

# Türkiye Economic Outlook

Garanti BBVA Research

April 2024

## Key messages

- We nowcast an acceleration in the first quarter of the year with a quarterly growth rate of 1.5%, which implies around 6% annual GDP growth. As of early May, the quarterly pace still points out a level closer to 1% for the second quarter.
- The key point remains to be suppressing consumption since the slow-down in domestic demand is still very limited and aggregate demand remains stronger than supply.
- We eliminate our previous downward bias on our 2024 GDP growth forecast (3.5%) and get ready to have a downward revision on our exchange rate (~38 USDTRY) and inflation (~43% year-end) forecasts.
- We expect the CBRT to remain tight, which would start a sustained path to unwind regulations (firstly credit growth caps, later deposit rules) in order to strengthen the monetary transmission mechanism.
- Thereafter, if the inflation trend improves to a level that the year-end inflation falls below 42% -upper bound of the CBRT forecast range-, there might be a limited room to start easing with very gradual steps in 4Q24.
- Yet, lagging fiscal measures & macro-prudential policies on retailer card spending availability reduce the likelihood of a cutting cycle sooner.
- Most recently released fiscal savings package indicates a very limited effect of 0.2-0.3% of GDP this year, which would increase in the medium run and start to be more effective on reducing imbalances.

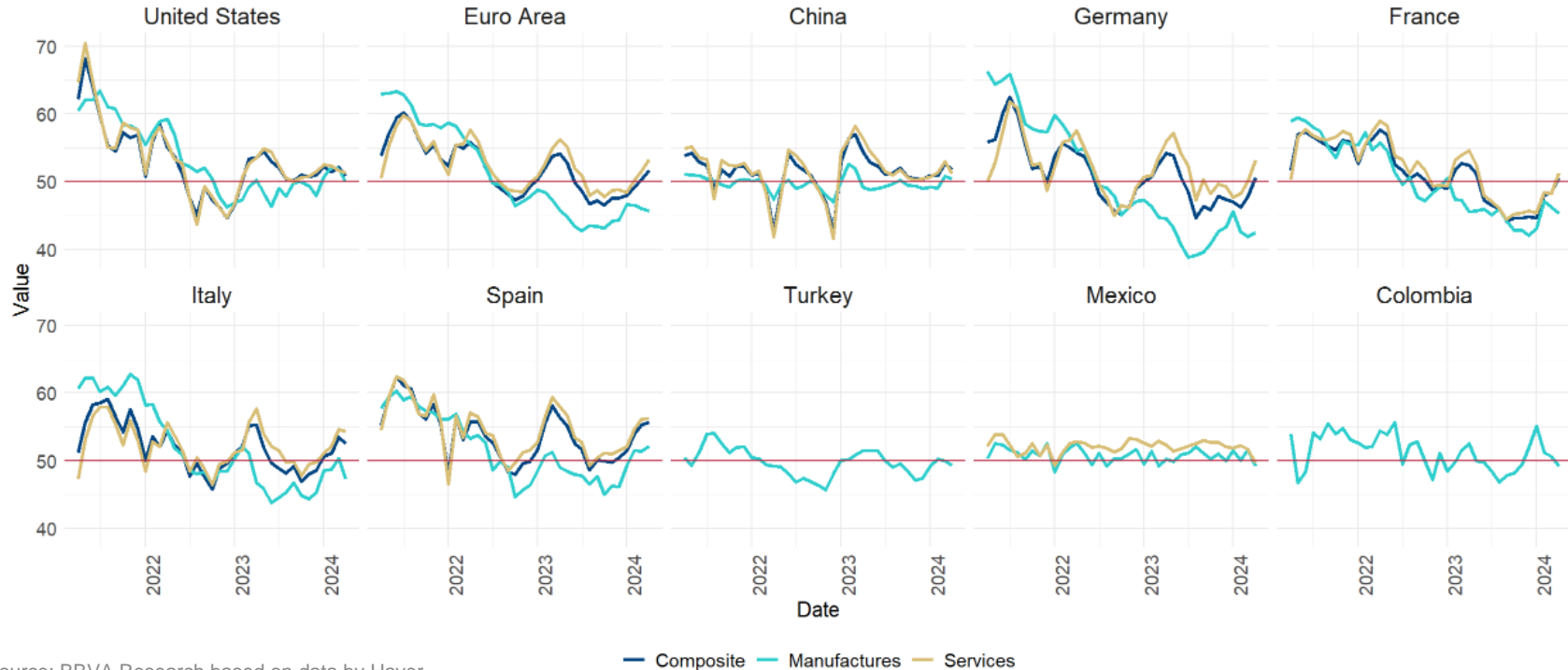
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# Global Economic Outlook

# PMIs in the US and China are hovering around 50. In the EZ, they rebounded; however, manufacturing remains in the contraction zone in most EZ countries

## PMI INDICATORS

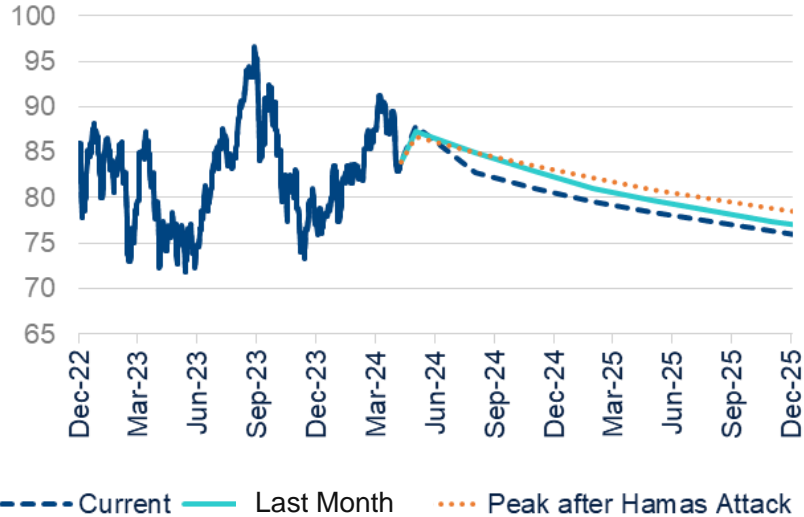
(HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)



# Oil prices retreated amidst a reduction in geopolitical risk premiums and an increase in US inventories. European gas prices remained largely stable

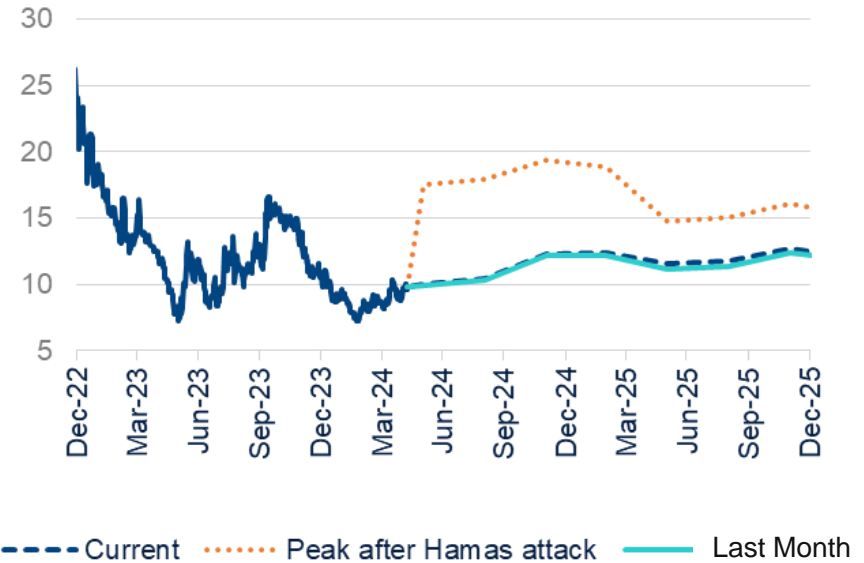
## OIL BRENT FUTURES PRICES

(%; \$/b)



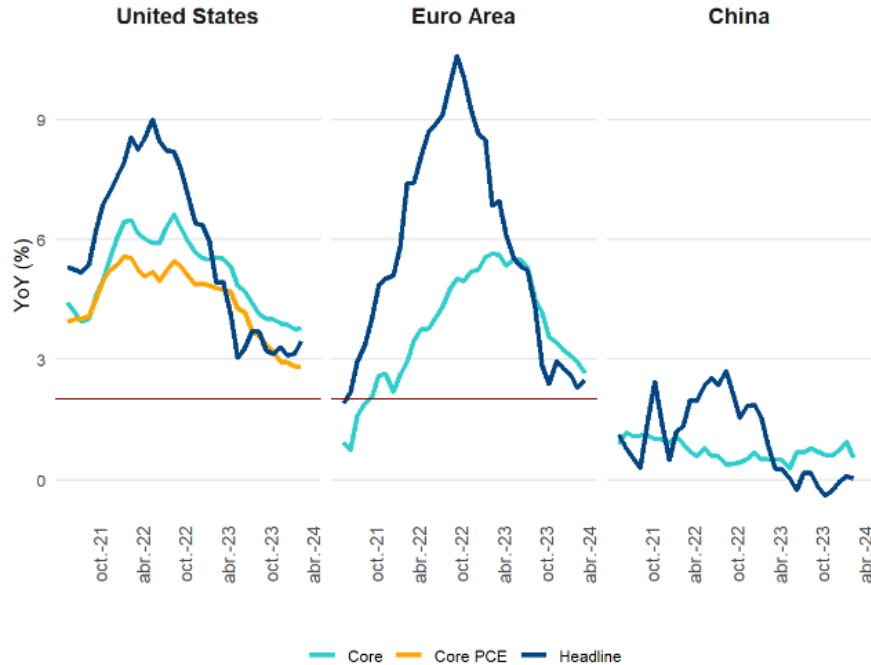
## EUROPEAN GAS FUTURES PRICES

(%; \$/MMBtu)

