

Main Economic & Financial Indicators Turkey

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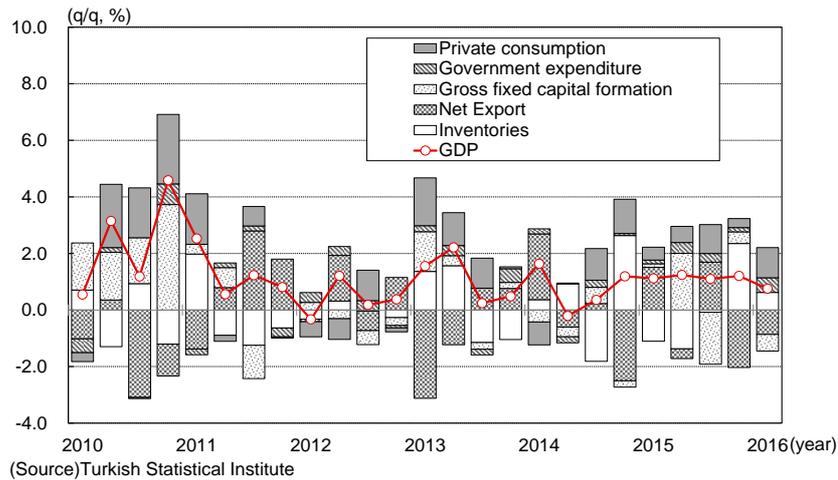
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1. Overview

Turkey's economy remains resilient, but deep-rooted uncertainty about the future continues due to geopolitical risks. Real GDP growth in the first quarter of 2016 was robust, despite its deceleration to 0.8% q/q from 1.2% q/q the previous quarter (Chart 1). Private consumption growth accelerated to 1.6% q/q owing to the rise in minimum wages by 30% in January and the lower inflation rate. Nevertheless, a significant decrease of 2.5% q/q in gross fixed capital formation put downward pressure on overall growth. In particular, private sector fixed investment fell by 5.1% q/q. The increase in labour costs due to the minimum wage hike (the labour cost index rose by 21.0% y/y in Q1) and uncertainties surrounding the future of the global economy appear to be factors in the suppression of business investment. While exports increased by 2.8% q/q, particularly those destined for Europe, imports grew at a faster pace, rising 5.8% q/q, due to increased domestic demand centring on private consumption. As a result, net exports dragged down overall GDP growth.

It seems that private consumption will continue to underpin Turkey's economy in the coming months. Consumer confidence has improved on the back of the minimum wage hike, an improved unemployment rate and the lower inflation rate, indicating that the robust growth of private consumption will continue. However, the minimum wage hike has put pressure on businesses, especially small and medium-sized companies. Business investment will also be constrained by the rise of foreign and domestic geopolitical risks. In addition, a decrease in tourism revenue due to anxiety about terrorism is another factor which has put downward pressure on Turkey's economy. Furthermore, there is a concern that the UK's vote to leave the EU at a referendum on 23rd June will have an impact on Turkey. Economic impact stemming from uncertainty surrounding the UK leaving the EU is not just limited to the UK, Europe as a whole is expected to take a downturn; 45% of Turkish exports go to the EU. Additionally, growing global risk aversion on the back of UK's vote to leave the EU may lead to heightened risks of lira depreciation and a rise in import inflation.

Chart 1: Real GDP



2. Output

In April, industrial production experienced its lowest growth since July 2015: 0.7% y/y. It is likely that production will continue to lack momentum in the coming months. The Purchasing Managers' Index (PMI) for the manufacturing sector was 49.4 in June, remaining below 50 – which marks the division between expansion and contraction – for the third consecutive month.

3. Labour Market, Consumer Confidence

Turkey's unemployment rate was 9.7% in March, falling to its lowest level since 2014 (Chart 2). The Consumer Confidence Index recovered due to the lower inflation rate, the minimum wage hike and the low unemployment rate; in June it rose for the fourth consecutive month. However, it is thought that downside risks such as terror attacks will continue.

