

Türkiye Economic Outlook

Garanti BBVA Research

August 2023

A «smooth» transition process targeted: «speed and order of the transformation will be determined by impact analysis»

IN PROGRESS

- ✓ Renewal of CBRT Governor & three deputy governors (still 2 pending vacant positions in MPC)
- ✓ Appointment of four deputy Treasury and Finance ministers
- ✓ Below market consensus & more gradual than expected monetary policy normalization
- ✓ Limited ease in TL deposit share rule & requirement on bond purchases
- ✓ Above inflation wage adjustments in July (minimum wage by 34%, average civil servant by 74%, pensioners by 25%)
- ✓ Credit card rates updated by a higher than the revised CBRT reference rate & cap on the commercial loan interest rates (x1.4 times) removed
- ✓ Treasury's net borrowing limit increased & tax hikes introduced on mainly indirect taxes & Treasury's FC scheme cost transferred to the CBRT

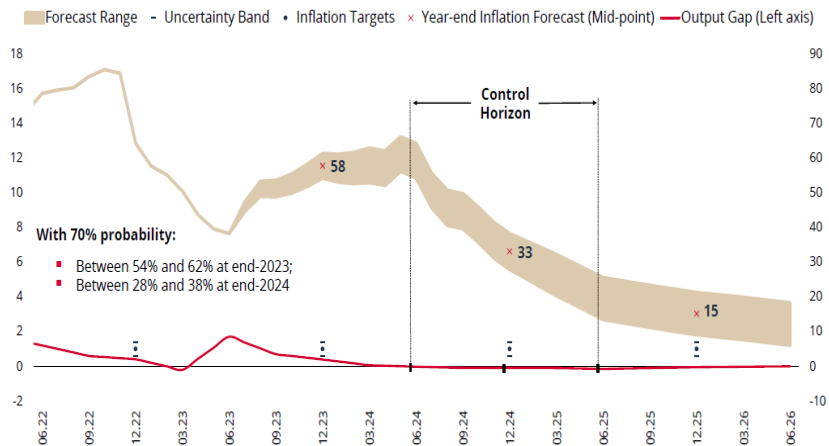
PENDING

- ✓ Reshuffling in key economic positions
- ✓ Medium Term Program in September (design of fiscal policy & coordination with the revised CBRT inflation projections)
- ✓ Exit strategy from FC scheme & banking sector bond obligations
- ✓ Evolution of statistics

Near consensus inflation forecast revisions of the CBRT without any guidance on future monetary policy

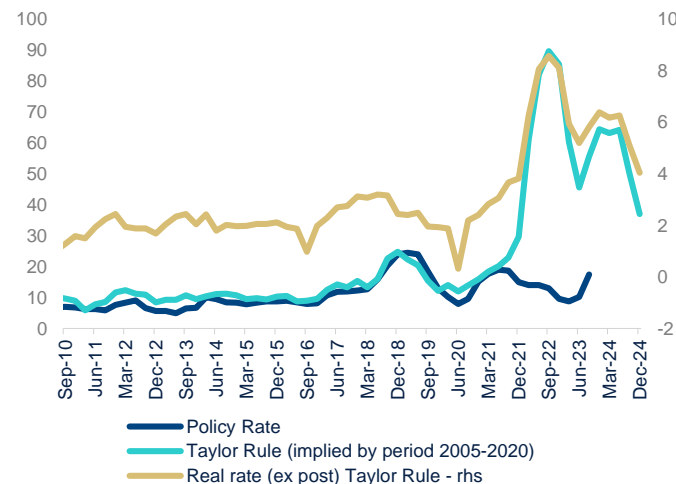
CBRT INFLATION PROJECTIONS

% YoY



TAYLOR RULE IMPLIED POLICY RATE PROJECTIONS

%, based on CBRT projections

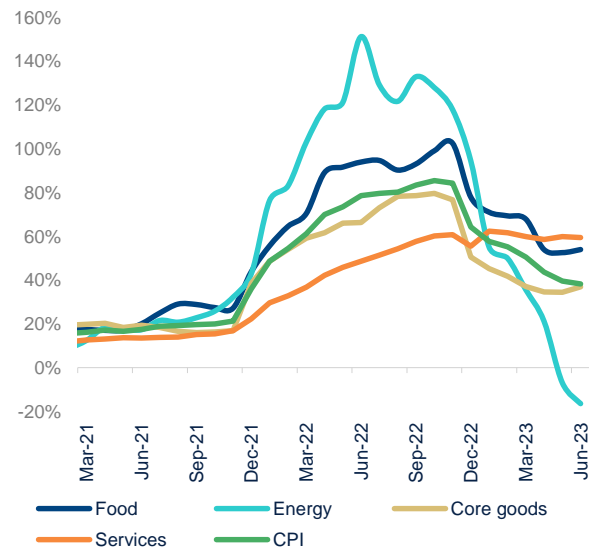


- We underline the need of a much tighter stance to guarantee a disinflation pattern. Otherwise, reliance on demand restrictive macro-prudential measures will be required to be reinforced.

End of the favorable base effects June onwards, trend CPI at 40-45%

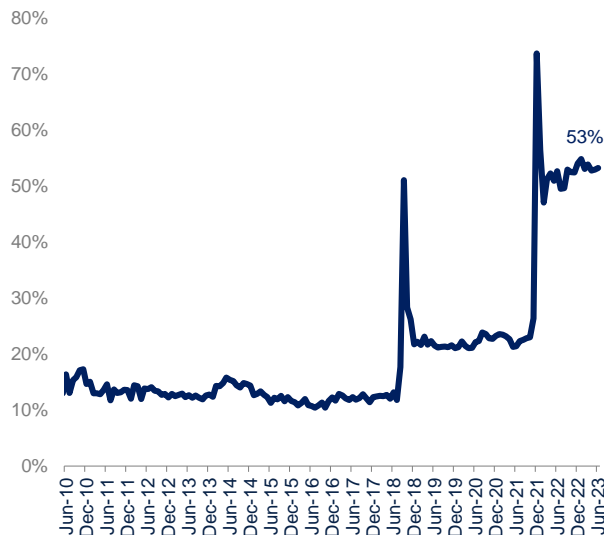
CPI SUBCOMPONENTS

YoY



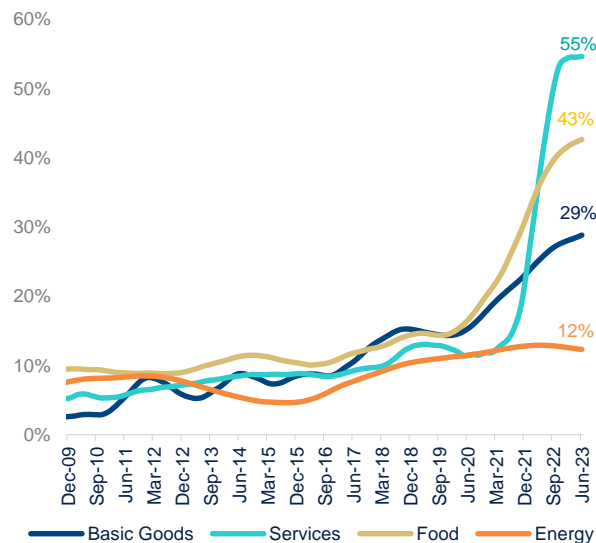
EXCHANGE PASS-THRU ON CORE D

(RECURSIVE METHOD)



