2. International Economic Developments

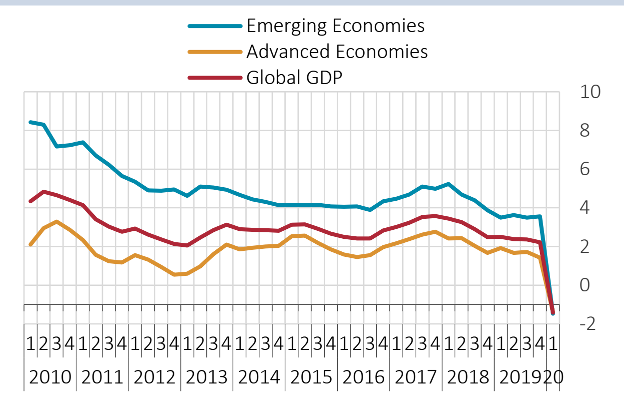
Measures to prevent the coronavirus pandemic, mounting uncertainty and tight financial conditions caused advanced and emerging economies and global trade volume to shrink in the first quarter. While global trade sank deeper into a contraction in the second quarter, PMI data point to a partial recovery in the global economy as of late May and early June, when normalization began. The main downside risks to global economic activity for the second half of 2020 are a possible second wave of COVID-19 cases and geopolitical tensions originating from the Middle East and North Africa. With the partial recovery in global economic activity, commodity prices, oil in particular, went slightly up from the previous reporting period. Rising food prices notwithstanding, falling commodity and crude oil prices remained the key determinant of global headline inflation, while core inflation is likely to see further demand-side downside pressures.

Monetary policy rates are close to zero across advanced economies while emerging economies continue with policy rate cuts. After falling amid expansionary monetary policies, long-term bond yields have flattened out. Exchange rates have been less volatile following an increase in risk appetite. The coronavirus pandemic triggered significant amount of portfolio outflows in the first quarter, which continued into the second quarter at a more accelerated pace largely from stock markets and reached historically high levels. Although portfolio flows are expected to recover in the second half thanks to the normalizing global risk appetite and accommodative financial conditions, it will take time for them to rebound to past levels.

2.1 Global Growth

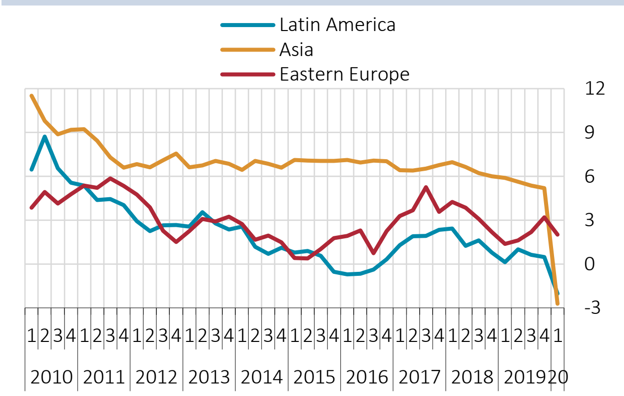
The global economy contracted in both advanced and emerging economies in the first quarter due to the supply and demand shock caused by the novel coronavirus that spread rapidly across the world (Chart 2.1.1). Strikingly, the euro area, from advanced economies, and China, from emerging economies, have been suffering a severe contraction. Across regions of emerging economies, Eastern Europe had a positive growth outlook in the first quarter while Asia and Latin America faced an economic downturn (Chart 2.1.2). According to the World Trade Organization (WTO), international trade in goods was down 3% year-on-year in real terms in the first quarter.

Chart 2.1.1: Global Growth Rates* (YoY Change)



Sources: Bloomberg, CBRT.
* Weighted by each country's share in global GDP.

Chart 2.1.2: Regional Growth Rates for Emerging Economies* (YoY Change)

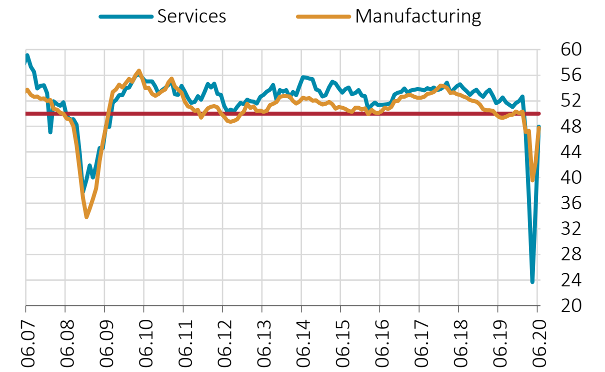


Sources: Bloomberg, CBRT.
* Aggregated by each country's share in regional GDP.

Global PMI data for the second quarter point to a worse growth performance than in the first quarter (Chart 2.1.3). The pandemic-led deterioration in global manufacturing and services PMI indicators accelerated in April, bringing global services PMI data to an all-time low. Although global PMI data recovered somewhat as of May due to partial normalization, indicators suggest that services and industrial sectors remained sluggish.[1] The WTO estimates global trade volume to contract by 18.5% year-on-year in the second quarter. The world economy is expected to shrink significantly in the second quarter because of the coronavirus (Table 2.1.1).

