Economic Outlook

EMEA Emerging Markets Q4 2021

Higher Inflation Persists Amid A Stronger Rebound

Sept. 27, 2021

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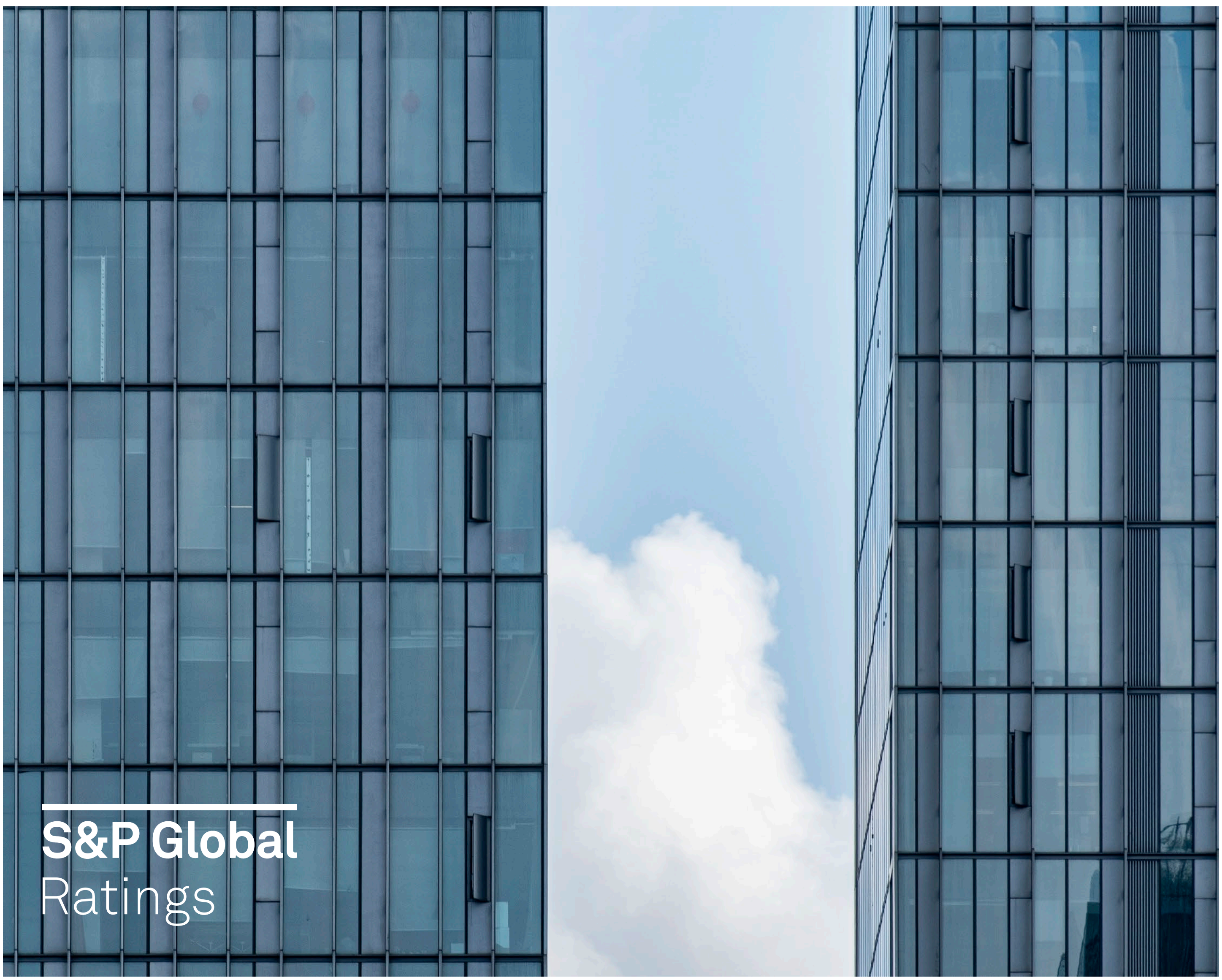


Key Takeaways

- Within emerging Europe, the Middle East, and Africa, economies have surprised again with stronger-than-expected growth numbers, primarily stemming from higher consumption and exports. Available indicators suggest that GDP growth in the region for the full year will be higher than our June predictions. We have raised our 2021 GDP growth forecasts for Poland (5.1%), Russia (4.0%), South Africa (4.6%), and Turkey (8.6%).
- Inflation in emerging Europe continues to rise, drifting further away from the central banks' targets, as higher fuel and food prices and supply chain disruptions interact with a stronger economic rebound. EMEA central banks will continue to navigate a complicated landscape, seeking a balance between supporting the recovery and anchoring inflation expectations in an environment where supply-side pressures may last longer than previously anticipated.
- A key downside risk to our EMEA outlook is insufficient progress in vaccination, which makes countries vulnerable to future waves of infection. Other downside risks originate from abroad and include faster-than-expected monetary policy normalization in the U.S. and spillovers from a potential sharp worsening in China's property market. An upside risk to our near-term growth outlook is additional stimulus, beyond what we incorporated in our projections. Stimulus can, however, prove inflationary.

Emerging market economies in EMEA posted solid growth numbers in the second quarter (Q2) of 2021, surprising again on the upside. Growth outcomes for Q3 are looking mixed across the region's economies, in part due to the differences in pandemic developments over the quarter. Overall, available indicators point to stronger GDP growth in the region for the year as a whole, compared with our expectations in June, and we have raised our 2021 GDP growth forecast for four key emerging market economies in EMEA (see tables 1 and 2). Our 2022 growth projections remain broadly unchanged.

Table 1

GDP Growth Forecasts
Annual growth rates (%)

	2019	2020	2021f	2022f	2023f	2024f
Poland	4.7	(2.7)	5.1	5.3	3.3	2.2
Russia	2.0	(3.0)	4.0	2.6	2.0	2.0
South Africa	0.1	(6.4)	4.6	2.6	1.5	1.5
Turkey	0.9	1.8	8.6	3.3	3.1	3.1

f--S&P Global Ratings forecast. Sources: Oxford Economics, S&P Global Ratings.

Table 2

Real GDP Changes From March Baseline
Percentage points (ppts)

	2021f	2022f
Poland	0.6	-0.1
Russia	0.3	0.1
South Africa	0.4	0.0
Turkey	2.5	0.0

f--S&P Global Ratings forecast. Sources: Oxford Economics, S&P Global Ratings.

Inflation continues to rise in emerging European economies, drifting further away from the central banks' targets, as supply-side pressures interact with a stronger economic rebound. Generally, emerging market economies that are recovering faster are experiencing higher inflation. Some of the transitory factors that that have pushed up headline inflation will likely fade in the coming months (such as rising commodity prices and supply-side bottlenecks), leading to a decline in headline inflation. However, inflationary pressures could linger if supply disruptions persist or demand pressures intensify.

