

## Economic Outlook

May 11, 2023

### 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 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 0.77 % in May compared to the previous month.** The changes in April and March 2022 were 1.03% and 0.043%, respectively. Considering the quarterly predictions, we expect a change of 0.77% in real GDP in the first quarter of 2023 compared to the previous quarter. On the other hand, when the first quarter of 2023 is compared to the first quarter of 2022, this rate corresponds to a 3.5% growth. **Consequently, based on the data available as of May, we expect a slow growth in the economy in the first quarter.**

Considering the constituents of CEI, on the production side, an increase of 5.3% was observed in March compared to the previous month in the latest industrial production index data. This surge is the result of the rapid drop of the February's industrial production due to the earthquake. Considering the developments in the labor market, a 0.1% increase was observed in total employment in March. From the data published timelier, the PMI was announced as 51.5 for April, continuing to exceed the critical value. Based on all these components, we see a volatile pattern of CEI throughout the year. We expect a slow growth pattern in the first quarter of 2023.

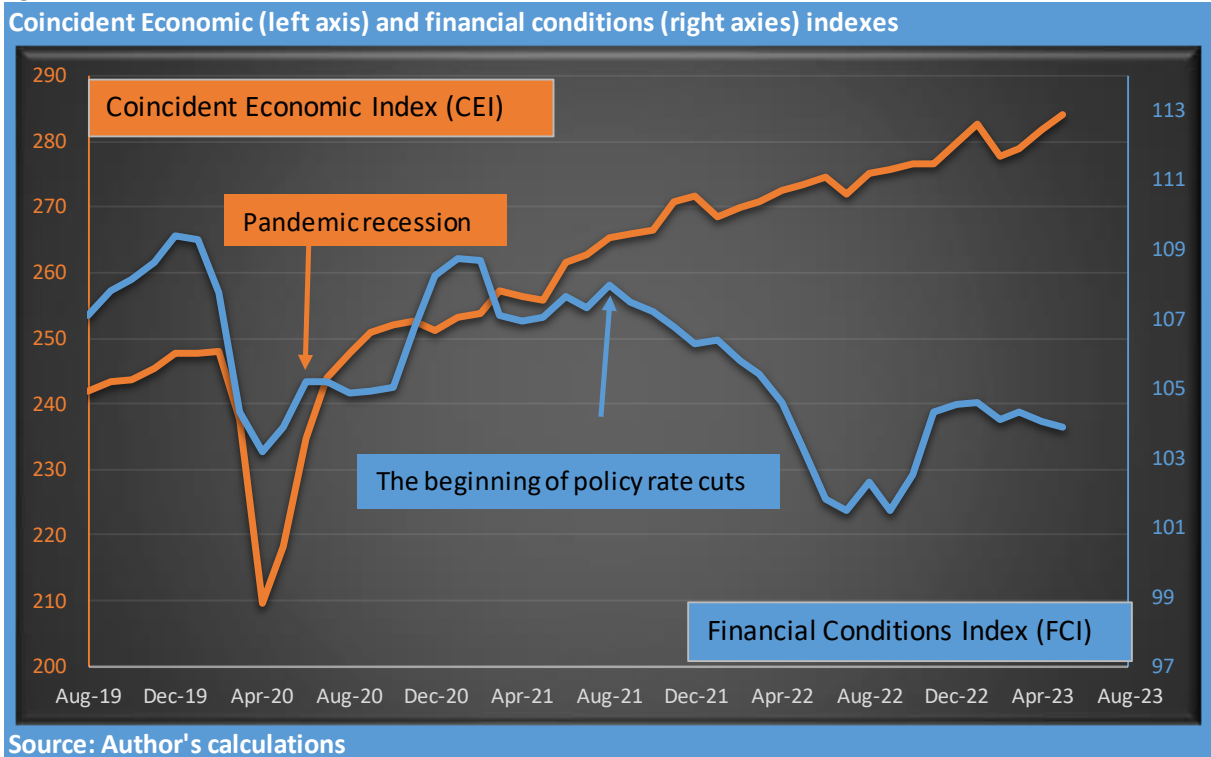
## Financial Conditions Index (FCI)

**According to the most recent model estimates, FCI decreased by 0.01% in May compared to the previous month.** The changes in April and March were -0.24% and 0.20%, respectively. The momentum in the financial conditions index, led by loosening global financial conditions, lost its pace totally and reversed.

Considering the constituents of FCI, gross FX reserves experienced a strong decrease in May. Turkey's 5-year CDS premium is 551 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 an increase in total credit volume in real terms while heading to the elections in the coming days.

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 months. In CEI, the stagnation since the start of 2022 was replaced by a mild growth in recent months. We observe slow growth in the first quarter of 2023, replaced by a reduction.

**Figure 1. Coincident Economic and Financial Conditions Indexes Estimates as of May 11, 2023**



## 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 at 17.9% as of May. Figure 2 shows these probabilities' evolution from 2007 to the present.

**Figure 2. Recession probabilities computed using available data as of May 11, 2023**

