

BBVA

Corporate &
Investment Banking

Turkey: Macroeconomic Outlook

Garanti BBVA Research

September 2021

Key messages

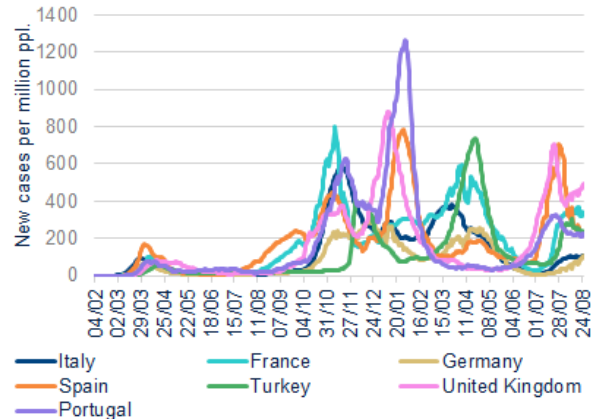
- **Pace of vaccination** remains promising, but the recent increase in the number of infections results in high death tolls
- **Domestic demand** keeps growing: **consumption** stays relatively **strong** but **investment** has started to **correct**. We maintain our **2021 GDP growth forecast at 9%**, with risks still on the upside. **2022 GDP growth forecast at 4%**.
- Upside surprises in exports and moderating imports. Tourism inflows further recover. **Pressures on the CAD have eased**. Roll-over ratios keep improving. We expect current account deficit at **18bn\$ (2.3% of GDP) in 2021** and **17bn\$ (2.1% of GDP) in 2022**.
- **Modest inflows to the foreigners portfolio** occur, though **residents increase FC deposits** (fueled by effective inflows led by exports and tourism revenues).
- **Credits maintain a moderate growth rate** with some acceleration in consumer loans despite the recent macro-prudential measures.
- We expect **consumer inflation to stay above 19% till November and end the year at 17%**. Though, inflation may remain high (17-18%) in the first half of next year, before **declining to 13% by end 2022**.
- Given the recent CBRT communication, **we still expect rate cuts in November and December, ending up with a policy rate of 18%** at the end of the year. Our expectation for the end of **next year policy rate remains at 14.5%**.
- We expect **public deficit to reach 3.4% of GDP in 2021** and **3.9% of GDP in 2022**.

01

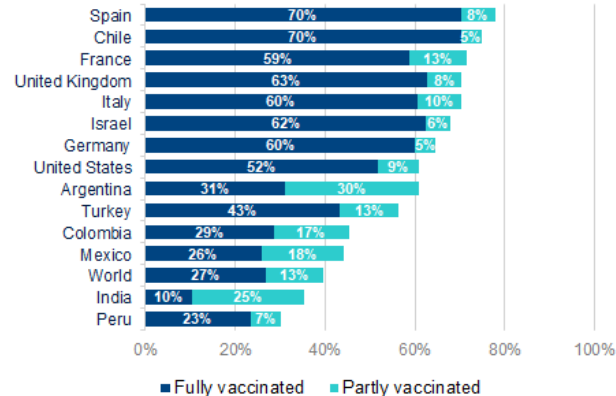
Turkey: Macroeconomic Outlook

Infections remain in a plateau, relatively under control, while vaccination rates are better than peers

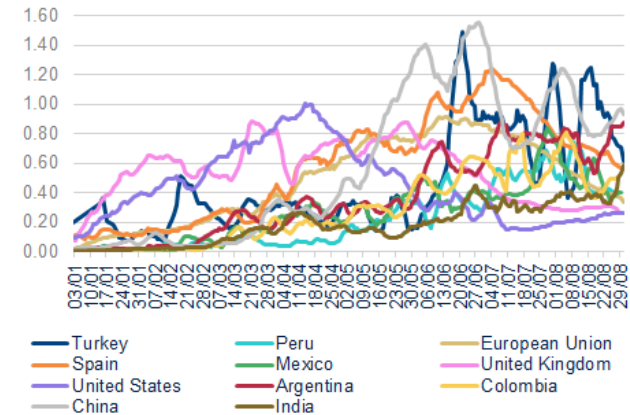
NEW INFECTED PEOPLE: EUROPE
(7-DAY MOVING AVERAGE PER MILLION PEOPLE)



POPULATION VACCINATED WITH AT LEAST ONE DOSE (% OF TOTAL POPULATION*)



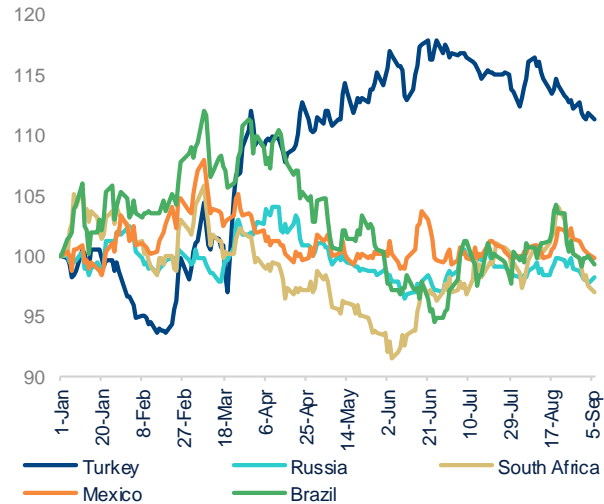
VACCINATION FLOW (DOSES PER 100 PEOPLE, 7-DAY MOVING AVERAGE)



Higher tourism revenues help ease FX pressures while long-term TL bonds benefit from increasing inflows

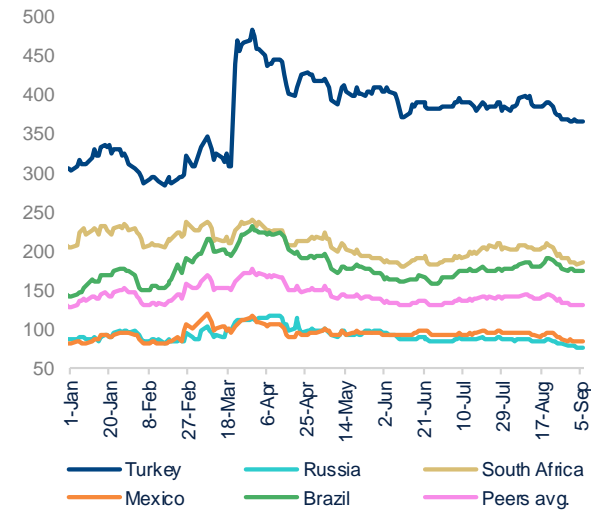
EXCHANGE RATE

(USDTRY vs. peers, 2020 year-end=100)



