook

In line with market expectations, CPI inflation in Turkey increased by 0.15% in July and annualized CPI has come down to 9.8% from 10.9% marking the first single digit level since January 2017.

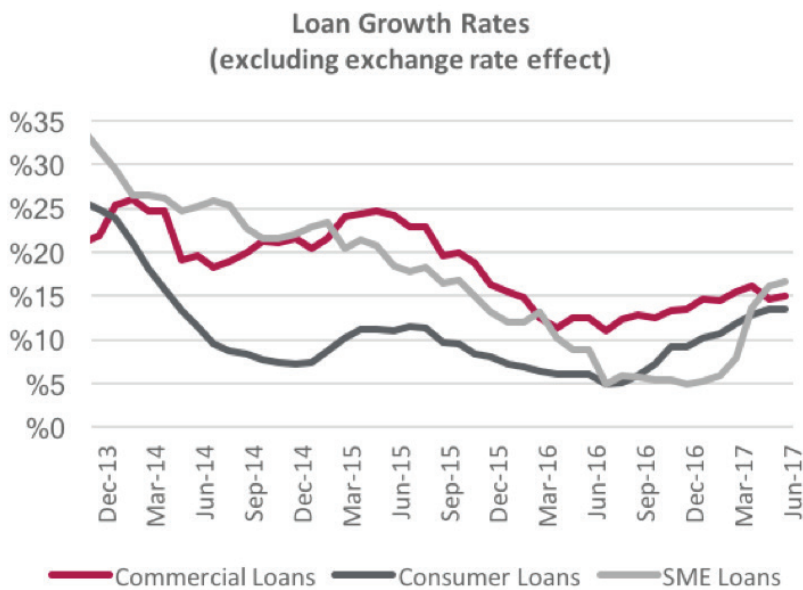
The decline in inflation seems to be affected by the decisions of Food Committee that has been established to implement the necessary structural and cyclical measures to control the increase in food prices. Even though the outcome of structural measures will be experienced in the medium term, the Committee's decision to implement measures increasing the imports of food products with supply problems is believed to have a short-term impact to ease the tension on inflation. The immediate result of such decision seems to be a 0.9% decline in the contribution of food products in overall inflation. Another reason of the downward pressure on inflation is the relative stability in exchange rate. Since the end of January, such stability seems to have a positive effect on easing the inflationist pressure.

Despite this decline in July, future expectations on inflation are still remarkable due to the rise in services inflation, producer prices and core inflation indicators. Such indicators demonstrate that rigid stance in pricing behaviors persists despite the decline in exchange rate volatility. As a matter of fact, in its latest Inflation Report, Turkish Central Bank highlights that due to this rigidity in pricing behavior, tight monetary policy will be sustained "until a visible recovery is seen on inflation outlook". Given the already tight monetary policy and the relative stability in exchange rates, the upward tendency of core inflation indicators point to the significance of expansionary fiscal policy.

Monetary Policy

The weighted average interest rate of the liquidity provided to the market by the Central Bank is fluctuating around 11.9% since early May. The Bank is currently pursuing a tight monetary policy following the 360 basis point increase of the average funding rate since early January. An overview of the emerging markets basket however, reveals a declining trend in policy rates in those markets similar to Turkey. This opposite trend in Turkish interest rates points to the expanding carry-trade window, catching the attention of international funds. Therefore, it should be noted that, besides the positive global cycle, expanding carry-trade opportunity due to the Central Bank's interest rate policy is another cause of the relative stability of the Turkish lira.

Yet, the success of tight monetary policy in fighting inflation depends on the extent of its impact on domestic financial markets as much as its effect on foreign exchange markets. As seen in the chart below, the econ-



omy administration's policies to utilize the Credit Guarantee Fund (CGF) more actively with an aim to accelerate the growth performance pushed up credit growth rates considerably.

Excluding the exchange rate effect, credit growth rate of SMEs at an annualized level, for instance, increased to 16.6% in June from 5.2% in January. In other words, the rate hikes of the Central Bank did not result in a slowdown of credit growth rates. On the contrary, credit growth rates are still on the rise due to the active utilization of the CGF. This demonstrates that while the high

interest rate policy of the Turkish Central Bank, leading to inflows of short-term capital via carry-trade window helped stabilize the currency, it did not create a downward pressure on inflation via domestic financial markets.

