



Monthly Economic Review

August 2013



Global Economy

- ◆ IMF revised downwards its global growth forecasts in its "World Economic Outlook" update, released in July.
- ◆ The IMF, which lowered its global growth forecast citing the weak growth performances of advanced economies in its previous reports, also drew attention to the downside risks to the growth prospects of emerging market economies in its July update.
- ◆ The uncertainties about Fed's exit strategy continued to be a source of concern in the global financial markets in the beginning of July. However, minutes of the FOMC meeting released in the following days have smoothed the fluctuations in markets to some extent.
- ◆ The US economy grew well above the expectations in the second quarter of 2013. The recent manufacturing data pointed out that the economic activity in the country accelerated further. The unemployment rate also decreased to the lowest level since 2008.
- ◆ Recent turmoil in global markets led to capital outflows from emerging markets. In this context, many emerging market countries have taken tightening measures in order to mitigate risks stemming from the volatility in capital flows.
- ◆ Following the 7.7% annual growth rate in the first quarter, Chinese economy continued to slowdown and grew by 7.5% in the second quarter. The slowdown mainly stemmed from lower exports due to the weak course of global demand. The measures taken by the policy makers also made an adverse impact on growth figures.
- ◆ Gold prices fell to almost 3-year low due to the concerns regarding the Fed's monetary policy implementations in the beginning of July. Later, gold prices rose slightly again, paring some of its losses.

Turkish Economy

- ◆ According to the Turkstat data, calendar adjusted industrial production index increased below expectations by 1% compared to the same month of the previous year.
- ◆ In April, unemployment rate declined to one-digit level after 3 months and was realized as 9.3%. However, when compared to the same month of the previous year, unemployment rate increased by 0.3 points.
- ◆ In June, imports increased by 2.8% compared to the same month of the previous year while exports decreased by 6%. During the same period, foreign trade deficit widened by 18.9% to 8.6 billion USD.
- ◆ In May, current account deficit increased by 41.7% compared to the same month of the previous year and was realized as 7.5 billion USD, higher than the market expectations. 12-month cumulative current account deficit continued to expand and reached 53.6 billion USD, the highest level since September 2012.
- ◆ Budget revenues were realized as 31.4 billion TL in June by registering a rapid rise of 26.6% compared to the same month of the previous year. Budget expenditures, on the other hand, increased by only 4.9%. Thus, the central government budget deficit narrowed by 80.9% compared to the same month of the previous year and decreased to 1.2 billion TL.
- ◆ In July, compared to the previous month, CPI and PPI increased by 0.31% and 0.99%, respectively. Annual CPI increased by 8.88% and reached the highest level of 2013.
- ◆ In July, CBRT increased the upper bound of the interest rate corridor and continued tightening measures. Besides, CBRT published the third Inflation Report of 2013 and revised its year-end inflation expectation upwards.

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Weak performance in industrial production in May...

According to the data announced by Turkstat, calendar adjusted industrial production index increased below expectations by 1% compared to the same month of the previous year. The seasonal and calendar adjusted industrial production decreased by 0.6% in May compared to the previous month. Among main industry groups, the rapid decline in production of capital goods was noteworthy.

On the other hand, according to data announced by Markit, manufacturing PMI decreased to 49.8 in July and indicated a contraction in overall manufacturing sector for the first time in the last 12 months. Level of production did not increase compared to the previous month while new orders decreased for the first time in 11 months showing that economic activity has started to lose momentum in the second half of the year.

Turkstat began to announce retail sales volume statistics starting from July with a two months lag. According to the announcement, seasonally and calendar adjusted retail sales volume recorded an increase of 1.8% in May compared to the previous month. In this period, the food, beverages and tobacco sales increased by 2% while automotive fuel sales rose by 0.8%.

Consumer Confidence Index reached 16-month peak...

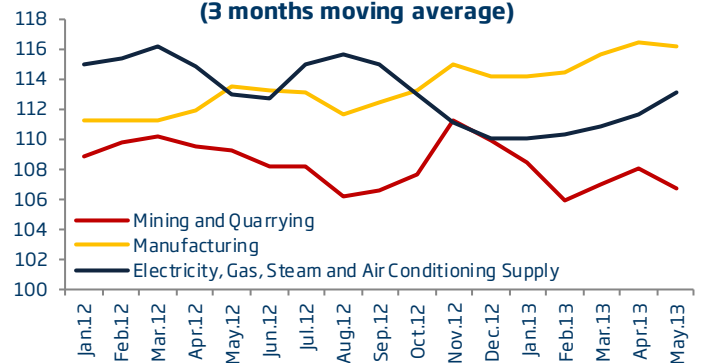
According to the data announced by CBRT, Real Sector Confidence Index decreased by 3.1 points in July compared to the previous month and was realized as 108.7. The seasonally adjusted index, on the other hand, decreased by 1.7 points compared to the previous month.

On the other hand, Capacity Utilization Rate (CUR) and Consumer Confidence Index indicated a positive economic outlook in July. In fact, CUR increased by 0.2 point to 75.5% in July compared to previous month reaching its highest level since 2011. The seasonally adjusted CUR, on the other hand, did not change compared to the previous month. Consumer Confidence Index increased by 2.9% compared to the previous month, reaching the highest level of the last 16 months.

Unemployment rate declined to one-digit level after 3 months...

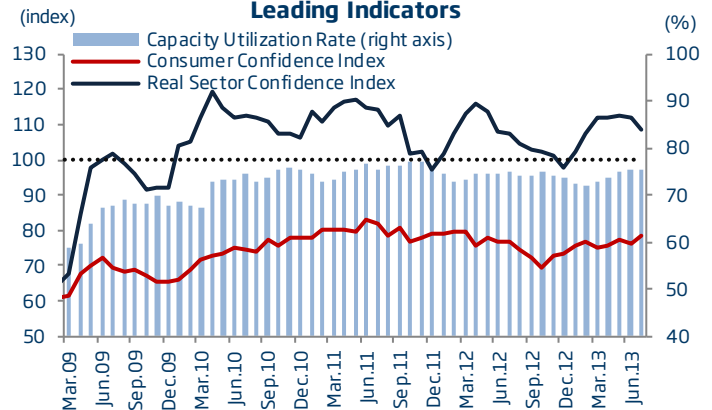
In April, unemployment rate declined to one-digit level after 3 months and was realized as 9.3%. However, when compared to the same month of the previous year, unemployment rate increased by 0.3 points. In the same period, non-farm unemployment rate and youth unemployment rate increased by 0.4 and 0.8 points, respectively. The seasonal and calendar adjusted unemployment rate remained unchanged at 9.4%

Sub-Indices of Industrial Production*
(3 months moving average)

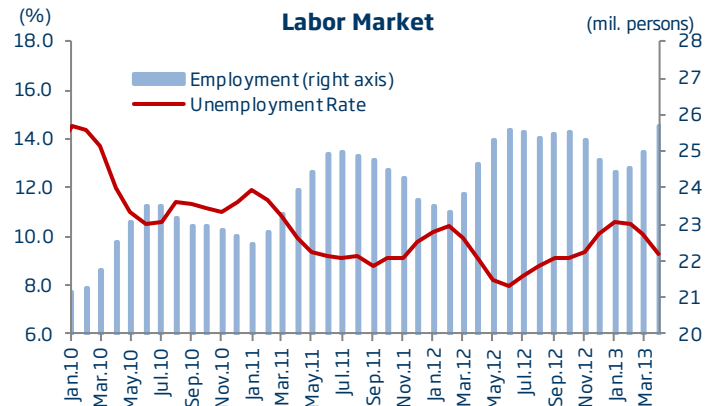


(*) Seasonal and calendar adjusted

Leading Indicators



Labor Market

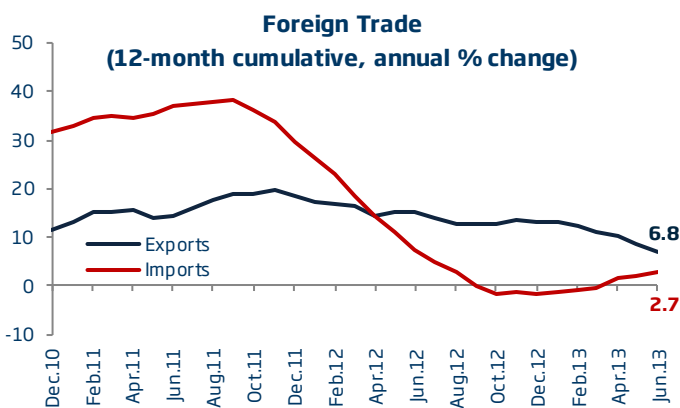


compared to the previous month. Compared to the same month of the previous year, the number of unemployed persons increased by 216,000 and total employment rose by 1 million 61 thousand persons. In this period, labor force participation rate increased by 1.5 points to 51.1% and employment rate rose by 1.2 points to 46.4%. Because the labor force participation rate increased more than employment rate, the unemployment rate continued to remain at high levels.

Sourece: Turkstat,CBRT

In June, foreign trade deficit came in 8.6 billion USD, lower than expected.

