

# Turkey

## Monthly Economic Monitor

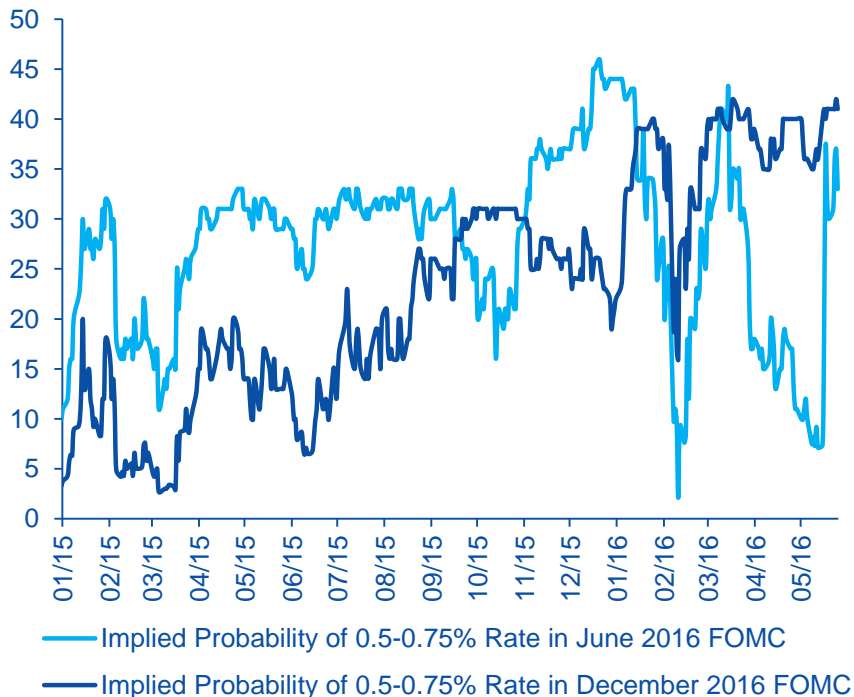
May

May 27<sup>th</sup> 2016

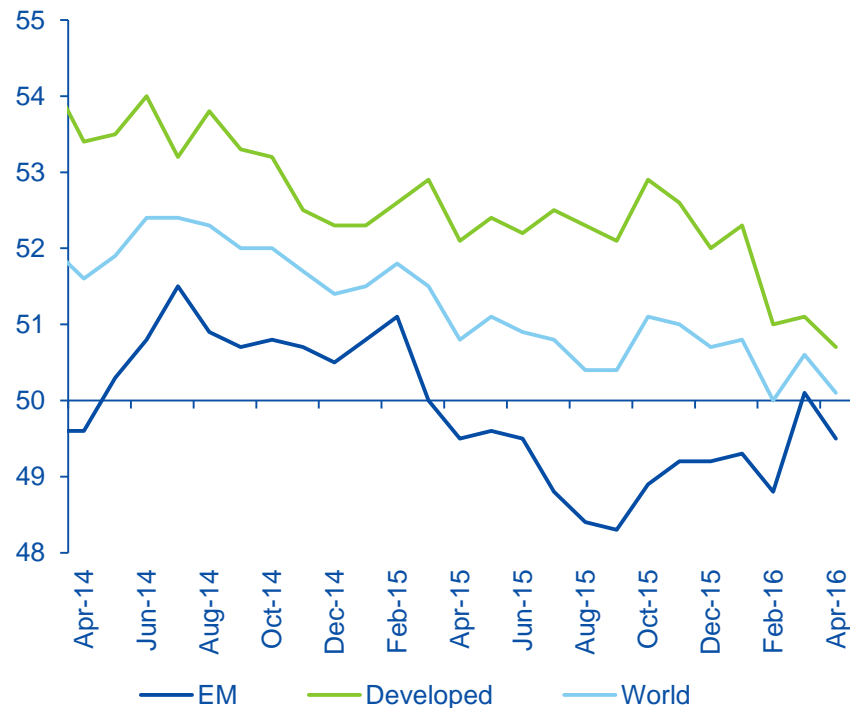
# Global Developments

Financial volatility increased as markets assigned higher probability of a rate hike in June after strong US data and upbeat comments by some FOMC members. World growth seems to be subdued on top of EMs

FOMC rate hike implied probability in futures



World Manufacturing PMI by regions

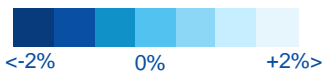
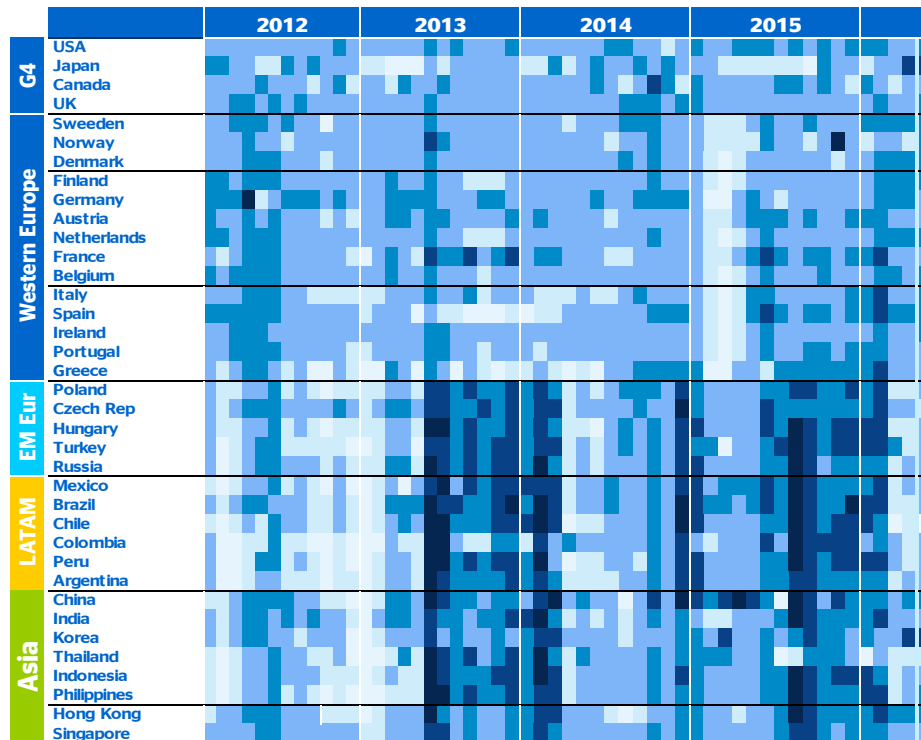


