

MONTHLY ECONOMIC MONITOR

TURKEY

26 DECEMBER 2016



Global Developments

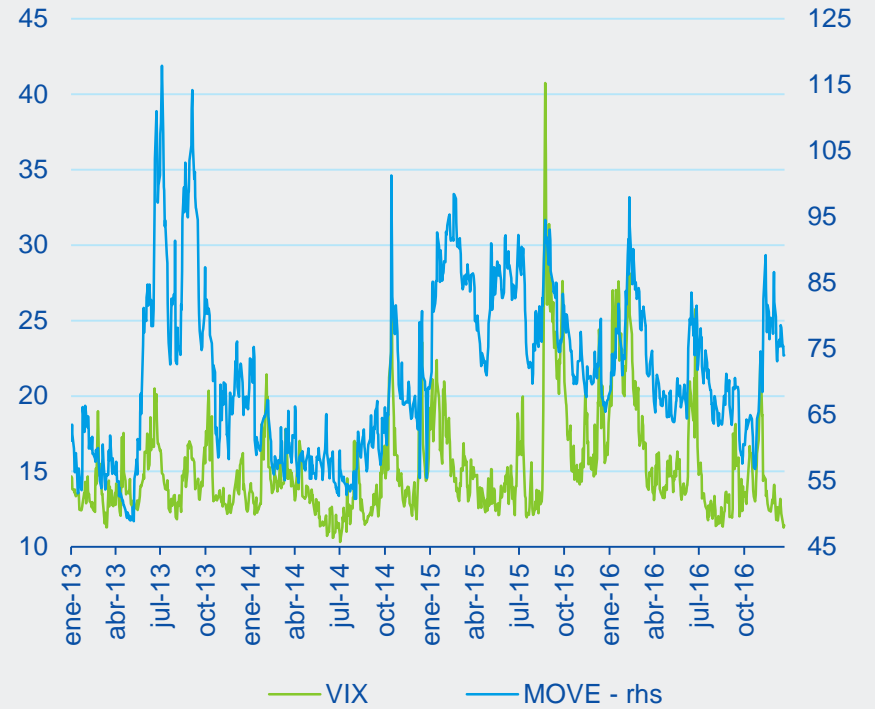
Financial tensions escalated in Asia mainly due to the concerns on China on top of depleting reserves by mid-December. Volatility in global bond markets remains high

FINANCIAL STRESS INDEX REGIONAL MAP

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



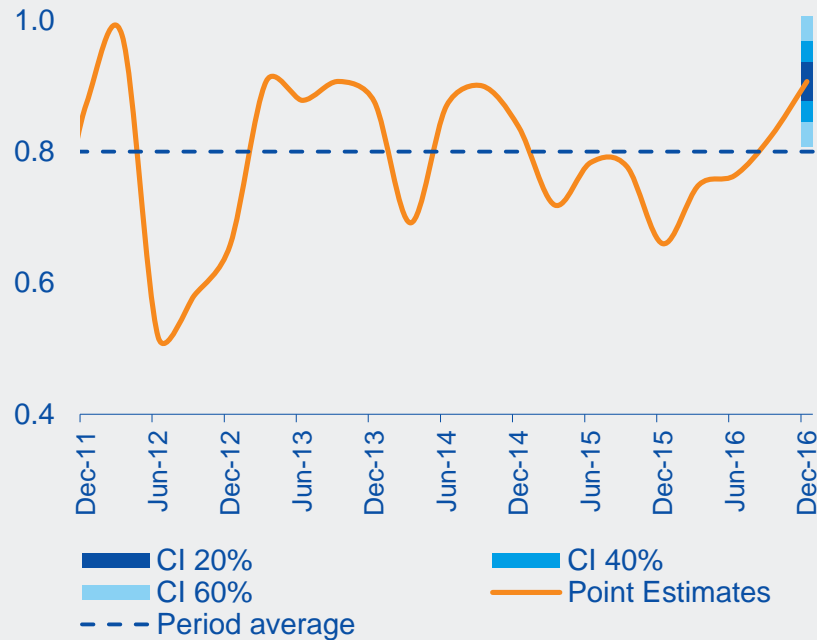
MOVE AND VIX INDICES



Global Developments

BBVA research global growth model signals continuum of gradual recovery in the world economy, backed by stronger manufacturing PMI data

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



MANUFACTURING PMI
(50 is the threshold for growth)

