



Monthly Economic Review

July 2013



Global Economy

- ◆ Fed's chairman Ben Bernanke said that the US economy is expanding stronger than expected and the asset purchases might be tapered before the end of 2013 and be finalized in mid-2014.
- ◆ After Bernanke's remarks, the selling pressure in global markets increased broadly. In emerging market economies, interest rates increased, CDS spreads widened and local currencies depreciated against the Dollar in line with the increased volatility in capital flows.
- ◆ At the G-8 summit, leaders said that "the worst" has passed for the global economy. It was stated that the downside risks were reduced thanks in part to significant policy actions taken in the US, Euro Area and Japan in order to support economic activity.
- ◆ Following the support for the expansionary monetary policies of Japan by the G-8 leaders, Bank of Japan's chairman, Kuroda said that the monetary easing program could be further expanded.
- ◆ In China, the notable rise in housing prices which has been observed since the second half of 2012 and the acceleration in loan growth increased the concerns about the vulnerability of the financial system in the country. The measures taken by the China's central bank in this context led to a liquidity shortage in the Chinese banking sector in mid-June and thus interest rates rose.
- ◆ The gold prices, which were following a flat course in the beginning of June, fell sharply after Fed's announcement regarding the monetary policy on June 19th. The gold prices declined to around USD/ounce 1.200 during this period, the lowest level of the last 3 years.

Turkish Economy

- ◆ In the first quarter of 2013, Turkey grew by 3.0% compared to the same period of previous year.
- ◆ The calendar adjusted industrial production index increased by 3.4% in April compared to the same month of the previous year.
- ◆ Leading indicators suggest a gradual recovery in Turkish economy.
- ◆ The unemployment rate increased by 0.2 point in March compared to the same month of the previous year and reached 10.1%. During the same period, the number of unemployed persons increased by 186.000 persons to 2 million 801 thousand persons.
- ◆ In May, the foreign trade deficit was realized below the expectations due to the slight deceleration in imports.
- ◆ In the first four months of the year, the current account deficit increased by 17.2% compared to the same period of the previous year and was realized as 24.3 billion USD. 12-month cumulative current account deficit increased by 3.6 billion USD compared to the previous month and reached 51.3 billion USD in April.
- ◆ In the first five months of the year, the budget revenues increased faster than the budget expenditures. In this context, the central government budget balance which posted a deficit of 0.4 billion TL in the first five months of 2012, gave a surplus of 4.3 billion TL in the same period of 2013.
- ◆ In June, compared to the previous month, CPI and PPI increased by 0.76% and 1.46%, respectively. annual CPI was realized as 8.30%, the highest level in the last 9 months.
- ◆ CBRT held intraday foreign exchange selling auctions on June 11th for the first time since January 2012 and injected 250 million USD to the market. Having continued to hold intraday foreign exchange selling auctions in the rest of June, CBRT sold a total amount of 1.7 billion USD during the whole month.

Contents

Turkish Economy	1
Banking Sector	11
Graphs	13
Tables	16

Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Manager
izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager
alper.gurler@isbank.com.tr

Kıvılcım Eraydın - Economist
kivilcim.eraydin@isbank.com.tr

Erhan Gül - Economist
erhan.gul@isbank.com.tr

Bora Çevik - Economist
bora.cevik@isbank.com.tr

Besime Işıldak - Sub-Manager
besime.isildak@isbank.com.tr

Eren Demir - Asst. Economist
eren.demir@isbank.com.tr

M. Kemal Gündoğdu - Asst. Economist
kemal.gundogdu@isbank.com.tr

Gamze Can - Asst. Economist
gamze.can@isbank.com.tr

Higher than expected growth in the first quarter...

In the first quarter of 2013, Turkey grew by 3.0% compared to the same period of previous year, higher than the market expectation of 2.3%. Thus, the annual GDP growth (with constant prices), which was losing steam since the first quarter of 2011, gained momentum in the first quarter of 2013.

Calendar adjusted GDP at constant prices recorded an increase of 3.7% compared to the same period of previous year. The 1.6% quarterly rise in the seasonally and calendar adjusted GDP also confirmed the recovery in economic activity.

GDP (1998 Prices)

Period	Calendar Adjusted GDP* (%)	Seasonally and Calendar Adjusted GDP** (%)
2011 Q1	12.5	2.1
2011 Q2	9.0	1.0
2011 Q3	8.4	1.2
2011 Q4	4.9	0.7
2012 Q1	2.6	-0.4
2012 Q2	3.2	1.7
2012 Q3	1.9	0.1
2012 Q4	1.4	0.1
2013 Q1	3.7	1.6

*Change compared to the same period of previous year

**Quarter over quarter change

In the first quarter, growth was mainly driven by domestic consumption.

After the net export driven growth period in 2012, it was seen that the recovery in domestic demand conditions supported the growth in the first quarter of 2013. In fact,

after following a downward trend in the all four quarters of 2012, private consumption increased by 3% on an annual basis in the first quarter of 2013. This development pointed out that the lagged effects of CBRT's accommodative policy stance implemented since August 2012 were started to be observed. Besides, public consumption expenditures continued to support economic activity. Thus, private and public expenditures in total made 2.8 points contribution to growth.

Record increase in the public investment expenditures.

Analyzing the investment expenditures, it was seen that the divergence between public and private expenditures continued in the first quarter of 2013. In this period, private investment expenditures decreased by 9.1% on an annual basis while public investment expenditures surged by a record level of 81.9%. The decline in the private investment expenditures had a 2.1 points contractionary impact on growth in the first quarter of 2013 while the rise in the public investment expenditures compensated this impact; bringing the aggregate contribution of investment expenditures to growth by 0.1 point.

On the other hand, the rise in net exports, which made the highest contribution to the growth in 2012, disappeared in the first quarter of 2013 parallel to the acceleration in imports.

Expenditure Approach - Contribution to GDP (1998 Prices)

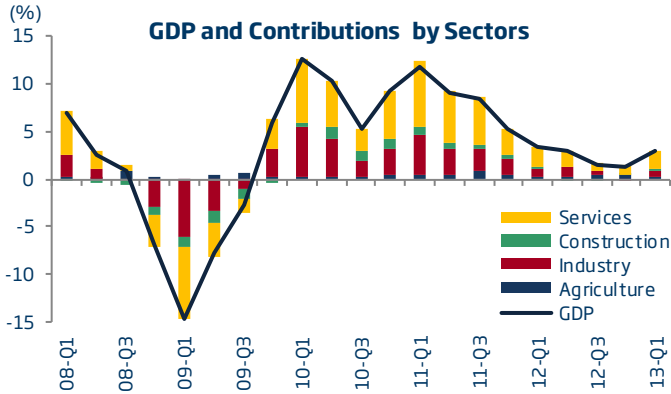
(% points)

	2011					2012					2013
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1
Consumption	9.7	6.5	6.0	1.8	5.8	0.2	-0.4	0.2	0.3	0.1	2.8
Private	9.0	5.6	5.0	2.3	5.3	-0.3	-0.9	-0.3	-0.6	-0.5	2.1
Public	0.7	0.9	0.9	-0.5	0.5	0.5	0.4	0.5	0.9	0.6	0.7
Investment	8.3	6.7	3.3	-0.2	4.3	0.2	-0.7	-1.0	-1.0	-0.7	0.1
Private	8.3	6.7	3.2	0.2	4.4	0.3	-0.9	-1.2	-1.9	-1.0	-2.1
Public	0.0	0.0	0.1	-0.4	-0.1	-0.1	0.1	0.2	1.0	0.3	2.2
Change in Stock	0.4	0.7	-1.6	-0.2	-0.2	-2.2	-1.5	-0.8	-0.9	-1.3	0.2
Net Exports	-6.0	-4.6	1.1	3.9	-1.1	5.1	5.5	3.1	2.9	4.1	0.0
Exports	2.7	0.6	2.8	1.5	1.9	3.5	5.7	3.6	3.7	4.1	0.9
Imports	-8.7	-5.2	-1.7	2.5	-3.0	1.6	-0.1	-0.5	-0.8	0.0	-0.9
GDP	12.4	9.3	8.7	5.3	8.8	3.3	2.9	1.6	1.4	2.2	3.0

Numbers may not add to total due to rounding

Construction sector grew by 5.9% on an annual basis.

According to the GDP figures, industrial sector recorded a slight increase of 2.2% contributing to growth by 0.6 points. Services sector, which has the highest share in GDP, increased by 3.1% and added the growth rate by 1.9 points. Moreover, the construction sector grew by 5.9% in the first quarter of 2013 on an annual basis, the fastest growth since the last quarter 2011.



We expect that the domestic demand would continue to support the growth in 2013.

In the first quarter of 2013, net exports' supportive effect on growth throughout 2012 faded out, in a conjuncture where foreign demand followed a weak course while domestic demand strengthened thanks to the steps taken by policy makers. The positive contribution of consumption expenditures on growth is expected to continue during the year. The acceleration in credit volume, relatively strong leading indicators in the second quarter and higher than expected industrial production figure in April pointed out that the gradual recovery in economic activity continued also in the second quarter of 2013. In this context, we anticipate that Turkish economy would grow by 4-4.5% in 2013.

Industrial production exceeded expectations in April.

The calendar adjusted industrial production index increased by 3.4% in April compared to the same month of the previous year. The higher than expected increase in industrial production showed that the recovery in domestic demand had become more evident in the second quarter of the year. Analyzing the sub-components of industrial production, the increase in the production of intermediate goods also confirmed the recovery in economic activity. During April, the 3.6% increase in the manufacturing sector index made a significant contribution to the overall increase in industrial production. The seasonal and calendar adjusted index also followed an upward trend and rose by 1.3% in April compared to the previous month.

