30 September 2020

Falling export revenues and reduced demand for transport and tourism services, as well as the decline in industrial production and domestic trade resulting from the quarantine measures have reduced the Turkish economy in 2q 2020 by 9.9% yoy. Amidst a protracted economic downturn, the Turkish lira updates one anti-record after another, having lost more than 30% of its value since the beginning of the year, and double-digit inflation and high lending rates threaten to further overheat the economy and plunge it into stagflation. In addition, military actions in Libya and Syria, anti-terrorist operations inside the country, as well as territorial disputes with Greece over gas-bearing territories in the eastern Mediterranean increase the likelihood of EU sanctions against Turkey.

Overcoming the recession in the economy will take at least 2 quarters. Demonstrating good growth in the fourth quarter of 2019 at 6.0% yoy, the Turkish economy expanded by another 4.5% yoy in the first quarter of 2020. However, in the second quarter the economy plunged, contracting by 9.9% yoy. As per our projection, the contraction of the economy in 3q2020 will be -6.3% yoy, slowing in 4q2020 to -3.7% yoy.

The monetary conditions of the Central Bank (CB)of Turkey do not support the lira and add to inflation. Amidst of rising double-digit inflation, the CB maintains a "pro-presidential" soft monetary policy aimed at expanding the lending to the economy. If in June inflation was 12.62% yoy, and in August 11.77% yoy, the rate on one-week repo transactions (the key rate of the CB for liquidity management) was 8.25% while the inflation target for 2020 was set at 5% +/-2%. During 2020, there is observed a high rate of lending that as of 7M2020 increased by 27% to 2.8 trn liras, supporting demand-pull inflation. To balance the financial system and slow the lending, the CB increased reserve requirements for banks by 300 bps on all liabilities since the end of July, and in August increased reserve requirements on metal accounts by 700 bps and by 200 bps on all bank liabilities in foreign currency. In addition to high lending rates and a key rate below inflation, weakening the national currency us a hurdle to meet the inflation target. Thus, as of the end of September, the Turkish lira has weakened by 31.5% YTD from 5.95 to 7.34 lira per US dollar.

The state budget deficit is to widen. According to the results of 6 months of this year, the plan on revenues of the state budget was implemented by 47.6%, which amounted to 455.4 bn liras ($66.5 bn). Tax revenues rose 9.2 percent to 336 bn liras ($49.1 bn) or 42.8 percent of the planned. The expenditure plan was executed by 51.6% in June and amounted to 564.9 bn Turkish liras (17.3% yoy) or $82.5 bn. The largest increase in the budget expenditures setup is observed by the current transfers (20% yoy), payment of interest payments on domestic debt (42% yoy) and on foreign debt (22.8% yoy). As of the end of June, the state budget was in deficit of 109.5 bn liras ($15.9 bn), which amounted to 78.8% of the planned budget deficit for 2020.

Decrease of the IRs is partly balanced by increase of gold holdings. As of the end of June 2020, Turkey's IRs decreased by $19.4 bn, or 18.3% to $86.3 bn YTD (-10.4% yoy). The decrease was due to 40.6% slump of IRs in foreign currency holdings since the beginning of the year (-36.4% yoy). At the same time, there was an increase in gold by 44.2% (71.0% yoy) partly resulting from the revaluation of the asset due to the growth of its face value in the global markets (17.4%), as well as due to its growth in volume by 24.2% (35.5% yoy) to 22.1 mn troy ounces (687.4 tons). As a result of the increase in the market value and volume of gold accompanied by reduction of IRs, the share of gold in the IRs setup of the CB increased from 23.7% in June last year to 45.2% in June of this year.

