

MONTHLY ECONOMIC MONITOR

TURKEY

2 FEBRUARY 2017

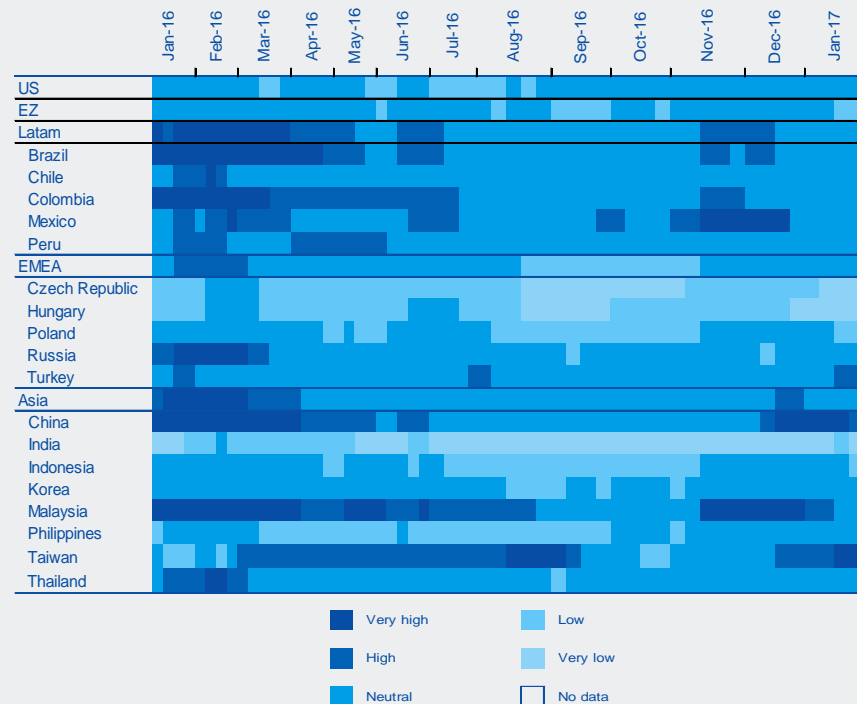


Global Developments

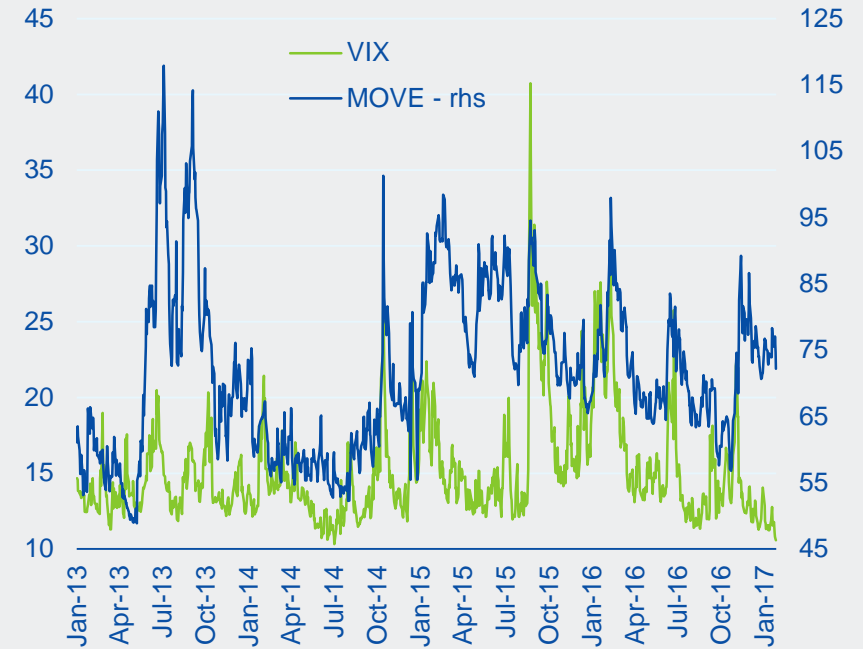
Global financial tension was calmer during the month and volatility indicators declined. By mid-January, EMs in general registered portfolio inflows, outperforming DMs for the first time since US elections

