

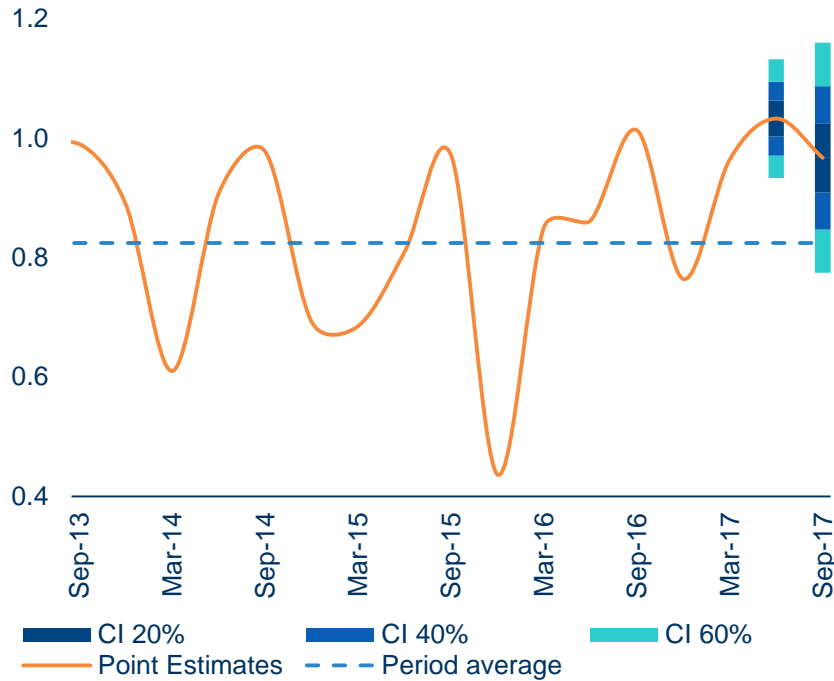
Monthly Economic Monitor Turkey

06 SEPTEMBER 2017

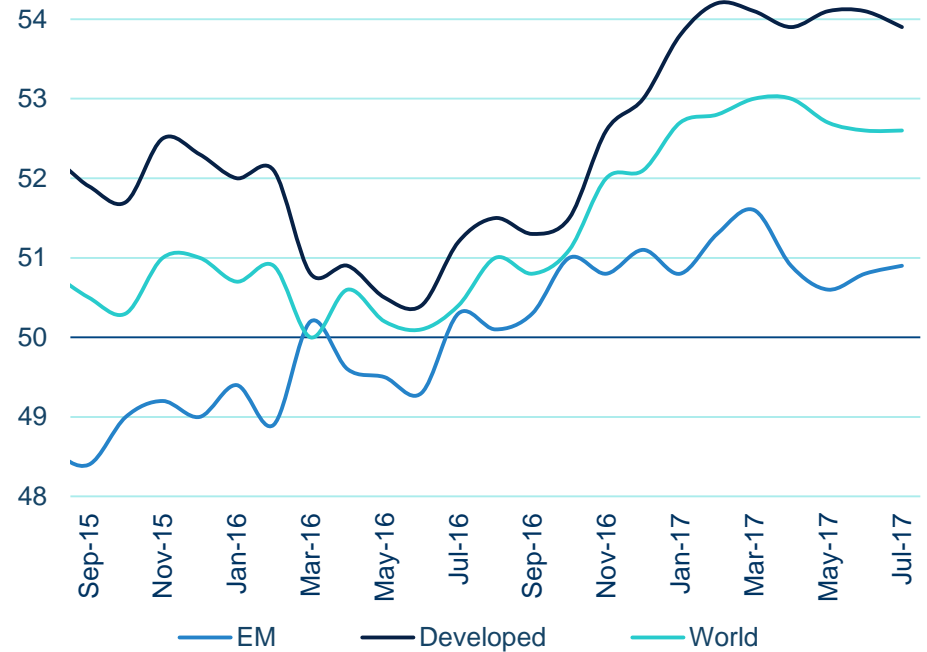


Global Developments

World GDP growth
forecasts based on BBVA-GAIN (% , QoQ)



World manufacturing PMI
Level

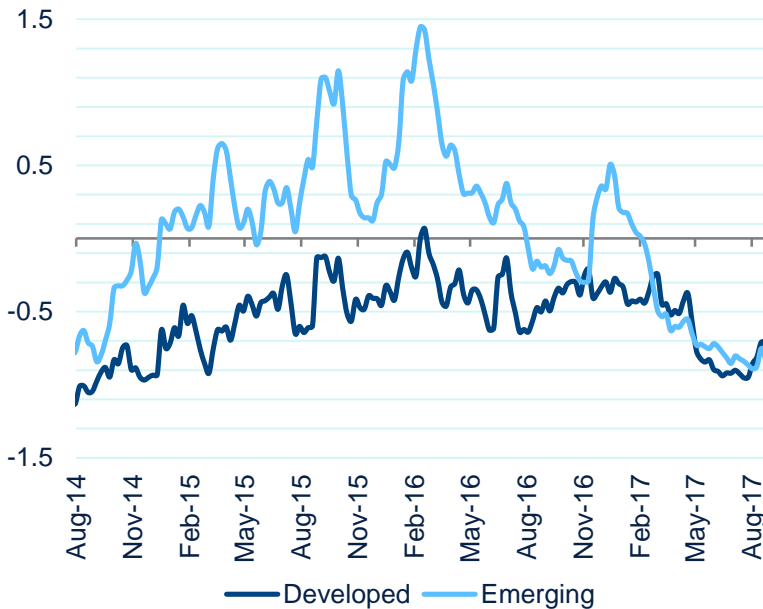


Source: BBVA - Garanti Research, Bloomberg

First signals imply that global GDP growth remains solid in 3Q, though with some signs of stabilization. Stronger growth in China has been supportive so far, while the recovery in Europe takes the lead among the developed economies.

