BBVA Research

Türkiye Economic Outlook

Garanti BBVA Research

April 2024

Creating Opportunities

Key messages

- We nowcast an acceleration in the first quarter of the year with a quarterly growth rate of 1.5%, which implies around 6% annual GDP growth. As of early May, the quarterly pace still points out a level closer to 1% for the second quarter.

- The key point remains to be suppressing consumption since the slow-down in domestic demand is still very limited and aggregate demand remains stronger than supply.

- We eliminate our previous downward bias on our 2024 GDP growth forecast (3.5%) and get ready to have a downward revision on our exchange rate (~38 USDTRY) and inflation (~43% year-end) forecasts.

- We expect the CBRT to remain tight, which would start a sustained path to unwind regulations (firstly credit growth caps, later deposit rules), in order to strengthen the monetary transmission mechanism.

- Thereafter, if the inflation trend improves to a level that the year-end inflation falls below 42% -upper bound of the CBRT forecast range-, there might be a limited room to start easing with very gradual steps in 4Q24.

- Yet, lagging fiscal measures & macro-prudential policies on retailer card spending availability reduce the likelihood of a cutting cycle sooner.

- Most recently released fiscal savings package indicates a very limited effect of 0.2-0.3% of GDP this year, which would increase in the medium run and start to be more effective on reducing imbalances.

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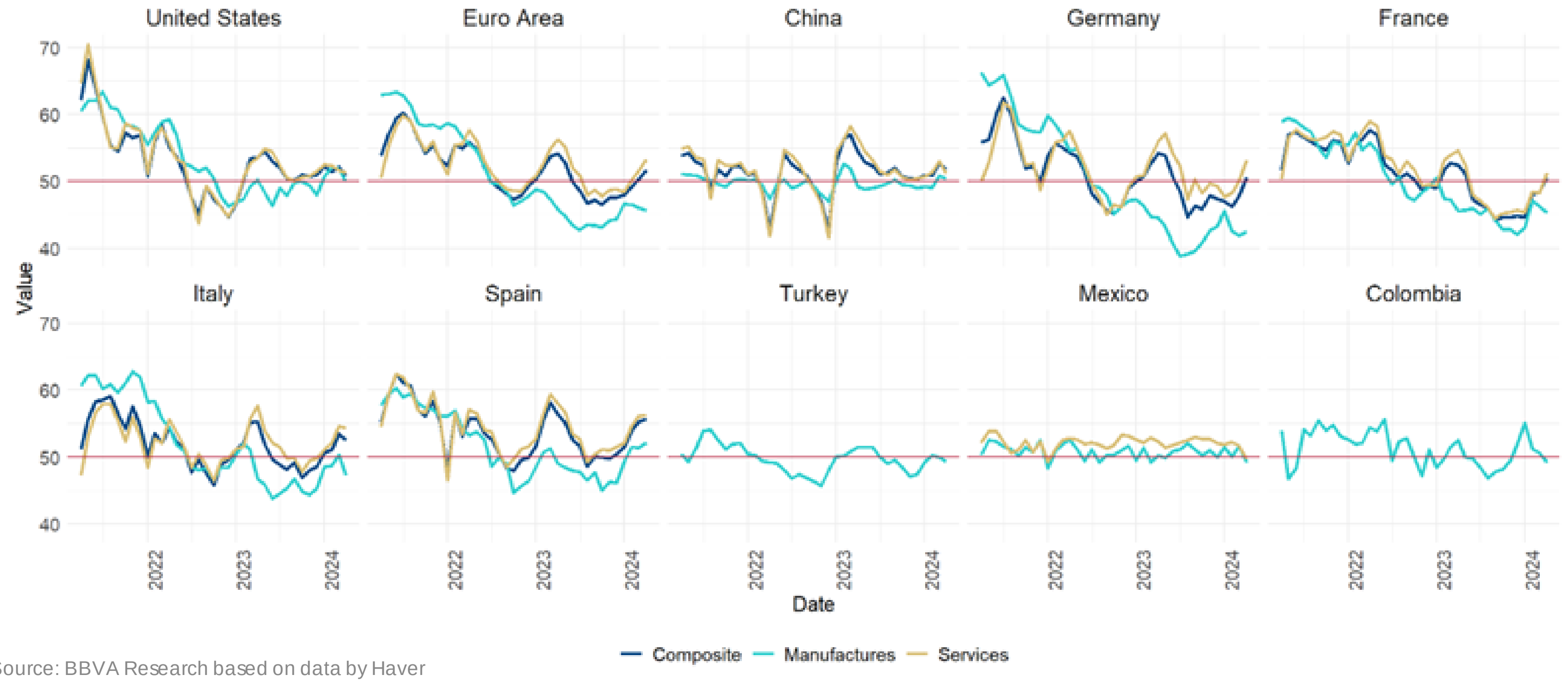
01

Global Economic Outlook

PMIs in the US and China are hovering around 50. In the EZ, they rebounded; however, manufacturing remains in the contraction zone in most EZ countries

PMI INDICATORS

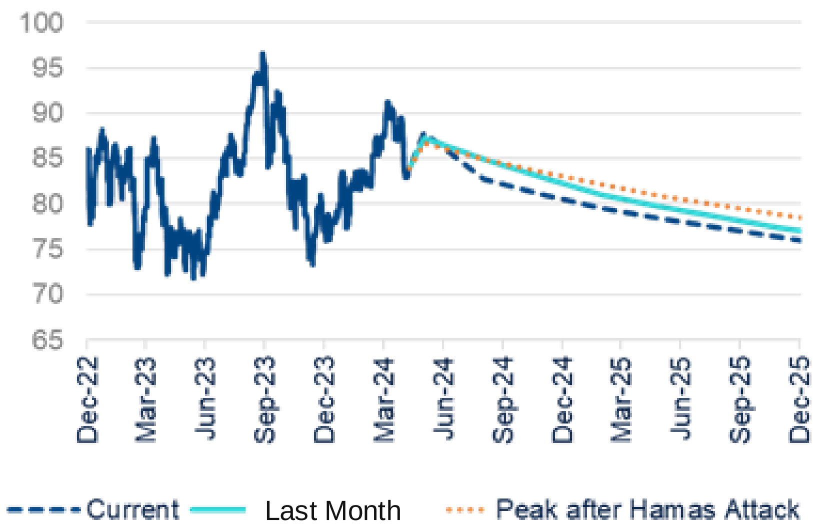
(HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)



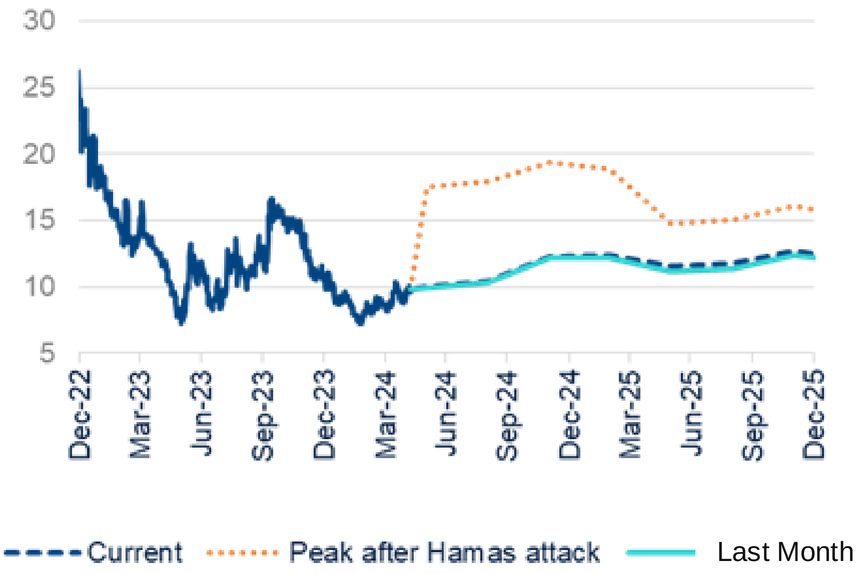
Source: BBVA Research based on data by Haver

Oil prices retreated amidst a reduction in geopolitical risk premiums and an increase in US inventories. European gas prices remained largely stable

OIL BRENT FUTURES PRICES
(%; $/b)



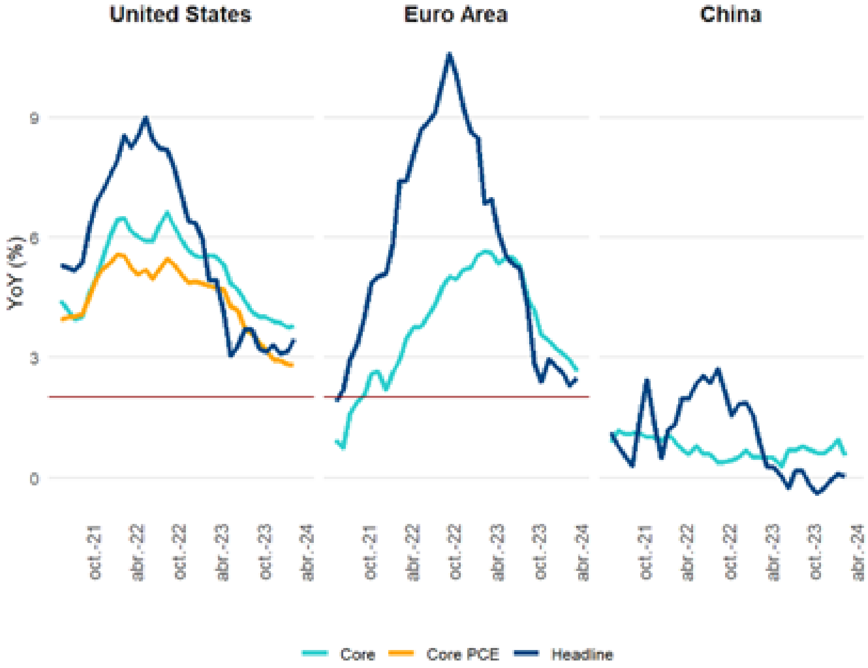
EUROPEAN GAS FUTURES
(%; $/MMBtu)



