

Türkiye chartbook

What is next in the rebalancing story?

Economics
CEEMEA

- ◆ Türkiye's economic adjustment remains broadly on track
- ◆ Balance of payments dynamics have improved significantly; inflation has moderated but remains too high for comfort...
- ◆ ...arguing for continued caution in the policy stance

More than a year into Türkiye's macro adjustment, we remain constructive regarding the near-term outlook. At the same time, policymakers need to remain vigilant about risks associated with a more gradual rebalancing like the one Türkiye is experiencing, in our view. One such risk is that the longer inflation remains elevated, the higher the likelihood it becomes entrenched, and thus harder to re-anchor at a level closer to target. Türkiye's inflation has not been in the single digits since Q4 2019.

After some deceleration in Q2, inflation dynamics saw limited improvement in Q3 (charts 20-22). In August, the central bank governor said that to consider rate cuts, the CBRT needed to see underlying monthly inflation below 1.5% in Q4 and inflation expectations moving towards the bank's forecasts. In September, inflation momentum was closer to 3% m-o-m and there has arguably been even less improvement in inflation expectations (charts 23-24). As such, we continue to believe easing can only comfortably start next year.

Fiscal tightening would help with disinflation and the recently published medium-term programme shows officials targeting fiscal consolidation of 1.7% of GDP in 2025, achieved largely because of the reduction in earthquake spending. That said, the outlook remains uncertain (charts 43-48). Officials are also forecasting tax revenues will rise by 0.9% of GDP next year, offsetting a 0.6% of GDP decline in non-tax revenues. There may be downside risks to this estimate too.

There has been significantly more good news on the external front. The current account deficit has shrunk, capital inflows have picked up pace, there has been de-dollarisation in residents' savings, and the central bank has accumulated significant reserves (charts 32-40). Compared with March 2024 lows, gross FX reserves have risen by USD25bn while net foreign assets excluding swap borrowing have increased by more than USD100bn. The risk that Türkiye might face funding problems is greatly reduced, in our view, but the economy remains exposed to rising oil prices, global demand weakness, geopolitical tensions, or a broad deterioration in risk appetite.

We still believe policymakers would like to soft-land the economy. More front-loaded and more aggressive monetary and fiscal tightening would likely have helped deliver a faster pace of disinflation, but the associated growth costs would have been larger. Recent consumption-side data chimes with our view that a deep contraction in H2 2024 activity is likely to be avoided (charts 7-12). The monetary policy committee this month said domestic demand is approaching disinflationary levels, while we think inflation risks remain tilted to the upside, requiring continued caution from the CBRT and other policymakers. For our full forecasts, see [CEEMEA Economics Quarterly: Risks, old and new](#), 9 October.

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The 16th edition of the EM Sentiment Survey

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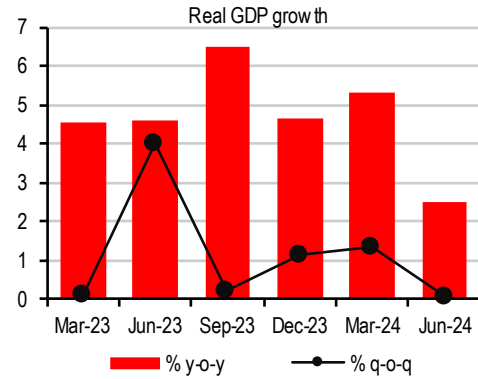
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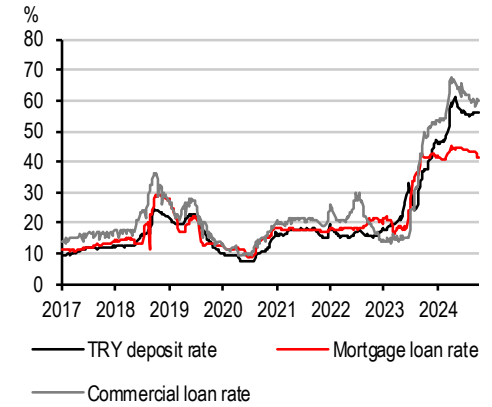
The economy is cooling...

