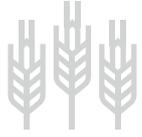
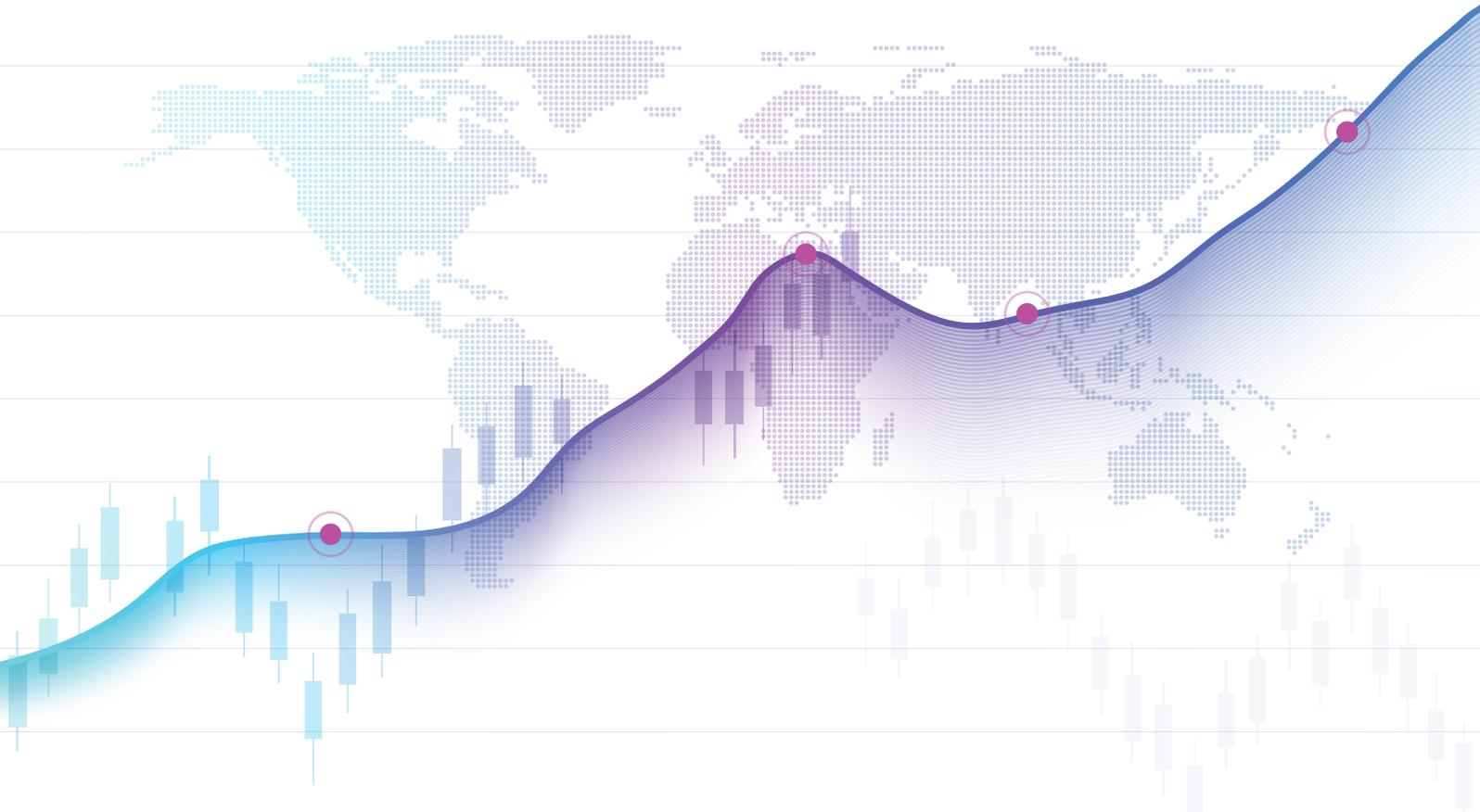




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POST PANDEMIC SECTORAL GROWTH INDICATORS 2022 First Quarter



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POST PANDEMIC
SECTORAL GROWTH INDICATORS
2022 First Quarter

TURKONFED



INDEX

Executive Summary	4
Yönetici Özeti	6
1. Introduction	10
2. Survey & Sampling	12
3. Results	14
3.1 Business Volume & Profitability Realizations (2021- Q4).....	14
3.2 Business Volume & Profitability Expectations (2022- Q1).....	18
3.3 Risks.....	20
3.4 Supply Chain Expectations.....	21
4. Conclusion	24

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Executive Summary

As we leave the first five months of 2022 behind, we have entered a period where global risks pose a threat to developing countries. While global inflationary pressures deepen the growth-inflation dilemma faced by central banks after the pandemic, policy makers are trying to combat rising inflation on the one hand and to control the post-pandemic economic outlook on the other. As part of the fight against inflation, the tightening of global financial conditions with the interest rate hikes initiated by the Fed brings the risk of increasing the pressures on the exchange rates in developing countries.

The Turkish economy, on the other hand, faces this period in a fragile way with high dollarization, low reserves and a very high inflation rate. In addition, the uncertainty created by the Russia-Ukraine war increases the difficulties faced by the Turkish economy through many channels. Due to our close economic relations with both Ukraine and Russia, it is estimated that the direct effects of the war, especially in the energy, agriculture, construction and tourism sectors, will have severe consequences on the economy. According to the World Economic Outlook April, IMF revised down its growth forecast for Turkey by reducing 0.6 basis points to 2.7%. In this context, the picture for 2022 suggests that net exports will continue to support growth, while consumption and investments will get tight. On the inflation side, under the assumption that the current monetary policy will continue, inflation is expected to be above 61% at the end of the year.¹

In the upcoming period, the risk of high inflation and exchange rate volatility will negatively affect the performance of companies operating in the real sector. Within the scope of this survey, which was carried out in the first quarter of 2022, covering a period when the pandemic conditions were eased, questions were asked about realizations, future projections and risks regarding the performance of companies. The prominent observations in the survey are listed below.

¹ According to the IMF's World Economic Outlook April report, the year-end inflation expectation is 61 percent. According to the Reuters survey in May, the median year-end inflation expectation stands at 63.5 percent.

- 1.** Data regarding the first quarter of 2022 indicate that economic activity slowed down as we entered 2022. In the first quarter of 2022, the ratio of companies expecting an increase in their business volume and profitability decreased compared to the previous quarter. While 30% of all companies state that their business volume has increased/will increase in the first quarter, the rate of companies stating that their profitability has increased/will increase is 21%.
- 2.** The picture indicates that the gap between profitability and business volume is especially high in the manufacturing sector. In the last quarter of 2021, while the business volume of 64% of the companies operating in the manufacturing sector increased, only 31% increased their profitability. This situation confirms that companies are trying to increase their sales by selling more goods at a cheaper price.
- 3.** Companies experiencing a decline in business volume are mostly small or micro sized enterprises with 50 or less employees.
- 4.** In the first quarter of 2022, 55% of all companies stated that they will increase their sales price; this rate is 65% in the manufacturing industry and 50% in the service sectors.
- 5.** 63% of the companies participating in the survey do not expect any change in the employment they provide. While 25% of the companies operating in the service sector predict a decrease in the employment they create, only 8% of the companies in the manufacturing industry stated that they will reduce their employment.
- 6.** According to the survey results, uncertainty in prices as a result of exchange rate volatility, increases in raw material prices and labor costs were the main factors reducing profitability, while the most important factor increasing profitability was strong demand conditions.
- 7.** For companies that increased their business volume, the main factor that played a role in this increase was strong foreign demand. Price uncertainty due to exchange rate volatility, weak domestic demand and the increase in labor costs are the main factors that reduce business volume. The possibility of tightening global liquidity conditions to trigger exchange rate volatility and the rising raw material prices in the upcoming period pose a risk to the business volume and profitability of the real sector.
- 8.** While the most important risks for companies operating in the service sectors in the next 6 months are exchange rate volatility and domestic demand conditions, companies in the manufacturing industry consider raw material and energy prices and supply chain problems among the most important risks.
- 9.** Compared to the past three months, 35% of the companies stated that they were pessimistic about the financial situation of their companies, and 43% about the general course of the sector in which they operate.
- 10.** 62% of the companies participating in the survey stated that their supply chain problems continue. When we look at the sector breakdown, this rate was recorded as 83% in the manufacturing sector and 73% in the service sectors.
- 11.** The rate of companies that predict that the disruptions caused by the supply chain will last less than 6 months is 10%, the rate of those who predict that it will last 6 months to 1 year is 32.4%, and the rate of those who predict that it will last more than 1 year is 31.5%.