Leading indicators suggest a gradual recovery.

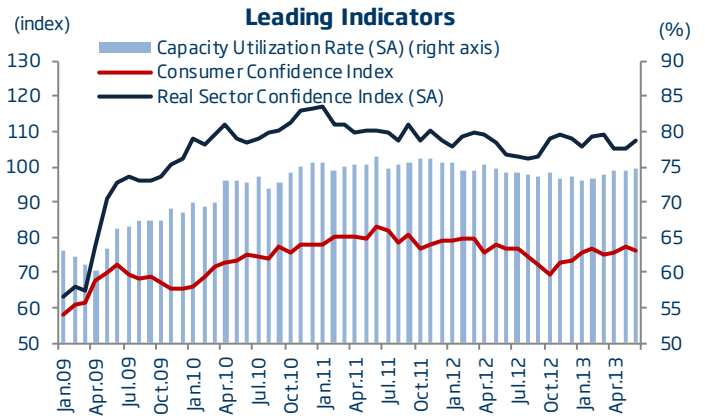
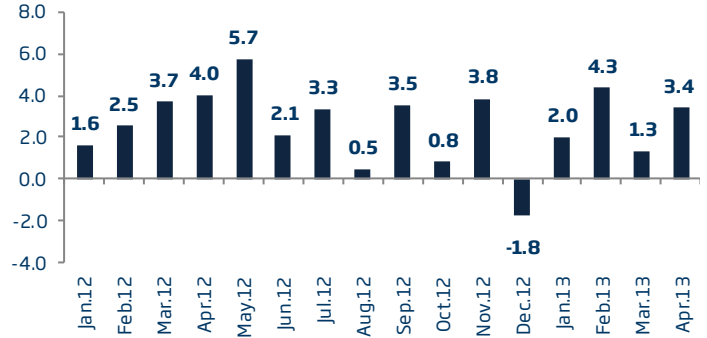
According to the data announced by CBRT, the seasonally adjusted Real Sector Confidence Index increased by 1.8 points in June compared to previous months and was realized as 107.2. The seasonally adjusted Capacity Utilization Rate in manufacturing industry also increased by 0.2 point in June compared to previous month and reached 74.8%. The two indicators confirmed that the gradual recovery in economic activity continued in June.

Despite the increase in the Real Sector Confidence Index and the capacity utilization rate, the Consumer Confidence Index, which is calculated by Turkstat and CBRT, dropped by 1.3 points in June to 76.2 compared to the previous month.

Unemployment rate was 10.1% in March.

The unemployment rate increased by 0.2 point in March compared to the same month of the previous year and reached 10.1%. During the same period, the number of unemployed persons increased by 186.000 persons to 2 million 801 thousand persons. The labor force participation rate rose by 1.6 points to 50.2% during the same period. The unemployment rate is keeping its relatively high level due to the fact that the labor force participation is increasing faster than the rise in employment. The seasonal and calendar adjusted unemployment rate, which was 9.2% in February, increased to 9.4% in March. In summer months, the unemployment rate is expected to decline to single-digit levels again backed by the seasonal factors.

Industrial Production Index
(annual % change)

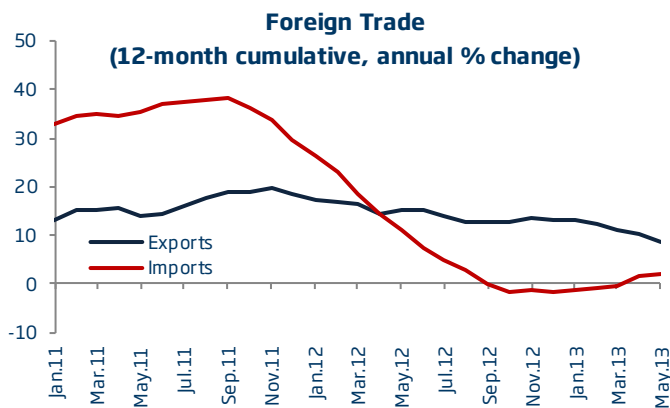


Unemployment Rate



In May, foreign trade deficit came in 9.9 billion USD, lower than expected.

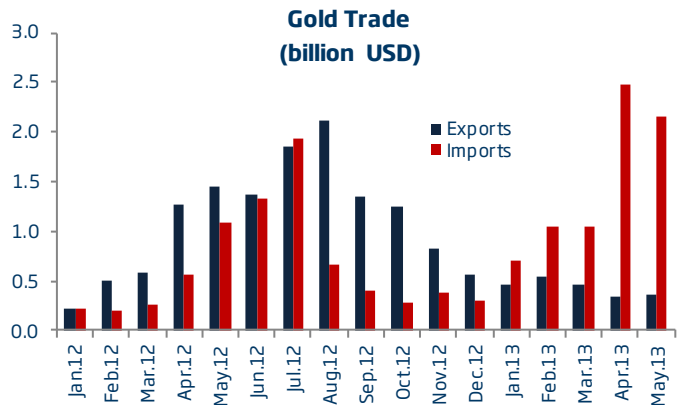
According to data released by Turkstat, imports increased by 6.7% in May compared to the same month of the previous year and were realized as 23.2 billion USD while exports decreased by 1.4% to 13.3 billion USD. During the same period, foreign trade deficit widened by 14.8% to 9.9 billion USD, slightly below the market expectations. The import coverage ratio fell from 60.4% in May 2012 to 57.4% in May 2013. Seasonally and calendar adjusted data indicated that exports increased by 4.2% in May compared to the previous month while imports declined by 4.5% in the same period.



In the first five months of the year, foreign trade deficit widened by 16.9%.

During the first five months of 2013, exports and imports rose by 2.9% and 8.1%, respectively, compared to the same period of the previous year. During the same period, foreign trade deficit widened by 16.9% to 42 billion USD. In addition to the relative recovery in domestic demand, the rapid increase in gold imports during 2013 also played an important role in the widening of the foreign trade deficit. In fact, gold imports, which were 7.6 billion USD in 2012, have reached 7.4 billion USD in the first five months of 2013. Thus, when the gold trade was excluded, foreign trade deficit in the first five months decreased by 2.2% annually and 12-month cumulative foreign trade deficit contracted by 7.2% in May 2013 compared to the same period of the previous year.

Foreign Trade Balance	(USD billion)					
	May		Change	January-May		Change
	2012	2013	(%)	2012	2013	(%)
Exports	13.1	13.3	1.4	61.1	62.8	2.9
Imports	21.8	23.2	6.7	97.0	104.8	8.1
Foreign Trade Balance	-8.6	-9.9	14.8	-35.9	-42.0	16.9
Import Coverage Ratio (%)	60.4	57.4	-	63.0	60.0	-

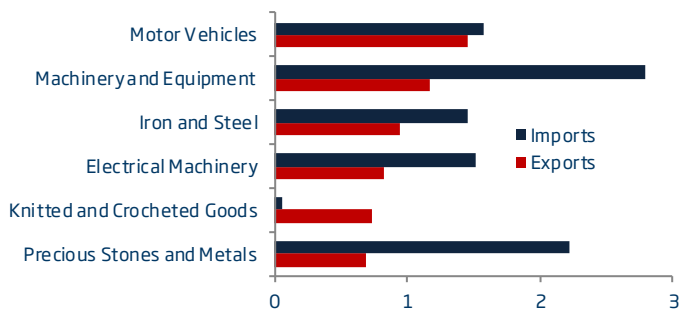


In May, 89% of gold imports (worth of 2.1 billion USD) was imported from Switzerland and U.A.E. On the other hand, gold exports were realized 366 million USD in May. 315 million USD of this amount was exported to Iran.

Motor vehicles ranked first in exports with 1.5 billion USD.

Analyzing the exports by chapters, the motor vehicles ranked first in May, similar to previous months. The export volume of this sector rose by 16.5% compared to the same month of the previous year and was realized as 1.5 billion USD. On the other hand, precious stones and metals exports declined by 58.3% compared to the same month of the previous year, mainly due to the sharp fall in gold exports. In addition, 12.1% decrease in iron and steel exports also limited the increase in total exports.

Foreign Trade in Leading Sectors (May 2013, billion USD)

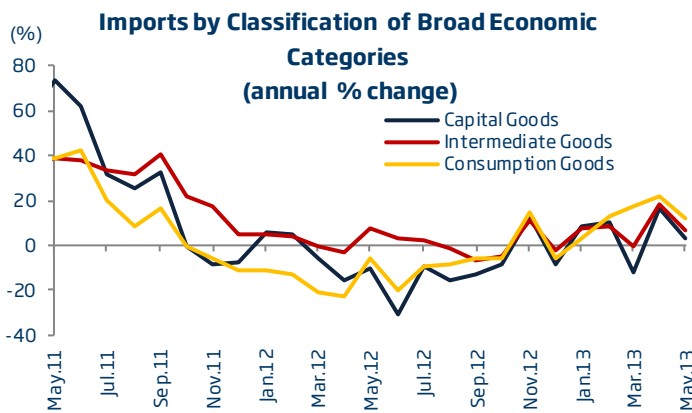


Source: Turkstat

Increase in imports of consumption goods decelerated.

After having increased in March and April by 17.8% and 22.2%, respectively, the consumption goods imports registered an annual increase of 12.1% in May. In the first five months of 2013, the consumption goods imports rose by 14.1% compared to the same period of the previous year while intermediate goods and capital goods imports increased by 7.9% and 4.2%, respectively.

The relatively high level of increase in the consumption goods imports pointed out that domestic consumption expenditures started to accelerate in 2013 backed by the supportive macroeconomic policies.

