

Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Agriculture



Remains Fair

Despite impacts of lockdown measures (e.g. transport and supply chain issues) agriculture value added grew 5% in 2020. Exports increased significantly in the period January-April 2021, and value added is expected to grow by more than 4% in 2021.

Automotive/Transport



Remains Poor

In 2020 the highly export-oriented Turkish automotive sector suffered from globally deteriorating demand, and automotive value added contracted by 11%. However, domestic sales rebounded in H2 of 2020, supported by the ease of bank borrowing and pent-up demand.

In Q1 of 2021 total vehicle production increased by 1% year-on-year, mainly due to strong growth in commercial vehicle production (up 26%). Another lockdown in April-May 2021 and the ongoing shortage of electronic components supply has put pressure on the sector. However, currently it is expected that production and sales will rebound in H2 of 2021, and automotive value added is forecast to increase by 19% this year.

Due to the fact that Turkish banks have supported companies with loans, the pandemic has not led to a substantial increase in payment delays and/or insolvencies so far. However, liquidity strains and cash shortfalls remain an issue for many businesses.

Chemicals/Pharmaceuticals



Remains Fair

Pharmaceutical businesses have benefited from increasing health expenses, and sector value added is forecast to increase by almost 3% in 2021, after an 8% expansion last year. The pharmaceuticals distribution segment shows generally robust business financials, good payment records and low insolvency rates compared to other industries.

Chemicals exports increased 17% year-on-year in Q1 of 2021, and chemicals value added is forecast to grow by more than 8% this year. While businesses dependent on commodity imports have suffered from the lira depreciation in 2020 and H1 of 2021, there has been no significant increase in payment delays so far. Banks have continued to extend maturity dates of loans, which resulted in a stabilisation of payments.

Construction/ Construction Materials



Remains Bleak

Prior to the coronavirus outbreak, Turkey's construction industry was already struggling, with output declining by 8.7% in real terms in 2019. In 2020 the pandemic also severely impacted construction activity, and output contracted 2.8%.

The lira depreciation, high inflation and elevated interest rates have pushed up construction and borrowing costs. The outlook for a comprehensive rebound in 2021 remains subdued, especially for infrastructure construction. Prior to the crisis, the government had been financing major infrastructure projects across the country. Now, due to fiscal constraints, it is unlikely to fund large scale infrastructure projects in the medium-term. Non-residential construction output is expected to rebound by only 0.5% in 2021 after a 3.6% contraction last year. Residential construction output is forecast to increase by about 6% this year, but housing sales declined 4% year-on-year in the period of January-May 2021. In March 2021 the non-performing loans ratio of construction businesses was high at 9.6%, and insolvencies are expected to increase in H2 of 2021.

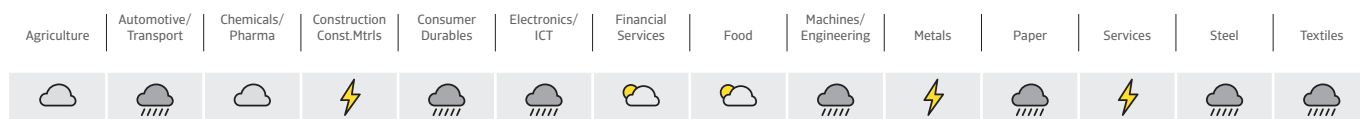
Consumer Durables



Remains Poor

In 2020 private consumption was impacted by low consumer sentiment, currency depreciation and rising unemployment. Retail sales value added decreased 5.6%, and the financial strength of many smaller non-food brick-and-mortar has seriously deteriorated. In this segment delays in bank payments have increased in H2 of 2020, as have insolvencies and business closures.

After a rebound in Q1 of 2021, another lockdown in April-May 2021 has led to a contraction of domestic appliances, furniture, and electronic product sales. Currently it is expected that sales of consumer durables will rebound again in H2 of 2021. However, currency volatility and high inflation (up 17.5% in June) weigh on consumer sentiment, and high household debt levels and a modest coverage of formal social safety nets will affect private consumption growth. For the time being, many retailers' financials are sustained by government aid packages and the fact that banks continue to extend the maturity dates of loans.



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Electronics/ICT



Remains Poor

While low consumer sentiment, rising unemployment and currency depreciation affected electronics/ICT turnover in H1 of 2020, sales gained momentum again in Q3. As most electronics/ICT items have to be imported, the sharp lira depreciation is an issue. Many businesses still hesitate to reflect the exchange rate in their prices, avoiding a decrease in turnover and a cut in their cash flow. However, banks have continued to support businesses by extending the maturity dates of payments, and loan restructuring for the most troubled companies is currently under discussion.

