

Monthly Economic Monitor Turkey

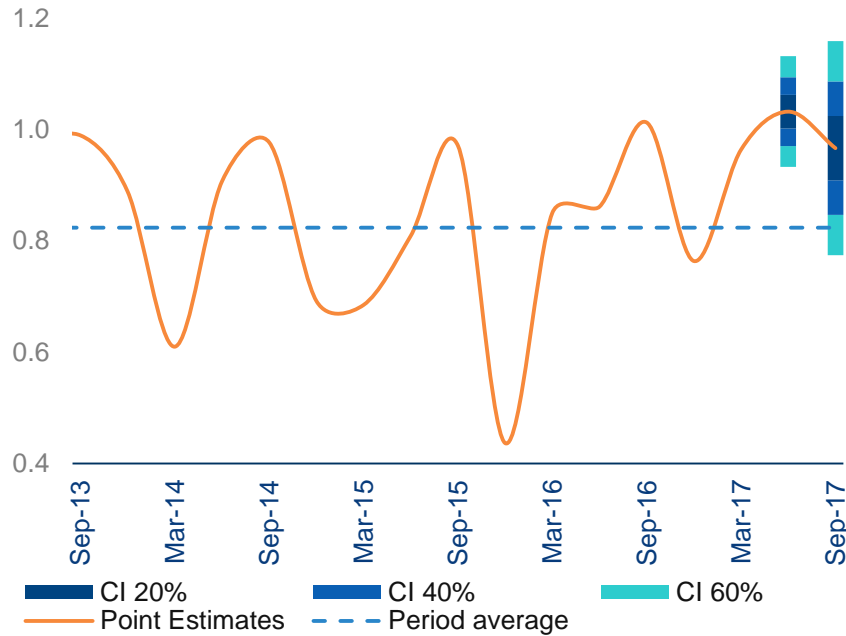
31 JULY 2017



Global Developments

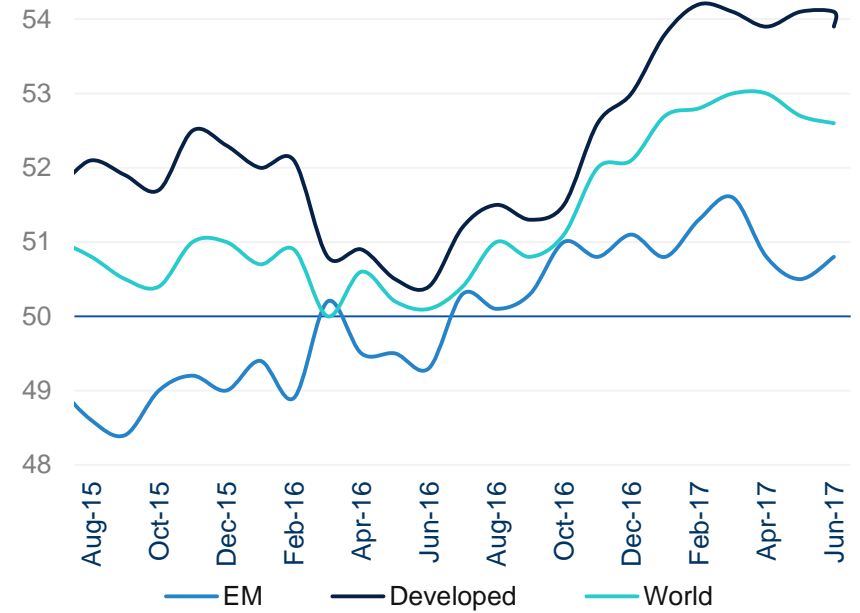
WORLD GDP GROWTH

forecasts based on BBVA-GAIN (% , QoQ)



WORLD MANUFACTURING PMI

Level



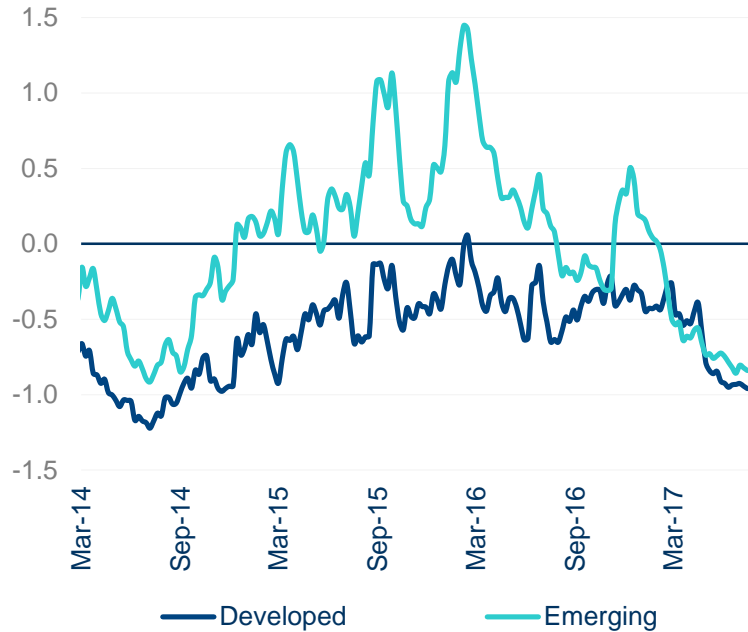
Source: BBVA - Garanti Research, Bloomberg

Global GDP growth continued to improve in 2Q but with signs of stabilization. Stronger growth in China supports the recovery of trade and investment. Across advanced economies there is some rebalancing from the US towards Europe.

