

Monthly Economic Monitor

Turkey

5 APRIL 2017

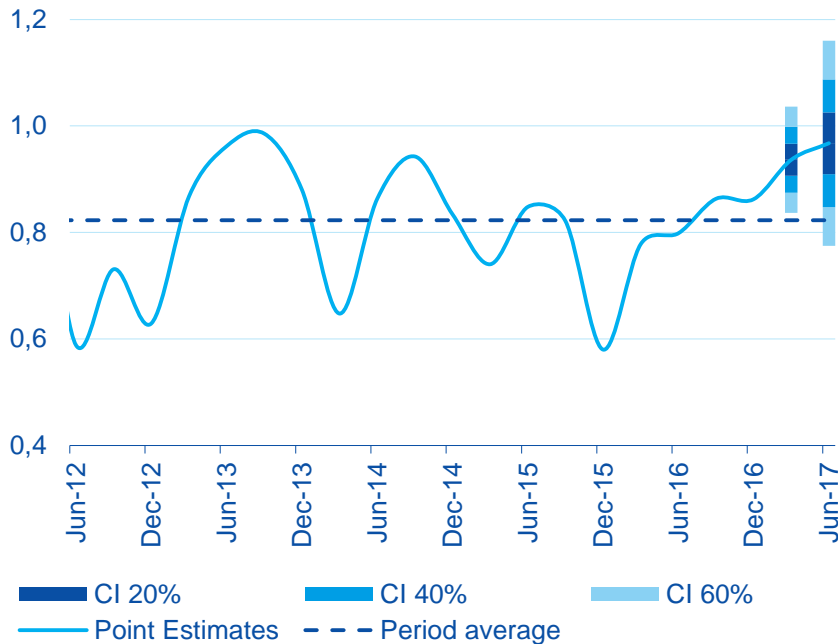


Global Developments

Global manufacturing industry is at years' peak with developed countries leading and the positive momentum is promising for world trade and GDP growth.

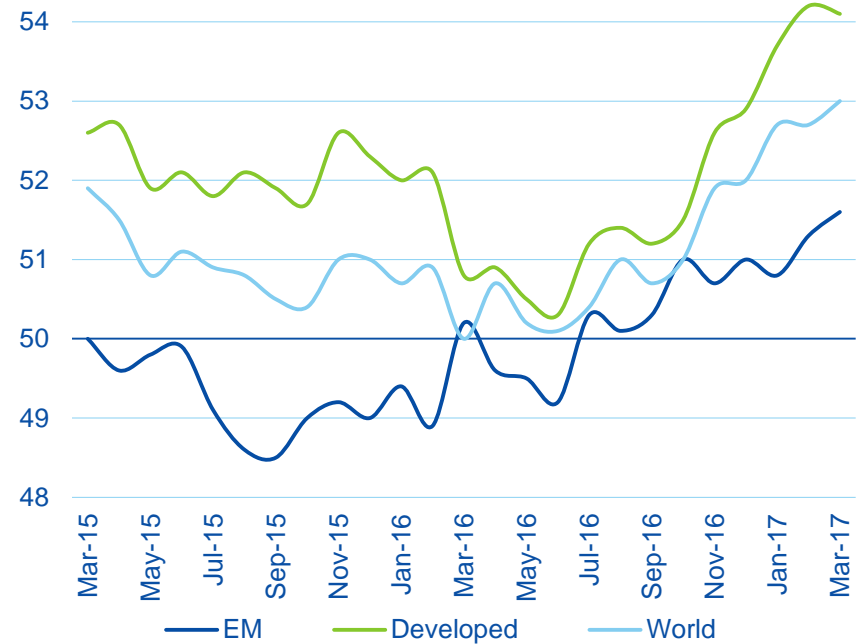
WORLD GDP GROWTH

forecasts based on BBVA-GAIN (% , QoQ)



MANUFACTURING PMI

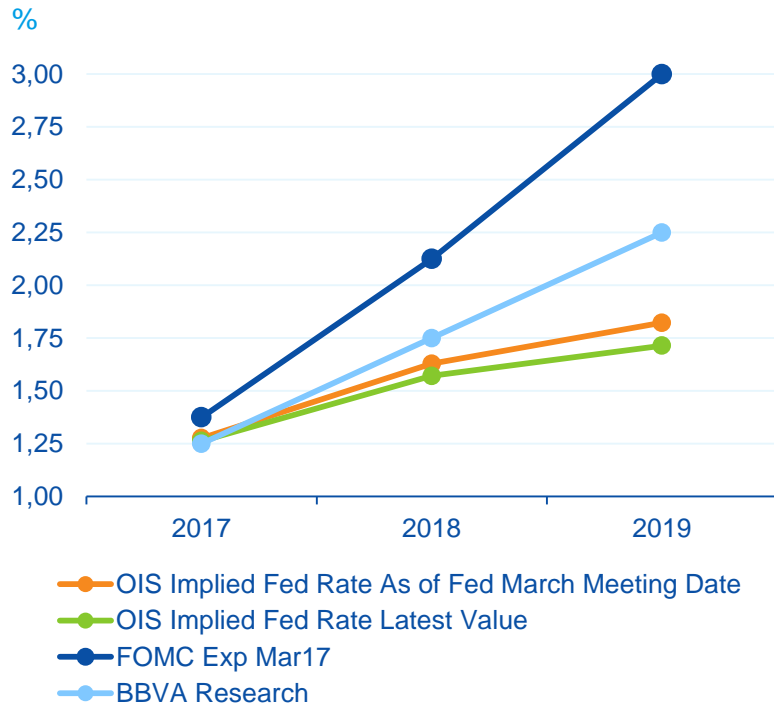
(50 is the threshold for growth)



Global Financial Markets

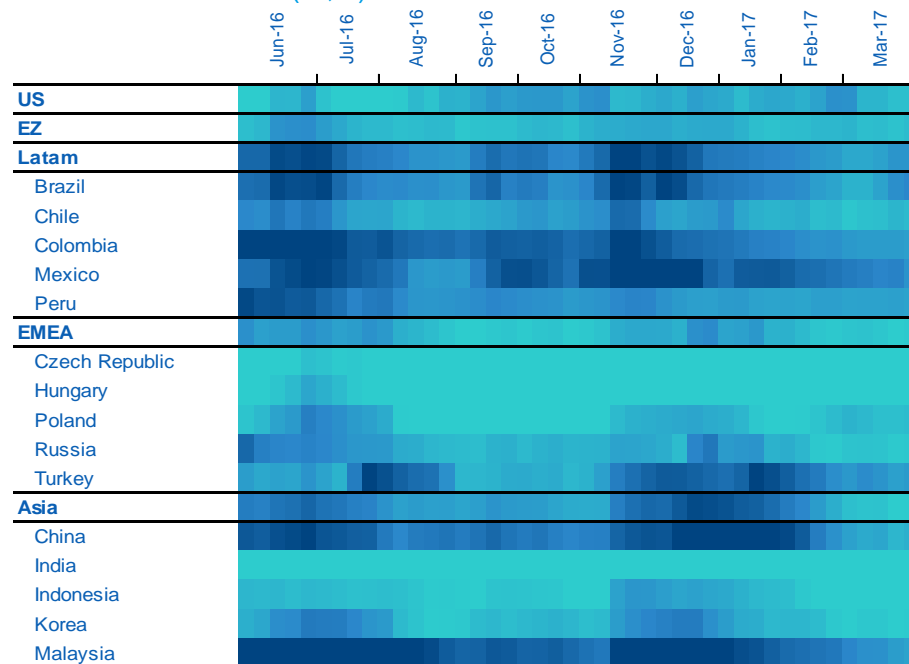
Financial stress remained calm for EM and DM after the «dovish» rate hike from the US.