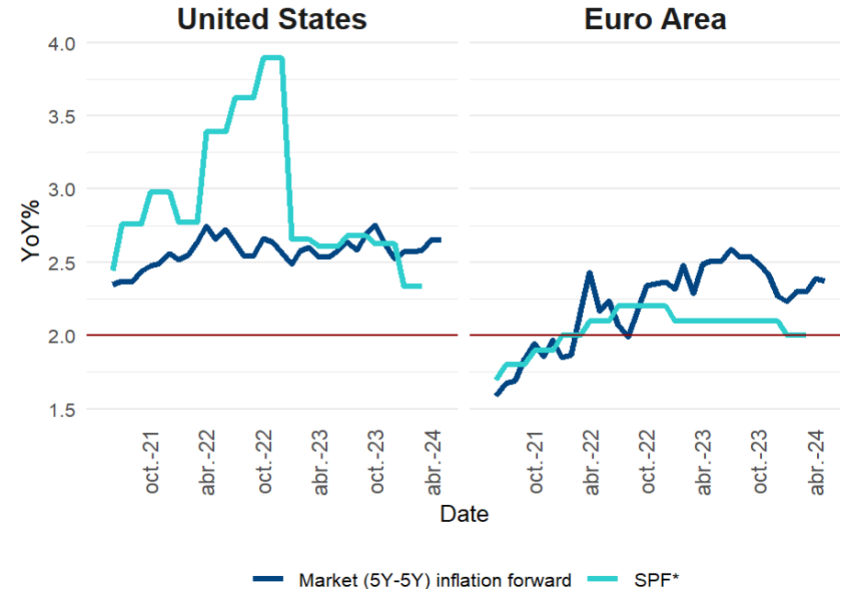


# After March upward surprise, US inflation moderated in April as expected. April's EZ headline remained unchanged, while core inflation eased further

## CORE AND HEADLINE INFLATION (% YOY)



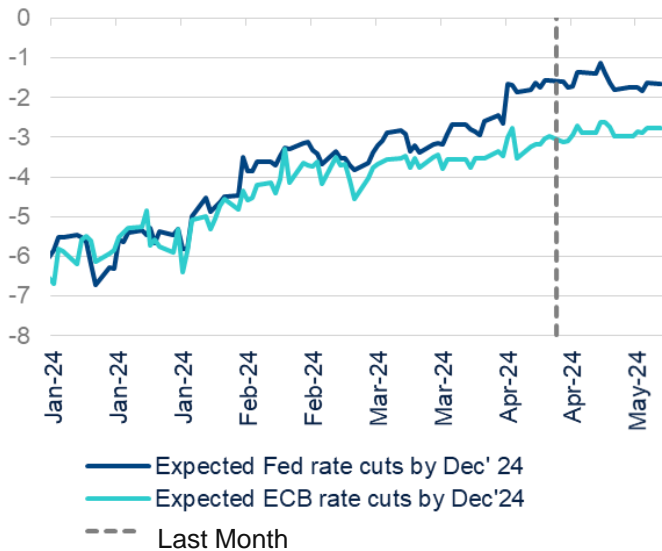
## INFLATION EXPECTATIONS (% YOY)



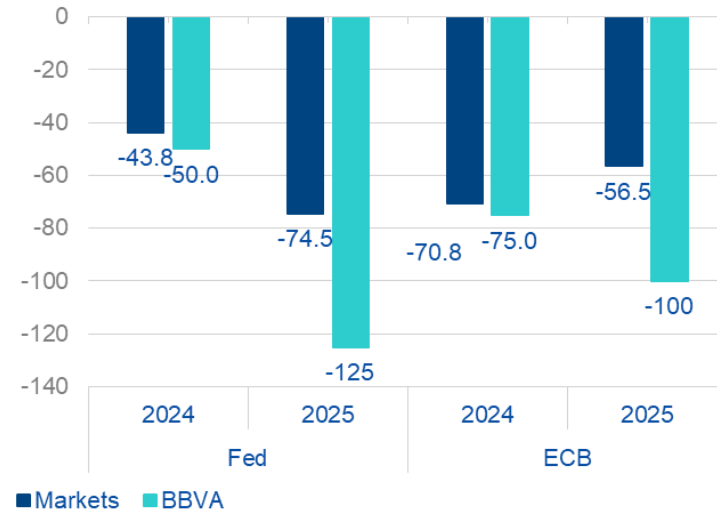
SPF for US: 5-Y annual-average rate of headline CPI inflation, for EA; refers to 2027.  
5Y5Y Last data as 6th of May 2024

# Markets price in two rate cuts by the Fed for 2024 starting from Sep. ECB might starting the easing cycle in June, expected to reach a total of 75bps cuts in 2024

NUMBER OF FED AND ECB INTEREST RATE CUT IN 2024  
IMPLIED IN MARKETS

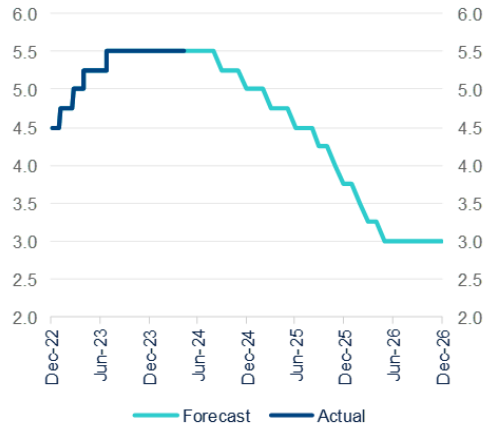


IMPLIED INTEREST RATE CUT IN FED AND ECB INTEREST RATES IN 2024 (BP; LAST DAY MAY 13)



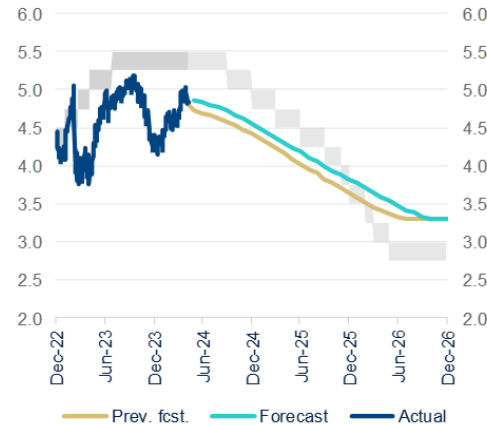
# We now expect the first FED funds rate cut to come in Sep and an additional cut in Dec that would take rates to 4.75%-5.00% by year-end

**FED FUNDS RATE OUTLOOK**  
(UPPER LIMIT OF THE TARGET RANGE, %)



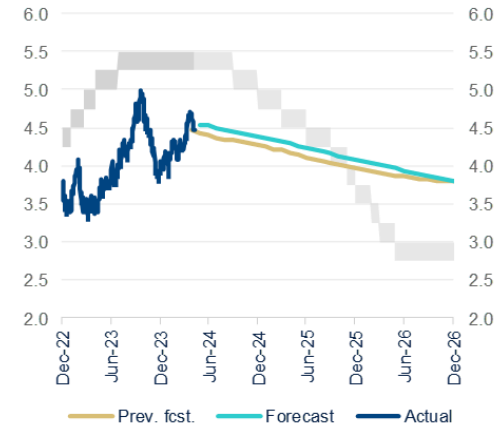
Fed funds rate (upper, eop)	24	25	26
<b>Forecast</b>	<b>5.00</b>	<b>3.75</b>	<b>3.00</b>

**2-YEAR TREASURY YIELD**  
(%)



US 2y Treasury yield (eop)	24	25	26
<b>New forecast</b>	<b>4.6</b>	<b>3.8</b>	<b>3.3</b>
Previous forecast	4.4	3.7	3.3

**10-YEAR TREASURY YIELD**  
(%)

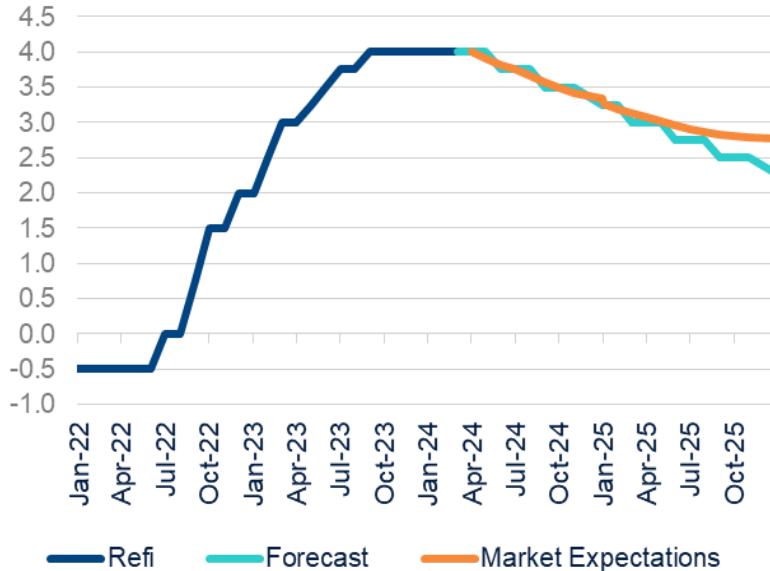


US 10y Treasury yield (eop)	24	25	26
<b>New forecast</b>	<b>4.4</b>	<b>4.1</b>	<b>3.8</b>
Previous forecast	4.3	4.0	3.8



