Bakış

Macro Trends in Turkish and Global Economy

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General outlook

Despite the increase in protectionist reflexes in the world trade, the global economy rounded up 2017 with a strong performance. Along with many countries like the USA and EU members, which direct the global economy, the developing countries, including Turkey, achieved an increasing momentum in economy in 2017. This situation gives rise to positive expectations regarding 2018.

International Monetary Fund (IMF) announced its growth estimate as 3.7% for the global economy in 2018, and forecasts that the cyclical growth will continue. In Q3 of 2017, the global trade volume increased by 10.7% compared to the same period last year. There was more than 20% increase in the stock values last year, and the increase in the value of the stocks in emerging economies reached 34.3%.

The continuing recovery in the advanced economies, the approval of the tax reform, one of Trump's most important election promises, and the appointment of Jerome Powell, known for his proximity to Trump, the president of FED, one of the determinant institutions of the global economy, were closely followed by the global markets in 2017. In the coming period, the effect of the geopolitical developments on the economic activities, and the rhythm of the global foreign trade come forth as parameters that need to be monitored closely.

The Euro Zone, Turkey's greatest trade partner, continues its growth momentum which it achieved in recent years. In Q3, the Euro Zone GDP annual growth rate rose from 2.4% in Q2 to 2.6%. On the other hand, the inflation in the Zone maintains its moderate course.

The positive climate in advanced economies continues to contribute to the economy of developing countries. The annual growth rate in emerging economies, which was 5.2% in Q2 2017, rose to 5.4% in Q3 2017, the highest point in the last four years. Ending Q3 2017 with a record 11.1% growth rate, Turkey is preparing herself to end 2017 with a growth above 7%.

Although all this data heralds a positive direction for the global trade and markets in 2018, it is also probable that the current political and diplomatic developments lead to cross winds in the world economy.

As stated in our previous editorial, the transformation of the tension between the USA and North Korea into a fully-fledged show-down concerning the use of nuclear weapons, the uncertainties in Iran, Iraq and Syria in the post-ISIS period, and the polarized atmosphere in politics as a result of the popularization of autocratic governments around the world, constitute the most important fault lines before the blooming economy. Therefore, it seems that 2018 will be a year when global economic activities will accelerate, and the highly-charged foreign policy and regional polarization will increase.

As the KPMG Turkey family, we wish that peace and wealth prevail both in our country and around the world in the new year.