TREND CPI IN SUBCOMPONENTS

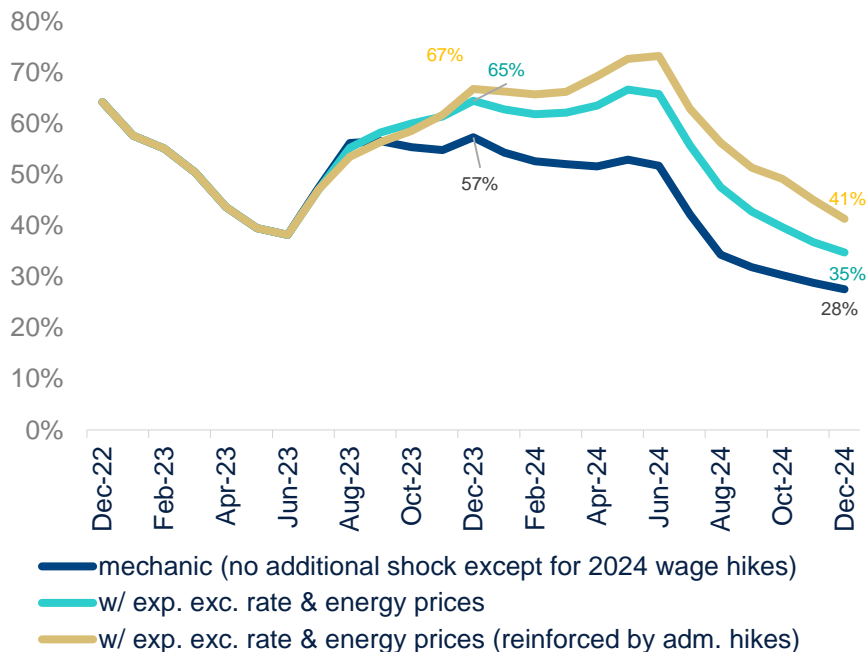
YoY



2023 year-end inflation to reach above 60%, mechanically heading south to at most 28% by 2024 end

GARANTI BBVA CPI SIMULATIONS

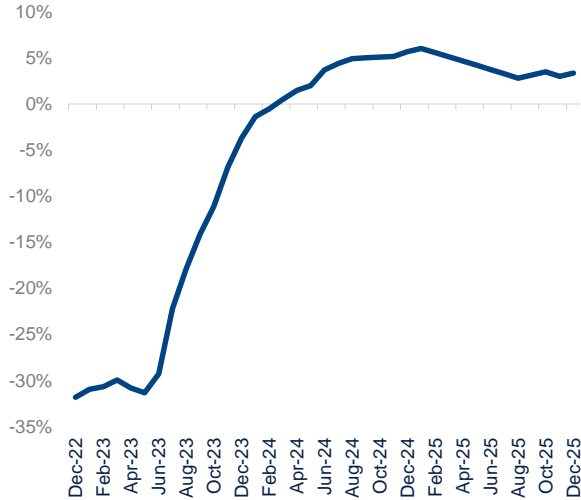
% YOY



- Renewed pressure on inflation outlook
- Even with only currently available information, inflation will mechanically accelerate to 57% by end 2023 (55% in Oct23)
- Upward risks on our recently revised projections, led by the SPC tax hikes on fuel prices, might lead to reach 65% CPI by end 2023 and 65-70% if energy subsidies are lowered in 4Q23 (with near 30% electricity & natural gas price hikes)
- Our mechanical exercise (with only backward indexed wage hikes introduced for 2024) shows inflation might come down to at most 28% by end 2024

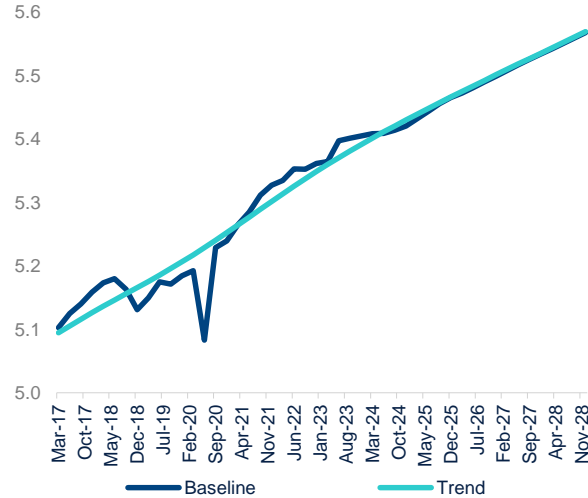
Real rates assumed to be suppressed to reduce the negative impact on growth

EX ANTE REAL CBRT RATE FORECASTS
%, adjusted with 12-month ahead CPI



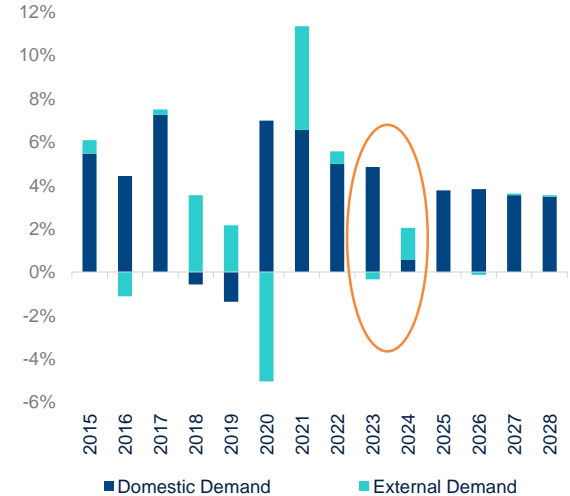
Near 0% reached just before local elections

GARANTI BBVA GDP LEVEL FCASTS
SA LOG



Positive output gap assumed to be closed by end 1Q24

GARANTI BBVA GDP COMPOSITION FCASTS
PP contribution an annual terms

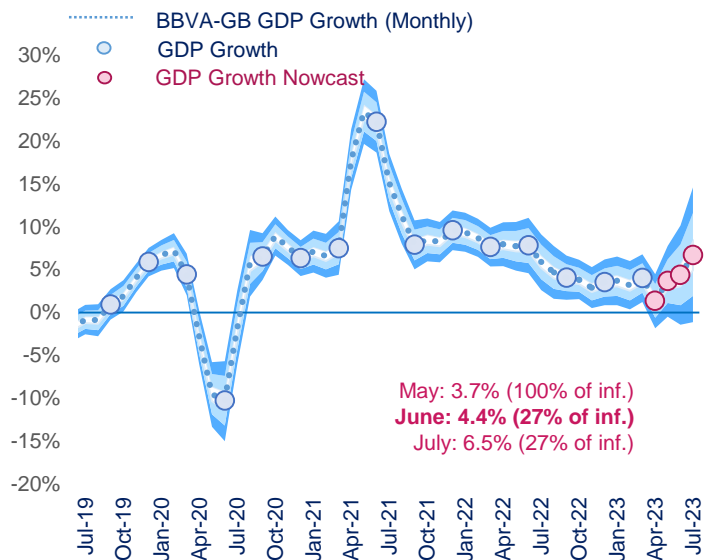


Growth composition should be changing in favor of next exports to rebalance the economy

