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

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## 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...

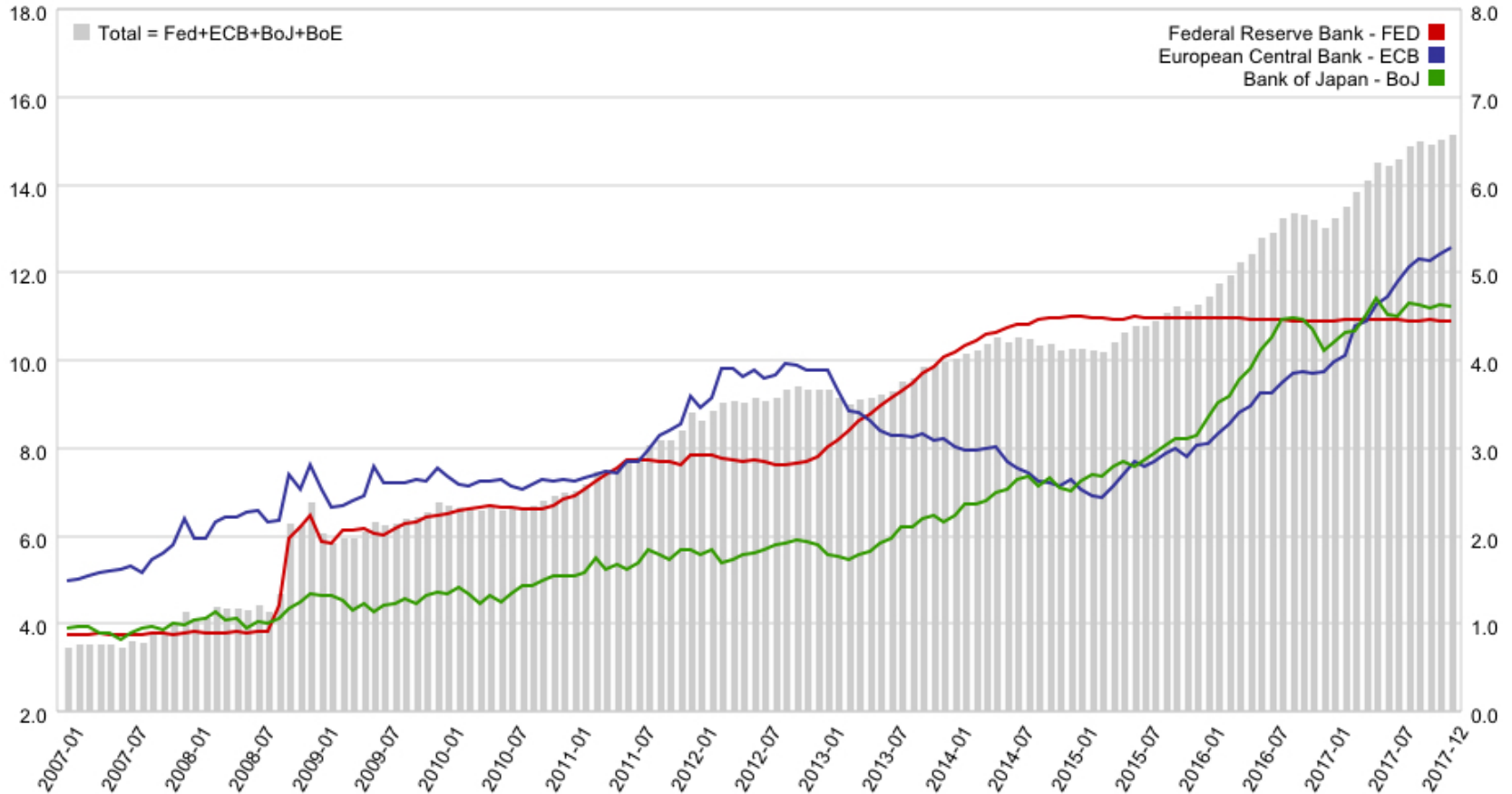
## In Summary...

- 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 high-tension politics?
- Looking to elections (of March/ November 2019) for the answers...

