



# Monthly Economic Review November 2013



## Global Economy

- ◆ International Monetary Fund published the World Economic Outlook Report on October 8<sup>th</sup> and stated that the world economy had entered another transition period. It was noted that advanced economies were showing relatively improved economic outlook despite their persistent problems. On the other hand, according to the Report, emerging market economies displayed signs of slowdown recently.
- ◆ The agreement was reached to end the government shutdown in the US, hours before the debt ceiling deadline of October 17<sup>th</sup> 2013 and the debate over budget ended for now. The government can start spending, however, the debt limit was suspended only to February 7<sup>th</sup>, 2014.
- ◆ Barack Obama nominated Janet Yellen, the Vice Chairwoman of Fed since 2010, as Bernanke's successor. If approved by the Senate, Yellen will take over Bernanke's position on January 31<sup>st</sup>, 2014 and she will be the first female governor of Fed in history.
- ◆ Euro Area inflation dropped to 0.7% year-on-year in October, the lowest level since November 2009, increasing the expectations that the European Central Bank might further cut the interest rates in the coming period. Despite the improvements in leading indicators, the record high level of unemployment rate in the region also reinforced these expectations.
- ◆ Bank of Japan did not make any change in its current monetary expansion program and the interest rates at its October meeting. Despite the steps taken towards fighting with deflation in the country, the improvement was not satisfactory.
- ◆ Emerging market economies, where local currencies have been depreciating since June leading to increased inflationary pressures, are leaning towards tightening their monetary policies.

## Turkish Economy

- ◆ Main priorities of Medium Term Program are listed as reducing the current account deficit, by this means, increasing the national savings, channeling the present resources to productive means, raising the economy's productivity level, decreasing the inflation, maintaining the strong stance in public finances, and to support economic growth and employment.
- ◆ The impact of the Ramadan was evident in the industrial production figures of August. The seasonal and calendar adjusted industrial production fell by 4% compared to previous month, the sharpest monthly decline registered since January 2009.
- ◆ In July, the unemployment rate rose by 0.9 points compared to the same month of the previous year and increased to 9.3%.
- ◆ In September 2013, excluding the gold trade exports and imports increased by 10.9% and 3.9%, respectively. In the first nine months of the year, on the other hand, exports rose by 7.0% while imports increased by 3.1%.
- ◆ Current account deficit remained below the market expectations and was realized as 2.0 billion USD in August, the lowest monthly level attained in 2013.
- ◆ In October, compared to the previous month, CPI and PPI increased by 1.80% and 0.69%, respectively. Despite the higher than expected monthly figures, the annual increase in CPI inflation declined to 7.71% thanks to the base effect. In October, the rapid increase in the food prices was influential in the higher than expected inflation figure.
- ◆ At its meeting on October 23<sup>rd</sup>, CBRT did not make any changes in the current monetary policy.
- ◆ BRSA has brought new regulations regarding credit cards and consumer credits.

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## 2014-2016 Medium Term Program was announced.

Medium Term Program, covering the 2014–2016 period, was announced on October 8<sup>th</sup>. The global macroeconomic framework of the Medium Term Program assumes that global economic growth will gradually gain momentum in the coming period, Turkey's trading partners will grow at a moderate pace, the amount of capital inflows will be sufficient for financing the economic growth, and there will be a partial recovery in Turkey' terms of trade.

Reducing the current account deficit, by this means, increasing the national savings, channeling the present resources to productive means, raising the economy's productivity level, decreasing the inflation, maintaining the strong stance in public finances, and to support economic growth and employment are the main priorities of the MTP.

### Economic growth and employment...

After the 3.7% GDP growth attained in the first half of this year, MTP forecasts that the positive contribution of final domestic demand and the negative contribution of net exports to growth will continue also in the second half. Furthermore, it is expected that industrial production will keep its upward trend and services sector will continue to support economic growth. According to these assumptions, GDP growth in 2013 is anticipated to be 3.6%.

The GDP growth is estimated to be 4% in 2014. The GDP

growth is targeted to be 5% in 2015 and 2016 with a growth strategy of providing more investment in productive areas, backed by higher national savings, and efficiency gains. Especially in industrial sector, the contribution of total factor productivity to growth will be enhanced by implementing policies that aim to increase efficiency, and therefore, there will be a transition to a more balanced growth model. At the same time, growth will accelerate without leading to an expansion in the current account deficit thanks to rising competitiveness of Turkey.

According to MTP, in line with the expected economic growth, the unemployment rate is also projected to recede gradually. During 2014-2016 period, total employment is planned to be raised by 1.8 million persons. Unemployment rate, which is forecasted as 9.5% in 2013, is expected to decline to 8.9% in 2015.

### Public finance

During the Program period, fiscal policy will be implemented in a way that macroeconomic and financial stability will be improved, the current account deficit will be kept under control and the growth potential will be lifted as savings increase.

The central government budget deficit to GDP ratio is forecasted to decline to 1.2% in 2013. However, it is projected to increase to 1.9% in 2014. After 2014, it is expected to follow a downward trend again and to be

### Medium Term Program Estimates

	2013	2014	2015	2016
<b>Growth and Employment</b>				
GDP (billion TL, current prices)	1,559	1,719	1,895	2,095
GDP (billion USD, current prices)	823	867	928	996
GDP Per Capita (USD)	10,818	11,277	11,927	12,670
GDP Growth (%)	3.6	4.0	5.0	5.0
Total Consumption (%)	4.3	3.2	3.8	3.6
Total Fixed Capital Investment (%)	3.1	3.6	8.6	8.1
Unemployment Rate (%)	9.5	9.4	9.2	8.9
<b>Public Finance</b>				
Budget Balance (% of GDP)	-1.2	-1.9	-1.6	-1.1
Primary Surplus (% of GDP)	2.0	1.1	1.2	1.3
EU Defined General Government Debt Stock (% of GDP)	35.0	33.0	31.0	30.0
<b>Balance of Payments</b>				
Exports (FOB) (billion USD)	153.5	166.5	184.0	202.5
Imports (CIF) (billion USD)	251.5	262.0	282.0	305.0
Current Account Balance (billion USD)	-58.8	-55.5	-55.0	-55.0
Current Account Balance / GDP (%)	-7.1	-6.4	-5.9	-5.5
<b>Inflation</b>				
CPI (annual % change)	6.8	5.3	5.0	5.0

realized as 1.1% in 2016. Considering the projections for budget expenditures and revenues, it is inferred that prudential stance of fiscal policies will be sustained in the Program period.

Additionally, the EU defined general government nominal debt stock to GDP ratio, which decreased to 36.2% in 2012, is anticipated to recede to 35% in 2013. Following a smooth downward trend until the end of the Program period it is expected to be realized as 30% in 2016.

## Balance of payments

During the program period, the recovery in economic activity in trading partners of Turkey, especially in Euro Area, is predicted to have a positive impact on export performance of Turkey. It is expected that annual average increase in exports will stay above the annual average increase in imports and foreign trade deficit will follow a flat course in this period. The price of Brent oil, which is forecasted as 108.8 USD/barrel by the end of 2013, is assumed to move downwards and drop to 93.1 USD/barrel by the end of 2016. Gold trade, on the other hand, is expected to converge to its long-run trend.

In 2013, current account deficit is expected be realized as 58.8 billion USD (7.1% of GDP). According to the MTP, with the expected normalization in gold trade, current account deficit to GDP ratio is anticipated to decrease to 6.4% by the end of 2014 and the current account deficit to be 55.5 billion USD. Energy imports, which are predicted to be 59 billion USD in 2013, will rise to 64.5 billion USD by the end of the Program period due to the increase in economic activity .

In the current conjuncture where advanced economies are giving signals of tightening in their monetary policies, Turkey, as having low saving rates, follow closely the developments associated with foreign financing conditions.

## Inflation

According to MTP, total demand conditions are expected to continue to contribute to the fall in inflation during 2014-2016 period and energy prices are also expected to decrease. In this framework, the annual increase in CPI is predicted to be 5.3% in 2014, and 5% in both 2015 and 2016.

## Comparison of MTP and IMF Estimates

GDP	(%)		
	MTP 2013-2015	MTP 2014-2016	IMF October 2013
2013	4.0	3.6	3.8
2014	5.0	4.0	3.5
2015	5.0	5.0	4.3
2016	-	5.0	4.4

Current Account Deficit/GDP	(%)		
	MTP 2013-2015	MTP 2014-2016	IMF October 2013
2013	7.1	7.1	7.4
2014	6.9	6.4	7.2
2015	6.5	5.9	7.4
2016	-	5.5	7.7

Inflation	(CPI, annual %)		
	MTP 2013-2015	MTP 2014-2016	IMF October 2013
2013	5.3	6.8	8.0
2014	5.0	5.3	6.0
2015	5.0	5.0	6.0
2016	-	5.0	6.0

Budget Deficit/GDP	(%)	
	MTP 2013-2015	MTP 2014-2016
2013	2.2	1.2
2014	2.0	1.9
2015	1.8	1.6
2016	-	1.1

Source: Turkstat

## Sharp decrease in industrial production in August...

The impact of the Ramadan was evident in the industrial production figures of August. The seasonal and calendar adjusted industrial production fell by 4% compared to previous month, the sharpest monthly decline registered since January 2009. Regarding annual figures, the calendar adjusted industrial production also fell by 0.1% in August compared to the same month of the previous year, the weakest annual change in the last eight months. Analyzing the main industry groups, intermediate goods and non-durable consumer goods production declined while capital goods and durable goods production increased. Among the 24 sub-sectors constituting the manufacturing sector, the fastest decline was registered in transport equipment production while the motor vehicles production registered the highest increase.

According to the data announced by Markit, manufacturing sector PMI was realized as 53.3 in October. Although there was a monthly decline in the index compared to 8-month peak level of 54 in September, an index level over 50 still points out an increase in economic activity.

