

Türkiye Economic Outlook

Garanti BBVA Research

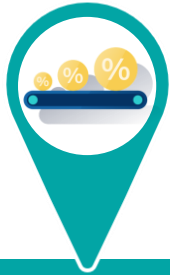
December 2023

01

Global Economic Outlook & Projections

A soft landing of both growth and inflation is likely to pave the way for cautious rate cut cycles, which are closer now but are not imminent yet

BBVA RESEARCH BASELINE SCENARIO



Growth and inflation slowdown

Growth and inflation will **ease** on extra demand weakening, given no extra supply shocks, but risks are still significant



Cautious central banks

Fed/ECB are not expected to **cut rates before Jun/24**; anyway, quantitative tightening will remain in place



Financial volatility

Volatility will continue on high interest rates, still hawkish central banks and economic and (geo)political uncertainty

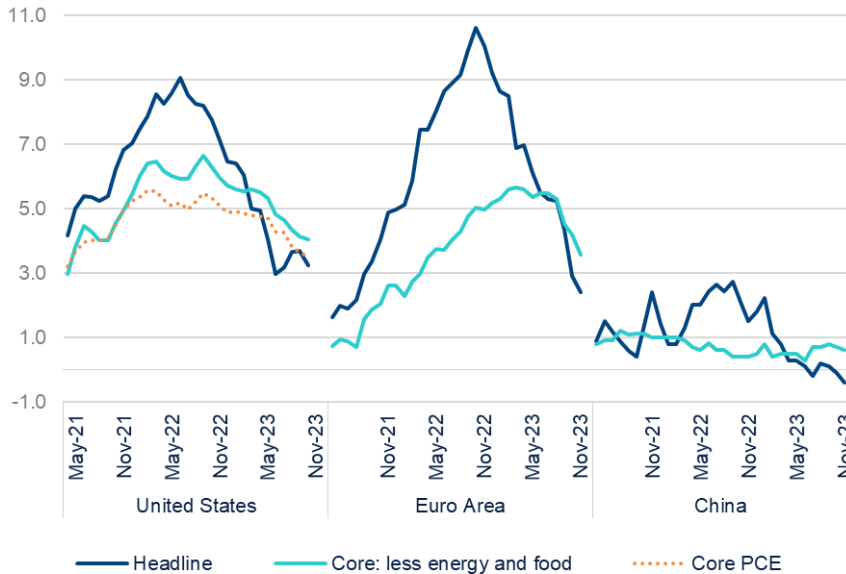


Geopolitical tensions

Increasing risks, but large economic impacts are not assumed; Middle-East conflict to have negative but limited impact on energy prices

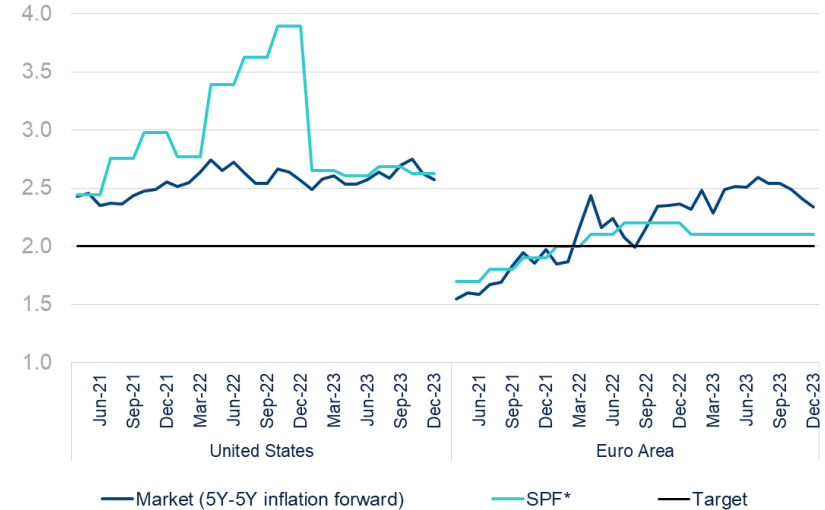
In November, EZ headline and core inflation rates saw significant declines, surpassing expectations; inflation in the US also continued to ease

CORE AND HEADLINE INFLATION (% YOY)



Source: Haver and BBVA Research

INFLATION EXPECTATIONS (% YOY)



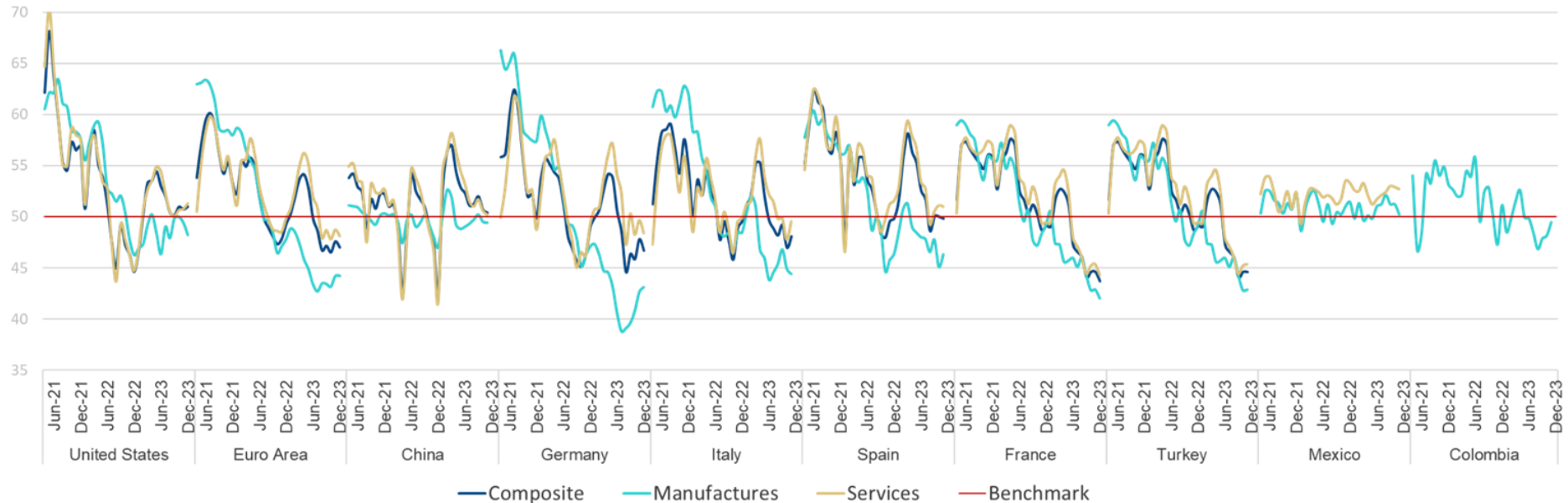
SPF for US: 5-Y annual-average rate of headline CPI inflation, for EA; refers to 2027 5Y5Y Nov avg. up to 11th of December

Source: SPF: Philadelphia Fed and ECB

PMIs have yet to rebound, remaining at low levels within contraction territory in the EZ. China and the US are dragging their feet, hovering around 50

