

A Quick Look at the Turkish Economy Risks, Opportunities and Prescriptions

E. Murat Ucer March 1, 2018

In Summary...

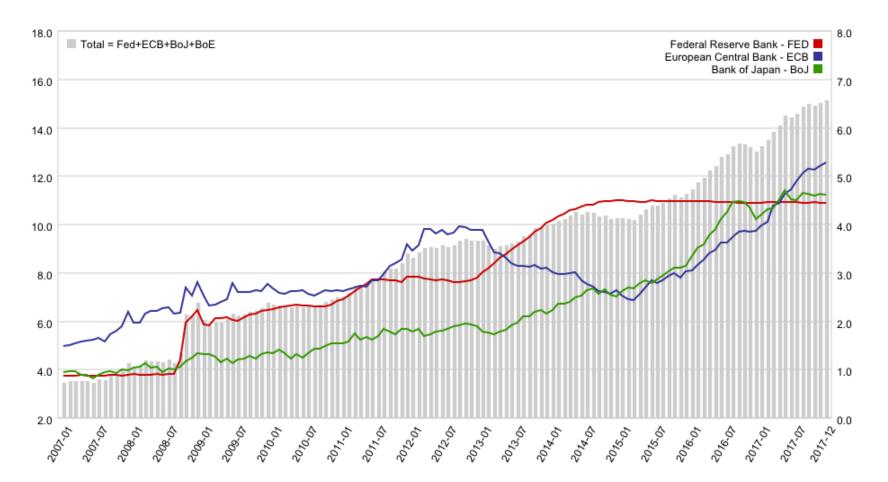
- The global environment is changing...
- The Global Financial Crisis of 2008-09 has been mainly fought by central banks, easier monetary policies, while global growth was mediocre until recently...
- Now global economy is expanding in a 'synchronized' fashion, central banks are feeling more confident about ending stimulus; longer term rates are rising as a result from historic lows...
- There are multiple risks ahead such as geopolitics, long term productivity concerns, income and wealth inequality, protectionism, populism, Chinese deleveraging, 'monetary normalization' so on...
- Yet, the end of 'ultra-easy money' period appears to have come...
- This poses a challenge for Turkey...

In Summary...

- Turkish economy has been growing fast and shown resilience, but there are quality issues with the "growth model"...
- Construction sector, credit, private consumption and last year's massive stimulus (fiscal, CGF) -- have been the key growth drivers...
- We've been quite dependent on foreign money. Since 2010, for instance, our cumulative current account deficits amounted to \$390 billion, our external debt rose by about \$200 billion to around \$440 billion, while the corporate sector total debt rose by another 30 pps to 70% of GDP...
- We are faced with a "Turkish Trilemma": How compatible are our very ambitious growth targets, high external financing requirement and hightension politics?
- Looking to elections (of March/ November 2019) for the answers...

Balance sheet downsizing/tapering underway...

Major CB Balance Sheet Sizes (in trillion dollars)

