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.
Global environment: slowdown and uncertainty
Global growth continued to weaken

- 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.

Source: BBVA Research
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.

Source: BBVA Research and GDELT
The new protectionist measures have fueled trade tensions

TRADE WAR INDEX: WORLDWIDE GOOGLE SEARCHES ABOUT THE TOPIC “TRADE WAR”
(INDEX: 0 TO 100)

Tariffs on steel and aluminum. Tariffs on $50bn Chinese imports. 10% tariffs on $200bn Chinese imports. 25% tariffs on $200bn Chinese imports. Up to 25% tariffs on $60bn US imports. 15% on $112bn of other Chinese imports. (*)

Tariffs on $3bn US imports. Tariffs on $50bn US imports. 10% tariffs on $60bn US imports. Extra tariffs (5%-10%) on $46bn of other US imports. (**)

Source: BBVA Research and GDELT

(*) 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.
In financial markets, the flight-to-safety mood continues to prevail

SOVEREIGN DEBT YIELDS (%)

Source: BBVA Research, Bloomberg
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)

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.

(*) In the case of the ECB, deposits interest rates.
Source: BBVA Research
A sharper slowdown of the world economy

2019
- USA: 2.3
- Mexico: 0.2
- Latam: 0.7
- Eurozone: 1.1
- Spain: 1.9
- Turkey: 0.3
- China: 6.0

2020
- USA: 1.8
- Mexico: 1.3
- Latam: N.A. (*)
- Eurozone: 0.8
- Spain: 1.6
- Turkey: 3.0
- China: 5.6

(*) 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

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)

- 2016: 44
- 2017: 54
- 2018: 71
- 2019 (f): 64
- 2020 (f): 55

(f) Forecast. Source: BBVA Research

- 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

- Economic recession: higher
- Protectionism: high
- Protectionism: high
- Disorderly deleveraging: higher
- Geopolitical tensions

The risk of geopolitical turbulence in the Middle East has also increased.

Financial vulnerabilities can amplify the severity of risks.

Source: BBVA Research
Turkey Economic Outlook
The Turkish economic rebalancing is being remarkable…

A “V” shape
Economic recovery…

With rapid
Disinflation…

.. Sharp correction of CAC deficit
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.
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.)

- Industrial Production
- Electricity Production
- Garanti BBVA Big Data Retail Sales Index
- Garanti BBVA Big Data Retail Sales Cash Intensity Adjusted
- Garanti BBVA Big Data Machinery Investment (Right)

Source: CBRT, TURKSTAT, BBVA Research Turkey

**TURKEY: CONFIDENCE “SOFT” DATA INDICATORS**
(YEAR CHANGE.)

- Purchasing Manager Index
- Economic Confidence Index
- Construction Confidence (Right)
- Service Confidence

Somehow supported by strong recovery showed in Confidence Or Soft Indicators
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)

TURKEY: UNEMPLOYMENT 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)

*Source: Garanti BBVA Research*

**TURKEY: LOAN TO DEPOSIT RATIO**

(%)
The “disinflation” is being faster than expected thanks to the tight monetary policy and food/energy prices normalization…

Source: CBRT, TURKSTAT, BBVA Research Turkey
The Central Bank started the “easing cycle” with bold cuts. We expect more rate cuts to fine tune but “excess easing” should be avoided.
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)

- **Budget Balance**
- **Primary Balance**
- **Government New Forecasts**
- **BBVA Forecasts**

**TURKEY CENTRAL GOVERNMENT BUDGET BALANCE** (% GDP)

Source: MTP and BBVA Research Turkey
The credit de-leveraging has supported a rapid cyclical current account adjustment but the structural level remains on negative
## Turkey: Baseline Scenario

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

(f) Forecast.
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