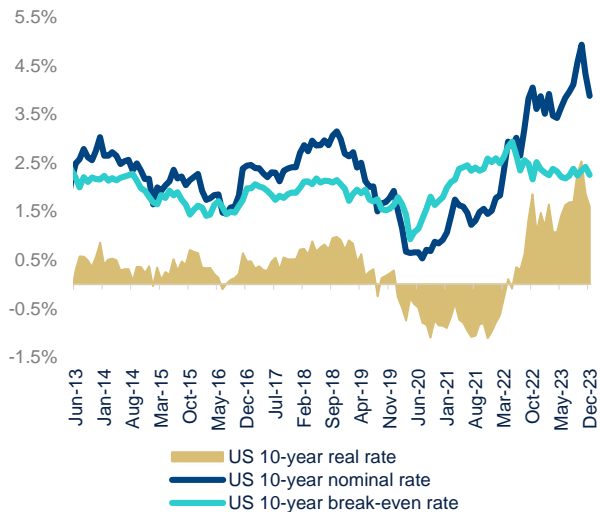
PMI INDICATORS

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

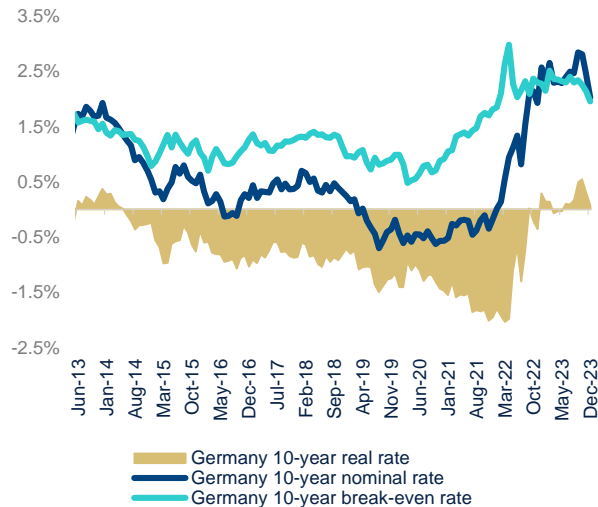


Global yields declined as the impact of monetary tightening has started to be more clearly seen on real rates

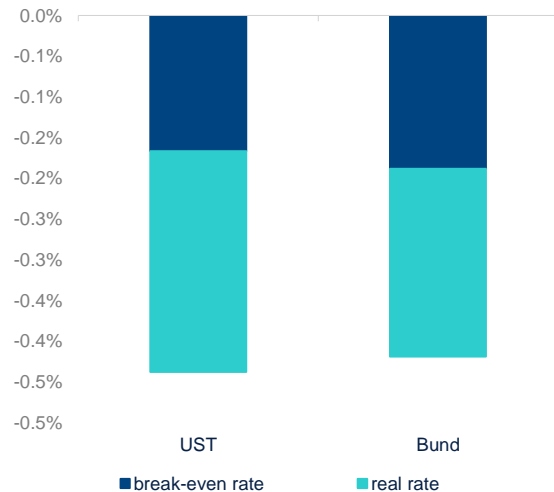
US 10Y SOVEREIGN YIELD, %



GERMANY 10Y SOVEREIGN YIELD, %



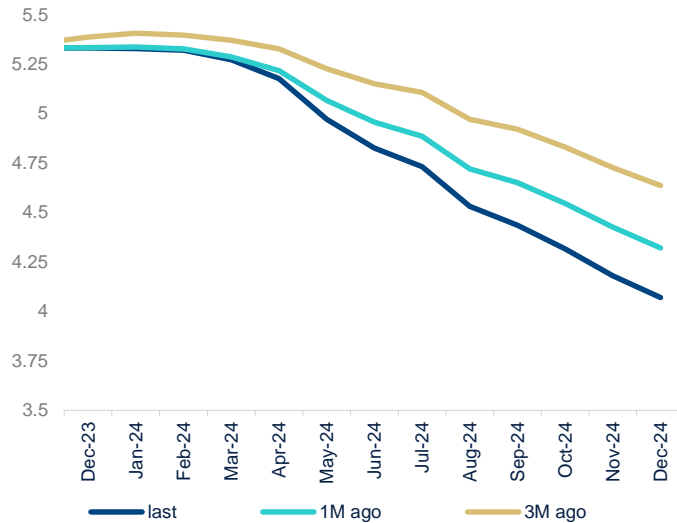
LATEST FALL IN UST & BUND BONDS % %, from end Nov23 to Dec23



Markets price the start of the easing cycle in Apr24 for ECB and May24 for FED, implying 130bps cut from Fed and even more from ECB in 2024

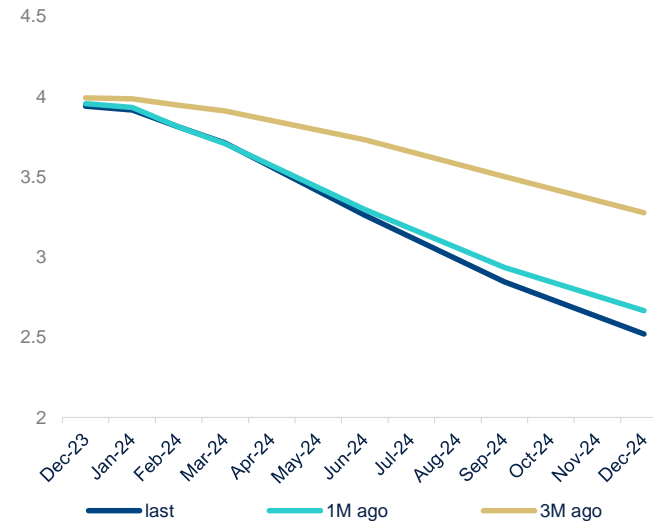
US: IMPLICIT RATE IN FED FUND FUTURES

(%)



EZ: IMPLICIT RATE IN 3M EURIBOR FUTURES

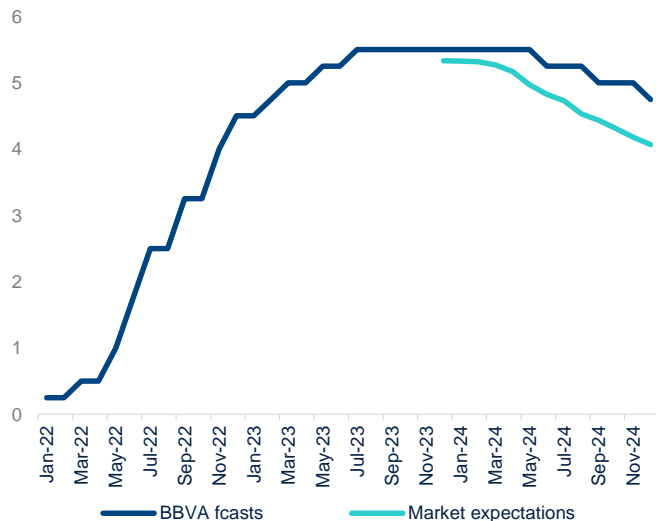
(%)



Upward bias to our expectation of three rate cuts from FED next year; ECB to bring forward the first rate cut to Jun24 (vs. Sep24)

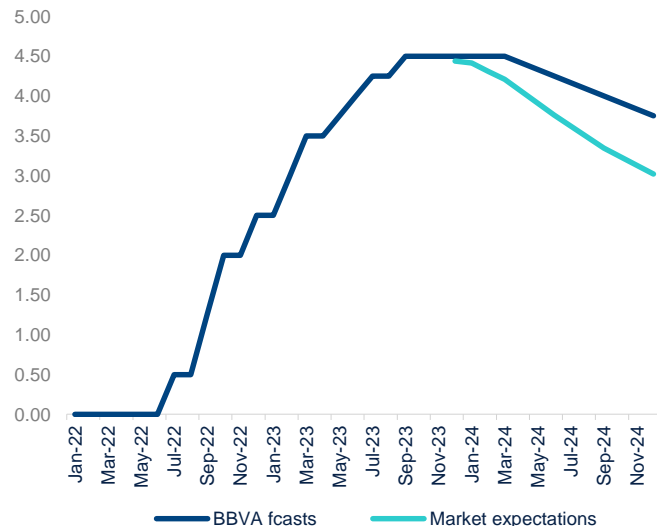
FED FUNDS RATE OUTLOOK

(UPPER LIMIT OF THE TARGET RANGE, %)



Rates: Bias to bring forward the first rate cut to March (vs. June, 75 bps cut to reach 4.75% by Dec24)

ECB: REFI RATE FORECASTS (%)



Rates: Bringing forward the first rate cut to Jun24 (vs. Sep24)

QT: ECB to cut PEPP portfolio by EUR 7.5bn monthly in H2 2024, totaling EUR 45bn. Plan to end reinvestments by end of 2024

