



BAKIŞ

Perspective

**Macro Trends in Turkish
and Global Economy**

June 2016
Issue 2

kpmg.com.tr





To those interested,

* Meerkats (*Suricata suricatta*) are mammals with a body length of about 30 centimeters, living in colonies of 20 to 50 members. Meerkats have an average life span of 14 years, are carnivores, and their natural habitat is Africa. For security reasons, at least two meerkats in a colony stand sentry at all times. During this watch, meerkats stand on their hind legs, and if everything is in order, they let the others know via a chirrup every 2 seconds. When there is an aerial or terrestrial threat, on the other hand, they make a growling alarm call. This allows the other members of the colony to seek shelter in one of the many holes they have in the ground.

Contents

Global **4**

IMF lowered its 2016 forecasts	5
Europe-USA	6
2015 was the year of the US Dollar, what about 2016?	7
2015 was the year of the US Dollar, what about 2016?	8
Emerging economies - BRIC	9
The slowdown of the Chinese economy will be the most important item on coming years' agenda	10
It is still early to expect an increase in commodity prices	10
The future of stock markets	11
Lost years for world trade in goods: 2015-2016	11

Turkey **12**

How did 2015 end?	13
Growth	13
Sectoral growth performance	14
Sources of growth	15
Interest rates in Turkey after FED	16
Foreign trade in goods - 2015	17
Exports by commodity group	18
Top 5 in foreign trade	19
Foreign trade in goods - How did we start 2016?	20
Foreign trade in services - 2015	20
Foreign investments (inbound and outbound)	21
Current account deficit	22
Developments in exchange rate - real	22
Industrial production	23
Labor market indicators 2015	24
Public debt	25
External debt	26
Confidence	27
Inflation	28
What to expect in 2016	29
Credit rating	30
International rankings	30

Preface



Ferruh Tunç
Chairman, KPMG Turkey
Senior Partner

Meerkats and drongos

Don't be fooled by the "celebrity" look of the meerkat (*) on the cover page, as if it were posing, indifferent to the flashlights of the paparazzi. It creates the impression of having just lost its silk scarf to the wind, but in fact, it is standing guard for its family hunting on desert ground.

From an elevated position, keeping watch in all directions...

This is what "Bakış" also tries to do, providing quarterly information on major macroeconomic developments in Turkish and global economy, along with brief commentaries. Giving clear, trusted signals to our stakeholders about what we see in the field from our unique position... We hope this second issue of "Bakış", which follows the first issue received with acclaim, will be as simple as the calls of the guarding meerkat. There are also drongos living in the same deserts inhabited by the meerkats... It is a long story... They gain the confidence of the guarding meerkats by helping them for a while with the watch, but at the first opportunity, attempt to snatch the family's food by giving the wrong signal. They can fool every family only once...

Today, it is more important than ever to have a business community that is beyond petty cunning, and that acts responsibly and on the basis of values, on a continuous basis. It is imperative that members of this valuable business community, the existence of which we never doubted, communicate and interact with one another more frequently. As KPMG Turkey, we hope that this initiative, our humble contribution to this interaction, will achieve its goals and be of help to you.

Until the third issue, we wish you happy reading.

General Outlook

We have left behind the first quarter of the year. We are receiving mixed signals from both the national and global economy, although positive signals are stronger. In emerging economies, particularly in China, Brazil and Russia, the trend is downwards, whereas in the EU and Japan, the trend is flat. There is no reason to be pessimistic about these two economies, but there is not much to be cheerful about, either. The USA, on the other hand, is mixed up between these: On one hand, there is economic recovery, triggering a process of interest rate hikes, and on the other, there is a slowdown in interest rate hikes in order not to disrupt the recovery in the economy and not to increase the interest rate gap with other economies too much.

Both the slowdown in interest rate cuts, and the continuing loose monetary policies by central banks in the EU and Japan, made a positive impact on global markets in recent months. For the global markets in general, and for emerging

economies in particular, the period from January to April felt like an early spring. The MSCI index for emerging economies increased by more than 20 percent from January 21 to the beginning of April.

As share prices rose, local currencies appreciated. TRY appreciated by more than 10 percent against a basket of foreign currencies. It would be too optimistic to expect the good conditions to last till the end of the year. Barring unexpected developments, the two biggest items on the agenda of the global economy in the coming months will be the slowdown in the Chinese economy and the FED's interest rate hikes. With regards to the FED's attitude, it is a real possibility that the dovish position of the last few months could be replaced by a hawkish position one more time. Until then, it is a safe bet to say that the scenario is positive for Turkey.

Afterwards, however, the determining factors will be the divergence in the policies of Turkey and other emerging economies, and geopolitical risks.

The current account deficit, which decreased to 4.4% of the GDP in 2015, continued its decline in January. However, the decline in the deficit is mostly a result of conjunctural factors. In the absence of structural steps that would create results in the short term, the current account deficit may start rising again. On the debit side, tourism and transportation revenues will decline in 2016.

Another risk is the weak and fluctuating performance in confidence indexes. If the weak performance in consumer and economic confidence indexes continues, it would be reflected first in the real sector confidence and then in production.

However, the good growth rate in 2015, the significant increase in industrial production in the first two months of 2016, the recovery in exports, and the increase in internal demand in tourism tip the scales in favor of positive developments.

Global

The first months of every year after the global crisis in 2008 witnessed debates on the strength of the recovery. This year was no exception. However, in 2016, divergence in the monetary policies of three major economies accompanied the debates on recovery.

Central banks in Europe and Japan continued their policy of quantitative easing, whereas the FED in the USA acted to the contrary. However, concerns about the potential side effects of the interest rate hike in the USA and expansionary steps taken by the other two economies indicate that interest rate hikes will proceed cautiously.

As a result, for the global markets in general, and for emerging economies in particular, the period from January to April felt like an early spring. The MSCI index for emerging economies increased by more than 20 percent from January 21 to the beginning of April.

As share prices rose, local currencies appreciated. In addition, there was significant harmony between the rise in stock exchanges and the increase in oil prices. As you will see in the following pages, stock prices and oil prices troughed at roughly the same time, and their subsequent rises were also parallel.

In early April, the World Trade Organization announced that global trade in 2015 declined to 16.5 trillion USD. In 2015, Turkey's exports were worth 144 billion USD. Because the decline in Turkey's exports was smaller than the decline in exports worldwide, Turkey's share in world trade increased to 8.2 per thousand. This is an important indicator as it is the highest figure for Turkey's share.

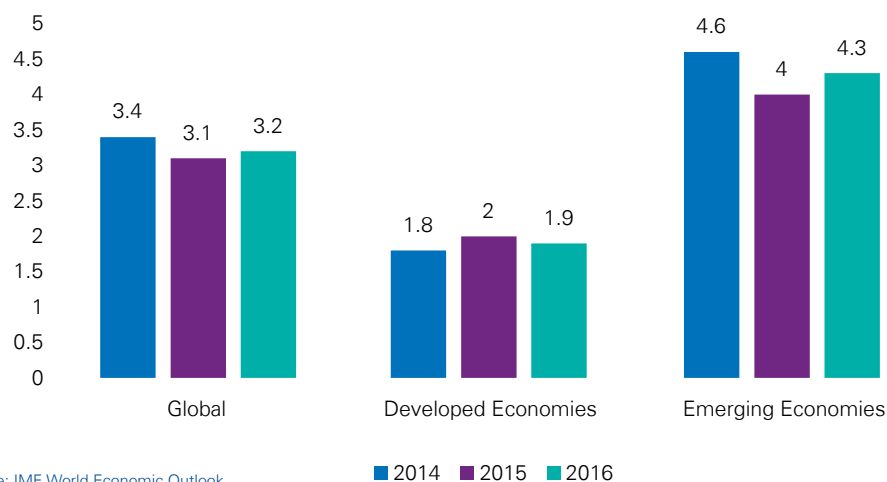
Barring unexpected developments, the two biggest items on the agenda of the global economy in the coming months will be the slowdown in the Chinese economy and the FED's interest rate hikes.

IMF lowered its 2016 forecasts

In its Economic Outlook report published on April 12, IMF lowered its 2016 growth forecasts for the world economy and for emerging economies by 0.2 points.

- In 2015, a strong US Dollar, coupled with low oil and commodity prices, negatively affected emerging economies.
- The decline in oil prices, in particular, had important consequences for oil exporting countries. In addition, Latin American and African countries, which have economies that are dependent on commodity exports, were negatively affected by the falling commodity prices.
- In 2015, with the recovery in the EU, developed economies including the US posted higher growth rates.
- 2016 is expected to be better for both the developed and emerging economies, but the risks persist.

