



A Look at the Construction Industry from the KPMG's Perspective



CarbonNeutral.com

KPMG Turkey is a certified CarbonNeutral® company

2021

KPMG Turkey

kpmg.com.tr





Turkish market

Average monthly contributions to the GDP growth

Employment figures still not recovered from the repercussions of 2018

Fluctuations in the construction confidence index due to the pandemic

Rising costs and falling turnovers reflected negatively in the industry's balance sheets

Infrastructure construction

Giant Projects

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

2021 forecasts for the construction industry

Trends in the world and in Turkey during the pandemic

It has been one year since the coronavirus epidemic was declared a Pandemic in the World. Global economies were severely affected by the pandemic leading to more frequent cases of financial crises. Although vaccination roll-out began in 2021, lack of a steady supply of vaccines to certain jurisdictions accompanied by a slow vaccine uptake and mutations meant many jurisdictions found themselves up a creek without a paddle.

The Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) said the road to recovery from the financial crisis caused by the epidemic was different for each jurisdiction. While the suspension of new projects was a cause for concern in some jurisdictions, new incentive packages in others increased hopes for the global economy. As in the previous year, growth forecasts were revised upwards this year. Growth in the range of 5.6%-6.0% for 2021 and 4.0%-4.4% for 2022 is expected.

According to forecasts, it may take until 2023 for the economies of developing jurisdictions to get back to pre-pandemic levels. The fact that pandemic support payments in many jurisdictions is provided through financial aid rather than disbursement of hard cash and the limited deferral of debt afforded to over-indebted developing jurisdictions are considered factors that keep the strain on economies.

While the pandemic is causing various concerns worldwide, high inflation rates and issues with the current account balance in Turkey are also a cause for concern. While the current account deficit remains a pressure factor, it can be clearly observed that the uncertainties caused by the pandemic are reducing the appetite for any additional uncertainties that may arise. Investment plans, economic policies and developments in national and global markets will be decisive for economic development in the coming period.

Although not all jurisdictions have a promising vaccine uptake, it is an important factor that economies rely on to look to the future with hope. The vaccination roll-out is slower than expected, which dampens the optimistic mood we had at the beginning of 2021, however, it is the only way out of the crisis we are currently experiencing. Similar to global differences with the vaccination roll-out, economic recovery is not equal for all jurisdictions. The risk going forward is the inflation risk posed by financial aid packages to manage the impact of the pandemic.

Against such a backdrop of uncertainty, the construction industry, trying to look to the future with hope as 2020 and 2021 was overshadowed by the pandemic and vaccination, will continue to strive to build on its old momentum with the lifting of pandemic restrictions.

Trends in the world and in Turkey during the pandemic



Turkish market

Average monthly contributions to the GDP growth

Employment figures still not recovered from the repercussions of 2018

Fluctuations in the construction confidence index due to the pandemic

Rising costs and falling turnovers reflected negatively in the industry's balance sheets

Infrastructure construction

Giant Projects

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

2021 forecasts for the construction industry



Turkish market

The Turkish construction industry put through its paces by COVID-19

The global economy rounded off 2020 with a mixed outlook, weighed down by COVID-19 pandemic-related concerns on the one spectrum while buoyed up by optimistic hope on the other end of the spectrum with the vaccine roll-out. Even though the vaccine roll-out is good news, emergence of mutant strains and slower than expected distribution of vaccines worldwide continues to put pressure on the overall economy. While central banks are trying to enforce expansionary monetary policies to the fullest to revive the world's badly damaged and overstrained economy, everyone knows it cannot last forever. Turkey has reported more than 3 million cases by the end of March 2021, with intensive efforts continuing to revive the economy, which has been under severe strain from the pandemic.

The construction industry is the driving force of the economies of developing jurisdictions, creating jobs and added value for the economy triggering its eco-system of subordinate industries and branches. As a corollary to that generalization, one of the key growth indicators in Turkey, the construction industry, has been recently performing below expectations. The industry, which has played a significant role in the growth trend of the Turkish economy, has recently begun to contract. The financial fluctuations of recent years are likely to be one of the main reasons for this downward trend in the industry, which, due to its nature, is more sensitive to economic and political developments than other industries.

Trends in the world and in Turkey during the pandemic



Turkish market

Average monthly contributions to the GDP growth



Employment figures still not recovered from the repercussions of 2018

Fluctuations in the construction confidence index due to the pandemic

Average monthly contributions to the GDP growth

Rising costs and falling turnovers reflected negatively in the industry's balance sheets

Infrastructure construction

Average monthly contributions to the GDP growth

	Agriculture	Industry	Construction	Service and Commerce	Average annual growth in total GDP
2003-2007	0.11%	1.69%	0.89%	4.65%	7.34%
2008-2009	0.30%	-0.74%	-0.65%	-0.77%	-1.86%
2010-2014	0.24%	1.77%	0.88%	4.77%	7.66%
2015-2016	0.21%	0.92%	0.37%	3.15%	4.65%
First Quarter 2017	0.13%	1.20%	0.40%	3.57%	5.30%
2nd Quarter 2017	0.29%	1.20%	0.50%	3.31%	5.30%
3rd Quarter 2017	0.47%	2.80%	1.40%	6.93%	11.60%
Fourth Quarter 2017	0.33%	1.86%	0.40%	4.71%	7.30%
First Quarter 2018	0.20%	1.70%	0.46%	5.14%	7.50%
2nd Quarter 2018	-0.10%	1.00%	0.08%	4.82%	5.80%
3rd Quarter 2018	0.30%	0.20%	-0.40%	2.40%	2.50%
Fourth Quarter 2018	0.00%	-1.40%	-0.50%	-0.80%	-2.70%
First Quarter 2019	0.20%	-1.10%	-0.50%	-1.20%	-2.60%
2nd Quarter 2019	-0.10%	-0.80%	-0.80%	0.00%	-1.70%
3rd Quarter 2019	0.30%	0.20%	-0.60%	1.10%	1.00%
Fourth Quarter 2019	0.00%	0.80%	-0.30%	5.90%	6.40%
First Quarter 2020	0.10%	1.30%	-0.20%	3.30%	4.50%
2nd Quarter 2020	0.20%	-3.00%	-0.30%	9.39%	6.29%
3rd Quarter 2020	0.70%	1.30%	0.30%	3.99%	6.29%
Fourth Quarter 2020	0.20%	2.10%	-0.60%	4.17%	5.87%