Above potential growth rate continues led by services value-added

GARANTI BBVA MONTHLY GDP INDICATOR

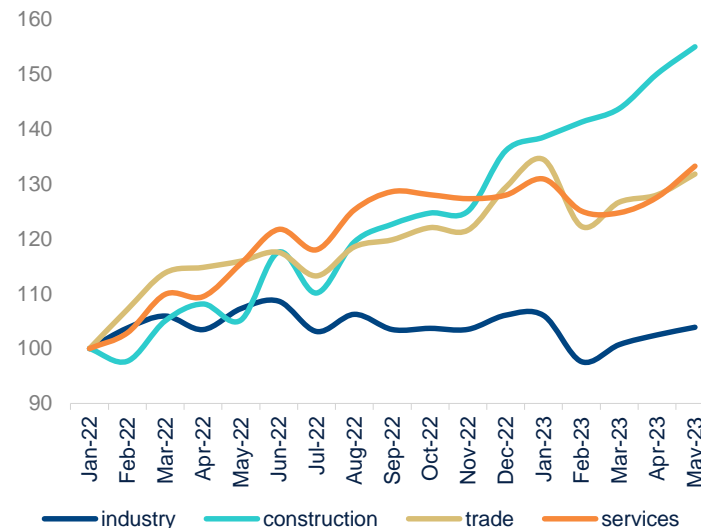
YOY, 3M MOVING AVG.



* Negative calendar day effects during 2Q23, which will reverse in 3Q23

SECTORIAL TURN-OVER INDICES

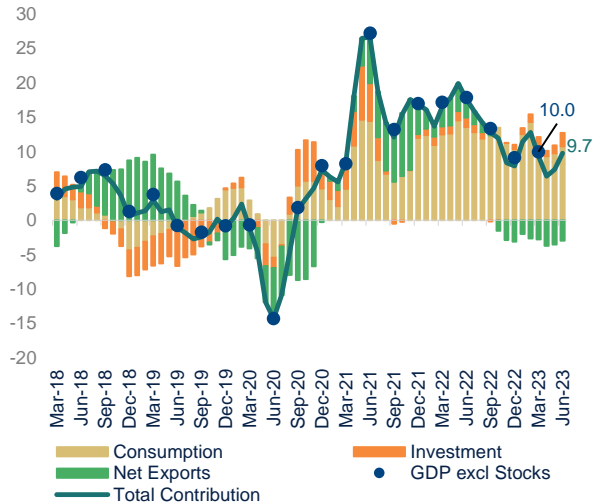
REAL, SA CAL ADJ, Jan22=100



Demand remains significantly above supply, consumption stays solid with spending mainly on goods

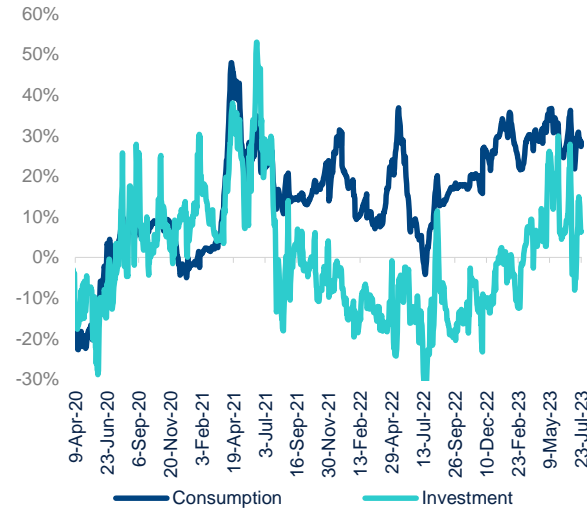
GARANTI BBVA AGGREGATE DEMAND

(Monthly contribution to 3m average YoY)



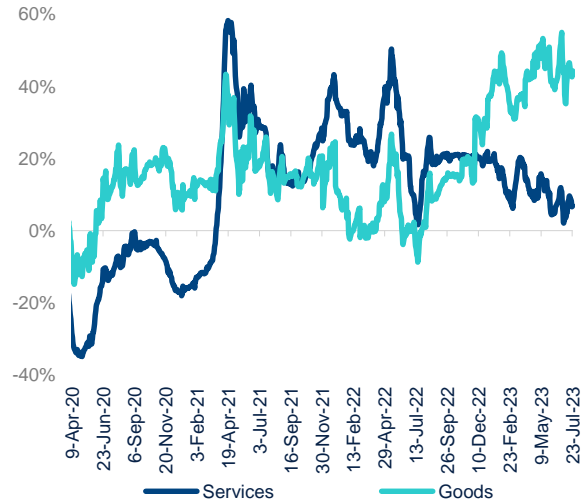
GARANTI BBVA BIG DATA DOMESTIC DEMAND

(REAL, 28-DAY SUM, YOY)



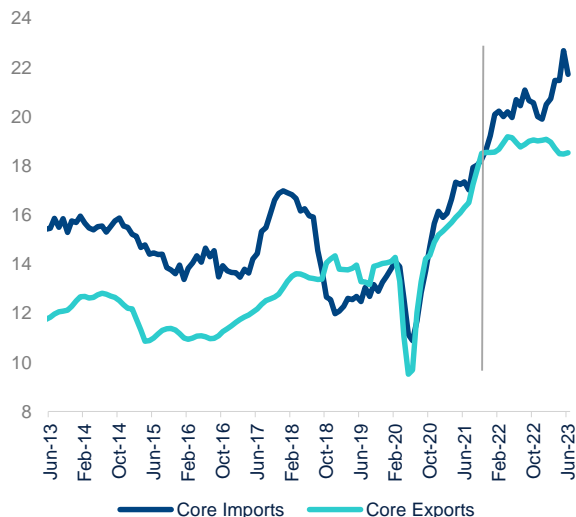
GARANTI BBVA BIG DATA CONSUMPTION

(REAL, 28-DAY SUM, YOY)

