

## Economic Outlook

January 2023

### Coincident Economic and Financial Conditions Indexes Current Estimates

Cem Çakmaklı, PhD  
Koç University, College of Administrative Sciences and Economics  
Department of Economics  
Email: [ccakmakli@ku.edu.tr](mailto:ccakmakli@ku.edu.tr)  
Twitter: [@Cem\\_Cakmakli](https://twitter.com/Cem_Cakmakli)

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 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 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>.

## Coincident Economic Index (CEI)

**According to the most recent model estimates, CEI increased by 0.37 % in January compared to the previous month.** The changes in December and November were 0.76% and -0.19%, respectively. Considering the quarterly predictions, we expect a change of 1.04% in real GDP in the fourth quarter of 2022 compared to the previous quarter. On the other hand, when the fourth quarter of 2022 is compared to the fourth quarter of 2021, this rate corresponds to a 3.4% growth. **Consequently, based on the data available as of January, we expect a mild growth in the economy in the fourth quarter.**

Considering the constituents of CEI, on the production side, a decrease of 1.1% was observed in November compared to the previous month in the latest industrial production index data. On the demand side, retail sales volume increased by 1.5% in November. Finally, considering the developments in the labor market, a 0.9% increase was observed in total employment in November. From the data published timelier, the PMI was announced as 48.1 for December, the tenth consecutive month with a value lower than the critical value of 50. However, the index got closer to the threshold value 50 first time after a long period. Based on all these components, we see a volatile pattern of CEI in the first three quarters of 2022. Nevertheless, since the trend is not affected by these changes, the indicator points to stagnation in the following months.

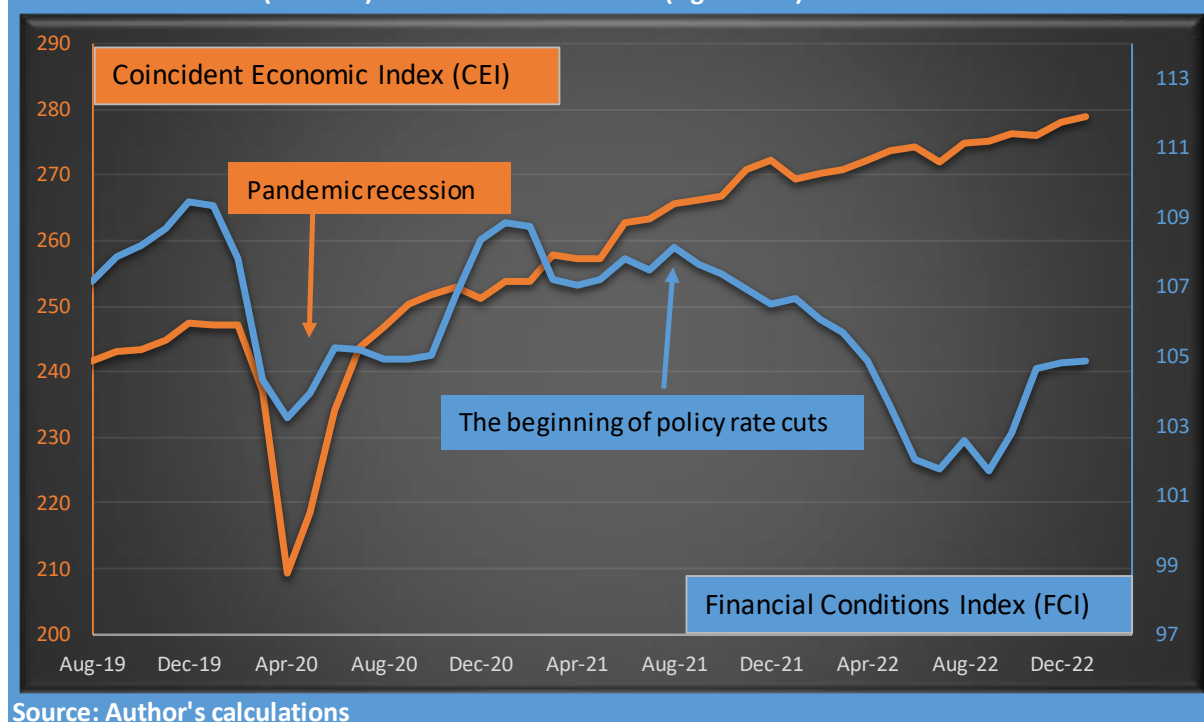
## Financial Conditions Index (FCI)

**According to the most recent model estimates, FCI increased by 0.04% in January compared to the previous month.** The changes in December and November were 0.17% and 1.83%, respectively. The momentum in the financial conditions index, led by loosening global financial conditions, lost its pace considerably.