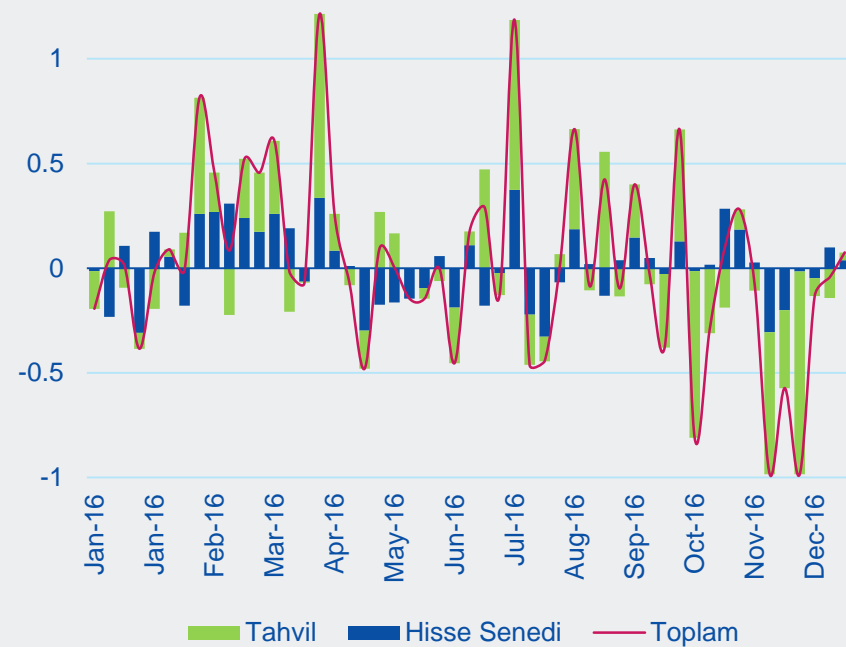


Flows to Turkish Assets

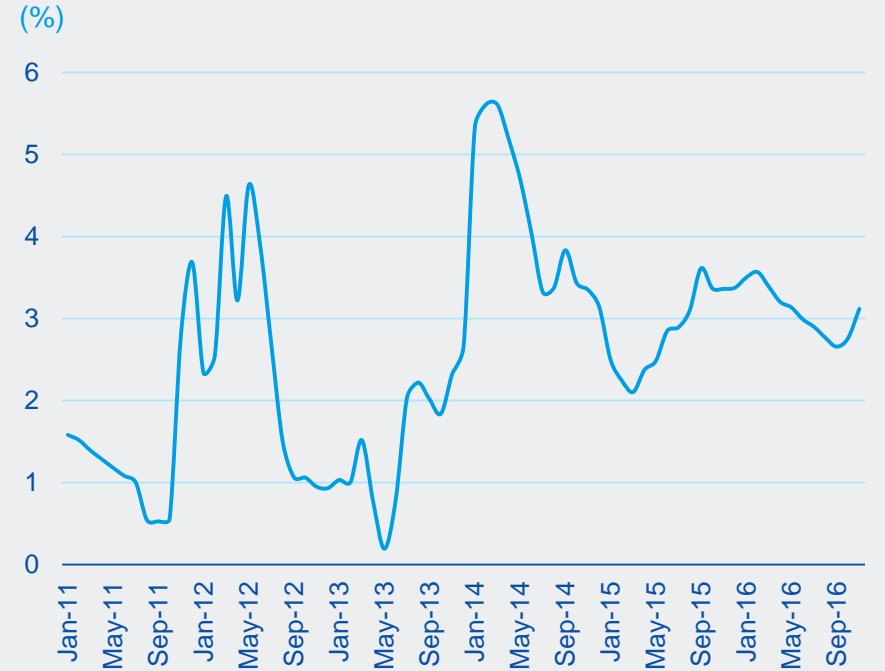
Outflows from Turkish markets finally turned into slight inflows in mid-December

EXTERNAL FUND FLOWS

Weekly net change, USDbn



TURKEY AVERAGE FUNDING RATE - EMERGING MARKETS AVERAGE KEY RATES DIFFERENCE (%)

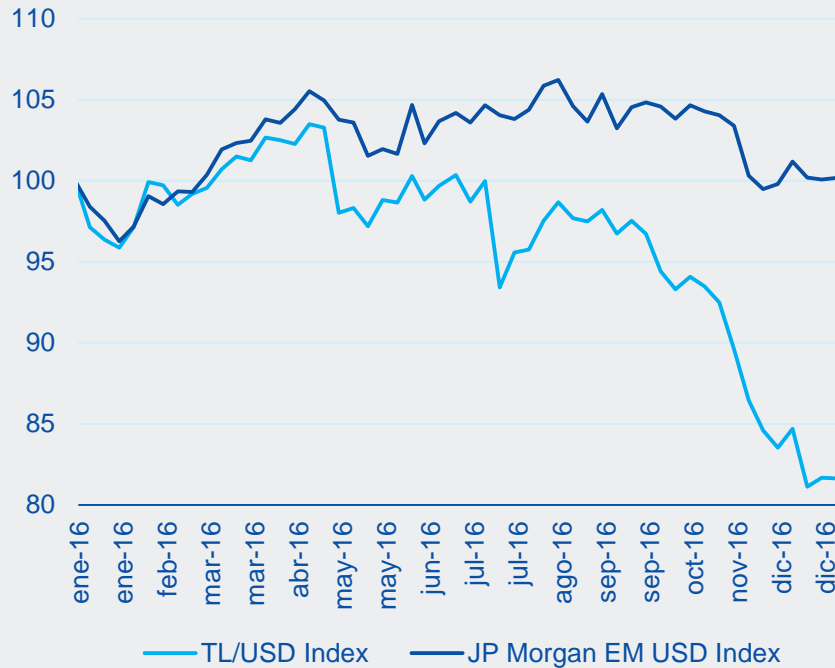


Exchange & Interest Rates

Turkish lira hovered above 3.50 levels in December, while the the yield curve bear-steepened

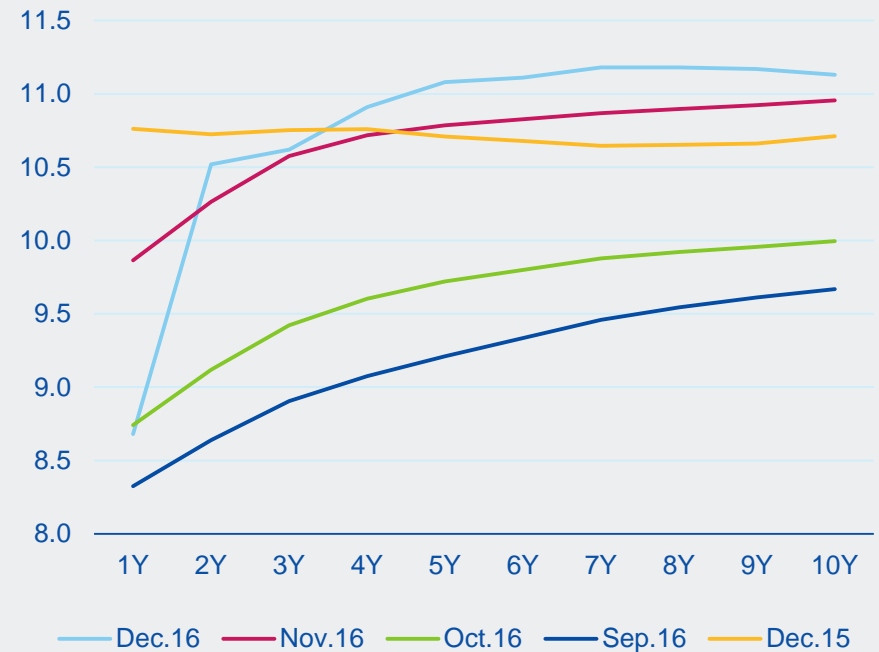
USD/TL VS AVG. OF EMERGING MARKETS

December 2015 = 100



YIELD CURVE (%)

(%)



Economic Activity: GDP

3Q GDP contracted , confirming our monthly indicator nowcast. The GDP series were revised substantially, causing changes in our indicators in turn. The indicator now points to a slight recovery in 4Q.

