



Global Economy

- ◆ Central Banks across the world have been using all available monetary policy tools in order to support economic recovery in their countries.
- ◆ However, despite central banks' monetary support, delays in implementations of necessary economic reforms in order to solve the current problems both in US and in troubled Euro Area economies resulted in economic recovery to stay away from the desired levels.
- ◆ In March, South Cyprus became the main source of concerns regarding the Euro Area. Within the framework of the rescue plan for the economy of South Cyprus, agreement was reached on the implementation of a one-time tax deduction for deposits in varying rates.
- ◆ Standard & Poor's downgraded the credit rating of South Cyprus by one notch to CCC from CCC+ citing the problems in country's banking sector.
- ◆ Fitch downgraded Italy's credit rating to "BBB+" from "A-" with a negative outlook. Fitch announced that the decision stemmed from the political uncertainty aroused after the inconclusive elections.
- ◆ Another credit rating downgrade came from the UK. Moody's cut UK's government credit rating to Aa1 from Aaa, citing concerns over the increased uncertainty in country's high level of public debt stock and deterioration in fiscal balance.
- ◆ Haruhiko Kuroda, who is known as a supporter of the aggressive monetary policies to alter the ongoing deflation in Japan, was appointed as the new governor of Bank of Japan (BoJ).

Turkish Economy

- ◆ Turkish economy grew by 1.4% in the fourth quarter of 2012 compared to the same quarter of 2011. The growth rate came in below the market expectation of 2.3%. In annual terms, Turkish economy grew by 2.2%.
- ◆ Base year of industrial production index has been changed as of January 2013. The new industrial production index (base year 2010=100) increased by 2.1% in January compared to the same month of the previous year.
- ◆ Real Sector Confidence Index increased in March while Consumer Confidence Index decreased.
- ◆ According to the annual results of Household Labor Force Survey announced by Turkstat, unemployment rate decreased to 9.2% in 2012.
- ◆ The foreign trade deficit widened due to the relatively faster increase in imports and was realized as 7 billion USD in February.
- ◆ Current account deficit was realized slightly above expectations in January. The recovery in foreign trade deficit observed throughout 2012 lost some momentum in January 2013. Thus, downward trend in the 12-month cumulative current account deficit also slowed down.
- ◆ Central government budget posted a deficit of 1.4 billion TL in February. In line with the increase in tax revenues and decline in the interest expenditures, the monthly budget deficit contracted by 45% compared to the same month of the previous year.
- ◆ Annual CPI inflation which decreased in February due to seasonal factors, reaccelerated in March and was realized as 7.29%.
- ◆ At its meeting on February 26th, CBRT Monetary Policy Committee cut the upper bound of interest rate corridor by 100 basis points.

Contents

Turkish Economy	1
Banking Sector	11
Graphs	13
Tables	16

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Fourth quarter growth came in lower than expected.

Turkish economy grew by 1.4% in the fourth quarter of 2012 compared to the same quarter of 2011. The growth rate came in below the market expectation of 2.3%. In annual terms, Turkish economy grew by 2.2%. Turkstat also made revisions regarding the growth figures dating back to the first quarter of 2011. Hence, the 2011 growth figure was revised upwards to 8.8% from 8.5% while the growth figures of the first two quarters of 2012 were revised downwards.

At the end of 2012, Turkey's GDP reached 786.3 billion USD and per capita income increased to 10,504 USD.

GDP* Growth Rate Revisions				(%)
	Old	New	Difference	
I	12.1	12.4	0.3	
II	9.1	9.3	0.2	
III	8.4	8.7	0.3	
IV	5.0	5.3	0.3	
2011	8.5	8.8	0.3	
I	3.4	3.3	-0.1	
II	3.0	2.9	-0.1	
III	1.6	1.6	0.0	
IV	-	1.4	-	
2012	-	2.2	-	

* Sabit Fiyatlarla

Public expenditures supported the growth in the last quarter of 2012.

According to the GDP figures, it was seen that the expected recovery in domestic demand conditions in the last quarter of 2012 was not materialized. In fact, after contracting in

the first three quarters of 2012, private consumption expenditures also continued to decline in the last quarter of the year. This pointed out that the impacts of CBRT's supportive monetary policy stance implemented since August 2012 was limited. On the other hand, despite this decline in private consumption expenditures, public consumption expenditures increased in the last quarter and their contribution to growth during this period was realized as 0.9 point, the highest level of 2012.

Regarding investment expenditures, it is noteworthy that private sector investment expenditures during the last quarter of 2012 declined by 9.2% compared to the same period of the previous year. This was the sharpest decline in private sector investment expenditures since the third quarter of 2009. Thus, private sector investment expenditures decreased the growth rate by 1.9 points in the last quarter of the year. On the other hand, public investment expenditures increased by 21.4% during the same period and contributed to growth by 1 point.

Thanks to the on-going rebalancing between domestic and external demand conditions, net exports continued their positive contribution to growth also in the last quarter of 2012.

Regarding the annual figures, the highest contribution to growth in 2012 came from net exports. Public consumption and investment expenditures also supported growth, though to a limited extent. On the other hand, private consumption and investment expenditures made 1.5 points negative contribution to growth. In other words, the composition of growth in 2012 changed drastically compared to 2010 and 2011.

Expenditure Approach - Contribution to GDP

(% points)

	2011					2012				
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	9.7	6.5	6.0	1.8	5.8	0.2	-0.4	0.2	0.3	0.1
Private	9.0	5.6	5.0	2.3	5.3	-0.3	-0.9	-0.3	-0.6	-0.5
Public	0.7	0.9	0.9	-0.5	0.5	0.5	0.4	0.5	0.9	0.6
Investment	8.3	6.7	3.3	-0.2	4.3	0.2	-0.7	-1.0	-1.0	-0.7
Private	8.3	6.7	3.2	0.2	4.4	0.3	-0.9	-1.2	-1.9	-1.0
Public	0.0	0.0	0.1	-0.4	-0.1	-0.1	0.1	0.2	1.0	0.3
Change in Stock	0.4	0.7	-1.6	-0.2	-0.2	-2.2	-1.5	-0.8	-0.9	-1.3
Net Exports	-6.0	-4.6	1.1	3.9	-1.1	5.1	5.5	3.1	2.9	4.1
Exports	2.7	0.6	2.8	1.5	1.9	3.5	5.7	3.6	3.7	4.1
Imports	8.7	5.2	1.7	-2.5	3.0	-1.6	0.1	0.5	0.8	0.0
GDP	12.4	9.3	8.7	5.3	8.8	3.3	2.9	1.6	1.4	2.2

Numbers may not add to total due to rounding

Source: Turkstat

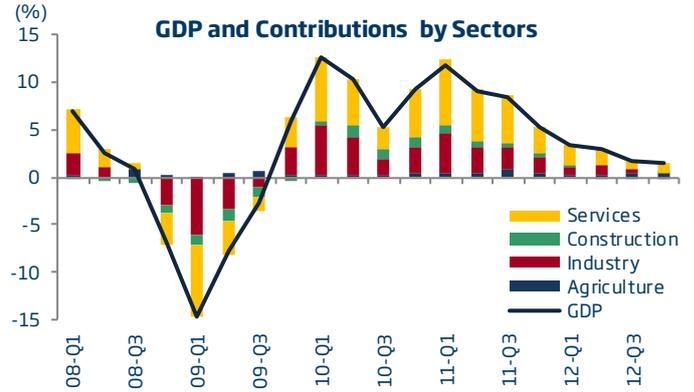
Industrial sector contracted for the first time since the third quarter of 2009.

Analyzing the GDP figures via production approach, it was seen that the services sector, which has the highest share in GDP, made the highest contribution to growth by 1 point in the last quarter of 2012. During the same period, industrial sector decreased the growth rate for the first time since the third quarter of 2009. Agricultural sector made 0.4 point contribution to growth while construction sector followed a flat course. In annual terms, services sector made the highest contribution to growth in 2012 and it was followed by industrial sector.

We expect that the growth rate might surpass 4% in 2013.

After having grown by 9.2% and 8.8% in 2010 and 2011, respectively, Turkish economy has slowed down significantly and grew by 2.2% as a result of the measures taken in order to balance domestic and external demand and to reduce the current account deficit to reasonable levels in an environment of global economic uncertainty. Parallel to the slowdown in growth, the current account deficit to GDP ratio declined from 9.7% at the end of 2011 to 6.0% at the end of 2012. The improvement in Turkey's external balance in line with the contraction in the current account deficit was also reflected in Turkey's credit rating.

According to the available data regarding the first quarter of 2013, it is anticipated that the domestic demand has enlivened somewhat in parallel with the acceleration in



credit growth. The increasing real sector confidence index in recent months has also confirmed this anticipation. On the other hand, external demand conditions continued to be weak in the first three months of 2013 mainly as a result of the developments in the Euro Area. However, Turkey managed to maintain the momentum in exports thanks to the success in exports diversification strategy. In this context, we anticipate that the domestic demand and external demand will contribute to growth in a more balanced manner during 2013. We estimate that the growth rate will accelerate backed by the low base of 2012 and surpass the Medium Term Program target of 4%. On the other hand, should the revival in domestic demand materializes more rapid than desired, CBRT would continue to take macroprudential measures.

