BBVA | RESEARCH

Monthly Economic Monitor

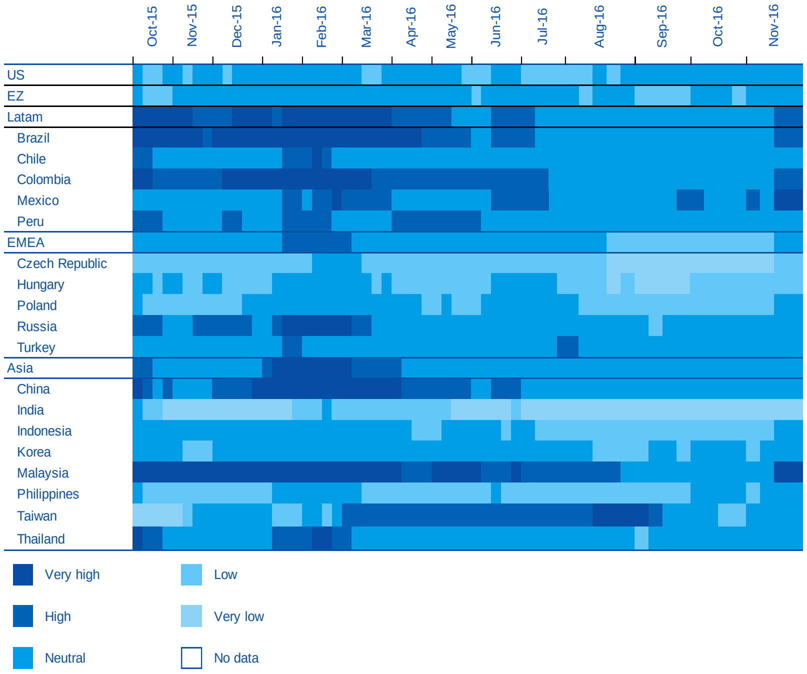
Turkey

30 NOVEMBER 2016

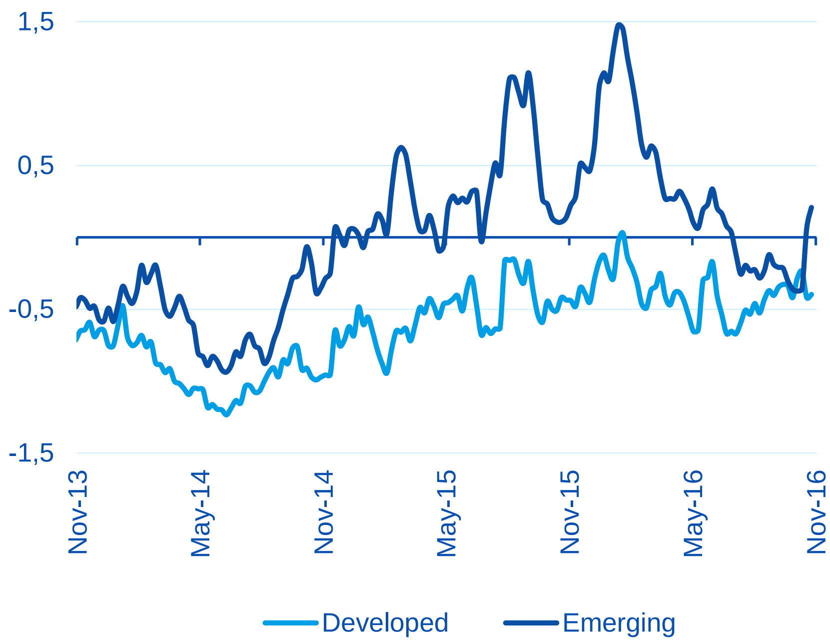
Global Developments

- Financial stress for emerging markets rose in November, mostly following the US elections and increase in the probability of a Fed rate hike in December

FINANCIAL STRESS INDEX REGIONAL MAP
Standard deviation ≈ (-1, 1)



