

Navigator

Now, next and how for business

Turkey



Together we thrive

Overview

Ambitious goals amid signs of greater economic stability

Following a difficult 2018, Turkey's economy is showing some signs of improvement. The currency depreciation in Q3 2018 triggered a short recession but also high inflation. Turkey's central bank raised its benchmark interest rate as high as 24% in the wake of the event; however, it has lowered rates significantly during the course of 2019. Having soared to 25% in 2018, inflation dropped back into single figures in September 2019¹.

The business sentiment for Turkey reflects the results of the Navigator survey, conducted between August and September 2019.

State of play

Businesses optimistic as government targets renewed growth

Businesses have become more optimistic over the past 12 months. In the next year, 78% expect their sales to grow – this is on par with European and global averages but below other markets in MENA, which are particularly confident. Among companies trading internationally, 83% predict international growth, while for companies producing goods as opposed to services that figure is as high as 89%.

24% of Turkish businesses are deemed high-growth companies, meaning that they expect to grow by 15% or more in the next year according to our survey. This is slightly higher than the global average of 22%.

Meanwhile, given a five-year time horizon, Turkish businesses generally are even more enthusiastic in their predictions, with 84% expecting sales to grow.

Key contributors to expectations of sales growth over the next year

| Internal | | External | |
|--|---|--|---|
| Introducing new products/services |  35% | New markets opening up |  40% |
| Investing in technology |  34% | Favourable changes in interest rates |  31% |
| Quality and availability of skills in your workforce |  33% | Increasing interest in sustainability |  29% |
| Improving your business' productivity |  29% | Favourable political environment |  27% |
| Motivated workforce |  25% | Government incentives for investment opportunities |  25% |



What you need to know



Turkish businesses surveyed between August and September 2019 are optimistic in the short-term and even more confident about longer-term prospects.



Companies selling products or services in overseas markets are particularly bullish.



Turkish firms' strategies to overcome threats are largely expansive and include breaking into new markets, improving the quality of products and services and investing in innovation and customer experience.

What your business can do



Research new markets. Turkish businesses see international expansion both as the top driver for growth and the best strategy to counter threats.



Look at developing new products and services. 35% of Turkish companies expect this entrepreneurial approach to help them grow.



Consider supply chain changes such as increasing your use of digital technology or changing to domestic suppliers. 48% of Turkish firms expect to reduce costs in this way.

Trade outlook

Europe key but intra-regional trading on the rise

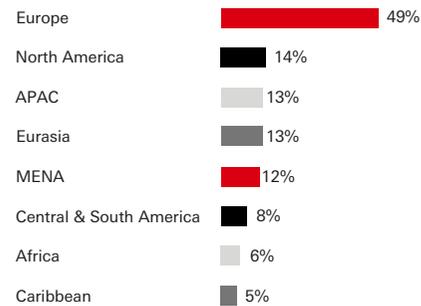
Having been heavily focused on Europe for many years, Turkish firms are starting to strengthen their intra-regional trading. The percentage of companies doing business with other MENA countries increased from 12% to 22% between 2018 and 2019.

Proven customer demand and favourable partnership opportunities keep trading with Europe strong, although it has dropped year-on-year from 68% to 61%. At the same time, there has been some reorientation of markets within the region, with Germany and Russia growing in importance while trade to France, Italy and Belgium has declined.

Turkey's culture of innovation is the most popular reason cited by foreign firms for its attractiveness, while its position as a gateway between Europe and MENA is also a big motivator. However, others find Turkey unattractive due to geopolitical risks.

Businesses in Turkey ascribe to the idea of trade as a force for good, though at a slightly lower rate than their global counterparts. They say international trade will provide new business opportunities (Turkey: 72%, global: 79%), improve efficiency (Turkey: 69%, global: 78%) and drive innovation (Turkey: 73%, global: 80%).

Future trading expansion markets over the next three to five years



What you need to know

- 1 Europe remains the key market for Turkish businesses but intra-regional trading within MENA is growing.
- 2 Within Europe, Germany and Russia are gaining in importance as markets for Turkish firms.
- 3 While many foreign firms view Turkey as an inter-regional gateway with a culture of innovation, others are concerned by geopolitical risks.

What your business can do



Seek partnership opportunities. Like businesses in many other countries, Turkish firms cite this as the key factor when choosing new markets.



Assess geopolitical risks carefully when considering new markets.