## Increase in consumer confidence...

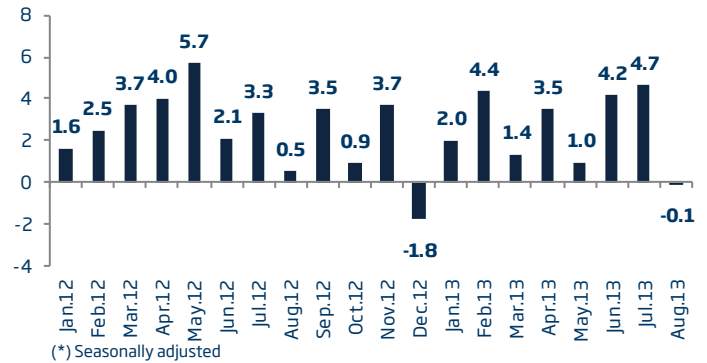
According to the data announced by CBRT, the Real Sector Confidence Index decreased by 1 point compared to previous month and was realized as 107.5. The seasonally adjusted index, on the other hand, increased by 3.3 points to 111.9. Capacity Utilization Rate increased by 1.5 points compared to the previous month and was realized as 76.4%.

According to the data announced by Turkstat, the Consumer Confidence Index of October increased by 3.4 points compared to the previous month and was realized as 75.5. Looking at the details of the index, all 17 sub-indices registered an increase except current financial situation of household. The expectations regarding the probability of saving in the next 12 months increased by 20.9% compared to previous month and the general economic situation expectation increased by 6%.

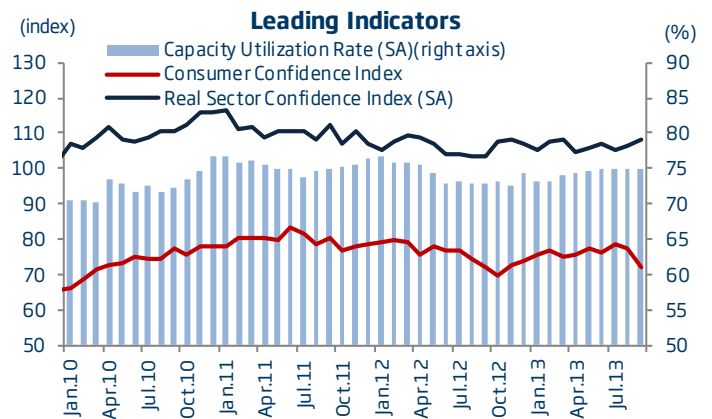
## Rise in unemployment rate...

The unemployment rate of July increased by 0.9 point compared to the previous months and was realized as 9.3%. In the same period, non-agricultural unemployment rate increased by 1.1 points to 11.8% and youth unemployment rate increased by 1.7 points to 18%. The seasonally adjusted unemployment rate reached 10.1%, the highest level since June 2011. The number of unemployed persons increased by 363 thousand persons compared to the same period of the previous year while total employment increased by 601 thousand persons during the same period.

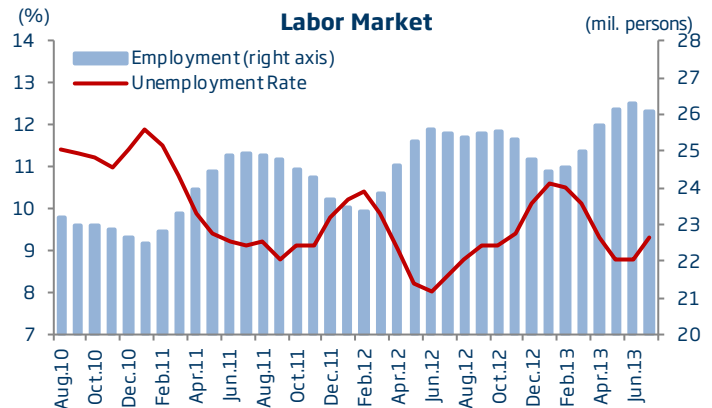
**Industrial Production Index\***  
(annual % change)



**Leading Indicators**



**Labor Market**

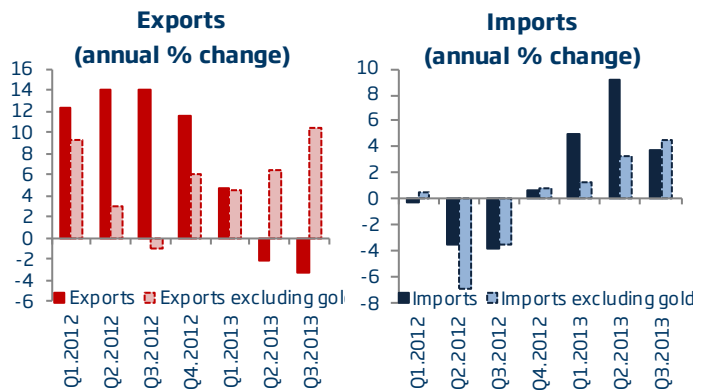


Source: Turkstat, CBRT

## Foreign trade deficit in September came in line with expectations.

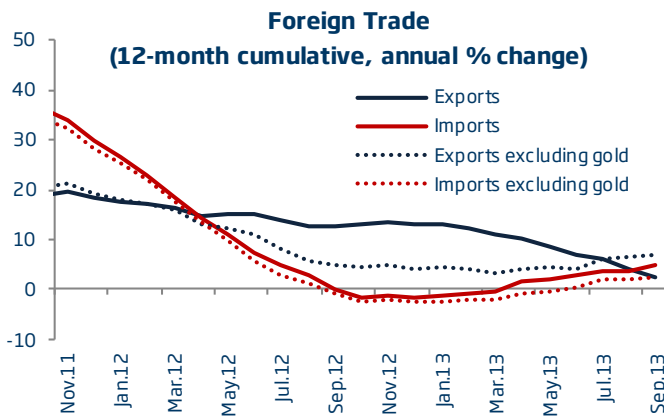
In September, exports increased by 1.3% to 13.1 billion USD compared to the same period of the previous year while imports volume rose by 3.5% to 20.6 billion USD. Thus, foreign trade deficit was realized as 7.5 billion USD in line with market expectations. Import coverage ratio, on the other hand, fell by 2.1 points to 63.6% compared to the same month of the previous year.

Regarding the first nine months of 2013, exports volume contracted by 0.4%, whereas imports increased by 6%. In the same period, foreign trade deficit increased by 17.3% and was realized as 75.1 billion USD.



## In September, the exports of motor vehicles increased by 38.1% on an annual basis, while the exports of iron and steel decreased by 21%.

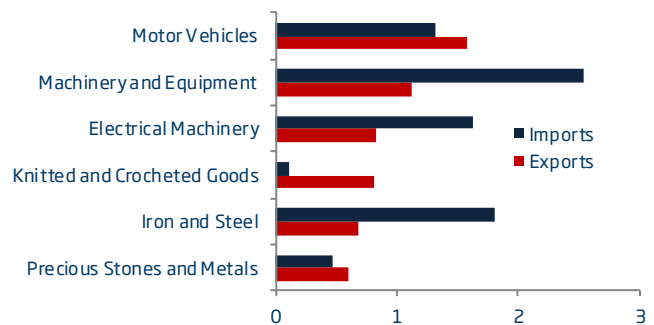
The exports of motor vehicles, having the highest export volume in the first 9-months of 2013, recorded a sharp increase by 38.1% in September, on an annual basis. The exports of boilers, machinery and mechanical appliances, which registered the second highest export volume in the same period, rose by 14.1% in September, compared to the same month of the previous year. The exports of iron and steel, on the other hand, remained weak in September and decreased by 21% compared to the same month of the previous year.



## Foreign trade figures excluding gold...

Fluctuations in gold exports during 2012 and gold imports during 2013 create a need to analyze the foreign trade figures by excluding gold trade. In fact, excluding the gold trade, it is observed that in September 2013 exports and imports increased by 10.9% and 3.9%, respectively. In the first nine months of the year, excluding gold trade, exports rose by 7.0% while imports increased by 3.1%. In the same period, foreign trade deficit excluding gold fell by 2.9%. On the other hand, the gold exports and imports started to normalize recently. In September, gold imports fell to its lowest level of 2013 and the gold exports also remained low.

## Foreign Trade in Leading Sectors (September 2013, billion USD)

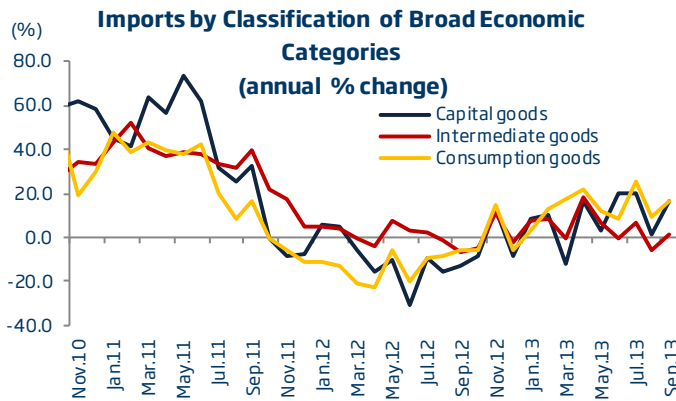


Foreign Trade Balance	(USD billion)					
	September		Change	January-September		Change
	2012	2013	(%)	2012	2013	(%)
Exports	13.0	13.1	1.3	112.9	112.5	-0.4
Imports	19.9	20.6	3.5	177.0	187.6	6.0
<b>Foreign Trade Balance</b>	<b>-7.0</b>	<b>-7.5</b>	<b>7.6</b>	<b>-64.1</b>	<b>-75.1</b>	<b>17.3</b>
Import Coverage Ratio (%)	65.0	63.6	-	63.8	60.0	-

Source: Turkstat

## In September, the imports of intermediary goods increased by 1.6%.

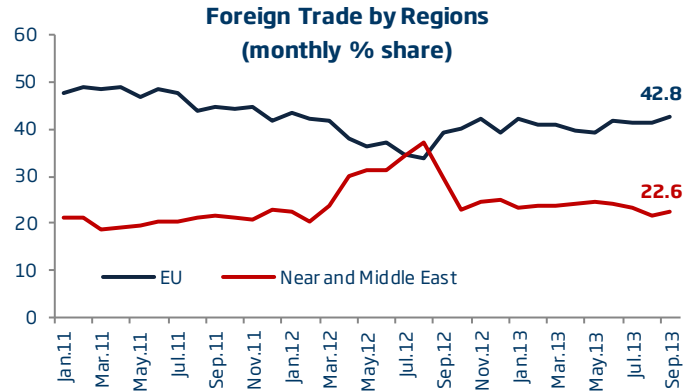
The imports of intermediary goods, constituting 73% of the total imports volume in the first nine months of the year, recorded a 1.6% yearly increase in September. After registering a relatively moderate rise by 9.6% in August, the imports of consumption goods increased by 16.5%, in September. On the other hand, the 25.3% annual increase in the imports of capital goods excluding transportation vehicles was noteworthy. In the first nine months of the 2013, the imports of capital, intermediary and consumption goods rose by 8.5%, 4.5% and 14.6%, respectively, compared to the same period of previous year.



