



Economic Outlook

QNB Finansbank
Economic Research Department

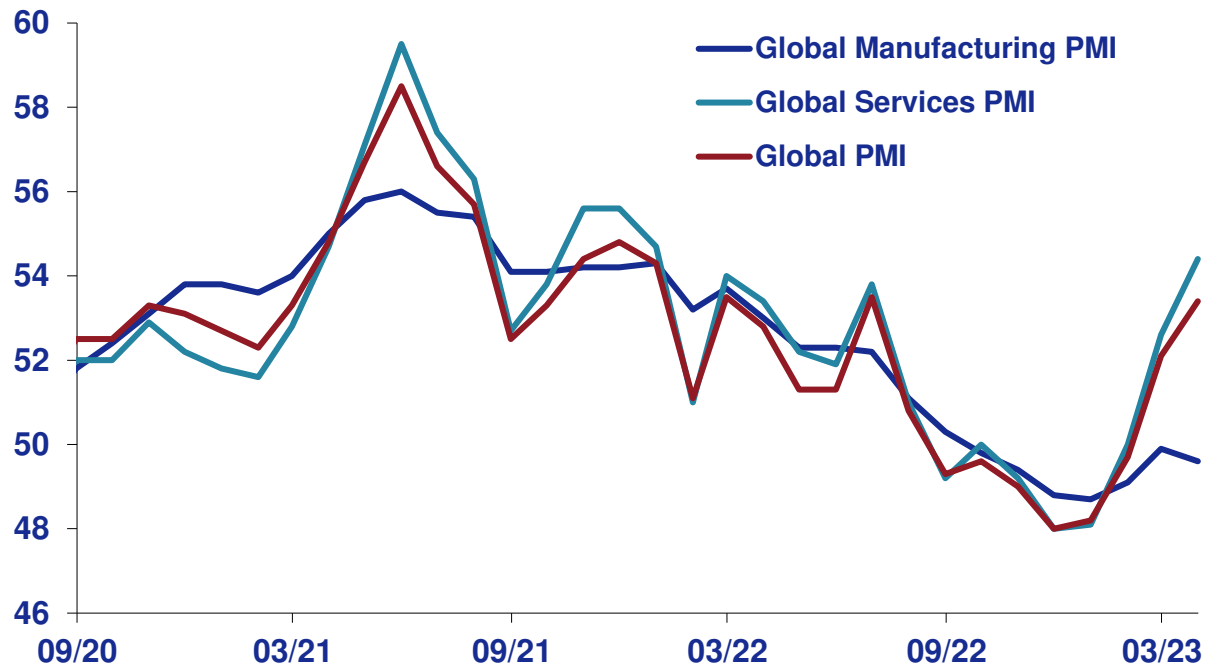
April 2023

Global Outlook

Global economic activity

Global services PMI continued to increase in March whereas manufacturing PMI remained in the contraction zone.

Global PMI indices

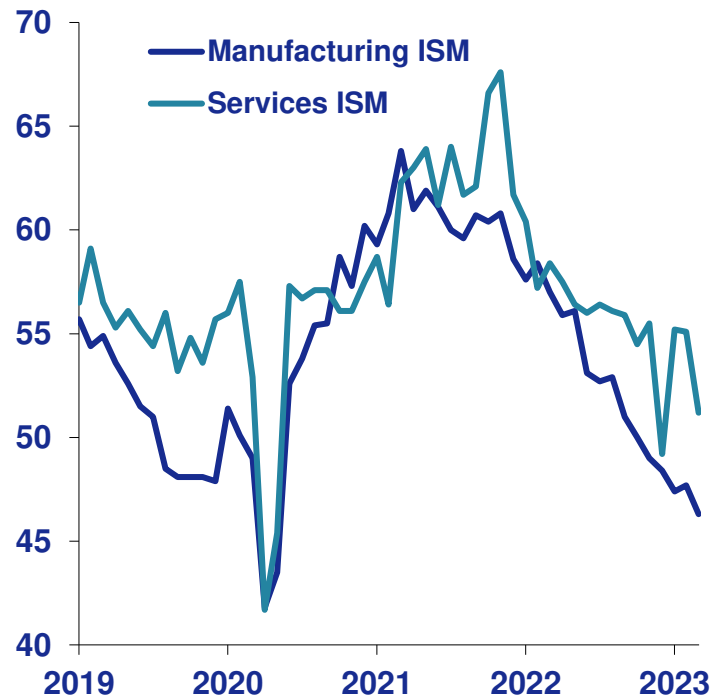


Source: S&P Global, Bloomberg

US economic outlook

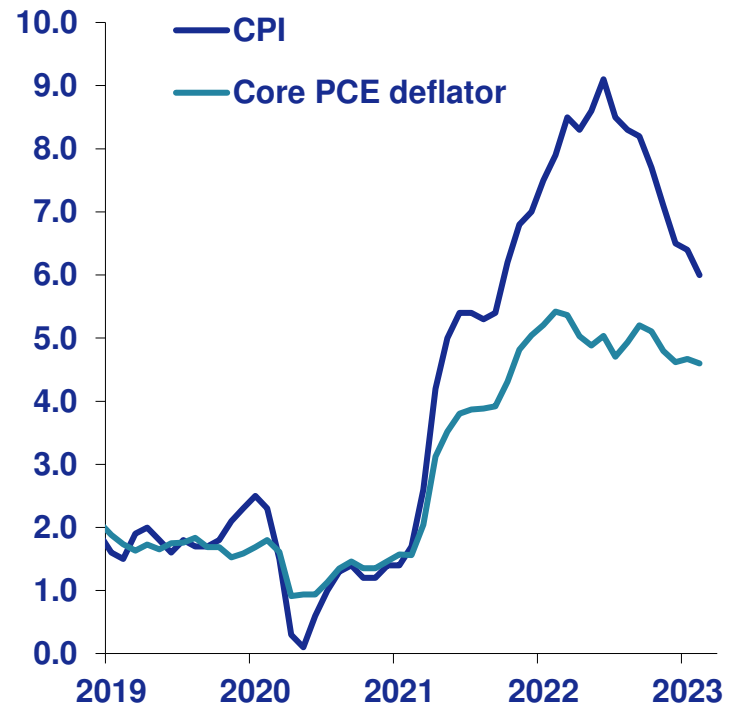
ISM indices decreased in March, indicating slowdown in economic activity. Headline consumer inflation decreased on lower energy prices and the base effect, but core PCE inflation remained elevated.

PMI indices



Source: S&P Global, Bloomberg

CPI vs. core PCE deflator (% y/y)



Source: BLS, BEA, Bloomberg

EU economic outlook

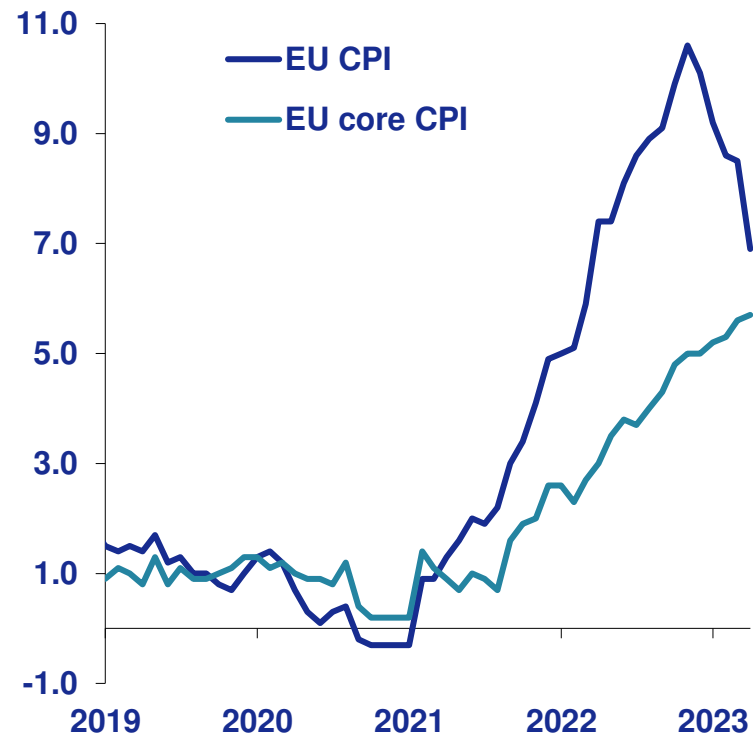
The Eurozone services PMI improved in recent months whereas manufacturing index continued to indicate contraction. The headline inflation decreased thanks to lower energy prices, but the core inflation continued to rise.