## ECB's June cut is practically a done deal but the path of cuts beyond this is not at all clear. We continue to expect the first rate cut in June (ahead of the Fed) and three cuts this year

### ECB: DEPO RATE FORECASTS (%)



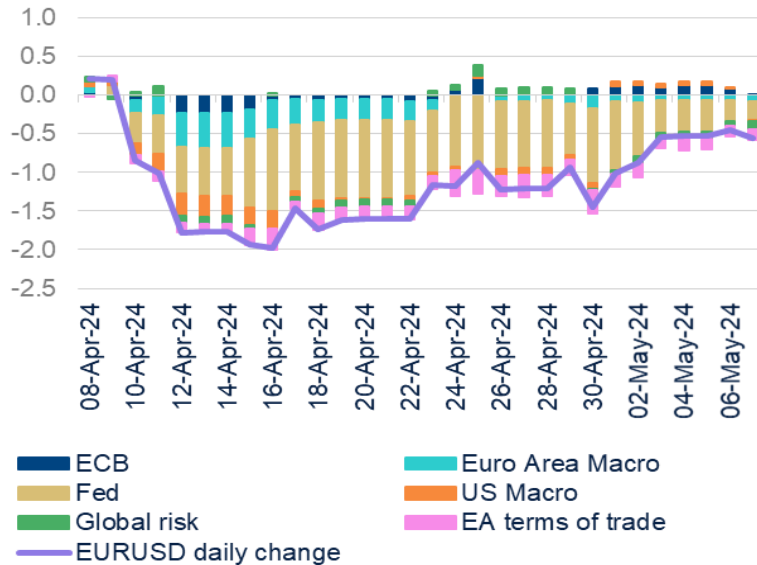
### Baseline scenario (No changes):

- Rates: 3x25 bp of rate cuts (June, Sept, Dec) in 2024. Additional rate cuts in 2025. Bias to less cuts.
- Gradual QT: for APP to continue, for PEPP to start in June (50% roll-off in 2H24), reinvestment until Dec/24

# The USD weakened due to narrowing interest rate differentials, with markets expecting two Fed rate cuts this year, following the May FOMC meeting and weak data

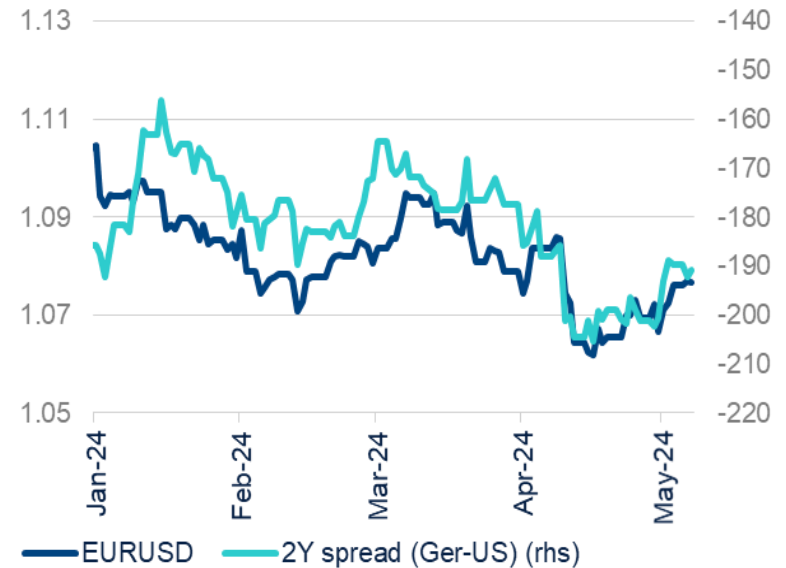
## EURUSD CUMULATIVE DAILY CHANGE\*

(last month, %)



## EURUSD AND 2Y RATE DIFFERENTIAL

(USD AND BPS)

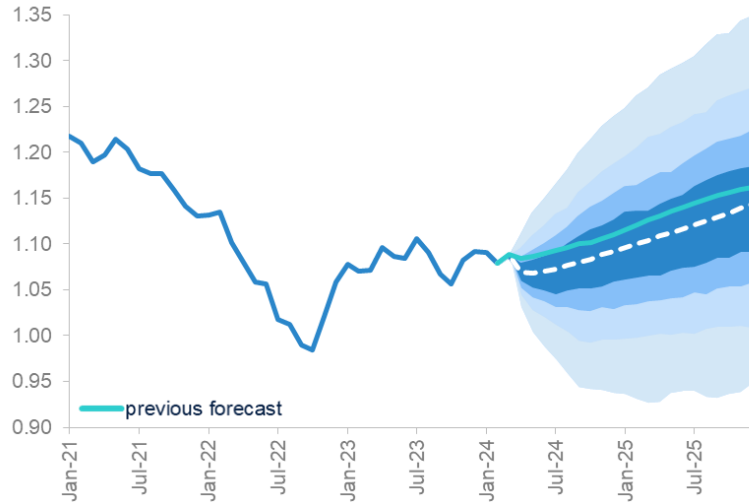


\*A sign-restricted SVAR model

Source: BBVA Research based on Bloomberg

# We revised our EURUSD forecasts downward on the delay in the US rate cut cycle. Risk continues to be tilted to a weaker Euro in the short term

## EURUSD PROJECTIONS



		Probability						
		-70%	-50%	-25%	Base	25%	50%	70%
<b>New</b>	<b>Dec-24</b>	0.99	1.03	1.06	1.09	1.13	1.15	1.19
previous					1.11			
<b>New</b>	<b>Dec-25</b>	1.01	1.06	1.09	1.14	1.18	1.22	1.27
previous					1.16			

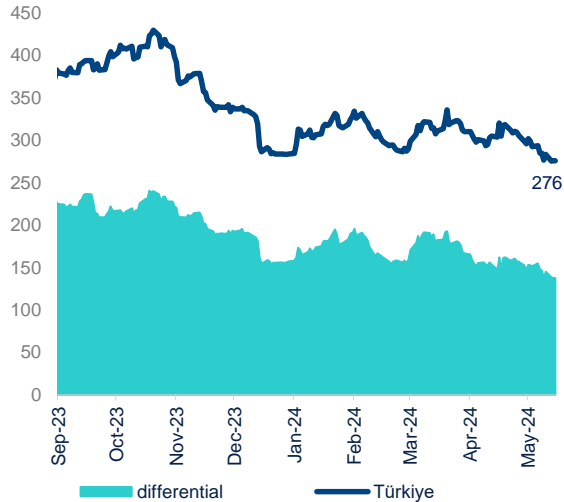
- The euro continues to face important risks ahead:
  - geopolitics (EZ and US stand at the opposite ends of energy independence, so higher oil and gas prices would add pressure to EUR),
  - bias of Fed rate cut cycle even more gradual than expected;
  - US elections (dollar positive initially if Trump wins) and
  - slower EZ and global growth
- **Geopolitical risk, sensitivity analysis** to higher global volatility (VIX)
- Our medium-term baseline scenario supports a **very gradual appreciation**: narrowing rate spreads, contained volatility, EUR's undervaluation (current estimation of equilibrium around 1.20)

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# Türkiye Economic Outlook

# The CBRT's committed communication and actions against inflation are well-received by foreigners. The CBRT is working on how to ease the current offshore swap limits (right way swaps)

**TÜRKİYE'S 5-YEAR CDS WRT PEERS\***  
BPS

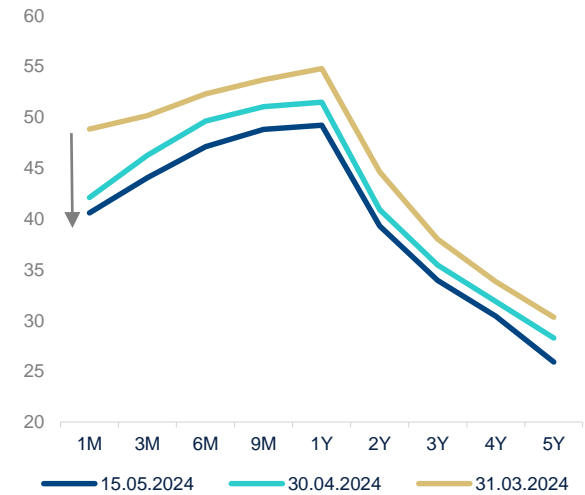


\*Chile, Colombia, Mexico, Brazil and South Africa

**OFF SHORE & ON SHORE TRY YIELD**  
%

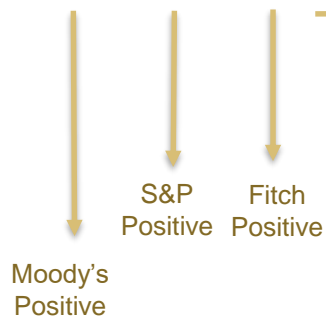


**USDTRY FORWARD IMPLIED YIELD CURVE**  
%



# Fitch and later S&P upgraded the credit rating one notch and opened room for more. Continuation of a clear commitment against inflation will bring further upgrades and so reinforce capital inflows

