# Economic Outlook

## March 2022

## Coincident Economic and Financial Conditions Indexes Current Estimates

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This report publishes the current estimates of the coincident economic (CEI) and financial conditions indexes (FCI) we have designed for the Turkish economy using advanced econometric methods. We used a rich dataset including many macroeconomic and financial indicators available with different timing and frequencies.

As financial stability is one of the main conditions for economic growth, FCI is considered a primary leading indicator for CEI. Therefore, based on the joint behavior of these two indexes, we computed the probability of entering an economic recession within the same model framework. This report also publishes these probabilities' current estimates as a numerical reflection of our expectations of the economy's direction in addition to the current estimates of these indices.

The model that we use in this report has been published in one of the internationally respected journals in the field. For details, our article can be found at https://onlinelibrary.wiley.com/doi/full/10.1111/obes.12413 .

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## Coincident Economic Index (CEI)

**According to the most recent model estimates, CEI increased by 0.27% in March compared to the previous month.** The changes in January and February were -0.81% and -0.02%, respectively. Therefore, the sharp decrease in January is followed by a moderate course in February and March. Considering the quarterly predictions, we expect a change of 0.0% in GDP in the first quarter of 2022 compared to the previous quarter. Consequently, based on the data available as of March, we do not expect any growth in the economy in the first quarter. On the other hand, when the first quarter of 2022 is compared to the first quarter of 2021, this rate corresponds to a 5.7% growth.

Considering the constituents of CEI, on the production side, a decrease of -2.4% was observed in January compared to the previous month in the latest industrial production index data. On the demand side, retail sales volume fell by -1.5% in January. Finally, considering the developments in the labor market, a -1.3% decrease was observed in total employment in January. From the data published timelier, the PMI was announced as 50.4 for February, slightly above 50. Finally, as of the first three weeks of March, a monthly increase of 0.23% was recorded in electricity production. Based on all these components, we see that both production and demand-driven factors are behind the sharp decline in CEI in January, and that the indicators point to stagnation in the following months.

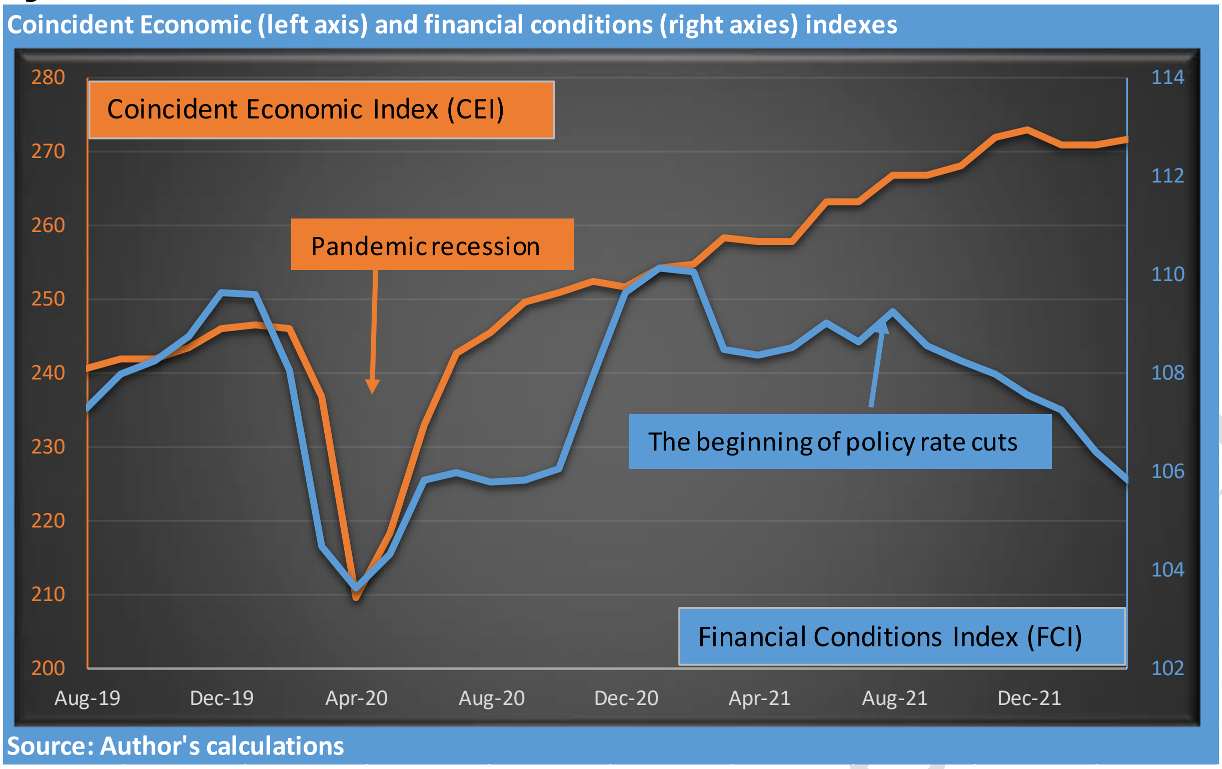
## Financial Conditions Index (FCI)

**According to the most recent model estimates, FCI decreased by -0.53% in March compared to the previous month.** The change in January and February was -0.27% and -0.81%, respectively. Therefore, the contraction in financial conditions for the last seven months continued at full speed.

Considering the constituents of FCI, gross FX reserves decreased in March, unlike in February. On the other hand, we observe decreases in volatility of many sub-components. Similarly, the realized volatility of the BIST-100 market index, one of the leading risk indicators, declined as well. Nevertheless, Turkey's 5-year CDS premium remained above 550 basis points. This indicates that the falling volatility in many financial indicators still does not necessarily imply a positive change in Turkey's risk perception. One of the underlying reasons for the high CDS rate is the high course of inflation and inflation expectations. When these expectations are combined with geopolitical risks, the term spread, which shows the difference between long and short-term treasury yields, has risen above 10%. Finally, we see a mild decline in the total credit volume in real terms.

Figure 1 shows the evolution of FCI and CEI starting from 2019. In the first half of 2020, the sharp economic contraction caused by the Covid-19 pandemic and the subsequent rapid rebound are clearly observed in the evolution of CEI. Similar drops and rapid rises can be detected for FCI, especially during the term of former Central Bank Governor Naci Ağbal. On the other hand, the contraction in FCI since September 2021 continues at full speed. In CEI, with the start of 2022, the sharp decline in January is followed by stagnation.

**Figure 1. Coincident Economic and Financial Conditions Indexes Estimates as of March 2022**




## Probability of Economic Recession

We compute the probability of the economy entering recession in the short term based on the joint behavior of CEI and FCI. The recession probability is computed as 31% in March. This level indicates that the probability of recession in the economy has increased considerably compared to earlier months. Figure 2 shows the evolution of these probabilities starting from 2007 to the present.

**Figure 2. Recession probabilities computed using available data as of March 2022**