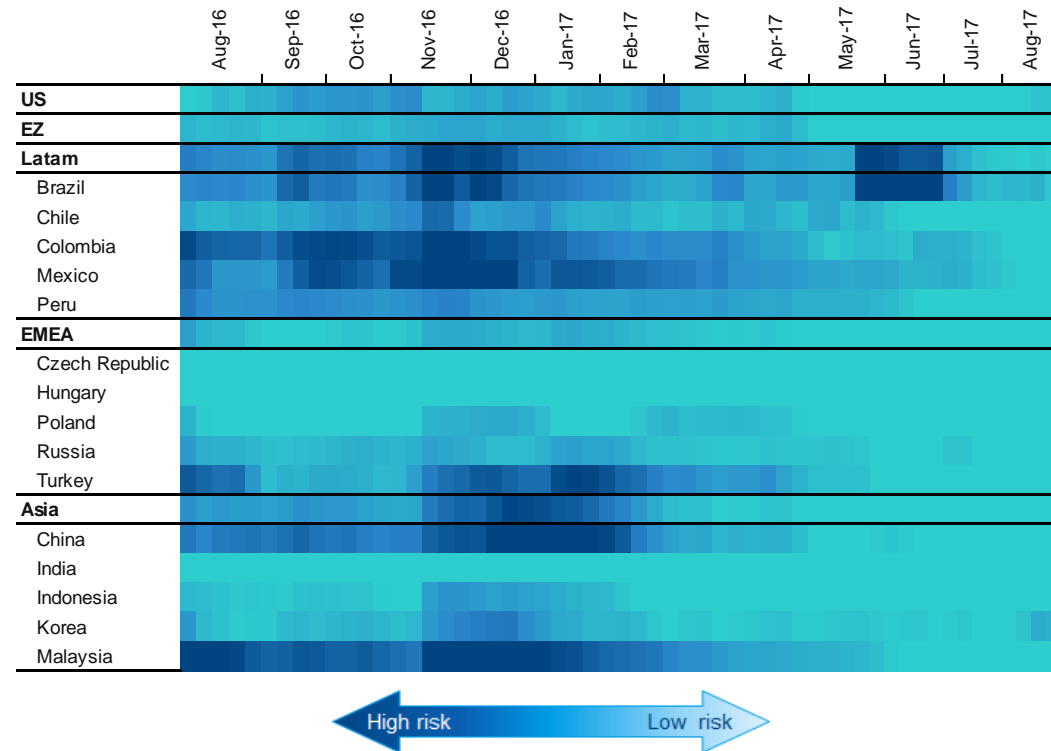
Global Financial Markets

BBVA Research financial stress index
Normalized index



Source: BBVA Research, Bloomberg

Financial stress index regional map
Standard deviation $\approx (-1, 1)$



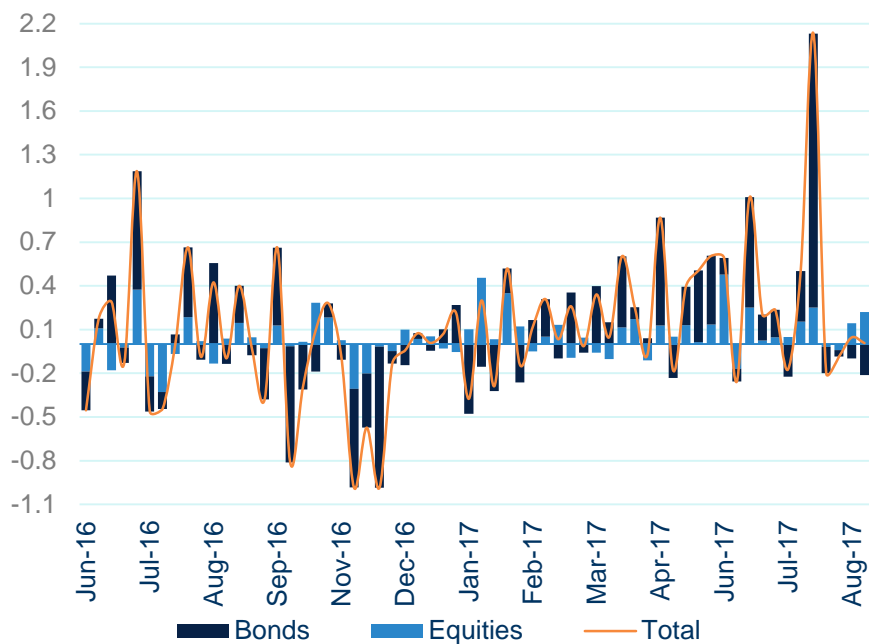
High risk ← → Low risk

Markets have gained optimism after the Jackson Hole Symposium as Yellen didn't mention financial stability as a key issue in the US that could influence the Fed's monetary policy normalization, while Draghi didn't appear concerned about the recent upward trend in EUR.

Flows to Turkish Assets and Interest Rates

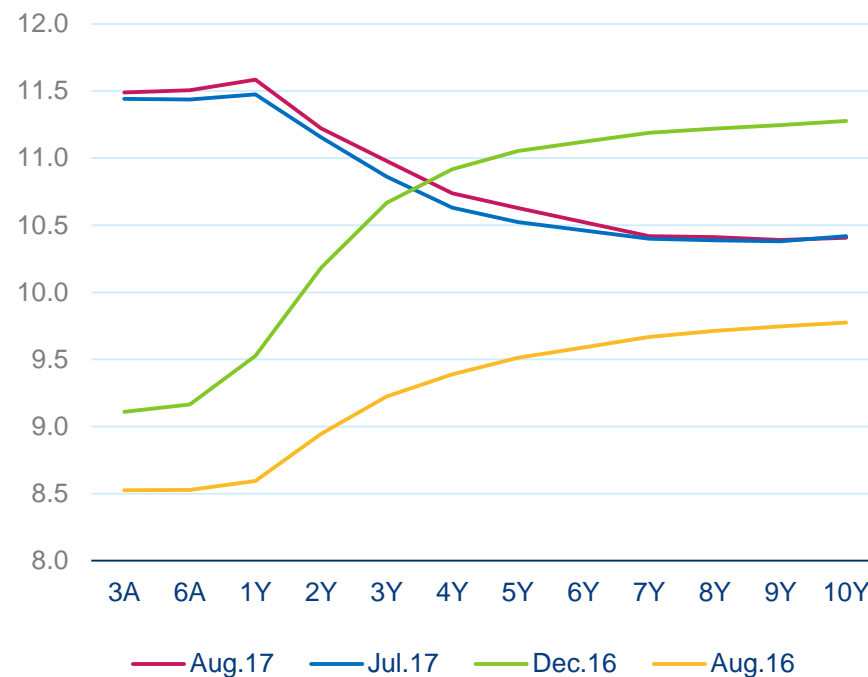
Flows to Turkish assets

Level, bn TL



Yield curve

(%)