Bias to lower rates in the US and in the EZ

				BBVA			Analysts* Forward Vol. **					
				Forecast	Prev.	Bias						
BONDS	10Y YIELD US	Lower uncertainty on the fed funds rate path has brought down rates along the yield curve; we fine-tuned our forecasts on much lower current rates and somewhat softer inflation.	Current	3.91%	Dec-24	4.16%	4.36%	↓	3.98%	4.14%	■	
			Last month	4.44%	Dec-25	3.71%	3.91%	↓	3.60%	4.19%	■	
	10Y YIELD GER	Downward revision of the German curve due to an earlier rate cut cycle by the ECB, as well as downward revision on inflation, and the drag effect of the UST curve.	Current	2.05%	Dec-24	2.30%	2.55%	↓	2.26%	2.16%	■	
			Last month	2.59%	Dec-25	2.20%	2.45%	↓	2.15%	2.23%	■	
	SPAIN	10Y RISK PREMIA (bps)	Spanish risk premia to increase towards levels consistent with fundamentals. An earlier-than-expected PEPP roll-off puts an upward pressure on the Spanish risk premia. Global and idiosyncratic factors could intensify the convergence to equilibrium	Current	96	Dec-24	120	=	=			■
		Last month	100	Dec-25	125	=	=				■	
10Y YIELD	Downward revision in line German curve revision	Current	3.01%	Dec-24	3.50%	3.74%	↓	3.60%		■		
		Last month	3.59%	Dec-25	3.45%	3.70%	↓	3.50%		■		
FX	EURUSD	Long-term tendency towards higher levels	Current	1.10	Dec-24	1.12	=	=	1.12	1.09	■	
	Last month	1.09	Dec-25	1.18	=	=		1.15	1.11	■		
	MXN	Going forward, we expect the MXN to slightly depreciate due to a reduction of the (MX-US) spread. However, strong macroeconomic fundamentals will continue to be supportive.	Current	17.23	Dec-24	18.5	=	=	17.82	18.55	■	
Last month	17.23	Dec-25	19.1	=	=		17.75	19.53	■			
TRY	Steady depreciation and maintenance of regulations for a longer period of time. Bias to less intense depreciation path in 2024	Current	29.06	Dec-24	42.0	=	↓	33.25	39.56	■		
Last month	28.66	Dec-25	47.5	=	=		37.50	48.43	■			

* Bloomberg median

** Vol. = volatility at 60 days of the daily variation (color indicates the level of volatility over the last two months)

Biases: to the upside: higher rates and more depreciated currencies, except the euro (upward bias more appreciated euro)

Biases: to the downside: lower rates and more appreciated currencies, except the euro (downward bias more depreciated euro)

Light green new forecast

■ Very high

■ High

■ Neutral

■ Low

■ Very low

Long run equilibrium rates

Inflation

- Inflation converging to the central bank objective in medium term (2%)
- “Structural” inflationary pressures could be on the rise (supply side: deglobalization, climate change)

r^*

- **Germany:** In medium term, a higher r^* is expected from the current levels of -0.66%. Our estimations of r^* suggest a convergence to around 0.4% in the long term
- **US:** Discussions on the current FED’s own projection of 0.5%

Term premium

- **The 10-year German term premium** is expected to be slightly higher than the average from 2008 to the present (0.42%):
 - higher uncertainty of both inflation and monetary policy paths and on potential growth
 - higher supply: fiscal conditions, higher Treasury issuances
 - lower demand: lower demand from domestic (QT) and foreign CBs, demand tilts to more risk-averse participants
- **The 10-year US term premium** is expected to be 0.2% in near term, which would rise to 0.7% in a higher inflation scenario and weaker foreign demand & Fed

German BUND: Inflation (2%) + R^* (0.4%) + Term premium (0.5%): levels of 2.75 - 3%

UST: Inflation (2%) + R^* (0.5%) + Term premium (0.2%): levels of around 2.7%

EURUSD: long-term tendency towards higher levels (no changes)

EURUSD PROJECTIONS



	Probability						
	-70%	-50%	-25%	Base	25%	50%	70%
Dec-24	1.01	1.05	1.08	1.12	1.16	1.20	1.24
Nov-25	1.05	1.09	1.13	1.17	1.22	1.26	1.32

SHORT TERM RISKS (WEAKER EURO)

- EZ and global economic challenges, weak sentiment
- Robust domestic cycle could continue supporting the USD
- Israel conflict closer to Europe

SHORT TERM SUPPORT TO THE EURO

- EUR may appreciate if markets reassess the aggressive cuts in '24 toward a softer rate-cut cycle

LONG TERM TENDENCY

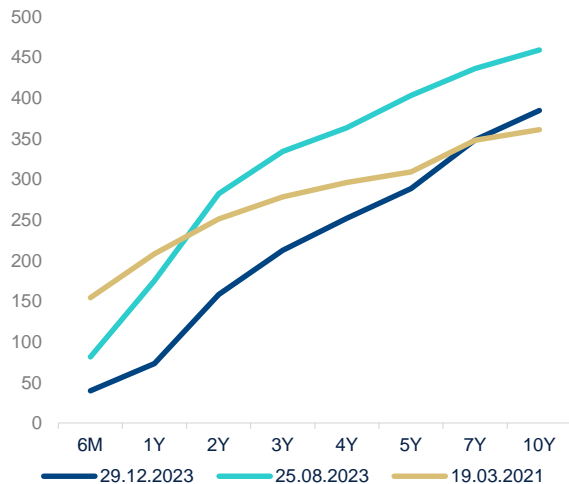
- Euro may appreciate gradually due to rate differentials
- Geopolitical factors could pose EUR downside risks

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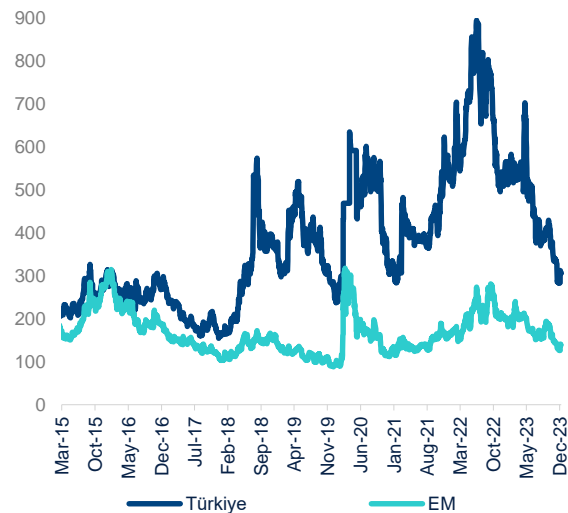
Türkiye Economic Outlook & Projections

CDS curve fell down significantly, off-shore TL rates declined below OIS swap rates, extension of swap limits expected to take place after election

TÜRKİYE CDS CURVE
(BPS)

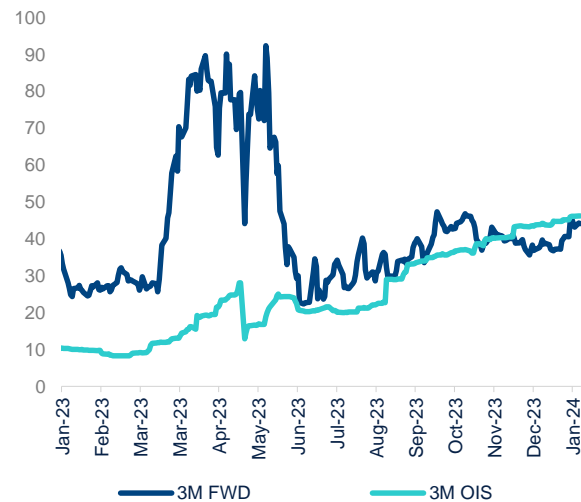


TÜRKİYE'S 5-YEAR CDS WRT PEERS*
(BPS)



