Turkey slashes growth forecasts to boost investor confidence

Reuters Ankara

Turkey sharply cut its growth forecasts for this year and next yesterday, but disappointed investors who had hoped for a plan to help banks and a deeper reduction in the estimates to reflect the fragile state of the economy.

Turkey has seen its lira currency plunge by 40% this year on concerns about political influence over monetary policy and a bitter diplomatic rift with the US.

The turbulence has shaken global financial markets and raised the prospect of a potential banking crisis at home.

Markets had been hoping that Finance Minister Berat Albayrak’s medium-term programme announced yesterday would signal a clear break from the emphasis on credit-fuelled growth that has characterised Turkey’s rapid expansion over the last decade and a half.

Albayrak said growth would be 3.8% this year and 2.3% in 2019,

both revised down from forecasts of 5.5%.
He also did not deliver the big plans for the banking industry that some analysts had been hoping for, particularly, the creation of a “bad bank” vehicle to take over non-performing loans.
Following the presentation, the chairman of Turkey’s BDDK banking watchdog said there would not be a transfer of problem loans to another institution.
“At the moment, the programme is a disappointment. First, when you look at the growth forecast, the current account deficit forecast, they are too ambitious,” said Guillaume Tresca, a senior EM strategist at Credit Agricole. “We don’t have anything new, regarding a bad bank, regarding the treatment of (non-performing loans), regarding the foreign-exchange funding of the banking system or the foreign-exchange funding of the corporates. It is lacking details and it is lacking news.”
The lira weakened to 6.3100 by 1219 GMT, from around 6.20 beforehand and a close of 6.2541 on Wednesday.
The currency has now erased almost all the gains made since the central bank’s mammoth interest rate hike of 6.25 percentage points last week, underscoring the difficulty policymakers face in putting a floor under the lira and restoring confidence.
Sources told Reuters on Wednesday there was a debate among top government officials about the extent of the growth revisions, highlighting the delicate balance between the long-standing drive for economic expansion and investors’ calls for greater austerity.
Albayrak, President Recep Tayyip Erdogan’s son-in-law, had previously promised “realistic macro targets” and “right action plans”.
“We will see a gradual growth increase from now on. Our main goal is to establish 5% growth from 2021 onwards,” Albayrak told yesterday’s presentation in Istanbul.
He did not take questions.
“We will realise the necessary policies and measures to ensure economic hardships are overcome,” he said. “We are aware of

the economy’s strong and weak points.”

For financial markets, the biggest concerns remain inflation – which Albayrak forecast would hit 20.8% this year and 15.9% next year – and the banking sector.

Turkey’s banks face a potential deluge of bad debt as the lira sell-off has driven up the cost for companies to service their foreign currency loans.

For years Turkish firms borrowed in dollars and euros, drawn by lower interest rates.

JPMorgan estimates that the private sector has around $146bn in external debt maturing in the year to July 2019.

Ratings agencies Moody’s and Fitch have both sounded the alarm about the outlook for banks.

Fitch has estimated that banks’ foreign-currency lending stood at around 43% of all loans.

But the government has repeatedly said it does not expect problems in the banking sector.