# Global Developments

The EM reallocation was short lived due to combination of a strong rebound of commodity prices and lesser concerns on the US and China

## BBVA High Frequency Portfolio Flows Map

(% monthly change in net liabilities measured as net flows to total assets under management)

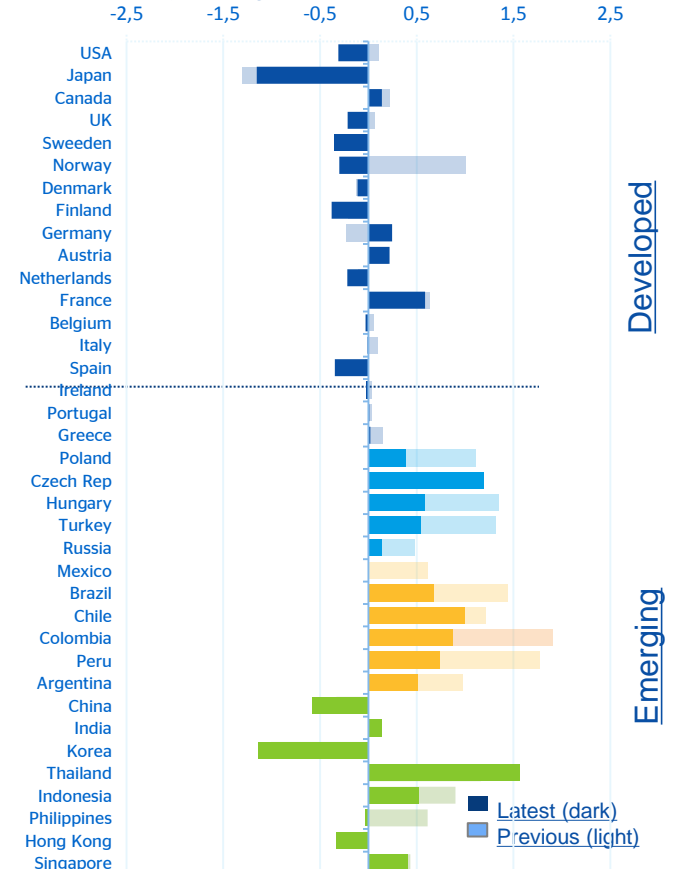


BBVA Research Portfolio Flows Map\*  
The Flows Map show the monthly evolution of net inflows with Darker blue colors representing sharp net outflows and lighter colors standing for net Inflows

Source: BBVA Research and EPFR

## Flows May 2016 vs. April 2016

(% quarterly change in flows)



# Economic Activity: GDP

Our monthly GDP indicator points at a growth rate around 4% in 1Q16, slowing down from unsustainable 5.7% in 4Q15

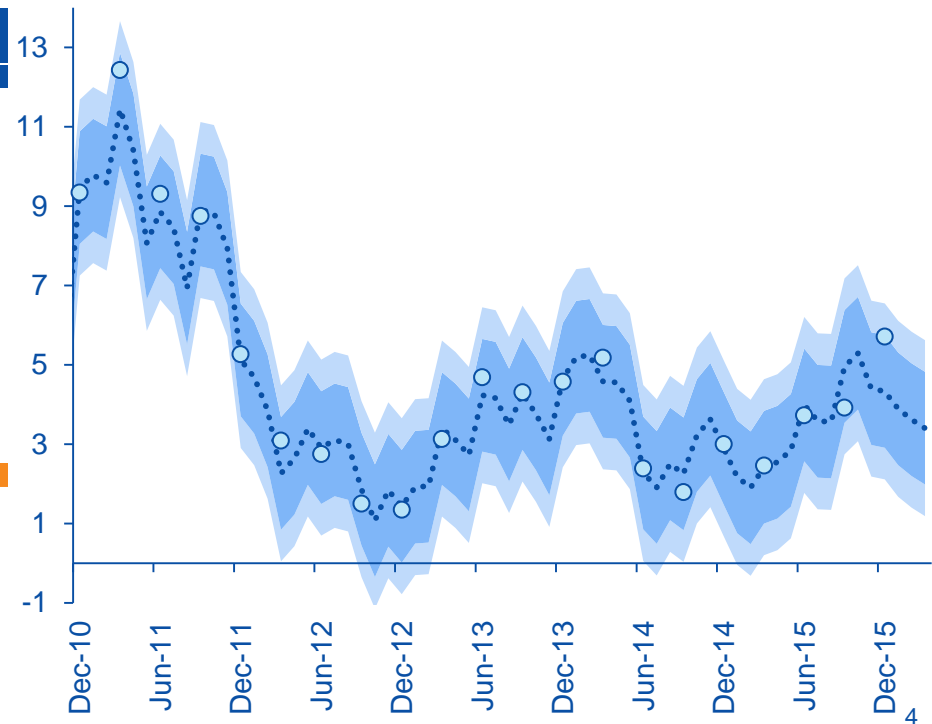
## Activity Indicators

3 MA, YoY Change, %

Mean	2015				2016				
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	6.0	0.2	4.6	3.1	7.5	4.0	5.5	5.6	
Non-metal Mineral	4.4	-1.5	1.5	-0.2	5.4	2.0	6.5	5.7	
Electricity Production	5.0	2.4	4.4	4.2	6.5	5.4	5.9	4.4	3.7
Auto Sales	14.1	22.0	7.8	-1.0	3.5	3.9	0.9	-6.0	-6.8
Tourist Arrivals	4.9	0.0	-3.1	-2.6	-3.9	-4.5	-8.0	-10.3	-18.7
Number of Employed	4.3	3.6	3.3	3.2	3.0	3.0	3.0		
Number of	0.6	2.8	2.7	1.7	1.9	1.2	0.9		
Auto Imports	18.0	25.0	12.3	3.7	5.6	5.7	2.8	0.2	-2.0
Auto Exports	9.2	9.7	29.6	21.5	23.1	5.0	7.3	6.6	13.9
Financial Conditions	75.0	77.2	82.2	80.4	80.5	79.1	79.3	84.8	87.0
Credit Growth-13Week	21.3	6.2	4.0	7.9	10.2	6.2	9.6	9.4	12.1
PMI Manufacturing	51.8	48.8	49.5	50.9	52.2	50.9	50.3	49.2	48.9
Real Sector Confidence	107.6	99.7	103.6	110.2	108.8	105.9	105.2	104.1	105.7
MICA Forecast									4.0%
GDP YoY	3.9%				5.7%				

