

Monthly Economic Monitor Turkey

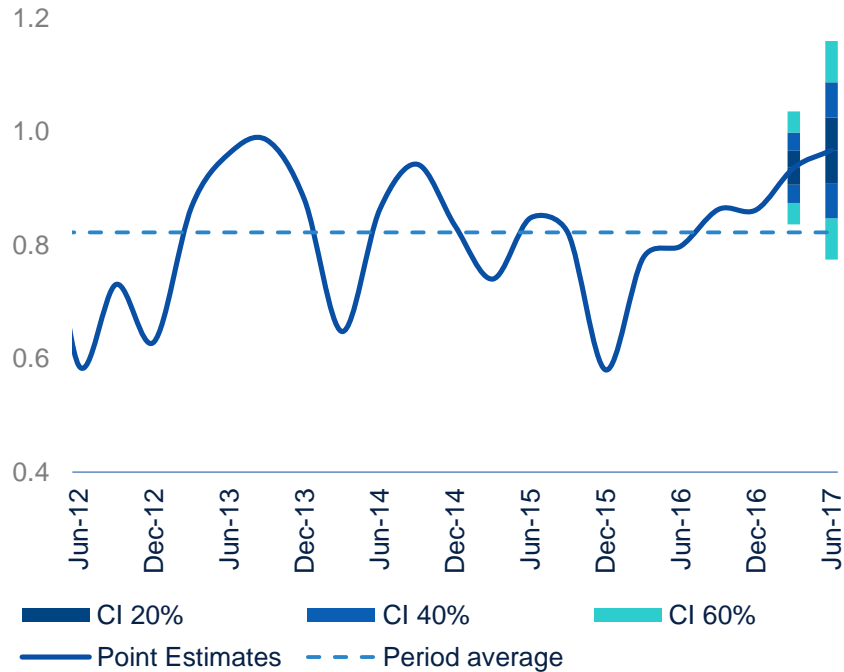
2 MAY 2017



Global Developments

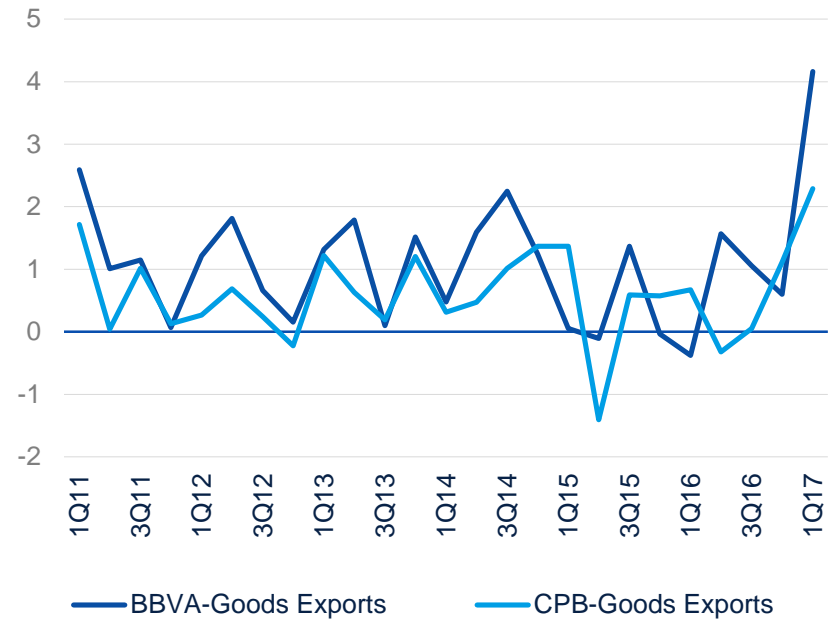
WORLD GDP GROWTH

forecasts based on BBVA-GAIN (% , QoQ)



WORLD EXPORTS OF GOODS (Constant prices)

Index Jan-12=100 (% YoY)



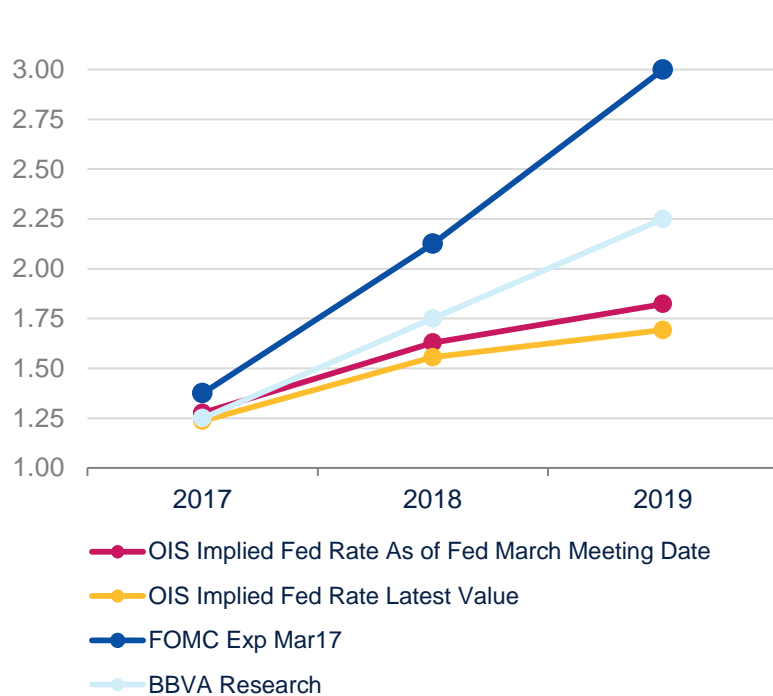
Source: Garanti Research, Bloomberg

Global GDP growth maintains its positive trend in 1H17 as confidence indicators and recent sizable pick-up in global trade imply further expansion.

