

Monthly Economic Monitor Turkey

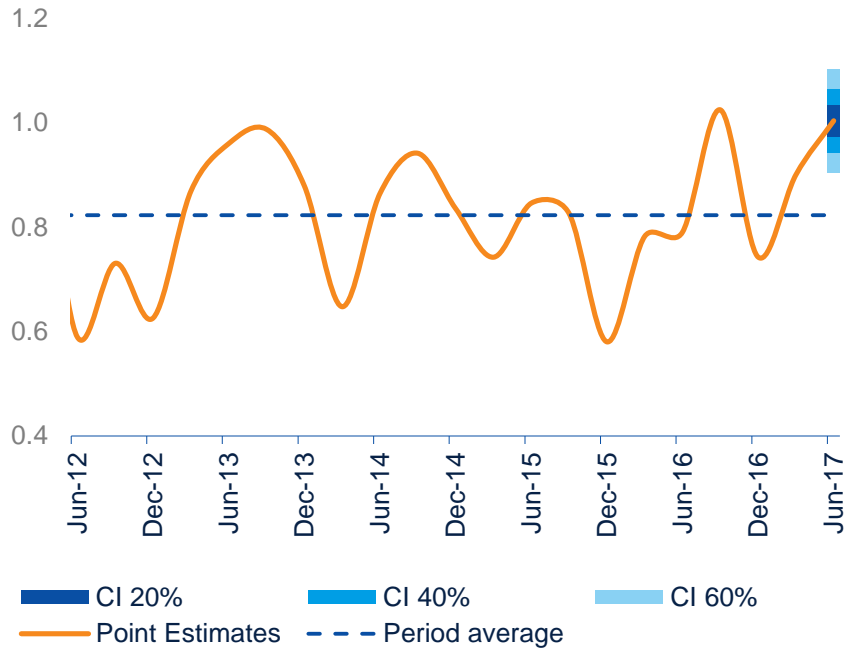
3 JULY 2017



Global Developments

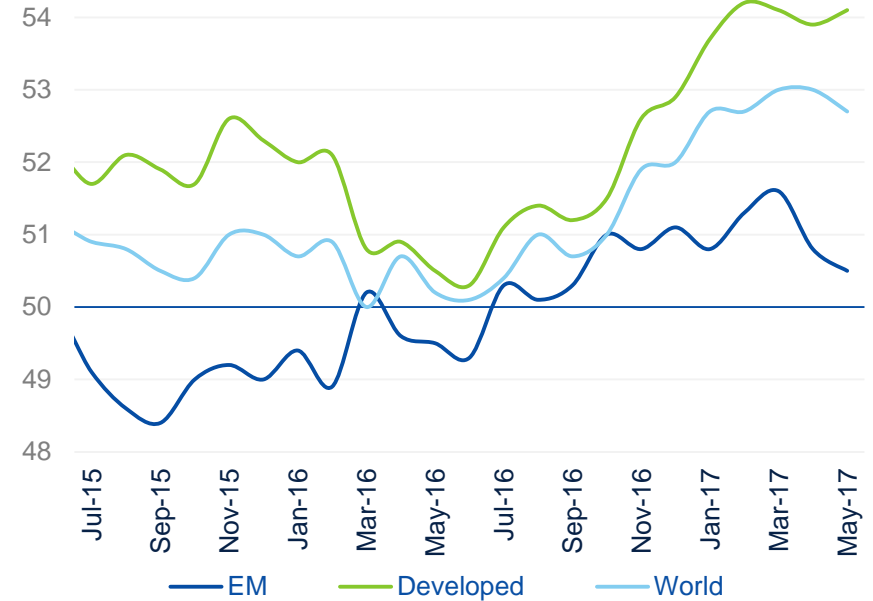
WORLD GDP GROWTH

forecasts based on BBVA-GAIN (% , QoQ)



WORLD MANUFACTURING PMI

Level



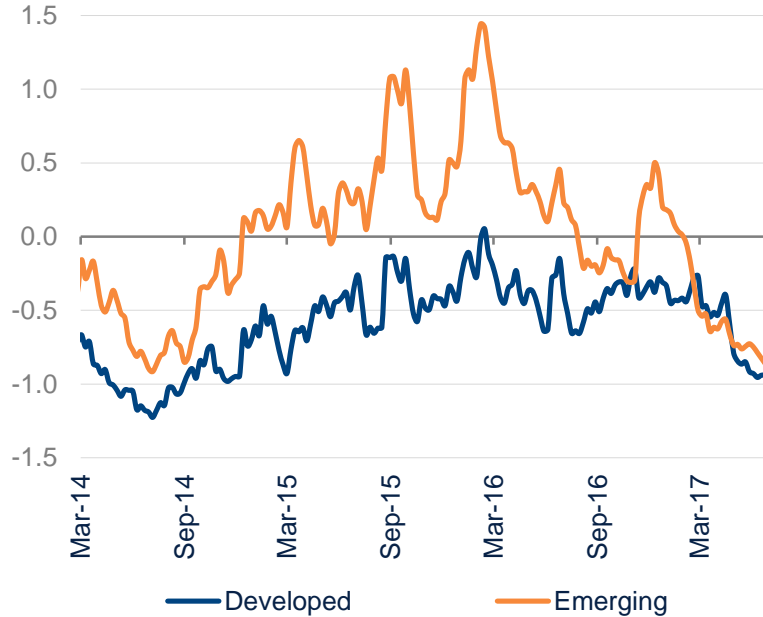
Source: BBVA - Garanti Research, Bloomberg

Global GDP growth continues to improve in 2Q but with signs of stabilization. The latest data suggest that positive signs are shifting from the US and China to Europe and other emerging economies.