A key downside risk to the growth forecast remains insufficient progress in COVID-19 vaccination, which makes the countries vulnerable to future pandemic waves. Another risk relates to spillovers from an abrupt tightening in financial conditions, in case the event that monetary policy normalization in advanced economies happens faster than currently anticipated. An upside risk to near-term growth outlook is additional stimulus beyond what that which we incorporated in our projections, which can, however, in some cases be inflationary.

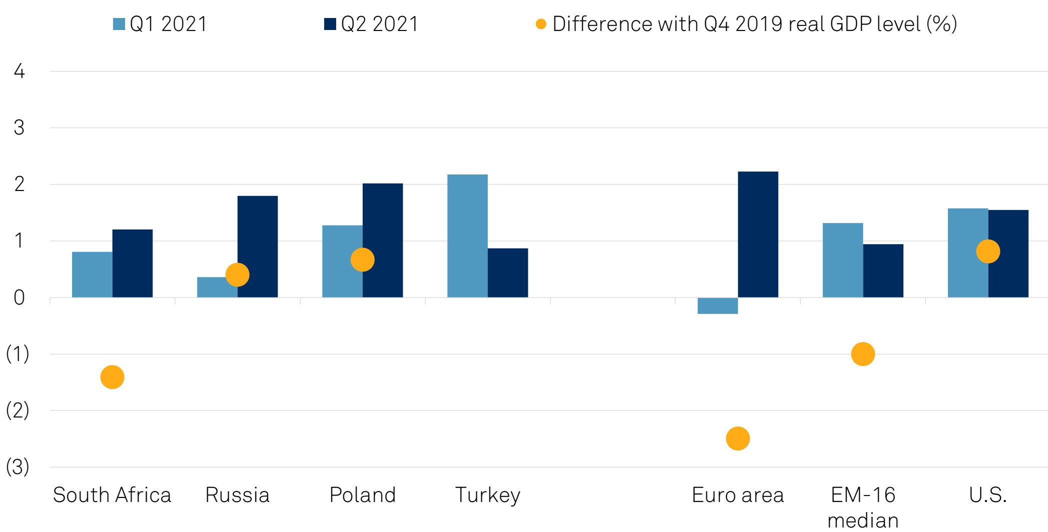
Strong Consumption And Exports Fueled Growth In Q2, But Momentum Is Diverging Across EMEA Economies

The pace of recovery in Q2 accelerated in Poland, Russia, and South Africa (see chart 1), outperforming our expectations. The easing of restrictions and increased mobility boosted consumer spending somewhat more than we anticipated. In Turkey, growth slowed in Q2, but this was against expectations of a contraction due to an April-May lockdown and tighter financial conditions. The strength of the exports was another notable surprise across the board.

Poland and Russia returned to their pre-pandemic levels of activity in Q2 (see chart 1), while Turkey's real GDP level exceeded its Q4 2019 level by close to 9%. South Africa's gap with its pre-pandemic activity level has narrowed faster than expected; however, there is still significant slack in the economy.

Chart 1

Emerging European Economies Are Ahead In The Recovery
Real GDP growth (%)



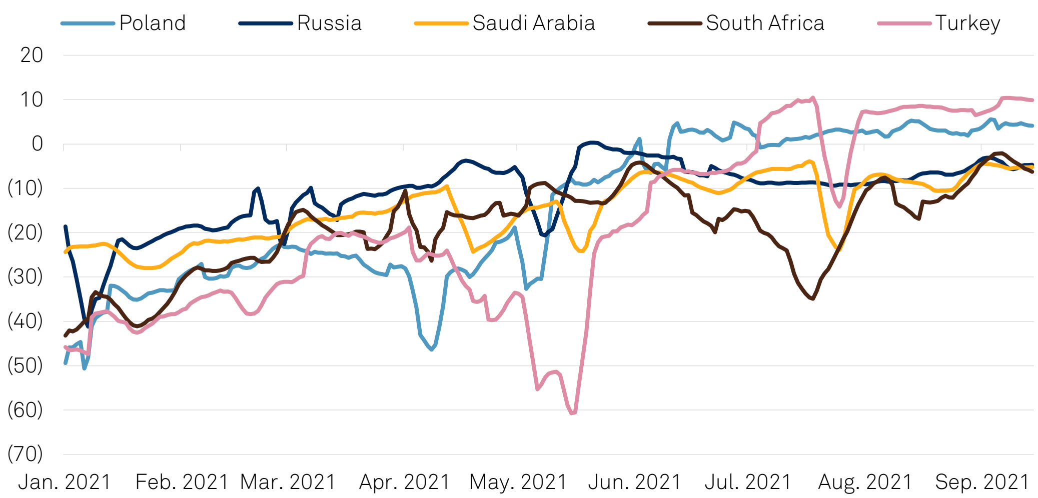
Note: Seasonally adjusted quarter-over-quarter. Difference from Q4 2019 real GDP level for Turkey is 8.8%. Sources: National Statistical Agencies, S&P Global Ratings.

Q3 growth outcomes are looking mixed, in part due to the differences in pandemic developments over the quarter. Poland continues to enjoy strong growth momentum, as mobility and consumption have remained upbeat in the context of low infection rates. Activity slowed noticeably in Russia, amid a surge in infections in July. In South Africa, a third COVID-19 wave and riots in July led to a contraction in output, but the impact appears to be temporary and the economy is rebounding. In Turkey, infections dropped in the summer months, and international tourism has been recovering somewhat faster than expected, providing a boost to the economy. However, COVID-19 cases have been rising again since August.

Notwithstanding the variation in the pandemic picture, EMEA's emerging market economies are finishing the quarter with mobility levels that are close to (Russia, Saudi Arabia, South Africa) or above (Poland, Turkey) the pre-pandemic level (see chart 2). This bodes well for consumption in Q4, but also suggests that in the coming quarters, economic gains from further re-openings will be smaller than before. The path for domestic activity will be determined by how fast confidence returns, which is linked to vaccination progress, policy settings, and external demand.

Chart 2

Mobility Is Back To Normal In EM EMEA
Mobility Index (deviation from pre-pandemic level)



Note: the index is an equally-weighted index of retail and recreation, transit, and workplaces. Seven-day moving averages shown. The baseline is the median value for the corresponding day of the week during the five-week period Jan. 3–Feb. 6, 2020. Sources: Google LLC "Google COVID-19 Community Mobility Reports", IMF, S&P Global Ratings.

Further Vaccination Progress Is Necessary For A Sustained Return To Full Capacity

While economies have adapted to living with the coronavirus, the risk of one-off lockdowns remains elevated, and the associated uncertainty is holding back consumption and investment. Bringing the pandemic under control is also necessary for the vigorous recovery of travel, which is of particular importance to economies where tourism contributes meaningfully to growth, employment, and foreign currency revenues, such as Turkey. We maintain our view that the ultimate exit from the pandemic is through widespread immunity via vaccination.

Vaccination rollout is progressing in emerging markets in EMEA, but most economies in the region are still short of the widespread immunity level of 70%-80%, with wide differences across economies.

In most Central and Eastern Europe (CEE) countries at least 40% of population have been vaccinated, except in Bulgaria and Romania (see chart 3). However, the pace of vaccinations in most CEE countries has significantly slowed down--and in Poland's case, even stalled--reflecting broad vaccine hesitancy across the region.

