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TURKEY Outlook 2021E: More prudent than before, but not smooth yet

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2021E:
In a nutshell

- There is growing evidence suggesting a genuine policy shift geared more credibly towards anchoring inflation around 9-10% instead of implicitly allowing a creeping up of inflation rates to double digits. This is a fairly long term process, and necessitates a year of consolidation in terms of tighter and more predictable monetary policy. In itself, this is not sufficient to stabilise the Lira below 8/USD beyond a relatively short period of time, of a few quarters.

- The household spending recovery has helped the economy stage a strong rebound, which should help Turkey avoid a drop in its real GDP in 2020E – a notable achievement in the year of the pandemic. This was made possible, to a large extent, by a well-placed credit apparatus, which had already established a strong credit impulse before COVID-19 related disruptions took root.

- Evidence of the effects of a change of policy strategy since late-autumn is beginning to mount: slower credit growth, rising FX reserves, and a recovery in the TRY. Overall, we believe a more prudent policy mix will stay with us over 2021E.

2021E:
In a nutshell

- Fiscal execution was excellent in 2020, and should stay on par in 2021E, in our view. The central bank has limited scope for easing in coming quarters, so local bond yields will stay relatively high from a debt management perspective. Turkey, in our view, is likely to use the next 12 months to lengthen the average borrowing maturity, increase their ESG issuance, and create the conditions for a contained returned of non-resident investors in the local bond market.

- The central bank has promised a more transparent policy communication style and, so far, it has delivered. FX reserves show a timid recovery at the end of 2020E, but it is more likely, realistically, to take a year before we see strong conditions for a strong rise in reserves. Hedging the currency remains challenging, the CBT faces sizeable derivatives-related FX payments ahead, as stated in their FX reserves publications, and the geopolitical relationship with the EU is likely to remain somewhat jittery, but still good enough to, de facto, see a steady rollover of external debt of Turkey via its European counterparties.

Note: this is an extract of our Turkey 2021 outlook, if you would like to discuss Turkey in detail please contact us.

Turkey in its regional context

- Gross wages are c.70% of average Italian levels, higher than Romania and Hungary
- The debt of households and non-financial corporations has not responded meaningfully relative to GDP yet, but assets saw a rush into equities this year
- Exports have lagged its CEE peers, but imports have staged a substantial divergence – owing mainly to the strong domestic credit impulse
- Real returns have now risen to the top of what Turkey's peers have to offer
- The ease of doing business in Turkey has shown a spectacular improvement in the past few years

