

BUSINESS & POLITICS

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MONITOR

NEWS AND ANALYSIS ON TURKEY

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2023 WILL BE A RECORD
YEAR FOR INVESTMENT
MIGRATION AMONG
TURKS AS ENQUIRIES
JUMPED 200% IN
THE FIRST QUARTER,
COMPARED TO THE SAME
PERIOD OF THE PREVIOUS
YEAR, SAYS HENLEY &
PARTNERS CHAIRMAN
**DR. CHRISTIAN
H. KAELIN**

INVESTING IN FUTURE

The first interest rate increase in 27 months

THE CENTRAL BANK announced its interest rate decision last Thursday. The Monetary Policy Committee (MPC) decided to increase interest rates for the first time since March 18, 2021. The last increase in the policy rate was realized by increasing the weekly repo rate from 17% to 19% under the chairmanship of Naci Agbal. The inflation rate was 16.2% and the USD/TRY rate was 7.2 those days.

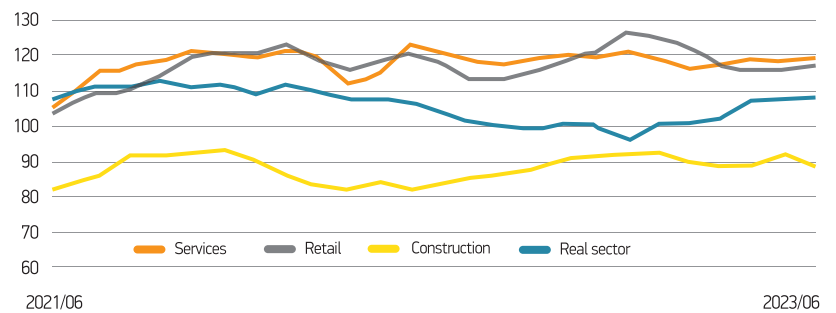
Sahap Kavcioglu, who was appointed as the Central Bank governor after Naci Agbal, who was dismissed for raising interest rates, did not touch the interest rate in the first five MPC meetings. The first reduction was made in September 2021, although inflation was rising and it was followed by three more months in a row. In December 2021, when the interest rate was reduced to 14%, inflation rose to 36.1%, and the USD/TRY rate to 18%.

The interest rate, which was held constant at 14% for seven months, was reduced to 9% in November 2022 and to 8.5% in February 2023 after four cuts. Inflation, which broke a record with 85.5% in October 2022, has dropped to 39.6% as of today. The USD/TRY rate is around 25. Net reserves excluding swaps are minus USD 60bn and excluding swaps, minus USD 3bn.

Mehmet Simsek and Gaye Erkan took their first real steps after taking office with the increase in interest rates. Since there was no clear explanation from either of the two names before the interest rate decision, there were very indifferent estimates on interest rates that could be grouped under three headings.

► The first is to raise the policy rate with big steps in the first meetings and small steps

Sectoral confidence indices



in the following meetings so that the real interest rate remains negative. (Bringing the interest rate between 27% and 30% by making 10, 5, 2, 1 point reductions in a row)

► The second is to make a huge increase (such as 25 points) in the first meeting, waiting to see the market's reaction and data.

► The third is to switch to the interest rate corridor application immediately or after a few months of increase.

There was no clarity or clue on which of them will be applied. Simsek has generally preferred to remain silent in recent weeks and has therefore been criticized. As an experienced expert who analyzes the economic situation well, there

is probably no doubt that Simsek knows how critical it is to guide the markets verbally. There may be other reasons for his silence that we do not know yet, such as planning the real steps to be taken after the interest rate decision.

The MPC decided to increase the interest rate by 6.5 points. Although this is an increase slightly below expectations, the MPC statement saying that this is the beginning of a process and the expectation that new increases can be made in the upcoming meetings were welcomed by the market.

Mehmet Simsek made the following statement on his Twitter account after the decision:

■ "Rule-based monetary policy

TURKEY AT A GLANCE

GDP
GROWTH

5.6%
2022

GDP
USD

905 BN
2022



BADER ARSLAN

focusing on price stability and financial stability,

■ Rule-based predictable fiscal policy aiming at a stable structure in the public sector fiscal balance and sustainable budget financing,

■ And policy framework based on the market economy principles, free exchange rate regime, and the open economy will provide a very serious capital flow to Turkey.

This will make the financing of investments and production much easier and will ensure that the Turkish lira regains stability and becomes a reliable currency. Having our money stable and secure is the most effective solution to avoiding the dollarization problem.”

An interesting aspect of this interest rate hike is that a new increase was made 27 months after the change of the Central Bank governor for increasing the policy rate to 19%. Soon we will see an interest rate higher than 19%. (See table: Policy rate and CPI compared under different CB governors.)

CONFIDENCE INDICES HAVE A CONFUSING OUTLOOK

Sectoral confidence indices for June, which were released recently, give a confusing outlook. While the confidence indices for industry, retail, and services sectors increased slightly, the confidence index for the construction sector and the consumer confidence index decreased. Confidence in the construction sector seems to have declined with the expectation of exchange rate increases and interest rate hikes. The thing that brought consumer confidence down was the exchange rate increase. However, we can see a rise in consumer confidence in July, after the 34.4% increase in the minimum wage. (See graph: Sectoral confidence indices)

Policy rate and CPI compared under different CB governors

Governor	Policy rate (%)	CPI	(%)
March 21	Agbal	19	16,19
April 21	Kavcioglu	19	17,14
May 21	Kavcioglu	19	16,59
June 21	Kavcioglu	19	17,53
July 21	Kavcioglu	19	18,95
August 21	Kavcioglu	19	19,25
September 21	Kavcioglu	18	19,58
October 21	Kavcioglu	16	19,89
November 21	Kavcioglu	15	21,31
December 21	Kavcioglu	14	36,08
January 22	Kavcioglu	14	48,70
February 22	Kavcioglu	14	54,44
March 22	Kavcioglu	14	61,14
April 22	Kavcioglu	14	69,97
May 22	Kavcioglu	14	73,50
June 22	Kavcioglu	14	78,62
July 22	Kavcioglu	14	79,60
August 22	Kavcioglu	13	80,21
September 22	Kavcioglu	12	83,45
October 22	Kavcioglu	10,5	85,51
November 22	Kavcioglu	9	84,39
December 22	Kavcioglu	9	64,27
January 23	Kavcioglu	9	57,68
February 23	Kavcioglu	8,5	55,18
March 23	Kavcioglu	8,5	50,51
April 23	Kavcioglu	8,5	43,70
May 23	Kavcioglu	8,5	39,59
June 23	Erkan	15	36,59

WEEKLY AGENDA

GLOBAL DATA

- MONDAY 3.30 PM: U.S. durable goods orders in May
- MONDAY 5 PM: U.S. CB consumer confidence for June
- WEDNESDAY 3.30 PM: U.S. first-quarter growth
- THURSDAY 3.20 PM: U.S. PCE price index for May
- THURSDAY 5 PM: U.S. Michigan consumer confidence for June

DOMESTIC DATA

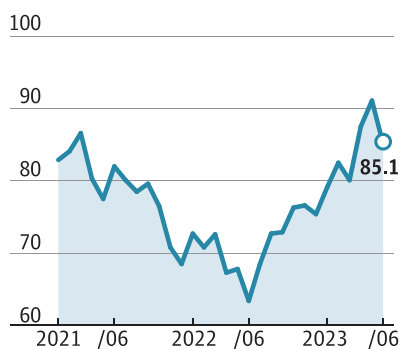
There is no domestic data in the calendar this week due to the Eid holiday.

ECO-POLITICS

- Turkey will start a very active week in terms of travel with the announcement of the whole week including Monday and Tuesday before Eid as an administrative holiday. People living in the city centers will flow into resort regions or their hometowns for family visits.
- However, eyes will still be on the markets, which will remain open for only 1.5 days, due to the holiday mood in the country. The reflections of the Central Bank’s interest rate hike after 27 months will be followed in this short time frame of the week.
- Reverse migration from Anatolia to metropolitan cities will begin towards the end of the week.
- On the other hand, the parliament, which has suspended its work due to the holiday, will enter into an intense working tempo, mainly on the economy, as of next week.

