COUNTRY FOCUS

Turkey business update

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Farming in the Esen valley in the province of Antalya.

FOOD AND AGRICULTURE | Increasing exports

Well placed to feed Europe, Central Asia and the Middle East

As concerns about food security increase worldwide, Turkey's agricultural potential is attracting renewed interest. The primary sector, which currently accounts for 9.1 percent of the country's gross domestic product, employs almost a quarter of the working population.

Turkey's temperate climate and fertile soil help make it a top producer of hazelnuts, apricots, figs, cherries and poppy seeds as well as wheat, legumes and other grains. Small and medium-sized farms represent much of the cultivated land, and productivity has yet to reach its full potential.

The government has been supporting agriculture with subsidies. In recent years, it has also stepped up investment in research, infrastructure and training. Apart from suffering a severe drought in 2007, "the Turkish agricultural sector has grown continuously," says Mehdi Eker, minister of agriculture, food and livestock. "Turkey now owns 24 million hectares [59 million acres] of agricultural land. Agriculture employs 6.2 million people." In 2011, agriculture contributed $62 billion to Turkey's gross domestic product, while in 2012 the sector recorded growth of 3.5 percent, compared with 2.2 percent for the economy as a whole.

In February, on a visit to Sanliurfa, a province whose agricultural production has been boosted by dams and irrigation projects, Prime Minister Recep Tayyip Erdogan said: "Whereas Turkey fed 67 million citizens and 13 million tourists in 2002, it met the food requirements of 75 million citizens and 31 million tourists last year."

A new incentive system was introduced in 2012 to encourage more foreign investment. Organic cultivation might be one way forward. A PricewaterhouseCoopers report published last year suggested that Turkey could become a major exporter of organic produce in the coming decades.

The report states: "Turkey's Aegean, Black Sea and Anatolian regions are well suited to the production of organic foods for health-conscious European consumers, which is currently the destination for 85 percent of all organic food exports." Turkey's location allows it to reach markets in Europe, Central Asia and the Middle East.

In 2012, agriculture — combined with the food, beverage and tobacco sectors — attracted $2.1 billion in foreign direct investment, up from only $14 million a decade earlier. More than a thousand foreign companies operate in these segments, and the numbers are expected to rise as Turkey switches from exporting mainly raw products to selling more processed food.

Exports of agricultural and food products reached $19.1 billion in 2012 and accounted for 12.6 percent of total foreign sales. As of April 2013, Turkish companies will also be allowed to export milk and other dairy products to the European Union. According to figures released late last year by the Ministry of Agriculture, Turkey is now the number-one producer of agricultural products in Europe and seventh in the world. It is the world's top producer of hazelnuts, having exported a record 265,000 tons in 2012 to 100 countries. ■

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Turkey's health sector offers highly skilled doctors and state-of-the-art hospitals.

MEDICAL TOURISM | Integrated efforts

For lower fees, health treatments that meet top international standards

Turkey is rapidly emerging as a major destination for health tourism. It offers a wide range of medical procedures — cancer treatment, in vitro fertilization, dental work and Lasik eye surgery, to name but a few — at a much lower cost than in Western countries. Anadolu Medical Center, associated with Johns Hopkins Medicine, treated 4,000 patients from 67 countries last year. Most of them, from the Middle East, Central Europe, Russia and other countries in the Commonwealth of Independent States, underwent cancer treatment and visited more than once.

Indeed, the nation commands a small but growing share of the $100 billion global medical tourism market. Last year, 210,000 foreign visitors took advantage of Turkey's excellent medical facilities, up from 74,000 in 2008. Many bought packages that allowed them to combine medical treatment with a stay in a hotel or seaside resort.

Many of the private hospitals that attract foreign patients are accredited by Joint Commission International, a U.S.-based body that guarantees high standards in health-care establishments.

"Hospitals don't have to be accredited by JCI, but all of them have to meet the quality and safety standards defined by the Ministry of Health," explains Dr. Dursun Aydin, head of the Health Tourism Department at the Ministry of Health, which works actively to improve legislation and regulations in the sector. "They are either at the same level as Western standards or even higher."

An international call center has been established, offering translation services 24 hours a day in six foreign languages. Some of the hospitals give language training to their staff.

Hospital groups and the Turkish government are seeking to promote medical tourism further. Turkey's numerous state-of-the-art hospitals and health-care facilities offer the latest technology, as well as highly skilled doctors with training in a variety of specialities. The country, rich in thermal resources, counts several spa resorts, while the sunny climate of its Mediterranean coast makes it well suited to elder care.

To develop the sector and provide the necessary safety guarantees, good coordination among all stakeholders is needed. A Health Tourism Council has been formed under the aegis of the Foreign Economic Relations Board (DEIK), which includes representatives of the hospitals and the ministries of health, tourism and the economy, as well as travel agencies and Turkish airlines.