Turkstat changed the base year of industrial production index.

Base year of industrial production index has been changed as of January 2013. The new industrial production index (base year 2010=100) increased by 2.1% in January compared to the same month of the previous year. Moreover, Turkstat announced that calendar adjusted series will be used in the calculation of annual changes while seasonal and calendar adjusted series will be used in the calculation of monthly changes. In this context, calendar adjusted index rose by 1.9% in January compared to the same month of the previous year. Seasonal and calendar adjusted index, on the other hand, increased by 2.3% compared to the previous month. Analysis of the breakdown of industrial production revealed that the production increased in 18 out of 24 sub-sectors composing the industrial manufacturing index.

The upward trend in real sector confidence continued.

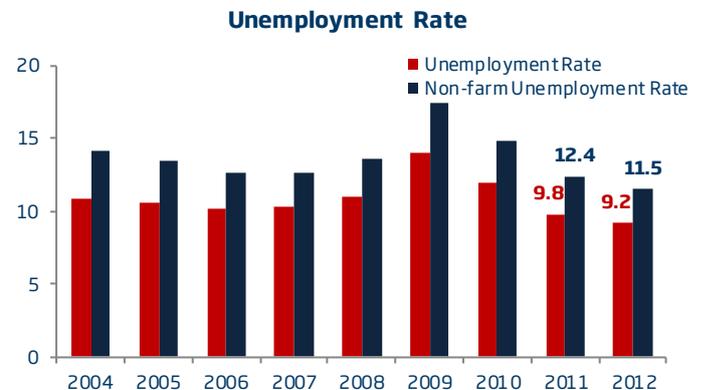
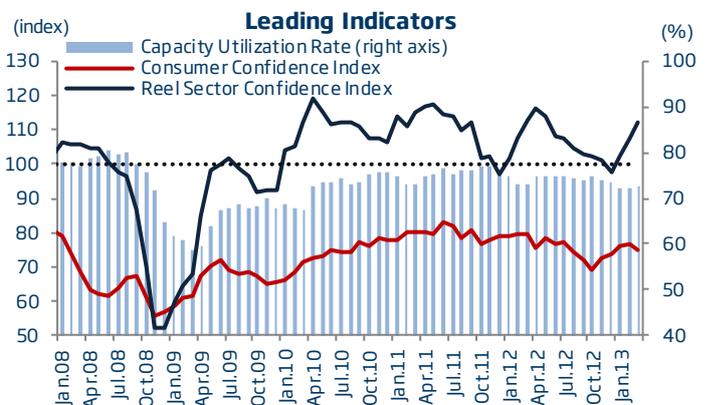
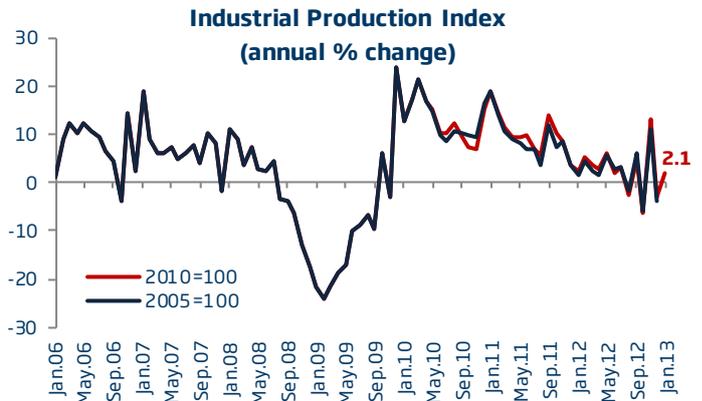
Real Sector Confidence Index increased by 4.6 points to 112.1 in March compared to the previous month. In the same period, seasonally adjusted index also increased by 0.9 point. Analyzing the components of the index, it was seen that evaluations regarding the volume of output, export orders, total employment in next 3 months and general business situation affected the total index positively.

In March, Capacity Utilization Rate (CUR) declined by 0.4 point to 72.7% compared to the same month of the previous year. Seasonally adjusted CUR, on the other hand, was realized as 74%.

According to data announced by Turkstat, Consumer Confidence Index also decreased by 2.3% to 74.9 in March compared to the previous month. The fall in the index mainly stemmed from the increase in the share of survey participants expecting a rise in the number of unemployed persons.

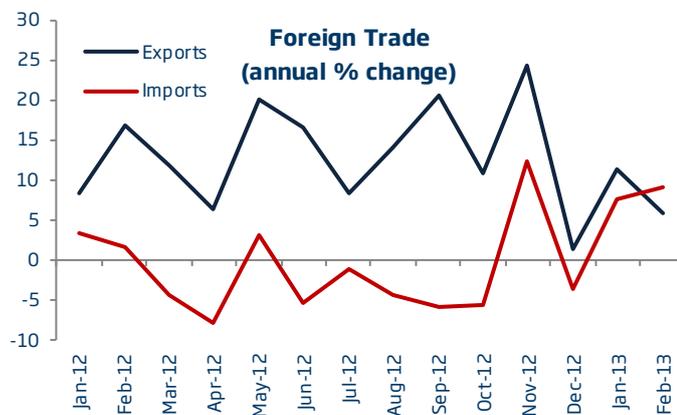
The unemployment rate decreased to 9.2% in 2012.

According to the annual results of Household Labor Force Survey announced by Turkstat, unemployment rate decreased by 0.6 point to 9.2% in 2012 from 9.8% in 2011. Non-farm unemployment rate also decreased by 0.9 point to 11.5% in the same period. Total employment increased by 711 thousand persons in 2012. Analyzing the employment according to sectors, the share of services sector in total employment increased by 1.3 points compared to the previous year. In the same period, the share of agriculture, industry and construction sectors in total employment decreased by 0.9, 0.4 and 0.1, respectively.



In February, foreign trade deficit was realized below the expectations .

According to data released by Turkstat, imports increased by 9% to 19.4 billion USD and exports grew by 5.8% to 12.4 billion USD in February compared to the same month of the previous year. Thus, the foreign trade deficit widened by 15.2% due to the relatively faster increase in imports and was realized as 7 billion USD in February. Nonetheless, the gap between imports and exports remained well below the market expectations of 9 billion USD. In the mentioned period, import coverage ratio declined by 1.9 points to 64.1% compared to the same month of the previous year. Additionally, during the first two months of the year, foreign trade deficit rose by 8.4% compared to the same period of the previous year.



Exports of motor vehicles increased...

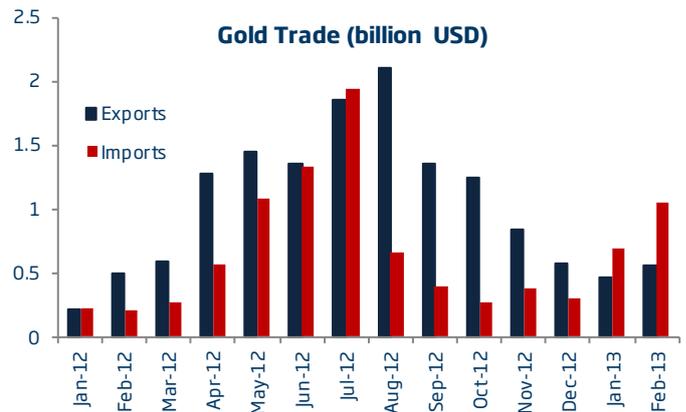
In February, motor vehicles recorded the largest exports volume with 1.4 billion USD. This chapter was followed by boilers, machinery and mechanical appliances. Iron and steel exports ranked third despite 15.4% decline compared to the same month of the previous year.

Noticeable rise in gold imports...

In February, even though gold exports recorded a 18.4% increase, they stayed far below the monthly average of gold exports in 2012 which was 1.1 billion USD. The volume of gold exports to UAE accounted for 402 million USD of the

total exports of 552 million USD, while gold exports to Iran was 118 million USD.

On the other hand, gold imports, which rose by 50.1% in February compared to the previous month, surged by 400% compared to the same month of the previous year to 1 billion USD. Considering the increase in gold imports just before the high gold export levels registered last year, this increase in gold imports supported the views that gold exports would continue to be effective on total exports volume in the following period.



The share of European Union in exports continued to decrease.

In February, 174 million USD increase in exports towards European Union failed to prevent the decreasing trend of the share of the EU in total exports. Thus, the share of EU in total exports dropped by 90 basis points compared to the same period of the previous year and receded to 41%. In the same period, according to the exports by country of destination, while Germany ranked first with 1.1 billion USD, Iraq followed it with exports worth of 851 million USD. Also, it is noteworthy that exports to China increased by 88% during the same period.

Analyzing imports by countries, it is seen that Russia had the highest share with 10.4% in total imports in February and Germany took second place with a share of 9.7%.