GDP PER CAPITA USD	UNEMPLOYMENT RATE	INFLATION CPI	EXPORTS USD	IMPORTS USD	CURRENT- ACCOUNT DEFICIT USD	ECONOMIC CONFIDENCE INDEX	ICI MANUFACTURING PMI
10,655 2022	10.2% (APRIL)	39.59% (MAY)	21.6 BN (MAY)	34.2 BN (MAY)	48.7 BN (2022)	101.1 (JUNE)	51.5 (MAY)

CONSUMER CONFIDENCE NOSEDIVES IN JUNE



The consumer confidence index dropped by 6.5% from 91.1 to 85.1 in June, month-over-month, according to the Turkish Statistical Institute (TurkStat). The index hit a 4.5-year high in May. This has been the sharpest decline since April 2022. Sub-indices for general economic situation expectations over the next 12 months fell 7.8%, while financial situation expectations of households over the next 12 months declined 8.8%. The index for the present financial situation of households dropped 2.2% from a month earlier, and assessments on spending for durable goods over the next 12 months were down 6.2%. The index is a vital gauge of the economy's overall performance, indicating public sentiments on financial standing and the general economic situation, along with expenditure and saving tendencies.

BUDGET DEFICIT AT TRY 263.6BN IN JANUARY-MAY

The central government budget balance posted a TRY 263.6bn deficit in January-May, according to the Treasury and Finance Ministry. Budget revenues amounted to TRY 1.6tr, and the expenditures reached TRY 1.88tr in this period. The central government budget balance posted a surplus of TRY 118.9bn in May. Budget revenues totaled TRY 549.4bn, and expenditures amounted to TRY 430.5bn in this period. Non-interest expenditures reached TRY 327.8bn, and interest payments stood at TRY 102.7bn in the same period. Excluding interest payments, the central gov-



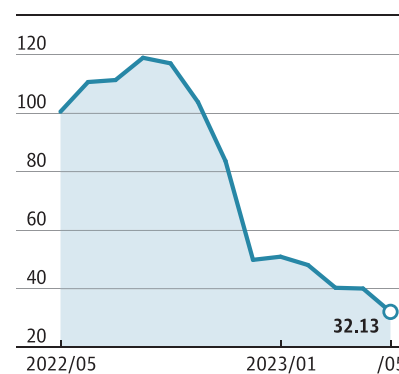
GOCEK'S MOORING PRICES ALMOST DOUBLE MONACO'S

The daily yacht mooring prices sharply rose in the marinas in Gocek Mugla. The daily prices at marinas in Monaco, where jet setters show up, stand at EUR 650, while this figure reaches EUR 1,200 in Gocek. This situation has paved the way for yachts to head towards the marinas in the countries such as Greece, Italy, and Croatia. But the biggest danger is that yachts dock in bay regions instead of marinas. "Bays of Gocek is incredibly polluted. Yachts and boats spend the entire year in the bays where they normally spend one to two weeks swimming," said Murat Bekiroglu, Chairman of the Turkish Yacht and Boat Industry Association. Bekiroglu emphasized the construction of new marinas urgently. "We want to put into use the cleaning boats. The liquid waste of them will be 10,000 liters. They will also collect solid waste," he added. The number of boats and superyachts has reached 12,000 in Gocek, according to allegations. **AYSEL YUCEL**

ernment budget balance posted a TRY 221.6bn surplus, while tax revenues hit TRY 507.4bn in May.

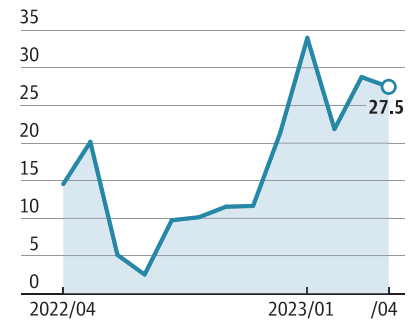
NON-DOMESTIC PRODUCER PRICES UP IN MAY

The non-domestic producer price index (ND-PPI) soared 32.13% in May, compared to the same month last year, according to the Turkish Statistical Institute (TurkStat). The index rose by 0.45% in May month-over-month, surged by 9.23% compared to December 2022, and climbed by 67.27% on a 12-month rolling average. For the two main sectors – mining and quarrying, and manufacturing – the ND-PPI surged by 26.05%, and



32.24% on an annual basis, respectively. Monthly, the ND-PPI was up by 0.48% for the mining and quarrying sector and by 0.45% for the manufacturing industry.

RETAIL SALES VOLUME RISES BY 27.5% IN APRIL



The retail sales volume at constant prices rose by 27.5% in April, compared to the same month last year, according to the Turkish Statistical Institute (TurkStat). Food, drinks, and tobacco sales increased by 21.2%, and non-food sales except automotive fuel sales surged by 34.9%, while automotive fuel sales climbed by 12.5% in this period. Retail turnover at current prices soared 82.3% in April, year-over-year. Food, drink, and tobacco sales, non-food sales, excluding automotive fuel sales, and automotive fuel sales jumped 89.3%, 104.5%, and 16.7%, respectively, in the same period. The retail sales volume at constant prices increased by 0.9%, and retail turnover at current prices was up by 3.4% in April compared to March.

EXTERNAL ASSETS DOWN IN APRIL

Turkey's external assets dropped by 3.6% to USD 297.3bn at the end of April, compared to the end of 2022, according to the Central Bank. Liabilities against non-residents decreased by 7.9% to USD 561.9bn in this period. The net international investment position (NIIP), defined as the difference between Turkey's external assets and liabilities, reached minus USD 264.5bn at the end of April versus minus USD 301.5bn at the end of last year. Showing a snapshot in time, the NIIP – which can be either positive or negative – is the value of overseas assets owned by a nation, minus the value of domestic assets owned by foreigners, including overseas assets and liabilities held by a nation's government, the private sector, and citizens.

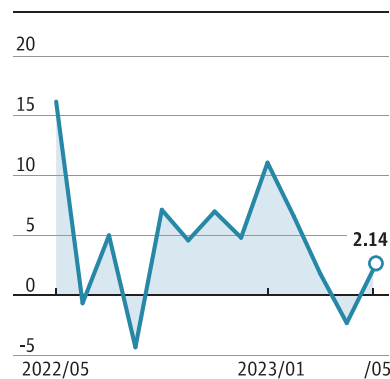
SASA TO SET UP THE WORLD'S LARGEST PDH UNITE

Erdemoglu Holding's petrochemical subsidiary SASA Polyester Sanayi AS (SASA) will build the world's largest propane dehydrogenation (PDH) unit. SASA will use the U.S.-based supply and technology license company Honeywell UOP's Oleflex Technology at the facility. "We will collaborate with the Honeywell UOP, which uses state-of-art technologies, at our facility in Yumurtalik, Adana," said Ibrahim Erdemoglu, Chairman of the Board of Directors of SASA. The facility will be completed in three years. It will contain a PDH manufacturing plant with an annual capacity of 1 million tons and a container port. "The Oleflex Technology has been backed by Honeywell UOP for over 75 years with innovation towards the dehydrogenation technology. It will provide low-cost propylene production by using its unique, highly active, and environmentally friendly catalyzer," said Uygur Doyuran, Turkey, Israel, and Central Asia President of Honeywell.



AGRICULTURE-PPI ON THE RISE

The Producer Price Index of Agricultural Products (Agriculture-PPI) rose by 2.14% in May, month-over-month, according to the Turkish Statistical Institute (TurkStat). Agriculture-PPI soared 50.79% in May, compared to the same month last year, and by 20.24% compared to December 2022. On a 12-month moving average, the hike was 120.64%. Forestry products and related services increased by 1.22%, agricultural products, hunting products, and related services climbed by 2.01%, while fishing



products were up by 8.95% in May, compared to the previous month.

Let's look at the big picture

THE ELECTION IS OVER, and the storm is brewing in some opposition parties. The understanding and management of the economy have significantly changed, and a U-turn in the monetary policy is on the agenda. Mehmet Simsek was appointed the Treasury and Finance Minister, and Hafize Gaye Erkan took the Central Bank Governorship seat. The minimum wage and other wage hikes became clear.

All these are the steps to raise the quality of life, understand the new economic policy, and who will be in the management. The purpose is single- to maintain a more peaceful and wealthy life. To what extent do we provide this? Let's look at the big picture.

The Turkish Statistical Institute released the temporary purchasing power parity (PPP) results based on the Eurostat calculations. Thus, we have seen the level of Turkey, and the European Union (EU) states again.

ECO ANALYSIS



ALAATTIN AKTAS

The gross domestic product (GDP) PPP per capita index is accepted as 100 for 27 EU members. Turkey's position is important compared to the EU average.

The index, which averages 100 for the EU, stands at 69 in Turkey. So, Europeans have 100 units of spending power,

while our spending power is 31 units less than theirs and stands at 69.

But Turkey's spending power is slightly higher in 2022 than in previous years.

Turkey's GDP PPP index hovered around 67 in 2017, 64 in 2018, 59 in 2019, 62 in 2020, and 63 in 2021. Although the 2022 index has reached the highest level in recent years, it can't go beyond the level of 60.

Apart from the EU states, TurkStat also released the situation of Switzerland, Iceland, and Norway, which are members of the European Free Trade Association (EFTA), Turkey, North Macedonia, Montenegro, Serbia, and Albania, which are candidate states, and Bosnia and Herzegovina, which is the potential candidate country.