Global Financial Markets

BBVA RESEARCH FINANCIAL STRESS INDEX

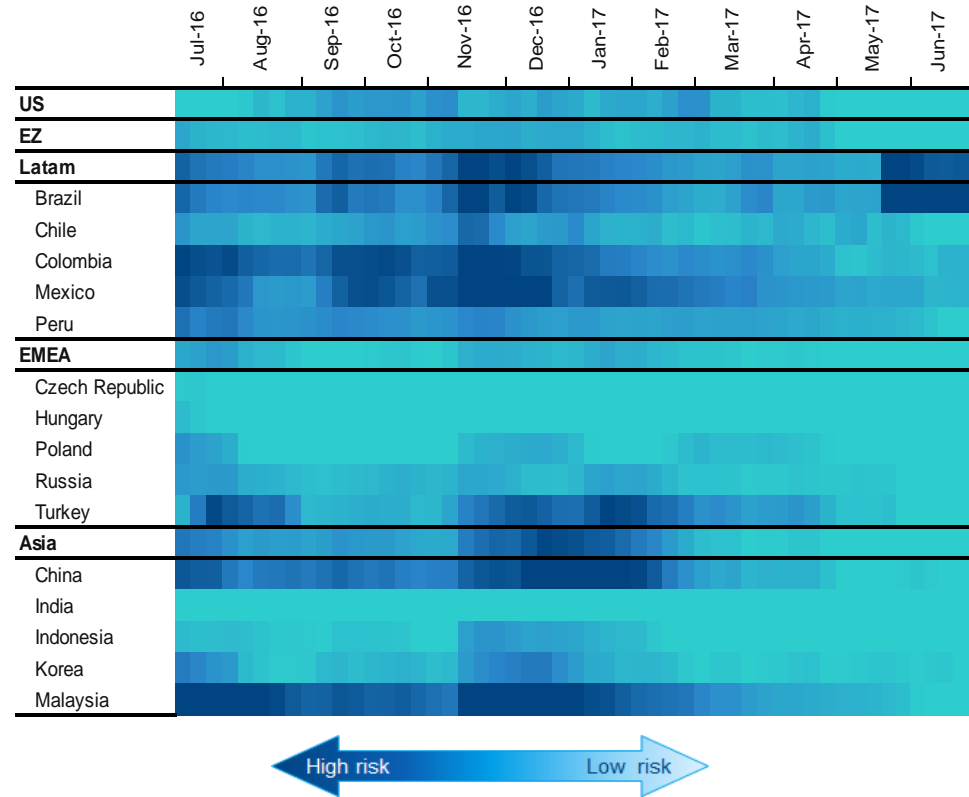
Normalized index



Source: BBVA Research, Bloomberg

FINANCIAL STRESS INDEX REGIONAL MAP

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

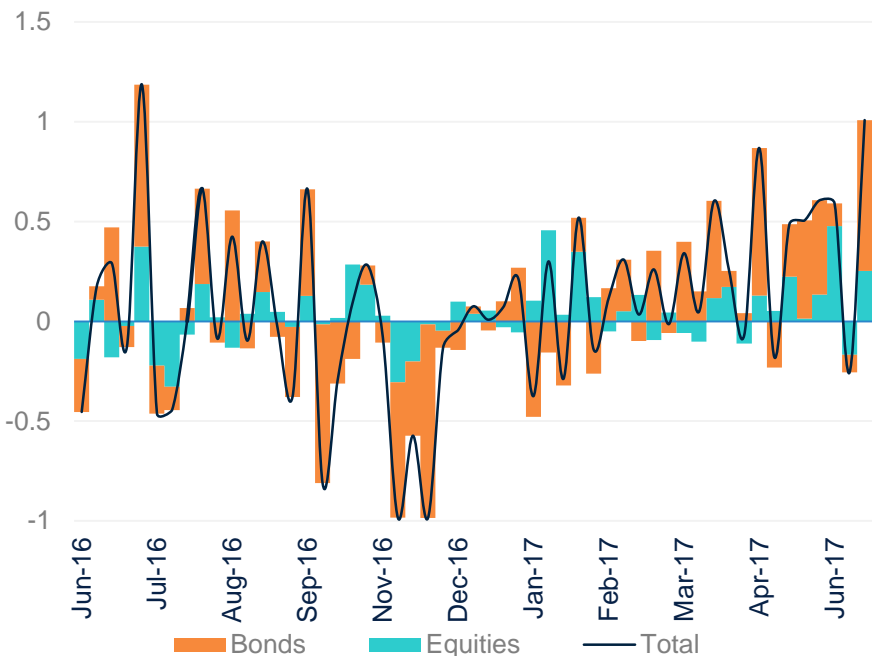


The Federal Reserve (FED) has implied a marked hawkish tone, but markets continue to bet on very accommodative monetary policy.

Flows to Turkish Assets and Interest Rates

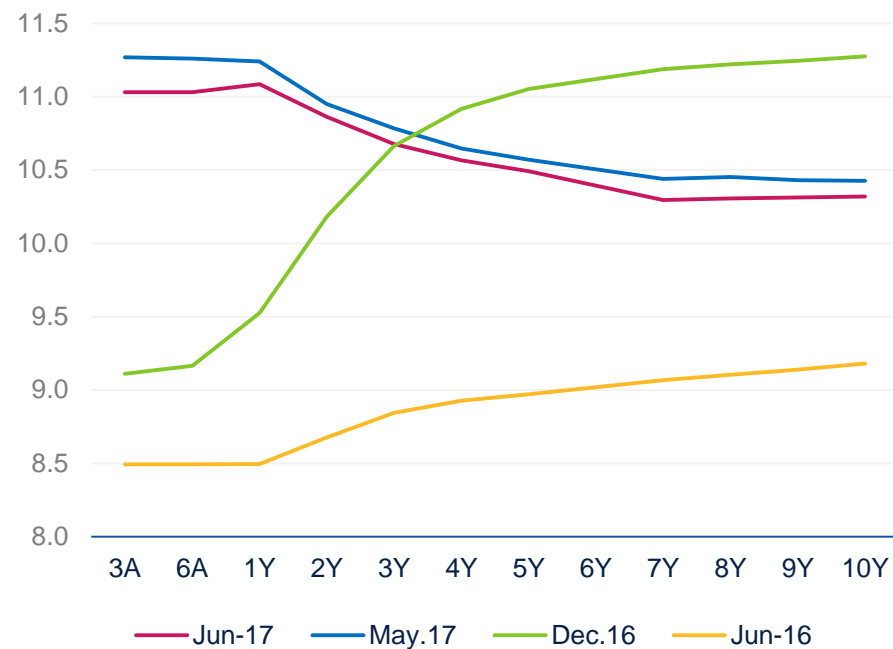
FLOWS TO TURKISH ASSETS

Level, bn TL



YIELD CURVE

(%)

