Press Release

Euler Hermes: Turkey consolidates Mediterranean "Gateway to Asia" position; strong 4% growth expected in 2014

ISTANBUL – 11 DECEMBER 2013 - During the first annual Turkish edition of its International Trade Observatory presented in Istanbul, Euler Hermes, the worldwide leader in credit insurance, shared its analysis of 2014 risks and opportunities for the Turkish economy. Mediterranean market export prospects for Turkish businesses and global economy forecasts were discussed by the company's global and regional executives.

Turkey: A stronger GDP growth of +4% expected in 2014, but vulnerabilities remain

Accelerated growth driven by domestic demand after a soft landing in 2012

"After managing a soft landing in 2012 as GDP growth decelerated to +2.2%, Turkish growth is forecast to accelerate from +3.3% in 2013 to +4% in 2014," said Ludovic Subran, Euler Hermes chief economist. "This will be mainly driven by continued strong government spending and improving external demand."

Strong gains in domestic demand characterized 2013, despite a weakening external demand. In the first six months GDP growth accelerated to +3.7% y/y (+2.9% in Q1 and +4.4% in Q2). Private consumption expanded by +4.2% y/y, public consumption by +7.5% and investment by +3%, linked to a +55.4% surge in public sector investment.

Large current account deficit remains vulnerable to external events

Despite a strong 2012 recovery, Turkey's current account deficit will remain large and leave the economy vulnerable to external events.

"After narrowing to 6% of GDP in 2012, the current account deficit increased again to a7.9% of GDP in the first nine months of 2013," said Subran. "Euler Hermes forecasts the deficit to remain at a still-critical level of 6.5% of GDP in 2014."

The vulnerabilities of the Turkish economy were highlighted in mid-2013 when the emerging market sell-off resulted in a rapid depreciation of the Turkish lira. In May 2014, news of a planned US Federal Reserve tapering initiative led to substantial capital outflows, a marked decline in Turkish stock prices and a 13% depreciation of the lira against a US dollar-euro basket.

Euler Hermes Turkey CEO, Özlem Özüner, observed that "The Turkish central bank intervened to smooth the pace of depreciation through foreign exchange auctions and monetary tightening, and the lira has stabilized since September. We expect the central bank will continue to take appropriate measures to avert a major currency crisis. However, foreign direct investment inflows to Turkey have been modest in recent years, covering only 17% of the 2010-2012 annual current account deficits and 14% in the first nine months of 2013. The remainder has been financed through new short-term external debt, which has risen rapidly and as of September 2013 stood at USD 125 billion. The future evolution of the current account deficit must therefore be monitored."

She added that the recently announced rules by the Turkish Banking Regulation and Supervisory Agency (BRSA), aimed at curbing household loan growth, should additionally help keep the current account in check via lower import growth.

2013 challenging for business insolvencies

In 2013, capital outflows and Turkish lira depreciation negatively impacted companies with debt denominated in foreign currency, while exporting companies continued to feel the effects of the slowdown in Eurozone activity. The number of company insolvencies has increased by an estimated

+12% in 2013. In a persistently fragile macroeconomic environment, business insolvencies are expected to rise further in 2014, albeit at a slower pace (+4%).

2014: Turkey to strengthen its Mediterranean position

<u>The new Mediterranean map</u>

In its International Trade Observatory, Euler Hermes redraws the map of the Mediterranean region to include Turkey and the Gulf countries – all major regional players despite their geographic distance from each other.

“Growth in the Mediterranean should reach 1.8% in 2014 versus 0.4% in 2013, but there are three distinct regions,” said Subran.

- “Old Europe” (France, Italy and Spain), challenged by flagging demand and de-industrialization despite the presence of highly productive workforces and sturdy logistic systems
- the “Champions of the Maghreb” (Algeria, Morocco, Tunisia), whose natural and demographic resources drive investments in the business environment and infrastructure, and
- the “Gateways to Asia” (Saudi Arabia, Turkey and the United Arab Emirates) with increasing industrialization and solid financial systems enabling them to become the link between Africa, Europe and Asia.

<u>Export momentum to pick up in 2014, Turkey to strengthen its external demand in the region</u>

In the first half of 2013, Turkey’s net exports made a large negative contribution to growth with a limited performance of just +3.2% y/y, while imports increased by +9.5%. In the final six months, a modest recovery is expected after a difficult third quarter. This is supported by recent data that show exports of goods rising to an all-time high of USD 13.8 billion in November, a +8.8% increase from a year earlier.

“We expect full year export growth to reach +3.3% in 2013 and gain further momentum in 2014,” said Subran.

In addition to the support for Turkish trade provided by a gradual recovery in Eurozone demand, Subran notes that “Turkey has already tapped into new export routes throughout the Mediterranean and this will benefit 2014. Strengthening Turkish trade with Asia, the Middle East and North Africa (MENA), and the weaker lira, should lift export growth to +5% in 2014. The weak lira will also dampen import growth to +6%, reducing the negative contribution of net exports to -0.6 ppts.”

<u>Turkey: the Europe – Asia trade interface</u>

As a leading Mediterranean exporter, Turkey can also leverage geographic location to become the trade interface between Europe and Asia. By 2022, Turkish GDP per capita could double, primarily driven by key automotive, chemical, machinery and textile sectors. Turkey’s automotive market presents a particular potential due to a continued dynamic demand, with an estimated +4% increase in sales for 2013.

In addition, development strategies focused on public and private joint ventures to support infrastructure and transport projects are being implemented in Turkey. Increased public spending leading up to the 2014 municipal (March) and presidential (August) elections will support this growth.

Subran concluded: “Future regional growth will be driven by countries capable of innovation and possessed of know-how. While many GCC countries are growing construction sectors through new projects, Turkey’s focus on has been on transport. Turkish Airlines has combined its competitive strength and ideal geographic location with Turkey’s economic growth to increase its capacity by 24% in 2012.”

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Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40+ million businesses across the globe. The Group insured worldwide business transactions totalling €770 billion exposure end of December 2012.
Euler Hermes, a company of Allianz, is listed on Euronext Paris. The Group is rated AA- by Standard & Poor's.

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