Source: TÜİK (Turkish Statistics Institute)

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

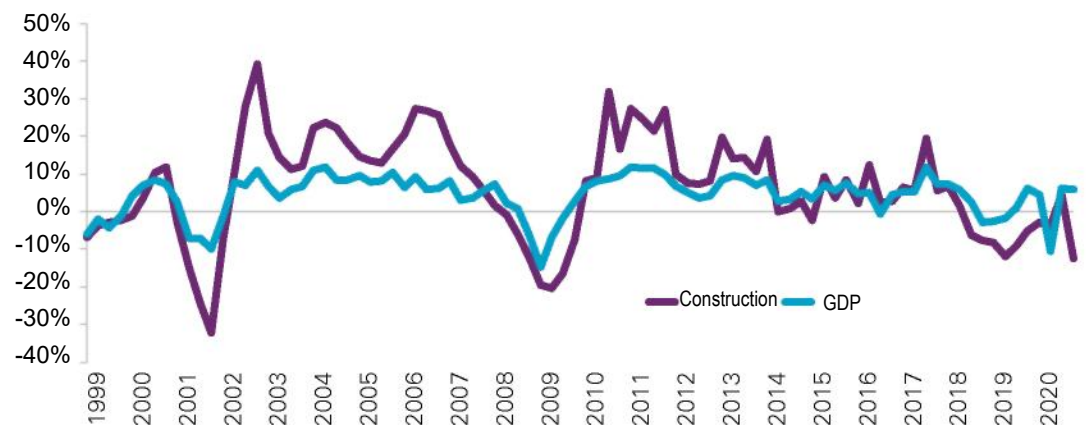
2021 forecasts for the construction industry



More specifically, the industry, which has been shrinking for more than two years, suffered another blow in 2020 due to the COVID-19 epidemic, which affected the entire world including Turkey. The measures taken to prevent the spread of the pandemic, the delays and cancellations in existing projects, and the drop in demand for real estate led to a sharp downturn in the construction industry, particularly in the second quarter of 2020. The fact that Public-Private Partnership (PPP) projects did not lose much momentum during this period was not enough to buck the trend. Despite the negative outlook, the industry came back from the edge in the third quarter of 2020 due to government-sponsored loan packages offered during COVID-19 period, domestic demand caused by low interest rates, and special sale campaigns to whittle down the existing inventory. Thus, although the construction industry regained a positive momentum in the short term, tightened measures due to expectations of a second wave in the last quarter, news of overlapping mutations with no end in sight and the Central Bank of the Republic of Turkey's renewed position on monetary tightening reversed the positive momentum in a short period of time.

In the period 2018 Q3 - 2020 Q2, the decline in the industry averaged 7%. After contracting over the past eight quarters, a growth of 4.7% was posted for the first time in the third quarter of 2020, overshadowed by the pandemic. With house sales campaigns to whittle down the inventory of unsold houses, expansionary monetary policies (low interest rates, loans from the Credit Guarantee Fund (KGF) and cash loans of over 49 billion liras) to mitigate the negative impact of the pandemic and Public-Private Partnership construction projects continuing despite the pandemic, the construction industry which grew for the first time in two years lost its positive momentum with the introduction of a tightened monetary policy, experienced a contraction of 12.5% in the last quarter of 2020 compared to the previous period. The pandemic and a tight monetary policy are the two biggest obstacles to new projects. Given that interest rates are the most effective tool to keep down exchange rates that are in an upward uptrend, tightening is set to continue for a while.

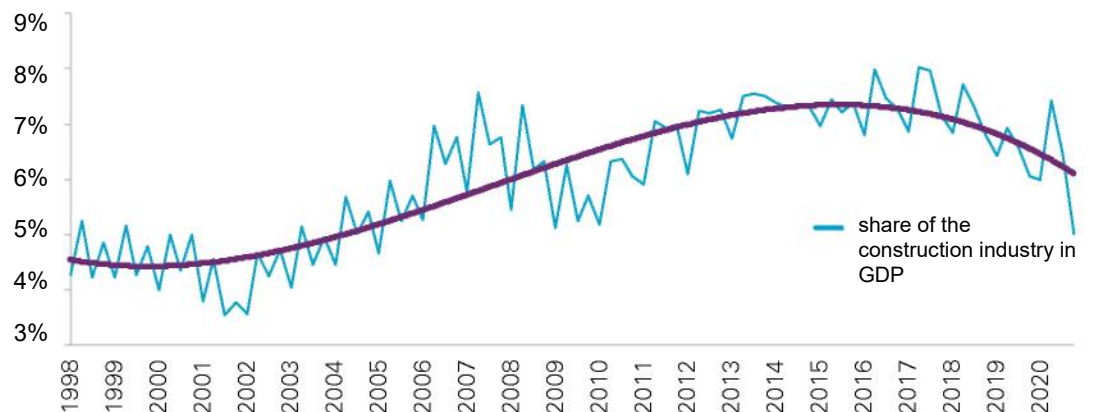
Annual growth rates





On the other hand, the industry's share in GDP continues to fluctuate; despite the construction industry increasing its share in GDP to 7.4% in Q2 2020 thanks to loan supports, the trend is generally negative. Although the industry hovers well below the rate of 8.1% posted in 2017, the industry's share in GDP remained at 5% in the fourth quarter of 2020. The decrease in the number of construction tenders and the decline in investments across the country contributed to the downturn. On the other hand, government-subsidized Public-Private Partnership projects with high amount of government-guaranteed payments indexed mostly to the foreign exchange rate are also affecting the construction industry.