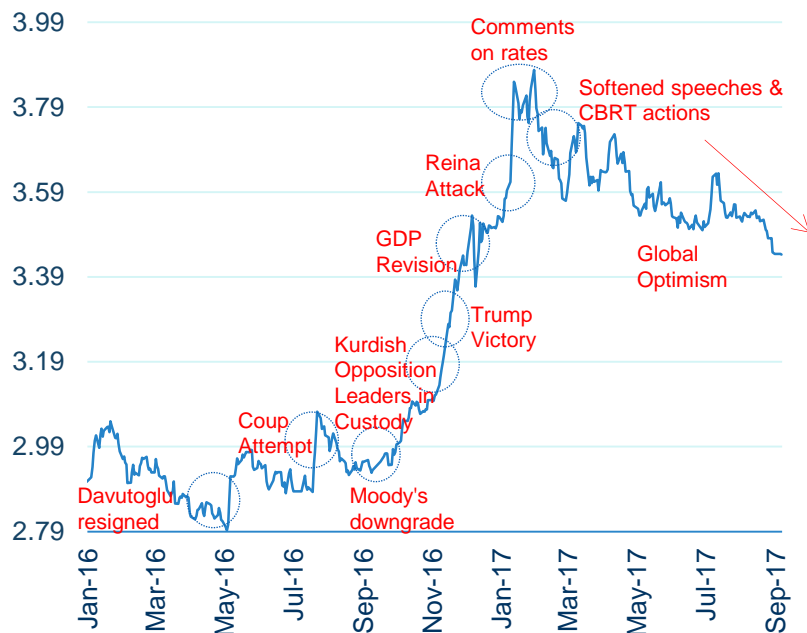


Source: Garanti Research, CBT, Bloomberg

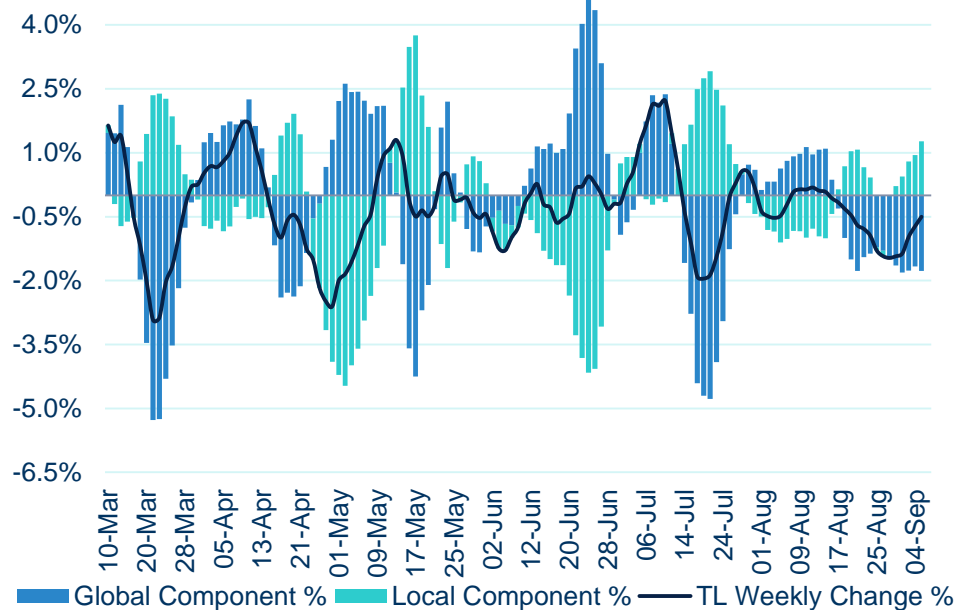
Strong inflows into Turkish bond markets in the previous months were replaced with marginal outflows by mid-August. Yield curve slightly shifted upwards, especially in the short end as a result of the CBRT's ongoing hawkish stance and the Treasury's higher borrowings.

Exchange Rate: USD/TL

USD/TL
(Level)



USD/TL: Global and local factors
(% weekly change)



Source: Garanti Research, Bloomberg

After following a suit above 3.50 throughout August, TRY appreciated against US dollar stepping below 3.50 in the last few days of the month, reflecting the recent risk-on mood towards EMs.

Economic Activity: GDP

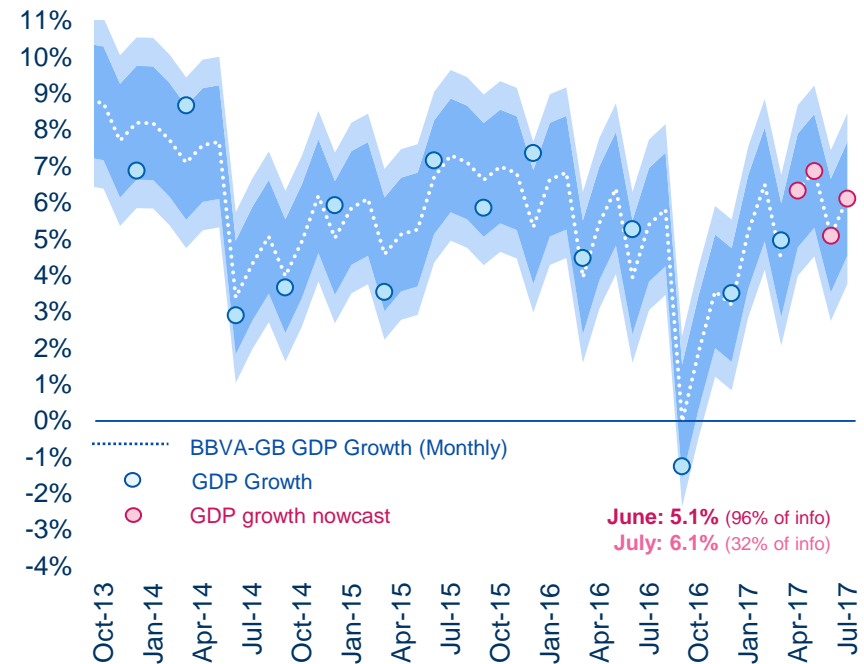
Activity Indicators

(3 MA, YoY Change, %)

	2016		2017						
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Mean									
Industrial Production	3.6	0.4	2.0	3.3	1.2	1.7	2.3	4.2	2.1
Non-metal Mineral	1.2	1.7	-1.0	-4.2	-6.9	-2.0	-0.4	2.7	0.9
Electricity Production	4.2	2.6	5.1	6.4	7.1	8.2	7.3	6.6	4.5
Auto Sales	3.3	24.1	10.2	6.4	-8.8	-7.5	-10.9	-10.3	-9.7
Tourist Arrivals	2.9	-23.8	-17.6	-11.7	-8.3	-7.0	0.9	7.5	20.8
Number of Employed	3.5	1.5	1.3	1.3	1.4	1.7	1.9	2.0	
Number of Unemployed	5.7	16.1	18.6	20.3	21.0	20.9	19.4	16.2	
Auto Imports	5.7	31.7	16.4	11.1	-8.1	-12.7	-14.7	-13.9	-14.4
Auto Exports	8.5	-10.6	-1.7	33.5	30.2	33.5	27.1	32.4	24.0
Financial Conditions	73.3	80.1	73.6	59.0	42.6	38.3	34.4	30.6	35.6
Credit Growth-13Week	12.7	14.0	14.3	14.0	14.7	15.3	15.6	15.6	16.3
Retail Sales	3.8	-0.5	-1.8	-2.3	-3.2	-2.3	-1.7	0.2	0.5
Real Sector Confidence	106.7	108.2	103.9	100.6	106.2	106.5	106.3	104.8	108.8
MICA Forecast					5.9%		6.4%	5.1%	6.1%
GDP YoY	3.5%		5.0%						
	Contraction		Slow-down		Growth		Boom		

MONTHLY GDP GROWTH & ESTIMATE

(YoY Change, %)

