



## At least for now, Turkey's economy weathers downgrades, political turmoil

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A supporter of Turkish President Recep Tayyip Erdogan waves a flag against an electronic billboard during a rally in Kizilay Square on July 18, 2016, in Ankara, Turkey.

In the wake of an abortive coup in July, ratings agencies have not been kind to Turkey's sovereign credit. Nevertheless, some global investors still see opportunity in the middle of a country riven by political unrest.

After the failed overthrow of Turkish President Recep Tayyip Erdogan and his government, the actions against the sovereign credit came swiftly, as Moody's Investor's Service sliced the country's rating to "junk" status in September and warned of "sudden" capital outflows. Standard & Poor's also reduced the country's rating, putting it deeper into speculative territory and gave it a negative outlook.

With reserves falling, the lira — Turkey's currency — is also battling for survival, hitting recent lows this month.

"The Turkish lira is a sinking currency, one that could quickly become a plunging currency," Steve Hanke, Johns Hopkins University professor of applied economics and director of the Troubled Currencies Project at the Cato Institute, recently told CNBC.

Yet other observers note that Turkey's economy has remained afloat despite challenges from a domestic Kurdish insurgency and threats from global terrorism. Last month, data showed the economy expanded by 3.1 percent in the second quarter, defying mounting political turmoil in the country that preceded the violent putsch.

Writing in the *Harvard Business Review* this summer, H. Akin Unver, an assistant professor of international relations at Turkey's Kadir Has University in Istanbul, said the economy has been "surprisingly resilient." He noted key fundamental factors were providing a significant boost.

"At this time, the resilience of the Turkish economy stems in large part from the domestic price stability that comes with low oil prices," he said. "If they rise, a more problematic picture will emerge. Turkey can't rely on the current price stability forever, but it is helping now."

Meanwhile, Unver added that "the main driver of the Turkish economy is the extent of private household consumption, which covers roughly 70 percent of Turkey's GDP."

Groups of soldiers involved in the coup attempt in Turkey surrender on Istanbul's Bosphorus bridge with their hands raised on July 16, 2016 in Istanbul, Turkey.

Risks to Turkey's economy, already exposed to a weak European trading area, remain real. The Economy Ministry said foreign direct investment in the country swooned by 54 percent in the first half of the year — even before the coup attempt — when compared with last year.

Still, businesses such as global insurer Allianz, which has long maintained a presence in the country, are taking a longer view.

Despite geopolitical unrest and persistent concerns about the Erdogan government, Allianz Turkey CEO Aylin Somersan-Coqui told CNBC in a recent interview that the focus is currently on "long-term economic potential, market strength as well as a stable and consistent regulatory environment."

The country maintains a strong banking sector, a factor she cited as a core strength.

"The strength of the banking sector is an asset contributing to financial stability. With its young population and relatively low insurance penetration, Turkey constitutes a significant growth potential for our sector," Somersan-Coqui said.

However, after losing investment-grade status, Turkish markets remain volatile. The Erdogan government's commitment to reforms and a stable market economy will be key to ensure that the investment environment stays robust, analysts say.

The Turkish economy, Somersan-Coqui says, has "typically shown resilience to external and internal shocks." Allianz "remains firm in our belief in Turkey, and are continuing with our investment plans," she said, which include a new operations center in western Turkey.

Its holdings in the country also showed strong growth in the first half of the year, Somersan-Coqui told CNBC, and Allianz's investment in Turkey currently tops 1 billion euros. (nearly \$1.1 billion).

In February, Warburg Pincus, the global private equity giant, made its first senior hire for dealmaking in Turkey. The firm cited the potential and prospects for growth outweighing the risks swirling around the country.

Although risks abound, "political momentum is pro-business," wrote Kadir Has' Unver in July.

"Despite significant political risks associated with investment and capital flows, the political climate in Ankara favors easing foreign investment in Turkey, including making necessary legal reforms to ensure investment security," even as he warned that political infighting has "stunted business confidence in the country."

