

EEMEA 2017 Outlook

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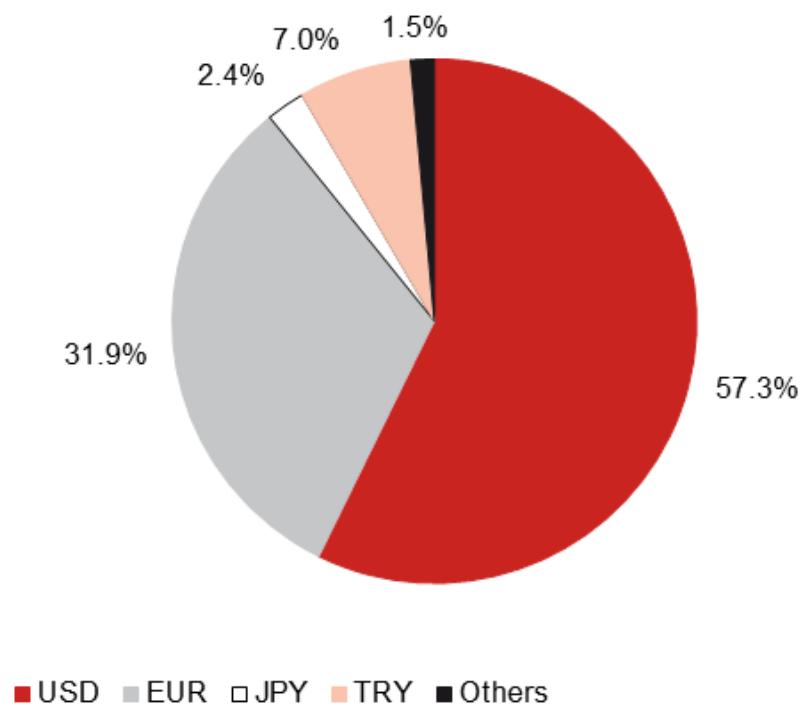
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Turkey's external balance is vulnerable to "Trumpflation"

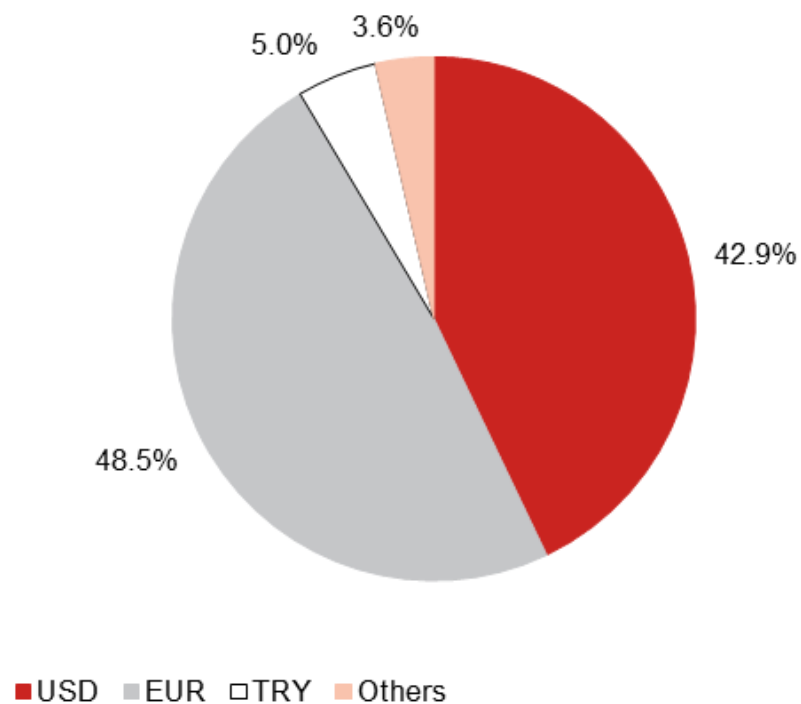
Turkey is trying to service dollar debt...