Yönetici Özeti

2022 yılının ilk beş ayını geride bırakırken global risklerin gelişmekte olan ülkeler için tehdit oluşturduğu bir döneme girmiş bulunuyoruz. Küresel enflasyonist baskılar merkez bankalarının pandemi sonrası karşılaştıkları büyüme-enflasyon ikilemini derinleştirirken, politika yapıcılar bir taraftan yükselen enflasyonla mücadele etmek, bir yandan da pandemi sonrası ekonomik görünümü kontrol altına almaya çalışıyor. Enflasyonla mücadele kapsamında global finansal koşulların Fed'in başlattığı faiz artırımları ile sıkılaşma eğilimine girmesi gelişmekte olan ülkelerde döviz kuru üzerindeki baskıları arttırma riskini de beraberinde getiriyor.

Türk ekonomisi ise bu dönemi yüksek dolarizasyon, düşük rezervler ve oldukça yüksek bir enflasyon oranıyla kırılgan bir şekilde karşılıyor. Bunun yanında Rusya-Ukrayna savaşının yarattığı belirsizlik Türk ekonomisinin karşı karşıya kaldığı zorlukları birçok kanaldan artırıyor. Hem Ukrayna'yla hem de Rusya'yla yakın ekonomik ilişkilerimiz nedeniyle enerji, tarım, inşaat ve turizm sektörleri başta olmak üzere savaşın direk etkilerinin ekonomi üzerinde kuvvetli olacağı tahmin ediliyor. IMF Nisan ayı Dünya Ekonomik Görünümü raporuna göre Türkiye için büyüme tahminini 0.6 baz puan indirerek %2,7'ye aşağı yönlü revize etti. Bu kapsamda 2022 yılında, net ihracatın, büyümeyi desteklemeye devam edeceği, tüketim ve yatırımların ise daralacağı bir tablo bekleniyor. Enflasyon tarafında ise mevcut para politikasının devam edeceği varsayımı altında enflasyonun yıl sonunda %61 seviyesinin üzerinde gerçekleşeceği öngörülüyor.²

Önümüzdeki dönemde yüksek enflasyon eğilimi ve döviz kuru oynaklığı riskinin reel sektörde faaliyet gösteren firmaların performansını olumsuz etkileyeceği bir tablo söz konusu. Pandemi koşullarının gevşetildiği bir dönemi kapsayan ve 2022'nin ilk çeyreğinde gerçekleştirilen bu anket kapsamında, firmaların performanslarına ilişkin gerçekleştirmeler, gelecek öngörülerini ve risklere ilişkin sorular yönlendirilmiştir. Yapılan ankette öne çıkan gözlemler aşağıda sıralanmaktadır.

²- IMF Nisan ayı Global ekonomik Görünüm raporuna göre yıl sonu enflasyon beklentisi yüzde 61 seviyesinde bulunuyor. Mayıs ayı Reuters anketine göre medyan yılsonu enflasyon beklentisi yüzde 63.5 seviyesinde bulunuyor.

- 1.** 2022 yılının ilk çeyreğine ilişkin veriler ekonomik aktivitenin 2022'ye girerken hız kestiğine işaret etmektedir. 2022 yılının ilk çeyreğinde iş hacmi ve karlılıklarında artış bekleyen firma oranı önceki çeyreğe kıyasla azalmıştır. Tüm firmaların %30'u iş hacminin ilk çeyrekte arttığını/artacağını belirtirken, karlılığının arttığını/ artacağını belirten firma oranı %21'dir.
- 2.** Karlılık ve iş hacmi arasındaki makasın özellikle imalat sektöründe yüksek kaydedildiği bir tablo mevcuttur. 2021 yılının son çeyreğinde imalat sektöründe faaliyet gösteren firmaların %64'ünün iş hacmi artarken sadece %31'inin karlılığı artmıştır. Bu durum firmaların satışlarını daha ucuza, daha çok mal satarak artırmaya çalıştığını teyit etmektedir.
- 3.** İş hacminde düşüş yaşayan firmalar çoğunlukla çalışan sayısı 50 ve altında yer alan küçük veya mikro ölçekteki işletmelerdir.
- 4.** 2022 yılının ilk çeyreğinde tüm firmaların %55'i satış fiyatını yükselteceğini belirtmiştir; bu oran imalat sanayinde %65, hizmet sektörlerinde %50 seviyesindedir.
- 5.** Ankete katılan firmaların %63'ü sağladıkları istihdamda herhangi bir değişiklik beklememektedir. Hizmet sektöründe faaliyet gösteren firmaların %25'i yarattıkları istihdamda düşüş öngörürken imalat sanayinde ise firmaların sadece %8'i istihdamlarını azaltacağını belirtmiştir.
- 6.** Anket sonuçlarına göre kur oynaklığı sonucu fiyatlarda yaşanan belirsizlik, hammadde fiyatları ve iş gücü maliyetindeki artışlar karlılığı azaltan başlıca faktörler olurken, karlılığı artıran en önemli faktör güçlü talep koşulları olmuştur.
- 7.** İş hacmini artıran firmalar için bu artışta rol oynayan başlıca faktör kuvvetli dış talep olmuştur. Kur oynaklığı sonucu oluşan fiyat belirsizliği, zayıf iç talep ve iş gücü maliyetindeki artış ise iş hacmini azaltan başlıca faktörlerdir. Önümüzdeki dönemde sıkışan küresel likidite koşullarının döviz kuru oynaklığını tetikleme olasılığı ve artan hammadde fiyatları reel sektörün iş hacmi ve karlılığı üzerinde risk oluşturmaktadır.
- 8.** Önümüzdeki 6 aylık dönemde hizmet sektörlerinde faaliyet gösteren firmalar için en önemli riskler döviz kuru oynaklığı ve iç talep koşulları olarak belirtilirken, imalat sanayindeki firmalar hammadde ve enerji fiyatları ile tedarik zincirleri sorunlarını en önemli riskler arasında saymaktadır.
- 9.** Firmaların %35'ü üç ay öncesine göre şirketlerinin finansal durumu hakkında, %43'ü ise faaliyet gösterdikleri sektöre ilişkin genel gidişat konusunda kötümser bir tutuma sahip olduklarını belirtmişlerdir.
- 10.** Ankete katılan firmaların %62'si tedarik zinciri sorunlarının devam ettiğini belirtmişlerdir. Sektör kırılımında baktığımızda imalat sektöründe bu oran %83, hizmet sektörlerinde ise %73 olarak kaydedilmiştir.
- 11.** Tedarik zincirinin neden olduğu aksaklıkların 6 aydan kısa süreceğini öngören firmaların oranı %10, 6 ay-1 yıl arası süreceğini öngörenlerin oranı %32,4, 1 yıldan fazla süreceğini öngörenlerin oranı ise %31,5 seviyesindedir.

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2022 First Quarter





1 Introduction

As we close the first four months of 2022, rising commodity and food prices due to the revived demand, supply chain problems and limited supply with the lifting of the COVID-19 restrictions continue to pose an upside risk on inflation. In addition, the direct and indirect effects of Russia's occupation of Ukraine pose a risk to the global growth and inflation outlook. Parallel to these developments, the IMF's inflation forecast for emerging economies in 2022, which was 5.9% in January, was updated to 8.7% in April. The global growth forecast was revised down by reducing 0.8 basis points to 3.6% in 2022 (IMF WEO, 2022).