Global Financial Markets

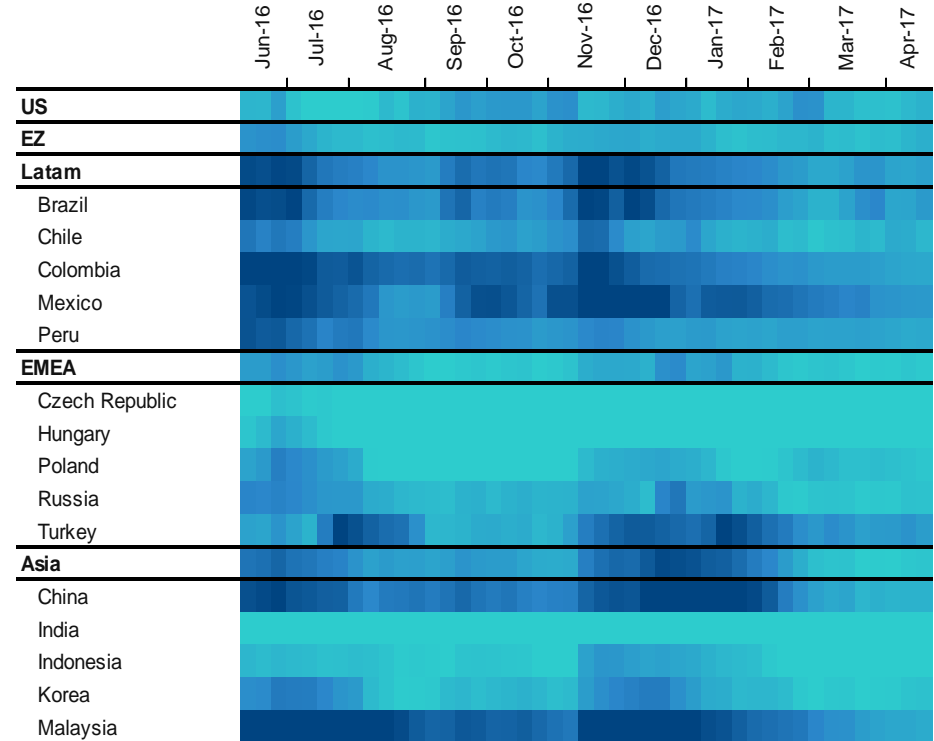
FED RATE EXPECTATIONS

(%)



FINANCIAL STRESS INDEX REGIONAL MAP

Standard deviation $\approx (-1, 1)$

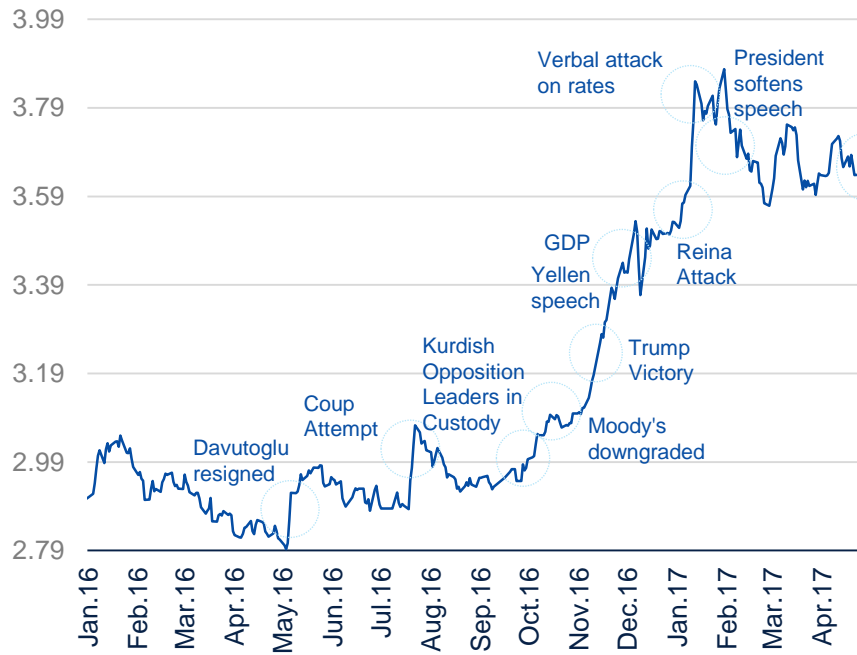


Source: BBVA Research & Bloomberg

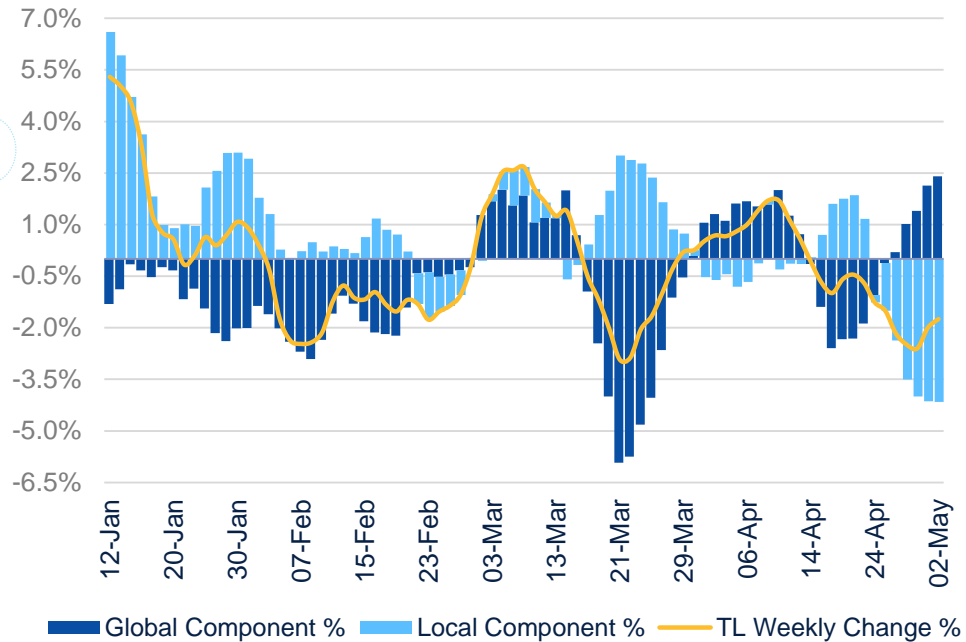
Supportive global financial conditions and China's GDP performance in 1Q17 maintained risk appetite on EM assets, while lessened political noise in DMs may contribute to fuel this trend.

Exchange Rate: USD/TL

USD/TL
(Level)



USD/TL: GLOBAL AND LOCAL FACTORS
(% weekly change)



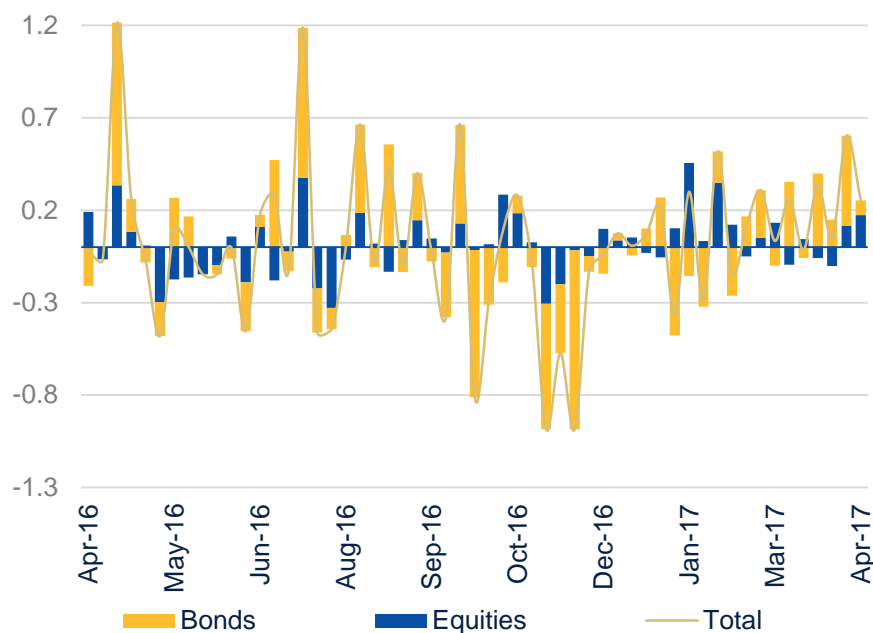
Source: Garanti Research, Bloomberg

Turkish lira appreciated mostly on local factors. Foreseeing a rising trend in inflation, the CBRT's front-loaded tightening in April held the Turkish lira firm