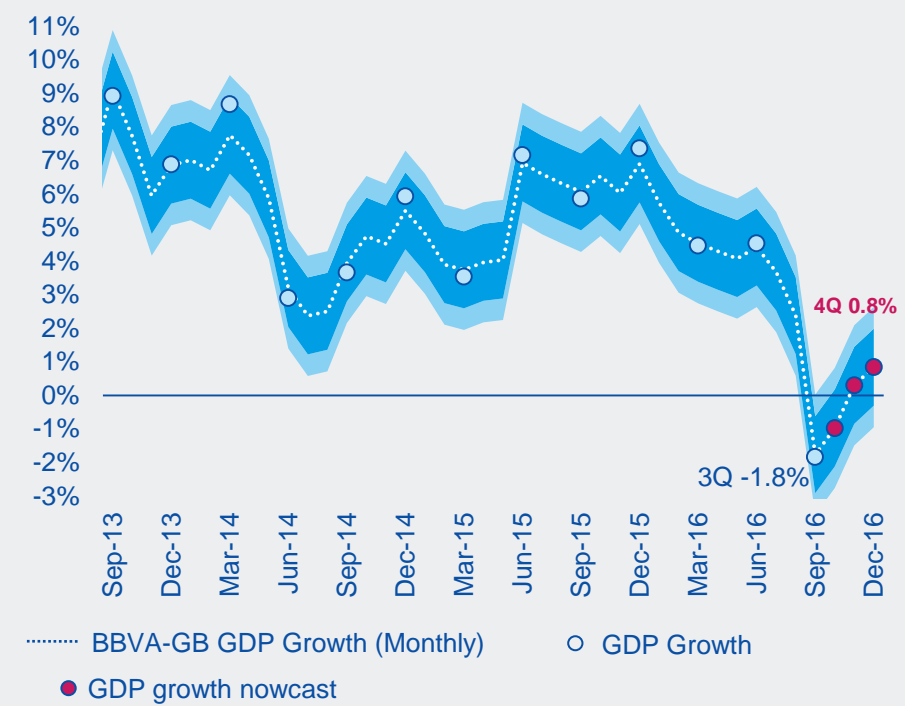
ACTIVITY INDICATORS

3 MA, YoY Change, %

	Mean	2015	2016						
		Dec	Jan	Feb	Mar	Apr	May	Jun	
Industrial Production	3.7	7.5	2.9	0.1	-1.4	-3.2	-0.4		
Non-metal Mineral	1.5	5.4	0.4	-3.3	-1.5	-3.0	2.3		
Electricity Production	4.1	6.5	6.9	6.4	6.8	3.1	3.3	3.3	
Auto Sales	3.9	3.5	2.5	-4.6	-13.3	-15.2	4.5		
Tourist Arrivals	0.4	-3.9	-35.6	-37.4	-38.3	-36.0	-33.1		
Number of Employed	3.7	3.1	2.4	1.7	1.3	1.4			
Number of Unemployed	4.3	1.8	4.4	8.0	11.2	12.8			
Auto Imports	6.5	5.9	2.6	-3.5	-9.7	-10.2	8.9	31.3	
Auto Exports	7.3	23.1	21.6	24.3	14.7	12.2	9.9	12.4	
Financial Conditions	76.0	80.5	86.7	91.2	88.4	88.6	80.2	92.6	
Credit Growth-13Week	20.5	10.2	13.5	8.8	9.1	6.0	10.0	8.2	
PMI Manufacturing	51.5	52.2	47.4	47.6	47.0	48.3	49.8	48.8	
Real Sector Confidence	107.4	108.8	104.3	106.3	103.0	107.1	103.8	107.6	
MICA Forecast							-1.8%	-1.0%	0.3%
GDP YoY		7.4%	4.5%						