# Balance sheet downsizing/tapering underway...

Major CB Balance Sheet Sizes (in trillion dollars)

TURKEY DATA MONITOR



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

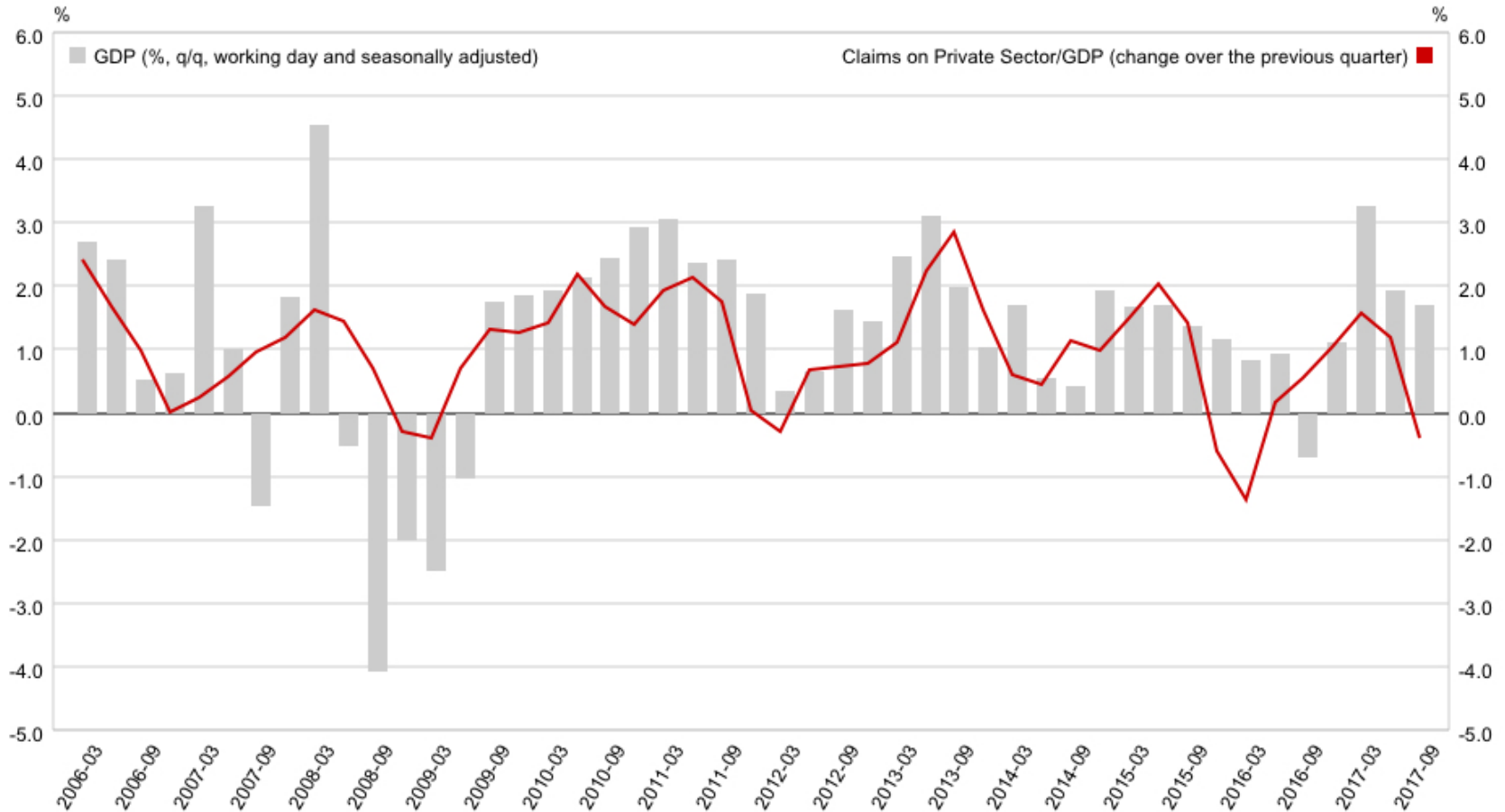
U.S. 10-Year Rate



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

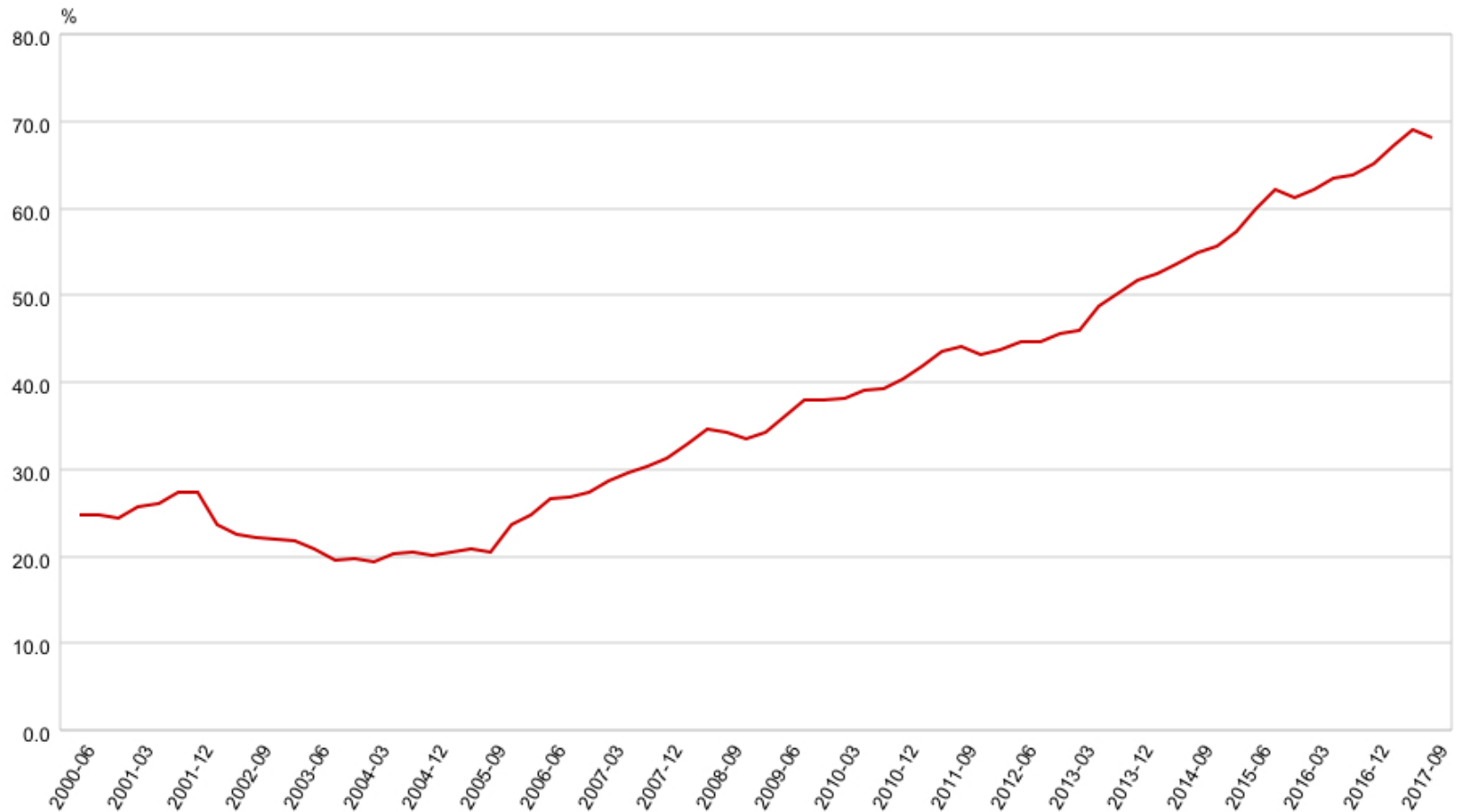
## Growth and Credit

(2-quarters moving average)



