



Monthly Economic Review October 2013



Global Economy

- ◆ Syria's approval of the proposal to open its inventory of chemical weapons to international control in September strengthened the views that a military intervention will be averted for the short-term and diplomatic solutions for the crisis will continue to be explored. Thus, the negative impacts of Middle East related concerns on the markets, which elevated in the last week of August, started to disappear.
- ◆ US Federal Reserve (Fed) did not change the size of its asset purchase program at its meeting on September 17-18 on the contrary to the market anticipations. Expectations were that the Fed would begin tapering its monthly asset purchase program of 85 billion USD gradually starting from this meeting.
- ◆ In US, Congressional Budget negotiations of 2014 fiscal year have stuck as of October 1st due to the disagreements on the President Obama's health care reform package.
- ◆ Local currencies of developing countries, which were following a weak trend against USD since June due to the concerns related to the Fed's monetary policy, recovered their losses partly after the Fed's announcements in its last meeting that the latest data regarding US economy were not sufficient enough for a decrease in the asset purchases.
- ◆ European Central Bank (ECB) kept the policy rate unchanged at its meeting held on October 2nd. ECB Governor Draghi noted that a possibility of an interest rate cut was also discussed by the committee members in the meeting.
- ◆ The latest data regarding Japanese economy indicated that loose monetary and fiscal policy implementations in the country had a positive impact on recovery. The latest figures pointed out that economic activity in China, which had somewhat slowed down previously, displayed a more favorable outlook.

Turkish Economy

- ◆ Turkish economy grew more than expected by 4.4% in the second quarter of the year. GDP recorded the fastest growth on annual basis since the last quarter of 2011.
- ◆ According to data released by Turkstat, calendar adjusted industrial production increased by 4.6% compared to the same month of the previous year in July.
- ◆ According to data announced by Markit, manufacturing PMI increased to 54 in September, the highest level of 2013.
- ◆ In June, the unemployment rate rose by 0.8 points compared to the same month of the previous year and was realized as 8.8%. Seasonally adjusted unemployment rate also increased to 9.7%, the highest level registered since July 2011.
- ◆ Exports decreased by 12.9% to 11.2 billion USD in August compared to the same month of the previous year, recording the fastest decline of almost the last four years.
- ◆ In July, current account deficit was realized as 5.8 billion USD, above the market expectations. Although non-monetary gold imports were lower than previous months, they continued to remain at high levels. This development was effective on the widening in the current account deficit.
- ◆ In September, compared to the previous month, CPI and PPI increased by 0.77% and 0.88%, respectively. The annual CPI inflation continued to decrease thanks to the base effect.
- ◆ CBRT kept the policy rate unchanged in September.
- ◆ Annual growth in banking sector's total loan volume increased by 29.3% as of September 20th, 2013. During the same period, the increase in deposit volume was 20%.

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Turkish economy grew more than expected in the second quarter of the year.

The recovery in Turkish economy has continued in the second quarter of 2013. During this period, GDP grew by 4.4% compared to the same period of previous year, higher than the market expectation of 3.5%. Thus, GDP recorded the fastest growth on annual basis since the last quarter of 2011. Regarding the first half of the year, Turkish economy grew by 3.7% compared to the first half of 2012.

Calendar adjusted GDP increased by 4.1% in the second quarter compared to the same period of the previous year. Seasonally and calendar adjusted GDP also rose by 2.1% compared to the previous quarter and confirmed that economic activity has shown a significant improvement compared to the previous quarter.

GDP (1998 Prices)

Period	Calendar Adjusted GDP* (%)	Seasonally and Calendar Adjusted GDP** (%)
2011 Q1	12.5	2.2
2011 Q2	9.0	0.8
2011 Q3	8.4	1.3
2011 Q4	4.9	0.7
2012 Q1	2.4	-0.4
2012 Q2	3.1	1.4
2012 Q3	1.8	0.2
2012 Q4	1.4	0.2
2013 Q1	3.6	1.5
2013 Q2	4.1	2.1

*Change compared to the same period of previous year

**Quarter over quarter change

On the other hand, Turkstat revised the GDP figures starting from the first quarter of 2012. In this context, quarterly GDP growth rates have been recalculated and GDP growth in the first quarter of 2013 was revised down to 2.9% from 3%.

GDP* Growth Rate Revisions (%)

	Old	New	Difference
2012	2.24	2.17	-0.07
I	3.31	3.13	-0.18
II	2.89	2.78	-0.11
III	1.57	1.54	-0.04
IV	1.36	1.40	0.04
2013			
I	3.00	2.87	-0.13

* Constant prices

Domestic consumption accelerated in the second quarter.

Due to the recovery in domestic demand conditions, Turkish economy displayed a domestic consumption led growth performance in the first half of 2013. In this context, domestic private consumption expenditures increased by 5.3% in the second quarter while the public consumption expenditures continued to support GDP growth expanding by 7.4%. Thus, the total contribution of public and private sector to GDP growth was realized as 4.2 points.

Despite losing some momentum, public investment spending kept its high level.

Private investment expenditures decreased in the second quarter of 2013 while public investment spending continued to increase. During this period, private investment expenditures fell by 2% compared to the same period of previous year while public investment expenditures increased by 36.7%. Thus, public investment expenditures contributed 1.4 points to GDP growth while private investment expenditures limited this impact.

Expenditure Approach - Contribution to GDP (1998 Prices) (% points)

	2010		2011		2012				2013		
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	6 months	
Consumption	4.9	5.8	0.3	-0.3	0.3	0.8	0.3	2.9	4.2	3.6	
Private	4.7	5.3	-0.3	-0.8	-0.2	-0.3	-0.4	2.1	3.4	2.8	
Public	0.2	0.5	0.5	0.4	0.5	1.0	0.6	0.7	0.8	0.8	
Investment	6.1	4.3	-0.4	-1.2	-0.8	-0.4	-0.7	0.6	1.0	0.8	
Private	5.4	4.4	-0.3	-1.4	-1.0	-1.4	-1.1	-1.7	-0.5	-1.0	
Public	0.7	-0.1	0.0	0.2	0.3	1.0	0.3	2.3	1.4	1.8	
Change in Stock	2.5	-0.2	-2.3	-1.6	-0.6	-1.3	-1.4	0.0	2.3	1.2	
Net Exports	-4.4	-1.1	5.6	6.0	2.7	2.4	4.1	-0.6	-3.0	-1.8	
Exports	0.9	1.9	2.9	5.5	3.4	4.1	4.0	1.4	0.3	0.9	
Imports	-5.2	-3.0	2.7	0.5	-0.8	-1.7	0.1	-2.0	-3.4	-2.7	
GDP	9.2	8.8	3.1	2.8	1.5	1.4	2.2	2.9	4.4	3.7	

Numbers may not add to total due to rounding

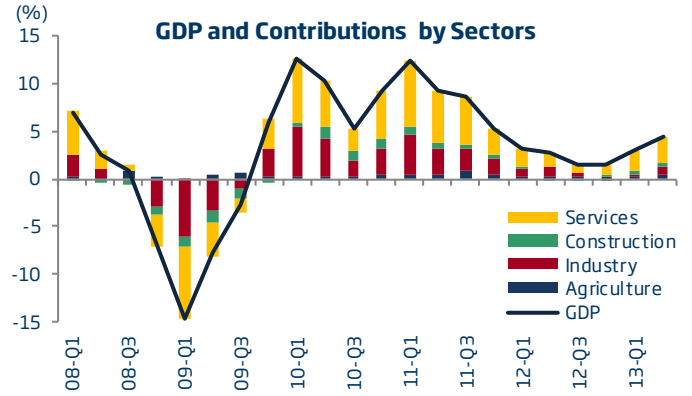
Source: Turkstat

The negative impact of net exports on GDP has become evident.

Downward impact of net exports to GDP growth has become evident in the second quarter of the year due to the recovery in domestic demand conditions and imports of gold, which have accelerated since April. In this context, negative impact of net exports, which was 0.6 points in the first quarter, increased to 3 points in the second quarter. On the other hand, in line with the recovery in demand conditions, production activity also accelerated and in this context stock changes made an upward impact of 2.3 points to GDP growth.

The construction sector grew by 7.6% on annual basis.

According to production approach, services sector, which has the highest share in GDP, increased annually by 4.6% in real terms in the second quarter of the year and contributed 2.7 points to growth. Activity in the construction sector continued to gain momentum and recorded a real increase of 7.6% in this period, contributing 0.4 points to GDP. Industrial production made 0.9 points contribution to GDP growth, increasing by 3.1% in real terms in second quarter of 2013.



We expect 3.5-4% GDP growth in 2013.

GDP figures in the second quarter of 2013 pointed out that the recovery in Turkish economy continued in this period. Credit growth and domestic demand conditions made positive impacts on growth performance. However, elevated global risk perception, increasing geopolitical risks and the latest tightening measures implemented by CBRT are the main factors which may put pressure on domestic economic activity. In fact, downward trend in some of the leading indicators also confirms this anticipation. In this context, we expect that Turkish economy would grow by around 3.5-4% percent in 2013.

Buoyant increase in industrial production in July...

Calendar adjusted industrial production index increased by 4.6% in July compared to the same month of the previous year. Among the main industry groups, the level of production declined in mining and quarrying sector in addition to electricity, gas, steam and air conditioning supply sector in annual terms while it increased in the manufacturing sector. Production decreased only in 6 sectors out of the 24 sub-sectors constituting the manufacturing sector in annual terms.

According to data announced by Markit, manufacturing Purchasing Managers Index (PMI), increased to 54 in September, the highest level of 2013. The increase in the index mainly stemmed from the strong domestic and foreign demand. In addition, thanks to the increase in production and new orders, employment in the manufacturing sector also improved.

Decline in consumer confidence...

