



Türkiye: Off the saddle path

October 2015

Passion to Perform

Kubilay M. Öztürk, Chief Türkiye Economist

[REDACTED]
+44 20 7545 8774

Türkiye's sliding-door moment

Macro outlook [MO]: on a soft patch

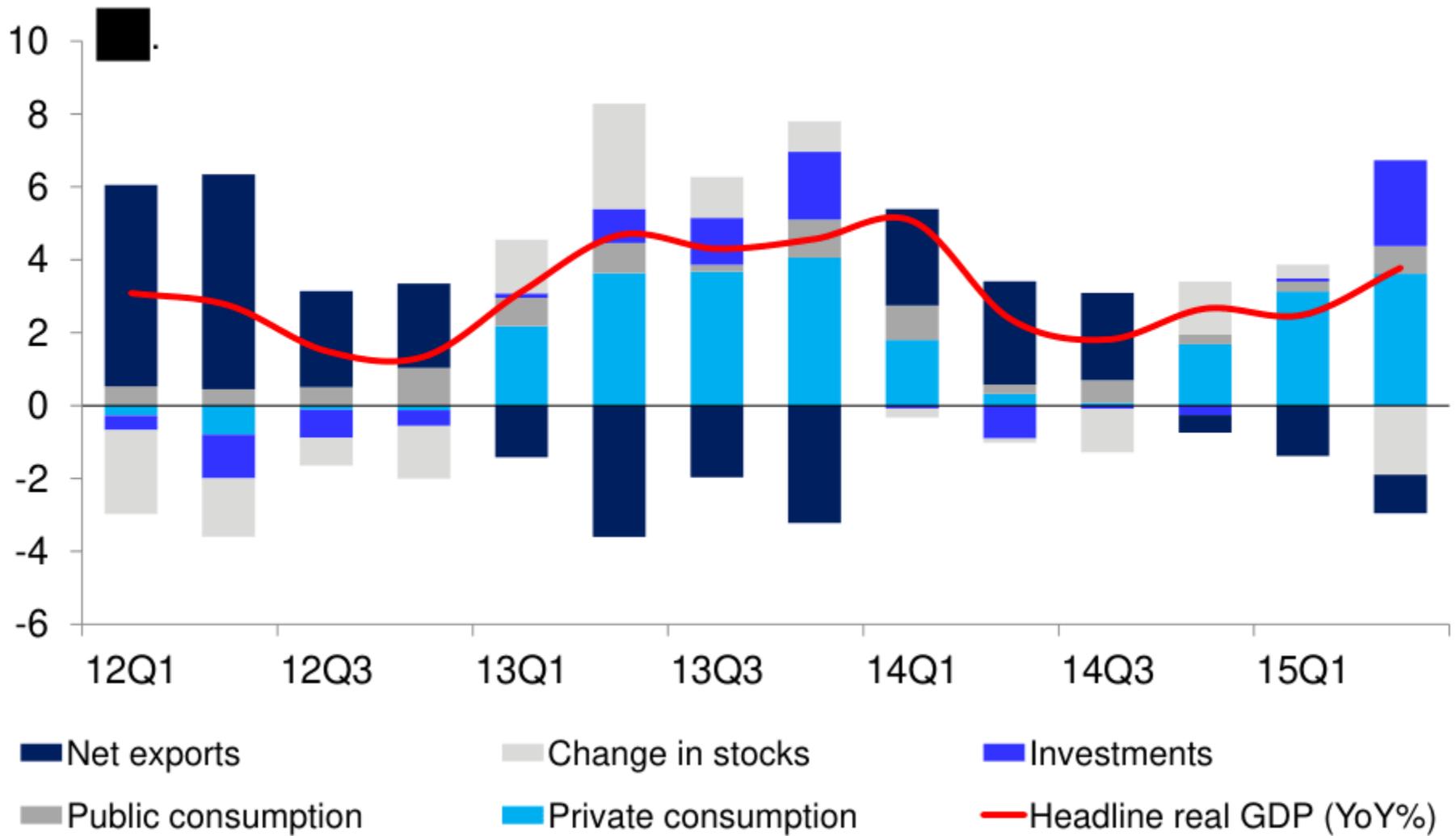
Global threats [GT] vs. cushions [GC] = no [traditional] EM crisis

- China's difficult economic transition
- Excess leverage in some parts of EM
- Evaporating capital inflows...
- ... versus stronger fundamentals [GC] in many EM economies
- Which EM economies appear more vulnerable?

Domestic challenges [DC]

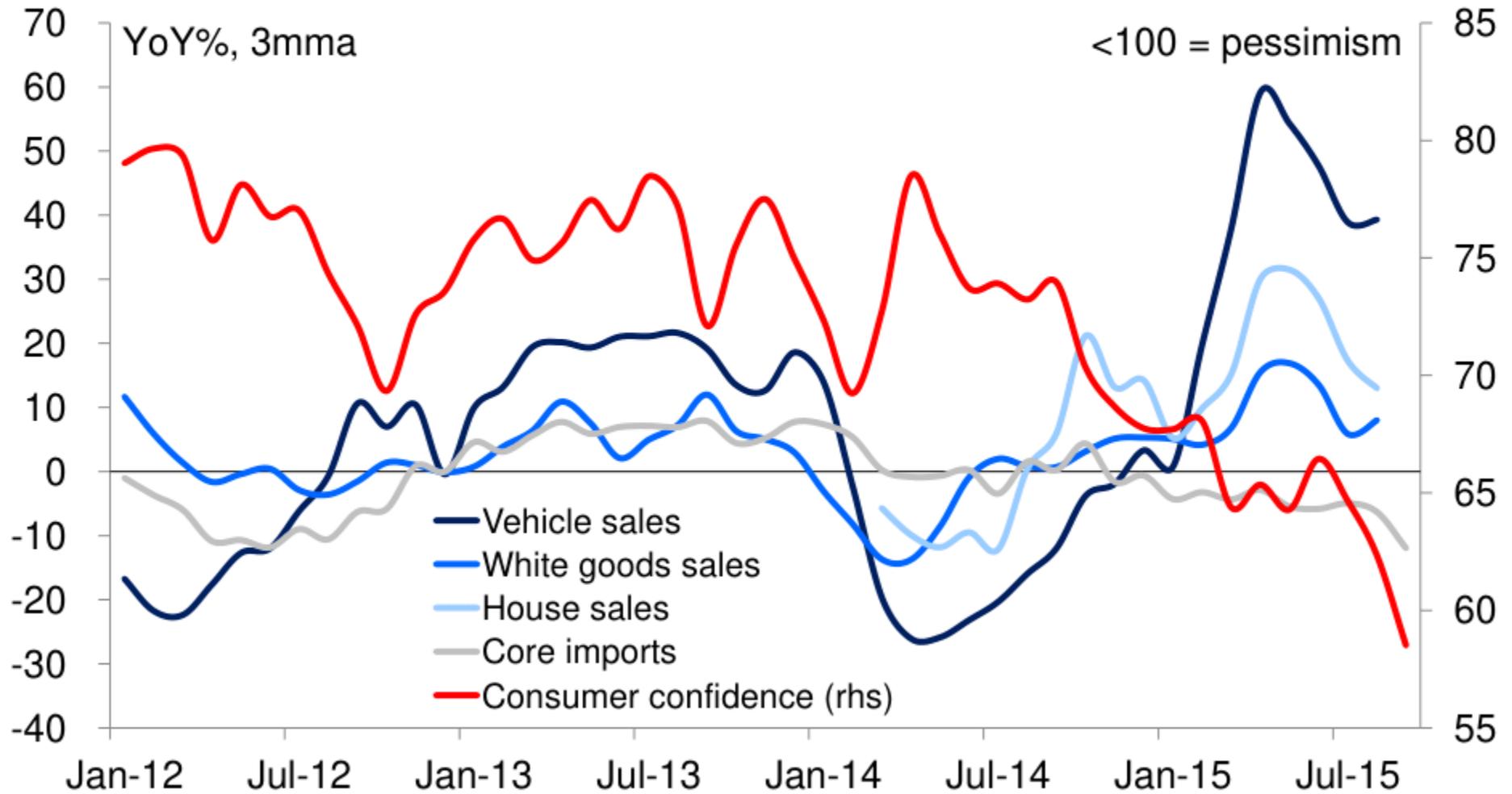
- Turkish politics: from one hung parliament to another?
- In search of structural reforms

MO-1. Growth remained sub-par yet still defiant in H1 2015...



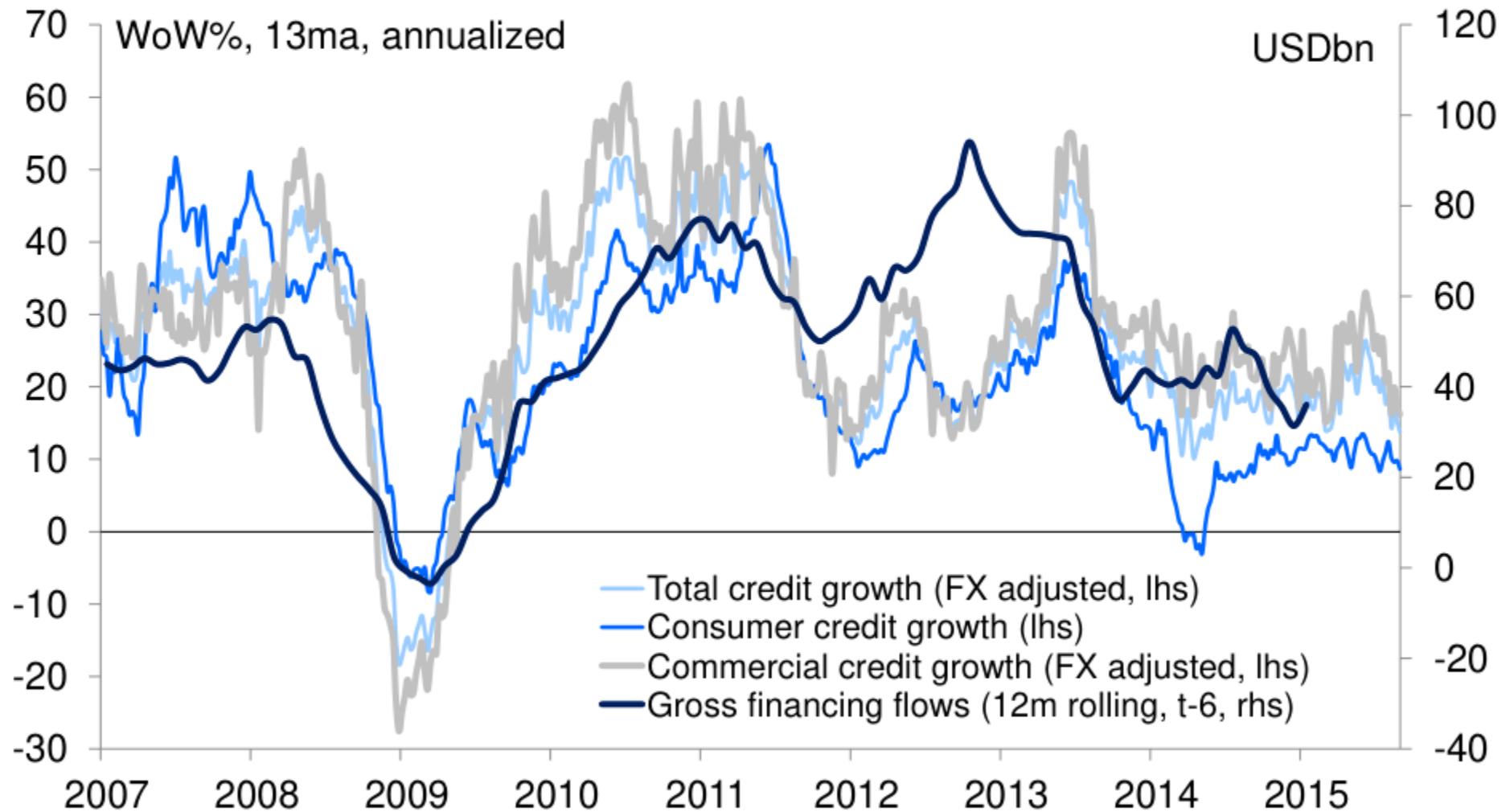
Source: Haver Analytics, TurkStat, and Deutsche Bank

MO-2. ...while latest high-frequency indicators point to a soft landing...



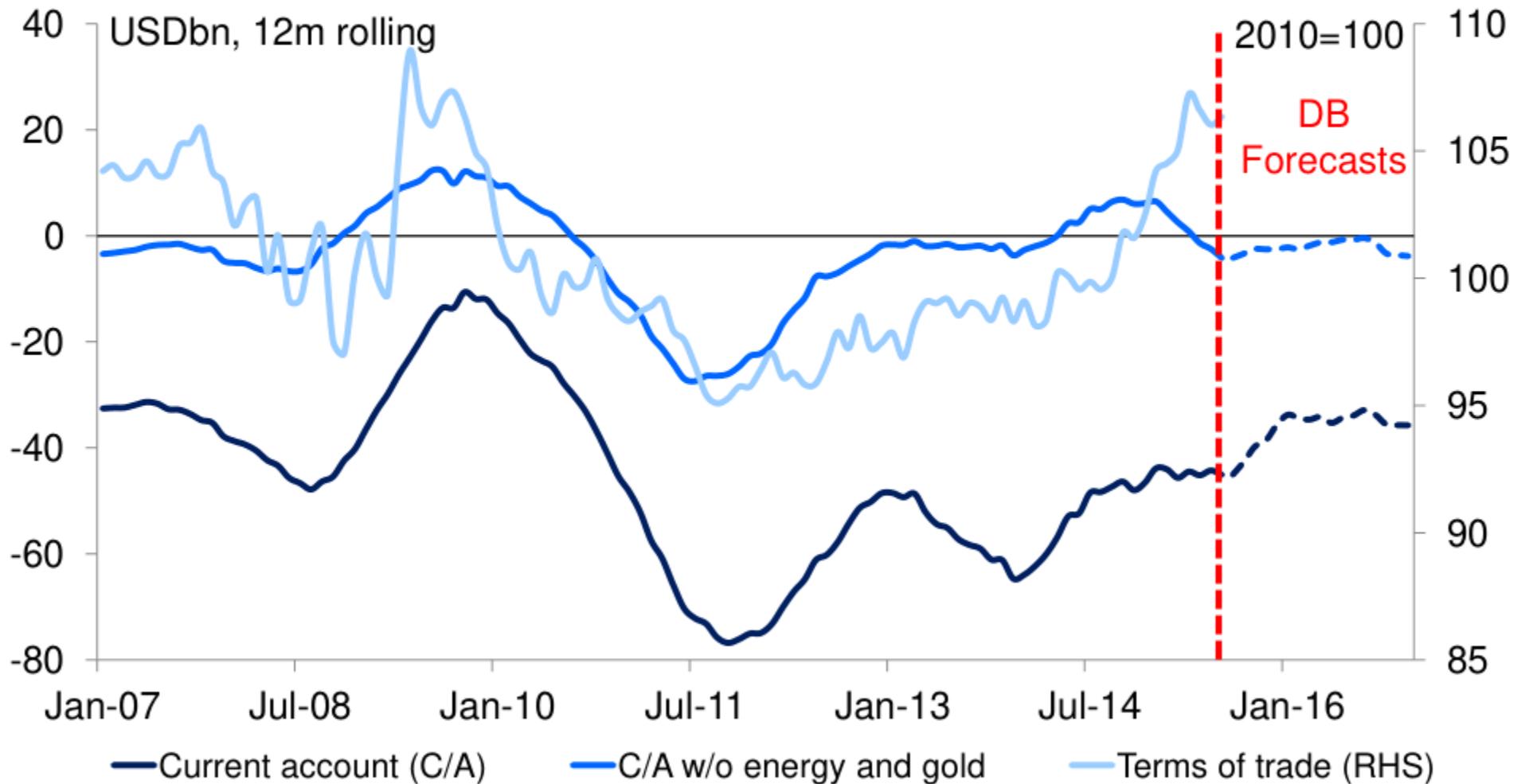
Source: Haver Analytics, TurkStat, CBT, and Deutsche Bank

MO-3. ...as also signalled by the ongoing slowdown in loan growth and capital inflows



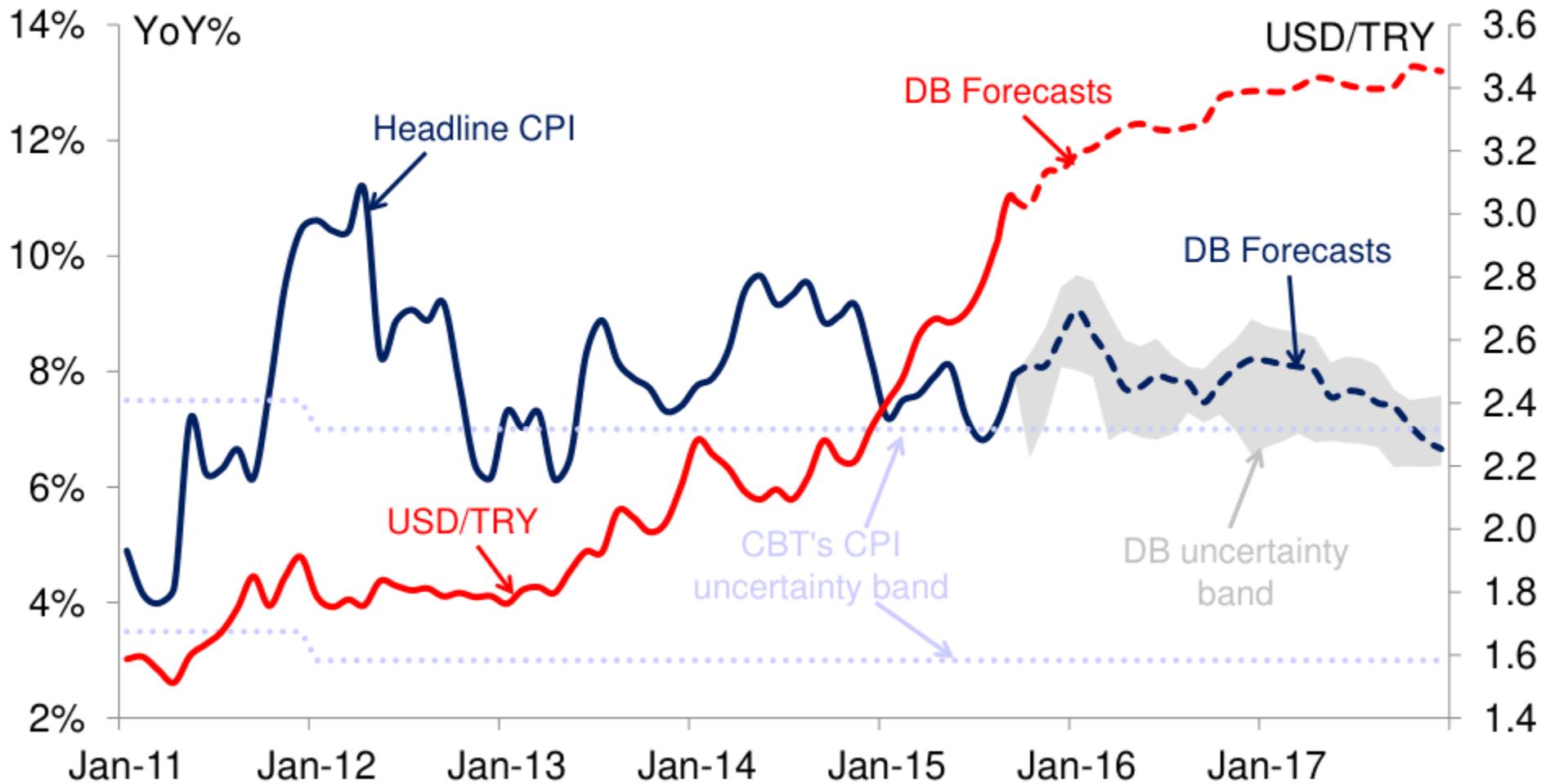
Source: Haver Analytics, CBT, TurkStat, and Deutsche Bank