Global Financial Markets

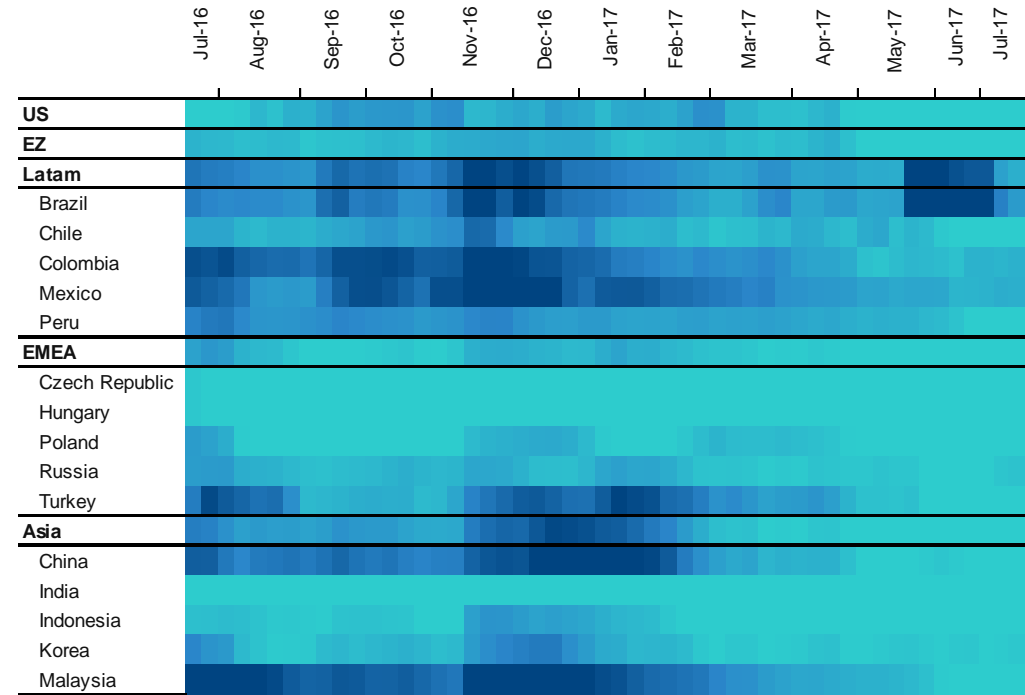
BBVA RESEARCH FINANCIAL STRESS INDEX

Normalized index



FINANCIAL STRESS INDEX REGIONAL MAP

Standard deviation ≈ (-1, 1)



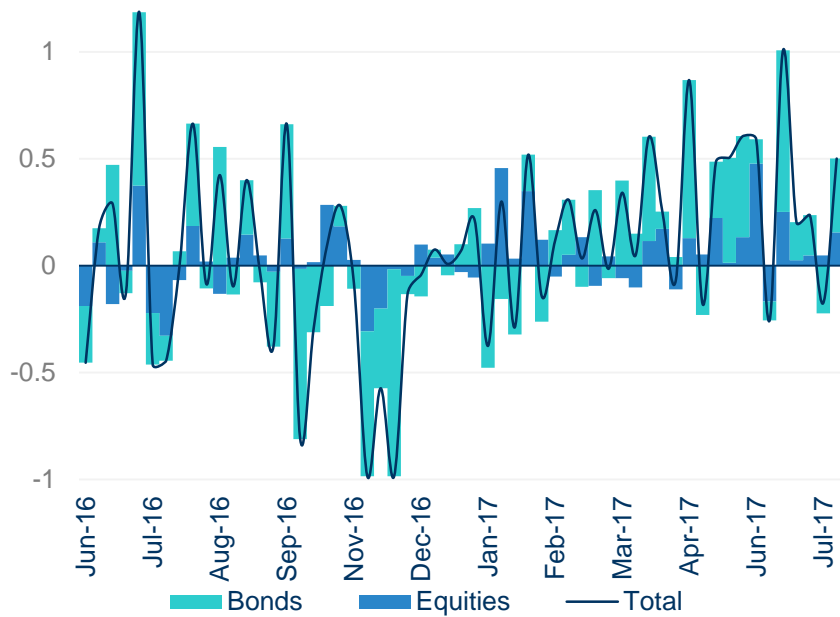
Source: BBVA Research, Bloomberg

Despite the Federal Reserve's (FED) undertakings to run off its \$4.5 trillion balance sheet "relatively soon", recent weakened US inflation path continues to support the global risk mood.

Flows to Turkish Assets and Interest Rates

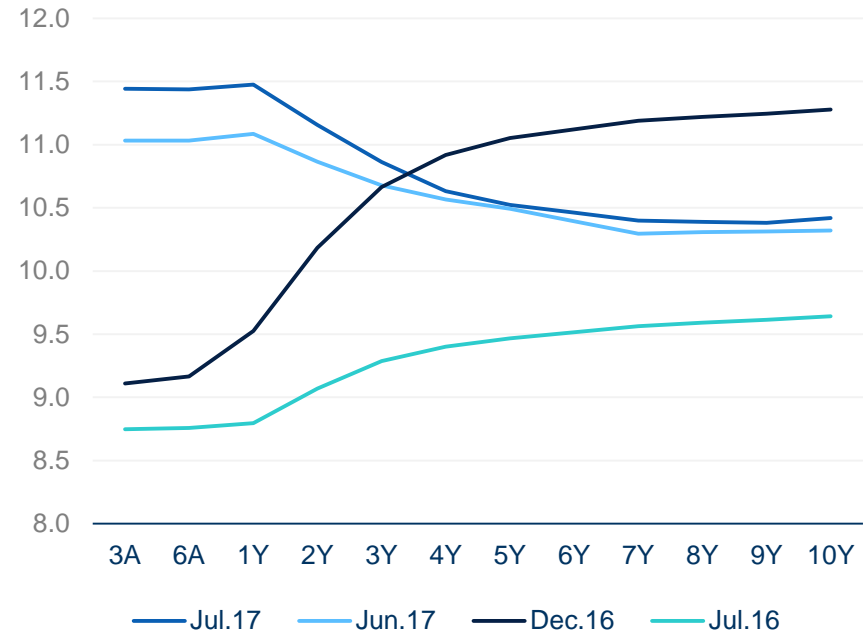
FLOWS TO TURKISH ASSETS

Level, bn TL



YIELD CURVE

(%)



Source: Garanti Research, CBT, Bloomberg

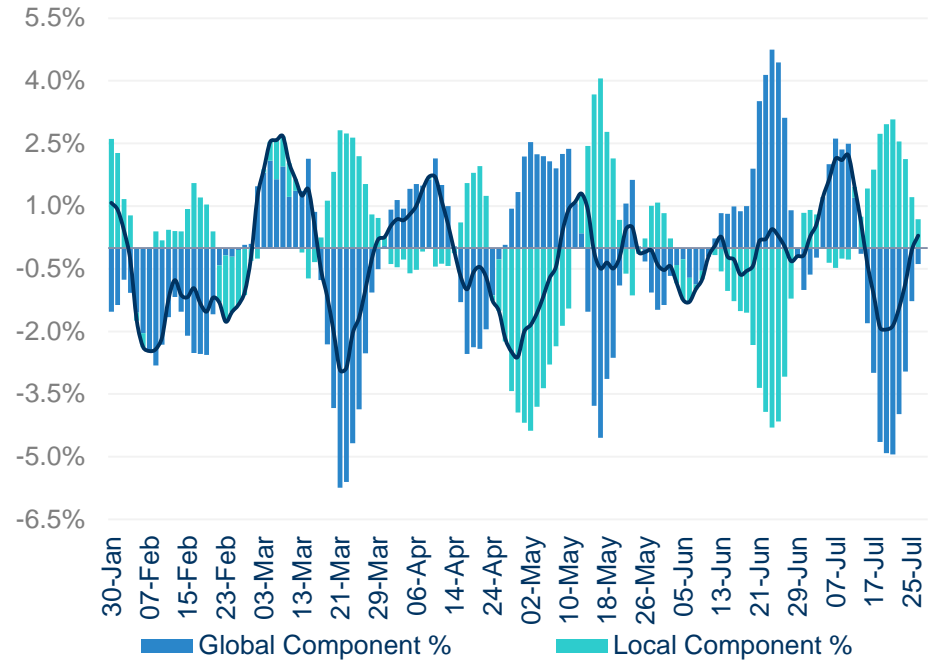
Inflows into Turkish assets increasingly continued in July, mostly on the bonds side. Yield curve slightly shifted upwards, especially in the short end as a result of the Central Bank's ongoing hawkish stance.