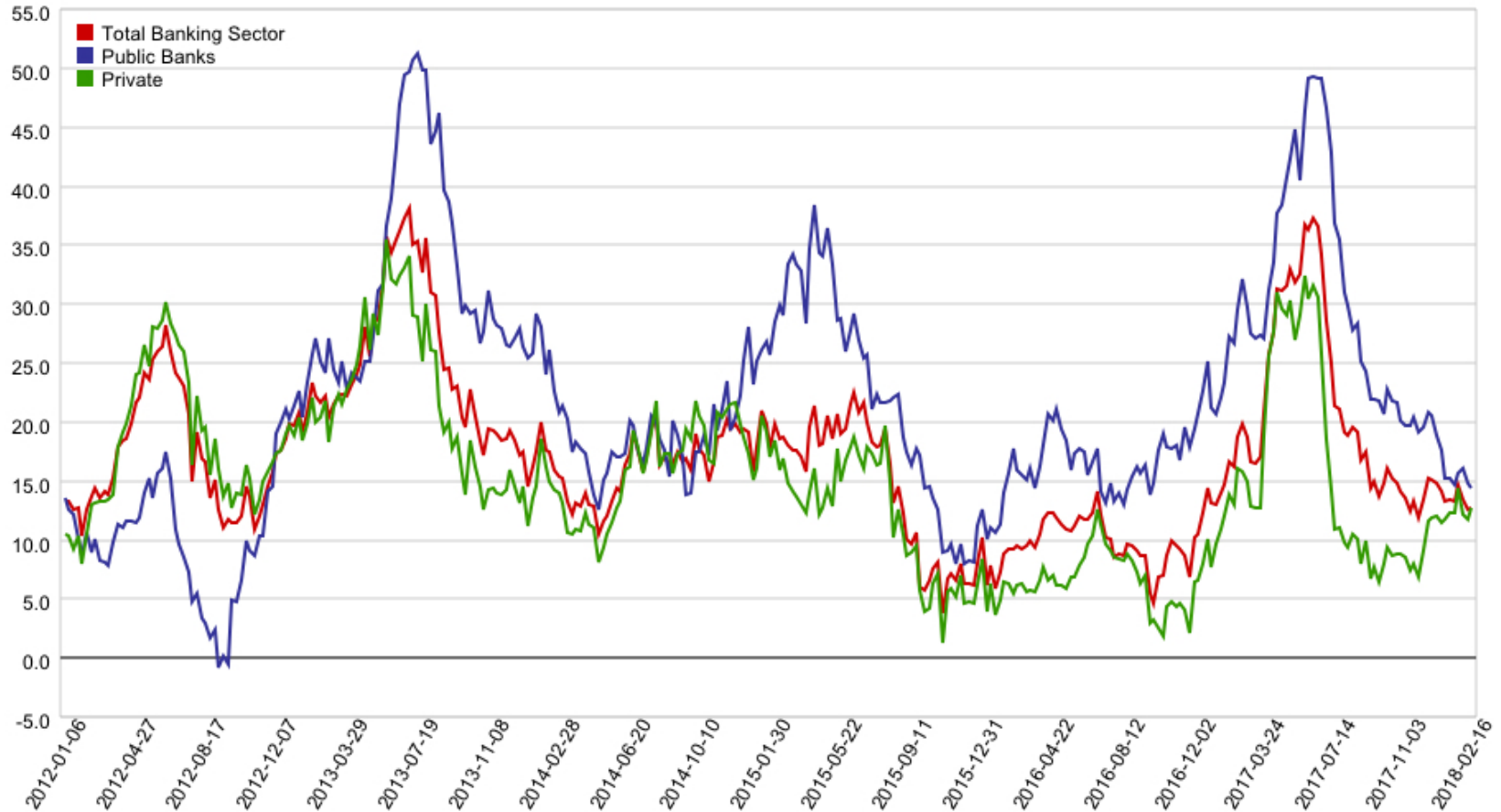
# Corporate sector debt rose quite rapidly...

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)



