

PRESS RELEASE

Türkiye: Earthquakes raise inflation risk and political uncertainty

Paris, February 21, 2023 – On February 6, the south eastern provinces of Türkiye were hit by earthquakes that killed over 40,000 people in Türkiye and Syria. This toll, far from being definitive, could double according to the United Nations. Millions of people are in need of humanitarian aid and medical personnel work to prevent the spread of diseases in centers that are housing tens of thousands of refugees.

The impact of the disaster on the Turkish economy is still very uncertain, but the amount needed for recovery is already estimated between 50 and 85 billion dollars (according to the Turkish Enterprise and Business Confederation). A state of emergency has been declared for 11 cities. These include Kahramanmaraş, Hatay and Gaziantep, which are key regional hubs for logistics, production and exports. These regions makes around 12% of the country's GDP, 20% of total agricultural and forestry output, 10% of manufacturing output, and nearly 15% of the construction activity. **While inflation is already very high (58%), the loss of agricultural production and the start of Ramadan in March should amplify the phenomenon. Coface estimates that inflation will average 50% in 2023, whereas it had reached 72% in 2022.**

In the short term, **growth is expected to slow down sharply. After the 1999 earthquake, GDP contracted by 3.3% before rebounding by 6.8% in 2000.** Coface estimated at the beginning of the year that GDP would grow by 3.5% in 2023, a figure that does not take into account the effects of the earthquake, which have yet to be specified. Indeed, some factories have been totally or partially destroyed. The Turkish banking supervisory body (BDDK) has also expanded the flexibility for debt for those affected by the earthquakes. This would to allow impacted companies to compensate a part of their profit losses and deterioration of cash flows.

According to our analysis, **the sectors most affected by the disaster are textile, clothing, food, services, ICT, metals, chemicals and retail.** In the medium term, the need to rebuild an area of around 110,000 km² (larger than Denmark, the Netherlands, Switzerland or Belgium) and populated by 13 million people could support the construction sector. President Erdogan said that construction of 30,000 residential buildings in the earthquake zone would begin in March.

On the political front, the earthquake impacts coupled with last year's economic turbulence (historically high inflation, the weakness of the Turkish lira etc.) may shift voters' focus to domestic conditions. Elections were planned on May 14, however, there is a debate about whether they can be held at all. The opposition is calling for them to be held but there is a great deal of uncertainty on the matter.

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