

Türkiye Economic Outlook

Garanti BBVA Research

November 2022

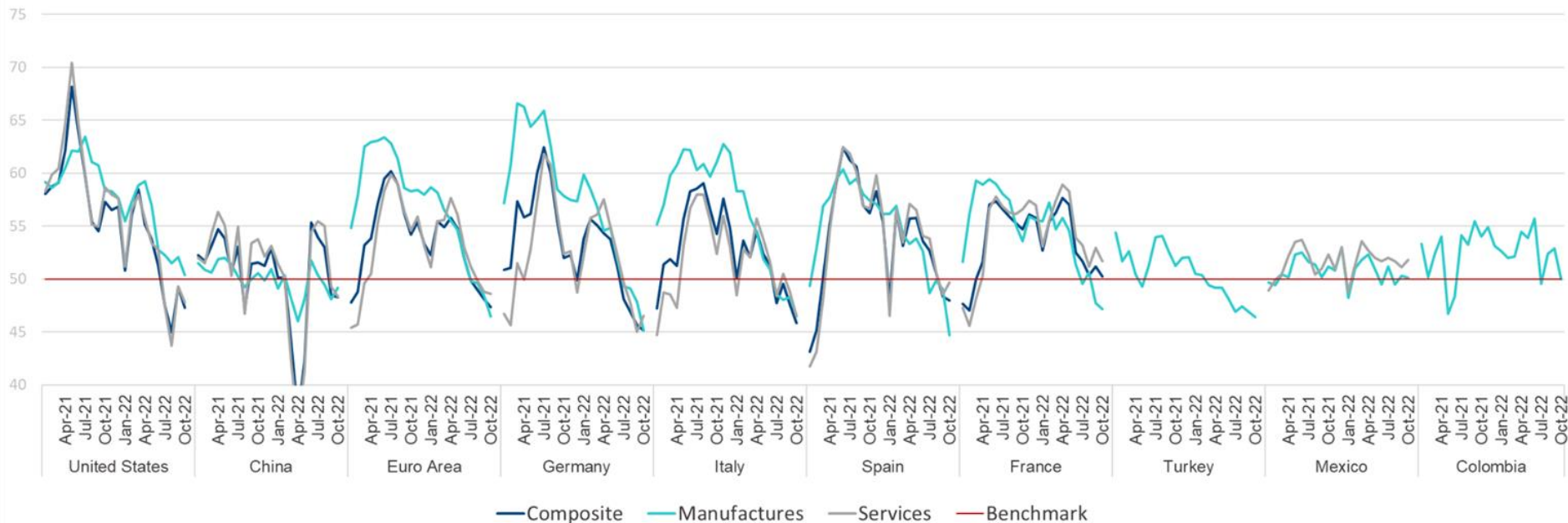
Key messages

- Global economy decelerating with still high inflation
- Türkiye's economic slowdown faster than envisaged so far in 2H
- Counter-cyclical policies expected to reverse the recent deceleration
- External financing not guaranteed yet
- Regulations on banks help TRY to remain stable

Growth slowing on monetary tightening, gas disruptions and covid in China

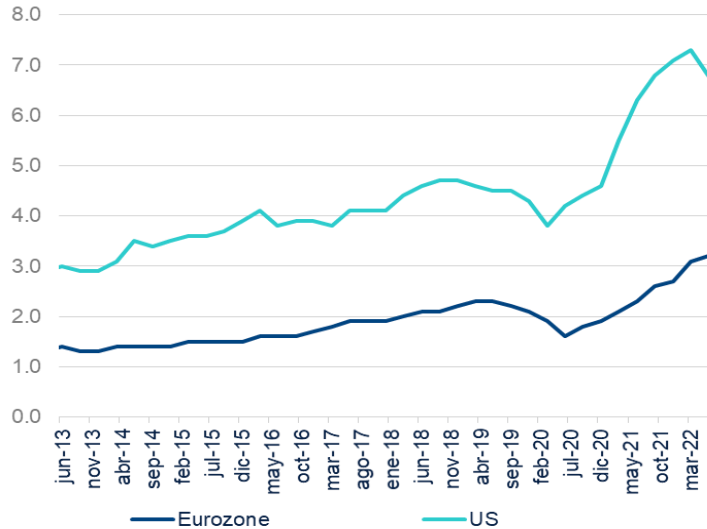
PMI INDICATORS

(HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)

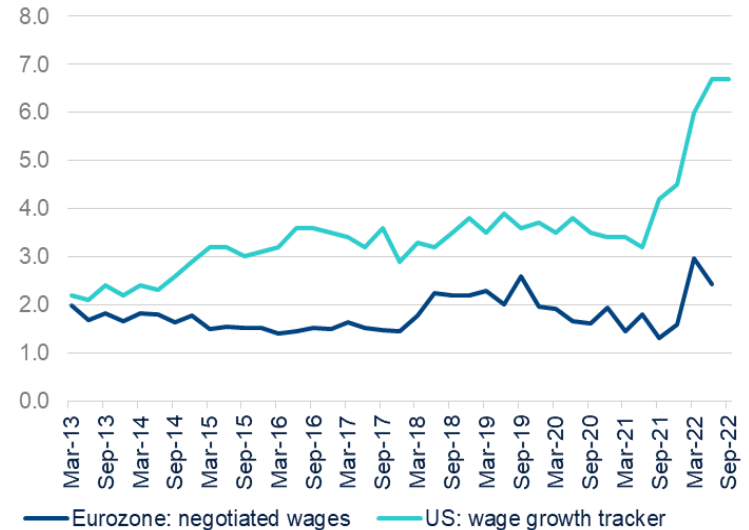


Strong labor markets supporting activity but concerning in terms of inflation

LABOR MARKET: VACANCY RATE (%, QUARTERLY AVERAGES)



WAGE GROWTH INDICATORS (% YoY, QUARTERLY DATA)

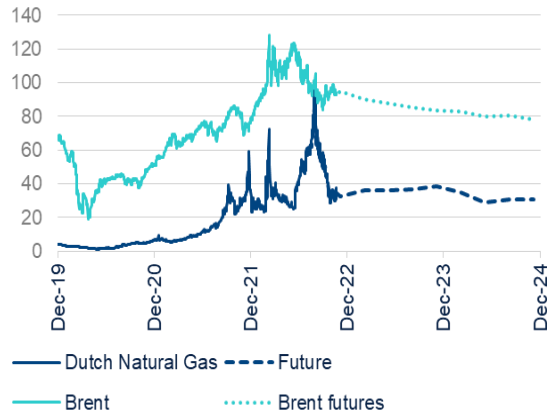


* Vacancies as a proportion of the sum of total employment and the number of vacancies.
Source: BBVA Research based on data from Haver.

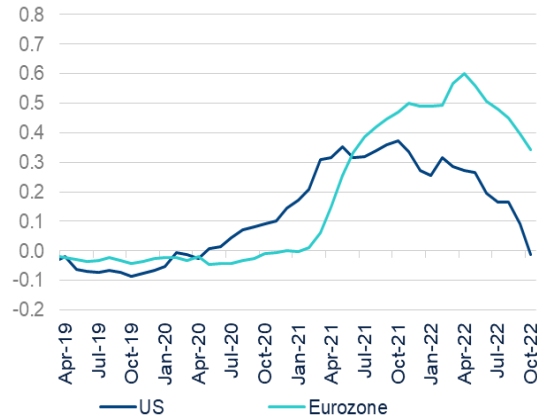
Source: BBVA Research based on Atlanta Fed and ECB data

Downward trend in gas prices halted on doubts about prices cap and outages. Bottlenecks ended in the US but still elevated in EU

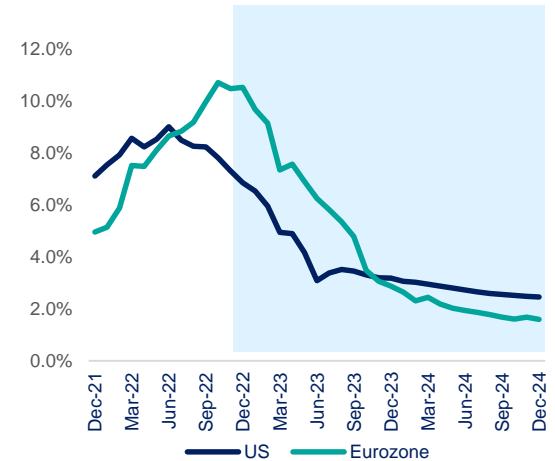
BRENT AND EUROPEAN GAS PRICES
(USD/b and USD/MMBTU)



