

# Türkiye chartbook

Economics  
CEEMEA

Where are we now? Where are we going?

- ◆ Türkiye's macro policies have become more conventional, opening up the way for gradual adjustment
- ◆ We expect weaker growth in 2024 and some disinflation, while external dynamics have become more sustainable...
- ◆ ...but vulnerabilities remain and premature easing could risk reversing recent gains

We continue to expect Türkiye to experience gradual economic adjustment in 2024. In theory, it should be possible to deliver a much faster pace of disinflation and to shrink the external shortfall more meaningfully, but we think policymakers will continue to prioritise a soft landing for the economy, especially with local elections now less than three months away. We expect some fiscal stimulus in the lead up to the vote and forecast the budget deficit to widen in 2024 as a whole, but envision no monetary or credit-channel easing. We think growth is set to slow from an estimated 4.0% last year to 2.5% in 2024 (charts 2-12).

Inflation stood at 65% y-o-y at the end of 2023, while the six available core inflation indicators were in a 61-71% range. We expect a slower pace of disinflation compared to the central bank's projections and see headline inflation at 45% by end of 2024 (vs the CBRT's forecast of 36%). There is a high degree of stickiness in services prices in particular, while inflation expectations remain extremely high (charts 13-18). One-year ahead expectations stood at 41% in December, compared with fluctuating in a 5-10% range five years ago. We see some risk that if inflation remains above 40% this year, after ending 2022 and 2023 at close to 65%, it may become further entrenched, which in turn could require a more forceful monetary policy response.

Despite the persistent current account deficit, reserves have risen since June, when the CBRT started its tightening cycle, although this partly reflected net errors and omissions inflows in June-August and the favourable seasonality of the current account during the third quarter. More recent data since the start of the year shows a modest decline in net foreign assets (charts 31-34). Portfolio investment has turned from outflows to inflows, reaching USD6.6bn in January-November, but FDI remains subdued (charts 27-30). Taken together, these trends show that while external dynamics have become more sustainable in recent months, vulnerabilities remain. If portfolio flows slowed or financing pledged from the UAE did not materialise, funding the estimated USD30bn current account shortfall for 2024 may not be straightforward.

From a policy perspective, the primary risk is premature easing. The central bank has given no indication that it is considering rate cuts in the near term, but the outlook can shift if activity weakens more than expected. We expect the policy rate to peak at 45% after a final 250bp rate rise on 25 January and see no room for cuts in 2024 given the inflation trajectory (Please also see [CEEMEA Economics Quarterly: Turning, in stormy waters](#), 11 January).

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**Waiting in the wings**

The 14<sup>th</sup> edition of the EM Sentiment Survey

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## Four questions for 2024

### Will FX-protected deposits continue to decline throughout 2024?

On 2 January, Minister Simsek said that the FX-protected deposit (FXD) scheme will end this year (Source: Bloomberg). Since the start of the year, banks have stopped offering new FXD accounts funded from lira deposits. Meanwhile the existing stock of roughly TRY2576bn (cUSD90bn) in FXD has been falling at a gradual pace since August, declining by about TRY40bn per week on average. Foreign currency deposits in USD or EUR have not risen over this period, but it is possible that further unwinding of FXD could lead to fresh FX demand going forward, some of which may have to be met by the central bank (charts 37-38). This is particularly true if the remaining stock of FXD was initially funded from FX deposits and not from vanilla TRY deposits (For more details on the FXD scheme, please see [What to expect in 2024](#), 19 September 2023).

### The current account deficit did not narrow in 2023. Will it finally start to adjust in 2024?

Balance of payments data for December has not yet been published, but the 12-month cumulative current account deficit stood at USD50bn in November 2023, virtually unchanged from its level at the end of 2022 (chart 25). The net energy deficit improved by USD26bn over 2023, but the net gold deficit widened by USD8bn, and the core current account balance (excluding energy and gold) worsened by USD18bn. Focusing on the second half of last year, after the CBRT started tightening, core imports, excluding energy and gold, still grew by 8% y-o-y during the July-November period. Exports were flat y-o-y.

As the impact of CBRT tightening continues to be felt with a lag, we expect some improvement in the external deficit and see it narrowing to USD30bn (2.7% of GDP, on our estimates). One pushback that we hear frequently is that a more meaningful improvement is likely, as a key driver of the current deficit is gold imports, which are likely to fall sharply as inflation moderates. We agree that gold imports are likely to fall y-o-y in 2024, but see them staying above the long-term trend (net gold imports averaged USD5bn per year 2013-2019) for as long as inflation expectations remain elevated.

### Is there risk of policy loosening before local elections on 31 March?

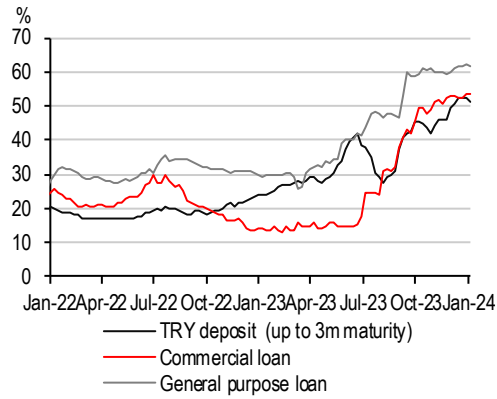
There was a notable deterioration in fiscal dynamics at the end of 2023, with the headline budget shortfall reaching 5.4% of GDP, on our estimates (from a 0.9% of GDP deficit in 2022), the largest fiscal shortfall since 2009 (charts 43-44). The government's medium term programme, published in September, projected a fiscal shortfall of 6.4% of GDP for both 2023 and 2024, pointing to no positive fiscal impulse this year (charts 47-48). That said, with local elections due on 31 March, we believe some fiscal loosening is likely. We think this is more likely given that we do not expect monetary loosening or an associated credit boom, features that preceded the presidential election last year. We have kept our budget deficit forecast unchanged at 7.1% of GDP for 2024, but in light of the December data, risks may now be tilted towards an even larger shortfall ([Fiscal dynamics worsen at the end of 2023](#), 15 January).