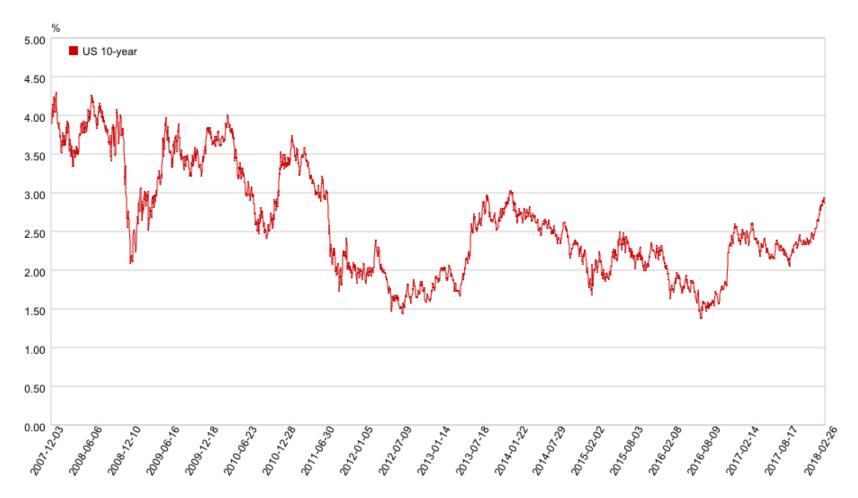


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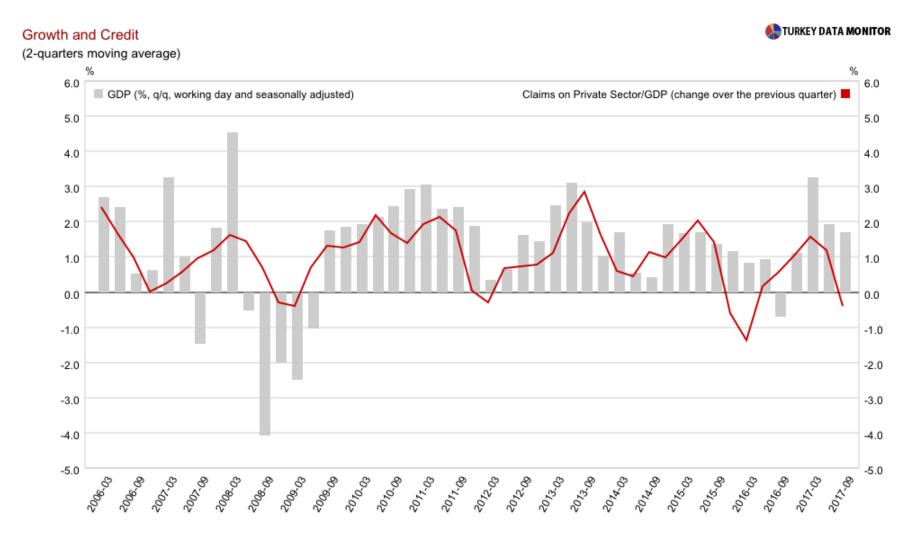
U.S. 10-year moving higher...

U.S. 10-Year Rate

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We grew fast, but growth looks dependent on credit...



Corporate sector debt rose quite rapidly...

% 80.0 70.0 60.0 50.0 40.0 30.0 20.0 10.0 0.0 <005-03 2008-09 2000.08 200,03 2002-20 <005-00 2003.0° 2004.03 2004, 12 <002.00 2008.08 <00×12 <009.08 2010.03 2010.12 2017.09 2012.08 2013.03 2013. 12 2016.12 2014.03 2015.06 2016.03 2012,0g

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Corporate Sector Domestic and External Debt (% of GDP)

But now, credit growth has slowed...

Loan Growth: Private and Public Banks (FX adjusted, 13-week moving average, annualized)

55.0 Total Banking Sector Public Banks 50.0 Private 45.0 40.0 35.0 30.0 25.0 20.0 15.0 10.0 5.0 0.0 2012-01-06 87,204,2> 87,204,2> 87,204,2> 87,204,2> 87,202,20

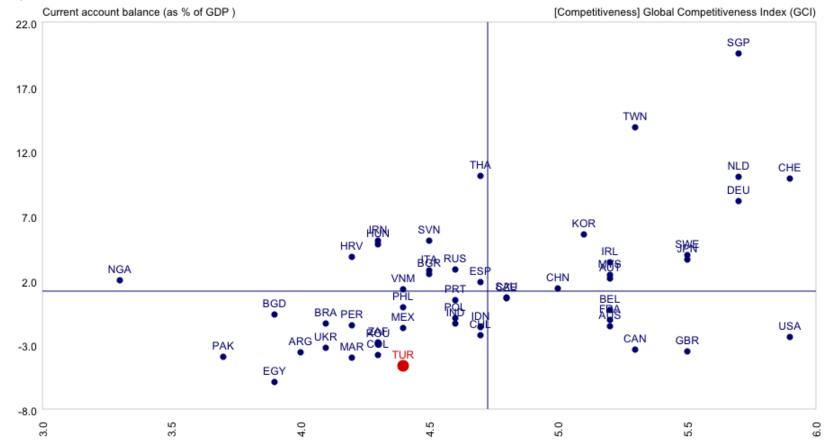
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We have a large current account deficit because...



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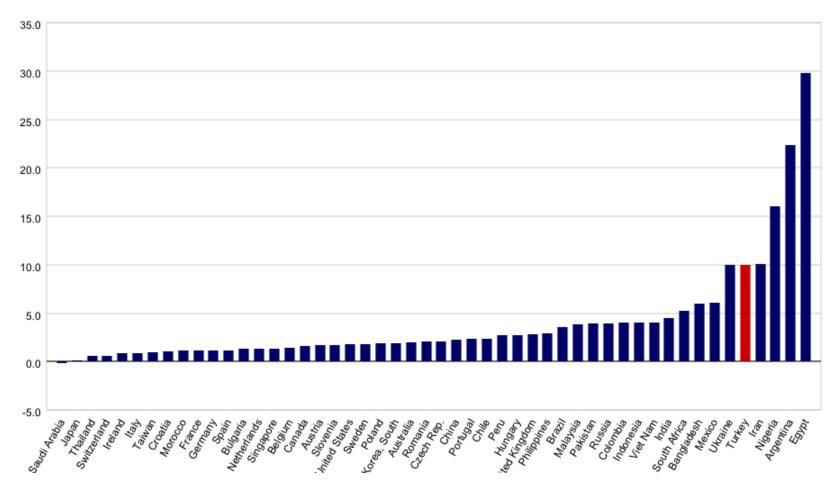
TDM 50, 2017



Our inflation rate is also high by global comparisons...