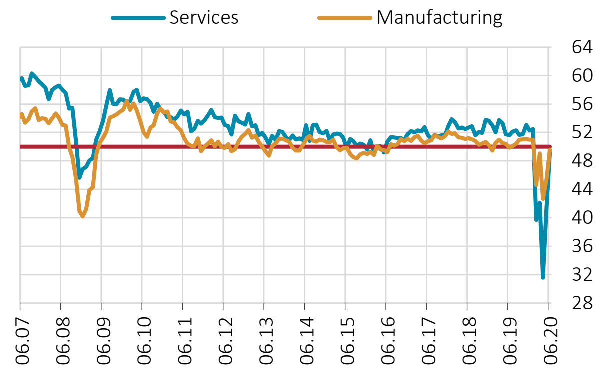
However, with the easing of social distancing measures and gradual normalization across many countries since late May and early June, PMI data recovered rapidly and reached the critical 50-mark as of June (Charts 2.1.3 and 2.1.4). PMI data were particularly upbeat for the euro area and the US in July. Likewise, other economic indicators such as unemployment rates and producer and consumer confidence indices recovered significantly in June.

Chart 2.1.3: Global PMI (Seasonally Adjusted, Level)



Source: IHS Markit.

Chart 2.1.4: Emerging Markets PMI (Seasonally Adjusted, Level)



Source: IHS Markit.

These developments feed into the expectation that the global economic outlook will be slightly more benign as of June, paving the way for a recovery starting in the third quarter. Nevertheless, the ongoing spread of the coronavirus across the rest of the world, especially in the southern hemisphere, the absence of a definitive vaccine and treatment for COVID-19, and a potential second wave of infections cast significant uncertainty over the growth outlook. In addition, the escalation in geopolitical risks associated with the Middle East and North Africa in June and the social unrest that broke out in the US in the same month appear to be other key factors adding to uncertainty that may adversely affect global growth in the second half of the year.

[1] Box 2.1 deals with how coronavirus measures taken by countries and health outcomes affected economic activity indicators.

Table 2.1.1: Growth Forecasts for 2020 and 2021 (Annual Average % Change)

	2020		2021	
	Former	Revised	Former	Revised
IMF*				
Global	-3.0	-4.9	5.8	5.4
Advanced Economies	-6.1	-8.0	4.5	4.8
USA	-5.9	-8.0	4.7	4.5
Euro Area	-7.5	-10.2	4.7	6.0
Emerging Economies	-1.0	-3.0	6.6	5.9
World Bank**				
Global	2.5	-5.2	2.6	4.2
Advanced Economies	1.4	-7.0	1.5	3.9
Euro Area	1.0	-9.1	1.3	4.5
Emerging Economies	4.1	-2.5	4.3	4.6
Consensus Forecasts***				
Global	-2.1	-4.7	4.4	5.0
USA	-4.0	-5.3	3.9	4
Euro Area	-5.7	-8.1	5.4	5.9
Japan	-3.3	-5.1	2.1	2.5
Asia Pacific	1.4	-0.1	6.7	6.9
Latin America	-4.2	-8.1	3	4
Eastern Europe	-3.4	-5.0	3.9	4.2

Sources: Consensus Forecasts, IMF, WB.

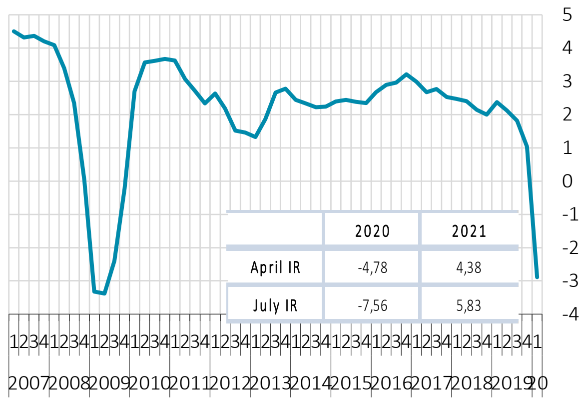
* Former forecasts are from the April issue, and revised forecasts are from the June issue of the IMF World Economic Outlook report.

** Former forecasts are from the January issue, and revised forecasts are from the June issue of the World Bank's Global Economic Prospects report.

*** Former forecasts are from April, and revised forecasts are from July publications.

Accordingly, both international economic institutions and Consensus Economics, as seen in their July forecasts, revised growth forecasts for 2020 significantly downward from the previous reporting period (Table 2.1.1). In particular, 2020 growth forecasts were slashed for the euro area, one of Turkey's top trading partners. Thus, the annual growth forecast for the export-weighted global production index for 2020 updated with July's Consensus Forecasts was down 2.8 percentage points from the April reporting period to minus 7.6% (Chart 2.1.5).