Source: BBVA Research based on Bloomberg

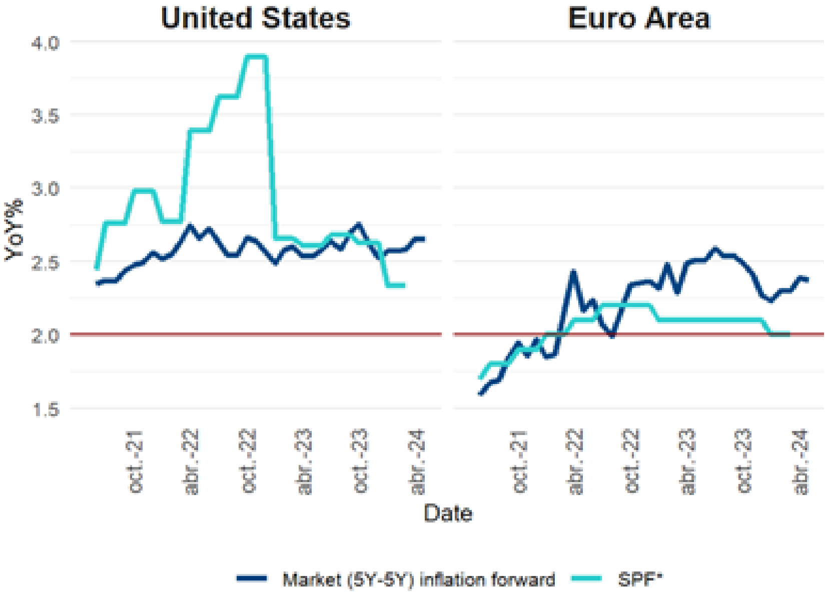
US inflation surprised upward in March. April's EZ headline remained unchanged, while core moderated further. Service prices remain sticky in both areas

CORE AND HEADLINE INFLATION
(% YOY)



Source: Haver and BBVA Research

INFLATION EXPECTATIONS
(% YOY)

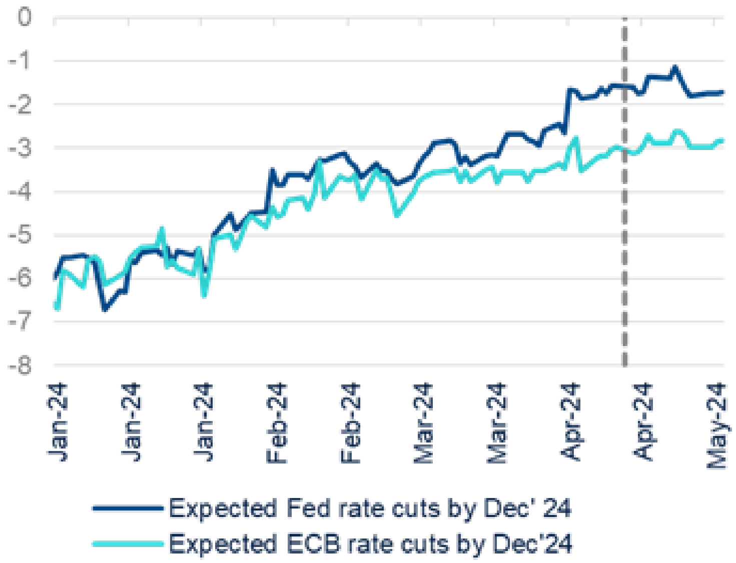


SPF for US: 5-Y annual-average rate of headline CPI inflation, for EA; refers to 2027.
5Y5Y Last data as 6th of May 2024

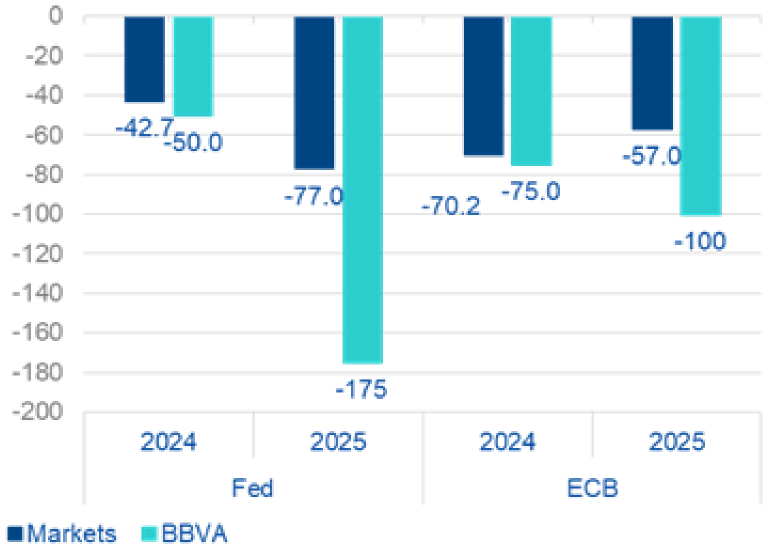
Source: SPF: Philadelphia Fed and ECB

Markets price in two rate cuts by the Fed for 2024, following a reduction to one cut after March's inflation. ECB's will cut in June, expected total -75bps in 2024

NUMBER OF FED AND ECB INTEREST RATE CUT IN 2024 IMPLIED IN MARKETS



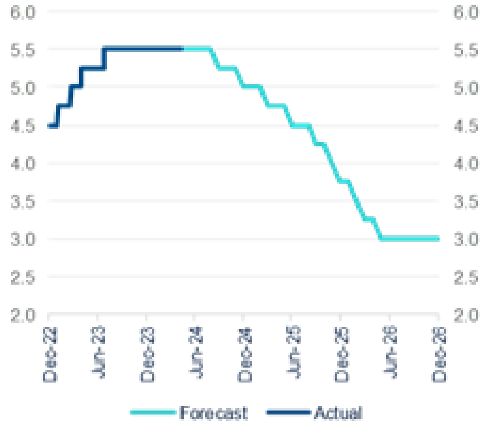
IMPLIED INTEREST RATE CUT IN FED AND ECB INTEREST RATES IN 2024 (BP; LAST DAY MAY 8)



Source: Bloomberg and BBVA Research

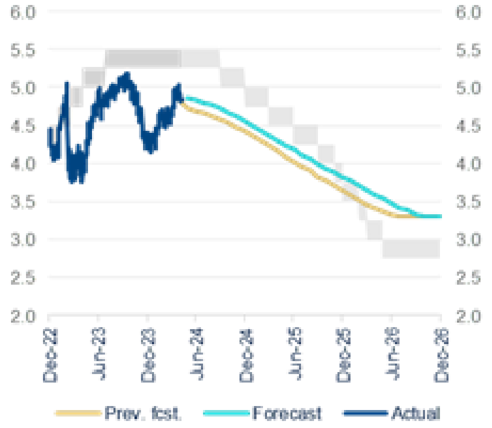
We now expect the first FED funds rate cut to come in Sep and an additional cut in Dec that would take rates to 4.75%-5.00% by year-end

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



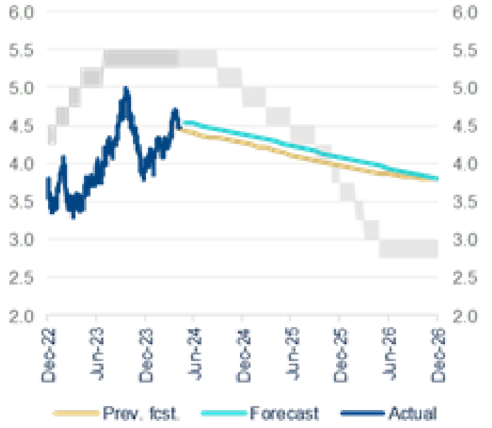
Fed funds rate (upper, eop)	24	25	26
Forecast	**5.00**	**3.75**	**3.00**

2-YEAR TREASURY YIELD
(%)



US 2y Treasury yield (eop)	24	25	26
New forecast	**4.6**	**3.8**	**3.3**
Previous forecast	4.4	3.7	3.3

10-YEAR TREASURY YIELD
(%)

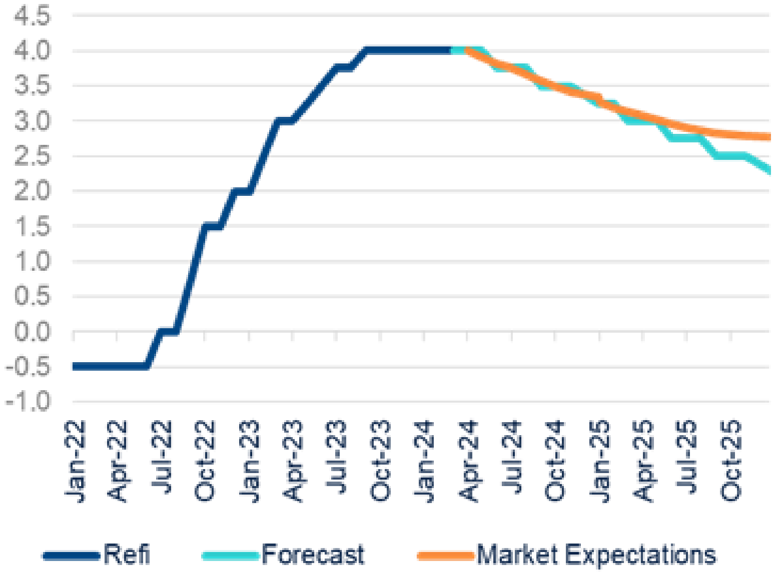


US 10y Treasury yield (eop)	24	25	26
New forecast	**4.4**	**4.1**	**3.8**
Previous forecast	4.3	4.0	3.8

