ISSN 2717-6509 OCTOBER 22 - 28, 2022 / 280

BUSINESS & POLITICS
tr MONITOR
ANALYSIS ON TURKEY

BACKED BY A 15-YEAR OF EXPERTISE IN DAILY MEAL PLAN SERVICE, ONE-YEAR-OLD RAFINERA CLOUD KITCHEN IS TARGETING GLOBAL EXPANSION WITH THE USD 5M FUNDING IT EXPECTS FROM THE SERIES A INVESTMENT TOUR TO START BY 2023, SAYS DIDEM ALTINBASAK TULGAN

FROM CLOUD TO TABLE

WEEK AHEAD

R&D expenditures

BADER ARSLAN

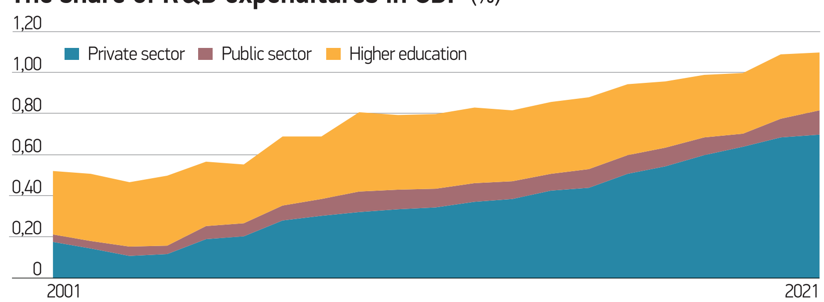
LAST WEEK positive data was announced although we didn't see its impact on the market or daily life in the short term. R&D expenditures amounted to USD 9.1bn in 2021 in Turkey, hitting an all-time high, according to the Turkish Statistical Institute (TurkStat). Moreover, the share of R&D expenditures in GDP reached 1.13% last year. If you remember, the rate hit an all-time high at 1.09% in 2020. It exceeded the 2020 figure, according to the latest data.

The highest R&D expenditure was made in Ankara in 2021. 31.9% of USD 9.1bn was spent in the capital followed by Istanbul with 28.5%. The fact that Ankara topped may surprise some. This is because the leadership in R&D is held by defense and technology companies. The R&D 250 survey conducted by the economy and business magazine Turkishtime in June, pointed out this. Aselsan, TUSAS, Roketsan, Turkcell, Ford Otomotiv, TUSAS Motor, Havelsan, Tofas, and Arcelik created the top 10 under the R&D expenditure category, according to the research. These top 10 companies made more than half of the total expenditures, according to the data of R&D 250. Aselsan's total expenditures alone amounted to TRY 5.6bn. (See graph: The share of R&D in GDP)

The share of government institutions and higher education institutions in total R&D expenditures increased a little, while the private sector's share slightly decreased. Moreover, the long-term trend shows that the private sector took the lion's share, which was taken by the public sector 20 years ago.

The ongoing hike and stability of this performance in R&D expenditures are positive things. But there are two important issues on the opposite side. First, R&D in Turkey still corresponds to one-third of the level in developed countries. If we want to transform into a competitive economy based on technology and innovation, the share of R&D expenditures in GDP must be much higher than it is currently. Second is the sectoral distribution. The development in R&D under the leadership of the defense industry can be considered standard. But this dynamism must also be seen in the chemical, pharmaceutical, medical devices, and civil electronics sectors.

The share of R&D expenditures in GDP (%)



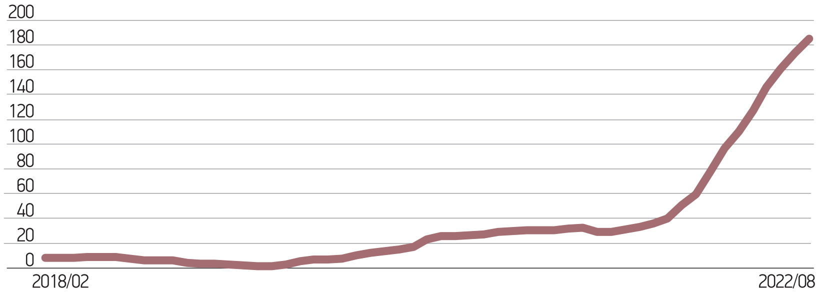
HIKE CONTINUES IN HOUSE PRICES

The Residential Property Price Index rose by 8% in August, as compared to July, and jumped 184.6% in August compared to the same month last year. This has been the highest annual level recorded in house prices to date. With a simple example, a house which was sold for TRY 1m in August 2021 was sold at TRY 2.85m in August 2022. The rate of monthly increase partly declined in the last three months. This is the only good side of the hike in prices. So, we'll probably see a hike in house prices at a slower rate in the upcoming months. Ultimately, house sales announced last week indicate a

TURKEY AT A GLANCE

GDP GROWTH	GDP USD
11.0%	518 BN
2021	2021

Annual increase in house prices (%)



decrease for the past three months. (See graph: Annual increase in house prices)

CONSUMER CONFIDENCE UP IN OCTOBER

The consumer confidence index continues to increase. The index, which started to surge after it reached rock bottom in June, rose to 76.2 points in October after August and September, almost returning to levels recorded last year.

The consumer confidence index increased by 3.8 points to 72.4 points in October as compared to September. The surge mainly stemmed from the hike in people's income. This has also bolstered consumer confidence since July. The wage increases in July improved households' current financial situation and their expectations for the next 12 months. The general economic situation expectation index and the index for assessment of spending money on durable goods also recovered slightly.

Another reason for the recovery of consumer confidence is the horizontal course of FX rates, though of course this is due to implementations by the state. The frequency of price increases and their pace also slowed compared to previous months.

There are two more pieces of data for 2022. I think that we'll see a hike in the index in November. It's too early to talk about December for now, but we know that wage hikes will be high in January. So, consumer confidence will continue to maintain its positive acceleration if there isn't an unexpected negative shock at the beginning of 2023.

RATE CUTS CONTINUE

The Monetary Policy Committee (PPK) continued rate cuts at the meeting held last week, as expected. However, the rate was cut with a higher step than expected. It's important to emphasize that the PPK said they would end this rate cut cycle after the next cut. Following another 150-basis point rate cut, we'll probably end 2022 with a policy rate of 9%.

CONFIDENCE INDICES TO MARK THE WEEK

Confidence indices in the real sector, services, retail, and construction industries will be announced this week. The tourism data will show the final situation regarding the foreign tourist inflow, which continues to perform better than expected. The European Central Bank seems likely to raise the interest rate following the inflation data released last week, which exceeded estimations.

WEEKLY AGENDA

GLOBAL DATA

THURSDAY, 3.15PM: European Central Bank's interest rate decision
FRIDAY, 9.00AM: Germany Q3 growth

DOMESTIC DATA

TUESDAY, 10.00AM: Real sector confidence index
TUESDAY, 10.00AM: Confidence indices for services, retail, and construction sectors
THURSDAY, 10.00AM: Foreign trade data for September
THURSDAY, 10.00AM: Central Bank Inflation report
THURSDAY, 10.00AM: Economic confidence index for October
THURSDAY, 10.00AM: Tourism data for September

ECO-POLITICS

MONDAY

▸The Cabinet is expected to convene under the presidency of President Recep Tayyip Erdogan.

TUESDAY

▸The foundations of 5,000 homes will be laid within the scope of the Social Housing project. The groundbreaking ceremony will be held in 17 provinces.

WEDNESDAY

▸The legislative proposals for the 2023 Central Government Budget and the 2021 Central Government Final Account will start before Parliament.

THURSDAY

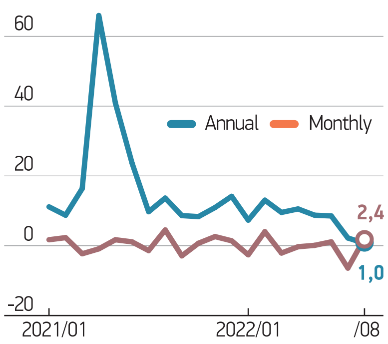
▸The budgets of the Ombudsman Institution and the Court of Accounts will be discussed the Parliament's Planning and Budget Commission.

FRIDAY

▸President Recep Tayyip Erdogan will announce the Election Vision Paper in Ankara. The paper, which is the first step of AK Party's election strategy, will include projects carried out before the election.

