

Country Insight Snapshot

Turkey

December 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.
- 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 and increasing authoritarianism are undermining investor belief in Turkey.

KEY DEVELOPMENT

Turkey's risk rating remains under pressure because of the confluence of various domestic and external political and security threats.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



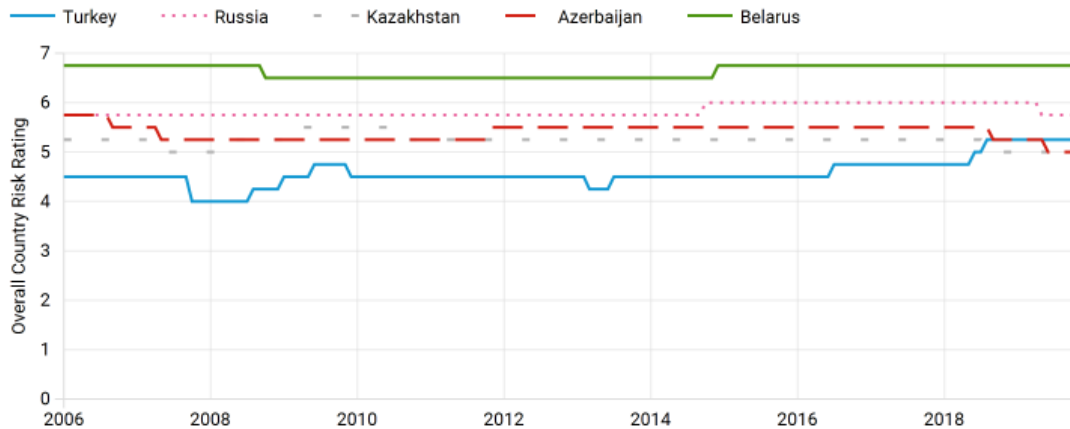
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

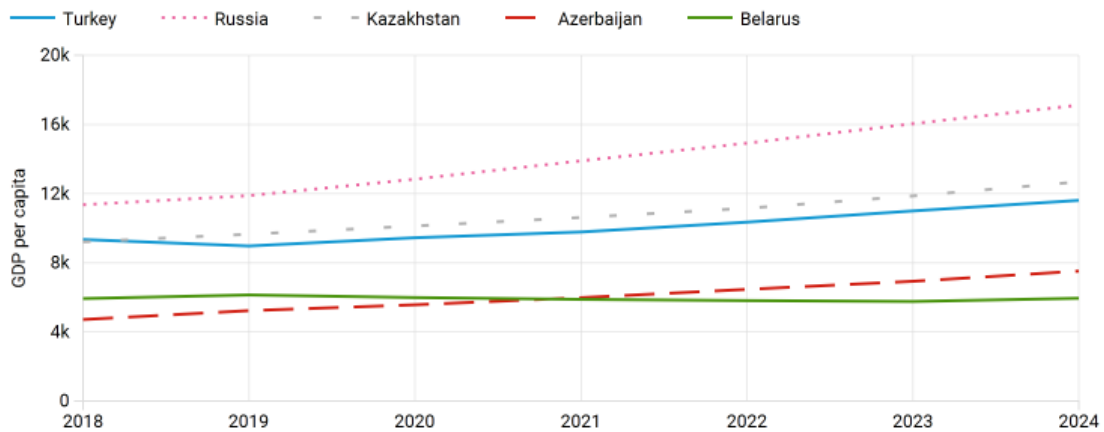
Rating History and Comparison



Source: Dun & Bradstreet

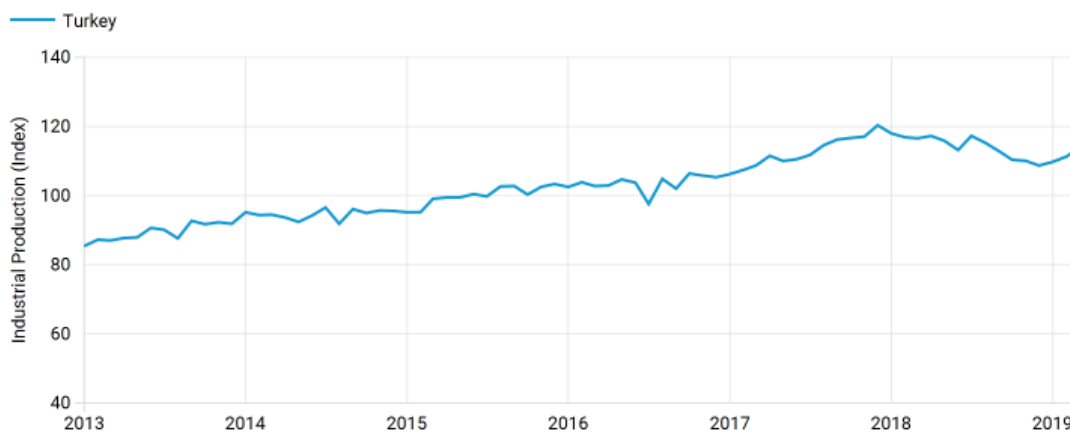
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source: Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2017	2018	2019f	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-5.6	-3.6	0.6	-0.1	-1.8	-2.5	-2.8	-3.0
Govt balance, % GDP	-2.0	-2.8	-3.8	-3.2	-2.6	-2.0	-1.5	-1.1
Inflation, annual avge %	11.1	16.2	15.0	7.8	6.5	5.8	5.5	5.0
Real GDP Growth, %	7.5	2.8	-0.6	2.8	3.2	4.1	4.6	4.2
Unemployment, %	10.9	11.0	13.3	11.6	10.2	9.4	9.2	8.9

