

MONTHLY ECONOMIC MONITOR

# TURKEY

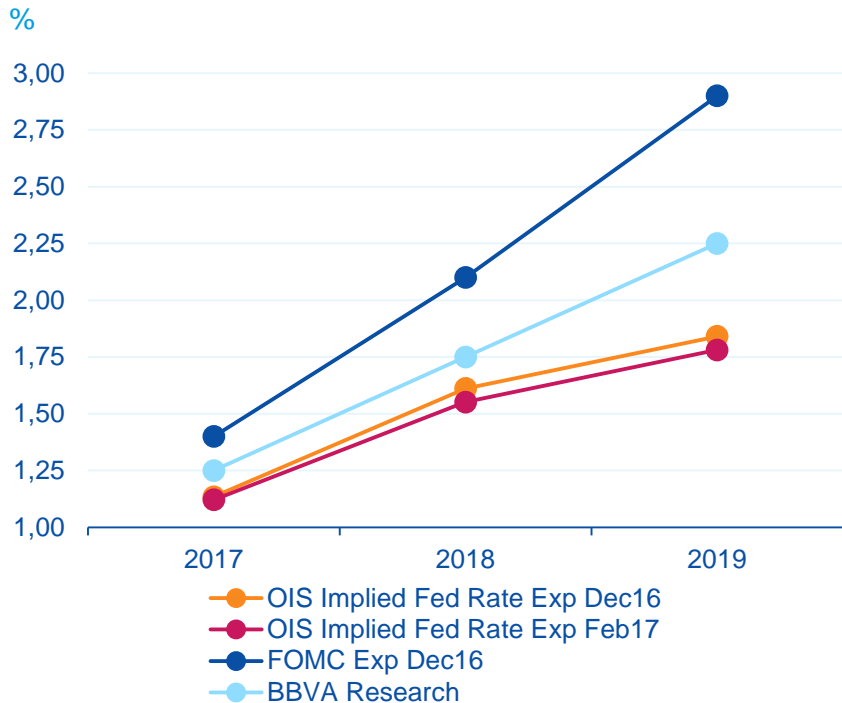
1 MARCH 2017



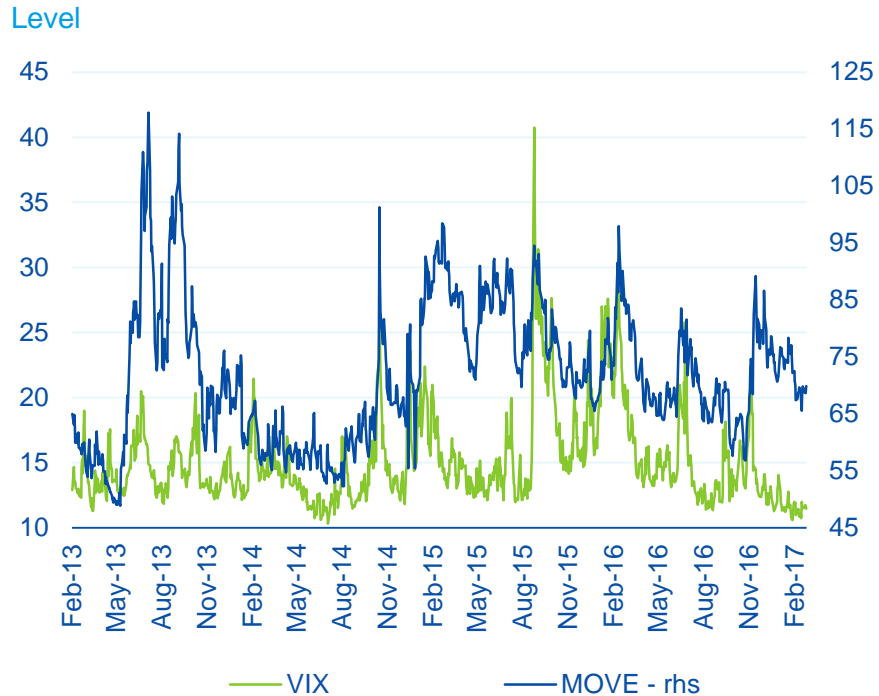
# Global Developments

Global markets remained calm and volatility indices were relatively low throughout February. However, expectations ahead of Trump’s joint session of the Congress created some tension at the end of the month.