Foreign Trade Balance	(USD billion)					
	February		Change	January-February		Change
	2012	2013	(%)	2012	2013	(%)
Exports	11.7	12.4	5.8	22.1	23.9	8.3
Imports	17.8	19.4	9.0	35.3	38.2	8.3
Foreign Trade Balance	-6.0	-7.0	15.2	-13.2	-14.3	8.4
Import Coverage Ratio (%)	66.0	64.1	-	62.7	62.7	-

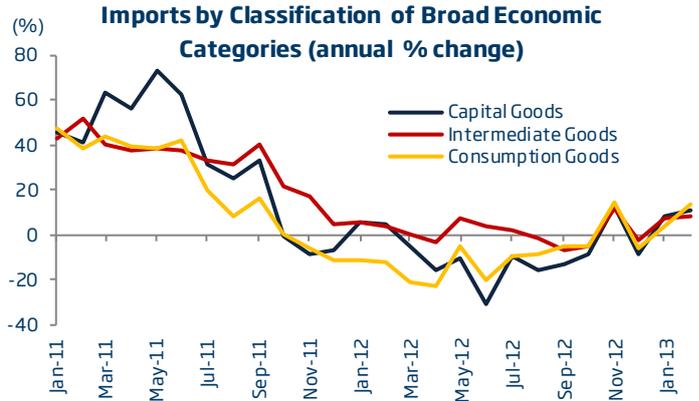
Source: Turkstat

Imports of consumption goods recorded an increase of 13.3% in February.

Looking at foreign trade by classification of broad economic categories, it is seen that intermediate goods imports posted a 8.1% increase in February compared to the same month of the previous year. In the same period, the increase in capital goods and consumption goods were 10.5% and 13.3%, respectively. The fact that the rise in consumption goods imports were higher than the other categories in the mentioned period confirmed the gradual recovery in domestic demand conditions.

Expectations...

In line with the gradual recovery in domestic demand conditions, foreign trade deficit has started to increase. Moreover, the rapid rise in gold imports brought the expectations that gold exports would continue to be supportive for Turkey's export volume in 2013. In this framework, the course of gold trade will continue to be followed closely in the coming period.



Current account deficit was realized as 5.6 billion USD in the first month of 2013.

Current account deficit was realized as 5.6 billion USD in January, slightly above expectations. 12-month cumulative current account deficit, on the other hand, receded to 46.8 billion USD due to the fact that the expected recovery in domestic demand has not been fully restored yet. The recovery in foreign trade deficit observed throughout 2012 lost some momentum in January 2013. Thus, downward trend in the 12-month cumulative current account deficit also slowed down.

Balance of payments figures have been revised.

Due to the Turkstat's revisions on methodology of calculating the tourism revenues and expenditures, the balance of payment figures have also been updated. The revisions have increased the tourism revenues while a significant change in tourism expenditures has not been observed. In this context, current account deficit, which was previously announced as 48.9 billion USD for 2012, revised down to 46.9 billion USD. Thus, the current account deficit to GDP ratio was realized as 6% in 2012.

Downward trend in foreign direct investments continued.

Analysis of the financing side of balance of payments revealed that the non-residents' foreign direct investments towards Turkey continued their weak course. Besides, Turkish investors' foreign direct investments abroad have increased significantly lowering the net foreign direct investments inflow. In fact, 12-month cumulative net foreign direct investments were realized as 8 billion USD in January, the lowest level in the last two years.

Decline in portfolio investments...

Portfolio investments, which have accelerated in the second half of 2012, lost momentum and was recorded as 1.6 billion USD in January. During this period, net capital inflows via equity securities and debt securities were 235 million USD

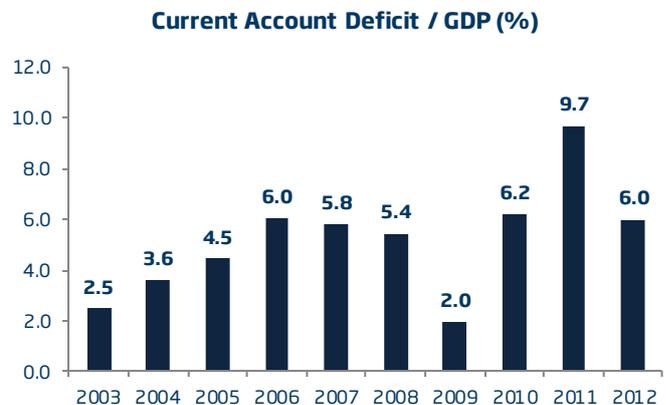
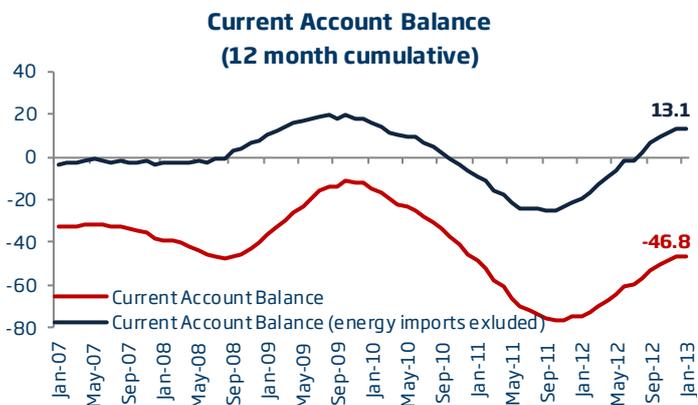
and 901 million USD, respectively. 500 million USD of foreign capital inflows registered via debt securities were stemmed from the banks' bond issues in international capital markets. Thus as of January 2013, banks' bond issues in international markets reached 9.1 billion USD on 12-month cumulative basis.

7.1 billion USD capital inflow in other investments...

Regarding other investments, It was noteworthy that the banking sector decreased its foreign exchange denominated currency and deposit assets that were held abroad by 2.6 billion USD in January. It is thought that this transaction, which accounted as a capital inflow, stemmed also from the CBRT's reserve option mechanism framework.

It was seen that banking sector, which raised 576 million USD long term loans from abroad while repaying 1.4 billion USD, was a net credit payer in January. On the other hand, it was noteworthy that in this period non-banking sector raised 2.4 billion USD long term loans from abroad while repaying 2.1 billion USD. Regarding the 12-month cumulative figures, long term debt roll-over ratio of the banking sector was 86% and that of non-banking sectors was 117%.

It is expected that non-residents directed their investments mainly to deposit accounts in January. In fact, foreign banks' capital inflows towards deposits in domestic banks increased by 38% compared to the same month of previous year and rose to 2.2 billion USD in January.



CBRT continued to build up reserves.

Reserves, which followed an upward trend in recent months due to the CBRT's reserve option mechanism framework and strong course of capital inflows, also increased by 3.7 billion USD in January. Thus, in the last 12-months CBRT increased its reserves by 27 billion USD. On the other hand, the low level of net errors and omissions item in January was noteworthy. It is thought that Turkstat's revisions on the tourism accounts had an impact on net errors and omissions.

Recovery in current account deficit is expected to lose momentum in the coming period.

Recovery in the current account deficit, which has been observed since October 2011, is expected to lose some momentum in the coming period in line with the foreseen recovery in domestic demand. However, CBRT is expected to increase its emphasis on the macroprudential measures in case of a higher than anticipated current account deficit increase. In this context, we expect current account deficit to be realized as 60 billion USD and 6.5-7% as a percentage of GDP at the end of 2013.

Current Account Balance	January		%	(USD million)
	2012	2013		Change
Current Account Balance	-5,731	-5,632	-1.7	-46,836
Foreign Trade Balance	-5,888	-5,881	-0.1	-65,633
Services Balance	669	752	12.4	24,090
Tourism Revenues (net)	716	795	11.0	21,638
Income Balance	-574	-580	1.0	-6,681
Current Transfers	62	77	24.2	1,388
Capital and Financial Accounts	3,499	5,491	56.9	46,963
Direct Investments (net)	871	486	-44.2	7,950
Portfolio Investments (net)	1,349	1,607	19.1	41,031
Assets	1,249	471	-62.3	1,863
Liabilities	100	1,136	1,036.0	39,168
Equity Securities	556	235	-57.7	5,953
Debt Securities	-456	901	-	33,215
Other Investments (net)	-1,375	7,112	-	25,208
Assets	-3,037	2,212	-	4,111
Currency and Deposits	-3,069	1,947	-	5,678
Liabilities	1,662	4,900	194.8	21,097
Trade Credits	-632	1,393	-	3,046
Loans	893	1,094	22.5	8,771
Banking Sector	734	656	-10.6	4,251
Non-bank Sectors	31	555	1,690.3	6,838
Deposits	1,399	2,405	71.9	8,789
Foreign Banks	1,622	2,240	38.1	7,731
Foreign Exchange	614	1,054	71.7	5,669
Turkish Lira	1,008	1,186	17.7	2,062
Non-residents	-132	256	-	3,302
Reserve Assets (net)	2,671	-3,703	-	-27,188
Net Errors and Omissions	2,232	141	-93.7	-127

Source: CBRT

Central Government posted a deficit of 1.4 billion TL in February.

Central government budget posted a deficit of 1.4 billion TL in February in line with the increase in tax revenues and decline in the interest expenditures. The monthly budget deficit contracted by 45% compared to the same month of the previous year. During this period, the primary surplus also decreased by 41% compared to February 2012 and was realized as 3.5 billion TL.