No	S&P	Moody's	Fitch	Meaning and Color
1	AAA	Aaa	AAA	Prime
2	AA+	Aa1	AA+	High Grade
3	AA	Aa2	AA	
4	AA-	Aa3	AA	
5	A+	A1	A+	Upper Medium Grade
6	A	A2	A	
7	A-	A3	A-	
8	BBB+	Baa1	BBB+	Lower Medium Grade
9	BBB	Baa2	BBB	
10	BBB-	Baa3	BBB-	
11	BB+	Ba1	BB+	Non Investment Grade Speculative
12	BB	Ba2	BB	
13	BB-	Ba3	BB-	
14	B+	B1	B+	Highly Speculative
15	B	B2	B	
16	B-	B3	B-	
17	CCC+	Caa1	CCC+	Substantial Risks
18	CCC	Caa2	CCC	Extremely Speculative

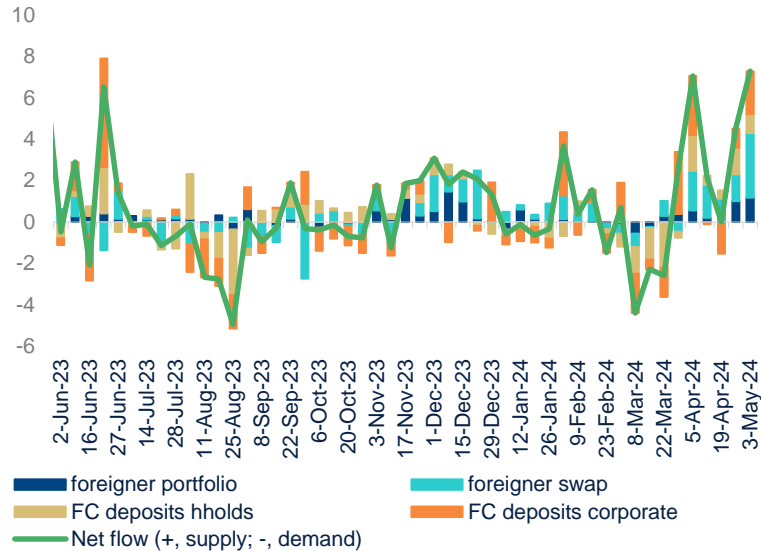


- If a clear commitment against inflation is preserved, we might observe two upgrades at once from Moody's on July 19th and one more from the other two agencies.
- TWO KPIs for an upgrade: inflation trend coming down as targeted and reserves accumulation

# Foreigners' inflow for Turkish assets has started to accelerate, FC demand of residents prior to the election has significantly reversed

## FC FLOWS OF SUPPLY & DEMAND

US\$BN, WEEKLY, ADJ. FROM PRICE EFFECTS

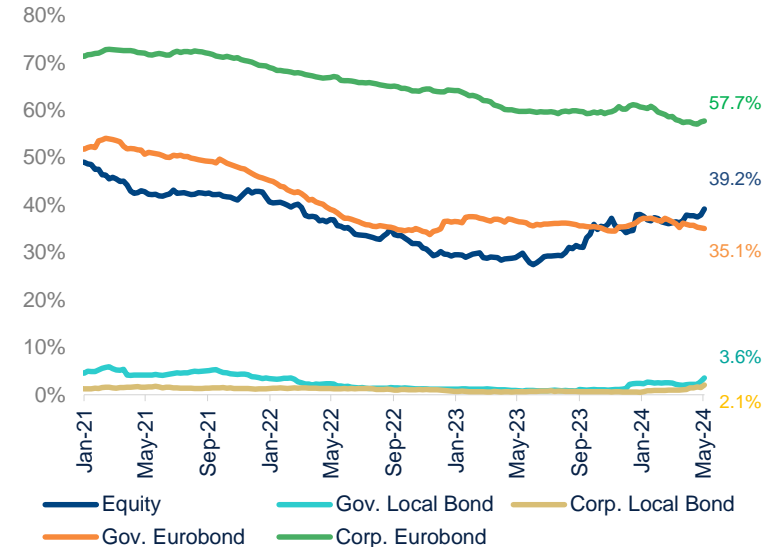


29 Mar - 3 May  
FC Flows



2.9bn\$ foreigner portfolio inflow  
9.0bn\$ foreigner swap inflow  
4.8bn\$ hholds FC sale  
4.3bn\$ corporates FC sale

## FOREIGNERS' EXPOSURE TO TURKISH ASSETS\* SHARE IN TOTAL

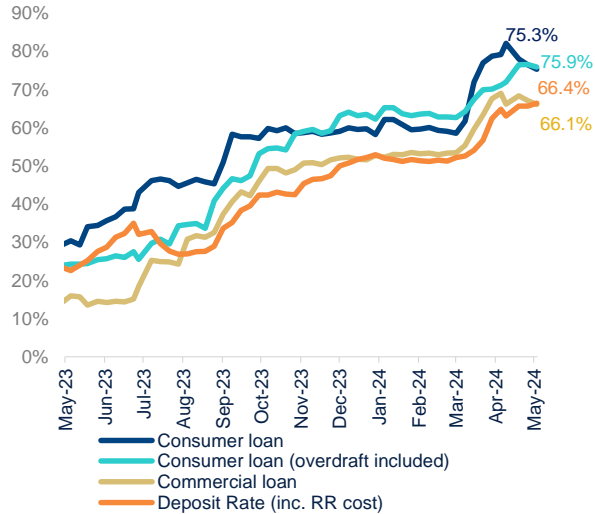


\* Gov local bonds refer to only outright purchase

# The CBRT reduced upside pressure on TL deposit rates with the most recent RR changes & elimination of RR implementation due credit growth for small banks in order to support financial stability via lowering pressure on lending rates