MO-4. Current account deficit is likely to improve in H2 2015 not due to the positive ToT shock yet on the back of slower growth



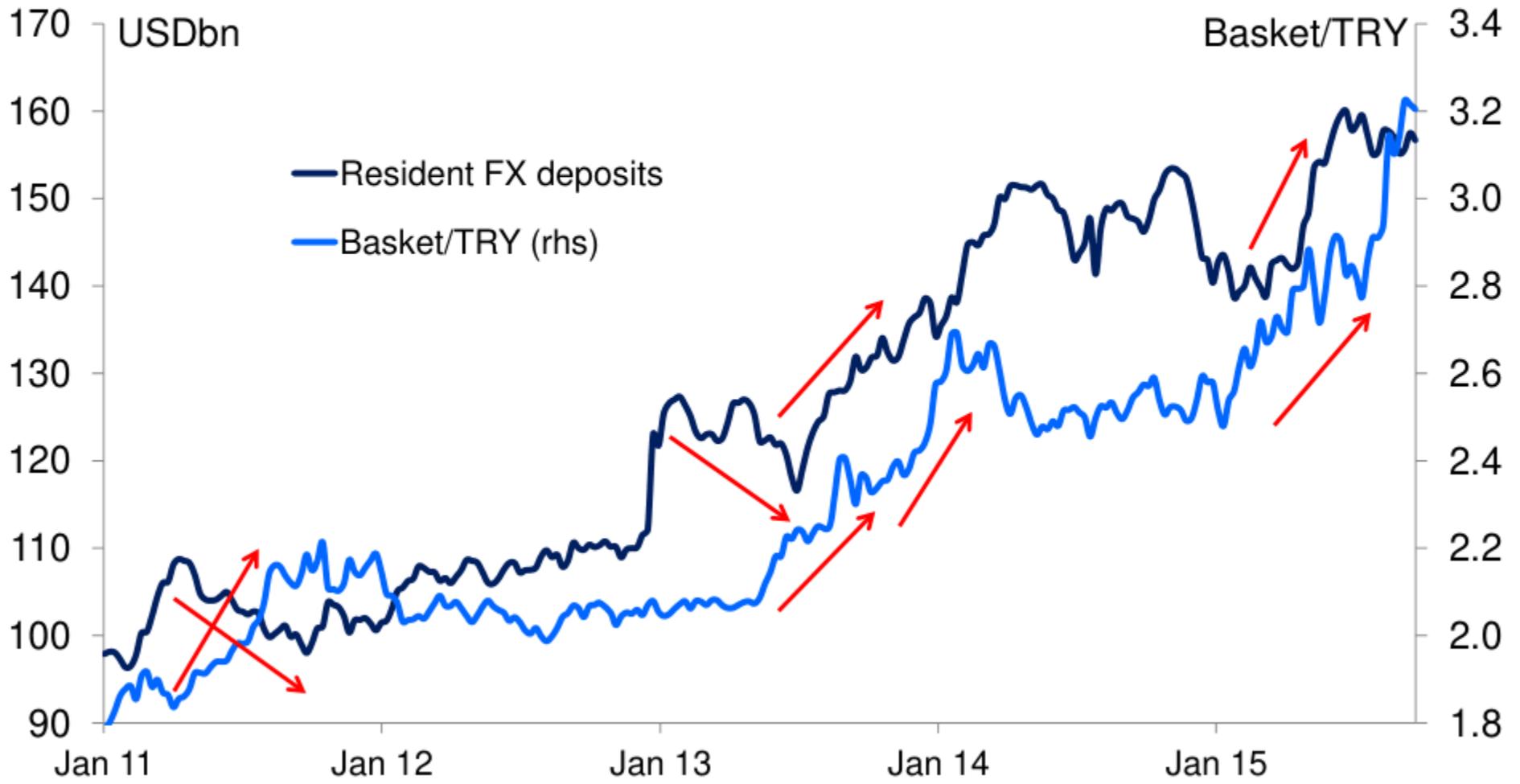
Source: Haver Analytics, CBT, TurkStat, and Deutsche Bank

MO-5. Despite dented commodity prices, inflation is set to remain above 7% in the coming period due to re-kindled FX pass-through



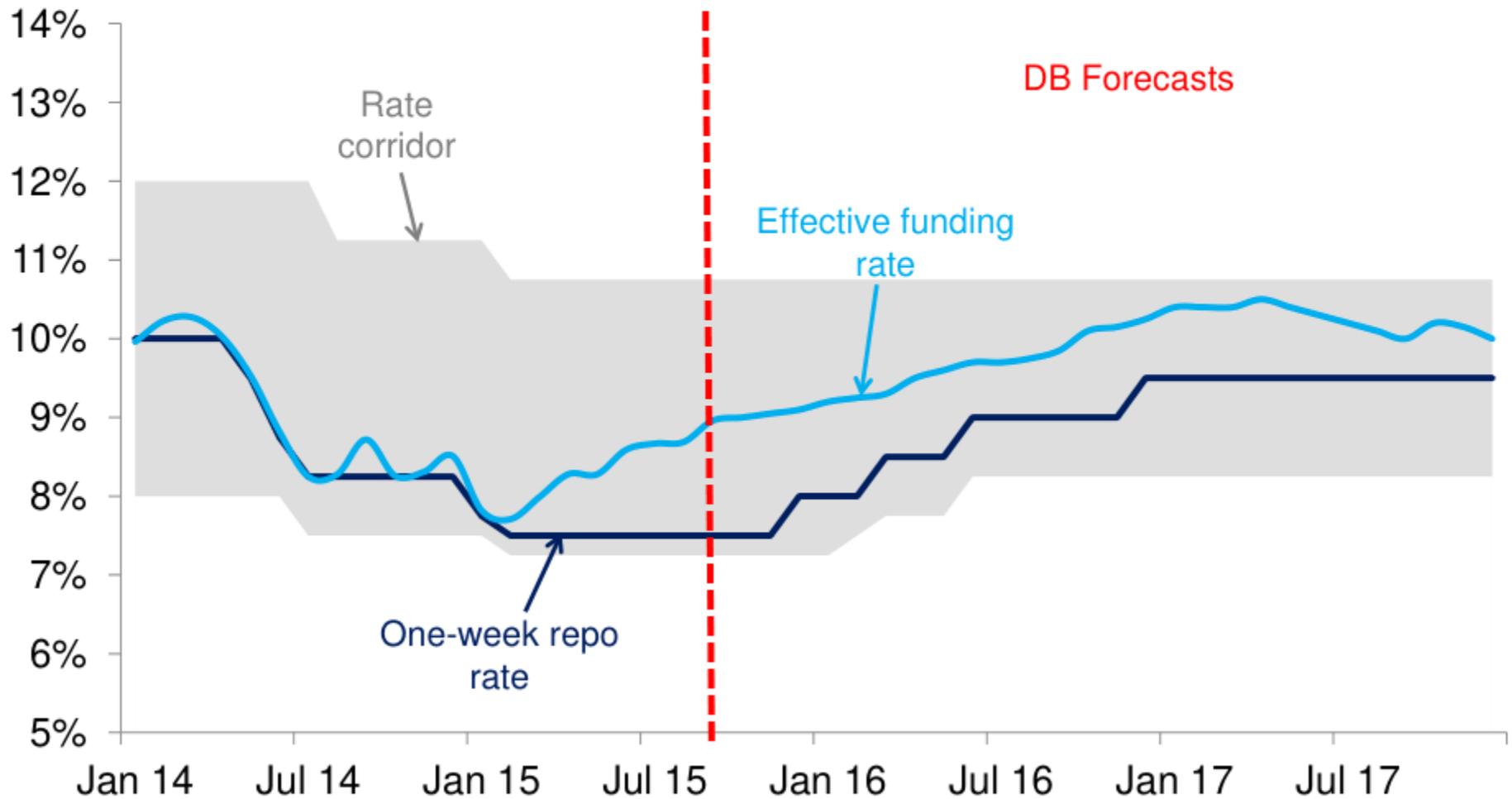
Source: Haver Analytics, CBT, TurkStat, and Deutsche Bank

MO-6. Residents are long in FX and used to balance out movements in TRY, yet not any more since the Fed taper tantrum



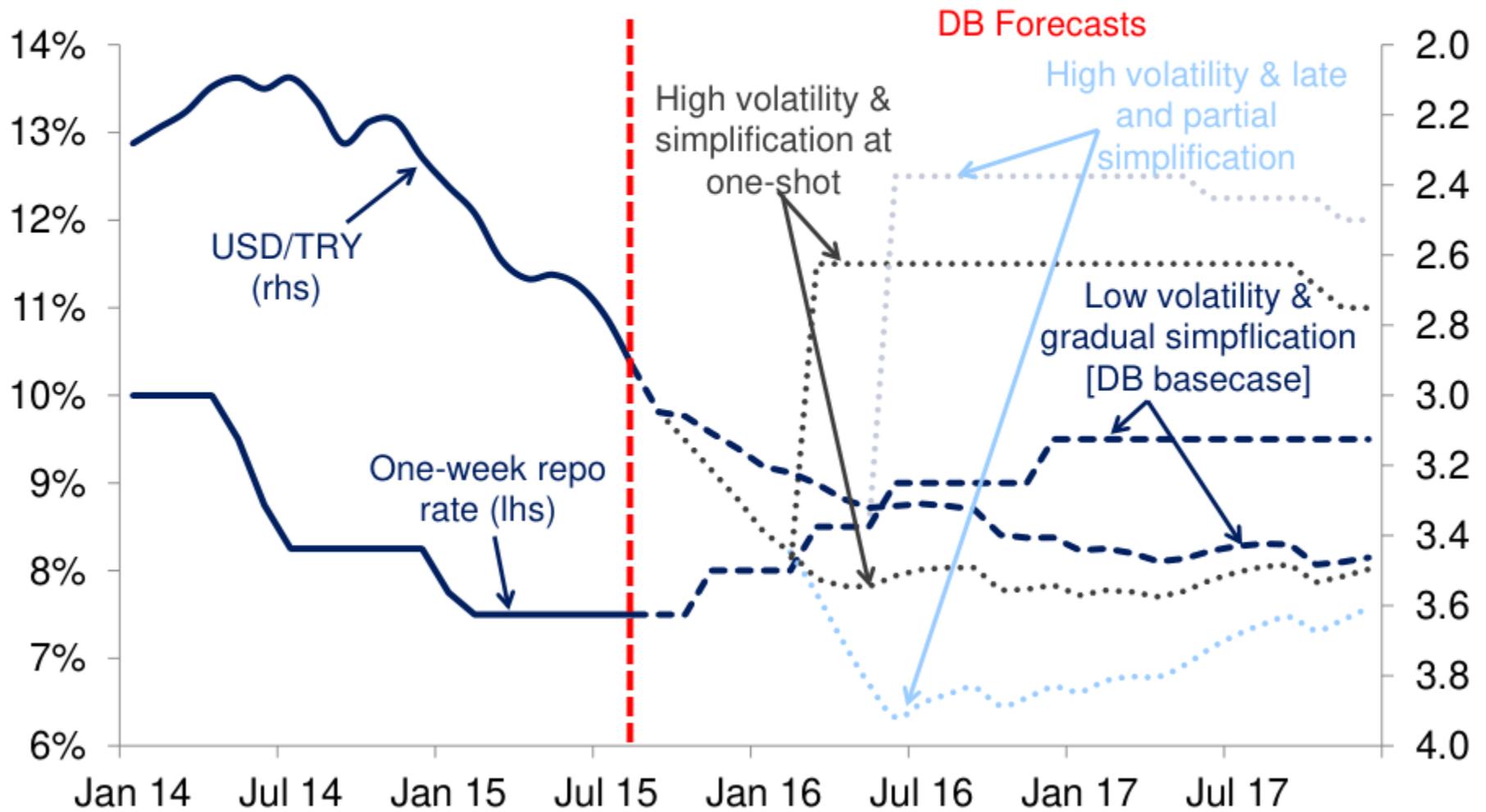
Source: Haver Analytics, CBT, and Deutsche Bank

MO-7. CBT has committed to following the footsteps of the FED as part of its framework simplification...



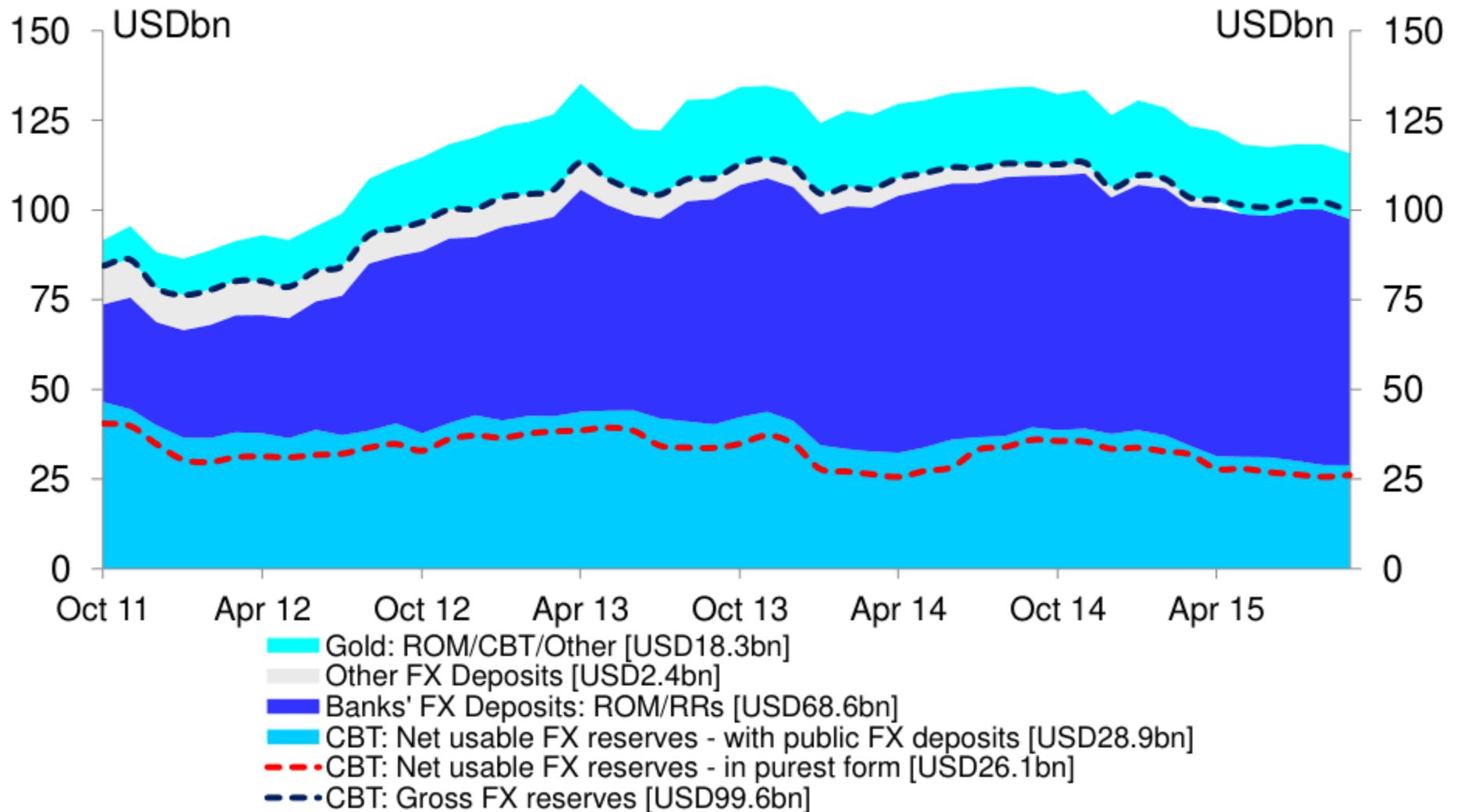
Source: Haver Analytics, CBT, and Deutsche Bank

MO-8. ...while alternative rate paths are possible depending on which volatility regime dominates ahead



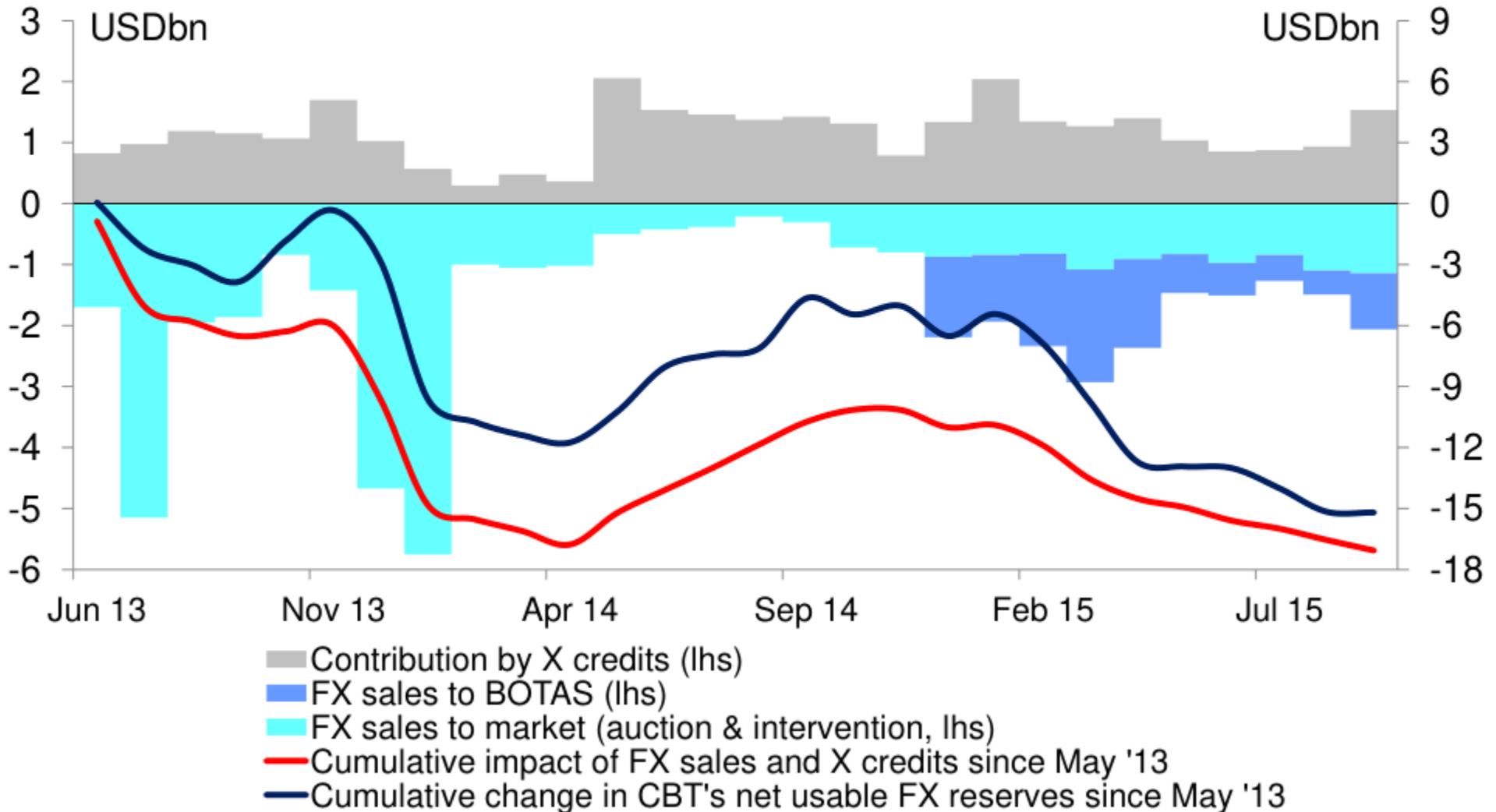
Source: Haver Analytics, CBT, and Deutsche Bank

MO-9. CBT's FX reserves are shrinking...



