Turkish economy caught between recovery and conflicts

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Recent economic data indicates that the Turkish economy is recovering to some extent. Most recently, the formerly very dynamic economy's GDP has increased again, with inflation returning to single digits after a massive rise. The Turkish lira's exchange rate was also largely stabilised after last year's currency crisis. However, the Turkish invasion in northern Syria and the conflict surrounding it with the USA put the lira under renewed pressure, raising concerns about the Turkish economy's recovery. There are varying signals regarding the further development.

Signs pointing to relaxation

Last year, a diplomatic dispute with the USA and doubts about the independence of the Turkish central bank had caused the country's currency to decrease by almost a third. As a result of the sharp increase in import prices, inflation rose to almost 25 per cent in the meantime, and in the latter half of 2018, the Turkish economy finally slipped into recession.

Recently, there have been clearer signs again of the Turkish economy stabilising. Although the GDP remained negative year-on-year, the economic output increased for the second consecutive quarter between April and June of this year (+1.2 per cent). In September, inflation also fell to 9.3 per cent, sinking below double-digit levels for the first time since mid-2017. The positive outlook was also corroborated by further news: In September, Turkey stated that it intended to quadruple bilateral trade in goods with the USA to USD 100bn per year in response to the trade dispute with China. Meanwhile, the German Volkswagen Group announced that it would build its new Eastern European plant in Turkey. In addition, the Turkish central bank – following President Recep Tayyip Erdogan's replacement of its Governor in the middle of the year – significantly lowered key interest rates for the second consecutive time. While this is expected to further boost the country's economy, it also increases the risk of returning higher inflation rates.

Different expectations and challenges

According to President Erdogan, the Turkish economy is expected to grow again by 5.0 per cent in 2020. While economists surveyed by Reuters on the whole expect stagnation, the Organisation for Economic Cooperation and Development (OECD) expects real GDP to decline by 2.6 per cent in the current year and to increase slightly by 1.6 per cent in 2020.

The economic environment in Turkey remains challenging. Investors are not only focusing on monetary policy, which is no longer considered to be independent following the replacement of the central bank's Governor, and, due to the geopolitical situation, international relations play a particularly decisive role. The Turkish government's plans to procure Russian missile systems put a heavy damper on relations with the USA this year and could jeopardise plans for closer trade relations.

development turkey

Note: Past performance is not indicative of future development.

Last week, the situation seemed to escalate again with Turkey's advance against Kurdish militias in northern Syria. US President Donald Trump had previously cleared the way for the Turkish military operation there by withdrawing troops, but at the same time had threatened to "totally destroy Turkey's economy" if Istanbul did something he considered wrong. As a result, the lira fell by a good 2 per cent, calling back to last year's currency crisis, which already seemed to have been overcome.

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A blog post by APA Finance together with Erste AM Communications.