BBVA RESEARCH FINANCIAL STRESS INDEX
normalized index

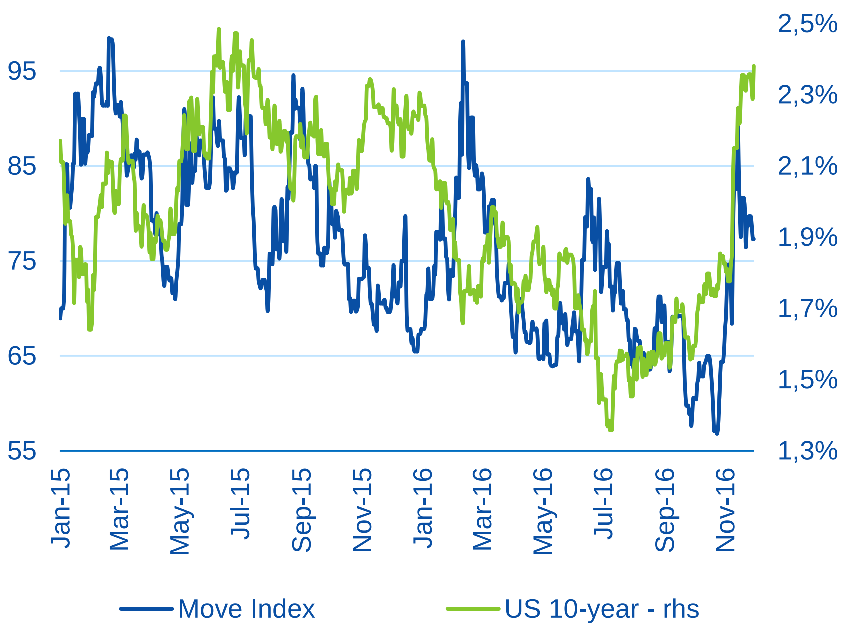


Source: BBVA Research & Bloomberg

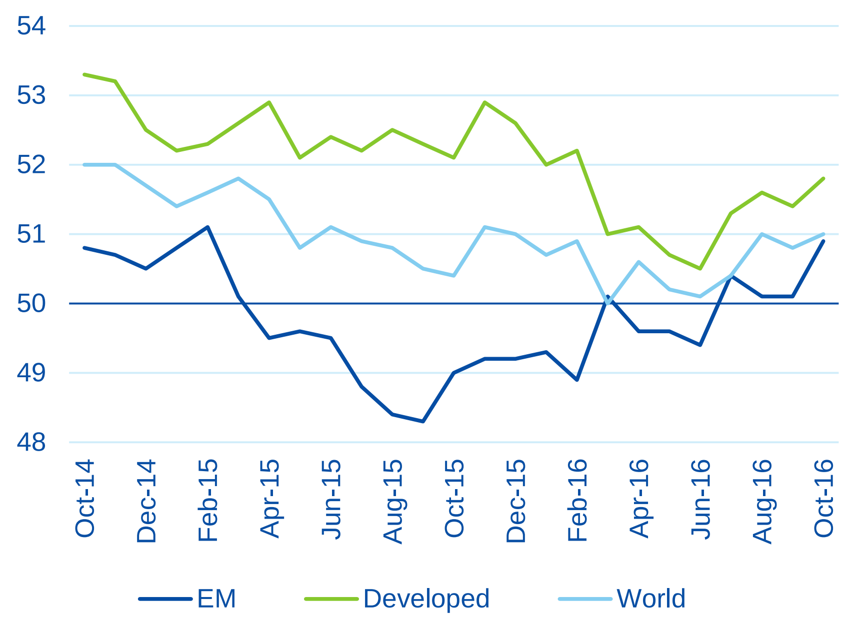
Global Developments

- Global manufacturing activity shows a recovery though the increasing yields and volatility in US bond markets requires extra attention for EMs

MOVE VOLATILITY INDEX & US 10Y RATES



MANUFACTURING PMI
(50 is the threshold for growth)

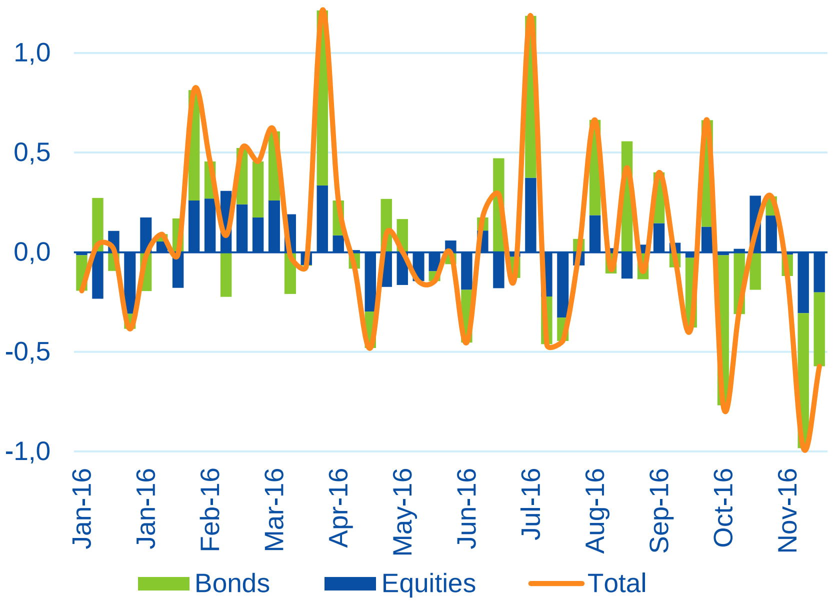


Source: BBVA Research, Bloomberg & Markit

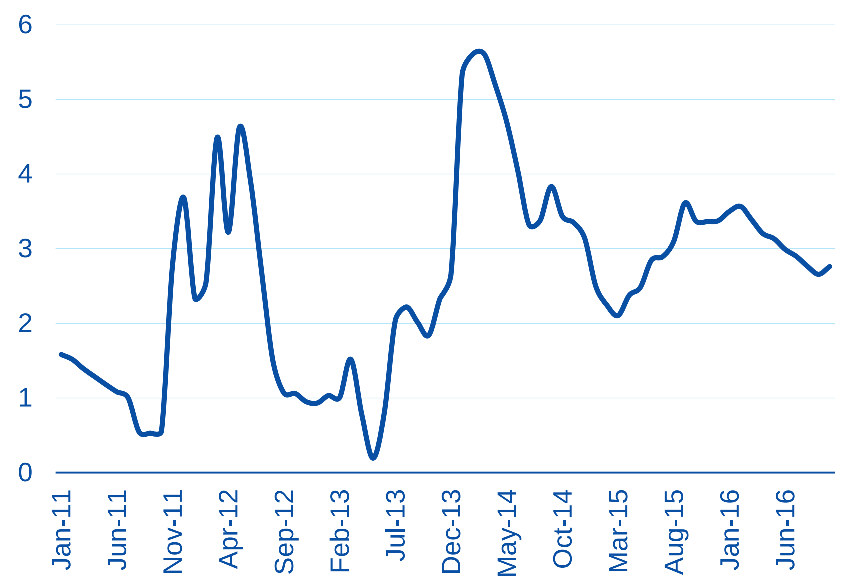
Flows to Turkish Assets

- Turkish markets incurred extensive outflows causing heightened volatility in Turkish financial assets

EXTERNAL FUND FLOWS
Weekly net change, USDbn



TURKEY AVERAGE FUNDING RATE - EMERGING MARKETS AVERAGE KEY RATES DIFFERENCE
(%)



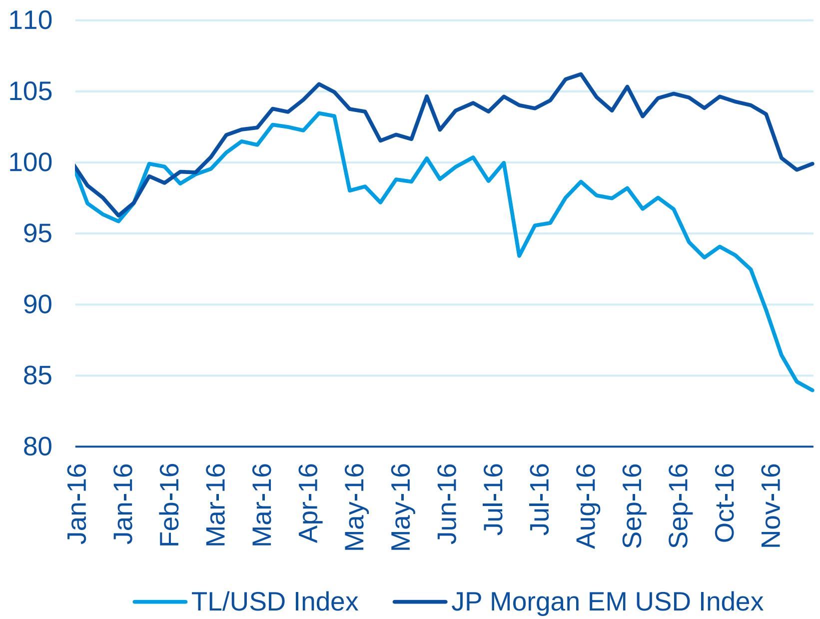
Source: CBRT, Garanti Research & Bloomberg

