



Bakış

Macro Trends in Turkish and
Global Economy

Issue 5
January 2017

kpmg.com.tr





The 19 gazelle varieties can be split into two species. The slight physical variations between gazelle types are determined by habitat. Both species of gazelle, a subspecies of antelopes, are tawny in color with brown and white markings and both have permanent horns. A gazelle can outrun a cheetah, if he spots the predator in time, by weaving and cutting back to force the cheetah to break its sprint. Gazelles are herbivores and feed in open grasslands. This makes them prone to attack from a number of predators, such as cheetahs, lions and wild dogs. For this reason, gazelles are highly alert and sensitive to the presence of other animals. They are constantly on the lookout and have rely heavily on their eyesight, which is excellent due to their large eyes.

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General Outlook

A deliberate but hopeful start for 2017...

Dear reader,

We have left 2016 behind, with its difficulties, and economic and political turmoil, both in the world and in our country. I hope that in 2017 we will witness more positive results than 2016, and wish for 2017 to create some positive reflections on our country.

In 2017, we will continue to publish Bakış quarterly, as we have over the past year.

With regards to global economy, and especially emerging countries, 2016 has been a difficult year, due to low levels of oil and commodity prices.

Most of the oil and other commodity exporting countries shrank in 2016, as they did in 2015, and global trade continued to decline for the same reason.

Global trade, which has shrunk around 13% in US dollars in 2015 down to 16.5 trillion US dollars, continued to decline in the first 3 quarters of 2016. With oil and commodity prices recovering towards the end of 2016, even though it started to recover in the last quarter, it is expected that end of year global trade will shrink

compared to 2015, down to 16 trillion US dollars.

2016 was a difficult year for Turkey as well. Terrorist attacks, a coup attempt, relations with Russia, developments in Syria, increasing exchange rates all shook the economy, both internally and externally. Due to these effects, the growth performance that the Turkish economy had enjoyed for 27 quarters ended, and the economy shrank by 1.8% in the third quarter. Up until the third quarter of 2016, the current account deficit declined, despite losses in tourism, thanks to the low levels of oil prices, but it started to increase again with the recovery in oil prices and losses in tourism that grew during the summer period. Shrinkage in this period also caused unemployment rates to increase. In the last quarter of the year, in addition to US dollar gaining strength, due to the rate cut by Moody's and the inland political risks, the Turkish Lira depreciated severely. In summary, while the first half of 2016 started well for the Turkish economy, the second half ended in distress, due to political developments in the world and in the country.

Murat Alsan
Chairman, KPMG Turkey

Global

Regarding the global economy, with the effects of low levels in oil and commodity prices, the problems in emerging economies and the weakening in global trade, 2016 has been a tough year, with the lowest growth realized since the Great Recession. Following strong signals in the last period in the US economy, an interest rate increase by FED in December 2016 was taken for granted by the markets. FED acted accordingly, and increased interest rates by 25 basis points after the meeting in December.

In the explanations of FED, instead of the markets' expectations of 2 interest rate increases in 2017, 3 increases were mentioned. This caused US dollar to increase to historical levels in recent years. The recovery in oil and commodity prices caused inflation in EU countries to move upwards. Lately, increasing to 0.6% in

November, inflation moved one step closer to the 2% target specified by the EU.

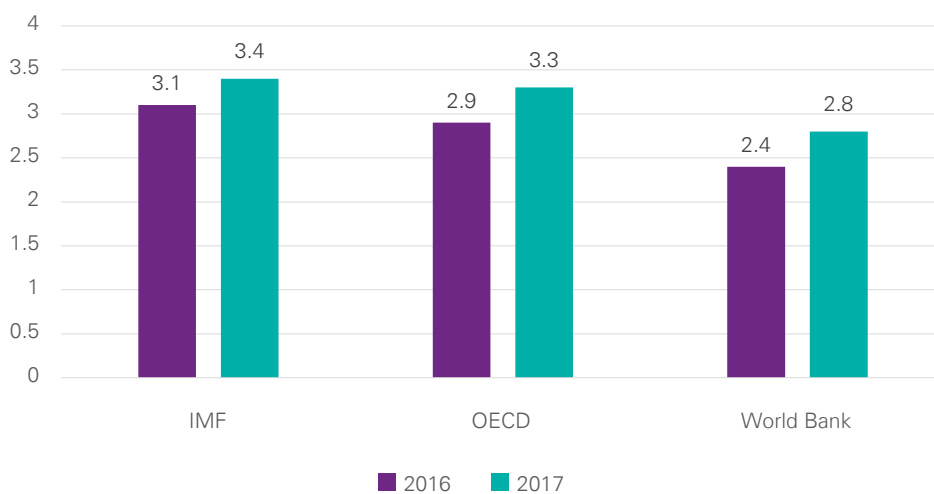
In the meantime, the European Central Bank (ECB) extended its asset purchase program of 80 billion euros by the end of 2017, which was expected to end in March 2017. However, it decided to decrease the asset purchase amount from 80 billion euros to 60 billion euros beginning in March. With inflation increasing towards targeted levels, it is anticipated that the ECB will end the asset purchase program and increase interest rates, just like FED.

With the slowing down of the global economy, 2016 was a year in which global trade shrank, due to decreasing oil and commodity prices and the increase in US dollar. According to the data of the World Trade Organization, global trade declined by 4% in US dollars in the first 10 months.

The global economy will grow faster in 2017

- With regards to the global economy, 2016 was left behind as a tough year. In 2016, with the effects of the low levels in oil and commodity prices, the problems in emerging economies and the weakening in global trade, the global economy realized its lowest growth since 2009.
- With the disappearing base effect in oil and commodity prices, that have started to recover by mid-2016, the developed and emerging economies, especially the oil exporting countries are expected to rebound in 2017. Institutions such as the IMF, OECD and World Bank, anticipate about 0.3-0.4 points higher global growth in 2017 compared to 2016.

Global growth expectations (%)



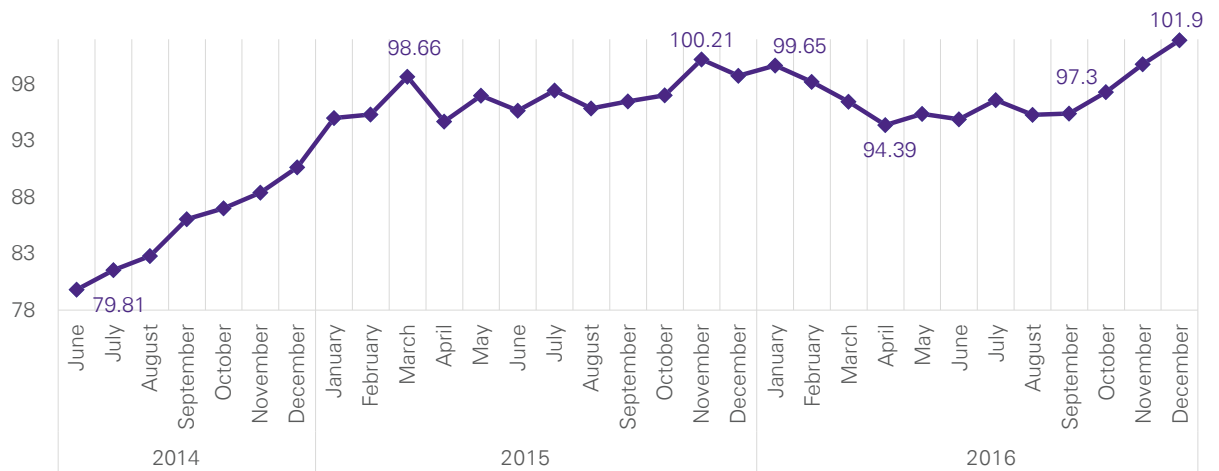
Source: IMF World Economic Outlook

FED increased interest rates and anticipated 3 increases for 2017

Developments in the US economy are in line with expectations. An interest rate increase by FED in December 2016 was taken for granted by the markets. FED acted accordingly, and increased interest rates by 25 basis points after the meeting in December. However, FED's expectations for 2017 was a more significant matter than the interest rate increase. FED surprised the markets, and raised the expectation for 2017 to three interest rate increases, which was two increases as of September 2016. Thus, USD index reached the highest levels of history in December.

