

# Global & Türkiye Economic Outlook

August 2022

01

# Global Economic Outlook

# Global baseline scenario assumptions

## Bottlenecks

Ongoing shocks ease gradually and no new significant disruptions across supply chains but sanctions remain imprinting pressures

## Commodities

Prices decline somewhat as supply improves and demand slows. High uncertainty around gas prices

## Monetary Policy

Sharper and front-loaded tightening to reverse inflationary pressures despite increasing recession and financial stress risks



## Growth

Growth deceleration, **recession at least in the US**, and under certain scenarios of gas embargos, also in Europe

## Inflation

Higher **inflation** due to supply and demand pressures. It will ease slowly and **remain above target at least until 2023**

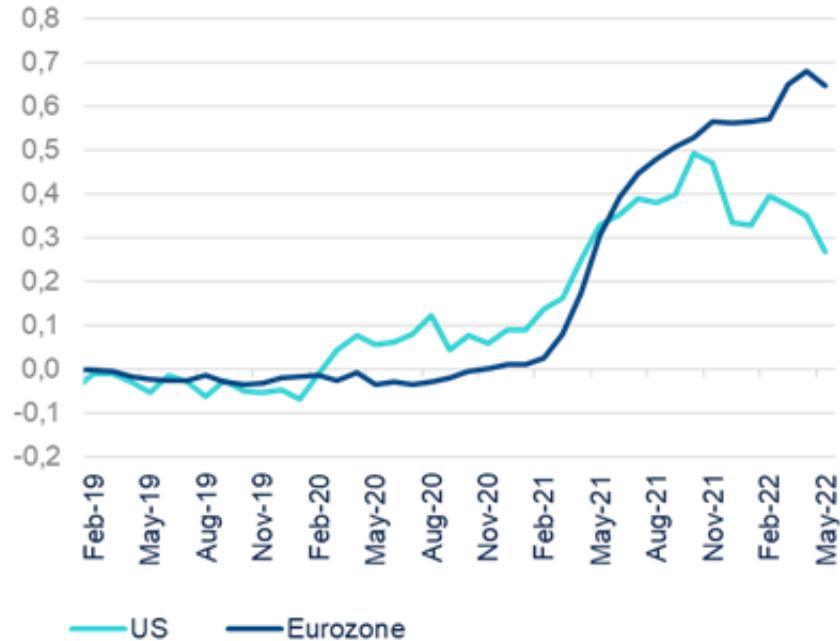
## Financial markets

**Elevated volatility, but no significant disruptions.** Higher VIX and risk premium, strong USD and outflows from EMs

# Bottlenecks remain at high levels, no clear improvement in the Eurozone

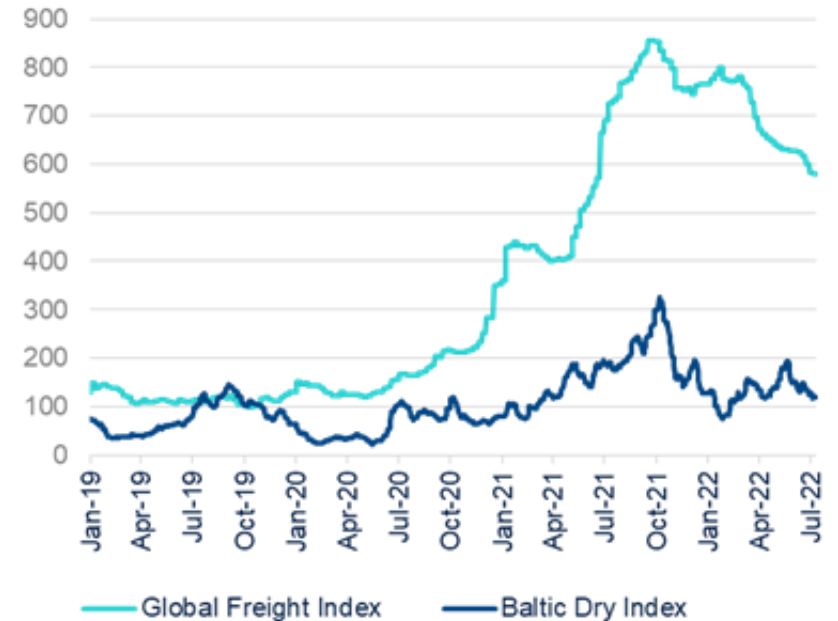
## BBVA RESEARCH BOTTLENECK INDEX

(INDEX: AVERAGE SINCE 2003 = 0)



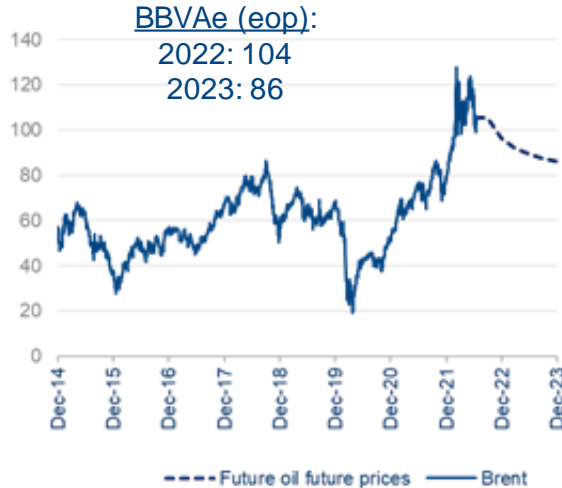
## CONTAINER FREIGHT RATES: GLOBAL AND BALTIC

(INDEX: 2012 = 100)

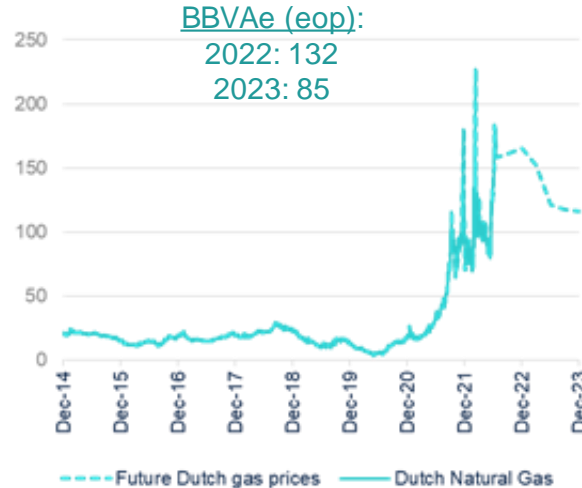


# Commodity prices easing on growing concerns of global slowdown

## BRENT PRICES (\$/B)



## DUTCH NATURAL GAS PRICES (EUR/MWH)

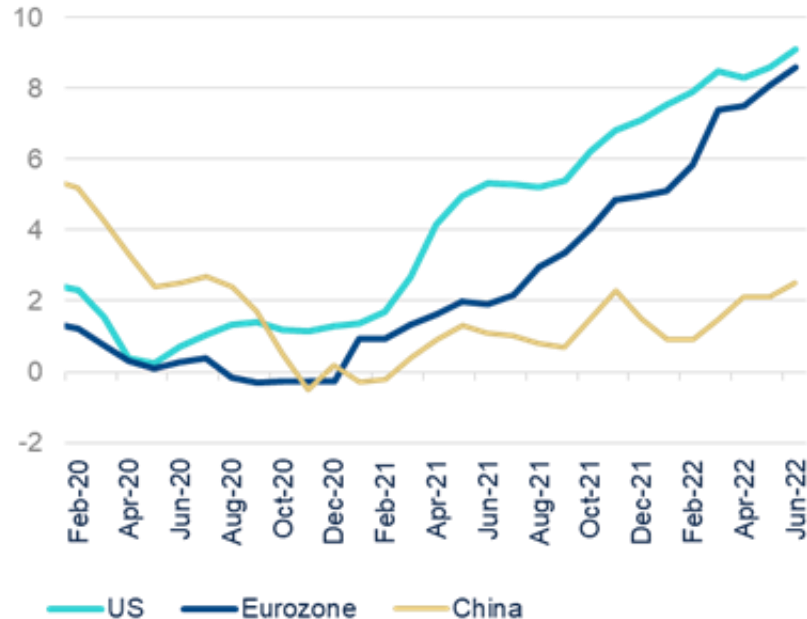


## WHEAT PRICES (USD/BU)

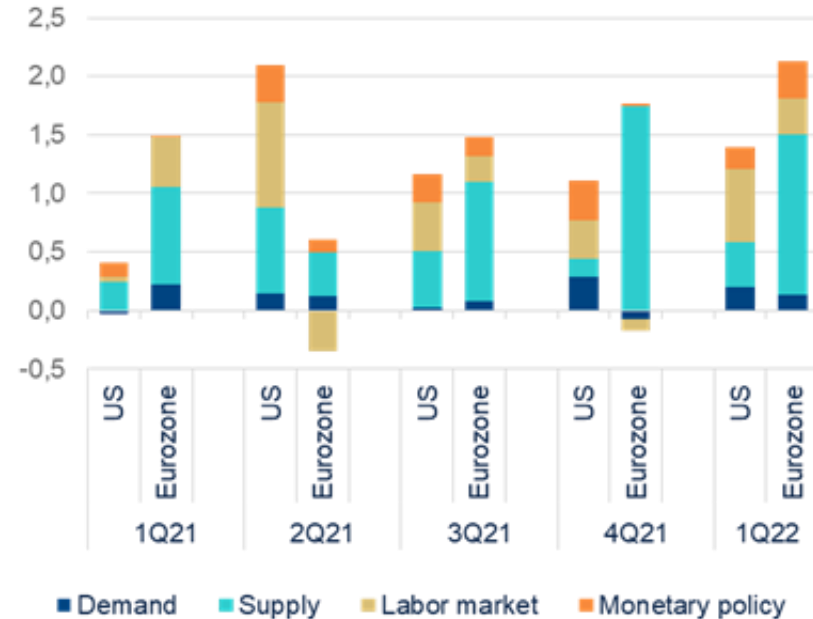


# Inflation surprising to the upside with differentiating factors across countries

## INFLATION: CPI (Y/Y %)



## CORE INFLATION: DECOMPOSITION OF SHOCKS (PP)

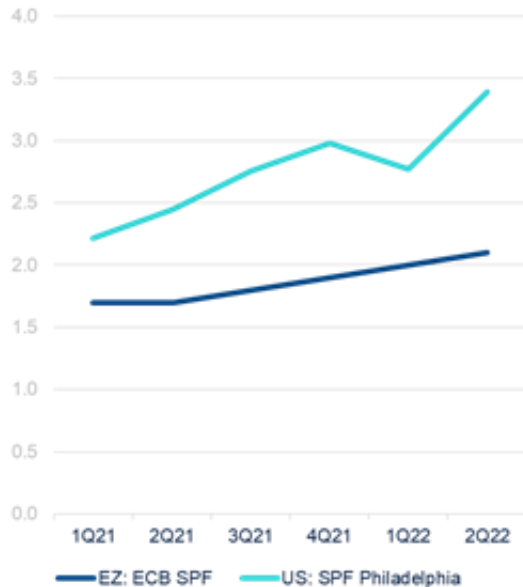


Source: BBVA Research based on local statistics.

Source: BBVA Research estimates using a SVAR model.