On the other hand, Central Government Budget, which posted a deficit of 900 million TL in the first two months of 2012, gave a surplus of 4.5 billion TL in the same period of 2013. The primary surplus increased by 12% and reached 14.7 billion TL in the same period. Thus, 77% of year-end primary surplus target was reached in the first two months of the year.

Favorable course in tax revenues...

In February, the increase in budget revenues compared to the same month of the previous year mainly stemmed from 21% rise in tax revenues. Other revenues, which had accelerated in January, remained flat in February compared to the same month of previous year. Analysis of the breakdown of tax revenues revealed that the VAT on imports, Special Consumption Tax and Domestic VAT increased by 55%, 25% and 18%, respectively.

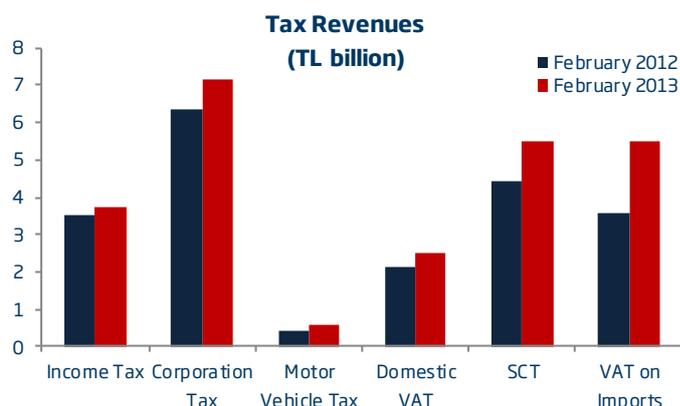
Tax revenues point out a recovery in domestic demand conditions.

The increase in tax revenues in the first two months of 2012 pointed out that the domestic demand conditions, which displayed a relatively weak course throughout 2012, started to recover. Privatization revenues also had a positive impact on Central Government Budget. In fact, in the first two months of the year privatization revenues contributed by 31% to the net increase in budget revenues compared to the same period of previous year. Other revenue items, which had significant impact on the budget revenues, were Special Consumption Tax on Petroleum/Natural Gas and Domestic VAT, with 19% and 17% contribution to the budget revenues, respectively.

Central Government Budget

	February			January-February			(TL billion)	
	2012	2013	% Change	2012	2013	% Change	Budget Target ⁽¹⁾	Real/Target (%)
Expenditures	30.2	33.9	12.6	56.5	64.9	14.8	404.0	16.1
Interest Expenditures	8.6	5.0	-42.0	14.0	10.2	-27.0	53.0	19.3
Non-interest Expenditures	21.5	29.0	34.4	42.5	54.7	28.6	351.0	15.6
Revenues	27.5	32.5	18.1	55.6	69.4	24.8	370.1	18.7
Tax Revenues	22.7	27.6	21.3	46.2	56.0	21.3	317.9	17.6
Other Revenues	4.8	4.9	2.9	9.4	13.3	41.9	52.1	25.6
Budget Balance	-2.6	-1.4	-45.2	-0.9	4.5	-	-34.0	-
Primary Balance	6.0	3.5	-40.6	13.1	14.7	12.3	19.0	77.2

Numbers may not add up to total due to rounding



Non-interest budget expenditures were realized as 29 billion TL in February.

In February, non-interest expenditures increased by 34% compared to the same month of the previous year and reached 29 billion TL. This development was mainly due to the increase in the Treasury Aid under the current transfers item. In fact, the rise in the said item was mainly originated from the Health, Retirement and Social Aid Expenditures. In addition, personnel expenses, which increased by 16% compared to the same month of previous year and reached 7.7 billion TL, also increased the budget expenditures.

Regarding the first two months of the year, the interest expenditures narrowed by 27% while non-interest expenditures expanded by 29% compared to the same period of the previous year.

Expectations...

We anticipate that favorable course in budget revenues will continue throughout 2013 in line with the gradual recovery in domestic demand conditions. On the other hand, increase in non-interest expenditures due to the current transfers might be a risk factor in attaining the budget target.

Source: Ministry of Finance

CPI increased above the expectations in March.

In March, compared to the previous month, CPI and PPI increased by 0.66% and 0.81%, respectively. According to the Reuters' survey, markets' monthly CPI and PPI inflation expectations were 0.40% and 0.50%, respectively. According to the CBRT's survey of expectations, on the other hand, CPI was expected to rise by 0.48% in March.

Annual CPI inflation increased in March.

Annual CPI inflation which decreased in February due to seasonal factors, reaccelerated in March and was realized as 7.29%. Annual PPI inflation, which declined in the last three consecutive months, also rose by 2.30% in March due to the higher than expected monthly rise.

Seasonal factors were influential on the course of CPI.

In March, food and non-alcoholic beverages prices increased by 2.04% compared to the previous month and had an upward impact of 49 basis points on monthly CPI inflation. Besides, clothing and footwear prices which declined due to the seasonal factors in the first two months of 2013, increased by 0.86% in March. The price increase in the said sub-group contributed monthly CPI inflation by 6 basis points. In March, only transportation prices declined.

Flat course in the core inflation indicators...

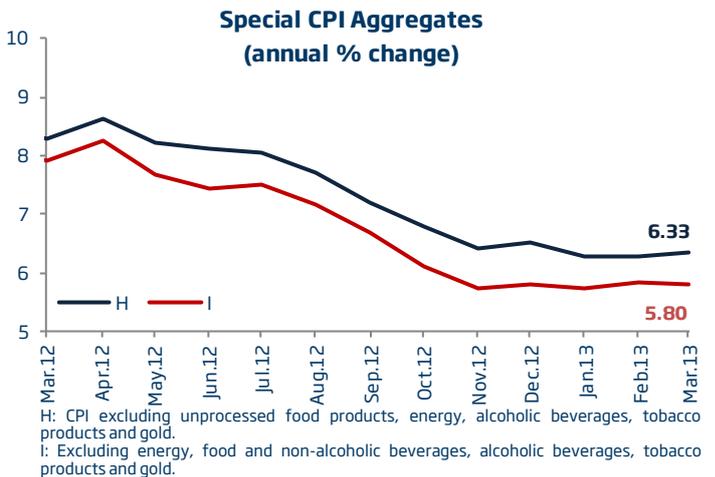
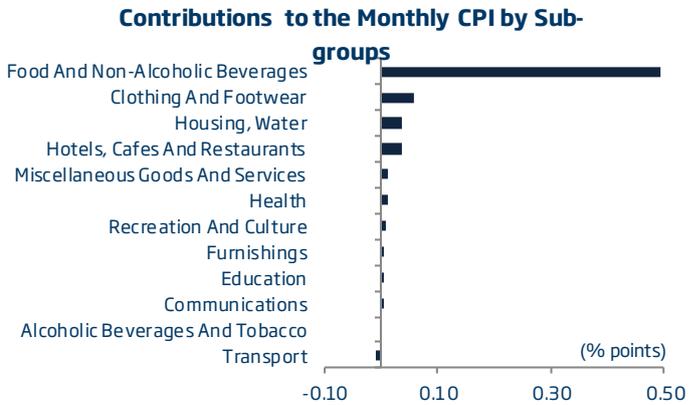
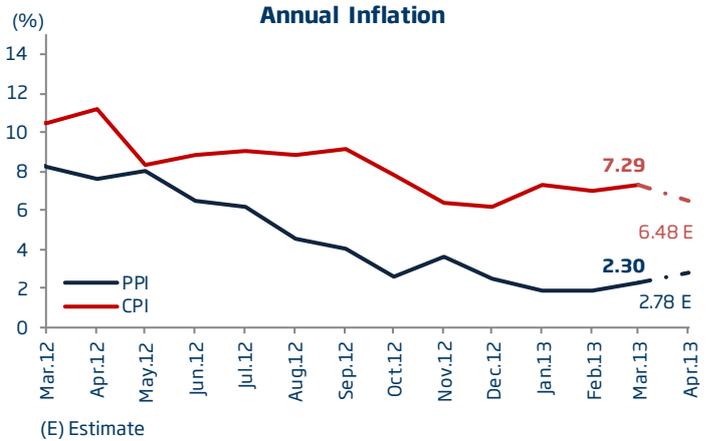
Analysis of the core inflation indicators in March revealed that monthly CPI inflation increases to 0.82% when energy prices are excluded. This pointed out that the course of the energy prices had a downward impact on domestic inflation in March. In addition, the core inflation indicators pointed out that seasonal factors were also influential on the higher than expected increase in CPI inflation. In fact, monthly increase in CPI declines to 0.34% when seasonal products are excluded. CBRT's favorite core inflation aggregates denominated by H and I, on the other hand, continued their flat course in March. The annual increases in these indicators were realized as 6.33% and 5.80%, respectively.

Higher than expected increase in PPI...

In March, increases in the prices of electricity and gas, food products and beverages and motor vehicles production were influential in the monthly PPI inflation. These sub-groups had an upward impact of 46 basis points on monthly PPI inflation.