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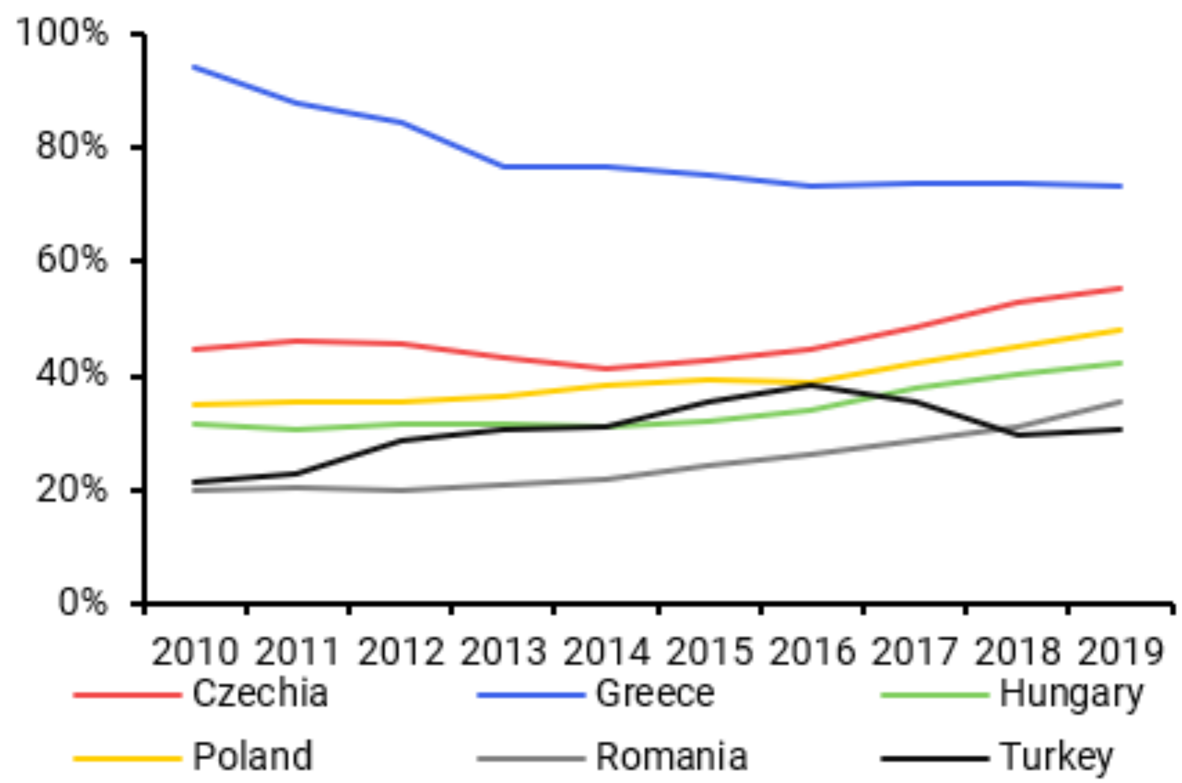
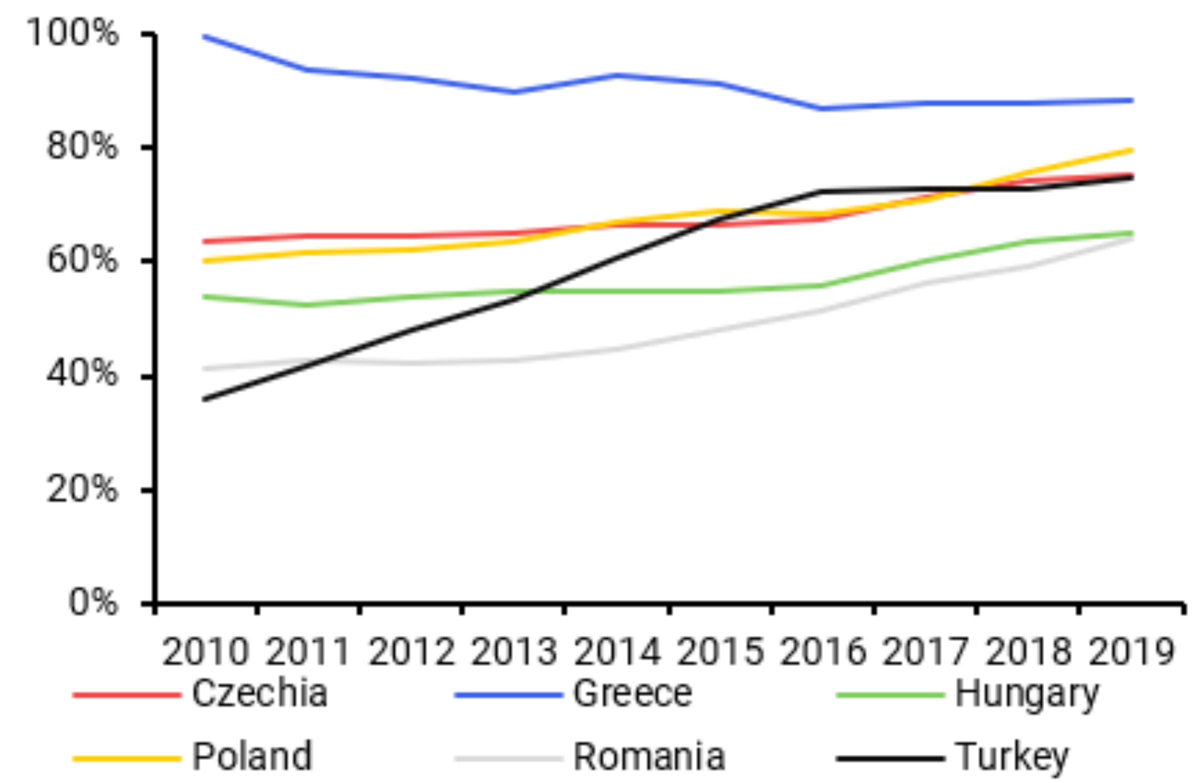
CONVERGENCE FOR RESHORING CONSIDERATIONS

Avg. net annual earnings as % Italy



Price-adjusted avg. net annual earnings as % Italy



Sources: ADA Economics, CEIC , OECD, Eurostat, Turkstat
Annual net earnings of a single person without children earning a 100% of average earning. The Turkish estimate is based on rolling the average gross wage reported by Turkstat in 2014 (2007 TRY per month), converting it to EUR (aop) and applying a 28.5% average tax rate (OECD 2019).

