showCASE
No. 36 | 24.07.2017

CASE – Centrum Analiz Społeczno-Ekonomicznych
CASE – Center for Social and Economic Research

Overview: In this week's showCASE, our experts discuss the impact of the last year's failed coup in Turkey on the country's economic performance.

One year after the coup in Turkey: How did it affect the economy?

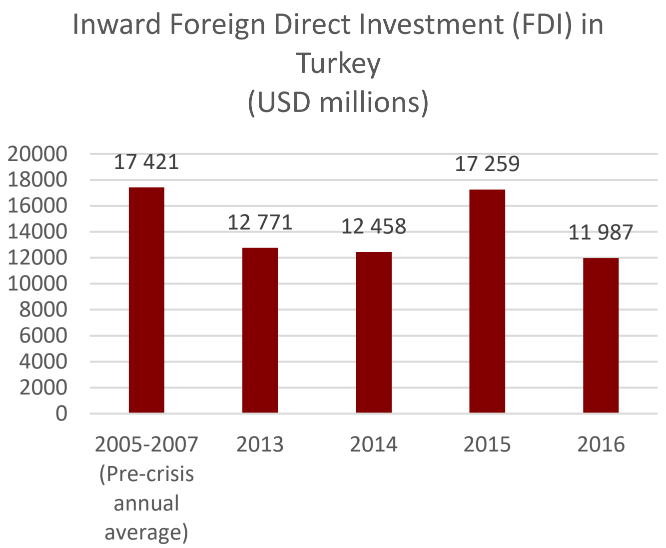
By: Katerina Hoskova, *CASE Analyst*


Source: Reuters

In face of the authoritarian turn of politics in Turkey, the Turkish economy struggles to find its place. President Recep Tayyip Erdoğan, together with his Justice and Development Party (AK Parti), have realized that neither the populist rhetoric nor the ceaselessly meandering political situation will be enough to prepare for the upcoming presidential and parliamentary elections in fall 2019. A year after the army's failed coup attempt against the government, and two months after the tight Turkish constitutional referendum sanctioning Erdoğan's continuation in the function until 2029, the government undertakes to overcome its political instability by implementing economic measures and policies.

In the hope of securing political power, AK Parti have come back to the well-tested measure of delivering investment and employment. Since the 2016 coup, the government has engaged in a lavish fiscal policy, pushing up the budget deficit to a 7-year high. The main stimulus has been state-guaranteed loans offered to the private sector. It is estimated that more than 180 billion Turkish liras (approx. EUR 44 billion) have already been loaned out through the Credit Guarantee Fund (KGF), and a promise was made in March that the fund would soon reach up to 250 billion Turkish liras worth of loans (EUR 61.5) in total. This initiative has produced some initial results, in that the public bank lending recorded a 20% growth in 2017. The government has also implemented various incentives of a short-term character, such as corporate tax discounts and VAT rate reduction.

Helped by the fiscal policy, the Turkish economy managed to haul itself from the decline it experienced in the months following the coup. The rebound was also possible thanks to a 10.6 percent export growth associated with the increased demand of European Union countries, especially Germany and the United Kingdom, Turkey's main export partners. After two consecutive quarters of positive prospects, the Turkish Statistical Institute (TurkStat) announced in June that the GDP had grown by 5 percent, year on year, in the first quarter of 2017. It is expected that the economy will grow by 3.5 percent this year. Recently, the economy also recorded a positive trend in inflation: in June, the annual inflation rate dropped from 11.7 to 10.9 percent, the lowest level in four months. This was largely possible thanks to the tightening of monetary policy by the Central Bank, an institution that has proved a crucial and well-functioning body amongst the political havoc of the last year.



Source: United Nations Conference on Trade and Development

However, although the economy is established on a sturdy combination of a large internal market, a relatively stable banking sector, low public debt and a young population, the growth may not be sustainable in the long run. Since 2008, given the slowdown of the global economy and the negative impact of regional conflicts on net exports, the country has turned to a growth model which is ostensibly dependent on domestic demand. Coupled with the political instability, this constitutes a long-term threat to the economy. In March, Moody's downgraded the sovereign credit rating from stable to negative citing political tensions, a steep depreciation of the Lira and high inflation. Investors appear to be discouraged by the uncertain situation, resulting in a 31% percent drop of foreign direct investments in 2016. The impact of the fluctuations in the political situation has been particularly harsh on the Turkish lira. Since 2016, the currency has depreciated by 20 percent against the dollar, ranking as the world's worst performing currency outside the frontiers market.

The economic situation of Turkey has certainly improved in recent months. The economy's rehabilitation through fiscal policies and incentives has yielded results, with a solid GDP growth in the first quarter, as well as a promising outlook for the rest of 2017. However, it is questionable whether the country will be able to maintain its growth, not only because of the short-term character of the policies, but also because of its rocky political situation, which failed the economy in the first place.

