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Lira Crisis & investment Opp's in Turkey

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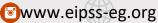
Among the factors that that contributed to the success of the economic and development experiment of Turkey is that it relied on direct investment as well as a strong production base, according to the World Bank database, which stated that during the period from 2010 to 2017, investment considerably contributed to the Turkish GDP, representing more than 26.9% of Turkey's GDP in 2010, 31.2% in 2011 as its best performance; but later declined to rates ranging between 28.2% and 29.7% up to 2016. However, in 2017 the investment contribution to the GDP increased again reaching 30.8%.

This performance reflected on the GDP growth rates, reaching 7.4% by the end of 2017. Despite the economic and political problems experienced by Turkey in 2018, growth rates remained positive and even high. In the first quarter of 2018, the economic growth rate was 7.1%; and during the second quarter, it declined to 5.2%. The results of the third and fourth quarters of 2018 may witness a decline in Turkey's economic growth due to the negative effects of the lira crisis, but any way they will be positive as a whole due to the decline in the deficit of the trade and current balances during the past months, the good results of tourism inflows and their high foreign exchange returns.

According to the <u>Turkish Statistical Institute</u>, Turkey's industrial output grew by 5.6% in July 2018, compared to the same month in 2017, and industrial output grew by 3.5% on a monthly basis compared to the rate achieved in June. The significance here is that the Turkish economy is capable of coping with the repercussions of the lira crisis and is still achieving positive results. In order for the industrial sector to achieve more Page 1 of 8













positive results in the coming period, there is a need to rely mainly on local resources. This would achieve several positive factors, including easing the pressure on the dollar and improving the balance of payments in general through the trade and current balances; a trend that has already begun, as the figures for July 2018 reflected an increase in the value of commodity exports on an annual basis by 2.1% and the value of goods imports decreased by 5.9%.

Foreign direct investment in Turkey

Turkey's direct foreign investment inflow is one of the main success features of Turkey's economic and development experience, although Turkey's share of foreign direct investment over the past years has slightly declined, influenced by the global economic conditions.

During the period 2010-2017, foreign direct investment inflows reached \$107.7 billion, with an annual average of \$13.4 billion; and the best performance in terms of foreign direct investment flows was in 2015, reaching \$ 18 billion, while 2010 was the lowest, at \$ 9.1 billion, a natural result to the global financial crisis in 2008 which had a major impact on foreign investment flows worldwide.

Regarding the 2017 flows, Turkey's foreign direct investments reached \$10.9 billion, in light of the decline in foreign direct investments worldwide. The year 2018 is expected to see an increase in Turkey's foreign investment inflows to take advantage of the decline in the value of the local currency; and it may be more obvious in terms of increasing foreign direct investment inflows to Turkey in 2019.













Possible investment opportunities

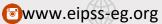
There is a range of opportunities offered by the current conditions in Turkey, which can provide great profits to investors, especially in light of the decline in the value of the Turkish lira, which would decrease the investment cost of new projects, facilitate the entry in partnerships for the expansion of projects and the purchase of existing ones.

Following are some of these opportunities:

- Turkish imports are about 235 billion dollars, including mainly the industrial sector imports, especially those that are employed in the re-export area, allowing the socalled production to replace imports.
- Turkey is a net importer of energy, with imports of oil and gas in 2017 reaching about \$37 billion. And in light of the high oil prices in the international market, it is expected that Turkey's fuel import bill will increase by the end of 2018. Amid the flexibility enjoyed by the Turkish economy in terms of energy pricing, electricity prices for the industrial sector increased by about 14% and about 9% for domestic consumption. However, the opportunity offered by the energy sector to foreign or domestic investors is to invest in renewable energy generation (solar, wind and thermal energy). This area of investment is encouraged by the Turkish government, which contracts with producers to supply electricity from these sources and provides the dues of investors on a monthly basis. The investment in renewable energy generation is a very stable area, given Turkey's need for this type of energy because of its environmental advantages; as well as sparing Turkey the fluctuations in the prices of oil and gas in the international market, and the possibility of using energy as a pressure card against Turkey for political reasons, whether internationally or regionally. On the ground there













are investments that can be considered small projects in the field of energy, where projects are set up with up to \$1.5 million to invest in a solar power plant, generating a steady return through a prior contract with the Turkish government. There is no doubt that the presence of investments with a higher capital through a joint stock company, offers a greater opportunity, and consolidates investment relationship with the Turkish economy for long periods.

- One of the biggest lessons learned from the current economic crisis in Turkey is the disadvantages of debt financing and its resulting problems that have significantly affected the private sector, as well as the macro-economy, through its impact on the exchange rate, which accordingly raised the inflation rate as well as the unemployment rate up to 10.2% in June 2018, and may further jump at announcing the results of the unemployment index for the months of July and August 2018.

It is appropriate for Turkey to move gradually to participatory financing, through participatory formulas, which make the return dependent on the capital (profit or loss) rather than on the interest rate; and the Islamic financing formulas are required in this area, on which the participatory banks in Turkey rely. [A participatory loan is halfway between injection of capital by a private investor and a regular loan offered by a bank. This type of financing tends to have some fairly accessible requirements for qualification, and the interest charged is linked to the progress of the business. Furthermore, their long repayment periods and deferment options make these loans a useful financing tool for companies still in their early stages.]