Current Account Balance

Besides the impact of strengthening domestic demand as a result of increasing credit growth rates on inflation, another major indicator to be affected with stronger demand might be the country's current account deficit (CAD). In fact, Turkey's annualized current account deficit which stood at \$35.4 billion by the end of May 2017, registered an increase of \$7.7 billion compared to the same month of 2016. However, the impact of strengthening domestic demand on the CAD still remains to be seen, as the current increase is mainly due to a decrease in net tourism revenues (\$4.7 billion) and expanding net gold trade deficit (\$5.4 billion).

The 0.3% decline in annualized imports excluding gold trade in June compared to the same period of last year, demonstrates that the pressure of domestic demand on CAD is not as strong yet. On the exports side, the country's annualized exports increased by 4.5% in the same period. Both the level of the real exchange rate and foreign demand provide a positive cycle on Turkey's export performance.



UPDATE ON TURKEY-U.S. TRADE RELATIONS

\$770 MILLION

U.S. exports of goods to Turkey in June 2017 decreased by 36.4% to \$770 million compared to previous month. Total U.S. exports to Turkey in the first half of 2017 has reached \$4.72 billion.

\$896 MILLION

U.S. imports of goods from Turkey in June 2017 increased by 1.2% to \$896 million compared to previous month. Total U.S. imports from Turkey in the first half of 2017 has reached \$4.85 billion.

29th

Turkey is U.S.' 29th largest export market in the first half of 2017. Leading U.S. exporting industries to Turkey in June 2017 are cotton (\$114 million), iron and steel products (\$78 million), machinery and spare parts (\$68 million), mineral fuels (\$65 million), and aircrafts and spare parts (\$63 million) which in total comprise 50.4% of overall exports to Turkey in June.

33rd

Turkey is U.S.'s 33rd largest sourcing market in the first half of 2017. Leading Turkish exporting industries to U.S. in June 2017 are iron and steel products (\$156 million), motor vehicles and spare parts (\$140 million), machinery and spare parts (\$77 million), natural stones (\$41 million), and articles of iron and steel (\$39 million) which in total comprise 50.6% of overall exports to the U.S. in June.

48.8%

Texas (\$805 million), Washington (\$470 million), New York (\$370 million), California (\$342 million), and Louisiana (\$321 million) are the leading states in exports to Turkey in the first half of 2017 which in total comprise 48.8% of American exports to Turkey.

48.4%

California (\$610 million), Texas (\$494 million), New York (\$423 million), New Jersey (\$416 million) and Florida (\$287 million) are the leading states in imports from Turkey in the first half of 2017 which in total comprise 48.4% of American imports from Turkey.





TURKS IN TEXAS CARE

Tropical Storm (formerly Hurricane) Harvey hit Texas on August 25. The storm, one of the biggest to hit Texas in the last 50 years, left a devastating toll on the region. Turkish Consul General in Houston and the Turkish-Americans in the area worked tirelessly to help the affected.

Hurricane Harvey plowed into the coast of south-eastern Texas on August 25. It was the strongest hurricane to hit the U.S. in 13 years, and the biggest to hit Texas in the last 50 years, causing widespread flooding and destruction. Texas Governor Greg Abbott said the storm has caused “one of the greatest disasters America has ever faced.” Turkish Consul General in Houston, Fer-



hat Alkan, Consulate officials and local non-profit organizations worked hand in hand to help the people of the area. CG Ferhat Alkan, alongside Consular Corps, visited the George R. Brown hosting evacuees. The Consulate General of Turkey in Houston offered around the clock help to those in need and continues to be a safe haven for both the Turks in the region and the local community.

U.S. PROTECTIONISM ON STEEL

With an executive order signed by the United States President Donald J. Trump on April 20th, 2017, the Department of Commerce was tasked with to launch an investigation into the steel industry, with regards to the Section 232 statute.

The United States, through certain measures has already been displaying a level of protectionism when it comes to steel imports. Despite the anti-dumping and compensatory customs duties applied by the U.S., Turkey made a total of \$1.1 billion of steel exports (out of total \$9 billion total steel exports) to the U.S. in 2016. Turkey’s steel exports to the U.S. represent 12% of the total steel exports out of the country. The steel exported by Turkey in 2016, totaling some 2.4 million tons, constituted 8% of U.S.’ 30 million tons steel imports into the country.