Financial Services



Remains Good

While the Turkish banking sector is vulnerable to refinancing risk due to its strong dependence on short-term foreign currency funding, the industry has maintained relatively comfortable rollover rates throughout periods of stress since 2018. Moreover, the relative stickiness of deposits in the Turkish banking system reduces the outflow risk, associated with the high dollarization of deposits of more than 50%.

The Banking Regulation and Supervision Agency has implemented measures in order to increase the flexibility of banks in their Turkish lira and foreign currency liquidity management, and to ensure continuous credit flow to the real economy.

Food



Remains Good

The pandemic has changed consumption habits, with a increased tendency to stockpile and to buy online. Food sector value added is forecast to increase by more than 5% in 2021, after growing 2.7% last year. Market competition is fierce, but food producers and retailers are still able to increase both revenues and margins.

Machines/Engineering



Remains Poor

In 2020 the sector was negatively impacted by deteriorating global and domestic demand from key domestic buyer industries like automotive, construction and metals. Payment delays increased sharply in H1 of 2020 and remained elevated in H2. Although there has been a partial recovery since H2 of 2020, activity continues with a capacity rate of just about 72%. Higher costs for loans and the weak Turkish lira remain downside risks, as machinery manufacturing heavily depends on raw material and commodity imports. In order to avoid higher input prices, long-term agreements with commodity suppliers are key, especially for SMEs.

Metals



Remains Bleak

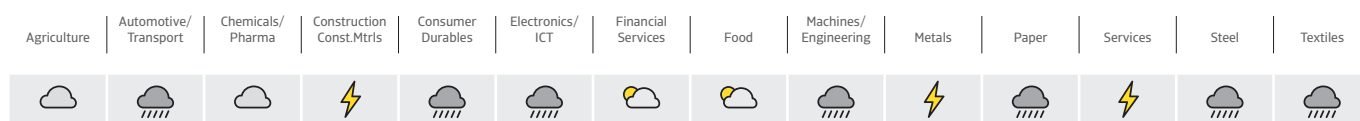
In 2020 metal producers suffered from deteriorating demand from key buyer sectors (automotive, construction and machines), currency volatility and increased loan costs. Currently the main issues are high interest rates, currency volatility, shortage of skilled staff, and lack of containers for exports. While the use of bank loans is increasing, a slight decrease in non-performing loans is a positive development.

Paper



Remains Poor

Paper producers and printing have been impacted by supply chain disruptions due to lockdown measures in 2020. The economic downturn has led to less demand for some items, e.g. boxes for transport, automotive spare parts, and storage. However, demand in the packaging segment has increased, in particular for food, medicine, medical products, and electronic commerce cardboard packaging. Although there has been a slight increase in cash loan utilization from banks, the sector's non-performing loans ratio is stable for the time being.



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Services



Remains Bleak

Several lockdown measures and international mobility restrictions have severely impacted restaurants, cafes, entertainment businesses and the tourism sector. In July 2020, the hotel occupancy rate was at 31.4%, compared to 75.6% in July 2019. Latest date suggests an occupancy rate of 26% in March 2021.

In 2020 hotel and catering value added contracted 7.1%, expected to rebound by about 4.5% in 2021, subject to a rebound of foreign tourist arrivals in the coming months. This largely depends on the containment of the third wave of the pandemic, vaccination roll-out and the lifting of international mobility restrictions.

After a 1.9% contraction in 2020 service value added is forecast to rebound by about 1.5% in 2021. Non-performing loans and insolvencies increased in 2020. While cash aid, tax reductions and government support have been provided to the sector, this could prove insufficient for many businesses. Although there is a significant increase in the use of cash loans, non-performing loans of hotels and restaurants are currently stable at about 5.5%. However, compared to many other sectors this figure is above average.

Steel



Remains Poor

In 2019 the industry was already impacted by strong competition from abroad (e.g. China) and subdued demand, leading to increased payment delays. While Turkish crude steel production increased by 6% in 2020, approximately 50% of flat products have to be imported. This has caused a trade deficit for the industry, and makes it susceptible to currency volatility.

Textiles



Remains Poor

The textile sector has already been particularly vulnerable over the past couple of years due to excess capacity, lack of branded production, strong competition from East Asia, low capitalisation of businesses and diminishing domestic and export demand. Due to the pandemic, foreign and domestic demand came to a standstill in H1 of 2020, and many stores were not reopened again after the end of the first lockdown. Last year the capacity utilization rate was 69% in the textile sector, 67% in the ready-made clothing segment and 55% in the leather products segment (manufacturing industry average was 72%). While a rebound in production is ongoing, the sector is affected by higher commodity prices (e.g. for cotton and petroleum derivatives). Non-performing loans of textile businesses have increased over the past couple of months.