

TURKEY

A STABLE ECONOMY AND BURGEONING MARKET

Stable economic growth, progressive reforms, and a strategic geographic position are driving Turkey's progress

Economic developments in 2017 indicate the continued resilience of the Turkish economy. This comes following a successful economic transformation process, underway since 2002, which has led to comprehensive reforms being introduced, particularly in the banking sector and in public finance.

Turkey's Deputy Prime Minister, Mehmet Şimşek, shares the following highlights: "Turkey has enjoyed a booming economy over the last 15 years, with an average annual GDP growth of 5.9%, while interest payments as a percentage of government revenue have fallen from 86% to 11%." And his projections are positive: "The outlook is that Turkish democracy will grow stronger and the rule of law will be strengthened. He concludes: "The Turkish economy's foundation is strong enough to resist any effects of a future decision by the U.S.

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MEHMET ŞİMŞEK, DEPUTY PRIME MINISTER

Federal Reserve to hike interest rates."

This strong economic performance has also led Turkey to increasingly be viewed as an emerging market on the world economic stage, with experts and international institutions making confident predictions about the country's future.

According to Şimşek, "Turkey was among the few countries to prove that its banking sector was resilient during the global financial crisis." Naci Ağbal, Turkey's minister of finance, adds: "Turkish growth has shown resilience despite an unfavorable global setting. In the post-crisis period (2011-15), Turkey grew by nearly 4.4%. The country aims to be among the top-three performing economies in Europe within a decade." Ağbal has promising objectives for the coming years: "Between 2017 and 2018 we are aiming to hit 5% growth, supported by productivity gains, increased investment and rising savings."

An Expanding Financial Sector

At present, banking accounts for around 60% of overall financial services in Turkey, while insurance services and other financial activities also show significant growth potential.

An expanding loan base and favorable liquidity conditions contribute to the healthy growth of the country's financial services. The sector currently has a growing asset size and a strong equity structure protecting it against shocks that may arise from loans or turbulent market conditions.

Mr. Ağbal is of the view that the Turkish banking system is well capitalized and profitable. He states: "As a bridge between Asia and Europe, Istanbul is progressing towards being both a regional and global financial hub."

The Central Bank of the Republic of Turkey (CBRT) determines the country's monetary policy. Murat Çetinkaya, governor of CBRT says, "We believe that our contribution to Turkey's 2023 centenary vision will be to achieve and maintain



Mehmet Şimşek
Deputy Prime Minister

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price stability. This will support the country's growth potential by contributing to macroeconomic stability and boosting long-term investments."

Investment Opportunities

Turkey offers significant opportunities for foreign investors. Its investment environment includes a qualified and competitive labor force, good infrastructure, low taxes, and a large domestic market, while its geographic position serves as a perfect gateway between Europe, the Middle East and Central Asia. According to Şimşek: "Turkey presents unique opportunities for foreign investors. We have reformed many areas of our economy and improved the investment environment considerably." Çetinkaya adds, "Turkey's FDI framework provides equal treatment to all investors, and does not differentiate between nationalities.

Investors in Turkey can also benefit from the opportunities in the surrounding region." Reforms have led the country's financial sector to become one of the preferred sectors for FDI.

Odeabank Makes a Splash With a Fresh Approach

Offering a wealth of banking products and services, Odeabank, part of the Bank Audi group, has made a formidable impact on Turkey's banking sector since it was launched four years ago. Already in the top 10 among non-state banks in terms of assets and deposits, the intrepid newcomer is also paving the way in technological advancement: It has only 50 branches, yet some 700,000 customers and \$11 billion in assets.

The secret of Odeabank's success lies in having a fresh approach to banking, CEO Hüseyin Özkaya explains: "We've achieved exactly what

we promised our shareholders we would by being flexible and innovative and doing what our instinct tells us," he says. "We've grown organically, doing almost everything that the larger banks that have been around for 50 to 60 years are doing, but in a faster and more efficient way. Our cost to assets make up nearly half of the sector's, which proves how efficiently we operate. We acquire customers on a low-cost basis while investing in our technology and branches. We have a holistic approach toward our operations.

"The bank's accessibility is also a draw. We are extremely flexible. We are totally accessible. Our staff and our customers are able to reach senior management, including myself, easily. There are no layers. Odeabank is committed to sustainable growth. "The pillar of our success is having an even split between the core areas of

our activity, be it retail, corporate, SME, commercial or credit cards," Özkaya says. "If we just depended on one area, we wouldn't have a safe balance. You always want to be stable."

Digital Expansion at TEB

Currently the 10th-largest bank in the country, Türk Ekonomi Bankası (TEB) has expanded its expertise in corporate, commercial and private banking, including SME banking. Established in 1927, the bank now has 4.9 million customers and 9,927 employees. TEB's primary emphasis is on innovation and its online platform has been a true success, with 200,000 users primarily using this service over the bank's physical branches.

Digital services is the area where the bank sees most of its expansion. Ümit Leblebici, CEO of TEB, says: "From our analyses it appears clear that there are many opportunities

An Innovating Force Within A Range of Growing Sectors

One of the most prolific conglomerates in Turkey's recent history, the Saya Group's star is firmly ascendant. The company is dedicated to doubling its output every five years, giving back in the form of education and supporting the arts and culture.

