



THE REPUBLIC OF TURKEY

COUNTRY REPORT

2018



About the report

In this report we addressed the research with the aim of providing an unbiased analysis of the Republic Of Turkey to enable potential investors to have an objective view about the country as well as to be able to make fact-based business decisions.

Methodology

The research was based on primary and secondary data gathered from different sources that were judged reliable by Victoria's research team.

The report encompasses two parts, first the macro-environmental analysis part which addresses the country's macro-environment and provides insights about the country's Political, Economic, Social, Technological, Environmental as well as Legal aspects. The second part contains a sectoral analysis that sheds light on the country's potential and risks associated with the sectors analysed.

Victoria Consulting Countries Reports Committee

Afonso Duarte
Faisal Hasan
Manuel Alves Monteiro
Paulo Oliveira
Rafik M. Sayah
Rohit D'Souza
Rui Santos Silva
Vitor Sousa

Special Report Committee of the Present Edition

Afonso Duarte
Faisal Hasan
Rafik M. Sayah
Renato Inácio
Vitor Sousa



About Victoria Consulting

Victoria Consulting is a fast-growing boutique consultancy firm based in Dubai International Financial Centre (Dubai, UAE) with strong network in Europe, Africa, Asia. Founded recently by former Deloitte and Euronext senior executives with over 60+ years of combined work experience in strategy, finance and management consulting.

We hold ourselves accountable to our value delivered standards by engaging strongly with our clients to reach high value created by our joint efforts.

In today's complex and ever-changing business environment the stakes and the risks are incredibly high. Getting the right advice matters. You need the right partner to help you identify the right strategy for your organization, and execute it with certainty, speed, and impact...

We help our clients make sustainable improvements to their performance and realize their most important goals.

Helping organizations make the changes needed to succeed is Victoria Consulting's main objective. We serve a broad mix of public, private and social sector institutions. We help our clients make noteworthy improvements to their performance and realize their most important goals.

Our guiding principles of working together are based on fundamental standards that are extremely high.

At Victoria Consulting, high value creation requires that our advice deliver insight and change in the mindset of our clients. Hence, our work leads directly to clients acting and executing their strategy in better ways. We enhance client capabilities and deliver both competitive advantage and bottom-line impact.

As committed management consultants, we want to create sustainable impact for our clients.

We leverage our strategic knowhow, industry expertise and relevant strategic networks with emerging and mature markets to help your organization have valuable advice.

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Executive Summary

The Republic of Turkey will celebrate its centennial in 2023. The ruling political party, Justice and Development Party (AKP), has set 2023 as the year of accomplishing ambitious economic goals. Turkey's Vision 2023 aims at transforming the country into an economic powerhouse, the world's 10th largest economy with a US\$2 trillion economy, a per capita income of US\$25,000, and exports amounting to US\$500 billion.¹ Turkey, in 2014, ranked as the 18th largest economy in the world, with a gross domestic product (GDP) of US\$800 billion, a per capita income of about US\$10,000, and US\$160 billion in exports. Russia currently holds the 10th spot in world rankings, with a GDP that is roughly twice that of Turkey.²

On the political analysis front, President Erdogan has been re-elected to be the head of the country and to lead the government. However, the country suffers from security risks which could have an adverse affect on the socio-political fabric of the country. The military coup has further created a situation where opposition members have been arrested and/or removed from state institutions on the pretext of their involvement with the gulenists. This has created rifts between factions and distrust between various national security bodies. Turkey has the opportunity to build on its foreign relations with certain key countries and this could potentially benefit both parties while creating allies for either side.

The economic situation in Turkey has been supported by the central government to improve public finances. Moreover, the privatisation program is going well. Additionally, Turkey's free

¹ Turkish Ministry of Development. 2014. "The Tenth Development Plan (2014-2018)"

² World Bank

trade agreement with Singapore is going to further help improve the economic condition of the country. There is a concern on the growing current account deficit and the falling currency valuation against the dollar, which is further affected by the fear of sanctions on the local banks due to possible involvement with Iran. To make things difficult for the economy, the country's external debt is primarily in Euro and Dollar and this may be a crucial thing for the government to focus on in the long term if the Turkish Lira further devaluates. The GDP and GDP per capita showcase the growth in economy in the near future. This is further bolstered by the FDI inflow that the country has enjoyed in the past along with the various incentives offered across the key sectors. While inflation crossed the double digit mark in 2017, it is expected to return to an average of 7% in the near future.

The social construct of Turkey represents a young and growing population providing a huge workforce and customer base for businesses. There has been an increase in crimes against women which is a cause for concern. The weak labour laws in Turkey have restricted worker's rights and hinder union formations. On the other hand, the government has been working to improve the social benefits of its citizens and has doubled the social protection benefits expenditure. There is a concern about the long term impact of the low tertiary education rate in Turkey and it must be addressed by the government to support the long term growth of the economy.

In terms of technology, Turkey's Vision 2023 strategy aims to increase the country's broadband user base in addition to other strategic actions. There is concern around the intellectual property rights in the country, both on the software side and also on the pirated books business. The government has launched various strategic initiatives to bolster the technological position of the country and to attract foreign investment to promote scientific innovation in the country. The country currently has low number of registered patents and the institutions need to work towards increasing the commercialisation of the research outcomes.

On the environmental front, Turkey has been working to streamline its environmental laws. Turkey suffers from high pollution levels and has an urgent need for waste and water treatment plants and facilities. The country has vast array of renewable energy sources and the government has set plans for increasing the usage of renewable sources of electricity production which would also benefit the government to manage its current account deficit. This is in line with the plan of the ministry of energy and natural resources to utilise increased amount of renewable energy resources by 2023. One of the areas that would benefit Turkey in the long run is better management of transport fuel taxes.

In terms of the legal aspect, Turkey has strong foundations for businesses thus creating a successful business growth environment. However, the judicial system in the country is considered inefficient and biased due to the political influences. While Turkey has made getting

construction permits a simplified process, there is scope in other areas to be streamlined by reducing red-tapism and removing the inefficient regulations.

There are several sectors in Turkey that present viable investment opportunities and growth prospects for investors.

Renewable Energy sector presents tremendous opportunities in Turkey driven by the vast amount of untapped resources, incentives by the government, strategic initiatives by the ministry and the availability of a dynamic labour force. With plans to have 30% of the electricity production from non-hydro renewable sources, Turkey has opened its doors for increased investment in geothermal and wind based electricity production. Hydro accounts for the lions share of renewable energy production currently in Turkey but there is opportunity in other areas that the government is looking to explore. Investment in this sector tied in with the incentives available would benefit both the growth the of the sector and provide returns on investment.

Real estate sector in Turkey has had tremendous growth in the recent past driven by a wave of urbanisation which has created the need for more residential, retail and office spaces in the cities, mainly in Istanbul and Ankara. The industrial and commercial properties are projected to have an upside on investment in the near future and the current situation with a devaluated currency also presents an attractive opportunity for foreign investors.

Automotive sector in Turkey has investment opportunities that provide the benefits not just from the domestic market but also from the geographic location that makes Turkey a strategic logistics hub for exports. Supported by its low cost dynamic workforce and with a demand from the growing middle class population in Turkey, the sales outlook provides a tremendous opportunity for the sector.

Financial services sector includes banking and insurance and both show promising opportunities for investors. The banking industry is looking to increase its number of account holders and to transition towards digital processes to help effectively and efficiently manage operations. The presence of international players in not just the banking sector but also in the insurance market has led to the launch of various competitively priced products that benefit the consumers. The insurance industry is looking to gain from transport and health insurance as more people join the workforce and move to cities.