

Main Economic & Financial Indicators: Turkey

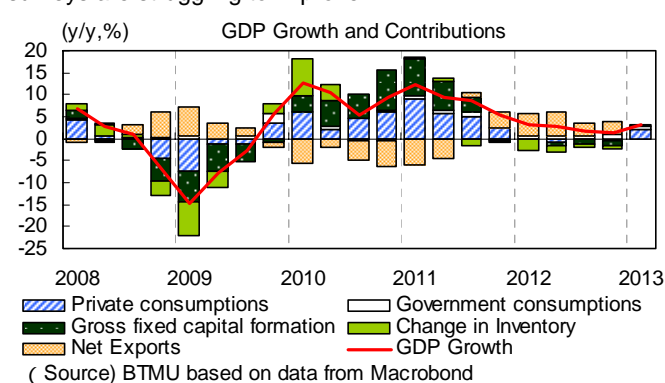
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Overview

The Turkish economy regained growth momentum in Q1. Real GDP grew by 3.0% y/y after seven consecutive quarters of slowdown. This was due to a recovery in domestic demand boosted by interest rate cuts by the Central Bank of the Republic of Turkey (CBRT) and an easing of inflation. That said, there remains some risk to the outlook. The Turkish Lira has been dropping sharply since May reflecting the fact that global investors have been turning away from emerging countries as expectations for the US FRB to scale back its monetary easing programme rise. Adding to this, the eruption of anti-government demonstrations in major cities in Turkey at the end of May caused further depreciation of the lira. Meanwhile, the current account deficit which decreased in 2012 on the back of weaker domestic demand has been increasing again. This is mainly owing to a widening of the trade deficit as imports increased reflecting the domestic demand recovery while export growth remained subdued. It is likely that the current account deficit will remain at an elevated level given the continuous lira depreciation which will add to the cost of import. To finance the current account deficit, Turkey has been heavily reliant on the inflow to the portfolio investment. However, there is a risk that this will be quickly withdrawn amid weakening of global investors' risk appetite and the political uncertainty in Turkey.

GDP

In Q1, the real GDP grew by 3.0% y/y, accelerating from the growth of 1.6% y/y in the previous quarter. Private consumption was the main contributor to overall growth, up 3.0% y/y after four consecutive quarters of decline, boosted by acceleration in bank lending after interest rates were cut by the CBRT as well as an easing of inflation rate. Government consumption (+7.2% y/y) also made a positive contribution as it did in previous quarters. Gross fixed capital formation grew by 0.2% y/y, the first y/y growth seen since 2011, boosted by public investment. Fixed investment in the private sector which accounts for 80% of the total continued to decrease and is less likely to see a significant improvement as the recent business surveys are struggling to improve.



Output

Industrial production (seasonally adjusted) in May grew by 1.0% y/y, decelerating from a growth of 3.5% y/y in April. Production of capital goods decreased 1.8% y/y. Meanwhile the business confidence index for the manufacturing sector in June came in at 107.2, up 1.8 points from May, but remain below the recent peak of 109.0 recorded in March. Breakdown of this survey indicates a delayed recovery in new orders, export orders in particular. Looking ahead, the recent lira depreciation could provide a boost to Turkey's international competitiveness somewhat. That said, it is likely that production growth remains weak given the still weak external demand as well as a possible softening of domestic demand.