Growth %



Source: IMF World Economic Outlook

Europe-USA

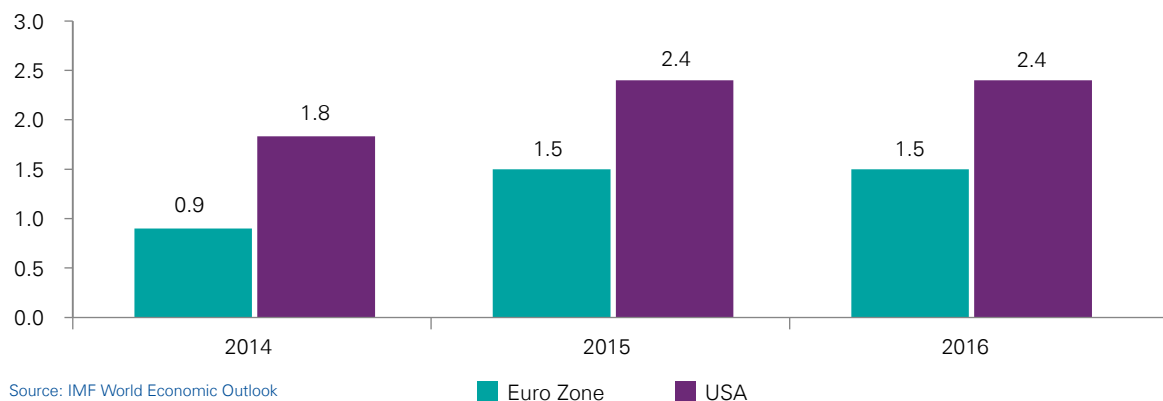
In its Economic Outlook report published on April 12, the IMF lowered its 2016 growth projections for the Euro zone and the USA.

With the FED's adoption of a tighter monetary policy and higher interest rates in 2015, the US Dollar appreciated significantly around the world. In this process, the strong performance of the USA economy also contributed to the appreciation of the US Dollar. As expected, FED increased the interest rate in December 2015, but a strong US Dollar is not necessarily good news for the US economy or for the world economy.

Finally, in March 2016, the expected number of interest rate hikes in 2016 was lowered from 4 to 2, but the markets expect an interest rate increase of 1 point only.

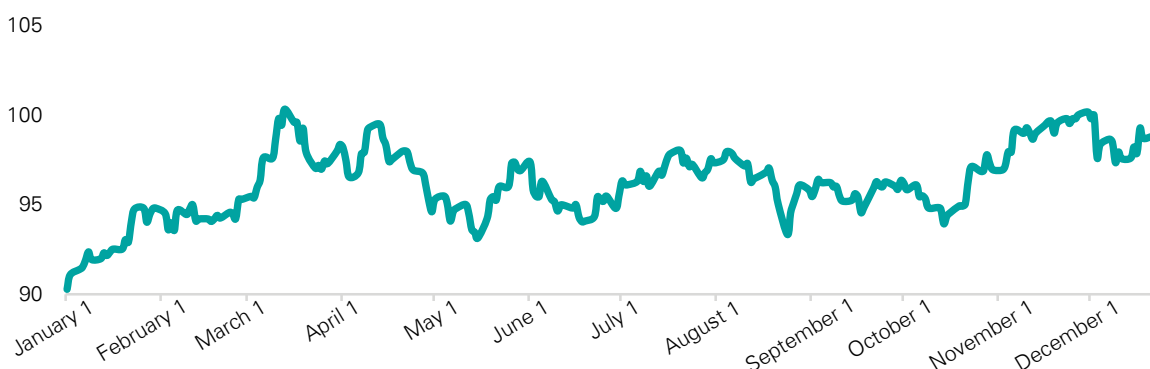
The Euro zone, on the other hand, adopted a policy of monetary expansion, aiming to contribute to economic recovery in the Euro zone and in the EU (28) in general. Although it was moderately successful in achieving its goals, inflation in the EU economy is not at desired levels, due to the falling oil prices. Most recently, Draghi, the President of the European Central Bank, expanded the asset purchase program to 80 billion Euros from 60 billion Euros, and lowered the policy interest rate to 0. However, the effectiveness of monetary policy in the EU is about to end.

Growth %



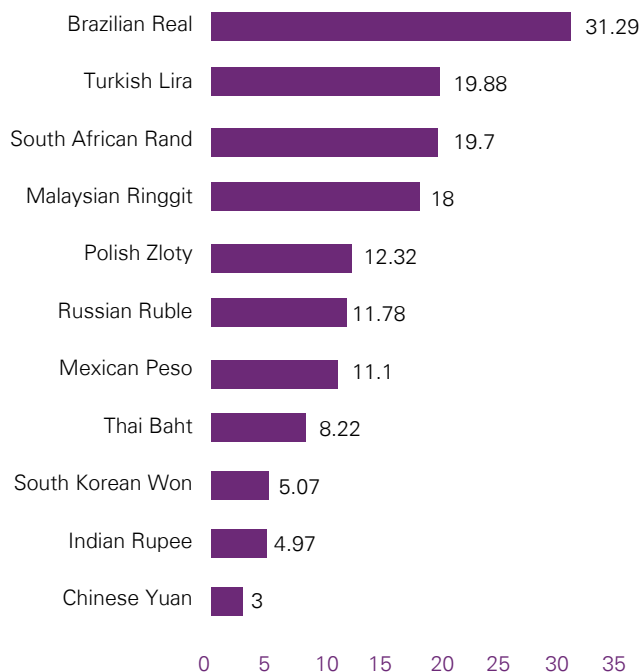
2015 was the year of the US Dollar, what about 2016?

USD Index



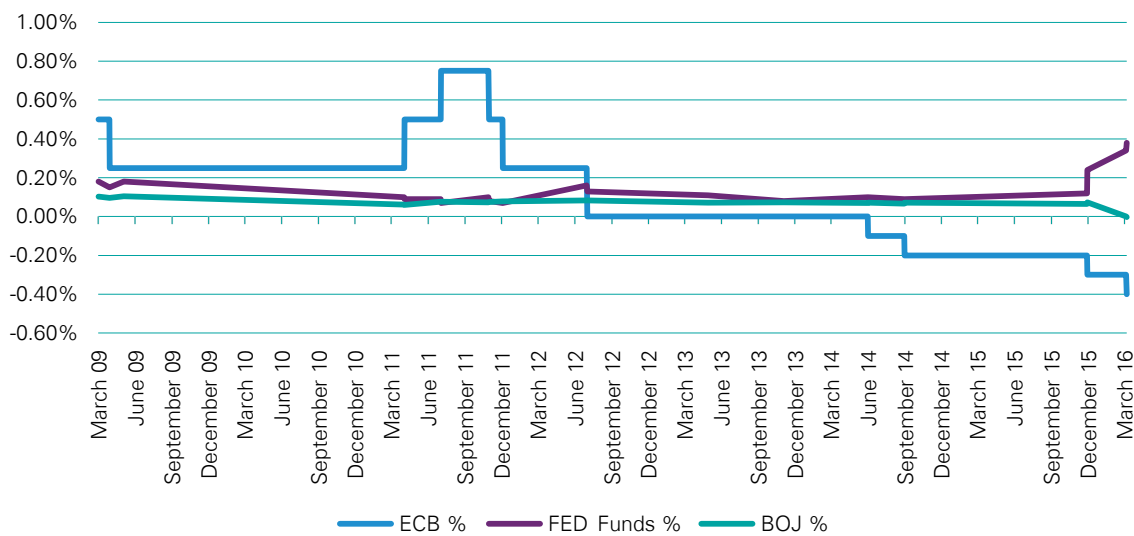
Depreciation Against US Dollar (2015)

- In 2015, the US Dollar appreciated against the currencies of both developed and emerging economies.
- The USD index has increased by 9 percent since the beginning of 2015.**
- US Dollar has appreciated around the world, but currencies of emerging economies were the most affected.
- The Brazilian **Real**, which became increasingly vulnerable due to the fall in commodity prices and internal political problems, was the currency that depreciated the most against the USD in 2015, followed by the **Turkish Lira, South African Rand, and Malaysian Ringgit.**



2015 was the year of the US Dollar, what about 2016?

Central Banks



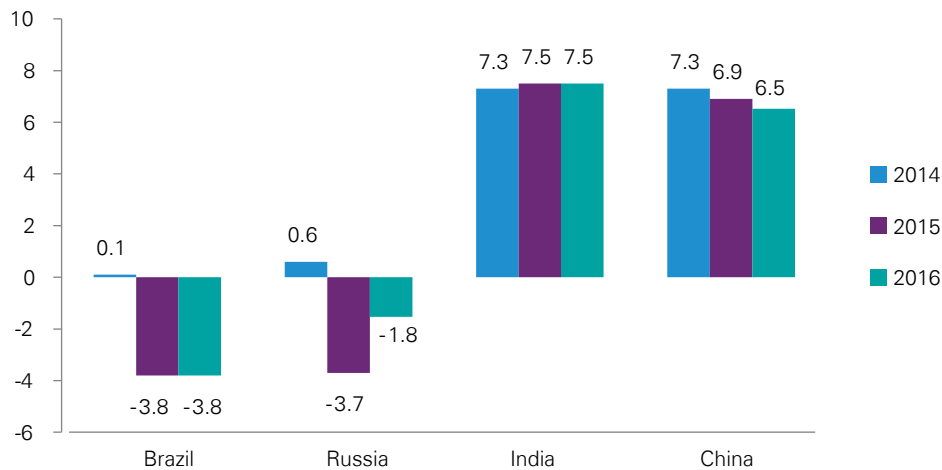
- ✍ The strong US Dollar was a main item on the agenda in 2015, but things may change in 2016.
- ✍ An examination of previous changes in the FED's interest rate policy trends indicates that the appreciation of the US Dollar in 2015 will not continue in 2016.

