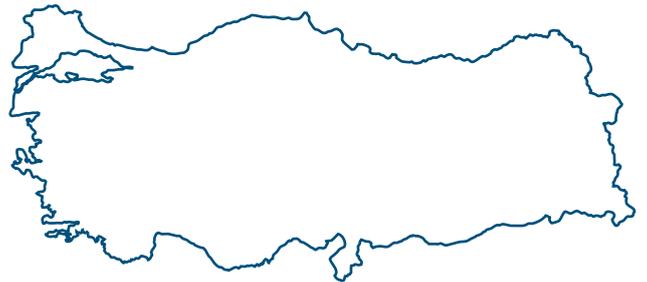




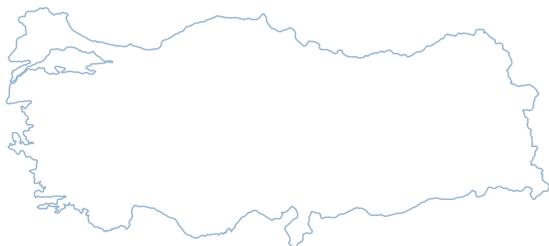
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**Country outlook**  
**Turkey**





## Turkey



**Form of Government:** Parliamentary republic

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**Capital:** Ankara

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**Official language:** Turkish

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**Population:** 83 million inhabitants (2019)

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**Currency:** Turkish lira (TRY)

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**Exchange rate:** 1 EUR = 7.59 TRY (31/05/2020)  
1 USD = 6.82 TRY (31/05/2020)

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**GDP:** \$743 billion (1.7% of world GDP)

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**GDP per capita:** \$8,958 (\$28,264 purchasing power parity)

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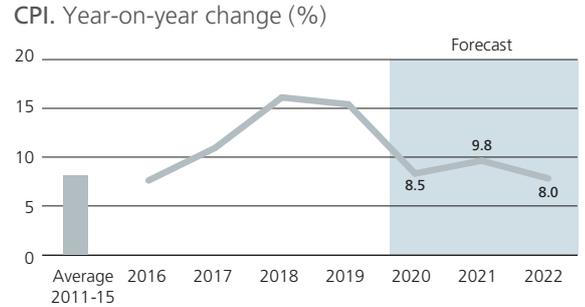
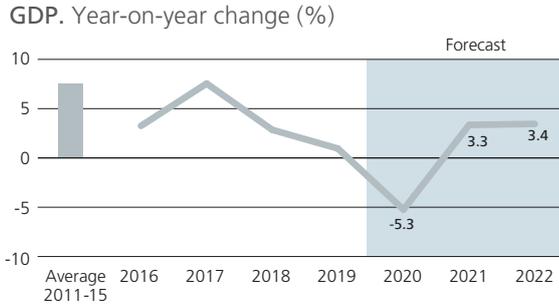
**Ease of doing business:** 33<sup>rd</sup> in the world out of 190 according to the World Bank (Doing Business)

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**Religion:** Muslim: 98%

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**Economic forecast**

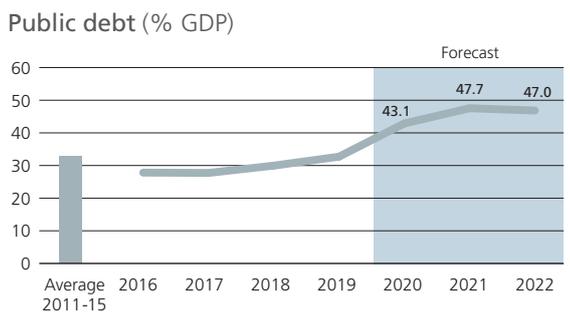
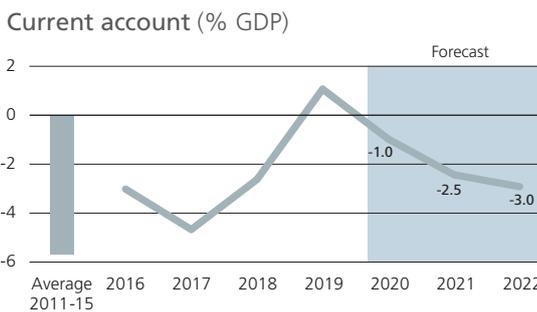
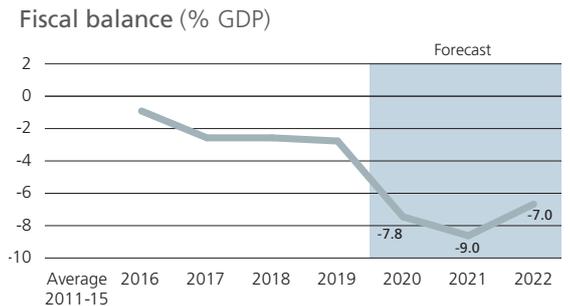
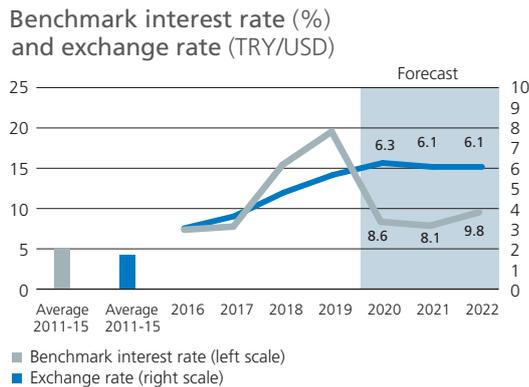


