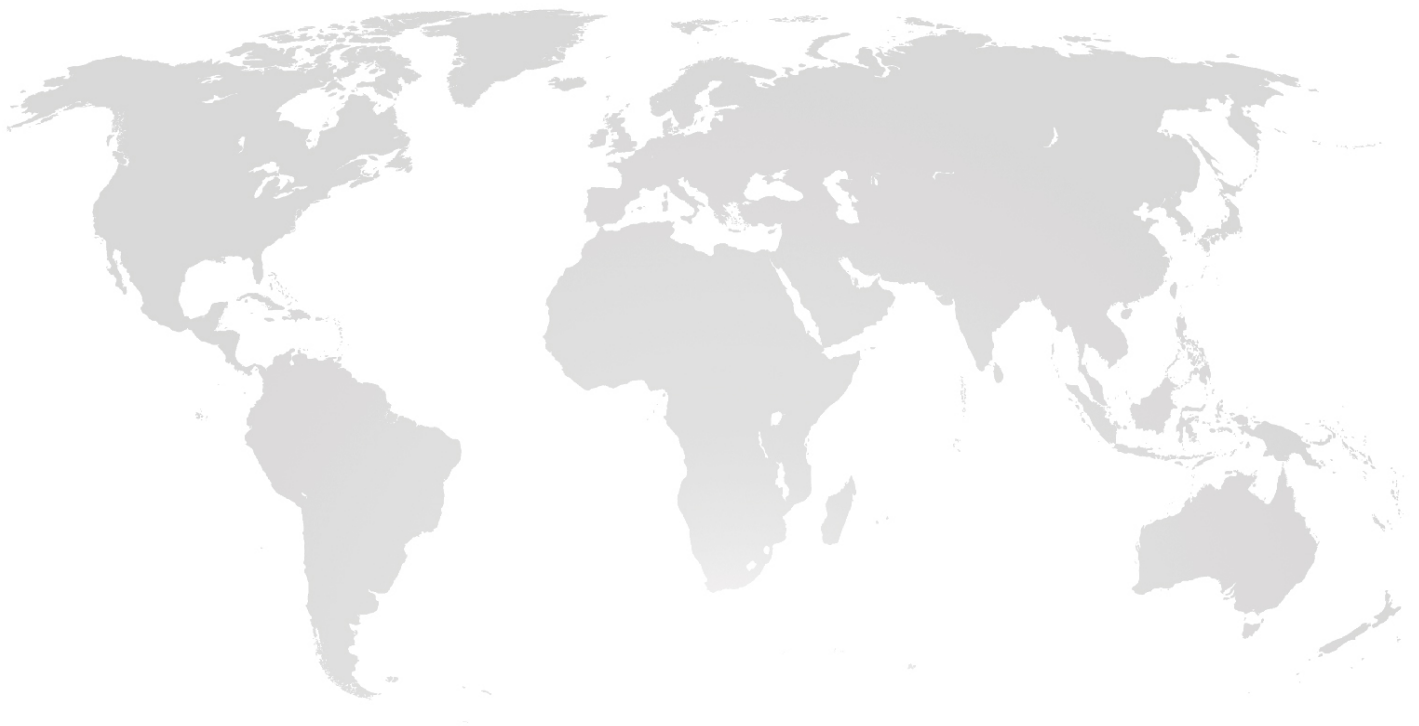


Country Insight Snapshot

Turkey

November 2015






OVERVIEW

OVERALL COUNTRY RISK RATING: DB4C

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating 

CORE OUTLOOK

+ Turkey's position at the crossroads of Europe, Asia and the Middle East gives it an unrivalled locational advantage.

+ R&D-intensive firms should consider investing in Turkey due to benefits from government initiatives and policies to promote innovation, especially in the agricultural sector.

- A poor education system, low savings rate and a structural current account deficit are among the main challenges facing Turkey.

- Turkey needs to diversify its sources of energy away from fossil fuels, and increase energy efficiency.

KEY DEVELOPMENT

Political and security risks remain elevated after the Islamist AKP convincingly wins the parliamentary election.