## FED RATE EXPECTATIONS



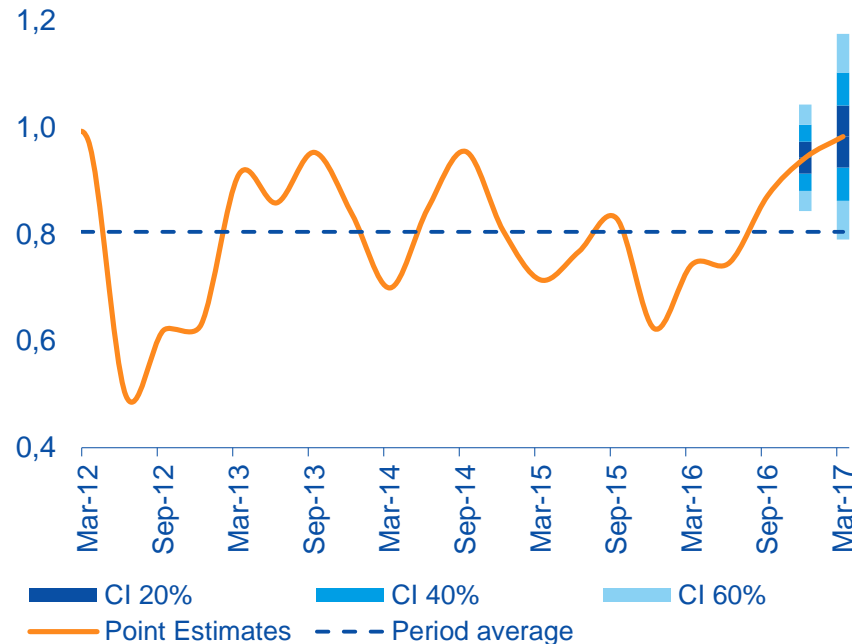
## MOVE AND VIX INDICES



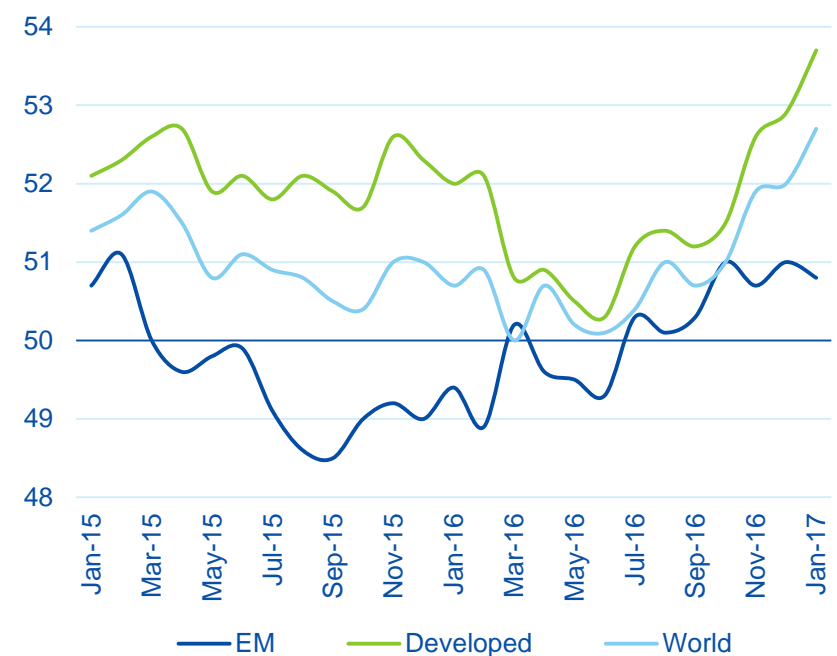
# Global Developments

Global growth could be gathering pace in 1Q17 driven mostly by industrial activity and improving global trade. Global manufacturing PMI increased with the support of the developed countries.

**WORLD GDP GROWTH**  
forecasts based on BBVA-GAIN (% , QoQ)



**MANUFACTURING PMI**  
(50 is the threshold for growth)

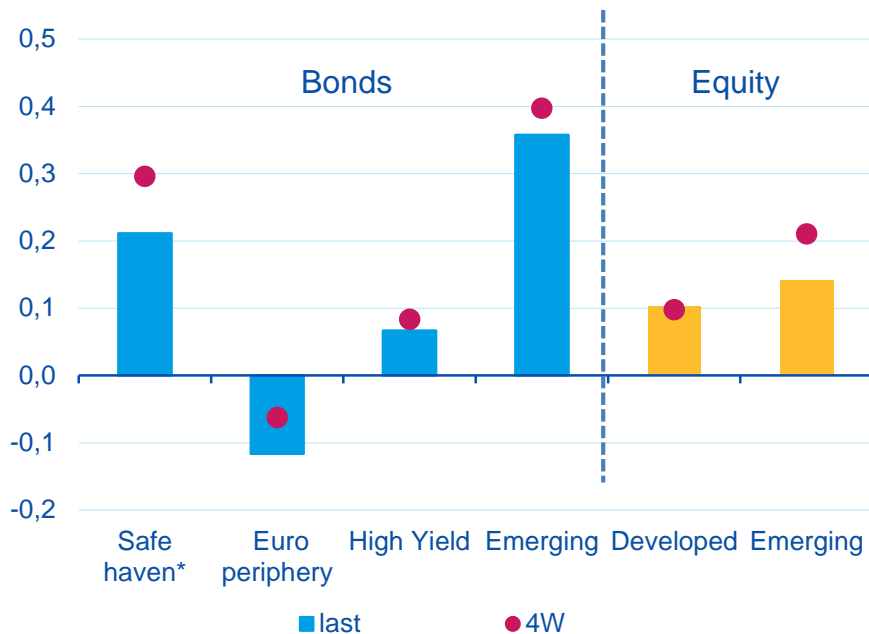


# Global Flows and Flows to Turkish Assets

Risk on mood in global markets and inflows to emerging markets continued in February. Turkey has benefited from this in the first 3 weeks of the month, mostly via equity market inflows.

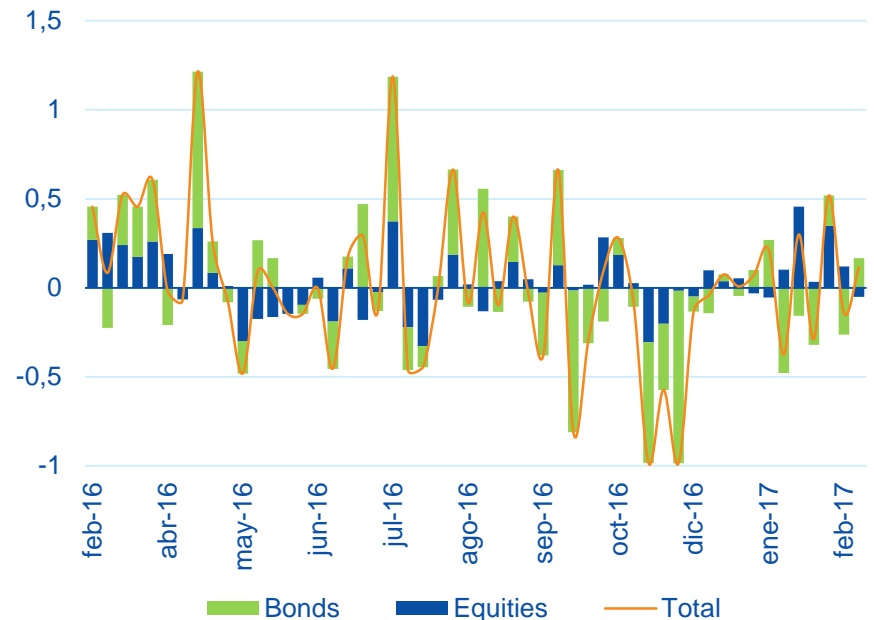
## REGIONAL PORTFOLIO FLOWS BY ASSET

last week's average vs four-week moving average (%)



## EXTERNAL FUND FLOWS TO TURKEY

Weekly net change, USDbn



Source: CBRT, Garanti Research & Bloomberg

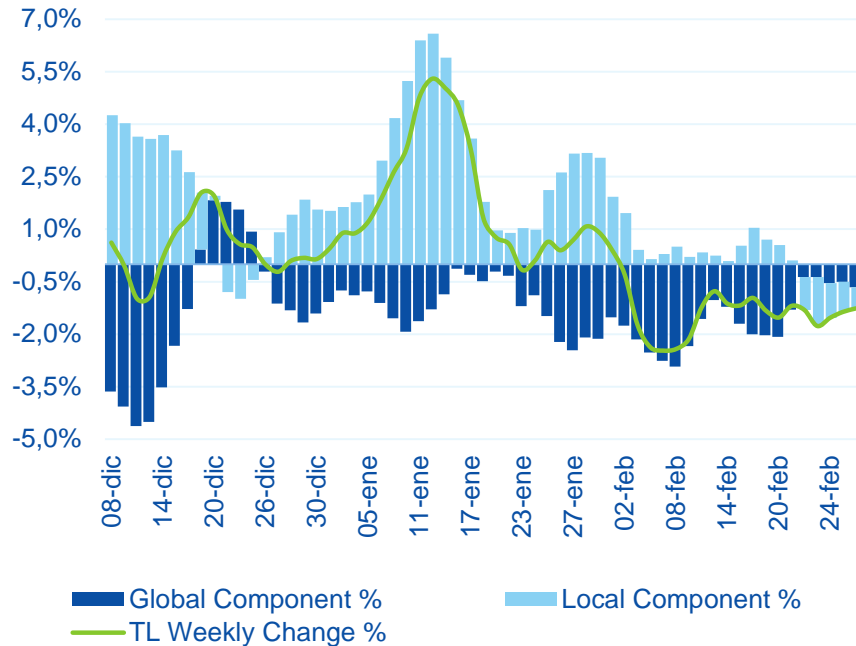
\*Safe-haven: Switzerland, Usa, Japan, UK, Sweden, Denmark, Germany

# Exchange & Interest Rates

Turkish Lira appreciated against the hard currencies, both thanks to local and global factors. Yield curve bull-flattened, reflecting the CBRT's monetary tightening and positive global mood.

