

Turkey

Monthly Economic Monitor

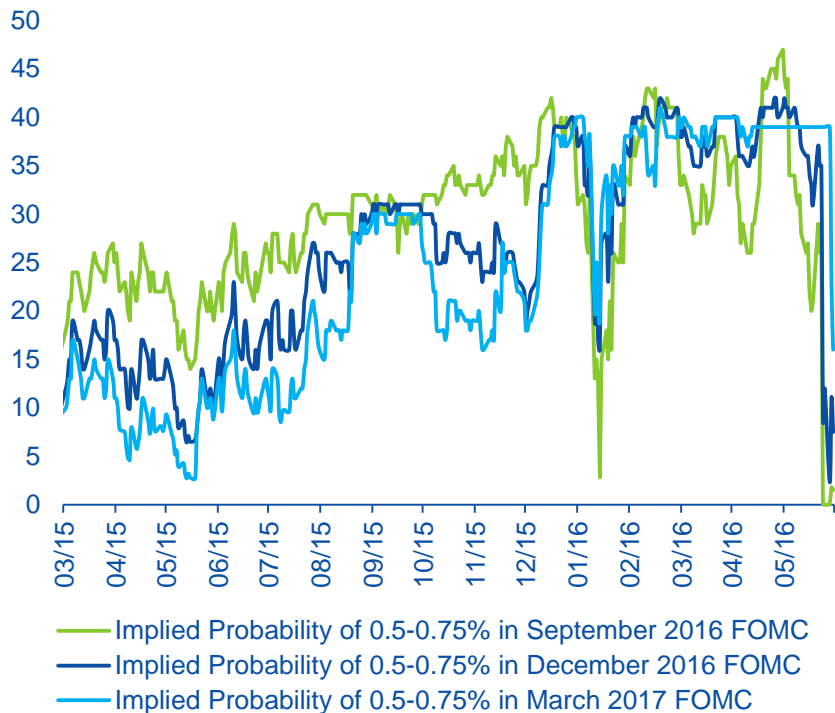
June

July 1st 2016

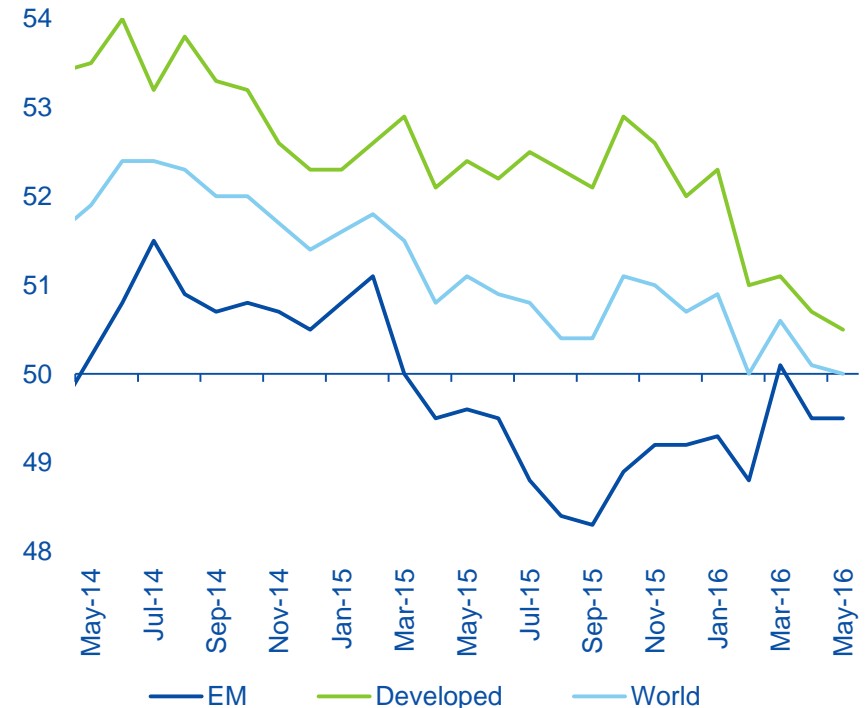
Global Developments

Financial volatility triggered again as safe-haven assets attract fresh flows by the increasing concerns on Brexit. Markets expect Fed to stay on hold this year

FOMC rate hike implied probability in futures



World Manufacturing PMI by regions

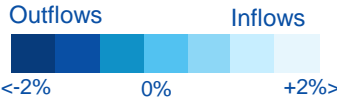
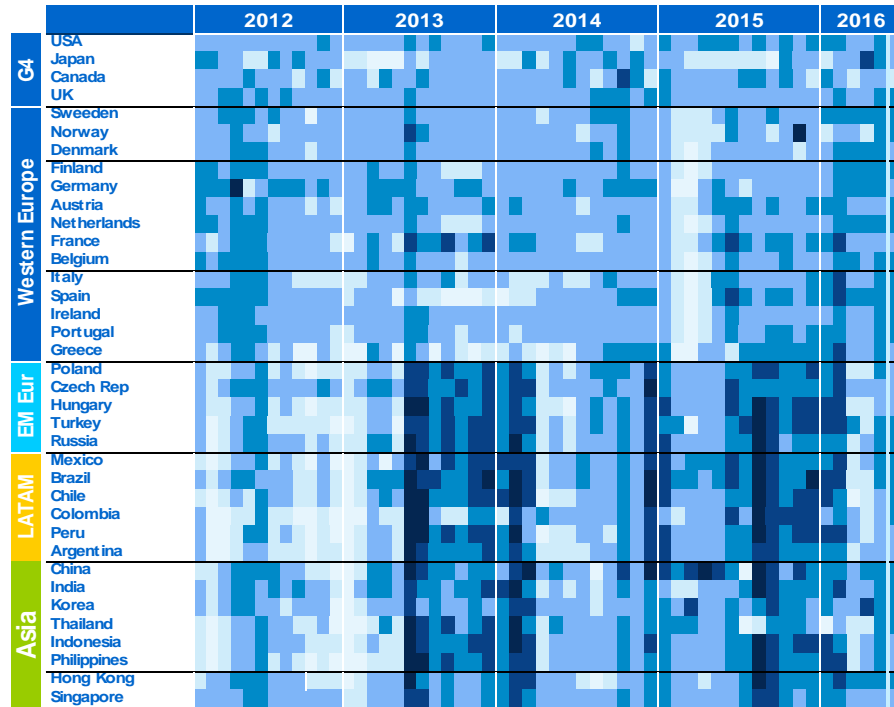


