

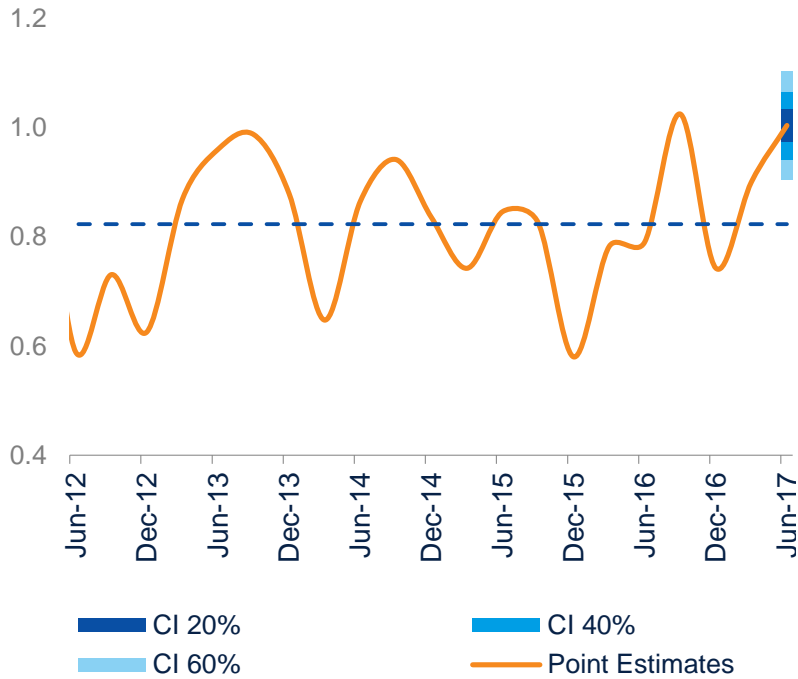
Monthly Economic Monitor Turkey

31 MAY 2017

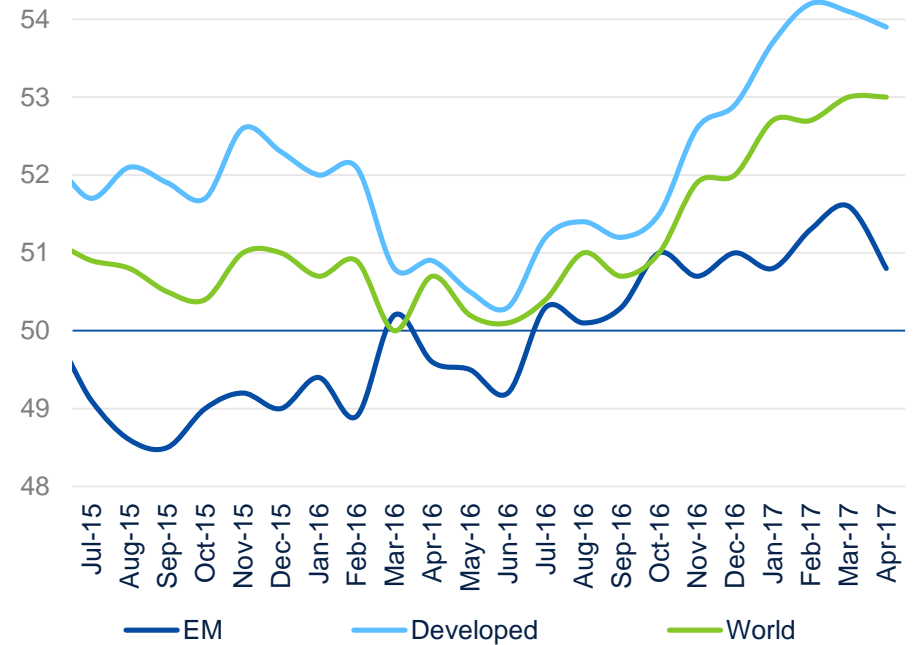


Global Developments

World GDP growth
(forecasts based on BBVA-gain, %, qoq)



World manufacturing PMI
(level)

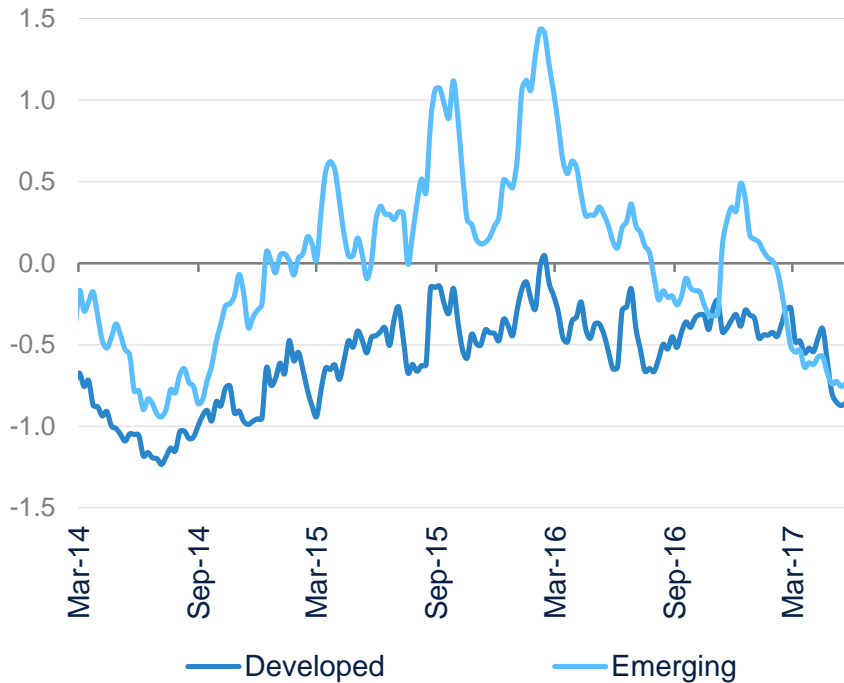


Source: Garanti Research, Bloomberg

Global growth is on track mostly thanks to developed economies, while there are some signs of cool down in EMs.

