



Bakış

Macro Trends in Turkish and
Global Economy

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General outlook

Although the world economy entered 2017 with an agenda full of geopolitical tensions and political risks, expectations for a better performance than 2016 were high. Developments in global commerce and financial markets throughout the year warrant these positive expectations. A positive climate reigns with regards to the economic outlook of not only developed countries such as the USA and European Union member states, but also developing countries, including Turkey.

When taken all together the 8.6% increase in global exports, the 2.3% increase in the growth rate in the Euro Zone from 2.0% in the first quarter, and the 5.2% growth in total added value generated by emerging economies in the second quarter indicate a global economy in its good days.

But when looking at this positive picture of the global economy compared to the last few years, we must be careful not to ignore the uncertainties that lie ahead.

A quick look globally, the tensions between the USA and North Korea, the stressful process of forming a new coalition after the German elections, calls for independence in the Spanish autonomous community of Catalonia, escalating tensions in

the Middle East and at our border reveals the risks that could further increase global tension in the near future. We need to bear in mind that there may be severe reactions in the financial markets when data coming from the real economy, which seems set on a good course for now, tends to be weakened by effects such as aforementioned developments.






The Turkish economy, on the other hand, rounded off the first half of 2017 with a strong growth rate of 5.1% continuing to be one of the fastest growing OECD countries. It is most likely that Turkey will enjoy more than 5% growth in 2017. On the other hand, the quality of the growth in the economy and the contribution of net external demand will be determinant in the materialization of the growth rate of 5.5% set out by the administration's Medium-Term Program (MTP) for the next three years.

To summarize, the recovery in the global economy over the last nine months is expected to continue in the last quarter of 2017. However, the fact that the fault lines in world politics are becoming more distinct as we enter 2018 is a risk factor that should not be kept out of sight.







I hope you enjoy reading the report

Murat Alsan
Chairman, KPMG Turkey






Overview of the global economy

-  Entering the year 2017 with precarious prospects for growth on account of political risks and geopolitical tensions, the global economy rounded off the first quarter with surprisingly strong economic results. When we look at data released in the third quarter, it is clear that advanced and emerging economies will continue to have positive growth trends.
-  Geopolitical tensions in Qatar and North Korea initially increased the volatility in the financial markets. However, their short-term effects on the real economy remained limited. For this reason, in spite of the recent trend of increasing geopolitical tension, financial markets are giving more limited responses. On the other hand, there are worries that if data coming from the real economy reveals fundamental weaknesses in the medium-term financial markets will react badly.
-  Developments in factors affecting inflation confirm the periodic positive trend in growth. The recent uptrend in commodity prices indicates that in some countries there may be pressure on inflation in the medium term.
-  The outcome of the elections in Germany was important for the global markets. The Christian Democratic Party lost a big chunk of votes even though it came first in the elections four times in a row. On the other hand, the extreme rightist and populist Alternative for Germany Party (AfD) entered parliament for the first time since 1953. Following their lowest vote share in an election since World War II, Social Democratic Party (SPD) Chairman Martin Schulz stated in a speech after losing the elections that his party would remain as an opposition party. While the election results in Germany, as in many other countries, confirm the rise of extreme right political tendencies that have strengthened against a backdrop of meltdown in central parties, the process of forming a coalition can prove harder and much longer this time around.
-  The fact that global growth is recovering without comprehensive reforms and growth-friendly policies keeps optimistic expectations alive. Globally, manufacturing industry purchasing managers have reached the zenith of the last six years in the third quarter, while strong growth is seen in the service sector. But the current political and geopolitical uncertainties carry the risk of undermining the positive outlook from such preliminary data.

