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2023 Turkish Market Update and Outlook for 2024

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The Turkish market encountered noteworthy challenges and setbacks throughout 2023, influenced by various local events such as the devastating earthquake in the southeast and a highly anticipated presidential election, in addition to global unrest such as the Russian-Ukrainian war. High inflation, significant fluctuations in the Turkish lira and the rise in borrowing costs definitely created some economic challenges for Turkish companies and investors looking into this jurisdiction.

The restrictions that have been introduced over recent years on borrowing in foreign currency as well as on borrowing in local currency from Turkish banks for companies that have held foreign currency has resulted in Turkish companies turning to local debt issuances to fund themselves. This trend continued in Q1 and Q2 of 2023, with debt issuances in local currency increasing, driven by companies looking to borrow in Turkish lira to take advantage of the low interest rate regime implemented by the Central Bank of the Republic of Türkiye (CB). Following the 2023 elections the introduction of increased interest rates in an attempt to curb inflation, led to a slowdown in this trend in the second half of 2023.

Despite all these setbacks, there were some positive outcomes:

- TÜİK[1] reported 5.9% growth in GDP data for the third quarter of 2023 (primarily in the construction, industrial, finance, services and insurance sectors).
- Unemployment dropped to 8.8% in November 2023.

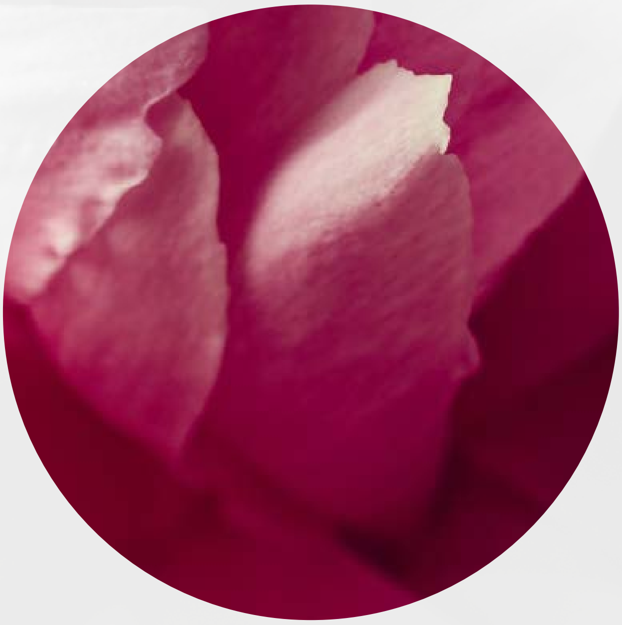
1. TÜİK: Turkish Statistical Institute

Market activity and trends in 2023

The persistent slowdown in M&A activity since the first half of 2022 continued for Türkiye in 2023. The Turkish Competition Authority reported that a total of 217 M&A deals have been reviewed within 2023. The total value of those transactions has reached 57 trillion 524 billion Turkish liras.

The appetite of strategic investors for Turkish companies with hard currency revenues remained strong, in particular in manufacturing, where Turkish companies serve as a low-cost manufacturing base and a logistics/export hub to the east and south. Companies still looked to M&A as a means of (i) meeting strategic initiatives, particularly to keep up with emerging technologies and AI, attract talent and keep abreast of environmental, social and governance (ESG) trends; and (ii) restructuring existing operations. Domestic companies continued to grow, especially early-stage investments in the technology, gaming sectors and investments in the energy sector.

As the number of M&A deals fell, investors turned to the capital markets for liquidity in the form of IPOs which were especially favoured by retail investors and private equity investors looking to exit the market.

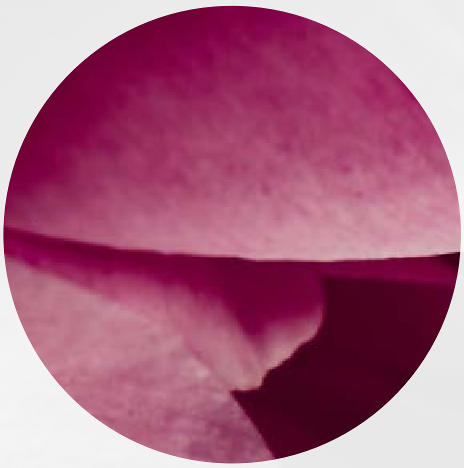


The number of IPOs in the first ten months of 2023 exceeded the entire number in the whole of the previous year. More than 50 companies offered shares to the public in 2023, and almost 100 IPOs are expected to launch in 2024. However, the Capital Markets Board raised the IPO requirements at the end of December 2023 in order to curtail the number of IPOs in 2024. The new thresholds applicable in 2024 for a company to go public is as follows:

- Minimum paid-in capital must be TRY 100 million,
- Assets at least TRY 450 million and Net Sales at least TRY 270 million in its financial statements for 2022, and
- Assets at least TRY 1.5 billion and Net Sales at least TRY 750 million in its financial statements for 2023.