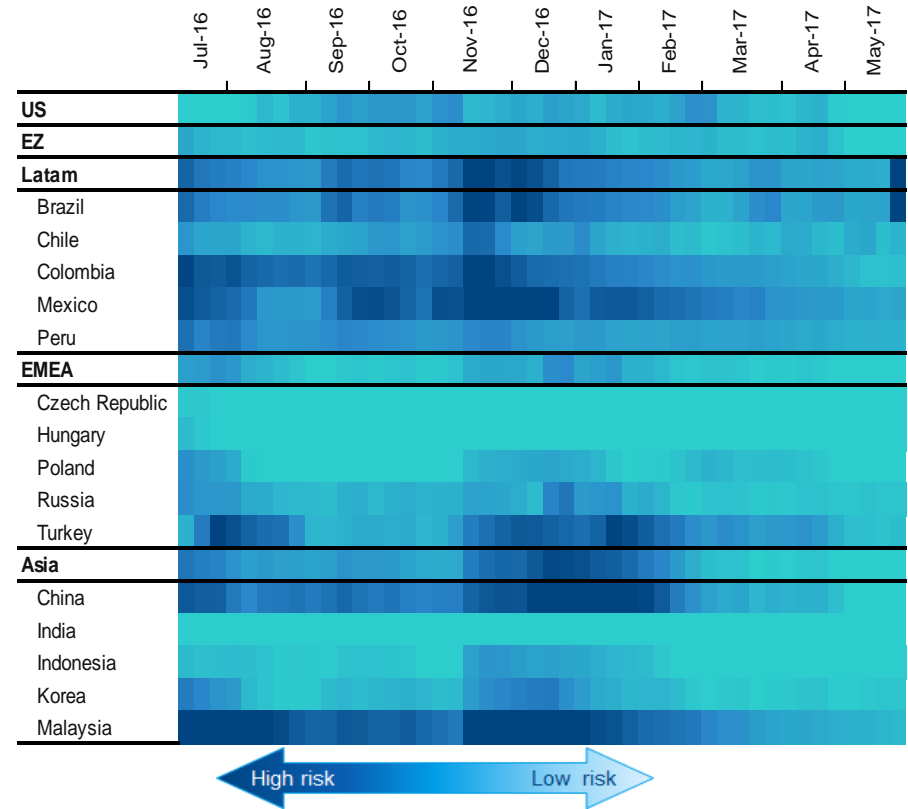
Global Financial Markets

BBVA research financial stress index
(normalized index)



Source: BBVA Research & Bloomberg

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



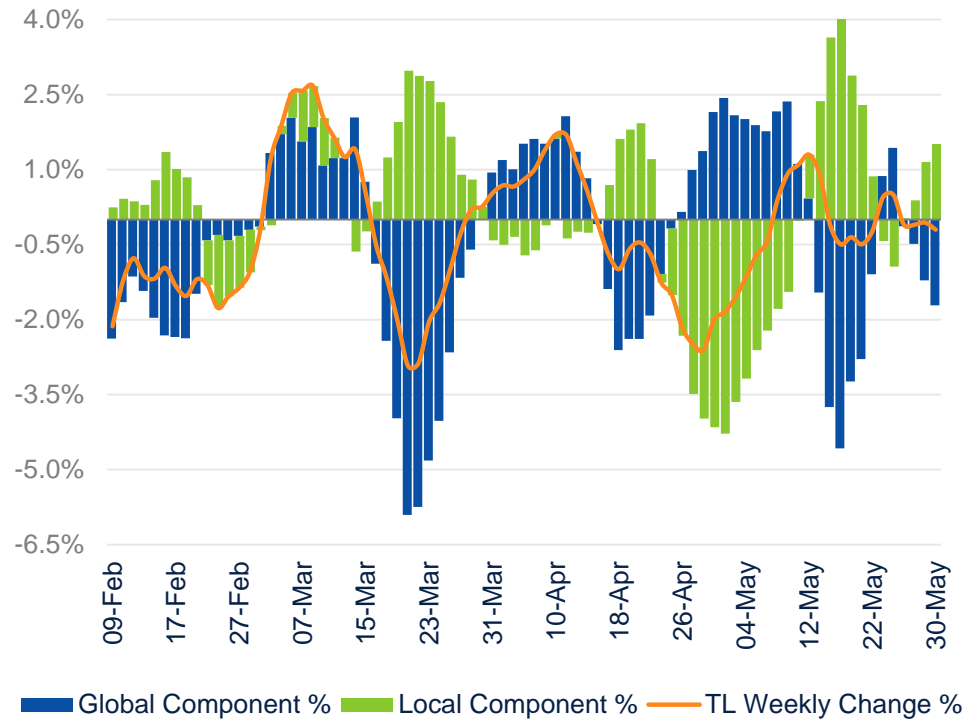
Overall global financial conditions continued to improve in May ignoring the political noise in Brazil and South Africa

Exchange Rate: USD/TL

USD/TL
(level)



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



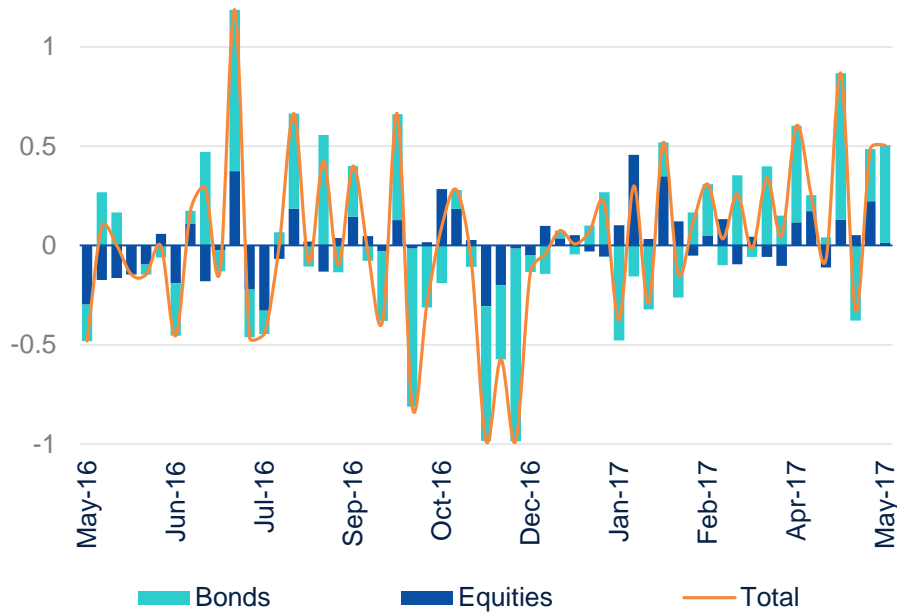
Source: Garanti Research, Bloomberg

Turkish lira was mostly stable during May as global and local components balanced each other