We have learned the following from previous experience:

- ✍ Even though the interest rate is the main factor determining the value of a currency, a linear relationship in the form of "higher interest rate = stronger currency" may not always hold. The US Dollar starts to appreciate towards the end of the low interest rate period, but as the FED increases interest rates and the interest rate gap with Europe widens, its appreciation stops. After a while, when interest rates start increasing in Europe as well, the US Dollar depreciates.

“US-Europe interest rate gap widens”

Emerging economies - BRIC



India retained its performance, China's loss of momentum in growth continued, and Brazil continued to contract.

Among the BRIC countries, India is the country with the best economic performance. **India's** growth rate in 2015 was higher than in 2014, and India is expected to grow by an impressive 7.5 percent in 2016.

In **Brazil**, problems arising from the decline in commodity prices were accompanied by political problems in the aftermath of the Petrobras crisis, putting the economy in a difficult position. For the economy, which is expected to contract one more time in 2016, the commodity prices that expected to stay low is the biggest problem.

For the **Russian** economy, 2015 was a year of contraction and high inflation due to the fall of oil prices at the end of 2014 and the collapse of the Ruble. In other words, it was a year of stagflation.

The **Chinese** economy is losing its momentum. The growth rate of 6.9 percent posted in 2015 was the lowest in the last 25 years. China's loss of momentum is expected to continue in 2016 too.

The slowdown of the Chinese economy will be the most important item on coming years' agenda

The Chinese economy has long been described as the “engine of global economy”. IMF had announced that as of 2014, this most populous of countries, which had an average growth rate of 10.5 until the 2008 global crisis, became the largest economy in the world (on the basis of purchasing power parity), overtaking the USA.

Until the 2008 global crisis, the Chinese economy was based on export-led growth, a tradition going back to the 1980s. Following the 2008 economic crisis, however, the slowdown in the growth rates of developed economies, particularly in the European Union, decreased the demand for Chinese exports.

China's solution was to keep exports as the engine of growth, but place more emphasis on internal demand and investments. However, it will be a while before consumption and investments in the country will start contributing to the growth.

Because of these problems in the Chinese economy, Chinese stock markets experienced significant declines in 2015, and the Yuan was devalued to preserve the country's global competitiveness.

Problems experienced by China, the largest importer of commodities in the world, negatively affected the whole world, particularly commodity exporters, and this effect is set to continue.

It is still early to expect an increase in commodity prices

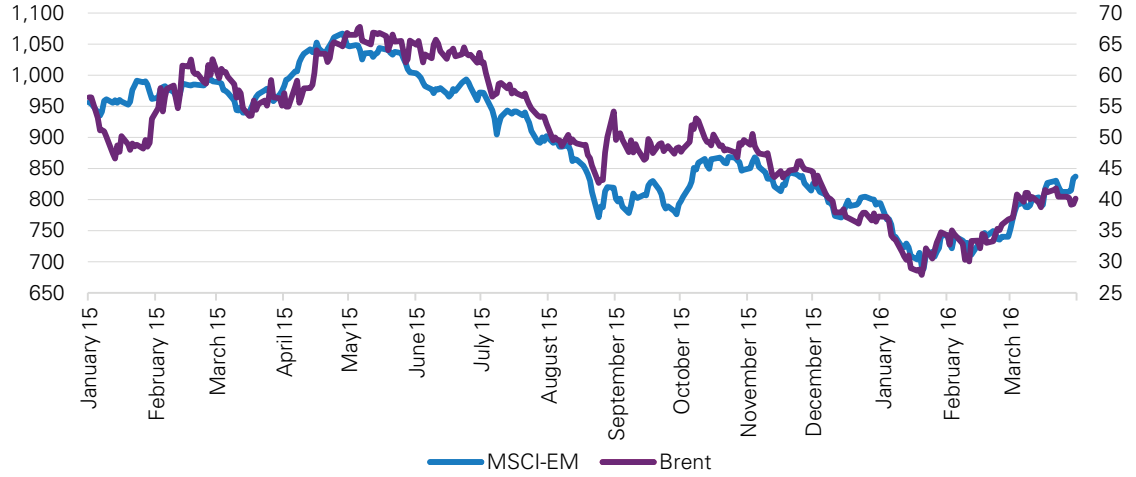
In 2015, the appreciation of the US Dollar and the slowdown in the growth of China lowered the prices of oil and other commodities. In 2016, as in 2015, the US Dollar will remain strong, and commodity prices will remain low. However, this does not mean that the trend observed in 2015 will continue. We will most probably have a year in which prices remain flat.

The low price of commodities will keep limiting the growth of economies that are dependent on commodity exports, mainly **Russia, Brazil, Venezuela, Algeria, Nigeria and sub-saharan African countries.**

Declines in commodity prices in 2015:

Natural Gas:	-36%
Coal:	-21%
Aluminium:	-18%
Iron:	-40%
Coffee:	-22%

The future of stock markets



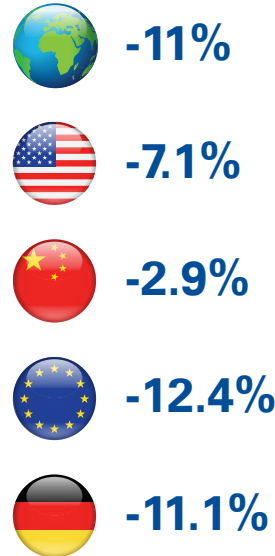
MSCI Emerging Markets Stock Index and Brent Petrol are highly correlated.

- Since the beginning of this year, stock markets around the world, but particularly in the emerging economies, posted encouraging gains.
- If the oil prices stabilizes in the USD38-50 band, gains in stock markets and the appreciation of local currencies may continue. The alternative scenario, on the other hand, might mean another wave of sale orders.

Lost years for world trade in goods: 2015-2016

- Although not officially announced, world foreign trade in 2015 was 16.5 trillion USD. That is to say, a significant part of the increase in trade since 2010 is now gone. This finding, of course, applies if trade is measured in USD terms. The increase continues in terms of volume.
- Foreign trade is no longer growing by double digits, as was the case in the 2000s. Trade declined worldwide in 2015, not only in Turkey.
- Yet, Turkey's share in world trade reached 8.7 per thousand, the highest ever recorded.
- In 2016, world trade measured in USD terms will remain stagnant.

2015 ihracatta düşüşler



Turkey

With the growth data announced at the end of March, we have the main indicators for 2015. In 2015, Turkey's economy grew by 4 percent. The current account deficit declined to 4.4% of the GDP. The most important factor in this decline was the decrease in exports due to falling commodity prices. In the absence of structural steps that would create results in the short term, the current account deficit may start rising again, starting from next year. On the other hand, we may see a higher current account deficit in 2016 than in 2015 because of the decline in tourism and transportation revenues.

The increase in exports in February and March, which came in the wake of a steep decline in January, is good news for Turkey. After a 16 month hiatus, exports have increased for two consecutive months.

Confidence indexes are another set of subtle indicators about the

economy. The consumer index and overall economic index display a weak performance. Real sector confidence is still strong, but if confidence in the other two remains low, this might drag down the real sector confidence and eventually production and consumption as well. This, in turn, would mean a lower growth rate.

In its Economic Outlook published on April 12, IMF increased its growth forecast for Turkey in 2016 to 3.8 percent. The previous forecast was 2.9. The expected current account deficit was announced to be 3.6% of the GDP.

