

Turkey

Economic Outlook

First quarter 2020

February 2020

Key messages



- › Risk-off mood due to global concerns over 2019-nCoV
- › Global Commercial tensions in pause after the US-China Agreement
- › Counter-cyclical policies in place led by expansive monetary policy
- › Limited Financial Volatility due to Central Banks actions
- › Controlled commodity prices despite geopolitical uncertainty



- › Turkey's recovery is accelerating. Some moderation in consumption, more signals on investment to catch-up
- › Change in growth composition in favor of Domestic Demand with declining support from external demand
- › Temporary rise in inflation in 1Q20. We expect inflation to be 8.5% by end 2020 unless geopolitical shocks arise



- › Economic policies will be more supportive. The CBRT may continue to reduce policy rate to one digit at the end of 2020
- › We expect Fiscal Policy to be neutral with a Budget Deficit to GDP at near 3% in 2020
- › Complacency should be ruled out as lower than expected growth can trigger policy slippages



- › We maintain our Exchange Rate assumptions with neutral real changes
- › Potential risks from Geopolitics and looser policies might be balanced by economic recovery and still moderate Current Account Deficit
- › New Regional Geopolitical Positioning entail both risks and opportunities

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- 03 Turkey: Baseline Scenario

01

Global Outlook

Global Outlook support a soft landing scenario in Global Growth



COMERCIAL TENSIONS: IN PAUSE

- US-China Agreement: Phase I Deal
- Protectionism will continue to worry, in other regions too
- The *Brexit* will be less disruptive in the short term



CONTRACYCLICAL POLICIES: IN PLACE

- Monetary Policy will remain expansive, after recent interest rate cuts
- The Fiscal Stimulus limited in Europe and higher in China



LIMITED FINANCIAL VOLATILITY

- Limited financial volatility due to the action of Central Banks
- With Moderated Risk Appetite but with some disruptions from 2019-nCoV

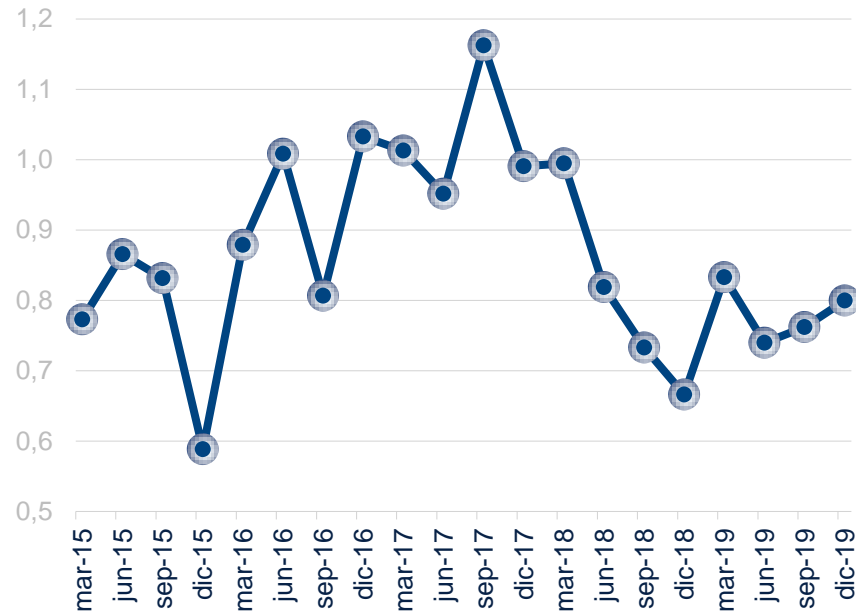


CONTROLLED COMMODITY PRICES

- Moderate Oil Prices on weak demand (Brent, 61 USD in 2020-21)
- Relative Weak Demand and Increase in “no OPEC” Supply

Global Growth remained relatively low during 2019

GLOBAL GDP GROWTH (*)
(%Q/Q)

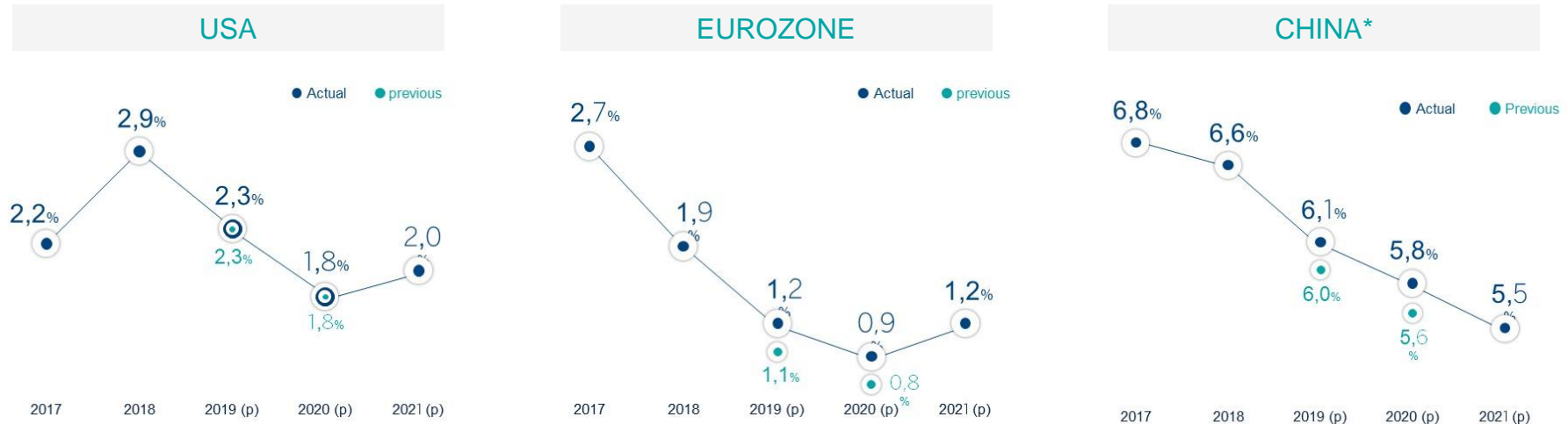


(*) Forecasts based on BBVA-GAIN Model.
Source: BBVA Research

- The world economy expanded at a quarterly rate of about 0.75% in 2019, lower than in previous years
- In addition to high uncertainty, China's structural moderation and the US cyclical slowdown have played a role
- In any case, global growth was slightly higher than expected in the second half of the year

Global Growth: A soft moderation in major economies

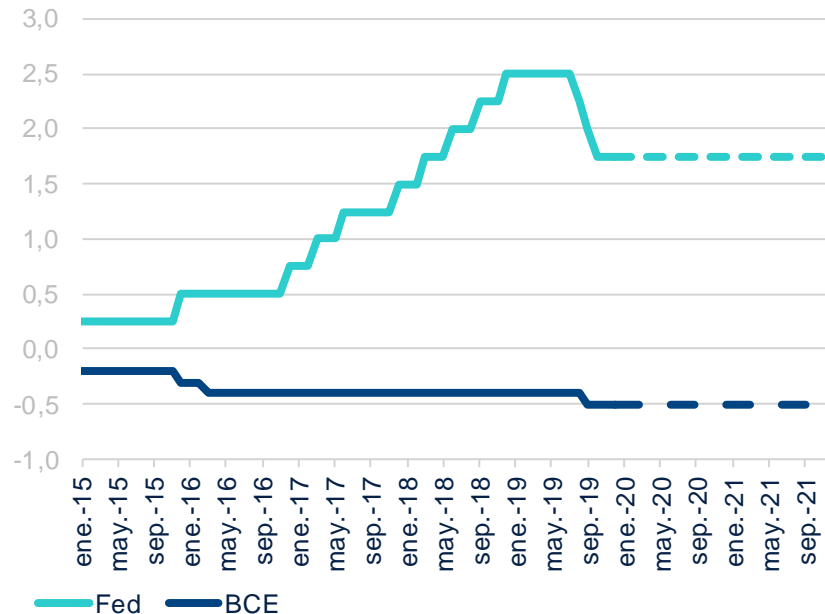
GDP GROWTH (%)



* The impact of 2019-nCoV will depend on how long the epidemic will last. Our baseline scenario with 60% probability drags down 0.3pp from 2020 GDP growth estimate.