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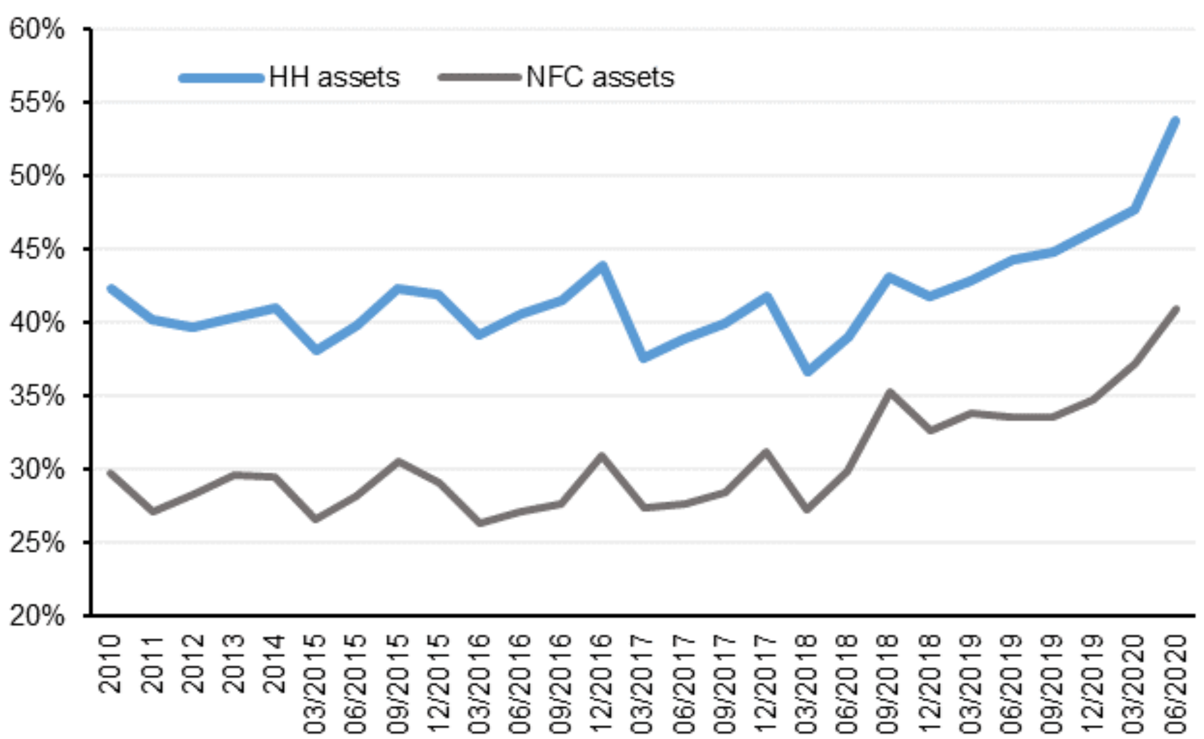
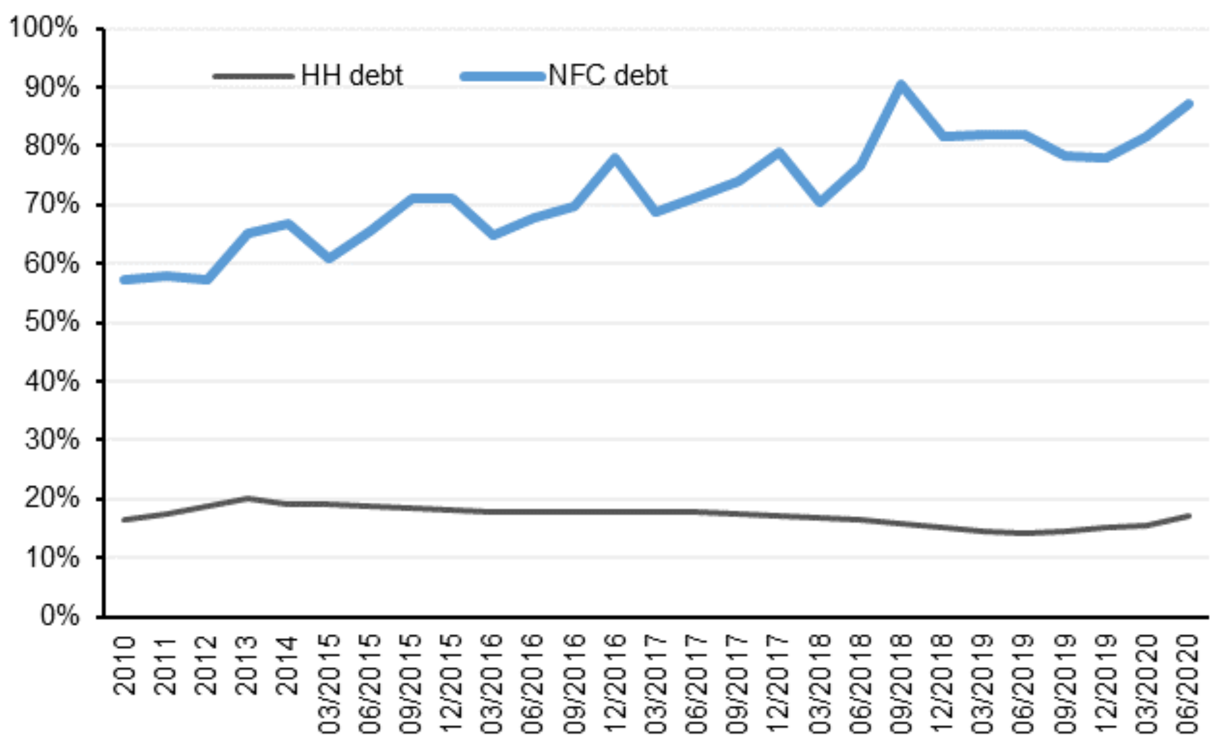
FINANCIAL ACCOUNTS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS

- Household assets to GDP remains at a lower level vs. other countries in our coverage universe, but so is household debt.
- On the other hand, the NFC debt stands relatively higher, with sizeable FX exposure, which has shown mild amelioration since the 2018 currency crisis.

Assets to GDP



Debt to GDP

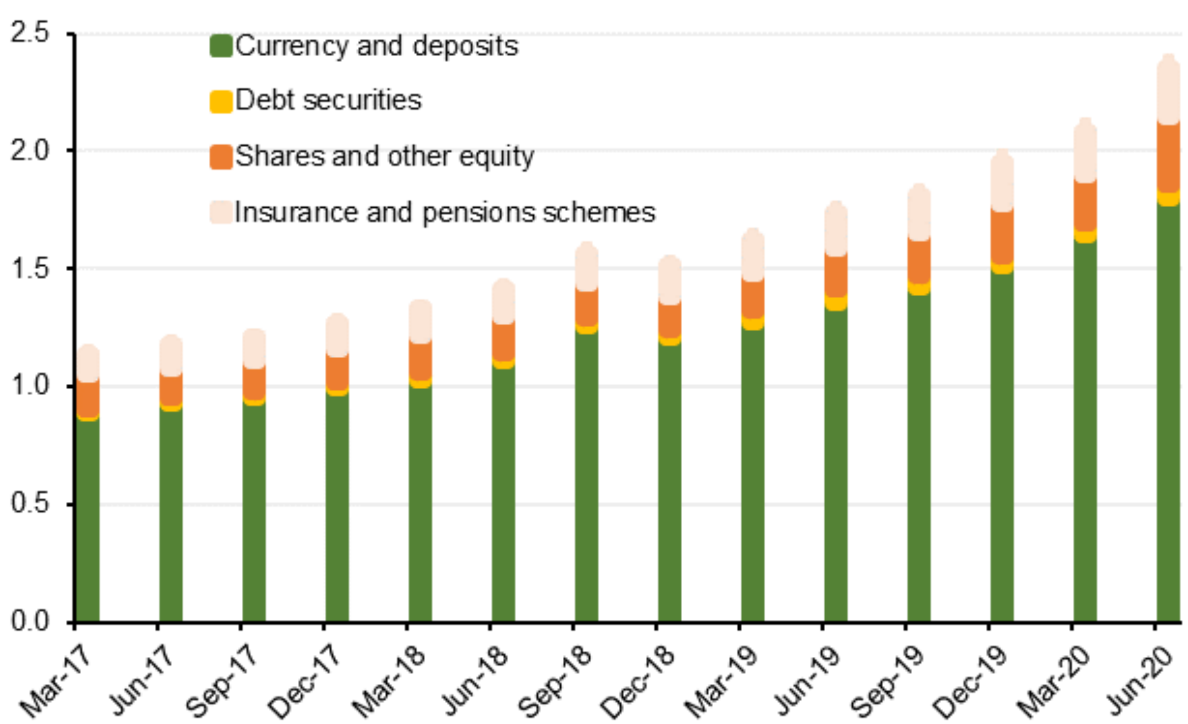


Sources: ADA Economics, CEIC , CBT

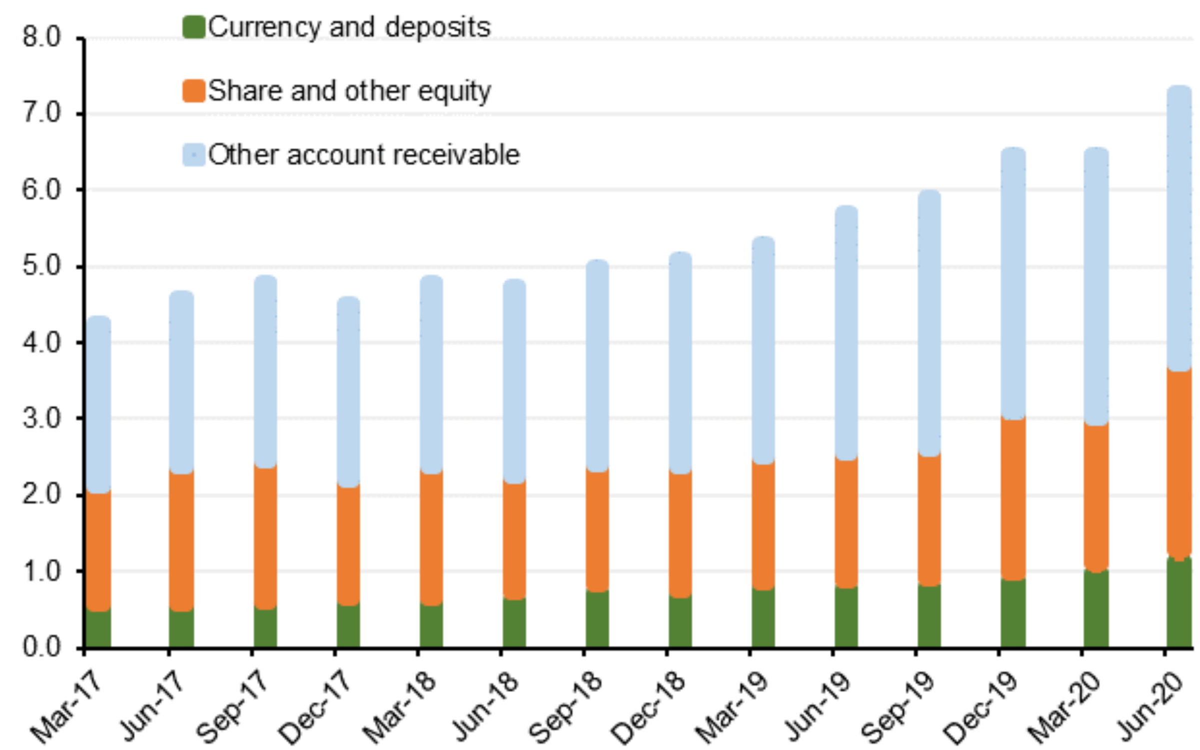
FINANCIAL ACCOUNTS OF HOUSEHOLDS AND NON-FINANCIAL CORPORATIONS

- Households and NFCs have both shown increased exposure to equities this year, owing to the steep discounts in the stock market, while the desire for increased liquidity has also been apparent.

Household assets (TRY trn)



Non-financial corporations' assets (TRY trn)



