Turkey unaware of own potential

There is one phrase that foreign investors in Turkey express in unison: “Turkey is not aware of its potential.” Despite all the setbacks since May 2006, Turkey has preserved its economic stability in recent years.

This environment of economic stability did not go unnoticed by foreign investors, resulting in a flow of foreign capital into Turkey, starting with privatized entities and the real estate sector. Turkey’s growing population of 70.5 million people, its rate of urbanization exceeding 70%, a per capita national income reaching US $9,333 with the income level of the middle class increasing, and the fact that half of the population is composed of people under 30 have all contributed to Turkey’s popularity.

National income hits US $9,333

With the increase in per capita national income, Turkey got one step closer to the category of countries in the upper income group. Turkey’s 2007 GDP value was estimated at US $658.8 billion with an increase of 4.5% at fixed prices. In 2007, per capita GDP value rose to US $9,333 at current prices. Per capita national income in the upper-medium group countries, where Turkey is included, ranges between US $3,596 and US $11,115 (according to the Atlas method). As Turkey climbed in the upper-medium income group, it got one step closer to the upper income group, where per capita national income needs to be higher than US $11,115.

15th largest economy

The International Monetary Fund (IMF) estimates pertaining to the period 2006-2013 calculated that Turkey is the 15th largest economy in the world according to national income figures announced as per the new series. Turkey switched to the new series, which takes as its basis the European Union (EU) system instead of the United Nations (UN) system in the calculation of national income and moves the baseline year from 1987 to 1998. Turkey, which will reach a purchasing power parity and gross domestic product (PPP-GDP) of US $941.5 billion in 2008 upon switching to the new series calculations, climbed from the 19th to the 15th position in the ranking of the world’s largest economies. The new series increased Turkey’s national economy 15th largest.

Half of Turkey’s population is composed of people under 30.

Photo: hollandse hooGte

By Fethim Genç
Turkey's annual growTh raTes income figures approximately by one-third. Although this condition does not express a real increase in national income, it is obtained upon adding one-third of the economy, which is actually existent but could not be measured with the previous series, to the national income figures.

Growth will continue
Turkey has continued to grow rapidly since 2002. The growth figure, which had been above 6% for the past five years, emerged as 4.5% in 2007 bringing up the question, “Have they pushed the brakes?” However, we should not forget that 2007 went by in an election atmosphere with both general elections and the presidential election. Furthermore, the subprime mortgage crisis caused Turkey to enter into a wait and see period.

Investments will continue
Metro Group’s Chairman of the Board and CEO, Dr. Eckhard Cordes, stated that Metro Group will continue investing with all their sale brands in Turkey, where they continue to see major potential. Cordes said that they will open 10 stores in Turkey in 2008 and recorded that they will invest in Turkey at a growth rate of 4-5%.

Cordes stated, “The economy has slowed since the past year, but we still see a growth potential in Turkey. I do not see any sign of crisis. We do not look at the political situation in a country. If there is a liberal economic environment in that country, we continue with our investments. We are very happy with the economic policies that have been implemented in Turkey within the last five to six years.”

PwC: Turkey will experience rapid growth
A report prepared by PricewaterhouseCoopers emphasized that by 2050 Turkey will overtake Italy in terms of development. The report, entitled The World in 2050: Beyond BRIC Nations, indicates that E7 nations consisting of Brazil, China, Indonesia, India, Mexico, Russia, and Turkey will surpass G7 nations in terms of economic size. The report predicts that in 2050 nations referred to as the E7 will make up the primary league of global economy. The report further predicts that by 2050 Turkey will undergo an annual average growth rate of 5.1% in terms of current accounts and 4.2% in terms of purchasing power parity and Turkey’s national income will triple in terms of current accounts and double in terms of purchasing power parity and will reach the same level of economic size as Italy.

A rising market
President of PwC Turkey, Cansen Başaran Symes, says that the increasing weight of rising economies that are becoming more integrated into the global economy every day is not surprising. Countries such as Turkey are no longer merely a source of cheap labor and new market opportunities, but are emerging as economies that invest within the global economy and open to external markets. Symes indicates that the global economy is undergoing a process whereby the balance of power is in a state of transformation and says, “Turkey is viewed by various organizations in their 50-year projections as one of the countries to pay attention to and with an opportunity to rise. This process we find ourselves in is a great opportunity for Turkey. The important point here is to form an appropriate strategy.”

