

Main Economic & Financial Indicators: Turkey

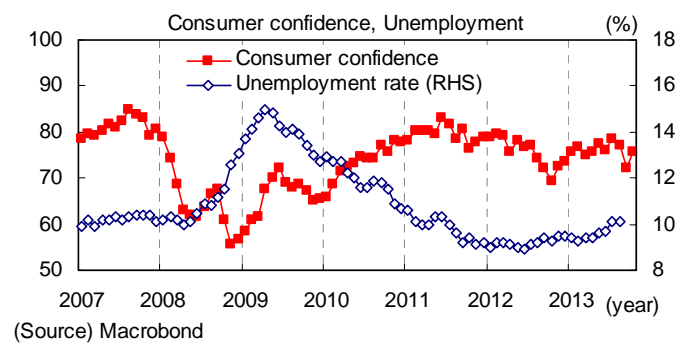
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Overview

The Turkish economic growth seems to have stalled in Q3 after accelerating in the first half of the year given that the economy was adversely affected by the large-scale political demonstrations during the summer, as well as higher inflation. Imported goods prices were particularly elevated by depreciation of the Turkish Lira reflecting the rising expectations that the US Fed would taper its QE programme. However, as the domestic political situation is becoming more stable, risks to the economy seems to have eased in Q4.

However, there remain economic risks. The biggest concerns are the current account deficit and its financing. The trade deficit increased due to a rise in imports supported by strong domestic demand and the depreciation of the lira while exports remain subdued, causing an expansion in the current account deficit on a year-on-year basis since the end of the last year. To finance the current account deficit, Turkey has been heavily reliant on the inflows of portfolio investment, namely financial securities such as bonds and shares. However, capital inflows sharply dropped with expectations that the US Fed would embark on QE tapering as well as the political demonstrations in Istanbul. The Central Bank of Turkey intervened in the foreign exchange market and increased one of its policy rates in July and August to prop up the lira. However, the Bank is reluctant to raise interest rates further for fear of adverse effects on the economy. Meanwhile, to counter the rapid expansion of bank lending which is driving the domestic demand, the Bank increased banks' reserve requirement ratio. However, bank lending growth is now over 30% y/y. The lira which has stabilised after the US Fed postponed the QE tapering in September is again sliding down in November. Depending on the lira movement, the central bank may have to raise interest rates which could weaken the country's economic growth.

Growth in retail sales in Q2 decelerated to 4.1% y/y from the 9.7% y/y growth in Q1. Household lending growth has been accelerating reflecting a decrease in interest rates between the beginning of 2012 and the beginning of 2013. There has not been any obvious impact from the increase in interest rates imposed by the Central Bank in July and August so far. Also the growth in September accelerated by 33.2% y/y. The unemployment rate (seasonally adjusted) remained at 10.1%, a two year-high, for two month in a row in August. The consumer confidence index in October stood at 75.5, increasing by 3.4% m/m, partly because of a rebound from a sharp drop in September due to higher inflation. However it is still below the recent high in July at 78.5. Concern over inflation eased somewhat reflecting the recent deceleration in inflation while overall economic confidence worsened.

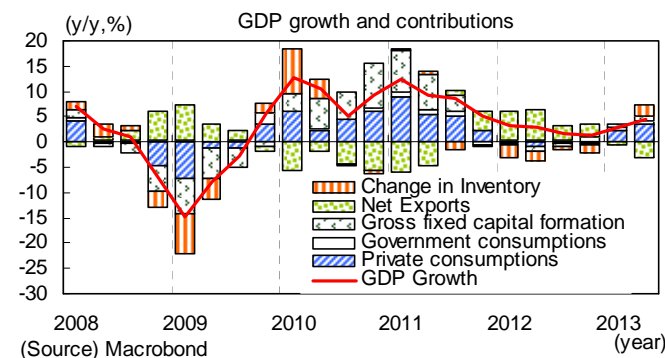


GDP

The real GDP in Q2 grew by 4.4% y/y, accelerating from the 2.9% y/y growth in Q1. Private consumption pushed up the overall growth as it grew by 5.3% y/y, up from 3.1% y/y in Q1, boosted by rapid expansion in bank lending and an increase in purchasing power due to a slowdown in inflation. Government consumption (+7.2% y/y) continued to make a positive contribution. Gross fixed capital formation grew by 3.7% y/y, accelerating from 2.3% y/y in Q1. Looking at the breakdown of this figure revealed a sharp increase in public investment (+36.7% y/y) due to large infrastructure projects. Fixed investment in the private sector which accounts for 80% of the total declined again by 2.0% y/y but at a slower pace.