According to data released by Turkstat, imports increased by 2.8% in June compared to the same month of the previous year and were realized as 21 billion USD while exports decreased by 6% to 12.4 billion USD. During the same period, foreign trade deficit widened by 18.9% to 8.6 billion USD, well below the market expectations. The import coverage ratio decreased by 5.5 points in the same period and was realized as 59.2%. In June, seasonally and calendar adjusted data indicated that exports and imports decreased by 2.3% and 2%, respectively, compared to the previous month.



Monthly gold imports, which have been far above their historical average since April, have kept their high level also in June. Thus, when the gold imports are excluded, total imports decreases by 0.8% in June compared to the same month of the previous year.

On the other hand, the noteworthy decline in the imports of mineral fuels and oils also played role in the lower than expected foreign trade deficit in June. In fact, imports of mineral fuels and oils declined by 15.9% in June compared to the same month of the previous year.

In the first half of the year, foreign trade deficit widened by 17.4%.

In the first half of the year, exports and imports increased by 1.3% and 7.2%, respectively, compared to the same period of the previous year. During the same period, foreign trade deficit widened by 17.4% and reached 50.6 billion USD. The

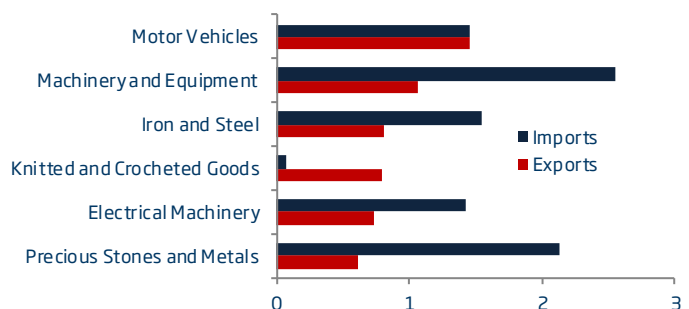


impact of the rapid increase in gold imports during the first half of the 2013 on foreign trade deficit became more evident. The deficit associated with gold trade in the first half of the year was realized as 7 billion USD. As a note, during 2012, when gold exports reached record high levels, gold trade gave a surplus of 5.7 billion USD. Thus, when the gold trade was excluded, foreign trade deficit in the first six months decreased by 2.6% compared to the same period of the previous year and 12-month cumulative foreign trade deficit as of June 2013 contracted by 4.8%.

Motor vehicles ranked first in exports with 1.5 billion USD.

Exports of the motor vehicles continued to rank first in total exports in June. The export volume of this sector rose by 10.4% compared to the same month of the previous year and was realized as 1.5 billion USD. On the other hand, it was noteworthy that iron and steel exports declined by 23.9% compared to the same month of the previous year. Exports

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



Foreign Trade Balance	(USD billion)					
	June		Change	January-June		Change
	2012	2013	(%)	2012	2013	(%)
Exports	13.2	12.4	-6.0	74.3	75.2	1.3
Imports	20.4	21.0	2.8	117.4	125.8	7.2
Foreign Trade Balance	-7.2	-8.6	18.9	-43.1	-50.6	17.4
Import Coverage Ratio (%)	64.7	59.2	-	63.3	59.8	-

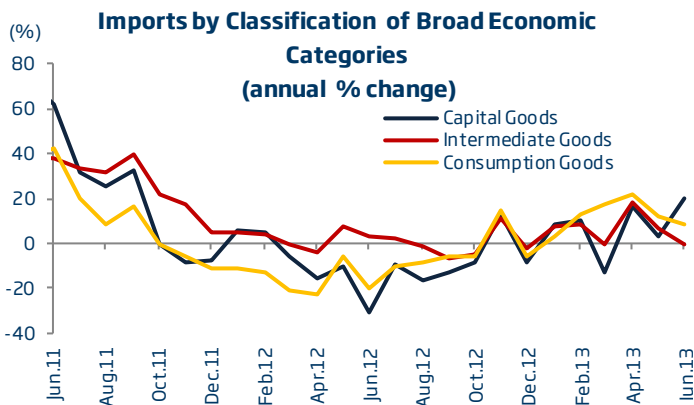
Source: Turkstat

of precious stones and metals also declined in June mainly due to the sharp fall in gold exports. In addition, contraction in exports of mineral fuels and oil was also responsible for the weak course of total exports.

Deceleration in imports of consumption goods continued.

In June, intermediate goods imports decreased by 0.6% compared to the same month of the previous year due to the fall in energy imports. In addition to that, the deceleration in consumption goods imports was also effective in the lower than expected increase in imports during this month. On the other hand, imports of capital goods in June rose by 20% on annual basis.

As of the first half, imports of intermediate goods which had 73.8% share in total imports, increased by 6.4% compared to the same period of the previous year while imports of consumption goods and capital goods rose by 13.2% and 6.6%, respectively, during the same period.

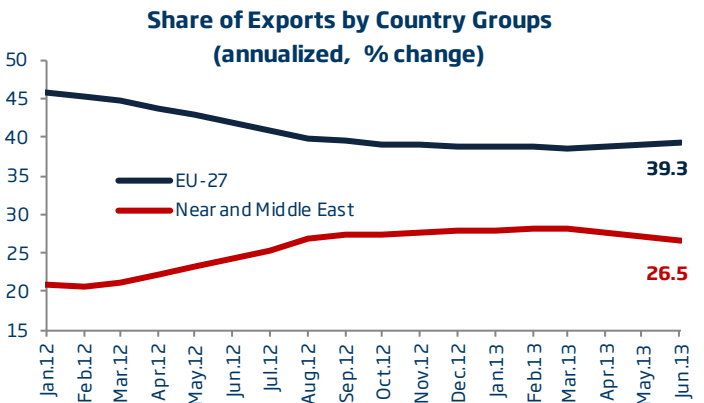


The share of European Union in total exports increased.

The share of European Union in total exports, which was 37.1% in June 2012, reached 41.6% in the same period of this year. This increase mostly stemmed from the 5.3% increase in exports to European Union countries during this period as well as the significant decrease in gold exports to Near and Middle Eastern countries in 2013 compared to 2012. The 68.8% decrease in the gold exports to Iran in the

first six months of 2013 compared to the same period of the previous year evaluated as an example of this trend change.

In June, Germany continued to remain as the largest export market of Turkey with a share of 9.3% in the total exports while Iraq ranked second with a share of 7.4% in total exports.



Expectations...

In June, the foreign trade deficit was realized below the expectations due to the deceleration in imports of consumption goods as well as the decrease in intermediate goods. On the other hand, unlike last year, gold trade gave a large deficit and made a negative impact on the foreign trade deficit. Recent announcements from Fed about the future of their asset purchase program increased the uncertainties about the capital inflows to emerging markets. CBRT's monetary tightening in order to reduce the impacts of this development on financial stability and price stability might put pressure on economic activity during the second half of the year. The slowdown in activity points out a lower increase in imports.

Current account deficit continued to widen in May.

In May, current account deficit increased by 41.7% compared to the same month of the previous year and was realized as 7.5 billion USD, higher than the market expectations. Thus, during the first five months of the year, current account deficit reached 31.9 billion USD. The high level of non-monetary gold imports which were realized as 2.1 billion USD in May also played an important role in this development. In this context, total goods imports which grew faster than total goods exports had an increasing impact on current account deficit.

Moreover, 12-month cumulative current account deficit continued to expand and reached 53.6 billion USD, the highest level since September 2012.

Rapid increase in net investment income transfers ...

The positive impact of tourism revenues on current account deficit continued in May. In this period, net tourism revenues increased by 19.8% compared to the same month of the previous year and amounted to 2.1 billion USD. In January-May period, net tourism revenues increased by 25% on annual basis and were realized as 6.4 billion USD.

On the other hand, net investment income transfers recorded an outflow of 2.1 billion USD in May and reached its highest level since 1991 on monthly basis.

Weak course of foreign direct investments continued.

Analysis of the financing side of current account deficit revealed that net foreign direct investments continued to stay at low levels. In May, net foreign direct investments were realized as 660 million USD, almost halved compared to the same month of the previous year.

In January-May period, net foreign direct investments decreased by 22%, while the contraction reached 34.5% when only inflows are taken into account.