Source: BBVA Research / Haver

ECB’s June cut is practically a done deal but the path of cuts beyond this is not at all clear. We continue to expect the first rate cut in June (ahead of the Fed) and three cuts this year

ECB: DEPO RATE FORECASTS (%)



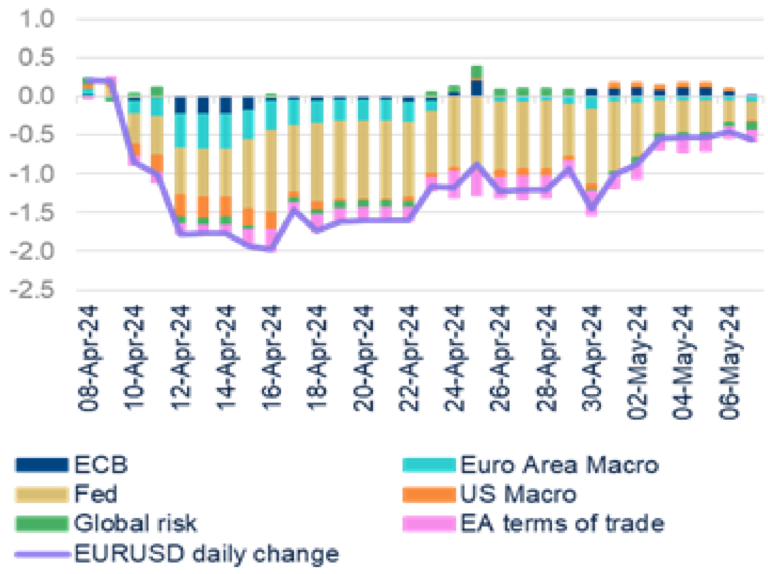
Baseline scenario (No changes):

- Rates: 3x25 bp of rate cuts (June, Sept, Dec) in 2024. Additional rate cuts in 2025. Bias to less cuts.
- Gradual QT: for APP to continue, for PEPP to start in June (50% roll-off in 2H24), reinvestment until Dec/24

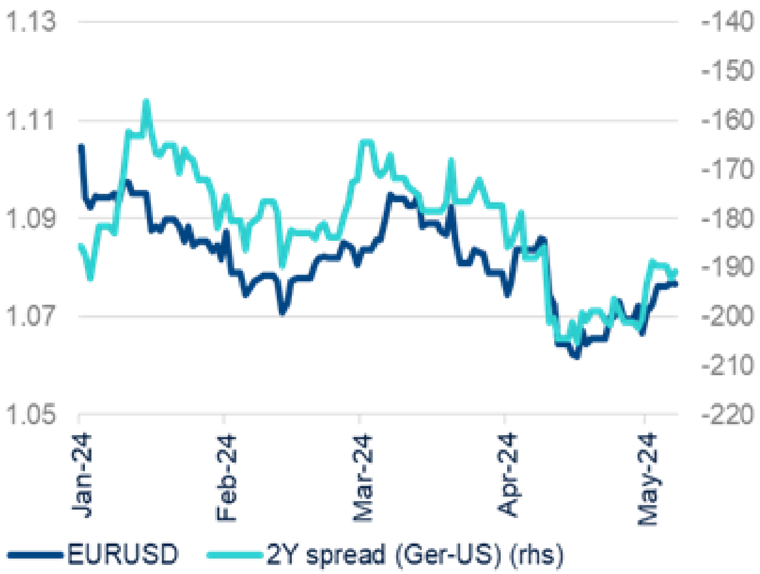
Source: BBVA Research based on Bloomberg

The USD weakened due to narrowing interest rate differentials, with markets expecting two Fed rate cuts this year, following the May FOMC meeting and weak data

EURUSD CUMULATIVE DAILY CHANGE*
(last month, %)



EURUSD AND 2Y RATE DIFFERENTIAL
(USD AND BPS)

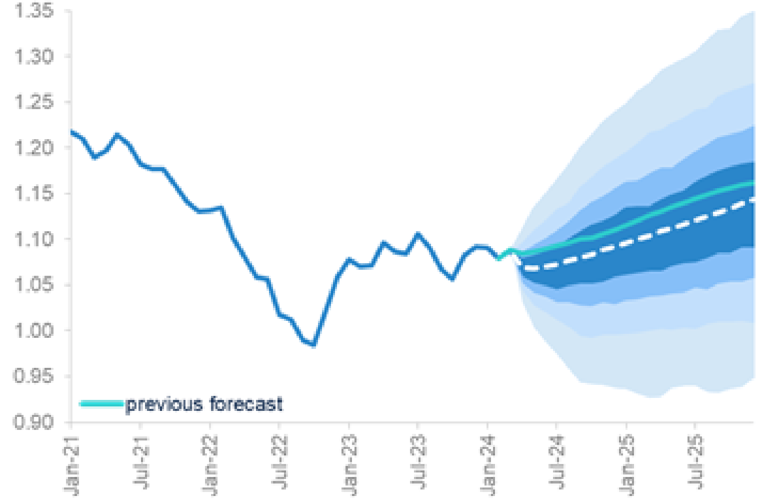


*A sign-restricted SVAR model

Source: BBVA Research based on Bloomberg

EURUSD revised downwards on the delay in the US rate cut cycle. Risk continues to be tilted to a weaker Euro in the short term

EURUSD PROJECTIONS



		Probability						
		-70%	-50%	-25%	Base	25%	50%	70%
New	Dec-24	0.99	1.03	1.06	1.09	1.13	1.15	1.19
previous					1.11			
New	Dec-25	1.01	1.06	1.09	1.14	1.18	1.22	1.27
previous					1.16			

- The euro continues to face important risks ahead: i) geopolitics (EZ and US stand at the opposite ends of energy independence, so higher oil and gas prices would add pressure to EUR), ii) bias of Fed rate cut cycle even more gradual than expected; iii) US elections (dollar positive initially if Trump wins) and iv) slower EZ and global growth

- **Geopolitical risk, sensivity analysis** to higher global volatility (VIX)

- Our medium-term baseline scenario supports a very gradual appreciation: narrowing rate spreads, contained volatility, EUR's undervaluation (current estimation of equilibrium around 1.20)

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02

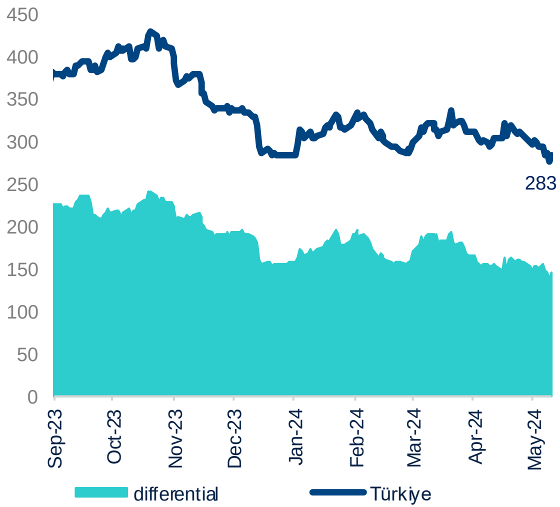
Türkiye Economic Outlook

Creating Opportunities

The CBRT's committed communication and actions against inflation are well-received by foreigners. The CBRT is working on how to ease the current offshore swap limits (right way swaps)

TÜRKİYE'S 5-YEAR CDS WRT PEERS*

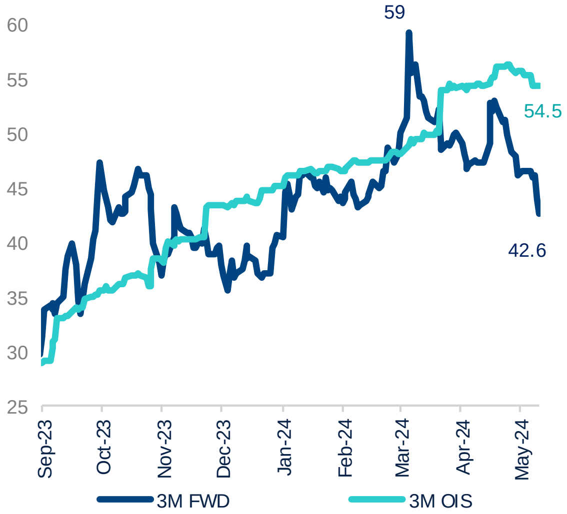
BPS



*Chile, Colombia, Mexico, Brazil and South Africa

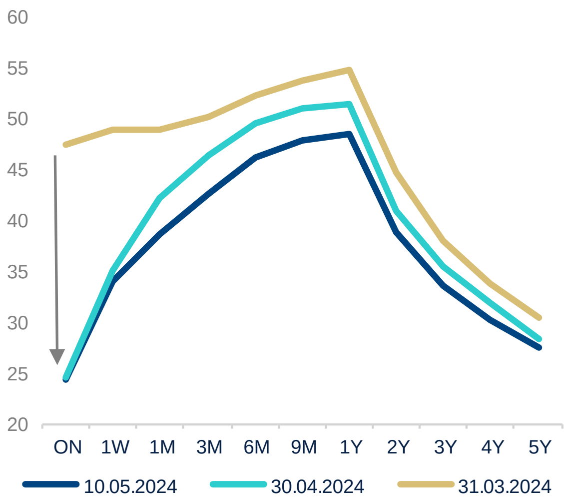
OFF SHORE & ON SHORE TRY YIELD

%



USDTRY FORWARD IMPLIED YIELD CURVE

%



Source: Bloomberg & Garanti BBVA Research

Fitch and later S&P upgraded the credit rating one notch and opened room for more. Continuation of a clear commitment against inflation will bring further upgrades and so reinforce capital inflows