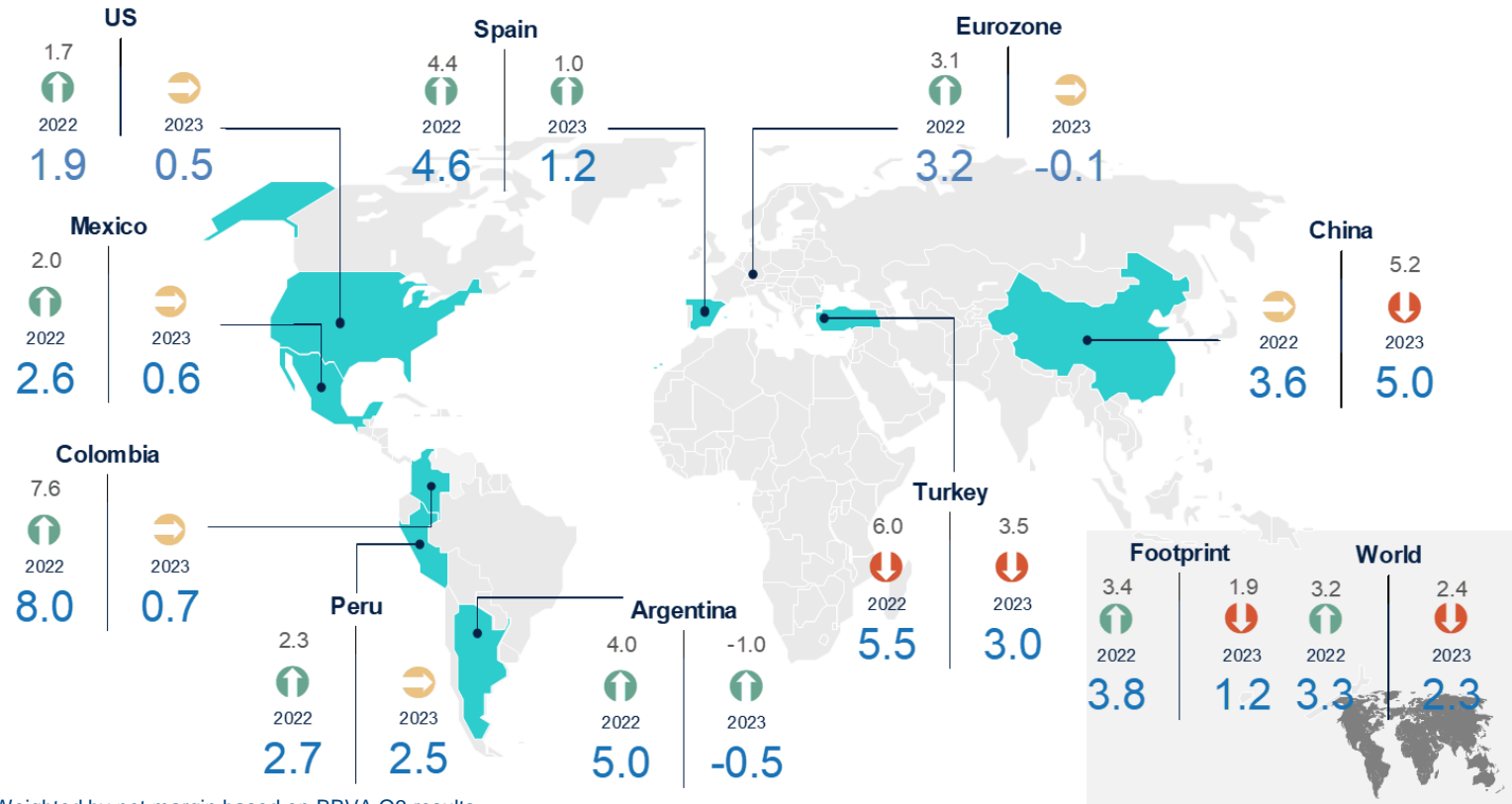
BBVA MANUFACTURING BOTTLENECK INDICATOR (STD)



BBVA US & EUROZONE CPI FORECASTS
(%, YOY)



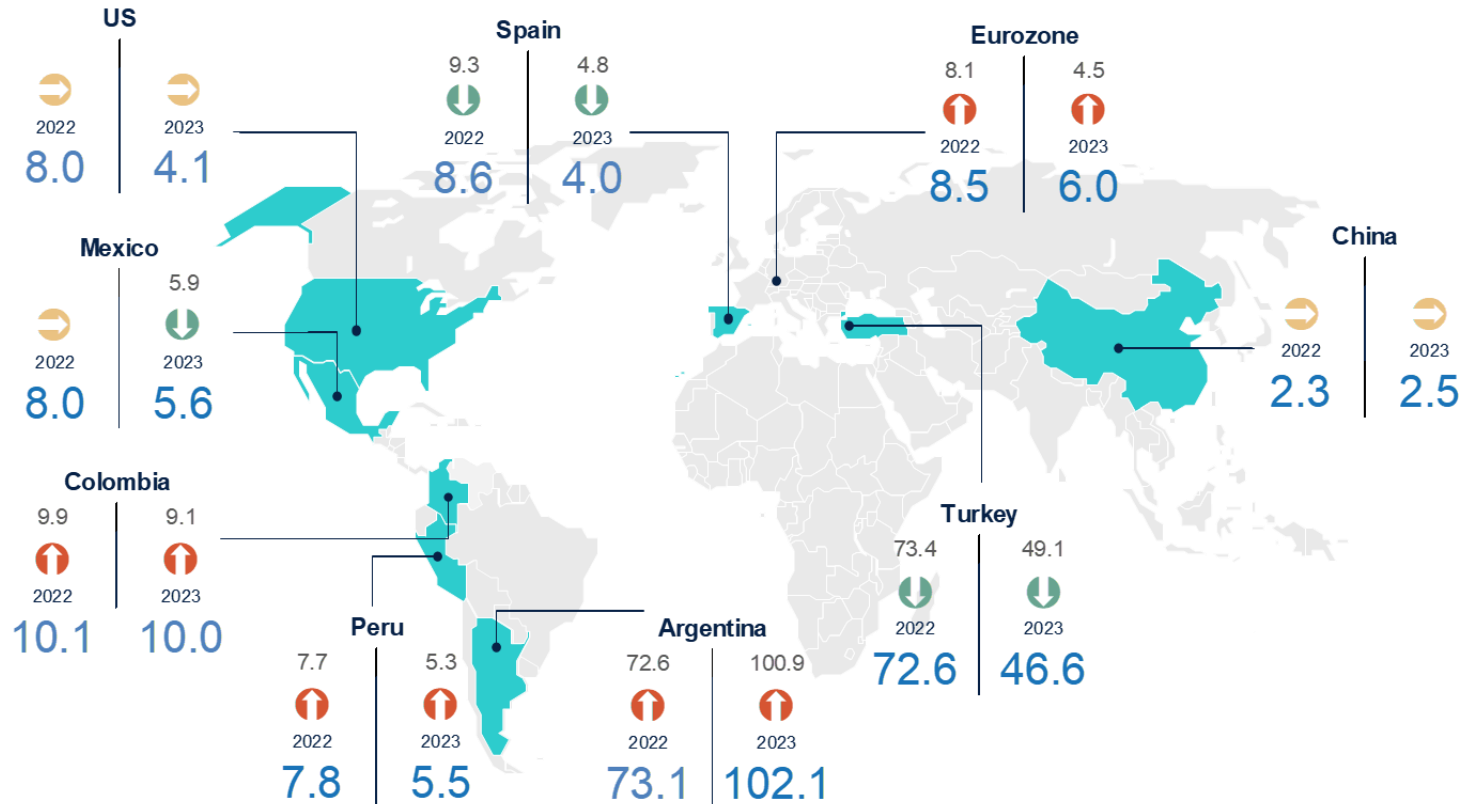
GDP: Upward revisions in most countries for 2022 and downward revisions for 2023 in CH and in TK



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)

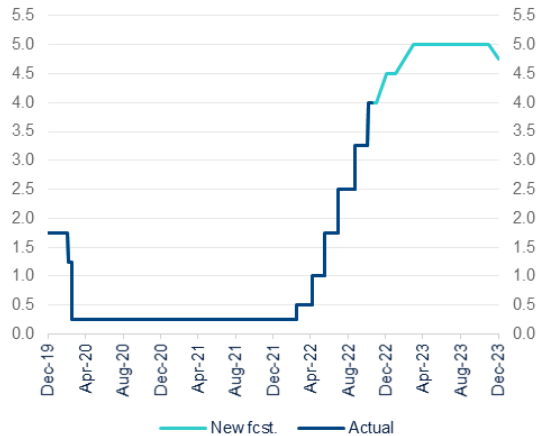
Inflation: Upward revisions mainly in the EZ, COL, PER and ARG. Downward revision in SPA, MX and TK. Unchanged in the US and CH



