

MONTHLY BRIEF



MAY
2018



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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

4.85 ₺

U.S. Dollar lira stands at 4.85₺ as of May 23rd, marking a more than 17% decline in the value of lira within the last month.

11.06%

Turkey's annual average CPI inflation increased by 11.06% in April.

**\$55.38
BILLION**

Turkey's annualized current account deficit is registered as \$55.4 billion in March 2018. This figure was \$33.5 billion in March 2017.

10.6%

Unemployment in Turkey is registered as 10.6% in February 2018, marking a decline of 2.0 percentage points compared to the same month of the previous year.

**\$160.4
BILLION**

Turkey's annualized exports stand at \$160.4 billion in March 2018, marking a 10.1% increase from the previous year.

Short-term Steroids

Since the announcement of snap elections, Turkish economy is witnessing extreme volatility. Such volatility is visible not only on the value of the Turkish lira but also on populist economic policies announced with an aim to ease the pressure on markets and household economy. Ranging from two bonus payments of 1000 liras to retirees before each religious holiday to restructuring of public receivables, these policies unveiled concerns about the increasing risk on the stability of the central government budget following elections.

Another important component of such policies relates to the housing market which has been on a slowing trend for the last three years. The reduction of sales tax on housing from 4% to 3%, and the value-added tax from 18% to 8%, coupled by a further 20% discount in prices by several home-builders associations have also been announced. Perhaps the most important support to the housing industry has been provided by the banking sector - led by several state-owned banks - in the form of reduced mortgage rates to levels as low as 0.98%. All these policies are expected to result in a short-term revitalization of the housing market, despite its traditionally sluggish performance especially in the month of Ramadan and the summer season.

Hence, the question of whether mortgage rates will stay at their current low-levels or not, is expected to be the major determinant of the housing market's performance in the second half of this year. And the

answer to this question is directly related to the hottest topic in Turkish economy: the interest rate policy of the Central Bank and its effects on exchange rates and inflation.

Monetary Policy

Positive signals coming from the U.S. economy within the last couple of months result in strengthening dollar and declining risk appetite for emerging markets. Developing countries with savings deficit such as Turkey are particularly affected under such circumstances. Such negative effects are visible on interests and exchange rates, resulting in either increasing domestic interest rates or declining local currency values. Pressures emanating from global markets reinforced by increasing inflation in emerging economies, leads to expectations for their Central Banks to announce rate hikes. In the absence of such announcements, macro-economic balancing occurs on the exchange rate side, thus resulting in declining local currency values.

Lira's recent story has not been different. The value of the lira against dollar which was at 4.05 at the end April has been in a constantly declining trend due to the Central Bank's inaction on interest rates, further triggering concerns that the currency's declining trend will continue. Three emergency meetings of the economy administration during the most volatile period of the exchange rate last month, led to rate hike expectations resulting in limited and short-lived increases in the value of lira. The absence of rate hike decisions however, not only fueled the declining trend in the value of lira but also contributed to the erosion of confidence in the Central Bank's capability to act when required. Such erosion now carries the risk of turning into a complete lack of confidence, potentially leading to a much larger prospective rate hike - if not too late and non-effective. June update: The central bank ramped up its benchmark interest rate to 17.75 percent on June 7, taking another step to assert its independence, two weeks after an emergency rate hike and just ahead of elections.

The reason for the Central Bank's inaction, on the other hand, was the hike's potential negative effects on the real economy. Whereas the cost of missing required rate hikes is borne by the declining currency. The value of the dollar stands at 4.85 liras as of May 23rd, marking more than 17% depreciation of the currency's value within the last month. The damage of such an abrupt decline in such a short period on real economy however - especially in the form of deteriorating private sector balance-sheets - constitutes another major source of concern. Furthermore, Central Bank's decision to hold interest rates does not necessarily prevent rising rates in financial markets. Bond yields for instance, registered an increase of 290 basis points last month, rising from 14.14% to 17.05%.

The dual increase of exchange and interest rates also intensifies concerns on Turkey's short-term economic performance. Exchange rate in particular stands as the economy's barometer in the eyes of economic agents in Turkey, leading to an impression that the value of the lira demonstrates the country's overall economic performance. Recent depreciation of the currency, therefore increases concerns on the country's macro-economic balances and operating volume.