1. Sequential growth was zero in Q2 2024 and we expect a shallow contraction in 2H



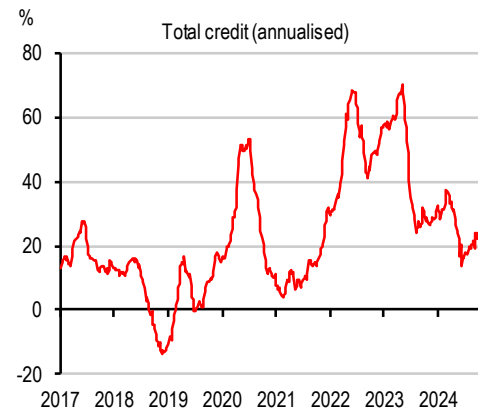
Source: Macrobond

2. Borrowing costs moderated somewhat from mid-Q2 peaks...



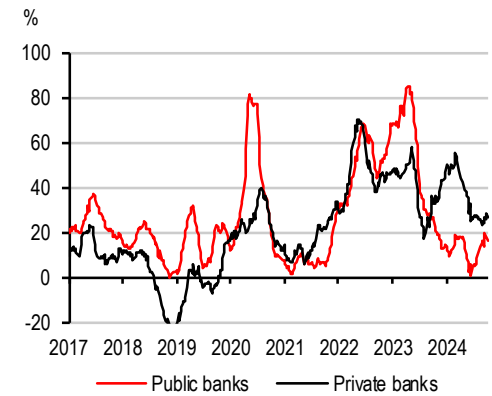
Source: Macrobond

3. ...and credit growth bottomed out at the end of Q2



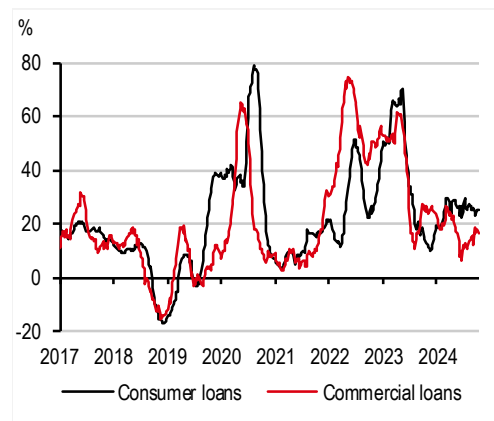
Source: Macrobond; W-o-w change, annualised, 13-week moving average. Adjusted for FX effects.

4. The rebound is driven more by public banks...



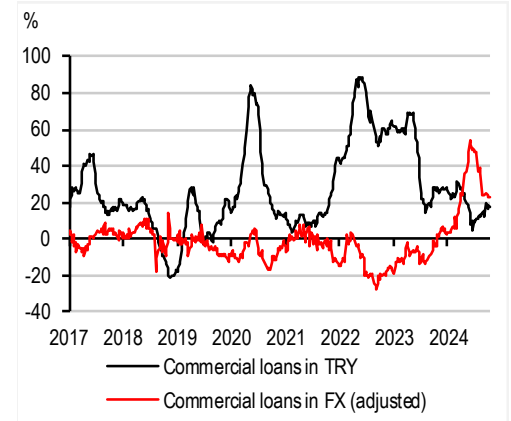
Source: Macrobond. W-o-w change, annualised, 13-week moving average. Adjusted for FX effects.

5. ...and commercial lending



Source: Macrobond. W-o-w change, annualised, 13-week moving average. Adjusted for FX effects.

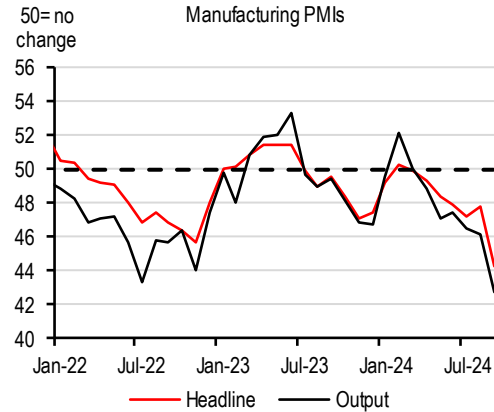
6. Positively, FX lending has slowed



Source: Macrobond. W-o-w change, annualised, 13-week moving average. Adjusted for FX effects.

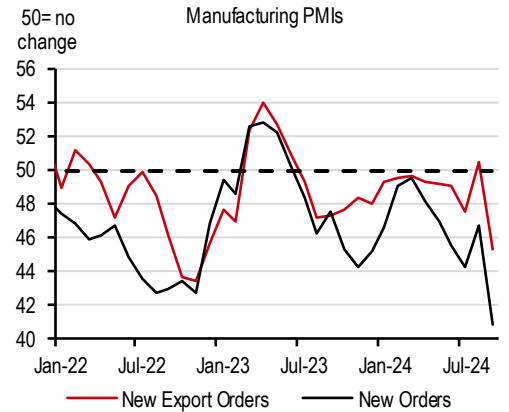
...but not enough to address high inflation pressures

