

BBVA

Corporate &
Investment Banking

Turkey Macroeconomic Outlook

Garanti BBVA Research

February, 2022

01

Global Macroeconomic Outlook

Update: major global events and market impact

Covid: infections are falling sharply across the world. Mobility, is recovering

Markets: High volatility across markets. Priced in faster DM CB tightening, and increasing geopolitical risk. Bonds sell-off. Corporate and peripheral spreads widened

Growth: The recovery remains on track

Inflation continues to rise across the board, more than expected, on more persistent supply issues.

Central banks: Fed eyeing potential for faster rate rises. The ECB seems much more open now to accelerate policy normalization

Rates: sovereign rates increased further, on faster monetary policy tightening. Peripheral and corporate spreads widened faster. EM spreads held steady

FX: Euro recovered gained ground as ECB's pivot but quell appreciation on geopolitical risk. EM FXs were resilient

Ukraine-Russia crisis: potential spillovers through different channels



Cost-push channel: Energy and food



- Rise in gas and oil prices
- Food and gold price rises
- Potentially larger effects on EU; it could add to ongoing global supply shocks



Confidence and global risk channel



- Stock market drops
- Risk premiums rise
- Safe haven bond yields drop
- Capital outflows
- USD strengthen. EM currencies depreciation + currency mismatch



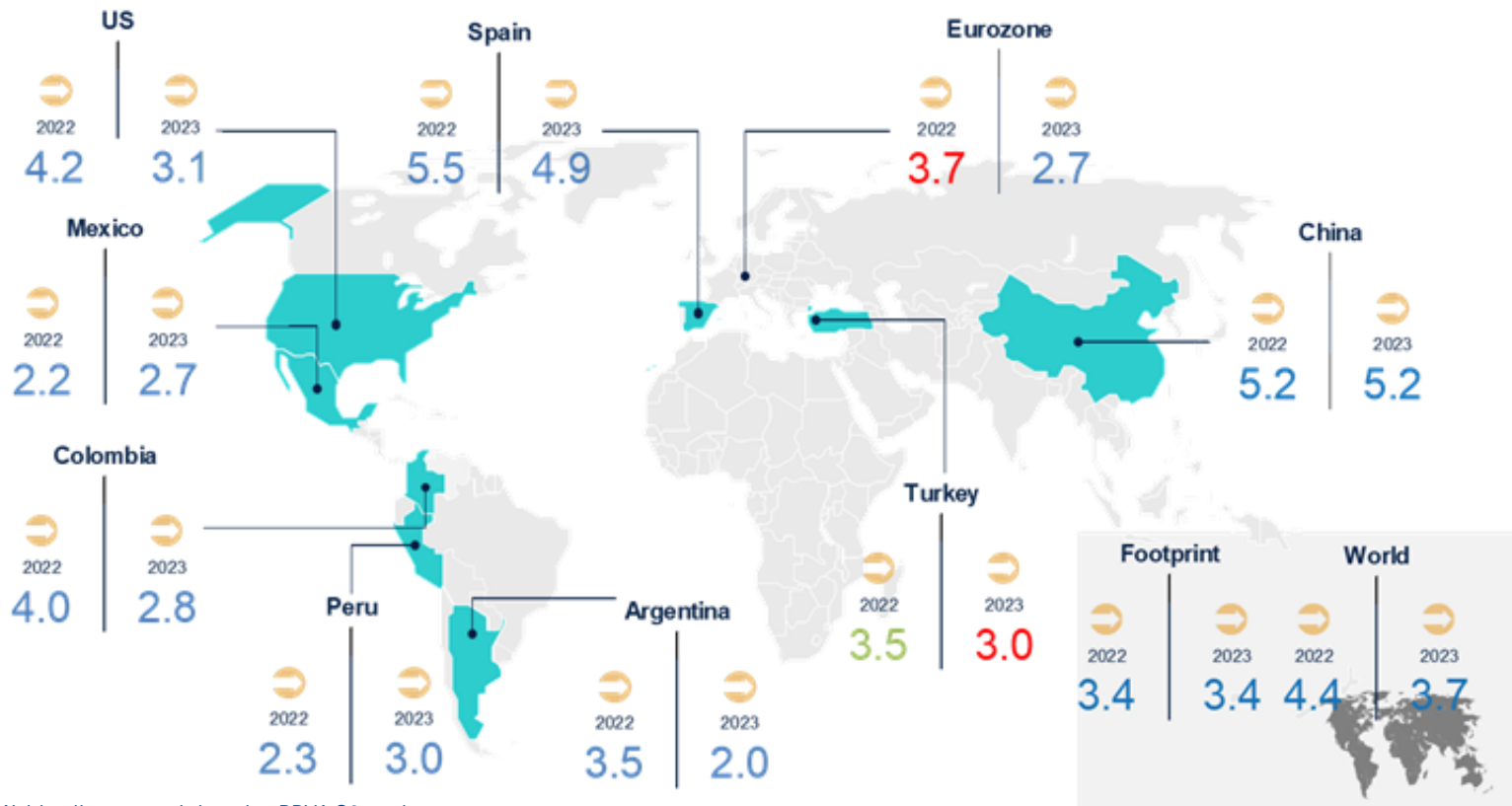
Financial channel (dependent of sanctions)



- Potential sanctions in response to an escalation could also lead to wider financial market spillover

- **GDP growth and recovery expectations drop and inflation rises**
- **Differential impact on Fed vs. ECB: they would raise interest rates to counter the impact of higher inflation but the conflict will have more impact on EZ growth**

GDP: Downward bias in the EZ for 2022 while upward bias in Turkey for 2022 but downwards for 2023