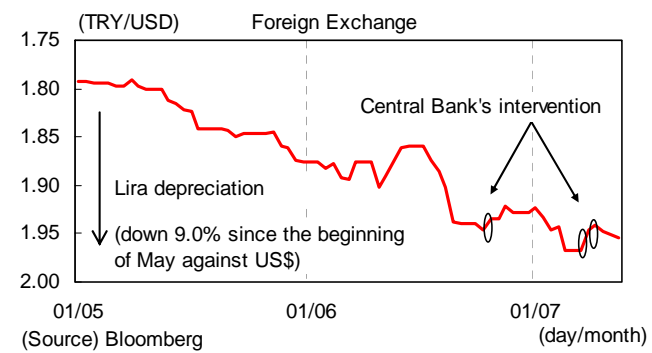
Consumption

Retail sales in Q1 grew strongly by 9.9% y/y, but slowing down from the previous quarter's growth of 10.3% y/y. Growth in bank loans to households has been accelerating since late 2012 following rate cuts by the CBRT. The latest data suggests that they grew by 25.6% y/y as of the beginning of July. The unemployment rate in April remained at an elevated level at 9.4%. Consumer confidence in June stood at 76.2 in June, down from 77.5 in May reflecting concerns over the economic outlook and job security given the recent sharp falls in the Istanbul Stock Market, suggesting that consumer spending may be softening.

Prices/Monetary policy

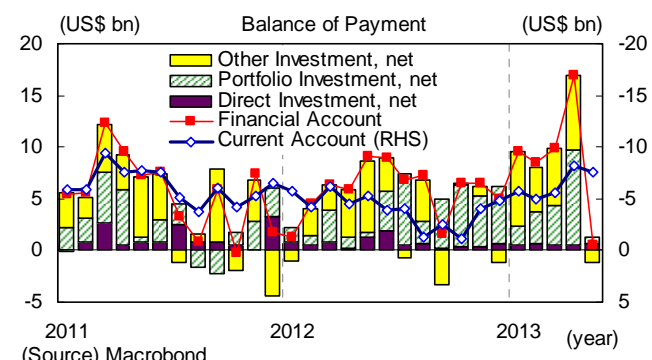
The consumer price index in June accelerated from 6.5% y/y in May to 8.3% y/y due to food price increases reflecting lira depreciation and rise in fuel prices.

On June 18th, the CBRT decided to keep policy rate unchanged. Meanwhile, the CBRT intervened several times via foreign currency auctions to support the lira which dropped 9.0% against US dollar since the beginning of May. The CBRT's intervention, however, is only just managing to hold up the lira. Moreover, supporting the lira using foreign currency reserves is not deemed sustainable. Although an interest rate hike could be the next option for the CBRT to support the lira, the bank is reluctant to do so as that could pose a risk to the recovery in domestic demand.



Balance of Payments

The current account deficit in May increased to USD7.5bn from USD5.3bn a year earlier. This was owing to a widening of the trade deficit as imports grew faster than export on the back of strong recovery in domestic demand while external demand remained weak. Meanwhile, the surplus in terms of the capital and financial account decreased sharply from USD 9.2bn a year earlier to USD 0.56bn, the level not sufficient enough to finance the current account deficit. This was owing to deceleration in the inflow of portfolio and other investments which had a high volume of inflows between January and April reflecting the upgrades to Turkey's sovereign rating to investment grade. Weaker global investor risk appetite amid expectation that the FRB will scale back its QE programme also contributed to a decrease in inflows.



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1. Annual and quarterly data