## Monthly GDP Growth & Estimate

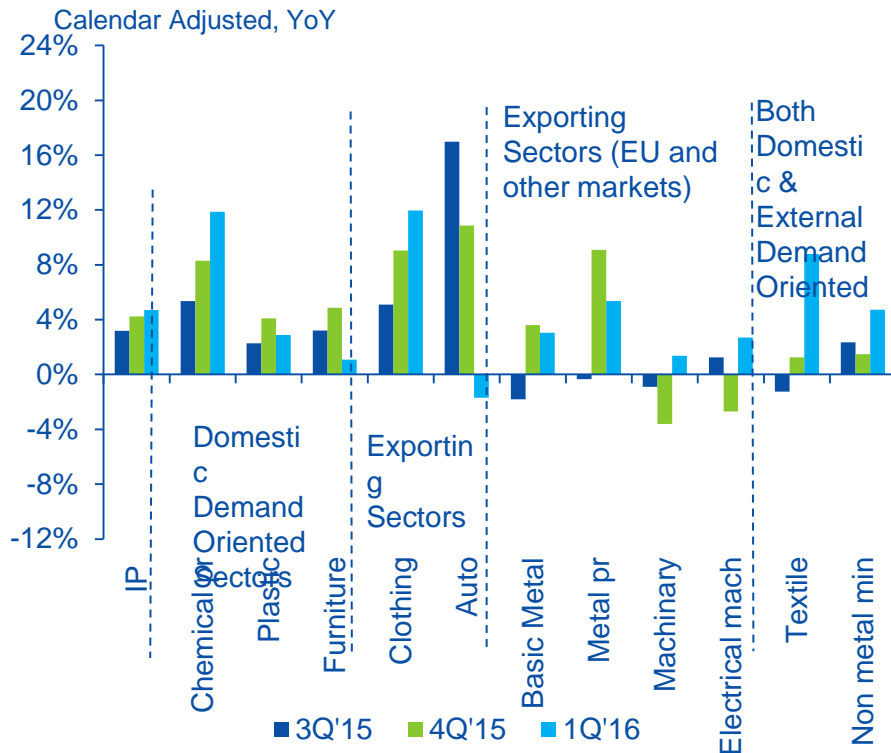
YoY Change, %



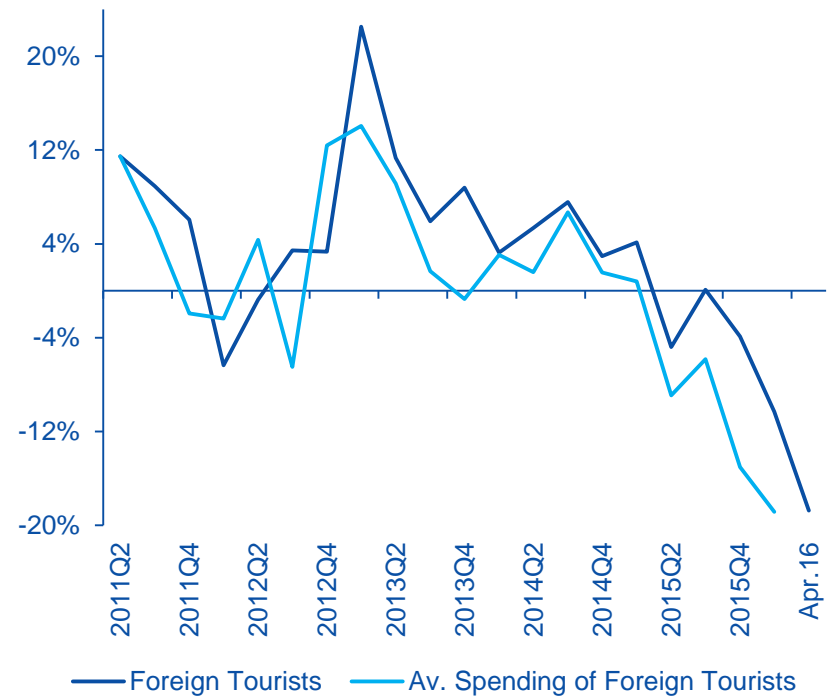
# Economic Activity: Sectors

IP growth is strong at 5.6% in 1Q. Tourist arrivals fell sharply by 28% in April, threatening the sector's health before high season. TurkStat's estimate signals a slowdown to 3% growth for the agricultural sector in 2016 from 8% in 2015

