

Main Economic & Financial Indicators Turkey

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AKIKO DARVELL
ASSOCIATE ECONOMIST
ECONOMIC RESEARCH OFFICE (LONDON)
T +44-(0)20-7577-1591
E akiko.darvell@uk.mufg.jp

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
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Overview

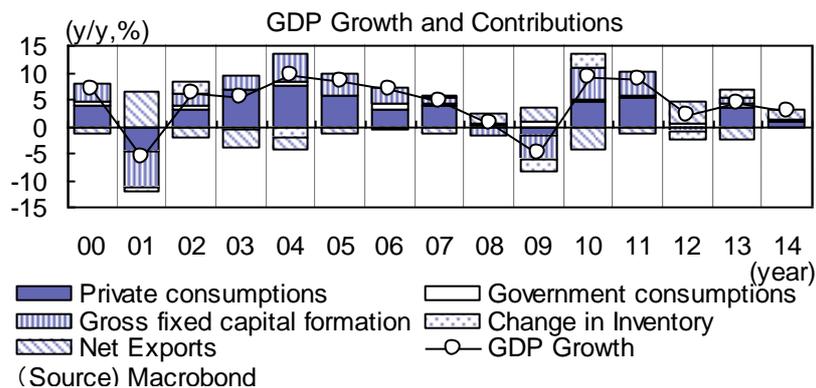
The Turkish economy is decelerating, domestic demand in particular. In 2014, real GDP growth slowed to 2.9% y/y compared to the average growth of 4.4% y/y between 2000 and 2013.

Looking ahead, it is unlikely that the economy will accelerate in the coming months. Although Lira depreciation has improved Turkey's international competitiveness somewhat, Turkey's export growth is unlikely to gain momentum as the pace of economic recovery in the EU countries, Turkey's biggest trading partners, is expected to be slow. Furthermore, Turkish exports have a sizeable exposure to those countries in North Africa, the Middle East as well as Russia and Ukraine in which geopolitical risks are increasing. The Purchasing Managers' Index (PMI) for the manufacturing sector has been below the 50 mark (a reading under 50 represents a contraction in overall activities) for three months in a row, suggesting that output may decrease. Business investment is likely to continue to be depressed as business confidence is weighed down by weak demand, mounting geopolitical risks as well as rising political tensions ahead of June's parliamentary elections. Moreover, the latest reading of the consumer confidence indicator deteriorated to the lowest level since 2009 against the backdrop of economic slowdown as well as rising unemployment, suggesting that consumer spending may remain lacklustre.

Although inflation, which rose above 9% y/y in mid-2014, has been falling on the back of lower oil prices, it remains stubbornly high at over 7% y/y (the inflation target of the Central Bank of Republic of Turkey (CBRT) is set at 5% y/y) due to higher import goods prices reflecting the Lira depreciation. After a sharp increase in its policy rate from 4.5% to 10% in January 2014, the CBRT has cut its rates five times as political pressures for rate cuts mount. That being said, the pace of the CBRT's rate cut has been gradual (by 25 to 75bps, 250bps in total) as the inflation rate remains at well above the CBRT's target. However, political pressure for further rate cuts on the central bank is likely to become intensified as the parliamentary election in June nears. Adding to this, concerns over heightened geopolitical risks, the still high current account deficit as well as rising expectations of an interest rate increase by the US Fed will continue to weigh down the Turkish Lira.

GDP

Real GDP growth slowed to 2.9% y/y in 2014 from 4.2% y/y in 2013. A look at the breakdown of this figure reveals that private consumption growth decelerated from 5.1% y/y in 2013 to 1.4% y/y, weighed down by rising unemployment and a decrease in real income due to a sharp interest rate increase by the CBRT in January 2014 and higher import goods prices on the back of the Lira depreciation. Adding to this, the private sector's investment in machinery and equipment decreased sharply by 3.7% y/y due to a fall in business confidence reflecting weaker domestic demand and mounting concerns over geopolitical risks in neighbouring countries such as Syria and Iraq. Meanwhile, looking at the quarterly national account data, the pace of real GDP growth remained below 1.0% q/q for the second consecutive quarter in Q4, up only by 0.7% q/q.

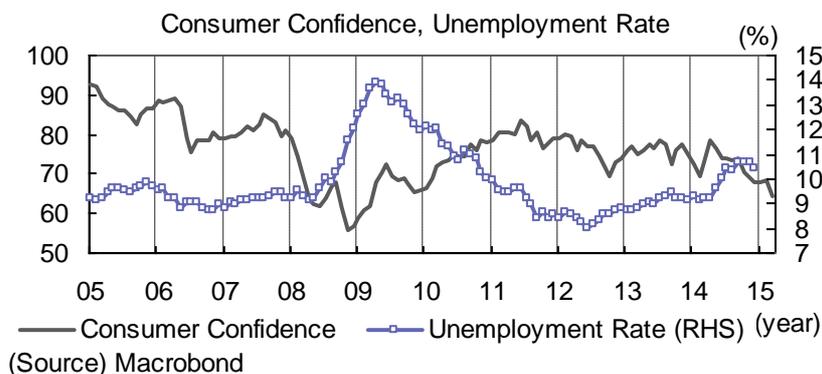


Output

Industrial production increased by 1.0% y/y in February after contracting by 2.0% y/y in January. That being said, output growth is likely to remain lacklustre in the coming months. The PMI for the manufacturing sector fell to 48.0 in March, the lowest level since 2009. A look at the breakdown of this figure reveals that new orders continue to decline while employment decreased for the first time in six years.