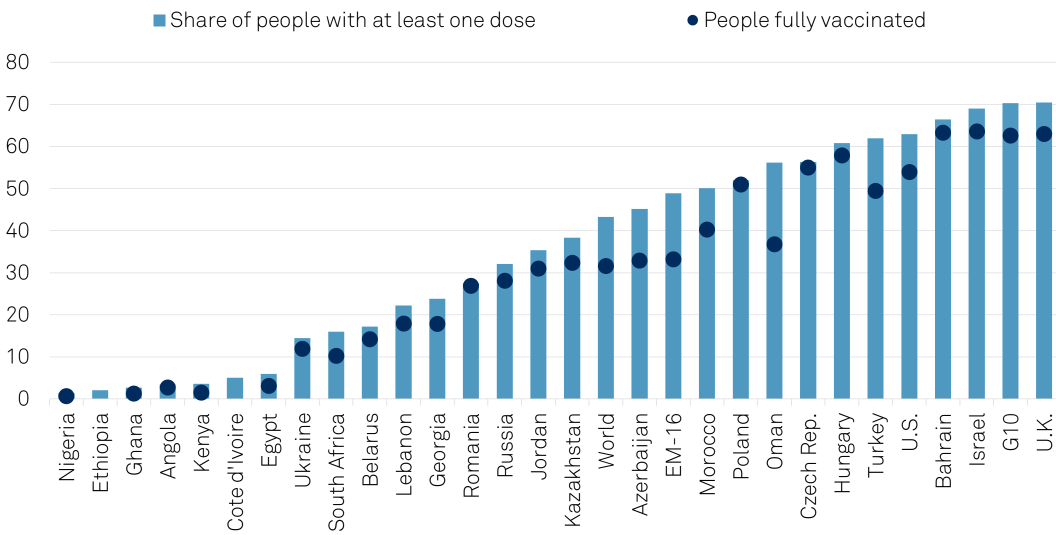
Vaccination rollout in the Middle East and North Africa region (MENA) has picked up, with some countries, such as the United Arab Emirates and Qatar, achieving vaccination rates of 70% and higher. Most North African countries, with exception of Morocco (45%), are still lagging.

The pace of vaccination has picked up in Russia, following the introduction of mandatory vaccinations for public sector employees and certain people-facing professions in several regions. However, vaccine hesitancy is still high, and the level of vaccination is relatively modest--especially given the availability of domestically produced vaccines--with about 30% of the population fully vaccinated.

South Africa is lagging key emerging markets, with 13% of people fully vaccinated. July's riots stalled vaccinations in South Africa's two most populous regions for about two weeks. However, the vaccine supply has increased significantly over recent weeks, and we expect vaccinations rates will rise over the coming months. In most other sub-Saharan African countries, vaccination ratios are even lower.

Chart 3

Most EMEA Emerging Market Economies Are Far From Widespread Immunity
Percentage of total population



Sources: OWiD, S&P Global Ratings.

Growth Received A Boost From Booming Exports, But Trade Is Set To Moderate

Exports soared in Q2, both in volume and values, and were a major contributor to GDP growth in several EMEA economies. South Africa has benefited from the rally in metals, while Poland and Turkey have benefited from the increased demand in the EU and China (via global value chains). While the OPEC+ deal constrained Russia's oil exports volumes, non-oil exports have been strong, in particular natural gas.

However, exports are cooling down, especially for some commodity producers, since global growth momentum is slowing. South Africa has already been affected, since prices for metals have decreased, especially for iron ore and platinum, the country's key export commodities. Another headwind to exports comes from supply chain disruptions, with the CEE region being the most affected.

Trade will continue to support growth, but at a slower pace, as global spending shifts toward services and commodity prices ease. The situation is somewhat different for Saudi Arabia and Russia, as the OPEC+ decision to increase oil supply will raise oil production and exports over the coming months.

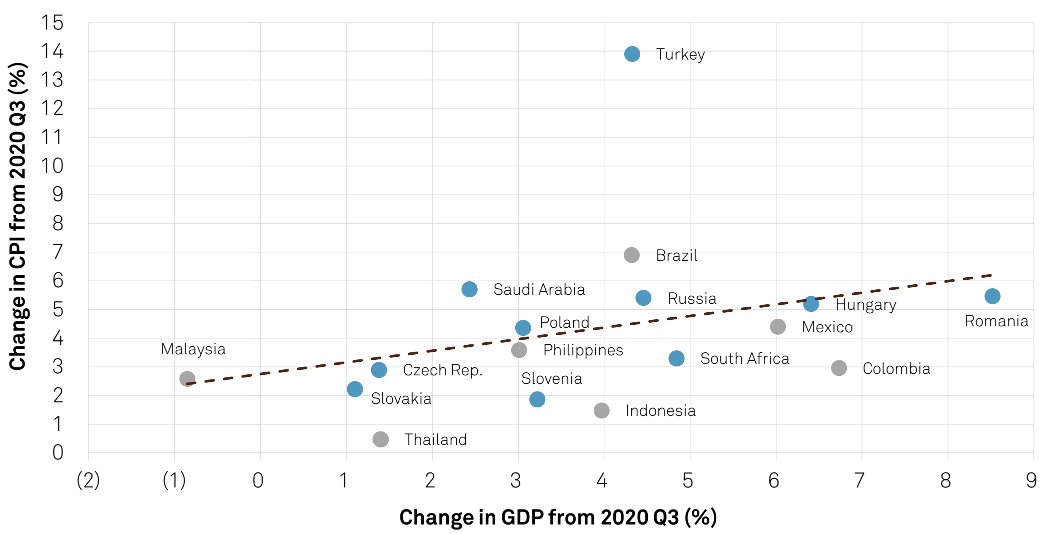
Higher And More Persistent Inflation Poses A Challenge For Central Banks In Emerging Europe

Inflationary pressures in emerging European economies are proving to be more persistent than we anticipated. Inflation in Poland, Russia, and Turkey continues to rise, overshooting the central bank targets. One reason is continuing supply-side pressures from higher food and energy prices, as well as supply bottlenecks in selected markets. But stronger demand linked to a faster economic rebound also contributes, in our view.

We observe that emerging markets with stronger economic recovery are generally seeing higher inflation. After a sharp drop in economic activity in Q2 2020, most economies saw a solid rebound in Q3. Since then, economic recovery has been advancing at different speeds. Between Q3 2020 and Q2 2021, prices have generally grown by more in economies where the rebound has been faster (Poland, Hungary, Russia, Brazil), while countries where economic recovery has been lagging have experienced muted price pressures, in particular Southeast Asian economies (see chart 4). In Turkey, much of the recovery was frontloaded in the third quarter of 2020, and the economy had already exceeded pre-pandemic levels. Over the next three quarters, the economy expanded by 4.3%, while prices grew by 14%.

Chart 4

Prices Have Risen More In The Economies With Stronger Economic Recovery



Sources: OECD, Oxford Economics, S&P Global Ratings.