Currency composition of external debt



...by generating FX revenues in other currencies

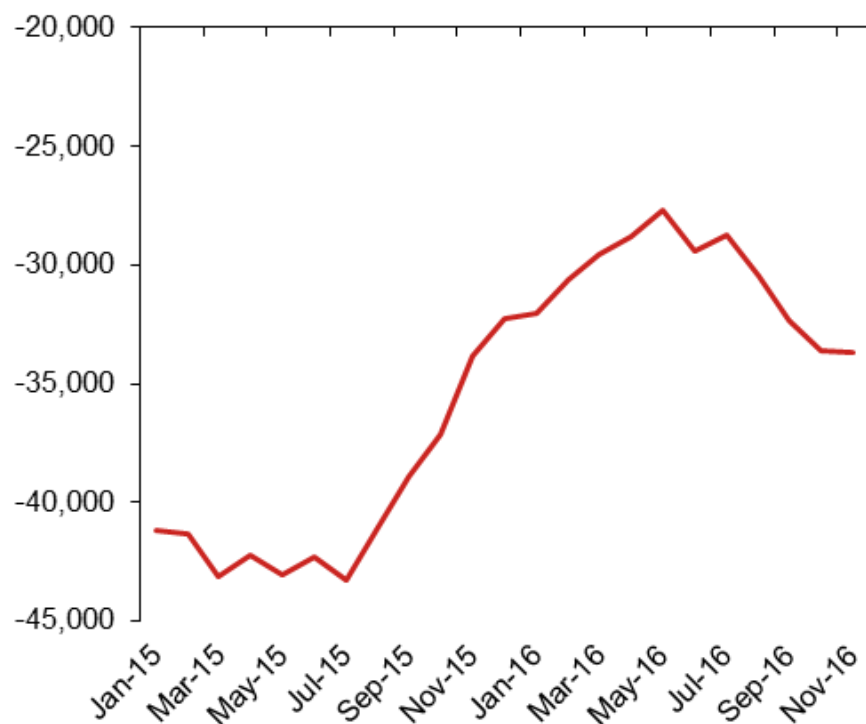
Currency composition of export revenues



Current account deficit is widening again while external debt redemption burden is large

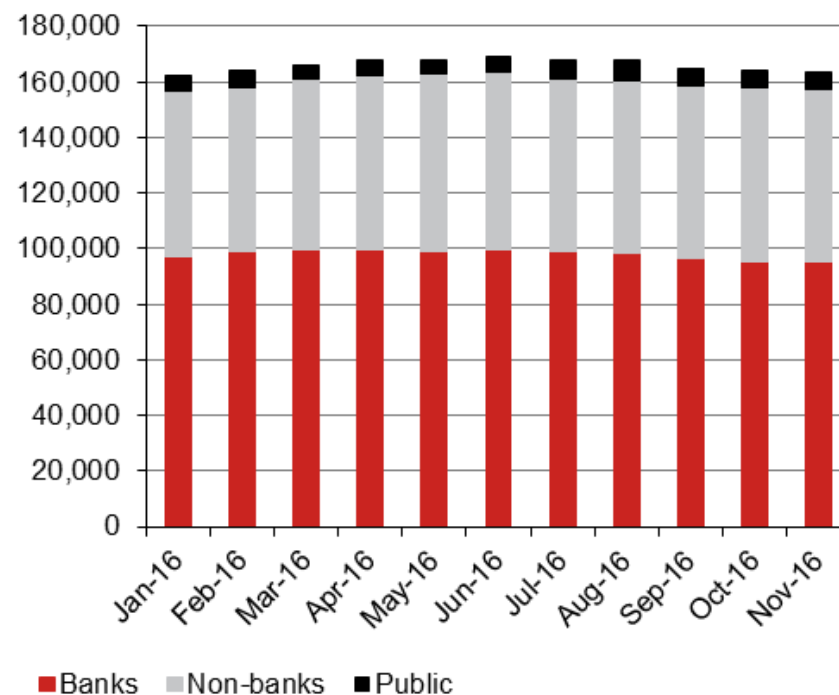
Current account deficit remains wide

12-month rolling current account deficit (USD mn)