Flows to Turkish Assets and Interest Rates

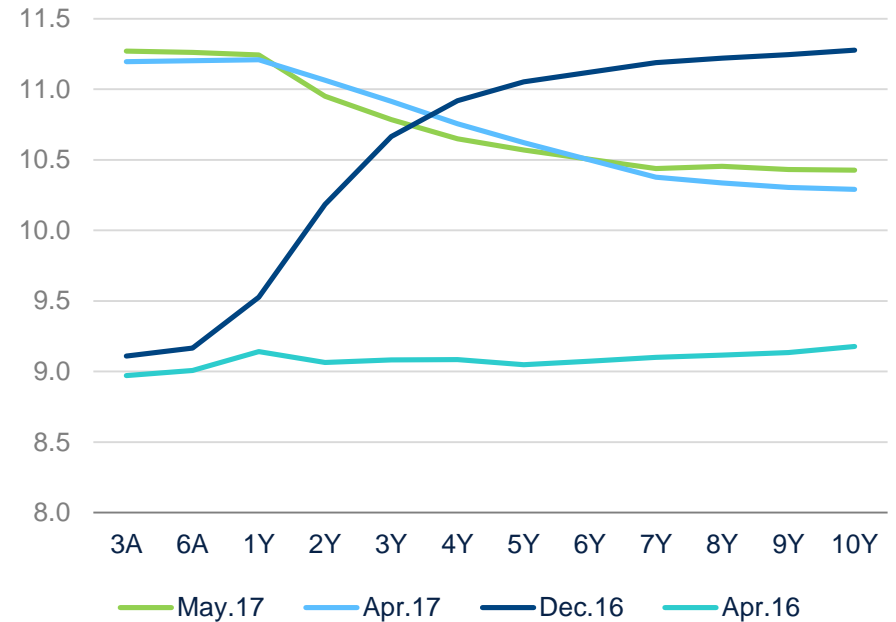
Flows to Turkish assets

level, bn TL



Yield curve

(%)



Source: Garanti Research, Bloomberg

Along with major emerging markets, Turkish financial markets continued to attract foreign inflows. The TL yield curve remained inverted due to the Central Bank's monetary tightening

Economic Activity: GDP

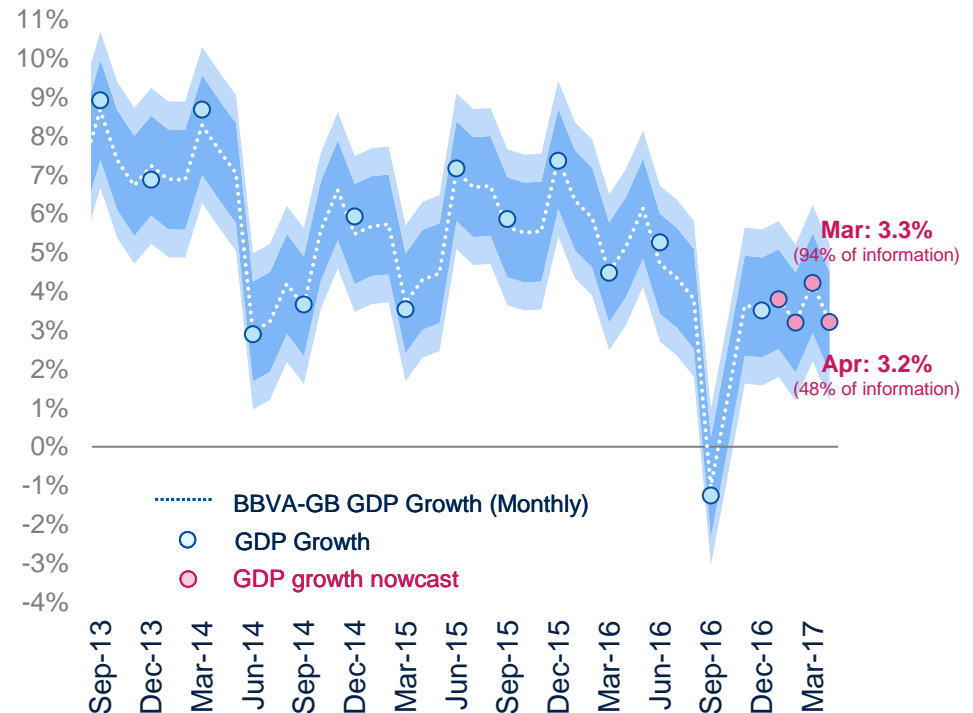
Activity indicators

(3 ma, yoy change, %)

Mean	2016				2017			
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial Production	3.6	-3.1	-0.3	0.4	2.0	3.3	12	18
Non-metal Mineral	12	-3.0	2.3	17	-10	-4.2	-6.9	-2.0
Electricity Production	4.3	3.1	3.3	3.3	6.2	7.4	8.0	8.0
Auto Sales	3.7	-15.2	3.4	24.1	10.2	6.4	-8.8	-7.5
Tourist Arrivals	-0.8	-36.0	-33.1	-28.2	-213	-14.8	-9.2	-6.4
Number of Employed	3.6	13	14	15	13	13	14	
Number of Unemployed	5.2	13.2	14.6	16.1	18.6	20.3	21.0	
Auto Imports	6.2	-10.2	9.0	31.7	16.4	11.1	-8.1	-12.7
Auto Exports	7.8	12.2	-16.5	-10.6	-1.7	33.5	30.2	33.5
Financial Conditions	74.6	88.6	92.6	80.1	73.6	59.0	42.6	38.3
Credit Growth-13Week	12.6	14.5	14.8	14.0	14.3	14.0	14.7	15.3
Retail Sales	4.0	-0.8	0.3	-0.5	-1.8	-2.3	-3.2	-2.3
Real Sector Confidence	107.2	106.6	104.9	108.2	103.9	100.6	106.2	106.5
MICA Forecast					3.8%	3.2%	4.2%	3.2%
GDP YoY	-1.3%				3.5%			
	Contraction		Slow-down		Growth		Boom	

Monthly GDP growth model

(yoy change, %)