What Lies Ahead?

Economic policy-making after June 24 elections holds absolutely critical importance for Turkey. While the actual macro-economic environment that the country will face at the end of June matters most for any policy projection, some broad predictions can be made today. The major indicators to prepare an overall economic action plan after elections will be figures such as the value of the lira, bond yields, domestic consumption, industrial production, and capacity utilization. Yet, we envision the country to pursue a fiscal policy primarily targeted at removing the budgetary pressures of current populist policies as well as a monetary policy in line with the global cycle and the country's inflationary outlook. Such an overall policy framework will help ease the additional vulnerabilities on the economy created by the value of lira, and construct an environment where the private sector could repair their balance-sheets. Nevertheless, even under such a scenario, it must also be particularly emphasized that we are now in a new global economic cycle and the low interest rate era is over.

Source: [InnoNative Advisors](#)



UPDATE ON TURKEY-U.S. TRADE RELATIONS

**\$140.9
BILLION**

U.S. exports of goods in March 2018 increased by 2.7% to \$140.9 billion compared to previous month.

**\$210.4
BILLION**

U.S. imports of goods in March 2018 declined by 1.7% to \$210.4 billion compared to previous month.

**\$2.55
BILLION**

U.S. exports of goods to Turkey in March 2018 increased by 20% to \$942 million compared to previous month. Total U.S. exports to Turkey in the first quarter of 2018 has reached to \$2.55 billion.

**\$2.55
BILLION**

U.S. imports of goods from Turkey in March 2018 increased by 29.2% to \$930 million compared to previous month. Total U.S. imports from Turkey in the first quarter of 2018 has reached to \$2.55 billion.

28th

Turkey is U.S.'s 28th largest export market in the first quarter of 2018. Leading U.S. exporting industries to Turkey in March 2018 are cotton (\$119 million), mineral fuels (\$117 million), iron and steel products (\$113 million), aircrafts and spare parts (\$105 million), and machinery and spare parts (\$77 million) which in total comprise 56.4% of overall exports to Turkey in March.

33rd

Turkey is U.S.'s 33rd largest sourcing market in the first quarter of 2018. Leading Turkish exporting industries to U.S. in March 2018 are motor vehicles and spare parts (\$93 million), machinery and spare parts (\$93 million), iron and steel products (\$74 million), carpets (\$59 million), and mineral fuels (\$38 million) which in total comprise 38.4% of overall exports to the U.S. in March.

50.4%

Texas (\$550.6 million), New York (\$252.3 million), California (\$196.3 million), Georgia (\$153.6 million), and New Jersey (\$132.6 million) are the leading states in exports to Turkey in the first quarter of 2018 which in total comprise 50.4% of U.S. exports to Turkey.

51.4%

California (\$377.2 million), Texas (\$253.4 million), New York (\$229.8 million), New Jersey (\$218.7 million) and North Carolina (\$164.9 million) are the leading states in imports from Turkey in the first quarter of 2018 which in total comprise 51.4% of U.S. imports from Turkey.

Source: [InnoNative Advisors](#)



NEW PACKAGE TO DEVELOP TURKEY'S ECONOMY

The Justice and Development (AK) Party government has announced a package of economic measures in the run-up to the parliamentary and presidential elections on June 24 in order to decrease the budget deficit and currency fluctuations.

Turkish Prime Minister Binali Yildirim announced an economic and social reforms package after a cabinet meeting on April 30. Yildirim said the measures would cost nearly \$6 billion but the benefit will be more than this, based on the payments that would be done for registering unlicensed properties, which is now a must.

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WORLD BANK APPROVES \$600M LOAN FOR SALT LAKE STORAGE

The World Bank approved a \$600 million loan for Turkey's Gas Storage Expansion Project, which aims to support capacity increases at the Salt Lake Natural Gas Storage Facility.

The project's aim is to increase the reliability and security of gas supplies in Turkey by expanding the underground gas storage facility near the Salt Lake in the Central Anatolia region of Turkey.