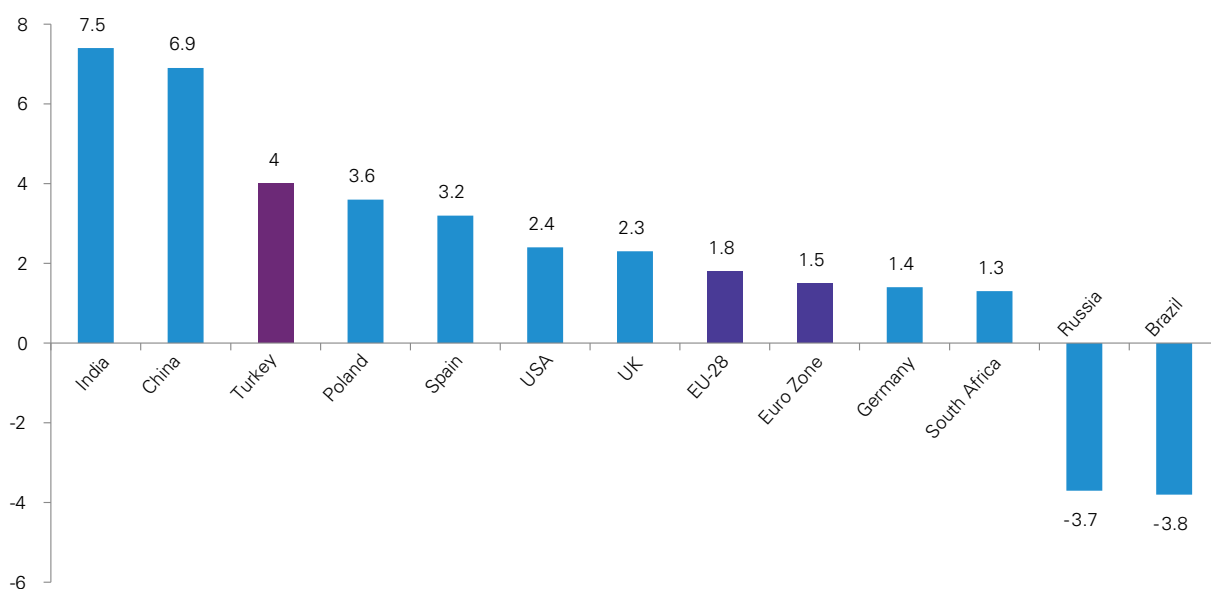
As of the beginning of April, Moody's did not change the outlook for Turkey's credit rating. In the remaining part of the year, there are five evaluations to be made by three credit rating agencies. The only announcement in the second quarter was made by S&P in the evening of May 6.

How did 2015 end?

- The table on the opposite side of this page shows the major economic indicators for 2015 and the targets in the Medium Term Program.
- Overall, targets and observed values are very close.
- Data announced on the last day of March showed that the overall growth rate was 4 percent. This growth rate for 2015 is well above the expectations of many economists and foreign institutions.
- After reaching record levels in 2011, the current account deficit kept declining in a gradual manner. In 2015, the current account deficit was 4.4% of the GDP, largely due to the effect of falling commodity prices.
- Budget balance has consistently been the best indicator for many years, and 2015 was no exception.
- Growth was mostly fuelled by the increase in internal demand. Growth in net exports was +1.3 percent in the final quarter, but its contribution to yearly growth was -0.3 percent.

	Observed	MTP
GDP (US \$ bn)	720	722
Growth %	4	4
Per Capita Income (US \$)	9261	9286
Growth in Internal Demand %	4.6	4.6
Growth in Net Exports %	-0.3	-0.7
Change in Stocks %	-0.3	0
Current Account Deficit (% of GDP)	-4.4	-4.4
Budget Deficit (% of GDP)	-1.2	-1.2

Growth



In 2015;

- India recorded the highest growth rate among emerging economies
- The growth rate in China declined to less than 7 percent
- Turkey's growth performance was better than 24 EU members
- The USA had a strong growth performance
- There was limited recovery in the USA, and growth numbers were better compared to previous years
- With the fall in the oil prices, Russia went into recession, and the negative effects of the Petrobras crisis on the Brazilian economy continued.

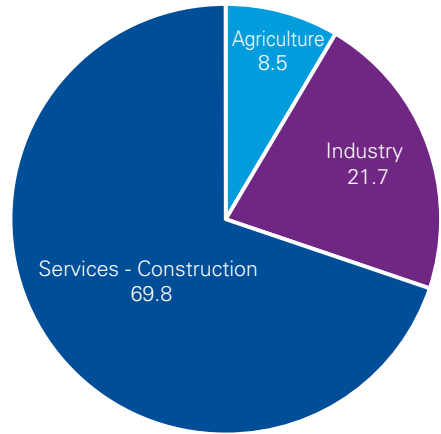
Sectoral growth performance

In 2015, the Turkish economy grew by 4 percent, whereas agriculture grew by 7.6 percent. Agriculture's contribution to growth was larger than in previous years.

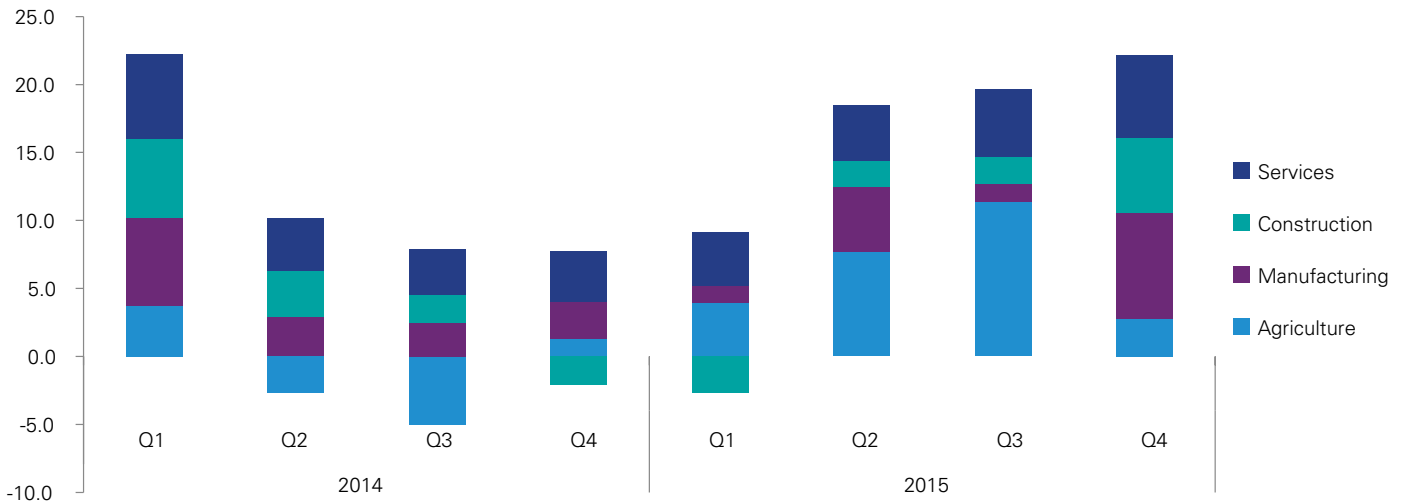
In terms of sectoral shares including taxes and subsidies, almost 70 percent of the GDP in 2015 consisted of services and construction, 21.7 percent consisted of industry, and 8.5 percent consisted of agriculture.

Manufacturing made a significant leap in the final quarter, and posted a growth rate of 7.2 percent. Its annual growth, on the other hand, was 3.3 percent.

The service sector, which makes up about 60 percent of the GDP, was the second largest contributor to growth in 2015, after agriculture. The service sector grew by 4.8 percent in 2015.

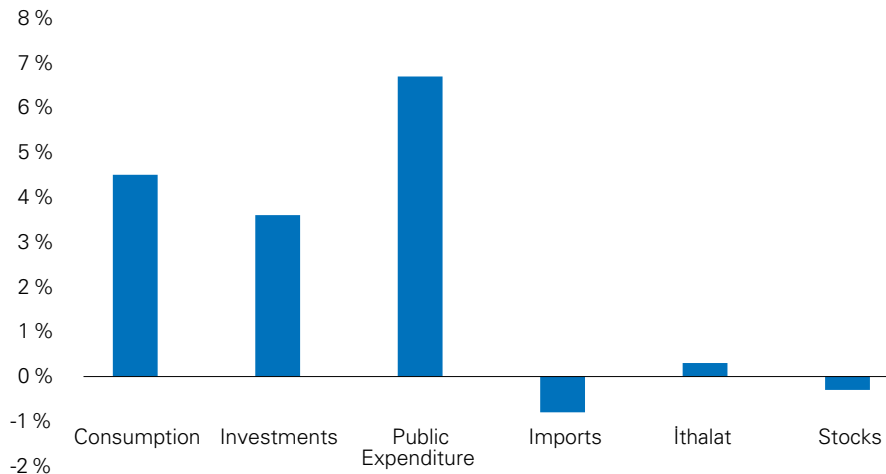


Sectoral Growth



Sources of growth

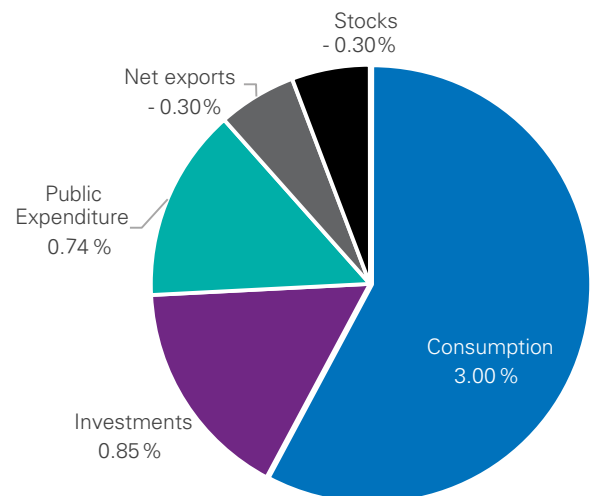
How much growth was posted in individual components?