We expect CPI and PPI to increase by 0.75% and 0.55%, respectively in March.

We anticipate that seasonal increases in prices of clothing and footwear groups and hotels, restaurants will be influential on domestic inflation in April. In this context, we expect CPI and PPI to increase by 0.75% and 0.55%, respectively in April. Thus, we anticipate that annual CPI increase will tend to decline to 6.5% in April due to base year effect.



CBRT decided to cut the upper bound of interest rate corridor.

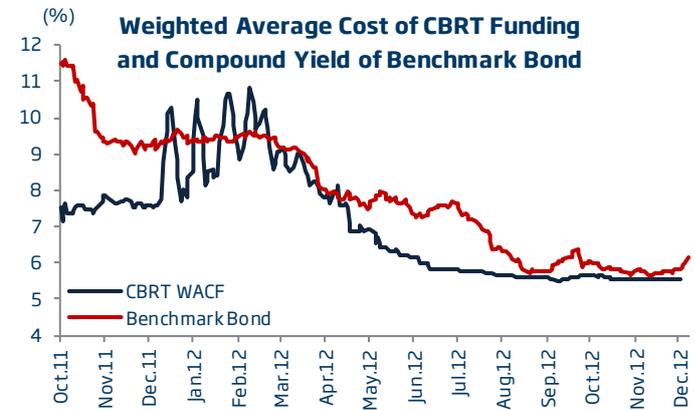
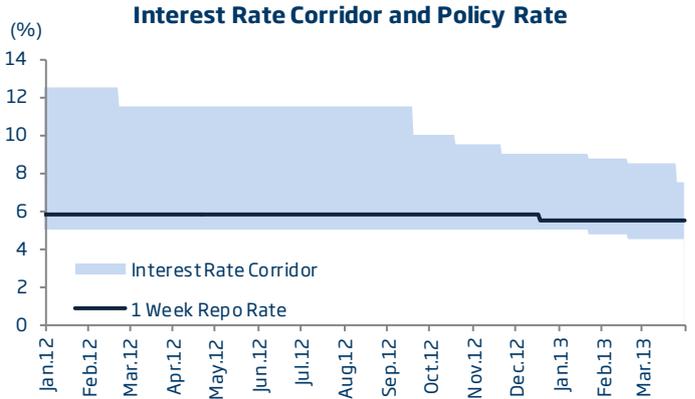
At its meeting on February 26th, CBRT Monetary Policy Committee (MPC) decided to keep one-week repo rate unchanged at 5.5% and cut the upper bound of interest rate corridor by 100 basis points. In this context, overnight borrowing rate was kept constant at 4.5% while the overnight lending rate was decreased from 8.5% to 7.5%. CBRT also cut the interest rate on borrowing facilities provided for primary dealers via repo transactions from 8% to 7%. In the statement following the MPC meeting, it was noted that the current account deficit increased due to the favorable recovery of the domestic demand but the current policy framework is expected to limit this course. CBRT also underlined that the impact of the measures undertaken on credit growth, domestic demand and inflation expectations will be monitored closely.

Contrary to the expectations, CBRT kept the reserve requirements unchanged while the Reserve Option Coefficients were raised.

CBRT indicated that capital inflows, which followed an upward trend during the early months of the year, have slowed down recently due to the increased global uncertainties. MPC decided to increase the effectiveness of the Reserve Options Mechanism gradually in response to the heightened volatility in capital inflows. CBRT underlined that the automatic stabilizer effect of this mechanism reduces the need for a wider interest rate corridor and in this respect the interest rate corridor was made more symmetric by cutting the overnight borrowing rates. On the other hand, in the context of the facility that allows banks to hold Turkish Lira required reserves in foreign exchange and gold, one more tranche was added to the existing tranches by keeping the upper limit unchanged. Reserve Option Coefficients (ROCs) were raised by 0.1 points for all tranches excluding the first tranche. Therefore, the average ROC for foreign exchange and gold reserves increased from 1.65 to 1.69 and from 1.65 to 1.70, respectively.

CBRT expected to put more weight on liquidity policy.

From CBRT's latest move, we understand that CBRT expects the capital inflows towards Turkey to slow down due to the increased risks in global economy and anticipates that this development could limit the credit growth. Besides, CBRT intends to keep loan growth rate under control by adjusting the liquidity provided to the markets. Indeed, according to the statement made after the MPC meeting, it is highlighted that the funding amount will be adjusted in either direction, as needed. Therefore, we anticipate that the liquidity management will gain more importance in accordance with the strategies adopted by CBRT.



Source: CBRT, ISE

Deposits...

According to BRSA's Weekly Bulletin, total deposit volume increased by 2% to 833.2 billion TL as of March 22nd, 2013 compared to the year-end. During this period, TL deposits increased by 2.3% while FX deposits in USD terms decreased by 0.2%.

Loans...

As of March 22nd, 2013, loan volume increased by 3.9% compared to year-end and reached 837 billion TL. During the same period, TL loans and FX loans in USD terms increased by 4% and 1.9% respectively.

Total credit volume increased by 31.3 billion TL compared to 2012 year-end. In line with the gradual recovery in domestic consumption expenditures, 35% of this increase stemmed from consumer loans.

In annual terms, loan volume increased by 19.6% while deposit volume rose by 13.2%. However, in its latest meeting CBRT pointed out that it will implement a more active liquidity policy.

On the other hand, the non-performing loan ratio of the banking sector, which was 2.9% at the end of the year 2012 increased to 3% as of March 22nd, 2013.

Securities portfolio...

Securities portfolio increased by 0.5% to 273.6 billion TL as of March 22nd, 2013, compared to year-end. This increase stemmed from the securities portfolio of foreign banks which expanded by 11.8%. Securities portfolio of public banks and private banks, on the other hand, decreased by 0.7% and 1.7% respectively.

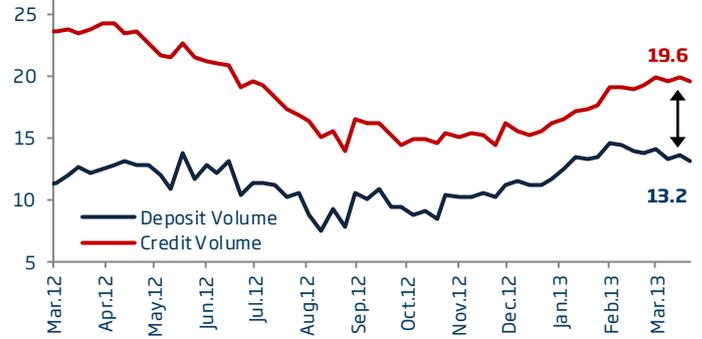
Securities portfolio held in custody accounts...

As of March 22nd, 2013, securities portfolio held in custody accounts grew by 4.2% compared to year-end and was realized as 225.6 billion TL. In this period, residents' and non-residents' portfolio expanded by 5.8% and 2.6%, respectively. In this context, the share of non-residents' in total securities portfolio held in custody accounts increased from 42% to 50% compared to the same period of the previous year.

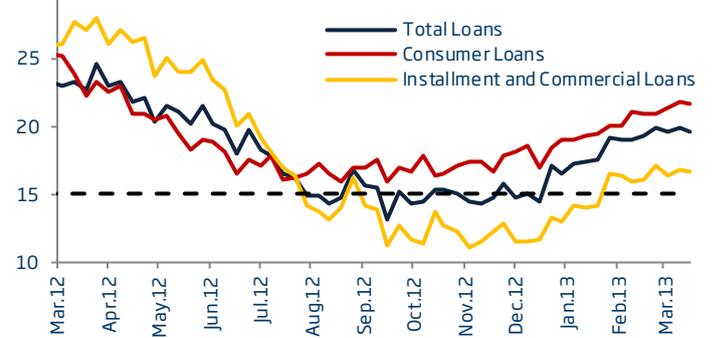
Net FX position...

As of March 22nd, 2013, FX position of the banking sector was (+) 1.7 billion USD. Banks' on-balance sheet FX position was (-) 20.8 billion USD while off-balance sheet FX position was (+) 22.5 billion USD.

**Total Credit and Deposit Volume
(annual % change)**



**Credit Volume Increase
(annual % change)**



Non-Performing Loan Ratio



Source: BRSA Weekly Bulletin

Recently, concerns regarding Euro Area economy intensified again due to the developments in Italy and South Cyprus. In this context, the steps in order to eliminate the political uncertainty in Italy after elections is of utmost importance. The delay in the establishment of the new government in Italy may also cause delays in structural reforms, so it would alter the expected recovery in the Euro Area in 2013. In case of South Cyprus, on the other hand, considering the country's share in the Euro Area economy it is thought that the impact of the problems would be relatively limited on the region's economy. However, the measures taken in South Cyprus have damaged confidence in the reliability of the financial sector and bank deposits in the Euro Area.

Despite the recovery in the labor markets, the downward risks regarding the US economy still remain. Indeed, the uncertainties about the debt ceiling would be one of the top items on the agenda in April.