Within the scope of this investigation, the steel industry will be examined to see if the steel imports into the country are posing a threat to national security and protectionist measures are planned to be taken in accordance with the findings. Public opinion on the investigation has been unfavorable, however, due to the pressures coming from the local producers and the steel lobby (benefactors of protectionist actions) Trump administration is looking to apply these measures.



It is possible that new quotas and taxes will be introduced for specific products if the process is finalized; new restrictive trade agreements with nation states might be on the agenda as well. The most distinctive feature separating Section 232 from other protectionist measures is, because of the national security aspect of the statute no term has been specified for how long the measures will be in effect and the import into the country does not have to violate any unfair competitive practices.

Turkish companies are in no way a danger to the U.S. national security, on the contrary, they contribute to the U.S. economy by creating jobs and through their investments. For example, in 2014 Borusan, a TAİK member company, with an investment of \$150 million, opened Borusan Mannesmann Pipe in the U.S. and made its name known with the tre-

mendous success it achieved in a short time. With over 250 employees, Borusan Mannesmann Pipe US is contributing greatly to both the Turkish and American economies, whether it is through exports or providing locally complementary products.

THE BILL BEFORE CALIFORNIA STATE SENATE REGARDING INVESTMENTS INTO TURKEY

The bill 'AB-1597', currently before the California State Senate, aims to cut off investments into Turkey. The Turkish private sector views the action as uncalled for in an era of globalized trade and needlessly damaging.

The California State Assembly passed a bill regarding the 1915 events that is calling for the divestment of California public funds from Turkish government-controlled financial instruments, to ensure taxpayer funds are no longer used in this manner. The bill, which was introduced by Armenian deputies, was accepted by the subvention commission of the state assembly. It is stated that if the bill is also accepted in the general assembly, it will become a law.

The bill, which is designed to cut off investment into Turkey, is received as a needless act of aggression by the Turkish business community.

There are over 200 small-medium sized Californian

companies that operate in Turkey. Furthermore, there are around 100 companies in California that are owned by Turkish Americans and approximately 2500 jobs have been created in California by those companies. It is one of the reasons Turkey is one of the top 10 fastest growing foreign investments into the U.S.

The Turkish private sector believes that there are much more avenues of cooperation between California and Turkey to be explored and passing a bill which is based on 100-year old grievances would hinder the growth of both our great nations, and would in turn only hurt the business environment the U.S. helped cultivate over the years.

EXPERTS EXPECT TURKISH LIRA TO REMAIN STABLE, STRONG FOR REST OF THE YEAR

Timothy Ash, senior strategist for emerging markets at London-based BlueBay Asset Management, said he expects the Turkish lira to remain stable and strong for the rest of the year.

Ash stated that there are global developments which might support the lira in the future, adding that there is also a very supportive environment in terms of risks.

He also noted that the global economy is improving, and growth in the EU, the U.S., Japan and the emerging markets seems good. Ash also said global liquidity continues to flow because tightening in emerging

markets has slowed in an environment of low inflation. Stressing that the current global environment encourages investors to turn toward the lira, Ash

said: "This might increase investors' demand for fixed-income assets in countries with high interest rates. Turkey is currently offering around an 11 percent to 12 percent return in lira – which is attractive for foreign investors."



TURKEY SIGNS TRADE AGREEMENT ON AGRICULTURE WITH SERBIA

Ahmet Eşref Fakıbaba and Branislav Nedimovic met in Serbia's capital Belgrade to sign trade agreement on agriculture.

Ahmet Eşref Fakıbaba, the Turkish Minister of Food, Agriculture, and Livestock, and Branislav Nedimovic, the Serbian Minister of Agriculture, met in Serbia's capital Belgrade to discuss ways to improve import and export between the two countries. The agreement aims to boost the export of sunflower oil, fruits, and vegetables between the two countries, and increase bilateral trade to \$1 billion.

Fakıbaba, in a joint press conference after the signing ceremony, said Serbia had a decisive role to play for peace and stability in the Balkan region. "We give great importance to improving our relations in every area, especially in the economy," he said. He

asked Turkish businessmen to increase investment in Serbia, adding that Serbia should provide them incentives.

