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Massimo d’Eufemia, head representative of the European Investment Bank (EIB) in Turkey, highlights the importance of Turkey for the EIB and how the country’s geographic position and key economic role in the region are an asset for potential investors seeking to become involved in Turkey’s numerous PPP projects.

Could you please start by introducing the EIB and its operations in Turkey to our international readers?

The EIB is the European Union’s bank, which is fully owned by the European Union Member States. Being the world’s largest multilateral lender, the EIB provides finance and expertise for sustainable investment projects that contribute to EU policy objectives. The group is composed of two entities: the European Investment Bank and the European Investment Fund (EIF), which specializes in SME finance.

This year, we are celebrating 60 years of operations and our investments have reached over EUR 1.1 trillion in more than 11,900 projects in 162 countries. In 2017, the EIB provided over EUR 78 billion in financing to support a total investment amount of EUR 250 billion, which is of course, huge—and roughly 10 percent is invested outside the EU.

EIB has been lending to Turkey since 1963 with an overall lending volume of EUR 20.9 billion over the last decade. The 2017 lending level reached EUR 507 million. Our largest contribution to the Turkish economy is to SMEs and mid-caps, the country's main job providers. In 2017 alone, the allocations of EIB funds in Turkey amounted to EUR 1.5 billion and were channelled to more than 3,700 small and medium-sized companies through our partner private and public banks. Another pillar of our operations is dedicated to financing big infrastructures, including the Trans Anatolian Natural Gas Pipeline (TANAP), the Bosporus tunnel, the high-speed Istanbul-Ankara train, and the Eurasia tunnel. In cooperation with the private sector, we have financed the automotive, telecoms and energy sectors with particular attention to renewable energy and energy efficiency. In healthcare, we have financed three new hospitals and are monitoring opportunities in the pharmaceutical and healthcare sector that is eligible to the Bank. Last but not least, we are cooperating closely with the Turkish authorities, the Commission and other IFIs to provide support to Turkey in coping with the impact of refugees.

What makes Turkey a priority for the EIB?

Turkey has been one of the main beneficiaries of EIB funds since 2005 when its pre-accession to the EU took place, despite the fact that our relationship with Turkey goes back to 1963. Pre-accession describes the number of steps that a country must take to become an EU member—the same situation occurred in Poland before their entry, for example. As mentioned before, in the last decade, we have invested over EUR 20 billion in the country, effectively committing our long-term resources, which have helped the economic performance of the country.

The country has transformed tremendously in the past 15 years, particularly in terms of economic growth. Nowadays, unfortunately, the economy is in a volatile situation where we must readdress the cap and fix new objectives for the future. We can look to the strong economic growth in the past as means for inspiration and motivation, slowly integrating a shift in growth from quantity to quality—this will become the cornerstone of the transformation we already begin to see in Turkey. Investments into classical sectors, like construction or manufacturing, will turn towards research, development and high-tech investments. Now, the level of growth across the country will be much less than seven or eight percent, but the quality is to be characterized differently. Turkey has the capabilities of remaining a big market that offers a number of advantages thanks to its young population, which ensures a continuous and growing consumption; geographic location as a bridge between Europe and Asia; and high potential natural resources. All these make Turkey an interesting opportunity for many multinationals as well as a means of entry into the Caucasus countries and the Middle East.

What investments have the EIB made into healthcare infrastructure in Turkey?

In the last few years, the government has begun a new, critical program in hospital construction, made through public-private partnerships (PPP). We supported these investments a little bit later than other institutions, but during the last three years, we have financed three new hospitals throughout the country. In Turkey, our contribution is roughly 15 percent of the PPP project total cost and our involvement encourages other business investors to take part as well.

The government presented the health PPP infrastructure program four years ago with a USD 12 billion commitment as of the end of 2017. Thus, this is a huge program which is supposed to be successful to ensure the proper usage of the resources. We will be able to assess the performance of these projects in the next three to four years when the new hospitals start to operate.

Talk us through the three hospitals you mention that will be built in Turkey.