FINANCIAL STRESS INDEX REGIONAL MAP

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



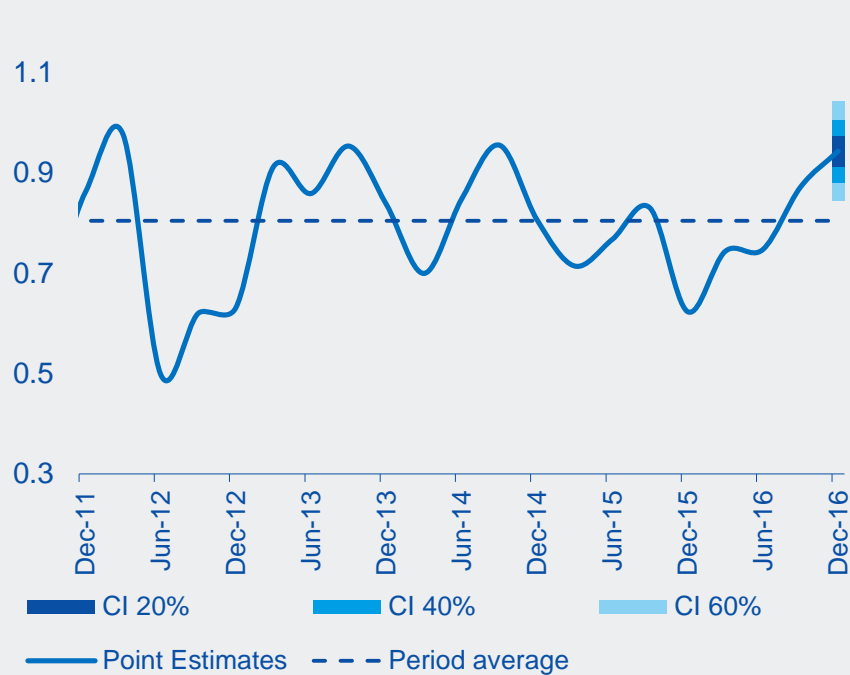
MOVE AND VIX INDICES



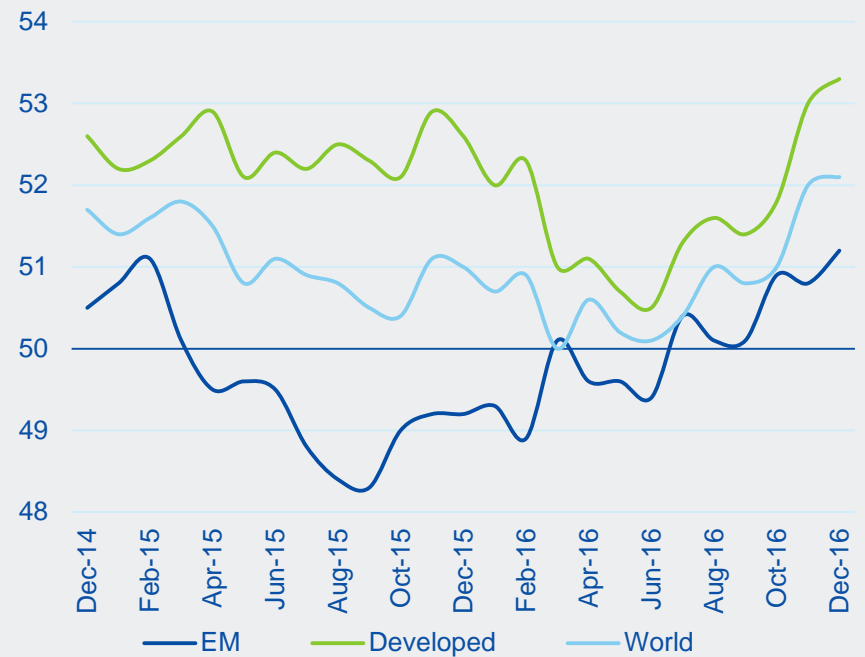
Global Developments

Global manufacturing PMI has been improving fast for the last couple of months.

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



MANUFACTURING PMI
(50 is the threshold for growth)

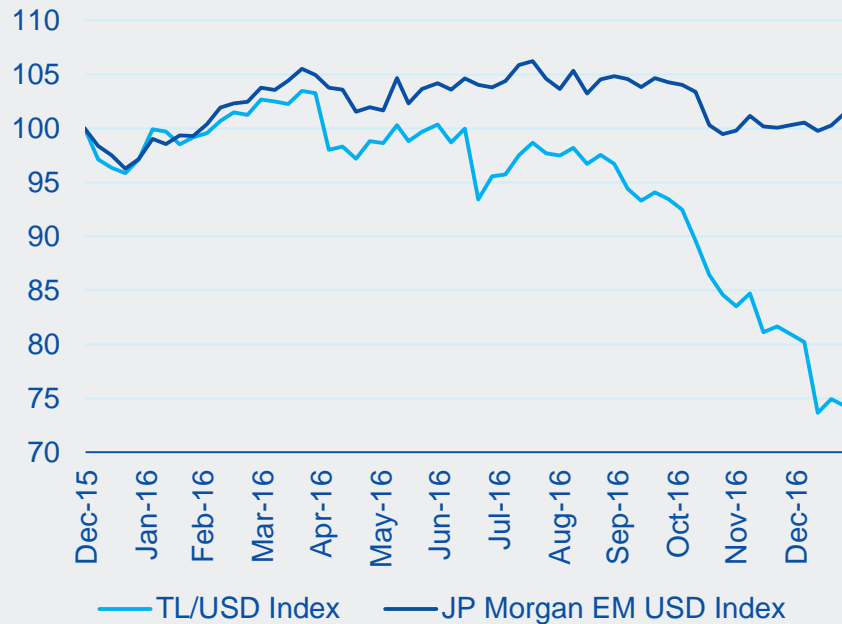


Exchange & Interest Rates

Despite the CBRT's tightening efforts through liquidity, Turkish lira kept depreciating during the month. Sell-off cooled down by the end of the month as the average funding rate breached 10% and USD softened globally. Yield curve has become flatter as a result of monetary tightening

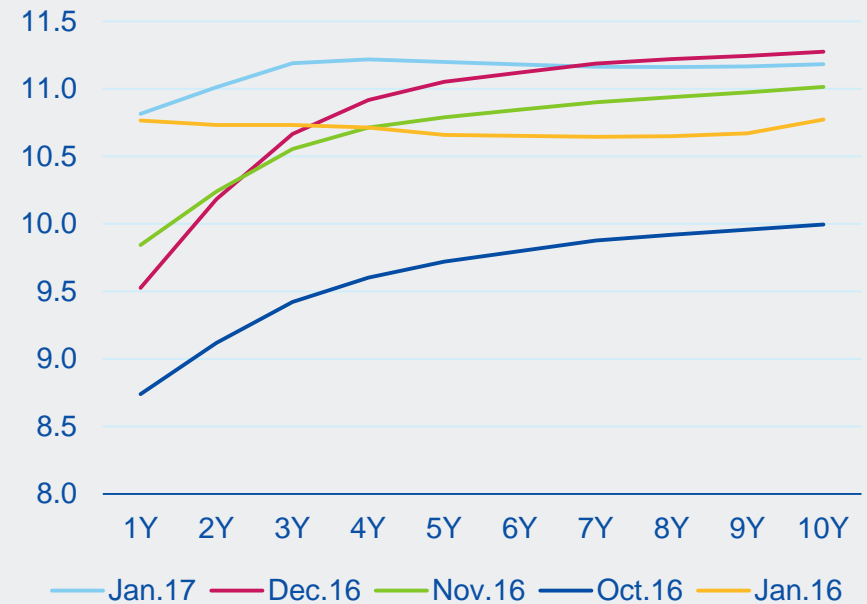
USD/TL VS AVG. OF EMERGING MARKETS

December 2015 = 100



YIELD CURVE

(%)



Economic Activity: GDP

Our GDP indicator signals a modest recovery in 4Q on the back of certain sectors and the recovery in exports, rendering our 2.3% 2016 growth forecast feasible.