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In September 2019, the Turkish Statistical Institute's Industrial Production Index rebounded strongly by 3.2% m/m to reach 115.53, the highest level since August 2018. Meanwhile, in October 2019 the Economic Confidence Index issued by the Turkish Statistical Institute also climbed sharply (by 3.8% m/m) to 89.81; the highest level since July 2018. In addition, the Central Bank of Turkey's Real Sector Confidence Index also moved sharply upwards (by 4.5% m/m) to 104.2, well above the year-to-date average of 98.9. Similarly, the Consumer Confidence Index rose by 1.5% to 56.60; however, this level is below the year-to-date average of 58.06. The indices highlight the slowly improving economic situation, despite the elevated political and security risks. Despite the anaemic economy and the degree of 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

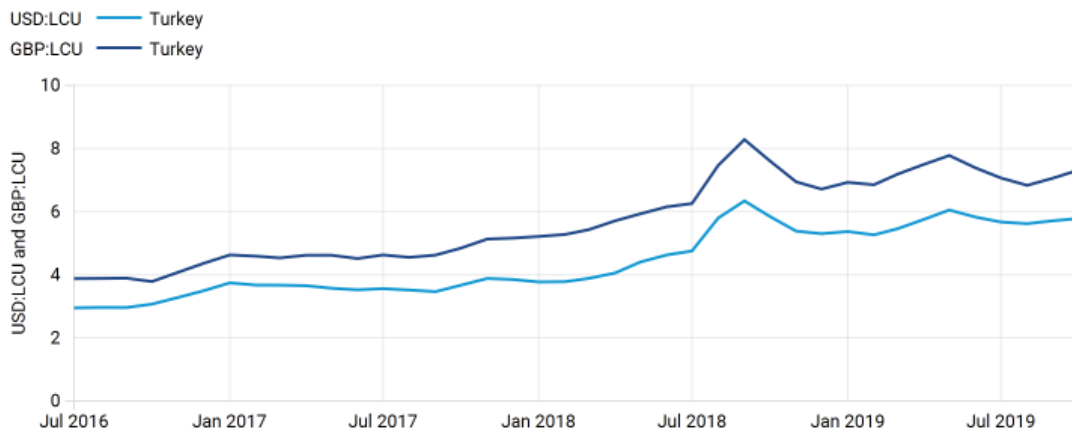
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



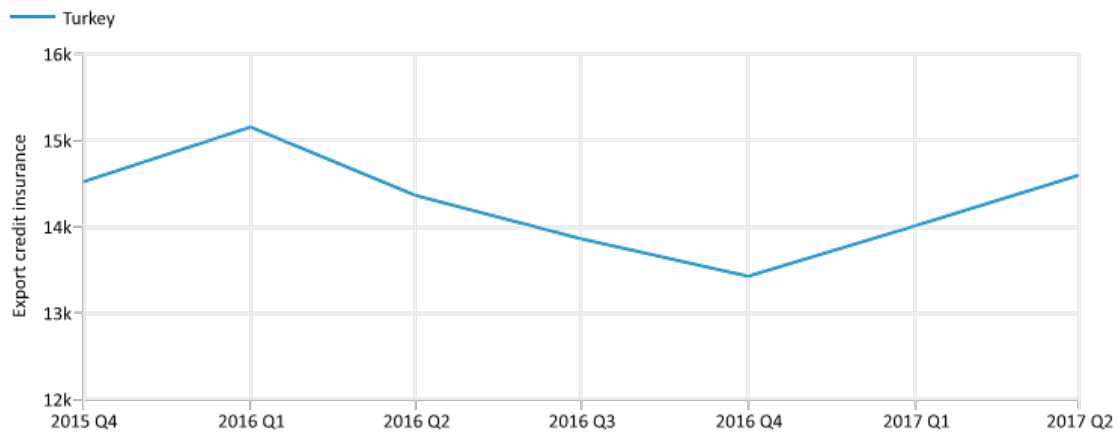
Exchange Rate



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

Political and security risks still elevated

Domestic and external political and security risks remain elevated. Domestically, President Recep Tayyip Erdogan is continuing his long-running repression of Kurdish officials. Since August, 24 mayors and 14 co-mayors have been removed from their elected positions for allegedly being linked with terrorist organisations. The Kurdish political party, HDP, won 65 municipalities in the March municipal elections, and also hold around 10% seats in parliament. The HDP have been considering boycotting parliament, but have rejected the idea at present, although they have called for early elections. The call has been rejected. We remain concerned that the harassment of Kurdish officials will encourage greater support for the radical Kurdish groups and see a return to the bombings and attacks that hit the country in 2015 and 2016.