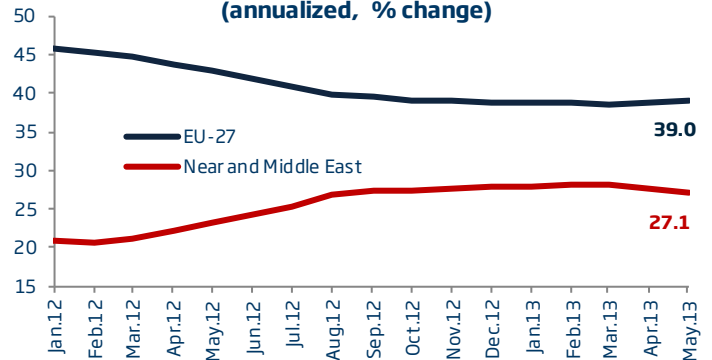


Exports by country groups...

The share of European Union in total exports, which declined in 2012 due to weak economic conditions in this region, increased by 2.7 points in May compared to the same month of the previous year and reached 39%. The exports

to Germany, biggest trading partner of Turkey, increased by 2.9% in May compared to the same month of the previous year. Exports to Iraq increased by 16.9% and Iraq ranked as the second country in terms of exports. The decline in the share of Near and Middle Eastern Countries in Turkey's total exports mainly stemmed from the decrease in gold imports to this region.

Share of Exports by Country Groups (annualized, % change)



Expectations...

In May, the foreign trade deficit was realized below the expectation due to the slight deceleration in imports. The deceleration in imports might continue in the forthcoming period should the recent depreciation in TL persists. However, this decline is expected to be limited taking into account the low price elasticity of import demand in Turkey.

Higher than expected current account deficit in April...

In April, current account deficit increased by 79.7% compared to the same month of the previous year and was realized as 8.2 billion USD, slightly higher than the market expectations. Almost two-fold increase in the current account deficit in April mainly stemmed from the rise in the foreign trade deficit. In fact, the foreign trade posted the highest deficit since June 2011 mainly due to the increase in gold imports in April.

The increase in domestic demand widened the current account deficit.

In the first four months of the year, the current account deficit increased by 17.2% compared to the same period of the previous year and was realized as 24.3 billion USD. As confirmed by the growth figures of the first quarter of 2013, the widening in the current account deficit during this period mainly originated from the rise in private and public domestic consumption expenditures. In addition, the contribution of the net exports to GDP growth, which was remarkably high during last year, disappeared in the first quarter.

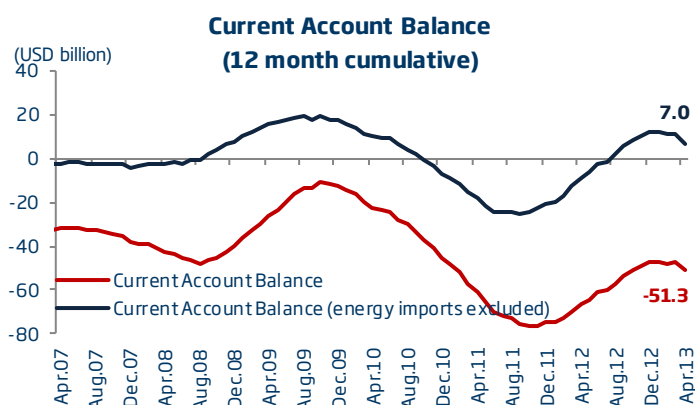
12-month cumulative foreign trade deficit increased by 3.6 billion USD compared to the previous month and reached 51.3 billion USD in April.

On the other hand, the net tourism revenues, which increased by 27.6% to 4.3 billion in the first four months compared to the same period of the previous year, continued to limit the widening in the current account deficit.

Foreign direct investments were weak.

The net foreign direct investments continued to stay at low levels with 0.5 billion USD in April. In the first four months, net foreign direct investments decreased by 11.4% compared to the same period of the previous year and were realized as 2.2 billion USD. The decline in foreign direct investment becomes more visible when only inflows are taken into account instead of the net figure. In fact, foreign

direct investment inflows declined by 37.5% to 3.1 billion USD in the first four months compared to the same period of the previous year.



Portfolio investments remained strong.

The continuation of the loose monetary policies in advanced economies and the market expectations about the upgrade of Turkey's credit rating by a second rating agency throughout April increased the portfolio inflows to a historic monthly high level of 9.3 billion USD. Analyzing the details of the portfolio inflows, non-residents' equity transactions recorded net purchases of 133 million USD in April. In addition, non-residents registered a net purchase of 4.5 billion USD government domestic debt securities during this period. Regarding the bond issues in international capital markets, general government, banks and the real sector borrowed 1.5 billion USD, 1.35 billion USD and 1.5 billion USD in April, respectively. In the first four months, total portfolio investments reached 18.1 billion USD, almost tripled compared to the same period of last year.

Banks continued to borrow short-term loans from abroad.

In April, banking sector's net borrowing from abroad was 1.2 billion USD. Thus, total net borrowing of the banking sector in the first four months reached 8 billion USD. During the same period of the last year, it was 1 billion USD. According

Breakdown of Net Capital Inflows Towards Turkey

	December 2012		April 2013	
	(million USD)	(million USD)	(%)	(%)
Current Account Balance	-47,729	-51,301	-	-
Total Net Foreign Capital Inflows	68,543	85,408	100.0	100.0
-Direct Investments	8,484	8,199	12.4	9.6
-Portfolio Investments	40,789	52,657	59.5	61.7
-Other Investments	17,847	33,389	26.0	39.1
-Net Errors and Omissions	1,467	-8,799	2.1	-10.3
-Other	-44	-38	-0.1	0.0
Reserves⁽¹⁾	-20,814	-34,107	-	-

Note: The numbers may not add up to total due to rounding.

(1) (-) sign indicates an increase in reserves while (+) sign indicates a decrease.

Source: CBRT

to the maturities, banking sector was a net re-payer in long-term loans while the sector was a net borrower in short-term loans. Despite the increase in the banking sector's net borrowing from abroad, real sector decreased its foreign borrowing in the first four months of the year. In fact, during this period, real sector's net borrowing decreased from 2.6 billion USD to 1.4 billion USD. In contrast to the banking sector, the majority of this amount is composed of long-term loans. Analyzing 12-month cumulative figures, it was seen that long term debt roll-over ratio of the banking sector was 93.6% and that of non-banking sector was 116%.

In addition to the loans raised from abroad, non-resident banks' foreign exchange and TL deposits held in domestic banks increased by 2.6 billion USD in April and by 6.5 billion USD in the first four months. The increase in foreign exchange deposits constituted the majority of this amount.

Remarkable increase in reserve assets...

The portfolio investments and other investment inflows in April were much higher than the financing need originating from the current account deficit. This enabled the CBRT to increase its reserves significantly. In fact, reserve assets increased by 7.3 billion USD in April and 14.3 billion USD in the first four months.

Expectations...

The current account deficit started to widen parallel to the recovery in domestic demand as confirmed by the first quarter growth figures of 2013. The noteworthy increase in gold imports recently also accelerated the widening in the current account deficit. The current account deficit is expected to continue widening throughout 2013 in parallel with the enlivening in economic activity. The capital inflows to Turkey, excluding the foreign direct investments, were very strong during the first four months and pointed out that in terms of financing there would not be any problem. On the other hand, the short-term nature of capital inflows poses a risk factor. In fact, capital outflows were observed due to profit taking sales in the markets after Moody's upgraded Turkey's credit rating to investment grade in May.

In addition, Bernanke's remarks after the FOMC meeting in June that Fed might taper asset purchases before the end of 2013 had negative impacts on capital inflows to emerging markets. In this context, CBRT started to implement additional monetary tightening and hold foreign exchange selling auctions due to the increasing volatility and depreciation in TL during the first weeks of June. In the coming months, Fed's exit strategy and thus each economic data announcement in US will be effective in the quality of the financing of the current account deficit.

Current Account Balance	(USD million)				
	April 2013	January-April 2012 2013		% Change	12 Month Cumulative
Current Account Balance	-8,170	-20,763	-24,335	17.2	-51,301
Foreign Trade Balance	-8,424	-21,932	-25,607	16.8	-69,001
Services Balance	941	3,379	3,700	9.5	23,233
Tourism Revenues (net)	1,291	3,363	4,292	27.6	22,488
Income Balance	-718	-2,710	-2,690	-0.7	-6,678
Current Transfers	31	500	262	-47.6	1,145
Capital and Financial Accounts	9,589	16,105	29,943	85.9	60,100
Direct Investments (net)	469	2,503	2,218	-11.4	8,199
Portfolio Investments (net)	9,340	6,222	18,090	190.7	52,657
Assets	280	370	1,735	368.9	4,022
Liabilities	9,060	5,852	16,355	179.5	48,635
Equity Securities	133	775	526	-32.1	6,025
Debt Securities	8,927	5,077	15,829	211.8	42,610
Other Investments (net)	7,053	8,401	23,943	185.0	33,389
Assets	144	-1,004	2,114	-	2,555
Currency and Deposits	176	-643	2,610	-	4,470
Liabilities	6,909	9,405	21,829	132.1	30,834
Trade Credits	2,049	175	5,587	3,093	6,420
Loans	2,141	2,856	8,754	206.5	15,016
Banking Sector	1,168	976	7,983	717.9	11,862
Non-bank Sectors	1,151	2,595	1,352	-47.9	5,113
Deposits	2,676	6,345	7,438	17.2	8,892
Foreign Banks	2,580	5,037	6,533	29.7	8,625
Foreign Exchange	2,334	4,836	5,681	17.5	6,090
Turkish Lira	246	201	852	323.9	2,535
Non-residents	192	1,692	1,239	-26.8	2,460
Reserve Assets (net)	-7,273	-1,004	-14,297	1,324.0	-34,107
Net Errors and Omissions	-1,419	4,658	-5,608	-	-8,799

Source: CBRT

Central government budget posted a surplus of 4.6 billion TL in May.