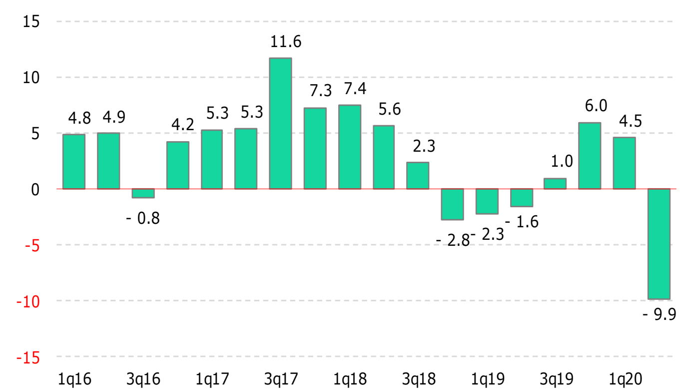
Current account - the deficit is to expand. The current account balance changed from a surplus of $8.9 bn at the end of last year to a deficit of $19.8 bn at the end of 1H2020 (a surplus of $185 mn in 1H02019). This deterioration was facilitated by the expansion of the trade account deficit by 2.6 times to $18.2 bn due to a fall in exports by 16.4% yoy to $74.7 bn, with a less significant decrease in imports by 3.5% to $92.9 bn. There is also a 3.6-fold decrease in the service account surplus to $3.7 bn resulting from decrease of the surplus on transportation services by 41.7% yoy to $4.3 bn and decrease the travel surplus by 3.2 times to $2.7 bn. The primary income account deficit decreased by 19.5% yoy to $5 bn due to decrease of investment account defcit by 21.1% yoy to 4.4 bn, while portfolio investment income account deficit increased by 2.9% yoy to $1.9bn. The secondary income balance was in deficit of $260 mn against a surplus of $146 mn a year earlier. According to the forecasts, Turkey's current account in 2020 will be in deficit of 2.0-2.4% of GDP.

Turkey - the economy is beginning to recover

In 2019, the Turkish economy evidenced a good growth in the 4q2019 at 6.0% yoy, slowed slightly in 1q2020 to 4.5%. However, in 2q2020, the economy went into a deep plunged of -9.9% yoy of GDP growth and at current prices was $153 bn ($176.6 bn in 1q2020, $175 bn 2q2019). This is the second largest contraction of the economy since the crisis 2009, when GDP in 1q "slumped" by 14.4% yoy, and is quite comparable to the contraction of the economy 4q2010 by 10.0%. The effect of the coronavirus pandemic has had a negative impact on both material production and service sector, especially tourism**.**

In April and May 2020, the industrial production has seen a decline by 31.3% yoy and 19.4% yoy, respectively. And if the mining and quarrying decreased by 12.7% yoy and 14.1% yoy during the period, the volume of output in the manufacturing slipped by 33.2% and 20.1% respectively. Electricity generation in the period decreased by 14.9% and 13.3%. In June 2020 in the industrial production evidenced a weak positive dynamic at 0.1% and while the mining and quarrying still showed a negative growth at 8% yoy, the manufacturing, on the contrary, had already shown 1% yoy growth.

Figure.1. Real GDP grwoth in 2016-2020 in Turkey

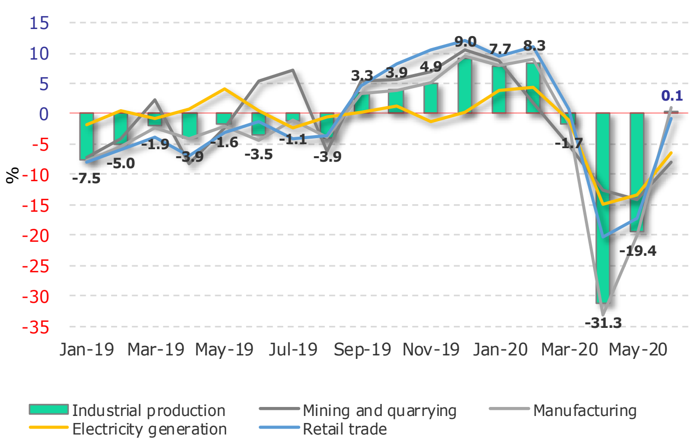


Source: TUIK

Retail trade followed the suit of the industrial production, declining in April and May by 20.4% yoy and 17.3% yoy. In June the trade still was in a negative growth zone at 0.8% yoy. Total turnover index (index of industrial production, construction, trade, services) evidenced a positive growth at 10.4% in June, after a 20.6% decline in April and 11.1% in May. Three components of the index supported the positive growth: industry (+8.7%), construction (+29.2%) and trade (+19.3%). However, services in the business cycle activity index setup continued to demonstrate negative growth for 4 months in a row and made -18.3% in June.

It is obvious that the negative growth in the service sector is directly dependent on tourism business. Thus, if the tourist flow in 1q2020 decreased by 15.1% yoy to 4.6 mn people, in the second quarter, the fall was 98% yoy to 231 thousand tourists. This, in this in its turn, affected travel income in 1q2020 that decreased by 11.6% to $3.4 bn. The decrease in the second quarter will be significantly greater given the record decline in the number of tourists visiting Turkey.