	2010	2011	2012	12/Q2	12/Q3	12/Q4	13/Q1	13/Q2
GDP (at current prices) (US\$ bn)	728.7	771.8	786.6	193.3	208.7	202.9	200.4	-
Real GDP growth (% , y/y)	9.4	8.9	2.3	2.9	1.6	1.4	3.0	-
(Private consumption) (% , y/y)	6.7	7.9	-0.7	-1.3	-0.4	-0.8	3.0	-
(Gross fixed capital formation) (% , y/y)	29.9	20.0	-2.5	-2.7	-4.2	-3.8	0.2	-
Industrial production (% , y/y)	14.8	3.8	-1.8	2.1	3.6	-1.8	1.3	-
Consumer confidence index	73.7	79.6	75.6	76.9	74.5	71.8	75.8	76.4
Retail Sales (% , y/y)	18.1	18.6	10.3	18.4	11.0	10.3	9.9	-
Bank credits to the private sector (% , y/y)	44.7	34.7	18.5	20.7	16.2	18.5	21.5	-
Consumer price index (% , y/y)	8.6	6.5	8.9	9.4	9.0	6.8	7.2	7.0
Gross Wages growth (% , y/y)	15.8	15.8	15.7	16.5	15.5	13.2	12.6	-
Unemployment rate (%)	11.9	9.8	9.2	9.0	9.2	9.4	9.3	-
Trade balance (US\$ mn)	-71,661	-105,935	-84,081	-22,468	-20,973	-20,011	-21,735	-
Exports (US\$ mn)	113,883	134,907	152,464	38,993	38,615	39,551	37,021	-
Export growth (% , y/y)	11.5	18.5	13.0	14.1	14.1	11.5	4.9	-
Imports (US\$ mn)	185,544	240,842	236,545	61,461	59,588	59,562	58,756	-
Import growth (% , y/y)	31.7	29.8	-1.8	-3.5	-3.8	0.7	5.0	-
Current account (US\$ mn)	-45,447	-75,092	-47,748	-13,814	-7,904	-9,815	-16,187	-
Capital and financial balances (US\$ mn)	59,010	66,673	69,847	24,048	15,569	18,110	27,987	-
Foreign direct investment (US\$ mn)	9,036	16,047	12,557	3,650	1,984	2,358	2,552	-
Foreign reserves (US\$ mn)	80,713	78,322	99,943	83,542	95,016	99,943	105,649	-
External debt (US\$ mn)	291,924	304,207	336,863	321,120	325,402	336,863	349,895	-
Stock price index	59,544	60,662	63,729	58,847	65,117	72,586	81,153	83,822
Interbank overnight borrowing rate	6.84	7.70	8.24	10.72	6.61	5.52	5.48	5.58
TRY/USD	1.51	1.68	1.80	1.81	1.80	1.79	1.79	1.84
TRY/Euro	2.00	2.34	2.31	2.32	2.26	2.33	2.36	2.40
TRY/GBP	2.33	2.69	2.85	2.86	2.85	2.88	2.77	2.83

2. Monthly data

	12/11	12	13/01	2	3	4	5	6
Industrial production (% , y/y)	3.8	-1.8	2.0	4.3	1.3	3.5	1.0	-
Consumer confidence index	72.6	73.6	75.8	76.7	74.9	75.6	77.5	76.2
Bank credits to the private sector (% , y/y)	16.5	18.5	20.0	21.2	21.5	21.6	24.9	-
Consumer price index (% , y/y)	6.4	6.2	7.3	7.0	7.3	6.1	6.5	8.3
Unemployment rate (%)	9.4	9.5	9.4	9.2	9.4	9.4	-	-
Trade balance (US\$ mn)	-7,194	-7,221	-7,312	-7,001	-7,422	-10,333	-9,893	-
Exports (US\$ mn)	13,754	12,606	11,490	12,393	13,138	12,492	13,316	-
Export growth (% , y/y)	24.1	1.0	11.0	5.5	-0.5	-1.1	1.4	-
Imports (US\$ mn)	20,948	19,827	18,803	19,394	20,559	22,825	23,209	-
Import growth (% , y/y)	12.3	-3.7	7.6	9.0	-0.6	18.4	6.7	-
Stock price index	71,632	76,920	82,120	78,350	82,762	84,279	89,916	76,312
Interbank overnight borrowing rate	5.43	5.60	5.50	5.26	5.67	5.92	4.65	6.26
TRY/USD	1.79	1.79	1.77	1.78	1.81	1.80	1.83	1.90
TRY/Euro	2.30	2.35	2.35	2.37	2.34	2.34	2.37	2.50
TRY/GBP	2.86	2.89	2.83	2.75	2.73	2.75	2.79	2.94

TRY: Turkish New Lira

Source: Central Bank of the Republic of Turkey, Turkish Statistic Office etc.

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