In May, the budget expenditures increased by 15.6% compared to the same month of the previous year while the increase in budget revenues was 13.2%. During this period, the central government budget posted a surplus of 4.6 billion TL, relatively unchanged compared to the same month of the previous year.

Analyzing the figures for the first five months of the year revealed that the increase in budget revenues was faster than that of budget expenditures. In this context, the central government budget balance which posted a deficit of 0.4 billion TL in the first five months of 2012, gave a surplus of 4.3 billion TL in the same period of 2013. In January-May 2013, the primary surplus reached 26 billion TL and already exceeded the year-end target.

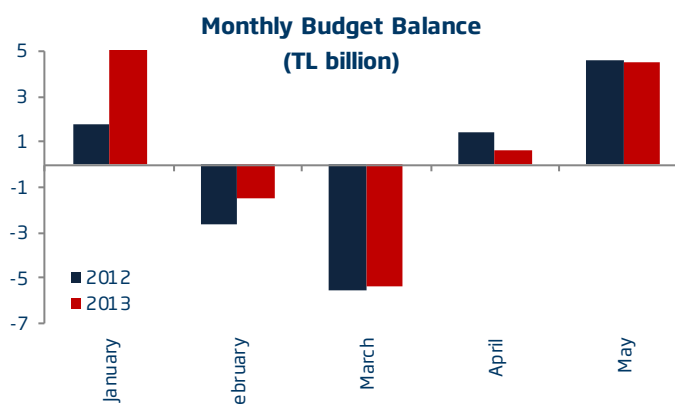
Increase in tax revenues continued.

In May tax revenues increased by 14% compared to the same month of the previous year. During this period, Income Tax collection rose by 17% while Corporation Tax collection decreased by 9.6%, limiting the expansion in tax revenues. In May, Domestic VAT revenues increased rapidly by 24.9% compared to the same month of the previous year and pointed out that domestic demand conditions have continued to recover in the second quarter of the year. In addition, the Special Consumption Tax (SCT) and income from VAT on imports increased annually by 23.8% and 18.7%, respectively.

In January-May period, the budget revenues were in line with the year-end targets, except the SCT revenues collected from tobacco products and alcoholic beverages.

Other budget revenues increased.

In May, other revenues increased by 8.6% compared to the same month of the previous year and was realized as 4.7 billion TL. The increase mostly stemmed from the 32% expansion in Portfolio Revenues of Treasury. In addition, decline in bond yields led Back Interest for Note Payable and Sales item to increase rapidly in May and supported the



budget revenues. Regarding the year end-targets, the other revenues also displayed a better than expected performance in the first five months of the year.

Non-interest expenditures...

In May, the non-interest expenditures increased by 12.4% compared to the same month of the previous year and were realized as 26.8 billion TL. Analyzing the sub-items, the current transfers, which constitute about 40% of non-interest expenditures, increased by 6.3% while resources transferred to local governments increased by 20.5%. On the other hand, 30.6% decrease in agricultural subsidies in the same period had a positive impact on budget balance.

In the first five months of the year, non-interest expenditures increased by 17.7% compared to the same period of the previous year while interest expenditures decreased by 10.7%.

Expectations ...

The central government budget displayed a favorable outlook in the first five months of the year and was in line with the year-end targets. The budget balance is expected to pursue this favorable outlook in the second half of the year thanks to the recovery in domestic demand conditions.

Central Government Budget

	May			January-May			(TL billion)	
	2012	2013	% Change	2012	2013	% Change	Budget Target	Real./ Target (%)
Expenditures	26.2	30.3	15.6	137.8	155.3	12.7	404.0	38.4
Interest Expenditures	2.4	3.5	47.0	24.4	21.8	-10.7	53.0	41.1
Non-interest Expenditures	23.8	26.8	12.4	113.4	133.5	17.7	351.0	38.0
Revenues	30.8	34.9	13.2	137.4	159.5	16.1	370.1	43.1
Tax Revenues	26.5	30.2	14.0	110.9	131.7	18.7	317.9	41.4
Other Revenues	4.3	4.7	8.6	26.5	27.9	5.3	52.1	53.5
Budget Balance	4.6	4.6	-0.5	-0.4	4.3	-	-34.0	-
Primary Balance	7.0	8.1	15.9	23.9	26.0	8.7	19.0	136.6

Numbers may not add up to total due to rounding

Source: Ministry of Finance

CPI increased well above the expectations in June.

In June, compared to the previous month, CPI and PPI increased by 0.76% and 1.46%, respectively. According to the Reuters' survey, markets' monthly CPI and PPI inflation expectations were 0.15% and 0.34%, respectively. According to the CBRT's survey of expectations, on the other hand, CPI was expected to fall by 0.02% in June.

CPI - June	CPI - June		PPI - June	
	2012	2013	2012	2013
(%)				
Monthly	-0.90	0.76	-1.49	1.46
Year to Date	1.95	4.00	-0.24	2.46
Annual	8.87	8.30	6.44	5.23
Annual Average	8.89	7.47	10.24	3.18

The annual CPI rose to nine-month high.

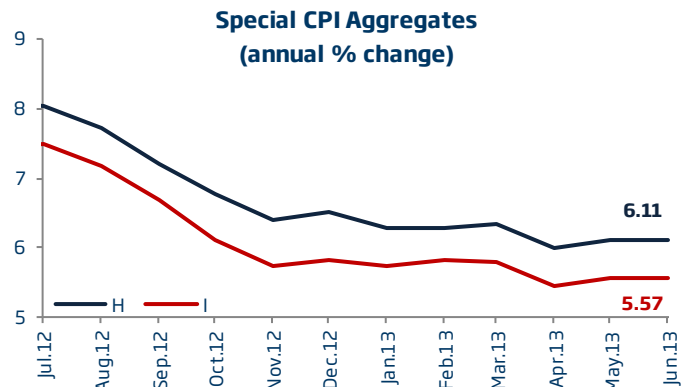
In June, the increase in annual CPI was realized as 8.30%, the highest level in the last 9 months. In this month the upward movement in PPI became more evident and annual PPI increased by 5.23%.

The rapid increase in food prices...

Food prices, which follow a downward trend during the summer months in general, recorded a monthly increase of 1.82% in June 2013 and made the highest contribution to inflation by 43 basis points. The prices in transportation group, which are relatively more sensitive to the developments in foreign exchange rates, increased inflation further. The seasonal price falls in clothing and footwear, on the other hand, limited the rise in inflation.

Core inflation indicators followed a flat trend...

Analysis of the core inflation indicators in June revealed that the rise in inflation was widespread. In fact, in June only the products having administrated prices and alcoholic beverages and tobacco products had a decreasing impact on the inflation. CBRT's favorite core inflation



H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.
I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco

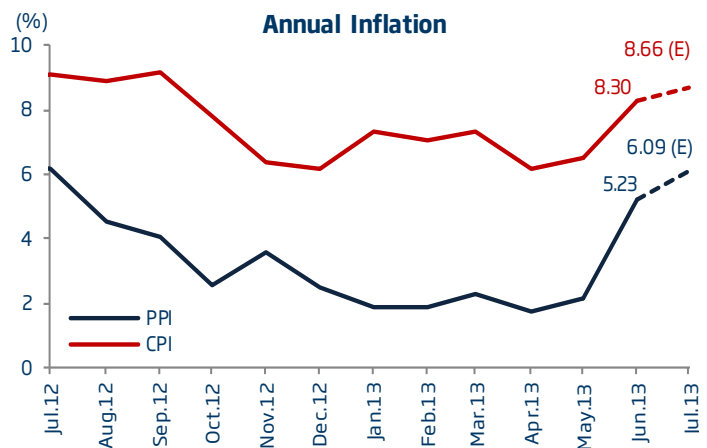
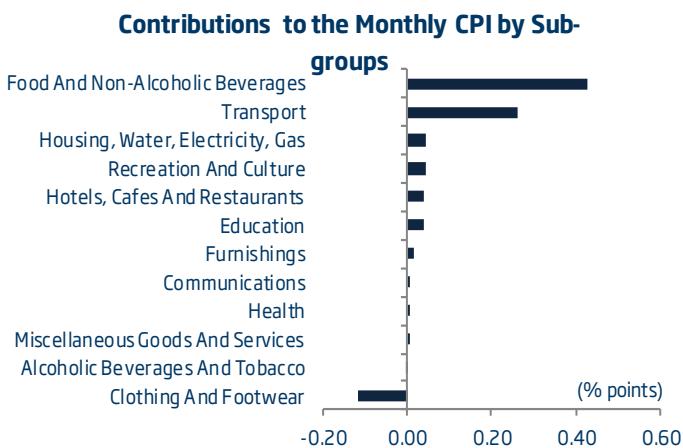
aggregates denominated by H and I displayed a flat course in June and increased annually by 6.11% and 5.57%, respectively.

In June, PPI was also realized above the expectations...

In June, agricultural prices were influential on the course of inflation. In this sector, 3.42% increase in prices contributed to the PPI inflation by 54 basis points. Besides, the price developments in the basic metal and coke and refined petroleum production sectors also contributed to the increase in PPI due to the upward trend in the foreign exchange rates.

Expectations...

We anticipate that the depreciation in Turkish Lira would continue to be effective in the course of the July inflation figures. Additionally, we foresee that the food prices would increase due to the Ramadan, while clothing and footwear prices would decrease thanks to the seasonal factors. In this context, we expect CPI and PPI to increase by 0.10% and 0.50%, respectively in July.