Chart 2.1.5: Export-Weighted Global Production Index
(Annual Average % Change)



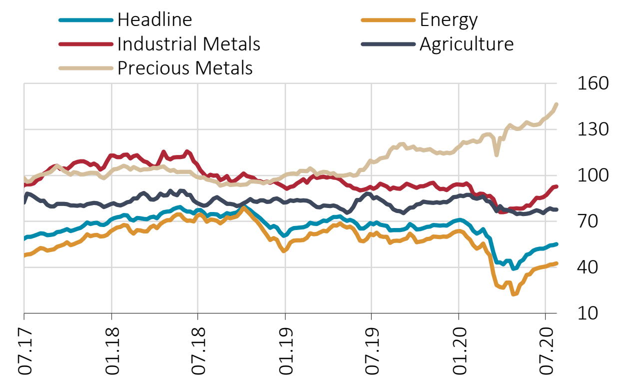
Sources: Bloomberg, CBRT.

2.2 Commodity Prices and Global Inflation

As the coronavirus began to spread across the world in late February, commodity prices excluding precious metals collapsed. As of May, global lockdown measures have been gradually eased. Thus, the demand for commodities recovered, spurring an uptick in prices of non-agricultural commodities. Through the second quarter, energy prices dropped by 33% quarter-on-quarter, while precious metal prices increased by 8% (Chart 2.2.1).

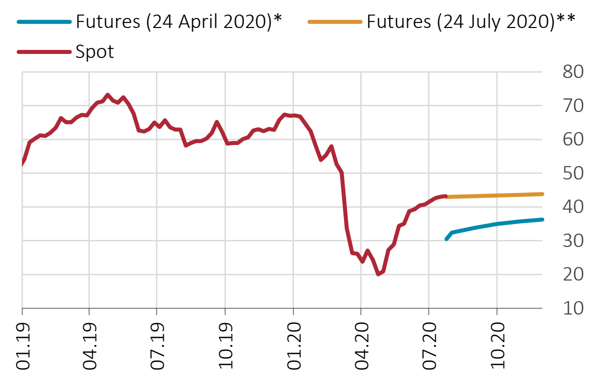
After many countries slowly lifted coronavirus lockdown measures, the moderate recovery in economic activity passed through to the demand for crude oil. On the crude oil supply side, after their production cut decision on 12 April 2020, OPEC+ countries agreed on 15 July 2020 to taper cuts from 9.6 million barrels to 7.7 million barrels per day as of August 1. On the other hand, non-OPEC oil producers, such as the US and Canada, moved to curb production due to low crude oil prices.

Chart 2.2.1: S&P Goldman Sachs Commodity Index (January 2014=100)



Source: Bloomberg.

Chart 2.2.2: Crude Oil Prices (Brent, USD/bbl)



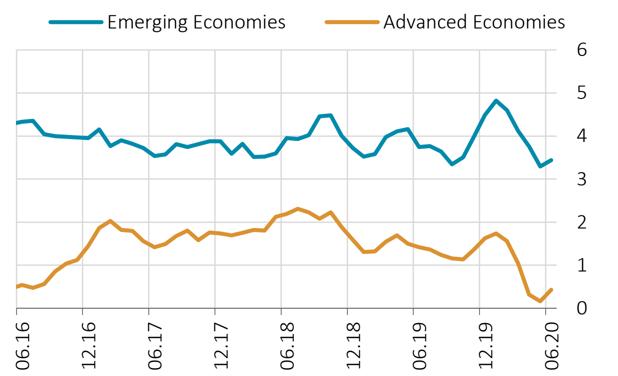
Source: Bloomberg.

*14-day average of prices on futures contracts up to 24 April 2020.

**14-day average of prices on futures contracts up to 24 July 2020.

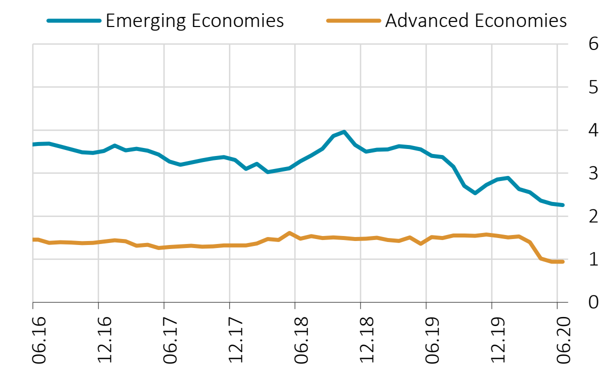
In the upcoming period, crude oil prices may rise amid a more stable global economic recovery and geopolitical risks or face downside risks from a potential second wave of coronavirus cases. Brent crude oil futures imply that prices may remain in the post-OPEC+ meeting range of USD 41 to 44 a barrel until the end of the year (Chart 2.2.2).

Chart 2.2.3: CPI Inflation in Advanced and Emerging Economies (YoY, %)



Sources: Bloomberg, CBRT.

Chart 2.2.4: Core CPI Inflation in Advanced and Emerging Economies (YoY, %)



Sources: Bloomberg, Datastream, CBRT.