Some of the factors that that have pushed headline inflation up are transitory and will likely fade in the coming months (such as rising commodity prices and supply-side bottlenecks). This should lead to a decline in headline inflation. However supply disruptions could persist for longer.

EMEA central banks will continue to navigate a complicated landscape, seeking a balance between supporting the recovery and anchoring inflation expectations, in an environment where supply-side pressures may last longer than previously anticipated. Elevated core inflation, higher inflation expectations, and in some cases a tightening labor market add pressure on central banks. Meanwhile, the recovery is fragile and remains vulnerable to further waves of coronavirus.

Central banks' policy choices are differing. Russia's central bank continued tightening in Q3 and, even though the key rate of 6.75% is now in restrictive territory, it will likely hike it again to further anchor inflation expectations. Poland’s central bank has remained on hold so far, keeping its policy rate at 0.10%, but we now foresee its first hike being earlier than we previously anticipated, at the beginning of next year. Following a hike in March, Turkey’s central bank kept the key rate on hold at 19% before delivering a surprising 100 basis points cut in September, despite headline inflation having risen continuously to reach 19.25% in August. Turkey's recently announced shift in monetary policy focus to core inflation--which eased to 16.8% in August--suggests that more rate cuts are likely this year. In South Africa, core inflation remains subdued, reflecting greater economic slack, and headline inflation is likely to stay well within the target range of 3%-6%. We expect the South African Reserve Bank to keep the policy rate on hold at 3.5% until the beginning of 2022.

Additional Fiscal Stimulus May Lift Growth, But Also Fuel Inflation

Fiscal dynamics remain positive in most of EMEA's key emerging markets as the rebound in economic activity supports tax revenues. For the region's commodity exporters, higher commodity prices have further boosted budget revenues. Rising nominal figures also reflect higher inflationary effects. Given the positive fiscal dynamics, the risk of an abrupt fiscal tightening is small. Still, the gradual phaseout of fiscal stimulus will drag on growth next year. Where monetary accommodation is being removed amid still-fragile recoveries, we see a possibility of additional fiscal stimulus in some economies. Indeed, the Russian government announced a new fiscal package of about 0.5% of GDP ahead of the September parliamentary elections, including a one-time payment to pensioners. This follows payments in August to families with children. While lifting growth, additional social spending might add to price pressures, given supply constraints in many sectors and a tight labor market.

Countries with weak fiscal positions, especially those whose fiscal weakness predated the pandemic, like South Africa, are facing a different challenge. They are striving to implement consolidation plans to put their fiscal accounts on a credible, sustainable path. However, removing support measures when the recovery is still fragile, and unemployment is high, is a challenge.

The Main Risks From Abroad Come From The U.S. Fed And China's Property Market

Two downside risks to the outlook come from abroad. One risk is the faster normalization of monetary policy by the U.S. Federal Reserve. We expect the Fed to begin tapering asset purchases in December (after announcing it in November) and policy rate lift-off in December 2022, followed by two rate hikes each in 2023 and 2024 (see Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off, published Sept 24, 2021). While not our baseline forecast, the decidedly hawkish lean to overall Fed thinking in September FOMC meeting adds to the risk that U.S. policy normalization may happen earlier than the market has currently priced in (December 2022). This could lead to capital outflows from emerging markets, financial market volatility, widening spreads, and currency depreciation, at a time when domestic price pressures are already significant. This in turn could force central banks into defensive rate hikes.

Another risk is linked to spillovers from problems in China's property sector. If recent financial troubles facing Chinese property market developer Evergrande become more widespread, this could negatively affect EMEA's emerging markets via the exports and financial channels. First, reduced investment into the property sector could suppress demand for metals. South Africa is highly exposed to this risk. Such a situation could also increase risk aversion regarding emerging market assets in general. Turkey is the most vulnerable to this risk, in our view.

Poland | Mobility And Consumption Remain Strong, With EU Funds Set To Boost Investment

Outlook: We revised our 2021 GDP forecast for Poland to 5.1%, while 2022's forecast remains roughly unchanged at 5.3%. We expect private consumption to be a key growth driver over our forecast horizon, helped by a strong labor market and loose fiscal policy. In addition, spending in the framework of Next Generation EU and the Polish Deal will boost investment over the coming years. Supply chain disruptions weigh on Poland's industrial production and exports in the short term, though to a lesser extent than for its peer countries, thanks to Poland's more-diversified export profile and a smaller share of the automotive industry.

Q2 growth surprised on the upside, and high-frequency indicators point to a similarly strong Q3. Mobility and consumption remain upbeat in the context of low infection rates, as restrictions have eased further and confidence has risen. Vaccination progress, however, is stagnating. About 50% of the Polish population are currently fully vaccinated--only 10 percentage points (ppts) more than a quarter ago--and only 1% have received a single dose, indicating that vaccination has reached a plateau. This raises the risk of lockdowns if another wave hits during the winter months. However, the government has indicated that, if necessary, restrictions will be imposed locally. Combined with the adaptation of consumers and businesses, this should limit the impact of future COVID-19 waves on domestic activity.

Consumer price inflation crossed the 5% mark again in August (Eurostat data), and the national inflation reading stood at 5.5%, 2 ppts above the upper bound of the Polish central bank's inflation target range. Given the contained pandemic-related impact on economic recovery and a prolonged period of inflation overshooting, we now anticipate that the central bank will raise rates earlier than we expected in our last forecast, at the beginning of 2022. While 2021's inflation rise is partly the result of global commodity prices and some temporary factors, notably price increases in communication and dwellings, it also has permanent components. One is the tight labor market and consequently strong upward wage pressures, another is the generous fiscal policy stance that is set to remain in place at least until elections in 2023. These factors will raise inflation over the coming years.

Risks: We continue to see delays in the national recovery plan's implementation as the main risk to our forecast. The probability of this scenario has risen following Poland's recent dispute with the EU over the country's judiciary system. However, we expect a compromise with the EU to be reached within the next few months, allowing transfers to flow. Furthermore, the Polish government would be able to prefinance investment expenditure via issuance on capital markets, should this become necessary.