Global Developments

Increasing global financial tension dragged down capital flows to EMs in June

BBVA High Frequency Portfolio Flows Map

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

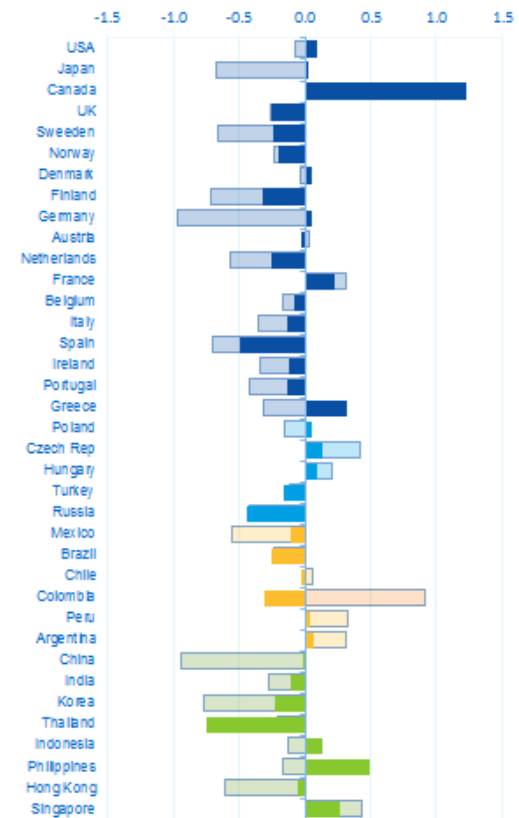


BBVA Research Portfolio Flows Map*
The Flows Map show the monthly evolution of net inflows with Darker blue colors representing sharp net outflows and lighter colors standing for net Inflows

Source: BBVA Research

Flows June vs. May 2016 (up to 22nd of June)

(% quarterly change in flows, shades are previous values)

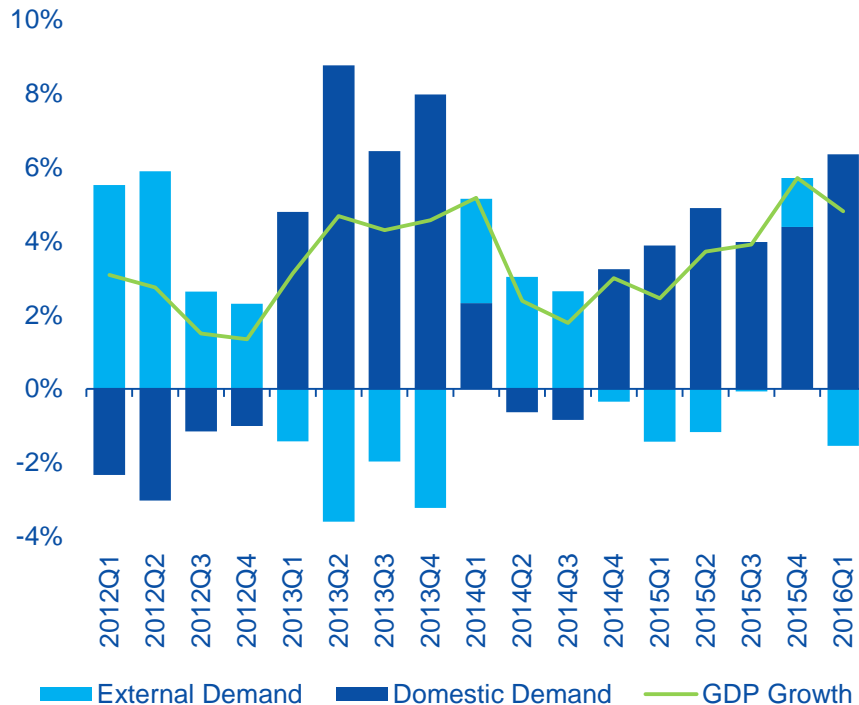


Economic Activity: GDP

GDP growth moderated to 4.8% YoY in 1Q from 5.7% of 4Q15. Strong consumption is behind the robust data while private investments and net exports contracted.

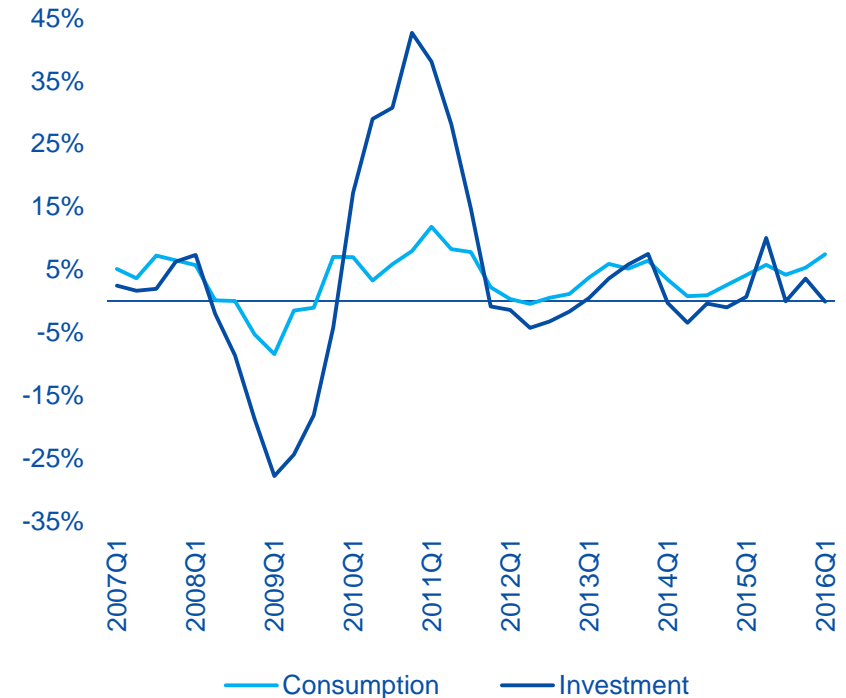
Contributors to GDP Growth

YoY Contribution



Growth Rates

YoY Change, %



Economic Activity: GDP

Risks are balanced around our 3.9% above consensus 2016 growth estimate as the recent initiative on Russian sanctions is likely to erase the negative burden on growth together with the pushing factors of minimum wage hike and refugee impact