Despite higher food prices during the global pandemic, headline inflation was notably lower in advanced and emerging economies than in the previous quarter due to a sluggish global growth outlook and sinking crude oil prices (Chart 2.2.3). In the same period, core inflation fell across both country groups (Chart 2.2.4). Headline inflation expectations for 2020 have been revised downward for many emerging economies from the previous reporting period (Table 2.2.1).

Table 2.2.1: Inflation Forecasts for 2020 and 2021 (Average Annual % Change)

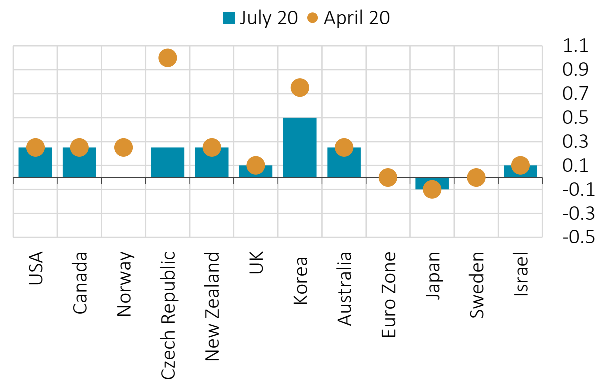
	April		July	
	2020	2021	2020	2021
Advanced Economies				
USA	0.8	1.8	0.8	1.7
Euro Area	0.4	1.3	0.4	1.0
Germany	0.7	1.4	0.6	1.5
France	0.4	1.3	0.5	1.1
Italy	-0.2	0.6	-0.1	0.5
Spain	-0.4	1.3	-0.2	0.7
Greece*	-0.4	0.6	-0.5	0.5
UK	1.0	1.6	0.8	1.3
Japan	-0.1	0.2	-0.2	0.1
Emerging Economies				
Asia Pacific	2.8	2.2	2.3	2.1
China	3.3	2.1	2.7	1.9
India**	4.0	4.3	3.7	4.2
Latin America (excl. Venezuela)	8.2	7.8	7.5	8.3
Brazil*	2.7	3.5	1.8	3.2
Eastern Europe	5.4	4.7	5.1	4.7
Russia*	4.8	3.7	3.8	3.6

Source: Consensus Forecasts.
* Annual percentage change.
** Based on fiscal year.

2.3 Global Monetary Policy

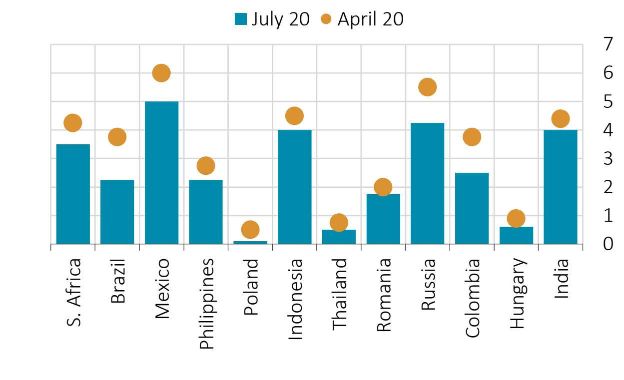
Expansionary policies aimed at mitigating the impact of the pandemic on global financial markets and economic activity brought policy rates rapidly close to the zero lower bound and curbed rate cuts in advanced economies (Chart 2.3.1). Emerging economies, on the other hand, continued with rate cuts (Chart 2.3.2).

Chart 2.3.1: Policy Rates of Advanced Economies (%)



Source: Bloomberg.

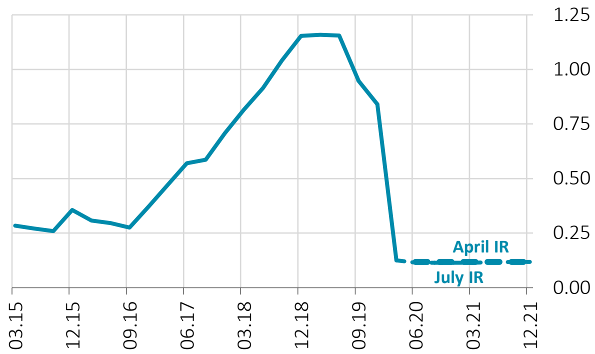
Chart 2.3.2: Policy Rates of Emerging Economies (%)



Source: Bloomberg.

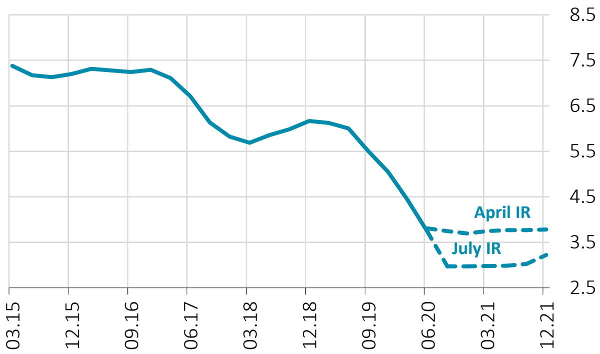
Despite its resemblance to the post 2008 global financial crisis easing programs, the current easing of monetary policies exceeded those of the crisis period in terms of pace and variety of measures. The average policy rate in advanced economies fell below that of the third quarter of 2015 when it reached its bottom after the crisis (Chart 2.3.3). Interest rates are also at historic lows in emerging economies (Chart 2.3.4).