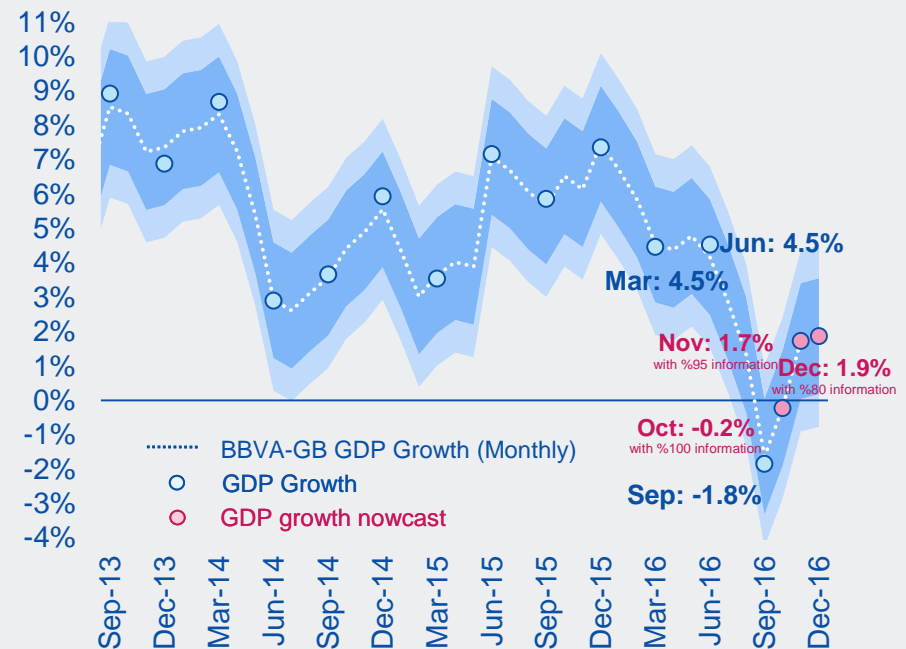
ACTIVITY INDICATORS

3 MA, YoY Change, %

	Mean	2016							2017
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Industrial Production	3.7	2.9	0.1	-1.3	-3.2	-0.3	0.4		
Non-metal Mineral	1.5	0.4	-3.3	-1.5	-3.0	2.3	1.7		
Electricity Production	4.1	6.9	6.4	6.8	3.1	3.3	3.3	5.3	6.0
Auto Sales	4.2	2.5	-4.6	-13.4	-15.2	3.4	24.1	10.2	40.6
Tourist Arrivals	-0.1	-35.6	-37.4	-38.3	-36.0	-33.1	-28.2		
Number of Employed	3.7	2.7	1.8	1.2	1.3	1.4			
Number of Unemployed	4.3	4.2	8.2	11.6	13.2	14.6			
Auto Imports	7.0	2.6	-3.5	-9.7	-10.2	8.9	31.3	16.2	
Auto Exports	7.6	21.6	24.3	14.7	12.2	9.9	12.4	21.1	
Financial Conditions	76.0	86.7	91.2	88.4	88.6	92.5	80.1	73.6	
Credit Growth-13Week	20.2	13.5	8.8	9.1	4.7	10.0	8.2	13.0	15.4
PMI Manufacturing	51.4	47.4	47.6	47.0	48.3	49.8	48.8	47.7	48.7
Real Sector Confidence	107.4	104.3	106.3	103.0	107.1	103.8	107.6	103.6	100.5
MICA Forecast GDP YoY		4.5%		-1.8%		-0.2%	1.7%	1.9%	
		Contraction	Slow-down	Growth	Boom				

MONTHLY GDP GROWTH & ESTIMATE

YoY Change, %

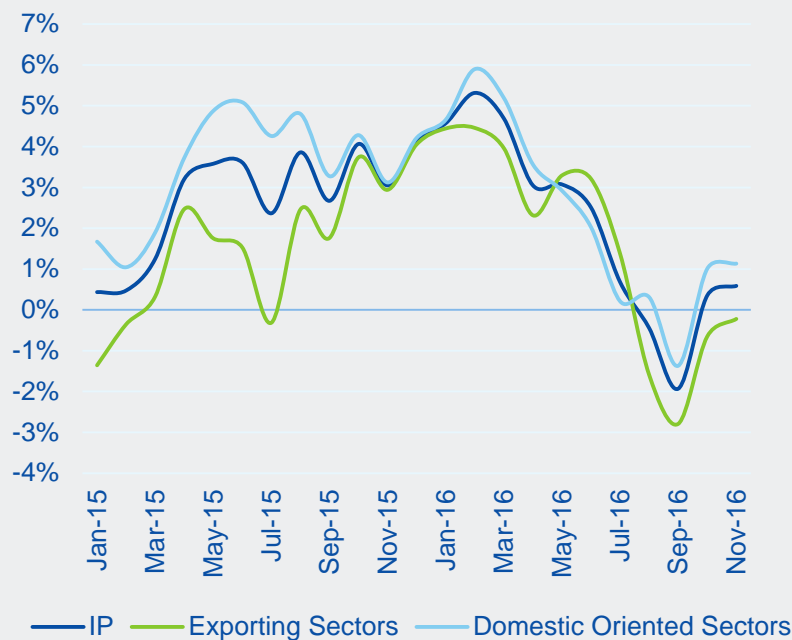


Economic Activity: Sectors

The recovery in domestic demand continued to be only modest by November, mostly reflecting the brought-forward demand on the back of policy stimulus. Tourist arrivals remained weak.