Prices/Monetary policy

The rise in consumer prices began to slow after accelerating to 8.9% y/y in August, the highest level in the last fifteen months. That said, inflation remained above the Central Bank's target range of 5-7% in October, at 7.7% y/y. In its latest inflation report, the Central Bank predicted that the inflation rate will continue to decline due to a slowdown in domestic demand, and reach 6.8% y/y by the end of the year. However, it is likely that inflation will remain elevated by the recent lira depreciation. The Central Bank is postponing additional monetary tightening for the time being. However, if the risks of further lira depreciation or destabilisation of capital inflows deepens as the timing of the QE tapering by the US Fed become clearer, it is likely that the central bank will have to raise the policy rate again.

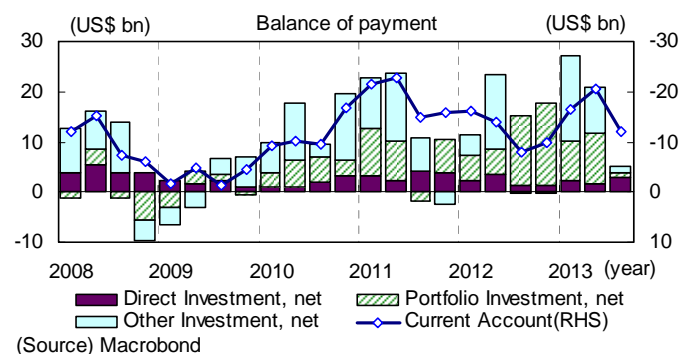


Balance of Payments

The current account deficit in Q3 expanded to USD12bn from USD7.9bn a year earlier. This was owing to a widening of the trade deficit due to an increase in imports by 4.2% y/y supported by strong domestic demand and the lira depreciation while exports decreased by 3.3% y/y. Meanwhile, the surplus in the capital account shrunk by one third from USD15.6bn a year earlier to USD5.2bn reflecting a worldwide capital flight from the emerging economies. The only good news is that, looking at the monthly balance of payment statistics, net inflows of the portfolio investment turned positive since August. That said, the environment surrounding capital inflows to emerging countries is still uncertain and should be closely monitored.

Output

Growth in Industrial production (working-day adjusted) in September amounted to 6.3% y/y from 0.1% y/y in August. The business confidence index for the manufacturing sector (seasonally adjusted) in October stood at 111.9, up by 3.4 points from September and recovered to the level seen two years ago. A breakdown of this figure indicates that outlook for export orders improved for two months in a row supported by improved competitiveness due to the lira depreciation while outlook for production also improved for the third consecutive month.



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1. Annual and quarterly data