When we look at the list, we see that the index hit 117 in Germany. The figure is 70% higher than the number in Turkey. The index saw 261 in Luxembourg, 233 in Ireland, and 212 in Norway.

The index, calculated at 69 in Turkey for 2022, exceeded the figure in Greece. Greece's GDP PPP index hovers at 68.

Countries with the lowest GDP PPP per capita index are Albania at 34, Bosnia and Herzegovina at 35, North Macedonia at 42, Serbia at 44, and Montenegro at 50.

GERMAN HAIBRAG EYES TO COMPETE IN E-COMMERCE

The Germany-based industrial robotics company Haibrag, which made a move in the Turkish e-commerce industry in 2019, aims to compete with the top three e-commerce brands in Turkey, according to Murat Kadir Gul, CEO of Haibrag Turkey. The company, which has started operations in Turkey with 100% Turkish capital, is incorporated by the smart storage and rack manufacturer Temesist Sirket Group. The firm plans to invest EUR 58m in five years. "We invested EUR 25m in the first three years. We transferred the largest part of this investment to software and infrastructure. We set up our storages, supply network, and own academies," said Gul. The company, which has three stores in Istanbul, will launch another three stores in Izmir, Ankara, and Antalya.

IMAM GUNES

ITALIAN FERRERO RAISES HAZELNUT PRODUCTIVITY

The Italy-based chocolate and confectionery producer Ferrero Group's Turkey subsidiary Ferrero Findik has increased the hazelnut productivity by 60% with the Ferrero Farming Values (FFV) sustainability program. As part of the program, good farming has been practiced at 52 model gardens in the Black Sea Region since 2017. "7,000 hazelnut producers registered in the FFV system observe good agricultural practices every day and implement them in their gardens thanks to the model gardens in their nearby villages," said Bamsi Akin, General Manager of Ferrero Findik. Bruised and bad hazelnut formation decreased nearly by 60%, and the hazelnut quality rose by 60% with the program. The amount of hazelnut doubled to 200 kilograms at the model gardens per thousand square meters.

SELENAY YAGCI

CEY HOLDING ACQUIRES DENSER

Cey Holding became the new owner of the Denizli Free Zone (DENSER), which was put up for sale by the



ULU MOTOR AND CHINESE SKYWORTH TO SET UP A JOINT BATTERY FACTORY

Ulusbaslar Group's subsidiary Ulu Motor and the China-based technology firm Skyworth Group, which is also the manufacturer of the electric vehicle brand Skywell, have agreed to jointly set up a battery development and production plant in Turkey. The industry 4.0 assembly factory, which will have an annual capacity of 1.2 megawatts, will build modules and package batteries with high charging power and rate in line with the design of the new generation automobiles and commercial vehicles. The facility will be completed until the first quarter of 2024. The two companies announced a USD 25m investment within the scope of the joint project. "We'll start feasibility studies as soon as possible. We also plan to install a vehicle production line, bring the spare parts supply system to Turkey, and manufacture some parts in Turkey," said Wu Longba Founding Partner and CEO of Skywell. Batteries will be marketed to Israel, Russia, and Western Europe and electric vehicle manufacturers in 15 countries where Ulu Motor is the distributor. Skywell entered Turkey with the distributorship of Ulu Motor.

Savings Deposit Insurance Fund (TMSF). The holding company is also the majority shareholder of the Samsun Port, Tasucu Port, and Mersin Serbest Bolge Kurucu ve Isleticisi AS (MESBAS). Cey Holding offered TRY 115m for DENSER, which was put up for sale at an estimated price of TRY 69.5m. DENSER, which was established in Cardak Denizli on an area of 538,225 square meters, became operational in 2002 and was taken over by TMSF in 2021. 34 companies operate at DENSER. The foreign trade volume of DENSER totaled USD 68.6m in 2021.

NIHAT DELIBASI

NOBEL TO OPERATE FAIRGROUNDS IN LIBYA

Nobel Sirketler Group has taken over the operation of all fairgrounds in Libya. The company inked a deal with the General Authority for Exhibitions incorporated by the Libyan Ministry of Economy and Trade. The company, which previously entered Germany, Russia, and the U.S., has increased the number of countries of operation to five. As part of the deal, Nobel Sirketler Group's subsidiary Nobel Expo

FOCUS

BY ALAATTIN AKTAŞ

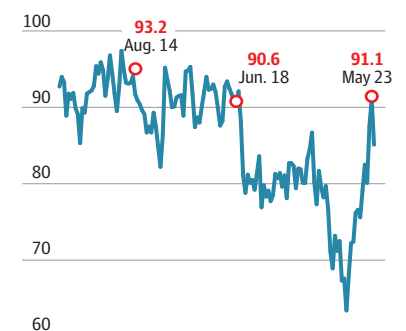
Consumer confidence falls after the elections

The consumer confidence index declined by 6.5% to 85.1 in June after the election. The index, which declined to 63.4 in June and fell to the lowest level since 2004, rose to 91.1 and hit a 5-year in May. The index rose by 4.3% in February. The Turkish Statistical Institute and Central Bank jointly conduct the survey in the first two weeks of every month. So, the impact of the February 6 twin earthquakes wasn't seen in this data. The index dropped by 2.9% in March when the survey wasn't conducted in the

quake-hit region. The index climbed by 9.2% in April when the survey was conducted in the quake-hit region. The index rose by 4% in May. The index surged by 13.7% in April-May, or during the election period. Why did the index decline after the election? The same trend was observed after the elections in 2014 and 2018. Did the index have a downward trend during the election period, and did the election postpone this trend? If we say yes, we should ask its reason. I can't find any explanation.

Consumer confidence index and presidential elections

(January 2012 - June 2023)



Uluslararası Fuarcilik AS and the Libyan General Authority for Exhibitions will operate fairgrounds. The Libyan Economy and Trade Ministry will make local companies' organizations in Libya, and Nobel Sirketler Group will be responsible for the operation of all foreign country agreements and fairgrounds.

HDI SIGORTA AND FIBABANK LAUNCH A JOINT VENTURE

The insurance company HDI Sigorta and Fiba Group's banking subsidiary Fibabank jointly established the digital insurance company Fibasigorta, which will operate in the non-life insurance industry. The joint venture will integrate applications in the insurance technologies such as artificial intelligence (AI), big data, machine learning, business intelligence (BI), and analytics into the business models. "Apart from the technological changes in the insurance sector, economic and social changes reveal the need for a new service understanding. Considering these developments, we took an important step for our sector and the national economy," said Erol Ozturkoglu, General Manager of Fibasigorta. The company aims to be among the important actors in the insurance sector.

SOLEN STARTS EUR 50M FACTORY CONSTRUCTION

The chocolate and confectionery manufacturer Solen has started the construction of a new production plant in Gaziantep to be completed with a EUR50m investment, according to Erdogan Coban, CEO of Solen. The factory will partially become operational this year and fully enter service in 2024. It will create over 500 new jobs. "Our total production center will increase by 70% with the new facility, which will have a closed area of 90,000 square meters corresponding to the area of around 13 football pitches," said Coban. Solen exports to over 120 countries and employs 2,300 people. The annual production capacity of its manufacturing plants in Gaziantep and Istanbul totals 330,000 tons. Solen,

which ended 2022 with a turnover of USD 375m, aims to raise its sales by 25% this year. **NECLA DALAN**

KALYON HOLDING WINS GAS PIPELINE TENDER IN ROMANIA

Kalyon Holding won a tender to build a pipeline to transport natural gas from Romania's Black Sea reserves and link the sources to a multinational European corridor. A deal signed between Kalyon Holding and Romania's natural gas transport system operator Transgaz foresees the construction of the Tuzla-Podisor gas transmission pipeline, which will transport the gas to the inland connection points of the country. The project is worth around EUR 530m. "We plan to complete the project in less than 24 months," said Serdar Over, Executive Board Member of Kalyon Holding's construction subsidiary Kalyon Insaat. Nearly 45% of Romania's consumption will be met with the gas transported through the pipeline, which will have a capacity exceeding 12 billion cubic meters annually, according to Ion Sterian, General Director of Transgaz. **IMAM GUNES**

KARSAN TO DOUBLE EV SALES IN EUROPE

The bus manufacturer Karsan aims to double electric vehicle (EV) sales in Europe, according to Okan Bas, CEO of Karsan. "We'll focus on Italy, Spain, Romania, France, and Luxembourg in Europe. We aim to expand our operation in the North American market," Bas said. The company sold 287 EVs last year. "We doubled our sales in 2022, as compared to 2021. Our EV turnover, which stood at TRY 400m in 2021, rose to TRY 1.5bn in 2022. 700 Karsan branded EVs are on the roads in 20 countries," Bas added. The company has performed nearly 90% of Turkey's electric minibus and bus exports to Europe over the past four years. "Our share in the European electric minibus and bus market reached some 6.5% in 2022," Bas noted. Karsan also aims to be among the top five brands and reach a 10% market share in the European market.