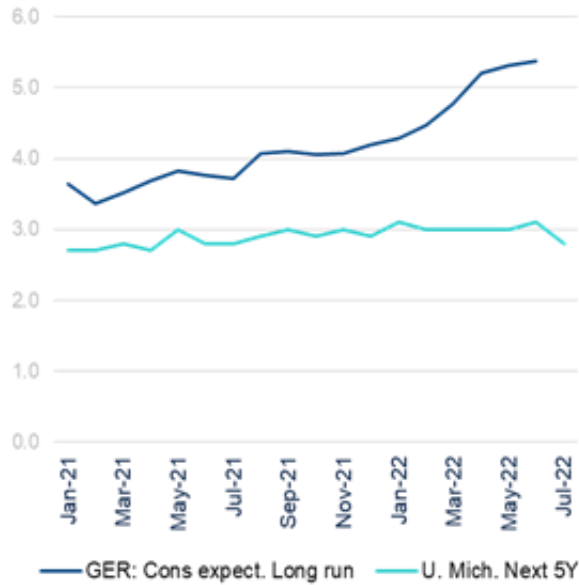
# Market measures of inflation expectations eased recently on recession fears

## 5-YEAR INFLATION EXPECTATIONS: ANALYSTS SURVEYS (%)



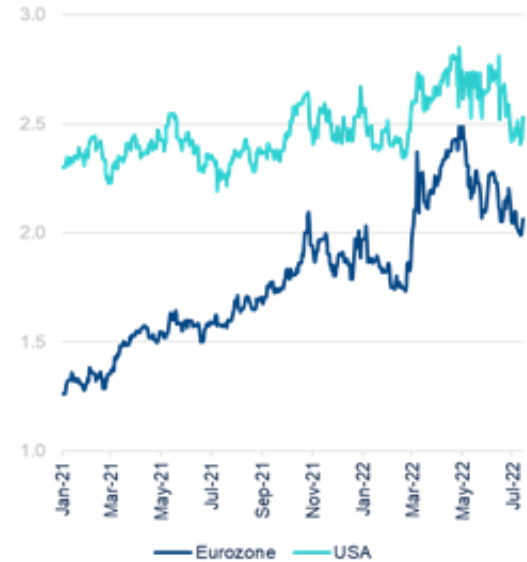
Source: BBVA Research based on data from the Fed and the ECB.

## INFLATION EXPECTATIONS: CONSUMER SURVEY 5Y (%)



Source: BBVA Research based on Haver data.

## LONG-TERM INFLATION EXPECTATIONS: MARKETS\* (%)

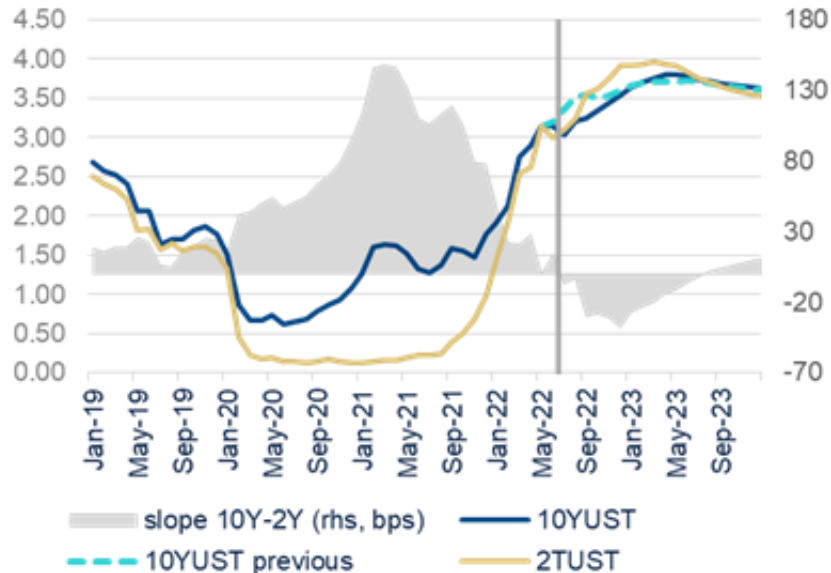


\* Based on 5Y5Y forward swaps

Source: BBVA Research based on Haver data.

# Fed maintains a stepped up tightening pace

## US: BOND YIELDS (2Y, 10Y) AND SLOPE 10Y-2Y (%, BPS)



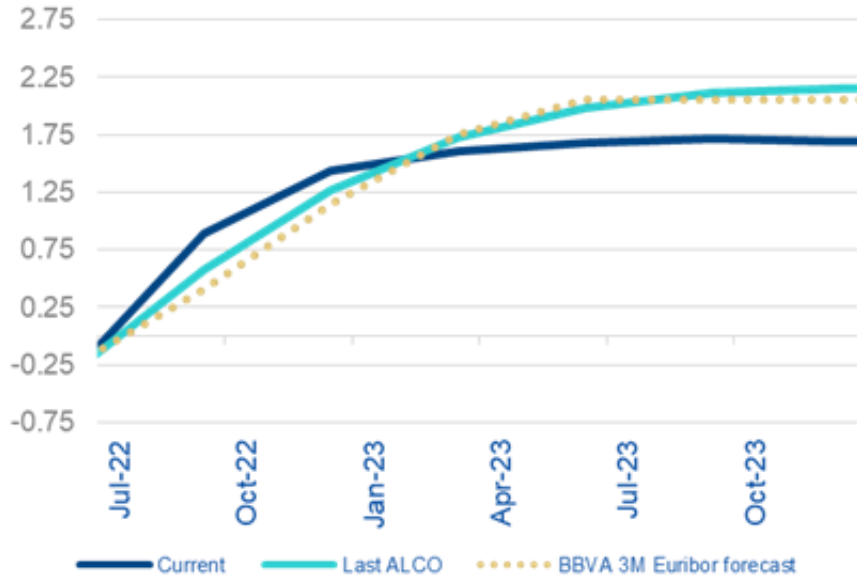
- The Fed raised policy rate by 75 bps once again at its July meeting and signaled a more data-dependence approach; however, multiple consecutive 75 bps hikes are unlikely.
- Although there has been a technical recession in 2Q, this will not cause a pause in the tightening process by the Fed. We expect rates at 3.5% by year-end; 4% terminal rate in March 2023, no rate cuts in 2023.
- The main risk is more rate hikes. Against more persistent inflation, the Fed will continue to tighten, sending a strong signal to retain its credibility. Fed has been clear that the main priority is to bring inflation down.



# ECB will also frontload rate hikes (+50bps in July) as inflation risks intensify

## IMPLICIT POLICY RATES IN 3M EURIBOR FUTURES

(%)



**The ECB clearly linked both decisions** (larger than expected rate hike and Transmission Protection Instrument- TPI), as the insurance that TPI provides for unwarranted/disorderly market dynamics allows for a faster pace of interest rate hikes.

### On Rates:

- The three key interest rates were hiked by 50 bps (depo at 0%, refi 0.50%), exiting negative territory
- End of forward guidance: Interest rate hikes will continue and will be data dependent, decided meeting by meeting.

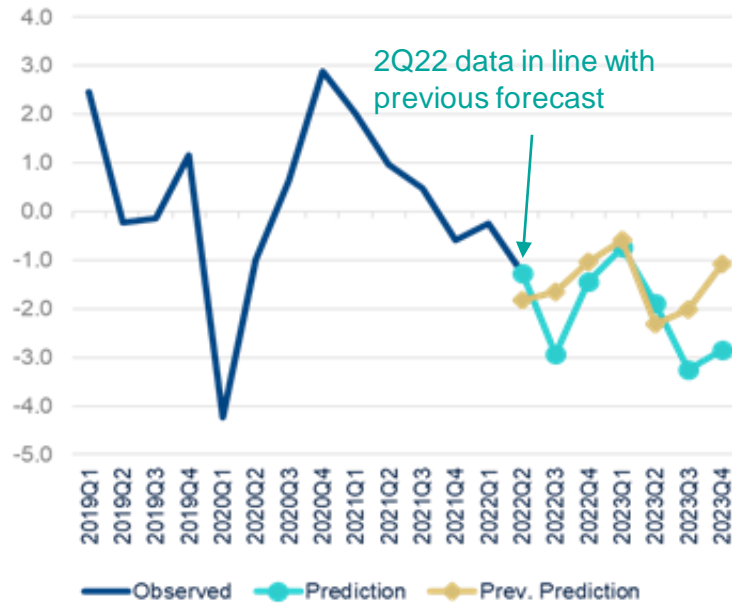
### Other measures:

- Remuneration excess liquidity to be evaluated
- Nothing new on TLTROs terms.

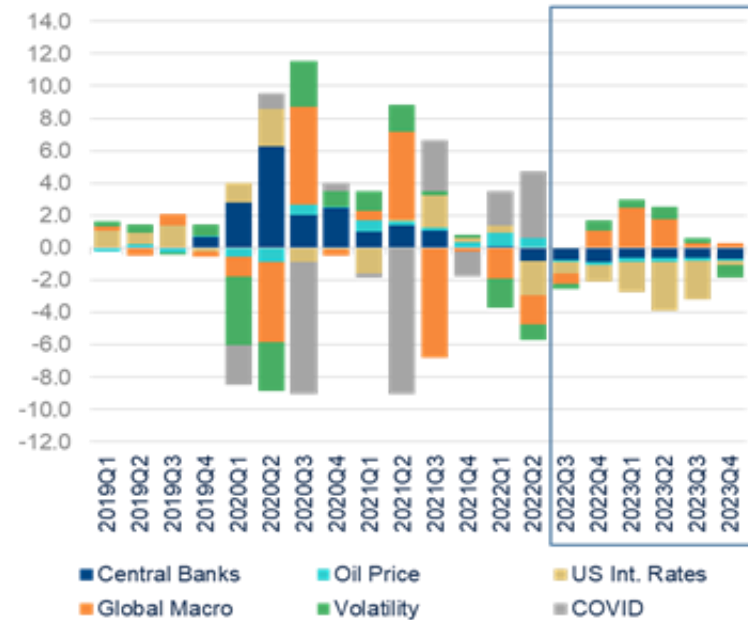
**Baseline Scenario: Bias to a frontloading hikes**, to reach 1.75% or even 2% by 4Q22.

# Negative prospects for EM capital inflows: higher rates and QT

**EM CAPITAL INFLOWS: PRELIMINARY PROJECTIONS**  
(% of AUM; QUARTERLY CUMULATIVE BASIS)



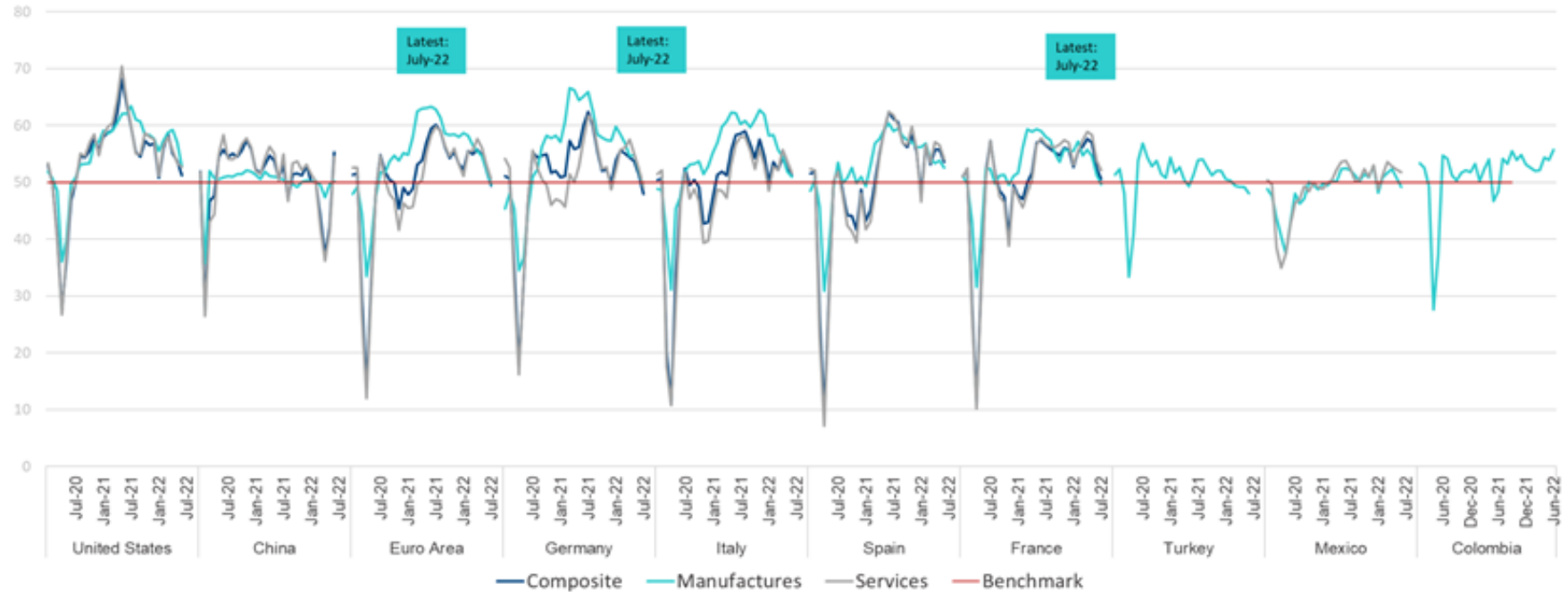
**EM CAPITAL INFLOWS: PRELIMINARY PROJECTIONS**  
(% of AUM; QUARTERLY CUMULATIVE BASIS)