Exchange & Interest Rates

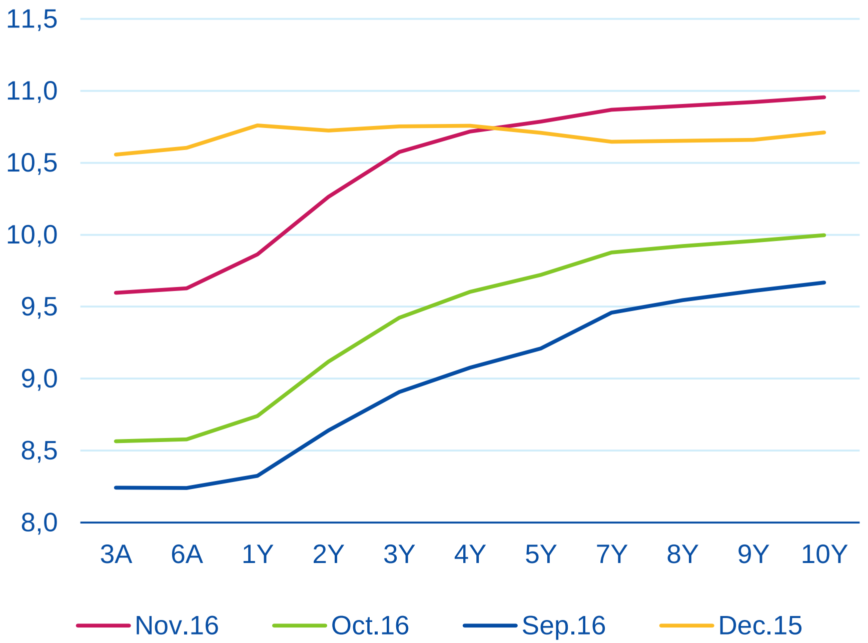
- Turkish lira depreciated to record lows in November. CBT hiked the rates in response, though the kickback in TL was short-lived. The yield curve shifted upwards

USD/TL VS AVG. OF EMERGING MARKETS

December 2015 = 100



YIELD CURVE



Source: Garanti Research, Bloomberg

Economic Activity: GDP

- Our monthly GDP tracker points at an annual contraction in GDP growth in 3Q. The preliminary figures so far indicate a u-shaped recovery for the last quarter

ACTIVITY INDICATORS

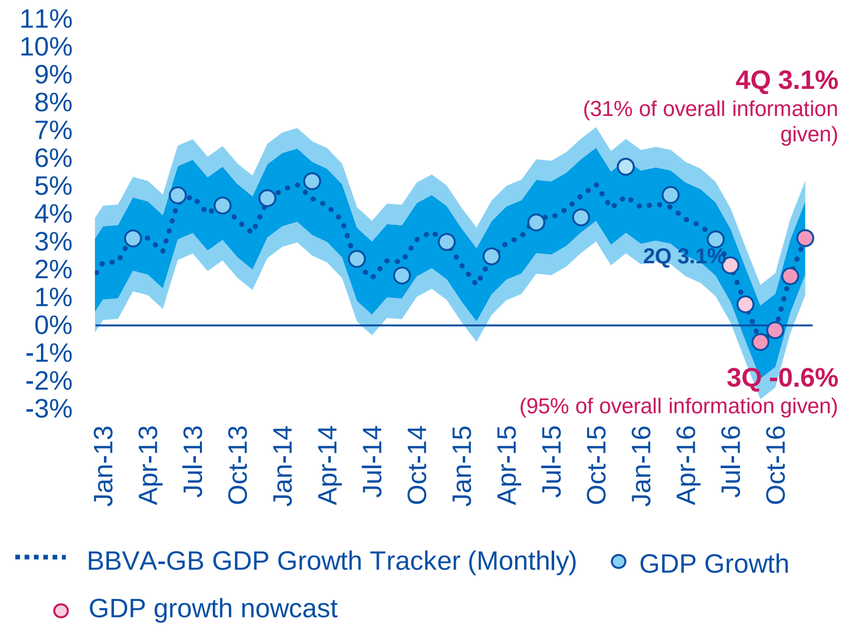
3 MA, YoY Change, %

		2015	2016									
	Mean	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Production	3.8	7.5	4.0	5.5	5.6	4.5	4.1	2.9	0.1	-14	-3.2	
Non-metal Mineral	15	5.4	2.0	6.5	5.6	6.0	13	0.4	-3.3	-15	-3.0	
Electricity Production	4.0	6.5	5.4	6.1	4.7	4.2	4.1	6.5	5.9	5.8	18	2.0
Auto Sales	3.9	3.5	3.9	0.9	-6.0	-6.8	-0.3	2.5	-4.6	-13.3	-15.2	4.5
Tourist Arrivals	0.4	-3.9	-4.5	-8.0	-10.3	-18.7	-27.6	-35.6	-37.4	-38.3	-36.0	-33.1
Number of Employed	3.8	3.1	3.1	3.1	3.2	3.3	3.1	2.4	17	13		
Number of Unemployed	4.0	18	11	10	0.1	0.1	14	4.5	8.0	11.2		
Auto Imports	6.5	5.7	5.7	2.8	0.2	-2.0	0.8	2.6	-3.5	-9.7	-10.2	8.9
Auto Exports	7.3	23.1	5.0	7.3	6.6	13.9	22.4	216	24.3	14.7	12.2	9.9
Financial Conditions	76.0	80.5	79.1	79.3	84.8	87.0	85.3	86.7	912	88.4	88.6	92.7
Credit Growth-13Week	20.5	10.2	6.2	9.6	9.4	12.1	11.3	13.5	8.8	9.1	6.0	10.0
PMI Manufacturing	515	52.2	50.9	50.3	49.2	48.9	49.4	47.4	47.6	47.0	48.3	49.8
Real Sector Confidence	107.4	108.8	105.9	105.2	104.1	105.7	105.7	104.3	106.3	103.0	107.1	103.8
MICA Forecast											-0.6%	-0.2%
GDP YoY		5.7%			4.7%			3.1%				