Experts interpret the PPK decision

► THE RATE HIKE MAY CONTINUE IN JULY DR. ATILIM MURAT

The PPK (Monetary Policy Committee) statement has everything that the market wants to see. It was a simpler text than previous ones with rational interpretations. There are rumors that public banks started to buy USD before the PPK decision. USD/TRY rose by 4% to 24.5 despite no demand in the free market. The FX rate hike is among the factors to support inflation, although the statement was aggressive and good. The rate hike may continue in July.

► THE STATEMENT HAD TO BE MORE DETAILED FATIH OZATAY

The statement emphasized inflation and said the tightening process started. But there is no direction for inflation as it had to specify a new inflation target and forecast. The statement had to be more detailed as we don't experience a normal period. The emphasis on liraization was excluded from the statement, which is very positive.

► DOLLARIZATION MAY DECLINE AS OF AUGUST INANC SOZER

The statement emphasized continuing rate hikes, but sharp rate hikes seem difficult at every meeting under current conditions. I expect deregulations to be eased in the upcoming days. The dimension of contraction in the domestic demand, the level of loan suspension of banks, and the change in pricing behaviors in society will shape rate hikes in the upcoming period. I expect the lira devaluation to continue in the short term, dollarization to gradually decline as of August, and TRY deposits to increase.

► INSUFFICIENT POSITIVE PERCEPTION OF FOREIGNERS DR. ALTUG OZASLAN

Although the PPK statement is strong, and hawkish, its rhetoric and the new policy rate don't comply with each other. The decision hasn't created a sufficient perception for foreign investors. But this can be still reversed in terms of short-term hot money inflow if the clues about the level of rate hikes and steps to be taken from now on will be given.

► VOLATILITY MAY CONTINUE IN THE DEVALUATION OF THE LIRA SERDAR PAZI

Considering the PPK statement, a monthly rate hike path of 4-5% for the upcoming months won't be surprising. The lira devaluation and upward volatility can be expected following the PPK decision. Credibility by foreign investors and the position to be opened by them may remain limited before USD/TRY volatility declines.

Turks' investment migration enquiries to hit a record in 2023

► BY BESTENIGAR KARA

TURKISH CITIZENS' enquiries for investment migration will break a record this year, according to Dr. Christian H. Kaelin, Chairman of Henley & Partners. "Turkish investors' enquiries jumped 200% in the first quarter of 2023, compared to the same period of the previous year. In January-April, we have practically matched the number of enquiries we received in the entire 2022," Kaelin told in an exclusive interview with TR MONITOR during his business visit to Istanbul within the scope of the Wealth Preservation Seminar hosted by the Henley & Partners in partnership with the Switzerland-based international law and tax consultancy company KENDRIS (formerly KPMG Private) at Swissotel The Bosphorus Istanbul on June 19.

The globally leading investment migration firm Henley & Partners created the concept of residence and citizenship planning in the 1990s. The company, which today operates over 40 offices worldwide, including Türkiye, advises governments on residence by investment (RBI) and citizenship-by-investment (CBI) policy and works with them to develop and implement residence and citizenship programs. "Program advisory, program due diligence, a program set up, program processing, and program promotion are the five areas in which we provide consultancy to governments," Kaelin noted. Within this frame, the company's government advisory practice handles, coordinates, and exercises the launch, international positioning, and promotion of residence

or citizenship programs in line with a global marketing plan to source and secure the appropriate caliber of applications. Governments often outsource the marketing of their programs to the firm. "The programs as we know them today are mainstream wealth management tools for individuals and alternative important revenue streams for sovereign states," Kaelin said. "Contrary to what many believe, residence and citizenship programs are not the exclusive domain of countries which may struggle to otherwise attract foreign direct investment (FDI)."

Indeed, 19 of the G-20 nations have mechanisms to attract inward investment in exchange for residence rights, and 60% of the European Union (EU) member states host investment migration programs. "Highly developed nations design and implement investment migration programs for the same

reasons small and developing nations do — to attract foreign capital, skills, and knowledge to their shores," he noted.

Henley & Partners has raised over USD 10bn in FDI so far, and it has designed and implemented several of the most successful programs worldwide. CBI programs provide families with the privilege of acquiring alternative citizenship, which gives them the right to travel freely to various destinations and settle in another country in return. Residence by investment programs, which are also known as golden visa programs, on the other hand, provide high-net-worth individuals with the option to relocate and the right to live, work, study, and receive healthcare in their new countries of residence.

Within this frame, Kaelin stated that there are currently more than 10 CBI programs that are running successfully, many of which were designed and set up by Henley & Partners. "Some are in the Caribbean, others are in Europe, and in the Middle East, also Jordan, the UAE and Egypt have citizenship programs," he noted. There are also many more residence-by-investment programs — around 30 successfully operating programs are available across the globe currently, and overall, and many more countries have some form of investment migration provisions in their laws.

PORTUGAL AND ITALY ARE ON THE TURKS' RADAR

The most popular citizenship programs of Henley & Partners are the Austria CBI Program, the Grenada CBI Program, and the Malta Program for 2023, according to Kaelin. "In terms of applications, the Grenada CBI Program tops this year, followed by St. Kitts, and Malta's Granting of Citizenship for Exceptional Services by Direct Investment Regulations, which allow for the granting of citizenship to foreign individuals and their families who contribute to the country's economic development."

"All have visa-free access to the EU Schengen Area, and the European programs offer the ability to live, work, and study in the country and to apply for citizenship of an EU member state after between 2 and 10 years of legal resi-

GLOBAL INVESTORS CONVENED IN ISTANBUL

The Wealth Preservation Seminar, hosted by the Henley & Partners in partnership with the Switzerland-based international law and tax consultancy company KENDRIS (formerly KPMG Private), was held at Swissotel The Bosphorus Istanbul on June 19. Businesspeople, government officials and representatives from Switzerland, Italy, Grenada, Montenegro, and Dubai attended the event, alongside many Turkish businesspeople. Henley & Partners Chairman Dr. Christian H. Kaelin and Grenada's Prime Minister Dickon Mitchell delivered the opening speech at the event, which was organized under the auspices of Henley & Partners Türkiye Director Burak Demirel. The global outlook, FDI, global wealth preservation and structuring, global investment management, and global real estate were the main topics that were discussed at the seminar as well as during a private dinner in the evening.





dence, depending on the program, origin of applicants and other factors,” Kaelin said. “Greece and some other countries have no requirement to reside in the country, and Portugal only requires seven days per year stay in Portugal over this period. The Caribbean programs have no residence requirement at all, except a minimal one in Antigua and Barbuda,” he added. “Most of these programs have real estate-linked investment migration options that provide all the traditional benefits of the asset itself while at the same time enhancing people’s global mobility and expanding their personal access rights as a citizen or a resident of additional jurisdictions.” This is very attractive for Turkish businesspeople as it enables them to improve their mobility abroad and access many more countries without needing a visa, and thereby supporting their success in international trade and supporting the economy of Türkiye.

As Kaelin says, the interest of Turkish citizens in investment migration rises every year. Apart from the hikes in 2023, the peak of enquiries from Turkish citizens received by Henley & Partners was observed in the mid-pandemic year of 2021, when there was a jump of 147%, year-over-year. “Turkish businesspeople would like to be able to travel frequently without a visa, as export is very important for the country, and the visa crisis adversely affects many businesspeople’s initiatives. Many people were not able to attend some of their planned business trips or fairs abroad. That’s why applying under an investment migration program is a good solution.”

TÜRKİYE ALSO RECEIVES FOREIGN INTEREST

The Türkiye CBI Program also gained popularity during the pandemic. The number of enquiries received by Henley & Partners for the program soared over 900% in 2021, compared to the previous year, according to the Henley & Partners Chairman. “Enquiries continued to increase every year. However, 2022 was again a record year in terms of interest and enquiries,” Dr. Christian H. Kaelin said. The number of enquiries for the Turkey CBI Program has been more than 200% higher as of April 2023 than in 2019. “Many wealthy individuals from across the world, including business owners and affluent families, have turned their attention to Türkiye and are interested in investing in the country, with most of the recent enquiries coming from the U.S, Pakistan, and India,” Kaelin added. “Türkiye has a geographical importance for businesspeople, and is a large, attractive country with an 85 million population. This does not only constitute an important local market but also a regional business center considering over 270 direct flights by Turkish Airlines from Istanbul. The Istanbul Financial Center project now being completed, and new incentives being introduced are making Türkiye increasingly attractive to foreign investors. This will bring more investments and new talent to the country.”

