Turkey held a long-awaited referendum on April 16, with majority of Turkish citizens voting for constitutional changes that will ensure democracy and stability. For the first time in its history, Turkey decided on such an important change through the will of people and the Grand National Assembly of Turkey.

Fifteen months has been the average lifespan of Turkish governments over the country's political history, and more than half of the governments formed held executive powers for less than a calendar year. Some of the reasons for such short governing lifespans are coalition governments and political crises caused by ideological conflicts between the presidency and the parliament. When both the president and parliament held executive powers, as was the case prior to the referendum, there were numerous instances where a power struggle ensued. Under the constitutional reform package, the Turkish people chose a presidential system that will enhance executive, legislative, and judiciary powers and enable each of the independent powers to exercise their core functions. Thus, such short governing lifespans should become a thing of the past, and this change will enable Turkey to make a greater leap forward. A better working bureaucracy, with a stronger and more effective executive and cabinet, means that Turkish state administration will be much more investor-friendly.

In addition to political stability, the new presidential system will overcome red tapes in bureaucracy and foster a more investor-friendly and reform-oriented environment. This sets the stage for a more positive and predictable outlook for investors, which in turn should lead to an increase in FDI. As stated by government officials, structural reforms will be Turkey's top priority in the post-referendum period. Strengthening of the Credit Guarantee Fund, employment support, and new investment incentives are being focused on for the short-term, while the government looks to implement additional structural reforms in the medium-run to boost economic growth.

According to ISPAT President Arda Ermut, international investors’ feedback has been positive in the wake of the referendum. They expect the required steps will be taken swiftly and that the new system should yield improvements in the level of efficiency in bureaucratic operations, prompt decision-making and implementation, public reform, and market predictability.

Ermut also expects a further inflow of investments from both neighboring countries and from all around globe, particularly through PPP-model mega projects such as the Grand Istanbul Tunnel, Canal Istanbul, and Çanakkale 1915 Bridge, and renewable energy projects such as the Renewable Energy Resources Zone (YEKA) projects in solar and wind energy. “Along with the Karapınar solar YEKA project that was put out to tender last month, investors are already showing great interest in the 1,000 MW wind energy YEKA project as well. These are combined tenders that set forth conditions of equipment manufacturing together with power generation. Through these investments, Turkey is also attracting investments in other parts of the value chain. We will continue to see investors from around the globe in such projects in Turkey with a value-added effect,” said Ermut.
Turkey's economy has performed remarkably well with its steady growth over the past 14 years. A sound macroeconomic strategy, prudent fiscal policies, and major structural reforms have all contributed to the integration of Turkey into the global economy while also transforming the country into one of the major recipients of FDI in its region.

These reforms strengthened the macroeconomic fundamentals of the country, allowing the economy to grow at an average annual real GDP growth rate of 5.6 percent from 2003 to 2016. Moreover, until Q3 of 2016, Turkey's economy had grown for 27 consecutive quarters, a growth rate that had never been seen before in the history of Turkey. Looking at the last 20 to 30 years of growth rates, there has not been a graph similar to that of the past 14 years. Turkey is no longer vulnerable to crises and fluctuations, and it has now become a country that has strengthened its macroeconomic fundamentals and that has experienced rapid transformation.

Turkey's impressive economic performance over the past 14 years has encouraged experts and international institutions to make confident projections about Turkey's economic future. For example, according to the OECD, Turkey is expected to be one of the fastest growing economies among OECD members during 2015–2025, with an annual average growth rate of 4.9 percent.

2016 may not have been the best of times for the Turkish economy with the geopolitical and geo-economic upheavals; however, the economy quickly recovered from the negative effects on the Q3 growth rates and finished strong in Q4 of 2016. Beating expectations by recording a GDP growth rate of 3.5 percent in Q4, after a contraction of 1.3 percent in the previous quarter, Turkey achieved an annual economic growth rate of 2.9 percent in 2016.

In addition, a breakdown of the GDP shows that exports had a strong recovery, expanding by 2.3 percent in Q4 after having contracted for two consecutive quarters by 1.9 percent and 9.3 percent. The depreciation of the Turkish lira was the main reason for exports to be the key contributor of growth in Turkey during Q4 of 2016.

Expanding by 5.7 percent in Q4 of 2016, after contracting by 1.7 percent in Q3, household consumption expenditures were also one of the key drivers behind the growth rate posted in 2016. Turkey, having half of its population under the age of 31 and a growing middle-income class with increasing purchasing power, is set to achieve robust growth rates in 2017 as well.

Furthermore, investment growth expenditures, accelerating to 2 percent in Q4, up from 0.5 percent in Q3, almost reached H1 2016 levels.

A sectoral breakdown of growth in 2016 indicates that the service sectors were not hit by the decline in tourism revenues. In fact, the lifting of the Russian ban on travel to Turkey will have positive effects on tourism’s contribution to GDP growth in 2017.