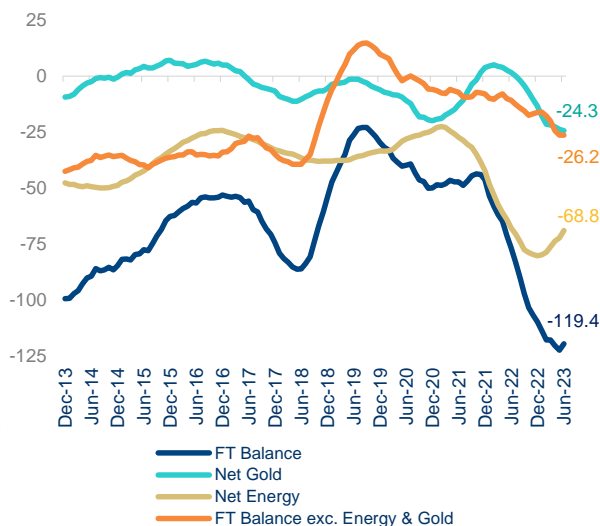


Goods imports should adjust & exports will benefit from recent depreciation (tourism revenues barely catch up 2022 performance so far)

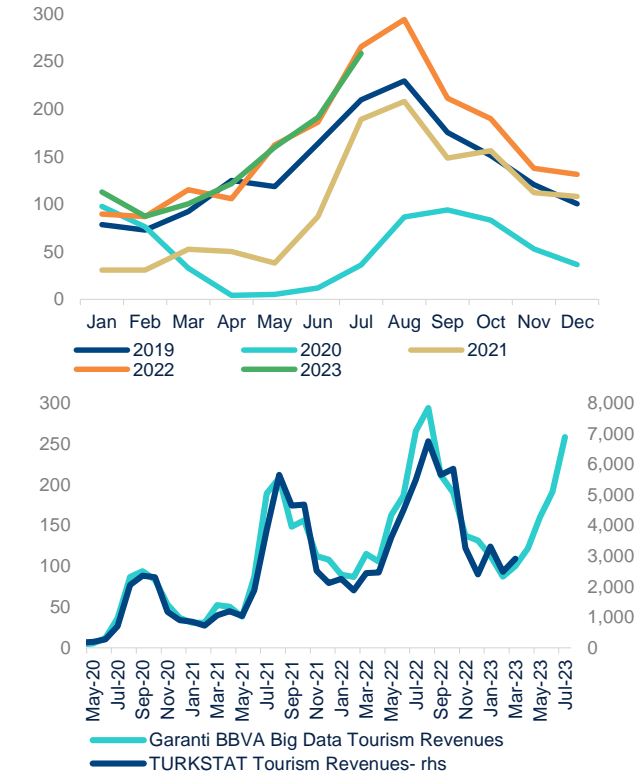
GOODS EXPORTS & IMPORTS
(EXC ENERGY & GOLD, SA 3M MOVING AVG)



GOODS FOREIGN TRADE BALANCE
12-MONTH, US\$BN



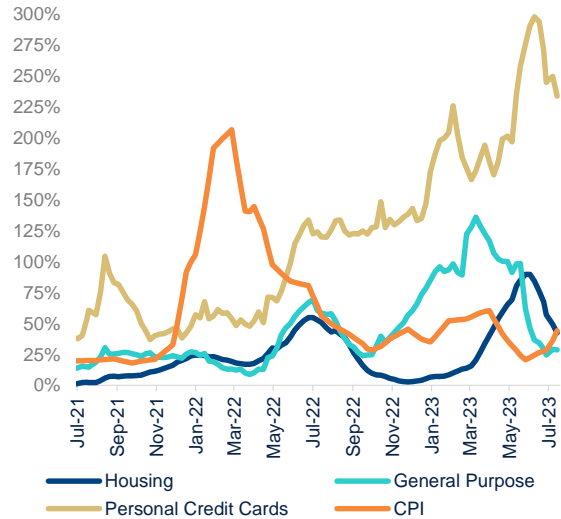
GARANTI BBVA BIG DATA TOURISM REVENUES
(mn\$)



Credit card spending keeps boosting consumption

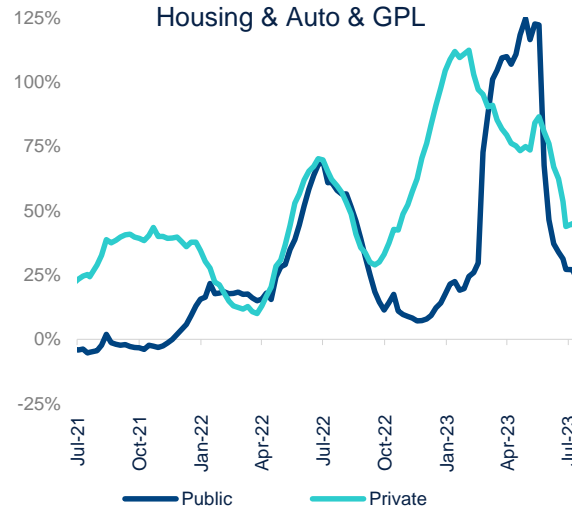
CONSUMER CREDIT GROWTH

13-week annualized, by segment



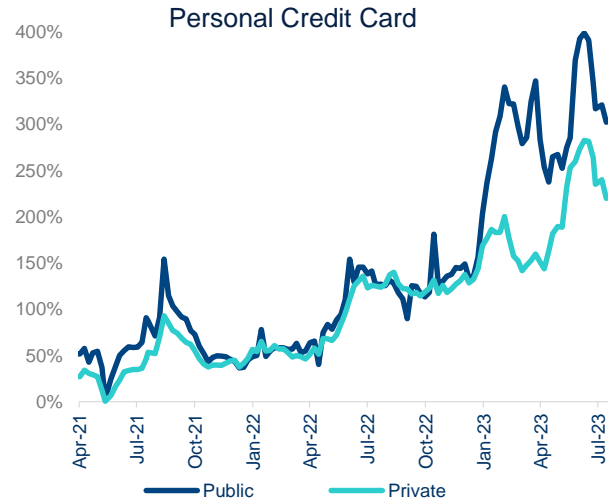
CONSUMER CREDITS GROWTH

13-week annualized



CONSUMER CREDITS GROWTH

13-week annualized



SME lending backed by the overall sector, non-SME lending supported by state banks to a lower extent

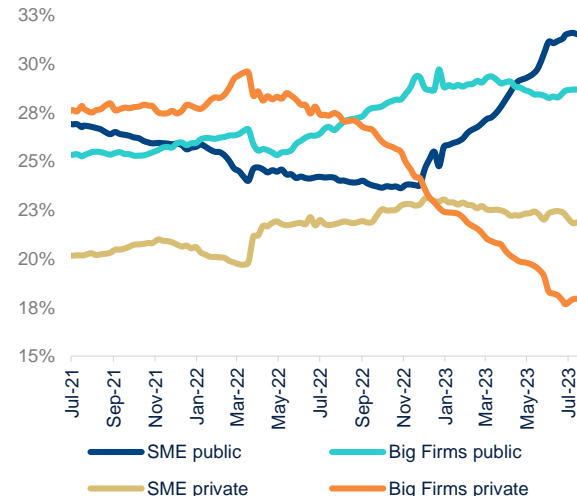
TL COMMERCIAL CREDITS
13-WEEK ANNUALIZED