Figure.2. Industrial production and retail trade growth



Source: TUIK

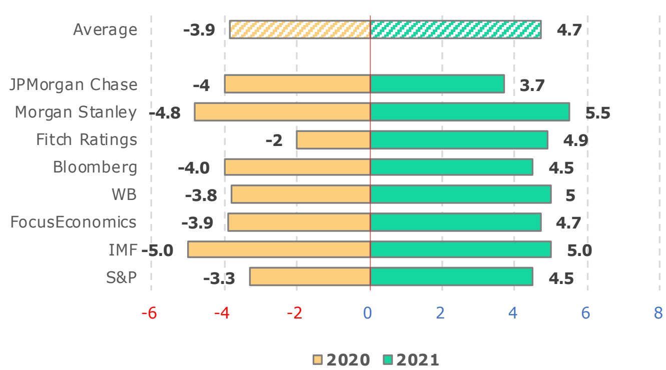
Amidst of slowing economy and a gradual increase in the country's external debt, and forthcoming deterioration of external accounts Fitch in August 2020 confirmed its sovereign rating Turkey at BB-, changing the outlook from Stable to Negative. The agency highlighted that such rating actions reflect weak confidence in the regulator's monetary policy, the depletion of international reserves, and widening of the current account deficit. The agency also accented the limited independence of the Central Bank of the Turkey and the need to tighten the monetary policy. Rating agency Moody's (B1, the outlook is negative) still maintains the sovereign rating of the country, but notes the possibility of its downgrade in case the country's monetary and fiscal policy is not consistent and a number of reforms will not be implemented. The agency points to limited financing of the banking sector through external borrowing, and also points to the erosion of the IRs of the Central Bank of Turkey. Moody's also does not exclude the possibility of a currency crisis this year. In July 2020, the rating agency of the S&P confirmed Turkey's sovereign credit rating at the level of B+, leaving the outlook at Stable.

Growth forecast – a notable decline in growth

According to the average forecast, the Turkish economy is expected to contract by 3.9% yoy in 2020, followed by growth of 4.7% yoy in 2021. The most optimistic forecast of economic contraction belongs to Fitch ratings (-2% yoy) while the most pessimistic - the IMF (-5% yoy).

Amidst of the pandemic and mitigation measures in the country's economy, vulnerabilities arise and the risks of further expansion of the current account deficit, further erosion of the IRs of the Central Bank, as well as further weakening of the national currency are growing. Significant monetary momentum through the expansion of loans to state banks has already led to a 27% increase in the loan portfolio since the beginning of the year. At the same time, there is a weakening of the national currency, which should support the country's exporters against the background of the gradual recovery of external demand. However, weakening of the lira has a negative impact on the purchasing power of the population. The recovery of tourist flows from Russia and the EU, expected in the summer, did not occur due to the unfavorable epidemiological situation in Turkey and the requirements for self-isolation if COVID19 is found or suspected. Thus, according to the WHO, at the end of August, Turkey was ranked 17th out of all countries in the world by the number of COVID19 daily cases. According to the latest reports from Turkey's Minister of Health, the second wave of the pandemic is already occurring in September 2020. On September 2, there was an increase of 1,596 new cases of daily infection, which is the highest level since June 15, 2020.