These changes ensure that companies with assets and net sales lower than these thresholds shall not be able to do an IPO in 2024.

Another trend for this year was the partial involvement of first-time investors. Rather than an acquisition of 100% of companies by investors, there has been a shift towards minority or mid-size investments as an initial approach to market entry, combined with an increased number of joint ventures with local investors. Given the increase in the performance risks of companies, certain foreign investors turned to asset deals instead of share deals. In contrast with the general slow-down in the M&A market, venture capital activity and investments in start-ups combined with US or UK flips were abundant, as gaming, fintech and healthcare industry companies remained attractive.



Significant changes to Turkish tax legislation

Noteworthy changes in Turkish tax legislation impacted Turkish companies and foreign investors in 2023. Key changes include:

- an increase in corporate tax and VAT rates from 18% to 20%, together with the introduction of additional taxes over certain exempted items under a corporate tax return;
- the introduction of an additional tax liability related to earthquakes for Turkish companies that benefited from certain exemptions and deductions from their corporate tax base (this was especially significant for companies that performed a capital increase with share premiums during FY 2022);
- narrowing the scope of a tax-free partial spin-off in transferring real estate;
- the abolition of the corporate tax exemption for 50% of the capital gains obtained from real estate sales, and VAT exemption for real estate sales in relation to real estate held for at least two years; and
- the implementation of the long-anticipated Carbon Border Adjustment Mechanism (CBAM) which aims to put a fair price on carbon intensive goods entering the EU and lead the way towards cleaner industrial production.

In addition, significant tax incentives have been introduced to meet expectations in the FDI market, such as:

- The establishment of the Istanbul Finance Centre – companies incorporated in the Istanbul Finance Centre will benefit from corporate tax exemption at a rate of 100% until 2031 and 75% after 2031, income tax exemptions being applicable to personnel who have worked abroad for a certain period of time. There are also certain exemptions from stamp tax, Banking and Insurance Transactions Tax (BITT) and other fees.
- Implementation of further incentives for Technology Development Zones and Research and Development Centres. The most significant incentive in this case being the 100% remote working opportunity.

Market events

Certain diplomatic relations and developments marked Türkiye's inbound and outbound investment plans, especially in the second half of 2023:

- The Comprehensive Economic Partnership Agreement (CEPA) was signed between Türkiye and the UAE on 3 March 2023 and came into effect on 1 September 2023 covering trading goods, services, investment facilitation, intellectual property, technical barriers to trade, rules of origin, and trade policy defence instruments. Strengthened diplomatic and economic ties between Türkiye and the UAE are expected to positively affect FDI.
- Türkiye and Qatar signed 12 co-operation agreements during the Türkiye-Qatar Supreme Strategic Committee, showcasing the ever-increasing interest of Gulf investors in the region.
- Türkiye is also preparing to negotiate a new free trade agreement with the UK with a more specific focus on the services, digital and data sectors. Through this deal, Türkiye will be in a position to attract more UK investors.
- In 2023, Türkiye focused on strengthening its investment ties with Africa through TABEF. Ambitious goals were set to nearly double bilateral trade volume from USD 25.3 billion to USD 50 billion, and subsequently to USD 75 billion. This initiative reflects Türkiye's strategic effort to enhance its economic presence in Africa and promote mutual growth and sustainable development in the coming years.

Expectations for 2024

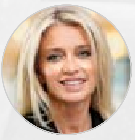
As for what is expected for 2024 and onwards:

- Türkiye is working on the income inclusion rule (IIRL), the Undertaxed Payment Rule (UTPR) and the Qualified Domestic Minimum Top-up Tax (QDMTT).
- Türkiye's medium-term programme for 2024–2026 (MTP) aims to broaden the tax base and increase voluntary compliance by removing ineffective exceptions and exemptions; revising tax penalties to be more deterrent; updating the income, corporate taxes and VAT laws to create simpler structures; as well as working towards a complementary carbon tax and tax on environmental pollution. It further aims to grow investments in digitisation by recognising the informality in digital activities.
- After being included in the Financial Action Task Force's (FATF's) list of "grey countries", Türkiye is getting ready to enact new legislation on crypto-assets by amending the Capital Markets Law numbered 6362. Taxation on such assets is expected as well. Recent market surveys and investigations further show that the Turkish Competition Authority will pay particular attention to digital markets.
- The rise of start-ups, especially digital and fintech companies, is expected to continue as global venture capital investments continue to grow.

Conclusion

The Turkish market has demonstrated significant resilience to the challenges of 2023. A tighter monetary policy regime is expected to continue into 2024, with the aim of reducing inflation at the cost of slowing economic growth. The tighter interest rate policy has the potential to adversely affect the number of M&A deals and IPOs in 2024, but the hope is that overtime a less inflationary environment will prove to be attractive to foreign investors. Türkiye will undoubtedly remain a complex market, but one full of potential opportunities for foreign investors.

Authors



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