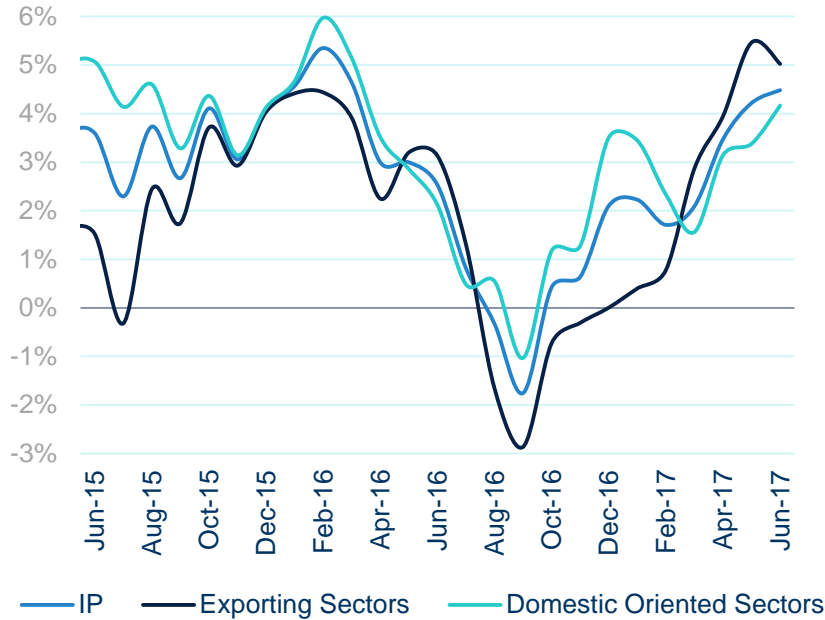


Source: Garanti Research, Turkstat, Bloomberg

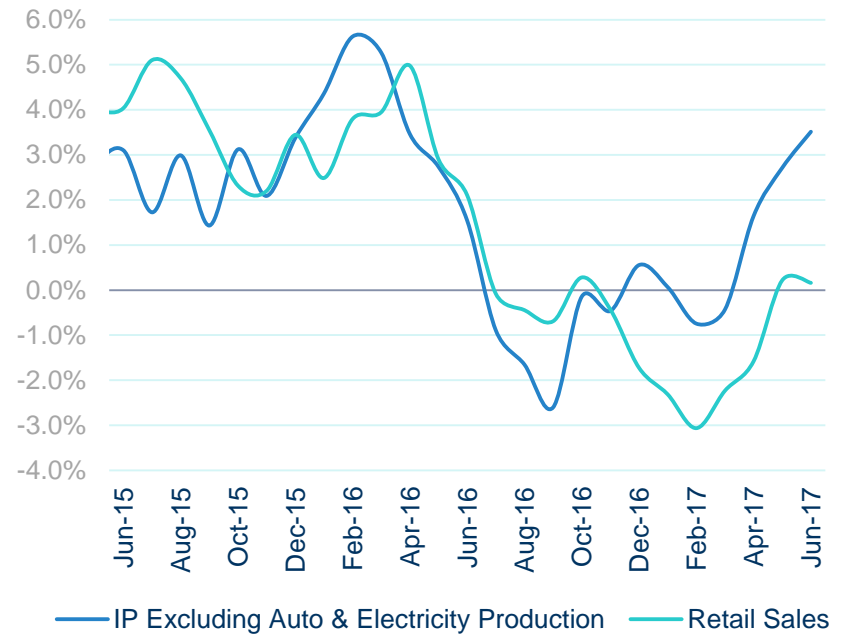
Our monthly GDP indicator signals 6% growth in July with available preliminary indicators (32% info so far), and acceleration will gain pace resulting in at least 7% growth in 3Q even if GDP would not grow at all on quarterly basis.

Economic Activity: Sectors

Sectors in Industrial Production (IP)
(3MA, calendar adj, YoY)



Retail sales and IP exc. auto and electricity
(3MA, calendar adj, YoY)

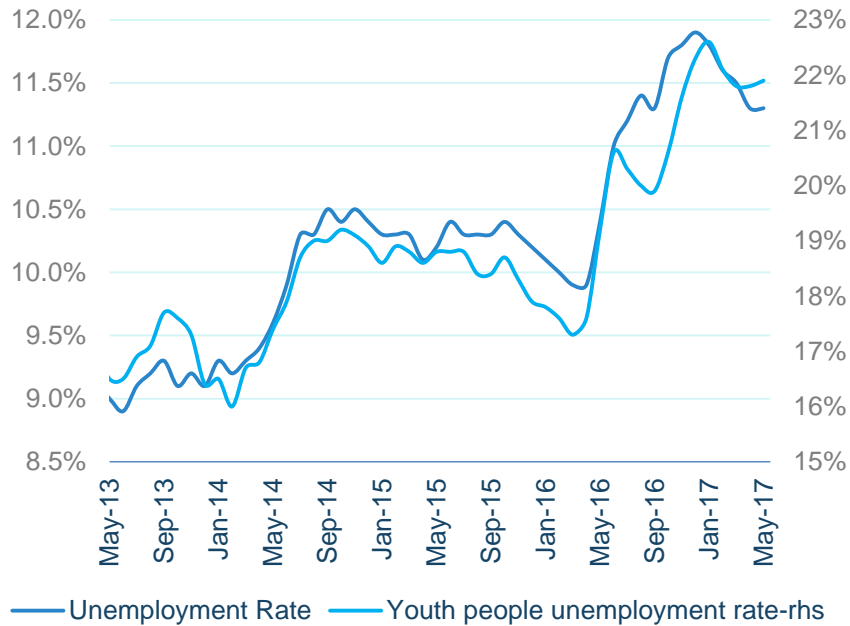


Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism

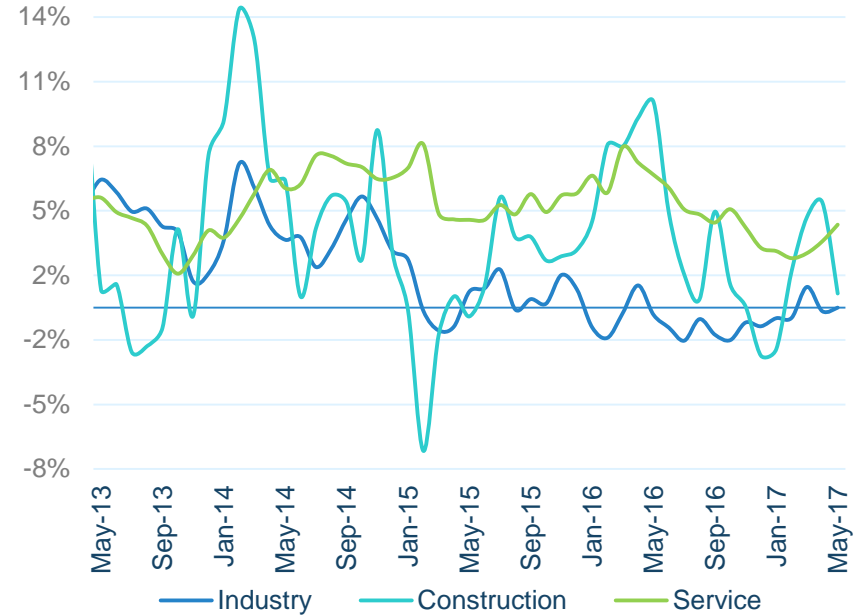
In 2Q, IP growth was supported by many sub-sectors and the contribution from domestic demand oriented sectors increased. 3Q growth will advance further on favorable base effects from last year’s contraction and shift in calendar days.