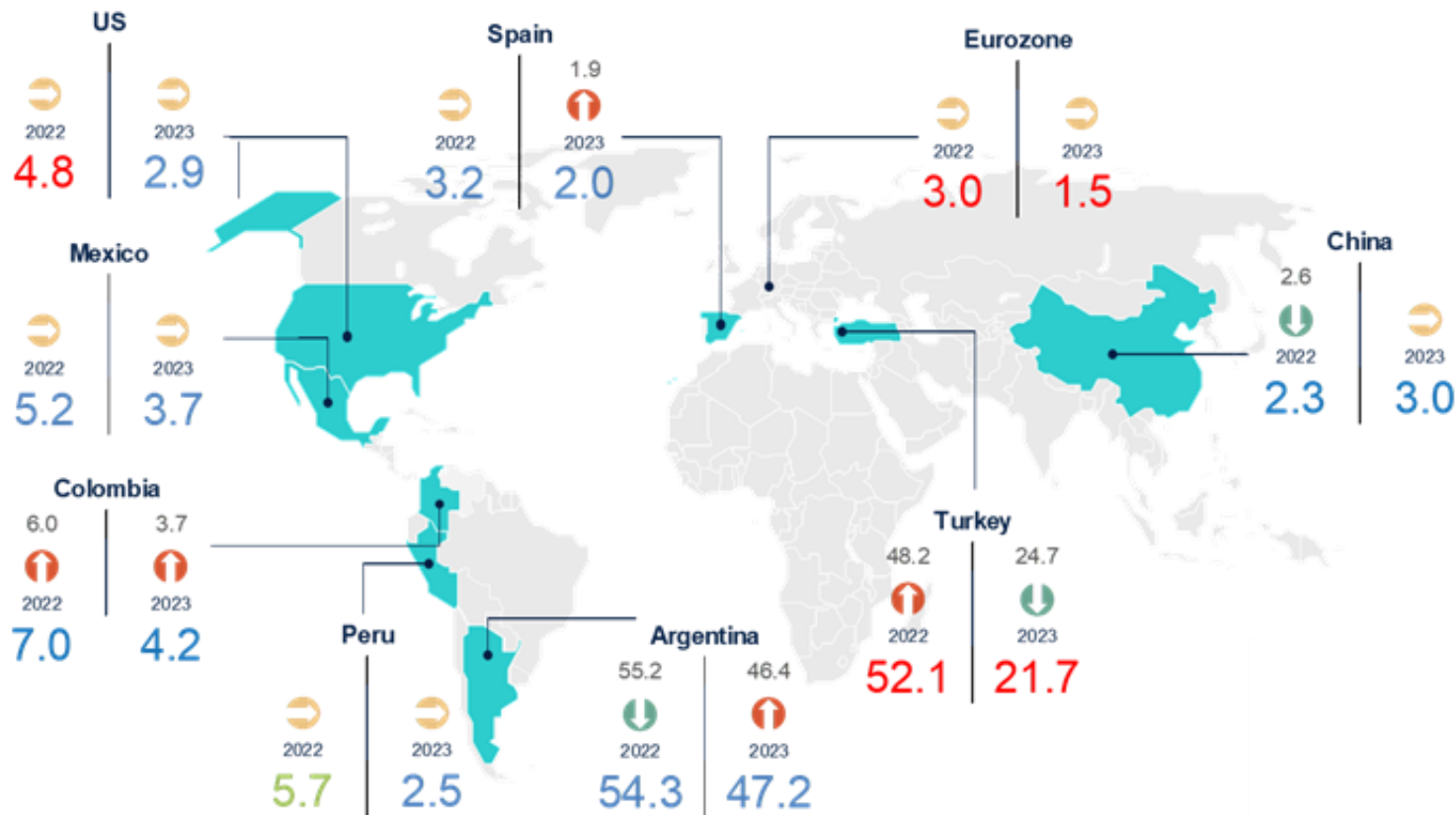


Footprint: Weighted by net margin based on BBVA Q3 results.

The **number** is green if the **bias** is upward and red if it is downward

Color of the **arrows** indicate **changes** in the GDP growth since last ALCO (numbers in grey above the arrows are previous forecasts)

Inflation: Upward revision in most countries for 2022

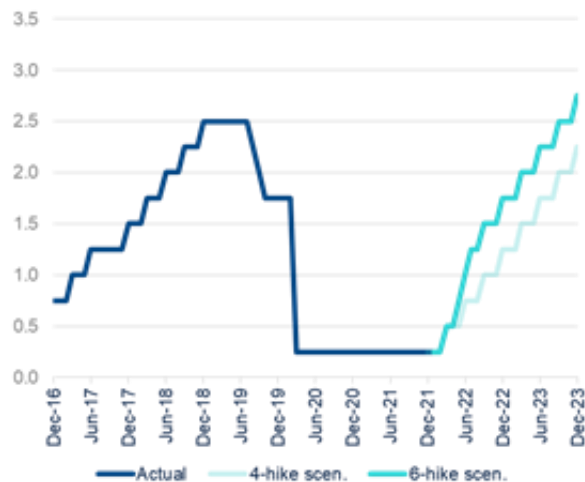


Annual average inflation data. The number is red if the bias is upward and green if it is downward. Color of the arrows indicate changes in annual average inflation since the last ALCO (numbers in grey above the arrows are previous forecasts).

US: We now expect six 25bp hikes in 2022 and stick to four more projected for 2023; we anticipate the yield curve will flatten further

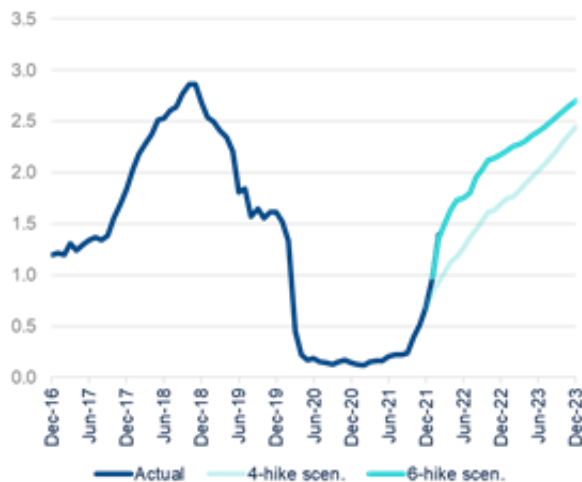
FED FUNDS RATE OUTLOOK (%)

(%)



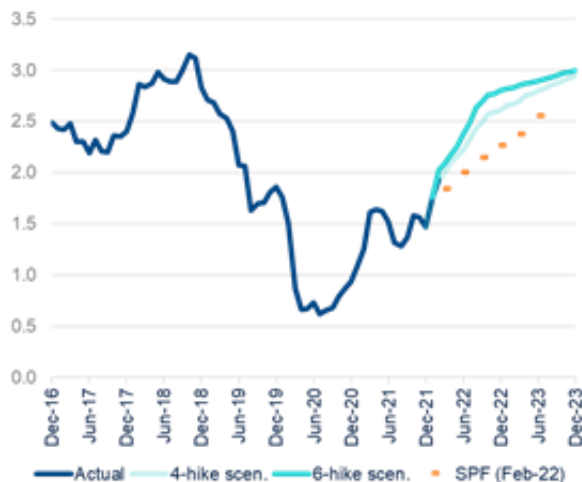
2-YEAR TREASURY YIELD (CONSTANT MATURITY, %)