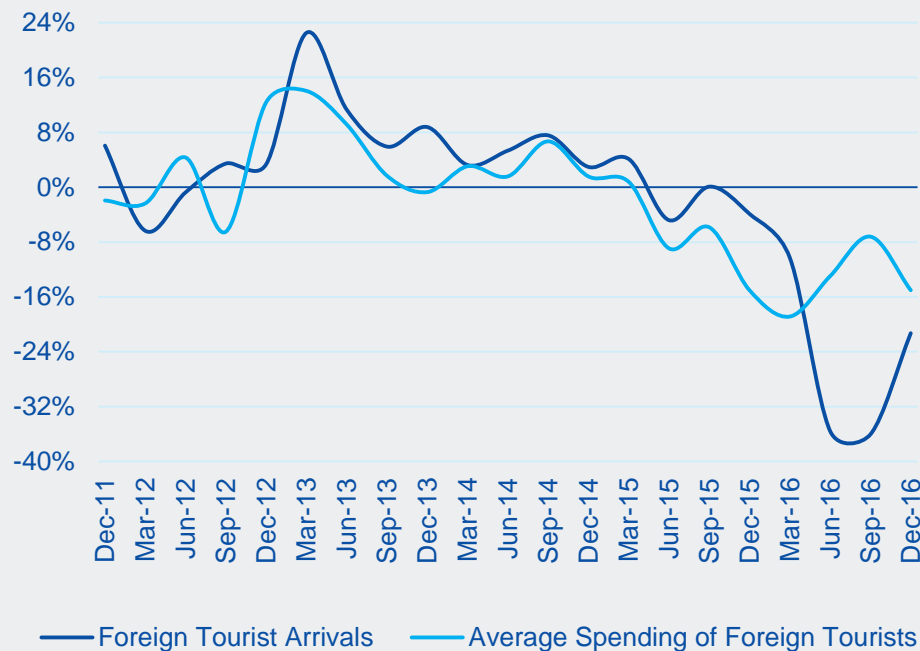
SECTORS IN INDUSTRIAL PRODUCTION (IP)

3MA, calendar adj, YoY



TOURISM SECTOR

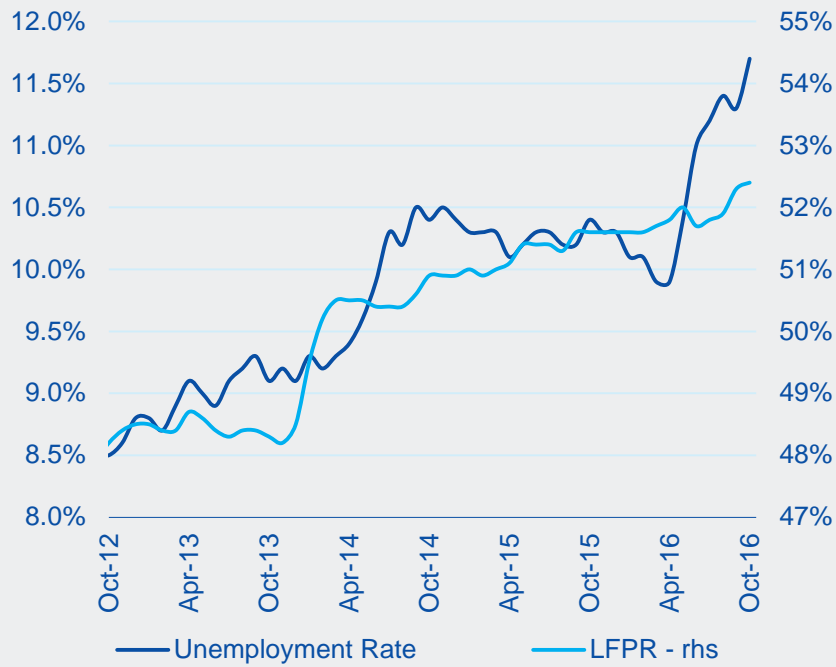
YoY



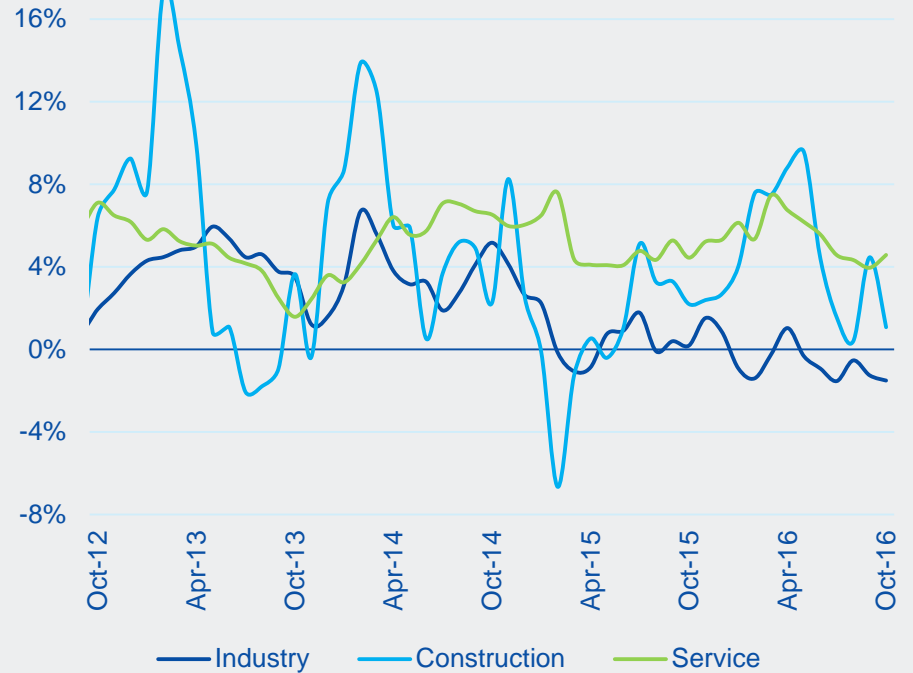
Economic Activity: Employment

As the economic activity was subdued, employment figures continued to deteriorate

