

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 our model forecast for this month, CEI has increased by 0.4% compared to the previous month in March. The changes in February and January have been updated to 0.6% and 0.4% respectively. Thus, the economic situation index, which started rising rapidly in December and continued its upward trend until this month, has maintained its uninterrupted increase until the month of elections.

Regarding the change in the production component of CEI, according to the latest announced industrial production index data, we observed a 0.03% increase in January compared to the previous month. After the rapid increase in December, the decline in the index continued until January. The PMI, which is published more timely, reached a value of 50.2 in February, exceeding the critical value for the first time since June 2023.

Regarding the labor market, there is a 0.5% increase in total employment in January. Based on all these components, especially the contribution of employment data, we calculated a rising trend in CEI that started in December and is still ongoing.

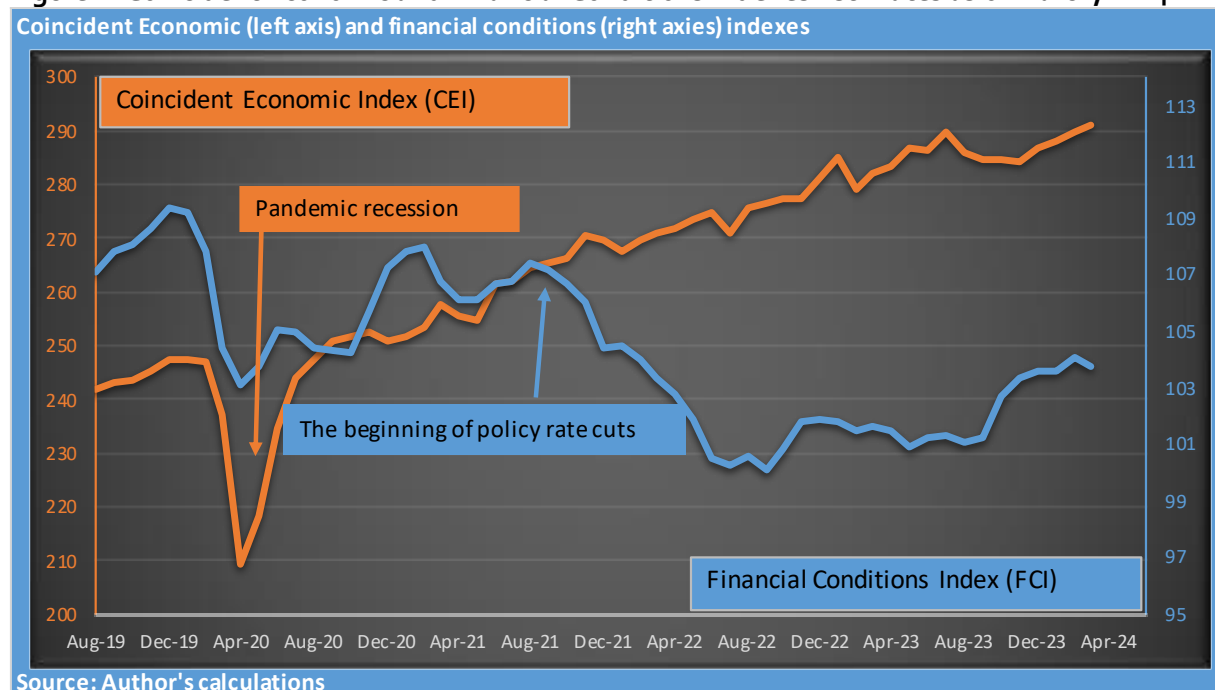
Financial Conditions Index (FCI)

This month, according to our model forecast, FCI decreased by 0.3% compared to the previous month in March. The changes in February and January were 0.5% and -0.03%, respectively. The overheating economy and rising inflation have led to an increase in risk perception in the financial sector. This has caused some strain in financial conditions. We last saw this situation in May 2023, with an overheating economy and deteriorating financial conditions. As we head into local elections, the picture looks similar, albeit not as severe.

Regarding the sub-components of FCI, the decline in gross reserves continues rapidly in March. Turkey's 5-year CDS premium has risen above the 300 level again after a long time, reaching 315 basis points. On the other hand, despite the rapid increase in consumer loans, we see a decrease of up to 3% in real credit volume due to the impact of rising inflation. The deterioration in risk perception in Turkey, accompanied by contraction in real credit volume and many other indicators, is the most important factor in the overall decline in the index.

Figure 1 shows the evolution of FCI and CEI starting from 2019. The economic contraction brought about by the Covid-19 pandemic in the first half of 2020, followed by a rapid recovery, is clearly observed in CEI. A similar decline and rapid recovery are also observed in FCI, especially during the tenure of former Central Bank Governor Naci Ağbal.

Figure 1. Coincident Economic and Financial Conditions Indexes Estimates as of March, 2024



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 **8%**.

Figure 2. Recession probabilities computed using available data as of March 2024