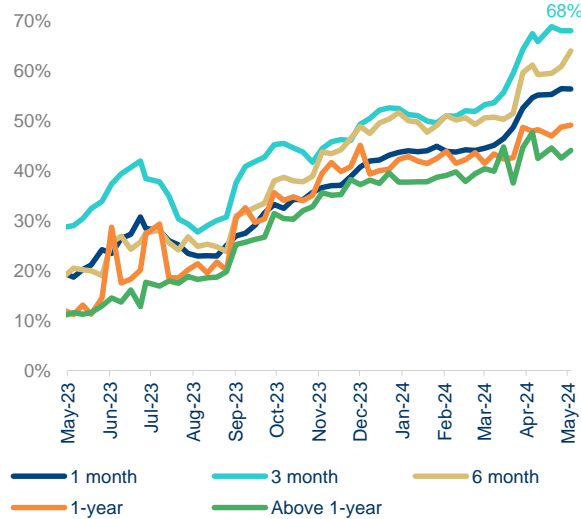
## CONSUMER & TL COMMERCIAL RATES

%, flow, sector



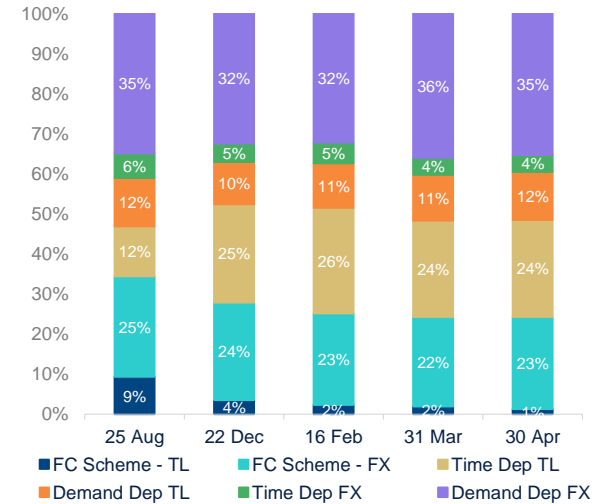
## TL DEPOSIT INTEREST RATES

%, flow, sector, without RR cost



## DISTRIBUTION AMONG DEPOSITS

% share in total, Garanti BBVA Clients

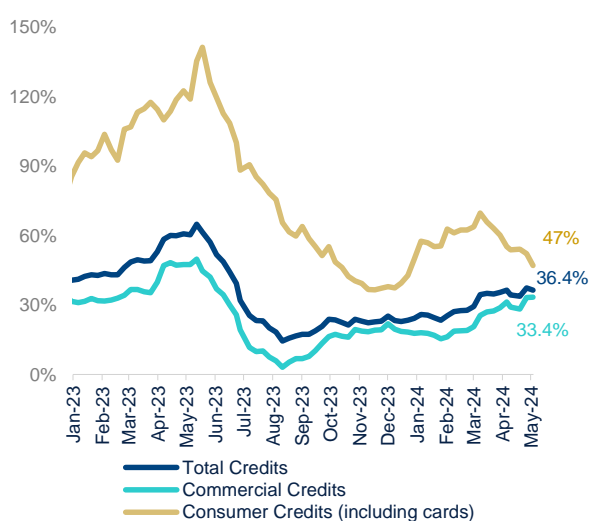




# Composition of lending will be key to see its impact on rebalancing. Credit card spending still supports consumption

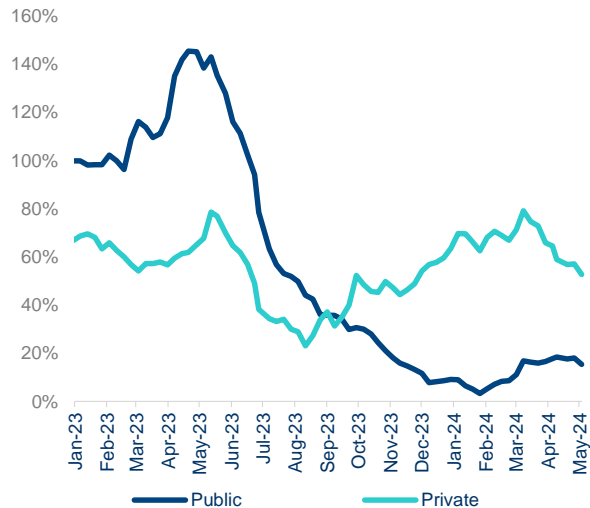
## TOTAL CREDIT GROWTH

13-week annualized, sector



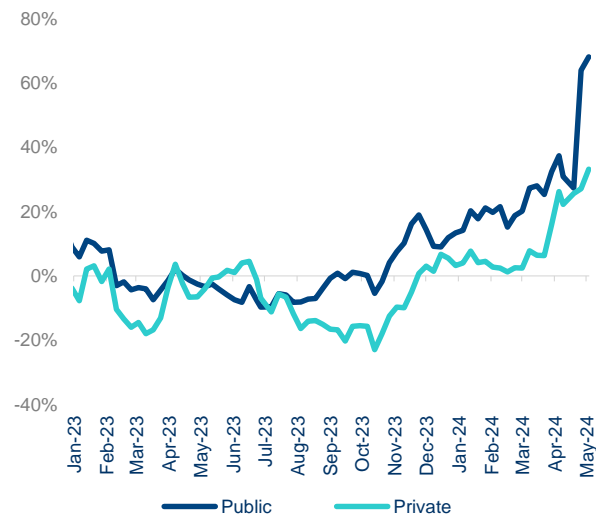
## TL CREDIT GROWTH

13-week annualized



## FC CREDIT GROWTH

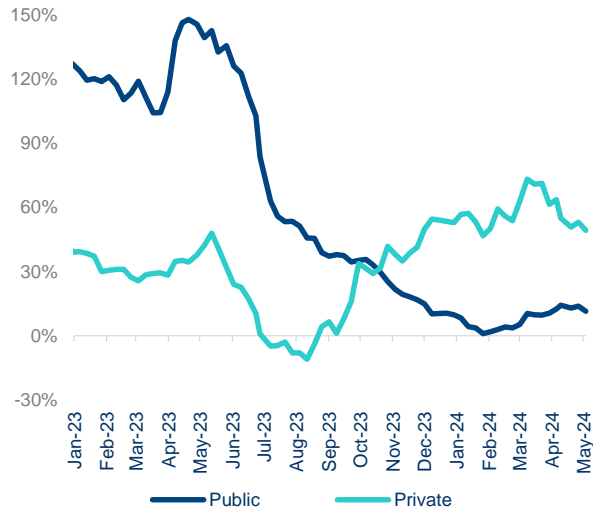
USD, 13-week annualized



# New restrictive measures are pending on retail credit cards. Banks' focus expected to change in favor of commercial lending

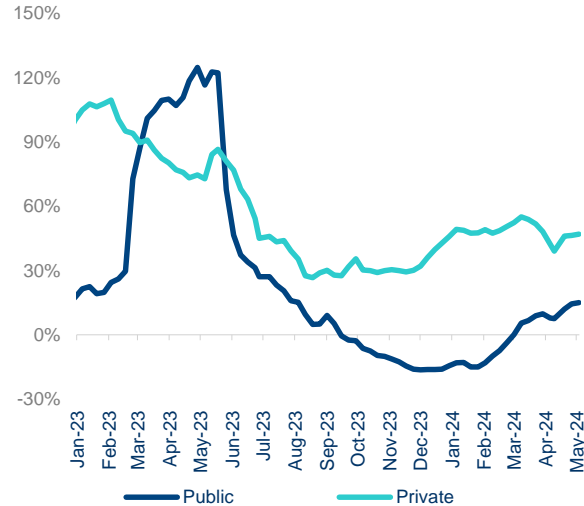
## TL COMMERCIAL LENDING GROWTH

13-week annualized



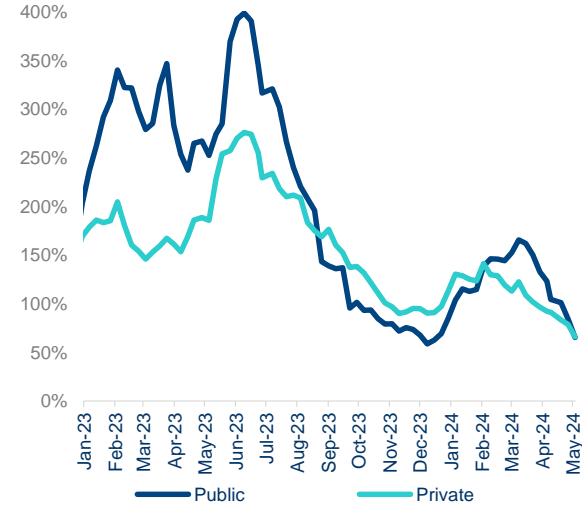
## CONSUMER CREDIT GROWTH

13-week annualized, without credit cards



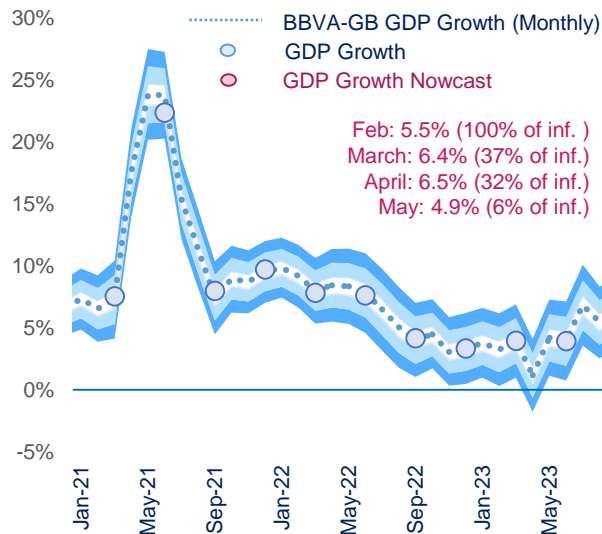
## CONSUMER CREDIT CARDS GROWTH

13-week annualized

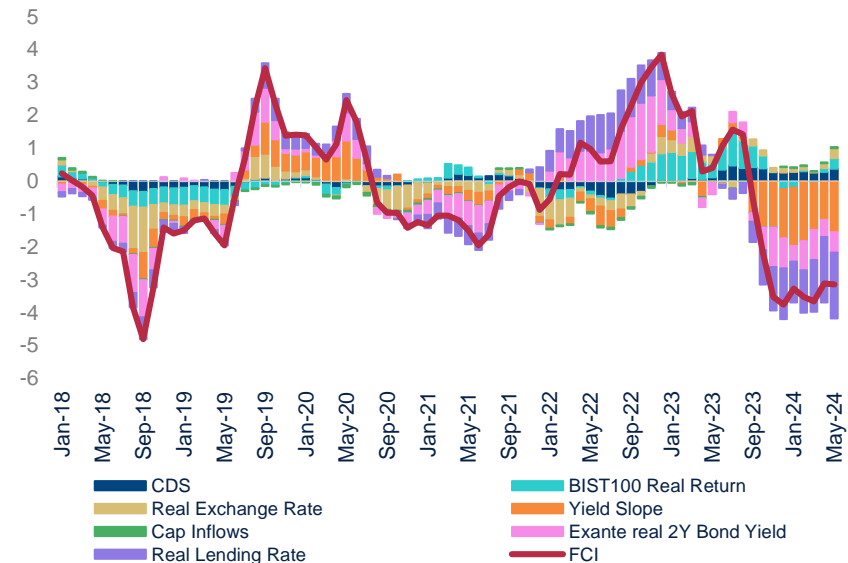


# We nowcast almost 5% y/y GDP growth as of early May. Financial conditions do not tighten further as desired (real appreciation & wealth effects)

