Turkish economy grew by 7.4% in 2017.

Turkish economy expanded by 7.3% yoy in the last quarter of the year, according to the chain volume index. This performance was in line with market expectations. Third quarter growth was revised up to 11.3% from 11.1% and first quarter growth up to 5.4% from 5.3%.

In the whole year, Turkish economy posted a growth rate of 7.4%, well above the expectations which prevailed during early 2017. The new industrial production series released in March had also drove the expectations up as the index recorded a rise of 8.9% in 2017.

Along with the stimulus measures, the upturn in domestic consumption and investments led this robust growth performance in 2017. Low base effect was also a factor. In 2016, Turkish economy had grown by 3.2%, lower than its long-run averages and potential growth rate.

The size of Turkish economy is 851 billion USD.

GDP in Turkey, 17th largest economy of the world, exceeded 3 trillion TRY in 2017 while GDP in USD terms decreased by 1.4% on an annual basis and fell to 851 billion USD. Per capita GDP also declined by 2.6% to 10.597 USD.

Private consumption expenditures…

According to GDP data by expenditure approach, private consumption expenditures provided the strongest support to growth almost whole year. Having contributed to the growth by 4.1 percentage points in the last quarter, private consumption expenditures added 3.7 pp to growth in 2017 as a whole. Due to the tax incentives, which had been in place between February and October, households' consumption expenditures for durable goods recorded a nominal surge of 24.1% in 2017, the highest increase in four years. On the other hand, government consumption expenditures made a limited contribution to growth during this period with 0.7 pp.

Construction investments stood out in total investments during 2017.

Following the private consumption expenditures, investment expenditures provided a considerable boost to the growth in 2017. Having lost some momentum in the fourth quarter, construction investments drove the growth up during the whole year in general. Machinery and equipment investments, which had supported optimistic expectations regarding the composition of growth in the third quarter by rising 15.7% yoy, expanded by 8.3% yoy in the fourth quarter of the year.

Net exports weighed on growth in the fourth quarter.

The rapid widening of the foreign trade deficit in 2017, driven by annually rising oil prices and strong gold imports, undermined the growth performance. In the fourth quarter of 2017, net exports dragged down the growth by 3.1 pp due to the rise in imports. In the whole year, the positive contribution of net exports was only 0.1 pp.

Industrial sector marked the strongest performance in years.

GDP data by production approach suggested that all main sub-sectors supported growth in 2017. The highest contribution to last year's growth came from the services sector with 4.1 pp, thanks to the recovery in tourism sector. The industrial sector, recording the highest performance in six years, made a contribution of 1.8 pp during this period. In 2017, the expansion in the industrial sector was mirrored in employment figures as well. In the last quarter of 2017, employment in industrial sector recorded the fastest increase in three years.

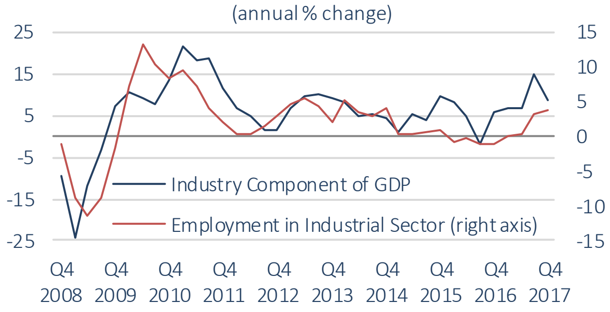
Contributions to GDP Growth by Expenditure Approach (chain linked volume index 2009=100) (% point)

	2015					2016					2017				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	3.1	5.1	2.3	5.0	3.9	3.2	5.2	1.0	4.7	3.5	3.6	1.3	7.4	5.2	4.4
Private	3.9	4.2	2.1	3.3	3.3	1.6	3.2	0.3	3.8	2.2	2.4	1.7	6.6	4.1	3.7
Public	-0.7	0.9	0.1	1.6	0.5	1.6	2.0	0.7	0.9	1.2	1.2	-0.4	0.8	1.1	0.7
Investment	1.0	3.9	2.5	3.2	2.7	1.8	0.6	0.1	0.4	0.7	0.9	2.0	3.8	1.8	2.2
Change in Stock	-0.2	-2.2	0.0	-1.7	-1.0	0.1	1.3	0.7	-0.7	0.3	-1.3	0.3	-0.3	3.4	0.7
Net Export	-0.4	0.4	1.0	1.1	0.6	-0.3	-2.1	-2.5	-0.1	-1.3	2.1	1.8	0.4	-3.1	0.1
Exports	0.6	1.0	1.1	1.1	1.0	0.4	-0.4	-2.1	0.5	-0.4	2.3	2.4	3.7	1.9	2.6
Imports	-1.0	-0.6	-0.1	-0.1	-0.4	-0.7	-1.7	-0.4	-0.7	-0.9	-0.2	-0.5	-3.3	-5.0	-2.4
GDP	3.6	7.2	5.8	7.5	6.1	4.8	4.9	-0.8	4.2	3.2	5.3	5.4	11.3	7.3	7.4

Numbers may not add to total due to rounding.

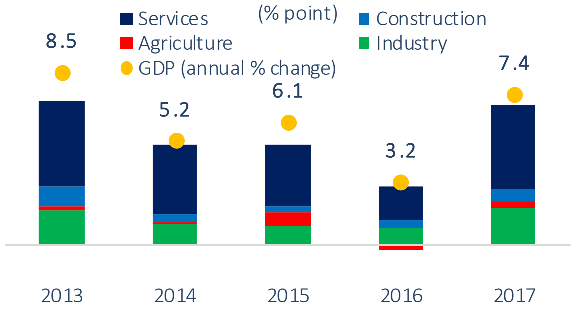
Source: Datastream, Turkstat

Industry Component of GDP and Employment in Industrial Sector
(annual % change)



In 2017, construction and agricultural sectors added 0.7 pp and 0.3 pp to growth, respectively. In 2016, agricultural sector pulled down the GDP expansion by 0.2 pp.

Contributions to GDP Growth by Production Approach
(% point)



We expect GDP growth to be around 4% in 2018.

The measures taken by policymakers will have a considerable impact on growth performance in 2018 as it was the case in 2017. We expect that economic stimulus will support consumption as well as investments and domestic economic activity will remain solid albeit losing some steam. Against this backdrop, we believe that Turkish economy will post a growth of slightly above 4% in 2018. Leading indicators have showed a mixed picture in the first two months of the year. While industrial production in January and PMI data for the first two months of the year signaled that the industrial sector has made a strong start to the year, the ongoing expansion of foreign trade deficit indicated that net exports could weigh on growth in the first quarter.

Source: Datastream, Turkstat

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