UNEMPLOYMENT & LABOR FORCE PART. RATE
SA



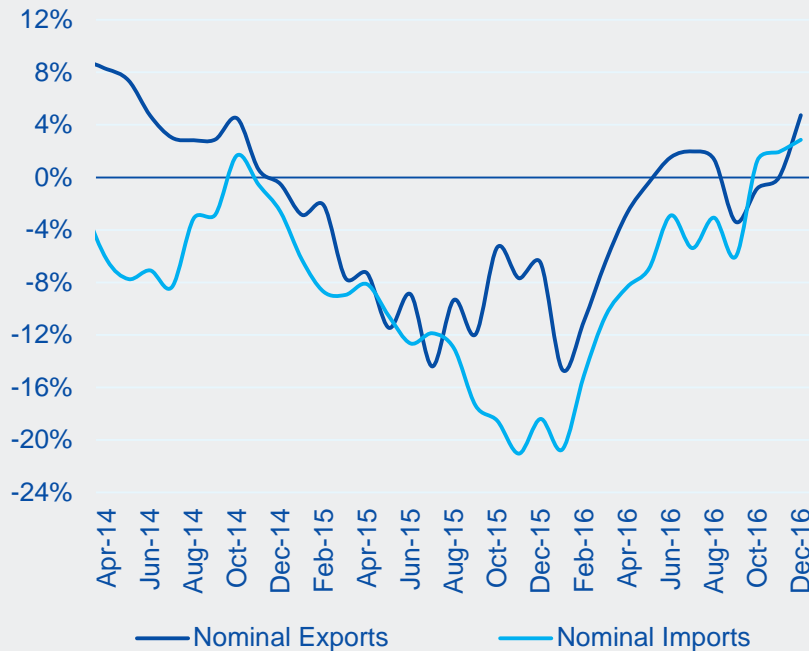
EMPLOYMENT GROWTH IN SECTORS
YoY



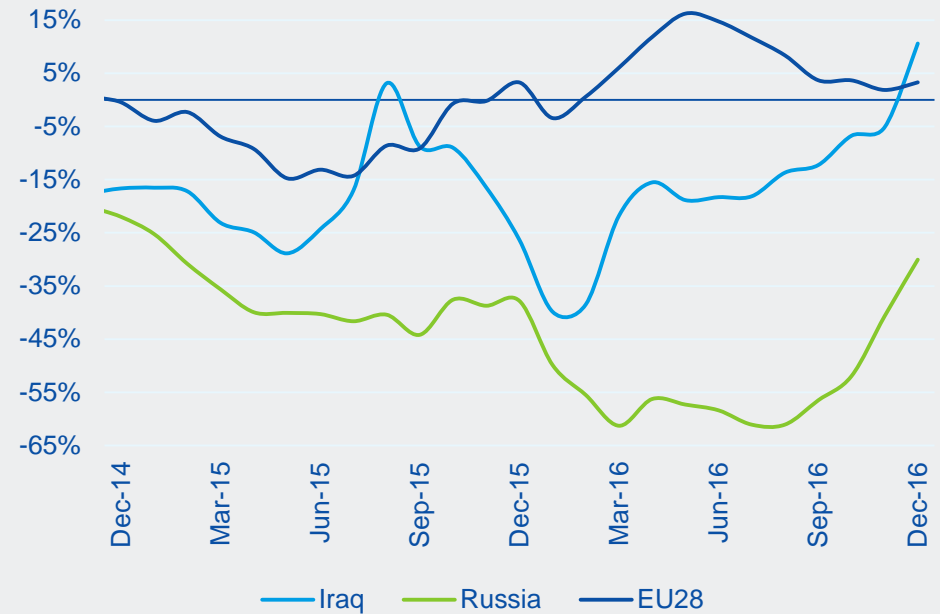
Economic Activity: Trade

Ongoing recovery in foreign demand continued to provide support for the exporting sectors, while imports growth was slower due to subdued domestic demand.

FOREIGN TRADE FIGURES
3MA, YoY Change



FOREIGN TRADE FIGURES
3MA, YoY Change

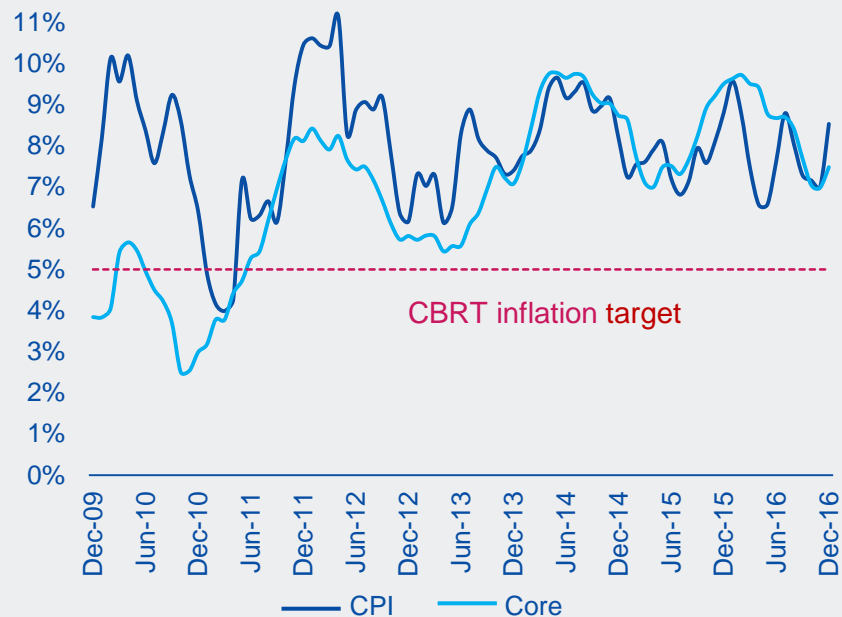


Inflation

In December, CPI inflation surged 1.5pt to 8.5%. The impact of FX pass-thru and the rise in the energy prices will be increasingly effective in 1Q17, pushing the headline towards double digits.