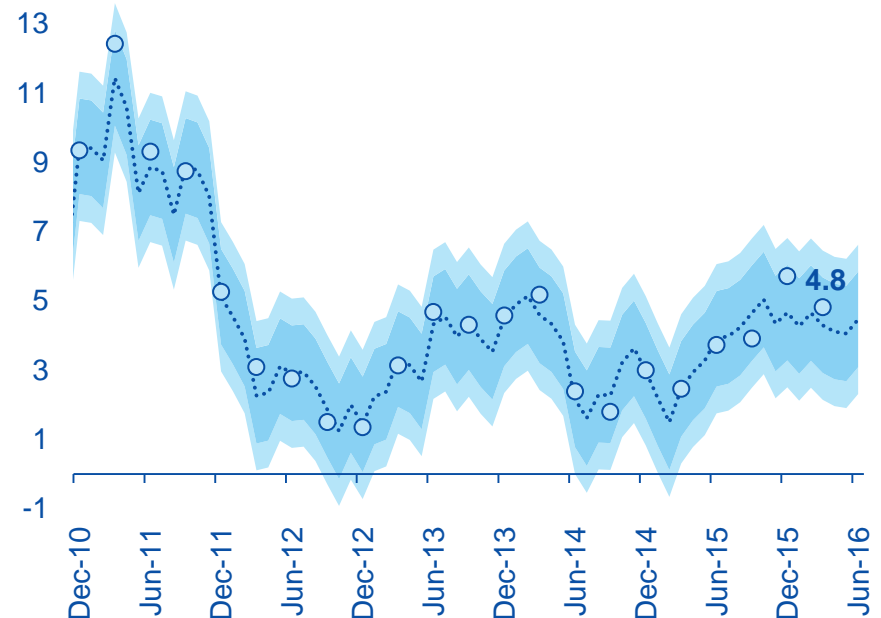
Activity Indicators

3 MA, YoY Change, %

	Mean	2015			2016				
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	6.0	4.6	3.1	7.5	4.0	5.5	5.6	4.5	
Non-metal Mineral	4.4	1.5	-0.2	5.4	2.0	6.5	5.6	6.0	
Electricity Production	5.0	4.4	4.2	6.5	5.4	5.9	4.4	3.8	3.4
Auto Sales	13.9	7.8	-1.0	3.5	3.9	0.9	-6.0	-6.8	-0.3
Tourist Arrivals	4.5	-3.1	-2.6	-3.9	-4.5	-8.0	-10.3	-18.7	-27.6
Number of Employed	4.3	3.4	3.3	3.1	3.1	3.2	3.4		
Number of Unemployed	0.6	2.7	1.7	1.9	1.2	0.9	-0.2		
Auto Imports	17.8	12.3	3.7	5.6	5.7	2.8	0.2	-2.0	0.8
Auto Exports	9.3	29.6	21.5	23.1	5.0	7.3	6.6	13.9	22.4
Financial Conditions	75.1	82.2	80.4	80.5	79.1	79.3	84.8	87.0	85.3
Credit Growth-13Week	21.2	4.0	7.9	10.2	6.2	9.6	9.4	12.1	11.3
PMI Manufacturing	51.7	49.5	50.9	52.2	50.9	50.3	49.2	48.9	49.4
Real Sector Confidence	107.6	103.6	110.2	108.8	105.9	105.2	104.1	105.7	105.7
GDP YoY		5.7%			4.8%				
		Contraction		Slow-down	Growth		Boom		