MONTHLY GDP GROWTH & ESTIMATE

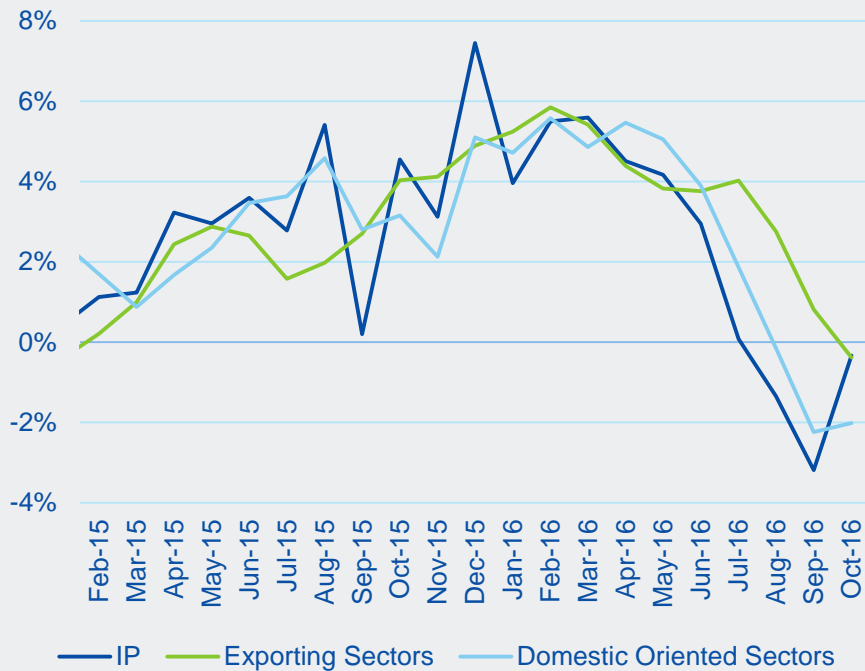
YoY Change, %



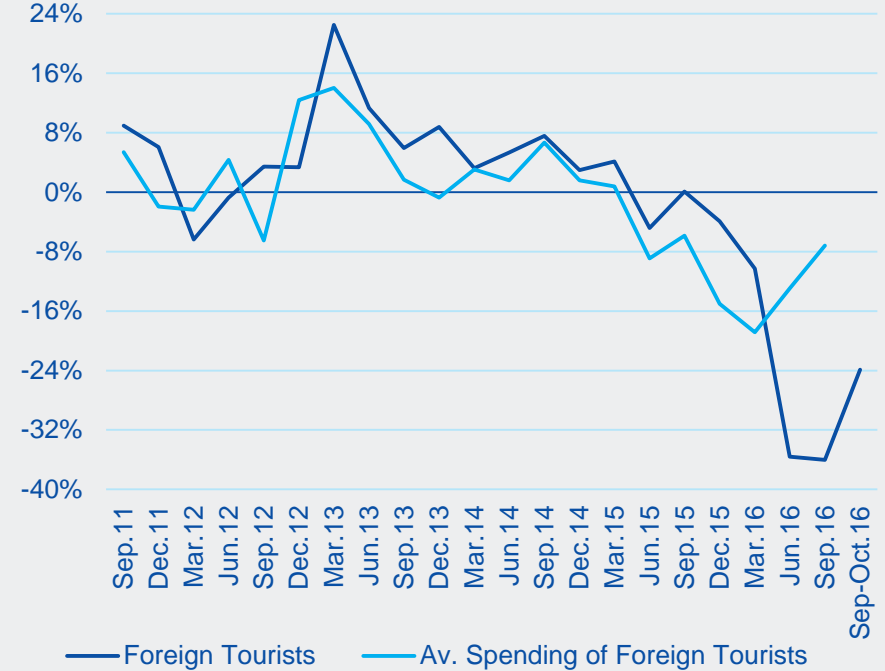
Economic Activity: Sectors

IP showed a slight recovery in October thanks to the domestic oriented sectors. We expect a further improvement in November. Although slowed down, the fall in tourist arrivals remains sharp.

SECTORS IN INDUSTRIAL PRODUCTION (IP)
3MA, YoY



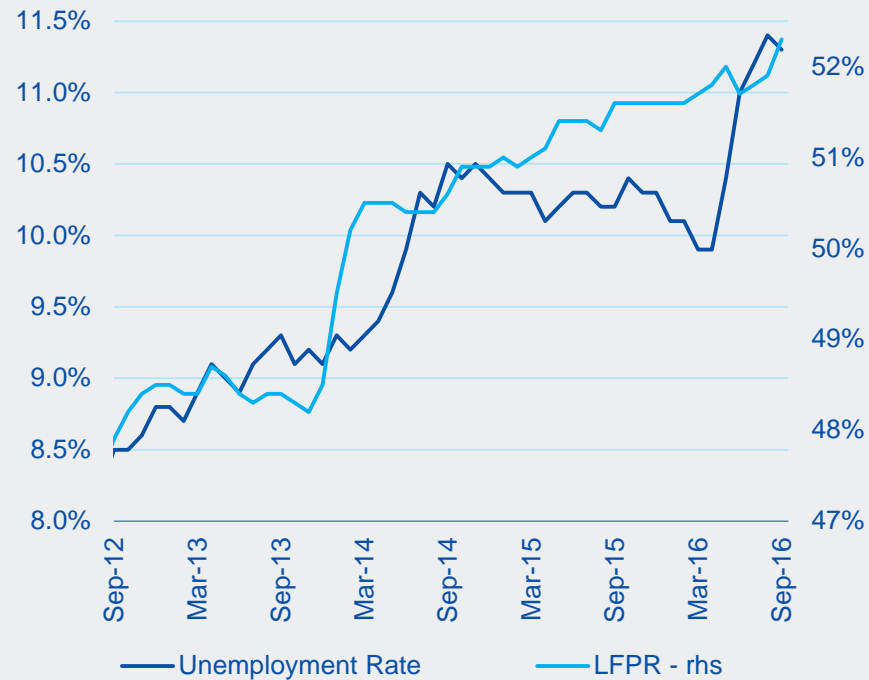
TOURISM SECTOR
YoY



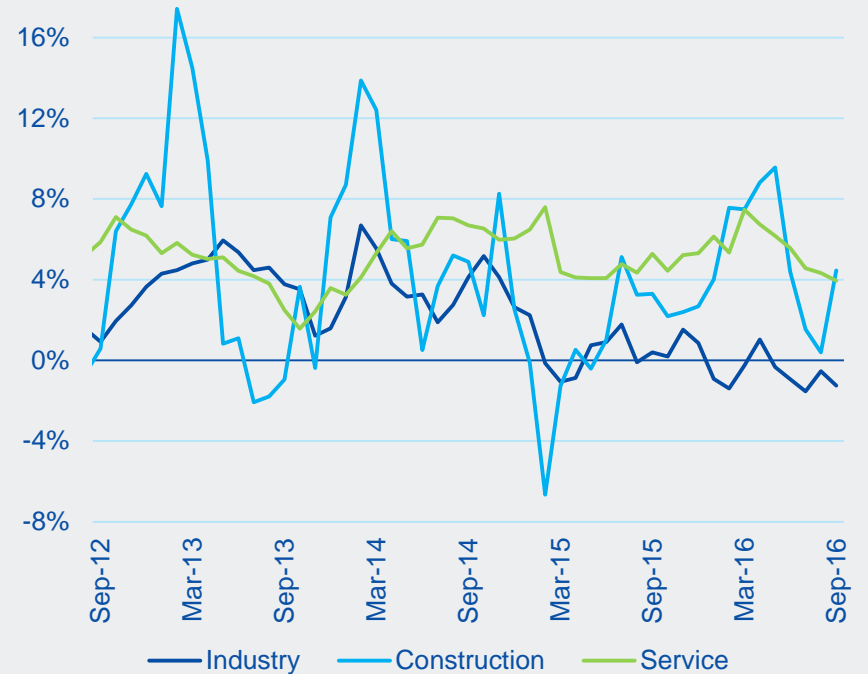
Economic Activity: Employment

Following a 4 consecutive month increase, the 3M moving average unemployment rate declined slightly in September, supporting our expectations of a modest recovery in 4Q.

