



## VICTORY OF A HEROIC NATION

### Turkey defends democracy, proves national will is the strongest antidote to coup

On the evening of July 15, 2016, a faction of the Turkish Armed Forces directed by the Gulenist Terrorist Organization (FETO), which is led by so-called cleric Fetullah Gülen living in Pennsylvania-US, attempted to stage a coup in various cities of Turkey, particularly in Ankara and Istanbul. Undoubtedly, it was a menacing terrorist attack that madly threatened the lives of innocent people. In a couple of hours, the people of Turkey stood up against the attempt and sided with the democratically elected leader, President Recep Tayyip Erdoğan. Both the police and public prosecutors immediately took necessary measures to reinstate civil law and order in the country. Unfortunately, the coup plotters killed 246 people and injured over 1,500, many of them civilians. As a response to the coup attempt, President Recep Tayyip Erdoğan

announced a three-month state of emergency that came into effect after the meetings of the National Security Council and the Council of Ministers on July 20, 2016. The declaration was published in the Official Gazette on July 21, 2016, and approved by the Parliament the same day.

The markets responded with confidence in the wake of the recent coup attempt in Turkey, and a sense of normalcy is being seen given that security has been restored and that the public has strong support for the government. Investors should know that future of the Turkish economy remains bright. Key factors for investors' economic operations are untouched. Turkey still meets many of the major competitiveness criteria that investors favor, such as ongoing economic growth, sound policy framework, sizeable domestic market, and competitive labor costs.

#### **TURKEY** COMPETITIVE ADVANTAGES

- Strong growth rates
- Sound policy framework
- Sizeable domestic market
- Supportive international environment
- Low probability of elections until 2019

Policy-makers, regulators, and all economic actors in Turkey are vigilantly following the recent developments and are taking all necessary measures to reassure the markets. Deputy Prime Minister Mehmet Şimşek held various conference calls with foreign investors to bolster their confidence. He emphasized that the Turkish government for many years now has been constantly introducing reforms to improve Turkey's investment and business climate.

Thanks to these reforms and policies, the short-term effects of this attempt will not be accompanied by any deterioration in major economic indicators. Despite the weak global growth performance due to uncertainties in global economic conditions, Turkey has been able to retain sound macroeconomic fundamentals thanks to supportive fiscal and monetary policies in 2016. Key targets such as a higher growth rate, strong domestic demand, a more moderate current account deficit, lower interest rates, and a higher amount of foreign direct investments (FDI) have been achieved.

GROWTH (F)	2016	2017
MTP*	4.5	5.0
IMF	3.2	3.6
OECD	3.9	3.7
World Bank	3.5	3.5

\*Medium-Term Program of the Government (16-18)

**THANKS TO SOUND REFORMS AND POLICY MEASURES, THE FAILED COUP ATTEMPT WILL NOT BE ACCOMPANIED BY ANY DETERIORATION IN MAJOR ECONOMIC INDICATORS.**



## STRONG GROWTH RATE

Driven by a robust domestic market, lucrative export opportunities and entrepreneurial spirit of Turkish private sector, the Turkish economy has been growing dynamically over the past 14 years. The economy has posted an annual average real GDP growth rate of 4.7 percent, while GDP per capita has more than tripled. Turkey stands out as one of the fastest growing economies in the world. Turkey's GDP growth rate of 4.8 percent in the first quarter of 2016 has outperformed many emerging and developed countries, leading Turkey to become the 2<sup>nd</sup> fastest growing OECD country after Malta and 4<sup>th</sup> in G20 after India, China, and Indonesia. The Medium-Term Program (MTP) announced by the Ministry of Development in January 2016 anticipates growth rates of 4.5 percent for 2016, and 5.0 percent for 2017.