Monthly GDP Growth & Estimate

YoY Change, %

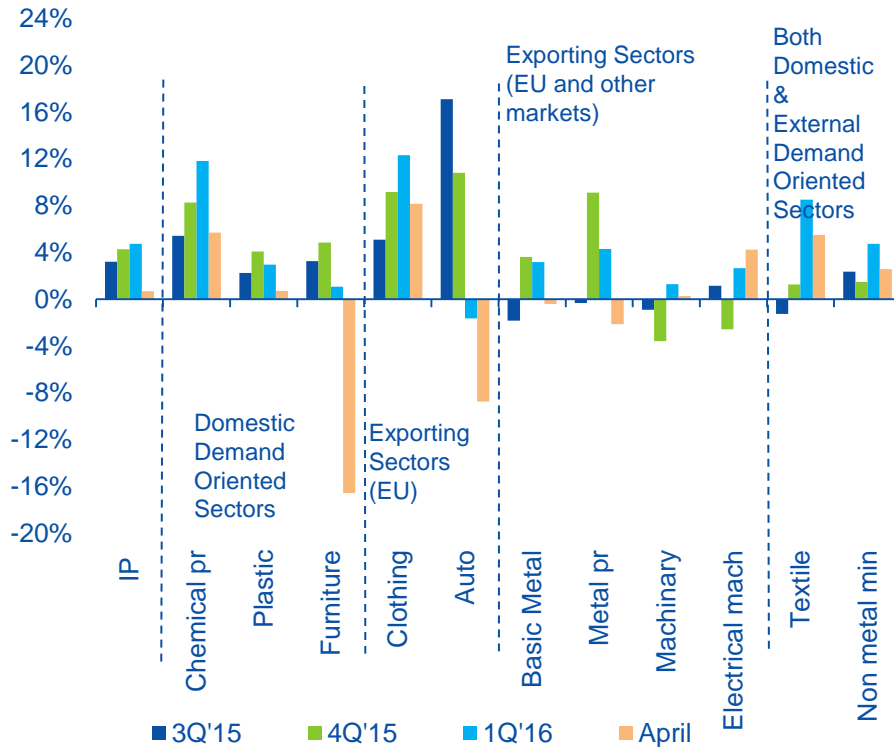


Economic Activity: Sectors

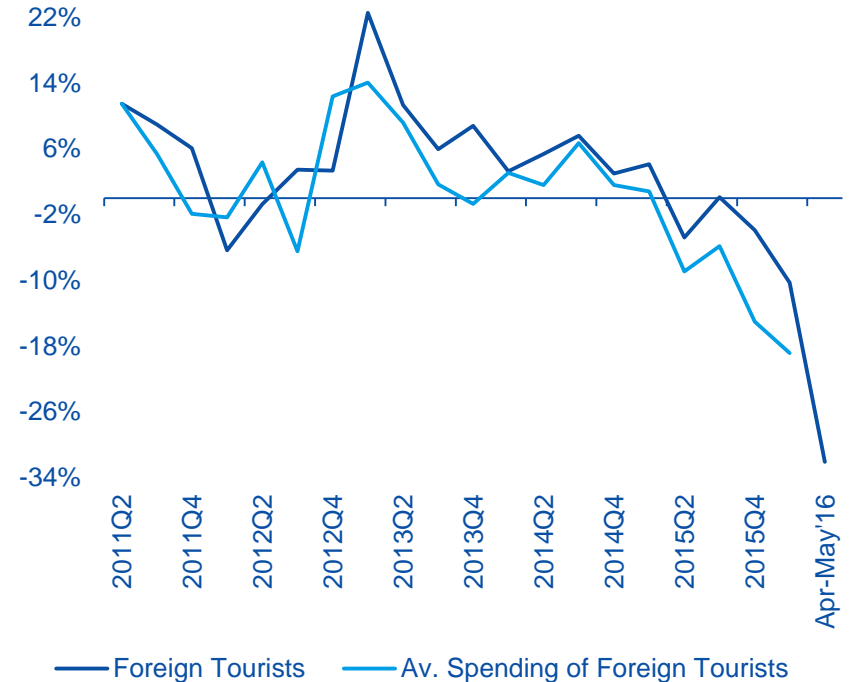
Industrial production significantly moderated in April. Tourist arrivals kept falling with the beginning of the high season

Sectors in Industrial Production (IP)

Calendar Adjusted, YoY



Tourism Sector, YoY

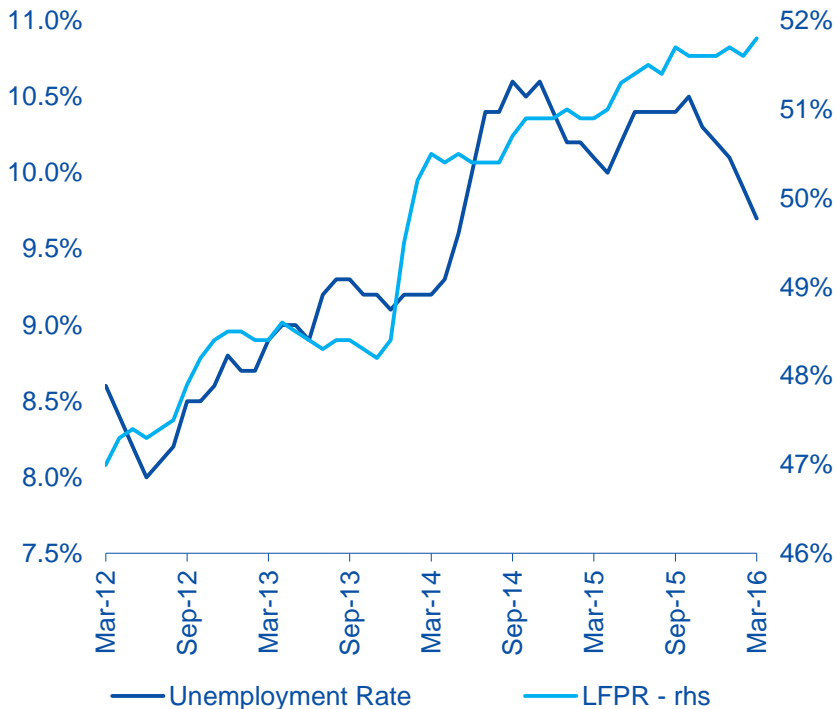


Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism

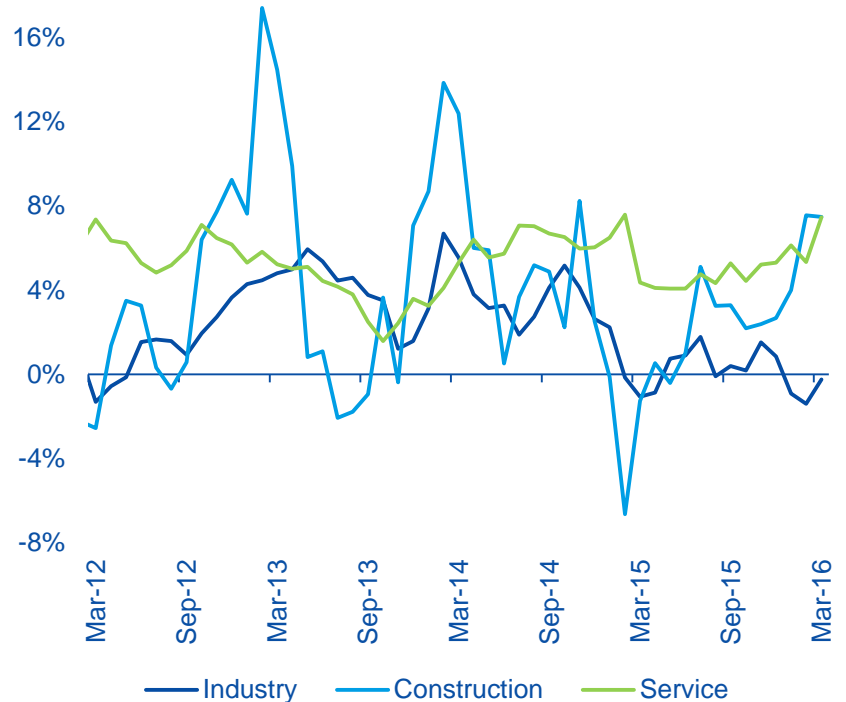
Economic Activity: Employment

Fall in unemployment rate continued in its 5th consecutive month and participation in labor force increased