Countries at a glance

Center for Social and Economic Research

This week: On July 19th, the Polish government voted in favor of introducing a new “water fee”. Although Prime Minister Beata Szydło claims the fee will not cause a surge in water prices, water suppliers argue water bills will increase by approximatively 100PLN per year per person. Moreover, according to the Economic Society Polish Power Plants, energy prices could increase as a consequence of the new law as well.

GDP (Q1 2017)

4.2% y/y (est.)

Up from 2.9% in Q4

Inflation (June 2017)

1.5% y/y

Down from 1.9% in May

Unemployment (May 2017)

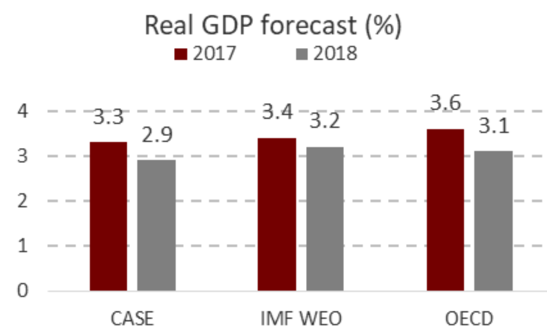
7.4%

Down from 7.7% in Apr

NBP Base rate

1.5%

From 2% Mar 2015



This Week: The Prosecutor General Office ordered the Bank of Russia (CBR) to reverse their decision on placing Bank Yugra (country’s 15th-largest holder of deposits) under temporary administration and rescind a moratorium on creditors' claims. The Prosecutor General Office believes that Yugra is financially stable and has sufficient liquidity. As such, it asserts that its financial position does not warrant the CBR’s order and claims that the decision would only stifle Russia’s fiscal and investment growth.

GDP (Q1 2017)

0.5% y/y

Up from 0.3% in Q4

Inflation (June 2017)

4.4% y/y

Up from 4.1% in May

Unemployment (May 2017)

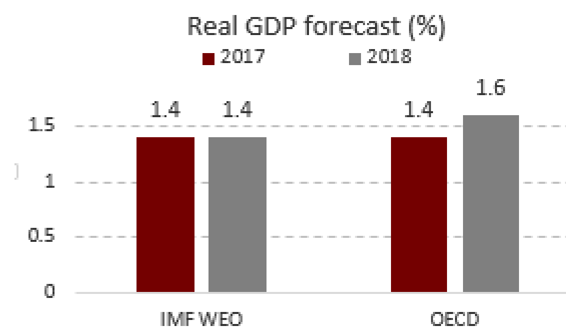
5.2%

Down from 5.3% in Apr 2017

CBR Base rate

9 %

Down from 9.25%



This week: Following a series of diesel emission scandals revolving around VW, Daimler and Audi, German policymakers consider taking a stronger stance in promoting clean technologies. Recent discussions focus on bans on the use of diesel cars in German cities and the employment of combustion engines after 2030. However, despite expected environmental benefits, the reform would come at a high cost, affecting up to 600,000 employees in the largest German industry sector (10% of all jobs in the automobile industry) according to the ifo institute.

GDP (Q1 2017)

1.7% y/y

Down from 1.8% in Q4

Inflation (June 2017)

1.5% y/y

Up from 1.4% in May

Unemployment (May 2017)

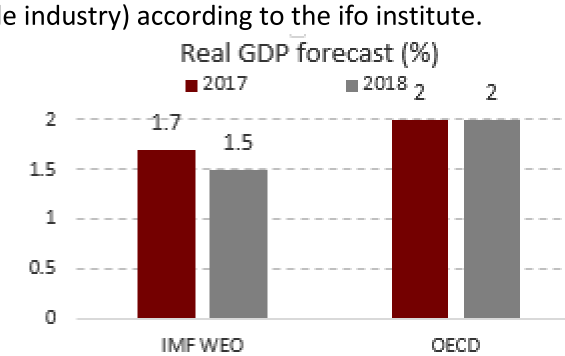
3.7%

Down from 4.2% in April

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: European Union (EU) and Ukraine added new measures to the EU-Ukraine Association Agreement last Monday, broadening the selection of tariff-free goods by adding more industrial and agricultural products. For the next three years, starting from September, Ukraine will also be allowed to export greater amounts of agricultural products then previously agreed.

GDP (Q1 2017)

2.5% y/y

Down from 4.7% in Q4

Inflation (June 2017)

15.6% y/y

Down from 13.5% in May

Unemployment (Q1 2017)

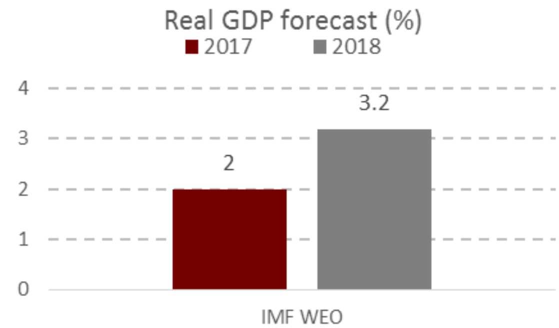
10.5%

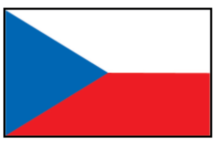
Up from 10.0% in Q4

NBU Base rate

12.5%

From 13.0% in May





This week: Three and a half months after the removal of the currency cap by the Czech National Bank (CNB), Czech koruna crossed the CKZ 26 for EUR 1 line for the first time. The currency briefly strengthened to the level of CZK 25.989 on Thursday morning, but quickly returned to the level just above CZK 26/EUR 1. It is believed that the reason for the strengthening of the koruna is the probable increase of the interest rate at the CNB Board's monetary policy meeting on 3 August 2017.