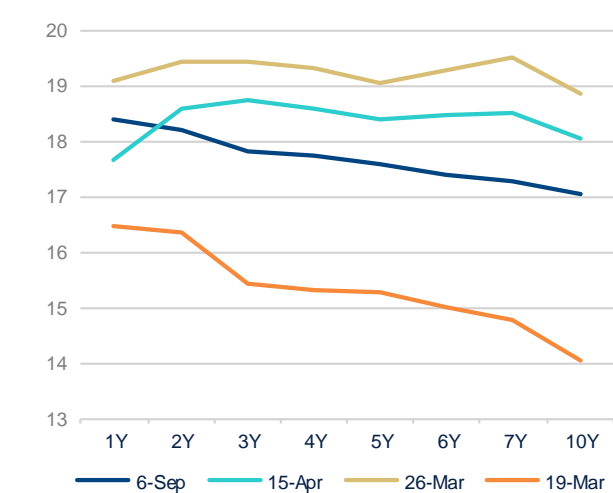
RISK PREMIUM: 5Y CDS LEVEL

(Turkey vs. peers)



TL SOVEREIGN YIELD CURVE

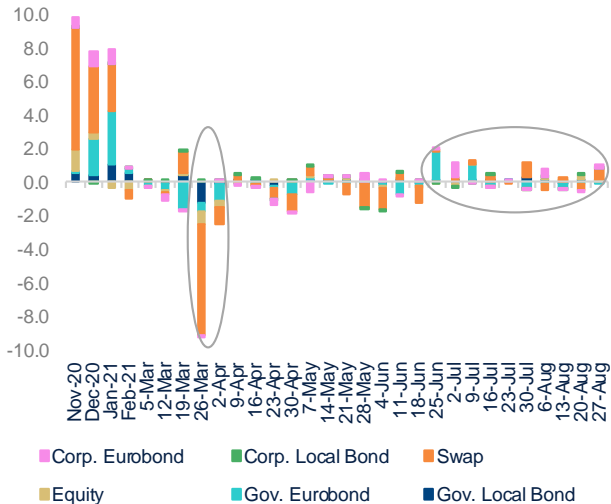
(%)



Although high interest rate differentials propelled foreign portfolio inflows, residents increased foreign currency deposits (also led by tourism revenues)

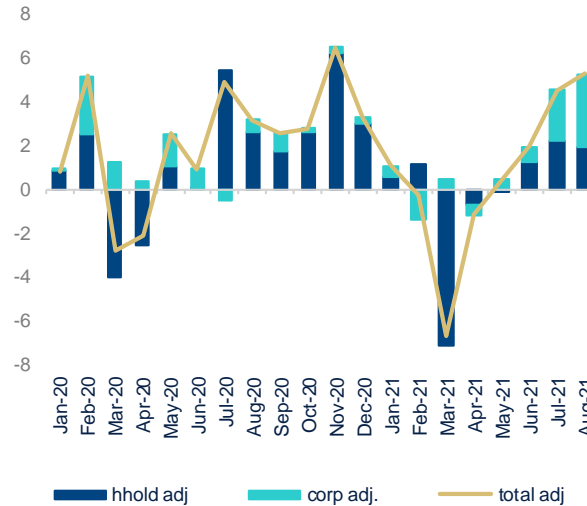
FOREIGNERS PORTFOLIO CHANGES

(bn\$)



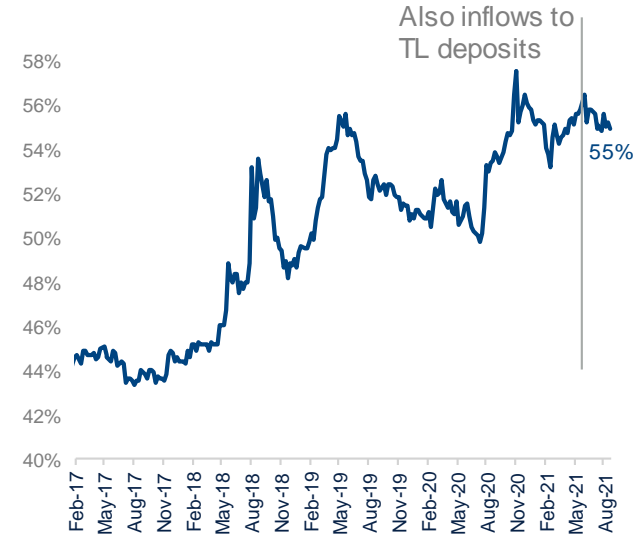
FLOWS TO FC DEPOSITS OF RESIDENTS

(bn\$, adjusted from price effects, as of August 27)



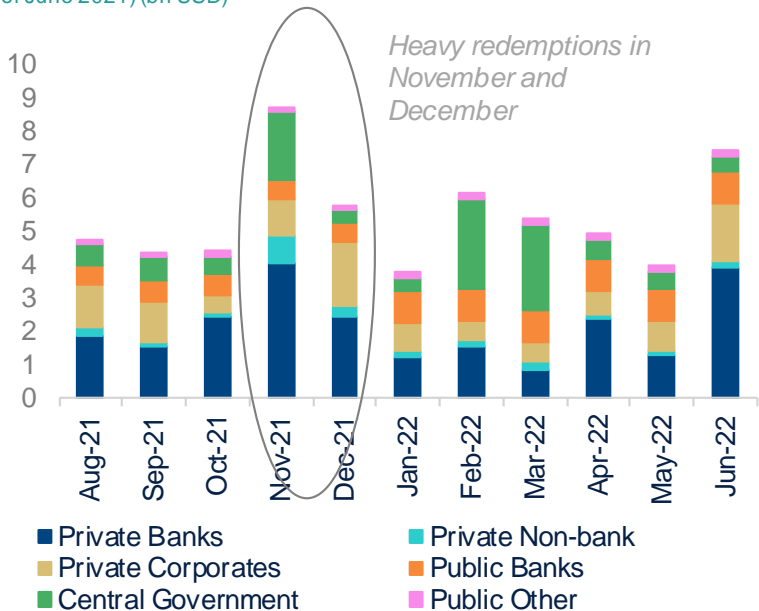
DOLLARIZATION RATIO

(FC deposits / Total deposits)