External debt redemptions remain large

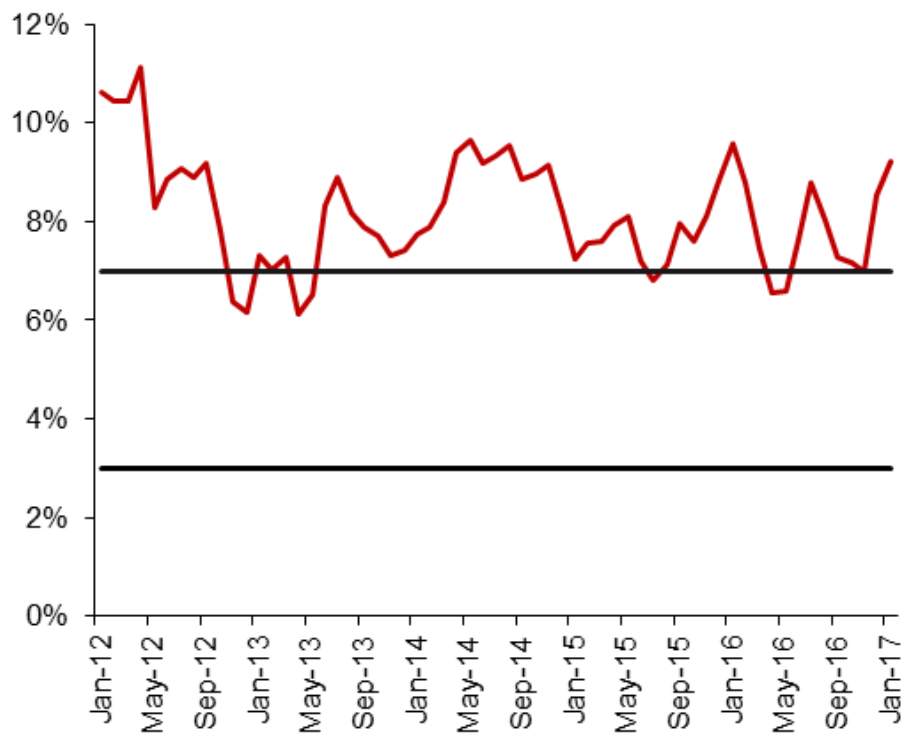
External debt maturing in the next 12 months (USD mn)