		Contraction	Slow-down	Growth	Boom	

MONTHLY GDP GROWTH & ESTIMATE

YoY Change, %

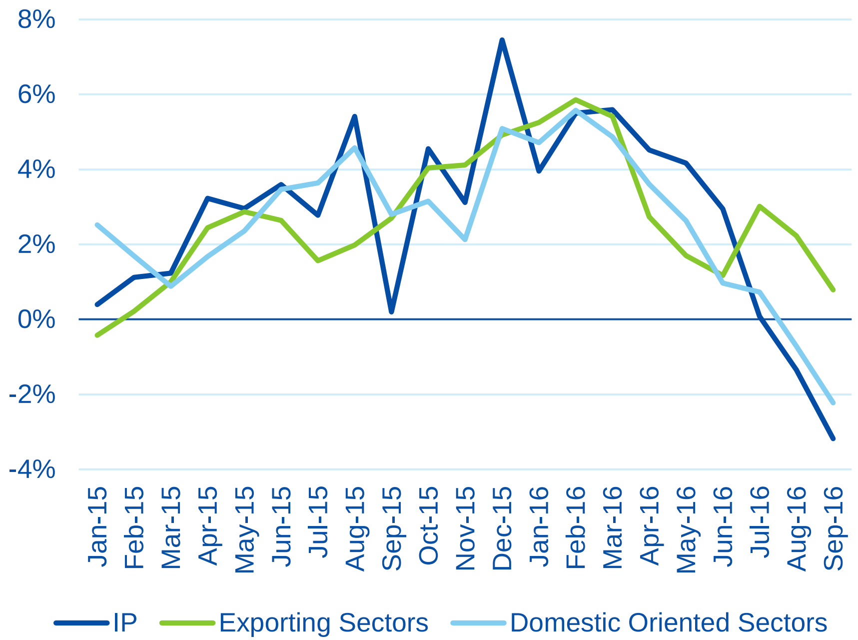


Source: Garanti Research, Turkstat, Bloomberg

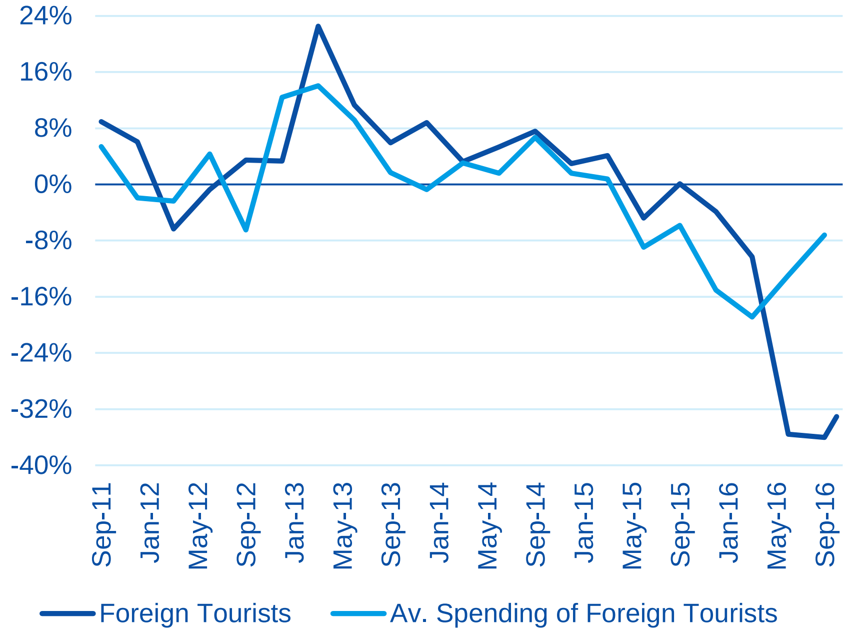
Economic Activity: Sectors

- IP contracted in 3Q with the domestic oriented sectors. Contraction in tourist arrivals point at a notable weakness in tourism related sectors

