

Main Economic & Financial Indicators Turkey

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Overview

The Turkish economy is decelerating. In Q2, growth rate of real GDP turned negative for the first time since 2012. Although this was partly due to the fact that the country grew strongly in Q1 (up by 1.8% q/q), a deceleration in the European economy including Germany, Turkey's biggest trade partner, also contributed to the negative growth rate.

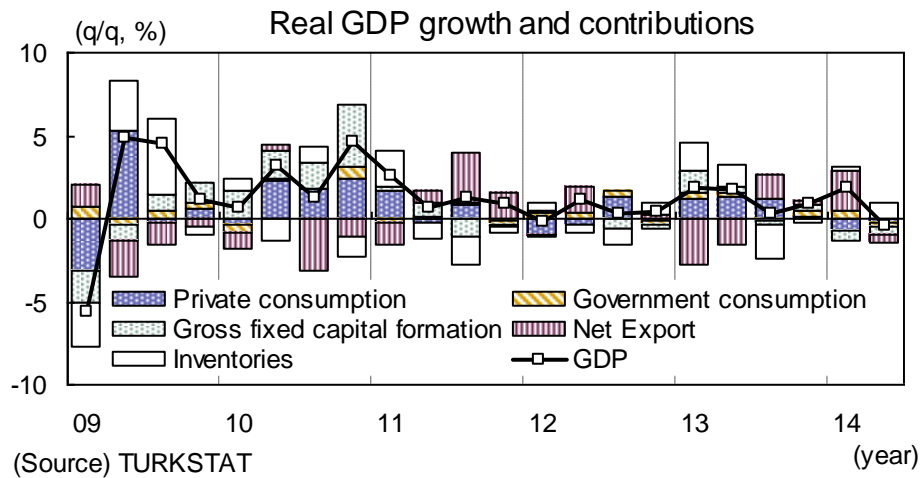
Looking ahead, it seems unlikely that the country's economic growth will gain momentum. Export growth is likely to continue to be weak given that uncertainty over the prospects of the European economy remains. Looking at the recent economic indicators, the Purchasing Managers Index (PMI) for the manufacturing sector recovered to a level above 50, which indicates expansion in the sector, while growth in industrial production accelerated in Q3. The manufacturing PMI rose again in October thanks to an increase in domestic new orders. That being said, the pace of expansion in output is likely to be slow as weak export demand is expected to continue.

Growth in retail sales decelerated in Q3 as household budgets have been squeezed by rising inflation, policy rate increases by the Central Bank of Republic of Turkey (CBRT) in January, as well as the deceleration in household bank lending as a result of the introduction of new regulation on consumer loans. Rising unemployment has also dragged consumer confidence down, suggesting that private consumption may remain weak.

GDP

Real GDP contracted by 0.5% q/q in Q2 after recording a 1.8% q/q growth in Q1. A look at the breakdown of the Q2 figure reveals that both domestic and external demand made negative contributions to overall growth. Exports shrank as demand from Europe decreased. Private consumption contracted for two quarters in a row, down by 0.4% q/q, weighed down by higher inflation, deceleration in bank lending as well as rising unemployment. Gross fixed capital formation decreased by 2.1% q/q. Public sector investment shrank after a sharp increase in Q1

while private sector investment also decreased due to a decrease in machinery and equipment investment, reflecting weak demand and tighter bank lending.

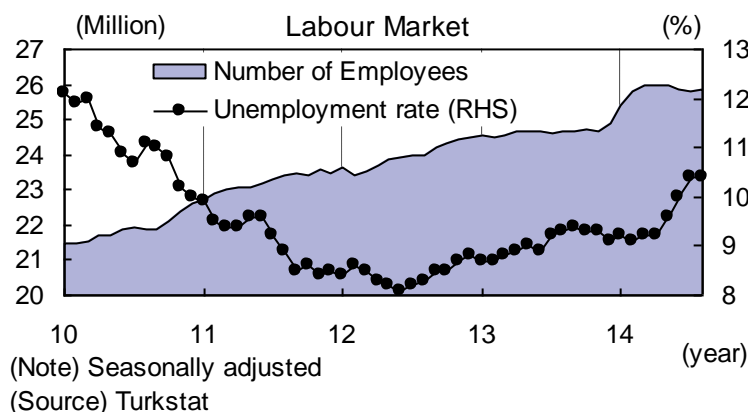


Output

Growth in industrial production decelerated from 5.2% y/y in August to 2.2% y/y in September. After dipping below the 50 mark in June, the PMI for the manufacturing sector moved back into expansion territory in August. In October, it rose by 1.1 points, standing at 51.5. That being said, output recovery may not be sustainable given that the recent recovery is partly due to a cyclical increase in inventory.

