

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.
A member of MUFG, a global financial group

Overview

Turkey's real GDP growth in Q1 accelerated to 1.3% q/q from 0.8% q/q in the previous quarter; however, the Turkish economy is facing a gathering headwind due to heightened political uncertainty surrounding the result of the parliamentary election in June as well as geopolitical risks.

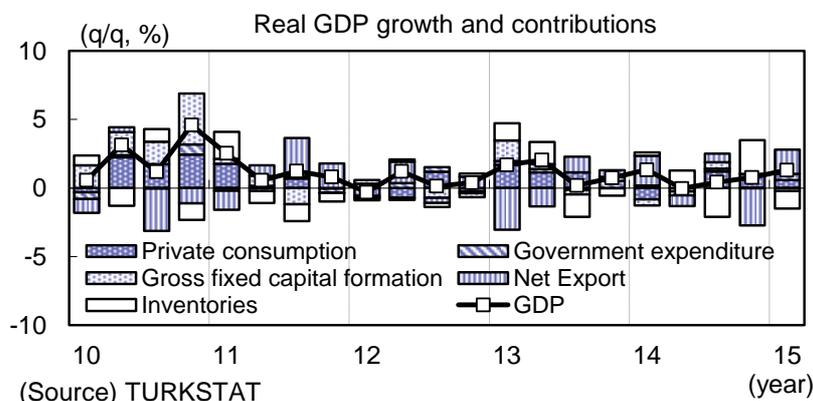
At the June election, The Justice and Development Party (AKP) lost their majority of parliamentary seats for the first time since 2002. The AKP is seeking to form a coalition government with other parties or an independent minority government, but if they cannot organise a cabinet by the deadline (24th August), then there is a possibility of a second round of elections. In addition, during the latter half of July, the Turkish army launched air strikes against both the Islamic State's (IS) base in Northern Syria and the Kurdistan Worker's Party (PKK)'s base in Northern Iraq. As well as heightened geopolitical risks, squeezed household incomes due to high inflation are likely to put downward pressure on Turkey's domestic demand. The rate of inflation has a downward trend, but recent further depreciation of the lira is likely to keep inflation at an elevated level. The lira reached a record low of 2.79 against the dollar on 30th July in response to the air strikes against IS and the PKK.

The majority of downward pressure in recent months came from increased uncertainty over domestic politics and geopolitical risks. Looking ahead, the lira may slip further as the US Federal Reserve Bank (Fed) moves closer to raising its interest rates. Of course, there is the view that lira depreciation would improve the competitiveness of Turkish exports; however, the recovery pace of the European economy, Turkey's largest export destination, is likely to remain slow. Furthermore, Turkish exports have a sizeable exposure to those countries in North Africa, the Middle East as well as Russia and Ukraine where geopolitical risks are heightened. Since the possibility of drastic improvements in the state of affairs of these countries is low, Turkish exports are likely to remain sluggish. Under such circumstances, it is unlikely that the Turkish economy will accelerate in the coming months.

GDP

In Q1, real GDP grew by 1.3% q/q. Examination of the breakdown reveals that exports increased by 3.0% q/q while import decreased by 3.3% q/q owing to a slowdown in domestic

demand. As a result of this, net export made a positive contribution to overall growth. The growth pace of private consumption decelerated from 1.5% q/q in Q4 2014 to 0.9% q/q, reflecting increased pressure on household incomes brought about by higher inflation due to lira depreciation as well as the worsening labour market. Gross fixed capital formation is down 0.9% q/q, contracting for three consecutive quarters. The private sector's investment in machinery and equipment fell by 1.7% q/q as businesses refrained from investing ahead of the June election.

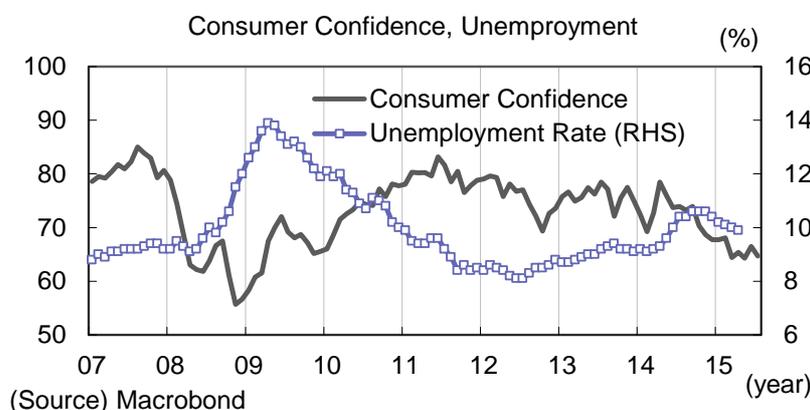


Output

Industrial production (calendar adjusted) increased 2.4% y/y in May; however, the growth pace decelerated from April when the output grew by 4.0% y/y. Output growth may decelerate further in the coming months. The Purchasing Managers' Index stood at 50.1 in July, returning to a point above the 50 mark which indicates an expansion in the sector after dipping below 50 in June. Yet examination of this figure reveals that new orders continued to decline due to a decrease in export orders which indicates output may decelerate.