TL COMMERCIAL CREDITS
13-WEEK ANNUALIZED



COMMERCIAL CREDITS
% MARKET SHARE

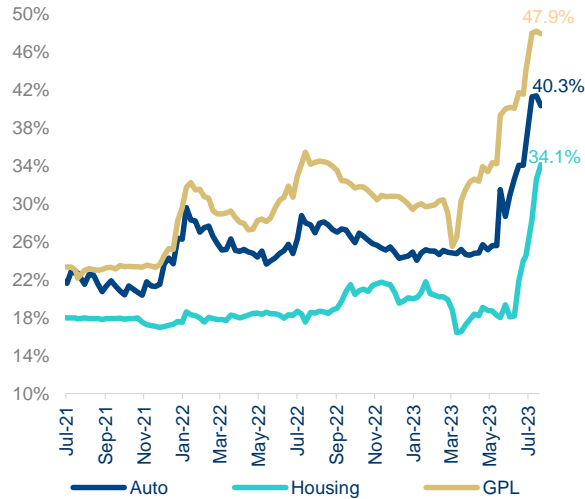


State banks constitute 60% of commercial lending and SME lending is 53% of overall commercial lending

Accelerating inflation might keep pressure on TL deposit rates, banks will try to balance with more favorable NIM evolution

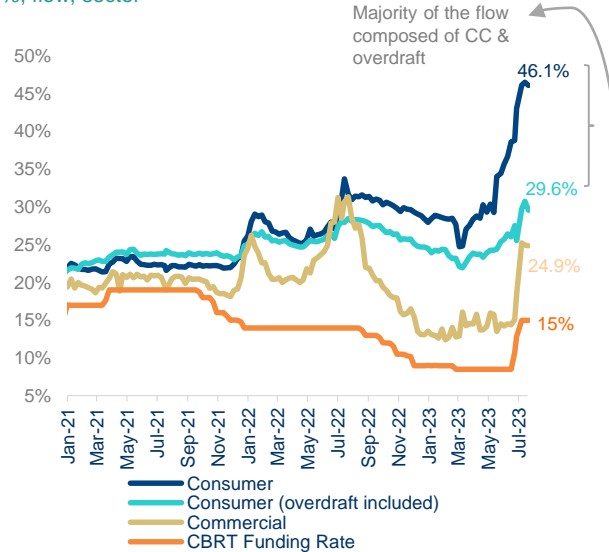
CONSUMER INTEREST RATES

%, flow, sector



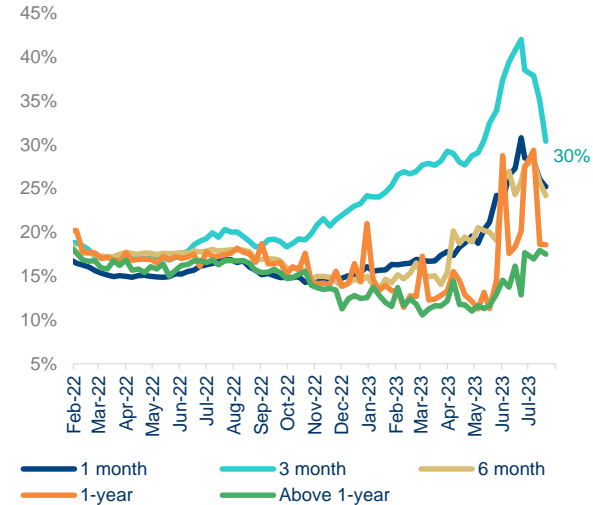
CONSUMER & TL COMMERCIAL RATES

%, flow, sector



TL DEPOSIT INTEREST RATES

%, flow, sector



CBRT reference rate 1.36% ---> 1.58%

x1.8 times in commercial lending ---> 2.84% ---> 40% annual compounded

CC max. interest rate 1.91% ---> 2.13%

CC cash withdrawal & overdraft 1.91% ---> 2.89%
(before June MPC both were 1.36%)

Limited effort to reduce fiscal spending & focus on raising revenues rapidly

Current Policies & Promises	2023 (bn TL)	2024 (bn TL)
Earthquake Expenditures (our assumptions)	575	481
Minimum Pension Payments (from 3,500 TL to 5,500 TL) - Jan23	22	25
Minimum Pension Payments (from 5,500 TL to 7,500 TL) - Apr23	158	238
Early Retirement Payments	194	96
Bonus Payments to Retired (from 1100 TL to 2000 TL)	28	30
Free Natural Gas in May	10	-
Free Natural Gas up to 25 m3 per month by end 2023	35	-
Elimination of Income and Stamp Taxes on Minimum Wage	374	650
30% Wage Hike for Public Employees in 1H23	128	-
30% Hike for Pension Payments in 1H23	132	-
Additional premium payment to civil servants with 3600 points	80	88
50% Support by the Government for Urban Transformation	180	135
45% Wage Hike for Public Workers in 1H23	8	-
75% wage hike on average for civil servants & 25% hike for pensioners in 2H23	138	642
Total	2,062	2,385
Total (% of GDP)	9.0%	6.8%

GARANTI BBVA BUDGET PROJECTIONS

(bn TL & as of GDP)

	bn TL	2023	2024
MTP Revenues	3,810	4,778	
CPI adj. MTP Revenues	4,172	7,456	
Tax hikes	965	799	
Revenues w/ tax hikes	5,136	8,255	
Add. Tax / GDP	4.2%	2.2%	
MTP Expenditures	4,470	5,361	
CPI adj. MTP Expenditures*	4,605	8,376	
Additional Expenditures	2,062	2,385	
Savings	167	665	
Expenditures	6,501	10,095	
Savings/GDP	0.7%	1.8%	
Budget Deficit	-1,365	-1,840	
Budget Deficit / GDP	-5.9%	-5.0%	
Budget Deficit / GDP (MTP target)	-3.5%	-2.5%	

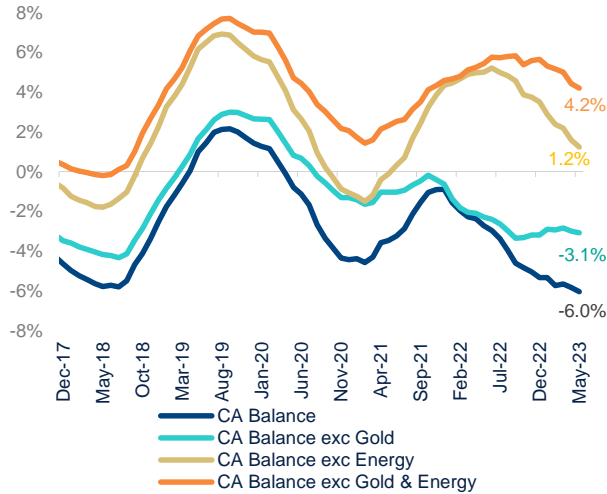
Despite tax hikes,
fiscal saving will
still be needed