## The share of European Union countries in exports increased to the highest level since January 2012.

The share of European Union countries in total exports increased to 42.8% in September 2013, the highest level attained since January 2012. Compared to August, the share of EU countries increased by 1.5 points. In the same period, the share of Near and Middle Eastern countries in exports also increased by 1 point to 22.6%. On the other hand, the share of North African countries decreased to 5.5% mainly as a result of decline in Turkey's exports to Egypt due to the political problems in this country.

Analyzing our exports by countries, the biggest export market of Turkey was Germany. In terms of imports, China ranked first. In September, exports to Germany increased by 7.1% compared to the same month of the previous month while imports from China increased by 26.1% during the same period.



## Expectations...

In September, the trade deficit was realized in line with expectations. Analyzing the foreign trade figures by excluding gold trade, the positive impact of the recent recovery in EU countries became more evident on exports. The fact that the Central Bank's tightening of the monetary policy will be kept till the inflation rate become consistent with targets might put pressure on domestic demand and the volume of imports in the coming period. On the other hand, the relatively favorable levels of economic activity in the EU countries would continue to affect the volume of exports positively. In addition, the normalization of trade relations with North African countries might also create a positive impact on the volume of exports.

## Current account deficit came in slightly lower than expected in August.

Current account deficit was realized as 2.0 billion USD in August, slightly lower than the market expectation of 2.1 billion USD. The August current account deficit was the lowest monthly level attained in 2013. During the first 8 months of the 2013, the deficit reached 44.3 billion USD increasing by 25.3% compared to the same period of the previous year. The 12-month cumulative current account deficit stood at 56.7 billion USD as of August 2013.

## The negative impacts of the gold trade on the current account deficit diminished in August.

Analyzing the details of the current account deficit, it was noteworthy that the foreign trade deficit narrowed significantly in August compared to the previous months. The foreign trade deficit calculated according to the balance of payments method decreased to 5.6 billion USD in August from 8.2 billion USD in July. The deceleration in imports was responsible for this contraction in the foreign trade deficit. Besides, the fact that the negative impact coming from the gold trade was also lower in August also contributed to the decline in the foreign trade deficit.

On the other hand, despite the deceleration in gold imports in August, the deficit associated with the gold trade reached 8.9 billion USD in the first 8 months of 2013. During the same period of the last year, gold trade gave a surplus of 3.1 billion USD. Thus, when the gold trade was excluded, the current account deficit narrowed by 7.9% in the first 8 months compared to the same period of the previous year.

## Rise in tourism revenues...

The seasonal increase in tourism revenues in August was also another factor contributing to the contraction in the current account deficit. Net tourism revenues increased by 17.2% in August compared to the same month of the previous year and were realized as 3.6 billion USD. In the first 8 months of the year, net tourism revenues increased

by 20.9% to 15.8 billion USD.

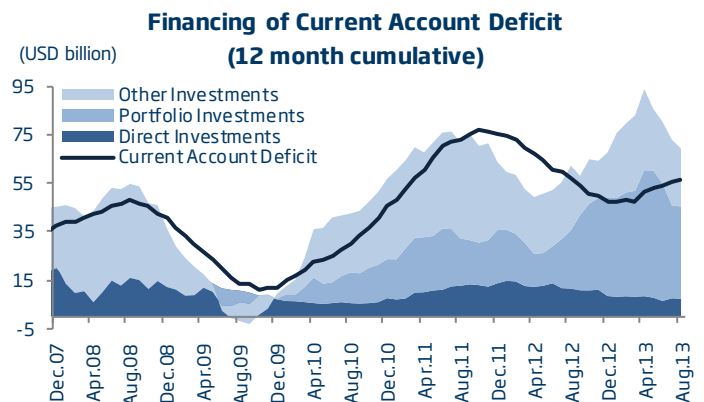
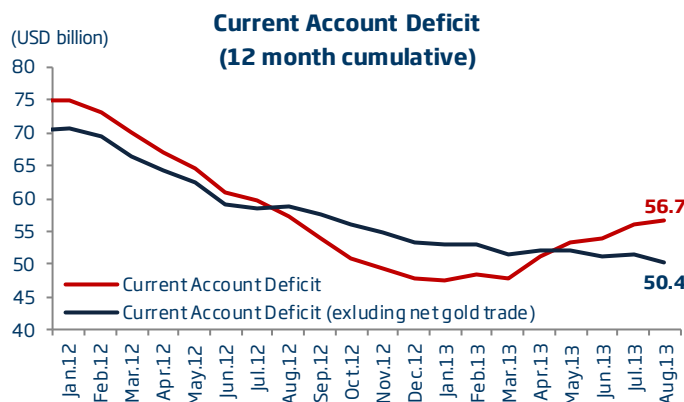
## Portfolio investments account registered an inflow in August.

As a result of the concerns related to Fed's expected tapering of the asset purchase program, there were capital outflows from almost all emerging markets including Turkey during June and July. In fact, net portfolio investments account registered the sharpest decline on a monthly basis since October 2008 with 3.1 billion of outflow in July. On the other hand, the risk perception towards emerging markets improved somewhat during August and net portfolio investments registered a capital inflow of 1.9 billion USD accordingly. Analyzing the details of the portfolio investments in August, it was noteworthy that there was 258 million USD net outflow from the equity market. This brought the total outflow in the first 8 months to 1.1 billion USD in this market. On the other hand, non-residents' net purchases from the government domestic debt securities were 1.1 billion USD in August, bringing the cumulative amount to 5.4 billion USD in the first 8 months of the year. Regarding bond issues in international capital markets, banking sector borrowed 413 million USD while real sector borrowed 444 million USD. The net borrowings of the banking sector and real sector in the first 8 months reached 5.4 billion USD and 2.9 billion USD, respectively. The real sector's starting of issuing bonds in international markets back in August was perceived as a favorable development in terms of financing conditions after they stopped issuing bonds in June and July.

Regarding foreign direct investments, 460 million USD net inflow was recorded in August and the total net inflow in the first 8 months reached 5.7 billion USD. During the same period of the previous year, the net foreign direct investments inflow was 6.9 billion USD.

## Limited capital inflows in other investments account continued.

Analyzing the assets item of other investments, it was



observed that the foreign currency deposits of Turkish banks' held within their correspondent banks abroad increased by 1.4 billion USD. On the liabilities side, Turkish banking sector which tended to raise long-term loans during May, June and July, again started to prefer short-term loans from abroad instead of long-term in August. In August, short-term loans raised by the banking sector amounted to 1.4 billion USD. Calculated on the basis of 12-month cumulative data, the long-term debt rollover ratio of the banking sector which declined to 93% in February increased to 152% as of August.

In August, the real sector made a net repayment of 398 million USD in the long-term loans, and used 1.1 billion USD of short term loans. Long-term debt rollover ratio of the real sector was realized as 103% calculated on a 12-month cumulative basis.

### Reserve assets increased in August.

CBRT made use of its reserve assets in order to finance the current account deficit as the capital inflows weakened starting from the end of May due to the Fed related concerns. In fact, reserve assets of CBRT declined by 9.6 billion USD during May-July period. In August, on the other hand, CBRT managed to add 4.0 billion USD to its reserve assets. Thus, the total increase in the reserve assets was realized as 8.7 billion USD in the first 8 months. In addition, 2.9 billion USD capital inflow was registered under the net errors and omissions account in August.

### Expectations...

CBRT's tightening of the monetary policy in order to avoid the negative impacts of the fluctuations in global economic conjuncture is anticipated to put pressure on economic activity in Turkey. The 2013 year-end growth forecast has already been lowered in the recently published Medium Term Program. In addition, new measures which were brought to curb the growth in consumer loans are also expected to put limit the growth in domestic consumption expenditures. Moreover, the foreign trade deficit associated with the gold trade, which made negative impact on the current account deficit during 2013, is expected to disappear gradually as the gold trade converges to its long-term trend. The gold trade figures of August also confirm this expectation. According to the Medium Term Program, the current account deficit is expected to be 58.8 billion USD (7.1% of GDP) and would further decline to 55.5 billion USD in 2014 (6.4% of GDP) together with the normalization of the gold trade.

Regarding the financing of the current account deficit, it was noteworthy that the portfolio investments account registered net capital inflow in August following the outflows recorded in May, June and July. At the same time, reserve assets increased in August after declining for three consecutive months. In the coming months, the signals that will be sent from major central banks' regarding the timing of tightening in their monetary policies and the developments in external financing conditions will continue to be influential in the capital flows.