Share of the construction industry in GDP



It is assumed that the industry, which stood on shaky ground due to an increase in the exchange rate, will not be able to maintain the momentum gained in the third quarter of 2020 thanks to the loan packages and payments by the government during the COVID-19 pandemic due to the introduction of a tightened monetary policy; so, the industry is still on thin ice in the face of economic and political risks even though bolstered to a certain extent by domestic demand. This vulnerability manifests itself in exchange rate fluctuations and inflation/interest rates.

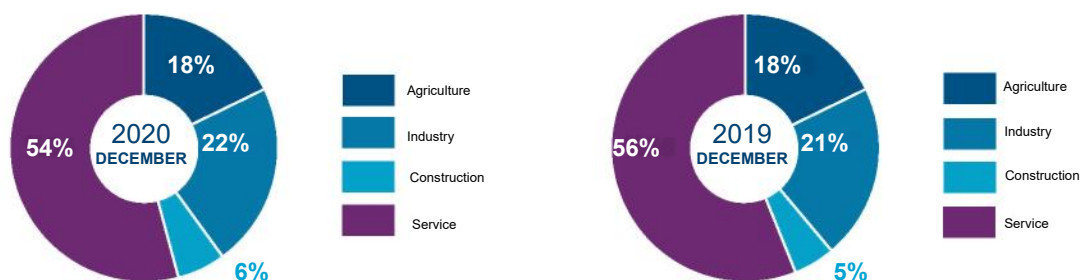


Employment figures still not recovered from the repercussions of 2018

According to seasonally adjusted figures, the construction industry employed 1 million 571 thousand people as of January 2020. This figure showed that compared to the same period last year, there was a drop by 100 thousand people. Judging by the employment rates in December 2020, which equate to 1 million 607 thousand people, 137 thousand more people joined the labor market compared to December 2019. However, despite the fluctuations throughout the year and the negative impact of COVID-19, the construction industry's average contribution to employment increased by 0.13% compared to the previous year.

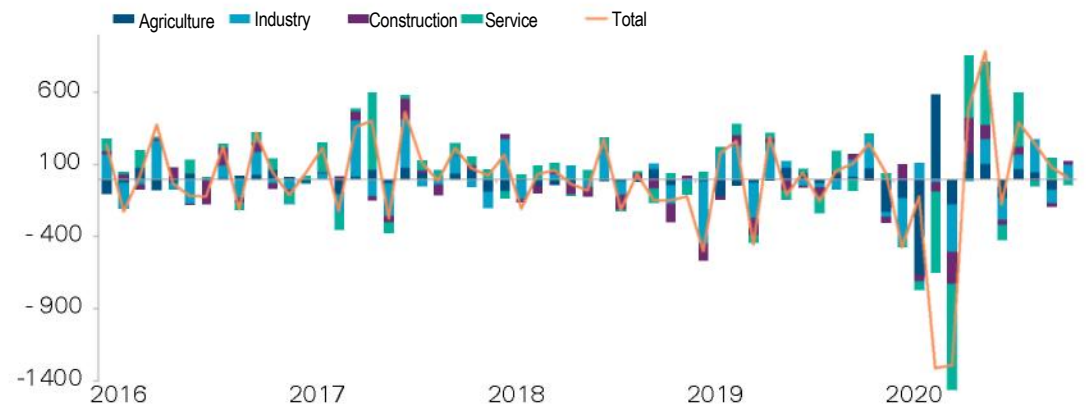
Although general employment fell sharply by 1 million 354 thousand people in average compared to 2019, the reason that the construction industry had a much softer landing (an average decline of 40 thousand people) is due to the recent loan packages, falling interest rates, rising housing sales and the steady rise in Public-Private Partnership projects leading to recovering business volumes. Thanks to more demand for labor generated by the resuming of unfinished projects with government-subsidized loans, more people were employed by the construction industry in December 2020. Although employment figures are expected to increase with the revitalization of the construction industry and the launching of infrastructure projects after the pandemic, it is assumed that employment growth may lag behind overall financial growth due to remote and flexible working, one of the biggest benefits of the pandemic for the working class.

Total cash loans / total deposits (%)





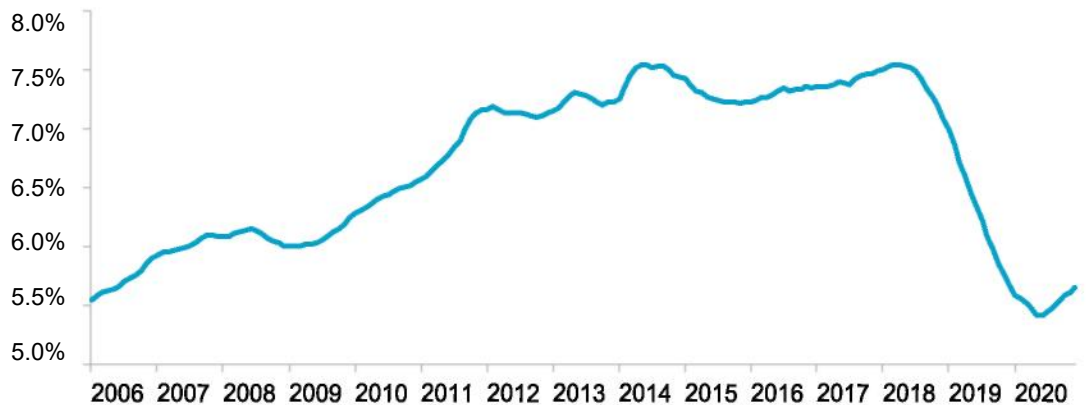
Industry-specific employment monthly changes (seasonally adjusted, thousand people)



Source: BRSA (Banking Regulation and Supervision Agency)

The construction industry's contribution to total employment declined in parallel with the sharp contraction over the past two years. According to simple averages, the industry's contribution to overall employment, which decreased from 7.4% to 5.59% in 2019, increased by 0.13% to 5.72% in 2020 compared to the previous year. Despite the negative impact of the COVID-19 epidemic in 2020, the reason for the minimal increase in the construction industry's contribution to total employment is the limited seasonal growth of the construction industry, while the overall economy is currently under great pressure and contracting due to effects of the epidemic.