UNEMPLOYMENT & LABOR FORCE PART. RATE
SA



EMPLOYMENT GROWTH IN SECTORS
YoY

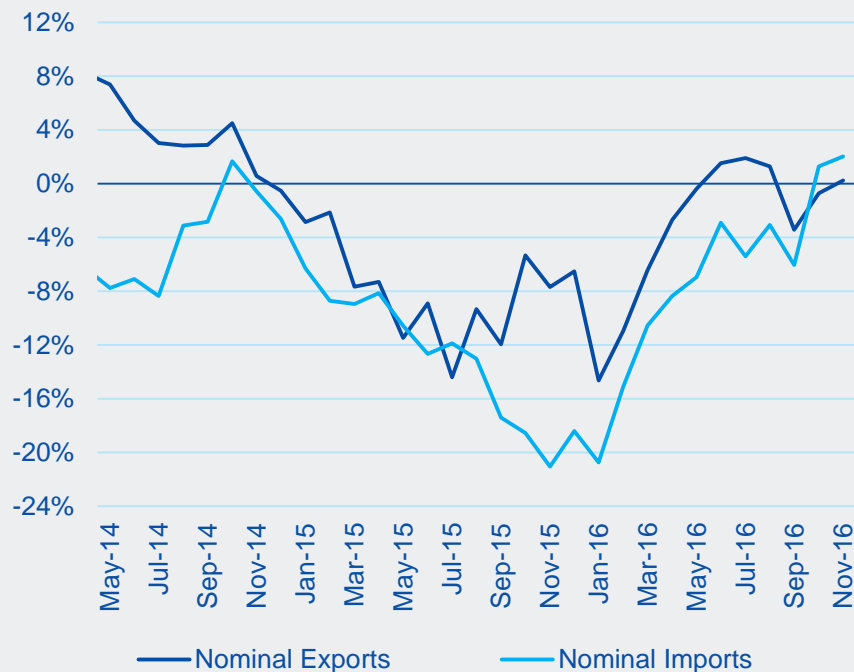


Economic Activity: Trade

Imports grew slightly in November on the recovery in oil prices and the modest pick-up in domestic demand. Exports to Russia, one of Turkey's critical trade partners, continued to shrink to its lowest levels.