### When can the CBRT cut?

The expectations survey from December showed that participants see the one-week repo rate at roughly 37% by December 2024. We find this surprising, considering that end-2024 inflation expectations from the same survey stand at 41%. If CBRT did start an easing cycle in the second half of the year, taking the real policy rate to -4% by December, we think this would quickly lead to a consumption recovery, renewed inflationary pressures, and possibly TRY weakness too. We have tentatively pencilled in the policy rate falling to 30% in 2025 but see no room for cuts in 2024 (chart 18).

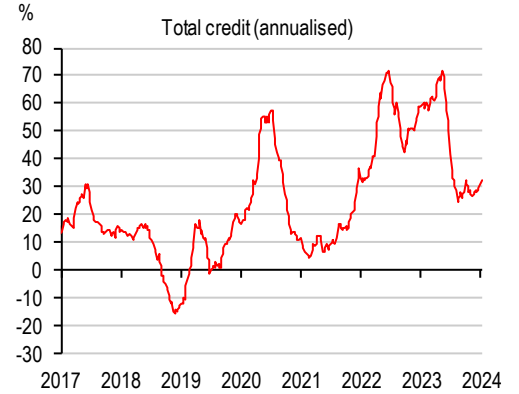
## Following sharp monetary tightening, growth is set to slow...

### 1. Following 3400bps of tightening in 2H 2023, loan and deposit rates rose sharply



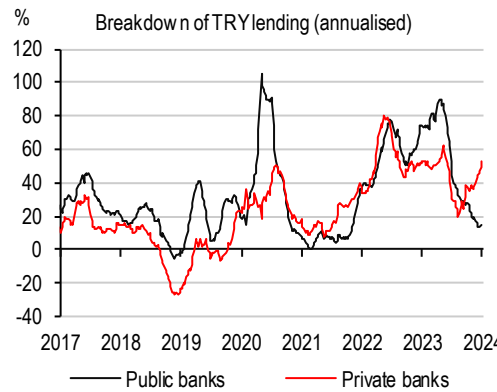
Source: CBRT

### 2. Credit growth slowed from a peak of 70% to c30%...



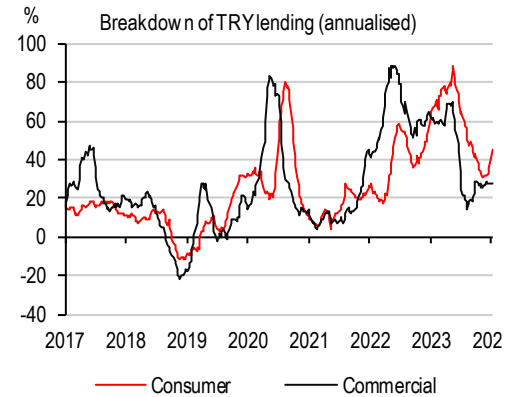
Source: BRSA. W-o-w change, annualised, 13 week moving average. Adjusted for FX effects.

### 3. ...but now appears to have bottomed out...



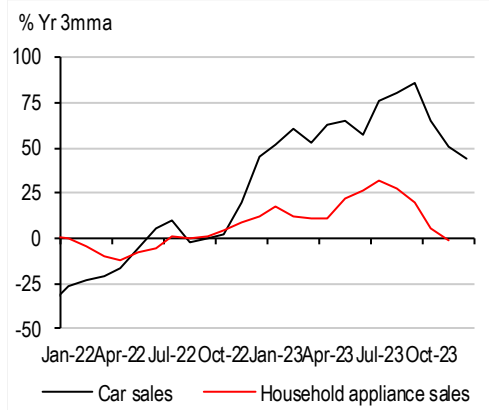
Source: BRSA. W-o-w change, annualised, 13 week moving average

### 4. ...with consumer loan growth rising in recent weeks



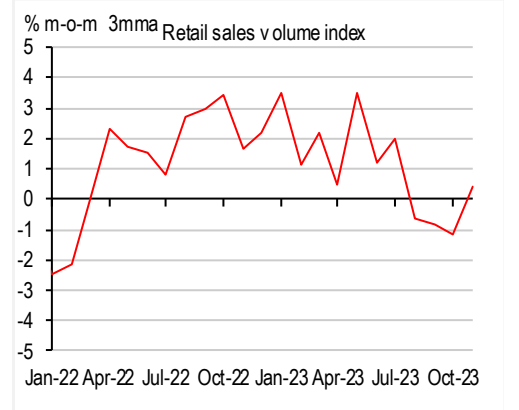
Source: BRSA. W-o-w change, annualised, 13 week moving average

### 5. Other consumption indicators are also softening...



Source: CEIC

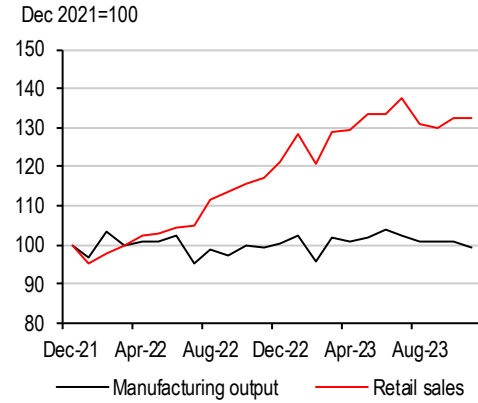
### 6. ...following a period of exceptional strength...