SECTORS IN INDUSTRIAL PRODUCTION (IP)
3MA, YoY



TOURISM SECTOR
YoY

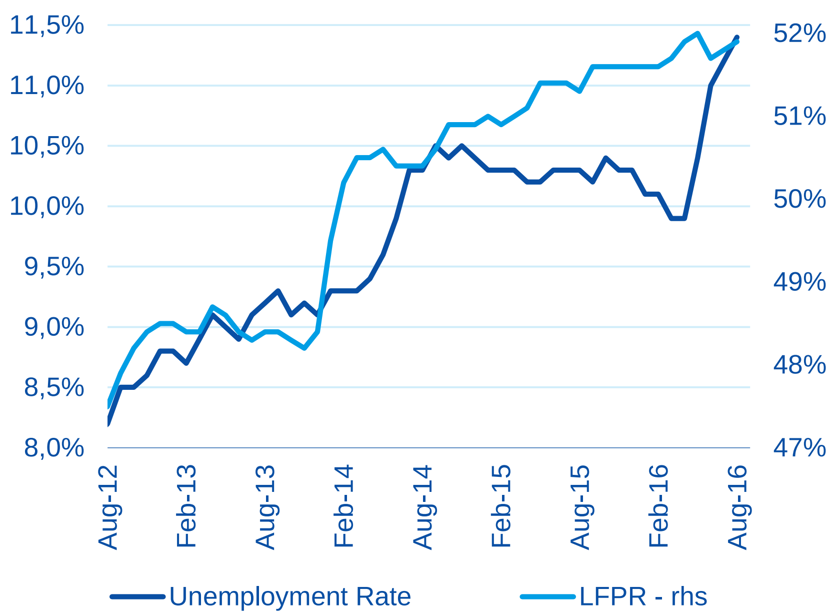


Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism

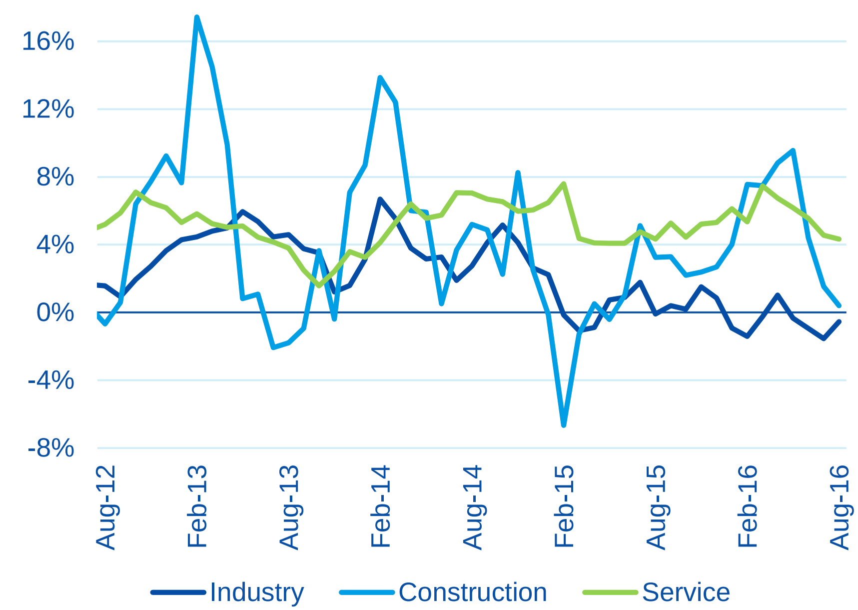
Economic Activity: Employment

- Unemployment rate rose over 11% by August, while the weak employment figures in industrial sector confirms the slowdown in production

UNEMPLOYMENT & LABOR FORCE PART. RATE
SA



EMPLOYMENT GROWTH IN SECTORS
YoY

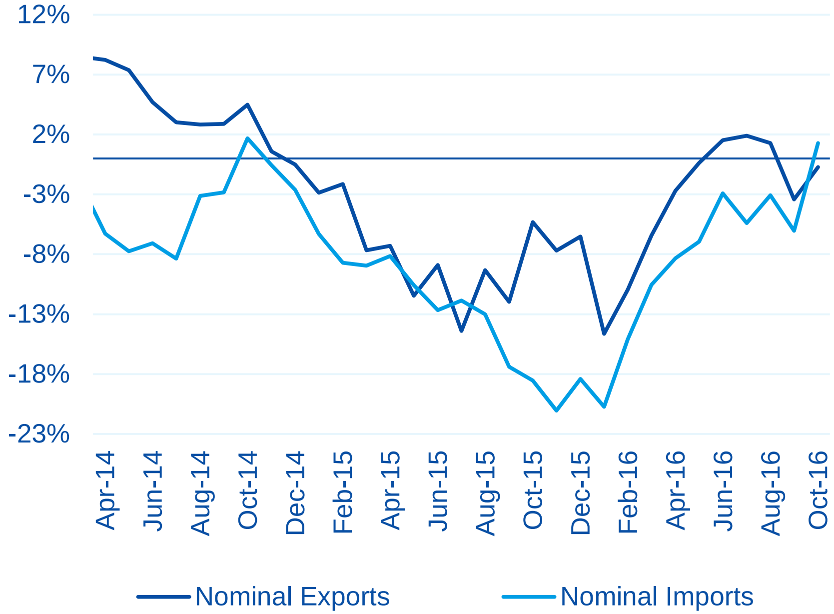


Source: Garanti Research, Turkstat

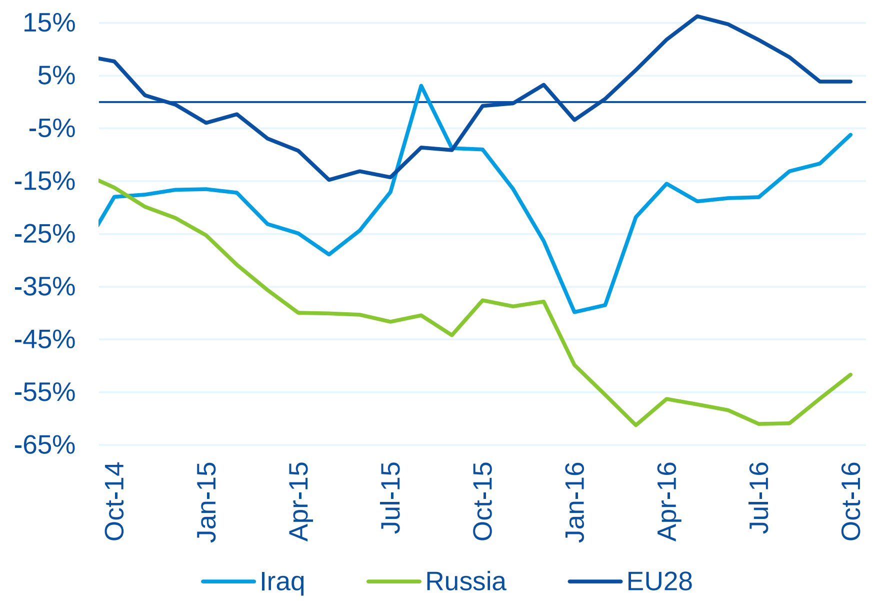
Economic Activity: Trade

- Nominal trade growth rates continue their gradual recovery as oil prices recovered from historical lows. Exports to economic crisis hit Russia and geopolitically challenged Iraq remain in the negative territory while EU exports stay modest