Pause in the Fed & BCE: No change in rates in the horizon

FED & ECB: OFFICIAL INTEREST RATES (*) (%, END OF PERIOD)



- **Fed:** the relative resilience of the economy improves the balance of risks and general conditions for a monetary long term
- **ECB:** the stabilization of growth and the continuing signs of the new presidency reinforce expectations of interest rate stability

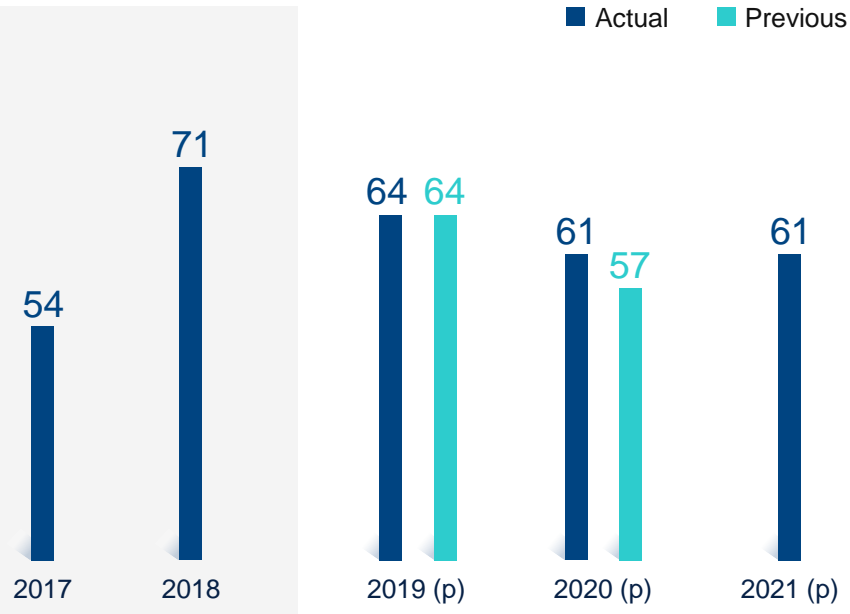
(*) Deposits for the ECB in case of the ECB.

Source: BBVA Research

Oil: Price moderates despite the increasing tensions in the Middle East

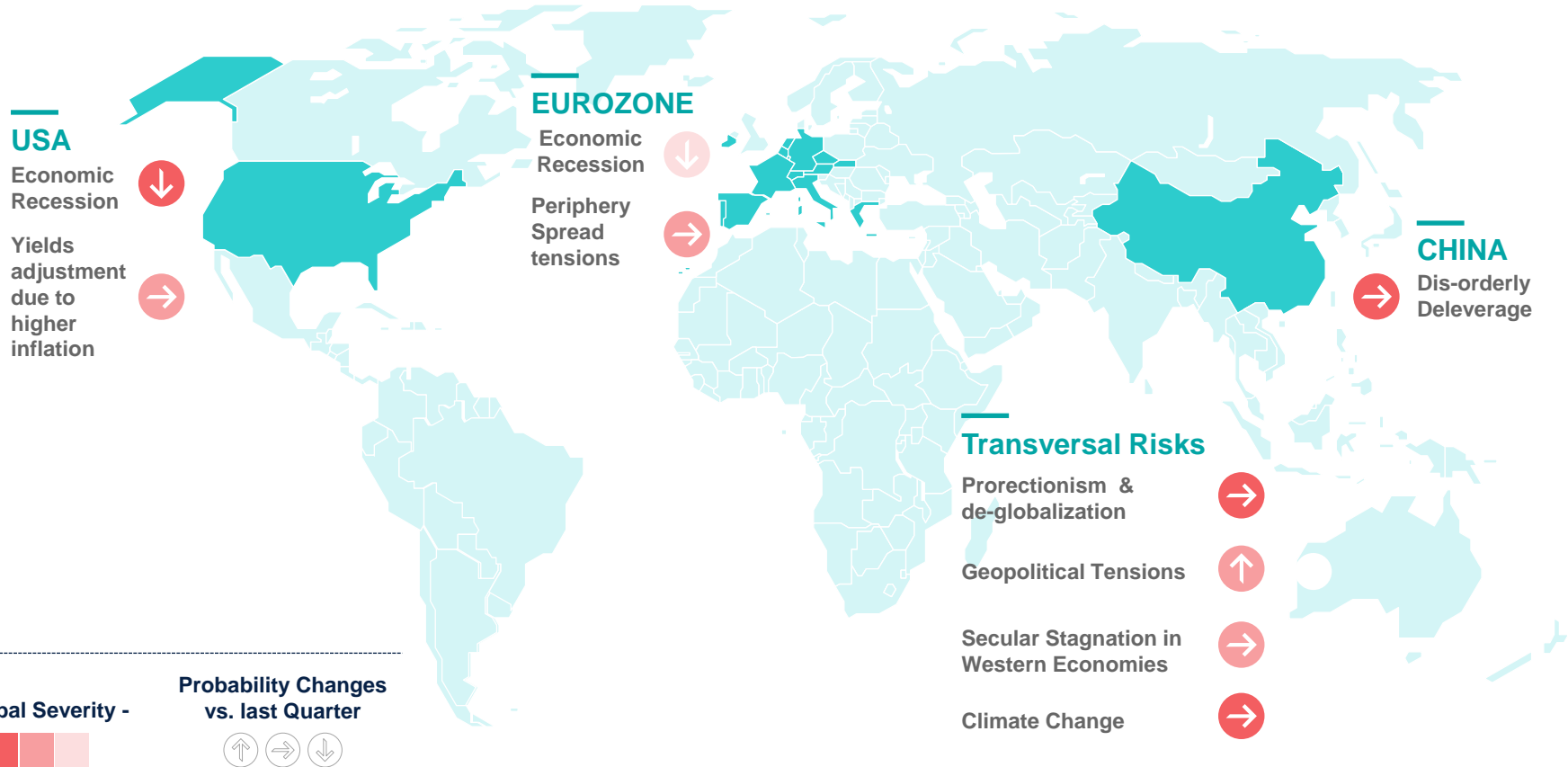
OIL PRICE

(\$ PER BARREL , ANNUAL AVERAGE)