# 4.8%

GROWTH RATE IN Q1 OF 2016

# 2<sup>nd</sup>

FASTEST GROWING COUNTRY IN OECD

# 4<sup>th</sup>

FASTEST GROWING MEMBER IN G20

## GLOBAL GROWTH RATES (%)

Turkey outperforms both developed & emerging countries



Source: CBRT

# STRONG DOMESTIC DEMAND

Private consumption is the main source of growth in Turkey, accounting for a 70 percent share in Turkey's GDP as of the first quarter of 2016. When compared to its peers in the EU, Turkey is well ahead in private consumption. Concerns that the recent failed coup attempt will affect the rising momentum in household consumption are without merit. For instance, household consumption did not lose momentum during the elections in the past two years; rather, it increased by 4.5 percent in 2015 and 6.9 percent in the first quarter of 2016. There are various factors in play that will stimulate domestic demand and

**TURKEY HAS A SIZEABLE DOMESTIC MARKET WITH EASY ACCESS TO 1.6 BILLION CUSTOMERS IN THE REGION.**

accelerate growth in Turkey over the coming years. Some of those factors include the implementation of new structural reforms, the effect of low oil prices on inflation, the expectation of a delay in FED rate hikes, the low probability of elections in Turkey until 2019, and the rising consumption of Syrian refugees.

## 70%

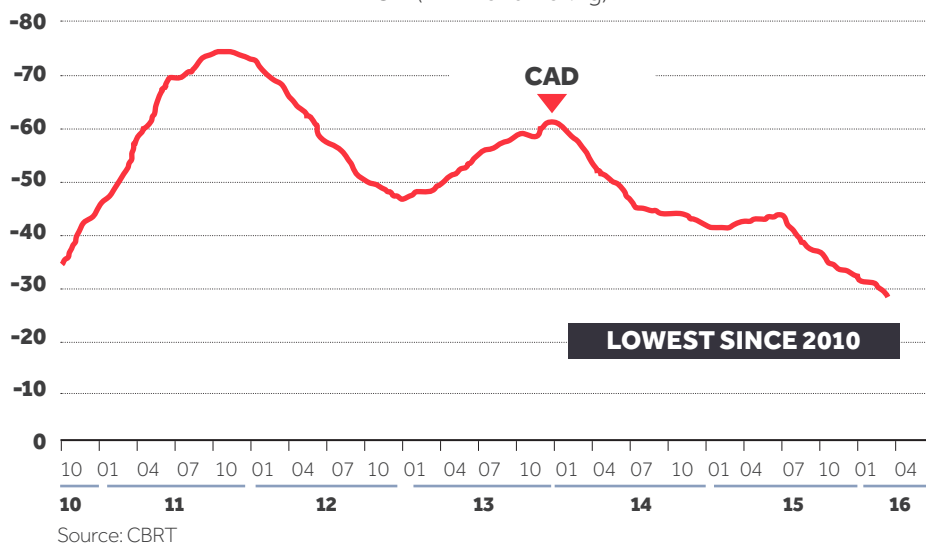
SHARE OF PRIVATE CONSUMPTION IN GDP Q1/2016

## 6.9%

RISE IN HOUSEHOLD CONSUMPTION IN Q1/2016

# CURRENT ACCOUNT BALANCE

TRY BILLION (12-month rolling)



# CURRENT ACCOUNT DEFICIT AT LOWEST LEVEL SINCE 2010

A visible narrowing in the current account deficit and sound improvement in external balances have been observed so far in 2016. Turkey's 12-month rolling current account deficit was USD 27.249 billion in May, the best posting since 2010. The external balance benefitted from low oil prices and high export volumes to the EU.

# MONETARY POLICY TO SUPPORT TURKISH ECONOMY

A series of policy measures, such as easing liquidity conditions, were taken by the Central Bank of the Republic of Turkey to encourage financial markets and prevent the banking system from exposure to the negative effects of the coup attempt. The Central Bank cut the overnight lending rate, the top of the interest rate corridor, by 200 bps in 2016 to 8.75 percent, kept the one-week repo rate at 7.5 percent and the overnight borrowing rate at 7.25 percent.