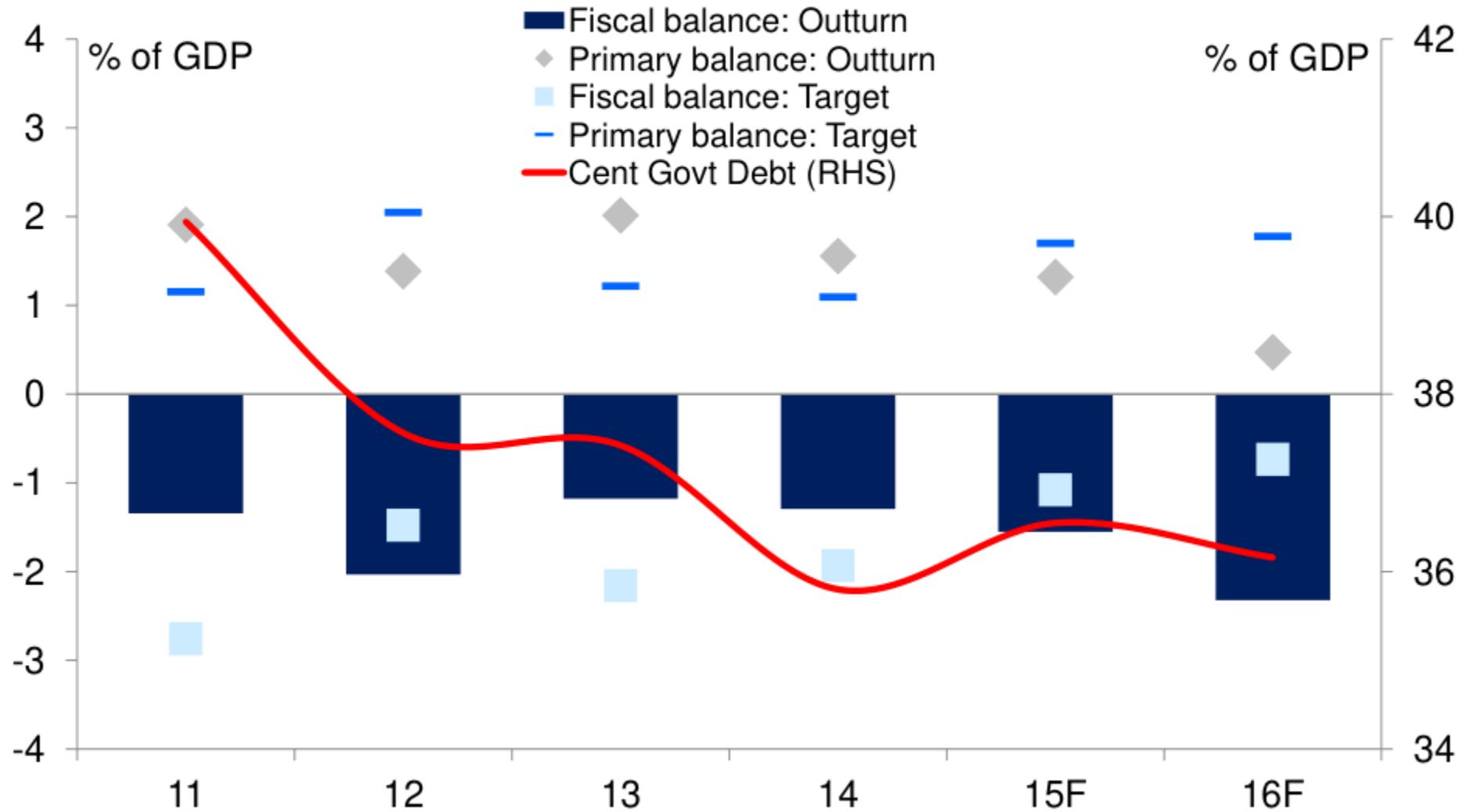
Note: As of end-September. CBT's net usable FX reserves are calculated by subtracting 'Banks' FX deposits' (either in the form of ROM or FX required reserves) and 'Other FX deposits' from the CBT's gross FX reserves. The dotted line [CBT's net usable FX reserves - in purest form] is achieved by further subtracting 'Public FX deposits' (i.e. held by the Treasury and other state entities). Figures in parenthesis refer to latest readings. CBT's official mid-rate for USDTRY is used for conversion purposes. Source: Haver Analytics, CBT, and Deutsche Bank

MO-10. ...due to ongoing sales to BOTAS and markets and there is no quick fix



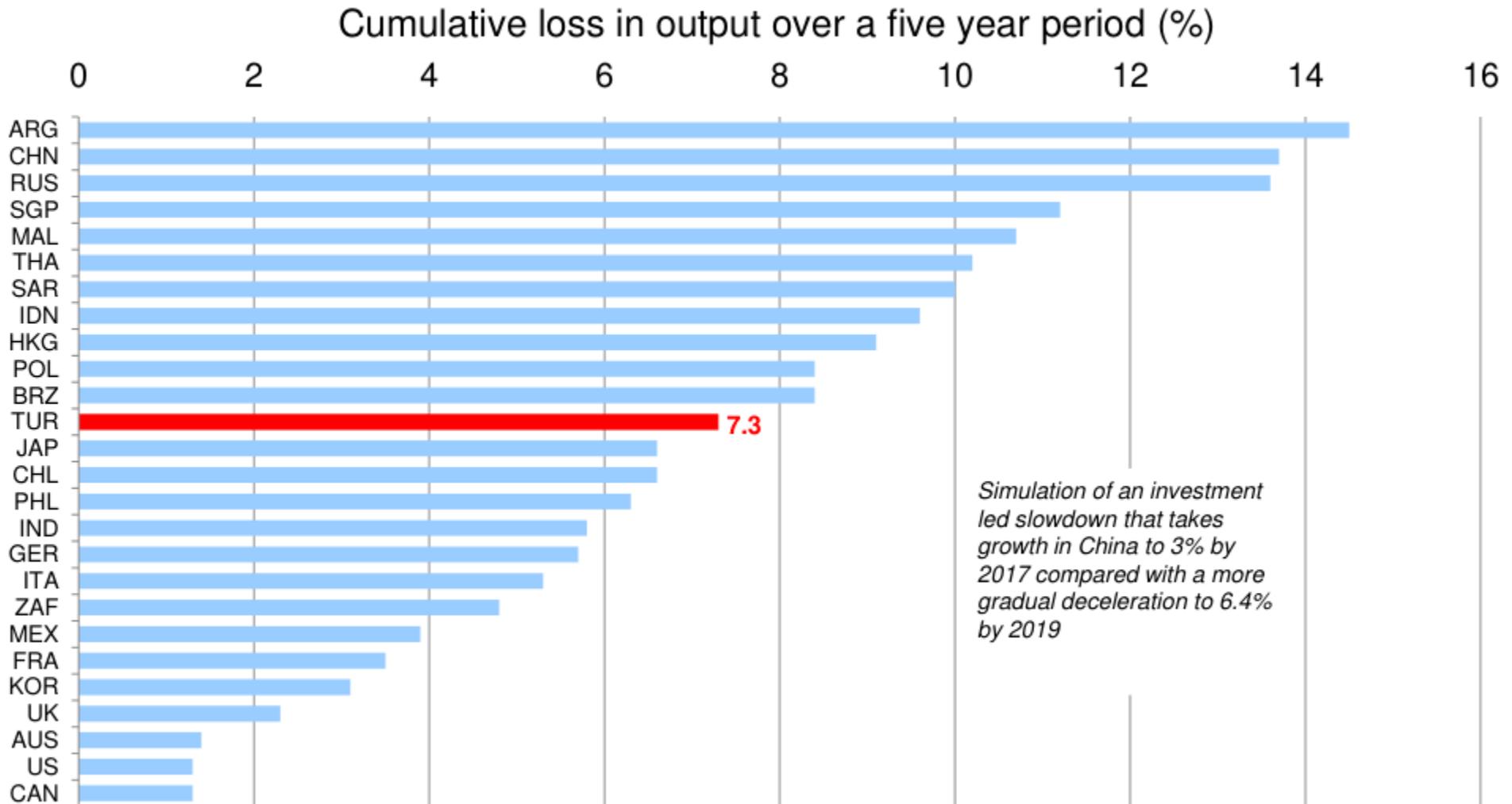
Source: Haver Analytics, CBT, and Deutsche Bank

MO-11. Fiscal balances remain under control, yet for how long?



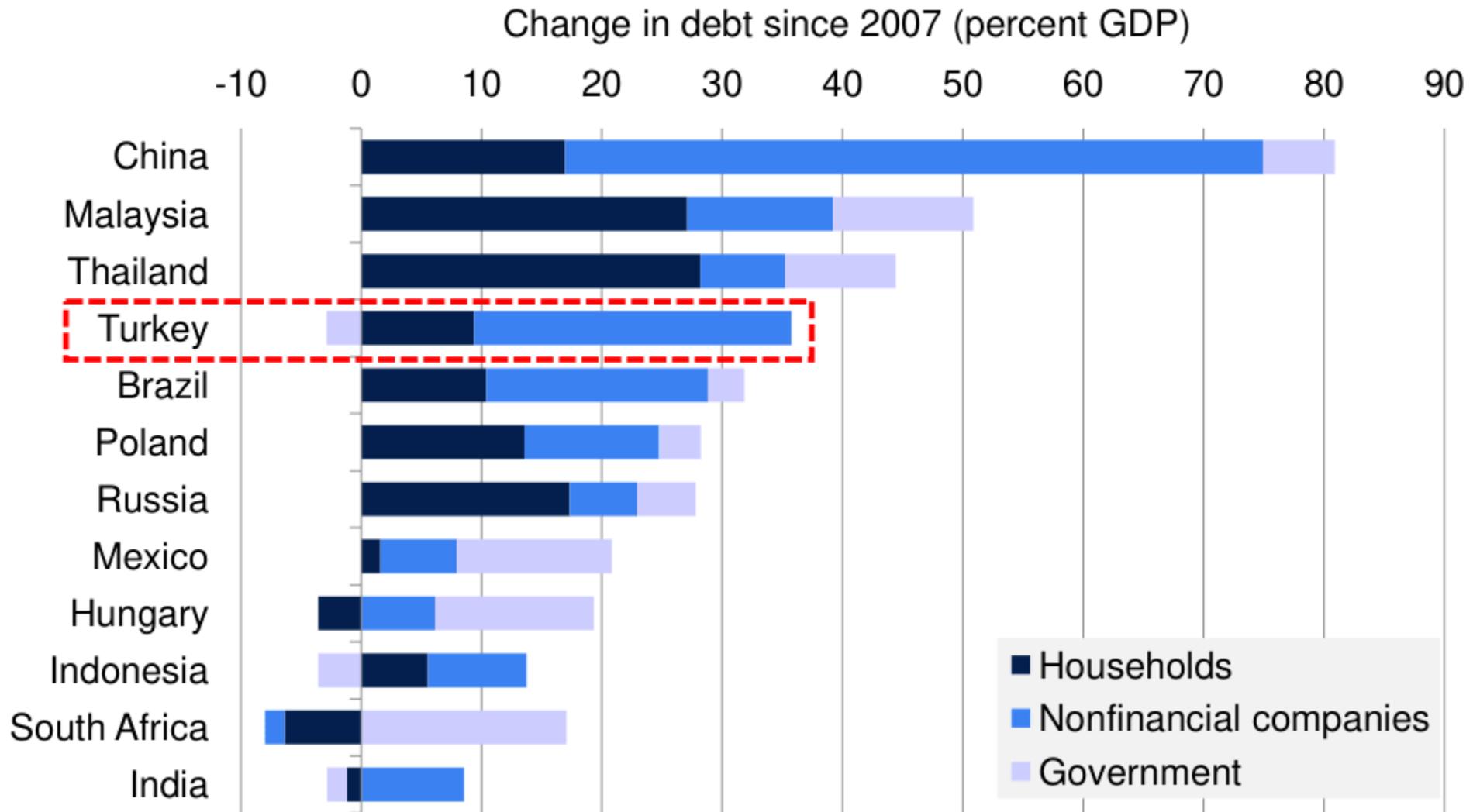
Source: Haver Analytics, Ministry of Finance, and Deutsche Bank

GT-1. The potential impact of a hard landing in China



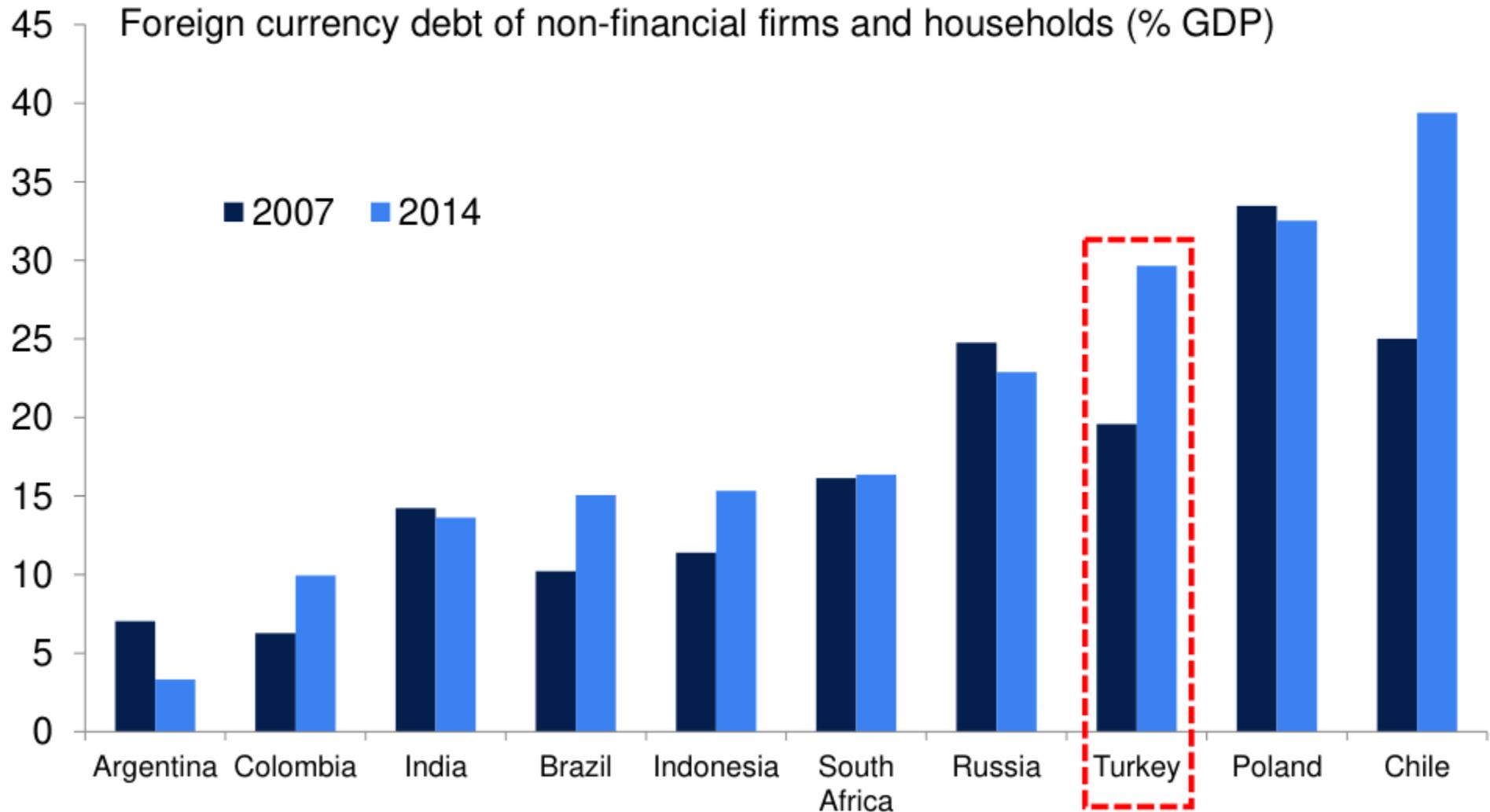
Source: Guavin and Rebillard, 2015 (Banque de France working paper no. 562)