Türkiye offers several investment choices, with the USD 400,000 real estate option being the most popular, as real estate-linked investment migration programs

have reliably demonstrated their resilience. High-net-worth individuals have been investing in brick-and-mortar as a long-term strategy to grow their wealth for centuries. “Today, the added benefit is that a range of attractive real estate investments qualifies them for an alternative residence or an additional citizenship — valuable asset classes in times of volatility,” he noted. “Still, improvements are possible and probably advisable in the context of Türkiye’s CIP, and I am sure the government will continue to improve this important program” Kaelin added.

Based on the British Knight Frank’s Global Residential Cities Index, the Turkish real estate market has significantly grown, with Istanbul showing the sharpest annual urban real estate price hike in the third quarter (Q3) of 2022, despite facing its challenges. Within this frame, Istanbul’s real estate prices jumped 212.1% in Q3, year-over-year, providing foreign investors with notable returns. Ankara and Izmir followed the city in the index with year-on-year price hikes of 196.0% and 185.8%, respectively.

“There are also those, who would like to choose Türkiye as a retirement plan thanks to its excellent climate conditions and strong health care system. Health tourism is already a big sector in this country,” Kaelin said, stressing that foreign visitors often would like to have a holiday and get treatment in the country at the same time. “Once they discover the country’s beauty by tourism, they often decide to make Türkiye their second home, and secure this by acquiring citizenship also in the country.”

TÜRKİYE SHOULD STRENGTHEN ITS PASSPORT

The additional passports acquired by investors through the Citizenship by Investment programs are more than just travel documents and are seen as a gateway to financial opportunity and prosperity, according to Dr. Christian H. Kaelin, Chairman of Henley & Partners. “A stronger passport is not simply about greater freedom of movement, it is also about greater financial freedoms for ease of conducting business and international banking and investment, as well as entrepreneurial opportunities,” Kaelin said, stressing that investment migration is attractive to individuals who want to maximize and stabilize their profits by diversifying their activities across several reliable economies. “For many applicants for Türkiye’s citizenship by investment program, investing in additional citizenship in this country is not only about enjoying the lucrative real estate returns that it offers but also about gaining access to the country’s attractive economic opportunities.”

Turkey must be careful in Iraq

ILTER
TURAN
PROFESSOR



AFTER the dust of the elections have settled and the government has begun to tend to its daily business, one of the first persons to visit President Erdogan was the prime minister Masrour Barzani of the Kurdish Regional Government of Iraq. Turkish government has cultivated friendly relations with the KRG. It is not unusual that one of the first foreign visitors of the President is from there. Apart from pleasantries, however, they had important topics to discuss.

One major item that is always on the agenda in Turkish-Kurdish meetings is the PKK terrorist activity by groups that operate out of Northern Iraq. Turkey conducts regular raids into Northern Iraq in pursuit of terrorists and it maintains modest military bases to meet the terrorist challenge before it reaches the country. Neither the Iraqi National Government and nor the KRG can openly acknowledge that they welcome Turkey's territorial presence or its frequent interventions. The national government is incapable of controlling the area from which activity against Turkey is conducted. It is therefore not in a position to do much except voice occasional disapproval. In the KRG, on the other hand, the PKK is perceived as a challenge to the current government that is dominated by the Barzanis. Both Turkey and the KRG believe that the other major KRG political force, the Talabani, extend support to the PKK and use it against both. While it is politically impossible for it to respond to Turkey's anti-terrorist activity favorably, the KRG government prefers not to render it into an issue that stands in the way of good relations.

The more important issue of concern to the Iraqi National Government, the

KRG and Turkey is the Kirkuk-Ceyhan pipeline that carries Iraqi oil to global markets through facilities at Yumurtalik. From a strictly business perspective, this is a highly beneficial transport and marketing route from which Iraq and KRG earn sales income and Turkey transit fees. It also constitutes another source from which Turkey can meet its need for oil. Unfortunately, however, the pipeline has been more a source of problems. During Saddam's time, the American imposed restrictions to deny him external earnings, led it to fall into disuse much of the time. After the emergence of new Iraq, there has been much debate between the Iraqi National Government and the KRG as regards who should get how much of the proceeds and therefore control its functioning.

What is the problem? Much of the oil is produced in the KRG area but the underground wealth belongs to the Iraqi National Government which has agreed to return a certain part of the proceeds to the KRG. Several problems have emerged. The KRG is very much dependent on this income to function as government and not surprisingly finds the share allocated to it insufficient. The problems do not end there, however. Payments are slow and they are dependent on the functioning of the pipeline. There have been occasions when the Iraqi and Turkish governments have failed to reach agreement and the flow of oil has stopped. In fact, there was a period during the last decade when the Turkish and Iraqi governments could not reach agreement whereupon Turkey and KRG made a special arrangement to ship oil. The proceeds did not go to the Iraqi National Government but to the KRG.

The Iraqi government took Turkey to

arbitration at the International Chamber of Commerce (ICC) in Paris, arguing that, by allowing shipments of oil through the pipeline that had not been approved by the State Organization for Marketing Oil (SOMO), the latter had violated the Turkish-Iraqi pipeline agreement of 1973. In March this year, the ICC issued its first ruling, finding the Iraqi complaint for the 2014-2018 period justified. Some of Turkey's objections were also heeded, helping to reduce the penalty it would pay to around 1.5 billion USD. The flow of oil has stopped and the arbitration review for the post-2018 period is continuing. The Turkish government has started to negotiate with the Iraqi National Government to settle debts and restore the flow of oil. Understandably, KRG is anxious to have the pipeline operating. While Turkey is also interested in concluding a deal, it wants to agree on a reasonable arrangement whereby it will not pay cash to Iraq but refund it over time as oil is sent to international markets.

It is typical for Turkey to perform balancing acts in its foreign policy these days, its relations with Ukraine and Russia being the prime example. Its relations with the Iraqi National Government and the KRG also call for a balancing act. Mistakes not only lead to declines in oil transit revenues, but also missed opportunities for exports of goods and services to Iraq including major construction contracts. Worsening relations with other Arab countries are other unwanted outcomes. Mistakes, however, could also result in problematical relations with the KRG that Turkey views as a friend and a source of support in its efforts to fight terrorism. Iraq is another domain where Turkey must be careful.

Businesses expect financial stability and access to finance

THE INCREASE made in the policy rate after 27 months was below market expectations. The business world, on the other hand, was pleased with the decision but emphasized the importance of financial stability and access to finance.

► *DEİK President* **Nail Olpak:**

Simplification and convergence in interest rates should be ensured

We consider it valuable for the predictability that the decision was taken in parallel with the communication established before. The growth should be balanced and simplification and convergence in interest rates should be balanced while steps are taken to ensure price and financial stability. We hope that increasing the policy rate in a way that will positively affect price and financial stability will minimize the possible side effects on production and growth. We believe that our problems can be solved by ensuring that the integrated policies are implemented by both the Central Bank and the economy management in a coordinated and harmonious manner, by keeping communication and consultation channels open.

► *ITO President* **Sekib Avdagic:**

Banks should return to their credit processes routine

What is important to us now is that banks return to their credit processes routine while the interest rate decision strengthens our monetary policy reflex. We consider the Central Bank's decision to raise the policy rate to a level that reflects the market as reasonable and normal. However, the trio of production, employment, and exports is just as important as the trio of interest rates, exchange rates, and inflation. Monetary tightening should not slow down production lines. The policy rate level should be supported by a series of measures for production and trade. The Central Bank's message to support strategic investments is also valuable. We believe that a predictable, easy-to-understand, and coordinated policy set will pave the way for the real sector as well.

► *ISO President* **Erdal Bahcivan:**

An important step in establishing financial stability

Financial stability, which we attach great importance to as industrialists, is the most valuable tool that allows us to make predictions in investment and production in the challenging global economic environment. So, we see the Central Bank's decision as a step towards establishing and maintaining financial stability, which we see as complementary to many opportunities in front of the Turkish economy. We also consider the decision as a message that the fight against inflation, which has become the most urgent economic problem in our country, will continue with determination.

► *MUSIAD President* **Mahmut Asmali:**

The policy rate is not the only solution to price stability

It should not be forgotten that the policy rate is not the only solution for price stability. The implementation of a total policy in the fight against inflation and the rapid implementation of other complementary elements of the monetary policy will increase the appetite and motivation of the markets. Additionally; the predictability and consistency of monetary policy is as important as the level of the policy rate. At this point, the correct and healthy communication method established with the markets by the entire new economy administration, especially Minister of Treasury and Finance Mehmet Simsek, has been very pleasing and reassuring for the business world. We sincerely believe that Turkey is moving towards its long-term goals with more determined and firm steps in this period in which planned and coordinated economic policies are applied.

