

# Turkey: Economic Outlook

BBVA Research

October 2019

# Main messages



The prospects for a **slowdown** of world economic growth have been reinforced, in a context of rising uncertainty. Global growth will decline from 3.7% in 2018 to 3.2% in 2019 and 3.1% in 2020.



Turkey's economic recovery is gaining **momentum** and will accelerate in the second half of the year. We expect a 0.3% GDP growth this year and 3.0% in 2020. **Inflation is decreasing faster** and we expect 12.5% at the end of this year.



Economic policies will be **supportive** as the Central Bank immersed in the easing cycle and the New Economic Program envisaged a neutral fiscal policy. Complacency should be ruled out as looser policies could entail some risks.



Global and Regional Geopolitical **uncertainty are still present**. We maintain prudent exchange rate forecasts as uncertainties stemming from global markets, the trade war and the local geopolitical situation pose some risks.

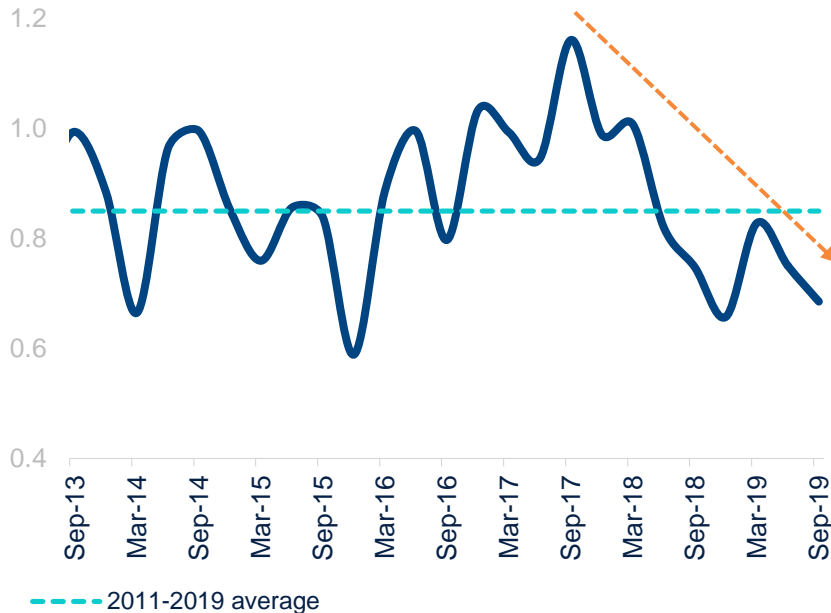
# 01

## Global environment: slowdown and uncertainty

# Global growth continued to weaken

## WORLD GDP GROWTH

(FORECASTS BASED ON BBVA-GAIN % QOQ)



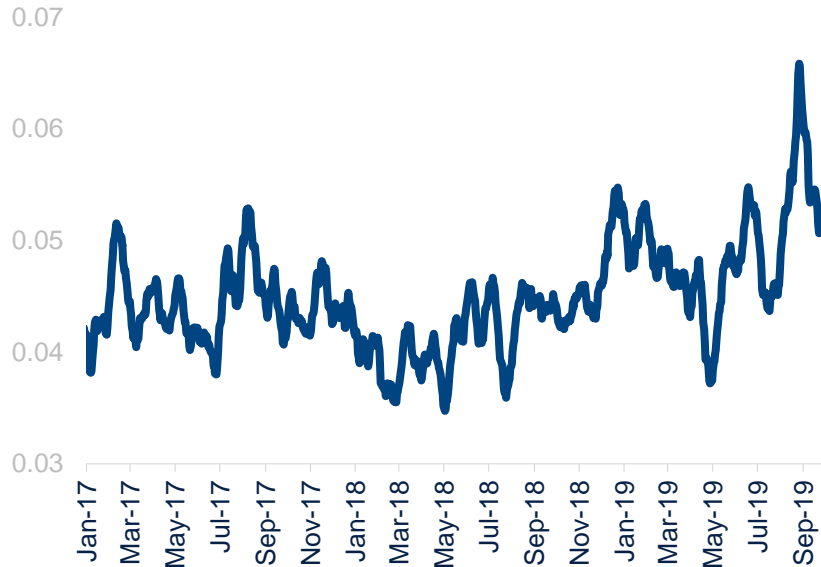
Source: BBVA Research

- Recent evidence confirms that uncertainty and protectionism are negatively affecting growth.
- The ongoing growth slowdown has been sharper than expected, especially in China and Europe.
- Exports and the manufacturing sector remain particularly weak...
- ... and there are signs that this weakness is beginning to affect the service sector.

# Uncertainty has increased sharply in August and remains high despite the recent moderation

## ECONOMIC UNCERTAINTY INDEX

(TONE OF THE NEWS ON ECONOMIC UNCERTAINTY  
WEIGHTED BY COVERAGE, 15-DAY MOVING AVERAGE)

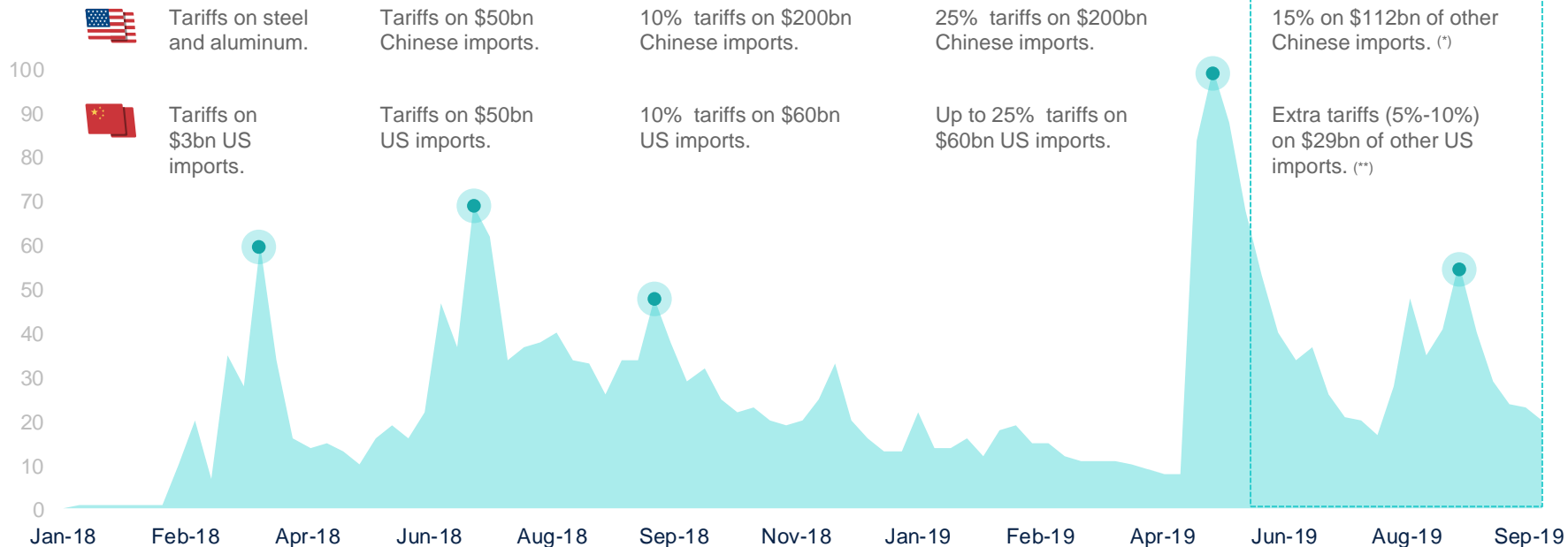


- High uncertainty due to:
  - trade and technological tensions
  - Brexit
  - Political and geopolitical turbulences
- The impact on confidence adds to the effects of the structural slowdown in China and the cyclical moderation of the US economy.

