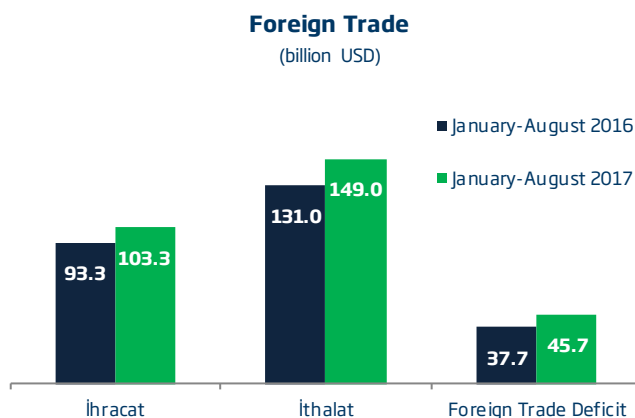


Foreign trade deficit kept expanding.

In August, export volume increased by 12.3% yoy and import volume rose by 15.3% yoy. Thus, foreign trade deficit expanded by 22.8% yoy.

In the first 8 months of the year, exports went up by 10.8% yoy and imports surged by 13.8% yoy. While the annual expansion in foreign trade deficit became 21.1% in this period, import coverage ratio was 69.4%, declining by 1.8 points from a year ago.

**Rise in exports was spread across almost all sectors.**

Export growth in August was broadly spread across sectors. Considering the top 20 sectors with largest exports volume, only 2 sectors posted annual declines in this period, albeit slightly.

In the first 8 months, motor vehicles continued to become the most significant export item. The exports of motor vehicles had a strong performance, posting an annual growth of 25% in this period. Having surged by 35.9% annually, iron and steel exports had been remarkable. During the January-August period, approximately half of the 10.8% increase recorded in total export volume came from the said two sectors.

On the country basis, Germany and Iraq were two of the biggest export markets in August. After the referendum held in Northern Iraq, our trade relations with Iraq gained importance on the agenda. The share of Iraq in Turkey's total exports was 5.4% in 2016, it rose to 6.2% in the first 8 months of this year as exports to Iraq climbed by 35.3% yoy. Turkey has a significant share in Iraq's imports in many

sectors. Among Turkey's export items, Iraq has a big weight especially in food products. On the other hand, Iraq stands out in Turkey's crude oil imports. According to Energy Market Regulatory Authority (EMRA) data, nearly 20% of Turkey's crude oil imports have been supplied from Iraq in recent years.

Exports to Iraq (2016)

| | Exports to Iraq (mn USD) | Share of Iraq in Turkey's Exports (%) | Share of Turkey in Iraq's Imports (%) |
|----------------------------------|--------------------------|---------------------------------------|---------------------------------------|
| Precious metals | 597 | 4.9 | 95.5 |
| Milling products | 548 | 42.7 | 99.4 |
| Animal or vegetable fats | 494 | 47.2 | 85.4 |
| Furniture, bedding etc. | 451 | 17.0 | 51.2 |
| Plastics and articles thereof | 402 | 8.0 | 37.5 |
| Articles of iron and steel | 370 | 7.4 | 30.4 |
| Cereals etc. | 367 | 24.4 | 66.2 |
| Electrical machineries | 314 | 4.0 | 11.0 |
| Articles of apparel and clothing | 306 | 3.5 | 34.5 |
| Milk, egg etc. | 302 | 51.0 | 43.4 |
| Other | 3,489 | 3.6 | 18.5 |
| Total | 7,640 | 5.4 | 26.6 |

The effects of energy and gold imports have been evident.

The high level of gold imports has been sustained in August, despite losing some momentum. Due to the recovery in economic activity and the rise in oil prices, energy imports also surged rapidly in this period. In the first 8 months, 11.3 points of 13.8% annual growth in imports stemmed from the imports of precious metals and mineral fuels.

Expectations...

Despite heightened geopolitical risks, the trajectory of TL and upturn in global trade are likely to support exports. However, the upward pressures of the higher oil prices and the revival in economic activity on imports have persisted. Gold imports continue to display an unfavorable outlook for foreign trade figures. In light of these developments, foreign trade deficit is anticipated to continue to widen in the coming period.

Foreign Trade Figures

(billion USD)

| | August | | Change (%) | January-August | | Change (%) |
|------------------------------|-------------|-------------|-------------|----------------|--------------|-------------|
| | 2016 | 2017 | | 2016 | 2017 | |
| Exports | 11.8 | 13.3 | 12.3 | 93.3 | 103.3 | 10.8 |
| Imports | 16.6 | 19.2 | 15.3 | 131.0 | 149.0 | 13.8 |
| Foreign Trade Deficit | -4.8 | -5.9 | 22.8 | -37.7 | -45.7 | 21.1 |
| Import Coverage (%) | 71.2 | 69.3 | - | 71.2 | 69.4 | - |

Source: Datastream, Trademap, Turkstat

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