Current Account Balance	(USD million)				
	August 2013	January-August 2012 2013		% Change	12 Month Cumulative
<b>Current Account Balance</b>	<b>-1,995</b>	<b>-35,351</b>	<b>-44,293</b>	<b>25.3</b>	<b>-56,694</b>
Foreign Trade Balance	-5,568	-45,432	-54,362	19.7	-74,265
Services Balance	3,984	14,031	15,941	13.6	24,819
Tourism Revenues (net)	3,582	13,102	15,842	20.9	24,299
Income Balance	-477	-4,801	-6,502	35.4	-8,410
Current Transfers	66	851	630	-26.0	1,162
<b>Capital and Financial Accounts</b>	<b>-870</b>	<b>32,666</b>	<b>41,277</b>	<b>26.4</b>	<b>55,496</b>
Direct Investments (net)	460	6,875	5,744	-16.5	7,314
Portfolio Investments (net)	1,930	19,540	16,860	-13.7	38,109
Assets	251	1,939	2,436	25.6	3,154
Liabilities	1,679	17,601	14,424	-18.1	34,955
Equity Securities	-258	2,393	-1,059	-	2,822
Debt Securities	1,937	15,208	15,483	1.8	32,133
Other Investments (net)	748	22,025	27,458	24.7	23,942
Assets	-704	3,266	-1,507	-	-5,338
Currency and Deposits	-1,384	3,436	-726	-	-2,990
Liabilities	1,452	18,759	28,965	54.4	29,280
Trade Credits	-1,528	2,187	4,751	117	3,586
Loans	2,189	6,445	12,468	93.5	15,791
Banking Sector	1,481	3,463	12,544	262.2	14,245
Non-bank Sectors	665	4,347	399	-90.8	2,749
Deposits	696	9,737	11,304	16.1	9,366
Foreign Banks	685	9,118	9,858	8.1	7,869
Foreign Exchange	1,471	7,611	9,959	30.9	7,593
Turkish Lira	-786	1,507	-101	-	276
Non-residents	412	1,992	2,627	31.9	3,548
Reserve Assets (net)	-3,994	-15,735	-8,722	-44.6	-13,801
<b>Net Errors and Omissions</b>	<b>2,865</b>	<b>2,685</b>	<b>3,016</b>	<b>12.3</b>	<b>1,198</b>

Source: CBRT



## Central government budget posted a deficit of 4.7 billion TL in September.

According to the data released by the Ministry of Finance, in September budget expenditures increased to 34.8 billion TL due to the sharp rise in the interest expenditures. In the same period, budget revenues increased by 29.8% to 30.1 billion TL. Thus, budget deficit decreased by 19% compared to the same month of the previous year and was realized as 4.7 billion TL.

In the first nine months of 2013, compare to the same period of the previous year budget revenues and expenditures increased by 19% and 14.1%, respectively. During the same period, budget deficit decreased by 68.7% to 4.5 billion TL.

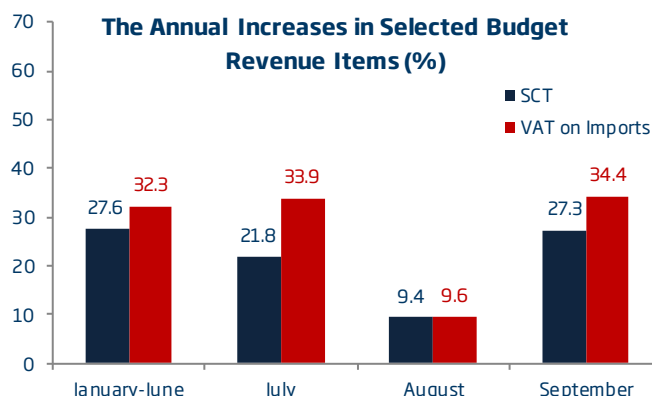
### Acceleration in the tax revenues...

Tax revenues, which were weak in August due to the seasonal factors, recorded an increase of 22.5% in September and indicated strong domestic demand conditions. In fact, in this period the Special Consumption Tax made the highest contribution to the increase in tax revenues with an annual increase of 27.3%. Besides, Value Added Tax (VAT) on Imports increased by 34.4% in September compared to the same month of previous year, supporting the strong budget figures. Other revenues, on the other hand, followed a relatively stable course, while the 2.1 billion TL annual increase in Portfolio Revenue of Treasury account was noteworthy.

As of for the first nine months of the year, central budget revenues displayed a strong performance. Hence, the budget revenues rose to 290 billion TL satisfying 78.4% of the year-end budget target.

### Interest expenditures...

Interest expenditures increased by 86.6% compared to the same month of the previous year and reached 6.1 billion TL in September. During the same period, non-interest expenditures, on the other hand, increased by 11.6% to 28.7 billion TL. This stemmed from compensations of employees together with the health, retirement and social



aid expenditures which are monitored under current transfers.

Analyzing the 9 month cumulative figures, it was seen that annual increases in non-interest and interest expenditures were realized as 14.7% and 10.9%, respectively. Recent figures indicated that the budget expenditures performed better than the year-end targets. In fact, budget expenditures reached 294.5 billion TL or 72.9% of the year-end budget target.

### Expectations...

The performance of the central government budget in the first nine months of the year indicated that the year-end budget targets of 2013 are well achievable. Besides, the downward revisions in budget deficit/GDP forecasts for the following years in Medium Term Program announced in October also showed that budget discipline in the next years would be maintained despite the local and general elections.

## Central Government Budget

	September		%	January-September		%	Budget Target	Real./ Target (%)	MTP Real. Estimates
	2012	2013		Change	2012				
<b>Expenditures</b>	<b>29.0</b>	<b>34.8</b>	<b>20.0</b>	<b>258.0</b>	<b>294.5</b>	<b>14.1</b>	<b>404.0</b>	<b>72.9</b>	<b>406.6</b>
Interest Expenditures	3.3	6.1	86.6	39.5	43.8	10.9	53.0	82.7	50.5
Non-interest Expenditures	25.8	28.7	11.6	218.5	250.7	14.7	351.0	71.4	356.1
<b>Revenues</b>	<b>23.2</b>	<b>30.1</b>	<b>29.8</b>	<b>243.7</b>	<b>290.0</b>	<b>19.0</b>	<b>370.1</b>	<b>78.4</b>	<b>387.2</b>
Tax Revenues	19.8	24.2	22.5	201.9	240.3	19.0	317.9	75.6	325.1
Other Revenues	3.4	5.9	71.4	41.8	49.8	19.2	52.1	95.5	62.0
<b>Budget Balance</b>	<b>-5.8</b>	<b>-4.7</b>	<b>-19.0</b>	<b>-14.4</b>	<b>-4.5</b>	<b>-68.7</b>	<b>-34.0</b>	<b>13.2</b>	<b>-19.4</b>
<b>Primary Balance</b>	<b>-2.6</b>	<b>1.4</b>	<b>-</b>	<b>25.2</b>	<b>39.3</b>	<b>56.2</b>	<b>19.0</b>	<b>206.5</b>	<b>31.1</b>

Numbers may not add up to total due to rounding

Source: Finance Ministry

## CPI came above the expectations in October.

In October, compared to the previous month, CPI and PPI increased by 1.80% and 0.69%, respectively. According to the Reuters' survey, monthly CPI was expected to rise by 1.34%. According to the CBRT's survey, on the other hand, markets' monthly CPI expectation was 1.12% in October.

## Annual CPI inflation continued to decline.

Despite the higher than expected monthly figures, the annual increase in CPI inflation declined to 7.71% thanks to the base effect. Annual PPI inflation, following a downward trend in recent months, increased to 6.77% in October.

## The increase in food prices made the highest contribution to the inflation.

In October, the rapid increase in the food prices was influential in the higher than expected inflation figures. In fact, the 3.91% monthly increase in the mentioned group led the inflation to rise by 91 basis points. Besides, the seasonal price increases in the clothing and footwear group also contributed to the monthly inflation by 63 basis points. In October, almost all expenditure groups in the CPI basket supported the rise in inflation, whereas the price developments in miscellaneous goods and services and alcoholic beverages and tobacco groups limited the upward movement in inflation to some extent.

## The upward trend in the core inflation aggregates...

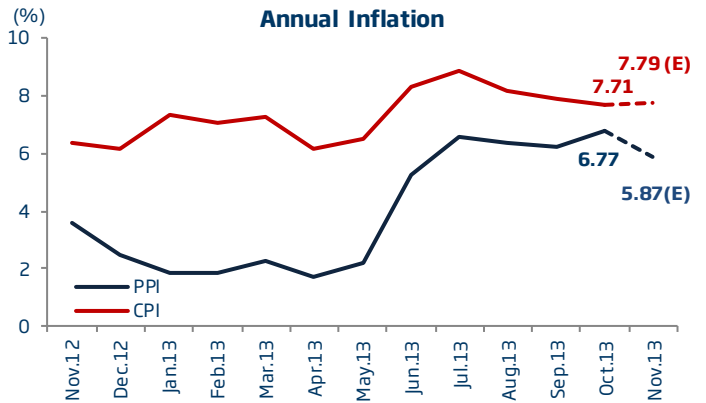
Analysis of the core inflation aggregates in October revealed that the price developments in the seasonal products pushed the inflation upwards. Besides, the core inflation aggregates, representing the main trend of inflation, rose to their highest level since August 2012. In fact, the annual increase in CBRT's favorite indices denominated by H and I were realized as 7.61% and 7.49%, respectively, in October.

## In October PPI rose by 0.69%.

In October, the easing pressures on the FX rates helped the monthly PPI to rise close to the expectations. In this period, the coke and refined petroleum production and basic metal industry remained as the sectors which made the highest contribution to PPI.

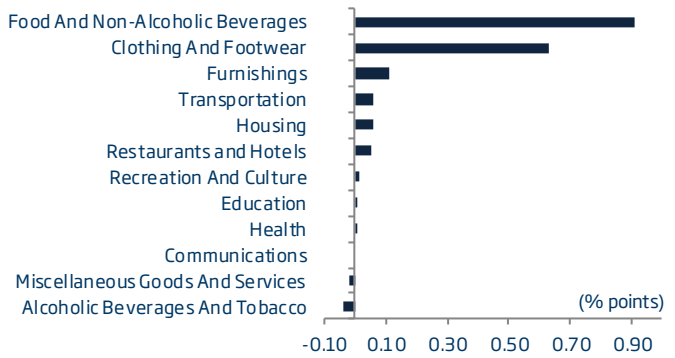
## Expectations...

In November, we anticipate that the seasonal price increases in the clothing group would be influential on the course of inflation while the developments in FX rates would be effective as well. In this context, we expect CPI and PPI to increase by 0.45% and 0.80%, respectively.

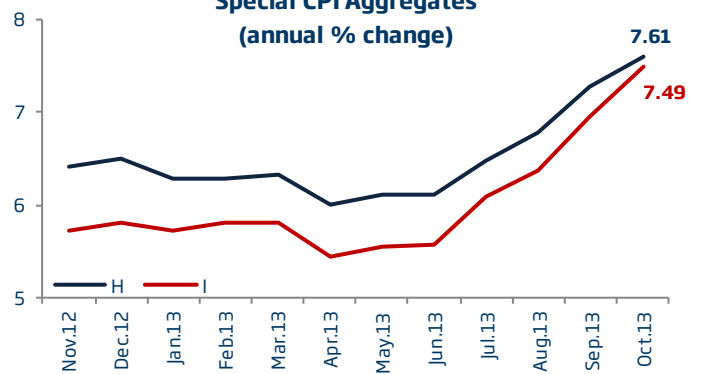


(E) Estimate

## Contributions to the Monthly CPI by Subgroups



## Special CPI Aggregates (annual % change)



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

Source: Turkstat

## CBRT kept the policy rate unchanged in October

At its meeting on October 23<sup>rd</sup>, 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.