Since the monetary expansion implemented during the pandemic period also ended in 2022, we entered a period in which global liquidity conditions will tighten. While high inflationary pressures deepen the growth-inflation control dilemma faced by Central Banks after the pandemic, policy makers have to combat rising inflation and take steps to ensure post-pandemic economic recovery. In the Fed meeting held in May, the policy rate was raised by 50 basis points in line with the expectations, within the scope of the fight against inflation, and it is expected that the actions of interest rate hikes and balance sheet reductions will continue in 2022 and 2023. In addition, it is estimated that the G7 countries will shrink their balance sheets by approximately 410 billion dollars in the rest of 2022.³

The war between Russia and Ukraine puts additional pressures on global economic growth and inflation. The effect of the war on the world economy is realized through the channels of commodity, trade and financial markets. The war also triggers supply chain-related problems, increasing the possibility of inflation to remain at high levels for longer than expected. The zero-COVID-19 policy, which is persistently implemented by China, also caused an increase in supply chain-related problems and created additional pressures on prices.

With the help of the financial support provided within the scope of the pandemic measures and mostly through loans, Turkey ended 2020 with a growth rate of 1.8% and became one of the few countries that showed a positive growth performance in this period. In 2021, with the help of the reduction of pandemic measures and expansionary policies around the world, the Turkish economy grew by 11%, making it the country with the highest growth rate among the G20 countries. In 2021, despite the increasing inflation and tightening global monetary conditions, the Turkish lira's value decreased against other currencies as a result of the interest rate cuts made by the Central Bank, making it one of the currencies with the worst performance among developing countries.

With increasing global inflationary pressures, both consumer and producer inflation indexes reached their highest levels in the last two decades. In May 2022, the annual consumer price index was recorded as 73.5% and the producer price index was recorded as 132%. In addition to Turkey's current economic problems, developments regarding the global trend increase the difficulties faced by the Turkish economy through many channels. While the tightening of financial conditions in developed countries is expected to increase the pressures on the exchange rate, it is estimated that the direct effects of the war, especially in the energy, agriculture, construction and tourism sectors, will be strong on the economy due to our close economic relations with both Ukraine and Russia. According to the World Economic Outlook April, IMF revised down its growth forecast for Turkey by reducing 0.6 basis points to 2.7%. The picture for 2022 suggests that net exports will continue to support growth, while consumption and investments will tighten. On the inflation side, under the assumption that there will be no tightening steps in monetary policy, it is considered that inflation may rise above the 61 percent level. With the increasing import costs, the current account deficit is expected to rise up to 6.4% of GDP, and the budget deficit is expected to rise to 5.2% in 2022 and 5.1% in 2023 with the effect of public expenditures, interest expenditures and current transfers.⁴

This survey study aims to determine the current situation and expectations of the real sector in this period of worsening global economic conditions. In this context, participants were asked questions about realizations, future projections and risks regarding the performance of companies after COVID-19.

³ www.bloomberg.com/news/articles/2022-05-01/global-economy-faces-410b-financial-shock-as-central-banks-
⁴ World Bank, 2022.



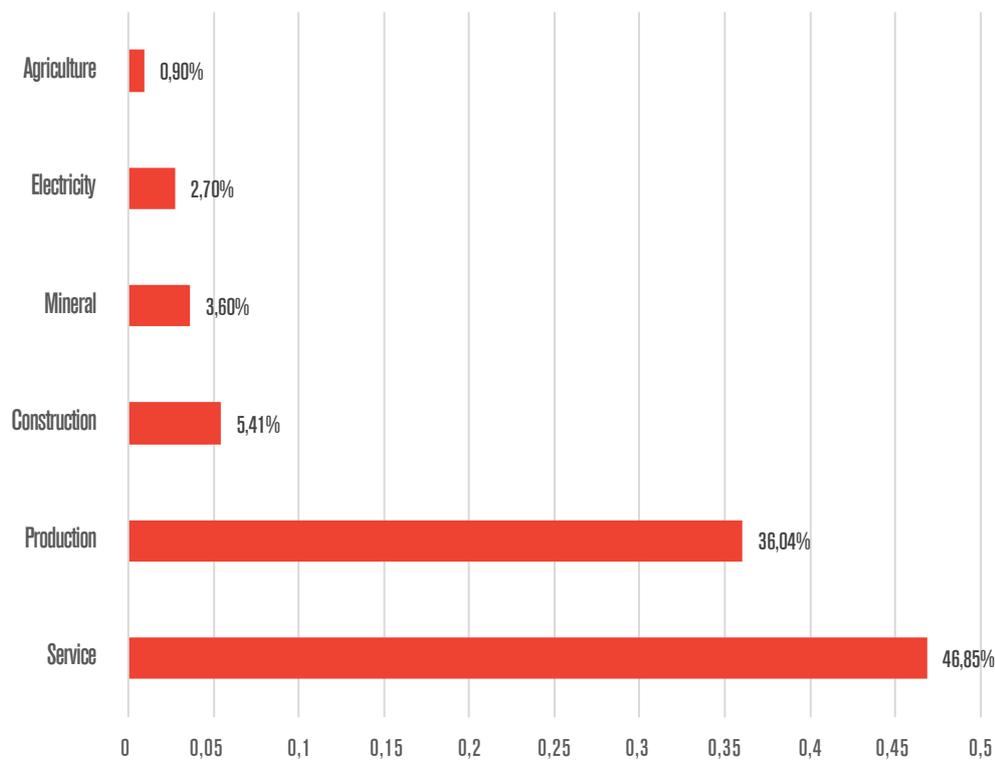
2

Survey and Sampling

Within the scope of the survey, companies were asked questions about the impact of COVID-19 on companies in the first quarter of 2022, the realizations of companies' business volumes and profitability, future projections and risks. 111 companies were included in the online survey conducted between January 26 and March 31. The sectoral compositions of the companies participating in the survey are given in Figure 2.1. 36% of the companies participating in the survey operate in the manufacturing sector and 47% in the service sector. Due to the rather small sample size, the results of the survey were primarily evaluated within the scope of all sectors. In addition, the results were examined individually for manufacturing and service sectors.

The age distribution of the companies and the composition of the NUTS2 regional distribution are given in figures 2.2 and 2.3. When we look at the company scale composition, it is observed that approximately 72% of the companies participating in the survey are in the SME classification, based on employment. It should be taken into account that the company composition in the sample contains fewer SMEs and tends to show the real picture more positively than it is about expectations.

Figure 2.1. Sectoral Distribution⁵



⁵ Since the four companies whose sector information is not specified in the NACE Rev-2 division are not included in the sectoral distribution, they do not equal 100 in total.

Figure2.2. Age Distribution

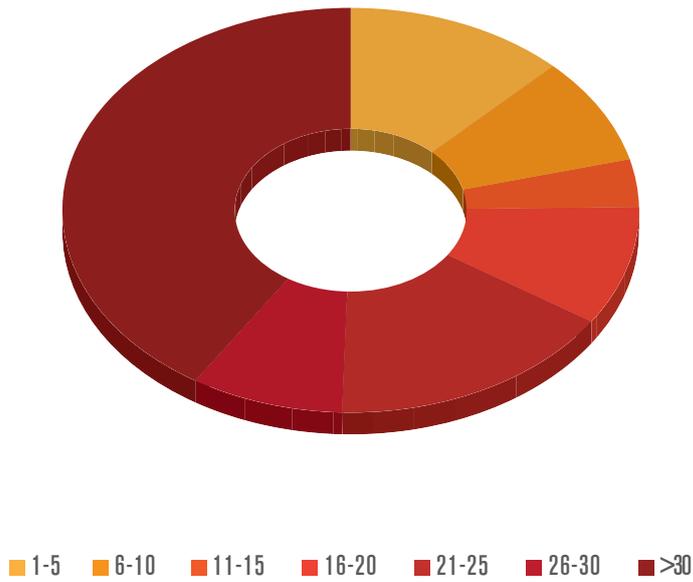


Figure2.3. Regional Distribution

Regions	Region codes	Regional Rate (%)
Istanbul	TR1	27
West Marmara	TR2	9
Aegean	TR3	13
East Marmara	TR4	7
West Anatolia	TR5	14
Mediterranean	TR6	9
Central Anatolia	TR7	1
West Black Sea	TR8	11
East Black Sea	TR9	2
Northeast Anatolia	TRA	3
Middle Eastern Anatolia	TRB	2
Southeast Anatolia	TRC	4