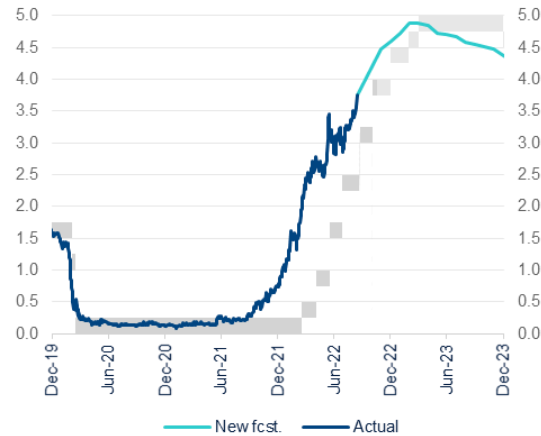
Annual average inflation data. The number is red if the bias is upward and green if it is downward. Color of the arrows indicate changes in annual average inflation since the last ALCO (numbers in grey above the arrows are previous forecasts).

US yields expected to increase until the peak in Fed fund rate is reached. We also anticipate a more inverted yield curve

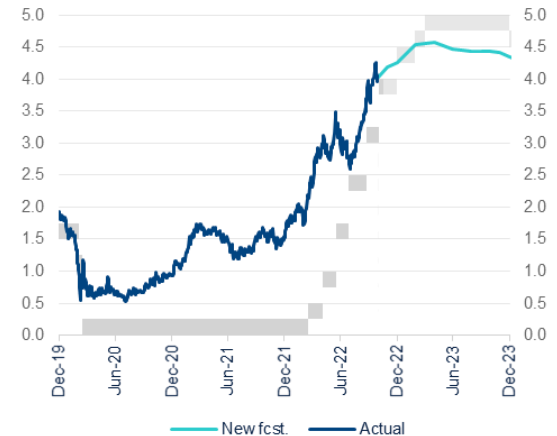
FED FUNDS RATE OUTLOOK
(UPPER LIMIT OF THE TARGET RANGE, %)



2YT RATE OUTLOOK (%)



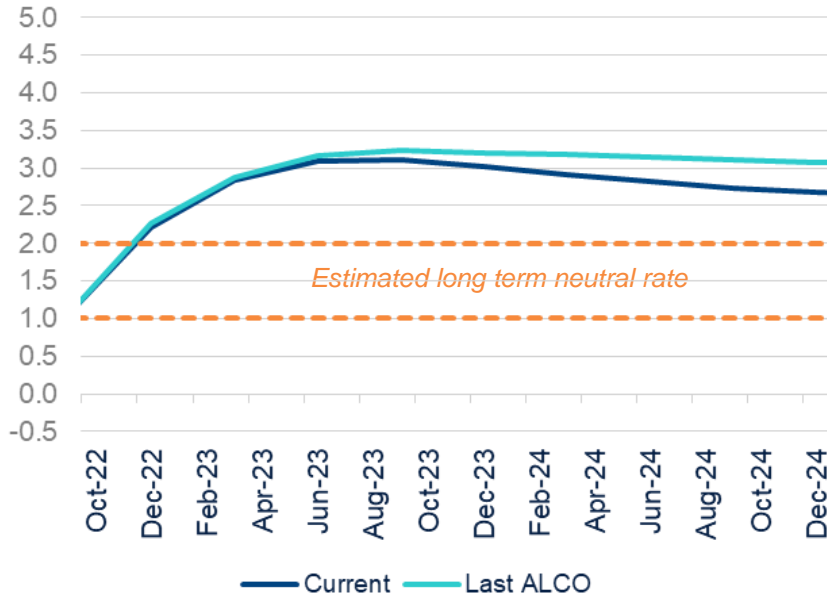
10YT RATE OUTLOOK (%)



ECB: Normalization path on track to achieve refi rate levels of 2.75% by Feb23. Guidelines on QT are likely to be announced at December meeting

ECB: IMPLICIT POLICY RATES IN 3M EURIBOR FUTURES

(%)



- Baseline scenario:

- Rates: 2022: +50 bps in Dec; 2023: +25 bps in Feb (i.e. terminal rate at 2.75%)
- QT to start very gradually by mid-2023. Risks to start earlier in 1Q23 as TLTRO-III repayment were below expectations
- TLTROs: reimbursements in the November window amounted to €296bn (14% of TLTRO outstanding), below analysts expectations (€600bn)

Long-term yields to rise but in a very limited way in 2023



Central banks

- Rates hiking cycle likely to finish in early 2023 in both US and EZ. No signal of rate cuts in the near term
- QT set to remain in place in the US and to be announced over 2023 in the EZ. Very uncertain impact



Inflation

- Inflation to remain high, well above targets, at least throughout 2023. Risks of more persistent inflation remain



Growth

- GDP forecast to broadly stagnate in the US and EZ in 2023.
- A mild recession is likely around year-end in the EZ, and by the mid-23 in the US.



Global uncertainty

- Global uncertainty to remain relatively high and put some pressure on demand of safe-haven bonds

Poor market liquidity will continue to add significant volatility to debt markets

Slightly higher 10Y UST expected on higher terminal rate for the Fed

				BBVA			Analysts' Forward		Vol. **		
		Current		Forecast	Prev.	Bias					
BONDS	10Y YIELD US	We expect all yields to keep pushing higher until the fed funds rate peak is reached. We also anticipate a more inverted yield curve		3.83%	Dec-23 Dec-24	4.35% 3.96%	4.21% 3.92%	=	3.50% 3.20%	3.74% 3.75%	Very high
	10Y YIELD GER	Expect very flat rates medium-term; but upward trend due to QT normalization starting mid-23		2.02%	Dec-23 Dec-24	2.30% 2.36%	= =	= =	1.85% 2.00%	2.10% 2.12%	Very high
	10Y RISK PREMIA (bps)	The Spanish risk premium is too tight and strong upward movements could occur, more so as the ECB's QT approaches.		99	Dec-23 Dec-24	140 150	= =	= =			Neutral
	10Y YIELD	Upward trend in the next two years		3.01%	Dec-23 Dec-24	3.70% 3.86%	= =	= =		3.22% 3.38%	Very high
FX	EURUSD	Downside risks for the EURUSD will continue in the short term. In 2H23 fundamentals will return to play a role		1.02	Dec-23 Dec-24	1.06 1.15	= =	= =	1.05 1.10	1.07 1.08	Very high
	MXN	Relative strength on a wide interest rate spread, a strong fiscal position, and a low CA deficit.		19.53	Dec-23 Dec-24	20.08 20.33	20.45 20.70	=	20.00 19.30	20.78 21.79	High
	TRY	The possibility for a policy reversal before elections narrows down, so we expect Turkish lira to keep depreciating further		18.63	Dec-23 Dec-24	28.02 26.12	26.75 24.84	=	24.00	25.07 32.55	Low

* Bloomberg median

** Vol.= volatility at 60 days of the daily variation (color indicates the level of volatility over the last two months)

Biases: to the upside: higher rates and more depreciated currencies, except the euro (upward bias more appreciated euro)

Biases: to the downside: lower rates and more appreciated currencies, except the euro (downward bias more depreciated euro)