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TURKISH TECHNIC SIGNS SUPPLIER AGREEMENT WITH BOEING

Turkish Technic, the maintenance, repair and overhaul (MRO) arm of Turkish Airlines, and the U.S. aerospace giant Boeing signed a Global Fleet Care supplier agreement.

According to a statement from Turkish Technic, the firm became a "strategic" Boeing supplier for line maintenance, heavy maintenance of airplanes, component service and repair. Marc Allen, the president of Boeing International, praised the capability and growth potential of Turkish aviation and maintenance services. "With this agreement, we are taking our successful collaboration with Turkish Technic one step further in a manner that aligns to the growth of Boeing and Turkey," Allen said.

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TURKISH RED CRESCENT, QATAR FOUNDATION GIVE MEDICAL CENTER, \$1 MILLION OF FOOD AID TO YEMEN

A total of \$1 million cash and a medical center will be donated to Yemen for humanitarian aid as part of a protocol signed between the Turkish Red Crescent (Kızılay) and the Qatar Charity Foundation.

Turkish Red Crescent head Kerem Kinik and Qatar Charity Foundation CEO Faisal Rashid Al Fehaida signed the cooperation protocol during a ceremony at the Presidency Office of the Red Crescent in Istanbul. As part of the protocol, two projects will be implemented in Yemen.

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FOREIGN FIRMS TO ENJOY CORPORATE TAX EXEMPTION UNTIL 2022

Foreign companies may enjoy corporate tax exemptions until Jan. 1, 2022, if they decided to establish their regional headquarters in Turkey by Jan. 1, 2019.

The decision was revealed in a Ministry of Finance's Corporate Tax General communique published in the Official Gazette. Companies establishing regional headquarters after Jan. 1, 2019 will not benefit from the tax exemption.

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TURKEY AND BRITAIN IN TALKS FOR TRADE, INCLUDING DEFENSE

Turkey and Britain have been negotiating a comprehensive trade agreement in anticipation for the latter's exit from the European Union.

According to a British diplomat in Ankara, the two NATO allies agree on the importance of "doing the maximum in their capacity in the field of defense." "Both partners have a long-term, strategic view of their cooperation on defense technologies," he said. A Turkish presidential aide said both countries agree "a significant part of the [post-Brexit] trade deal will involve defense technologies and cooperation on several systems."

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WORLD BANK APPROVES LOAN FOR A PROJECT, PROMOTES LABOR MARKET PARTICIPATION FOR WOMEN AND VULNERABLE GROUPS

The World Bank's Board of Executive Directors today approved a US\$400 million loan for the Inclusive Access to Finance Project in Turkey.

The Project's aim is to improve access to longer-term finance for women-inclusive enterprises and enterprises in less developed sub-regions affected by the influx of Syrians Under Temporary Protection (SuTP).

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TURKISH FM SAYS HE EXPECTS 50 MILLION TOURISTS BY 2023

Foreign Minister Mevlüt Çavuşoğlu said he hopes Turkey will attract 50 million tourists by 2023 and generate \$50 billion in revenue from tourism.

"There is a significant increase in the number of tourists this year. Therefore, we are moving toward 50 million with decisive steps. Hopefully, we will reach 50 million tourists and \$50 billion revenue by 2023," he said, as quoted by state-run Anadolu Agency.

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TURKISH AUTOMOTIVE INDUSTRY HITS NEW 12-MONTH EXPORT RECORD, EXCEEDS \$30B

Turkey's automotive industry exceeded \$30 billion in exports for the first time in the last 12 months, registering a new record.

According to Turkish Exporters' Assembly (TİM), the automotive sector led the way in exports once again in April with \$2.9 billion. Having increased its exports by 26.6 percent in April compared to the same month of last year, the automotive industry claimed a 21.4 percent share in total exports.

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TURKISH AGENCIES LAUNCH CAMPAIGN TO TREAT CATARACTS

Turkish agencies launched a global cataract surgery campaign.

The Humanitarian Relief Foundation (IHH), Istanbul Provincial Presidency of Confederation of Public Servants Trade Unions (Memur-Sen) and Alliance of International Doctors (AID) are part of the campaign. A protocol was signed at a publicity meeting of the campaign held at the headquarters of AID in Istanbul. The slogan for this year's campaign is "Time to see beauties".

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