Government did not change MTP budget deficit target of 3.5% of GDP (which they announced in 2022) but they plan to raise net borrowing limit (expenditures-revenues) to 2,176bn TL (9.5% of GDP) in 2023

38bn\$ year-to date CA deficit solely financed by the CBRT reserves

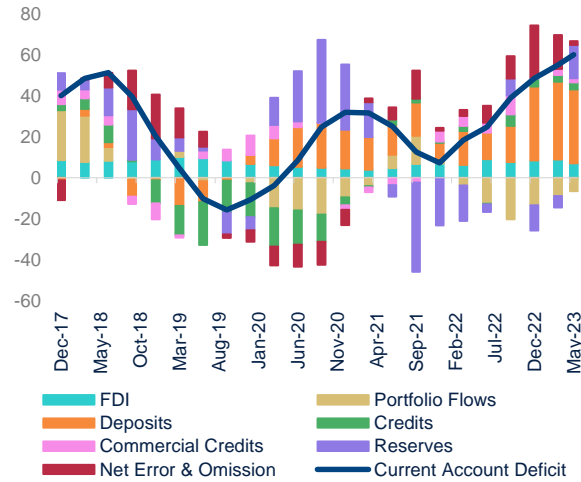
CURRENT ACCOUNT DEFICIT

12-month cumulative as % GDP



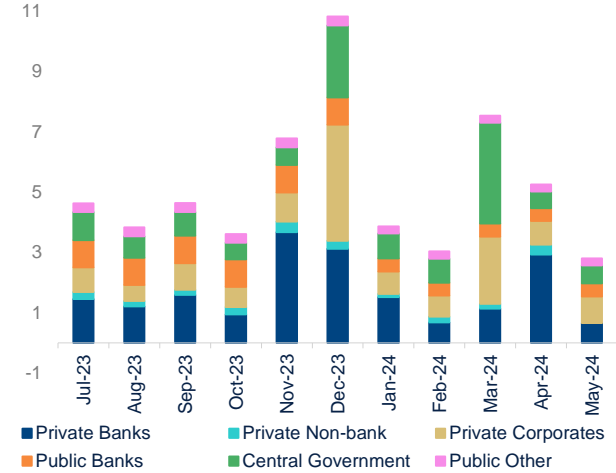
CA DEFICIT FINANCING

US\$bn, 12-month cumulative



EXTERNAL LOANS REDEMPTIONS

Next 12M* as of May23, US\$bn



* Does not include trade credits

Worst is over for current account deficit, what about inflows?

BASELINE EXTERNAL FINANCING GAP (EFG) SCENARIO, US\$BN

EFG Scenarios, US\$BN										Base EFG		
	2015	2016	2017	2018	2019	2020	2021	2022	May-23	2023	2024	2025
External Financing Needs	63	86	104	80	48	83	59	91	106	112	51	77
Current Account Balance	-27	-27	-40	-20	11	-32	-7	-48	-60	-40	15	-11
Long-Term Credit Redemptions	31	54	56	54	52	44	44	35	37	61	55	55
Banks	11	34	37	37	31	26	26	23	23	35	30	30
Other	19	20	20	17	22	18	18	12	14	26	25	25
Government	6	5	8	6	7	7	8	8	8	11	11	11
Total Financing Sources	51	87	96	70	55	51	82	104	89	79	81	82
Net FDI	14	11	8	9	7	4	7	8	7	8	8	8
Government Eurobonds	3	6	10	8	11	9	10	11	14	11	11	11
Other Portfolio Inflows	-15	5	18	-5	-10	-12	1	-18	-15	0	5	5
Long-Term Credit Renewals	67	66	60	53	42	36	51	40	42	54	54	54
Government	2	2	2	2	1	1	2	3	2	2	2	2
Banks	38	37	37	28	23	21	24	17	20	26	27	27
Other	28	28	21	23	18	13	25	20	20	26	25	25
Short-Term Borrowing	-23	-7	4	-8	-4	3	-2	1	1	1	1	1
Trade Credits	-2	-2	7	-8	9	-2	5	1	2	2	2	5
Net Deposits	-2	-1	-1	0	4	19	9	36	36	10	10	5
Net Error and Omissions	9	10	-10	21	-6	-8	2	25	2	-7	-10	-7
Reserve Assets (Sources-Needs)	-12	1	-8	-10	6	-32	23	12	-16	-33	30	5
Rollover Ratios (renewals/redemptions)												
Banks	332%	108%	101%	76%	74%	81%	94%	75%	85%	75%	90%	90%
Other	143%	139%	105%	139%	84%	75%	136%	163%	142%	100%	100%	100%

May23 data corresponds to the last 12 months cumulative figures (June 2022 to May2023)

**Revised Baseline: lower outflows
& modest inflows**

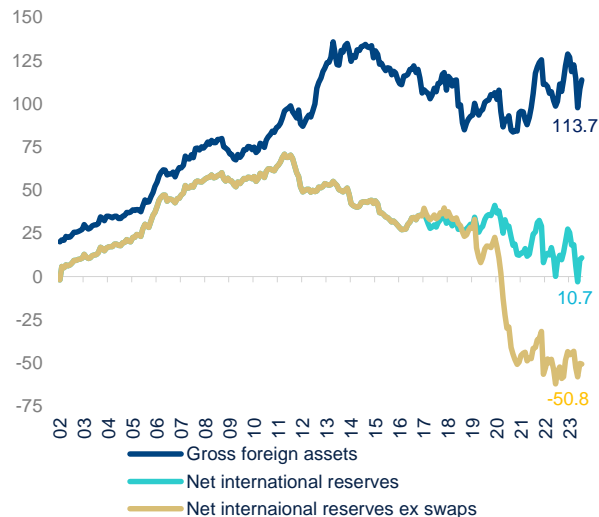
Unambiguous growth outlook &
Erdogan's patience

Uncertainty about Errors &
Omissions

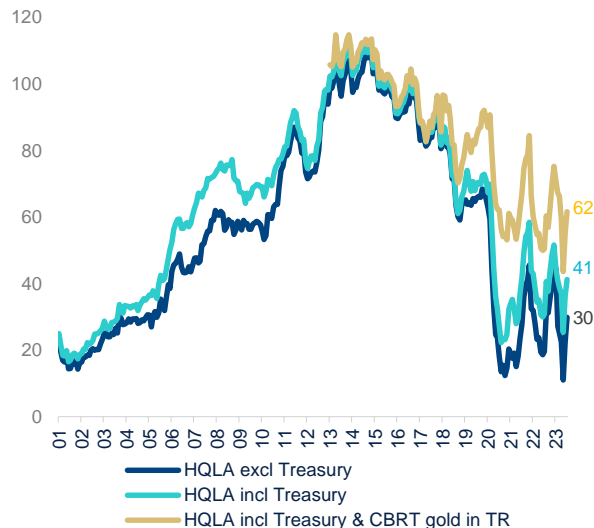
Unknown future of foreign support
on Reserves