No	S&P	Moody's	Fitch	Meaning and Color
1	AAA	Aaa	AAA	Prime
2	AA+	Aa1	AA+	High Grade
3	AA	Aa2	AA	
4	AA-	Aa3	AA	
5	A+	A1	A+	Upper Medium Grade
6	A	A2	A	
7	A-	A3	A-	
8	BBB+	Baa1	BBB+	Lower Medium Grade
9	BBB	Baa2	BBB	
10	BBB-	Baa3	BBB-	
11	BB+	Ba1	BB+	Non Investment Grade Speculative
12	BB	Ba2	BB	
13	BB-	Ba3	BB-	
14	B+	B1	B+	Highly Speculative
15	B	B2	B	
16	B-	B3	B-	
17	CCC+	Caa1	CCC+	Substantial Risks
18	CCC	Caa2	CCC	Extremely Speculative

S&P Positive

Fitch Positive

Moody's Positive

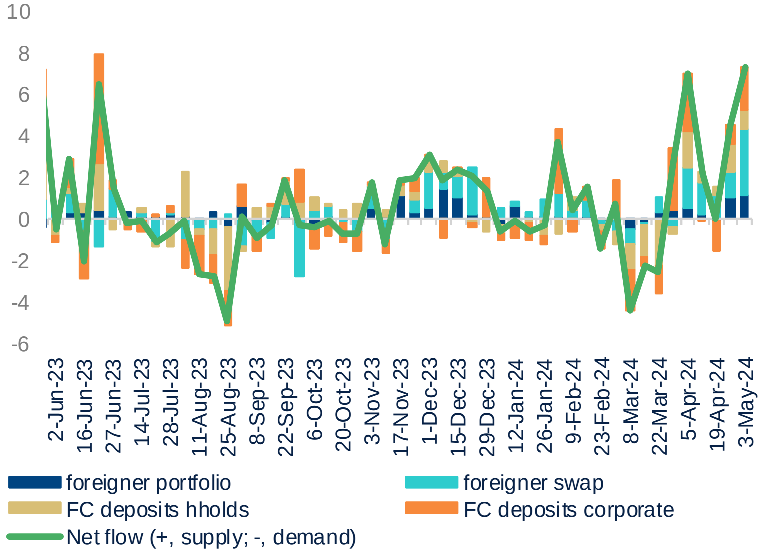
- If a clear commitment against inflation is preserved, we might observe two upgrades at once from Moody's on July 19th and one more from the other two agencies.
- TWO KPIs for an upgrade: inflation trend coming down as targeted and reserves accumulation

Source: Rating Agencies & Garanti BBVA Research

Foreigners' inflow for Turkish assets has started to accelerate, FC demand of residents prior to the election has significantly reversed

FC FLOWS OF SUPPLY & DEMAND

US$BN, WEEKLY, ADJ. FROM PRICE EFFECTS



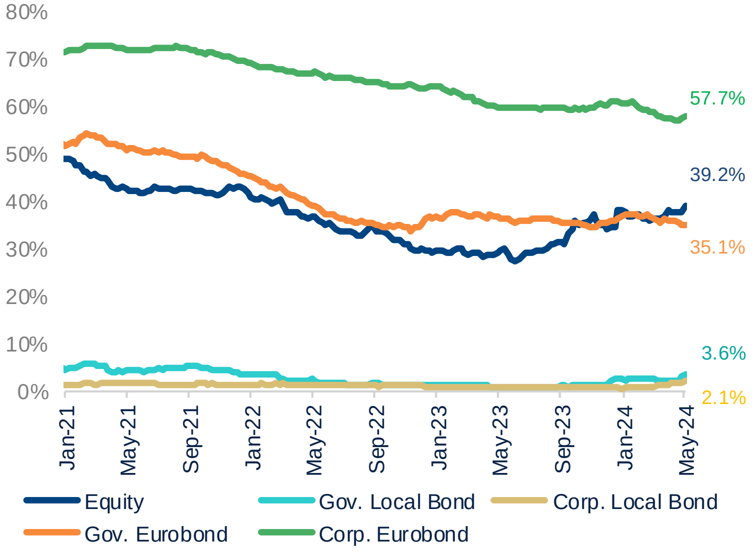
29 Mar - 3 May
FC Flows

2.9bn$ foreigner portfolio inflow
9.0bn$ foreigner swap inflow

4.8bn$ hholds FC sale
4.3bn$ corporates FC sale

FOREIGNERS' EXPOSURE TO TURKISH ASSETS*

SHARE IN TOTAL

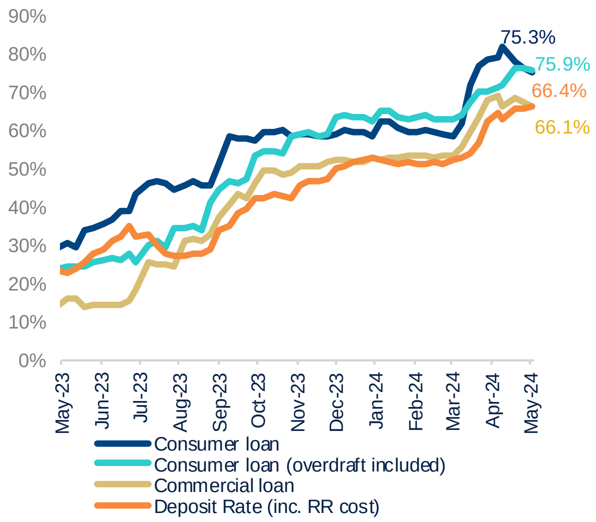


** Gov local bonds refer to only outright purchase*

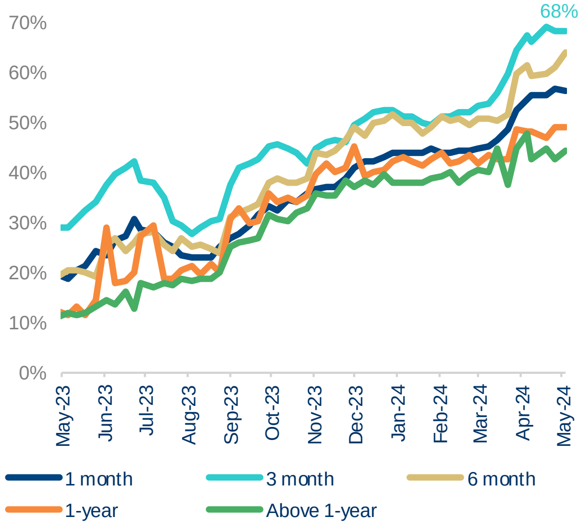
Source: CBRT & Garanti BBVA Research

The CBRT reduced upside pressure on TL deposit rates with the most recent RR changes & elimination of RR implementation due credit growth for small banks in order to support financial stability via lowering pressure on lending rates

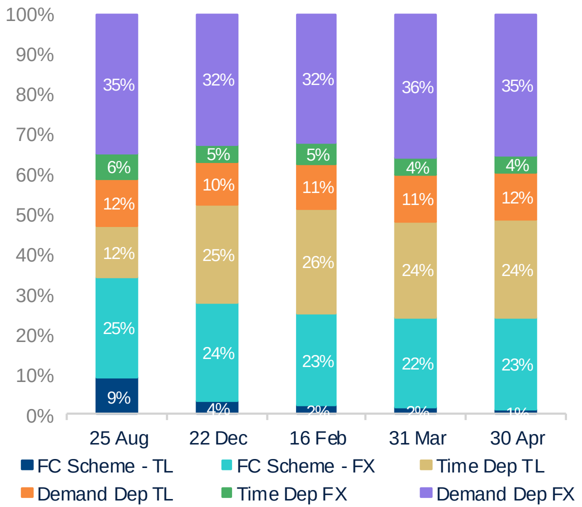
CONSUMER & TL COMMERCIAL RATES
%, flow , sector



TL DEPOSIT INTEREST RATES
%, flow , sector, without RR cost



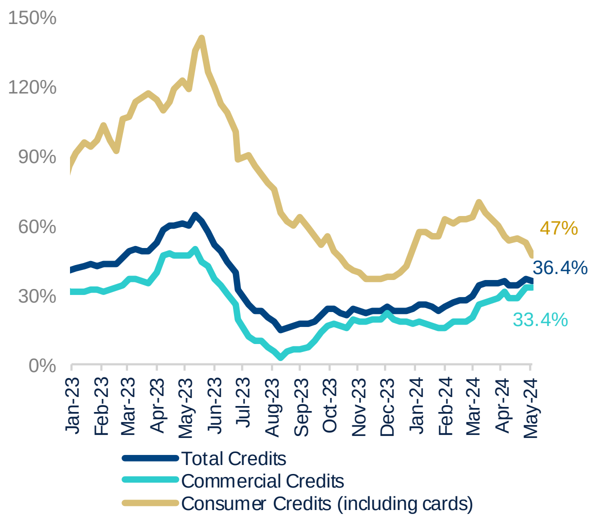
DISTRIBUTION AMONG DEPOSITS
% share in total, Garanti BBVA Clients