PMI indices



Source: S&P Global, Bloomberg

Inflation outlook

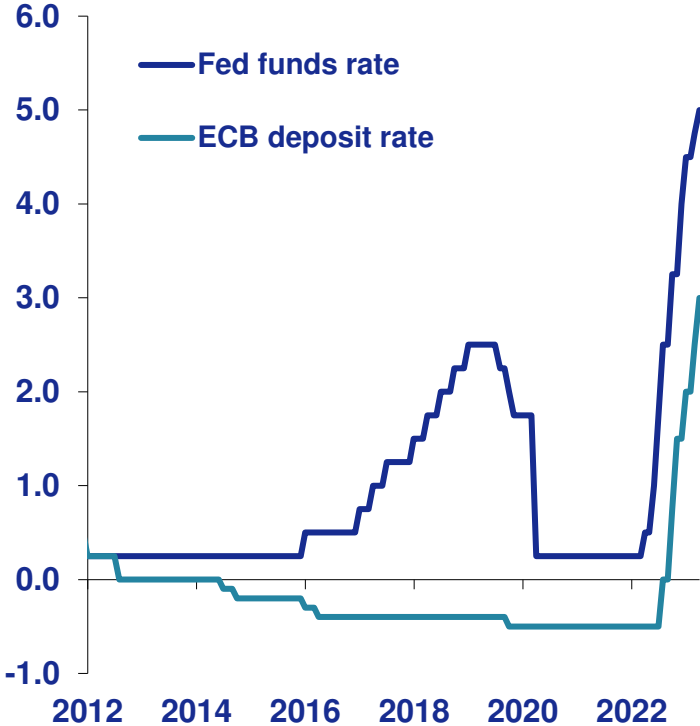


Source: Eurostat, Bloomberg

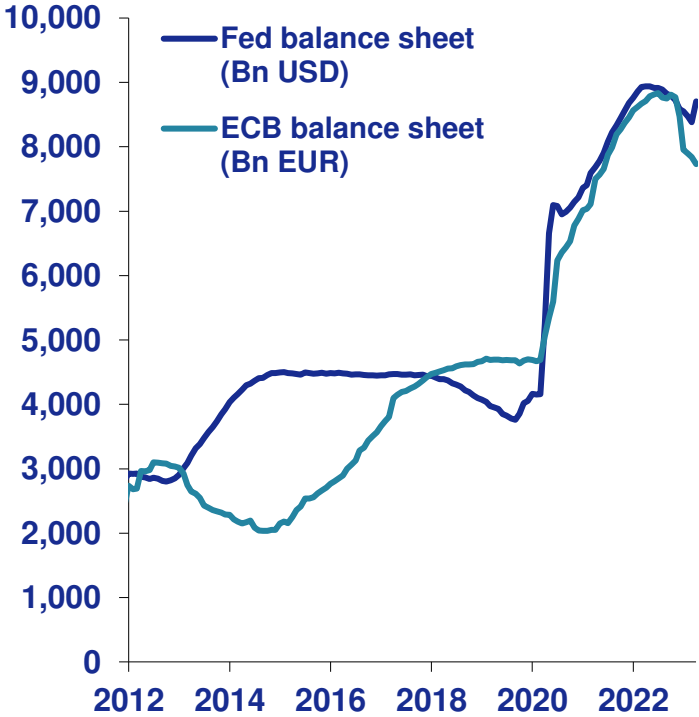
Global monetary policies

In 2023, the ECB and the Fed continued to tighten monetary policy. The central banks make it clear that monetary policy will remain tight until inflation meets the goals.

Policy rates (%)



Central bank balance sheet size



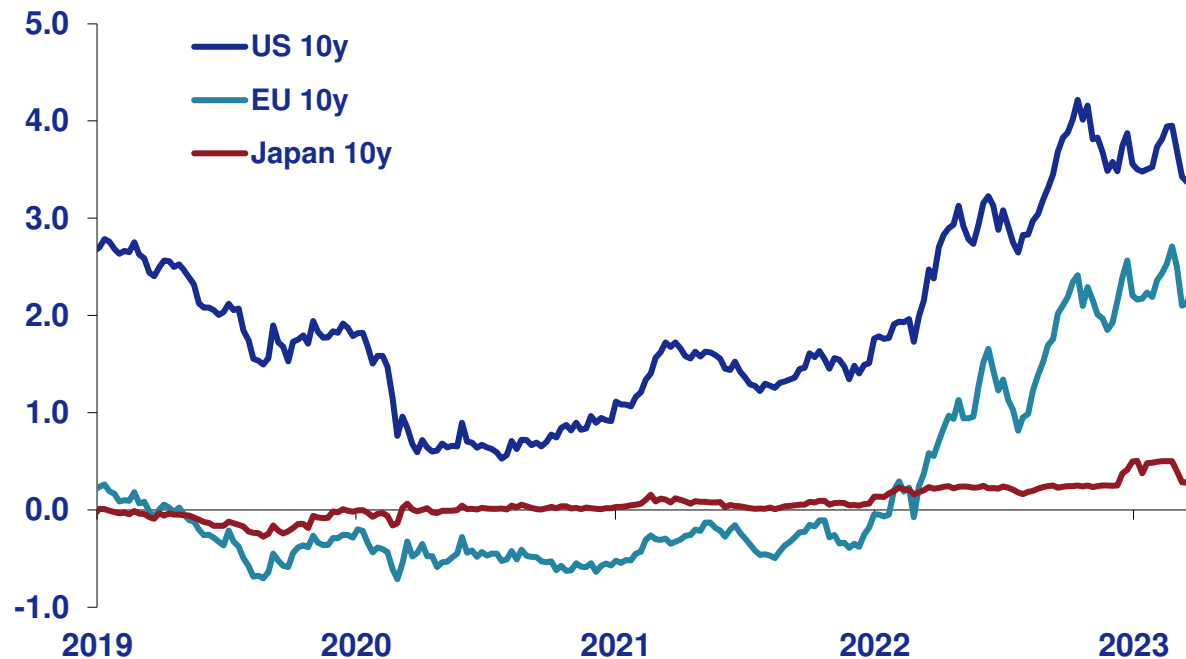
Source: Fed, ECB, Bloomberg

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Major bond yields

As a result of the uncertainty in the global banking sector, bond yields have recently decreased.