Exchange Rate: USD/TL

USD/TL
(Level)



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



Source: Garanti Research, Bloomberg

Turkish lira fell slightly below the 3.55 level through the end of July as global and local factors stay balanced.

Economic Activity: GDP

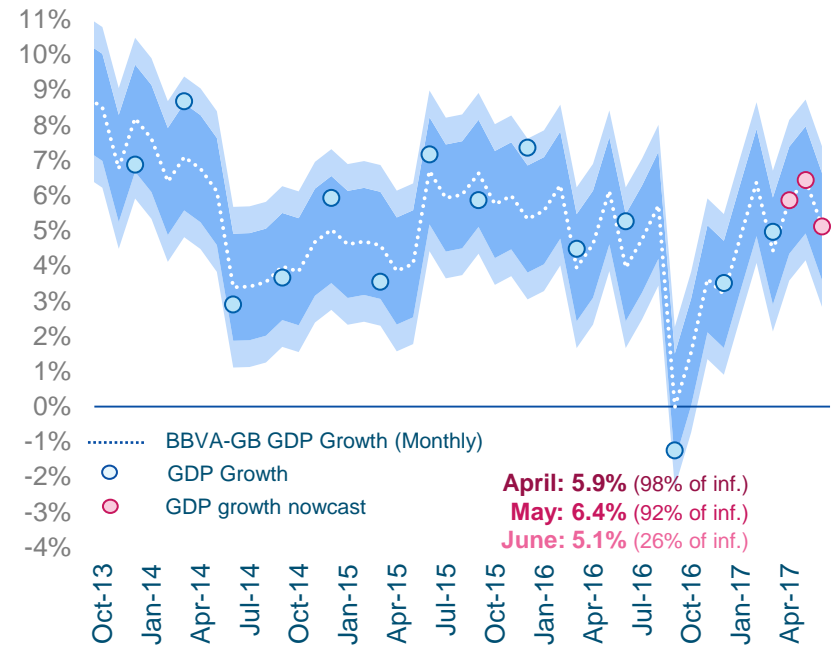
ACTIVITY INDICATORS

(3 MA, YoY Change, %)

Mean	2016		2017							
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
Industrial Production	3.6	0.4	2.0	3.3	1.2	1.7	2.3	4.2		
Non-metal Mineral	1.2	1.7	-1.0	-4.2	-6.9	-2.0	-0.4	2.7		
Electricity Production	4.1	2.6	5.1	6.4	7.1	8.2	7.3	6.6		
Auto Sales	3.5	24.1	10.2	6.4	-8.8	-7.5	-10.9	-10.3		
Tourist Arrivals	-0.6	-28.2	-21.3	-14.8	-9.2	-6.4	3.7	11.1		
Number of Employed	3.5	15	13	13	14	17	19			
Number of Unemployed	5.6	16.1	18.6	20.3	21.0	20.9	19.4			
Auto Imports	6.0	31.7	16.4	11.1	-8.1	-12.7	-14.7	-13.9		
Auto Exports	8.2	-10.6	-1.7	33.5	30.2	33.5	27.1	32.4		
Financial Conditions	73.6	80.1	73.6	59.0	42.6	38.3	34.4	30.6		
Credit Growth-13Week	12.7	14.0	14.3	14.0	14.7	15.3	15.6	16.3		
Retail Sales	3.9	-0.5	-1.8	-2.3	-3.2	-2.3	-1.7	0.2		
Real Sector Confidence	107.2	108.2	103.9	100.6	106.2	106.5	106.3	104.8		
MICA Forecast					5.9%		6.4%		5.1%	
GDP YoY	3.5%		5.0%							
	Contraction		Slow-down		Growth		Boom			

MONTHLY GDP GROWTH & ESTIMATE

(YoY Change, %)