Source: CEIC

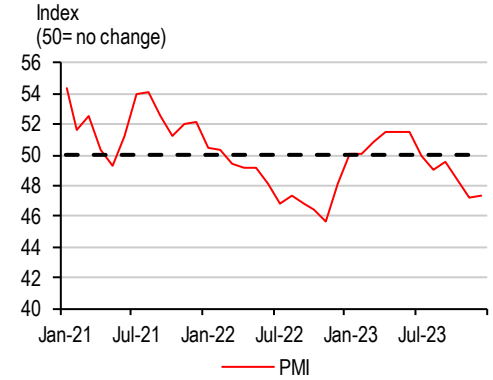
**...after two years of overheating**

**7. ...with the economy showing clear signs of overheating in 2022 and 2023**



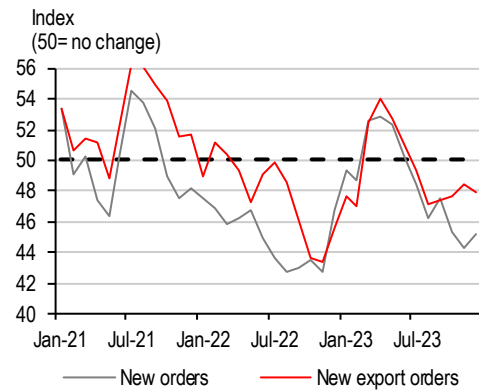
Source: CEIC

**8. PMIs have been in contraction territory since July...**



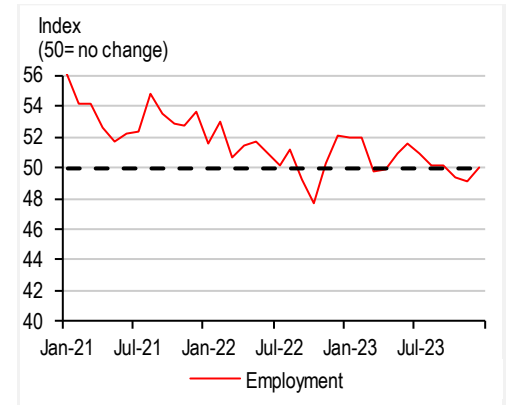
Source: CEIC

**10. ...with weakness in domestic and export orders**



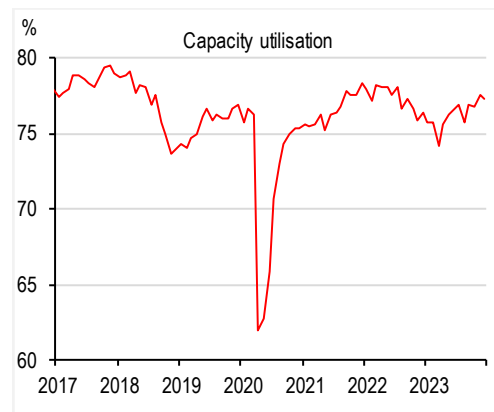
Source: CEIC

**10. Employment has been more resilient...**



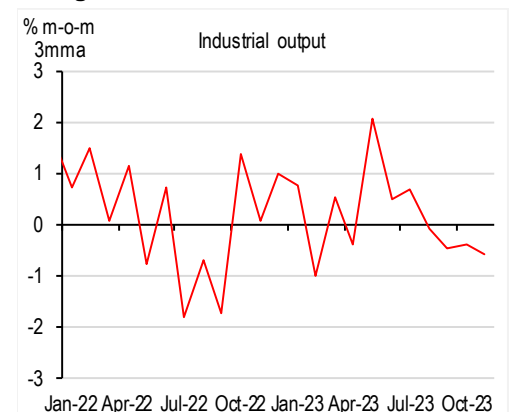
Source: CEIC

**11. ...and capacity utilisation is still high...**



Source: CEIC

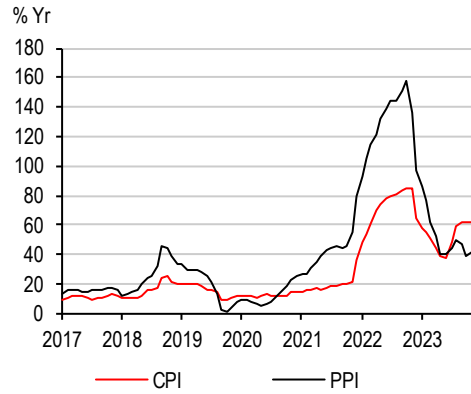
**12. ...but manufacturing output is clearly losing steam**