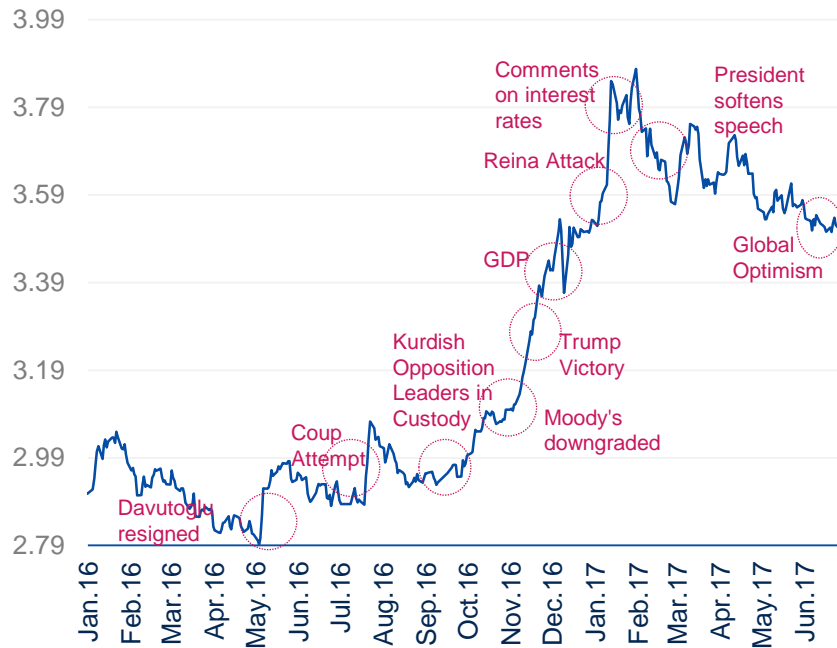


Source: Garanti Research, Bloomberg

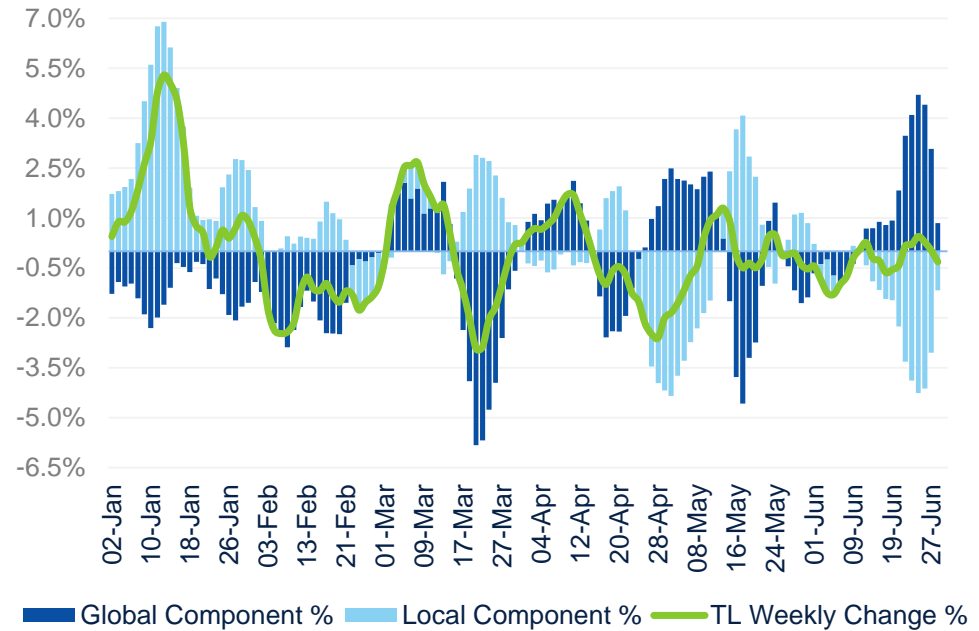
Inflows into Turkish assets continued in June, especially on the bonds side. Yield curve slightly shifted downwards on top of expectations for inflation to decline in the short term and improved global risk appetite.

Exchange Rate: USD/TL

USD/TL
(Level)



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



Source: Garanti Research, Bloomberg

Turkish lira remains stabilized at 3.50-3.55 levels as global and local factors balance each other.

Economic Activity: GDP

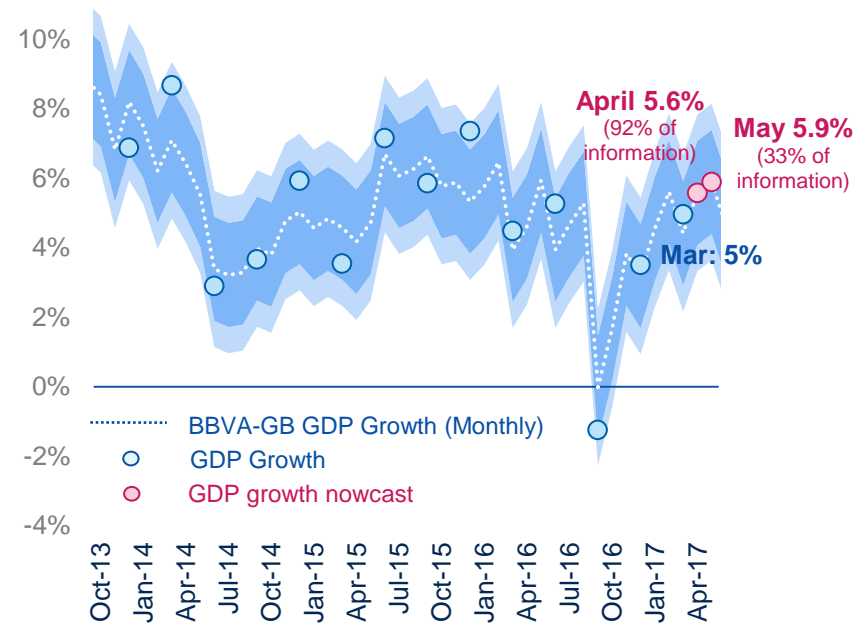
ACTIVITY INDICATORS

(3 MA, YoY Change, %)

	2016				2017					
	Mean	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Industrial Production	3.6	-3.1	-0.3	0.4	2.0	3.3	1.2	1.7	2.3	
Non-metal Mineral	1.2	-3.0	2.3	1.7	-1.0	-4.2	-6.9	-2.0	-0.4	
Electricity Production	4.5	3.5	3.7	3.4	5.3	5.7	5.6	5.7	4.8	3.7
Auto Sales	3.7	-15.2	3.4	24.1	10.2	6.4	-8.8	-7.5	-11.7	
Tourist Arrivals	-0.7	-36.0	-33.1	-28.2	-21.3	-14.8	-9.2	-6.4	3.7	
Number of Employed	3.5	1.3	1.4	1.5	1.3	1.3	1.4	1.7		
Number of Unemployed	5.4	13.2	14.6	16.1	18.6	20.3	21.0	20.9		
Auto Imports	6.2	-10.2	9.0	31.7	16.4	11.1	-8.1	-12.7	-17.0	
Auto Exports	7.8	12.2	-16.5	-10.6	-1.7	33.5	30.2	33.5	22.6	
Financial Conditions	74.1	88.6	92.6	80.1	73.6	59.0	42.6	38.3	34.4	30.6
Credit Growth-13Week	12.6	14.5	14.8	14.0	14.3	14.0	14.7	15.3	15.6	15.6
Retail Sales	3.9	-0.8	0.3	-0.5	-1.8	-2.3	-3.2	-2.3	-1.7	
Real Sector Confidence	107.2	106.6	104.9	108.2	103.9	100.6	106.2	106.5	106.3	104.8
MICA Forecast									5.6%	5.9%
GDP YoY		-1.3%			3.5%			5.0%		
		Contraction	Slow-down		Growth			Boom		

MONTHLY GDP GROWTH & ESTIMATE

(YoY Change, %)