- Increased supply in "non-OPEC" countries in a context of lower demand supports the prospect of price moderation
- Forecast for 2020 adjusted upwards by further OPEC production cuts
- Escalating tensions in the Middle East represent a risk: a crude oil price of \$70 in 2020 could reduce world growth by one to two tenths, with a stronger impact in Europe

Global Risks: Lower cyclical risks but still high structural ones



02

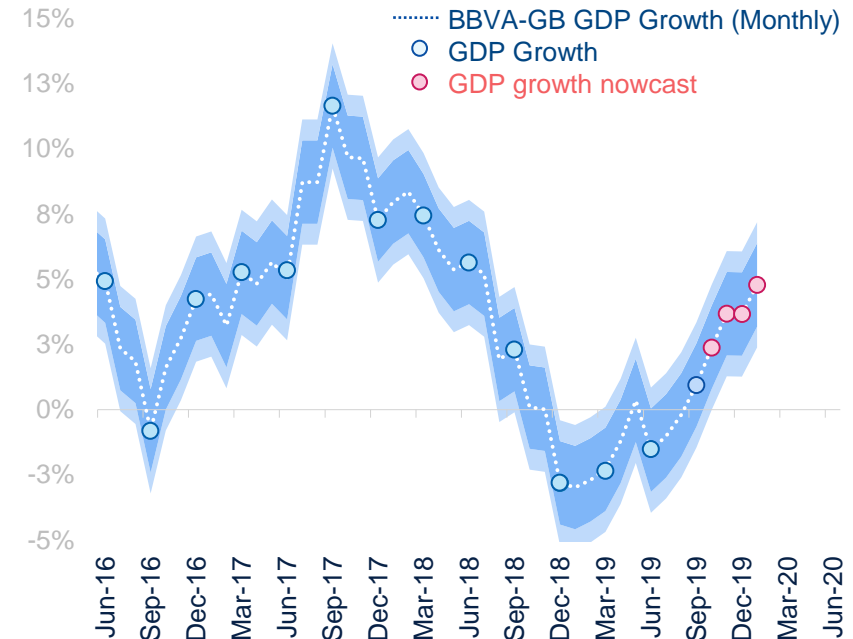
Turkey Economic Outlook

The “V” recovery will continue in the coming months. We upgrade GDP growth to 0.8% and 4% for 2019 & 2020 respectively

TURKEY: GDP GROWTH (%YOY)

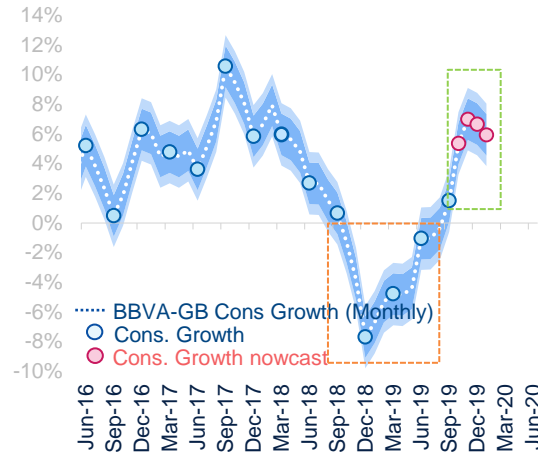
Mean	2019								2020
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Industrial Production	6.5	-3.3	-3.0	-3.6	0.9	2.1	3.8		
Non-metal Mineral Production	4.8	-19.5	-18.9	-18.9	-15.2	-10.6	-5.1		
Electricity Production	4.2	13	-0.3	-16	-16	-0.3	-0.5	-0.4	0.5
Auto Sales	2.8	-45.5	-47.1	-37.3	-22.1	47.7	44.6	25.3	
Tourist Arrivals	6.7	16.6	15.2	15.8	17.2	15.8	15.0	13.3	
Number of Employed	3.2	-2.8	-2.8	-2.7	-2.5	-2.2			
Number of Unemployed	4.7	32.2	30.3	28.4	26.1	21.5			
Auto Imports	4.1	-53.6	-55.0	-47.4	-35.4	33.7	36.4	18.9	
Auto Exports	7.7	-8.2	-6.8	-3.7	-1.9	-3.1	-6.2	-2.2	
Retail Sales	5.2	-3.9	-3.1	-3.1	-0.9	2.0	5.8	6.1	6.9
Manufacturing PMI	50.9	47.9	46.7	48.0	50.0	49.0	49.5	49.5	51.3
Total Loans growth 13-week	17.7	0.4	3.9	2.0	10.2	13.4	22.9	18.4	20.4
Real Sector Confidence	105.6	102.5	98.3	102.5	98.8	100.9	102.0	103.6	104.1
MICA Forecast GDP YoY				2.4%		3.7%	3.7%	4.8%	
	Contraction		Slow-down		Growth		Boom		

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



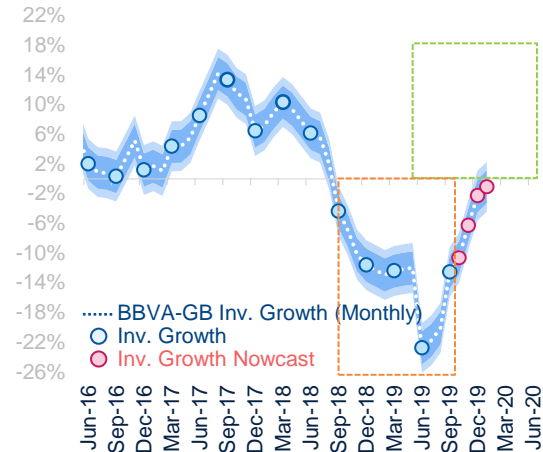
The pattern of Re-balancing: Strong Consumption, Investment recovery and negative contribution from External Demand

TURKEY: PRIVATE CONSUMPTION*
(%YOY, 3M MOVING AVG)



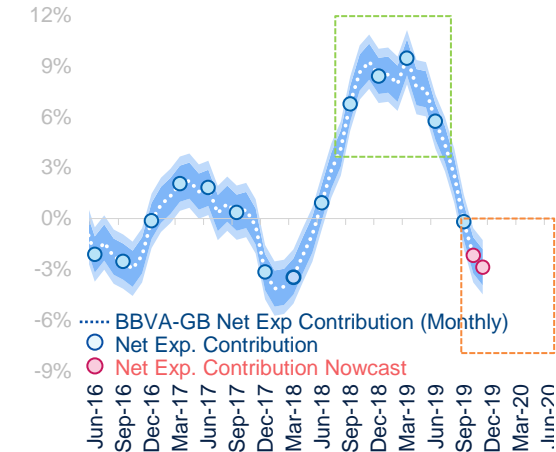
Strong Recovery in Private Consumption

TURKEY: TOTAL INVESTMENT*
(%YOY, 3M MOVING AVG)



Recovery in Investment also catching up

TURKEY: NET EXPORTS
(% CONTRIBUTION TO GDP GROWTH)