Source: CEIC

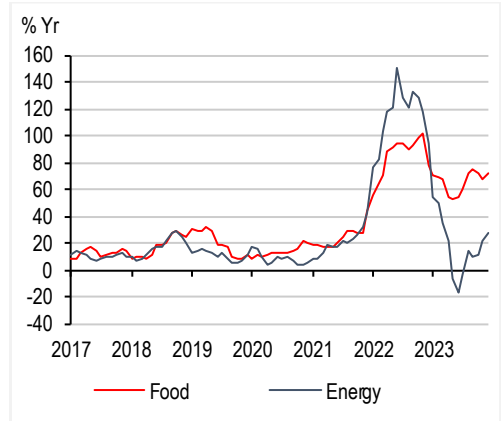
## We only expect a slow pace of disinflation in 2024

**13. Inflation stood at 65% at the end of last year...**



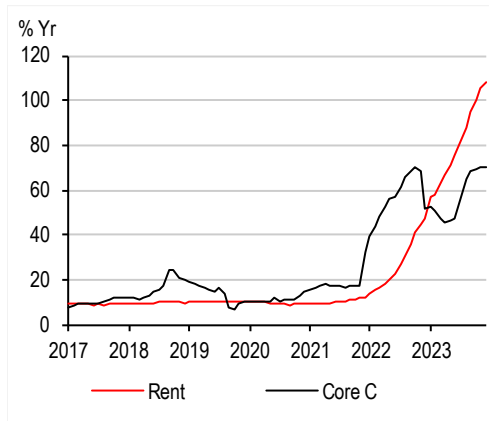
Source: Macrobond

**14. ...with significant price pressures across food, energy...**



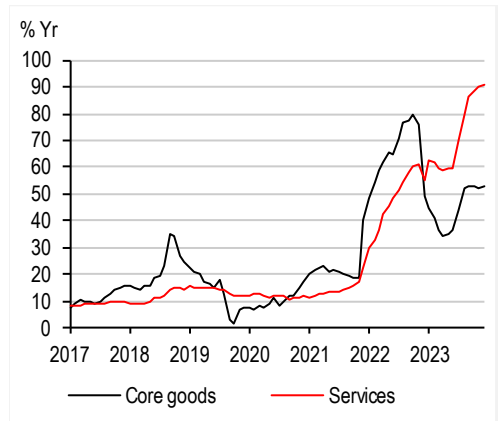
Source: Macrobond

**15. ...core goods...**



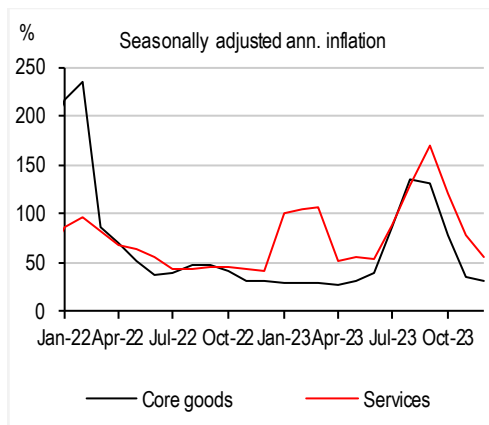
Source: Macrobond. Core C excludes food, energy, alcohol, tobacco, gold.

**16. ...and services**



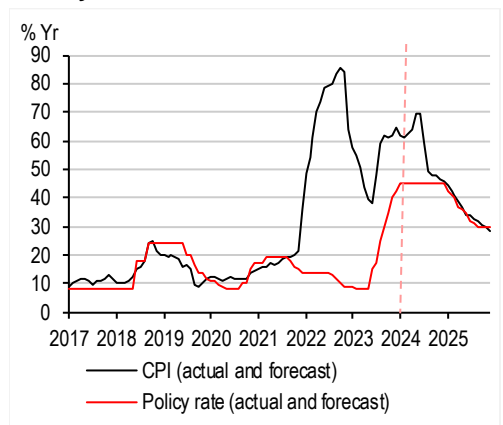
Source: Macrobond

**17. There was some moderation in the underlying pace of price growth in Q4...**



Source: Macrobond

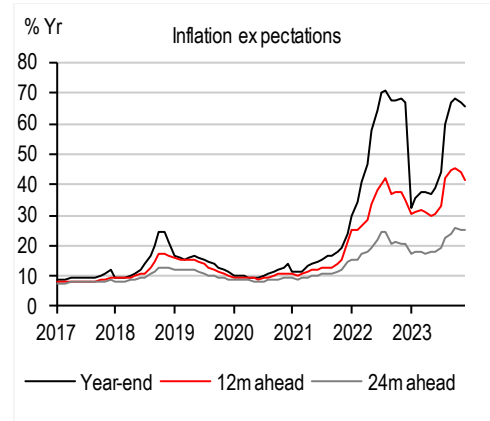
**18. ...but we continue to envision a slow pace of disinflation, with headline CPI at 45% by end-2024**



Source: Macrobond, HSBC forecasts

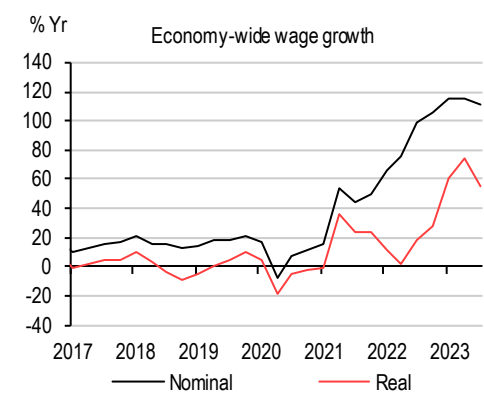
## Wage dynamics are a key challenge for the inflation outlook

