

MONTHLY BRIEF



JUNE-JULY
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

15.4%

Turkey's annual average CPI inflation increased by 15.4% in June. This figure was %12.15 in May.

9.2%

Unemployment in Turkey is registered as 9.2% in April 2018, down from 10.1% in March.

**\$57.64
BILLION**

Turkey's annualized current account deficit is registered as \$57.64 billion in May 2018. This figure was \$36.3 billion in May 2017.

**\$162.1
BILLION**

Turkey's annualized exports stand at \$162.1 billion in May 2018, marking a 9.4% increase from its level in May 2017.

**\$101.7
BILLION**

Turkish Central Bank's reserves (including gold) stand at \$101.7 billion as of July 13th.

Major Indicators

Turkey's Consumer Price Index (CPI) inflation increased by 3.2 percentage points and reached to the annual level of 15.4% in June 2018, marking the highest point of the last 14.5 years. The dual causes of such rise are the pressure on costs created by the increasing exchange rate and the strong increase in domestic demand. The basket exchange rate for instance, which is composed of half a dollar + half a euro increased by 34.4% as of June 2018 compared to its level in previous year. Depreciation of the value of lira creates an upward pressure on producer costs, consequently pushing the consumer inflation up. As a matter of fact, Turkey's producer price index (PPI) inflation increased by 3.5% in June compared to previous month and is registered as 23.7% year-over-year. Such a high level in PPI inflation indicates that cost-based upward pressure on CPI might also continue in the coming months.

PMI data as important advance indicators of the economic performance in the second quarter of 2018 signifies a notable cool-down. Nevertheless, the latest industrial production index - as another major advance indicator - demonstrates that this cool-down might be rather moderate, signaling the second quarter growth to register slightly above 5%.

Another result of increasing inflation fueled by the dual causes indicated above is also reflected on inflationary expectations and credit interest rates. According to regular surveys carried out by the Central Bank, 2018 year-end inflation expectation now stands at 13.88%, while expectations for the next 12-month

period stand at 11.07%. Such rapid increase in inflation and inflation expectation figures is also reflected on credit interest rates. As seen in the figure below, rate hike in consumer credits between May 4th and July 13th is registered as 480 basis points, while the hike in commercial credits reached 580 basis points. The major reason of the limited increase in mortgage rates during the same period on the other hand, is the low interest rate policy pursued by the economy administration mainly spearheaded via public banks. As the low mortgage rate campaigns are over since the beginning of July, we now expect the mortgage rates to follow a similar upward trend as early as the next couple of weeks.

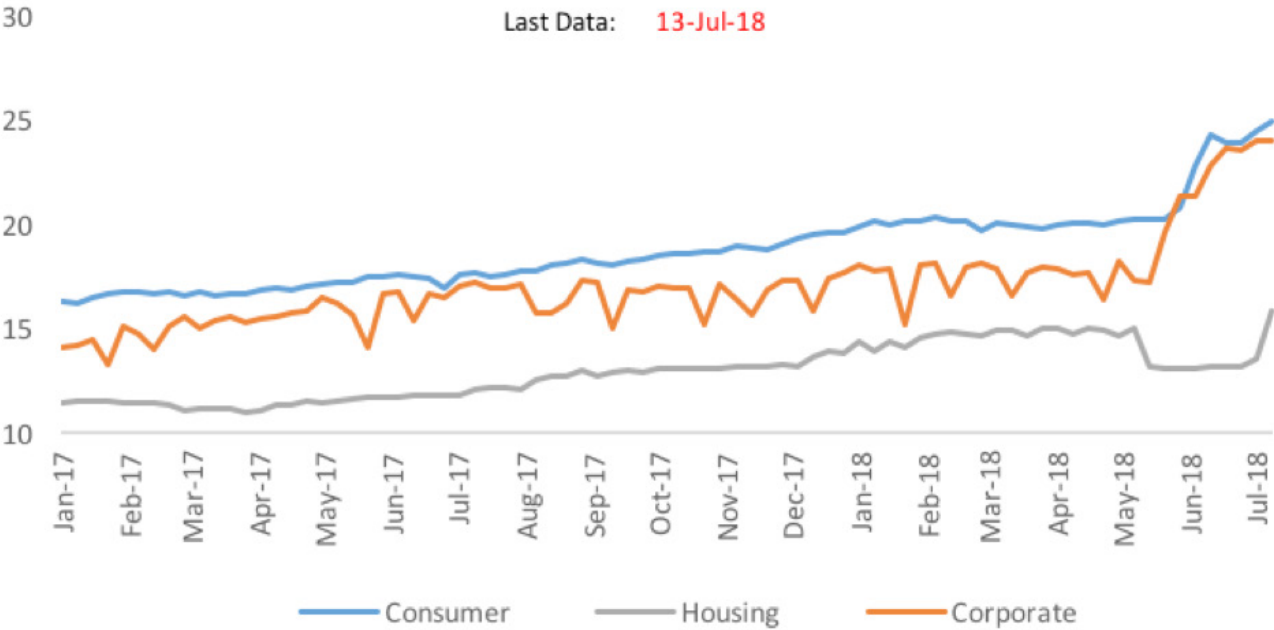
Which Policy Priorities?