► *ASKON President* **Orhan Aydin:**

We hope the interest rate hike will be temporary

We consider the Central Bank's decision as one of the moves aimed at suppressing inflation and attracting foreign capital to our country. Interest rate hikes are moves towards short-term temporary solutions. An increase in interest rates will not bring added value to our country's economy, as it did in the past. This system may cause stagnation in production and a slowdown in investment and employment growth, especially in the private sector. It will also create a burden on the treasury and the banks. Considering the high-inflationary atmosphere, we hope that this policy will be temporary, and the focus should be on permanent, sustainable, qualified, and value-added projects instead.

► *TUGIAD President* **Gurkan Yildirim:**

Ensuring access to finance is vital

We would like to emphasize once again the importance of establishing price stability and financial stability on the one hand and reopening the credit channel, which has come to a standstill as a result of the regulations applied to the banking sector. Taking the necessary steps without delay to provide access to the financing needed for employment, production, investment and exports in the upcoming period is vital for our businesses. Simplifying the regulations that force us in our relations with banks is at least as important as access to finance and the cost of financing.

At the turn of the tide

GUNDUZ
FINDIKCIOGLU
CHIEF ECONOMIST



WILL ŞİMŞEK be able to turn the tide? Will he be given enough room and time to do what he aspires to do? I don't know. Instead of speculating on the unknown – and perhaps the unknowable, I will touch on a few stylised facts. Some stylised facts do indeed disprove some common misunderstandings. For instance, the familiar argument goes on to say that the Lira can be (or is) overvalued because interest rates are far too high. In a sense, high real rates of interest “defend” the exchange rate and make sure the Lira stays overvalued even after turbulences, so inflation remains on track given the high pass-through coefficient. Or in a “weaker” version of the story, high interest rates prevent the local currency from going under. *Prima facie*, this argument seems to make sense. However, in the data it is difficult to find such a monotonic relationship. Besides, causality runs in reverse in many periods. The rate of interest is or can be high because we have a high probability of default and because we have been running a huge current account deficit, which command a high-risk premium (high CDS). The rate of interest need not be and isn't always an exogenous variable you can toy with at will. For instance, interest rates have mostly been falling between 2003 and 2013 both in nominal and real terms yet Turkey continued to attract increasing amounts of portfolio investment for other reasons. What we have to look at is risk-adjusted return, not the level of interest rates. This is what overseas funds demand today.

HIGH RATES

Expected inflation and the real rate of interest generally display a relationship

that is meaningful. As rates rise inflation falls, but after a threshold, inflation and real rates fall together. That shows how increasing the policy rate may be warranted under some circumstances even though inflation is falling. It isn't always desirable to hike rates but if this is necessary, rates should be raised without hesitation. In reality, past data shows Turkish interest rates have almost never been too high. How? High interest rates did not cause the domestic propensity to save to increase. Should interest rates been really high on a risk-adjusted basis in the past, this would have fuelled savings, which has never been the case. We need to look at savings on both a growth-adjusted and an inflation-adjusted basis. Given high growth, domestic savings do not suffice; hence the current account deficit. Indeed, I have been busy telling in the last few months that the real rate of interest is the key variable. Moreover, it is not always possible to determine the path of longer-term rates by setting the policy rate, i.e. the overnight or the weekly repo rate. Even if there was an element of economic theory heterodoxy in all that happened in the last couple of years, it did not work at all.

ENGINEERING SURPRISES DON'T DO THE TRICK

A widely acclaimed conjecture in developmental macroeconomics maintains that a central bank-engineered rise in the real rate of interest will lead to a real currency appreciation and will make government debt attractive. We have indeed seen many instances in Turkey whereby this conjecture proved true. But we have also witnessed that, if real interest rates increase

the probability of default, government debt may become less attractive – at the going rates of interest – and currency depreciation may ensue. The latter outcome is more likely: 1. The higher the initial debt stock is 2. The higher the proportion of FX-denominated debt is 3. The higher the price of risk goes. If an interest rate spike raises the doubt of default, inflation targeting – be it implicit or explicit – under the float and via a Taylor rule is not immune to a perverse effect: Even an interest rate increase in response to higher inflation leads to a real depreciation. Assuming structural change is incomplete, and therefore the pass-through is still high, a real depreciation implies higher inflation. The situation is symmetric. Just as interest rate decreases in response to lower inflation leads to real currency appreciation, rate hikes imply real depreciation. We may call it a “vicious cycle”, generated by a perverse monetary policy effect. It is fiscal policy that makes all the difference, and in such a case, it may be advisable not to change the policy interest rate, but increase the primary surplus by cutting government expenditures more. It is the fiscal policy, not monetary policy, which should become the main defence line under this outcome.

A SIMPLE FINANCIAL LOGIC

The risk of a small open economy or a high current account-running deficit country can be estimated in various ways but the natural benchmark estimation is the EMBI spread. Another way of computing the spread could be the following: $S = (r_{\$} - r_{US Treasury}) / (1 + r_{\$})$, where $r_{\$}$ denotes the interest rate on locally issued dollar-de-

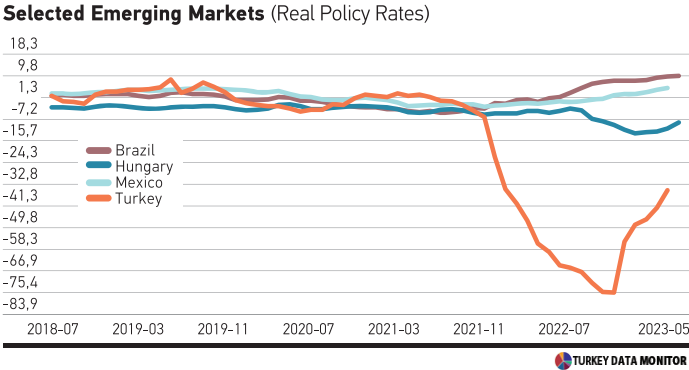
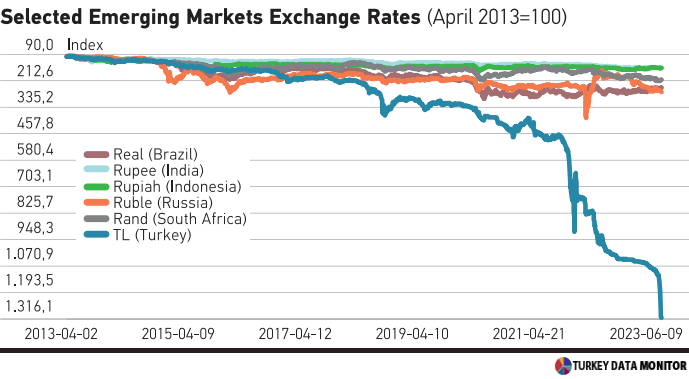
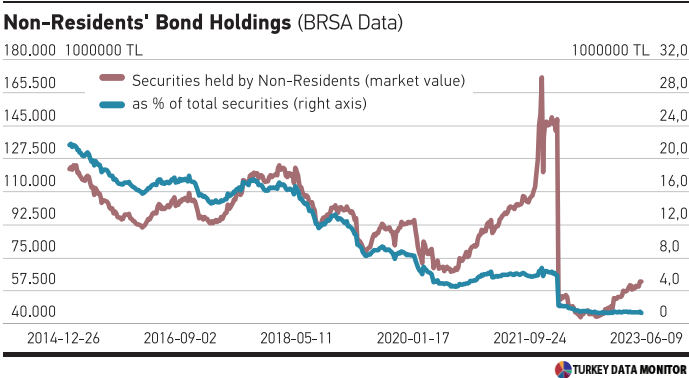
nominated bonds. Then, we can regress the spread so defined on Baa rated American bonds' spread over 10-years US Treasuries (Moody's rating, Baa rating being the threshold over "junk bonds") and recover the probability of default as the sum of the exponential of the coefficient on the constant and on the residual.

Explicitly put $\log S = c + b \text{ Baa spread} + \text{residual}$. It is possible to show in a more detailed version that should international investors be risk-neutral vis-à-vis emerging market bonds the probability of default would be equal to the EMBI spread. The spread and the probability of default move very closely. We can do the following: The real exchange rate equation regresses the real exchange rate upon the interest rate differential between Turkey and the U.S. and upon the risk premium –the product of the probability of default times the degree of risk aversion of foreign investors. It is a decreasing function of both. Recall that the Baa spread is used as a proxy for the degree of risk aversion of foreign investors. With more simplicity, it is possible to think of the risk premium as the EMBI spread itself, the EMBI spread containing both the probability of default and the degree of risk aversion in a natural way. Even so there will be a significant co-movement. Even the nominal exchange rate and the spread also nicely commoved for a certain period in the past. Please note that there is no current account in the list of regressors, but even so the fit can be rather nice. Obviously, these considerations can only be valid for countries that are financially integrated via money markets and for countries that don't try to do eccentric tricks. What we are now allegedly or genuinely trying to do is to revert back to this normal financial logic.