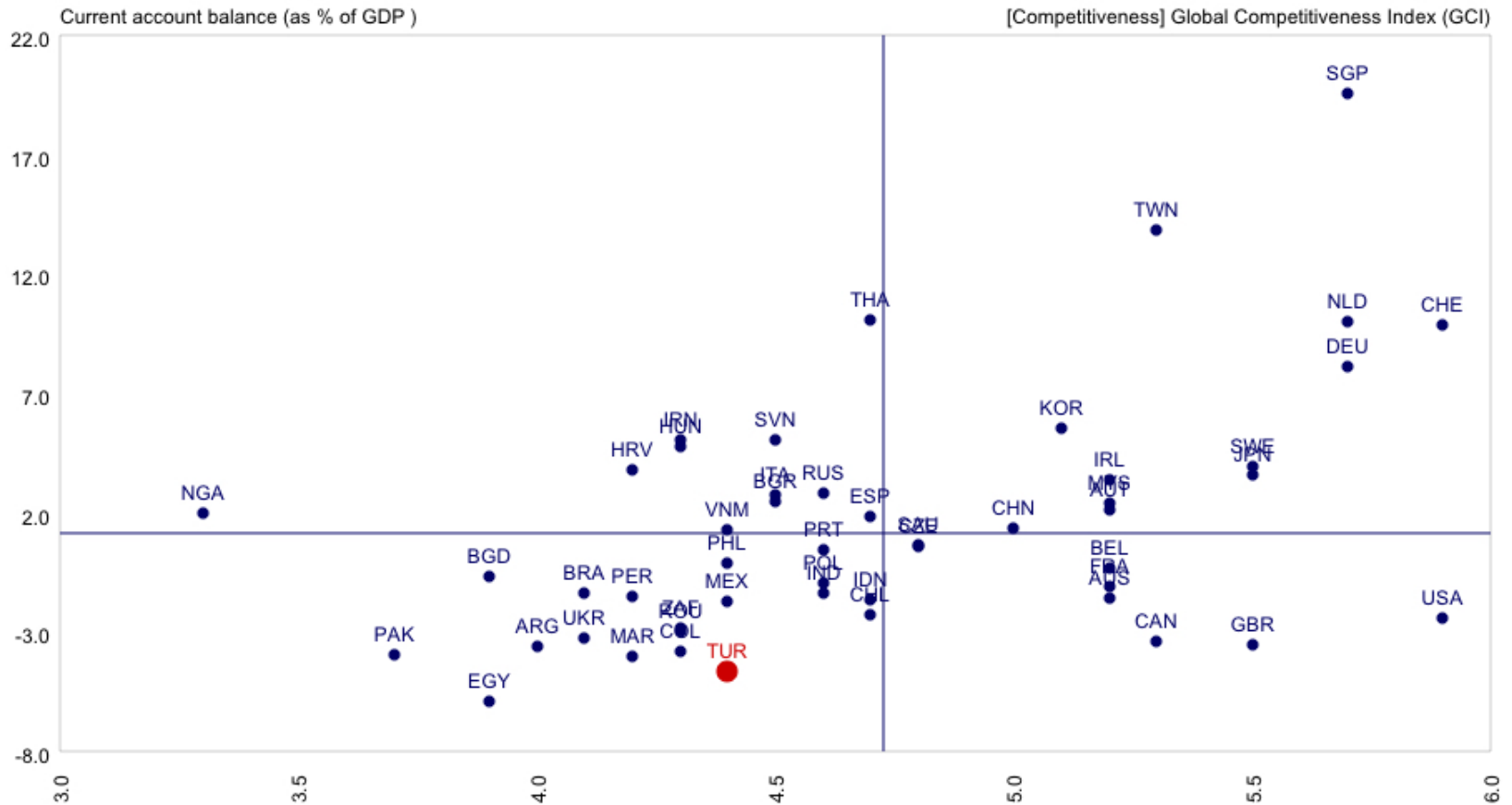


# We have a large current account deficit because...

Current account balance (as % of GDP) / Global Competitiveness Index