- The COVID-19 crisis has come to Turkey at a difficult time. Therefore, following the deep recession in 2018, after which the country was starting to get back on track in 2019, Turkey will have to face the coronavirus crisis with a macroeconomic adjustment at the halfway stage (with significant macroeconomic imbalances, inflation and, in particular, high private debt). Given these circumstances, the Turkish economy is facing a shock that will hit exports and tourism. Additionally, it is believed that the impact in terms of health and the loss of human lives will be high. The combination of underlying macrofinancial vulnerabilities, a real, notable shock and the toll of the actual pandemic on the population

explains why we are predicting that GDP will fall significantly in 2020, by more than 5%. It is also worth noting that, given the prevailing uncertainty, we cannot rule out that this fall will reach double figures.

- Increases in prices are still yet to be brought under control in the Turkish economy, where there is no firm grip on the inflation expectations. During the current recession, inflation will fall somewhat, mainly due to the prevalence of anti-inflationary pressures resulting from the fall in domestic demand. However, after this exceptional period, inflationary pressures are expected to return.

**Economic policy**

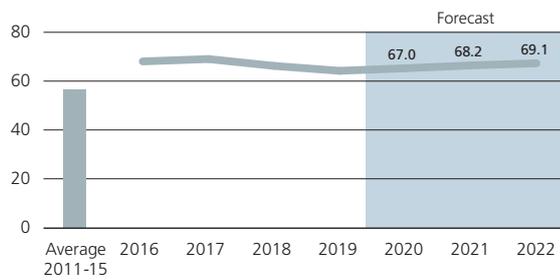


- Turkey faces a situation that has been complicated by the shock caused by the coronavirus. As remarked above, the path to sustainable growth was far from complete and, due to this, it started with monetary and fiscal stimulus that was somewhat at odds with the need to contain inflation and discourage the accumulation of private debt. These conflicting requirements have been repeated with the COVID-19 crisis. Thus, fiscal stimulus has increased (albeit to a lesser extent than in other, more aggressive emerging economies, since it has less room for manoeuvre) and there has been significant monetary easing.

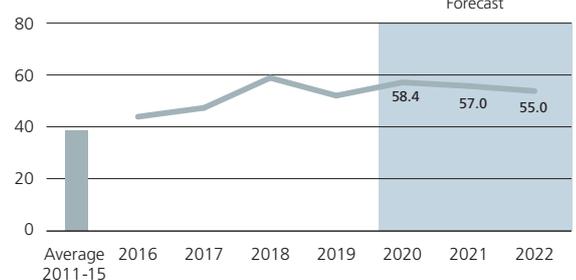
- Consequently, there has been notable downward pressure on the Turkish lira (depreciation against the dollar so far this year is into double figures). Given this situation, the Central Bank's attempts to contain these trends have been unsuccessful, mainly because investors have viewed defending the lira to be incompatible with monetary easing. It is also true that things have been further complicated by the doubts regarding the Central Bank's actual degree of independence and the tendency to resort to banning currency trading at certain times and for certain commercial banks.