Inflation is already above target and subject to upside risks

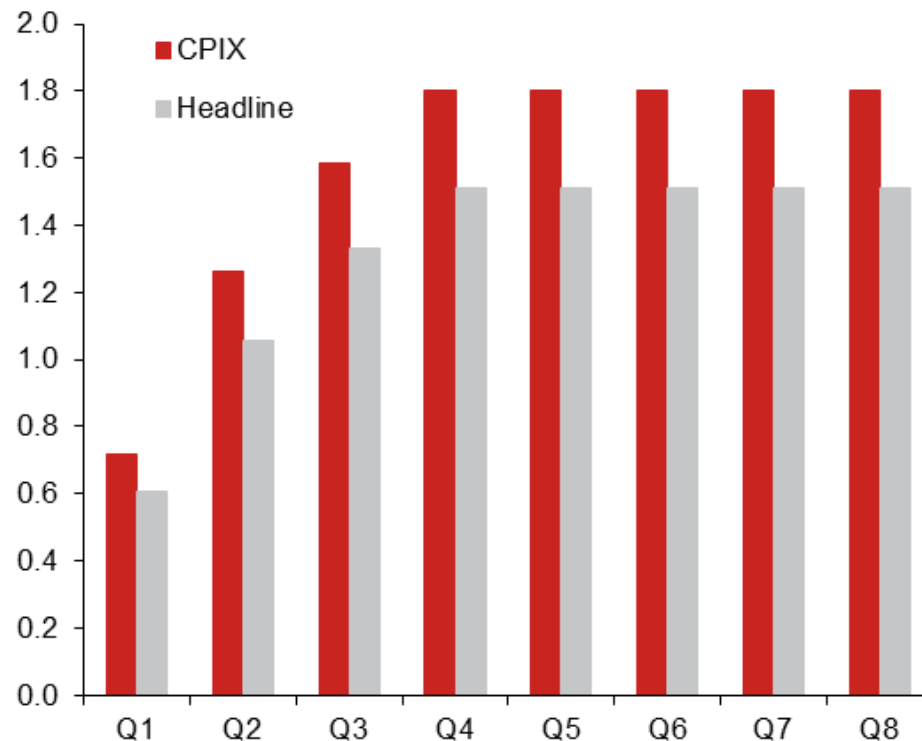
Annual inflation has mostly been above target over the past 5 years

Annual inflation rates and target interval (y-o-y)



Inflationary impact of recent TRY weakness could be more than 3 pp

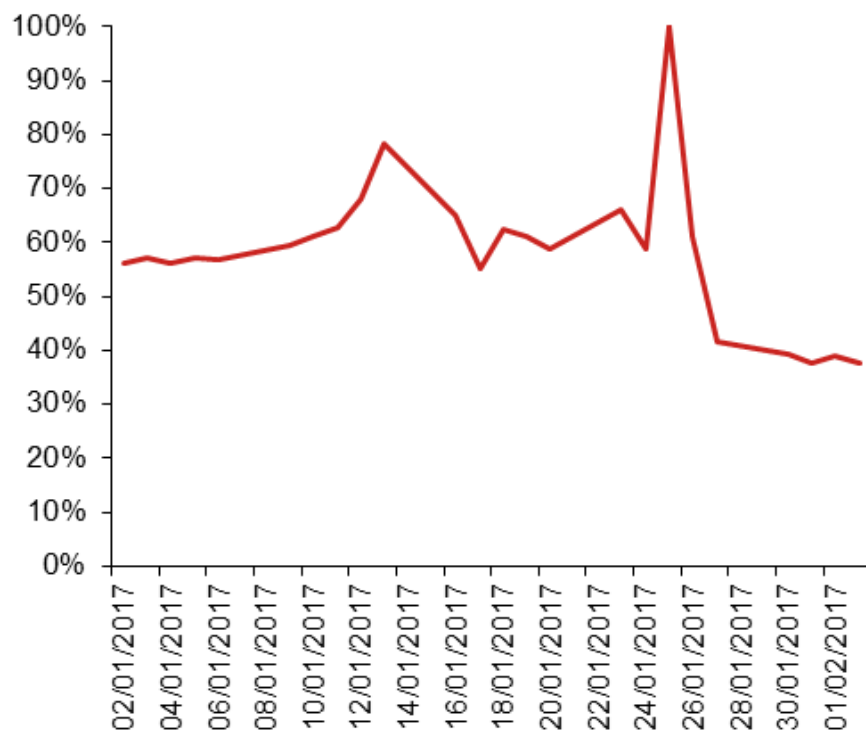
Passthrough from 10% currency depreciation to headline and core inflation (pp)