GT-2a. Cheap funding has resulted in large rise in debt in some cases



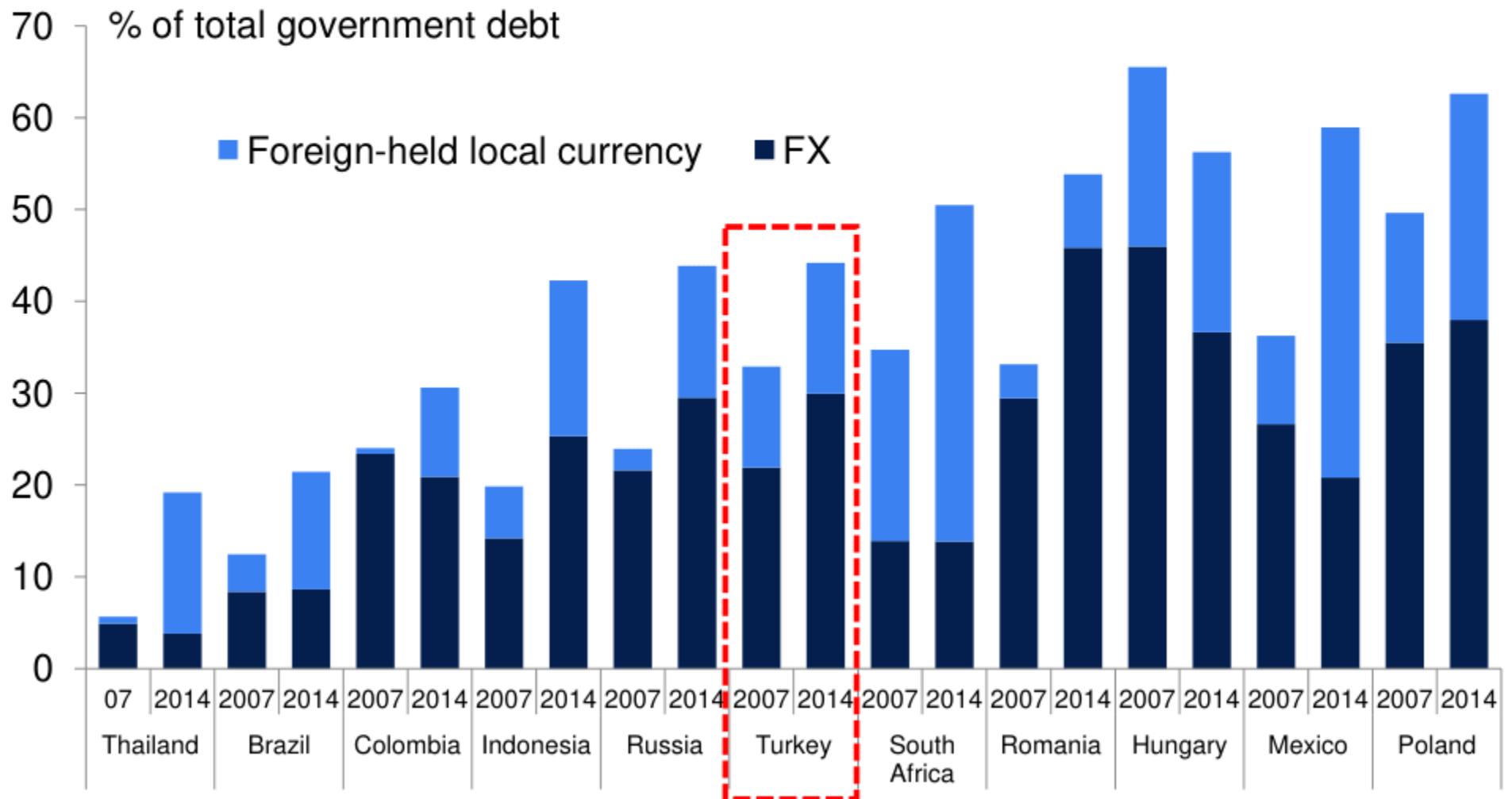
Source: IMF and Deutsche Bank

GT-2b. Borrowing has been funded in FX in some cases



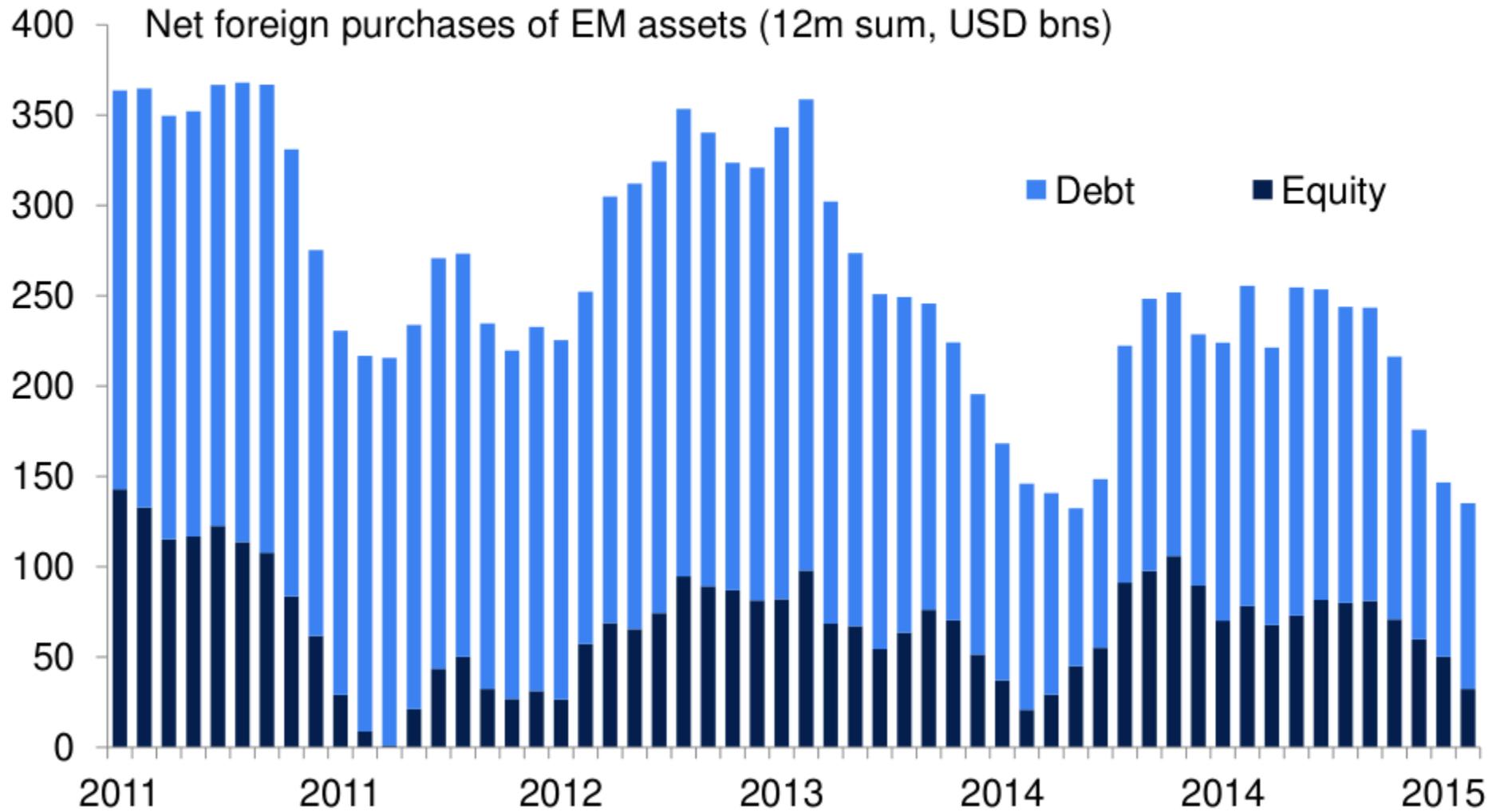
Source: IMF and Deutsche Bank

GT-2c. While sovereigns have mostly avoided ramping up their dollar borrowing, foreign ownership of local currency debt has risen.



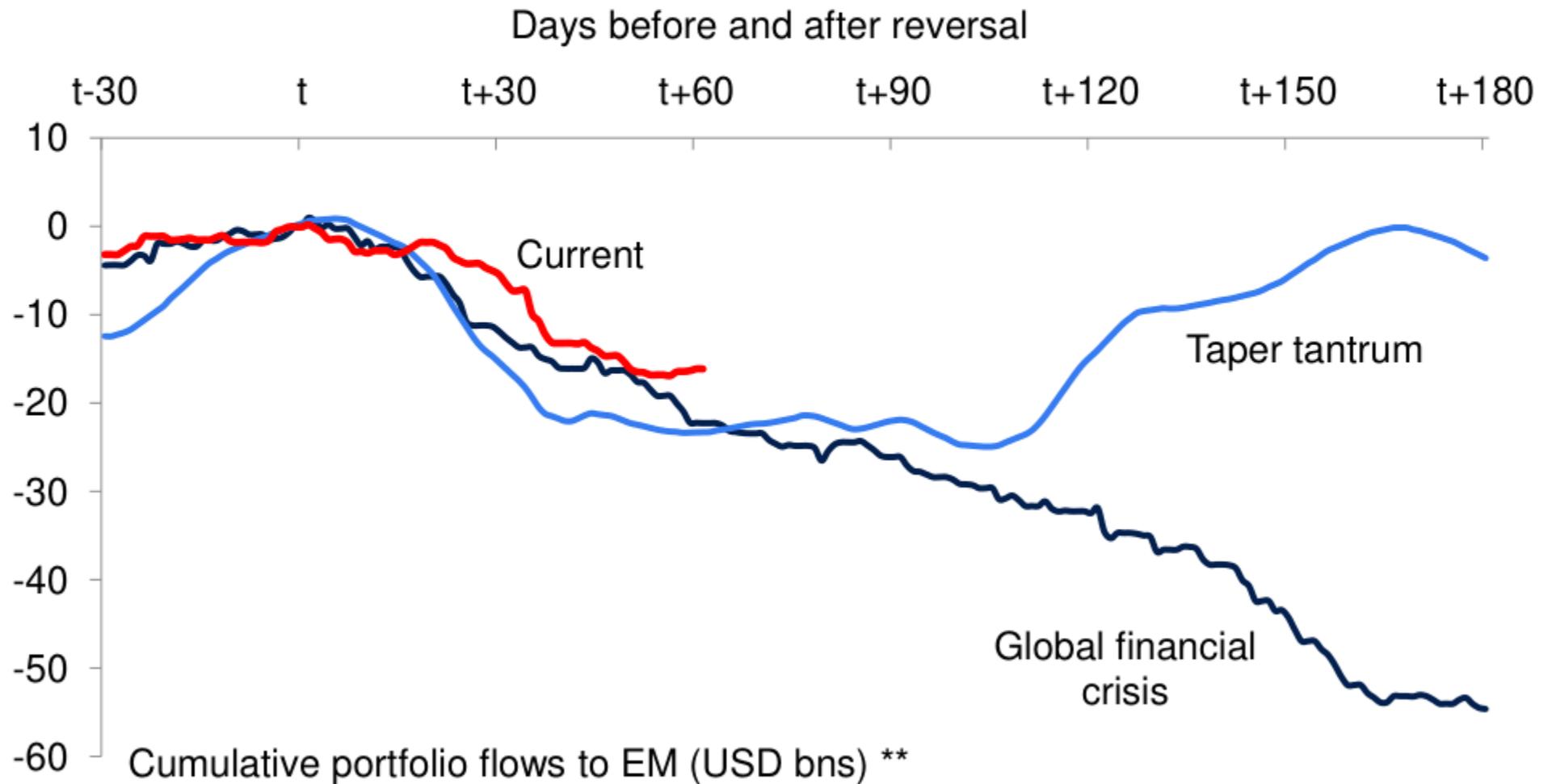
Source: IMF and Deutsche Bank

GT-3a. Capital flows to EM: down but not out



Source: IIF and Deutsche Bank

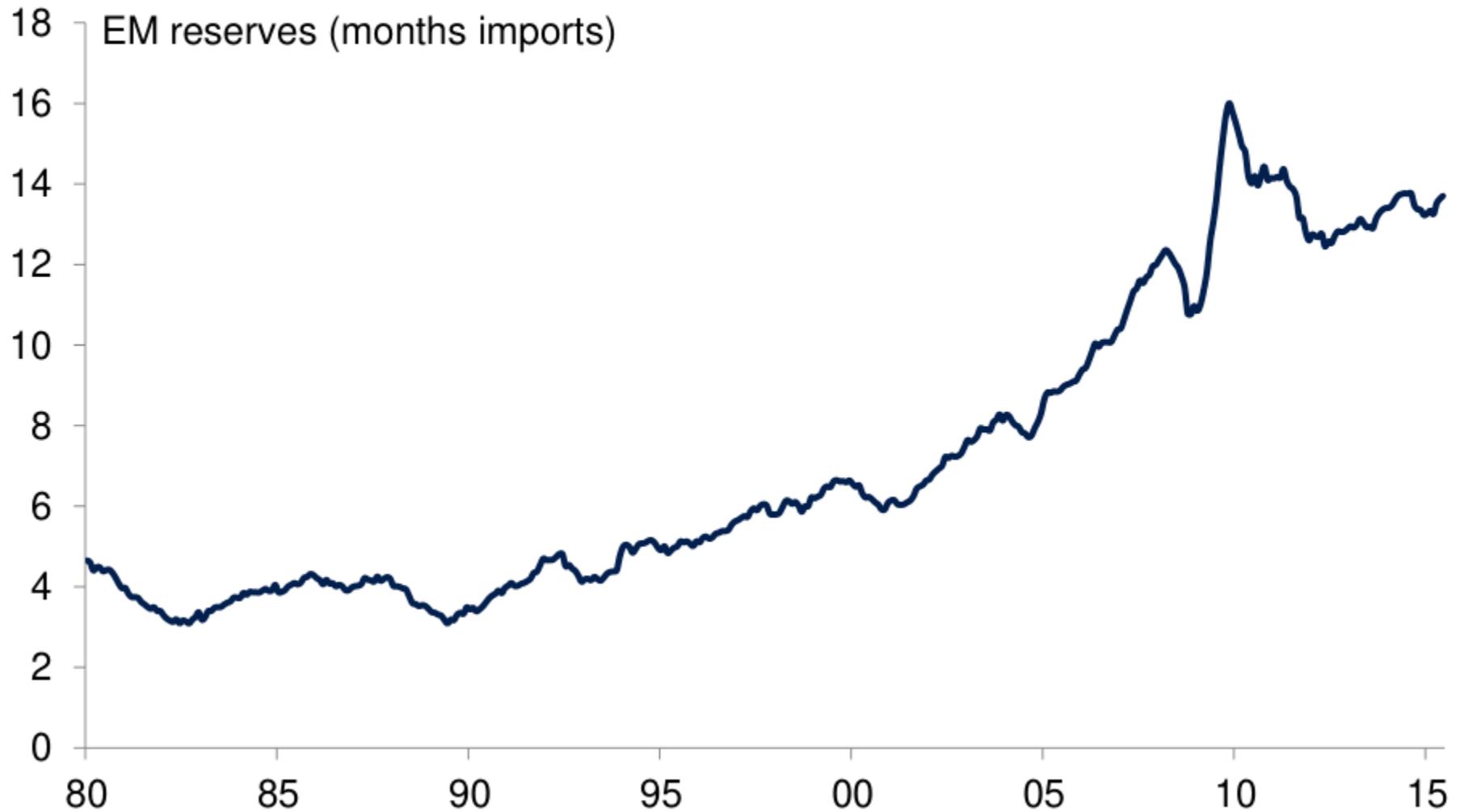
GT-3b. Capital outflows have been about 70-80% of the magnitude observed during the 2013 taper tantrum



** Sample of seven EM countries

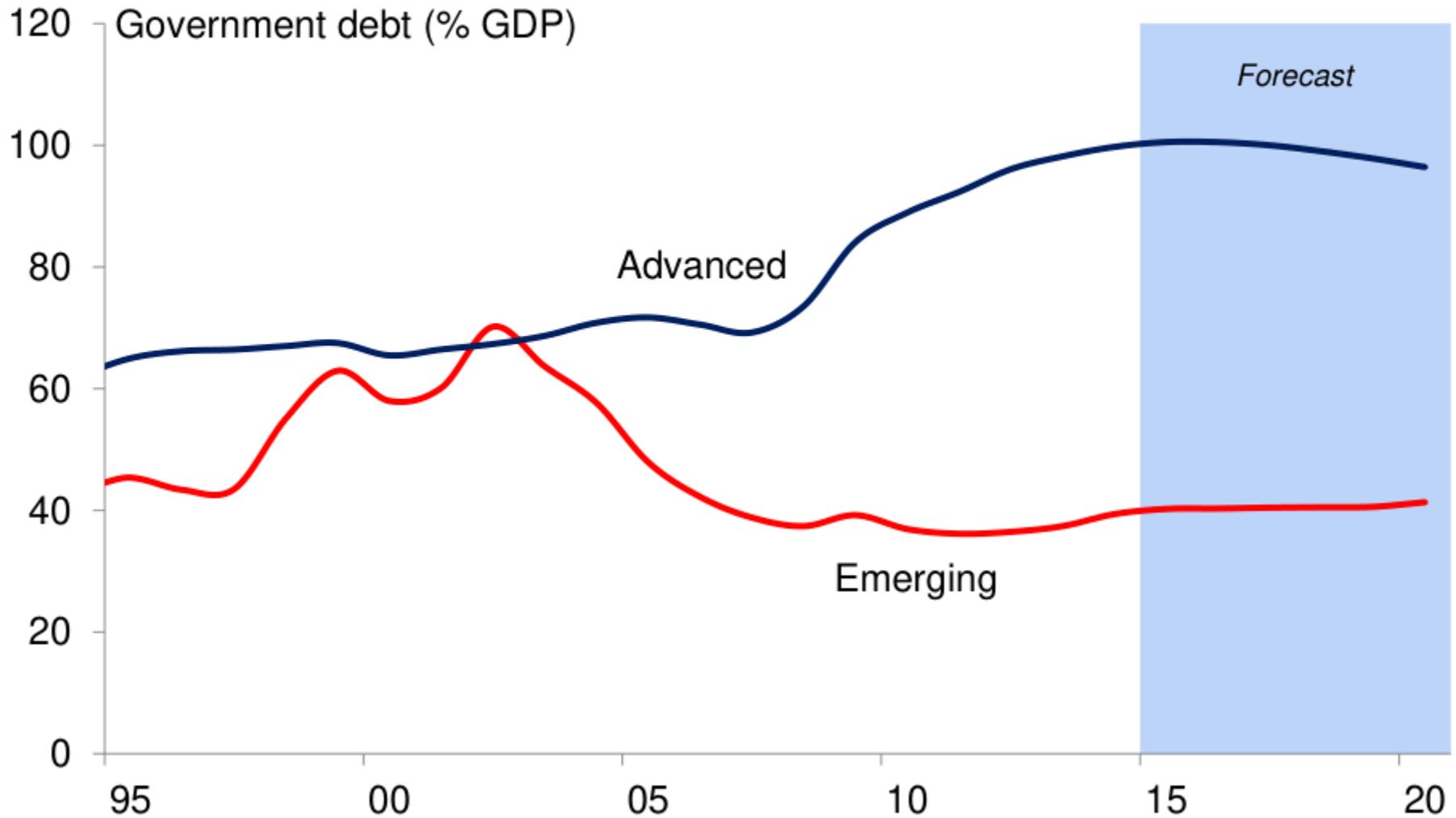
Source: IIF and Deutsche Bank

GC-1. Foreign reserves are substantial in EM



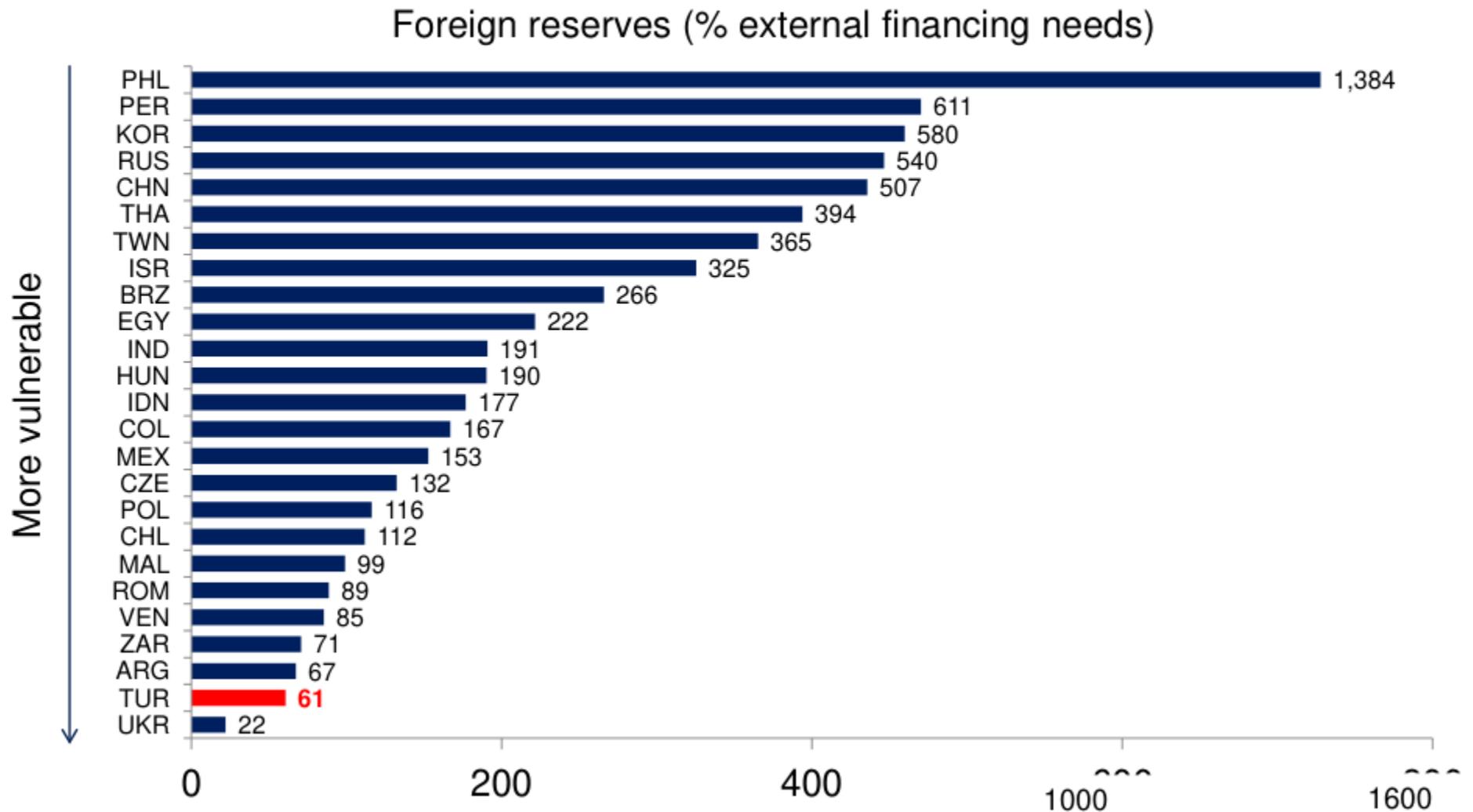
Source: Haver Analytics and Deutsche Bank