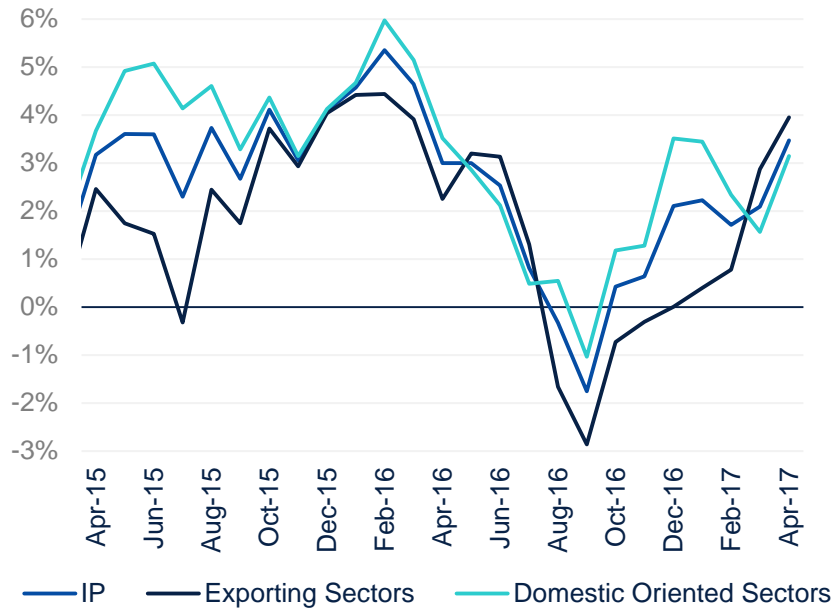


Source: Garanti Research, Turkstat, Bloomberg

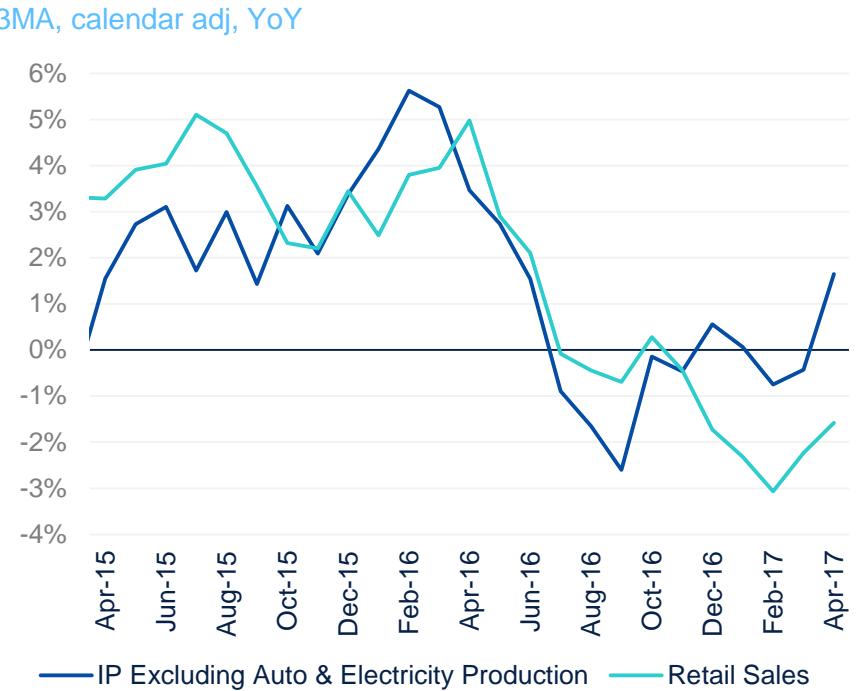
We expect the GDP growth in 2Q to accelerate even further, as early signals from May suggest a growth rate close to 6%.

Economic Activity: Sectors

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



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



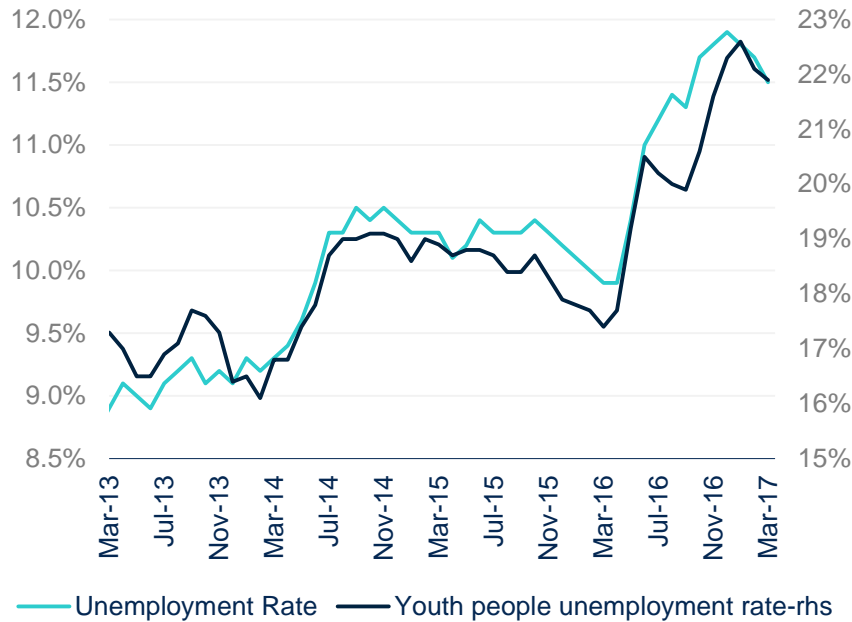
Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism

Recovery in IP continues with the support from both exporting and domestic demand oriented sectors. Instead of focusing only on auto and electricity production, the improvement in IP is distributed among many sub-segments.