Flows to Turkish Assets and Interest Rates

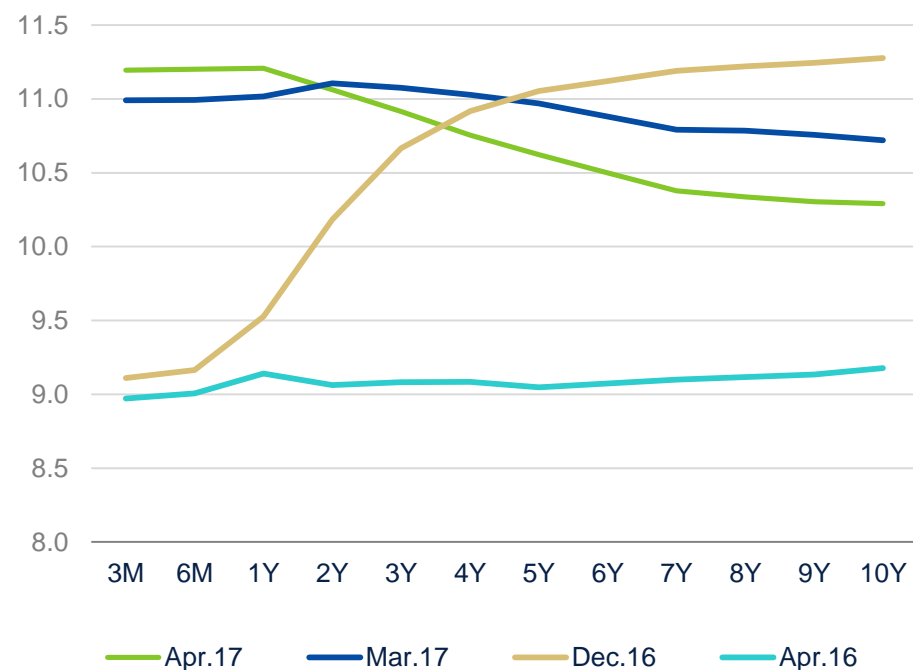
FLOWS TO TURKISH ASSETS

Level, bn TL



YIELD CURVE

(%)



Source: Garanti Research, Bloomberg

As inflation reached 11.3% in March and the CBRT delivered a further rate increase, the yield curve has become even more negatively sloped. Yields on the long-end declined thanks to the lower risk premiums associated with the CBRT's monetary tightening and optimism in global financial markets.

Economic Activity: GDP

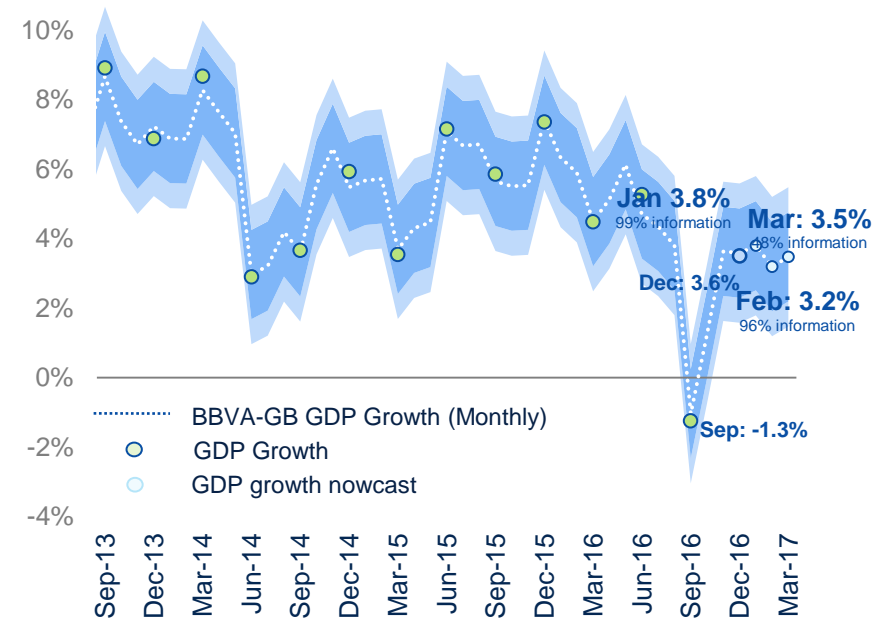
ACTIVITY INDICATORS

(3 MA, YoY Change, %)

	Mean	2016				2017			
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial Production	3.6	-3.1	-0.3	0.4	2.0	3.3	1.2		
Non-metal Mineral	1.3	-3.0	2.3	1.7	-1.0	-4.2	-6.9		
Electricity Production	4.2	3.1	3.3	3.3	5.3	6.4	7.1	7.8	7.3
Auto Sales	3.9	-15.2	3.4	24.1	10.2	6.4	-8.8	-7.5	
Tourist Arrivals	-0.8	-36.0	-33.1	-28.2	-21.3	-14.8	-9.2	-6.4	-4.7
Number of Employed	3.6	1.3	1.4	1.5	1.3	1.3			
Number of Unemployed	4.9	13.2	14.6	16.1	18.6	20.3			
Auto Imports	6.5	-10.2	9.0	31.7	16.4	11.1	-8.1	-12.7	
Auto Exports	7.6	12.2	-16.5	-10.6	-1.7	33.5	30.2	33.5	
Financial Conditions	74.6	88.6	92.6	80.1	73.6	59.0	42.6	38.3	33.6
Credit Growth-13Week	12.6	14.5	14.8	14.0	14.3	14.0	14.7	15.3	15.5
Retail Sales	4.1	-0.8	0.3	-0.5	-1.8	-2.3	-3.2		
Real Sector Confidence	107.2	106.6	104.9	108.2	103.9	100.6	106.2	106.5	106.3
MICA Forecast						3.8%	3.2%	3.5%	
GDP YoY		-1.3%		3.5%					
		Contraction	Slow-down	Growth	Boom				

MONTHLY GDP GROWTH & ESTIMATE

(YoY Change, %)

