

# Turkey: Brief Profile

September 2022

## Domestic Economy

- ❖ Turkey outperformed all other economies in the G20 group during the coronavirus pandemic and avoided a recession in 2020, supported by a burst of credit. Turkey then registered growth of 11.1% in 2021 largely driven by robust export demand and a credit-fuelled expansion in private consumption.
- ❖ In absolute terms, GDP at market prices stood at US\$ 807.8 bn in 2021 with per capita GDP of US\$ 9525.9.
- ❖ Inflation increased to 19.6% in 2021 from 12.3% in 2020. It continued to remain high, because of, the depreciation of Lira against the US dollar and the euro.
- ❖ Services sector dominated the economy, accounting for 61% of GDP in 2020. Industry accounted for 31.5% of GDP, and agriculture contributed 7.5% to GDP in the same year.
- ❖ Major industries in Turkey are textiles, food processing, automobiles, electronics, mining (coal, chromate, copper, boron), steel, petroleum, construction, lumber, and paper, among others.

### BASIC FACTS

**Land area:** 783,562 sq km

**Population:** 84.8 mn (2021)

**Language:** Turkish

**Currency:** Turkish lira

**GDP:** US\$ 807.8 bn (2021)

**Exports:** US\$ 224.7 bn (2021)

**Imports:** US\$ 254.0 bn (2021)

**Sovereign Rating:** B+ (S&P's)

## Trade and Current Account Balance

- ❖ Turkey's exports increased to US\$ 224.7 billion in 2021, growing by 33.4% over previous year's exports of US\$ 168.4 billion.
- ❖ Imports also increased by 23.1% from US\$ 206.3 billion in 2020 to US\$ 254 billion in 2021.
- ❖ Accordingly, the trade deficit of Turkey narrowed to US\$ 29.3 billion in 2021, compared to US\$ 37.9 billion in 2020.

- ❖ The current account deficit of Turkey narrowed to US\$ 13.7 billion in 2021 (1.7% of GDP) from US\$ 35.5 billion (5.0% of GDP) in 2020.
- ❖ In 2021, vehicles other than railway and tramway were the top export items accounting for 11.1% of total exports. It was followed by machinery and mechanical equipment (9.2%), iron and steel (7.6%), electrical machinery and equipment (5.3%), pearls and precious stones (4.9%), articles of apparel and clothing knitted (4.8%), and plastic articles (4.5%).
- ❖ Turkey's major imports in 2021 included mineral fuels, mineral oils and products of their distillation (18.7%), machinery and mechanical appliances (11.4%), iron and steel (10.2%), electrical machinery & equipment (7.4%), plastics and articles (6.5%), vehicles other than railway or tramway (5.8%), organic chemicals (3.4%) and pearls, precious stones and metals (2.6%).
- ❖ The major export markets of Turkey in 2021 were Germany (8.6% of total exports), USA (6.5%), UK (6.1%), Italy (5.1%), Iraq (4.9%) and Spain (4.3%).
- ❖ China was Turkey's leading supplier accounting for 11.9% of Turkey's imports in 2021, followed by Russia (10.7%), Germany (9%), USA (4.8%), Italy (4.3%) and India and France (2.9% each).

## **Foreign Direct Investment, Foreign Exchange Reserves and Exchange Rate**

- ❖ According to UNCTAD World Investment Report 2022, FDI inflows into Turkey increased to US\$ 12.5 billion in 2021, as compared to US\$ 7.8 billion in 2020.
- ❖ FDI outflows from Turkey increased to US\$ 5 billion in 2021, as compared to US\$ 3.2 billion in 2020.
- ❖ Turkey's foreign exchange reserves increased to US\$ 109.5 billion in 2021 from US\$ 93.2 billion in 2020, representing an import cover of over 5 months.

- ❖ The local currency is the Turkish lira (TL). In 2021, the lira depreciated to TL 8.9.0: US\$ 1 from TL 7: US\$ 1 in 2020.

## Country Rating

- ❖ As per Standard & Poor's (S&P) Sovereign Ratings as on September 2022, Turkey was rated B+ (the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments on the obligation), with a 'stable' outlook.
- ❖ Dun and Bradstreet's (DB) Country Risk Indicator<sup>1</sup>, September 2022, rates Turkey as DB6a (very high risk: expected returns subject to large degree of volatility). The trend of D&B's ratings for Turkey falls under the 'stable' category.
- ❖ Moody's Investor Services<sup>2</sup>, as on July 29, 2022, rated Turkey as B2 (Speculative and are subject to high credit risk), with a negative outlook.
- ❖ According to Organization for Economic Co-operation and Development (OECD)<sup>3</sup> country risk classifications of July 29, 2022, Turkey was placed at '5' category.

## Macroeconomic Outlook

- ❖ Economic growth is expected to moderate considerably in 2022 with GDP growing at 3.3%. The inflationary policies pursued by the government have caused a collapse in the lira, but export order books have not improved. Meanwhile, household incomes

<sup>1</sup> The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

<sup>2</sup> Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

<sup>3</sup> The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest).

have been hit by a severe terms-of-trade shock, and consumer confidence has dropped to record-low levels.

- ❖ Inflation has been elevated in Turkey in recent years, mostly owing to the weakness of the lira against major currencies. However, in the wake of the CBT's mercurial policy management, the lira crashed, and inflation accelerated. Inflation rose to a more than two-decade high of 79.6% in July 2022. A volatile lira, persistent inflationary expectations, rising global commodity prices amid the Russia-Ukraine war and loose monetary policy will keep inflation high, at an annual average of 73.7% in 2022.
- ❖ Internal and external imbalances, elevated inflation and a normalisation of monetary policy in the US and the euro area will all contribute to a depreciation of the lira against the US dollar. The Lira is expected to average at TL 16.3:US\$1 in 2022 depreciating from TL 8.9:US\$ 1 in 2021.
- ❖ The current-account deficit is expected to widen and remain at 3.6% in 2022 owing to higher global energy prices and slower export growth, but the deficit will remain relatively narrow, as moderate economic growth curbs the rise in imports.

### Turkey: Economic Structure

Economic Indicators	2017	2018	2019	2020	2021	2022 <sup>f</sup>	2023 <sup>f</sup>
GDP (US\$ bn)	855.9	776.2	759.1	715.7	807.8	633.0	735.8
Real GDP growth (%)	7.4	3.2	0.7	1.6	11.1	3.3	3.2
Consumer price inflation (av., %)	11.1	16.3	15.2	12.3	19.6	73.7	36.3
Population (mn)	82.1	82.8	83.5	84.1	84.8	85.3	85.8
Merchandise exports fob (US\$ bn)	169.2	178.9	182.2	168.4	224.7	262.7	291.7
Merchandise imports fob (US\$ bn)	227.8	219.6	199.0	206.3	254.0	292.7	325.9
Current account balance (US\$ bn)	-40.9	-21.7	5.3	-35.5	-13.7	-23.0	-30.1
Total international reserves (US\$ bn)	107.7	93.0	105.6	93.2	109.5	102.6	104.1
Total external debt (US\$ bn)	456.6	446.0	440.8	435.9	434.4	414.0	410.9
Average exchange rate (TL: US\$)	3.6	4.8	5.7	7.0	8.9	16.3	19.3

Note: <sup>f</sup>- Forecasts

Source: EIU Country Report.