(CONSTANT MATURITY, %)



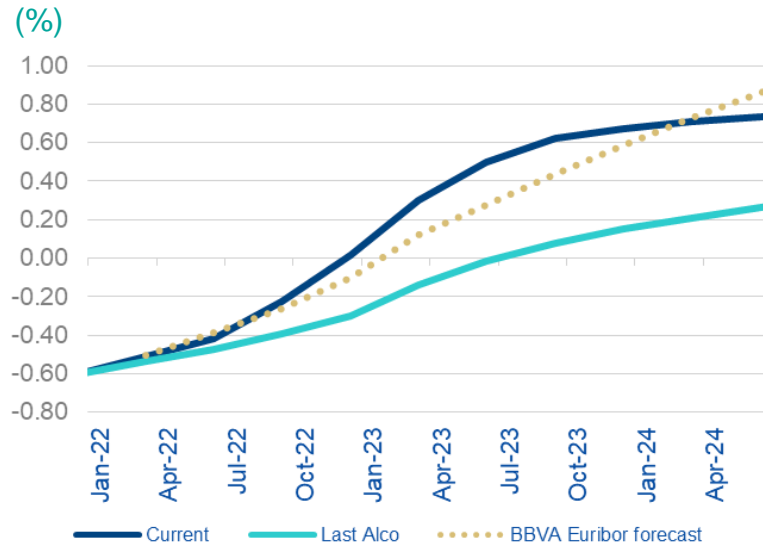
10-YEAR TREASURY YIELD (CONSTANT MATURITY, %)

(CONSTANT MATURITY, %)



ECB: On the road to monetary policy normalization

IMPLICIT POLICY RATES IN 3M EURIBOR FUTURES (%)



Our baseline scenario for ECB:

- **APP** now expected to **end by Nov-22** (not discarded in Sept-22)
- **Interest rates:** First depo hike **by Dec-22** (not discarded in Mar-23) and first repo rate hike in March 23
- **TLTROs/Collateral:** the ECB to calibrate the tiering multiplier to compensate only part of the TLTRO negative borrowing rate revenue (from 6x to 8/10x). Collateral easing measure to be extended

Financial projections: Gradual increase in both US and EZ interest rates

		What do we expect?	Projections	Prev.	
10y UST		<p>Upward revision in interest rates as we expect more intense rate hikes by the Fed (six rate hikes in 2022 vs. four previously expected) and quantitative tightening (QT) to start in June.</p>	Current:	1.89%	
			Dec22:	2.80%	2.61%
			Dec23:	3.00%	2.95%
10y Bund		<p>Upward revision of the German curve on the bring forward the ECB's liftoff to 4Q22 from 3Q23. We expect yields will gradually move up on earlier rate hikes by the ECB, faster tapering, inflation pressures, spillovers from the UST curve and growth recovery on track.</p>	Current:	0.19%	
			Dec22:	0.65%	0.35%
			Dec23:	1.10%	0.80%
Spanish financial variables	Spanish risk premium	<p>We believe that Spanish risk premia will consolidate slightly higher levels than current ones on less support by the ECB (APP purchases will end this year) upward trend in global yields, Italian elections and somewhat pressure on worries for Spanish gov. reforms and fiscal position.</p>	Current:	104	
			Dec22:	120	110
			Dec23:	140	130
	10Y Yield	<p>Slight upward revision if Spanish yield curve due to the upward revision of the German yield curve and upward revision of the Spanish risk premium</p>	Current:	1.23%	
			Dec22:	1.85%	1.45%
			Dec23:	2.50%	2.10%
EURUSD		<p>The main driver in the short/medium term for the EURUSD is normalization monetary policies: i) ECB: significant revision in euro rates (rate hikes by the year end vs 3Q2023) but not significant change in ECB's balance sheet (euro appreciation). ii) Fed: faster rate hikes but also quantitative tightening (USD appreciation). Both monetary policy changes are netted out and therefore we do not change our EURUSD forecast.</p>	Current:	1.13	
			Dec22:	1.13	
			Dec23:	1.16	