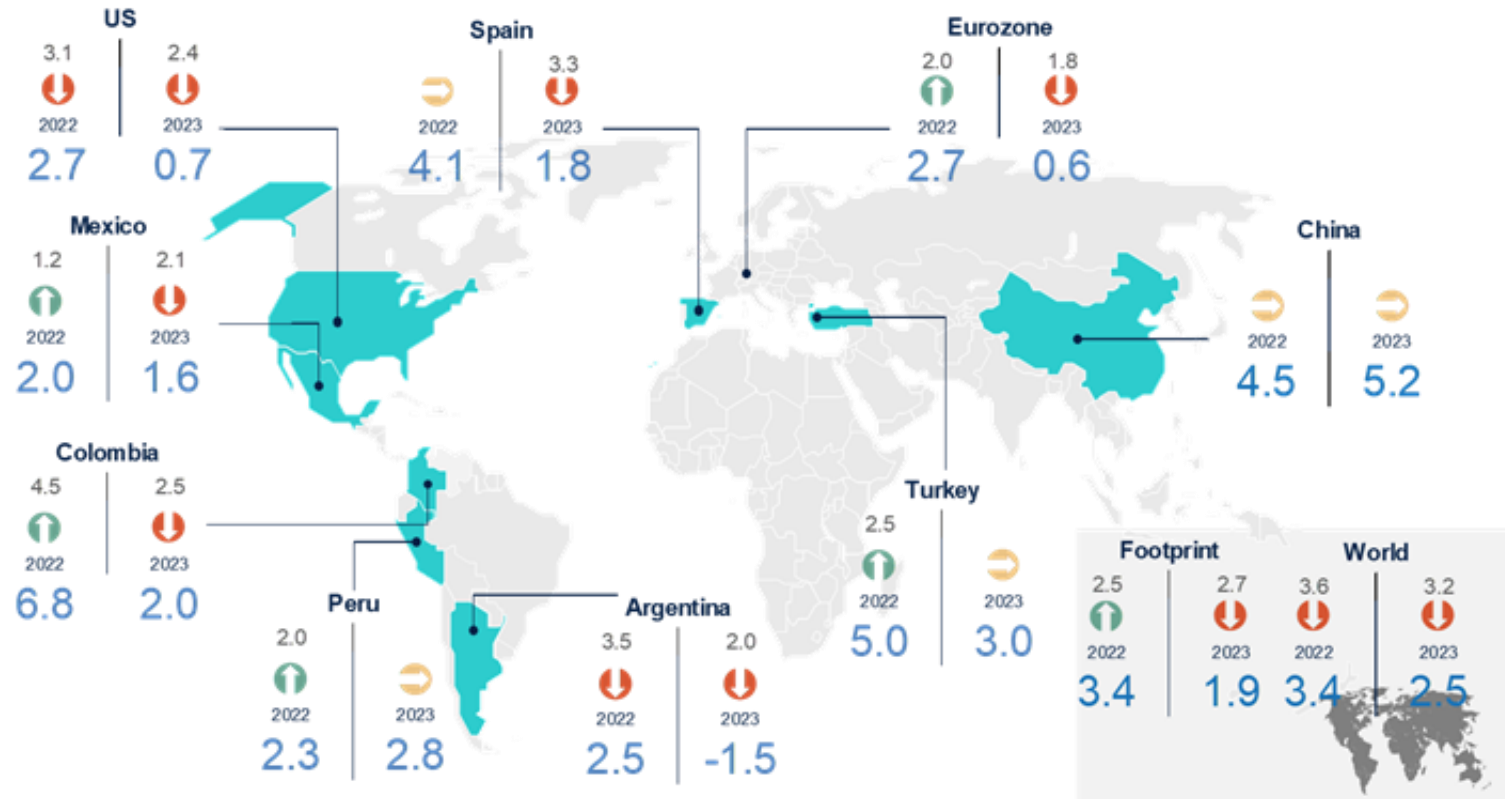
# Flash July PMIs for EZ in contraction zone and a slowdown in the US

## PMI INDICATORS

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



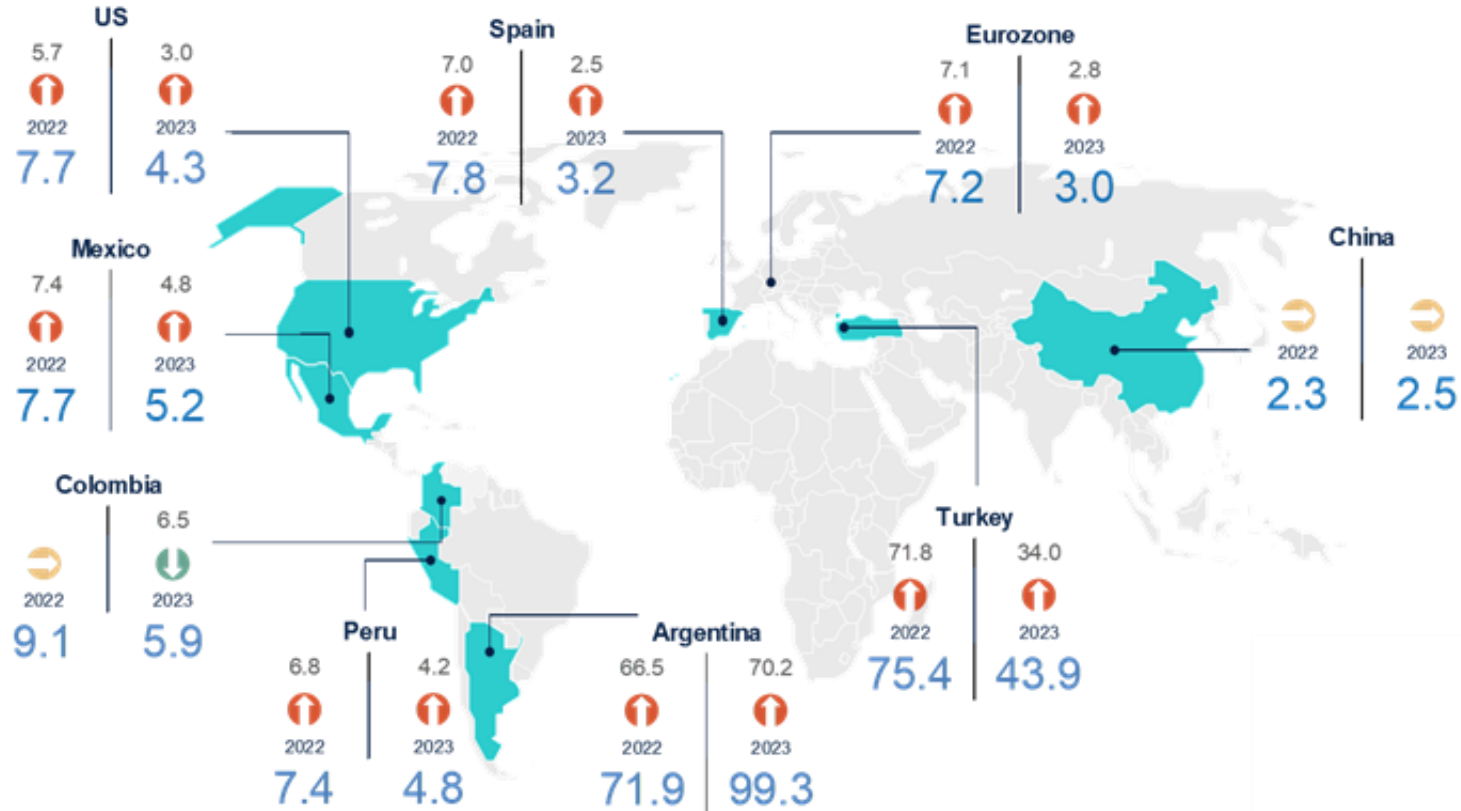
# GDP: Significant broad-based slowdown in 2023, much clearer in EZ & US



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: revisions continue to be on the upside for most countries



**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).

# Financial projections: Downward revision for the German and US curve as recession risk partially compensates inflation fears; weaker EURUSD in '22

		What do we expect?	Projections		Prev.
10y UST	<p>The 10-year yield is likely to remain relatively subdued as long as a pessimistic outlook for growth remains; on the other hand, QT is likely to play against the safe-asset dynamics and put upward pressure on long-term rates</p>		Current:	2.98%	
			Dec22:	3.54%	3.84%
10y Bund	<p>Downward revision on the German curve based on: market to market, more pessimistic growth outlook, bias that the ECB may have to stop the hiking cycle at the end of this year, and safe haven flows. Nonetheless, we continue to expect yields will gradually move up on rate hike cycle by the ECB, end of the APP, inflation pressures, spillovers from the UST curve.</p>		Current:	1.24%	
			Dec22:	1.75%	2.00%
Spanish financial variables	Spanish risk premium	<p>We believe that Spanish risk premia will consolidate slightly higher levels than current ones despite the further support by the ECB (antifragmentation tool), upward trend in global yields and somewhat pressure on worries for Spanish gov. reforms and fiscal position. According to fundamentals, we estimate equilibrium around 150 bps. Small risk of surpassing those levels as i) the ECB will design an antifragmentation tool and ii) the strengthening of EU institutionalality</p>	Current:	122	
			Dec22:	120	
Spanish financial variables	10Y Yield	<p>However, there is a risk that the anti-fragmentation instrument will not be as forceful or effective and, therefore, the risk premium will become more stressed.</p>	Dec23:	140	
			Current:	2.47%	
EURUSD	<p>Main drivers for the EURUSD are and continue to be: normalization of monetary policies by the Fed and the ECB, safe-haven flows (fears on global recession) and the asymmetric economic impact of the war, which most of them favors USD strength.</p> <p>Revision to downside in 2022. EURUSD to be close to (or even below) parity, at least in the short-term, on risk-off mood and war effects in Europe, adding to local inflation pressures</p>		Dec22:	2.95%	3.20%
			Dec23:	3.60%	
			Current:	1.02	
			Dec22:	1.02	1.07
			Dec23:	1.10	

