



Turkey: keeping heads cool helps

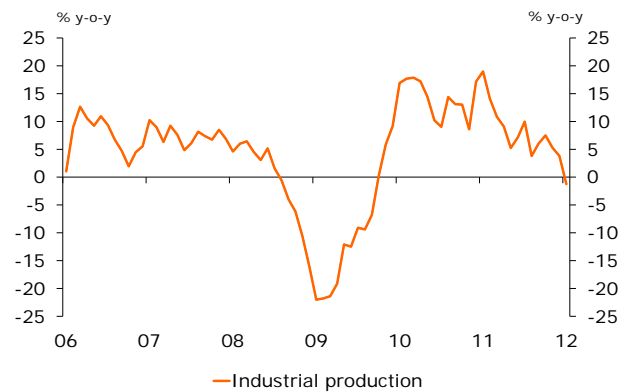
While Turkey's industrial production growth is slowing, both inflation and the current account deficit remain elevated, suggesting that the central bank must not ease policy just yet.

Turkey's industrial production (IP) contracted by a seasonally adjusted 1.3% y-o-y in January (after

growing by 3.8% in December), the lowest growth rate reported since the recession in 2009. Slowing IP growth was mostly the result of a fall in mining output by 2.2% y-o-y, as well as slowing growth in the manufacturing sector. Underlying these results is the ongoing debt crisis in Europe, Turkey's main export market, which reduced demand for the country's exports. In addition, domestic demand slowed as a result of the central bank's success to curtail credit growth.

A fall in IP was widely expected. After stellar GDP growth in 2011 spiked fears of overheating, it was indeed hoped that central bank interventions would help bring the economy to a more sustainable growth path. Still, the slowdown was slightly quicker than anticipated and, with IP expected to remain sluggish, this

Figure 1: Hard landing?



Source: Reuters EcoWin

could point to a somewhat harder landing. At the same time, however, other indicators suggests that looser monetary policy is not yet called for and may in fact do more harm than good. For one, despite the central bank's success in slowing credit growth, inflation remains stubbornly high (10.4% in February). Secondly, in January, import demand only decreased marginally relative to the year before, while the fall in exports was more pronounced. As a result, the current account deficit remained high at USD 5.9bn (roughly 10% of GDP). High inflation and a large current account deficit suggest that the central bank should sit tight and adopt a wait-and-see approach.

Turkey: keeping heads cool helps



Rabobank

Rabobank Economic Research Department

	Tel.	E-mail:
<u>Chief economist</u>	+31 30 21	
Wim Boonstra	66617	W.W.Boonstra@rn.rabobank.nl
<u>International Economic Research</u>		
Allard Bruinshoofd*	63272	W.A.Bruinshoofd@rn.rabobank.nl
<i>Macro</i>		
Shahin Kamalodin	31106	S.A.Kamalodin@rn.rabobank.nl
Tim Legierse	62677	T.Legierse@rn.rabobank.nl
Michiel Verduijn	30522	M.P.Verduijn@rn.rabobank.nl
<i>Country Risk</i>		
Erwin Blaauw	62648	E.R.Blaauw@rn.rabobank.nl
Fabian Briegel	64053	F.Briegel@rn.rabobank.nl
Jeroen van IJzerloo*	62406	J.IJzerloo@rn.rabobank.nl
Herwin Loman	31105	H.Loman@rn.rabobank.nl
Reintje Maasdam	31403	R.Maasdam@rn.rabobank.nl
Ashwin Matabadal	61601	A.R.K.Matabadal@rn.rabobank.nl
Reinier Meijer	31568	R.Meijer@rn.rabobank.nl
Anouk Ruhaak	64860	A.N.Ruhaak@rn.rabobank.nl
<u>National Economic Research</u>		
Hans Stegeman*	31407	H.W.Stegeman@rn.rabobank.nl
<i>Macro</i>		
Ruth van de Belt	60143	R.Belt@rn.rabobank.nl
Maarten van der Molen	64214	M.T.Molen@rn.rabobank.nl
Danijela Piljic	31104	D.Piljic@rn.rabobank.nl
Anke Struijs	31408	A.C.A.Struijs@rn.rabobank.nl
Theo Smid	67599	T.H.Smid@rn.rabobank.nl
Paul de Vries	30172	Vries.P@rn.rabobank.nl
<i>Regional</i>		
Rogier Aalders	31393	R.Aalders@rn.rabobank.nl
Cynthia Briesen	31411	C.C.Briesen@rn.rabobank.nl
Frits Oevering	64439	F.J.Oevering@rn.rabobank.nl
Anouk Smeltink-Mensen	66404	A.H.H.M.Smeltink@rn.rabobank.nl
Willem van der Velden*	62478	W.Velden@rn.rabobank.nl
<u>Financial Sector Research</u>		
Yvette Jorissen	64931	Y.M.Jorissen@rn.rabobank.nl
Dick Scherjon	31405	D.P.Scherjon@rn.rabobank.nl
August Sjauw-Koen-Fa	31406	A.R.Sjauw@rn.rabobank.nl
Nicole Smolders	79108	N.M.P.Smolders@rn.rabobank.nl
Leontine Treur	67084	L.Treur@rn.rabobank.nl
Bouke de Vries*	61195	Y.B.Vries@rn.rabobank.nl

*Head