Share of the construction industry in total employment (12-month average)



Source: BRSA (Banking Regulation and Supervision Agency)

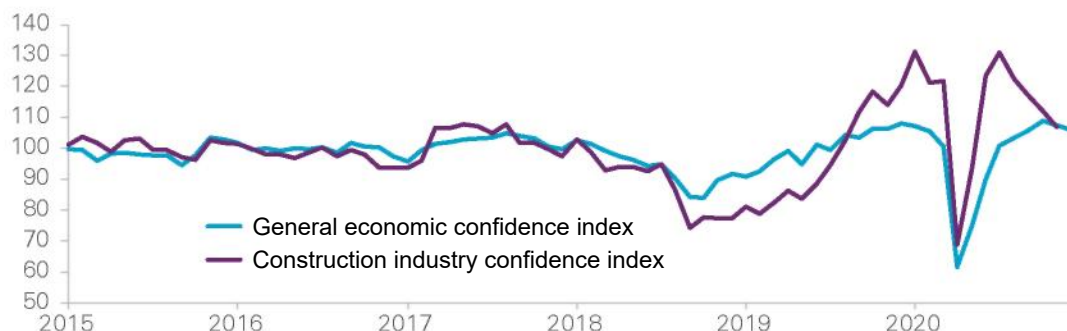


Fluctuations in the construction confidence index due to the pandemic

The confidence index is a very important indicator of how the economy is performing, with a score below 100 meaning no-confidence and above 100 meaning optimism. However, increases and decreases are also important for understanding economic expectations. Confidence indices for the general economy and the construction industry, which had been going upwards in 2019, took the opposite direction with the COVID-19 pandemic. Pandemic-imposed restrictions, concerns due to the uncertainty regarding the future, and slowing economic activity due to interrupted projects led to a deterioration in expectations that reversed the trend in economic confidence indices, and the construction industry generally experiences greater ups and downs than the overall economic index.

True to form, the construction industry reacted to the deterioration in general confidence caused by COVID-19 with a sharper decline, driven by the fragility mentioned previously. With the outbreak of the COVID-19 pandemic, the confidence indices of the general economy and the construction industry experienced a very sharp decline, and there was a strong recovery with the relaxation of COVID-19 measures and the news about the vaccine, even for a limited time the pre-pandemic levels were achieved, and the construction industry got back on its feet more promptly than other segments of the economy, as is usually the case. After this positive momentum, the downward trend started again with the looming prospect of a new wave, renewed restrictions and news of mutant strains.

Confidence indices of the general economy and construction industry (2014=100)



Source: BRSA (Banking Regulation and Supervision Agency)

Trends in the world and in Turkey during the pandemic



Turkish market

Average monthly contributions to the GDP growth

Employment figures still not recovered from the repercussions of 2018



Fluctuations in the construction confidence index due to the pandemic

Construction industry confidence index sub-components (2014=100)



Rising costs and falling turnovers reflected negatively in the industry's balance sheets

Infrastructure construction

Giant Projects

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

2021 forecasts for the construction industry



Rising costs and falling turnovers reflected negatively in the industry's balance sheets

The construction industry, which had already been going through a tough time due to the recent increase in costs, decrease in demand and insufficient funds, is once again going through a very difficult time due to the conditions created by the epidemic and the sudden increase in exchange rates. In particular, the negative impact of high exchange rates on foreign currency-based import items played an important role in rising costs.

Sharp increases in construction and financing costs, as well as fluctuations in demand, had volatile effects on the monetary size of the industry. Despite the positive impact of the decline in construction cost indices in 2020, the total cost increase value, which was 9.3% in January, reached the level of 25% in December, in parallel with the changing economic conditions. This alone reduced construction industry turnover levels in December by 50% compared to the previous year. The industry, heavily affected by the impact of high foreign exchange prices on imports and restricted termination policies, lost its short-term positive growth momentum in the final quarter.

Annual changes



Trends in the world and in Turkey during the pandemic



Turkish market

Average monthly contributions to the GDP growth

Employment figures still not recovered from the repercussions of 2018

Fluctuations in the construction confidence index due to the pandemic

Rising costs and falling turnovers reflected negatively in the industry's balance sheets



Infrastructure construction

Public-private industry partnership projects

Public-Private Industry Partnership (PPP) projects, which emerged in the 1990s as an alternative method for financing the construction of infrastructure facilities and the provision of public services, are a common phenomenon in Turkey as in other developing economies. According to the Presidency Strategy and Budget Office data, 252 projects are currently underway in Turkey.

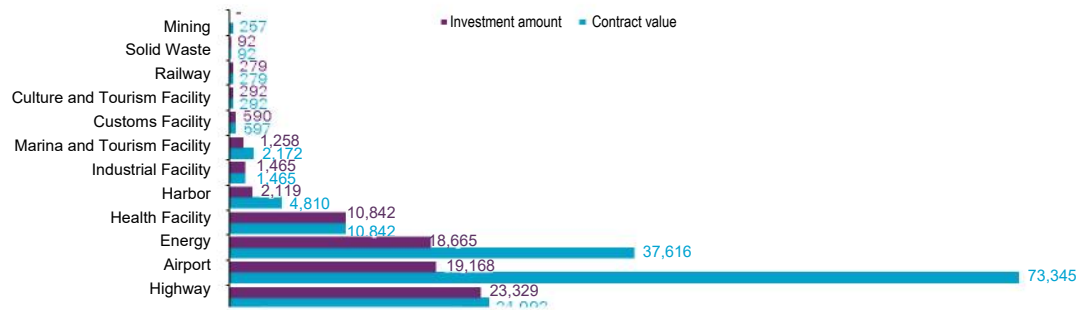
Industry-wise, investments in energy and highways are the highest, while airport constructions have the highest share of contract value.