TURKEY DATA MONITOR

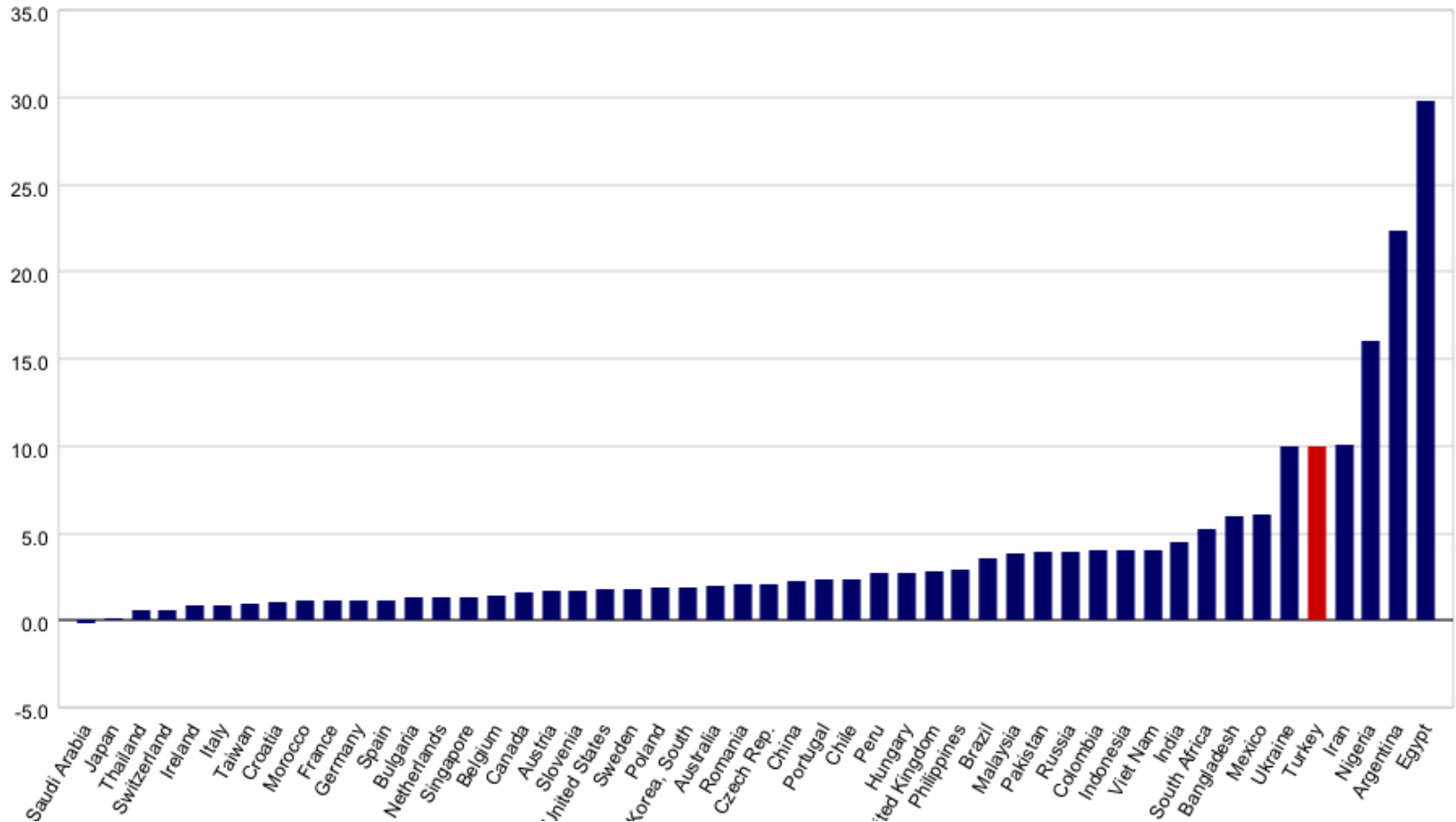
TDM 50, 2017



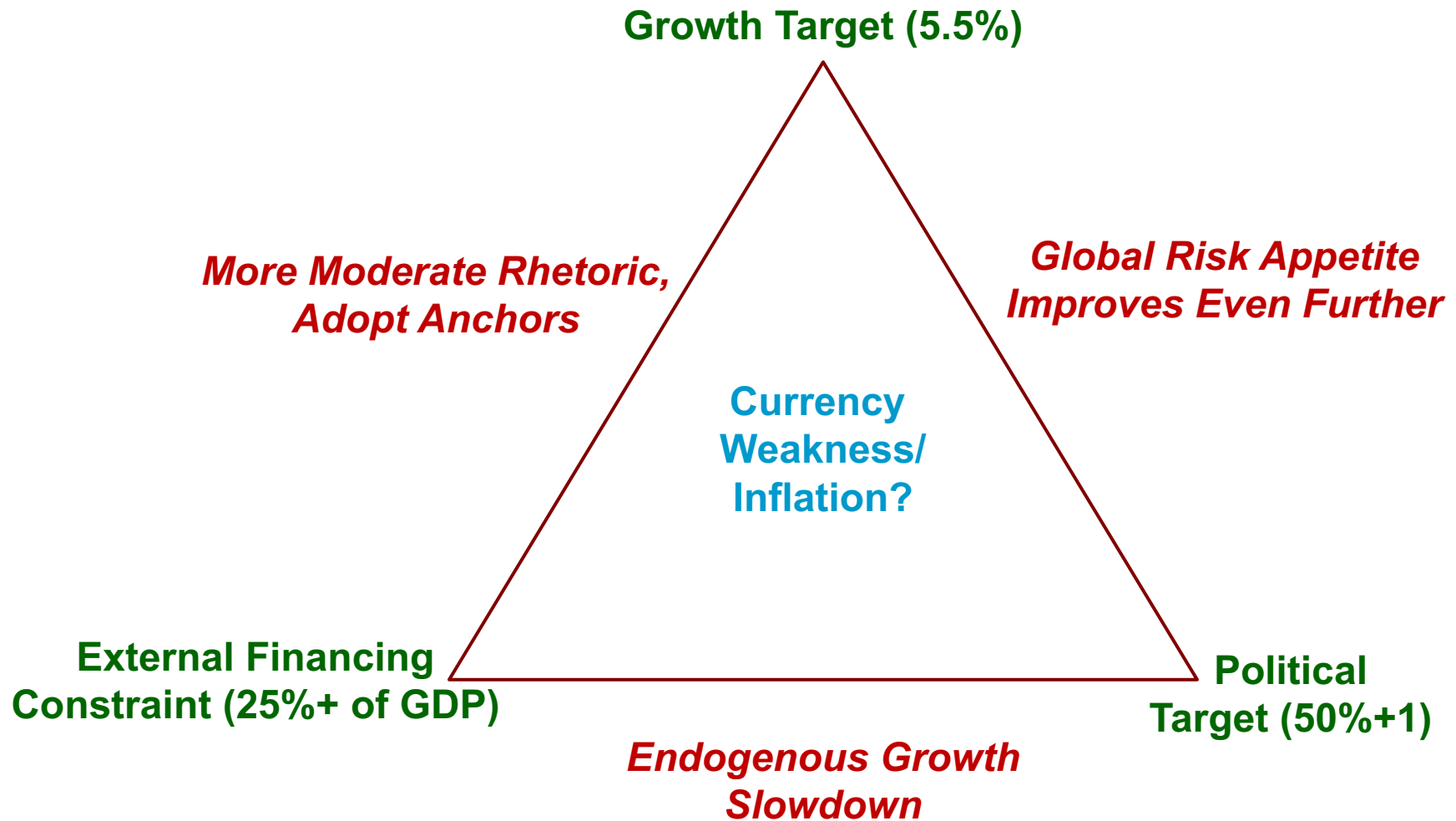
# Our inflation rate is also high by global comparisons...