# The new protectionist measures have fueled trade tensions

## TRADE WAR INDEX: WORLDWIDE GOOGLE SEARCHES ABOUT THE TOPIC “TRADE WAR”

(INDEX: 0 TO 100)



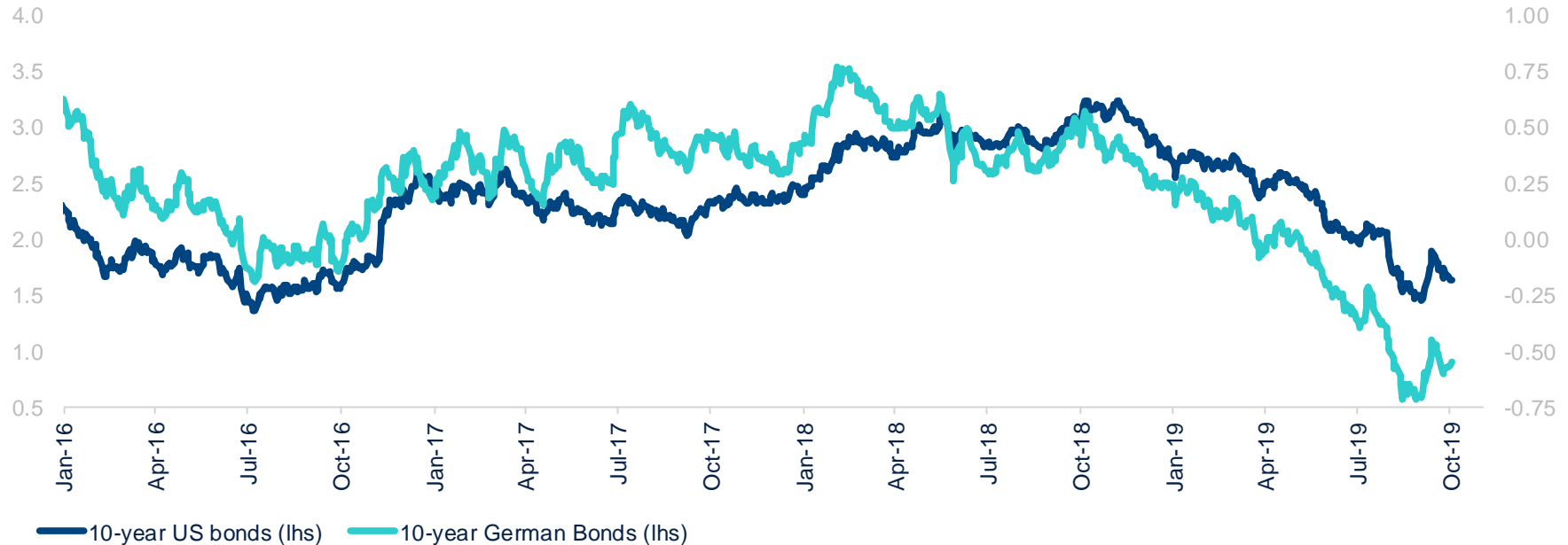
(\*) And till Dec-19: a further 5% tariff (to 20% from 25% on USD250bn and 15% on the rest of Chinese imports. (\*\*) An till Dec-19: extra tariffs (5%-10%) on \$46bn of other US imports.

Source: BBVA Research and GDELT

# In financial markets, the flight-to-safety mood continues to prevail

## SOVEREIGN DEBT YIELDS

(%)



# Counter-cyclical policies will help to keep financial tensions under control, but will not prevent a global slowdown



## COUNTERCYCLICAL POLICIES

### Monetary policy:

- Will continue to lead countercyclical actions...
- ... despite its lower effectiveness in the actual context.
- More measures will be announced moving forward.

### Fiscal policy:

- Should play a bigger role...
- ... but political issues and high debt will limit its use.
- More measures in Europe and mainly in China.

A global coordination of policies is now less likely.

## GLOBAL UNCERTAINTY

### US – China tensions will remain in place:

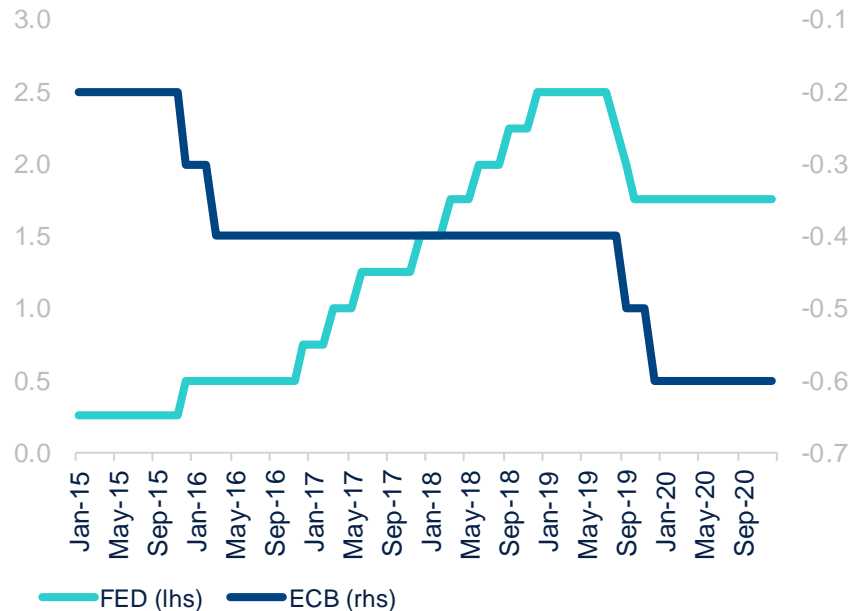
- A partial trade agreement between both countries is likely.
- Tariffs will hardly return to the levels exhibited a few months ago.
- Structural and technological issues will continue to generate turbulence.

The Brexit issue, as well as political and geopolitical tensions in certain regions, will continue to fuel uncertainty.



