# Turkey – Trade and Economic Update

Market Report

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*Prepared by the Embassy in Ankara, Turkey.*


## Summary

- Turkey was one of the few countries to experience positive economic growth in 2020, despite being hit hard by the Covid-19 pandemic. Turkey's gross domestic product (GDP) grew by 1.8 percent, second only to China among G20 members.
- Turkey's economic outlook for 2021-2022 is positive but, as noted by the IMF, economic disparities have worsened and vulnerabilities – including elevated inflation, a severely weakened Lira, and high unemployment – remain.
- A key part of Turkey's growth has been the strong performance of Turkey's manufacturing sector, which some New Zealand businesses have integrated into their global value chains.
- In the year ending March 2021, New Zealand's exports to Turkey totalled NZD48.04 million, down from NZD112.95 million the previous year. New Zealand's top exports to Turkey included dairy, medical equipment, machinery, animal products, and wool.
- New Zealand's relationship with Turkey is warm, underpinned by our shared experiences of the Gallipoli campaign, and there is room to build trade between our countries, especially as both New Zealand and Turkey look to diversify markets in our Covid recovery strategies.


## Report

**Covid-19: Turkey's experience**

- The impact of the Covid-19 pandemic has been severe for Turkey, like most countries. As of 12 July 2021, just under 5.5 million cases had been reported with over 50 thousand fatalities. Turkey's vaccination rollout began in January 2021. By 12 July, 20.8 percent of the population was fully vaccinated and 45.9 percent of the population had received at least one dose of a Covid-19 vaccine.

*Turkey's economy before the pandemic*

- For most of the past two decades, Turkey maintained its position as one of the fastest growing economies in the world, with an average annual growth of 5.6 percent between 2003 and 2018. That trend changed in 2019 when Turkey's economy went into recession. The recession was, in part, fueled by a large current account deficit and large amounts of private foreign-currency denominated debt. The recession saw the Lira plunge in value, while inflation, borrowing costs and loan defaults all rose.

*An "exceptional" Covid-19 recovery*

- After an initial shock from Covid-19 (the economy shrunk a record 9.9 percent in the second quarter of 2020), Turkey's GDP grew by 1.8 percent in 2020. GDP growth has continued into 2021 with a seven percent increase in the first quarter. Among the G20 members, Turkey experienced the second highest economic growth in 2020. According to the World Bank, "while the initial collapse in activity was similar to elsewhere, the recovery was exceptional."

- The Turkish Government responded swiftly with economic support measures to address the Covid-19 pandemic, the first economic stimulus package being announced in March 2020. Turkey's stimulus packages relied primarily on rapid monetary and credit expansion, including policy rate cuts, cheap and rapid lending growth by state-owned banks, and administrative and regulatory measures designed to boost credit. These focused on credit channels through the banking sector rather than direct fiscal costs. The stimulus measures – which the IMF calculated to be nearly 12 percent of GDP – led to a strong rebound in growth after the initial shock.

- By November 2020, however, it was clear that brakes needed to be applied to monetary and credit expansion. Foreign exchange reserves were low, the Lira had depreciated significantly and inflation was around 12.5 percent. A new Finance Minister and Central Bank Governor were appointed in November. The Central Bank then moved to a more orthodox setting with a relatively tight and simplified monetary policy. Despite changing the Central Bank Governor again in March 2021, the settings have remained in place.

*Manufacturing success story; but services sector suffering*

- While Turkey has implemented ongoing restrictions and periodic lockdowns to address the spread of Covid-19, manufacturing and other key sectors have been exempt, which has enabled those sectors to contribute to growth. According to the World Bank, growth in domestic demand was the highest on record in the third quarter of 2020, largely due to consumption and investment.

- As has happened globally, lockdowns have severely hampered the ability of businesses in the services sector to operate (although service sectors that could operate online, such as finance and communication services, did well). The reduction in tourism also had a big impact in 2020. The number of foreign tourists to Turkey dropped 72 percent (to 12.7 million), resulting in a tourism revenue loss of USD12.6 billion. Prior to Covid-19, tourism provided employment for 9.4 percent of the workforce and made up 11.3 percent of GDP.