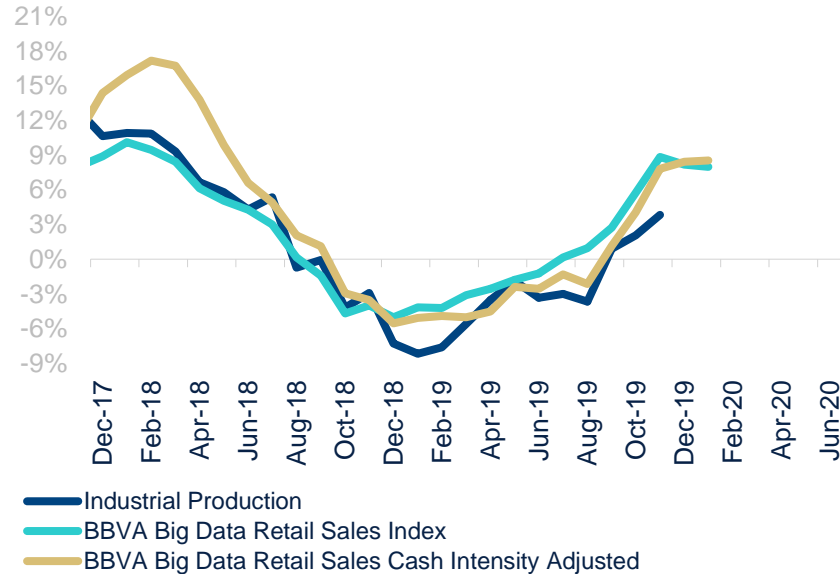
Net Exports falls on higher Domestic Demand

* Includes Garanti BBVA BigData Retail Trade Index

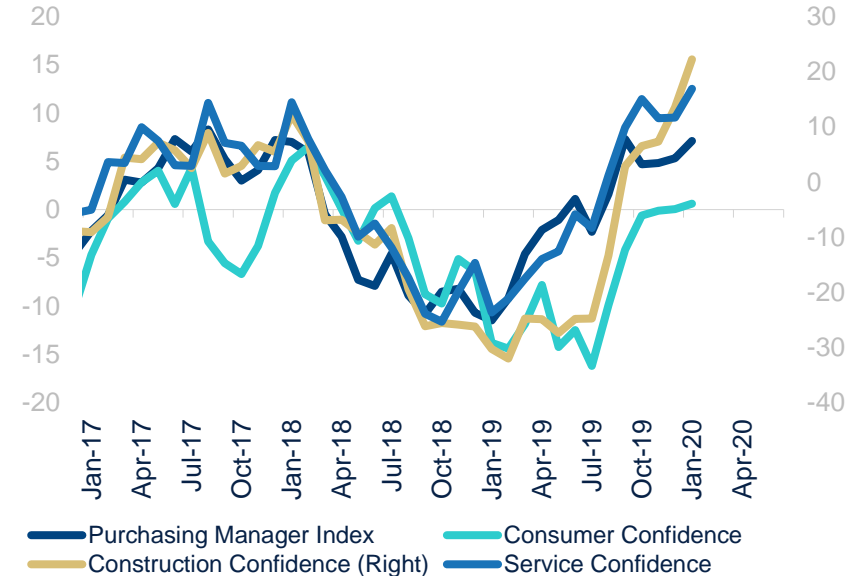
* Includes Garanti BBVA BigData Investment Index

Still high consumption according to our BigData retail sales indicators. Economic confidence is also supportive

TURKEY: GARANTI BBVA BIGDATA INDICES AND HIGH FREQUENCY INDICATORS
(%YOY, 3M MOVING AVG)



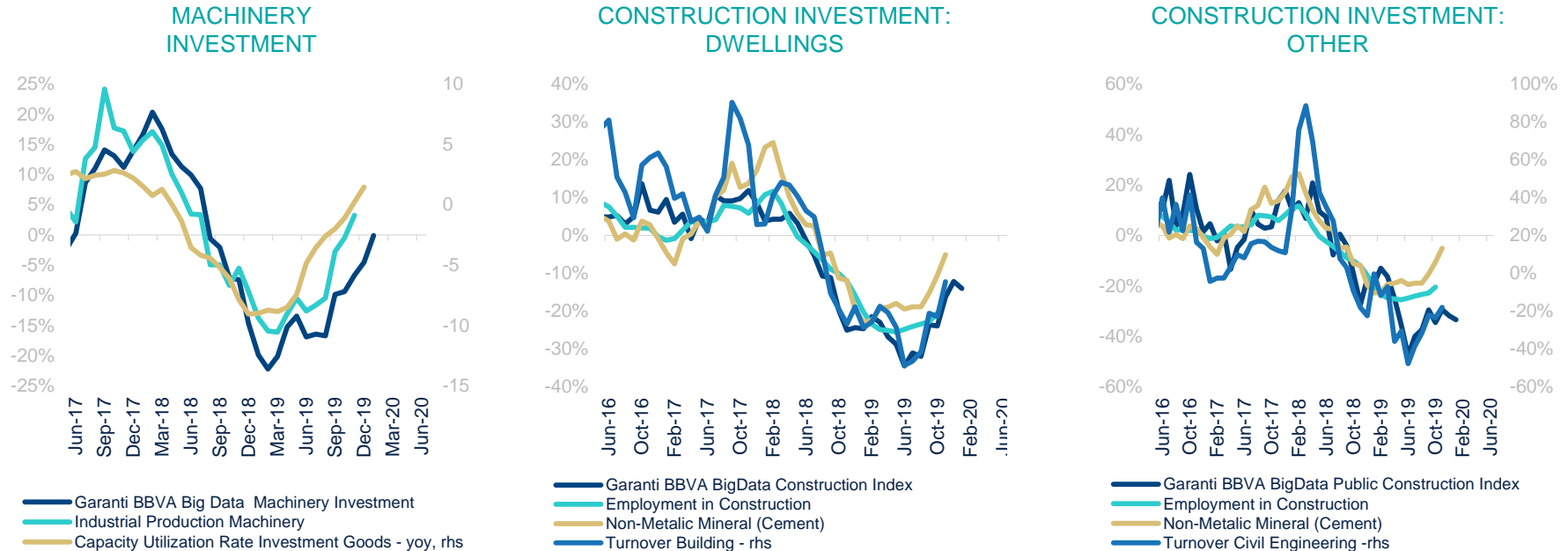
TURKEY: CONFIDENCE INDICES (YEARLY CHANGES)



Machinery Investment is already joining the cyclical upswing while Construction Investment will reinforce the cycle from 2Q onwards

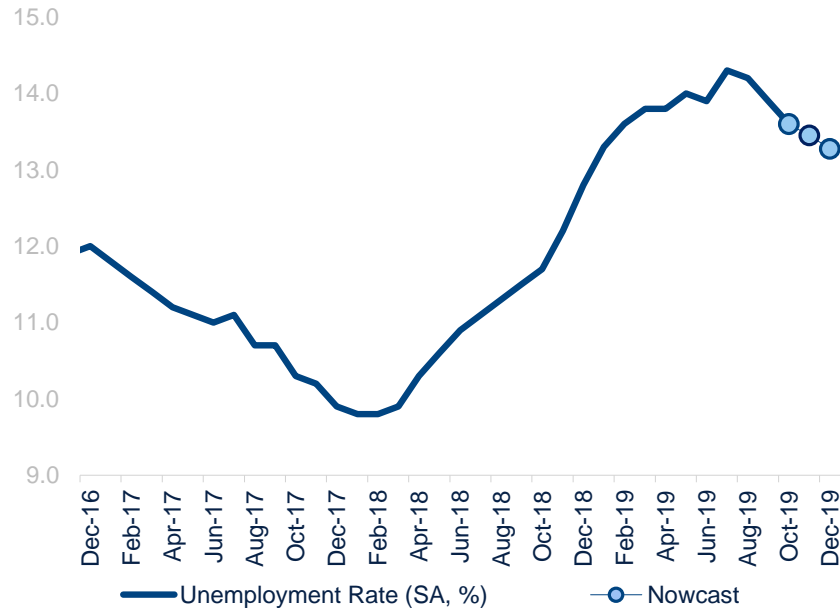
TURKEY: GARANTI BBVA BIGDATA INDICES AND HIGH FREQUENCY INDICATORS

(%YOY, 3M MOVING AVG)