7. In September, manufacturing PMI fell to its lowest level since Q1 2020...



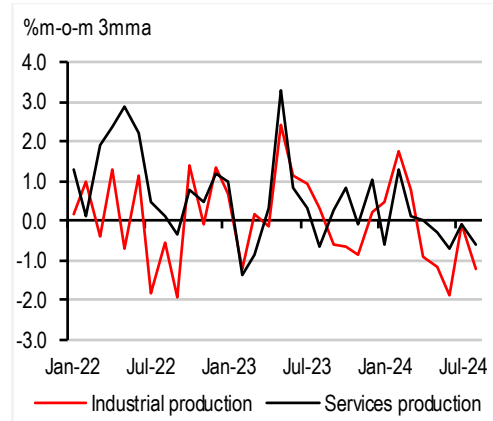
Source: Macrobond

8. ...with domestic and export orders both in contraction territory



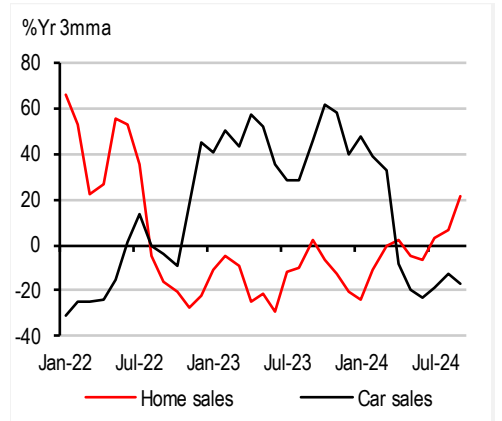
Source: Macrobond

9. Services production has fallen for three consecutive months; IP has been more volatile



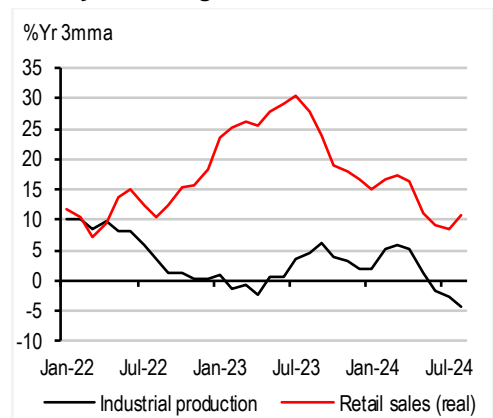
Source: Macrobond

10. Home sales recovery in Q3, car sales remain depressed



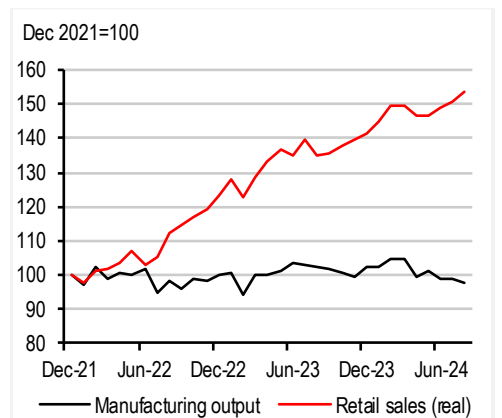
Source: Macrobond

11. Retail sales have risen for three consecutive months. Still, economic activity is cooling...



Source: Macrobond

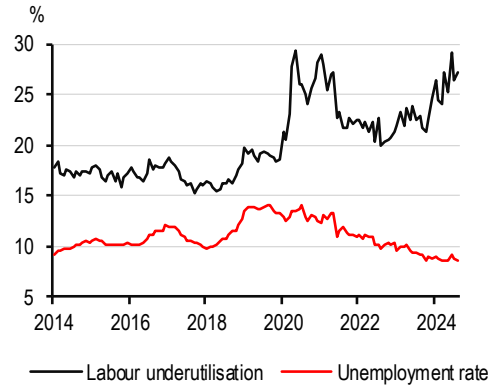
12. ...but this follows a prolonged period of overheating



Source: Macrobond

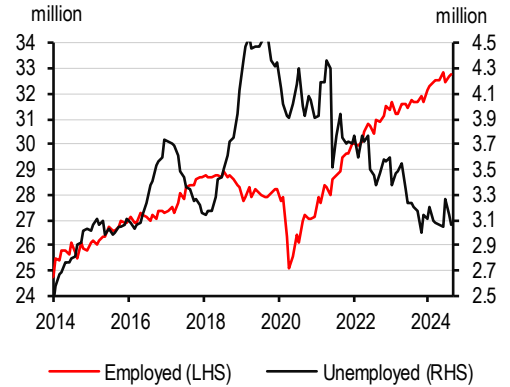
Labour market has stayed resilient so far

13. At 8.5%, the unemployment rate is below its 10-year average of 11%



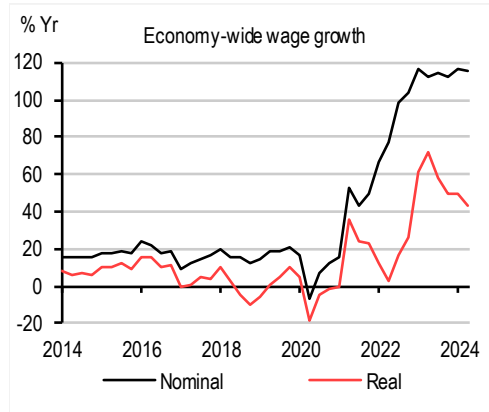
Source: Macrobond. Labour underutilisation measure accounts for inactivity and time-related underemployment.

