Macro-economic situation in Turkey – FILE 2019089
New Economy Program - Macro Forecasts

**GDP Growth (%)**

- 2017 A: 7.4
- 2018 A: 2.6
- 2019 E: 2.3
- 2020 E: 3.5
- 2021 E: 5.0

**Inflation (%)**

- 2017 A: 11.9
- 2018 A: 20.3
- 2019 E: 15.9
- 2020 E: 9.8
- 2021 E: 6.0

**Current Account Deficit / GDP (%)**

- 2017 A: 5.6
- 2018 A: 3.6
- 2019 E: 3.3
- 2020 E: 2.7
- 2021 E: 2.6

**Unemployment (%)**

- 2017 A: 10.9
- 2018 A: 11.0
- 2019 E: 12.1
- 2020 E: 11.9
- 2021 E: 10.8

(Source) Ministry of Treasury and Finance
Turkey’s Economic Performance

- Turkey’s economy expanded by 6.3 percent yoy in the first half of 2018. Lost momentum by contracted 0.6 percent yoy in the second half of the last year.

- In 2018 as a whole, GDP grew by a rate of 2.6 percent, lower than Turkey’s long-run average (2006-2018). Growth was driven by net exports by 3.6 pp.

- Turkey’s GDP came in at 748 billion USD in 2018. The per capita of GDP declined to 9.6k USD.

- In the first quarter of 2019, Turkish economy contracted by 2.6 percent compared to the same period of the previous year. At the same period, net export was the only main expenditure component that contributed positively to the GDP growth by 9.4 pp.

- On the other hand, according to seasonally and calendar adjusted figures, Turkish economy grew by 1.3 percent qoq. Thus, Turkish economy emerges from recession after three quarters.

(Source) Turkstat
Current account deficit (CAD) to GDP was at 3.6 percent as of December 2018. In May 2019, 12-month cumulative CAD declined to 2.4 billion USD, the lowest level since 2003. Current account excluding net energy and gold trade recorded 40.5 billion USD surplus in this period.

Taking the recovery in tourism revenues and the decline in foreign trade deficit into account, the contraction in the current account deficit is expected to continue.

The government is seeking to address the current account deficit via a gradual switch to internal energy sources (coal, renewable energy, nuclear power).

In order to decrease current account deficit, investments in sectors such as pharmaceuticals, energy, petrochemicals, machinery/equipment and software will be prioritized in public incentives.

May 23, 2019: The new finance package "IVME" (advanced, productive, indigenous, industry) will provide a 30 billion Turkish lira (4.9 billion USD) for prioritized medium-high-technology and high-technology products and sectors.

(Source) CBRT
Balance of Payments

Tourism Revenues (bn USD)

- Tourism sector showed signs of improvement

CPI Based Real Effective Exchange Rate

- Real Effective Exchange Rate (REER) Index realised as 72.1 in June 2019, a new low in the series that spans back to 2003

(**) 50% USA + 50%EUR

(Source) CBRT, Ministry of Culture and Tourism

(*) annualised for June 2019
Foreign Trade

**EXports (bn USD)**

- Export volume reached all-time highs

**Imports (bn USD)**

(Source) Turkstat

(*) annualised for June 2019

**EXport of Goods (% share of 2019*)**

- Motor Vehicles
- Textile goods**
- Boilers and machineries
- Iron and steel
- Electrical machinery
- Precious stones
- Articles of iron and steel
- Plastic and articles
- Minerals and fuels
- Fruits and nuts

**Import of Goods (% share of 2019*)**

- Minerals and fuels
- Boilers and machineries
- Iron and steel
- Electrical machinery
- Plastic and articles
- Motor vehicles
- Precious stones
- Organic chemicals
- Optical product
- Pharmaceutical products

(***) combined knitted and non knitted goods, cotton textile

(*️⃣) annualised for June 2019
Foreign Trade

**Top 10 Export Markets (2019*, bn USD)**

- Germany: 15,61
- UK: 10,88
- Italy: 9,20
- Iraq: 8,58
- USA: 8,39
- Spain: 7,80
- France: 7,35
- Netherlands: 4,86
- Israel: 4,02
- Romania: 3,90

**Top 10 Import Markets (2019*, bn USD)**

- Russia: 21,11
- Germany: 17,65
- China: 17,58
- USA: 11,44
- Italy: 8,58
- India: 7,03
- France: 6,01
- Iran: 5,84
- Korea: 5,62
- UK: 5,07

(Source) Turkstat

(*) annualised for June 2019
Foreign Trade

Share in Turkey’s Export Market (%)

- Although Turkey has been successful in diversifying exports towards MENA and Asian markets (with lower demand of Near and Middle eastern), Europe still remains the core destination market.