Figure.3. Growth outlook 2020-2021



Source: IFC, WB, FE, Bloomberg, S&P, Fitch Ratings

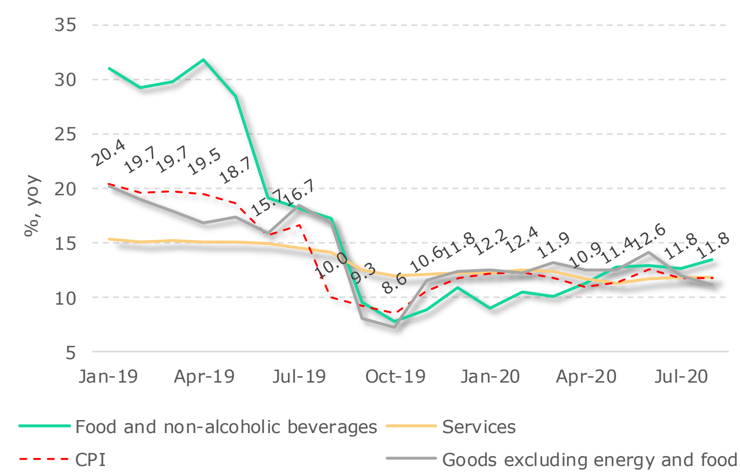
In the 3rd and especially in the 4th quarter of this year, the external economic dynamics is expected to improve gradually. Along with that, the Turkish economy will be supported by the communications industry, financial and insurance services, as well as construction. This will be facilitated by the relatively high rate of lending by state banks to housing and mortgages at rates below the inflation rate (11.5% - 12%), as well as consumer and car loans. In addition, the economy will be supported by agriculture, which, despite the pandemic, showed an increase of 4% yoy in the second quarter of this year (3.0% yoy in 1q2020).

Monetary conditions - not a step towards tightening

During the first six months of this year, the CB of Turkey drastically cut one-week REPO rate (the key rate of the CB for liquidity management). Thus, if at the beginning of the year the rate was 12%, in the second decade of May the CB decided to cut the rate from the April level of 8.75% to 8.25%. As of the end of August, the REPO rate, despite the weakening of the national currency and double-digit inflation, has not changed. Although the CB of Turkey implements the policy inflation targeting and free exchange rate formation, the main tool for managing it, REPO rate, is used by the regulator to expand lending to the economy amidst of a significant inflationary pressure. Facilitated by monetary expansion, the rate of private lending exceeded 25% yoy in June. This policy of the CB is defined primarily not by the regulator itself, based on the current stance of monetary circulation but and from "pro-presidential" position of chairman of the Board. However, despite the credit expansion, the CB attempted to balance the financial system by increase of the reserve requirements for banks by 300 bps on all liabilities in July, and in August increased 700 bpd standby requirements on metal accounts and 200 bpd on all banks' liabilities in foreign currency. And if the July decision on reserve requirements supposed to sterilize liquidity in the amount of about $9 bn, the August decision will withdraw another $8.5 bn of liquidity from the market. Thus, the increase in reserve requirements will result in an overall withdrawal of $17.5 bn in liquidity.

The inflation target for 2020 was set back in 2014 at 5% with a band of +/-2%. However, in the current macroeconomic environment and the selected mechanisms for implementing the monetary policy, the target seems unrealistic. The main driver of consumer inflation in Turkey this year has been inflation of non-food prices, which in June was 14.18% yoy (15.88% yoy June 2019). In August, the price of non-food products reached its minimum value for the current year and amounted to 11.19% yoy (16.79% yoy in August 2019). Food price inflation in June increased to 12.93% YoY (19.20% yoy in June 2019) and increased in August more to 13.51% yoy (17.22% yoy in August 2019). At the same time, its minimum of 9.04% yoy the inflation for this category of goods reached in January 2020 (30.97% yoy in January 2019). Services price inflation in June increased at 11.76% YoY (14.19% yoy in June 2019) and increased in August to 11.83% (14.19% yoy in August 2019). At the same time, the minimum for paid services reached in May 2020, amounting to 11.76% yoy (15.15% yoy in May 2019). Consumer inflation decreased from 12.62% yoy in June to 11.77% yoy Aug.

Figure.4. Inflation rate in Turkey

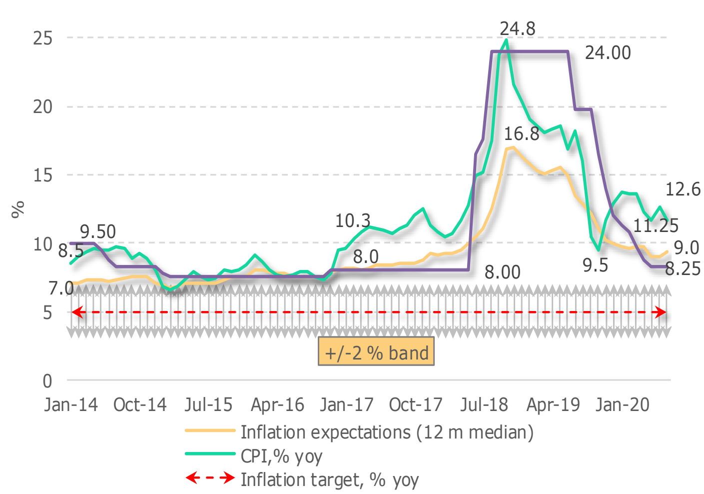


Source: Central Bank of Turkey

Bloomberg Consensus Forecast on inflation in 2020 is 11.6% on average, while the IMF forecast is 12%.