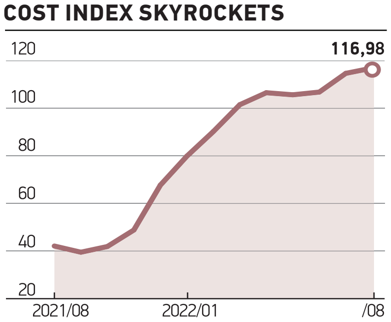
GDP PER CAPITA USD	UNEMPLOYMENT RATE	INFLATION CPI	EXPORTS USD	IMPORTS USD	CURRENT-ACCOUNT DEFICIT USD	ECONOMIC CONFIDENCE INDEX	ICI MANUFACTURING PMI
9,539	9.6%	83.45%	21.3 BN	32.5 BN	14.9 BN	94.3	46.9
2021	(AUGUST)	(SEPTEMBER)	(AUGUST)	(AUGUST)	(2021)	(SEPTEMBER)	(SEPTEMBER)

INDUSTRIAL PRODUCTION SLOWS

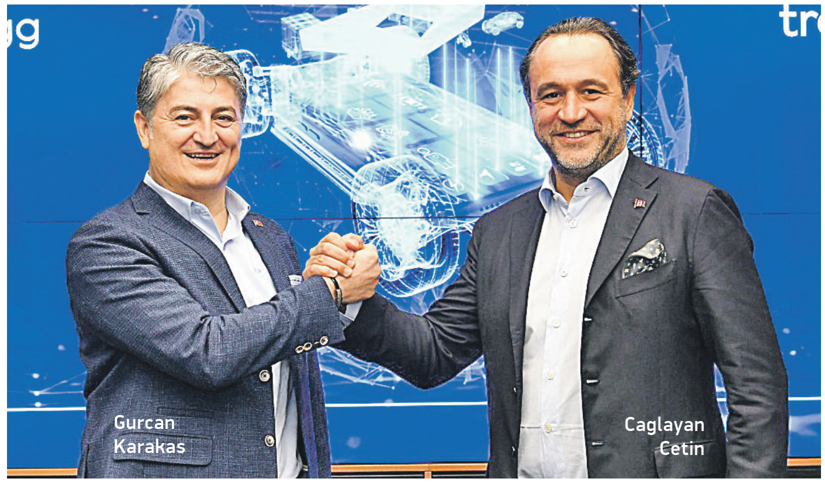


The Industrial Production Index rose by 2.4% in August, compared to the previous month, according to the Turkish Statistical Institute (TurkStat). The annual industrial output increased by 1.0% in August, versus the market estimation of 4.0%. The index annually surged by 4.05% in August, according to unadjusted data. Economists expected the unadjusted index to climb by 6.6% in August-year-over-year. The mining and quarrying index decreased by 12.4% and the electricity, gas, steam, and air conditioning supply indexes dropped by 3.5% while the manufacturing index increased by 2.2% in August, compared to the same month last year. The mining and quarrying index declined by 3.9%, while the manufacturing index surged by 2.7%, and the electricity, gas, steam, and air conditioning supply index increased by 2.8% in August, month-over-month.

CONSTRUCTION COST INDEX SKYROCKETS



The Construction Cost Index (CCI) jumped 116.98% in August, compared to the same month last year, according to the Turkish Statistical Institute (TurkStat). The CCI increased by 1.98% monthly. The material index rose by 2.23% while the labor index surged by 1.16% in August, month-over-month. The material index soared by 129.61% and the labor index climbed by 83.84% in August, as compared to August 2021. The CCI for civil engineering increased by 1.10% in August, month-over-month. The CCI for civil engineering surged by 130.51% in August on an annual basis.

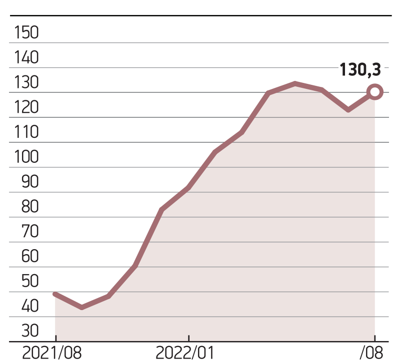


TOGG AND TRENDYOL TO JOIN FORCES FOR USER EXPERIENCE

Turkey's Automobile Joint Venture Group (TOGG) and the e-commerce platform Trendyol signed a letter of intent to develop joint solutions in user experience. "With this letter of intent we signed with Trendyol, users will be able to benefit from the services of both TOGG and Trendyol under the legislation," said M. Gurcan Karakas, CEO of TOGG. As part of the partnership, the parties will mutually integrate services created for users in three phases. "We have a significant production capacity and knowledge in digitalization technologies. With this cooperation, we are laying the foundation for the joint journey of these two ecosystems," said Caglayan Cetin, Group President of Trendyol. The two companies will establish joint working groups for integration projects.

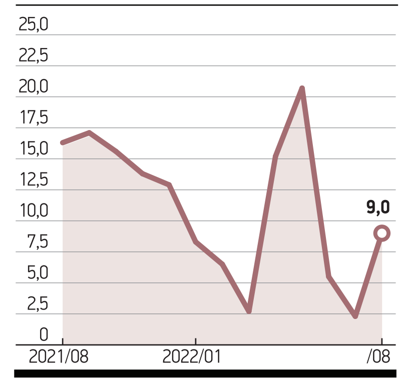
TOTAL TURNOVER INDEX UP IN AUGUST

The total turnover index, including the manufacturing, construction, trade, and services sectors, jumped 130.3% in August, compared to the same month last year, according to the Turkish Statistical Institute (TurkStat). In terms of sub-sectors, services soared by 160.1%, manufacturing climbed by



123.7%, trade by 127.3%, and construction by 111.5% in August on a monthly basis. The total turnover index rose by 6.8% month-over-month in August. In terms of sub-sectors, manufacturing increased by 5.7%, construction surged by 10.7%, trade by 6.3%, and services by 9.2% in August, as compared to July.

RETAIL SALES INDICES ON THE RISE



The retail sales volume at constant prices rose by 9.0% in August, compared to the same month last year, according to the Turkish Statistical Institute (TurkStat). Food, drinks and tobacco sales increased by 11.5% and non-food sales except automotive fuel sales surged by 12.8% while automotive fuel sales dropped by 4.3% in this period. Retail turnover at current prices, meanwhile, soared 128.8% in August, year-over-year. Food, drink, and tobacco sales, non-food sales, excluding automotive fuel sales, and automotive fuel sales jumped 119.4%, 119.2%, and 174.3%, respectively, in the same period. The retail sales volume at constant prices rose by 3.7% and retail turnover at current prices increased by 7.6% in August, as compared to June.

NUMBER OF PAID EMPLOYEES UP IN AUGUST

The total number of paid employees in the manufacturing, construction, and trade-services sectors surged by 7.5% in August, compared to the same month last year, according to the Turkish Statistical Institute (TurkStat). The number of paid employees increased from 13.7 million to 14.7 million in this period. Zooming in on sub-sectors, the number of paid employees in the manufacturing, construction, and trade-services sectors increased by 6.4%, 4.3%, and 8.8%, respectively, in August, year-over-year. The total number of paid employees in the manufacturing, construction, and trade-services sectors rose by 1.3% in August monthly. Zooming in

AMERICAN SANITON PLASTIC TO MAKE TURKEY A REGIONAL HUB

U.S.-based plastic bottle manufacturer Saniton Plastic, which has reduced carbon emissions by 35% with its new interlocked plastic bottle design, will make Turkey a regional center, according to Alaa Hattab, CEO of Saniton Plastic. The company has also decreased logistics and storage costs with its new design. Saniton Plastic is currently in the agreement phase with five companies in Turkey for its interlocked bottles, which will be released to the country synchronously with the U.S. at the beginning of 2023. "Turkey is a favorable country to start transformation in the industry. Istanbul will be our regional center as it has great transportation advantages," said Hattab. The company, which has already started to work with some firms in Turkey, will invest tens of millions of dollars in the first six months of the next year. "Contracts are in the final stage. We'll announce them soon. One of the companies we've inked a deal with is among Turkey's largest ice tea brands," said Hattab. "The adverse economic conditions haven't affected our company's investment plans. Turkey will lead all our regional operations," Hattab added. TAMER ISITIR

on sub-sectors, the number of paid employees in the manufacturing, construction, and trade-services sectors surged by 1.1%, 1.8%, and 1.3%, respectively, in August, month-over-month.

SHORT-TERM EXTERNAL DEBT STOCK SOARS IN AUGUST

The short-term external debt stock jumped 13.6% to USD 138.1bn in August, compared to the end of 2021, according to the Central Bank. Banks' short-term external debt stock rose by 8.2% to USD 55.6bn and the short-term external debt of other sectors climbed by 15.4% to USD 50.9bn in the same period. The short-term external debt of the public sector consisting primarily of public banks, soared by 13.6% to USD 25.2bn while the private sector's short-term external debt rose by 10.9% to USD 81.3bn at the end of August, compared to the end of 2021. The remaining maturity-based short-term external debt stock hit USD 185.9bn at the end of August.

Policy rate cut 1.5 points

ECO ANALYSIS

ALAATTIN AKTAS

I WAS WRONG, but I wasn't the only one. Almost everyone expected the policy rate to be reduced by one point, but it was cut by 1.5 points. The policy rate was cut from 12% to 10.5%.