## Sectors in Industrial Production (IP)



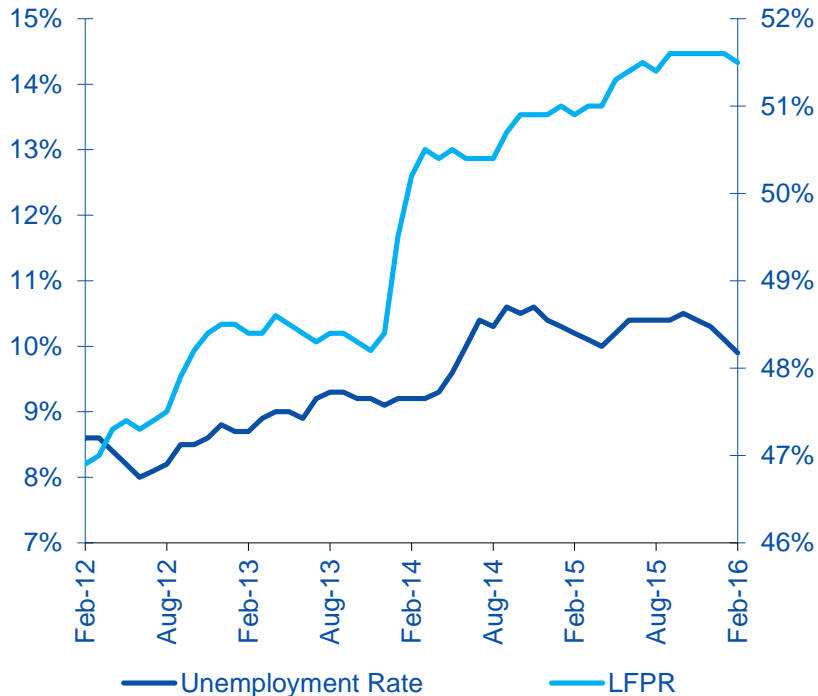
## Tourism Sector, YoY



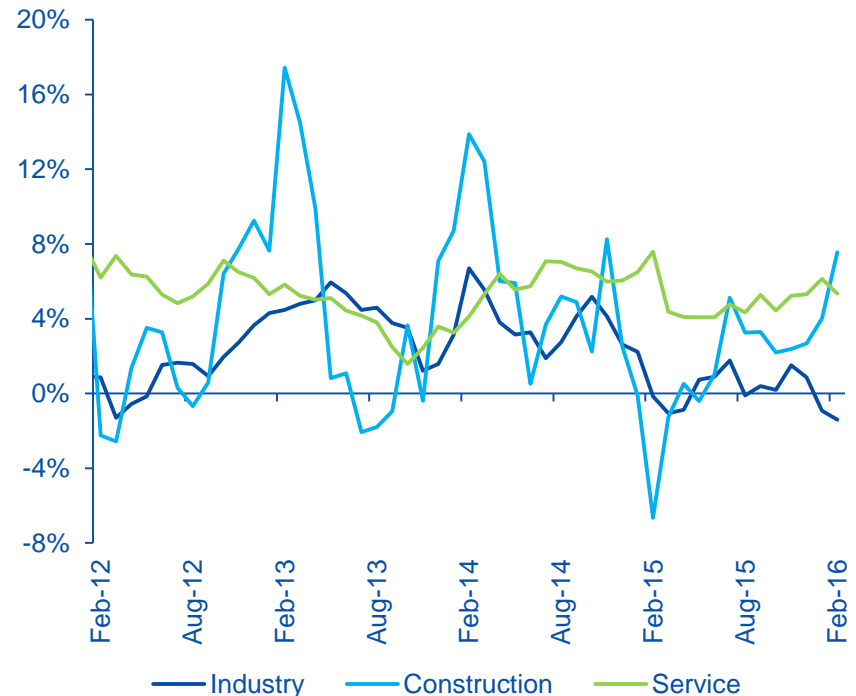
# Economic Activity: Employment

Unemployment rate further declined to 9.9% (SA, the first single digit figure of the last 21 months), while labor force participation rate slightly fell to 51.5%

Unemployment & Labor Force Part. Rate  
SA



Employment Growth in Sectors  
YoY

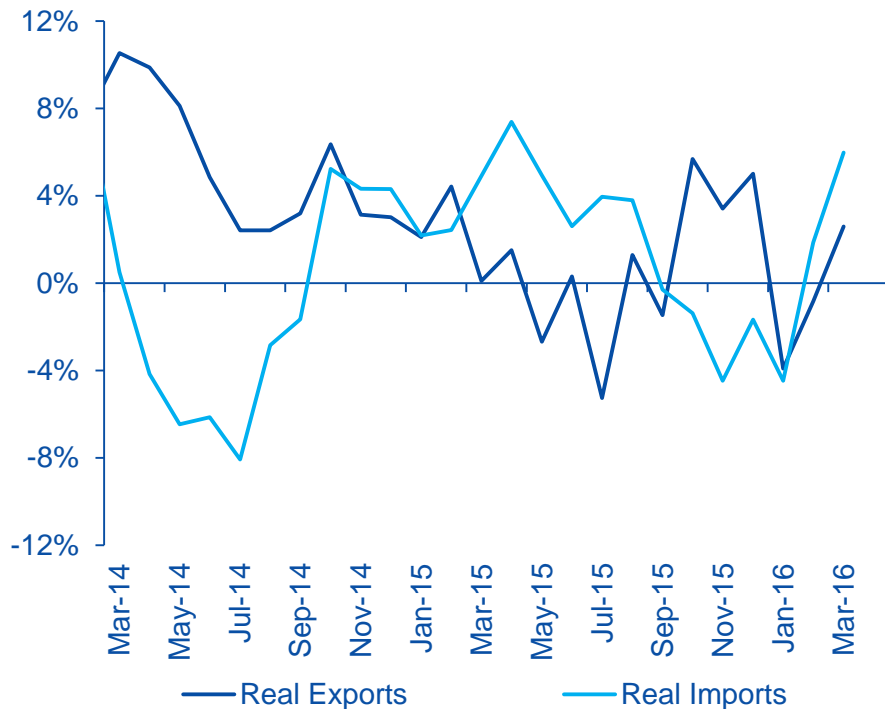


# Economic Activity: Trade

Preliminary data for April indicated a sharp contraction in exports by 10% (YoY) after net exports may have subtracted around 1.5pp from growth in 1Q16