An innovative name in a young and naturally entrepreneurial country, Saya has achieved success across a range of sectors, including construction and pharmaceuticals, proving that diversity and resourcefulness are at the heart of Turkey's most resilient firms: "The construction industry has been one of the key drivers of the Turkish economy in the past and shows double-digit growth rates each year, so we believe that it is going to continue," says Saya's Vice Chairman, Abdulhaluk Sancak. "In the manufacturing industry, we are producing electrical motors—that is also a growing part of the national economy—but as a group we have more aggressive growth plans because we have invested heavily in the research and development needed to bring new technologies and products to the market. We have started in Germany and will go from there.

"In terms of pharmaceuticals, for the past 70 years, Turkey has been one of the few countries able to manufacture high-quality pharmaceutical products in this region. Quality standards on generic products are extremely high and we have the added bonus of being extremely competitive on price."

Seeing the incredible potential in this field led Saya to invest \$200 million in a manufacturing facility to satisfy domestic demand and export



Abdulhaluk Sancak
Vice Chairman, Saya Group

to Europe and elsewhere. At this juncture, five prominent pharma companies stepped in to partner with Saya. "So far, we have contracts with GlaxoSmithKline, Abbott, AstraZeneca, Reckitt Benckiser and Sandoz," Sancak says. "Our manufacturing capacity is 330 million boxes a year. It is a big facility within a pharma context. We are also making serious inroads into biotechnology investments."

Real estate is another prime motivator for savvy investors in Turkey, and Saya has a strong presence there, too. "Our construction company, Folkart, built the original high-rise office blocks in Izmir, Turkey's third most-populous city, and is now working on high-quality residential projects," Sancak says. "This is a booming industry in Turkey and we are one of the few successful players. We have nine projects under way and invite foreign investors to join us. Folkart is known not only for the quality of the projects they are developing, but also for their support of the arts, sports, culture and more. We are proud to have built up such a strong reputation in the Aegean region."

With the Turkish economy having grown 2.5 times more than the global average in the past 15 years, investing in Saya is a logical move. Saya believes it will grow at the same rate over the next 15 years too. "Turkey is a young country and the Turkish people are consumers," Sancak says. "The population will not decrease, but stabilize, and we will keep adding young people to our workforce. All these factors offer a huge advantage to investors looking for a stable foothold in the region."

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in the digital world. Our whole system is 'in-house,' which we are therefore easily able to develop. I believe TEB has got the best digital infrastructure."

TEB is currently focusing on supporting SMEs, start-ups and female participation in banking. It is the only bank in Turkey to have a dedicated start-up department. TEB also combines banking with consulting services, advising SMEs, start-ups and female entrepreneurs on areas such as taxes and market research.

Leblebici emphasizes the bank's focus on SMEs: "TEB comes from a corporate background, however in the last 15 years we built a very strong SME banking system and we are the best SME bank in the country. Our aim is to create value for our clients, and in turn create value for our society.

"Our main aim is to be a good bank: Good for society, good for employees, good for shareholders and good for clients. These are our four pillars." He concludes: "Whole economies in the world are changing. Turkey has to adapt itself to the upcoming technologies and new economies. As a bank we believe we have to support whoever has ideas in their mind."

A Growing Energy Market

Turkey's energy sector has a highly competitive structure with a number of opportunities for development and growth. Its power distribution is now entirely in the hands of the private sector, while the privatization of its power generation assets is set to be completed within the next few years. The country's strategic location between a number of major energy consumers and suppliers leads it to serve as a regional energy hub. The existing and planned oil and gas pipelines, the critical Turkish straits and the promising

finds of hydrocarbon reserves within the country give Turkey increased leverage over energy prices and reinforce its status as a gateway to the region.

Naturelغاز is a market leader in the relatively niche, but rapidly growing, compressed natural gas (CNG) market. It is the largest CNG company in Europe. Kanat Emiroğlu, CEO of Naturelغاز, says, "We see international expansion opportunities in about nine countries." As the transportation of gas is extremely important, Turkey's position between the producing countries and the consuming countries is crucial. Emiroğlu continues: "Gas is what makes Turkey unique – soon to be the largest commodity on Earth. Everything is set up for Turkey to take advantage of pipeline competition."

A 'Pharmerging' Country

According to the IMS Health Report, Turkey is one of the top 20 "pharmerging" countries, ranked 19th in 2014, and expected to reach 17th place by 2019. There are approximately 300 pharmaceutical entities operating in the Turkish sector, with about 67 manufacturing facilities that meet international standards, 12 of which are owned by multinational companies. Between 2009 and 2015, sales in the pharmaceutical industry grew by 27.8%, and 43 multinational pharmaceutical companies entered the Turkish market, bringing the number of foreign entities in the market to 116.

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Minister of Finance

Saya Group, a private group of companies operating in Turkey, works in construction, pharmaceutical manufacturing and electric motors, primarily in the area of production. The Group's mission is to invest in areas that support education and social development policies, and help improve overall living standards, while contributing to research

and development, exports, and employment within the country.

Overall, the future of Turkey's pharmaceutical sector looks promising. IMS Consulting Group predicts that the Turkish pharmaceutical market will grow from 11% to 14% between 2015 and 2019. ■

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