Denotes changes in our forecast

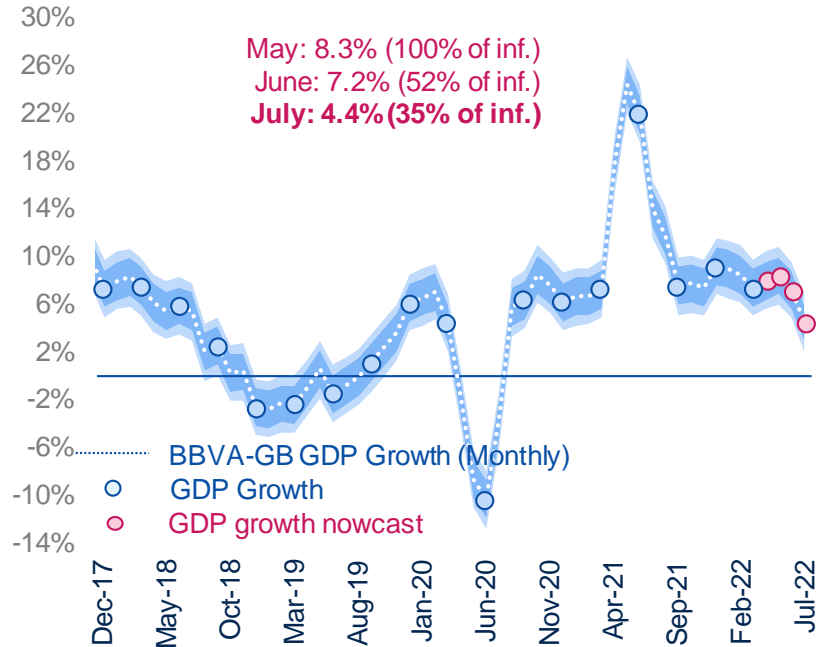
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# Türkiye Economic Outlook

# Economic growth moderating but likely to reach 5% in 2022

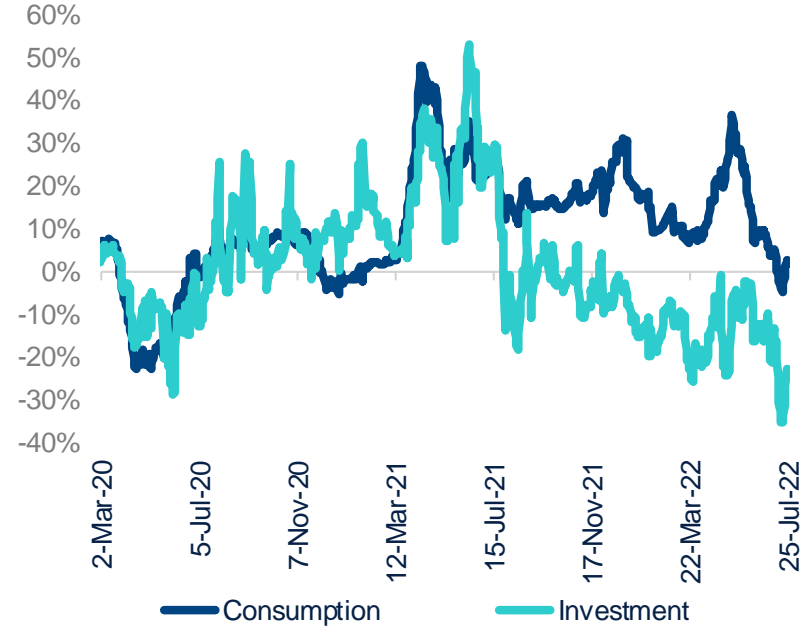
## GARANTI BBVA MONTHLY GDP

(YOY, 3M MOVING AVG.)



## GARANTI BBVA BIG DATA PRIVATE DOMESTIC DEMAND

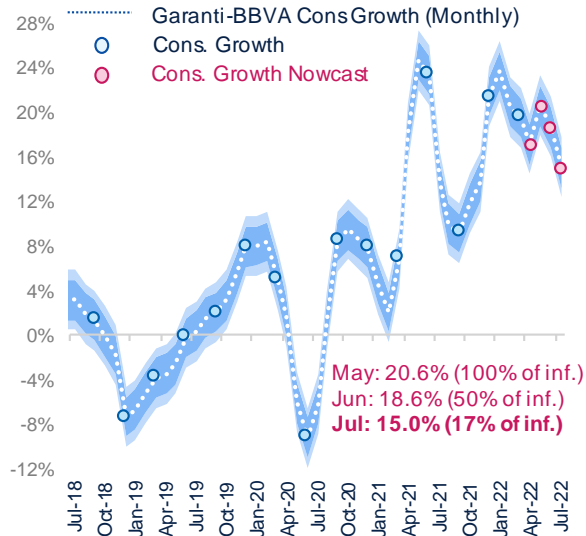
(28-DAY SUM, REAL YOY)





# Consumption continues to be the main driver

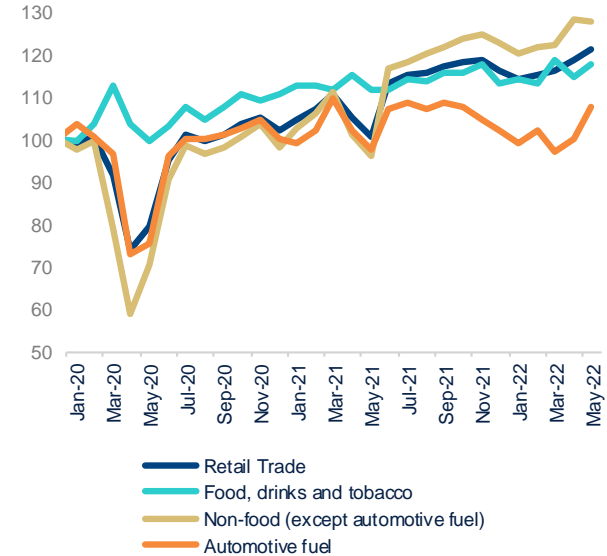
## GARANTI BBVA MONTHLY CONSUMPTION NOWCAST (3M YOY)



## GARANTI BBVA BIG DATA CONSUMPTION (28-DAY REAL SUM YOY)

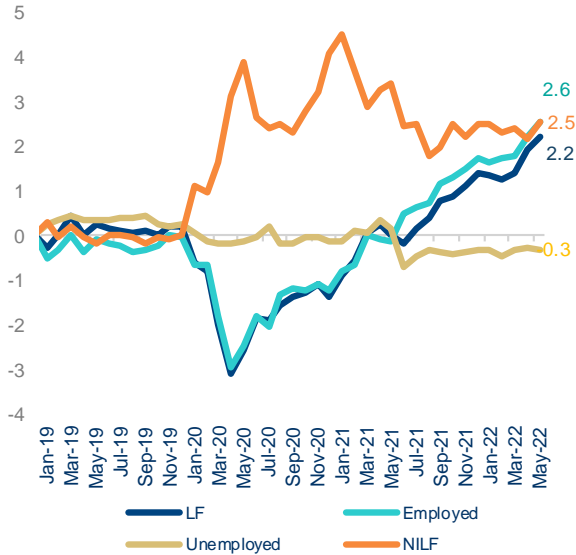


## RETAIL TRADE COMPOSITION (DEC19=100)

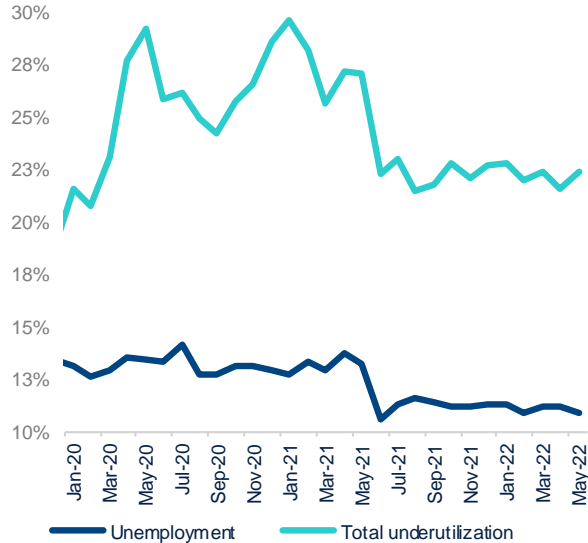


# Nominal wage hikes help avoid a sharp drop in real income

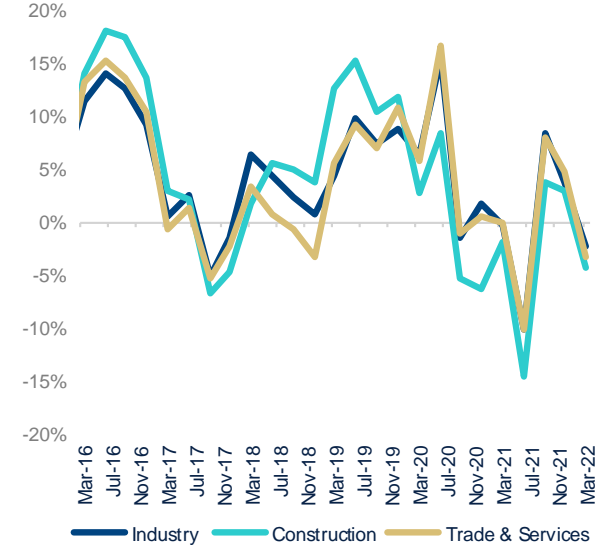
**WORKING AGE POPULATION**  
CUMULATIVE JAN19= TODAY, THOUSANDS



**UNEMPLOYMENT & UNDERUTILIZATION**  
%



**REAL WAGE GROWTH**  
YOY CHANGE

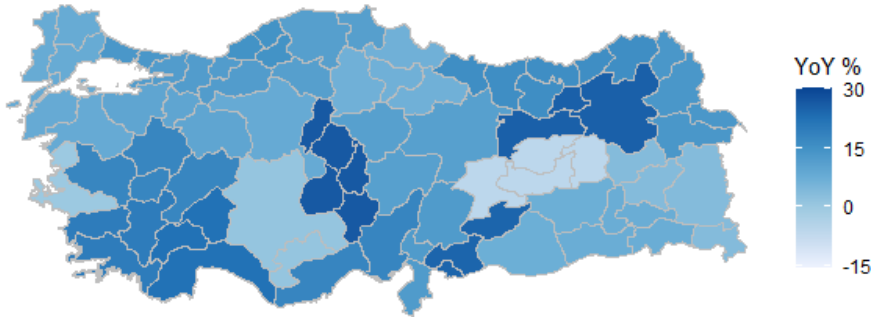


# Regional employment growth more evenly distributed than in 2021

## REGIONAL EMPLOYMENT PERFORMANCE: 2021

(Annual average %YoY, based on salary receivers)

Employment Growth (2021)

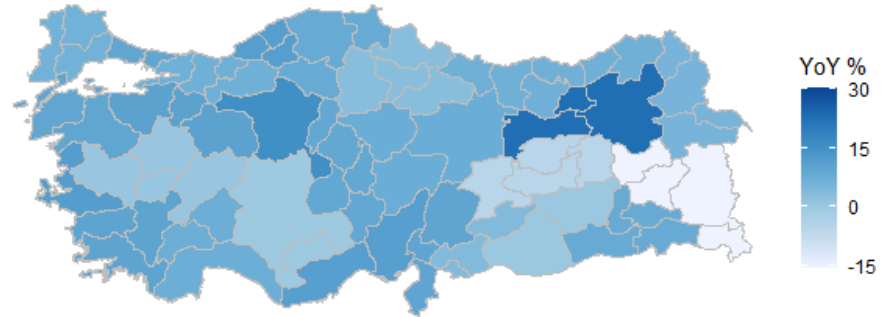


Source: GB-BBVA

## REGIONAL EMPLOYMENT PERFORMANCE: 2022

(Annual average %YoY, based on salary receivers)

