

Main Economic & Financial Indicators: Turkey

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Overview

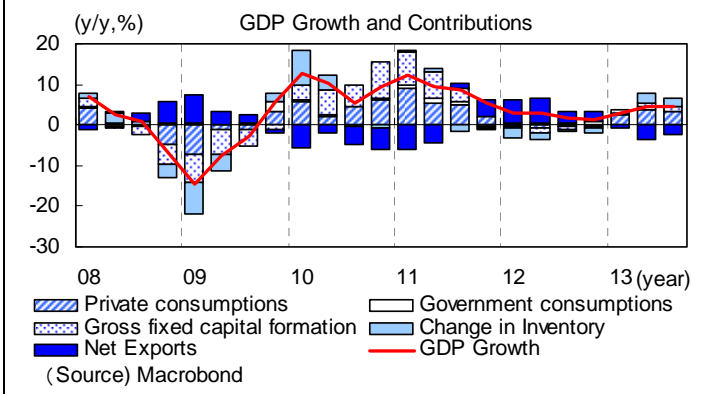
Although real GDP growth in Q3 slowed to 4.4% y/y from the 4.5% growth in Q2, it remained resilient supported by growth in private consumption. That being said, the economy is likely to decelerate partly owing to the adverse effects of higher inflation. Prices of imported goods have been elevated by the depreciation of the Turkish Lira reflecting the rising expectations that the US Fed would taper its QE programme as well as the large-scale political demonstrations during the summer. Adding to this, recent political scandals have put further downward pressure on the Lira, sending the currency to a record low on January 24th.

The Central Bank of Turkey held an extra-ordinary monetary policy committee meeting on January 28th, and decided to raise its policy rates significantly to stem the lira's slide despite the government's opposition. The one week repo rate was raised from 4.5% to 10% while the overnight lending rate was raised from 7.75% to 12.0%. Subsequently, the lira appreciated about 4%. However, the country's vulnerabilities such as its widening current account deficit as well as recent rise in political uncertainties remain and could put further pressure on the lira.

Looking at the outlook of domestic demand, private consumption is likely to decelerate given the fact that consumer confidence has been dampened by higher interest rates and inflation. Bank lending to households which has been decelerating since the interest rate hikes by the central bank in July and August last year is likely to slowdown further following the January's rate hikes. Inflation is also expected to remain elevated as the effect of lira depreciation has not been fully passed through to consumer prices. Meanwhile, although there was a sign of recovery in fixed investment in the private sector in Q3, the recent interest rate hike by the central bank may reverse this trend.

GDP

Real GDP in Q3 grew by 4.4% y/y. Although Private consumption slowed slightly from the growth of 5.6% y/y in Q2 to 5.1% y/y, it continued to push up the overall growth. Growth in gross fixed capital formation accelerated to 6.0% y/y from 4.0% in Q2 reflecting the fact that private sector fixed investment which accounts for 80% of the total returned to positive growth. Net export continued to drag down overall growth as growth in exports remained negative while imports grew by 6.0% y/y on the back of resilient domestic demand.



Output

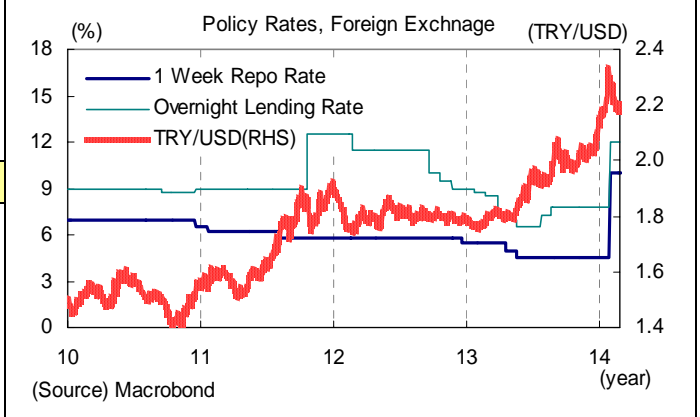
Growth in Industrial production (working-day adjusted) in December accelerated to 7.0% y/y from 4.7% y/y in August. The Purchasing Managers' Index for the manufacturing sector in January stood at 52.7, down from 53.5 from December but remained above the 50 mark which indicates an expansion in the sector.

Consumption

Growth in retail sales in Q4 decelerated to 10.5% y/y from the 13.6% y/y growth in Q3. Household lending growth is likely to decelerate further following the interest rate hikes by the central bank in January. Meanwhile, the unemployment rate in November remained at an elevated level of 9.9%. The consumer confidence index has been falling in the recent month, deteriorating to the lowest level since 2010 in February reflecting mounting concerns over the economic outlook and households' financial situation as well as fears over unemployment.

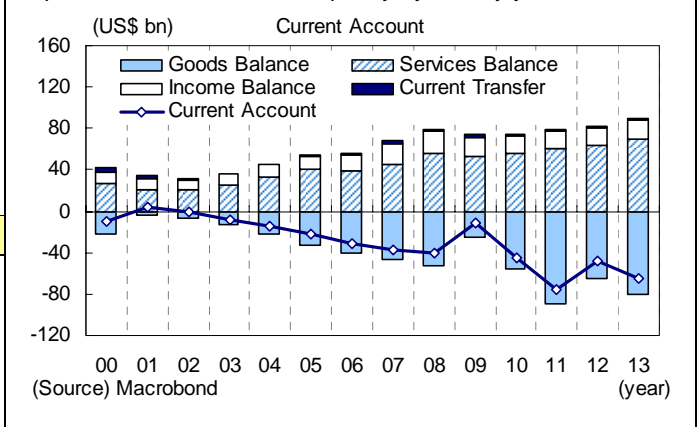
Prices/Monetary policy

The consumer price index rose by 7.5% in January, accelerating slightly from 7.4% in December. Inflationary pressure is expected to continue as the effects of the lira depreciation have not been fully passed through to consumer prices. An increase in the special consumption tax on new cars, alcoholic drinks, tobacco products and mobile phones imposed in January will also drive inflation up. The central bank foresees that the inflation rate will remain above the bank's inflation target of 5% in 2014. In line with this, it raised the 2014 year-end inflation target from 5.3% to 6.6%. At the monetary policy committee on February 18th, the committee decided to hold its policy rate and subsequently said that its tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.



