

FIGURE  
OF THE WEEK

+7.4%

Turkey's  
GDP growth  
in 2017

## In the Headlines



### Turkey: Rapid growth in 2017 – soft landing in 2018?

Real GDP grew by +7.3% y/y in Q4, taking full-year 2017 growth to +7.4%. The sharp acceleration from +3.2% in 2016 was in part a result of base effects since 2016 output was disrupted by the failed coup attempt in July, but the main drivers were strong wage increases in 2016 (+30%) and 2017 (+12%) as well as substantial pro-cyclical fiscal stimulus, which boosted domestic demand in 2017. Consumer spending rose +6.1%, public spending +5%, fixed investment +7.3% and inventories added +0.8pp to growth in 2017. External trade activity was dynamic as well, with real exports rising +12% (supported by the weakened TRY) and imports +10.3% so that the contribution of net exports to full-year growth was marginal (+0.1pp). Noteworthy, while export expansion peaked in Q3 2017 and has since softened somewhat, imports have continued to gain momentum until early 2018. We forecast GDP growth to slow down to +4.6% in 2018, as a result of a neutral impact of inventories this year, an expected negative impact of net exports and the absence of base effects. However, the balance of risks to the forecast is more on the downside, as Turkey is a vulnerable EM in the event of an external shock.



### U.S.: Personal consumption modest, manufacturing strong

Disposable personal income (DPI) gained +0.4% m/m in February while personal consumption expenditures (PCE) rose +0.2%, a combination which drove the personal savings rate up to 3.4% from the perilously low 2.4% in December. On a y/y basis, real DPI slipped to +2.1%, but we expect that to accelerate this year with rising wages, while real PCE was +2.8% for the second consecutive month, suggesting a soft Q1 GDP. Inflation as measured by the core PCE was 1.6% y/y after having been stuck at 1.5% for four straight months. Despite currently tepid income and spending, consumer sentiment as reported by the U. Mich. Survey reached a 14-year high, with the current conditions component reaching a remarkable, record (40-year) high. The ISM manufacturing index slipped from 60.8 points to a still very strong 59.3. While only one component rose this month, nine of them are still above 50, with new orders at a steep 61.9. Seventeen of 18 industries reported growth, but reports of rapidly rising prices and shortages of inputs, due in part to tariff fears, were common.



### Morocco: Growth under a job ceiling

Economic growth reached +4% in 2017 after +1.2% in 2016. This performance was widely expected, since the agricultural output recovered (+14.8%) after poor rains in 2016 (-12.8%). Aside from this volatile factor, non-agricultural output also gained momentum, growing by +2.7% in 2017 (after +2.2% in 2016), the fastest pace since 2012. Moreover, non-agricultural sector growth accelerated throughout the year to +3.1% y/y in Q4, driven by the manufacturing sector and services (notably tourism). Construction and public spending weighed somewhat on the cyclical momentum. Government consumption (education & health) grew by a mere +0.3%, however, this helped to reduce the fiscal deficit to -3.5% of GDP, from -4.1 in 2016. Among the bad news, unemployment deteriorated from 9.9% in 2016 to 10.2% in 2017. Employment increased by +0.8% but it was insufficient to cope with new entrants, and the youth unemployment rate was 26.5%. The job market is among remaining bottlenecks inhibiting the overall growth potential. In 2018, the economy is forecast to grow by about +3%.



### Saudi Arabia: Recession in 2017 – modest recovery in 2018

Official data released at the end of March show that the downswing intensified at the end of 2017 – real GDP contracted by -1.2% y/y in Q4 – and confirmed an earlier flash estimate that full-year GDP declined by -0.7% last year. Details indicate that the November 2016 OPEC agreement to cut oil output was the main trigger for the recession in 2017. On the expenditure side, it caused a sharp drop in capital formation, with fixed investment falling by -7% and inventories subtracting -0.3pp from 2017 growth, and declining external trade activity. Real exports fell by -3.2% last year and imports by -4.5%, so that net exports made a small positive contribution of +0.2pp to growth. Meanwhile, consumer and public spending both grew modestly by +2% and +0.8% last year, respectively. Note, however, that Q4 real GDP increased by +0.4% in q/q seasonally-adjusted terms which is pointing to a tentative recovery this year. Moreover, the impact of the oil output cut has now waned and the government has announced a number of public sector bonuses and higher public infrastructure spending to come. Overall, we forecast real GDP growth of +1.7% in 2018.

