

# Türkiye Economic Outlook

Garanti BBVA Research

June 2024

# Key messages

- On the global front, growth and inflation show resilience, reducing the room for central banks to cut interest rates in the short term.
- In our global baseline scenario, interest rates are expected to gradually fall. Global growth will be weak in 2H24 and recover somewhat in 2025. Inflation will ease further, but is set to remain higher than in recent decades on demand (fiscal policy etc.) and supply (geopolitics, protectionism etc.).
- In Türkiye, there has been a growing positive sentiment since April. The committed actions against inflation are well-received. Foreign currency demand of residents prior to the March local election has significantly reversed and foreigners' inflow for Turkish assets has accelerated.
- Given the strong performance of 1H24, risks start to be tilted to the upside for our 2024 GDP forecast of 3.5% and to the downside for our 2025 GDP forecast of 3.5% due to the lagged effects.
- 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.
- We revised our year-end CPI forecast to 43% (45% previously), led by a more positive currency outlook in the very short term with our downward revision to 38 USDTRY for 2024 end.
- If the inflation trend improves as expected, there might be a limited room to start easing with very gradual steps in 4Q24 (45% policy rate by 2024 end). Yet, lagging fiscal measures & macro-prudential policies on retailer spending availability might delay the cutting cycle to later.

01

# Global Economic Outlook

# Growth and inflation remain resilient, reducing the room for central banks for cutting interest rates



## Recent scenario drivers

**Tight monetary conditions** are hitting demand with long lags and through the traditional channels; tightening effects softened by monetary easing prospects

**Expansionary fiscal policy** has been favoring activity, partially offsetting the impact of monetary tightening

**Supply “normalization”**: moderated input prices and bottlenecks, favored also by oversupply in China; despite geopolitics, trade tariffs, US elections...



## Recent macro trends

**Resilient growth**, mainly in the US and service sector; recovery signs in Europe and China as well as in manufacturing

**Inflation has surprised upwards**; it has stopped falling lately on more persistent services inflation

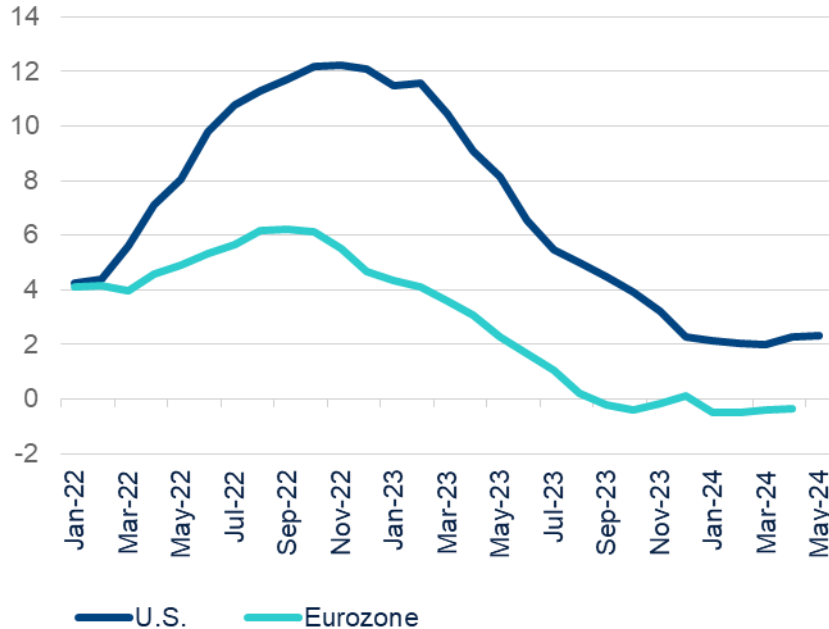
**Limited financial volatility** as positive growth view prevails, despite prospects of delayed monetary easing by the Fed



# Monetary policy seems to be working through some of the traditional channels; still, its effects may have been weakened lately by monetary easing prospects

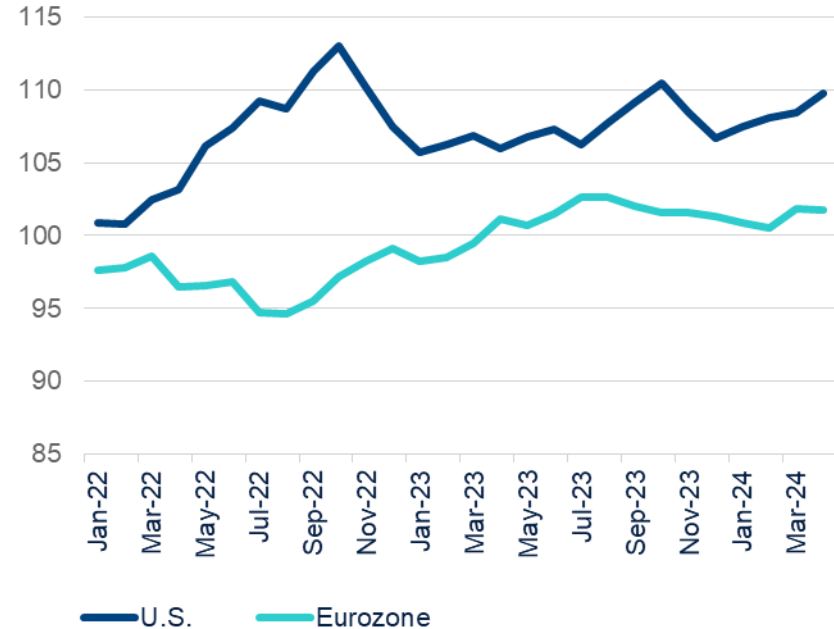
## BANKING LENDING

(YOY %)



## REAL EFFECTIVE EXCHANGE RATE

(INDEX: 2020 AVERAGE=100)



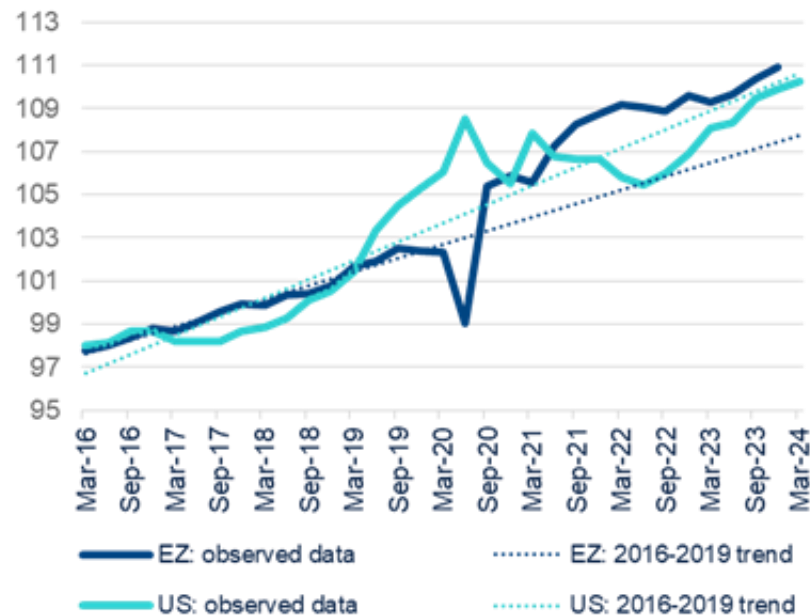
Source: BBVA Research based on BEA and ECB data.

Source: BBVA Research based on BIS data.

# Fiscal policy continues, in general, to support activity, offsetting the contractionary impact of high interest rates to some extent

## GOVERNMENT CONSUMPTION

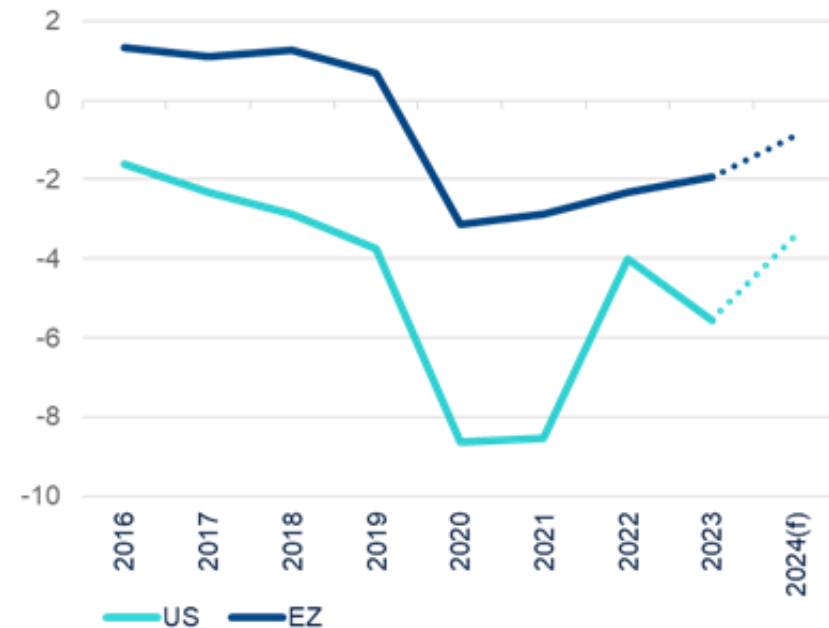
(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



Source: BBVA Research based on BEA and ECB data.

## CYCLICALLY-ADJUSTED PRIMARY FISCAL BALANCE

(SHARE OF POTENTIAL GDP)



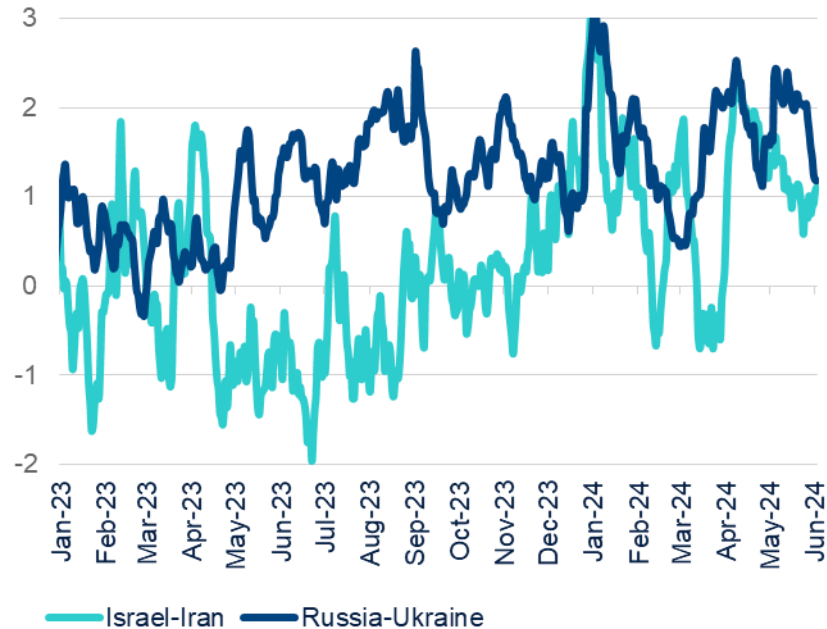
(f): forecast.

Source: BBVA Research based on IMF data.

