ECONOMIC RESEARCH

The NewsLine

December 2, 2015

} MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

RUSSIA

Sanctions against Turkey intensify inflationary pressure

Gregor Eder
Phone +49.69.24431-3358
gregor.eder@allianz.com
Allianz SE
https://www.allianz.com/economic-research/en

Allianz Research
https://twitter.com/AllianzResearch

The economic sanctions imposed on Turkey in the context of the shooting down of a Russian fighter jet will hit not only the Turkish, but also the Russian economy. Private consumption is likely to take a further knock.

The list of sanctions imposed on Turkey is fairly sweeping. It covers a ban on charter flights between the two countries, import curbs and bans on certain Turkish products, restrictions on Turkish companies operating in Russia as well as a ban on the recruitment of Turkish citizens starting in 2016. This bundle of measures will doubtless leave its mark on the Turkish economy. The tourism sector in particular is likely to be badly hit, with some 4 million Russian tourists a year having visited the country in recent years.

But the sanctions will also have an impact on the Russian economy itself by additionally stoking domestic inflationary pressure. This applies above all to the import ban on fruit and vegetables. Turkey accounts for roughly 20% of Russian imports of these products. That corresponds to some 10% of total Russian consumption of fruit and vegetables. Prompt import substitution looks impossible on seasonal grounds alone. It is unclear how quickly other supplying countries could replace Turkey. Given that there is also talk of import restrictions on other Turkish products such as textiles, we believe that the curbs on imports from Turkey will push up already high consumer price inflation further by between 1 and 2 percentage points. In October annual inflation stood at 15.6%, for foodstuffs at 17.3%.

The expected acceleration in inflation will eat into private household purchasing power and exert an additional drag on real private consumption. This exacerbates the downside risks to our GDP forecast for next year. We have so far been assuming a 1% drop in output in 2016 – following an expected 4% slide this year, caused mainly by a contraction in real private consumption to the tune of around 8%.

These assessments are, as always, subject to the disclaimer provided below.

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. About 85 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2014, around 147,000 employees in over 70 countries achieved total revenues of 122.3 billion euros and an operating profit of 10.4 billion euros. Benefits for our customers reached 104.6 billion euros.
This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.
Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.