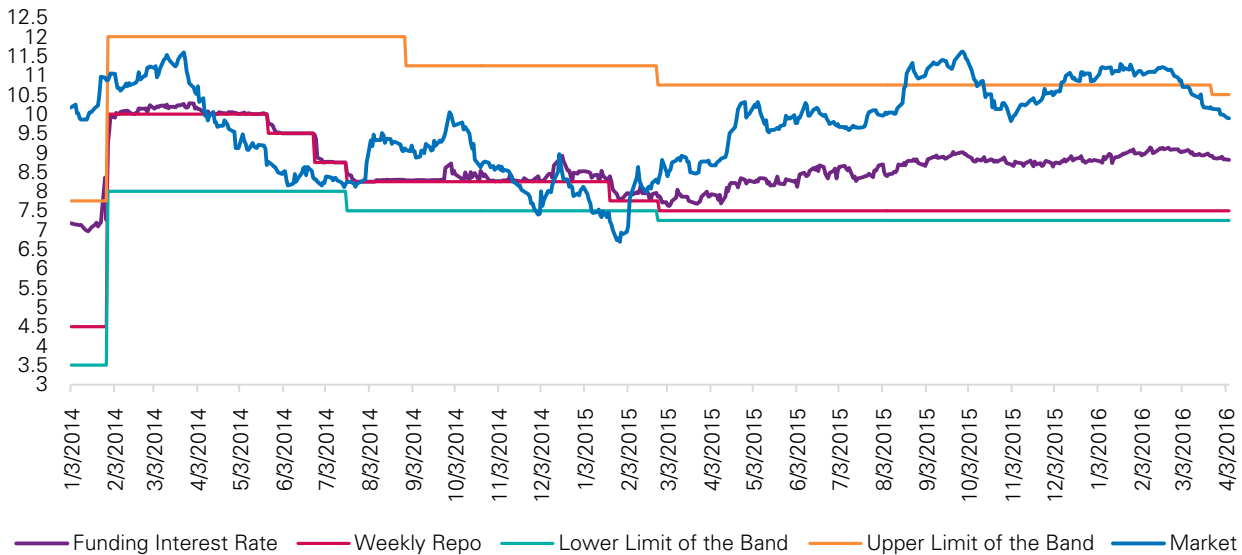
- Consumer spending, which makes up two thirds of the GDP, was weak in 2014, but was strengthened in 2015, making a significant contribution to growth.
- Public expenditure grew by 6.7 percent. Growth in public expenditure in 2015 was the second highest since the global crisis eight years ago.
- Investments, which had declined in 2014, grew by an impressive 10 percent in the second quarter of 2015, and the annual growth was a high rate, namely 3.6 percent.

Distribution of the 4 percent growth

- What are the sources of the 4 points? Turkey grew by internal demand in 2015. Whereas consumption, investments and public expenditure grew by a total of 4.6 percent, net exports (-0.3%) and stocks (-0.3%) declined, with the overall growth being 4 percent.
- Net exports' contribution was negative in the first three quarters of 2015, but was positive (+1.3) in the final quarter. **On the basis of the Medium Term Program, we expect net exports' contribution to be positive in 2016.**



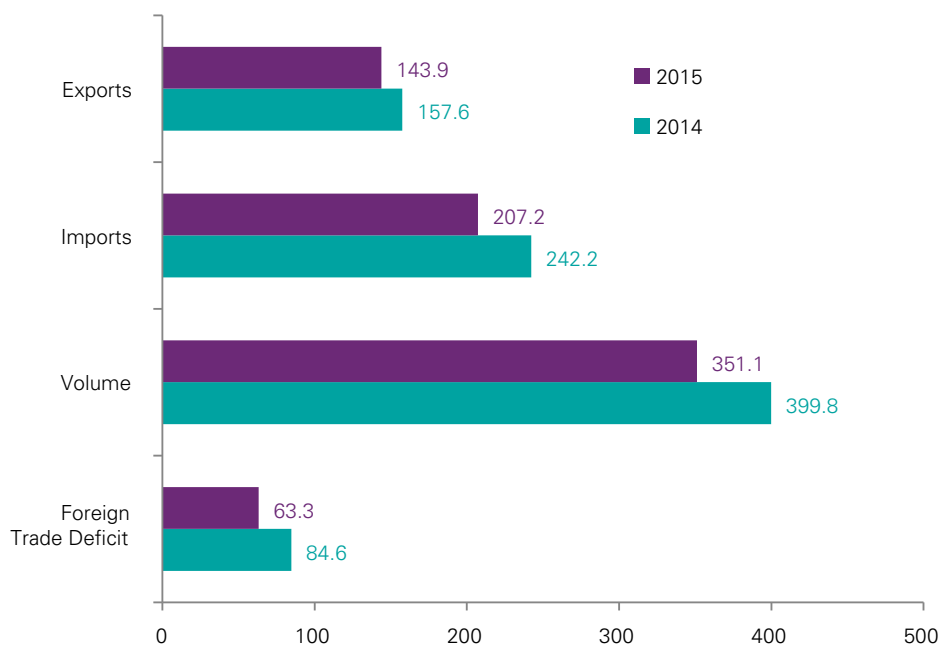
Interest rates in Turkey after FED



- ✎ The CBRT had announced that it would «simplify» its interest rate policy in response to the FED's policies.
- ✎ What is meant by simplification is that the lower and upper limits of the band will be symmetrical around the policy interest rate.
- ✎ Within this framework, the CBRT lowered the upper limit by 25 basis points to 10.5 percent.

- ✎ However, the main indicator that needs to be watched in the CBRT's interest rate policy is the **weighted average cost of funding**.
- ✎ Within the last year, this indicator had diverged from the policy interest rate and increased to 8.9 percent. If the CBRT continues to decrease the interest rate, the cost of funding is also expected to decline.

Foreign trade in goods - 2015



Turkey's foreign trade contracted in parallel to the contraction in foreign trade worldwide.

Exports in 2015 were brought down

- **by 12.6 billion USD by the depreciation of the Euro against US Dollar**
- **by 6.5 billion USD by the decline in raw material prices, and**
- **by 4 billion USD by problems in neighboring countries.**

In 2015, exports declined by 8.7 percent to 143.9 billion USD.

Imports decreased even more, to 207.2 billion USD.

In this period, the foreign trade deficit decreased by 25.1 %, to 63.3 billion USD.

Paralleling the decline in trade deficit, the ratio of exports to imports rose by 4.3 points to 69.4 percent.

Compared to 2014, exports decreased by about 13.8 billion USD and imports decreased by 35 billion USD.

Exports by commodity group

US \$bn	2014	2015	Share (%)	Change (%)
1 - 87 Motorized Land Vehicles	18.1	17.5	12.1	-3.3
2 - 84 Machinery	13.6	12.3	8.6	-9.2
3 - 71 Precious Metals and Stones	7.7	11.3	7.8	46.0
4 - 61 Articles of Knitted Apparel	10.0	8.9	6.2	-10.9
5 - 85 Electrical Machinery	9.7	8.3	5.8	-14.6
List Total	59.1	58.3	40.5	-1.4
Sum Total	157.6	143.9	100.0	-8.7

Source: TÜİK (Turkish Statistics Institute)

In foreign trade, goods are usually classified using two-digit codes.

Categories are assigned one of the numbers between 1 and 99. (77 and 98 are blank)

The table above compares developments in 2015 and 2014, for the top 5 categories of exports.




In 2015, exports of almost all categories of goods declined, and with the exception of precious metals -dominated by gold-, exports of each of the top 5 categories decreased. The main reason for the increase in exports of precious metals was the sale of under-the-mattress jewelry, the price of which increased due to the appreciation of foreign currencies.

Among these five categories, the largest decline was observed in exports of electrical machinery and equipment, by 14.6 percent. Exports of motorized land vehicles, which made up the largest portion of total exports, declined by 3.3 percent in 2015.

The top 5 categories made up 58.3 percent of total exports in 2015, and the average decline across these five categories was 1.4 percent.

Top 5 in foreign trade

-  Turkey's exports to EU countries, in terms of Euro, increased by about 10 percent in 2015. However, exports declined in terms of US Dollars because of the exchange rate effect.
-  Turkey's exports to Germany declined by 1.4 percent in 2015, to Italy declined by 3.5 percent, and to France declined by 9.6 percent.
-  Our exports to Iraq decreased by 21.4 percent, and exports to Russia, which is deeply affected by the fall in the oil prices, decreased by 39.6 percent.
-  Among our top 5 export partners, exports increased to the UK and the USA, and the reason behind the increase in exports to the UK was driven by exports of gold.

-  Decline in EUR/USD significantly decreases not only exports, but also Turkey's imports. In 2015, Turkish imports from Germany and Italy decreased by 4.5% and 11.8%, respectively.
-  Most of Turkey's imports from Russia consist of oil and natural gas. In 2015, paralleling the decline in the oil prices, Turkish imports from Russia decreased by 19.3 percent. In terms of monetary value, imports from Russia have declined by about 5 billion USD.
-  Turkey's top 5 import partners make up about two fifths of total imports, and imports from these countries declined by 9.2 percent compared to 2014.