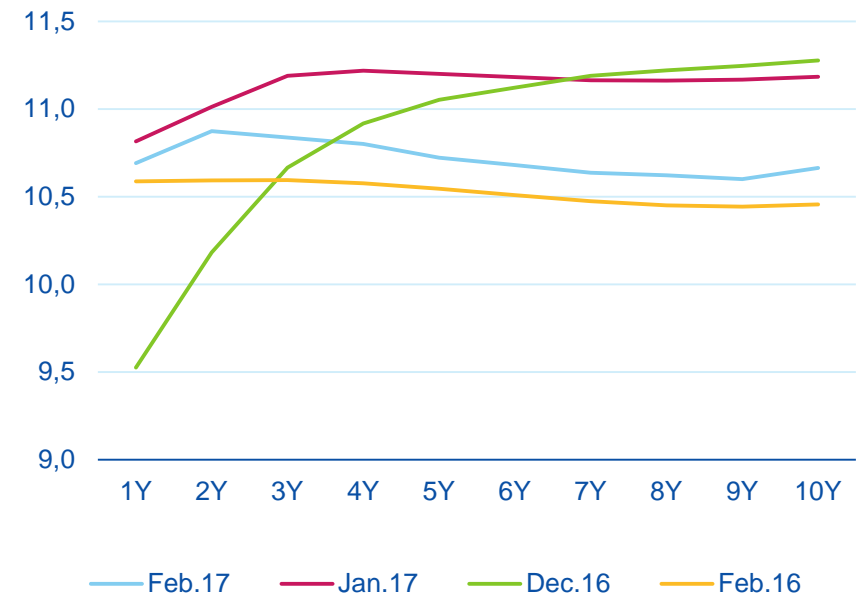
## USD/TL: GLOBAL AND LOCAL FACTORS

(% weekly change)



## YIELD CURVE

(%)



# Economic Activity: GDP

Our monthly GDP model points at 1.9% YoY growth in 4Q of 2016 and we forecast a gradual recovery in the beginning of 2017.

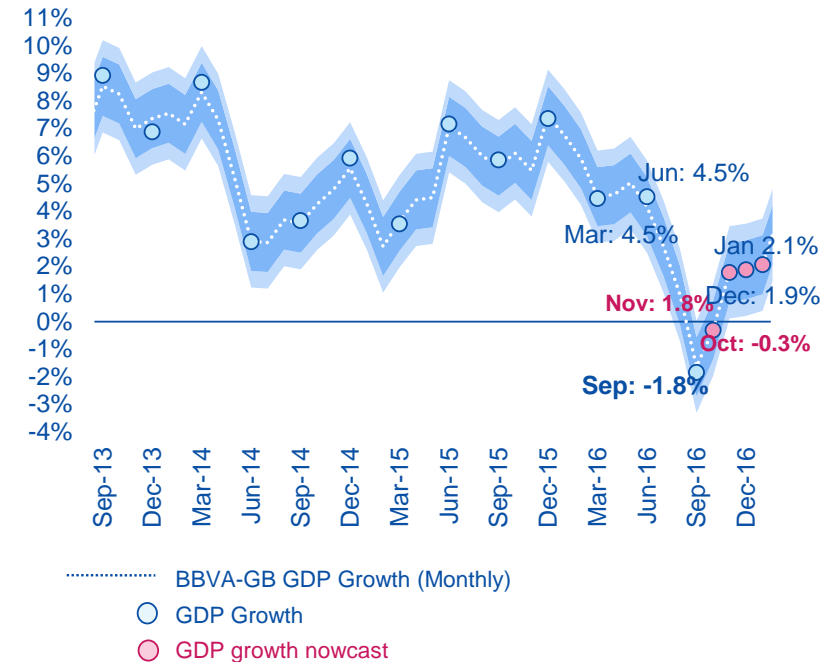
## ACTIVITY INDICATORS

3 MA, YoY Change, %

Mean	2016								2017			
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan				
Industrial Production	3.7	3.0	0.1	-1.3	-3.1	-0.3	0.4	2.0				
Non-metal Mineral	1.5	0.4	-3.3	-1.5	-3.0	2.3	1.7	-0.9				
Electricity Production	4.1	6.9	6.4	6.8	3.1	3.3	3.3	5.3	6.4			
Auto Sales	4.2	2.5	-4.6	-13.4	-15.2	3.4	24.1	10.2	-6.3			
Tourist Arrivals	0.0	-35.6	-37.4	-38.3	-36.0	-35.8	-23.0	1.5	57.3			
Number of Employed	3.6	2.7	1.8	1.2	1.3	1.4	1.5					
Number of Unemployed	4.7	4.2	8.2	11.6	13.2	14.6	16.1					
Auto Imports	7.0	2.6	-3.5	-9.7	-10.2	8.9	31.3	16.2	10.9			
Auto Exports	6.5	21.6	24.3	14.7	12.2	-16.5	-10.6	-1.7	33.4			
Financial Conditions	76.0	86.7	91.2	88.4	88.6	92.5	80.1	73.6	59.0			
Credit Growth-13Week	12.5	15.3	15.2	14.7	14.5	14.8	14.0	14.3	14.0			
PMI Manufacturing	51.4	47.4	47.6	47.0	48.3	49.8	48.8	47.7	48.7			
Real Sector Confidence	107.4	104.3	106.3	103.0	107.1	103.8	107.6	103.6	100.5			
MICA Forecast	4.5%		1.8%		-0.3%		1.8%		1.9%		2.1%	
GDP YoY	Contraction		Slow-down		Growth		Boom					