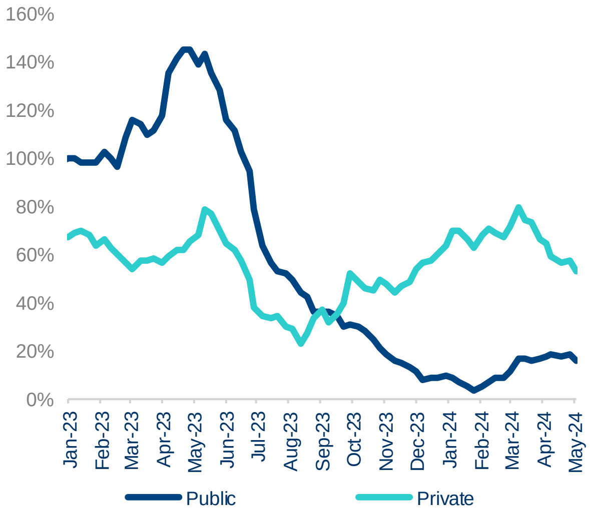
Source: CBRT & Garanti BBVA Research

Composition of lending will be key to see its impact on rebalancing. Credit card spending still supports consumption

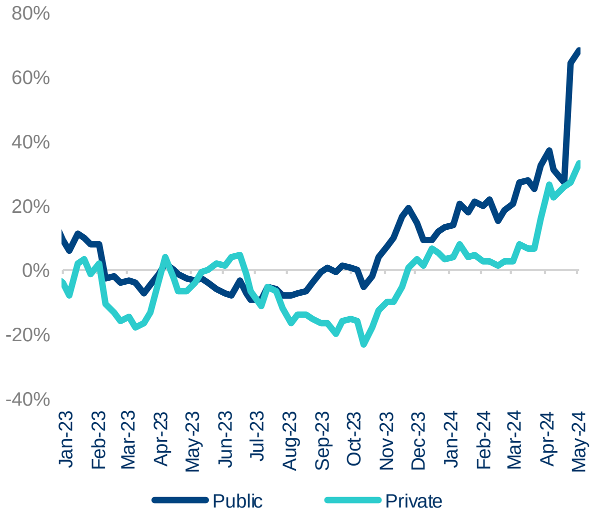
TOTAL CREDIT GROWTH
13-w eek annualized, sector



TL CREDIT GROWTH
13-w eek annualized



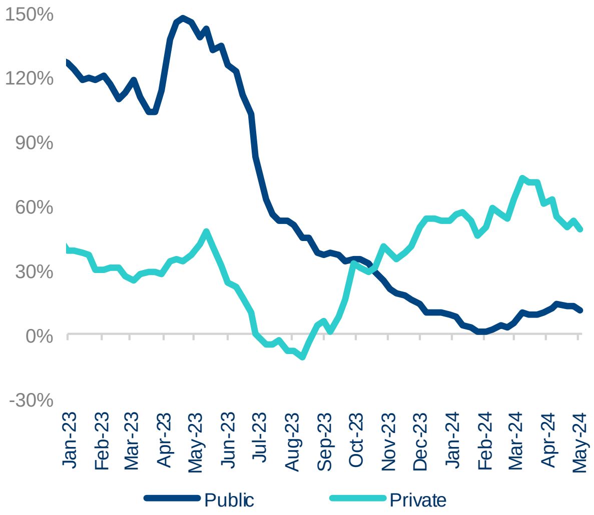
FC CREDIT GROWTH
USD, 13-w eek annualized



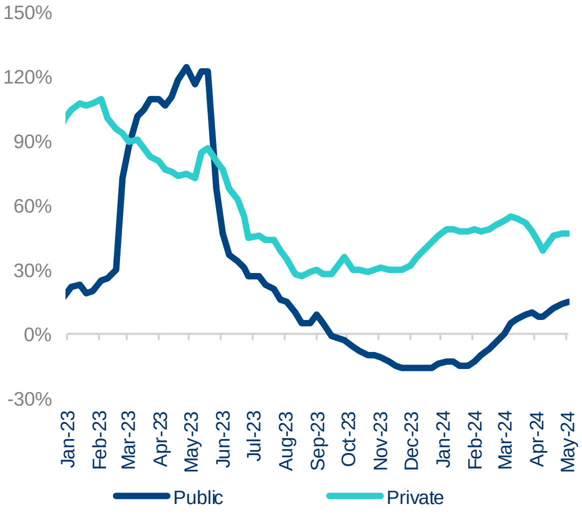
Source: BRSA, TURKSTAT, CBRT & Garanti BBVA Research

New restrictive measures are pending on retail credit cards. Banks' focus expected to change in favor of commercial lending

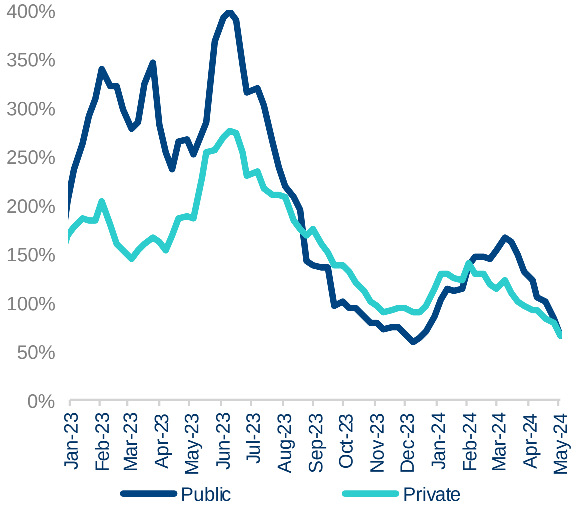
TL COMMERCIAL LENDING GROWTH
13-week annualized



CONSUMER CREDIT GROWTH
13-week annualized, without credit cards



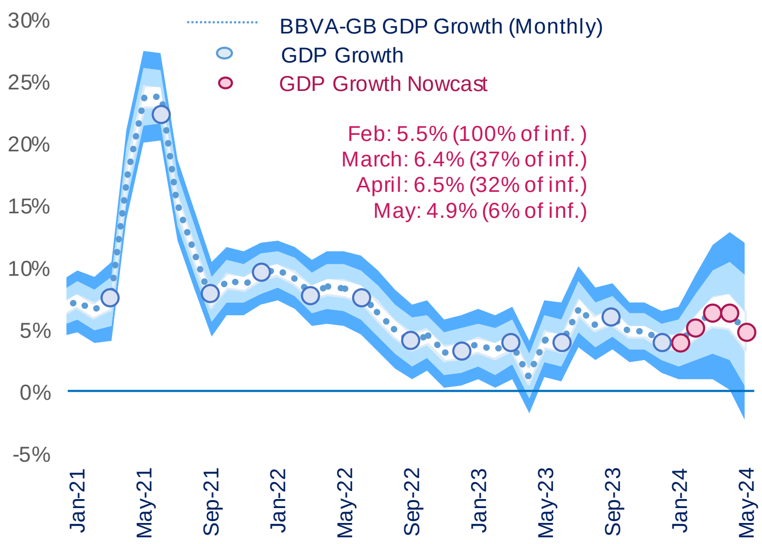
CONSUMER CREDIT CARDS GROWTH
13-week annualized



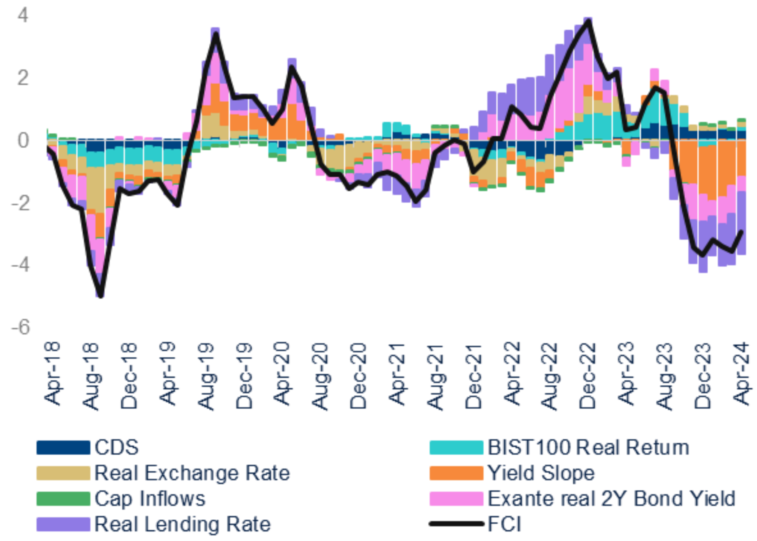
Source: BRSA, TURKSTAT, CBRT & Garanti BBVA Research

We nowcast almost 5% y/y GDP growth as of early May. Financial conditions do not tighten further as desired (real appreciation & wealth effects)

GARANTI BBVA MONTHLY GDP INDICATOR
YOY, 3M MOVING AVERAGE



GARANTI BBVA FINANCIAL CONDITIONS INDEX (FCI)
monthly, standardized, + easing, - tightening

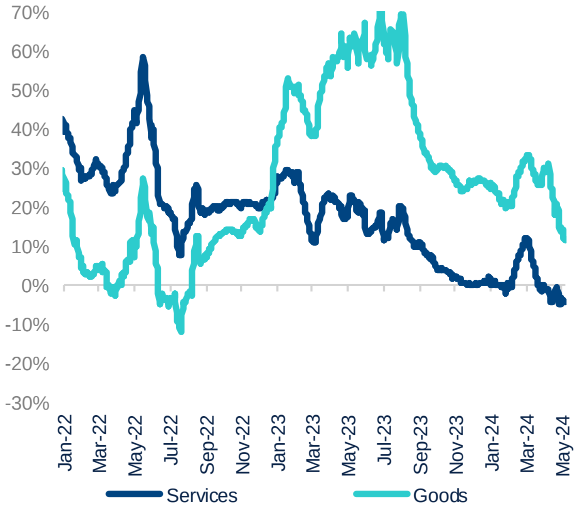


Source: TURKSTAT, CBRT & Garanti BBVA Research

Consumption has started to lose pace on top of both goods and services on annual basis. Yet, calendar day impact matters due to long Eid holiday