WHAT NOW?

Even temporary capital inflows can create additional demand for government securities and help reduce the real rate of interest. Falling interest rates can cause investment demand to increase. What is called "exchange rate protection" may occur through direct intervention, sterilised through open market operations or by means of budget surplus or both. This is the way to protect the tradeables sector. There remains the possibility that even if such intervention takes place the exchange rate

can still appreciate. With an inefficiently high FX reserve carried by the central bank, the currency could still remain overvalued if inflows were to reach abnormally high magnitudes. The high and sudden capital inflow scenario is allegorically suggestive for non-oil exporters running current account deficits –not all non-oil exporters run deficits by the way. This is the opposite of Turkey's current situation because yes, we are running a current account deficit that has widened but there is no FX inflow. In fact, exchange rate policy requirements can contradict with the management of high FX reserves. Direct intervention to the FX market can be a warranted response in the face of specie –in modern times, "hot money"- inflows that cause the exchange rate to be misaligned, but only then. The situation is asymmetric: you intervene if your currency becomes overvalued because of "hot money", not when it depreciates because your policy mix is flawed. In such a case, international competitiveness weakens –as it did in the last few months. There is perhaps an optimal mix of contradicting objectives. Admittedly, this is a challenge. Rather than doing all or some of these sensible things, the management has opted for selling all FX and resort to swaps etc. So, should there be an FX funds inflow as or if we return to a normal monetary policy, there would be nothing left to do the necessary sterilisation. But this is the last of our worries, right?



Selected Advanced Countries -- Bond Rates and LIBOR
1980-01-02 to 2023-06-16 (Daily)

	Title	2023-06-07	2023-06-08	2023-06-09	2023-06-12	2023-06-13	2023-06-14	2023-06-15	2023-06-16
1	US 3-month	5.42	5.42	5.45	5.43	5.37	5.37	5.37	5.38
2	US 2-year	4.56	4.52	4.59	4.55	4.67	4.74	4.62	4.70
3	US 5-year	3.93	3.87	3.92	3.89	4.01	4.06	3.91	3.99
4	US 10-year	3.79	3.73	3.75	3.73	3.84	3.83	3.72	3.77
5	US 30-year	3.95	3.89	3.89	3.87	3.94	3.90	3.85	3.86
6	TIPS 10-year	1.58	1.53	1.55	1.56	1.64	1.62	1.51	1.55
7	TIPS 30-year	1.70	1.65	1.65	1.65	1.70	1.67	1.63	1.63
8	Germany 2-year	2.98	2.97	2.97	2.97	3.03	3.04	3.17	3.16
9	Germany 10-year	2.44	2.42	2.38	2.38	2.43	2.44	2.50	2.46
10	France 10-year	3.00	2.97	2.93	2.91	2.95	2.97	3.02	2.97
11	Japan 10-year	0.42	0.44	0.43	0.43	0.42	0.43	0.43	0.41
12	UK 10-year	4.30	4.23	4.24	4.34	4.43	4.39	4.38	4.41
13	Spain 10-year	3.46	3.42	3.36	3.34	3.38	3.41	3.44	3.38
14	Switzerland 10-year	1.08	1.10	0.99	1.02	0.96	1.01	1.06	1.07
15	Italy 10-year	4.25	4.22	4.12	4.06	4.07	4.10	4.14	4.04
16	Canada 10-year	3.44	3.41	3.38	3.35	3.47	3.41	3.33	3.35
17	Portugal 10-year	3.16	3.16	3.10	3.07	3.11	3.14	3.18	3.11
18	Greece 10-year	3.74	3.71	3.66	3.71	3.71	3.77	3.85	3.78
19	LIBOR	5.51	5.54	5.54	5.56	5.55	5.51	5.51	5.51

NATO: The main foreign policy agenda

ZEYNEP
GURCANLI

NOWADAYS, Ankara is very busy diplomatically with delegations, especially from Western countries, visiting the Turkish capital. The agenda of these visits are also clear, the enlargement of NATO.

The U.S. wants to solve Sweden's NATO membership problem before the summit to be held in Vilnius at the beginning of July, or worst during the summit. The Washington administration has given this the most important priority in its foreign policy in the short term.

As a matter of fact, this was the main agenda brought to the table by the U.S. Secretary of State Antony Blinken, who had a bilateral meeting with Turkey's new Foreign Minister Hakan Fidan at the Ukraine meeting in London. The U.S. message is not new: Russia, which disregards international law by invading Ukraine, should not be encouraged. One of the most critical steps for this is NATO's expansion to include Russia's neighbors Finland and Sweden. Finland is ok, Sweden is next.

OTHER NATO COUNTRIES SEEM TO GIVE THE MATTER UP TO THE U.S.

What we understand from the messages of diplomatic delegations from other NATO member countries that came to Ankara is that almost all of them -except for the Baltic

countries- are hiding behind Washington regarding Sweden's NATO membership. "The Washington administration wants NATO enlargement very much. If this does not happen the disappointment may put a spoke in Turkey's wheel in its relations with the U.S." is the message of the other NATO member countries for the AK Party government, which has just come out of the elections in Ankara. There is a tendency to use the U.S. as a kind of stick.

Yet another message from NATO countries is that "Sweden has done everything in the agreed mutual understanding with Turkey". The fact that Turkey has not lifted its veto a few weeks before the Vilnius summit is interpreted as Ankara is constantly raising the bar.

WILL IT GET THROUGH THE PARLIAMENT IN EARLY JULY?

Some diplomats are still hopeful. The Vilnius NATO summit will take place on July 11-12. Some think that the Turkish Grand National Assembly can convene after the holiday and approve Sweden's NATO membership in the first week of July. However, the mood in the AK Party government in Ankara, for now, is that the Swedish issue will remain for the autumn at the earliest.

STOLTENBERG TO COME OUT BETTER OFF FROM CHAOS

There is also someone who - so to speak - profits from the diplomatic chaos created by both the Ukraine war and NATO enlargement: Stoltenberg. He has served as NATO Secretary General for nine years, his mandate has been extended three times, and now it seems certain that he will remain in office for another year. The trend in both the U.S., Germany, and the UK is for Stoltenberg to remain in office for another year until the NATO summit in the U.S. in 2024.

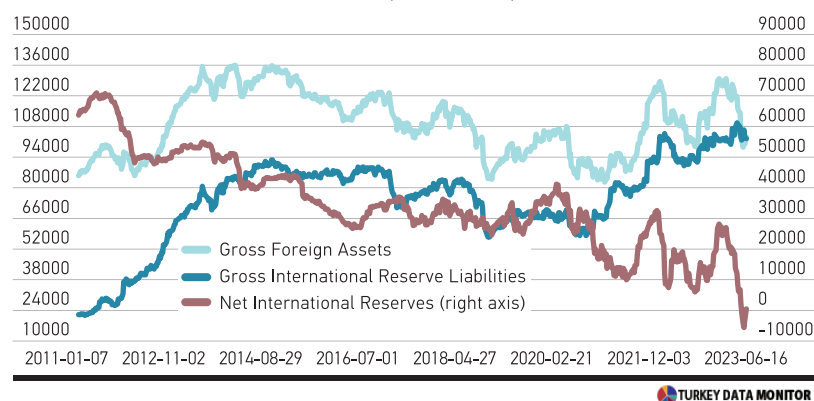
ATTENTION TO CYPRUS!

There are also member states that tend to use the NATO enlargement issue, where eyes are on Turkey. Greece has already begun to show signs of this. Greece made requests upon request to bring the Greek Cypriot Administration closer to NATO and on both the straits and the Aegean Sea at the NATO Defense Ministers' summit, which was held to prepare for the Vilnius summit. These demands are not widely accepted by other NATO members for now. Athens' plans are obviously based on the possibility that other NATO countries will take these demands more seriously if the enlargement debate is not cleared in Vilnius. Turkey has to be careful!