Based on the years, the highest investments were realized in 2013 with 24.6 billion dollars. Average investment spending of only 2.0 billion dollars over the following seven years shows the remarkable trend.

Infrastructure construction

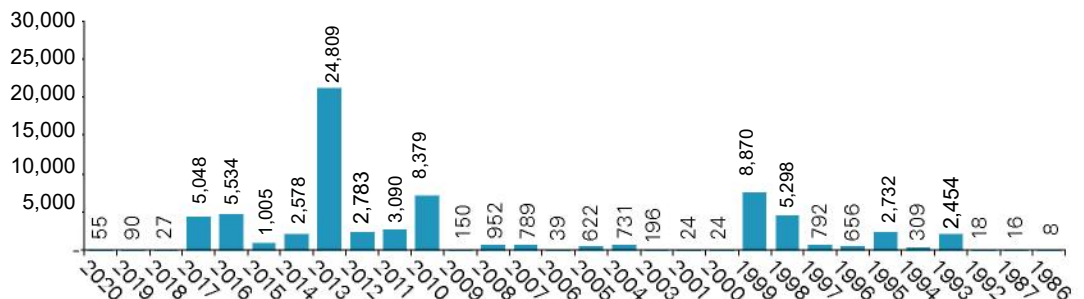
Giant Projects

Public and private industry partnership projects (million dollars)



Source: Republic of Turkey Presidency of Strategy and Budget

Distribution of investment amounts by years (million dollars)



Source: Republic of Turkey Presidency of Strategy and Budget

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

2021 forecasts for the construction industry



Giant projects

The New Economic Program (YEP), announced in September 2020, included references to supporting local production in the construction industry with policies putting locally produced goods over imported products.

The latest news from a number of giant projects are as follows:

New Istanbul Airport: Istanbul Airport, which became operational in April 2019 following the largest transfer of materials operation in aviation history, is still way off drawing the desired number of passengers due to the pandemic. In January-March 2021, the New Airport welcomed 46 thousand 427 aircrafts and 5 million 542 thousand 158 passengers. Furthermore, according to the flight numbers shared by Eurocontrol from March 1 to 31, Istanbul Airport was the leader in Europe with 17 thousand 407 flights.

Financial Center: The unfinished Istanbul Financial Center project was transferred to the Presidency and the Istanbul Financial Center Department was established under the Presidential Finance Office for the project. Under a protocol signed with the Ministry of Finance and Treasury, the project, involving government institutions like the Housing Development Administration of the Republic of Turkey, Head Department of Provincial Banks, the Head Office of Emlak Konut and the Wealth Fund, is expected to be completed by 2021.

Çanakkale 1915 Bridge: The construction of the bridge, the foundation of which was laid on March 18, 2017, and undertaken by a consortium of 4 companies, two of which are Turkish and two are Korean, continues. The bridge with a central span of 2023 meters to symbolize the 100th anniversary of the founding of the Republic of Turkey, is set to be a suspension bridge with the longest span between its towers in the world. The bridge is set to be put into service on March 18, 2022, which coincides with the 107th anniversary of the Gallipoli Naval Victory.

Istanbul Canal: The project, revealed for the first time in 2011 to completely close off the Bosphorus to tankers, was shelved for a while. In his statement, Environment and Urbanization Minister Murat Kurum stated that the tender for the project would be held in 2021 while the first foundations of the project were planned to be laid in 2021.

City Hospitals: While there are 13 hospitals that were put into service as of the end of 2020, the Public-Private Partnership system will end with the building of City Hospitals in Kocaeli, Kütahya, Etilik, Gaziantep and İzmir within the years 2021 and 2022. It is planned that the tenders announced by the Ministry of Health which have not taken place so far will be executed using the state's own resources.

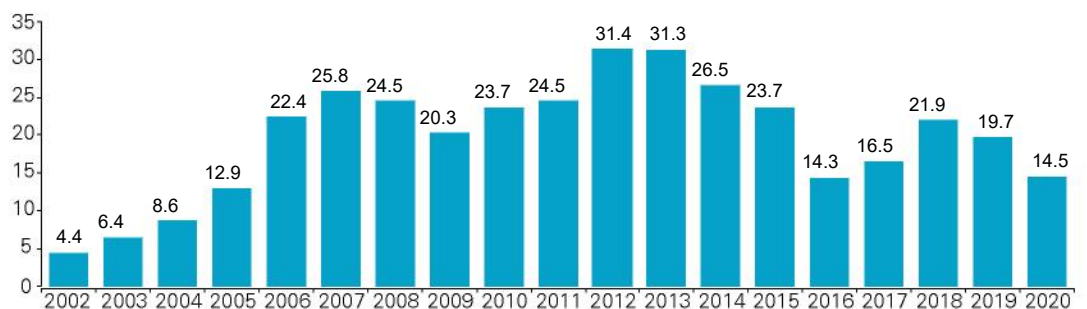


Turkish contractors' projects abroad

The total value of the projects carried out by Turkish contractors from 1972 to the end of September 2020 amounted to 419 billion dollars. However, the performance of Turkey-based contracting and technical consulting companies abroad has been sluggish compared to previous years due to geopolitical developments and low global commodity prices in recent years.

New project values, which had risen to over 30 billion dollars in 2012 and 2013, declined in subsequent years but have managed to rise to the 20 billion dollars mark over the last 3 years. From a regional perspective, Turkish contractors' projects abroad are concentrated in Russia and the Commonwealth of Independent States, and the Middle East and Africa, respectively.