Net CBRT purchase in the last two weeks of June turned into sales

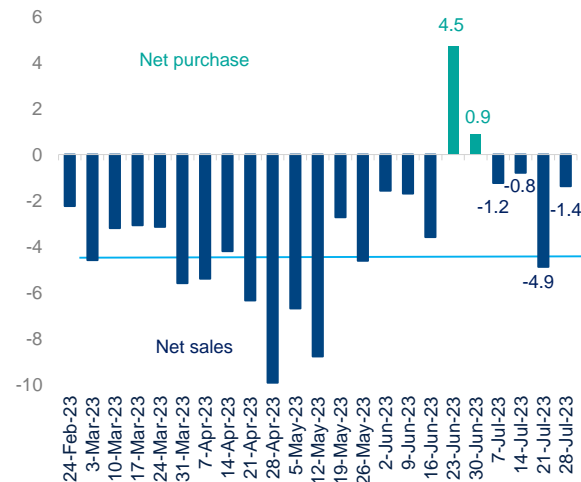
CBRT INTERNATIONAL RESERVES
US\$bn as of July 28



CBRT HIGH QUALITY LIQUID FOREIGN ASSETS
HQLA, US\$BN as of July 28



CBRT INDIRECT RESERVES FLOWS
US\$BN, weekly flow

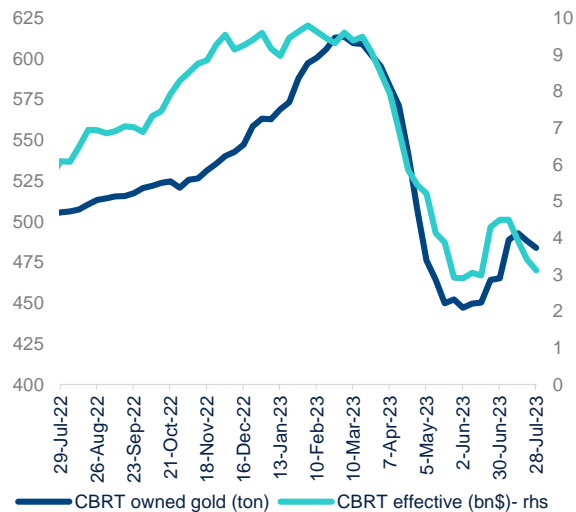


CBRT Balance Sheet US\$bn	28.07.2023	30.06.2023	26.05.2023	28.04.2023	31.12.2022	31.12.2021
HQLA = FC assets - Gold - IMF SDR	64.9	59.8	49.0	60.8	75.4	64.8
HQLA - foreign CB swaps - Treasury	29.8	22.4	11.0	22.5	39.6	32.4
HQLA - foreign CB swaps	41.2	36.2	25.3	36.9	51.5	43.8
HQLA - foreign CB swaps + CBRT owned physical gold in TR	61.6	55.0	43.5	59.1	75.1	66.3

