

# 1. Editorial

**The global economic activity, although moderating somewhat, has continued to perform positively during recent quarters.** Robust figures were realised in advanced economies, especially in Europe, as the improvement has been broad-based across both demand components and countries, and standing above 2% in annualised terms. Beyond, there is also some support from the Chinese economy. **The US economy's performance in the first quarter of the year was somewhat worse than expected,** even though the key growth drivers have not substantially changed. Accordingly, **moving slowly with the monetary policy normalisation process accompanied by a better growth outlook in developing economies backed by the higher than expected performance of China.** All this has calmed the financial markets down so far, reducing their overall volatility. For net importer countries like Turkey, lower than expected energy and commodity prices is good news.

**The Turkish economy's "V" shaped recovery is well alive and the pace of the recovery gained momentum with the recent 5% GDP growth in 1Q, thanks to the acceleration in net exports, public spending as well as solid private consumption.** Our monthly GDP indicator suggests a **similar growth in 2Q supported by fiscal and macroprudential stimuli provided by the Credit Guarantee Fund.** The carry over for the second half of the year is wide (if the economy repeats the 5% growth in the 2Q, even zero quarterly growth rates during the rest of the year will result in a 5% growth for the whole year), thus posing our activity forecasts risks clearly on the upside. Overall, a **faster than expected growth rate during the first half impels us to upgrade our 2017 GDP growth forecast from 3% to a high but still cautious 5% growth rate in 2017.**

**The inflationary pressures will start to moderate as the increasing demand pressures would be compensated by lower energy prices and the slightly better performance of the Turkish lira.** Consumer price inflation started to recede after a peak in April with favorable base effects, a slight withdrawal in core prices and depressed energy prices. Although coming back to one-digit levels, inflation will remain elevated until the end of the year. **We maintain our 2017 year-end inflation forecast of 9.0%.**

**The high level of inflation and the Federal Reserve's (FED) more hawkish tone will maintain the Central Bank (CBRT) tight stance throughout the second half of the year, waiting for clearer signs of price moderation to return to a more neutral policy.** The CBRT's sizable tightening has helped to stabilize the exchange rate but inflation expectations remain far from anchored and the inflation rate is staying clearly above target. The CBRT will continue to rely on the Late Liquidity Window facility (LLW) to maintain its tight stance. Anyhow, **once inflation starts to ease off, the CBRT is likely to allocate an increasing amount of liquidity through the rest of its instruments in order to reduce the average funding cost.**

**The Government's countercyclical measures and the Credit Guarantee Fund started to pay off during the second quarter.** Annual credit growth increased substantially during the second quarter and the public balance has already started to deteriorate. We expect the budget deficit to GDP ratio to increase to 2.1% in 2017. **We believe that as long as the economy enters in a period of higher economic growth and employment recovery consolidates gradually** a greater prudence in the implementation of antycyclical measures should be imposed.

**The rest of the risks are balanced.** The FED remains stuck to its initial plans, which will challenge the EM Central Banks in as far as changing interest rates and maintaining exchange rates under control. Beyond this, the end of the uncertainties following the April referendum and the current high momentum of economic recovery would create room for the Government to focus on economic reforms. On the other hand, the usual challenges still persist. The new election cycle and complex geopolitical region are still key issues to be monitored.

## DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Its reproduction, transformation, distribution and public communication is forbidden. As is its making available, extraction, reuse, forwarding for use of any nature by any means or process, except in cases where it is legally permitted or expressly authorised by BBVA.

This report has been produced by the Turkey, China and Geopolitics Unit

**Chief Economist for Turkey, China and Geopolitics Unit**

Alvaro Ortiz  
alvaro.ortiz@bbva.com

**Deniz Ergun**  
denizerg@garanti.com.tr  
+90 212 318 10 59

**Asuman Kemiksiz**  
asumankem@garanti.com.tr  
+90 212 318 10 58

**Seda Güler**  
sedagul@garanti.com.tr  
+90 212 318 10 64

**Ali Batuhan Barlas**  
Alibarl@garanti.com.tr  
+90 212 318 10 67

**Yiğit Engin**  
yigite@garanti.com.tr  
+90 212 318 10 60

**Gizem Önen**  
Gizemon@garanti.com.tr  
+90 212 318 10 57

## BBVA Research Group Chief Economist

Jorge Sicilia Serrano

### Macroeconomic Analysis

Rafael Doménech  
r.domenech@bbva.com

#### Global Macroeconomic Scenarios

Miguel Jiménez  
mjimenezg@bbva.com

#### Global Financial Markets

Sonsoles Castillo  
s.castillo@bbva.com

#### Global Modelling & Long Term Analysis

Julián Cubero  
juan.cubero@bbva.com

#### Innovation & Processes

Oscar de las Peñas  
oscar.delaspenas@bbva.com

### Financial Systems & Regulation

Santiago Fernández de Lis  
sfernandezdelis@bbva.com

#### Countries Coordination

Olga Cerqueira  
olga.gouveia@bbva.com

#### Digital Regulation

Álvaro Martín  
alvaro.martin@bbva.com

#### Regulation

María Abascal  
maria.abascal@bbva.com

#### Financial Systems

Ana Rubio  
arubiog@bbva.com

#### Financial Inclusion

David Tuesta  
david.tuesta@bbva.com

### Spain & Portugal

Miguel Cardoso  
miguel.cardoso@bbva.com

### United States of America

Nathaniel Karp  
Nathaniel.Karp@bbva.com

### Mexico

Carlos Serrano  
carlos.serranoh@bbva.com

### Turkey, China & Geopolitics

Álvaro Ortiz  
alvaro.ortiz@bbva.com

#### Turkey

Álvaro Ortiz  
alvaro.ortiz@bbva.com

#### China

Le Xia  
le.xia@bbva.com

### South America

Juan Manuel Ruiz  
juan.ruiz@bbva.com

#### Argentina

Gloria Sorensen  
gsorensen@bbva.com

#### Chile

Jorge Selaive  
jselaive@bbva.com

#### Colombia

Juana Téllez  
juana.tellez@bbva.com

#### Peru

Hugo Perea  
hperea@bbva.com

#### Venezuela

Julio Pineda  
juliocesar.pineda@bbva.com

CONTACT DETAILS: BBVA Research: Azul Street, 4. La Vela Building - 4 and 5 floor. 28050 Madrid (Spain). Tel.:+34 91 374 60 00 y +34 91 537 70 00 / Fax:+34 91 374 30 25 - bbvaresearch@bbva.com www.bbvaresearch.com