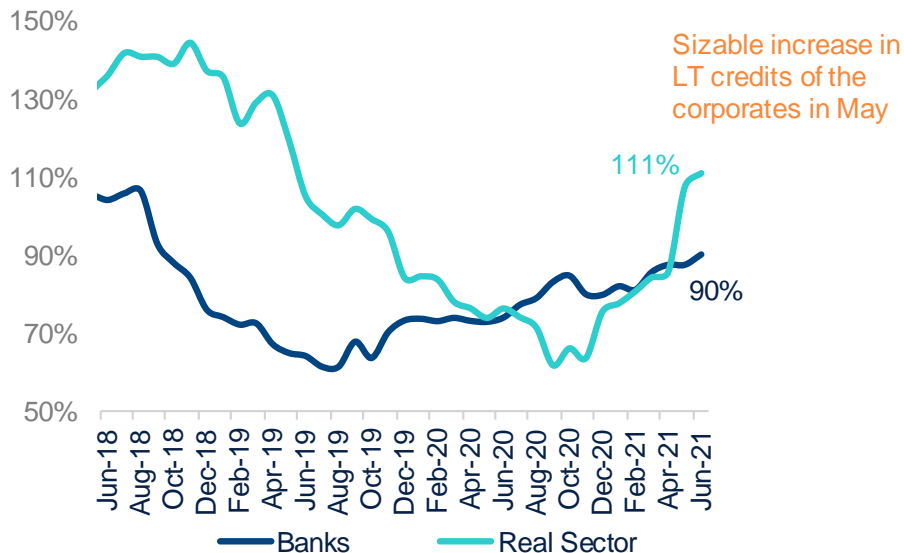


Redemptions will stay close to 4-5bn\$ per month till November, roll-over ratios improve further in both banks and corporates

TURKEY: EXTERNAL LOANS ON A REMAINING MATURITY BASIS FOR THE NEXT 12 MONTHS*
(as of June 2021) (bn USD)



TURKEY: LT EXTERNAL LOANS ROLL-OVER RATIOS
(12-month rolling)

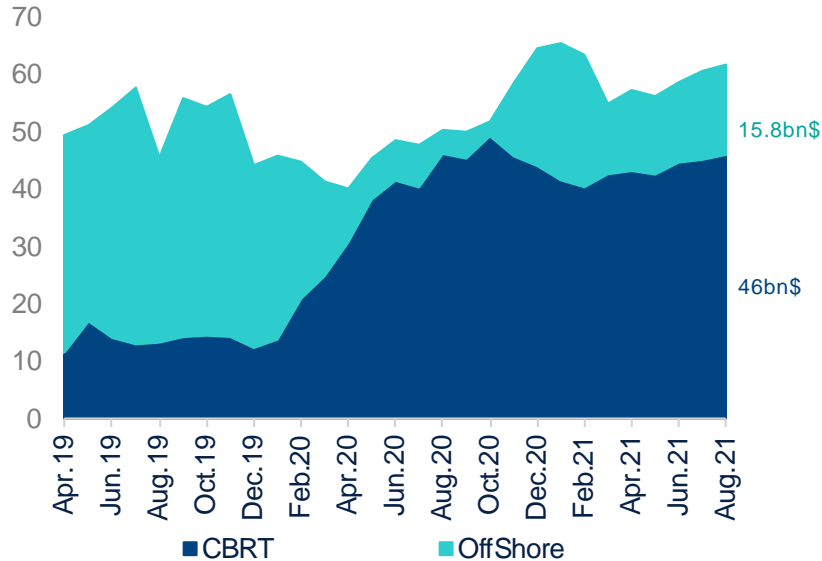


* Do not include trade credits, public banks&others are equally allocated to each month

CBRT gross reserves rose by 25bn\$ year-to-date , whereas the positive impact in net international reserves reached 13bn\$ as of August 27

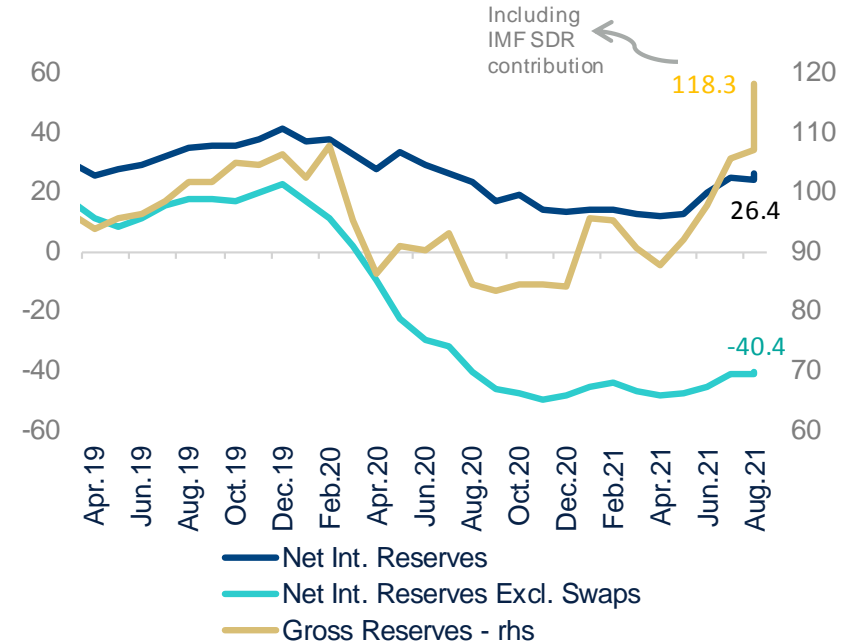
TURKEY: CURRENCY SWAPS OF THE BANKING SECTOR

(bn\$, right way swaps)



