

Economy lost momentum in the second quarter.

Year-on-year expansion in Turkish economy for the second quarter of 2016 was recorded as 3.1%. The first quarter growth rate was revised down to 4.7% from 4.8%. In the first half of the year, on the other hand, economy grew by 3.9% compared to the same period of the previous year.

While there has been a limited calendar effect during the second quarter of the year, seasonal and calendar adjusted GDP posted a quarterly expansion of 0.3%.

GDP Figures (1998 prices)

| | Calendar Adjusted GDP (yoy % change) | Seasonally and Calendar Adjusted GDP (qoq % change) |
|---------|---|---|
| 2014 Q1 | 5.2 | 1.6 |
| 2014 Q2 | 2.5 | 0.0 |
| 2014 Q3 | 1.8 | 0.3 |
| 2014 Q4 | 3.0 | 1.2 |
| 2015 Q1 | 2.5 | 1.1 |
| 2015 Q2 | 3.7 | 1.4 |
| 2015 Q3 | 4.9 | 1.0 |
| 2015 Q4 | 4.5 | 1.1 |
| 2016 Q1 | 4.4 | 0.7 |
| 2016 Q2 | 3.0 | 0.3 |

Turkey continued to grow with the support of domestic demand.

Although consumption expenditures lost some momentum in the second quarter, they still made the highest contribution to growth by 5.2 percentage points. During this period, public sector also speeded up its expenditures. Indeed, public consumption expenditures rose by 15.9% yoy, the strongest expansion in constant prices since the last quarter of 2009. Private consumption spending also has

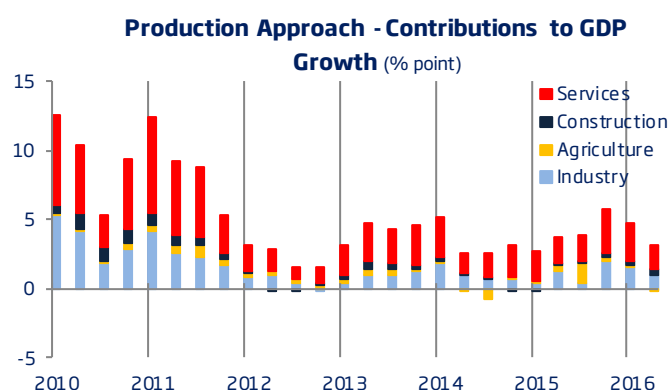
continued to support GDP growth substantially in this period. Thus, total consumption expenditures added 5.6 percentage points to growth in the first half of 2016.

Investment expenditures declined.

Adverse trend in investment expenditures has continued in the second quarter of the year. During this period, private sector investments declined while public investments recorded a slight increase. Thus, the total investment expenditures pulled down GDP by 0.1 percentage point in the second quarter.

Net exports continued to undermine GDP growth .

In the second quarter, exports made no contribution to GDP growth while imports still continued to drag it down . Thus, negative impact of net exports to GDP increased in the second quarter of the year. During this period, net exports displayed the worst quarterly performance since the last quarter of 2013, pulling down GDP growth by 2.1 points.



The services sector lost momentum in the second quarter.

According to the production approach, services sector, which has the highest share in GDP, contributed 1.8 percentage points to the growth in the second quarter.

Expenditure Approach - Contributions to GDP Growth (1998 prices)

(% point)

| | 2013 | | | | | | 2014 | | | | | | 2015 | | | | | | 2016 | | |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----|--------|----|----|---------|--|--|
| | Annual | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | 6-Month | | |
| Consumption | 4.1 | 2.7 | 0.6 | 0.7 | 2.1 | 1.5 | 3.2 | 4.3 | 3.3 | 4.7 | 3.9 | 6.1 | 5.2 | 5.6 | | | | | | | |
| Private | 3.4 | 1.8 | 0.3 | 0.1 | 1.8 | 1.0 | 2.9 | 3.5 | 2.6 | 3.6 | 3.2 | 4.9 | 3.4 | 4.1 | | | | | | | |
| Public | 0.7 | 0.9 | 0.3 | 0.6 | 0.3 | 0.5 | 0.3 | 0.8 | 0.8 | 1.1 | 0.7 | 1.2 | 1.7 | 1.5 | | | | | | | |
| Investment | 1.1 | -0.1 | -0.9 | -0.1 | -0.3 | -0.3 | 0.2 | 2.5 | 0.3 | 0.9 | 0.9 | 0.0 | -0.1 | -0.1 | | | | | | | |
| Private | 0.1 | 0.1 | -0.3 | 0.4 | 0.1 | 0.1 | 0.2 | 2.1 | -0.1 | 0.3 | 0.6 | -0.2 | -0.3 | -0.3 | | | | | | | |
| Public | 1.0 | -0.2 | -0.6 | -0.5 | -0.3 | -0.4 | 0.0 | 0.4 | 0.4 | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 | | | | | | | |
| Change in Stock | 1.6 | -0.3 | -0.3 | -1.5 | 1.5 | -0.2 | 0.5 | -1.9 | 0.3 | -1.2 | -0.6 | 0.1 | 0.2 | 0.2 | | | | | | | |
| Net Export | -2.6 | 2.8 | 3.0 | 2.6 | -0.3 | 2.0 | -1.4 | -1.2 | -0.1 | 1.3 | -0.3 | -1.5 | -2.1 | -1.8 | | | | | | | |
| Exports | -0.1 | 3.0 | 1.7 | 2.2 | 1.0 | 1.9 | -0.4 | -0.8 | -0.4 | 0.5 | -0.2 | 0.6 | 0.0 | 0.3 | | | | | | | |
| Imports | -2.5 | -0.2 | 1.4 | 0.5 | -1.3 | 0.1 | -1.0 | -0.4 | 0.3 | 0.8 | -0.1 | -2.1 | -2.2 | -2.1 | | | | | | | |
| GDP | 4.2 | 5.2 | 2.4 | 1.8 | 3.0 | 3.0 | 2.5 | 3.7 | 3.9 | 5.7 | 4.0 | 4.7 | 3.1 | 3.9 | | | | | | | |

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

Contribution of services sector to GDP is expected to continue to decline in the third quarter due to the negative developments in tourism sector. In the second quarter, industrial sector also made a contribution of 0.9 percentage points to the growth, expanding by 3.2% on an annual basis. Construction sector, gaining momentum, marked the fastest annual increase of approximately last 3 years and added 0.4 point to GDP. Agriculture sector, on the other hand, made a limited downward impact to GDP in the second quarter.

Expectations...

While GDP growth has continued to be demand-driven, public sector's support to growth has picked up lately. However, the failed coup attempt in July and weakening tourism sector are expected to increase downward pressures on growth performance in the third quarter. Indeed, the annual decline in industrial production recorded in July has led to a slight deterioration of expectations for the third quarter.

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