



MARCH 2023

MACROECONOMIC IMPACT OF THE EARTHQUAKES IN TÜRKİYE



CCI FRANCE TURQUIE

Türk-Fransız Ticaret Derneği



The 6th of February, two earthquakes in the region of **Kahramanmaraş** in Türkiye and in Syria caused unprecedented damage. With magnitude of 7.8 and 7.5, current reports estimate the **death toll at 41.000 people**. On February 19th, two other earthquakes registering a magnitude of **6.4** and **5.8** happened in the same region.

A high death toll to which are added hundreds of thousands of injured and affected people, thousands of destroyed buildings as well as water, electricity, and gas cuts. This toll is only provisional and could increase. According to **Türkonfed (Turkish Enterprise and Business Confederation)**, the death toll could rise to 72.600 and the injured to 193.000.

In this report, we bring together various **economic loss forecasts** issued by banks, rating agencies, government agencies and international financial institutions. Please note, however, that these figures are provisional. At this stage, it is both difficult to make an accurate assessment and the aftershocks of the earthquakes may add to the toll. This Monday, February 27, a new aftershock of magnitude 5.6 took place in the province of Malatya, leaving at least 1 dead and 69 injured.

1- Before the earthquakes: a very important region for the Turkish economy

The 10 districts affected by the quakes represent **15.7% of the overall population (Tableau 1)** and **13% of the 25.3 million Turkish households**. Before the quakes, the region contributed approximately for **9,3% of GDP and 8,5% of Türkiye's exportations** (Source: note from the Economic Service of the French embassy). In 2022, the 10 districts affected by the quakes **exported \$19,76bn** (\$10,52bn by the city of Gaziantep alone).

Kahramanmaraş hosts **1/3 of the country's steel production, 20.9% of the agricultural production**, is one of the main **textile production centers**. Then, we should expect an inflationary increase, especially in the price of crops.

Tableau-1 : Structure de la population

Province	Nombre de ménages	Population	Part dans la population totale	Densité de population
10 provinces au total	3 304 737	13 421 699	15,7 %	151

2- Forecasts of economic losses

According to the **Middle East Institute**, the quakes have ruined at least **8.000 residential, commercial, and public buildings**. Intercity gas, oil and electricity lines were damaged as well as strategic infrastructure such as the Tarsus-Gaziantep Highway, İskenderun Port, and Hatay Airport. Reportedly, the Kirkuk-Ceyhan and Baku-Tbilisi-Ceyhan oil pipelines remain operational.

Several reports estimate the financial losses related to the quakes that affected the region of Kahramanmaraş.

According to **Fitch**, insurance losses could hit **\$4bn**. However, we might take it with caution as the prevision came only 3 days after the quakes. It might evolve. Also, the insurance coverage in the region is low. The **Turkish Catastrophe Insurance Pool** (TCIP), created right after the 1999 Izmit earthquake, focus on coverage for building destruction and do not cover human losses.

By integrating reconstruction aid, the **European Bank for Reconstruction and Development** (EBRD) estimates losses at **1% of Türkiye's GDP**, i.e. **\$8.5bn** approximately.

According to **JP Morgan**, the destruction of physical infrastructure following the 6th of February quakes could amount to **\$25bn**, or **2.5% of GDP**.

The **World Bank** assessed the economic damage at **\$34.2bn (4% of 2021 GDP)**. It also said that the number could rise because of the **aftershocks of earthquakes** and because of indirect impacts on economic growth.

The most pessimistic estimation comes from the Turkish Business Group **Türkonfed** expects a loss of **10% GDP**, or **\$84bn** distributed between housing loss (**\$70.75bn**), national income (**\$10.4bn**) and lost working days (**\$2.91bn**)

To compare, the 1999 earthquake in Izmit caused \$51,1bn of losses (in today's dollars).

Economists have reviewed their prevision of **Türkiye's GDP growth for 2023**, expected at 3% before the quakes. **The World Bank** warned about a drop in growth of about **1 point**. **Reuters** reports a decline in the range of **0.6 to 2** percentage points. **Bloomberg Economics** which expected an annual growth of **3%** now considers it will be **2.6%**.





To this must be added the cost of state aid:

- **For households:** 10.000 TRY (500 EUR) to each family impacted + rental assistance = 15.000 TRY over a year + relocation assistance = 5.000 TRY.
- **Care of the injured:** 100Bn TRY (5bn EUR) + 1bn TRY to AFAD + exemption from customs duties on equipment imported to assist victims.

Bloomberg expects the public aid will be equivalent to **5.5% of GDP**.

By correlation, the economic consequences of the earthquake are expected to **increase the budget deficit to 5.4%**.

The **value of exportations** generated by the 10 districts should decrease from \$19,76bn in 2022 to **less than \$15bn in 2023**. (Source: Türkonfed)

3- Considerable financial support from public, private, and international actors

The cost of the disaster and the future reconstruction is partly mitigated by financial aid. Several donors have contributed to support victim assistance. On the **15th of February**, a television show raised **\$6bn for AFAD and the Red Crescent**, in addition to the **\$440 million already raised**.

150,000 houses have been announced to be built, about **\$8bn (1-1.5% of Türkiye's GDP)**.

Appeals for donations have multiplied all over the world, notably with the **UN** and **NGOs**, but also from the **States** themselves. **The World Bank** announced an aid of \$1,78bn. The **United Nations Development Programs (UNDP)** said it will evaluate the financial needs for reconstruction.

An **international funding conference** will be organized in March in Brussels by the **European Commission** in cooperation with the Turkish authorities. The objective will be to assess the extent of the damage with a little more hindsight and the adequate assistance to be provided for the reconstruction.