Turkey's national currency exchange rate weakened by 15.2% at the end of June (18.3% yoy) since the beginning of the year and amounted to 6.85 Turkish liras per U.S. dollar. Maximum weakening of the Turkish lira in 1H2020 occurred in early May (20.8% since the beginning of the year), when the USDTRY reached 7.19 liras (maximum weakening since the introduction of the new lira in 2009). Note that even during the currency crisis 2018 the maximum weakening of the lire to US dollar was 6.88. Weakening of the national currency continued in July, when the lira depreciated by 17.2% to 6.97 lira per US dollar.

Figure.5. Inflation expectations and CB key rate



Source: Central Bank of Turkey, Halyk Finance

As of the end of August, the Turkish lira weakened by 23.4% YTD and reached 7.34 lira per U.S. dollar. According to Turkish Finance Minister Berat Albayrak, the principle concept of FX rate is not the rate by itself, but its competitiveness. Based on the Minister's statement, it can be concluded that the priority of the financial authorities is not the balance between domestic and external demand, but the priority of the competitiveness of Turkish goods and services in international markets over the domestic demand, which is decreasing as the purchasing power of the lira at home weakens due to its nominal weakening.

Bloomberg's current consensus forecast for 2020 is 7.6 liras per U.S. dollar. However, if economic and service sector recovery, including international tourism and transportation, are weak, the weakening of the Turkish lira by the end of this year will continue from the current levels of 7.83 (September 30 of this year) lira per dollar to 8.05 lira (consider it psychological level, weakening by 35.3% yoy) per U.S. dollar. The weakening of the Turkish lira in 2021, according to the consensus - forecast by Bloomberg is 8.0 lira per U.S. dollar.

Fiscal policy - deficit expansion is inevitable

According to the budget for 2020 adopted at the end of last year, the expenditures were to increase by 9.6% yoy to 1.1 trn liras ($0.19 trn), while revenue was to grow by 9.2% yoy to 956.6 bn liras ($162 bn). At the same time, the budget deficit was to increase by 11.9% yoy and amount to 138.9 bn liras or $23 bn. About 10 bn liras were to be received to the 2020 budget from privatization. The major items of expenditure that were supposed to increase were spending on health, education and defense.

No adjustments to the budget setup amidst the coronavirus pandemic were made. However, in connection with the pandemic, the state has developed a plan of measures to counteract its impact on the Turkish economy. Aid to the economy amounted to 100 bn liras, or $15.4 bn. The economic stimulus package was 1.5% of the country's GDP and cannot be compared the aid sent by the United States (12.4%), Germany (37%) and Kazakhstan (8.6%)

Along with the 100 bn liras aid package allocated by the Central Bank of Turkey at the end of March, the President announced a national solidarity company to collect donations, amounting to 1,925 bn liras ($281 bn at a rate of 6.82). Tax holidays were granted to transport companies with a deferred payment of taxes for six months. For local airlines, the VAT tax has been reduced from 18% to 1%. In addition, the down payment requirements to purchase of residential estate were eased from 20% to 10%. Companies whose income has been affected by the epidemic have been granted credit holidays to pay the principle and interest for at least three months.

According to the results of 6M2020, the plan on revenues of the state budget of Turkey was implemented by 47.6%, which amounted to 455.4 bn liras ($66.5 bn). Tax revenues rose 9.2 percent to 336 bn liras ($49.1 bn) or 42.8% of the planned. Income tax revenues increased by 5.2% yoy due to the growth of corporate income tax by 35% yoy, while individual income tax decreased by 9.4% yoy. Income from property taxes increased by 11.7% yoy. Revenues of taxes on goods and services increased by 10% yoy, while VAT receipts decreased by 18.3% yoy.