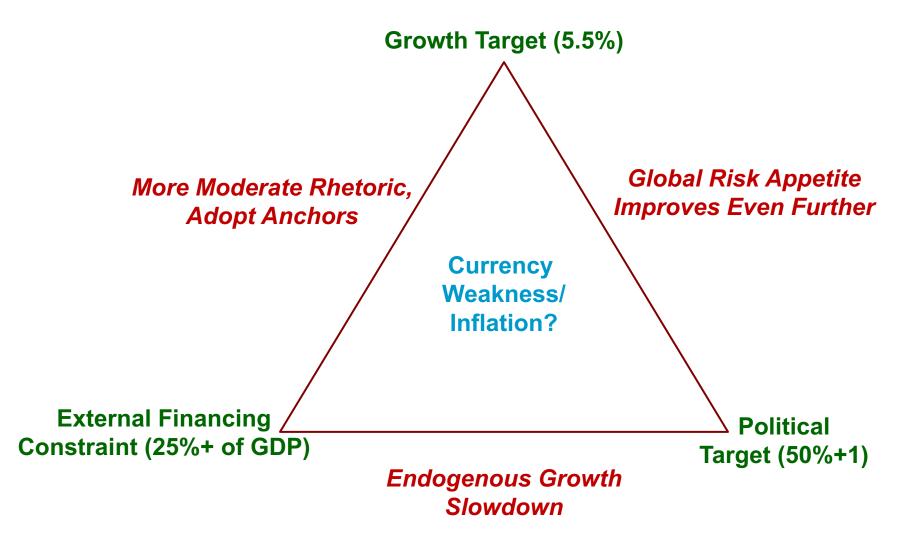
Inflation, end of period consumer prices

TDM 50, 2017



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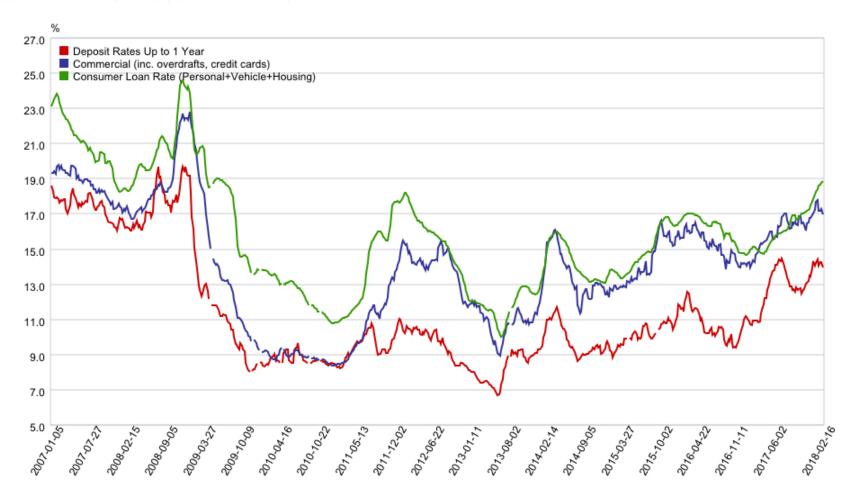
Faced with a "Turkish Trilemma"?



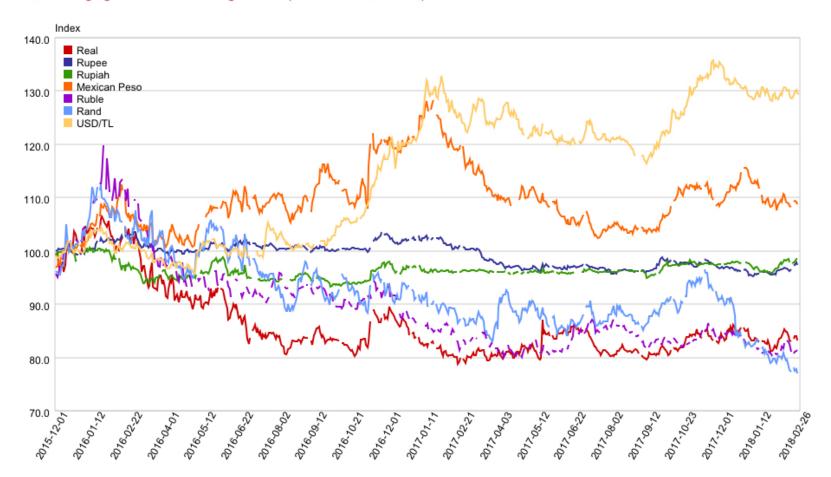
High rates are a result of this Trilemma, perhaps?

Deposit and Lending Rates (%, TL, 4-week MA)

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Likewise, so is a weaker lira?



Selected Emerging Markets -- Exchange Rates (December 2015=100)

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What to do?

- Adjustment...
- Reform...
- Consensus...



GlobalSource Partners

708 Third Avenue 18th Floor, Suite 1801 New York, NY 10017

info@globalsourcepartners.com www.globalsourcepartners.com

+ 1 212 317 8015 Phone + 1 212 317 8318 Fax

Turkey Data Monitor

Konaklar Mahallesi, Selvili Sokak Emlak Bankası Apartmanı 1/2, Daire:13, Kat:4, 4. Levent, Istanbul

murat@turkeydatamonitor.com www.turkeydatamonitor.com

+ 90 212 283 1275 Phone + 90 212 283 1275 Fax

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