Source: BBVA Research

Denotes changes in our forecast

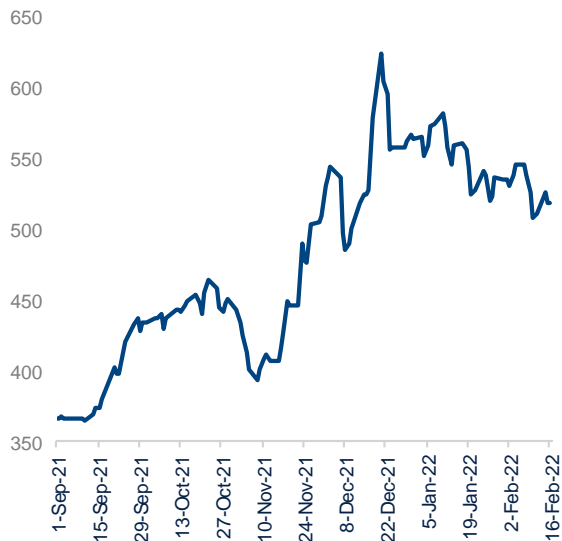
02

Turkey: Macroeconomic Outlook

Significant but insufficient improvement in risk perception

5 YEAR CDS

Basis points



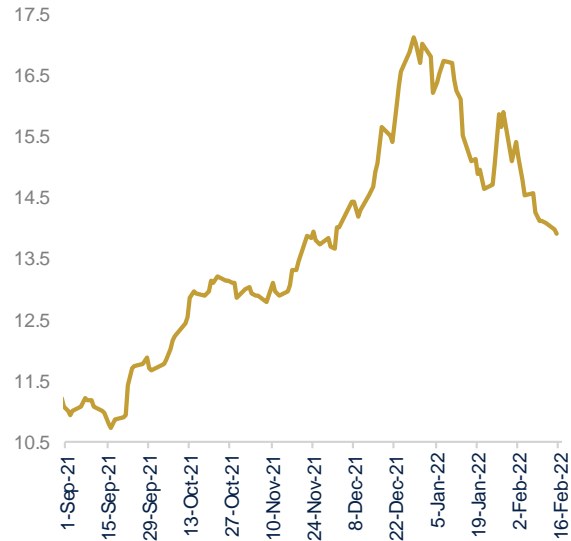
10-YEAR SOVEREIGN SPREAD

TRTL-USTN, %



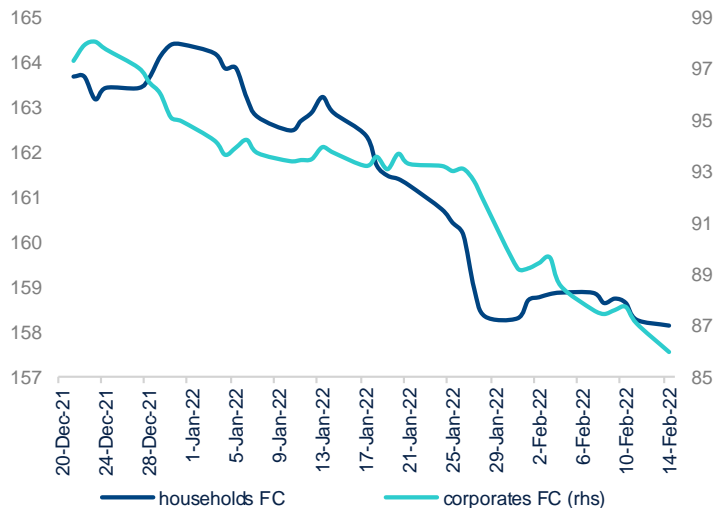
10-YEAR TL SPREAD

TRTL-TRUSD, %

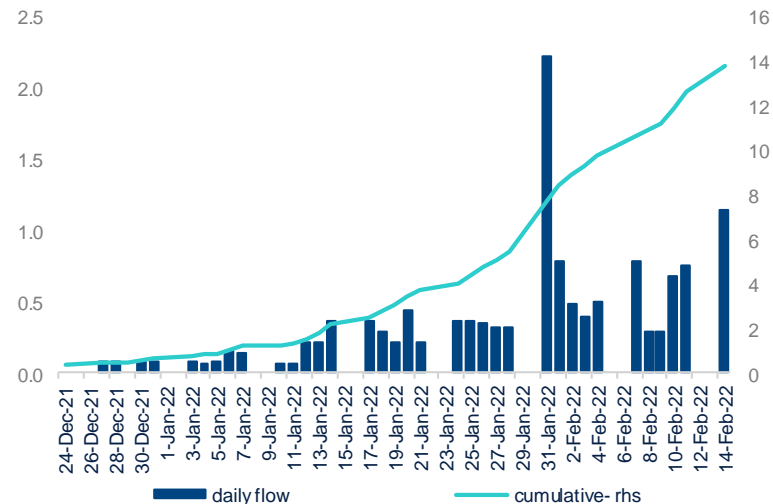


FC/TL protection scheme enhanced by corporates' participation

FC DEPOSITS OF RESIDENTS (US\$BN)



FC PROTECTED TL TIME DEPOSITS (US\$BN)

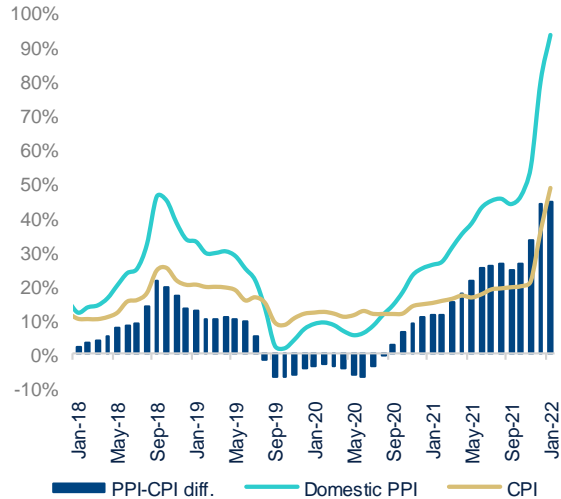


369bnTL inflow to FC - protected TL time deposits (21% of TL time deposits)*

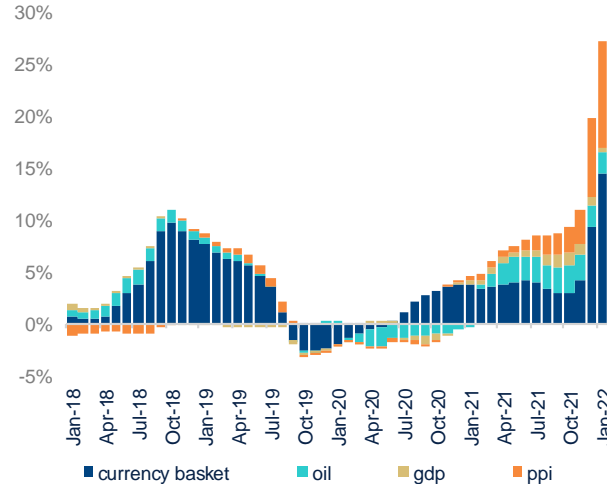
US\$14bn conversion from FC (6% of residents FC deposits)*

Inflation will remain high for a long period of time

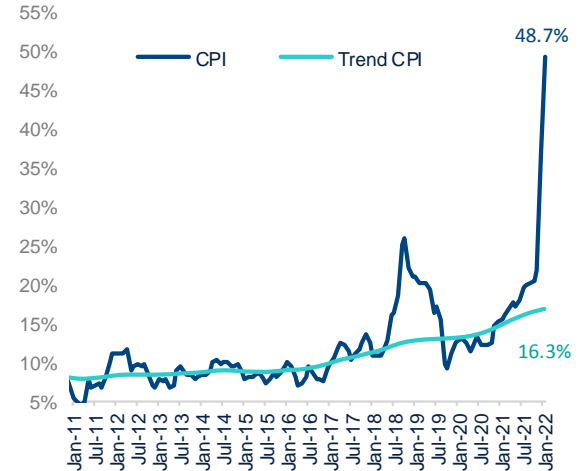
CPI & PPI INFLATION (YOY)



HISTORICAL DECOMPOSITION OF CORE-D (YOY)



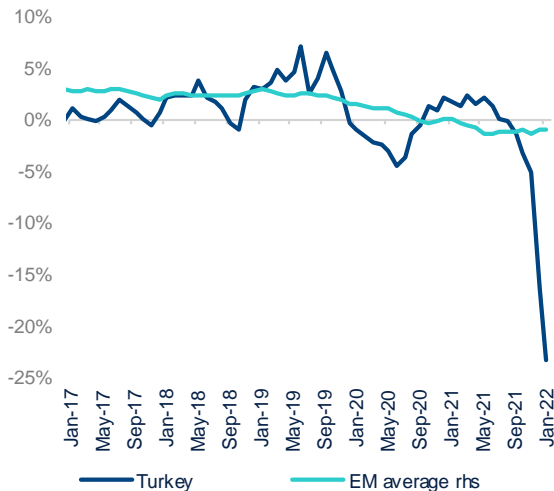
CPI vs. TREND CPI* (% , UCSV MA)