Turkey's economy grew below expectations in the last quarter of 2012. However, data releases in the first quarter of 2013 indicated that the economic activity has recovered gradually. In addition to widening in the trade deficit, the upward trend in leading indicators also confirmed this course. Moreover, considering the relatively poor performance of Turkey's economy in 2012, the base effect is expected to provide a positive contribution to the growth performance of 2013.

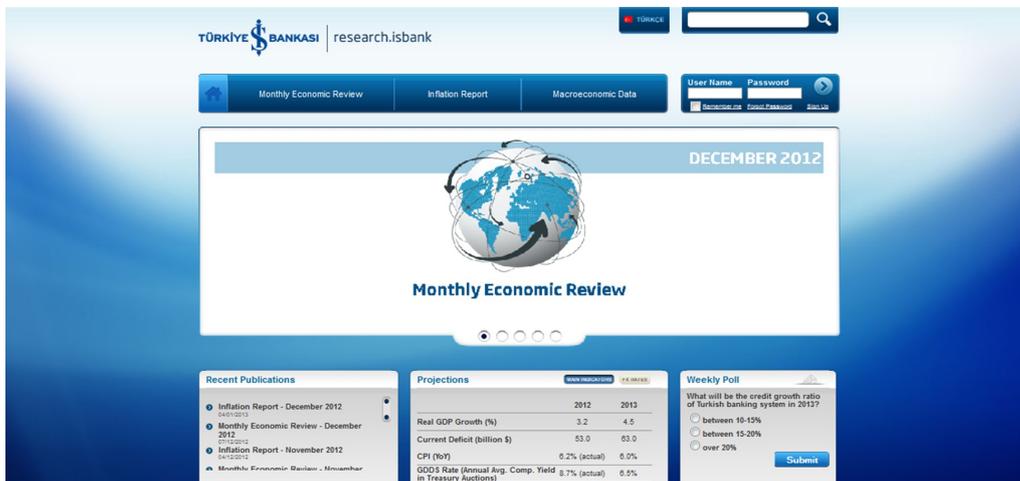
Forecasts	2012 (R)	2013
Growth (%)	2.2	4.5
CA Deficit (USD billion)	47	60
CA Deficit/GDP (%)	6.0	6.7
Inflation (%)	6.2	6.0
GDDI Interest* (%)	8.7	6.4
USD/TL	1.7826	1.7750
EUR/TL	2.3517	2.2365

(*) Annual compound average interest rate in treasury auctions

(R) Realization

FX, interest and inflation are year-end forecasts

Our reports are available on our website <http://research.isbank.com.tr>



Recent Publications

- Inflation Report - December 2012 (04/01/2013)
- Monthly Economic Review - December 2012 (03/20/2013)
- Inflation Report - November 2012 (04/02/2012)
- Monthly Economic Review - November (04/02/2012)

Projections

	2012	2013
Real GDP Growth (%)	3.2	4.5
Current Deficit (billion \$)	53.0	63.0
CPI (YoY)	0.2% (actual)	0.0%
GDS Rate (Annual Avg. Comp. Yield in Treasury Auctions)	8.7% (actual)	6.5%

Weekly Poll

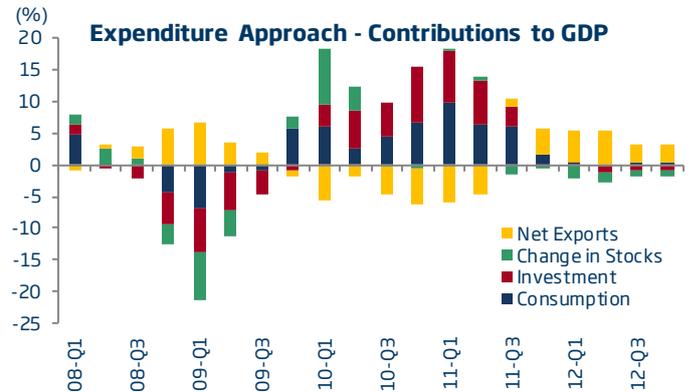
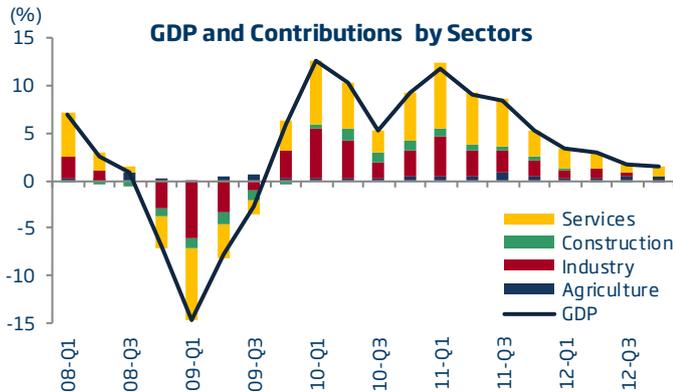
What will be the credit growth ratio of Turkish banking system in 2013?

between 10-15%

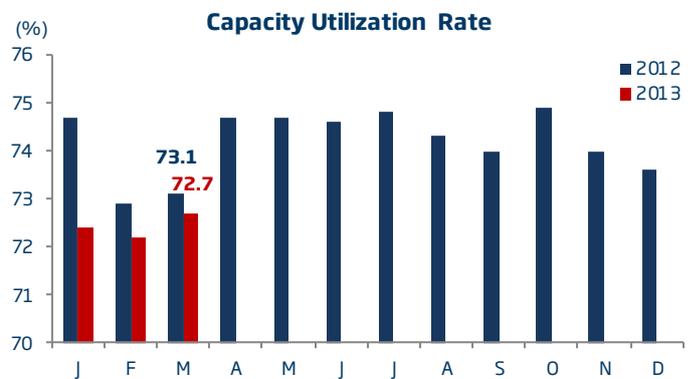
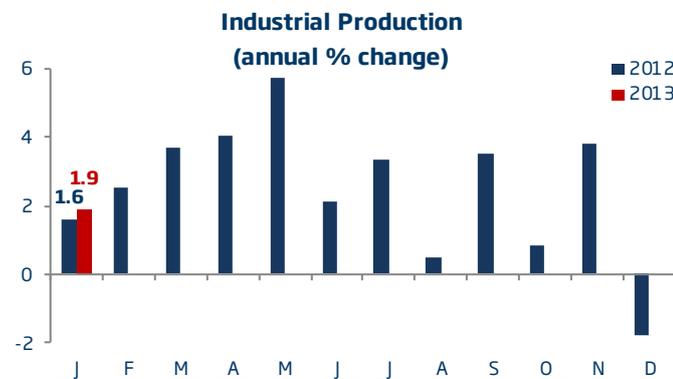
between 15-20%

over 20%

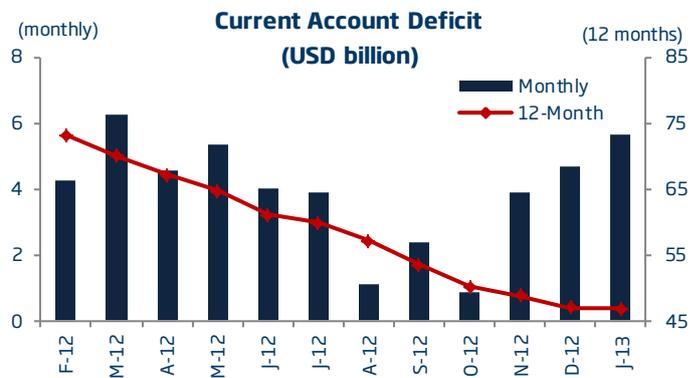
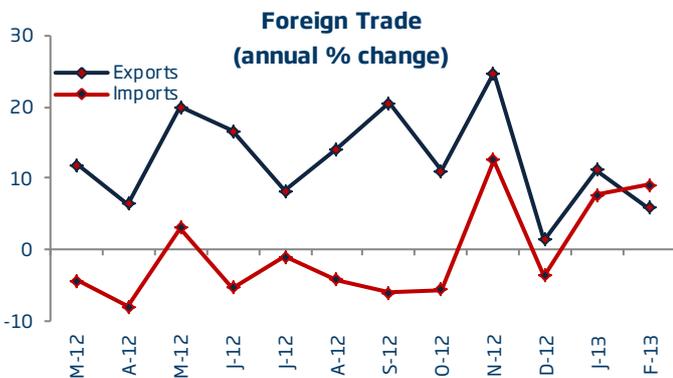
Growth