Inflation missed the mark
A number of macro-economic indicators for 2007 are a little demoralizing, though there are no aspects that should undo any balance in the long term. Inflation figures strayed quite a bit from the 4% target set by the government, with inflation for 2007 reaching 8.39%. Inflation for 2006 was 11.58% according to the Manufacturers’ Price Index and 9.65% according to the Consumers’ Price Index.

BDDK survey: No recession in the short-term
90 high-level bankers responding to the April-June 2008 Term Banking Sector Management Expectations Survey prepared by the Banking Regulation and Monitoring Commission (BDDK), indicated that the interest rate for internal borrowing, inflation, and dollar will rise. Despite their overall positive outlook regarding a near-term recession. The survey emph...
A lot is valued at US $1,000 and its neighbor at US $15,000

Istanbul has witnessed a construction boom in the last few years and it is almost impossible now to find vacant lots. Surrounded by the Marmara Sea on the south, Istanbul is constricted by forests in the north. Kurtköy and Akfirat in the east are fast being developed. When these areas are settled, land on the Anatolian side will all have been exhausted.

The western side is surrounded by the fertile fields of Thrace. City planners point to these lands as the new housing areas. However, land prices have soared regardless of how far away they are located from the city center. There is no problem for those companies that develop the city center. There is no problem for those companies that develop the city center.

The greatest paradox in land prices is that the central business district of Istanbul. When Sama Dubai won the tender for the IETT plot for US $705 million, the price per m² for the 46,000 m² came to be US $15,000. Nearby stand rows of apartment buildings at the Gültepe neighborhood. Until the day the tender was made, nobody had any idea about the value of these buildings. Appraisal experts say that in Turkey, appraisal services are not sought except for commercial real estate and housing credit, therefore, it is normal for the values not to be known. Naturally, after the tender, people with apartments in these buildings increased their prices, but this stayed nominal. There are no contracted sales so far.

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The increases in input prices. The tightening of international liquidity in particular resulted in expectations of higher interest rates both for fund resources and credit. Expectations regarding the GDP, credit volumes, and asset size are still viewed positively, and managers in the banking sector do not anticipate a recession in the short term.

Negative outlook on interest rates for fund resources and credit, expectations regarding the GDP, credit volumes, and asset size are still viewed positively, and managers in the banking sector do not anticipate a recession in the short term.

High-level bankers indicated the banking sector and the economy will continue to grow.

Bankers confident

High-level bankers indicated that, in general, the impact of the adverse situation which stemmed from forces outside the realm of the real economy and banking sector, is going to be limited and that the banking sector and economy will continue to grow.

As for macroeconomic indicators, expectations for a rise in GDP continue while expectations for an increase in the current account deficit dropped from 57% to 53%.

Interest rates for borrowing will rise

As the price of debt increases, investors will have less room to leverage potential property acquisitions.

Bankers responding to the BRMC survey stated that interest rates for borrowing, with the exception of credit card rates, will increase. The unlikely rise in credit card interest rates is probably due to the fact that credit card interest rates are already higher than rates for other types of borrowing, and the implementation by the Central Bank to impose a ceiling limit on said interest rates is believed to be effective. The bankers noted they are anticipating a tightening in housing, first and foremost, credit and personal credit volumes and, in contrast, an expansion in commercial credit and in total credit volumes.

Interest rates on credit cards are unlikely to rise.

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Thanks to the construction sector

The construction sector was the driving engine of growth during the past five years and, particularly with the surge that began in the fall of 2004, it helped to keep the economy alive. Thanks to the number of jobs it created, the construction sector also played a role in the low unemployment figures.

While the rate of unemployment in 2006 was 9.9%, it receded to 9.3% in September 2007. However, in 2007, the construction sector began undergoing a slowdown. The number of buildings that started construction and received zoning permits in 2007 dropped compared to 2006. The number of buildings that received construction permits from municipalities in 2007 fell 7.3% compared to the prior year and the number of buildings that received usage permits fell by 7.5%.

The hottest real estate market

According to another study conducted jointly by the Urban Land Institute and PricewaterhouseCoopers, Istanbul and Moscow are viewed as the hottest real estate markets among 27 European cities. The Global Financial Centers and Istanbul report, prepared by the Assosiation of Istanbul Tax Council and Turkish Capital Markets Brokerage Organizations (TCMBO), includes a study entitled European Cities Research wherein Istanbul is viewed by companies established in Europe as one of the cities where they are planning to open branches and expand by the year 2010.

