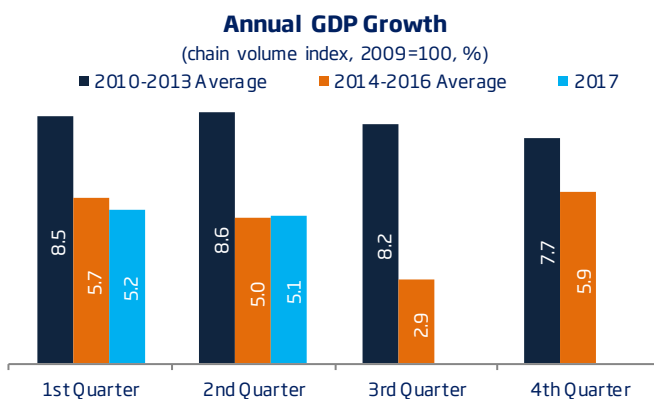


Economic growth came in close to expectations.

Along with the upturn in domestic demand and measures taken by the public authorities, Turkish economy grew by 5.1% yoy in the second quarter of 2017, in line with the expectations. First quarter growth, which was previously announced as 5%, was revised up to 5.2%. Hence, growth rate of the first half of the year stood at 5.1% yoy. 2016 growth was also revised up to 3.2% from 2.9%.

Second quarter growth was above the average growth rate of the same periods of the last three years. However, it remained below 8.6%, 2010-2013 average trend for the second quarters.



GDP, which was 863 billion USD in 2016, became 834 billion USD in 4-quarter rolling terms as of the second quarter of this year. For the same period, GDP per capita in USD terms was down to almost 10,500 USD from 10,833 USD last year-end. This was chiefly led by the increase recorded in USD/TRY during this period.

According to the calendar adjusted figures, in the second quarter, Turkish economy marked the best performance of the last eight quarters. Seasonal and calendar adjusted data

GDP (2009chain index volume)

Dönem	Calendar adjusted* (%)	Seasonal and calendar adjusted** (%)
2015 Q1	3.6	2.0
2015 Q2	7.2	1.7
2015 Q3	6.4	0.9
2015 Q4	6.0	0.9
2016 Q1	4.3	0.8
2016 Q2	4.1	0.7
2016 Q3	0.8	-1.2
2016 Q4	4.2	3.9
2017 Q1	4.9	1.3
2017 Q2	6.5	2.1

(*) Compared to a year ago

(**) Compared to the previous quarter

revealed that economic activity gained some momentum compared to the first quarter of the year.

Strong support from investment expenditures...

Investment expenditures made the highest contribution to growth with 2.9 points in the second quarter. According to chain linked volume index, this performance was mostly driven by the increase of 25% recorded in construction expenditures. However, machinery and equipment investments shrank for the fourth quarter in a row. In the first half of the year, the contribution of investments to growth was 1.9 points.

Net exports continued to contribute positively to growth.

The positive contribution of net exports to growth decelerated compared to the previous quarter in the second

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	Q2	H1
Consumption	3.1	5.1	2.3	5.0	3.9	3.2	5.2	1.0	4.7	3.5	3.5	1.3	2.4
Private	3.9	4.2	2.1	3.3	3.3	1.6	3.2	0.3	3.8	2.2	2.2	1.9	2.1
Public	-0.7	0.9	0.1	1.6	0.5	1.6	2.0	0.7	0.9	1.2	1.3	-0.6	0.3
Investment	1.0	3.9	2.5	3.2	2.7	1.8	0.6	0.1	0.4	0.7	0.9	2.9	1.9
Change in Stock	-0.2	-2.2	0.0	-1.7	-1.0	0.1	1.3	0.7	-0.7	0.3	-1.5	-0.8	-1.1
Net Export	-0.4	0.4	1.0	1.1	0.6	-0.3	-2.1	-2.5	-0.1	-1.3	2.3	1.7	2.0
Exports	0.6	1.0	1.1	1.1	1.0	0.4	-0.4	-2.1	0.5	-0.4	2.5	2.2	2.4
Imports	-1.0	-0.6	-0.1	-0.1	-0.4	-0.7	-1.7	-0.4	-0.7	-0.9	-0.2	-0.6	-0.4
GDP	3.6	7.2	5.8	7.5	6.1	4.8	4.9	-0.8	4.2	3.2	5.2	5.1	5.1

Numbers may not add to total due to rounding.

quarter of 2017, yet it remained at high levels . During this period, particularly with the support of the automotive exports, export volume index rose by 10.5% yoy while import volume index increased only by 2.3% yoy. Therefore, net foreign trade made a contribution of 1.7 points to the GDP growth. In the first half of the year, on the other hand, the contribution of net foreign trade to growth was 2.0 points.

Public consumption expenditures weighed on growth.

Private consumption spending continued to pull growth up in the second quarter of the year, making a contribution of 1.9 points to growth. However, public consumption expenditures, which was the main driver of the recent upturn in economic activity, dragged the growth down in the second quarter as opposed to the performance seen in the first quarter. This reflected public authorities' preference for boosting investments over increasing consumption spending.

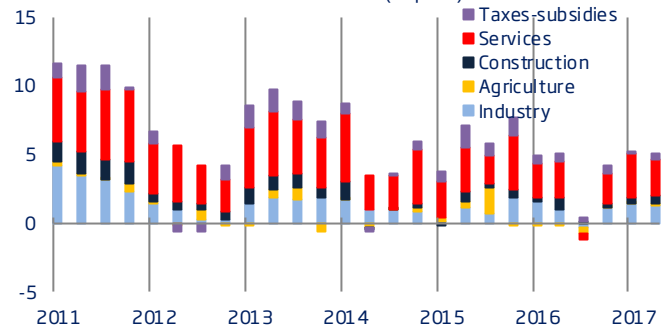
Assessing the sub-items of households' consumption expenditures, it was noteworthy that consumption expenditures for durable goods recorded a stronger rise in the second quarter compared to the first quarter with 4.8%.

Services sector is the locomotive of the economic growth.

According to production approach of GDP, services sector provided a significant support to the second quarter growth. Along with sustained recovery in the tourism sector, services sector made a contribution of 2.7 points to growth in this period.

Industrial sector, having the second biggest weight in GDP after services sector, added 1.3 points to growth.

Production Approach - Contributions to GDP Growth (% point)



Construction sector, presenting a more solid performance compared to the previous quarter, contributed 0.5 point to growth in this period. Agriculture sector also pushed growth up by 0.2 point, the highest contribution in the last seven quarters.

Expectations

As the measures undertaken by the policy makers continue to provide a boost to the economic activity, growth performance is expected to continue to be strong also in the third quarter of the year. Besides, the favorable base effect on growth will also be seen in the third quarter figures. For the rest of the year, we anticipate that private consumption will preserve its momentum and net exports will continue to make a positive contribution to growth albeit lower than the first two quarters. Against this backdrop, we estimate that the Turkish economy will expand by around 5% in 2017, close to its long-term average growth rate.

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** - Economist
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