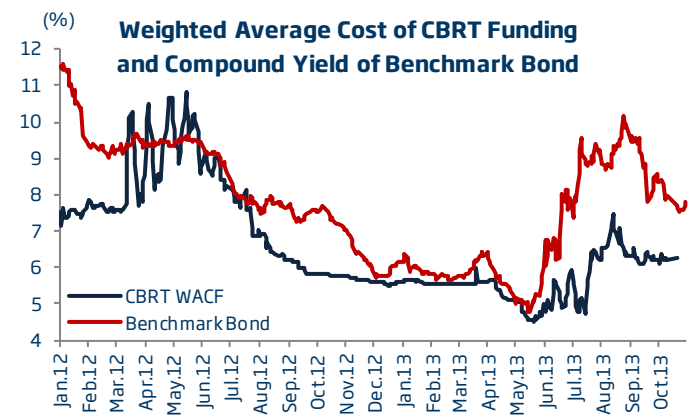
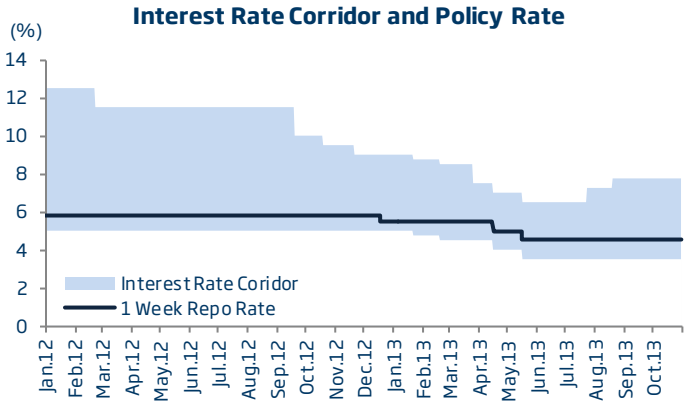
In the statement following the meeting, CBRT indicated that the cautious monetary policy stance, the macroprudential measures undertaken and weak capital flows will gradually bring down the loan growth rates to more reasonable levels.

On the other hand, CBRT stated that core inflation indicators are likely to stay above the inflation target for some time due to the exchange rate volatility observed during the recent months. In this context, CBRT indicated that they will maintain the cautious monetary policy stance and continue implementing additional monetary tightening at the appropriate frequency until the medium term inflation outlook is in line with the medium term targets.

## CBRT announced its year-end inflation estimates.

CBRT updated its inflation estimates for 2013, 2014 and 2015 in its 4th Inflation Report, published on October 31<sup>st</sup>. Accordingly, CBRT expects inflation to be between %6.3 and %7.3 (with a mid-point of % 6.8) at end-2013 and between %3.8 and %6.8 (with a mid-point of %5.3) at end-2014 and to stabilize around %5 in the medium term. It is seen that the inflation estimates are in line with the Medium Term Program expectations. In the press conference speech of Inflation Report, CBRT governor Başçı stated that the capital flows to developing countries would continue to follow a volatile course in the coming period due to the global uncertainty in the monetary policies. Başçı added that this situation would increase the risks on the inflation outlook and financial stability, therefore CBRT will keep its tight monetary stance and the number of additional monetary tightening days would be increased if necessary.

The inflation figures of October, on the other hand, came in significantly higher than expectations and showed that the inflation will exceed CBRT's estimates for the year-end.



Source: CBRT, Borsa Istanbul

## Deposit volume grew by 20.9% annually.

According to BRSA's Weekly Bulletin, as of October 14<sup>th</sup>, 2013, total deposit volume increased by 20.9% compared to the same period of the previous year and amounted to 948.8 billion TL. Compared to the year-end, however, deposit volume grew by 16.2% while TL deposits increased by 11.5% and FX deposits in USD terms expanded by 12.8%.

## Increase in credit volume stayed at high levels.

As of October 14<sup>th</sup>, 2013, total loan volume expanded by 23.9% compared to the year-end and reached 998.6 billion TL. During the same period, TL loans increased by 22.8% and FX loans in USD terms rose by 14.7%. On an annual basis, the increase in total loans maintained its high level with 29.3% as of October 14<sup>th</sup> despite a decline from 30.4% level which was recorded at the last week of September.

Analyzing by types of consumer loans, as of October 14<sup>th</sup>, 2013, housing loans increased by 30.0% and personal finance loans expanded by 28.4%, annually. During the same period, the increase registered in vehicle loans continued to be at relatively low levels and was realized as 8.9%.

With the new regulations on the measurement and evaluation of capital adequacy launched by BRSA, risk weights applied to vehicle loans, payments made by credit cards for goods and services purchases and cash loans provided via credit cards were increased. These regulations may limit the growth in consumer loans in the coming period.

## The increase in securities portfolio slowed down...

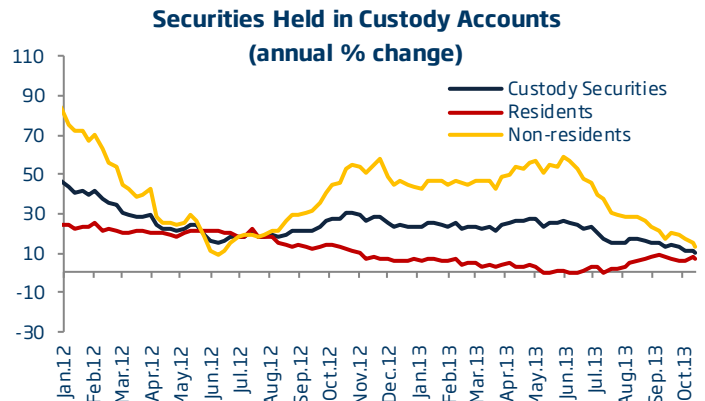
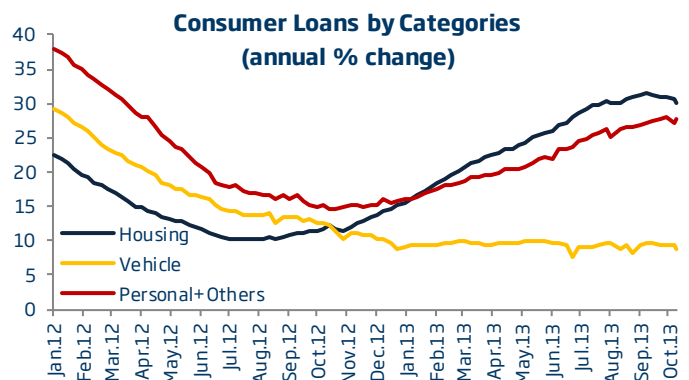
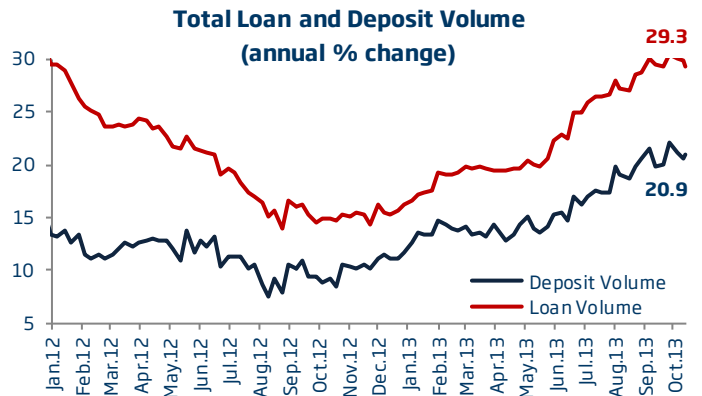
As of October 14<sup>th</sup>, 2013, securities portfolio of banking sector increased by 4.7% compared to the year-end. During this period, while available for sale and held to maturity securities portfolio decreased by 22.3% and 20.8%, respectively, securities subject to repo transactions increased by 46.2%.

## Securities held in custody accounts...

In nominal terms, securities held in custody accounts grew by 8.4% as of October 14<sup>th</sup>, 2013, compared to the year-end. Non-residents' portfolio rose by 8.2% and was realized as 107.6 billion TL during the same period. Residents' portfolio also expanded by 8.6% to 95.6 billion TL.

## Net FX position...

As of October 14<sup>th</sup>, 2013, banks' on-balance sheet FX position was (-) 25,809 million USD while off-balance sheet FX position was (+) 26,893 million USD. Hence, banks' net FX position was realized as (+) 1.085 million USD, the highest level since June 14<sup>th</sup>.



Source: BRSA Weekly Bulletin

The global economic agenda was dominated by the budget negotiations in the US during October. As a result of the disagreement over budget, 16 days of partial government shutdown increased the concerns over US economic outlook. Although the budget deadlock was broken, the 16 days of shutdown is anticipated to have put pressure on US economic growth in the last quarter of the year. In addition, the deal pushed the debt ceiling problem to February 2014 and the US economy might face with a similar problem in the very near future. On the other hand, the gradual strengthening of advanced economies while the economic activity is slowing down in emerging market economies show that global economy will be more balanced in the coming period in terms of growth.

Regarding the developments in Turkey, although industrial production lost steam in August due to the impacts of Ramadan, the PMI figures showed that the economic activity continued to recover during the third quarter of 2013. CBRT's announcements following the latest monetary policy meeting and CBRT governor Başçı's statements during the presentation of Inflation Report, all hint that monetary policy will be kept tight until the inflation outlook is in line with the medium term targets. This tight stance in monetary policy is expected to create pressure on economic activity.