Very high

High

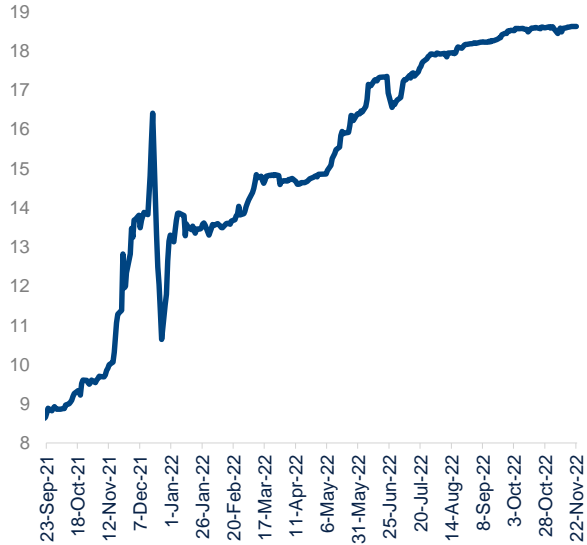
Neutral

Low

Very low

Current policy framework helps contain volatility

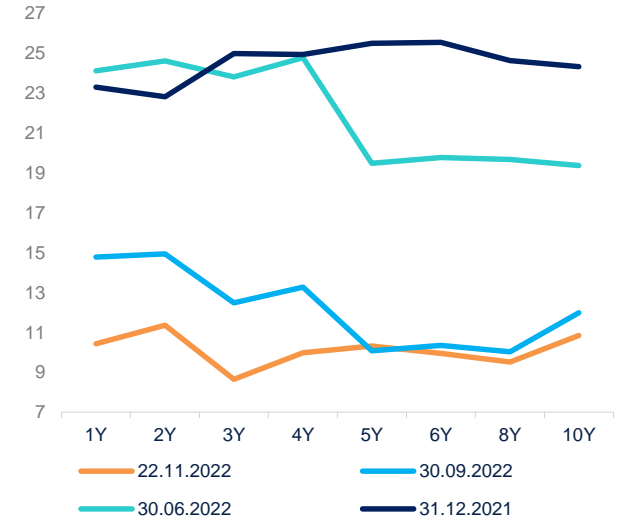
EXCHANGE RATE
USDTRY



5YR CDS
BP

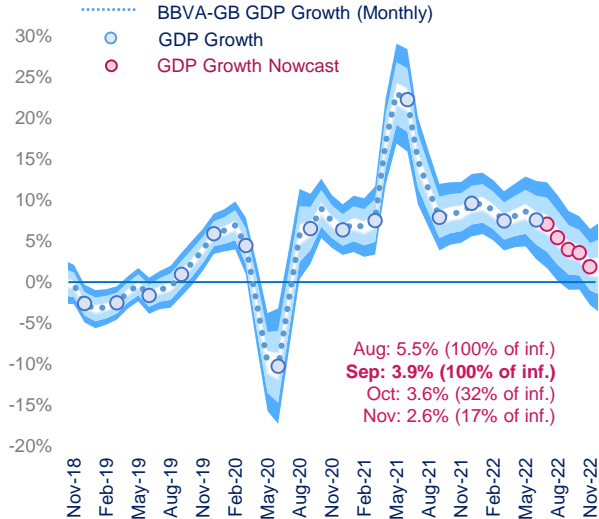


TRY BOND YIELDS
%

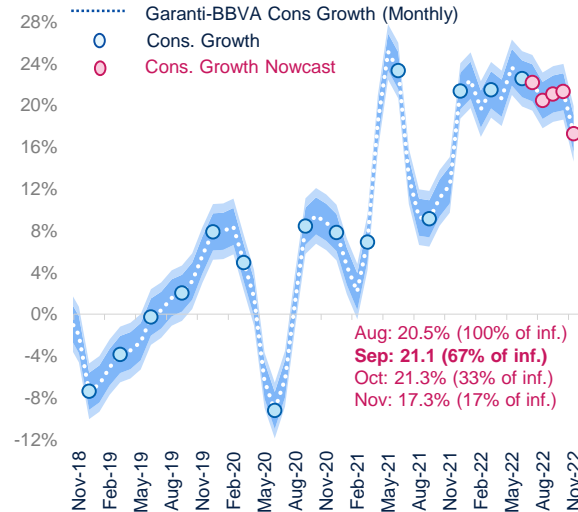


Economic activity is decelerating faster than expected

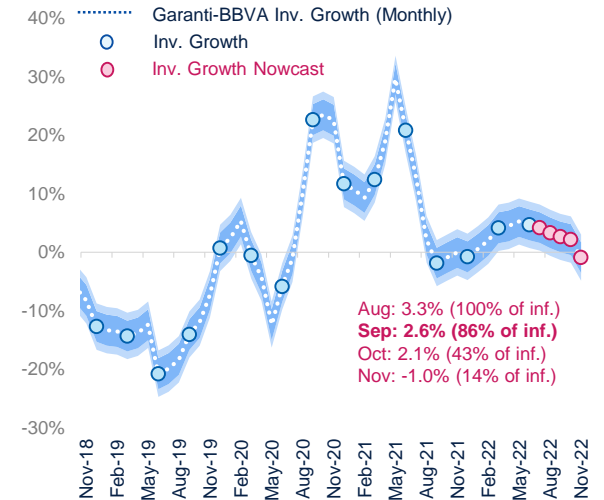
GARANTI BBVA MONTHLY GDP (YOY, 3M MOVING AVG.)



GARANTI BBVA CONSUMPTION NOWCAST (YOY, 3M MOVING AVG.)

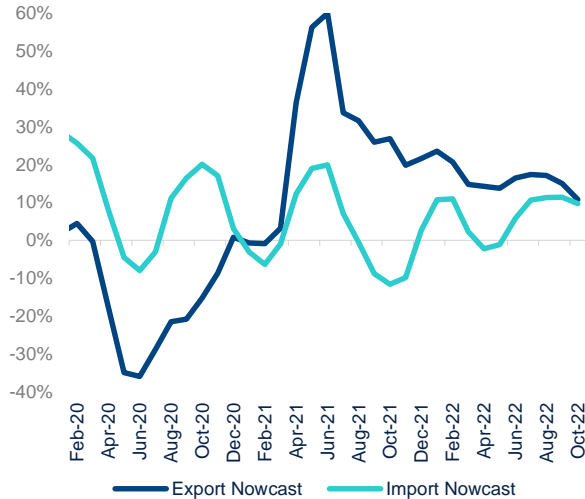


GARANTI BBVA INVESTMENT NOWCAST (YOY, 3M MOVING AVG.)

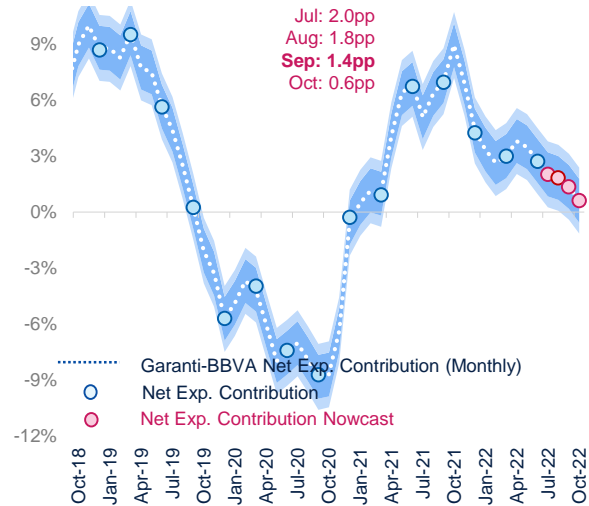


Imports stay strong and eliminate the contribution from exports

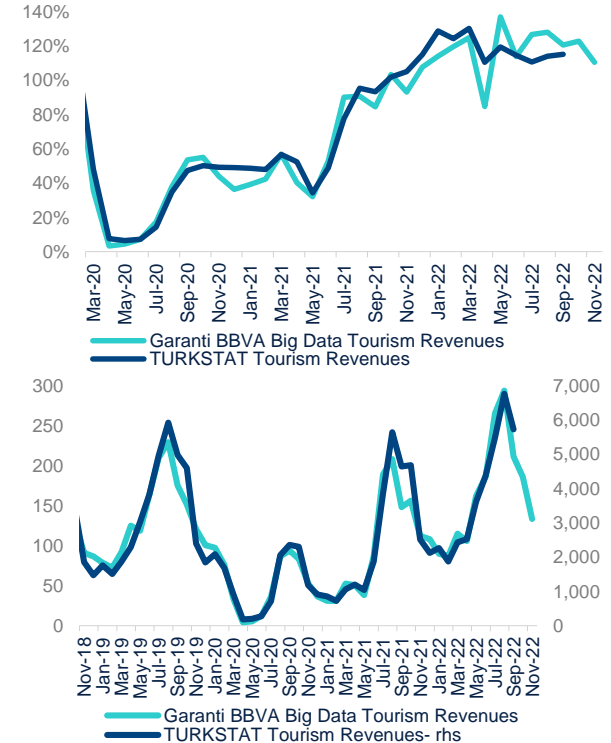
GARANTI BBVA EX & IMP NOWCAST
(YOY, 3M MOVING AVG.)