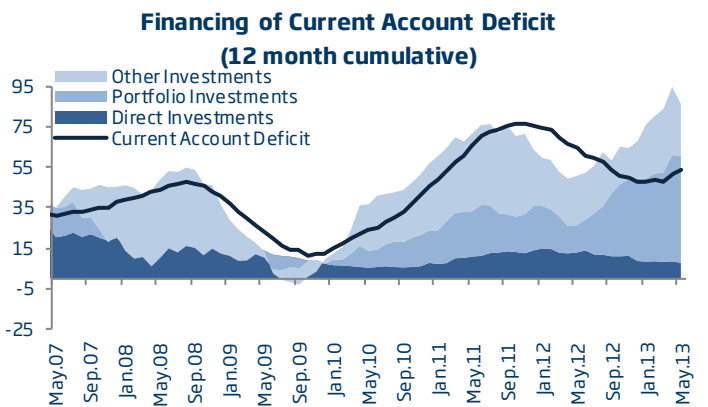
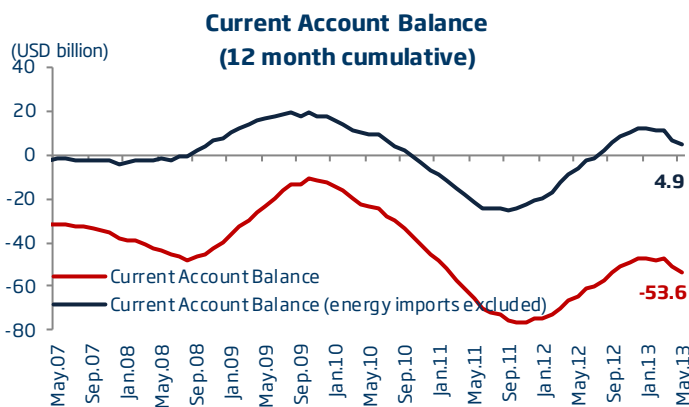
Loss of momentum in portfolio investments...

After displaying a strong course in the first 4 months of the year in line with the market expectations regarding the upgrade of Turkey's credit rating by a second rating agency to investment grade, portfolio inflows weakened in May following the Moody's' credit rating upgrade. Besides, the anticipation of U.S. Federal Reserve (Fed) to reduce its asset purchase program increased the capital outflows from developing countries and this started to affect current account deficit in the second half of May. In this context, net portfolio investments, which were recorded as 18.1 billion USD in January-April period, were only 681 million USD in May. In May, a capital outflow was recorded in government debt securities for the first time since February 2012. During this period, non-residents registered a net purchase of 508 million USD equity securities, while a net capital outflow of 70 million USD was recorded in debt securities. On the other hand, through bond auctions in international capital markets, banking sector and real sector borrowed 179 million USD and 996 million USD in May, respectively.

Other investments declined in May.

Analyzing the other investments, it was seen that banking sector and real sector increased their currency and deposit assets that were held in abroad and in this context a capital outflow of 851 million USD was realized in May.

In May, banking sector's net borrowing from abroad was 786 million USD. In this period, banking sector was net credit re-payer in short-term loans while it was net credit borrower in long-term loans. The non-banking sector, on the other hand, raised 2.7 billion USD long-term loans from abroad while repaying 5 billion USD. Analyzing the 12-month cumulative figures, long-term debt roll-over ratios were 105% in the banking sector and 103% in non-banking sector.



Sharp decline in reserve assets in May.

Due to capital outflows from developing countries in May, the reserve assets decreased by 4.5 billion USD. On the other hand, it was noteworthy that net errors and omissions were realized as 2.8 billion USD in the same period.

Expectations ...

The slowdown in capital inflows to Turkey due to the expectations that Fed may reduce the size of its asset purchase program before year-end, started to impact current account deficit as of May. Loss of momentum in

capital inflows also created an upward pressure on exchange rates. In this context, CBRT has started to implement additional monetary tightening and hold foreign exchange selling auctions since June. In the coming period, 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)
	May 2013	January-May 2012 2013		% Change	12 Month Cumulative
Current Account Balance	-7,524	-26,073	-31,920	22.4	-53,595
Foreign Trade Balance	-8,146	-28,864	-33,811	17.1	-70,279
Services Balance	2,557	5,482	6,258	14.2	23,678
Tourism Revenues (net)	2,079	5,098	6,371	25.0	22,832
Income Balance	-2,106	-3,273	-4,800	46.7	-8,228
Current Transfers	171	582	433	-25.6	1,234
Capital and Financial Accounts	4,675	24,170	34,797	44.0	57,653
Direct Investments (net)	660	3,820	2,980	-22.0	7,643
Portfolio Investments (net)	681	6,604	18,771	184.2	52,956
Assets	243	391	1,978	405.9	4,244
Liabilities	438	6,213	16,793	170.3	48,712
Equity Securities	508	340	1,034	204.1	6,968
Debt Securities	-70	5,873	15,759	168.3	41,744
Other Investments (net)	-1,199	15,679	22,821	45.6	25,754
Assets	-1,279	947	867	-8.4	-598
Currency and Deposits	-851	1,453	1,762	21.3	1,527
Liabilities	80	14,732	21,954	49.0	26,352
Trade Credits	1,443	1,809	7,032	289	6,231
Loans	-1,619	5,346	7,167	34.1	11,659
Banking Sector	786	2,833	8,797	210.5	11,130
Non-bank Sectors	-1,785	3,986	-453	-	2,326
Deposits	167	7,466	7,616	2.0	7,949
Foreign Banks	16	4,833	6,559	35.7	8,855
Foreign Exchange	869	3,929	6,560	67.0	7,876
Turkish Lira	-853	904	-1	-	979
Non-residents	275	3,167	1,515	-52.2	1,261
Reserve Assets (net)	4,533	-1,916	-9,764	409.6	-28,662
Net Errors and Omissions	2,849	1,903	-2,877	-	-4,058

Source: CBRT

Central government budget posted a deficit of 1.2 billion USD in June.

Budget revenues were realized as 31.4 billion TL in June by registering a rapid rise of 26.6% compared to the same month of the previous year. Budget expenditures, on the other hand, increased by only 4.9%. Thus, the central government budget deficit narrowed by 80.9% compared to the same month of the previous year and decreased to 1.2 billion TL.

In the first half of 2013, budget revenues increased by 17.7% and budget expenditures rose by 11.2%. Thus, the budget balance, which posted a deficit of 6.7 billion TL in the first half of last year, gave a surplus of 3.1 billion TL in the same period of 2013. During this period, the primary surplus rose to 26.4 billion TL, staying higher than the year-end target.

The rapid increase in tax revenues...

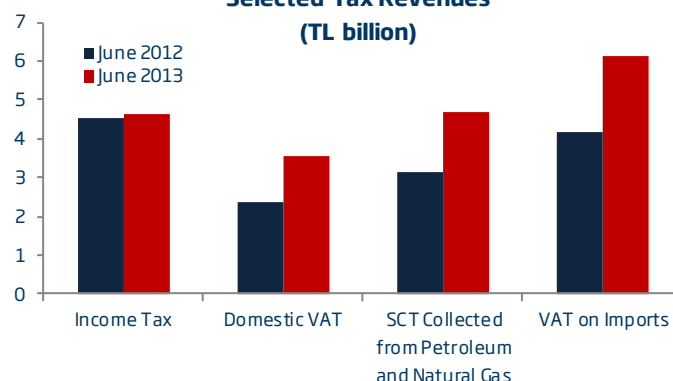
The upward trend in foreign exchange rates in June made a favorable impact on budget revenues. Indeed, Special Consumption Tax (SCT) collected from petroleum and natural gas products, whose prices are highly sensitive to the changes in foreign exchange rates, increased by 50.9% while Value Added Tax (VAT) on Imports also rose by 47%. Besides, in line with the recovery in domestic demand conditions compared to the previous year, Domestic VAT expanded by 49.8%. Due to these developments, the tax revenues increased by 31.7% compared to the same month of the previous year and reached 26.7 billion TL in June.

As of the first half of the year, central government budget realizations remained consistent with the year-end targets

Limited increase in non-tax budget revenues...

Non-tax budget revenues registered a limited increase of 3.8% in June compared to the same month of the previous year and were realized as 4.7 billion TL. Portfolio revenues of Treasury, which were 384 million TL in June 2012, expanded to 1.2 billion TL in June 2013 and made a positive contribution to the increase in non-tax revenues.

Selected Tax Revenues (TL billion)



Non-interest expenditures...

In June, non-interest expenditures increased by 6.4% compared to the same month of the previous year and were realized as 31.1 billion TL. The increase mainly stemmed from the rise in current transfers. The compensation of employees, on the other hand, decreased by 5.1% and limited this increase. In addition, according to the law no. 2022, people, who are over the age of 65 and in need, started to receive salary from government. Thus, the social transfers item, which was realized as 238 million TL in June 2012, increased to 1.1 billion TL in June 2013. In addition, the increase in capital expenditures indicated that the public investments continued to contribute to GDP growth in the second quarter of the year as well.

In the first six months of 2013, non-interest expenditures increased by 15.4% while interest expenditures decreased by 11.3%.

Expectations...

The impact of recent developments in the exchange rates on budget revenues is expected to continue also in July through the energy prices and the import channels. In this respect, the current central government budget figures, which are compatible with the year-end targets, are expected to keep their positive outlook in the coming period.

Central Government Budget

	June			January-June			(TL billion)	
	2012	2013	% Change	2012	2013	% Change	Budget Target	Real./ Target (%)
Expenditures	31.1	32.6	4.9	168.9	187.9	11.2	404.0	46.5
Interest Expenditures	1.9	1.5	-18.5	26.3	23.3	-11.3	53.0	44.0
Non-interest Expenditures	29.2	31.1	6.4	142.6	164.6	15.4	351.0	46.9
Revenues	24.8	31.4	26.6	162.2	190.9	17.7	370.1	51.6
Tax Revenues	20.3	26.7	31.7	131.2	158.4	20.7	317.9	49.8
Other Revenues	4.5	4.7	3.8	31.0	32.6	5.1	52.1	62.5
Budget Balance	-6.3	-1.2	-80.9	-6.7	3.1	-	-34.0	-
Primary Balance	-4.4	0.3	-	19.6	26.4	34.8	19.0	138.4

Numbers may not add up to total due to rounding

Source: Ministry of Finance

CPI came in line with expectations in July.