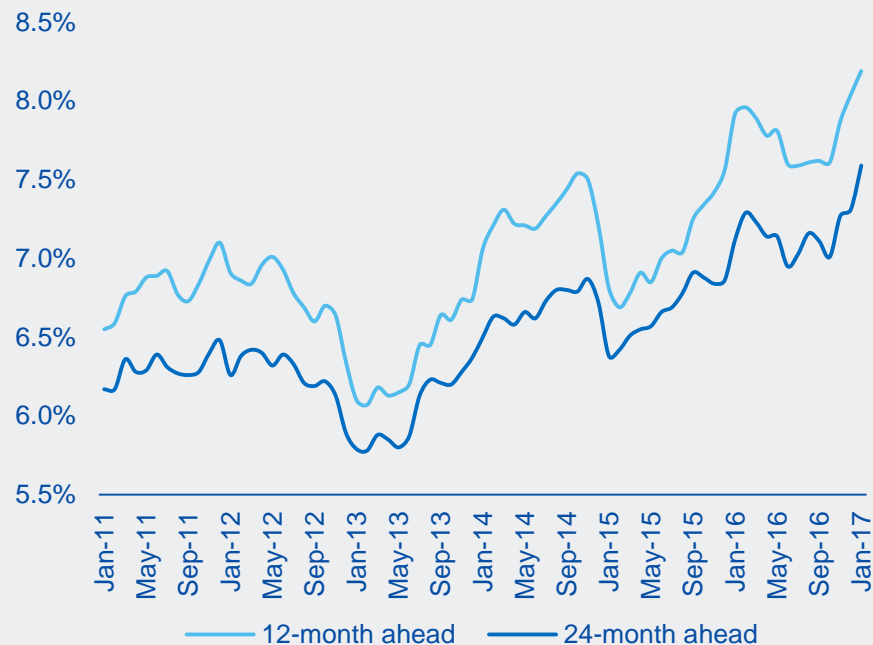
CPI & CBT'S CORE INFLATION

YoY



INFLATION EXPECTATIONS

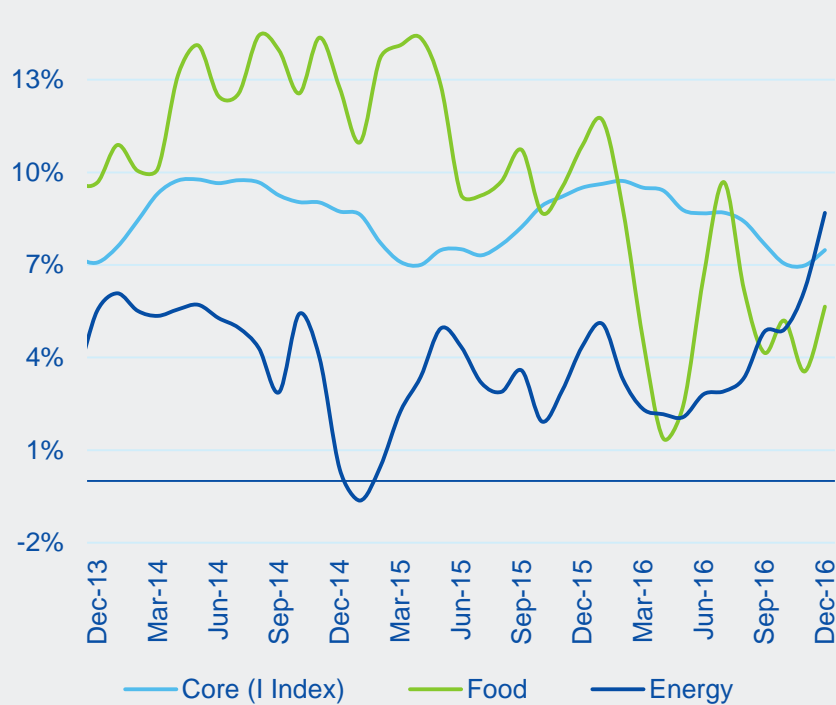
YoY



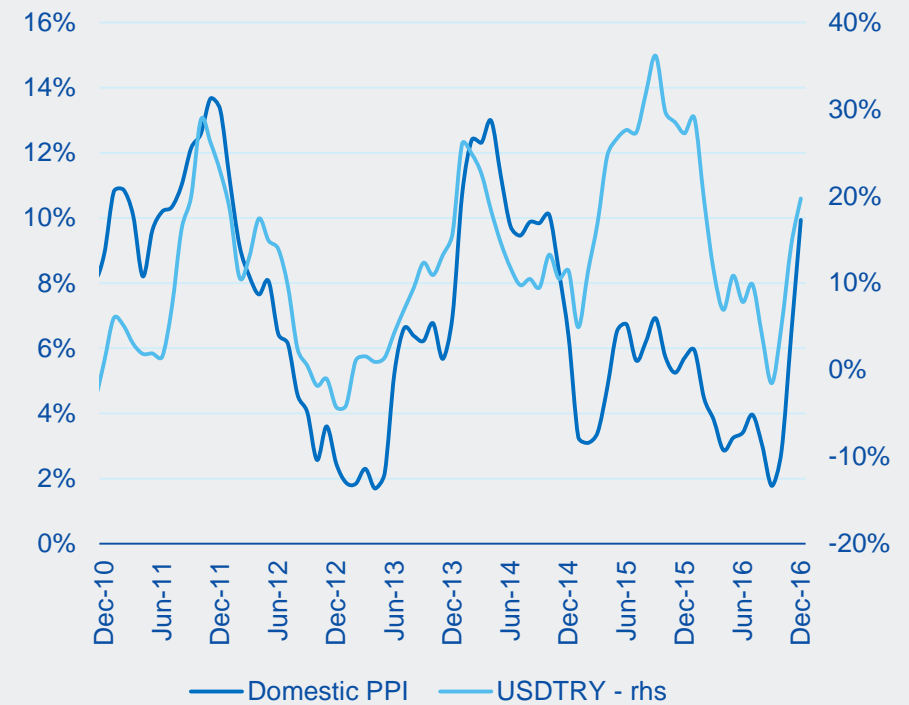
Inflation

Energy inflation drove into an increasing path. Though we start to observe the FX pass-thru impact on CPI inflation, its immediate cost push effects are more visible on domestic PPI.