Protectionism and geopolitics

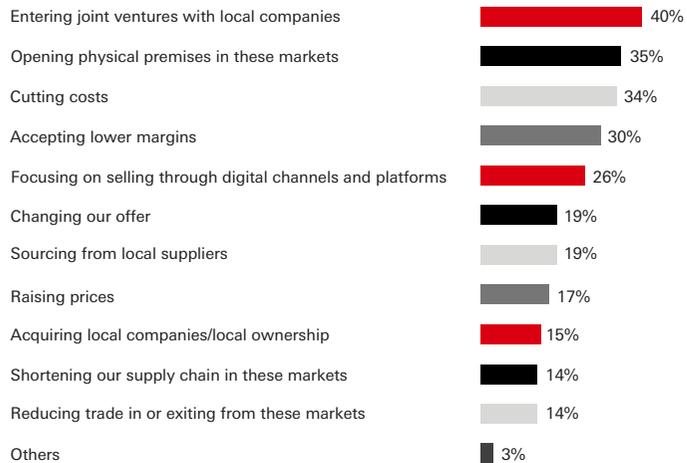
Less strongly felt than by other APAC countries

Two thirds of Turkish businesses feel that protectionism is on the rise, a figure which is unchanged from 2018. This is very much in line with attitudes globally, although in MENA overall the figure is much higher at 78%.

While a third of firms feel they have lost more than gained from protectionist policies, more (39%) believe the effect on them has been positive overall. However, it is worth noting that this is below the global average of 57%, while in MENA an even higher 64% of companies see an overall benefit. Similarly, while 29% of Turkish businesses say protectionism is resulting in reduced competitiveness, 22% think it means their competitiveness is increasing.

The impact of geopolitics is also felt strongly by two out of three Turkish companies – this is again in line with the global average but considerably lower than the overall average for MENA of 77%.

Ways in which businesses are coping with protectionism



What you need to know



Two thirds of Turkish companies feel the impact of protectionism strongly.



29% of Turkish businesses that are feeling the impact of protectionism say it reduces the competitiveness of their business.



65% of Turkish firms feel a strong impact from geopolitics – but this is no higher than the global norm.

What your business can do



Decrease borrowing to lessen your exposure to geopolitical risk, as 34% of Turkish businesses are doing.



Develop local relationships, partnerships or joint ventures. This is a widely popular response to geopolitical issues both in Turkey and globally.



Consider taking business online, changing trade routes or increasing capital reserves, all approaches pursued by Turkish firms to address the impact of geopolitics.

The sustainable future

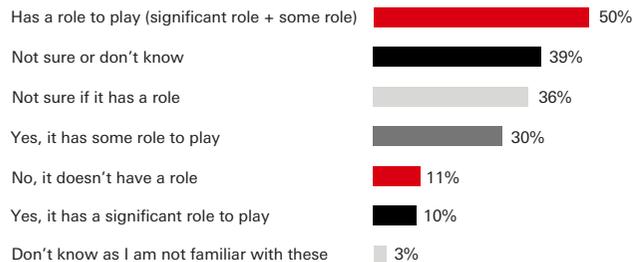
Agile firms see ESG as a driver for growth

Across the globe, sustainability is increasingly being pursued as a driver of growth. Agile and resilient Turkish businesses are highly engaged with this trend. In fact, Turkish firms say the top reason for implementing sustainable initiatives is to grow sales, with gaining reputational advantage close behind. Interestingly, given these motivations, governments are seen as the greatest source of pressure to become more sustainable in the next five years by 43% of businesses, compared to 32% globally.

In general, far fewer Turkish companies actually measure their performance on specific sustainability issues. However, this tends to be the case globally and may partly be because in the absence of clear industry or country standards, businesses struggle to know how and what to measure. Over the next five years, companies point to resource issues in terms of both time and money, but also to the absence of clear and consistent reporting frameworks, a lack of knowledge and insufficient advice as challenges in becoming more sustainable.

Exactly half of Turkish firms acknowledge that they have a role to play in delivering the UN's Sustainable Development Goals (SDGs) – this is markedly lower than the global average of 63%.

Businesses' role in delivering the UN's SDG goals



What you need to know

- 1 The more entrepreneurial Turkish businesses are taking a highly positive approach to sustainability, acknowledging it as a driver for growth.
- 2 However, as is the case globally, actual measurement of sustainability performance tends to be much lower.
- 3 The percentage of Turkish firms who see a role for themselves in achieving the UN's SDGs is below the global average.

What your business can do

-  Conduct analysis into your energy usage to see if it can be reduced. This is seen as a relevant ESG metric by Turkish businesses.
-  Look at product safety and quality, which Turkish companies see as the most relevant social metric.
-  Assess executive salary and compensation. 31% of Turkish firms consider this a relevant ESG metric.