FED RATE EXPECTATIONS



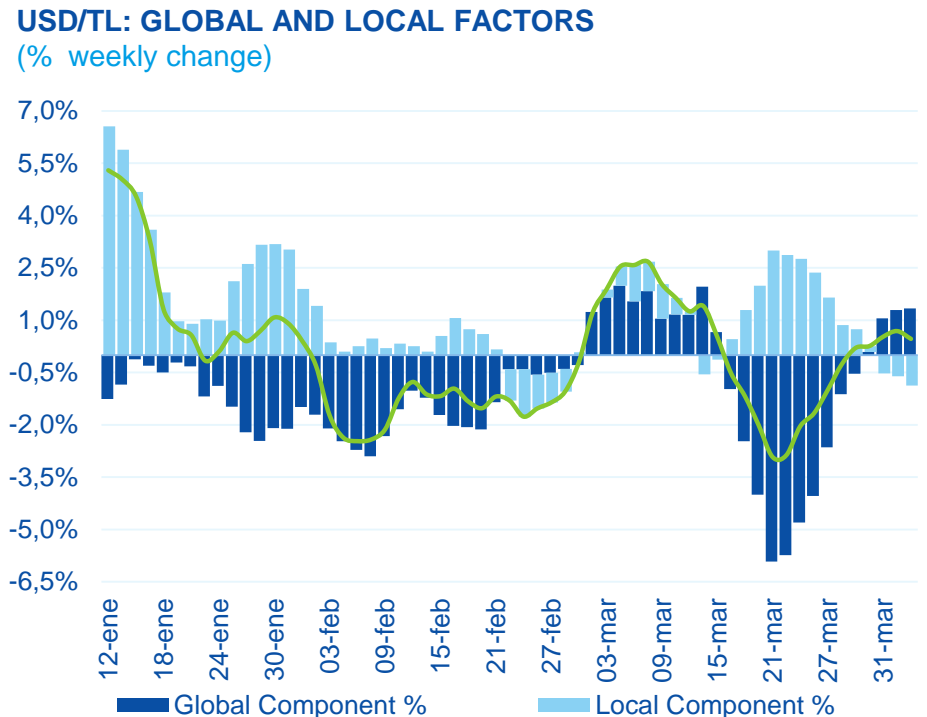
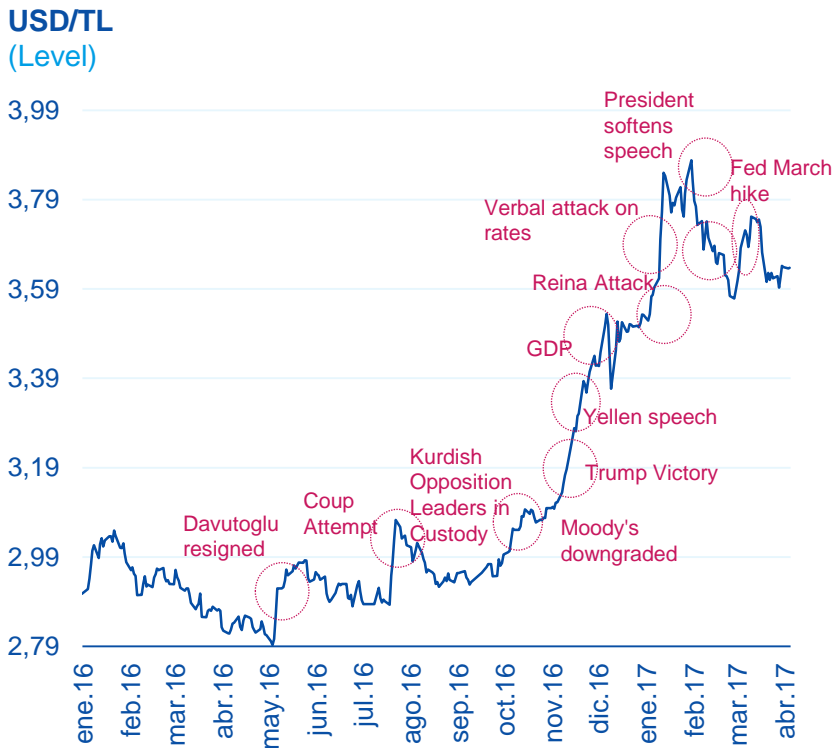
FINANCIAL STRESS INDEX REGIONAL MAP

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



Exchange Rate: USD/TL

Global factors were mostly supporting for Turkish Lira. Local side was on the wait-and-see mode considering the upcoming April 16 referendum. Higher than expected inflation created some negative reaction.

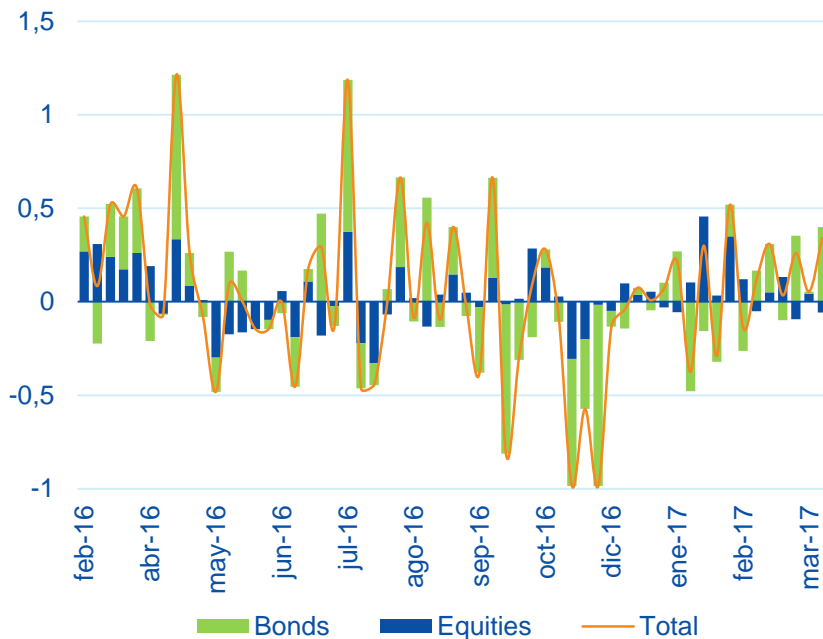


Flows to Turkish Assets and Interest Rates

Similar to EMs, Turkish bond market incurred inflows during March. Yield curve shifted upwards in the short-end to belly on higher than expected inflation and CBRT's increase of average funding rate.