Expectations are towards US dollar to continue gaining strength in 2017. With the anticipation that Trump will boost construction and infrastructure investments, the US is expected to grow more aggressively in 2017, and may go through 3 interest rate increases, as mentioned. However, it should be considered that at the beginning of 2016 FED was expected to increase interest rates 4 times, but only did so once.

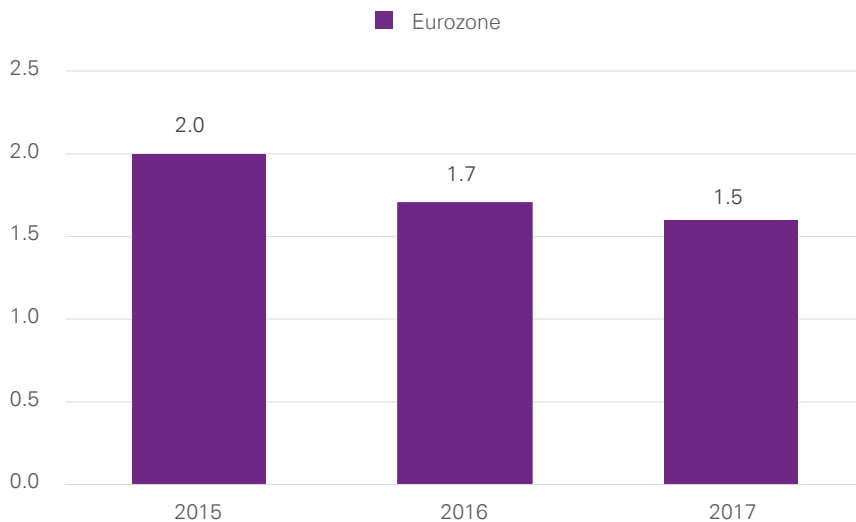
USD Index



Source: Investing.com

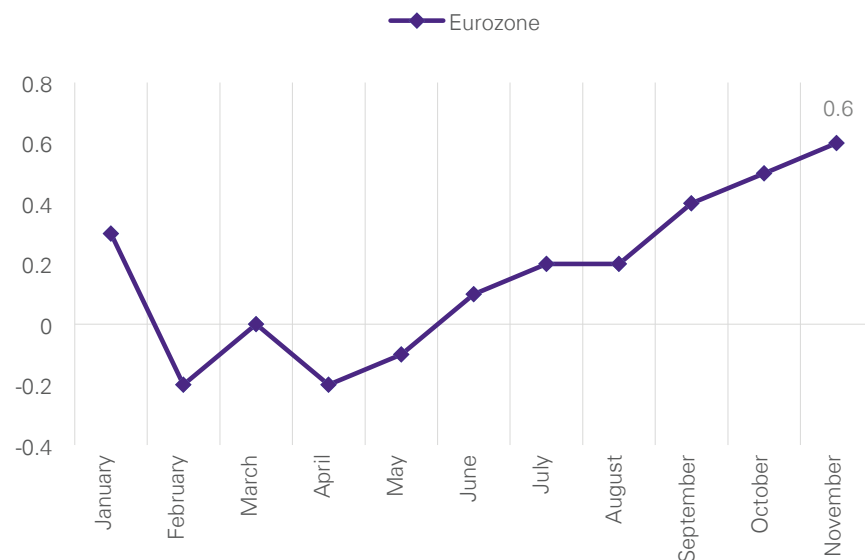
The ECB extended the asset purchasing program, and decreased its amount

Growth %



Source: IMF

Inflation %



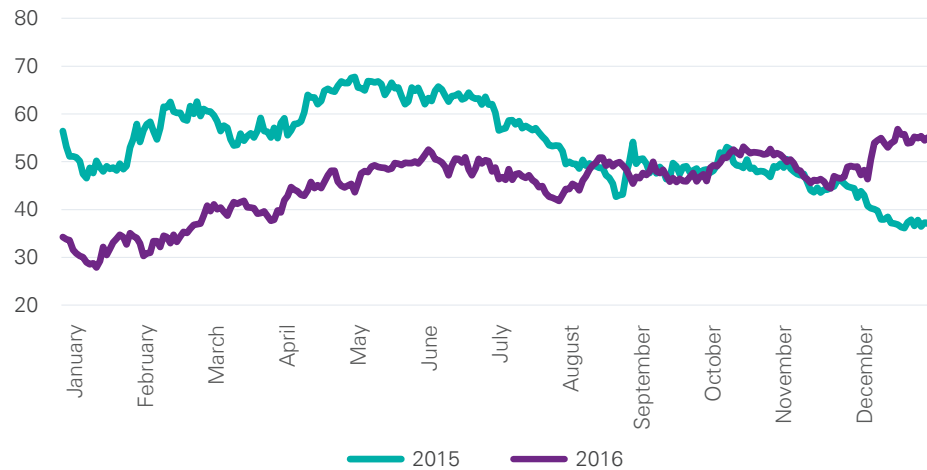
Source: Trading Economics

With the recovery in oil and commodity prices, inflation in EU countries continues to move upwards. Lately, increasing to 0.6% in November, inflation moved one step closer to the 2% target specified by the EU. In the meantime, the ECB extended its asset purchase program of 80 billion euros, which was expected to end in March 2017, to the end of the year. However, it decided to decrease the asset purchase amount from 80 billion euros to 60 billion euros beginning in March. With inflation increasing towards targeted levels, it is anticipated that the ECB will end the asset purchase program and increase interest rates, just like FED.

For 2017, with FED applying an aggressive interest rate increase policy, the euro/dollar exchange rate is expected to draw close to 1, and euro to appreciate again, with ECB intervention.

Oil and commodity prices are recovering

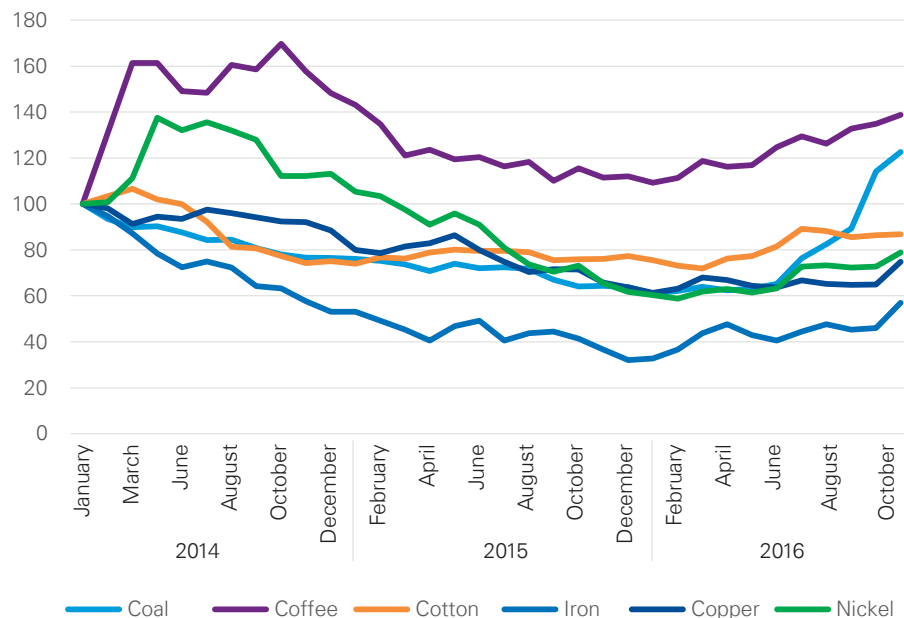
Brent Oil (USD/Barrel)



Source: investing.com

📖 OPEC member countries agreed in the meeting in Vienna towards the end of November that crude oil supply will be decreased by 1.2 million barrels, down to 32.5 million barrels. In 2016, OPEC member countries met several times, and fluctuations in oil prices occurred due to these meetings. However, oil prices which are at 40-50 USD levels since June are expected to stay permanently over 50 USD, as a result of the agreement. In the coming period, the main determinant of oil prices will be based on to what extent member countries will adhere to the agreement.