**GARANTI BBVA MONTHLY GDP INDICATOR**  
YOY, 3M MOVING AVERAGE

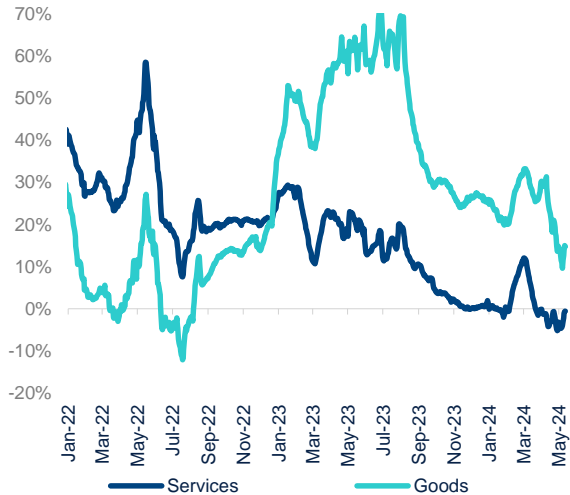


**GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI)**  
monthly, standardized, + easing, - tightening

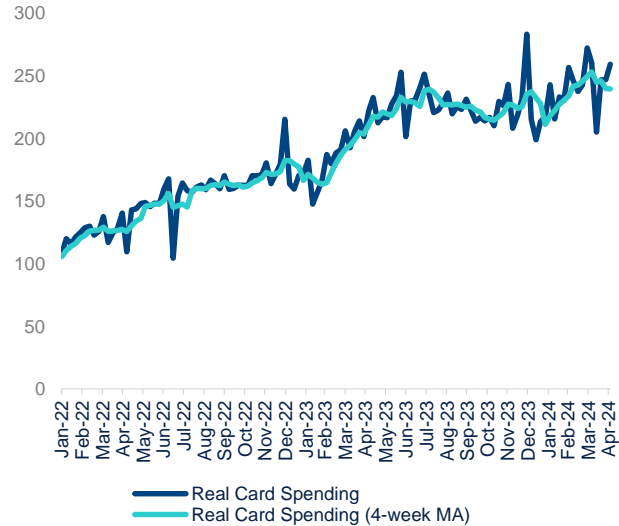


# Consumption has started to lose pace slowly on both goods and services. Retailers' spending availability somewhat maintains a resistance

**GB BIG DATA CONSUMPTION**  
REAL, 28-DAY SUM, YOY

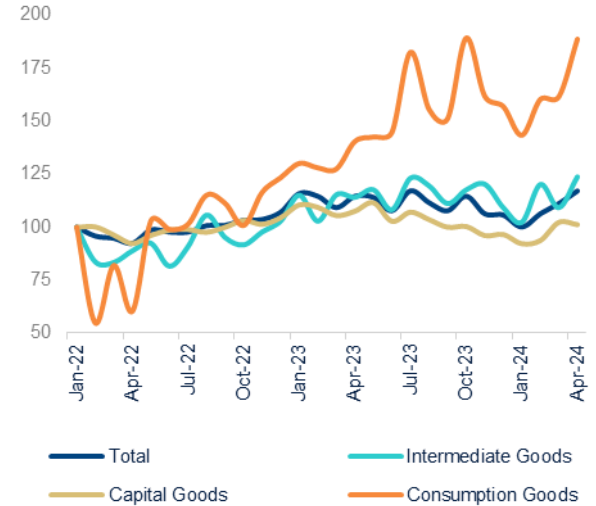


**CARD SPENDING**  
REAL, JAN22=100



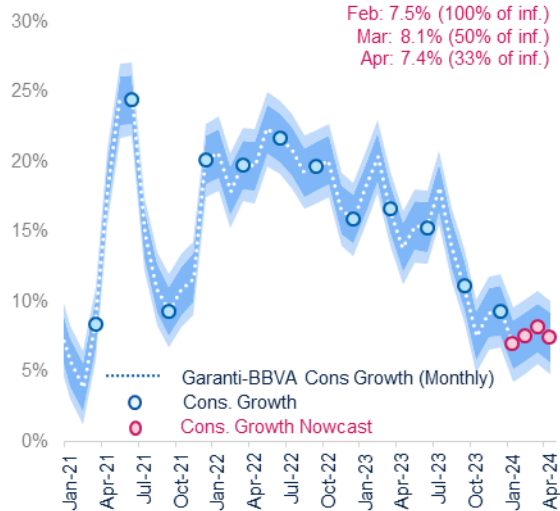
**IMPORT VOLUME INDEX**

Jan22=100, seasonal and calendar adjusted

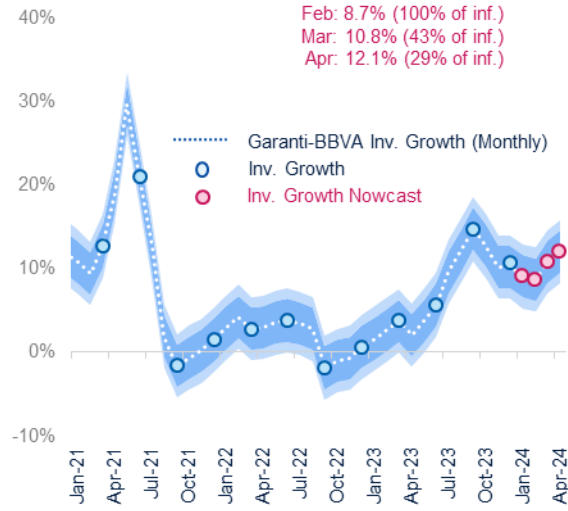


# The slow-down in domestic demand is still very limited and aggregate demand remains stronger than supply

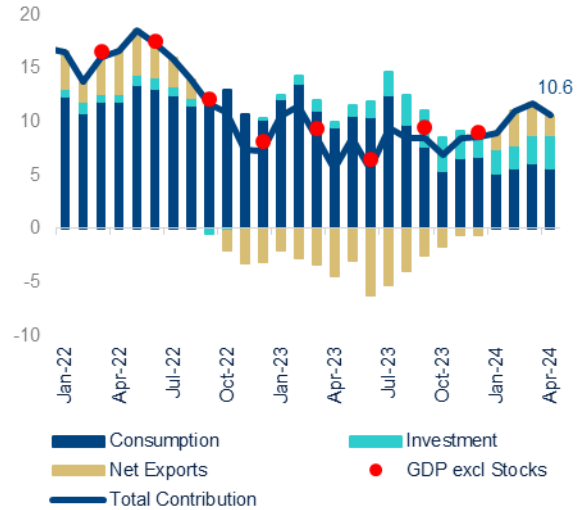
**GB MONTHLY CONSUMPTION GDP**  
YOY, 3M MOVING AVERAGE



**GB MONTHLY INVESTMENT GDP**  
YOY, 3M MOVING AVERAGE

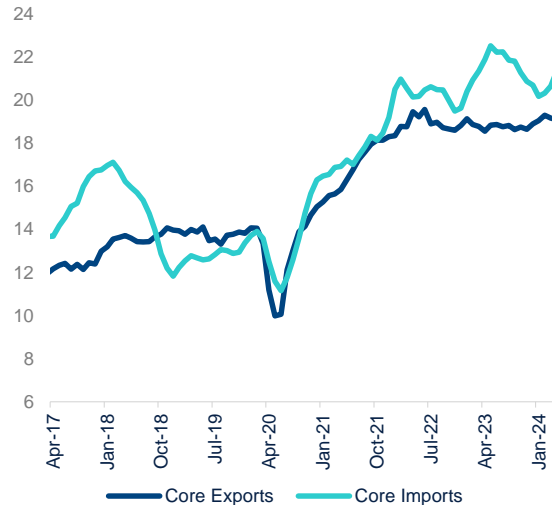


**GB MONTHLY GDP CONTRIBUTION**  
ANNUAL, PP

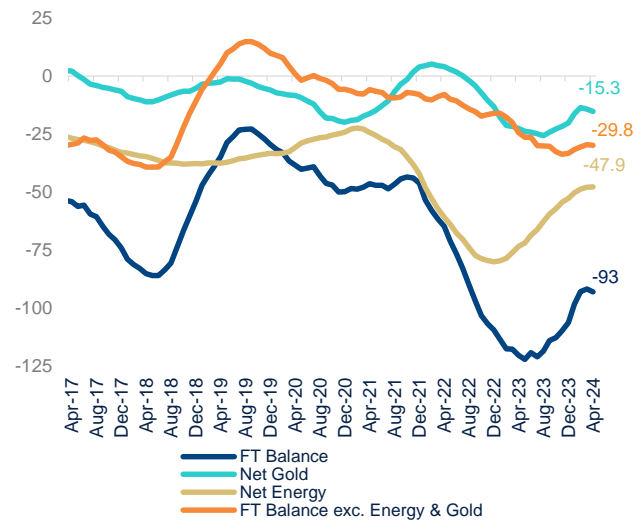


# Core imports accelerated significantly in April, while solid gold imports and uncertainties on energy prices add to challenges

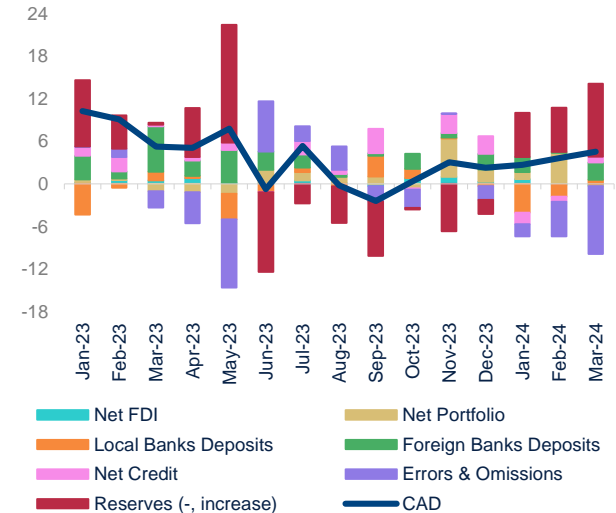
**GOODS EXPORTS & IMPORTS**  
(EXC ENERGY & GOLD, SA 3M AVG, US\$BN)