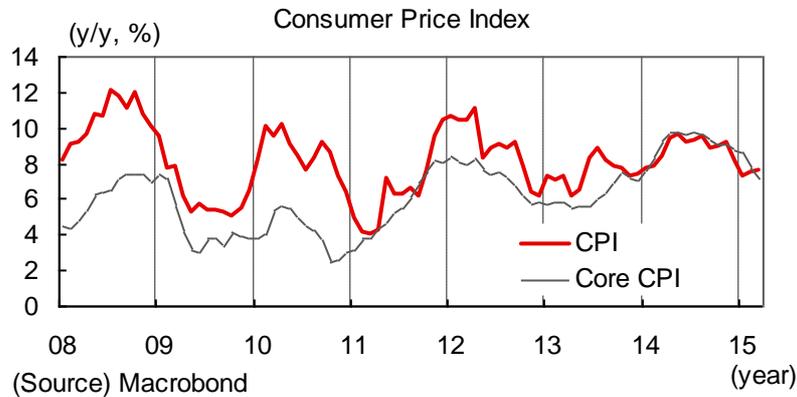
Labour Market, Consumer Confidence

The financial position of households remains tight. The unemployment rate is now at the highest level in five years as the total number of employees has been flat. Consumer confidence has been falling since the latter half of 2014 and fell to the lowest level since 2009 in March owing to deterioration in confidence in Turkey's economic outlook, households' financial situation, and rising concerns over unemployment.



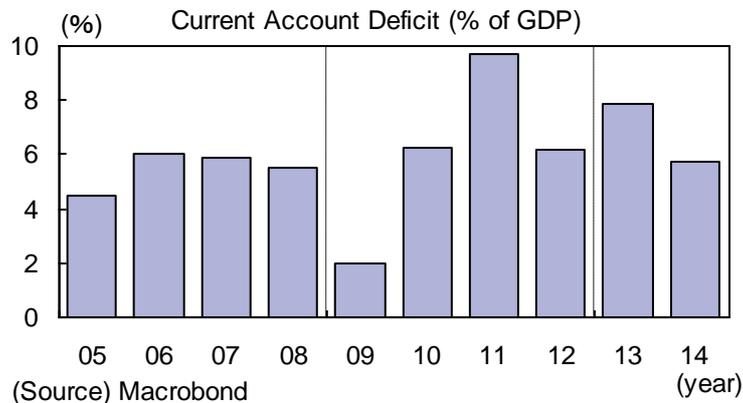
Prices

The pace of increase in the consumer price index has been slowing down after peaking at 9.5% y/y in August 2014, partly owing to a fall in oil prices, and stood at 7.5% y/y in January, the lowest level since the end of 2013. That being said, it is still well above the CBRT's inflation target of 5%. Inflation edged up to 7.6% y/y in February due to higher food prices reflecting an increase in imported goods prices on the back of further depreciation of the Lira.



Balance of Payment

The current account deficit decreased to 5.4% of GDP in 2014 from 7.9% of GDP in 2013. However, the size of the current account deficit remains at an unsustainable level. Looking at the breakdown of this figure, the goods trade deficit decreased from US\$79.9bn in 2013 to US\$63.5bn, owing to a decrease in imports due to weak domestic demand and lower oil prices. That being said, according to the monthly foreign trade statistics published by the Turkish Statistical Institute, exports -to North Africa, the Middle East and Russia in particular- have been decreasing between November 2014 and February 2015, indicating that decreases in the trade deficit may halt. The surplus in services increased from US\$22.8bn in 2013 to US\$25.3, largely owing to resilient growth in tourism revenues. Meanwhile, a look at the breakdown of the capital and financial accounts reveals that Turkey continued to rely on foreign short-term capital flows to finance its current account deficit as the share of net inflow of security investment remained large.