# The central banks have announced further monetary stimuli in the last few months

## FED AND ECB: INTEREST RATES (\*) (%, END OF PERIOD)

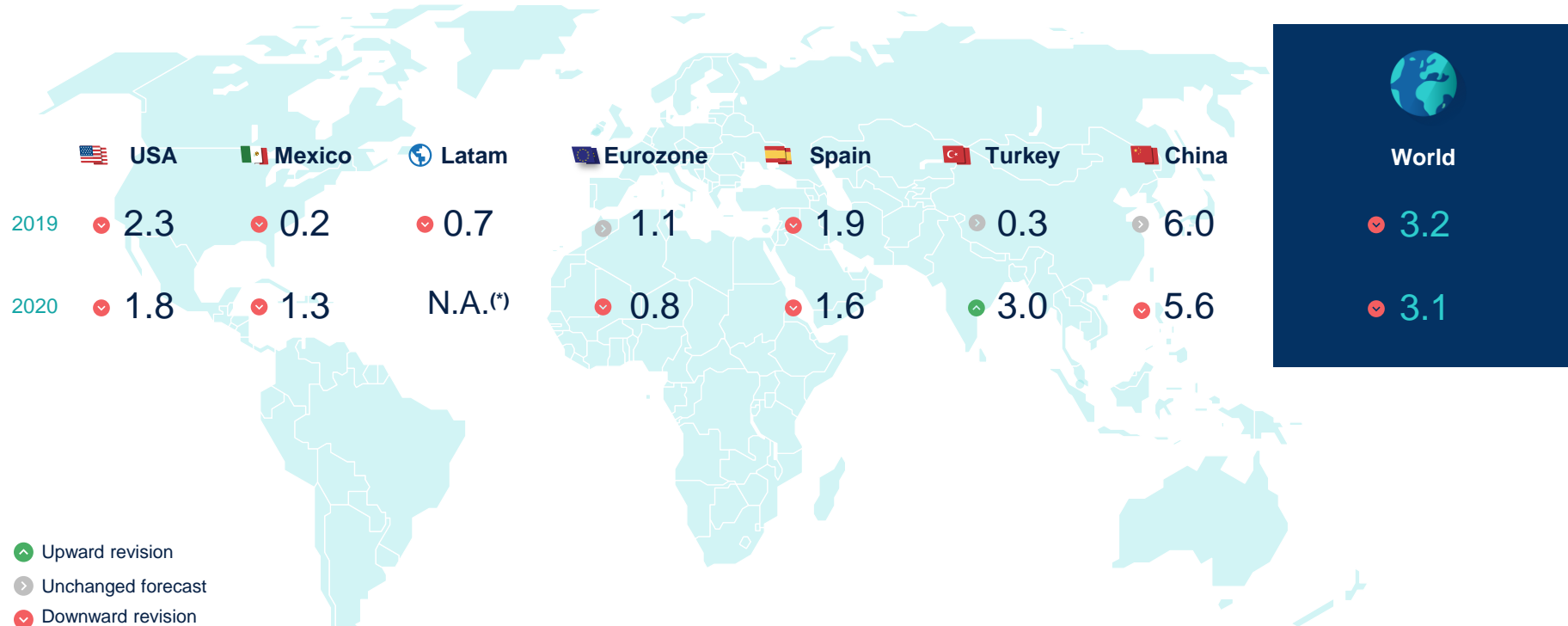


(\*) In the case of the ECB, deposits interest rates.

Source: BBVA Research

- **Fed:** a 50bps reduction in rates in recent months and at least an additional 25bps cut in October.
- **ECB:** an aggressive monetary package
  - a 10bps cut in deposit rates
  - a two-tiered system for bank deposits
  - a new quantitative easing program
  - a more favorable TLTRO-III
- In Europe, another 10bps cut in deposit rates is likely.
- **China and other emerging countries:** more aggressive reduction in interest rates.

# A sharper slowdown of the world economy

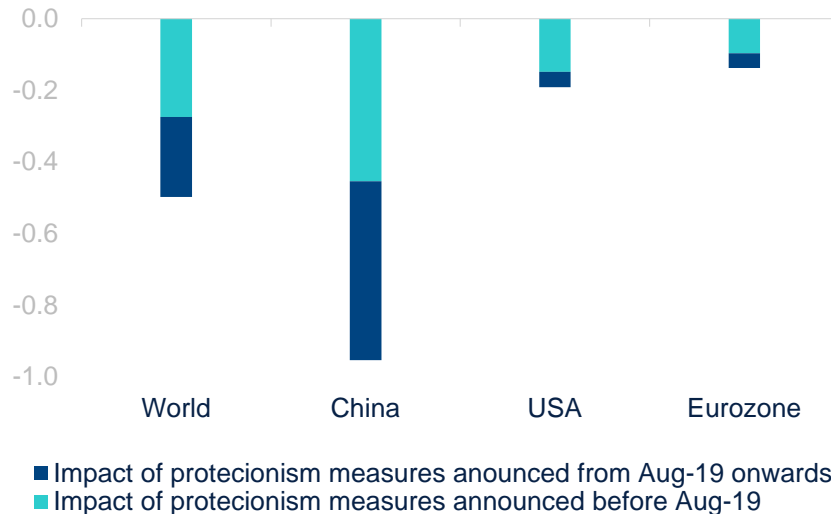


- ▲ Upward revision
- ▶ Unchanged forecast
- ▼ Downward revision

(\*) Non available as we have not yet a definitive forecast for Argentina.  
Source: BBVA Research

# This sharper slowdown is to some extent related to persistent protectionist tensions

## IMPACT ON GDP OF THE PROTECTIONISM (IMPACT ACCUMULATED IN TWO YEARS, PP)



(\*) Direct and indirect impact. **Protectionism measures announced before Aug-19:** US: 25% tariff increase on steel, 10% on aluminum, 25% on \$250bn China imports. China: 25% on USD110bn US imports **Protectionism measures announced from Aug-19 on** (to be implemented, in case of no trade agreement, till Dec-19): US: a 5% extra tariff on \$250bn and 15% on \$300bn China imports. China: extra tariffs (5%-10%) on \$75bn US imports.  
 Source: BBVA Research

- The revisions in GDP forecasts are broadly in line with the **estimated impact of adopted protectionism measures**.
- Specially in China, the impact has been smoothed by countercyclical policies.
- In the **Eurozone** the deterioration has been even larger thanks to lower export to the United Kingdom (Brexit) and problems in the automobile sector.
- **Risks:** if the US and China don't reach a trade agreement and the protectionist escalation continues, there would be an additional negative effect on the global economy.

