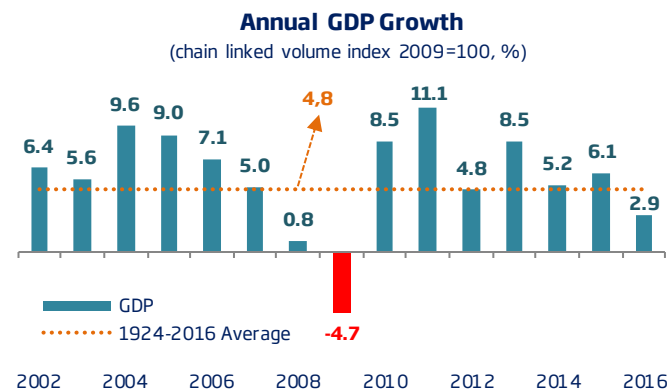


Turkish economy grew by 2.9% in 2016.

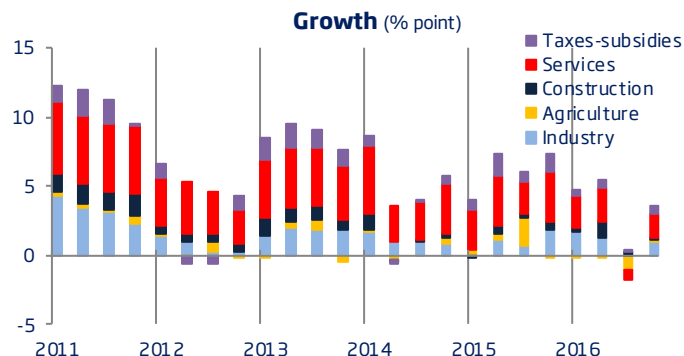
In the last quarter of 2016, Turkish economy expanded by 3.5%, well above expectations. The second and third quarter growth rates, previously announced as 4.5% and -1.8%, were revised to 5.3% and -1.3%, respectively. For the full of 2016, the economy posted an annual growth rate of 2.9%. Although the growth rate was better than expected pace, it came in below its long-term average.



Consumption spending increased rapidly in the last quarter.

Consumption spending accelerated in the last quarter of 2016. Private consumption expenditures made the highest contribution to the GDP growth by 3.4 points in this period while public consumption contributed only marginally. On the other hand, a large-scale revision of public consumption expenditures in the third quarter was noteworthy. The contribution of this item to the growth, which was previously announced as 2.8 points, has fallen to 0.7 point. Considering the upward revision to total investment expenditures in the third quarter, it is thought that some items classified as consumption expenditures of the public

Production Approach - Contributions to GDP



sector may be reclassified as investment spending. In the last quarter, while investment spending kept its moderate performance, net exports continued to drag GDP down.

For 2016 as a whole, consumption expenditures were the main driver of the economic growth. Public and private consumption expenditures displayed a relatively balanced outlook in this period. On the other hand, investments were remarkably weak compared to the past years as Turkey experienced economic and political uncertainties in 2016. Except for a few months of the year, net exports lowered the growth throughout the year in the face of the slowdown in exports and the rise in imports.

Recovery in industry and agriculture sectors...

According to production approach of GDP (chain linked volume index 2009=100), industrial sector expanded by 5% annually, contributing 1 point to the growth in the last quarter of 2016. The recovery in manufacturing industry played a big part in this development. Having contracted in the first three quarters of 2016, agriculture sector recovered in the fourth quarter and played an important role in better than expected GDP growth. Construction sector

Expenditure Approach - Contributions to GDP Growth (chain linked volume index 2009=100) (% points)