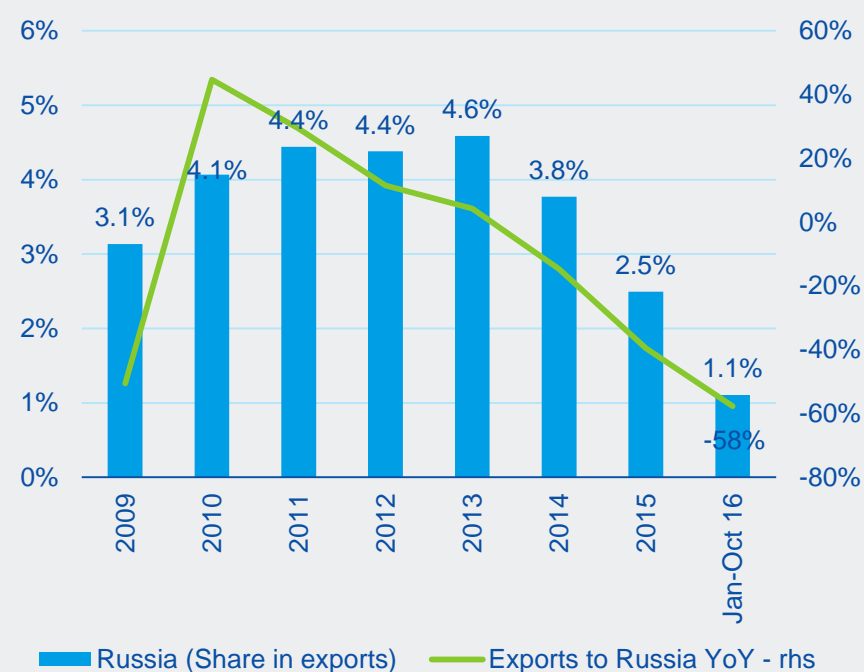
FOREIGN TRADE FIGURES

3MA, YoY Change



FOREIGN TRADE FIGURES

3MA, YoY Change

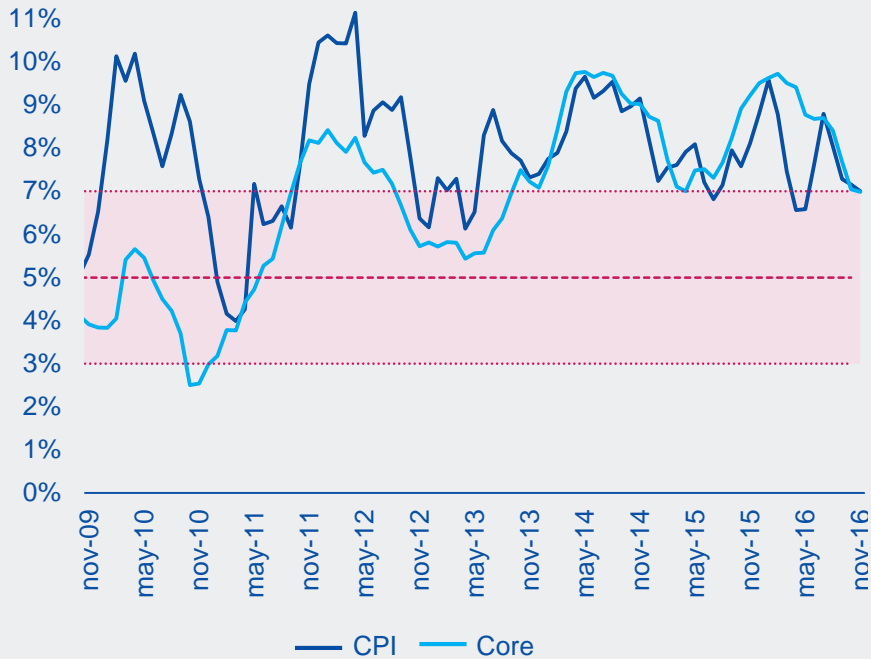


Inflation

CPI inflation moderated further to 7% in November, though we expect an increase in December due to FX pass-thru, rise in energy prices and tax and transportation fee hikes.

CPI & CBT'S CORE INFLATION

YoY



INFLATION EXPECTATIONS

YoY

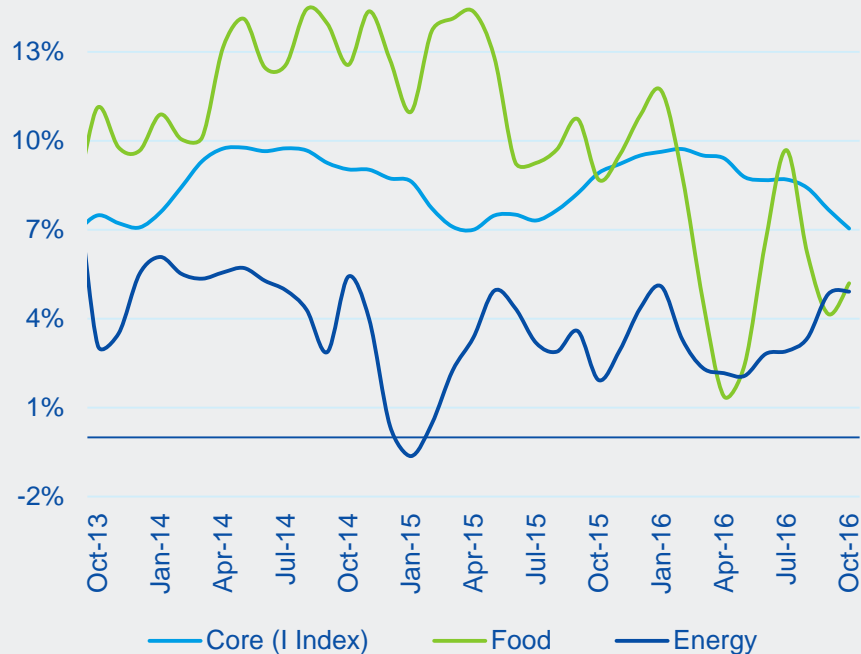


Inflation

In November, food inflation was below its seasonal average and we expect a similar picture in December. Depreciation in TL and the recovery in oil prices pushed the producer prices up

