An Overview of the World and Turkish Economies in 2018 and 2019 Outlook

The Turkish private pension and life insurance sectors represent a significant potential given the existing actualizations. Earlier Medium Term Programs, the New Economic Program announced in 2018 and Presidential Program for 2019 accord strategic importance to these sectors.

The World Economy

While global economy mostly preserved the growth tendency it has captured, the introduction of protectionist trade measure and their negative impact on global risk perception were among the highlights of 2018. The trade war launched by the US and especially directed to China with an increased force was reciprocated by China, and mutual sanctions took on a dimension with the potential to adversely affect the global trade volume and economic activity. On another front, while geopolitical risks originating in the Middle East remain in existence, the reintroduction of the US sanctions against Iran led to further increase of these risks.

The decisions adopted by the world's major central banks that steer the course of global economy and financial markets were in line with the projections. Continuing with its balance sheet downsizing, the US Federal Reserve (the Fed) hikes rates four times, and signaled a more moderate interest rate to be pursued in 2019. Having passed a decision to gradually reduce the size of its asset buying program in 2018, the European Central Bank (ECB) terminated asset buying at the end of the year and hinted at the second half of 2019 for rate hikes.

While we are almost three months away from the completion of the UK's exit from the EU, statements by the EU and UK government hint at the ongoing possibility of an exit "without deal". The EU Commission also disclosed the measures it has taken in the event of the UK's exiting the EU without a withdrawal agreement.

In 2018, emerging market and developing economies experience sharp volatilities in connection with the tightened global liquidity conditions and the deterioration political factors caused in risk perception. According to the Institute of International Finance (IIF) data, portfolio investments directed to emerging market and developing economies decreased to USD 195 billion in the first 11 months of 2018 year-over-year from USD 352 billion in 2017. Despite the decline, the markets strongly believed that risk perception toward emerging market and developing economies will not deteriorate in 2019.

After downgrading its global economic growth projections for 2018 and 2019 from 3.9% to 3.7% in its report of October 2018, the International Monetary Fund (IMF) revised its global economic growth projection for 2019 once again and decreased it to 3.5% In the World Economic Outlook released in January 2019. The justification for this downward revision was stated as increased risks in German and Italian economies, and the predicted faster-than-anticipated contraction in the Turkish economy. The report specified a global growth projection of 3.6% for 2020. Keeping the growth projections for the US economy unchanged, the report decreased the 2019 growth forecast from 1.9% to 1.6% for Eurozone and from 4.7% to 4.5% for developing countries.

Real Growth (%)	2017	2018 (E)	2019 (P)
Global	3.8	*3.7*	*3.5*
Advanced Economies	2.4	*2.3*	*2.0*
USA	2.2	*2.9*	*2.5*
Eurozone	2.4	*1.8*	*1.6*
Japan	1.9	*0.9*	*1.1*
Emerging Market and Developing Economies	4.7	*4.6*	*4.5*
Change in World Trade Volume (%)	5.3	*4.0*	*4.0*
Inflation (%)			
Advanced Economies	1.7	*2.0*	*1.7*
Emerging Market and Developing Economies	4.3	*4.9*	*5.1*

Source: IMF World Economic Outlook, January 2019

The Turkish Economy

Following the 7.2% and 5.3% growth rates attained in the first and second quarters of 2018 respectively, the growth in the third quarter was 1.6% as the loss of momentum in economic activity became pronounced. This growth rate that was below the market anticipations resulted in an average annual growth of 4.5% for the first nine months of the year.

While high volatility in financial markets along with tightening steps taken in relation to economy policies for fighting against inflation constrained economic activity, the high base effect caused the deceleration in growth to be evident.

As domestic demand conditions put pressure on economic activity in the third quarter of the year, external demand driven by the course of exchange rates was observed to give a significant support to growth, and it is estimated that net exports in the last quarter of the year played a significant part in growth.

The rate of unemployment increased by 2 points on an annual basis and reached 12.3% in November, its highest since 2009.

The implications of decelerated economic activity were manifested also in budget data, and budget revenues increased by 20.2% in return for 22.4% rise in expenditures at the end of 2018. While the budget deficit increased by 52% to TL 72.6 billion in the same period, primary surplus slumped by 84.9% to TL 1.3 billion.