Fakıbaba said if Belgrade allows a free trade zone to Ankara, it could enter markets in Russia and the European Union, with which it has free trade agreements. In return, he added, Turkey could open its market to Serbia. Nedimovic said they had focused on three main issues—updating the Free Trade Agreement, creating new quotas for various agricultural products, and investment in the livestock and fruit sector—during their talks.

WORLD BANK'S IFC INVEST IN PHARMA FIRM TO IMPROVE ACCESS TO HIGH-QUALITY MEDICINE IN TURKEY

The International Finance Corporation (IFC), a member of the World Bank Group, has said it is providing a \$25 million loan to Nobel İlaç, a leading pharmaceutical company in Turkey and the country's only net exporter in the sector, to help meet the growing demand for innovative, affordable, and high-quality medicine in Turkey.

IFC's loan will support Nobel İlaç's research and development efforts and help the company ramp up production, according to a statement released by IFC on Aug. 21. Turkey is largely dominated by branded generic products. IFC's support will also allow Nobel İlaç to expand its product portfolio to include specialized generic medicine, and this will enable millions of the company's customers in Eastern and Central Europe to obtain affordable and high-quality medicine.

"Biotechnological drugs provide opportunities for sustainable health care systems. In our country, it is urgent to shift to production of biotechnological drugs in parallel with the developments in the world. Nobel İlaç considers biotechnology as a strategic priority and with the support of IFC's investment we aim to develop at least one domestic biotechnological drug by 2023" Nobel İlaç Chair Hasan Ulusoy said.

"Our investment in Nobel İlaç is in line with our strategy in Turkey to support the export-oriented growth and international expansion of Turkish companies. Nobel will introduce locally produced, high-value-added medicines to local and international markets and, at the same time, help to close the pharmaceutical trade deficit in Turkey," Dimitris Tsitsiragos, IFC Vice President of New Business, said.



IFC's support is part of a \$48 million investment plan developed by Nobel İlaç, according to the

statement. The program will also be financed by İş Leasing, a TAİK member company, and the company's own funds. The Scientific and Technological Research Council of Turkey (TÜBİTAK) is also supporting the investment program with grants and

technical assistance. Turkey is currently the second-largest country in IFC's global portfolio with \$5 billion in commitments.

E.ON CEO SAYS TURKISH BUSINESS GOING WELL, FLAGS ENERJISA IPO

E.ON Chief Executive Johannes Teyssen said business in Turkey was going well, adding the group expected power demand in the country to rise and flagging a possible listing of Enerjisa, its local joint venture with Sabancı.

Sabancı, a TAİK member company, in March announced that Enerjisa would be split into two corporations: One in charge of electricity distribution and retail and one responsible for generation and trade. Teyssen on Aug. 9 said these businesses

could be listed on the stock exchange, similar to a split at E.ON last year that saw most of its power plants and energy trading business being spun off in a separate entity - Uniper, as reported by Reuters.

FOREIGN TOURIST ARRIVALS TO TURKEY RISE SHARPLY IN JUNE, HIT NEARLY 3.5 MILLION

The number of foreign tourists visiting Turkey rose 43 percent in June to nearly 3.5 million with a 1.573 percent year-on-year increase of arrivals from Russia, official data has shown.

The sharp rise in June follows a turnaround in tourism numbers in April, when the number of foreign visitors rose for the first time in nearly two years. Tourism, which adds about \$30 billion to gross domestic product each year, was hit by a diplomatic crisis, a coup attempt last July and a spate of bombings, which scared away tourists over the past year.

According to data from the Culture and Tourism Ministry, which was released on Aug. 1, a total of 763,727 Russians visited Turkey in June with a sharp increase from the same period in 2016. Nearly 1.4 million tourists from Europe visited Turkey

in June with a 0.6 percent increase compared to the same period in 2016. Arrivals from Europe plum-



meted in June 2016, declining from 2.2 million in the same month in 2015.

A QUICK LOOK AT THE TURKISH FINANCIAL AND BANKING SECTORS

Thanks to the regulatory reforms and structural reforms implemented by the government following the financial collapse of the country at the beginning of the 2000s, the Turkish financial sector survived the global financial chaos in 2009 with success. Moreover, the sector has been preferred among others by foreign investors attracting \$48 billion during the past 14 years.