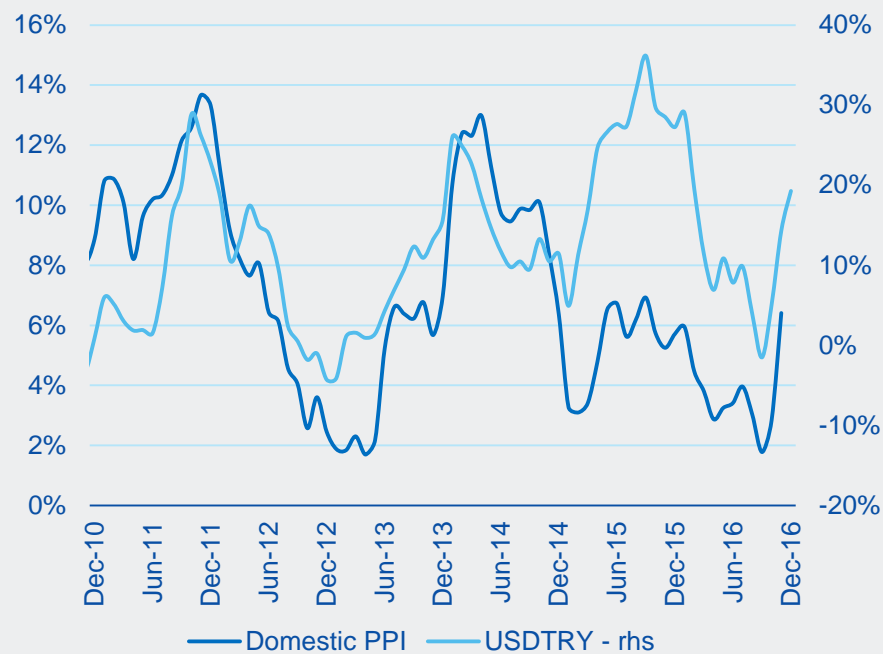
CPI INFLATION COMPONENTS

YoY



DOMESTIC PPI & USD/TL

YoY

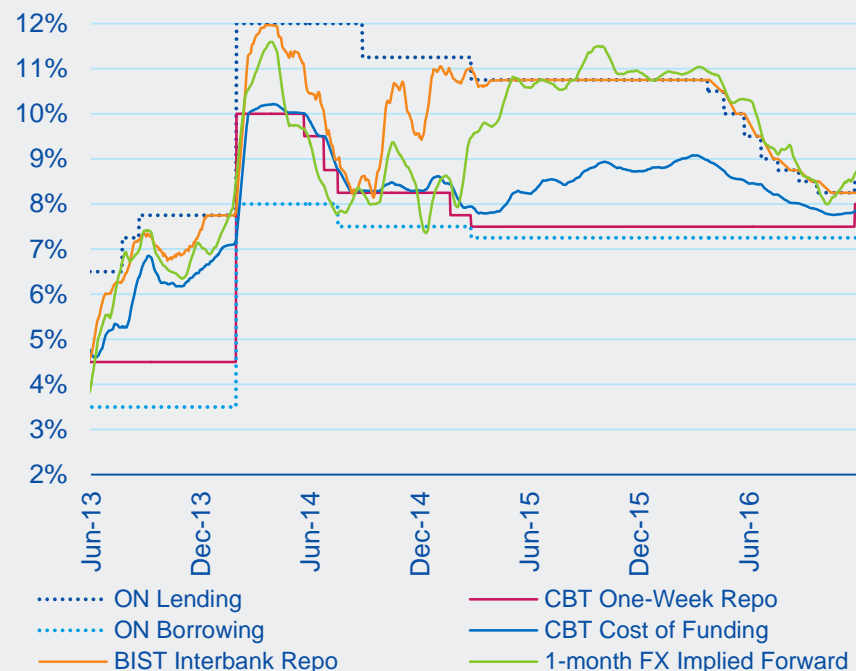


Monetary Policy

The CBRT kept its interest rates intact in the last meeting of the year and settled for a wait-and-see mode. The Bank will weigh the counterbalancing impact of modest demand against the increased import prices.

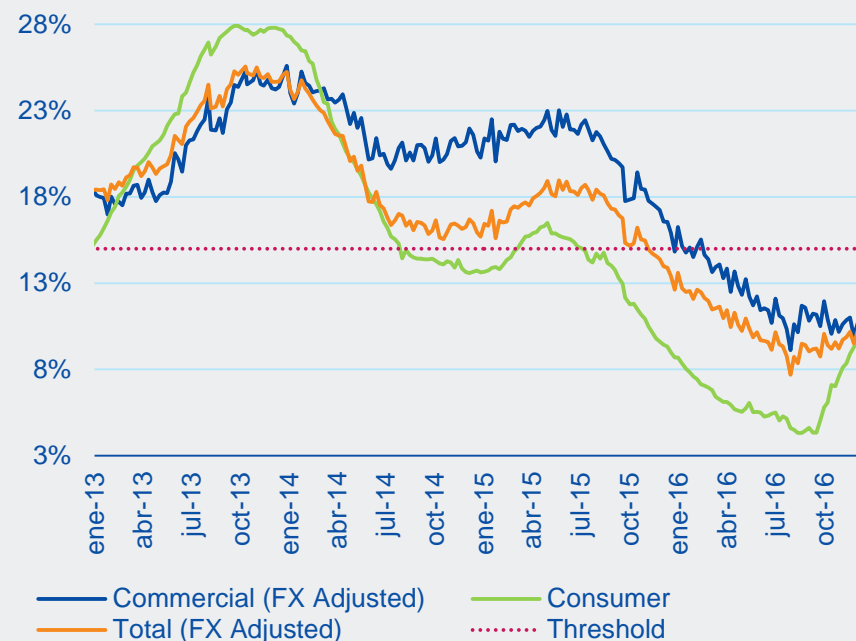
INTEREST RATE CORRIDOR

Levels



LOAN GROWTH RATES

YoY

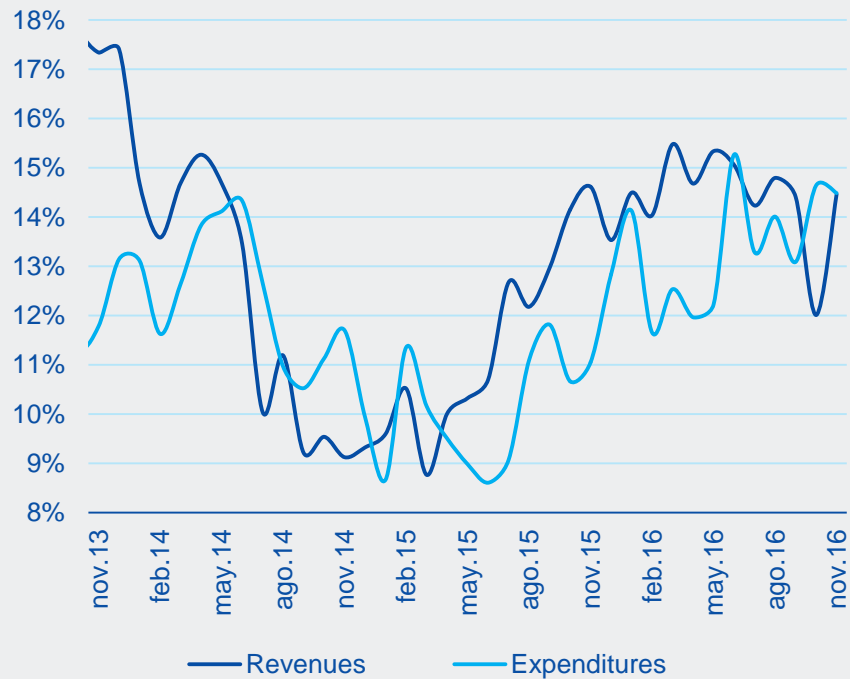


Fiscal Policy

According to the new GDP series, budget balance/GDP ratio is below 1% by the end of 3Q. November figures, on the other hand confirm a level better than targeted figure

