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Abstracts

Core Views

Although we hold a positive view on Turkey's long-term growth, we expect slower, more balanced growth in the next decade relative to the previous one. This will result from less abundant foreign capital inflows and slower domestic credit growth. Political uncertainty and social tensions will rise in the run up to general elections in 2015, further weighing on business and consumer confidence.

The government maintains a conservative fiscal policy with healthy budget and debt dynamics. However, recent populist policy initiatives lead us to question the government's long-term commitment to conservative fiscal management.

Lower commodity prices, in particular that of oil, has bolstered Turkey's short-term outlook. Lower imported energy costs will support household purchasing power and help reduce the current account deficit.

Nevertheless, we expect Turkey's current account deficit to narrow gradually in coming years, as its net hydrocarbon deficit will remain very large. Turkey will remain reliant on short-term foreign capital inflows to cover the sizeable current account shortfall, leaving it prone to tightening global liquidity and shifts in international risk sentiment. A dovish central bank will keep inflation above target and ensure a volatile growth trajectory.

A major corruption scandal and increased incidence of popular protest have highlighted the fact that major political challenges still face the country over the medium term. In particular, the ruling Justice and Development party will take an increasingly unilateral approach as it struggles to maintain support, and will face growing and more vocal public and institutional opposition, with the potential for further unrest.

Moreover, Turkey faces a challenging foreign policy environment amidst heightened regional tensions and rising external security risks as the government attempts to cement its role as an economic and political power in the region.

While the government's debt load is low by regional standards, the private sector's rampant external borrowing in previous years has greatly increased macroeconomic risks.

Major Forecast Changes

We have revised our current account deficit forecasts, and now expect a shortfall of 5.0% and 4.8% of GDP in 2015 and 2016 respectively, from 5.7% and 5.6% previously.

We have revised our general government budget forecasts, and now expect a deficit of 2.1% and 1.9% of GDP in 2015 and 2016 respectively, from 2.6% and 2.5% previously.

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