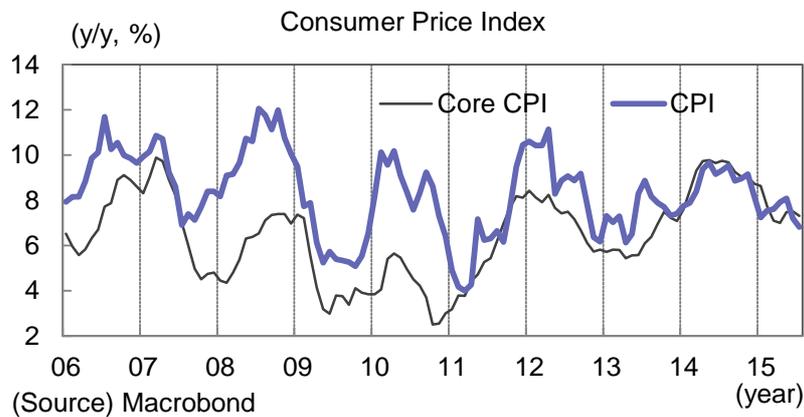
Labour Market, Consumer Confidence

Since the unemployment rate peaked at 10.6% last November, it fell to 9.9% in May due to a gradual increase in the number of people in employment, mainly in the service sector. Nevertheless, the unemployment rate remains at a high level. The Consumer Confidence started to deteriorate in 2014 due to a worsened economic and households' financial outlooks along with rising concerns about unemployment. It fell to the lowest level since 2009 at the beginning of this year and has remained at the same level since.



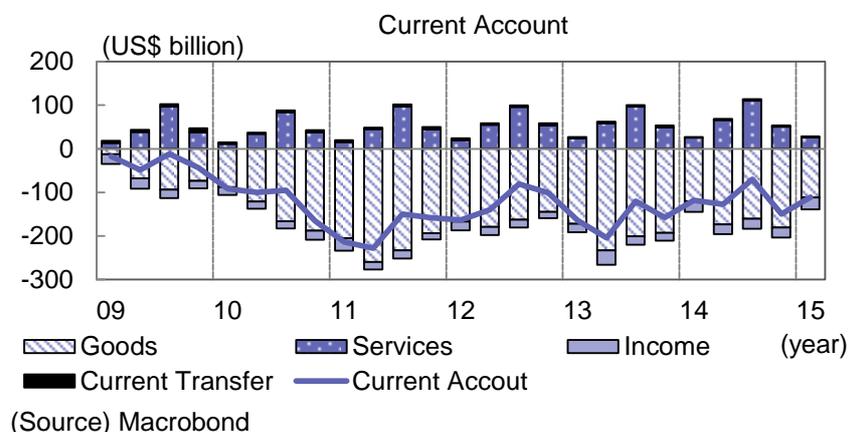
Prices

Consumer prices rose by 6.8% y/y in July. The growth pace decelerated from 7.2% y/y in June due to falling food prices; however, the core inflation rate, which omits food and energy prices, is still higher than 7.0% y/y. The inflation rate is likely to remain at a high level given that the lira is at a historically low level. On 30th July, the Central Bank of Republic of Turkey (CBRT) revised its inflation forecast for the end of 2015 upwards from its April forecast of 6.8% y/y to 6.9% y/y.



Balance of Payment

The current account deficit in Q1 remained almost unchanged from the same time last year at US\$11.09 billion. The breakdown of this figure reveals that the goods trade deficit decreased from US\$12.05 billion at the same time last year to US\$8.72 billion due to a decrease in imports as a result of deceleration in domestic demand and weaker crude oil prices. Looking ahead, although imports are likely to decrease further as weak domestic demand continues, trade deficit may not shrink further given that exports cannot be expected to grow strongly. The pace of economic recovery in Europe is likely to be only gradual and there is little hope that geopolitical tensions in the Middle East and Russia – Ukraine will improve. Additionally, year-on-year growth in the number of foreign visitors to Turkey has turned negative since April. This is due to the falling number of Russian tourists as the country is hit by a recession (the number of Russian visitors are the second largest after German visitors). Moreover, the recent rise of geopolitical risk surrounding Turkey means it is possible that the number of tourists from other countries will fall, decreasing the size of the service account surplus, and hence keeping the country's current account deficit wide.