14. Employment is up in y-o-y terms and unemployment is down



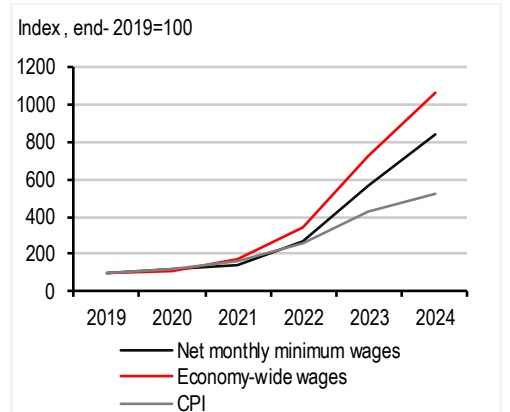
Source: Macrobond

15. As of Q2, wage growth remains extremely elevated...



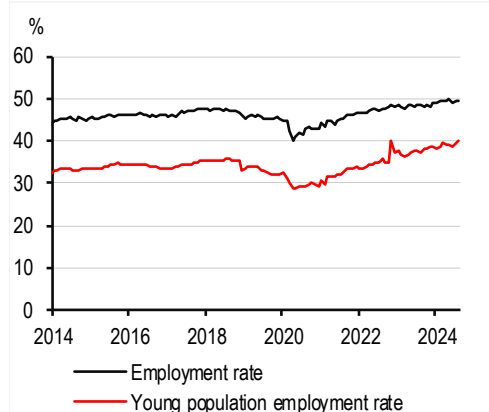
Source: Macrobond

16. ...with overall wage growth outpacing gains in the minimum wage



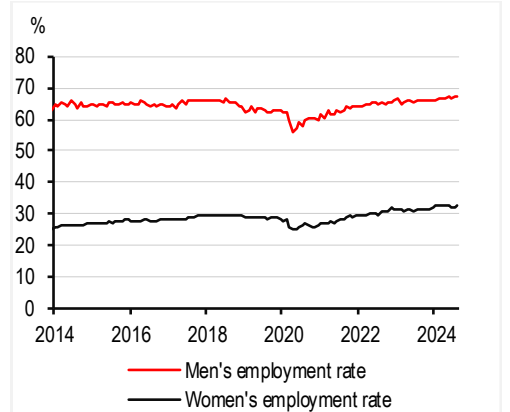
Source: Macrobond. For economy-wide wages and CPI, the last reading is for June 2024.

17. Structural issues in Türkiye's labour market...



Source: Macrobond. Young population is ages 15-24.

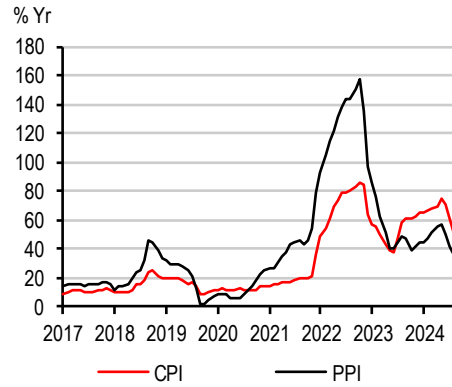
18. ...remain largely unaddressed



Source: Macrobond

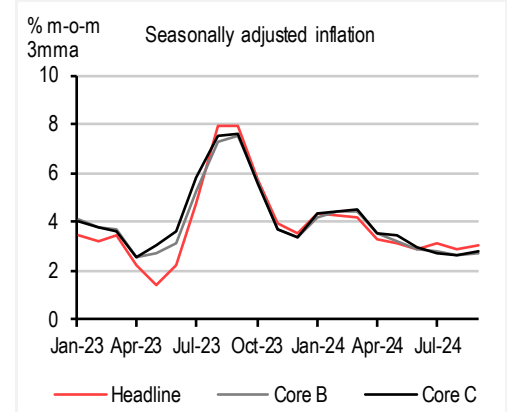
Inflation remains too high for comfort

19. Annual inflation peaked in May and has improved since...



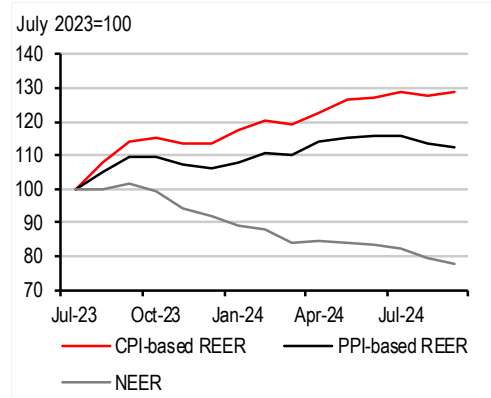
Source: Macrobond

20. ...but at c3%, m-o-m momentum measures remain too high for comfort...