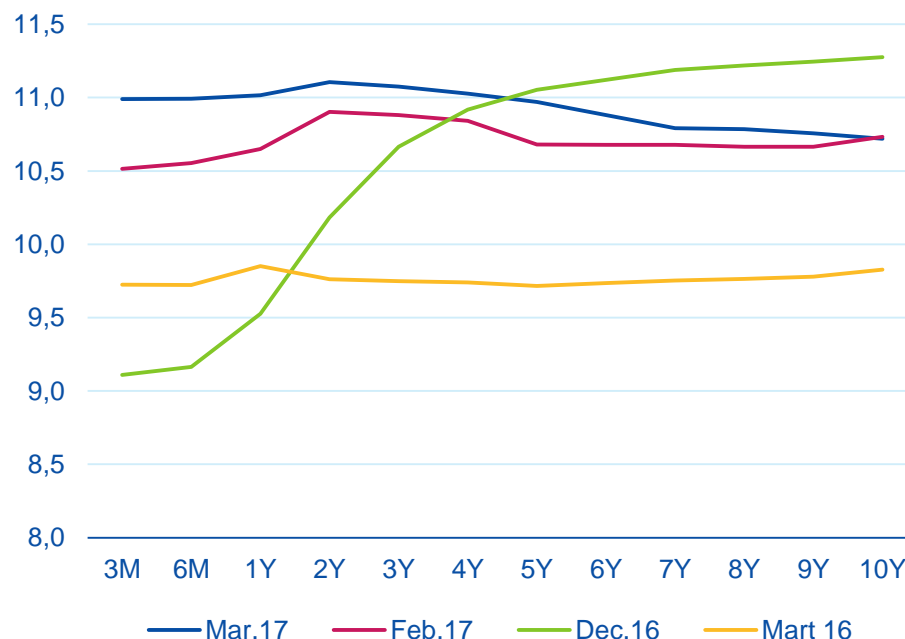
FLOWS TO TURKISH ASSETS

Level, bn TL



YIELD CURVE

(%)

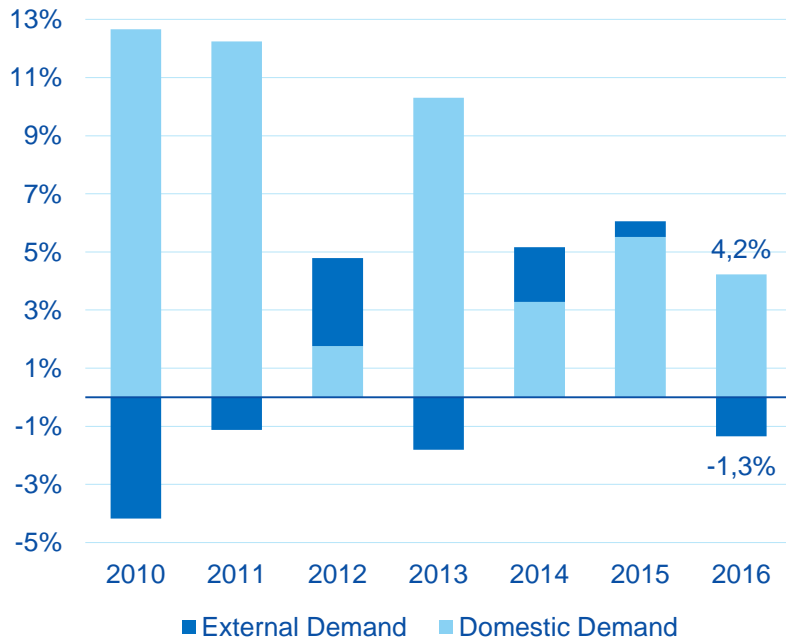


Economic Activity: GDP

Economic activity showed a v-shaped recovery as 4Q growth surprised on the upside with 3.5% YoY (consensus 2%). Rapid increase in private consumption and previous quarters' upward revisions were the main drivers.

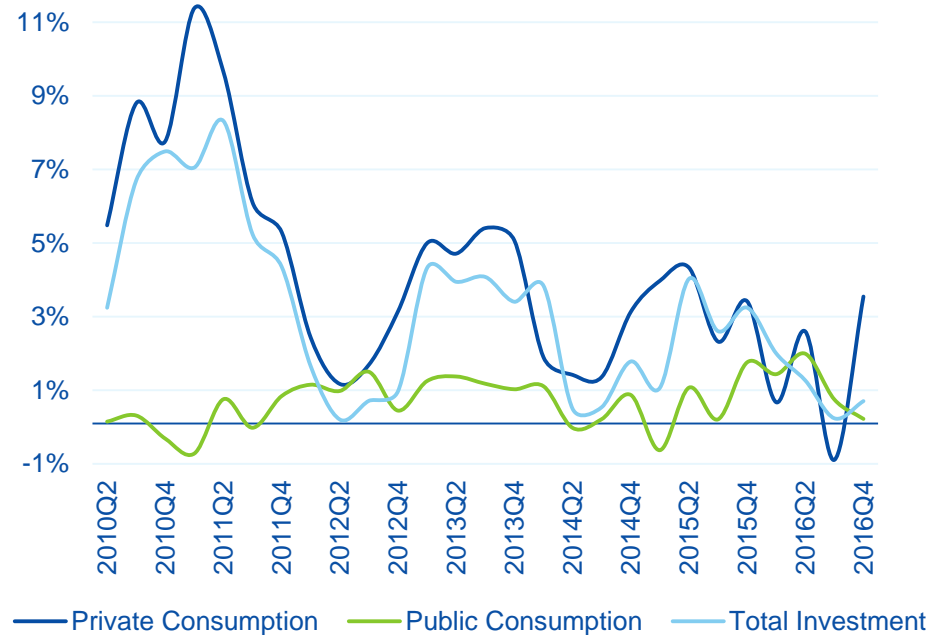
CONTRIBUTION TO GDP GROWTH

Annual



DOMESTIC DEMAND GROWTH COMPOSITION

YoY



Economic Activity: GDP

Our monthly GDP indicator suggests continuum of V-shaped GDP growth recovery in 1Q17, following 4Q16's above-expectations growth.