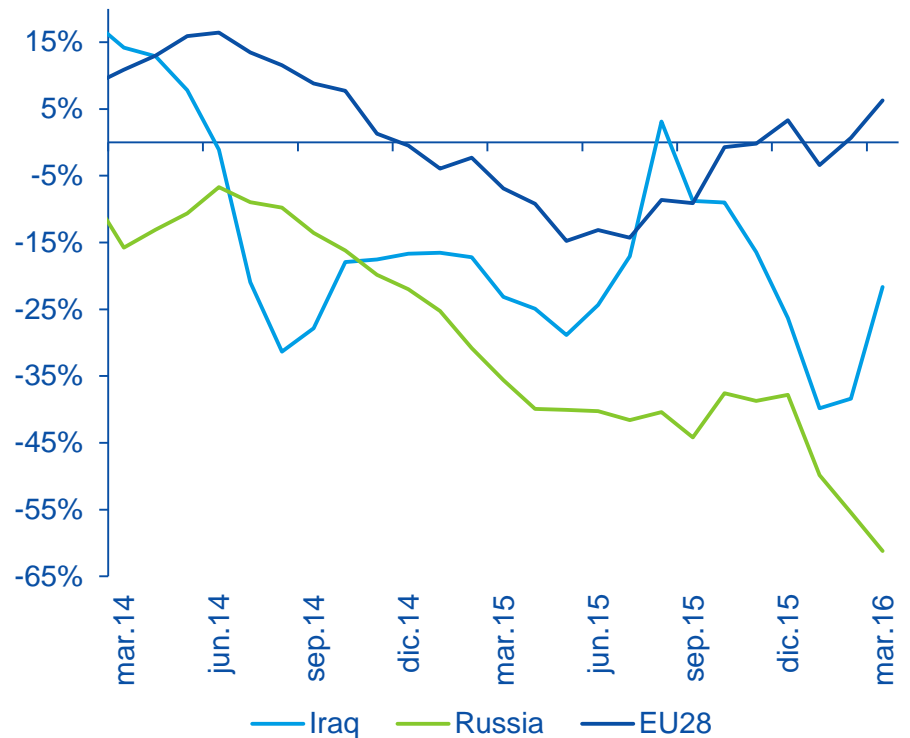
Foreign Trade Figures

3MA, YoY Change



Foreign Trade Figures

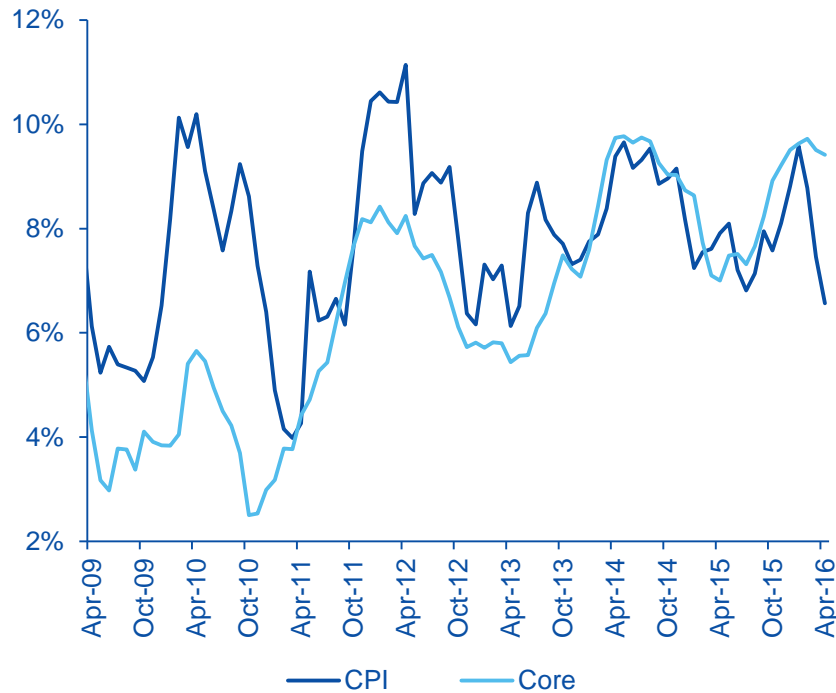
3MA, YoY Change



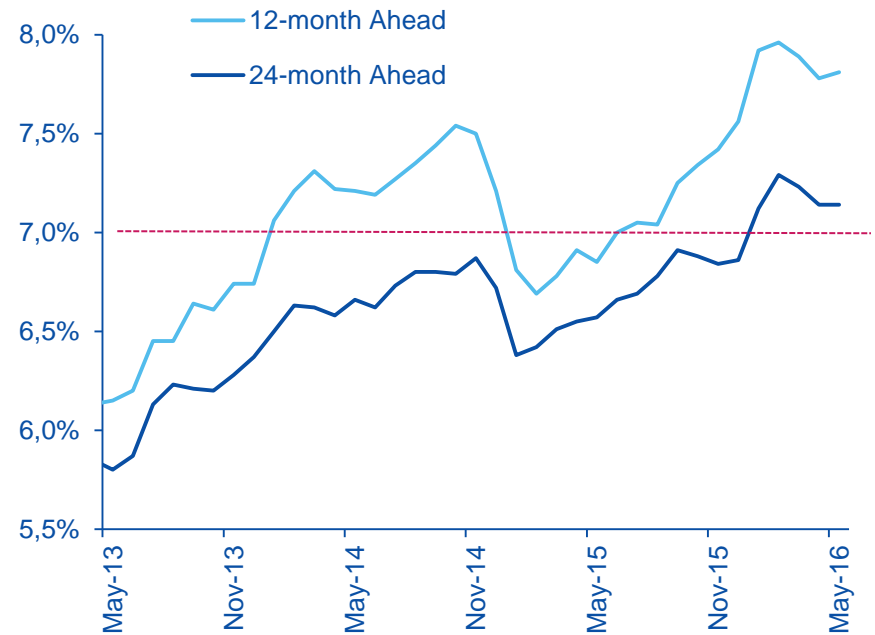
# Inflation

Extraordinarily low unprocessed food inflation was the main factor behind the sharp fall in inflation to 6.6% in April from 7.5% in March...