# Oil: prospects for weaker growth pressure prices downwards

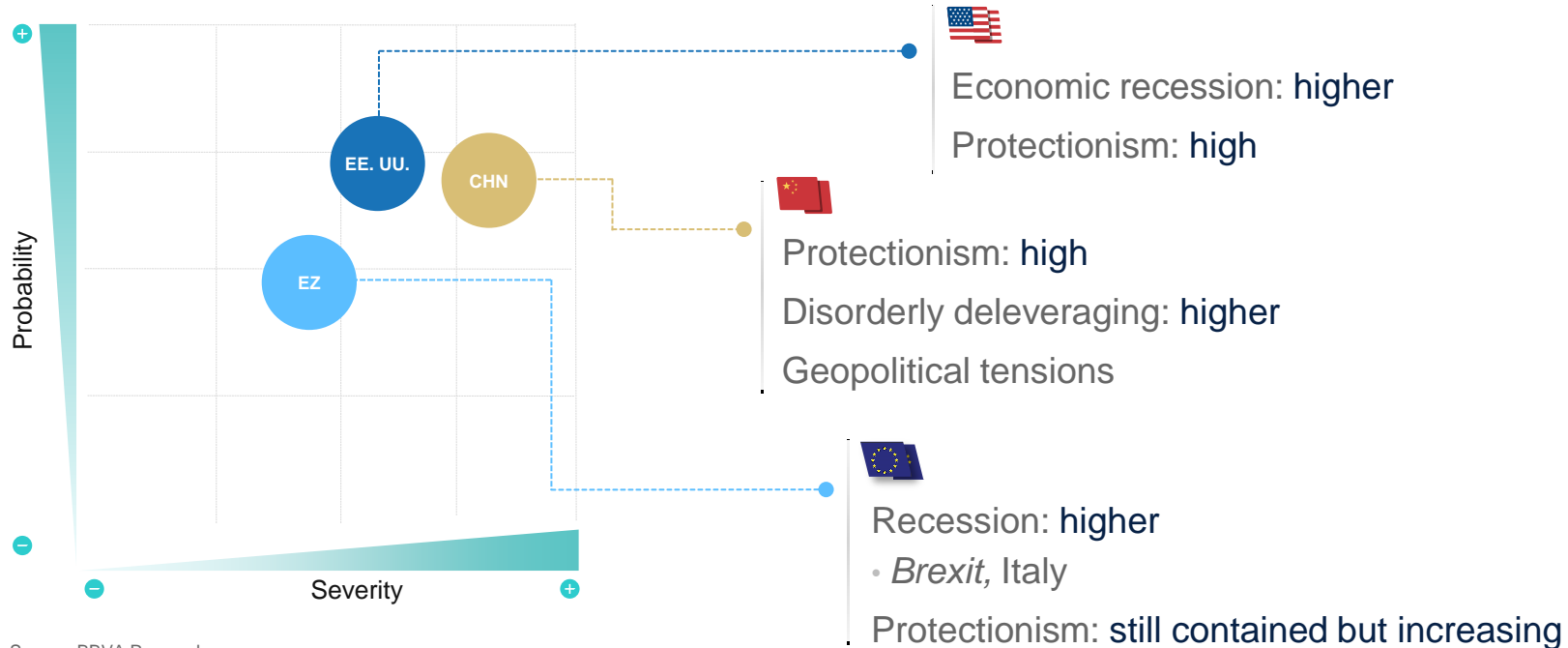
## OIL PRICES

(US DOLLARS PER BARREL, ANNUAL AVERAGE)



- Slight upward revision of short-term forecasts and risk that an escalation of tensions in the Middle East will end up driving oil prices up.
- In any case, prospects for price moderation going forward are maintained, given the relative strength of supply in an environment of lower demand.

# Global risks continue to increase, mainly due to tensions between China and the US



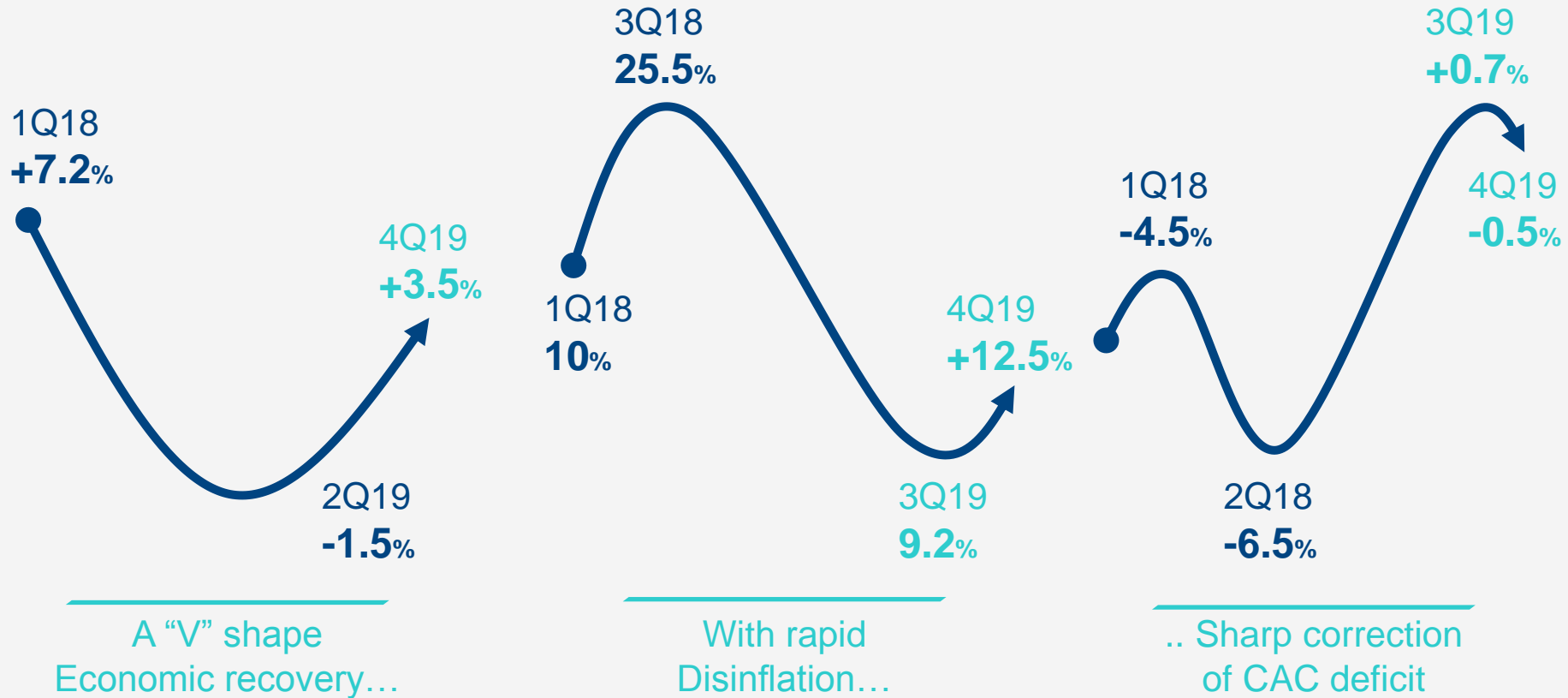
Source: BBVA Research

The risk of geopolitical turbulence in the Middle East has also increased.  
Financial vulnerabilities can amplify the severity of risks.

02

Turkey  
Economic  
Outlook

## The Turkish economic rebalancing is being remarkable...

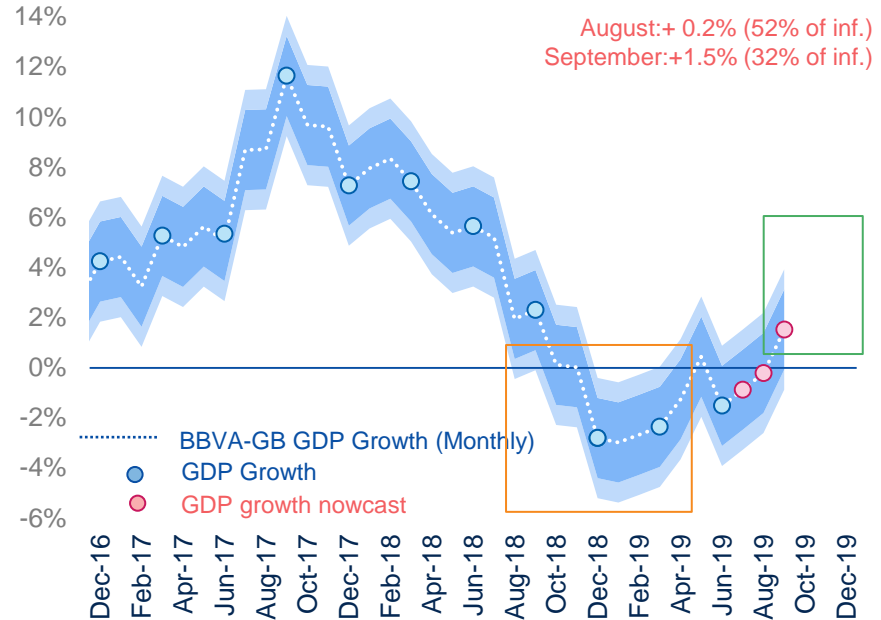


# The “V” shape recovery is in line with our expectations, leading us to maintain our GDP forecast at 0.3% in 2019 with upside risks