Inflation, end of period consumer prices

TDM 50, 2017

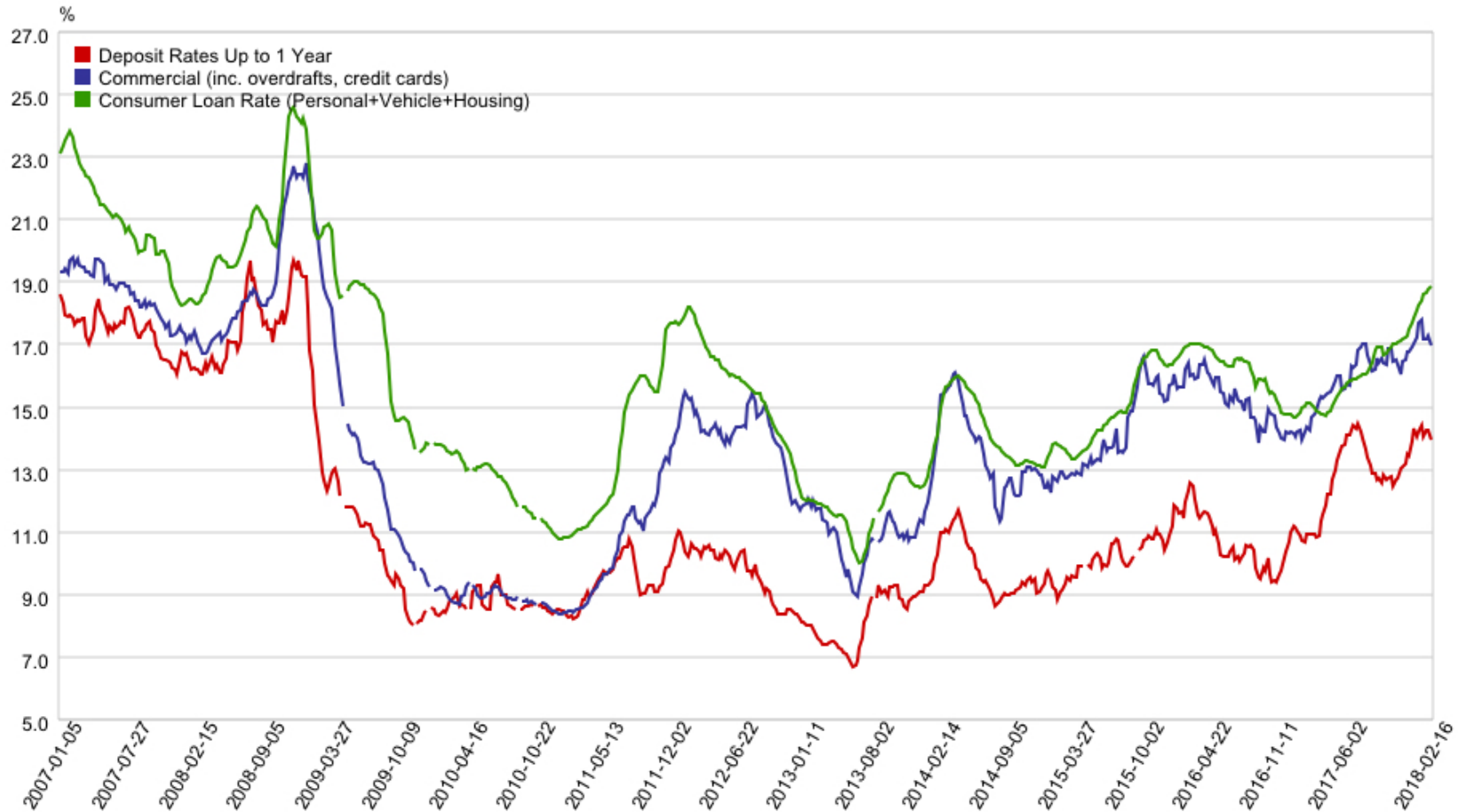


# Faced with a “Turkish Trilemma”?



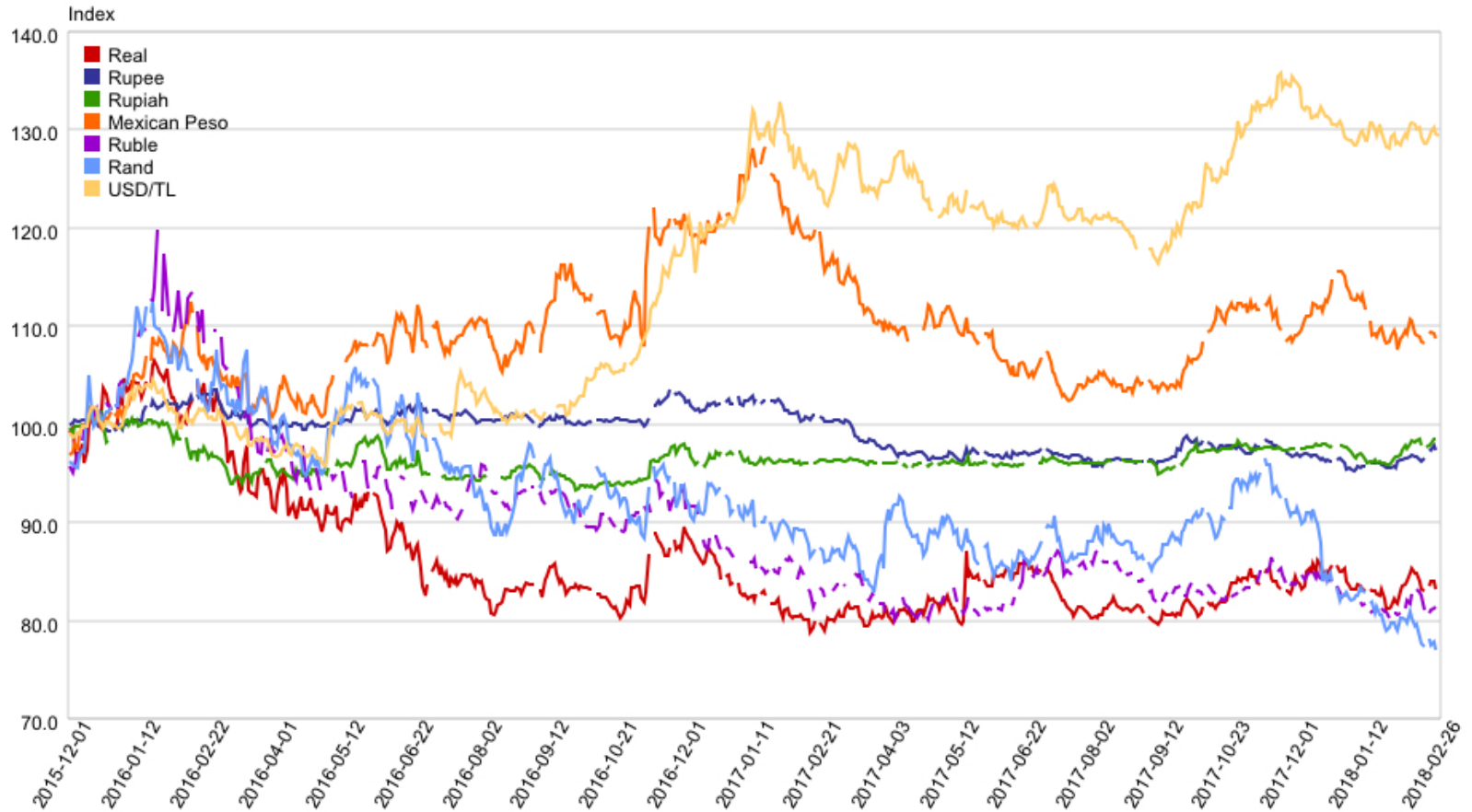
# High rates are a result of this Trilemma, perhaps?

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



# Likewise, so is a weaker lira?

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



## What to do?

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



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