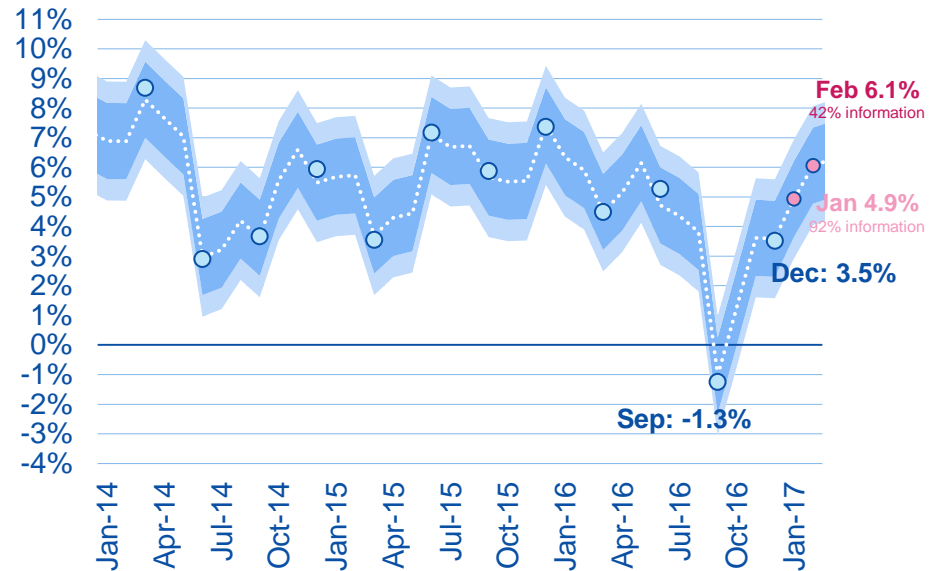
ACTIVITY INDICATORS

3 MA, YoY Change, %

Mean	2016							2017		
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Industrial Production	3.6	3.0	0.1	-1.3	-3.1	-0.3	0.4	2.0	3.3	
Non-metal Mineral	1.4	0.4	-3.3	-1.5	-3.0	2.3	1.7	-1.0	-4.2	
Electricity Production	4.2	6.9	6.4	6.8	3.1	3.3	3.3	5.3	6.4	
Auto Sales	4.2	2.5	-4.6	-13.4	-15.2	3.4	24.1	10.2	6.4	
Tourist Arrivals	3.1	-36.2	-38.4	-38.8	-36.5	-32.9	-28.3	-22.8	-17.8	
Number of Employed	3.6	2.7	1.8	1.2	1.3	1.4	1.5	1.3		
Number of Unemployed	4.7	4.2	8.2	11.6	13.2	14.6	16.1	18.6		
Auto Imports	6.8	2.6	-3.5	-9.7	-10.2	9.0	31.7	16.4	11.1	
Auto Exports	7.2	21.6	24.3	14.7	12.2	-16.5	-10.6	-1.7	33.5	
Financial Conditions	75.4	86.7	91.2	88.4	88.6	92.5	80.1	73.6	59.0	
Credit Growth-13Week	12.5	15.3	15.2	14.7	14.5	14.8	14.0	14.3	14.0	
Retail Sales	4.2	2.1	-0.2	-0.5	-0.8	0.3	-0.5	-1.8	-2.3	
Real Sector Confidence	107.3	104.3	106.3	103.0	107.1	103.8	107.6	103.6	100.5	
MICA Forecast									4.9%	6.1%
GDP YoY	5.3%		-1.3%			3.5%				
	Contraction		Slow-down			Growth		Boom		

MONTHLY GDP GROWTH & ESTIMATE

YoY Change, %



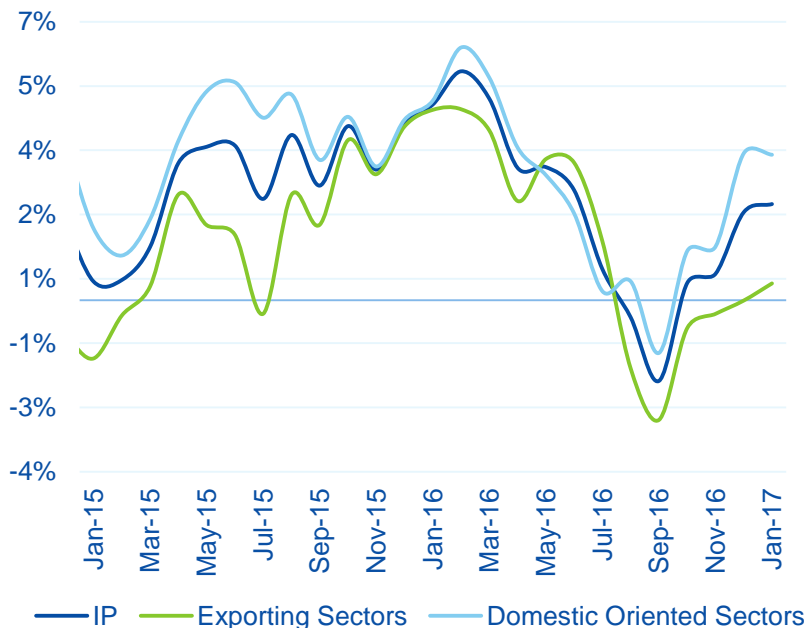
- BBVA-GB GDP Growth (Monthly)
- GDP Growth
- GDP growth nowcast

Economic Activity: Sectors

Industrial Production (IP) growth accelerated in January backed by certain sectors, however lacking a broad-based support. At odds with consumption driven GDP growth, retail sales' weakness prevails, stretching out the gap between IP.

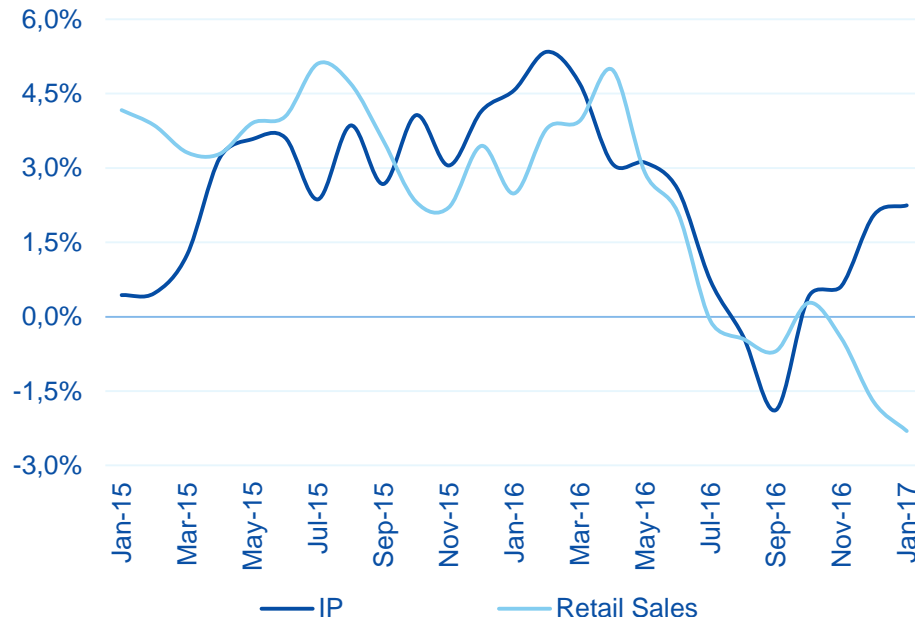
SECTORS IN INDUSTRIAL PRODUCTION (IP)

