TACİRLER INVESTMENT

Turkish Economy

2019 Economic Outlook

January 2019

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Economic Growth *(Production)*

Tendency surveys provide strong proof of sharply decelerating economic activity

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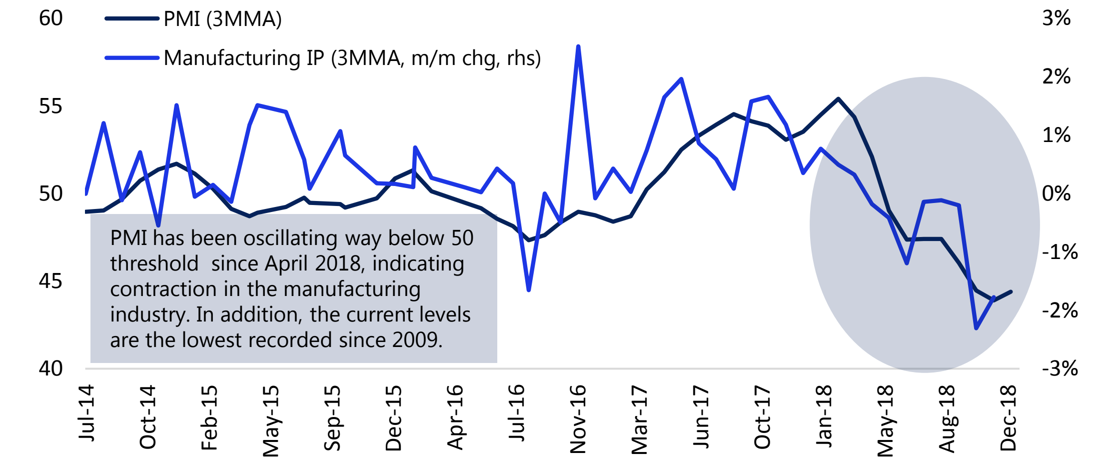
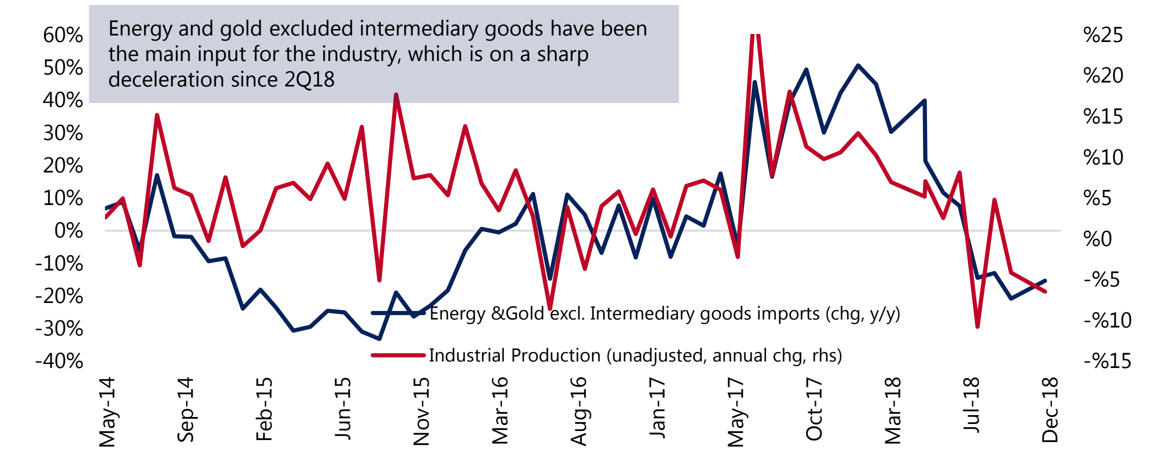
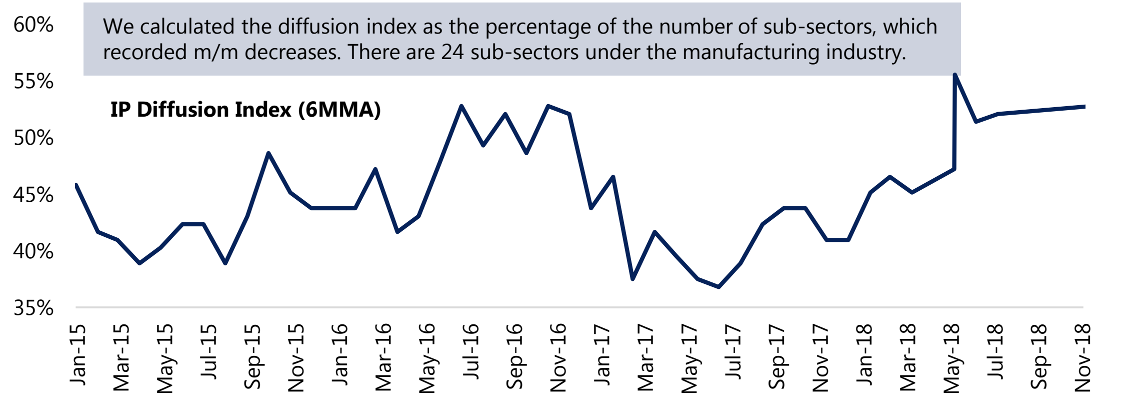
PMI continues to imply contraction in Manufacturing IP



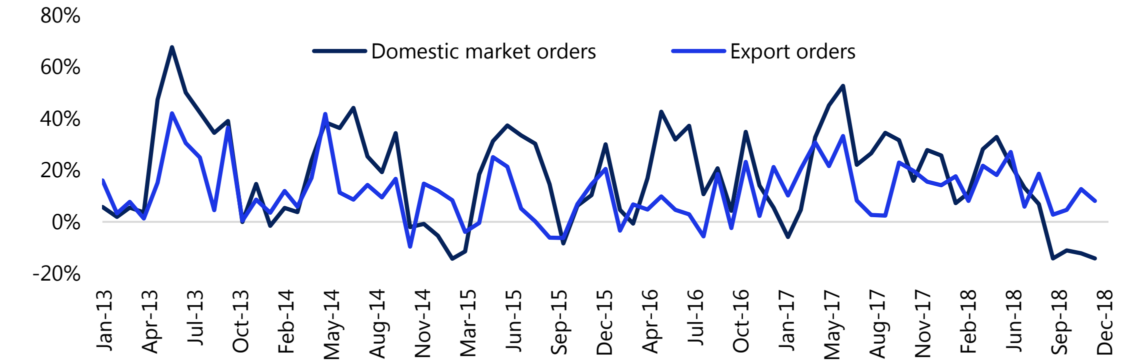
Manufacturing Industry's demand for input has been declining



IP Diffusion Index signals that the weakness is spreading amongst sectors



Export orders partly offset weaker domestic side



* Orders data shows the difference between the percentage of “positive "responses and percentage of “negative "responses for domestic and export orders performance in the last three months.

Source: Turkstat, CBT, ISO/Markit, Tacirler Investment

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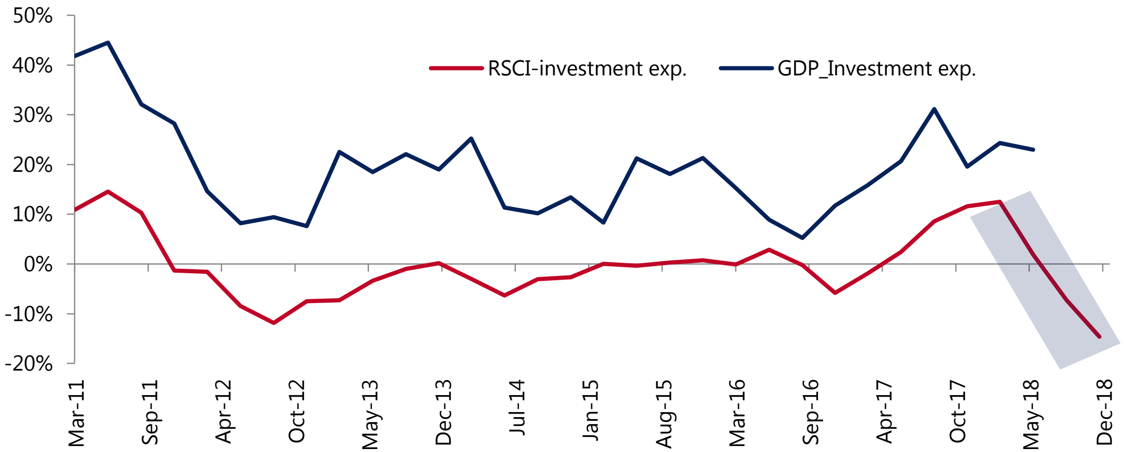
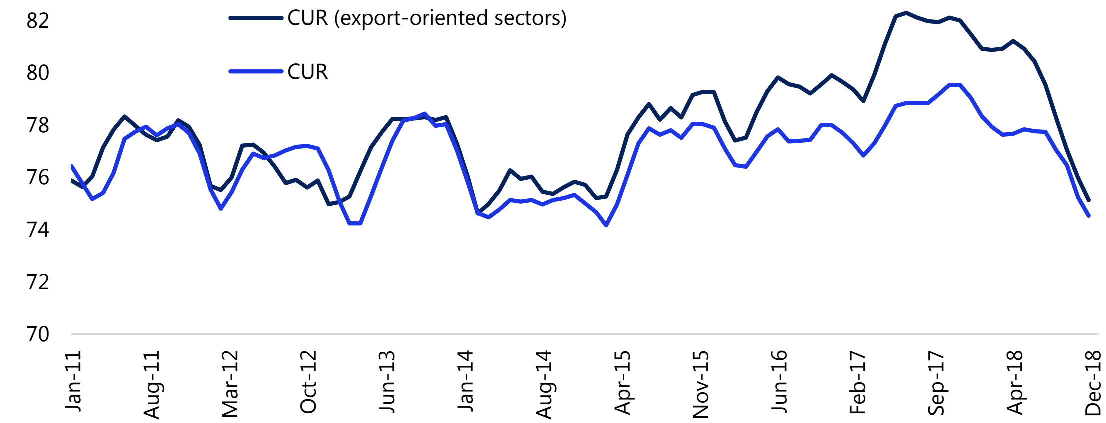
Economic Growth *(Investment)*

We expect negative contribution from the investment growth in 2019

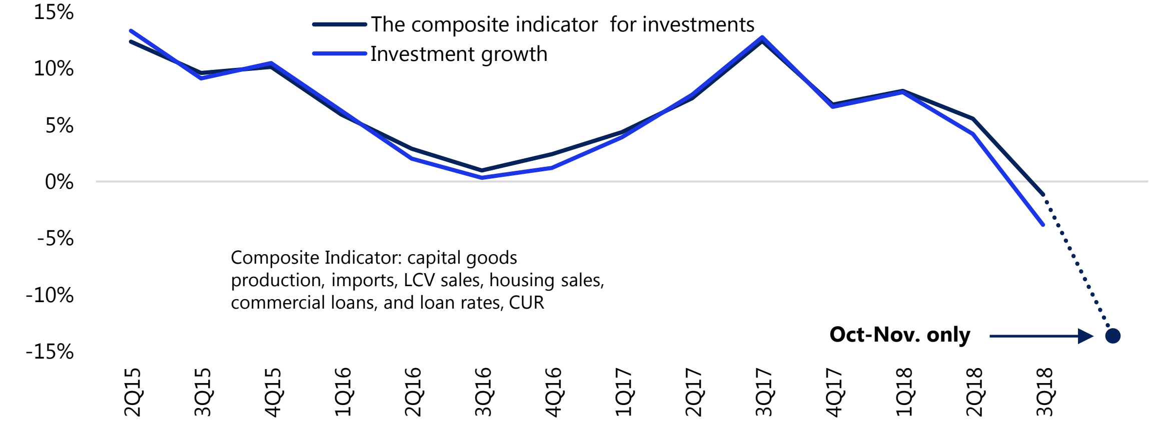
An important indicator on investments pursues its downtrend



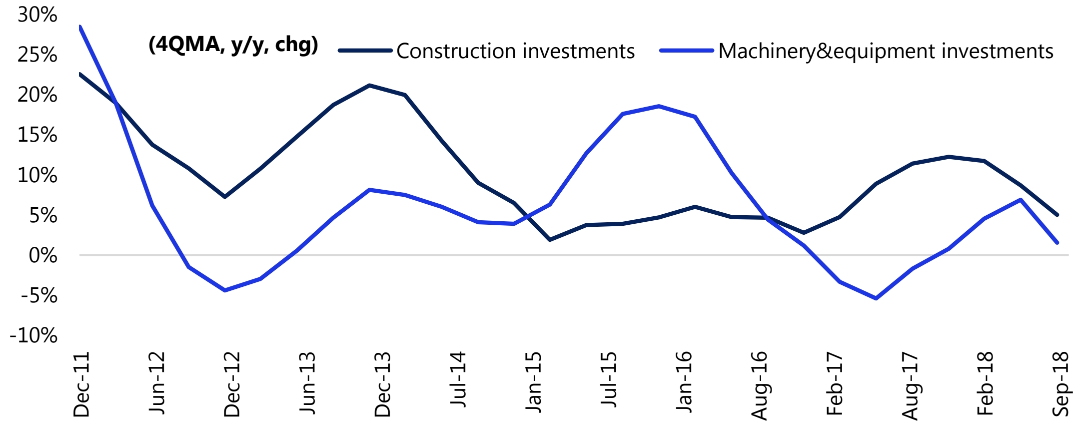
Lower CUR is another confirmation of a weak investment tendency