According to data released by the CBRT, seasonally adjusted Real Sector Confidence Index increased by 2.3 points compared to the previous month in September. Participants' positive evaluations about the export orders and production for the next 3 months supported the rise in the index.

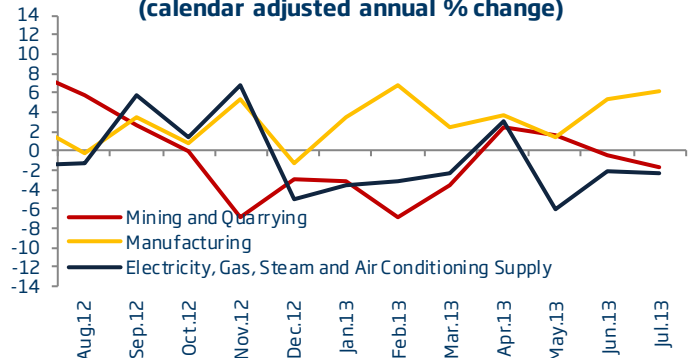
In September, according to seasonally adjusted data, the manufacturing industry Capacity Utilization Rate was realized as 74.9% and kept its flat course.

The consumer confidence index in September, on the other hand, declined by 5.1 points compared to the previous month and was realized as 72.1. The decrease in the consumer confidence index was mainly stemmed from the deterioration in the expectations regarding the probability of saving in the next 12 months and the general economic situation.

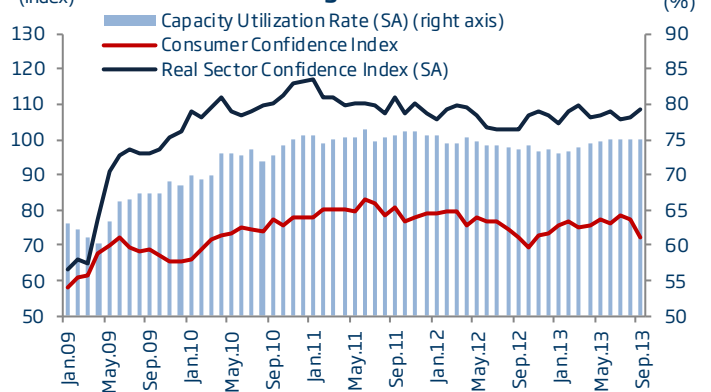
Unemployment rate was 8.8% as of June 2013.

In June, the unemployment rate rose by 0.8 points compared to the same month of the previous year and was realized as 8.8%. During this period, non-agricultural unemployment and youth unemployment rate increased by 0.8 and 1.4 points and reached 11% and 17.1%, respectively. Seasonally adjusted unemployment rate also increased to 9.7%, the highest level registered since July 2011. On the other hand, the number of unemployed persons increased by 299,000 while total employment increased by 742,000 persons. During this period, the labor force participation rate increased by 1.1 percentage points while employment ratio increased by 0.6 percentage points.

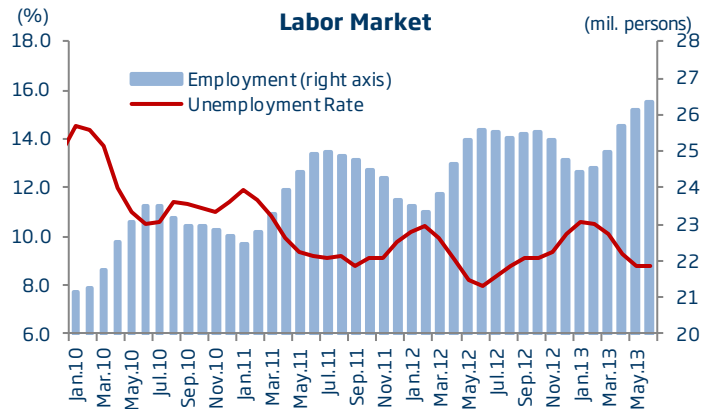
Sub-Indices of Industrial Production
(calendar adjusted annual % change)



Leading Indicators



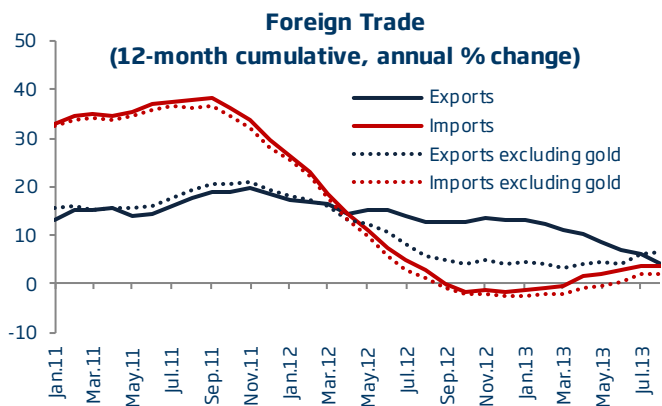
Labor Market



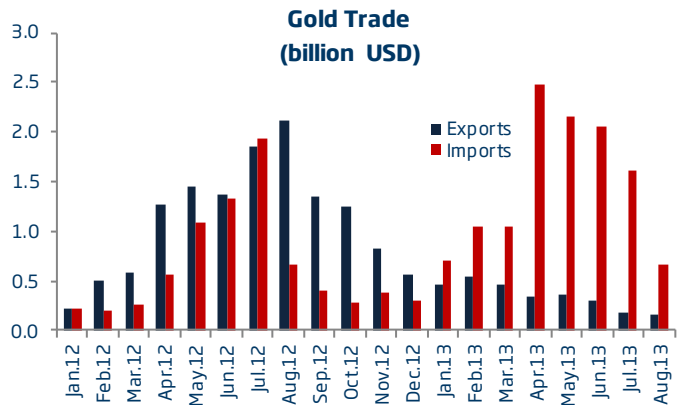
Source: Turkstat, CBRT

In August, foreign trade deficit was realized as 7 billion USD, below the expectations.

According to data released by Turkstat, exports decreased by 12.9% to 11.2 billion USD in August compared to the same month of the previous year, recording the fastest decline of almost the last four years. Imports also dropped by 3.4% to 18.2 billion USD during the same period. The widening in foreign trade deficit decelerated compared to the last two months. The import coverage ratio also declined by 6.7 points in the same period and was realized as 61.4%. Analyzing seasonally and calendar adjusted data, while imports decreased by 5.5% in August compared to the previous month, exports increased by 0.1% in the same period, following a relatively flat path.



The lower-than-expected foreign trade deficit in August mainly stemmed from the 14.4% annual decline in the imports of mineral fuels and oils. Gold imports, which were at high levels during the last months, remained flat in August compared to the same month of the previous year. Yet they were well below their average level of the first eight months of this year. On the other hand, gold exports also diminished during the same period and were realized as 159 million USD, the lowest level of the last 22 months. Although this situation had some adverse impacts on the foreign trade balance in August, data excluding gold trade



indicated that exports improved moderately in the said period. In fact, when gold exports are excluded, exports recorded a rise of 2.7% in August compared to the same month of the previous year.

Foreign trade deficit increased by 18.3% in the first eight months of the year.

In the first eight months of the year, exports declined by 0.5% compared to the same period of the previous year and imports, on the other hand, rose by 6.3%. Hence foreign trade deficit widened by 18.3% and reached 67.6 billion USD in the same period. Excluding gold trade, however, the increase in exports and imports were realized as 6.6% and 3.0%, respectively. Thus, foreign trade deficit excluding gold trade narrowed by 2.5% during this period.

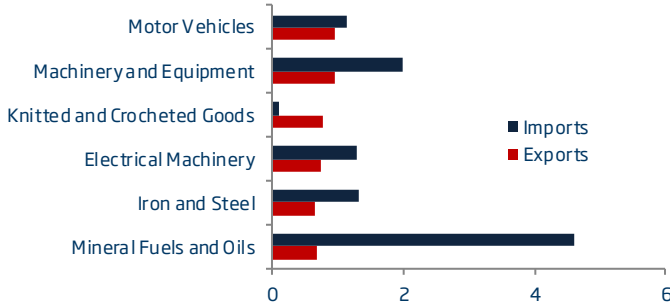
In August, exports of motor vehicles registered a 19.5% increase on an annual basis.

Analyzing by sectors, it is seen that exports of motor vehicles, which ranked first in total exports also in August, registered a rapid increase of 19.5% on an annual basis. Machinery and equipment sector, which ranked second in total exports after motor vehicles, recorded a 2% drop in the said period. Iron and steel exports, which have been declining persistently in recent months, decreased by 33.5% compared to the same month of the previous year.

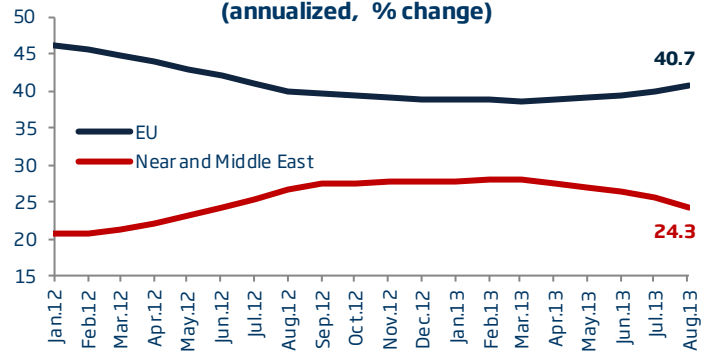
Foreign Trade Balance	(USD billion)					
	August		Change	January-August		Change
	2012	2013	(%)	2012	2013	(%)
Exports	12.8	11.2	-12.9	100.0	99.4	-0.5
Imports	18.8	18.2	-3.4	157.1	167.0	6.3
Foreign Trade Balance	-6.0	-7.0	17.0	-57.1	-67.6	18.3
Import Coverage Ratio (%)	68.1	61.4	-	63.6	59.5	-

Source: Turkstat

**Foreign Trade in Leading Sectors
(August 2013, billion USD)**



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



After having increased rapidly in July, imports of consumption goods lost momentum in August.