*Challenges and vulnerabilities remain*

- Turkey's vulnerabilities, which existed before the Covid-19 pandemic, have worsened despite economic growth. The policies that supported growth also exacerbated these vulnerabilities, particularly as credit support largely went to businesses, while others – such as those working in the informal economy – were unable to access support. Inflation was 17.53 percent in June 2021, up from 11.86 percent at the beginning of the pandemic (March 2020). The Lira has long been weak: in 2013 the exchange rate was below two lira to the US dollar, in July 2021 it was 8.7 Lira to the US dollar. Food and utility prices have increased, some food products up to 60 percent, in the last year. Unemployment rose to 13.1 percent in March 2021; higher than pre-Covid. That figure is expected to rise sharply since government policies preventing layoffs and insolvency claims were lifted on 1 July 2021. The World Bank estimates that poverty rose by around 1.5 million people in Turkey as a result of the pandemic.

**Outlook for the Turkish economy**

- In its April Economic Monitor, the World Bank expected GDP to grow by 5.8 percent this year before lowering from 2022 onwards. Inflation was expected to remain high. The OECD similarly predicted GDP growth would be 5.7 percent this year before slowing to 3.4 percent in 2022. While significant vulnerability remains, an IMF report from May 2021 concluded that "although policy uncertainty and vulnerabilities have increased, Turkey's challenges are not insurmountable."

**Turkey's trade policy response to Covid-19**

- Throughout the pandemic, Turkey has focused on increasing exports and diversifying markets. Supply chains and transit routes to, and through, Turkey have been largely undisrupted, even during the height of the pandemic (land borders were closed for a period but sea and air borders remained open). Goods transport with New Zealand continued. By May 2021, Turkish Airlines had relaunched 290 of its 300 destinations in 123 countries.

- The Turkish Exporters Assembly estimated that Turkey's total goods trade in 2020 accounted for 1 percent of the global goods trade. Turkey's export volume in 2020 was USD169.5 billion; a new record. This trend appears to be continuing. As of May 2021, Turkey's annualised export volume reached USD193.3 million.

- Imports to Turkey have also increased. In 2020, imports reached USD219.4 billion – an increase of 4.32 percent on the previous year. Turkey largely imports raw materials – including from New Zealand – which are processed in Turkey, then re-exported.

**Turkey – New Zealand trade and economic relationship**

- In 2020, the bilateral trade volume between Turkey and New Zealand dropped to NZD255 million from NZD367 million in 2019. In the year to March 2021, Turkey's main exports to New Zealand included machinery, vehicles, fruit and nuts, and apparel. New Zealand's top exports were dairy products, optical, medical and measuring equipment and machinery, as well as tourism and travel-related services.

- Despite the reduction in trade, interest in New Zealand has been high. In 2020, Turkish investment interest in opportunities in New Zealand, as a "gateway" to the Asia Pacific region, increased. Prior to Covid-19, Turkey introduced its *Asia Anew* initiative. This initiative aims to diversify foreign policy and trade policy away from Europe and the US toward the Asia Pacific, including New Zealand.

- While Covid-19 continues to impact New Zealand companies operating in the Turkish market, there have been some promising outcomes, particularly in the healthcare and pharmaceuticals, technology, wool and textiles, and wine sectors. Other sectors where New Zealand companies are operating successfully include the marine and geothermal sectors, infrastructure and construction, manufacturing and agriculture. Some New Zealand firms have secured multimillion dollar contracts. Many of these companies have worked with NZTE to evaluate the market and establish connections with Turkish parties and potential partner companies. Another sector where MFAT and NZTE see possible opportunities for New Zealand is sustainable energy, as Turkey continues to prioritise efforts to increase the renewable energy share of Turkey's energy production.

- The New Zealand Embassy in Ankara has been working closely with the Turkish Foreign Economic Relations Board (DEİK) on promoting bilateral economic engagement. This includes jointly hosting webinars that bring Turkish and New Zealand businesses together to explore opportunities. Webinars held so far have covered agriculture, agritech, aviation, infrastructure, communications, the marine sector and earthquake technologies. If you are interested in future webinars, please contact newzealandembassyankara@gmail.com

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