3MA, calendar adj, YoY



RETAIL SALES & IP

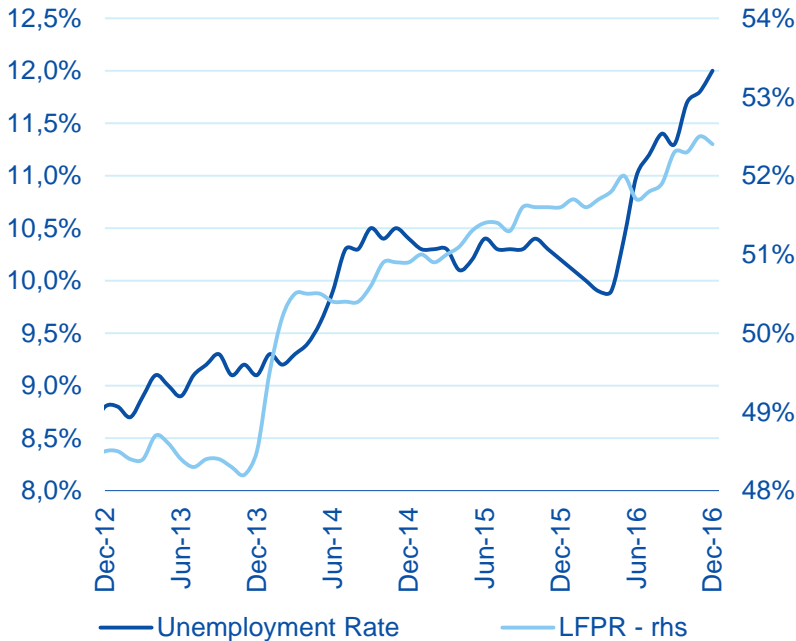
3MA, calendar adj, YoY



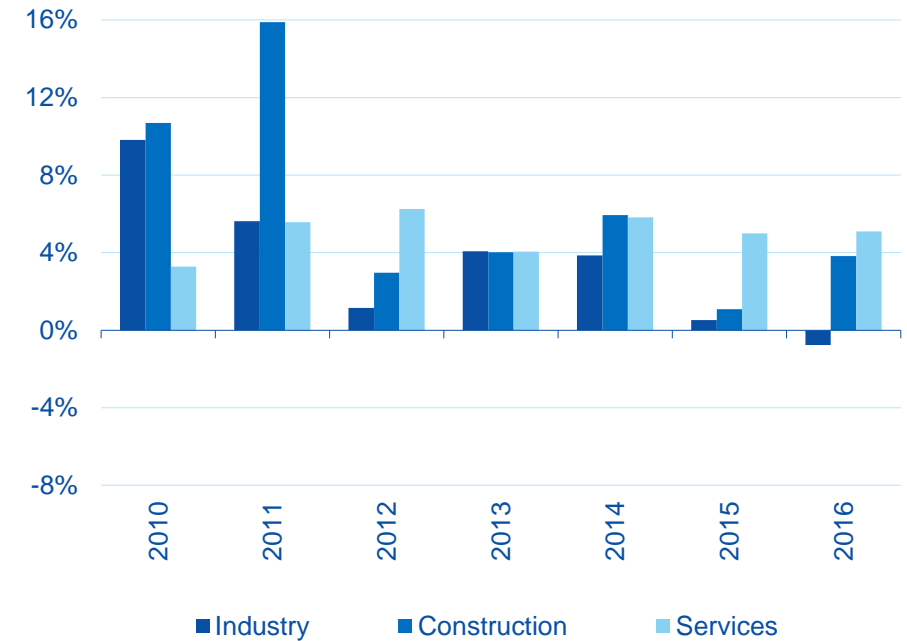
Economic Activity: Employment

Despite the recovering growth, labor market figures deteriorated with unemployment rate reaching to 12.7% (12% SA) in December (up from 10.8% in Dec 2015).

UNEMPLOYMENT & LABOR FORCE PART. RATE
SA



EMPLOYMENT GROWTH IN SECTORS
YoY

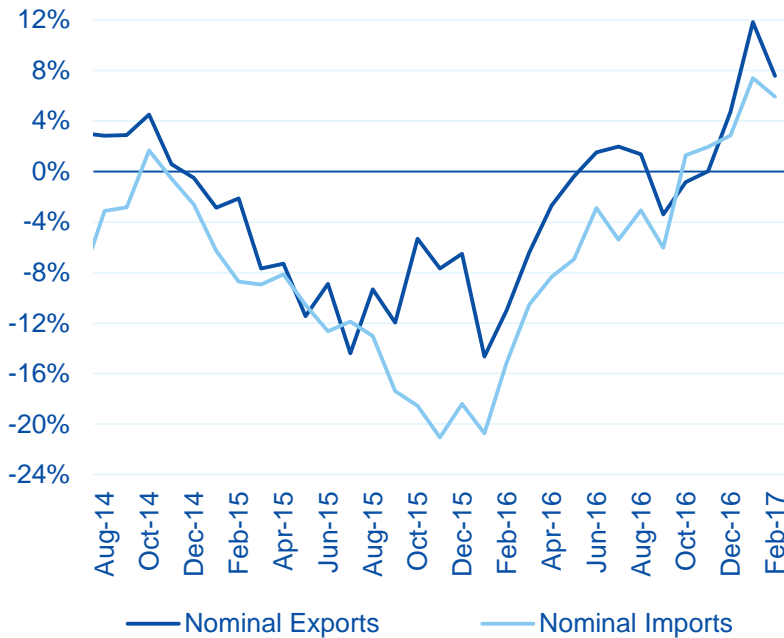


Economic Activity: Trade

In the first quarter, foreign trade deficit widened according to the preliminary nominal figures. Exports remained strong, implying a limited positive contribution from external demand to Q1 GDP growth.

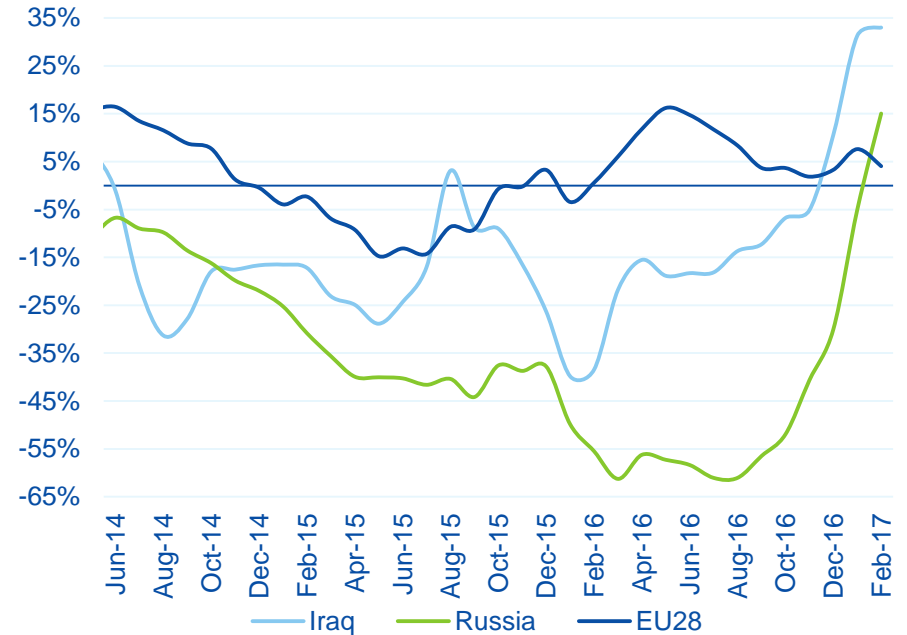
FOREIGN TRADE FIGURES

3MA, YoY Change



FOREIGN TRADE FIGURES

3MA, YoY Change

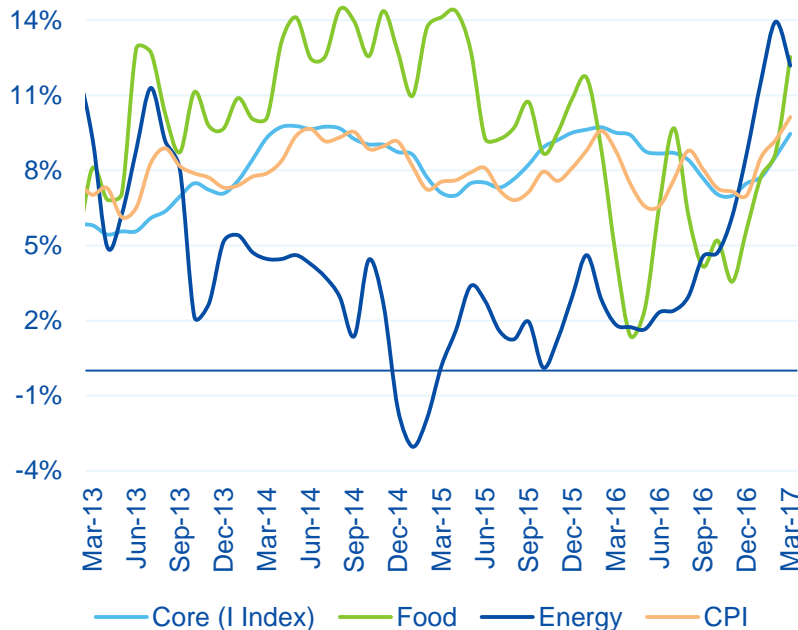


Inflation

Inflation rose further to 11.3% on both food and core items. Inflationary pressures will remain in the short term as exchange rate pass through and base effects on food will be pushing, in our view.