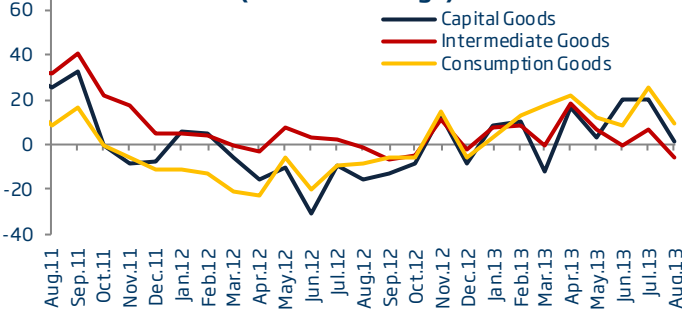
Analysis of import data by classification of broad economic categories revealed that imports of consumption goods, having increased by 25.5% annually in July, lost momentum in August with registering a modest rise of 9.6%. In addition, the sharp deceleration in imports of capital goods was also noteworthy. In fact, imports of capital goods, which surged by 19.8% on annual basis in July, increased by only 0.9% in August and was realized as 2.6 billion USD. This loss of momentum in consumption and capital goods imports and the decline in energy imports recorded in August implied that the recovery in domestic demand started to slow down during this period.

Analyzing the data at country level, it is seen that Germany remained as the biggest export market of Turkey while Russia was the leading import partner. While exports to Germany in August increased by 4.1% compared to the same period of the last year, imports from Russia recorded a rise of 3.2%.

Expectations...

The drop in energy imports played an important role in the lower-than-expected foreign trade deficit level registered in August. In addition to that, the deceleration in consumption goods imports was also noteworthy. On the other hand, the possible positive impact of the economic recovery in European Union countries on Turkey's exports would be watched closely in the coming period. Moreover, subsiding concerns regarding Syria crisis in September is considered as an improvement in the future outlook of Turkey's foreign trade performance.

**Imports by Classification of Broad Economic Categories
(annual % change)**



The share of European Union in total exports increased to 41.4% in August.

The share of European Union in total exports continued to increase. The said share, which was 33.7% in August 2012, reached 41.4% in the same period of this year. On the other hand, the share of Near and Middle Eastern countries, which was 37.4% in August 2012, declined to 21.6% in August 2013 mostly due to the slowdown in gold exports directed to this region.

Source: Turkstat

Higher than expected current account deficit in July...

In July, current account deficit was realized as 5.8 billion USD, above the market expectations. During the first seven months of the year, current account deficit reached 42.1 billion USD. Although non-monetary gold imports were lower than previous months, they continued to remain at high levels. This development was effective on the widening in the current account deficit. While the cumulative net gold exports was 1.6 billion USD in the first seven months of 2012, net gold imports reached 8.4 billion USD in the same period of 2013. In fact, comparing the first seven months of 2012 and 2013, the total change in the current account deficit was also 8 billion USD.

12-month cumulative current account deficit continued to increase and reached 55.8 billion USD in July.

Flat course in tourism revenues...

In July, net tourism revenues followed a flat course and increased by only 2% compared to the same month of the previous year. Monthly increase in net tourism revenues was 7.4%. Taking into account that the average monthly increase in net tourism revenues in July months during 2002-2012 period was 61%, the weak course in tourism revenues in July 2013 becomes more evident. On the other hand, Ramadan was also influential on the weak course of tourism revenues in July 2013. During January-July period, net tourism revenues increased by 22% to 12.3 billion USD.

FDI reached its highest level in the last one year period.

In July, net FDI inflows were realized as 1.6 billion USD and reached the highest level of the last 13 months period. Foreign direct investments in financial and insurance activities sectors were effective on the said increase. This development indicates that the financial and insurance activities sector which had 38% share in total foreign direct investment inflows in the last 10-year period, still contributes significantly to FDI.

In the first seven months of the year, net FDI inflows decreased by 17% to 5.1 billion USD compared to the same period of the previous year.

Net portfolio investments account registered the sharpest monthly net capital outflow since October 2008.

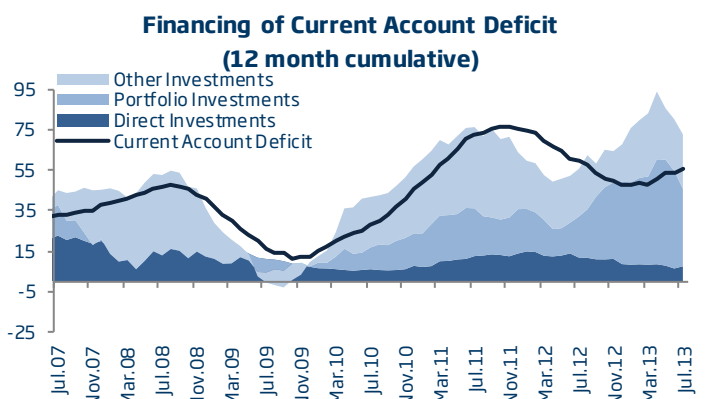
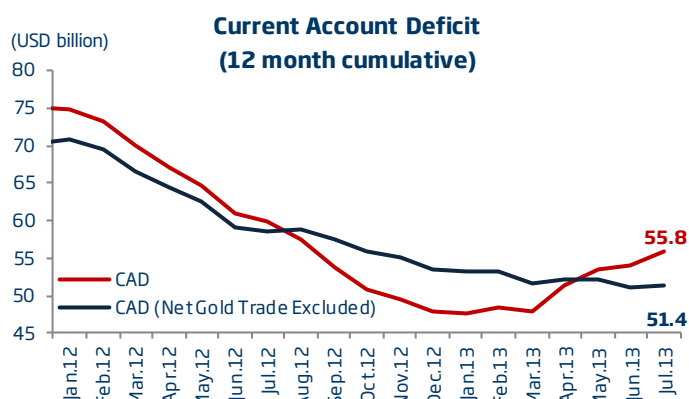
The expectations of a rating upgrade from a second rating agency fuelled the portfolio inflows towards Turkey until May. However, after the rating upgrade in May, the inflows decelerated. In addition, the expectations that the Federal Reserve might taper its monthly asset purchases also put pressure on portfolio inflows and portfolio investments account registered a net capital outflow of 3 billion USD in July. Net portfolio investments account registered the sharpest decline on a monthly basis since October 2008 when the shockwaves from the bankruptcy of Lehman Brothers led to significant capital outflows. In July, 2.5 billion USD worth of capital outflow occurred in the government domestic debt securities while the sales in equity market were realized as 605 million USD. Banking sector, whose bond issues in international capital markets reached 4.9 billion USD in the first 6 months, followed a more cautious policy during July in terms of new bond issues.

Net portfolio investments, which were 17.3 billion USD during January-July 2012, decreased to 15 billion USD during the same period of 2013.

Limited capital inflow in other investments...

Analysis of the asset side of the other investments account in July revealed that residents' FX-assets abroad increased by 1.2 billion USD as Turkish banks enhanced their FX deposits kept in correspondent banks.

On the liabilities side, banking sector, which mostly preferred raising short-term loans or issuing long term bonds during January-April 2013, tended to borrow long-term loans in the following period, taking into account possible volatility in global liquidity conditions. In this



context, the banking sector borrowed 1.4 billion USD net long term loans in July. It was noteworthy that the long-term debt roll-over ratio which was realized as 90% in February 2013, increased to 137% in July according to the 12-month cumulative figures.

In July, the non-banking sector raised 658 million USD of long-term and 253 million USD of short-term loans. Long-term debt roll-over ratio of the non-banking sector based on 12-month cumulative figures, on the other hand, was 106% in July.

Reserve assets continued to decline in July.

Due to ongoing weak course in capital inflows in July, CBRT's reserve assets declined by 1.8 billion USD to support the financing of the current account deficit. On the other hand,

inflow in the net errors and omissions, which was realized as 4.8 billion USD in July, was also noteworthy.

Expectations...

Despite the recovery observed in domestic demand, gradual improvement in the current account deficit continued when gold trade is excluded. On the other hand, increasing risk perception in global markets and concerns over Syria were influential on the capital inflows to Turkey. In the coming period, Fed's exit strategy and regional developments will be effective in the composition of the financing of the current account deficit.

					(USD million)
	July 2013	January-July 2012 2013		% Change	12 Month Cumulative
Current Account Balance	-5,786	-34,095	-42,099	23.5	-55,754
Foreign Trade Balance	-8,064	-40,962	-48,604	18.7	-72,977
Services Balance	2,893	10,516	11,963	13.8	24,356
Tourism Revenues (net)	2,848	10,045	12,260	22.1	23,774
Income Balance	-693	-4,366	-6,024	38.0	-8,365
Current Transfers	78	717	566	-21.1	1,232
Capital and Financial Accounts	985	32,900	41,917	27.4	55,991
Direct Investments (net)	1,605	6,208	5,122	-17.5	7,359
Portfolio Investments (net)	-3,047	17,320	14,982	-13.5	38,451
Assets	91	1,503	2,185	45.4	3,339
Liabilities	-3,138	15,817	12,797	-19.1	35,112
Equity Securities	-605	1,964	-801	-	3,509
Debt Securities	-2,533	13,853	13,598	-1.8	31,603
Other Investments (net)	678	18,242	26,588	45.8	26,944
Assets	-1,225	1,980	-779	-	-3,329
Currency and Deposits	-875	2,184	684	-68.7	-333
Liabilities	1,903	16,262	27,367	68.3	30,273
Trade Credits	-637	3,023	6,229	106	4,228
Loans	2,277	5,376	10,197	89.7	14,683
Banking Sector	675	3,342	11,043	230.4	12,865
Non-bank Sectors	911	3,027	-327	-	3,437
Deposits	159	7,561	10,594	40.1	10,832
Foreign Banks	9	6,851	9,159	33.7	9,437
Foreign Exchange	1,189	5,729	8,474	47.9	7,990
Turkish Lira	-1,180	1,122	685	-38.9	1,447
Non-residents	349	1,677	2,215	32.1	3,451
Reserve Assets (net)	1,760	-8,840	-4,728	-46.5	-16,702
Net Errors and Omissions	4,801	1,195	182	-84.8	-237

Source: CBRT

Central government budget registered a surplus of 234 million TL in January-August period.