The composite indicator* indicated deepening contraction



The contraction in investments has just started

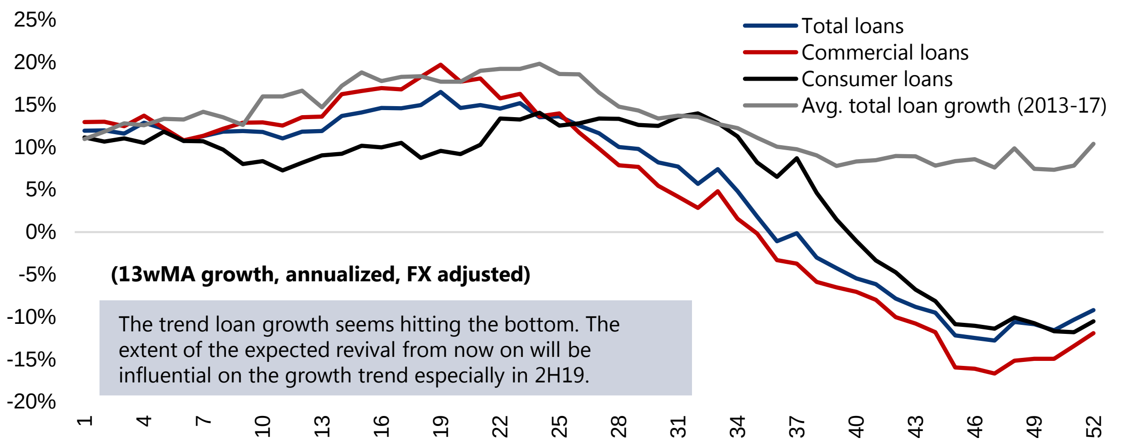


Source: Turkstat, CBT, Tacirler Investment

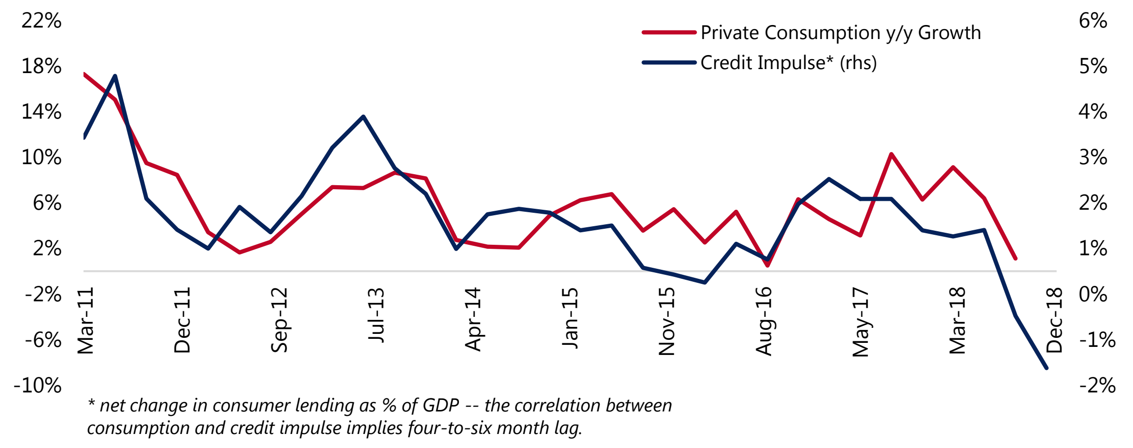
Economic Growth *(Consumption)*

Loan growth will be the key determinant of private sector activity

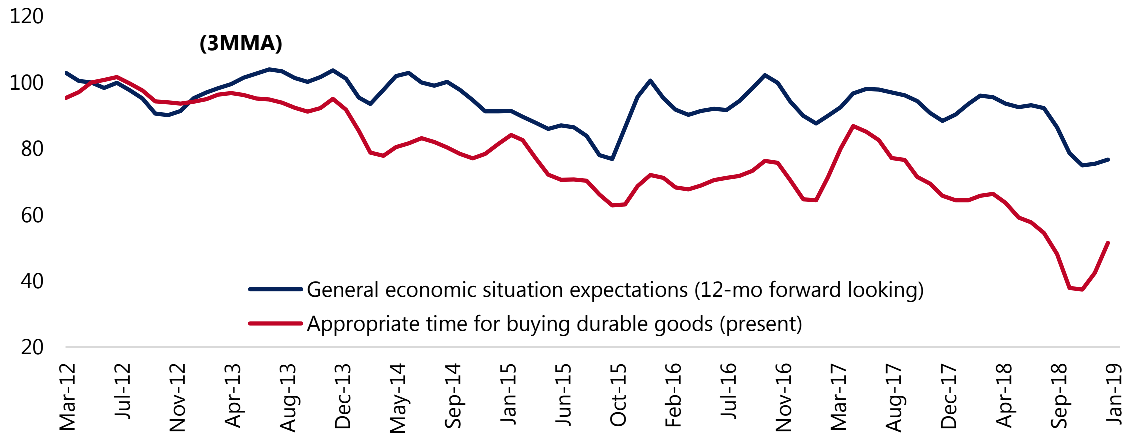
The loan growth seems to bottom out



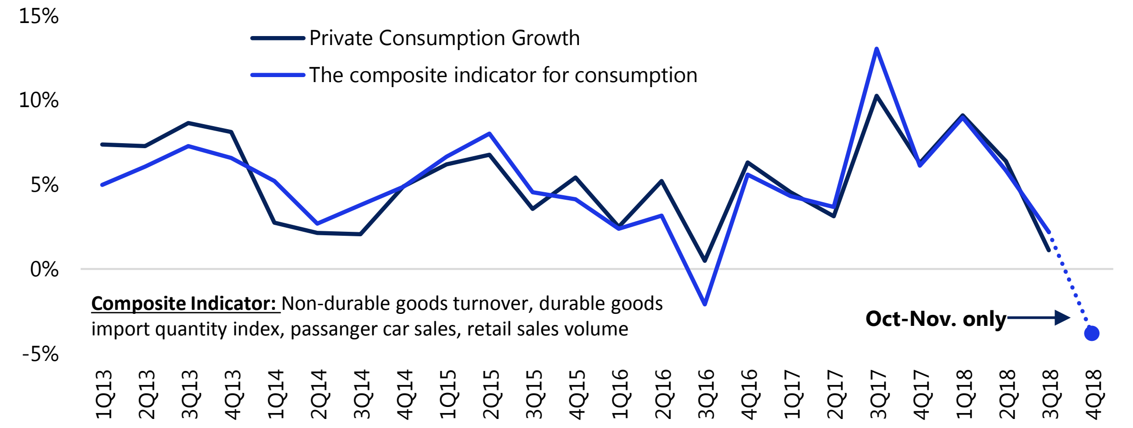
The credit impulse implies contraction in private sector consumption in 4Q18



Consumer Confidence Index stands at record low levels



The composite indicator signals a contraction in 4Q18 private consumption

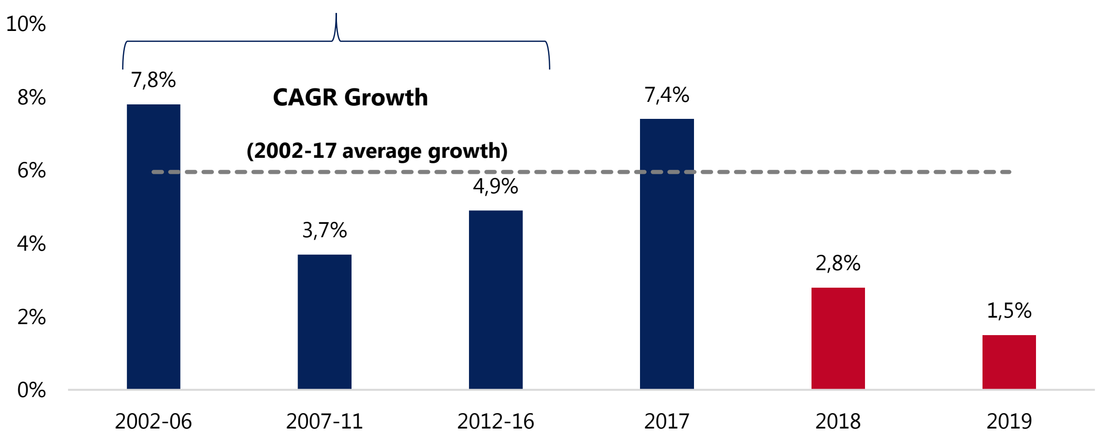


Source: Turkstat, CBT, BRSA, Tacirler Investment

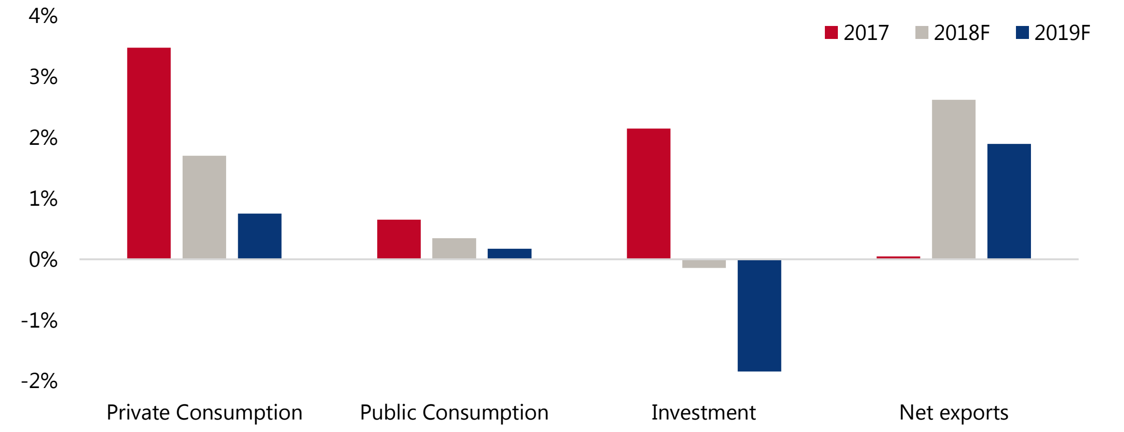
Economic Growth

We maintain our 2019 GDP growth estimate at 1.5% down from 2.8% in 2018

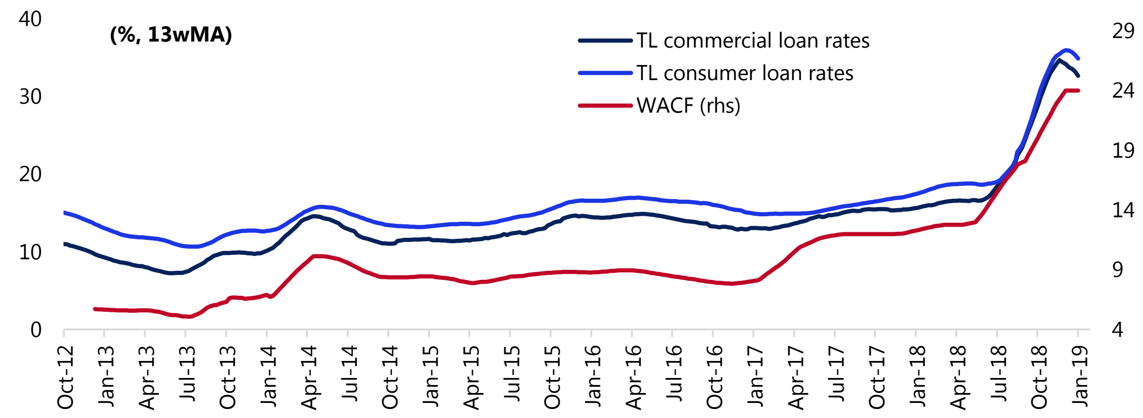
We maintain our 2019 GDP growth estimate at 1.5%



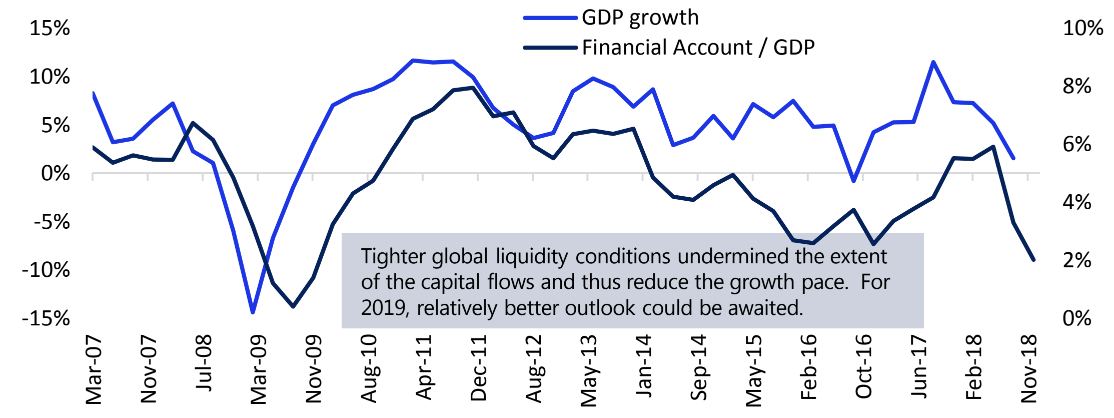
The main catalysts for the growth will be «net exports» performance in 2019



Tighter financial conditions to weigh on growth dynamics



Economic growth is mostly dependent on capital flows

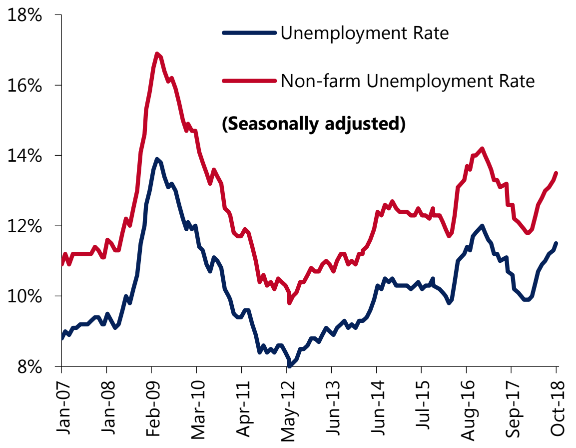


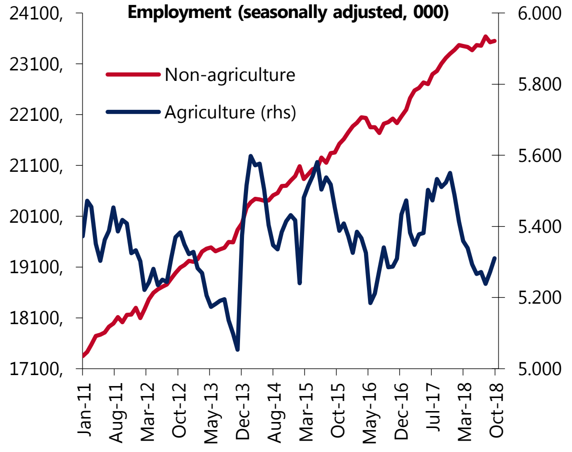
Source: Turkstat, CBT, Tacirler Investment

Employment

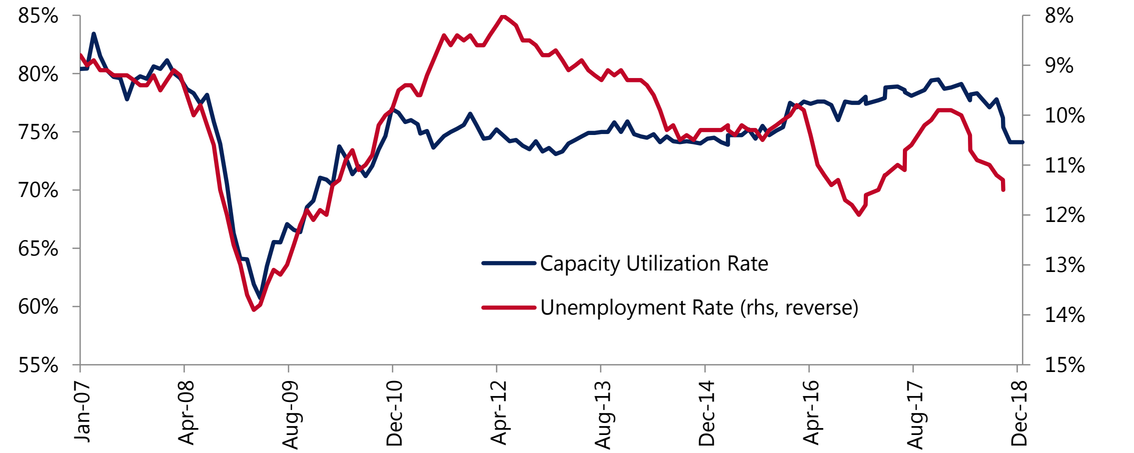
Weak growth resulted in deterioration in unemployment rate