# CONFIDENT BANKING SYSTEM

The banking system in Turkey recovered quickly in the aftermath of the 2001 and 2008 crises and has proven resilient during temporary shocks in the past. Turkish banks have higher capital adequacy (CAR) and lower non-performing loans (NPL) ratios when compared to their peers. As of May 2016, the sector had a CAR of 15.5 percent (2015: 15.3 percent) where the legal minimum limit is 8 percent and an NPL ratio of 3.3 percent. The return on equity (ROE) ratio of the sector as of May 2016 was realized as 5.4 percent, a slight improvement on the 4.8 percent return seen during the same period of 2015.

## 15.5%

CAR AS OF MAY 2016

## 5.4%

ROE AS OF MAY 2016

## 3.3%

NPL RATIO AS OF MAY 2016

# FDI BOOSTED SINCE 2003

Thanks to various reforms that have been implemented over more than a decade of successive governments, the amount of FDI, which totaled around USD 15 billion until 2003, increased to more than USD 168 billion between 2003 and 2016. Moreover, during this period, the number of foreign-owned companies rose from 5,600 to more than 49,000.

## USD 168 BILLION

OF FDI SINCE 2003

## 49,000

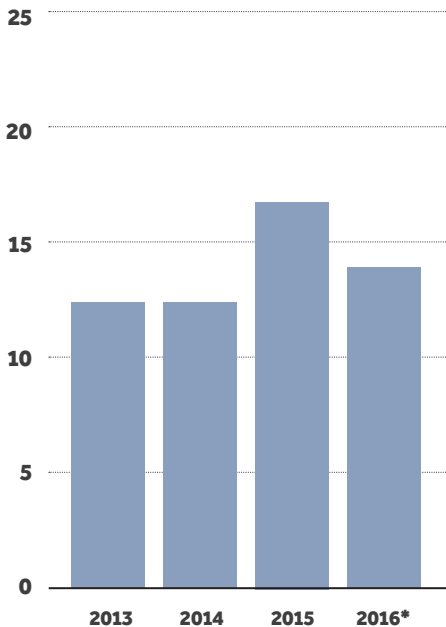
FOREIGN-OWNED COMPANIES

## 20<sup>th</sup> MOST POPULAR

FDI DESTINATION GLOBALLY

### FDI IN TURKEY

USD BILLION



\* 12-month rolling  
Source: CBRT

## TESTIMONIALS FROM TOP EXECUTIVES OF INTERNATIONAL COMPANIES



**Çiğdem Ertem,**  
Middle East, Turkey and Africa Regional Director, Intel

“Intel produces technology, and we believe that technology is the main driver of the future of the economy. With its young and innovative population, Turkey has huge potential. We, as Intel, believe in the future and economy of Turkey, and we will pursue our investments.”



**Canan Özsoy,**  
CEO, General Electric Turkey

“Operating for 60 years in Turkey with now over 2,000 employees in 8 different plants, General Electric will increase its investments in aviation, logistics, energy, healthcare, and innovation.”



**Serra Akçaoğlu,**  
CEO, Citibank

“With more than 40 years of history and 500 employees, Citibank retains loyal to Turkey. The bank will continue to provide support to existing customers and potential investors who wish to invest in Turkey.”



**Haydar Yenigün,**  
General Manager, Ford Otosan

“Expressing our deep sorrow for the people who lost their lives, we think that July 15 was the day that democracy truly became manifest in the Turkish people. We believe that collaboration provided in the wake of the coup attempt will accelerate growth dynamics in Turkey.”



## US-TURKEY INNOVATION SUMMIT

In response to Turkey’s improving innovation, R&D and entrepreneurial ecosystems, the American-Turkish Council, a leading business association, held a summit in the US to promote Turkey as an emerging innovation center.

The US-Turkey Innovation Summit, took place on July 21 in Boston, MA in cooperation with ISPAT, bringing together private companies, universities, and government institutions. ISPAT Coordinator Necmettin Kaymaz was a panelist at the “Technology Transfer and Global Growth Through Localization” session, while ISPAT Advisor in US Mustafa İlbeyli spoke about the entrepreneurial ecosystem in Turkey at the opening panel of the summit. The participants facilitated partnerships in R&D, defense & aerospace, agriculture, energy, information and communication technologies, and healthcare.



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the potential



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