Overview of the Turkish economy

-  The Turkish economy rounded off the first half strongly on the backdrop of measures taken after leaving behind the political uncertainties from the beginning of the year. The recovery process was also supported by global demand and financial conditions.
-  The Turkish economy, which grew at a rate of 5.1% in the first half, is expected to reach an even higher growth rate in the third quarter due to the low base effect of last year. It is estimated that the economy will grow by over 5% throughout the year. While question marks remain regarding the quality and sustainability of the growth, the fact that net external demand continues to contribute to growth is considered a positive development.
-  Despite the gradual recovery in tax revenues, measures taken to support growth continued to adversely affect budget performance. To finance the budget deficit, the Treasury reached its annual borrowing cap long before the end of the year. Despite high amounts of borrowing and soaring inflation rates putting pressure on interest rates, global developments and foreigners' interest in Turkish stocks have had a dampening effect on interest rates.
-  Along with the supportive trend in global financial markets, the interest in Turkish financial assets continued in the third quarter thanks to a well-performing economy. Thus, the Turkish lira appreciated against the US dollar from late June to early September, while the euro and dollar followed a fluctuating course against an equally weighted basket currency. In the same period, due to high levels of inflation and heavy borrowing by the Treasury, the bond interest rates followed a fluctuating course in parallel to the course of the basket currency. There was an increase of more than 10% in stock values in the same period.
-  Both the global trends unfolding since the second week of September and the increasing uncertainties due to the referendum in Northern Iraq have triggered sales of Turkish financial assets. In a few weeks stocks lost all the gains they had made in the beginning of the third quarter and the TL depreciated against the USD and the euro. Similarly, interest rates have gone up in all maturities.
-  With the support of strong first half results and gradual recovery in global growth, the government published the 2018-2020 Medium-Term Program (MTP), which includes a road map and economic priorities. The program sets out the acceleration of growth, increased employment and the improvement of income distribution as its main objectives. In order to achieve these goals and objectives in macroeconomic quantities, a number of structural reforms will be carried out during the program period. Although the MTP is considered to be an important text in terms of leading the way for policy makers, there is also severe criticism regarding the consistency and prioritizing of macroeconomic targets.

Conclusion

-  The first half saw strong growth. There is an expectation for higher amounts of growth in the third quarter due to the low base of last year. However, it is not likely that the same momentum will be sustained during the fourth quarter.
-  The first signs of slowing growth in the fourth quarter have begun to appear in many sectors as of September. Confidence indices apart from the real sector showed signs of weakening in September portending a pessimistic start to the fall. While the real sector confidence index increased by 0.5% due to the effect of foreign trade activities, the consumer confidence index decreased by 3.0%. Confidence indices fell by 2.0% and 2.3% in the service and retail sectors, respectively, while loss of confidence in the construction sector was 5.5%.
-  Although the fall in the number of tourists in 2016 seems to have been compensated this year, it is anticipated that it will take much longer to return to previous tourism revenue figures.
-  In the third quarter, even though credit growth in the banking sector did not accelerate, there was no decrease in interest rates related to macroeconomic weaknesses. This put an upward pressure on credit costs and raised serious questions in terms of growth funding and sustainability.
-  Although the declines in the indices reflect, in part, geopolitical uncertainties and the turmoil in the financial markets, confidence in the Turkish economy must be strengthened in the short-term in order to stop this climate of pessimism from deepening further. Although criticized by some circles, it is vital that the MTP regulations be brought to life and that efforts are made towards the adoption of government goals across a wide spectrum.

Expectations for 2017

Growth



In 2017, growth will be a little over 5% throughout the year. In 2018, growth is projected to be around 4-5% due to uncertainties about the growth rate continuing at the same pace.

Inflation



It is anticipated that inflation will follow a fluctuating course. While continuing to increase until the year's end, inflation is expected to decrease to a certain extent in the new year. It is forecasted that inflation, which is expected to lie within the range of 9.5-10% by the end of the year, will exceed 8% in 2018.

Foreign Trade



Exports: Exports are expected to increase by more than 10% exceeding \$160 billion this year.

Imports: Due to the ongoing domestic demand for gold, it is estimated that imports may exceed \$225 billion with a slightly faster increase than exports.

Tourism



With the rapid recovery in non-EU markets, total tourism revenues could exceed \$20 billion this year with an increase of around 10%. However, it is anticipated that it will take much longer to attain previous tourism revenue figures.

Growth expectations for 2017

5.2%

GDP estimate

\$840
bn

2017 foreign trade expectations

\$160 billion in exports
\$225 billion in imports

Markets (year average)



Dollar / TL : **3.60**

Euro / TL : **3.96**

Euro / Dollar : **1.12**

Oil : **\$52.5**

Unemployment

11%

(year average)

Inflation

9.8%

(year average)

Current Account Deficit

39

(billion dollars)

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