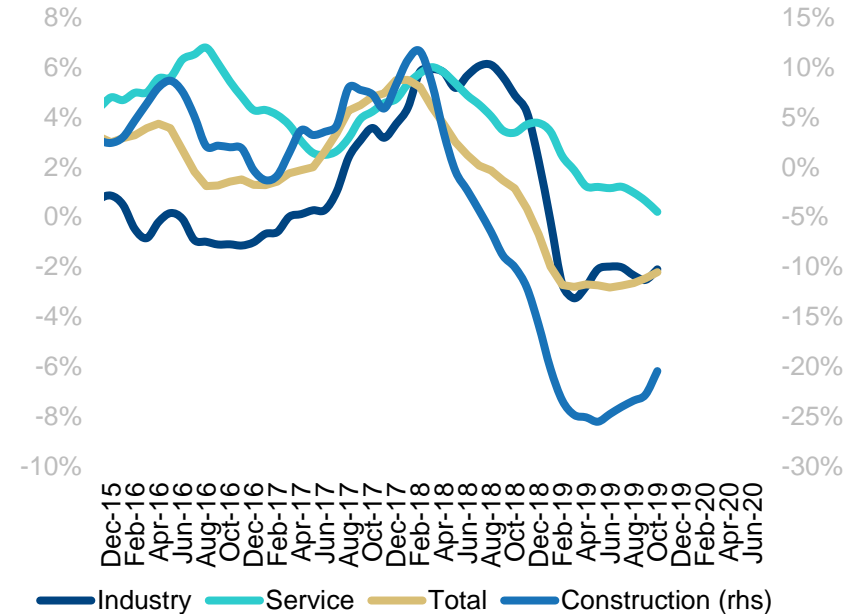


The economic recovery is passing-thru to the labor market and unemployment rate will continue to correct

TURKEY: UNEMPLOYMENT RATE & BBVA NOWCAST
(SA, % & GARANTI BBVA DATA-GOOGLE SEARCHES NOWCAST)

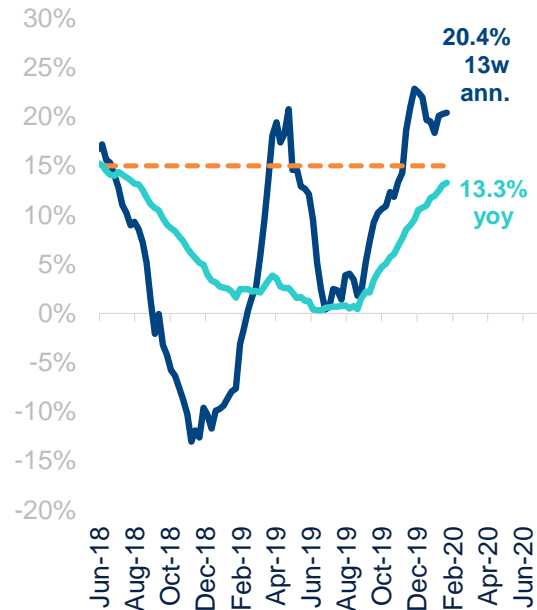


TURKEY: EMPLOYMENT GROWTH BY SECTOR
(3MA YOY)

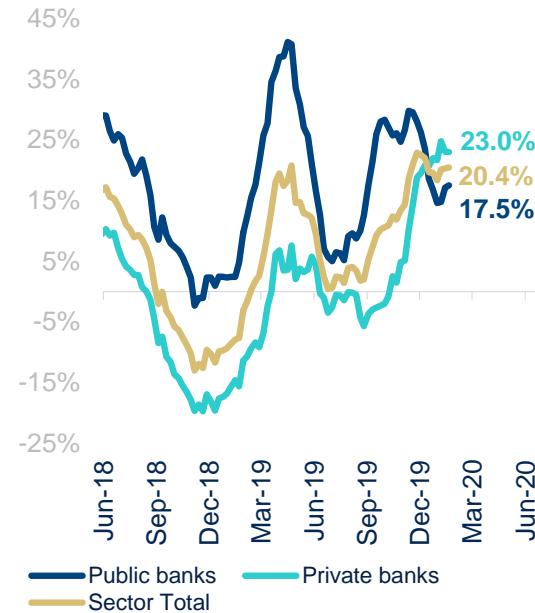


Changing composition in credit growth: Private banks replace Public banks, while Consumer credits take the lead

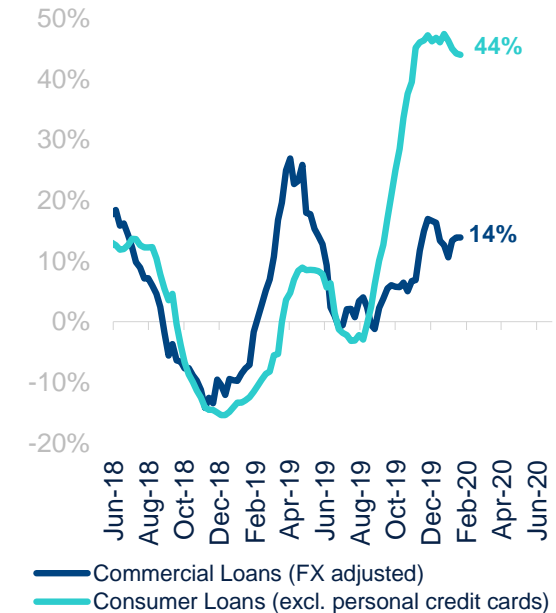
CREDIT GROWTH (FX ADJ)
(YOY, 13-WEEK ANNUALIZED TREND)



PRIVATE VS PUBLIC
(13-WEEK ANNUALIZED TREND)

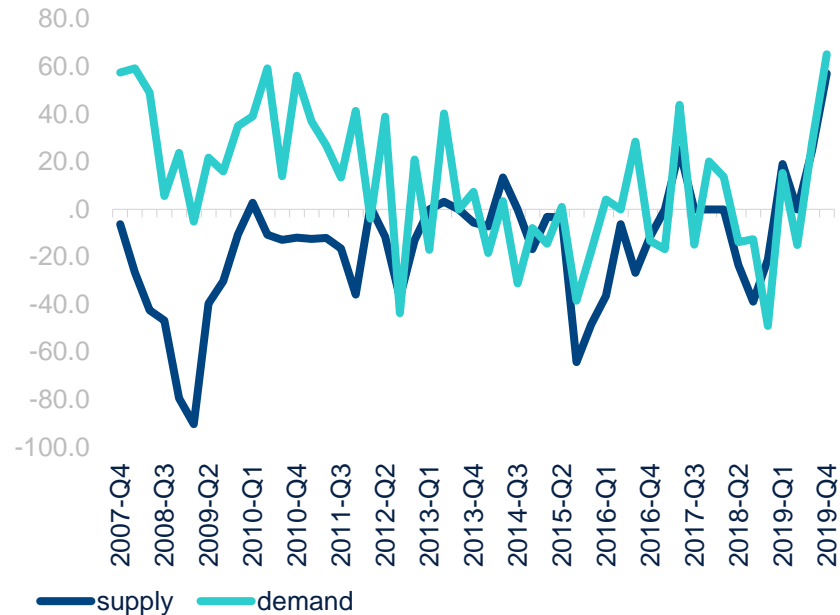


COMMERCIAL VS CONSUMER
(13-WEEK ANNUALIZED TREND)