## MONTHLY GDP GROWTH & ESTIMATE

YoY Change, %

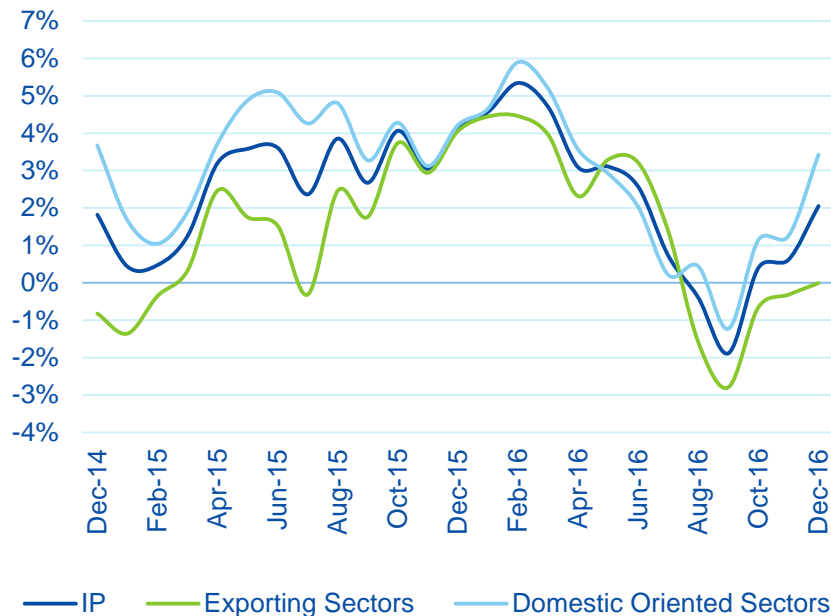


# Economic Activity: Sectors

Recovery in industrial production remained concentrated in certain sectors in December. Sectorial confidence rebounded from dips in February, but 3MA levels remain low.

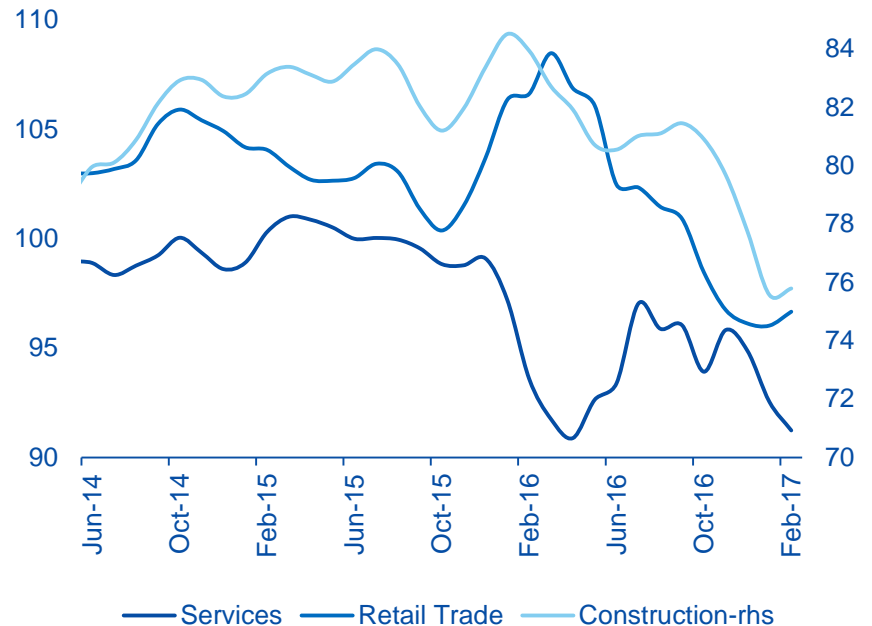
## SECTORS IN INDUSTRIAL PRODUCTION (IP)

3MA, calendar adj, YoY



## SECTOR CONFIDENCE INICES

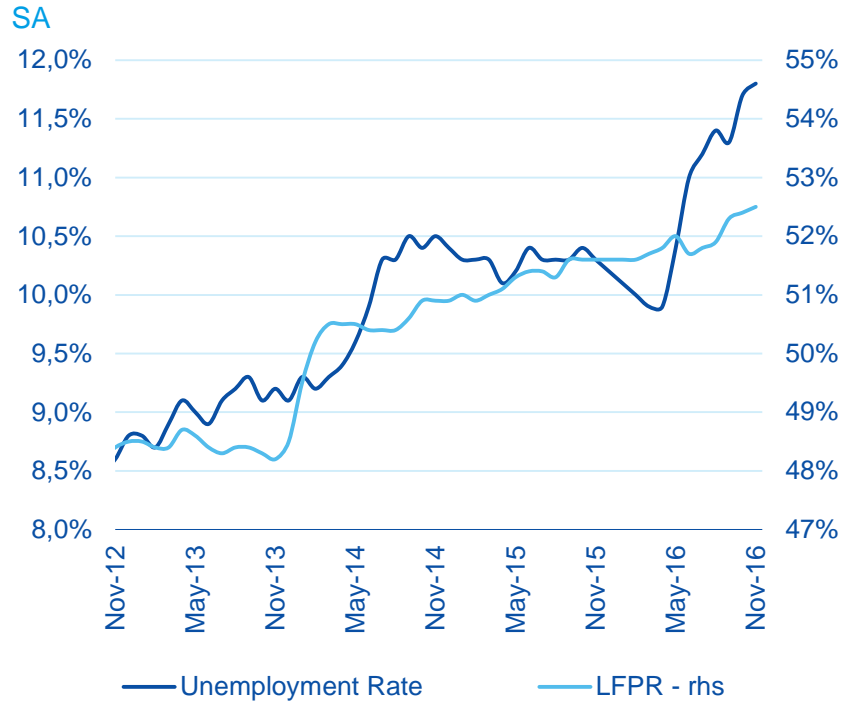
3MA



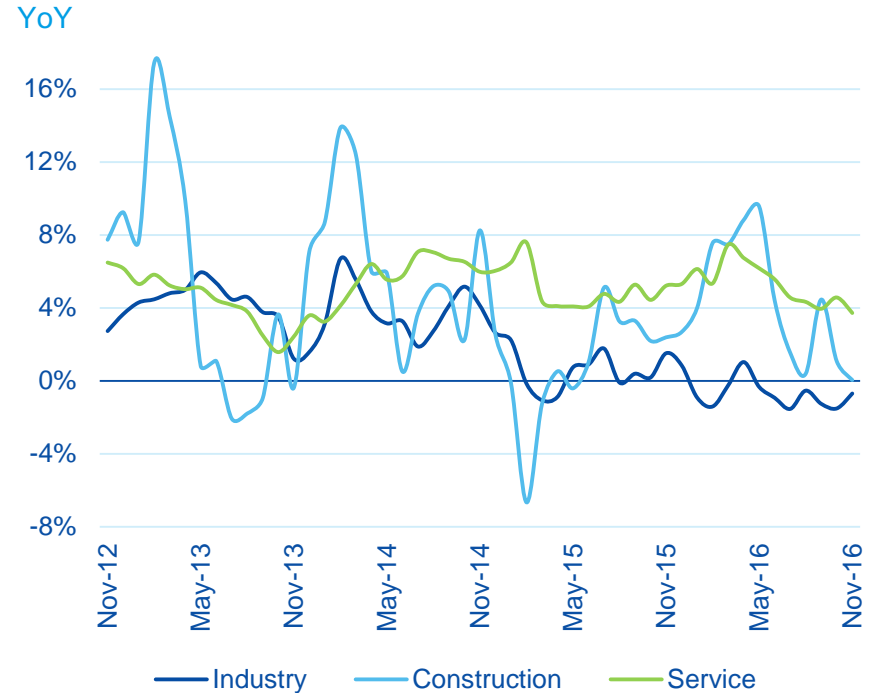
# Economic Activity: Employment

Employment figures continued to deteriorate on the back of subdued economic activity and rising labor force participation.