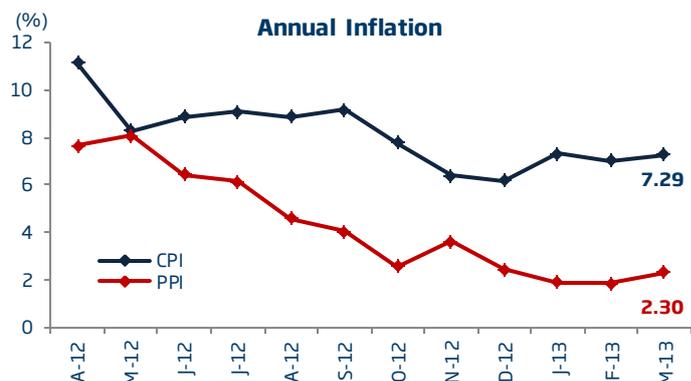
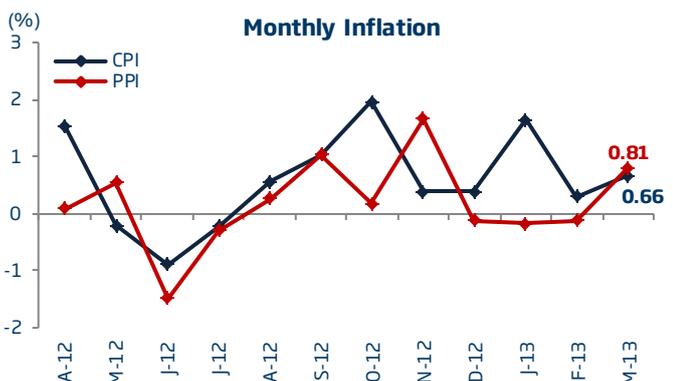
Industrial Production



Foreign Trade and Current Account Balance

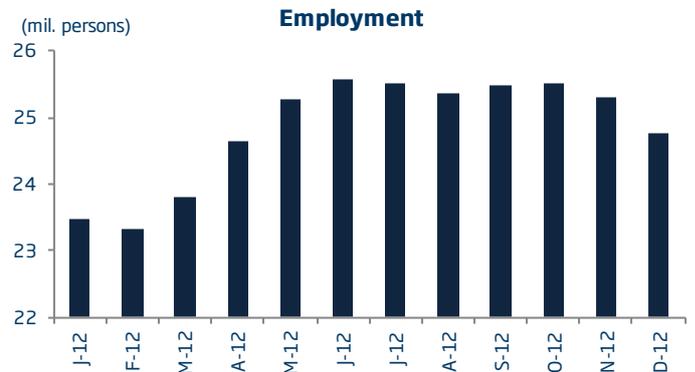
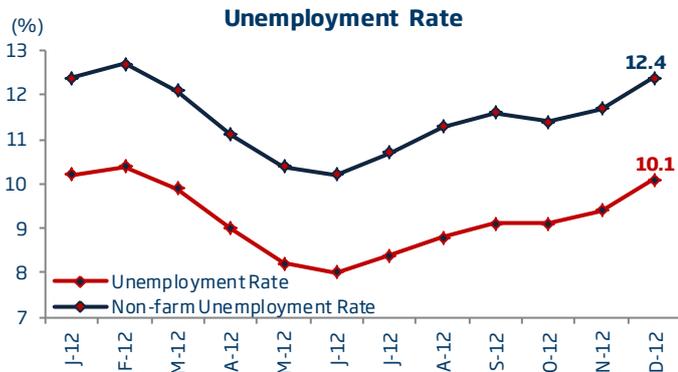


Inflation

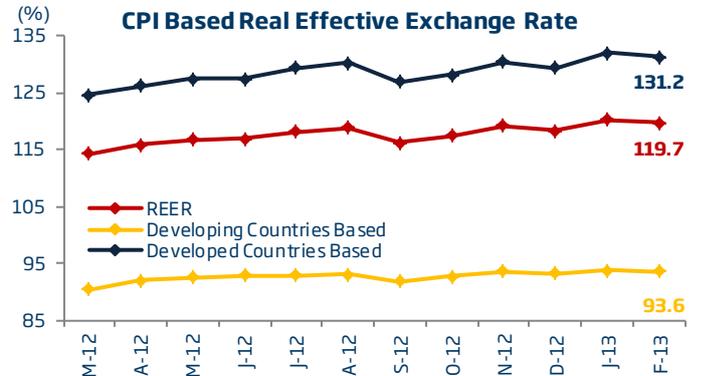
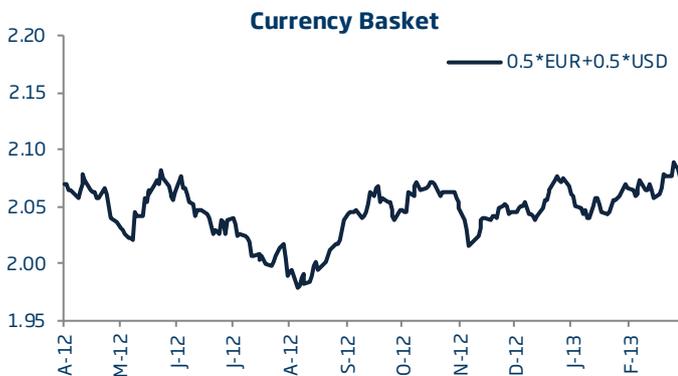


Source: Turkstat, CBRT

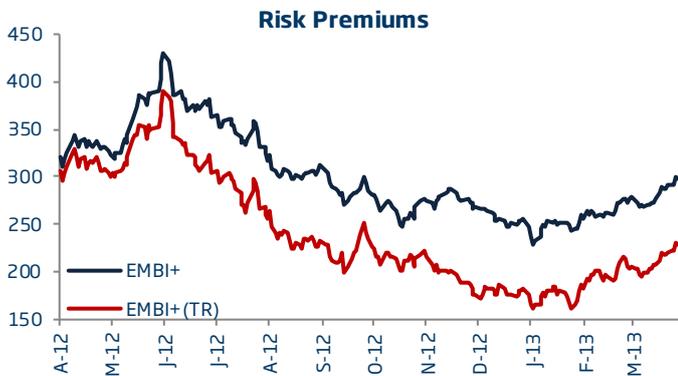
Labor Market



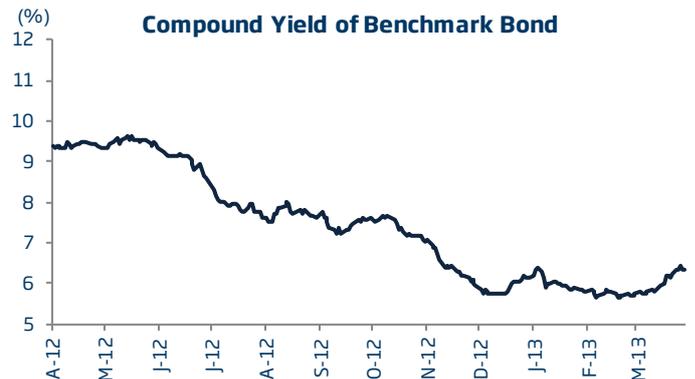
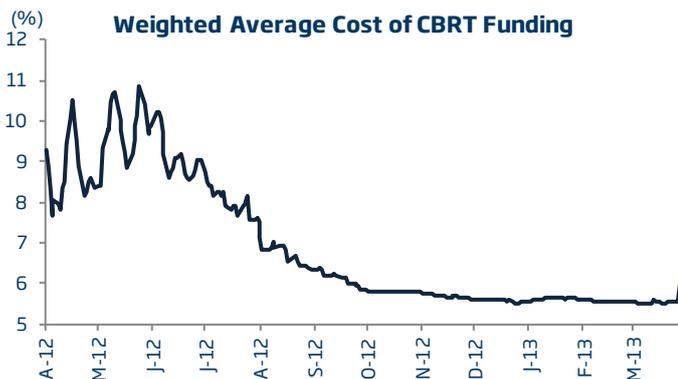
FX Market



Risk Indicators

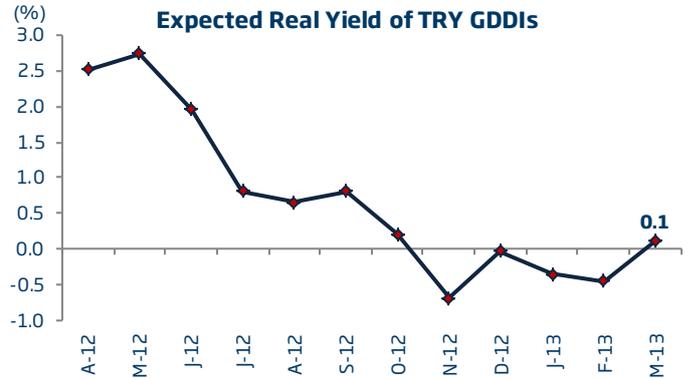
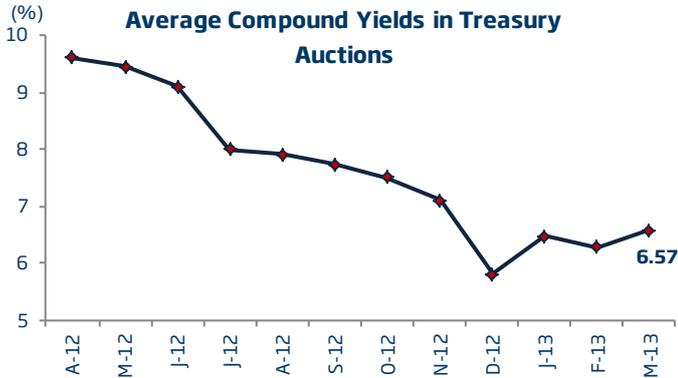