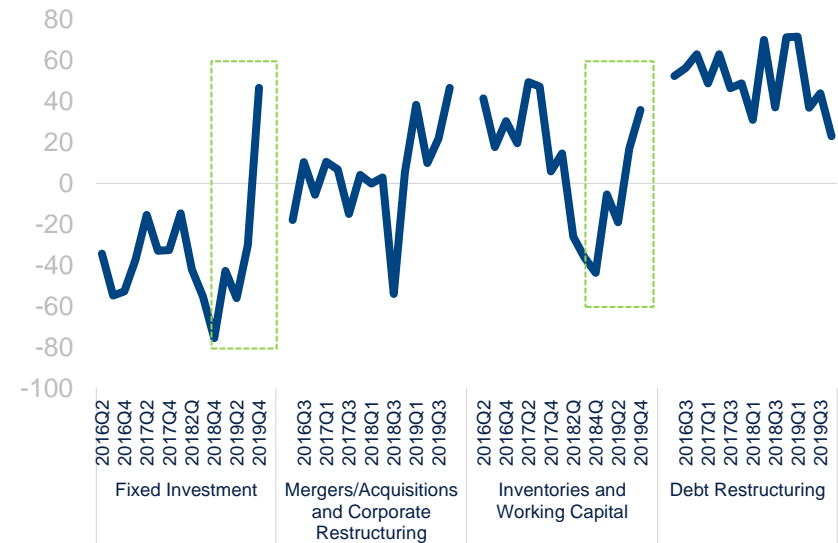


Demand factors playing a bigger role in commercial loans... specially for investment & working capital reasons

CREDIT CONDITIONS: COMMERCIAL (NET BALANCE)



FINANCING NEEDS OF THE REAL SECTOR FOR DIFFERENT PURPOSES (POSITIVE= INCREASE IN DEMAND, NEGATIVE=DECREASE IN DEMAND)

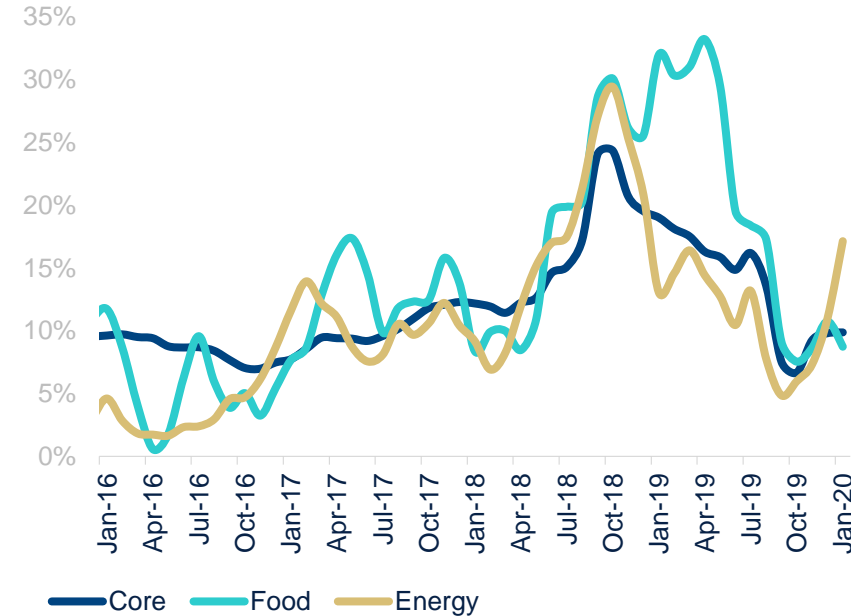


Inflation will remain near at two digits during the first half of the year to moderate after the summer

TURKEY: CPI AND CORE INFLATION PROJECTIONS (YOY)



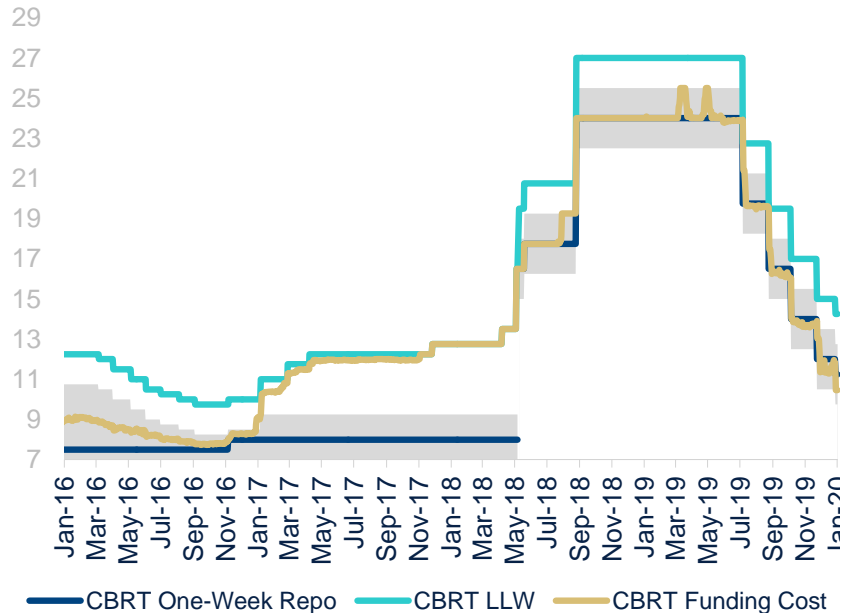
TURKEY: INFLATION SUB-COMPONENTS (YOY)



The room for high interest rate cuts is becoming more limited as domestic demand recovers rapidly and real rates are more closer to zero

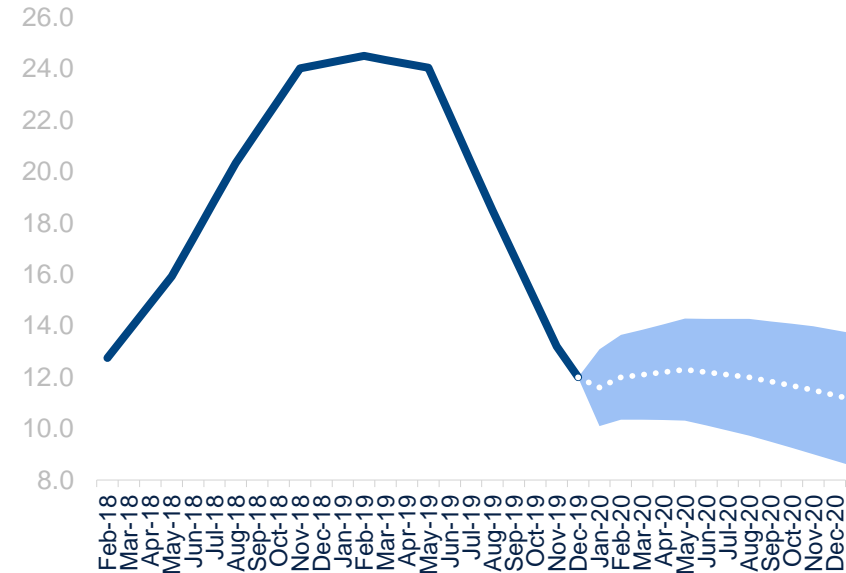
TURKEY: OFFICIAL INTEREST RATES (%)