Perhaps the most important factors to be watched in the upcoming period are the implementation of the new system and the performances of new ministers and ministries. Another major point of scrutiny in relation to the new system will be the policy priorities to be pursued by the new economy administration. Two major issues faced by the country's economy administration within this framework, stand as controlling inflation versus sustaining above-the-potential growth performance. Whereas, current messages given by the economy management signal an embracement of both priorities, such a policy approach is criticized for potentially leading to contradicting policy implications and hence resulting in ineffective outcomes.

An important setback experienced by the Turkish economy since the end of 2010 has been inadequate fixed capital investments, the size of which was better visible in former GDP series. Accordingly, the solution implemented to overcome such inadequacy has been the introduction of mega construction projects, via riding the wave of excess global liquidity as well. It must also be recalled that income inflows created by these mega-projects have been guaranteed by the government. Rising investment spending as a result of such policies subsequently transformed into even higher production figures as well as increasing land prices and fueling purchasing power. The major problem of such an accumulation model, on the other hand, is the fact that mega construction projects - mainly funded by external borrowing - have neither increased Turkey's productive capacity nor been supportive of potentially productive investments. Therefore, a major point of focus for Turkey to break the \$10,000 per capita income threshold is a transition from a growth model based on mega construction projects to a management approach prioritizing efficiency based economic model. Here, the defining factor of an efficiency based economic model requires designing policies mainly favoring the industrial sector. In response to the declining weight of industrial production within the country's GDP lately, the new economic reform agenda should uphold policies strengthening the industrial sector, increasing the economy's efficiency, and thereby raising the country's overall competitive productivity.

Interest Rates in Turkey (%)

Last Data: 13-Jul-18



Source: CBRT

Source: [InnoNative Advisors](#)



UPDATE ON TURKEY-U.S. TRADE RELATIONS

\$144.9
BILLION

U.S. exports of goods in May 2018 increased by 2.6% to \$144.9 billion compared to previous month.

\$210.7
BILLION

U.S. imports of goods in May 2018 increased by 0.5% to \$210.7 billion compared to previous month.

\$4.29
BILLION

U.S. exports of goods to Turkey in May 2018 decreased by 2.3% to \$861 million compared to previous month. **Total U.S. exports to Turkey** in the first five months of 2018 has reached to \$4.29 billion.

\$4.40
BILLION

U.S. imports of goods from Turkey in May 2018 decreased by 7.6% to \$892 million compared to previous month. **Total U.S. imports from Turkey** in the first five months of 2018 has reached to \$4.40 billion.

30th

Turkey is U.S.'s 30th largest export market in the first five months of 2018. **Leading U.S. exporting industries to Turkey** in May 2018 are **aircrafts and spare parts** (\$138 million), **cotton** (\$110 million), **mineral fuels** (\$109 million), **iron and steel products** (\$76 million), and **machinery and spare parts** (\$67 million) which in total comprise 58.1% of overall exports to Turkey in May.