		2010	2011	2012	12/Q3	12/Q4	13/Q1	13/Q2	13/Q3
GDP (at current prices)	(US\$ bn)	728.7	771.8	786.6	208.7	202.9	200.4	209.3	-
Real GDP growth	(%, y/y)	9.4	8.9	2.3	1.6	1.4	2.9	4.4	-
(Private consumption)	(%, y/y)	6.7	7.9	-0.7	-0.4	-0.8	3.1	5.3	-
(Gross fixed capital formation)	(%, y/y)	29.9	20.0	-2.5	-4.2	-3.8	2.3	3.7	-
Industrial production	(%, y/y)	14.8	3.8	-1.8	3.6	-1.8	1.3	4.2	-
Consumer confidence index		73.7	79.6	75.6	74.5	71.8	75.8	76.4	75.9
Retail Sales	(%, y/y)	18.1	18.6	10.3	11.0	10.3	9.7	4.1	-
Bank credits to the private sector	(%, y/y)	44.7	34.7	18.5	16.2	18.5	21.5	27.6	33.2
Consumer price index	(%, y/y)	8.6	6.5	8.9	9.0	6.8	7.2	7.0	8.3
Gross Wages growth	(%, y/y)	15.8	15.8	15.7	15.5	13.2	12.6	14.0	-
Unemployment rate	(%)	11.9	9.8	9.2	9.2	9.4	9.4	9.6	-
Trade balance	(US\$ mn)	-71,661	-105,935	-84,081	-20,973	-20,011	-21,735	-28,796	-24,441.8
Exports	(US\$ mn)	113,883	134,907	152,464	38,615	39,551	37,021	38,246	37,343.5
Export growth	(%, y/y)	11.5	18.5	13.0	14.1	11.5	4.9	-1.9	-3.3
Imports	(US\$ mn)	185,544	240,842	236,545	59,588	59,562	58,756	67,042	61,785
Import growth	(%, y/y)	31.7	29.8	-1.8	-3.8	0.7	5.0	9.1	3.7
Current account	(US\$ mn)	-45,447	-75,092	-47,750	-7,904	-9,816	-16,502	-20,477	-12,021
Capital and financial balances	(US\$ mn)	59,010	66,673	69,778	15,574	18,070	27,478	21,399	5,229
Foreign direct investment	(US\$ mn)	9,036	16,047	12,529	1,991	2,357	2,830	2,493	3,375
Foreign reserves	(US\$ mn)	80,713	78,322	99,943	95,016	99,943	105,649	105,567	109,790
External debt	(US\$ mn)	291,920	304,428	339,018	327,544	339,018	352,036	367,343	-
Stock price index		59,544	60,662	63,729	65,117	72,586	81,153	83,822	72,936
Interbank overnight borrowing rate		6.84	7.70	8.24	6.61	5.52	5.48	5.58	7.08
TRY/USD		1.51	1.68	1.80	1.80	1.79	1.79	1.84	1.97
TRY/Euro		2.00	2.34	2.31	2.26	2.33	2.36	2.40	2.61
TRY/GBP		2.33	2.69	2.85	2.85	2.88	2.77	2.83	3.06

2. Monthly data

		13/03	4	5	6	7	8	9	10
Industrial production	(%, y/y)	1.3	3.5	0.9	4.2	4.6	0.1	6.3	-
Consumer confidence index		74.9	75.6	77.5	76.2	78.5	77.2	72.1	75.5
Bank credits to the private sector	(%, y/y)	21.5	21.6	24.9	27.6	29.6	31.3	33.2	-
Consumer price index	(%, y/y)	7.3	6.1	6.5	8.3	8.9	8.2	7.9	7.7
Unemployment rate	(%)	9.4	9.4	9.6	9.7	10.1	10.1	-	-
Trade balance	(US\$ mn)	-7,422	-10,333	-9,893	-8,570	-9,898	-7,042	-7,502	-
Exports	(US\$ mn)	13,138	12,492	13,316	12,438	13,070	11,153	13,121	-
Export growth	(%, y/y)	-0.5	-1.1	1.4	-6.0	1.9	-13.1	1.3	-
Imports	(US\$ mn)	20,559	22,825	23,209	21,008	22,967	18,195	20,623	-
Import growth	(%, y/y)	-0.6	18.4	6.7	2.8	10.2	-3.4	3.5	-
Stock price index		82,762	84,279	89,916	76,312	74,351	71,554	72,834	77,087
Interbank overnight borrowing rate		5.67	5.92	4.65	6.26	6.57	7.48	7.22	6.97
TRY/USD		1.81	1.80	1.83	1.90	1.93	1.96	2.02	1.98
TRY/Euro		2.34	2.34	2.37	2.50	2.53	2.61	2.70	2.71
TRY/GBP		2.73	2.75	2.79	2.94	2.93	3.04	3.20	3.19

TRY: Turkish New Lira

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

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