With the contribution of the Turkiye Wealth Fund, and assuming that tourism revenues grow to the point that the contribution of net exports will be clearly reflected in growth rates and that public expenditures recover to H1 2016 levels, it is possible that Turkey’s GDP could grow by more than 4 percent in 2017 and 5 percent in 2018, in line with the medium-term projections.
SAUDI, EGYPTIAN AL ABOUD HOLDING ACQUIRES BURDUR SOLAR PLANT IN TURKEY

Turkey-based Tekno Ray Solar, a JV between Italy’s Enerray SPA and Turkey’s Tekno Group of Companies, announced the acquisition of its solar power plant in the southwestern Anatolian province of Burdur by Saudi and Egyptian Al Aboud Holding Company.

In line with its commitment to investing in more than 50 MW of installed capacity by 2018 in Turkey, Al Aboud Holding Company will be the new owner of the 6.6 MW-Burdur Solar Plant that went online in late-2016.

Located on a 125,000 square meter area, the Burdur solar plant is rated to generate up to 11 million kilowatt-hours of electricity while avoiding 6,700 tons of carbon dioxide emissions per annum.

TOP COUNTRIES IN TURKEY BY NUMBER OF M&A TRANSACTIONS

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>9</td>
</tr>
<tr>
<td>Germany</td>
<td>6</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
</tr>
<tr>
<td>UK</td>
<td>4</td>
</tr>
</tbody>
</table>

M&A INVESTMENTS BY FOREIGNERS TRIPLE IN 2016

Having proven quite resilient in recent years, Turkey’s lure for mergers and acquisitions (M&As) continued to pull in investors from all over the world in 2016. Foreigners contributed USD 6.2 billion towards M&A investments in Turkey in 2016, three times as much as had occurred in 2015 according to data released by the Turkish Competition Authority (TCA).

As per the announcement, a total of 209 M&A transactions were reported to TCA in 2016, including privatizations and applications on transactions that fall beyond TCA’s authority.

In 91 of these transactions in 2016, the target company or the newly-formed JV was founded in accordance with Turkish laws, while 9 privatization transactions were reviewed.

Among M&As examined by TCA during 2016, transactions where the target company or newly-formed JV was based in Turkey (privatizations excluded) totaled around USD 9.6 billion. In addition, M&As by companies where all parties were established in accordance with Turkish laws amounted to USD 2.4 billion.

In 2016, foreign investors invested in Turkish companies across 47 different transactions. Dutch and German investors took the lead with 9 and 6 transactions respectively, followed by Japanese and UK investors with 4 transactions each. Meanwhile, foreign investors channeled around USD 6.2 billion into transactions where Turkish companies were acquired – an amount three times as much as the 2015 level of USD 2 billion.

Primary areas of M&A investments during 2016 included financial intermediaries at USD 2.7 billion, followed by power generation, transmission, and delivery at USD 1.9 billion.

FRANCE’S SEPHORA ACQUIRES TURKEY’S TEKIN ACAR COSMETICS

Subject to approval by the Turkish Competition Authority, 19 stores of Turkey’s major cosmetics retailer Tekin Acar, particularly the flagship ones in Istanbul and Ankara, will be acquired by France’s cosmetics giant Sephora.

Owned by LVMH, a French multinational luxury goods conglomerate headquartered in Paris, Sephora is a French chain of cosmetics stores founded in 1969. Featuring nearly 300 brands along with its own private label, Sephora offers a range of beauty products that include makeup, skincare, fragrance, nail polish, and haircare. The company has been operational in Turkey for 7 years.
DINNER RECEPTION FOR US TRADE DELEGATION

ISPAT President Arda Ermut hosted a dinner reception in Istanbul for a trade delegation of American-Turkish Council (ATC) President and CEO Howard G. Beasey and senior officials of US-based transportation and technology companies. Also attending the reception were US Consul General Jennifer Davis and the American Business Forum in Turkey (AmCham) Chairwoman Serra Akçaoğlu. The reception provided the ideal platform for discussing ways to enhance bilateral investment and trade ties between the US and Turkey. ISPAT President Arda Ermut offered insights into Turkey’s investment environment and the opportunities that await international businesses in a number of areas, including the transportation and railway conveyance sub-sectors.

BUSINESS DELEGATION TRIP TO SOUTHEASTERN ANATOLIA

50 business executives from GCC countries visited the southeastern Anatolian provinces of Diyarbakır and Urfa under the coordination of ISPAT and the Karacadağ Development Agency (KKA). Investors and executives representing chambers of commerce from S. Arabia, Qatar, Kuwait, and Bahrain looked into investment opportunities, particularly in the fields of agriculture and livestock, and visited historical sites in the region. With the backing of Turkey’s strong market fundamentals and investor-friendly business environment, investors from GCC countries maintained their interest in investing in Turkey. Total FDI inflows from Bahrain, Kuwait, Oman, Qatar, S. Arabia, and the UAE to Turkey stood at USD 9.3 billion in the 14-year period up to August 2016. Currently, there are more than 1,600 companies from GCC countries operational in Turkey.