Economic Activity: Employment

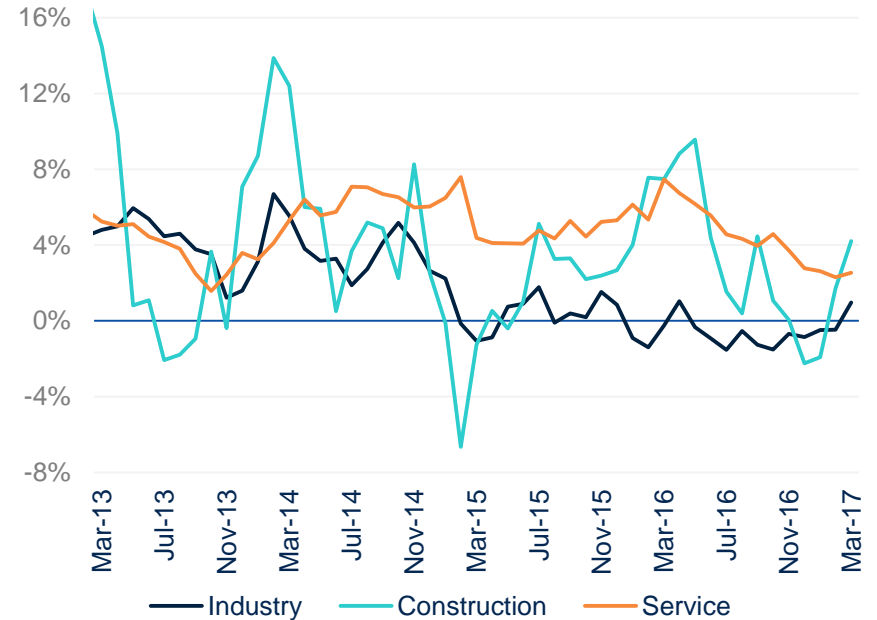
UNEMPLOYMENT RATE

SA



EMPLOYMENT GROWTH IN SECTORS

YoY



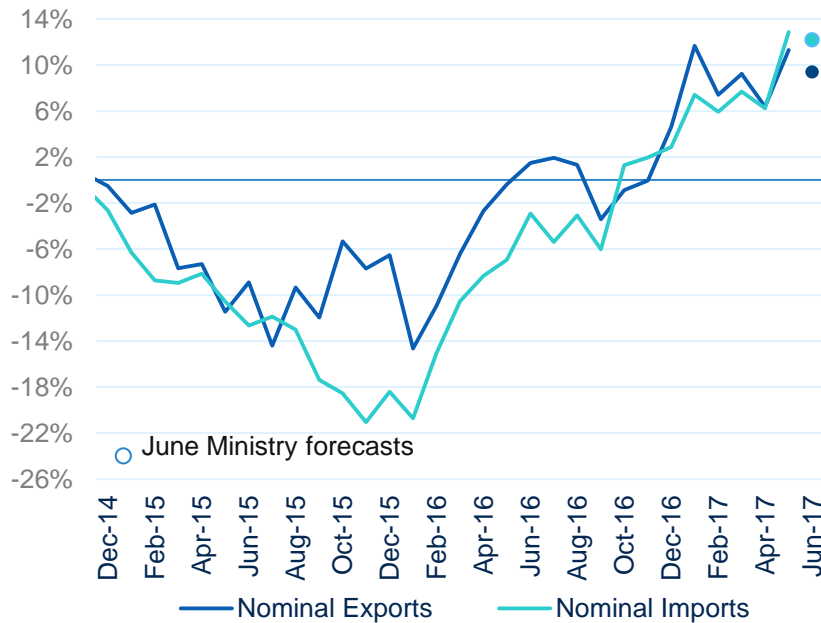
Source: Garanti Research, Turkstat

Unemployment rate continued to ease but only marginally in March as the increase in the employed could compensate mostly the additional labor force.

Economic Activity: Trade

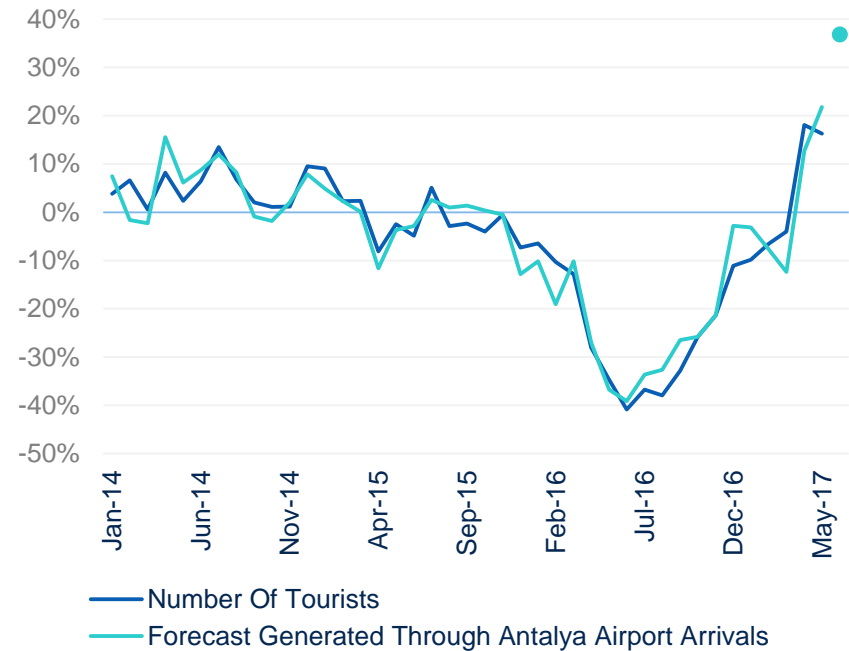
NOMINAL FOREIGN TRADE FIGURES

3MA, YoY Change



NUMBER OF TOURIST ARRIVALS

YoY Change

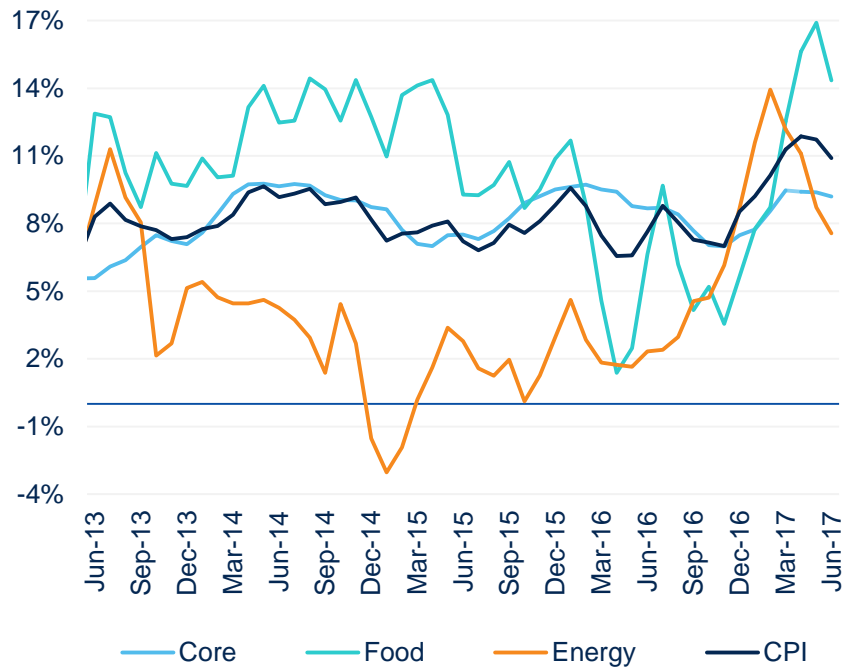


Source: Garanti Research, Turkstat

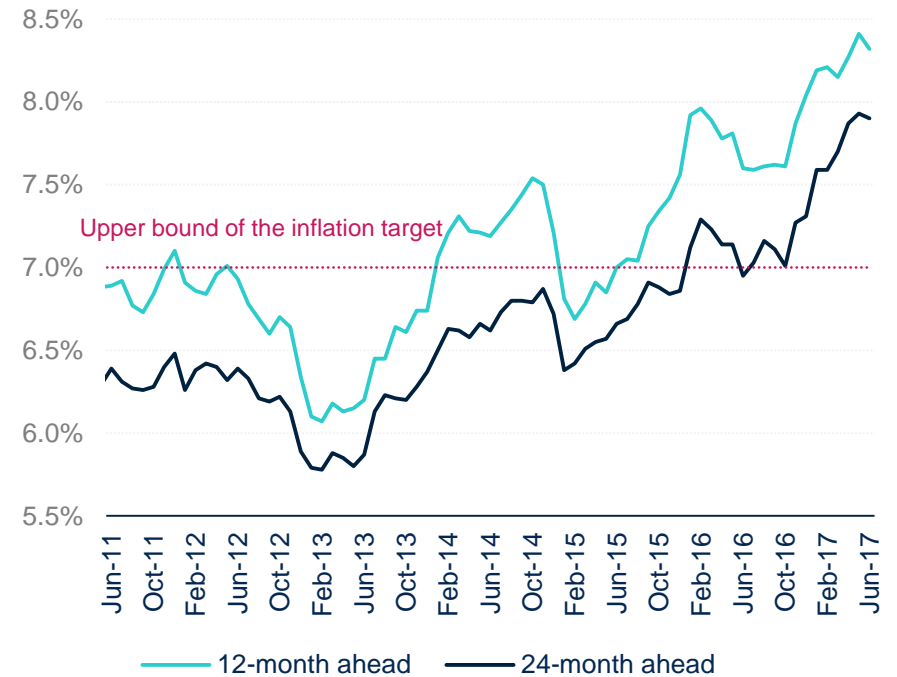
After contributing positively to 1Q GDP growth rate, net exports and partial recovery in tourist arrivals continue to support economic recovery in 2Q.