### 19. Inflation expectations have not yet improved...



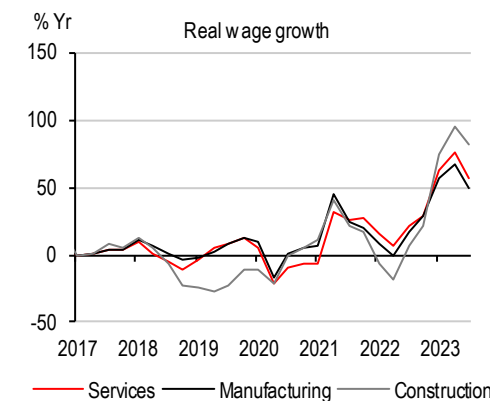
Source: Macrobond

### 20. ...and there are significant wage pressures in the pipeline



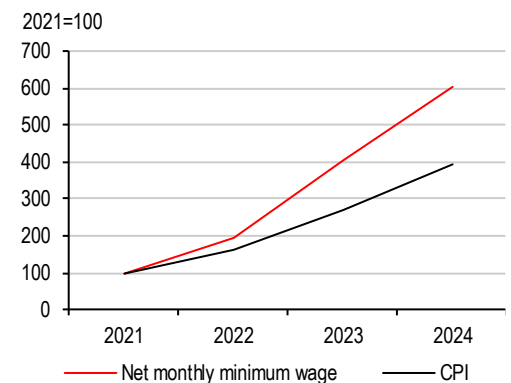
Source: CEIC

### 21. Real wages rose by c50% last year...



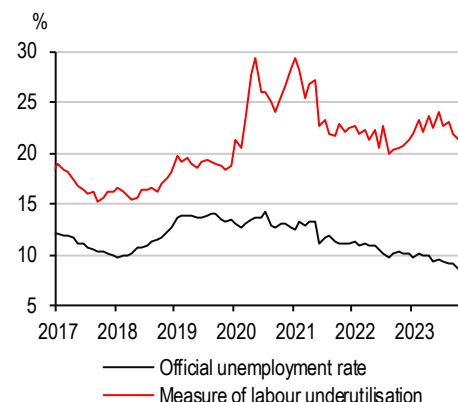
Source: CEIC

### 22. ...and the minimum wage was raised by 49% for 2024, suggesting ongoing real wage gains this year



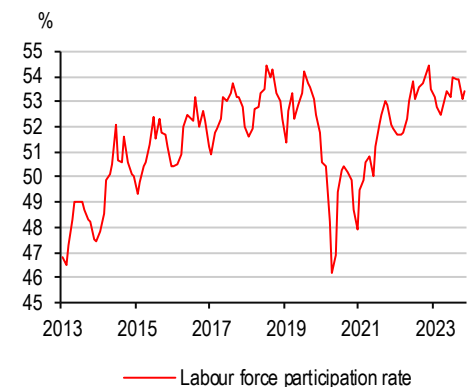
Source: CEIC, HSBC forecasts. 2024 CPI is HSBC's forecast.

### 23. The official unemployment rate is low, but inactivity is high...



Source: CEIC

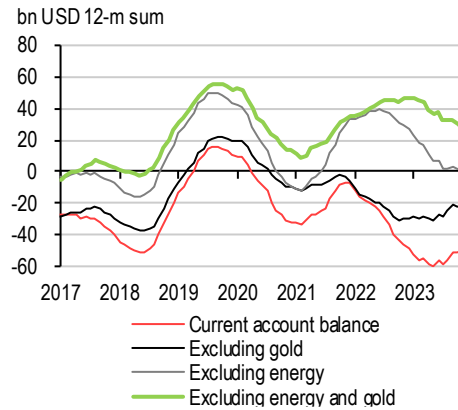
### 24. ...with labour force participation showing signs of plateauing



Source: CEIC

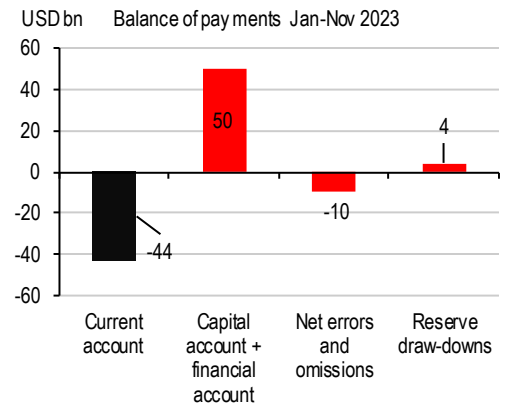
## The current account deficit did not narrow last year...