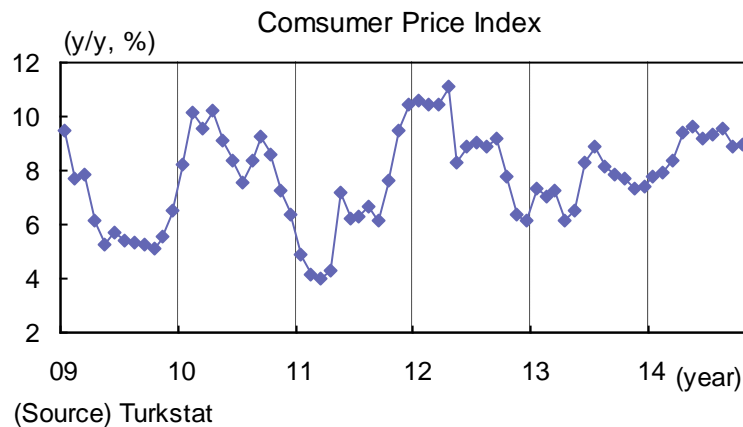
Labour Market, Consumer Confidence

Signs of softening in the labour market are becoming more visible. Although the number of employees in the service sector continues to grow, the total number of employees peaked out in April, reflecting a decrease in the manufacturing and agricultural sector. The unemployment rate remained at 10.4% in August, the highest since 2010. Consumer confidence fell to the lowest level in the last eight months in October weighed down by deterioration in confidence in the country's economic outlook and household financial situation, as well as rising concerns over unemployment.



Prices

The consumer price index rose by 9.0% y/y in October, up slightly from 8.9% y/y in September. This was owing to higher import goods prices due to the depreciation of the Turkish Lira since August. A 9% increase in electricity and gas prices at the beginning of the month also pushed overall inflation up. Inflationary pressure on imported goods prices is likely to persist as risks of lira depreciation remain on the back of geopolitical risks over the situation in Iraq and the possibility of an increase in the markets' expectations of the US Fed raising its interest rates. In their latest inflation forecasts published at the end of October, the CBRT forecasted the end-year inflation at 8.9% for 2014 and at 6.1% for 2015 (up 0.3% and 0.2% respectively from their July forecasts), well above the CBRT's target of 5%.



Balance of Payment

For the period of January-September 2014, the current account deficit decreased to US\$30.9bn from US\$49.2bn in the same period last year. This is owing to the fact that the goods trade deficit decreased due to weak domestic demand while exports increased during the first half of this year. Meanwhile, the net inflow of foreign direct investment decreased from US\$6.7bn last year to US\$2.9bn. In addition to this, there has been a net outflow of US\$7.9bn in the portfolio investment compared to a net inflow of US\$19.0bn last year.