CBRT owned gold & (mostly) cash both used again

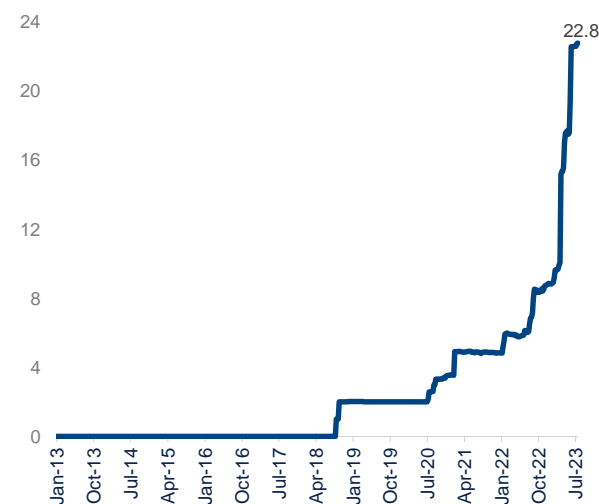
CBRT OWNED GOLD & EFFECTIVE CASH

Tons & US\$bn as of July 21



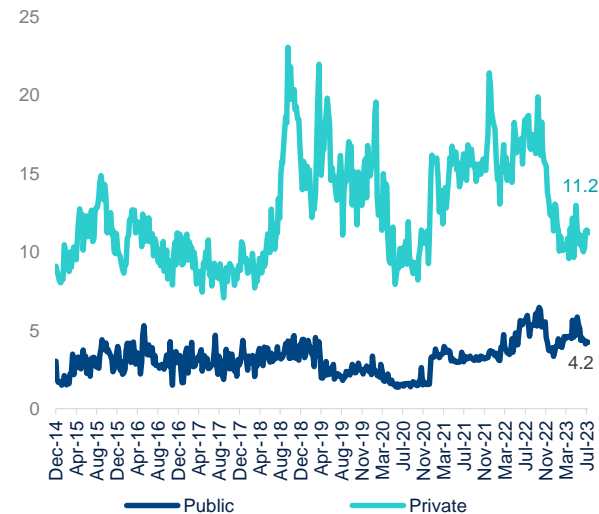
FOREIGN BANKS' DEPOSIT AT THE CBRT

US\$BN



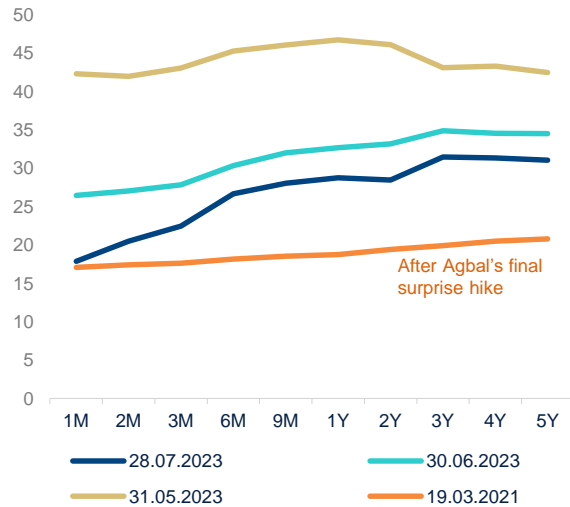
LOCAL BANKS' EFFECTIVE ABROAD

US\$BN as of July 21

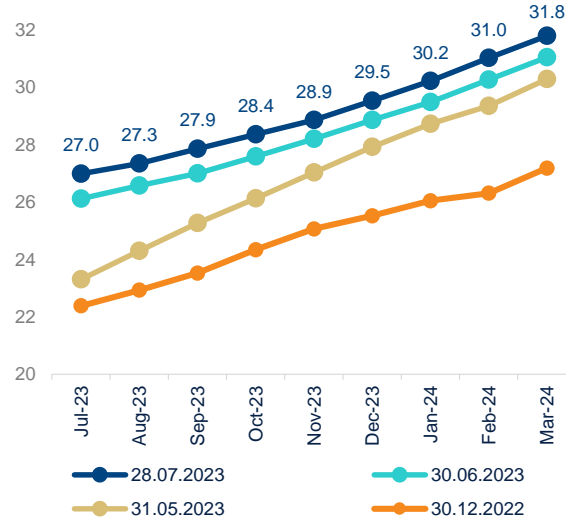


Actions will speak louder than words in order to start anchoring expectations

EXCHANGE RATE VOLATILITY USDTRY OPTIONS IMPLIED



USDTRY FUTURES TRY per USD

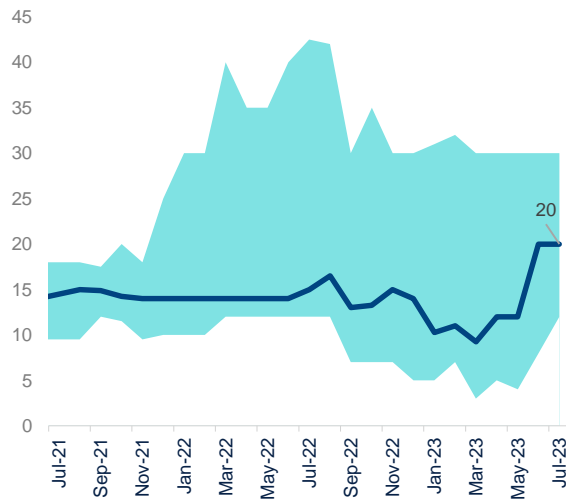


5 YEAR CDS DIFFERENTIAL WRT EM PEERS LEVEL, BPS

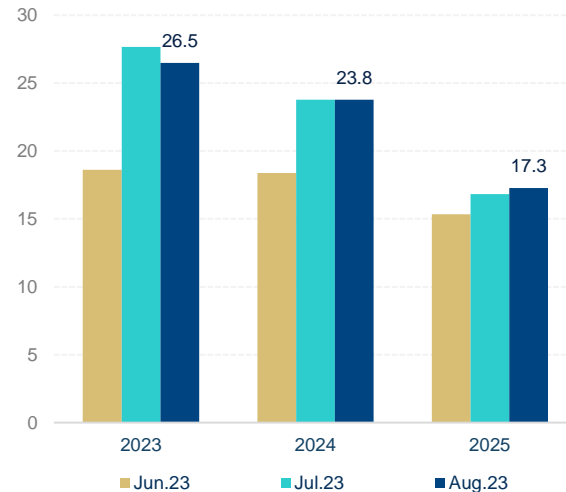


Market pricing & survey expectation on CBRT funding rate close to 25% for 2023 year-end

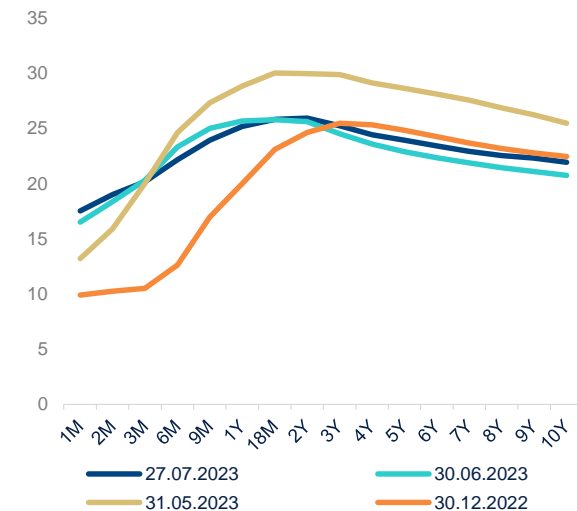
POLICY RATE CBRT SURVEY, EOP,
12M AHEAD %



POLICY RATE CONSENSUS, EOP, %

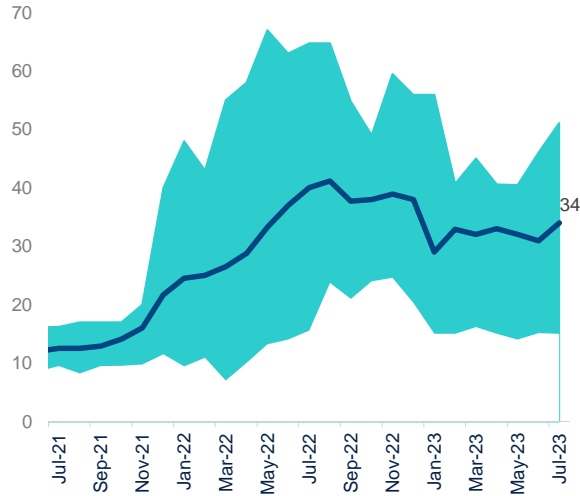


TRY OIS CURVE
%

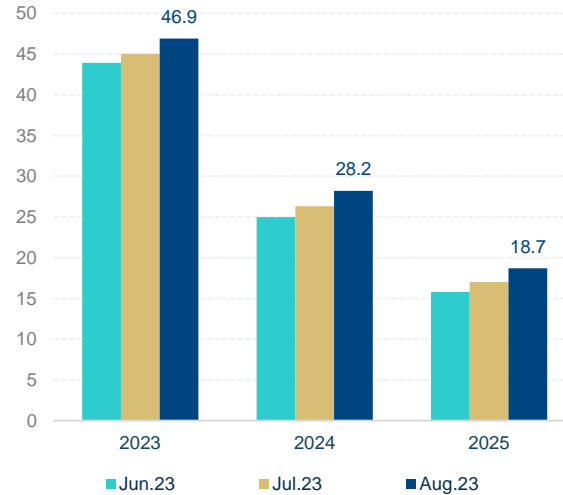


Medium term inflation expectations will be on radar to succeed in disinflation

INFLATION EXPECTATIONS CBRT SURVEY, 12-MONTH AHEAD, %



INFLATION EXPECTATIONS CONSENSUS, EOP, %



MARKET IMPLIED INFLATION EXPECTATIONS, %



Garanti BBVA Baseline Scenario

	2022	2023	2024	2025	2026	2027	2028
GDP growth (avg)	5.6%	4.5%	2.0%	3.8%	3.7%	3.6%	3.5%
Unemployment Rate (avg)	10.5%	10.0%	11.1%	11.6%	11.5%	11.5%	11.5%
Inflation (avg)	72.3%	53.0%	56.7%	29.8%	19.1%	16.9%	15.4%
Inflation (eop)	64.3%	65.0%	38.0%	25.0%	18.0%	16.0%	15.0%
Current Account Balance (bn\$)	-48.4	-40.0	15.4	-11.2	-33.6	-34.9	-35.8
Current Account Balance (% GDP)	-5.3%	-3.9%	1.3%	-0.8%	-2.2%	-2.1%	-2.1%
Primary Balance (% GDP)	1.1%	-2.9%	-2.1%	-1.1%	-0.4%	0.1%	0.6%
Fiscal Balance (% GDP)	-0.9%	-5.9%	-5.0%	-4.1%	-3.4%	-2.9%	-2.4%

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August 2023