FOREIGN TRADE FIGURES
3MA, YoY Change



FOREIGN TRADE FIGURES
3MA, YoY Change

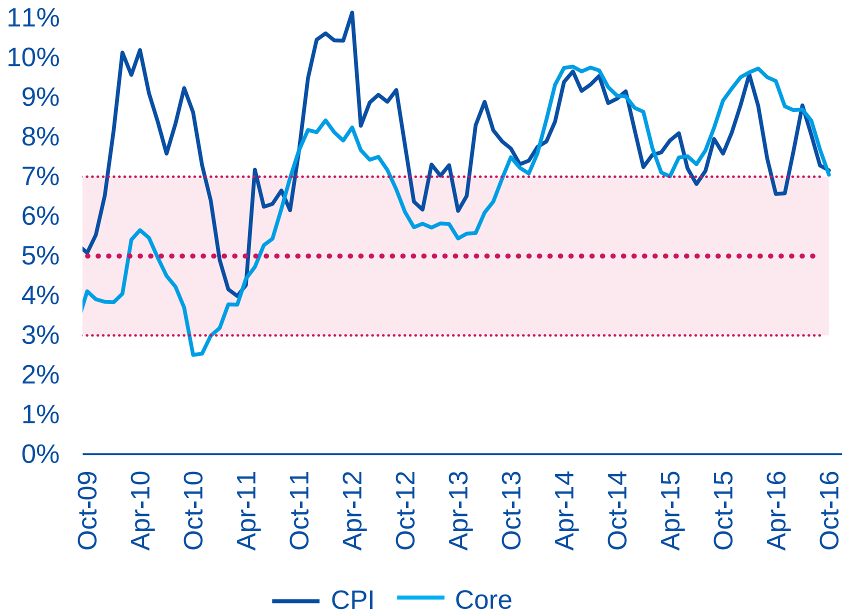


Source: Garanti Research, Turkstat

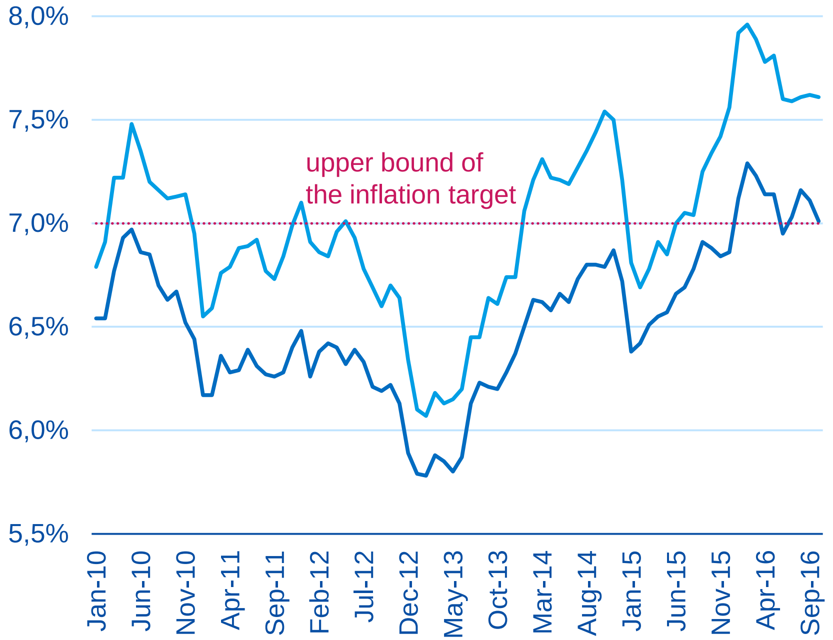
Inflation

- CPI inflation fell further in September as the core inflation declined with low demand. FX pass-thru from recent currency depreciaiton and recent tax hikes will push the core upwards in the upcoming period

CPI & CBT'S CORE INFLATION
YoY



INFLATION EXPECTATIONS
YoY

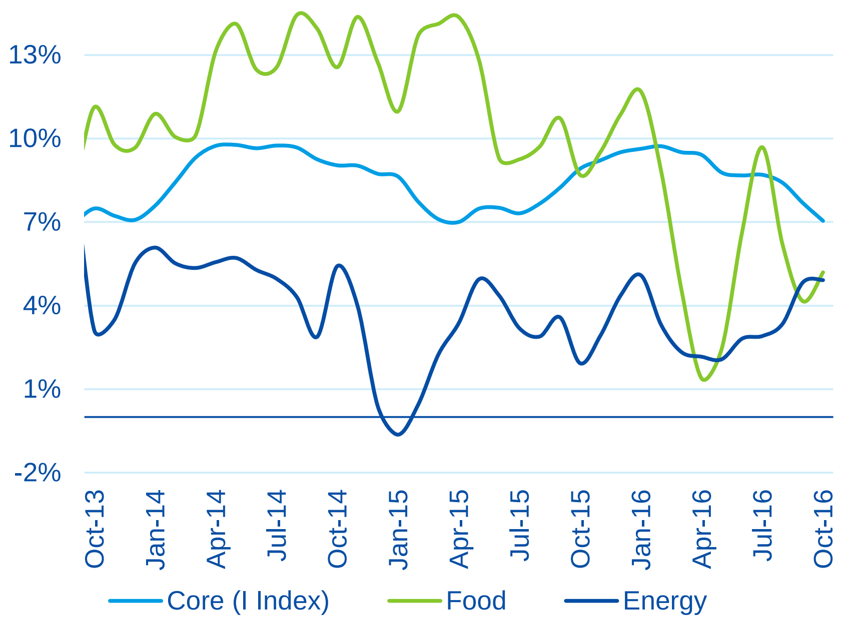


Source: Garanti Research, Turkstat, CBrT

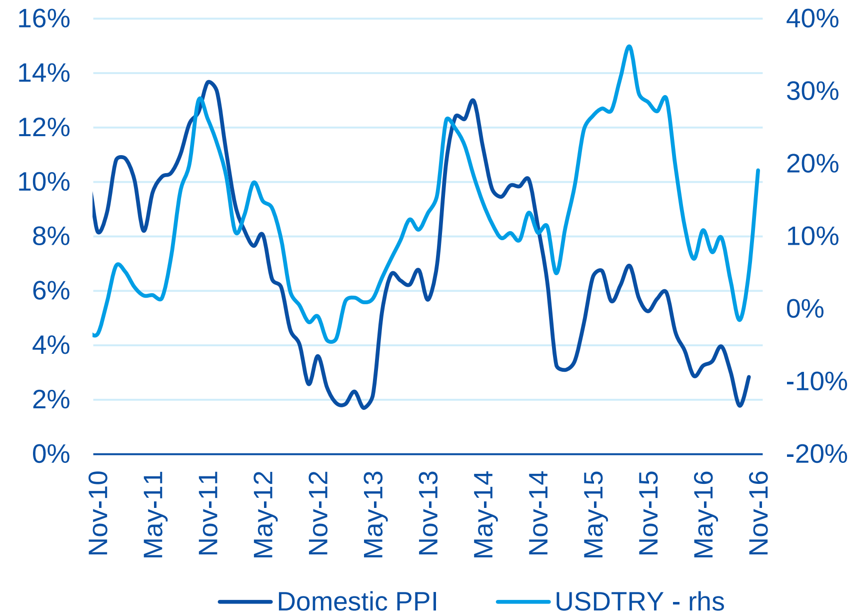
Inflation

- Food inflation remains below its long-term average on the Food Committee's actions and secondary effects of weak tourism sector activities. However, currency depreciation and higher energy prices will increase producer prices