Chart 2.3.3: Advanced Economies Average Policy Rate and Expectations (%)



Sources: Bloomberg, CBRT calculations.

Chart 2.3.4: Emerging Economies Average Policy Rate and Expectations (%)

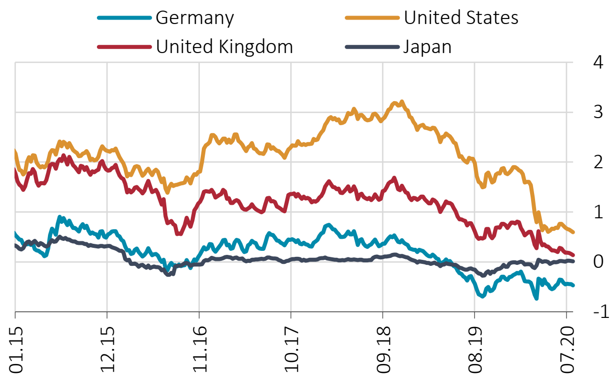


Sources: Bloomberg, CBRT calculations.

2.4 Global Risk Indicators and Portfolio Flows

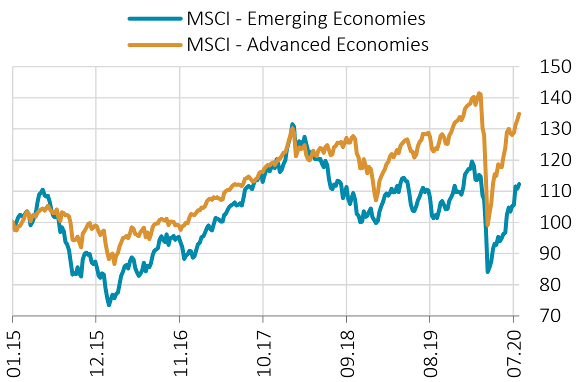
After having declined rapidly amid expansionary monetary policies taken by major central banks to counter the effects of the pandemic, long-term bond yields have recently been flat due to a decline in new expansionary measures (Chart 2.4.1). Low inflation and high uncertainty foster expectations that monetary policies will remain loose for some time and thus bond yields will remain subdued.

Chart 2.4.1: 10-Year Bond Yields (%)



Source: Bloomberg.

Chart 2.4.2: MSCI Indices (January 2015=100)

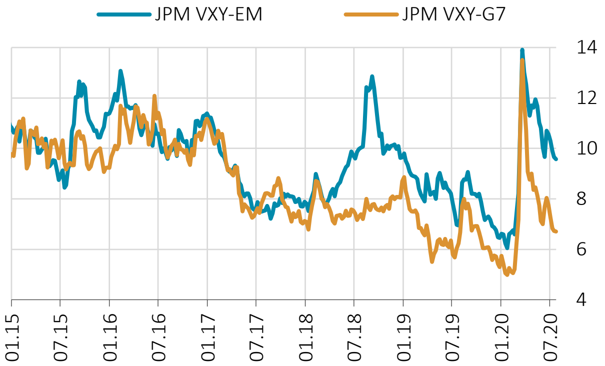


Source: Bloomberg.

The recovery that started in advanced and emerging stock markets in March continues on the back of monetary and fiscal policy measures and steps toward economic normalization (Chart 2.4.2). Likewise, with increased risk appetite, exchange rates have been less volatile across emerging and, especially, advanced economies (Chart 2.4.3).

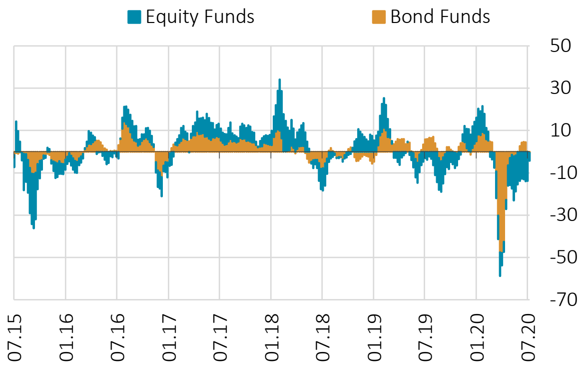
The massive exodus of capital from emerging economies after the pandemic emerged in the first quarter continued into the second quarter at an even faster clip. As of the first week of July, portfolio outflows from emerging markets within the year amounted to USD 109.2 billion. Outflows from emerging stock markets accounted for almost all of total outflows in the second quarter (Chart 2.4.4). This period was marked by one of the largest portfolio outflows from emerging economies ever.

Chart 2.4.3: JP Morgan Exchange Rate Volatility Indices (Weekly)



Source: Bloomberg.

