Turkey: A return to the bad old days?

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Economic stability had started to be taken for granted in Turkey in recent years. Anybody who covered the Turkish automotive industry in the 1980s and 1990s will remember the extreme volatility experienced by the economy, vehicle markets and production as the country lurched from one economic crisis to the next, governments came and went with alarming regularity, and vehicle markets and output fluctuated dramatically.

Turkey did not escape unscathed from the global financial crisis that began in 2008, with GDP dipping by almost 5% in 2009, although the economy came back strongly in 2010. Since then, there have been times when it looked as if things would turn sour again for Turkey as the current account deteriorated and the path of the currency reflected growing concern from the global financial community about economic fundamentals.

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We have highlighted risks to the Turkish outlook on a few occasions in recent years, but somehow Erdogan and his government managed to hold things together. Not so in 2018, however, as both the Turkish economy and its automotive industry are now staring into the abyss. The lira is currently nearly 40% down on the value of the dollar year-on-year, inflation reached 24.5% in September and, last month, the central bank was forced to increase interest rates by 625 basis points in a bid to stem the currency rout.

The impact on the consumer has been reflected in disastrous Light Vehicle sales results in the last two months as the market nosedived by 53% in August and by 68% in September. The government has made some adjustments to the taxable base for cars, meaning that higher-priced cars will qualify for a lower rate of special consumption tax, but this is unlikely to compensate for the currency impact or large interest rate hikes. The likelihood is that Turkey’s car market will suffer further big declines over the rest of the year and that another double-digit drop is in store for 2019.

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The consolation this time around is that Turkish producers are much less dependent on the domestic market than they were in the past. In 1994, when the Light Vehicle market halved from year-ago levels, exports accounted for less than 10% of Turkish output. This year, around 80% of output from Turkish auto plants is exported. Those OEMs that build products with a strong local presence will be impacted more than others; in fact, this is already playing out in the downward adjustments to production schedules for the next few months. With that said, any revisions to production forecasts will pale in comparison to the drastic changes to the sales outlook.