In July, compared to the previous month, CPI and PPI increased by 0.31% and 0.99%, respectively. According to the Reuters' survey, markets' monthly CPI inflation expectation was 0.30%. According to the CBRT's survey of expectations, on the other hand, CPI was expected to increase by 0.13% in July.

High annual CPI inflation in July due to the base effect...

While the monthly CPI inflation was in line with expectations, the annual inflation increased to 8.88% due to the base effect. On the other hand, PPI, which has followed an upward trend over the past four months, increased by 6.61% annually and reached its highest level since May 2012.

The price developments in transportation group were influential on the course of CPI

In July, all items except clothing/footwear and miscellaneous goods and services groups had an increasing impact on CPI. In addition to the depreciation of TL, the upward trend in energy prices during July led transportation group prices to register a rapid increase. In fact, the prices in the said group rose by 2.28% compared to the previous month and contributed to monthly CPI inflation by 39 basis points. On the other hand, due to seasonal factors, prices in clothing and footwear group fell by 4.68% compared to the previous month and made 31 basis points decreasing effect on CPI.

Increase in core inflation...

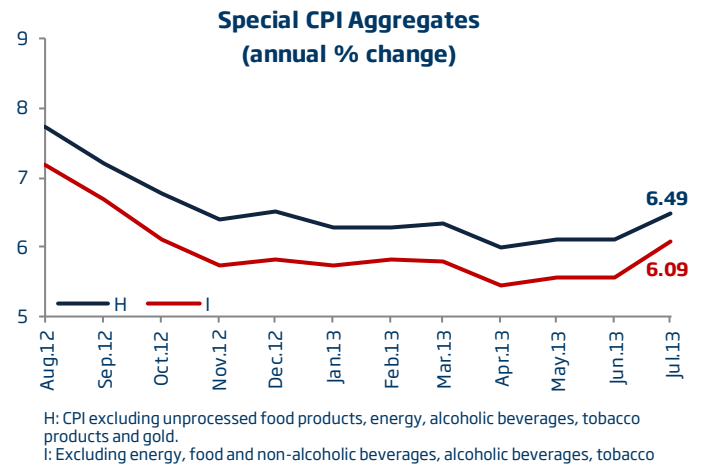
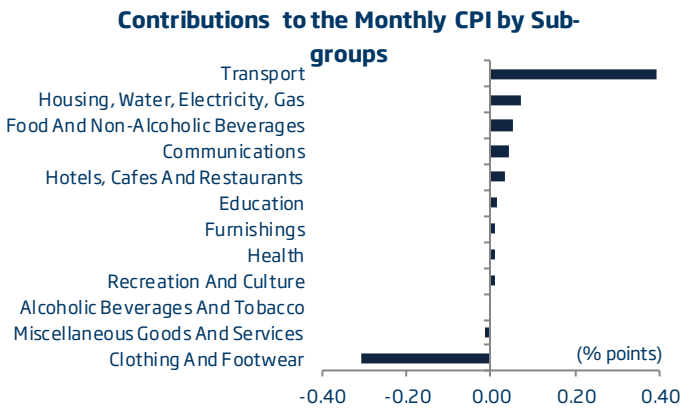
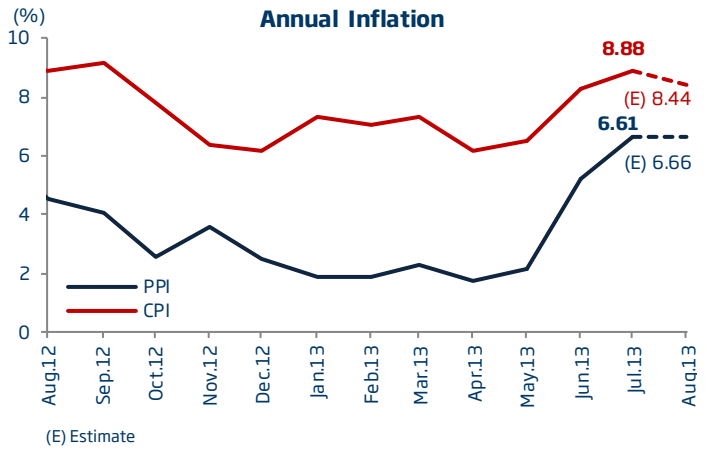
Special CPI aggregates increased in July. In fact, CBRT's favorite core inflation indices denominated by H and I rose by 6.49% and 6.09% on annual basis, respectively and reached their highest levels since October 2012.

Rapid increase in PPI in July...

PPI increase was mainly due to the price increases in manufacturing and basic metal industries in July. It was seen that the upward trend in exchange rates and energy prices were reflected in the production costs.

Expectations...

In August, we anticipate that the transportation group depending on the course of TL together with the food and non-alcoholic beverages group will be effective on CPI. On the other hand, we expect clothing and footwear group will continue to make a downward impact on CPI due to seasonal factors. In this context, we expect CPI to increase by 0.15% and PPI to increase by 0.30%.



Source: Turkstat

CBRT raised the upper bound of the interest rate corridor to 7.25% on July 23rd.

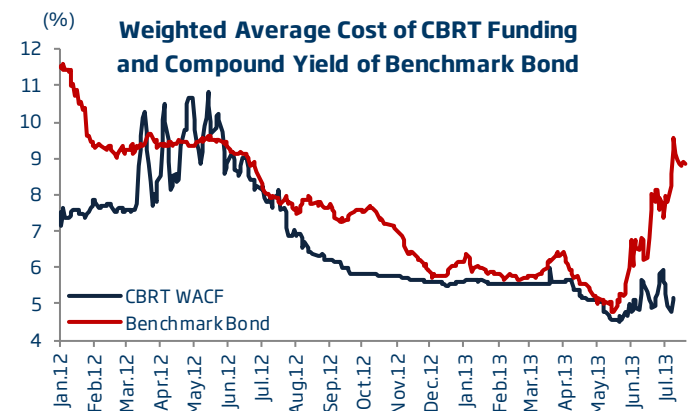
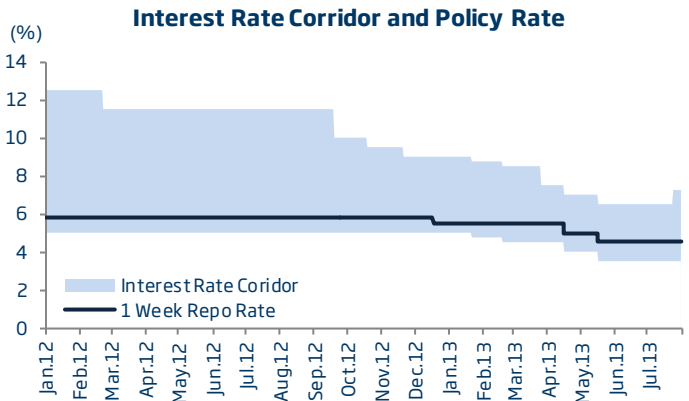
At its meeting on July 23rd, CBRT increased the upper bound of the interest rate corridor by 75 basis points to 7.25% while keeping the policy rate (one-week repo rate) and lower bound of the interest rate corridor unchanged at 4.5% and 3.5%, respectively. CBRT also increased the interest rate on borrowing facilities provided for primary dealers via repo transactions from 6% to 6.75%. In addition, CBRT announced that there will be no FX sales and no funding to banks via the primary dealer repo facility on additional monetary tightening days, effective from July 24th, 2013. In addition, the upper limits for the one-week quantity repo auctions and the one-month repo auctions have been removed effective from July 24th, 2013.

In its statement released following the meeting, it was noted that domestic and external demand developments in the second quarter were in line with expectations. CBRT stated that the domestic demand followed a healthy recovery while exports grew at a moderate pace. In this context, CBRT expects that the deterioration in the current account deficit will be limited. On the other hand, CBRT also noted that the annual loan growth was above the reference rate. According to the CBRT, the increase in unprocessed food prices, rising commodity prices in global markets and the increased volatility in exchange rates might continue to make adverse impacts on inflation in the short term. Under these conditions, CBRT stressed the necessity of a measured monetary tightening.

Moreover, due to the ongoing uncertainties regarding global economy and the volatility in capital flows, CBRT has decided to increase the flexibility of the liquidity management. Thus, CBRT announced that developments in domestic and global markets will be monitored closely and necessary adjustments will be made in the composition of Turkish lira liquidity provided.

CBRT published the third Inflation Report of 2013.