Commodity Price Index (2014 January=100)



Source: World Bank

📖 Similar to oil prices, commodity prices started to increase again, after reaching the lowest levels in 2016. But in many metal groups, such as iron, nickel and copper, prices are still below 2014 levels. Coal prices have increased rapidly in the last period and exceeded 2014 prices.

Last phases of the shrink in trade

In 2016 global trade shrank, due to decreasing oil and commodity prices and the increase in US dollar, just like 2015. According to the first 10 months' data of the World Trade Organization, global trade declined by 4% in US dollars, down to 15.8 trillion US dollars. But this decline has started to decelerate in the last months.

In the first 6 months, the shrinkage in global trade was at 5.5%. With the recovery in oil and commodity prices, global trade is expected to be at approximately 16 trillion US dollars as the end of 2016, and start to increase again in 2017.

On a country basis, in the first 10 months, US exports declined by 4.6%, while imports declined by 4%.

In the same period, EU exports and imports decreased by 1.2% and 0.7% respectively, while Russian exports decreased by 21.9%, and imports by 2.7%.

According to the data of the first 11 months, Chinese exports decreased by 7.4% and imports by 6.2%.

Declines in 2016 global trade

	Exports	Imports
	-4%	
	-4.6%	-4%
	-7.4%	-6.2%
	-1.2%	-0.7%
	-21.9%	-2.7%

Source: World Trade Organization

Turkey

While the Turkish economy performed quite successfully in the first half of 2016, the developments in the second half distressed this success.

Low levels of oil and commodity prices in the first half of 2016 compared to the previous year created a positive effect on current account deficit and inflation, and with the 4.5% growth in this period, Turkey was among the fastest growing countries in the world. However, throughout the year, terrorist attacks, a coup attempt and the political crisis with Russia caused the number of tourists visiting Turkey to fall severely and exports to Russia to decrease. These affected Turkey adversely, both in terms of growth and current account deficit.

Two religious holidays ran for nine days each in 2016, which also caused industrial production to decrease, and the Turkish economy shrank by 1.8%, ending the growth performance of 27 consecutive quarters.




While announcing the third quarter growth figures, the Turkish Statistics Institute (TUIK) also announced the revision studies for GDP calculations according to the ESA-2010 system, which they have been working on for a while. In the new growth series announced, investment and construction contribution increased, and also with the inclusion of some new areas, Turkey's growth of the previous years and GDP amounts increased. Thus, the average growth rate of Turkey between 2010 and 2015 increased from 5.2% to 7.4%, and per capita income of 2015 from 9,257 USD to 11,014 USD.

Despite the revision made, Turkish economy's growth by 2.2% in the first three quarters of 2016 indicates that it will be difficult to reach the targeted 3.2% by year end. In 2016, net exports contributed negatively to growth because of the losses in tourism, and the decline in exports to surrounding countries, notably to Russia and Iraq. We are more optimistic for 2017, if there are no unexpected shocks.

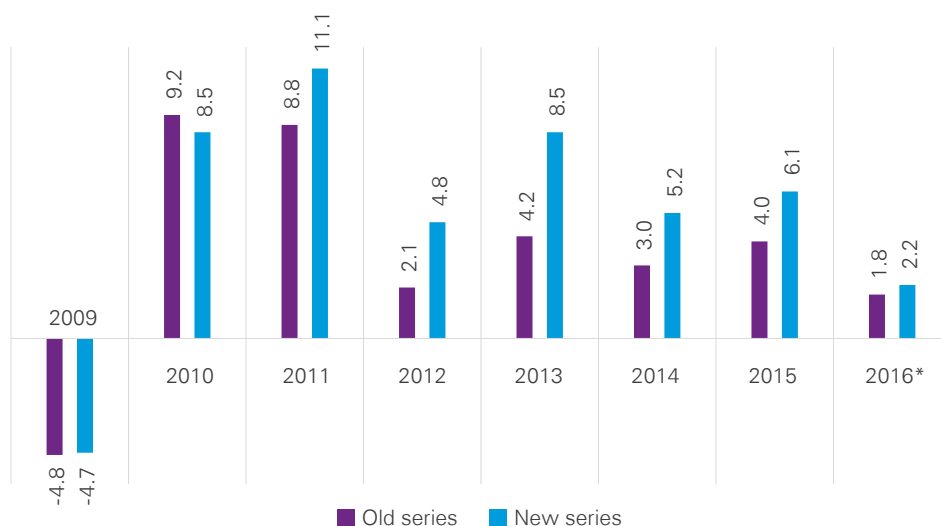
Revision in growth

TÜİK switched to the ESA-2010 system for GDP calculations within the scope of compliance with Eurostat. EU countries started to use this system in 2014. Now Turkey has started to use ESA-2010 as well, with a two-year delay. The new system was announced together with the third quarter GDP figures. Turkey's GDP size, per capita income, growth rates after 2009 and all indicators related to GDP changed.

To summarize:

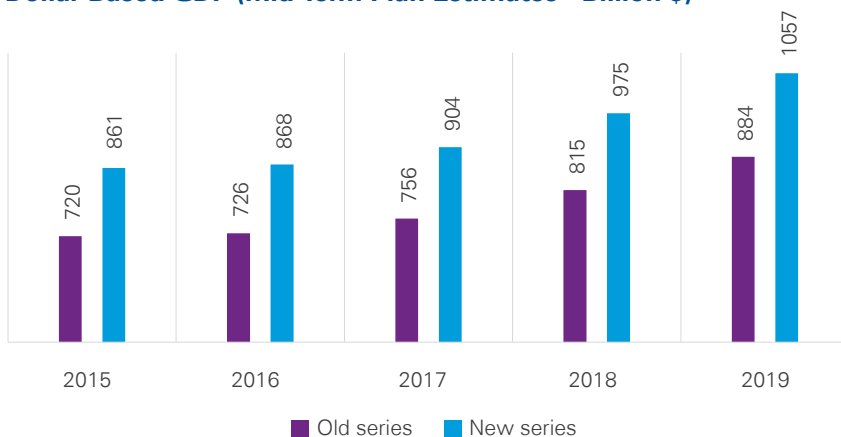
-  For 2015, USD based GDP increased from 720 billion USD to 861 billion USD.
-  For 2015, per capita income increased from 9,257 USD to 11,014 USD.
-  Average growth rate for the post-global crisis period (2010-2015) increased from 5.2% to 7.4%.
-  Average growth rate between 2002 and 2015 increased from 4.8% to 5.9%.

Growth (%)



Source: TÜİK (Turkish Statistics Institute)

Dollar Based GDP (Mid-Term Plan Estimates - Billion \$)

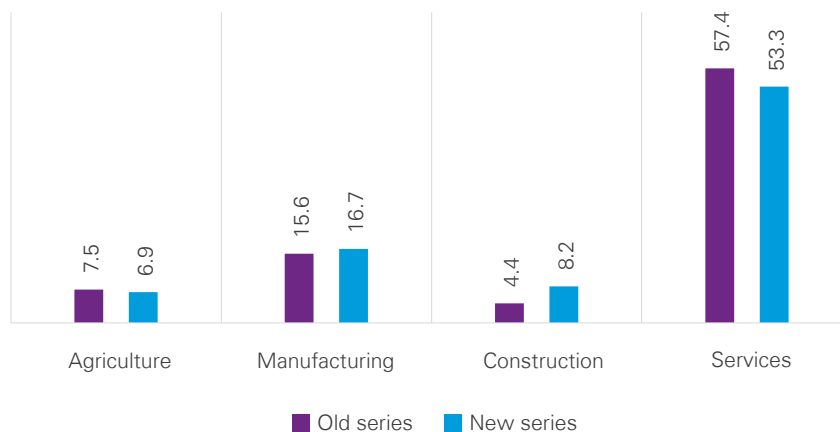


Share of investments and construction in the GDP increases

GDP Shares According to Expense Method (%)	Old series 2015	New series 2015	Difference
Consumption	69.1	60.4	-8.7
Public expenditure	15.7	13.9	-1.8
Investments	20.4	29.7	9.3
Inventory differences	-2.3	-1.4	0.9
Export of goods and services	28	23.4	-4.6
Imports of Goods and Services	-30.9	-26	4.9
GDP	100	100	

- The most significant difference between the old series and new series is the changed share of the items used in GDP calculations (by current prices). In the new series, the share of investments increased, while the shares of consumption, public expenditures, goods and services exports and imports decreased. This caused a change in past growth figures.
- In the new series, consumption is the most decreasing item (by share), by 8.7 points. Following consumption, the next most decreasing items were exports and imports. The share of goods and services exports in GDP decreased from 28% to 23.4%, and for only goods exports, the figure decreased from 20% to 16.6%. The share of investments increased by 9.3 points, being 29.7%.
- Considered by the production methods, we can see that the share of agriculture and services has decreased, and shares in manufacturing and construction increased with the revision. The increase for the manufacturing industry was limited with 1.1 points, an increase in the share of construction being the significant one with 3.8 points.