# Commodity prices have remained relatively stable recently despite ongoing geopolitical tensions

## BILATERAL TENSIONS INDEX

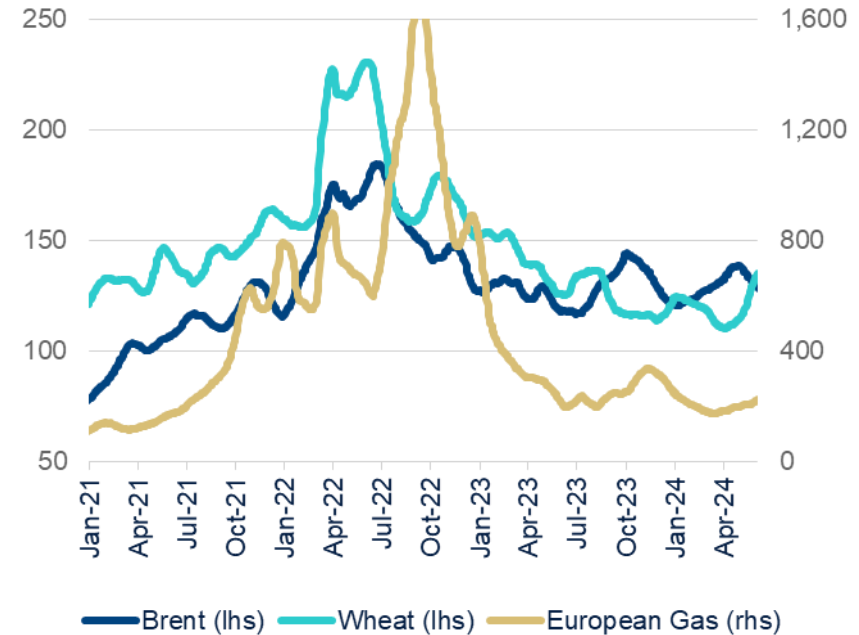
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research Geopolitics Monitor.

## COMMODITY PRICES

(INDEX: 2019 AVERAGE = 100, 30-DAYS MOVING AVERAGE)

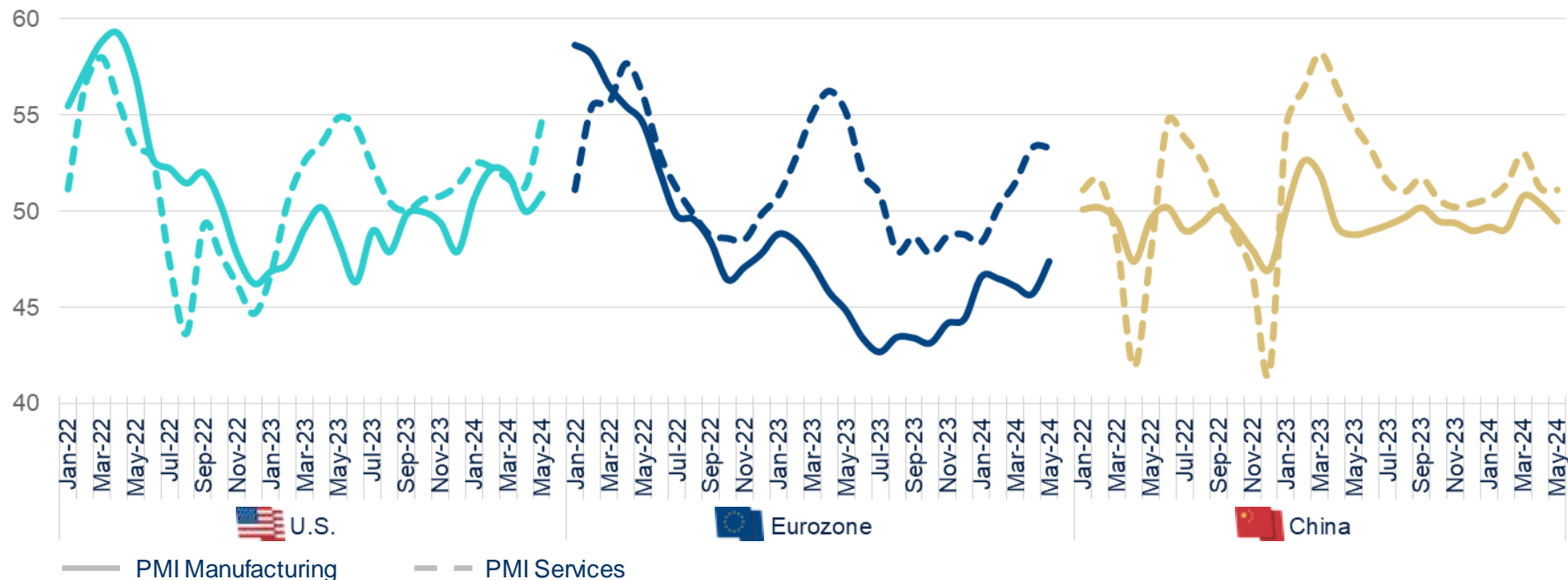


Source: BBVA Research based on data from Haver.

# Growth is holding up better than expected, mainly due to service dynamism, and there are now some signs of recovery, in particular in manufacturing

## PMI INDICATORS

(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



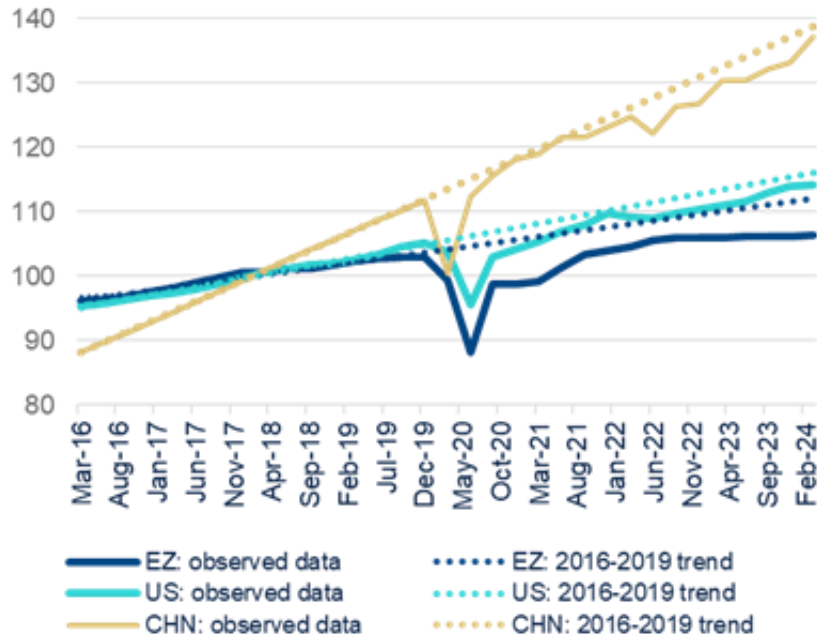
Source: BBVA Research based on data from Haver.



# Despite growth resilience and recovery signs, GDP is below (mainly in Europe), and service consumption is close to pre-COVID trends

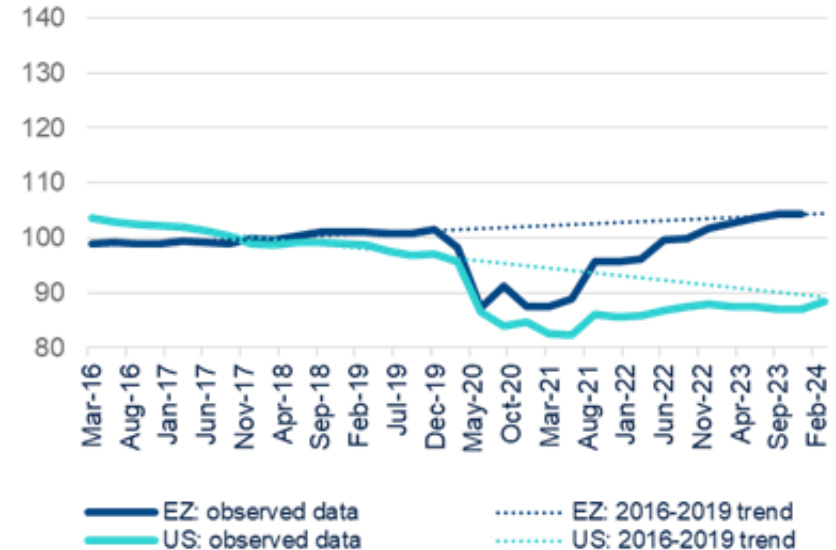
## GDP

(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



## SERVICES / GOODS PRIVATE CONSUMPTION RATIO (\*)

(INDEX: 2016-2019 AVERAGE = 100, CHAINED VOLUMES)



(\*) Eurozone: based on data available for 14 countries (out of the 20 countries) in the region: Germany, Estonia, Ireland, France, Italy, Cyprus, Latvia, Luxembourg, Malta, Netherland, Austria, Slovenia, Slovakia and Finland.

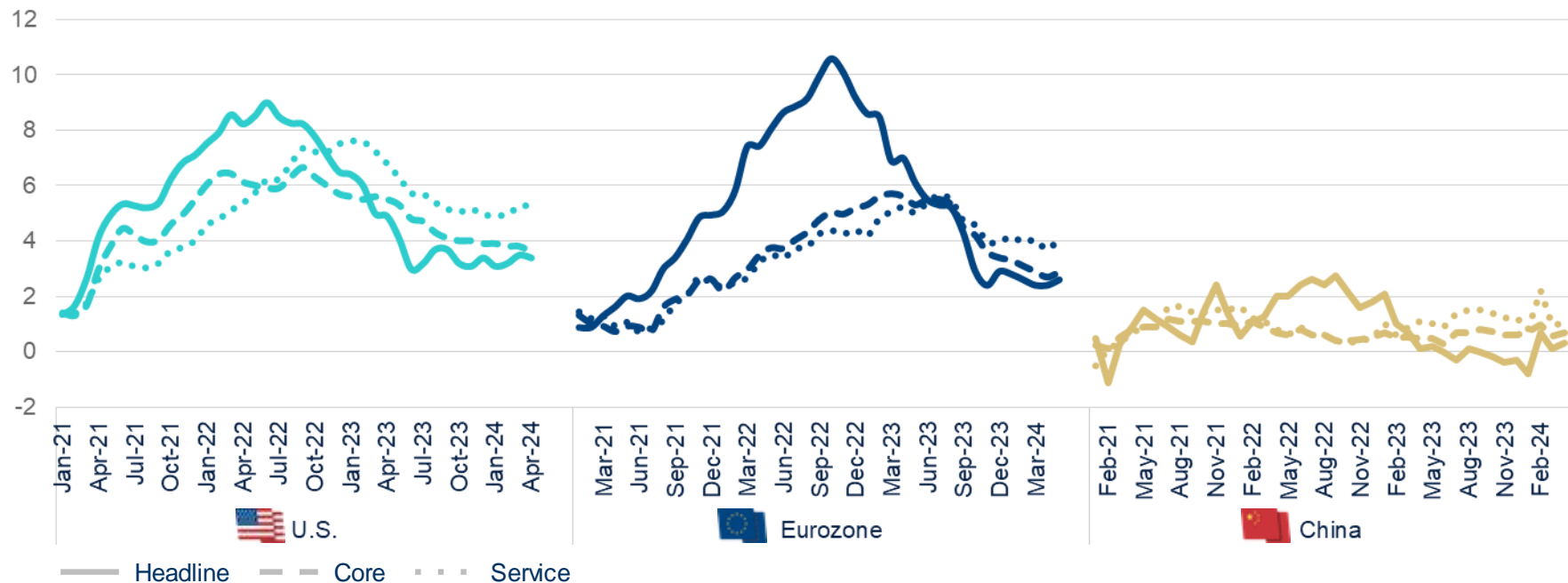
Source: BBVA Research based on BEA and ECB data.

Source: BBVA Research based on BEA, ECB and Haver data.

