

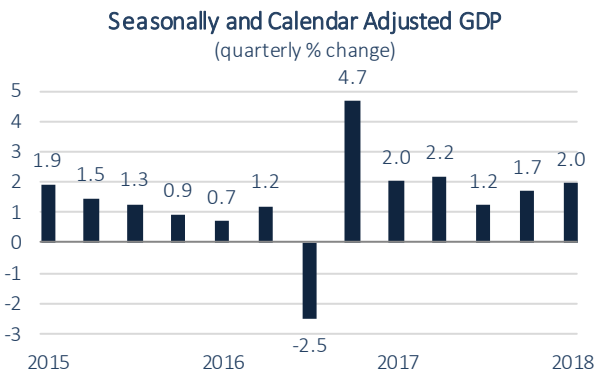
### Turkish economy grew by 7.4% in the first quarter of 2018.

Turkish economy has kept its growth performance in the first quarter of the year. According to the chained volume index, GDP grew by 7.4% compared to the same period of the previous year, exceeding expectations. Thus, as of March 2018 Turkey's GDP reached 3.25 trillion TRY. GDP in USD terms expanded by 5.1% yoy and was realized as 883 billion USD.

The positive performance of domestic consumption and investments backed economic growth in the first quarter of this year. Foreign trade figures, on the other hand, dragged down the growth. The highest contribution to growth in Q1 came from services sector which has almost 60% share in GDP. Besides, the contribution of industrial sector has also increased.

### Seasonally adjusted growth accelerated compared to the previous quarter.

According to the seasonally and calendar adjusted figures, Turkish economy grew by 2% compared to the previous quarter. The said acceleration in the first quarter of the year fueled the concerns of overheating in the economy.



### Private consumption expenditures...

According to the expenditure approach, the contribution of private consumption expenditures to GDP growth reached 6.7 points, the highest level since 2011. 5.9 percentage points of this contribution stemmed from private consumption expenditures towards non-durable goods and services. Household demand for durable goods continued to lose momentum in the first quarter of the year.

### Construction investments remained strong.

Investment expenditures made the second highest contribution to GDP growth with 2.8 points, following private consumption. The recovery in construction investments played significant role in this development. According to the chained volume index, construction investments increased by 12.3% yoy in the first quarter of the year and contributed 2 pp to the growth. Machinery and equipment investments, which continued to decelerate in Q1, rose by 7% yoy and contributed 0.7 pp to GDP growth.

### Net exports reduced the growth rate.

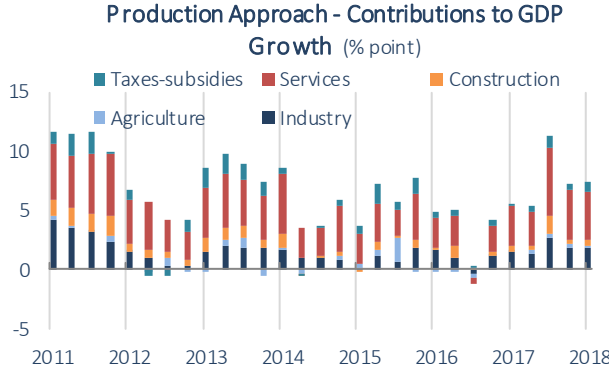
Rise in energy prices as well as continued gold imports undermined the economic growth in Q1. In addition, strong private consumption expenditures also led the imports to have a limiting effect on growth. In this period, while imports trimmed the growth by 3.7 pp, the exports contribution declining to 0.1 pp caused net exports to push down the GDP growth by 3.6 pp. As a result, net exports made the highest negative contribution to the growth in the last 7 years.

### Decrease in the services sector's contribution...

GDP figures by production approach showed that all main sub-sectors supported growth in the first quarter of the

	2016					2017					2018
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Annual
<b>Consumption</b>	3.2	5.2	1.0	4.7	3.5	3.6	1.3	7.4	5.2	4.4	7.2
Private	1.6	3.2	0.3	3.8	2.2	2.4	1.7	6.6	4.1	3.7	6.7
Public	1.6	2.0	0.7	0.9	1.2	1.2	-0.4	0.8	1.1	0.7	0.5
<b>Investment</b>	1.8	0.6	0.1	0.4	0.7	0.9	2.0	3.8	1.8	2.2	2.8
<b>Change in Stock</b>	0.1	1.3	0.7	-0.7	0.3	-1.2	0.3	-0.3	3.4	0.7	1.0
<b>Net Export</b>	-0.3	-2.1	-2.5	-0.1	-1.3	2.1	1.8	0.4	-3.1	0.1	-3.6
Exports	0.4	-0.4	-2.1	0.5	-0.4	2.3	2.4	3.7	1.9	2.6	0.1
Imports	-0.7	-1.7	-0.4	-0.7	-0.9	-0.2	-0.5	-3.3	-5.0	-2.4	-3.7
<b>GDP</b>	<b>4.8</b>	<b>4.9</b>	<b>-0.8</b>	<b>4.2</b>	<b>3.2</b>	<b>5.4</b>	<b>5.4</b>	<b>11.3</b>	<b>7.3</b>	<b>7.4</b>	<b>7.4</b>

year. Having a significant share in GDP, services sectors contributed to economic growth 4.2 pp in Q1, while the contribution of industrial sector has increased to 1.9 pp.



### Expectations...

Economic activity maintained its solid performance in the first quarter of the year, particularly supported by

domestic demand. On the other hand, the strong domestic demand weighed on growth via import channel. Leading indicators for the second quarter of the year indicate a loss of momentum in economic activity. While leading indicators shows that industrial production may be weaker in this period, it is believed that the increased spending before the elections could be positively reflected in the growth. We believe that CBRT's interest rate hikes by 500 basis points in the last 3 months and the depreciation of TRY may create additional pressure on economic activity in the following months. Moreover, we anticipate that the growth will lose momentum and be realized around 4% in the whole year due to the base effect and possible measures to be implemented after the elections to ease concerns about inflation and current account deficit.

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