“Dynamic” policy framework to keep TRY vulnerable

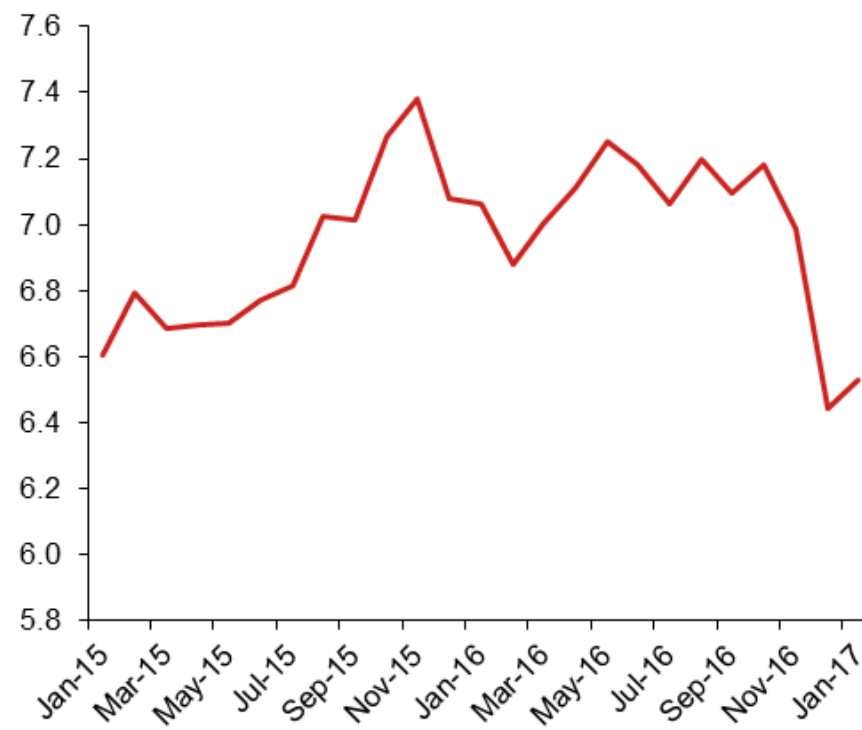
TCMB goes back to unorthodoxy

Share of O/N lending rate funding in total funding



Reserves cover only around 6.5 months of imports

Gross FX reserves/monthly imports



Approaching the executive presidency endgame

Credible polls show support for executive presidency at c. 50%

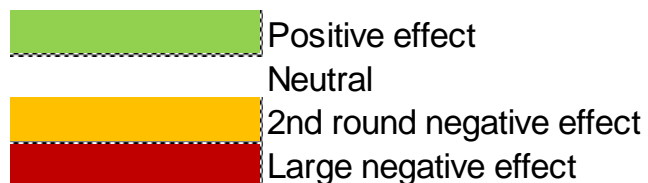
A summary of recent referendum polls

	Pollster	Yes	No
16-Oct-16	ORC	61%	39%
17-Nov-16	Andy-AR	53%	47%
27-Nov-16	A&G	52%	48%
30-Nov-16	MetroPoll	43%	57%
03-Dec-16	Gezici	42%	58%
15-Dec-16	ORC	61%	39%
16-Dec-16	K Has Univ	47%	53%
25-Dec-16	Sonar	49%	51%
10-Jan-17	Optimar	54%	46%
11-Jan-17	ORC	62%	38%
26-Jan-17	Gezici	42%	58%
30-Jan-17	Genar	55%	45%

- Turkey is heading towards a referendum to decide on the switch to executive presidency system, which current President Erdogan covets
- The exact date of the referendum has not been set yet, but it will likely be held in the first half of April.
- Poll results are widely diverging but more credible pollsters see support for executive presidency in 47% - 53% range.
- This suggests the referendum is still too close to call, and President Erdogan will need full support from the electoral base of nationalist opposition – his allies in the constitutional change process.
- Securing nationalist support might require intensifying the hardliner policies in Southeast Turkey, Northern Syria and Northern Iraq – regions where Kurds are dominant.
- An Erdogan win in the referendum implies concentration of too much power in presidency, which could be taken negatively by the markets.
- However, if Erdogan fails to win the referendum, Turkey could find itself in unprecedented political turmoil, which could be even more negative from markets' perspective.