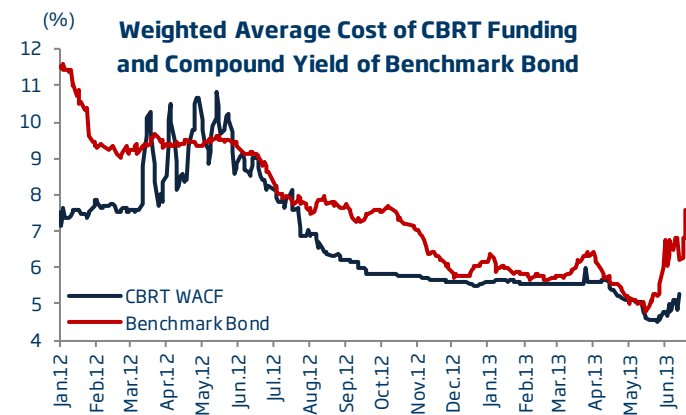
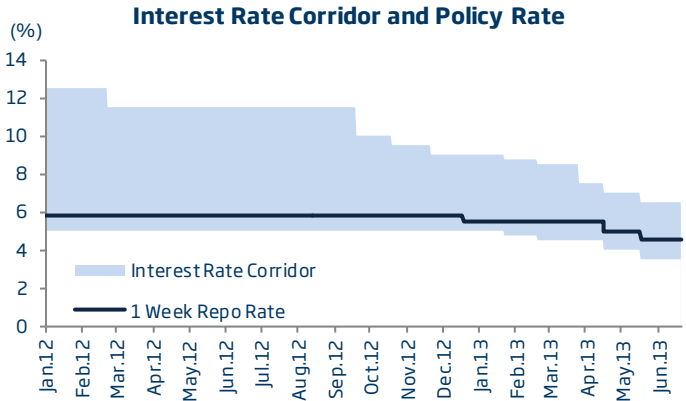
Source: Turkstat

Short-term additional monetary tightening...

Due to the depreciation of Turkish Lira against major foreign currencies in recent weeks, CBRT has declared that it would implement short-term additional monetary tightening as of June 11th. On the same day following the announcement, CBRT held intraday foreign exchange selling auctions for the first time since January 2012 and injected 250 million USD to the market. Having continued to hold intraday foreign exchange selling auctions in the rest of June, CBRT sold a total amount of 1.7 billion USD during the whole month. To weather the risks on price stability, particularly stemming from high volatility in foreign exchange rates, CBRT reduced the amount of liquidity provided to the markets and this move drove the funding costs up in the money markets from where banks raise funds. The weighted average cost of CBRT funding, which reached 5.66% level on June 21st, later went down to 5.11% at the end of June and registered 59 basis points increase compared to the end of May.

CBRT kept the interest rates unchanged at its meeting on June 18th.

CBRT kept the policy rate, which is the one-week repo rate, unchanged at 4.5% and did not make any changes in either the upper or the lower bound of the interest rate corridor. CBRT denoted that the recent course of domestic and foreign demand complied with the expectations. CBRT pointed out that final domestic demand made a healthy progress whereas exports slowed down mostly due to weak global demand. Also, it was added that the current policy mix and the course of commodity prices have limited the widening in the current account deficit to some extent. On the other hand, it was stressed that there has been a deceleration in capital inflows due to the increasing uncertainty associated with the monetary policies worldwide. It was also noted that the annual loan growth stayed well above the reference rate set by the CBRT.



Source: CBRT, Borsa Istanbul

The deposit growth gained momentum.

According to BRSA's Weekly Bulletin, as of June 21st, 2013, total deposit volume increased by 16.9% to 884.9 billion TL compared to the same period of the previous year. During this period, TL deposits increased by 19.9% and reached 575.3 billion TL. FX deposits in USD terms, on the other hand, declined by 4.7% due to the recent sharp increases in foreign exchange rates. Hence, the annual increase in FX deposit volume, which was %8 at the end of May, receded to 4.1% as of June 21, 2013.

Annual loan growth was realized as 25%.

As of June 21st, 2013, total loan volume increased by 25% compared to the same period of the previous year and reached 922.8 billion TL. During the same period, the sum of consumer loans and consumer credit cards increased by 24.4%. Having accelerated in the second half of the year, commercial and corporate loans went up by 25.2% in annual terms.

CBRT started to implement short-term additional monetary tightening in response to the recent acceleration in capital outflows from emerging markets led by the Fed's announcement that the asset purchases will be tapered before the end of 2013. In this framework, CBRT increased the cost of liquidity provided to banks. As a result, the impacts of this policy on interest rates for bank loans became visible in commercial loans while interest rates for vehicle and consumer loans followed a flat course and the interest rates for housing loans, on the other hand, continued to move downward.

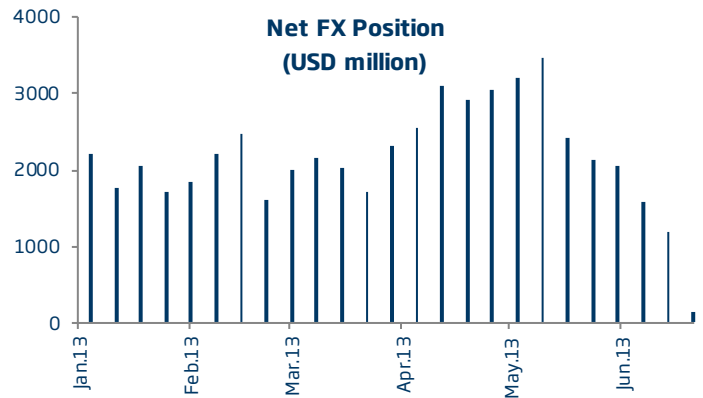
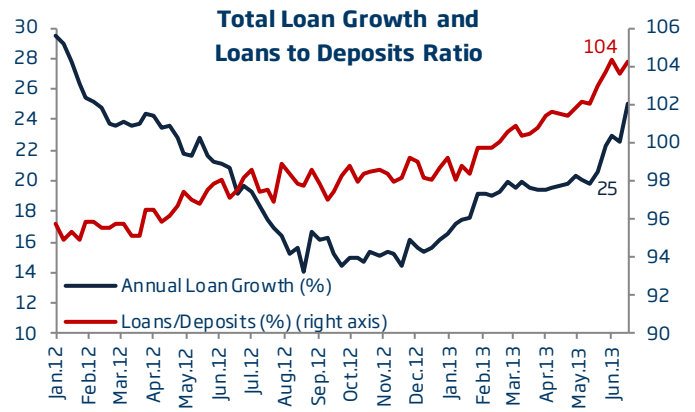
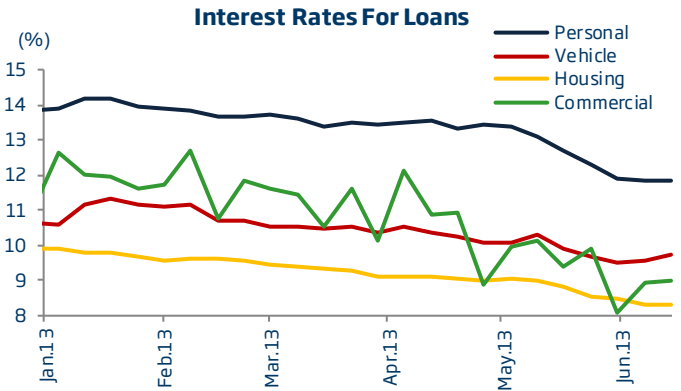
The loan to deposit ratio increased rapidly with the recent acceleration in loan growth. Banks' increasing tendency towards issuing bonds was also influential in this increase. The said ratio was realized as 104.3% as of June 21st, 2013.

Securities portfolio...

Parallel to banks' continued appetite for lending, the share of securities portfolio in total assets continued to decline. As of June 21st, securities portfolio decreased by 3% compared to the same period of the previous year and declined to 277.5 billion TL.

Net FX position...

As of June 21st, 2013, banks' on-balance sheet FX position was (-) 19.227 million USD while off-balance sheet FX position was (+) 19.357 million USD. Therefore, net FX position of the banking sector fell down to 130 million USD as of June 21st, the lowest level of 2013.



Source: BRSA Weekly Bulletin

Turkish economy recorded a growth rate of 3.0% in the first quarter of 2013 thanks to the lagged effects of CBRT's accommodative policies implemented since August 2012. In the first quarter of 2013, net exports' supportive effect on growth faded out while domestic demand contributed to growth. In the remaining part of the year, consumption expenditures are expected to continue to support the economic activity.

On the other hand, the volatility in FX rates increased recently as a result of the developments in global markets as well as in domestic markets. As of June 11th, CBRT started to implement short-term additional monetary tightening in order to minimize the adverse effects of increased volatility in TL on price stability and financial stability. In addition, Fed's chairman Bernanke's remarks that the asset purchases might be tapered before the end of 2013 and be finalized in mid-2014 increased the global risk perception rapidly. The equity indices worldwide registered sharp falls while capital outflows from emerging market economies accelerated. In response to these developments, CBRT continued the additional monetary tightening implementations and held daily foreign exchange selling auctions in order to prevent further depreciation in TL. CBRT might take additional policy measures if the current implementations become inadequate. Should the ongoing additional tightening of CBRT becomes long-lasting, the domestic demand might be negatively affected and further pressure will be built on the growth performance.