Exports

Billion USD	2014	2015	Share (%)	Change (%)
1 - Germany	15.1	13.4	9.3	-11.4
2 - UK	9.9	10.6	7.3	6.6
3 - Iraq	10.9	8.6	5.9	-21.4
4 - Italy	7.1	6.9	4.8	-3.5
5 - USA	6.3	6.4	4.4	0.9
List Total	49.4	45.8	31.8	-7.3
Sum Total	157.6	143.9	100.0	-8.7

Source: TÜİK (Turkish Statistics Institute)

Imports

Billion USD	2014	2015	Share (%)	Change (%)
1 - China	24.92	24.87	12.0	-0.2
2 - Germany	22.4	21.4	10.3	-4.5
3 - Russia	25.3	20.4	9.8	-19.3
4 - USA	12.7	11.1	5.4	-12.6
5 - Italy	12.1	10.6	5.1	-11.8
List Total	97.4	88.4	42.7	-9.2
Sum Total	242.2	207.2	100.0	-14.4

Source: TÜİK (Turkish Statistics Institute)

Foreign trade in goods - How did we start 2016?

- Following the steep decline in January, February and March were better in terms of exports.
- The EUR/USD exchange rate, which used to dampen exports, made a positive contribution in March, a first in a long time.
- Automotive and ready-to-wear were the better performing industries in 2016, and the increase in exports to the EU gained positive momentum.
- Turkey's exports declined by about 6 percent in the first three months, and compared to other countries, this counts as a good start to 2016.

	Exports	Imports
January	9.6 US \$bn (-22%)	13.5 US \$bn (-19%)
February	12.4 US \$bn (+1%)	15.5 US \$bn (-8%)
March (tentative)	12.8 US \$bn (+3.2%)	17.8 US \$bn (-5%)

- However, political and economic problems in neighboring countries pose no less of a risk to exports than in 2015.

Foreign trade in services - 2015

- In 2014, Turkish exports of services were 51.7 billion USD, and imports of services were 24.9 billion USD.
- In 2015, service exports declined by 10.3 percent to 46.3 billion USD, and service imports declined by 9.5 percent to 19 billion USD.

	Exports	2014	2015	Change (%)
Income	Services	51,657	46,328	-10.3
	Transportation	15,605	14,253	-8.7
	Tourism	29,552	26,616	-9.9
Expenses	Services	24,889	22,313	-10.3
	Transportation	10,157	8,290	-18.4
	Tourism	5,072	5,368	5.8

Why did service exports decline?

- In 2015, tourism revenues declined by 9.9 percent to 26.6 billion USD. Transportation revenues also declined, by 8.7 percent to 14.3 billion USD. Tourism expenses, on the other hand, increased by 5.8 percent, whereas transportation costs decreased by 18.4 percent.
- The fall in raw material prices and the appreciation of the US Dollar are the main factors behind the decline in revenues from services, as is the case in exports of goods.
- The economic crises in Russia and Ukraine and the depreciation of Euro against the US Dollar are additional factors. The decline in the number of tourists visiting the country in the last months of 2015 and first months of 2016 are responsible for dragging down tourism revenues in both years.

Foreign investments (inbound and outbound)

Million US Dollars	2014	2015	Change (%)
Net FDI Inflows	10,340	13,424	29.8
Capital	6,895	9,304	34.9
Other Capital (Net)	-170	764	-549.4
Real Estate (Net)	3,615	3,356	-7.2

In 2015, FDI inflows increased by 33.8 percent despite the depreciation of Euro against US Dollar.

Inflows to the real estate sector declined by 3.8 percent over this period, whereas there was an increase in the inflows to the finance sector, originating from Spain, which was responsible for the overall increase.

Total FDI inflows to Turkey exceeded 180 billion USD.

Million US Dollars	2014	2015	Change (%)
Net FDI Outflows	4,718	4,338	-8.1
Capital	4,448	3,984	-10.4
Other Capital (Net)	270	354	31.1

During the same period, investment outflows from Turkey declined by 27.8 percent compared to 2014. Investment outflows totalled 4.9 billion USD, of which 1.6 billion went to the Netherlands, and 1.3 to the USA.

Total FDI outflows from Turkey exceeded 35 billion USD.

Current account deficit

The current account deficit declined in 2015 **by 26.3 percent** compared to last year, **from 43.6 billion USD to 32.1 billion USD.**

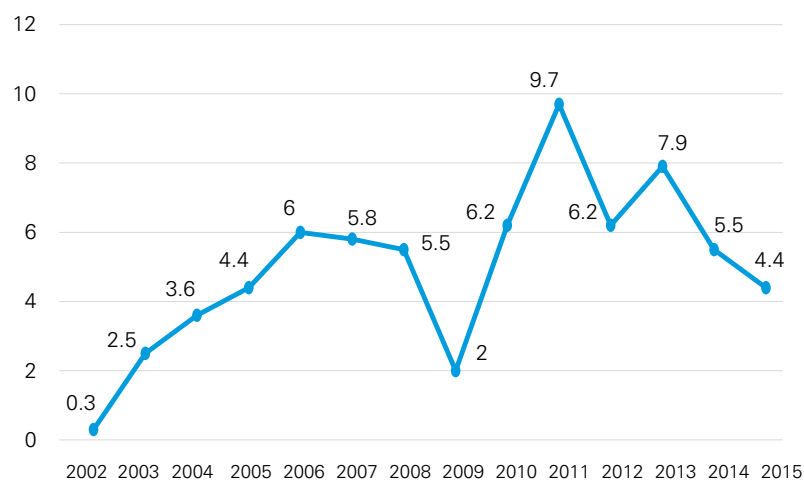
Exports of goods and services made a negative contribution of 22.2 billion USD, and the 35.2 billion USD decline in imports of goods and services made a positive contribution to this improvement of 11.4 billion USD in the current account deficit. In other words, the main reason behind the improvement in the current account deficit was the fact that imports decreased more than exports.

The current account deficit has now declined to a sustainable level, both in terms of absolute value and of percentage. This makes the Turkish economy more resilient to external shocks.

The current account deficit has improved not only in terms of size, but also in terms of the quality of financing.

The share of net FDI inflows in the financing of the current account deficit was 13 percent in 2014, and this ratio increased to 36 percent in 2015.

Current Account Deficit (% of GDP)



The current account deficit, which was 9.7 percent of the GDP in 2011, decreased to 4.4 percent in 2015. In 2016, we will see this number increasing because of the losses in tourism.

Developments in exchange rate - real

The Turkish Lira started to depreciate not in June 2014, when the US Dollar started to appreciate worldwide, but at the beginning of 2015.

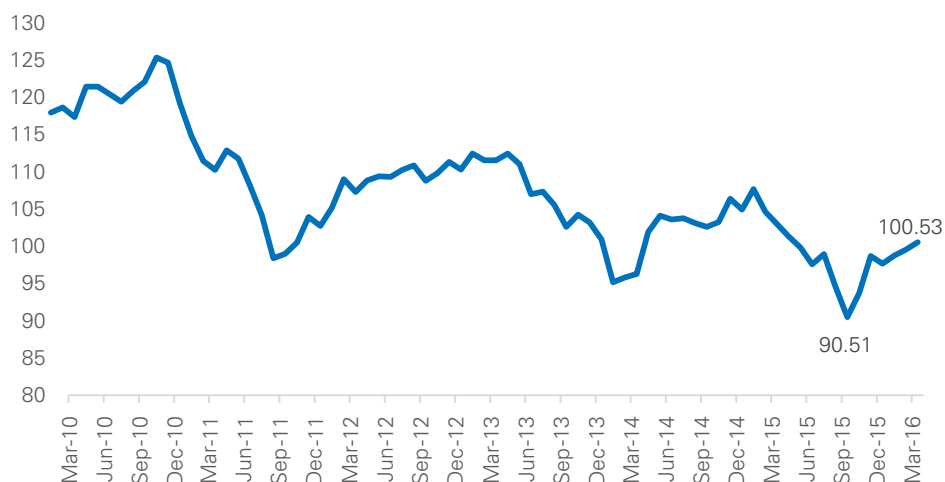
With this depreciation, the real exchange rate in September declined to its lowest level since January 2003.

The real exchange rate started increasing in October, reaching 100.5 in March.

REER rarely goes below 100, and when it does, it quickly bounces back.

Its current level of about 100 shows that the TRY is neither overvalued nor undervalued. In other words, the value of TRY (against foreign currencies) is where it is supposed to be.

Real effective exchange rate (REER)



Industrial production

Year	Indicator	Q1 (%)	Q2 (%)	Q3 (%)	Q4 (%)
2014	Growth	5.1	2.4	1.8	2.7
	IPI	5.7	2.8	3.7	2.5
2015	Growth	2.5	3.7	4.0	5.7
	IPI	1.3	3.6	0.2	7.4

- Industrial production is not only a major and early indicator of growth, it is also an indicator of sustainable and high-quality growth.
- There is a positive relationship between industrial production index and growth. This positive relationship is usually observed in quarters other than the third quarter, during which construction, agriculture and tourism tend to be dominant.
- In January of 2016, the raw industrial production was up by 3.6 percent compared to last year. In February, it was up by 8 percent. This was due both to an increase in production, and to the fact that February 2016 had one more working day.