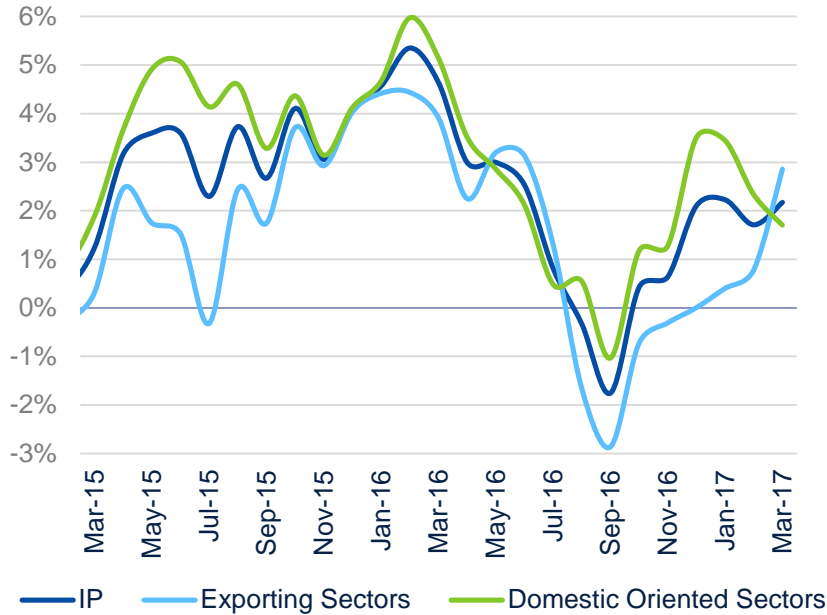


Source: Garanti Research, Turkstat, Bloomberg

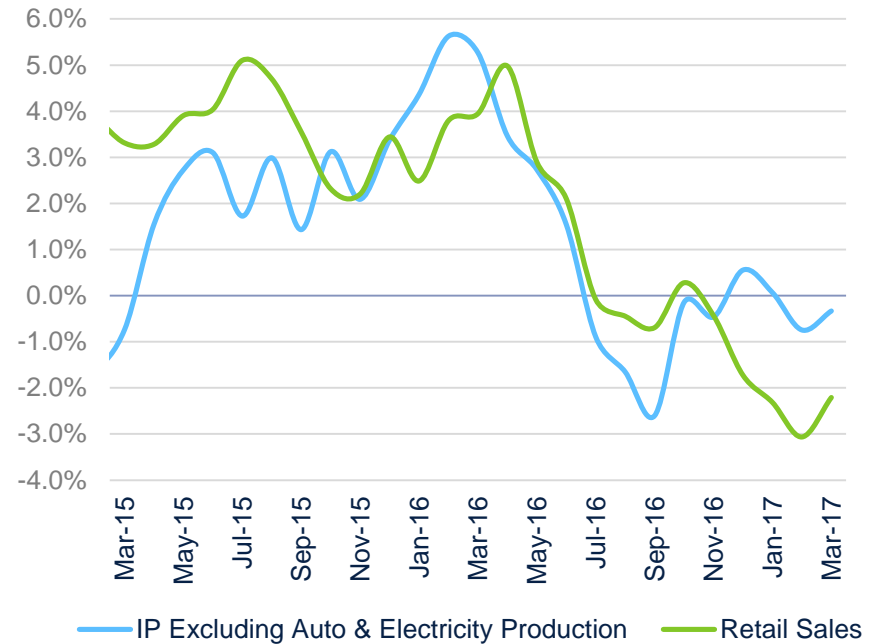
As the exports were solid and policy stimulus supported the economic activity, GDP growth in 1Q continued its moderate pace.

Economic Activity: Sectors

Sectors in industrial production (IP)
(3ma, calendar adj, yoy)



Retail sales & IP excluding auto & electricity production
(3ma, calendar adj, yoy)

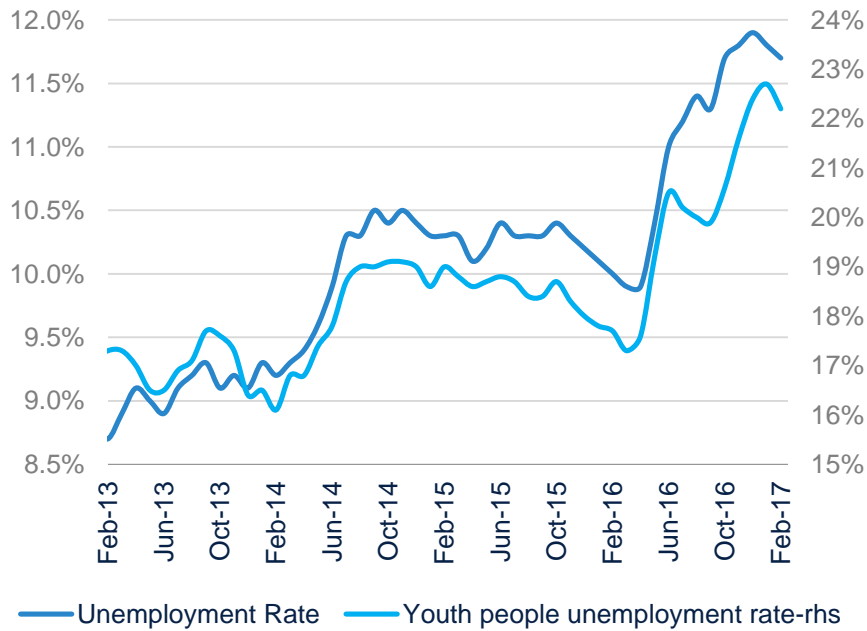


Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism

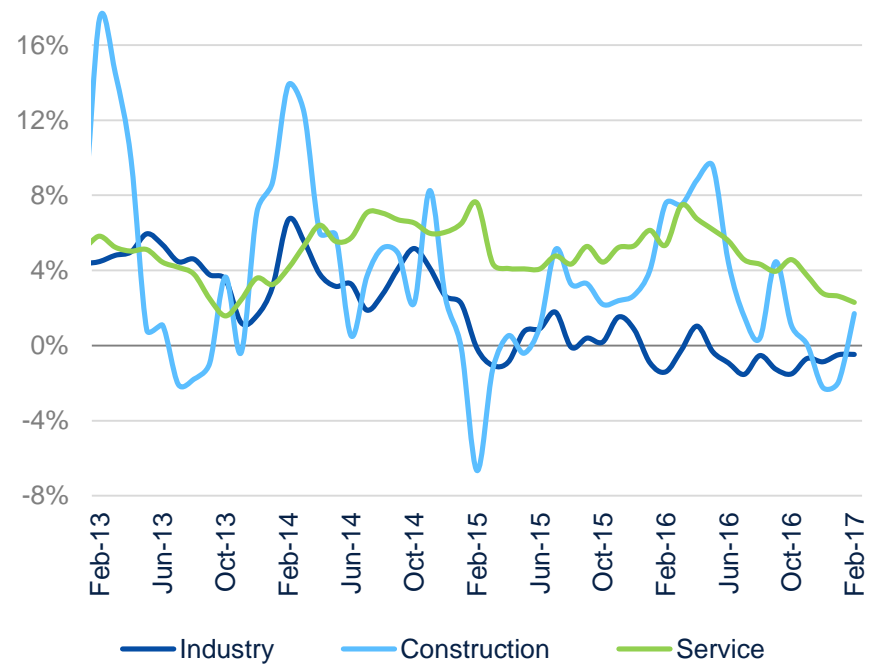
Exporting sectors became more supportive, reversing overall activity dynamics from the last quarter of 2016. Retail sales still remained weak, suggesting a growth carried out with net exports where private consumption softened.