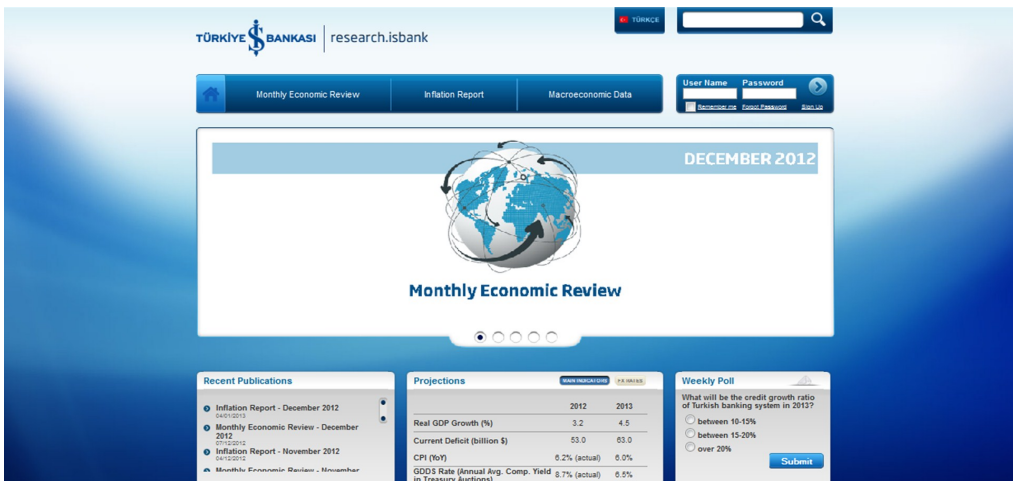
Forecasts	2012 (R)	2013
Growth (%)	2.2	4.5
CA Deficit (USD billion)	47.5	60
CA Deficit/GDP (%)	6.1	6.7
Inflation (%)	6.2	6.0
GDDI Interest* (%)	8.7	6.4
USD/TL	1.7826	1.8581
EUR/TL	2.3517	2.3877

(*) Annual compound average interest rate in treasury auctions

(R) Realization

FX, interest and inflation are year-end forecasts

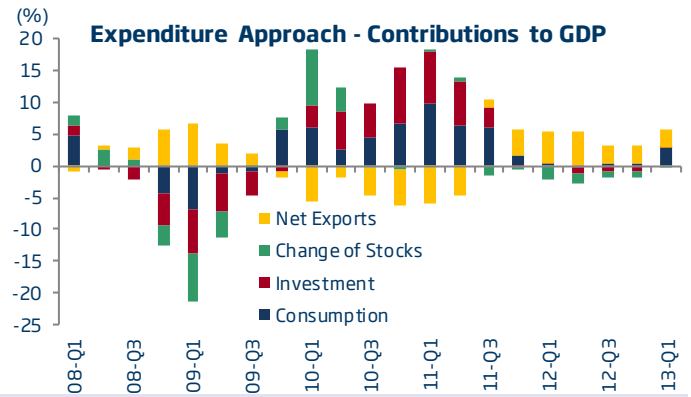
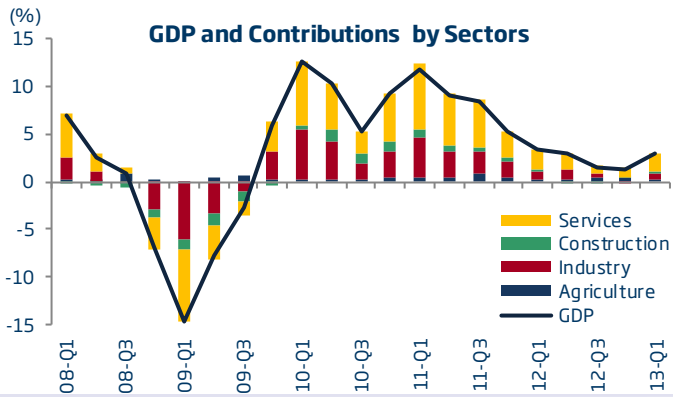
Our reports are available on our website <http://research.isbank.com.tr>



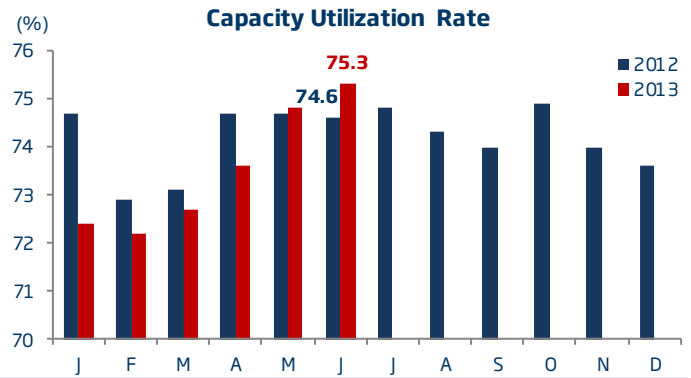
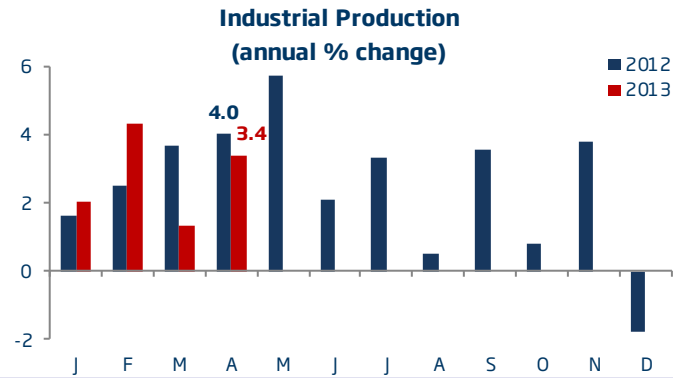
The screenshot shows the website interface for research.isbank.com.tr. At the top, there is a search bar and a navigation menu with tabs for 'Monthly Economic Review', 'Inflation Report', and 'Macroeconomic Data'. The main content area is titled 'DECEMBER 2012' and 'Monthly Economic Review'. Below this, there are three sections: 'Recent Publications' listing reports from December 2012 and November 2012; 'Projections' with a table comparing 2012 and 2013 data; and a 'Weekly Poll' asking about the credit growth ratio of the Turkish banking system in 2013.

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

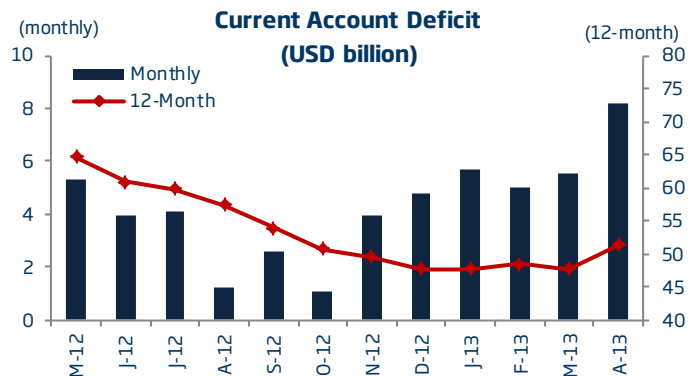
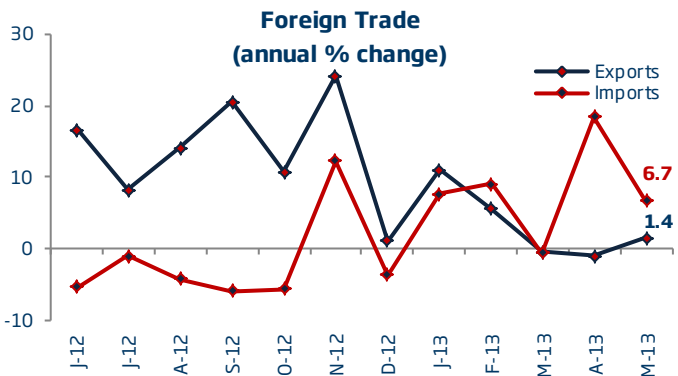
Growth



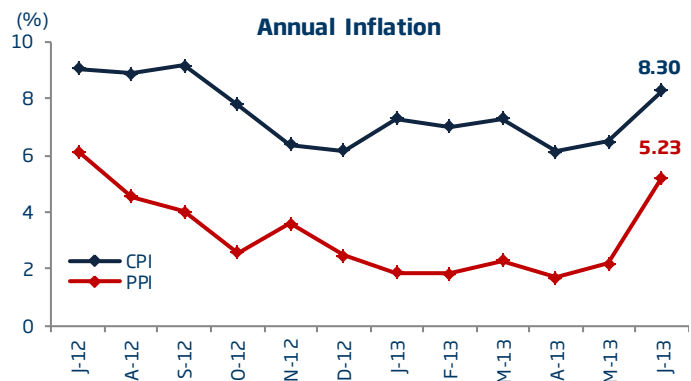
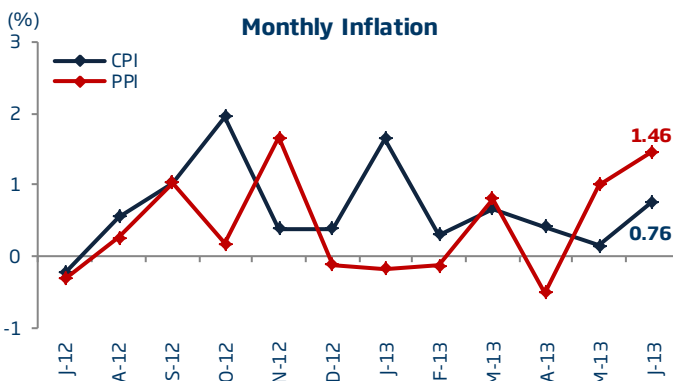
Industrial Production