## UNEMPLOYMENT & LABOR FORCE PART. RATE



## EMPLOYMENT GROWTH IN SECTORS



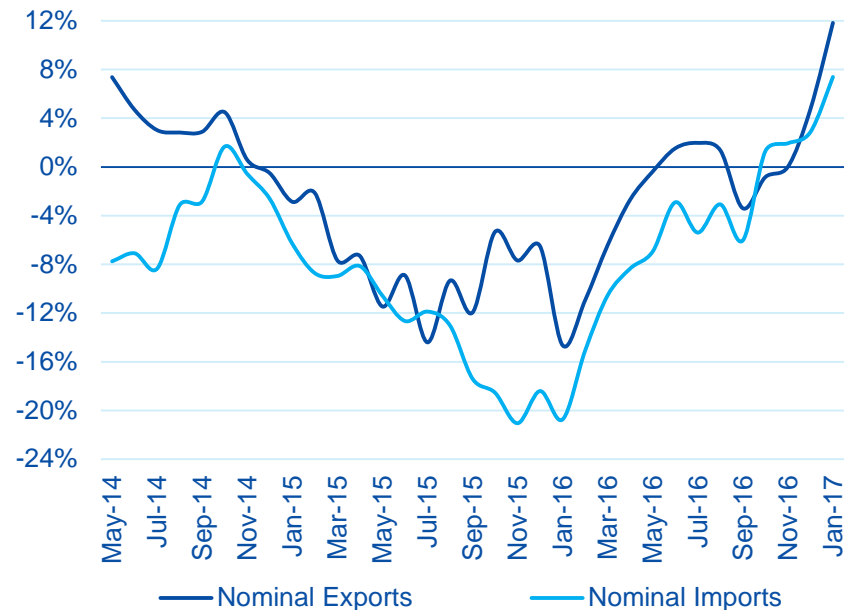


# Economic Activity: Trade

Exports to main partners recovered significantly in January, taking the YoY growth rate of exports up to 18%. Import growth is also strong due to higher energy prices and the recovery in consumption, causing trade deficit to widen.

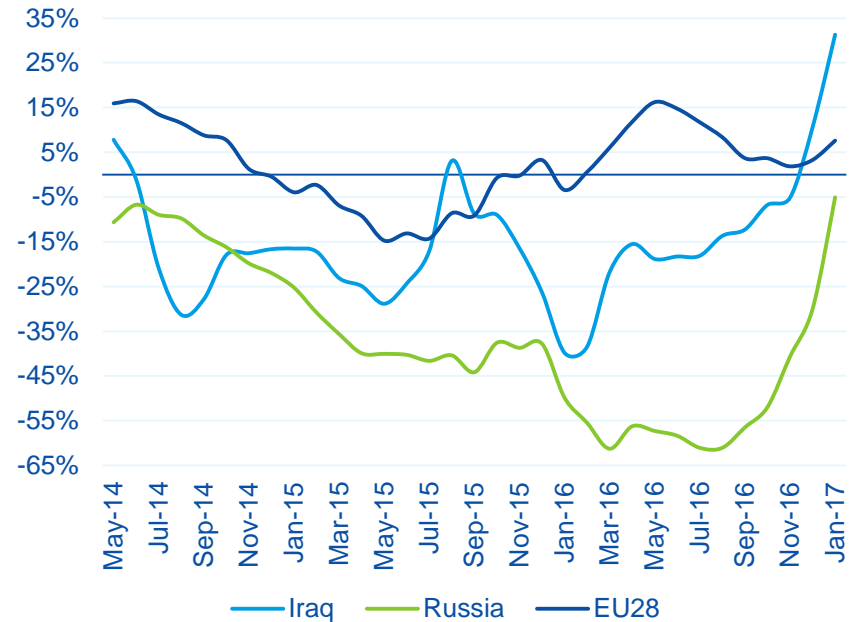
## FOREIGN TRADE FIGURES

3MA, YoY Change



## FOREIGN TRADE FIGURES

3MA, YoY Change

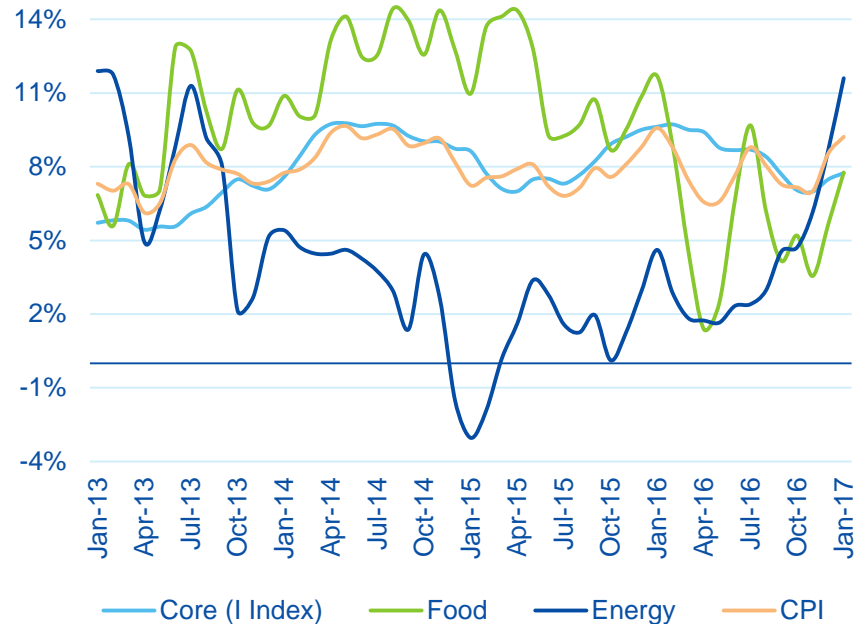


# Inflation

Food and energy pushed inflation up further, while core items deteriorated only slightly through currency depreciation in January. We expect FX rate pass-through to weigh heavily starting from February, implying headline figure to increase further.