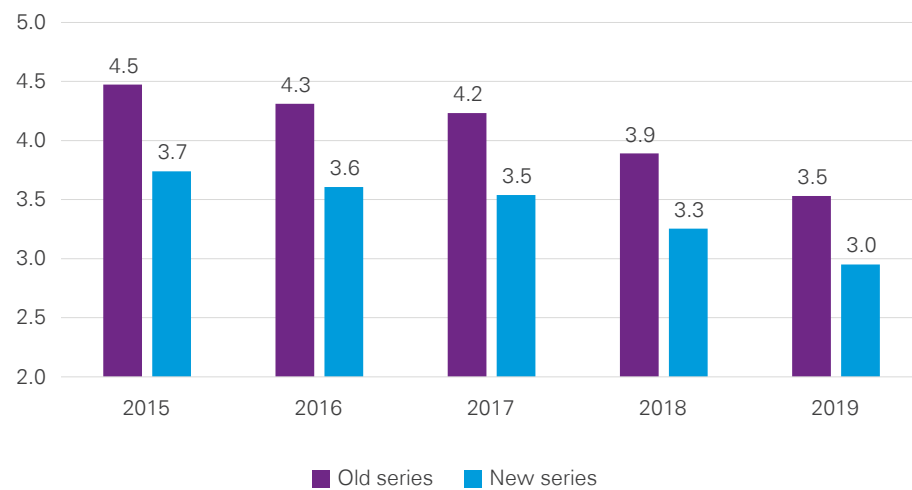
GDP Shares According to Production Method (%)



Estimates in the Mid-Term Plan need to be revised

As the GDP figure increased with the revision, compared to the old series, the Mid-Term Plan that was revised in October needs to be revised again, in terms of targets and indicators which are connected to GDP figures.

Current Account Deficit / GDP (%)



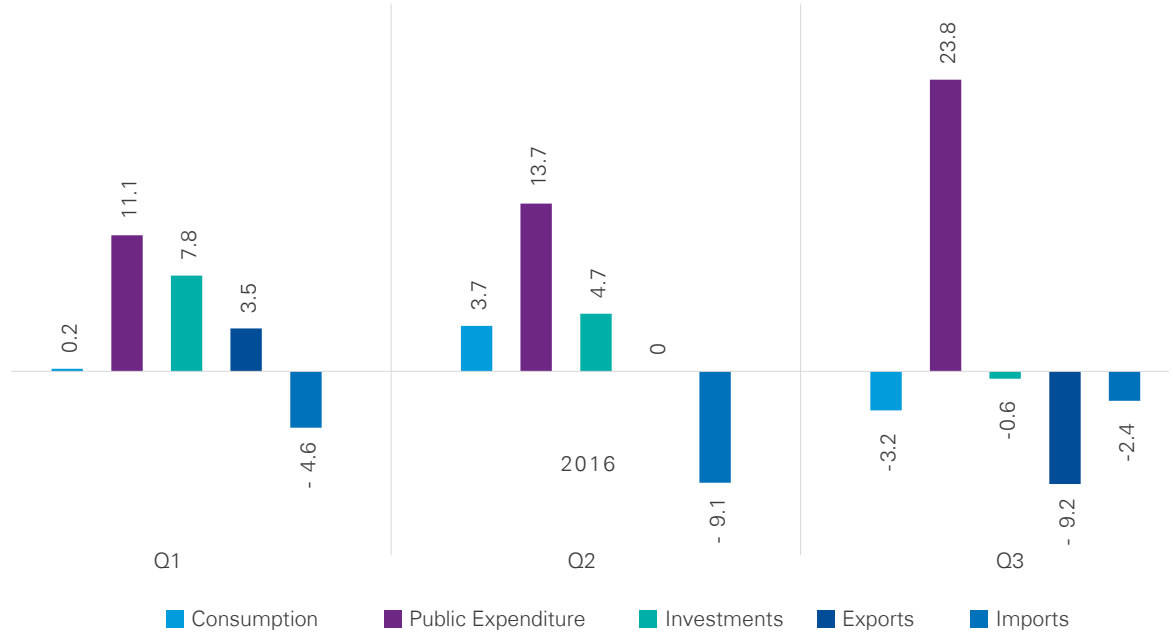
With the new series, the ratio of current account deficit to GDP decreased from 4.5% to 3.7% for 2015. According to the Mid-Term Plan, the targets for 2016 and 2017 were 4.3% and 4.2%. Therefore, regarding 2015, the current account deficit / GDP ratios for the coming years should be revised downwards according to the new series.

Budget Deficit / GDP (%)



As the GDP of Turkey increased with the revision, the ratio of the budget deficit to GDP also decreased, from 1.2% to 1% for 2015. For the coming year, if budget deficit will be the amount targeted in the Mid-Term Plan, budget deficit / GDP ratio will be at 1.6% level, instead of 1.9%.

We shrank after 27 quarters



- The Turkish economy shrank by 1.8% in the third quarter. Thus, the growth trend that Turkey experience for 27 quarters has now come to an end.
- Regarding the shrinkage in the third quarter, losses in tourism and long religious holidays both had an effect. Tourist numbers, which have been decreasing since the beginning of the year with the effects of the attempted coup, terror incidents and the crisis with Russia, dropped severely in the third quarter. Both the decrease in the tourism revenues, and its effects to the sectors servicing the tourism sector caused the economy to shrink.

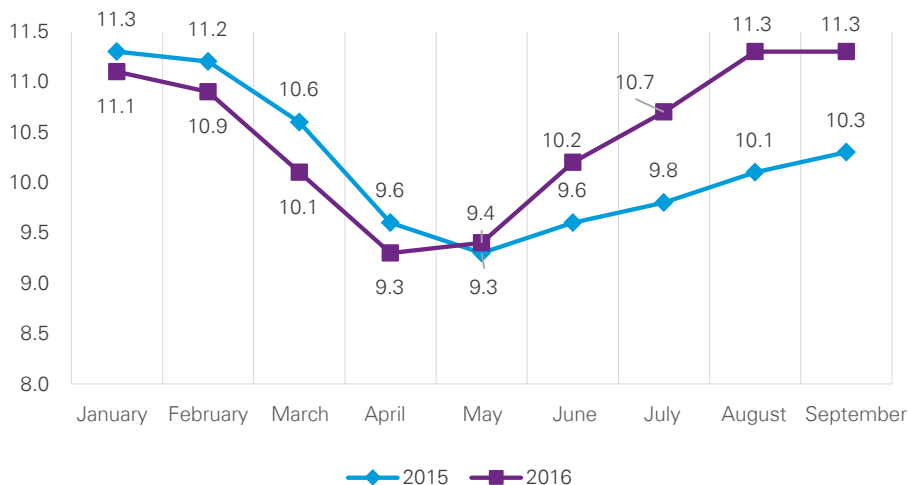
- In the first two quarters, while Turkey was growing mainly due to internal consumption, net exports contributed negatively to growth. In the third quarter, both internal consumption and net exports contributed negatively to growth. It is expected that in the fourth quarter, growth will recover and close the year at around 2.6%, with the structural reforms and incentive packages announced by the Government.