CREDIT ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

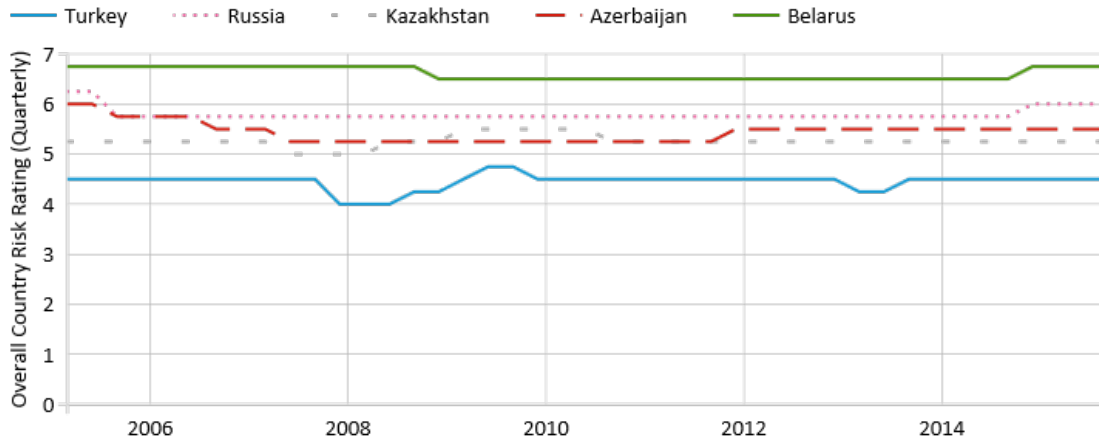
R

Key Development has had a negative impact on the outlook.



KEY INDICATORS

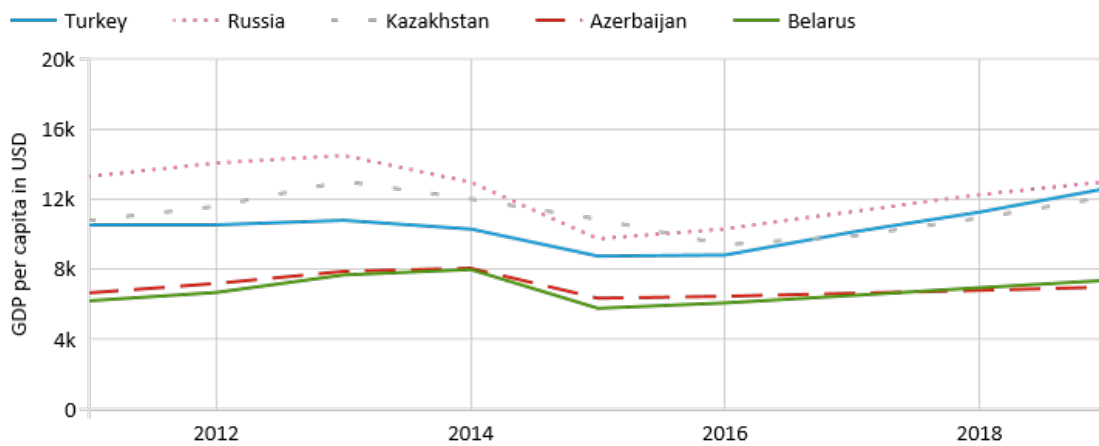
Rating History and Comparison



Source : Dun and Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Industrial Production (Index)



Source : National Statistical Offices



Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	-7.8	-5.8	-4.8	-4.7	-4.8	-4.5	-4.5	-3.7
Govt balance, % GDP	-1.2	-1.3	-1.5	-1.8	-1.7	-1.9	-1.7	-1.5
Inflation, annual avge %	7.5	8.9	7.3	7.0	7.2	6.2	5.5	5.0
Real GDP Growth, %	4.2	2.9	2.7	2.6	3.0	3.2	3.5	3.3
Unemployment, %	9.0	10.0	10.4	10.0	9.5	9.1	8.7	8.5

Source : Haver Analytics/D&B

TRADE AND COMMERCIAL ENVIRONMENT

The *Industrial Production Index* (published by the Turkish Statistical Institute) reached a record high of 126.79 in August, up from 123.16 the previous month. In addition, the 12-month average for the index continues to break record highs, rising from 122.15 to 122.80 points. Despite the new highs, the y/y growth of the 12-month average, at 2.6% in August, is still well below the levels experienced throughout 2014, as both domestic and (in particular) international demand remain weak. As neither is set to improve significantly in the next year we are forecasting growth of 2.7% in 2015 (below the already-weak 2.9% recorded in 2014). Our recommended and minimum terms remain LC.