Inflation

CPI & CPI COMPONENTS YoY



CBRT SURVEY: INFLATION EXPECTATIONS YoY

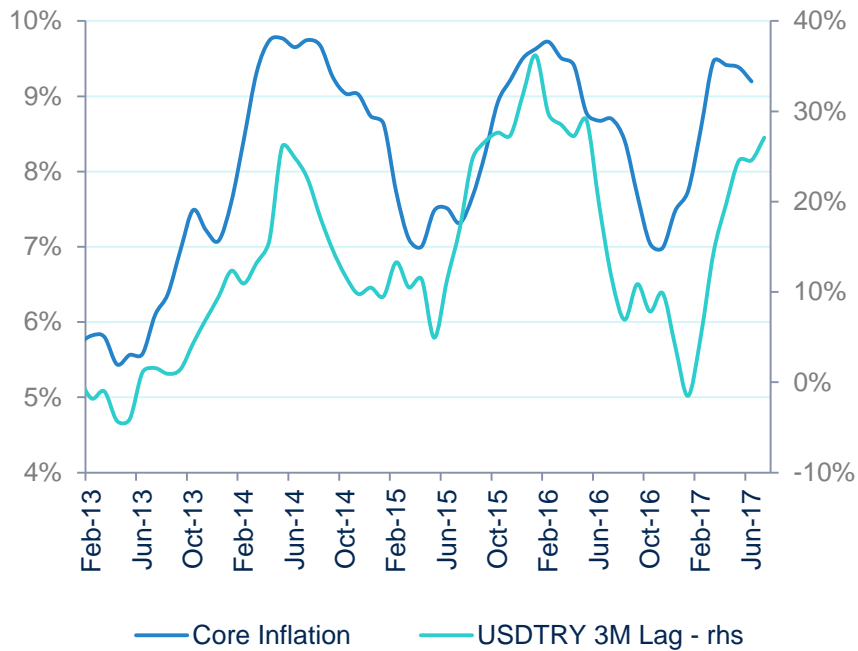


Source: Garanti Research, Turkstat, CBRT

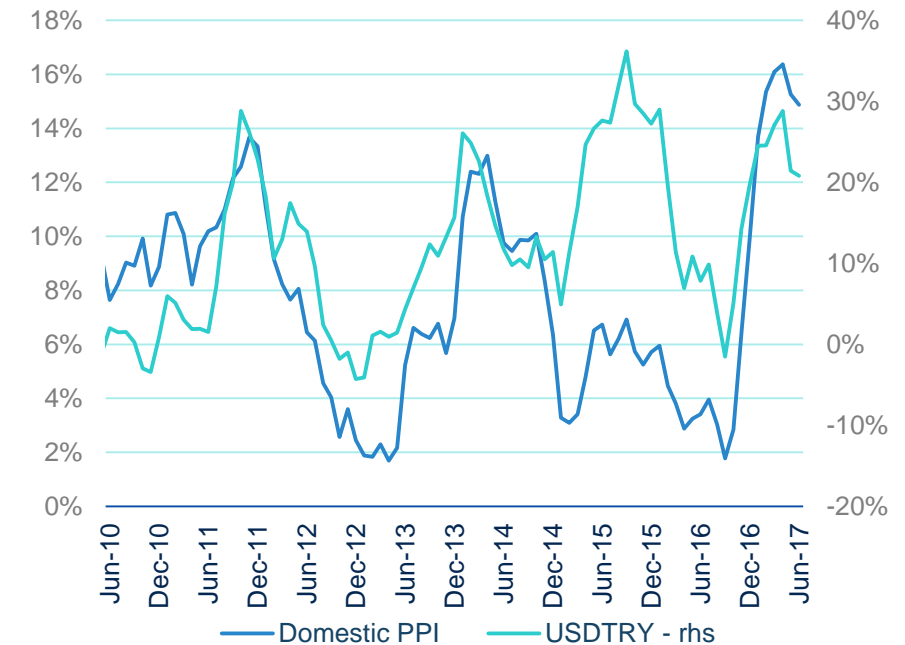
Inflation retreated in June thanks to favorable base impact on food prices, slight fall in core inflation and slumping energy prices. Base impact on food inflation will also be supportive in July, helping the headline ease further.

Inflation

CORE INFLATION & USD/TL YoY



DOMESTIC PPI & USD/TL YoY



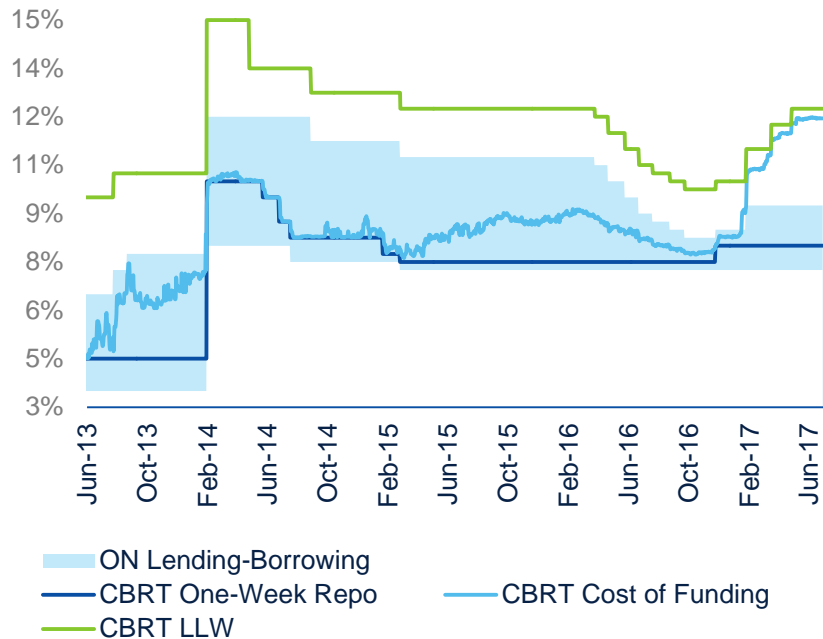
Source: Garanti Research, Turkstat, CBRT

Weaker than expected exchange-rate pass through helped the core inflation slightly slow down in June. PPI eases but only marginally with the support from both stabilized TL and lower commodity prices.

