



# Monthly Economic Review

## March 2014



### Global Economy

- ◆ Recent data showed that recovery in developed economies continued while interest rate hikes in various developing countries and rising political tensions in several others increased the concerns about global economic growth.
- ◆ Decisions taken in G20 meeting revealed that the fight against the economic crisis, which was the main issue discussed in previous meetings, was left behind. On the other hand, countries' focus turned towards achieving sustainable economic growth in the coming period.
- ◆ Minutes of Fed meeting released on February 19<sup>th</sup> revealed that safeguarding financial stability was discussed in determining policy rate in addition to the labor market conditions and inflation outlook.
- ◆ Adverse weather conditions in US slowed down the economic activity in January while the debt ceiling problem was suspended until March 2015 with the approval of Senate which gives the Treasury an extension of borrowing authority.
- ◆ Eurozone economy grew by 0.3% in the 4<sup>th</sup> quarter of 2013 compared to the previous quarter. During this period, growth rates of Germany and France surpassed the expectations.
- ◆ At its monetary policy meeting in February, European Central Bank repeated that additional measures can be taken should deflation risk rises in the long-term.
- ◆ The Bank of Japan, decided to extend its special lending program, which was designed to promote growth and improve credit conditions for banks and financial institutions, for one year.
- ◆ After the overthrow of the government in Ukraine, the tensions increased in the country.

### Turkish Economy

- ◆ On February 7<sup>th</sup>, international credit rating agency Standard and Poor's (S&P) downgraded Turkey's credit rating outlook to "negative" from "stable".
- ◆ The calendar adjusted industrial production increased by 7.1% in December compared to the previous month. Non-adjusted industrial production index, on the other hand, increased by 3.8% on a quarterly basis.
- ◆ According to Markit, manufacturing PMI increased to 53.4 in February, keeping its level above the 50 threshold.
- ◆ Consumer Confidence Index of February declined to the lowest level since February 2010.
- ◆ In November 2013, the unemployment rate increased by 0.5 points compared to the same month of the previous year and was realized as 9.9%. During the same period, non-agricultural unemployment rate increased by 0.3 to 12% and youth (ages between 15-24) unemployment rate increased by 0.5 points to 19.3%.
- ◆ In January 2014, Turkey's exports recorded the highest increase of the last 12 months with 8.6% compared to the same month of the previous year while imports increased by 2.6%.
- ◆ In December, current account deficit was realized as 8.3 billion USD, well above the expectations and the highest level in 2013 on a monthly basis. Thus in 2013, current account deficit increased by 34% compared to the previous year to 65 billion USD.
- ◆ The annual increase in CPI, which declined to 7.32% in November 2013, was realized as 7.89% in February following a rising trend for the last three months.
- ◆ CBRT, which hiked interest rates in its interim meeting in January 28<sup>th</sup>, stated that tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook in its February meeting.

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### Türkiye İş Bankası A.Ş. - Economic Research Division

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

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

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

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

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

**Doğuhan Atış - Sub-Manager**  
doguhan.atis@isbank.com.tr

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

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

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

## S&P downgraded Turkey's credit rating outlook to negative.

On February 7<sup>th</sup>, international credit rating agency Standard and Poor's (S&P) downgraded Turkey's credit rating outlook to "negative" from "stable", while keeping the credit rating unchanged at BB+, one notch below the investment grade. S&P said that there is a growing risk of a hard landing and decreased its 2014 growth forecast to 2.2% from 3.4%, citing that the politic environment became less predictable recently. Domestic markets' reaction to the decision, on the other hand, remained limited.

## The risk perception towards Turkey improved slightly.

The risk perception towards Turkey, after having deteriorated for the last 2 months, has improved slightly in February. This improvement was mainly due to the CBRT's simplification of the monetary policy and aggressive interest rate hike decision. On the other hand, in the last week of February, concerns related to the political stability due to the corruption probe increased the risk perception towards domestic markets somewhat. Overall in February, Turkey diverged positively from the other emerging markets. EMBI-TR and EMBI+ indices decreased by 51 and 46 basis points, respectively. In this period, Turkey's five-years CDS spreads followed a similar course and decreased by 36 points to 230 basis points.