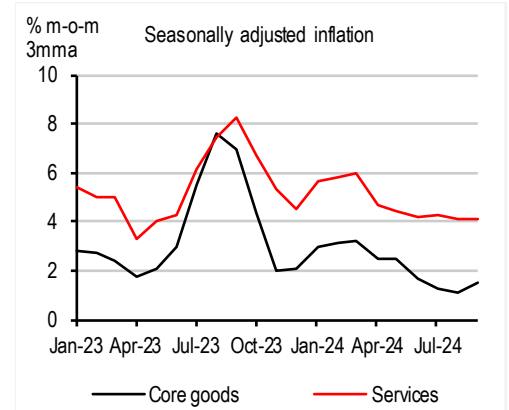
Source: Macrobond

21. ...despite sizeable real effective exchange rate (REER) appreciation in the past year



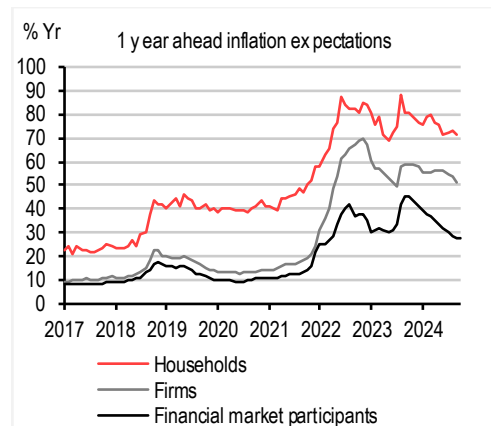
Source: Macrobond

22. There is a big divergence between core goods and services inflation...



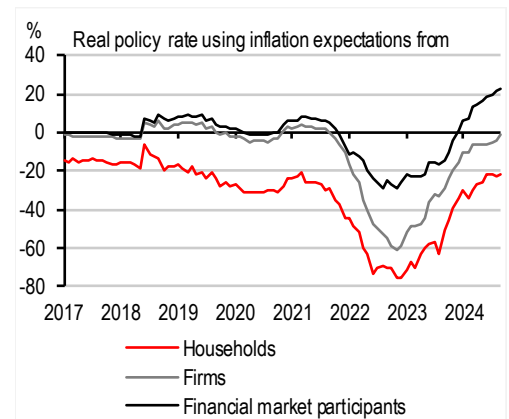
Source: Macrobond

23. ...with unanchored inflation expectations playing a key role...



Source: Macrobond

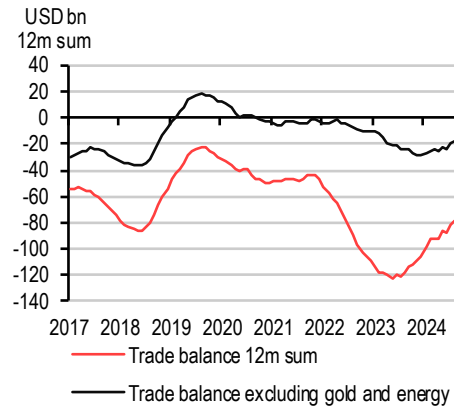
24. ...and arguing for a cautious monetary policy stance



Source: Macrobond

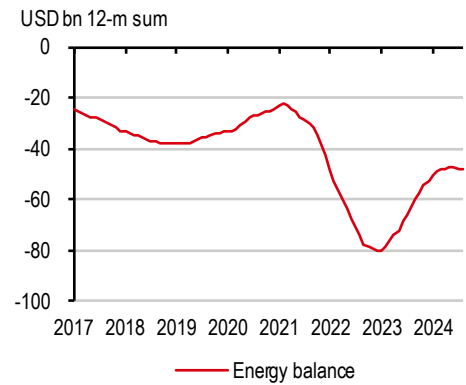
Balance of payments dynamics have improved significantly...