Main Economic & Financial Indicators: Turkey

1. Annual and quarterly data

		2012	2013	2014	14/Q2	Q3	Q4	15/Q1	Q2
GDP (at current prices)	(US\$ bn)	786.6	822.1	799.5	202.7	214.4	197.3	179.8	-
Real GDP growth	(% , q/q)	2.1	822.1	799.5	0.0	0.4	0.8	1.3	-
	(% , y/y)	0.0	4.2	2.9	2.3	1.9	2.6	2.3	-
(Private consumption)	(% , q/q)	-0.5	0.0	0.0	0.0	1.9	1.5	0.9	-
	(% , y/y)	0.0	5.1	1.3	0.4	0.1	2.4	4.5	-
(Gross fixed capital formation)	(% , q/q)	-2.7	0.0	0.0	-1.2	1.9	0.0	-0.9	-
	(% , y/y)	0.0	4.4	-1.3	-3.5	-0.4	-1.0	0.0	-
Industrial production	(% , y/y)	2.4	3.5	3.5	3.2	3.5	1.8	1.3	-
Consumer confidence index		75.6	76.0	72.5	76.1	73.7	68.9	66.7	65.4
Retail Sales	(% , y/y)	13.3	9.5	10.5	4.7	1.7	3.1	3.3	4.3
Bank credits to the private sector	(% , y/y)	18.5	33.3	19.3	22.2	20.5	19.3	22.8	25.1
Consumer price index	(% , y/y)	8.9	7.5	8.9	9.4	9.2	8.8	7.5	7.7
Gross Wages growth	(% , y/y)	15.7	14.4	15.6	15.9	15.5	14.5	13.8	-
Unemployment rate	(%)	8.4	9.0	10.0	9.6	10.5	10.5	10.1	-
Trade balance	(US\$ mn)	-84,083	-99,859	-84,567	-22,393	-21,720	-23,129	-15,245	-17,988
Exports	(US\$ mn)	152,462	151,803	157,610	39,934	38,315	39,228	37,066	36,446
Export growth	(% , y/y)	13.0	-0.4	3.8	4.7	2.9	-0.5	-7.6	-8.7
Imports	(US\$ mn)	236,545	251,661	242,177	62,327	60,035	62,357	52,311	54,435
Import growth	(% , y/y)	-1.8	6.4	-3.8	-7.1	-2.8	-2.6	-9.0	-12.7
Current account	(US\$ mn)	-48,535	-64,658	-46,516	-12,751	-6,970	-15,002	-11,094	-
Capital and financial balances	(US\$ mn)	-71,126	-72,817	-42,535	-21,275	-5,533	-17,085	-3,259	-
Foreign direct investment	(US\$ mn)	13,282	12,457	12,539	2,682	2,361	3,236	3,489	-
Foreign reserves	(US\$ mn)	99,943	110,927	106,906	111,855	111,395	106,906	101,223	-
External debt	(US\$ mn)	339,042	389,183	402,441	402,238	397,658	402,441	392,812	-
Stock price index		63,729	78,004	75,217	76,047	79,336	80,767	84,989	83,186
Interbank overnight borrowing rate		8.24	6.42	10.22	10.70	8.96	10.69	10.95	11.12
TRY/USD		1.80	1.91	2.19	2.11	2.16	2.26	2.47	2.67
TRY/Euro		2.31	2.53	2.91	2.90	2.87	2.83	2.77	2.95
TRY/GBP		2.85	2.98	3.60	3.55	3.61	3.58	3.73	4.09

2. Monthly data

		14/12	15/01	2	3	4	5	6	7
Industrial production	(% , y/y)	2.5	-2.0	0.9	4.7	4.0	2.4	-	-
Consumer confidence index		67.7	67.7	68.1	64.4	65.4	64.3	66.4	64.7
Retail Sales	(% , y/y)	4.9	3.9	2.9	3.1	3.8	4.8	5.8	6.8
Bank credits to the private sector	(% , y/y)	19.3	17.7	20.5	22.8	25.3	25.6	25.1	-
Consumer price index	(% , y/y)	8.2	7.2	7.6	7.6	7.9	8.1	7.2	6.8
Unemployment rate	(%)	10.4	10.2	10.1	10.0	9.9	-	-	-
Trade balance	(US\$ mn)	-8,519	-4,341	-4,705	-6,199	-5,007	-6,775	-6,206	-
Exports	(US\$ mn)	13,269	12,304	12,235	12,527	13,359	11,092	11,996	-
Export growth	(% , y/y)	0.7	-0.8	-6.3	-14.7	-0.1	-18.9	-6.9	-
Imports	(US\$ mn)	21,788	16,645	16,940	18,726	18,366	17,867	18,201	-
Import growth	(% , y/y)	-5.8	-13.7	-7.1	-6.0	-11.1	-14.4	-12.5	-
Stock price index		84,177	88,415	85,725	80,894	83,302	85,038	81,476	80,769
Interbank overnight borrowing rate		10.97	10.94	11.03	10.88	11.00	11.12	11.22	11.28
TRY/USD		2.30	2.33	2.47	2.59	2.66	2.65	2.70	2.70
TRY/Euro		2.83	2.72	2.80	2.81	2.87	2.95	3.03	2.97
TRY/GBP		3.59	3.54	3.78	3.88	3.97	4.08	4.21	4.20

TRY: Turkish New Lira

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

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