33rd

Turkey is U.S.'s 33rd largest sourcing market in the first five months of 2018. **Leading Turkish exporting industries to U.S.** in May 2018 are **machinery and spare parts** (\$106 million), **motor vehicles and spare parts** (\$69 million), **iron and steel products** (\$56 million), **carpets and other textile floor coverings** (\$53 million), and **mineral fuels** (\$41 million) which in total comprise 36.4% of overall exports to the U.S. in May.

\$6.54
BILLION

U.S. cumulative foreign direct investments in Turkey is registered as \$6.54 billion in 2017 according to the latest statistics released by the Central Bank of Turkey. This figure marks a 50.9% decrease from 2016 and constitutes 3.74% of total FDI stock in Turkey in 2017.

\$1.83
BILLION

Turkish foreign direct investments in the U.S. is registered as \$1.83 billion in 2017 according to the latest statistics released by the Central Bank of Turkey. This figure marks a 12.5% increase from 2016 and constitutes 4.8% of total FDI from Turkey in 2017.



TURKEY ADOPTS PRESIDENTIAL SYSTEM

What will the change bring?

Turkey's state structure has been rebuilt after President Recep Tayyip Erdoğan issued the first presidential decrees on July 10. Presidential offices, policy councils and directorates, which will work directly under the president, were introduced, while ministries, their organization and duties have been reorganized. Following his inauguration and marking the beginning of the new presidential executive system, Erdoğan issued the first three decrees which are the fundamentals of the new state structure.

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First cabinet sworn in under presidential system

Following the historic launch of the new executive presidential system, the first 16-seat cabinet under President Recep Tayyip Erdoğan was sworn in and took office on July 10, with figures from political, bureaucratic and professional walks of life appointed to key ministries.

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TURKEY'S SECTORAL CONFIDENCE RISES TO 91.9 POINTS IN JULY

Confidence in Turkey's services, retail trade, and construction sectors rose in July compared to the previous month, the Turkish Statistical Institute (TurkStat) announced.

The services sector index rose 0.7 percent to 91.9 in the month, from 91.2 in June. According to TurkStat, this resulted from an increased number of managers evaluating the business situation as improved and demand-turnover as up over the past three months.

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FINANCE MINISTER ALBAYRAK MEETS WITH TOP ECONOMISTS, ACADEMICS ON TURKISH ECONOMY, GLOBAL MARKETS

Turkey's new Treasury and Finance Minister Berat Albayrak met with the Turkey's leading economists, columnists and academics in Istanbul to discuss the state of the Turkish economy and get their insights on key topics and global markets.

"We had a fruitful meeting with economists and academics about what our economic policies should be. These meetings will be held regularly and we will prepare a road map with contributions from all sectors," Albayrak tweeted following the consultative meeting.

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TURKEY ENTERS REFORMATION ERA: TOP BUSINESS BODY

Turkey has entered a sensitive period for social reconciliation and economic reform following the election, chairman of the Turkish Industry and Business Association (TUSIAD) said.

Speaking at the 40 Turkish young CEOs ceremony organized by the Economist, TUSIAD Chairman Erol Bilecik said the Turkish business world and economy has been supported by the youth. He highlighted that the Turkish economy has been growing steadily for the last nine years since the 2009 crisis, generating employment especially in the service sector, which also brought significant financial risks along.

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US THREATENS SANCTIONS ON TURKEY IF JAILED AMERICAN PASTOR NOT FREED

Andrew Brunson, an evangelical pastor from Black Mountain, North Carolina, has been jailed in Turkey on terrorism and espionage charges. His case has strained relations between Turkey and the U.S., both NATO allies. The United States is threatening sanctions on Turkey unless the detained American pastor is released.

"If Turkey does not take immediate action to free this innocent man of faith and send him home to America, the United States will impose significant sanctions on Turkey until Pastor Andrew Brunson is free," said U.S. Vice President Mike Pence at a religious freedom summit at the State Department.

