

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

Despite facing headwinds such as the depreciation of the lira since the latter half of 2013, the Turkish economy has avoided deceleration in Q1. Real GDP grew by 1.7% q/q, accelerating for the second consecutive quarter, supported by growth in exports thanks to the increased demand from Germany and the UK in particular.

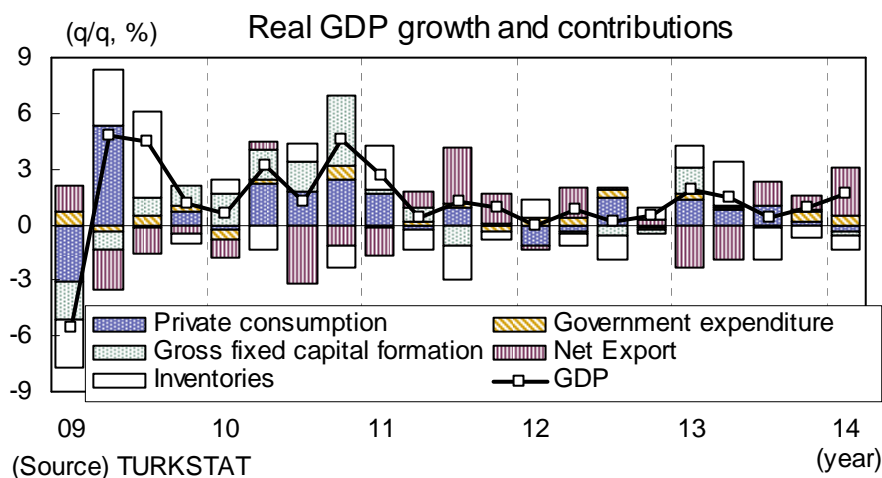
That being said, it is unlikely that Turkey's economic growth will accelerate further given that the growth in exports is expected to be slow as the pace of recovery in the European countries is only gradual. The latest Purchasing Managers Index (PMI) in the manufacturing sector fell below the 50 mark (which indicates a contraction in the sector) for the first time in eleven months, suggesting a further deceleration in output.

Meanwhile, consumer spending has been sluggish, affected by the higher annual inflation rate and the recent deceleration in bank lending growth. That being said, there is some good news for consumers; prices on imported goods are likely to moderate, as downward pressure on the lira has eased after hitting a record low in late January. Adding to this, the Central Bank of the Republic of Turkey (CBRT) cut its main policy rate on July 17th for the third time in three months. Furthermore, pressures on the CBRT from the government demanding additional rate cuts are likely to continue ahead of the presidential election in August and the general election in 2015. In light of these circumstances, the CBRT may continue its interest rate reductions, albeit at moderate pace.

GDP

Real GDP in Q1 grew by 1.7% q/q, accelerating from the 0.9% q/q growth in the previous quarter. External demand led the overall growth, whereas domestic demand was depressed. Private consumption contracted by 0.5% q/q after posting four consecutive quarters of positive growth, weighed down by higher inflation on the back of the lira depreciation. Adding to this, consumers were hit by a deceleration in bank lending growth following a jump in the policy rates in January as well as the introduction of new rules on consumer loan lending. Gross fixed capital formation contracted by 1.1% q/q, as while public investment increased, private sector investment decreased, reflecting the recent deceleration in bank lending growth to the private

sector after the rate hike by the CBRT in January. Meanwhile, the net export contribution to overall growth jumped to 2.5% as it grew by 7.0% y/y, boosted by the recovery in demand from Germany and the UK (the first and third largest partners in Turkish exports, respectively), while imports decreased by 2.4% y/y.



Output

Growth in industrial production (working-day adjusted) decelerated to 3.3% y/y in May from 4.6% y/y in April. The PMI for the manufacturing sector has been sliding down since February's peak, and it fell below the 50 mark in June for the first time in 11 months. The details of the PMI figures suggest further deceleration in output as both domestic and external new orders decreased.