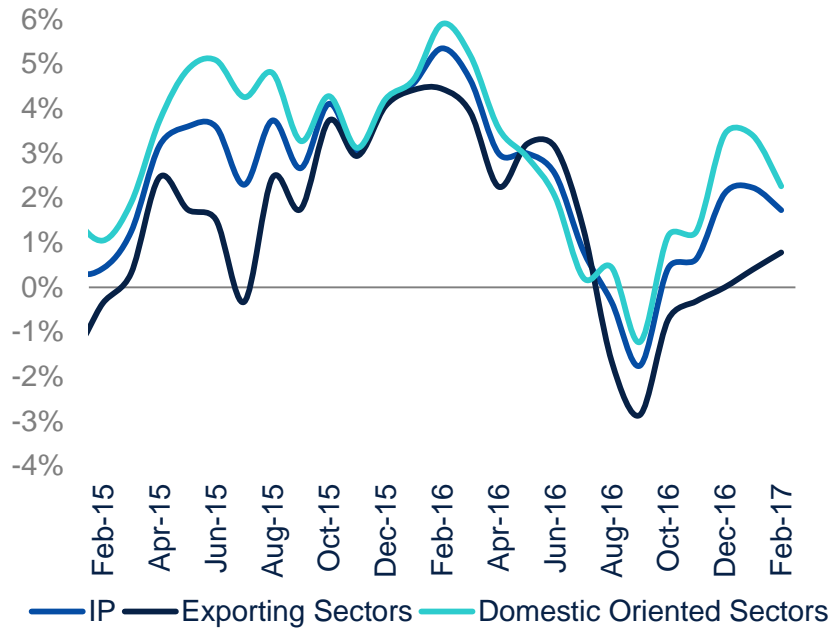


Source: Garanti Research, Turkstat, Bloomberg

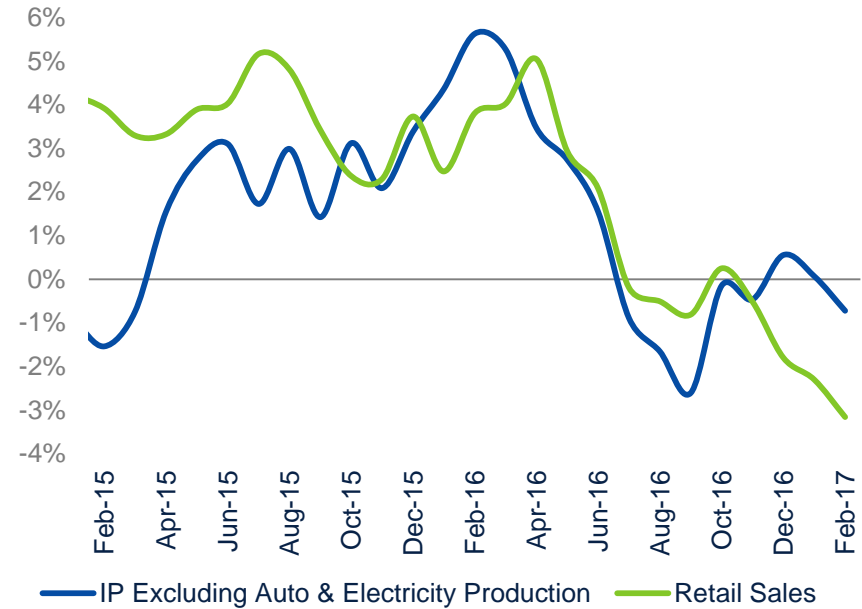
Ongoing fiscal stimulus, strong support through exports and credit growth helped GDP growth continue to be moderate in 1Q as well, confirmed by our monthly GDP indicator.

Economic Activity: Sectors

SECTORS IN INDUSTRIAL PRODUCTION (IP)
 (3MA, calendar adj, YoY)



RETAIL SALES & IP EXCLUDING AUTO & ELECTRICITY PRODUCTION
 (3MA, calendar adj, YoY)

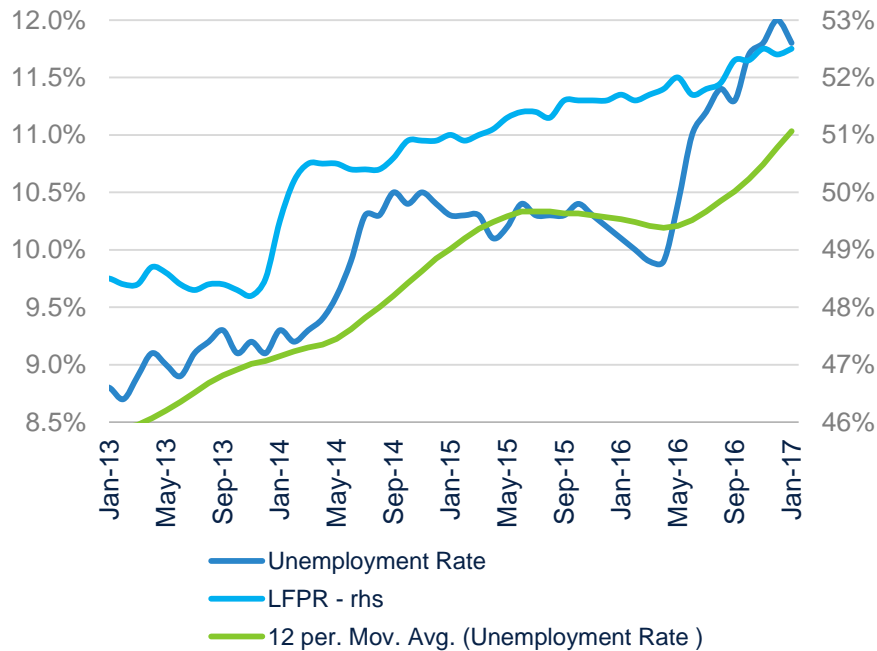


Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism

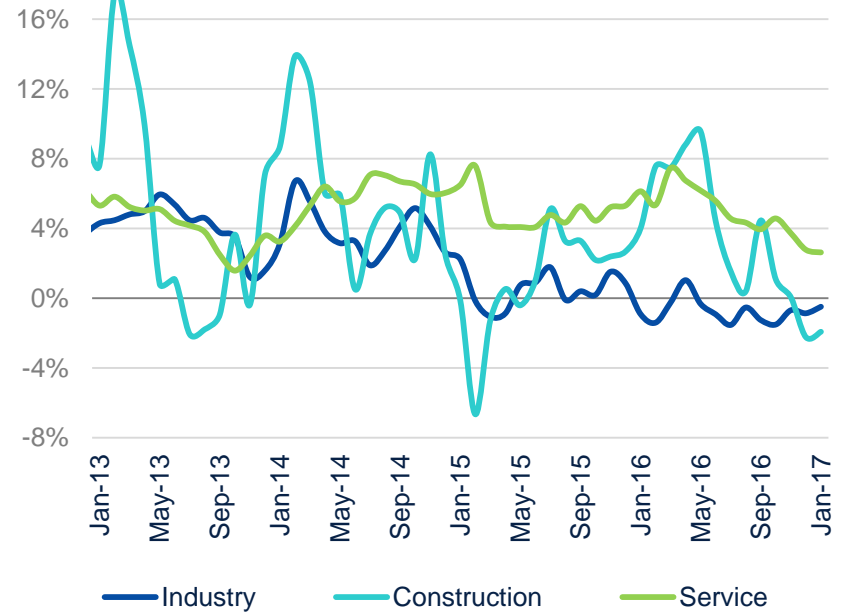
The industrial production (IP) and retail sales (ex-auto) continued to signal weakness. However, their explanatory power in explaining GDP growth declined significantly with the revised GDP series.