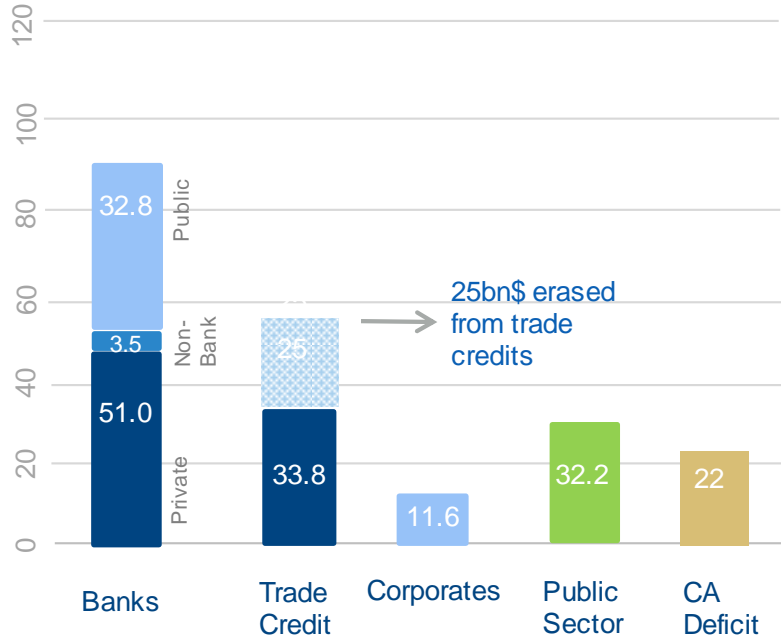
TURKEY: CBRT RESERVES

(bn\$, as of Aug 27)

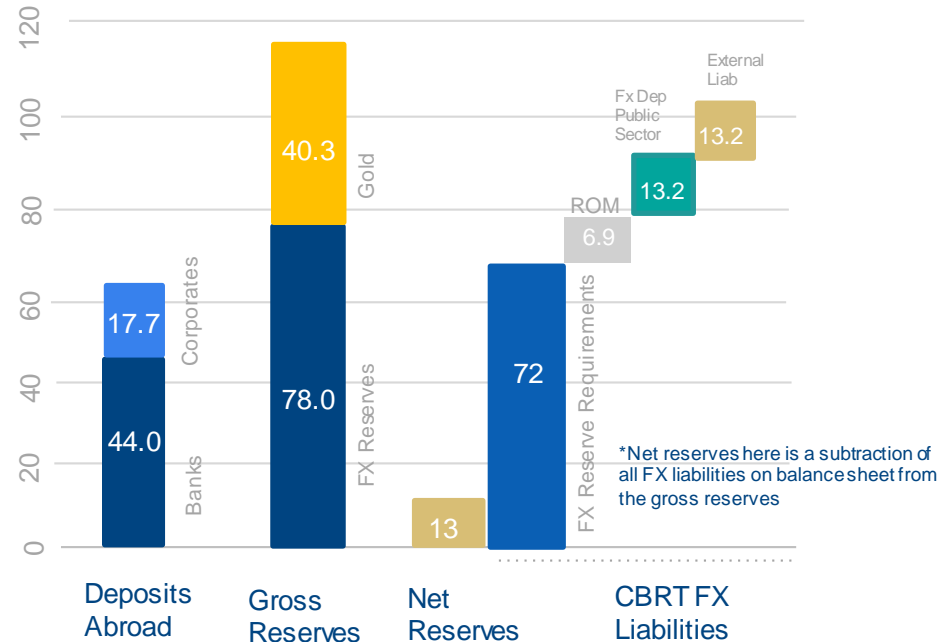


External financing needs in one year ahead declined to near 170bn\$ (exc. TL debt), and the need to roll-over improved to 80bn\$ (banks & non-bank credits + corporates exc. trade credits + public sector exc. CBRT swaps + CAD)

TURKEY: SHORT TERM EXTERNAL LIABILITIES (US\$ Bn, from Jun2021 to Jun2022)



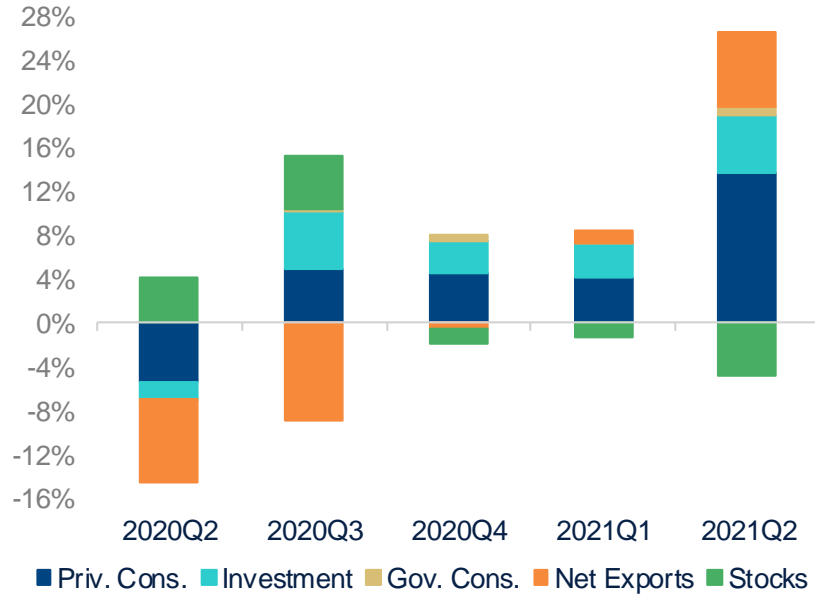
TURKEY: FX ASSETS (US\$ Bn, as of Aug 27)



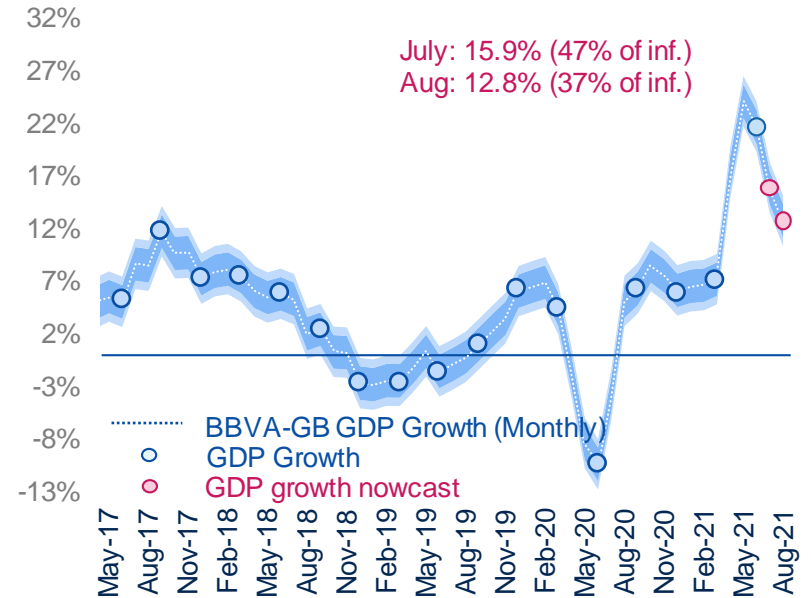
*Net reserves here is a subtraction of all FX liabilities on balancesheet from the gross reserves

