

Foreign trade deficit continued to expand.

Exports increased by 12.5% yoy in May while imports rose fast by 21.7% yoy. Thus, foreign trade deficit widened by 43.3% from a year earlier and became USD 7.3 billion. Import coverage ratio declined to 65.1%, the lowest level seen in almost the last two years.

In the first 5 months of 2017, exports and imports increased by 9.5% yoy and 11.2% yoy, respectively. Foreign trade deficit surged by 15.7% yoy and stood at USD 24.8 billion during this period.

Increased use of TRY in foreign trade...

Exports in TRY terms rose by 113% in January-May period compared to the same period of the previous year, while the surge in imports remained at a more limited level with 24%.

Transport-related sectors stood out in exports.

Having an almost 16% share in total exports, motor vehicles continued to become the most significant item that boosted exports in May. Exports of motor vehicles went up by USD 523 million on an annual basis in this period.

The second largest contribution to the rise in exports with 400 million USD came from aircrafts and parts thereof. Having recorded a monthly average of 60 million USD throughout the year, exports of this item climbed to 452 million USD in May. Also in April, exports of aircraft and parts thereof had become USD 157 million, performing much better compared to the same period of the previous year. Moreover, the production of other transport vehicles, which is closely linked to this item, had made a noticeable contribution of 2.1 points to industrial production during that month.

The increase in iron and steel exports persisted in May partly reflecting the rebound in metal prices. Exports of the sector soared by USD 241 million on a yearly basis, marking the third highest increase among export items.

Exports to European Union countries rose by 4.4%.

Exports to European Union countries went up by 4.4% in dollar terms in May. The euro-based rise was above 7% during this period. A similar picture was the case for the January-May period.

Exports to the Near and Middle Eastern countries, which accounted for nearly one fourth of our total exports, increased at a rapid rate of 18.7% in May. This rise was

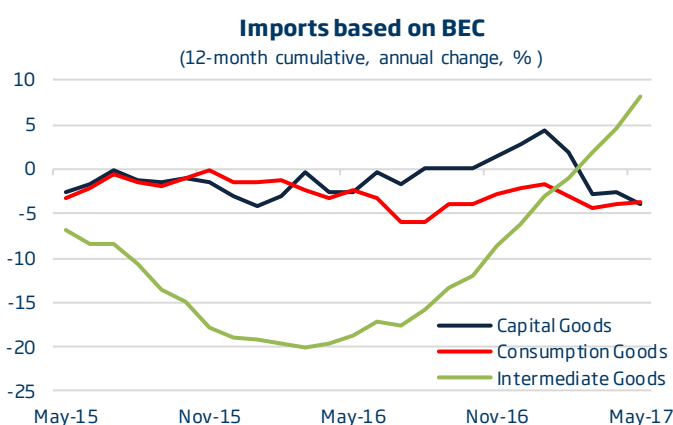
mostly attributable to the surge in gold exports to the UAE.

Sharp increase in gold imports...

While gold exports declined in May on an annual basis, gold imports increased sharply. This weighed on foreign trade balance. During the first five months of the year, a similar performance was observed. In this period, gold imports increased by USD 4.3 billion while gold exports decreased by USD 931 million.

Energy imports continued to increase.

In May, crude oil imports on quantity basis increased by 22.9% compared to the previous year. Moreover, oil prices rose by 7.4% in the same period. This caused Turkey's energy bill to register an annual rise of 38.4% in May. In line with this development, the increase in imports of intermediate goods continued to gain momentum.



Balanced risks on foreign trade deficit...

Despite the measures taken by the producer countries, oil prices have remained at low levels. This has reinforced positive expectations for Turkish economy. In addition to this, considering the fact that our exports are predominantly conducted with euros and most of our import bills are paid in the US dollars, the recent strengthening of the expectations that euro would appreciate against the US dollar supports optimistic views on foreign trade balance. Although the negative effect of gold trade continues, under the assumptions that oil prices would follow a relatively flat course and foreign demand would maintain a positive performance, we believe that risks on foreign trade balance would remain largely balanced.

Foreign Trade Figures

	(billion USD)					
	May		Change (%)	January-May		Change (%)
	2016	2017		2016	2017	
Exports	12.1	13.6	12.5	58.7	64.3	9.5
Imports	17.2	20.9	21.7	80.2	89.1	11.2
Foreign Trade Deficit	-5.1	-7.3	43.3	-21.5	-24.8	15.7
Import Coverage (%)	70.4	65.1	-	73.2	72.1	-

Source: Datastream, Turkstat

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>

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.