



GDP Growth - 2nd Quarter of 2015

Economic Research Division

TÜRKİYE BANKASI

2nd quarter growth came in above the expectations.

Year-on-year expansion in Turkish economy for the second quarter of 2015 was recorded as 3.8%, above the expectations. The markets expected an annual economic growth of 3.5% for this period according to Reuters' survey. The 1st quarter growth rate was revised up to 2.5% from 2.3%. In the first half of the year, on the other hand, economy grew by 3.1% compared to the same period of the previous year.

While no calendar effects were observed during the second quarter of the year, seasonal and calendar adjusted GDP posted a quarterly expansion of 1.3%, offering a positive assessment of the economic outlook. However, it was noteworthy that GDP per capita diminished to the 10 thousand USD level.

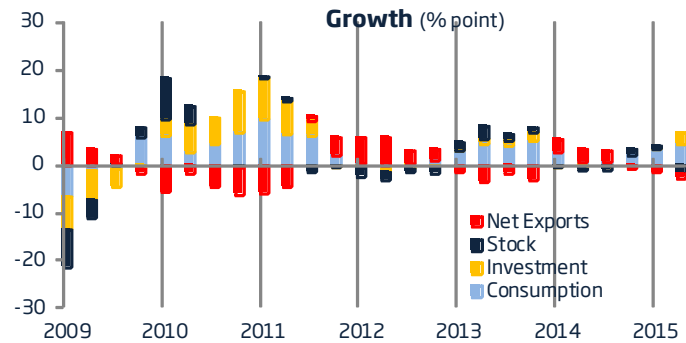
GDP Figures (1998 prices)

| Dönem | Calendar Adjusted GDP (yoy % change) | Seasonally and Calendar Adjusted GDP (qoq % change) |
|---------|---|---|
| 2013 Q1 | 3.6 | 1.6 |
| 2013 Q2 | 4.3 | 2.0 |
| 2013 Q3 | 4.1 | 0.3 |
| 2013 Q4 | 4.7 | 0.7 |
| 2014 Q1 | 5.0 | 1.5 |
| 2014 Q2 | 2.6 | -0.2 |
| 2014 Q3 | 1.8 | 0.4 |
| 2014 Q4 | 2.6 | 1.0 |
| 2015 Q1 | 2.6 | 1.5 |
| 2015 Q2 | 3.8 | 1.3 |

Domestic demand gained momentum in the 1st half.

Having exhibited a relatively weak outlook throughout 2014, domestic demand conditions recovered in the first half of 2015. Indeed, during the 2nd quarter of the year, private and public consumption expenditures contributed to

Expenditure Approach - Contribution to GDP



the growth by 3.6 pp and 0.8 pp, respectively. Hence, total consumption expenditures added 4.4 pp to the growth, the highest level in six quarters. It was seen that consumption expenditures made the highest contribution to the growth in the first half of the year as well.

A fast increase in private investments...

The 11.4% annual rise in private investment expenditures had a significant impact on the better-than expected GDP figures in the second quarter. With the help of the slight increase in public investments, total investment expenditures added 2.4 pp to the growth. This was the highest reading since the 3rd quarter of 2011.

Net exports continued to drag down the growth.

In contrast to the better-than expected consumption and investment expenditures, 2nd quarter GDP growth was dragged down considerably by net exports and change in stock.

Net exports put downward pressure on GDP growth in the 2nd quarter of the year as was the case in the previous quarter. Thus, net exports lowered GDP growth in the first half of the year by 1.2 pp. Despite the decline in foreign trade deficit in USD terms, the depreciation in TRY as well as the weak performance of tourism revenues was influential on this development.

Expenditure Approach - Contributions to GDP Growth (1998 prices)