Economic Activity: Employment

UNEMPLOYMENT & LABOR FORCE PART. RATE
SA



EMPLOYMENT GROWTH IN SECTORS
YoY



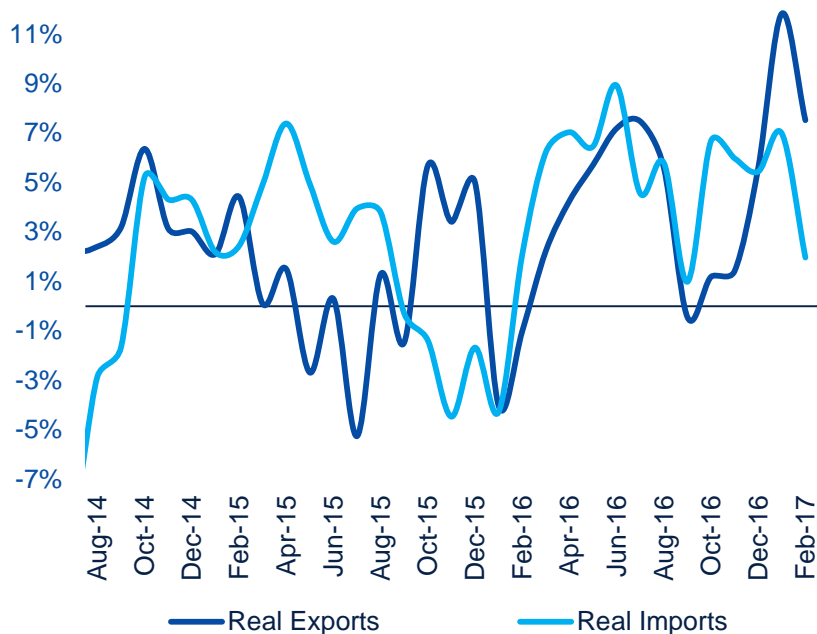
Source: Garanti Research, Turkstat

The increasing trend in unemployment rate continued in January. Nevertheless, January job creation performance was higher compared to 12 month average signaling the peak in unemployment rate may have been reached.

Economic Activity: Trade

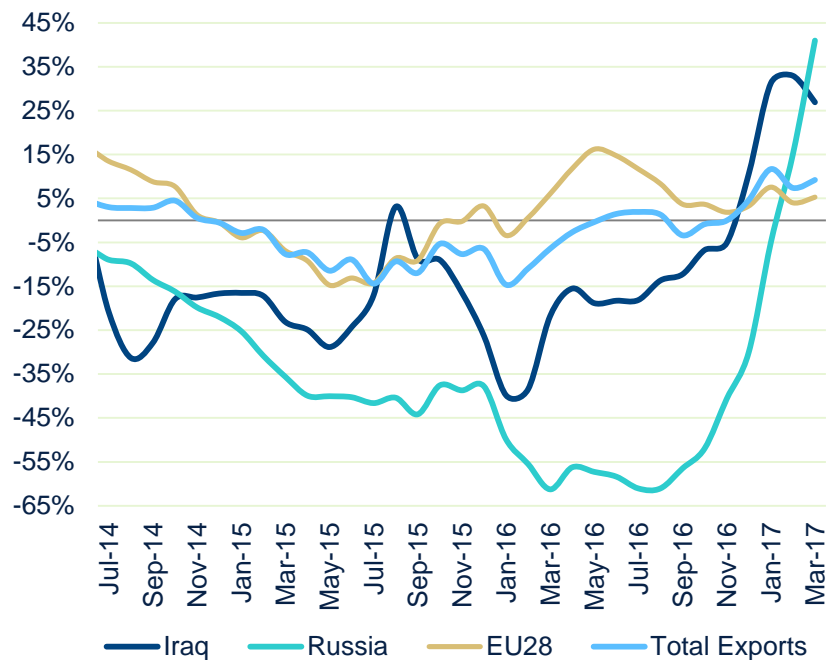
FOREIGN TRADE FIGURES BY VOLUMES

3MA, YoY Change



FOREIGN TRADE FIGURES

3MA, YoY Change



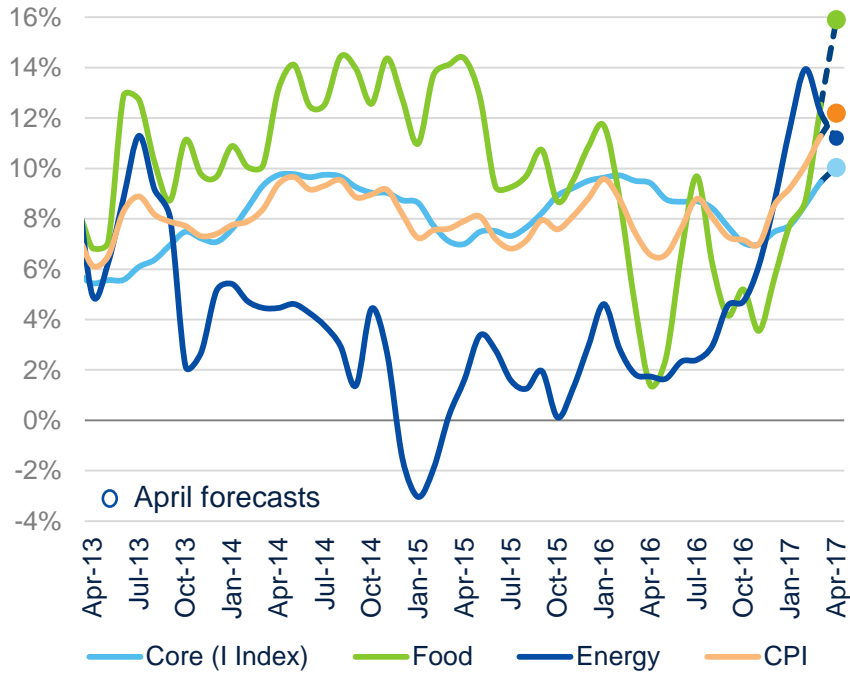
Source: Garanti Research, Turkstat

Higher demand from the EU and favorable base effect through main partners support the export performance. Still moderate domestic demand implies a positive contribution from net exports to GDP growth in 1Q17