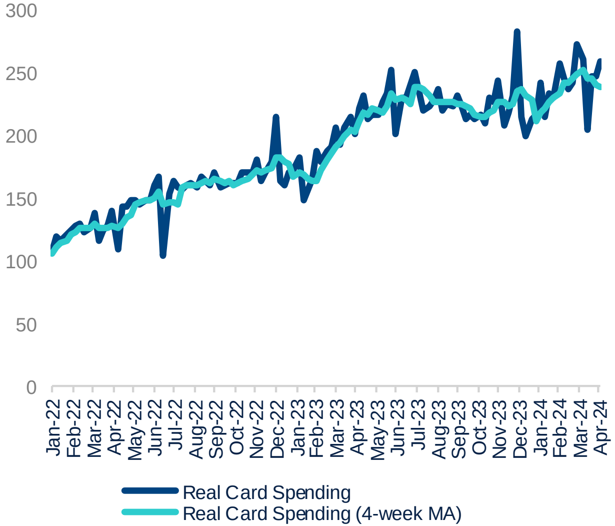
GB BIG DATA CONSUMPTION

REAL, 28-DAY SUM, YOY



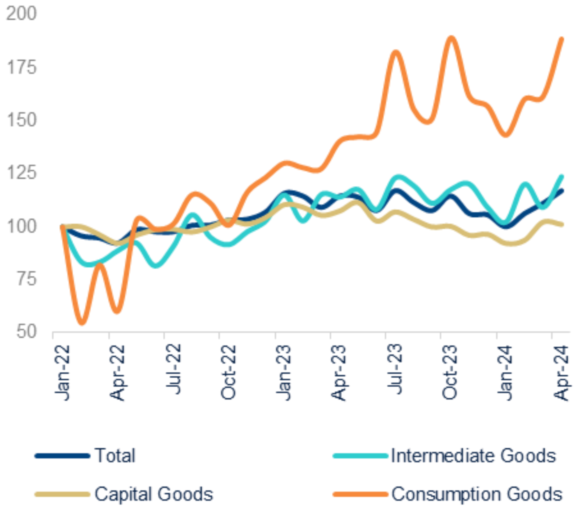
CARD SPENDING

REAL, JAN22=100



IMPORT VOLUME INDEX

Jan22=100, seasonal and calendar adjusted

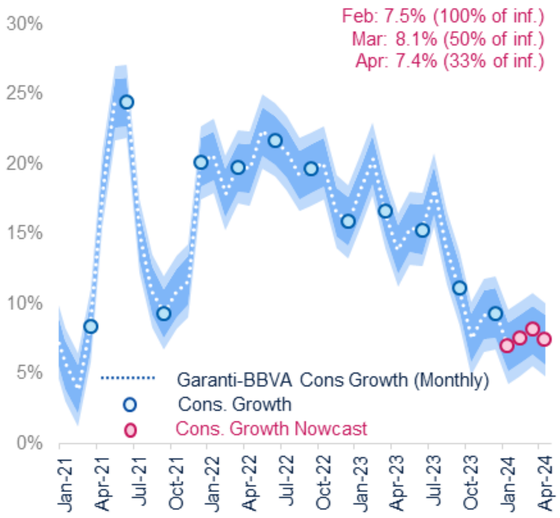


Source: TURKSTAT & Garanti BBVA Research

The slow-down in domestic demand remains very limited and aggregate demand remains stronger than supply

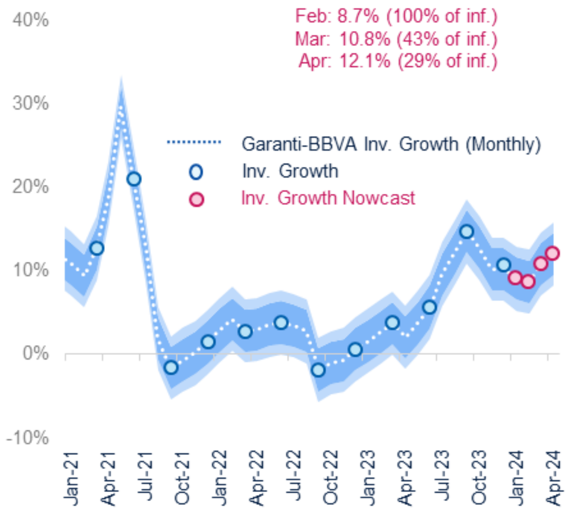
GB MONTHLY CONSUMPTION GDP

YOY, 3M MOVING AVERAGE



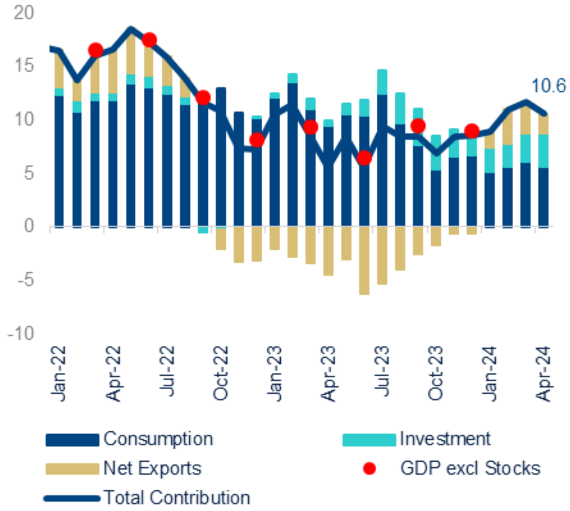
GB MONTHLY INVESTMENT GDP

YOY, 3M MOVING AVERAGE



GB MONTHLY GDP CONTRIBUTION

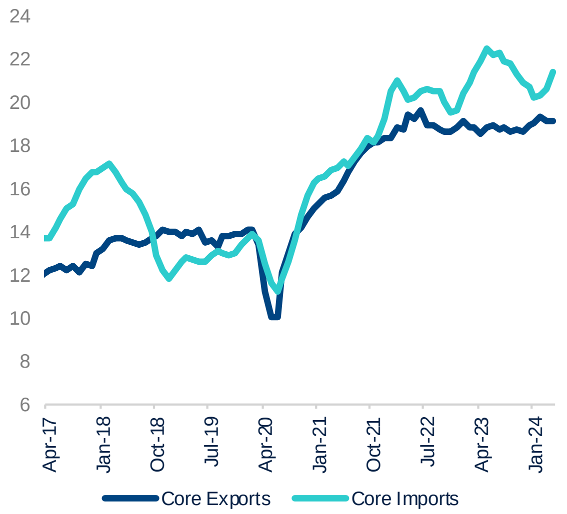
ANNUAL, PP



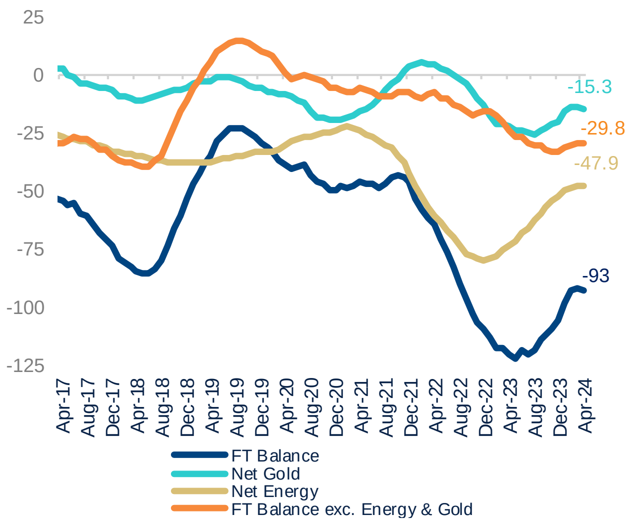
Source: TURKSTAT & Garanti BBVA Research

Core imports accelerated significantly in April, while solid gold imports and uncertainties on energy prices add to challenges

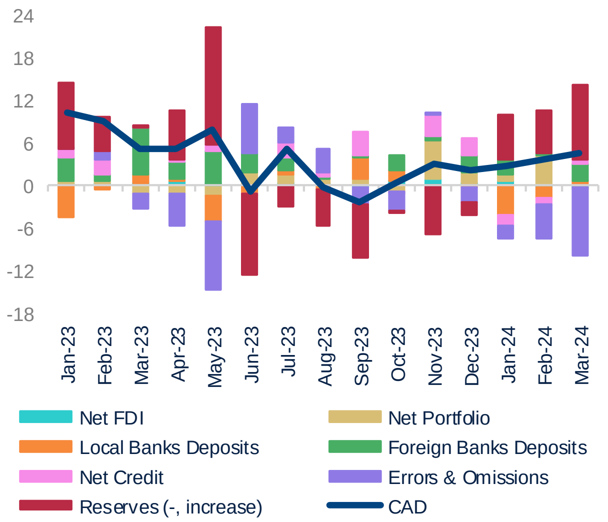
GOODS EXPORTS & IMPORTS
(EXC ENERGY & GOLD, SA 3M AVG, US$BN)