Unemployment increased due to the effect of tourism

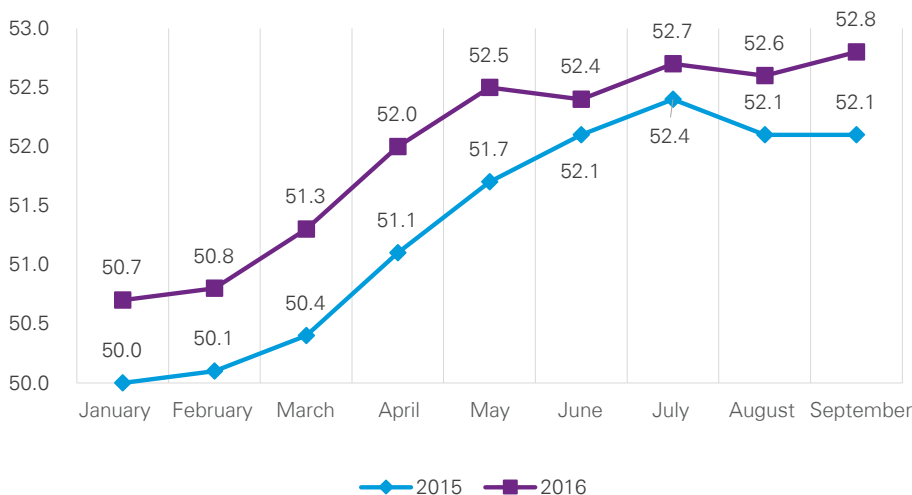
The unemployment rate in Turkey has been around 9% on average since the Great Recession. However, in recent years there is an upward trend in unemployment numbers. The average unemployment rate which was 9.9% in 2014 increased to 10.3% in 2015. In 2016, while the unemployment rate was at lower levels compared to 2015 until June, it started to move above 2015 during the summer season, because of the problems in tourism. Finally, in September the unemployment rate was 11.3%, 1 point above 2015.

While the unemployment rate has been increasing in Turkey for the past 3 years, at the same time new jobs are being created. In 2015, 806 thousand people were newly hired. In the first 9 months of 2016, employment reached 1.1 million people. Although Turkey is creating jobs more than many other countries, unemployment is increasing due to the fact that labor force is increasing every year. In 2016, the ratio of joining the labor force was on average 0.7 points more than the previous year.

Unemployment Rate



Labor Force (%)



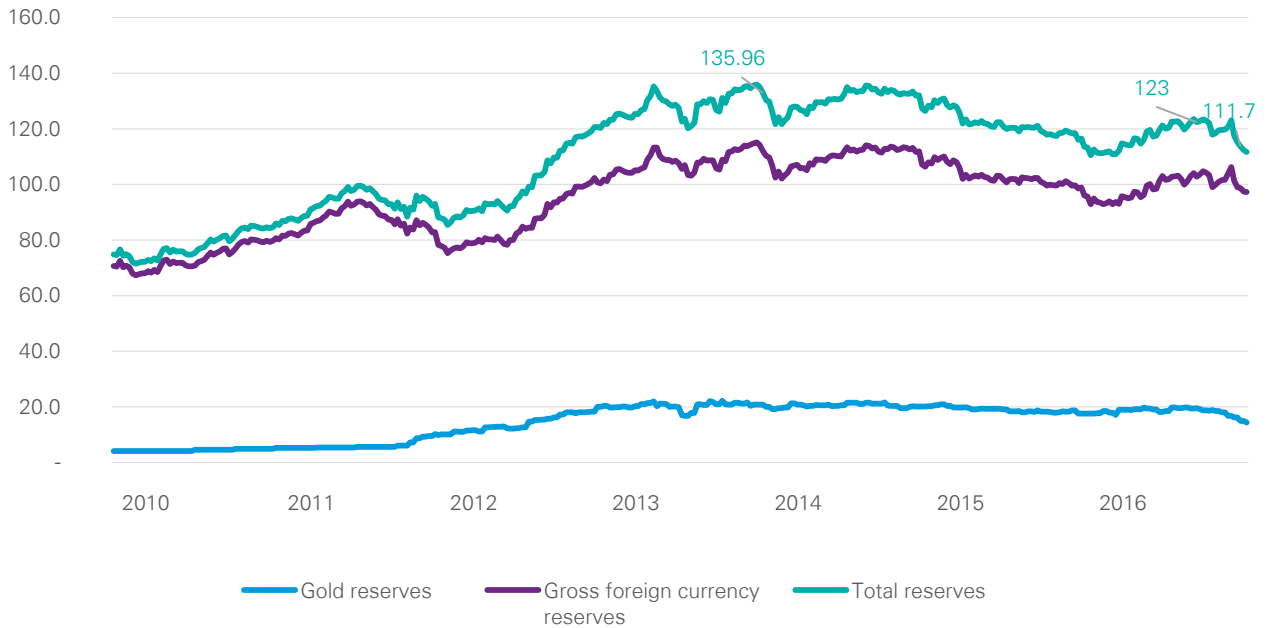
CBT's reserves are decreasing

The Central Bank's (CBT) reserves reached 136 billion US dollars in December 2013, a historically high level. Following US dollar gaining value throughout the world, and capital outflows occurring from Turkey, reserves decreased gradually but have gone through an increasing trend since the beginning of 2016.

With the severe fluctuations in exchange rates in the past 2 months, CBT reserves declined from 123 billion USD to 111.7 billion USD, declining by 11.3 billion USD.

Throughout the last year, total reserves decreased by 1.8 billion USD, compared to the same month of the previous year. In this period gold reserves increased by 3.1 billion USD, and gross foreign currency reserves increased by 1.3 billion USD.

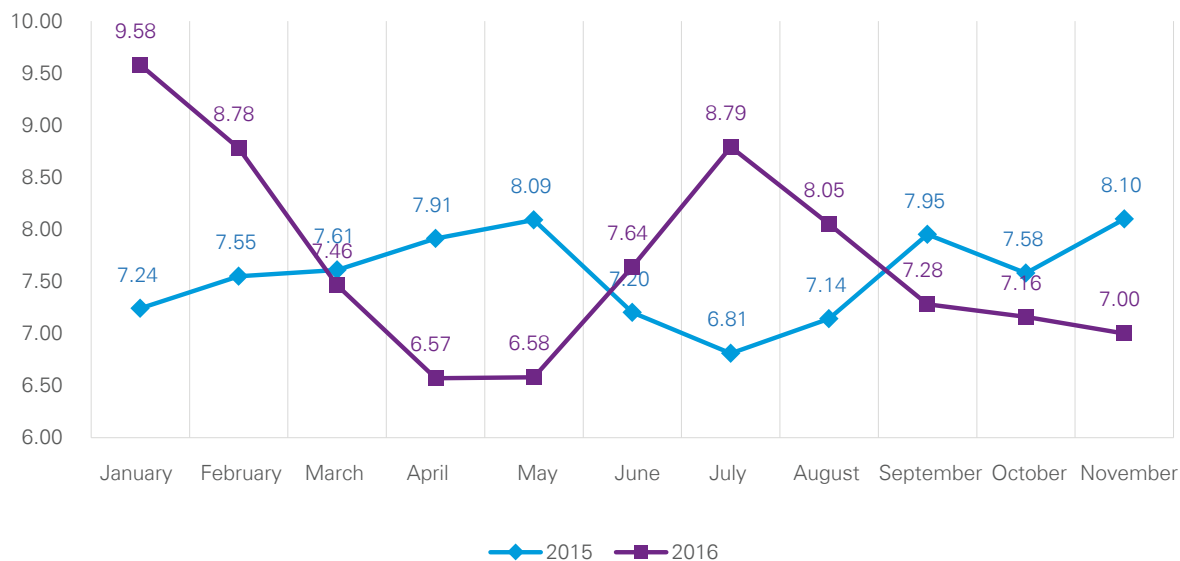
Central Bank reserves (billion USD)



Inflation decreased with the decline in food prices

Inflation, which was at high levels in 2014 and 2015, went through a downward trend in the beginning of 2016. However, as food prices have increased beginning from June, inflation also started to increase, but tent to decrease again with the decline in food prices. Because the weight of food in the inflation basket is approximately 24%, the volatility in food prices has determinant effects on inflation. Since the second half of 2016, the recovery in oil and commodity prices pushed inflation upwards. With TRY depreciating in significant amounts in the last period, inflation is expected to increase again in the near future. However, the effect of the exchange rates is expected to be seen the next year. The first months of 2017 can be tight, with regards to both foreign exchange - interest, and the real sector, but especially in the second half we expect milder markets.