I hope you enjoy reading the report,

Murat Alsan

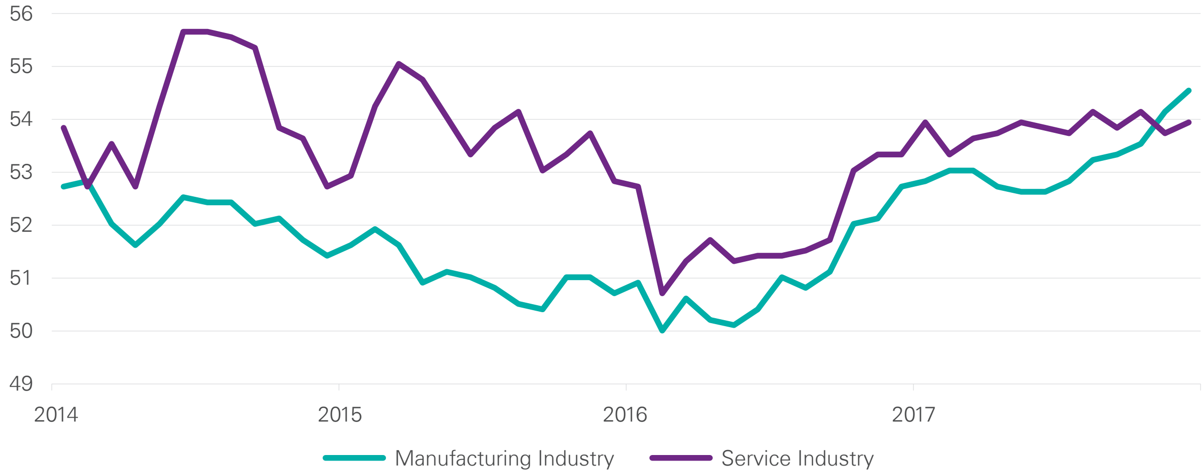
Chairman, KPMG Turkey

Global

Overview of the global economy

- Entering 2017 with political and geopolitical uncertainties, the global economy gave positive signals in general throughout the year. The global trade volume continued to grow despite the increase in protectionist foreign trade policies. The positive macroeconomic data supported capital inflows; however, the geopolitical tensions preserved their significance in limiting the optimism in global economy.
- The stocks index which represents the overall globe rose by 21.6% in 2017, whereas the increase in stocks in emerging economies realized at 34.3%. The USD index fell by 9.9%throughout the year, and the currencies of emerging economies appreciated 5.7% in average against the USD. The price of Brent oil rose by 17.7%, and the annual increase in industrial metal prices realized at 31.7% thanks to the support from the global growth.
- The momentum in the global economy results in optimistic expectations for 2018. As a result, IMF increased its global growth estimate from 3.6 to 3.7%, and that the cyclical growth will continue. However, IMF emphasizes that despite the short- term risks, the long-term problems preserve their significance, and recommends everyone to be cautious.

Global Purchasing Managers Index (PMI)



