

COUNTRY OVERVIEW: TURKEY

Economic & Political Intelligence Centre

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Short-Term Risk: Political uncertainty along with US Fed 'tapering' has dampened the appetite for Turkish assets, sending the Lira down and forcing the Central Bank to step in with support. Turkey's large current account deficit and significant short-term external debt are a key source of vulnerability. A weaker Lira will affect companies that have significant foreign currency costs and will push up overall domestic inflation.

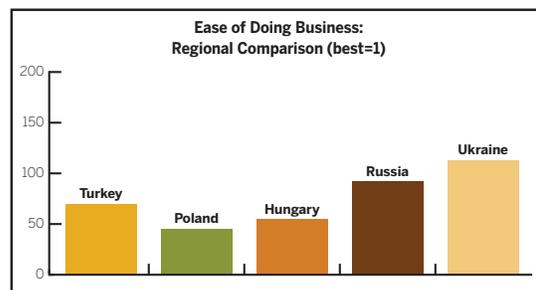
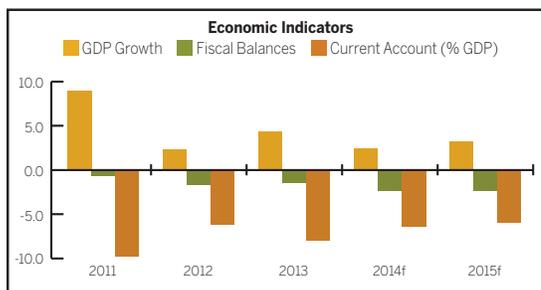
Medium-Long Term Commercial Risk: The business environment has improved significantly over the past decade. Yet further reforms in the labor market, education and judicial systems are necessary.

Sovereign Risk: Public debt is on a favourable trajectory dropping from 65 per cent in 2002 to below 35 per cent in 2013; with fiscal surpluses projected this trend is expected to continue. One of the government's key priorities is reducing the large current account deficit and measures introduced recently are credible however benefits will take years to materialize.

Country Overview: Despite the rapid economic growth over the past decade under the leadership of PM Tayyip Erdoğan, tensions within the country are running high. Last year's protests highlighted the growing rift in Turkish society as the demonstrators, mainly young secular Turks, were revolting against the government's increasingly authoritarian style and its Islamic agenda. In December, allegations surfaced of widespread government corruption resulting in the resignation of six AKP parliamentarians and the removal of thousands of public sector employees from their posts. On the Kurdish issue, there has been a fragile peace agreement in place since the end of 2012, however talks between the government and the PKK have made little progress and small-scale attacks by Kurdish militants have occurred.

Trade and Investment Environment: Improvements to the investment climate over the past decade have vaulted the country up the World Bank's Ease of doing business Index, however challenges do remain. High levels of bureaucracy, a slow judicial system and frequent regulatory changes persist, and are some areas worsening. The country's industrial, financial services and agricultural sectors are important economic drivers and significant growth opportunities exist in energy, transportation, tourism and mining. Turkey has become increasingly reliant on short-term capital inflows and would benefit from higher levels of FDI and domestic savings which would provide a more stable, long-term, source of financing.

Outlook: Turkey's vulnerabilities have been highlighted over the past year as the US Federal Reserve QE tapering is affecting global liquidity conditions and domestic political stability has deteriorated. The Central Bank moved in January to sharply increase interest rates, which was a welcome display of policy independence and a necessary move to shore up the Lira. Higher borrowing costs, however, will have a dampening effect on the domestic economy and growth will slow slightly in 2014. Despite the short term risks, there have been positive policy decisions, including measures introduced to reduce the structural current account deficit, which is a key risk to the country's macroeconomic stability. Accessing more stable sources of capital (e.g. domestic savings), tighter fiscal and monetary policies, and further structural reforms, will help address inflationary expectations and achieve a more balanced growth model that is less susceptible to external shocks. Local elections in March showed that Turkish voters remain supportive of the ruling AK Party. However, political risks will remain elevated in the run-up to the Presidential elections in August (and beyond) which will weigh on investor sentiment and the Lira over the near term.



Sources: EDC Economics, IMF, World Bank, Haver Analytics, Statistics Canada

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COUNTRY STATS

Prime Minister
Recep Tayyip Erdoğan

Next Elections
Presidential: 2014
Parliamentary: 2015

Nominal GDP (2013)
USD 821 billion

Total Trade/GDP (2013)
58%

Exchange Regime
Free float

Canadian Merchandise Exports to Turkey (2013)
Total: CAD 914 million
Top Sectors:
Agricultural goods, metals, paper

Risks to the Outlook
↑ Falling energy prices, reduced import dependence
↓ Increasing political risks. Sharp reversal in capital inflows

Contact the Economic and Political Intelligence Centre for more information.
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