(%)



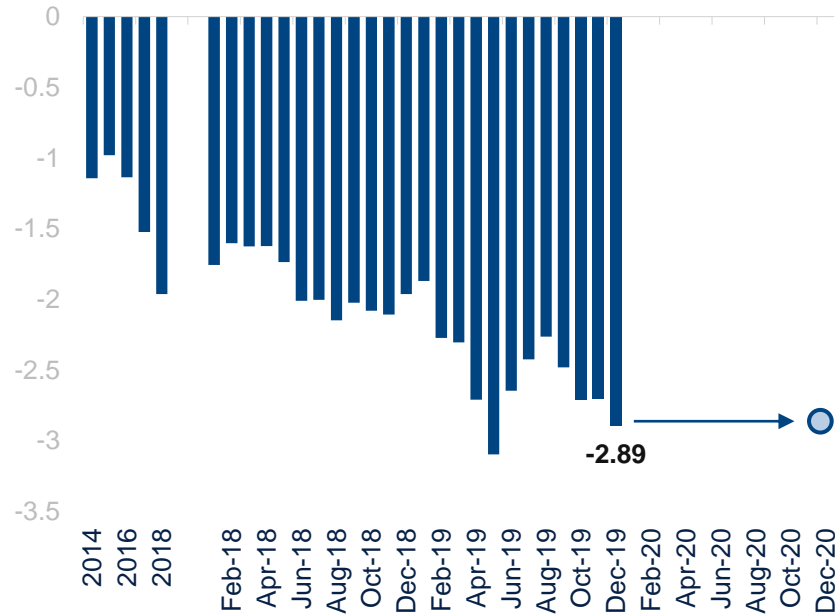
TURKEY: TAYLOR RULE BASED POLICY RATE ESTIMATES (BBVA-GB SOE MODEL %)

(BBVA-GB SOE MODEL %)

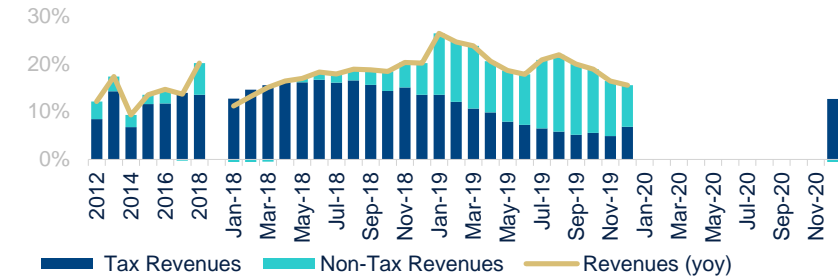


We expect fiscal policy to become neutral with some risks of fiscal slippage (above 3% GDP deficit) if the growth targets are missed

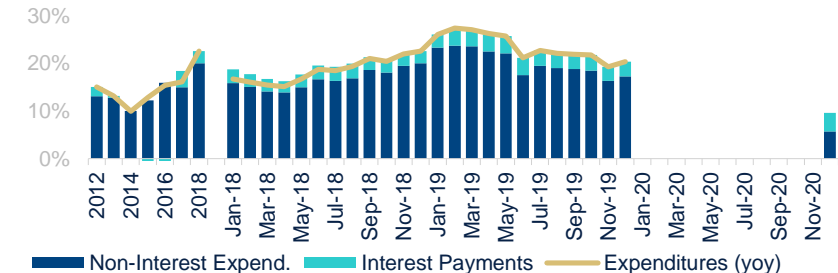
TURKEY: BUDGET BALANCE EVOLUTION (% OF GDP)



PUBLIC REVENUES (12M CUMULATIVE % YOY)



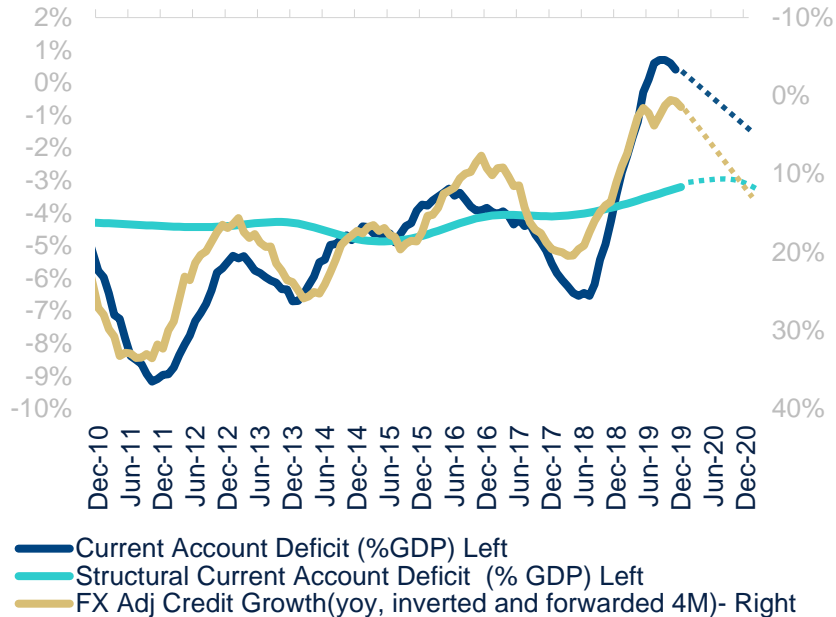
PUBLIC EXPENDITURES (12M CUMULATIVE % YOY)



The recovery of domestic demand will revert the Current Account Balance but at a slower pace given the de-leveraging process

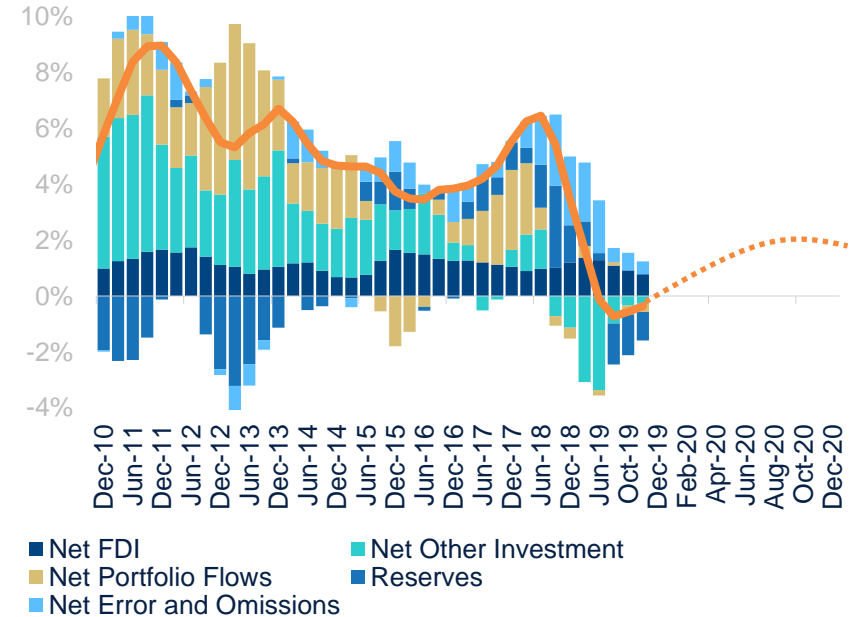
TURKEY: CA BALANCE DECOMPOSITION

(% GDP AND CREDIT YOY INVERTED AND FORWARDED 4 MONTH)