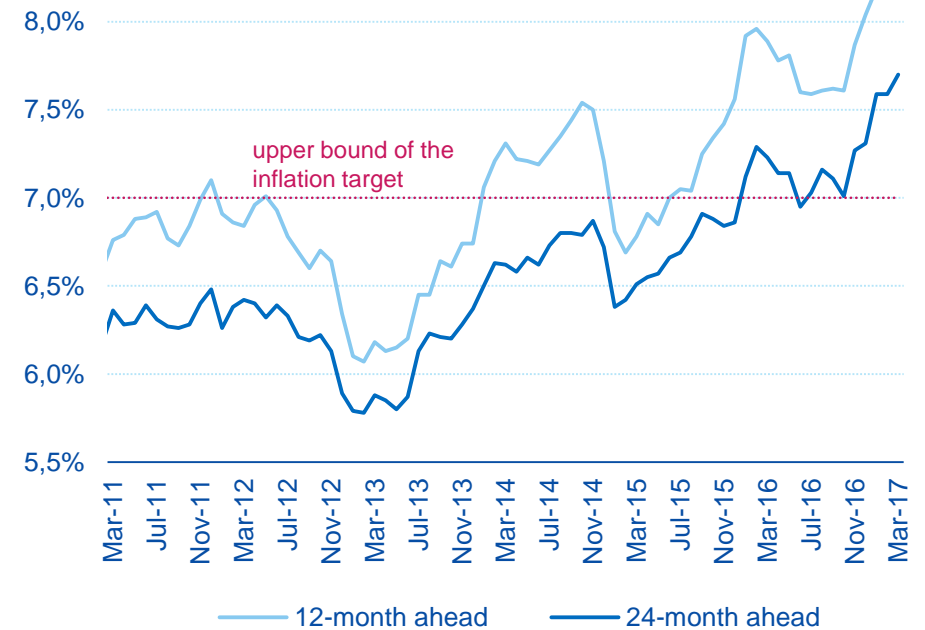
CPI & CBRT'S CORE INFLATION

YoY



CBRT SURVEY: INFLATION EXPECTATIONS

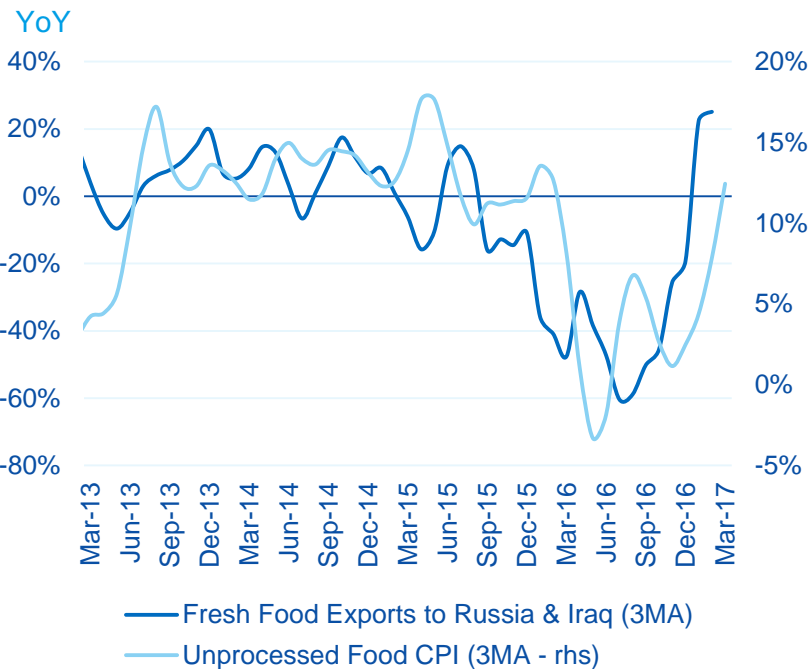
YoY



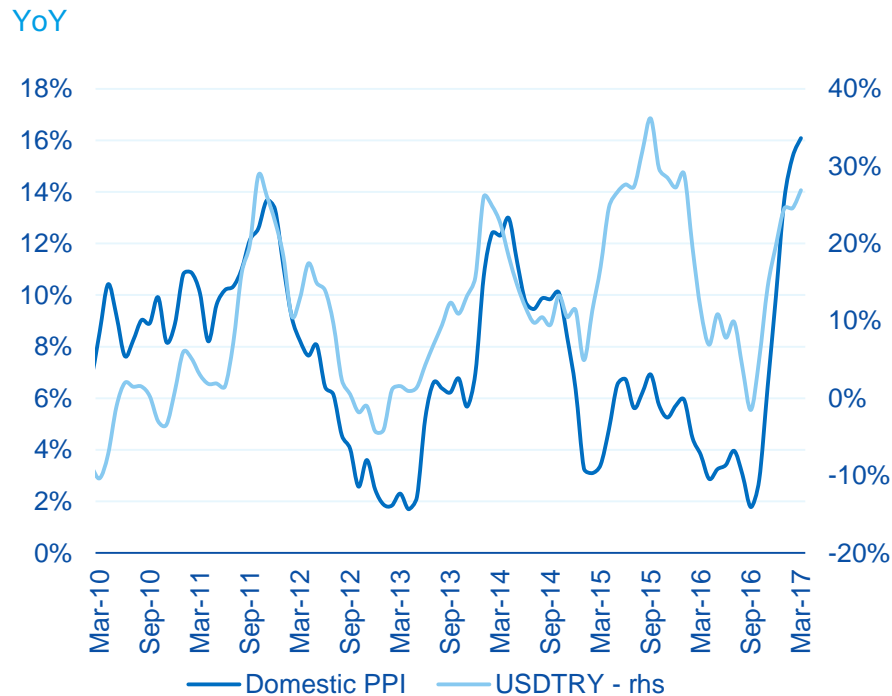
Inflation

In addition to the base effects, modest recovery in food exports also create another upward risk on food prices. Domestic PPI keeps climbing with currency depreciation and relatively higher commodity prices.