*Chile, Colombia, Mexico, Brazil and South Africa

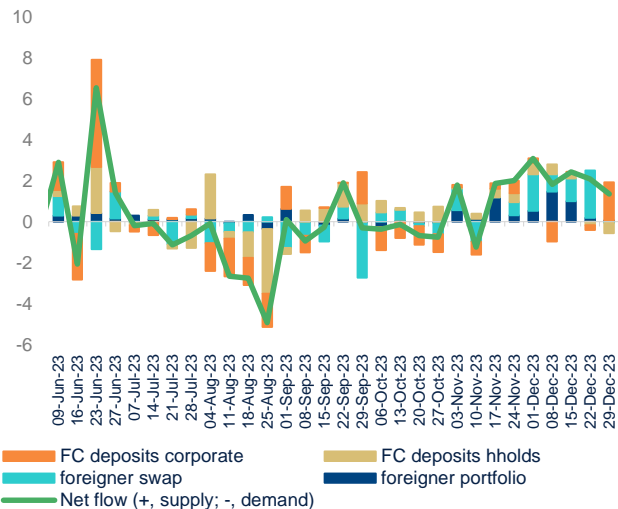
3M USDTRY FWD IMPLIED & 3M TRY OIS
YIELD, %



Foreigners' portfolio inflow substantially gained pace since early November

FC FLOWS OF SUPPLY & DEMAND

US\$BN, WEEKLY, ADJ. FROM PRICE EFFECTS

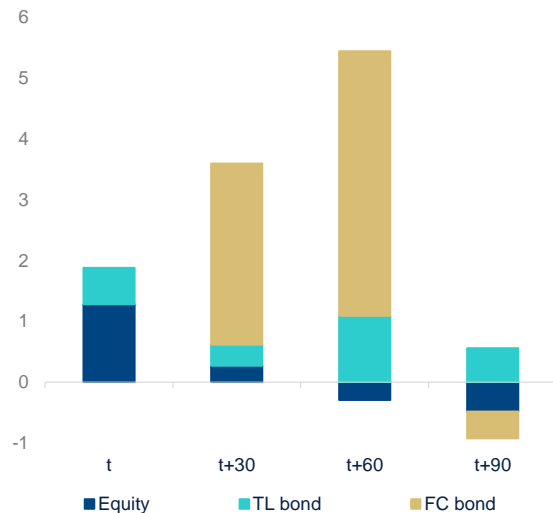


foreigners' inflow between Oct 27- Dec 29

1.9bn\$ equity
3.5bn\$ bond
6.7bn\$ swap

PORTFOLIO FLOWS* ON BOP FINANCING

US\$BN, days after T= Agbal's appointment in Nov20

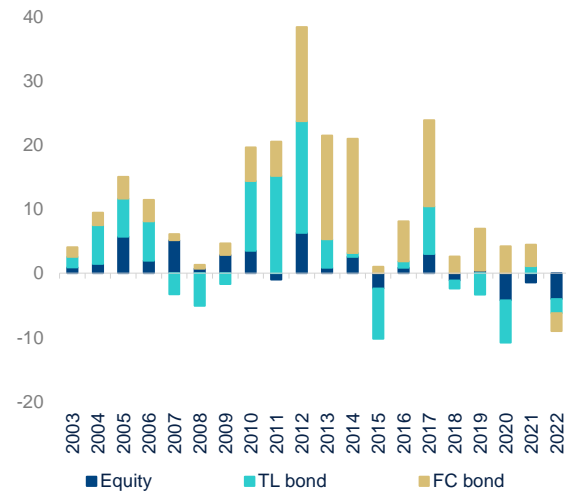


Between Nov 2020 - Mar 2021:
10bn\$ portfolio inflow

Between Jun-Oct 2023:
1bn\$ equity + 0.5bn\$ TL bond + 2.8bn\$ FC bond
Nov23: 2.5bn\$ Treasury's issuance

PORTFOLIO FLOWS* ON BOP FINANCING

US\$bn

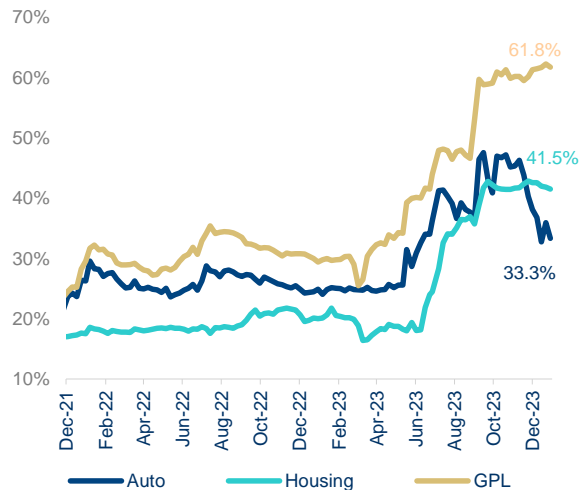


Max levels in 2012:
6.3bn\$ equity
17.4bn\$ TL bonds

More competitive environment on lending activity, NIM remains under pressure, excess TL liquidity absorbed by reinforced quantitative tightening

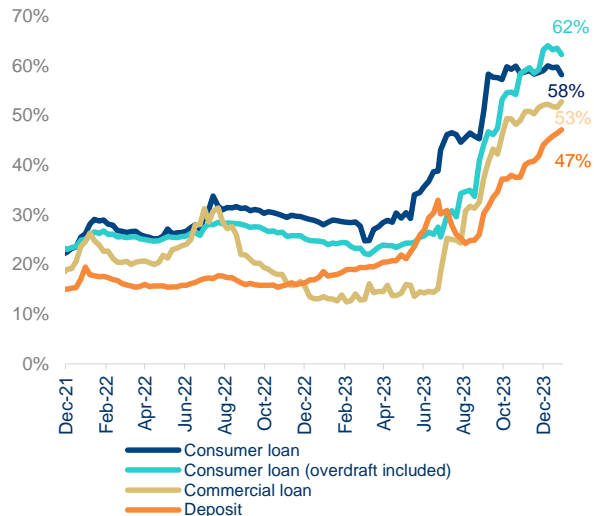
CONSUMER INTEREST RATES

%, flow, sector



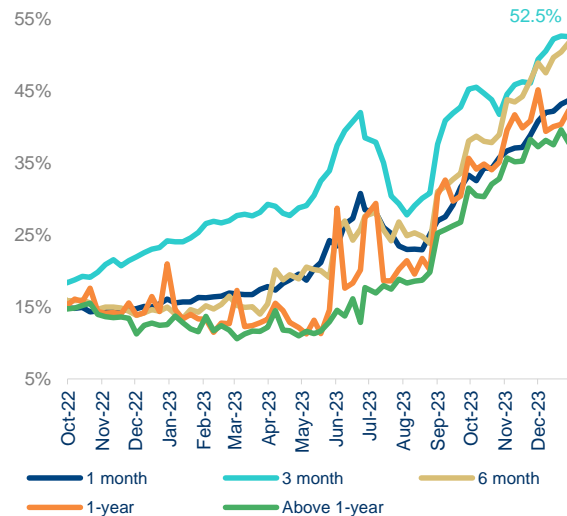
CONSUMER & TL COMMERCIAL RATES

%, flow, sector



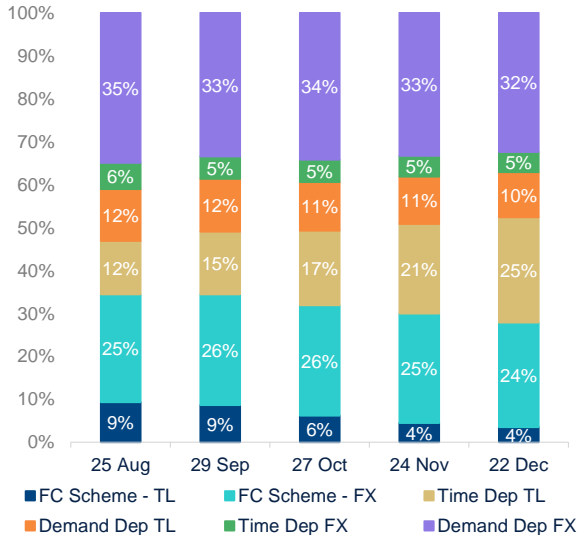
TL DEPOSIT INTEREST RATES

%, flow, sector



Dollarization tendency, including originally FC savers, has started to come down but very slowly