Foreign Trade and Current Account Balance

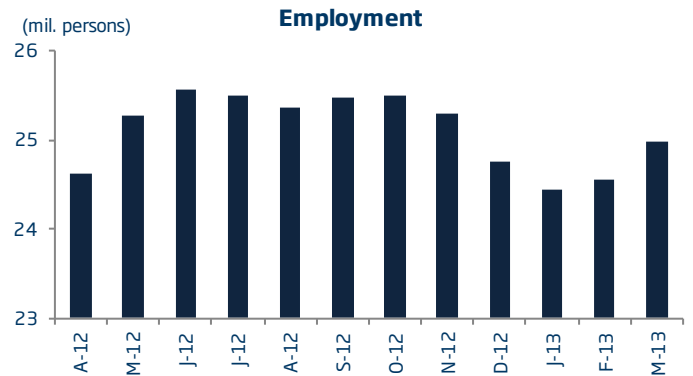
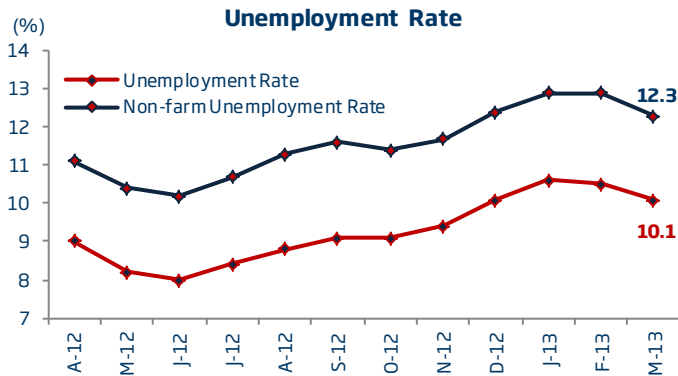


Inflation

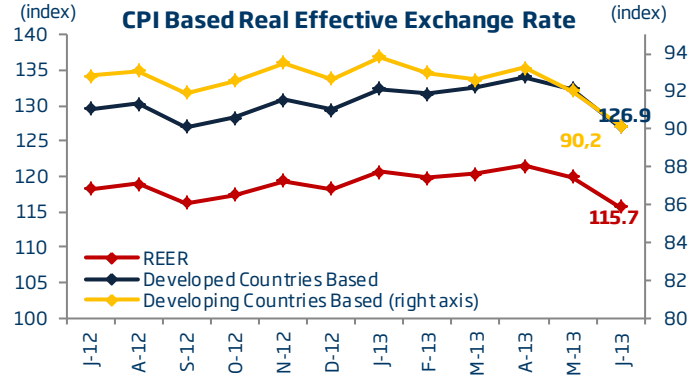
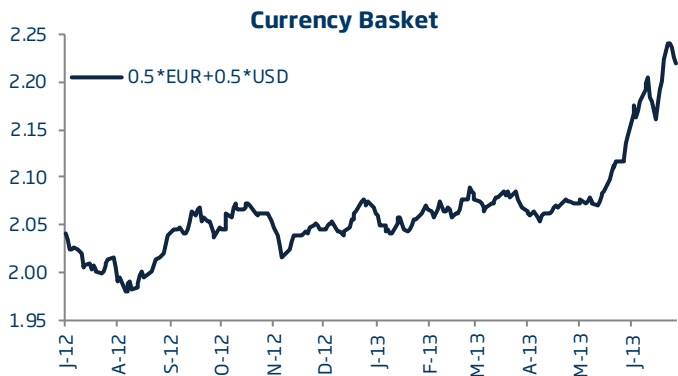


Source: Turkstat, CBRT

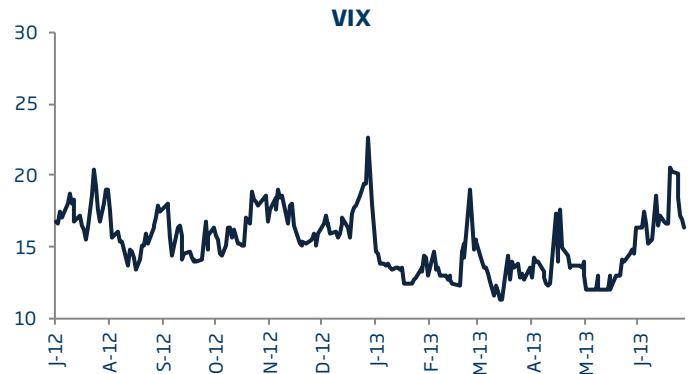
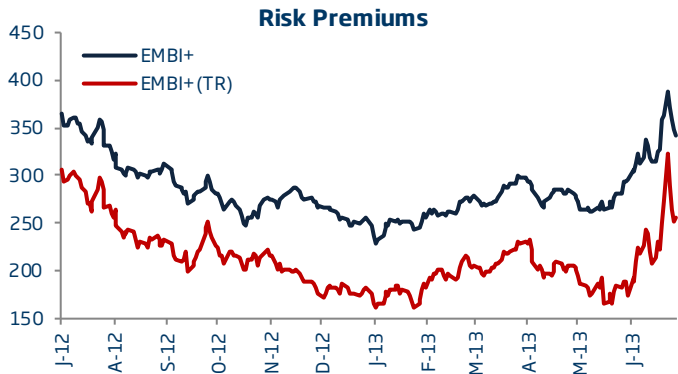
Labor Market



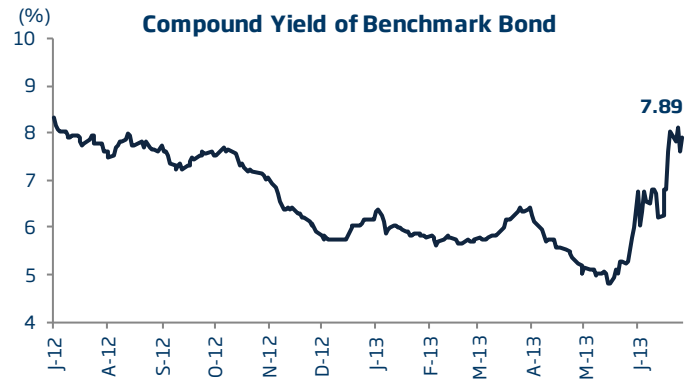
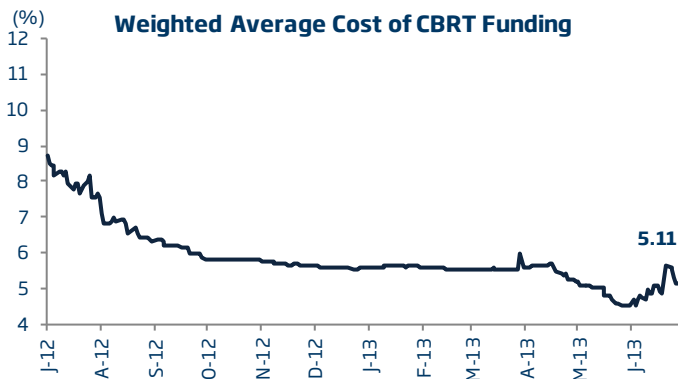
FX Market



Risk Indicators

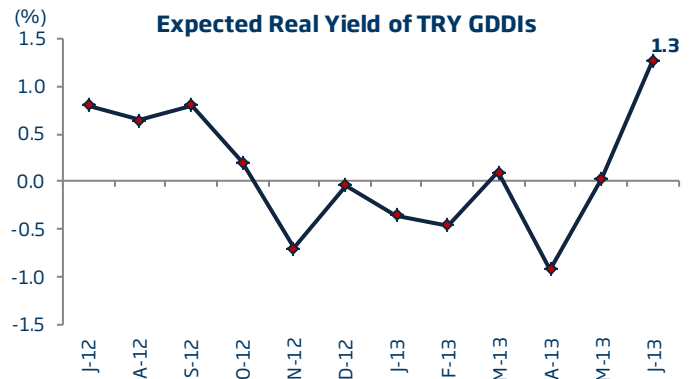
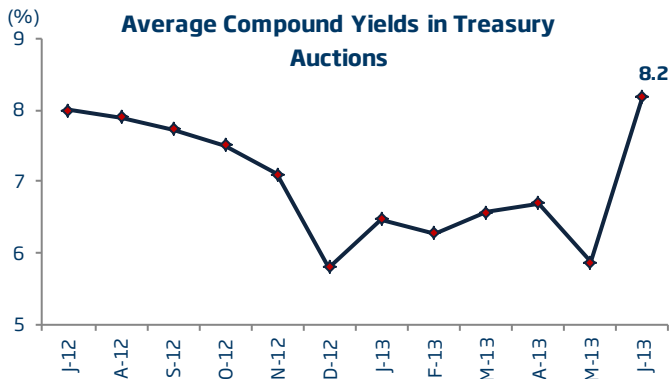