Breakthrough tech

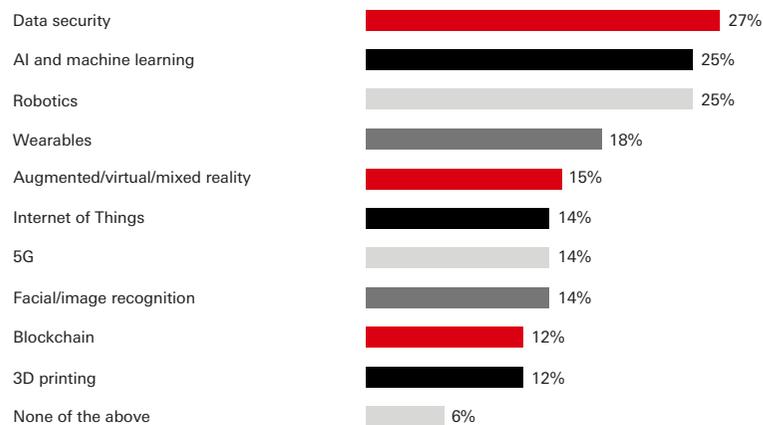
Tech a route to better productivity and reduced costs

Like their global counterparts, Turkish businesses are increasingly looking to technology as a key driver for growth. Data security, artificial intelligence (AI) and robotics are the most popular tech with Turkish firms – of these, interest in robotics is 5% higher than the global average, with a quarter of companies expecting it to have a strong impact in the next five years. Interest in a wide range of technologies is strong, with wearables and augmented/virtual/mixed reality of greater interest to Turkish firms than is the norm globally.

Turkish firms see Europe, in particular Germany and the UK, as the key hub for data security. APAC, in particular Japan and China, are the go-to markets for robotics, while North America is perceived as the leader for AI.

Common benefits expected from these technologies include improved productivity and reduced costs. AI and robotics are also expected to improve product/service quality, while robotics are regarded as a key way of increasing speed to market. Data security, meanwhile, is predicted to improve delivery and sustainability by around two-fifths of Turkish companies.

Technologies businesses think will be important over the next five years



What you need to know

- 1 Turkish companies rank data security, AI and robotics as the key technologies for their business over the next five years.
- 2 Turkish firms are more interested in wearable and augmented/virtual/mixed reality than companies elsewhere.
- 3 The key benefits of these new technologies include improved productivity and reduced costs.

What your business can do



Examine how different technologies could improve your firm's productivity and reduce costs.



If speed to market is important in your sector, look at whether robotics could streamline your business.



Go beyond data security, AI, robotics and 5G to see how technology such as wearables and augmented reality could benefit your business.

About HSBC Navigator Turkey

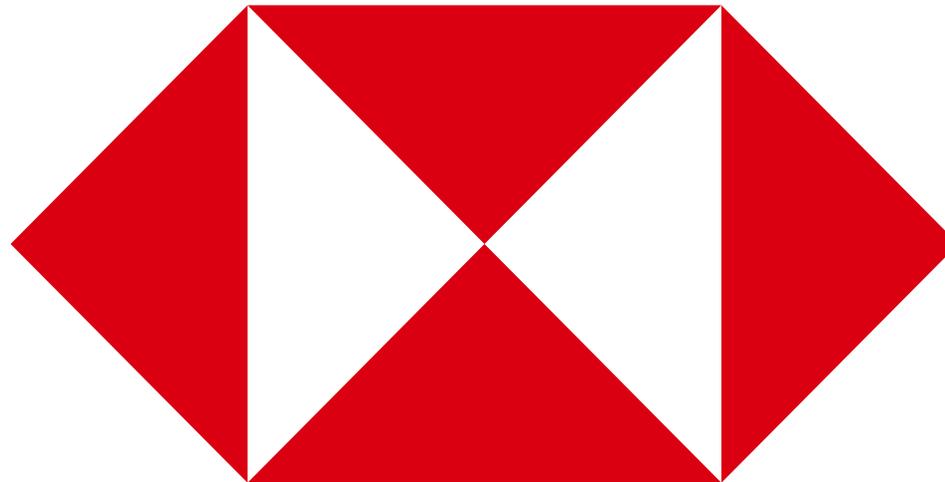
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in Turkey. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2: companies who expect their sales to grow in the next year. n=154

Page 3, 5 & 6: all companies. n=200

Page 4: companies who think governments are becoming more protective. n=131



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Issued by HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom www.hsbc.com