If the increase continues in March too, we will be in a position to say that growth in the first quarter of 2016 is higher compared to the first quarter of 2015.

Industrial production increased by 1.3 percent in the first quarter of 2015, and by higher figures in the second and final quarters.

// In 2015, the main driver of the industrial production index was the motorized land vehicles sector. In addition, the fuel oil conversion facility of TÜPRAŞ, which became operational within this year, made a positive contribution to the industrial production index.

//

Labor market indicators 2015

In 2015, the economy created 688 thousand new employment opportunities.

In 2015, unemployment reached 10.3 percent, its highest level after 2010. The big increase in labor force participation was the main reason behind the increase in the unemployment rate. In 2015, 688 thousand new employment opportunities were created in Turkey, but the unemployment rate increased because 892 thousand people joined the labor force.

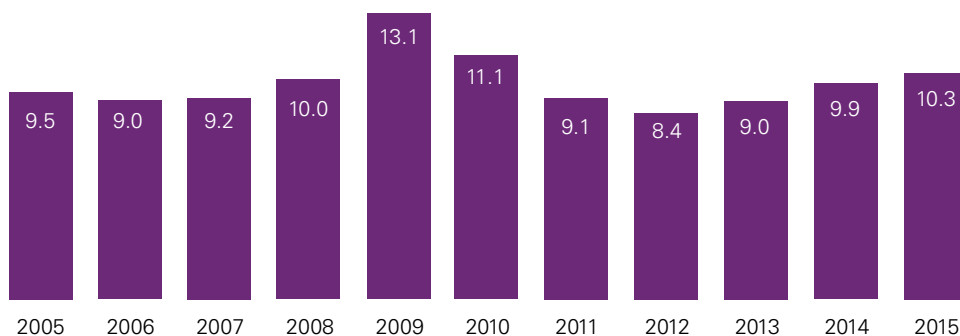
The increase in the unemployment rate is affected by two other factors besides the growth performance of the economy:

- **The increasing number of refugees in Turkey, particularly Syrian refugees, who participate in the labor force**
- **The rapid increase in labor force participation.**

On yearly basis, all sectors experienced a growth in employment, with the service sector making the largest contribution. Compared to last year, the number of employed increased by 688 thousand, of which 656 thousand came from the service sector.

- **Unemployment rate is 10.3 percent (0.4 point increase compared to last year)**
- **Labor force participation rate is 51.3 percent (0.8 point increase compared to last year)**
- **Employment rate is 46 percent (0.5 point increase compared to last year)**

Unemployment Rate (%)



The MTP expects the unemployment rate to be 10.2 in 2016

Public debt

As of the 4th quarter of 2015, Turkey has

- **a gross domestic public debt of TRY474.2 billion,**
- **a gross external public debt of TRY247.9 billion, and**
- **a net public debt of TRY161 billion.**

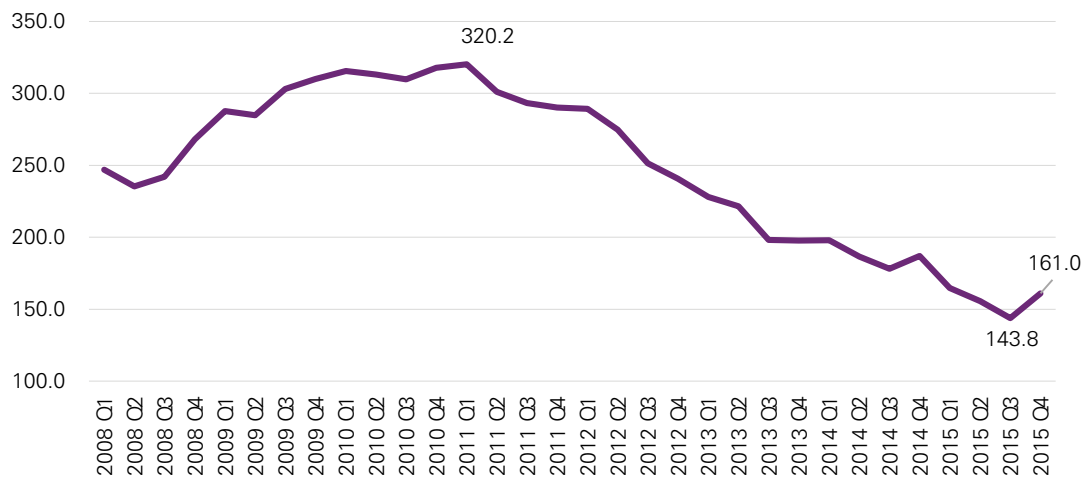
Net public debt reached a record high of TRY320.2 billion in the first quarter of 2011, and continuously decreased from that time onwards. However, it increased in the final quarters of 2014 and 2015.

The ratio of central government interest expenditure to tax revenues declined to 13 percent, its lowest level since 2001 crisis

One of the best things Turkey does is to keep fiscal discipline in all periods.

Figures for Turkey's budget deficit, domestic public debt and external public debt are better compared to many other countries.

Total Net Public Debt Stock - Billion TRY



External debt

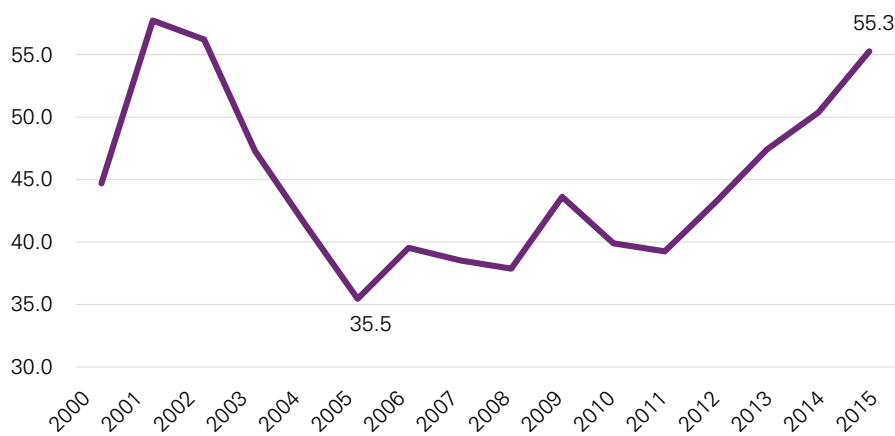
As of the 4th quarter of 2015, Turkey has

- a public external debt of USD113 billion,
- a private external debt of USD283.8 billion, and
- a gross external debt of USD398 billion.

Short term debts make up about one fourth of the gross external debt. **In 2015, the share of short term debts in total debts declined from 32.7 percent to 25.8 percent.**

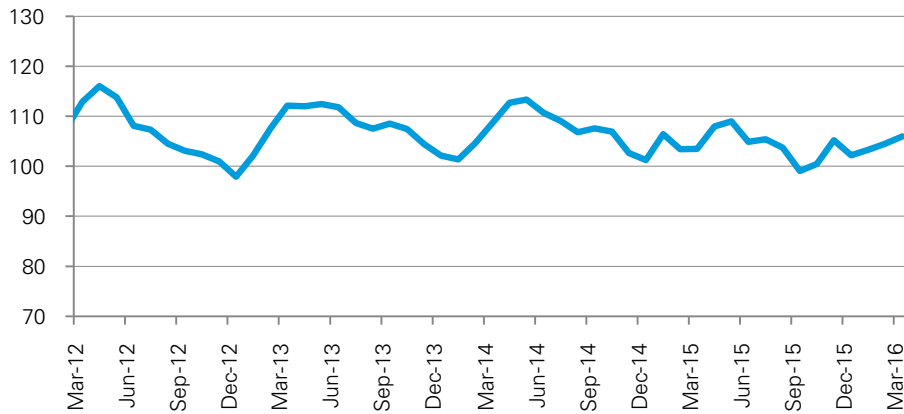
59 percent of Turkey's external debt is denominated in US Dollars, 32 percent in Euros, and 5.9 percent in Turkish Liras.

The ratio of external debt to GDP reached its highest level in 2001, with 57.7 percent, and decreased to 35.5 percent in 2005, which was the lowest level recorded in the last 11 years. In the 4th quarter of 2015, it increased to 55.3 percent. The increase in the exchange rate played an important role in this development. In 2016, we will probably see an improvement of 4-5 points.