**Financial conditions**

Private credit (% GDP)



Gross external debt (% GDP)



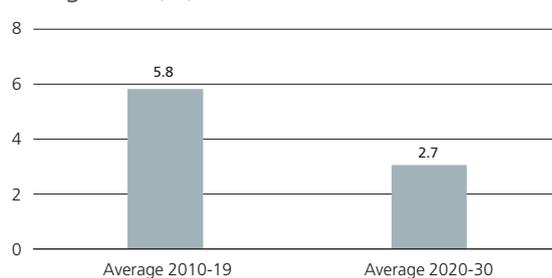
- The crisis caused by the pandemic has come at an unfortunate time for Turkish banking, which was starting to emerge from 2019 during which it was still suffering the delayed effects of the 2018 recession. Therefore, in Q1, the banking sector had enjoyed a notable increase in profits, accelerated growth in credit and a slight drop in non-performing loans, all maintaining a high level of capitalisation. However, the immediate outlook is not good and we expect a significant fall in profits and increase in non-performing loans due to the economic recession. Additionally, the authorities are pressuring the banks to continue financing the economy, deferring payments from debtors and purchasing governing bonds, onerous requests for a sector that has still not fully recovered from the previous shocks.
- The level of corporate debt denominated in foreign currencies is worrying (over 50% of GDP), since this is a segment of corporate liabilities subject to strong pressure from the depreciation of the lira and the dollar crunch occurring in the markets in recent months, which may be repeated in the future. The low level of reserves (they do not cover the total short-term external debt) exacerbates the Turkish currency's vulnerability to further possible periods of volatility.

**Political situation**

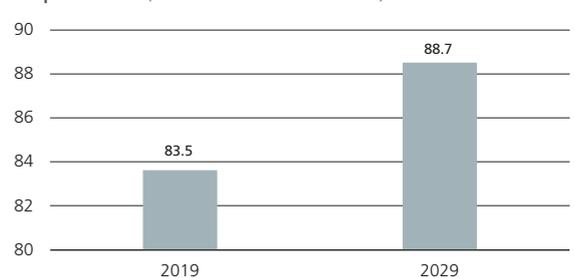
- We do not believe that the COVID-19 crisis will change the current dynamics of Turkey's domestic and global political situation. Thus, although the toll on human lives and the economic cost of the shock will be substantial, it is unlikely to jeopardise the government's firm grip on public life enabled by its control of the institutions and the pro-government media. The resilience of the current regime had already been tested during the tough recession in 2018 and it passed this test, despite losing votes, in the intense electoral cycle of 2018 and 2019.
- This means that Turkey is unlikely to seize the reformist "window of opportunity" that emerged after the 2019 elections, and which should have allowed decisions to be made that were previously on the back burner, such as implementing the necessary economic reforms (especially those that would have freed up the recurring bottlenecks in the Turkish economy). This puts the economy in a weak position in the medium and long term, during which we cannot rule out further imbalances and short-term macroeconomic adjustments to overcome them.

**Long-term outlook**

GDP growth (%)



Population (millions of inhabitants)



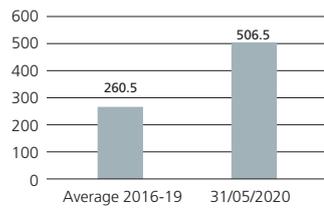
- Although the coronavirus crisis and its effects will hinder growth in the short and medium term, the long-term outlook is still reasonably positive, as Turkey is one of the most business-friendly emerging countries. It is especially remarkable that Turkey has a better institutional framework than most emerging economies, and particularly, than any other country in the region (although somewhat less solid than before the attempted coup of 2016).
- Likewise, and provided the current macro adjustment approach to rebuild solid macro fundamentals is successful, the long-term prospects will also be supported by a positive demographic outlook, its roles as a regional hub, the dynamism of its business sector and an environment that will continue to be pro-business.

**Country risk**

	Rating	Last changed	Outlook
STANDARD & POOR'S	<span style="border: 1px solid black; padding: 2px;">B+</span>	17/08/18	Stable
MOODY'S	<span style="border: 1px solid black; padding: 2px;">B1</span>	14/06/19	Negative
FitchRatings	<span style="border: 1px solid black; padding: 2px;">BB-</span>	12/07/19	Stable

■ Indicates that the country has an "investment grade".  
 □ Indicates that the country does not have "investment grade".