Summary	Consumer Prices (ann. var. in %, eop)		Consumer Prices (ann. var. in %, aop)	
	2022	2023	2022	2023
Minimum	11.8	9.0	15.5	11.5
Maximum	61.0	25.0	57.6	33.2
Median	31.8	17.0	35.0	17.9
Consensus	31.5	16.8	36.3	18.0
Garanti-BBVA Research	35.0	21.0	52.1	21.5

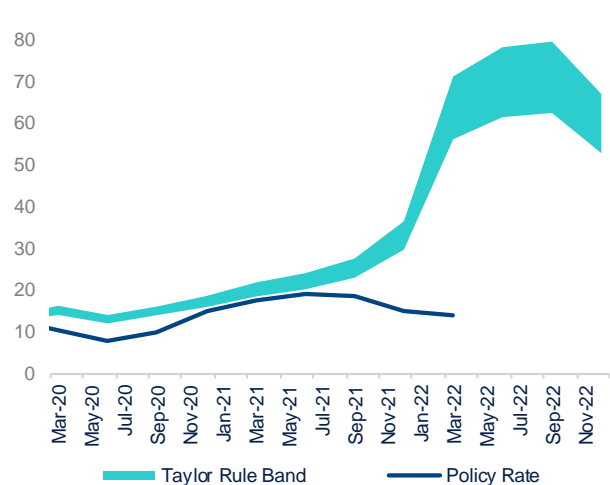
Monetary policy becomes ultra dovish

EX POST REAL POLICY INTEREST RATES IN EM* (%)



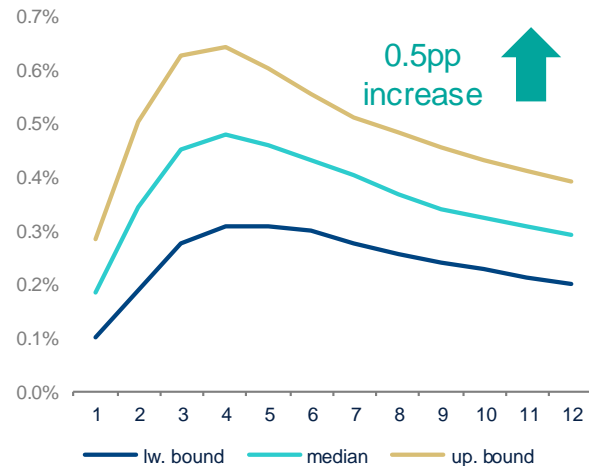
*EM corresponds to Brazil, India, Mexico, Indonesia, South Africa, Russia and Colombia

TAYLOR RULE IMPLIED POLICY RATE** (%)



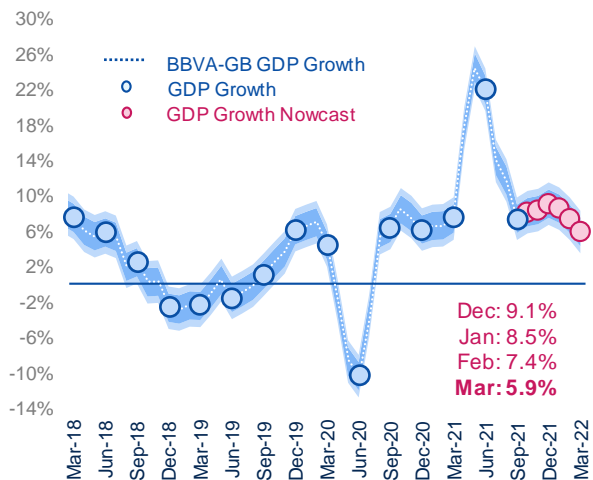
** Taylor Rule rates with inflation target and output gap are estimated for different time horizons to obtain a range

RESPONSE OF CBRT POLICY RATE TO US MONETARY POLICY SHOCK (+25bps) (% , quarters)

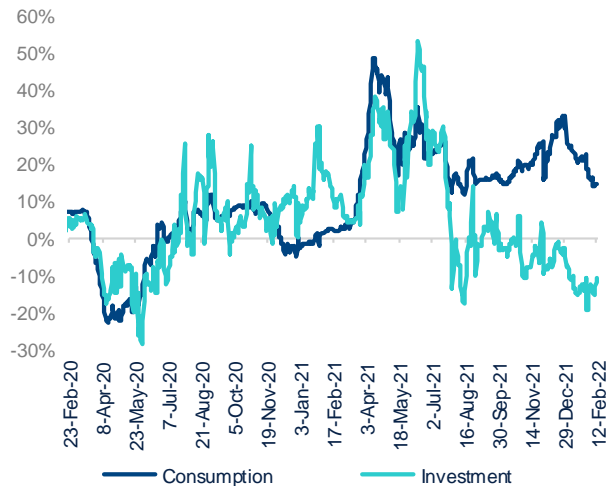


High-frequency data suggests economic growth is slowing

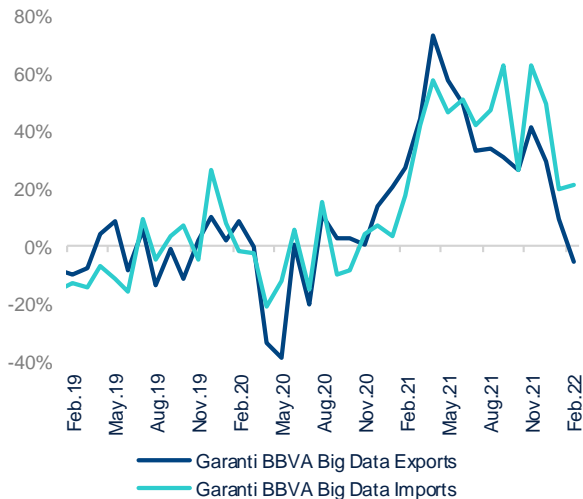
GARANTI BBVA MONTHLY GDP
(YOY, 3M MOVING AVG.)