Table 3

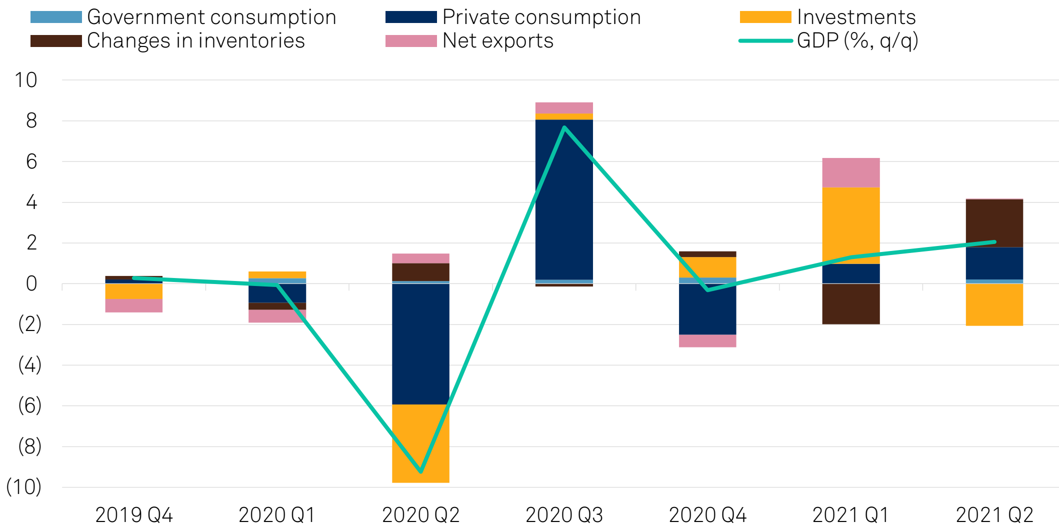
Poland Economic Forecast Summary

% of change, volume (2015 prices)	2019	2020	2021f	2022f	2023f	2024f
GDP	4.7	-2.7	5.1	5.3	3.3	2.2
Private consumption	3.9	-3.1	6.0	6.1	3.6	2.8
Fixed investment	6.6	-8.2	5.5	6.0	5.9	2.5
Exports of goods and services	5.2	-0.2	11.7	5.6	3.6	2.8
Imports of goods and services	3.2	-1.9	14.7	6.2	4.5	3.4
Inflation (annual average, %)	2.1	3.7	4.4	3.3	3.1	2.8
Unemployment rate (%)	3.3	3.2	3.6	3.4	3.3	3.2
Exchange rate vs. US$ (year average)	3.84	3.90	3.80	3.77	3.77	3.77
Exchange rate vs. US$ (end-year)	3.80	3.76	3.83	3.77	3.77	3.77
Policy rate (% end-year)	1.50	0.10	0.10	1.00	1.50	1.50

f--S&P Global Ratings forecast. Sources: Oxford Economics, S&P Global Ratings.

Chart 5

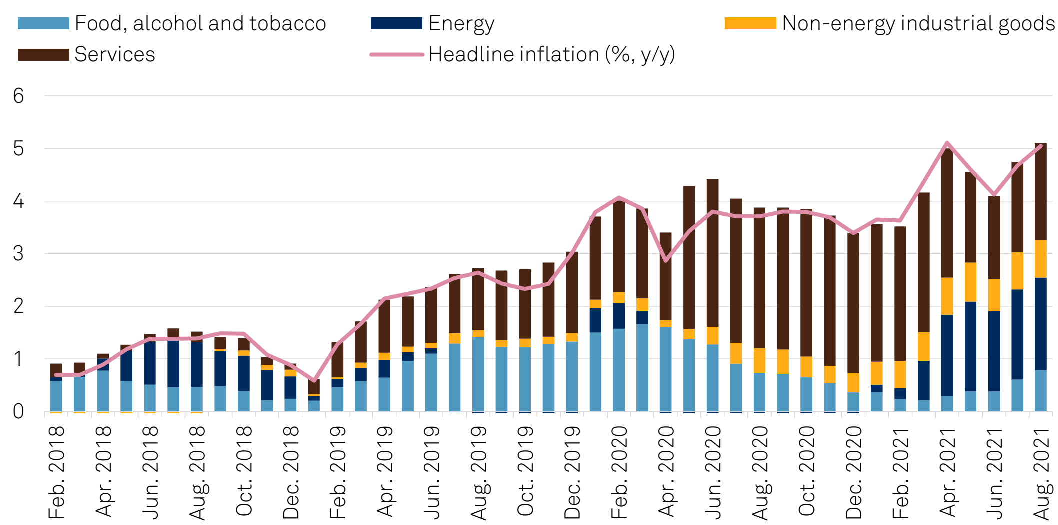
Low Infection Rates And Improved Consumer Confidence Boost Consumption
Contribution to quarterly GDP growth (ppts)



Sources: Eurostat, S&P Global Ratings.

Chart 6

Overshooting inflation, Demand Pressures And A Solid Economic Recovery Should Lead To A Rate Hike In Early 2022
Contribution to annual consumer price inflation (ppts)



Sources: Eurostat, S&P Global Ratings.

Russia | Pre-Election Fiscal Stimulus Is Lifting Growth But Adding To Inflationary Pressures

Outlook: After a rapid expansion over April-May, growth momentum in Russia has softened appreciably in subsequent months amid a third COVID-19 wave and monetary tightening. The pre-election fiscal stimulus is lifting growth but also adding to price pressures. Russia's central bank will likely maintain a tighter policy stance for longer to further anchor inflation expectations. Non-oil exports are performing well, and oil export volumes are rising gradually in line with the OPEC+ agreement. We have raised our 2021 GDP growth forecast to 4%, from 3.7% previously, mostly because of the stronger exports. We expect growth to slow to 2.6% in 2022, as domestic demand moderates amid tighter policies. Oil exports will continue to rise gradually, but non-oil export growth should soften in line with cooling global demand.

GDP growth picked up in Q2, rising to 10.5% year-on-year, according to a flash estimate by Rosstat. We estimate that quarterly growth strengthened to 1.8% in Q2, from 0.4% in Q1. The labor market has tightened, with unemployment falling to close to historical lows, and labor shortages in some sectors, in part because of the closed borders limiting inflows of foreign workers. The rise in real wages has supported consumption. Nevertheless, the third COVID-19 wave took a toll on confidence and spending, even though the government imposed only mild restrictions. Mobility dipped but is returning to pre-pandemic norms, which bodes well for consumption. Household spending should also get support from consumer credit and a fiscal stimulus. The government announced a new fiscal package of about 0.5% of GDP ahead of the parliamentary elections on Sept. 17-19, including a one-time payment to pensioners. This follows payments in August to families with children. Consumer credit softened somewhat but remains elevated. While lifting growth, these developments are adding to inflationary pressures. Household spending should moderate next year due to a slowdown in real wages growth, and tighter fiscal and monetary stances.

Headline and core inflation reached new multi-year highs in August, at 6.7% and 7.1% respectively, well above the 4% target. The central bank continued tightening, bringing the key rate above the neutral range of 5%-6%, to 6.75% in September, and will likely hike again in October. We forecast that annual inflation will start to fall from Q4 but will remain elevated in the first half of 2022. We now expect the central bank to maintain a tighter stance for longer to further anchor inflation expectations, and to start easing its monetary stance only in the second half of 2022.

Oil and non-oil exports have been performing well. OPEC+ reached an agreement to increase the group's oil production by 400,000 barrels a day each month starting from August 2021. Non-oil exports have been strong, in particular natural gas. Thanks to high commodity prices, the current account surplus for the first eight months of 2021 has widened to US$ 70 billion, close to record highs. We expect non-oil exports to moderate as global demand softens; however, oil export volumes should keep rising amid the tapering of supply restrictions as part of the OPEC+ deal.

Risks: Geopolitical uncertainty and the subsequent risk of tighter sanctions continue to be the main risks for Russia. Higher fiscal spending, from the budget or the National Welfare Fund, is an upside risk for growth. At the same time, the monetary stance might be tighter than expected in the event that inflationary pressures persist.

