Economic Outlook

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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 0.4% compared to the previous month in December.[1] The changes in November and October are updated as 0.5% and 0.2%, respectively.

Regarding the changes in CEI's components on the production side, according to the latest industrial production index data, there was a 0.4% decrease in October compared to the previous month. We have observed a downward trend in the IP since June. PMI, a timelier indicator, remained well below the critical threshold of 50, with a value of 47.2 in November. On the other hand, we observe an increase in the import quantity index despite the decrease in the export quantity index in contrast to last month's figure.

Focusing on the labor market, total employment increased %0.8 in October. Considering all these components, we computed a slight increase in the CEI, mainly thanks to the employment figures.

Financial Conditions Index (FCI)

According to the most recent model estimates, FCI increased by 0.03% in December compared to the previous month. The changes in November and October are updated as 0.1% and 0.9%, respectively. Despite increasing policy rates, improving risk perceptions keeps the financial conditions stable.

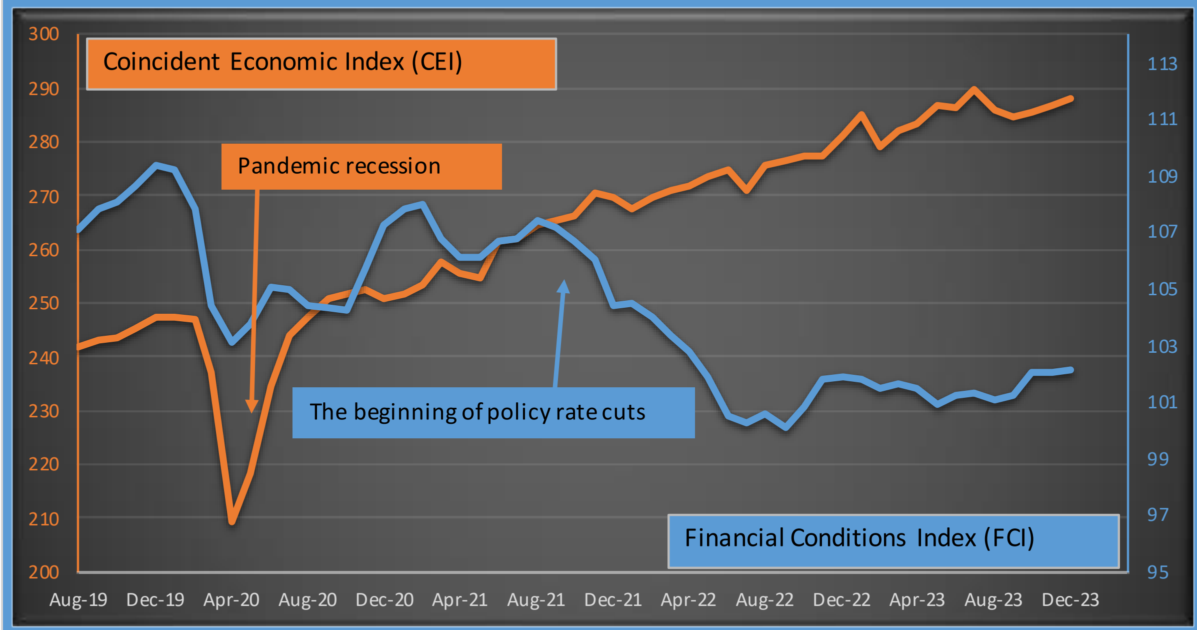
Focusing on the sub-components of FCI, the increase in gross reserves continued in December. Turkey's 5-year Credit Default Swap (CDS) premium fell below 300bps after a long period with a value of 278bps. There has been a decline in credit momentum, leading to a decrease of 1% in real credit volume. We computed this decline as 3% In previous months. Hence, the decreasing trend in the credit volume slowed down. Despite contractions in real credit volume and many similar indicators, the improvement in Turkey's risk perception led to divergent movements of the sub-components of the index.

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 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.

[1] As a result of the standardization of the data we imposed for the sake of interpretation of the outcomes, the rate of change in both economic and financial condition indices is expected to be between 2% and +2%. Values less than -2% or higher than +2% can be interpreted as low probability extreme values. For example, in the past, these values were observed as -2.08% in November 2008, the trough of the 2008 recession, and -2.17% in July 2016. Therefore, the proximity of these values to 2% will also inform us about the severity of the contraction.

Figure 1. Coincident Economic and Financial Conditions Indexes Estimates as of December, 2023

Coincident Economic (left axis) and financial conditions (right axies) indexes

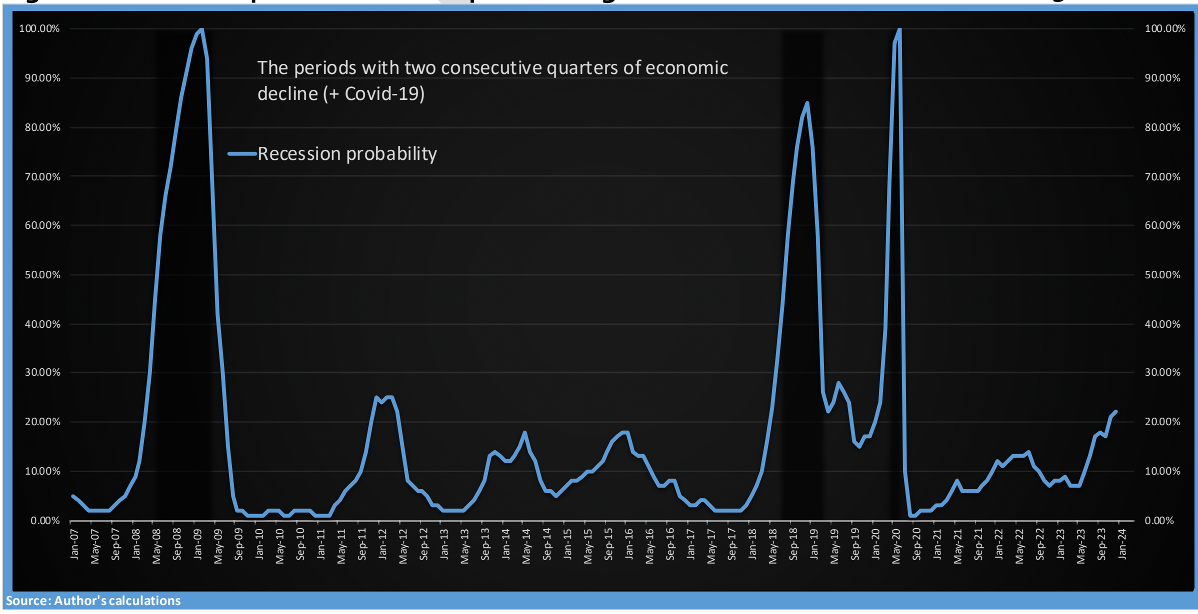


Source: Author's calculations

Probability of Economic Recession

We compute the probability of the economy entering a recession in the short term based on the joint behaviour of CEI and FCI. Figure 2 illustrates the evolution of these probabilities from 2007 to the present. This month, this probability is computed as **22%**.

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



Source: Author's calculations