Economic activity remains strong in 3Q; base effects continue to fade away

TURKEY: CONTRIBUTIONS TO GDP GROWTH (ANNUAL)

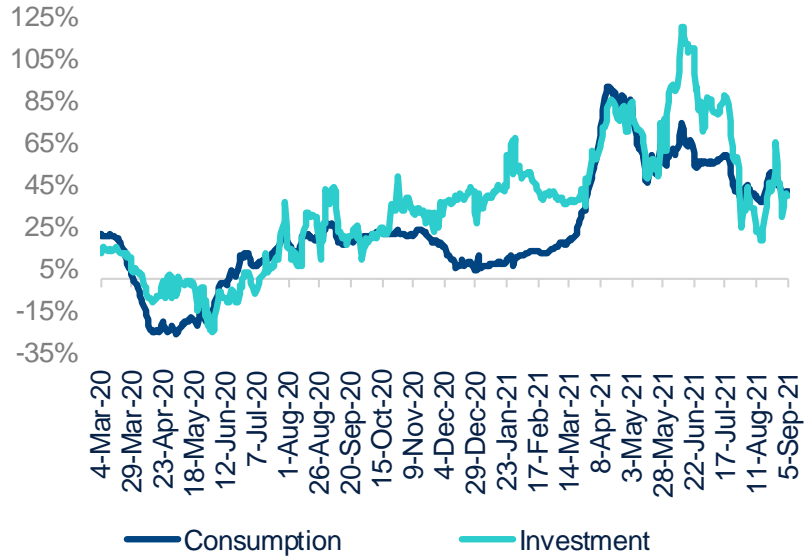


TURKEY: BBVA-GB GDP MONTHLY INDICATOR (% YOY, 3M MOVING AVG.)

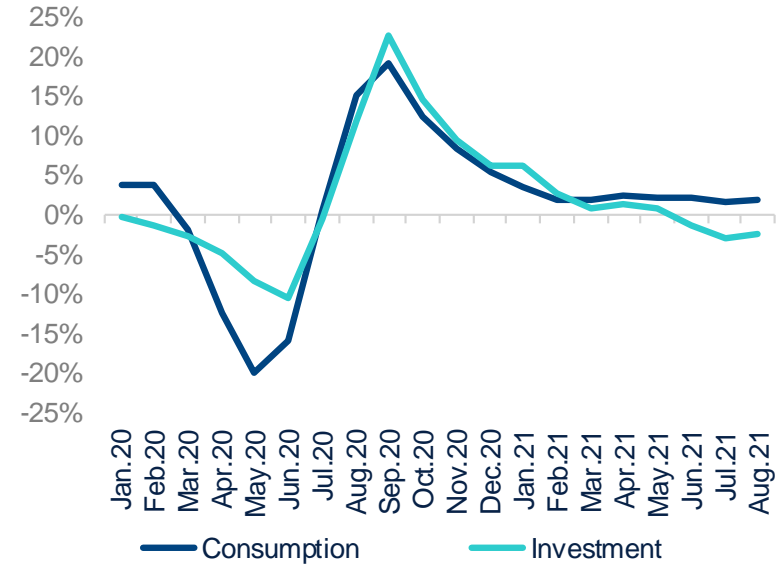


In quarterly and real terms, consumption loses some steam while investment shows a correction

TURKEY: BBVA BIG DATA CONSUMPTION & INVESTMENT
(28-day cum. YoY nominal)

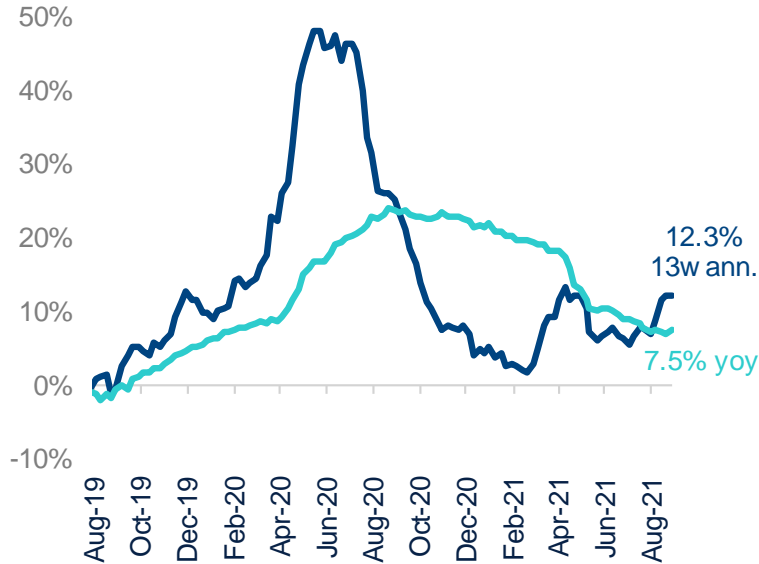


BBVA BIG DATA CONSUMPTION & INVESTMENT
(3M qoq real)

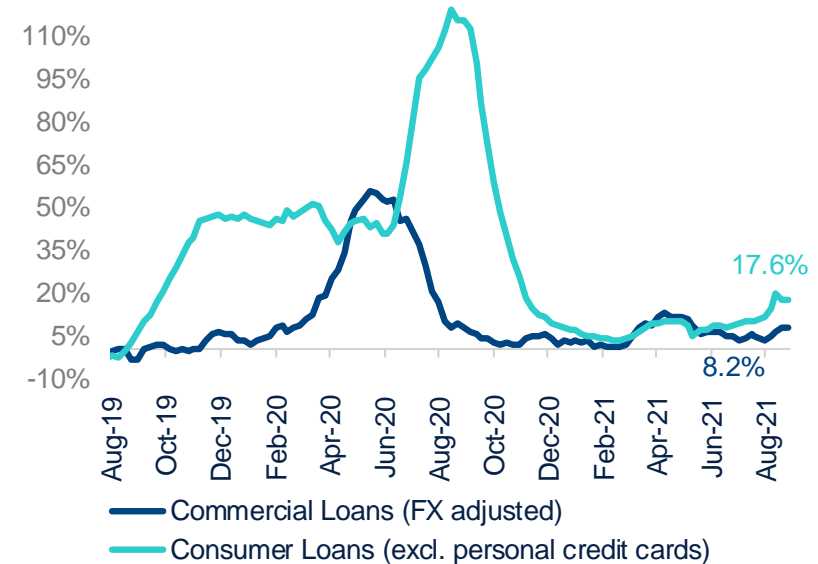


Total credit maintains a moderate growth rate albeit some acceleration in consumer loans despite recent macro-prudential measures