In the Inflation Report, it was stated that the volatility in risk appetite increased due to the persistent fragilities in the global economy and the increased uncertainty over the monetary policies of advanced economies. CBRT noted that Fed's signals on reducing its bond purchases in the near future have resulted in capital outflows from emerging market economies starting from May. In this context, CBRT expects the CPI inflation to be, with 70% probability, between 5.2% and 7.2% (with a mid-point of 6.2 percent)



at end-2013. Thus, the inflation forecast for 2012 was revised upwards by 0.9 points compared to the previous Inflation Report. According to the CBRT, the upward revision reflects the recent depreciation of TL and the rising energy prices. CBRT also expects that the domestic demand in the second half of the year will be weaker than the level estimated in April's report. The annual inflation, which reached the highest level of 2013 in July with 8.9%, is expected to decline gradually starting from August.

Deposit volume is maintaining its upward trend.

According to BRSA's Weekly Bulletin, as of July 19th, 2013, total deposit volume increased by 9.3% compared to the year-end and reached 839 billion TL. During the same period, TL deposits increased by 8.2% and FX deposits in USD terms expanded by 3.7%. According to annual figures, the increase in deposit volume was 17.3%.

Loans...

As of July 19th, 2013, total loan volume grew by 16.5% compared to the year-end and was realized as 938.8 billion TL. During the same period, TL loans increased by 15.8% and FX loans in USD terms expanded by 10.2%. Compared to same period of the previous year, total loan volume increased by 26.5%.

Interest rates for loans followed an upward trend recently due to the higher funding costs stemming from the tightening measures implemented by CBRT. This situation is expected to reduce the acceleration in the growth rate of the credit volume in the following period. On the other hand, non-performing loans ratio kept its low level with 2.8%.

Increase in securities portfolio...

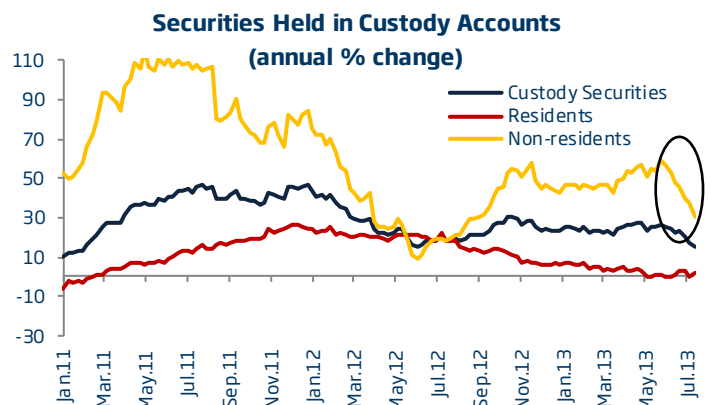
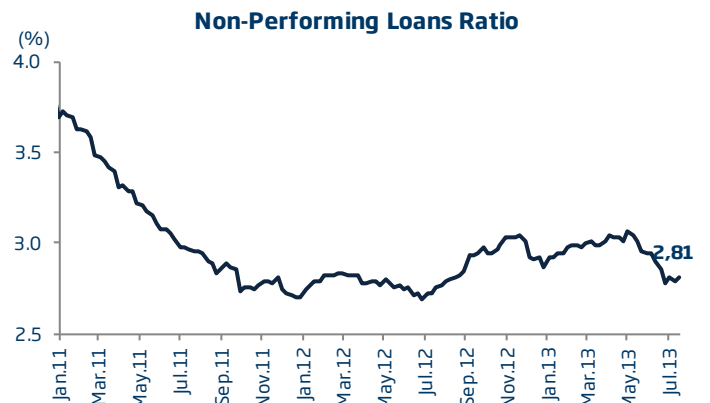
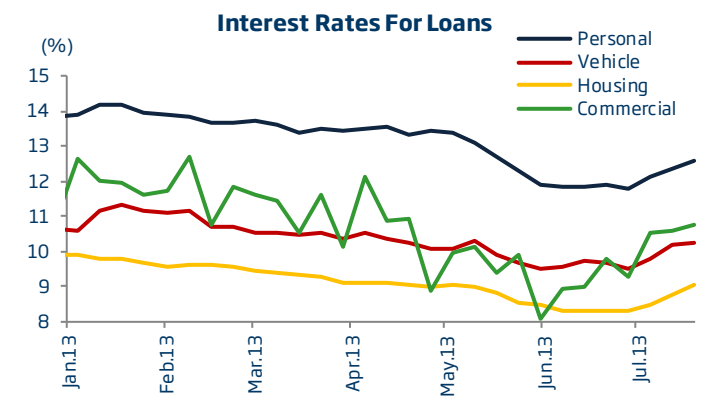
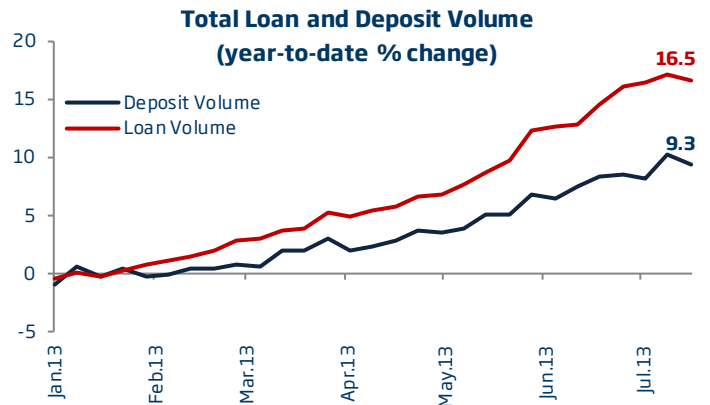
As of July 19th, 2013, securities portfolio of banking sector recorded an increase of 3.7% compared to the year-end. During this period, while private and foreign banks' securities portfolio expanded by 4.6%, that of public banks' increased by 2%.

Securities held in custody accounts...

As of July 19th, 2013, securities held in custody accounts grew by 6.1% in nominal terms compared to the year-end. In this period non-residents' portfolio expanded by 8.3%, losing some momentum compared to the previous months while residents' portfolio followed a flat course. On the other hand, short-term analyses show that there has been a noticeable decline in non-residents' portfolio recently. In fact, as of July 19th, 2013, said portfolio declined by 6.3 billion TL in nominal terms compared to the end-May while residents' portfolio increased by 2 billion TL.

Net FX position...

Banking sector was long in FX throughout 2013 except the last four weeks. As of July 19th, 2013, banks' on-balance sheet FX position was (-) 21,334 million USD while off-balance sheet FX position was (+) 20,966 million USD. Hence, banks' net FX position was realized as (-) 368 million USD.



Source: BRSA Weekly Bulletin

The concerns that the Fed may start tapering its asset purchase program in the coming period led to capital outflows from emerging markets in recent weeks. This development indicated that emerging market economies, which were regarded as the locomotive of global economic growth since 2008, would display a weaker growth performance in the coming period. On the other hand, advanced economies, especially the US, are expected to keep their gradual recovery. In fact, IMF's recent forecasts released on July also affirmed that the gap between the growth rates of emerging market economies and advanced economies would narrow in favor of advanced economies. In this respect, it is expected that the global economic activity would display a more balanced outlook in the coming period. On the other hand, the possibility of acceleration in capital outflows from emerging markets stands out as a substantial risk factor for those countries. In this regard, the measures taken by the central banks of emerging market economies are important in order to minimize the said risks.

CBRT, which started to implement additional monetary tightening in June, continued this stance also in July. In this context, CBRT intervened the markets via FX selling auctions and exceptional day implementation. In addition, CBRT increased the upper bound of the interest rate corridor at its meeting on July 23rd. It is anticipated that the recent tightening measures of CBRT would create a downward pressure on the growth performance in the second half of the year.

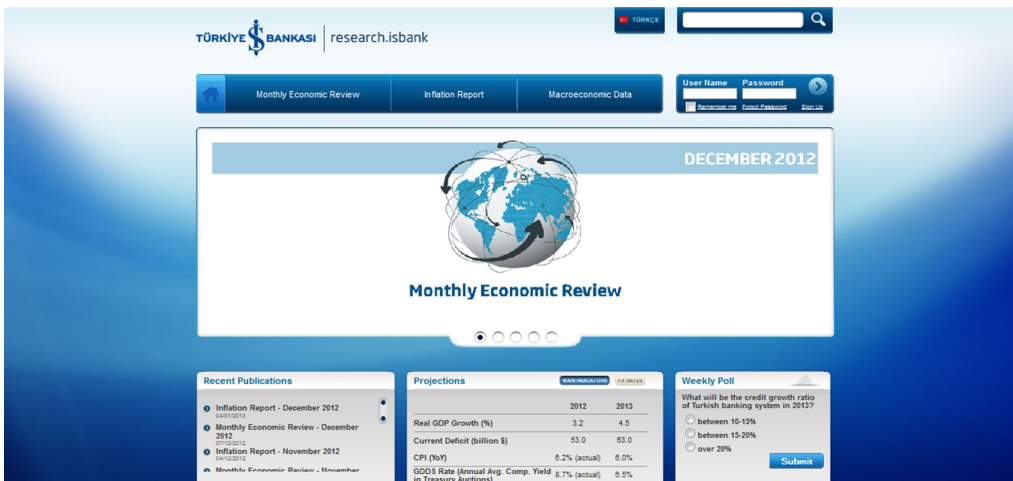
Forecasts	2012 (R)	2013
Growth (%)	2.2	4.5
CA Deficit (USD billion)	47.5	60
CA Deficit/GDP (%)	6.1	6.7
Inflation (%)	6.2	6.0
GDDI Interest* (%)	8.7	6.4
USD/TL	1.7826	1.8581
EUR/TL	2.3517	2.3877