Turkish contractors' total projects abroad (million dollars)



Source: Ministry of Trade

Distribution of overseas activities by jurisdictions

Jurisdictions	Total project value in dollars	Share (%)
Russian Fed.	84,158,700,000	20.10%
Turkmenistan	48,987,900,000	11.70%
Libya	29,309,000,000	7.00%
Iraq	27,634,200,000	6.60%
Kazakhstan	26,378,100,000	6.30%
Saudi Arabia	23,865,900,000	5.70%
Qatar	18,422,800,000	4.40%
Algeria	16,748,000,000	4.00%
Azerbaijan	14,654,500,000	3.50%
UAE	12,561,000,000	3.00%
Other Jurisdictions	115,979,900,000	27.70%
Total	418,700,000,000	100.00%

Trends in the world and in Turkey during the pandemic



Turkish market

Average monthly contributions to the GDP growth

Employment figures still not recovered from the repercussions of 2018

Fluctuations in the construction confidence index due to the pandemic

Rising costs and falling turnovers reflected negatively in the industry's balance sheets

Infrastructure construction

Giant Projects

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

2021 forecasts for the construction industry

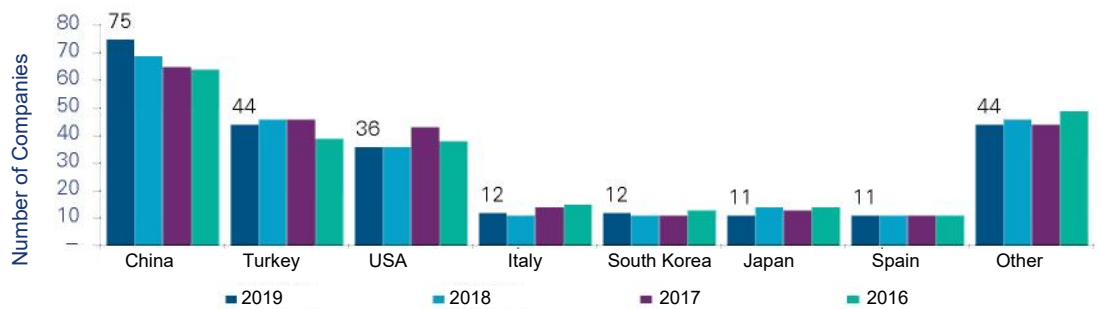


Major industry players in the world and in Turkey

As of 2019, 45 Turkish construction companies were included in the list of the "World's Top 250 International Contractors" published by the international construction industry magazine ENR (Engineering News Record), based on the revenues generated by contractors from their activities outside their jurisdiction in the previous year.

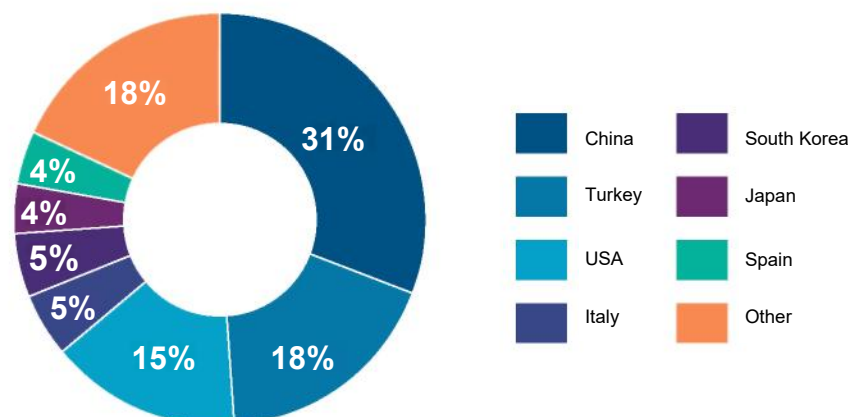
While Turkey maintains its second place behind China with 75 construction companies, the USA ranks third with 36 companies.

Number of contracting companies by years



Source: Ministry of Trade

Percentage of contracting companies by jurisdiction





	2019	2018	2017	2016	2015
Rönesans	33rd	36th	38th	44th	37th
Limak	67th	68th	85th	135th	145th
Tekfen	69th	98th	112th	118th	-
TAV	71st	70th	76th	81st	82nd
Yapı Merkezi	77th	82nd	78th	93rd	111th
Ant Yapı	87th	86th	86th	86th	-
Enka	92nd	79th	72nd	79th	65th
Atlas Group	104th	113th	-	123rd	-
Alarko	105th	101st	79th	-	184th
GAMA	118th	108th	162nd	155th	133rd
Çalık Enerji	119th	104th	110th	101st	-
MAPA	126th	119th	109th	133rd	177th
Gülermak	127th	171st	-	-	-
Nurol	128th	154th	151st	148th	139th
Onur	131st	147th	140th	151st	-
Doğuş	135th	124th	128th	146th	179th
İC İnçtaş	139th	165th	175th	182nd	121st
Yüksel	142nd	131st	134th	121st	123rd
KUZU	147th	142nd	130th	141st	151st
Dekinsan	148th	164th	225th	-	-
Kolin	151st	180th	224th	246th	-
Esta	156th	159th	168th	174th	-
TACA	159th	-	-	-	-
Yeniğün	163rd	205th	206th	226th	205th
Eser	164th	150th	158th	173rd	-
Kayı	168th	166th	167th	169th	-
AD Konut	170th	-	-	-	-
GAP	172nd	73rd	92nd	137th	-
ANEL	175th	176th	200th	231st	-
AE Arma - Elektropanç	176th	156th	190th	222nd	229th
STFA	179th	170th	165th	158th	192nd
Tepe	184th	153rd	166th	-	248th
Summa	188th	226th	194th	195th	-
Gürbağ	190th	189th	216th	-	223rd

Trends in the world and in Turkey during the pandemic



Turkish market

Average monthly contributions to the GDP growth

Employment figures still not recovered from the repercussions of 2018



Fluctuations in the construction confidence index due to the pandemic

Rising costs and falling turnovers reflected negatively in the industry's balance sheets