## TURKEY: ACTIVITY INDICATORS (%YOY, 3M MOVING AVG.)

|                              | 2019  |             |       |       |           |       |        |       |      |
|------------------------------|-------|-------------|-------|-------|-----------|-------|--------|-------|------|
|                              | Mean  | Feb         | Mar   | Apr   | May       | Jun   | Jul    | Aug   | Sep  |
| Industrial Production        | 6.7   | -7.6        | -5.6  | -3.5  | -1.9      | -3.3  | -3.0   |       |      |
| Non-metal Mineral Production | 5.4   | -22.6       | -19.4 | -19.0 | -18.0     | -19.5 | -18.8  |       |      |
| Electricity Production       | 4.3   | -1.2        | -1.5  | -0.5  | 0.7       | 1.3   | -0.3   | -1.6  | -1.6 |
| Auto Sales                   | 2.1   | -46.9       | -44.9 | -46.5 | -49.0     | -45.5 | -47.1  | -37.3 | 0.0  |
| Tourist Arrivals             | 6.4   | 10.0        | 6.1   | 13.8  | 12.7      | 16.6  | 15.2   | 17.2  |      |
| Number of Employed           | 3.4   | -2.7        | -2.8  | -2.7  | -2.8      | -2.8  |        |       |      |
| Number of Unemployed         | 3.9   | 36.3        | 39.8  | 39.6  | 36.8      | 32.2  |        |       |      |
| Auto Imports                 | 3.8   | -48.4       | -49.9 | -52.6 | -56.3     | -53.6 | -55.0  | -47.4 |      |
| Auto Exports                 | 8.1   | -7.1        | -7.0  | -9.3  | -6.9      | -8.2  | -6.8   | -3.7  |      |
| Retail Sales                 | 5.3   | -7.0        | -5.3  | -5.0  | -4.3      | -3.9  | -3.2   | -1.7  | 1.9  |
| Manufacturing PMI            | 50.9  | 46.4        | 47.2  | 46.8  | 45.3      | 47.9  | 46.7   | 48.0  | 50.0 |
| Total Loans growth 13-week   | 17.7  | 2.6         | 18.1  | 20.8  | 12.2      | 0.4   | 3.9    | 2.0   | 9.3  |
| Real Sector Confidence       | 105.7 | 97.2        | 102.1 | 105.5 | 98.9      | 102.5 | 98.3   | 102.5 | 98.8 |
| MICA Forecast<br>GDP YoY     |       |             |       |       |           |       | -0.9%  | 0.2%  | 3.0% |
|                              |       | Contraction |       |       | Slow-down |       | Growth |       | Boom |

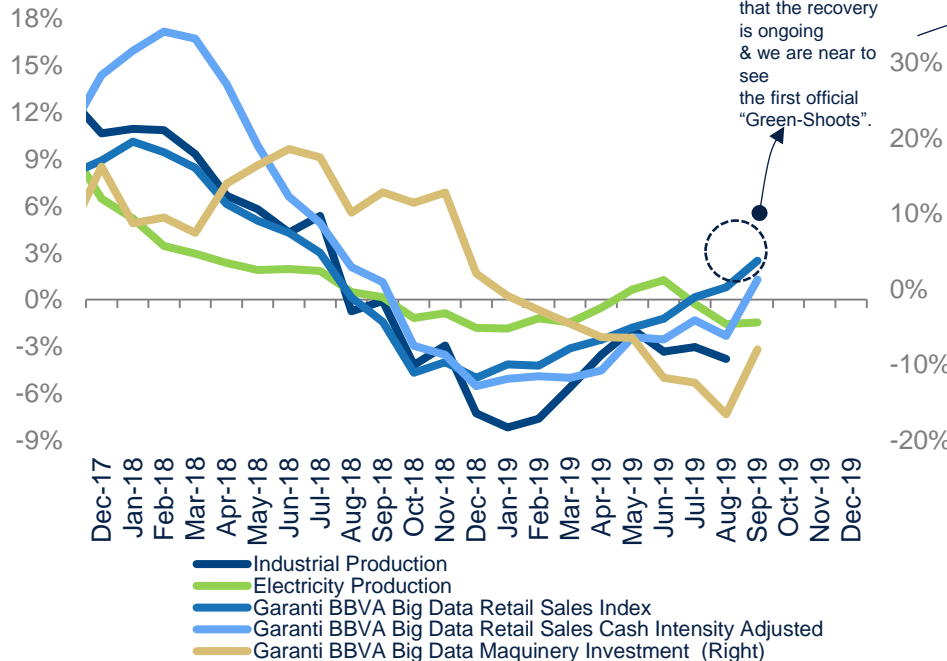
## TURKEY: BBVA-GB GDP MONTHLY INDICATOR (% YOY, 3M MOVING AVG.)



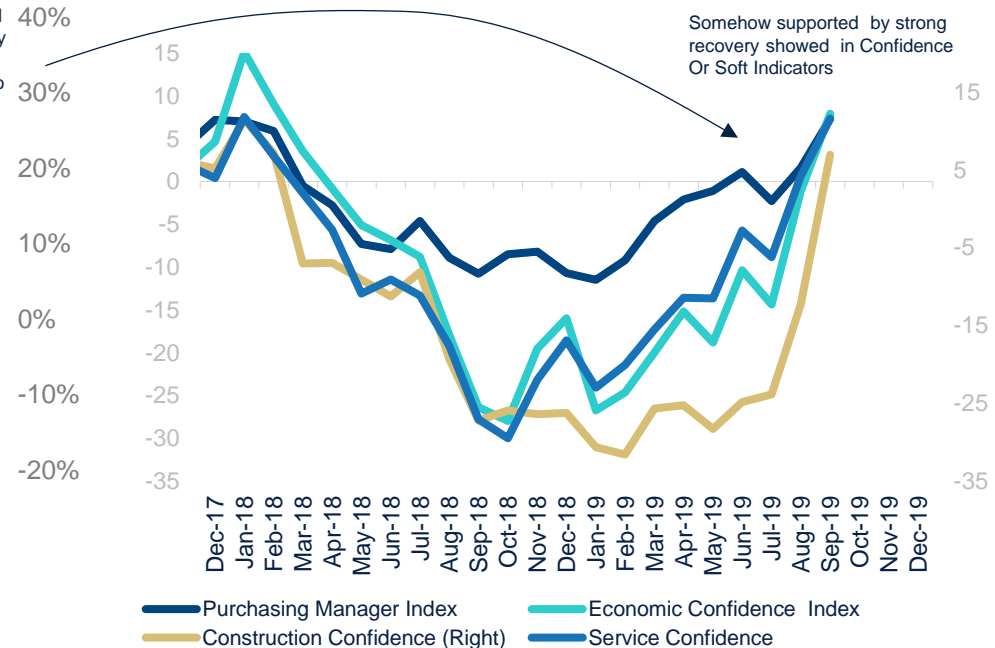


# The high frequency data, our own Big Data indicators and surveys support the idea that the economic recovery is gaining momentum