Economic Activity: Employment

Unemployment rate
SA



Employment growth in sectors
YoY



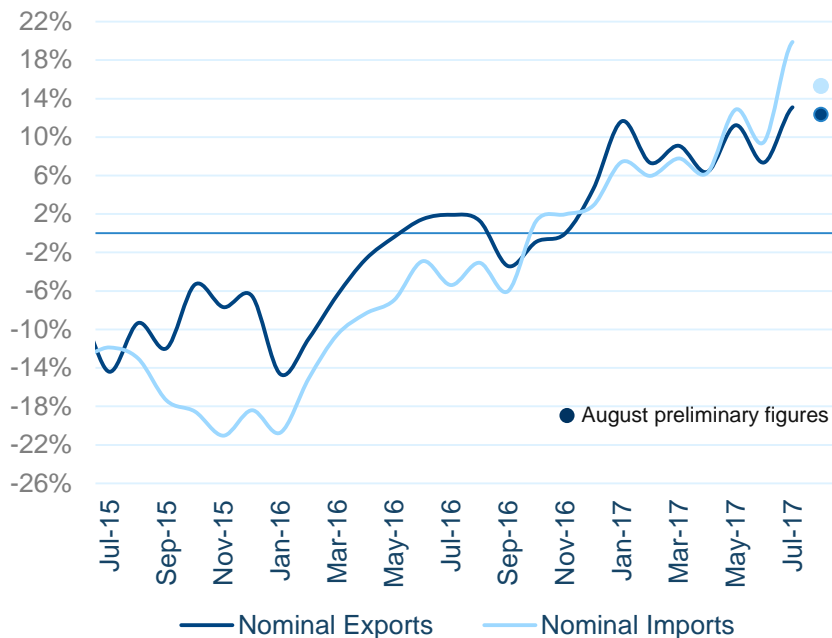
Source: Garanti Research, Turkstat

Unemployment rate fell to 10.2% in May, gradually declining with seasonal factors but still 80bps higher than the year before. Employment creation depending mostly on services sector poses risks over the sustainability of current high growth rates.

Economic Activity: External Balance

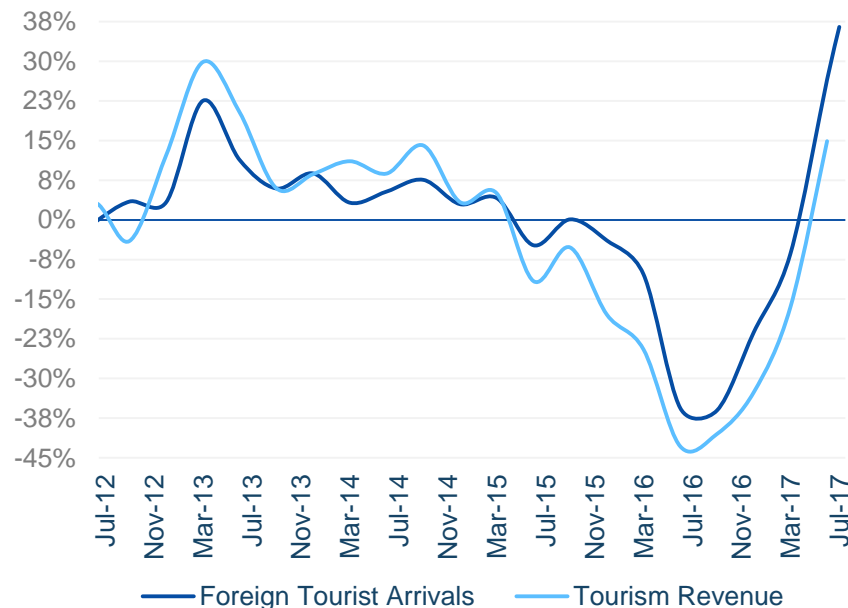
Foreign trade figures

3MA, YoY Change



Tourism

3MA, YoY Change

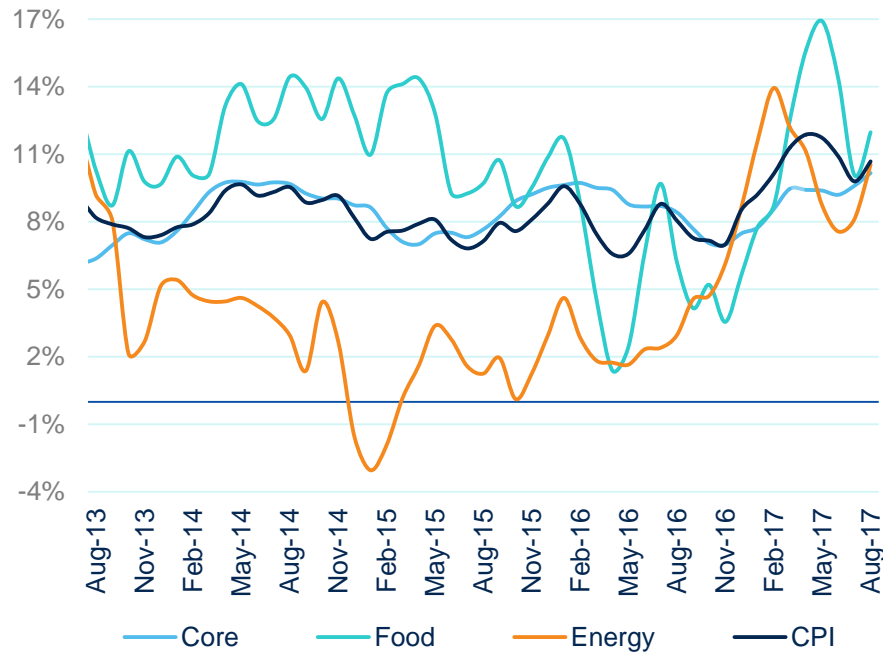


Source: Garanti Research, Turkstat, Ministry of Culture and Tourism

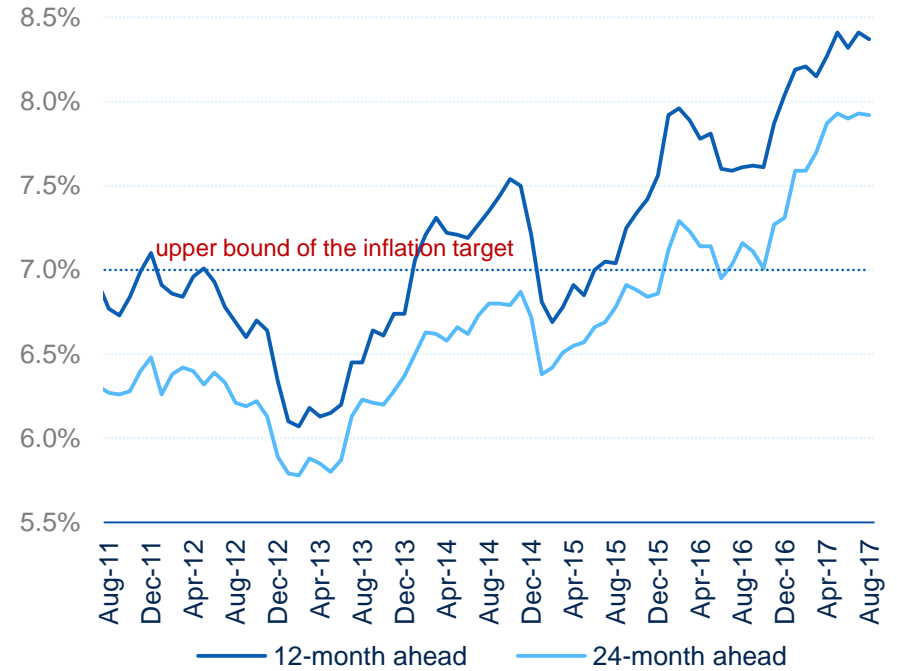
Foreign trade figures picked up in July with imports beating the exports on higher energy and soaring gold imports. Tourist arrivals continue to recover but tourism revenues lag behind due to less purchasing power of the changing tourist composition.