Main Economic & Financial Indicators: Turkey

1. Annual and quarterly data

		2012	2013	2014	14/Q1	Q2	Q3	Q4	15/Q1
GDP (at current prices)	(US\$ bn)	786.6	822.1	799.5	185.7	202.7	214.4	197.3	-
Real GDP growth	(%, q/q)	2.1	822.1	799.5	1.6	-0.4	0.5	0.7	-
	(%, y/y)	0.0	4.2	2.9	4.9	2.3	1.9	2.6	-
(Private consumption)	(%, q/q)	-0.5	0.0	0.0	-1.2	0.1	1.7	1.4	-
	(%, y/y)	0.0	5.1	1.3	2.6	0.4	0.1	2.4	-
(Gross fixed capital formation)	(%, q/q)	-2.7	0.0	0.0	-1.8	-1.7	2.0	0.3	-
	(%, y/y)	0.0	4.4	-1.3	-0.3	-3.5	-0.4	-1.0	-
Industrial production	(%, y/y)	2.4	3.5	3.5	5.8	3.3	3.5	1.8	-
Consumer confidence index		75.6	76.0	72.5	71.4	76.1	73.7	68.9	66.7
Retail Sales	(%, y/y)	13.3	9.5	10.5	6.8	4.7	1.7	3.1	-
Bank credits to the private sector	(%, y/y)	18.5	33.3	19.3	30.7	22.2	20.5	19.3	-
Consumer price index	(%, y/y)	8.9	7.5	8.9	8.0	9.4	9.2	8.8	7.5
Gross Wages growth	(%, y/y)	15.7	14.4	15.6	16.3	15.9	15.5	14.6	-
Unemployment rate	(%)	8.4	9.0	9.9	9.2	9.6	10.4	10.5	-
Trade balance	(US\$ mn)	-84,083	-99,859	-84,555	-17,323	-22,391	-21,716	-23,125	-
Exports	(US\$ mn)	152,462	151,803	157,628	40,134	39,936	38,319	39,238	-
Export growth	(%, y/y)	13.0	-0.4	3.8	8.5	4.7	2.9	-0.5	-
Imports	(US\$ mn)	236,545	251,661	242,183	57,458	62,327	60,035	62,363	-
Import growth	(%, y/y)	-1.8	6.4	-3.8	-2.2	-7.1	-2.8	-2.6	-
Current account	(US\$ mn)	-48,535	-64,658	-45,846	-11,670	-12,643	-6,744	-14,789	-
Capital and financial balances	(US\$ mn)	-71,126	-72,817	-43,116	1,365	-21,613	-5,331	-17,537	-
Foreign direct investment	(US\$ mn)	13,282	12,457	12,534	4,261	2,692	2,347	3,234	-
Foreign reserves	(US\$ mn)	99,943	110,927	106,906	105,989	111,855	111,395	106,906	-
External debt	(US\$ mn)	339,041	389,540	402,415	388,280	401,981	396,800	402,415	-
Stock price index		63,729	78,004	75,217	64,809	76,047	79,336	80,767	84,989
Interbank overnight borrowing rate		8.24	6.42	10.22	10.54	10.70	8.96	10.69	10.95
TRY/USD		1.80	1.91	2.19	2.21	2.11	2.16	2.26	2.47
TRY/Euro		2.31	2.53	2.91	3.04	2.90	2.87	2.83	2.77
TRY/GBP		2.85	2.98	3.60	3.66	3.55	3.61	3.58	3.73

2. Monthly data

		14/08	9	10	11	12	15/01	2	3
Industrial production	(%, y/y)	4.7	2.7	2.4	0.6	2.5	-2.0	1.0	-
Consumer confidence index		73.2	74.0	70.3	68.7	67.7	67.7	68.1	64.4
Retail Sales	(%, y/y)	-1.1	4.0	0.6	3.9	4.9	3.9	2.9	-
Bank credits to the private sector	(%, y/y)	19.0	20.5	20.0	19.7	19.3	17.7	20.7	-
Consumer price index	(%, y/y)	9.5	8.9	9.0	9.2	8.2	7.2	7.6	7.6
Unemployment rate	(%)	10.3	10.6	10.6	10.6	10.4	-	-	-
Trade balance	(US\$ mn)	-8,110	-7,011	-6,292	-8,314	-8,518	-4,320	-4,656	-
Exports	(US\$ mn)	11,388	13,585	12,892	13,070	13,276	12,316	12,272	-
Export growth	(%, y/y)	2.4	4.0	7.0	-8.0	0.8	-0.7	-6.0	-
Imports	(US\$ mn)	19,498	20,596	19,185	21,385	21,794	16,636	16,927	-
Import growth	(%, y/y)	7.1	-0.1	-1.5	-0.1	-5.8	-13.7	-7.2	-
Stock price index		79,242	78,334	76,603	81,216	84,177	88,415	85,725	80,894
Interbank overnight borrowing rate		8.81	9.17	10.99	10.02	10.97	10.94	11.03	10.88
TRY/USD		2.16	2.21	2.25	2.23	2.30	2.33	2.47	2.59
TRY/Euro		2.88	2.85	2.86	2.79	2.83	2.72	2.80	2.81
TRY/GBP		3.61	3.61	3.62	3.53	3.59	3.54	3.78	3.88

TRY: Turkish New Lira

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

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