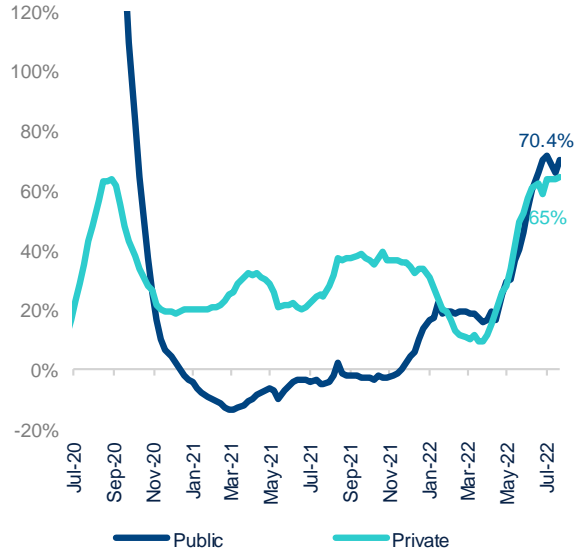
Employment Growth (2022)



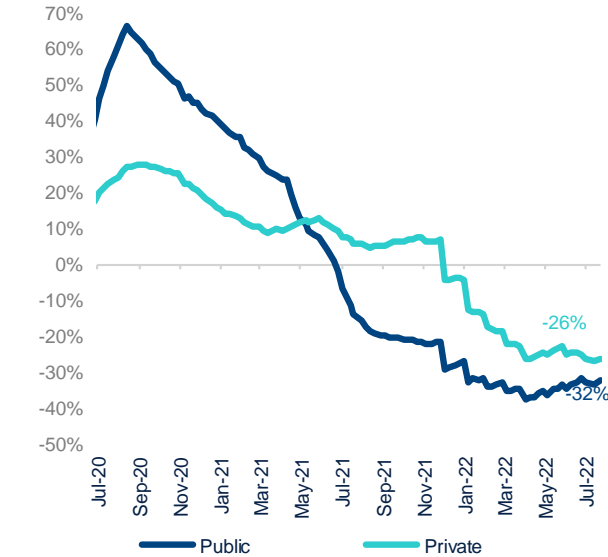
Source: GB-BBVA

# Consumer loan growth still keeping a high pace despite rising rates

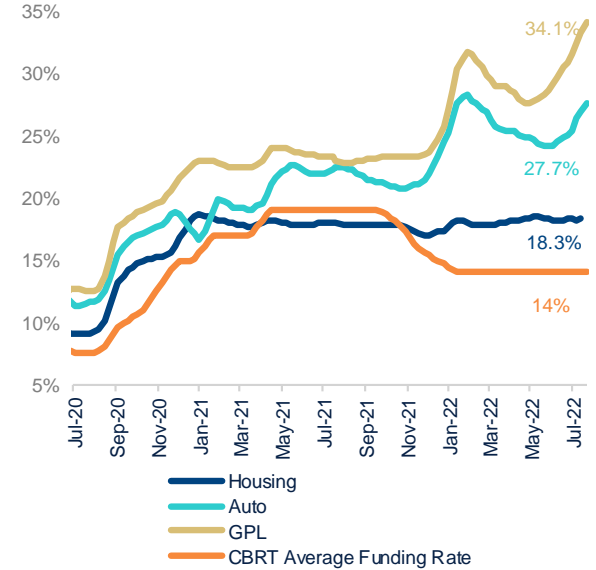
**CONSUMER CREDIT GROWTH**  
13-WEEK ANNUALIZED TREND



**CONSUMER CREDIT GROWTH**  
YoY, adjusted by CPI

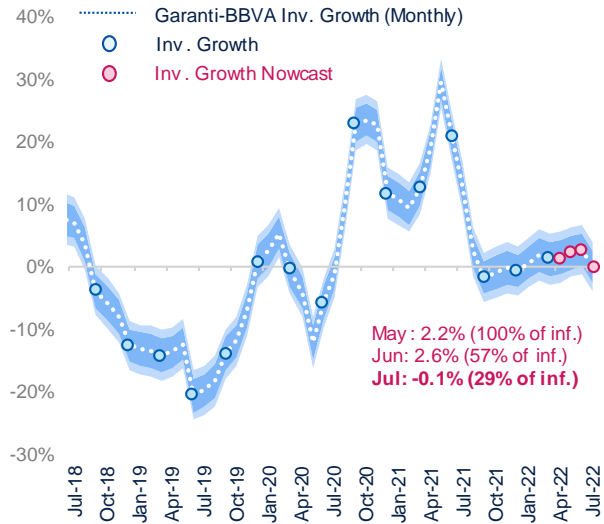


**INTEREST RATES**  
(Sector, 4-week average)

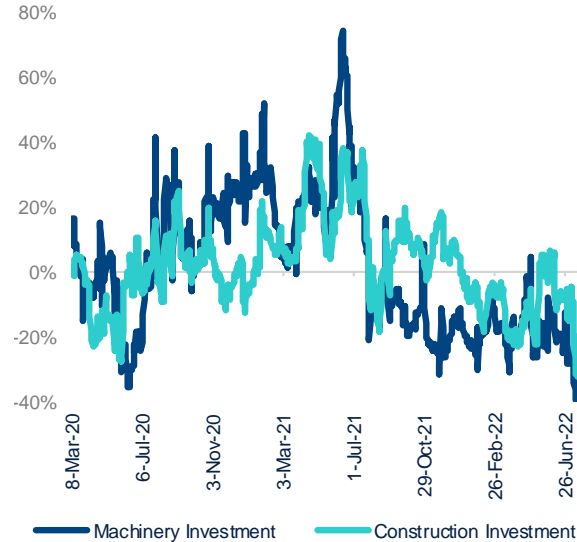


# Investment maintains a sluggish pattern despite strong CUR levels

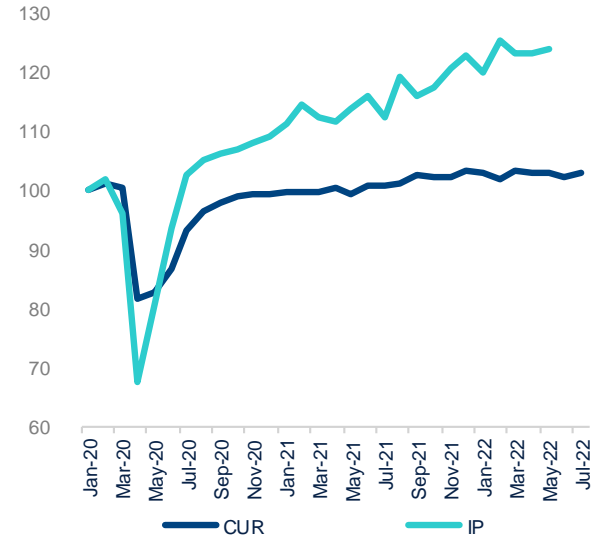
## GARANTI BBVA MONTHLY INVESTMENT NOWCAST (3M YOY)



## GARANTI BBVA BIG DATA INVESTMENT (28-DAY REAL SUM YOY)



## INDUSTRIAL PRODUCTION VS CAPACITY UTILIZATION RATE (SA, JAN20=100)



# Exports and durable goods seem to be benefitting the most

**INDUSTRY SECTOR: TURNOVER HEATMAP**  
(nominal, 3MA %YoY)

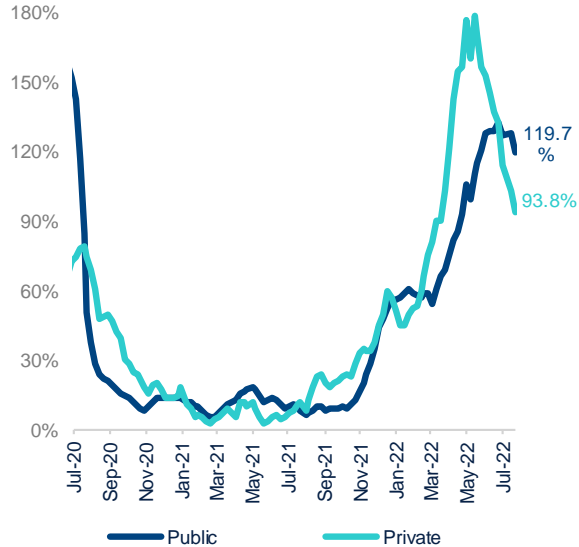


**INDUSTRY SECTOR: TURNOVER HEATMAP**  
(deflated by PPI, 3MA %YoY)

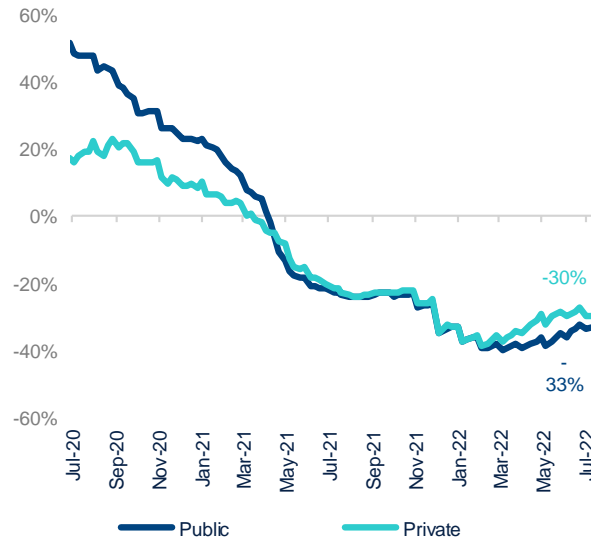


# Recent regulations weigh on the downside on commercial lending

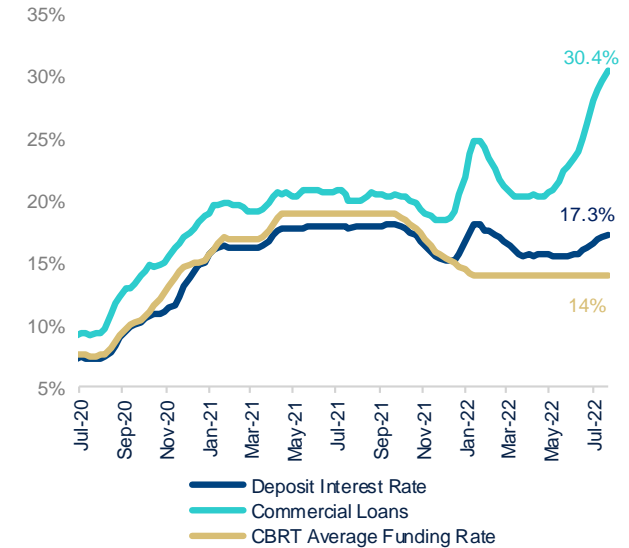
**TL COMMERCIAL CREDIT GROWTH**  
13-WEEK ANNUALIZED TREND