On the other hand, according to the Medium Term Program covering the 2014 -2016 period, the government will focus on structural reforms in the coming period in order to increase productivity in Turkish economy

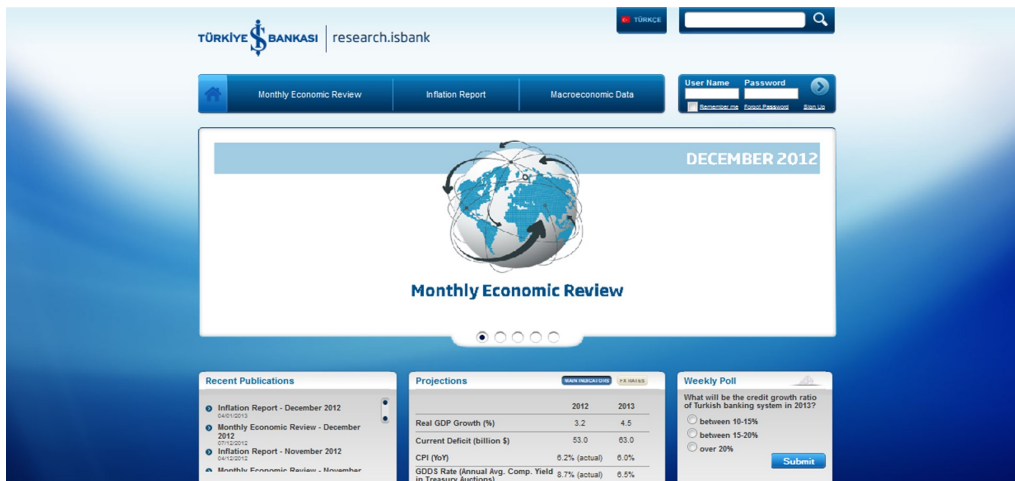
Forecasts	2012 (R)	2013 (E)
Growth (%)	2.2	4.0
CA Deficit (USD billion)	47.8	58.0
CA Deficit/GDP (%)	6.1	6.9
Inflation (%)	6.2	7.5
GDDI Interest* (%)	8.7	7.7

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

(R) Realization (E) Estimate

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%

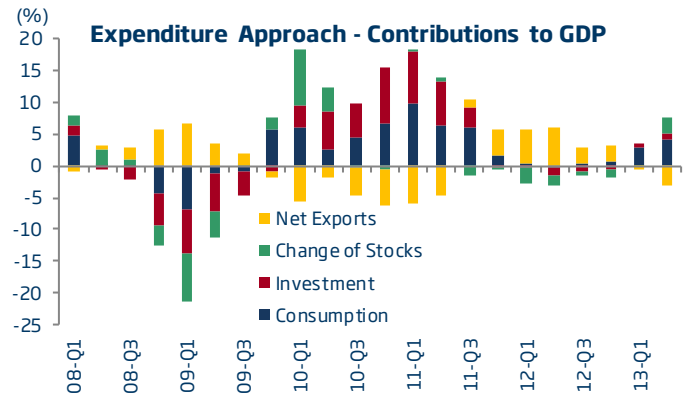
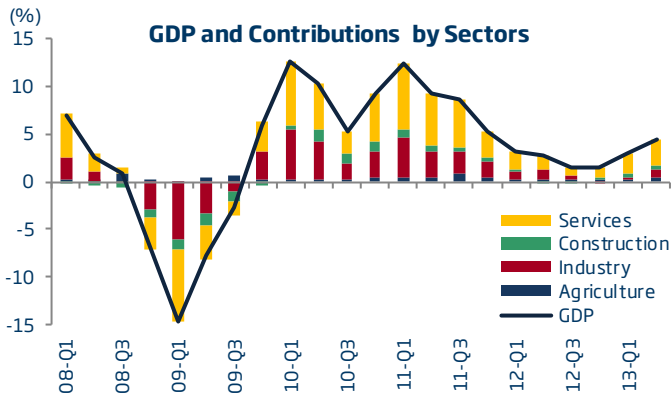
**Weekly Poll**

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

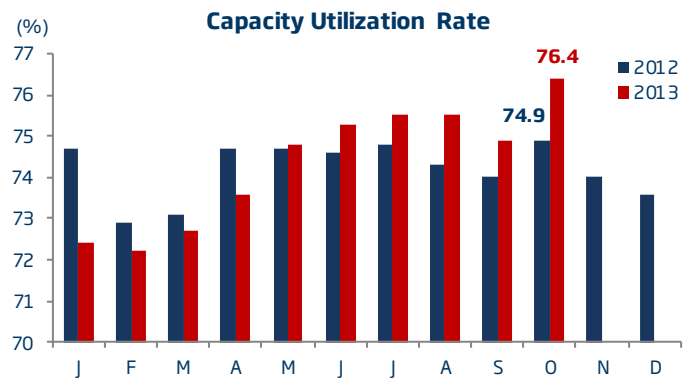
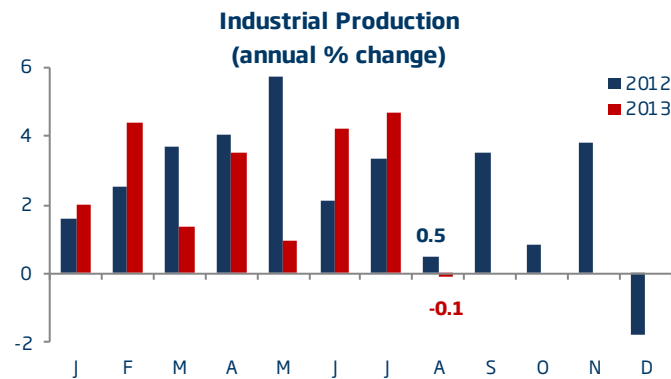
between 10-15%  
 between 15-20%  
 over 20%

Submit

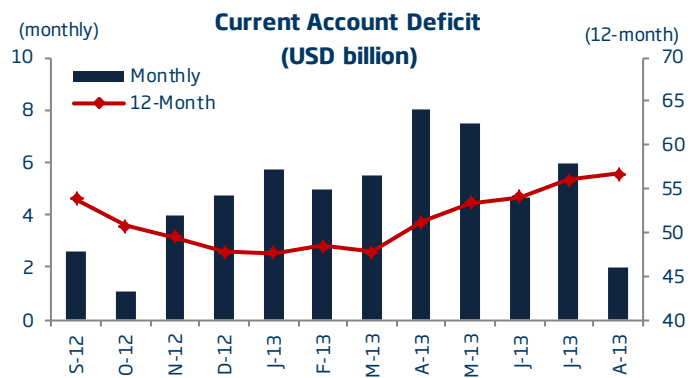
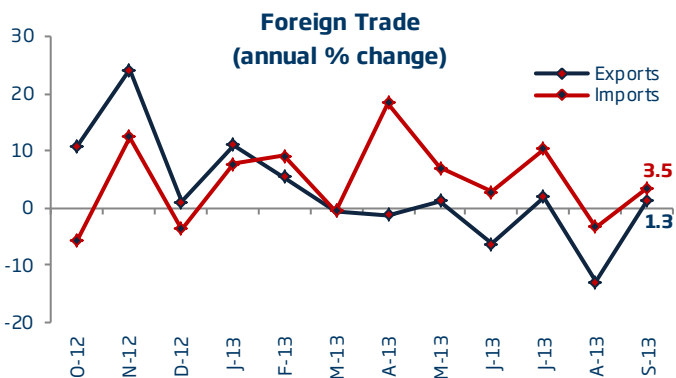
## Growth



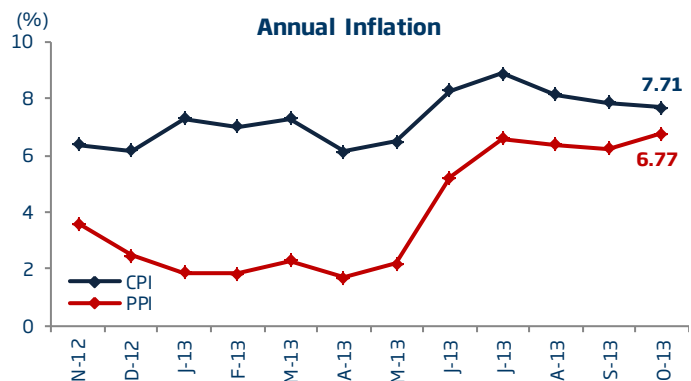
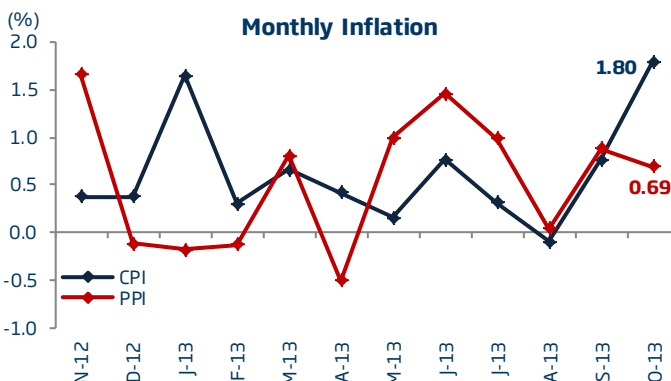
## Industrial Production



## Foreign Trade and Current Account Balance

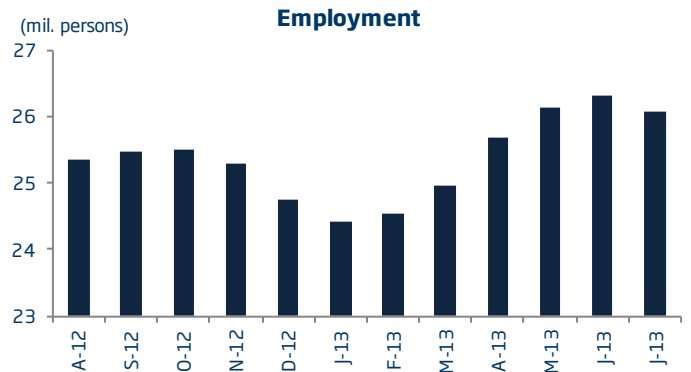
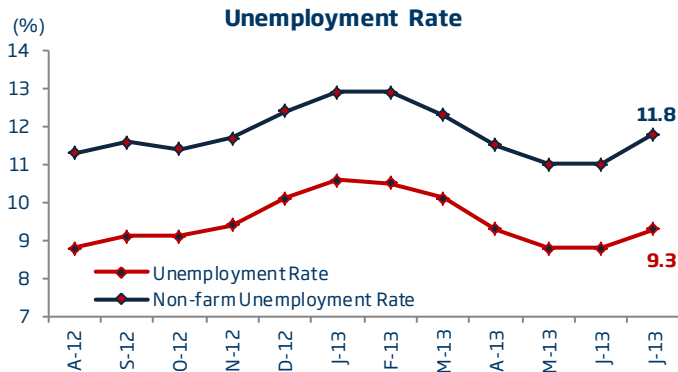