Sources: ADA Economics, CBT

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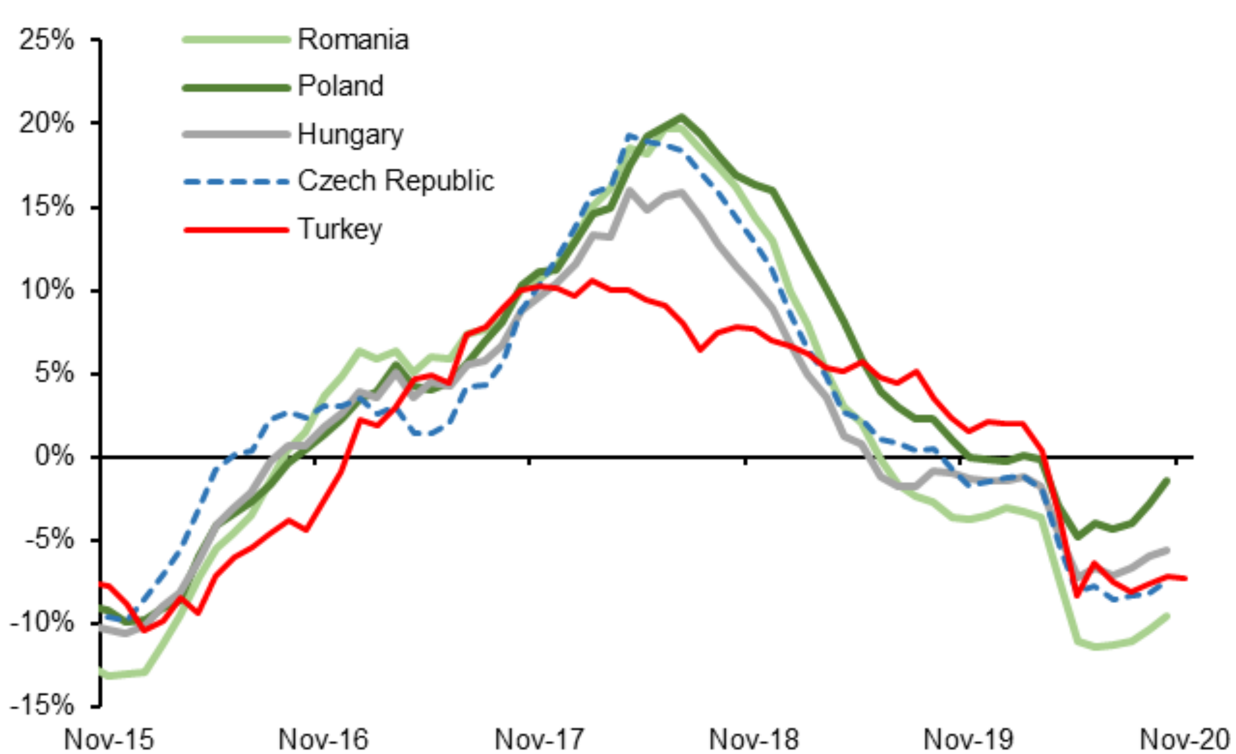
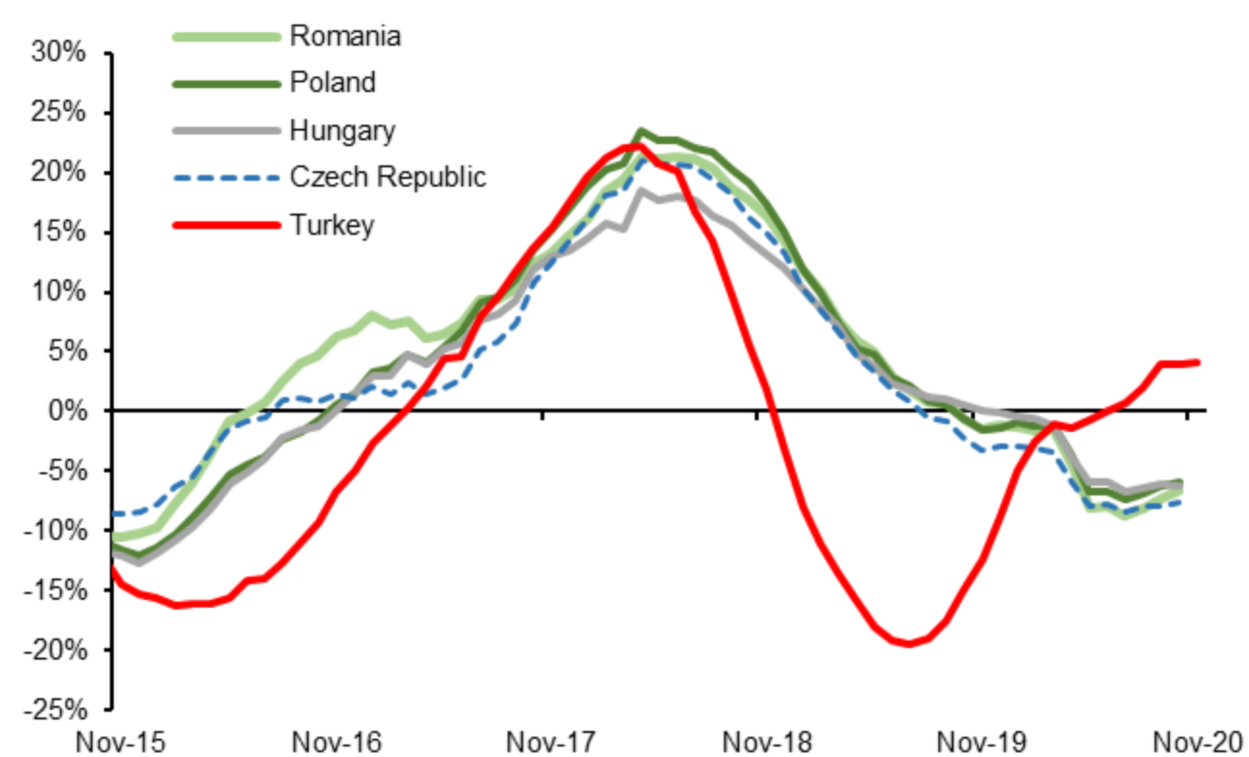
RECOVERY OF IMPORT AND EXPORTS OF GOODS IN A PEER GROUP PERSPECTIVE

- The recovery of exports has not been impressive so far; however, imports have increasingly mirrored the strong pick-up in credit, which continues to weigh negatively on the current account balance, especially when tourism revenues have remained scant.

Exports of goods (USD, 12M rolling, yoy)



Imports of goods (USD, 12M rolling, yoy)