(*) 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>



Recent Publications

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

Projections

	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%

Weekly Poll

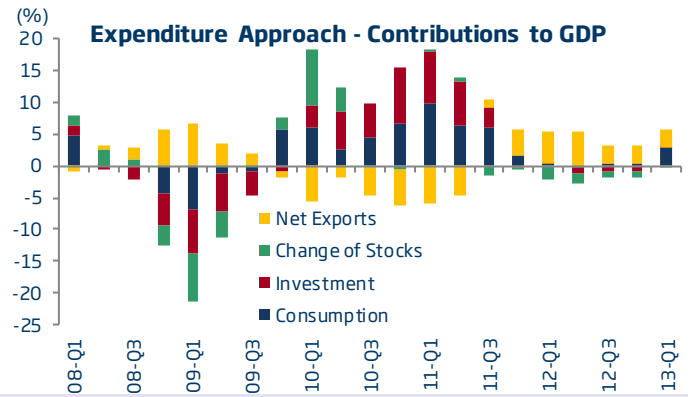
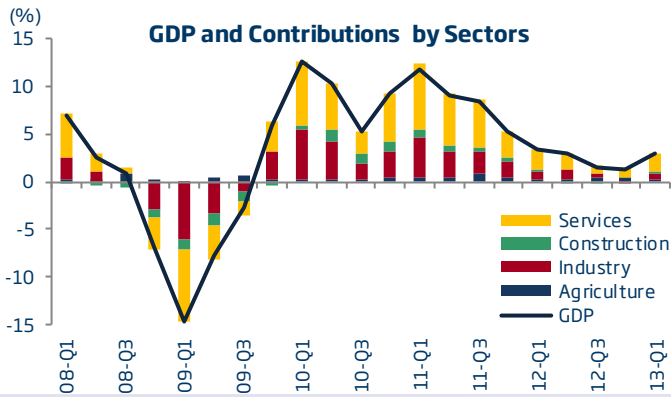
What will be the credit growth ratio of Turkish banking system in 2013?

between 10-15%

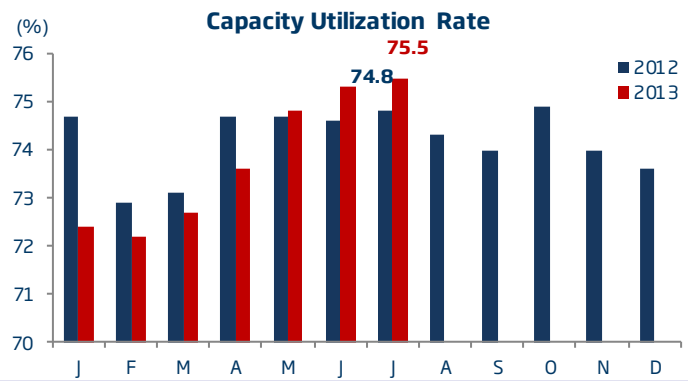
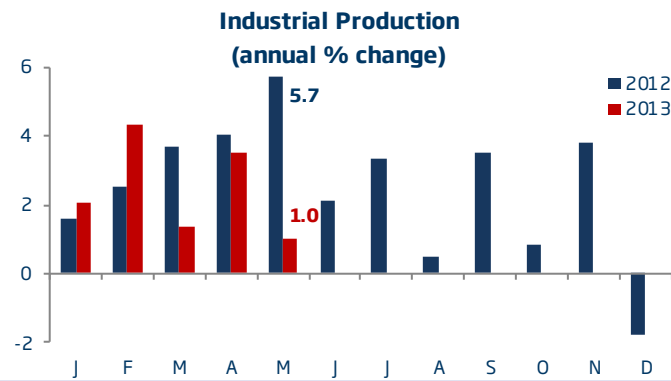
between 15-20%

over 20%

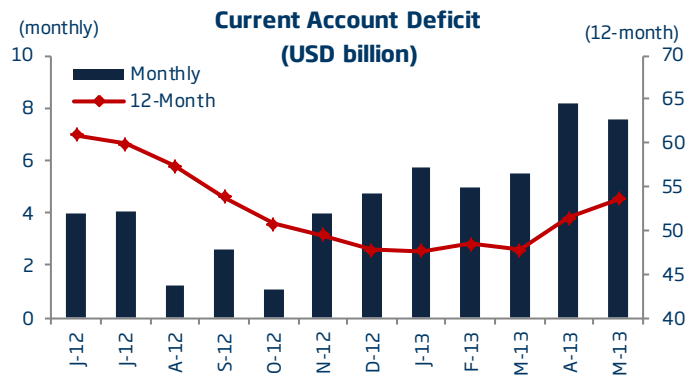
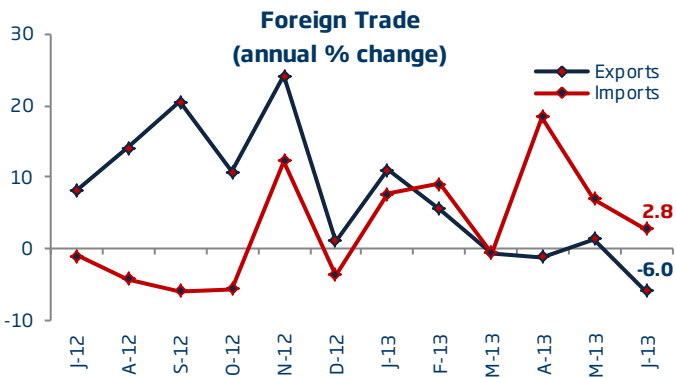
Growth



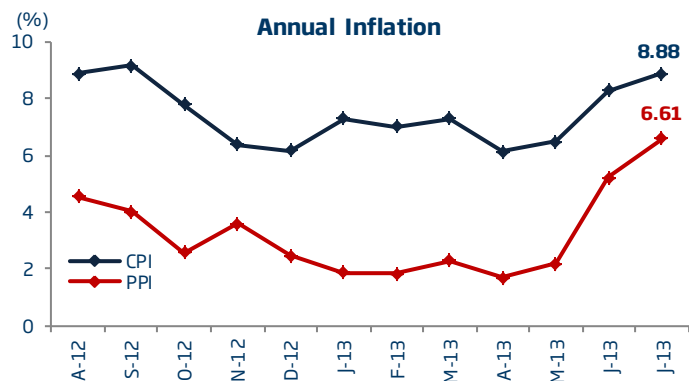
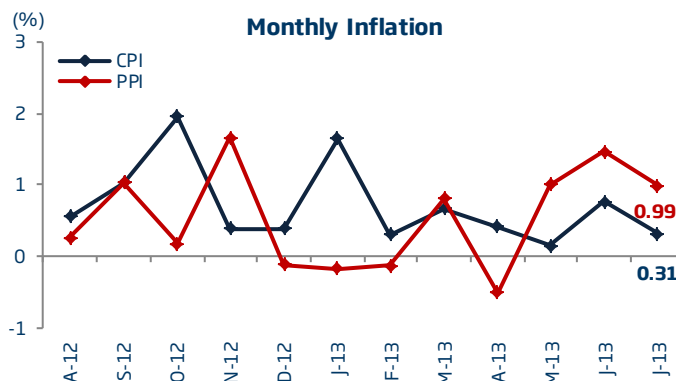
Industrial Production



Foreign Trade and Current Account Balance

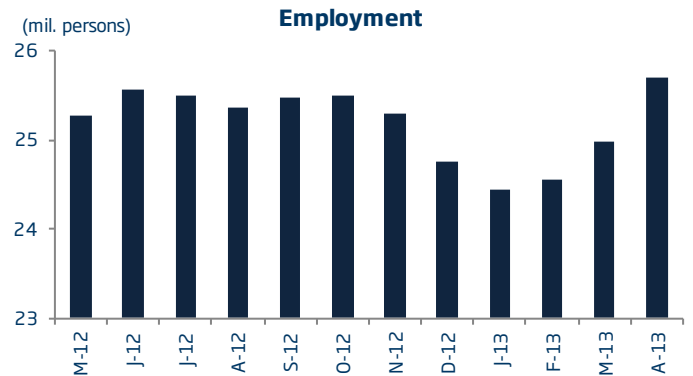
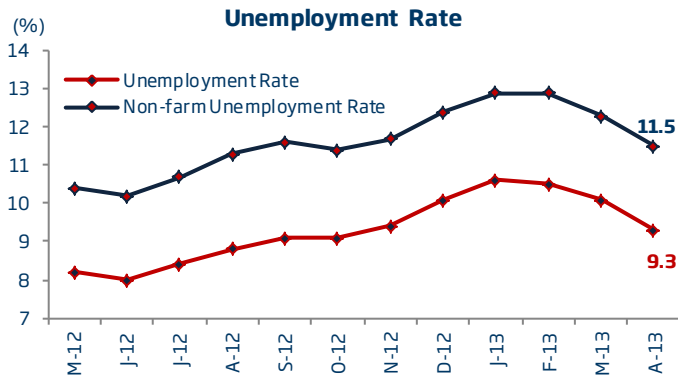