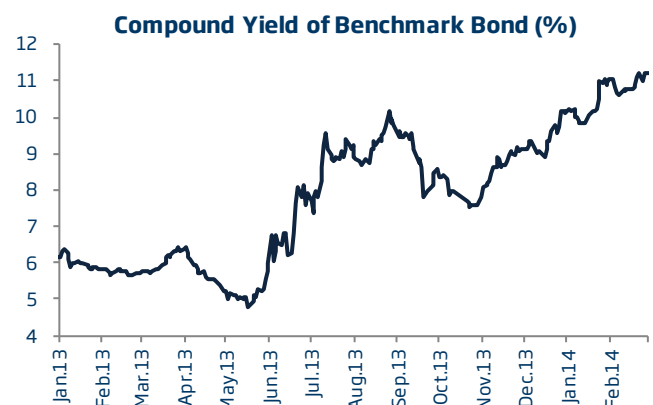
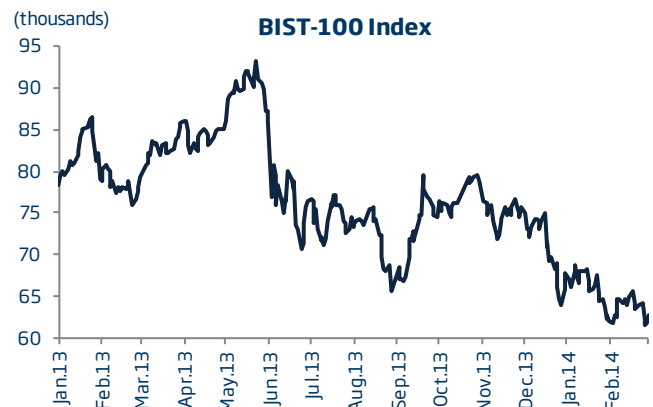
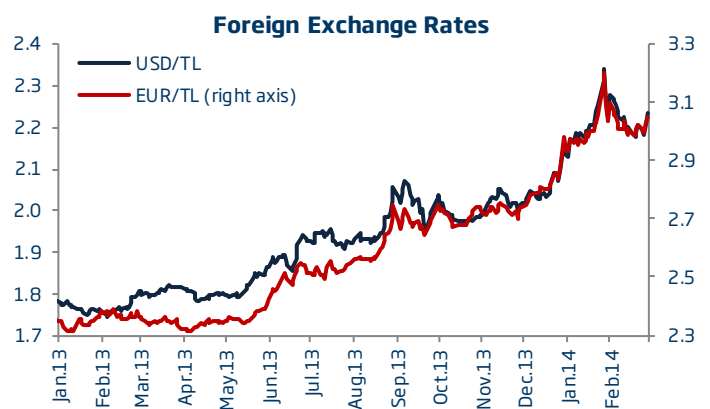
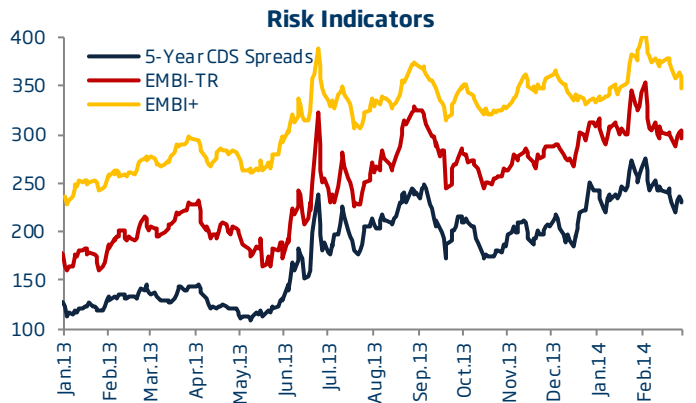
## TL was relatively stable...

After the CBRT's interest hike decision, FX rates followed a downward trend while volatility in TL decreased. However, due to the uncertainty in political environment in Turkey and increased tensions in Ukraine during the last week of February, TL somewhat depreciated again. In fact, the USD/TL parity after decreasing to 2.17 in mid-February rose to 2.2342 as of February 28<sup>th</sup>, while EUR/TL parity was realized as 3.0508.

## Volatile course in BIST-100

In the first half of February, BIST-100 index recovered on low-level buying, however, it lost its gains in the remaining part of the month. As of February 26<sup>th</sup>, the stock index declined to the lowest level for the last 18 months and finished the month at 62,553 points. The cumulative decline in the BIST-100 index during the last three months reached 17%.