10-year bond yields (%)

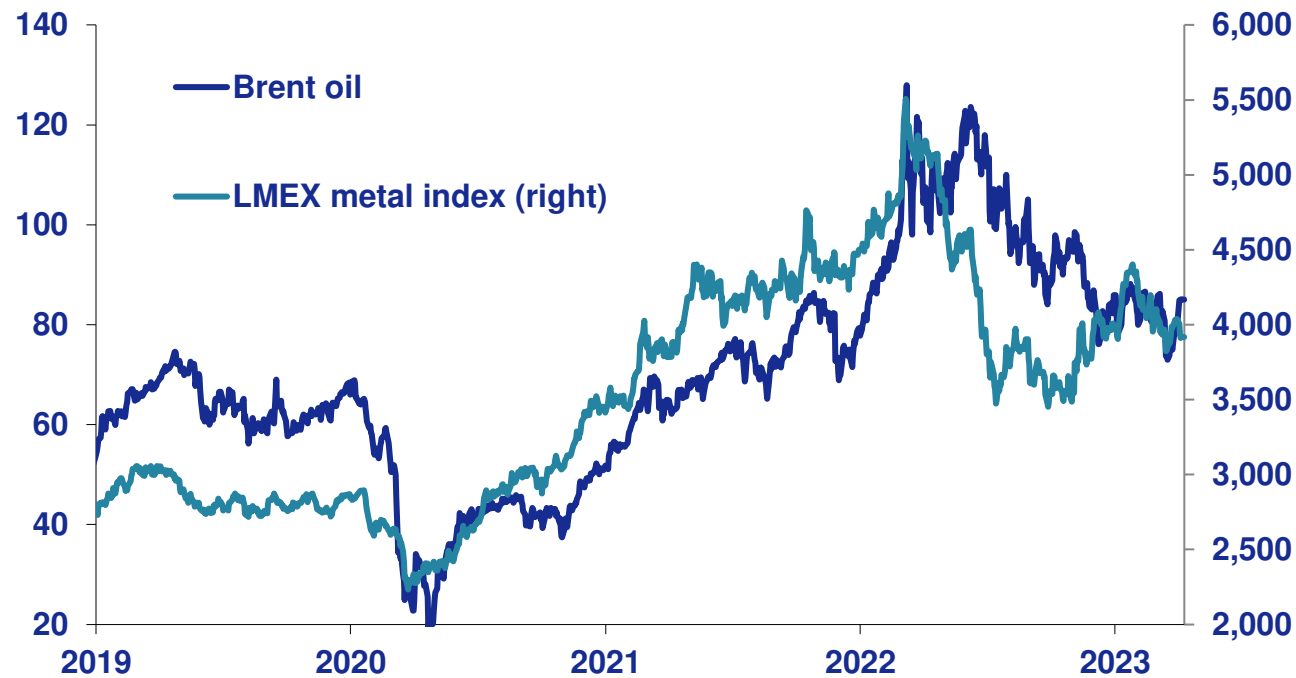


Source: Bloomberg

Energy and commodity prices

Oil and metal prices hovered around a flat trend recently.

Brent oil and metal prices (USD)

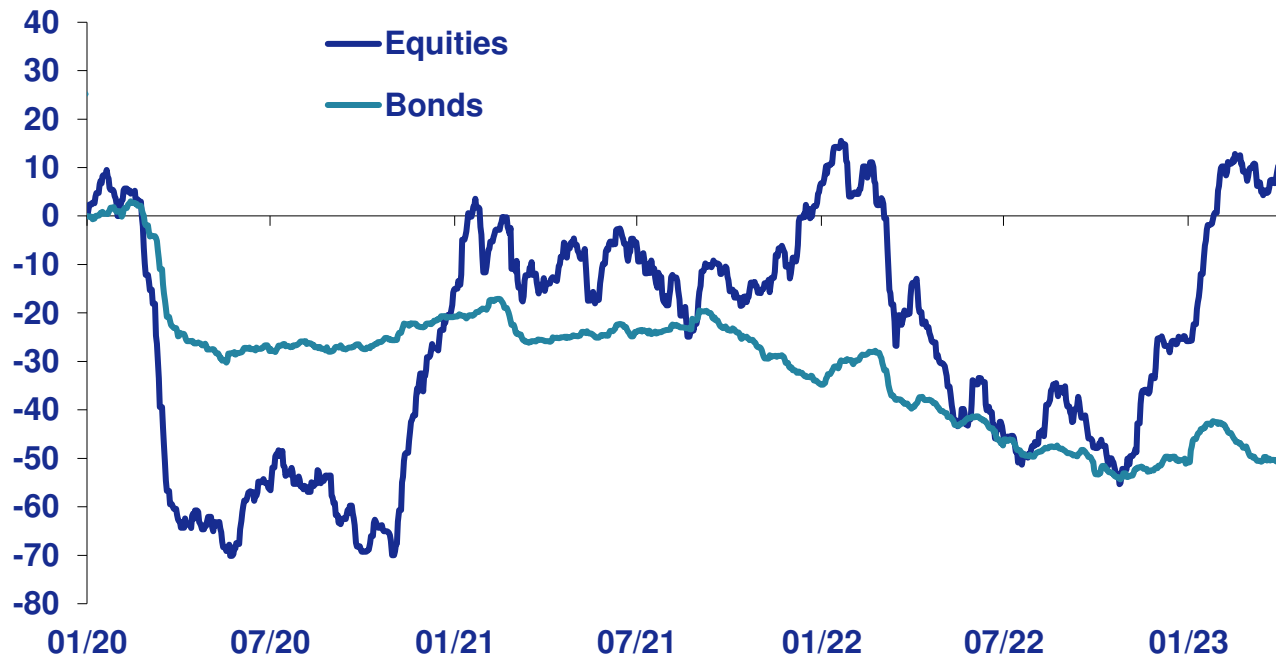


Source: Bloomberg

EM portfolio flows

Portfolio positionings in equities and bonds were mostly flat recently.

Portfolio flows to emerging markets (cumulative, bn USD)



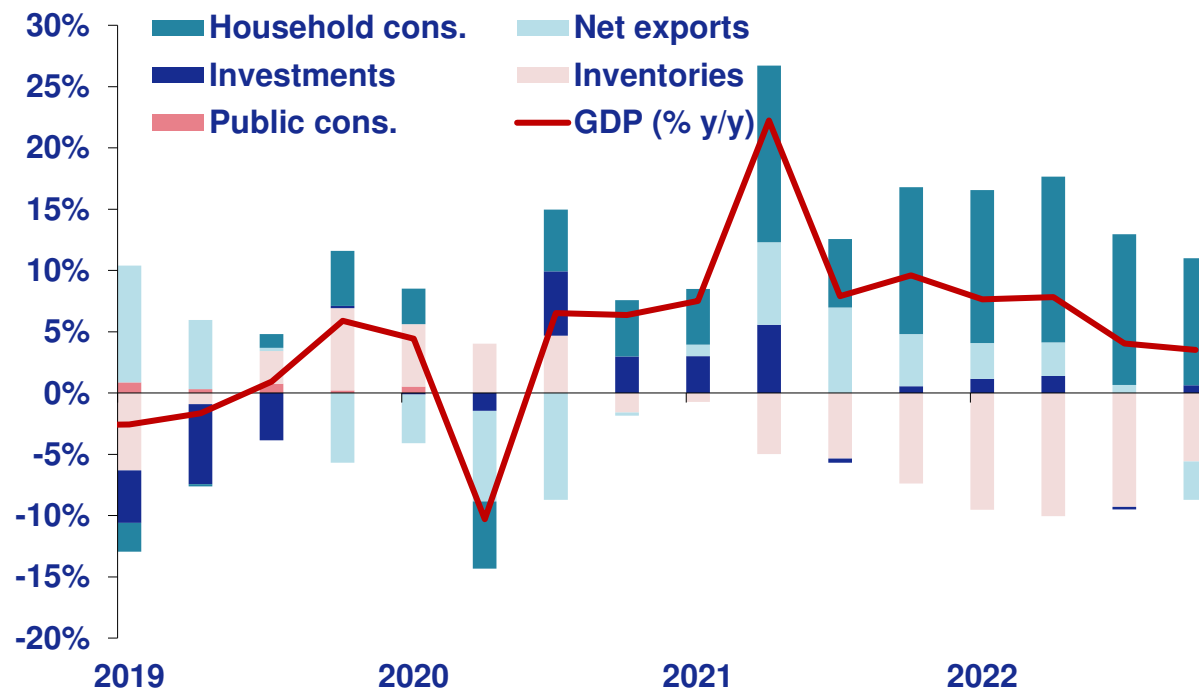
Source: IIF

Turkey Outlook

GDP growth slowed down in Q4

In Q4-2022, GDP growth slowed to 3.5% y/y. Household consumption continued to be the primary driver of growth, whereas net exports had a negative impact.

