

Country Insight Snapshot

Turkey

July 2019





OVERVIEW

OVERALL COUNTRY RISK RATING: DB5b

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



Rating Outlook: Deteriorating

CORE OUTLOOK

+ Turkey's position at the crossroads of Europe, Asia and the Middle East gives it an unrivalled locational advantage.

- A poor education system, a low savings rate and a structural current account deficit are among the main challenges facing Turkey.

- Political tensions are elevated across a number of axes: government vs Gulenists; government vs Kurds; government vs traditional secular elite; and Islamic State is also present.

- President Erdogan's unorthodox economic approach is undermining investor belief in Turkey.

KEY DEVELOPMENT

The re-run Istanbul election indicates a change in the political environment after the AKP fare poorly.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



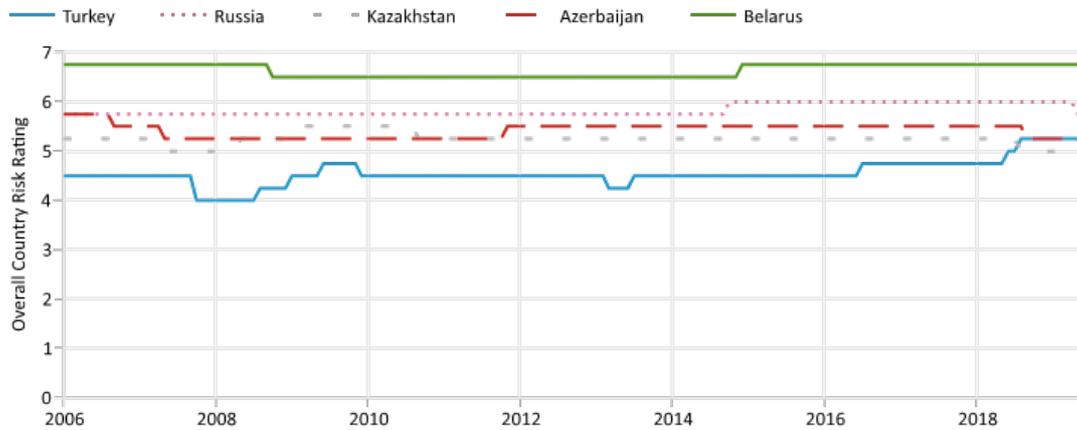
Trend: Deteriorating

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

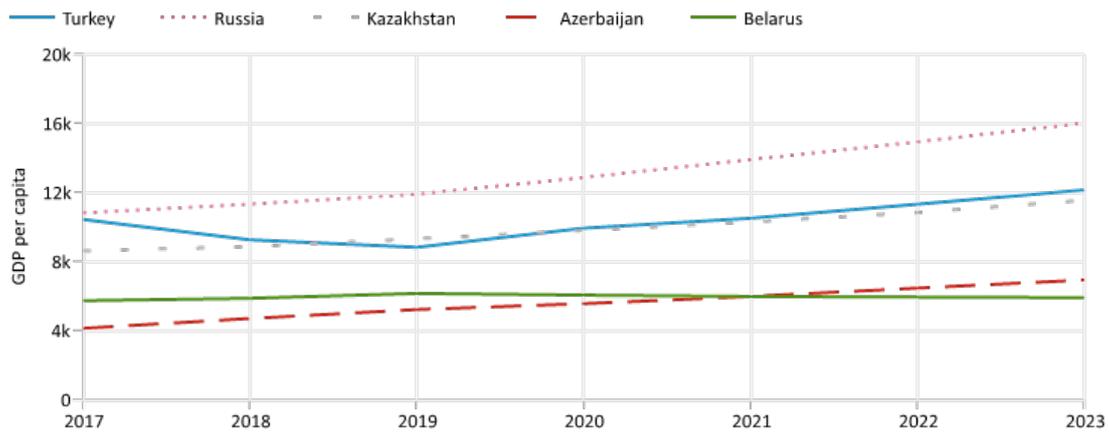
Rating History and Comparison



Source: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-3.8	-5.6	-3.6	-0.6	-1.1	-1.7	-2.3	-2.5
Govt balance, % GDP	-1.7	-2.0	-2.8	-2.3	-1.7	-1.5	-1.5	-1.3
Inflation, annual avge %	7.8	11.1	16.2	18.1	12.5	8.9	7.8	6.5
Real GDP Growth, %	3.2	7.4	2.6	-1.7	2.8	3.2	4.1	4.6
Unemployment, %	10.9	10.9	11.0	12.5	11.6	10.2	9.4	9.2