GARANTI BBVA NET EXPORTS NOWCAST
(CONTRIBUTION, PP)

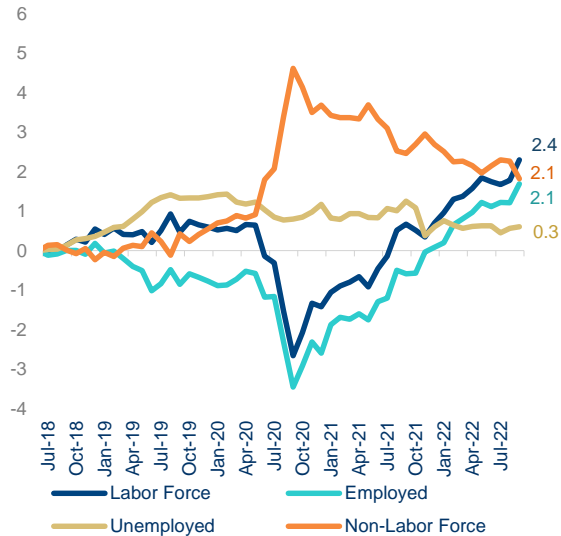


GARANTI BBVA BIG DATA TOURISM REVENUES
(compared to 2019, mn\$)

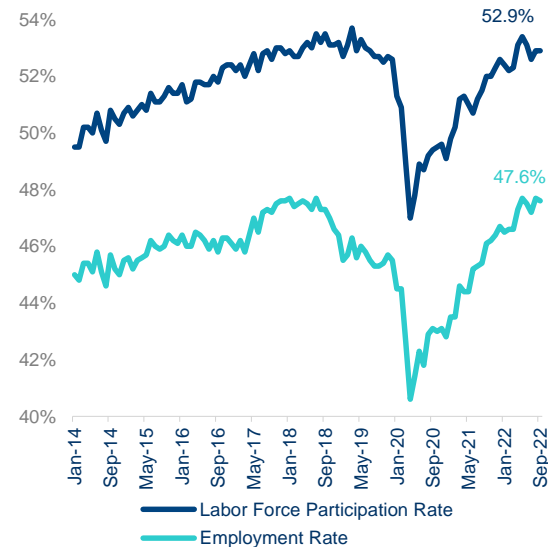


High NILF will keep counter-cyclical policies ahead of the election

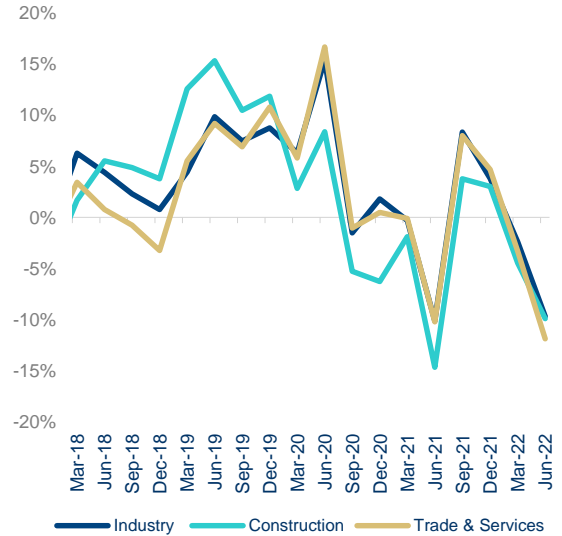
WORKING AGE POPULATION
CUMULATIVE SINCE JAN18, MN