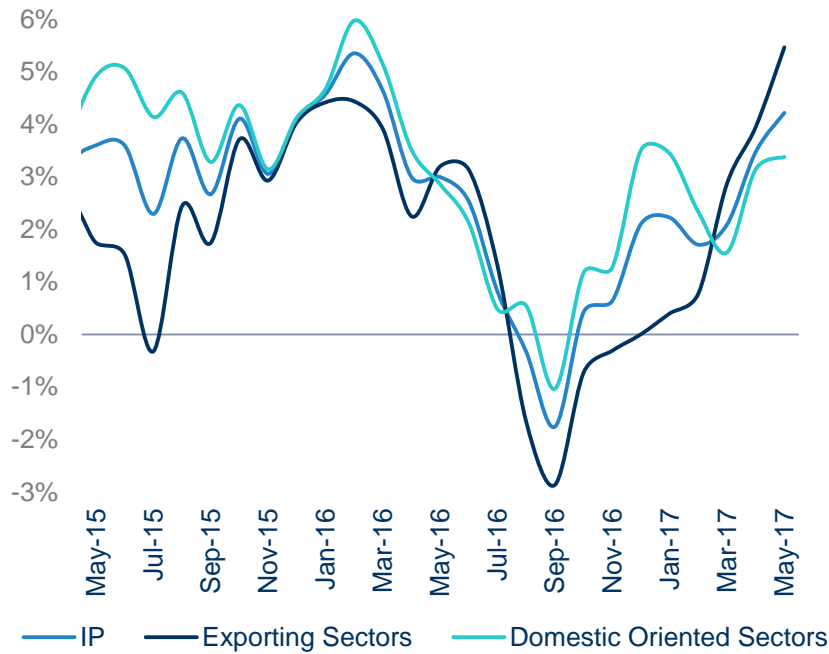


Source: Garanti Research, Turkstat, Bloomberg

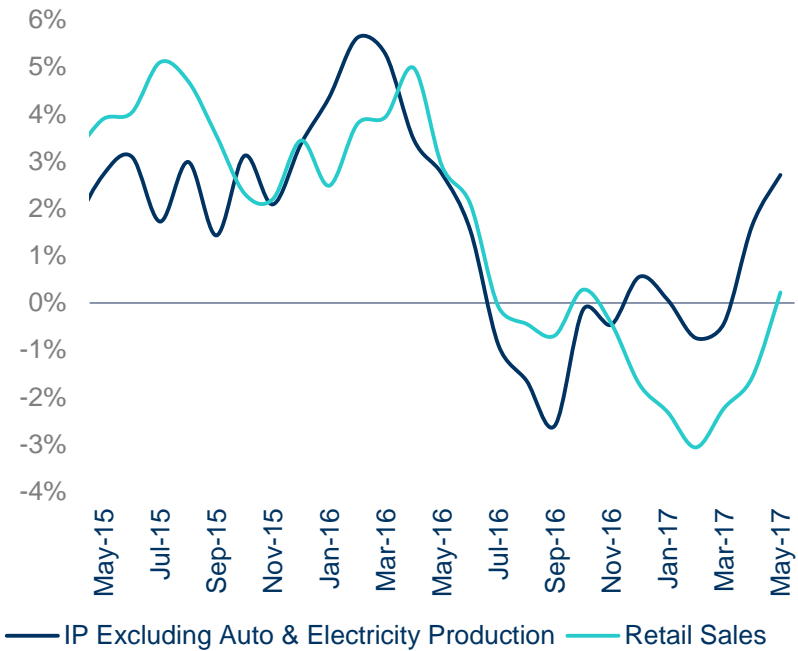
Gains in the economic activity adding up to the payoffs of the Government stimulus and sturdy growth in industrial production took our nowcast up to 5.1% in 2Q, having overall 2017 forecast at 5% with risks on the upside.

Economic Activity: Sectors

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



RETAIL SALES & IP EXC. AUTO & ELECTRICITY
3MA, calendar adj, YoY

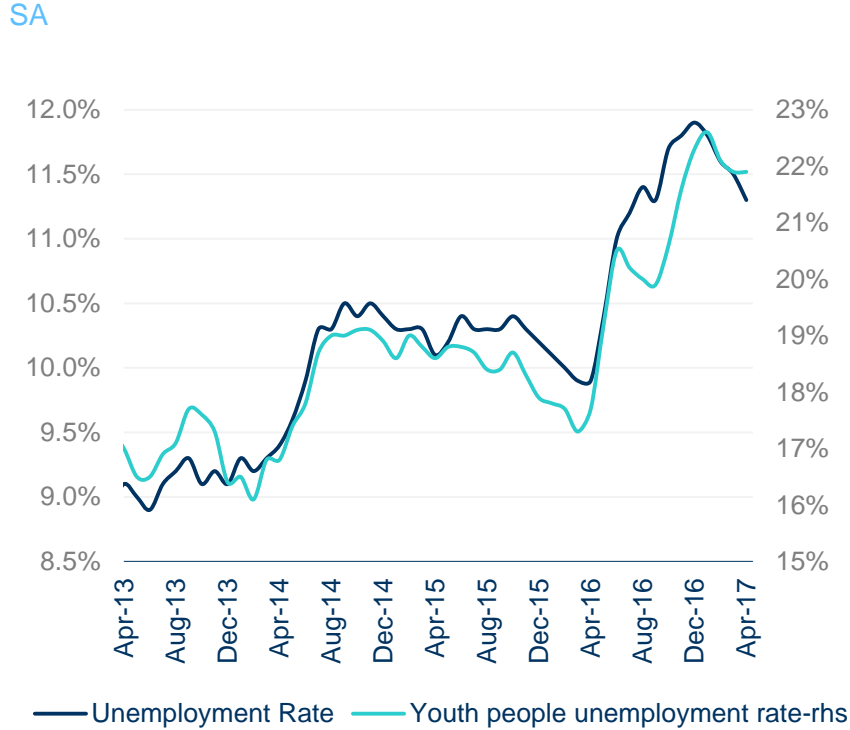


Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism

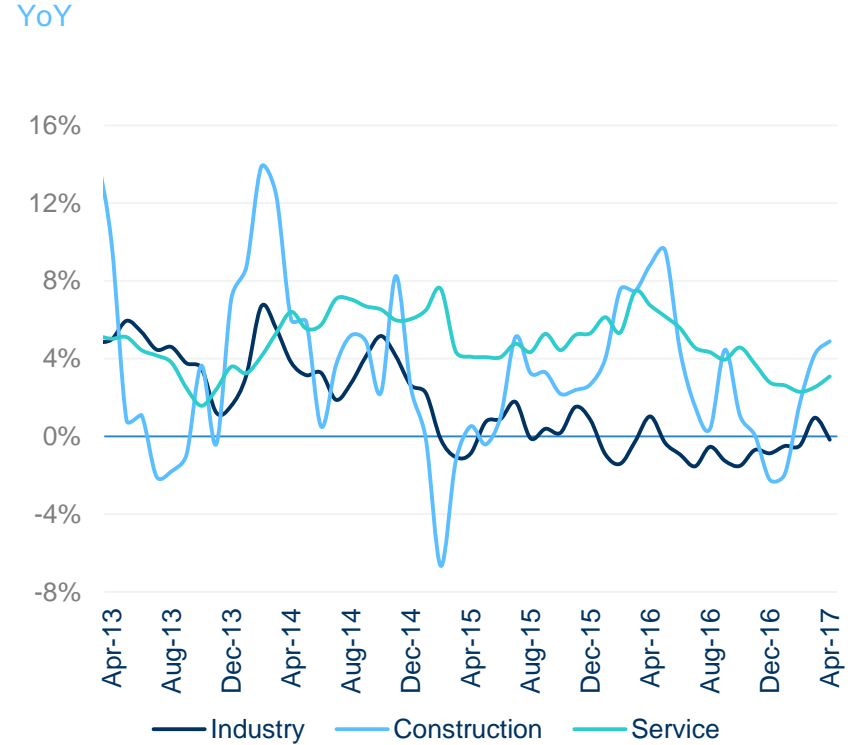
Recovery in IP became even more healthier in May having support from both exporting and domestic oriented sectors. In June, a moderation is to ring in as preliminary soft data suggest, mounting over the base effects of the shift of Ramadan Holiday, still the growth might be even stronger in 2Q.