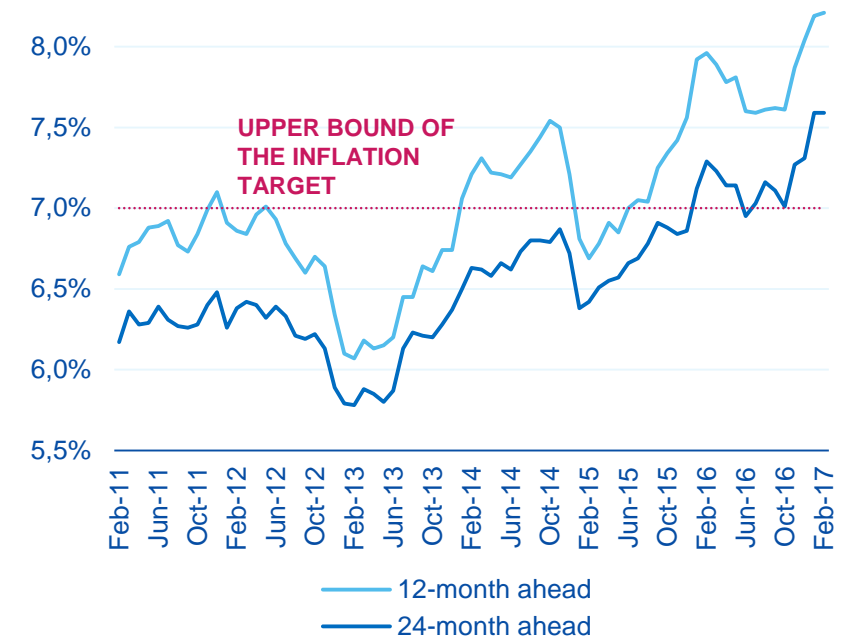
## CPI & CBRT'S CORE INFLATION

YoY



## CBRT SURVEY: INFLATION EXPECTATIONS

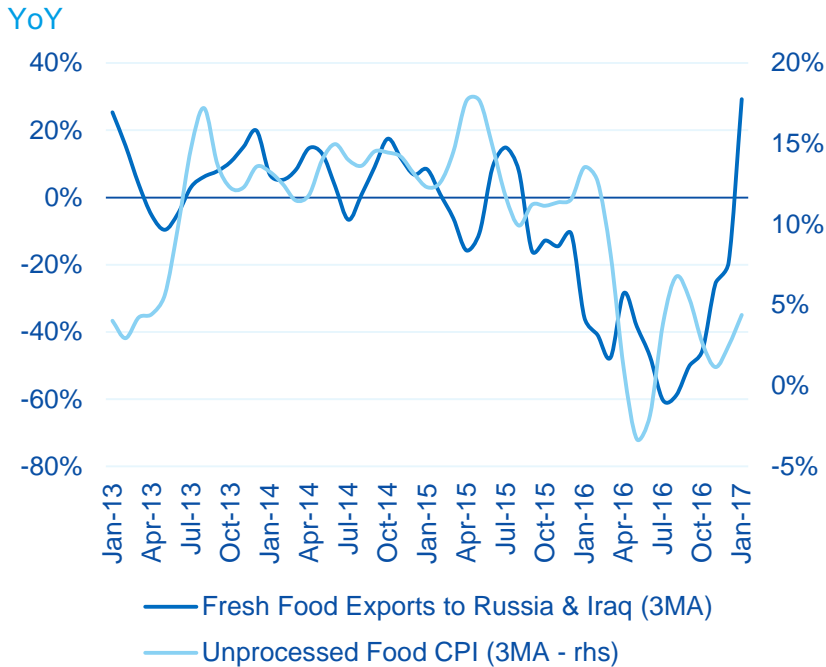
YoY



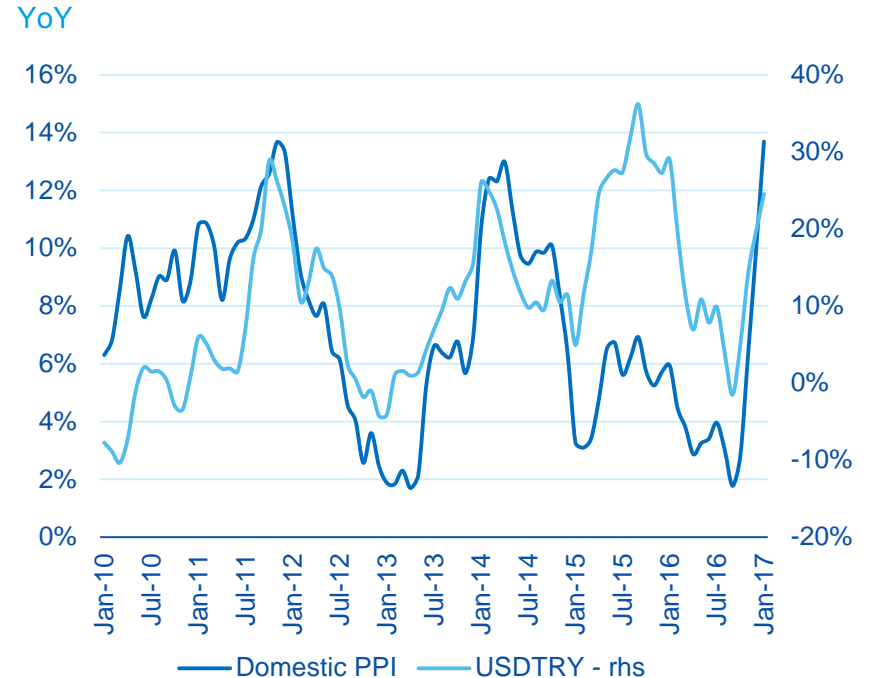
# Inflation

Food inflation has the potential to increase further due to unfavorable base effect and recovered external demand from Russia and Iraq, despite Food Committee’s efforts. Producer inflation rose with the exchange rate depreciation and the higher energy prices, suggesting further cost push pressures on consumer prices.

**UNPROCESSED FOOD CPI & FRESH FOOD EXPORTS TO RUSSIA & IRAQ**



**DOMESTIC PPI & USD/TL**



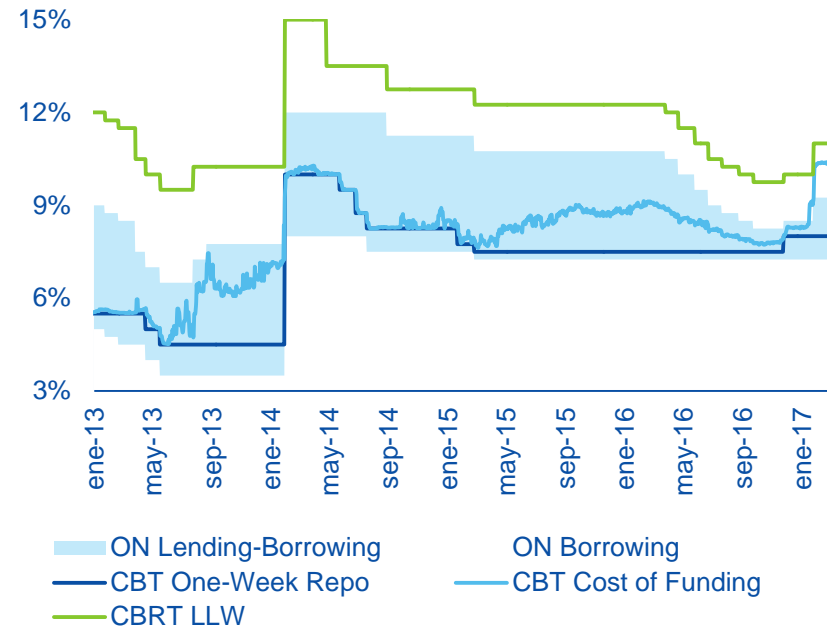
Source: Garanti Research, Turkstat, CBRT

# Monetary Policy

The Central Bank (CBRT) increased its average funding rate to 10.4% by allocating a higher share from the 11% late liquidity window (LLW). Since mid-January, CBRT's funding composition remained only through the O/N lending and the LLW.