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TURKEY CONSIDERS NEW STIMULUS AS GROWTH SEEN SLOWING, OFFICIALS SAY

Turkish government is considering further stimulus measures to address an expected slowdown in growth in coming quarters, two officials said - a move that could raise expectations that fiscal policy will be loosened.

The economy expanded at a breakneck 7.4 percent last year, boosted by government stimulus and domestic consumption; although analysts said growth was uneven and not sustainable. In the aftermath of a failed coup in 2016, the government boosted the size of a fund that backs loans to companies to 250 billion liras (\$52 billion). It has also introduced measures to increase employment. "Certain steps may be taken to realize higher growth. This issue is on the agenda," one of the officials said, without elaborating on what that could entail.

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TAV AIRPORTS REPORTS 55 PCT NET PROFIT RISE IN RECORD RESULTS, MAINLY IN ANTALYA

Turkey's airport operator TAV Airports Holding has said it increased passengers 31 percent and served 67 million passengers in the first half of 2018.

In a statement on July 27, the company noted that these record high results, mainly thanks to a significant international tourist arrival to the Antalya Airport, enabled it to increase its net profit 55 percent to 93 million euros.

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TURKEY SEES 30 PCT RISE IN NUMBER OF TOURISTS

The number of tourists visiting Turkey in the first half of 2018 surged 30 percent year-on-year, Turkish Minister of Culture and Tourism Mehmet Ersoy said

"Some 16 million foreigners visited our country in the first six months of this year," Mehmet Ersoy said during his visit to the southern holiday resort city of Antalya. Ersoy stated that Antalya recorded the highest number of visitors with more than 6.6 million during the same period.

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TURKEY TO DRILL IN MEDITERRANEAN THIS YEAR: MINISTER OF ENERGY

Turkey, with the aid of the country's first drilling vessel, Fatih, will drill its first well in the Mediterranean this year Fatih, Turkey's Energy and Natural Resources Minister Fatih Dönmez said.

Dönmez, speaking at the Belt and Road Investment and Financial Cooperation Summit in Turkish capital Ankara, said Turkey has accelerated seismic research and drilling activities in the Black Sea and the Mediterranean since April 2017.

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LOGISTICS GIANTS TURN INVESTMENT ROUTES TO TURKEY, OPEN NEW OFFICES

Following the British logistics company British Trans Global Projects (TGP), which opened its first office in Istanbul in March, Dubai World-owned P&O Ferrymasters opened its office in Istanbul in June, while Hong Kong-based Kerry Logistics will open a new railway and road line between China and Turkey with a new 50-truck investment.

Foreign investment has recently strengthened its presence in the Turkish logistics sector. The shift of production to Eastern Europe has changed the investment route of global logistics companies. New opportunities that China's "One Belt, One Road" project will create also attract industry giants. Companies are choosing Turkey, which serves as a bridge between Europe and Asia, for investments. In the meantime, existing foreign companies open new lines on the one hand, while new players enter the market.

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WORLD BANK, AIIB ALLOCATE \$1.2B LOAN FOR LAKE TUZ NATURAL GAS STORAGE FACILITY

Turkey's ever-growing energy industry continues to draw investments from international institutions. The World Bank and Asian Infrastructure Investment Bank (AIIB) have provided a \$1.2 billion loan for the capacity expansion project of Lake Tuz underground natural gas storage facility.

The storage facility is expected to reach 5.4 billion cubic meters of storage capacity at the end of the capacity-increasing project. The second phase of the project will be operational in 2019 or 2020 and the third phase is planned to start service before 2023, raising the gas storage capacity of the facility to 5.4 billion cubic meters (bcm).

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THY IN TALKS WITH LOCAL, CHINESE BANKS FOR \$1B LOAN

Turkey's national flag carrier Turkish Airlines (THY) has been reportedly negotiating with 12 to 13 Turkish and Chinese banks to ink a deal for a loan between \$800 million and \$1 billion in financing to construct its facilities at Istanbul's new airport

THY is in talks with five local banks and various Chinese banks, including the ICBC, the sources told Reuters, and is about to ink the deal to finance the transfer of operations to the new Istanbul airport. "İGA only constructs the airport; THY will make investments in buildings, customer sales offices and conveyor belts, and needs financing for them," one of the sources said.