Source: Bloomberg, investing.com

USD Index

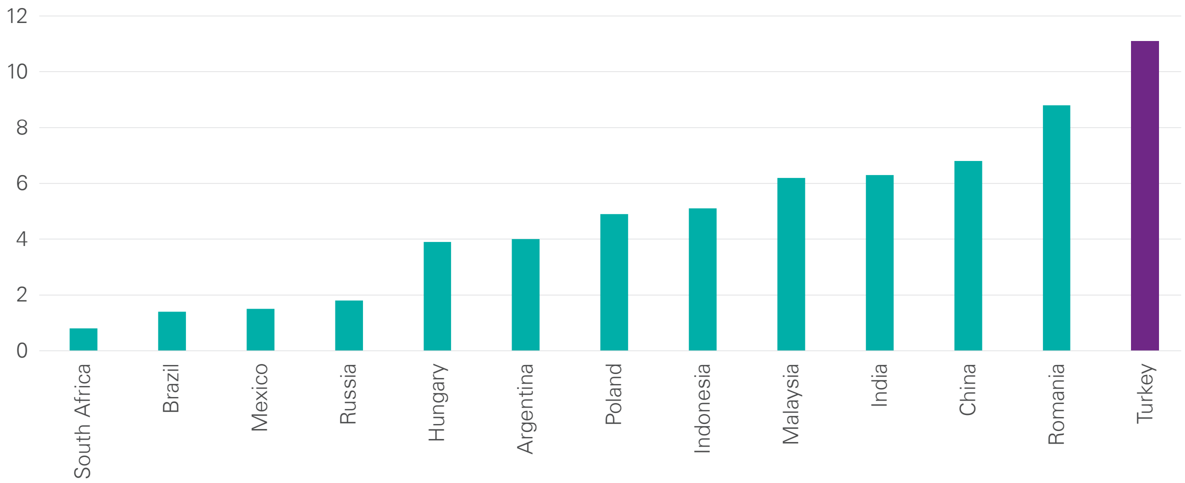
Source: Bloomberg, investing.com

Turkey

Overview of the Turkish economy

- Turkish economy, beyond expectations, rounded up 2017 with a strong performance thanks to the measures taken by the end of 2016 and the resilience of the global economy.
- Managing to increase its growth rate above 5% in H1 2017, following a slow growth in 2016, Turkey achieved its greatest growth rate in the last six years with 11.1% in Q3 2017, thanks somewhat to the low base effect of the last year. Data for the last quarter hint a limited slowing down, but they also indicate that the overall annual growth may exceed 7%. Turkey overtook many economies with its 2017 performance, but it is expected that the growth will slowdown and realize below 6% in 2018.
- Non-economic uncertainties outside the economy led to temporary fluctuations in financial markets throughout the year, but these strong results in growth joined by global trends led to increases more than 50% in stocks. However, the upward pressure on foreign currencies continued due to the external financing needs. The interest rates remained high due to the negative effect of the inflation, and the high amounts borrowed by the Treasury.
- In 2018, need of external financing seems to be the major agenda item due to increasing external debt stock of private sector and current account deficit.
- Another consequence of the acceleration in growth was seen in the inflation joined by the volatility in foreign exchange rates and the increase in other cost elements. The consumer inflation which reached 13% in November was 11.92%by the end of the year. In the coming months, a two or three-point decrease is expected in the overall inflation due to the high level base effect of the last year. However, core indicators and the cost pressure signal a limited improvement in the 2018 inflation.

2017 Q3 Annual GDP growths (%)



Source: The Economist

Conclusion

- 2017 was a year of pleasant surprises in terms of growth due to strong global demand and the effect of Credit Guarantee Fund at home. It is expected that this trend will continue a little longer, albeit by slowing down.
- In addition to the rise in foreign exchange rates and other cost elements, the peak in inflation which occurred as a side effect of this rapid growth required that CBT increase interest rates again. The inflation is expected to decrease as a result of the base effect in the coming months, the core indicators and the cost pressure indicate that the improvement may be limited. This supports the expectations that CBT will maintain its tight money policy.
- Even though 2016's losses in tourism were compensated for in 2017, the increase in the energy bill and the gold import led to an increase in the current account deficit. Portfolio investments played an important role in financing the current account deficit throughout the year. As borrowing started to recover recently, the economy is headed towards a relatively sound financing combination. Even though the maturity structure of the foreign financing is positive, it remains high in comparison to our country's foreign exchange reserves.
- As some of the growth-friendly measures ended, and thanks to strong tax collection, the deterioration in public deficits seems to have somewhat stopped. Partial savings in spendings may be interpreted positively as well.
- Even though global trends and the resilience of the economy support the financial markets, non-economic uncertainties lead to short-term fluctuations. In the coming period, it is critical how much the economy will be able to preserve its growth momentum and how much the inflation can be improved. As geopolitical tensions and non-economic uncertainties continue, the need for structural reforms which will increase the resistance of the economy preserves its significance for long term stability.

Expectations for 2018

Growth

Turkish economy, which rounded up 2017 with a growth rate over 7%, is expected to slow down a little in 2018. As the foreign demand's and growth-friendly policies' contribution dwindle, it is estimated that the growth will draw back below 6%. The government's intervention will be determinative in the growth rate to be above 7%.

Inflation

The annual CPI which was 11.92% by the end of 2017 is expected to improve 2 or 3 points in the coming period. However, the course of the foreign exchange rates will be determinant regarding its level by the end of 2018. The inflation, which runs the risk of staying at two-digits, is expected to realize at 9.5% by the end of 2018.

Foreign trade

Despite geopolitical uncertainties, the positive outlook of the economies of our foreign trade partners may help Turkey achieve a 10% growth in export, and reach USD 175 billion. Import may realize at USD 270 billion based on the course of the commodity prices.

Tourism

The tourism sector maintains its optimism although a growth like the one in 2017 is not expected. Within this framework, it is estimated that tourism revenues will realize at USD 25 billion with only a USD 3 billion increase from 2017.

Growth expectation for 2017
7.2%

GDP estimate
$852 bn

2017 foreign trade expectations
$160 billion in exports
$225 billion in imports

Growth expectation for 2018
5.4%

GDP estimate
$910 bn

2018 foreign trade expectations
$175 billion in exports
$270 billion in imports

Markets (year average)

Dollar / TL	: **4.00**
Euro / TL	: **4.80**
Euro / Dollar	: **1.20**
Oil	: **$70**

Unemployment

11%
(year average)

Inflation

10%
(year average)

Current Account Deficit

$48
billion

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