GARANTI BBVA CONSUMPTION & INVESTMENT
(28-DAY SUM YOY, REAL)

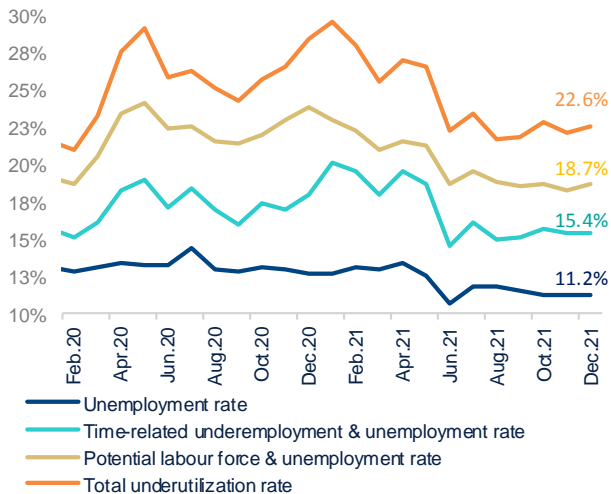


GARANTI BBVA EXPORTS & IMPORTS
(MONTHLY YOY)



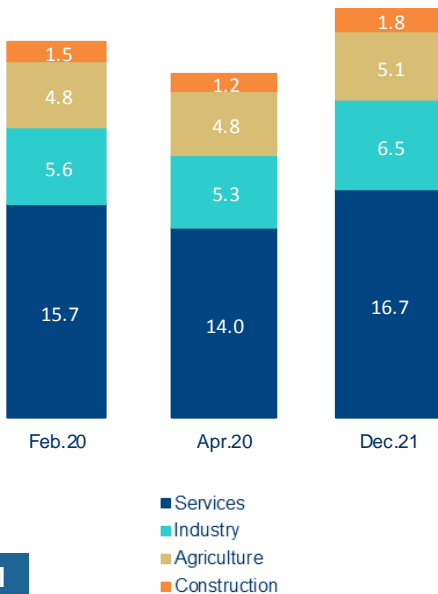
Improving labor market conditions reinforce the policy bias

UNEMPLOYMENT RATE
(sa, level)

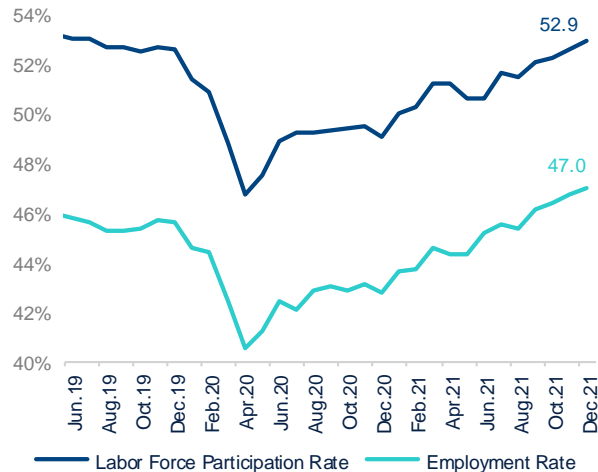


Employment at record high of 30.1M and 1.9M above pre-pandemic peak

EMPLOYMENT IN SECTORS
(sa, level)



EMPLOYMENT & LF PARTICIPATION RATE
(sa)

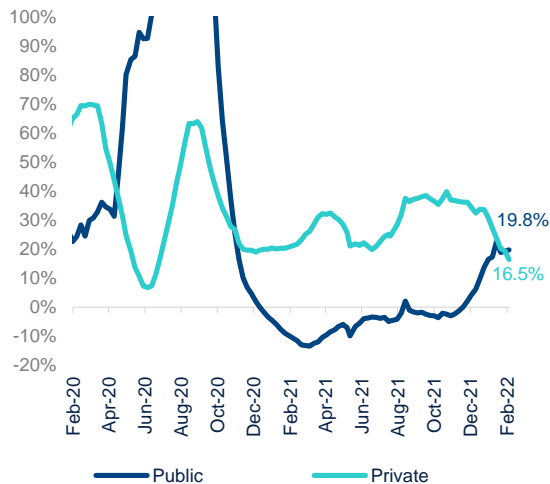


Labor force around 0.9M below no-pandemic trend NLF around 1.3M above no-pandemic trend

FX depreciation and inflation mask high nominal credit growth

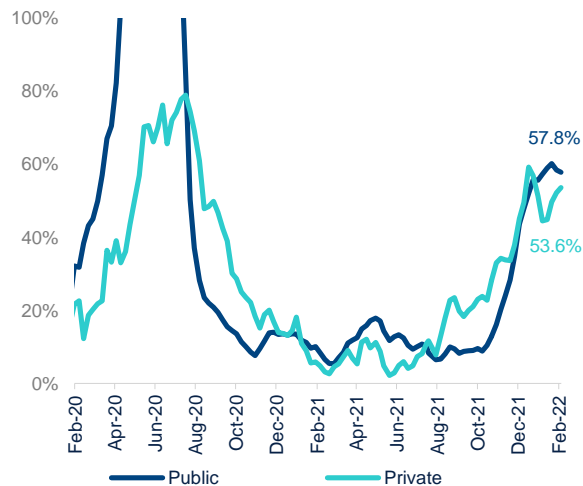
CONSUMER CREDIT GROWTH

13-WEEK ANNUALIZED TREND



TL COMMERCIAL CREDIT GROWTH

13-WEEK ANNUALIZED TREND



LOAN TO DEPOSIT RATIO

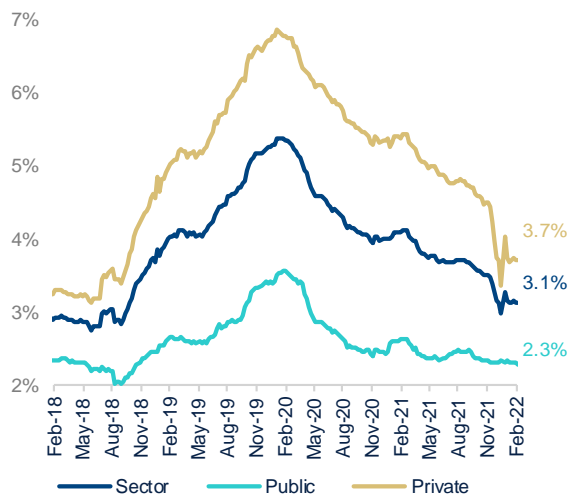
(sector, %)



