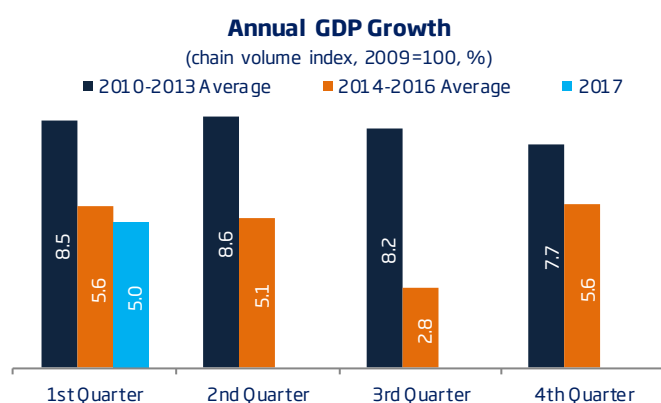


Economic growth has beaten expectations.

Turkish economy grew by 5% in the first quarter of 2017, well above expectations. Data has boosted growth prospects for 2017. However, although the growth rate in the first quarter exceeded consensus estimates, it remained below 2010-2016 average trend.



GDP in USD terms fell by 8.8% yoy in the first quarter. This was led by an increase of 25% recorded in USD/TRY during this period. Hence, GDP in USD terms declined to 840 billion USD. GDP per capita was down to almost 10,600 USD, around the levels last seen in 2010.

Turkstat announced a change in calculating the seasonal and calendar adjusted figures, revising the data on 2009-2016 period. No revision has been made in calculating the unadjusted data.

Robust performance of consumption spending...

Consumption spending continued to be the main engine of growth in the first quarter of the year. Private consumption and public expenditures posted annual rises of 5.1% and

Seasonally and Calendar Adjusted GDP Figures

(growth, qoq, %)

		Old Method*	New Method**	Revision
2015	1 st Quarter	2.1	1.9	-0.2
	2 nd Quarter	1.5	1.6	0.1
	3 rd Quarter	1.3	1.1	-0.3
	4 th Quarter	1.1	0.9	-0.2
2016	1 st Quarter	0.0	0.4	0.4
	2 nd Quarter	1.7	1.3	-0.5
	3 rd Quarter	-2.1	-1.6	0.5
	4 th Quarter	3.8	3.4	-0.4
2017	1 st Quarter		1.4	-

(*) Direct Approach

(**) Indirect Approach

9.4%, respectively. Assessing the sub-items of consumption expenditures, the increases registered under non-durable goods and services spending stood out. During this period, consumption expenditures for durable goods recorded a limited rise of 0.6% while that for semi-durable goods contracted by 1.2%.

Positive contribution of net exports to growth...

The positive contribution of net exports to growth was noteworthy in the first quarter of 2017. During this period, with the support of the automotive exports, export volume index rose by 10.6% while import volume index increased only by 0.8%. Therefore, net foreign trade made a contribution of 2.2 points to the GDP growth.

Construction driven investment spending...

In January-March period, the upturn in investment expenditures also played a part in reaching the better-than-

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

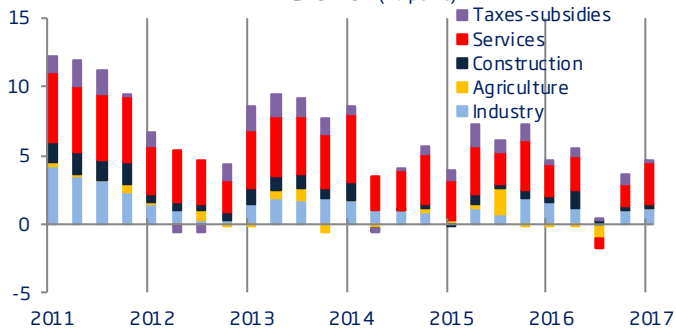
	2015					2016					2017
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1
Consumption	3.1	5.2	2.3	5.0	3.9	1.9	4.4	-0.3	3.6	2.4	4.4
Private	3.9	4.2	2.2	3.3	3.4	0.6	2.5	-1.0	3.4	1.4	3.1
Public	-0.7	1.0	0.1	1.7	0.5	1.3	1.9	0.7	0.1	1.0	1.3
Investment	1.0	3.9	2.5	3.1	2.7	1.9	1.2	0.1	0.6	0.9	0.6
Change in Stock	-0.2	-2.4	0.1	-1.8	-1.1	1.0	1.9	1.5	-0.4	1.0	-2.3
Net Export	-0.4	0.4	0.9	1.0	0.5	-0.4	-2.2	-2.5	-0.2	-1.3	2.2
Exports	0.6	1.0	1.1	1.1	0.9	0.3	-0.4	-2.1	0.5	-0.5	2.4
Imports	-1.0	-0.6	-0.1	-0.1	-0.4	-0.7	-1.8	-0.5	-0.7	-0.9	-0.2
GDP	3.5	7.2	5.9	7.4	6.1	4.5	5.3	-1.3	3.5	2.9	5.0

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

expected growth performance. Analyzing the sub-items of investment expenditures revealed that construction investment surged by 10%. Machinery and equipment investments, however, shrank by 10.1% during the same period.

Production Approach - Contributions to GDP Growth (% point)



In the first quarter, inventory change was a factor that has dragged the growth down.

Rapid growth in services sector...

According to production approach of GDP, services sector, having an almost 60% share in GDP, provided significant support to the first quarter growth. Having presented a

weak outlook in previous quarters, mainly due to the headwinds the tourism sector had faced, services sector made a contribution of 3.1 points to growth, marking the strongest first quarter performance of the last three years.

Industrial sector, having a 20% weight in GDP, pushed growth up by 1.1 points. Construction sector presented a similar performance to the last quarter of 2016 and contributed 0.3 point to growth. Agriculture sector, on the other hand, provided the weakest support to growth by 0.1 point.

Expectations

The recent measures implemented by the policymakers following the challenging conditions clouded the economic activity last year have provided support for the growth performance. In addition to this, the increase in the contribution of net exports to growth has also boosted Turkish economy in the first quarter. It is anticipated that consumption expenditures in particular will continue to have a strong outlook during the rest of the year. Against this backdrop, we believe that the economic activity is more likely to end 2017 with a better performance than envisaged at the beginning of the year.

Note: 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

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

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

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

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

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

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

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

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.