Inflation

CPI and its components YoY



CBRT Survey: Inflation expectations YoY

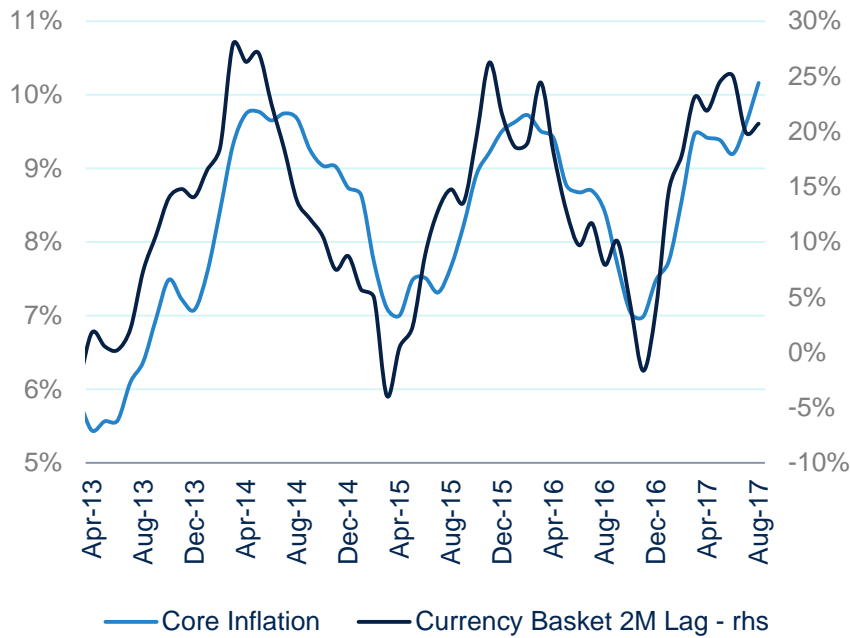


Source: Garanti Research, Turkstat, CBRT

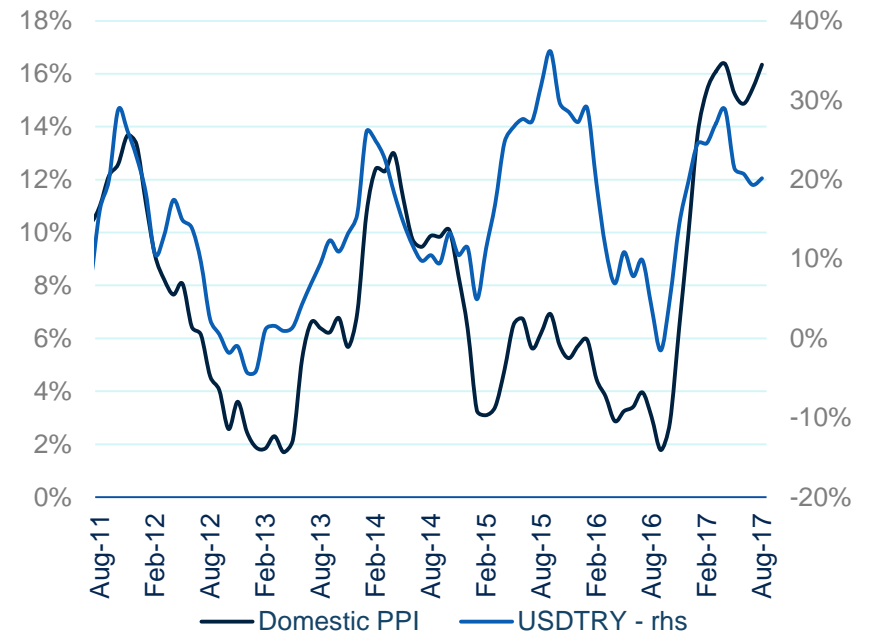
Annual headline inflation climbed to double digits again in August. Increasing food and energy prices, as well as core inflation drew the jump in the headline. 12-month and 24-month inflation expectations stayed hovering around high levels.

Inflation

Core inflation and currency basket YoY



Domestic PPI and USD/TL YoY



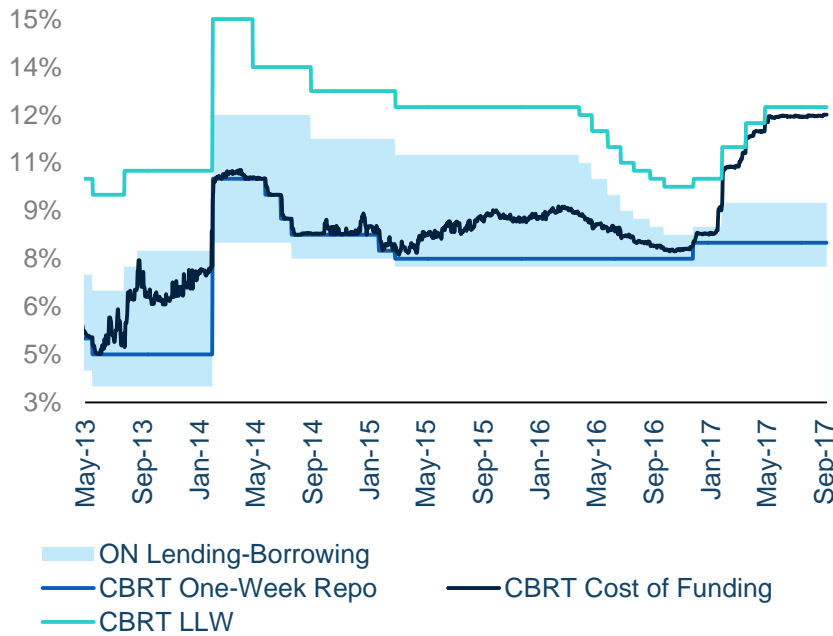
Source: Garanti Research, Turkstat, CBRT

Core inflation jumped by 100bps in the last 2 months due to recent appreciation of euro and second round price effects together with the narrowing output gap. PPI also picked up in the same period implying ongoing upward pressures from cost push factors on consumer prices.