GOODS FOREIGN TRADE BALANCE
12-MONTH, US$BN



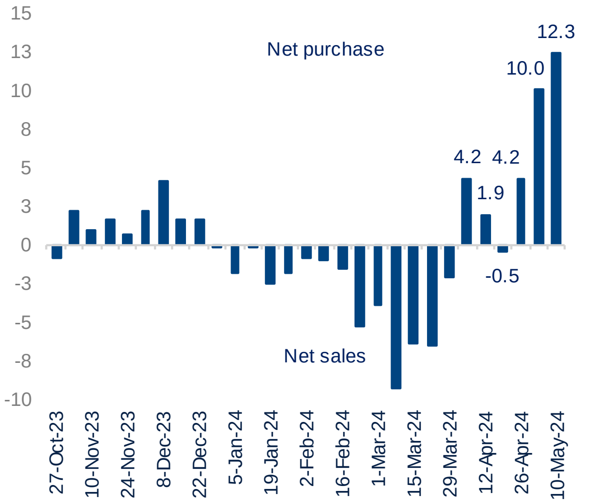
CA DEFICIT FINANCING
US$bn



Source: TURKSTAT & Garanti BBVA Research

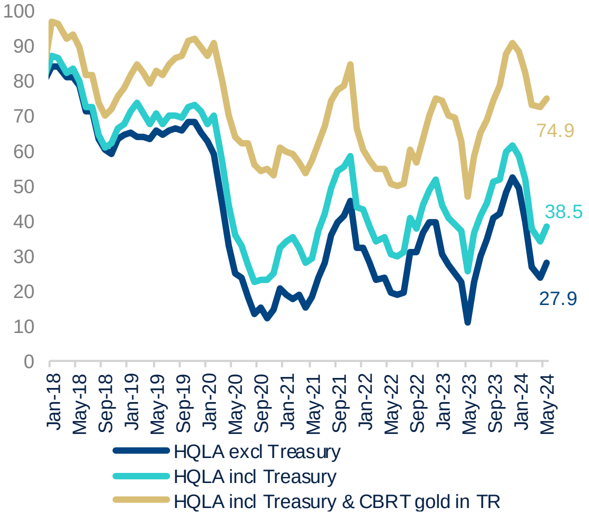
The CBRT has most recently started to accumulate reserves significantly. Excess TL liquidity will be sterilized again with TL depo auctions

CBRT INDIRECT RESERVES FLOWS*
US$BN, weekly flow

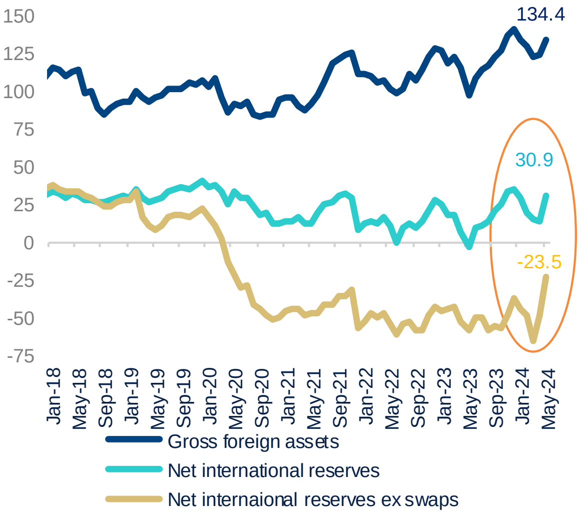


*KKM flows of the week ending by 10th of May is last 5 weeks' avg

CBRT HIGH QUALITY LIQUID FOREIGN ASSETS
HQLA, US$bn as of 3rd of May



CBRT INTERNATIONAL RESERVES
US$bn as of 10th of May

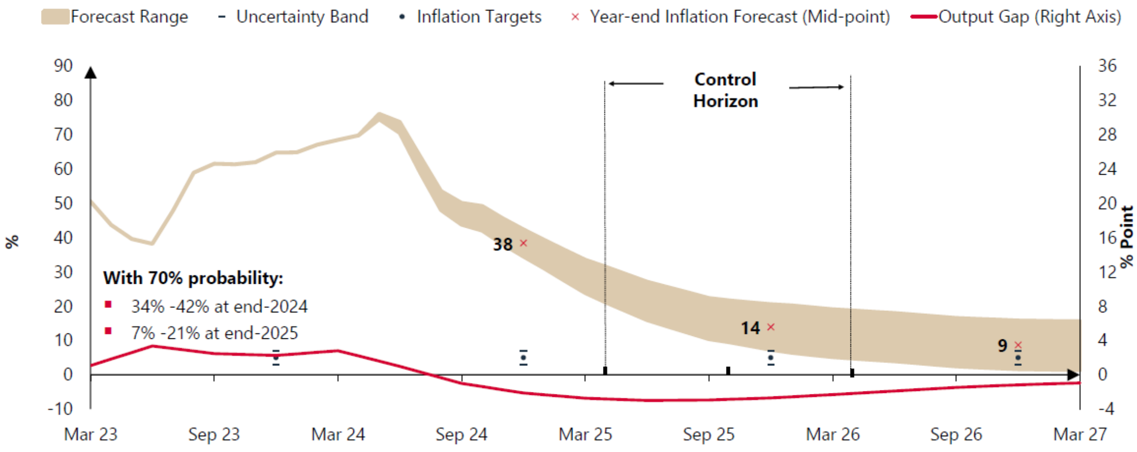


CBRT Balance Sheet US$bn	03.05.2024	29.03.2024	29.12.2023	26.05.2023	31.12.2022	31.12.2021
HQLA = FC assets - Gold - IMF SDR	61.8	61.4	85.4	49.1	75.5	64.8
HQLA - foreign CB swaps - Treasury	27.9	27.0	52.1	11.1	39.8	32.5
HQLA - foreign CB swaps	38.5	37.9	61.5	25.4	51.6	43.8
HQLA - foreign CB swaps + CBRT owned physical gold in TR	74.9	72.8	91.1	46.9	75.2	66.3

Source: CBRT and Garanti BBVA Research

The CBRT revised its 2024 interim target to 38% (vs. 36%). We expect the CBRT to keep 50% policy rate till 4Q24 and adjust the rate in the corridor

CBRT INFLATION PROJECTIONS
YOY



CBRT assumptions:

~3% GDP growth in 2024 vs. 1.5% previously
34-35 USDTRY by 2024 end vs. 36 previously

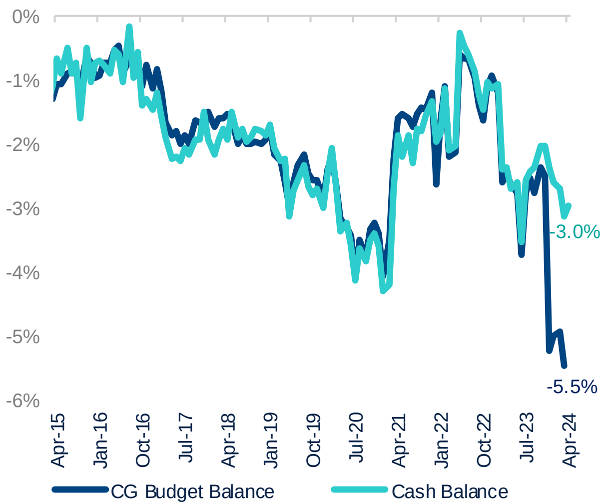
- **TWO KPIs:** monthly inflation trend of 1-1.5% by the end of 2024 and inflation expectations converging to the projected inflation range (34-42% for 2024 and 7-21% for 2025).
- We expect the CBRT to remain tight for longer, which would start a sustained path to unwind current regulations and exit from the FC protected scheme, in order to strengthen the monetary transmission mechanism.
- Thereafter, if the inflation trend improves to a level that the year-end inflation falls below 42% -upper bound of the CBRT forecast range-, there might be a limited room to start an easing cycle with very gradual steps in 4Q24.

Source: CBRT & Garanti BBVA Research

Despite relatively muted fiscal stance in 1Q24, new fiscal measures will be key to reduce the repercussions from the existing one