Contributions to GDP growth (% y/y)



Source: Turkstat

Industrial production outlook

Despite the earthquake disaster in February, PMI improved notably in Q1-2023, and indicated increase in manufacturing activity.

Manufacturing PMI and industrial production

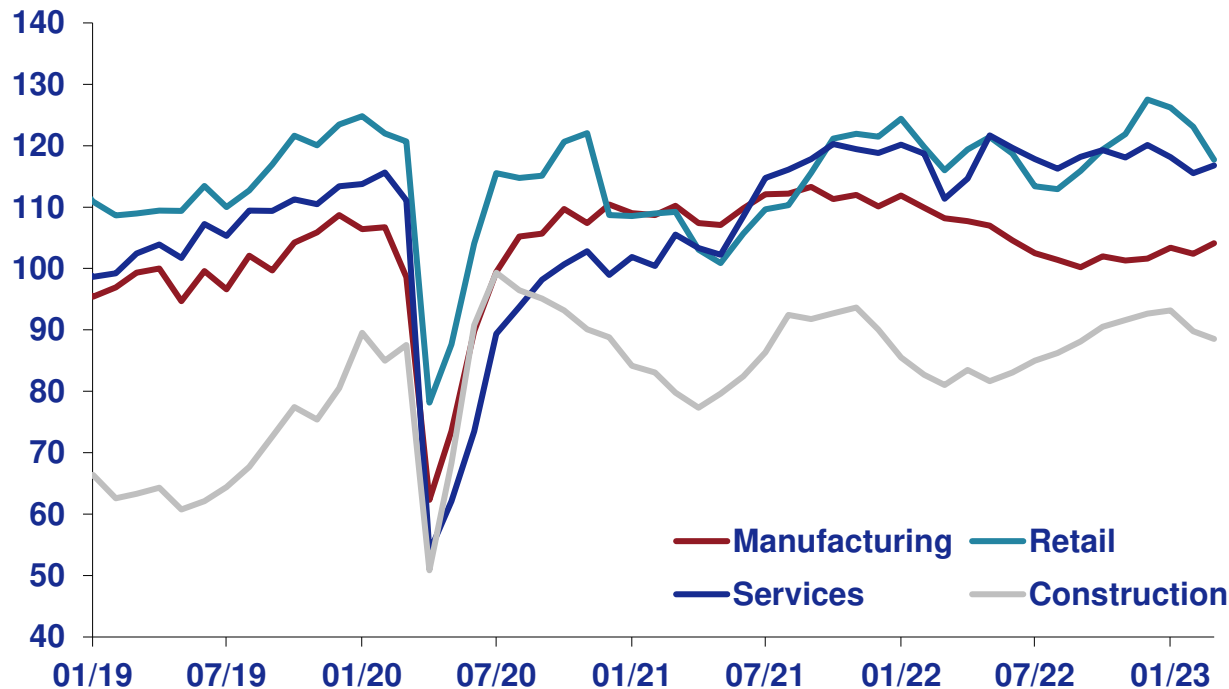


Source: Turkstat, S&P Global

Business confidence indices

In March, indices of business confidence gave mixed signals. Overall, the indices did not show any significant deterioration as a result of the earthquake.

Business confidence indicators

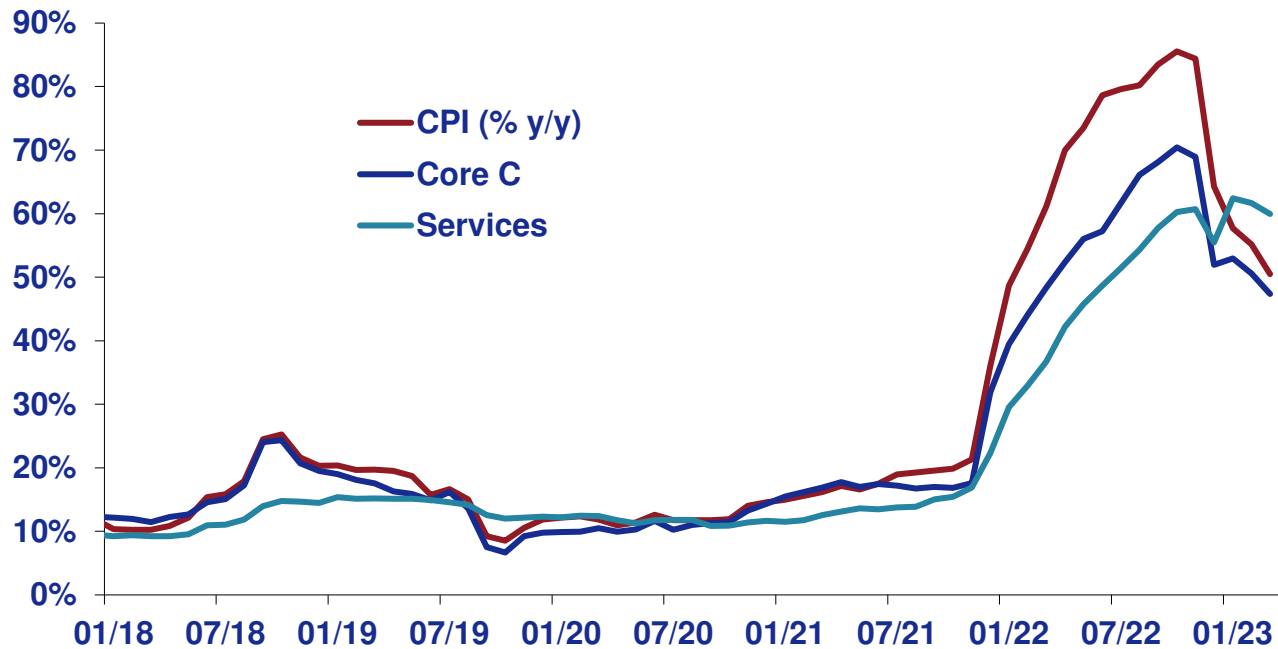


Source: Turkstat

Inflation decreases on base effect

In March, the annual inflation rate fell to 50.5%. Inflation will continue to fall in the short-run due to the stability in exchange rates and the base effect. But we expect it to increase towards 55% in the second half of the year.

Consumer price inflation (% y/y)