CREDIT GROWTH (FX ADJ.)
YoY, 13-WEEK ANNUALIZED TREND



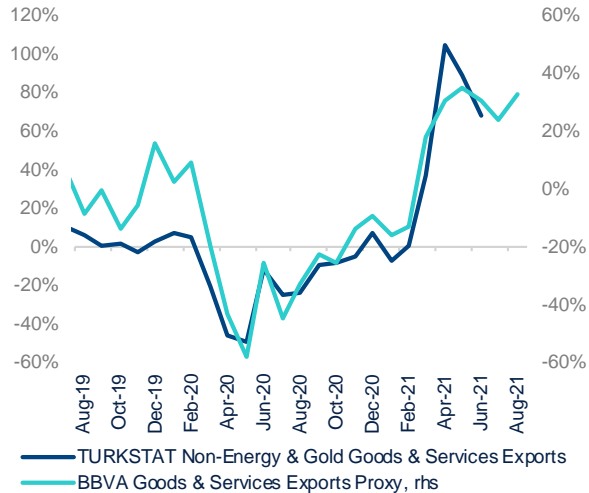
CREDIT GROWTH: CONSUMER & COMMERCIAL (FX ADJ.)
13-WEEK ANNUALIZED TREND



Imports are cooling down, while exports stay strong given recovering external demand and tourism revenues

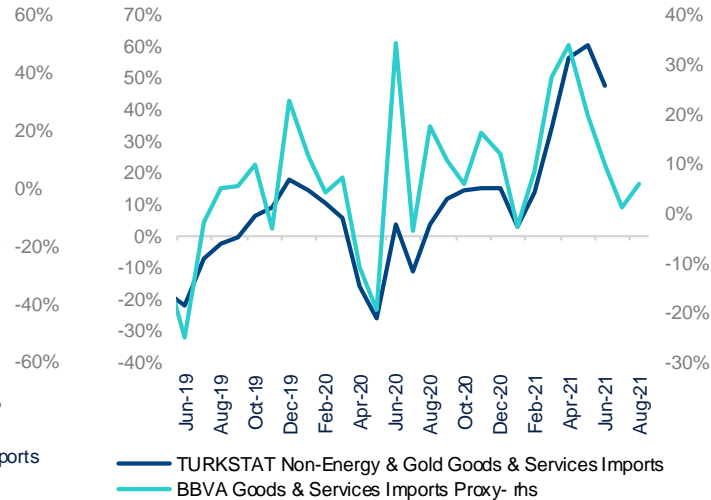
BBVA EXPORTS GOODS & SERVICES

(% YoY)



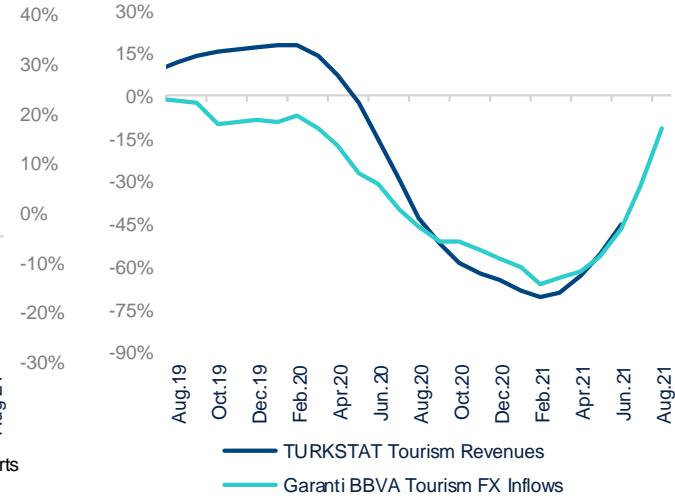
BBVA IMPORTS GOODS & SERVICES

(% YoY)



BBVA TOURISM REVENUES

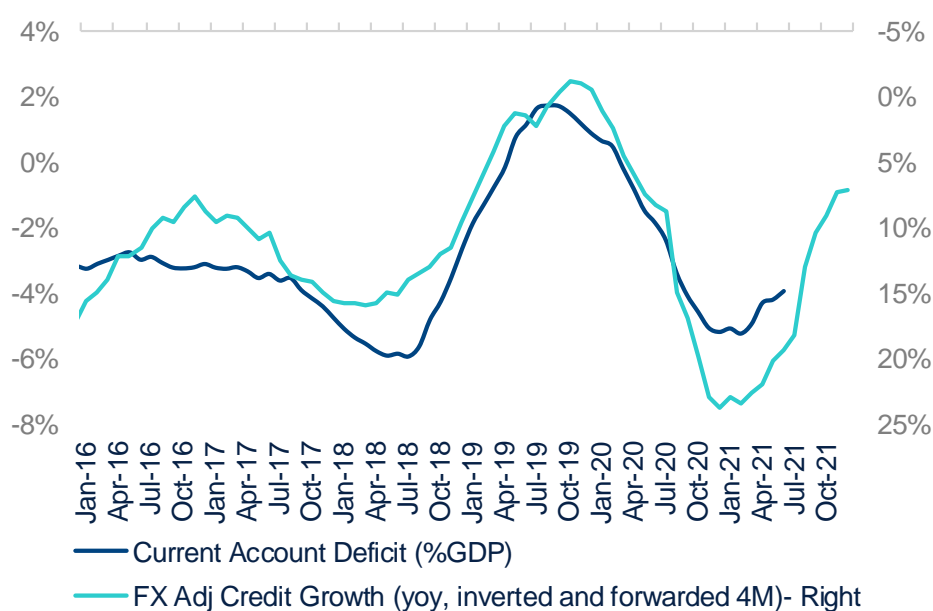
(% 12M YoY)