GDP (Q1 2017)

3.0% y/y

Up from 1.9% in Q4 2016

Inflation (June 2017)

2.3% y/y

Down from 2.4% in May

Unemployment (Q1 2017)

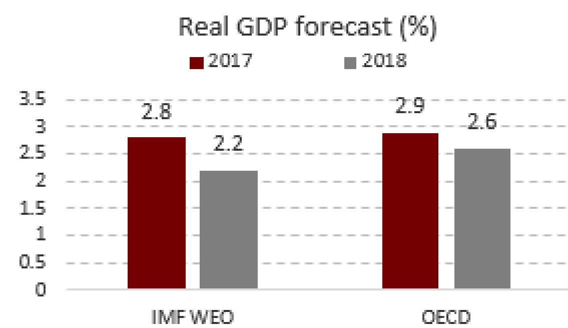
3.4%

Down from 3.6% in Q4

CNB Base rate

0.05%

Unchanged since Nov 2012



This week: Hungary's central bank decided to keep the base rate at 0.9%, as both robust growth and rising wages in the economy have not pushed the country's inflation rate (currently hovering around 1.9%) upward to its target level of 3%. It is anticipated that, due to low inflation, the interest rate would remain unchanged until 2019.

GDP (Q1 2017)

3.6% y/y (est.)

Up from 1.6% in Q4

Inflation (May 2017)

1.9% y/y

Down from 2.6% in Apr

Unemployment (Q1 2017)

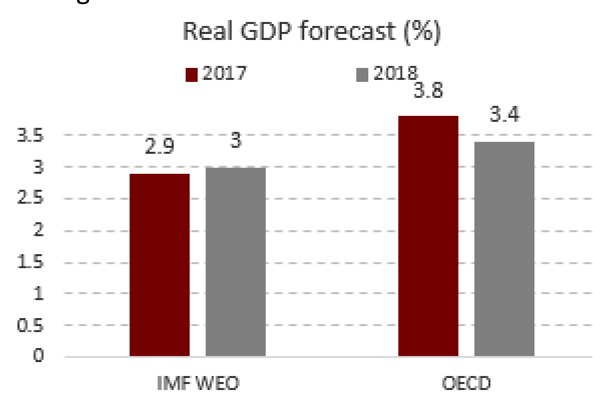
4.4%

Down from 4.6% in Q4

MNB Base rate

0.9%

From 1.05% May 2016



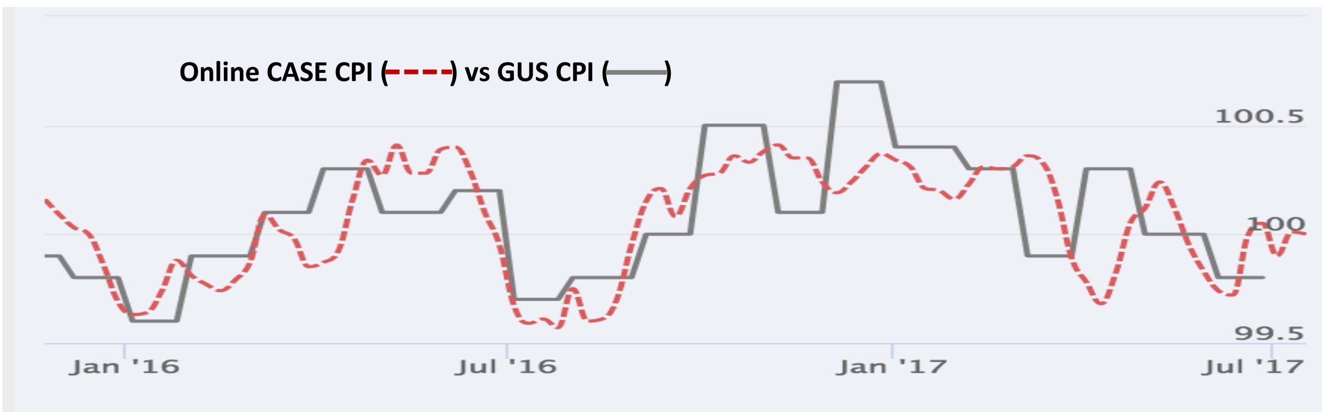
Other CASE products

Center for Social and Economic Research

The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI



Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, CPI, among others.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2017	3.3	3.5	2.9	3.8	1.9
2018	2.9	3.0	2.7	3.7	2.0
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	4.7	201.6	201.8	-0.2	-4.7
2018	3.5	211.3	213.1	-1.8	-5.9

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