CG BUDGET & TREASURY CASH BALANCE

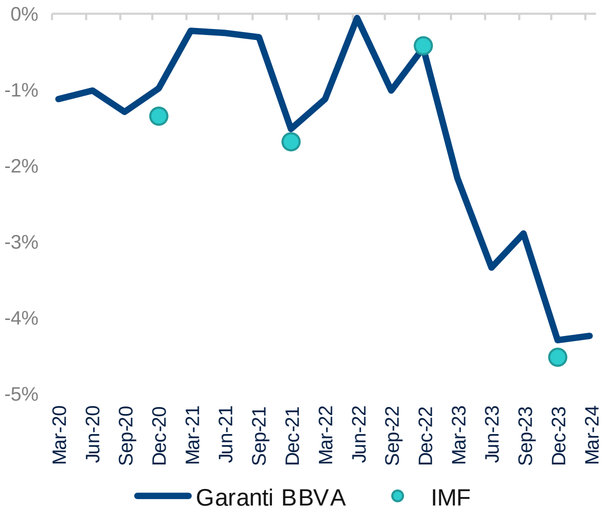
% GDP



2.9pp of GDP gap in Dec23
narrowed down to 2.3pp in Mar24

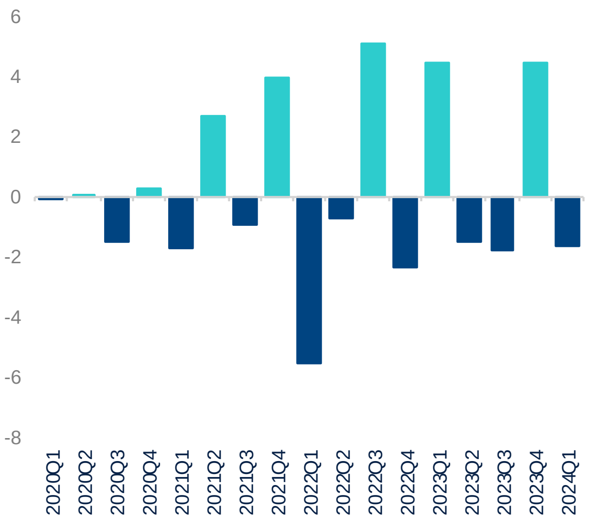
FISCAL IMPULSE INDICATOR

cyclically adj primary balance / potential GDP, annualized sum



FISCAL IMPULSE INDICATOR

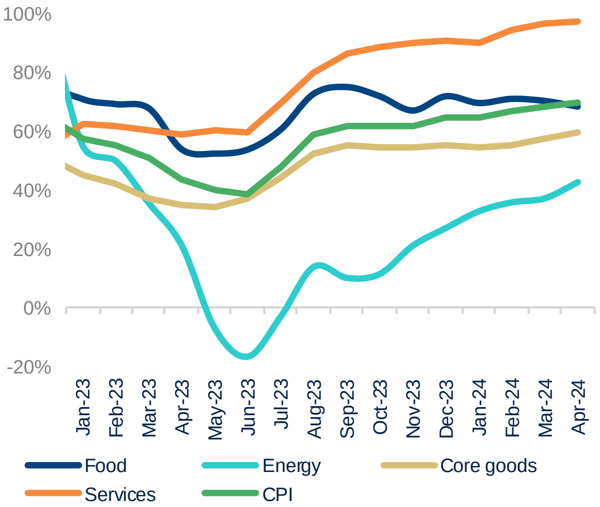
pp, cyclically adj primary balance / potential GDP, QoQ



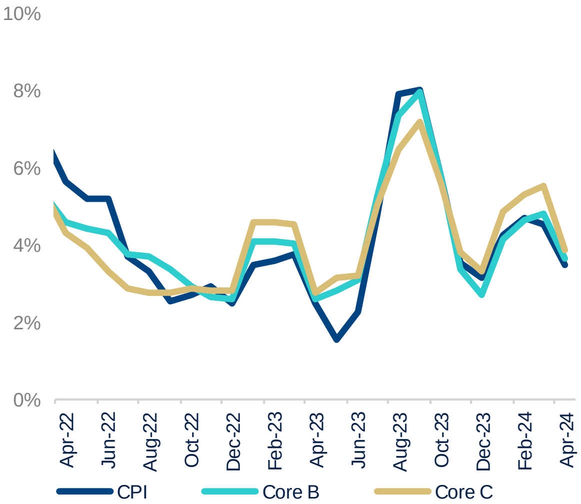
Source: Treasury and Finance Ministry & Garanti BBVA Research

Inflation trend at around 3.5% m/m sa in Apr (vs. 1.5% target of the CBRT in 4Q24), mainly led by services prices

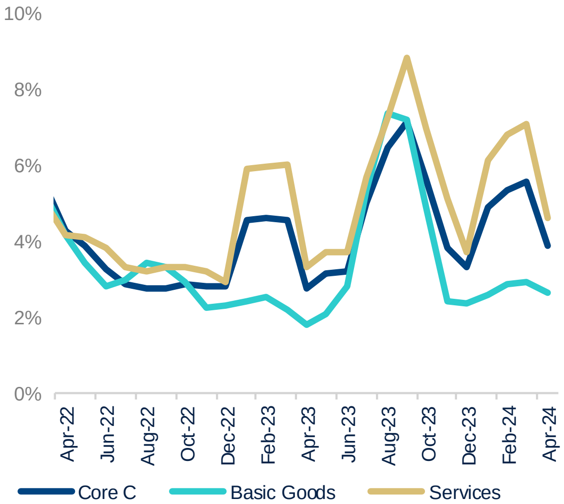
CPI SUBCOMPONENTS
YOY



TREND CPI INDICATORS
SA MoM, 3M AVG



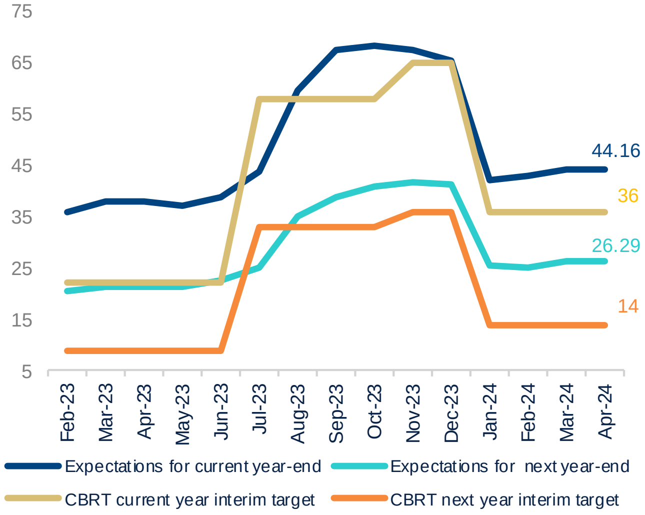
TREND CPI INDICATORS
SA MoM, 3M AVG



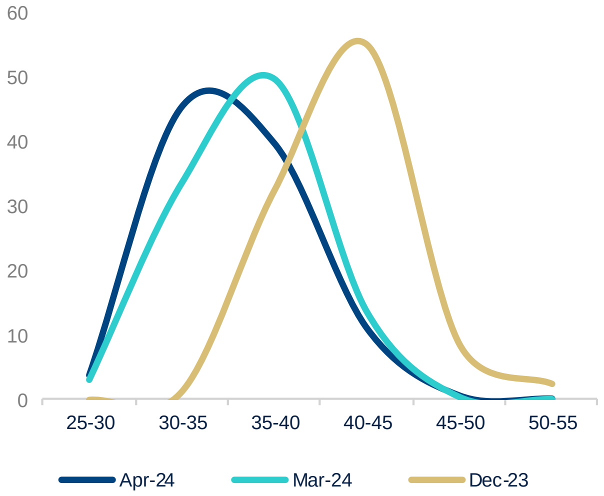
Source: TURKSTAT & Garanti BBVA Research

Year-end inflation expectations continue to diverge from the CBRT targets

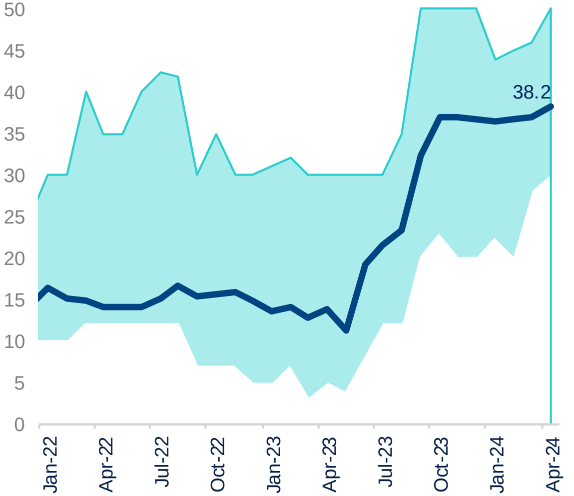
CBRT MARKET PARTICIPANTS SURVEY INFLATION EXPECTATION, %



PROBABILITY DISTRIBUTION OF 12-MONTH AHEAD INFLATION EXPECTATIONS, %



12-MONTH AHEAD POLICY RATE EXPECTATIONS, %



Source: TURKSTAT & Garanti BBVA Research

After the positive rate hike of the CBRT, we get ready to have a downward revision on our exchange rate (to ~38 USDTRY) and inflation (to ~43% year-end) forecasts for this year. Accordingly, we will evaluate the future stance of the monetary policy in our upcoming May revision

GARANTI BBVA BASELINE SCENARIO (FEBRUARY 2024)

	2022	2023	2024	2025	2026	2027	2028	2029
GDP growth (avg)	5.5%	4.5%	**3.5%**	**3.5%**	**3.8%**	**3.5%**	**3.5%**	**3.5%**
Unemployment Rate (avg)	10.5%	9.4%	**10.3%**	**10.8%**	**11.0%**	**11.1%**	**11.2%**	**11.0%**
Inflation (avg)	72.3%	53.9%	**58.6%**	**31.1%**	**21.4%**	**17.2%**	**15.5%**	**15.0%**
Inflation (eop)	64.3%	64.8%	**45.0%**	**25.0%**	**18.6%**	**16.1%**	**15.1%**	**15.1%**
CBRT Cost of Funding (avg)	12.7%	20.5%	**48.6%**	**37.4%**	**25.2%**	**19.7%**	**18.0%**	**18.0%**
CBRT Cost of Funding (eop)	9.0%	42.5%	**45.0%**	**30.0%**	**22.0%**	**18.0%**	**18.0%**	**18.0%**
USDTRY (avg)	16.56	23.74	**35.89**	**43.90**	**49.56**	**56.79**	**64.88**	**74.13**
USDTRY (eop)	18.70	29.44	**42.00**	**45.50**	**53.00**	**60.00**	**69.00**	**78.67**
Current Account Balance (bn$)	-49.1	-45.2	**-23.6**	**-32.1**	**-34.7**	**-39.4**	**-43.6**	**-47.6**
Current Account Balance (% GDP)	-5.4%	-4.0%	**-2.0%**	**-2.4%**	**-2.4%**	**-2.5%**	**-2.7%**	**-2.8%**
Primary Balance (% GDP)	1.1%	-2.7%	**-1.7%**	**0.5%**	**0.9%**	**1.0%**	**1.1%**	**1.2%**
Fiscal Balance (% GDP)	-0.9%	-5.2%	**-5.2%**	**-3.4%**	**-3.0%**	**-2.9%**	**-2.8%**	**-2.7%**

Disclaimer

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BBVA Research

Türkiye Economic Outlook

Garanti BBVA Research

April 2024

Creating Opportunities