Main Economic & Financial Indicators: Turkey

1. Annual and quarterly data

		2011	2012	2013	13/Q3	Q4	14/Q1	Q2	Q3
GDP (at current prices)	(US\$ bn)	771.8	786.6	821.0	211.8	200.4	184.5	200.7	-
Real GDP growth	(%, q/q)	8.9	786.6	821.0	0.3	0.9	1.8	-0.5	-
	(%, y/y)	0.0	2.2	4.1	4.2	4.5	4.7	2.1	-
(Private consumption)	(%, q/q)	7.8	0.0	0.0	1.8	0.1	-1.1	-0.4	-
	(%, y/y)	0.0	-0.5	5.1	5.6	6.1	3.2	0.4	-
(Gross fixed capital formation)	(%, q/q)	20.0	0.0	0.0	-1.1	1.8	-2.1	-2.1	-
	(%, y/y)	0.0	-2.7	4.1	5.3	7.4	-0.2	-3.5	-
Industrial production	(%, y/y)	9.6	2.5	3.4	3.8	4.3	5.3	3.2	3.6
Consumer confidence index		79.6	75.6	76.0	75.9	76.0	71.4	76.1	73.7
Retail Sales	(%, y/y)	8.9	5.3	4.1	6.5	6.4	7.0	4.7	1.7
Bank credits to the private sector	(%, y/y)	34.7	18.5	33.3	32.8	33.3	30.7	22.2	20.5
Consumer price index	(%, y/y)	6.5	8.9	7.5	8.3	7.5	8.0	9.4	9.2
Gross Wages growth	(%, y/y)	15.8	15.7	14.4	14.9	15.8	16.3	15.8	-
Unemployment rate	(%)	9.1	8.4	9.1	9.3	9.2	9.2	9.6	-
Trade balance	(US\$ mn)	-105,935	-84,083	-99,859	-24,547	-24,606	-17,318	-22,321	-21,500.5
Exports	(US\$ mn)	134,907	152,462	151,803	37,238	39,430	40,140	39,972	38,430.5
Export growth	(%, y/y)	18.5	13.0	-0.4	-3.6	-0.3	8.5	4.8	3.2
Imports	(US\$ mn)	240,842	236,545	251,661	61,785	64,036	57,458	62,293	59,931
Import growth	(%, y/y)	29.8	-1.8	6.4	3.7	7.5	-2.2	-7.1	-3.0
Current account	(US\$ mn)	-75,050	-48,494	-65,034	-12,103	-15,871	-11,670	-12,567	-6,623
Capital and financial balances	(US\$ mn)	66,940	70,232	72,627	7,573	16,203	-1,675	6,764	-6,427
Foreign direct investment	(US\$ mn)	16,114	13,286	12,723	3,191	4,304	4,157	2,688	2,358
Foreign reserves	(US\$ mn)	78,322	99,943	110,927	109,790	110,927	105,989	111,855	111,395
External debt	(US\$ mn)	303,578	338,732	389,273	373,352	389,273	388,008	401,706	-
Stock price index		60,662	63,729	78,004	72,936	74,289	64,809	76,047	79,336
Interbank overnight borrowing rate		7.70	8.24	6.42	7.08	7.50	10.54	10.70	8.96
TRY/USD		1.68	1.80	1.91	1.97	2.03	2.21	2.11	2.16
TRY/Euro		2.34	2.31	2.53	2.61	2.76	3.04	2.90	2.87
TRY/GBP		2.69	2.85	2.98	3.06	3.28	3.66	3.55	3.61

2. Monthly data

		14/03	4	5	6	7	8	9	10
Industrial production	(%, y/y)	4.1	4.6	3.5	1.6	3.6	5.2	2.2	-
Consumer confidence index		72.7	78.5	76.0	73.7	73.9	73.2	74.0	70.3
Retail Sales	(%, y/y)	3.2	5.0	4.0	5.3	2.0	-1.0	4.1	-
Bank credits to the private sector	(%, y/y)	30.7	28.6	23.1	22.2	20.3	19.0	20.5	-
Consumer price index	(%, y/y)	8.4	9.4	9.7	9.2	9.3	9.5	8.9	9.0
Unemployment rate	(%)	9.2	9.2	9.6	10.0	10.4	10.4	-	-
Trade balance	(US\$ mn)	-5,249	-7,275	-7,162	-7,884	-6,511	-8,064	-6,925	-
Exports	(US\$ mn)	14,683	13,375	13,703	12,894	13,360	11,411	13,660	-
Export growth	(%, y/y)	11.9	7.3	3.2	4.0	2.3	2.6	4.6	-
Imports	(US\$ mn)	19,932	20,650	20,865	20,778	19,871	19,475	20,585	-
Import growth	(%, y/y)	-3.1	-9.5	-10.2	-1.1	-13.5	7.0	-0.2	-
Stock price index		64,647	72,620	76,498	79,044	80,535	79,242	78,334	76,603
Interbank overnight borrowing rate		12.07	11.03	11.00	10.03	8.88	8.81	9.17	10.99
TRY/USD		2.21	2.13	2.09	2.12	2.12	2.16	2.21	2.25
TRY/Euro		3.06	2.94	2.88	2.88	2.87	2.88	2.85	2.86
TRY/GBP		3.68	3.56	3.52	3.58	3.62	3.61	3.61	3.62

TRY: Turkish New Lira

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

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