Turkey's two-year (benchmark) Treasury bond's annual compound interest rate kept its 2-year high level and was realized as 11.23% as of February 28<sup>th</sup>.



Source: JP Morgan, Reuters, BIST

## Steep increase in industrial production...

The calendar adjusted industrial production increased by 7.1% in December compared to the previous month. Among the main industry groups, the increases in capital goods and durable consumer goods were noteworthy. However, the higher than expected increase in industrial production was mainly due to the seasonal factors. In fact, the seasonal and calendar adjusted index remained flat in December compared to previous months.

Non-adjusted industrial production index increased by 3.8% in the last quarter of 2013. Accordingly, we anticipate that the GDP growth in the last quarter of 2013 was realized as 4%.

According to Markit, manufacturing PMI increased to 53.4 in February, keeping its level above the 50 threshold. In February, new orders, exports and purchasing expanded compared to the beginning of the year. On the other hand, the index showed increasing inflationary pressure on input and output prices reflecting the depreciation of TL.

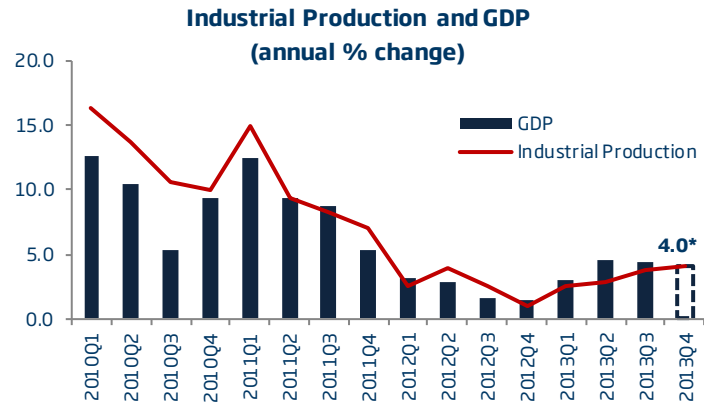
## Sharp fall in consumer confidence...

According to Turkstat, Consumer Confidence Index of February declined by 3.2 points compared to the previous month and was realized as 69.2 points, citing the lowest level since February 2010. All sub-indices that make up the consumer confidence index declined compared to previous month. Especially, the decline in the possibility of saving index was significant.

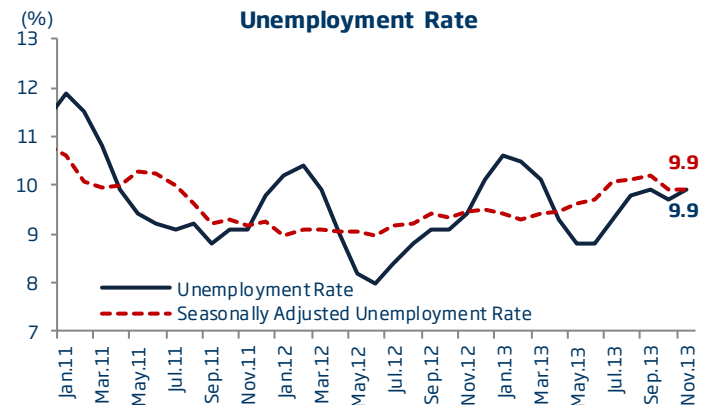
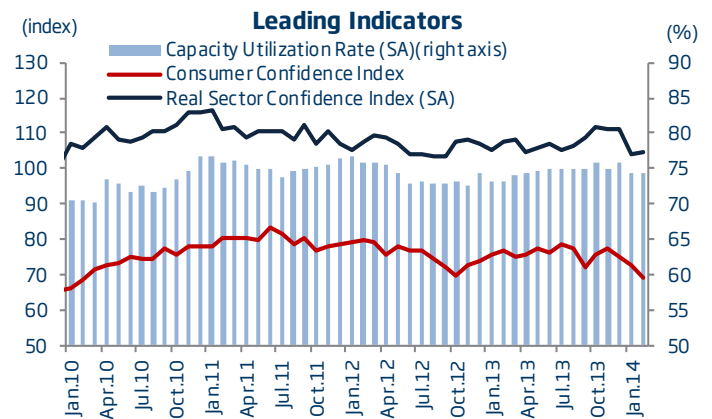
Despite the fall in Consumer Confidence Index, Real Sector Confidence Index of February increased by 3.2 points compared to the previous month and was realized as 104.6. The seasonally adjusted index also increased by 0.4 points compared to the previous month. The seasonally adjusted Capacity Utilization Rate (CUR) of February, decreased by 0.2 points compared to the previous month and was realized as 74.4%.