Economic Activity: Employment

UNEMPLOYMENT RATE



EMPLOYMENT GROWTH IN SECTORS



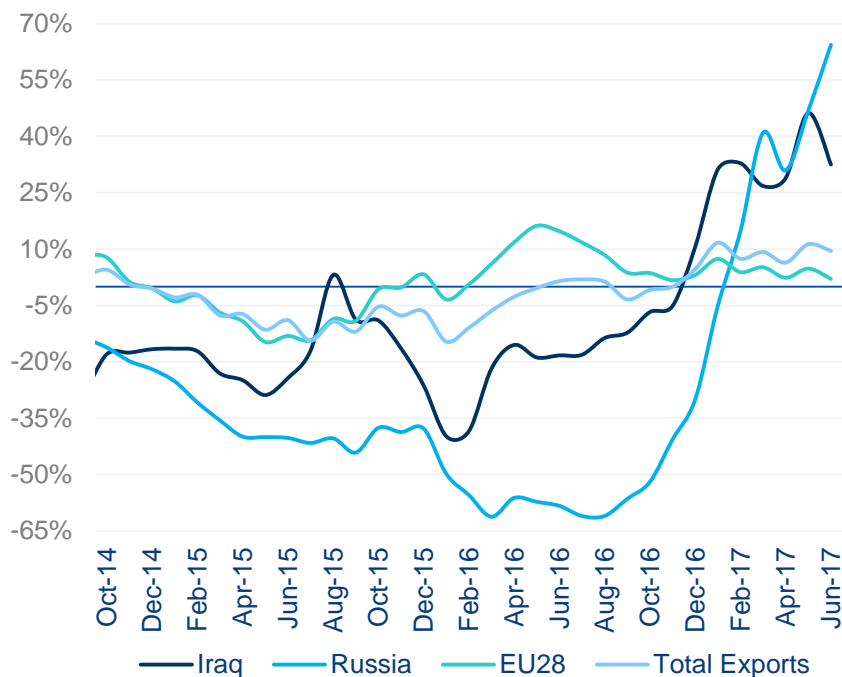
Source: Garanti Research, Turkstat

Unemployment rate maintained its downward trend in April supported by strong economic activity and Government’s employment campaign. Employment growth somewhat moderates with contributions especially from services and construction sectors.

Economic Activity: External Balance

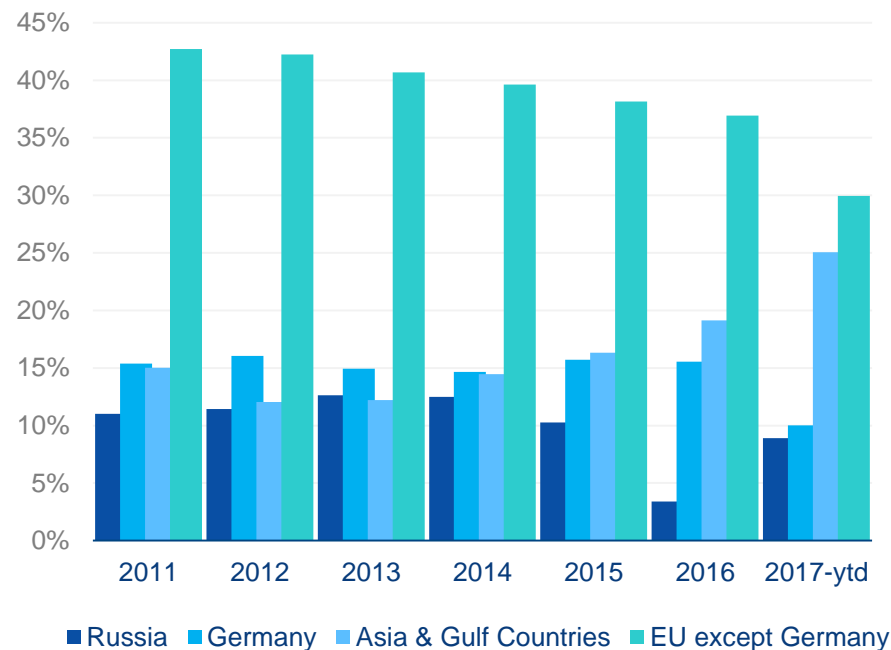
FOREIGN TRADE FIGURES

3MA, YoY Change



SHARE OF FOREIGN TOURIST ARRIVALS

% of Total

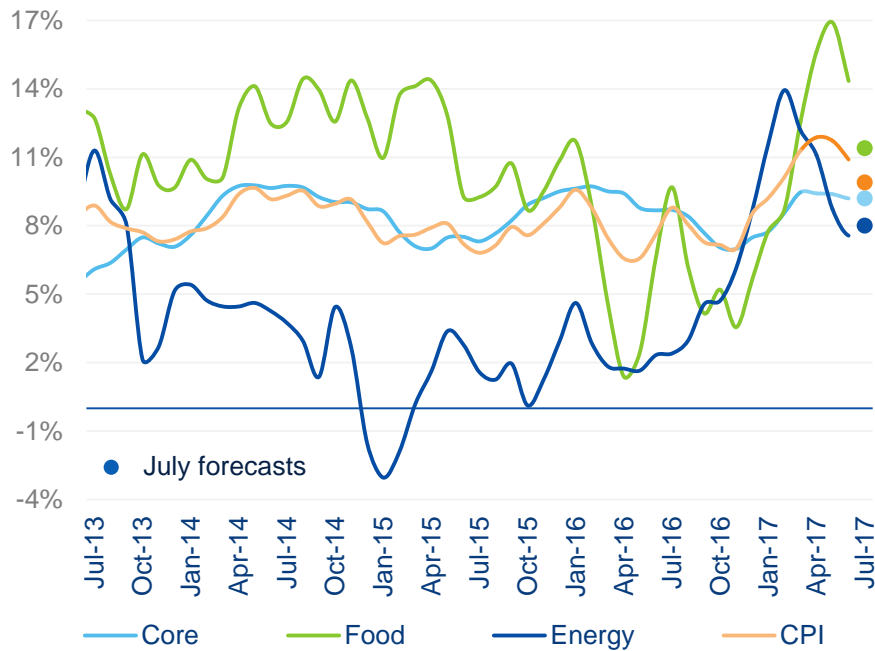


Source: Garanti Research, Turkstat

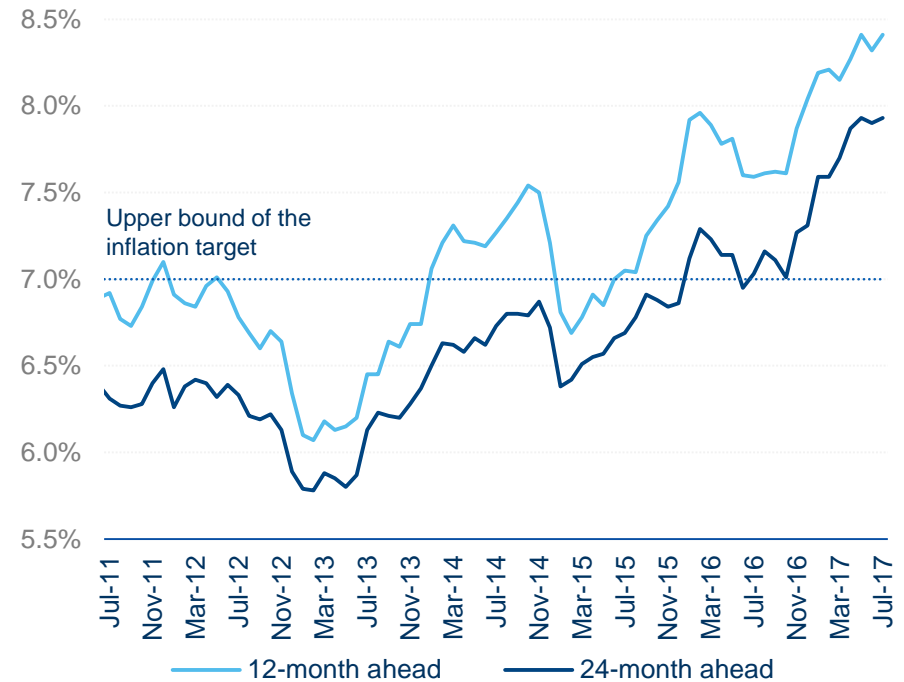
Exports growth continued to be solid in 2Q on improving European demand and favorable base effects on exports to Russia and Iraq. Foreign tourist arrivals have recovered so far in 2017, with a different composition in favor of Russia, Asian and Gulf countries.