**TL COMMERCIAL CREDIT GROWTH**  
YoY, adjusted by PPI

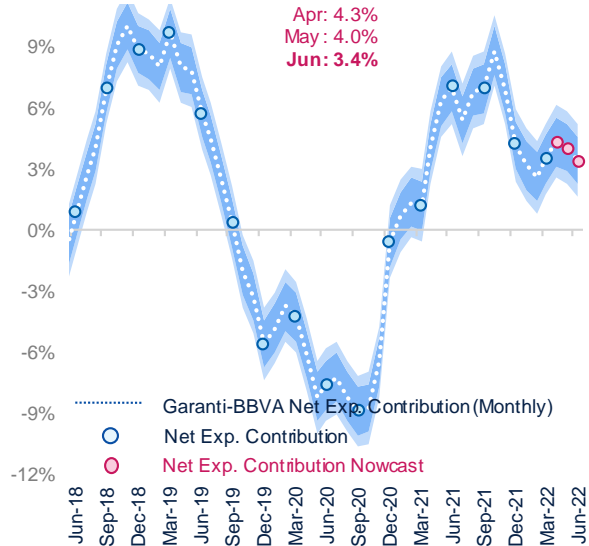


**INTEREST RATES**  
(Sector, 4-week average)

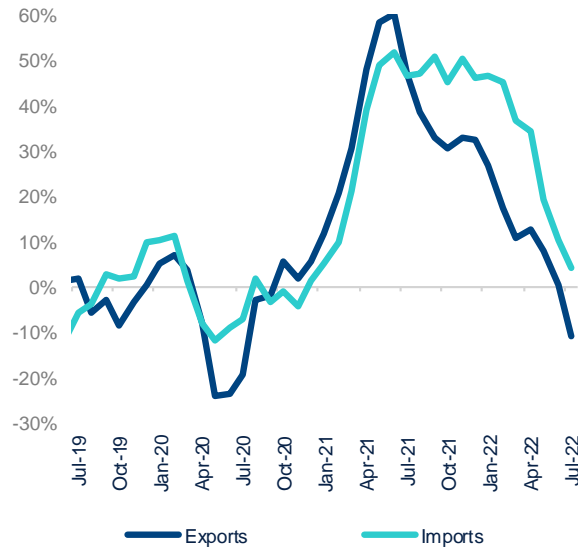


# Exports lose pace but tourism revenues support for the time being

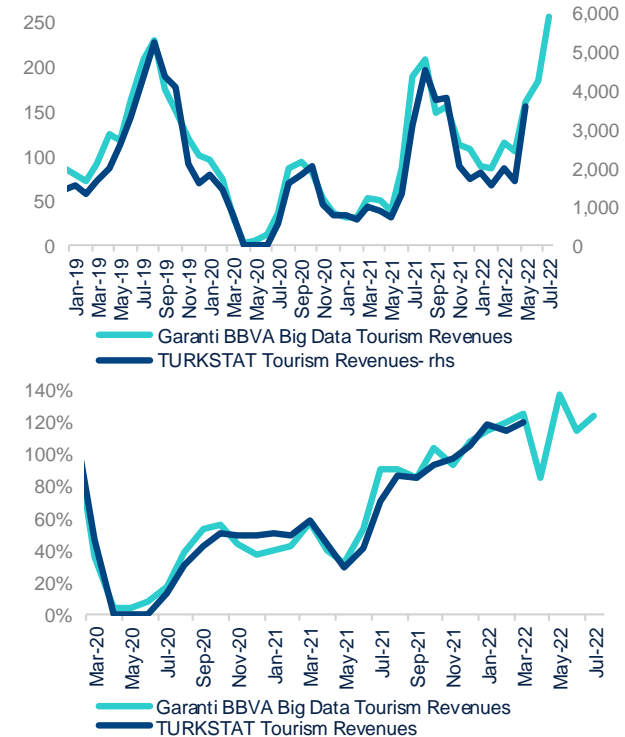
## GARANTI BBVA MONTHLY NET EXPORTS NOWCAST (CONTRIBUTION, PP)



## GARANTI BBVA BIG DATA EXPORTS & IMPORTS (3-MONTH AVG. YOY)



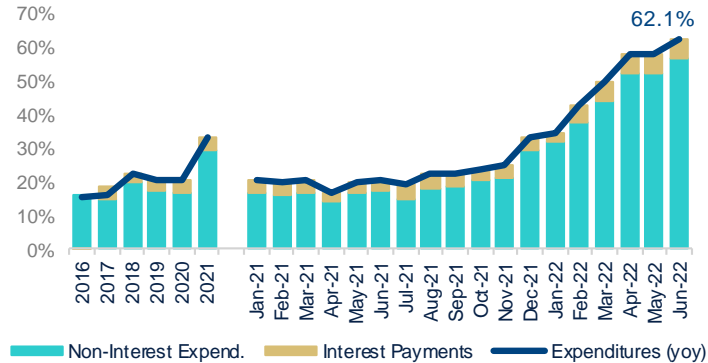
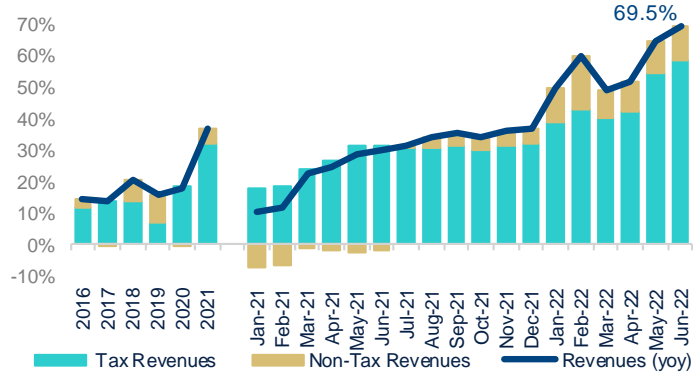
## GARANTI BBVA BIG DATA TOURISM REVENUES (USM\$ & COMPARED TO 2019)