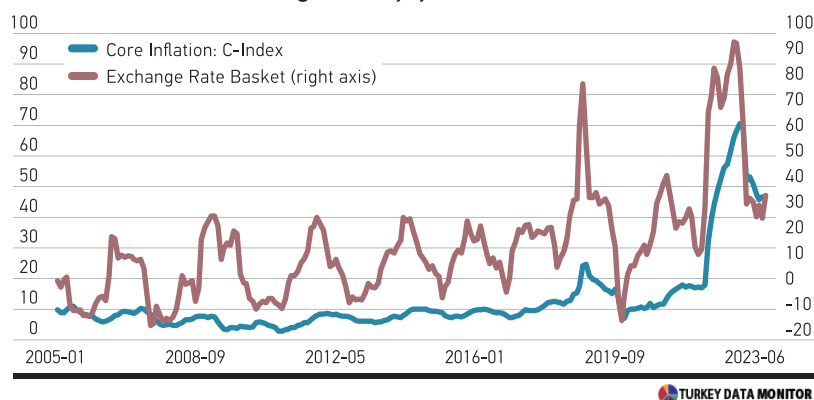
The Turkish roller coaster

- ▶ Turkey's political elite has willingly created high inflation after 1985. It was also structural. The timing was deliberate and political, the political business cycle, but there were also deeper reasons. Everyone knew that the way the budget deficit was financed resulted in high and chronic inflation rather than hyperinflation in the 1990s.
- ▶ That there was no hyperinflation was probably thought to be a blessing back then. The deficit was chiefly financed via government bond issuances rather than printing money. The infamous Israeli hyper-inflation had showed how things could have gotten out of hand had the other option – printing lots of money- been chosen.
- ▶ Because residents didn't have savings enough to buy all the government debt securities that were issued to fund budget deficits the financial account was wide open after 1989. Security issuance had begun in 1985, but had skyrocketed after the referendum of 1987.
- ▶ Initially portfolio investments were abundant but then the tide turned. Foreign funds could come and go as they please, and there was a roller coaster effect that caused recessions in the 1990s. There were four recessions in the span of twelve years as foreign capital poured in or shied away.
- ▶ We have had another roller coaster effect in the 2010s. The policy rate was unduly cut many times. It had to be raised thereafter but the habit of unduly cutting rates from time to time remained.
- ▶ After all, the policy rate is far from being exogenous: you can't raise it and cut it at will. People either don't realize that or they have other priorities that compel them to cut rates even though they know it is the wrong policy. Anyway, the cutting bias has been evident after 2010.
- ▶ I think there lays a politico-economic choice therein rather than ideology. Everyone can immediately understand that if you cut the policy rate whereas you have to raise it, you will trigger an exchange rate response, and an inflationary spiral. It isn't that hard to grasp.
- ▶ Well, from 8.5% to 15% there is a long way but neither is realistic as target. We will possibly see more to come. 25? 30? 35? Nobody knows.

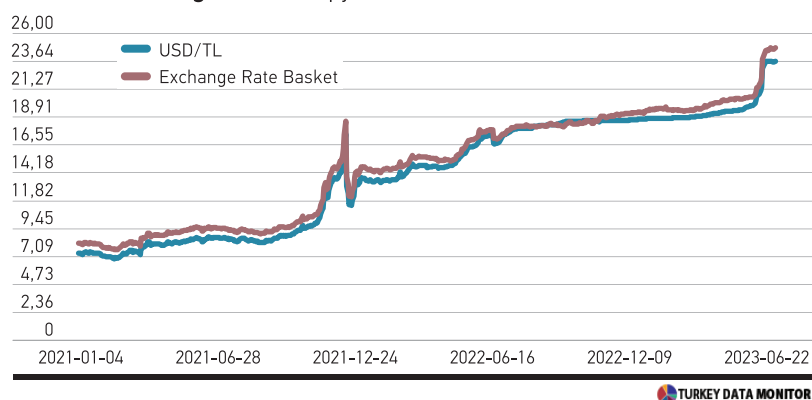
CBRT Net International Reserves (million USD)



Core Inflation and Exchange Rate (yoy, %)



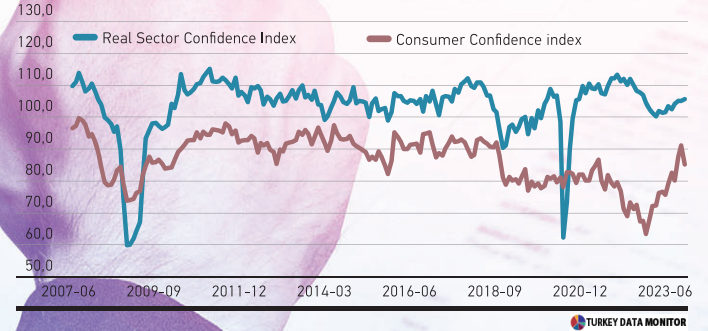
Nominal Exchange Rates (Copy)



Consumers on the sidelines

Because there is no cash there is no monetary overhang nor savings waiting to be spent. It is just that credit is not as abundant as two weeks ago and rates have gone up.

Consumer Confidence and Real Sector Confidence



Main factors limiting advices in construction sector (2022-2023)

Year	Month	None	Insufficient demand	Weather conditions	Shortage of labour force	material and/or equipment	Financial constraints	Other factors
2022	01	53,3	14,3	4,5	2,1	5,8	31,5	15,8
	02	53,4	15,7	11,0	2,8	6,3	30,6	17,8
	03	53,8	16,5	7,5	2,0	6,5	30,3	10,8
	04	56,5	14,8	5,4	2,7	6,3	33,1	6,9
	05	55,6	16,1	2,6	4,6	5,3	31,1	6,9
	06	57,2	13,5	1,5	5,9	5,9	34,4	3,2
	07	59,9	13,5	1,3	5,4	5,9	33,1	2,8
	08	59,7	13,9	0,7	4,9	4,8	31,3	4,2
	09	58,9	13,6	0,8	6,6	6,0	31,4	4,2
	10	58,6	14,0	2,0	7,6	4,5	32,1	2,8
	11	59,6	13,8	2,1	7,0	5,0	30,9	3,5
	12	58,6	13,4	3,8	7,7	5,5	31,4	2,7
2023	01	61,3	11,1	4,8	5,0	5,7	28,5	3,0
	02	63,8	11,9	7,8	5,1	3,7	24,9	3,2
	03	62,8	12,7	5,7	5,5	5,3	25,7	2,2
	04	62,0	10,4	5,2	5,6	5,6	27,0	3,8
	05	65,2	11,4	2,5	5,9	5,6	25,7	2,1
	06	63,2	12,0	2,6	5,9	5,2	28,2	1,2

	Index		Percentage change over the previous month (%)	
	May	June	May	June
Services confidence index				
Business situation over past 3 months	117.4	118.1	-0.6	0.6
Demand-turnover over past 3 months	115.7	116.4	0.8	0.6
Demand-turnover expectation over next 3 months	118.3	117.5	1.2	-0.7
Demand-turnover expectation over next 3 months	118.0	120.3	-3.6	1.9
Retail trade confidence index				
Business activity-sales over past 3 months	116.7	117.7	0.4	0.9
Business activity-sales over past 3 months	127.9	127.2	0.2	-0.6
Current volume of stock ⁽¹⁾	96.9	98.4	-2.4	1.6
Business activity-sales expectation over next 3 months	125.2	127.7	3.0	2.0
Construction confidence index				
Current overall order books	92.2	88.9	4.3	-3.5
Total employment expectation over next 3 months	87.3	83.2	2.9	-4.7
	97.0	94.7	5.5	-2.4

(1) The increase in the volume of stock index indicates the decrease of volume of stock, whereas decrease indicates increase of volume of stock.

- People are not confident enough to rush to shopping malls. Still, there has been, is and will be consumer spending enough to support an acceptable growth pace. That's about it though.
 - Consumer confidence is not exactly at its lowest, but it has fallen to 85.1. It had climbed from 79.1 to 91.1 ahead of elections -the last five months.
 - If it goes down trend-wise, that won't be a surprise.
- The economy has to cool down, inflation -the 'real' one- has to be contained, interest rates will go up further etc. Consumer confidence ought to go down given these conditions.
- Curious isn't it, after many years of allegedly stupendous growth and industrial production prints, In a country where everybody wants to get rich, consume, live off rent etc. consumers don't feel confident.
 - It is not a purely economic phenomenon standing alone, it is a general 'gut feeling', a certain uneasiness spreading across various layers of society. And then, if there is not enough and cheap credit, the future of the household is more uncertain than ever?
 - It is not with hope and a great propensity to spend that the average household will enter 2024: this much is certain. But at least there will be kind of equilibrium in both the exchange rate and credit markets. There will be caution everywhere.
 - Services and retail are up but construction confidence is down. This is so normal. Mortgage rates are high now and there is credit rationing in the market. Prices are far too high. Home sales are down for the fourth consecutive month. So, the general trend doesn't look bright there.
 - Confidence indices are volatile but surprisingly there is a close correlation between election results and consumer confidence indices. AKP's lowest score was 38.39% in the 2009 March municipality elections, and the consumer confidence index was 76.9% at that time.
 - There are 9 months before the municipality elections. Confidence will have to head north before that.
- So, I think Şimşek has only that much room for manoeuvre.