An important detail indicating what will happen in the coming period was included in the Central Bank's (CB) Monetary Policy Committee (PPK) statement.

As the policy rate was reduced from 13% to 12% in September, it was assumed that there would be 1-point cuts for the rest of the year. The policy rate was supposed to be cut to 9%, a single digit.

President Recep Tayyip Erdogan made statements in this direction and said the rate cuts will continue and the policy rate will fall to a single digit.

But the PPK statement shows that the policy rate will decline to 9% before December.

Here is what the PPK said in the statement after it expressed its decision to implement a 150-basis point rate cut:

"The Committee will take a similar step in the next meeting and will end the rate cut cycle."

This issue seemed to be discussed and planned before the PPK meeting. The Committee has now made a preliminary announcement.

So, we can say the interest rate will be cut to 9% at the meeting on November 24, a month earlier than expected.

The justification for the rate cut is always the same, the statements have been very similar for the past three months. However, two additional words were added to the statement this month. Here is what the statement said:

"It is (critically) important that financial conditions remain supportive to preserve growth momentum in industrial production and the positive trend in employment in a period of increasing uncertainties with regards to global growth and a (further) escalation of geopolitical risks. Accordingly, the Committee has decided to reduce the policy rate by 150 basis points."

The words 'critically' and 'further' weren't included in the previous two statements, and they were added to this statement. Apparently, expressions were an attempt to make the statement stronger, but the just was the same.

Let's assume that it's December. Although the interest rate in the market is different, the CB's policy rate is at 9% and USD/TRY hovers around 18.00-19.00.

Let's assume that the date is Tuesday, January 3, 2023. The monthly inflation of 13.58% last December is gone, replaced by 65%.

Let's assume that the date is Friday, February 3, 2023. Monthly inflation rose to 11.10% in January and the annual rate fell to 50-55%.

The rate of increase in inflation will slow while prices will continue to increase, but the government will argue that prices are declining.

BRITISH HYVE GROUP EXITS TURKEY

The UK-based exhibition and conference organizer, Hyve Group, has sold its Turkey office at a loss and has left the Turkish market. The group has handed over its Turkey operation Hyve Fuarcilik Anonim Sirketi and its subsidiaries to another British international trade exhibition and conference organizer, ICA Events, for GBP 8m (TRY 166m). Hyve Group has exited from Turkey due to geopolitical risks and risks arising from foreign exchange (FX) rates, according to a statement from the company. The group organized five events in a year in Turkey. Hyve Group entered the Turkish market in 2011, when it acquired the fair company Yem Fuarcilik for GBP 16m. ICA Events, which bought Hyve Group's assets in the country, organizes over 50 fairs, trade shows, and conferences in the UK, Poland, Azerbaijan, UAE, Kazakhstan, Uzbekistan, and China. Thus, ICA Events has entered the Turkish market with the acquisition. KERIM ULKER

PEUGEOT TO MAKE TURKEY ITS FIFTH LARGEST MARKET

Carmaker Peugeot, which is incorporated by Netherlands-based Stellantis Group, aims to raise Turkey's ranking from seventh place to fifth place among its 140 global markets, according to Linda Jackson, Global CEO of Peugeot. The brand, which has a 4% market share in Turkey as of September 2022, plans to increase this figure to 8% in the short term. To do so, Peugeot aims to break a historic sales record of 57,000 vehicles and reach a market share of 7.4% in the country next year. The carmaker also plans to be among the leading brands in the shift to electric vehicles (EVs). "For instance, we'll launch our electric SUV (sports utility vehicle) e-2008 this month. We want to create the necessary customer experience and ensure knowledge. We'll also bring our EV e-308 to the country next year," Jackson noted. She also said 29% of the sales volume of Stellantis Group comes from Turkey. "Peugeot creates a substantial part of this. One-third of sales in the Middle East come from Turkey. That's why Turkey is important to us," she added. AYSEL YUCEL

JAPANESE TOYOTA TO RAISE PRODUCTION AT SAKARYA PLANT

The Japan-based carmaker Toyota's Turkey operation Toyota Otomotiv Sanayi Turkiye has received the project-based incentive certificate for its TRY 6.95bn investment to increase the capacity of its hybrid vehicle and battery production at its manufacturing plant in Sakarya. As part of the investment, the company will manufacture 162,000 units of hybrid and chargeable vehicles and 44,000 batteries at the Sakarya production plant annually. "This investment reflects Toyota's continuous development approach. It is also an important step to manufacture vehicles to respond to different expectations with the support of Toyota's production infrastructure," said Erdogan Sahin, CEO and General Manager of Toyota Otomotiv Sanayi Turkiye. Within the frame of the project-based incentive certificate obtained for the investment, Toyota will benefit from customs duty exemption, the Value-Added Tax (VAT) exemption and the VAT refund, and 100% tax reduction support. HUSEYIN GOKCE

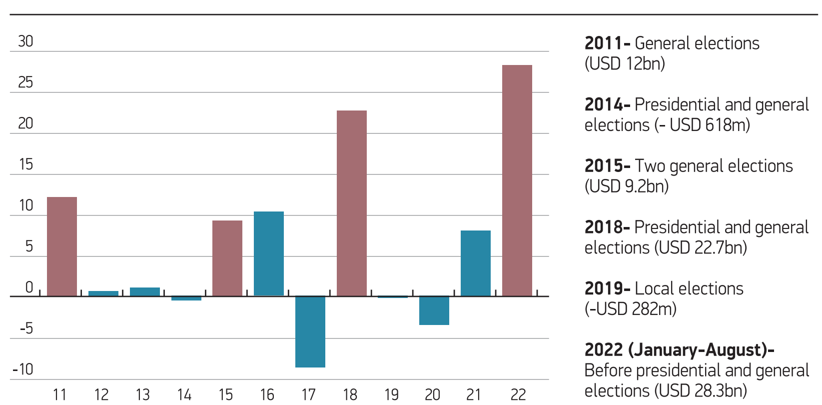
NEVCO HOLDING BUYS ALL RIGHTS TO SIERRA NEVADA COFFEE

Operating in the food and tourism sectors, Nevco Holding has acquired all global rights of Colombian Sierra Nevada coffee for USD 38m. The holding company previously brought the Sierra Nevada coffee to Turkey with its Nevada Coffee brand. Nevco Holding has also set new goals following the purchase, according to Ercan Narinc, Chairman of the Board of Directors of Nevco Holding. "Ercan Burger, Miss Crispy Chicken, and Nevada Coffee are the most active and well-known brands of our company. Nevada Coffee has 15 locations now. We aim to raise this figure to 40 at the end of this year and 500 within five years," said Narinc. Nevada Holding currently employs 2,250 people. The holding company plans to increase its employment to 20,000 people by the end of 2027.

FOCUS

ALAATTIN AKTAS

IS THE INCREASE IN NET E&O BEFORE ELECTIONS A COINCIDENCE?



The 8-month net errors and omissions (E&O) in the Turkish budget totaled USD 28.3bn. E&O have increased significantly this year. In Turkey, there has been a significant, indirect link between elections and E&O since 2011. Turkey grants fiscal amnesty before almost all elections. In this way, FX taken abroad or that which was supposed to be in Turkey but is held abroad, flows into the country. We don't know where to register this FX and therefore write in the E&O column. But the FX inflow linked with elections can't be based only on amnesty, as elections require expenditures, financing, and plenitude. So, it's good to have FX and it's necessary to find FX for elections. The 8-month USD 28.3bn net E&O should be evaluated in this context. 2016 was the only year without a link between elections and net E&O since 2011. A USD 10bn FX inflow in 2016 is worth noting. Amnesty was among the most important reasons for this inflow. Net E&O totaled USD 8.8bn in 2017 and broke an annual record. Net E&O is expected to increase in the last four months. We'll see if it is collectively revised in December as it was in 2021 and if net E&O rapidly declines. A USD 18bn net E&O decreased by USD 10bn in January-November 2021 and decreased to USD 8bn for the entire year.