Chart 2.4.4: Weekly Fund Flows to Emerging Economies (USD Billion, 4-Week Cumulative)



Source: EPFR.

All regions except Europe experienced portfolio outflows. As in the previous period, Asian economies, especially China, suffered the largest portfolio outflow, but unlike the previous period, the vast majority of these outflows were from stock markets. As of the first half of July, outflows from stock markets have slowed across regions other than Latin America, while outflows from bond funds have decreased across all regions (Table 2.4.1). This slowdown can be attributed to the measures taken successively by major central banks and the post-pandemic economic normalization.

Flows to emerging portfolio markets are expected to pick up slightly in the second half of 2020. However, it will likely take time for emerging market portfolio inflows to revert back to previous levels due to high uncertainty over the upcoming period, ongoing problems of access to external finance, albeit less acute than in the previous reporting period, and the narrow policy room to maneuver.

Table 2.4.1: Composition of Fund Flows to Emerging Economies (Quarterly, USD Billion)

		Total	Portfolio Composition		Regional Composition			
			Bond Funds	Equity Funds	Asia	Europe	Latin America	Middle East and Africa
2017	Q1	32.7	19.9	12.8	8.2	7.7	12.4	4.3
	Q2	52.6	24.4	28.2	25.2	7.6	14.5	5.4
	Q3	37.1	17.3	19.8	19.4	4.9	9.2	3.5
	Q4	29.5	11.8	17.6	14.8	3.7	8.3	2.7
2018	Q1	57.9	12.0	46.0	34.1	6.5	12.0	5.3
	Q2	-10.4	-10.4	0.0	-0.7	-4.3	-3.3	-2.1
	Q3	-9.9	-3.6	-6.3	-4.6	-1.4	-3.2	-0.7
	Q4	4.5	-14.0	18.5	14.1	-4.5	-3.1	-2.0
2019	Q1	29.8	20.2	9.6	9.7	4.2	10.3	5.5
	Q2	-6.7	7.9	-14.6	-8.1	-1.2	-0.9	3.5
	Q3	-19.4	9.2	-28.6	-19.2	-0.7	0.8	-0.2
	Q4	24.7	8.7	16.0	16.8	2.1	4.8	1.1
2020	Q1	-36.1	-34.8	-1.3	-12.0	-8.5	-9.5	-6.1
	Q2	-41.4	0.8	-42.2	-37.9	0.1	-2.2	-1.4

Source: EPFR.

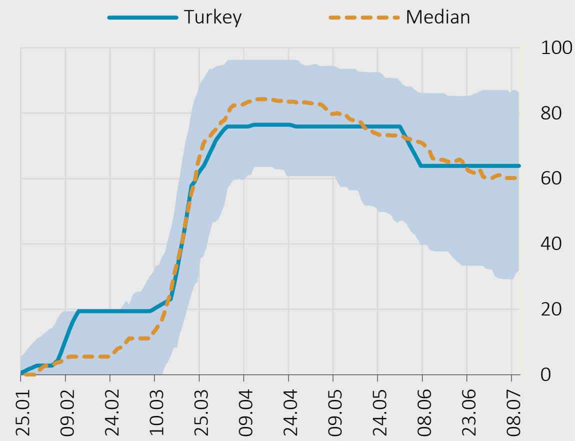
Box 2.1

Measures during the Pandemic, Public Health and Economic Activity

With COVID-19 becoming a pandemic, countries have implemented measures to limit social mobility. In order to monitor how strict such measures are, a "stringency index", which is a composite indicator based on nine categories including school and workplace closures, domestic and international travel restrictions, and diagnostic testing policies, has been created by Oxford University. Such measures became more common and more stringent worldwide as the outbreak affected more countries (Chart 1). Due to these measures, social mobility decreased significantly (Chart 2). The "mobility index", constructed by using the average of mobility trends in shopping malls, places of entertainment, grocery stores-pharmacies and workplaces, shows that social mobility decreased until the middle of April across the world and then began a gradual recovery.

Several measures were put in place to limit the impact of the pandemic after the first case was reported in mid-March in Turkey. With the effect of curfews imposed due to holidays in May, Turkey is one of the countries where mobility saw the sharpest decline with respect to the beginning of the year, compared to more than 130 countries for which data are available. The measures taken against the epidemic are effective in controlling the number of cases and mortality rates. Gradual easing of the measures supports the recovery in economic activity.

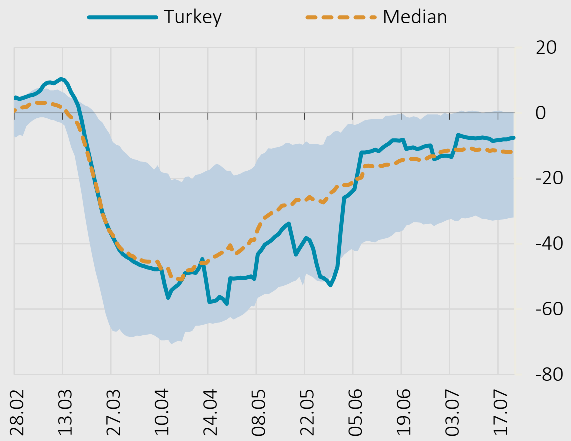
Chart 1: Pandemic Control Measures Stringency Index* (7-Day Moving Average)



Source: Oxford COVID-19 Government Response Tracker (Hale et al., 2020).