## Unemployment rate increased to 9.9%.

In November 2013, the unemployment rate increased by 0.5 points compared to the same month of the previous year and was realized as 9.9%. During the same period, non-agricultural unemployment rate increased by 0.3 to 12% and youth (ages between 15-24) unemployment rate increased by 0.5 points to 19.3%. In November, the labor force participation decreased by 0.2 points compared to the previous month and was realized as 50.5%. The seasonally adjusted unemployment rate remained at 9.9% compared to the previous month.



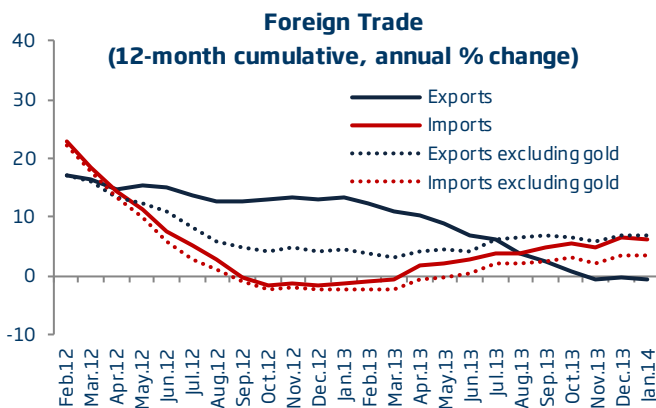
(\*) Economic Research Division forecast.



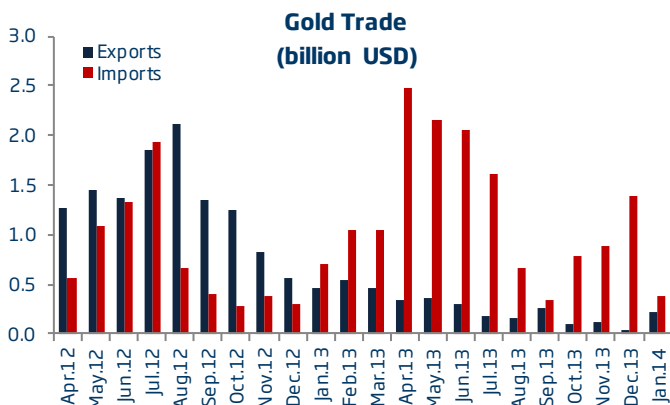
Source: Turkstat, CBRT

**In the first month of the year, exports and imports increased by 8.6% and 2.6%, respectively.**

In January 2014, Turkey's exports recorded the highest increase of the last 12 months. Exports rose by 8.6% compared to the same month of the previous year and were realized as 12.5 billion USD. Imports, on the other hand, increased by 2.6% and was realized as 19.3 billion USD in the same period. As the exports increased faster than imports, foreign trade deficit decreased compared to the same month of the previous year for the first time after nine months and came in 6.8 billion USD, slightly below the expectations. In parallel with a narrowing trade deficit, the import coverage ratio increased by 3.6 points compared to the same month of the previous year and reached 64.7%.



Seasonally and calendar adjusted data revealed that foreign trade figures displayed a favorable outlook in January 2014. In fact, the data indicated that exports grew by 4.5% while



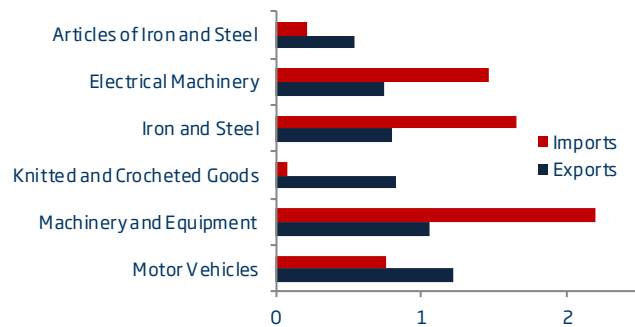
imports dropped by 1.2% in January compared to the previous month.

The gold trade, which became influential on foreign trade deficit during the recent years, exhibited a relatively balanced outlook in January. During the first month of the year, gold exports and imports were 212 and 387 million USD, respectively. During 2013, on a monthly average basis, gold exports and imports were 279 million USD and 1.3 billion USD, respectively.