Interest Rates

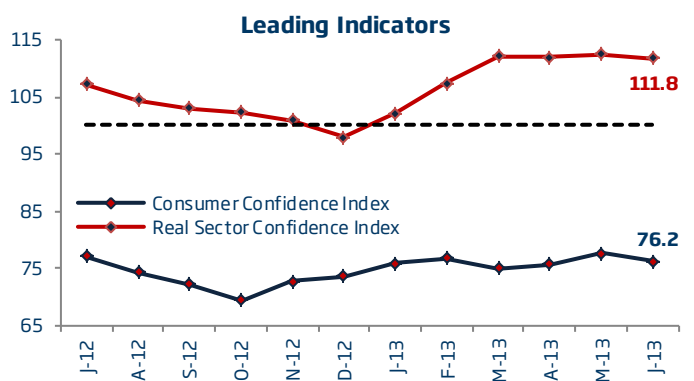
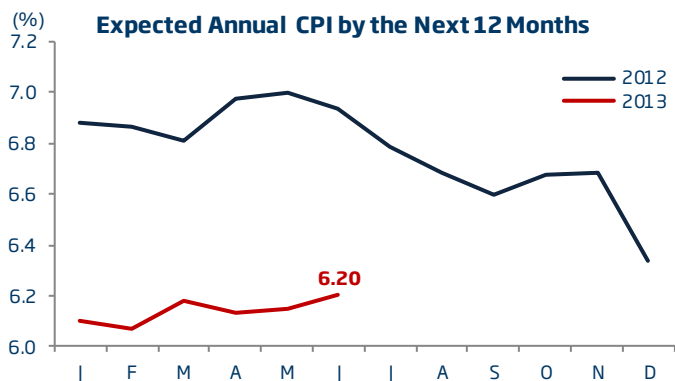
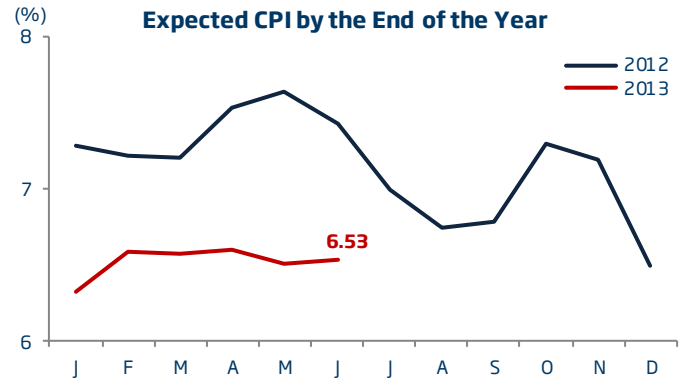
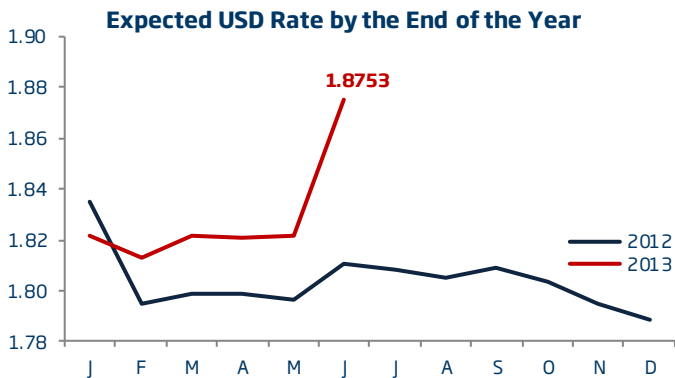
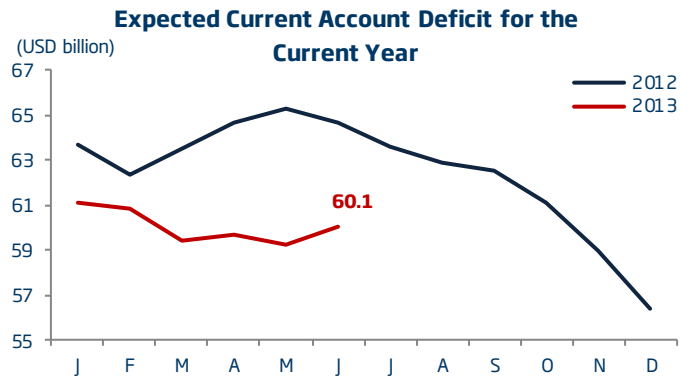
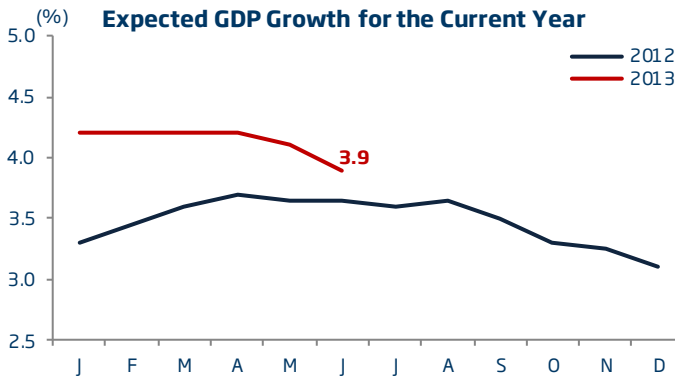


Source: Turkstat, CBRT, JP Morgan, Reuters, ISE

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	3.0	-	-
Inflation (%)						Apr-13	May-13	Jun-13
CPI (annual)	10.1	6.5	6.4	10.4	6.2	6.1	6.5	8.3
PPI (annual)	8.1	5.9	8.9	13.3	2.5	1.7	2.2	5.2
Labor Market						Jan-13	Feb-13	Mar-13
Unemployment Rate (%)	11.0	14.0	11.9	9.8	9.2	10.6	10.5	10.1
Employment (thousand persons)	21,194	21,277	22,594	24,110	24,821	24,433	24,546	24,974
FX Rates						Apr-13	May-13	Jun-13
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.2	121.4	119.9	115.7
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	1.7953	1.8661	1.9272
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.3501	2.4208	2.5109
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.0727	2.1435	2.2191
Foreign Trade Balance⁽¹⁾ (USD billion)						Mar-13	Apr-13	May-13
Exports	132.0	102.1	113.9	134.9	152.5	154.2	154.0	154.2
Imports	202.0	140.9	185.5	240.8	236.5	239.4	242.9	244.4
Foreign Trade Balance	-69.9	-38.8	-71.7	-105.9	-84.1	-85.2	-88.9	-90.2
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5	64.4	63.4	63.1
Current Account Balance⁽¹⁾ (USD billion)						Feb-13	Mar-13	Apr-13
Current Account Balance	-40.4	-12.2	-45.4	-75.1	-47.7	-48.4	-47.7	-51.3
Capital and Financial Accounts	37.4	9.3	44.0	65.7	46.3	52.9	56.1	60.1
Direct Investments (net)	17.2	7.1	7.6	13.7	8.5	8.4	8.0	8.2
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	43.5	44.4	52.7
Other Investments (net)	24.2	2.1	33.2	28.2	17.8	28.1	31.0	33.4
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-26.9	-27.1	-34.1
Net Errors and Omissions	3.0	2.9	1.4	9.4	1.5	-4.5	-8.5	-8.8
Current Account Deficit/GDP	-5.4	-2.0	-6.2	-9.7	-6.1	-	-	-
Budget⁽²⁾⁽³⁾ (TL billion)						Mar-13	Apr-13	May-13
Expenditures	227.0	268.2	294.4	314.6	360.5	95.0	124.9	155.3
Interest Expenditures	50.7	53.2	48.3	42.2	48.4	15.1	18.2	21.8
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1	79.9	106.7	133.5
Revenues	209.6	215.5	254.3	296.8	331.7	94.1	124.6	159.5
Tax Revenues	168.1	172.4	210.6	253.8	278.8	77.4	101.5	131.7
Budget Balance	-17.4	-52.8	-40.1	-17.8	-28.8	-0.9	-0.3	4.3
Primary Balance	33.2	0.4	8.2	24.4	19.6	14.3	17.9	26.0
Budget Balance/GDP	-1.8	-5.5	-3.6	-1.4	-2.0	-	-	-
Central Government Debt Stock (USD billion)						Mar-13	Apr-13	May-13
Domestic Debt Stock	181.7	219.2	228.2	195.2	216.8	217.2	219.2	211.8
External Debt Stock	69.8	74.1	78.1	79.2	81.7	79.9	81.8	80.8
Total	251.5	293.2	306.3	274.4	298.6	297.0	301.0	292.5

(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	Mar-13	Apr-13	Change ⁽¹⁾
TOTAL ASSETS	732.5	834.0	1006.7	1217.7	1370.7	1427.7	1440.0	5.1
Loans	367.4	392.6	525.9	682.9	794.8	833.6	848.3	6.7
TL Loans	262.1	288.2	383.8	484.8	588.4	619.9	633.9	7.7
Share (%)	71.3	73.4	73.0	71.0	74.0	74.4	74.7	-
FX Loans	105.3	104.4	142.1	198.1	206.4	213.7	214.3	3.8
Share (%)	28.7	26.6	27.0	29.0	26.0	25.6	25.3	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	25.6	26.3	12.2
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	3.0	3.0	-
Securities	194.0	262.9	287.9	285.0	270.0	270.7	266.0	-1.5
TOTAL LIABILITIES	732.5	834.0	1006.7	1217.7	1370.7	1427.7	1440.0	5.1
Deposits	454.6	514.6	617.0	695.5	777.2	789.4	797.2	2.6
TL Deposits	294.1	341.4	433.5	460.0	520.4	530.7	531.0	2.0
Share (%)	64.7	66.3	70.3	66.1	67.4	67.2	66.6	-
FX Deposits	160.5	173.2	183.5	235.5	251.8	258.7	266.2	5.7
Share (%)	35.3	33.7	29.7	33.9	32.6	32.8	33.4	-
Securities Issued	0.0	0.1	3.1	18.4	37.9	44.0	46.8	23.7
Payables to Banks	92.7	86.1	122.4	167.4	173.4	195.7	194.0	11.9
Funds from Repo Transactions	40.8	60.7	57.5	97.0	79.9	92.0	86.2	7.9
TOTAL SHAREHOLDERS' EQUITY	86.4	110.9	134.5	144.6	181.9	186.2	188.7	3.7
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	7.1	9.1	-
RATIOS (%)								
Loans/Assets	50.2	47.1	52.2	56.1	58.0	58.4	58.9	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	19.0	18.5	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	55.3	55.4	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.1	94.7	94.0	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	17.4	17.3	-

(1) Year-to-date % change



LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