# Countries in Focus

## Americas

### Costa Rica: Keep debt in mind

Last Sunday, left of center candidate Carlos Alvarado Quesada defied expectations by comfortably winning the vote in the runoff of the presidential election. Costa Rica is one of Latin America's most vibrant economies, growing above +3% annually in the last four years (+3.3% in 2017 after +4% in 2016 in non-seasonally adjusted terms). External vulnerabilities are limited as the current account deficit has stabilized at around -4% of GDP and is largely financed through foreign direct investment. However, mounting fiscal deficit worries have led rating agencies to downgrade the country four times in the past five years. The fiscal deficit exceeded -6% of GDP in 2017 and public debt has risen rapidly; it is expected to surpass the 50% of GDP mark this year, up from 38.3% in 2014. Alvarado has pledged to reduce the fiscal deficit to -3% of GDP during his term. But broad-based fiscal reforms remain unlikely as Alvarado's party only holds 10 out of 57 seats in congress.



## Europe

### UK: Resilient business and consumer confidence in March

March business confidence indicators suggest Q1 GDP growth should reach about +0.4% q/q, unchanged from Q4 2017. Confidence in the manufacturing sector as indicated by the PMI was rather stable in March (55.1, after 55.0 in February) with output growth and new export orders picking up while new orders, employment and prices (input and output) slowed down. Construction activity was impacted by snow-related disruption, with a high negative impact on civil engineering and commercial activity. The Construction PMI fell sharply to 47.0 from 51.4 in February, pointing to declining activity in the coming months, for the first time in 6 months. However, prospects in the residential housing market remained positive. Consumer confidence has improved slightly in March (GfK index up to -7 points, the highest since June 2017) thanks to a better current financial situation of households and less negative expectations for the economic situation in the next 12 months. But perspectives for future major purchases remained depressed. We expect GDP growth to slow down to +1.5% in 2018 from +1.8% in 2017.



## Africa & Middle East

### Uganda: Growth-cum-debt

Real GDP grew by +6.6% y/y in Q4 (Q2 of Uganda's fiscal year). The main driver of this good figure is...base effects. Agricultural output was quite low one year ago as a result of drought and has recovered thereafter. As the recovery period is ending, the momentum should ease during the next quarters. Overall, growth is expected to reach +6% on average during the current fiscal year, strengthening from +4% last year and +2.3% two years ago. However, growth is forecast to moderate again to +4% next year. This boom-bust feature has led to fiscal easing as well as a deterioration of the current account deficit, projected at -7% of GDP during the next fiscal year. Public debt increased from 30.7% of GDP in 2014 to 40.5% in 2017 and is forecast to rise further to 43.5% in 2019. The import cover ratio has deteriorated slightly to 5 months from 6 months one year ago. Based on the current spending path (imports grew by +15% in 2017), debt and liquidity ratios should deteriorate further.



## Asia Pacific

### Kazakhstan: Rebound in 2017 – slight moderation in 2018

Real GDP grew by +4% in 2017, following two years of meagre annual growth of just about +1%. The strong rebound was mostly driven by the turnaround in industrial production which rose by +7.1% in 2017 (after a -1.1% decline in 2016), led by the mining industry which surged by +9.3% (-2.7% in 2016). The latter reflects the sharply increased crude oil production to 86 bn metric tons in 2017, up from 78 bn metric tons in 2016, which was mainly a result of the reopening of the Kashagan oil field at end-2016. The services sector grew by a moderate +2.7% in 2017 (up from +0.8% in 2016) while construction (+1.9%, down from +7.9%) and agricultural output (+2.9%, down from +5.5%) decelerated last year. However, growth moderated in Q4 2017 as well as in January 2018 (industrial production +5.2% y/y; mining +4.5% y/y) as base effects in oil production have begun to materialize. Euler Hermes forecasts full-year growth to slow down somewhat to +3.2% in 2018.



## What to watch

- April 5 – Chile February economic activity index
- April 5 – Germany February factory orders
- April 5 – S. Africa March SACCI business confidence
- April 5 – U.S. February international trade
- April 6 – Canada March employment report
- April 6 – France February trade balance
- April 6 – Germany February industrial production
- April 6 – U.S. March employment report
- April 9 – Mexico March inflation
- April 10 – Argentina Central Bank meeting
- April 10 – Brazil March inflation
- April 10 – Egypt March inflation
- April 10 – France February industrial production
- April 10 – U.S. March producer prices
- April 11 – Mexico February industrial production



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