Mortgage volume potential of US $100 billion

Subsequent to the completion of the regulation and notification regarding the Mortgaged Housing Financing Law, which went into effect in March 2007, the real estate market is expected to undergo rapid growth from 2008 onwards. Turan Erol, president of the Capital Markets Board (CMB), Turkey’s most authorized organization on the issue of mortgages, indicates that Turkey will reach a mortgage volume of US $100 billion within five years. Secondary market regulations that will decrease the cost of housing credit and allow a drop in housing credit interest rates used by individuals are expected to be launched during the second half of 2008.

Investments going to Turkey

Henri Alster, worldwide president of Global Real Estate Institute (GRI), notes that due to the mortgage crisis occurring in the international markets, anticipated investments in the European real estate sector have been suspended, but there are plans to shift said investments to Turkey and Russia. Alster summarizes the change in investment tendency as follows: “In the real estate sector, no other country attracts foreign investment like Turkey and Russia. Currently, there is no appropriate environment in Western Europe to achieve new things. Turkey, on the other hand, is a very big market. It expands with a growing population every year. Furthermore, due to the turmoil that has emerged...”
Turkey is on a very good level and that the capital market is strongly supervised, Stöcker says, “There are strong banks here. The legislation in Turkey is ready. The banks may use it the moment they believe they are ready. Everything is ready for them.”

85,290 contractor firms

The report entitled Economical Assessment and Suggestions for the Construction Sector and the Construction Materials Sector, prepared by the Association of Turkish Building Material Producers (IMSAD), states that the construction materials sector is among Turkey’s leading sectors. Approximately 20% of economic growth is based on the growth in the construction and construction materials sectors. According to the report, there are 85,290 contractor firms in the construction sector, with 700 contractors continuing their operations abroad. There are 308,663 engineers and architects as well as around 2,000 technical consultancy firms affiliated with 23 professional associations in the construction sector. Some 150 large companies in the sector realize 75% of all projects in the country, with a 90% share in international projects. There are approximately 6,500 producers in the construction materials sector. Their total production in 2006 was US $27.2 billion, and 60% of production is used domestically while the other 40% is exported.

1.3 million people work in the construction sector and 225,000 people work for the 6,500 producers in the construction materials industry. The 1.5 million people working in both sectors combined constitute 6.84% of total employment. According to the IMSAD report, 344,000 of those employed by the construction sector are salaried and 662,000 work per contract or are seasonal workers.
The campaign ‘Daddy send me to school’ provided education possibilities to 7,056 girls

In 2005, the newspaper Milliyet started a campaign called ‘Daddy send me to school’ with the aim of creating the means to provide an education to young girls which were not sent to school because their parents were poor and ignorant. The campaign, which celebrated its third anniversary on April 23, 2008, has donated three-year scholarships to 7,056 girls and completed the building of 25 female student hostels and seven new village schools, thanks to the contribution of 100,000 donors which collected 26 million YTL (US $21.1 mln).

The honorary United Nations award, given annually to outstanding social responsibility projects, was granted to the Milliyet newspaper on November 6. This award ceremony is organized by the International Public Relations Association for 16 years, and the 2007 IPRA Gold Award was given to the campaign ‘Daddy send me to school’.

Baldwin Penn also said, “The ‘Daddy send me to school’ campaign is focusing on female education in Turkey and has managed to create social awareness in parents, teachers and the readers of the newspaper. I am very happy and proud to present this award to the Milliyet newspaper.”

Turkey is preparing to implement new regulations to enhance stability. Privatization of Ziraat Bank, Halkbank, and Vakıfbank, are among the government’s priority targets, however the government is expected to give priority to the privatization of highways and bridges.

The government is planning to privatize highways and bridges.

Turkish Code of Commerce

The government is preparing to change the Turkish Code of Commerce, which organizes economic activity. The basic features of the new law are integration with the world economy, perpetuating economical stability, transparency, and account-ability. The new law aims to implement reforms catering to companies working in international integration in particular.