CPI INFLATION COMPONENTS
YoY



DOMESTIC PPI & USD/TL
YoY

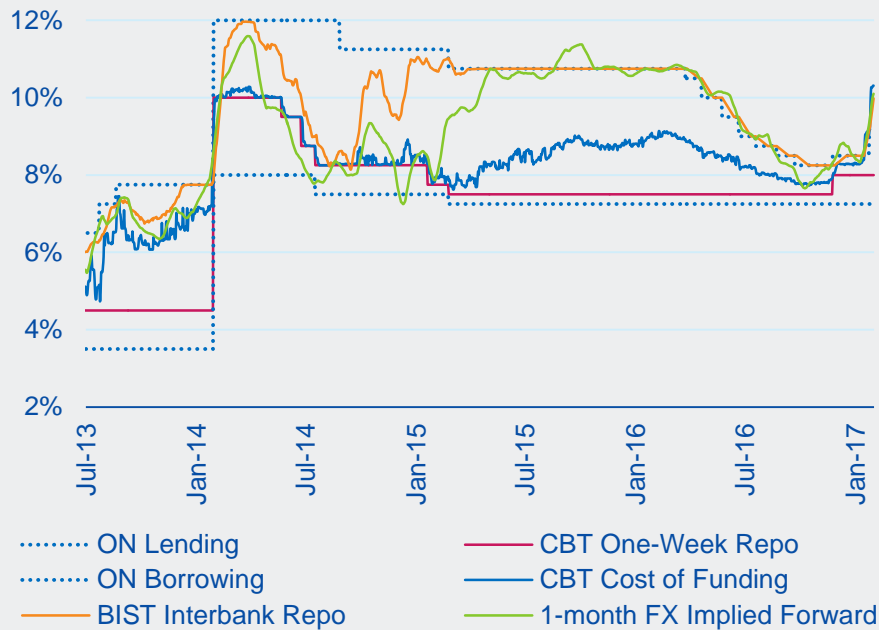


Monetary Policy

The CBRT increased the O/N lending and late liquidity window (LLW) rates, leaving the policy rate intact. The average funding rate increased by 200bps to 10.3%. The CBRT is likely to use the extraordinary LLW as a regular policy tool in the coming period

INTEREST RATE CORRIDOR

Levels



AVERAGE FUNDING RATE

Level

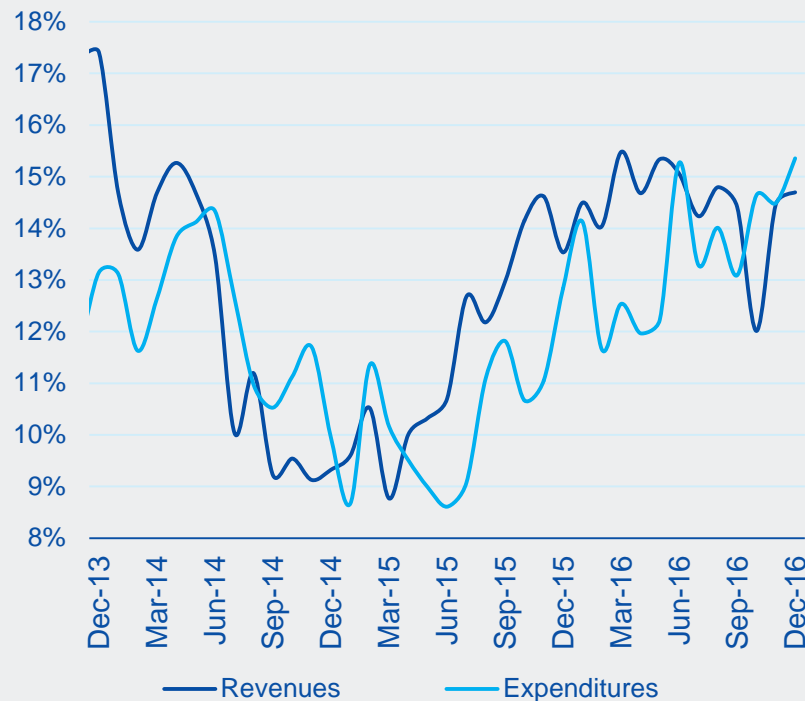


Fiscal Policy

In 2016 overall, the Central Government budget revenues rose by 14.7% and expenditures by 15.4%, which were both over the targets. We calculate budget deficit to GDP around 1.1%. Tax revenues (excluding tax amnesty revenues) did not signal a solid pick-up in the domestic demand.