The worsening in unemployment rate continues

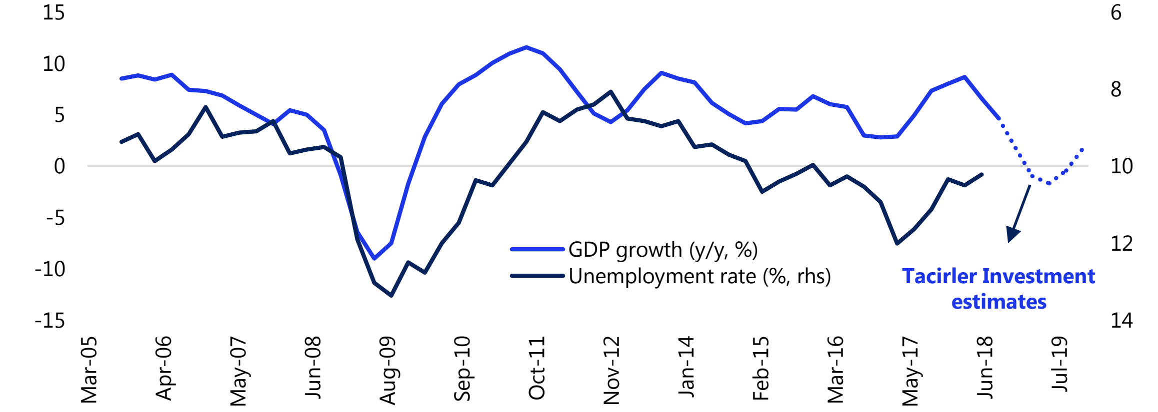




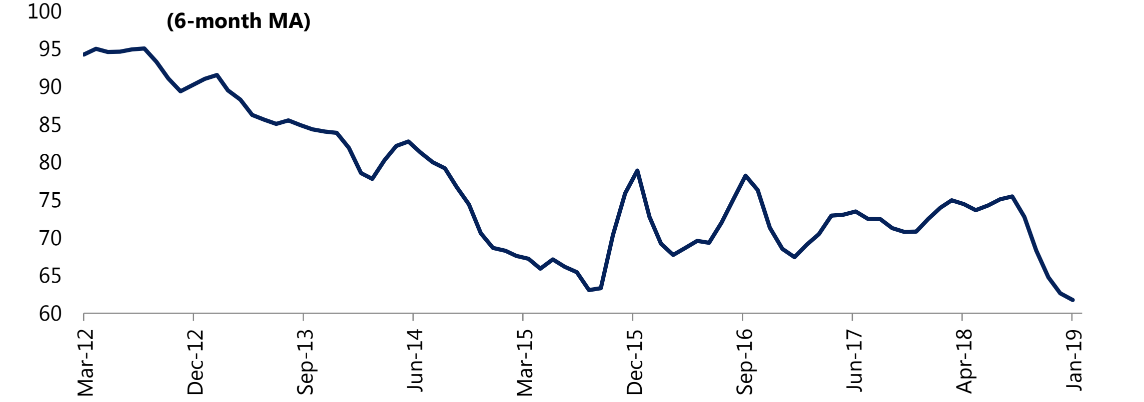
As the capacity utilization falls, the unemployment starts to follow it



Changes in employment sector take place with a lag



Expectations for # of unemployed indicates palpable deterioration



Source: Turkstat, CBT,Tacirler Investment

Price Dynamics (I)

Annual inflation will remain elevated until end-2Q19

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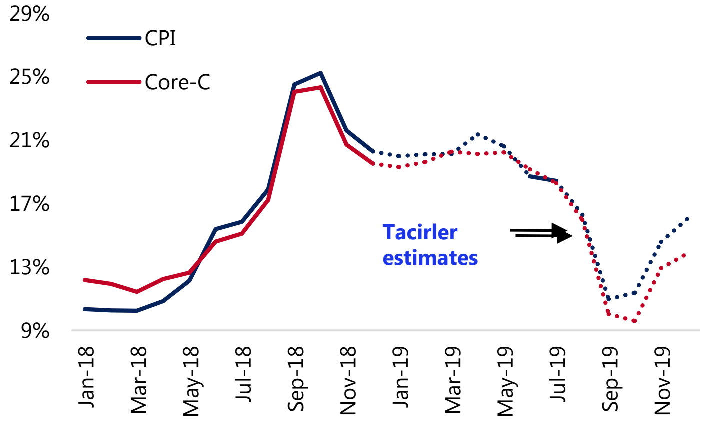
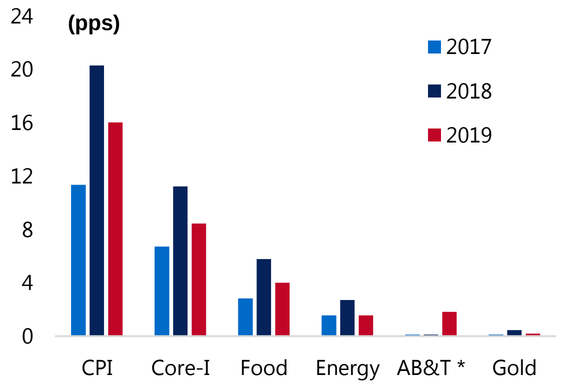


The recent SCT rise on tobacco products will be influential on the course of the inflation throughout 2019. Yet it is still unknown to what extent the adjustment would be reflected into end-prices. (Our house estimate incorporates tobacco price hikes to fully reflect tax adjustments in 2Q19).

However, starting from 3Q, we expect to see a sharp improvement in CPI before it rises to some extent again. Weak economic activity, stable TL and supportive energy prices are main causes for the improvement in CPI.

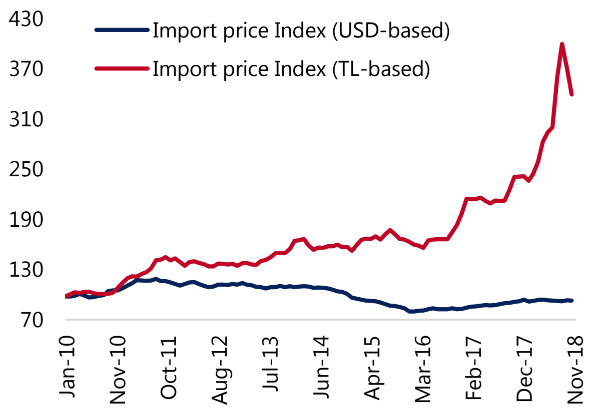
Our 2019 CPI rise estimate stands at 16.3%

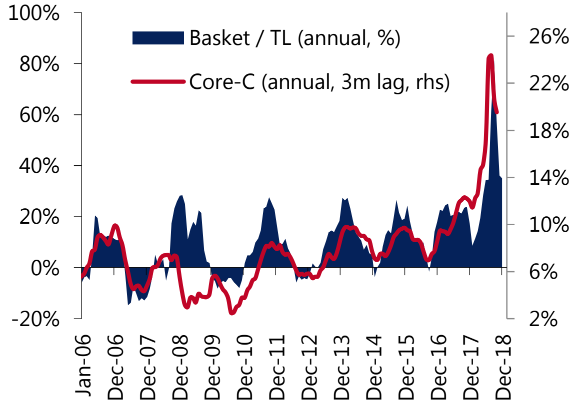


* *AB&T: Alcholic Beverages and Tobacco*

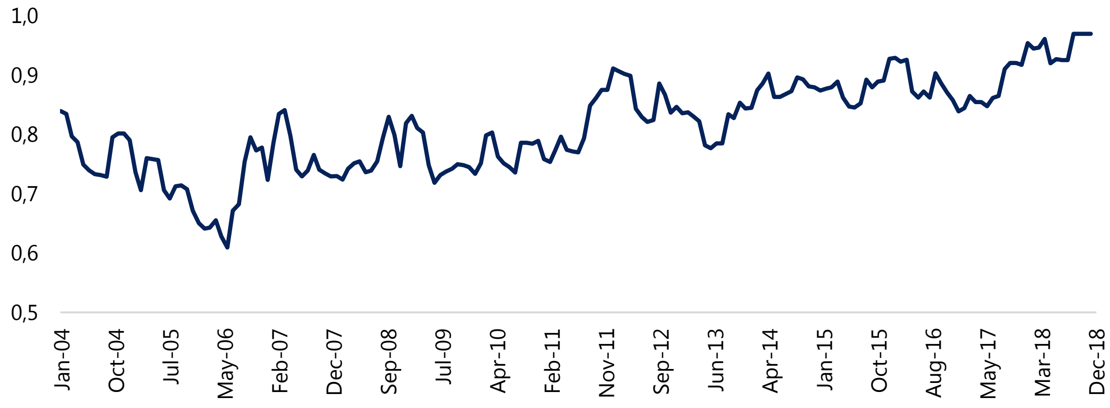
Pass through coming from weak economic activity has already taken its place on inflation figures.
Elimination of the negative FX pass through impact in the coming months together with the more stable outlook in TL will also help inflation to moderate.
Supportive oil price environment and stable TRY will keep the energy prices restrained.
Food prices will continue to be the main drag albeit at a lower degree compared to 2018. The structural problems will keep the volatility in unprocessed food segment high. The processed food side, which is more elastic to the weak economic activity, might act more favorable to CPI.
Two episodes of different base impacts will be the case in 2019. 1H19 will be under the pressure of unfavorable base impact, but the favorable base will help cutting the annual inflation by 300-500bps during 2H19.

FX pass-through carries annual inflation to its highest in recent years





Inflation Diffusion Index reveals a broad based inflationary pressure

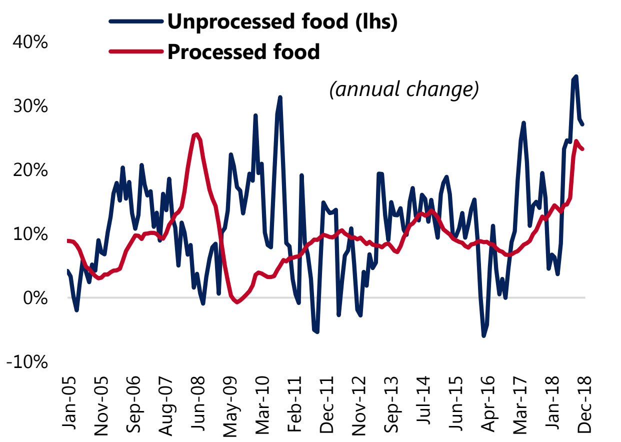


Source: TURKSTAT,CBT, Bloomberg, Tacirler Investment

Price Dynamics (II)

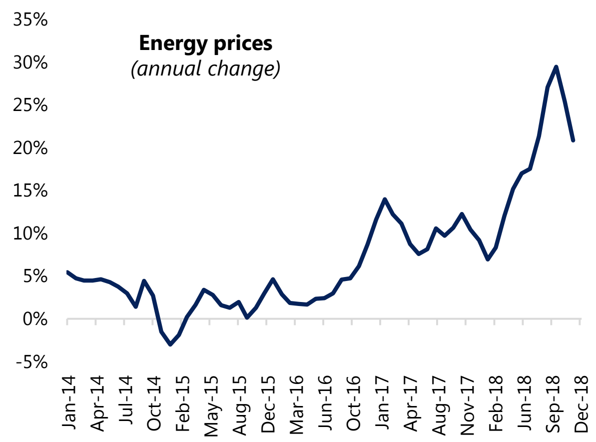
Our 2019 CPI rise estimate stands at 16.3%

We expect food inflation to retreat in 2019 albeit remaining high at 17%



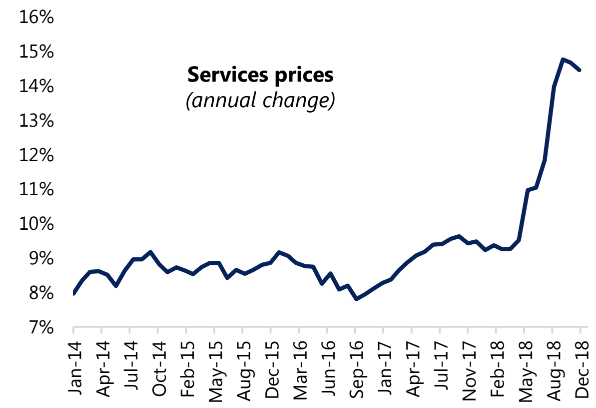
We expect the food inflation to ease towards 17% in 2019 down from 20.3% in 2018. We believe most of the improvement would stem from the processed food side, which will be under pressure of weaker domestic demand. However, strong tourism sector will continue to weigh on the food inflation, which poses an upward risk on our estimate. On the unprocessed food prices, we expect the high volatility to continue. Note that our 2019 food inflation estimate stands conservative compared to the CBT's estimate at 13%.

We expect the energy prices to be supportive throughout 2019



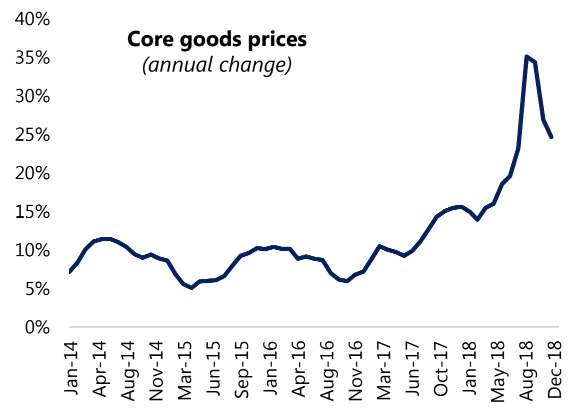
The currency shock together with rising global oil prices fed the energy inflation significantly, while y/y rise in energy prices had skyrocketed to 29.5% as of September. But starting from October, global oil prices have witnessed a sharp decline. Moreover, TL appreciated 21% in real terms during the same period. Our base scenario incorporates lower average oil prices and stable TL throughout 2019. **Under these circumstances, we expect energy inflation to be at around 12% this year.**

The services inflation is likely to remain high due to stickiness in prices



Pricing behavior and inertia are very critical for the course of the services sector inflation. The FX pass-through has a limited direct impact on the services side, given that services lack the pressure from international competitiveness and thus is rather closed in nature. Inertia finds its way by backward indexation, given that the services sector is labor-intensive and the wage contracts are critical on general pricing levels. The pricing behavior has deteriorated notably which can be detected by the course of the services sector prices.