| | 2012 | | | | | | 2013 | | | | | 2014 | | | | | 2015 | | |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----|--------|------|----|---------|
| | Annual | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | 6-Month |
| Consumption | 0.3 | 3.0 | 4.5 | 3.9 | 5.1 | 4.1 | 2.7 | 0.6 | 0.7 | 1.9 | 1.5 | 3.4 | 4.4 | 3.9 | | | | | |
| Private | -0.3 | 2.2 | 3.6 | 3.7 | 4.1 | 3.4 | 1.8 | 0.3 | 0.1 | 1.7 | 0.9 | 3.1 | 3.6 | 3.4 | | | | | |
| Public | 0.6 | 0.8 | 0.8 | 0.2 | 1.0 | 0.7 | 0.9 | 0.3 | 0.6 | 0.3 | 0.5 | 0.3 | 0.8 | 0.5 | | | | | |
| Investment | -0.7 | 0.1 | 0.9 | 1.3 | 1.9 | 1.1 | -0.1 | -0.9 | -0.1 | -0.3 | -0.3 | 0.1 | 2.4 | 1.2 | | | | | |
| Private | -1.1 | -1.3 | -0.2 | 0.6 | 1.1 | 0.1 | 0.1 | -0.3 | 0.4 | 0.1 | 0.1 | 0.4 | 2.3 | 1.4 | | | | | |
| Public | 0.4 | 1.4 | 1.1 | 0.7 | 0.7 | 1.0 | -0.2 | -0.6 | -0.5 | -0.4 | -0.4 | -0.3 | 0.0 | -0.1 | | | | | |
| Change in Stock | -1.5 | 1.5 | 2.9 | 1.1 | 0.8 | 1.6 | -0.2 | -0.1 | -1.2 | 1.5 | 0.0 | 0.4 | -1.9 | -0.8 | | | | | |
| Net Export | 4.0 | -1.4 | -3.6 | -2.0 | -3.2 | -2.6 | 2.6 | 2.8 | 2.4 | -0.5 | 1.8 | -1.4 | -1.1 | -1.2 | | | | | |
| Exports | 3.9 | 0.8 | 0.0 | -0.6 | -0.3 | -0.1 | 2.8 | 1.5 | 2.0 | 0.9 | 1.8 | -0.3 | -0.6 | -0.4 | | | | | |
| Imports | 0.1 | -2.2 | -3.6 | -1.4 | -2.9 | -2.5 | -0.2 | 1.3 | 0.4 | -1.4 | 0.0 | -1.1 | -0.5 | -0.8 | | | | | |
| GDP | 2.1 | 3.1 | 4.7 | 4.3 | 4.6 | 4.2 | 5.1 | 2.4 | 1.8 | 2.7 | 2.9 | 2.5 | 3.8 | 3.1 | | | | | |

Numbers may not add to total due to rounding.

Source: Turkstat

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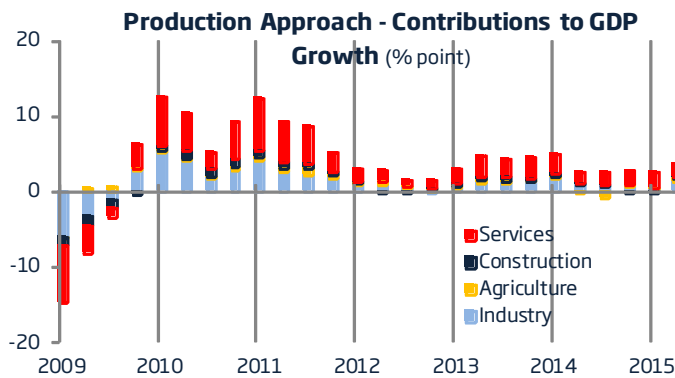
It was noteworthy that the change in inventories, which is estimated as residual and also includes statistical discrepancy, limited the GDP growth by 1.9 pp in the 2nd quarter. As a result, the change in inventories dragged down the growth by 0.8 pp in first half of the year.

Positive outlook in industrial and agricultural sectors...

GDP figures by production approach revealed that services sector contributed most to the growth by 1.9 pp in the 2nd quarter and has been a locomotive of the economy. In the same period, the industrial sector also made a contribution of 1.3 pp to the growth expanding by 4.6% on an annual basis. After two consecutive quarters of contraction, construction sector recorded a limited contribution to the growth by 0.1 pp. Agricultural sector added 0.5 pp to the growth, the highest level since 2011, thanks to the favorable climate.

Expectations

In the first half of the year, Turkish economy enjoyed a growth performance mainly stemmed from domestic demand given the lower political uncertainties. On the other hand, it was worth mentioning that net exports and change in inventories limited the economic growth markedly in this period. In the second half of the year, however, together with the unfavorable developments in global markets, the heightened political uncertainties following the general election and deepening domestic security concerns pose downside risks to the economic growth. These are considered to as unfavorable developments regarding the both domestic and foreign demand in the second half of the year. Besides, it is anticipated that public expenditures may recover to some extent in the forthcoming period. In this context, we expect that economic growth will exhibit a moderate course in the rest of the year and it may remain below 3% at the end of 2015.



Source: Turkstat

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