Balance of Payments

The current account deficit in 2013 expanded to US\$65.0bn from US\$48.5bn a year earlier. This was owing to a widening of the trade deficit from US\$65.3bn in 2012 to US\$79.8bn due to an increase in imports by 6.4% y/y boosted by strong domestic demand and the lira's depreciation while growth in exports remained subdued, up only by 0.1% y/y.



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1. Annual and quarterly data

	2011	2012	2013	12/Q4	13/Q1	13/Q2	13/Q3	13/Q4
GDP (at current prices) (US\$ bn)	771.8	786.0	-	202.9	198.7	209.0	210.4	-
Real GDP growth (% , y/y)	8.9	2.2	-	1.4	3.0	4.5	4.4	-
(Private consumption) (% , y/y)	7.9	-0.6	-	-0.4	3.4	5.6	5.1	-
(Gross fixed capital formation) (% , y/y)	20.0	-2.7	-	-1.7	2.5	4.0	6.0	-
Industrial production (% , y/y)	9.7	2.5	3.4	0.9	2.6	2.9	3.8	4.1
Consumer confidence index	79.6	75.6	76.0	71.8	75.8	76.4	75.9	76.0
Retail Sales (% , y/y)	18.2	13.3	9.5	10.3	9.7	4.1	13.6	10.5
Bank credits to the private sector (% , y/y)	34.7	18.5	33.1	18.5	21.5	27.6	32.8	33.1
Consumer price index (% , y/y)	6.5	8.9	7.5	6.8	7.2	7.0	8.3	7.5
Gross Wages growth (% , y/y)	15.8	15.7	14.4	13.2	12.7	14.1	14.9	15.8
Unemployment rate (%)	9.8	9.2	-	9.4	9.4	9.6	10.1	-
Trade balance (US\$ mn)	-105,935	-84,083	-99,782	-20,013	-21,764	-28,939	-24,549	-24,529.9
Exports (US\$ mn)	134,907	152,462	151,869	39,549	36,993	38,142	37,241	39,493.5
Export growth (% , y/y)	18.5	13.0	-0.4	11.5	4.8	-2.2	-3.6	-0.1
Imports (US\$ mn)	240,842	236,545	251,651	59,562	58,757	67,081	61,789	64,023
Import growth (% , y/y)	29.8	-1.8	6.4	0.7	5.0	9.1	3.7	7.5
Current account (US\$ mn)	-75,082	-48,497	-65,004	-10,108	-16,556	-20,548	-12,166	-15,734
Capital and financial balances (US\$ mn)	66,961	70,259	71,967	18,165	27,830	21,566	7,809	14,762
Foreign direct investment (US\$ mn)	16,171	13,224	12,686	2,518	2,816	2,493	3,323	4,054
Foreign reserves (US\$ mn)	78,322	99,943	110,927	99,943	105,649	105,567	109,790	110,927
External debt (US\$ mn)	304,269	338,765	-	338,765	351,880	367,084	372,652	-
Stock price index	60,662	63,729	78,004	72,586	81,153	83,822	72,936	74,289
Interbank overnight borrowing rate	7.70	8.24	6.42	5.52	5.48	5.58	7.08	7.50
TRY/USD	1.68	1.80	1.91	1.79	1.79	1.84	1.97	2.03
TRY/Euro	2.34	2.31	2.53	2.33	2.36	2.40	2.61	2.76
TRY/GBP	2.69	2.85	2.98	2.88	2.77	2.83	3.06	3.28

2. Monthly data

	13/07	8	9	10	11	12	14/01	2
Industrial production (% , y/y)	4.6	0.0	6.5	0.8	4.7	7.0	-	-
Consumer confidence index	78.5	77.2	72.1	75.5	77.5	75.0	72.4	69.2
Bank credits to the private sector (% , y/y)	29.6	31.3	32.8	31.3	32.3	33.1	-	-
Consumer price index (% , y/y)	8.9	8.2	7.9	7.7	7.3	7.4	7.5	-
Unemployment rate (%)	10.1	10.1	10.2	9.9	9.9	-	-	-
Trade balance (US\$ mn)	-9,906	-7,079	-7,564	-7,423	-7,191	-9,917	-	-
Exports (US\$ mn)	13,062	11,119	13,060	12,061	14,212	13,220	-	-
Export growth (% , y/y)	1.8	-13.3	0.8	-8.6	3.3	4.9	-	-
Imports (US\$ mn)	22,968	18,197	20,624	19,483	21,403	23,137	-	-
Import growth (% , y/y)	10.2	-3.4	3.5	3.7	2.2	16.7	-	-
Stock price index	74,351	71,554	72,834	77,087	74,801	70,875	66,080	-
Interbank overnight borrowing rate	6.57	7.48	7.22	6.97	7.57	7.98	8.39	-
TRY/USD	1.93	1.96	2.02	1.98	2.03	2.07	2.22	-
TRY/Euro	2.53	2.61	2.70	2.71	2.73	2.83	3.03	-
TRY/GBP	2.93	3.04	3.20	3.19	3.26	3.38	3.66	-

TRY: Turkish New Lira

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

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