GC-2. Government debt levels in EM well below DM



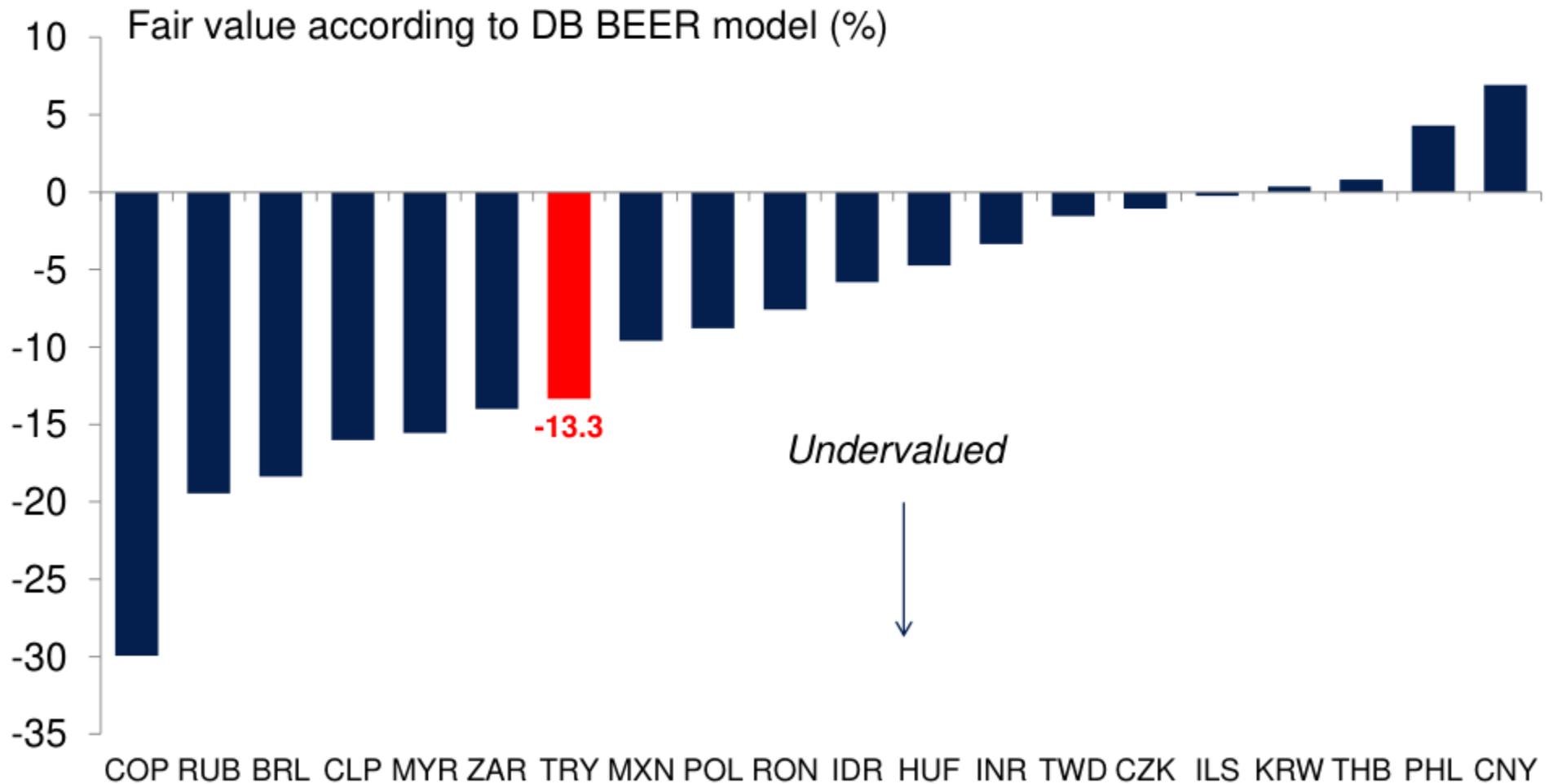
Source: Haver Analytics and Deutsche Bank

Finding the weakest EM: who has enough reserve cover?



Source: Haver Analytics, World Bank Quarterly External Debt Statistics, National Central Banks, Deutsche Bank Research

Finding the weakest EM: FX is already cheap but further adjustment may have to required to restore external balance



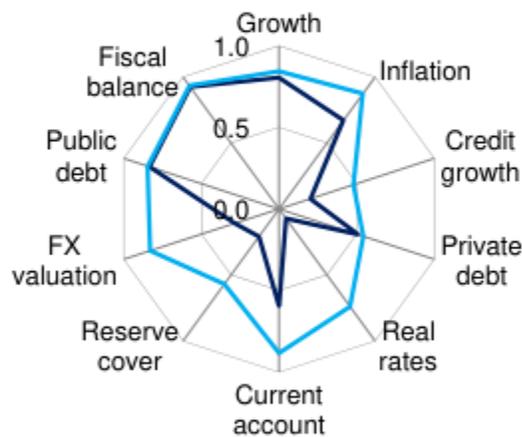
Source: Deutsche Bank Research

Finding the weakest EM: macro adjustment in major EM economies has been limited since the Fed taper tantrum

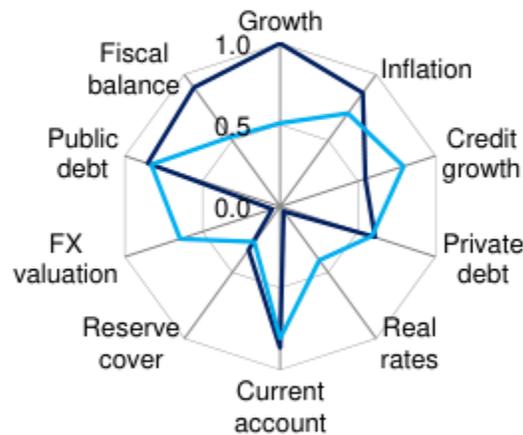
India has adjusted

Brazil has not...

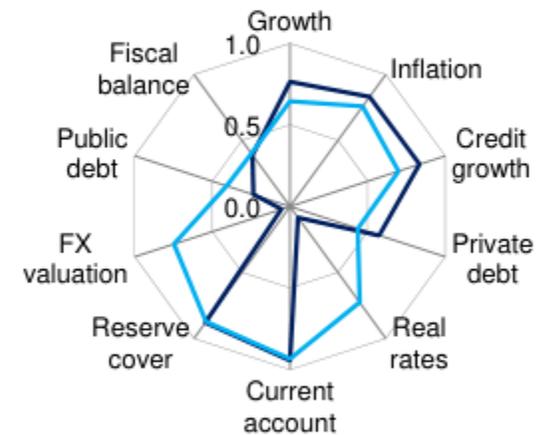
...and nor has Türkiye



— Current — Pre taper tantrum



— Current — Pre taper tantrum

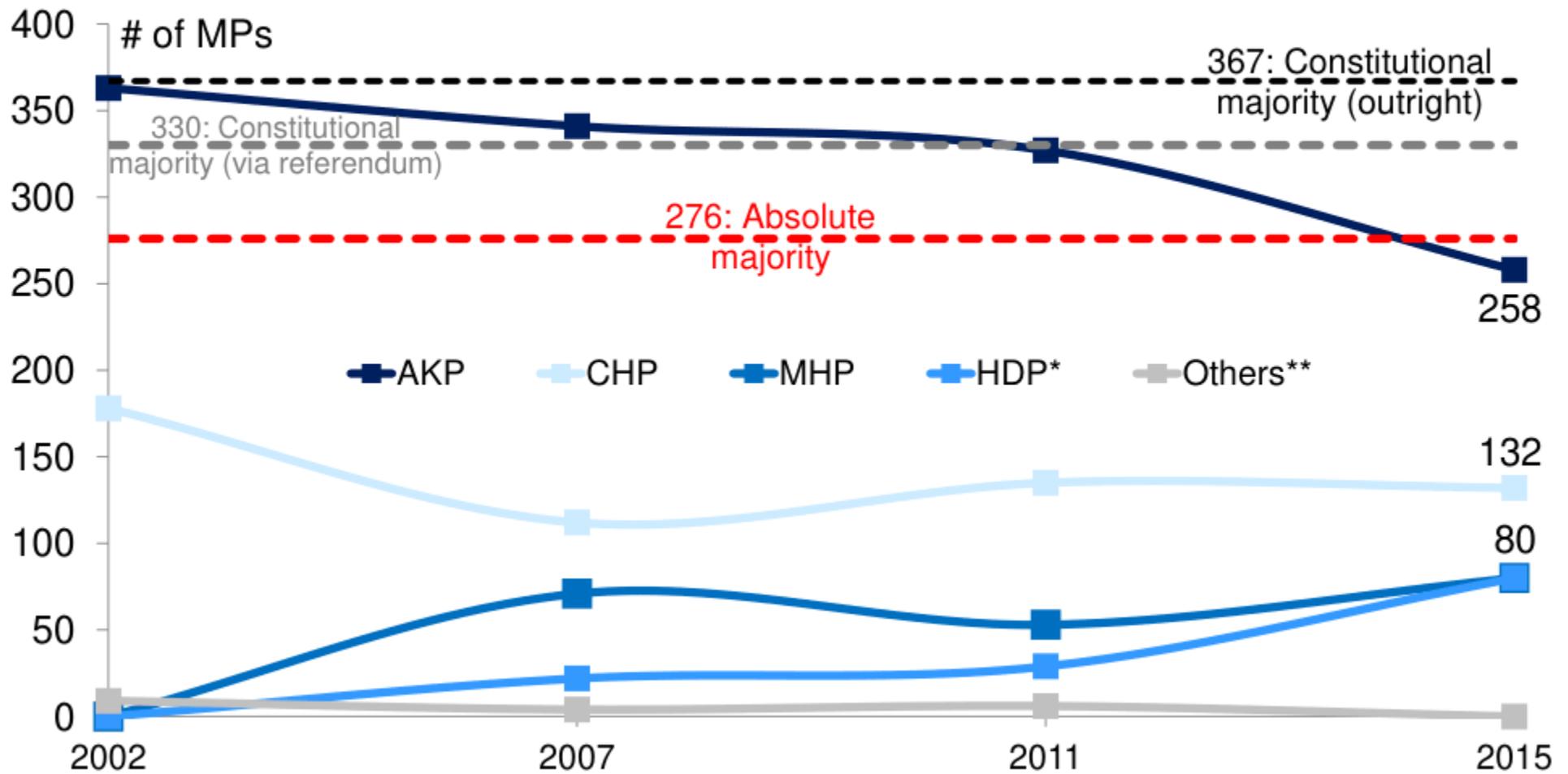


— Current — Pre taper tantrum

The chart shows vulnerability scores for ten indicators from 0 (least vulnerable) to 1 (most vulnerable) such that a move towards the centre of the web represents a reduction in vulnerability

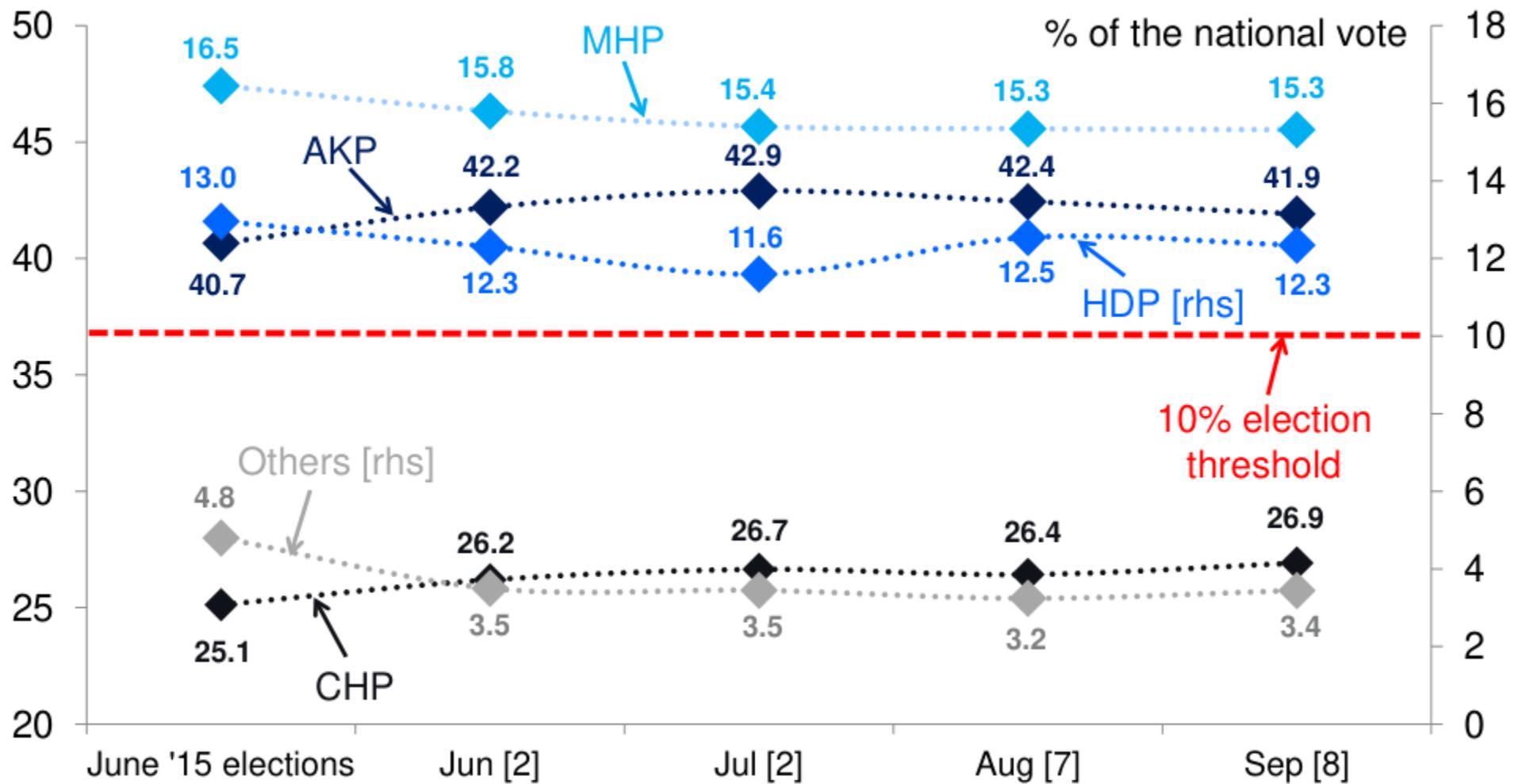
Source: Haver Analytics and Deutsche Bank

DC-1a. AKP lost her overall majority in the June 2015 elections for the first time since 2002