3 Results

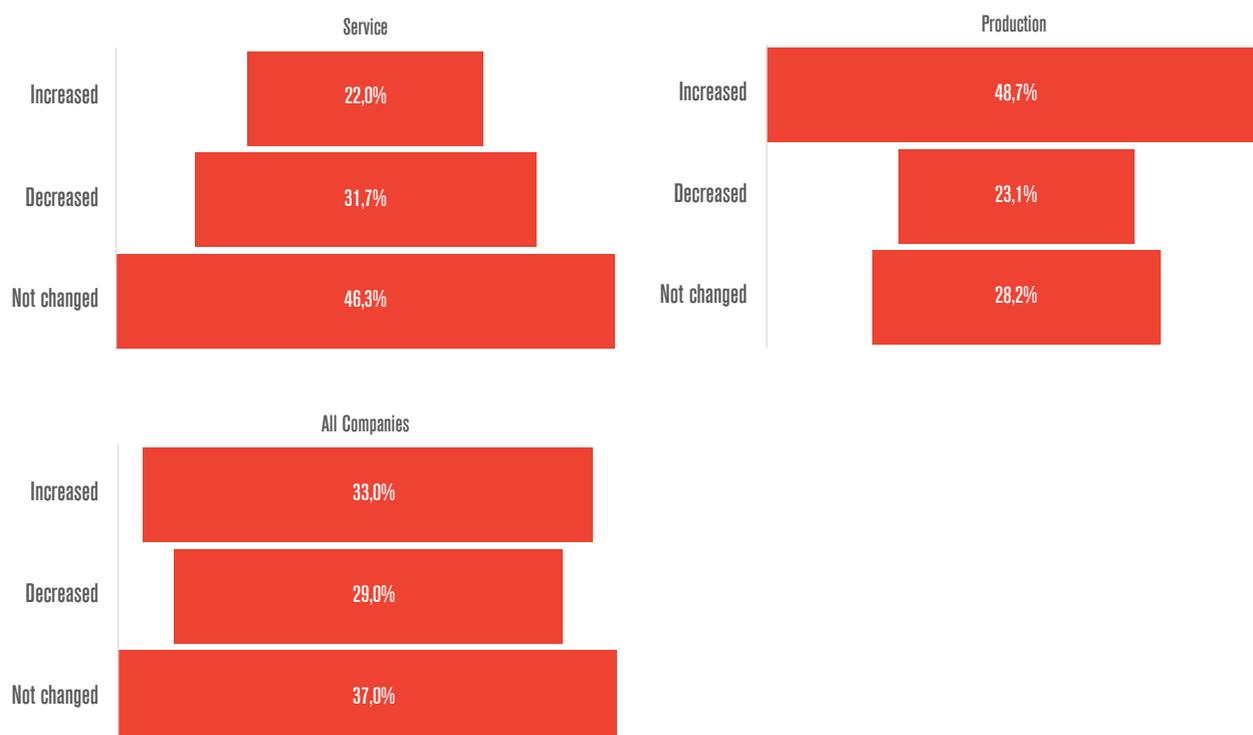
3.1 Business Volume & Profitability Realizations (2021- Q4)

Within the scope of the survey, firstly, the business volume and profitability realizations of the companies for the last quarter of 2021 were asked.⁶ When we look at the growth dynamics in the last quarter of 2021, GDP increased by 9.1% on an annual basis and by 1.5% on a quarterly basis as a result of strong economic activity driven by both domestic and foreign demand. As a result, the GDP growth rate reached 11% in 2021. When we look at the composition of the growth in the last quarter of 2021, a growth originated from the manufacturing and services sector, and the construction sector limited the growth.

According to the survey results, although the sample is limited, approximately 70% of the companies participating in the survey stated that their business volume did not change (37%) or increased (33%) compared to the previous quarter, which draws a picture in line with the GDP realizations (Figure 3.1). In the last quarter of 2021, 54% of the companies participating in the survey stated that their business volume increased compared to the previous year, reflecting the low base effect for 2020, which is also observed in the GDP data (Figure 3.2). When we look at the sector breakdown, it confirms the strong performance of the manufacturing sector. In this context, the percentage of companies stating that their business volume increased compared to the previous quarter was 48.7% in the manufacturing sector, while this rate was recorded as 22% in the services sector. Compared to the last quarter of 2020, business volume realizations were recorded as 64.1% in the manufacturing industry and 48.3% in the service sector companies.

Figure 3.1. Business Volume Realizations (quarterly, q/q)

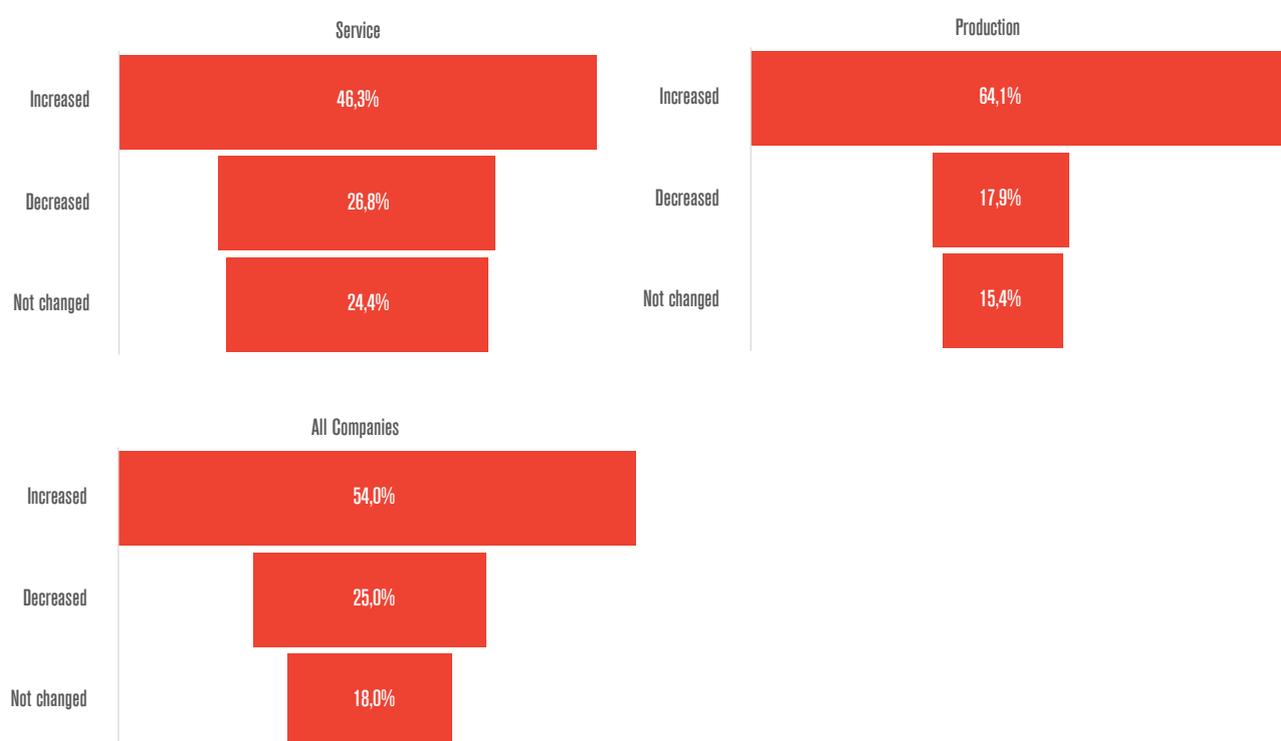
How did your company's business volume (in terms of quantity) change in the last quarter (October-November-December) of 2021 compared to the previous quarter (July-August-September)?



⁶ Within the scope of the survey, it was stated to the participants that the business volume should be evaluated on the basis of quantity in order to control the misleading effect of increasing inflation on turnover.

Figure 3.2. Business Volume Realizations (annual, y/y)

By what percentage did your business volume (in terms of quantity) decrease in the last quarter of 2021 (October-November-December) compared to the same period of 2020?