CPI & CBT's Core Inflation  
YoY



Inflation Expectations  
YoY

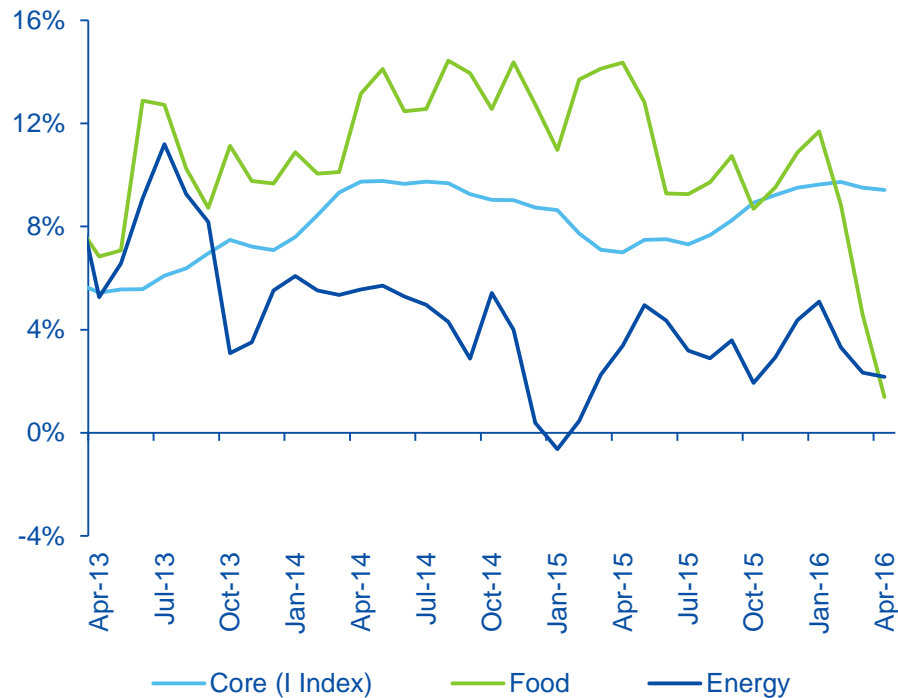




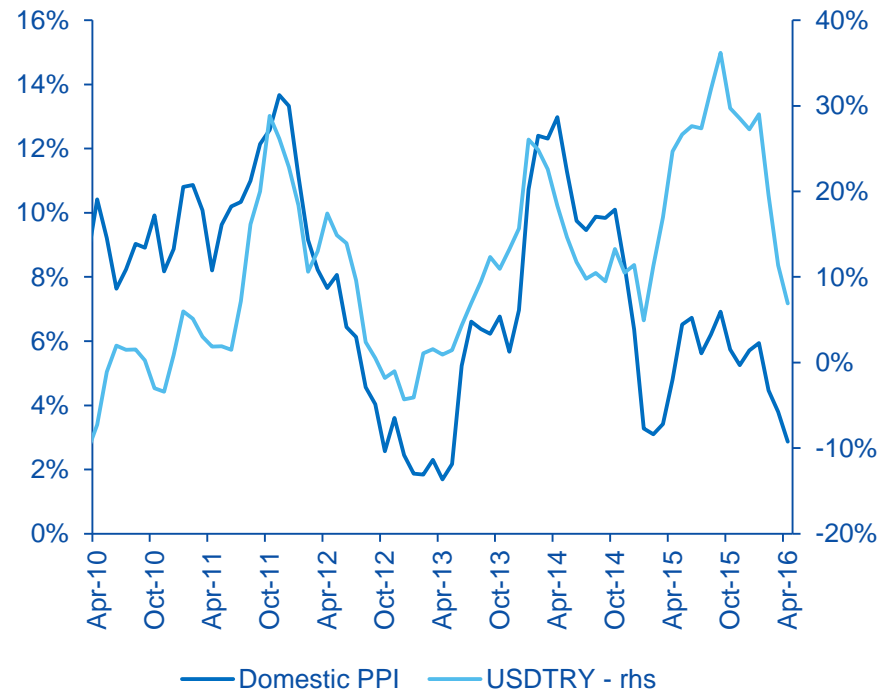
# Inflation

...though the core component remained sticky as pricing in labor intense sectors hints the minimum wage hike has finally started to feel its impact on the prices

CPI Inflation Components YoY



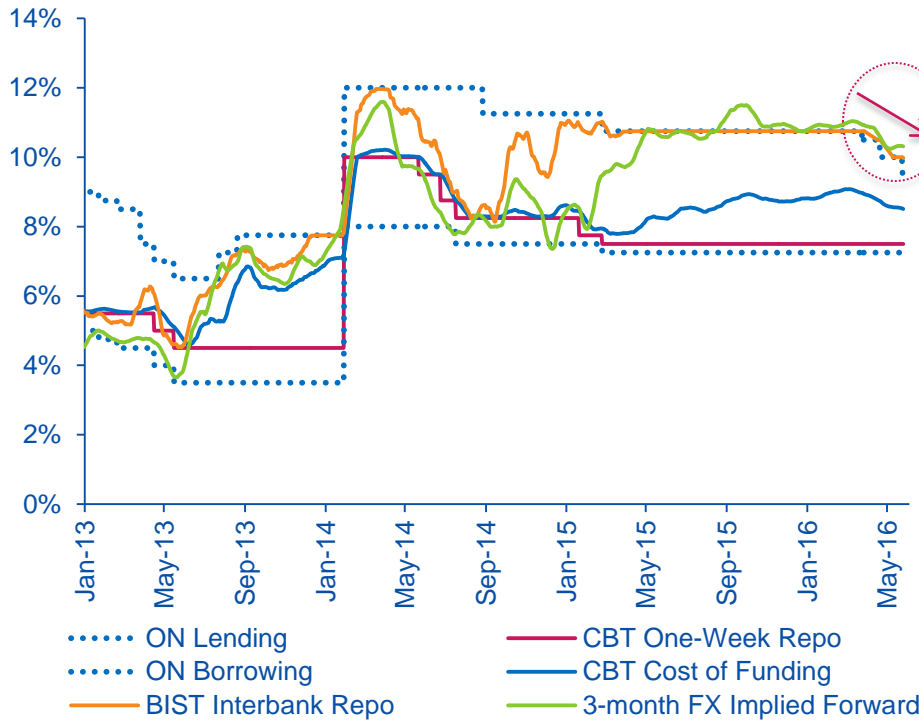
Domestic PPI & USD/TL YoY



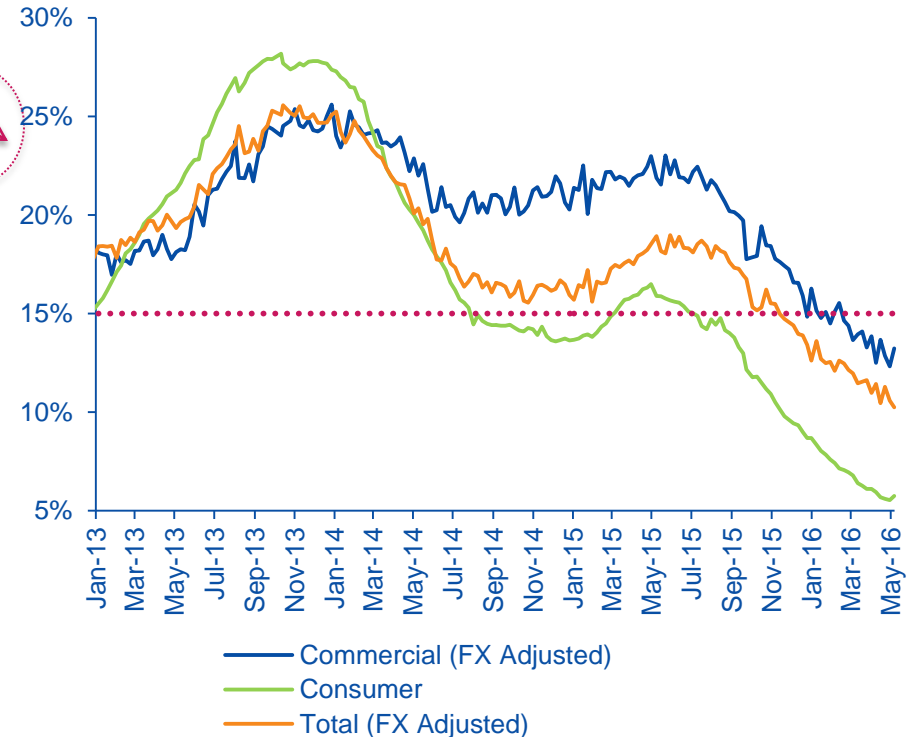
# Monetary Policy

The CBT reduced the upper bound of the corridor 50bps further to 9.5% as exceptionally favorable unprocessed food prices continued to lower inflation in April, creating room for the CBT to maneuver