## TURKEY: HARD & BBVA BIG DATA ACTIVITY INDEXES (%YOY, 3M MOVING AVG.)

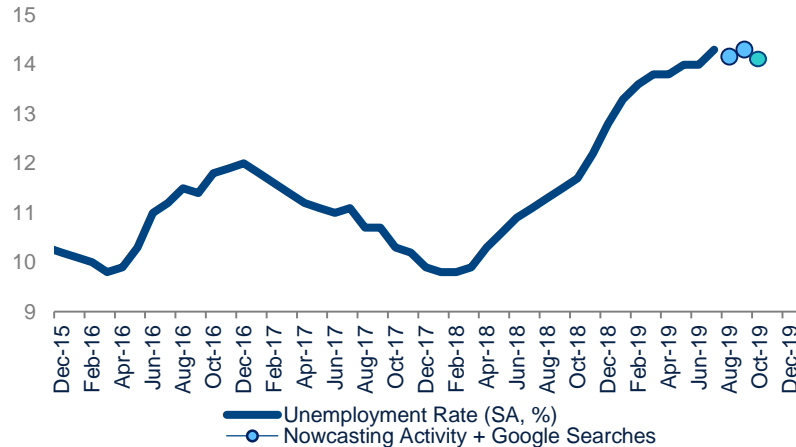


## TURKEY: CONFIDENCE "SOFT" DATA INDICATORS (YEAR CHANGE.)



# The economic recovery is passing-thru to the labor market which starts to show some stabilization in the cyclical sectors...

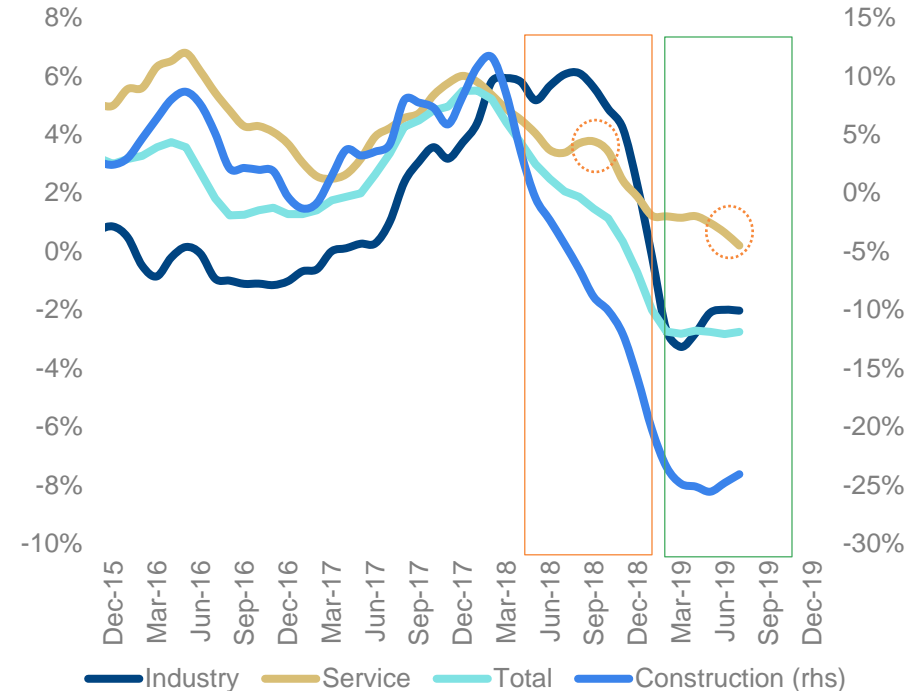
**TURKEY: UNEMPLOYMENT RATE & BBVA NOWCAST**  
(SA, % & BBVA Data-Google Searches Nowcast)