# Headline inflation has been moving sideways lately, to a large extent due to higher than expected service inflation persistence

## CPI INFLATION: HEADLINE, CORE AND SERVICE

(Y/Y %)

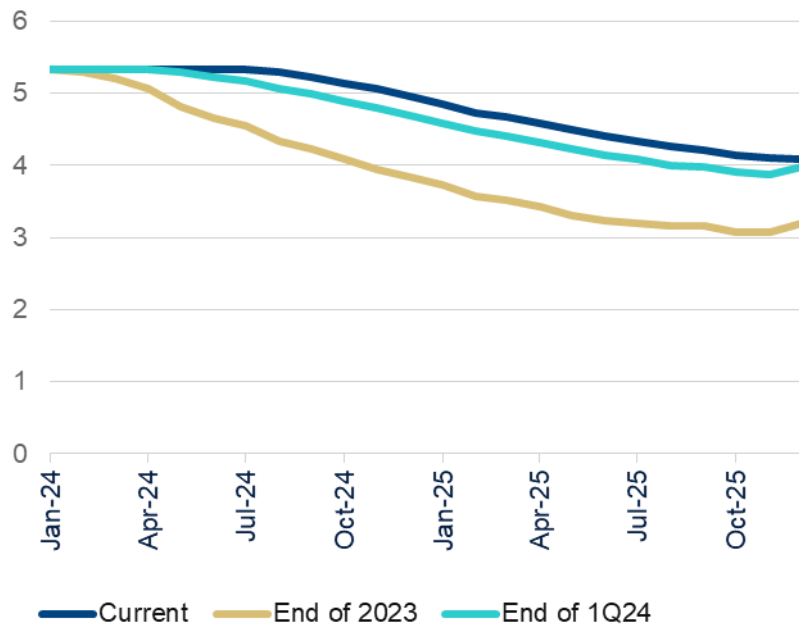


Source: BBVA Research based on data from Haver.

# Markets have raised again their interest rate expectations as the Fed's easing cycle is delayed and the ECB remains cautious despite the recent 25 bps cut

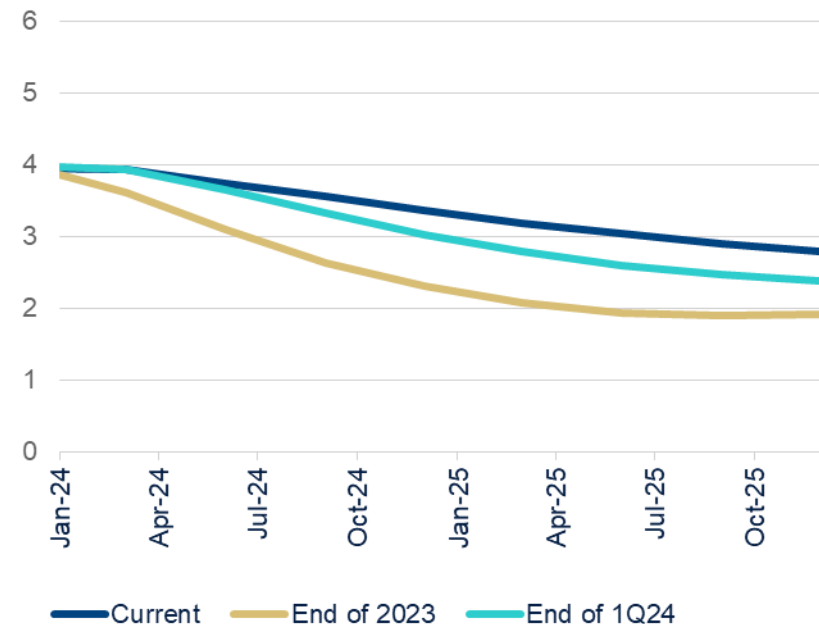
## US: IMPLICIT RATE IN FED FUND FUTURES (%)

(%)



## EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (\*) (%)

(%)



(\*) Depo interest rates.

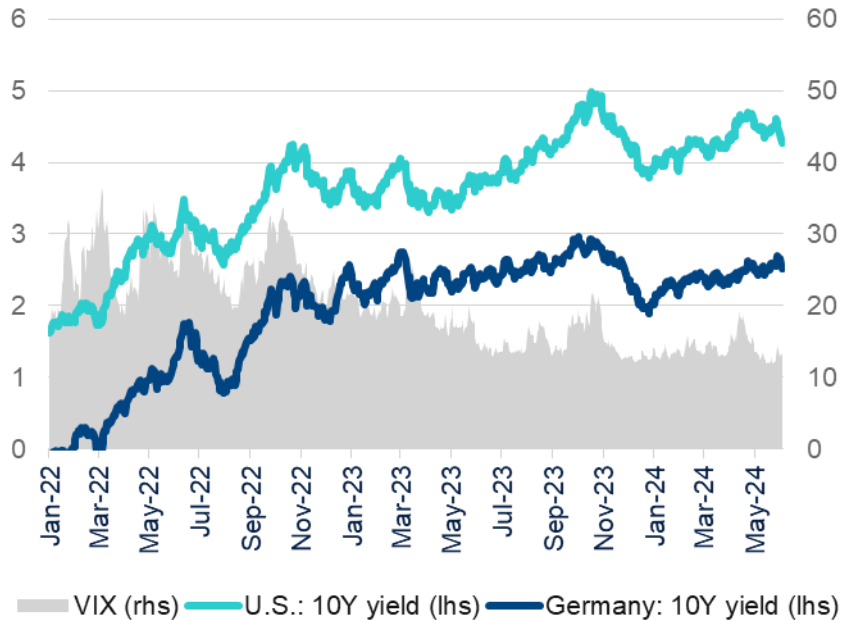
Source: BBVA Research based on Bloomberg.

Source: BBVA Research based on Bloomberg.

# Financial volatility remains low even though sovereign rates have reached high levels and concerns about geopolitics and US elections have heightened

## SOVEREIGN YIELDS AND VOLATILITY

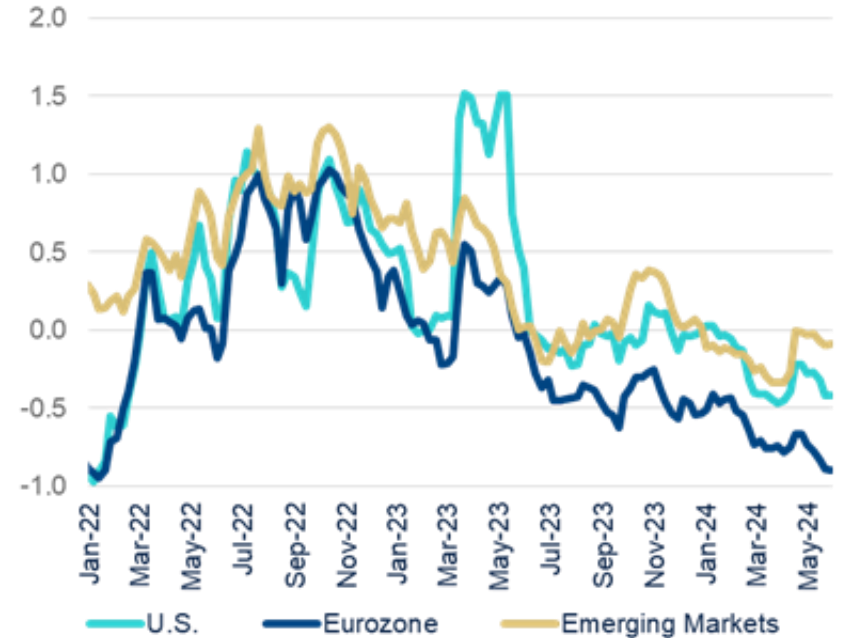
(%, INDEX)



Source: BBVA Research based on data from Haver.

## BBVA RESEARCH FINANCIAL TENSIONS INDEX

(INDEX: HISTORIC AVERAGE = 0)



Source: BBVA Research based on data from Haver.

# BBVA Research baseline scenario: inflation and interest rates are likely to decline, but will remain relatively high, favoring subdued activity growth



## Scenario drivers

**Interest rates will gradually fall**, also in the US, where cuts were postponed amid large uncertainty, but will remain at contractionary levels

**Fiscal policy will scarcely contribute to ease inflation pressures**, mainly in the US; some consolidation is likely in Europe from 2025, given new fiscal rules

**Supply conditions:** geopolitical context makes negative shocks more likely than in the past, but no particular shock is assumed in baseline scenario



## Macro trends: prospects

**Global growth to be weak in 2H24** and recover somewhat in 2025; China's structural deceleration will weigh down

**Inflation will ease further**, but is set to remain higher than in recent decades on demand (fiscal policy, etc.) and supply (geopolitics, protectionism, etc.) issues

**Volatility on geopolitics and US elections**, likely offsetting the positive effects triggered by lower Fed rates



# GDP growth prospects: a softer landing in the US, a cyclical recovery in the Eurozone and a structural deceleration in China

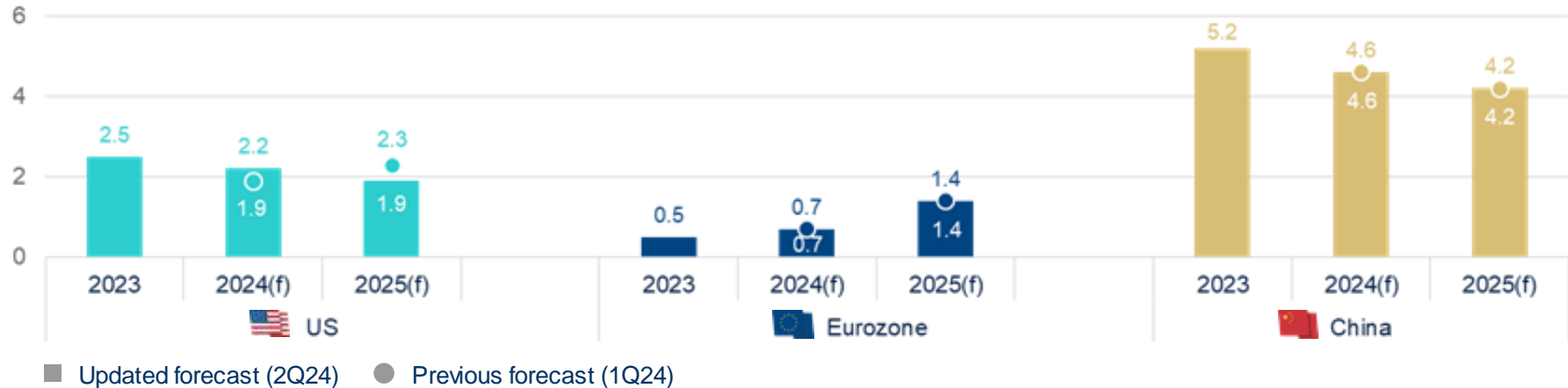
## GDP GROWTH (\*)

(%)

Upward revision in 2024 on robust domestic demand and downward in 2025 on higher rates, base effects

1H24 recovery to continue ahead, led by consumption on rising real incomes, still high savings; monetary easing to be increasingly supportive

Supply-led rebound in 1Q24 on fiscal boost; structural challenges (US tariffs, real estate...) will weigh down



(f): forecast.

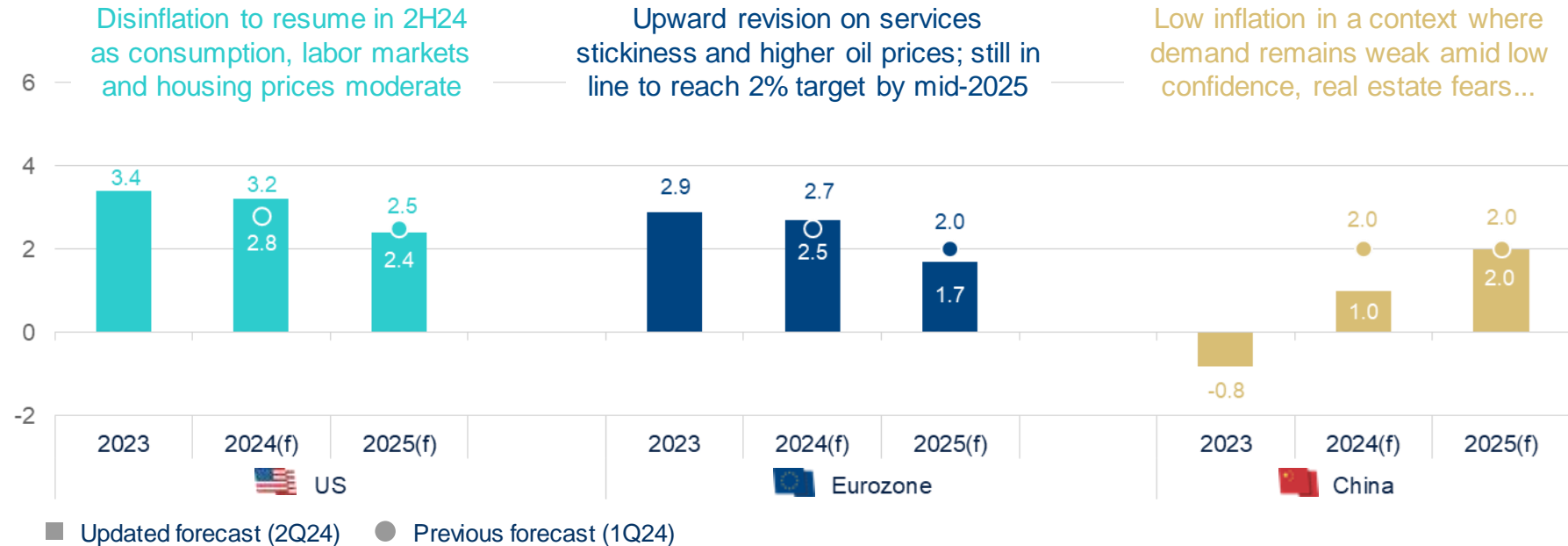
(\*) Global GDP growth: 3.2% in 2023, 3.1% (+0.0 pp in comparison to previous forecast) in 2024 and 3.3% (+0.0 pp) in 2025.