Inflation

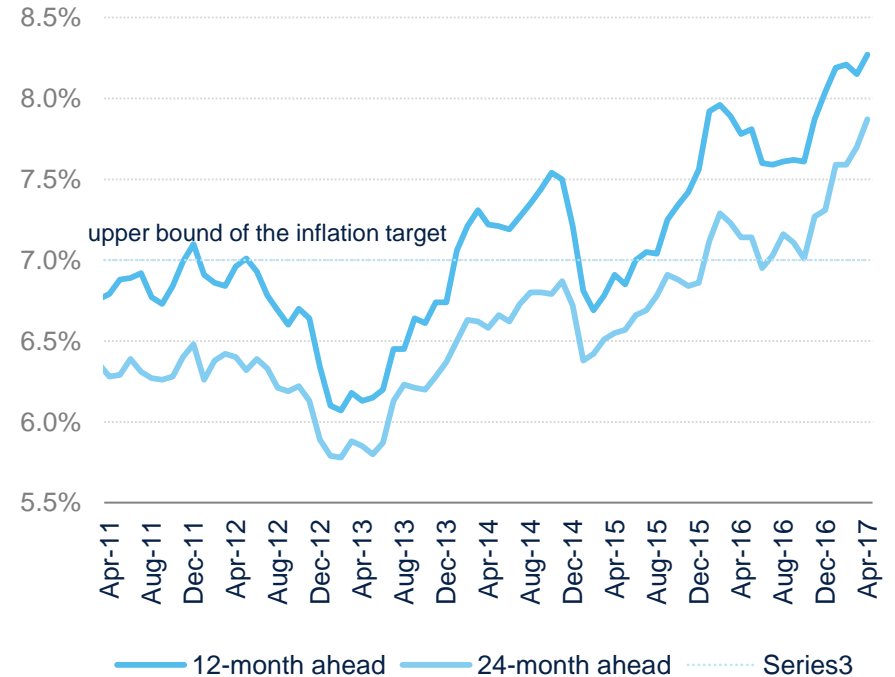
CPI & CPI COMPONENTS

YoY



CBRT SURVEY: INFLATION EXPECTATIONS

YoY



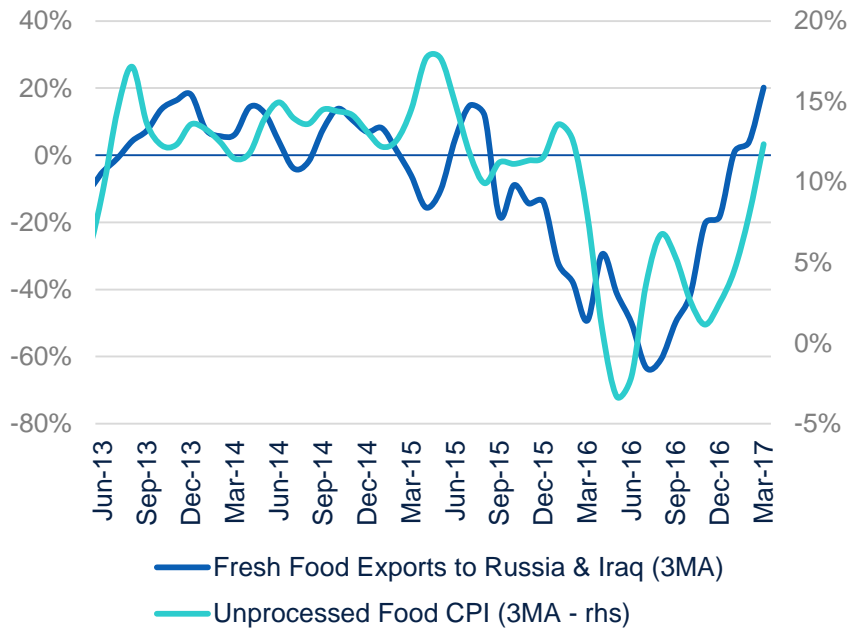
Source: Garanti Research, Turkstat, CBRT

Inflation rose further to 11.3% on both food and core items. Inflationary pressures will remain in the short term as exchange rate pass through and base effects on food will be significant

Inflation

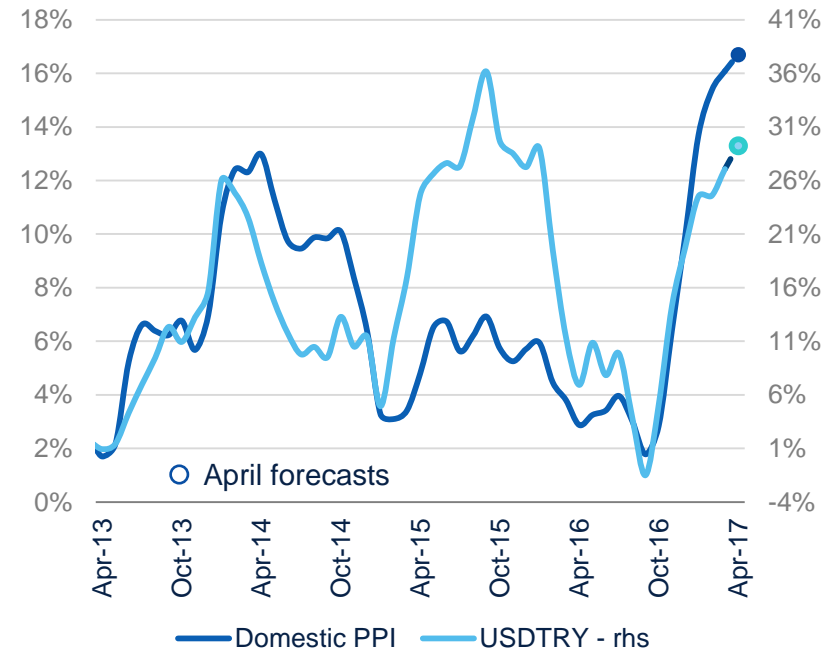
UNPROCESSED FOOD CPI & FRESH FOOD EXPORTS TO RUSSIA & IRAQ

3MA, YoY



DOMESTIC PPI & USD/TL

YoY



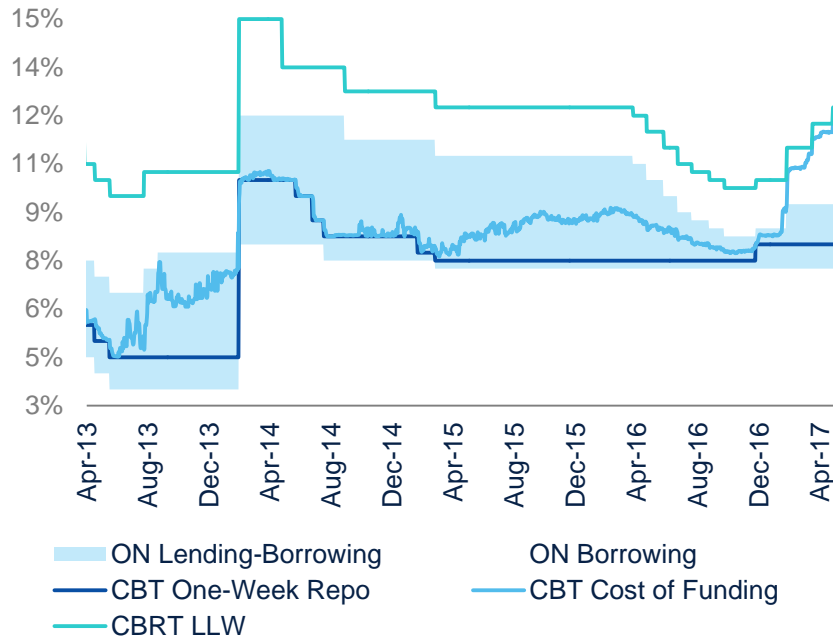
Source: Garanti Research, Turkstat, CBRT