Inflation

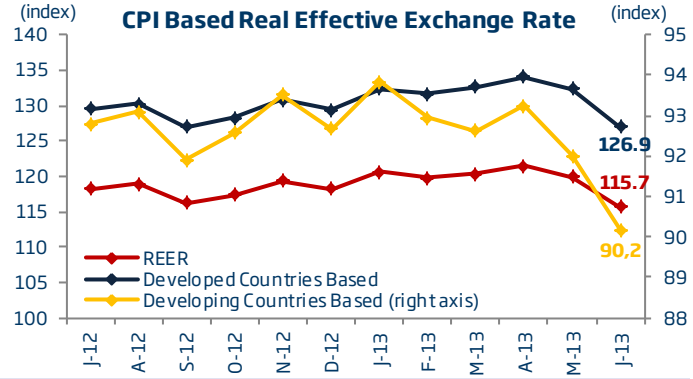
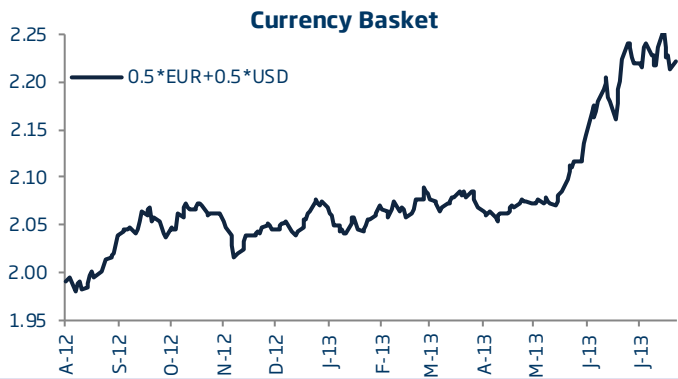


Source: Turkstat, CBRT

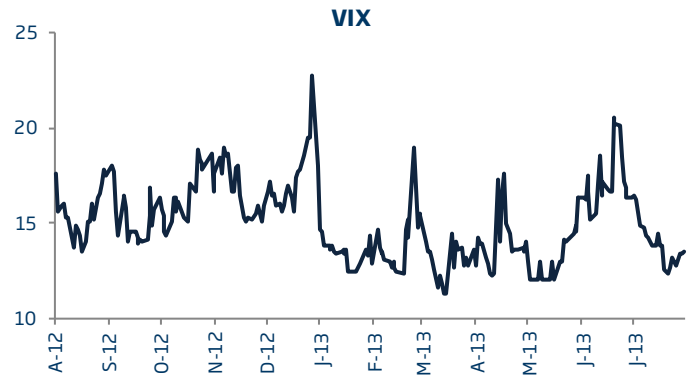
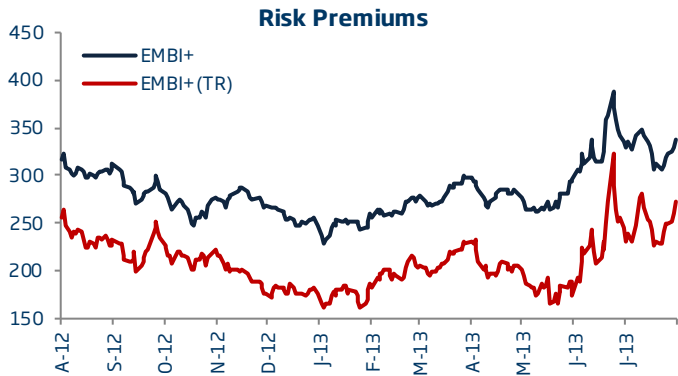
Labor Market



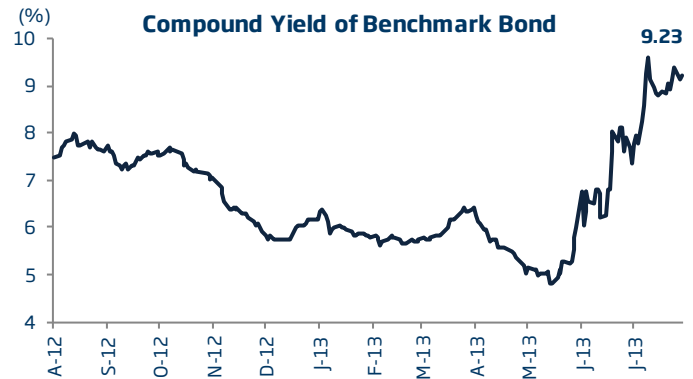
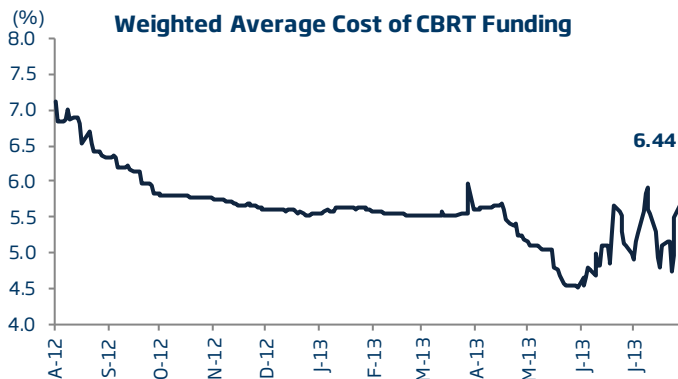
FX Market



Risk Indicators

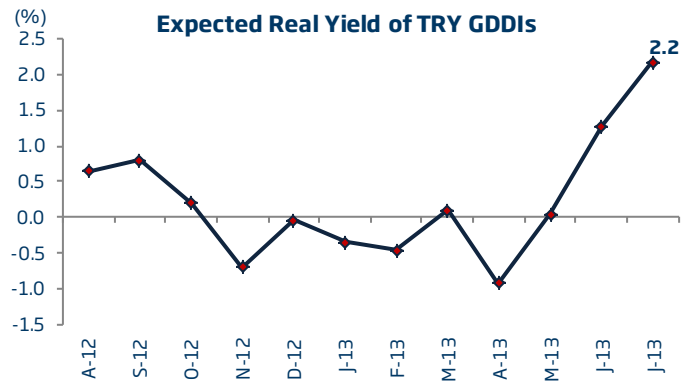
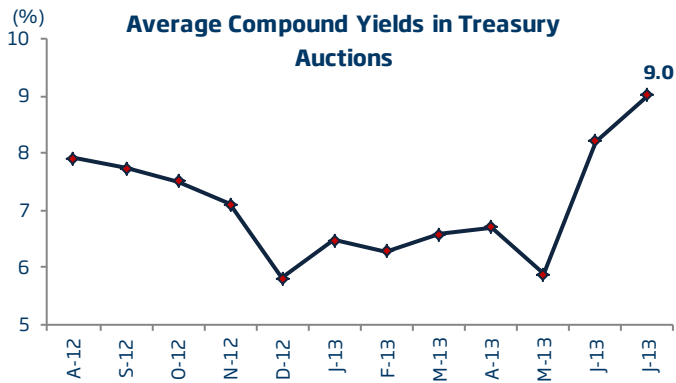