CDS\* 5 years (basis points)



OECD credit risk rating (from 0 to 7, with 0 being the best)



\*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

**Risks**

**SHORT-TERM**

- Greater than expected global impact of the pandemic
- New and sharper rises in financial volatility
- Increased inflationary pressures
- Increased geopolitical uncertainty

**LONG-TERM**

- Increased geopolitical uncertainty
- Democratic regression
- Failure of push for modernisation

**Business environment**

**STRENGTHS**

- Size of the domestic market.
- Regional business hub.
- Demographic dynamism.
- Efficiency of the goods market.

**WEAKNESSES**

- Institutions (lack of confidence and awaiting modernisation).
- Limited innovation.
- Inefficient labour market.
- Workforce not suitably trained.
- Modest financial development.

**Main sectors**

**EXPORTERS**

- Vehicles, machinery, precious metals and stones, fabrics and clothes, and steel and aluminium.

**IMPORTERS**

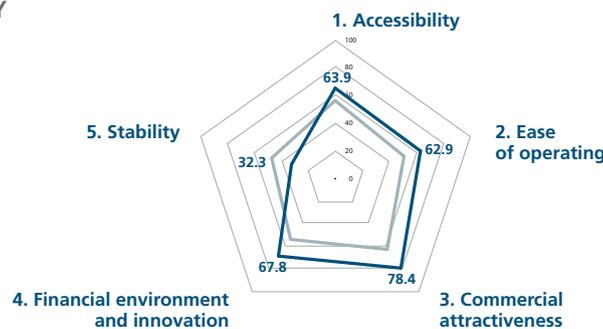
- Mineral fuels, machinery, electronics, precious metals and stones, and vehicles.

**CIBI | CaixaBank Index for Business Internationalisation**

**POSITION IN COUNTRY RANKING**



**PILLARS**



— Eastern Europe and Central and Western Asia — Turkey  
 (Min. 0 - Max. 100)

**SUBPILLARS**

**Top**  
 Similar tastes to Spain  
 Investment relations with Spain  
 Credit and financial development

**Bottom**  
 Institutional stability  
 Purchasing Power  
 Macroeconomic stability

**Taxation**

The corporate tax levied on company earnings is 20%. The rate of individual income tax varies depending on the income, from 15% to 35%. Consumption taxes: 18% VAT on most products. There is a lower rate of VAT, at 8%, applied to basic food products, pharmaceuticals, books and electronic books. Moreover, some products are exempt from VAT, generally the following: products from customers operating in free trade zones, oil exploration activities, services provided in ports and airports, supply of machinery and equipment when the company operating in Turkey has an investment certificate. There is also a special tax on consumption with different tax rates, to which some of the following

products are subject: oil products, natural gas, lubricating oils, solvents and solvent derivatives, automobiles and other vehicles, motorcycles, aircraft, helicopters, yachts, tobacco, alcoholic beverages and luxury products. Since 2012 there has been a system to encourage investment, both for national and foreign investors. This system is based on four plans with associated instruments via incentives. The plans are as follows: the plan on incentives for general investment, plan on incentives for regional investment, plan on incentives for large-scale investment and plan on incentives for strategic investment.

**Investment**

In Turkey, foreign direct investment for 2018 was 13.163 billion dollars. This represents a 14% increase over 2017. The sectors attracting the largest share of FDI in the last few years have been: financial brokerage, transport, storage and communications services, as well as

manufacturing (especially the sub-sectors of food, computers, electrical, electronic and optical equipment and chemical products). Most of the foreign direct investment entering Turkey comes from Europe, North America and countries in the Persian Gulf.

**Establishment****LOCAL COMPANY**

There are several forms of establishment, the most common of which are the joint stock company (A. Ş.) and limited company (Ltd. Şti.). The latter is the most common for establishing SMEs. Joint stock companies must have at least one shareholder (natural or legal person) with a minimum capital of TRY 50,000. The company must include a general assembly

and board of directors. A limited company is founded with a minimum of one shareholder (natural or legal person); the shareholders' liability is limited to the capital subscribed. The minimum capital required is TRY 10,000. There are no restrictions in terms of capital or nationality to set up companies and these can be established with 100% foreign capital.

**BRANCH**

Any foreign firm has the right to set up branches in Turkey, in which case they are not new

companies with their own legal personality but depend on the parent company.