Source: BBVA Research.

# Inflation forecasts revised upwards in the US and Eurozone, mostly on service stickiness, and downwards in China, amid deflation concerns

## HEADLINE INFLATION: CPI

(YOY %, END OF PERIOD)



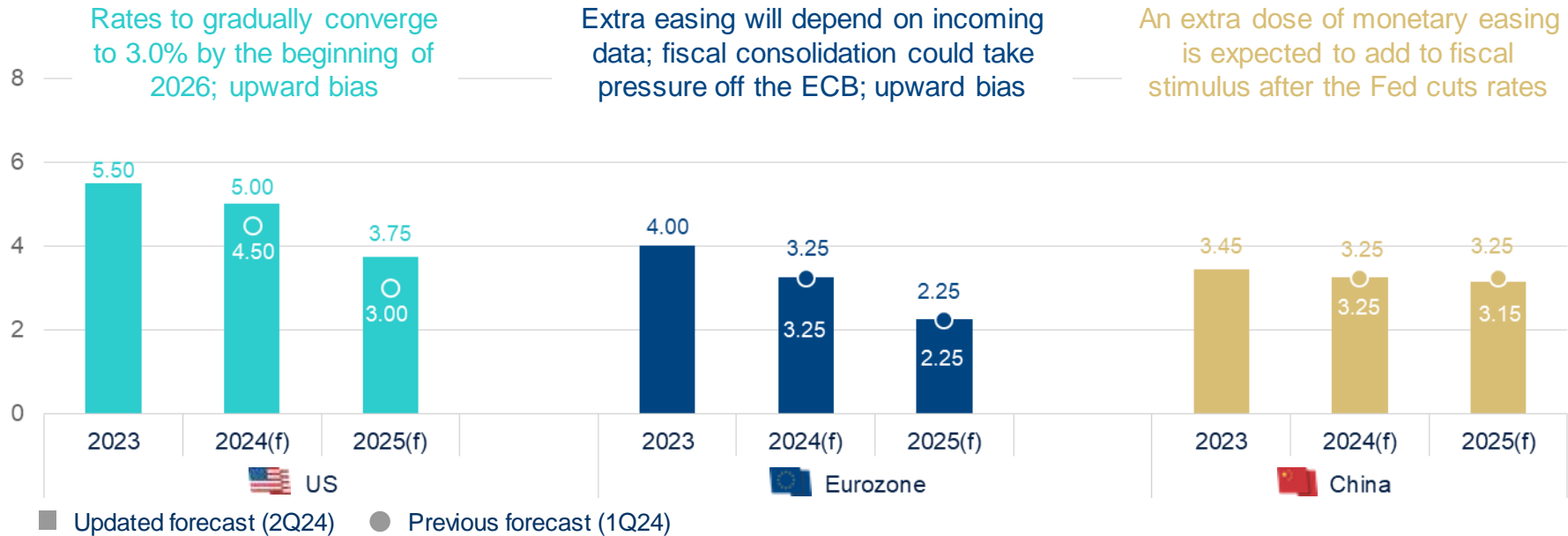
(f): forecast.

Source: BBVA Research.

# The ECB has started cutting rates; the Fed will wait at least until Sep/24 to launch its easing cycle amid still uncertain growth and inflation moderation

## POLICY INTEREST RATES (\*)

(%, END OF PERIOD)



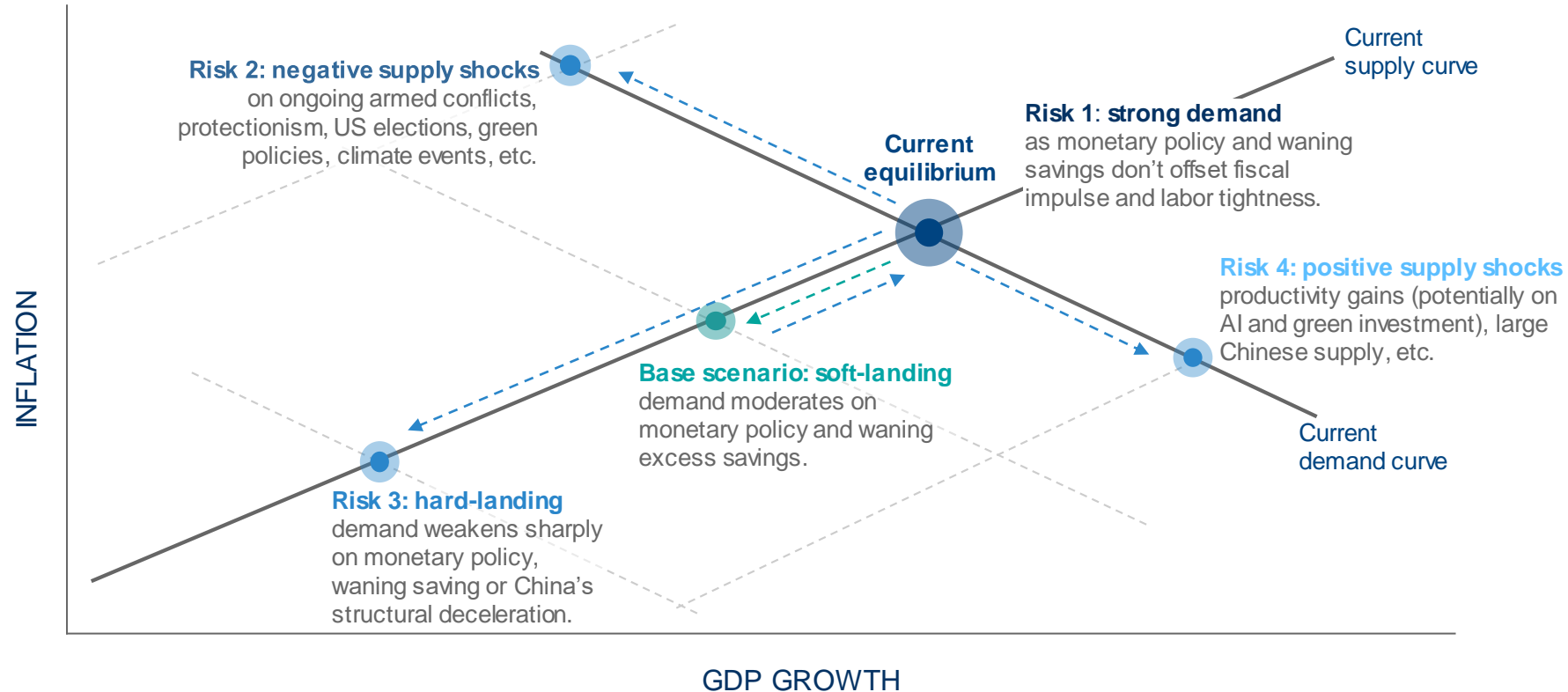
(f): forecast.

(\*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.



## Risks: demand strength, protectionism, geopolitics, among other factors, could prevent inflation and interest rates from declining ahead



02

# Türkiye Economic Outlook

# Macro Trends & Expectations

## Growth

As of June, the quarterly GDP growth points out a level closer to 0-0.5% for 2Q. The key point remains to be suppressing consumption since the slow-down in domestic demand is still very limited.

## Policies

Fiscal savings package indicates a very limited effect of 0.2-0.3% of GDP this year, which would increase in the medium run. New liquidity measures of the CBRT signal that the CBRT plans to strengthen its reserves as fast as possible in order to exit from the FC protected scheme fast as well.

## Currency

Given the surprising rate hike in March and elimination of concerns after the election, paved the way for a more positive outlook on the currency in the short term. We revise down our USDTRY forecast to 38 from 42 by 2024 end and maintain next years' the same.

## Inflation

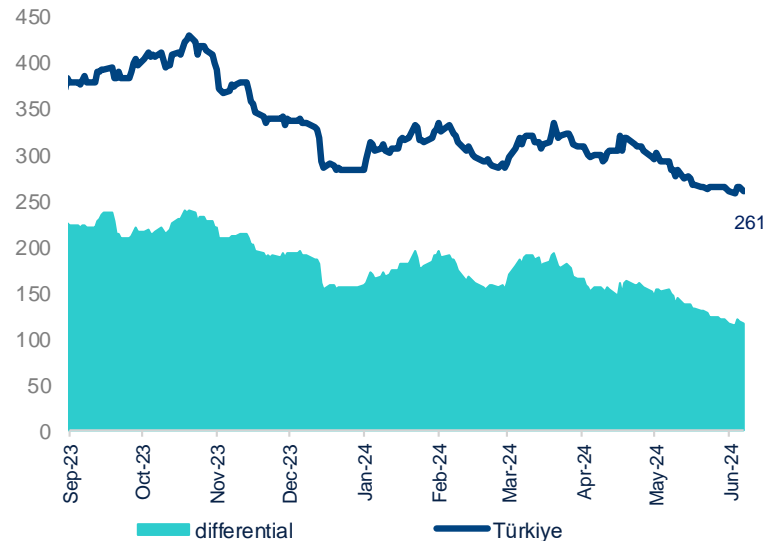
Led by a stronger currency and our assumption of more gradual energy price hikes starting from July, we also revise down our 2024 inflation path with a year-end figure of 43% (vs. 45%). We remain cautious about next years' inflation due to the gradual approach so far (including reforms) to fight against inflation.

## Risks

If the inflation trend improves as expected, there might be a limited room to start easing with very gradual steps in 4Q24 (45% policy rate by year end). Yet, lagging fiscal measures & macro-prudential policies on retail spending availability might delay the cutting cycle to later. Also, both external and domestic risk factors would add new distortions.