## Inflation

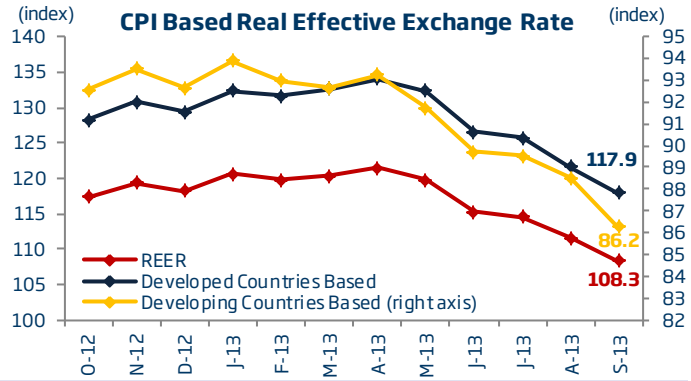
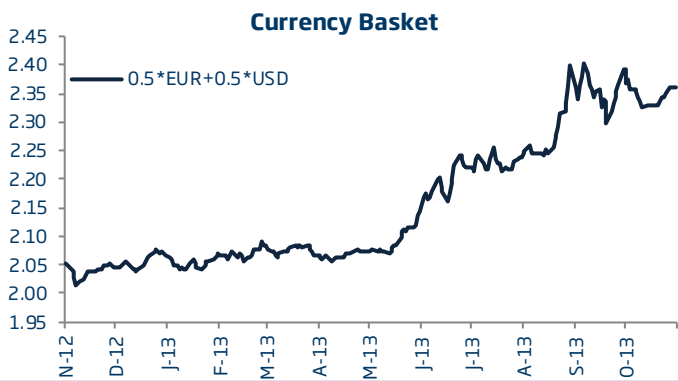


Source: Turkstat, CBRT

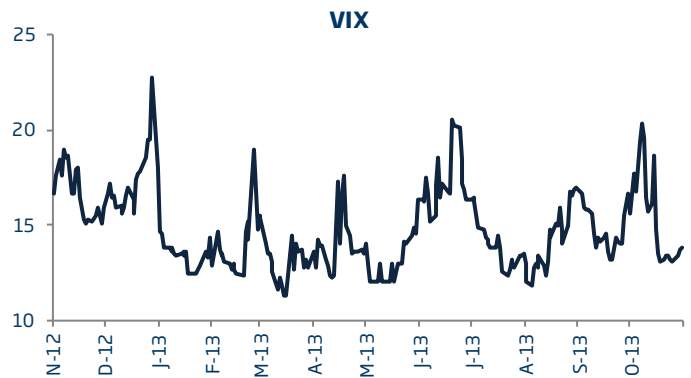
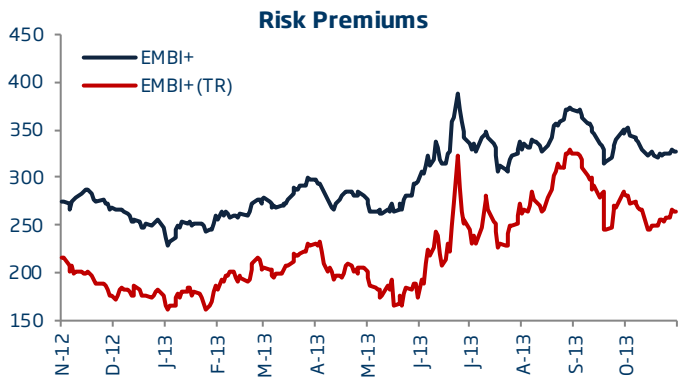
## Labor Market



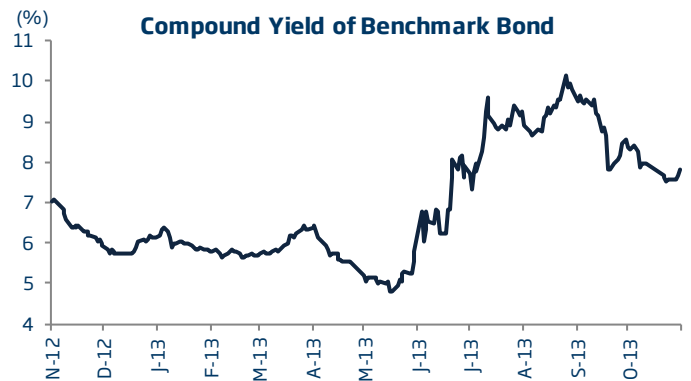
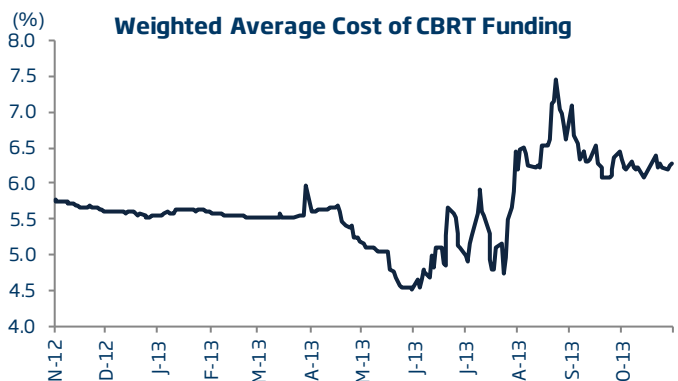
## FX Market



## Risk Indicators

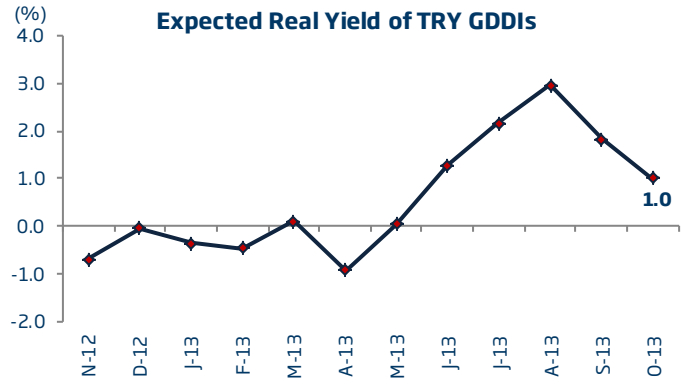
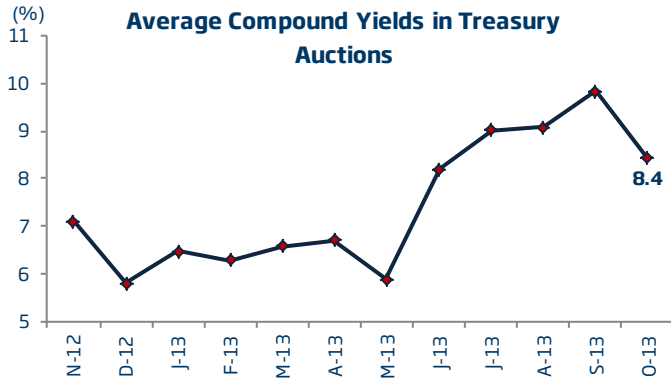


## Interest Rates

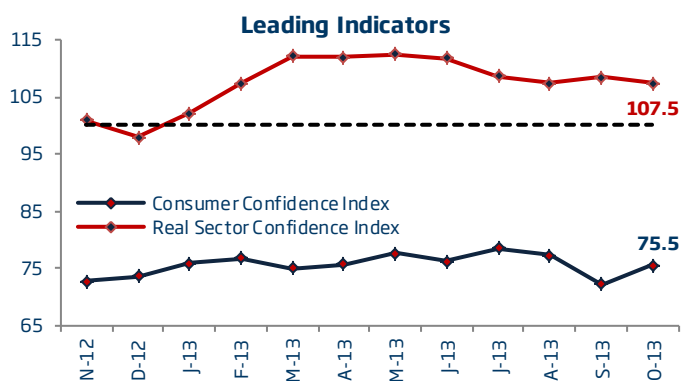
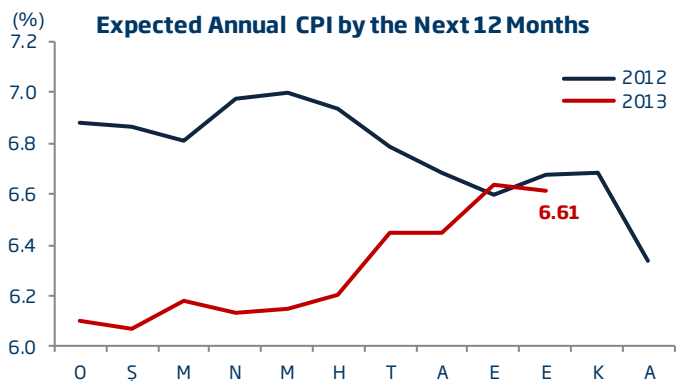
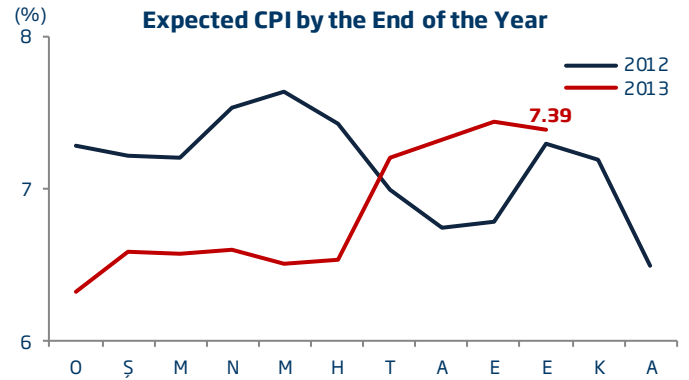
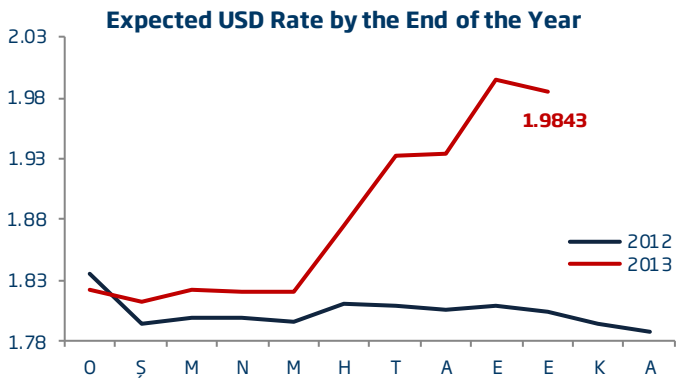
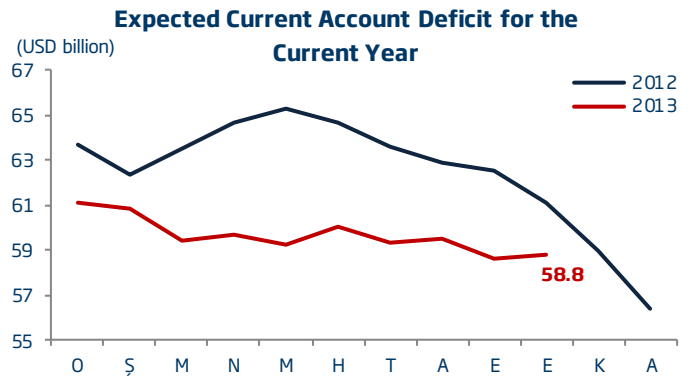
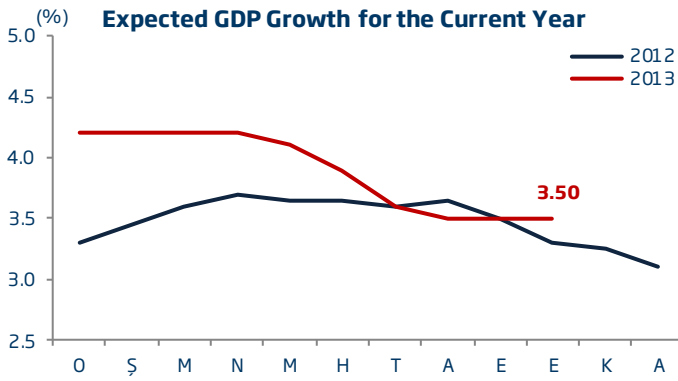