UNPROCESSED FOOD CPI & FRESH FOOD EXPORTS TO RUSSIA & IRAQ



DOMESTIC PPI & USD/TL

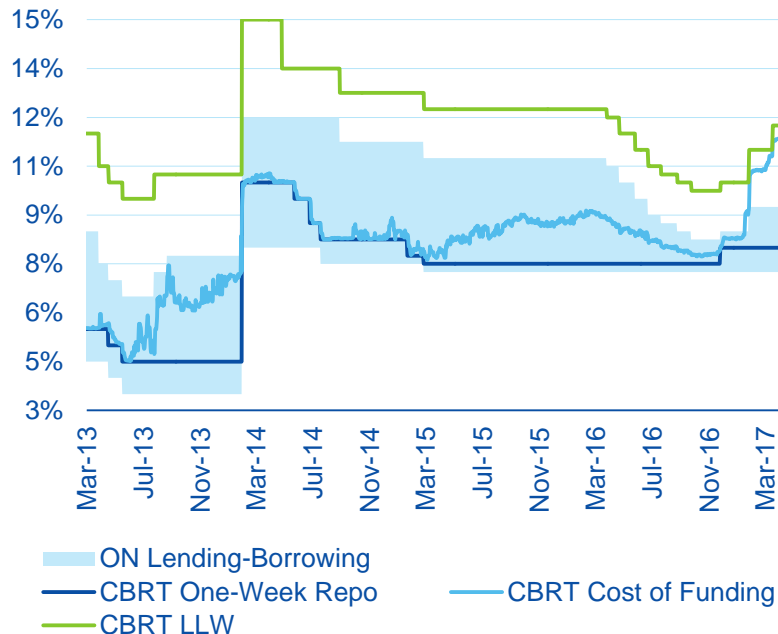


Monetary Policy

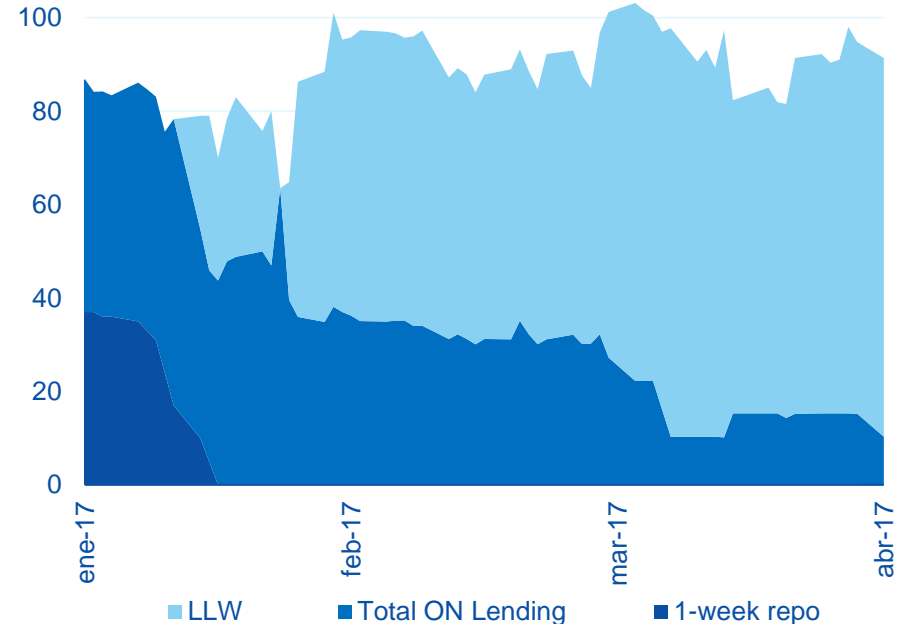
As inflation continue to rise, the Central Bank (CBRT) increased its average funding rate further to 11.5% by allocating a higher share from the 11.75% late liquidity window (LLW). Since mid-January, CBRT’s funding composition remained only through the O/N lending and the LLW.

INTEREST RATE CORRIDOR

Levels



CBRT FUNDING COMPOSITION

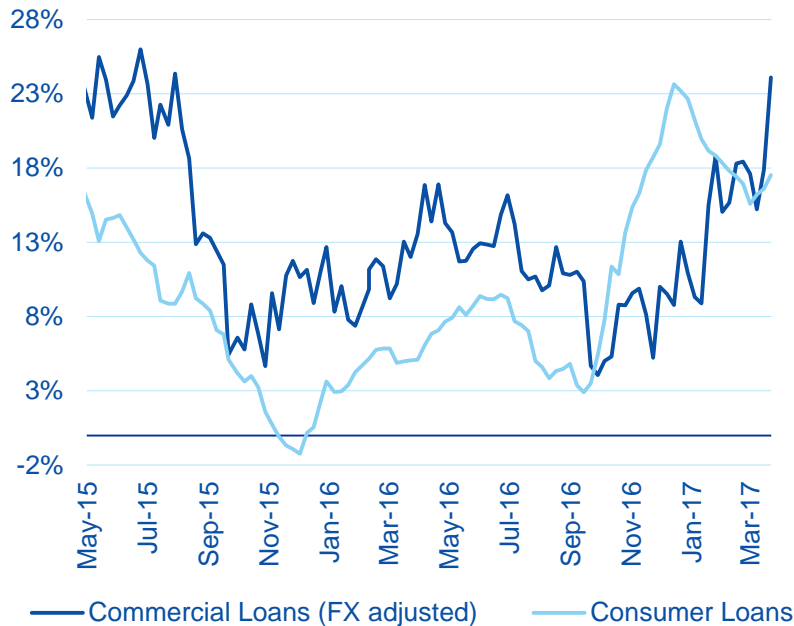


Loan Growth and Interest Rates

Despite the CBRT's significant monetary tightening year-to-date, financial conditions remain broadly accommodative thanks to the efforts of the economy management. Government's Credit Guarantee Fund keeps supporting the commercial loan growth rates.