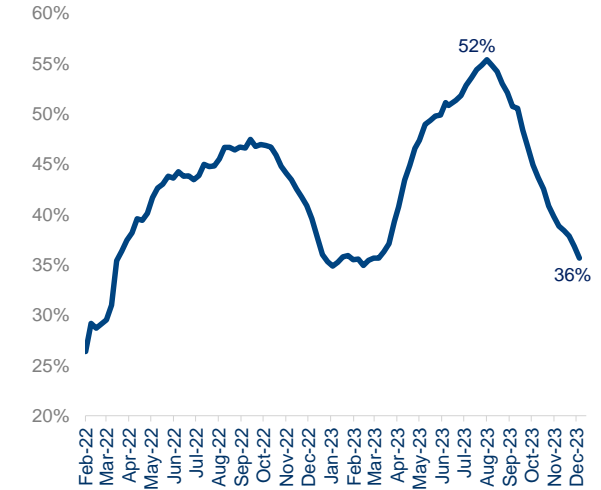
DISTRIBUTION AMONG DEPOSITS
(% share in total, Garanti BBVA Clients)



DEPOSIT DOLLARIZATION RATIO
(Garanti BBVA clients, including FC scheme, %)



SHARE OF FC SCHEME IN TL TIME DEPOSITS
(% in sector)



Private banks push for competition in TL lending, whereas public banks are aggressive on FC lending. In overall terms, lending remains limited

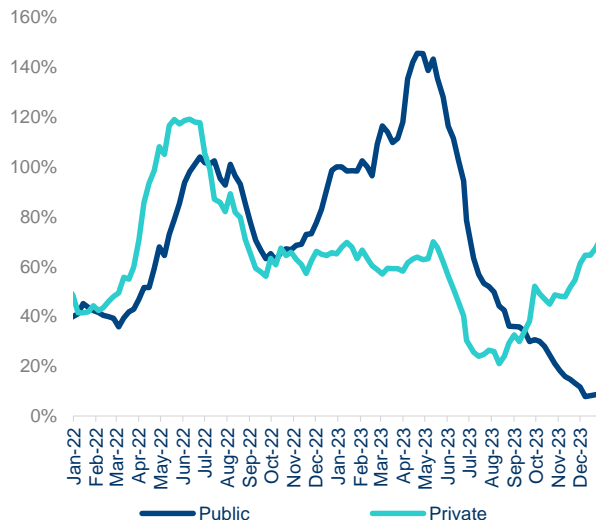
SECTOR FX ADJ. CREDIT GROWTH

13-week annualized, sector



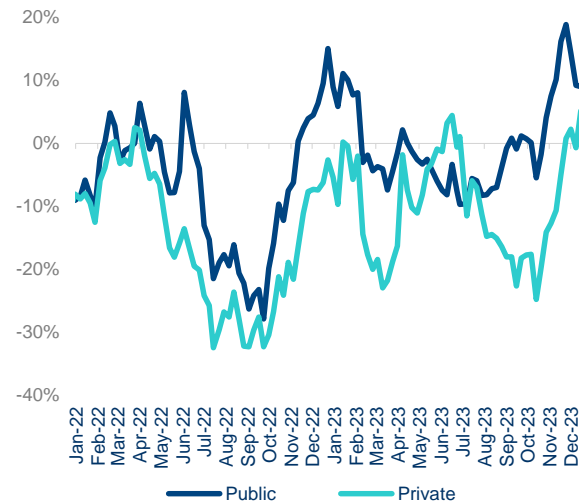
TL CREDIT GROWTH

13-week annualized



FC CREDIT GROWTH

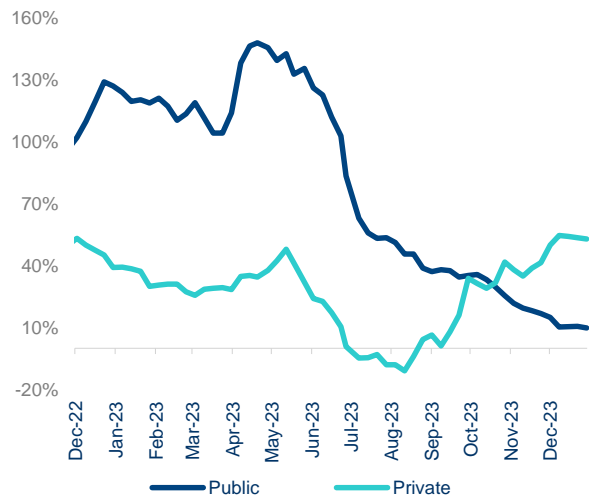
USD, 13-week annualized



Private banks' aggressiveness is seen mostly on TL commercial lending

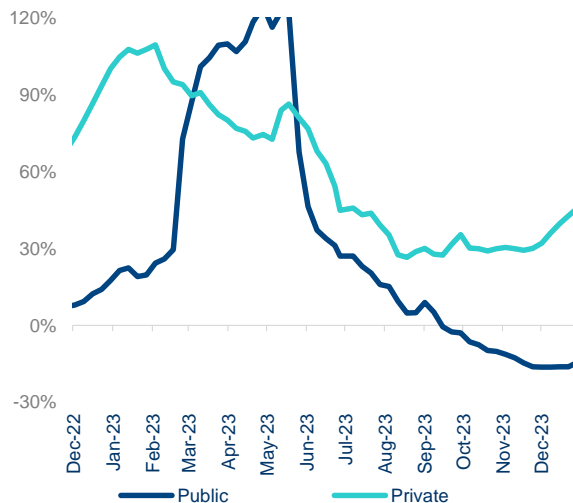
TL COMMERCIAL LENDING GROWTH

13-week annualized



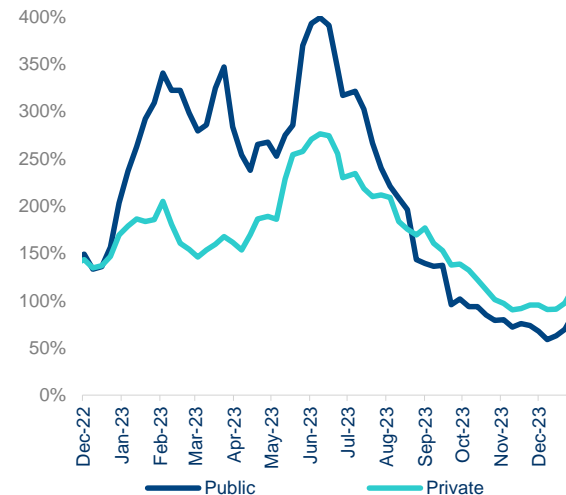
CONSUMER CREDIT GROWTH

13-week annualized, without credit cards



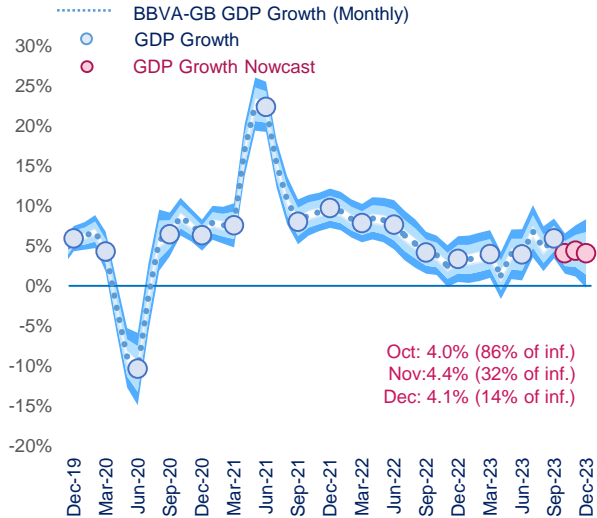
CONSUMER CREDIT CARDS GROWTH

13-week annualized

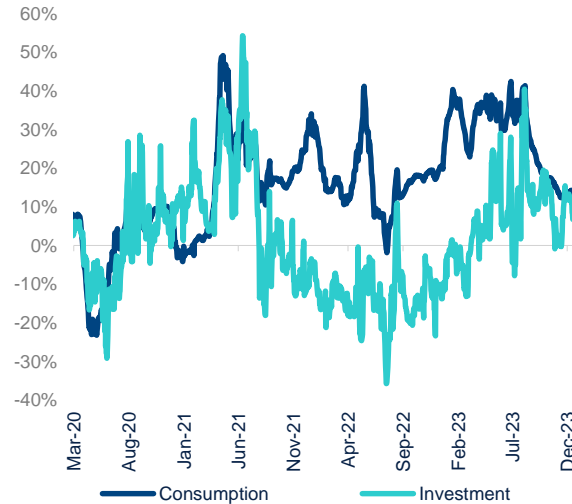


Mild negative quarterly GDP growth rate in 4Q with decelerating but still solid domestic demand, goods consumption seems to stabilize