Bank performance indicators highlight mixed conditions

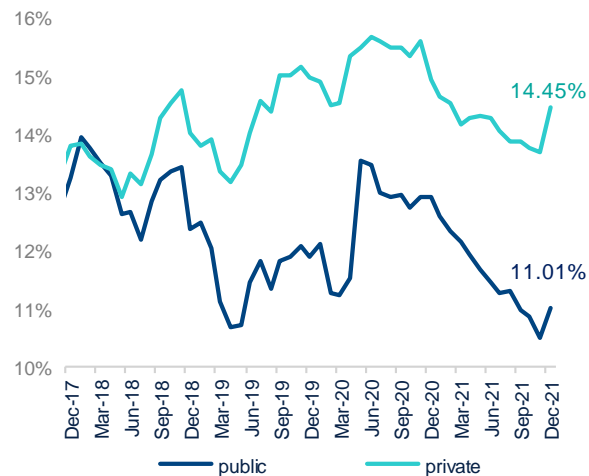
NPL RATIO

(by sector, %)



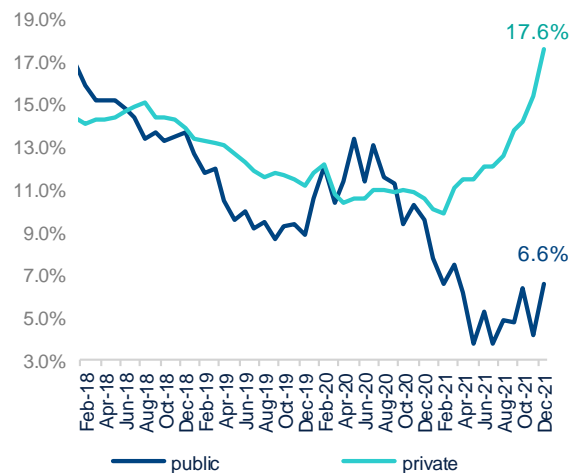
CET 1 RATIO

(%, Common Equity Tier 1)



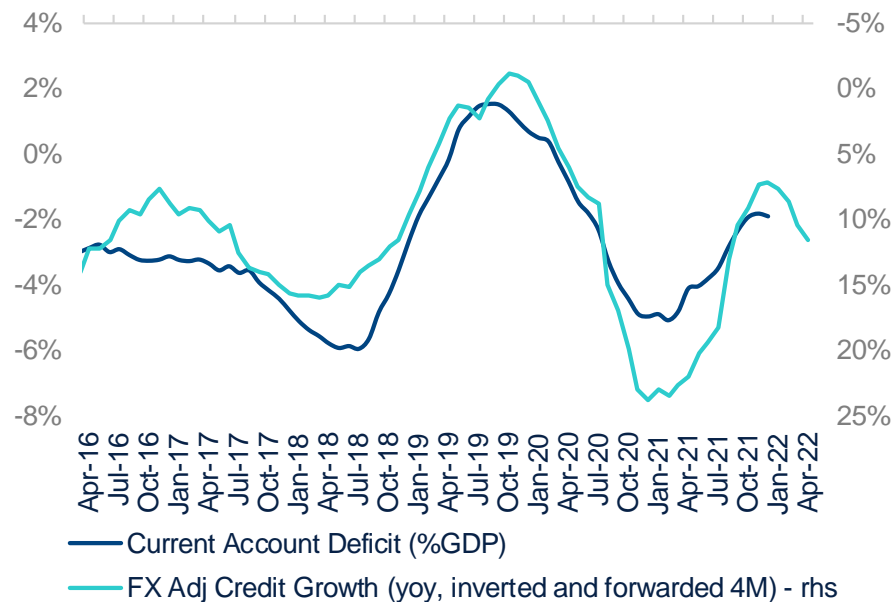
RETURN ON EQUITY

(%, 12-month rolling)

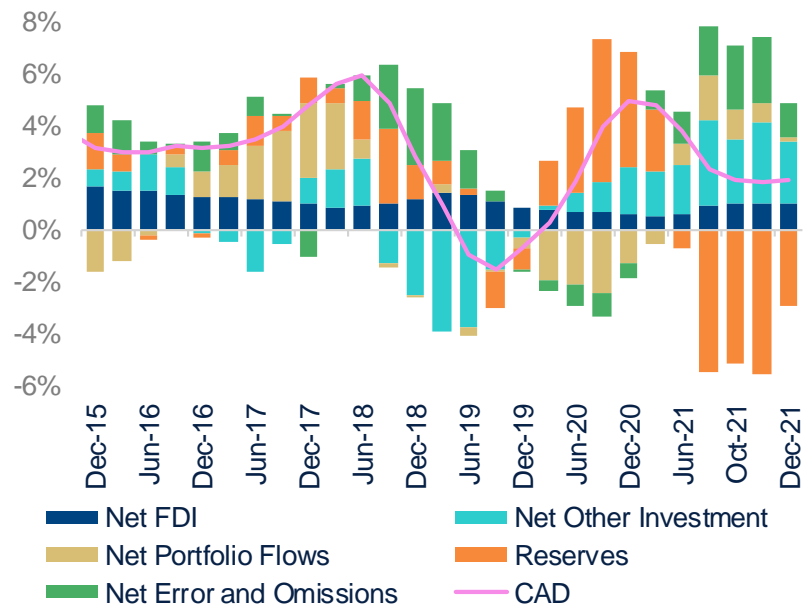


Further push in credits and other measures helping domestic demand will challenge current account dynamics

TURKEY: CURRENT ACCOUNT BALANCE & CREDIT GROWTH
(CA in % GDP (left) and FX ADJ YoY inverted (right))



TURKEY: CURRENT ACCOUNT BALANCE FINANCING
(% GDP)



Debt rollover and tourism revenues remain critical

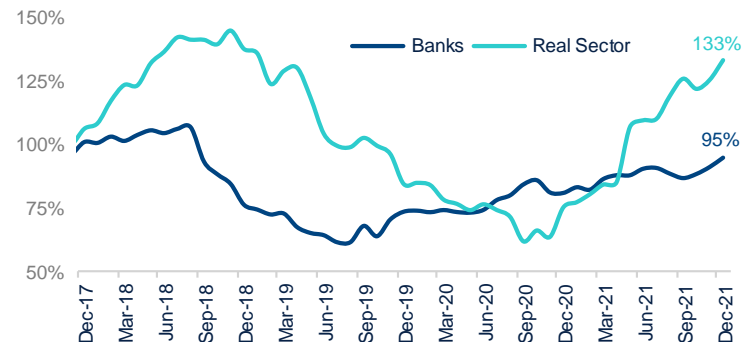
CURRENT ACCOUNT BALANCE FINANCING (US\$bn)