Tax revenues from foreign trade increased by 13% yoy. Revenues from VAT on imports increased by 9.2% yoy. Non-tax revenues of the state budget increased by 28.3%. The plan on budget expenditures in June was executed by 51.6% amounted to 564.9 bn Turkish liras (+ 17.3% yoy) or $ 82.5 bn. The largest increase in expenditures is observed in current transfers (+ 20% yoy), interest payments on domestic debt (+ 42% yoy) and servicing of external debt (+ 22.8% yoy). Budget capital transfers declined by 68.8% yoy. As of the end of June, the state budget was formed with a deficit of 109 bn lira (15.9 bn dollars), or 78.8% of the planned budget deficit for 2020.

Financing of the state budget increased in 6M2020 by 30.5% yoy to 105.5 bn Turkish lira ($ 15.3 bn). At the same time, net financing through raising funds in the domestic market increased 2.8 times to 174.6 bn lira ($ 25.5 bn). Of this volume, 119.2 bn lira (an increase of 4.2 times) were government bonds denominated in Turkish lira, and 52.2 bn lira (an increase of 1.6 times) were government bonds denominated in foreign currency. The balance of financing the budget through attracting foreign loans decreased from 22.9 bn lira (+ 28.4% yoy in January-March), to -8.5 bn lira due to the repayment of external obligations in the amount of 33 bn lira.

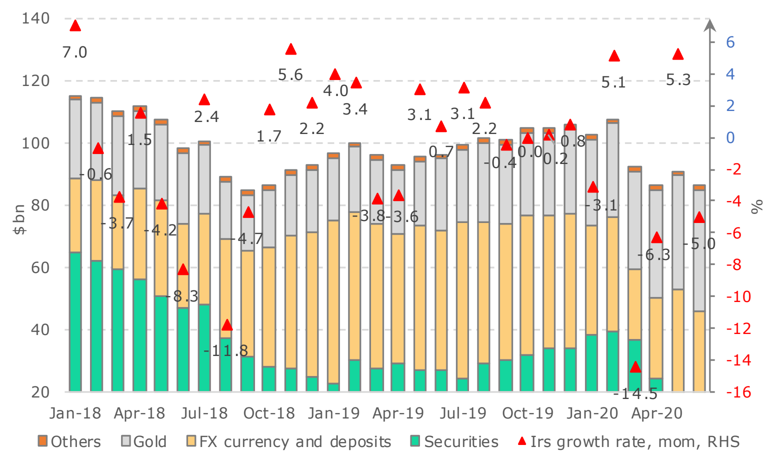
As of June 2020, the public debt increased by 34.5% yoy and amounted to 1,641 bn Turkish lira ($ 252.4 bn). At the same time, the domestic public debt increased by 45.5% to 983.9 bn lira ($ 144.3 bn), while the external public debt increased by 20.9% and amounted to 657.5 bn Turkish lira ($ 98.9 bn). The Turkish public debt denominated in lira increased by 34.8% yoy to 822.8 bn lira ($121.6 bn), and denominated in foreign currency increased by 46.3% and amounted to 818.5 bn lira ($120.1 bn).

As of the end of 2019, the amount of public debt amounted to 1,329 bn Turkish lira ($ 234 bn) or 33.3% of the country's GDP. Taking into account the negative economic growth, fall of export income and tourist flow, financing of the economy and the population through the state budget will only increase. According to Bloomberg consensus forecast, the budget deficit will widen from 2.9% of GDP last year to 6.5% of GDP in 2020 and 4.8% of GDP in 2021. According to the statement of the Minister of Finance of Turkey, the country's budget deficit for 2020 may be 5-6% of the country's GDP. At the same time, the external public debt, according to analysts, will be 38.9% in 2020 and 40.2% of GDP in 2021.The government debt by the end of the year, according to S&P estimates, will amount to about 35% (33.1% in 2019) of GDP, which, in the face of uncertainty with the second wave of the coronavirus pandemic, provides more room for maneuver and allows the government to increase its external debt.