Sources: ADA Economics, CEIC

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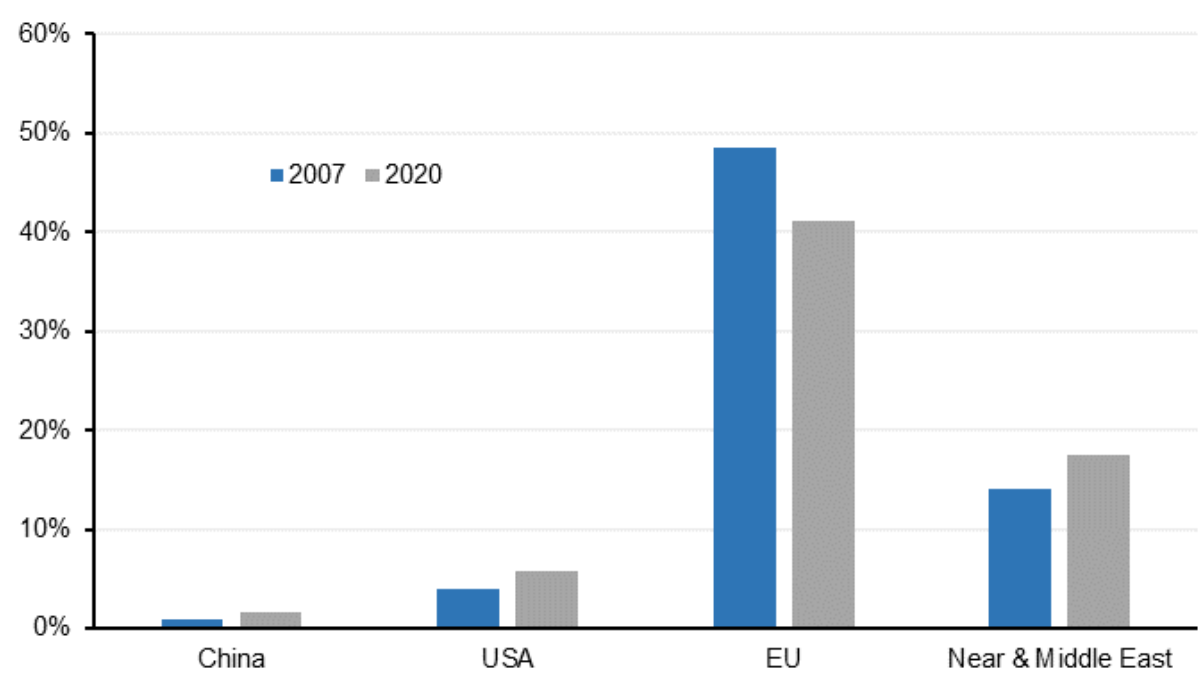
SHARE OF EXPORTS TO MAJOR PARTNERS

- The share of exports to the EU has declined by 7.4ppts, to 41%, from 2007 to 2020; while, on the other hand, the share to the Middle East, the US and China have increased by 3.5ppts, 1.8ppts and 0.7ppts, to almost 18%, 6% and 1%, respectively.