The Ministry of Finance announced both July and August budget data due to the fiscal holiday. In July, central government budget recorded a surplus of 312 million TL stemming from 32.2% increase in revenues. In August, on the other hand, budget revenues registered a limited increase of 5.5% and were realized as 31.9 billion TL. During the same period, budget expenditures rose by 10.1% and reached 35.1 billion TL. Hence, the central government budget deficit doubled compared to the same month of the previous year and reached 3.1 billion TL.

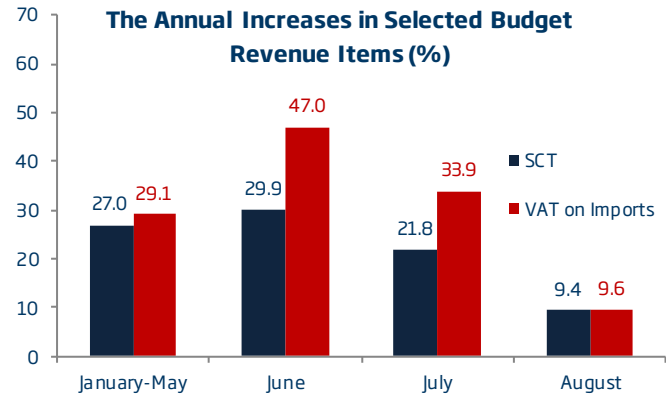
In the first eight months of 2013, budget revenues increased by 17.9% and budget expenditures rose by 13.4%. Thus, the budget balance, which posted a deficit of 8.5 billion TL in the first eight months of the last year, gave a surplus of 231 million TL in the same period of 2013. The primary surplus increased to 38 billion TL in January-August period, staying higher than the year-end target of 19 billion TL.

The tax revenues lost momentum in August.

In July, privatization revenues worth of 3.2 billion TL and 22.1% increase in tax revenues were noteworthy.

On the other hand, the positive impact of the upward trend in foreign exchange rates on budget revenues since the beginning of June has lost momentum in August. In fact, Value Added Tax, which registered a substantial increase both in June and July, expanded only by 9.6% on annual basis in August. In the same period, Special Consumption Tax (SCT) also increased by only 9.4%. In the same period, corporation taxes narrowed by 15.7%. Consequently, total tax revenues registered a limited increase of 5% compared to the same month of the previous year and reached 28.1 billion TL in August.

In the first eight months of the year, central government budget realizations displayed a better outlook than the year-end targets. Indeed, during the first eight months of the year budget revenues reached 70.2% of their year-end target.



Non-interest expenditures...

In August, non-interest expenditures increased by 5.7% compared to the same month of the previous year and were realized as 27.5 billion TL. The social transfers, which are monitored under the current transfers item, continued to increase due to the salary payments made to the people who are over the age of 65 and in need according to the law no. 2022. Regarding the first eight months of the year, it was seen that non-interest expenditures rose by 15.2%.

Interest expenditures, on the other hand, increased by 30.1% on annual basis in August. This stemmed from the interest expenditures of discount and short term cash operations worth of 1.4 billion TL. In addition, interest expenditures increased by 4.1% in January-August period compared to the same period of the previous year.

Expectations...

After the sharp increases registered in June and July, momentum loss in tax revenues in August is expected to continue in line with the course of domestic demand in the forthcoming period. However, the depreciation in TL would limit this impact through the increase in VAT imports collection. Considering the course of public and interest expenditures, it is anticipated that the expansion in budget expenditures would continue. Nevertheless, 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

	July		August		January-August			(TL billion)	
	2013	% Change	2013	% Change	2012	2013	% Change	Budget Target	Real/Target(%)
Expenditures	36.8	29.9	35.1	10.1	229.0	259.7	13.4	404.0	64.3
Interest Exp.	6.9	63.8	7.5	30.1	36.3	37.7	4.1	53.0	71.2
Non-interest Exp.	29.9	24.0	27.5	5.7	192.7	222.0	15.2	351.0	63.2
Revenues	37.1	32.2	31.9	5.5	220.5	259.9	17.9	370.1	70.2
Tax Revenues	29.6	22.1	28.1	5.0	182.2	216.0	18.6	317.9	68.0
Other Revenues	7.5	96.3	3.8	9.1	38.3	43.9	14.5	52.1	84.1
Budget Balance	0.3	-	-3.1	100.1	-8.5	0.2	-	-34.0	-
Primary Balance	7.2	81.8	4.4	4.0	27.7	38.0	36.9	19.0	199.3

Numbers may not add up to total due to rounding

Source: Finance Ministry

CPI came above the expectations in September.

In September, compared to the previous month, CPI and PPI increased by 0.77% and 0.88%, respectively. According to the Reuters' survey, monthly CPI was expected to rise by 0.65%. According to the CBRT's survey, on the other hand, markets' monthly CPI expectation was 0.69% in September.

Annual CPI inflation continued to decline thanks to the base effect.

Despite the higher than expected monthly figures, the annual increase in CPI inflation declined to 7.88%, due to the base effect. Annual PPI inflation, on the other hand, maintained its downward trend and was realized as 6.23%.

Transportation group...

The prices in the transportation group, which have the highest sensitivity to the developments in foreign exchange rates, led to a higher than expected inflation figure in September. In this period, the 1.99% increase in transportation prices contributed to the monthly inflation by 37 basis points. The price developments in food group, after contributing the moderate inflation figures through the summer, also pushed the CPI inflation further in September. Besides, education group recorded the highest price increase in line with the start of new school year. The sharp seasonal price fall in the clothing and footwear group, on the other hand, limited the rise in inflation.

Increase in core inflation...

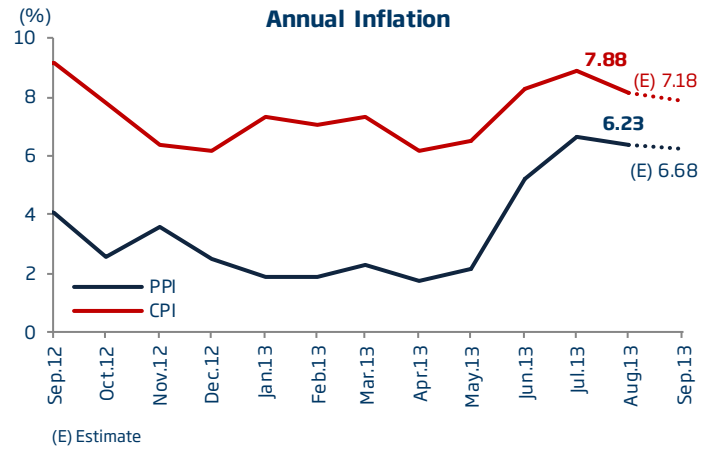
The core inflation aggregates, representing the main trend of inflation, continued to deteriorate also in September. The annual increase in CBRT's favorite indices denominated by H and I were realized as 7.29% and 6.96%, respectively, reaching the highest level of the last 13 months. In addition to that, the rise in the medium term inflation expectations according to the CBRT's survey was also noteworthy.

Rapid increase in PPI inflation...

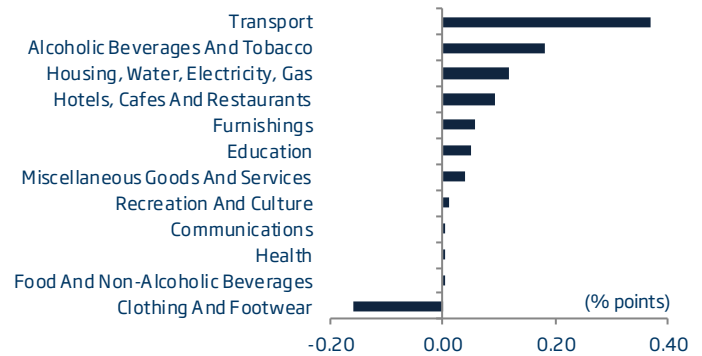
Parallel to the depreciation in Turkish Lira, PPI inflation maintained its upward trend in September and increased by 0.88%. In this period, the price increases in intermediary goods intensive industries such as coke and refined petroleum production and basic metal industry became more evident.

Expectations...

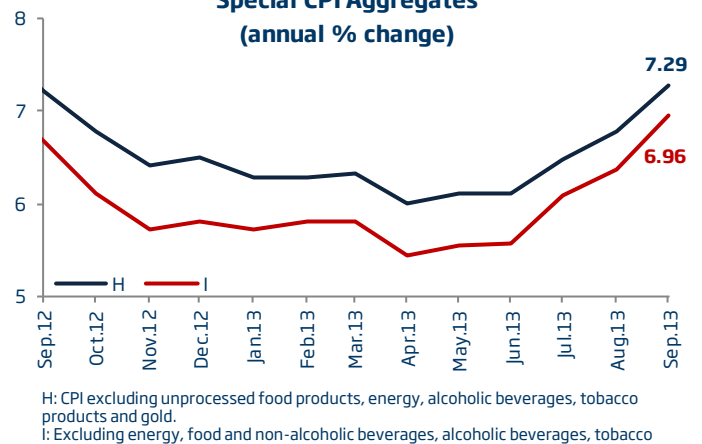
In October, we anticipate that inflation figures would be shaped by the developments in food prices while the seasonal price increases in clothing and footwear group would be crucial as well. In this context, we expect CPI and PPI to increase by 1.3% and 0.6%, respectively while the annual inflation would continue to fall thanks to the base effect.