LF PARTICIPATION & EMPLOYMENT RATE
%



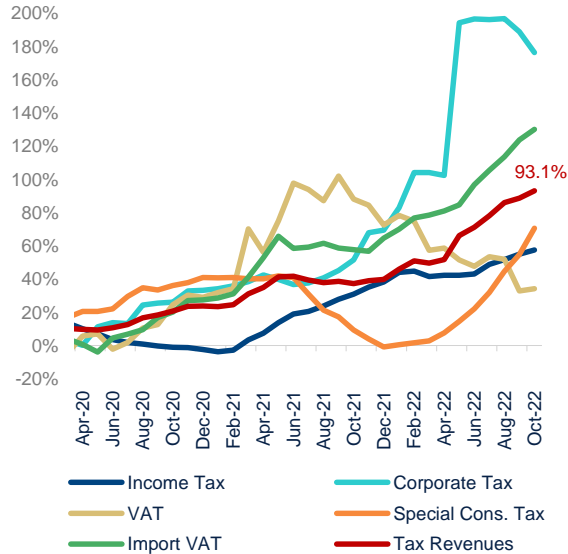
REAL WAGE GROWTH
YOY % CHANGE



Fiscal expenditures have already started to accelerate

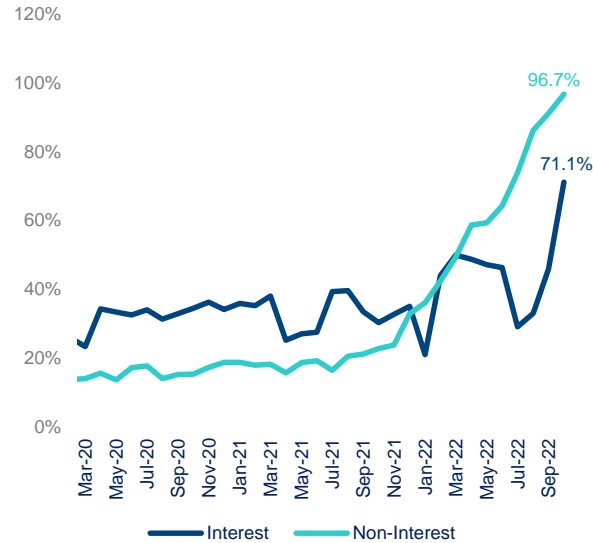
FISCAL REVENUES

12M YOY%



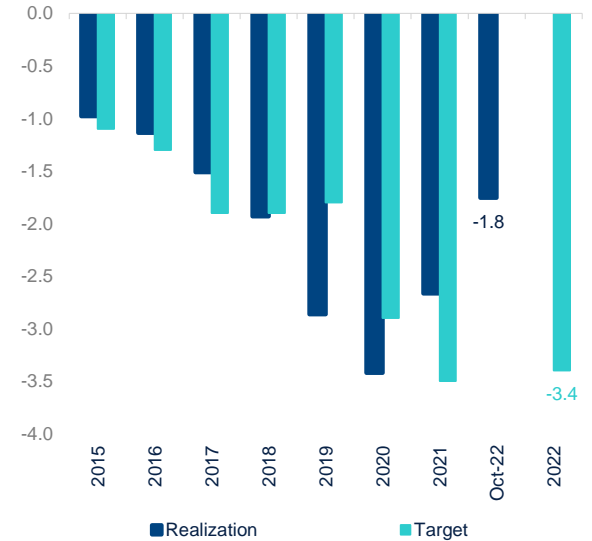
FISCAL EXPENDITURES

12M YOY%



CG BUDGET BALANCE

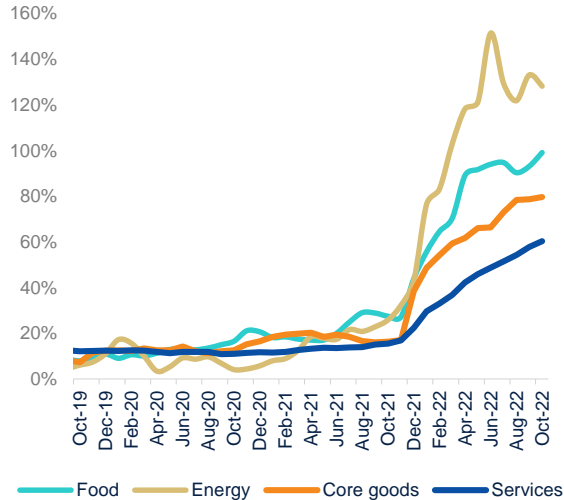
% GDP



We adjust our CPI forecasts amid downward CPI surprises

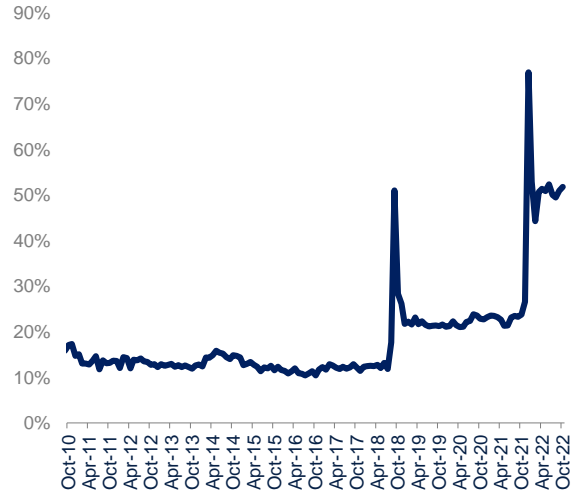
CPI SUB-COMPONENTS

12M CHANGE



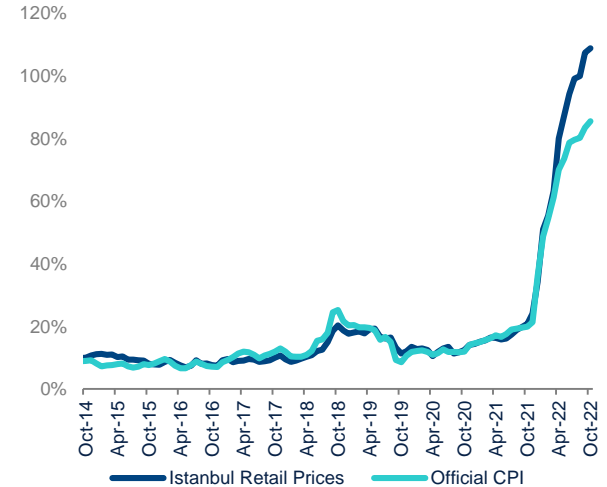
FX PASS THRU, RECURSIVE

%



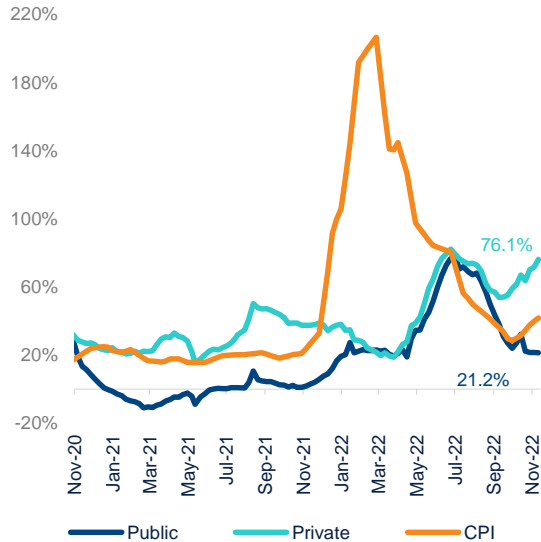
ISTANBUL VS OFFICIAL CPI

12M % CHANGE

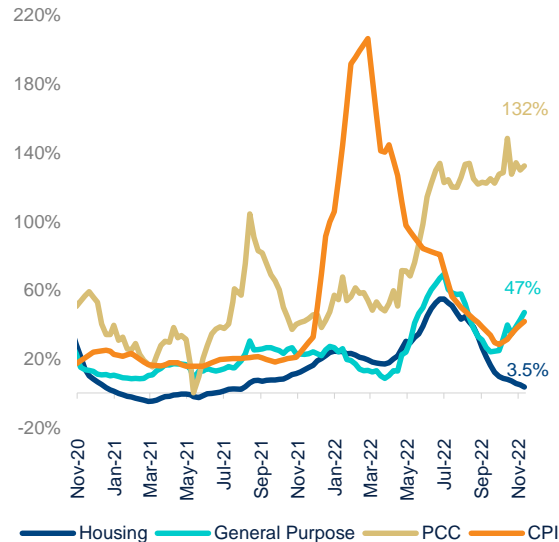


Credit card spending remains as the main catalyzer on consumption

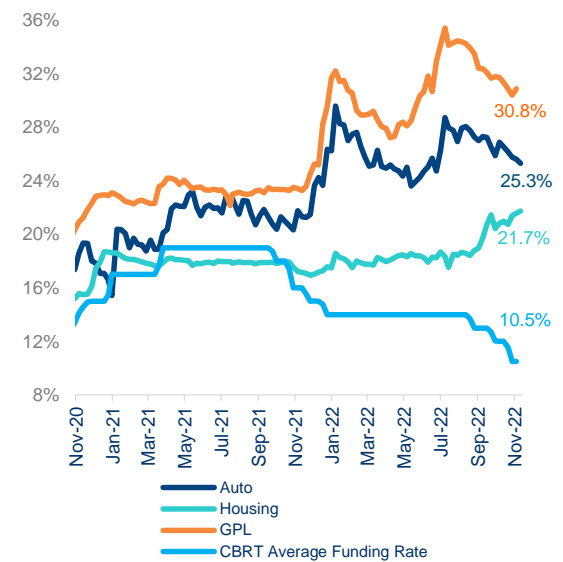
CONSUMER CREDIT GROWTH
13-WEEK ANNUALIZED, W/ CREDIT CARDS



CONSUMER CREDIT GROWTH
13-WEEK ANNUALIZED, BY SEGMENT

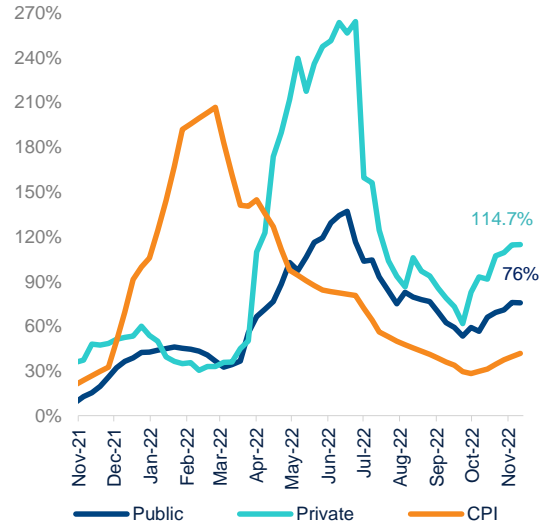


TL INTEREST RATES
SECTOR

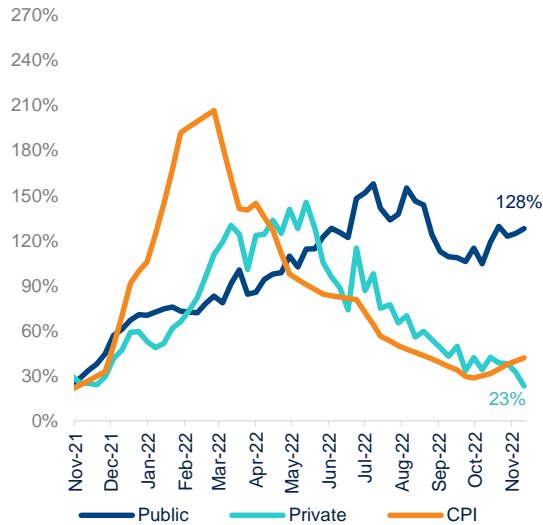


Privates accelerate in SME lending, state banks support large firms

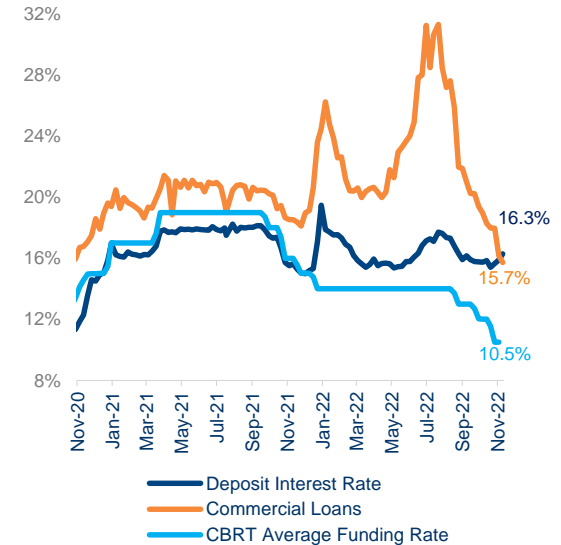
TL COMMERCIAL SME
13-WEEK ANNUALIZED