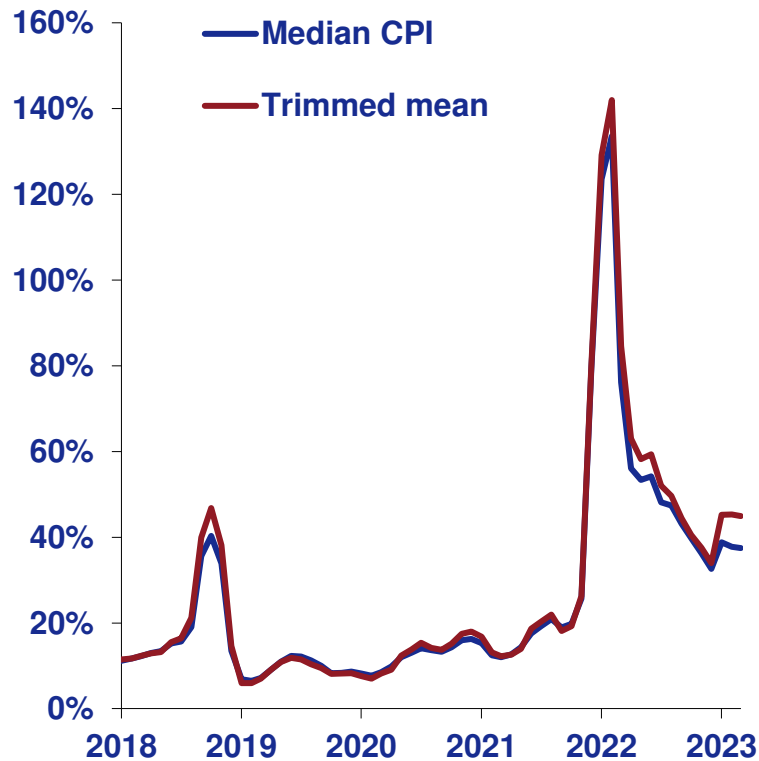


Source: Turkstat

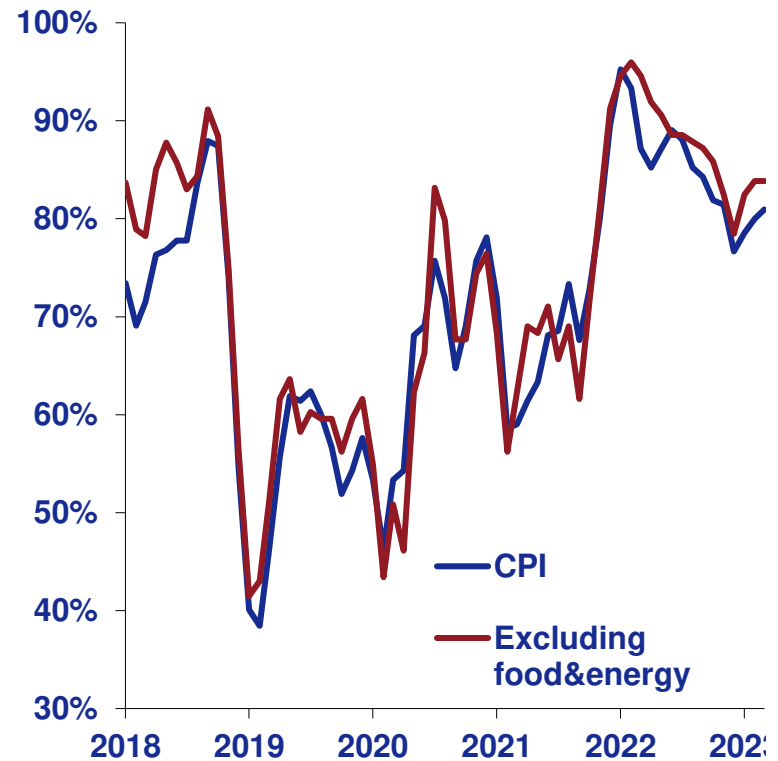
Trend inflation remains elevated

Trend indicators of core inflation remained elevated in March.

Core inflation indicators (seasonally adjusted, annualized, 3mma)



Diffusion indices of CPI (seasonally adjusted, 3mma)

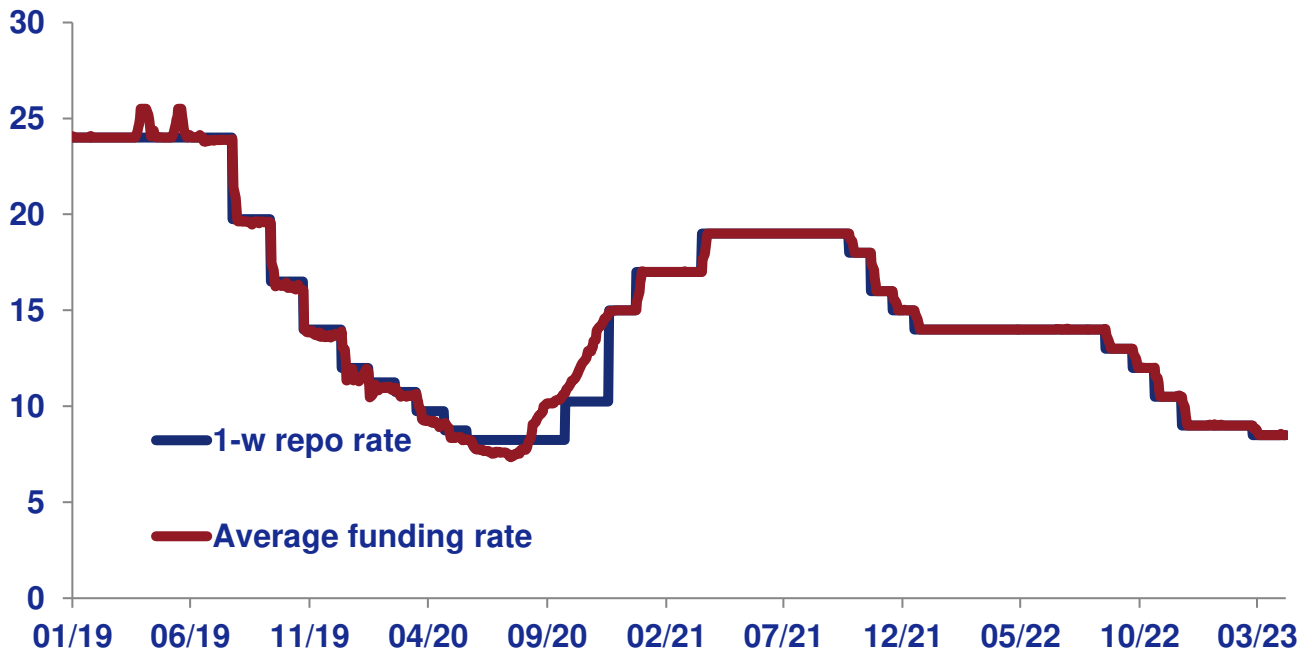


Source: Turkstat, QNB Finansbank

Policy rate stays disconnected from inflation

The CBRT conveys no rate change for the first half of 2023, but we expect tightening in the second half.

CBRT's interest rate corridor (%)



Source: CBRT

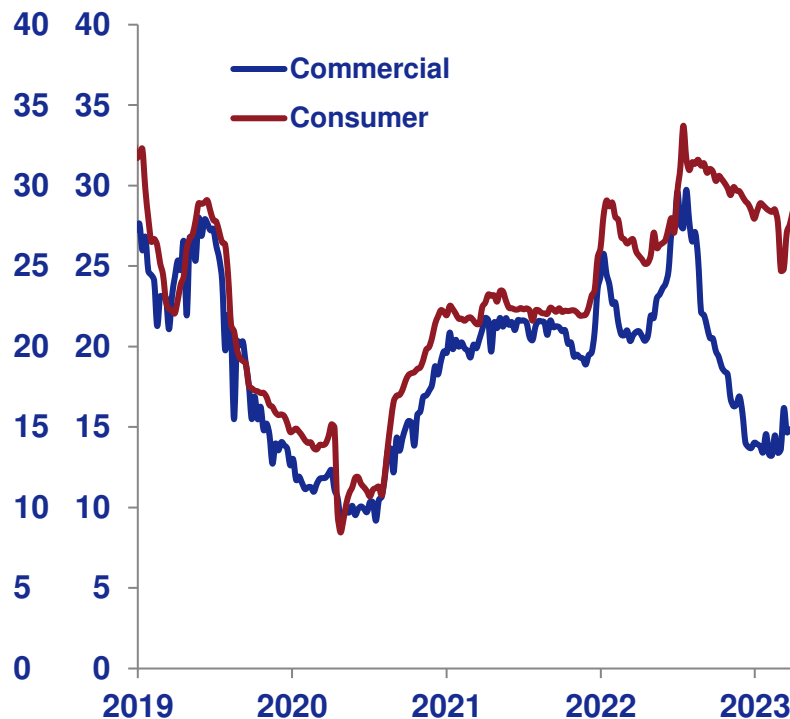
Loan and deposit rates diverge

TRY deposit rates continued to increase whereas FX deposit rates and loan rates were kept lower by the banking sector regulations.