CPI INFLATION COMPONENTS
YoY



DOMESTIC PPI & USD/TL
YoY



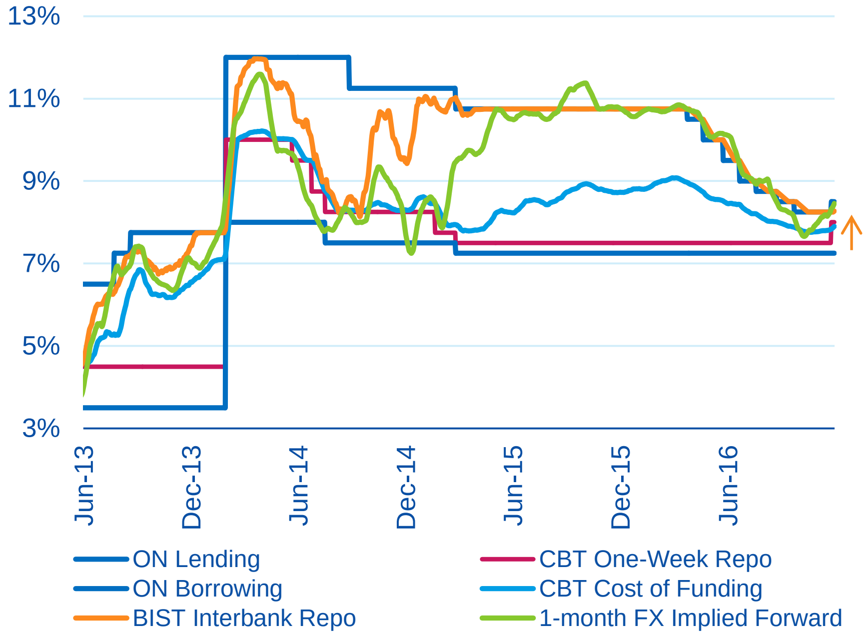
Source: Garanti Research, Turkstat, CBrT

Monetary Policy

- Considering the recent weakness in lira, the CBT hiked the upper bound of its interest rate corridor (25bps to 8.5%) and the policy rate (50bps to 8.0%)

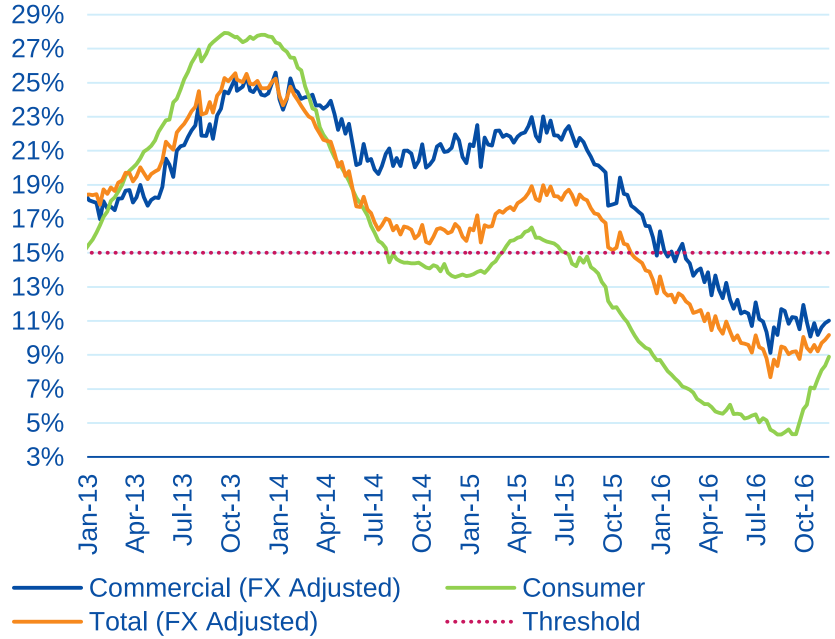
INTEREST RATE CORRIDOR

Levels



LOAN GROWTH RATES

YoY



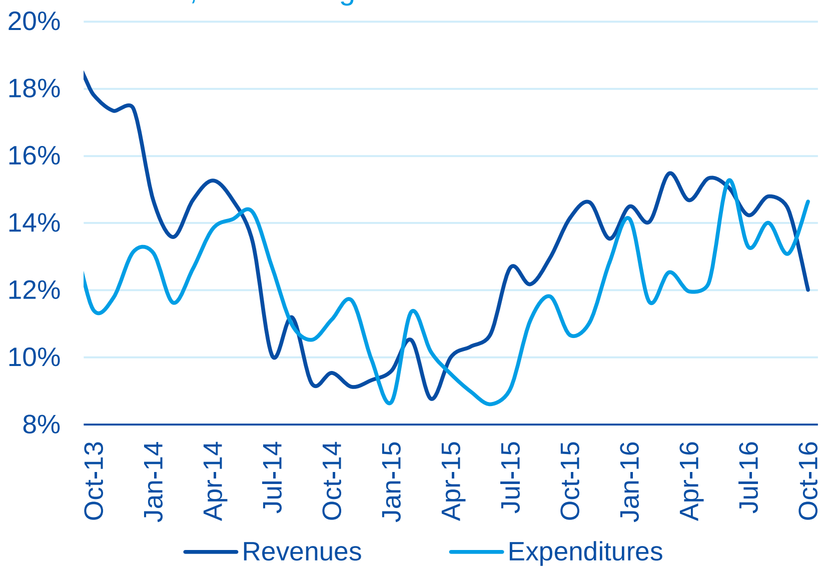
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Fiscal Policy