**25. Despite weaker domestic demand, the external deficit did not narrow in 2023...**



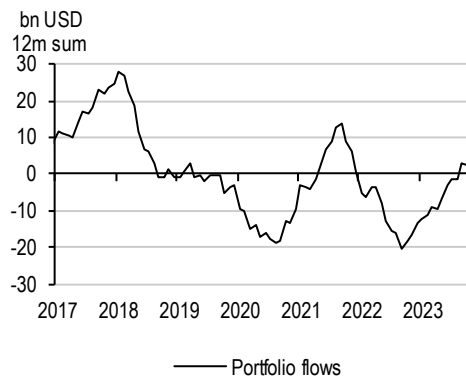
Source: CBRT

**26. ...but following the policy shift in June, financing risks have eased**



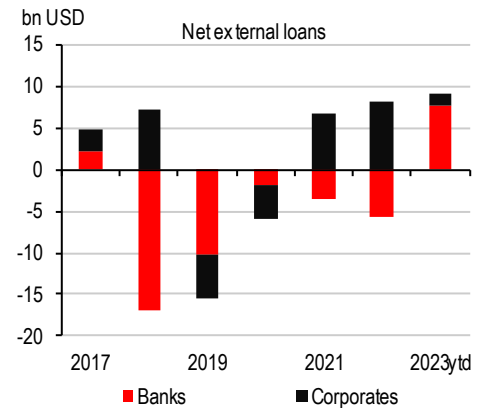
Source: CBRT

**27. Portfolio investment turned from outflows to inflows...**



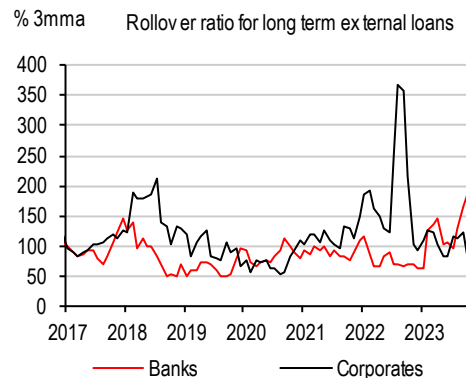
Source: CBRT

**28. ...and the private sector was a net borrower last year...**



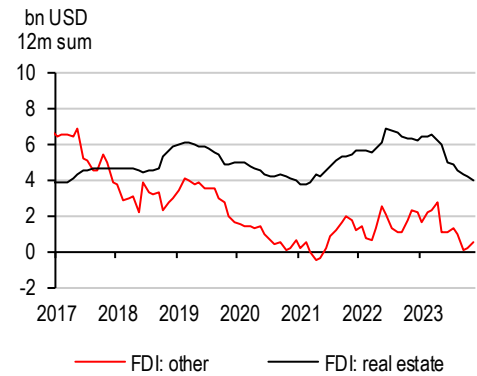
Source: CBRT

**29. ...with rollover ratios for long term external loans high**



Source: CBRT

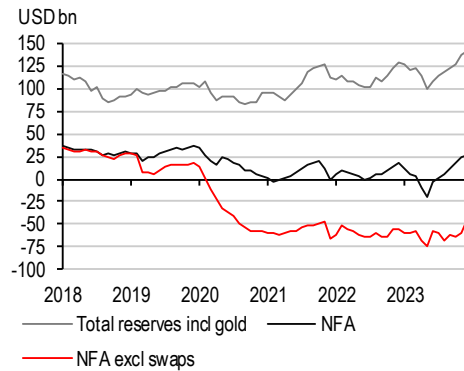
**30. But there has been little pickup in FDI, especially outside of real estate**



Source: CBRT

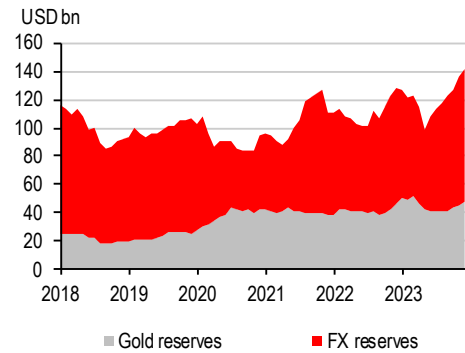
**...but with inflows improving in 2H 2023, reserves rose**

**31. Reserves rose by USD30-40bn from their May 2023 lows, depending on the measure**



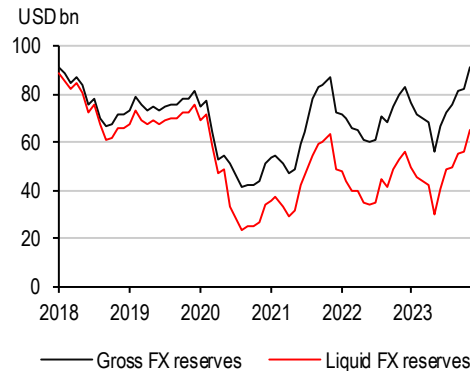
Source: CBRT

**32. Gold reserves have remained steady**



Source: CBRT

**33. CBRT's liquid FX reserves rose from USD30bn in May to more than USD60bn...**



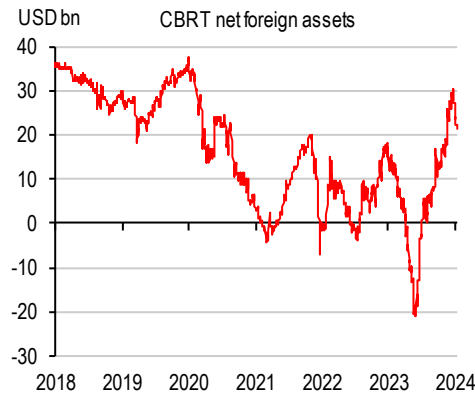
Source: CBRT. Liquid FX reserves exclude the SDR allocation and FX reserves held in non-SDR currencies