In addition to the base effects, ongoing recovery in food exports create another upward risk on food inflation. Domestic PPI keeps climbing with currency depreciation and relatively higher commodity prices

Monetary Policy

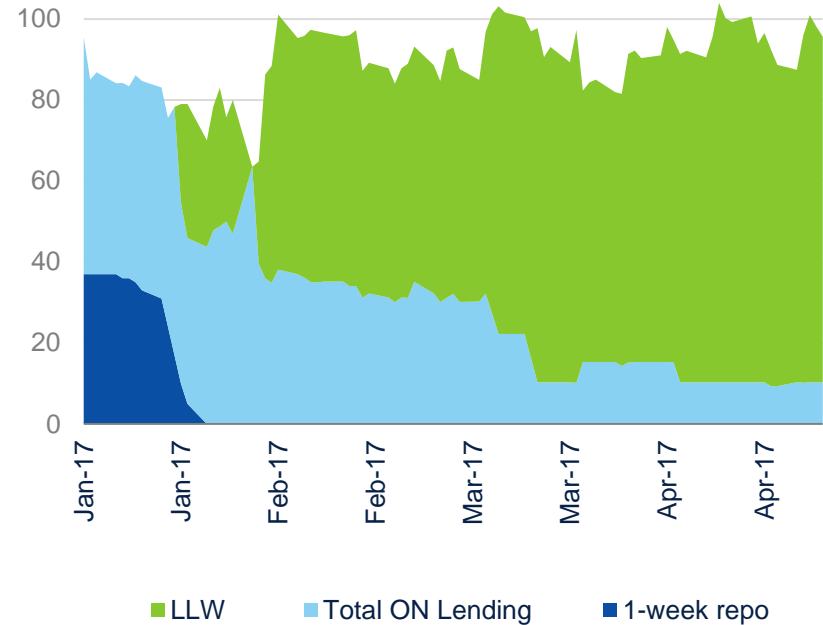
INTEREST RATE CORRIDOR

Levels



CBRT FUNDING COMPOSITION

Levels, bn TL



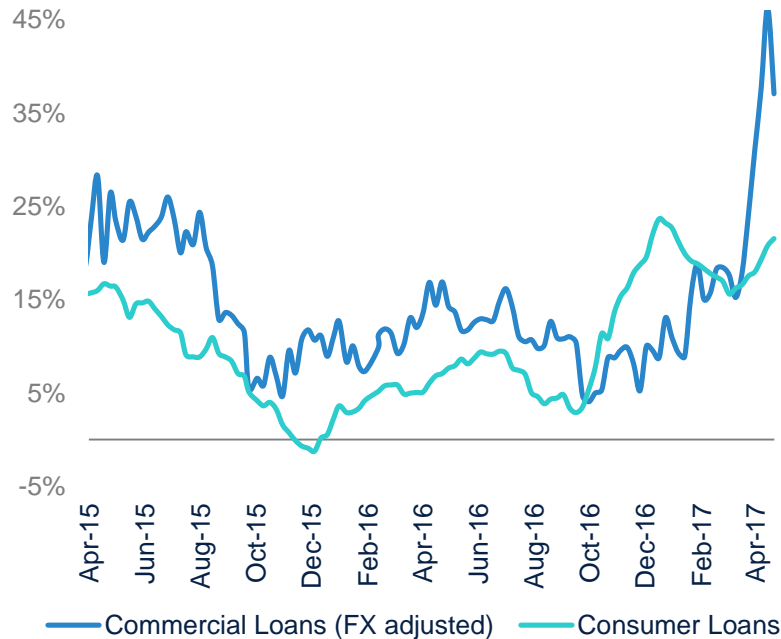
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

The CBRT increased its LLW rate further by 50bps, in line with our expectations but surprising the market consensus. The CBRT, thus, continues to tighten the monetary policy by funding the market through mostly LLW

Loan Growth and Interest Rates

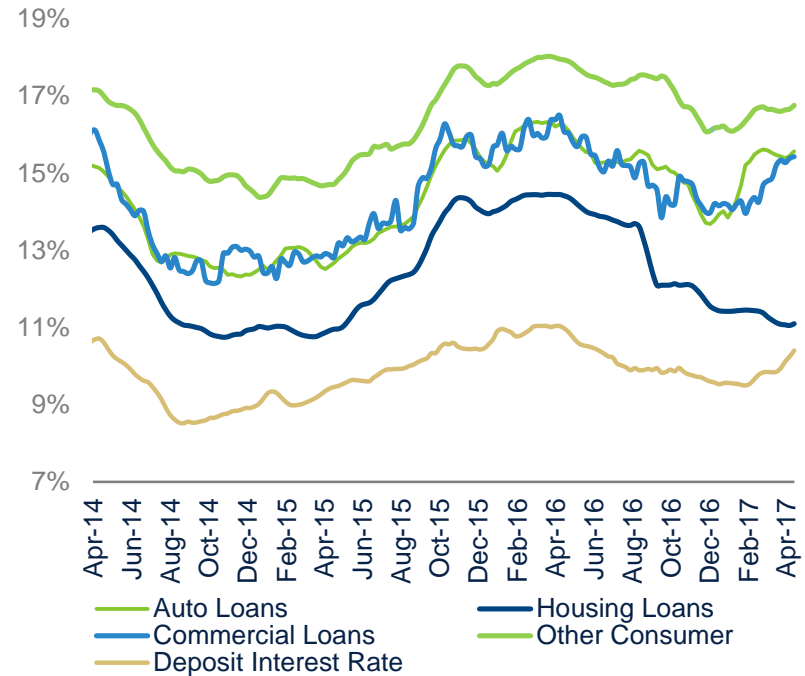
LOAN GROWTH RATES

13-week annualized



LOAN INTEREST RATES

4-week average



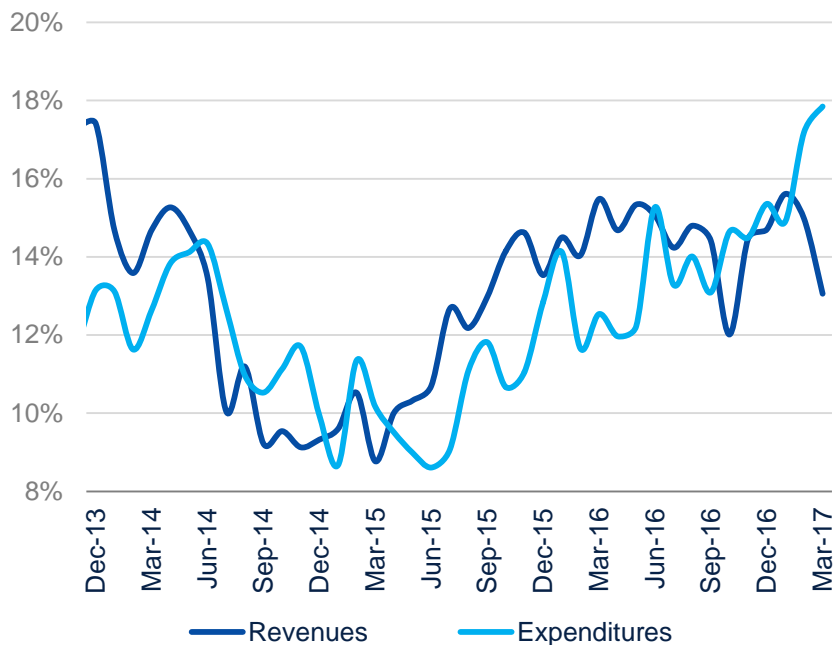
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Despite the CBRT’s significant monetary tightening year-to-date, financial conditions remain broadly accommodative thanks to the counter-cyclical measures by the economy management. Government’s Credit Guarantee Fund keeps supporting the commercial loan growth rates