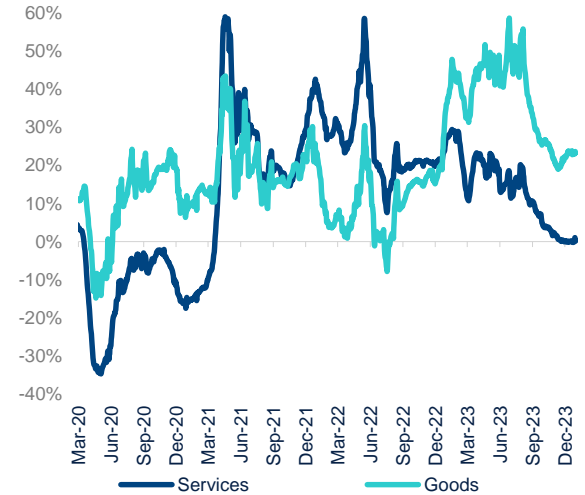
GARANTI BBVA MONTHLY GDP INDICATOR*
YOY, 3M MOVING AVG.



GB BIG DATA DOMESTIC DEMAND
(REAL, 28-DAY SUM, YOY)

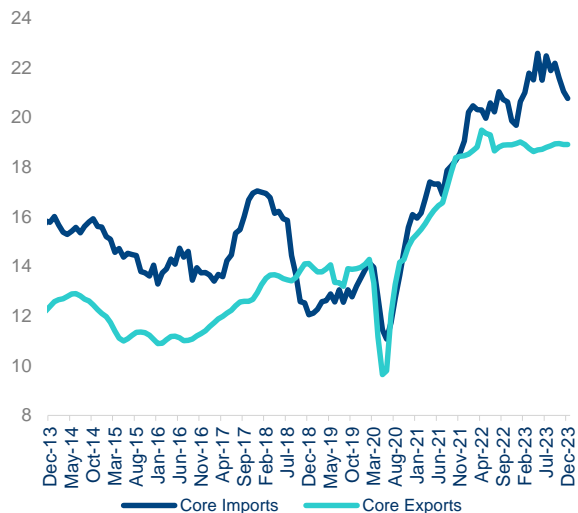


GB BIG DATA CONSUMPTION
(REAL, 28-DAY SUM, YOY)

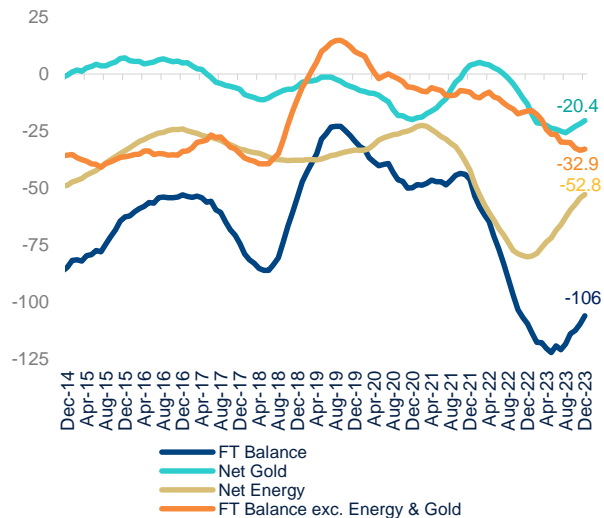


Core import demand declines only gradually, real appreciation contains the required adjustment on current account balance

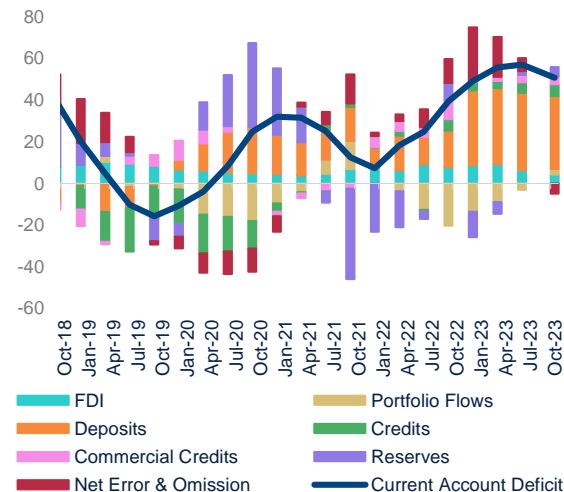
GOODS EXPORTS & IMPORTS
(EXC ENERGY & GOLD, SA 3M AVG, US\$BN)



GOODS FOREIGN TRADE BALANCE
12-MONTH, US\$BN

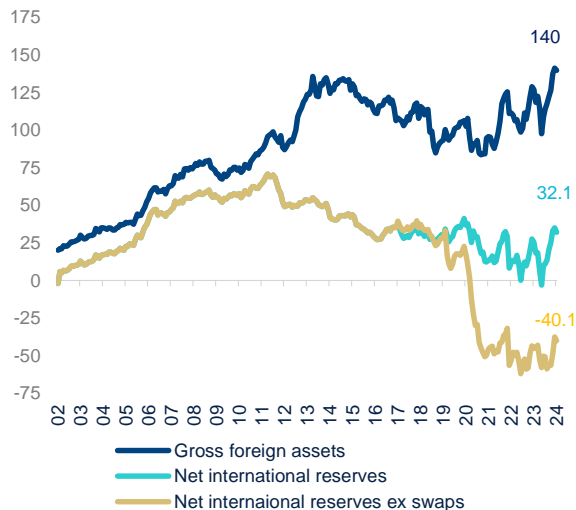


CA DEFICIT FINANCING
US\$bn, 12-month cumulative

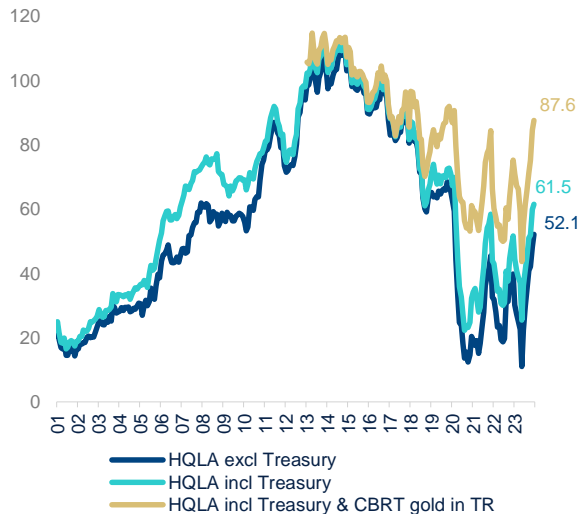


The CBRT reserves signal an acceleration in the accumulation of reserves, confirming foreigner inflows

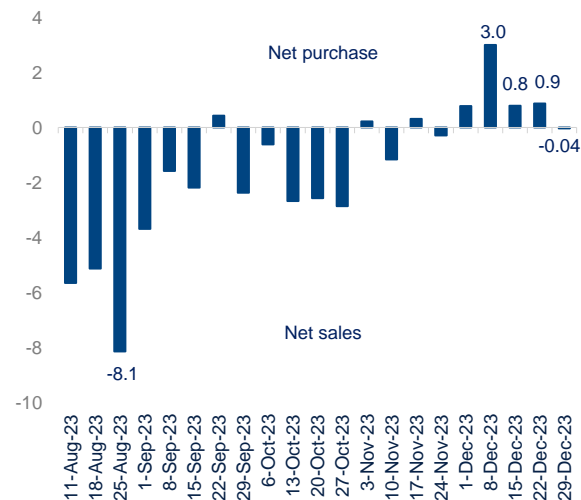
CBRT INTERNATIONAL RESERVES
US\$bn as of Jan 5