Inflation

CPI & CPI COMPONENTS YoY



CBRT SURVEY: INFLATION EXPECTATIONS YoY

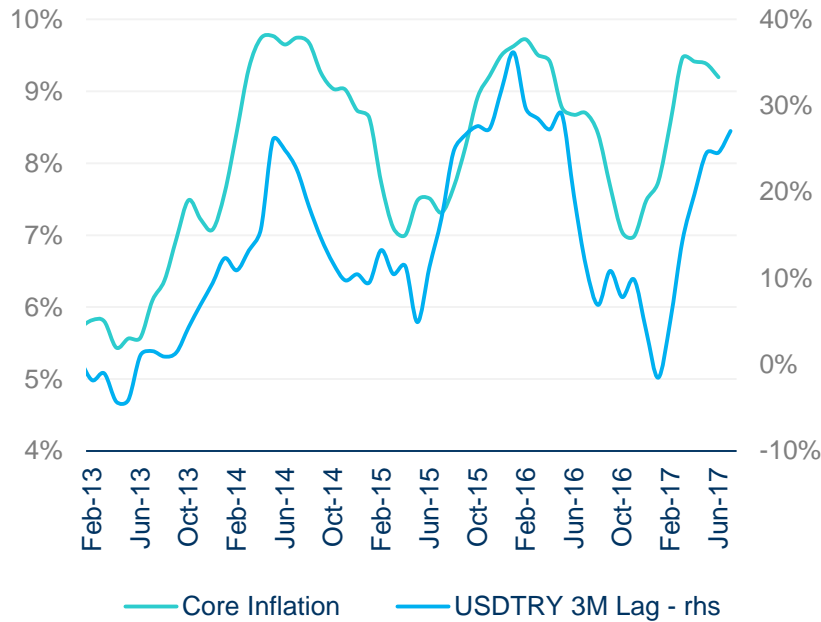


Source: Garanti Research, Turkstat, CBRT

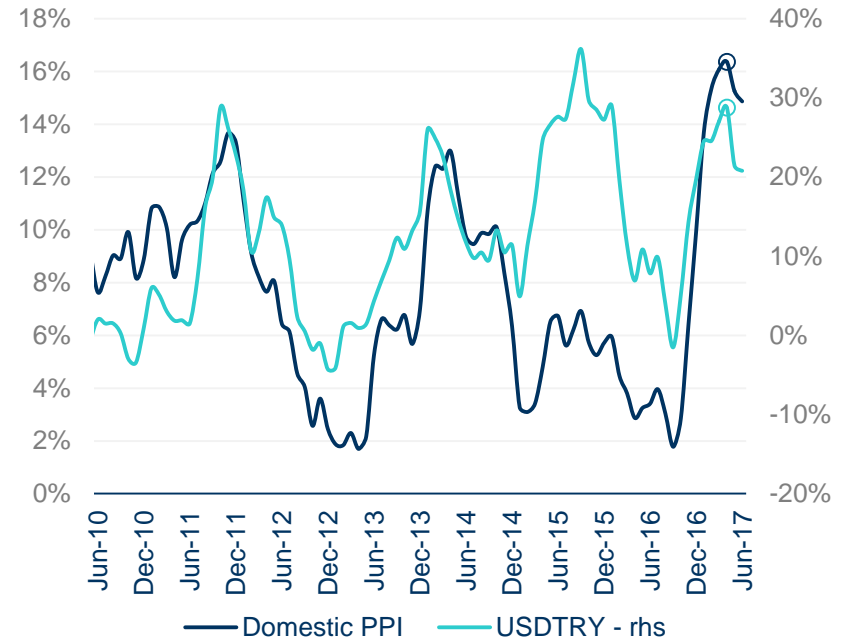
Inflation retreated to 10.9% in June and will ease further in July on top of favorable base effects before climbing up again in 3Q. Inflation expectations for the next 12month and 24month maintained their upward trends in July.

Inflation

CORE INFLATION & USD/TL YoY



DOMESTIC PPI & USD/TL YoY



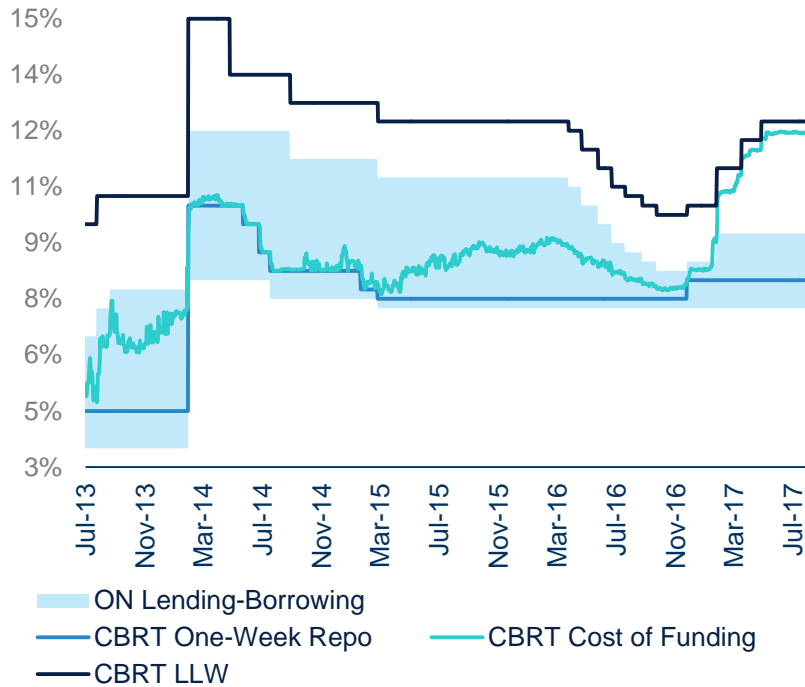
Source: Garanti Research, Turkstat, CBRT

Weaker than expected exchange-rate pass through helped 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