"Because of the developed health-care system, as well as a growing trend in medical tourism in Turkey, well-developed health-care institutions in Turkey are attracting foreign funds and investors," says Dr. Rusen Yildirim, chairman of the DEIK/Health Tourism Business Council. In 2011, Integrated Healthcare Holdings, a joint Malaysian-Japanese-Turkish group, partnered with Acibadem, which operates 16 hospitals and 11 outpatient clinics in Turkey. The National Bank of Kuwait has a 30 percent stake in Dünya Eye Hospitals, while Qatar First Investment Bank and Argus Capital acquired a minority stake in Memorial Health Group.

Turkey, which aims to treat 500,000 patients and raise $7 billion in medical-tourism revenues by 2015, is completing legislation for the establishment of Health Free Zones, which will benefit from tax incentives and concentrate health services in specific areas. ■

BANKING | Expanding markets

Healthy financial sector attracts interest from abroad

Turkey's banking sector, which has underpinned the country's strong economic growth over the past decade, continued to perform well last year in spite of both reduced growth at home and global economic uncertainty. In 2012, the sector grew by more than 12 percent, while profits rose 19.2 percent to reach some $13.6 billion across the sector.

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Thanks to cautious management and strict supervision by the Banking Regulation and Supervision Agency, Turkish banks remain healthy and well capitalized. Turkish lenders, which have adopted Basel II rules, have an average capital-adequacy ratio of around 18 percent.

"There is strong competition between the banks," says Fatma Melek, chief economist at Akbank. "Interest rates have come down, and there is a lot of credit demand. The consumer and corporate markets are very dynamic."

Turkey's Central Bank is unwilling to allow credit growth to heat up beyond levels it deems prudent. Last year, Central Bank policies kept loan expansion at 16 percent. For 2013, it is targeting 15 percent. Turkish banks also generate revenues through hefty service fees. "Banks are comfortable," says Nergis Kasabali, executive vice president of research at Burgan Securities. "The leverage ratio is still good, although some banks may reach their limits in the next two to three years. Regulators may come in with new measures if necessary."

Prospects for further development in a market that is still underbanked and offers many opportunities are attracting new players, mostly from the Middle East, Asia and Russia. In 2011, Lebanon's Bank Audi obtained the first foreign banking license issued by Turkish regulators in over a decade. It has now launched on the Turkish market under the name Odeabank. Japanese lenders have followed: Japan's largest bank, Bank of Tokyo-Mitsubishi UFJ, was also given the green light to operate in Turkey.

Other foreign players are opting to buy existing Turkish banks, already well established on the market. Russia's Sberbank bought Denizbank from crisis-hit Dexia for $3.5 billion last year. Turkey's close commercial and political ties with the Gulf region have encouraged the Commercial Bank of Qatar to conclude a deal with Turkey's Anadolu Endustri Holding for the purchase of 70 percent of Alternatif Bank. Last year, Kuwait's Burgan Bank acquired Eurobank Tekfen.

Further changes are expected: Citigroup will soon be selling its retail bank in Turkey, and four lenders — Garanti, Fibabank, Denizbank and Odeobank — are said to be in the running as buyers. The insurance sector, too, has seen recent activity: in March 2013, the German giant Allianz concluded a deal to buy Yapi Kredi's nonlife insurance subsidiary, Yapi Kredi Sigorta, for $879 million.

Turkey's participation banks, which operate according to Islamic rules, command a small share, 5 percent, of the financial sector's assets. But the segment is growing, particularly in Anatolia, and it could triple to $100 billion in the next decade, according to a recent Ernst & Young report. Eager to tap into capital sources in the Middle East and elsewhere the Islamic world, these banks have started issuing sukuk, or interest-free bonds.

Kuwait Turk was the first Turkish lender to enter the sukuk market in 2010 and 2011. In March 2013, Bank Asya followed suit, raising $250 million with a 10-year subordinated sukuk. The Turkish government has also turned to Shariah-compliant bonds, issuing two sovereign sukuks in 2012.

Turkey's rising status and Turkish lenders' solid reputation mean banks can access capital from a variety of sources. The strong response that Turkish banks have received for bond issues denominated in foreign currencies led Akbank to launch the first Turkish-lira-denominated Eurobond earlier this year. Other lenders are likely to follow, since such bonds reduce currency risks while extending funding maturity.

Strong portfolio inflows into the Istanbul Stock Exchange, where banks feature prominently, have encouraged the authorities to pursue the privatization of Turkey's public lenders. In November 2012, a secondary offering for a 20.8 percent stake in state-owned Halkbank raised the record amount of $2.5 billion on the Istanbul Stock Exchange. ■

15%

loan expansion is targeted for 2013