Interest Rates

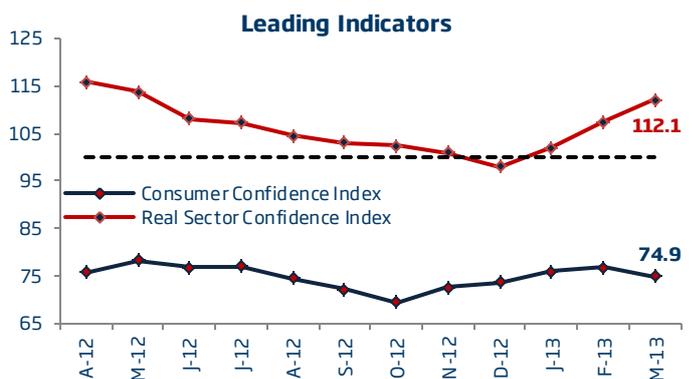
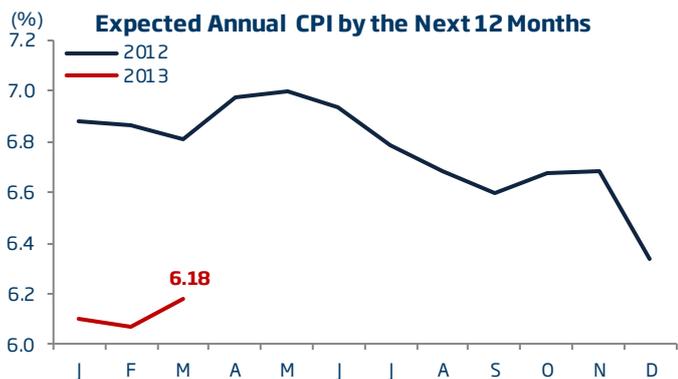
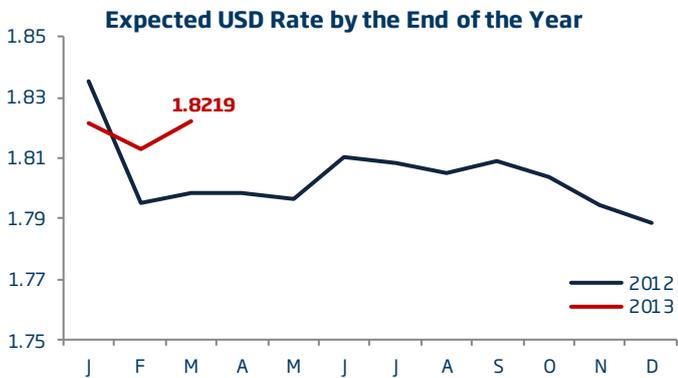
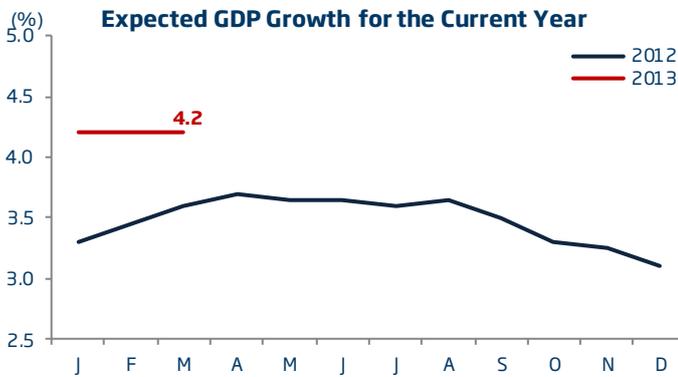


Source: Turkstat, CBRT, JP Morgan, Reuters, ISE

Bond-Bill Market



Survey of Expectations and Other Leading Indicators



Source: Treasury, ISE, CBRT, Economic Research Division

Turkish Economy at a Glance

	2008	2009	2010	2011	2012	13-Q1	13-Q2	13-Q3
Growth								
GDP (USD Billion)	742.1	616.7	731.6	774.0	786.3			
GDP Growth Rate (%)	0.7	-4.8	9.2	8.8	2.2	-	-	-
Inflation (%)						Jan-13	Feb-13	Mar-13
CPI (annual)	10.1	6.5	6.4	10.5	6.2	7.3	7.0	7.3
PPI (annual)	8.1	5.9	8.9	13.3	2.5	1.9	1.8	2.3
Labor Market						Oct-12	Nov-12	Dec-12
Unemployment Rate (%)	11.0	14.0	11.9	9.8	9.2	9.1	9.4	10.1
Employment (thousand persons)	21,194	21,277	22,594	24,110	24,821	25,509	25,291	24,766
FX Rates						Jan-13	Feb-13	Mar-13
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.1	120.4	119.7	
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	1.7588	1.8050	1.8137
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.3805	2.3627	2.3206
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.0697	2.0839	2.0672
Foreign Trade Balance⁽¹⁾ (USD billion)							Jan-12	Feb-13
Exports	132.0	102.1	113.9	134.9	152.5		153.6	154.3
Imports	202.0	140.9	185.5	240.8	236.5		237.9	220.1
Foreign Trade Balance	-69.9	-38.8	-71.7	-105.9	-84.0		-84.3	-65.8
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5		64.6	70.1
Current Account Balance⁽¹⁾ (USD billion)						Nov-12	Dec-12	Jan-13
Current Account Balance	-40.4	-12.2	-45.4	-75.1	-46.9	-48.8	-46.9	-46.8
Capital and Financial Accounts	37.4	9.3	44.0	65.7	45.0	45.6	45.0	47.0
Direct Investments (net)	17.2	7.1	7.6	13.7	8.3	11.0	8.3	8.0
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	38.0	40.8	41.0
Other Investments (net)	24.2	2.1	33.2	28.2	16.7	12.9	16.7	25.2
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-16.1	-20.8	-27.2
Net Errors and Omissions	3.0	2.9	1.4	9.4	2.0	3.1	2.0	-0.1
Current Account Deficit/GDP	-5.4	-2.0	-6.2	-9.7	-6.0	-	-	-
Budget⁽²⁾⁽³⁾ (TL billion)							Jan-13	Feb-13
Expenditures	227.0	268.2	294.4	314.6	360.5		30.9	64.9
Interest Expenditures	50.7	53.2	48.3	42.2	48.4		5.2	10.2
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1		25.7	54.7
Revenues	209.6	215.5	254.3	296.8	331.7		36.9	69.4
Tax Revenues	168.1	172.4	210.6	253.8	278.8		28.4	56.0
Budget Balance	-17.4	-52.8	-40.1	-17.8	-28.8		5.9	4.5
Primary Balance	33.2	0.4	8.2	24.4	19.6		11.2	14.7
Budget Balance/GDP	-1.8	-5.5	-3.6	-1.4	-2.0		-	-
Central Government Debt Stock (USD billion)						Dec-12	Jan-13	Feb-13
Domestic Debt Stock	181.7	219.2	228.2	195.2	216.8	216.8	221.1	216.5
External Debt Stock	69.8	74.1	78.1	79.2	81.7	81.7	82.0	80.6
Total	251.5	293.2	306.3	274.4	298.6	298.6	302.9	297.2

(1) 12 month cumulative

(2) Year-to-date % change

(3) According to Central Government Budget

Source: Turkstat, CBRT, Treasury, Ministry of Finance, Reuters

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TL billion)	2008	2009	2010	2011	2012	Jan-13	Change ⁽¹⁾
TOTAL ASSETS	732.5	834.0	1006.7	1217.7	1370.7	1,367	-0.3
Loans	367.4	392.6	525.9	682.9	794.8	799.1	0.5
TL Loans	262.1	288.2	383.8	484.8	588.4	592.4	0.7
Share (%)	71.3	73.4	73.0	71.0	74.0	74.1	-
FX Loans	105.3	104.4	142.1	198.1	206.4	206.8	0.2
Share (%)	28.7	26.6	27.0	29.0	26.0	25.9	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	24.2	3.5
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	2.9	-
Securities	194.0	262.9	287.9	285.0	270.0	268.8	-0.5
TOTAL LIABILITIES	732.5	834.0	1006.7	1217.7	1370.7	1,367	-0.3
Deposits	454.6	514.6	617.0	695.5	771.9	773.4	0.2
TL Deposits	294.1	341.4	433.5	460.0	520.3	515.3	-0.9
Share (%)	64.7	66.3	70.3	66.1	67.4	66.6	-
FX Deposits	160.5	173.2	183.5	235.5	251.6	258.1	2.6
Share (%)	35.3	33.7	29.7	33.9	32.6	33.4	-
Securities Issued	0.0	0.1	3.1	18.4	37.9	39.3	3.8
Payables to Banks	92.7	86.1	122.4	167.4	173.4	175.5	1.2
Funds from Repo Transactions	40.8	60.7	57.5	97.0	79.9	73.1	-8.5
TOTAL SHAREHOLDERS' EQUITY	86.4	110.9	134.5	144.6	181.9	185	1.6
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	2.5	-
RATIOS (%)							
Loans/Assets	50.2	47.1	52.2	56.1	58.0	58.4	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	19.7	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	56.6	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.1	96.8	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	17.8	-

(1) Year-to-date % change



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