Interest Rate Corridor Levels



Loan Growth Rates YoY

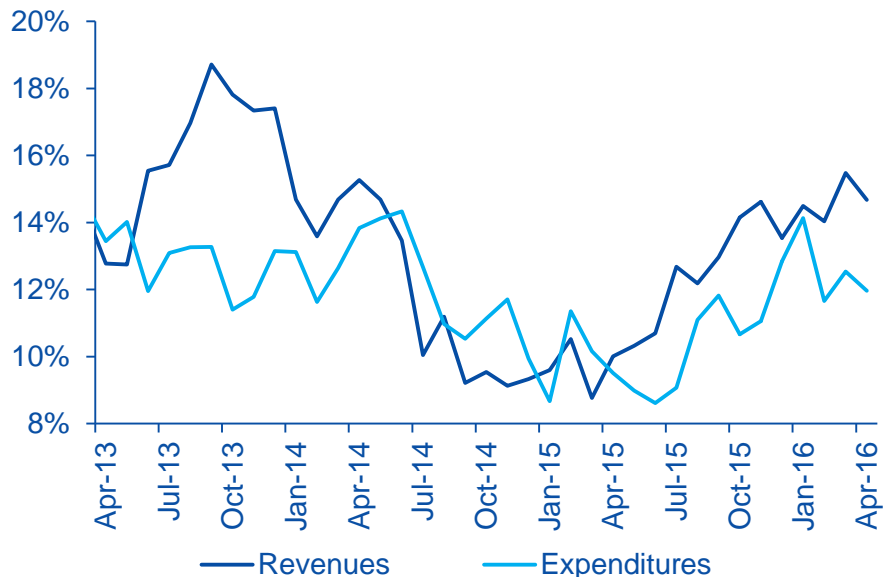


# Fiscal Policy

One-off revenues were the main driver of the in overall revenue growth in April, while subdued interest expenditures helped the overall expenditures to stay moderate.

Budget Expenditures & Revenues

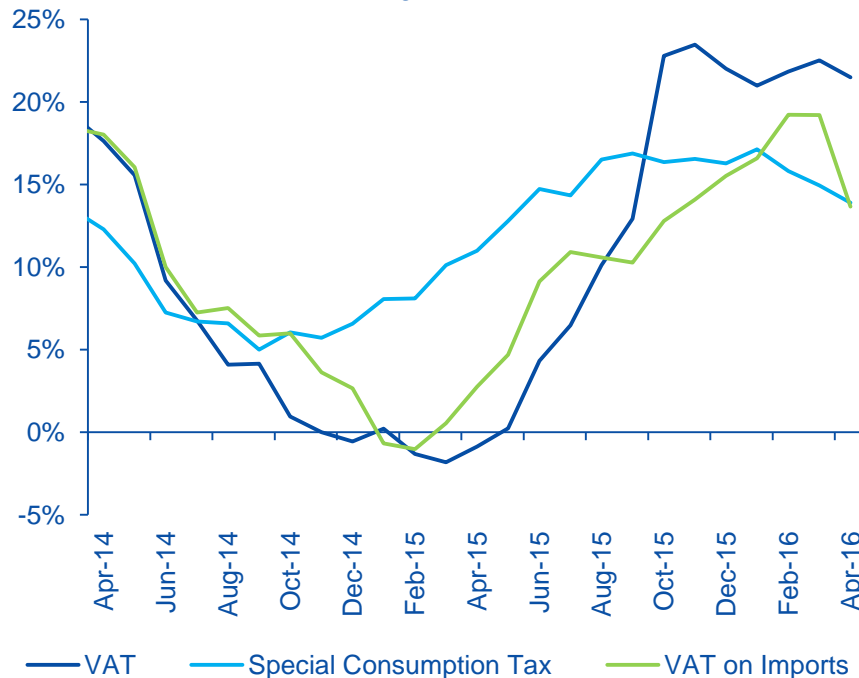
12-month sum, YoY Change



% GDP	2014	2015	2016 MTP
Primary Balance	1.5%	1.6%	1.2%
Budget Balance	-1.3%	-1.2%	-1.3%

Tax Revenues

12-month sum, YoY Change

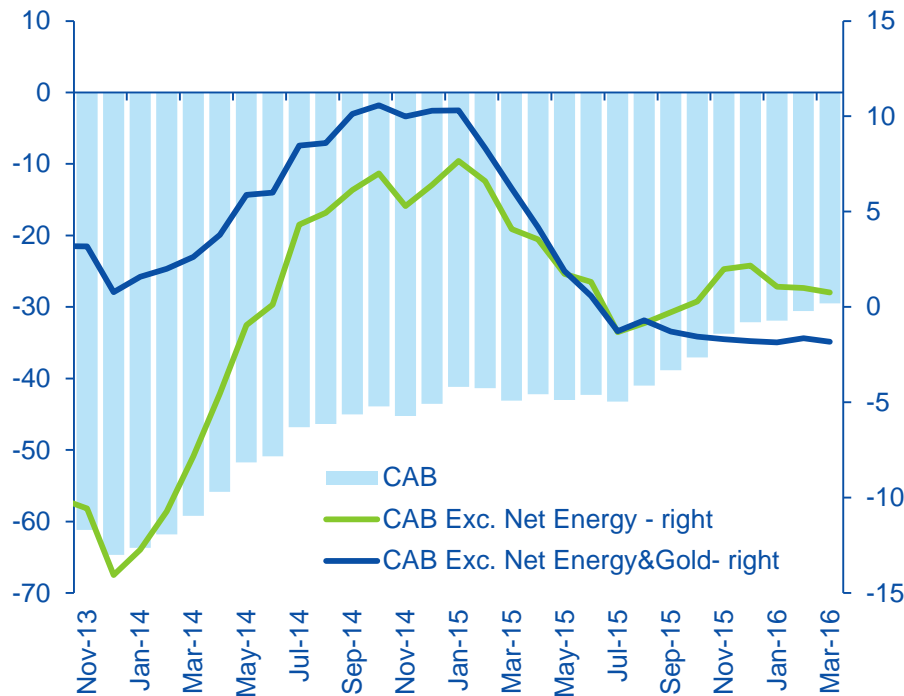


# External Balance: CAB & Financing

CA deficit further narrowed to USD 29.5bn (4.2% of GDP) in 1Q16 from USD 32.1bn (4.5% of GDP) at the end 2015. The adjustment still continues, albeit at a lower rate due to the deterioration in tourism and export revenues.