Further improvement should be awaited in core goods inflation



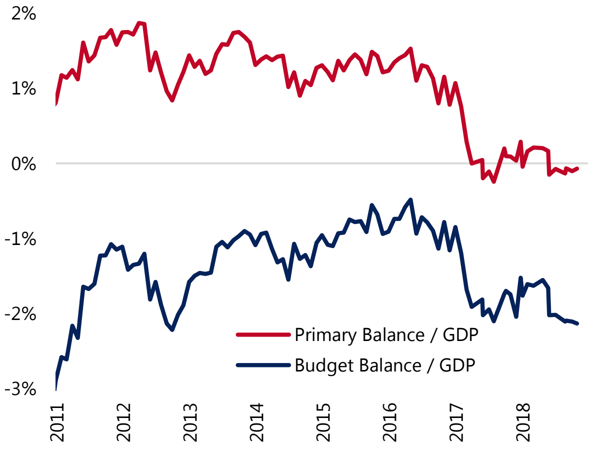
Key determinants of core goods prices are the course of TL and economic activity. These two components ignited a sharp increase in core goods prices starting from the beginning of 2017. However, the weak economic activity in 1H19 and rather stable TL will stage material improvement from very high levels in 2018. The VAT ad SCT cuts on several sectors also played an important role in the very recent improvement. However, the resumption of taxes in 2Q19 would add to core goods prices.

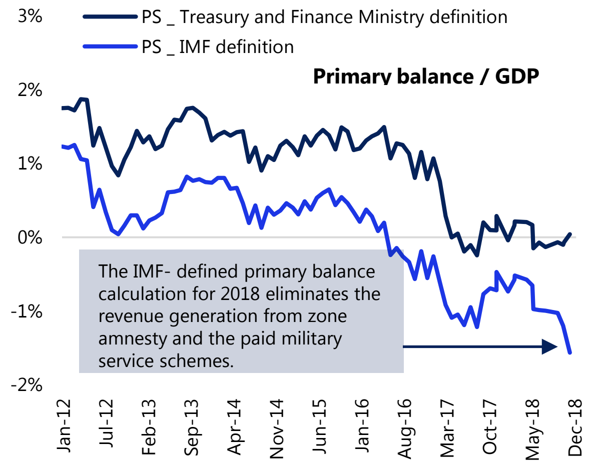
Source: TURKSTAT,CBT, Tacirler Investment

Fiscal Dynamics (I)

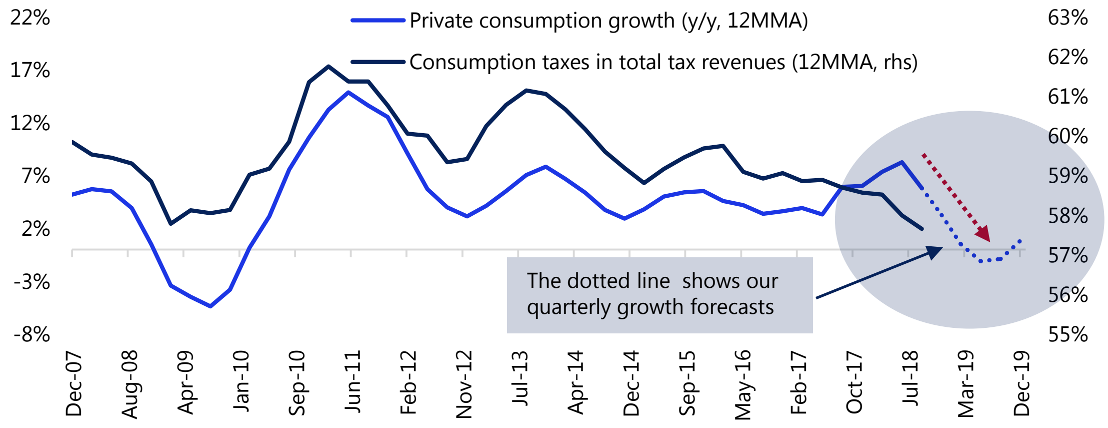
Coherent fiscal policy is crucial in a combination of weak activity & high inflation

Central government budget deficit to GDP hovers around 2% of GDP

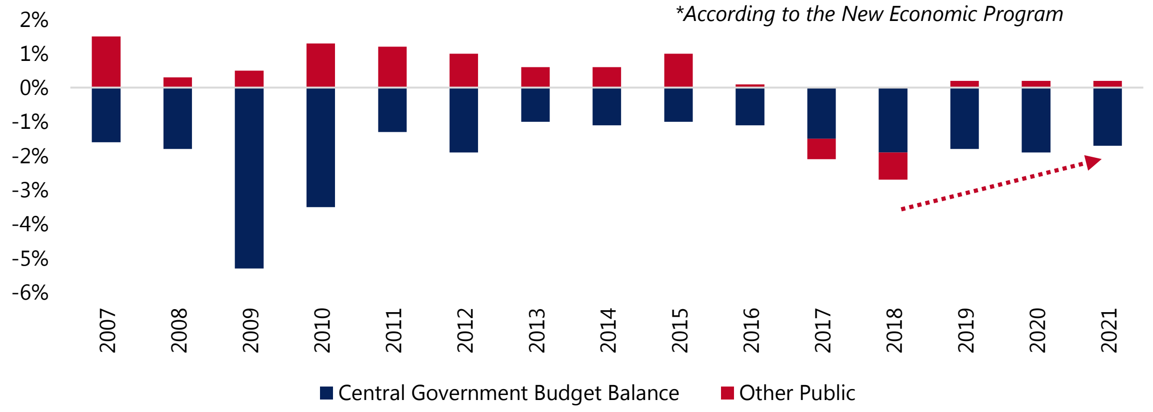




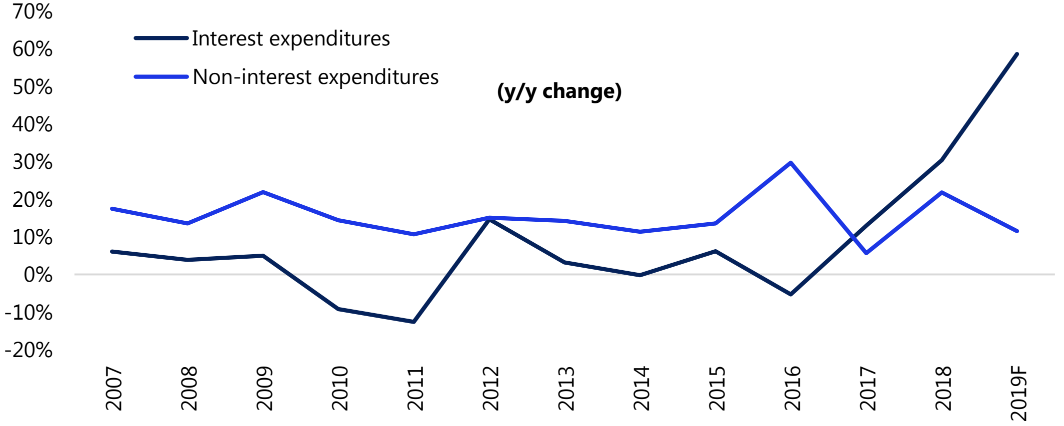
Weakness in consumption will weigh on the revenue generation in 2019



Public balance is expected to improve to 1.6% in 2019 from 2.7%



Rise in interest expenditures is limiting the maneuver capability



Source: Ministry of Finance, TURKSTAT, Tacirler Investment

Fiscal Dynamics *(spending)*

Rising interest spending limits the maneuver capacity of the budget

**According to the New Economic Program*	2018	2019	Nominal chg.	Real chg. *
Central Government Budget Expenditures	**830.4**	**961.0**	**15.7%**	**-0.5%**
Non-interest expenditures	*756.5*	*843.7*	11.5%	-4.1%
Personnel expenditures	200.9	247.3	23.1%	5.9%
Social Security Premiums	34.4	43.4	26.2%	8.5%
Goods and Services	71.7	67.6	-5.8%	-19.0%
Current transfers	323.1	391.3	21.1%	4.1%
Capital expenditures	88.0	54.4	-38.1%	-46.8%
Capital transfers	16.7	10.0	-40.0%	-48.4%
Liability	21.7	21.7	0.4%	-13.7%
Reserve Appropriations	0.0	7.9	-	-
Interest Expenditures	*74.0*	*117.3*	58.6%	36.4%
(as % of GDP)				
Central Government Budget Expenditures	**23.4%**	**23.0%**	-	-
Non-interest expenditures	21.3%	20.2%	-	-
Personnel expenditures	5.7%	5.9%	-	-
Social Security Premiums	1.0%	1.0%	-	-
Goods and Services	2.0%	1.6%	-	-
Current transfers	9.1%	9.4%	-	-
Capital expenditures	2.5%	1.3%	-	-
Capital transfers	0.5%	0.2%	-	-
Liability	0.6%	0.5%	-	-
Reserve Appropriations	0.0%	0.2%	-	-
Interest Expenditures	2.1%	2.8%	-	-

** Our house estimate for annual CPI at 16.3% was incorporated for real change calculation.*

** Our house estimates for nominal GDP is at TL3.6trl for 2018 and TL4.2trl for 2019.*

In real terms, the central government budget spending are expected to remain unchanged according to the government's targets. Recall that the government announced fiscal measures for 2019 including TL60bn of cost-cutting measures and TL16bn of additional revenue generation

As per the non-interest expenditures, the expected real change is negative at 4.1% mainly on the back of the cut projected at the capital expenditures to the tune of above TL30bn which corresponds to 47% real decrease. In addition, the capital transfers are also expected to fall by a significant 49% in real terms. The government has underlined before that there will be TL31bn of saving from the investments spending, Another cost-cutting item was in regards to «goods and services» spending, which will be reduced by TL4.1bn implying 19% real drop.

The three major spending items that will exhibit real increases will be «personnel», «social security premiums» and the «current transfers». The prevailing incentives for the employment for 2019 will keep the non-interest expenditures side busy. There were bonus payments to the pensioners last year ahead of the two religious holidays in 2018 and back then it was announced that these bonus payments were to prevail in the coming years. If no amendment is to take place on that front, this will also add further pressure on the personnel expenditures this year.

The highest increase among the spending items is seen on the interest expenditures as a result of significantly elevated cost of borrowing. Accordingly, the interest expenditures are expected to portray 36.5% of a real increase in 2019. Higher interest expenditures obviously limit the maneuver capacity of the budget.

Source: Treasury and Finance Ministry, Tacirler Investment

Fiscal Dynamics *(revenues)*

Weak economic activity and lack of one-off items will weigh on revenue performance

***According to the New Economic Program**

	2018	2019	Nominal chg.	Real chg. *
Central Government Budget Revenues	**757.8**	**880.0**	**16.1%**	**-0.2%**
Tax Revenues	*631.0*	*756.5*	19.9%	3.1%
Income Tax	139.0	171.9	23.7%	6.3%
Corporate Tax	78.7	74.2	-5.7%	-18.9%
VAT on Imports	122.1	165.8	35.8%	16.7%
Special Consumption Tax	133.9	162.6	21.4%	4.4%
Domestic VAT	56.4	70.7	25.5%	7.9%
Motor Vehicle Tax	12.8	16.0	24.6%	7.1%
Fees	21.7	27.7	27.9%	10.0%
Stamp tax	17.0	20.8	22.6%	5.5%
Banking Insuarance Transaction Tax	18.2	19.0	4.5%	-10.2%
Others	31.3	27.8	-11.3%	-23.7%
Non-tax revenues	*126.8*	*123.5*	-2.6%	-16.3%
(as % of GDP)				
Central Government Budget Revenues	**21.3%**	**21.0%**	-	-
Tax Revenues	17.8%	18.1%	-	-
Income Tax	3.9%	4.1%	-	-
Corporate Tax	2.2%	1.8%		
VAT on Imports	3.4%	4.0%	-	-
Special Consumption Tax	3.8%	3.9%	-	-
Corporate Tax	1.6%	1.7%	-	-
Domestic VAT	0.4%	0.4%	-	-
Fees	0.6%	0.7%	-	-
Stamp tax	0.5%	0.5%	-	-
Banking Insuarance Transaction Tax	0.5%	0.5%	-	-
Others	0.9%	0.7%		
Non-tax revenues	3.6%	3.0%	-	-

** Our house estimate for annual CPI at 16.3% was incorporated for real change calculation.*

** Our house estimates for nominal GDP is at TL3.6trl for 2018 and TL4.2trl for 2019.*

Source: Treasury and Finance Ministry, Tacirler Investment

Income tax: The only meaningful revenue rise expectations has found a place in income tax, which is expected to post a real increase of 6.3%. Amid weak activity environment, we believe that such an increase would imply the fight with the unregistered economy will gain pace that would add to the revenue generation.

Corporate tax: Weak economic activity and higher FX rates diminished turnover and thus the tax base of the corporate sector, which results in lower tax revenues generation expectation for 2019.

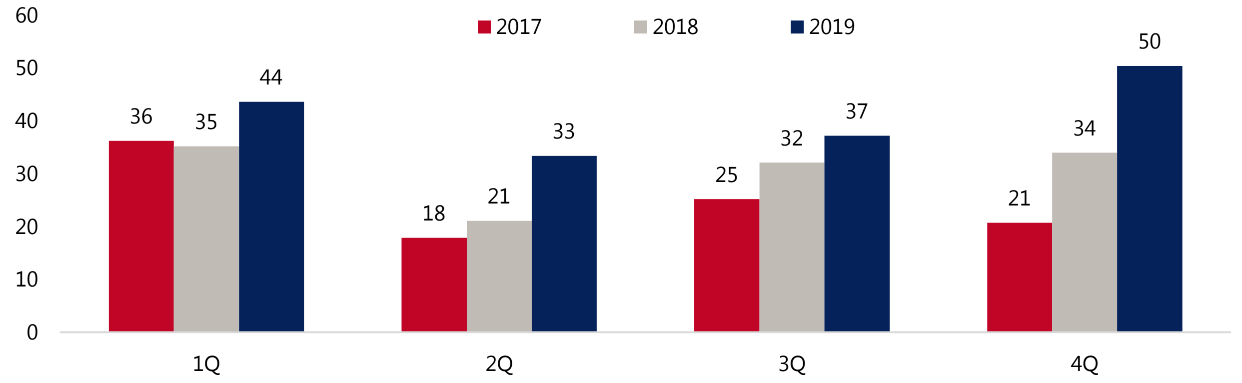
Consumption taxes: The share of indirect taxes in total stands significantly high at 65%. Given that the economic landscape is very influential on the performance of the indirect taxes, 2019 would not pose a prospective year in terms of tax revenue generation. Domestic VAT and SCT taxes consist 50% of the indirect tax revenues generation. And in 2019, in real terms, a weak performance is expected by the government despite higher than consensus GDP growth estimate. In the New Economic Program, the government has announced that there will be a tax adjustment with an updated intensified product list. Despite this fact, the revenues performance is projected to be weak. Last but not least, although the contraction in imports due to weaker economic activity is expected to continue in 2019, 16.7% of a real increase in VAT on imports can be attributable to higher Basket/TL parity.

Lack of one-off revenue generation: The budget has been benefiting largely from the one-off revenues generation such as restructuring scheme of taxes and other state receivables, zone amnesty as well as paid military service program. Throughout 2018, the revenue generation from these items amounted to TL50bn (c.a.6.5% of budget revenues) Given that Treasury and Finance Minister Albayrak made it clear that there will be no further restructuring scheme for taxes, social security or any other kind of debts in the coming period, temporary sources to feed the budget revenues will not be the case this time.