HITACHI ASTEMO TO INVEST EUR 20M IN CAPACITY INCREASE

The Japan-based automotive products manufacturer Hitachi Astemo's Turkey operation plans to double production at its manufacturing plant in Bursa with a EUR 20m investment, according to Murat Bayram, General Manager of Hitachi Astemo Turkey. The facility will be able to produce one brake in 1.5 seconds, with capacity gradually increasing until 2025. Hitachi Astemo Turkey currently has the capacity to manufacture 4 million units. "However, we use 3 million units of this. Our annual sales hover around EUR 110m. We aim to increase our production to 6.5 million units and annual sales to EUR 220m when our new investment is completed," said Bayram. As part of the investment, the total area of the facility will be increased from 12,000 square meters to 15,000 square meters and the company's employment will rise from 280 to over 420 people. "We currently manufacture for Ford, Tofas, Renault, and Toyota. We'll be further the supplier of four new carmakers with the capacity increase," said Bayram. ALI SAHIN

TARIM KREDI TO IMPLEMENT TRY 750M GROCERY PROJECT

The Agricultural Credit Cooperatives of Turkey's (TTKK) supermarket subsidiary, Turkiye Tarim Kredi Kooperatifi Marketleri (TTKKM), will implement a grocery project to reach more customers with a TRY 750m investment, according to Huseyin Aydin, General Manager of TTKK. TTKKM plans to reach 3,000 sales points with the project in the first quarter (Q1) of 2023. "We'll make an agreement with our business partners, and they will allocate some of their groceries to us. Thus, we'll increase the number of our sales points to 2,500-3,000 in Q1 2023," said Aydin. TTKKM set up new warehouses in Hendek, Luleburgaz, Kayseri, Trabzon, and Diyarbakir. "Half of them have been opened. We manufacture more than 600 of the 1,600 products sold at our supermarkets," Aydin added. TTKKM currently has 1,300 sales points, six production plants, 40 warehouses, and 7,939 employees. "We aim to increase the number of sales points to 1,863 at the end of this year. We expected our turnover, which amounted to TRY 5.2bn in 2021, to reach TRY 12.3bn this year," Aydin noted. YENER KARADENIZ

TAIWANESE YCM TO SET UP USD 15M MANUFACTURING PLANT

Taiwan-based machine tools manufacturer YCM has invested USD 15m to set up a production plant. The construction of the factory, which is located in the European Free Zone in Tekirdag, will be completed at the end of this year, according to Alex Wei, Turkey Country Manager of YCM. "We'll employ 100 people in the first stage. We'll work with Taiwanese engineers in the first three years at the factory. Then we'll work with engineers in the region. We attach importance to investment and employment in Turkey," said Wei. YCM will produce 50 units of machine tools monthly when the manufacturing plant becomes operational. Wei said this figure may increase in the short- and medium-term in line with demand from the market. YCM sells 50% of its outputs to Turkey while it exports the remainder. "We sold 300 units of machine tools in Turkey last year and we earned around USD 20m in revenue," Wei added.

CHINESE SOLIS INVERTERS ENTERS TURKEY WITH ZORLU ENERJI

The China-based Ginlong Technologies' solar inverter subsidiary Solis Inverters has penetrated the Turkish market with Zorlu Holding's energy subsidiary, Zorlu Enerji. Solis Inverters inked a distributorship deal with Zorlu Enerji for Turkey and the region. "Solis Inverters was interested in the Turkish market as Turkey is an important center from which to reach Europe," said Evren Evcit, Solar and Foreign Investors Director of Zorlu Enerji. Zorlu Enerji has given a preliminary order for inverters with a capacity of 1,000 megawatts.

Experts interpret the PPK decision

▸ *DECLINING RATES EASE FINANCING DEFICIT*

PROF. DR. ERHAN ASLANOGLU

The policy rate will be cut to 9% in November. We expect these policy rate decisions to have an impact on foreign exchange (FX) rates, credit expansion, and inflation. We see that Turkey's monetary policy has been neutralized. FX rates are being managed with macro-prudential policies, liraization, and reserve policies. The net errors and omission item in the balance of payments is determinative of FX rates. It'll continue for a while. Declining rates reduce the borrowing cost of the Treasury and ease financing for the possible budget deficit. Continuing to ease the monetary policy increases medium-term inflation, while also raising inflation.

▸ *TREASURY NEEDS NEW BOND ISSUANCE*

DR. ATILIM MURAT

It doesn't matter whether the rate is at 10.5% or 9%, as the market mechanism doesn't work properly. The rate cut won't reflect on loan interest rates (IR) as we've already closed the credit channel. Macroprudential policies for which a symbolic IR is changed are more important. Those who set this policy probably see that banks don't need to collect deposits. That's why the Treasury needs a new bond issuance. Banks that won't achieve the TRY deposit ratio will demand a TRY 80bn bond. Considering the current size of Treasury bonds, the institution doesn't hold such a bond amount. So, there will need to be bond issuance once again.

▸ *DECLINE IN BOND INTEREST RATES*

SERKAN GONENCLER

The Central Bank (CB) continues to prioritize growth. A single-digit policy rate is possible in November. The downward pressure on TRY bond IRs may continue against high inflation expectations. The decline in TRY bond IRs may facilitate the government in terms of expansionary fiscal policy in the upcoming period.

▸ *NOTHING NEW ABOUT INFLATION*

DAGLAR OZKAN

The Monetary Policy Committee (PPK) statement looks like the statements in August and September except for the direction for November. The statement doesn't include a new statement about macroprudential policies and inflation. The nominal TRY devaluation will increase, which will positively affect the foreign trade balance in a period when the current account balance has deteriorated, portfolio outflows continue, and external debt service increases. We don't expect a disordered FX shock as we saw in 2021.

▸ *A 2-POINT RATE CUT POSSIBLE IN Q1 2023*

DR. TUGBERK CITILCI

The base scenario is that the policy rate will be cut by 150 basis points to 9% in November and the rate cut will end for 2022. In this context, the CB will hold off in its December PPK meeting and craft its policy based on the conditions in Q1 2023, including with Euro Zone economic activity, recession, and export dynamics. Accordingly, the CB may implement a 200-basis rate cut in Q1 2023.

Rafinera to pioneer cloud kitchen market

► BY HUSNIYE GUNGOR

RAFINERA, the first daily meal plan service company in Turkey and the second in Europe, is using its 15-year experience to branch into cloud kitchens. Established in November 2021, Rafinera Cloud Kitchen (RCK) has already reached 21 registered brands that appeal to different target audiences. The initial investment it received from Credia Ventures in July is being used in domestic expansion and technological infrastructure investments. However, the series A investment tour RCK is planning for will be critical for entering global markets as well as supporting growth, according to Didem Altinbasak Tulgan, founder of Rafinera.

"The valuation of RCK is estimated to reach TRY 200m in the latest investment round. The USD 5m funding we expect from the Series A investment to start at the beginning of 2023 will support our plan to expand abroad, to European countries preferably, though we have not determined the destination yet," Tulgan said. The target in the meantime for RCK is to complete Istanbul's penetration, reaching more than 200 virtual restaurants with its 30 registered brands by the end of 2022.

The RCK concept consists of a central kitchen and several satellite kitchens connected to it. The meals prepared in the central kitchen (which is located at the Rafinera company headquarters) are delivered to consumers with final touches made in the satellite kitchens. RCK reaches the consumer through virtual restaurants, which specialize in different tastes such as meatballs, hamburgers, pizza, ravioli, and soup, all created in these satellite kitchens.

These virtual restaurants do not have seating, tables, or waiters, and consist of a shared kitchen where meals are prepared by chefs and other food handlers, as well as packing areas. Orders placed by customers on food platforms such as Yemeksepeti, Getiryemek, Trendyolyemek, and Fuudy are prepared in these kitchens and delivered to homes and workplaces via RCK couriers within minutes.

These virtual restaurants offer a serious cost advantage as they save on physical restaurant expenses like rent and labor force, and share other expenses. In addition, since they only focus on delivery, they can focus more on the flavor and presentation of the meals, according to Tulgan. "For example, sometimes we can do months of R&D work to find the right box that will best deliver a meal to the customer," she said.

This reflects positively on the consumer experience, she added. "Satellite kitchens serve many RCK brands at the same time and couriers are used jointly. This, therefore, provides a cost advantage since expenses are shared. That's how we can deliver higher quality food at more affordable prices for our customers," Tulgan noted.

TRANSFORMING INTO A FOOD-TECH COMPANY

Backed by a daily meal plan service experience of 15 years, RCK today defines itself as a food-tech company. Thus, research and development (R&D) lies at the heart of the company. For instance, the meals are delivered by RCK couriers in special heated bags, which receive energy from the charger sockets of the motorbikes to keep the delivered meal at optimum service heat.

RCK has also created a software called Gazla, meaning speed up. "The Gazla software kicks in when orders come into our kitchens. It determines the optimum timing with live traffic data by analyzing information such as meal preparation time, delivery time, and delivery destination. The order is seen on the system immediately after the software runs," Tulgan detailed. Thus, orders for different RCK brands for delivery destinations close to each other can be handled by a single courier, and resource optimization is achieved, she said. RCK has invested USD 300,000 for R&D between 2020 and 2022 and the plan is to make an additional USD 100,000 in 2023 and 2024, she added.

USD 10M TARGET FOR 2023 YEAR-END

RCK has opened three satellite kitchens, each of which consists of 13 virtual restaurants, reaching more than 30,000 unique customers in one year. The company is planning to end the year with 6 to 8 satellite kitchens as part of its Istanbul expansion. "Return on investment for each of our satellite kitchens is three months. The total of capital expenditures (CapEx) and operating expenses (OpEx) for this period is USD 100,000," said Tulgan, adding that their 2023 year-end turnover target is USD 10m, according to the

A BUSINESS INSPIRED BY A PREGNANCY ISSUE

Rafinera, the first daily meal plan service company in Turkey, is the parent company of Rafinera Cloud Kitchen (RCK). The start of the business in Istanbul in 2007 was inspired by the birth of Didem Altinbasak Tulgan's daughter Nil. "While I was pregnant, I suffered from nutritional problems. After traveling to the U.S. for treatment, my dietician introduces me a diet delivery system with an ideal meal plan. I found this not only benefited the baby but my own health. I felt much healthier and energetic in the pre-pregnancy," she said. After giving birth to her baby and moving back to Istanbul, Tulgan searched for a similar system to help to lose weight from her pregnancy. However instead she found herself establishing a new business plan for Rafinera since there were no company giving this service. This 15-year experience in food and delivery, she decided to start a food-tech and established RCK in November 2021.

'WRAP AND WING ORDERS INCREASE DURING FOOTBALL GAMES'

There is no special type of food for cloud kitchen. "We can create and deliver all kinds of products that you can serve at home via cloud kitchen," says Didem Altinbasak Tulgan, founder of Rafinera Cloud Kitchen (RCK). "While students prefer hamburgers, families with small children prefer ravioli or meatballs. While an increase is observed in wrap and wing orders during football game times, we see an increase in taco and appetizer demands at weekend evenings. While pizza is mostly preferred at night, hamburger is the most ordered product group on weekends."

planning made before the Series A investment tour. The current employment figure of 140 is increasing day by day with newly opened kitchens.

The cloud kitchen concept is growing around the world and investments have increased due to the economic conjuncture we live in, according to Tulgan. "The satellite kitchen has started to become an industry where big players show their presence globally. There is a trend in this direction from different sectors in Turkey as well," she said.

FOCUS ON TASTE AND SERVICE

However, the most important issue here is the experience of food and service. "Since the rules and dynamics of the satellite kitchen concept have not yet been fully determined, I think that companies that can adapt quickly to change, constantly improve themselves, and work with a focus on taste and customer satisfaction will be successful in this sector," Tulgan stated.

There are different initiatives under the concept of cloud kitchens in Turkey, but very few companies do this as of yet, Tulgan said. "For example, companies that open mutual kitchens for brands that do not have a restaurant in a region can also be called cloud kitchens. We are among the pioneers of the industry as we have determined this as our sole focus. We are working on cloud kitchens both in terms of creating new brands and in R&D."

Speaking about creating new brands, RCK's focus is always on quality and taste, Tulgan added. Therefore, the RCK team is working on ensuring its brands are in the top three of their class in a specific sales region. They even halt the sale of brands that are not in the top three in a given region.

THERE IS ROOM FOR MARKET GROWTH

Uncertainties at the beginning of the pandemic negatively affected the food delivery sector, as well as the entire food industry. However, following the announcements that the virus was not directly transmitted from food, solutions such as contactless delivery caused rapid growth. The increase in working from home and the price-oriented approach brought about by the economic crisis further triggered this growth.

Tulgan also believes that the industry will grow exponentially in the coming period. She wants other companies to enter this industry, which she thinks will encourage competition. "I believe that Turkey will be a very good market if a common denominator can be found to keep the quality and the dynamics of the sector up," she concluded.

China reconfirms Xi Jingping's leadership

ILTER TURAN
PROFESSOR

WE ARE so focused on the Ukraine-Russia conflict these days that major developments in other domains fail to receive sufficient attention. This week the Chinese Communist Party held its quint-annual congress. Though no surprises were expected or took place, the meeting signaled changes that are of critical importance and may have long term consequences.

The first important outcome is the re-election of Xi JingPing as the Secretary General of the Chinese Communist Party. This is not a surprise. Mr. Xi had been tightening his control over the party for sometime, eliminating potential rivals and sources of opposition to his rule. It was known that some of the senior members of the party's central committee were opposed to his continuing in office in violation of the rule they had been trying to establish, which said that a Secretary General serves no longer than two five-year terms. The prolonging of Mr. Xi's rule to a third term is problematical. In contrast to liberal democratic systems, where elections provide an opportunity to change political leaders, authoritarian systems lack a routinized pattern of leadership change. This constitutes a destabilizing weakness. Those who want to bring about change have to revert to unorthodox methods for achieving their goals. It is too soon to say what the implications of Mr. Xi's continuation in office will be. If it becomes clear that this is his last term, competition within the party would turn toward determining who shall succeed him. If he indicates that he plans to stay longer, problems might arise.

Next, Mr. Xi, after bragging that Hong Kong is under control, has engaged in saber rattling, suggesting that Taiwan will become a part of China. In view of the competitive environment that has emerged in the Pacific, it is natural for him to talk a tough line. With Biden's election, America appears to have made a strong comeback, leading a security system designed to contain China's expansion. China may feel compelled to show that it will not be cowed into inactivity but rather it will fortify its military prowess to resist American challenges. What is difficult to judge is the extent to which this emphasis on security, including the reintegration of Taiwan to the "homeland," is aimed at domestic consumption with a view to diverting attention from the economic problems China is encountering, some deriving from the general state of the international economy, some owing to restrictive trade practices that the West led by the United States are imposing on China, but also some that are direct products of the economic policies Mr. Xi has pursued.

This brings us to the economic policies that Mr. Xi has chosen. His highly restrictive method of fighting the Covid pandemic is known to have been costly. Some cities have been almost completely shut down with people confined to their homes. More problematic in the long run may be Mr. Xi's preference for the expansion of state economic enterprises and his decision to reduce the role of private corporations in the Chinese economy. That authoritarian systems do not like the growth of autonomous centers of power is an understandable proclivity. But, this has to be balanced against the reality that the economic prosperity China has given its population in recent years has been closely linked with export orientation and successes of its private sector. Discouraging private actors at the expense of state companies may dampen considerably the economic growth China has enjoyed. China's economic growth rate has already begun to decline. Mr. Xi's new economic policies may expedite this trend and undermine the economic prowess China has achieved.

One fascinating omission from discussion are references to the Belt and Road project. Until recently, this project was the flagship of Chinese economic policy directed to West Asia, the Middle East, Africa and even Europe. It appeared to have in it something for everyone. Some facilities, like harbors and roads, were already built and more were promised. However, this project was not featured in Mr. Xi's speech. Why, one wonders? It is possible that the current global economic decline and universal inflation coupled with the weakening of the Chinese economy have rendered it a poor time to pursue such a comprehensive policy, comprising many infrastructure investments aimed at expanding trade. The current state of the Chinese economy may mean it is necessary to back off international infrastructure investments. Furthermore, some countries have chosen to cancel projects because failure to pay debt results in the acquisition of property by the Chinese. And finally, in some countries, Chinese investments implemented by Chinese companies and personnel have generated anti-Chinese sentiments.

What is certain at the moment is that Xi JingPing will continue at the helm of power. What this means is not entirely clear. From the speech, it may be inferred that Chinese-Western relations will be entering a difficult period. Mutual dependence is powerful, however, generating hopes that competition will not escalate into armed conflict but to negotiations and agreements and an uneasy coexistence.

Q&A

We experience an ‘inflation’ rally on Borsa Istanbul

►BY BURCU GOKSUZOGLU

TUNCAY TURSUCU,
Founder of Tuncay Tursucu Danismanlik

“Companies increase prices due to inflation, yet they are able to make sales. Stock prices increase with growth in balance sheets. If they start to struggle with sales and increasing prices psych out customers, companies will start to lose profit.”

WHAT’S THE REASON FOR THE RECENT HIKE ON BORSA ISTANBUL?

We don’t have anything except equity to fight against inflation in Turkey. This is the most important reason behind the hike. This also prevented a decline in the BIST 100 index. It didn’t exceed 3,600 points but also didn’t fall below it. The tightened index showed an upward jump. There are sharp and aggressive movements in BIST Banks. The BIST 100 index has hit a record high. 4,100-4,200 points is the goal for the index in technical terms; that will probably be achieved. There has been a serious rally in the index for the past year. There have also been improvements for BIST banks during this rally. However, banks have a substantial net profit hike, their non-performing loans are declining, and the net interest rate margin has considerably increased. They will also have strong profits in the third quarter (Q3). Generally, banks increase in value; we thought the hike in value in September was such a movement. However, there was an extraordinary situation as the hike, an increase we would expect to see over a year, was seen in a month. Now, there is healthier movement. Now, we see the benefit of some implementations introduced by Borsa Istanbul. The BIST 100 index previously rose with less trading volume, but now we see a voluminous surge that has spread.

WHICH SECTORS WILL COME TO THE FORE ON BORSA ISTANBUL, ESPECIALLY IN TERMS OF Q3 FINANCIAL STATEMENTS?