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In April 2019, the Turkish Statistical Institute's Industrial Production Index reversed its growing trend of the previous three months to fall from 113.76 in March to 110.91. This is below the average of 114.31 for 2018 as what started as an exchange rate crisis moved into the real sector. Meanwhile, in May 2019 the Economic Confidence Index issued by the Turkish Statistical Institute fell sharply by 7.2% m/m, to 77.53. The Central Bank of Turkey's Real Sector Confidence Index also experienced a sharp m/m fall of 5.3%, recording a figure of 94.7. In addition, the Consumer Confidence Index fell by 8.9% m/m to 55.5.1. All three confidence indices are at levels last experienced in the later stages of the 2008-09 global financial crisis. Despite the latest recession and the political and security turmoil, our recommended and minimum terms remain LC, but these could change over the next few months if the lira experiences another severe bout of depreciation.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



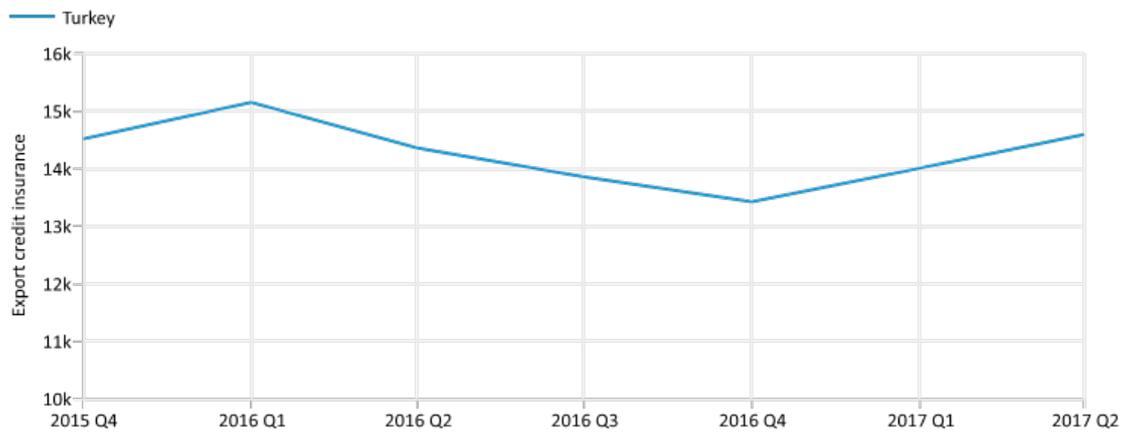
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (Local currency unit) = Turkish lira

Credit Conditions



Source: Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

More inclusive policies to come?

The outcome of the re-run municipal election in Istanbul at the end of June has indicated that the political pendulum may be swinging against President Recep Tayyip Erdogan and his AKP party. The AKP fared poorly in the hotly-contested municipal elections (turnout was reported at 85%) at the end of March, despite controlling much of the media and amid accusations of unfair electoral practices by outside observers. The AKP lost control of the capital, Ankara, and the economic powerhouse Istanbul, the largest city in Turkey, which had been in Erdogan's hands since he was elected mayor in 1994. However, Erdogan claimed there was fraud in the Istanbul poll and, as a result the election, was re-run on 23 June. Nevertheless, the secularist Republican People's Party (CHP) candidate Ekrem Imamoglu convincingly won the second vote, polling around 54% of the vote; originally his margin was less than 1pp.

As yet, it is not clear if Erdogan will adopt a more inclusive policy going forward that can start to bridge what have been growing divisions within Turkey. These divisions are on three axes: 1) between the AKP and the secular elite; 2) between the AKP and the influential (but informal) Gulen movement, which had previously backed the AKP, but is now undermining the government for its own ends; and 3) between the AKP and the minority Kurds. If a more inclusive policy is to be adopted, however, it is unlikely that the AKP - which relies on the support of the ultra-nationalist MHP - would make overtures to the Kurds. Alternatively, Erdogan could continue to his divisive domestic political agenda and make it difficult for Imamoglu to rule effectively in Istanbul, thereby undermining the latter's ability to maintain or even build his support. We consider that the result is liable to lead to a lessening of political tensions in the short term as the AKP soften their political rhetoric, while at the same time making it difficult for Imamoglu to rule Istanbul by, for example, reducing central government budgetary support for the city.