**In January, exports of motor vehicles increased by 12.4% annually.**

Motor vehicles exports, which ranked first in total exports, registered an annual increase of 12.4% and were realized as 1.2 billion USD in January. Following motor vehicles, machinery and equipment exports ranked second with 1 billion USD exports volume. Knitted and crocheted goods' exports ranked third.

**Foreign Trade in Leading Exporting Sectors (January 2014, billion USD)**



**Energy imports were 4.9 billion USD in January.**

Mineral fuels and mineral oil exports rose by 6.2% compared to the same month of the previous year and were realized as 4.9 billion USD in January. Constituting 25% of total imports, this item was followed by machinery and equipment with an import volume of 2.2 billion USD.

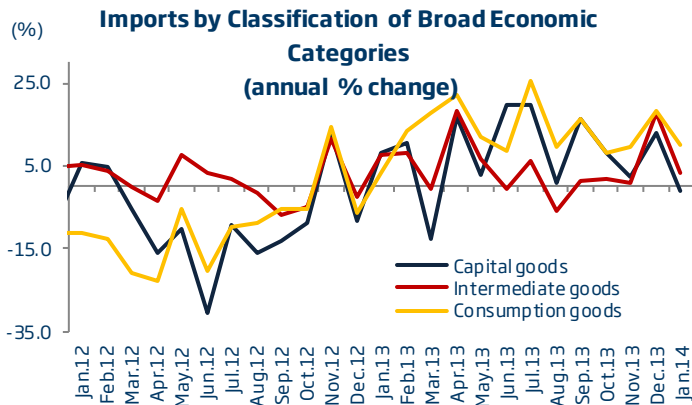
**The increase in consumption goods imports in January remained below the monthly average of 2013.**

In parallel with the depreciation of TL, the annual increase in consumption goods imports decelerated in January as

	Foreign Trade Balance (USD billion)		
	January		Change (%)
	2013	2014	
Exports	11.5	12.5	8.6
Imports	18.8	19.3	2.6
<b>Foreign Trade Balance</b>	<b>-7.3</b>	<b>-6.8</b>	<b>-6.8</b>
Import Coverage Ratio (%)	61.1	64.7	-

Source: Turkstat

expected and was realized as 10.1%, below 2013's monthly average increase. The capital goods imports decreased for the first time after nine months and declined by 1.2% in January compared to the same month of the previous year. On the other hand, intermediate goods imports, which are also an indicator of the export performance of Turkey, rose by 3.2%.



### The share of high technology products in total exports was 2.7% in January.

In January, the share of high technology products in total exports was 2.7% while medium technology products' share was 55.1%. On the other hand, the share of high technology products in total imports was realized as 10.1% in the same period.

### Exports to European Union increased by 13.7%.

In line with the recovery in economic activity in European Union countries, Turkey's exports to the region increased by 13.7% in January compared to the same month of the previous year and constituted 44% of Turkey's total exports. In January, Turkey's exports to Near and Middle Eastern countries, which have become one of Turkey's major trading partners in the last 10 years, also increased by 5.1% annually. However, the share of these countries in total exports decreased from 23.4% in January 2013 to 22.6% in January 2014.

According to Turkey's exports by countries, Germany continued to rank first in January with 1.3 billion USD of exports. Iraq followed Germany with 1.1 billion USD and UK ranked third with 783 million USD. Regarding imports, Russia ranked first with 2.4 billion USD. Russia was followed by China and Germany with 2.1 billion USD and 1.6 billion USD, respectively.

### Expectations...

The signs of recovery observed in developed economies recently, especially in the European Union countries, are expected to have positive impacts on foreign trade figures throughout 2014. The recent depreciation in TL will also support the increase in exports. Besides, Central Bank's dedication to the tight monetary policy implementation until an improvement in the inflation outlook emerges is anticipated to limit domestic demand and thus imports. As a result, we think that the foreign trade deficit will narrow in 2014 compared to 2013.