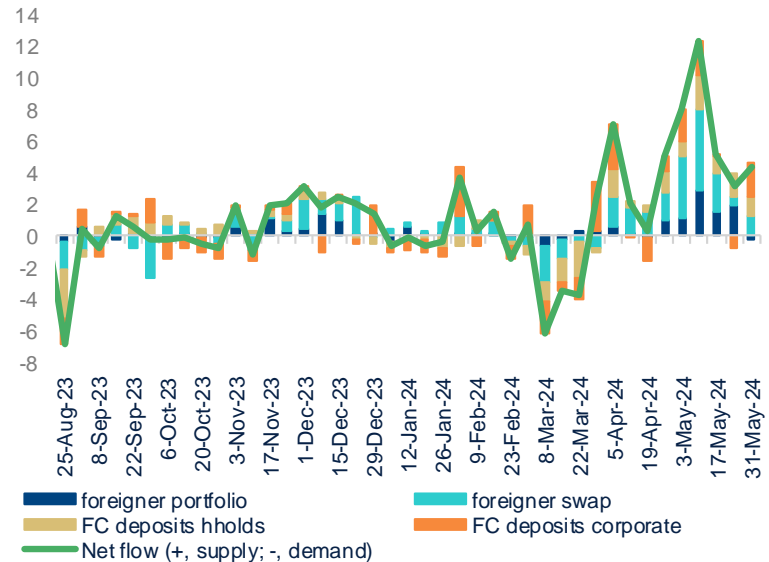
# The committed actions against inflation are well-received. FC demand of residents prior to the March local election has significantly reversed and foreigners' inflow for Turkish assets has accelerated

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



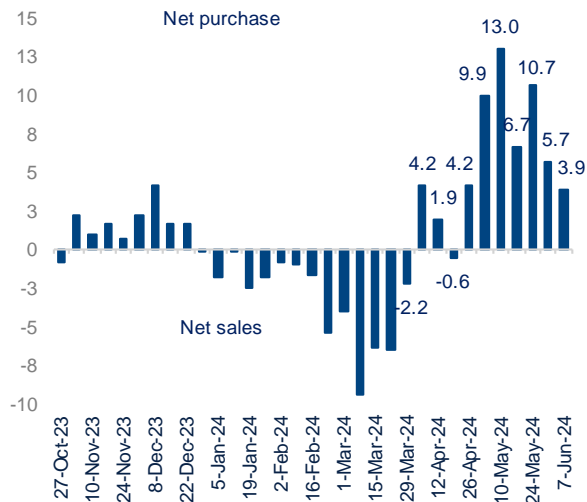
\*Chile, Colombia, Mexico, Brazil and South Africa

## FC FLOWS OF SUPPLY & DEMAND US\$BN, WEEKLY, ADJ. FROM PRICE EFFECTS



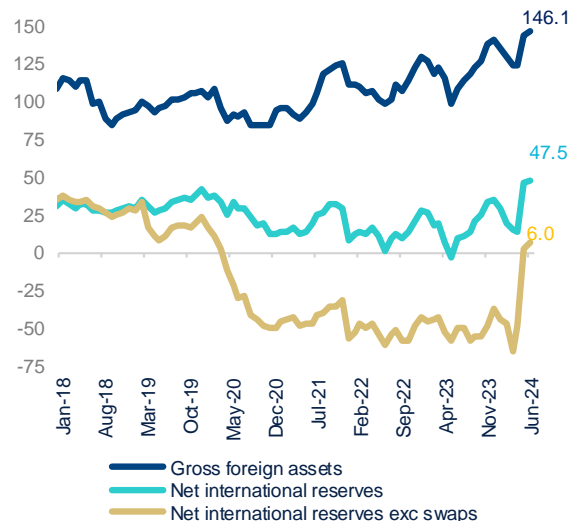
# The CBRT has accumulated reserves substantially since April, keeping Turkish lira more or less stable

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



\* Including the assumption from 40% of exports and services income inflows and rediscount loans. KKM flow of the week ending by June 7th is the average of the previous 5 weeks.

**CBRT INTERNATIONAL RESERVES**  
US\$BN as of June 7th



**CBRT RESERVES / 12-MONTH IMPORTS**  
%



# The CBRT aims to have an effective TL liquidity management to prevent the downward pressure on TL ON rates below 50%

TL RR on credit growth  
TL credit growth cap lowered to 2%  
Differentiated TL deposit rules & remuneration accordingly

TL depo auctions  
Reduction in bilateral swaps of the CBRT with local banks

Broad-based increase in TL RR ratios  
FC credit growth cap of 2%

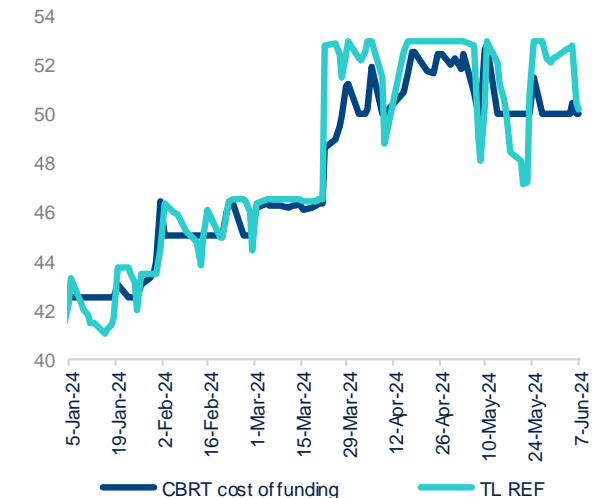
**CBRT SWAPS OF THE BANKING SECTOR**  
US\$BN as of June 7th



**NET CBRT FUNDING**  
TL BN



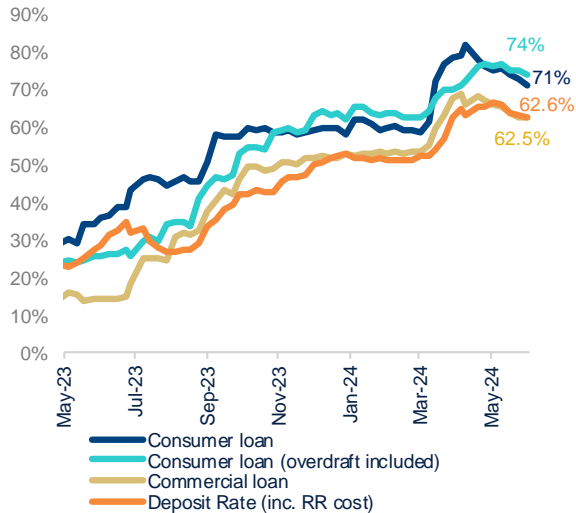
**CBRT COST OF FUNDING & BIST TL REF**  
%



# The CBRT adds new upside pressure on TL deposit rates with the most recent RR changes. Yet, demand remains decisive on the TL lending rates, resulting in a counter pressure on deposit rates

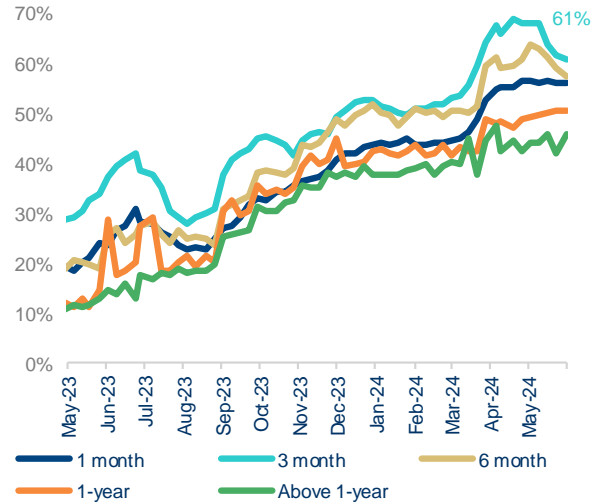
## CONSUMER & TL COMMERCIAL RATES

%, flow , sector



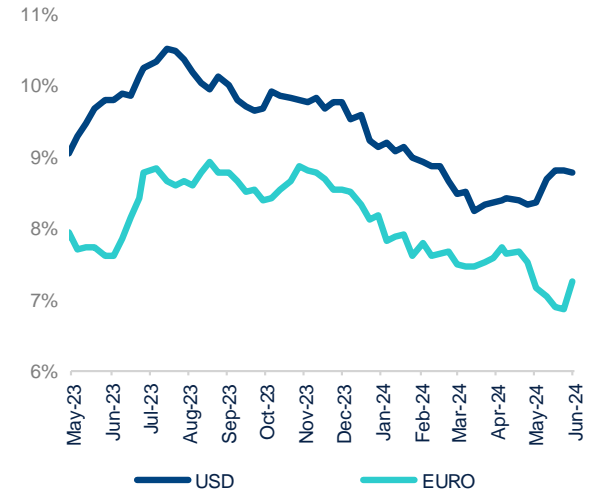
## TL DEPOSIT INTEREST RATES

%, flow , sector, w without RR cost



## FC LENDING RATES

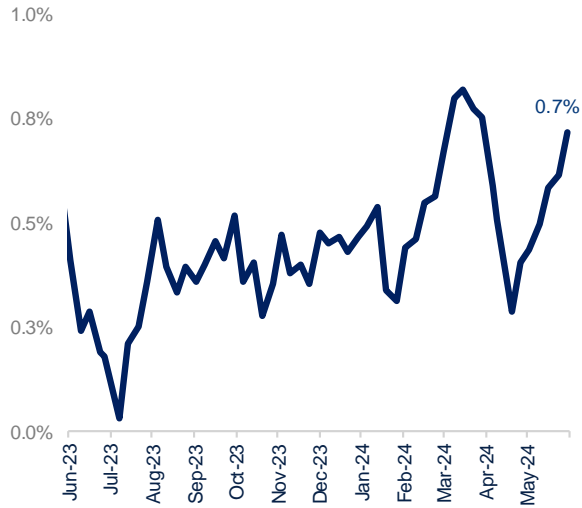
% compounded



# Given the growth caps, credit conditions will squeeze further and credit growth will moderate more clearly

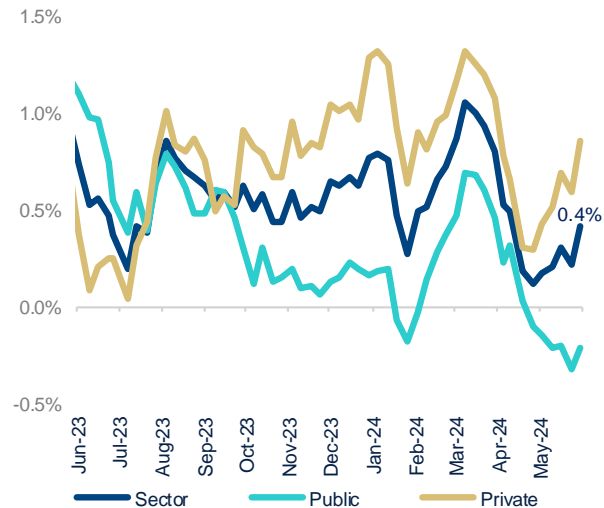
## TOTAL CREDIT GROWTH

4-week avg, FX adjusted, sector



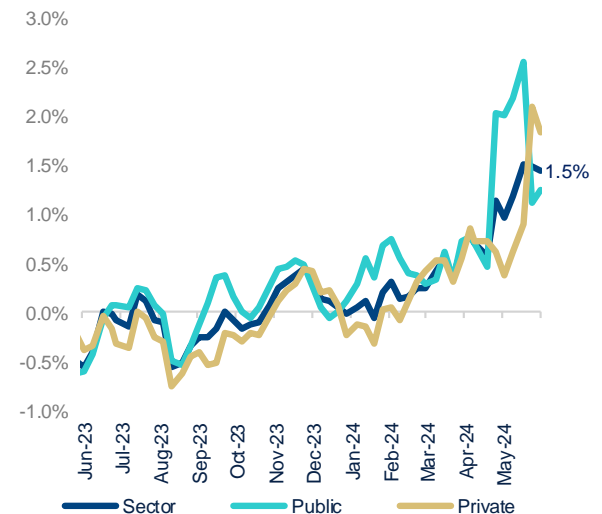
## TL CREDIT GROWTH

4-week avg, deposit banks



## FC CREDIT GROWTH

USD, 4-week avg, deposit banks



## Monthly Credit Growth Caps

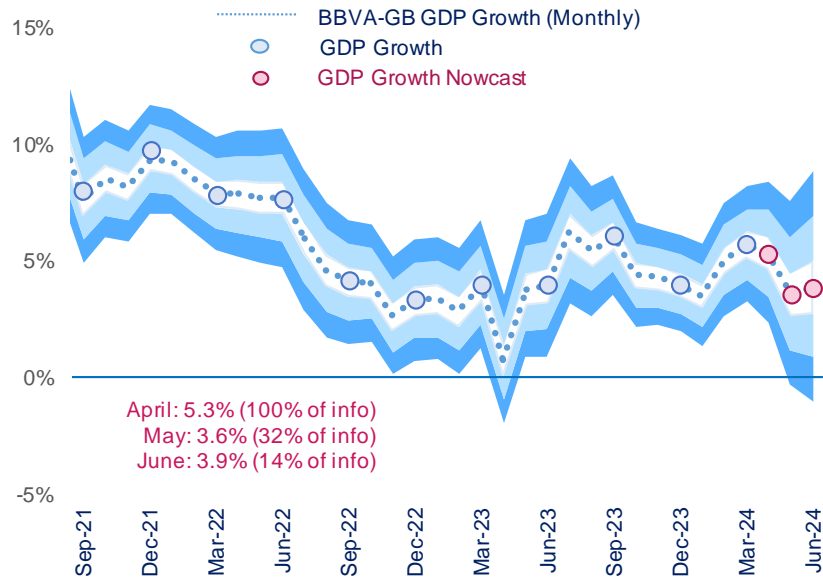
2% retailer GPL  
2% retailer auto  
2% TL business  
2% FC business