Interest Rates

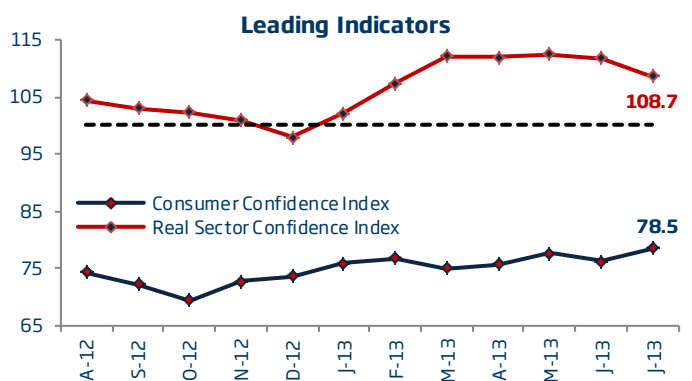
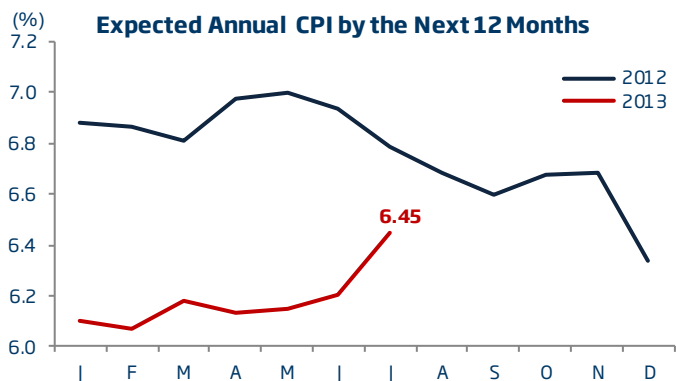
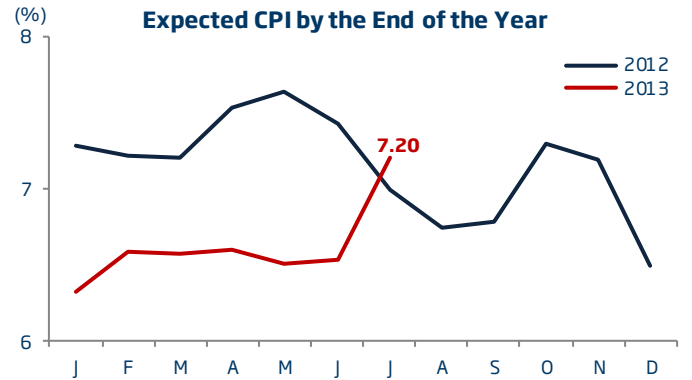
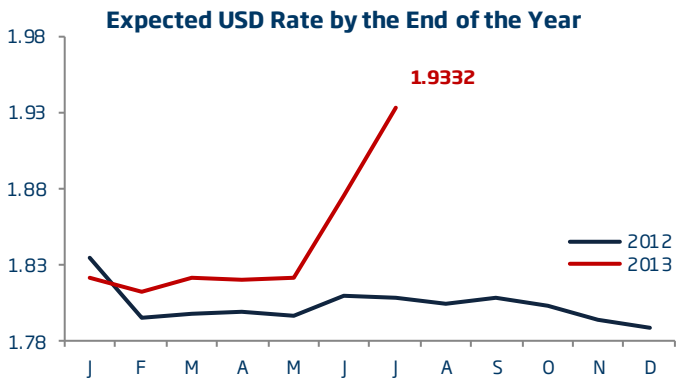
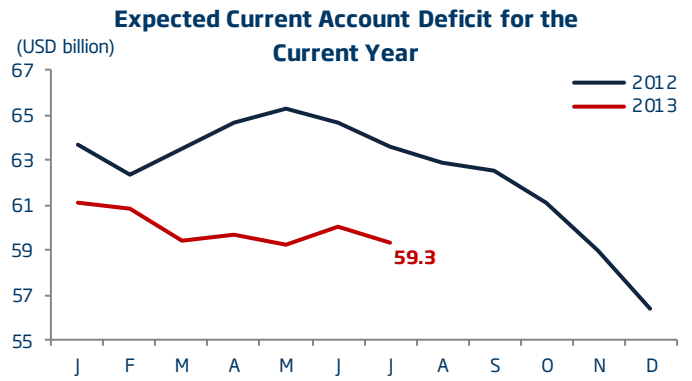
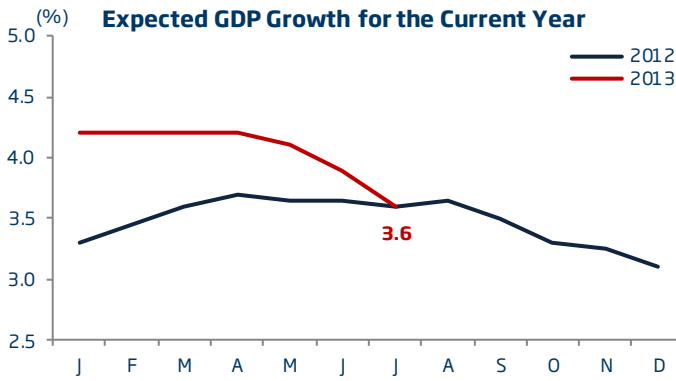


Source: Turkstat, CBRT, JP Morgan, Reuters, ISE

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	3.0	-	-
Inflation (%)						May-13	Jun-13	Jul-13
CPI (annual)	10.1	6.5	6.4	10.4	6.2	6.5	8.3	8.9
PPI (annual)	8.1	5.9	8.9	13.3	2.5	2.2	5.2	6.6
Labor Market						Feb-13	Mar-13	Apr-13
Unemployment Rate (%)	11.0	14.0	11.9	9.8	9.2	10.5	10.1	9.3
Employment (thousand persons)	21,194	21,277	22,594	24,110	24,821	24,546	24,974	25,691
FX Rates						May-13	Jun-13	Jul-13
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.2	119.9	115.7	-
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	1.8661	1.9272	1.9241
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.4208	2.5109	2.5539
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.1435	2.2191	2.2390
Foreign Trade Balance⁽¹⁾ (USD billion)						Apr-13	May-13	Jun-13
Exports	132.0	102.1	113.9	134.9	152.5	154.0	154.2	153.4
Imports	202.0	140.9	185.5	240.8	236.5	242.9	244.4	245.0
Foreign Trade Balance	-69.9	-38.8	-71.7	-105.9	-84.1	-88.9	-90.2	-91.6
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5	63.4	63.1	62.6
Current Account Balance⁽¹⁾ (USD billion)						Mar-13	Apr-13	May-13
Current Account Balance	-40.4	-12.2	-45.4	-75.1	-47.7	-47.7	-51.4	-53.6
Capital and Financial Accounts	37.4	9.3	44.0	65.7	47.0	56.7	60.7	57.7
Direct Investments (net)	17.2	7.1	7.6	13.7	8.5	8.1	8.3	7.6
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	44.4	52.7	53.0
Other Investments (net)	24.2	2.1	33.2	28.2	18.6	31.5	33.8	25.8
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-27.1	-34.1	-28.7
Net Errors and Omissions	3.0	2.9	1.4	9.4	0.7	-9.0	-9.3	-4.1
Current Account Deficit/GDP	-5.4	-2.0	-6.2	-9.7	-6.1	-	-	-
Budget⁽²⁾⁽³⁾ (TL billion)						Apr-13	May-13	Jun-13
Expenditures	227.0	268.2	294.4	314.6	360.5	124.9	155.3	187.9
Interest Expenditures	50.7	53.2	48.3	42.2	48.4	18.2	21.8	23.3
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1	106.7	133.5	164.6
Revenues	209.6	215.5	254.3	296.8	331.7	124.6	159.5	190.9
Tax Revenues	168.1	172.4	210.6	253.8	278.8	101.5	131.7	158.4
Budget Balance	-17.4	-52.8	-40.1	-17.8	-28.8	-0.3	4.3	3.1
Primary Balance	33.2	0.4	8.2	24.4	19.6	17.9	26.0	26.4
Budget Balance/GDP	-1.8	-5.5	-3.6	-1.4	-2.0	-	-	-
Central Government Debt Stock (USD billion)						Apr-13	May-13	Jun-13
Domestic Debt Stock	181.7	219.2	228.2	195.2	216.8	219.2	211.8	205.6
External Debt Stock	69.8	74.1	78.1	79.2	81.7	81.8	80.8	81.2
Total	251.5	293.2	306.3	274.4	298.6	301.0	292.5	286.8

(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	May-13	Jun-13	Change ⁽¹⁾
TOTAL ASSETS	732.5	834.0	1006.7	1217.7	1370.7	1496.6	1527.7	11.5
Loans	367.4	392.6	525.9	682.9	794.8	890.2	921.2	15.9
TL Loans	262.1	288.2	383.8	484.8	588.4	656.7	675.3	14.8
Share (%)	71.3	73.4	73.0	71.0	74.0	73.8	73.3	-
FX Loans	105.3	104.4	142.1	198.1	206.4	233.5	245.8	19.1
Share (%)	28.7	26.6	27.0	29.0	26.0	26.2	26.7	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	26.7	26.1	11.7
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	2.9	2.8	-
Securities	194.0	262.9	287.9	285.0	270.0	272.6	274.2	1.6
TOTAL LIABILITIES	732.5	834.0	1006.7	1217.7	1370.7	1496.6	1527.7	11.5
Deposits	454.6	514.6	617.0	695.5	777.2	825.9	837.7	7.8
TL Deposits	294.1	341.4	433.5	460.0	520.4	552.5	563.5	8.3
Share (%)	64.7	66.3	70.3	66.1	67.4	66.9	67.3	-
FX Deposits	160.5	173.2	183.5	235.5	251.8	273.3	274.2	8.9
Share (%)	35.3	33.7	29.7	33.9	32.6	33.1	32.7	-
Securities Issued	0.0	0.1	3.1	18.4	37.9	48.6	48.9	29.1
Payables to Banks	92.7	86.1	122.4	167.4	173.4	200.6	209.6	20.8
Funds from Repo Transactions	40.8	60.7	57.5	97.0	79.9	103.4	116.6	45.9
TOTAL SHAREHOLDERS' EQUITY	86.4	110.9	134.5	144.6	181.9	189.5	184.9	1.6
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	11.4	13.9	-
RATIOS (%)								
Loans/Assets	50.2	47.1	52.2	56.1	58.0	59.5	60.3	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	18.2	17.9	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	55.2	54.8	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.2	92.8	90.9	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	16.8	16.3	-

(1) Year-to-date % change



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