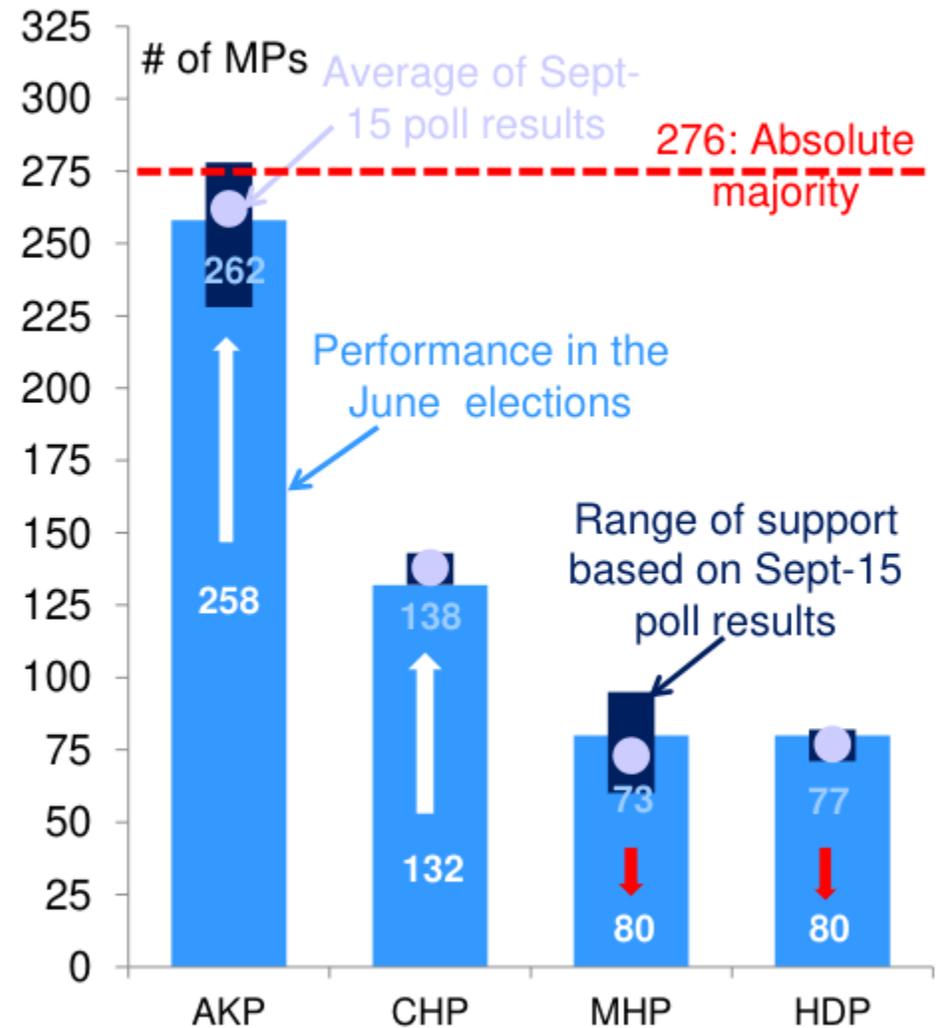
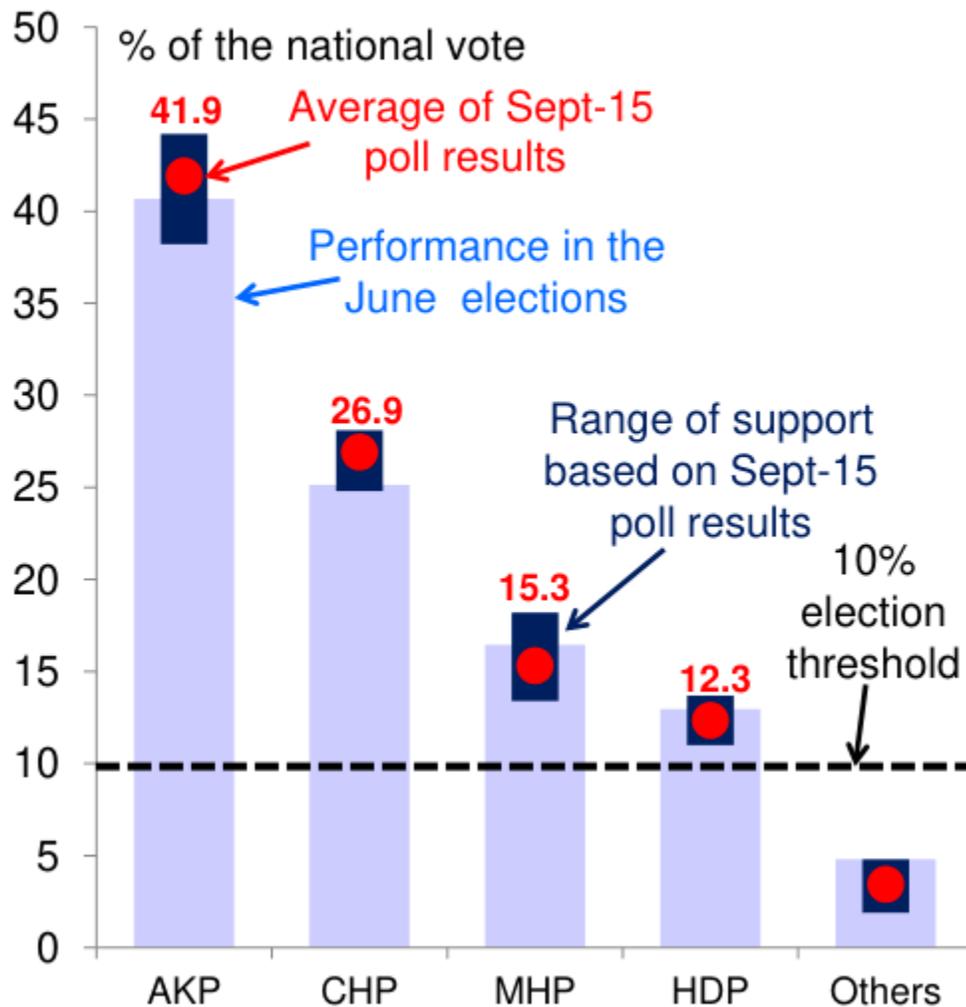
Note: (*) HDP has been established in 2012. Hence, figures for 2007 and 2011 represent former pro-Kurdish parties, i.e. DTP and BDP. In 2002, HEDAP entered as a single party, but remained at 6.2%. (**) 'Others' include smaller political parties and independent candidates.
 Source: YSK, TurkStat, and Deutsche Bank

DC-1b. Latest opinion polls still point to another hung parliament...



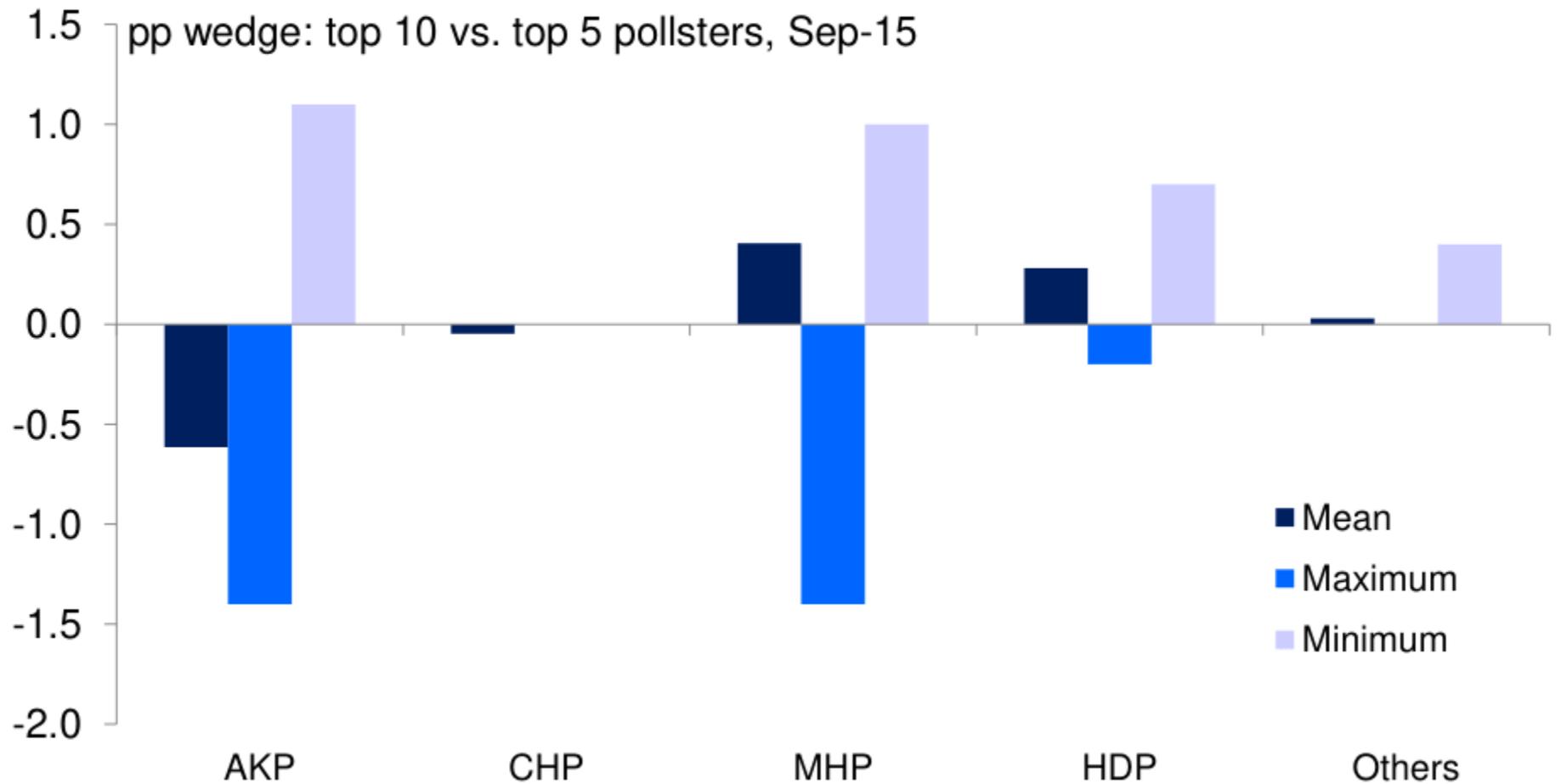
Note: Results for June '15 elections refer to only domestic votes. Figures in parenthesis denotes number of pollsters available in respective month. The sample size is based on top-10 pollsters (measured as accuracy in June '15 elections) which consistently release results.
 Source: MAK, Konda, Gezici, ORC, SONAR, Metropoll, Andy-AR, A&G, Denge, GENAR, and Deutsche Bank

DC-1c. ...yet it is not a done deal as an AKP majority cannot be ruled out...



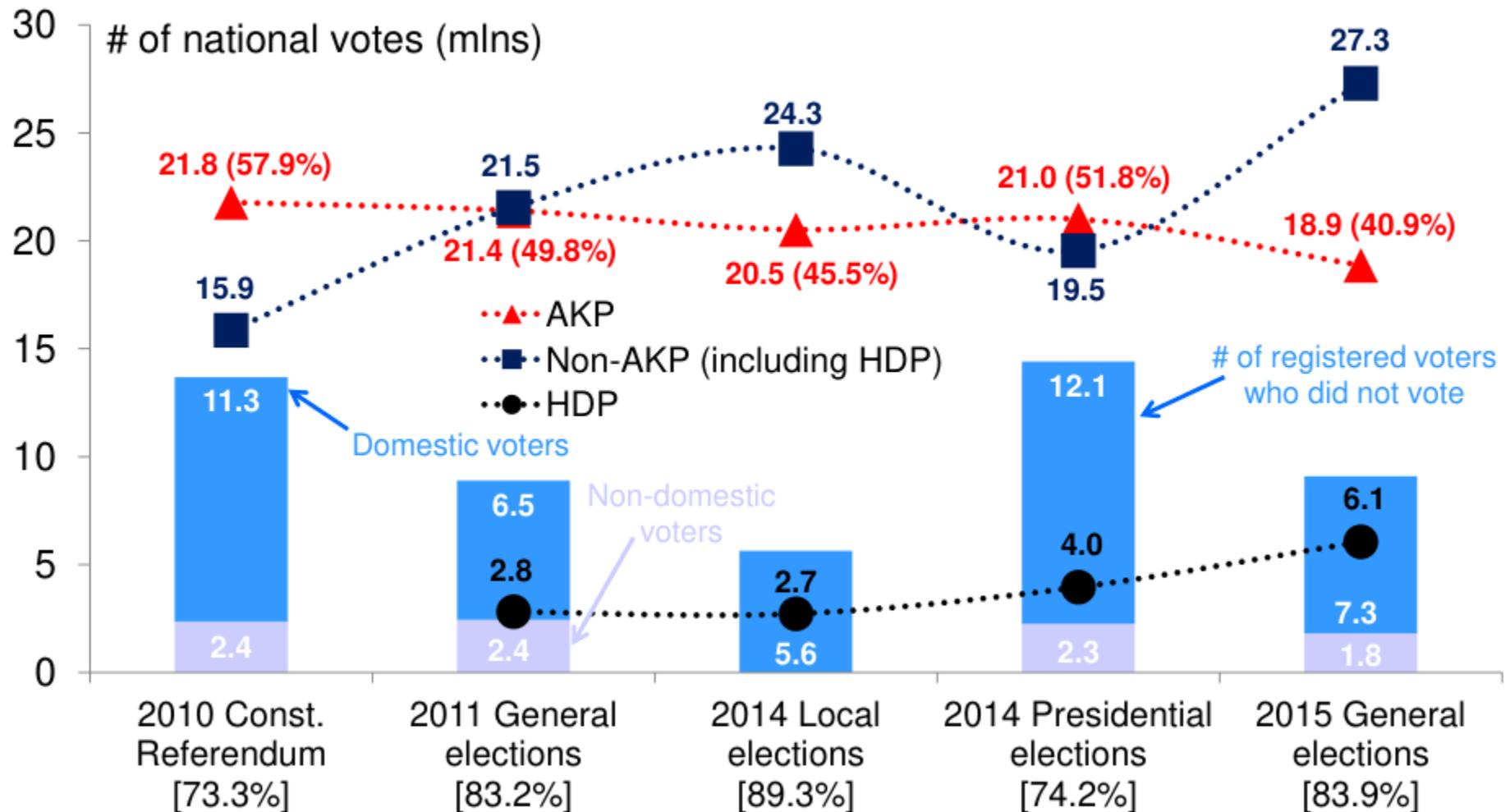
Note: Results for June '15 elections refer to only domestic votes. The range is based on only September polls. The sample size is based on top-10 pollsters (measured as accuracy in June '15 elections) which consistently release results.
 Source: MAK, Konda, Gezici, ORC, SONAR, Metropoll, Andy-AR, A&G, Denge, GENAR, and Deutsche Bank

DC-1d. ...though more reliable pollsters still say it is the other way around



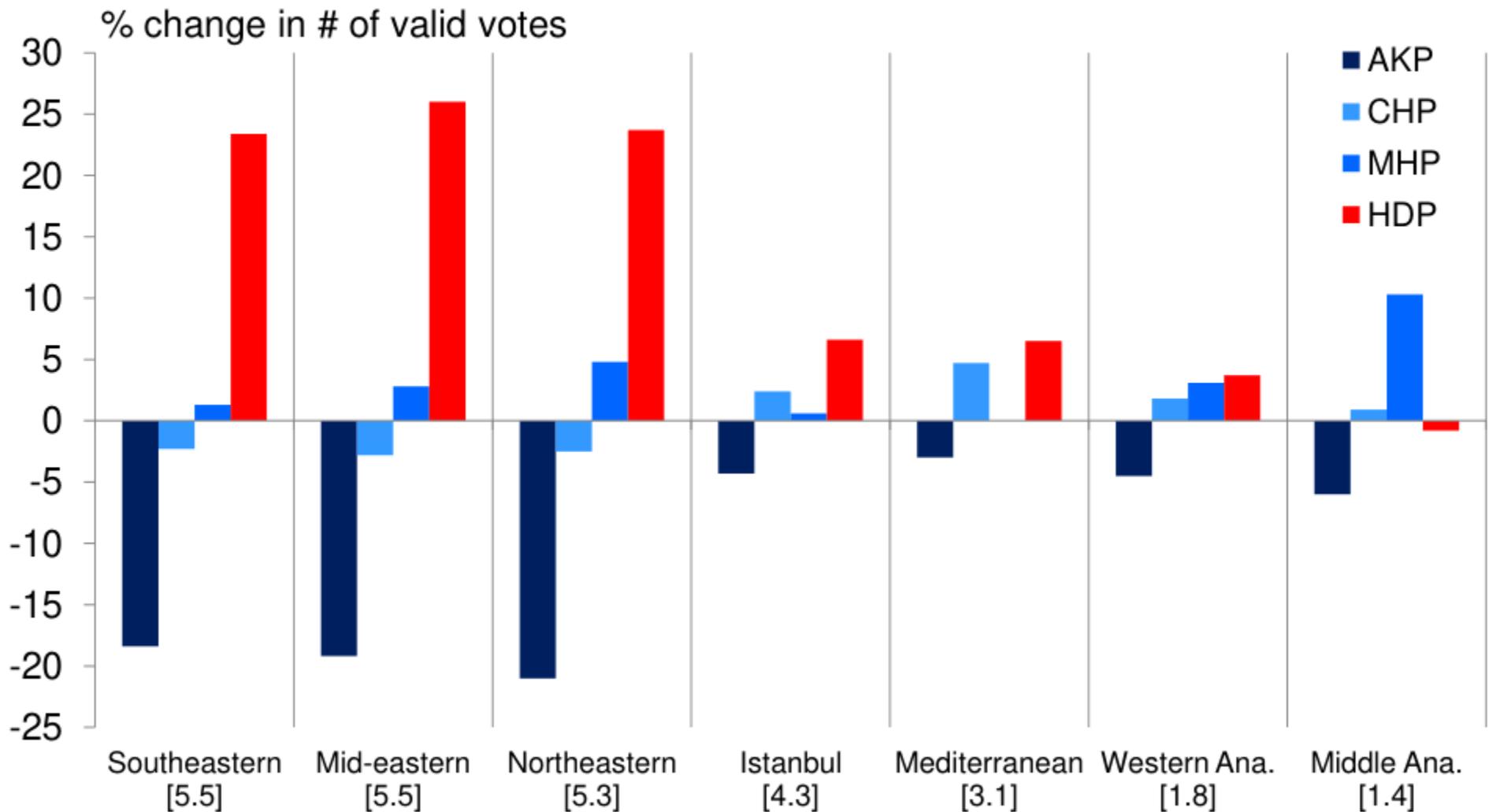
Note: The sample size is based on top-10 pollsters (measured as accuracy in June '15 elections) which consistently release results. Top-5 pollsters are A&G, Metropoll, Konda, Andy-AR, and Gezici.
 Source: MAK, Konda, Gezici, ORC, SONAR, Metropoll, Andy-AR, A&G, Denge, GENAR, and Deutsche Bank

DC-1e. Turnout in the November elections could prove crucial...



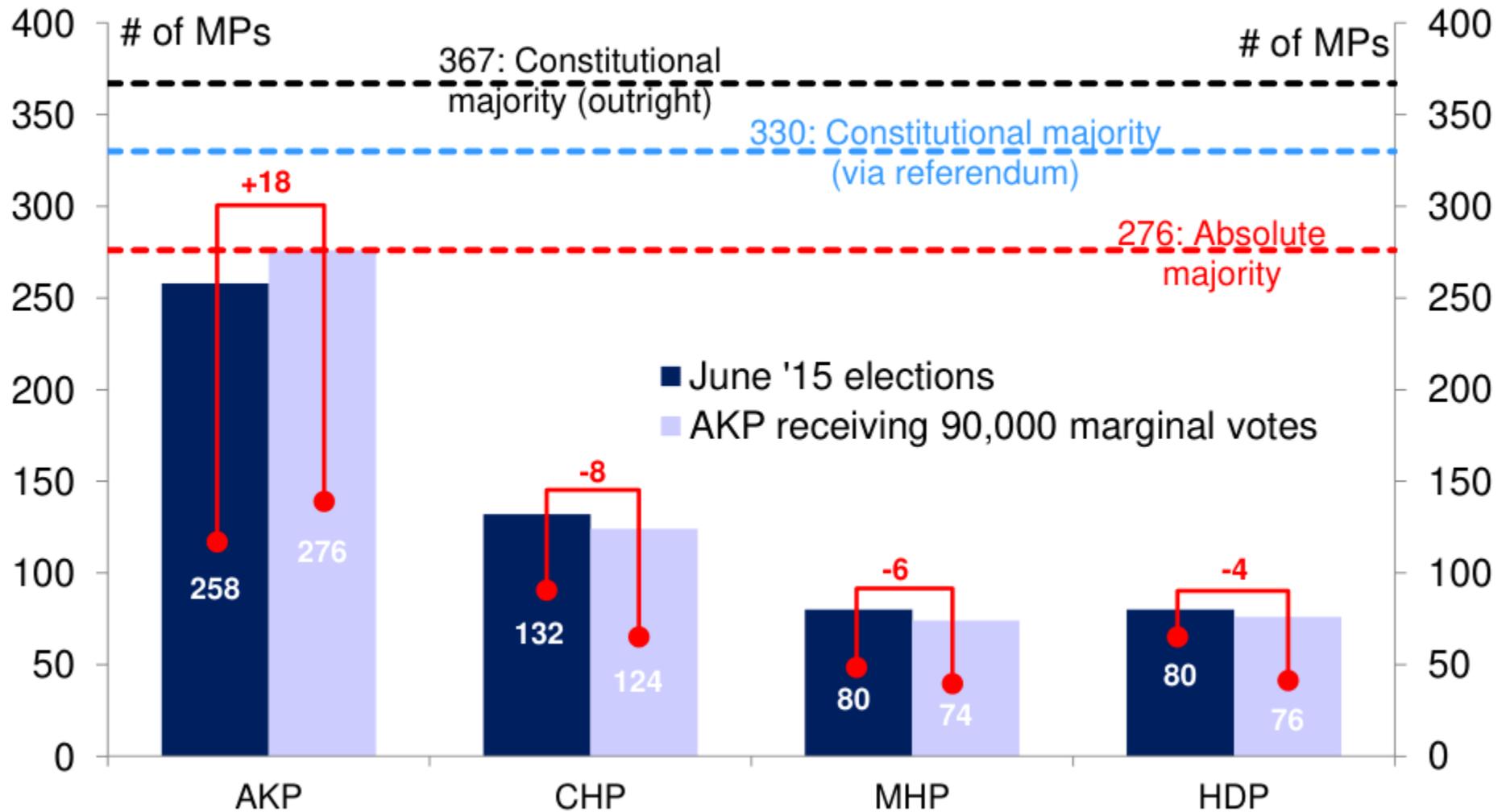
Note: (*) HDP has been established in 2012. Hence, figures for 2007 and 2011 represent former pro-Kurdish parties, i.e. DTP and BDP. In 2002, HEDAP entered as a single party, but remained at 6.2%. (**) 'Others' include smaller political parties and independent candidates.
 Source: YSK, TurkStat, and Deutsche Bank

DC-1f. ...particularly in the Eastern Anatolia...