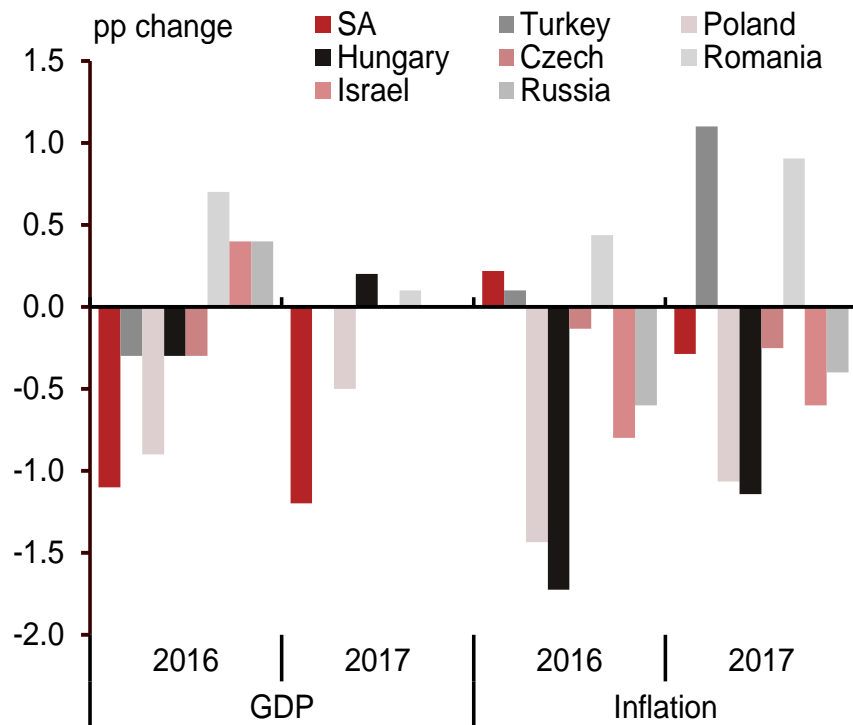
Trump policy impact on EEMEA

	US reflation / FOMC fiddling	Infrastructure boom	Energy independence	Trade isolationism	Corporate cash on- shoring	Isolationist foreign policy	Overall balance?
Hungary							
Turkey							
Poland							
South Africa							
Russia							
Middle East							
Mexico							



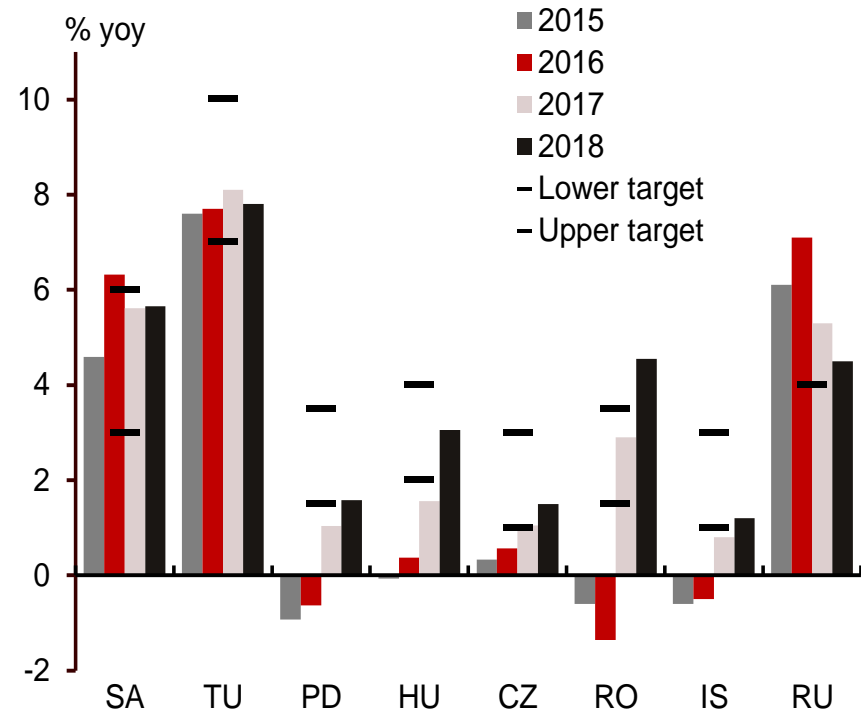
Shifts in GDP and CPI forecasts vs a year ago

