Turkey Regular Economic Note

THE WORLD BANK

The World Bank crude oil price indicator averaged US$47 per barrel in January, a 6-year low.

The Ruble continued weakening in the face of falling oil prices, remained the main growth driver, yet its pace of expansion slowed to 1.5 percent, compared to 3.9 percent in 2013. Depressed investment demand was reflected in the contraction of fixed capital investment by 2.5 percent, while companies continued destocking. Growth was supported by stronger net exports—6.8 percent lower imports due to the weaker Ruble more than compensated a 2.0 percent contraction in exports. Manufacturing and financial services were the main growth contributors on the production side (expanding at 2.5 percent and 9.6 percent).

In the US, above-trend growth and job creation are expected to carry over into 2015 and lead to growth of 3.2 percent—the strongest performance since 2005 and the first time since 1999 outpacing global growth. In the Euro Area, 2014 real GDP growth remained subdued, confidence continues to be low, and deflation risks are rising. In Japan, preliminary estimates indicate that GDP growth was just 0.2 percent in 2014, far below previous expectations. Global activity over the medium term should be supported by declining oil prices, but the positive effect will be offset in 2015 by sharp adjustments in oil-exporting economies (e.g., Russia and Venezuela) and persistent headwinds among larger net importers (e.g., Euro Area snf Japan).

Manufacturing growth reached in December 4.1 percent, year-on-year, (2.1 percent for the year) and as a result, aggregate industrial production expanded by 3.9 percent after a contraction of 0.4 percent in November. However, this is likely to be a short-lived development, given the observed deterioration in business sentiments. Rosstat's January survey points to a worsening in business conditions across all major manufacturing industries with the aggregate seasonally adjusted index falling to -7, the lowest level since the 2009 crisis. The survey suggests that weak domestic demand and growing policy uncertainty have become the two most important factors affecting investors' confidence. Already in December, investment activity was negatively impacted by those poor business sentiments and increased credit costs: fixed capital investment decreased by 2.4 percent, year-on-year (2.5 percent for the year). Strong demand for durables boosted retail trade which surged by 5.3 percent, year-on-year, compared to 1.8 percent in November despite a sharp fall in real wages and incomes by 4.7.percent and 7.3 percent respectively. This reflects the consumers' flight from the weakening Ruble in December by converting savings into tangibles.

Oil and gas export proceeds dropped by US$25.1 billion (-27.3 percent compared to the same period a year ago). This terms of trade shock was partly absorbed by a reduction of imports by US$24.3 billion (-

ETBT1 0 0 1 459.6426 11.445563 4m[th)-6(e)]BT1 0 0 1 452.95 45991 Tm[ )]TJETBT1 0 0 1 156.86 431.59 Tm[(e)6(.)-1r

(percent change, y-o-y)

(percent, y-o-y)

The Ministry of Finance published the preliminary estimate for the 2014 federal budget deficit at 0.5 percent of GDP, slightly higher than the planned 0.7 percent of GDP. The overall budget deficit remained at the same level compared with last year, as did the primary surplus of 0.1 percent of GDP. This was largely the result of the Ruble depreciation, which boosted oil revenues (