The companies participating in the survey were also asked the question of what percentage they expect their business volume to decrease or increase on a quarterly and annual basis. Figure 3.3 shows the relationship between the decline and rise in business volume and the current employment of companies. Companies experiencing a decline in business volume are mostly small or micro-sized enterprises with 50 or less employees. While the expected increase in business volume was recorded particularly strong in the service sectors (43%) on an annual basis, it was stated that the decrease in business volume was in the band of 25-27% on an annual basis (Table 3.1).⁷

⁷ - Weighted average

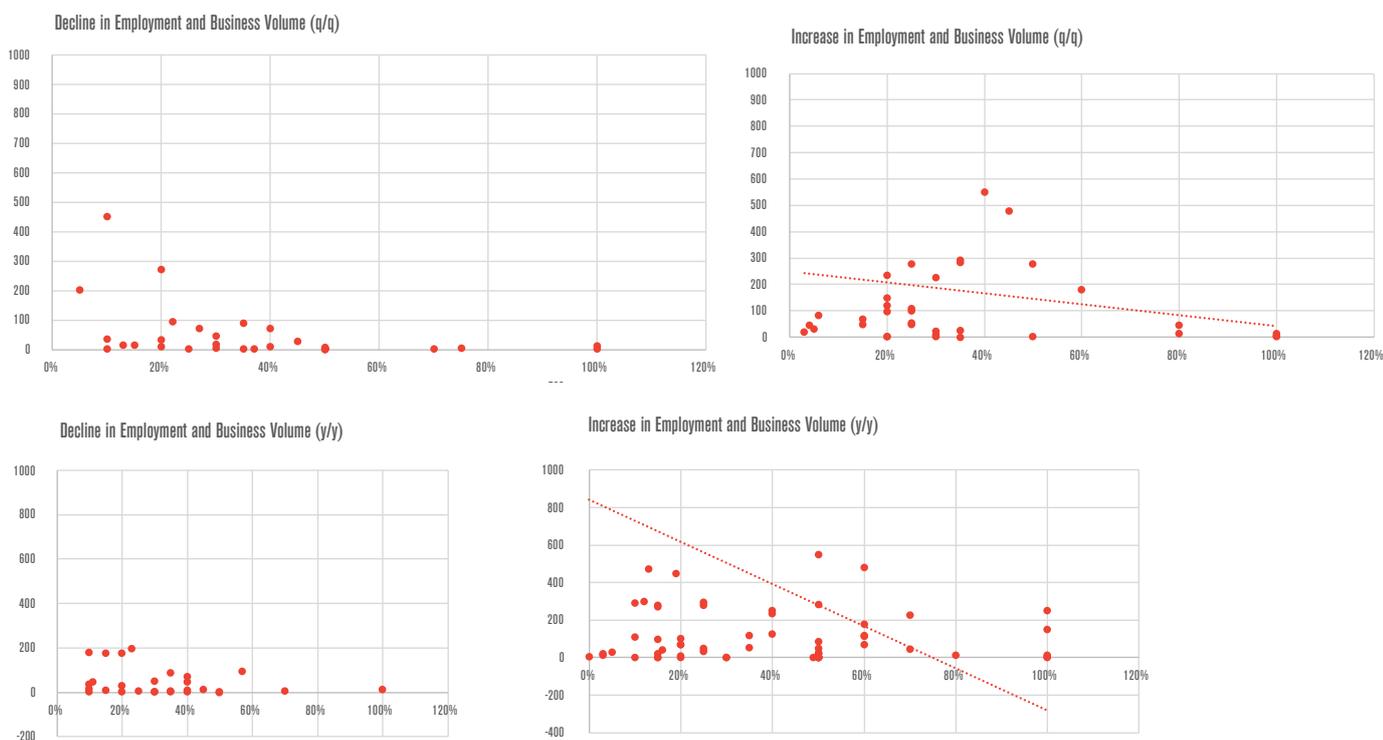
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SECTORAL GROWTH INDICATORS
2022 First Quarter

Table 3.1. Changes in Business Volume

Decrease (y/y)	Weighted average	Average	Median	Number of Companies
All Companies	%25	%33	%30	27
Service	%26	%36	%35	16
Production	%27	%27	%30	7
Increase				
All Companies	%18	%38	%30	61
Service	%43	%42	%50	25
Production	%16	%33	%20	25
Decrease (q/q)	Weighted average	Average	Median	Number of Companies
All Companies	%15	%37	%33	32
Service	%22	%37	%35	19
Production	%15	%34	%30	9
Increase				
All Companies	%27	%35	%28	37
Service	%35	%34	%30	12
Production	%25	%28	%30	19

Note: The weighted average is obtained by comparing the weight with the employment of the company.

Figure 3.3. Business Volume & Employment



Note: The x-axis shows the decrease in business volume on an annual or quarterly basis, and the y-axis shows the current employment of the company.

Realizations regarding business volume and profitability vary considerably.

When we look at the profitability indicators in the last quarter of 2021, 40% of the companies compared to the previous quarter and 37% compared to the previous year stated that their profitability has decreased. While the number of companies whose profitability decreased on an annual basis was 33% in the manufacturing sectors, this rate was recorded as 36% in the service sector.

While 54% of the companies stated that their business volumes increased compared to the previous year, the profitability of 38% thereof increased. In the manufacturing sector, 49% of the companies stated that their business volume increased compared to the previous year, while the profitability of only 28% thereof increased (Figure 3.4). When we look at the last period (q/q), we see that the gap between profitability and business volume has increased considerably. In the last quarter of 2021, while the business volume of 64% of the companies in the manufacturing sector increased, only 31% increased their profitability. The fact that this difference is particularly very high in the manufacturing sector indicates that companies are trying to increase their sales by selling more goods at a cheaper price.

Figure 3.4. 2022 Q1 Business Volume & Profitability Expectations



3.2 Business Volume, Profitability, Sales Price & Employment Expectations (2022- Q1)

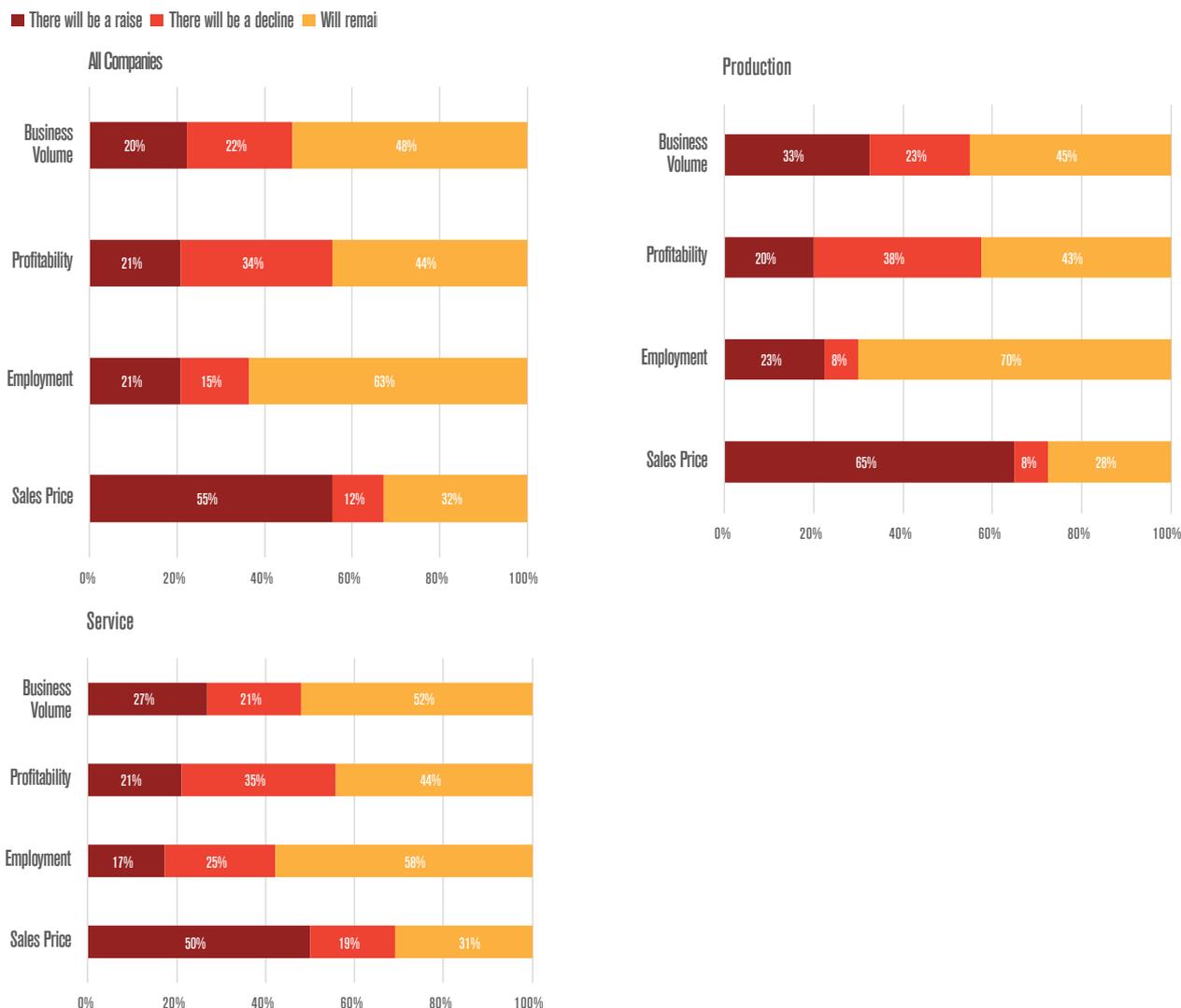
Realizations regarding the first quarter of 2022 indicate that economic activity slowed down as we entered 2022. While the strong course in exports reflects positively on manufacturing companies, there is a downward picture in the domestic demand and production trend mostly due to the increasing uncertainty due to the war and the increase in costs.

