

RECENT CURRENCY DEVELOPMENTS EXCEPTION GIVEN TURKEY'S SOLID MACROECONOMIC FUNDAMENTALS

The recent fluctuations in the Turkish Lira and the depreciation in emerging market currencies were mainly the circumstance of a globally strong USD, increases in US bond rates, a tightening cycle of advanced economies, and uncertainties arising from protectionist trade measures. Against this backdrop, Turkey's macro fundamentals are strong enough to weather such temporary developments.

1 ROBUST GROWTH

Turkey achieved an average annual growth rate of 5.7 percent in the 2003-2017 period and 6.8 percent in the 2010-2017 period, which proved resilient against domestic and international shocks. With this performance, the Turkish economy outperformed other emerging countries despite negativities such as the 2008 Global Financial Crisis, the European Sovereign Debt Crisis, the Taper Tantrum period, an influx of refugees, a failed coup attempt, Brexit, regional conflicts, and recent protectionist moves and trade war expectations. The composition of the growth has also evolved into a more balanced position in recent quarters. Along with domestic demand, an important driver of Turkey's growth performance, a rebound has been observed in the

contribution of net exports thanks to competitive exchange rates, rising tourism revenues, restored relations with neighbors, and trade diversification policies. Thus, Turkey has achieved a sustainable production and investment-oriented export-led growth strategy.

2 IMPROVING CURRENT ACCOUNT BALANCE

Excluding gold and energy, the current account dynamics and its financing have improved recently in Turkey. Growth recovery in trading partners such as the EU, the contribution of competitive real exchange rates, and downward expectations in imports can be considered the main factors that will support the current account of Turkey for the near future. With regard to financing of the current account deficit in Turkey, an important part is financed by FDI and long-term sources.

3 FISCAL DISCIPLINE

Turkey also has a strong position in public finance. The recovery in the Turkish economy after the 2001 Crisis has been characterized by the restructuring of the banking system and, more importantly, restoring the healthiness of its fiscal position. In this context, Turkey has achieved lower public debt and decreased the budget deficit by pursuing tight fiscal policies. Over the past 15 years, budget deficit to GDP ratio in Turkey has drastically decreased from over 10 percent to levels varying between 1 to 3 percent and the public debt to GDP ratio has also been reduced from over 70 percent to below 30 percent, outperforming the Maastricht criteria of 60 percent.

4 MANAGABLE CORPORATE DEBT

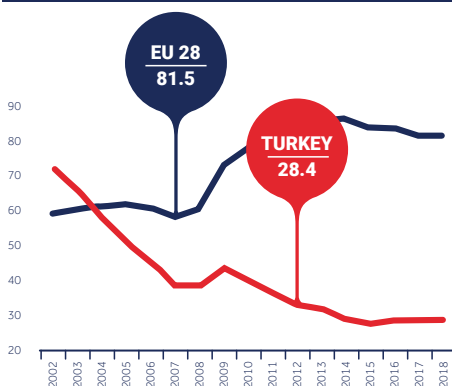
While corporate debt in Turkey has recently increased, it has been successfully managed by companies and banks. Private sector's overall liabilities due within a year are USD 180.6 billion.

Out of this total, the share of the banking system is USD 102 billion, half of which is deposited by nonresident investors hence not recognized as debt. The remaining half, roughly USD 50 billion, is the amount to be paid back as liabilities. Turkey's 12-month cumulative roll-over ratio of this type of liabilities is above 100 percent, demonstrating the banking sector's ability to pay back without any difficulties.

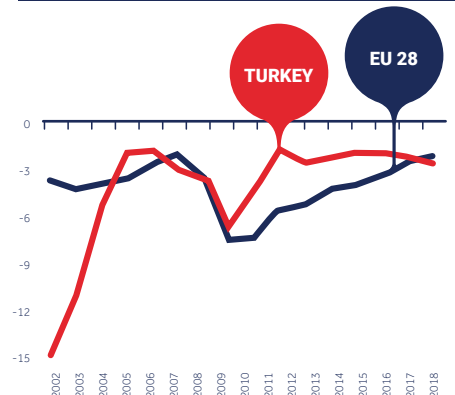
65 percent (over USD 48 billion) of the remaining debt is the commitments against goods and services that may increase or decrease in parallel with economic activities, not posing any risk to the banking system.

The record of the 12-month cumulative roll-over ratio for the remaining debt (USD 25 billion) is around 137 percent, indicating no difficulty has been experienced to honor this type of debt.

GROSS PUBLIC DEBT STOCK % OF GDP



BUDGET BALANCE AS% OF GDP





Berat Albayrak
Treasury and Finance Minister

TURKEY REVEALS NEW ECONOMIC MODEL

Treasury and Finance Minister Berat Albayrak unveiled Turkey's new economic model during a meeting with private sector representatives on August 10th in Istanbul. Albayrak underlined that the principles of the new economic model include establishing trust and communication with all market actors, restoring budget balance and improving its quality, a tight monetary and fiscal policy, the independence of the Central Bank, prioritizing structural reforms, and lowering the current account deficit.

On 16th of August, Albayrak also held a teleconference with more than 6,000 investors from the US, Europe, and the Middle East that was organized in coordination with Citibank, Deutsche Bank, DOME Group, and HSBC. During the meeting Albayrak said that the fall in the Turkish lira was out of line with Turkey's fundamentals and he assured the investors that Turkey would tighten its fiscal policy, undertake structural reforms, and not impose any capital controls.