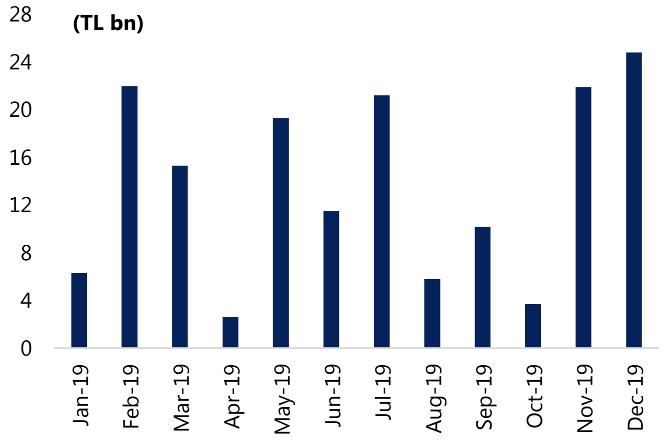
Debt Service *(Domestic)*

Treasury has been giving signals of a different borrowing strategy since November

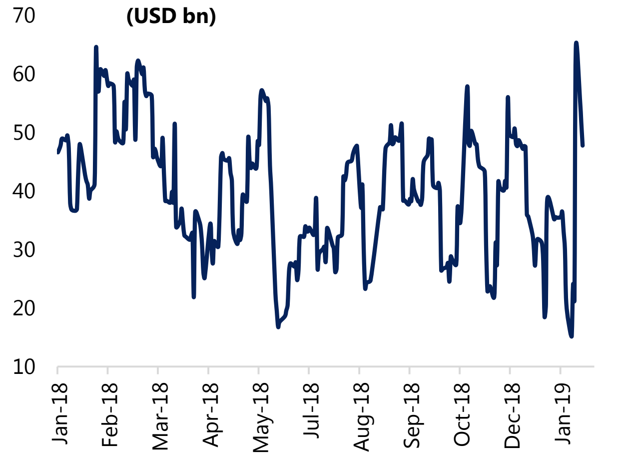
Treasury's Domestic Debt Service *(TL bn)*



Treasury's Monthly Domestic Debt Serv.



Treasury's cash account at CBT



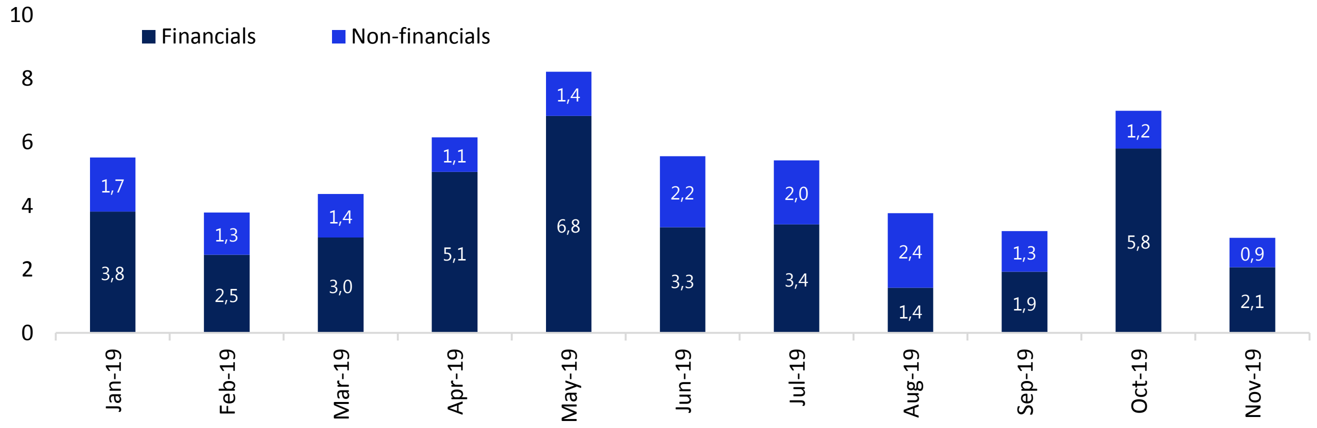
- The Treasury has been giving signals of a different domestic borrowing strategy since November. If the cash accounts are strong, the Treasury cancels some of the auctions previously scheduled or tap the markets at much lower amounts than projected. In addition, diversification of the instruments is prioritized as FX-based debt instruments make the agenda currently. The Treasury very recently held EUR-denominated bonds and lease certificates .
- Moreover the borrowing schedule of the Treasury released in January showed that rather than fixed coupon bonds, the floating and CPI-linker bonds are preferred. In addition, 10y fixed coupon bond does not find place in 1Q19 strategy.
- The Treasury's cash accounts as of mid-January is quite strong thanks to the earlier than expected profit transfer from the CBT as well as two Eurobond issuances. The profit transfer from the CBT was quite massive to the tune of TL37bn, which strengthened the cash accounts to TL64.4nm in January 18. Since then it has eased to TL47bn.
- Treasury's domestic debt services amount will increase by TL41bn in 2019. In the first quarter of 2019, the debt services will be higher at around TL10bn compared to the same period of last year and 50% of will be held in February. The highest domestic debt service of the year is slated for the last quarter to the tune of TL50bn.
- The highest monthly domestic debt redemptions throughout the year are slated for February and December to the tune of TL23bn and TL25bn respectively. According to the very recently released 1Q19 borrowing strategy, the Treasury plans to borrow TL35bn from the markets in 1Q19 in order to meet its market redemption of TL34.5bn implying a market rollover ratio close to 100%.

Source: CBT, Treasury, Tacirler Investment

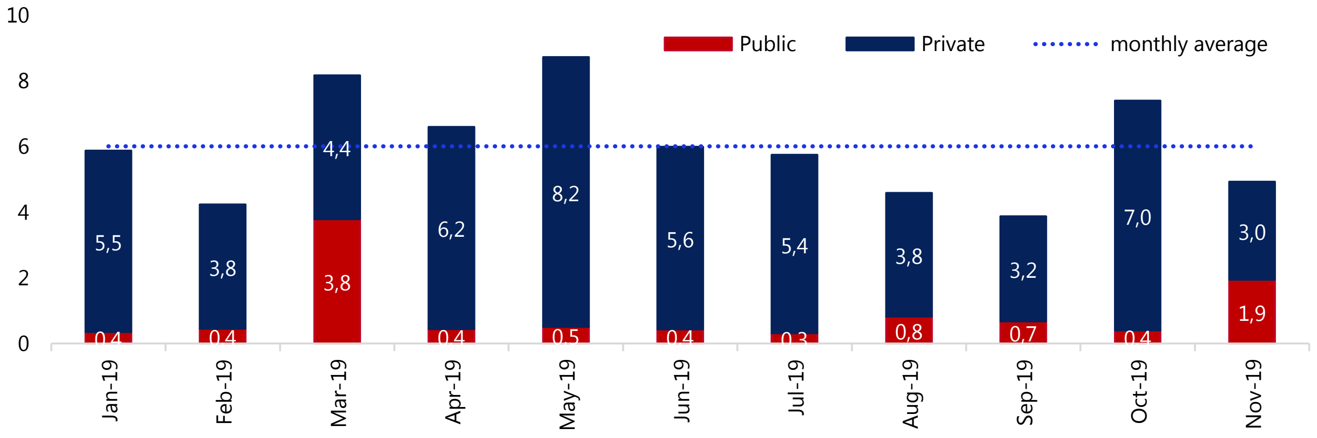
Debt Service *(External)*

The highest external debt repayments are slated for 2Q19

External Debt Payments *(private sector, USD bn)*



External Debt Payments *(public + private, USD bn)*



Source: CBT, Treasury, Tacirler Investment

- The total external debt payment of public and private sector during 1Q19 will be USD18.3bn, of which USD4.5bn belong to the public.

- There is a higher amount of external debt payment to the tune of USD20.9bn in 2Q19. 93% of this external debt payments in 2Q19 belongs to the private sector. The banking sector's payments will be USD14.8bn of the total USD19.5bn of private sector debt.

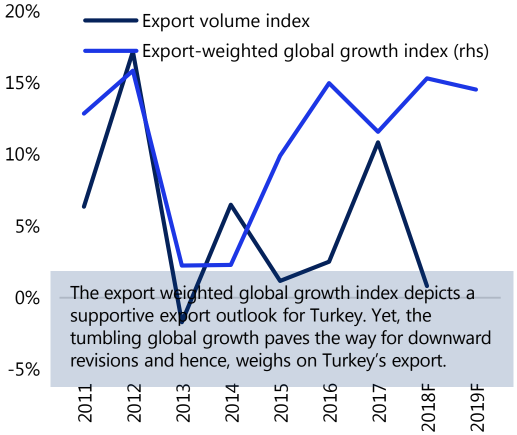
- So far, the Treasury borrowed USD3.4bn from the international markets via double Eurobond auctions. Accordingly, first USD-denominated bond (maturing 2029) raised USD2bn, which was followed by EUR-denominated bond issuance (maturing at 2025) to the tune of EUR1.25bn. We believe that another issuance throughout 1Q19 could be the case if the global financial markets provides a favorable outlook.

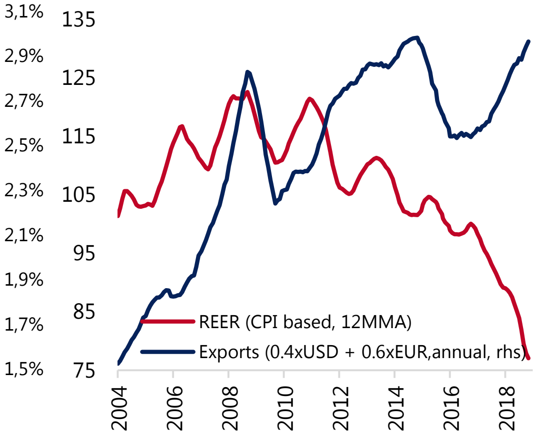
- The Treasury projects to tap the international markets to the tune of USD8bn this year. Last year, the foreign borrowing projection was at USD6.5bn though the Treasury borrowed USD7.7bn through the Eurobond issuance, while the excess part was used in order to reduce the domestic borrowing need. We believe the amount of external borrowing might also change this year, depending on the cost and availability of financing in international markets as well as conditions in domestic borrowing markets.

External Demand

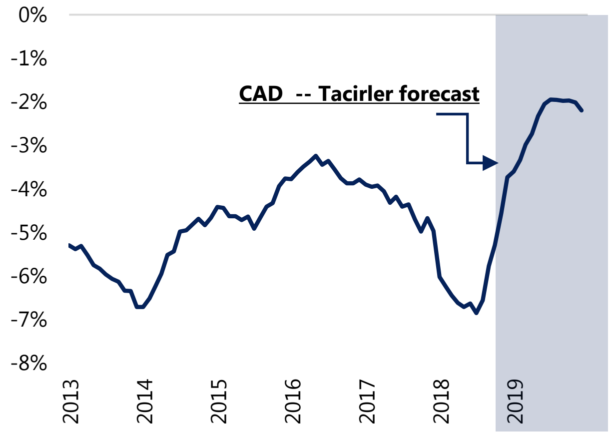
The current account deficit will continue to improve throughout 2019

We expect exports to rise 6% y/y this year with some downside risks





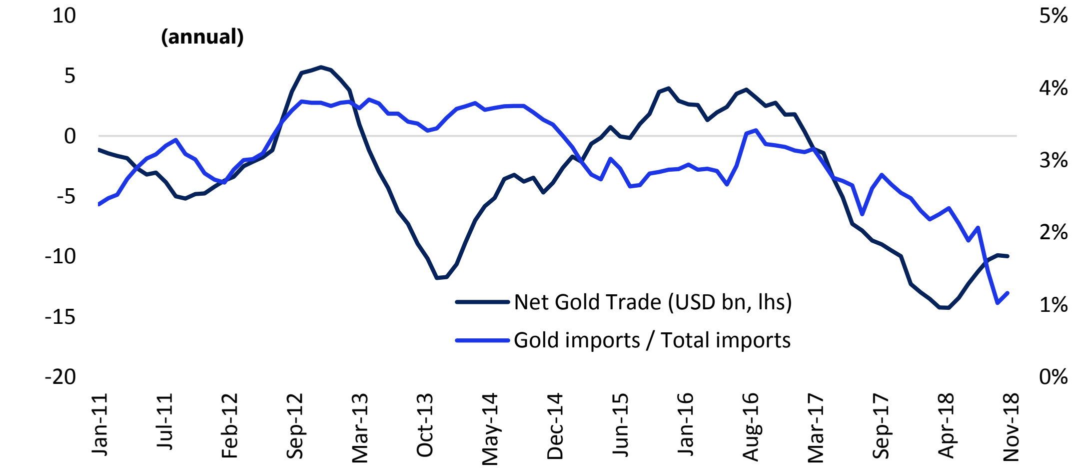
We expect CAD to narrow to USD16.7bn (2.3% of GDP) in 2019



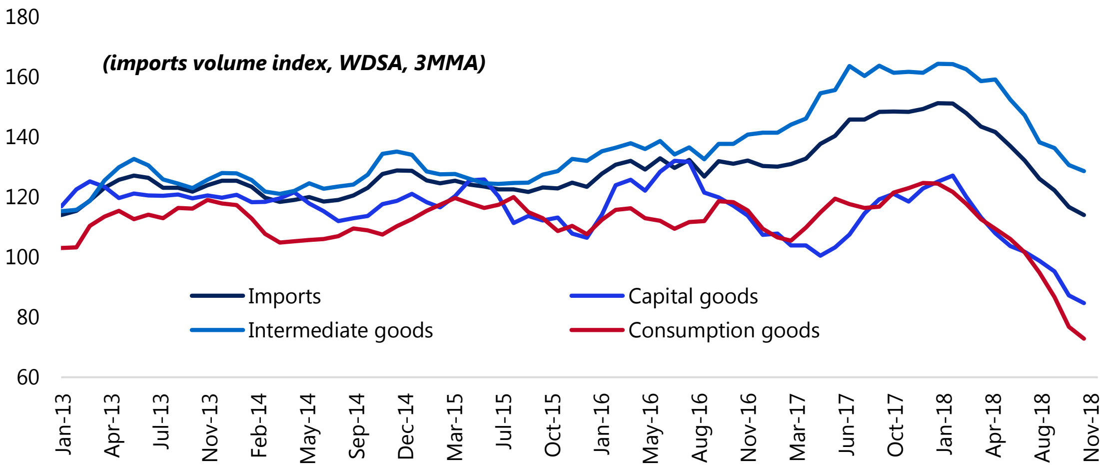
The main assumptions that back our CAD estimate are as follows:

- **Weaker economic activity** will continue to weigh on imports, which we expect it to remain almost unchanged in 2019.
- **Tourism sector** performance will be stronger, while we incorporate 20% increase for gross tourism revenues *(Please see Box 2 on page 21 for further details).*
- **Energy import bill** would remain relatively low thanks to lower global oil prices (*Please see Box 1 on page 20 for further details).*
- **Normalization in gold trade** will also cap further pressure on imports.