Unemployment & Labor Force Part. Rate SA



Employment Growth in Sectors. YoY

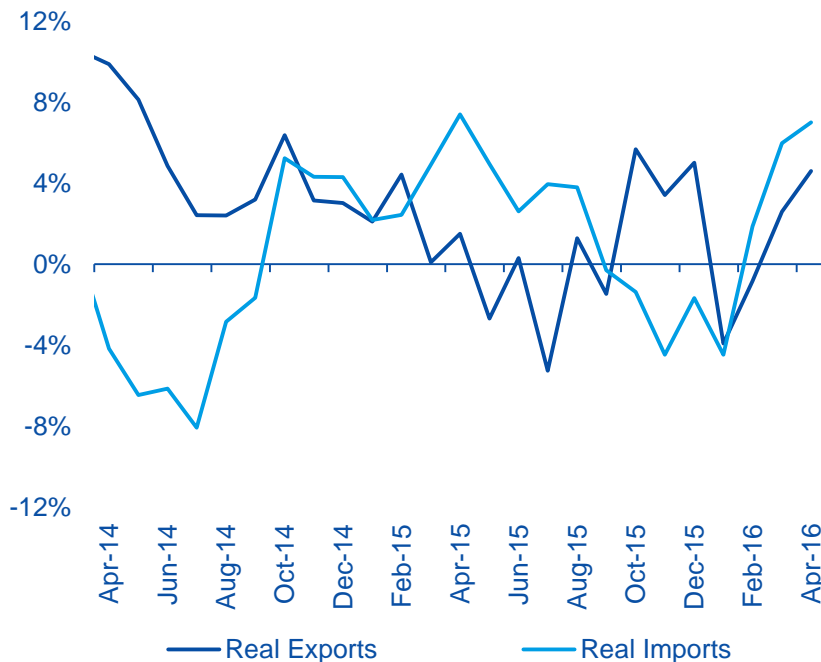


Economic Activity: Trade

By the beginning of 2Q, exports remained weak and the risks are on the downside as Brexit would weigh more on EU growth in the near future

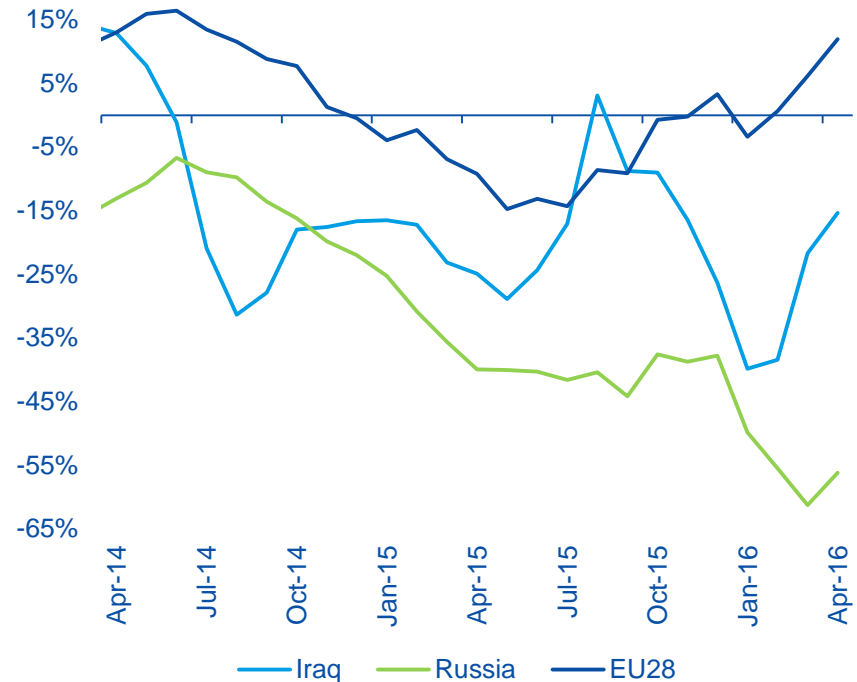
Foreign Trade Figures

3MA, YoY Change



Foreign Trade Figures

3MA, YoY Change



Inflation

Headline inflation remained constant at 6.6% in May. Food inflation contributed positively, while some core items had a reducing impact