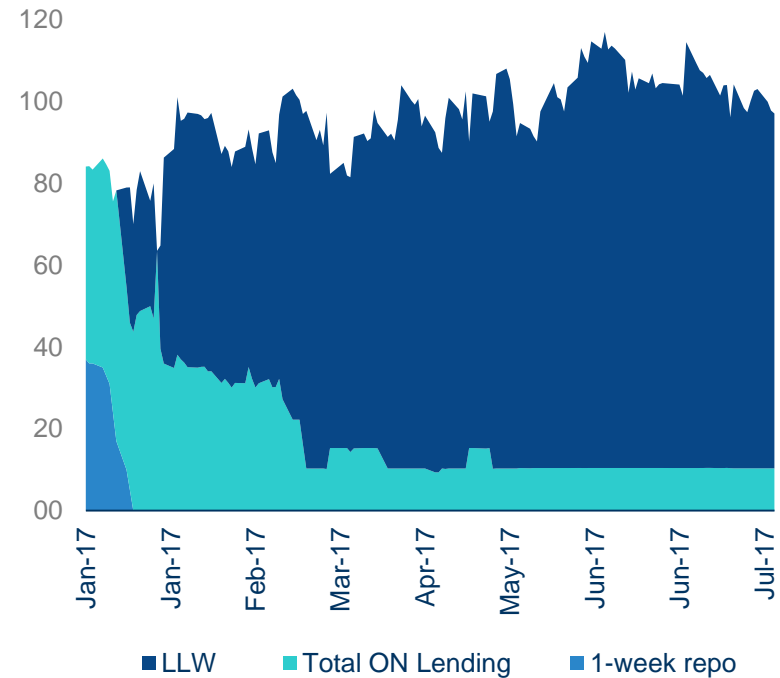
CBRT INTEREST RATE CORRIDOR

Levels



CBRT FUNDING COMPOSITION

Levels, bn TL



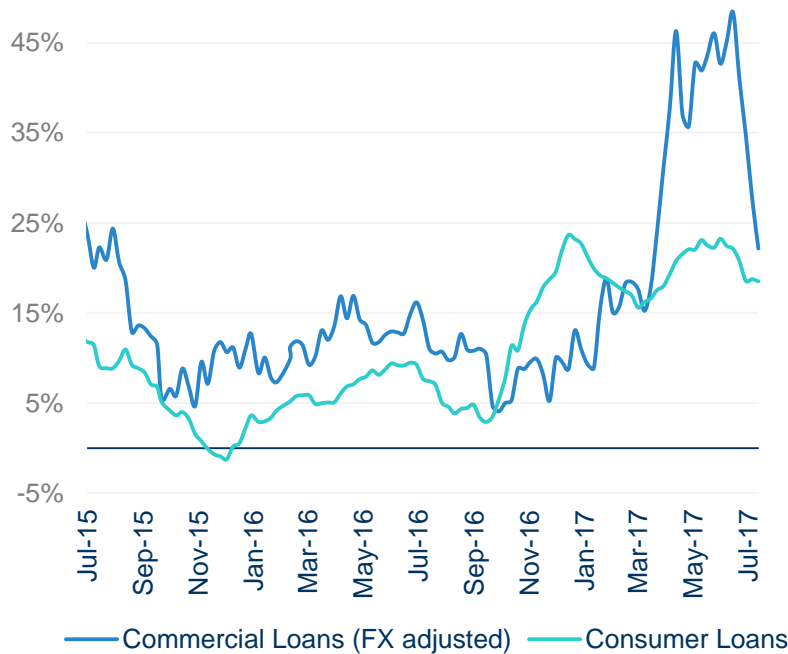
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

The CBRT left its interest rate corridor unchanged in July MPC meeting and the average funding rate continued to hover around 11.93% in July. Thus, the CBRT strengthened its hawkish stance and its predictability while supporting the TL.

Loan Growth and Interest Rates

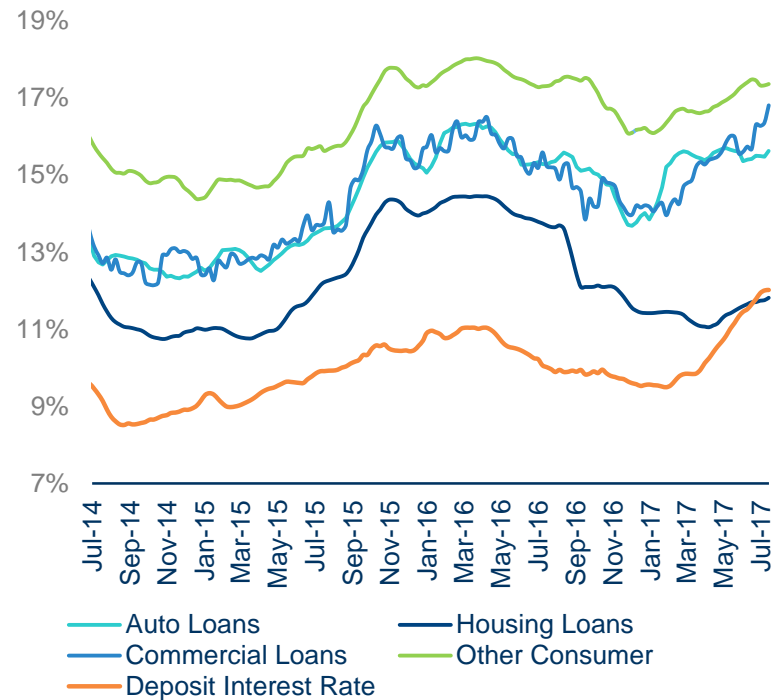
LOAN GROWTH RATES

13-week annualized



LOAN INTEREST RATES

4-week average



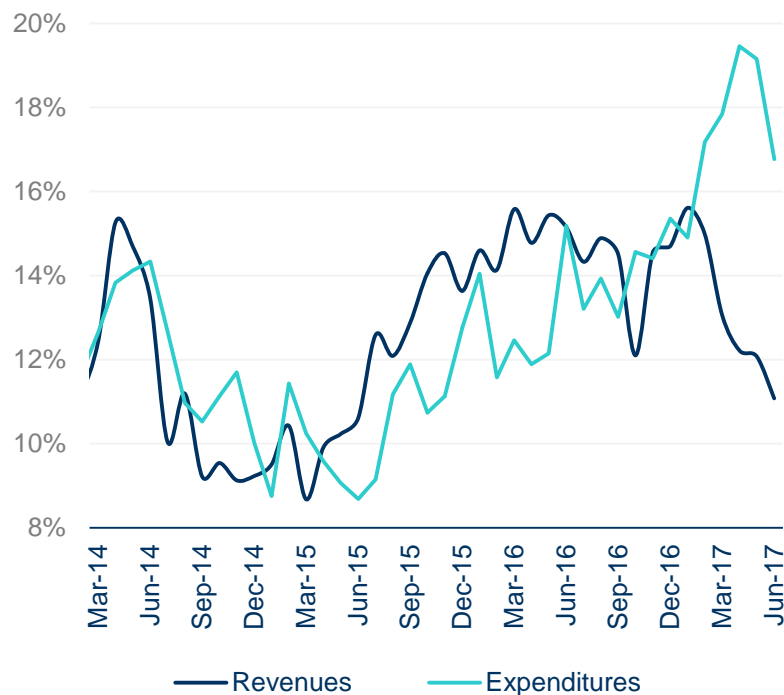
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Commercial loan growth rates have started to decline from very high levels on cooling down Credit Guarantee Fund utilizations, while the upward movement in deposit interest rates tend to stabilize helping net interest rate margin.