According to the results of the survey, it is striking that the percentage of companies expecting an increase in business volume and profitability has decreased. While 30% of all companies state that their business volume has increased/will increase in the first quarter, the rate of companies stating that their profitability will increase is 21%. When we look at the industry and service sector turnover indices for March, published by TURKSTAT, there is an increase of 6.9% and 10.9%, respectively, on a monthly basis. When we look at the manufacturing and service sectors separately, we see that the difference between business volume and profitability continues.

In addition, while more than half of the firms stated that the sales price would increase, the rate of firms showing this trend in the manufacturing industry was recorded higher (Figure 3.5). 55% of all firms stated that they would increase the selling price; this rate is reported as 65% in the manufacturing industry and 50% in the service sectors.

While 63% of the companies participating in the survey do not expect any change in the employment they provide, 25% of the companies operating in the service sector expect a decrease in employment. Only 8% of the companies in the manufacturing industry reported that they would reduce their employment.

Figure 3.5. 2022 Q1 Business Volume & Profitability Expectations

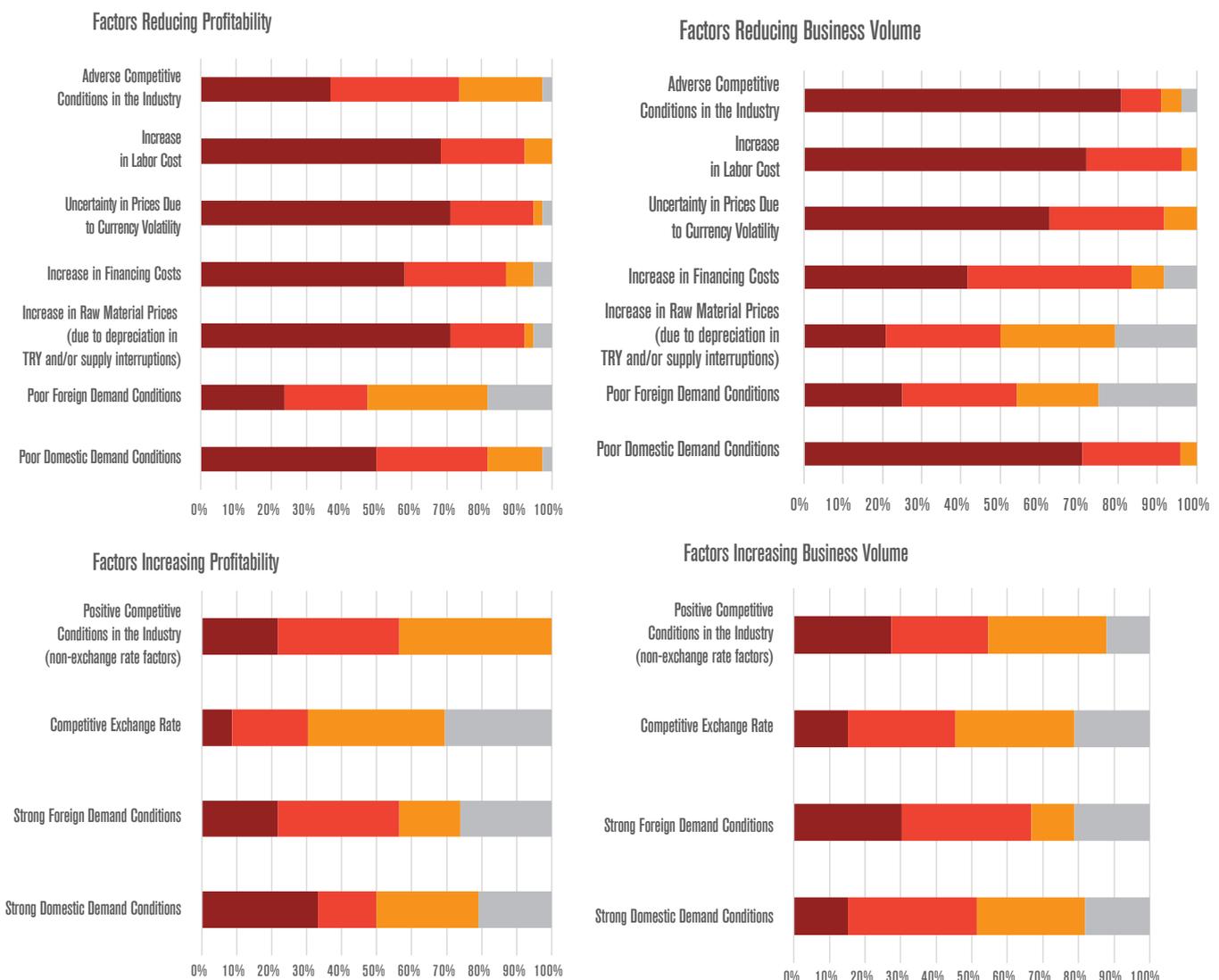


Uncertainty in prices as a result of exchange rate volatility, increases in raw material prices and labor costs were the most important factors affecting profitability negatively, while strong demand conditions were the most important factor increasing profitability. In addition, companies stated that they expect their profitability to increase due to their strong supply chain structure, efficiency studies and entry into new markets. On the other hand, the increase in labor costs, price uncertainty stemming from exchange rate volatility and raw material prices were very effective in companies expecting a decrease in their profits. Besides, companies emphasized the negative impact of the current uncertainty and insecurity regarding the general trend on profitability, as well as exchange rate uncertainty.

For companies that increased their business volume, the main factor that played a role in this increase was strong foreign demand. Price uncertainty due to exchange rate volatility, weak domestic demand and the increase in labor costs are the main factors that reduce business volume. The possibility of tightening global liquidity conditions to trigger exchange rate volatility and the rising raw material prices in the upcoming period pose a risk to the business volume and profitability of the real sector. Some of the companies, which think that their business volume will decrease, underlined that the production jams and power cuts due to energy problems, and the environment of uncertainty and insecurity played a role in the shrinkage of the business volume. Some other factors that play a role in the increase in business volume are stated as realization of investments postponed due to the pandemic, proximity to demand areas, and access to new markets.

Figure 3.6. Factors Affecting 2022 Q1 Profitability & Business Volume Faktörler

■ Highly Effective ■ Effective ■ Partially Effective ■ No Effect



3.3 Risks

In this part of the survey, first of all, companies were asked to indicate the three most important risks they foresee in the next 6 months. 59% of the companies stated the increase in raw material and energy prices, 47% volatility in exchange rates, and 41% stated supply chain problems among the three most important risks. While the most important risks are stated as exchange rate volatility and domestic demand conditions in the service sectors, raw material and energy prices and supply chain problems stand out as the most important risks in the manufacturing industry (Figure 3.7). In the first quarter results of the Anatolian Pulse Survey carried out in cooperation with Dünya Newspaper and TÜRKONFED, the increase in raw material prices, exchange rate volatility and supply problems are among the three most important problems for companies.