TL COMMERCIAL LARGE FIRMS
13-WEEK ANNUALIZED



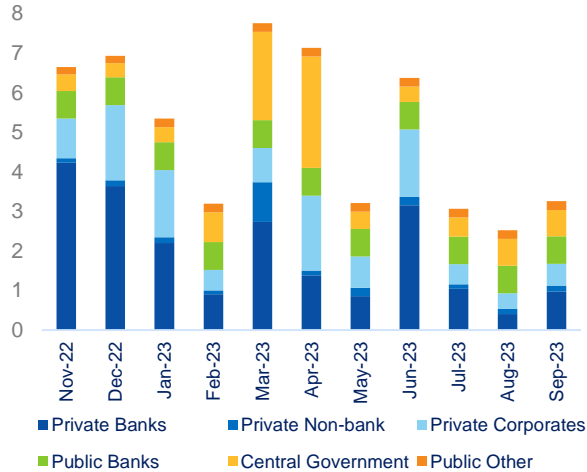
TL INTEREST RATES
SECTOR



High CAD & lower roll-over rates increase the external financing gap

EXTERNAL LOANS REDEMPTIONS

Next 12M* as of Sep22, US\$bn



LT EXTERNAL LOANS ROLL-OVER RATIO

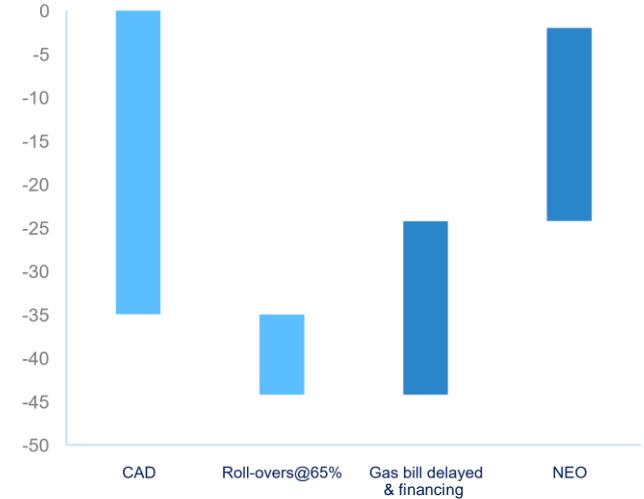
12-month rolling



* Does not include trade credits

EXTERNAL FINANCING NEEDS, NOV22-MAY23

US\$BN



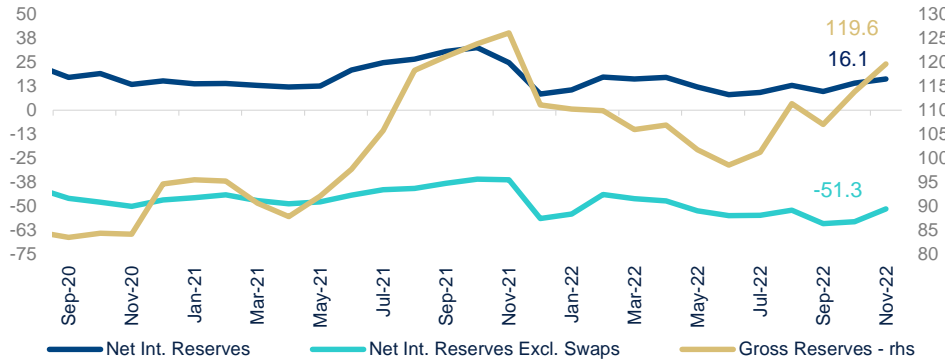
Treasury issued 2bn\$ Eurobond and 7bn\$ Sukuk so far in 2022 out of its 11bn\$ target

~65-70% roll-over so far in 4Q banks external loans redemptions

CBRT reserves slightly improve, not enough to feel comfortable

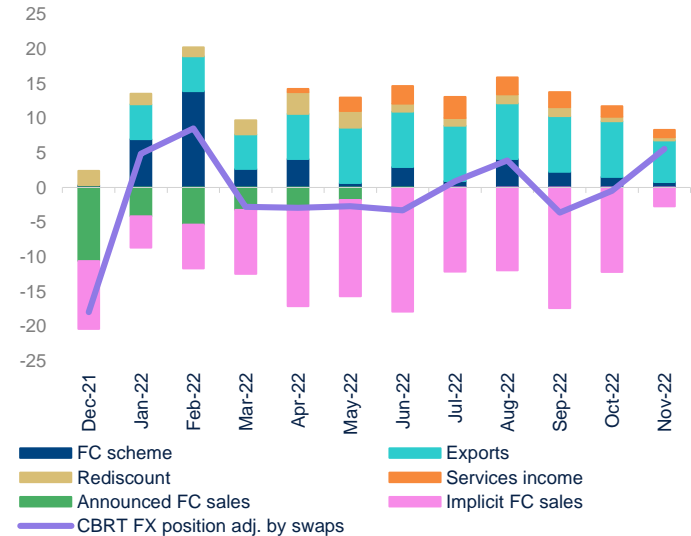
CBRT INTERNATIONAL RESERVES

US\$bn, as of Nov 22



FLOWS VIA CBRT RESERVES

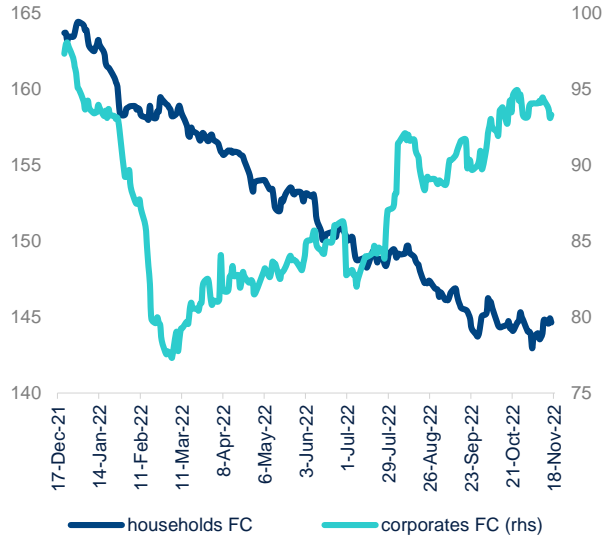
US\$bn, as of Nov 22



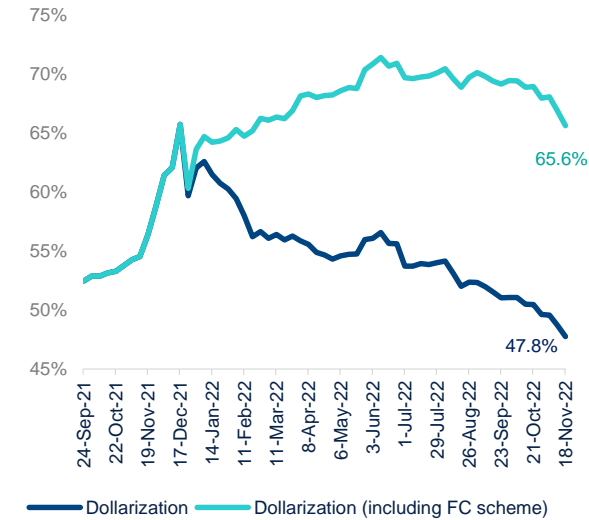
CBRT BALANCE SHEET, US\$BN	22 Jul	30 Sep	18 Nov
Foreign assets	102.0	111.0	122.9
Foreign liabilities	103.6	105.1	114.3
Net on balance FX position	-1.6	5.9	11.6
Net on balance FX ex swaps	-63.7	-62.8	-57.4
Net international reserves	6.7	9.7	18.7
HQLA	52.3	61.0	72.8
HQLA ex CB Swaps & Treasury	18.5	31.2	39.6