25. As of August, the 12m cumulative trade deficit has shrunk by USD42bn y-o-y



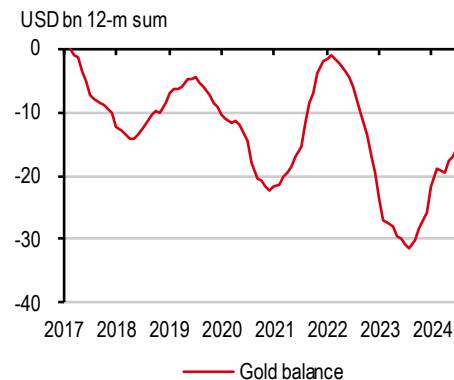
Source: Macrobond

26. The energy deficit has shrunk by USD15bn



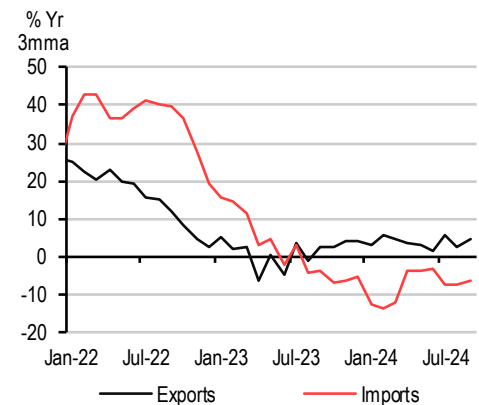
Source: Macrobond

27. The gold deficit has improved by USD19bn



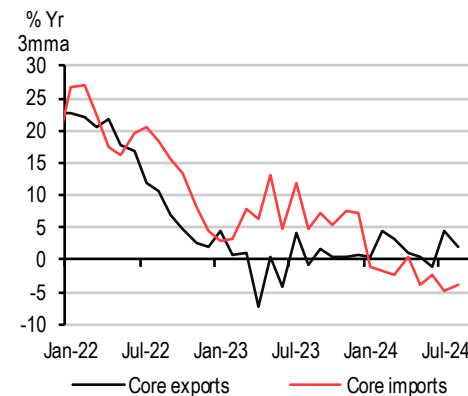
Source: Macrobond

28. Merchandise trade data shows total imports down 8% y-o-y January-September



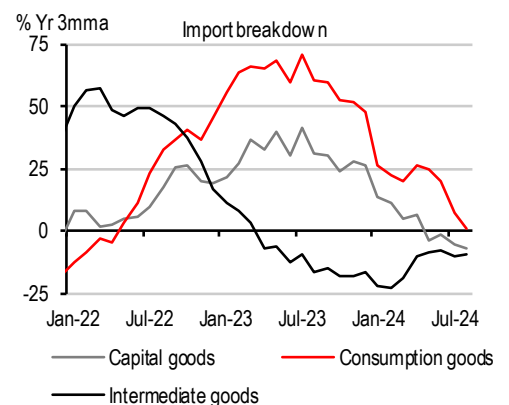
Source: Macrobond

29. Core (ex-energy and gold) imports are also down y-o-y



Source: Macrobond

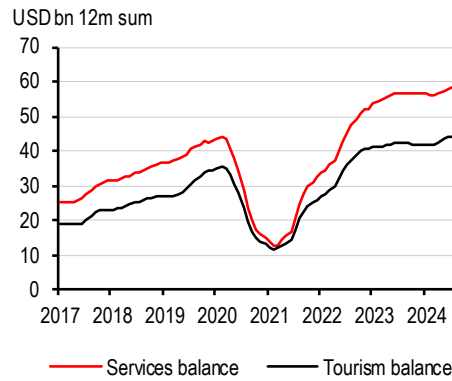
30. Critically, consumption goods imports have only recently started to fall



Source: Macrobond

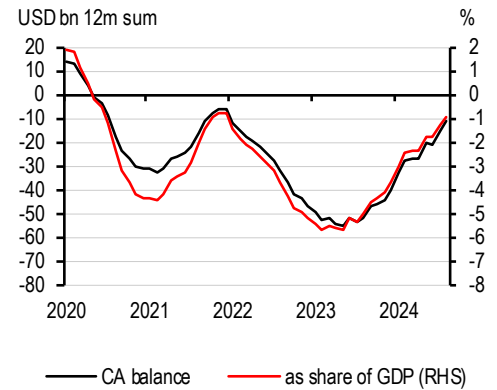
...with current account deficit narrowing faster than we had forecast

31. Services surplus grew by 5% y-o-y in January-August



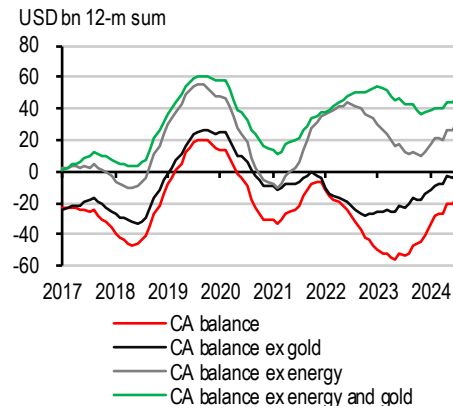
Source: Macrobond

32. The cumulative current account shortfall has shrunk to c1% of GDP...



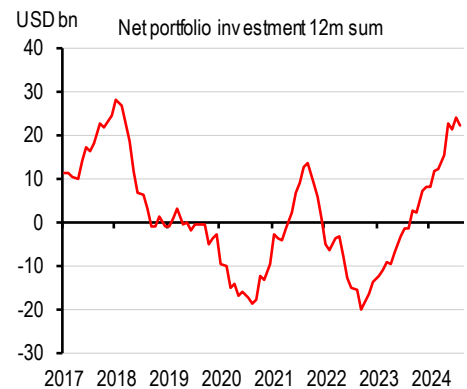
Source: Macrobond

33. ...posing risk to our forecast for a 1.3% of GDP deficit this year



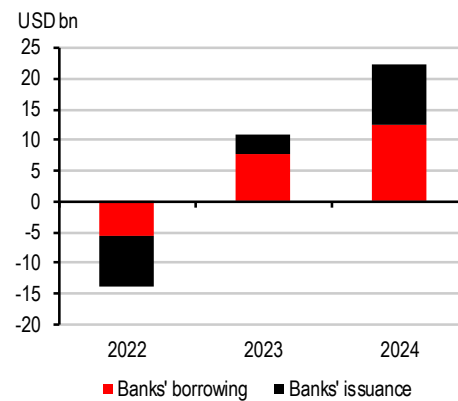
Source: Macrobond

34. Portfolio investment turned from sizeable outflows to inflows...



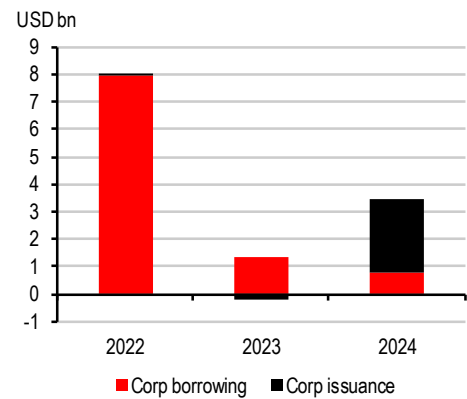
Source: Macrobond

35. ...and banks and...