* The Stringency Index is a composite indicator based on nine categories including school and workplace closures, domestic and international travel restrictions, and diagnostic tests policy that are scaled to a value from 0 to 100. The index can only be used for comparison purposes and does not interpret the appropriateness or effectiveness of a country's policy. The blue zone shows the range of 10th percentile to 90th percentile. Based on data for 121 countries.

Chart 2: Google Mobility Trends Index* (7-Day Moving Average, Change from Reference Period)

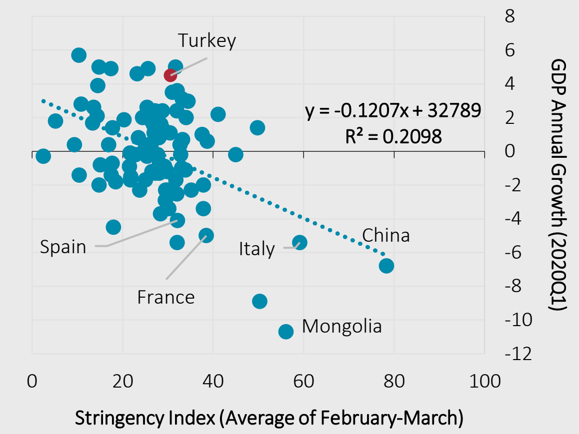


Source: Google Mobility Trends.

* The mobility index data published by Google shows the change in mobility compared to the period of 3 January-6 February 2020. The blue zone represents the range of 10th percentile to 90th percentile. Based on data for 132 countries. The mobility index is created by using the average of published data on mobility trends in shopping malls, places of entertainment, grocery stores-pharmacies and workplaces.

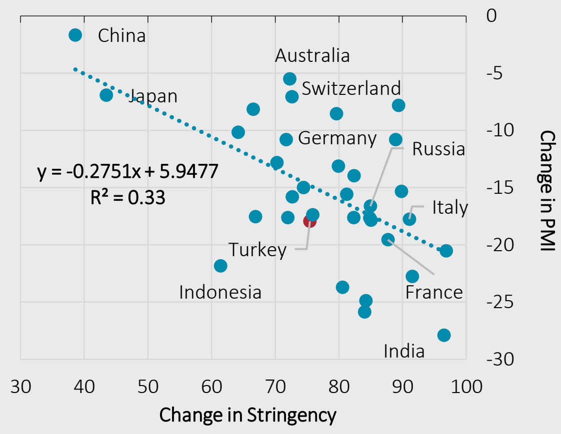
Analyzing the data for the first quarter of 2020, it is seen that growth shows an inverse relationship with the increase in stringency, as expected. Countries such as China and Italy, which were more severely affected by the outbreak relatively early, experienced stricter measures and a larger decline in national income (Chart 3). Since the first case in Turkey was detected in mid-March, the effect of the pandemic on the first quarter's national income was limited. PMI data are analyzed to evaluate economic activity for the second quarter. Firstly, PMI data in April when the pandemic's impact on economic activity across countries was most evident and PMI data in January, which represents the pre-pandemic period, were evaluated. Accordingly, with the spread of restrictions on social mobility across countries, PMI indicators fell to historically low levels in many countries (Chart 4). A similar trend is observed for Turkey.

Chart 3: Stringency Index and Real GDP Growth
(First Quarter of 2020)



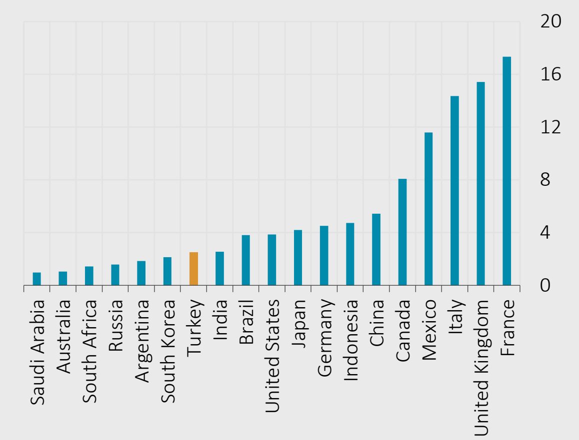
Source: Bloomberg, Oxford COVID-19 Government Response Tracker.