Inflation (%)



Current account deficit started to increase

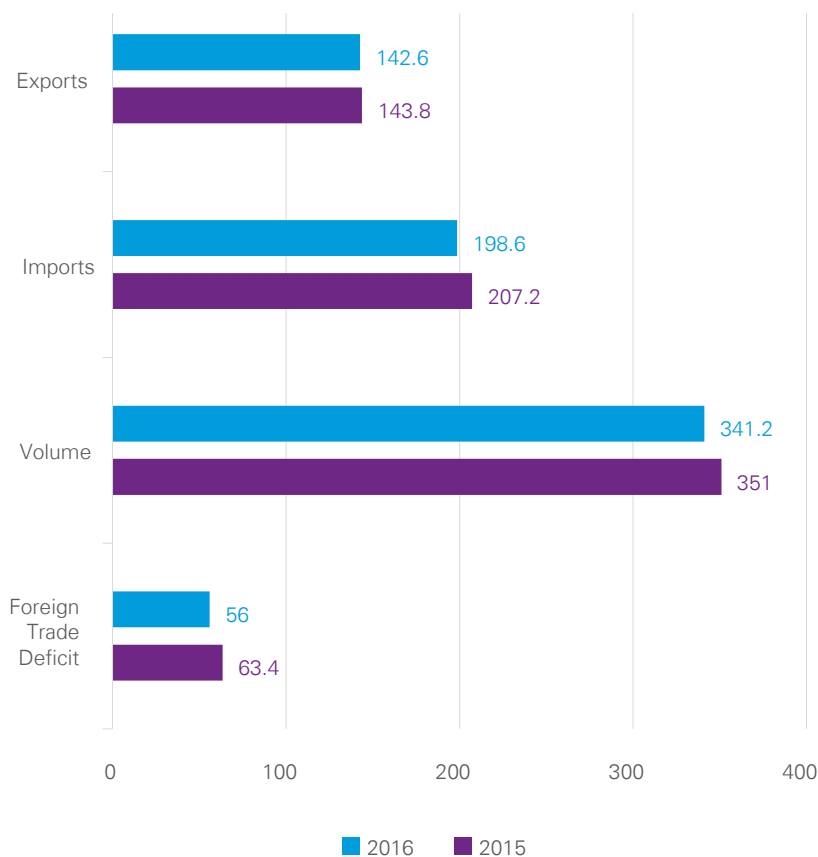
Current Account Deficit / GDP (%)



Source: TÜİK, CBT

- At the beginning of 2016, there was the expectation that the ratio of current account deficit / GDP would decrease, with the assumption that the current account deficit would decrease as of year-end due to low oil prices and that US dollar would not appreciate severely. However, due to the effects of terror incidents during the year, tourism losses pushed the current account deficit downwards. In the first 10 months, the loss in tourism revenues was 7.4 billion USD. At the same time, the base effect arising from low levels of oil prices ended as of September and turned negative in December. Namely, oil prices will be at higher levels than the previous year for a long time. And this means that the current account deficit will continue to increase in the coming period.
- Finally, current account deficit, on an annual basis increased to 33.8 billion USD in October. This figure was 32.3 billion USD by of end of 2015. According to estimates, the current account deficit is expected to increase and be around 35 billion USD at year-end.
- With the new GDP series, current account deficit/GDP ratio has also changed. According to the old series, the current account deficit/GDP ratio for 2015 was 4.5%. With the new series, it declined to 3.7%. Considering the new series, the lowest ratio in 2016 was the second quarter, at 3.4%. The ratio, which increased to 3.8% in the third quarter with the current account deficit increase, is expected to be 4.1% as of year-end.

The foreign trade deficit declined in 2016 due to low energy prices



*Values are billion USD.

Source: TÜİK, GTB

- In 2016, exports were 142.6 billion USD, decreasing by 0.8%. Exports by volume (quantities) increased by 4.1%.
- There was more shrinkage in imports than in exports. In 2016 imports declined by 4.2%, down to 198.6 billion USD.
- With the decrease in imports being more than the decrease in exports, the foreign trade deficit declined. In this period, the foreign trade deficit decreased by 11.7%, down to 56 billion USD. Thus, the ratio of exports to cover imports increased by 2.4 points up to 71.8%. This was 69.4% in 2015.
- Last year, the decrease in unit prices due to the decline in oil and commodity prices was effective in the shrinkage of exports and imports. The value of exports per kg was 1.44 USD in 2015, and decreased to 1.37 USD in 2016. Import prices also declined severely, especially due to the low levels in oil prices. This factor has played the biggest role in the decline in the foreign trade deficit of Turkey, an oil importing country.
- Another factor in the decline of exports and imports was the appreciation of US dollar worldwide. Also, the crisis with Russia and armed conflicts in the surrounding countries created downward effects.

Why did exports decline in 2016?

1. Decreasing export prices	2. Russia and Iraq	3. Appreciation in USD
<ul style="list-style-type: none">Export prices decreased this year as they did last year, due to the decline in oil and commodity prices.Last year the export value per kg was \$1.46, this year it was \$1.37. <p>Loss: \$3.5 billion</p>	<ul style="list-style-type: none">Because of the crisis with Russia and the armed conflict in Iraq, exports to these countries declined severely.In 2016, exports to Russia declined by 57%, to Iraq by 19%. <p>Loss for Russia: \$1.9 billion Loss for Iraq: \$1.1 billion Loss for Libya: \$500 million</p>	<ul style="list-style-type: none">As it was the case last year, our exports declined because of the appreciation of USD. <p>Loss for exchange rate: \$1.5 billion</p>

If these losses had not occurred, 2016 exports would have increased by 5%, instead of decreasing by 0.8%

Source: TİM (Turkish Exporters Assembly)

Export of goods - countries

- In 2016, Switzerland was replaced by the Netherlands at the list of top 10 countries that we export to. The ranks of other countries changed as well. Iraq was the third country that we most exported to in 2015, but in 2016 it was the fourth. It was replaced by Italy. The United Arab Emirates (UAE) and Iran moved up two places each and became the seventh and eighth. Spain fell one place back to ninth.
- The only country to which our exports decreased is Iraq, among the list of top 10 countries that we export to. The biggest increases in exports were to Iran (35.6%), and the Netherlands (13.7%).
- The increase in exports to Iran, the UAE and the UK, was effected by gold. Excluding gold, in 2016 exports to Iran increased by 0.1%, and to the UAE decreased by 4.9%, and to UK by 8.3%. For export increases to EU countries, the automotive sector was the main determinant.

Country	2015	2016*	Change (%)
Germany	13,417	13,986	4.2
UK	10,556	11,649	10.3
Italy	6,887	7,593	10.2
Iraq	8,550	7,583	-11.3
USA	6,396	6,636	3.8
France	5,845	6,019	3
UAE	4,681	5,078	8.5
Iran	3,664	4,969	35.6
Spain	4,742	5,004	5.5
The Netherlands	3,155	3,589	13.7

Source: TÜİK + TİM data (Values are billion USD).