BOSCH

STRATEGIC INVESTMENT BY BOSCH IN AUTOMOTIVE INDUSTRY

German giant Bosch announced plans to build a new-generation, high-pressure fuel injector production facility in Turkey's Bursa. This investment, worth USD 1.2 billion, is expected to achieve USD 185 million in annual exports and decrease the current account deficit by USD 230 million, according to Minister of Industry and Technology Mustafa Varank.

"We are pleased that Bosch has chosen Turkey for new investments. All companies that contribute to our economy by investing in Turkey, developing technology, and creating employment are our companies. We do not distinguish between foreign and domestic investors. We hold all of them in high esteem," said Minister Varank, in regard to Bosch's investment.

NEW INCENTIVES FROM MINISTRY OF INDUSTRY AND TECHNOLOGY

Minister of Industry and Technology Mustafa Varank introduced new project-based incentives for 4 strategic investments worth TRY 8 billion in total.

- Turkish Aerospace Industries production of national combat aircraft
- Bosch production of new-generation high-pressure fuel injector
- BMC production of various rail system vehicles
- BMC production of diesel engines, transmissions, and sub-systems

These projects will create a total employment of 4,500, said Minister Varank. Furthermore, these projects are also expected to reduce the current account deficit by USD 1.2 billion.

Minister of Industry and Technology Mustafa Varank also announced the launch of a new support program worth TRY 1.2 billion for industrialists. "We will support the domestic development of widely used products and technologies in our country. We think that this new support program will make a significant contribution to the production of products with high added value, while at the same time contribute to the reduction of the current deficit," said Varank.



TURKEY'S M&A VOLUME EXCEEDS USD 8 BILLION IN H1 2018, INVESTOR APPETITE RIGHT ON TRACK

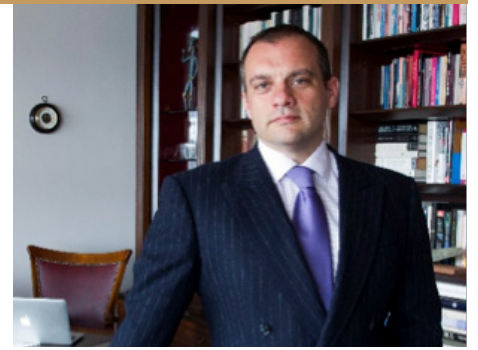
International investors continue to show a strong appetite for opportunities in Turkey as the M&A volume since the beginning of 2018 has reached USD 8 billion, with a number of deals still pending closure.

These first half numbers suggest that Turkey will outpace the full year numbers of 2017, which saw around 300 M&A transactions at a total value of USD 10 billion.

Kerim Kotan, Managing Director of Pragma Corporate Finance, an Istanbul-based investment

banking company, is projecting that M&A value by the end of 2018 could easily surpass 2017's level of USD 10 billion. "The leading investment funds and corporations show great interest in M&A with Turkish companies," said Kotan, commenting on the six-month performance in company M&As.

Kotan also stressed that the sustainability of structural reforms and the decisive steps taken in Turkey to facilitate the processes for international



investors will significantly support M&A volume. Accordingly, the economic policies employed by the Turkish government are being closely monitored by international investors and finance institutions. These will ensure stability, and the rising confidence will provide further momentum to interested international investors.

8

AUGUST

ISTANBUL HOSTS ALIBABA'S STARTUP CONTEST AS GROUP SEEKS NEW UNICORN

China's Alibaba Group chose Istanbul for the first time as a host city for the Middle East/Africa regional final of the Create@Alibaba Cloud Startup Contest (CACSC).

CACSC is a global entrepreneur olympics platform held in 12 countries across the globe to grow startups to the next level as part of efforts to empower China's Belt and Road Initiative. The primary objective of CACSC is to pick the most promising and innovative startups in select regions and invite them to China for the global final to be held at the Alibaba Cloud headquarters.

The regional contest, which also



stands out as the largest startup event by the Alibaba Group, offers Turkish startups an opportunity to get funding from Chinese investors, a chance to become the next unicorn of the Alibaba Group, and future cloud infrastructure support programs, including up to USD 216,000 worth of cloud resources.

This year's Middle East/Africa regional final in Istanbul featured key executives from the Alibaba Group, SoftBank Group, the Consulate of China in Turkey, and jury members such as Invest in Turkey President Arda Ermut, Doğan Group Owner Arzuhan Doğan Yalçındağ, Akbank President

Suzan Sabancı Dinçer, Middle East Venture Partners Partner Rabith I. Khoury, Fiba Group Executive Board Member Murat Özyeğin, Citibank Turkey President Serra Akçaoğlu, and Allianz Turkey President Cansen Başaran Symes.

Fazla Gıda, a startup that provides technological solutions to curb food waste, was named the winner of the contest. In addition to a USD 50,000 award that it can use towards cloud resources, the Fazla Gıda team will travel to Nanjing, China to compete in the final. Rounding out the top five and also joining the winner in China are Kimola, Park Palet, TIRPORT, and Piri.

 **INVEST IN TURKEY**

www.invest.gov.tr

Invest in Turkey, the official investment advisory body of Turkey, is a knowledge-center for foreign direct investments and a solution partner to the global business community at all stages of investments. It provides customized guidance and qualified consulting before, during, and after entry into Turkey.

 /investturkey

 /invest-in-turkey

 /investinturkeysocial