**34. ...but net foreign assets (including or excluding swaps) remain low**

USD bn	Dec-22	Dec-23	change
Total gross reserves	128.8	141.0	12.2
FX reserves	82.9	92.8	9.9
o/w held in SDR currencies	63.6	73.8	10.2
Gold reserves	45.9	48.2	2.3
Net foreign assets	17.2	27.2	10.0
Net foreign assets excluding swaps	-54.8	-45.3	9.6

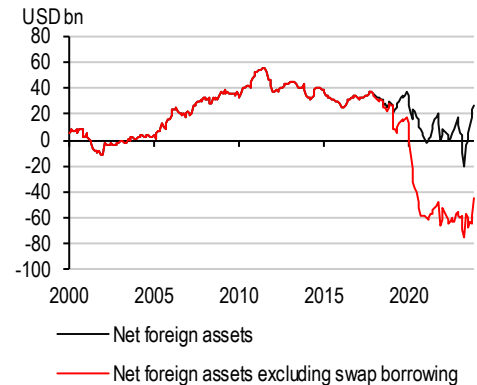
Source: CBRT

**35. Net foreign assets have fallen modestly in recent weeks...**



Source: CBRT

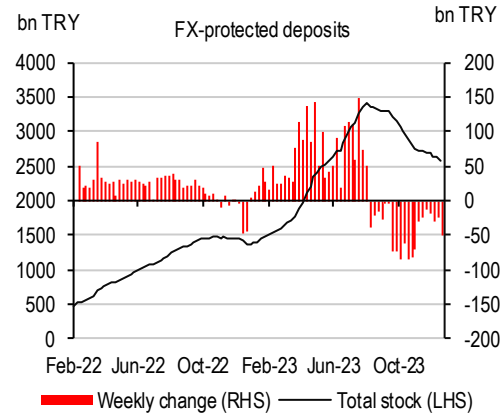
**36. ...and rebuilding lost reserves will be a long term challenge**



Source: CBRT

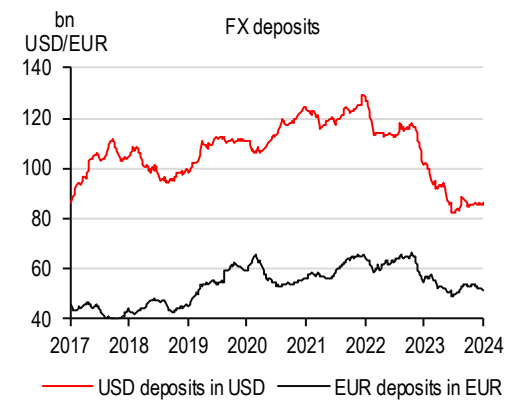
## FX-protected deposits have been steadily falling, but at a modest pace

**37. FX-protected deposits have been declining since late August...**



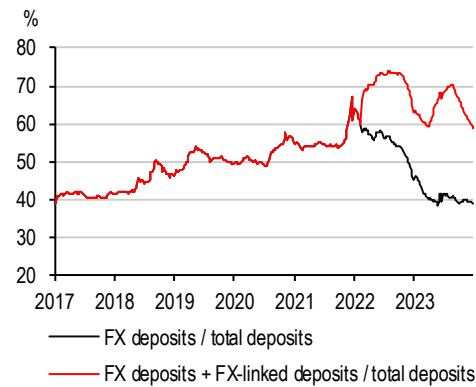
Source: BRSA

**38. ...while USD/EUR deposits have not risen**



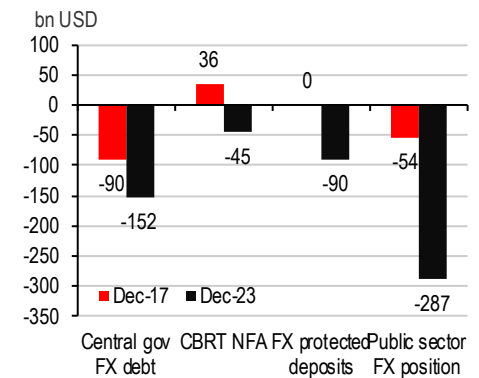
Source: CBRT

**39. Still, dollarisation remains high**



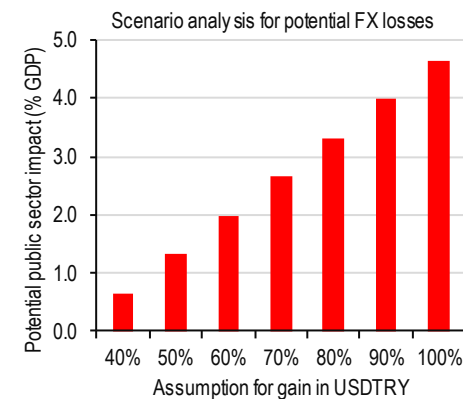
Source: CBRT

**40. FXD continues to have significant potential fiscal costs...**



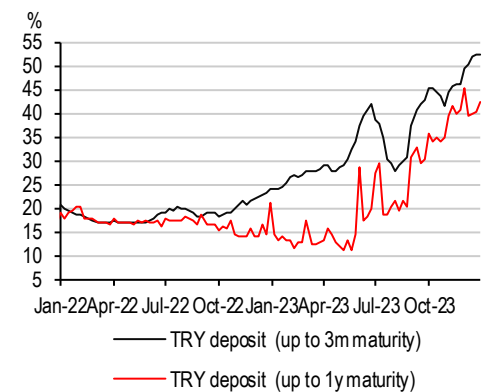
Source: CBRT, BRSA, Ministry of Treasury and Finance

**41. ...in case of TRY depreciation**



Source: BRSA, HSBC estimates. Chart assumes size of deposits remains unchanged and 1-year TRY deposit rate of 30%. Fiscal impact shown as share of 2024 estimated GDP.