Monetary Policy

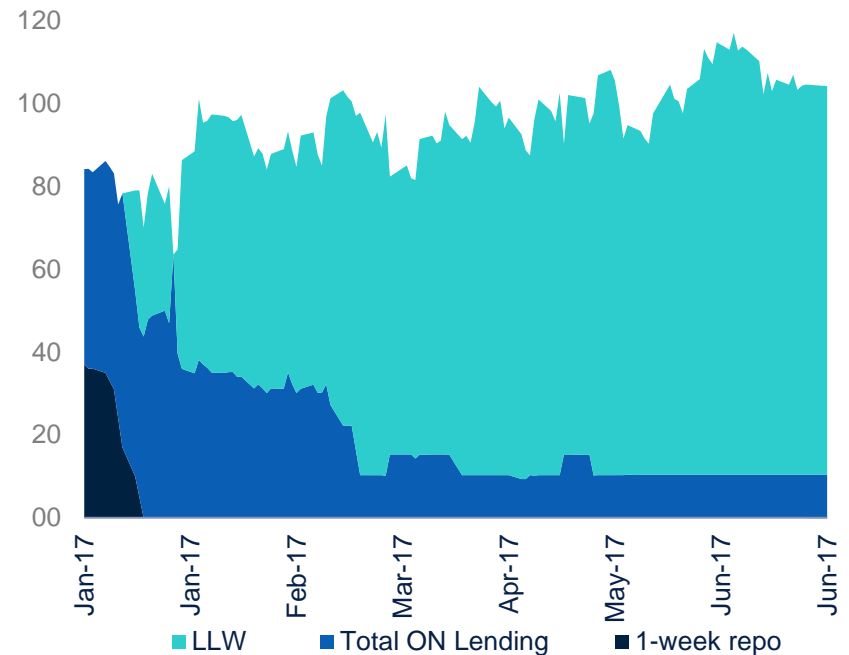
CBRT INTEREST RATE CORRIDOR

Levels



CBRT FUNDING COMPOSITION

Levels, bn TL



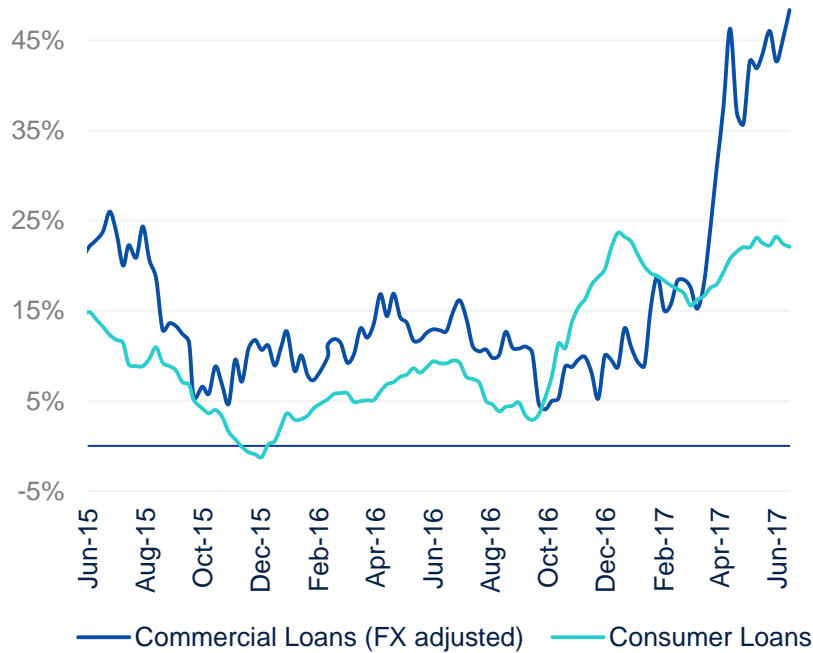
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

The CBRT maintains its hawkish tone by over looking the expected disinflationary impacts of the fall in energy prices and partial correction in food prices and keeps the average funding rate very close to the LLW rate.

Loan Growth and Interest Rates

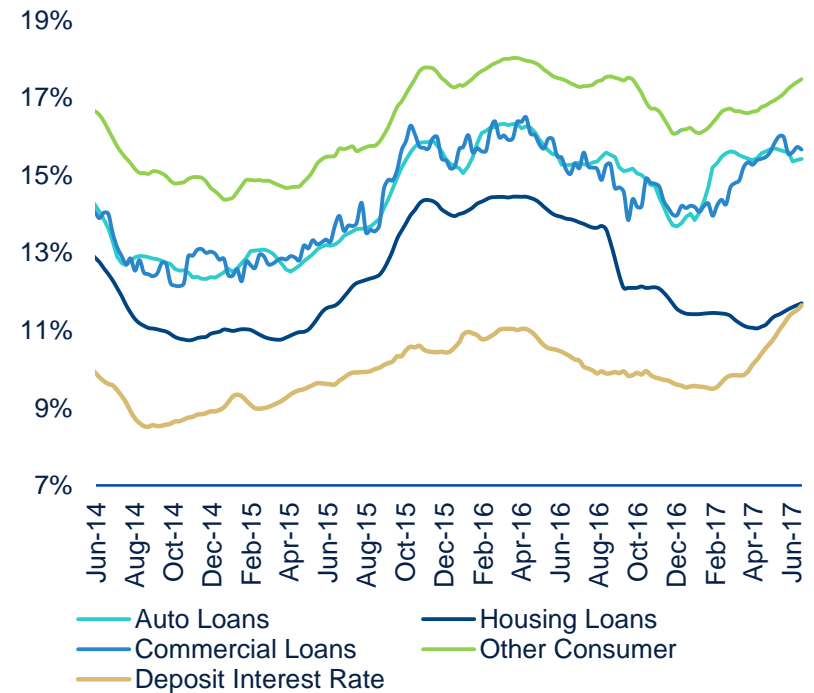
LOAN GROWTH RATES

13-week annualized



LOAN INTEREST RATES

4-week average



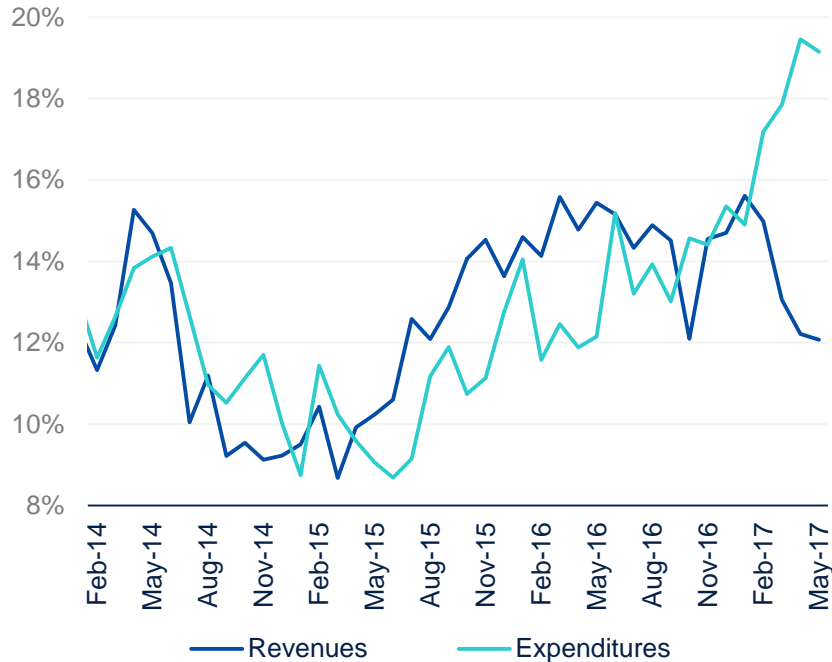
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Government's Credit Guarantee Fund supports commercial loan growth while interest rates for loans and deposits increase, narrowing the net interest rate margin.