International reserves – a notable decrease

Turkey's international reserves in 2019 increased by 13.6% yoy and amounted to $ 105.7 bn. As of the end of the 1H2020, gold and FX reserves of the regulator decreased from the beginning of the year by $19.3 bn or by 18.3% (-10.4% yoy) and amounted to $86.3 bn. This decrease was facilitated by decrease of FX reserves in foreign currency by 40.6% since the beginning of the year (-36.4% yoy). In turn, the decrease in the assets of the Central bank in hard currency was facilitated by the decrease of assets in securities by 51.8% YTD (-39.5% yoy) and direct assets in foreign currency and deposits by 31.9% (-34.6% yoy). The share of assets in FX currency of IRs of the Central Bank of Turkey decreased from 74.7% in June 2019 to 53.0% in June 2020. At the same time, there is an increase in assets of gold by 44.2% since the beginning of the year (+ 71.0% yoy) partially due to revaluation of the asset due to an increase in its nominal value on global markets (+ 17.4% YTD), as well as due to its physical growth by 24.2% (+ 35.5% yoy) to 22.1 mn troy ounces (687.4 tons). Amidst of the growth in the market value and gold volume and the decrease of assets in FX currency, the share of gold in the structure of the IRs of the Central Bank of Turkey increased from 23.7% in June last year to 45.2% in June this year. Since the Central Bank of Turkey is drastically lowering its key rate (8.25% one-week REPO rate) amidst double-digit inflation (+ 12.62% yoy in June), limited inflow of FX currency under the services account (tourism) and outflow of FX currency under the trade account, the weakening of the Turkish lira will continue. Therefore, the strain on the most liquid part of international reserves of the Central Bank will continue until the end of this year.

Figure. 6. International reserves of Central Bank of Turkey



Source: IMF

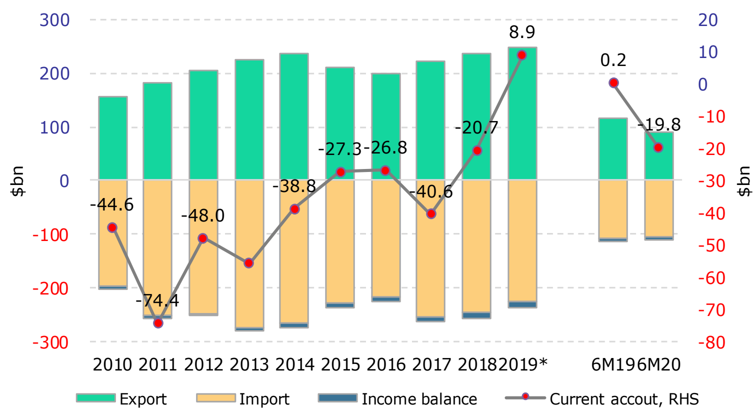
There is no direct offer of FX currency to the market in the form of FX interventions by the Central Bank of Turkey, but the supply of foreign currency takes place in the form of foreign exchange auctions within REPO transactions. The support to the international reserves, in our opinion, will be provided by a moderate growth in the value of gold, as well as its growth in volume. Since the imposition of sanctions against Turkey by D. Trump in 2018, the Central Bank of Turkey has been actively buying gold not only in its own country (the only buyer of gold in Turkey), but also imported it from abroad. So, according to the ITC statistics, Turkey imported 299 tons of gold in 2018, and in 2019 the size of imports of this metal amounted to 290 tons. In January-June of this year, Turkey imported about 200.4 tons of gold into the country.

We believe that the decrease in the international reserves of the CB will occur due to a decrease in assets in FX currency, while the value and volume growth of assets in gold will partially offset the decrease in assets FX currency and FX deposits. According to our estimates, gold and FX reserves of the CB at the end of this year will amount to about $ 89.8 bn (-15.1% yoy), provided there is no additional prolonged quarantine this autumn, a gradual recovery of the country's tourism industry and continued growth in gold prices on global markets.

External accounts – deficit widens

It is expedient to review the results of Turkey's external economic activity of 1H2020 in the context of 2019. According to preliminary statistics for 2019, Turkey's current account for the first time in the past 14 years was stroke a surplus of $ 8.9 bn (a deficit of $ 20.7 bn in 2018). This happened due to a significant decrease in the trade account deficit by 59.2% yoy to $ 16.7 bn (the minimum deficit in the last 14 years), due to an increase in exports by 1.9% to $ 182 bn, while reducing the volume imports from 9.4% to $199 bn. This happened due to the expansion of the surplus on the services account by 19.4% yoy to $37 bn (the maximum surplus in 14 years) due to the expansion of the surplus on the transportation account by 11.6% yoy to $17.4 bn and on the travel by 24.7% to $ 25.7 bn. At the same time, there was an increase in the primary income account by 5.2% yoy to $ 12.5 bn due to the expansion of the income account deficit by 4.4% yoy to $11.2 bn, as well as a deficit in the income account on portfolio investments by 8.0% yoy to $3.8 bn. The secondary income account evidenced the growth of the trade surplus by 14.1% yoy to $974 mn.