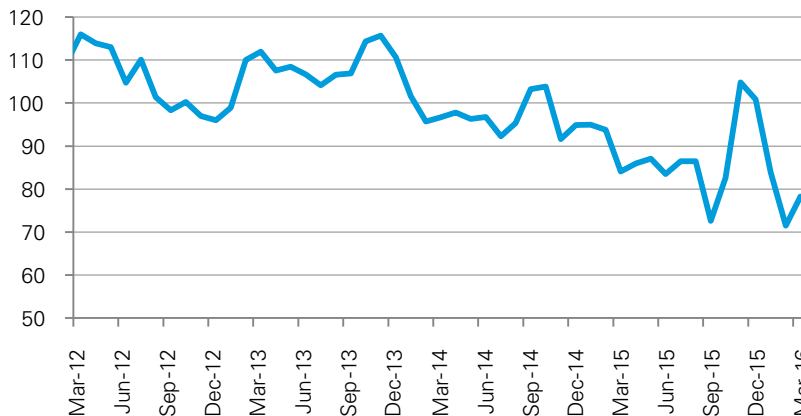


Confidence

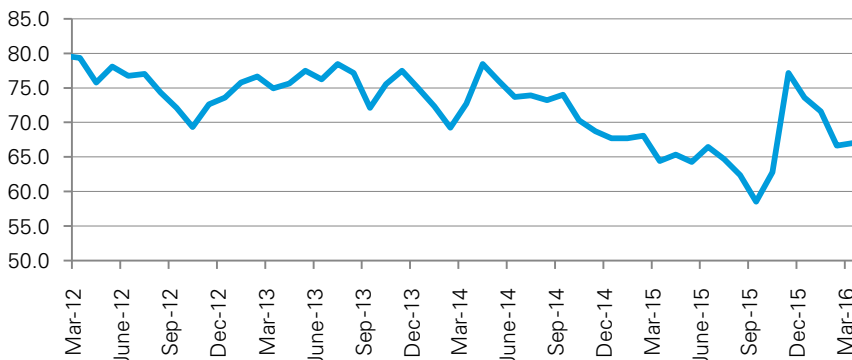
Real Sector Confidence Index



Economic Confidence



Consumer Confidence



Despite low levels of consumer confidence and economic confidence, real sector confidence continues to be high.

In order for consumer confidence, which is more reactive and short-term, to not drag down real sector confidence, it needs to increase soon.

Inflation

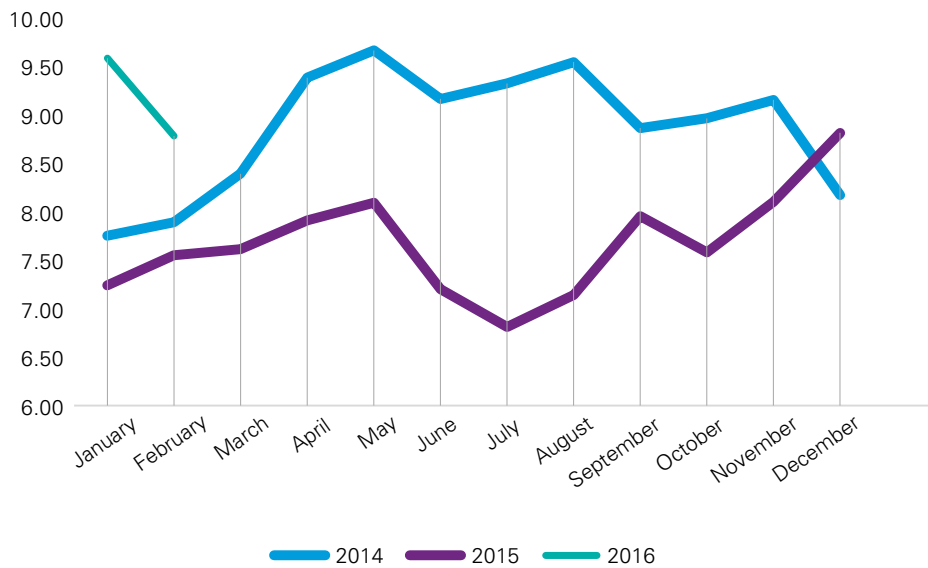
The exchange rate, which increased in 2015 and is not expected to increase much in 2016, will make a “negative” contribution to inflation in the first half of the year and a “positive” contribution in the second half. Commodity prices, which we expect to remain flat, will make a “positive” contribution.

Food prices were low in 2015, and are expected to be even lower this year.

However, changes in weather conditions make it difficult to make long term projections about food prices.

Inflation started to decline in late 2014, parallel to the fall in the oil prices, but this decline was limited because of the increase in the exchange rate. In addition, food prices were lower in 2015 compared to 2014, which decreased inflation to a level lower than what it was 2014.

Inflation (CPI)



What to expect in 2016?



Countries such as Russia, Iraq, Ukraine, Egypt and Syria and other CIS countries will continue to affect Turkey's economy negatively.



2016 will be another year of moderate growth for Turkey.



The end of sanctions on Iran will have a positive effect on Turkey's economy.



2016 will be another year of growth due to internal demand, and the contribution of net exports will be limited or negative.



Relaxation of expectations regarding the FED's interest rate hikes will positively affect the Turkish economy.



Tourism and transportation revenues will decline compared to 2015. This will have a negative effect on the current account deficit.



Recovery in Europe and policies of the European Central Bank will positively affect the Turkish economy.



Commodity prices are still low, decreasing both exports and imports. Exports in 2016 will be affected by commodity prices, increase in internal demand, and the exchange rate.



USD/TRY: 3.08
EUR/TRY: 3.30
EUR/USD: 1.07
Oil: 47 \$ (annual average)



More efforts should be made to diversify markets in tourism, as in the export of goods.

4.2%

We expect a growth of 4.2 percent in 2016.



Our foreign trade expectations for 2016 are 146 billion USD for exports, and 217 billion USD for imports.

Credit rating

Turkey has an investment grade rating from Moody's and Fitch.

According to S&P, however, Turkey is just below investment grade.

Countries with the same rating as Turkey

Moody's : India, Romania, Indonesia
 S&P : Russia, Indonesia, Hungary, Portugal
 Fitch : India, Romania, South Africa, Russia

Ongoing work to update YOİKK's (Coordination Council for the Improvement of Investment Environment) action plans for improving the investment environment would.

	Rating	Outlook
Moody's	Baa3	Negative
Standard & Poors	BB+	Negative
Fitch Ratings	BBB-	Stable

Turkey's credit rating is not expected to move downwards in the short

2016 Review Dates

Fitch : August 19
 Moody's : August 5 - December 2
 S&P : May 6 - December 4

International rankings

Turkey

Global Competitiveness Index	45th
Ease of Doing Business Index	55th
Gender Inequality Index	130th
Economic Freedom Index	70th
Human Development Index	72th
Global Innovation Index	58th
Global Entrepreneurship Index	28th



Conclusion

The most important risk that threatens to end the moderately positive trend observed since mid-January both in Turkey and in global economy is potential interest rate hikes by the FED. Other economic developments have very little -if any- chance of overturning the current global trends.

As long as oil prices remain in the USD38-50 band, it would be safe to argue that there is little risk of an external shock that would hurt the Turkish economy. In terms of growth numbers, the first quarter performance was good. In the second quarter, we do not expect an internal structural risk. The 3rd quarter, on the other hand, will be critical for 2016 in terms of both internal and external developments.

About KPMG Bakış

KPMG Bakış, a quarterly publication prepared by KPMG Turkey in both Turkish and English, provides a review of major macroeconomic indicators in the Turkish and global economies, accompanied by brief a commentary.

Bakış 1

Turkish



English



If you would like to be part of the Bakış's distribution list, please send an e-mail to tr-fmmarkets@kpmg.com.

Contact:

For detailed information:

Corporate Communications and Marketing,
KPMG Turkey
tr-fmmarkets@kpmg.com

İstanbul

Rüzgarlıbahçe Mh. Kavak Sk. No:29
Kavacık 34805 Beykoz / İstanbul / Turkey
T: +90 216 681 9000

Ankara

The Paragon İş Merkezi Kızılırmak Mah. Ufuk
Üniversitesi Cad. 1445 Sok. No:2 Kat:13
Çukurambar 06550 Ankara / Turkey
T: +90 312 491 7231

İzmir

Heris Tower, Akdeniz Mah. Şehit Fethi Bey Cad.
No:55 Kat:21 Alsancak 35210 İzmir / Turkey
T: +90 232 464 2045

kpmg.com.tr
kpmgvergi.com



Information contained herein is of a general nature and is not directed toward any special circumstance of any individual real or corporate bodies. Despite our best effort to provide the most accurate information on time, no guarantee is given that the information is true at the time it is obtained or shall remain true afterwards. Nobody should act according to the information provided here before taking advice from an expert according to his/her particular situation. KPMG International Cooperative ("KPMG International") is a Swiss corporation. Independent member firms of the KPMG network are affiliated with KPMG International. KPMG International Cooperative offers no services to its customers. No member firm is authorized to charge or bind KPMG International or any other member company before third parties and vice versa. All rights reserved.

© 2016 Akis Denetim ve Serbest Muhasebeci Mali Musavirlik AS is a Turkish member of KPMG International Cooperative. The name KPMG and KPMG logo are registered trademarks of KPMG International Cooperative. All rights reserved. Published in Turkey.