Contributions to the Monthly CPI by Subgroups



Special CPI Aggregates (annual % change)



Source: Turkstat

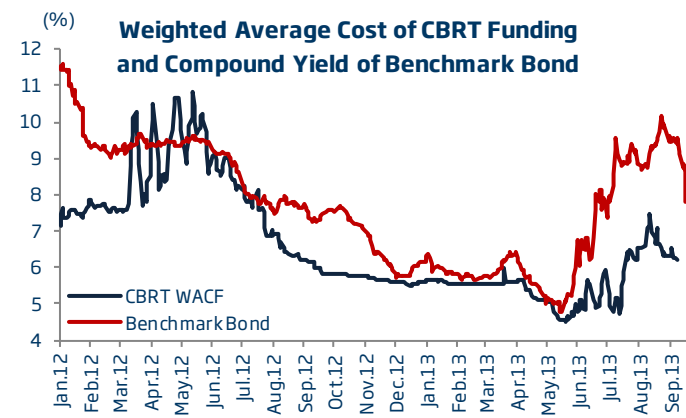
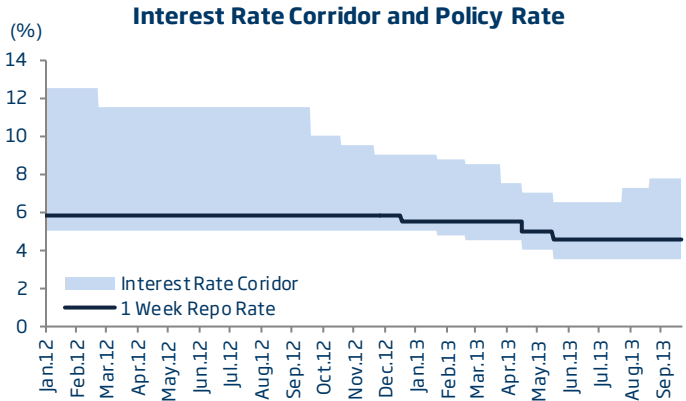
CBRT kept the policy rate unchanged in September.

At its latest meeting on September 17th, CBRT did not make any changes in the current monetary policy. The policy rate (one week repo rate) was kept unchanged at 4.5% while the lower and upper bounds of interest rate corridor were also kept unchanged at 3.5%, and 7.75%, respectively. CBRT also kept the interest rate on borrowing facilities provided for primary dealers via repo transactions at 6.75%. Moreover, CBRT did not change the reserve requirements and reserve option coefficients despite the market expectation.

In its statement following the meeting, CBRT stated that the economic growth followed a moderate course thanks to recovery in domestic and external demand conditions. CBRT also pointed out that the weakness in capital flows, cautious monetary policy stance and the macroprudential measures undertaken would gradually bring down the loan growth rates. CBRT stressed that inflation is expected to fall in the coming period while reiterating that CBRT will maintain the cautious monetary policy stance and implement additional monetary tightening at the appropriate frequency until the medium term inflation outlook is in line with the medium term targets.

Başçı commented about his 1.92 year-end USD/TL estimation.

CBRT Governor Erdem Başçı stressed that the growing number of central banks are using “guiding with communication” as an effective monetary policy tool at a speech he made on September 18th. Başçı, referring to his previous speech on August 27th, when he shared CBRT’s year-end USD/TL estimation of 1.92 (the underlying USD/TL assumption of 6.2% year-end inflation estimate announced in July Inflation Report), should be evaluated as a step toward this framework.



Source: CBRT, Borsa İstanbul

Deposit volume increased by 14.6% compared to the year-end.

According to BRSA's Weekly Bulletin, as of September 20th, 2013, total deposit volume increased by 14.6% to 936.4 billion TL compared to the year-end. During the same period, TL deposits increased by 9.4% and FX deposits in USD terms expanded by 12.7%. On an annual basis, total deposits volume increased by 20%.

Loans...

As of September 20th, 2013, total loan volume grew by 22.0% compared to the year-end and was realized as 982.9 billion TL. During the same period, TL loans increased by 20.8% and FX loans in USD terms expanded by 13.4%. On an annual basis, total loans increased by 29.3%.

Analyzing by types of loans, as of September 20th, 2013, consumer loans (including private credit cards) increased by 27.1% and commercial/corporate loans expanded by 30.4%, annually.

On an annual basis, housing loans and personal finance loans increased by 31.3% and 27.5%, respectively. In the same period, the increase in the vehicle loans remained relatively limited by 9.7%.

Securities portfolio...

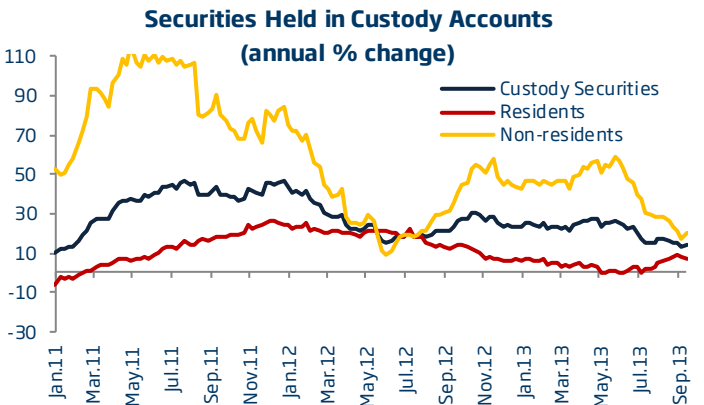
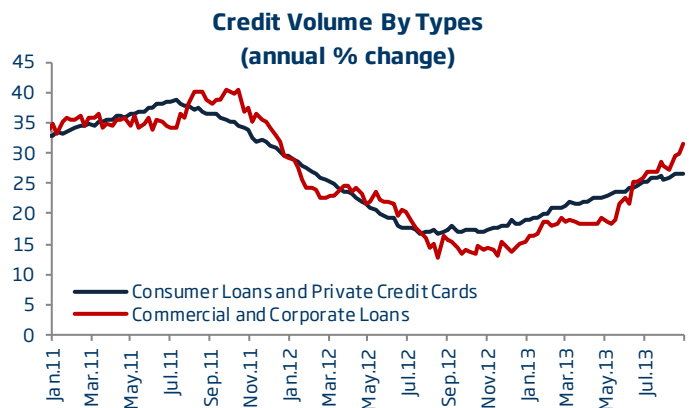
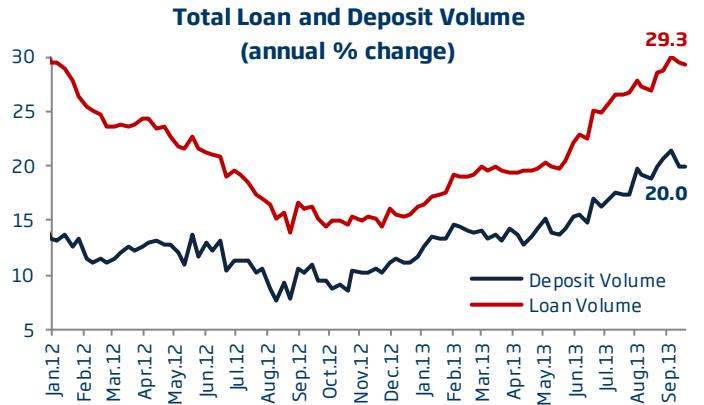
As of September 20th, 2013, securities portfolio of banking sector increased by 6.1% compared to the year-end. During this period, available for sale and held to maturity securities portfolio decreased by 23.4% and 13%, respectively. On the other hand, securities subject to repo transactions increased by 48.9%.

Securities held in custody accounts...

In nominal terms, securities held in custody accounts grew by 7.3% as of September 20th, 2013, compared to the year-end. Non-residents' portfolio, which started to follow a declining course since May, was realized as 106.9 billion TL as of September 20th, 2013. On the other hand, residents' portfolio increased to 94.1 billion TL from 89.2 billion TL.

Net FX position...

As of September 20th, 2013, banks' on-balance sheet FX position was (-) 26,491 million USD while off-balance sheet FX position was (+) 27,005 million USD. Hence, banks' net FX position was realized as (+) 514 million USD.



Source: BRSA Weekly Bulletin

Recently, the probability of a military intervention to Syria decreased and concerns regarding the Middle East have eased. Thus, Fed's monetary policy decisions have come in the forefront of global economic agenda again. Fed's decision to maintain its loose monetary policy for a while made a positive impact on financial markets in the first place. In addition, capital outflows from developing countries recently have lost momentum and these countries' local currencies have appreciated partly against the USD. However, depending on the economic data releases in the US, the possibility of starting to taper the asset purchase program before the end of this year is still present. Besides, concerns over the US debt ceiling raises doubts about the course of the global economy. In this context, the course of financial markets would continue to be highly dependent on the Fed's policy decisions and measures regarding the debt ceiling.

Regarding Turkey, decline in the probability of a military intervention against Syria has been a favorable development. In addition, Fed's decision of not to tamper its asset purchase program would support the capital inflows towards Turkey in the short-term. The recent course of manufacturing PMI and industrial production also pointed out that the recovery in Turkish economy continued in the third quarter. However, consumer confidence and labor market developments suggested that the recovery may remain limited. On the other hand, it is anticipated that the CBRT's tightening policy measures would make a downward pressure on the economic activity.