Therefore, the opportunity to invest in this area is through the formation of a financial portfolio to establish a new participatory bank added to those existing in Turkey, provided that the work of this bank should avoid the disadvantages of the existing











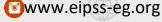
participatory banks or the Islamic banks outside Turkey. It is important that the government would work to facilitate the licensing of these banks and to benefit from the experience of some Arab and foreign countries by allowing existing banks to provide the services of participatory banks, whether through independent branches, or through windows within these traditional banks for this end (providing participatory banking services).

The fact that some Gulf countries have bought Greek and Russian banks, and engaged in the Turkish market over the last few years would help enter into the field of investment in the field of banks. The Gulf investments usually focus on fast-return investments, and therefore they tend to buy existing banks. So, it is likely that a group of investors would buy some of the existing banks and seek diverting them to be participatory banks, and that the work of these banks would focus on financing real economic projects, away from investment in stocks and bonds or speculation in commodity or metal stock exchanges – or keep this in the narrowest possible range, but avoiding trading in debt, and dealing with usury.

- The current crisis between Turkey and the United States in relation to the imposition of mutual tariffs – initiated by the United States through imposing customs duties on Turkish steel and aluminum exports, pushing Turkey to impose charges on some American products, such as technological products, tobacco and liquor – offered an opportunity to investors for investing in the technology sector, where Turkey has a real problem; as exports of high-tech products amounted to only \$2.8 billion in 2017, while Turkey's total commodity exports in the same year reached \$157 billion.

Hence, the Turkish market is suffering a gap, amid an advantage that can be considered a kind of protection under the high tariff imposed by Turkey on technology imports











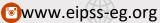
from the United States. Investors in this sector need to focus on the development of Turkish technology products, the development of information systems, and the production of new intellectual property systems in favor of the Turkish market.

The government should grant investors seeking to set up such industries in particular, many advantages and guarantees, including tax exemptions, working with them to open new markets, either by supporting marketing plans, or directly providing help in promoting these products through the Turkish foreign trade representations. This in fact happened in India at the beginning of the third millennium, when the government helped to promote software investments significantly, resulting in India's software exports reaching about \$ 200 billion, and even the access of Indian programmers to many European countries, as well as the United States. Another approach in this area relates to education in the field of advanced technology. It is possible to establish research centers based on the development of existing Turkish products or working on new products. This is a bridge of positive relations between research and development institutions on the one hand and industry on the other. This would have a positive impact in terms of the added value to the industry sector and its contribution to the GDP.

- Among the investment activities in Turkey which have comparative advantages is investment in agriculture and livestock, as Turkey has a total area of 769.6 thousand square kilometers, with arable land representing 50% of the whole area, which helps to provide Turkey's needs of agricultural products and food to a large extent, especially in view of the availability of fresh water through rainfall most of the year. Therefore, the exports of the agricultural and food industry sector reached about \$16.4 billion in 2017, and the sector achieved a trade surplus of about \$2.4 billion. This means that













Turkey is providing its own food in a way that ensures it would not be dependent on the outside. On the ground, there have been investments in the agricultural and livestock sector through the leasing mechanism of agricultural land or fattening farms, an activity which is appropriate for capital in the light of what is known as the classification of small projects in terms of the value of capital. Also, there is support for such projects through the Agricultural Bank of Turkey, in terms of facilities for the purchase of seeds and fertilizers as well as other investments necessary for the agricultural sector. In this regard, it is recommended to form a large entity through an agricultural investment fund or to establish a joint stock company, especially if it is aimed at production for export or even for consumption in the local market, given that the Turkish market is one of the largest markets with about 80 million people.

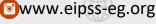
- Call for the establishment of a direct investment fund to adopt a set of projects with real feasibility studies, provided that it is marketed with support from the Turkish government; and that the Fund should have the authority to receive contributions from outside Turkey and be subjected to a government control body, to ensure the rights of shareholders, because the experience will ultimately be counted on the Turkish government.

Investment in Turkish debts

In light of the current situation in the Turkish economy, as well as many emerging countries, some may think of benefiting from the indirect investment through trading in treasury bills and bonds, without facing the least any economic risk. The answer to this is not Turkey alone, but a general answer, which belongs to all markets, although Turkey has more advantages in terms of economic stability, what













What almost all the emerging markets, including Turkey, are undergoing is a temporary crisis that will end soon, especially the countries that have medium and long-term plans to overcome the crisis, turn it into an opportunity, and restructure their economy to be more robust in the face of such crises in the future.

As for Turkey, we find that the central bank was independent, as evidenced by its successive decisions to raise the interest rate, in denial of a claim by Turkey's opponents on President Recep Tayyip Erdogan's intervention of in the central bank's policies. However, the strategy adopted by President Erdogan's government and his personal conviction that the interest rate should be reduced to help achieve real production, where participants in the economic activity could gain high returns to encourage them to work and produce, fight inflation, and help create jobs on a stable and lasting basis.

On the other hand, the direct investment helps to build up experience and creates permanent opportunities for development. This is manifested in the industrial sector on the extended time span, for example. The investments pumped in the industrial sector in the field of research and development have led to tremendous development, unlike the monetary and financial investment which caused successive crises, bankruptcies, and opened doors for money laundering.