**GOODS FOREIGN TRADE BALANCE**  
12-MONTH, US\$BN

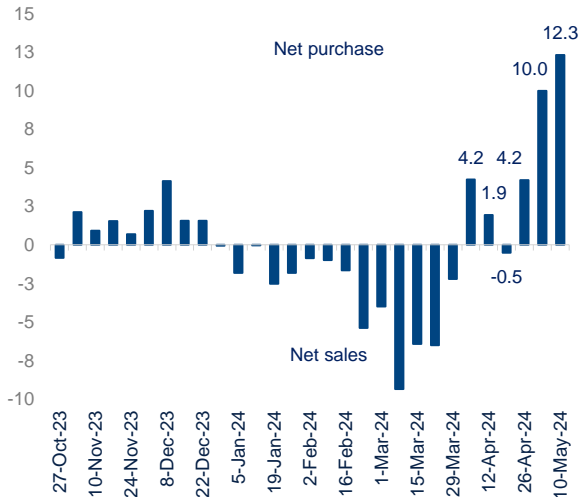


**CA DEFICIT FINANCING**  
US\$bn



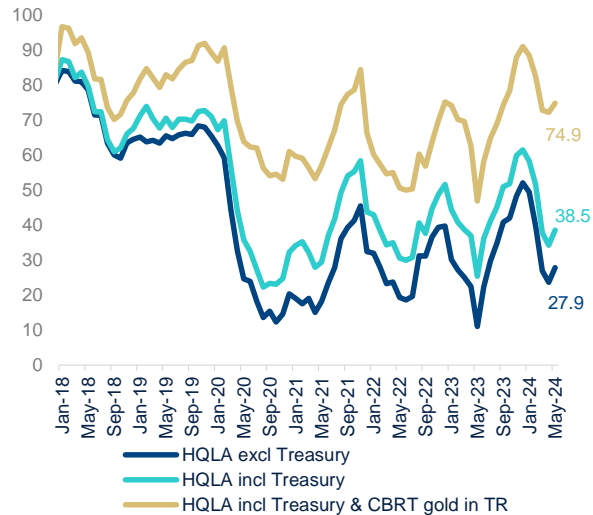
# The CBRT has most recently started to accumulate reserves significantly. Excess TL liquidity is sterilized again with TL depo auctions

**CBRT INDIRECT RESERVES FLOWS\***  
US\$Bn, weekly flow

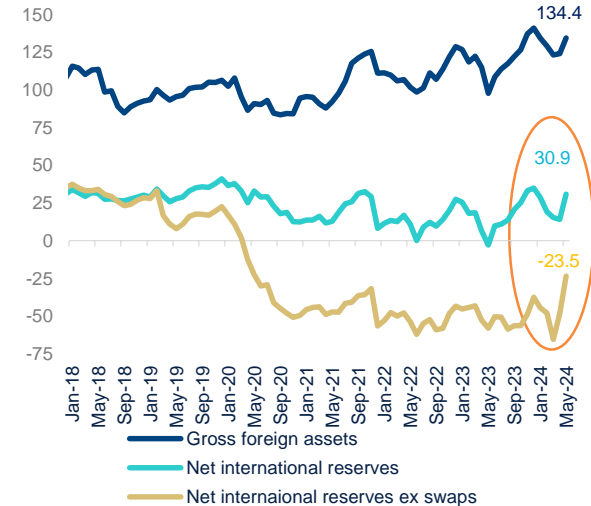


\*KKM flows of the week ending by 10th of May is last 5 weeks' avg

**CBRT HIGH QUALITY LIQUID FOREIGN ASSETS**  
HQLA, US\$bn as of 3rd of May



**CBRT INTERNATIONAL RESERVES**  
US\$bn as of 10th of May

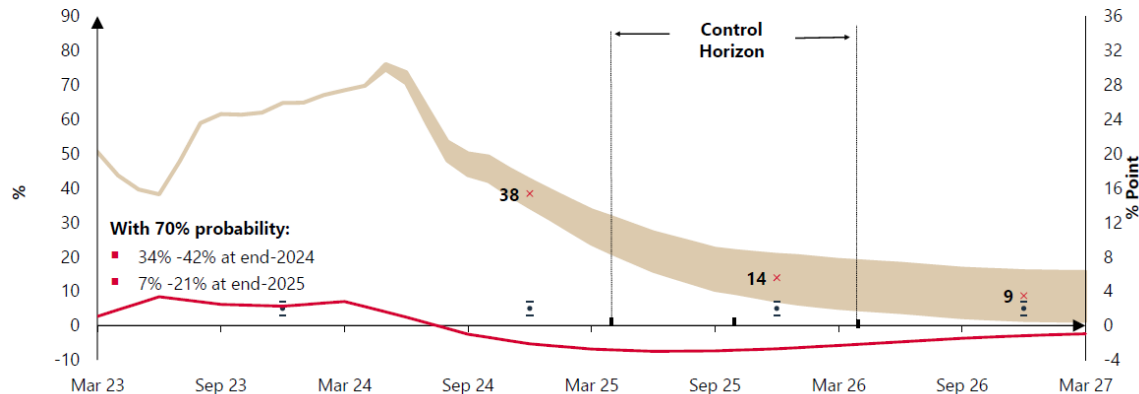


CBRT Balance Sheet US\$bn	03.05.2024	29.03.2024	29.12.2023	26.05.2023	31.12.2022	31.12.2021
HQLA = FC assets - Gold - IMF SDR	61.8	61.4	85.4	49.1	75.5	64.8
HQLA - foreign CB swaps - Treasury	27.9	27.0	52.1	11.1	39.8	32.5
HQLA - foreign CB swaps	38.5	37.9	61.5	25.4	51.6	43.8
HQLA - foreign CB swaps + CBRT owned physical gold in TR	74.9	72.8	91.1	46.9	75.2	66.3

# The CBRT revised its 2024 interim point target to 38% (vs. 36%). We expect the CBRT to keep 50% policy rate till 4Q24 and adjust the rate in the corridor

## CBRT INFLATION PROJECTIONS YOY

■ Forecast Range - Uncertainty Band • Inflation Targets × Year-end Inflation Forecast (Mid-point) — Output Gap (Right Axis)



### CBRT assumptions:

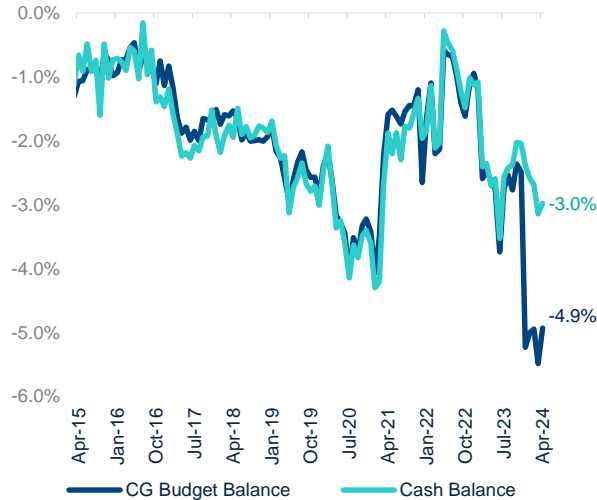
~3% GDP growth in 2024 vs. 1.5% previously  
34-35 USDTRY by 2024 end vs. 36 previously

- **TWO KPIs:** monthly inflation trend of 1-1.5% by the end of 2024 and inflation expectations converging to the projected inflation range (34-42% for 2024 and 7-21% for 2025).
- We expect the CBRT to remain tight for longer, which would start a sustained path to unwind current regulations and exit from the FC protected scheme, in order to strengthen the monetary transmission mechanism.
- Thereafter, if the inflation trend improves to a level that the year-end inflation falls below 42% -upper bound of the CBRT forecast range-, there might be a limited room to start an easing cycle with very gradual steps in 4Q24.



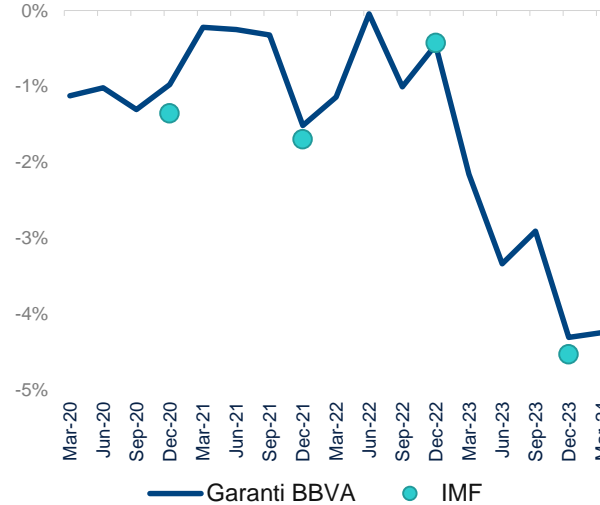
# Despite relatively muted fiscal stance in 1Q24, new fiscal measures will be key to reduce the repercussions from the existing one