**REPRESENTATIVE OFFICE**

A representative office can be set up with the permission of the Ministry of Industry and Technology's General Directorate of Incentive Implementation and Foreign Investment ([www.sanayi.gov.tr](http://www.sanayi.gov.tr)). Permits to set up representative offices normally last for three

years. In Spain there is an ISPAT office ([www.invest.gov.tr](http://www.invest.gov.tr)) to help Spanish firms set up businesses in Turkey. Foreign banks can also open representative offices, subject to authorisation from the Bank Regulation and Supervision Agency ([www.bddk.org.tr/](http://www.bddk.org.tr/)).

**Alliances strategic****FREE TRADE ZONE**

There are 19 free trade zones located strategically in the areas closest to the EU and

Middle East to make it easier to access international trade routes.

**JOINT VENTURE**

The law allows foreign investors to set up a business in Turkey through a new company or branch or by acquiring shares in a Turkish company already in operation, without being subject to any kind of authorisation prior to that required for such foreign investment. A

joint venture can be set up in the following ways: a company (normally joint stock or limited), partnership or consortium. There are no limitations to foreign capital. Free repatriation of profits, capital, royalties and dividends.

**Customs conditions****FREE TRADE AGREEMENTS**

There is a customs union agreement in force between Turkey and the EU, which entails eliminating duties and charges on the importation of industrial products from the EU. Agricultural products are not included within the scope of the customs union. Regarding agricultural products, the duties are usually high, primarily because they are used as a

means to protect local production, for example: in the case of olive oil the rate is 31.2% and in the case of bottled wine it is 50%. The country has also ratified free trade agreements with Albania, Bosnia and Herzegovina, Chile, South Korea, Egypt, Georgia, Israel, Macedonia, Morocco, Mauritius, Palestine, Jordan, Serbia and Tunisia.

### **Customs conditions** (Continuation)

#### **FREE TRADE ZONE**

100% exemption from customs duties and some other taxes. 100% exemption from corporate tax for manufacturing companies. 100% exemption from VAT and special taxes on consumption. 100% exemption from income tax on employee wages (for companies exporting at

least 85% of the FOB value of the goods manufactured in free trade zones). Goods can remain indefinitely in the free trade zone. Companies can freely transfer profits from free trade zones abroad or to Turkey without any restriction.

#### **GENERALISED SYSTEM OF PREFERENCES (GSP)**

Turkey is one of the countries that grants tariff preferences by applying zero duty or reduced

tariffs to beneficiary countries (less developed countries).

### **Negotiations and protocol**

#### **BUSINESS CULTURE**

The language used for business is English, although knowledge of Turkish is appreciated. It is advisable not to talk about politics. Punctuality is fundamental. To arrange meetings in the country it is important to do so at least one month in advance and then confirm

the meeting once in the country. Personal relationships are very important, and therefore closing deals will always take more than one visit to Turkey; generally, time, resources and a strong commitment will be required when closing any kind of commercial transaction.

### **Top fairs**

- Izmir International Fair.
- Worldfood.
- Foteg.
- Yapi Turkey Build.
- Turkcast.
- Maktek Eurasia.

### **Websites of interest**

- Investing in Turkey: <http://www.invest.gov.tr>
- Turkish customs: <http://www.gumruk.gov.tr/>
- Union of Chambers of Commerce of Turkey: <http://www.tobb.org.tr/>

### **Payment and charging methods**

#### **MEANS OF COLLECTION**

It is advisable to always ensure payments are received by using the usual international methods, primarily documentary credit, which offers the most guarantees. Another option is documentary remittances, where the Turkish bank handles the commercial documentation

to collect payment on behalf of the company acquiring the product. These can be sight (cash against documents – CAD) or term (Delivery against Acceptance – DA). Lastly, SWIFT bank transfers are also widely used, perceived as a fast, safe method.

#### **MEANS OF PAYMENT**

Between small and medium-sized enterprises it is very common to use promissory notes and cheques at a local level. In 2009, a law was passed to protect the verification rights of users, with the aim of making it easier to track the payment order and combat the shadow economy; this law established three categories of cheque: for commercial operators, for consumers and cheques made out to the bearer.

Documentary credit is the international payment method that is most widely trusted. The average payment periods for Turkish firms tend to be long (85 days), which is why the bank issuing credit offers advance payment facilities to the supplier. Lastly, the use of SWIFT bank transfers is also very widespread, making up the largest share of international payment methods, being perceived as a fast, safe method.

#### **EXCHANGE RATE INSURANCE**

Turkey is an unstable country in terms of political tensions so there is a financial risk associated with fluctuations in the currency's

exchange rate. It is highly recommended to hedge exchange rate risk with regard to the euro.