Economic Activity: Employment

Unemployment & labor force part. rate
(sa)



Employment growth in sectors
(yoy)

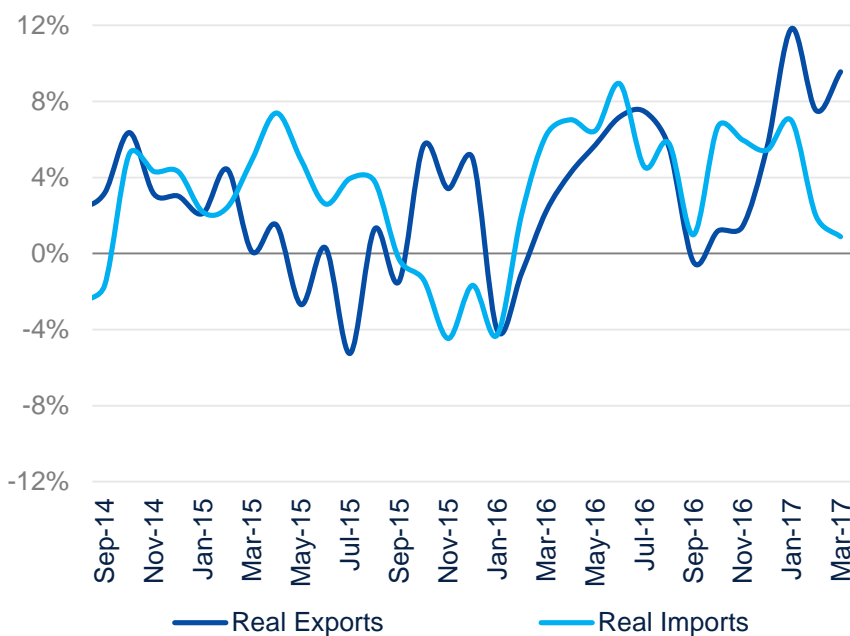


Source: Garanti Research, Turkstat

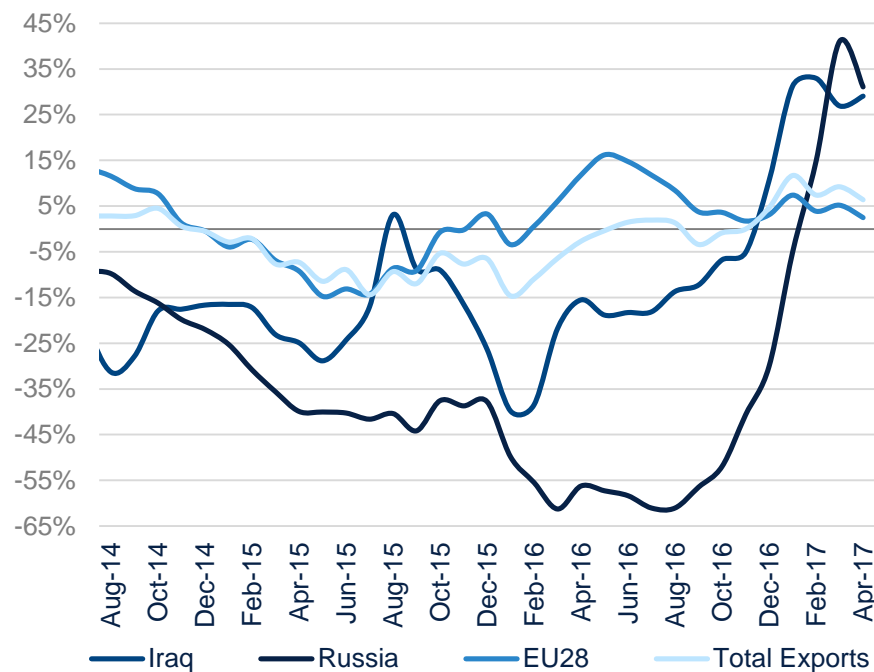
Unemployment rate started to ease slowly thanks to construction and agricultural sectors. Increasing trend in participation still poses risks on the unemployment outlook

Economic Activity: Trade

Foreign trade figures by volumes
(3ma, yoy change)



Foreign trade figures
(3ma, yoy change)



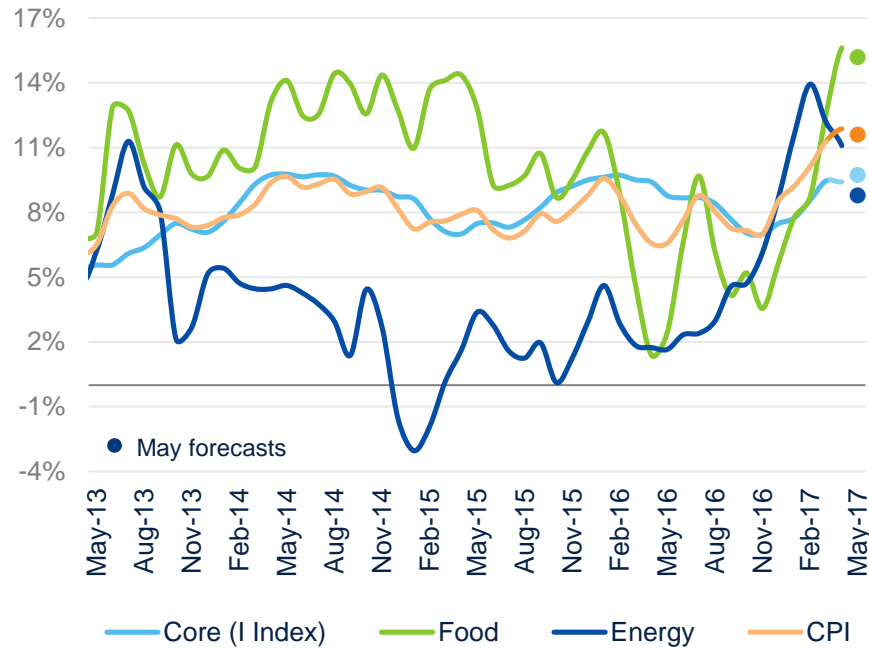
Source: Garanti Research, Turkstat

As the demand from our main partners started to strengthen, export performance increased significantly. Tourism revenues may follow the suit during the summer providing further support for economic recovery.