# We nowcast around 4% y/y and 0-0.5% q/q GDP growth as of early June. Financial conditions do not tighten as desired due to counter effects of real appreciation, retailers' spending availability via cards and wealth effects

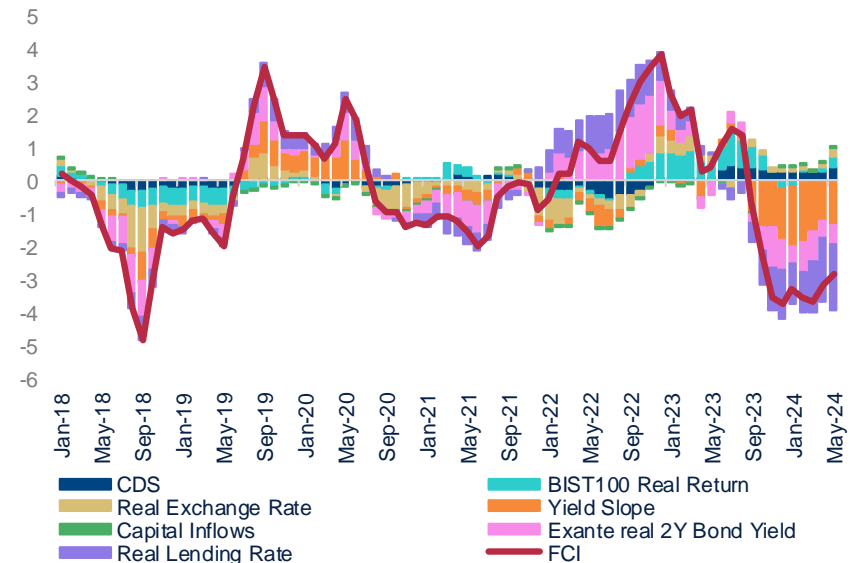
## GARANTI BBVA MONTHLY GDP INDICATOR

YOY, 3M MOVING AVERAGE



## GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI)

monthly, standardized, + easing, - tightening

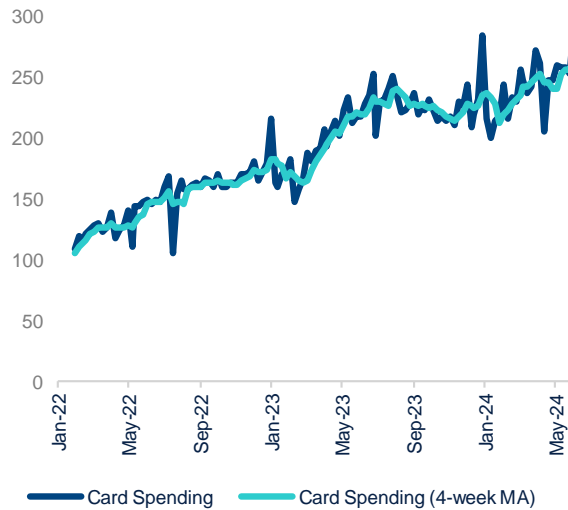


# Households' spending availability maintains somewhat a resistance against a clearer deceleration in consumption

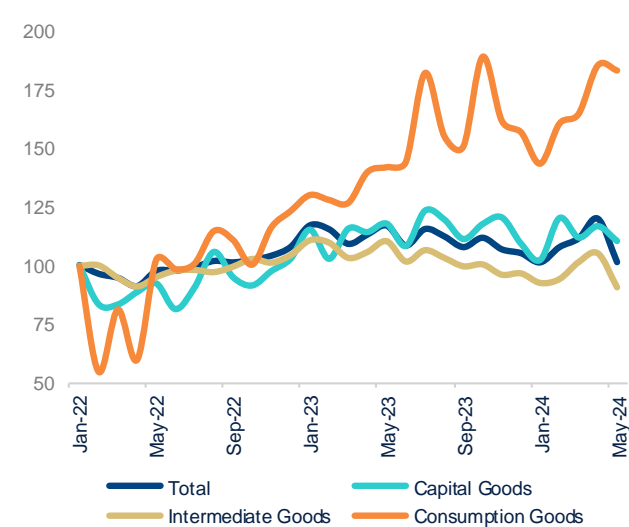
**GARANTI BBVA BIG DATA CONSUMPTION**  
REAL, 28-DAY SUM, YOY



**CARD SPENDING**  
REAL, JAN22=100

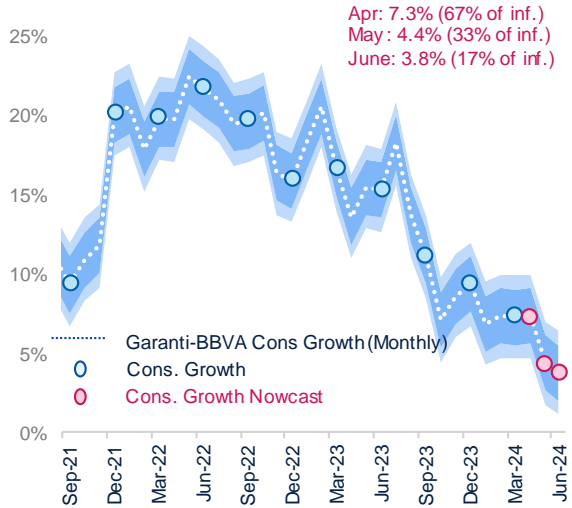


**IMPORT VOLUME**  
REAL, JAN22=100

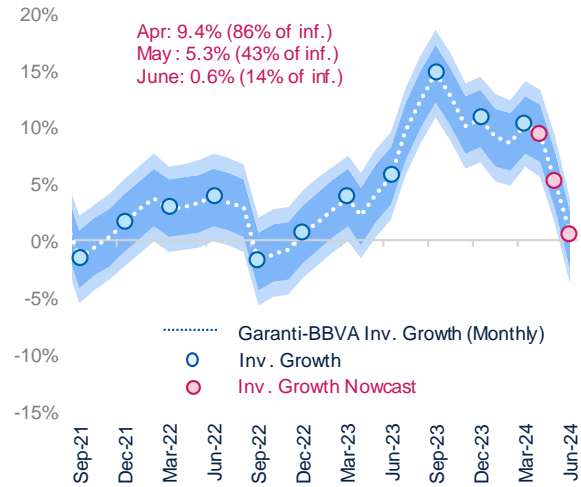


# Domestic demand has started to decelerate more clearly in late 2Q. Yet, aggregate demand is still stronger than supply, resulting in a slower but continuing depletion from stocks

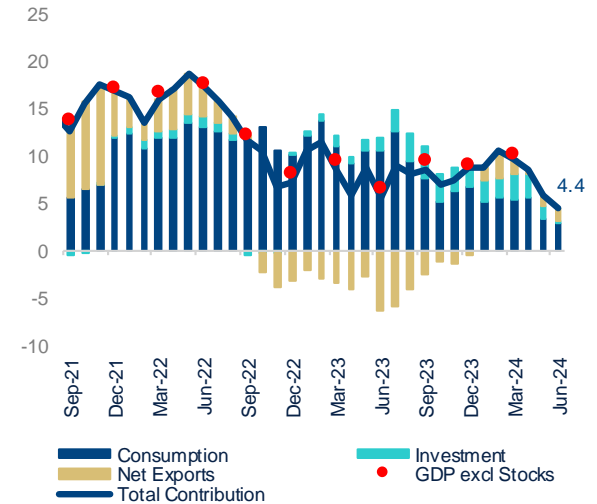
**GARANTI BBVA CONSUMPTION GDP**  
YOY, 3M MOVING AVERAGE



**GARANTI BBVA INVESTMENT GDP**  
YOY, 3M MOVING AVERAGE

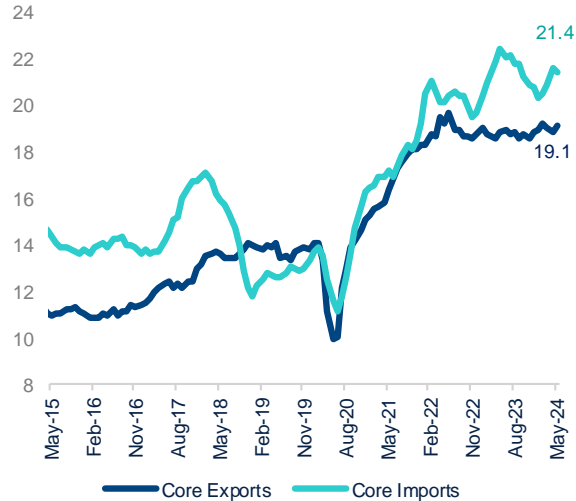


**GB MONTHLY GDP CONTRIBUTION**  
ANNUAL, PP

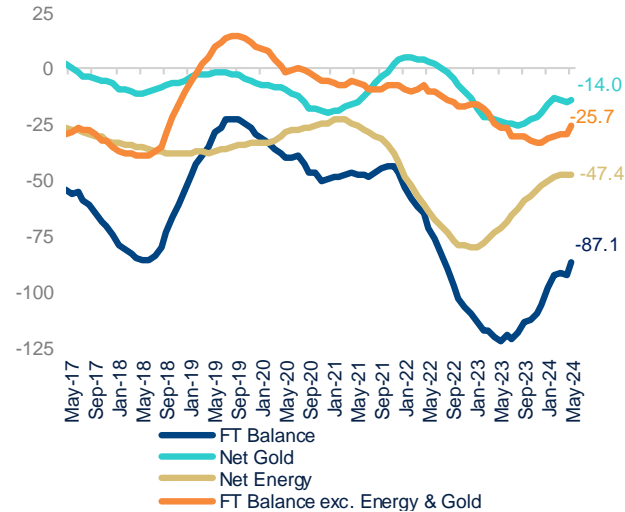


# Core imports start to decelerate in May gradually. Yet, normalization in gold imports & energy bill will help CAD stabilize at 1.5-2% of GDP in near term

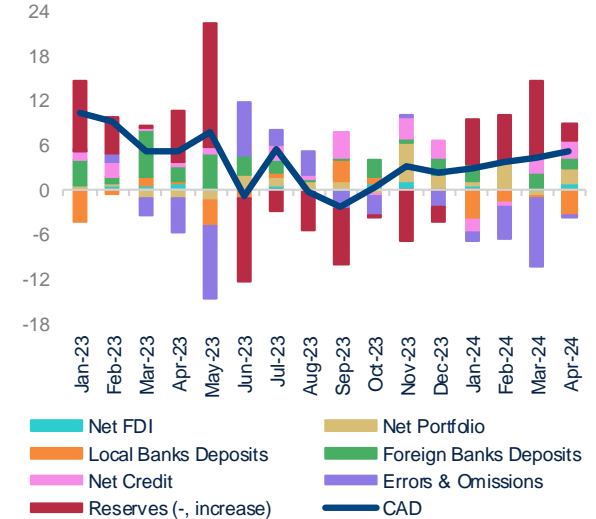
**GOODS EXPORTS & IMPORTS**  
(EXC ENERGY & GOLD, SA 3M AVG, US\$BN)