**TUNEMPLOYMENT RATE CHANGES**

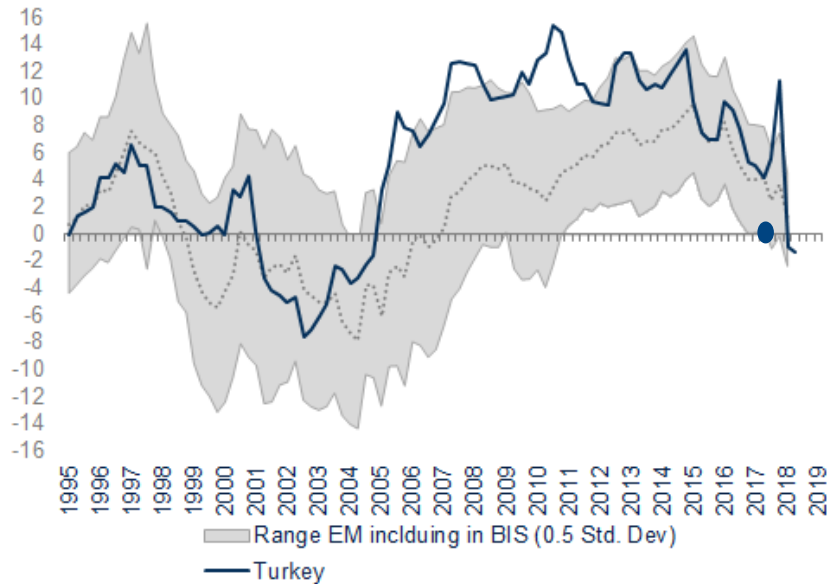


**TURKEY: EMPLOYMENT GROWTH BY SECTOR**  
(3MA YOY)



# The Banking Sector adjustment has been sizeable...

**BIS CREDIT GAP: EM BIS COUNTRIES VS TURKEY**  
(% DEVIATION FROM TREND)

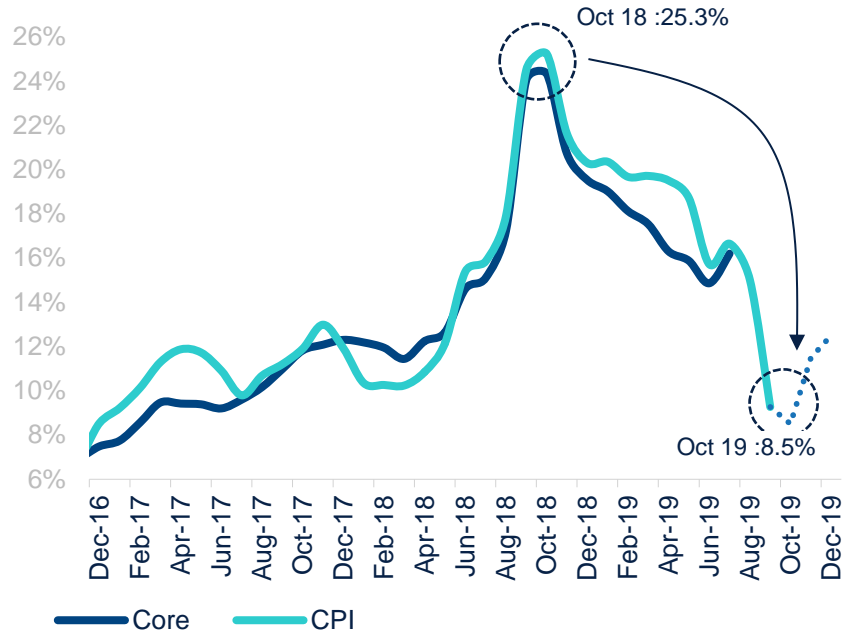


**TURKEY: LOAN TO DEPOSIT RATIO**  
(%)

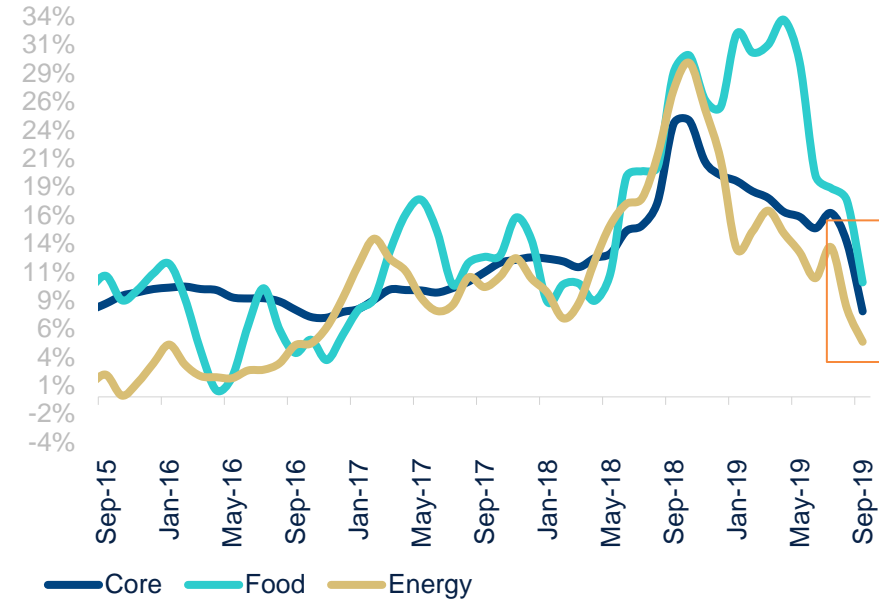


# The “disinflation” is being faster than expected thanks to the tight monetary policy and food/energy prices normalization...

## TURKEY: CPI AND CORE INFLATION PROJECTIONS (YOY)



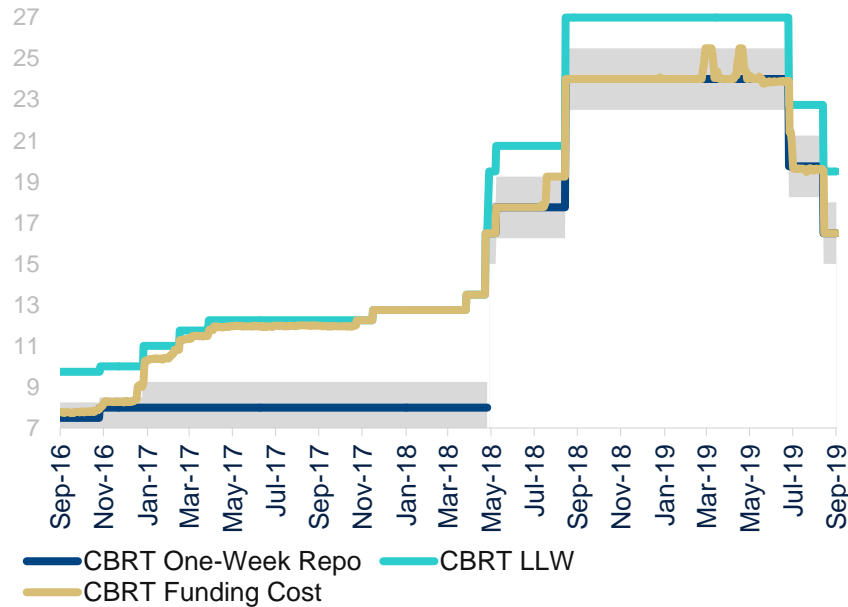
## TURKEY: INFLATION SUB-COMPONENTS (YOY)



# The Central Bank started the “easing cycle” with bold cuts. We expect more rate cuts to fine tune but “excess easing” should be avoided

## TURKEY: OFFICIAL INTEREST RATES (%)

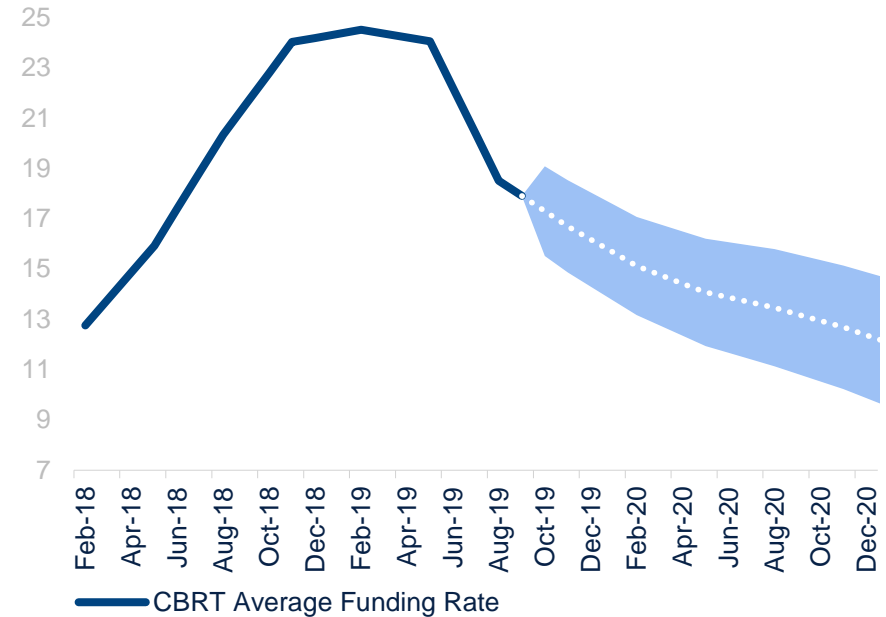
(%)



Source: CBRT and TURKSTAT

## BBVA NK-SOE MODEL INTEREST RATE PROJECTIONS (PROJECTIONS STICKING TO THE MTP INFLATION PATH)

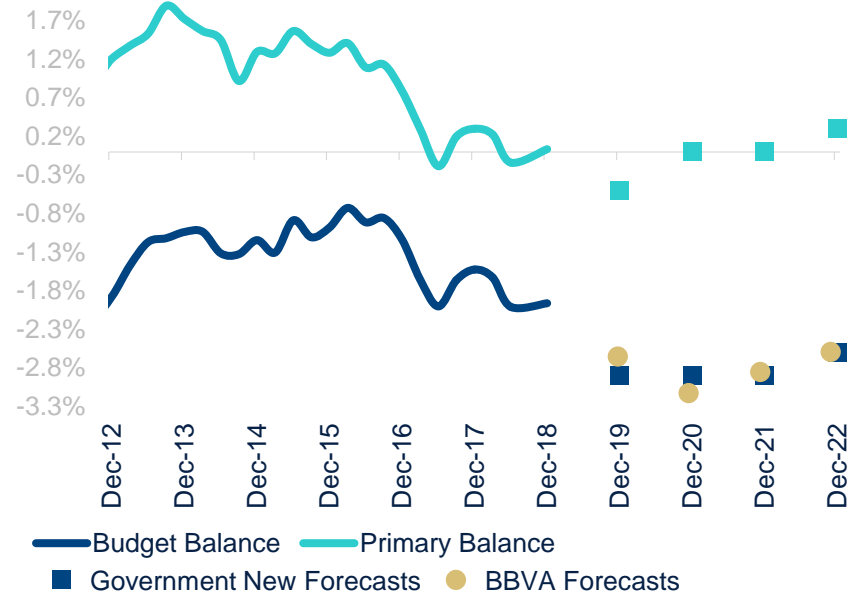
(PROJECTIONS STICKING TO THE MTP INFLATION PATH)