4. Prices

The Consumer Price Index peaked at 9.6% y/y in January, it fell to 6.6% y/y in April, the lowest level since 2013 (Chart 3) and then remained flat in May. Deceleration in the food price inflation is the main cause of the slowing down of overall prices. This is owing to the drop-out of the effect of a sharp rise in food prices in the period from 2014 to 2015 due to bad weather. Stabilisation of the lira since the start of 2016 also contributed to the deceleration. Furthermore, the core inflation rate (excluding food items and energy) fell from its recent peak of 9.7% in February to 8.8%. However, the pace of deceleration of the core inflation rate has been moderate compared to overall consumer prices due to the fact that service prices remain elevated, especially in accommodation and food and drink.

Chart 2: Unemployment Rate, Consumer Confidence

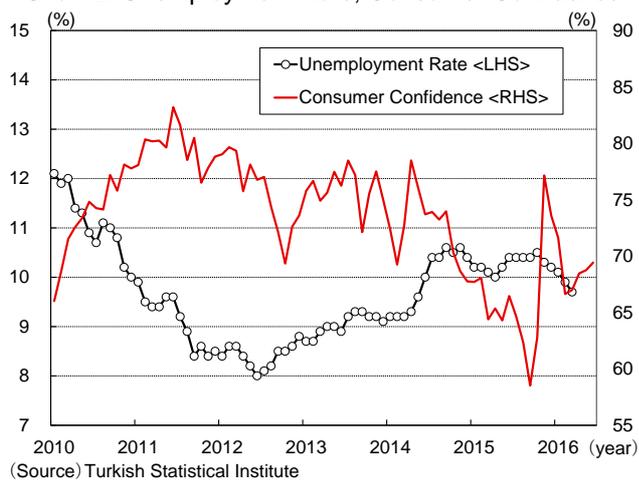
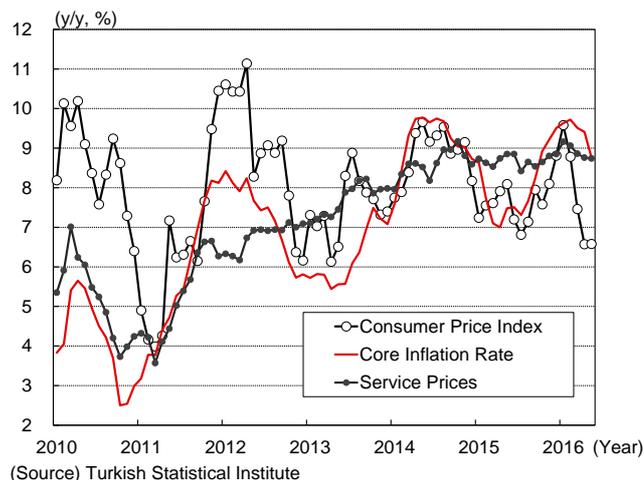


Chart 3: Consumer Prices



5. Policy Rate

The Central Bank of the Republic of Turkey (TCMB) lowered its overnight lending rate, which is at the upper limit of its policy rate range, from 9.5% to 9.0% (Chart 4). Since it was lowered in March, the overnight lending rate has been lowered once a month over the four subsequent months. The one-week repo rate and the overnight borrowing rate remain at 7.5% and 7.25% respectively. After its monetary policy committee meeting, the TCMB said: “inflation has displayed a marked decline in recent months, mainly due to unfavourable course of unprocessed food prices and the improvement in the core inflation trend. However, the developments in services inflation and unit labour costs necessitate the maintenance of a tight liquidity stance.”