Deposit rates (1-3 months, %)



Loan rates (TRY, %)

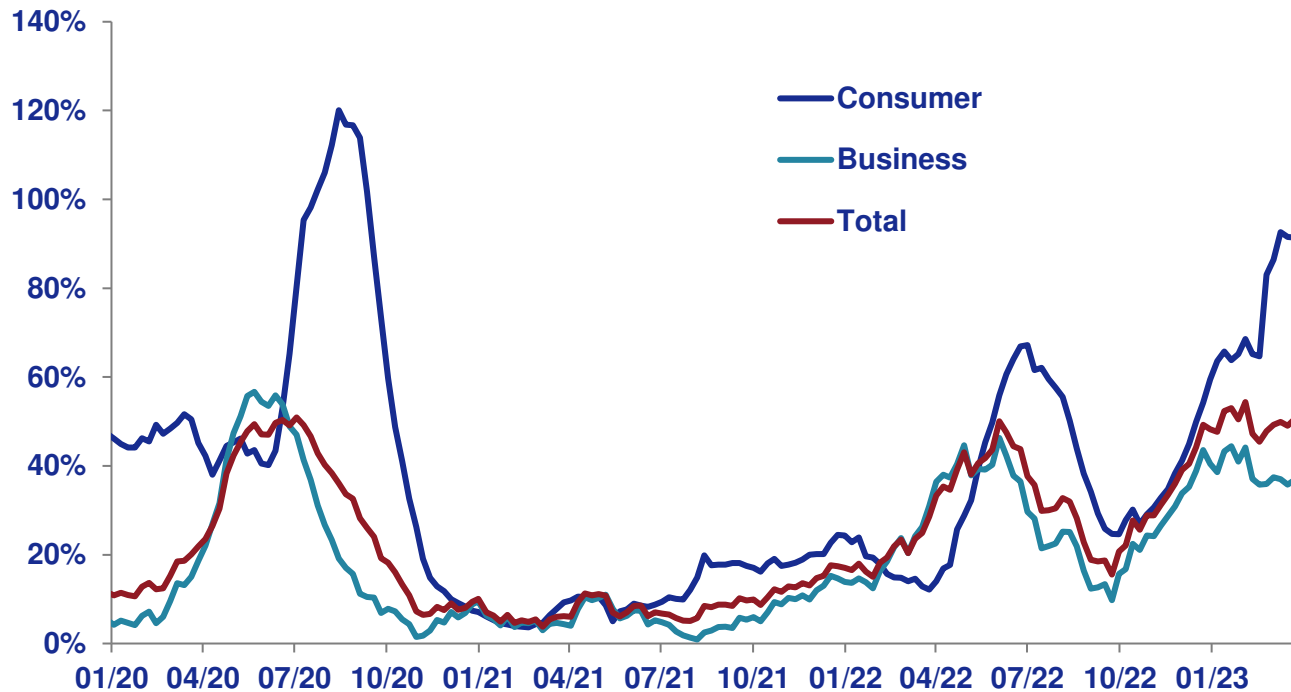


Source: CBRT

Loan growth remains high

Due to the accommodating financial conditions and regulations, loan growth remained high.

13-week trend growth rate of loans (FX adjusted, % annualized)

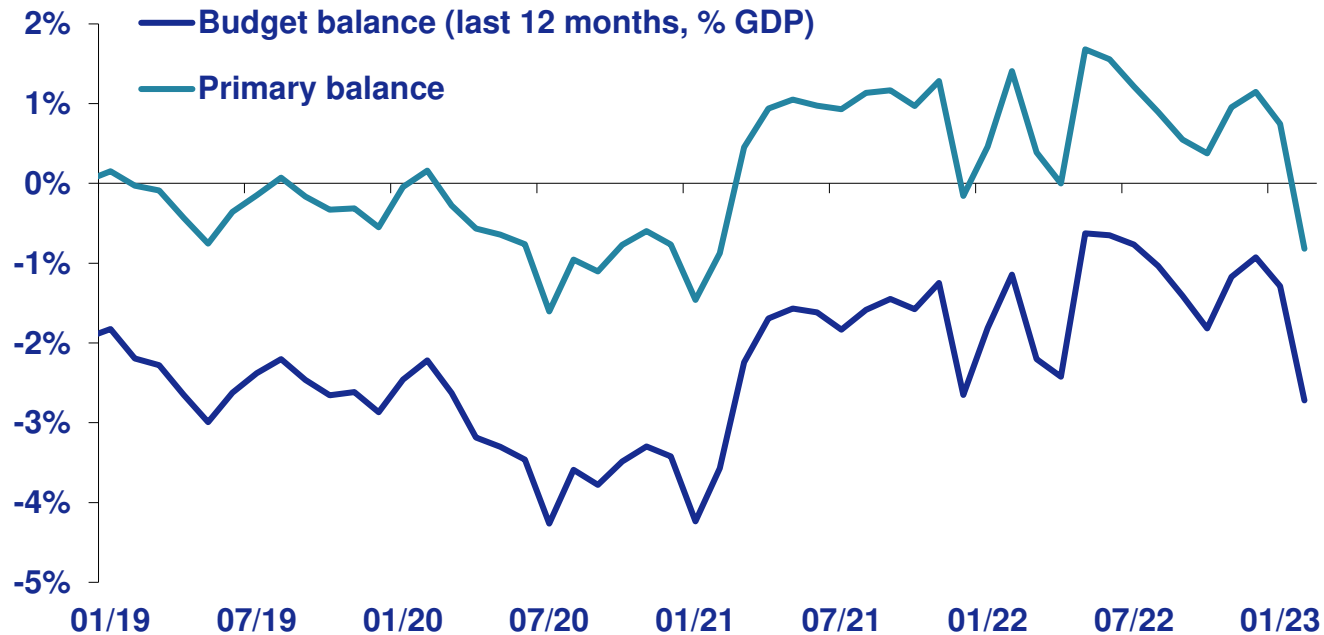


Source: BRSA, QNB Finansbank

Budget deficit widens

In February, the ratio of the annualized budget deficit to GDP increased to 2.7%. After the earthquake, fiscal spending will rise and tax revenues will fall, resulting in a larger budget deficit.

Central government budget balance (% of GDP)

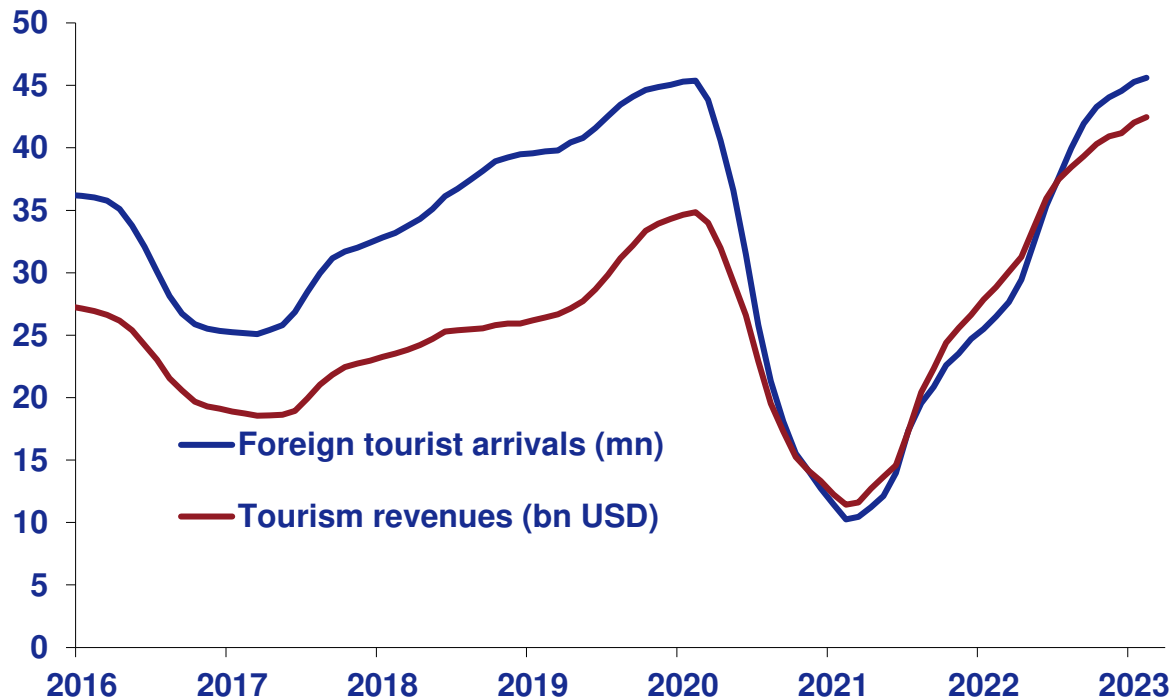


Source: Ministry of Finance and Treasury

Tourism revenues at all-time high

Revenues from tourism and visitor arrivals both increased and reached all-time highs.