Table 4

Russia Economic Forecast Summary

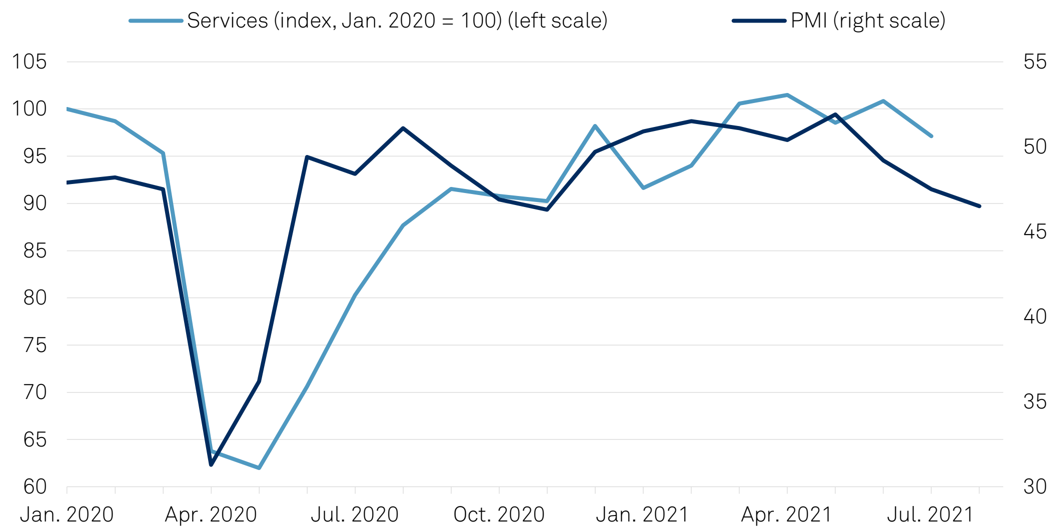
% of change, volume (2016 prices)	2019	2020	2021f	2022f	2023f	2024f
GDP	2.0	-3.0	4.0	2.6	2.0	2.0
Private consumption	3.1	-8.5	7.5	3.3	2.7	2.0
Fixed investment	1.5	-4.3	4.7	3.8	3.7	3.5
Exports of goods and services	0.7	-4.3	4.8	4.6	2.0	2.0
Imports of goods and services	3.4	-12.0	11.7	5.9	4.0	3.0

Inflation (annual average, %)	4.5	3.4	6.1	4.2	4.0	4.0
Unemployment rate (%)	4.6	5.8	4.9	4.7	4.6	4.6
Exchange rate vs. US$ (year average)	64.74	72.11	73.60	73.25	75.25	76.94
Exchange rate vs. US$ (end-year)	61.91	73.88	72.00	74.00	76.00	77.50
Policy rate (% end-year)	6.25	4.25	7.00	6.50	5.50	5.50

f--S&P Global Ratings forecast. Sources: Oxford Economics, S&P Global Ratings.

Chart 7

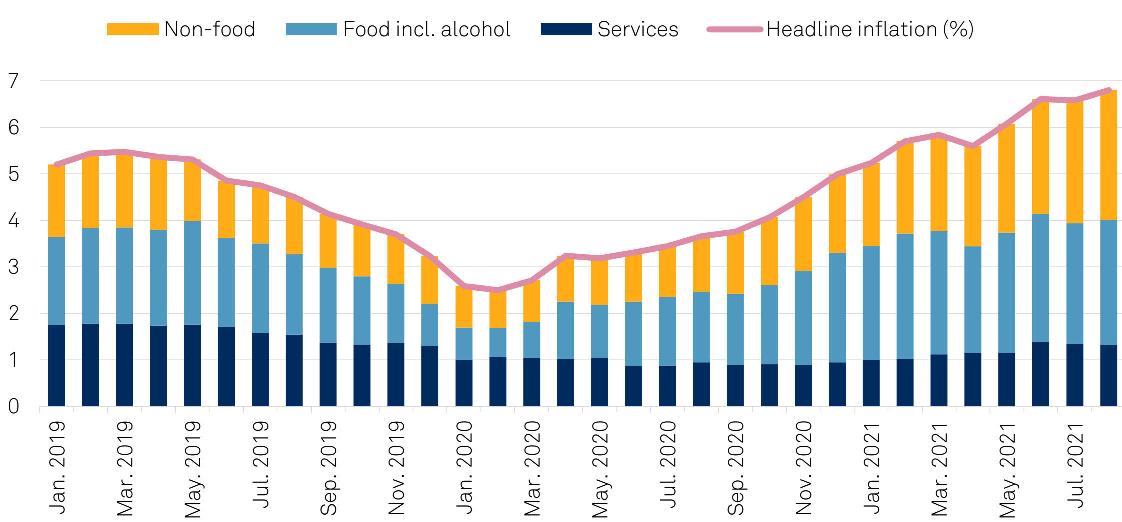
High-Frequency Indictors Point To A Noticeable Slowdown In Q3 Domestic Activity
Index, January 2020 =100



Note: --Purchasing Managers' Index. Sources: Rosstat, IHS Markit, S&P Global Ratings.

Chart 8

Inflation Has Reached New Multi-Year Highs
Contributions to annual growth rate (ppts)



Sources: Rosstat, S&P Global Ratings.

South Africa | The Economy Expanded Rapidly In Q2--But The Growth Momentum Seems To Have Peaked

Outlook: Stronger-than-expected Q2 growth of exports and consumer spending has led us to improve our 2021 GDP forecast for South Africa to 4.6% (up from 4.2% in our June forecast). Lockdowns and riots in July likely led to a contraction for Q3. The restrictions are being eased, and the effects of the riots on activity appear to be temporary. The economy is therefore rebounding, but we expect the pace of the recovery to slow in the coming quarters. The boost from improved terms-of-trade is fading away, while high unemployment and the risk of re-emerging lockdowns amid a slow vaccination progress will continue to hold back consumer and business confidence.

In Q2, exports grew 4% quarter-on-quarter (42% in year-on-year terms) following the very favorable situation in commodity markets. Metal prices had been on a rally since the beginning of 2021, causing sales for some of South Africa's most important export metals to soar (see chart 1). Coupled with still-subdued imports, this led to a record current account surplus of 5.5% of GDP. However, prices have fallen from their peak values, with a particularly pronounced decline for iron ore. We expect exports growth to moderate toward the end of the year, as demand from China softens.

Investment recovery is still lagging (see chart 2), with a difference from pre-pandemic levels of about 12%. Taking into consideration riot-induced instability in Q3 and the continued risk of lockdowns, we do not expect capital spending to pick up until 2022. Recent revisions and rebasing of national accounts raised the level of GDP but decreased the share of investments in the GDP composition, and therefore the contribution of investment to GDP growth will be smaller.