Energy investments

Recently, the energy sector has become the most popular sector in Turkey. Hundreds of companies have received licenses to operate in the energy market. In order to adequately respond to this interest, the government enacted the Law on Renewable Water Resources and prepared maps on Turkey’s geothermal and wind resources. The government opened the way for the private sector to produce electrical energy from geothermal and wind resources by giving purchase guarantees for 10 years. Turkey needs energy investments of US $100 billion until 2020. The government plans to make Ceyhan, located at the end of the BTC pipeline which carries One million barrels of oil per day, an energy hub, and to have an ‘energy exchange’ established. In addition to the Shah Deniz project, which enables natural gas from Azerbaijan to be carried over to Greece, construction on the Samsun-Ceyhan pipeline has also started.

The Ministry of Energy and Natural Resources notes that Turkey could become the second greatest gold center in the world, if gold reserves are well utilized. However, environmental organizations claim that methods and chemicals used in mining gold are harmful for the environment and have created a strong public opinion against gold refineries.

Incentives for foreign investments

The government is preparing a new draft law to facilitate production in free trade zones. A committee consisting of representatives from the Ministry of Finance, the Ministry of Industry and Trade, Undersecretariats of Foreign Trade, State Planning, and Customs are working to motivate production in free zones. The draft law is expected to include incentives for foreign investors as well as local ones. Currently one in every six companies in the free zones is funded by foreign capital. After Turkey rose to the third position (following China and Russia) in attracting foreign investments in 2006, the government plans make new resolutions in order to enable the continuity of these investments. According to data from the Foreign Investors’ Association (YASED), the number of companies with foreign capital in Turkey rose to 18,000 at the end of 2007, up from 6,000 in 2003.>>

Free trade zones act as an incentive to local and foreign investors.
Is the European Union off the agenda?

The government, which started negotiations with the EU in 2004, is now being criticized for having lost its former enthusiasm. When the critics increased, Prime Minister Recep Tayyip Erdoğan felt the necessity to declare that they have continued their efforts unwaveringly towards the EU target. Joost Lagendijk, co-chairman of the Turkey-European Joint Parliamentary Commission, supported Turkey’s efforts and stated that 2005-2006, “were the years when criticisms in both Turkey and the EU were voiced more assertively and when public support declined.”

Lagendijk added, “While the number of those who regard Turkey with suspicion increases in the EU, the AK Party government has started to court nationalist votes. People began to be tried under Article 301.”

Suspending negotiations on eight chapters in this period was a grave error on the part of the EU. Everybody thought that AK Party, as the only party endorsing EU membership in 2007 when the reforms lost momentum, would take them up with a new zeal after its victory at the elections and that there would be a return to the golden days in the relationship with the EU.”

Lagendijk added, “But it didn’t happen. The reforms have been put on hold. The government should realize the constitutional and judicial reforms not only to protect itself, but to re-activate the EU process as well. Prime Minister Recep Tayyip Erdoğan said some wonderful things in his visit to Sweden, yet Erdoğan seems to forget everything he says abroad once he’s back in Ankara. I hope this time Ankara will not allow that. Despite everything, there is still the potential for a golden age in EU-Turkey relations. Even in a worst-case scenario, negotiations may slow down, but would not be terminated.”

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Turkey’s roadmap

Turkey’s ‘Letter of Intent’ given to the IMF gives clues to the direction of the Turkish economy in the near future. In the letter, it is said that structural reforms shall be realized and measures shall be taken to ensure strong public finances in light of global developments. The commitments stated in the letter are as follows:

- Social Security Bill shall be enacted.

- Taxes shall be extended over the base and steps shall be taken to make the Department of Revenues more effective. The share of large taxpayers within the Department of Revenues will be increased. Measures shall be taken to prevent unregistered economy.

- Privatization shall be continued.

- Implementations to reduce income shall be enforced.

- System to collect social security contributions shall be modernized.

- With the public personnel regime being modernized, financial and administrative structures of the State Economic Enterprises shall be strengthened.

- Liberalization in energy shall be enhanced. A healthy pricing mechanism shall be established to create a sound structure for the financial balances of the State Economic Enterprises for Energy.

- Credit and currency exchange rate risks shall be managed more prudently and secondary regulations on the mortgage law shall be enforced.

- Privatization strategy for the public banks shall be continued.

- With the new Turkish Code of Commerce, legal arrangements concerning R&D efforts shall be enforced.

- For fiscal discipline and fight against inflation, measures to guarantee a Primary Surplus of 5.5% of the GNP shall be continued.

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GROSS DOMESTIC PRODUCT (1998–BASED)

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There is still potential for a golden age in EU-Turkey relations.