Compared to the past three months, 35% of the companies stated that they were pessimistic about the financial situation of their companies, and 43% about the general course of the sector in which they operate. (Figure 3.8)

Figure 3.7. The Most Important Risks Companies Will Face in the Next 6 Months

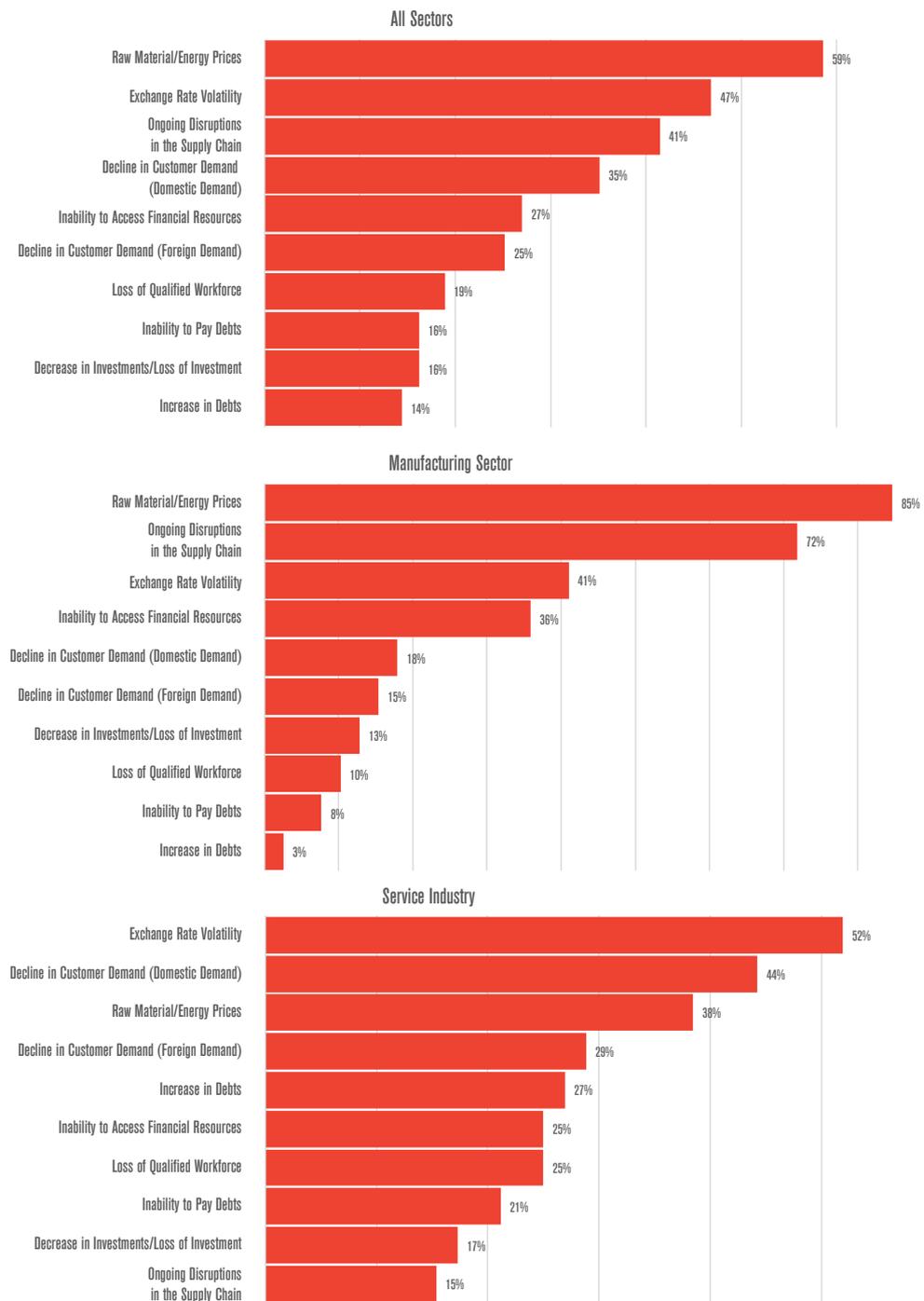
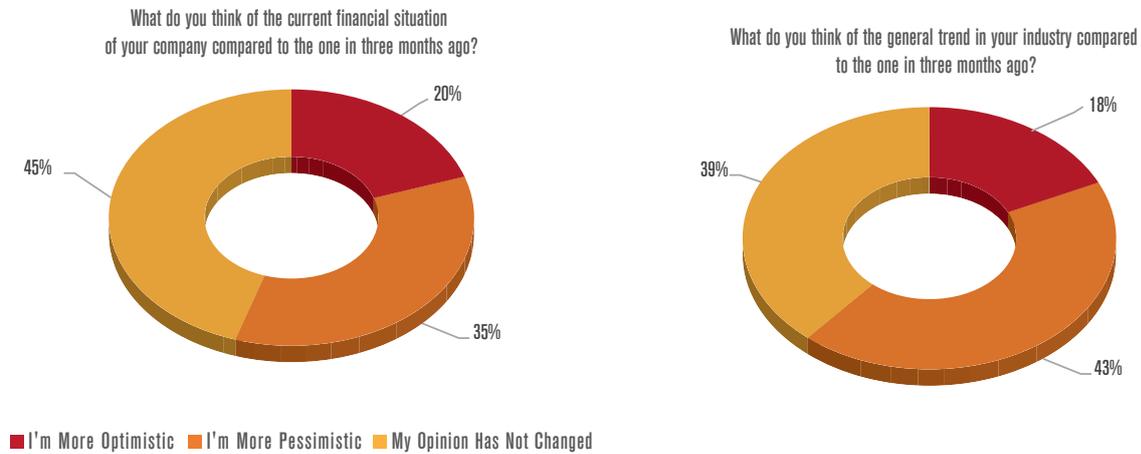


Figure 3.8. Reflections on Financial Situation and General Trend



3.4 Supply Chain Expectations

The negative impact of the pandemic on the production processes through different channels continues. While the production processes were affected negatively due to the inability of the workforce as a result of the closures in the early stages of the pandemic, the supply chain problems that emerged with the interruption of intermediate imports, especially in China, negatively affected the capacity utilization rates of the companies. Within the scope of this survey, which took place in the first quarter of 2022, the picture in Turkey also suggests that problems related to the supply chain continue.

Within the scope of the survey, the participants were first asked whether they continue to have problems in the supply chain of the main sector in which they operate during COVID-19 (March 2020-present) since March 2020. 62% of the companies participating in the survey stated that these problems continue. When we look at the main sector breakdown, this rate is 83% in the manufacturing sector and 73% in the service sectors (Figure 3.9). Regarding the supply chain, the participants were also asked how they expect the level of the problems they experience in the supply chain to continue in the coming period. 29% of the companies stated that these problems will continue to the same extent, 31% of the companies stated that they will increase, and 19% of the companies stated that the problems will decrease. Finally, the companies were asked how long the disruptions caused by the COVID-19 pandemic in their supply chain would last, and 10% of the companies predicted that this process will take less than 6 months, 32.4% of the companies predicted that it would take 6 months to 1 year, and the rate of those who foresee it would last more than 1 year is 31.5%.

Figure 3.9a. Supply Chain Issues

Do you continue to have problems in the supply chain of your main industry during COVID-19 (March 2020-present)?

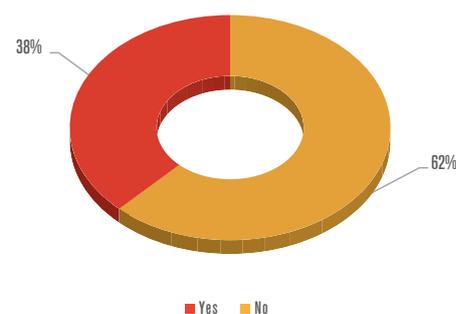


Figure 3.9b. Prospects for Supply Chain Issues

How do you expect the degree of problems in the supply chain to follow in the upcoming period?