Figure. 7. Current account of Turkey in 1H2020



Source: Central Bank of Turkey

According to the preliminary data of the Central Bank of Turkey, in 1H2020 the current account balance stroke a deficit of $19.8 bn (surplus of $185 mn in 1H2019). Such a significant expansion of the deficit was due to the expansion of the trade account deficit by 2.6 times to $ 18.2 bn due to a drop in exports by 16.4% yoy to $ 74.7 bn, while imports fell by 3.5% to $92.9 bn. The decrease in the surplus of the service account by 3.6 times to $ 3.7 bn was due to a decrease in the surplus on the transportation account by 41.7% yoy to $ 4.3 bn and a decrease in the surplus on the travel account by 3.2 times to $2.7 billion. On the primary income account, a decrease in the deficit by 19.5% yoy to $5 bn due to a decrease in the investment account by 21.1% yoy to $4.4 bn, while the deficit on the portfolio investment income account grew by 2.9% yoy to $1.9 bn. The secondary income account stroke a deficit of $ 260 mn against a surplus of $ 146 mn year earlier.

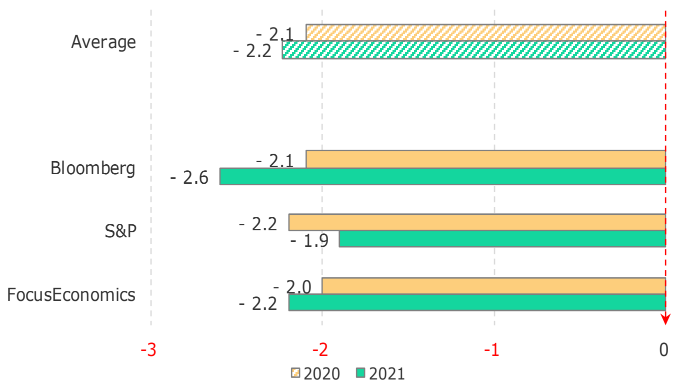
In 2019, Turkey's financial account evidenced a capital inflow of $5.6 bn (an inflow of $526 mn in 2018). This happened mainly due to capital inflows under the direct investments ($5.9 bn) and portfolio investments ($ 1.2 bn), while other investments evidenced an outflow of capital in the amount of $967 mn. Thus, the size of the net acquisition of foreign financial assets by non-residents for the year amounted to $16.3 bn, and the net assumption of obligations by residents to non-residents reached $21.9 bn.

In 1H2020, the financial account (excluding assets of the Central Bank of the Republic of Turkey) evidenced a capital outflow of $8.4 bn (inflow of $668 mn in 1H2019). This happened due to a decrease in the resident's nominal holding of external portfolio investments ($1 bn) and other portfolio investments ($6.0 bn), as well as due to a decrease in its portfolio investment obligations by $13.8 bn while simultaneously assuming liabilities under direct investments at $2.9 bn.

Bloomberg's consensus forecast for Turkey's current account deficit for 2020 is 2.1% of GDP. The forecast for the current account deficit and net inflow of foreign direct investment by the Fitch Ratings rating agency for 2020 is 2.6%. In 2021, according to the agency's forecast, the deficit will decrease to 1.5% of GDP.

A gradual and irregular recovery in external demand for tourism services and prices for Turkish export goods in 2H2020 will affect the decline in exports by 12.3% yoy to $159.9 bn. This decrease will be primarily driven by negative exports in the 2q20202, which according to statistics from the ITC decreased by 24% qoq (-22% yoy). The imports to Turkey will be constrained, on the one hand, by weak domestic demand, on the other hand, by more than 20% weakening of the national currency. However, this year's poor harvest will have a restraining effect on the decline in imports due to increased grain imports. In addition, the Turkish government will continue to import gold this year. We believe that total imports will decrease slightly, by 5.1% yoy and will amount to about $188.7 bn. Thus, the trade deficit will be formed at $28.8 bn. The balance of services will decrease by 51.5% yoy to $18.0 bn due to falling out of 5 months of the tourist season and a decline in the export of transportation services. We estimate that the current account balance will change from a surplus of $8.9 bn in 2019 to a deficit of $ 20.4 bn or 3.0% of the Turkey's projected GDP for 2020.

Figure.8. Current account deficit of Turkey



Source: company's data

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