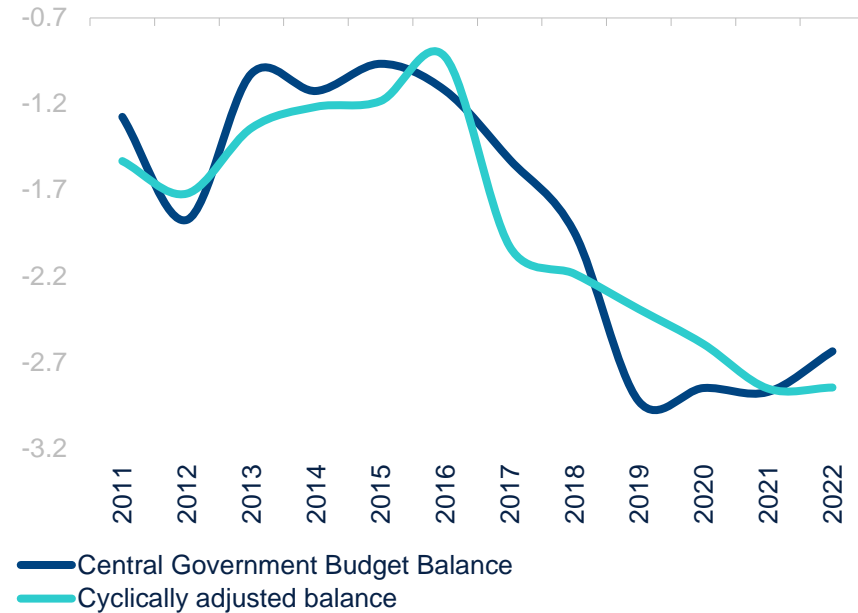
Source: CBRT and BBVA Research Turkey (MPM) Model

# The Fiscal Policy in the MTP is neutral but if the ambitious 5% GDP growth targets are missed, fiscal accounts could surpass safe levels

## TURKEY: CG BUDGET BALANCE AND NEP FORECASTS (% OF GDP)

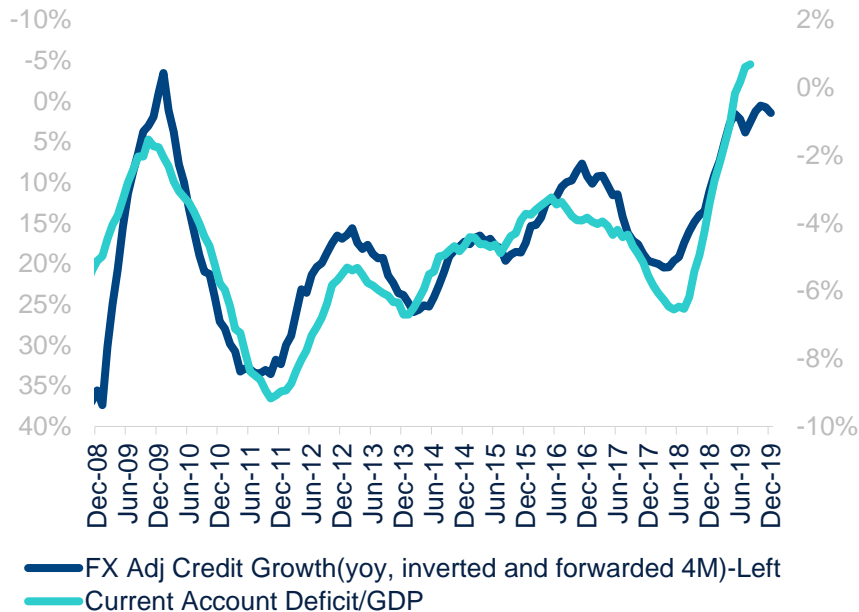


## TURKEY CENTRAL GOVERNMENT BUDGET BALANCE (% GDP)

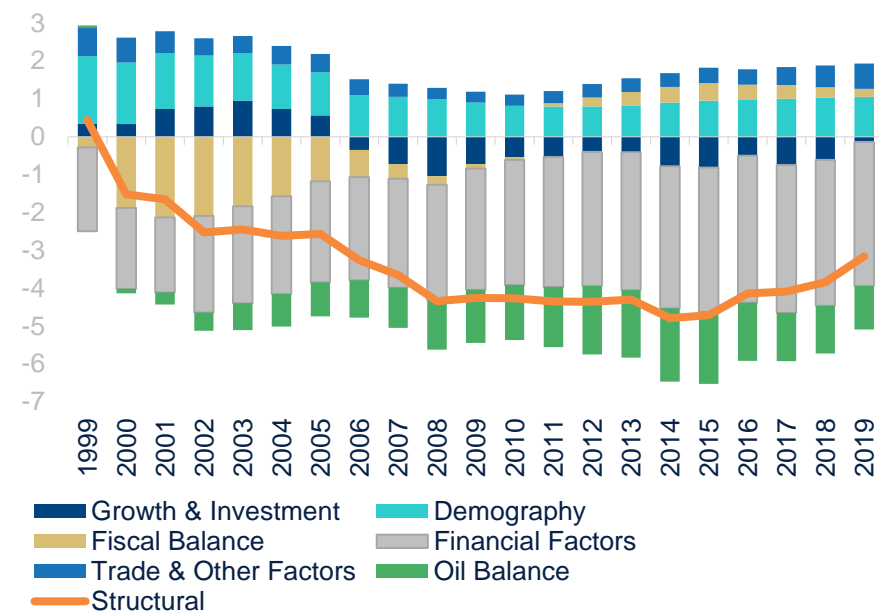


# The credit de-leveraging has supported a rapid cyclical current account adjustment but the structural level remains on negative

**TURKEY: CAC BALANCE DECOMPOSITION**  
(% GDP)



**TURKEY: STRUCTURAL CAC BALANCE DECOMPOSITION**  
(% GDP)



\* Financial factors: Low Private Saving Ratio

Source: BBVA Research

03

Turkey  
Economic  
Forecasts



# Turkey : Baseline Scenario

|                                 | 2018 | 2019 | 2020 (f) | 2021 (f) | 2022 (f) |
|---------------------------------|------|------|----------|----------|----------|
| GDP (%)                         | 2.6  | 0.3  | 3.0      | 4.5      | 4.5      |
| Unemployment Rate (% avg.)      | 11.0 | 14.0 | 13.0     | 11.5     | 10.5     |
| CBRT funding rate (% eop, yoy)  | 24.0 | 15.5 | 12.0     | 11.0     | 9.50     |
| Inflation rate (% eop)          | 20.3 | 12.5 | 9.0      | 8.0      | 7.2      |
| Inflation (% avg.)              | 16.3 | 15.3 | 11.0     | 9.1      | 7.6      |
| Exchange Rate (USDTRY, eop)     | 5.3  | 6.0  | 6.4      | 6.7      | 7.0      |
| Exchange Rate (EURTRY, eop)     | 6.0  | 6.6  | 7.5      | 8.2      | 9.0      |
| Current Account Balance (% GDP) | -3.5 | -0.5 | -2.0     | -3.0     | -3.7     |
| CG Budget Balance (% GDP)       | -2.0 | -2.8 | -3.2     | -2.9     | -2.6     |

(f) Forecast.

# Turkey: Economic Outlook

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