pp change



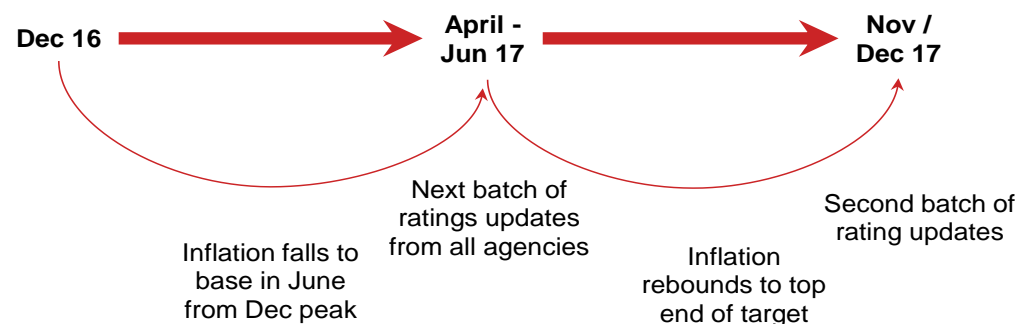
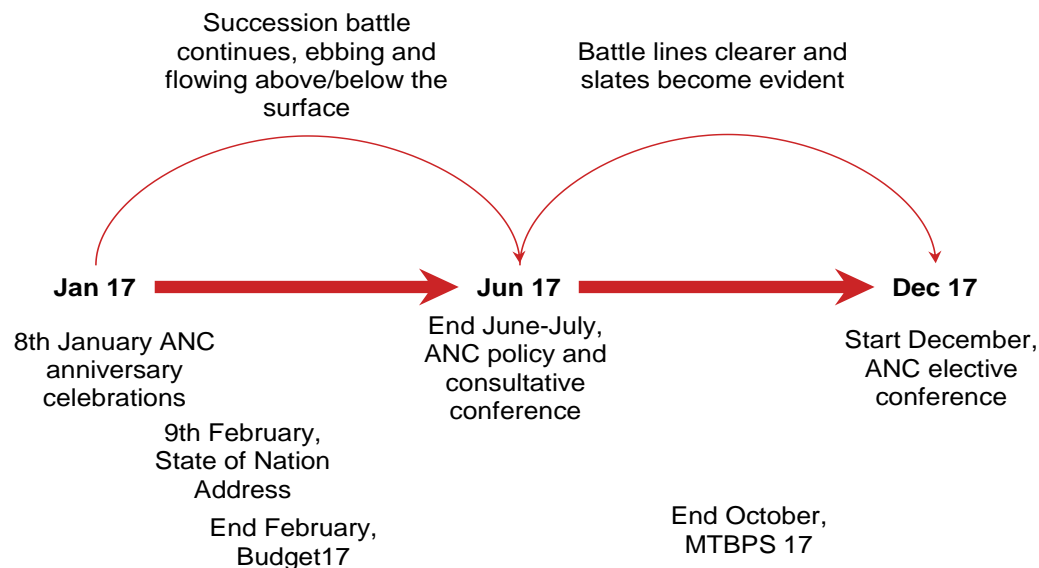
Inflation forecasts

% y-o-y



SA: Timelines for the risk narrative

Political narrative



Macro narrative

Appendix A-1

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