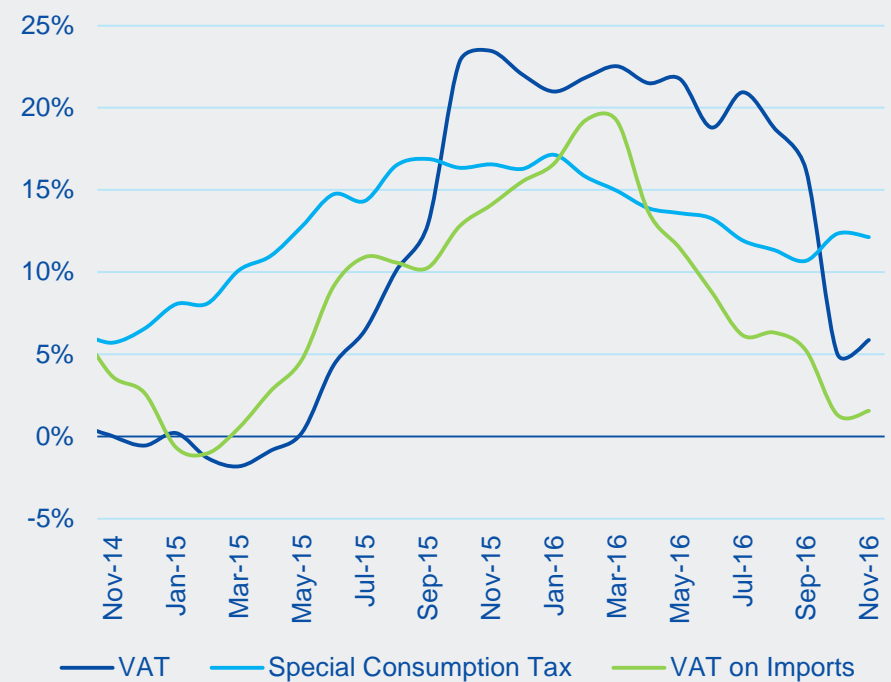
BUDGET EXPENDITURES & REVENUES

12-month sum, YoY Change



TAX REVENUES

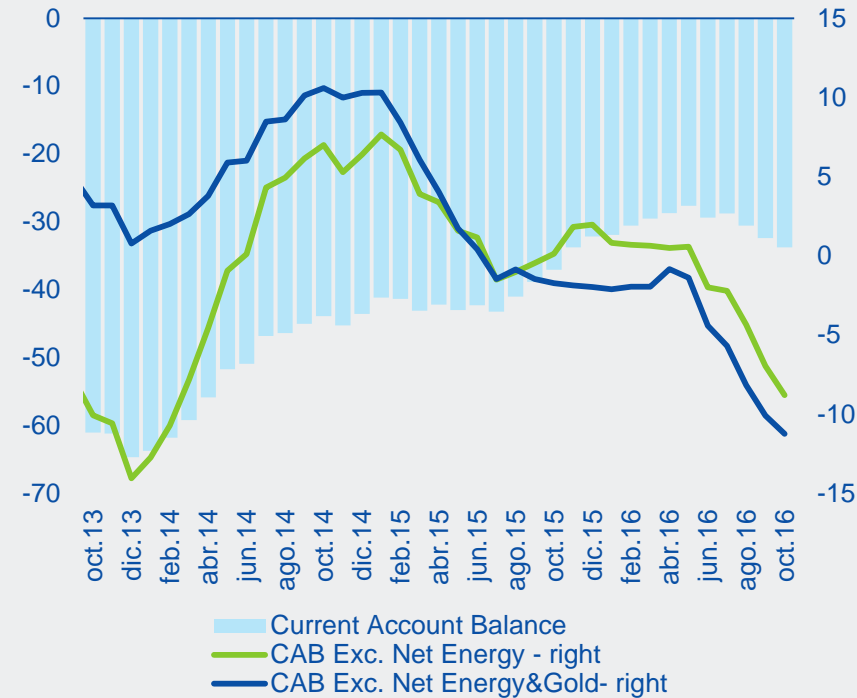
12-month sum, YoY Change



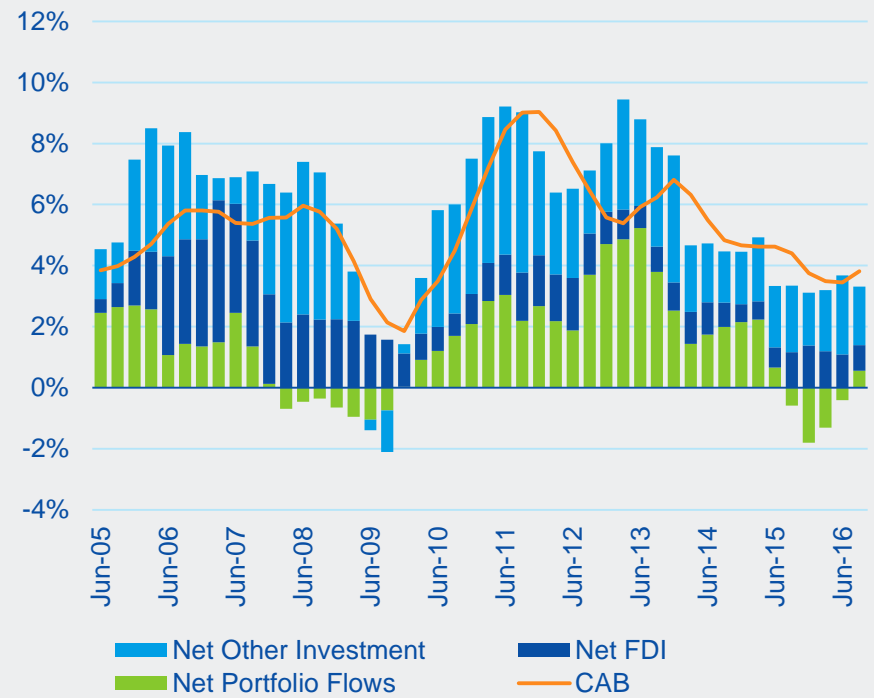
External Balance: CAB & Financing

Core 12m cum CAB (exc net gold and energy trade) increased to USD11.2bn in October, the worst figure since May 2012. CAD/GDP ratios improved with the new GDP series . 2Q ratio was revised down from 4.2% to 3.4% and 3Q ratio was recorded as 3.8%

CURRENT ACCOUNT BALANCE
12-month sum, bn USD



CURRENT ACCOUNT NET FINANCING
12-month sum, % GDP



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TURKEY

26 DECEMBER 2016

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