Fiscal Policy

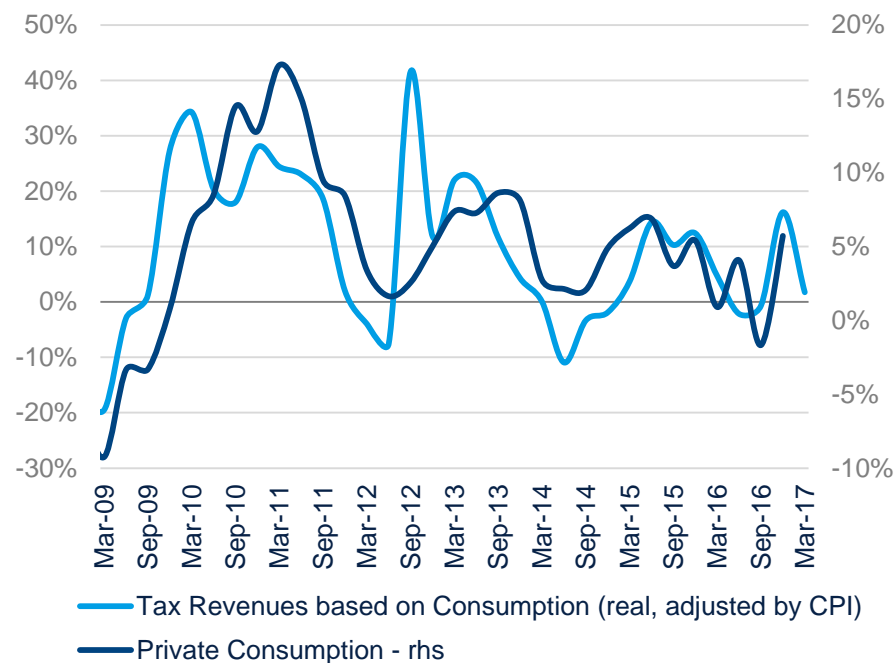
BUDGET REVENUES & EXPENDITURES

12-month sum, YoY Change



TAX REVENUES & PRIVATE CONSUMPTION

12-month sum, YoY Change



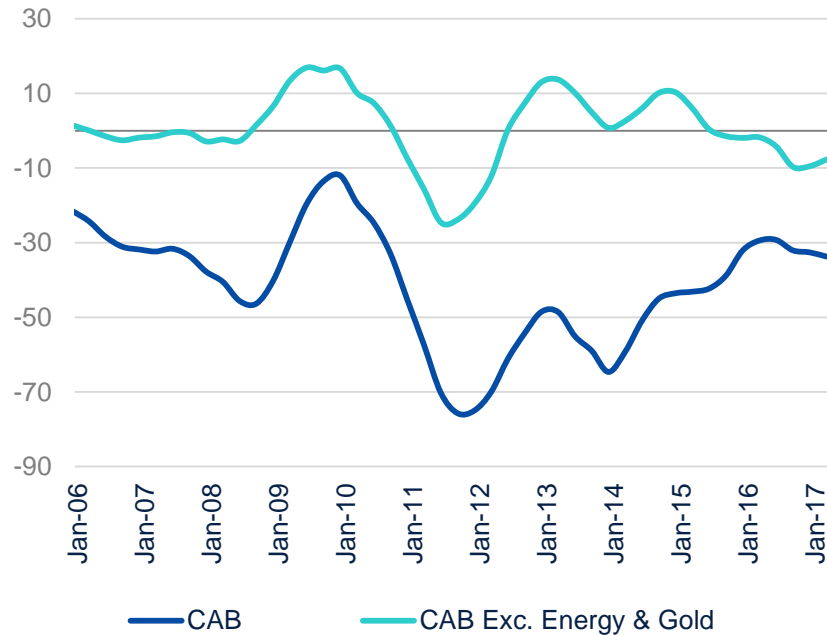
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

March data for the Central Government budget deteriorated partially due to the postponed social security premiums payments. However, revenues also deteriorated due to still modest domestic demand and lower privatization revenues, signaling further widening in public deficit in the following quarters

External Balance: CAB & Financing

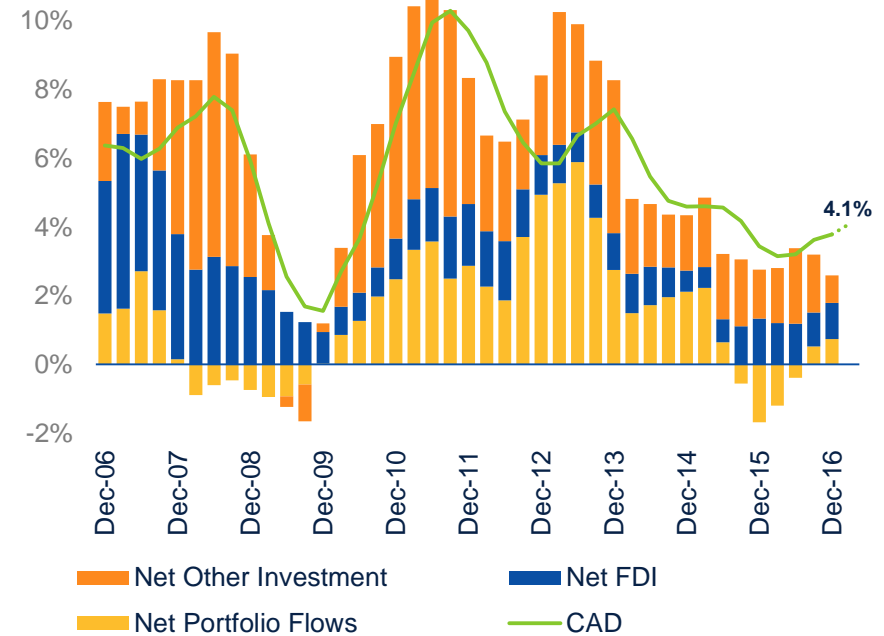
CURRENT ACCOUNT BALANCE

12-month sum, USD bn



CURRENT ACCOUNT NET FINANCING

12-month sum, % GDP



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

Current account deficit widened in the first quarter of the year on worsening tourism revenues and increasing energy bill. Excluding net energy and gold, the deficit improved, reflecting the effect of both improving external demand and still modest domestic demand

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