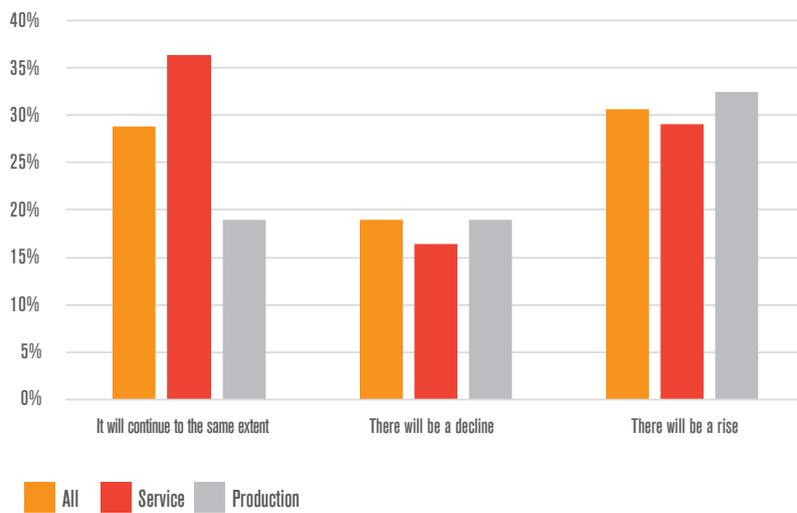
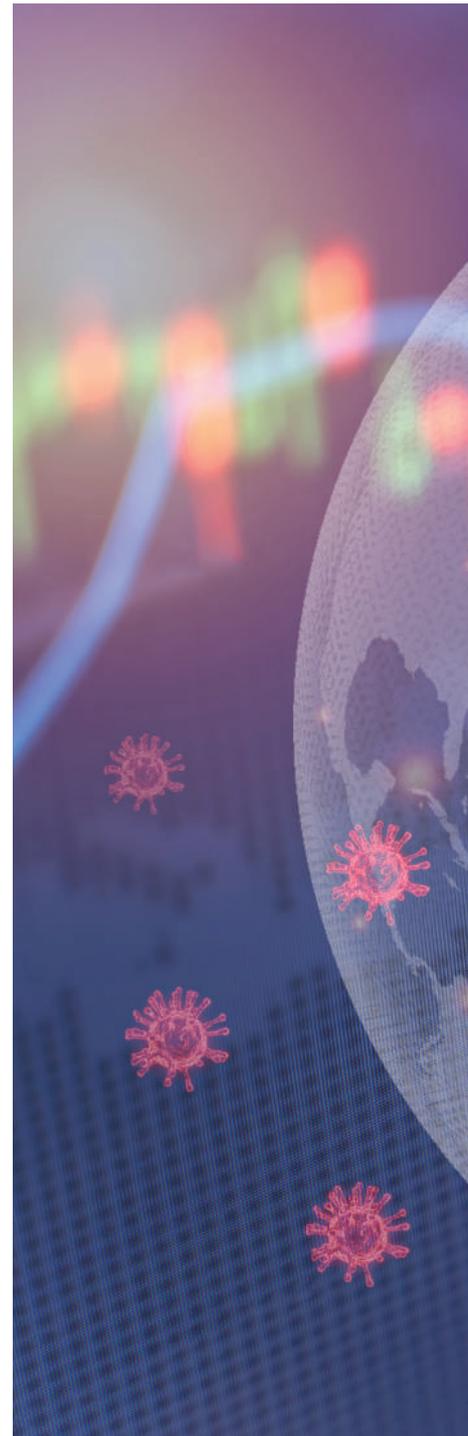
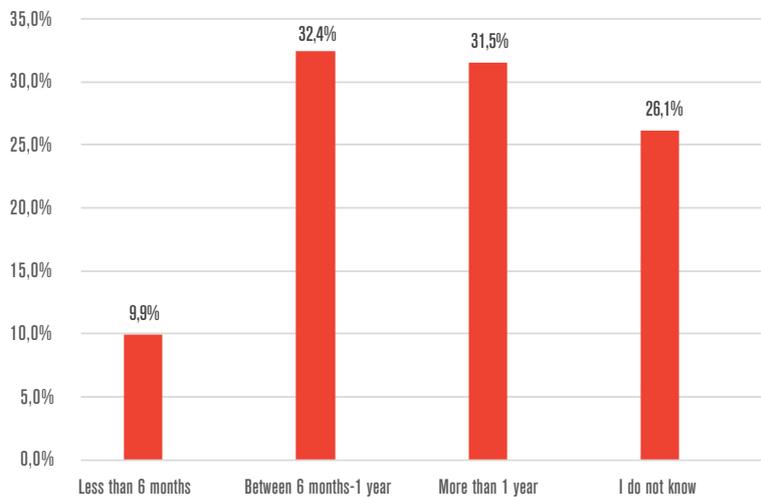


Figure 3.9c. Prospects for Supply Chain Issues

How long do you think the disruptions caused by the COVID-19 pandemic in your supply chain will last?





4

Conclusion

We are going through a period in which the economic costs and increasing uncertainty caused by the Russian invasion of Ukraine, combined with global inflationary pressures, increase the difficulties that policy makers are currently facing. In addition, the tightening monetary policies implemented by the central banks of developed countries continue to pose risks for developing countries such as Turkey, especially on the exchange rate side. Global developments point out that we are in a period in which the risks on the real sector are quite high and these risks will increase in the upcoming period.

This survey study, which aims to evaluate the current situation, expectations and anticipated risks of companies, includes observations regarding the first quarter of 2022. The survey results indicate that the economic activity slowed down at the beginning of 2022. GDP data for the first quarter of 2022 also indicated that the growth slowed down on a quarterly basis. Although the Turkish economy recorded an annual growth of 7.3% in the first quarter due to strong consumption and exports, the quarterly growth rate fell to 1.2%, the lowest level of the last 5 quarters.

According to the survey results, the ratio of companies expecting an increase in their business volume and profitability in the first quarter of 2022 has decreased compared to the previous quarter. While 30% of all companies state that their business volume has increased/will increase in the first quarter, the rate of companies stating that their profitability has increased/will increase is 21%.

While it was stated that the increase in business volume was mainly driven by foreign demand, the shrinkage in business volume was realized through factors such as exchange rate volatility, decreasing domestic demand and labor costs. The possibility that the tightening global liquidity conditions will trigger exchange rate volatility in the upcoming period and the increase in raw material prices pose a risk to the business volume and profitability of the real sector.



Compared to the past three months, 35% of the companies stated that they were pessimistic about the financial situation of their companies, and 43% about the general course of the sector in which they operate. In addition, companies experiencing a decline in business volume are mostly small or micro-sized enterprises with 50 or less employees. The financial outlook of companies and their negative expectations regarding the sectoral trend indicate that support mechanisms should be sustained. With the pandemic, it is important to introduce non-credit "targeted support packages", especially in segments (sector, age and size) where the SME population with a lower level of resilience is more fragile.

Another prominent result of the survey is that the gap between profitability and business volume has increased considerably in the last period. In the last quarter of 2021, while the business volume of 64% of the companies in the manufacturing sector increased, only 31% increased their profitability. The fact that this difference is particularly high in the manufacturing sector indicates that companies are trying to increase their sales by selling more goods at a cheaper price. Encouraging firms to produce products with low elasticity of demand and providing added value should be the target of industrial policies in the medium term, instead of selling more goods at a lower cost.

According to the survey results, while the most important risks for companies operating in the service sectors in the next period are exchange rate volatility and domestic demand conditions, companies in the manufacturing industry consider raw material and energy prices and supply chain problems among the most important risks. 62% of the companies participating in the survey stated that their supply chain problems continue. When we look at the sector breakdown, this rate was recorded as 83% in the manufacturing sector and 73% in the service sectors. 41% of the companies rank supply chain problems among the top 3 risk factors. For this reason, measures to be taken in the medium and long term regarding the resilience of the supply chain should be inevitable on the part of the companies in the upcoming period. In this context, new supply chain models supported by technological infrastructure investments and new technologies gain importance.





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