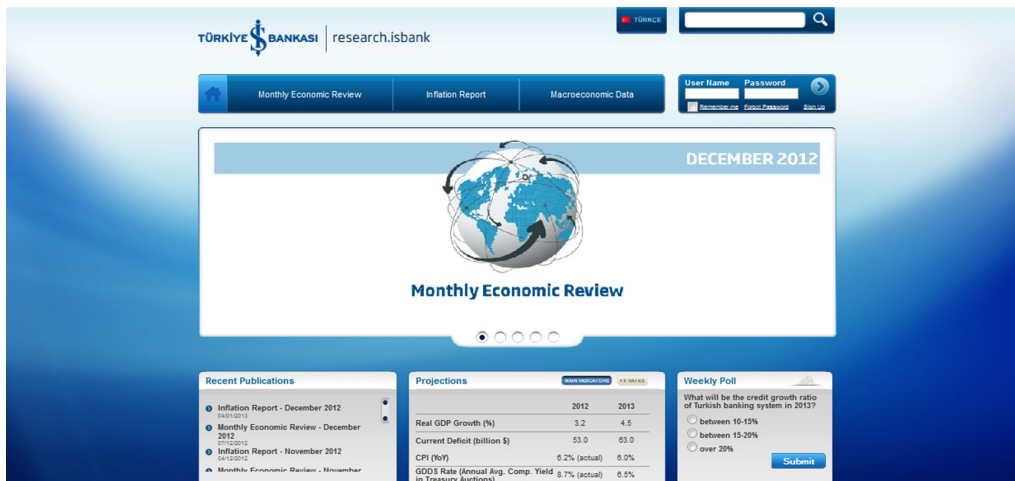
Forecasts	2012 (R)	2013
Growth (%)	2.2	4.0
CA Deficit (USD billion)	47.8	60
CA Deficit/GDP (%)	6.1	7.0
Inflation (%)	6.2	6.9
GDDI Interest* (%)	8.7	7.3

(*): Annual compound average interest rate in treasury auctions

(R) Realization

Interest and inflation are year-end forecasts

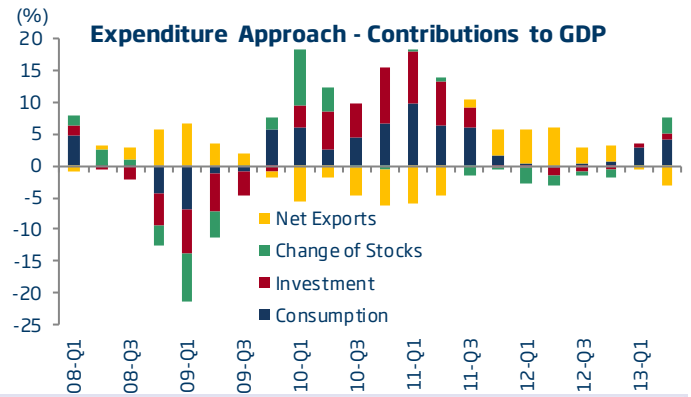
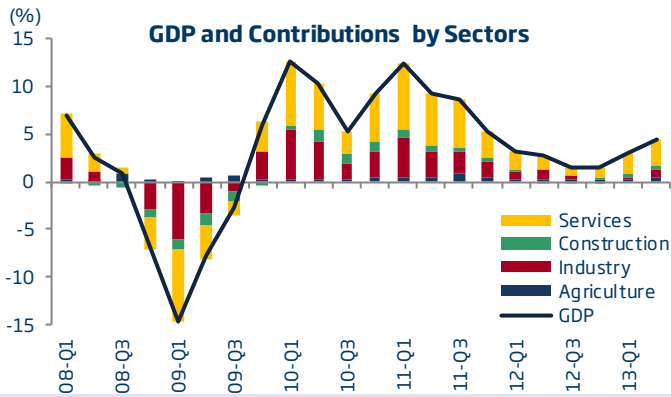
Our reports are available on our website <http://research.isbank.com.tr>



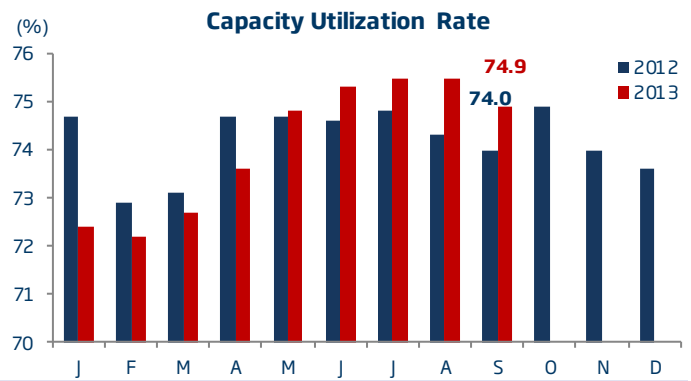
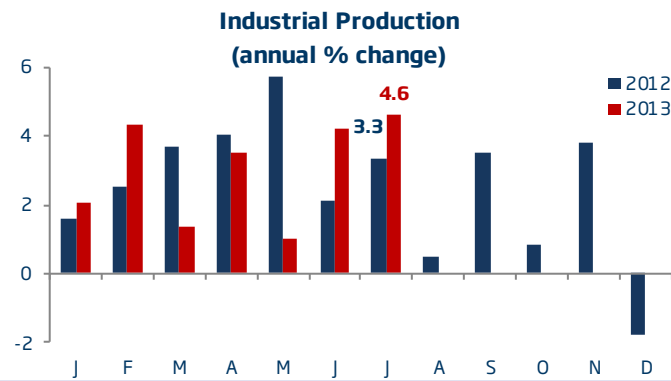
The screenshot shows the website interface for Türkiye Bankası's research department. The main navigation bar includes 'Monthly Economic Review', 'Inflation Report', and 'Macroeconomic Data'. The central content area is titled 'DECEMBER 2012' and 'Monthly Economic Review'. Below this, there are three main sections: 'Recent Publications' listing reports from December 2012 and November 2012; 'Projections' which includes a table comparing 2012 and 2013 data for Real GDP Growth, Current Deficit, CPI, and GDS Rate; 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%
GDS Rate (Annual Avg. Comp. Yield in Treasury Auctions)	8.7% (actual)	6.5%

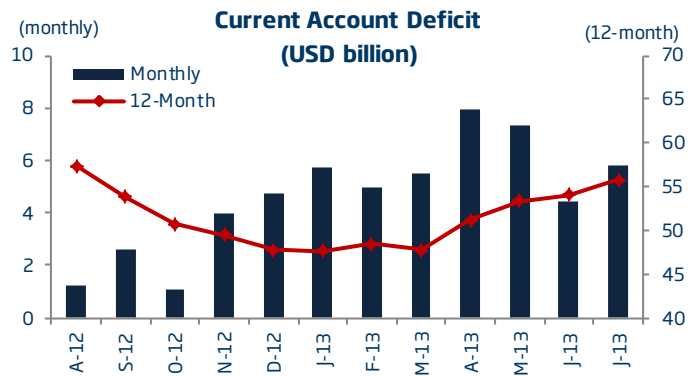
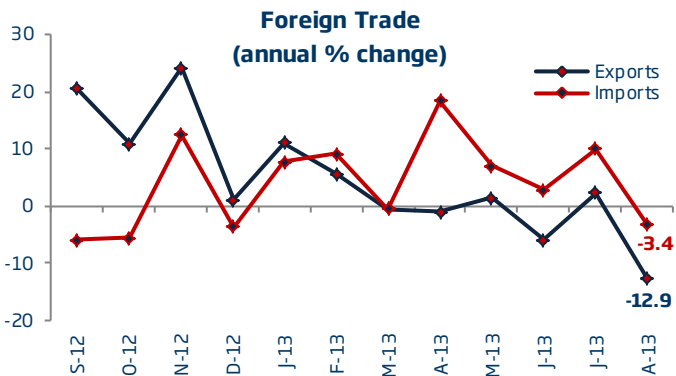
Growth



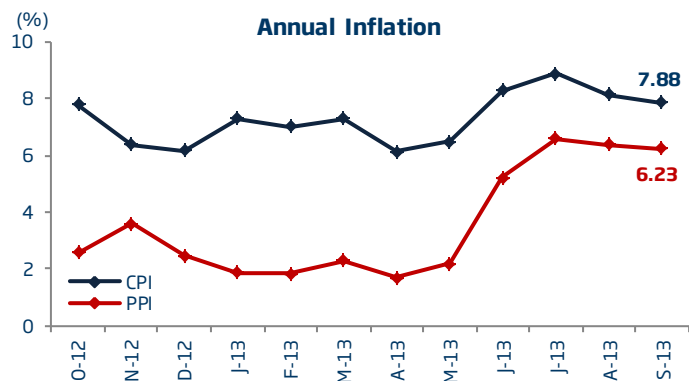
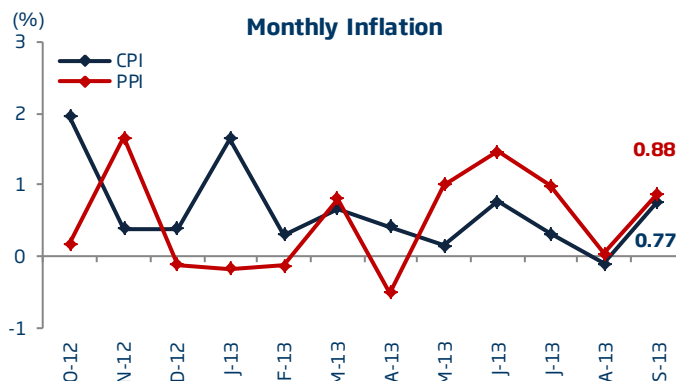
Industrial Production