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

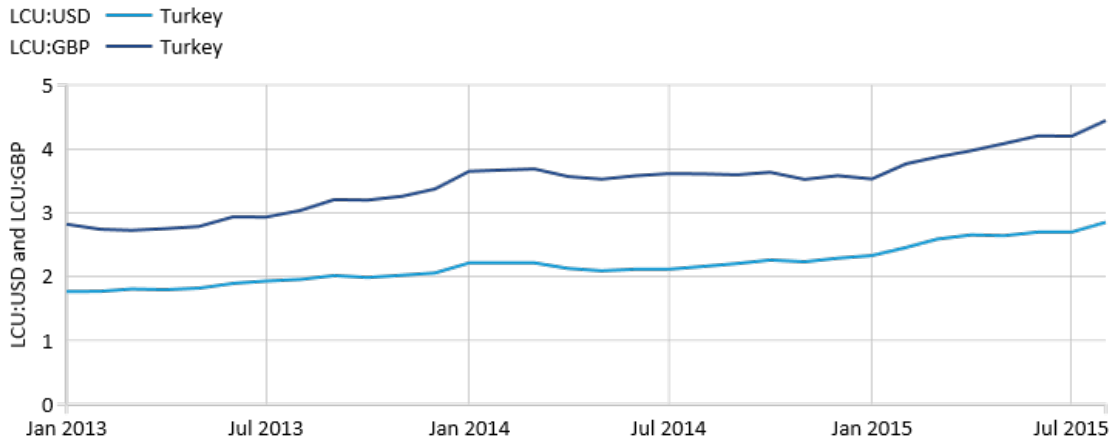
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 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.

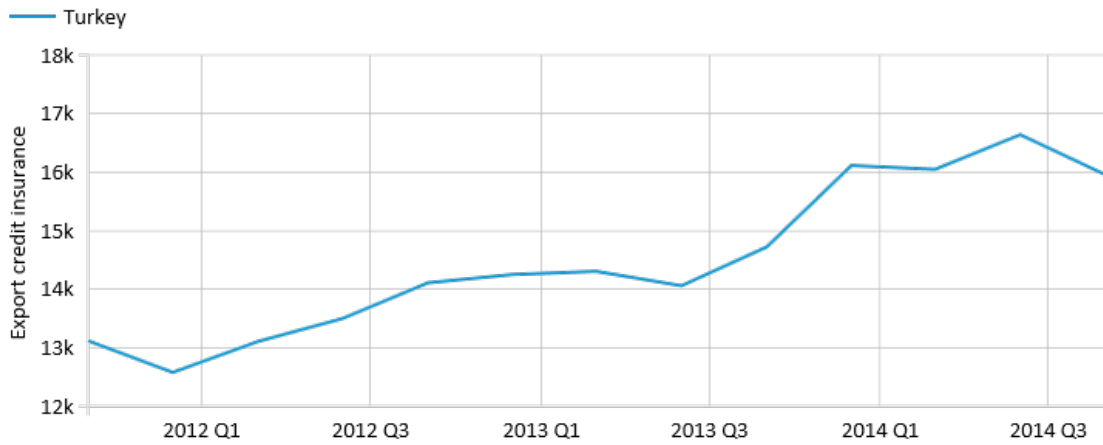


Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

Credit Conditions



Source : Haver

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Insecurity/Civil Disorder Risk

AKP wins electoral majority

On 1 November the Islamist AKP convincingly won the parliamentary election called after the June election failed to provide a winner (and thus a coalition was unable to be formed). However, international observers have deemed the latest election to be unfair in terms of media bias and safety of voters. Nevertheless, the result was remarkable turnaround for the AKP, which benefited from the four-month interregnum, during which over 100 people were killed at a peace rally in the capital Ankara, the civil war against the Kurdish separatist group the PKK resumed, and the flow of refugees from the war in neighbouring Syria continued. We are unconvinced that the AKP will be able to unite the highly divided country: indeed, its first actions were to launch further attacks on the PKK and to order the arrest of 57 police officers and bureaucrats alleged to be part of a Gulenist terrorist group.

Importantly, although the AKP won an outright majority they failed to win sufficient seats to push through a change to the constitution; the founder of the AKP, ex-prime minister and now president, Recep Tayyip Erdogan, has long sought to change the political system to a presidential one. At present the role of the president is largely ceremonial, and the role has traditionally been used to cement over the cracks in society.