Infrastructure construction

Giant Projects

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

2021 forecasts for the construction industry

	2019	2018	2017	2016	2015
NATA	193rd	-	105th	98th	116th
İLK	203rd	194th	156th	138th	107th
Cengiz	211st	225th	223rd	184th	169th
Üstay Yapı	216th	232nd	-	-	-
KUR	217th	237th	-	-	-
Polatyol	219th	228th	239th	-	-
Özkar	222nd	235th	-	-	-
Zafer	228th	231st	233rd	224th	233rd
Bayburt Grup	229th	195th	196th	200th	183rd
MAKYOL	230th	209th	226th	-	-
MBD	247th	247th	250th	-	-
Aslan Yapı	-	-	176th	193rd	168th
Caba	-	-	244th	-	-
DIA	-	-	120th	147th	157th
Dorçe	-	239th	-	233rd	-
Gülsan	-	213rd	154th	-	-
Metag	-	183rd	186th	217th	236th
Polimeks	-	-	42nd	40th	62nd
Rasen	-	-	-	243rd	-
Sembol	-	116th	125th	157th	-
SMK Group	-	179th	187th	206th	-
Universal Acarsan	-	-	98th	-	-



Export figures for construction materials gives hope

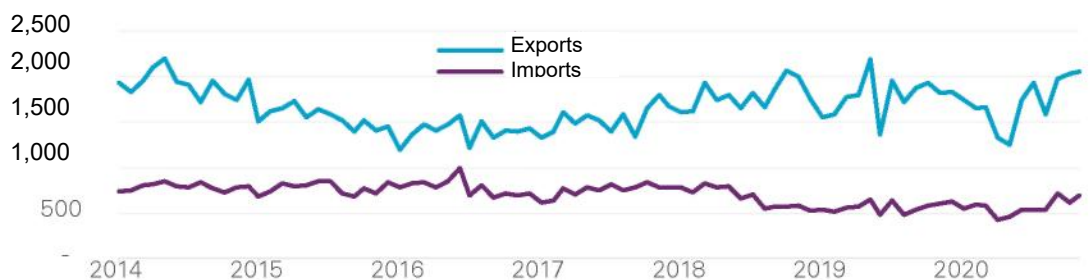
After recovering from the financial fluctuations in 2018 and 2019, the Construction Materials Foreign Trade Index was this time exposed to the negative impact of the global epidemic. The index, which saw a significant decline in the period from March 2020 to August 2020 as the global impact of the Covid-19 epidemic intensified, started showing signs of recovery in September and reached the 2 billion dollars mark in October and November for the first time in 17 months.

In terms of volume, exports in November reached 5.02 million tons, equivalent to an increase of 12.8% compared to the same period last year. The average unit price, on the other hand, remains at 0.41 dollars/kg, remaining the same compared to the same period in 2019.

The Import Quantity Index, on the other hand, increased by 11.24% in November compared to the previous month and increased by 14.73% compared to the same period of 2019. In terms of quantity, the Import Value Index reached 273 thousand tons in November. With this increase, imports amounted to 693 million dollars in November, climbing to its highest level for the year.

In November, import unit prices were 2.54 dollars/kg. Bearing in mind that the import unit price in November of last year was 2.41 dollars, this indicates an increase of 5.39%.

Foreign trade of construction materials (million dollars)





Cement manufacturing back on track again after the crisis.

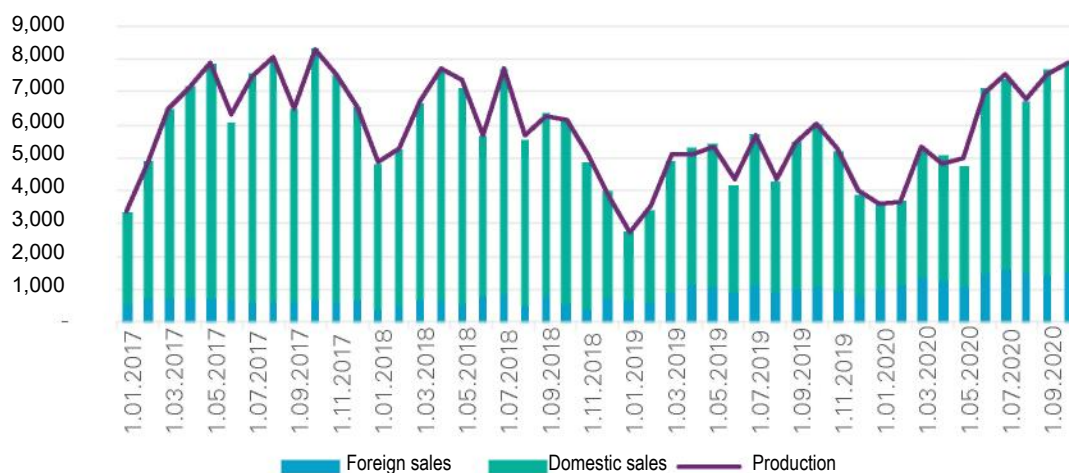
While the construction industry is among the leading indicators for the general economy, cement manufacturing is also a leading indicator for the construction industry.

The Turkish cement industry, mostly focused on the domestic market, had a decrease of 21.5% compared to the previous year with a total production of approximately 57 million tons in 2019. Total cement manufacturing, which was 59 million tons in the first 10 months of 2020, shows signs of recovery despite the effects of the global epidemic.

When the domestic market statistics are taken into account, the sales chart, which decreased by 29.4% in 2019 compared to the previous year, surpassed the whole of 2019 as of October 2020 amounting to 45.6 million tons.

The industry experienced a contraction on the export side in 2018 and the manufacturing volume decreased by 6.44% compared to the previous year. In 2019, exports, which showed a significant recovery, increased by 48.88% compared to 2018.

Cement manufacturing and sales (thousand tons)



Trends in the world and in Turkey during the pandemic

Turkish market

Average monthly contributions to the GDP growth

Employment figures still not recovered from the repercussions of 2018

Fluctuations in the construction confidence index due to the pandemic

Rising costs and falling turnovers reflected negatively in the industry's balance sheets

Infrastructure construction

Giant Projects

Turkish contractors' projects abroad

Major industry players in the world and in Turkey

Export figures for construction materials gives hope.