Foreign Trade and Current Account Balance

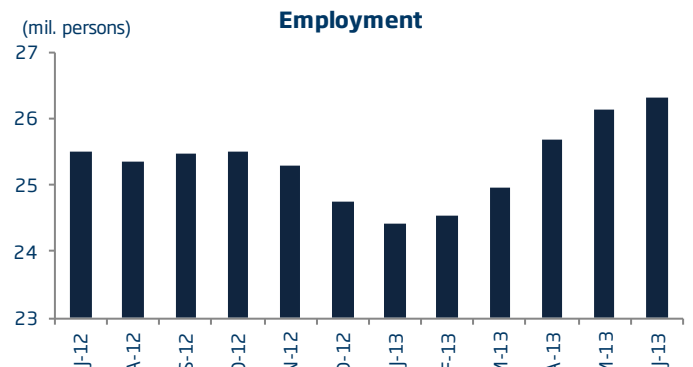
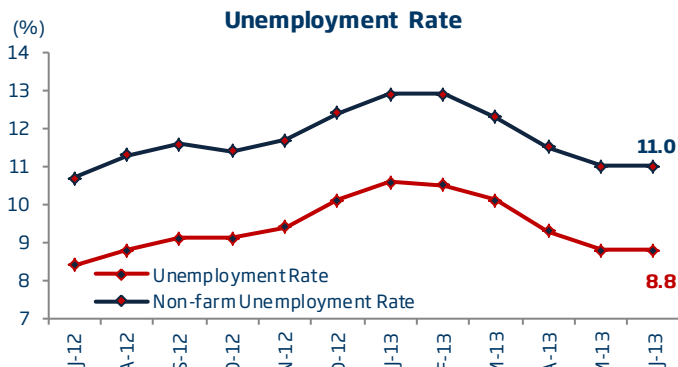


Inflation

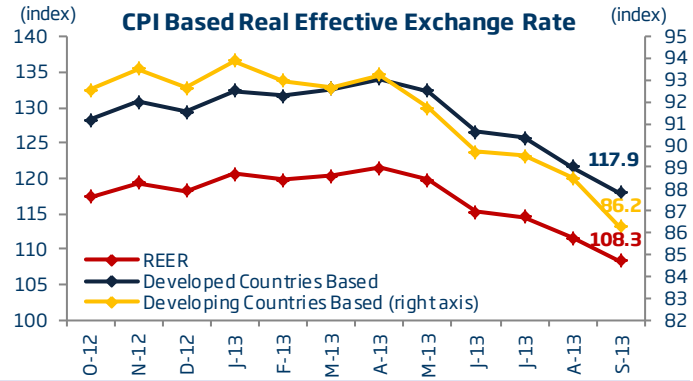
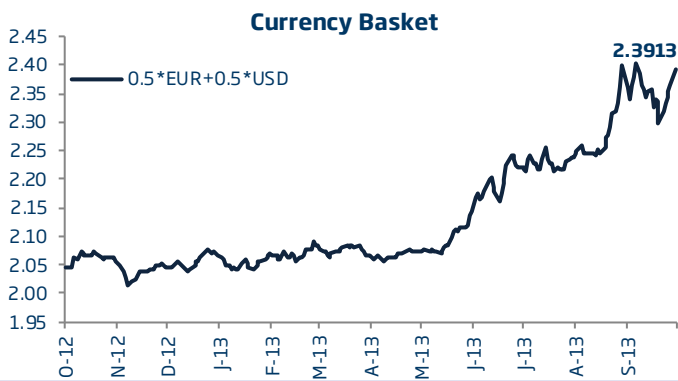


Source: Turkstat, CBRT

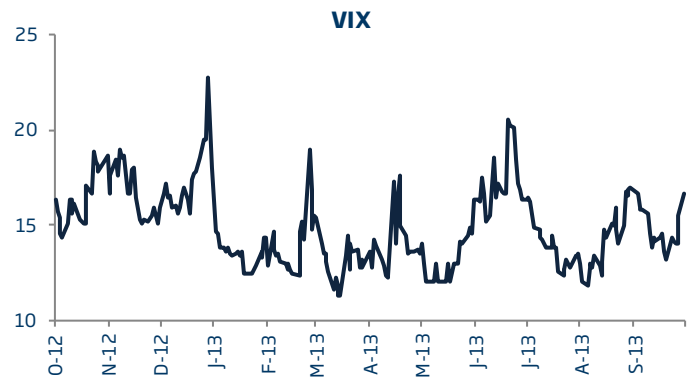
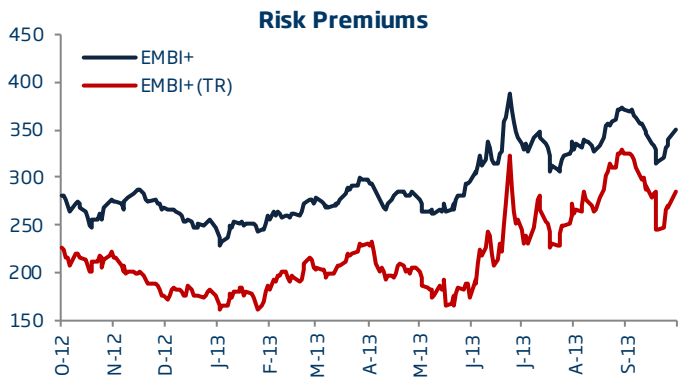
Labor Market



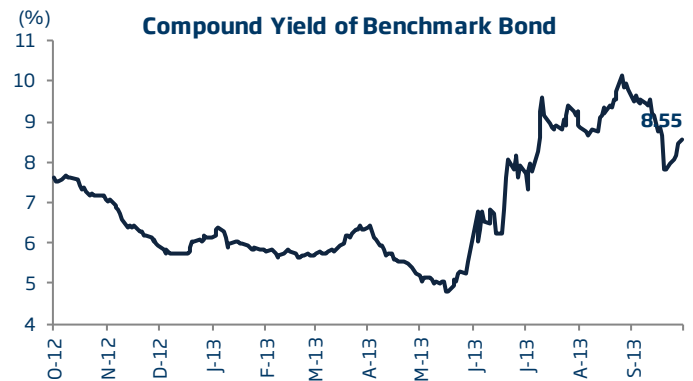
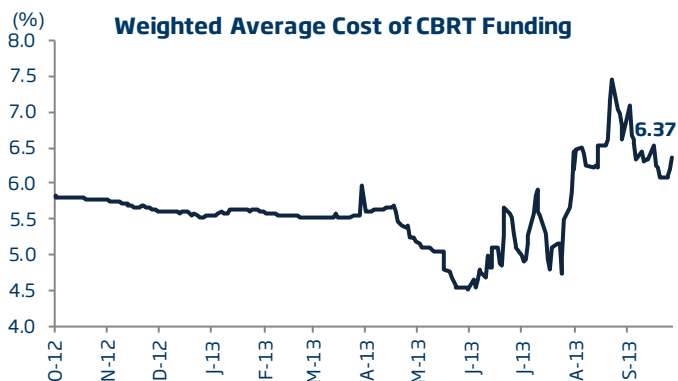
FX Market



Risk Indicators

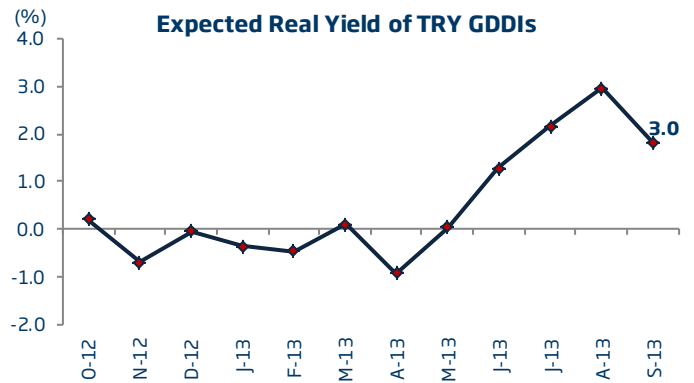
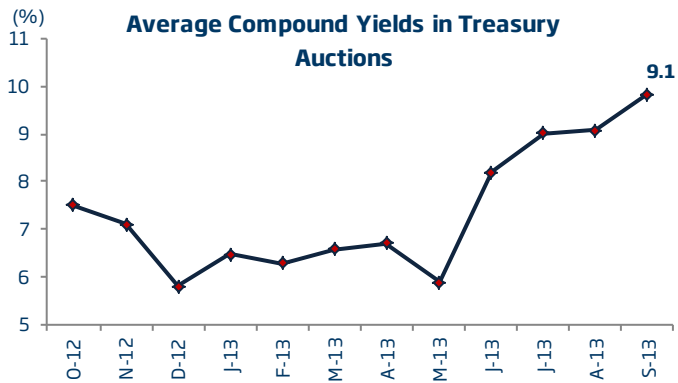