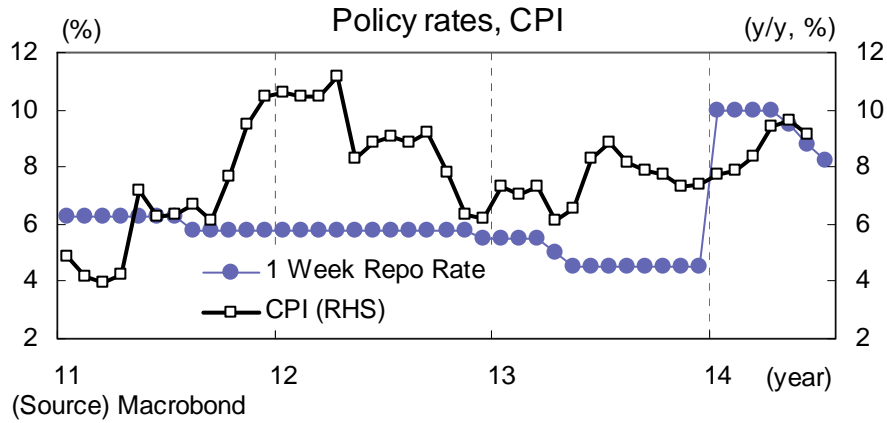
Labour Markets / Consumer Confidence

Although the unemployment rate has been lower than the recent peak of 9.5% recorded in September 2013, its recovery has been slow. The unemployment rate stood at 9.1% in March, up from 9.0% in February. The pace of growth in bank lending decelerated modestly in the final quarter of 2013. However, it decelerated sharply following a hike in the policy rates (the main policy rate increased from 4.5% to 10%) by the CBRT in January. The Consumer Confidence Index fell from 76.0 in May to 73.7 in June, reflecting the deteriorating prospects of the overall economic and household finance situations.

Prices/Monetary policy

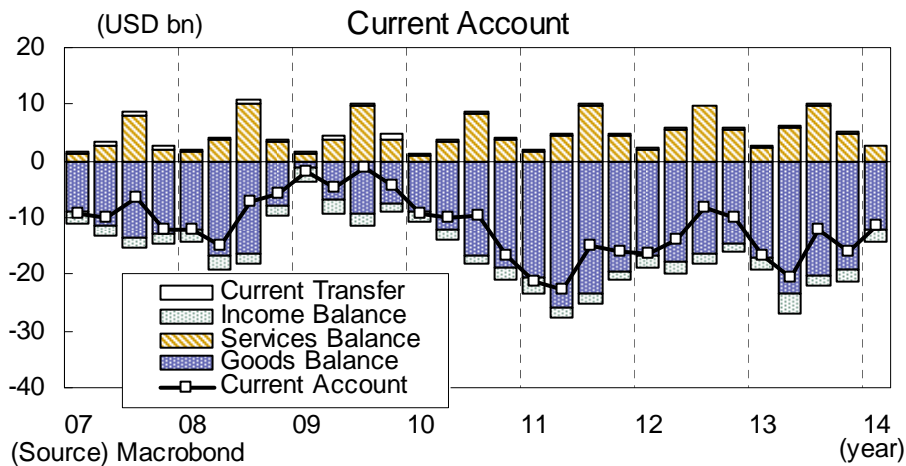
The Consumer Price Index rose by 9.2% in June, decelerating from 9.7% in May, partly due to base effects. Adding to this, inflationary pressures on imported goods prices are likely to ease further as the lira has stabilised, given that uncertainties over domestic politics receded after the AKP (Justice and Development Party) won the local elections in March. The CBRT again lowered its main policy rate by 50bps to 8.25% in July, following a 50bps cut in May and a 75bps cut in June. The CBRT said in its statement released after the July meeting that although the adverse effects of the lira depreciation since mid-2013 on annual inflation are gradually tapering off, elevated food prices have been the main factor limiting the pace of

decline in inflation. This statement suggests that the pace of deceleration has been slower than the CBRT expected. As the annual inflation rate remains well above the CBRT's target of 5% ($\pm 1\%$) and risks of lira depreciation remain, including geopolitical risks over the recent situation in Iraq as well as the possibility of an increase in the markets' expectations of the US Fed raising its interest rates, inflation data from the country will be watched closely.



Balance of Payments

The current account deficit in Q1 decreased to US\$11.6bn from US\$15.2bn a year earlier. This was owing to a decrease in the trade deficit from US\$17.2bn in the same period last year to US\$12.0bn. Imports decreased by 2.4% y/y on the back of sluggish domestic demand while exports jumped by 9.6%, boosted by the lira depreciation as well as the increased demand from European countries. A surge in gold exports to Switzerland also contributed to the overall export growth.