When we look at the financial sector in general we see it is dominated by banking sector which accounts for approximately 60 percent of total financial services, followed by insurance services and other financial activities, all with noteworthy growth potential. Currently, Turkey has 53 banks to include 34 deposit banks, 13 development and investment banks and 6 participation banks. It is important to note that foreign investors hold approx. 30% of total assets in the banking sector.

Moreover, the sector has a leading position in the world with a growing asset size and a strong capital structure to protect against shocks that may arise from lending or unexpected and unavoidable negative market fluctuations. In general, it is observed that the sector reached an asset size of TL 3.6 trillion (US \$ 1.2 trillion) in total with an annual compound annual growth rate of 18 percent between 2008 and 2015.



On the other hand the banking sector doubled its assets during this period, which went up to TL 2.4 trillion (US \$ 807 billion) until the end of 2015. As the current picture tells us, it seems that foreign investors will stick to their growing interest in the sector in the coming days as well.

HOTEL INVESTMENTS IN BLACK SEA REGION CLIMB DUE TO INTEREST FROM GULF COUNTRIES

It was reported that the investment amount of the projects that received incentive certificate in 6 months reached 1.7 billion TL and the Black Sea region enjoyed a large increase in the amount of investments in hospitality sector.



In the current year so far, 7 hotel projects have been started in Trabzon, where there is a boom of interest from Gulf countries mainly. According to a survey conducted by the Turkish Association of Hoteliers (TÜROB) based on data provided by the Ministry of Economy on "Investment Incentive Certificates"

the investment amount has increased due to high capacity facilities. In fact, in the first six months of 2017, 101 hotels in 38 provinces have received incentive certificates for an investment amount of 1 billion 681 million TL with a capacity of 16 thousand beds. Experts draw attention to the fact that the increase in the number of tourists coming from the Gulf region has played an important role in the investment increase in the Black Sea, and remind the critical point that investments in this region should be done in a controlled manner.

The fact that said region is quite short of tourism season (sun & sea, in specific), might turn out to be a major issue in the future. This concern applies

to not only to investments in Trabzon, but also to those in other locations in the region. As a rule of thumb, occupancy rates go up to of 80 percent in high seasons but are less than 50 percent per year, on average. Investments need to be done within a plan and surely taking this into consideration as

well. Experts say if the capacity of hotels in the region surpasses the demand, this may cause many investments to become idle which would mean waste of time, energy and certainly funds.



UPCOMING EVENTS



9TH TURKEY INVESTMENT CONFERENCE, 2017

9th Turkey Investment Conference, organized by the Turkey-U.S. Business Council (TAİK), will take place in New York in 2017.

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.



PAST EVENTS



DOING BUSINESS IN THE U.S. INFORMATION SESSION, 9 August 2017

Doing Business in the United States Information Session, organized by the DEİK/Turkey-U.S. Business Council in cooperation with the European American Investment Council (EAIC) took place on August 9th, in Istanbul. The information session brought together numerous Turkish professionals interested in starting or expanding their businesses in the United States.



RECEPTION IN HONOR OF HOUSTON MAYOR SYLVESTER TURNER, 13 July 2017

Borusan Holding CEO and Turkey-U.S. Business Council Texas Committee Chairman Agah Uğur welcomed Mayor of Houston Sylvester Turner and his delegation at a special event in their honor at the Borusan Contemporary Museum.



TAİK CALIFORNIA VISIT, 24-26 May 2017

DEİK/Turkey-U.S. Business Council California Committee organized two events in San Francisco and Los Angeles between 24-26 May 2017. The events, which are a first for the newly established California Committee, aimed to institute the first connection with the region and were good opportunities to meet potential counterparts and cooperation partners.

[Please follow this link for the visit report.](#)



36TH ATC-TAİK ANNUAL CONFERENCE ON U.S.-TURKEY RELATIONS, 21-23 May 2017

Convening more than 400 representatives from numerous sectors, government offices, government affiliated organizations and non-governmental organizations, the 36th ATC-TAİK Joint Annual Conference on U.S.-Turkey Relations took place between 21-23 May 2017 at the Trump International Hotel in Washington D.C.

[Please follow this link for the conference report.](#)



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