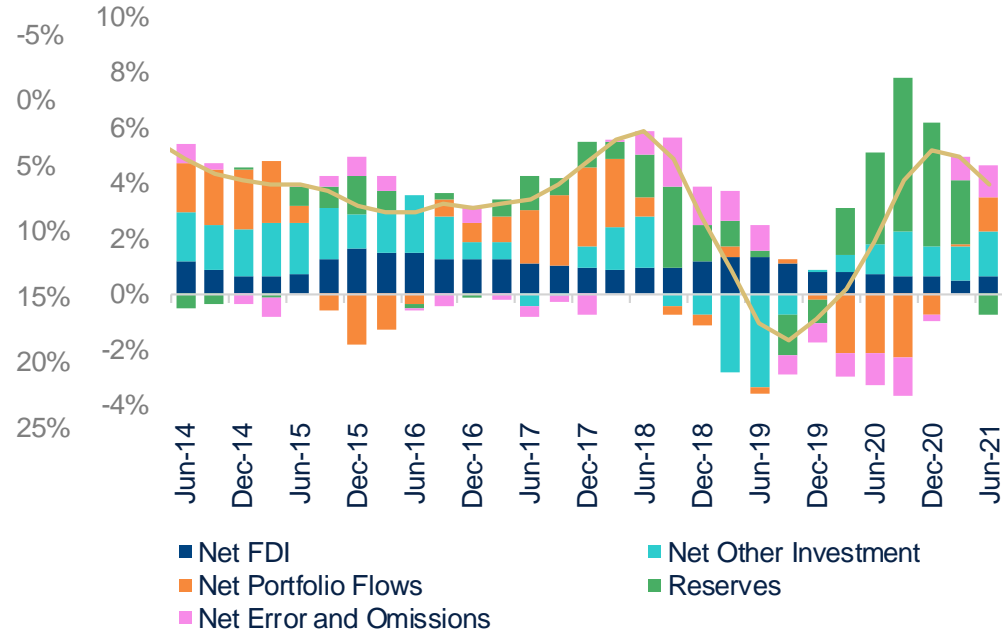
18bn\$ revenues
assumed for 2021

As a result, the current account deficit is shrinking while the composition of financing keeps improving

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

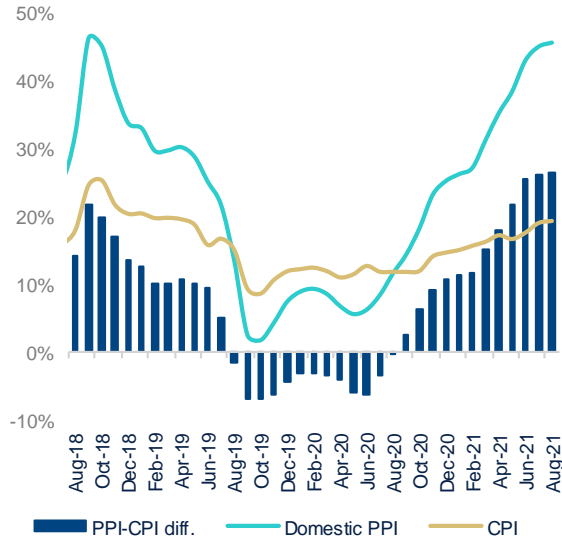


TURKEY: CURRENT ACCOUNT BALANCE FINANCING
(% GDP)

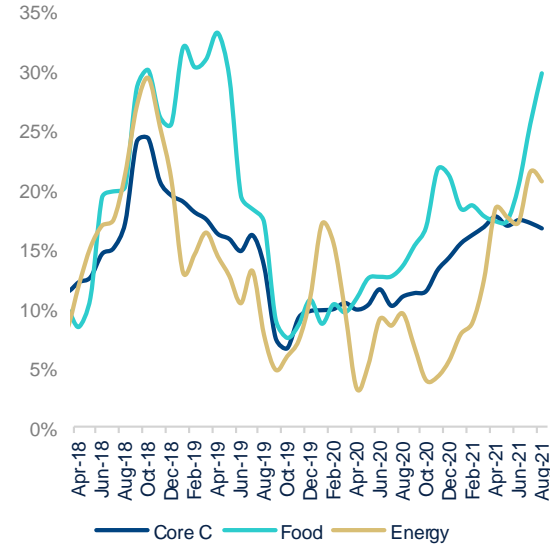


Inflation could remain around 19% till November (food prices, cost push factors, worsening inflation expectations and pent-up demand) following the reopening of the economy and FX pass-through

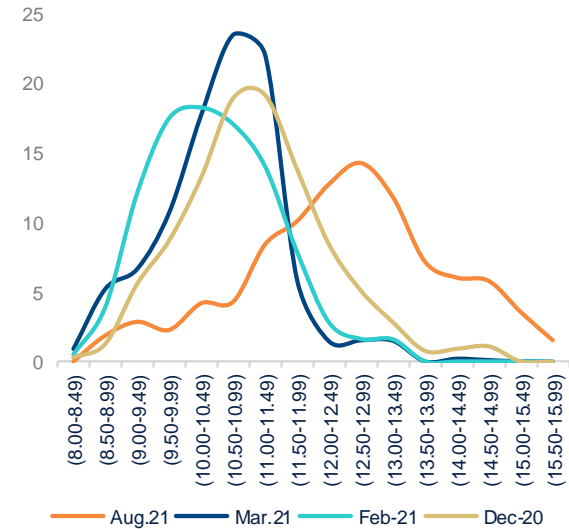
TURKEY: CPI & PPI (YOY)



TURKEY: CPI COMPONENTS (YOY)

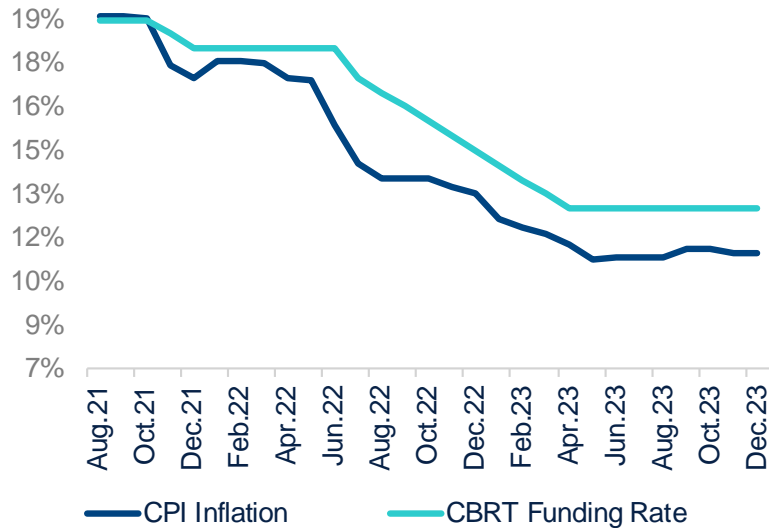


TURKEY: PROBABILITY DIST. OF 12-MONTH AHEAD CPI EXPECTATIONS (%)