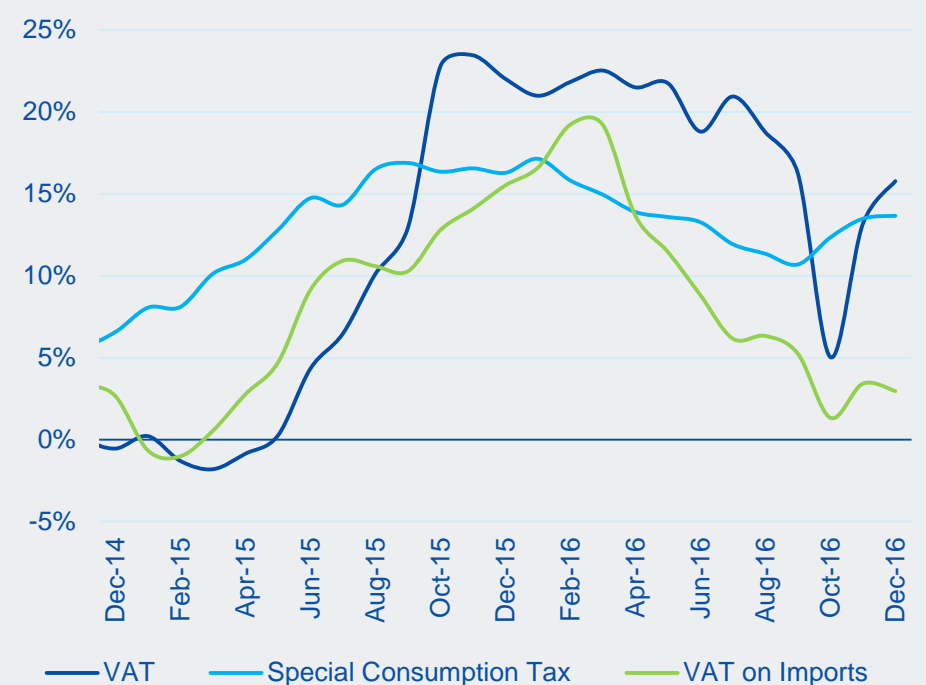
BUDGET EXPENDITURES & REVENUES

12-month sum, YoY Change



TAX REVENUES

12-month sum, YoY Change

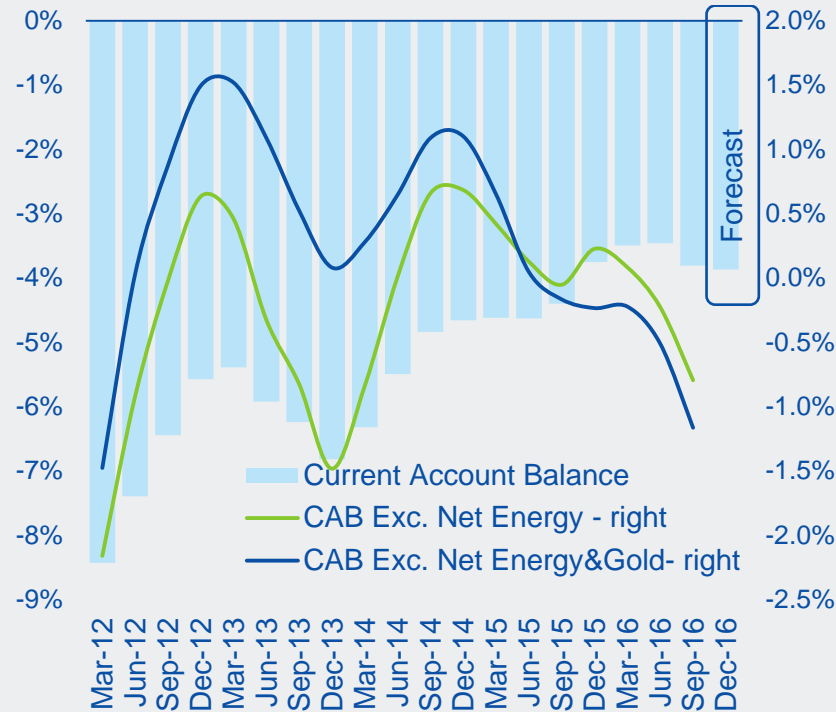


External Balance: CAB & Financing

12-mo current account deficit stabilized around USD 34bn, where we expect to end 2016 around similar figures, corresponding to 3.9% of GDP. When both net energy and gold trade are excluded, the deficit continued to widen mainly due to weak tourism revenues

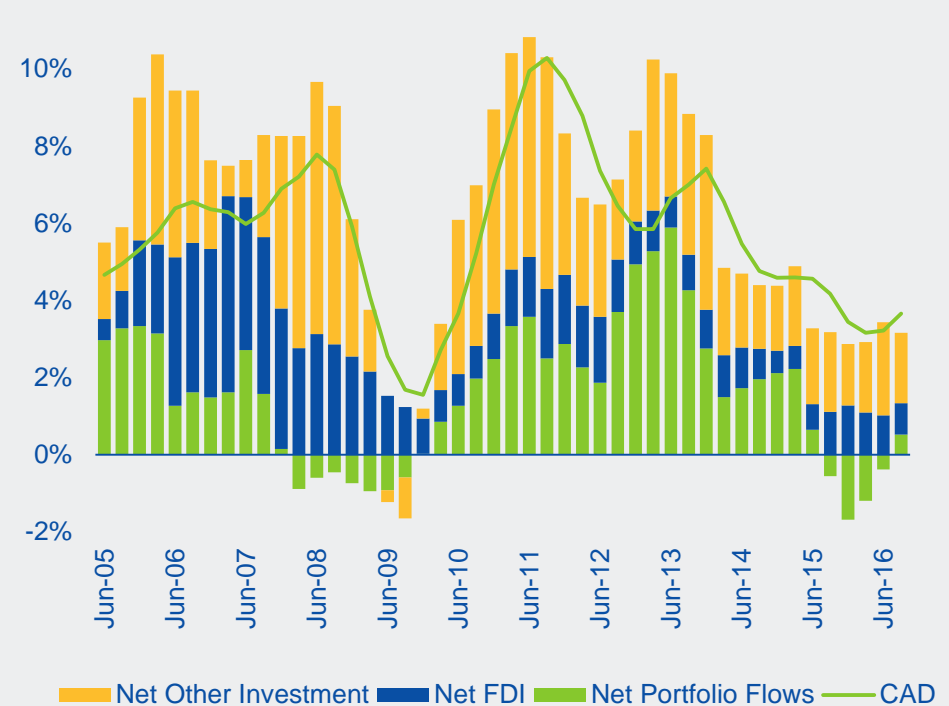
CURRENT ACCOUNT BALANCE

12-month sum, % GDP



CURRENT ACCOUNT NET FINANCING

12-month sum, % GDP



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