Inflation

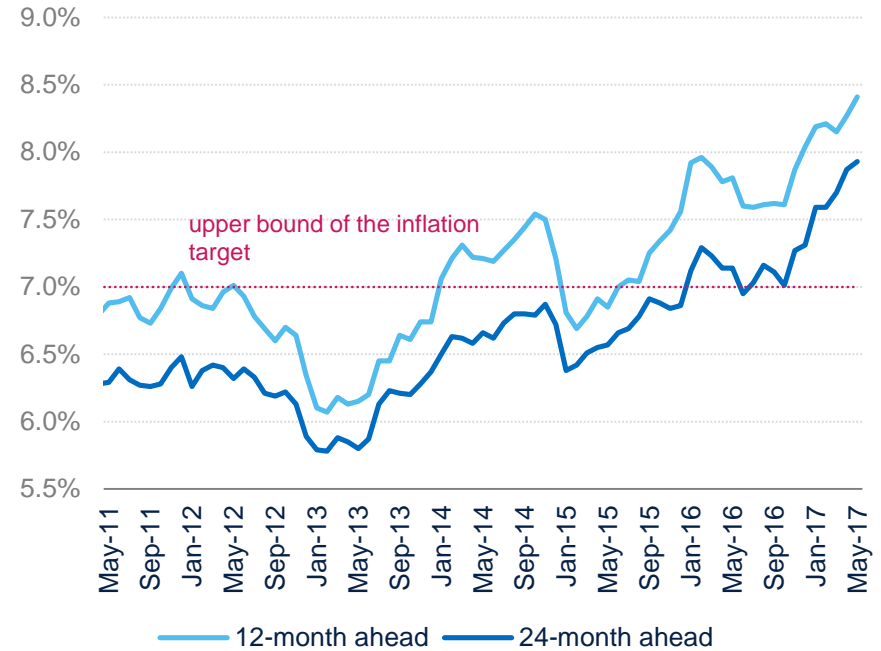
CPI & CPI components

yoy



CBRT Survey: Inflation expectations

yoy

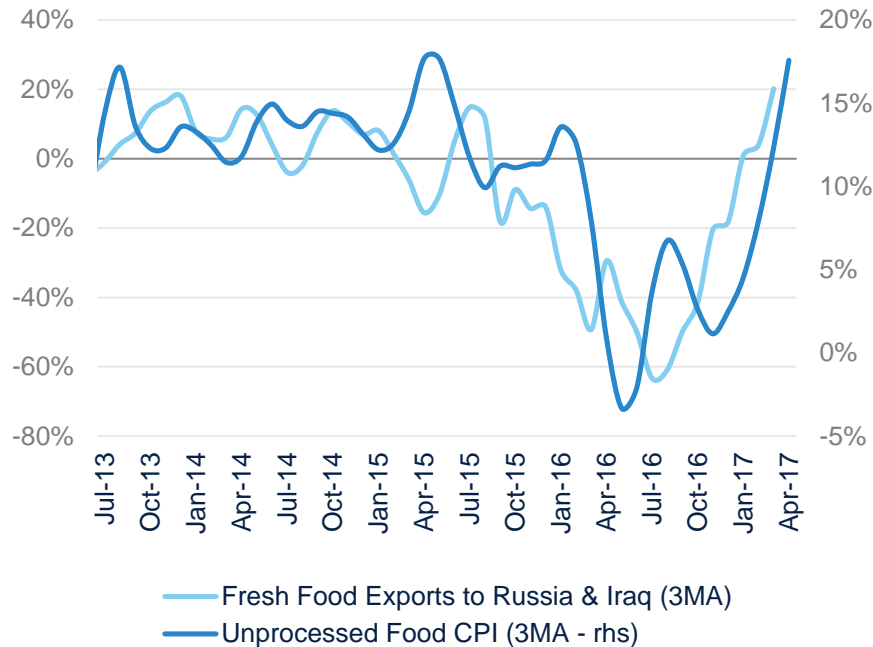


Source: Garanti Research, Turkstat, CBRT

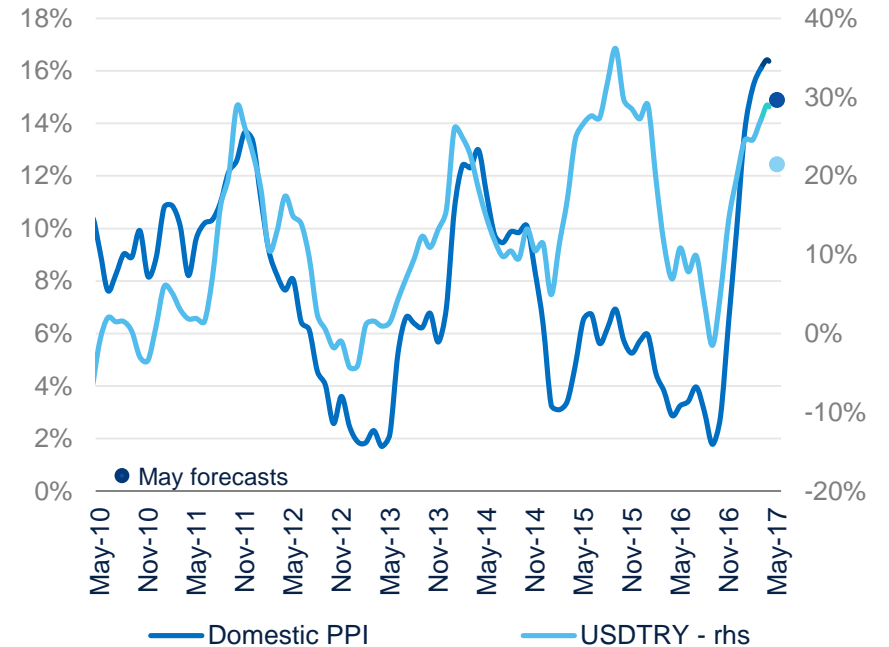
As food inflation continued its significant increasing trend, inflation reached further 11.9% in April. Inflation will ease during the summer as food base effects will turn favorable