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

## 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
<b>Growth</b>								
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	-
<b>Inflation (%)</b>						<b>Aug-13</b>	<b>Sep-13</b>	<b>Oct-13</b>
CPI (annual)	10.1	6.5	6.4	10.4	6.2	8.2	7.9	7.7
PPI (annual)	8.1	5.9	8.9	13.3	2.5	6.4	6.2	6.8
<b>Labor Market</b>						<b>May-13</b>	<b>Jun-13</b>	<b>Jul-13</b>
Unemployment Rate (%)	11.0	14.0	11.9	9.8	9.2	8.8	8.8	9.3
Employment (thousand persons)	21,194	21,277	22,594	24,110	24,821	26,130	26,319	26,099
<b>FX Rates</b>						<b>Aug-13</b>	<b>Sep-13</b>	<b>Oct-13</b>
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.2	111.6	108.3	
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	2.0557	2.0342	1.9888
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.7470	2.7484	2.7361
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.4014	2.3913	2.3625
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>
Exports	132.0	102.1	113.9	134.9	152.5	153.6	151.9	152.0
Imports	202.0	140.9	185.5	240.8	236.5	247.1	246.5	247.2
<b>Foreign Trade Balance</b>	<b>-69.9</b>	<b>-38.8</b>	<b>-71.7</b>	<b>-105.9</b>	<b>-84.1</b>	<b>-93.6</b>	<b>-94.6</b>	<b>-95.1</b>
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5	62.1	61.6	61.5
<b>Current Account Balance<sup>(1)</sup> (USD billion)</b>						<b>Jun-13</b>	<b>Jul-13</b>	<b>Aug-13</b>
<b>Current Account Balance</b>	<b>-40.4</b>	<b>-12.2</b>	<b>-45.4</b>	<b>-75.1</b>	<b>-47.8</b>	<b>-54.1</b>	<b>-56.0</b>	<b>-56.7</b>
<b>Capital and Financial Accounts</b>	<b>37.4</b>	<b>9.3</b>	<b>44.0</b>	<b>65.7</b>	<b>47.0</b>	<b>59.3</b>	<b>56.2</b>	<b>55.5</b>
Direct Investments (net)	17.2	7.1	7.6	13.7	8.5	6.4	7.5	7.3
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	48.4	38.4	38.1
Other Investments (net)	24.2	2.1	33.2	28.2	18.6	25.5	27.1	23.9
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-21.0	-16.7	-13.8
<b>Net Errors and Omissions</b>	<b>3.0</b>	<b>2.9</b>	<b>1.4</b>	<b>9.4</b>	<b>0.8</b>	<b>-5.2</b>	<b>-0.3</b>	<b>1.2</b>
<b>Current Account Deficit/GDP</b>	<b>-5.4</b>	<b>-2.0</b>	<b>-6.2</b>	<b>-9.7</b>	<b>-6.1</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TL billion)</b>						<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>
<b>Expenditures</b>	<b>227.0</b>	<b>268.2</b>	<b>294.4</b>	<b>314.6</b>	<b>360.5</b>	<b>224.6</b>	<b>259.7</b>	<b>294.5</b>
Interest Expenditures	50.7	53.2	48.3	42.2	48.4	30.2	37.7	43.8
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1	194.4	222.0	250.7
<b>Revenues</b>	<b>209.6</b>	<b>215.5</b>	<b>254.3</b>	<b>296.8</b>	<b>331.7</b>	<b>228.0</b>	<b>259.9</b>	<b>290.0</b>
Tax Revenues	168.1	172.4	210.6	253.8	278.8	188.0	216.0	240.3
<b>Budget Balance</b>	<b>-17.4</b>	<b>-52.8</b>	<b>-40.1</b>	<b>-17.8</b>	<b>-28.8</b>	<b>3.4</b>	<b>0.2</b>	<b>-4.5</b>
<b>Primary Balance</b>	<b>33.2</b>	<b>0.4</b>	<b>8.2</b>	<b>24.4</b>	<b>19.6</b>	<b>33.6</b>	<b>38.0</b>	<b>39.3</b>
<b>Budget Balance/GDP</b>	<b>-1.8</b>	<b>-5.5</b>	<b>-3.6</b>	<b>-1.4</b>	<b>-2.0</b>	-	-	-
<b>Central Government Debt Stock (TL billion)</b>						<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>
Domestic Debt Stock	181.7	219.2	228.2	195.2	216.8	401.0	404.4	407.9
External Debt Stock	69.8	74.1	78.1	79.2	81.7	158.4	167.2	168.2
<b>Total</b>	<b>251.5</b>	<b>293.2</b>	<b>306.3</b>	<b>274.4</b>	<b>298.6</b>	<b>559.4</b>	<b>571.6</b>	<b>576.2</b>

(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	Jul-13	Aug-13	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>732.5</b>	<b>834.0</b>	<b>1006.7</b>	<b>1217.7</b>	<b>1370.7</b>	<b>1562.5</b>	<b>1611.2</b>	<b>17.5</b>
<b>Loans</b>	<b>367.4</b>	<b>392.6</b>	<b>525.9</b>	<b>682.9</b>	<b>794.8</b>	<b>946.9</b>	<b>965.2</b>	<b>21.4</b>
TL Loans	262.1	288.2	383.8	484.8	588.4	696.7	700.2	19.0
Share (%)	71.3	73.4	73.0	71.0	74.0	73.6	72.5	-
FX Loans	105.3	104.4	142.1	198.1	206.4	250.1	265.0	28.4
Share (%)	28.7	26.6	27.0	29.0	26.0	26.4	27.5	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	26.9	27.5	17.4
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	2.8	2.8	-
<b>Securities</b>	<b>194.0</b>	<b>262.9</b>	<b>287.9</b>	<b>285.0</b>	<b>270.0</b>	<b>282.4</b>	<b>283.7</b>	<b>5.1</b>
<b>TOTAL LIABILITIES</b>	<b>732.5</b>	<b>834.0</b>	<b>1006.7</b>	<b>1217.7</b>	<b>1370.7</b>	<b>1562.5</b>	<b>1611.2</b>	<b>17.5</b>
<b>Deposits</b>	<b>454.6</b>	<b>514.6</b>	<b>617.0</b>	<b>695.5</b>	<b>777.2</b>	<b>870.8</b>	<b>880.8</b>	<b>13.3</b>
TL Deposits	294.1	341.4	433.5	460.0	520.4	579.6	564.0	8.4
Share (%)	64.7	66.3	70.3	66.1	67.4	66.6	64.0	-
FX Deposits	160.5	173.2	183.5	235.5	251.8	291.2	316.8	25.8
Share (%)	35.3	33.7	29.7	33.9	32.6	33.4	36.0	-
<b>Securities Issued</b>	<b>0.0</b>	<b>0.1</b>	<b>3.1</b>	<b>18.4</b>	<b>37.9</b>	<b>48.8</b>	<b>52.0</b>	<b>37.3</b>
<b>Payables to Banks</b>	<b>92.7</b>	<b>86.1</b>	<b>122.4</b>	<b>167.4</b>	<b>173.4</b>	<b>216.1</b>	<b>227.7</b>	<b>31.3</b>
<b>Funds from Repo Transactions</b>	<b>40.8</b>	<b>60.7</b>	<b>57.5</b>	<b>97.0</b>	<b>79.9</b>	<b>99.7</b>	<b>126.5</b>	<b>58.4</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>86.4</b>	<b>110.9</b>	<b>134.5</b>	<b>144.6</b>	<b>181.9</b>	<b>185.5</b>	<b>183.2</b>	<b>0.7</b>
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	16.6	17.9	-
<b>RATIOS (%)</b>								
Loans/Assets	50.2	47.1	52.2	56.1	58.0	60.6	59.9	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	18.1	17.6	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	55.7	54.7	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.2	92.0	91.3	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	15.9	15.5	-

(1) Year-to-date % change



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