

Turkey's new economic program is a bit optimistic

The new economic plan of the government paints an optimistic picture for 2020-2022 with stronger growth, rapid disinflation trend, and external deficit under control while a supportive fiscal stance is likely to continue



Turkish Finance
Minister Berat
Albayrak

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The Treasury and Finance Minister Berat Albayrak presented details of Economic Program for 2020-2022.

The government expects GDP growth to be positive in 2019 at 0.5% and 5.0% thereafter, until 2022. The envisaged acceleration in economic activity is largely driven by delayed spending especially on investments and stock building. Public consumption will likely remain supportive though public investment, associated with an increase in the capital stock of the economy, will contract again in 2020, before turning positive in 2021.

While this year's growth forecast looks reasonable, we believe the projections for 2020 and beyond are quite optimistic given the high levels of corporate sector indebtedness and ongoing

deleveraging as well as a challenging global backdrop with increasing uncertainty.

Details of the New Economic Program

MACRO ASSUMPTIONS	New Program				Previous Program		
	2019F	2020F	2021F	2022F	2019F	2020F	2021F
GDP growth (%)	0.5	5.0	5.0	5.0	2.3	3.5	5.0
Unemployment Rate (%)	12.9	11.8	10.6	9.8	12.1	11.9	10.8
Inflation (%)	12.0	8.5	6.0	4.9	15.9	9.8	6.0
C/A Balance (US\$ bn)	1.0	-9.6	-7.0	0.0	-26.0	-23.5	-24.1
C/A Balance (% GDP)	0.1	-1.2	-0.8	0.0	-3.3	-2.7	-2.6
Cent Adm Budget Balance (TRY bn)	-125.0	-138.9	-157.6	-160.1	-80.6	-98.1	-97.0
Cent Adm Budget Balance (% of GDP)	-2.9	-2.9	-2.9	-2.6	-1.8	-1.9	-1.7

Source: Ministry of Treasury and Finance, ING

Regarding fiscal developments, the program envisages a continuation of a supportive fiscal stance with the central administration budget balance-to-GDP ratio to remain close to the 3% level in 2020 and 2021, and slightly drop to 2.6% in 2022.

The primary budget will be on balance in the coming two years and then turn to a slight 0.3% (of GDP) surplus in 2022. Accordingly, the government expects the primary balance based on the IMF definition to be in a deficit during the entire forecast period but continue to improve from -3.5% (of GDP) in 2019 to -1.7% (of GDP) in 2020 to -0.5% in 2022. The fiscal indicators in the latest program shows a significant shift from the previous one that foresaw wide range of spending and revenue measures aimed at keeping the deficit in check during the forecast period.

The new program also expects privatisation revenues to be at TRY 10bn in the period ahead, relatively modest in comparison to last year's program. So, the government sees the EU Defined Public Debt Stock-to-GDP returning to below 30% after 2018 with a marked drop in public sector borrowing requirement-to-GDP to further increase to 33.2% in 2020 from 32.8% this year, while a trend change will emerge from 2020 onwards with a gradual decline to 32.3% in 2022.

On the inflation side, the program sees it close 12.0% at the end of this year showing the extent of improvement in the outlook in comparison to the central bank's 13.9% forecast in July inflation report, will drop to 8.5% in 2020 and expects a convergence to 5% target in 2022 with continuation of downtrend. In our view, the 2019 forecast seems within reach though given still elevated forward-looking inflation expectations, sticky service prices and vulnerability to exchange rate movements, the risks are tilted to the upside, as bringing inflation down to target looks challenging.

On the external front, the government projects that the current account deficit will be at a slight surplus this year (0.1% of GDP), then turn to a -1.2% deficit next year, before becoming balanced again in 2022. The program does not expect a revival of external imbalances, though the pace of increase in tourism revenues looks optimistic and keeping import demand contained in a relatively upbeat growth outlook can be challenging.

Finally, the finance minister, labelled the BRSA requirement for banks to reclassify certain Stage 2 loans as NPLs until the year-end as a reform move. The BRSA initiative will strengthen the banking sector, which will facilitate access to credit for the real sector in the period ahead, according to Albayrak.

We think estimates for this year are realistic and broadly in line with market forecasts while the new program paints an optimistic picture.

The stronger growth, rapid disinflation trend towards 5% target, external deficit to remain under control and return to balance again at the end of forecast period while projects continuation of supportive fiscal stance with the primary balance (IMF-definition) to be at a deficit during the forecast period.

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