Monetary Policy

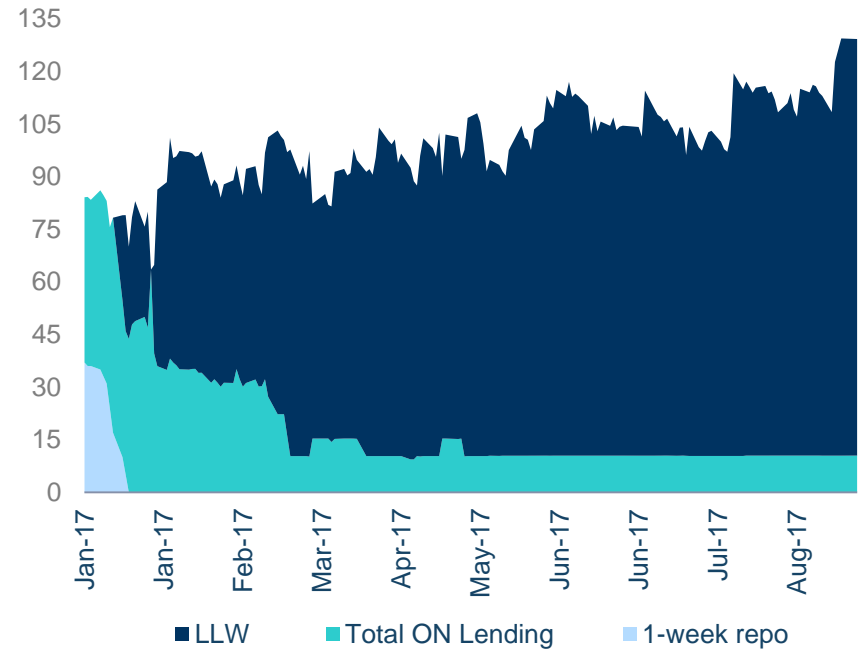
CBRT interest rate corridor

Levels



CBRT funding composition

Levels, bn TL

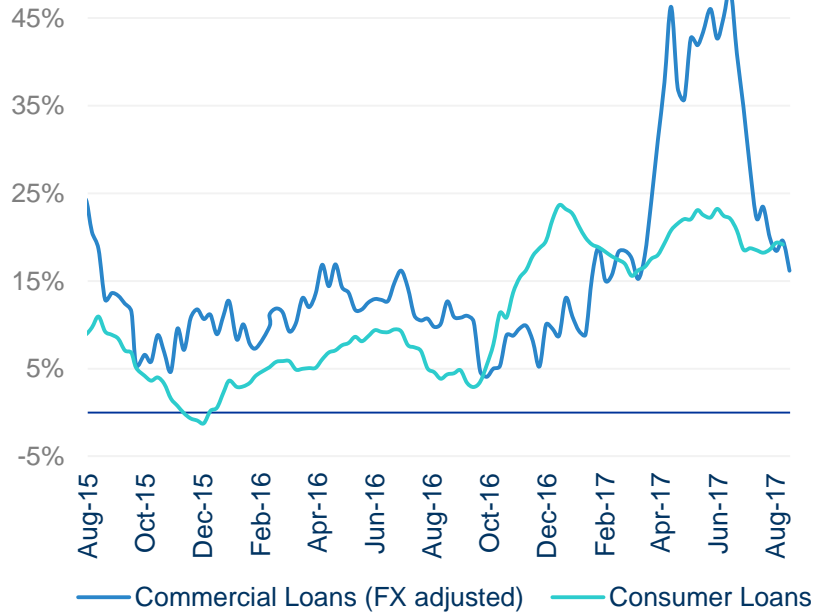


Source: Garanti Research, Turkstat, CBT, Bloomberg

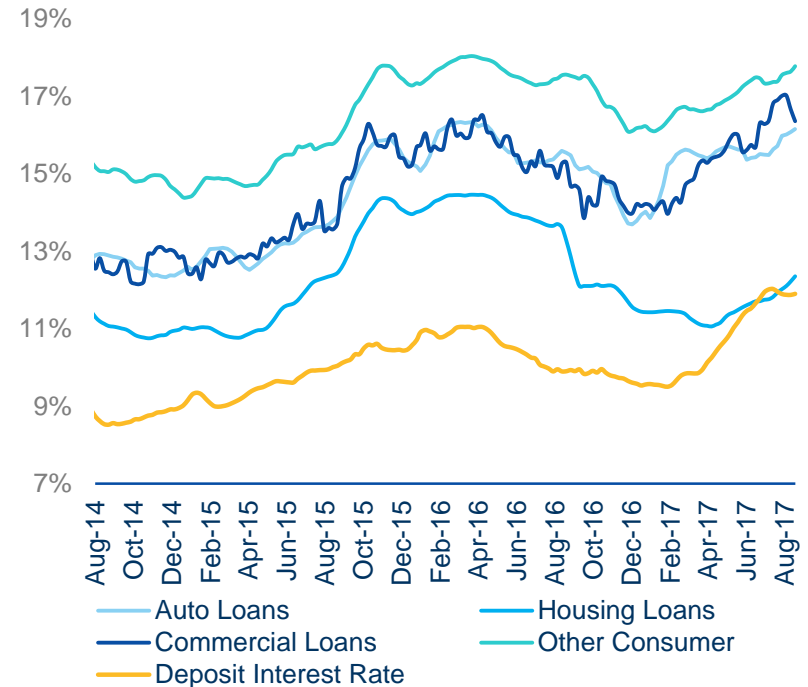
The hawkish stance of the CBRT kept the average funding rate very close to 12% throughout August. High trend in inflation (close to 11% until December) will force the CBRT to stay tight despite the recent retreatment in USD/TL.

Loan Growth and Interest Rates

Loan growth rates
13-week annualized



Loan interest rates
4-week average



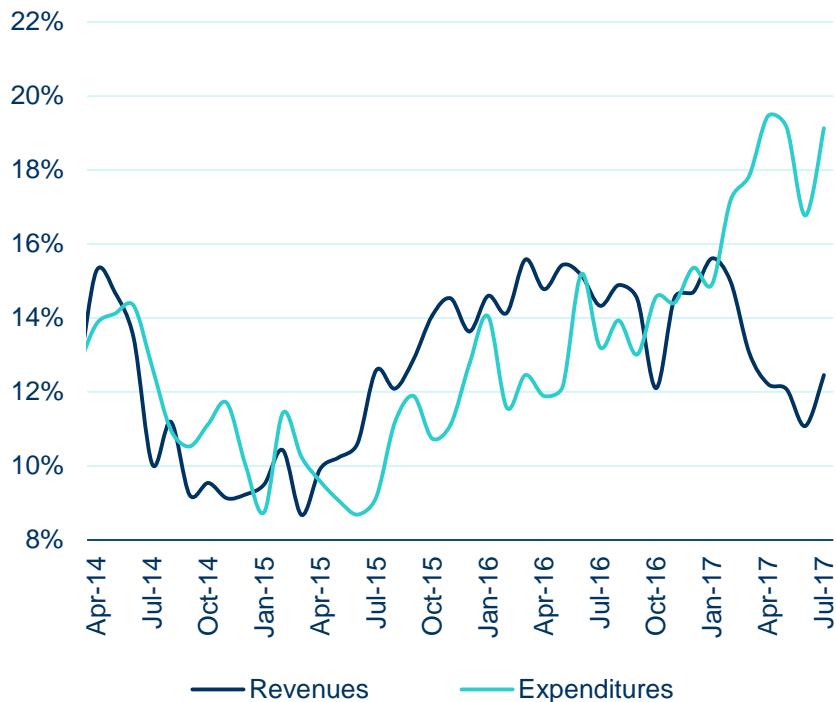
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Commercial loan growth trend continued to ease from very high levels on cooling down Credit Guarantee Fund utilizations, while the stabilization in deposit rates became clearer helping net interest rate margin.