Short-Term Economic Outlook

Markets boosted by election result

The markets, which had stabilised somewhat ahead of polling day, reacted positively to the news of the AKP victory: the lira gained almost 4% against the US dollar at one stage, the stock market rose 5.4%, and bond yields fell by 36 basis points. Nevertheless, the economy still faces a number of key short-term challenges, including the weak lira, which is keeping inflation above the central bank's target of 5.0% \pm 2 percentage points despite falling global energy and food prices. Indeed, core inflation increased to 8.9% y/y in October. In addition, a falling but still unsustainable current account deficit is also adding pressure to the outlook. Meanwhile domestic demand remains muted, while external demand is also weak as the global economy fails to gain traction.

FX Risk

Lira strengthens but risk is elevated

FX risk abated somewhat in October but remains elevated after the lira hit a record low of TRY3.06:USD in September on the back of weak economic fundamentals (a persistent current account deficit, falling FX reserves, and high levels of short-term external debt) and the political and security situations. Furthermore, the specifics of the Turkish situation are set against a background of weakening investment sentiment in emerging markets in general. Following the result of the election, the lira reached its highest day-end level against the US dollar (TRY2.82:USD) since 14 August. However, it has since drifted to TRY2.87:USD at close of 5 November. We expect FX risk to remain higher than normal for at least the next 12 months and recommend that customers hedge against possible FX fluctuations.



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) which link the Black and Aegean seas.

The Justice and Development Party (AKP), which has governed the country since 2002 and has 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. 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, as well as a traditional agriculture 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 government	Ahmet DAVUTOGLU
Capital	Ankara
Timezone	GMT +02-00
Official language	Turkish
Population (millions)	77.5
GDP (USD billions)	798.4
GDP per capita (USD)	10,299
Life expectancy (years)	75
Literacy (% of adult pop.)	87.4
Surface area (sq km)	783,560

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	8.77	2.13	4.19	2.91	2.7
Nominal GDP in USDbn	774.58	789.01	823	798.41	698.94
Nominal GDP in local currency (bn)	1,297	1,417	1,567	1,747	1,922
GDP per Capita in USD	10,536	10,541	10,797	10,299	8,885
Population (year-end, m)	73.52	74.85	76.22	77.52	78.67
Exchange rate (yr avge, USD-LCU)	1.67	1.8	1.9	2.19	2.75
Current Account in USDbn	-74.6	-48.63	-64.05	-46.59	-33.85
Current Account (% of GDP)	-9.63	-6.16	-7.78	-5.84	-4.84
FX reserves (year-end, USDbn)	78.32	99.94	110.93	106.91	102
Import Cover (months)	3.72	4.83	5.01	4.97	5.83
Inflation (annual avge, %)	6.4	8.9	7.5	8.9	7.3
Govt Balance (% GDP)	-1.3	-2	-1.2	-1.3	-1.5

Source : D&B



Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	2.6	3	3.2	3.5	3.3
Nominal GDP in USDbn	752.4	814.6	907	1,010.3	1,102.2
Nominal GDP in local currency (bn)	2,106.6	2,321.5	2,539.7	2,768.3	2,998.0
GDP per Capita in USD	9,449	10,129	11,186	12,368	13,400
Population (year-end, m)	79.6	80.4	81.1	81.7	82.3
Exchange rate (yr avge, USD-LCU)	2.8	2.9	2.8	2.7	2.7
Current Account in USDbn	-35.7	-38.8	-41.2	-45.3	-41
Current Account (% of GDP)	-4.74	-4.76	-4.55	-4.49	-3.72
FX reserves (year-end, USDbn)	105	112	116	123	127
Import Cover (months)	5.48	5.17	4.64	4.28	4.01
Inflation (annual avge, %)	7	7.2	6.2	5.5	5
Govt Balance (% GDP)	-1.8	-1.7	-1.9	-1.7	-1.5

Source : D&B

Comparative Market Indicators

Indicator	Turkey	Russia	Kazakhstan	Azerbaijan	Belarus
Income per Capita (USD)	10,299	12,972	12,014	8,063	7,989
Country Population (m)	77.5	143.4	17.4	9.1	9.5
Internet users (% of population)	51	70.5	54.9	61	59
Real GDP Growth (% p.a., 2015 - 2024)	3.5 - 5	1.5 - 3	5 - 8	3 - 10	2 - 4

Source : D&B



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Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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