Tourist arrivals and tourism revenues (12 month cumulative)

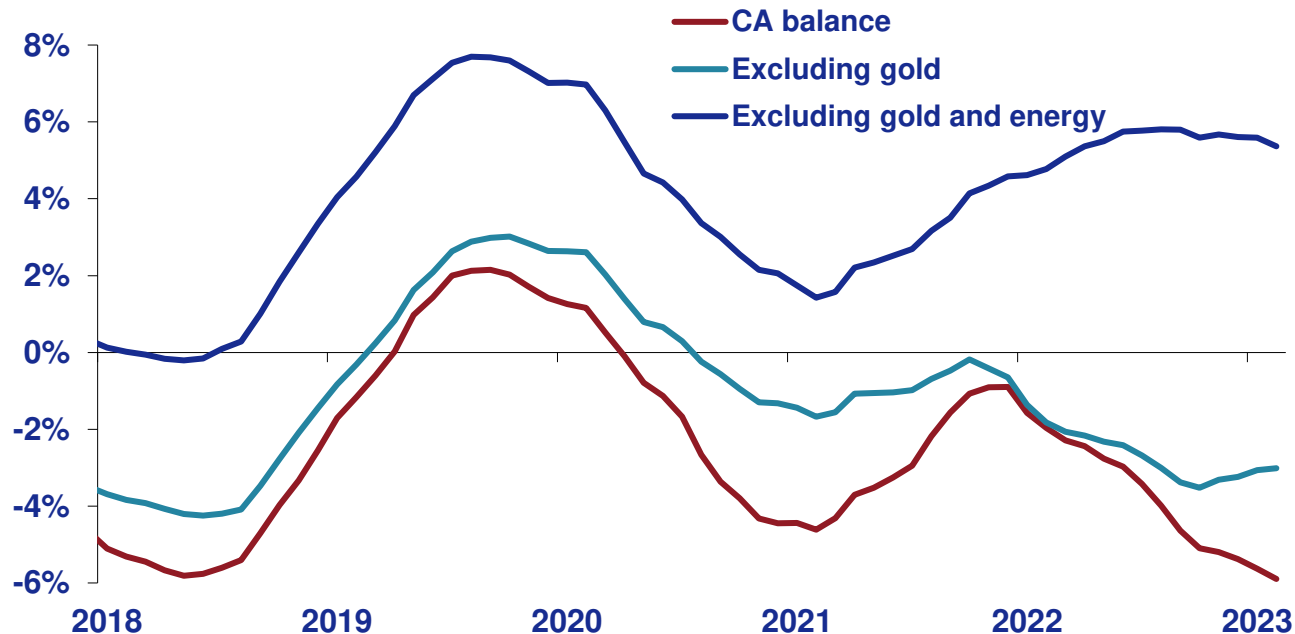


Source: CBRT, Turkstat, QNB Finansbank

Current account widens

As gold imports accelerated, the annualized current account deficit reached 5.9% of GDP in February. In the near future, energy imports will go down, but the rebalancing will be limited due to strong domestic demand.

Current account balance (12-month cumulative, % GDP)

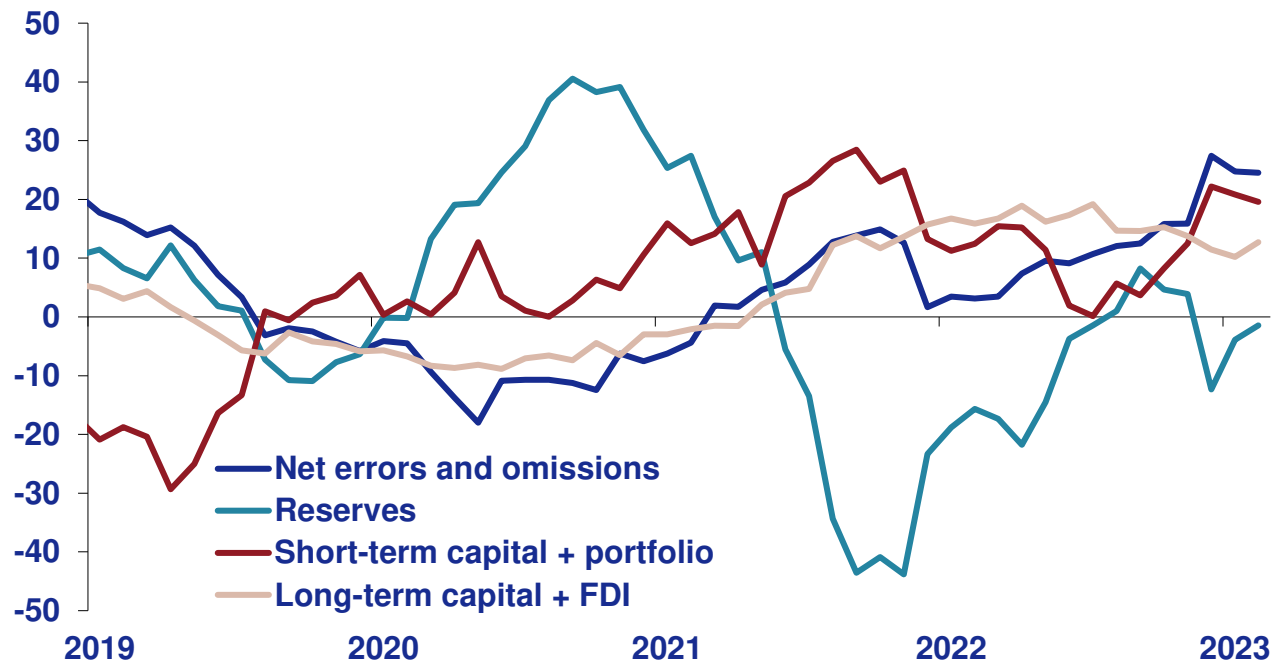


Source: CBRT

External financing outlook

The financing of the 12-month cumulative CA deficit has been through short and long-term capital, FDI (mostly real estate investments) and unregistered capital inflows.

