Turkey
Country Report

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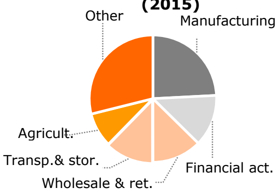
Country Snapshot

Government	
Head of State	Recep Tayyip Erdogan (since August 2014)
Ruling party	Justice and Development Party (AKP)
Main opposition parties	CHP; MHP; HDP
Elections	Last elections were held in November 2015, AKP won with 49.5% of the votes. Next parliamentary elections due in June 2019.
Demographics and social indicators	
Population	79.4 million (2015 F)
Main Language	Turkish
Life expect. at birth	74.57 years (2015 F)
Literacy %(adults>15)	95% (2015 F)
Urban population	73.4% (2015)
Economic structure	
GDP in USD	USD 733.6 bn (IMF, 2015)
GDP per capita	USD 9,437.4 (IMF, 2015)

GDP structure (% of the nominal GDP)

Manufacturing	24.2%
Financial act.	13.2%
Wholesale & ret.	12.6%
Transp.& stor.	12.3%
Agricult.	8.8%
Other	28.9%

Nominal GDP by Sector (2015)



	1980-89	1990-99	2000-09	2010-15
Real GDP growth*	4.2%	4.0%	3.8%	5.2%

* Average growth rates from the WEO April 2016 (IMF)

Country Rating

	Rating	Last change	Outlook
S&P	BB	July 2016	Negative
Moody's	Baa3	July 2016	Under revision for downgrade
Fitch	BBB-	Nov. 2012	Stable

Business Development Indicators

	Last update
Global Competitiveness Index	
Ranking 51 (out of 140 countries)	2015-2016
Ease of Doing Business	
Ranking 55 (out of 189 countries)	2016
Human Development Index	
Ranking 72 (out of 188 countries)	2015
Corruption Perceptions Index (Transparency.org)	
Ranking 66 (out of 168)	2015

Trade Structure - Main partners by destination/origin (2015)

Exports	% of total	Imports	% of total
Germany	9.3%	China	12.0%
United Kingdom	7.3%	Germany	10.3%
Iraq	5.9%	Russia	9.8%
Italy	4.8%	USA	5.4%
USA	4.4%	Italy	5.1%

Source: Turkish Statistical Institute (2015)

General assessment

Strengths	Weaknesses
. Diversified and dynamic economy; . Low public debt and deficit (in comparison with its peers); . Comercial trade with diverse European markets; . Localization and dimension; . Monetary flexibility.	. High level of inflation; . Substancial external vulnerabilities (large current account deficit and increasing of external debt); . Dependence of capital inflows, especially the portfolio investment; . Domestic political issues.

Trade structure - Top product groups (2015)

Exports	USD bn	% total	Imports	USD bn	% total
Vehicles	17.5	12.1%	Mineral fuels	37.8	18.3%
Machinery	12.3	8.6%	Machinery	25.6	12.3%
Prec.stones	11.3	7.8%	Elect.equip.	17.6	8.5%
Art.apparel	8.9	6.2%	Vehicles	17.5	8.5%
Iron&steel	8.3	5.8%	Iron&steel	14.8	7.1%

Source: International Trade Center (2015); BPI calc.

Outlook and Risks

. Economic growth is expected to reach 3.5% this year, stimulated by the lower oil prices and accommodative monetary policy;
. IMF expects an increasing public debt in the next years, but it should remain at low levels and below that recorded in the past;
. Risks: political uncertainty; increasing violence; the impact of lower oil prices in some of the most important trade partners; the normalization of monetary policy in the USA.