**CG BUDGET & TREASURY CASH BALANCE**  
% GDP

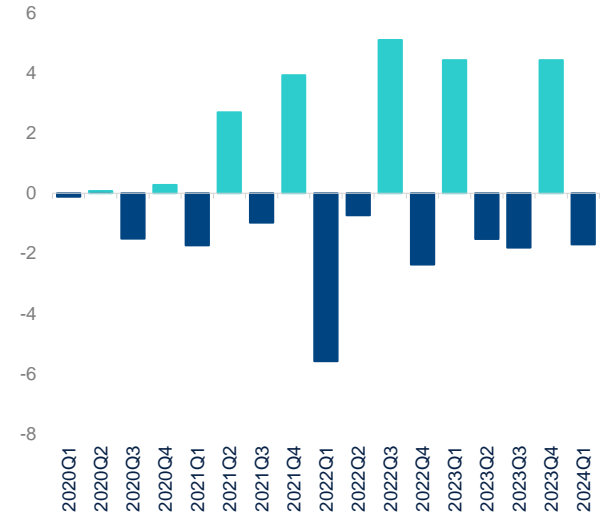


2.9pp of GDP gap in Dec23  
narrowed down to 2.0pp in Apr24

**FISCAL IMPULSE INDICATOR**  
cyclically adj primary balance / potential GDP,  
annualized sum

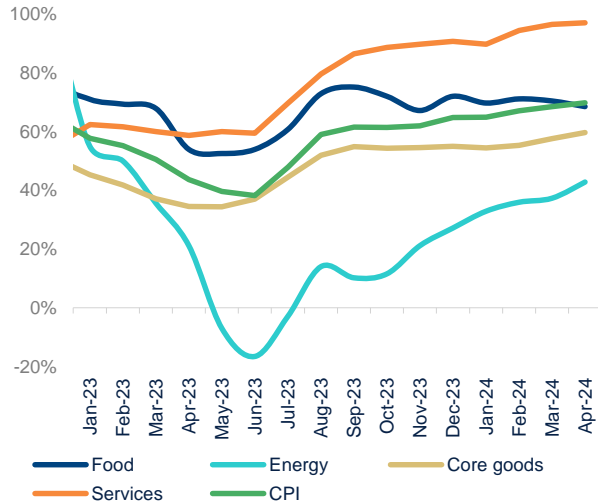


**FISCAL IMPULSE INDICATOR**  
pp, cyclically adj primary balance / potential GDP, QoQ

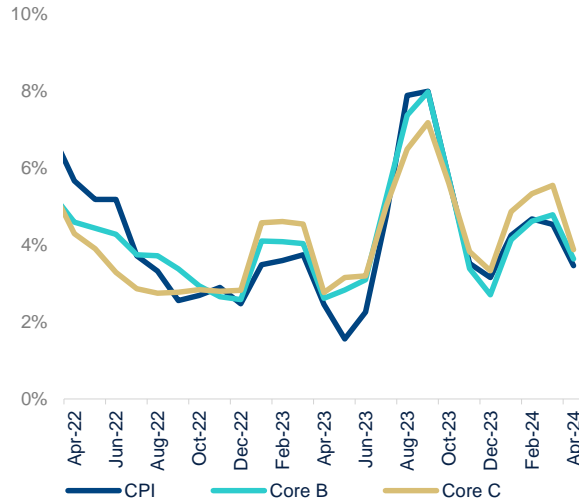


# Inflation trend at around 3.5% m/m sa in Apr (vs. 1.5% target of the CBRT in 4Q24), mainly led by services prices

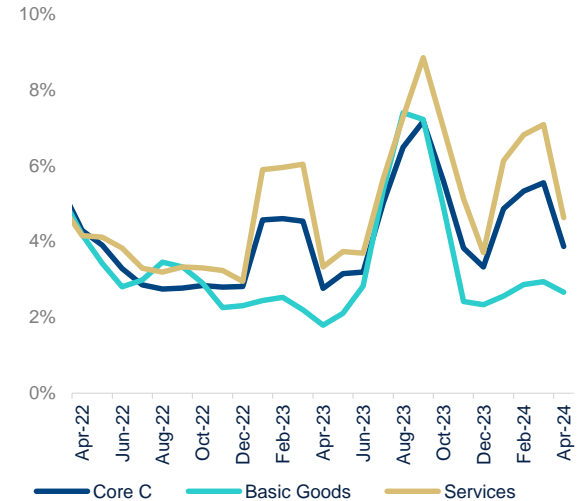
## CPI SUBCOMPONENTS YOY



## TREND CPI INDICATORS SA MoM, 3M AVG

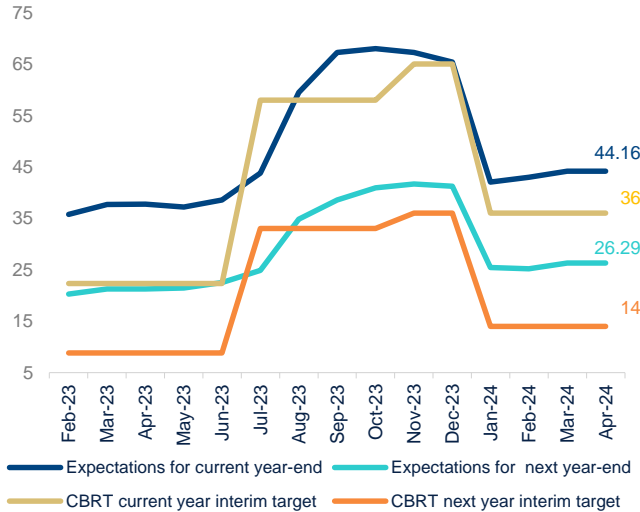


## TREND CPI INDICATORS SA MoM, 3M AVG

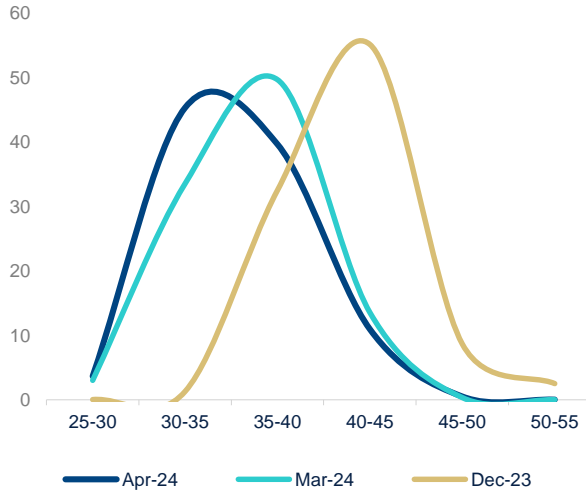


# Year-end inflation expectations continue to diverge from the CBRT targets

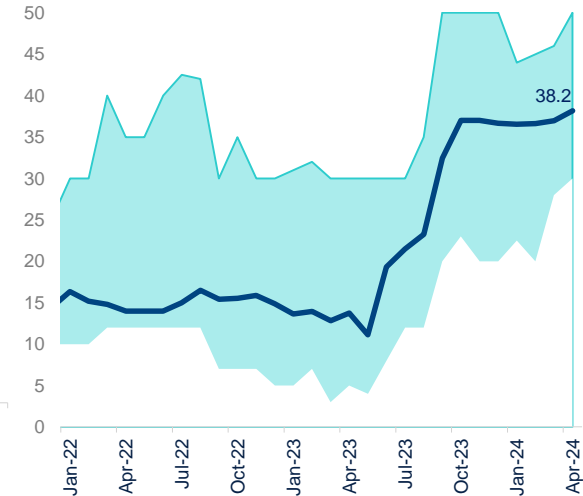
## CBRT MARKET PARTICIPANTS SURVEY INFLATION EXPECTATION, %



## PROBABILITY DISTRIBUTION OF 12-MONTH AHEAD INFLATION EXPECTATIONS, %



## 12-MONTH AHEAD POLICY RATE EXPECTATIONS, %



After the positive rate hike of the CBRT, we get ready to have a downward revision on our exchange rate (to ~38 USDTRY) and inflation (to ~43% year-end) forecasts for this year. Accordingly, we will evaluate the future stance of the monetary policy in our upcoming revision

### GARANTI BBVA BASELINE SCENARIO (FEBRUARY 2024)

	2022	2023	2024	2025	2026	2027	2028	2029
<b>GDP growth (avg)</b>	5.5%	4.5%	3.5%	3.5%	3.8%	3.5%	3.5%	3.5%
<b>Unemployment Rate (avg)</b>	10.5%	9.4%	10.3%	10.8%	11.0%	11.1%	11.2%	11.0%
<b>Inflation (avg)</b>	72.3%	53.9%	58.6%	31.1%	21.4%	17.2%	15.5%	15.0%
<b>Inflation (eop)</b>	64.3%	64.8%	45.0%	25.0%	18.6%	16.1%	15.1%	15.1%
<b>CBRT Cost of Funding (avg)</b>	12.7%	20.5%	48.6%	37.4%	25.2%	19.7%	18.0%	18.0%
<b>CBRT Cost of Funding (eop)</b>	9.0%	42.5%	45.0%	30.0%	22.0%	18.0%	18.0%	18.0%
<b>USDTRY (avg)</b>	16.56	23.74	35.89	43.90	49.56	56.79	64.88	74.13
<b>USDTRY (eop)</b>	18.70	29.44	42.00	45.50	53.00	60.00	69.00	78.67
<b>Current Account Balance (bn\$)</b>	-49.1	-45.2	-23.6	-32.1	-34.7	-39.4	-43.6	-47.6
<b>Current Account Balance (% GDP)</b>	-5.4%	-4.0%	-2.0%	-2.4%	-2.4%	-2.5%	-2.7%	-2.8%
<b>Primary Balance (% GDP)</b>	1.1%	-2.7%	-1.7%	0.5%	0.9%	1.0%	1.1%	1.2%
<b>Fiscal Balance (% GDP)</b>	-0.9%	-5.2%	-5.2%	-3.4%	-3.0%	-2.9%	-2.8%	-2.7%

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# Türkiye Economic Outlook

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