Financing of current account deficit (12-month cumulative, bn USD)

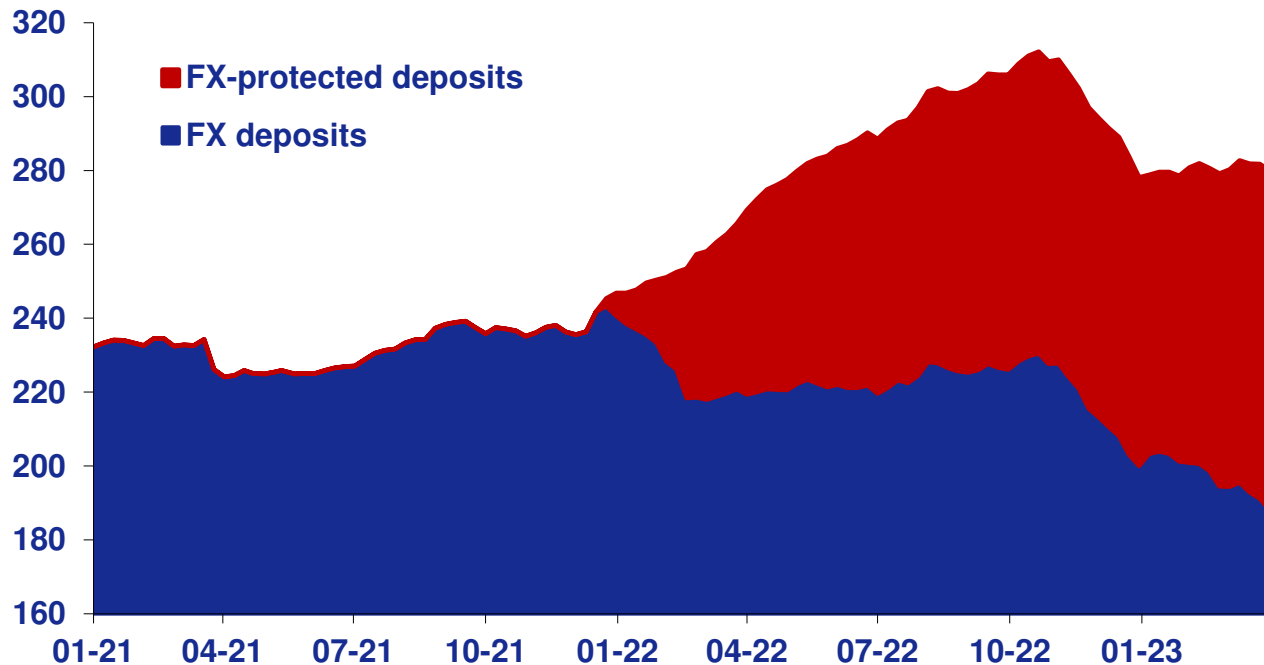


Source: CBRT

FX and FX-protected deposits

The total amount of FX and FX-protected deposits remained steady while FX deposits decreased.

FX and FX-protected deposits of local investors (bn USD)



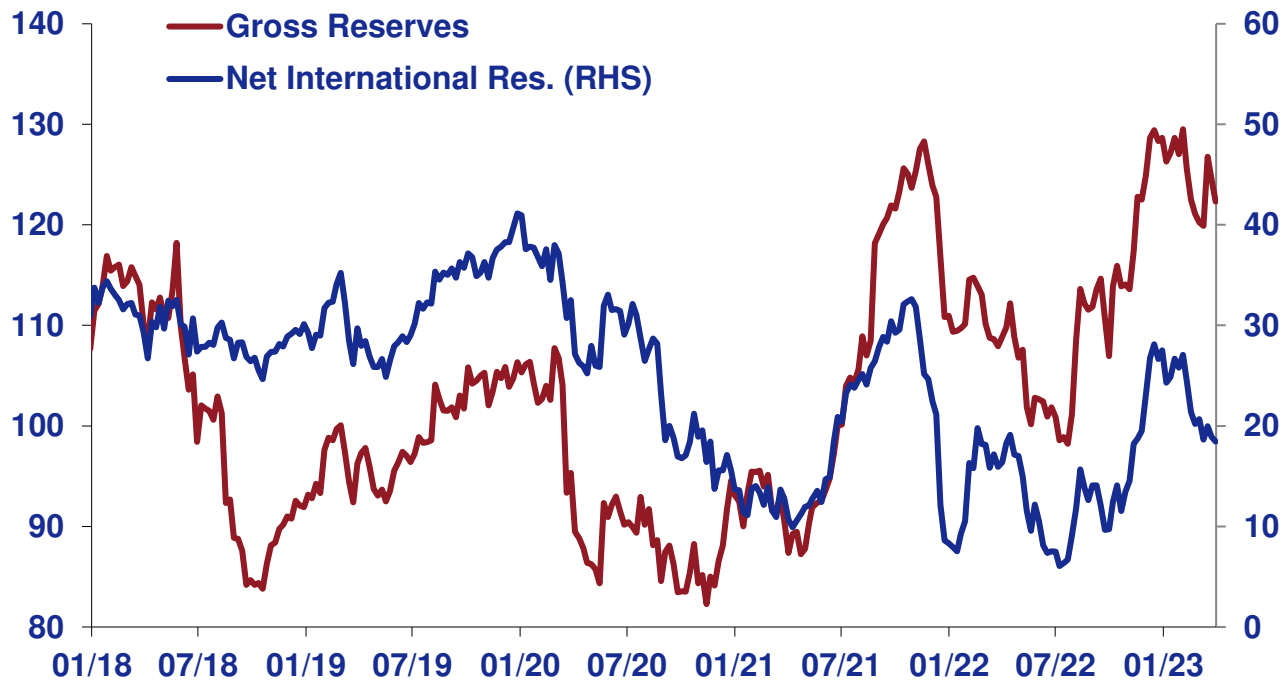
Source: CBRT, QNB Finansbank

Note: FX deposits are adjusted to changes in EURUSD parity and gold prices. USD equivalent of FX protected deposits is our estimation.

FX reserves under pressure

The current account deficit put pressure on foreign exchange reserves.

Central Bank's FX Reserves (bn USD)



Source: CBRT

Forecasts

MACROECONOMIC INDICATORS					
	2020	2021	2022	2023	2024
Growth					
Real GDP (% y/y)	1.9%	11.4%	5.6%	3.0%	4.0%
Nominal GDP (TRY bn)	5,048	7,249	15,007	24,082	35,694
Nominal GDP (USD bn)	717	807	906	1040	1150
Per capita GDP (USD)	8,600	9,592	10,602	12,036	13,156
Prices (%y/y)					
CPI (end year)	14.6%	36.1%	64.3%	55.0%	35.0%
PPI (end year)	25.1%	79.9%	97.7%	40.7%	29.9%
CPI (average)	12.3%	19.6%	72.3%	49.4%	45.5%
PPI (average)	12.2%	43.9%	128.5%	46.6%	39.2%
Fiscal Sector (% of GDP)					
Central government balance	-3.4%	-2.7%	-0.9%	-4.5%	-3.5%
Central government primary balance	-0.8%	-0.2%	1.1%	-1.5%	-0.5%
EU defined public gross debt (% of GDP)	39.5%	41.8%	31.5%	34.6%	34.1%
External Sector (Bn USD)					
Current account balance	-31.9	-7.2	-48.8	-35.0	-30.0
% of GDP	-4.4%	-0.9%	-5.4%	-3.4%	-2.6%
Trade balance	-49.9	-46.2	-109.5	-101.9	-106.7
Exports	169.6	225.2	254.2	268.1	283.4
Imports	219.5	271.4	363.7	370.0	390.1
Exchange Rate and Interest rates					
USD/TRY (end year)	7.44	13.30	18.69	28.88	33.21
EUR/TRY (end year)	9.09	15.13	20.00	30.32	34.87
EUR/USD (end year)	1.22	1.14	1.07	1.05	1.05
USD/TRY (average)	7.01	8.85	16.55	22.88	31.04
EUR/TRY (average)	8.02	10.44	17.36	24.17	32.60
EUR/USD (average)	1.14	1.18	1.05	1.06	1.05
CBRT's average funding rate (end year)	17.0%	14.0%	9.0%	40.0%	40.0%
2Y bond yield (end year)	14.3%	22.7%	10.0%	40.0%	35.0%

Thank you...

H. Erkin Işık, CFA

hasanerkin.isik@qnbfinansbank.com

Deniz Çiçek

deniz.cicek@qnbfinansbank.com

Kaan Özçelikkale

kaan.ozcelikkale@qnbfinansbank.com

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