Inflation

Unprocessed food CPI & fresh food exports to Russia & Iraq
3MA, YoY



Domestic PPI & USD/TRY
YoY

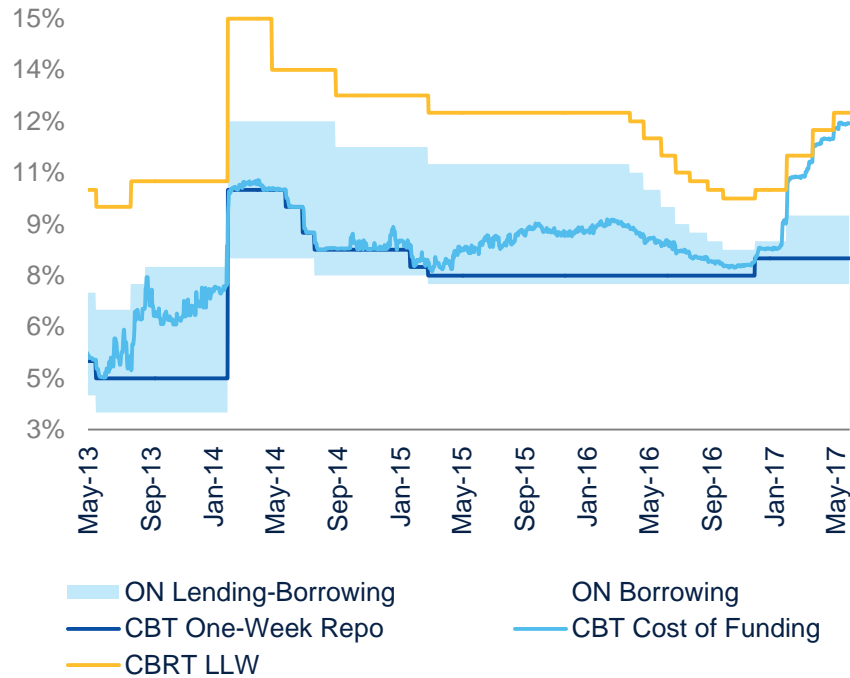


Source: Garanti Research, Turkstat, CBRT

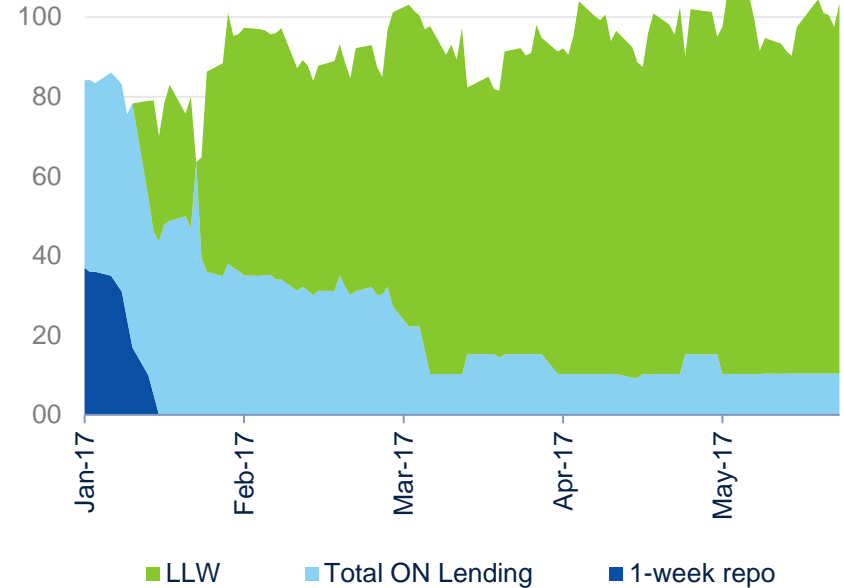
Increase in fresh food exports to our neighbour countries has been one of the important drivers of high food inflation

Monetary Policy

Interest rate corridor
(level)



CBRT funding composition
(level, TL bn)

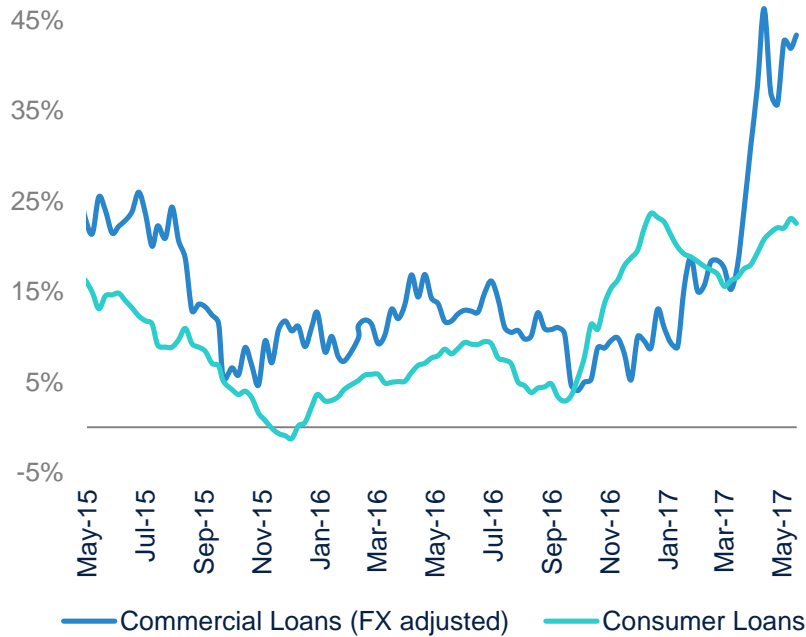


Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

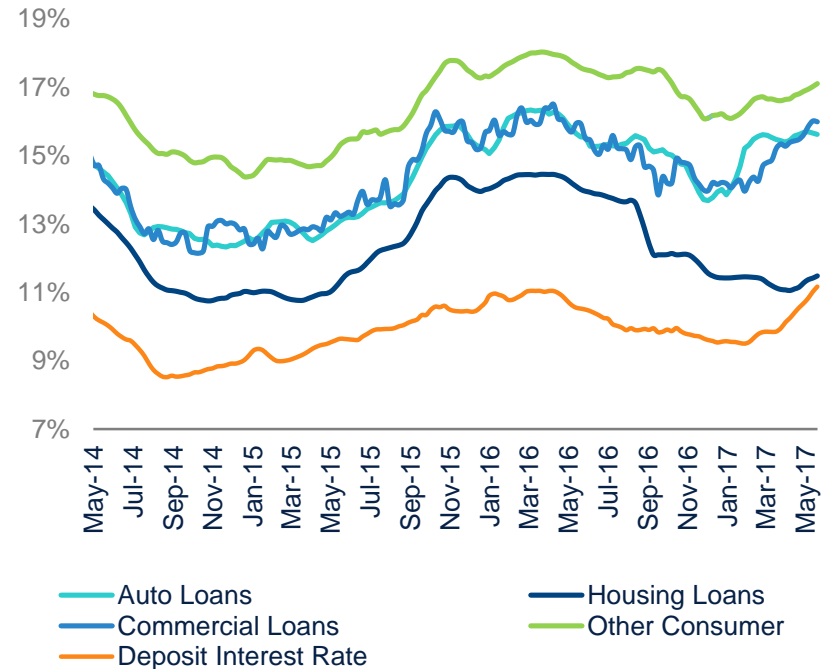
The CBRT continues its tight monetary policy and funds mostly via late liquidity window (LLW) and keeps the average funding rate close to 12%

Loan Growth and Interest Rates

Loan growth rates
(13-week annualized)



Loan interest rates
(4-week average)