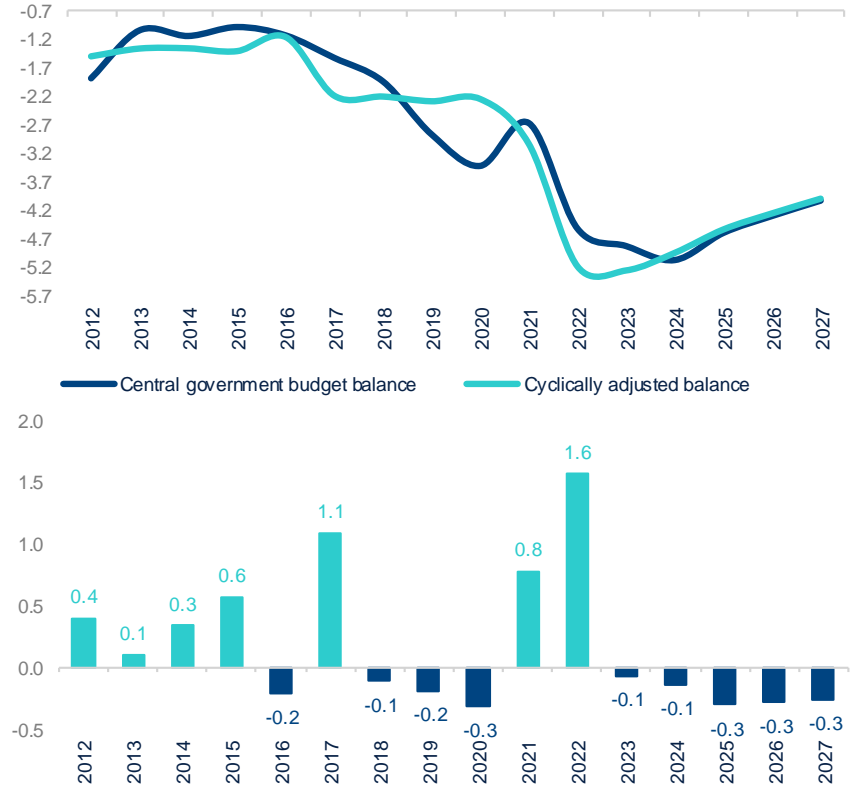


# Fiscal impulse likely to surpass 1.5pp in 2022

## CENTRAL GOV. REVENUES & EXPENDITURES (12M YOY)

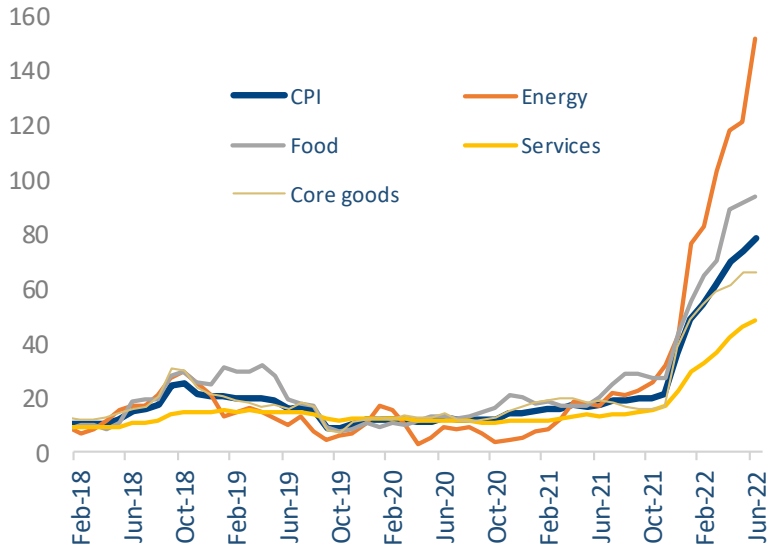


## CENTRAL GOV. CYCLICALLY ADJ BALANCE & FISCAL IMPULSE (% GDP)

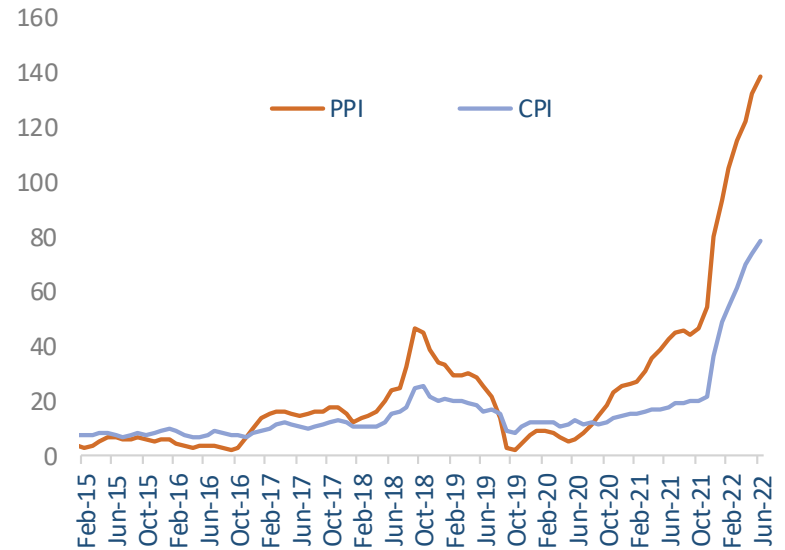


# CPI inflation at 80%, highest since Sept-98; PPI at 138%

## CPI, 12M % Change

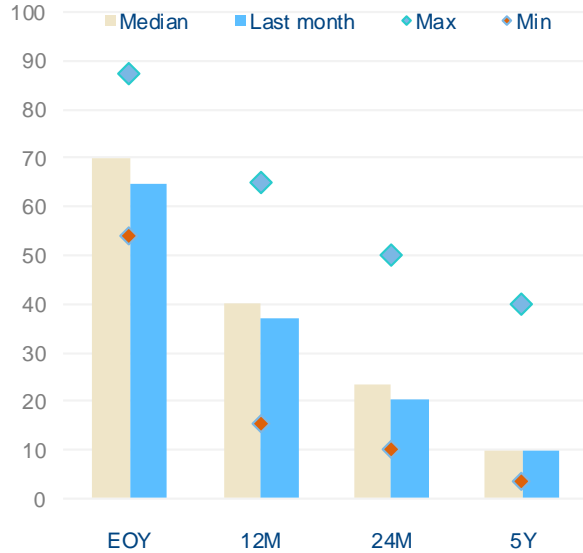


## CPI & PPI 12M % Change

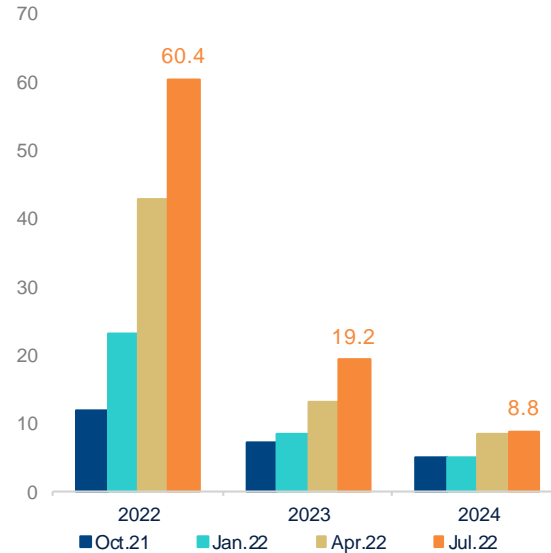


# Inflation expectations continue edging up

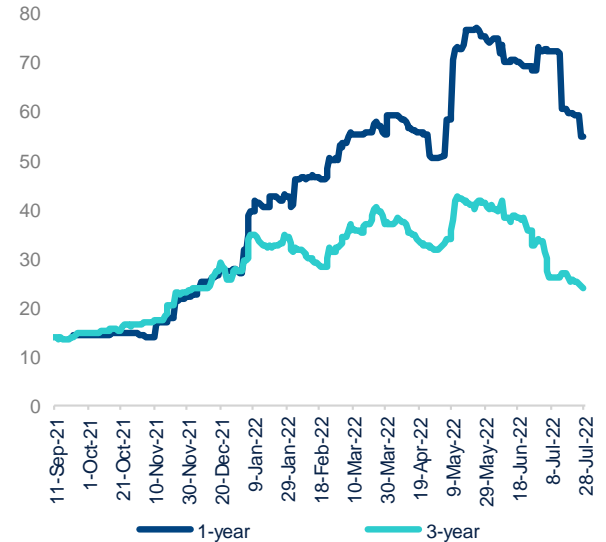
## SURVEY INFLATION EXPECTATIONS, %



## CBRT INFLATION EXPECTATIONS, EOY, %

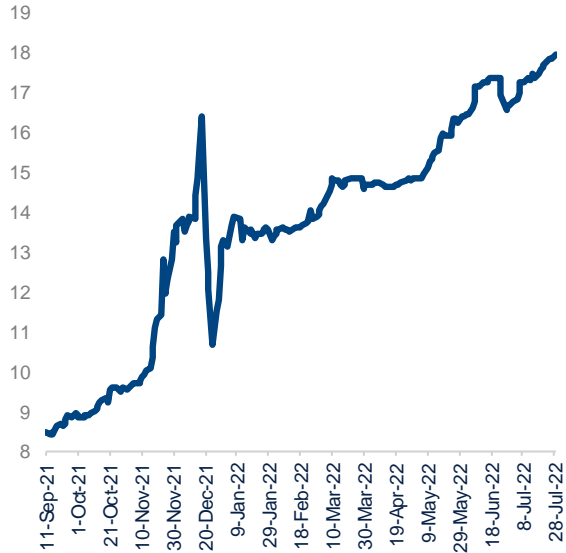


## MARKET INFLATION EXPECTATIONS, %



# USDTRY slide likely to continue despite impromptu responses

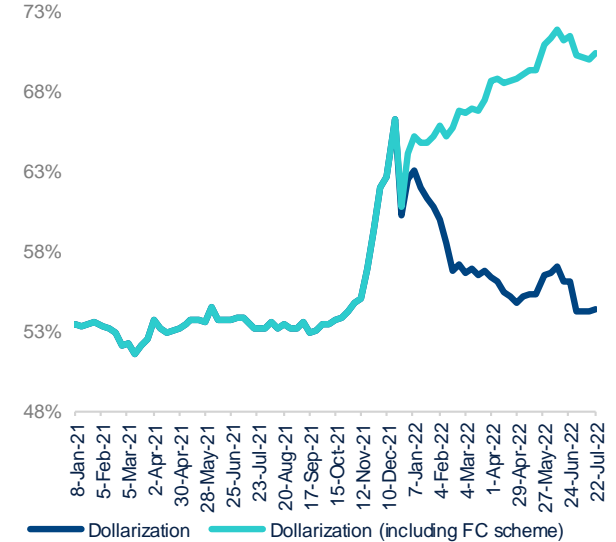
## USDTRY LEVEL



## CDS 5-YEAR BP

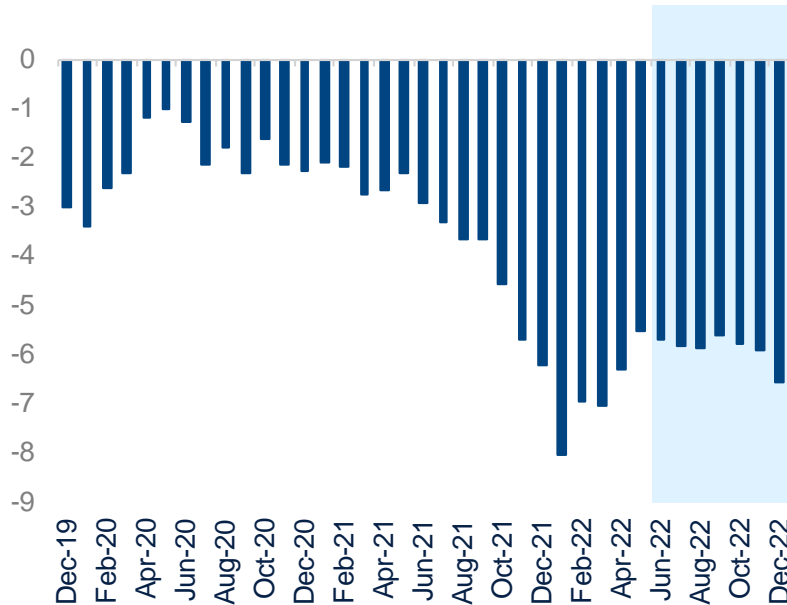


## DOLLARIZATION RATIO

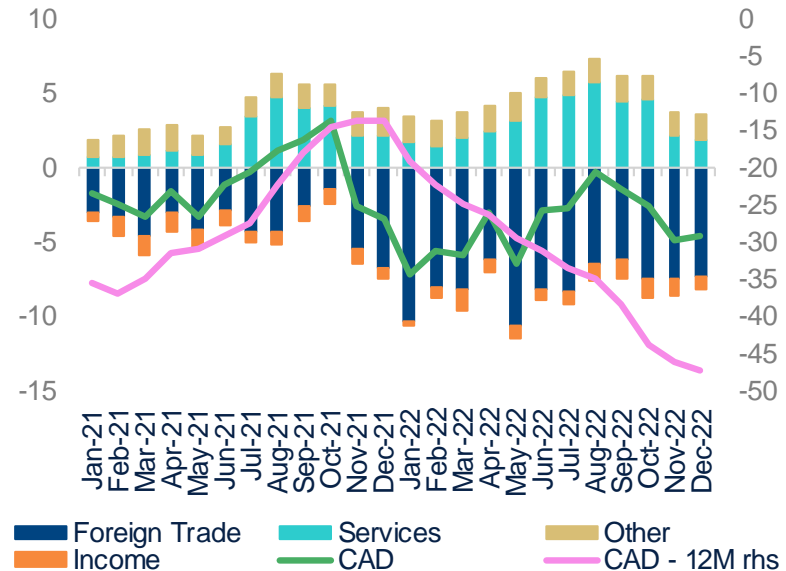


# Energy bill and strong activity to drive CAD to \$47bn by year-end

## ENERGY TRADE BALANCE, US\$BN\*



## CURRENT ACCOUNT, US\$BN\*



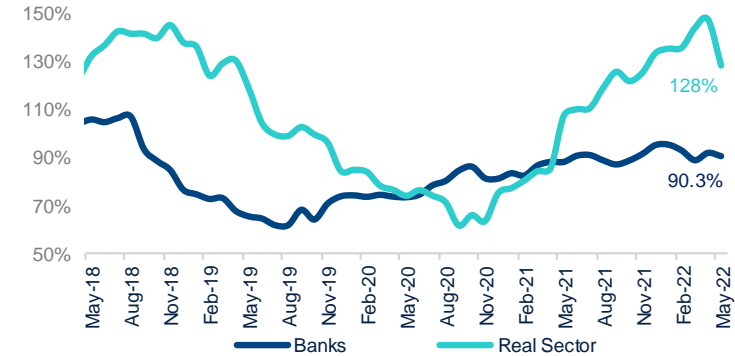
# Pressures over reserves and debt rollover will likely intensify

## CURRENT ACCOUNT BALANCE FINANCING (bnUS\$)

	2019	2020	2021	2022
<b>External Financing Need</b>	<b>54</b>	<b>86</b>	<b>68</b>	<b>120</b>
<b>CAB</b>	<b>5</b>	<b>-36</b>	<b>-15</b>	<b>-47</b>
Foreign Trade Balance	-17	-38	-29	-78
FT Energy Balance	-33	-24	-43	-75
FT Non-Energy Balance	17	-14	13	-3
Services Balance	34	12	27	42
Income Balance	-12	-9	-11	-12
<b>LT credit redemptions</b>	<b>52</b>	<b>44</b>	<b>44</b>	<b>60</b>
Banks	31	26	26	40
Other	22	18	18	20
<b>Government Eurobond</b>	<b>7</b>	<b>7</b>	<b>10</b>	<b>13</b>
<b>Total Financing</b>	<b>60</b>	<b>55</b>	<b>91</b>	<b>91</b>
<b>Net FDI</b>	<b>6</b>	<b>4</b>	<b>8</b>	<b>6</b>
<b>Government Eurobond</b>	<b>11</b>	<b>9</b>	<b>10</b>	<b>11</b>
<b>Other Portfolio Flows</b>	<b>-10</b>	<b>-12</b>	<b>3</b>	<b>0</b>
<b>LT Credit Renewal</b>	<b>42</b>	<b>36</b>	<b>50</b>	<b>62</b>
Government	1	1	2	2
Banks	23	21	24	40
Other	18	13	24	20
<b>ST Borrowing</b>	<b>-4</b>	<b>4</b>	<b>-2</b>	<b>2</b>
<b>Trade Credits</b>	<b>10</b>	<b>-2</b>	<b>3</b>	<b>5</b>
<b>Net Deposits</b>	<b>4</b>	<b>19</b>	<b>10</b>	<b>5</b>
<b>Net Error and Omissions</b>	<b>0</b>	<b>-4</b>	<b>10</b>	<b>0</b>
<b>Change in Reserves</b>	<b>6</b>	<b>-32</b>	<b>23</b>	<b>-29</b>
<b>banks roll-over</b>	<b>74%</b>	<b>81%</b>	<b>95%</b>	<b>100%</b>
<b>other roll-over</b>	<b>84%</b>	<b>75%</b>	<b>133%</b>	<b>100%</b>

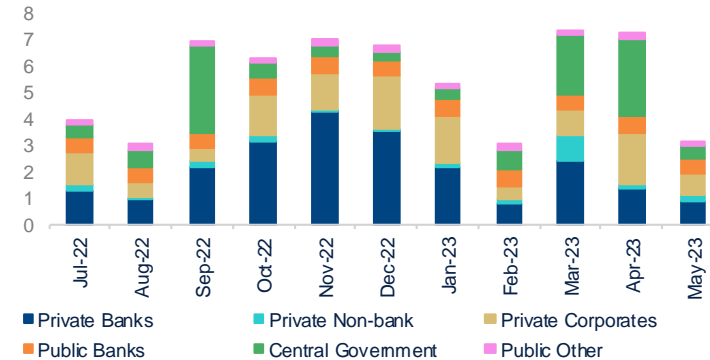
## LT EXTERNAL LOANS ROLL-OVER RATIOS

(12-month rolling)



## EXTERNAL LOANS REDEEMING IN THE NEXT 12M\*

(as of May 2022) (US\$bn)