Fiscal Policy

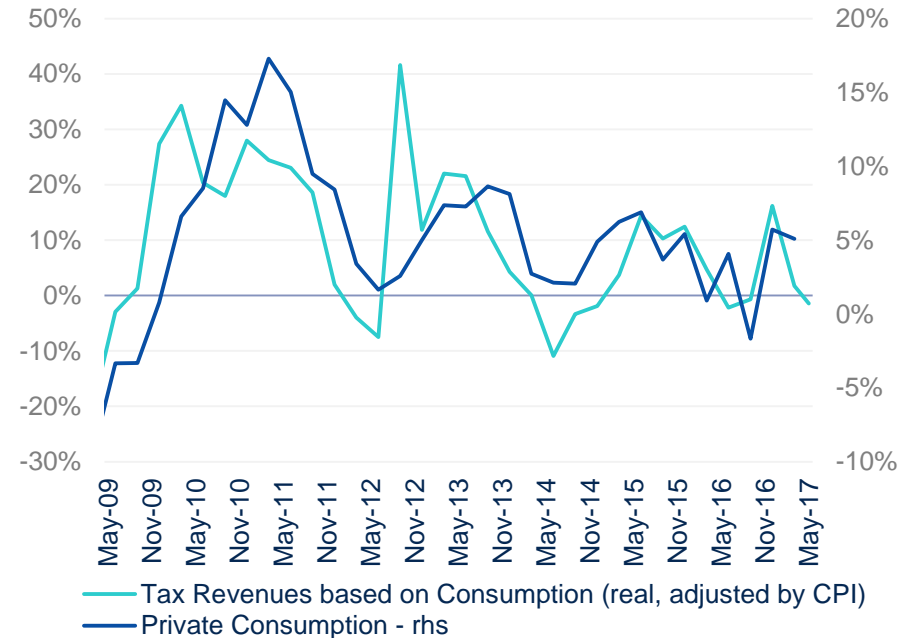
BUDGET REVENUES & EXPENDITURES

12-month sum, YoY Change



TAX REVENUES & PRIVATE CONSUMPTION

12-month sum, YoY Change



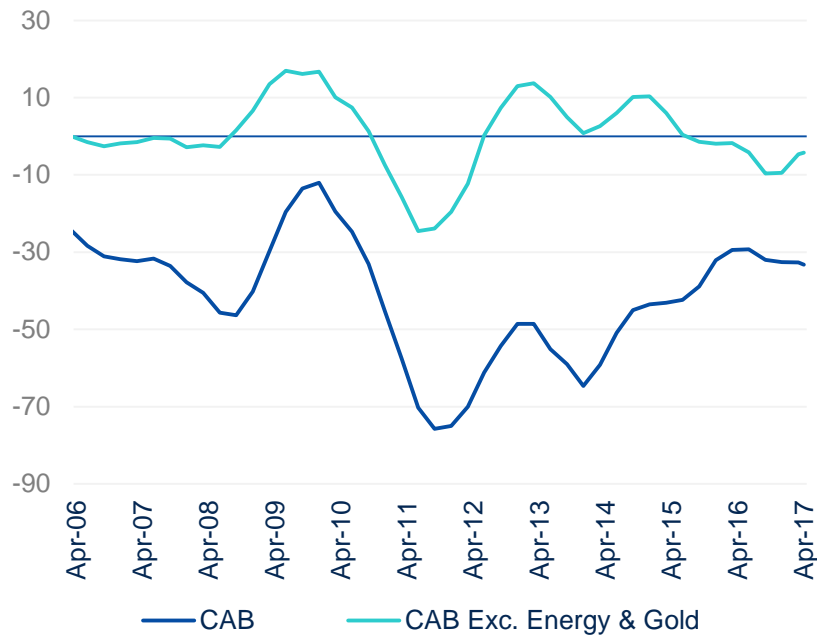
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Budget figures signaled a slight improvement in May, backed by both higher revenue generation on top of economic recovery and tax amnesty collections, accompanied by lower expenditures in terms of reduced current transfers.

External Balance: CAB & Financing

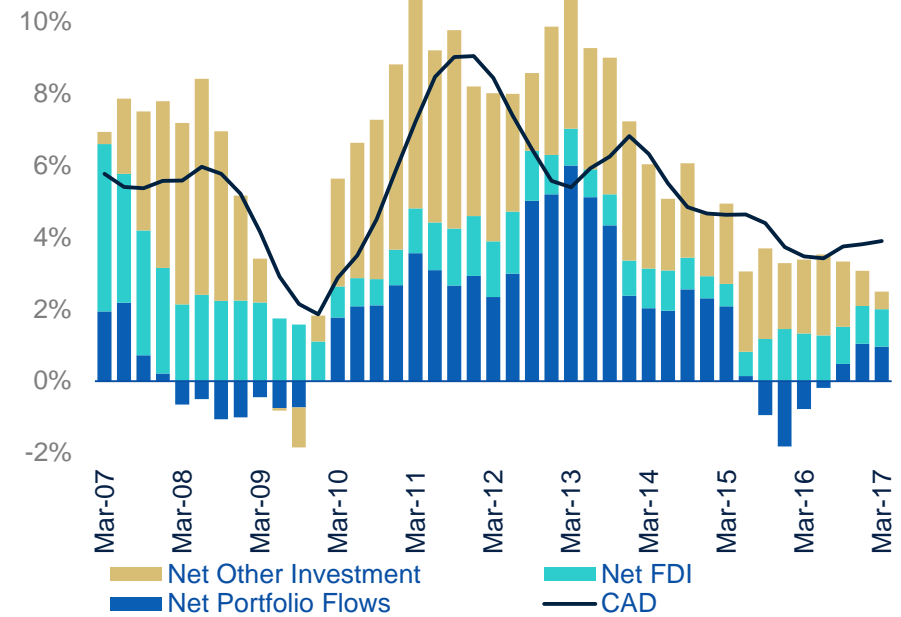
CURRENT ACCOUNT BALANCE

12-month sum, USD bn



CURRENT ACCOUNT NET FINANCING

12-month sum, % GDP



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

Current account deficit has stabilized at around USD 33bn levels so far; however, improving private demand will likely to go beyond the partial recovery on lower oil price realization in the short term.

Monthly Economic Monitor Turkey

3 JULY 2017

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