Turkey Foreign Trade with USA (bn USD)

- In February, Turkish President Recep Tayyip Erdogan and U.S. President Donald Trump set a goal of 75 billion USD in bilateral trade.
- In May, Turkey cuts duties on some US goods by half under the principle of reciprocity, in response to US’s tariff cut on Turkish iron and steel imports to 25% from 50%.

(Source) Turkstat

(*) annualised for June 2019
In the half of 2019, Central government budget deficit surged up by 32.5 billion TRY yoy to 78.6 billion TRY. In this period, budget revenues increased by 14.0% yoy to 403 billion TRY while budget expenditures increased by 20.5% and reached 481.6 billion TRY. And primary budget deficit became 27.8 billion TRY.

A tight fiscal policy should be pursued during the second half of the year in accordance with the tight monetary policy.
Monetary Policy

The CBRT Actions to the Rapid Depreciation of TRY

- Jul.25, 2019: In the MPC meetings, CBRT reduced the policy rate (one week repo auction rate) from 24 percent to 19.75 percent
- May.9, 2019: The upper limit for the FX maintenance facility within the ROM has been lowered from 40 percent to 30 percent. Reserve requirement ratios for FX liabilities have been increased by 100 basis points for all maturity brackets. Suspending the one-week repo auctions for a two weeks
- Mar.22, 2019: suspending the one-week repo auctions for a two weeks
- Sep.31, 2018: In the MPC meetings, CBRT hiked the policy rate (one week repo auction rate) from 17.75 percent to 24 percent

- Due to higher food prices and oil prices as well as the weakness in Turkish lira, annual consumer price index inflation runs in double-digits.

(Source) CBRT, Turkstat
Leading Indicators

Manufacturing Purchasing Managers’ Index

- PMI is likely to remain low and continue to signal for further economic slowdown.

Industrial Production (seasonally adjusted)

- Moderate recovery in industrial production in the first quarter of this year.

(Source) CBRT, Turkstat, Markit Economics
Banking Sector

Composition of Banking System Liabilities (Total 100%)

- TRY Deposits: 25%
- FX Deposits: 17%
- Bank Payable: 13%
- Equity: 11%
- Issued Securities: 5%
- Other: 29%

*2019 June

The Share of TRY in Loans and Deposits (%)

Loan to Deposit Ratio - LDR (%)

TRY: 144.7%
FX: 83.7%
Total: 111.7%

Loan Growth Rates (yoy, excluding parity effect)

Corporate Loans: -
Consumer Loans: -

(Source) BRSA Financial Reports
Banking Sector Profitability

**Profitability Indicators (%)**

- **Return on Assets**
- **Return on Equity (right axis)**

- Banking sector profitability recovered since 2015

**External Debt Roll-Over Ratio (%)**

- **Banking Sector**
- **Others**

- Continuous access to international funding sources

(Source) BRSA Financial Reports, CBRT
Banking Sector Capital

**TR Banking Sector Capital Adequacy Ratio (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
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<tr>
<td>2017</td>
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<td>2018</td>
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<tr>
<td>2019</td>
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</tbody>
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- The sector maintained a strong capital base, with a capital adequacy ratio in compliance with Basel III at 17.73% according to the BRSA as of June 2019.
- Turkish banking sector has relatively high bank capital to assets ratio considering G20 countries.

**G20 Bank Capital to Assets Ratio (2017, %)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Arabia</td>
<td>15,4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>15,2</td>
</tr>
<tr>
<td>Argentina</td>
<td>12,3</td>
</tr>
<tr>
<td>USA</td>
<td>11,7</td>
</tr>
<tr>
<td>Turkey</td>
<td>10,7</td>
</tr>
<tr>
<td>Russia</td>
<td>10,5</td>
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<tr>
<td>Mexico</td>
<td>10,4</td>
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<td>Brazil</td>
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<tr>
<td>S. Africa</td>
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<tr>
<td>China</td>
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<td>EU</td>
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<tr>
<td>Japan</td>
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</tr>
<tr>
<td>Canada</td>
<td>5,3</td>
</tr>
</tbody>
</table>

(Source) BRSA Financial Reports, World Bank
Healthy Banking Sector

TR Banking Sector Non Performing Loans To Cash Loans Ratio

- NPL’s have trended up in line with current economic conditions
- Turkish banking sector is in a relatively better position based on NPL ratio
- June 12, 2019: Turkey to extend new 4.3 billion USD loan package to companies. Twelve Turkish banks will offer companies a total of 25 billion lira (4.31 billion USD) as part of a Treasury-backed loan package.

G20 Banking Sector NPL Ratio (2017, %)

(Source) BRSA Financial Reports, World Bank