Source: Macrobond. 2024 is January-August.

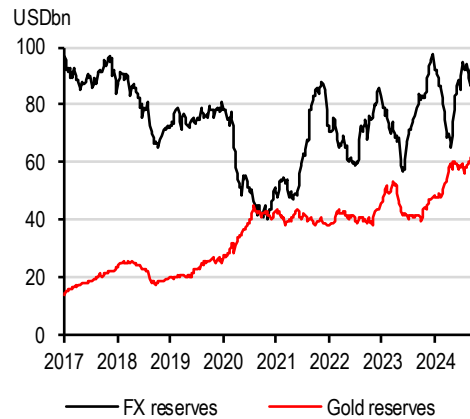
36. ...corporates increased their external borrowing YTD



Source: Macrobond. 2024 is January-August.

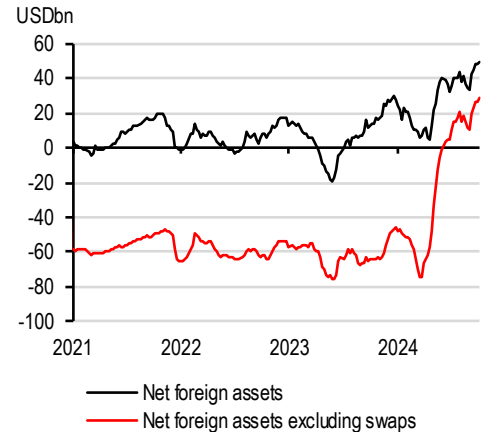
Reserve accumulation has far exceeded our expectations