Chart 4: Manufacturing PMI and Stringency Index
(Change from January to April)



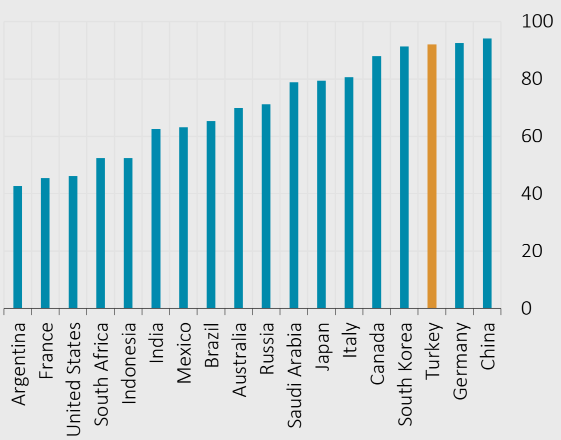
Source: IHS Market, Oxford COVID-19 Government Response Tracker.

Grafik 5: Case Fatality Rates of G-20 Countries (%)



Source: Our World in Data.

Grafik 6: The Ratio of Total Recovered Patients to Total Cases of G-20 Countries (%)

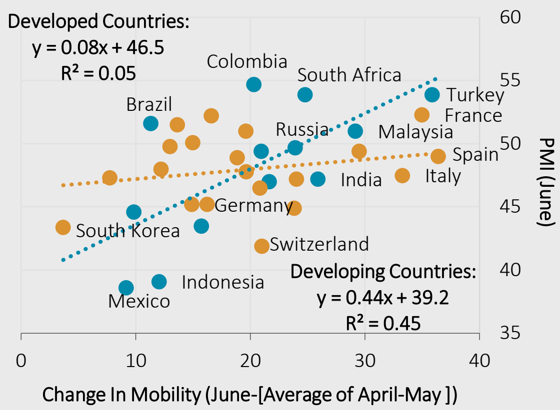


Source: Worldometers.

Although stricter measures against the pandemic led to much weaker economic activity in the short term, they contributed to a positive outlook for healthcare. Indeed, large investments in public health and measures taken in Turkey helped drive mortality rates well below the world average (Chart 5).[1] Turkey is also one of the countries where the ratio of recovered patients to total cases is high (Chart 6).

[1] Capacity of Intensive care unit (ICU) beds can play a crucial role in tackling the pandemic. Turkey, that is one of the leading countries in terms of ICU beds capacity per population with Germany, has significantly higher rates compared to the following developed and developing countries (Number of ICU beds per 100000 population is 48 in Germany, 41 in Turkey. However, average number of ICU beds per 100000 population of following four countries and rest of the countries are 24 and 7, respectively.). This gains importance in terms of the rapidness and efficiency of the response to the critical cases, contributing to the fight against the epidemic more effectively and much lower number of casualties. For more information, please visit website https://ourworldindata.org/grapher/intensive-care-beds-per-100000.

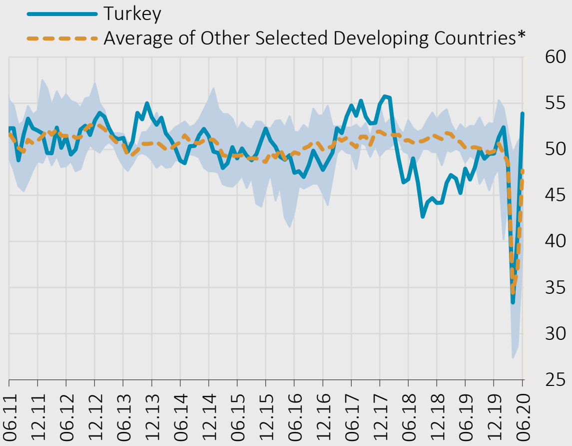
Chart 7: Manufacturing PMI and Change in Mobility*



Source: Google Mobility Trends, IHS Markit.

* Developing countries represented with blue dots are South Africa, Malaysia, Thailand, Turkey, Egypt, Hungary, Philippines, Brazil, Mexico, Colombia, Poland, Russia, India and Indonesia; developed countries represented with orange dots are Switzerland, South Korea, Czech Republic, Netherlands, Germany, Australia, Sweden, Italy, Canada, Singapore, Norway, Greece, Spain, USA, England, Ireland, Austria, Denmark and France.

Chart 8: Manufacturing PMI (Seasonally Adjusted, Level)



Source: IHS Markit.

* Other selected developing countries are Brazil, China, India, Indonesia, Mexico and Russian Federation.

Success in healthcare supports the normalization steps and lays the ground for a relatively stronger recovery in economic activity. As a matter of fact, there is a strong relationship between increased mobility and PMI, especially in developing countries, and a relatively weak one for developed countries (Chart 7). Survey indicators such as confidence in industry and PMI for June indicate that Turkey exhibits a more pronounced economic recovery compared to European and other developing countries (Chart 8).

In sum, global economic activity is affected by the measures taken against the pandemic and the easing of these measures. The measures were tightened from the time the first case was reported in Turkey until the end of May, and the number of cases and mortality rates were brought under control. This helped accelerate normalization in June. Recent data such as June PMI and the mobility index indicate that Turkey has diverged positively from other countries. Services are recovering more slowly compared to manufacturing industry due to the containment measures and changes in consumer preferences. However, together with the contribution of positive developments in the healthcare field, economic activity in Turkey is expected to continue to maintain a positive outlook.

References

Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker.