

Automotive Sector *in Turkey*

April 2018

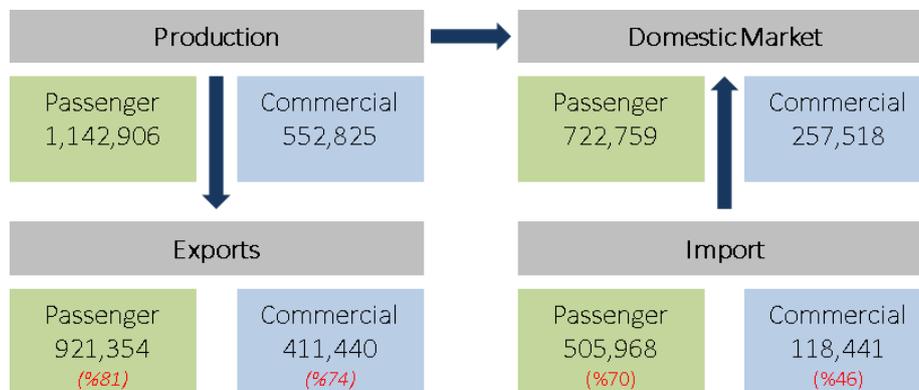
Turkish Automotive Sector in General

Automotive industry is one of the leading sectors in Turkish economy, taking into consideration the high added value it creates. Using inputs from iron-steel, rubber, glass, textile and electronics sectors, automotive sector's activity has a large impact on Turkish economy.

Turkish automotive sector has increased its production capacity by 31% and production by 48% over the last decade. Introduction of new models that are primarily produced for export markets, improvement in economic activity in Europe which is the main export market and the positive course in domestic demand have all contributed to this growth.

Turkish Automotive Sector* (thousand units)							
Year	Production Capacity	Production	Exports	Imports	Vehicle Park of Turkey	Employment (person)	Capacity Utilization Rate
2008	1,517	1,147	911	306	10,190	45,153	77 %
2009	1,516	870	628	314	10,611	39,584	57 %
2010	1,581	1,095	753	465	11,266	40,838	72 %
2011	1,583	1,189	789	539	12,062	44,896	76 %
2012	1,512	1,073	730	512	12,827	44,655	68 %
2013	1,676	1,126	825	616	13,615	42,330	73 %
2014	1,694	1,170	885	525	14,333	43,683	70 %
2015	1,730	1,359	992	659	15,315	48,748	80 %
2016	1,917	1,486	1,141	681	16,270	53,377	86 %
2017	1,992	1,696	1,333	624	17,218	54,595	86 %
2008-2017							
CAGR**	3.1 %	4.4 %	4.3 %	8.2 %	6.0 %	2.1 %	-

Thanks to robust investment growth in recent years, total production capacity of the sector exceeded 1.9 million vehicles in 2017. Both production and exports have grown considerably above the historical averages in this period. Total vehicle production of the sector approached 1.7 million units by recording an increase of 14% yoy. Production of passenger cars, which are dominant in total production with a share of 67%, reached 1,143K with an increase of 20% yoy. Commercial vehicles production rose at a slower pace with 3% during the same period. The share of exports in total production was 81% for passenger cars and 74% for commercial vehicles.



Source: Automotive Manufacturers Association, Automotive Distributors' Association

(*) Tractor production is excluded.

(**) Compound Annual Growth Rate, for Employment 2007-2016 CAGR

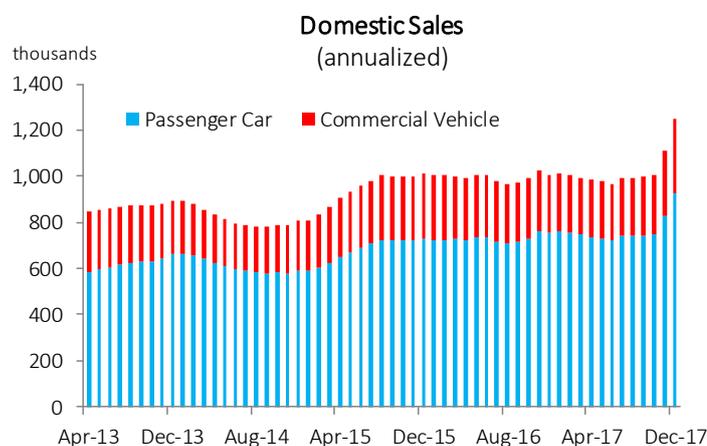
Domestic Market

Vehicle park in Turkey has grown by 69% over the past decade. Along with the strong production of the Turkish automotive sector, this increase stemmed largely from imported vehicles as a result of consumer preferences. In 2017, the share of imported vehicles in total automotive market was realized as 64%. Yet, number of imported vehicles decreased by 8,4% yoy in this period.

Domestic Sales of Turkish Automotive Sector (thousand units)									
	2002	2006	2010	2012	2014	2015	2016 (I)	2017 (II)	(II)/(I) Change
Total Sales	175	666	793	818	807	1,011	1,008	980	-2.7 %
Passenger Car	91	373	510	556	587	726	757	723	-4.5 %
Domestic	36	118	156	147	157	188	192	217	13.0 %
Imported	55	255	354	410	430	538	564	506	-10.3 %
Commercial	84	292	283	261	220	285	251	258	2.6 %
Heavy	17	48	32	40	40	43	24	24	-0.3 %
Light	67	245	251	221	180	242	227	233	2.9 %
Domestic	43	129	150	129	98	137	119	124	3.8 %
Imported	24	116	101	92	82	106	108	110	2.0 %

In 2017, 980K vehicles were sold in the domestic market. Total sales decreased by 2.7% yoy while passenger cars market contracted a bit more by 4.5% in this period. The driving forces behind that were the price increases related to new arrangements in special consumption tax (STC) and the considerable rise in FX rates. In 2017, new automobile prices rose by 21.3% compared to previous year. Moreover, consumers' precautionous attitude at the beginning of the year put pressure on passenger car sales. Strong demand from fleet leasing companies on the other hand, limited the contraction of the domestic market.

Having a very small share in the market with 4.6K units only, 335% growth in the sales of electric and hybrid models was remarkable in 2017. While light vehicles market grew by 2.9%, the market size of heavy commercial vehicles remained flat in this period. Sales of trucks and buses were also limited with the continuing base effect arising from boosted sales in 2015 due to the expectations of price increases with the implementation of Euro VI emissions regulations. Relatively weak course of tourism sector also weighed on bus sales negatively.

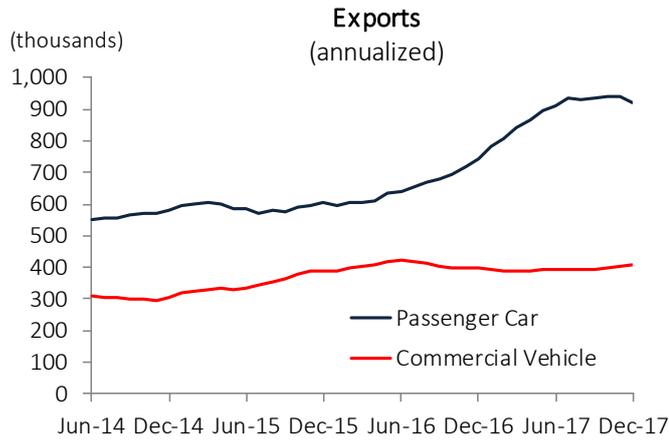


Despite the recent slowdown in the market, annualized figures point out that domestic sales have been following an upward trend over the years. Low vehicle per capita ratio, relatively old age of vehicle park and high propensity to consume are considered as the main factors to support growth in the long run.

In addition to that, Turkish government took some actions to support domestic demand for the automotive sector. Banking Regulation and Supervision Agency's upward revision in vehicle loan limits, reassessment of SCT rates and the new scrappage scheme are all expected to affect domestic sales positively in 2018.

Investments

While investments in Turkish automotive sector were designed to meet domestic demand before 2001, majority of investments made since then have been export-oriented. As a matter of fact, international companies consider Turkey as a production base for European, Middle East and North African markets. Therefore, investments directed to the sector have been motivated largely by this manner. More than 6 billion USD has been invested in the sector over the past 5 years. Majority of these investments targeted capacity expansions for new-model productions. On the other hand, global competition is heating up. Especially, global producers' plans to establish production facilities in Iran might pose a risk for Turkey in terms of attracting foreign investments. Competition arising from Eastern Europe would also be decisive on the investment decisions in the medium and long term.

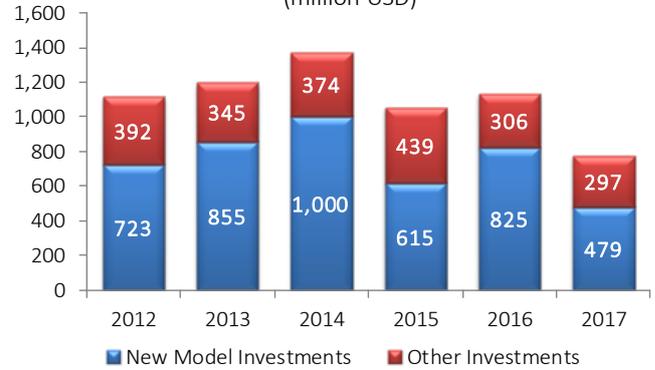


been on an upward trend since the middle of 2013 gained momentum in this period. Nevertheless, because of relatively weak demand from Europe, the course of commercial vehicle exports was flat in recent years. Yet, in line with the solid economic activity in Europe, we expect a recovery in commercial vehicle exports, particularly in light-commercial vehicles in the coming period.

Including non-EU countries in the region, Europe's total share in Turkey's automotive exports reached 84% in 2017. Although the sector's dependence on a single market may be considered as a negative factor, from a historical perspective, European automotive market is known as one of the most stable ones across the globe.

Moreover, according to the producers' plans, automotive production in Europe is expected to decline considerably over the next 15 years, reducing to almost the half of its size. Declining supply in the continent is expected to increase the demand for imported vehicles. In this regard, Turkey stands out as having a significant potential to expand its production thanks to its comparative advantage in terms of lower costs outside the region. On the other hand, Eastern European countries and Iran are cited as the main competitors to Turkey.

Investments in Automotive Sector (million USD)



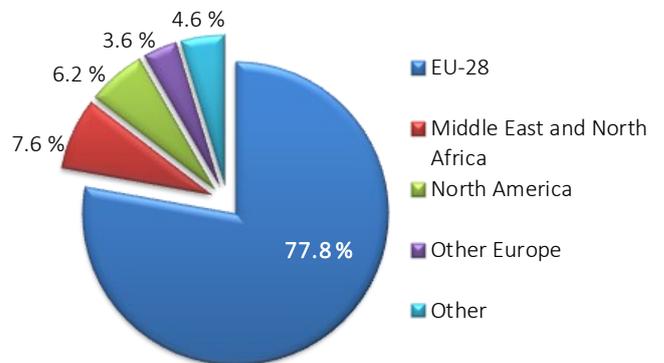
Foreign Trade

Turkish automotive sector is net exporter. In 2017, this sector became 4th among all manufacturing industries by posting a net trade surplus worth of 4.4 billion USD.

Exports of the sector have increased sixfold over the last 15 years, reaching 19 billion USD in 2017. While exports constitute a share of 80% in sector's production, automotive sector's share in Turkey's total exports exceeded 12% by 2017.

Favourable outlook in the external markets had a positive effect on passenger car exports. In 2017, European automotive market grew at a 3.3% annual rate which was well above the historical average. Accordingly, the sector's exports which have

Export Markets (2017)



Trends and Expectations

We expect that Turkish automotive sector will continue its growth in the coming years, though at a slower rate. In 2018, there might be a downward pressure on the production front due to high-base effect. Recent figures suggest that, in the first quarter of 2018, total automotive production remained flat compared to the same period of last year. In this period, production of passenger cars fell 5% whereas commercial vehicle production increased by 13% yoy.

On the other hand, strong growth in exports is expected to limit the downside pressures on production. In the first quarter, total exports went up by 18% yoy reaching 8.4 billion USD. In line with the favourable outlook in the external markets, especially relatively solid economic activity in Europe, exports are expected to keep its strength throughout the year. In 2018, appreciation of euro against dollar will continue to effect exports positively as well.

Moreover, the share of domestically produced vehicles in domestic market has been growing as a result of rising imported-vehicle prices due to higher FX rates. The launch of new models also contributed to this change in consumption patterns. Hence, in the first quarter of 2018, the share of imports was realized as 61% in total sales and 66% in passenger car sales. In 2017, these figures were 63% and 70%, respectively.

As for the long-term prospects, low vehicle per capita ratio and relatively old age of vehicle park will keep on stimulating domestic demand for the automotive sector in Turkey. In this sense, the scrappage scheme which is settled in March 2018 will contribute to the expansion of the market positively. On the investment front, projects related to electric and hybrid vehicle production will be on the agenda. In this context, under the treatment of project-based public incentive system, Turkish government granted two companies to benefit from the incentives on hybrid and diesel engine investments. Another project going on is the “domestic car” which has been undertaken by a joint venture of domestic companies. For the time being, the plan is to introduce a prototype by 2019 and initiate its first sale in 2021.

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