CBRT HIGH QUALITY LIQUID FOREIGN ASSETS
HQLA, US\$BN as of Dec 29



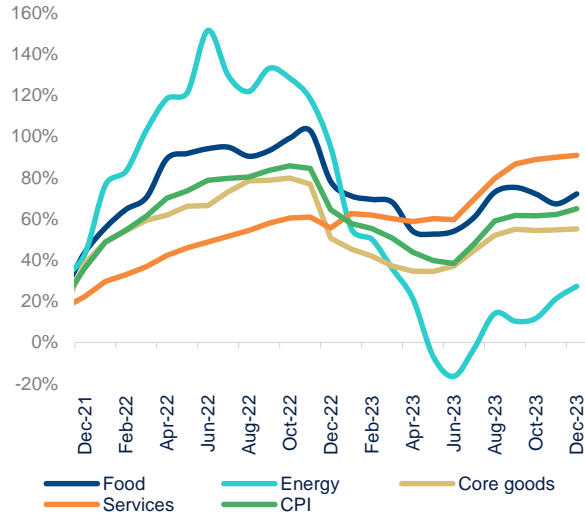
CBRT INDIRECT RESERVES FLOWS
US\$BN, weekly flow



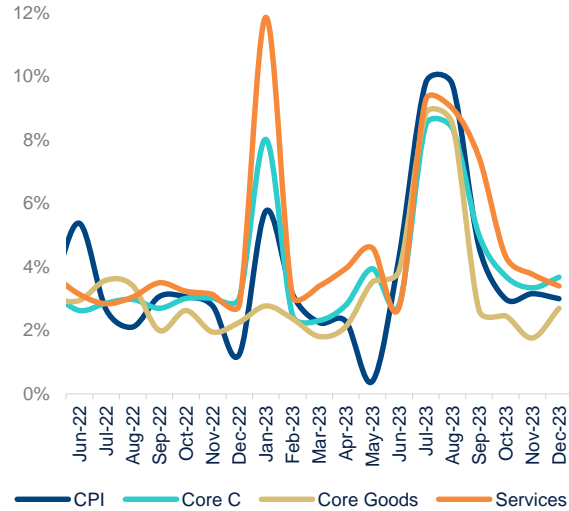
CBRT Balance Sheet US\$bn	29.12.2023	27.10.2023	25.08.2023	26.05.2023	31.12.2022	31.12.2021
HQLA = FC assets - Gold - IMF SDR	85.4	75.2	68.6	49.1	75.5	64.8
HQLA - foreign CB swaps - Treasury	52.1	41.9	34.8	11.1	39.8	32.5
HQLA - foreign CB swaps	61.5	51.7	45.2	25.4	51.6	43.8
HQLA - foreign CB swaps + CBRT owned physical gold in TR	87.6	74.9	65.7	43.7	75.2	66.3

Inflation trend decelerates more rapidly than expected (~3% mom sa)

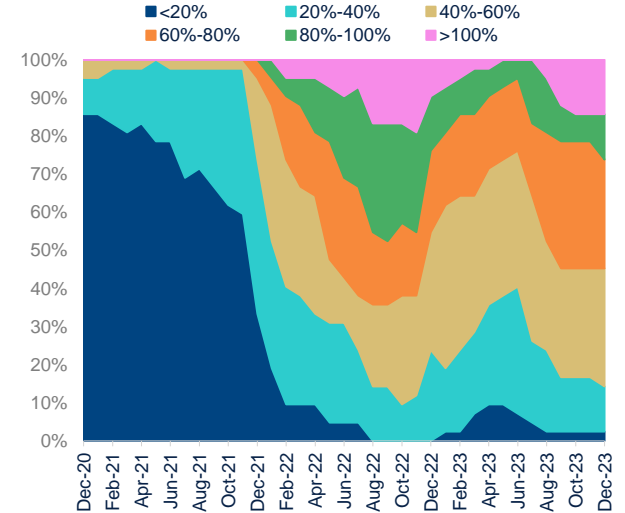
CPI SUBCOMPONENTS YoY



MONTHLY TREND CPI SA MoM



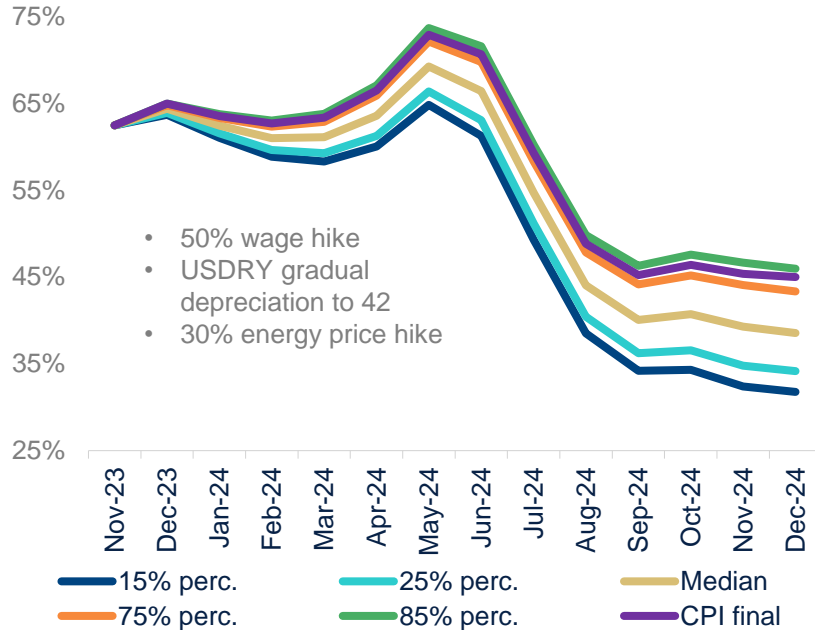
CPI DIFFUSION ANALYSIS YoY



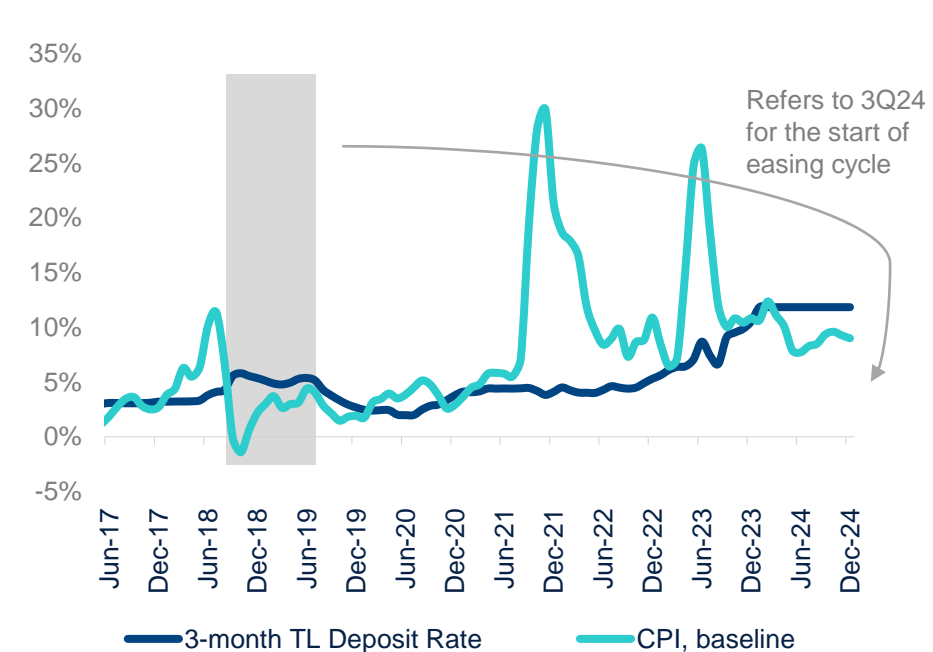
Our inflation simulations signal 2024 year-end CPI might converge toward 40% depending on the exchange rate and inflation expectations