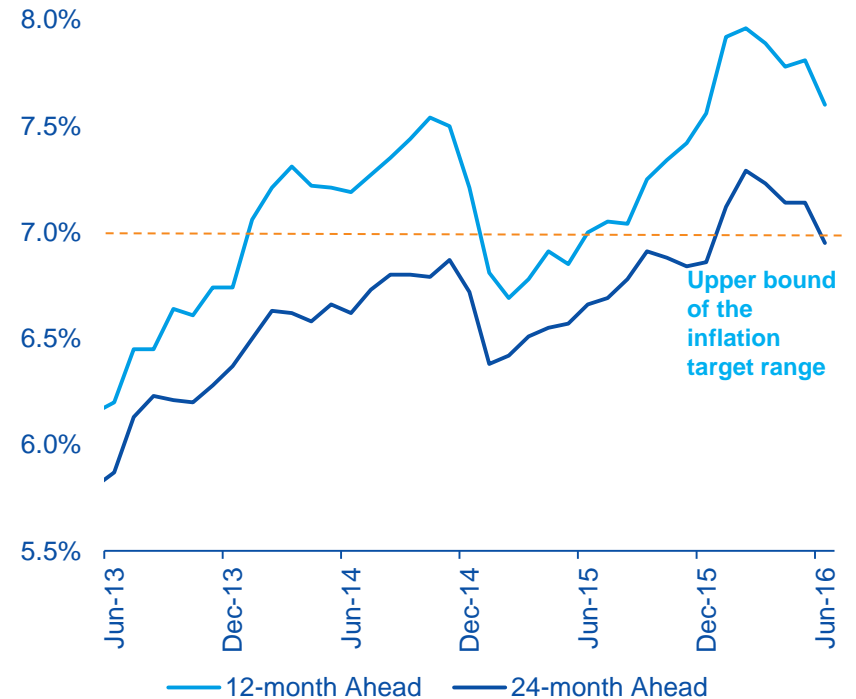
CPI & CBT's Core Inflation

YoY



Inflation Expectations

YoY

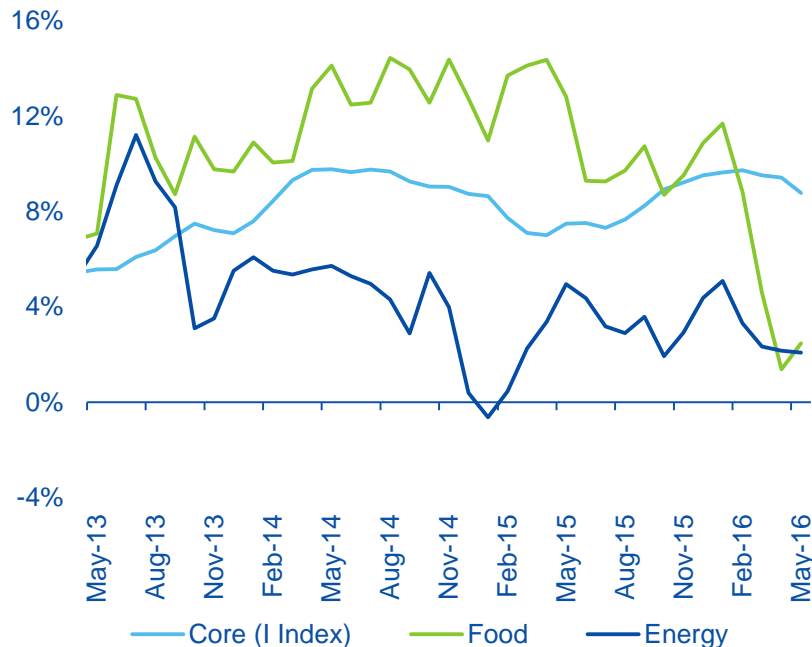


Inflation

Little margin for currency appreciation, cost push impacts of minimum wage hike and narrowing output gap are likely to restrain the improvement in core inflation. Food inflation will have a correction in June as well

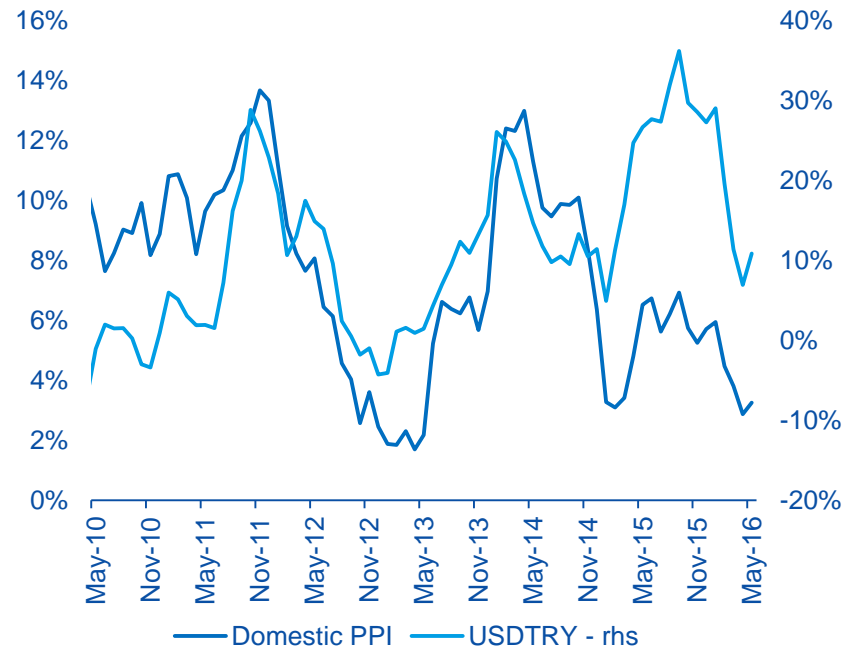
CPI Inflation Components

YoY



Domestic PPI & USD/TL

YoY

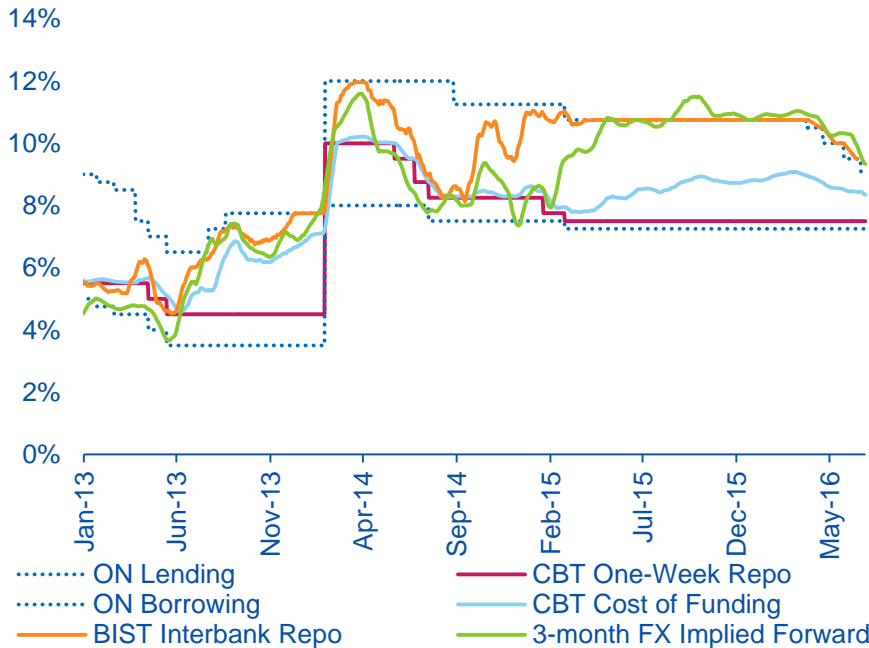


Monetary Policy

The CBT reduced the upper bound of the corridor further to 9.0% in June (175bps since March). The marked fall in inflation was once again the main argument behind the easing while the recent decrease in the core inflation was also added this time