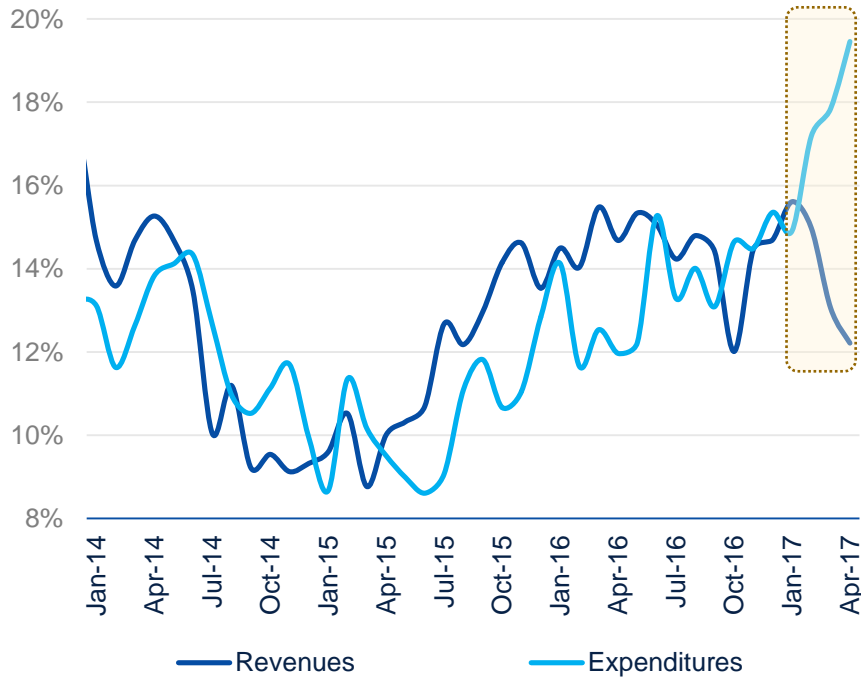


Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

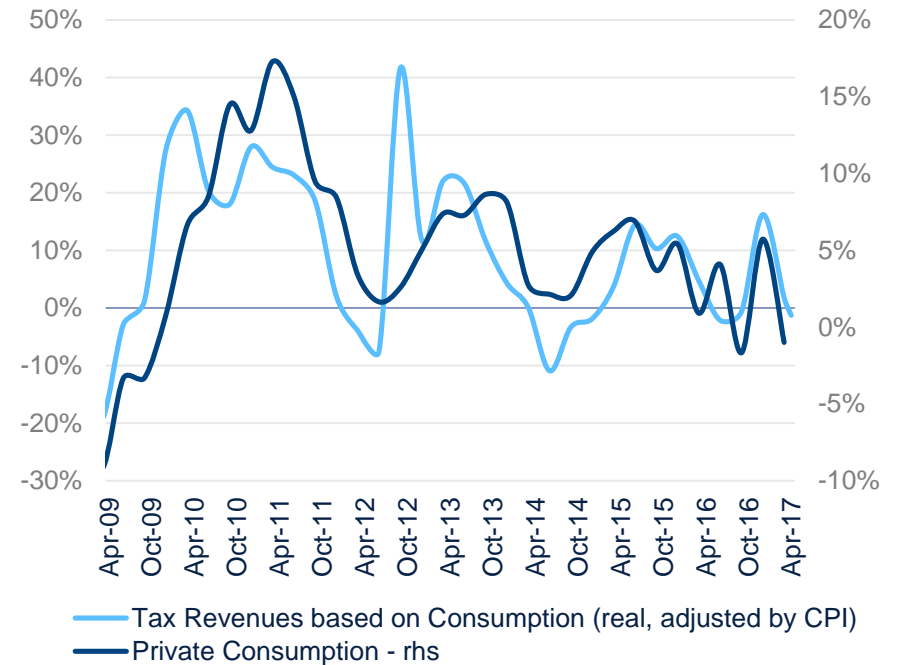
Government's Credit Guarantee Fund supports commercial loan growth while interest rates for loans and deposits increase in tandem

Fiscal Policy

Budget revenues & expenditures
12-month sum, YoY change



Tax revenues & private consumption
12-month sum, YoY change

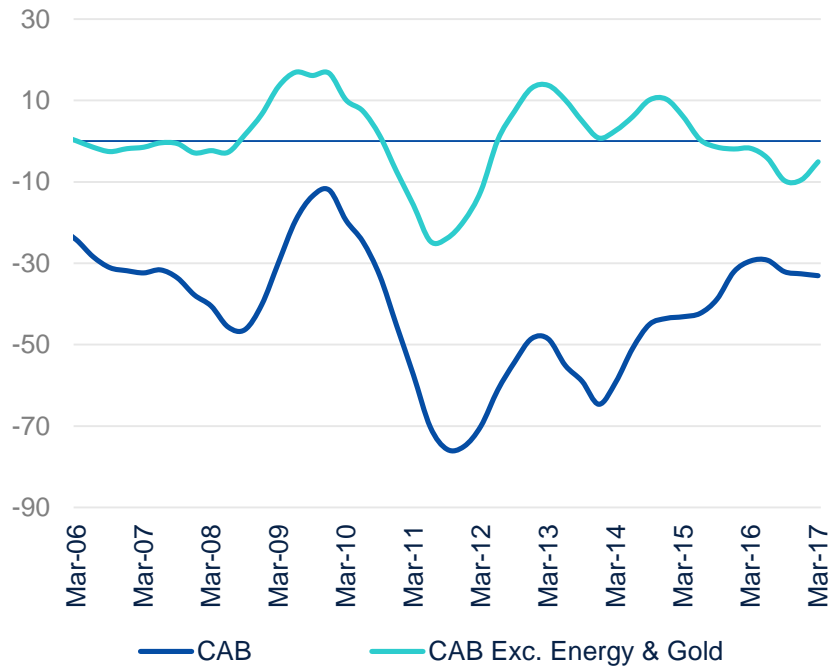


Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

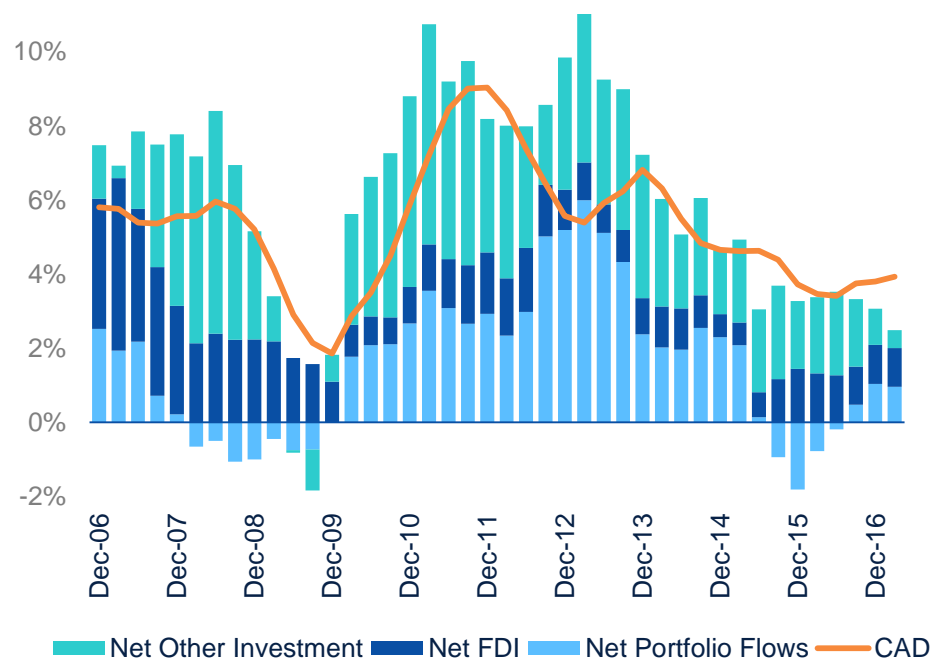
Budget figures deteriorated so far in 2017 on the back of increased fiscal stimulus and delayed social security premium payments. Revenue growth fell due to temporary tax cuts on furnitures and durable goods

External Balance: CAB & Financing

Current account balance
(12-month sum, USD bn)



Current account net financing
(12-month sum, % GDP)



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

Current account deficit widened slightly in 1Q17 as higher energy prices were partly mitigated by solid export growth. In financing, portfolio inflows took some share from the long-term debt financing.

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