Note: Figures in parenthesis refer to % change in total casted vote in each region., ranked in decreasing order.
 Source: Konda and Deutsche Bank

DC-1g. ...while marginal votes could again play a crucial role



Source: YSK, TurkStat, and Deutsche Bank

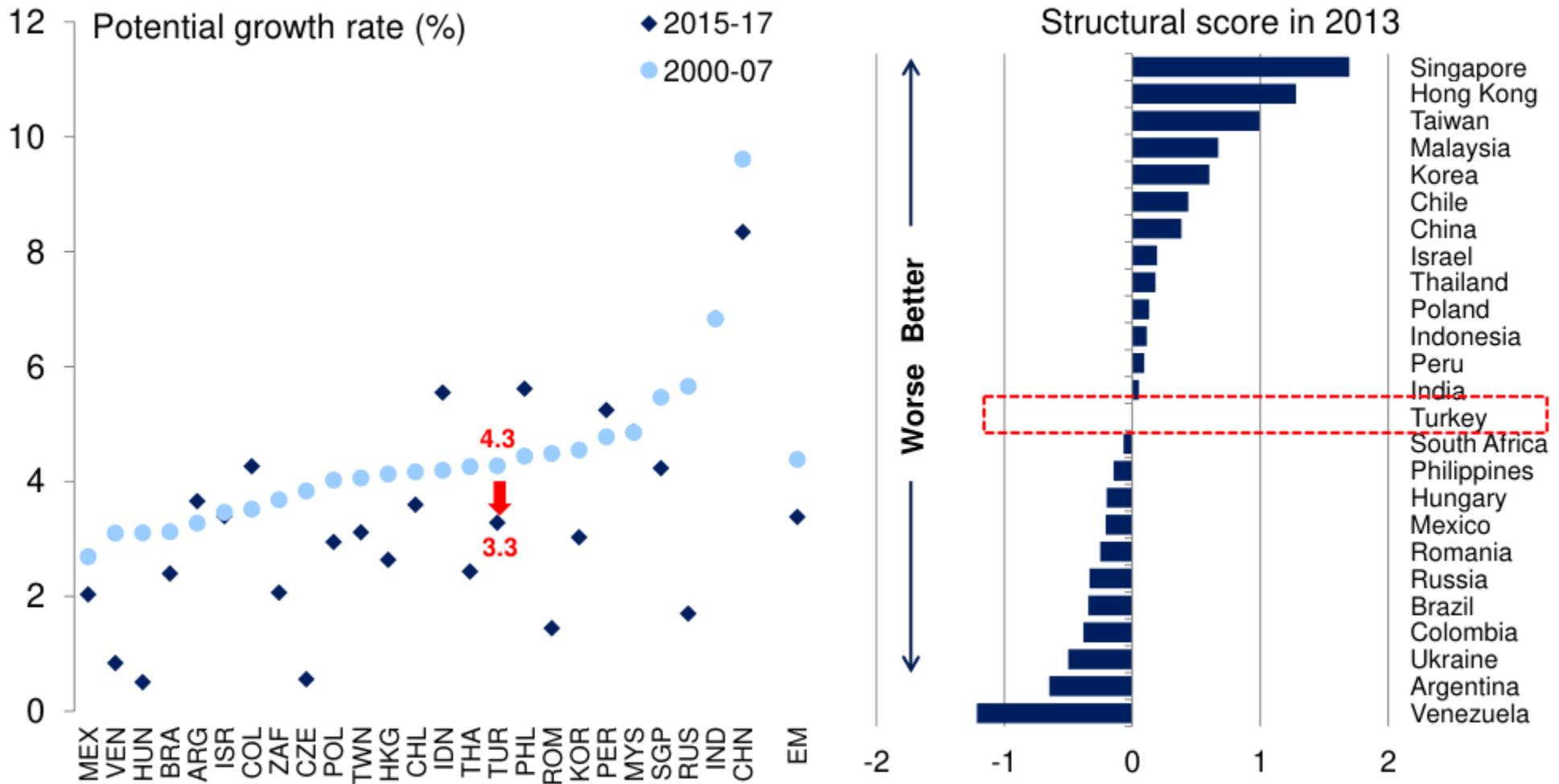
DC-1h. The era of coalition governments (1991-2002) was associated with sub-par and volatile growth



Note: MMI refers to 'Macro momentum index' which is calculated for 1990-2002 period as a weighted average of normalized changes in non-oil imports, industrial production and credit extended to the private sector. Shift in color of shaded regions represents a change in the government. There was an additional minority government not shown on the chart, which was formed by DYP during October 1995 but failed to receive vote of confidence in the Parliament.

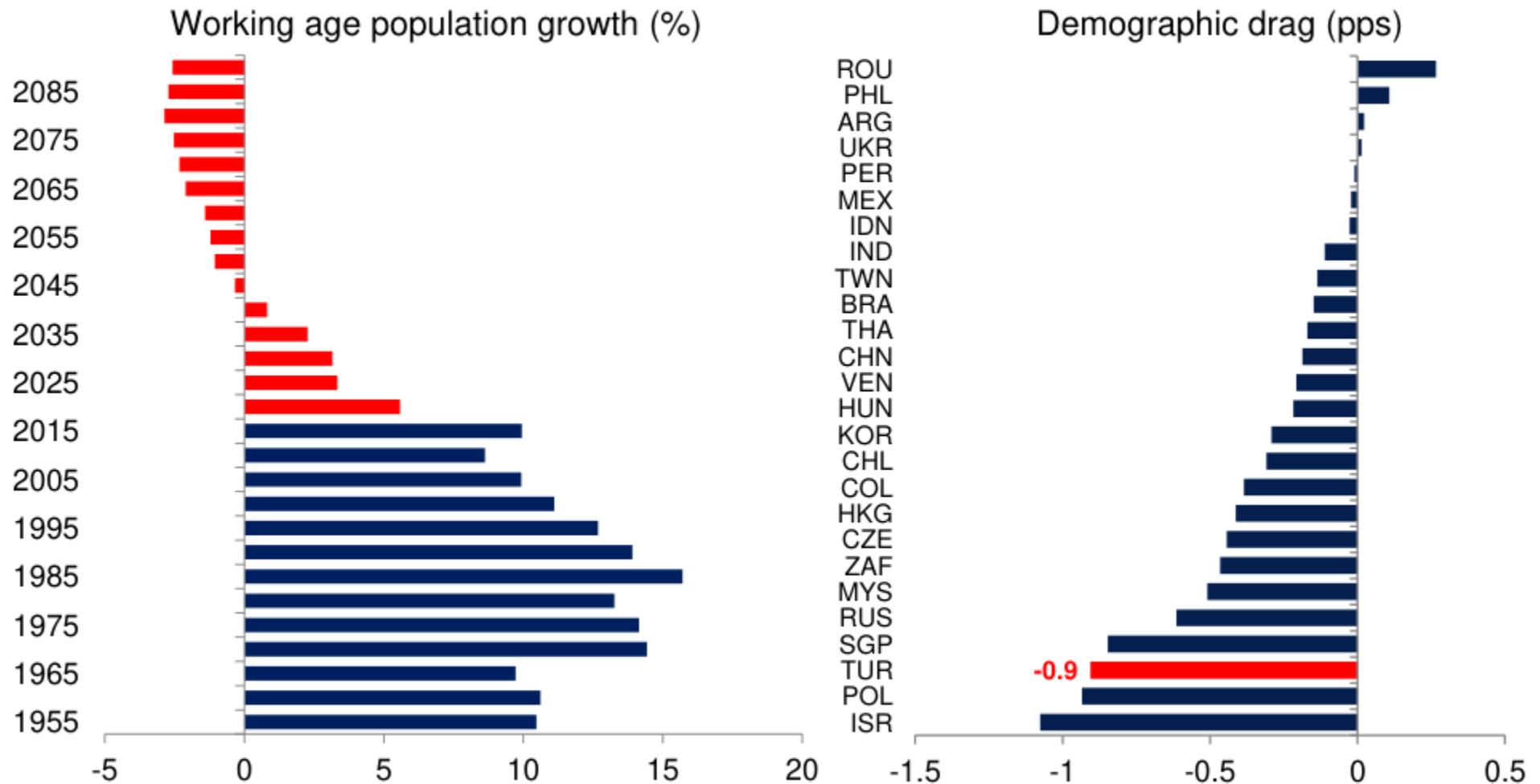
Source: The Grand National Assembly of Turkey, TurkStat YSK, Haver Analytics, and Deutsche Bank

DC-2a. Whoever is at the helm needs to tackle faltering potential growth problem by implementing structural reforms...



Note: Countries on LHS chart are ordered according to their potential growth rates in 2000-07. On the RHS chart, a structural score of zero represents the average for EM in 2007.
Source: Deutsche Bank

DC-2b. ...as soon as possible as Türkiye's working age population growth is on a declining trend (Syrian refugees a panacea?)



Note: Demographic drag refers to contribution of demographic factors on average potential growth in 2015-17 period.
 Source: UN and Deutsche Bank

Deutsche Bank Türkiye: Macro Projections

	2013	2014	2015F	2016F		2013	2014	2015F	2016F
National Income					External Accounts (USDbn)				
Nominal GDP (USD bn)	823	796	691	647	Goods Exports	161.8	168.9	156.1	166.6
Population (mn)	75.8	76.8	77.8	78.7	Goods Imports	241.7	232.5	208.1	220.0
GDP per capita (USD)	10 853	10 365	8 883	8 210	Trade balance	- 79.9	- 63.6	- 51.9	- 53.4
					% of GDP	- 9.7	- 8.0	- 7.5	- 8.3
Real GDP (YoY%)	4.2	2.9	3.0	3.0	Current account balance	- 64.7	- 46.5	- 37.7	- 39.1
Private consumption	5.1	1.4	3.7	3.4	% of GDP	- 7.9	- 5.8	- 5.5	- 6.1
Government consumption	6.5	4.7	7.0	3.7	FDI (net)	8.8	5.5	7.9	7.1
Gross fixed investment	4.4	- 1.3	4.2	1.9	FX reserves (eop)	110.9	106.9	99.0	96.5
Exports	- 0.2	6.8	- 1.6	2.9	TRY/USD (eop)	2.14	2.32	3.15	3.41
Imports	9.0	- 0.2	1.5	4.4					
					Debt Indicators (% of GDP)				
Prices, Money and Banking (YoY%)					Government debt ¹	37.4	35.0	36.7	36.3
CPI (eop)	7.4	8.2	8.2	8.4	Domestic	25.7	23.7	22.8	22.8
CPI (period avg)	7.5	8.9	7.6	7.8	External	11.7	11.3	13.9	13.5
Broad money (eop)	22.2	11.9	10.6	10.9	Total external debt	47.3	50.6	59.7	65.3
Bank credit (eop)	33.3	19.3	19.2	16.8	in USD bn	389	402	412	422
					Short term (% of total)	33.5	33.0	30.0	27.5
Fiscal Accounts (% of GDP)					General (ann. avg)				
Overall balance ¹	- 1.2	- 1.3	- 1.6	- 2.3	Industrial production (YoY)	3.5	3.5	2.9	2.9
Revenue	24.8	24.4	23.7	22.8	Unemployment (%)	9.1	10.0	11.0	11.2
Expenditure	26.0	25.7	25.3	25.1					
Primary balance	2.0	1.6	1.3	0.5					

(1) Central government

Source: Deutsche Bank, National Sources.

Deutsche Bank: Global Forecasts

GDP growth (%)

	2013	2014	2015F	2016F
Global	3.3	3.4	3.1	3.4
US	1.5	2.4	2.4	2.5
Eurozone	-0.4	0.9	1.5	1.6
Germany	0.3	1.6	1.7	1.9
Japan	1.6	-0.1	0.6	1.1
UK	2.2	2.9	2.6	2.5
China	7.7	7.3	7.0	6.7
India	6.9	7.1	7.5	7.5
EM (Asia)	6.5	6.4	6.2	6.2
EM (LatAm)	2.7	0.8	-0.6	0.5
EM (CEEMEA)	2.6	2.4	0.9	1.8
EM	5.0	4.6	4.0	4.4
DM	1.0	1.7	1.9	2.1

CPI inflation, YoY* (%)

	2013	2014	2015F	2016F
US	1.5	1.6	0.4	2.2
Eurozone	1.4	0.4	0.1	1.0
Japan	0.4	2.7	0.8	0.8
UK	2.6	1.5	0.1	1.3
China	2.6	2.0	1.7	2.7
India	10.7	6.7	4.8	5.1

Key market metrics

	Current	Q4-15F	Q4-16F	Q4-17F
US 10Y yield (%)	2.09	1.75	2.25	2.75
EUR 10Y yield (%)	0.58	0.80	1.20	1.75
EUR/USD	1.136	1.05	0.90	0.85
USD/JPY	120	125	128	120
S&P 500	2,017	2,050	2,300	
Stoxx 600	362	410		
Gold (USD/oz)	1,164	1,125	1,085	
Oil WTI (USD/bbl)	47.1	48.0	54.0	
Oil Brent (USD/bbl)	49.9	53.0	59.0	

Current prices as of 12-Oct-2015

Central Bank policy rate (%)

	Current	Q4-15F	Q4-16F	Q4-17F
US	0.125	0.125	0.625	1.625
Eurozone	0.05	0.05	0.05	0.05
Japan	0.10	0.10	0.10	0.10
UK	0.50	0.50	1.00	2.00
China	1.75	1.75	1.75	2.50
India	6.75	6.75	6.50	6.50

Source: Deutsche Bank (The House View, October issue)

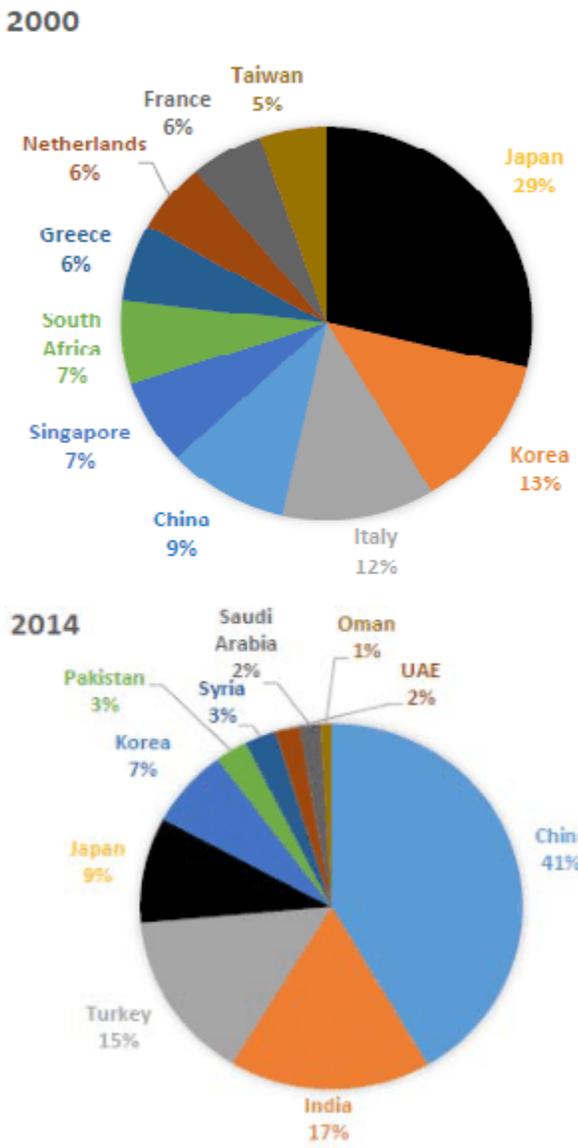
APPENDIX: Deutsche Bank Türkiye - History and forecasts