The banking and aviation sectors will have strong profits. Retail companies, especially food retail companies, will have good numbers. The non-food retail sector will have strong figures. The paper and packaging sector, which was powerful in the last two quarters, is expected to have strong numbers. Food producers will also have strong numbers. There is high turnover in energy companies as energy prices are still high, therefore net profitability of energy firms will be high. Renewable energy companies may also experience a positive differentiation. Moreover, we expect a strong net profit in the petrochemical industry.

WHAT IS THE “CRITICAL LEVEL” FOR THE BIST 100 INDEX? WHAT IS THE NUMBER WE SHOULD BE LOOKING OUT FOR? WILL THERE BE A TRADITIONAL YEAR-END RALLY?

We are already experiencing a rally in the index; that’s called an ‘inflation rally’. It’s a nominal rally. This doesn’t mean good things for the economy of a country or the purchasing power of people living in that country. If the stock exchange can hold above USD 200 and increase further, it will provide a return in real terms. But there is inflation and companies are raising prices. However, they can sell their stocks despite these price hikes because their balance sheet is growing. The stock price increase with inflation is as a result of this growth. This is what we are experiencing now. There is no problem as long as they can sell. This seems to continue. However, if they can’t sell, consumption will slow, increasing prices will psych out customers, there will be a stagnation or slowdown in consumption and companies won’t make a profit. If they don’t make a profit, the stock exchange will decline. That’s an important risk for us. Q3 financial statements will be strong but we’ll examine companies’ financial statements for Q4 from this perspective.

WHAT COULD TRIGGER A RALLY ON BORSA ISTANBUL IN USD TERMS?

The index currently hovers around 208 in USD terms. If there is a development that reduces Turkey’s CDS (Credit Default Swap), and enables money and portfolio inflow to Turkey, then the index will increase in USD. Now, we aren’t seeing such a situation or implementation because the major funds that make portfolio investments in Turkey and major money managers think that the policy implemented by Turkey isn’t effective or orthodox. They don’t enter Turkey as a result Turkey’s credit rating is also low. There is a perception that the rating will increase following a few adjustments. This may also affect the index, but this isn’t on the table for now. Moreover, we’ve entered an election period. This creates uncertainty and prevents foreigners’ entrance into the country.

HAVE THE MEASURES TAKEN FOLLOWING MANIPULATION OF THE STOCK EXCHANGE FULLY ENDED RISK? WHAT FURTHER MEASURES SHOULD BE TAKEN?

Steps have been taken on the derivatives market (VIOP) side. Further steps can be taken within the Capital Market Boards of Turkey (SPK) and the Turkish Penal Code. Capital markets play an important role in increasing the savings ratio and the share of people in a country’s national income. 55% of people hold equities in the U.S. and 3% of people hold equities in Turkey. The market should be perceived as reliable and stronger regulations should ensure this reliability.

Technological innovation will prove decisive after 2025

GUNDUZ FINDIKCIOGLU
CHIEF ECONOMIST

'SINCE AROUND 1700, the world's population has grown at a compound rate that, interestingly, parallels the compounding rate of capital accumulation. Global population topped 1 billion around 1810. It rose from 1.6 billion in 1900 to 2.4 billion by 1950 and to over 6 billion by 2000. Estimates now put it at 6.8 billion. Projections put it at 9 billion or so by 2050.' (David Harvey, 2011)

EVERYTHING CHANGES ALL TOO OFTEN

Everything has changed over the span of two centuries and almost everything will change over the next two decades. Angus Maddison had published yet another tour de force just before the Global Financial Crisis, and entitled it Contours of the World Economy: 1-2030 AD, Oxford University Press, 2007. The chapter on the Roman Empire is strikingly impressive, but I would rather point to the futurology chapter here, whereby Maddison, together with the US Census Bureau and the Groningen Growth and Development Centre (GGDC), indulges into grasping the surrounds of the world economy c. 2030, equipped with population, productivity, energy and global warming estimates. In so doing, he delves into his unrivalled mastery of the macroeconomic history of many parts of this earth. We inherited from him such important concepts as catching up, falling behind, forging ahead. Furthermore, the project went on and delivered newer results, although qualitatively speaking the path delineated by the 2007 vision didn't change much.

WHAT HAS ALREADY CHANGED?

From 1952 to 1978, the world's per capita income grew faster than ever before, at 2.6% per annum, which is about 28 times as fast as in 1700-1820, and 3 times as fast as in 1820-1952. In this golden age, all parts of the world economy showed substantial improvement on past performance to the point of belabouring the obvious, i.e. that growth was indeed smooth and proportional, dismaying the unsavoury language of the Harrod-Domar model. The United States – the lead country in terms of productivity and per capita income – grew more slowly than the world average, but posted nonetheless relatively high rates of total factor productivity growth, which can be taken as evidence of rapid advance at the technological frontier. There was a remarkable degree of catch-up in Japan and the advanced capitalist countries, and that substantially reduced the per capita income gap. In China, real income grew faster than ever before, but its growth was less than the world average. Africa and "Other Asia" fell behind in relative income, but also increased their absolute income levels at historically unprecedented rates.

NEOLIBERALISM

In 1978-1995, world economic growth was much slower. The deceleration in the lead country was mainly due to a sharp drop in total factor productivity performance, suggesting strongly that the pace of advance at the technological frontier had weakened. There was a sharp slowdown in Japan and the other advanced capitalist countries, because of the weaker growth at the technological frontier and the fact that they were operating much nearer to U.S. levels of performance and hence had eroded a good part of their potential for rapid catch-up. The Asian economies were the most dynamic component of the world economy in 1978-95. Growth of per capita income accelerated sharply in China and the other 7 dynamic Asian economies. There was substantial improvement in India, but some slowdown in the 31 other Asian economies.

THE TECHNOLOGICAL FRONT

It is likely that progress at the frontier of technology will continue to be slow, in line with the evidence of slow total factor productivity growth in the lead country (the United States) which has been evident for the past quarter of a century. It is assumed that the other advanced capitalist countries and Japan will have little potential for significant narrowing of the real income/productivity gap between themselves and the United States.

This is now fairly small, and economic policy in both Japan and the advanced capitalist countries of Europe has been and is likely to continue to be less than optimal for realising their full potential. Back in the early 2000s it didn't seem unreasonable to hope for some reversal of the previous declines in per capita income in the countries of the former Soviet Union, the Middle East and Africa, and there are already signs of revival and some success in policy reorientation in Eastern Europe and Latin America, where somewhat better growth is forecast. Now Russia has become an outlier of some sort, and we don't know what will happen there. Deceleration in the dynamic Asia group seems likely as some of the countries have already arrived at levels of income where the pace of catch-up can be expected to wane, and several of them have very serious problems of adjustment to the system shocks of 1997 (flight of foreign capital, collapse of stock markets and exchange rates, escalating inflation and IMF stabilization programmes) which are likely to have repercussions for several years.

OTHER ASIA AND CHINA

In other Asia, where incomes are much lower, there is potential for growth acceleration of the type already evident in India. China seems likely to be able to grow faster than most other Asian countries a) because its level of real income/productivity is quite low; b) it has sustained a high growth trajectory for two decades and has proved capable of maintaining high rates of investment in physical and human capital; and c) it has been less exposed to the shocks which other dynamic Asian countries sustained in 1997. However, future growth is unlikely to be as fast as in 1978-1995 because it faces major problems in reforming state industry, fiscal, and monetary policy; has eroded some of the once-for-all gains from previous liberalization; and faces some slowdown in its Asian markets. The overall world projection suggests slower demographic growth than in 1978-1995, but a significant improvement in the overall growth of per capita income. World GDP is projected to grow at about 3% a year. This would be better than the 2.7% of 1978-1995, but substantially slower than in 1952-1978.

The exhibit below displays the changing patterns of world economic outlook and portrays the change as a post-1973 phenomenon. In fact, it dates from olden times as per capita income changes point to. There have been 'reversals of fortune' for individual countries, as we all know now.

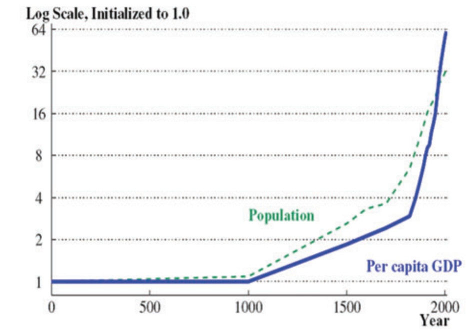
THE NEW WAVE

The new growth wave is coming up with such clarity that even rising estimates of world output for the next few years can't do justice to the technological innovation drive it carries forward and is based on. We resort to Andrew Haldane, BoE's chief economist until 2021. The Pre-1715 data is dubious, but in line with land prices. By the end of the Early Modern period, long-term rates hovered around 11%, but fell to 3% in the 18th Century. It is clear that low rates for a period extending over a decade is a good recipe for innovation. It did happen just before the First Industrial Revolution, and it is probably happening now in the form of Industry 5.0. In fact, real interest rates have been decreasing for the last 35 years. After 1990, real rates have fallen by 2 percentage points in every decade, and world real interest rates stood at (near) zero in the last few years. Hence, the "new neutral" was put to the test: zero real interest rates for years to come, or what? Despite the current high inflation in the world, if we take the long view, I think real rates will never be as high as before for a long time to come.