Interest Rates

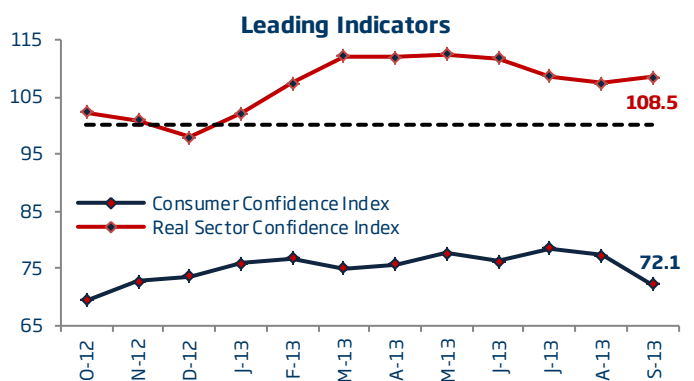
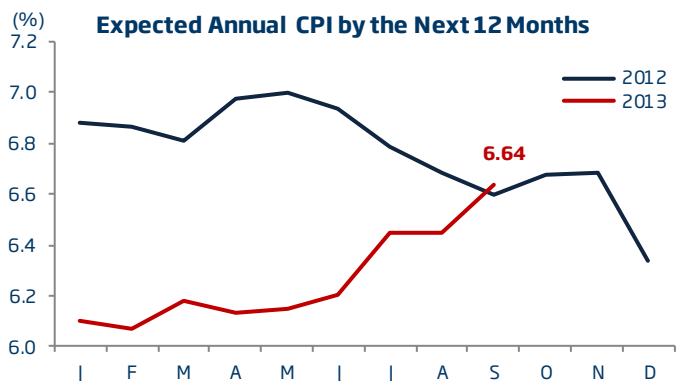
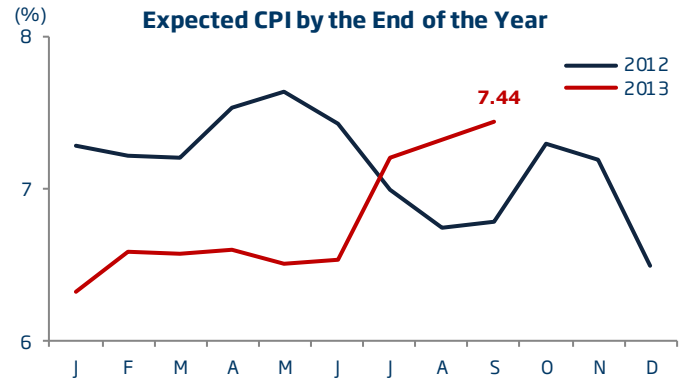
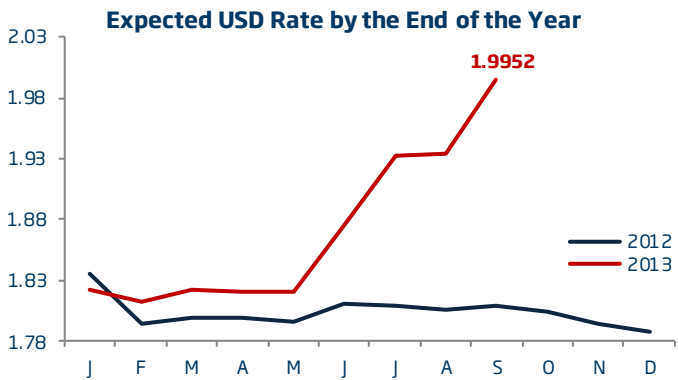
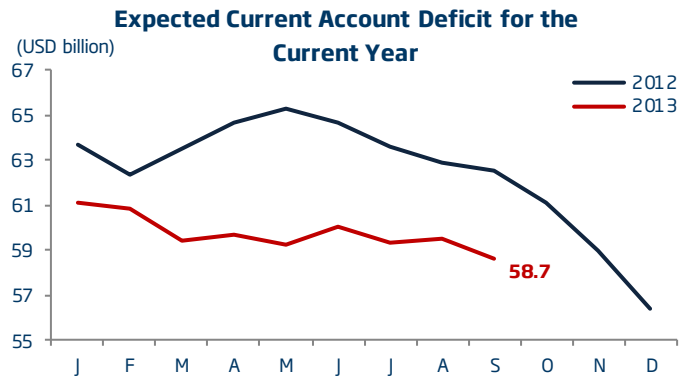
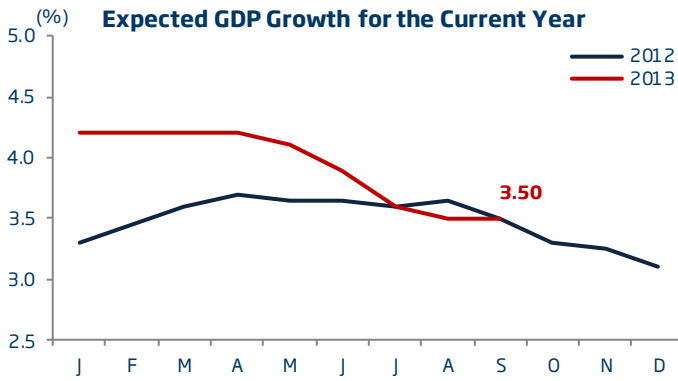


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

Bond-Bill Market



Survey of Expectations and Other Leading Indicators



Source: Treasury, BIST, 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	785.7			
GDP Growth Rate (%)	0.7	-4.8	9.2	8.8	2.2	3.0	4.4	-
Inflation (%)						Jul-13	Aug-13	Sep-13
CPI (annual)	10.1	6.5	6.4	10.4	6.2	8.9	8.2	7.9
PPI (annual)	8.1	5.9	8.9	13.3	2.5	6.6	6.4	6.2
Labor Market						Apr-13	May-13	Jun-13
Unemployment Rate (%)	11.0	14.0	11.9	9.8	9.2	9.3	8.8	8.8
Employment (thousand persons)	21,194	21,277	22,594	24,110	24,821	25,691	26,130	26,319
FX Rates						Jul-13	Aug-13	Sep-13
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.2	114.6	111.6	108.3
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	1.9241	2.0557	2.0342
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.5539	2.7470	2.7484
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.2390	2.4014	2.3913
Foreign Trade Balance⁽¹⁾ (USD billion)						Jun-13	Jul-13	Aug-13
Exports	132.0	102.1	113.9	134.9	152.5	153.3	153.6	151.9
Imports	202.0	140.9	185.5	240.8	236.5	245.0	247.1	246.5
Foreign Trade Balance	-69.9	-38.8	-71.7	-105.9	-84.1	-91.7	-93.5	-94.6
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5	62.6	62.2	61.6
Current Account Balance⁽¹⁾ (USD billion)						May-13	Jun-13	Jul-13
Current Account Balance	-40.4	-12.2	-45.4	-75.1	-47.8	-53.4	-54.0	-55.8
Capital and Financial Accounts	37.4	9.3	44.0	65.7	47.0	57.0	59.2	56.0
Direct Investments (net)	17.2	7.1	7.6	13.7	8.5	7.7	6.3	7.4
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	52.5	48.4	38.5
Other Investments (net)	24.2	2.1	33.2	28.2	18.6	25.5	25.6	26.9
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-28.7	-21.0	-16.7
Net Errors and Omissions	3.0	2.9	1.4	9.4	0.8	-3.6	-5.2	-0.2
Current Account Deficit/GDP	-5.4	-2.0	-6.2	-9.7	-6.1	-	-	-
Budget⁽²⁾⁽³⁾ (TL billion)						June-13	July-13	Aug-13
Expenditures	227.0	268.2	294.4	314.6	360.5	187.9	224.6	259.7
Interest Expenditures	50.7	53.2	48.3	42.2	48.4	23.3	30.2	37.7
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1	164.6	194.4	222.0
Revenues	209.6	215.5	254.3	296.8	331.7	190.9	228.0	259.9
Tax Revenues	168.1	172.4	210.6	253.8	278.8	158.4	188.0	216.0
Budget Balance	-17.4	-52.8	-40.1	-17.8	-28.8	3.1	3.4	0.2
Primary Balance	33.2	0.4	8.2	24.4	19.6	26.4	33.6	38.0
Budget Balance/GDP	-1.8	-5.5	-3.6	-1.4	-2.0	-	-	-
Central Government Debt Stock (USD billion)						Jun-13	Jul-13	Aug-13
Domestic Debt Stock	181.7	219.2	228.2	195.2	216.8	205.6	208.4	199.1
External Debt Stock	69.8	74.1	78.1	79.2	81.7	81.2	82.3	82.3
Total	251.5	293.2	306.3	274.4	298.6	286.8	290.7	281.4

(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	Jun-13	Jul-13	Change ⁽¹⁾
TOTAL ASSETS	732.5	834.0	1006.7	1217.7	1370.7	1527.7	1562.5	14.0
Loans	367.4	392.6	525.9	682.9	794.8	921.2	946.9	19.1
TL Loans	262.1	288.2	383.8	484.8	588.4	675.3	696.7	18.4
Share (%)	71.3	73.4	73.0	71.0	74.0	73.3	73.6	-
FX Loans	105.3	104.4	142.1	198.1	206.4	245.8	250.1	21.2
Share (%)	28.7	26.6	27.0	29.0	26.0	26.7	26.4	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	26.1	26.9	14.9
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	2.8	2.8	-
Securities	194.0	262.9	287.9	285.0	270.0	274.2	282.4	4.6
TOTAL LIABILITIES	732.5	834.0	1006.7	1217.7	1370.7	1527.7	1562.5	14.0
Deposits	454.6	514.6	617.0	695.5	777.2	837.7	870.8	12.0
TL Deposits	294.1	341.4	433.5	460.0	520.4	563.5	579.6	11.4
Share (%)	64.7	66.3	70.3	66.1	67.4	67.3	66.6	-
FX Deposits	160.5	173.2	183.5	235.5	251.8	274.2	291.2	15.6
Share (%)	35.3	33.7	29.7	33.9	32.6	32.7	33.4	-
Securities Issued	0.0	0.1	3.1	18.4	37.9	48.9	48.8	28.8
Payables to Banks	92.7	86.1	122.4	167.4	173.4	209.6	216.1	24.6
Funds from Repo Transactions	40.8	60.7	57.5	97.0	79.9	116.6	99.7	24.8
TOTAL SHAREHOLDERS' EQUITY	86.4	110.9	134.5	144.6	181.9	184.7	185.5	2.0
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	13.7	16.6	-
RATIOS (%)								
Loans/Assets	50.2	47.1	52.2	56.1	58.0	60.3	60.6	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	17.9	18.1	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	54.8	55.7	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.2	90.9	92.0	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	16.3	15.9	-

(1) Year-to-date % change



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