Considering the constituents of FCI, gross FX reserves experienced a strong decrease in January. Turkey's 5-year CDS premium is 557 basis points. These figures indicate that Turkey's risk perception deterioration is very high despite the elevating risk appetite in the world. One of the underlying reasons for the high CDS rate is the high course of inflation and inflation expectations. Finally, we see a decline in total credit volume in real terms due to high inflation.

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 is observed in CEI's evolution. 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 has ceased in the last months. While it increased rapidly in the last months, thanks to soaring global risk appetite, the rapid increase has been replaced with secular stagnation starting the previous month. In CEI, the stagnation since the start of 2022 is replaced by a mild growth in recent months.

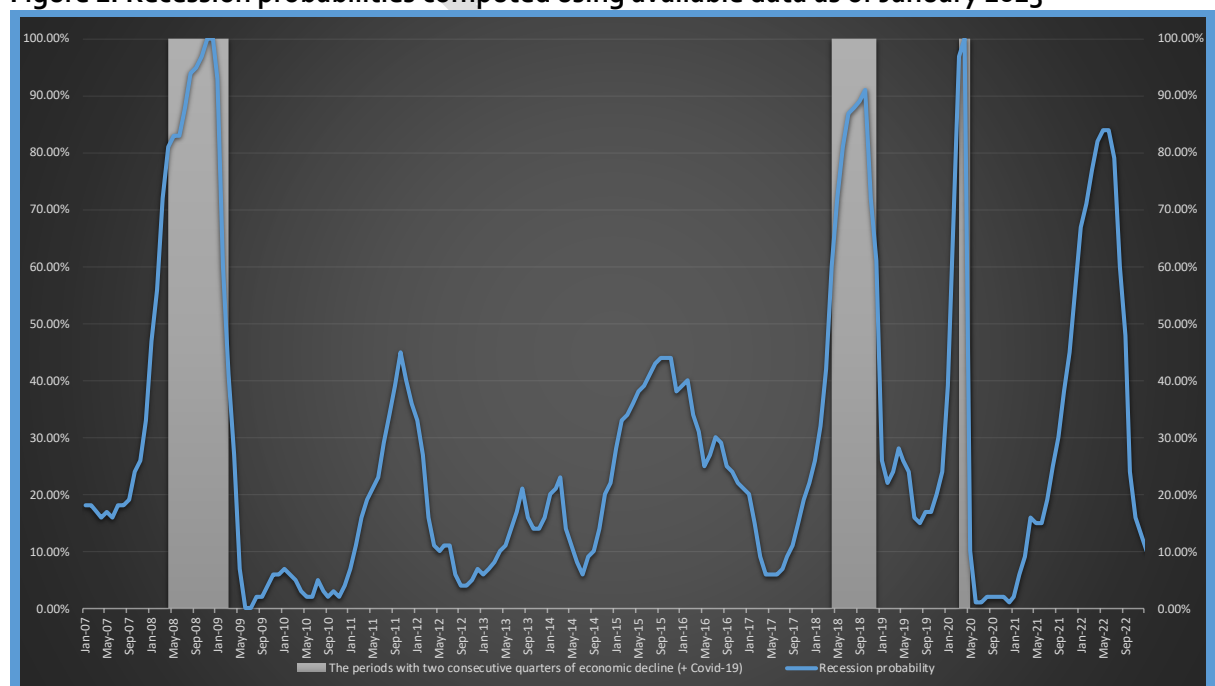
**Figure 1. Coincident Economic and Financial Conditions Indexes Estimates as of January 2023**  
Coincident Economic (left axis) and financial conditions (right axes) indexes



## Probability of Economic Recession

We compute the probability of the economy entering a recession in the short term based on the joint behavior of CEI and FCI. **We calculate this probability as 10% as of January.** Figure 2 shows these probabilities' evolution from 2007 to the present.

**Figure 2. Recession probabilities computed using available data as of January 2023**



Source: Author's calculations