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015F	2016F
National Income													
Nominal GDP (USDbn)	392.2	482.7	529.3	646.4	730.6	614.4	731.5	774.7	788.6	823.0	795.9	692.0	653.7
Population (mn)	67.7	68.6	69.4	70.2	71.1	72.1	73.0	74.0	74.9	75.8	76.8	77.8	78.7
GDP per capita (USD)	5 792	7 040	7 627	9 206	10 277	8 527	10 021	10 476	10 531	10 853	10365	8899	8301
Real GDP (YoY%)													
Private Consumption	11.0	7.9	4.6	5.5	-0.3	-2.3	6.7	7.7	-0.5	5.1	1.4	3.7	3.4
Government consumption	6.0	2.5	8.4	6.5	1.7	7.8	2.0	4.7	6.1	6.5	4.7	7.0	3.7
Gross Fixed Investment	28.4	17.4	13.3	3.1	-6.2	-19.0	30.5	18.0	-2.7	4.4	-1.3	4.2	1.9
Exports	11.2	7.9	6.6	7.3	2.7	-5.0	3.4	7.9	16.3	-0.2	6.8	-1.6	2.9
Imports	20.8	12.2	6.9	10.7	-4.1	-14.3	20.7	10.7	-0.4	9.0	-0.2	1.5	4.4
Prices, Money and Banking (YoY%)													
CPI (eop)	9.4	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2	8.6	8.2
CPI (period avg)	8.6	8.2	9.6	8.8	10.4	6.3	8.6	6.5	8.9	7.5	8.9	7.7	8.0
Broad money (eop)	22.9	23.2	24.7	15.7	26.7	13.0	19.1	14.8	10.2	22.2	11.9	10.7	11.1
Private Credit (eop)	56.7	55.1	40.8	27.1	22.4	9.7	44.7	34.7	18.5	33.3	19.3	19.1	16.8
Fiscal Accounts (% of GDP)													
Overall balance	-5.4	-1.3	-0.6	-1.6	-1.8	-5.5	-3.6	-1.3	-2.0	-1.2	-1.3	-1.6	-2.3
Revenue	19.8	21.3	22.9	22.6	22.0	22.6	23.1	22.8	23.4	24.8	24.4	23.7	22.8
Expenditure	25.2	22.5	23.5	24.2	23.8	28.1	26.7	24.1	25.4	26.0	25.7	25.3	25.1
Primary Balance	5.5	5.1	4.6	3.6	3.5	0.1	0.8	1.9	1.4	2.0	1.6	1.3	0.5
External Accounts (USD bn)													
Goods Exports	68.8	78.5	93.8	115.4	140.9	109.7	121.0	142.4	161.9	161.8	168.9	155.3	167.7
Goods Imports	91.3	111.4	134.7	162.2	193.8	134.5	177.3	231.6	227.3	241.7	232.5	202.9	217.3
Trade Balance	-22.4	-32.9	-40.9	-46.8	-52.9	-24.8	-56.3	-89.2	-65.4	-79.9	-63.6	-47.6	-49.5
% of GDP	-5.7	-6.8	-7.7	-7.2	-7.3	-4.0	-7.7	-11.5	-8.3	-9.7	-8.0	-6.9	-7.6
Current Account Balance	-14.2	-21.4	-31.8	-37.8	-40.2	-12.0	-45.3	-75.0	-48.5	-64.7	-46.5	-33.7	-35.7
% of GDP	-3.6	-4.4	-6.0	-5.8	-5.7	-2.0	-6.2	-9.7	-6.2	-7.9	-5.8	-4.9	-5.5
FDI (net)	2.0	9.0	19.3	19.9	17.3	7.0	7.6	13.8	9.2	8.8	5.5	8.0	7.1
FX Reserves (eop)	36.0	50.5	60.9	73.3	71.0	70.7	80.7	78.5	99.9	110.9	106.9	98.0	95.5
USD/FX (eop)	1.35	1.35	1.42	1.17	1.51	1.51	1.55	1.91	1.79	2.14	2.32	3.14	3.39
Debt Indicators (% of GDP)													
Government Debt	59.2	52.3	46.1	38.8	40.0	46.3	43.1	39.9	37.6	37.4	35.0	36.5	36.2
Domestic	42.4	38.7	33.5	29.4	28.9	34.6	32.1	28.4	27.3	25.7	23.7	22.7	22.7
External	16.8	13.6	12.6	9.3	11.1	11.7	11.0	11.5	10.3	11.7	11.3	13.8	13.4
External debt	41.1	35.4	39.3	38.7	38.5	43.8	39.9	39.2	43.0	47.3	50.6	59.4	64.3
in USD bn	161	171	208	250	281	269	292	304	339	389	402.4	410.8	420.0
Short-term (% of total)	20.0	22.8	20.6	17.3	18.7	18.2	26.5	26.9	29.6	33.5	33.0	30.0	27.5
General (ann. avg)													
Industrial Production (YoY%)	9.8	5.4	7.3	8.6	-1.1	-10.4	12.4	9.6	2.4	3.5	3.5	2.9	2.9
Unemployment (%)	10.3	10.3	9.1	9.2	10.0	13.0	11.2	9.2	8.4	9.1	10.0	11.0	11.2

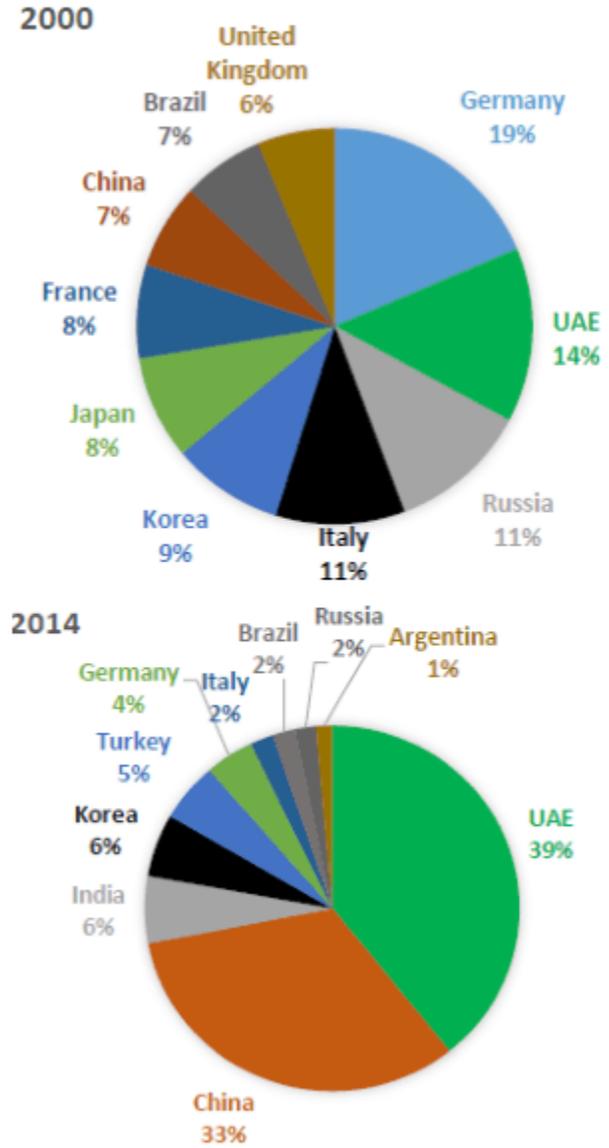
Source: Deutsche Bank

Addendum-I: Economic implications of lifting sanctions on Iran

Iran's top 10 export partners

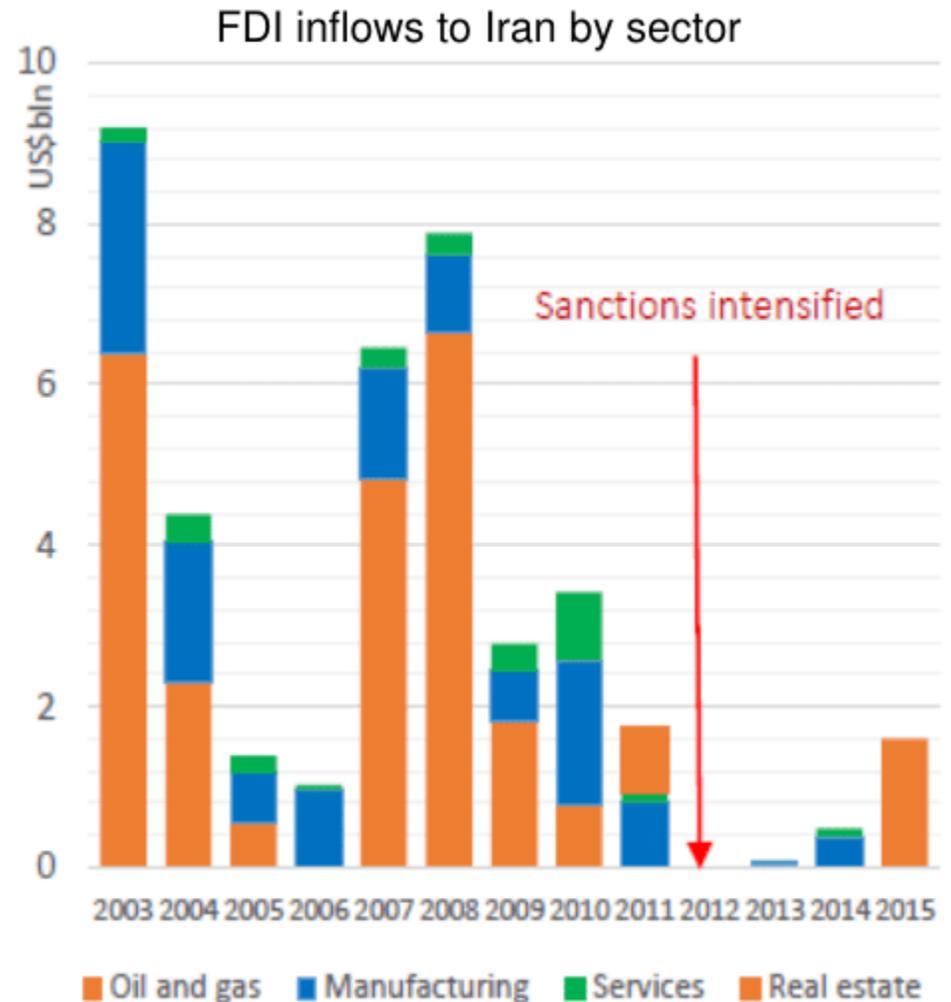
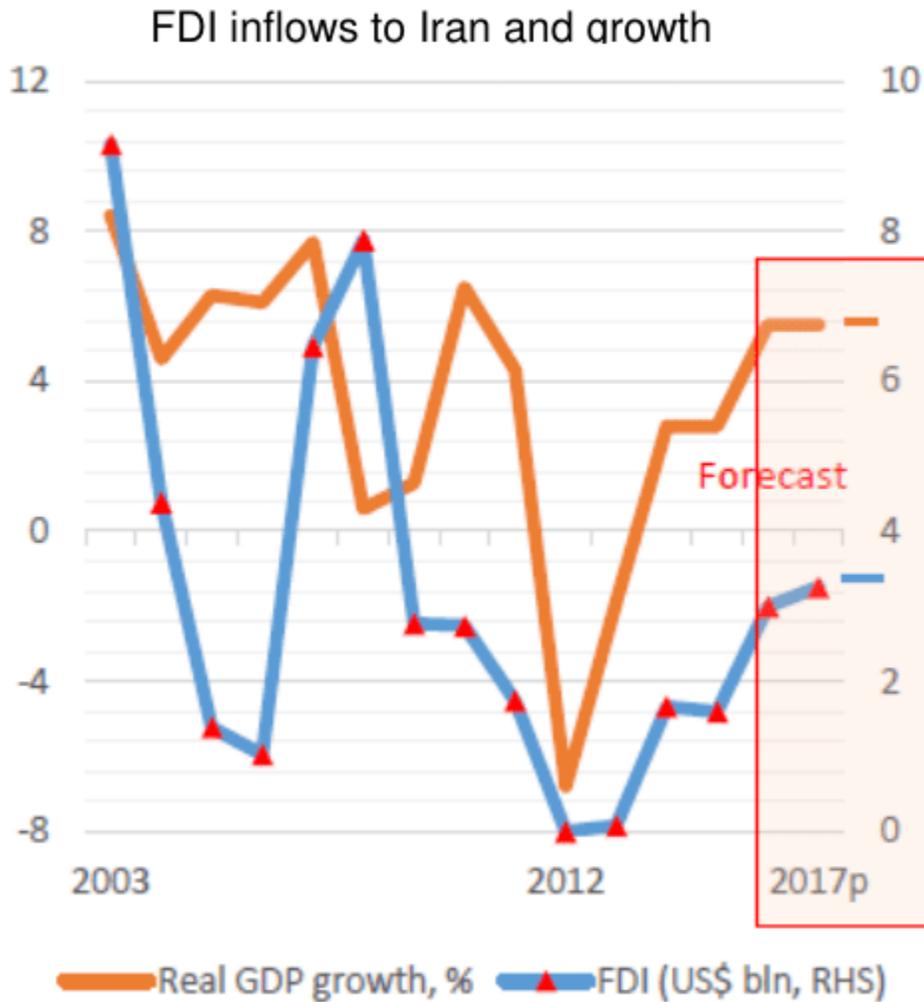


Iran's top 10 import partners



Source: World Bank, IMF, and Deutsche Bank

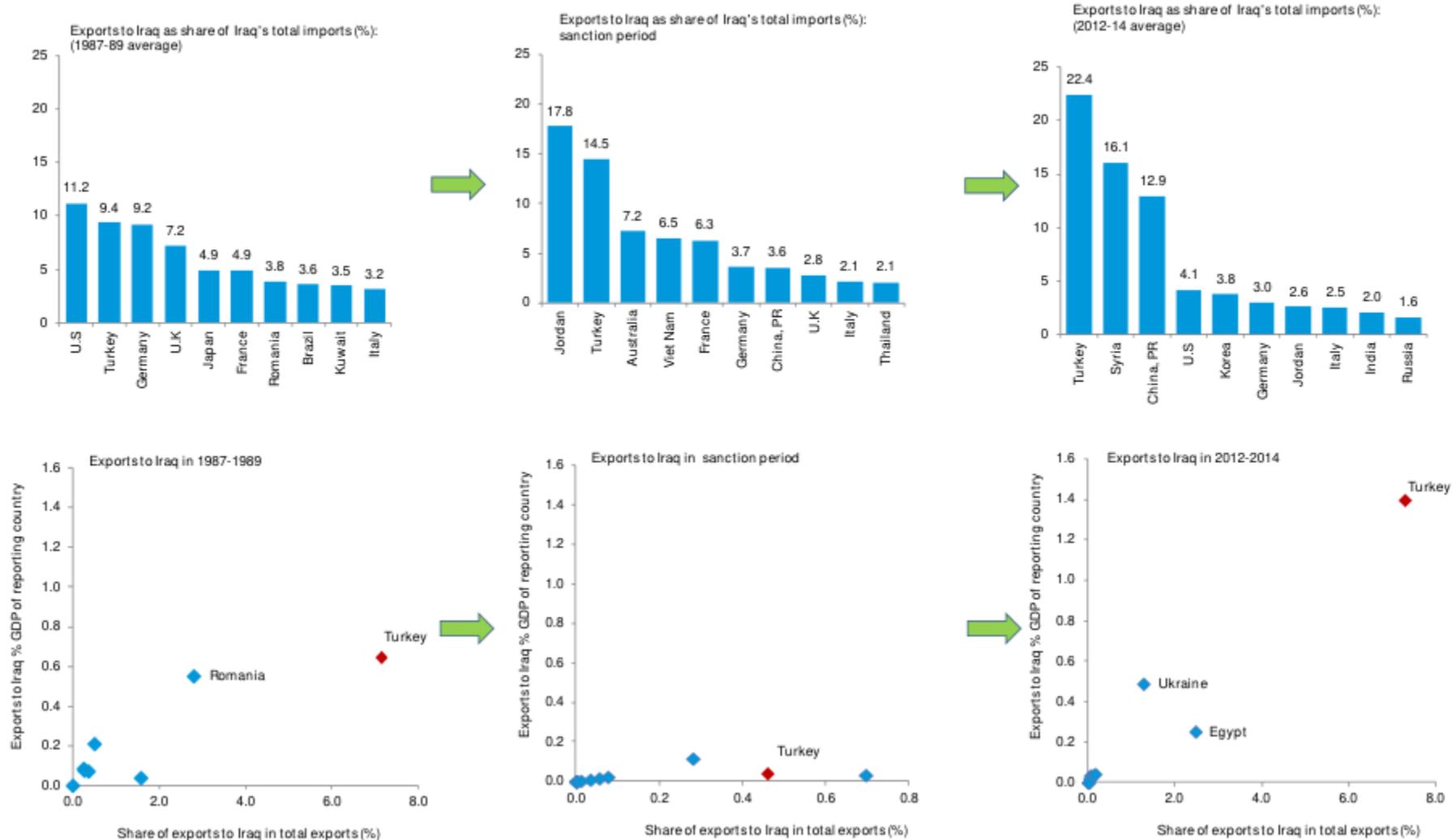
Addendum-I: Economic implications of lifting sanctions on Iran



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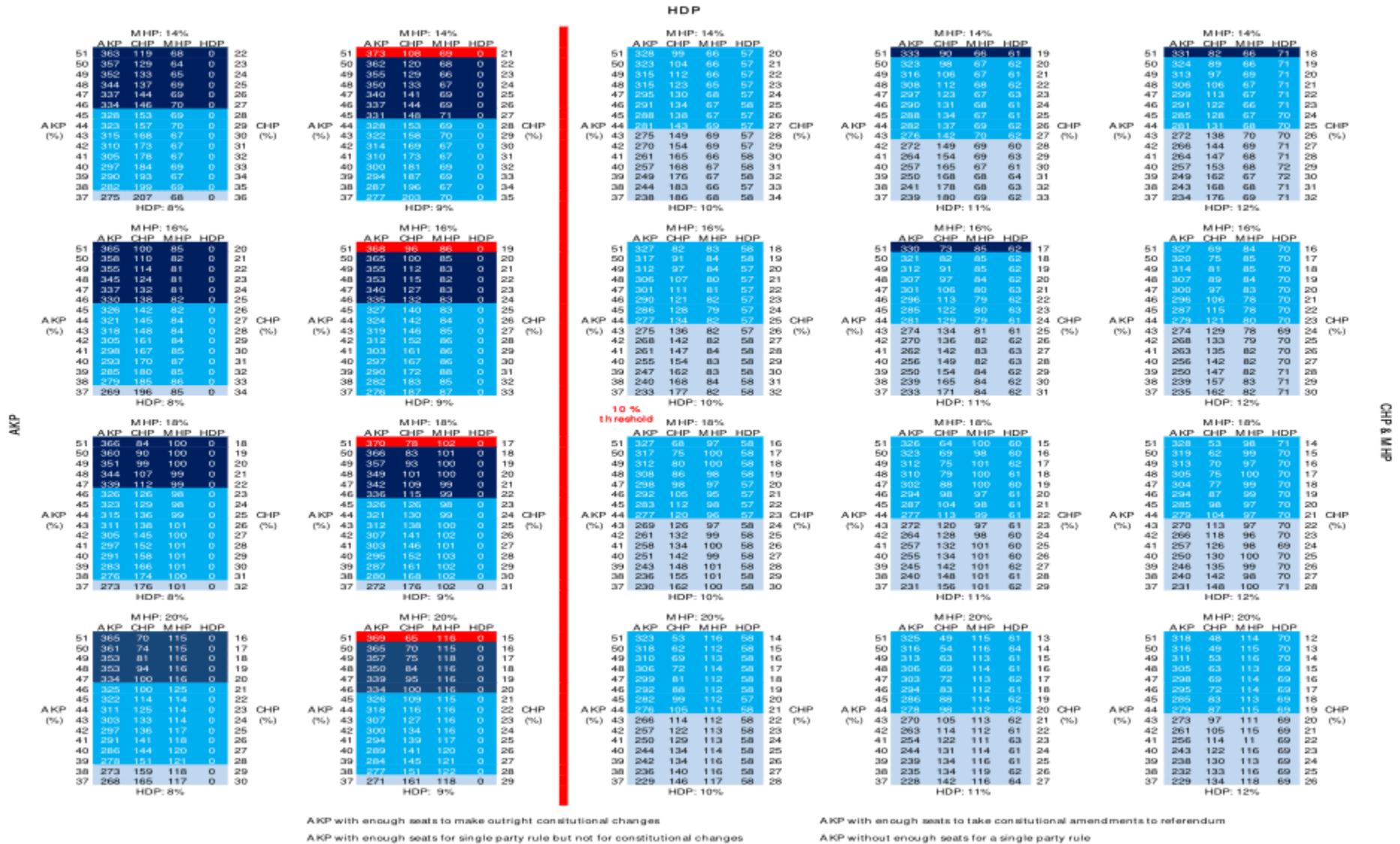
Addendum-I: Economic implications of lifting sanctions on Iran

Comparing with the Iraqi case



Source: IMF and Deutsche Bank

Addendum-II: Election simulations



Source: Deutsche Bank

Note: Votes for 'Other parties' are assumed at 5% uniformly across all scenarios considered above. Hence, seat distribution is based on 95% of votes, and assumed to be distributed only among AKP, CHP, MHP, and HDP (i.e. no independent MPs). This is for illustrative purposes only and prone to estimation/uncertainty errors.

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