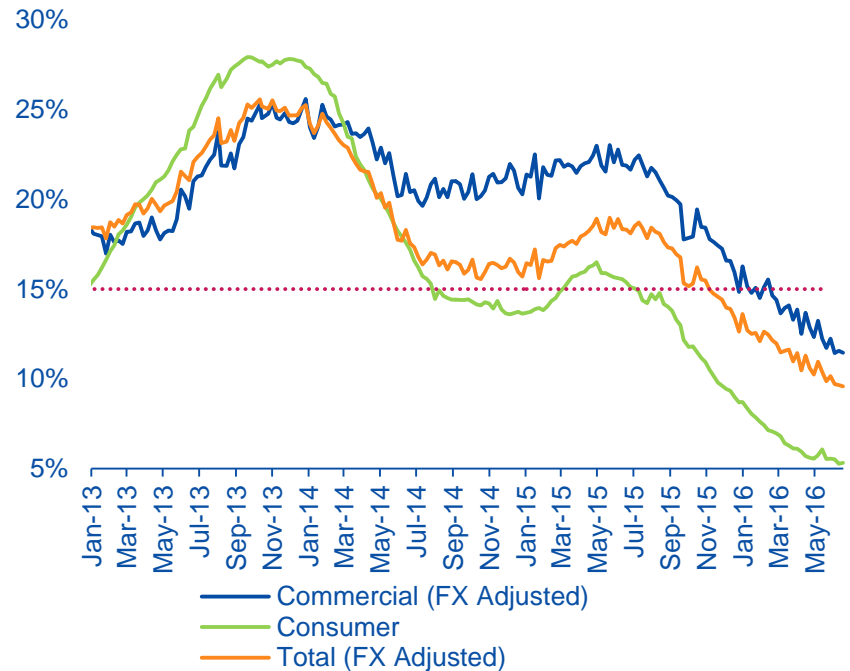
Interest Rate Corridor

Levels



Loan Growth Rates

YoY

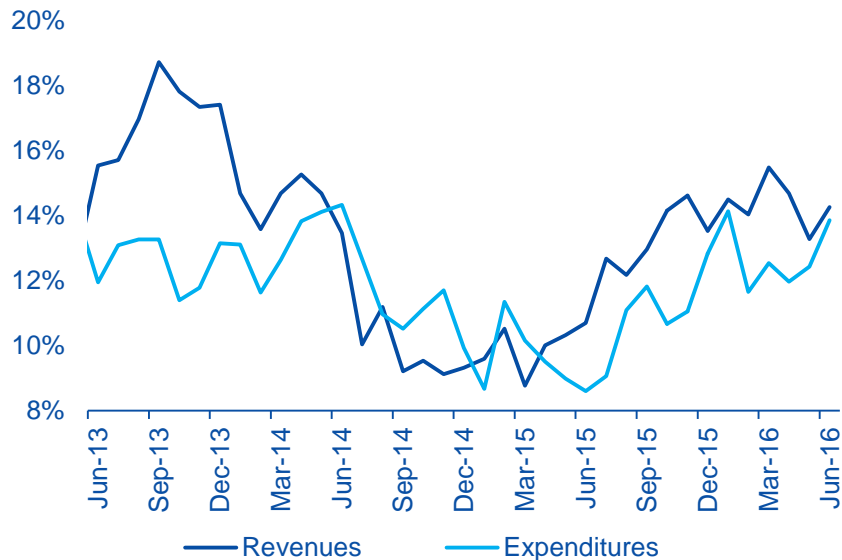


Fiscal Policy

Revenue growth remains solid being supported by one-off revenues, while subdued interest expenditures helped the overall expenditures to stay moderate year-to-date

Budget Expenditures & Revenues

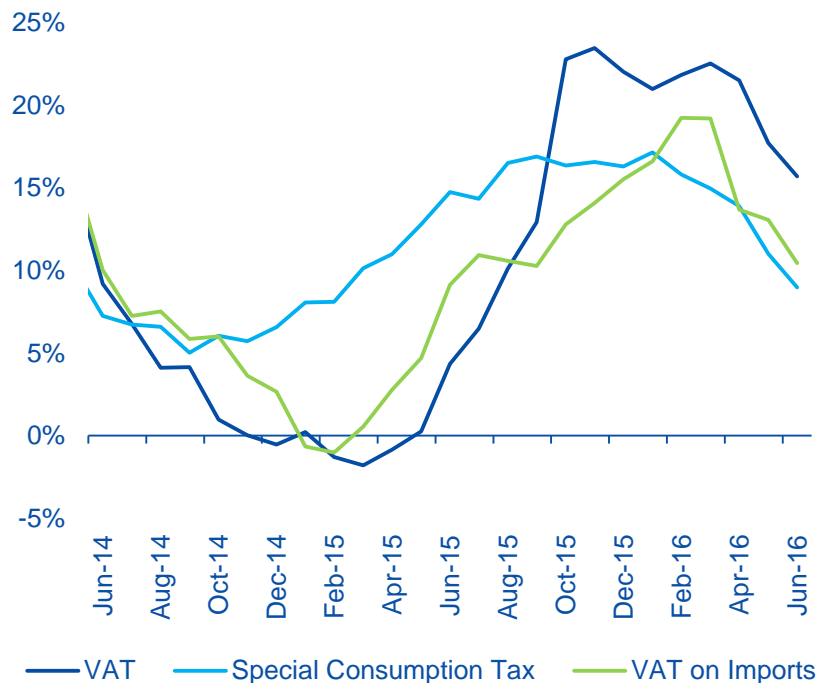
12-month sum, YoY Change



% 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

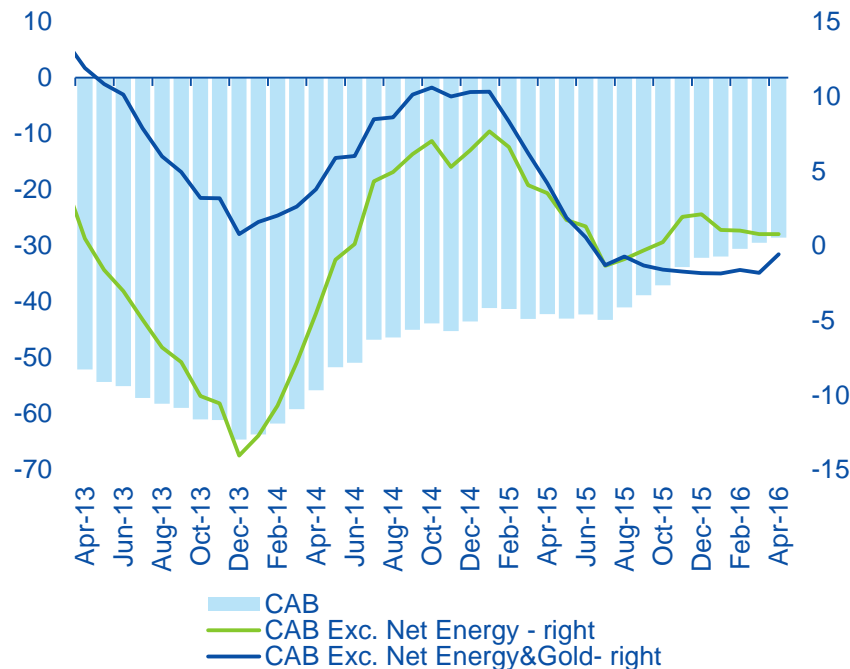


External Balance: CAB & Financing

CA deficit further narrowed to USD 28.6bn in April from USD 29.5bn (4.2% of GDP) in March. The adjustment may come to an end as of May due to uncertainties on tourism revenues in the high season and the recent pick-up in oil prices