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



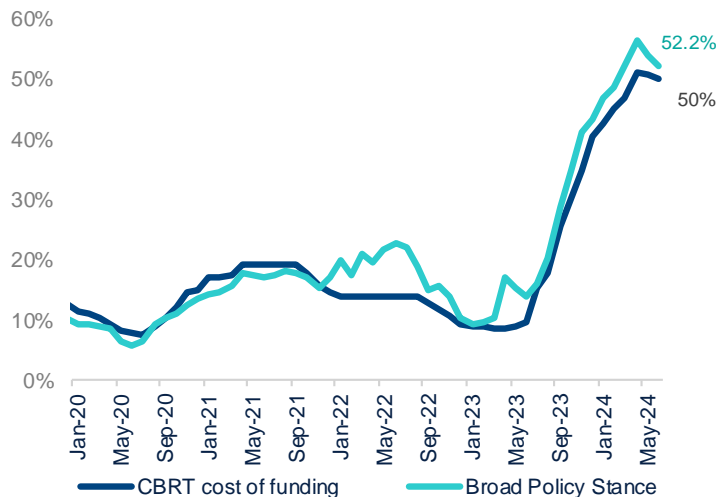
**CURRENT ACCOUNT BALANCE FINANCING**  
US\$BN



# Monetary stance would be tightened further with the latest liquidity & credit policies. New fiscal measures will be key to reduce the repercussions from the existing fiscal stimulus

## CBRT BROAD BASED POLICY STANCE\*

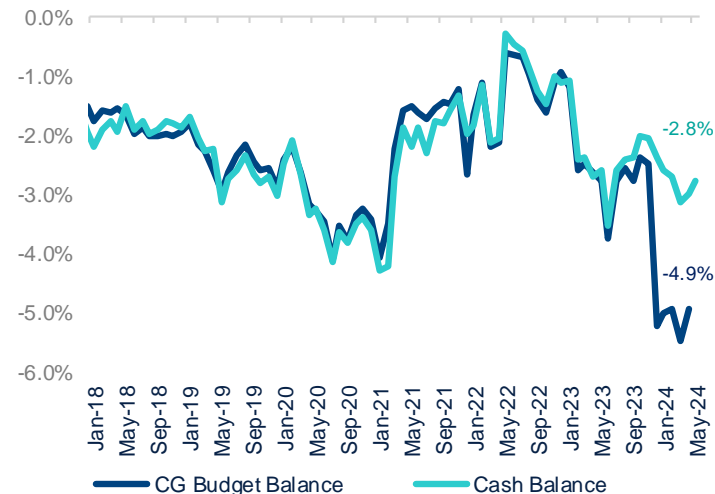
%, w/o credit growth caps, reflected on market dynamics



We calculate a higher implied policy rate with 2-3pp differential, as a reflection on market dynamics. Credit growth caps since early March are also important in the final reflection, which can be around 2-3pp at minimum.

\* We use average TL deposit rate, 1-month currency swap rate, 3-month and 2-year government TL bond yields, real money supply (M2), interbank TL overnight lending rate, commercial and consumer loans spreads and yield slope. The principal component is mapped to the average cost of funding for the period between 2011-2019 on a weekly frequency while in partial least squares method, a model is fitted between the funding cost and other explanatory variables. In both methods, based on the obtained coefficients, a broad policy stance starting from 2020 are estimated

## CENTRAL GOVERNMENT BUDGET & TREASURY CASH BALANCE, % GDP

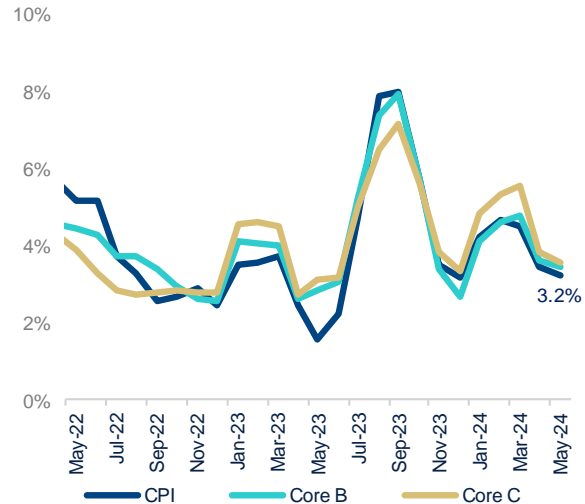


We expect the gap between cash and accrual basis deficit to be closed this year with delayed quake expenditures and finally have 5% GDP both cash & budget deficit by end 2024

# 3-month sa inflation trend at around 3.2% in May (vs. 1.5% target of the CBRT in 4Q24), mainly led by services prices

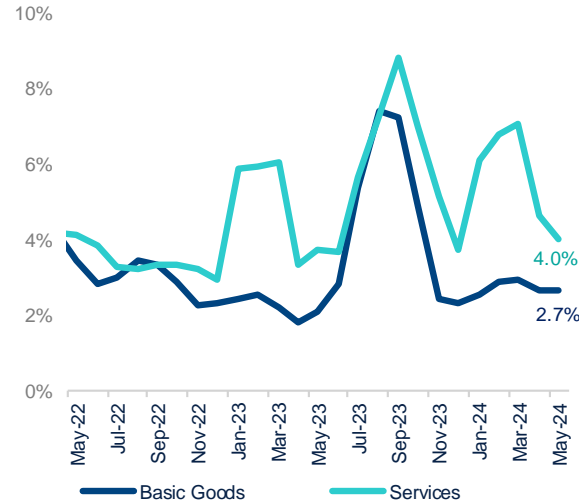
## TREND CPI INDICATORS

SA MoM, 3M AVG

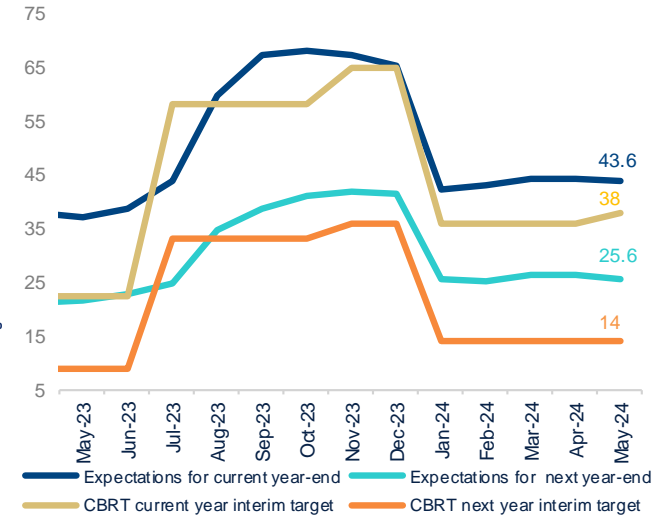


## TREND CPI INDICATORS

SA MoM, 3M AVG



## CBRT MARKET PARTICIPANTS SURVEY INFLATION EXPECTATION, %



## TWO KPIs of the CBRT

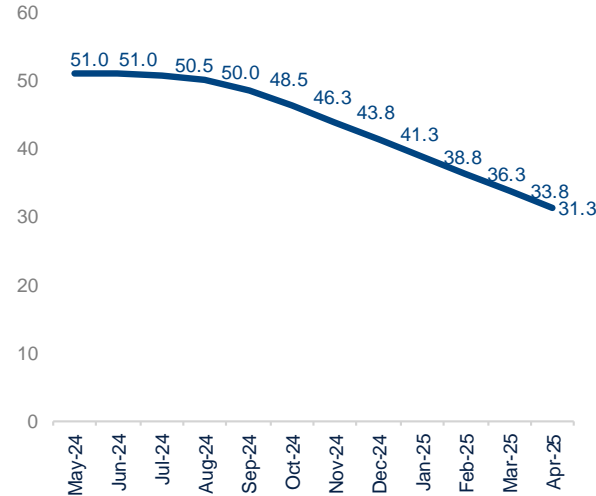
- Monthly inflation trend of 1-1.5% by the end of 2024 (vs. 3% in May)
- Inflation expectations converging to the projected inflation range (34-42% for 2024 and 7-21% for 2025)

# The market prices a rapid rate cutting cycle with a slower disinflation path. This is why shorter maturities in TL bonds have been mostly preferred

## MARKET INFLATION EXPECTATIONS IMPLIED BY CPI LINKERS, %



## TL REF IMPLIED CBRT RATE EXPECTATIONS, %

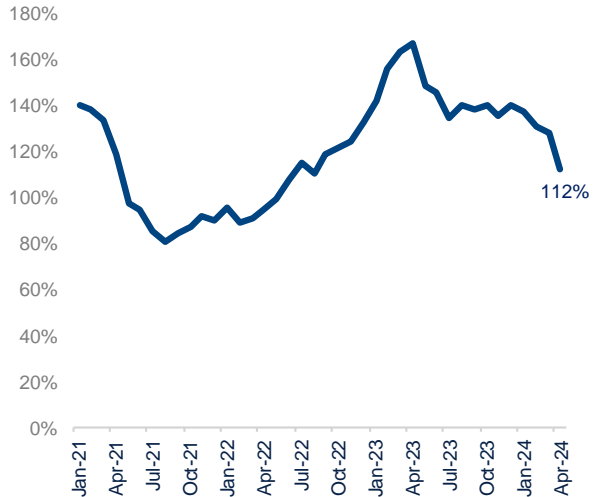


## TRY YIELD CURVE, %



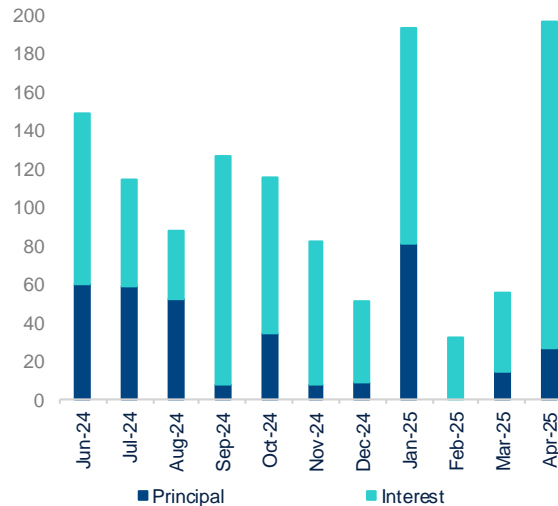
# The Treasury will help the CBRT sterilize potential excess TL liquidity during the summer

**TREASURY DOMESTIC DEBT ROLL-OVER RATIO, %**

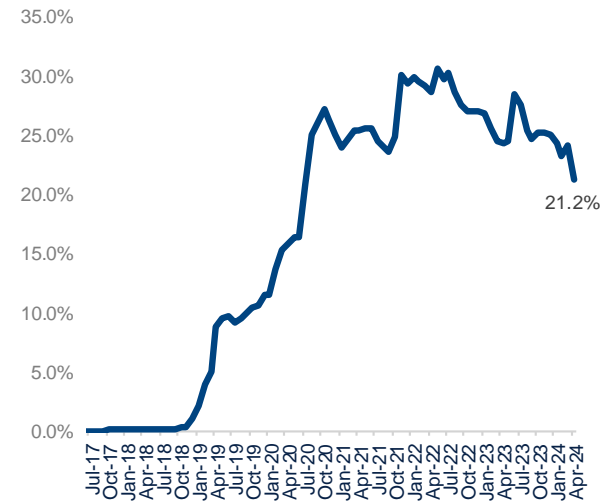


2024 target of 136.5% will require much higher debt roll-over ratio levels in the next months