TURKEY: CAPITAL FLOWS

(% GDP)

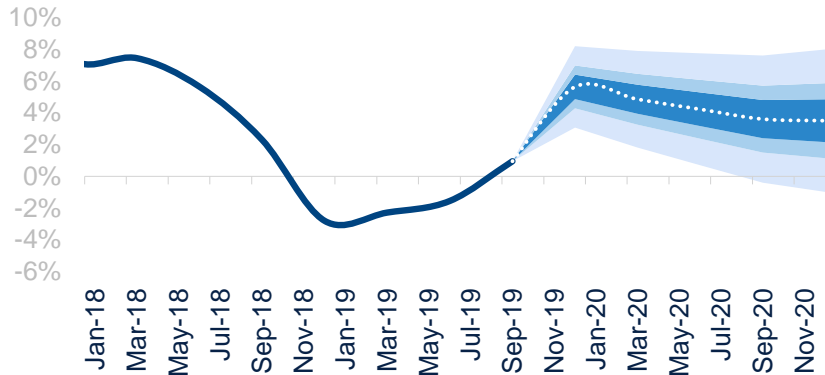


03

Turkey: Economic Forecasts

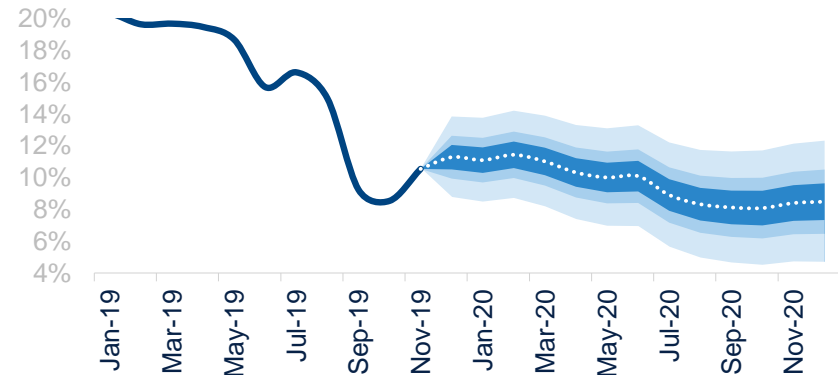
We upgrade our 2020 GDP growth estimate to 4% with a higher support from Domestic Demand. A more gradual disinflation in 2020

GDP FORECAST (YOY)



- The business cycle upswing will be sustainable during the first half of the year on still high base effects and policy impulses. Robust consumption and accelerating investment will be buffered by declining net external demand.

CONSUMER INFLATION FORECAST (YOY)

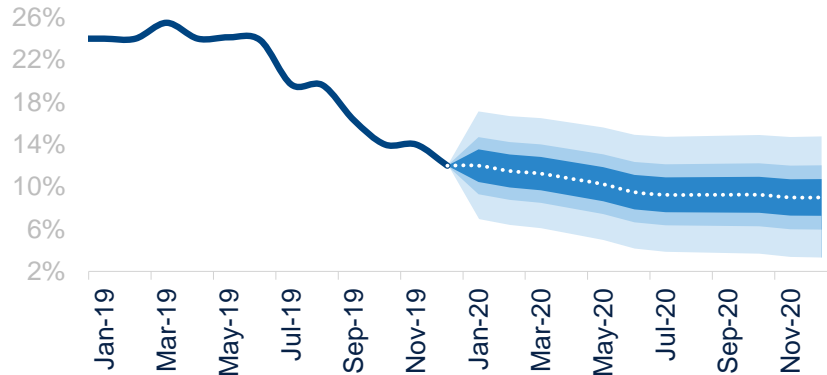


- Still negative (although closing) output gap, relatively mild cost push factors and more favorable administrative prices will continue to support a gradual disinflation process. One digit inflation will be achieved at the end of the year.

The room for further interest rates cuts is now narrower. We maintain some prudence in our exchange rate forecasts

MONETARY POLICY RATE FORECASTS

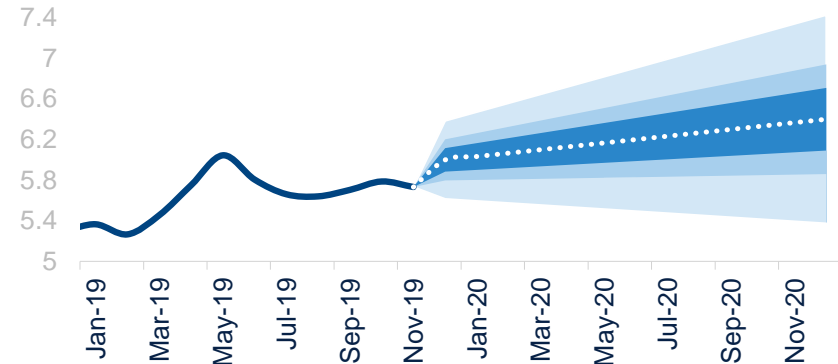
(% CBRT FUNDING COST)



- The Central Bank will maintain some growth bias leading to Ex-ante real rates slightly positive at the end of the year. Domestic demand pressures could be higher than expected and should be monitored to change the course of Monetary Policy if needed

EXCHANGE RATE FORECASTS

(USDTRY LEVEL)



- Economic recovery, still supportive current account balance and low global interest rates support the currency. However, loose policies and geopolitical risks could trigger some volatility. We maintain a prudence forecast for the exchange rate

Turkey Baseline Scenario

	2018	2019 (e)	2020 (f)	2021 (f)
GDP (%)	2.8	0.8	4.0	4.5
Private consumption (%)	0	0.9	5.2	4.3
Public consumption (%)	6.6	5.3	3.5	3.5
Investment in fixed capital (%)	-0.6	-12.4	3.4	5.9
Exports (%)	7.8	6.5	4.6	4.6
Imports (%)	-7.8	-8.2	8.2	6.2
Unemployment rate (average)	11.0	13.7	11.8	10.3
Inflation (end of period, YoY %)	20.3	11.8	8.5	8.0
CBRT funding rate (end of period, YoY %)	24.0	11.25	9.0	8.5
Exchange rate (USDTRY, end of period)	5.28	5.94	6.40	6.80
Current account balance (% of GDP)	-3.6	0.1	-1.0	-2.6
Central government budget balance (% of GDP)	-1.9	-2.9	-3.0	-2.9

(f) Forecast. (e) Estimated.

Source: BBVA Research Turkey

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