Almost 25% of CAD ease since May stemmed from gold trade normalization



The consumption goods imports volume index depicted the sharpest decline

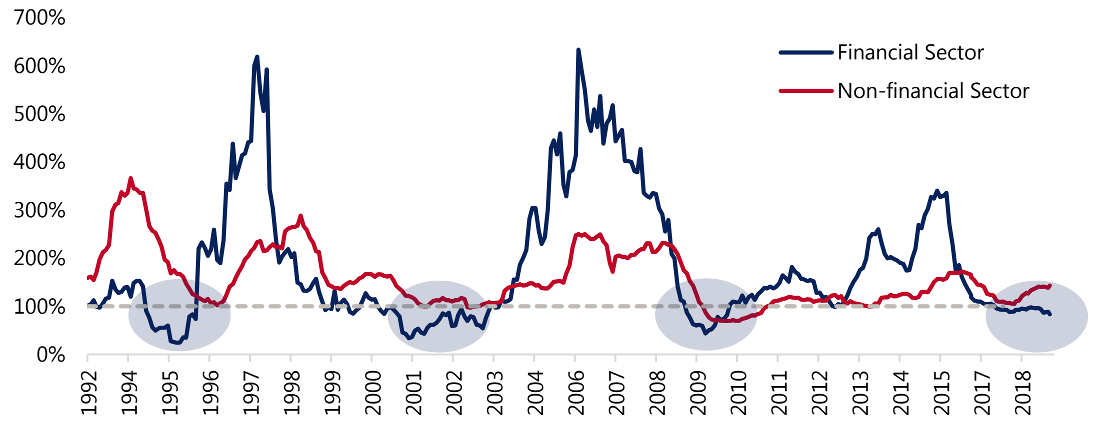


Source: CBT, World Bank, TURKSTAT, IMF, Tacirler Investment

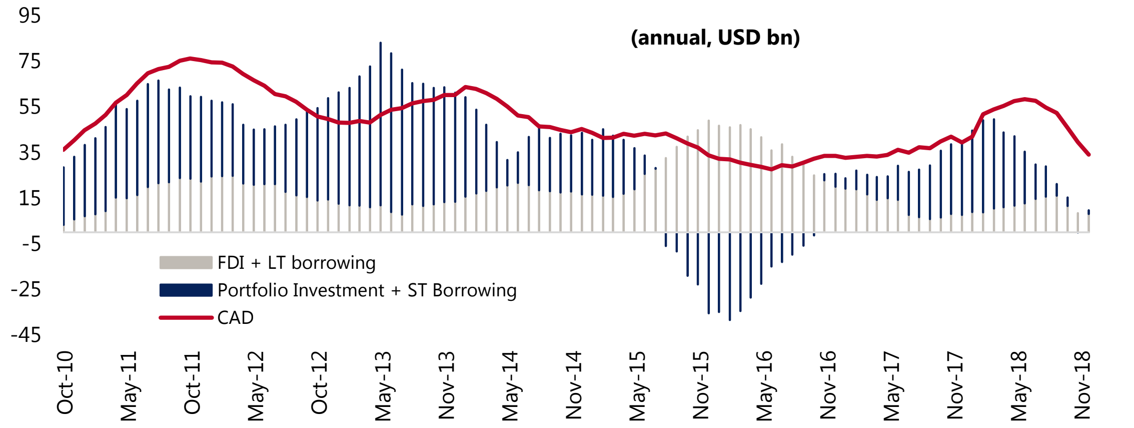
External Financing

Annual «external financing need» remains high at 23% of GDP

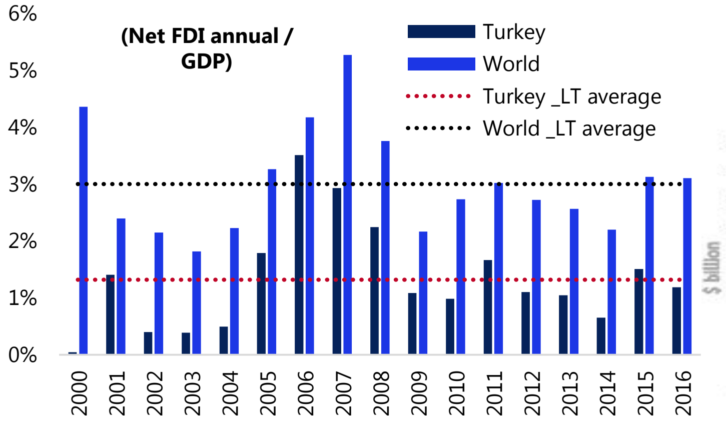
Corporate sector LT external debt ratio in annual terms is close to 100%

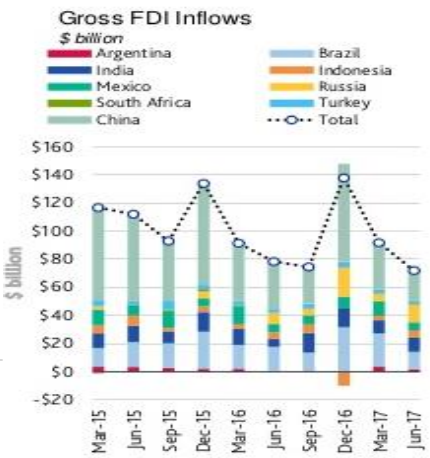


The amount of capital flows has been weakening since 2018

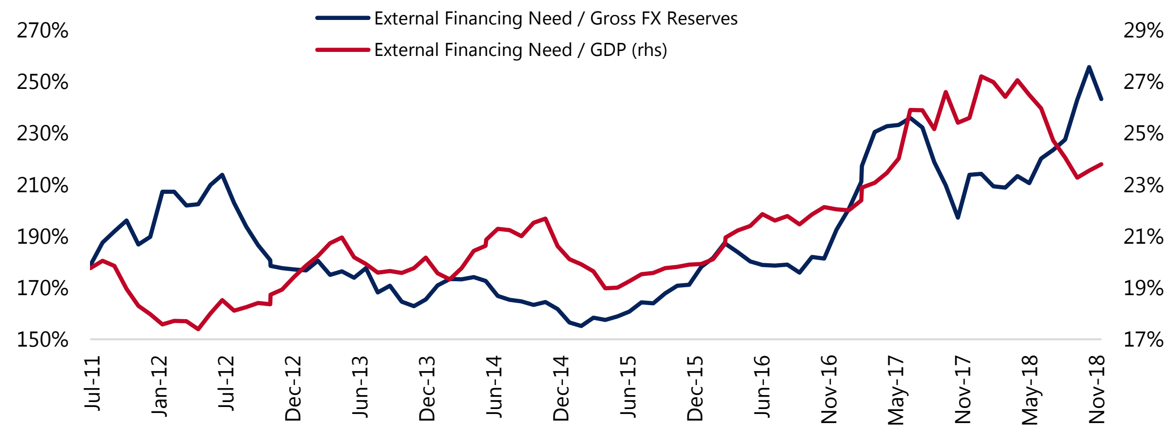


The «quality financing» remained below its already low LT average





Annual «external financing need» remains high at 23% of GDP

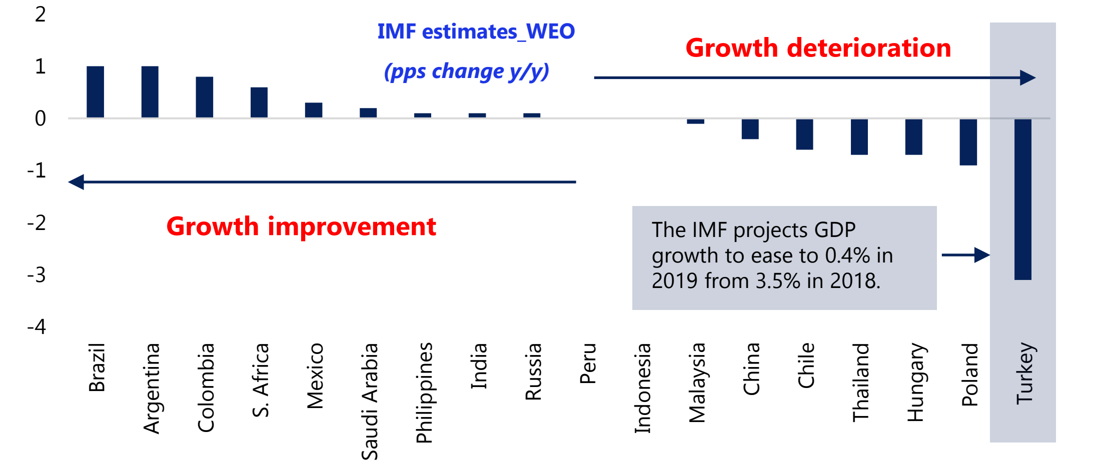


Source: CBT, World Bank, Moody's, IMF, Tacirler Investment

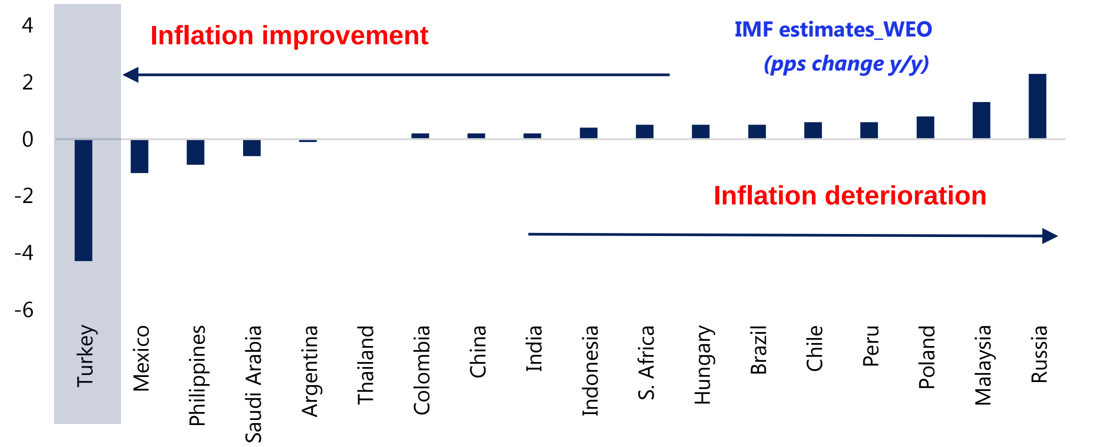
Comparison Analysis (2019/18)

Weak growth dynamics signals rebalancing of major vulnerabilities in 2019

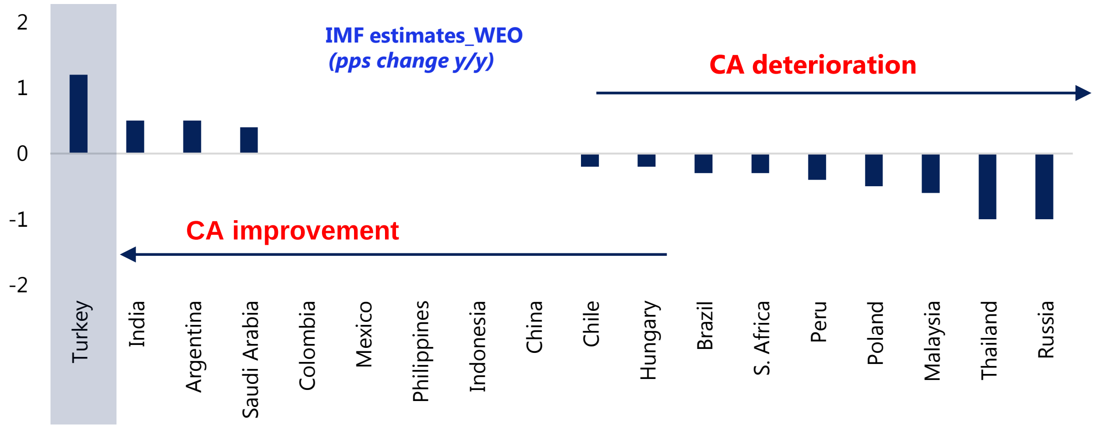
The growth dynamics will draw an unfavourable picture but …



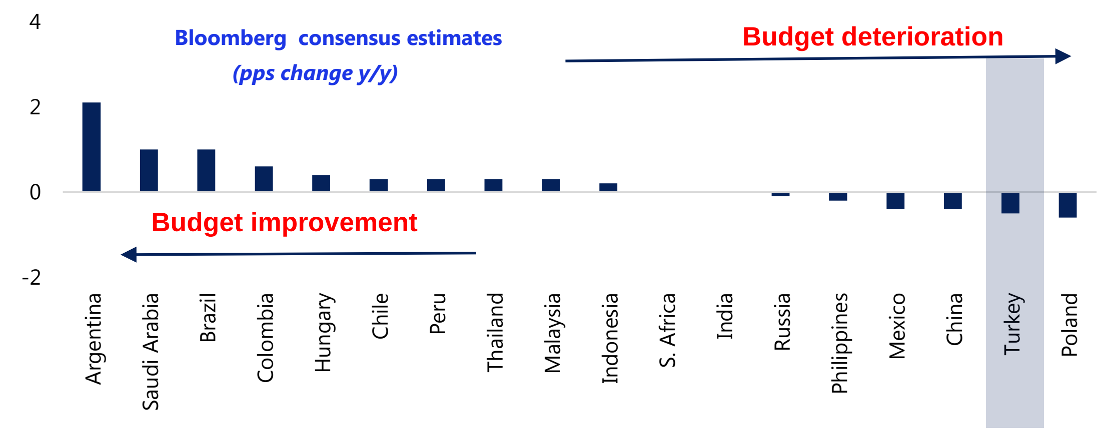
… inflation will improve significantly albeit remaining at high levels