**TREASURY DOMESTIC DEBT CALENDAR BN TL**



**FC SHARE IN DOMESTIC DEBT %**





# We keep our prudence for the baseline with a smooth transition, paving the way towards LT FDI inflows

## Orderly & smooth transition to a rule-based approach

- Soft-landing assumption kept with fiscal impulse on quake recovery and support from foreign capital inflow
- 50% policy rate maintained until 4Q24 and we introduce 2 rate cuts in Nov and Dec, following some ease in credit growth caps initially
- Domestic demand decelerates (capped credit growth, below inflation wage hikes and lower subsidies)
- More or less a stable lira during summer (CBRT is assumed to continue heavy purchases to kill KKM as fast as possible) with a steady nominal depreciation thereafter (38 USDTRY by 2024 year end and 45.5 USDTRY by 2025 year end)
- Inflation is put under control with 43% by 2024 year end and 25% by 2025 year end. LT convergence maintained as 15%, assuming low contribution from the needed reforms

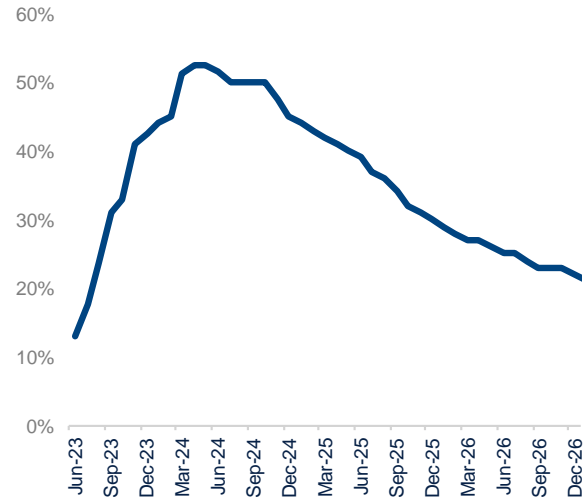
## GARANTI BBVA BASELINE SCENARIO

	2023	2024	2025	2026
GDP growth (avg)	4.5%	3.5%	3.5%	3.8%
Unemployment Rate (avg)	9.4%	9.3%	10.5%	10.8%
Inflation (avg)	53.9%	57.6%	30.3%	21.4%
Inflation (eop)	64.8%	43.0%	25.0%	18.5%
CBRT Cost of Funding (avg)	20.5%	48.7%	37.4%	25.2%
CBRT Cost of Funding (eop)	42.5%	45.0%	30.0%	22.0%
USDTRY (avg)	23.74	33.44	42.06	49.56
USDTRY (eop)	29.44	38.00	45.50	53.00
Current Account Balance (bn\$)	-45.0	-20.0	-22.7	-26.9
Current Account Balance (% GDP)	-4.0%	-1.6%	-1.7%	-1.9%
Primary Balance (% GDP)	-2.7%	-1.5%	0.6%	1.0%
Fiscal Balance (% GDP)	-5.2%	-5.0%	-3.3%	-3.0%

# Real rates have become more restrictive, resulting in a more positive outlook for the currency in ST. We remain cautious after summer (end of tourism season and profit realization of carry trade investors) ahead of the US election

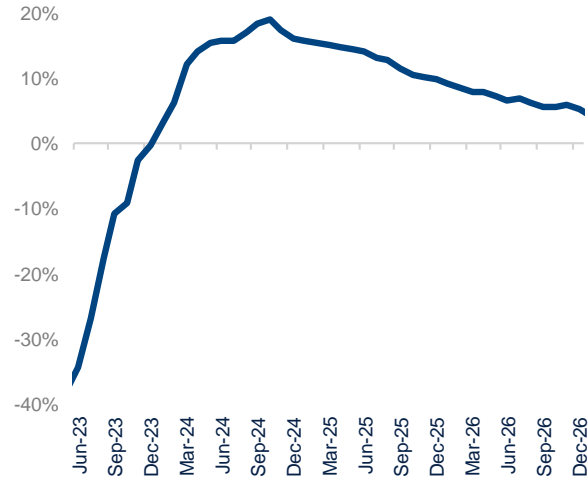
## CBRT FUNDING RATE FORECASTS

%



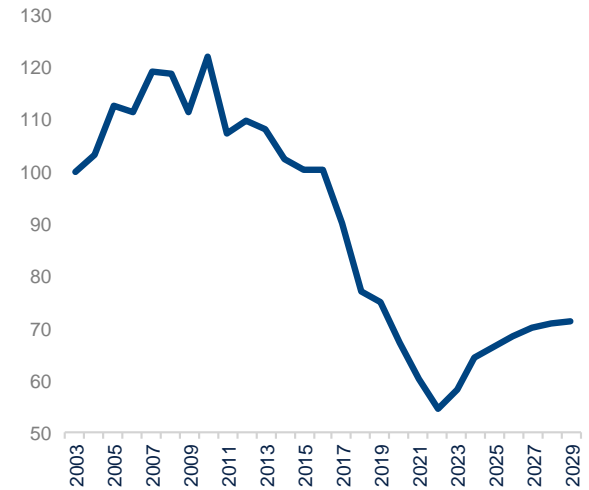
## EX ANTE REAL CBRT RATE FCASTS

%, adjusted with 12-month ahead CPI



## REER FORECASTS

2003=100



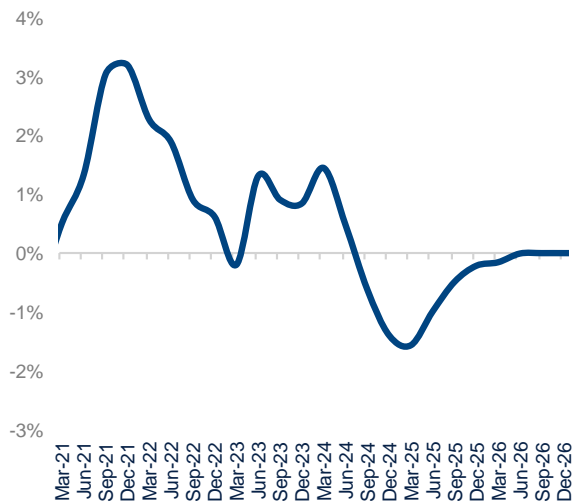
Ex ante real rates experience historically high levels. This is why we introduce a very gradual rate cutting cycle starting from November, given our expectation of an improving inflation trend.

**No change in real rates in mid-to-long run with 2.5%**

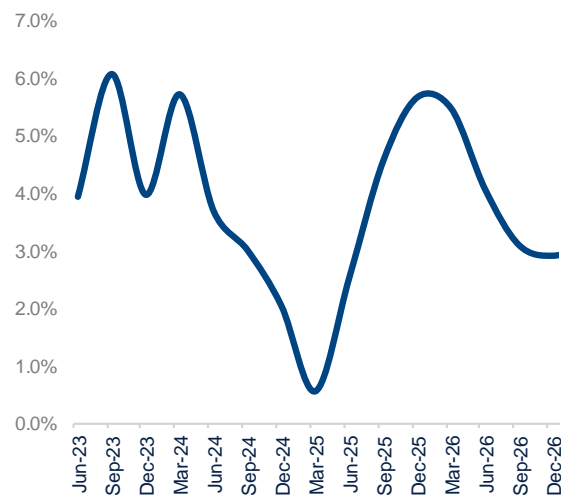
A stronger real appreciation in the short term with 38 USDTRY by 2024 end. We reduce real appreciation pace in the next years

# Yet, delayed energy price hikes (assumed gradually July onwards) and output gap coming to negative later add dynamic effects and lead us slightly revise ST inflation forecast to the downside

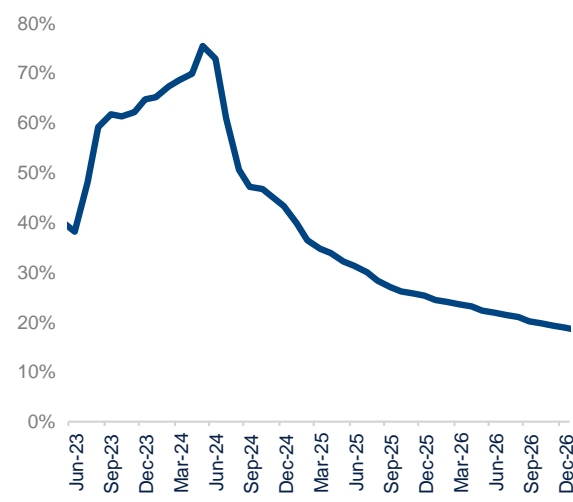
## OUTPUT GAP FORECASTS DIFF W/ POTENTIAL



## GDP GROWTH FORECASTS %



## CONSUMER INFLATION FORECASTS % YOY

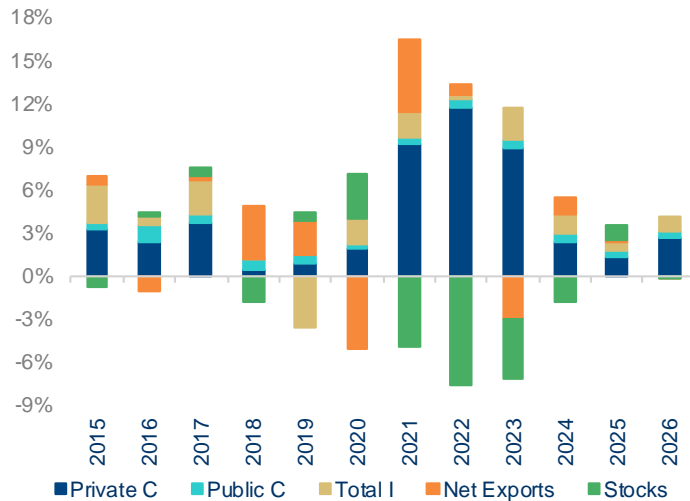


Delayed effects might put 2025 GDP growth under pressure. On the positive side, more favorable external demand conditions and increasing capital inflows will support the growth outlook. The pace of deceleration in 2H24 will be key for 2025 (3.5% GDP growth expected in 2024 and 2025).

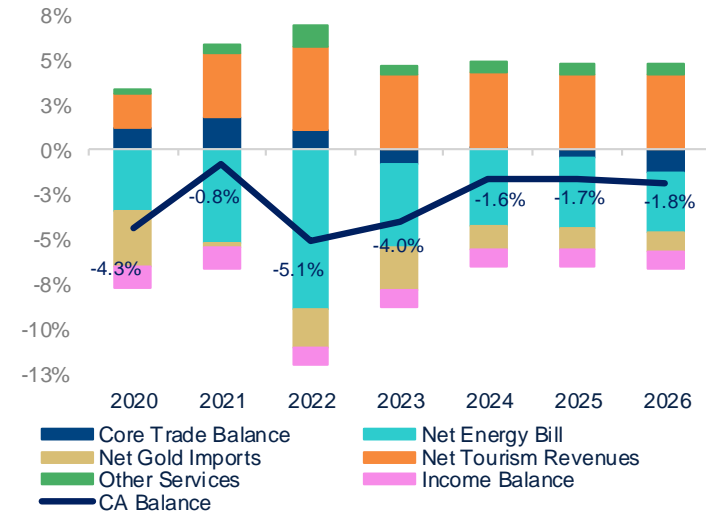
Inflation is expected to reach 43% by 2024 year end and 25% by 2025 year end. LT convergence maintained as 15% but would depend on the implementation of structural reforms.

# Current account dynamics are improving, albeit slowly, which will help the CBRT accumulate reserves especially during the summer

## DECOMPOSITION GDP GROWTH FORECASTS PP CONTRIBUTION



## CURRENT ACCOUNT DEFICIT FORECASTS % GDP



bn\$	Core Trade Balance	Energy Imports	Energy Exports	Net Energy Bill	Net Gold Imports	Net Tourism Revenues	Other Services	Income Balance	CA Balance
2022	9.9	96.5	16.4	-80.1	-19.4	42.2	10.7	-9.1	-45.8
2023	-8.5	69.1	16.4	-52.7	-25.7	47.0	5.6	-10.6	-44.9
2024	2.1	72.1	18.3	-53.9	-15.8	52.4	7.1	-12.1	-20.0
2025	-6.4	70.4	17.5	-52.9	-15.8	56.6	8.5	-12.9	-22.9
2026	-18.0	66.5	17.4	-49.0	-15.8	60.5	9.1	-13.8	-27.0

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# Türkiye Economic Outlook

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