Regulations on banks help to reinforce TL deposits

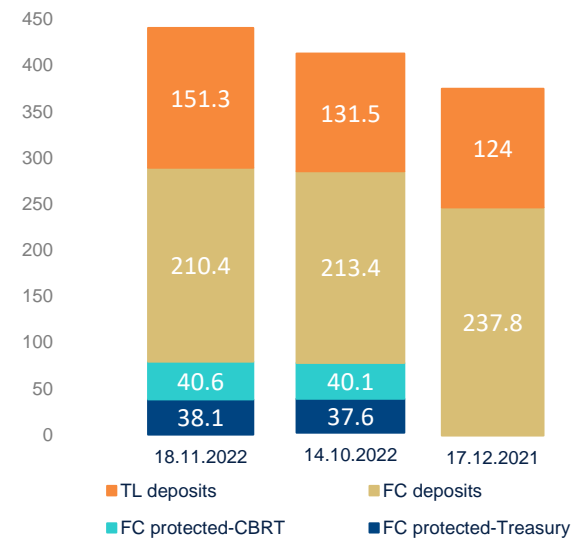
FC DEPOSITS OF RESIDENTS US\$BN



DOLLARIZATION RATIO %

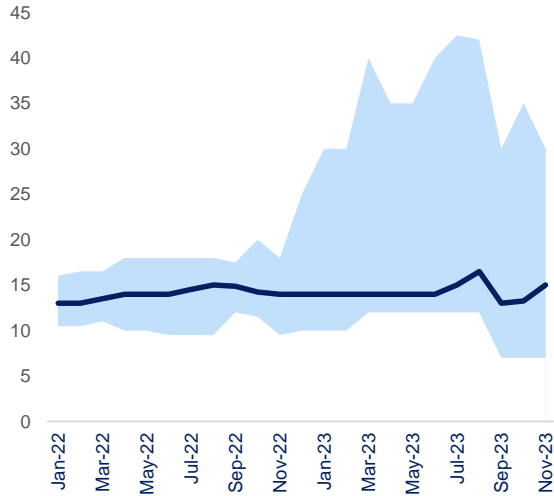


DEPOSITS OF RESIDENTS US\$BN

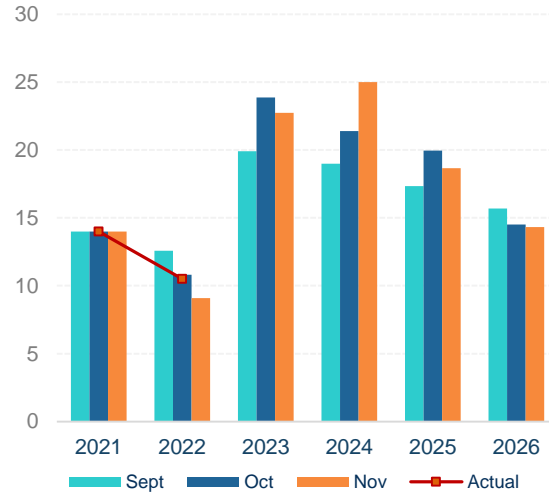


Policy rate at 9%, already reaching one digit level

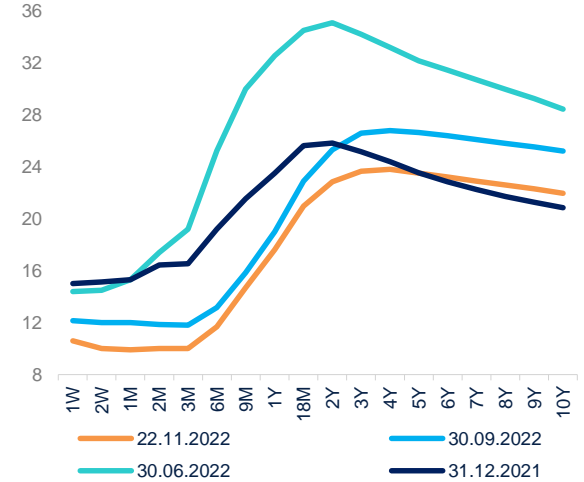
POLICY RATE CBRT SURVEY, EOP, %



POLICY RATE CONSENSUS, EOP, %



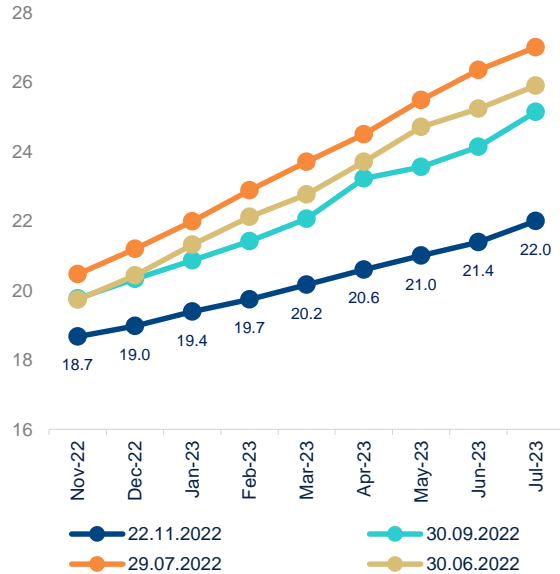
O/N INTEREST RATE SWAP CURVE, %



TRY depreciation expected to continue on fundamental reasons

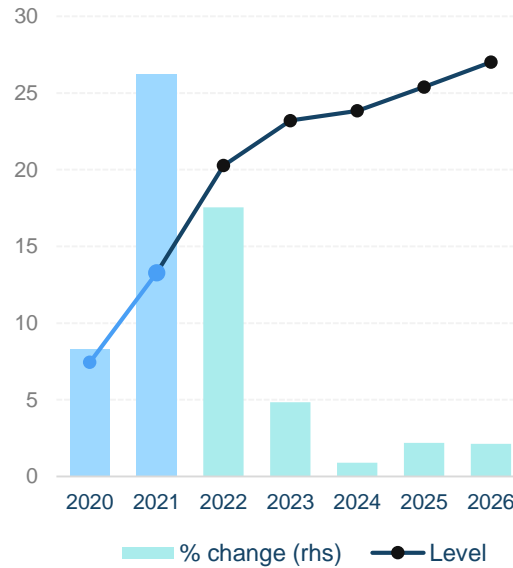
USDTRY FUTURES

TRY per USD



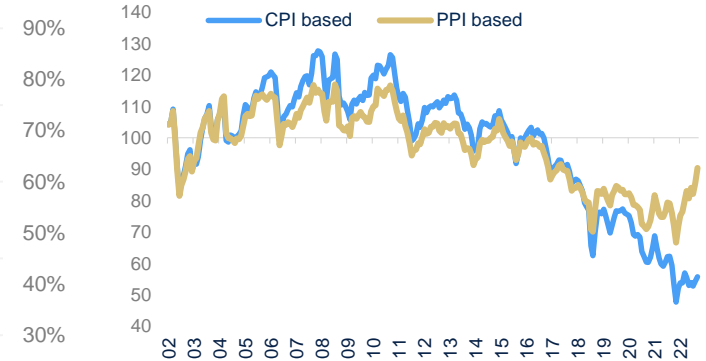
USDTRY SURVEY

TRY per USD, EOP

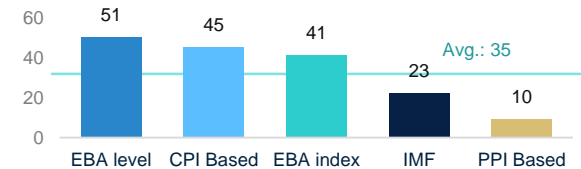


REAL EFFECTIVE EXCHANGE RATE INDEX

INDEX



REER UNDERVALUATION, %



We have very mild revisions in our forecasts

Global Outlook

- Slower world economic growth
- Slightly lower commodity prices
- Still high global inflation
- Much tighter financial conditions
- Higher risk premium in EM
- Geopolitical advantages from the War in Ukraine

Domestic impact

- Slower momentum in 2H22 economic activity
- Doubling down on fiscal/monetary measures in 1H23
- Lower than expected official CPI readings
- New resources & advantages in external financing
- Higher borrowing costs & lower roll-over ratios
- Pressure on risk premium & exchange rate

Baseline Scenario

	Scenario	2021	2022	2023	2024	2025	2026	2027
GDP growth (avg)	Previous	11.4%	6.0%	3.5%	-1.0%	3.8%	3.7%	3.7%
	New		5.5%	3.0%	-1.5%	3.8%	3.8%	3.7%
Unemployment Rate (avg)	Previous	12.0%	10.7%	10.3%	11.3%	11.9%	12.0%	12.0%
	New		10.6%	10.3%	11.7%	12.2%	12.0%	12.0%
Inflation (avg)	Previous	19.6%	73.4%	49.1%	31.9%	18.3%	16.5%	15.0%
	New		72.6%	46.6%	31.7%	18.9%	16.7%	15.0%
Inflation (eop)	Previous	36.1%	70.0%	45.0%	21.5%	17.3%	15.9%	14.4%
	New		67.0%	42.0%	23.0%	17.4%	15.9%	14.4%
Current Account Balance (bn\$)	Previous	-7.3	-58.2	-50.2	-29.3	-13.3	-12.4	-9.5
	New		-52.2	-40.0	-17.4	-10.4	-16.6	-19.0
Current Account Balance (% GDP)	Previous	-1.7%	-7.0%	-5.7%	-2.7%	-1.0%	-0.7%	-0.5%
	New		-6.3%	-4.8%	-1.7%	-0.8%	-1.0%	-1.0%
Primary Balance (% GDP)	Previous	-0.2%	-0.6%	-0.8%	-1.5%	-1.1%	-0.8%	-0.5%
	New		-0.6%	-0.8%	-1.5%	-1.1%	-0.7%	-0.4%
Fiscal Balance (% GDP)	Previous	-2.7%	-3.1%	-3.8%	-4.5%	-4.1%	-3.8%	-3.5%
	New		-3.1%	-3.8%	-4.4%	-4.1%	-3.7%	-3.4%

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