Key Macroeconomic Indicators

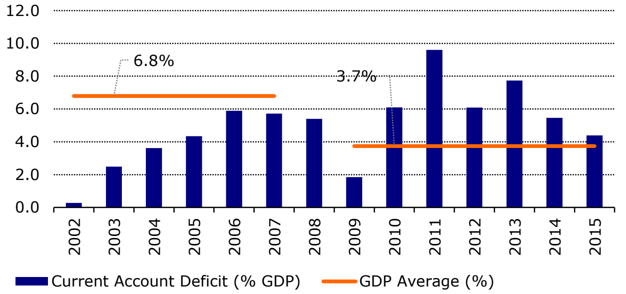
	Source	2012	2013	2014	2015	2016F	2017F
GDP (real % change)	EC	2.1%	4.2%	3.0%	4.0%	3.5%	3.7%
Nominal (bn USD)	WEO	788.6	823.0	798.3	733.6	751.2	791.2
Nominal (bn Turkish Lira)	WEO	1,416.8	1,567.3	1,747.4	1,996.3	2,297.9	2,580.7
CPI (% change, annual avg.)	EC	8.9%	7.5%	8.9%	7.7%	8.6%	8.0%
Unemployment rate (%)	EC	8.3%	8.9%	10.1%	10.4%	10.8%	10.9%
Trade balance (% GDP)	EC	-8.3%	-9.7%	-8.0%	-6.7%	-6.9%	-7.1%
Exports of Goods (% GDP)	EC	13.0%	-0.4%	3.8%	-8.7%	-	-
Imports of Goods (% GDP)	EC	-1.8%	6.4%	-3.8%	-14.4%	-	-
Current account balance (% GDP)	EC	-6.1%	-7.8%	-5.9%	-4.5%	-4.8%	-5.1%
FDI (Net, % GDP)	EC	1.7%	1.5%	1.6%	2.3%	-	-
General Government Balance (% GDP)	EC	-0.3%	-1.6%	-1.5%	-1.2%	-1.7%	-1.6%
Primary Balance (% GDP)	WEO	1.1%	1.4%	1.0%	1.2%	0.2%	0.8%
Gross Public Debt (% GDP)	EC	36.2%	36.2%	33.5%	32.9%	32.0%	31.2%
Gross External Debt (% GDP)	Article IV	43.0%	47.4%	50.4%	56.0%	57.3%	57.1%
Real effective exchange rate (CPI-based,average)	Article IV	116.7	114.9	102.3	99.8	97.5	97.5
Gross Foreign Reserves (bn USD)	IIF	99.9	109.3	106.9	92.9	88.5	88.5
in months' imports	IIF	4.6	4.7	4.7	4.7	4.6	4.3

Sources: Macroeconomic projections from the European Commission, IMF (WEO April 2016 and Article IV April 2016) and IIF.

Economic activity surprised in 2015

The economic growth accelerated surprisingly in 2015, in comparison with the preceding year. In fact, the economy expanded at 4.0% rate in last year, which compares with 3.0% in 2014, boosted by domestic demand. Private consumption increased 4.5%, supported by the lower oil prices and more favourable financial conditions. Additionally, private investment recovered significantly, reaching a 2.7% growth rate, in contrast with the performance recorded in the last two years, when it nearly stagnated. On the other side, net exports had a different behaviour, reflecting the contraction in exports. For this year, the European Commission (EC) expects an economic deceleration to 3.5%. Private consumption should increase at favourable levels, boosted by the lower oil prices and the increase of minimum wage by 30% (since January 2016), but exports should continue to contribute adversely for economic growth. This performance should reflect the weak external demand in the oil-dependent countries, conflicts in Syria and Iraq and the unstable situation related to domestic security and political issues (reducing the flows of tourists in the country). It is expected that the performance of exports normalizes in 2017 and it may compensate the negative impact of the recovery in oil prices in private consumption. Additionally, it is important to note the potential effects in the economic activity from the recent attempted coup and from the measures taken by the Turkish Government.

External Deficit and GDP: Structural Shift

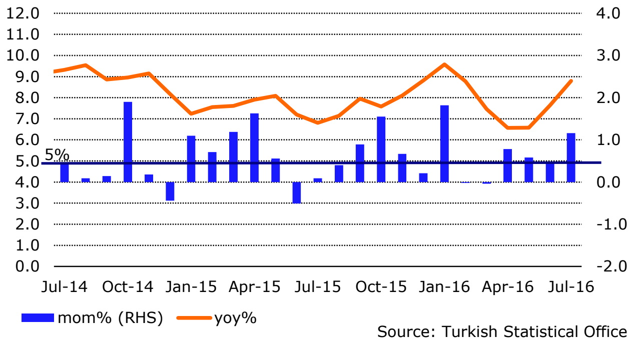


Source: IMF; BPI calc.