	2014					2015					2016				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	2.8	1.2	1.4	3.8	2.3	3.1	5.2	2.3	5.0	3.9	1.9	4.4	-0.3	3.6	2.4
Private	1.8	1.3	1.3	3.0	1.9	3.9	4.2	2.2	3.3	3.4	0.6	2.5	-1.0	3.4	1.4
Public	1.0	-0.1	0.1	0.8	0.4	-0.7	1.0	0.1	1.7	0.5	1.3	1.9	0.7	0.1	1.0
Investment	3.7	0.4	0.4	1.7	1.5	1.0	3.9	2.5	3.1	2.7	1.9	1.2	0.1	0.6	0.9
Change in Stock	-0.6	-1.5	-0.2	0.3	-0.5	-0.2	-2.4	0.1	-1.8	-1.1	1.0	1.9	1.5	-0.4	1.0
Net Export	2.8	2.8	2.1	0.2	1.9	-0.4	0.4	0.9	1.0	0.5	-0.4	-2.2	-2.5	-0.2	-1.3
Exports	2.9	1.5	1.9	1.1	1.8	0.6	1.0	1.1	1.1	0.9	0.3	-0.4	-2.1	0.5	-0.5
Imports	-0.1	1.3	0.2	-0.9	0.1	-1.0	-0.6	-0.1	-0.1	-0.4	-0.7	-1.8	-0.5	-0.7	-0.9
GDP	8.7	2.9	3.7	5.9	5.2	3.5	7.2	5.9	7.4	6.1	4.5	5.3	-1.3	3.5	2.9

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

grew by 3.7% yoy in the last quarter and added 0.3 point to the growth. The services sector⁽¹⁾, which surged by 3% yoy in the fourth quarter, contributed 1.6 points to the growth. Recovery in information and communication as well as finance and insurance activities were decisive in the upsurge of the services sector. In addition, 0.6 point contribution of the net subsidies (taxes-subsidies) to the growth in the last quarter was worth mentioning.

In 2016 as a whole, owing to the problems related to foreign trade channel and high base effect, agriculture sector contracted by 4.1%, dragging the growth down by 0.3 point. Industrial sector contributed 0.9 point to the annual growth in this period. The construction sector, which recorded an expansion even in the third quarter whereas the economy contracted, added 0.5 point to 2016 growth, surging by 7.2% yoy. In addition to financial services, real estate, professional support, education, human health and social work activities exhibited a positive outlook in 2016. Accordingly, services sector made the highest contribution to the growth by 1.3 points.

Expectations

Despite the stronger-than-expected pickup in growth, Turkish economy had the weakest growth performance in

2016 since the global crisis. National income per capita, which exceeded 12 thousand USD in both 2013 and 2014, fell to 10.8 thousand USD in 2016 also due to the depreciation in Turkish Lira. In spite of the slowdown in economic activity in 2016, there has been no improvement in the current account deficit/GDP ratio owing to the drop in tourism revenues. The budget deficit/GDP ratio rose slightly on the ground of the steps taken by the public sector to support the economic activity. In this period, the EU defined public debt stock surged by 14% yoy and thus the debt stock/GDP ratio reached 28.3%. Although recent data indicated a limited deterioration in these figures, Turkish economy maintained its strong position in terms of budget and public debt outlook compared with peer countries.

We think that Turkish economy will exhibit more favorable performance in 2017 compared to the previous year on the back of the easing macroprudential measures and steps taken by government to stimulate economic activity. However, we anticipate that the ongoing uncertainties surrounding the global economic outlook and geopolitical risks will put downward pressure on the growth. In this framework, we estimate that the growth rate will be around 3-3.5%, remaining below its long-term average.

Basic Macroeconomic Indicators

	2014	2015	2016
GDP Growth (%)	5.2	6.1	2.9
GDP (billion TRY)	2,044	2,338	2,591
GDP (billion USD)	935	861	857
Per Capita GDP (USD)	12,112	11,014	10,807
Current Account Deficit/GDP (%)	4.7	3.7	3.8
Budget Deficit/GDP (%)	-1.1	-1.0	-1.1
EU Defined Debt Stock/GDP (%)	28.6	27.5	28.3
Investments/GDP (%)	28.9	29.7	29.8
Banking Sector Assets/GDP (%)	97.5	100.9	105.4
Loan Volume/GDP (%)	60.7	63.5	66.9
Deposit Volume/GDP (%)	51.5	53.3	56.1

(1) Services sector constitutes of the information and communication, financial and insurance activities, real estate activities, professional, administrative and support service activities, public administration, education, human health and social work activities and other service activities

Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Division Head
izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager
alper.gurler@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

İlker Şahin - Economist
ilker.sahin@isbank.com.tr

Eren Demir - Economist
eren.demir@isbank.com.tr

Dr. Mustafa Kemal Gündoğdu - Economist
kemal.gundogdu@isbank.com.tr

Gamze Can - Asst. Economist
gamze.can@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

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