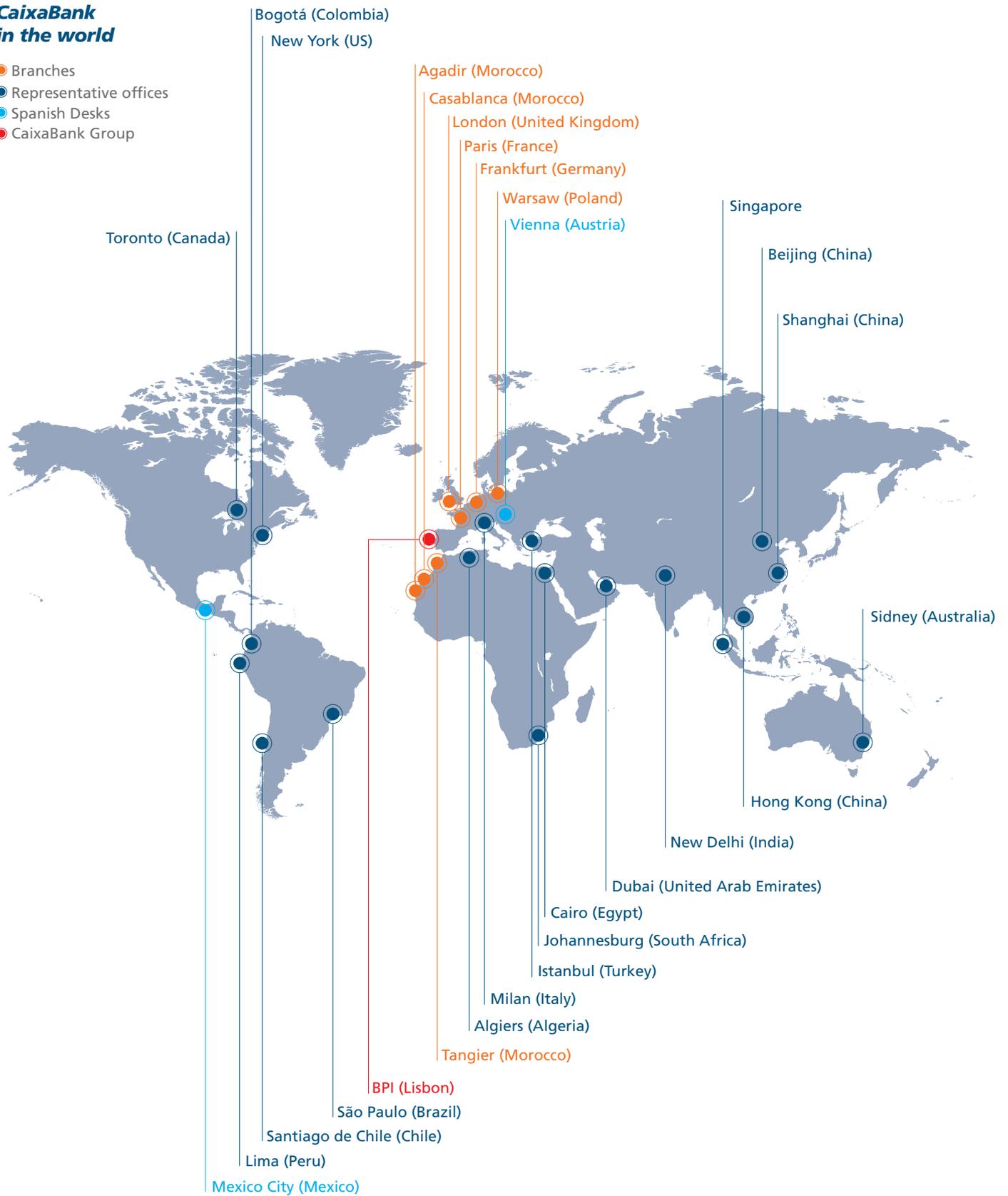
### **CaixaBank in the country**

The main objective of the Turkish office is to improve communication channels with local financial institutions, supporting CaixaBank customers' activities in the country, whether

they are foreign trade or investment and deployment projects. They also offer consulting and accompany Spanish companies that wish to develop their business abroad.

**CaixaBank  
in the world**

- Branches
- Representative offices
- Spanish Desks
- CaixaBank Group



**Istanbul representative office**

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