… the adjustment in CAD will continue at full speed



The weak growth conditions will keep the budget deficit slightly higher

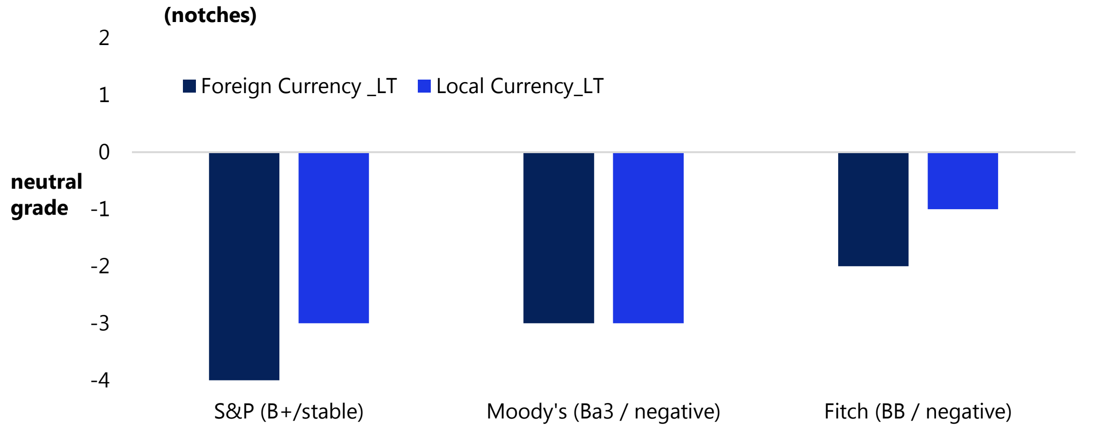


Source: IMF, Bloomberg, Tacirler Investment

Sovereign Rating

Turkey has experienced sharp rating downgrades in the past two years

Turkey’s sovereign ratings scale

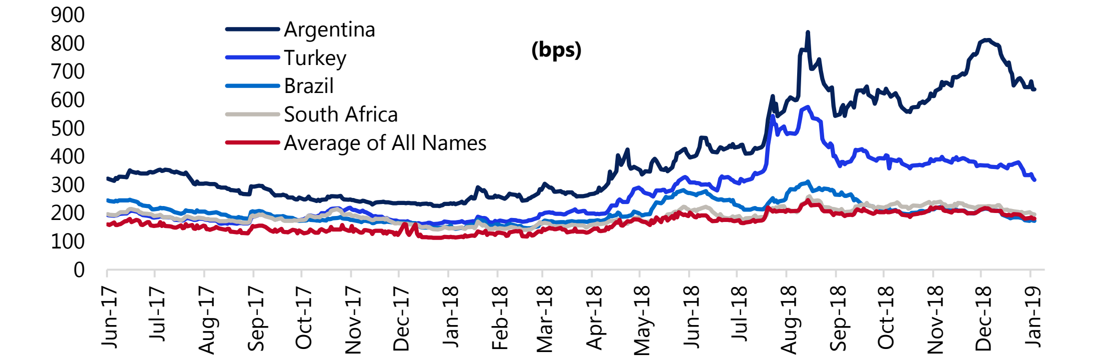


EM Sovereign Rating Scale

Speculative Grade

Moody's		S&P		Fitch	
Ba1	Russia, Morocco, Guatemala, Namibia	BB+	Croatia	BB+	South Africa, Croatia
Ba2	Croatia, Brazil,	BB	South Africa	BB	Turkey, Guatemala, Vietnam
Ba3	Bangladesh, Bolivia, Vietnam, Turkey	BB-	Vietnam, Bangladesh, Guatemala, Brazil, Bolivia	BB-	Brazil, Bolivia, Greece
B1	Suriname	B+	Kenya, Greece, Turkey	B+	Kenya, Nigeria
B2	Cambodia, Argentina, Nigeria, Kenya	B	Ecuador, Nigeria, Belarus, Egypt, Argentina	B	Egypt, Argentina, Belarus
B3	Egypt, Pakistan, Greece, Belarus	B-	Pakistan, Ukraine	B-	Ukraine,
Caa1		CCC+		CCC	
Caa2	Ukraine	CCC		CC	
Caa3	Venezuela	CCC-		C	
Ca		CC		D	
C		C			
		D			

Turkey’s 5y CDS remained high at above 300 bps levels



**Argentina, Turkey, Brazil, South Africa, Mexico, Russia, Indonesia, Malaysia, Philippines, Thailand, Bulgaria, Croatia, Czech, Egypt, Estonia, Greece, Hungary , India, Poland, Romania, Ukraine.*

The closest sovereign rating review date will be on February 15 by S&P

2019 Review Calendar of Rating Agencies for Turkey's Sovereign Rating

Fitch	3-May	1-Nov	
S&P	15-Feb	2-Aug	-

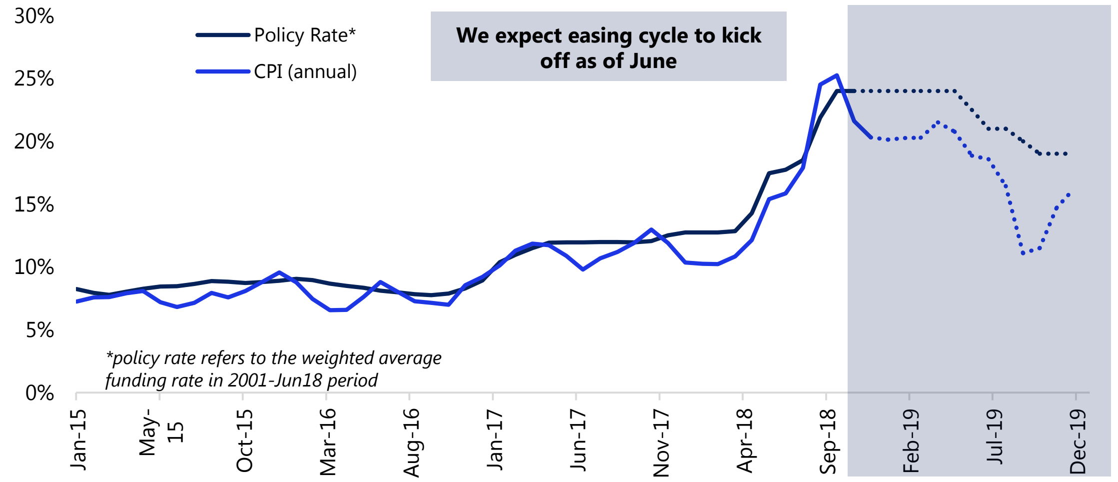
For Moody's the Sovereign Release Calendar includes sovereign issuers that are covered by a Lead Analyst based in the EU , as required by EU regulation and, in order to provide greater market clarity, it also includes EU sovereign issuers that are covered by Lead Analysts based outside of the EU. As Turkey is not part of the EU and the Lead Analyst is not based in the EU, it is not on the calendar.

Source: Rating Agencies, Bloomberg, Tacirler Investment

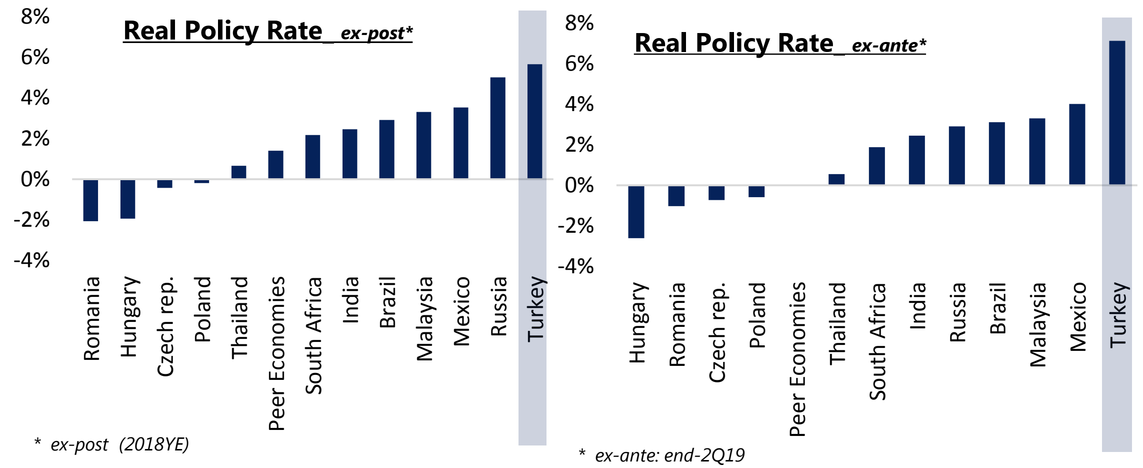
Monetary Policy & Yields

We expect monetary policy easing cycle to kick off as of June

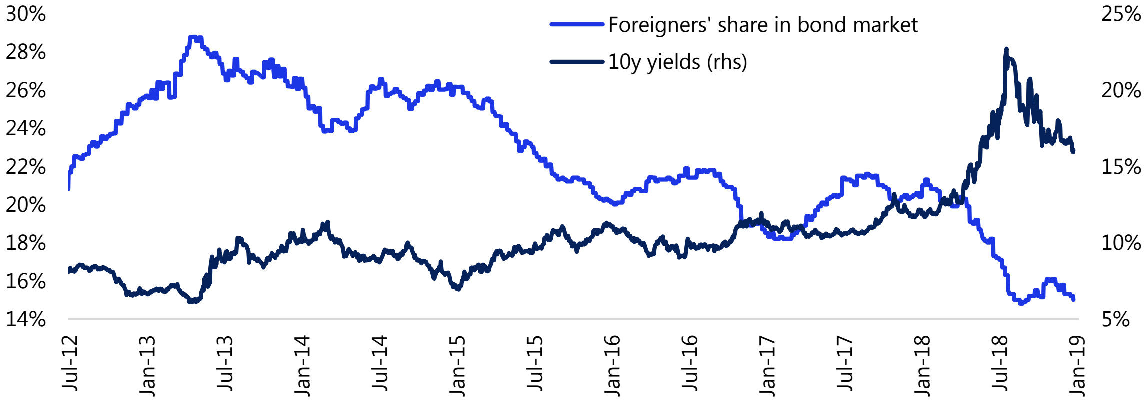
We expect one-week repo rate (policy rate) to ease 19% from 24% this year



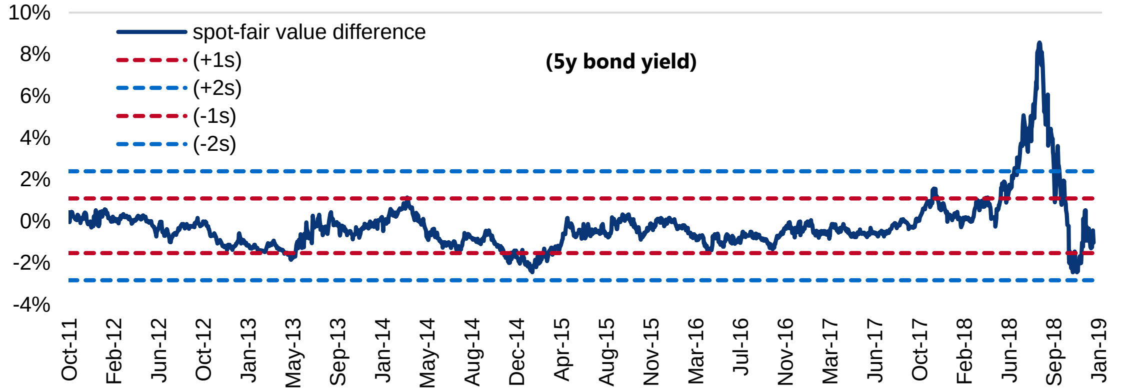
Current monetary stance supports the carry advantage of TRY



Foreign investors reduced their local bond positions significantly in 2018



Bond yields trade stronger compared to our fair value calculations



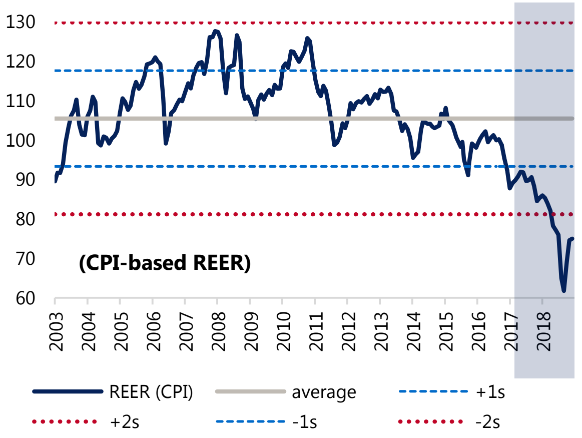
Source: CBT, Bloomberg, BRSA, Tacirler Investment

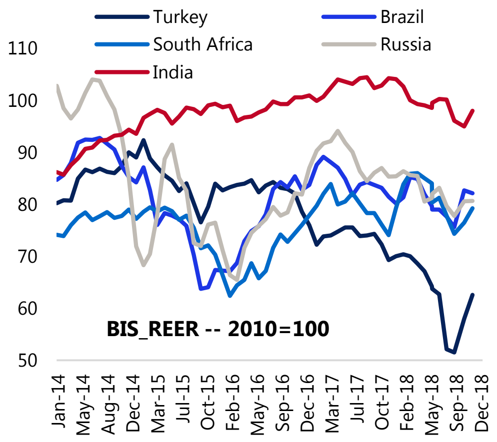
Local Currency

Still weak but rather stable

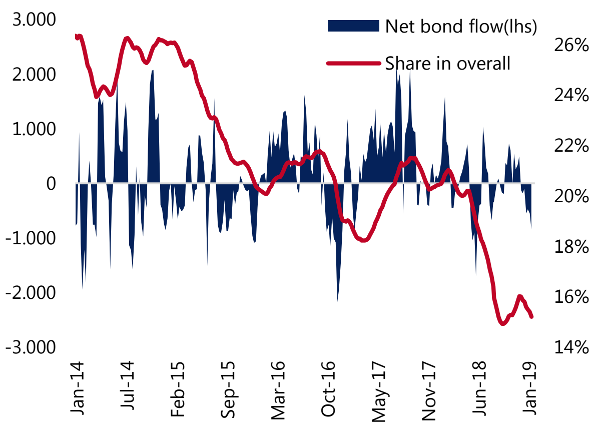
TACİRLER INVESTMENT

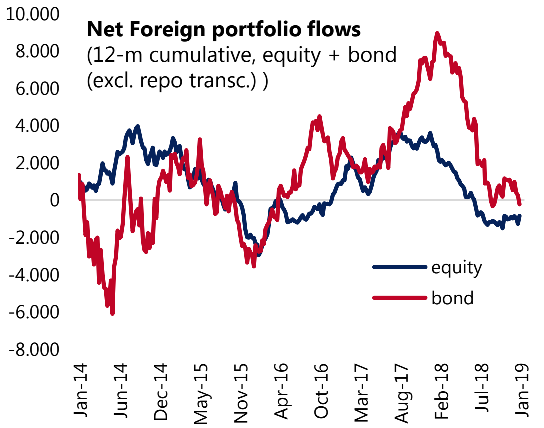
We incorporate a flat Real Effective Exchange Rate (REER) for end-2019



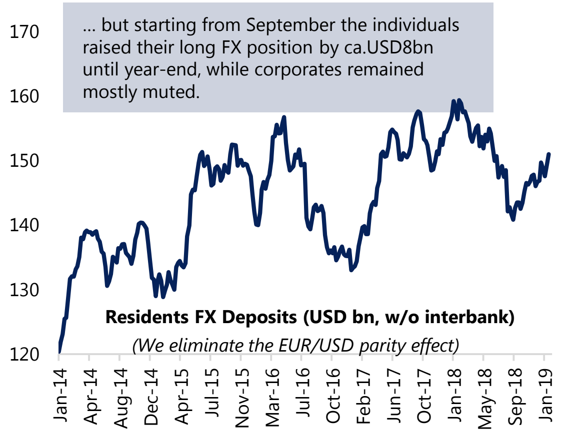


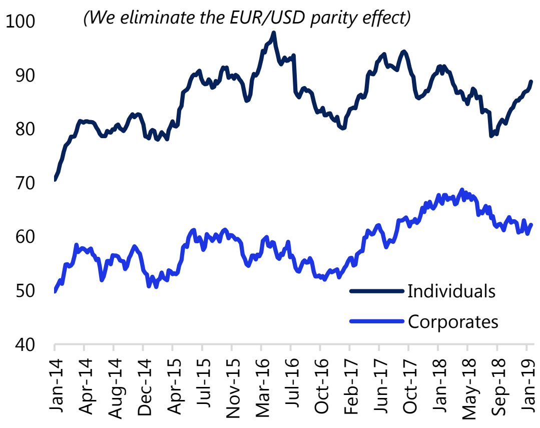
A slight recovery in foreign portfolio flows would help FX liquidity in 2019