Furthermore, Ekrem Imamoglu of the opposition Republican People's Party, who won the bitterly-fought election for mayor in Istanbul, has announced that he has been forced to approach foreign banks for project lending. He has claimed that the state-owned banks in Turkey have refused to extend credit to Istanbul and other municipalities controlled by his party.

Turkey is also facing potential sanctions from the US and EU. Washington has threatened to invoke sanctions if Turkey activates its newly-acquired S-400 missile defence system (purchased from Russia in defiance of the US). However, we expect these sanctions to be limited by President Trump, against the wishes of the US Congress - which is seeking a stronger set of sanctions. Meanwhile, on 11 November, EU foreign ministers agreed a framework for economic sanctions on Turkey because of its oil- and gas- drilling activities in Cyprus's maritime waters.

Short-Term Economic Outlook

Inflation wanes further

In October, inflation fell to 8.5% y/y, its lowest rate since December 2016 and significantly below the 25.0% level experienced in October 2018. However, this is still above the central bank's target rate of 5%. The data was released shortly after the Central Bank of Turkey cut its policy rate, the one-week repo auction rate) to 14.0%. This brought the total cuts to 10 percentage points since July, following the replacing of the central bank governor. The move should help to underpin the weak economic recovery from the recession in H2 2018; in Q1 2019 the economy grew by 0.6% q/q, which was followed by growth of 0.9% in Q2.

FX Risk

FX reserves boosted, but...

In November, the central bank announced a USD5bn currency swap agreement with Qatar, increasing the existing arrangement from USD3bn, and thereby potentially boosting Turkey's strained FX reserves by USD2bn. This follows other short-term swap arrangements which, while boosting FX reserves, hide the volume of reserves available to defend any run on the lira and meet the country's large external debt burden. The opaqueness of the FX position ensures that pressure will remain on the lira in the short term, despite the improved current account position. We estimate that the current account was in surplus by 0.6% of GDP recently; in 2017 it was in deficit by 5.6% of GDP.



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)	769.2
GDP per capita (USD)	9,342
Life expectancy (years)	76.6
Literacy (% of adult pop.)	96.2
Surface area (sq km)	783,560

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019f
Real GDP growth (%)	6.1	3.2	7.5	2.8	-0.6
Nominal GDP in USDbn	858	862	850	769	748
Nominal GDP in local currency (bn)	2,333	2,603	3,100	3,714	4,249
GDP per Capita in USD	10,921	10,797	10,475	9,342	8,966
Population (year-end, m)	78.5	79.8	81.1	82.3	83.4
Exchange rate (yr avge, USD-LCU)	2.7	3.0	3.6	4.8	5.7
Current Account in USDbn	-31.9	-32.7	-47.7	-27.6	4.7
Current Account (% of GDP)	-3.7	-3.8	-5.6	-3.6	0.6
FX reserves (year-end, USDbn)	92.9	92.1	84.1	72.9	74.0
Import Cover (months)	5.0	5.2	4.1	3.6	4.1
Inflation (annual avge, %)	7.7	7.8	11.1	16.2	15.0
Govt Balance (% GDP)	-1.0	-1.7	-2.0	-2.8	-3.8

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	2.8	3.2	4.1	4.6	4.2
Nominal GDP in USDbn	796	831	885	945	1,002
Nominal GDP in local currency (bn)	4,699	5,155	5,665	6,238	6,812
GDP per Capita in USD	9,444	9,777	10,346	10,995	11,605
Population (year-end, m)	84.3	85.0	85.6	86.0	86.3
Exchange rate (yr avge, USD-LCU)	5.9	6.2	6.4	6.6	6.8
Current Account in USDbn	-1.0	-15.0	-22.0	-26.0	-30.0
Current Account (% of GDP)	-0.1	-1.8	-2.5	-2.8	-3.0
FX reserves (year-end, USDbn)	80.0	85.0	93.0	102.0	114.0
Import Cover (months)	3.4	3.2	3.1	3.1	3.2
Inflation (annual avge, %)	7.8	6.5	5.8	5.5	5.0
Govt Balance (% GDP)	-3.2	-2.6	-2.0	-1.5	-1.1

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Turkey	Russia	Kazakhstan	Azerbaijan	Belarus
Income per Capita (USD)	8,966	11,878	9,648	5,226	6,134
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., 2020 - 2029)	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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