While exports inched up by 0.2% on an annual basis in December, imports declined by 28.3% and foreign trade deficit shrank by 71.1% year-over-year. The ratio of exports to imports, which was 60% in December 2017, reached 83.8% in December 2018.

According to 12-month cumulative data, the downtrend in foreign trade deficit is ongoing. In December, exports were registered as USD 168 million, and imports as USD 223 billion, whereas 12-month external trade deficit was USD 55 billion.

Current accounts, which had been producing a surplus on a monthly basis since August 2018, generated a deficit of USD 1.4 billion in December, which was a result of the loss of momentum in the improvement tendency of foreign trade balance and the relative decline in travel revenues due to seasonality effect as compared with the previous months.

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Annual CPI declined to 20.3% in December, below the year-end projection of 20.8% in the New Economic Program and below 23.5% CBRT's estimate in its latest Inflation Report.

Based on 12-month cumulative data, current deficit, at USD 27.6 billion, was down to its lowest since 2009. Current account balance (CAB) excluding net energy trade produced a surplus of USD 10.9 billion, whereas CAB excluding net energy and gold trade gave a USD 19.7 billion surplus.

Having adopted a downtrend after the apex it has reached in October, annual CPI declined to 20.3% in December, below the year-end projection of 20.8% in the New Economic Program and below 23.5% CBRT's estimate in its latest Inflation Report. Annual rise in domestic PPI was also decreased to 33.64% in December.

In its meeting held on December 13th, the CBRT kept the one-week repo bid rate, which is the policy rate, stable at 24%. In the memo published after the meeting, the CBRT noted that the stabilization process in the Turkish economy had gotten marked and stated that domestic demand slowed down due to tightened monetary policy, whereas external demand affected growth positively. Stating that the tight monetary stance would be preserved, the CBRT re-emphasized the possibility of additional monetary tightening in case of necessity.

The Turkish Private Pension and Life Insurance Sectors

The Turkish private pension and life insurance sectors represent a significant potential given the existing actualizations. Earlier Medium Term Programs, the New Economic Program announced in 2018 and Presidential Program for 2019 accord strategic importance to these sectors.

The Private Pension System, which was established to grow domestic and retirement-oriented long-term savings, carries on with its development with the contribution of the Auto Enrolment System that began to be implemented in 2017, under which gradual transitions of employees are in progress. At year-end 2018, over 12 million employees under the age of 45 employed in workplaces, public agencies and public economic enterprises with 10 and more employees were included in auto enrolment. The Auto Enrolment System reached nearly 5 million employees and TL 4.6 billion in total funds as at year-end 2018. The regulatory framework for restructuring the practice in a more sustainable format began to be published from December 2018. The relevant regulations are anticipated to continue during 2019 and to be completed by the end of the year.

In the Voluntary PPS, total funds reached TL 87.9 billion while the number of participants came close to 6.9 million as at year-end 2018.

The Private Pension System will keep expanding with the inclusion of another 2 million employees working at companies with 5-9 employees in 2019. In this context, implementations that will enhance customer experience and operational efficiency to be achieved through digitalization are considered as possibly telling factors in the successes of companies.

In the Private Pension System based on voluntary participation (Voluntary PPS), on the other hand, total funds reached TL 87.9 billion while the number of participants came close to 6.9 million as at year-end 2018. During 2018, the System attained 13% increase in total funds, while the number of participants did not increase. These results reveal that although the enforcement of auto enrolment positively affected total number of participants, it also led to deceleration in Voluntary PPS participation.

An important topic with respect to the flourishing of private pension in Turkey is the fact that employee termination benefit funds are being managed by private pension companies. The employee termination benefits reform addressed also in the New Economic Program is expected to play an important role for the national economy.

In 2018, the growth rate of especially credit-linked life insurance declined as compared with the previous years. The overall sector's cumulative premium production on life insurance picked up by 1% year-over-year and exceeded TL 6.8 billion in 2018. Term life insurance, on the other hand, made up 87% of total premium production. This ratio was 91% in the same period of 2017.

In short- and medium-term ahead of us, digital transformation is anticipated to take the foreground. The high level of digitalization capability of the financial services sector in our country is also considered as a major advantage for pension and insurance companies. As such, companies are anticipated to add momentum to their digitalization to decrease their customer retention and service costs, to increase operational efficiency and to enhance customer experience.