*2016 year total

Number of tourists decreased by 10.7 million in the first 11 months

Estimates made at the beginning of the year for the shrinkage in the tourism sector due to terror incidents in Turkey and the crisis with Russia, unfortunately came to bear. In the first 11 months, tourists visiting Turkey declined by 30.9%. The number of visiting tourists decreased by 10.7 million, down to 24 million. As for our biggest competitors in tourism, tourists traveling to Spain increased by 10.2% up to 67 million in the same period, and to Greece by 3.9%, in the first 9 months. As a result, in terms of the number of tourists Greece went ahead of Turkey.

In the first 11 months of the year, the biggest loss in the number of tourists was Russia, by 2.8 million. Russia was followed by Germany with 1.6 million and by the UK by 793 thousand tourists. In the same period, tourists from Ukraine increased by 336 thousand, and from Georgia by 281 thousand.

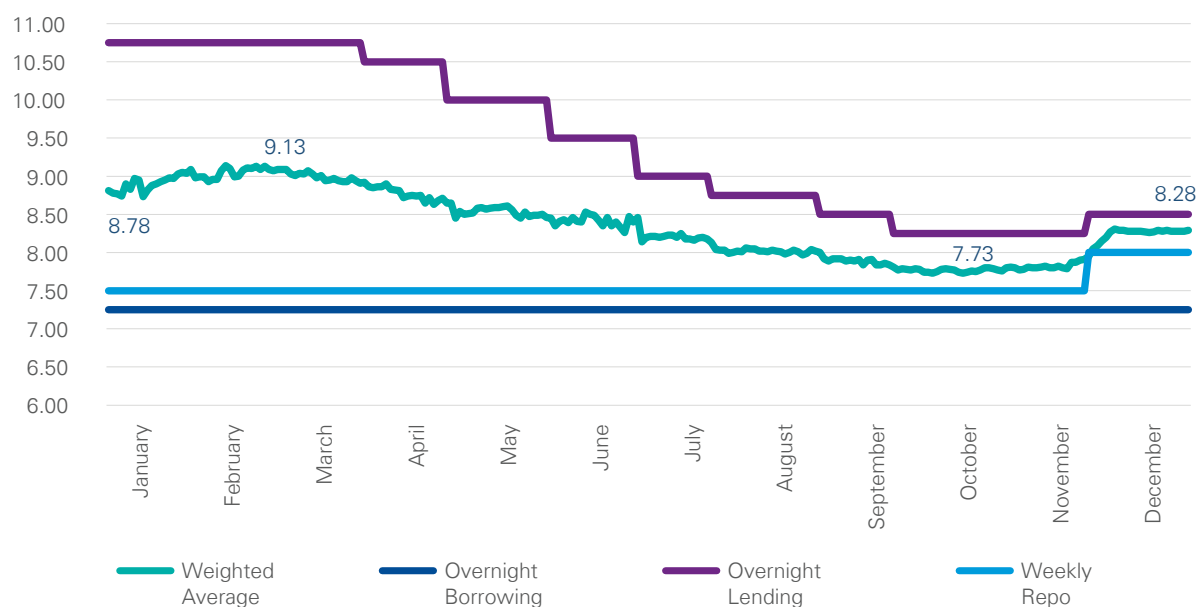
Losses in the number of tourists affected Turkey's tourism revenues severely. Tourism revenues decreased by 30.1% (7.2 billion USD) in the first 10 months of 2016, compared to the previous year. If the trend continues likewise, it is expected that tourism revenues which were 26.6 billion USD in 2015 will decrease approximately 8 billion USD in 2016, down to 18.6 billion USD. If the decrease in tourism revenues in the first 10 months of 2016 had not happened, the current account deficit would be 17.9 billion USD for that period, instead of 26.5 billion USD. Namely, the current account deficit would decrease by 28% compared to the previous year, instead of increasing by 6%. The decline in tourism revenues at the same time affected the growth performance of Turkey negatively. In the third quarter, which was the one with the biggest loss in tourism, the Turkish economy shrank by 1.8%, while the effect of losses in tourism on growth was -1.9. This means if the losses in tourism had not happened in the third quarter, Turkey would have continued growing.

Country	2015	2016	Change (%)	Difference (Persons)
Germany	5,403,222	3,761,584	-30.38	-1,641,638
Georgia	1,760,938	2,041,897	15.96	280,959
UK	2,475,586	1,681,991	-32.06	-793,595
Iran	1,591,490	1,559,714	-2.00	31,776
Bulgaria	1,683,474	1,559,432	-7.37	-124,042
Ukraine	678,518	1,014,215	49.48	335,697
The Netherlands	1,199,502	880,976	-26.55	-318,526
Russia	3,623,518	822,159	-77.31	-2,801,359
Azerbaijan	567,886	564,748	-0.55	-3,138
Greece	696,166	546,274	-21.53	-149,892

Source: Ministry of Culture and Tourism Number of Persons, January-November

CBT has increased interest rates for the first time since 2014

CBT Interest Rates (2016-Current)

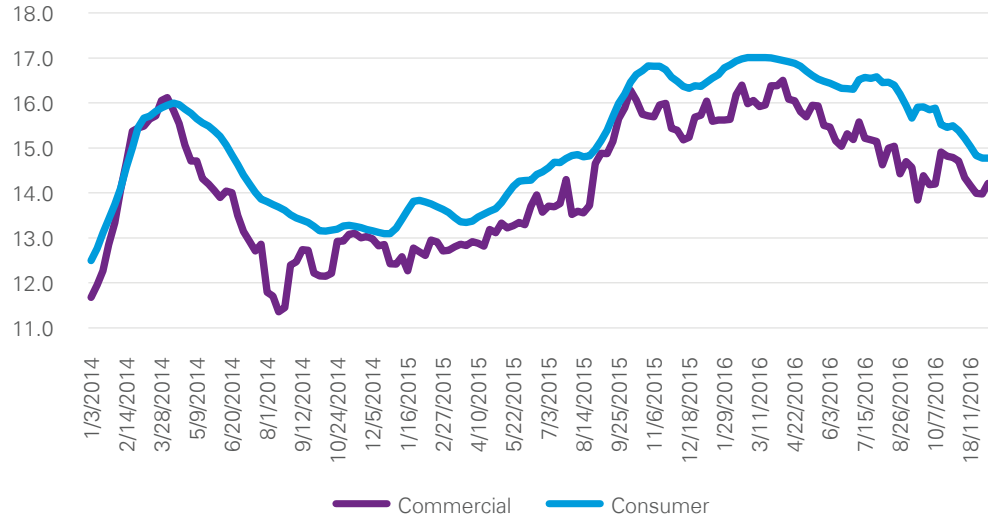


Source: CBT

- Since March, CBT has decreased the upper band of the interest rate corridor 7 times. Following this, it did not take any action in October, and in November increased interest rates for the first time since the beginning of 2014, with the effects of severe increases in exchange rates. The policy interest rate, which was decreased to 7.5% in February 2015, had not changed since then. While CBT was increasing policy interest rate by 50 basis points in November, at the same time it increased the upper band of the interest rate corridor by 25 basis points, up to 8.5%. This level has decreased from 10.75% to 8.25% since March.
- The weighted average funding cost, which was at 9% level at the beginning of 2016, had decreased to 7.73% level in the last period with the realized interest rate decreases. However, in line with the interest rate increase in November, it also increased up to 8.28%, back to its level in June.
- Expectations are generally as such that an upward trend in exchange rates will continue in the short and medium term, and CBT will continue additional interest rate increases.