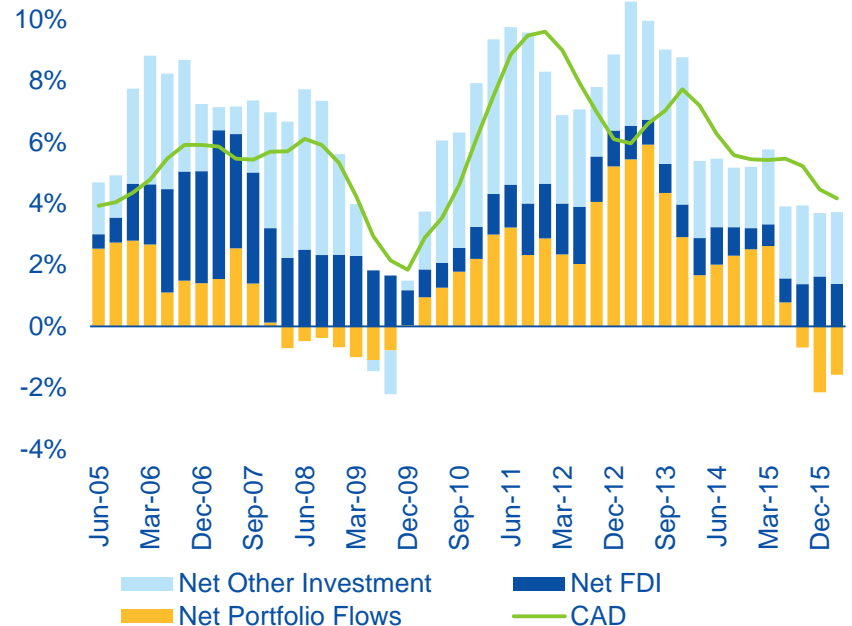
Current Account Balance

12-month sum, bn USD



Current Account Net Financing

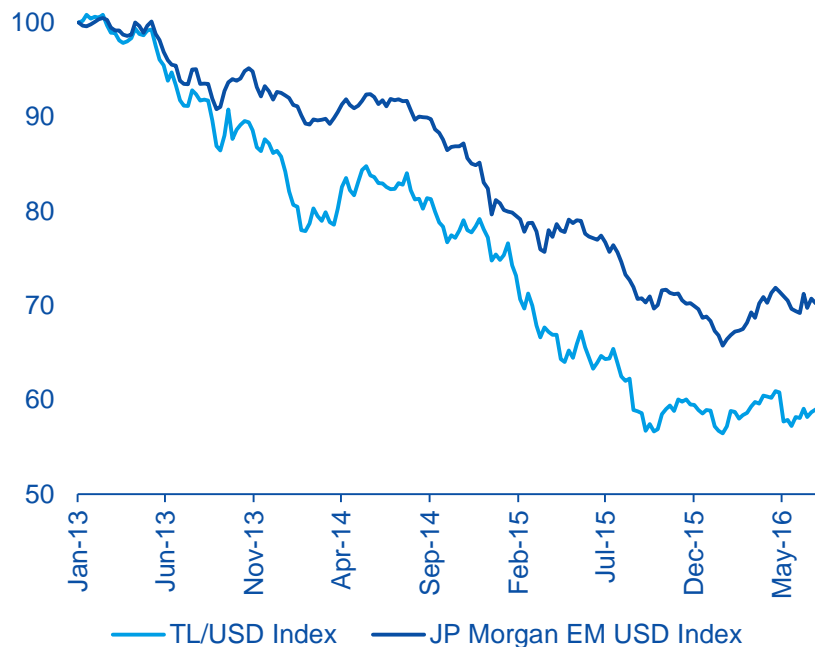
% GDP



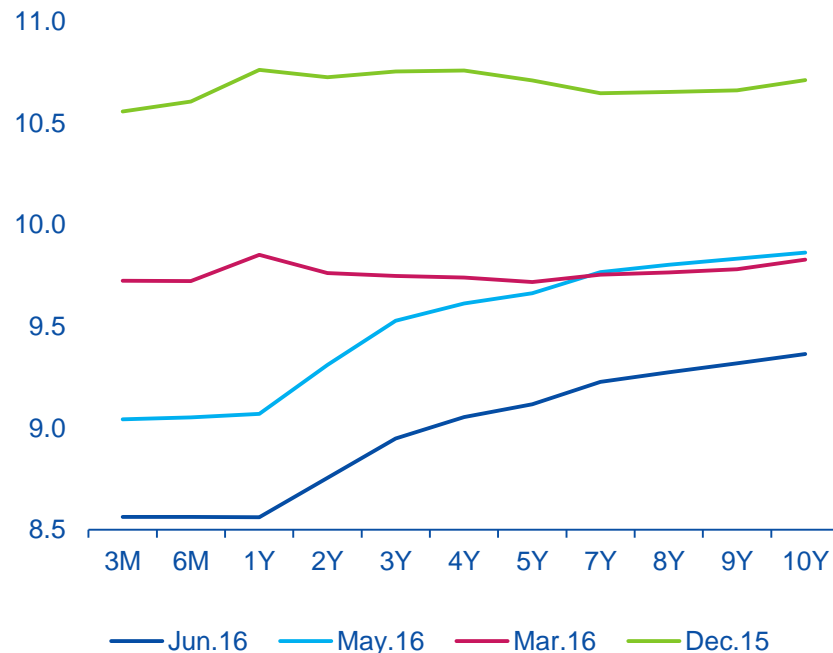
Exchange & Interest Rates

The initial impact on Turkish financial assets due to Brexit concerns has short-lived so far. Yield curve shifted downwards and continued to be positively sloped on further rate cut expectations from the CBRT

USD/TL vs Avg. of Emerging Markets



Yield Curve, %



Turkey

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June

July 1st 2016

Garanti – BBVA Research

Uğur N. Küçük

ugurkucu@garanti.com.tr

Seda Güler

sedagul@garanti.com.tr

Asuman Kemiksiz

asumankem@garanti.com.tr