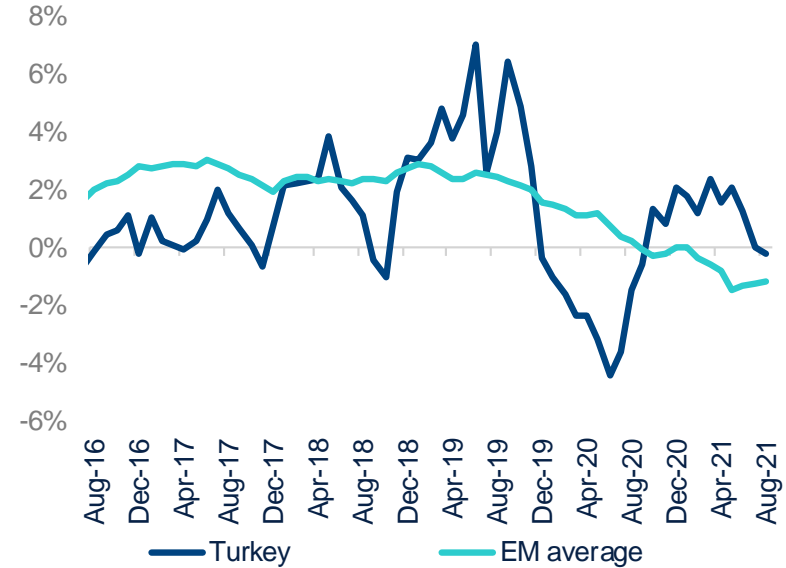


No change in CBRT communication, which signals a possible rate cut once inflation eases down in 4Q21

GB BBVA INFLATION & CBRT FUNDING RATE FORECASTS (%)



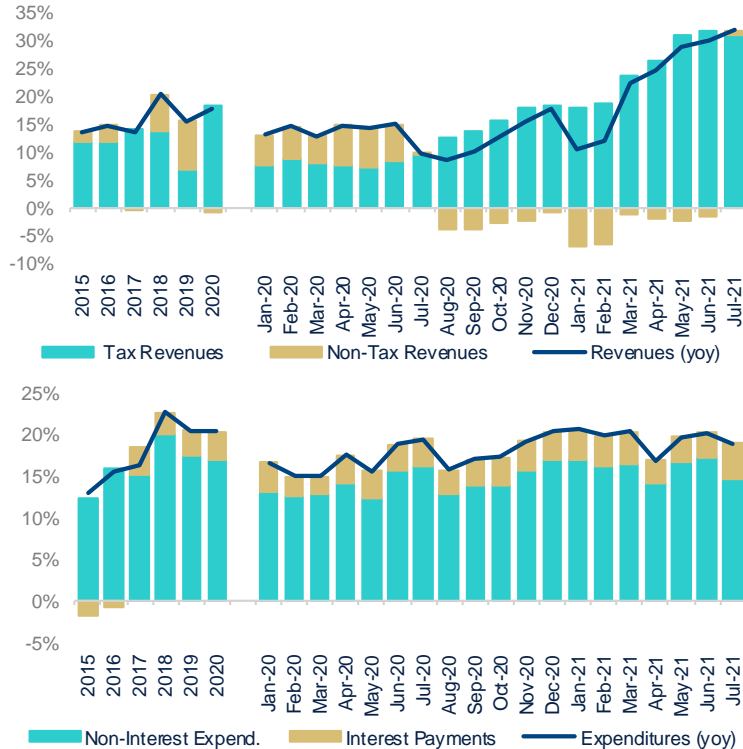
EX POST REAL POLICY INTEREST RATES IN EM* (%)



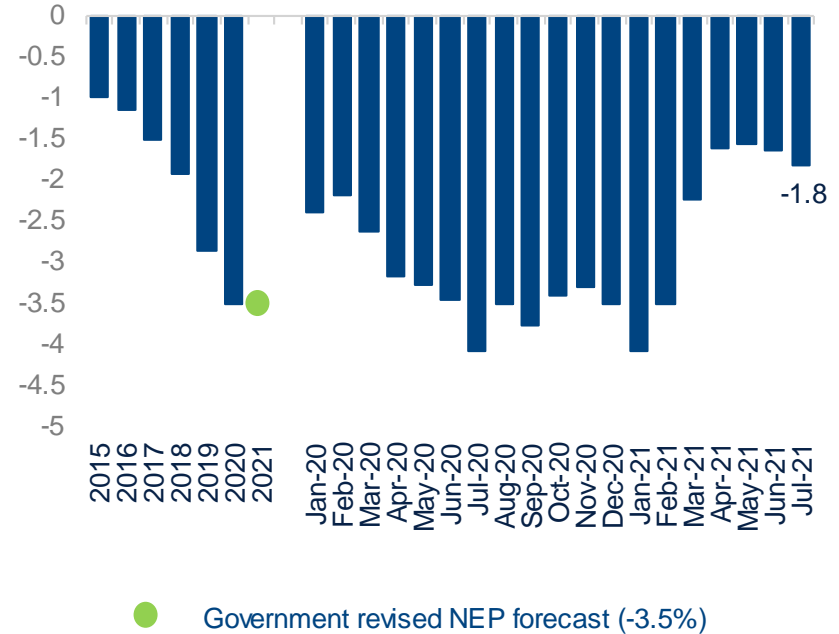
*EM corresponds to Brazil, India, Mexico, Indonesia, South Africa, Russia and Colombia

Despite strong tax revenues, the fiscal budget has started to deteriorate due to higher interest payments; non-interest expenditures under control

TURKEY: CG BUDGET REVENUES & EXPENDITURES (12-month %YOY)



TURKEY: CG BUDGET BUDGET BALANCE (% OF GDP)



02

Turkey: Baseline Scenario

GB BBVA Baseline Scenario

	2020	2021e	2022f	2023f
GDP growth (avg)	1.8%	9.0%	4.0%	5.0%
CPI Inflation (eop)	14.6%	17.0%	13.0%	11.0%
CBRT Funding Rate (avg)	10.8%	18.5%	16.9%	12.8%
CBRT Funding Rate (eop)	17.0%	18.0%	14.5%	12.5%
USDTRY (avg)	7.01	8.37	9.91	11.08
USDTRY (eop)	7.42	9.50	10.25	11.25
Current Account Deficit (% GDP)	-5.2%	-2.3%	-2.1%	-3.4%
Budget Deficit (% GDP)	-3.5%	-3.4%	-3.9%	-3.8%

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