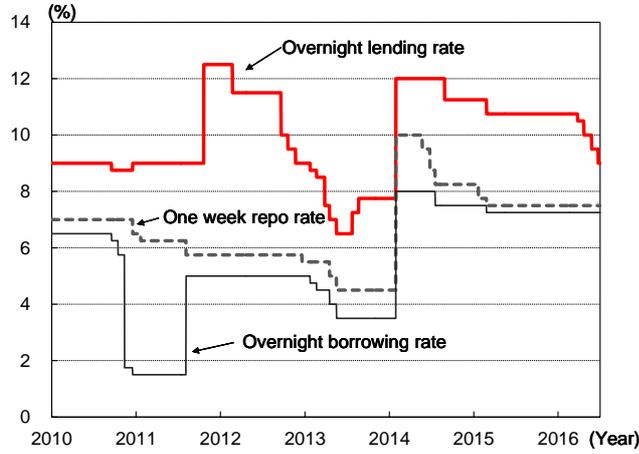
6. Balance of Payments

The current account deficit was US\$7.8 billion in Q1, decreased from US\$10.5 billion in the same quarter of the previous year (Chart 5). A breakdown of this figure reveals that a contributing factor to the decrease was the goods trade deficit, which fell to US\$8.2 billion from US\$11.5 billion the previous year on the back of reduced imports due to a fall in oil prices. On the other hand, the amount of surplus in the balance on services decreased to US\$1.8 billion from US\$3.0 billion the previous year because of a fall in the number of tourists after economic sanctions by Russia and the terrorist attacks which occurred in Turkey. The number of foreign visitors to Turkey fell significantly by 34.7% in May, which is the most recent figure, and tourism revenue is forecast to decrease further in Q2 this year.

On 27th June, the Turkish president, Recep Tayyip Erdoğan, expressed regret over the downing of Russian military aircraft in November last year by Turkish forces. This may lead to a possibility that relations between Turkey and Russia will improve and economic sanctions may be lifted, including those related to tourism. However, there are no signs of an improvement in any of the factors contributing to a downward effect on the overall number of tourists, such as anxiety about terrorism, and it is likely that the surplus in the balance on services will contract in the coming months. With regards to the trade deficit, imports appear to maintain resilient growth on the back of a bottoming out of oil prices and

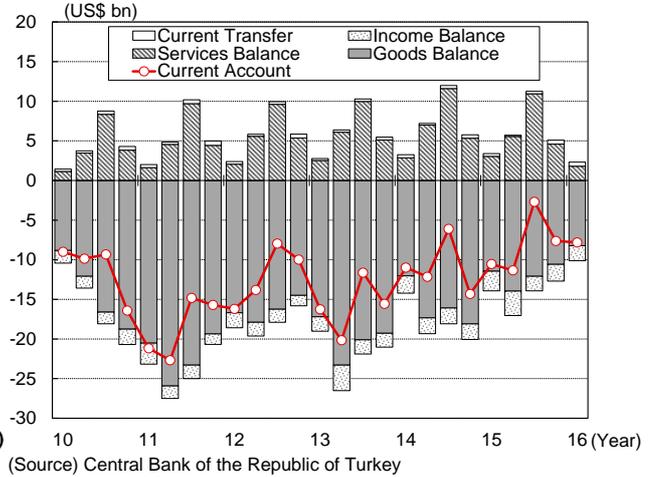
robust domestic demand. In light of factors such as a possible downward pressure on exports owing to a softening of European demand – particularly the UK – there is a limited margin for contraction in goods trade deficit and it is probable that any improvements in the current account will come to a standstill.