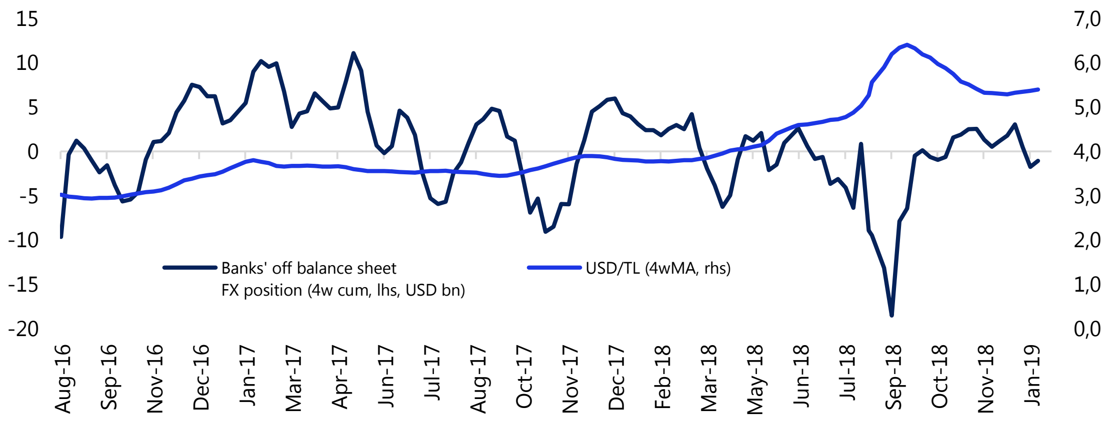


The residents FX deposits have decreased by USD6bn in 2018 …





TRY appreciated to some extent in line with the recovery in carry positions

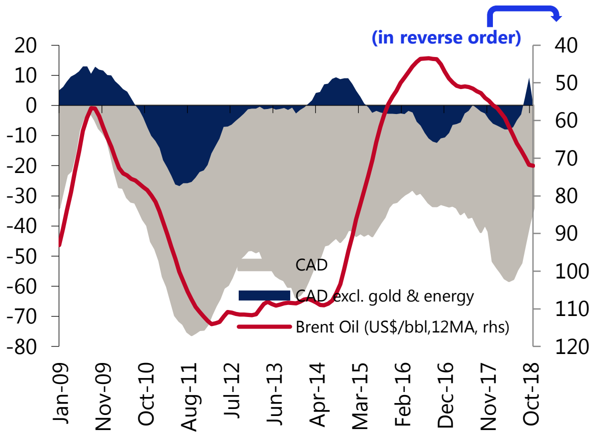


Source: CBT, BIS, Bloomberg, Tacirler Investment

Box 1: Oil prices

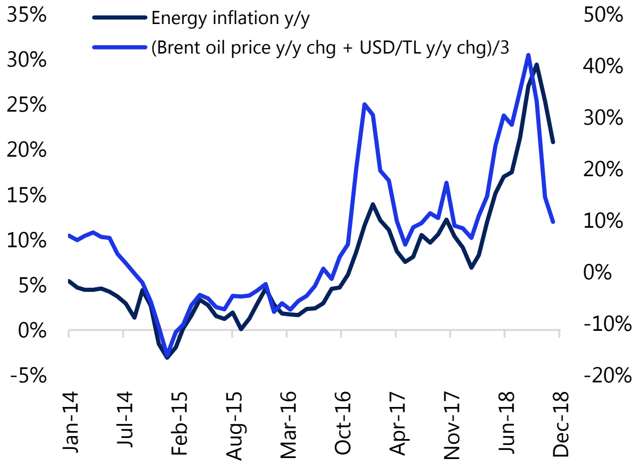
Oil prices might provide a supportive landscape for macro aggregates

Lower global oil prices will also support the improvement in CAD



Turkey's energy imports in 2018 have totaled to USD43bn up from USD37bn a year ago, in parallel to the rising oil prices. Energy imports played a very influential role on Current Account Deficit, given its 15-20% share in total import bill. 75% of the energy demand is met via imported oil and natural gas. Reducing the energy dependency necessitates a comprehensive reform program and hence a long time. In this respect, we believe that the cyclical factors will remain dominant in regards to the course of the energy bill, while we assume an energy imports bill at around USD37-38bn this year down from USD43bn.

Energy prices might support efforts of disinflation in 2019

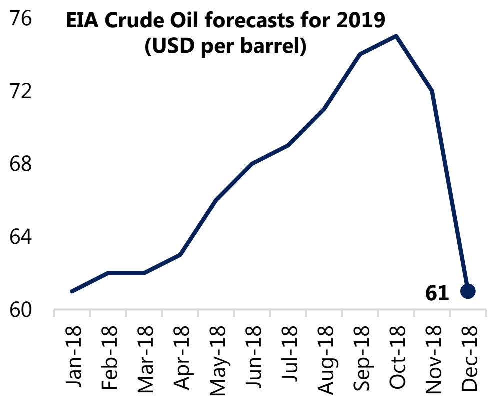


The energy sector has an important weight at around 12-13% in overall inflation basket. The global oil prices and course of TL are the main components of the energy inflation. 2018 was a hard year in terms of containing the energy inflation which has peaked 30% in annual terms. Oil prices have climbed until November, while TRY has seen rising pressure starting from March. While pass-through to domestic prices is fast, only one-third of the change has been reflected on pump prices because of the high level of fuel taxation. The pressure of energy prices on inflation eased following the steep decline in oil prices since November and the recovery of TL since September.

Significant downward revisions take place in 2019 Brent forecasts

Price Summary	2016	2017	2018	2019
WTI Crude Oil[a] (dollars per barrel)	43.33	50.79	65.18	54.19
Brent Crude Oil (dollars per barrel)	43.74	54.15	71.40	61.00

Energy Information Agency (EAI) forecast taken from December Short-term Outlook report. 2019 Brent forecast at 61 USD/per barrel shows USD11 decline compared to the previous month's forecast.



Various scenarios on impact of Brent oil price changes on CAD and inflation

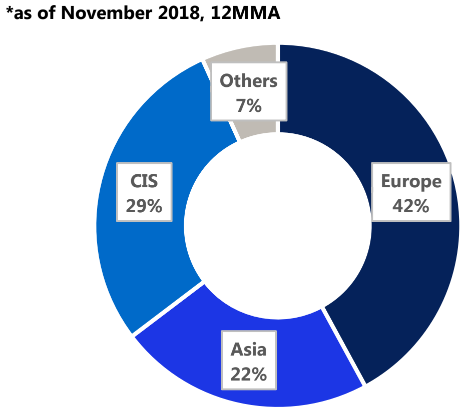
Macro implications / Brent oil price (US$ per barrel)	Contribution (as percentage points)		Levels (%)	
	Inflation	CAD / GDP	Inflation	CAD / GDP
75	1.05	0.84	17.4	-3.1
70	0.70	0.57	17.0	-2.9
65	0.35	0.29	16.7	-2.6
60	**-**	**-**	**16.3**	**-2.3**
55	-0.35	-0.29	16.0	-2.0
50	-0.70	-0.57	15.6	-1.7
45	-1.05	-0.87	15.3	-1.4

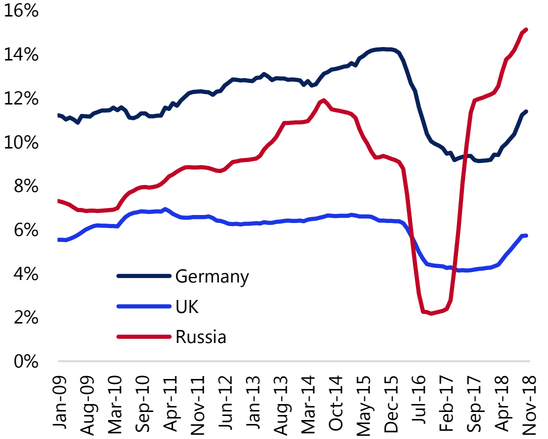
Source: CBT, EAI, Bloomberg, Tacirler Investment

Box 2: Tourism sector forecasts

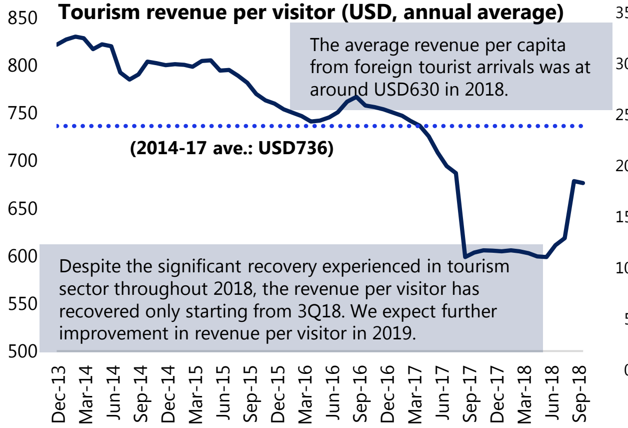
We expect the improvement in tourism sector to help external balance in 2019

Number of foreign arrivals rose by 28% and 23% respectively in 2017 & 2018

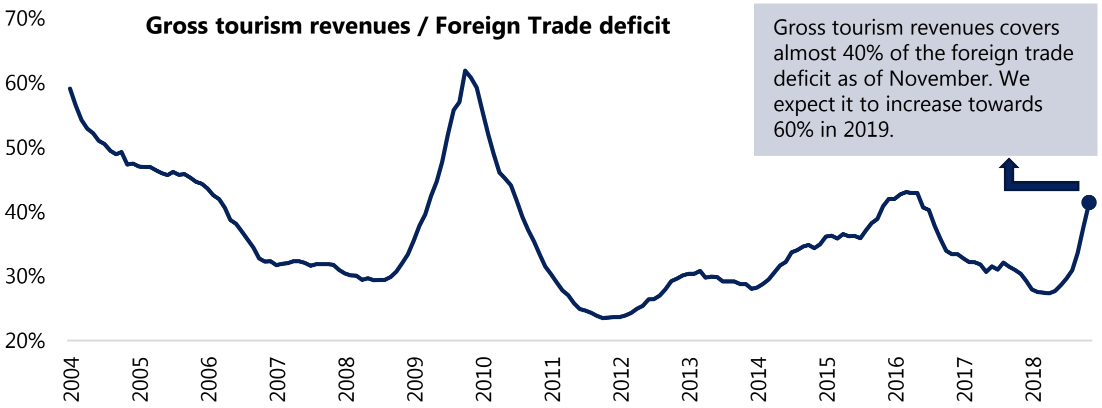




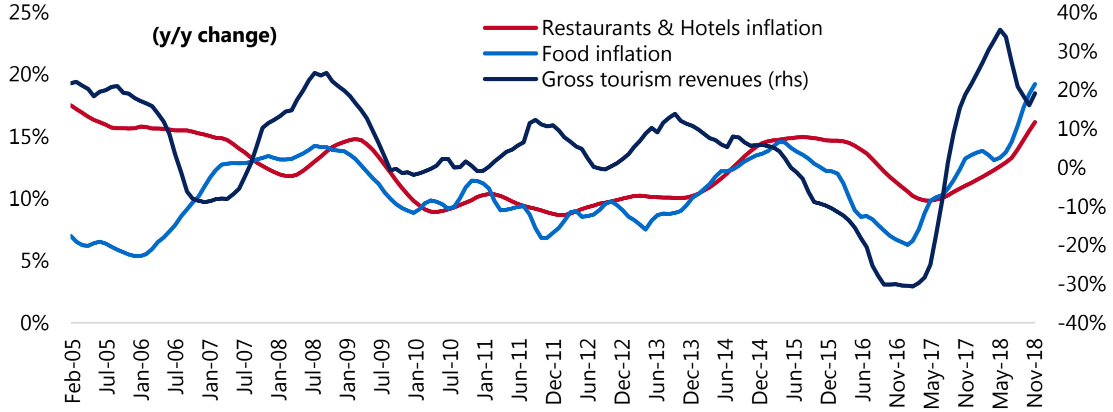
We expect the revenue per visitor to improve towards its average this year



Tourism revenues covers almost 50% of the trade deficit by end-2018



Improving tourism sector pose pressure on food and catering inflation



Source: TÜİK, CBT, Bloomberg, Tacirler Investment

Macro Forecasts

Turkey at a glance

TACİRLER INVESTMENT

	2012	2013	2014	2015	2016	2017	2018	***2019F***
Real GDP Growth	4.8%	8.5%	5.2%	6.1%	3.2%	7.4%	***2.8%***	***1.5%***
Nominal GDP *(US$ bn)*	875.7	951.8	934.5	859.4	863.4	851.5	***745.0***	***720.0***
GDP per capita *(US$)*	11,698	12,445	12,085	10,996	10,935	10,602	***9,846***	***9,752***
CPI *(end-of-period)*	6.2%	7.4%	8.2%	8.8%	8.5%	11.9%	20.3%	***16.3%***
CPI *(average)*	8.9%	7.5%	8.9%	7.7%	7.8%	11.1%	16.3%	***18.0%***
CAD *(US$ bn)*	-48.5	-64.7	-46.5	-32.2	-33.0	-47.4	***-27.7***	***-16.7***
CAD / GDP	-5.5%	-6.8%	-5.0%	-3.8%	-3.8%	-5.6%	***-3.7%***	***-2.3%***
Budget Balance / GDP	-1.9	-1.0	-1.1	-1.0	-1.2	-2.0	***-2.0***	***-2.3***
Primary Balance / GDP	1.2	1.7	1.3	1.3	0.8	-0.1	***0.0***	***0.3***
USD / TL *(end-of-period)*	1.79	2.14	2.32	2.91	3.54	3.81	5.30	***6.09***
EUR / TL *(end-of-period)*	2.36	2.94	2.82	3.18	3.70	4.55	6.10	***7.31***
Basket / TL *(end-of-period)*	2.07	2.54	2.57	3.05	3.62	4.18	5.70	***6.70***
USD / TL *(average)*	1.79	1.90	2.19	2.72	3.02	3.65	4.84	***5.70***
EUR / TL *(average)*	2.31	2.53	2.91	3.02	3.34	4.12	5.62	***6.78***
Basket / TL *(average)*	2.05	2.21	2.55	2.87	3.18	3.88	5.23	***6.24***
CBT's weighted average cost of funding *(simple, eop)*	5.5%	4.5%	8.3%	7.5%	8.0%	8.5%	24.0%	***19.0%***
2y bond yield *(end-of-period)*	5.9%	9.4%	8.1%	10.8%	10.6%	11.0%	22.9%	***18.5%***
10y bond yield *(end-of-period)*	6.7%	8.1%	9.4%	10.8%	11.4%	11.5%	17.7%	***17.0%***

Source: CBT, Treasury, Bloomberg, TURKSTAT, Tacirler Investment

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