- October figures did not signal a solid recovery in tax revenues, while non-interest expenditures grew remarkably especially on the back of investment expenditures

BUDGET EXPENDITURES & REVENUES

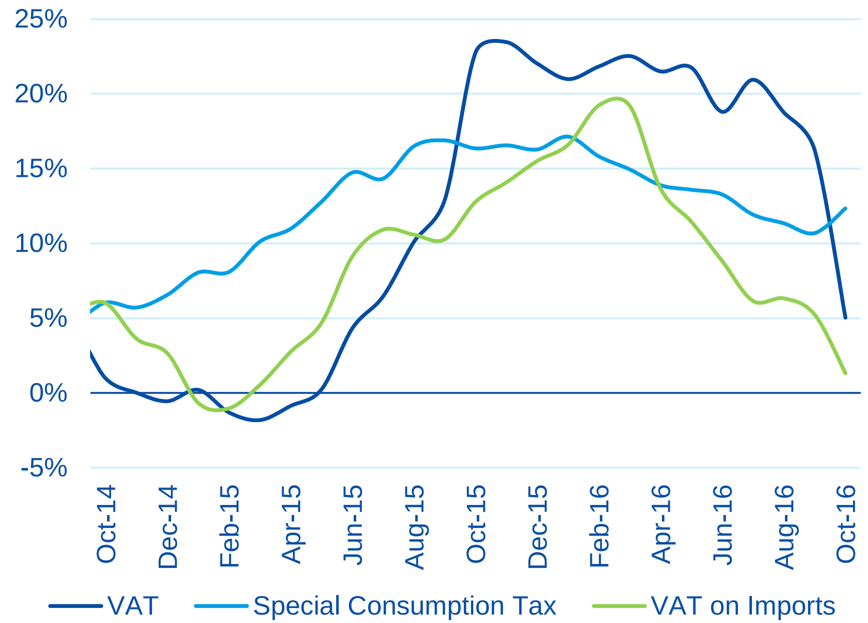
12-month sum, YoY Change



% GDP	2014	2015	2016 MTP R
Primary Balance	1.6%	1.6%	0.8%
Budget Balance	-1.3%	-1.2%	-1.6%

TAX REVENUES

12-month sum, YoY Change



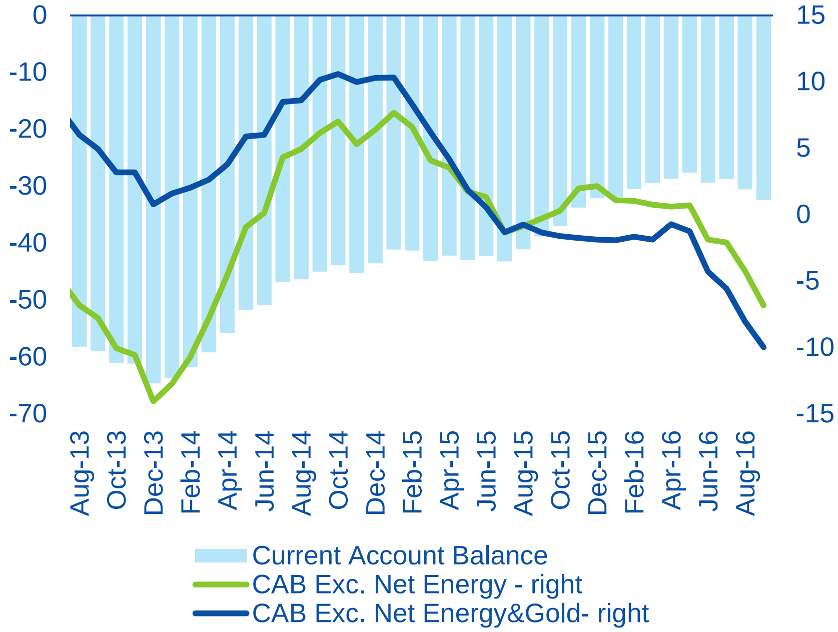
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

External Balance: CAB & Financing

- Current account deficit widened as tourism revenues fell and support from low oil prices lessened. External long-term debt roll-over ratios remain healthy

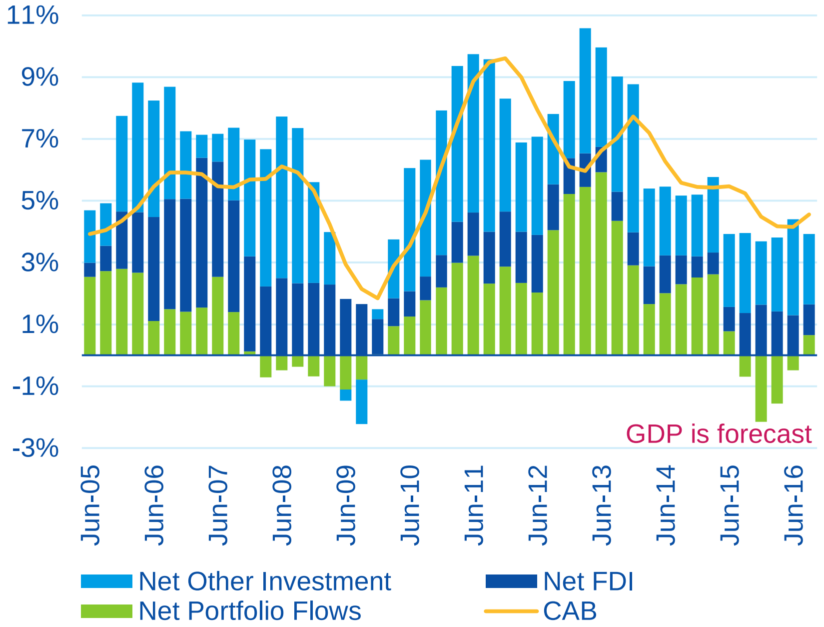
CURRENT ACCOUNT BALANCE

12-month sum, bn USD



CURRENT ACCOUNT NET FINANCING

12-month sum, % GDP



Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

BBVA RESEARCH

Monthly Economic Monitor

Turkey

30 NOVEMBER 2016

Uğur N. Küçük ugurkucu@garanti.com.tr
Seda Güler sedagul@garanti.com.tr
Asuman Kemiksiz asumankem@garanti.com.tr
Gizem Önen gizemon@garanti.com.tr