Chart 4: Policy rates



(Source) Central Bank of the Republic of Turkey

Chart 5: Current Account



(Source) Central Bank of the Republic of Turkey

Turkey

1. Annual and quarterly data

		2013	2014	2015	15/Q2	Q3	Q4	16/Q1	Q2
GDP (at current prices)	(US\$ bn)	822.1	798.8	716.4	180.9	182.1	174.3	169.6	-
Real GDP growth	(% q/q)	4.2	798.8	716.4	1.2	1.1	1.2	0.8	-
	(% y/y)	0.0	3.0	4.0	3.8	5.0	4.6	4.5	-
(Private consumption)	(% q/q)	5.1	0.0	0.0	0.9	1.5	0.5	1.6	-
	(% y/y)	0.0	1.4	4.5	5.5	4.5	3.8	5.0	-
(Gross fixed capital formation)	(% q/q)	4.4	0.0	0.0	8.6	-7.3	1.8	-2.5	-
	(% y/y)	0.0	-1.3	3.6	10.0	0.0	3.5	-0.1	-
Industrial production	(% y/y)	3.5	3.5	3.1	3.6	3.2	4.3	4.7	-
Consumer confidence index		76.0	72.5	66.3	65.4	61.8	71.2	68.4	68.9
Retail Sales	(% y/y)	4.1	3.8	3.6	4.0	3.3	3.7	4.0	-
Bank credits to the private sector	(% y/y)	33.3	19.3	19.3	25.0	24.9	19.3	13.7	-
Consumer price index	(% y/y)	7.5	8.9	7.7	7.7	7.3	8.2	8.6	-
Gross Wages growth	(% y/y)	14.4	15.6	13.7	14.0	14.2	12.7	18.8	-
Unemployment rate	(%)	9.0	10.0	10.3	10.2	10.4	10.3	9.9	-
Trade balance	(US\$ mn)	-99,859	-84,567	-63,392	-18,062	-15,864	-14,207	-12,106	-
Exports	(US\$ mn)	151,803	157,610	143,844	36,380	33,734	36,676	34,685	-
Export growth	(% y/y)	-0.4	3.8	-8.7	-8.9	-12.0	-6.5	-6.4	-
Imports	(US\$ mn)	251,661	242,177	207,236	54,442	49,598	50,883	46,791	-
Import growth	(% y/y)	6.4	-3.8	-14.4	-12.7	-17.4	-18.4	-10.6	-
Current account	(US\$ mn)	-63,608	-43,552	-32,199	-11,343	-2,691	-7,624	-7,822	-
Capital and financial balances	(US\$ mn)	-73,155	-41,664	-11,009	-5,777	560	-2,862	-7,617	-
Foreign direct investment	(US\$ mn)	12,384	12,523	16,825	2,885	6,138	3,571	2,147	-
Foreign reserves	(US\$ mn)	110,927	106,906	92,921	100,752	101,536	92,921	95,706	-
External debt	(US\$ mn)	390,167	402,431	397,872	405,357	407,218	397,872	411,502	-
Stock price index		78,004	75,217	80,632	83,186	76,952	77,353	74,943	-
Interbank overnight borrowing rate		6.42	10.22	11.17	11.12	11.32	11.29	11.26	10.35
TRY/USD		1.91	2.19	2.73	2.67	2.86	2.91	2.94	-
TRY/Euro		2.53	2.91	3.02	2.95	3.18	3.19	3.24	-
TRY/GBP		2.98	3.60	4.17	4.09	4.42	4.41	4.21	-

2. Monthly data

		15/11	12	01/16	2	3	4	5	6
Industrial production	(% y/y)	3.6	4.6	5.5	5.9	3.0	0.7	-	-
Consumer confidence index		77.1	73.6	71.6	66.6	67.0	68.5	68.8	69.4
Retail Sales	(% y/y)	3.7	3.6	0.1	8.0	4.0	5.0	6.0	0.0
Bank credits to the private sector	(% y/y)	21.9	19.3	18.2	16.4	13.7	11.3	12.7	-
Consumer price index	(% y/y)	8.1	8.8	9.6	8.8	7.5	6.6	6.6	-
Unemployment rate	(%)	10.3	10.2	10.1	9.9	9.7	-	-	-
Trade balance	(US\$ mn)	-4,290	-6,240	-3,903	-3,205	-4,998	-4,225	-5,054	-
Exports	(US\$ mn)	11,683	11,753	9,550	12,370	12,765	11,964	12,140	-
Export growth	(% y/y)	-10.6	-11.4	-22.4	1.1	2.0	-10.4	9.6	-
Imports	(US\$ mn)	15,973	17,992	13,453	15,575	17,762	16,189	17,194	-
Import growth	(% y/y)	-25.3	-17.4	-19.2	-8.1	-5.1	-11.9	-3.8	-
Stock price index		80,318	73,452	71,209	73,165	79,975	84,563	78,486	-
Interbank overnight borrowing rate		11.28	11.29	11.29	11.28	11.22	10.84	10.38	9.85
TRY/USD		2.88	2.92	3.01	2.94	2.89	2.84	2.94	-
TRY/Euro		3.08	3.18	3.27	3.26	3.21	3.21	3.32	-
TRY/GBP		4.37	4.38	4.33	4.21	4.11	4.06	4.27	-

TRY: Turkish New Lira

Source: Central Bank of the Republic of Turkey, Turkish Statistic Office etc.

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