THIS IS ONLY THE BEGINNING

However, this is not the end of the story. If you don't do anything, no matter what interest rates are, you will achieve nothing. Temporary breaches of sparkling consumption-based growth episodes can occur if rates are low enough – or if there are other trigger mechanisms put to work – but the quality of life and work doesn't change. The new business cycle will be entirely new, and gadgets from new sources will be applied and are being applied just as they were during the First Industrial Revolution. The automotive sector is one of the patently obvious sectors that convey this message. This is a new phase. Enlightened economies and technology can and will deliver. The problem is and will be about a relatively equitable distribution of wealth and income, not about the possibility of a technology-driven affluence wave.

POPULATION AND PER CAPITA GDP OVER THE VERY LONG RUN



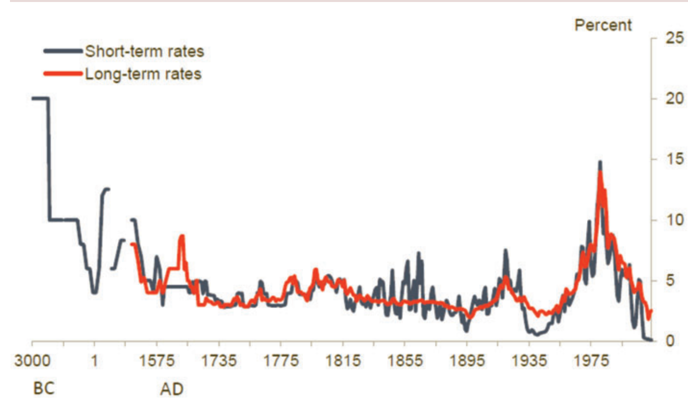
Note: Population and GDP per capita for "the West," defined as the sum of the United States and 12 western European countries. Both series are normalized to take the value 1.0 in the initial year, 1 A.D. Source: Maddison (2008).

Source: Jones & Romer (2009), "The New Kaldor Facts: Ideas, Institutions, Population, and Human Capital", NBER WP 15094

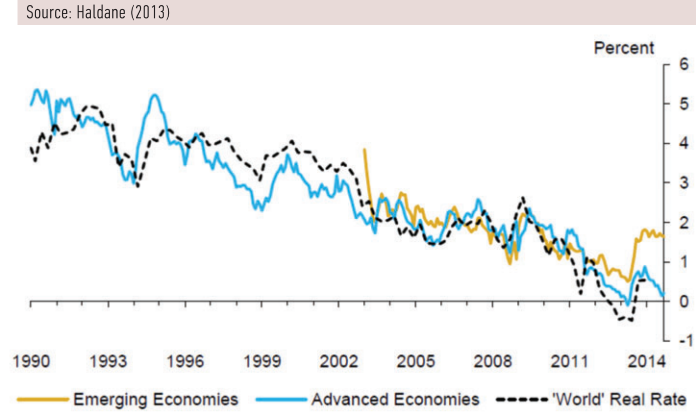
SHARES OF WORLD GDP (as %)

Shares of world GDP (as %)	1820	1870	1950	1973	2003	2030
Western Europe	23.0	33.1	26.2	25.6	19.2	13.0
Western Offshoots*	1.9	10.0	30.7	25.3	23.7	19.8
Asia**	59.4	38.3	18.6	24.1	40.5	53.3
Eastern Europe	3.6	4.5	3.5	3.4	1.9	1.3
Former USSR	5.4	7.5	9.6	9.4	3.8	3.4
Latin America	2.1	2.5	7.8	8.7	7.7	6.3
Africa	4.5	4.1	3.8	3.4	3.2	3.0

Maddison, 2007, Table 7.6, p. 340 * Includes USA **includes Japan



Source: Haldane (2013)



Source: Haldane (2013)

FOREIGN POLICY

Something is shifting in Syria

ZEYNEP GURCANLI

PRESIDENT ERDOGAN'S indication that "there could be a meeting with Assad if necessary" was a turning point for the AK Party government's Syria policy.

This statement was a sign that the Damascus regime, which Turkey officially declared as "enemy" 11 years ago and which it opposed with both political and military support, could now become a negotiation partner - under certain conditions, of course.

After this statement, a mobilization in the northern part of the country, where Turkey and opposition armed forces are in control, makes one thing that something might be happening in Syria.

This has spread to Afrin - the Idlib region is now controlled by Hayat Tahrir al-Sham (HTS), which is on the UN's list of terrorist organizations, as is Afrin. This development directly concerns Turkey, as Afrin is a region controlled by the Turkish armed forces together with the Syrian armed opposition groups following the the "Olive Branch" operation.

HTS militants advanced in Afrin, taking over some of the armed groups that Turkey has been unsuccessfully trying to gather under a single umbrella, the "Syrian National Army," for years,. In some places, they even reached the Turkish border. It is noteworthy that Turkey's reaction to this was inaction and that elements of the Turkish Armed Forces were not activated against HTS.

THE QUESTION IS: WHY?

It is possible to attribute this inactivity to many factors, including the latest developments in the international arena;

Will the Turkish soldiers withdraw quietly? The first thing to note is that HTS's entry into Afrin coincided with Erdogan's statements about "meeting with the Damascus regime." The growing discontent towards Syrian refugees in Turkey before the 2023 elections seems to have forced the AK Party government to take action in Syria.

HTS, which has been controlling Idlib for years and is the heir of the terrorist organization, Al-Qaeda, has provided relative stability in this region. However, there is also the "multi-party structure" that the TAF are trying to establish together with the Syrian opposition groups west of the Euphrates. Although the armed groups in these regions seem to be gathered under the umbrella of the "Syrian National Army," there is often disagreement, rivalry, and sometimes even conflict between them over the control of a village or neighborhood. This negatively affects stability in the region. The resulting complexity also affects the success of projects such as the "100 thousand briquette houses/1 million return" initiated by the AK Party government to send back the Syrian refugees in Turkey.

In addition, the huge cost to Turkey of the operation carried out by the TAF in Syria puts the AK Party, which is struggling with an economic crisis, in a tough spot.

After Idlib, Afrin's transfer to HTS may pave the way for Turkish soldiers to withdraw from these regions. HTS could also be put directly on the "front line" against the Russian-backed Assad army.

Could it be a precaution against Iranian influence? What is happening in northern Syria is also directly related to Russia's invasion of Ukraine. Unable to find the sudden and decisive military victory it expected in Ukraine, Russia began to shift military equipment and troops from Syria to the war zone. The decrease in Russia's military influence in the regions west of the Euphrates benefited Iran. As Russia withdrew, it began to be replaced by pro-Iranian forces fighting the Assad army. This situation caused surprise on the Western front, especially in Israel and the USA. It should also be noted that Ankara is not very pleased with Iran's increasing influence in this region.

It's also necessary to consider the leader of HTS, Colani, appearing in suits in photos rather than his usual garb. It seems he is trying to leave the "Islamist extremist" image behind. Obviously, HTS is trying to get off the UN's "terrorist organization" list and play the role of a "moderate opposition group" that will fight against the Assad administration and Iran. Will it work?

Remember the West's policy of fighting in Afghanistan first and then handing the country over to the Taliban when it doesn't suit their interests. No one should be surprised when we wake up one morning and HTS is accepted as an "opposition group" and Colani as a "moderate Islamist."

Will HTS fight the PYD-YPG? Another reason for Ankara's inaction against HTS's expansion of the area east of the Euphrates may be related to the "suddenly one night" operation, which Erdogan has been talking about since the spring, but which has never materialized.

Both the United States and Russia have made very clear and unambiguous statements that they are against the Turkish Armed Forces' initiating a new operation in northern Syria.

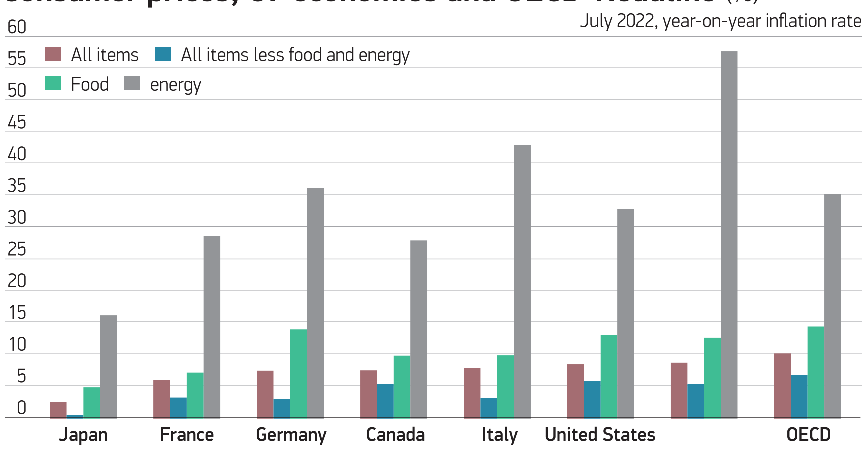
However, within the scope of Ankara's "cross-border corridor" plan for the fight against terrorism, there are two cities in the region that look like potential flash points and are controlled by the PYD-YPG, the Syrian extension of the PKK terrorist organization: Manbij and Tel Rifat.