1. Annual and quarterly data

	2011	2012	2013	13/Q2	Q3	Q4	14/Q1	Q2
GDP (at current prices) (US\$ bn)	771.8	786.6	819.1	209.5	211.1	200.2	184.0	-
Real GDP growth (% , y/y)	8.9	2.2	4.0	4.5	4.3	4.4	4.3	-
(Private consumption) (% , y/y)	7.8	-0.5	4.6	5.1	4.7	5.3	2.9	-
(Gross fixed capital formation) (% , y/y)	20.0	-2.7	4.3	3.4	6.0	6.4	-0.5	-
Industrial production (% , y/y)	9.6	2.5	3.4	2.6	3.8	4.4	5.3	-
Consumer confidence index	79.6	75.6	76.0	76.4	75.9	76.0	71.4	76.1
Retail Sales (% , y/y)	18.2	13.3	9.5	4.1	13.6	10.5	13.6	-
Bank credits to the private sector (% , y/y)	34.7	18.5	33.1	27.6	32.8	33.1	30.7	-
Consumer price index (% , y/y)	6.5	8.9	7.5	7.0	8.3	7.5	8.0	9.4
Gross Wages growth (% , y/y)	15.8	15.7	14.4	14.2	14.9	15.8	16.3	-
Unemployment rate (%)	9.1	8.4	9.1	8.9	9.4	9.2	9.1	-
Trade balance (US\$ mn)	-105,935	-84,083	-99,859	-28,938	-24,547	-24,606	-17,259	-
Exports (US\$ mn)	134,907	152,462	151,803	38,145	37,238	39,430	40,226	-
Export growth (% , y/y)	18.5	13.0	-0.4	-2.2	-3.6	-0.3	8.7	-
Imports (US\$ mn)	240,842	236,545	251,661	67,083	61,785	64,036	57,485	-
Import growth (% , y/y)	29.8	-1.8	6.4	9.1	3.7	7.5	-2.2	-
Current account (US\$ mn)	-75,082	-48,497	-65,065	-20,514	-12,117	-15,888	-11,584	-
Capital and financial balances (US\$ mn)	66,961	70,259	73,351	21,158	8,036	16,511	56	-
Foreign direct investment (US\$ mn)	16,171	13,224	12,919	2,489	3,322	4,312	4,206	-
Foreign reserves (US\$ mn)	78,322	99,943	110,927	105,567	109,790	110,927	105,989	-
External debt (US\$ mn)	303,658	337,679	388,137	366,238	372,236	388,137	386,786	-
Stock price index	60,662	63,729	78,004	83,822	72,936	74,289	64,809	76,047
Interbank overnight borrowing rate	7.70	8.24	6.42	5.58	7.08	7.50	10.54	10.70
TRY/USD	1.68	1.80	1.91	1.84	1.97	2.03	2.21	2.11
TRY/Euro	2.34	2.31	2.53	2.40	2.61	2.76	3.04	2.90
TRY/GBP	2.69	2.85	2.98	2.83	3.06	3.28	3.66	3.55

2. Monthly data

	13/11	12	14/01	2	3	4	5	6
Industrial production (% , y/y)	4.7	7.0	7.2	4.6	4.1	4.6	3.3	-
Consumer confidence index	77.5	75.0	72.4	69.2	72.7	78.5	76.0	73.7
Bank credits to the private sector (% , y/y)	32.3	33.1	36.1	33.3	30.7	28.6	23.2	-
Consumer price index (% , y/y)	7.3	7.4	7.8	7.9	8.4	9.4	9.7	9.2
Unemployment rate (%)	9.3	9.1	9.2	9.0	9.1	-	-	-
Trade balance (US\$ mn)	-7,213	-9,964	-6,863	-5,166	-5,231	-7,246	-7,108	-
Exports (US\$ mn)	14,201	13,175	12,429	13,083	14,713	13,415	13,750	-
Export growth (% , y/y)	3.3	4.5	8.3	5.6	12.1	7.6	3.6	-
Imports (US\$ mn)	21,414	23,139	19,292	18,249	19,944	20,661	20,859	-
Import growth (% , y/y)	2.2	16.7	2.6	-5.9	-3.0	-9.5	-10.3	-
Stock price index	74,801	70,875	66,080	63,516	64,647	72,620	76,498	79,044
Interbank overnight borrowing rate	7.57	7.98	8.39	11.42	12.07	11.03	11.00	10.03
TRY/USD	2.03	2.07	2.22	2.21	2.21	2.13	2.09	2.12
TRY/Euro	2.73	2.83	3.03	3.02	3.06	2.94	2.88	2.88
TRY/GBP	3.26	3.38	3.66	3.66	3.68	3.56	3.52	3.58

TRY: Turkish New Lira

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

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