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US DEMAND TO STOP OIL TRADE WITH IRAN NOT BINDING FOR TURKEY: MINISTER

The United States' demand to stop trading oil with Iran is not binding for Turkey, a top Turkish official has said, adding that Turkey would only follow a United Nations decision regarding this issue.

"The decisions taken by the United States on this issue are not binding for us. Of course, we will follow the United Nations on its decision. Other than this, we will only follow our own national interests. In addition, we will pay attention so our friend Iran will not face any unfair actions," Zeybekci said.

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TURKISH AIRLINES, AMEX GBT SIGN DEAL

Turkish Airlines signed a “significant” global agreement with American Express Global Business Travel (Amex GBT), one of the world’s leading agencies for corporate travel.

Turkish Airlines is “very pleased to enter such an important business partnership with Amex GBT. With this new agreement, which existed on a regional scale and now expanded to global, we aim to increase our market share also in the corporate travel segment and to be the most preferred airline for all business travelers worldwide,” Turkish Airlines Chairman İlker Aycı said in a statement.

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TURKISH CHERRY EXPORTERS EXPECT TO HIT ALL-TIME HIGH

Turkey’s cherry exports may hit a record high this year by reaching some 85,000 tons with a value of \$200 million, according to vice chairman of the Uludag Fresh Fruit and Vegetable Exporters’ Association (UYMSIB).

In an exclusive interview, Senih Yazgan told Anadolu Agency that the producers are expecting a bumper crop of cherry this year. “If we can get by the seasonal problems without difficulties, we believe that a significant amount of cherry export will be realized this year,” Yazgan said.

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TURKEY’S DOMESTIC CAR PROJECT RIGHT PLACE TO INVEST

In November 2017, Turkey launched an ambitious project for creating its first domestic car brand. With the strong support of the government, five major companies will take part in the consortium to make Turkey’s first domestically produced automobile.

A prototype is expected to be ready by 2019 while sales will start in 2021. It is further announced that the initial models will be all electric-engine, which adds even more enthusiasm to the endeavor. Plans to produce a Turkish-designed and -built electric car is the right place to start Turkey’s transition from labour-intensive, secondary manufacturing to high-value-added industries.

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TURKEY HITS UNITED STATES WITH RETALIATORY TARIFFS

Turkey just became the latest country to hit back at the United States for its tariffs on steel and aluminum. The country's Ministry of Economy said that it's imposing tariffs worth \$267 million on US goods, targeting items such as coal, paper, walnuts, tobacco, rice, whiskey and cars.

The move comes after negotiations with the United States failed to yield meaningful progress, according to the ministry. "Turkey is committed to active, robust and reciprocal trade relations with the US – but with the understanding that fairness cannot be one-sided," Economy Minister Nihat Zeybekci said in a statement. "We cannot and will not allow Turkey to be wrongly blamed for America's economic challenges."

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TURKEY LAUNCHES HISTORIC TANAP GAS PIPELINE PROJECT

Turkey along with other partner countries launched the historic Trans-Anatolian Natural Gas Pipeline (TANAP) project in the central Turkish city of Eskisehir.

The inauguration of the project was performed jointly by Turkish President Recep Tayyip Erdogan, Azerbaijani President Ilham Aliyev, Ukrainian President Petro Poroshenko, Serbian President Aleksandar Vucic, and Mustafa Akinci, president of the Turkish Republic of Northern Cyprus. Speaking at the ceremony, Erdogan called TANAP the fruit of the shared vision of the countries involved in the project and said it would pave the way for similar future projects.

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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](#).

9TH TURKEY INVESTMENT CONFERENCE, 26 September 2018



9th Turkey Investment Conference, organized by the Turkey-U.S. Business Council (TAİK), will take place in New York on September 26, 2018.

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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