Fiscal Policy

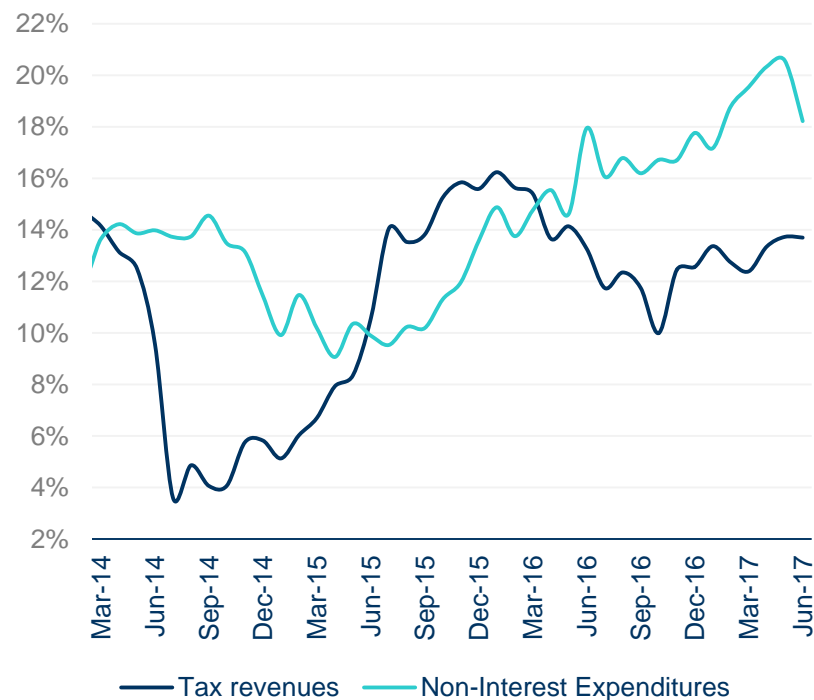
BUDGET REVENUES & EXPENDITURES

12-month sum, YoY Change



TAX REVENUES & NON-INTEREST EXPENDITURES

12-month sum, YoY Change



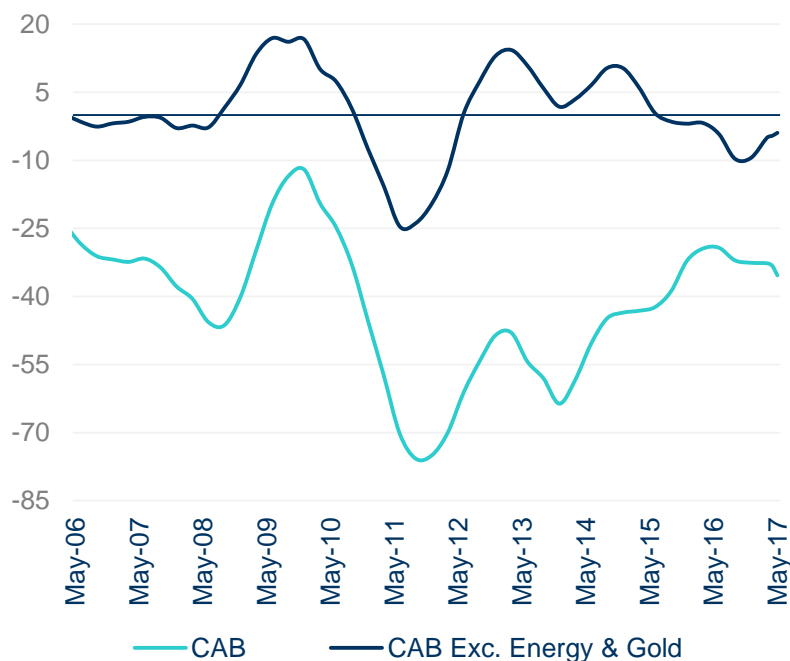
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Budget revenues worsened due to lower privatization revenues despite the higher tax collection on economic recovery in 2Q, while non-interest expenditures also slowed-down as a result of Government's scale back in current transfers and investment expenditures.

External Balance: CAB & Financing

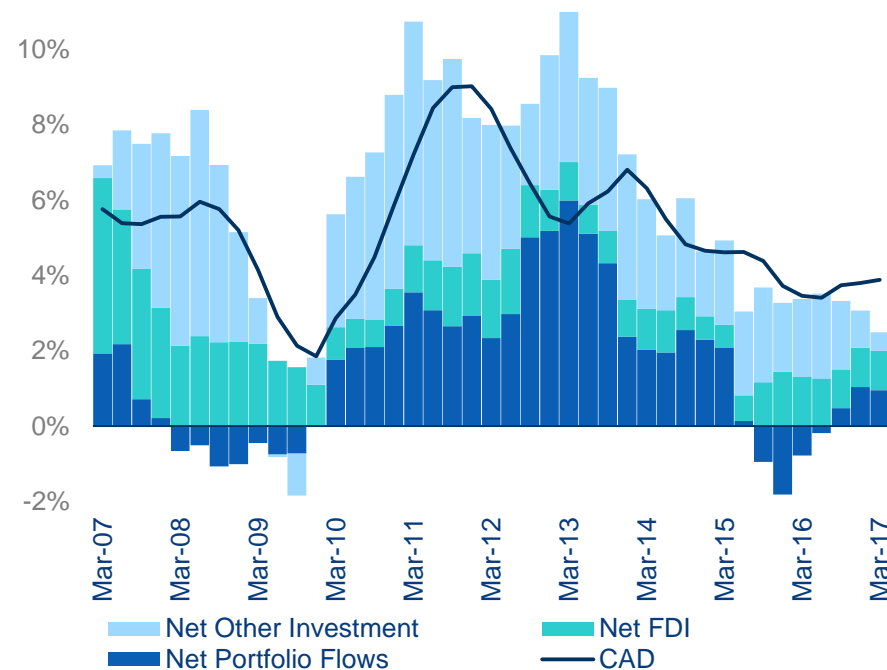
CURRENT ACCOUNT BALANCE

12-month sum, USD bn



CURRENT ACCOUNT BALANCE FINANCING

12-month sum, % GDP



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

Current account deficit increased to USD 35.3bn in May from USD 32.7bn at the end of 1Q. Though, lower oil prices and recovering tourism sector imply a lower deficit, improving domestic demand and credit expansion limit this impact.

Monthly Economic Monitor Turkey

31 JULY 2017

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