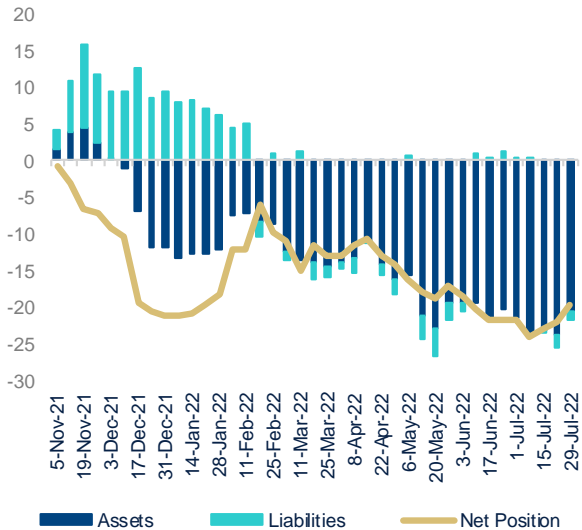


\* Does not include trade credits

# Ongoing recycling of foreign reserves does little to cap fears

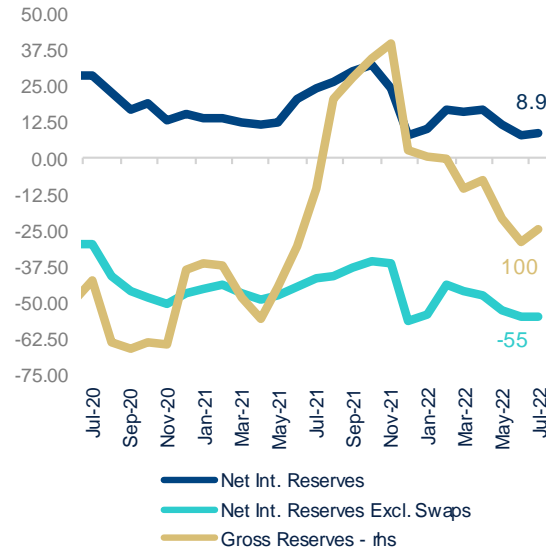
## CBRT INTERNATIONAL RESERVES

CUMULATIVE, OCT-JULY, US\$BN



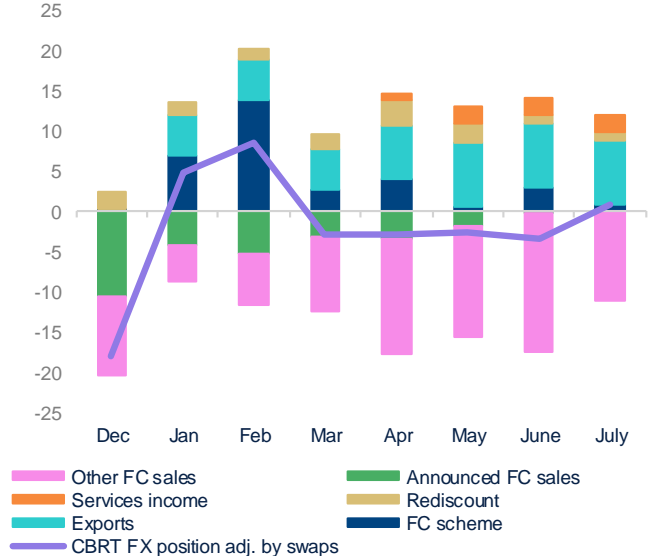
## CBRT INTERNATIONAL RESERVES

US\$BN, as of 29/7



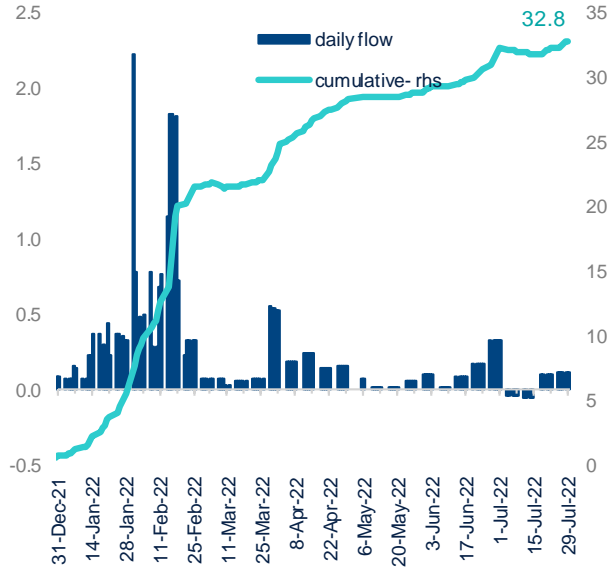
## CBRT FLOWS

US\$bn

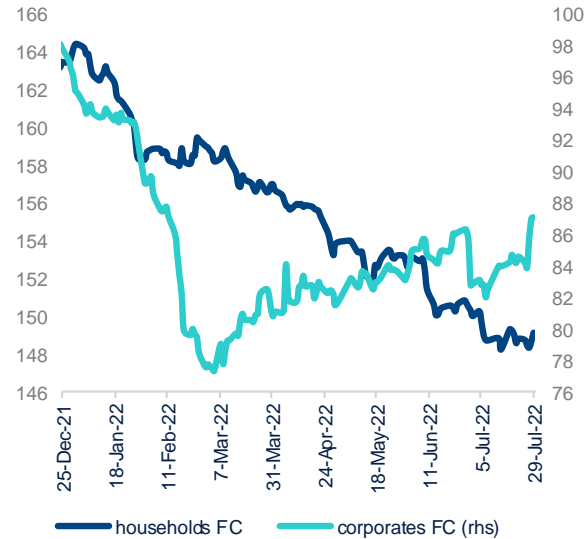


# FC-deposit scheme keeping FC demand alive with lower roll-over rates

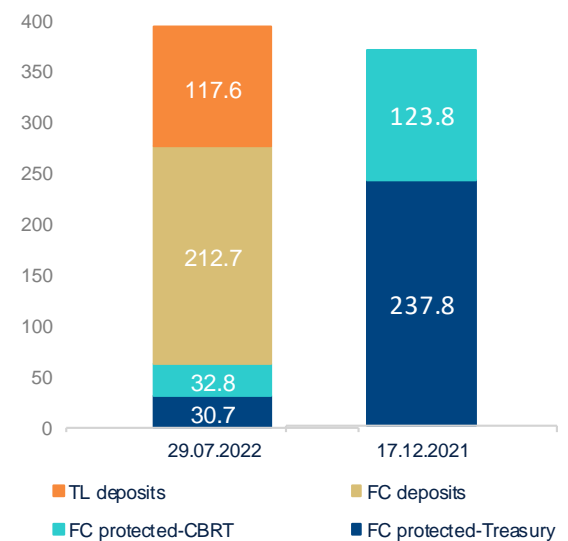
**FC CBRT PROTECTED SCHEME**  
US\$BN, THROUGH CBRT



**FC DEPOSITS OF RESIDENTS**  
US\$BN



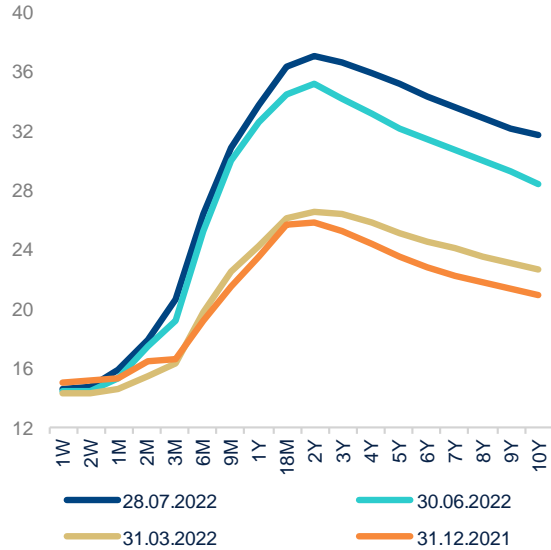
**DEPOSITS OF RESIDENTS**  
US\$BN



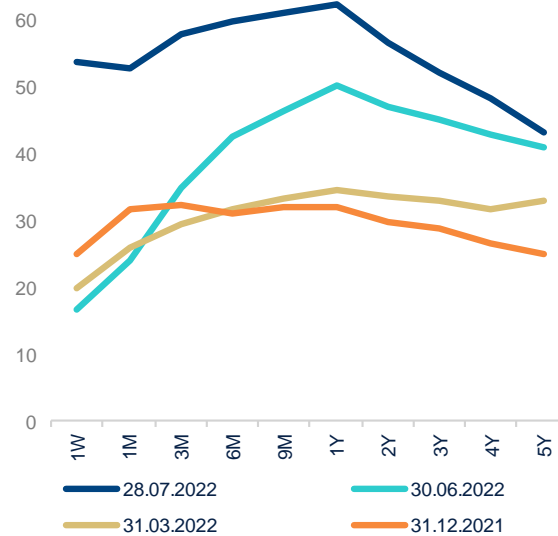


# Markets continue discounting an interest rate reversal before EOY

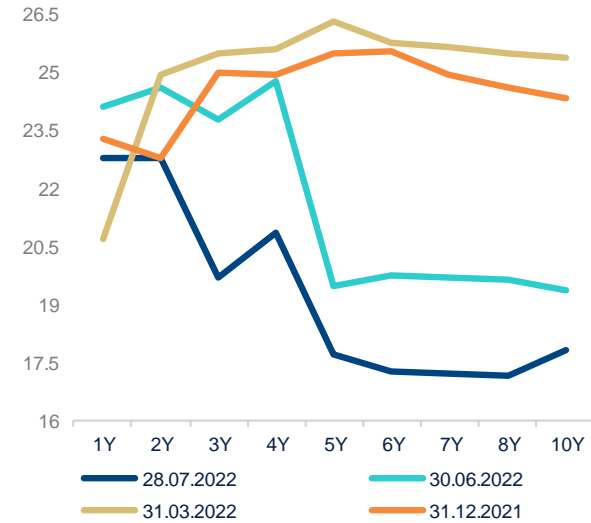
## O/N INTEREST RATE SWAP CURVE, %



## USDTRY FORWARD IMPLIED YIELD CURVE, %



## TL SOVEREIGN YIELD CURVE, %



# Baseline Scenario

	Scenario	2021	2022	2023	2024	2025	2026	2027
GDP growth (avg)	Prev. Base	11.0%	2.5%	3.0%	4.0%	3.3%	3.0%	3.0%
	Baseline		<b>5.0%</b>	<b>3.0%</b>	<b>1.6%</b>	<b>3.8%</b>	<b>3.5%</b>	<b>3.4%</b>
Inflation (avg)	Prev. Base	19.6%	72.1%	33.7%	24.1%	18.6%	16.2%	15.0%
	Baseline		<b>75.4%</b>	<b>43.9%</b>	<b>24.1%</b>	<b>18.4%</b>	<b>16.6%</b>	<b>16.1%</b>
Inflation (eop)	Prev. Base	36.1%	60.0%	30.0%	20.0%	17.5%	15.0%	15.0%
	Baseline		<b>70.0%</b>	<b>33.4%</b>	<b>20.3%</b>	<b>17.0%</b>	<b>16.2%</b>	<b>16.1%</b>
Current Account (% GDP)	Previous	-1.7%	-5.3%	-2.5%	-1.5%	-0.8%	-0.4%	-0.3%
	New		<b>-5.6%</b>	<b>-2.7%</b>	<b>-1.5%</b>	<b>-0.8%</b>	<b>-0.5%</b>	<b>-0.5%</b>
Fiscal Balance (% GDP)	Previous	-2.7%	-6.1%	-6.4%	-6.0%	-5.8%	-5.5%	-5.3%
	New		<b>-4.5%</b>	<b>-4.8%</b>	<b>-5.1%</b>	<b>-4.6%</b>	<b>-4.3%</b>	<b>-4.0%</b>

# Global & Türkiye Economic Outlook

August 2022