The downward move in market interest rates may turn upwards again

Loan interest rates (monthly average)

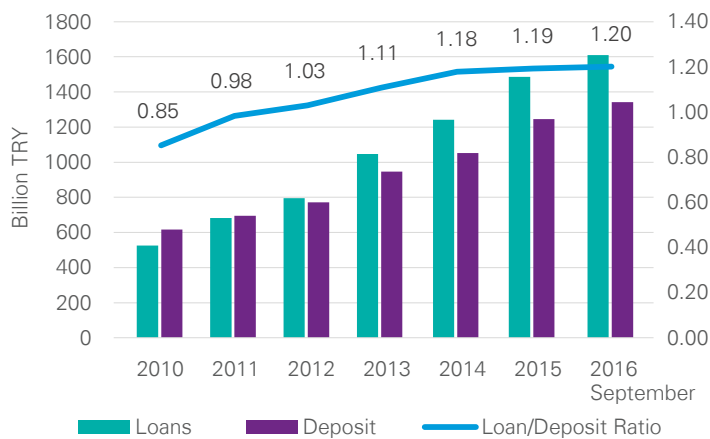


Source: CBT

- There is also a decrease in market interest rates, with CBT's recent interest rate decreases. However, because the deposit interest rates of banks are at high levels and as the risk premium of Turkey has increased since the July 15th incident, this decrease has been limited. A downward movement in market interest rates in the last period were seen in commercial loans more significantly than consumer loans.
- Since March, when interest rate cuts started, commercial loans decreased by 2.9 points and consumer loans decreased by 1.7 points.
- Finally, consumer loan interest rates are at an average level of 14.8%, while commercial loan interest rates are at 14.5%.
- With CBT continuing interest rate increases in the coming period, it is estimated that the downward trend in market interest rates will end and start to increase again.

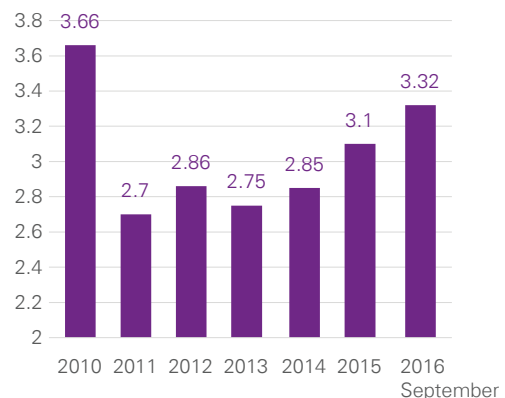
While profitability is increasing in the banking sector, non-performing loans are increasing

Ratio of deposits to loans



Source: BRSA

Non Performing Loans Rate (%)

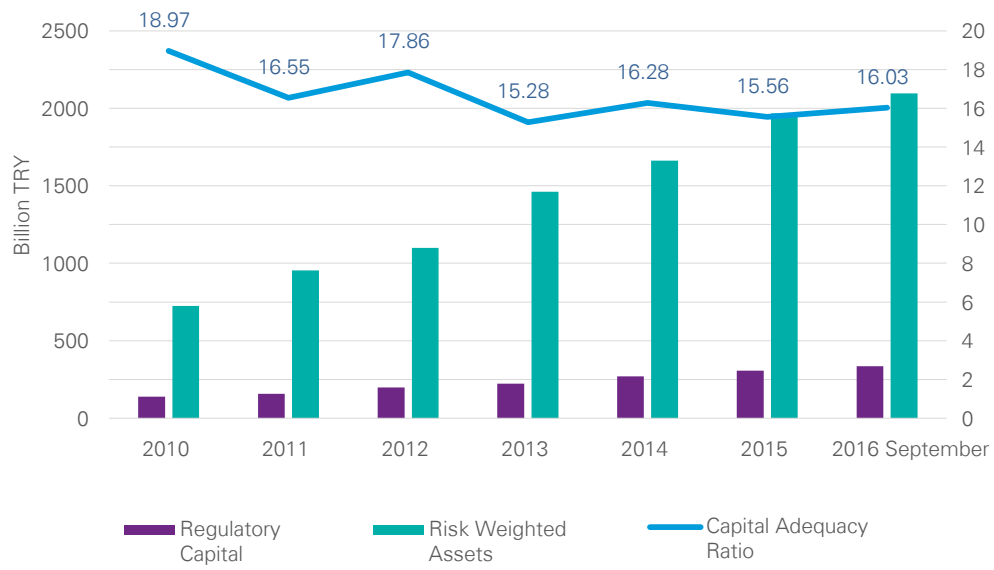


Source: BRSA

- Total assets of the banking sector continued to increase in 2016. Total assets of the sector were 2.5 trillion TRY as of third quarter of 2016, increasing by 7.5% compared to 2015 year-end. And the total profit of the banking sector was 29 billion TRY as of third quarter of 2016, increasing by 54.7% compared to the same period of last year.
- In line with the increase in total assets, loans extended and deposits collected by the banks increase every year. But for the last 7 years, the growing rate of loans has been faster than the growing rate of deposits. Therefore, deterioration occurred in loan / deposit ratios. This ratio was 0.85 in 2010, and now it is 1.2. The fact that this ratio is increasing year by year means that banks will have less appetite to extend loans in the coming period.
- Another problematic indicator in the banking sector is the non-performing loans rate. With a lot of companies going bankrupt or facing severe difficulties during the Great Recession, the non-performing loans rate was 3.66% in 2010. This rate decreased to 2.7% with the recovery in 2011, and started to increase then, most recently in September 2016 at 3.32%. This rate continuing to increase might be a problem for the banking sector in the coming period.

Capital adequacy ratio started to increase in 2016

Capital adequacy ratio (%)



The capital adequacy ratio of the Turkish banking sector increased to 16.03% in the third quarter of 2016, by 0.47 points compared to the end of 2015. The level of capital adequacy ratio, which is calculated by dividing the shareholders' equity by the risk weighted assets of banks, was 18.97% in 2010, and reached the lowest level in 2013 with 15.28%. The banks' shareholders' equity increasing by 9.8% compared to the end of last year was effective in increasing the capital adequacy ratio in 2016. In the same period, risk weighted assets increased by 6.6%. Having changed the calculation method of capital adequacy during the year, BRSA was also a factor in the ratios changing. In 2016 the bank group with the highest capital adequacy ratio was foreign banks with 16.74%, followed by private domestic banks with 15.16% and by state banks with 16.42%.

How will 2017 end?

Growth



In 2017, public expenditures will have a high share in growth, like they had in 2016.



In addition to public investments, with the reforms and incentive packages announced, private investments can also accelerate in 2017

Export losses of significant amounts to markets such as Russia and Iraq in 2016 will be compensated for in 2017. Also, there will be a recovery in tourism, even if it may not be as much as expected. Therefore, net exports will contribute positively to growth in 2017.

3.8

The 2017 growth expectation is 3.8 %

Foreign Trade



In 2017 export and import prices will start to increase again. Therefore, value based increases will be realized in exports and imports.



Losses from Russia and Iraq will be compensated. Additionally, with oil prices increasing, our exports to oil exporting countries will increase as well.



As for imports, we will see the effect of the increases in oil prices. And we will see imports increasing, with domestic consumption increasing.

2017 foreign trade expectations

Exports **153** billion USD
Imports **209** billion USD

Markets (year average)



USD / TRY : **3.5**
EUR / TRY : **3.6**
EUR / USD : **1.03**
Oil : **\$65**

Unemployment

10.5%

(year average)

Current Account Deficit

36

(Billion USD)

Expectations

Global markets agree that the world economy will be more successful in 2017 than in 2016. Behind these thoughts, there are expectations that oil and commodity prices will increase, economies of oil exporting countries will recover, and global trade will increase again, following the two-year decline. Institutions such as the IMF, OECD and World Bank, all anticipate 0.3-0.4 points higher global growth in 2017 compared to 2016. Trump's policies are the most significant risk factor for the global markets in 2017.

With the expectation that Trump will boost construction and infrastructure investments, the US is expected to grow more aggressively in 2017, and may go through 3 interest rate increases, as expected. This, theoretically, points to the fact that the US dollar will appreciate more in 2017. But of course we cannot know that for sure. Additionally, the preventive measures that Trump is planning against China and Mexico are a significant risk factor for global trade.

There is a prevailing expectation that 2017 will be a better year than 2016 for Turkey in terms of growth. In 2017, for reasons such as export prices starting to increase, tourism losses recovering and the political crisis with Russia ends, Turkey is expected to grow at a higher rate, with the strong contribution of net exports in 2017. In the meantime, reform and incentive package initiatives by the government are expected to create a boosting effect on investments and consumption in the second half of 2017.

About 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 a brief commentary.

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