Share of export destinations

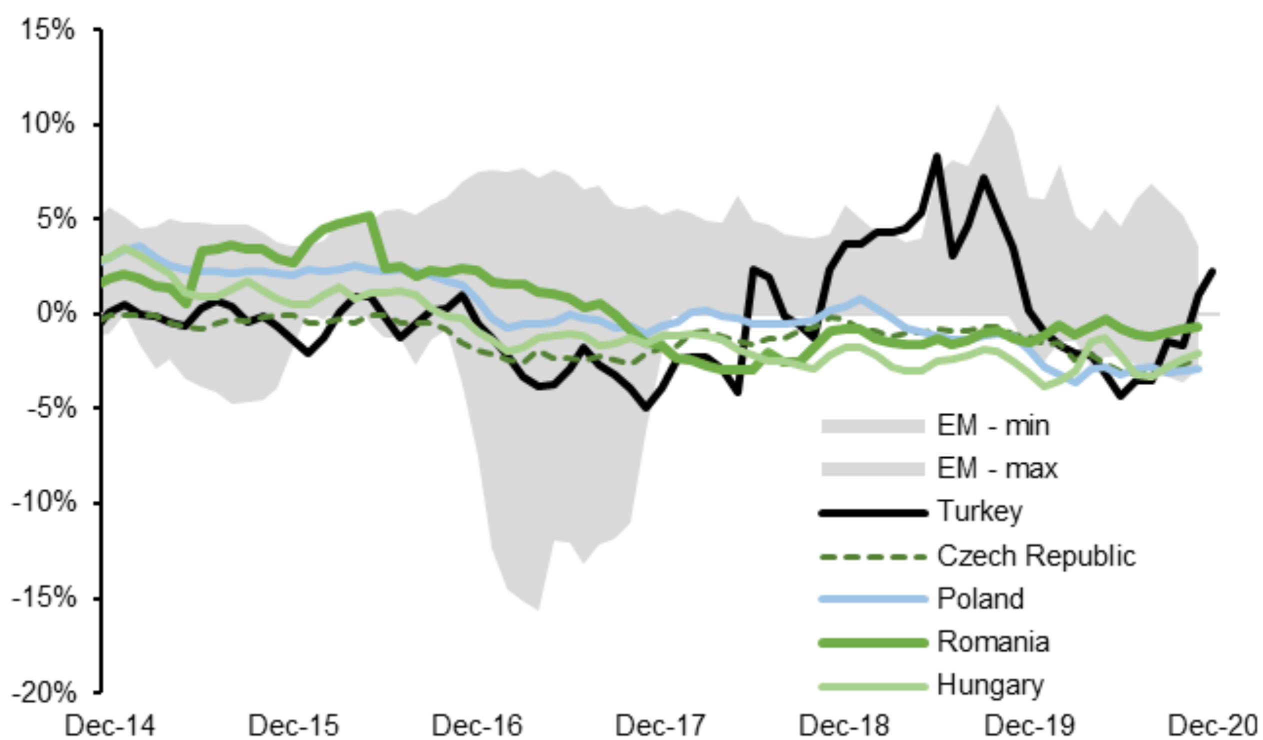


Sources: ADA Economics, CEIC

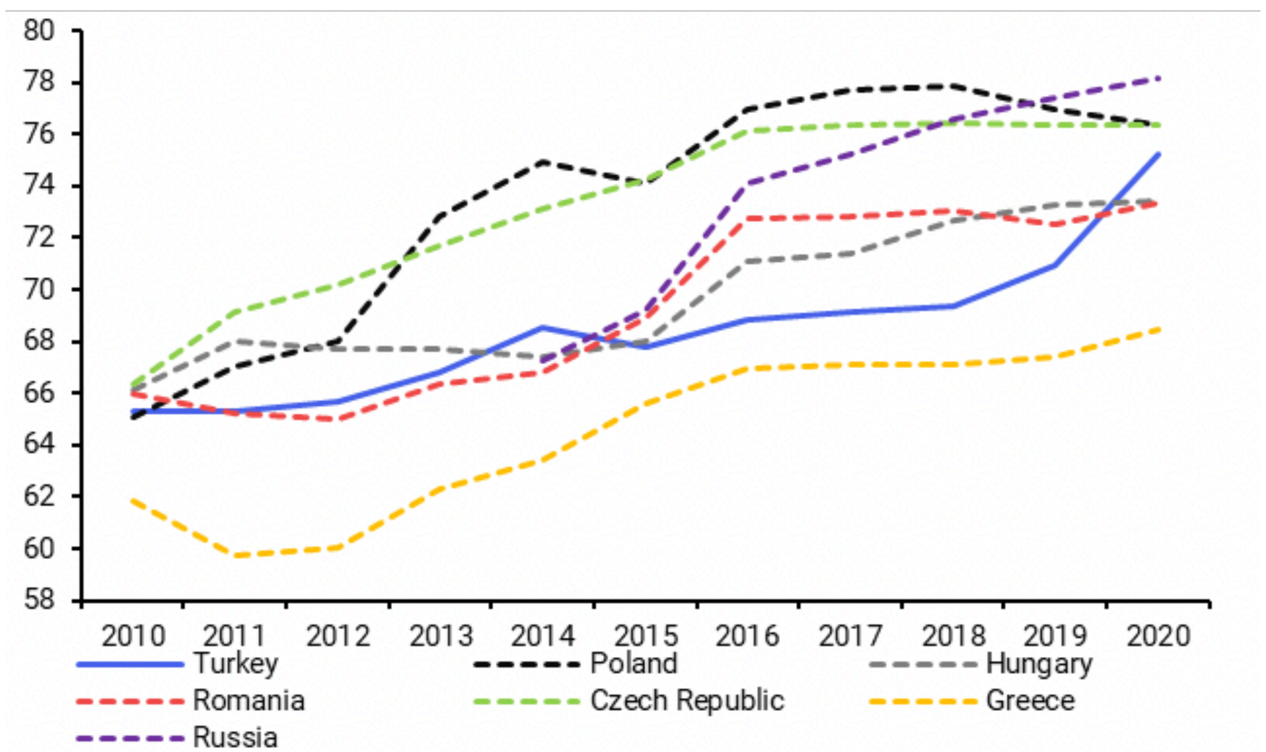
REAL RATES AND COMPETITIVENESS

- Real returns have risen sharply and stand at the top amongst its peers.
- In the past couple of years, the ease of doing business in Turkey has stood out and improved substantially, compared with its peers.

Real policy rates



Doing business score: World Bank



DB10-14 methodology for 2010-14; D15 for 2015 and DB17-20 methodology for 2016-2020.

Sources: ADA Economics, CEIC, World Bank
Note: a sample of Emerging Markets (EM) economies has been chosen, which includes Brazil, Egypt, South Africa, Russia, Mexico and India

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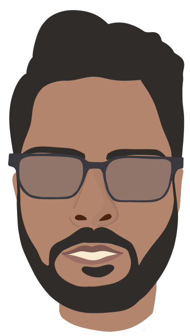

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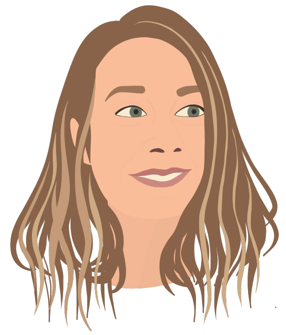

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