Headline inflation decelerated to 4.9% year-on-year in August, from 5.2% in May, and core inflation fell to 3.1%. We expect inflation to stay well within the target range of 3%-6%. Even though supply-side pressures from higher fuel prices will likely persist for some time, core inflation should remain contained, given subdued demand. The weak state of the labor market, with unemployment hitting a record-high of 34.4% in Q2, will be a source of disinflationary pressures. In addition, the government wage deal will keep a lid on wages growth. We expect the South African Reserve Bank to keep the policy rate on hold at 3.5% until the beginning of 2022.

Risks: The main risks for South Africa still stem from low vaccination rates and the subsequent risk of further lockdowns. Another risk is a rise in borrowing costs owing to tightening global financing conditions or country-specific fiscal risks. Spillovers from problems in China's property sector could suppress demand for metals and pose a risk for South Africa's exports.

Table 5

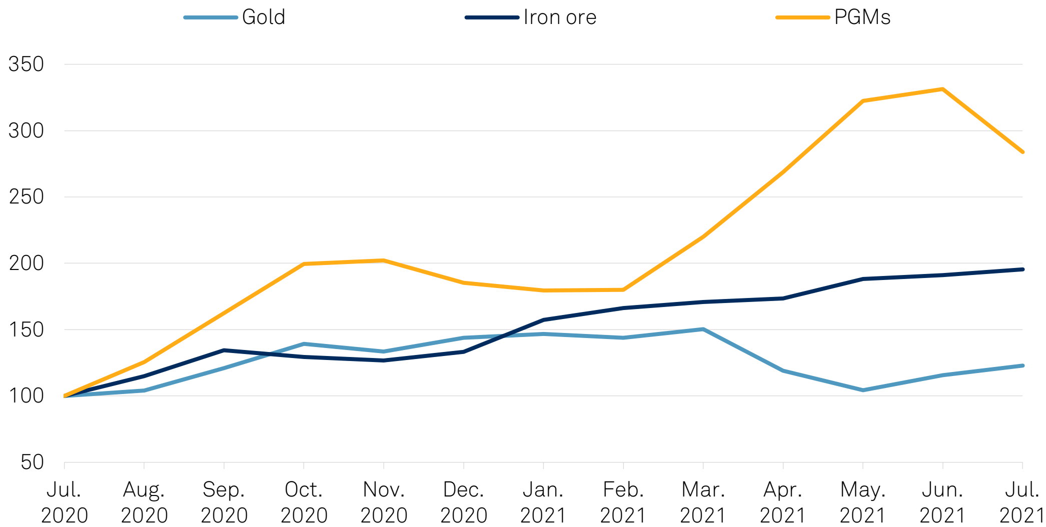
South Africa Economic Forecast Summary

% of change, volume (2015 prices)	2019	2020	2021f	2022f	2023f	2024f
GDP	0.1	(6.4)	4.6	2.6	1.5	1.5
Private consumption	1.1	(6.5)	5.5	1.4	1.0	1.0
Fixed investment	(2.4)	(14.9)	0.7	6.4	2.8	2.5
Exports of goods and services	(3.4)	(12.0)	11.5	3.4	2.5	2.4
Imports of goods and services	0.5	(17.4)	9.8	2.4	2.9	2.7
Inflation (annual average, %)	4.1	3.3	4.4	4.6	4.5	4.5
Unemployment rate (%)	28.7	29.2	33.6	31.4	30.1	29.7
Exchange rate vs. US$ (year average)	14.50	16.50	14.60	15.80	16.10	16.40
Exchange rate vs. US$ (end-year)	14.04	14.62	14.80	15.83	16.20	16.45
Policy rate (% end-year)	6.50	3.50	3.50	4.00	5.00	6.00

f--S&P Global Ratings forecast. Sources: Oxford Economics, S&P Global Ratings.

Chart 9

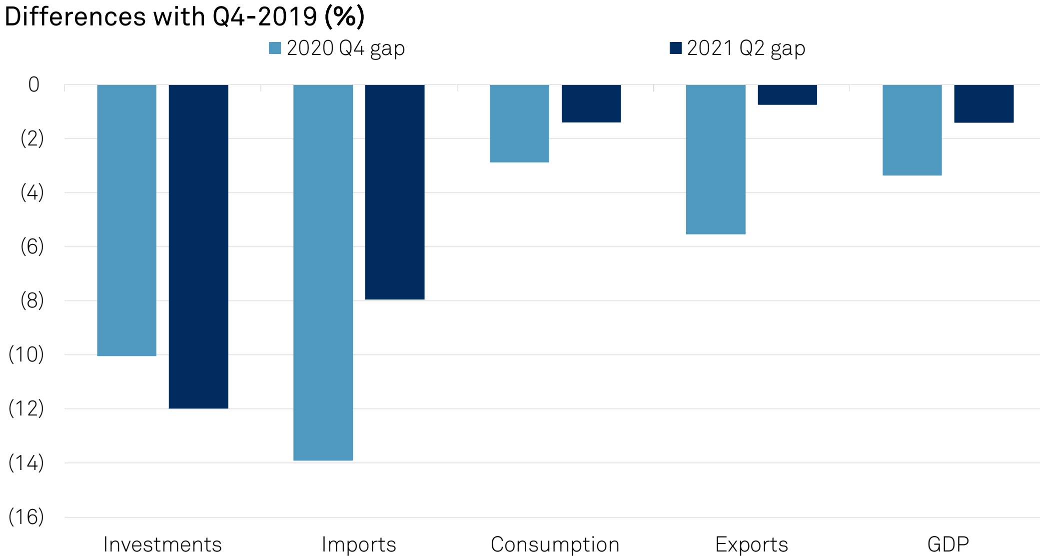
Sales Of Platinum Group Metals (PGMs) And Iron Ore Have Soared This Year
Index, July 2020 =100



Note: Baseline refers to the three-month moving average for May 2020-July 2020. Sources: Statistics South Africa, S&P Global Ratings.

Chart 10

Investments Are Still Far Below Pre-Pandemic Levels
Differences with Q4-2019 **(%)**



Sources: Statistics South Africa, S&P Global Ratings.

Turkey | Policy Focus Is Still On Growth Over Inflation

Outlook: We have revised our GDP growth forecast for Turkey to 8.6% in 2021, from 6.1% previously, reflecting stronger-than-expected data on activity and a somewhat faster recovery in international tourism over summer. Our baseline forecast remains for GDP growth to slow to 3.3% in 2022. The economy shows continuing resilience to the pandemic, and its impact on domestic activity should be even smaller in the coming quarters amid vaccination progress. However, the outlook for tourism remains highly vulnerable to any worsening in the local and/or global COVID-19 situation. Meanwhile, policy focus remains on supporting growth over taming inflation. We saw this in the Turkish central bank's surprise cut in September amid very high and rising inflation. While the external rebalancing remains on track owing to strong exports and easing of imports, frontloaded rate cuts may undermine market sentiment and lead to pressures on the lira.

The pace of growth slowed in Q2 to 0.9% from an upwardly revised 2.2% in Q1; indeed, we had expected a contraction given the April-May lockdown and tighter financial conditions. While the lockdown did weigh on mobility and consumption, both bounced back in June after restrictions were eased. For the remainder of the year, our baseline is for weaker growth amid rising infections, slower credit, and policy uncertainty.