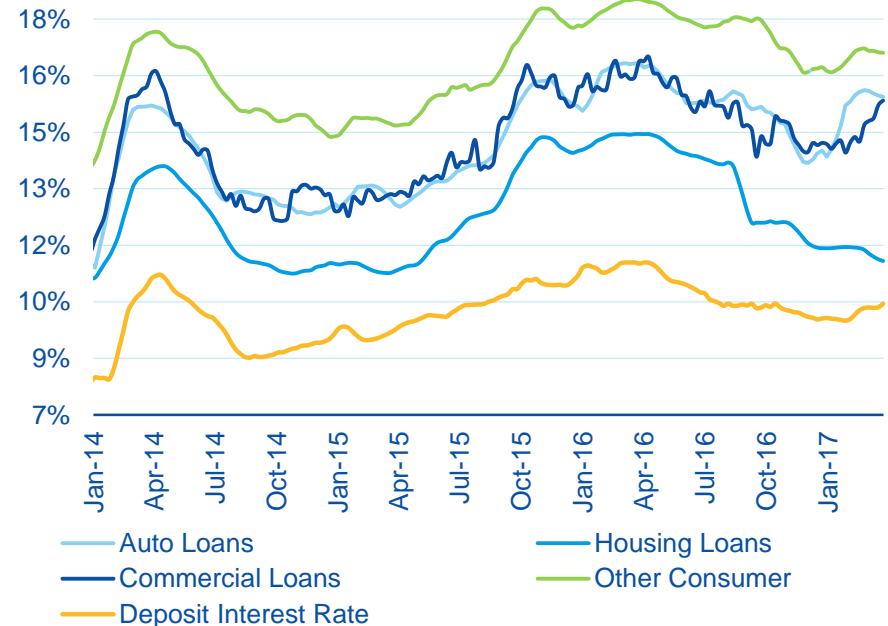
LOAN GROWTH RATES

13-week annualized



LOAN INTEREST RATES

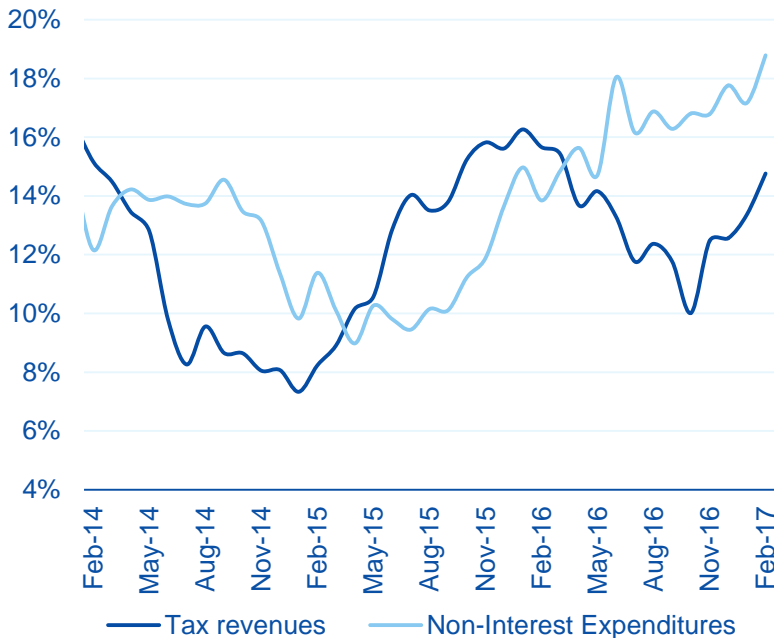
4-week average



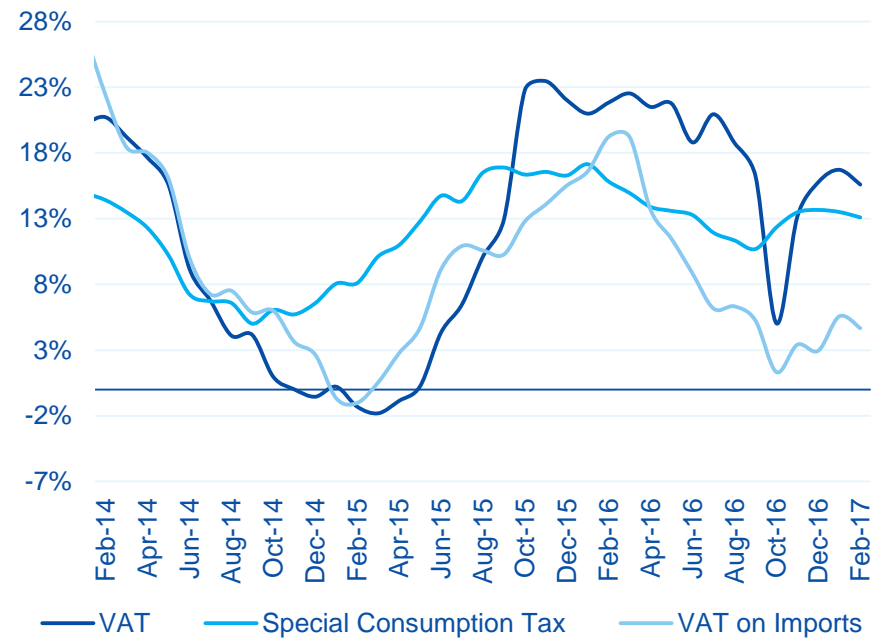
Fiscal Policy

Fiscal policy remains accommodative as non-interest expenditures has been rising significantly with current transfers, while tax revenues lost momentum due to the tax-cuts and below-potential domestic demand.

TAX REVENUES & NON-INTEREST EXPENDITURES
12-month sum, YoY Change



TAX REVENUES COMPOSITION
12-month sum, YoY Change

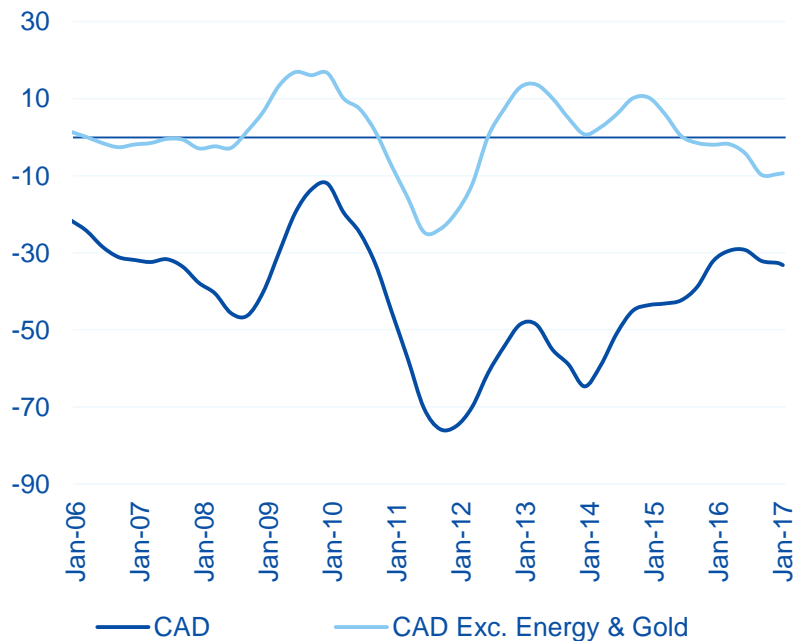


External Balance: CAB & Financing

Current account deficit was 3.8% of GDP in 2016. We expect a slight deterioration in 2017 mainly due to higher commodity prices and economic recovery. The financing in the last quarter was mostly through net FDI and net portfolio flows.

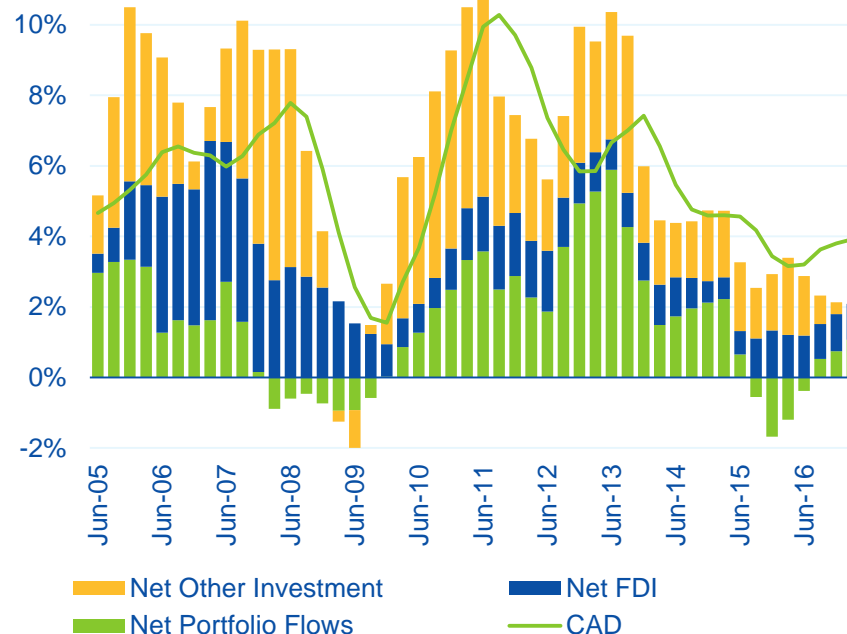
CURRENT ACCOUNT BALANCE

12-month sum, USD bn



CURRENT ACCOUNT NET FINANCING

12-month sum, % GDP



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Turkey

5 APRIL 2017

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