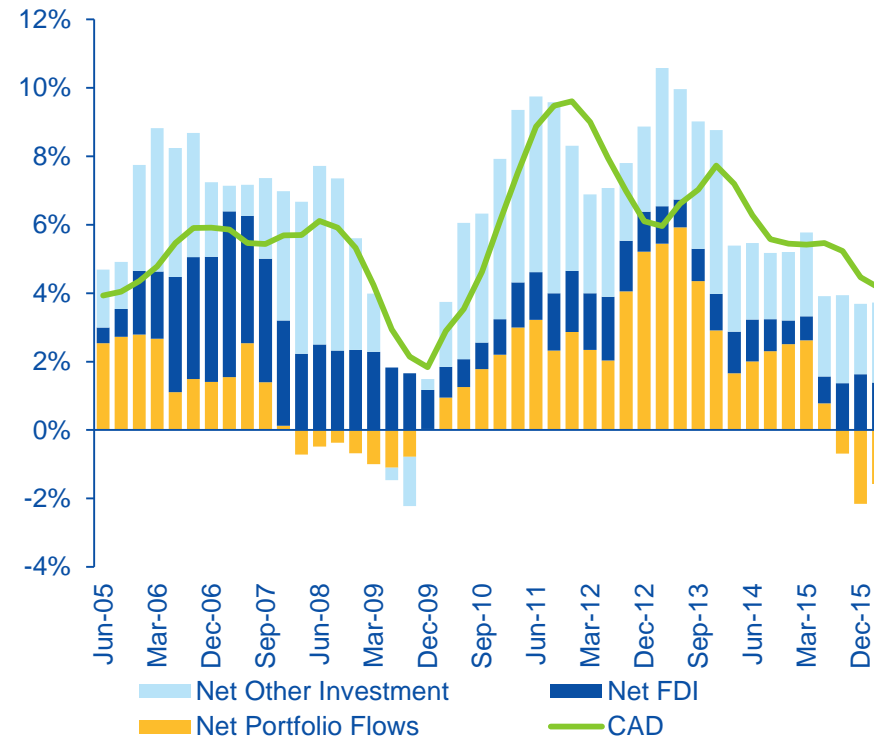
Current Account Balance

12-month sum, bn USD



Current Account Net Financing

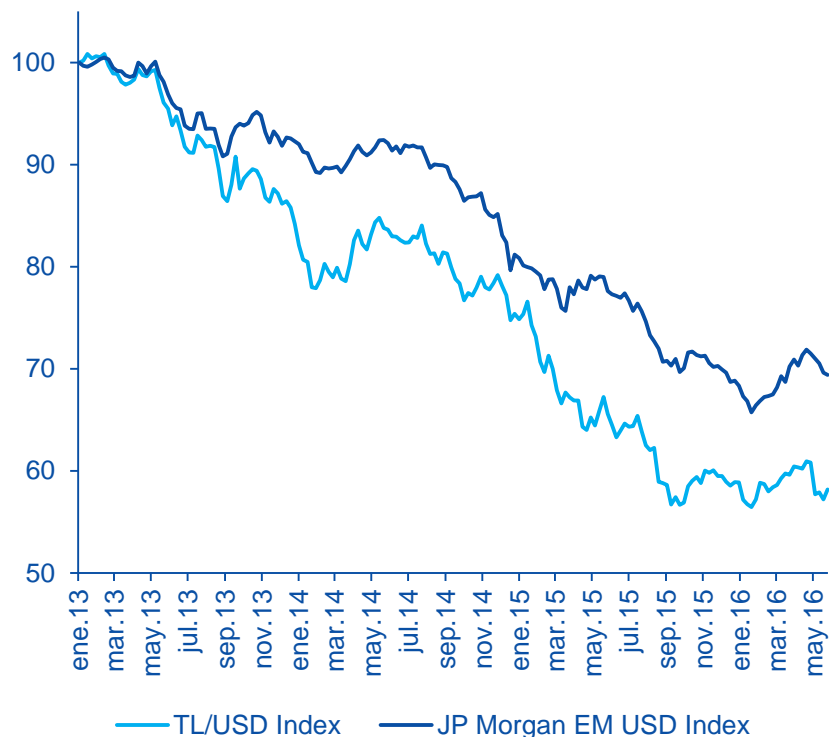
12-month sum, bn USD



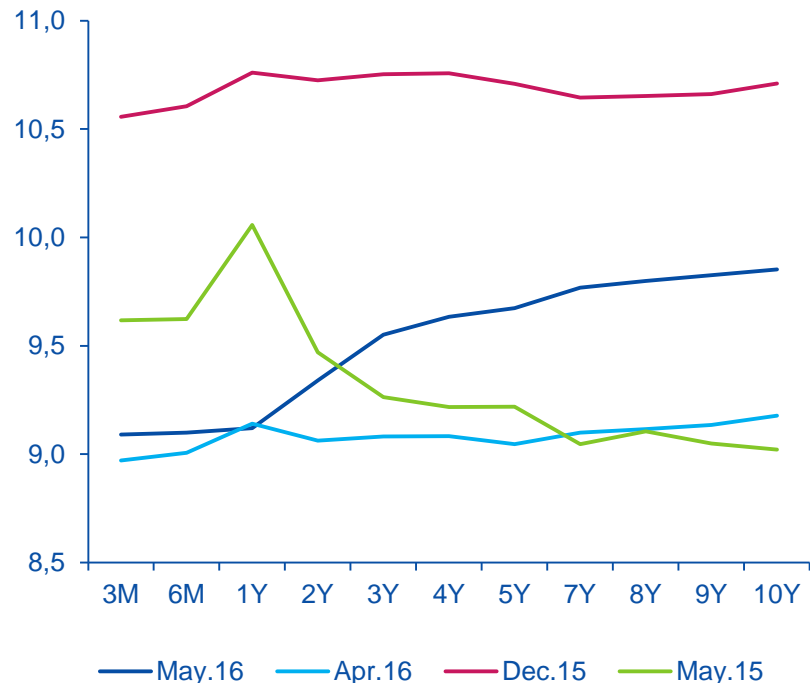
# Exchange & Interest Rates

Turkish assets performed negatively in May due to both increasing EM volatility and domestic political uncertainty. Yield curve slopes upwards.

USD/TL vs Avg. of Emerging Markets



Yield Curve, %



# Turkey

## Monthly Economic Monitor

### May

May 27<sup>th</sup> 2016

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