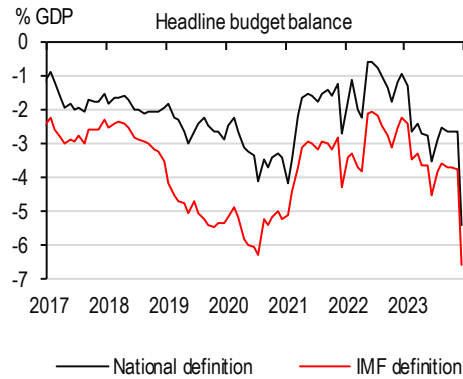
**42. TRY deposit rates are not significantly above year-ahead CPI expectations**



Source: CBRT

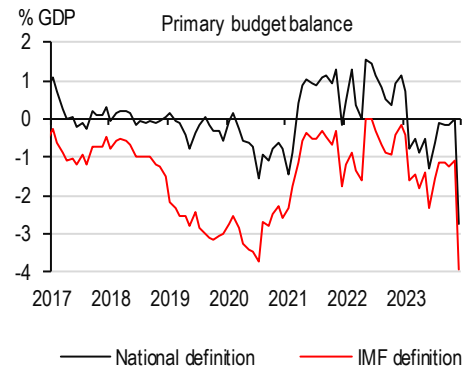
**We expect the budget shortfall to continue to widen in 2024**

**43. The budget deficit widened to 5.4% of GDP, on our estimates, last year, the largest shortfall since 2009...**



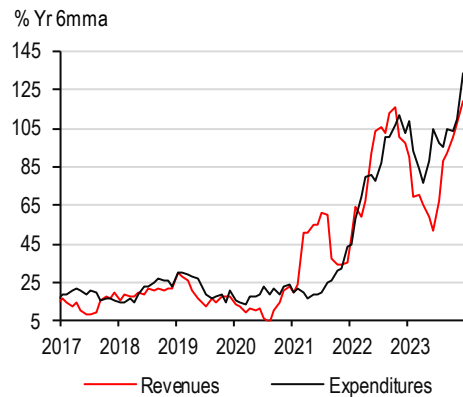
Source: Ministry of Treasury and Finance

**44. ...with the primary deficit showing the same trend**



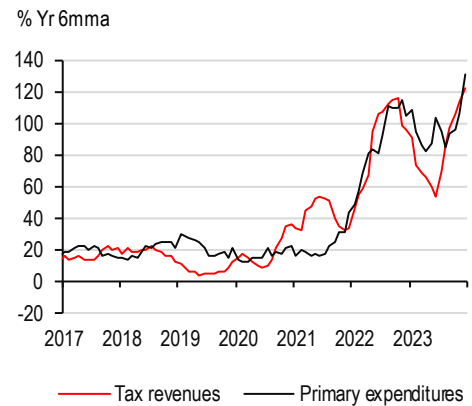
Source: Ministry of Treasury and Finance. The IMF definition excludes one-off revenues.

**45. Revenue growth accelerated in 2H 2023...**



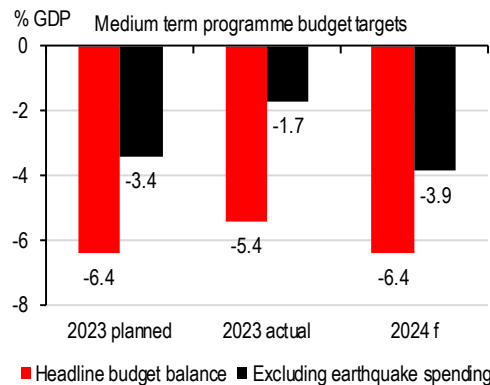
Source: Ministry of Treasury and Finance

**46. ...but there was a very sharp rise in primary spending at the end of the year**



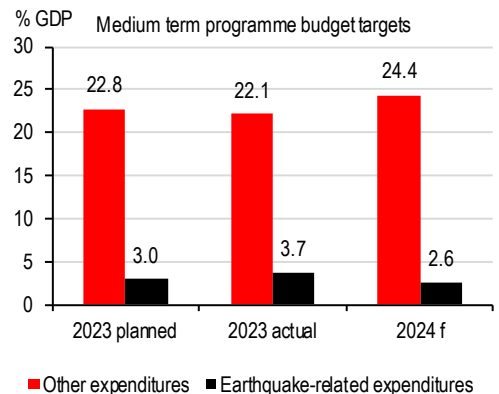
Source: Ministry of Treasury and Finance

**47. Official targets initially showed no positive fiscal impulse in 2024...**



Source: Ministry of Treasury and Finance

**48. ...but with local elections due on 31 March, we think some loosening is likely**



Source: Ministry of Treasury and Finance

# Disclosure appendix

## Analyst Certification

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