At a total cost of EUR 600 million, the hospital in Gaziantep will be significant in both size and patient-reach, but critically in its location, as it is situated next to the Syrian border. Healthcare camps are built to improve the quality of health for Turkish citizens, but also Syrians who are often refugees in these areas, highlighting the EU’s support for people living in an inhumane environment on the border. In Ankara, the new hospital, Etlik, offers a huge campus with over 3,500 beds and ranks as the 2nd largest health PPP in Turkey with EUR 1.1 billion in investment. Finally, in Bursa, a 1,355-bed health campus consisting of three different facilities is being built with a total investment of EUR 450 million.

What is the healthcare footprint worldwide for the EIB?

Healthcare is certainly one of our priority sectors for the group. In 2017, for example, EUR 1.5 billion was allocated to the health sector, supporting 26 projects across Ireland, Sweden, Finland and, most importantly, Turkey, which received EUR 150 million from this overall contribution. Our support is so important worldwide that with these 26 projects, roughly 46 million people around the world benefited from improved health services. The impact could be incredible, and given that we are playing a catalytic role, we strive to arouse interest in other financial institutions and convince them to invest also in healthcare.

How do you observe the current situation in Turkey with regard to PPPs?

The Turkish government has launched a huge PPP program in a number of sectors, comprising 225 projects already. Some of these are operational and many are entering financial closing phases.

It needs to be highlighted that, when a country grows quickly and several new and huge investments are implemented at the same time, there could be a negative impact on the public budget.

On top of that, as a critical matter, there is a currency mismatch in the financing of these hospitals, as their revenues will be in Turkish lira, whereas the debt is in US dollars, creating an imbalanced structure that is further worsened by the recent devaluation of the Turkish Lira. This should be considered carefully, as at any given moment, the public budget may not be able to support the program and delay the construction of new hospitals, as a result.

In light of the devaluation crisis, is Turkey a risky country for investors to continue doing business in?

We monitor Turkey’s currency issue very seriously, and we now need long-term, well-structured reforms as quickly as possible. Turkey is facing the current account deficit as an issue, but there is also double-digit inflation, which is directly affecting the medium-term economic outlook of the country. Shifting the economy from quantity to quality should remedy the situation, which Turkey is to drive forward.

The IMF recently tried to make a calculation on the recent ‘shock’ in foreign currencies, and it is said it would lead to an increase in primary expenditure by 0.25 percent of the country’s annual GDP. There is a consequence of this level of debt, and it should be carefully monitored.

You recently moved from Poland, where you were Deputy Head of the Division. As two countries that were very similar insofar as economics is concerned, what can Turkey learn from Poland’s success?

Poland stands out as a great success story for its integration into the EU. As the EU is a valuable opportunity for the country, Turkey should look closely to the positive experience in Poland's EU accession process and take a page out of Poland's playbook.

Finally, what is your outlook for the country and its developments?

We face several big challenges in Turkey, but we have a strong convincing argument as well: a young population and a country that has always been oriented to consumption. Indeed, the internal consumption continues to drive growth, as Turkey is a market of over 80 million people. Nevertheless, saving gets increasingly crucial and Turkey should concentrate on providing a sustainable economy.

Investment in research is mainly given to universities, and when speaking of education, it is extremely important to invest more in other institutions. While the statistics for Turkey are less positive, we see an effort to invest more in vocational training, and to give the opportunity to students to seek experience abroad.

Turkey should focus on various sectors and work on the possible ways to increase transformation and efficiency. Agriculture, for example, may play a crucial role here. There is a large production volume, but less development in agri-business and product transformation. If Turkey concentrates on investing more in the product transformation, it can use its great advantage of having very rich, fertile land and play an important role globally.

In these weeks, in particular, there is some feeling that international investors no longer trust Turkey in the way they did previously. We have seen a lot of changes, notably in macroeconomic issues arising as high devaluation, inflation, current accounts deficits and frequent elections. Now, the administration changes in line with a new constitution and Turkey must reestablish trust—which is easier said than done!

Turkey still needs much more foreign capital, and if this trust is not gained, the funding will not come; or if it comes, it will not stay long. Politics and economics are interrelated, and we will see how the foreign policy of the country will play out in coming months, particularly its relationship with the EU. Trust is the major challenge, and every investor is extremely sensitive to the rule of law and the business climate.

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