CPI SIMULATION RESULTS

YoY



3-MONTH DEPOSIT RATE & 3-MONTH AHEAD QUARTERLY CPI

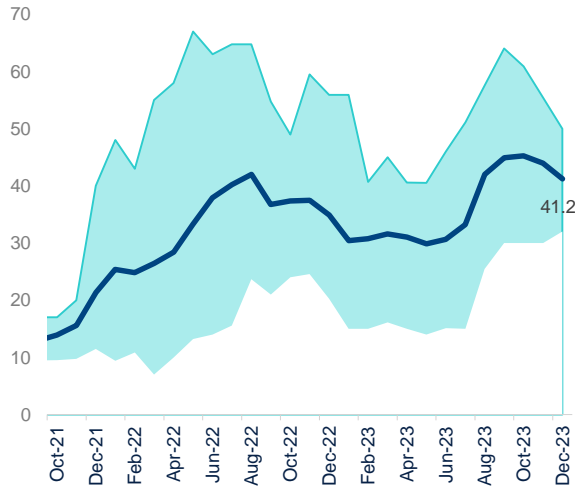


Key points from the 2024 Monetary Policy Document

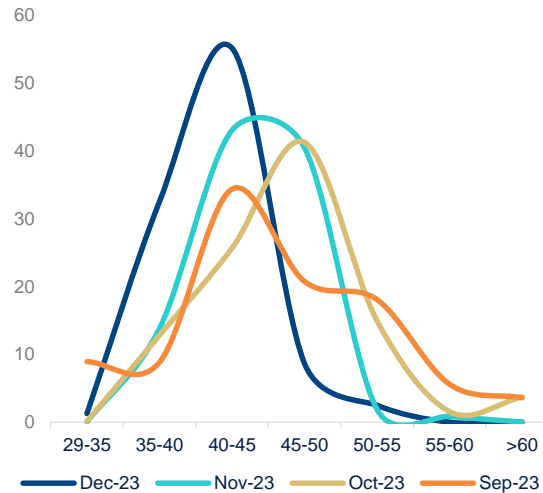
- The level of monetary tightening required for sustained price stability will be maintained as long as needed.
- The CBRT will continue to implement quantitative tightening by extending the sterilization tools at its disposal.
- The gradual reduction of securities maintenance for FX liabilities will continue. In tandem with a stronger transition from FC scheme to TL deposits, related regulations will also be simplified.
- The CBRT aims to increase the share of TL deposits to 50% in the banking system and to sustain the fall in the FC scheme in 2024 through steps prioritizing TL deposits
- The loan composition will be shaped within a framework that is supportive of the disinflation process and macroeconomic balances. Measures may be introduced to mitigate the impact of tighter financial conditions on low income groups during this process.
- The CBRT will continue to conduct swap transactions in 2024 to support banks' TL and FX liquidity management. A gradual reduction is also planned in swap transactions conducted by the CBRT.
- The CBRT's OMO portfolio size for 2024 was set at nominal TL 200bn (vs. nominal TL 193.5bn as of 22 December 2023), reserving the option to make additional purchases.

Inflation expectations have started to come down, patience will be needed to declare a success

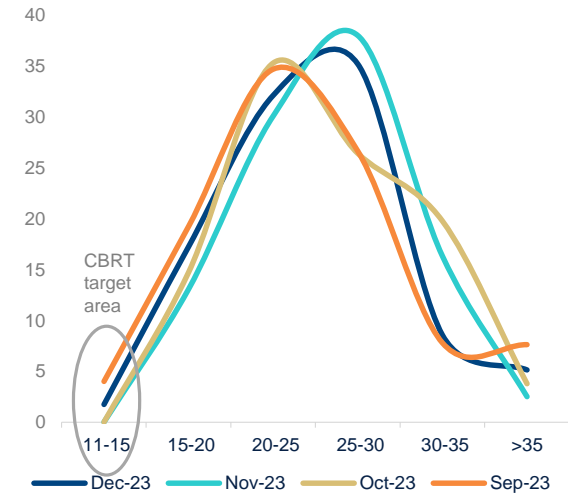
CBRT SURVEY INFLATION EXPECTATION, 12-MONTH AHEAD, %



CBRT SURVEY INFLATION EXP. PROBABILITY DISTRIBUTION, 12-MONTH AHEAD, %



CBRT SURVEY INFLATION EXP. PROBABILITY DISTRIBUTION, 24-MONTH AHEAD, %

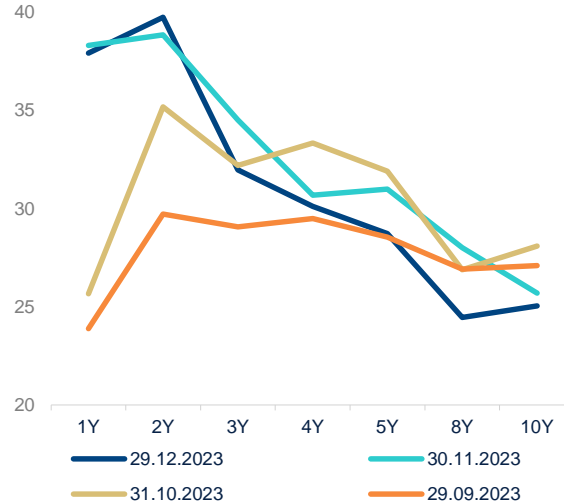


Markets are optimistic on inflation trend and policy rate evolution

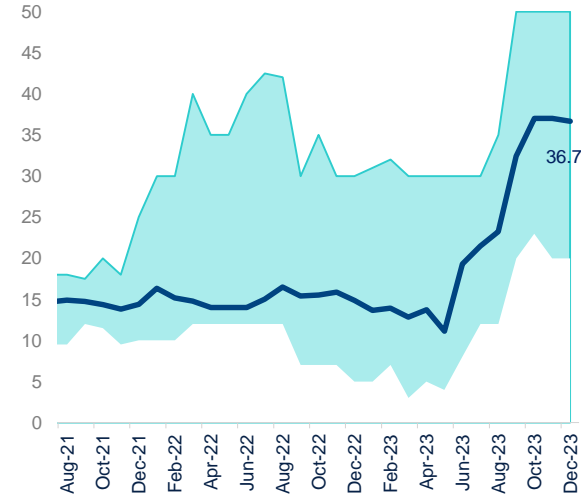
MARKET IMPLIED INFLATION EXPECTATIONS, %



TRY SOVEREIGN YIELD CURVE %



CBRT SURVEY POLICY RATE EXPECTATION, 12-MONTH AHEAD, %



Baseline Scenario: Brought-forward monetary tightening with steady depreciation

	2022	2023	2024	2025	2026	2027	2028
GDP growth (avg)	5.5%	4.5%	3.5%	3.5%	3.8%	3.5%	3.5%
Unemployment Rate (avg)	10.5%	9.7%	10.3%	10.8%	11.0%	11.1%	11.2%
Inflation (avg)	72.3%	53.9%	55.8%	35.8%	23.3%	17.8%	15.6%
Inflation (eop)	64.3%	64.8%	45.0%	28.0%	20.0%	16.5%	15.0%
CBRT Cost of Funding (avg)	12.7%	20.3%	45.0%	37.4%	25.2%	19.7%	18.0%
CBRT Cost of Funding (eop)	9.0%	42.5%	45.0%	30.0%	22.0%	18.0%	18.0%
USDTRY (avg)	16.56	23.74	36.07	44.98	51.56	59.06	67.65
USDTRY (eop)	18.70	29.44	42.00	47.50	55.00	62.50	72.00
Current Account Balance (bn\$)	-49.1	-45.2	-36.4	-37.4	-45.6	-49.8	-50.6
Current Account Balance (% GDP)	-5.6%	-4.2%	-3.2%	-3.0%	-3.2%	-3.3%	-3.2%
Primary Balance (% GDP)	1.1%	-3.0%	-2.9%	0.2%	0.7%	0.7%	0.7%
Fiscal Balance (% GDP)	-0.9%	-5.5%	-6.5%	-3.6%	-3.1%	-3.1%	-3.1%

Türkiye Economic Outlook

Garanti BBVA Research

December 2023