Fiscal Policy

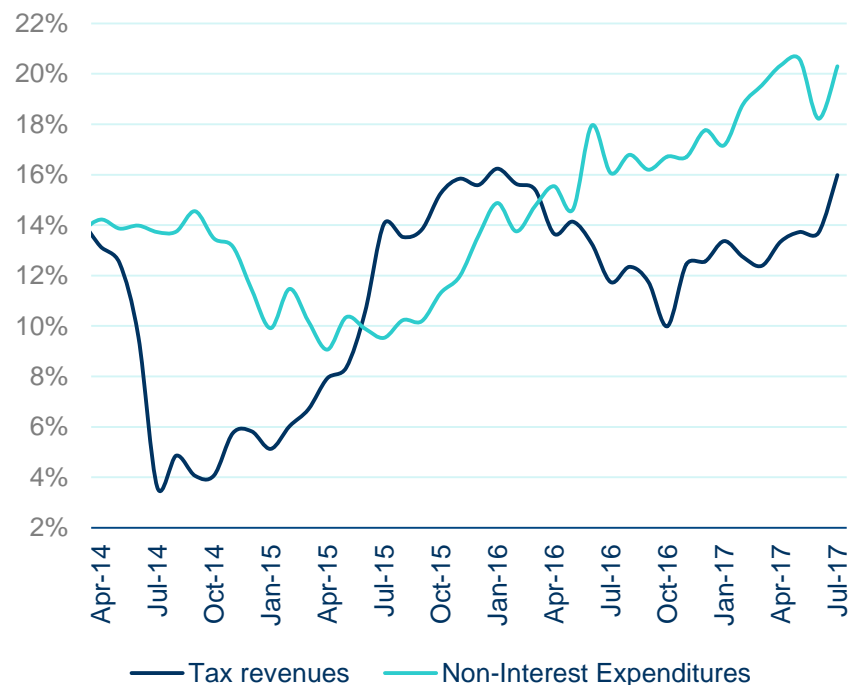
Budget revenues and expenditures

12-month sum, YoY Change



Tax revenues and non-interest expenditures

12-month sum, YoY Change

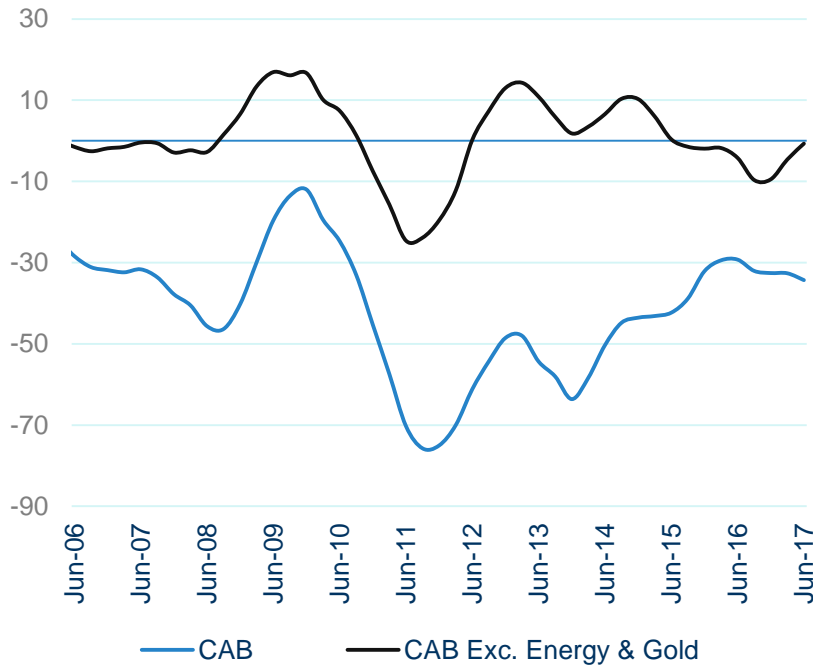


Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

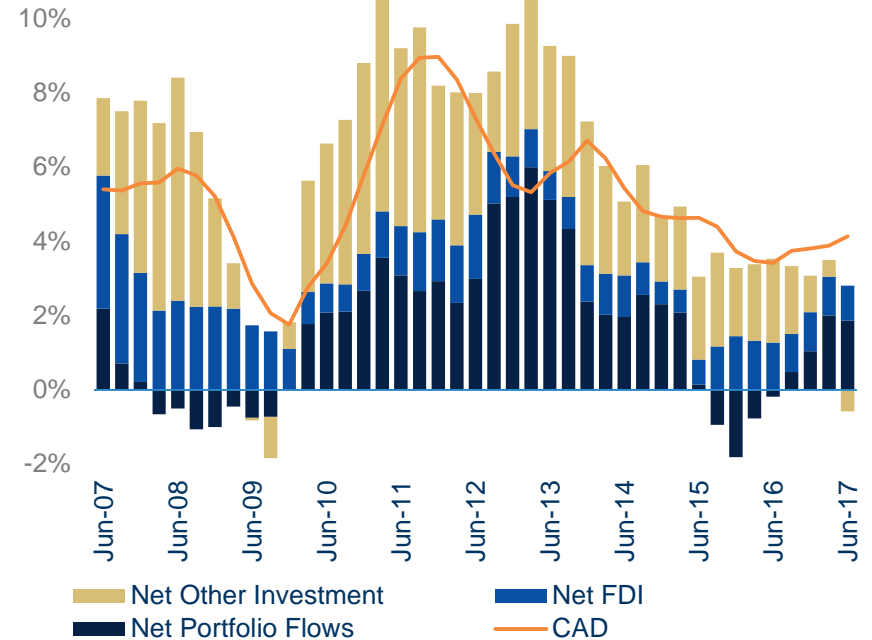
Budget revenues were supported by the jump in tax revenues in July, confirming the rebound in activity in terms of both consumption and investment. Budget expenditures were still high, though losing momentum as the Government scales back its expenditures on current transfers.

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 temporarily eased to USD34.3bn in June (4.1% of GDP) on top of strong exports growth and recovery in tourism sector. Foreign trade figures of July imply a deficit close to USD37bn, which will likely to stay at those levels until 4Q.

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