Growth is receiving a boost from foreign trade and a somewhat faster recovery in tourism over summer. Exports are booming thanks to robust demand from the eurozone, Turkey's major trade partner, and a more competitive currency. In July, foreign visitor numbers were around 30% below July 2019. While this is still a sizable gap, the rebound is faster than what had been expected ahead of the summer season. The recovery in travel from Russia has been particularly strong. The recent removal of Turkey from the U.K.'s red list may boost arrivals in September. These developments are helping external rebalancing. Net exports contributed 1.2 ppts to growth in Q2, also helped by a decline in imports. The current account deficit continued to narrow, to 3% of GDP in Q2 2021 from 4% in Q1.

Turkey's central bank kept the key rate on hold at 19% before making a surprise 100 basis point cut in September, despite headline inflation rising to 19.25% in August. The recently announced shift in monetary policy focus to core inflation--which eased to 16.8% in August--suggests that more rate cuts are likely this year. The Turkish lira has depreciated following the cut, and this currency weakness could add to inflationary pressures. It remains to be seen to what extent the central bank will frontload the easing cycle. Our baseline for the moment is for an additional 100 bps cut this year, but the risk of an accelerated cutting cycle has risen.

Risks: Further waves of infection remain a risk to Turkey's growth outlook, particularly via the impact on tourism. An accelerated easing cycle could lift near-term growth but, if perceived as premature or excessive, could lead to financial market volatility and pressures on the lira, as well as further dollarization of deposits. These risks are becoming even more acute as advanced economies start normalizing monetary policy.

Table 6

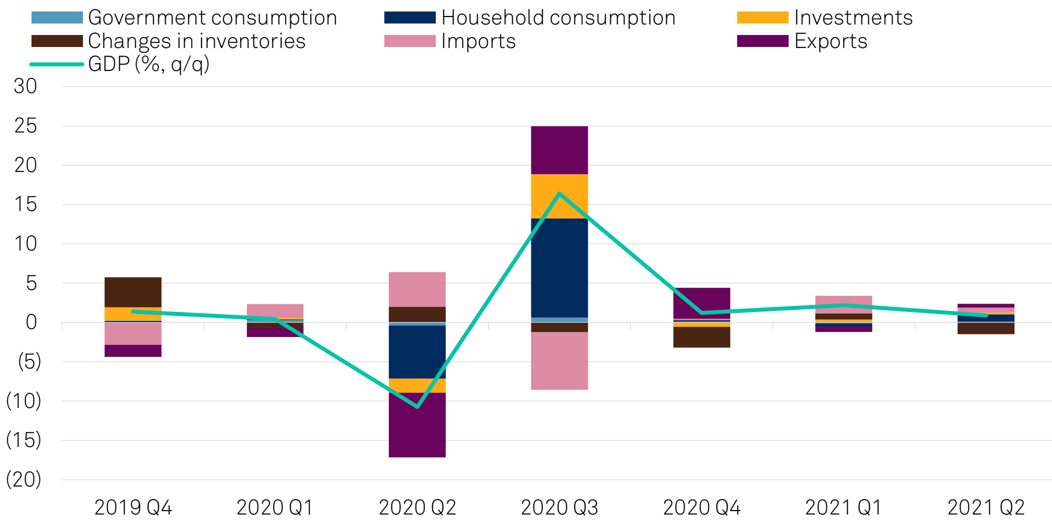
Turkey Economic Forecast Summary

% of change, volume (2009 prices)	2019	2020	2021f	2022f	2023f	2024f
GDP	0.9	1.8	8.6	3.3	3.1	3.1
Private consumption	1.5	3.2	7.9	3.2	3.0	3.0
Fixed investment	(12.4)	7.2	7.3	3.4	4.0	4.0
Exports of goods and services	4.6	(14.8)	18.1	7.0	4.7	4.3
Imports of goods and services	(5.4)	7.6	5.1	5.8	4.6	4.6
Inflation (annual average, %)	15.2	12.3	17.3	12.0	9.6	9.2
Unemployment rate (%)	13.8	13.2	12.6	12.2	11.2	11.0
Exchange rate vs. US$ (year average)	5.68	7.01	8.24	8.83	9.01	9.40
Exchange rate vs. US$ (end-year)	5.95	7.44	8.70	8.84	9.11	9.50
Policy rate (% end-year)	12.00	17.00	17.00	13.00	9.75	9.75

f--S&P Global Ratings forecast. Sources: Oxford Economics, S&P Global Ratings.

Chart 11

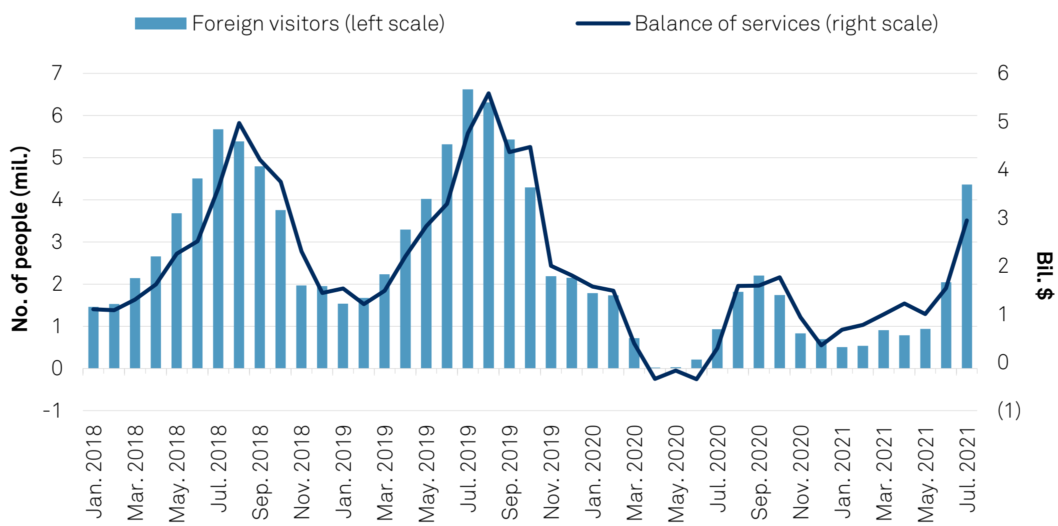
The Economy Has Shown Resilience To Pandemic And Higher Interest Rates
Contribution to quarterly GDP growth (ppts)



Sources: Turkish Statistical Institute, S&P Global Ratings.

Chart 12

Better-Than-Expected Summer Tourism Season Boosted Turkey's Economy And Foreign Currency Revenues



Sources: TCMB, CEIC, S&P Global Ratings.

Related Research

- Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off, Sept. 24, 2021
- Economic Outlook Europe Q4 2021:A Faster-Than-Expected Liftoff, Sept. 23, 2021
- Economic Outlook Asia-Pacific Q4 2021: Growth Slows On COVID-19 And Rising China Uncertainty, Sept. 27, 2021

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