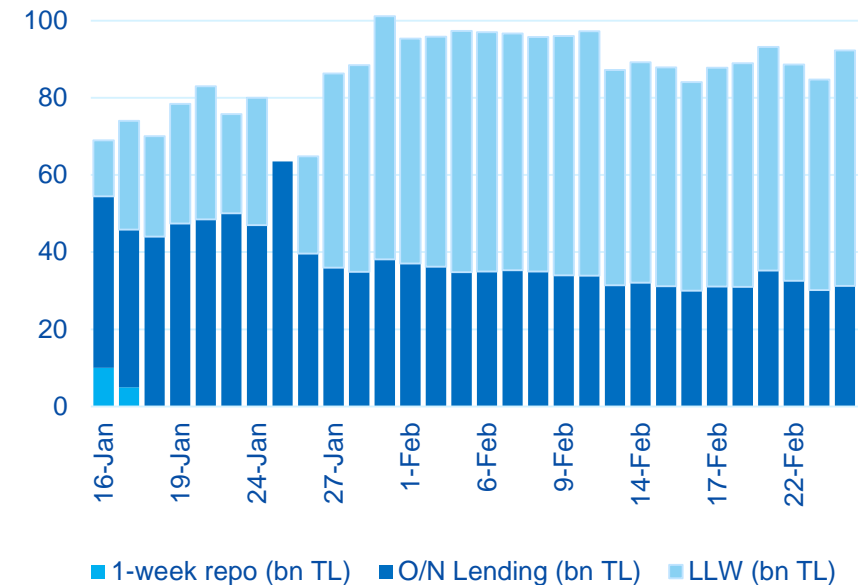
## INTEREST RATE CORRIDOR

Levels



## CBRT FUNDING COMPOSITION

Levels

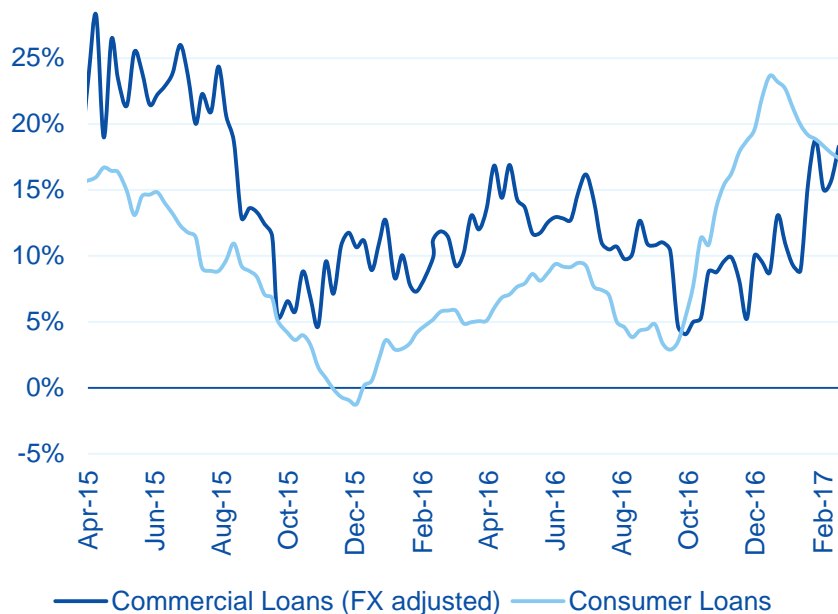


# Loan Growth and Interest Rates

Commercial loan growth continued to rise thanks to the support from Government’s Credit Guarantee Fund, while consumer loan growth lost some ground as the brought-forward demand of the last quarter is now dying out.

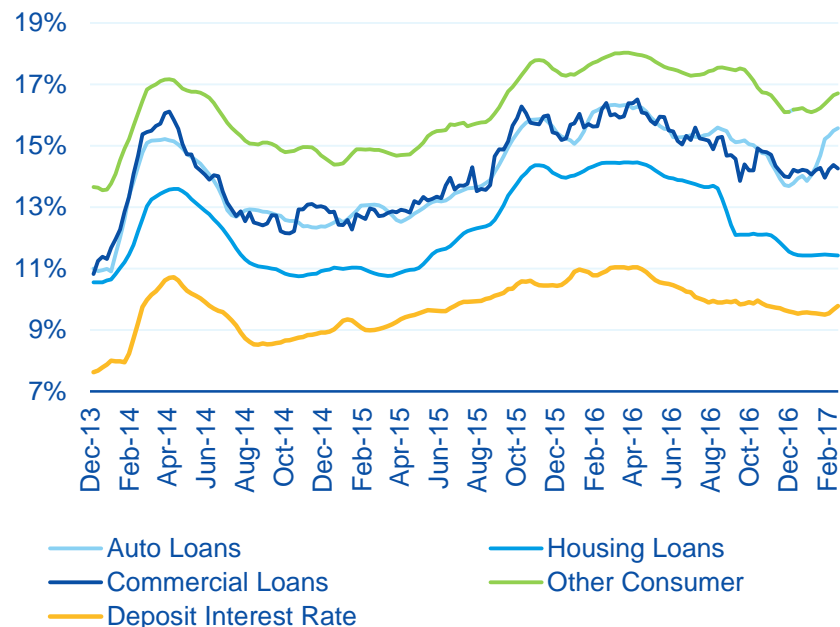
## LOAN GROWTH RATES

13-week annualized



## LOAN INTEREST RATES

4-week average

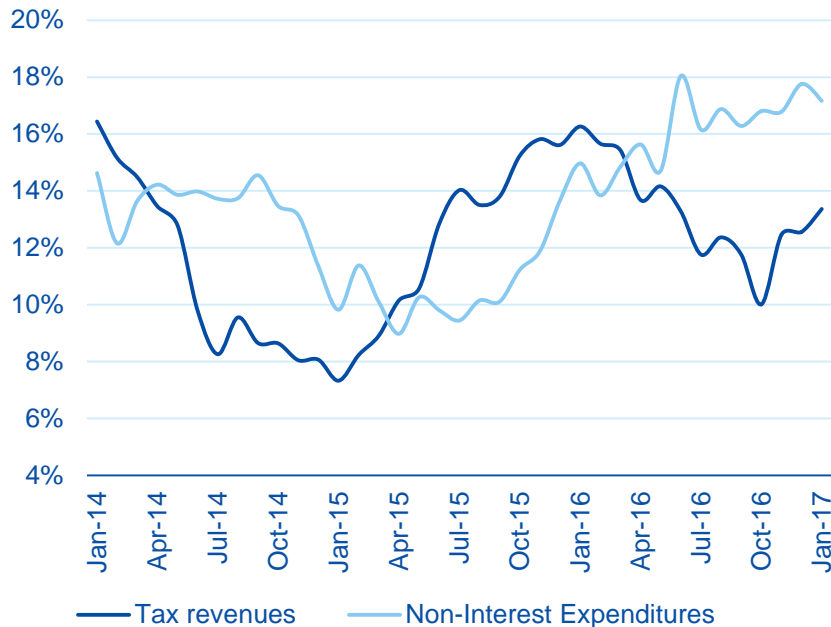


# Fiscal Policy

The acceleration in tax revenues in January implied some positive signs in domestic consumption, probably supported by the recently announced tax cuts to boost durable goods demand.