Inflation is still far from the Central Bank's target

The average of the annual inflation rate in 2015 eased from the figure recorded in the previous year (7.7% vs 8.9% in 2014), reflecting the positive effects from lower oil prices. Nonetheless, the rate recorded in December 2015 was 0.6 percentage points higher than that registered in December 2014, explained by the pass-through effects and the great increase in food prices. Taking into consideration the average of the inflation rate, it is clear that the rate recorded is still far from the Central Bank's target (5%). However, the institution did not make any monetary policy change during 2015, maintaining the reference rate (1-week repo) at 7.5%. Recently, the Central Bank proceeded with five cuts in the marginal funding rate in 2016, reducing it to 8.75% in July, while the deposit rate and the reference rate remained unchanged at 7.25% and 7.5%, respectively. For this year, the EC anticipates increasing inflationary pressures, taking into account the recent monetary policy decisions and the increase in the minimum wage.

Inflation in Turkey

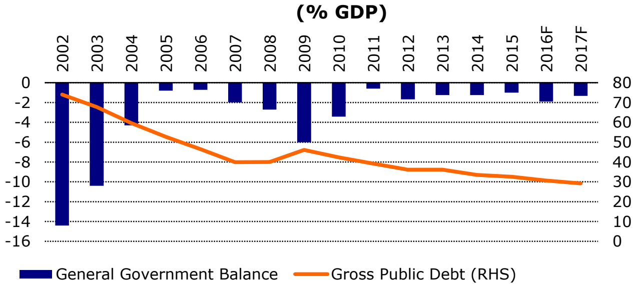


Source: Turkish Statistical Office

Public finances remained relatively stable

In 2015, the fiscal deficit should have reduced slightly compared to the previous year, to 1.2% of GDP. The Government's decision to finance part of the increase of the minimum wage since the beginning of 2016 should contribute to an increase of budget deficit to 1.7% in 2016, according to the EC. However, the budget execution for the first five months of 2016 revealed a higher increase in revenues than expenditures (16.7% and 10.8%, respectively, according to the EC), which resulted in a fiscal surplus during that period. The relativite stabilization in public finances has allowed the Government to reduce the public debt ratio in percentage of GDP, which, in 2015, reached 33%. It is expected that this decreasing trend continues this year and in the next; in fact, according to the EC, the ratio stood at 32.3% of GDP until the end of March.

Public Finances: General Government Balance and Public Debt (% GDP)

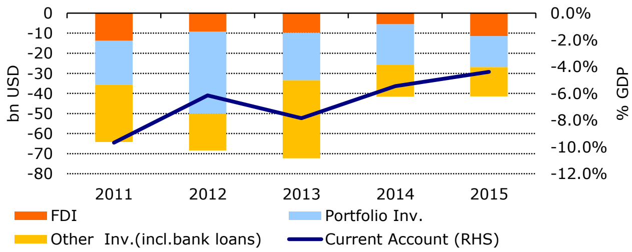


Source: WEO April 2016, IMF

Economic growth has been accompanied by a large current account deficit

Turkish economic growth has been accompanied by persistent current account deficits. In fact, between 2010 and 2014, the current account deficit stood at 7.0% of GDP per year, on average, with a substantial deterioration in 2011 and 2013 (-9.6% and -7.8% of GDP, respectively), in face of strong domestic demand. In 2015, the deficit decreased by 1 percentage point to 4.5% of GDP, given the energy related Turkish imports, which benefited from the lower oil prices during the year. However, excluding fuels, the current account surplus deteriorated in 2015, in line with weak external demand. The lower oil prices should continue to benefit the current account during this year, though the weak exports' performance may be more pronounced, increasing the current account deficit. The Turkish economy is very reliant on capital inflows, especially portfolio inflows. However, according to the IMF, it is expected that net portfolio investment reaches negative values this year and for the next ones; for the net foreign direct investment, the institution anticipates a drop for this year, recovering in the following years. The short-term bank loans performed positively, recording a favourable maturity extension.

Balance of Payments: Composition of Capital and Financial Account (inverted)



Source: IMF; BPI calc.

Note: 2011-2013: figures from the Artic. IV Dec.2014; 2014-2015: figures from the Artic. IV April 2016