Could it be that the AK Party government is paving the way for HTS to carry out the "suddenly one night" operation against these cities?

There are a lot of questions, but things have already shifted significantly. Let's see where things go.

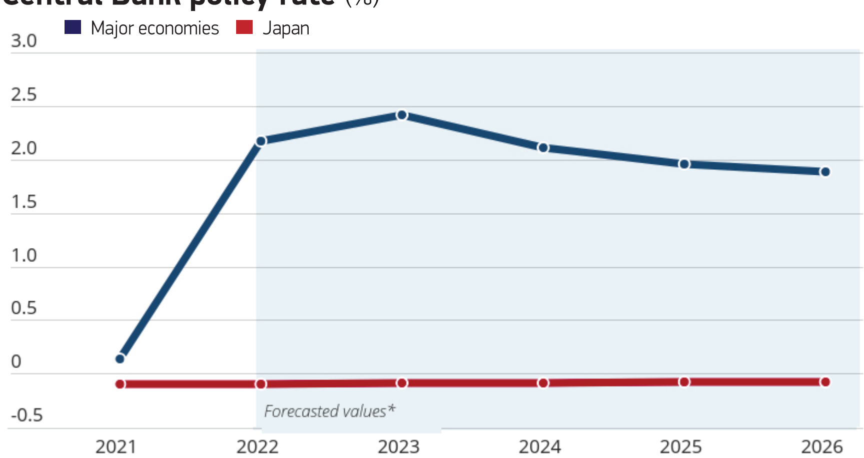
Is near zero interest rate good for anyone?

Consumer prices, G7 economies and OECD-Headline (%)



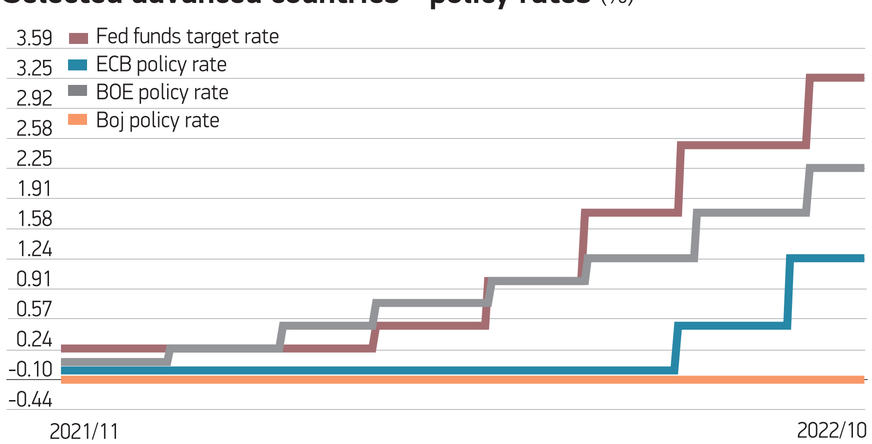
Source: OECD (2022) Prices: Consumer prices (database)

Central Bank policy rate (%)



Source: FocusEconomics july 2022

Selected advanced countries - policy rates (%)

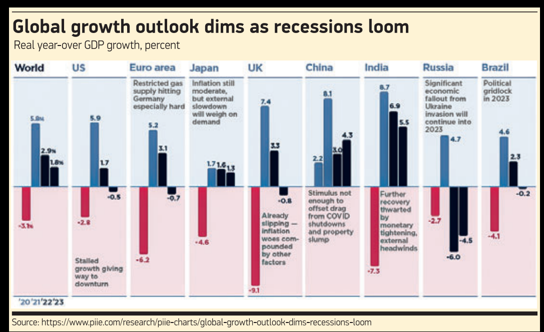


- No, of course not: even near zero real interest rate is generally not a good omen, but nominal near zero rates are a disaster. They either mean deflation or a long-term secular stagnation.
- This was the case in Japan after the 1989 stock market crash. Japan could never recover despite or precisely because of near zero interest rates, rates that betrayed deficient domestic demand.
- Even after the Ukraine-Russia war, Japan continued to be a low inflation country although it faces the same constraints other countries face. Yet, there are state controls in Japan and utilities have secured long-term contracts that stabilize costs.
- The same applies to agriculture. Japan imports wheat via a state enterprise that fixes prices up to 6 months. Price hikes happen only gradually in both energy and food markets despite frequent global supply shocks.
- Interest rates have been near zero since 1995 because there is no inflation. Today, for the first time in almost three decades, inflation nears 3%. Is this a good thing? Well, 3% is quite high by Japanese standards but it won't last long.
- It won't last long because domestic demand has always been weak. The labour market is also weak: only 60% of Japanese are in the work force. This is the curse of an aging population.
- Both households and companies are savers. Too much saving isn't good – Keynes explained why in the early 1930s. The 'paradox of thrift' makes people poorer than they would otherwise be.
- As such, low interest rates aren't the source of any economic good. High interest rates aren't a good omen either but only if they are excessively high. Low rates are usually the result of a deficient demand and low growth potential.
- Low rates don't cause growth. Rather they are the consequence of low growth. The optimal real rate of interest should be slightly below the real potential growth rate, i.e. 3-4% for Turkey if inflation falls to single digit.
- The equilibrium path would look like 5% real GDP growth, 10% CPI inflation, and 13-14% nominal interest rate. All other rates are either 'artificial' or out of equilibrium rates.

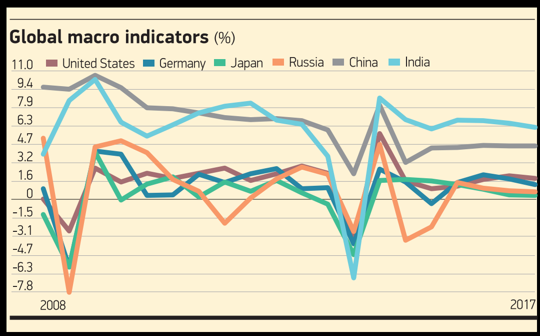
Expecting a (hopefully) short-lived global downturn

The problem with the U.S. is that after a full year of weak growth, inflation is still high. The recession induced by the pandemic has been reversed in 2021, but only because there were high-powered incentives.

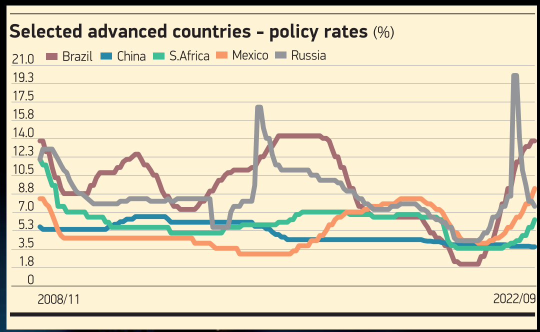
- Monetary expansion-cum-large fiscal packages made a return to high growth possible. There was also the bounce back effect after the 2020 debacle, and that made the comeback from a 2.8% GDP contraction to 5.9% GDP expansion.
- However, the comeback proved to be short-lived but the inflationary effect of the measures is lasting. In 2022, growth is weak and analysts expect another year of GDP contraction along with high inflation.
- Europe was doing OK, but after the war in Ukraine, it has been hit hard by lower gas supply. China is expected to grow at an acceptably high rate in 2023, but only if it can engineer ways to cope with COVID shutdowns and the crisis in the real estate market. All in all, the global economy is visibly slowing down as we speak.
- Interest rates will remain high in 2023. From 2024 onwards, however, the outlook isn't that clear. Rates were never very high in the long view although they were exceptionally high through the 1970s; that is after the first oil shock of 1973. The 1970s have left an indelible dent in the back of people's minds, though, so many people think a high interest rate is the norm. It isn't.
- The period between 1975 and 1980 was the beginning of the increase in size and importance of the financial sector relative to the overall economy.



Source: https://www.piie.com/research/piie-charts/global-growth-outlook-dims-recessions-loom



It was also the beginning of a new era of changing attitudes towards the social conflict. Not only income and wealth distribution became tilted in favour of high income groups, but also the nature of work has changed. In a year or two we will see what will happen next: low rates perhaps but not a repetition of 1975-1980.



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