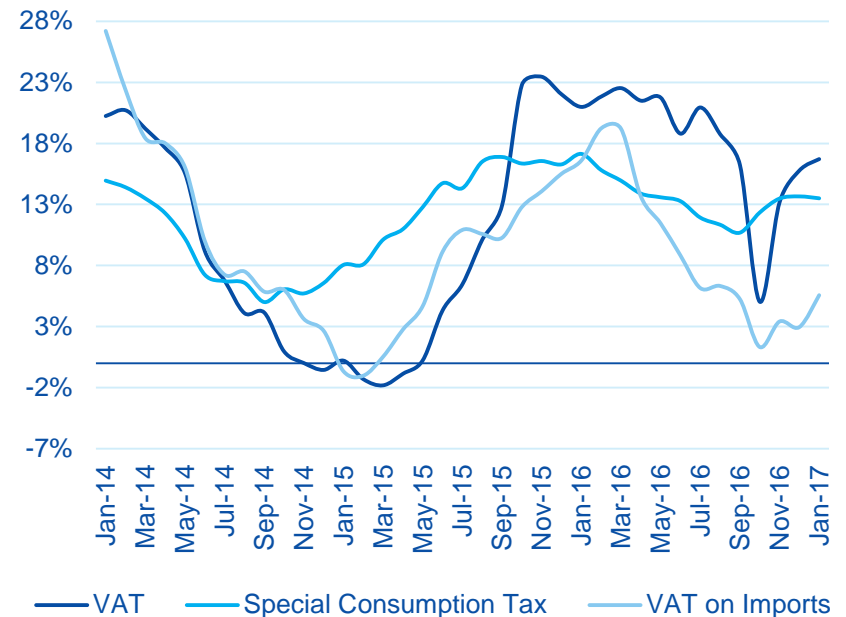
## TAX REVENUES & NON-INTEREST EXPENDITURES

12-month sum, YoY Change



## TAX REVENUES COMPOSITION

12-month sum, YoY Change

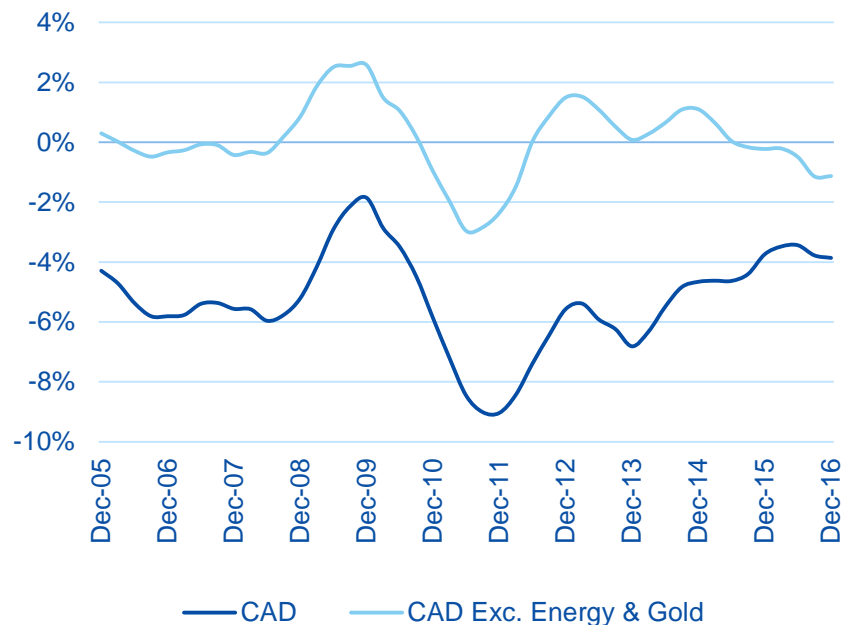


# External Balance: CAB & Financing

The recovery in exports and the gradual withdrawal of high negative impact of the tourism sector in 4Q16 helped CAB stabilize around USD33bn (3.8% of GDP) despite the rebound in oil prices by the end of December.

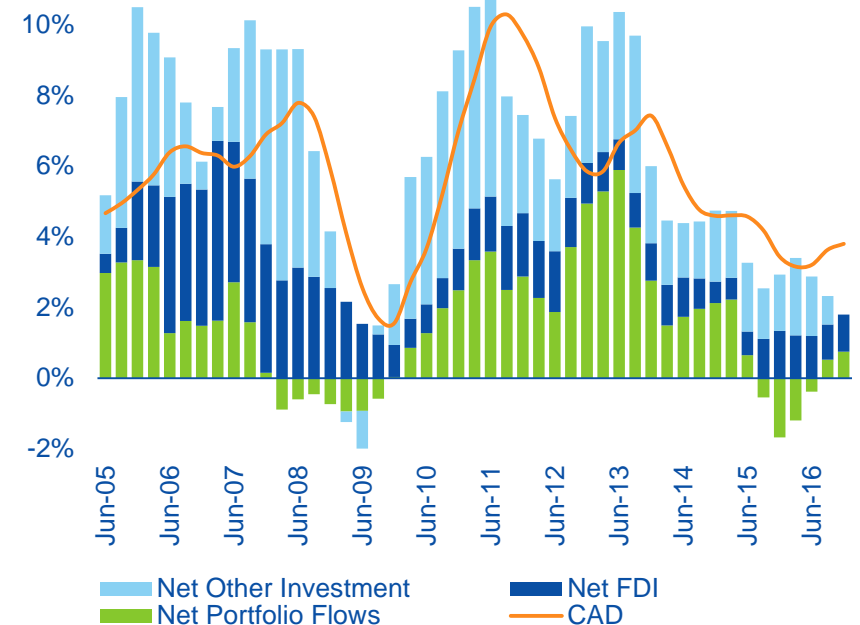
## CURRENT ACCOUNT BALANCE

12-month sum, % GDP



## CURRENT ACCOUNT NET FINANCING

12-month sum, % GDP



MONTHLY ECONOMIC MONITOR

# TURKEY

1 MARCH 2017

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