

Euler Hermes International Trade Observatory: Turkey at a crossroads

ISTANBUL - 13 NOVEMBER 2015 – [Euler Hermes](#), the worldwide leader in trade credit insurance, today held its 2015 International Trade Observatory summit in Istanbul. Euler Hermes executives and chief economist shared their analyses of latest economic data and outlined key elements that could drive Turkey to register an economic rebound in 2016.

“The slowdown in China will weigh on the world economy while global GDP growth in 2015-2016 should remain below 3 percent,” said Wilfried Verstraete, chairman of the Board of Euler Hermes. “Mature markets have remained reasonably stable, whereas we have seen clear signs of deterioration in emerging economies. Countries that would be the most impacted by a US Federal Reserve Bank rate hike will include Turkey, as well as Brazil, Nigeria, Russia and South Africa. However, we foresee many opportunities for Turkey to climb the value-added chain.”

2015 was a tough year for Turkish exports, but thanks to the recovery of domestic demand, GDP growth of +3.2% should be achieved. In 2016, Turkey GDP should see a modest economic rebound rising to +3.6%. Nevertheless, the local economy has short term issues:

- **Currency Carnage** – The Turkish lira (TRY) is one of the hardest hit currencies in 2015. A high toll on exports is expected in 2015 (e.g. Jan-Aug 2015: goods exports fell -9% y/y in USD though they increased by +10% y/y in TRY). As a result, the current account deficits remain large while, worryingly, net portfolio investment outflows create a financing gap.
- **Fed Quake** - The bad mix: deteriorating growth prospects and high dependency on external financing, plus falling commodity prices. Turkey has been one of the most impacted countries by the Fed interest hike.
- **Debt:** The foreign currency debt binge poses a genuine threat. 93% of total Turkish external debt is in foreign exchange as of Q1 2015 (emerging markets’ average: 76%). All the more challenging is that foreign exchange reserves have fallen by USD10bn year-on-year in September. Private sector debt is also rapidly rising, and non-financial companies (NFCs) have particularly increased borrowing sharply since 2010. However, total non-financial sector debt remains adequate compared to peers, due to public sector fiscal consolidation.

Sharing the projected insolvency cases for Turkey, Euler Hermes Chief Economist Ludovic Subran declared: “After a 9% decline in 2014, corporate bankruptcies in Turkey are expected to decline by 5% in 2015, but could increase by 6 percent in 2016. In addition, the lira will be one of the hardest hit currencies, with an expected average fall of -24% against the USD in full-year 2015. However, the glass is still half-full: the recovery in Europe will help boost Turkish exports, low oil prices will support domestic demand and the overall good shape of the banking sector is a positive sign.”

Opportunities for Turkish businesses

Stating that 2016 should also hold several opportunities for Turkish businesses, Euler Hermes Turkey CEO Özlem Özüner said, “Exports should restart modestly in 2016. Most of the potential export gains will come from Europe and MENA, while Russia will remain the main drag on Turkish exports. Textile and automotive sectors will benefit from the EU recovery, while agrifood, chemicals and machinery will see opportunities in MENA. Turkey will continue to climb up the value-added chain as automobile, chemicals, plastics and rubber producers as well as those in equipment & machinery will continue to expand their export market share.”

Opportunity #1: Climb up the energy value chain

Turkey’s renewable energy production has multiplied by 3 since the first policy was introduced in 200,1 and the strategy sustains momentum. Among the main objectives in terms of renewable energy production for 2023 are 20,000 MW of wind power capacity and 5,000 MW of new solar energy.

Opportunity #2: Agrifood – Leverage on new market outlets

Agrifood production should grow by 2.5 percent annually in 2015-2016. MENA and EU markets will represent more than half of the 2016 export gains.

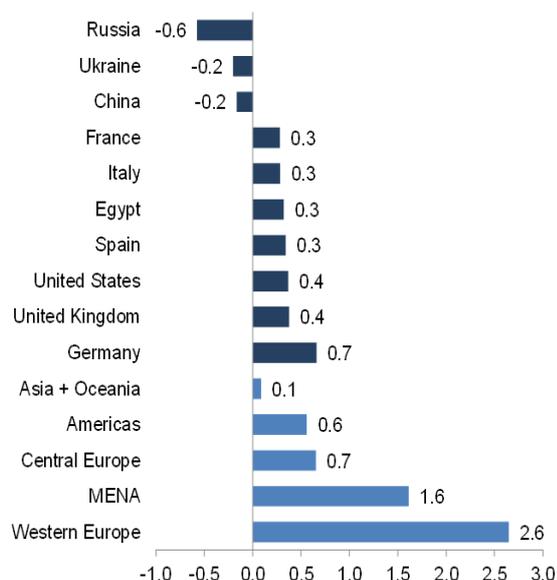
Opportunity #3: Automobile – Key player for the European market

The Turkish automotive industry will confirm its role in the European market. 75 percent of the industry's production is exported, and Euler Hermes expects Turkey to realize USD16bn of export revenues in 2016.

Opportunity #4: Transportation – From road to air, diversify the service range

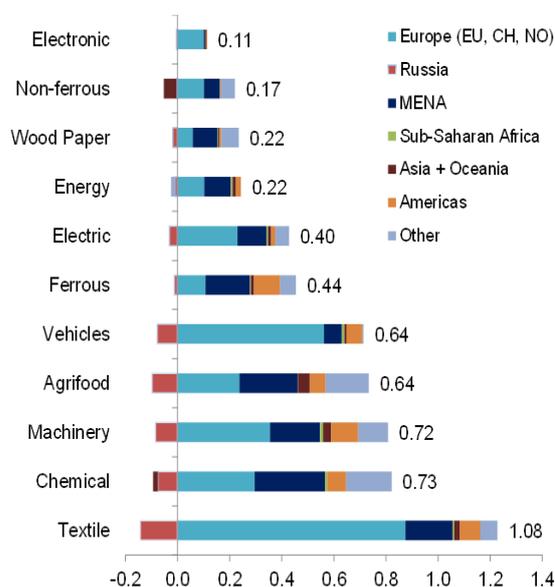
Road transportation growth in the country continues, but momentum has declined with + 1% in 2014 compared to an average growth annual of +5% since 2006. Turkish Airlines has been the company enjoying the fastest growth globally with +19% over the last 12 months (revenue growth per passengers per KM).

2016 potential export gains in selected regions and countries, USD bn



Sources: Chelem, IMF, Euler Hermes
N.B. Asia + Oceania covers 17 main economies in the region

2016 potential export gains by sector, USD bn



Sources: Chelem, IMF, Euler Hermes
N.B.: Textiles do not include clothing and textile commodities.
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Euler Hermes Turkey is part of the Euler Hermes Mediterranean Countries, Middle East and Africa (MMEA) region which currently employs over 600 people and covering 14 countries.

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