FX Risk

Election result highlights FX volatility

The immediate reaction of the markets to the success of Imamoglu resulted in a strengthening of the lira by 1.6%, although it lost some of these gains later in the day. Nevertheless, this is a further example of the susceptibility of the lira to non-economic events, in addition to impact of the economic position. We expect the economy to contract by 1.7% in 2019 before returning to weak growth of only 2.8% in 2020, which will keep downward pressure on the lira. Importantly, the lira crisis has seen a rebalancing of the current account. In Q1 2019, it recorded a deficit of only USD890m, compared with a deficit of USD16,214m in Q1 2018. Furthermore, the deficit was easily covered by FDI and portfolio inflows, rather than by increasing external borrowing. In turn, this should ease pressure on FX rate to a limited degree; however, other factors - such as falling FX reserves and political tensions - will continue to put downward pressure on the lira, ensuring that FX risk remains elevated. As a result, customers should hedge when dealing in the lira.



COUNTRY PROFILE AND STATISTICS

Overview

Turkey lies at the eastern end of the Mediterranean, bridging Southeast Europe to the Middle East. Its strategic location affords Turkey control over the Turkish straits (Bosporus, Sea of Marmara and the Dardanelles) that link the Black Sea and the Aegean.

The Justice and Development Party (AKP), which has governed the country since 2002 and had moderate Islamic roots, is viewed as a threat to the secular traditions of the country's founder, Mustafa Kemal Ataturk. The military, which views itself as the guardian of these traditions, has overthrown governments in 1960, 1971 and 1980, before stepping aside; another failed coup took place in 2016. The country faces a violent and long-running insurgency by Kurdish separatists, in particular the Kurdistan Workers' Party, the PKK. The AKP was formerly economically liberal, pro-business and pro-EU entry, but under the leadership of Recep Tayyip Erdogan has shown increasingly authoritarian tendencies.

The dynamic economy is a mix of modern industry and commerce, and also has a traditional agricultural sector. The private sector is strong and growing rapidly, but the AKP is showing increasing signs of politicising the business environment.

Key Facts

Key Fact	Detail
Head of state	Recep Tayyip ERDOGAN
Capital	Ankara
Timezone	GMT +02-00
Official language	Turkish
Population (millions)	82.3
GDP (USD billions)	764.5
GDP per capita (USD)	9,285
Life expectancy (years)	75.6
Literacy (% of adult pop.)	96.2
Surface area (sq km)	783,560

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	5.2	6.1	3.2	7.4	2.6
Nominal GDP in USDbn	933	858	862	849	765
Nominal GDP in local currency (bn)	2,042	2,333	2,603	3,096	3,691
GDP per Capita in USD	12,079	10,921	10,797	10,461	9,285
Population (year-end, m)	77.2	78.5	79.8	81.1	82.3
Exchange rate (yr avge, USD-LCU)	2.2	2.7	3.0	3.6	4.8
Current Account in USDbn	-43.7	-31.9	-32.7	-47.7	-27.7
Current Account (% of GDP)	-4.7	-3.7	-3.8	-5.6	-3.6
FX reserves (year-end, USDbn)	106.9	92.9	92.1	84.1	72.9
Import Cover (months)	5.0	5.0	5.2	4.1	3.6
Inflation (annual avge, %)	8.8	7.7	7.8	11.1	16.2
Govt Balance (% GDP)	-0.8	-1.0	-1.7	-2.0	-2.8

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	-1.7	2.8	3.2	4.1	4.6
Nominal GDP in USDbn	738	840	896	971	1,046
Nominal GDP in local currency (bn)	4,297	4,954	5,554	6,215	6,904
GDP per Capita in USD	8,849	9,956	10,533	11,349	12,170
Population (year-end, m)	83.4	84.3	85.0	85.6	86.0
Exchange rate (yr avge, USD-LCU)	5.8	5.9	6.2	6.4	6.6
Current Account in USDbn	-4.5	-9.0	-15.0	-22.0	-26.0
Current Account (% of GDP)	-0.6	-1.1	-1.7	-2.3	-2.5
FX reserves (year-end, USDbn)	74.0	84.0	91.0	99.0	111.0
Import Cover (months)	4.1	3.6	3.5	3.3	3.3
Inflation (annual avge, %)	18.1	12.5	8.9	7.8	6.5
Govt Balance (% GDP)	-2.3	-1.7	-1.5	-1.5	-1.3

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Turkey	Russia	Kazakhstan	Azerbaijan	Belarus
Income per Capita (USD)	8,849	11,924	9,343	5,243	6,179
Country Population (m)	83.4	145.9	18.6	10.0	9.5
Internet users (% of population)	58.3	76.4	76.8	78.2	71.1
Real GDP Growth (% p.a., 2019 - 2028)	3.0 - 5.0	1.5 - 3.0	2.5 - 5.0	3.0 - 6.0	2.0 - 4.0

Source: Various sources/Dun & Bradstreet



LINKS

User Guide

Please click [here](#) to visit our online user guide.

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