	2019	2020	2021	2022	2023
External Financing Need	54	86	68	76	66
CAB	5	-36	-15	-3	-7
Foreign Trade Balance	-17	-38	-29	-26	-32
FT Energy Balance	-33	-24	-42	-55	-47
FT Non-Energy Balance	17	-14	13	29	15
Services Balance	34	12	25	33	40
Income Balance	-12	-9	-11	-11	-14
LT credit redemptions	52	44	44	60	48
Banks	31	26	26	40	32
Other	22	18	18	20	16
Government Eurobond	7	7	10	13	11
Total Financing	60	55	91	76	66
Net FDI	6	4	8	6	6
Government Eurobond	11	9	10	11	11
Other Portfolio Flows	-10	-12	3	0	0
LT Credit Renewal	42	36	50	50	40
Government	1	1	2	2	2
Banks	23	21	24	32	26
Other	18	13	24	16	13
ST Borrowing	-4	3.6	-2	2	2
Trade Credits	10	-2	3	2	2
Net Deposits	4	19	10	5	5
Net Error and Omissions	0	-4	10	0	0
Change in Reserves	6	-32	23	0	0

banks roll-over	74%	81%	95%	80%	80%
other roll-over	84%	75%	133%	80%	80%

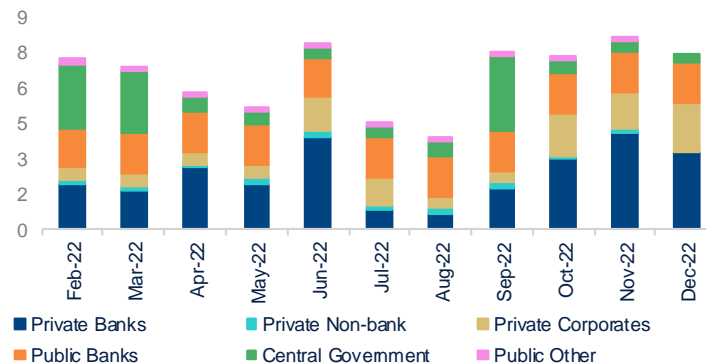
LT EXTERNAL LOANS ROLL-OVER RATIOS

(12-month rolling)



EXTERNAL LOANS REDEEMING IN THE NEXT 12M*

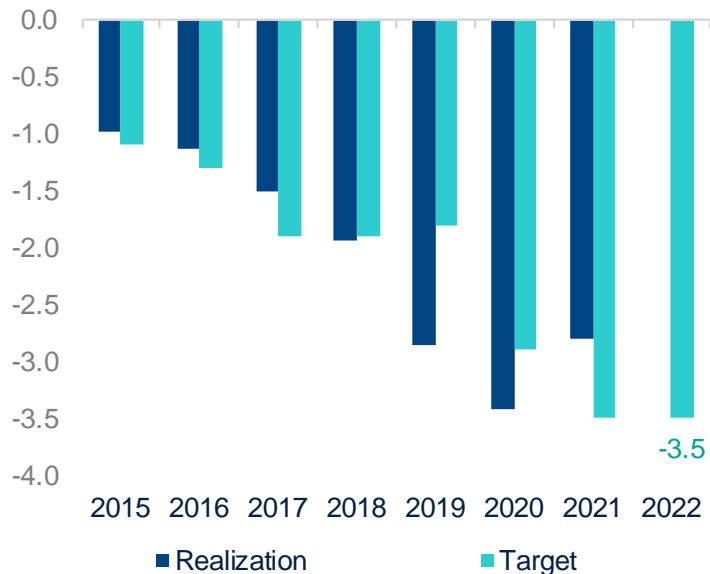
(as of Dec2021) (US\$bn)



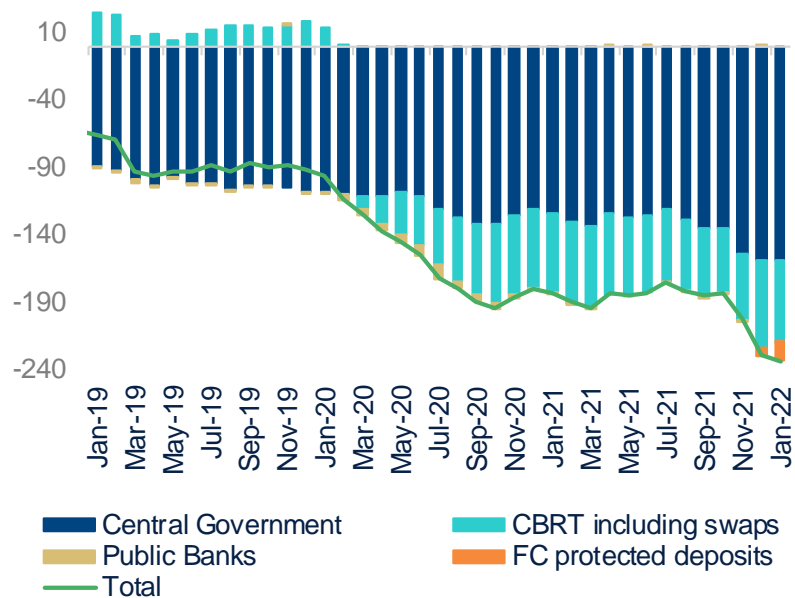
* Does not include trade credits

Ample space to boost fiscal stimulus in the short run

CG BUDGET BALANCE (% OF GDP)



NET FX POSITION OF THE PUBLIC SECTOR (bn USD)



03

Turkey: Baseline Scenario

Baseline scenario

Main Assumptions and Outcomes

- Strong commitment to maintain loose monetary policy
- Expansionary fiscal policy and easy credit conditions to offset costs of depreciation and high inflation
- Regulatory easing, subsidies, etc. to sustain low interest rate policy
 - Slower pace of depreciation despite ongoing negative real interest rate
 - Inflation continues to edge up above 55% in 2Q and 3Q
 - GDP growth slows down but remains solid
 - Manageable current account deficit
 - Deterioration of fiscal accounts over time

Baseline Scenario

	Scenario	2021	2022f	2023f	2024f
GDP growth (avg)	Previous	9.5%	2.0%	5.0%	3.5%
	New	11.0%	3.5%	3.0%	4.0%
Inflation (avg)	Previous	19.6%	20.9%	15.4%	13.7%
	New		52.1%	21.7%	18.7%
Inflation (eop)	Previous	36.1%	18.0%	16.0%	12.0%
	New		35.0%	21.0%	17.0%
Current Account (% GDP)	Previous	-1.9%	-3.5%	-4.6%	-3.3%
	New		-0.5%	-0.8%	-1.0%
Fiscal Balance (% GDP)	Previous	-2.8%	-3.7%	-3.8%	-3.8%
	New		-6.0%	-6.0%	-5.2%

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