Cement manufacturing back on track again after the crisis.

Analysis of the construction industry

2021 forecasts for the construction industry



Analysis of the construction industry

Strengths

- Logistics advantages thanks to Turkey's geographic location in terms of allowing easy access to fast-growing markets
- Sufficient number of experienced engineers and technical staff
- Presence of strong sub-industries such as steel and cement
- Extensive international experience with a wide range of jurisdictions and projects
- Persistent housing demand
- A well-functioning supporting industry for locally produced machinery and materials

Opportunities

- The urgent need for urban transformation securing the industry's future in the medium and long term
- Government's support for domestic and international projects
- Turkish construction companies' stellar reputation and experience, especially on an international level
- The increase in demand for housing due to a young population, one of the strongest assets of Turkey, and a dynamic job market energized by manpower from abroad
- A steadily rising need for a modern transportation system, infrastructure and social facilities
- The need for investments in construction in neighboring countries and other countries

Weaknesses

- High input costs
- The industry's massive dependence on housing demand
- Professional inaptness and problems in finding technical staff
- Auditing bottlenecks in the industry, failure of the building auditing system to operate effectively
- Contracting and risk management issues, inadequacies with project and planning
- Inadequate distribution channels in the manufacturing of construction materials
- Lack of adequate R&D initiatives

Threats

- Declining demand, cost increases and the unpredictability of the future due to the global health crisis and the Covid-19 pandemic
- Political instability in key markets
- Fluctuations in exchange and interest rates causing consumers to delay their purchasing intentions and putting pressure on the costs of imported goods.
- Companies' incompetence in risk management
- Internal conflicts of jurisdictions with a business potential and regional advantage becoming a threat and adversely affecting investments in construction
- Earthquake risk, unforeseen changes in tax and legislative practices



2021 forecasts for the construction industry

The construction industry is one of the industries most affected by the pandemic that emerged in 2020. The industry, stalled in the early months of the Covid 19 epidemic, rebounded through mid-year interventions and posted housing sales figures that broke all-time records. However, due to exchange rate fluctuations and rising interest rates on housing loans, the industry has once again entered recession, but is expected to recover after the second half of 2021, depending on the measures to be taken.

The Turkish construction industry undertook new projects abroad that were worth 15.1 billion dollars in 2020 under the epidemic conditions. The industry aims to generate 20 billion dollars worth of business volume overseas once again in 2021, and in this context, along with the course of the epidemic, financing measures and the regulation of the cash flow and constructive diplomatic relations are of great importance.

In the framework of forecasts for a return to growth for the global economy from 2021 onwards, it is forecasted that the construction industry will have a big role to play on the basis of financial recovery plans to be launched and major infrastructure projects in the return to normality. Accordingly, the industry maintains its target of undertaking projects abroad worth 20 billion dollars annually and 50 billion dollars in the medium term. The developments in oil prices, which gained momentum in the previous period but fell again in a short time, also create a potential for Turkish contractors, who maintain a strong presence in oil producing and exporting jurisdictions.

In its World Economic Outlook report published in October 2020, the International Monetary Fund (IMF) predicted that the Turkish economy would grow by 5 percent in 2021, only to revise it upwards to 6 percent. The Organization for Economic Co-operation and Development (OECD) raised Turkey's growth forecast for 2021 by 3 points, from 3.6 percent to 5.9 percent. Assuming that the impact of the global epidemic will lose momentum in the second quarter of 2021, a growth of 4 percent in the construction industry and 6-7 percent in the manufacturing of the construction materials is expected for 2021.

The construction industry started 2021 relatively well with liquidity opportunities from the previous year. Expanding loan opportunities and housing sales in 2020 supported the construction industry. Tight monetary policy and high interest rates had slowing effects for the first quarter of 2021, while the third wave of the epidemic and restrictions will adversely affect the industry in the second quarter. In this context, it is forecasted that the transition to growth for the construction industry will begin in the second half of the year.

In an international market with uncertain conditions, high risks and fierce competition, the industry, helped by competent Turkish contracting and construction companies that have achieved global recognition, is set to maintain its share in traditional markets and achieve a considerable success in new markets in the future.

Contact us:



Engin Ölmez

Head of Construction Industry,
Partner
eolmez@kpmg.com

For detailed information:

KPMG Turkey
Clients & Markets
tr-fmmarkets@kpmg.com

Istanbul

İş Kuleleri Kule 3 Kat 1-9
34330 Levent İstanbul
Phone: +90 212 316 6000

Ankara

The Paragon İş Merkezi Kızılırmak Mah.
Ufuk Üniversitesi Cad. 1445 Sok. No:2
Kat: 13 Çukurambar 06550 Ankara
Phone: +90 312 491 7231

İzmir

Folkart Towers Adalet Mah. Manas Bulvarı
No:39 B Kule Kat: 35 Bayraklı 35530 İzmir
Phone: +90 232 464 2045

Bursa

İnallar Cadde Plaza, Balat Mahallesi
Mudanya Yolu Sanayi Caddesi No: 435 K:5
D:19-20 Nilüfer Bursa
Phone: +90 232 464 2045



Information contained herein is of a general nature and is not directed towards any special circumstance of any real or legal entity. Despite our best efforts to provide the most accurate information on time, no guarantee is given that the information is true at the time it is obtained or shall remain true afterwards. No one should act on the basis of the information contained in this document without obtaining expert advice appropriate to the particular situation. The KPMG name and the KPMG logo are trademarks registered under license from the KPMG global organization of independent member companies. KPMG International Limited and its affiliates do not provide any services to customers.

©2021 KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. is a Turkish company that is a member of the KPMG global organization, which consists of independent companies associated with KPMG International Limited, a British private company whose members' liability is limited by the guarantee they provide.
All rights reserved