37. Both gross...



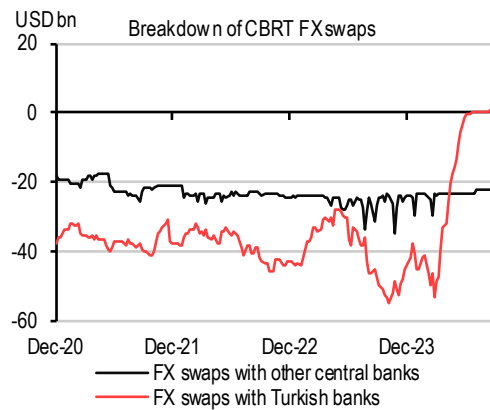
Source: Macrobond

38. ...and net reserves have improved dramatically



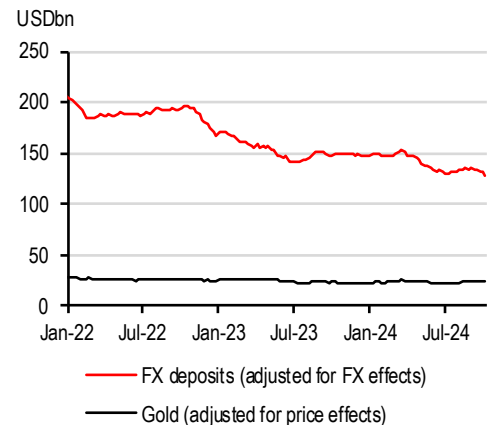
Source: Macrobond

39. The CBRT fully unwound its swap borrowing from commercial banks



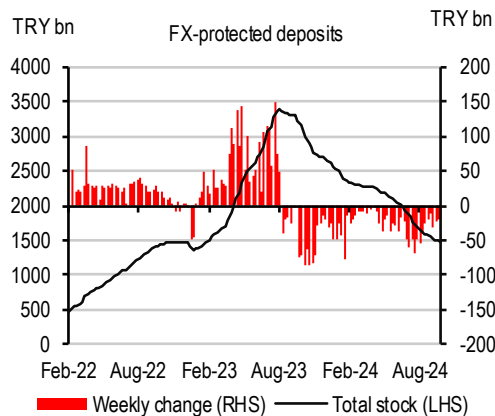
Source: Macrobond

40. Residents' FX deposits are down by nearly USD20bn YTD



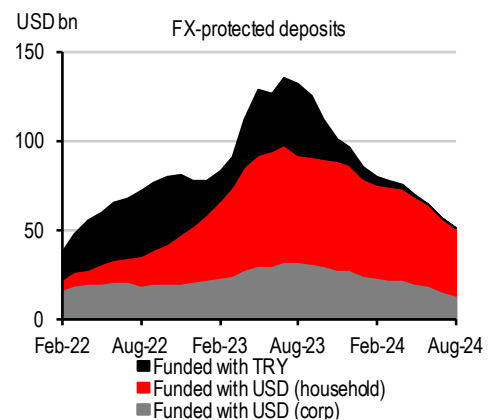
Source: Macrobond

41. The stock of FX-protected deposits has been reduced too...



Source: Macrobond

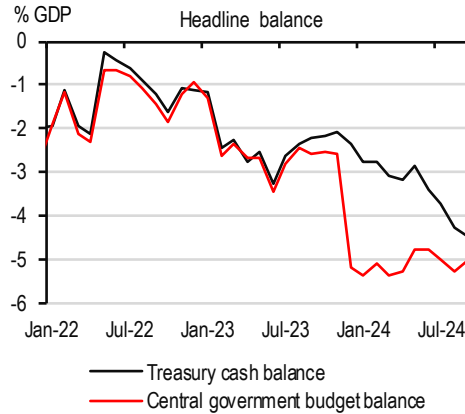
42. ...with the remaining cUSD50bn held largely by households



Source: Macrobond

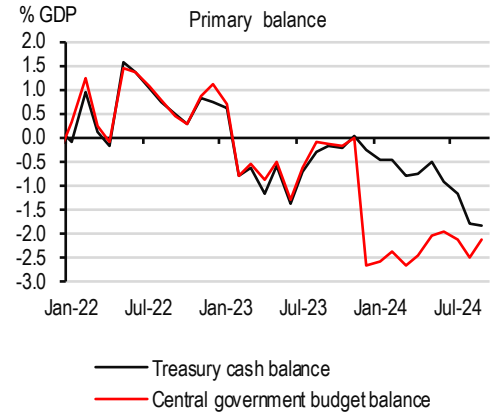
Outlook for fiscal policy remains uncertain

43. The divergence between the accrual-based...



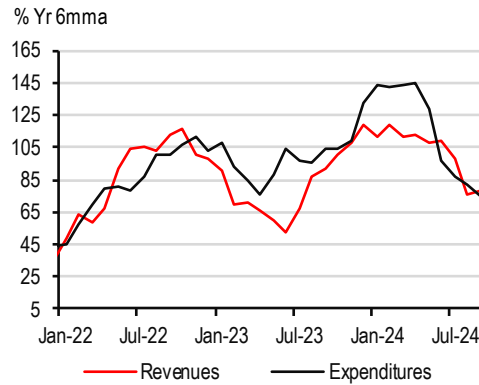
Source: Macrobond

44. ...and cash-based budget balance has narrowed



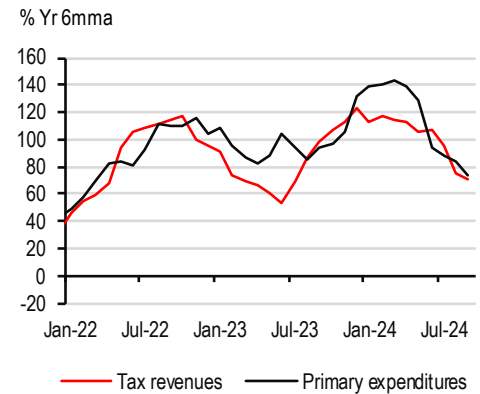
Source: Macrobond

45. 2024 saw a sizeable...



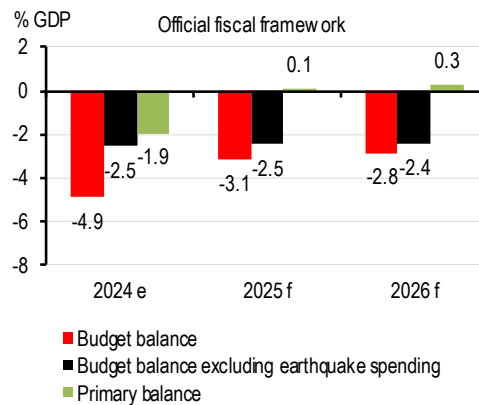
Source: Macrobond

46. ...positive fiscal impulse



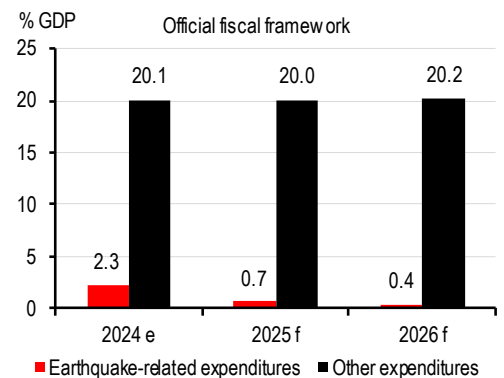
Source: Macrobond

47. Authorities are guiding for fiscal consolidation of 1.7% of GDP in 2025



Source: Medium-term programme and HSBC calculations

48. But delivering this through reducing earthquake-related spending alone may not be straightforward



Source: Medium-term programme and HSBC calculations

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