## Current account deficit rose to 65 billion USD in 2013.

In December, current account deficit was realized as 8.3 billion USD, well above the expectations and the highest level in 2013 on a monthly basis. Thus in 2013, current account deficit increased by 34% compared to the previous year to 65 billion USD. Considering that the Turkish economy grew by 4% in the last year, we estimate that the current account deficit/GDP ratio would be around 7.8%, well above the 7.1% Medium Term Program forecast. On the other hand, the non-monetary gold trade played an important role in the upward trend of the current account deficit. Indeed, taking into account that the non-monetary gold trade, which posted a 5.7 billion USD surplus in 2012, gave a deficit of 11.8 billion USD in 2013, the current account deficit excluding the non-monetary gold trade followed a relatively stable course. We calculate that the current account deficit excluding non-monetary gold/GDP ratio would fall to 6.4% in 2013 from the 6.9% in 2012.

## Net tourism revenues increased by 9.1% annually.

Tourism revenues, which lost momentum due to the seasonal factors in recent months, remained weak also in December. In 2013, the net tourism revenues increased by 9.1% on an annual basis and rose to 23.2 billion USD.

## Portfolio investments declined by 41.8%.

As a result of the deterioration in the risk perception towards developing countries and the domestic corruption probe, there was a net capital outflow of 181 million USD from portfolio investments in December. Throughout the year, contrary to 2012 when capital inflows were prompted by the expectations of a rise in Turkey's credit rating by international credit rating agencies, portfolio investments declined by 41.8% and were realized as 23.7 billion USD. 74% of this amount was realized until May when the credit rating of Turkey was raised to the investment grade by a second international credit rating agency and the concerns regarding a potential cut in Fed's monthly asset purchases began to intensify.

## A limited increase in net foreign direct investments...

In December, net foreign direct investments were realized as 1.5 billion USD, above the annual average. Throughout the year, net FDI increased by 4.7% compared to 2012 and continued to contribute slightly to the financing of the current account deficit. Analysis of the foreign direct investment inflows towards Turkey revealed that capital investments in 2013 fell by 5% while net real estate investments rose by 15.7% and reached 3 billion USD.

## In 2013, the most important source of financing was other investments.

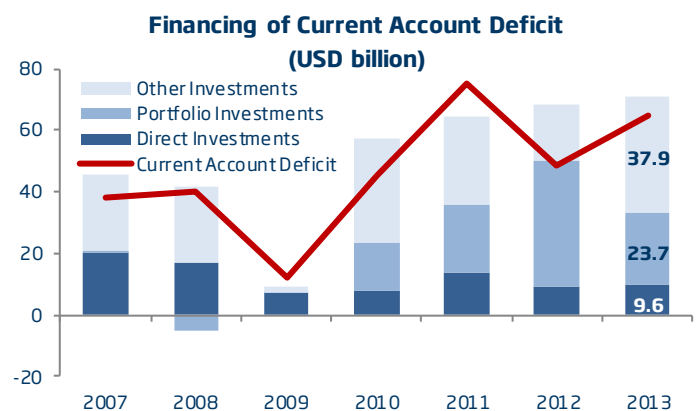
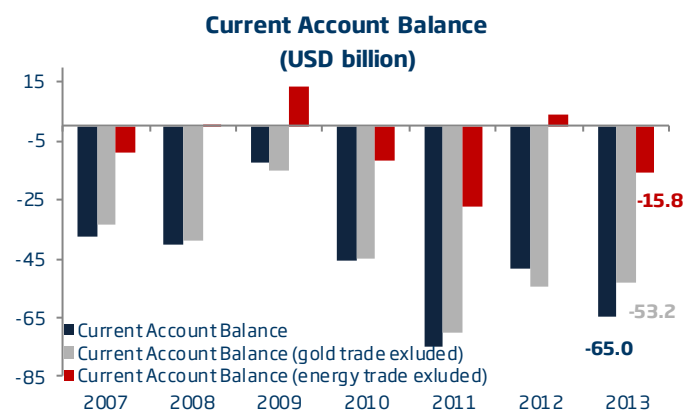
As the risk perception towards developing countries increased especially in the second half of the year and Turkey's risk premium increased due to domestic developments, other investments played a major role in the financing of current account deficit in 2013. Thus, during 2013, other investments increased to record high level of 37.9 billion USD and rose by 106% compared to 2012. The banking sector which increased its long-term debt roll-over ratio from 103% in 2012 to 205% in 2013 was influential in this development. In 2013, net total credits raised by banking sector abroad were amounted to 21 billion USD. Long-term debt roll-over ratio of the non-banking sectors, on the other hand, was around 100% in 2013.

## Reserve assets...

Reserve assets, which decreased by 3.7 billion USD in December, rose by nearly 10 billion USD during 2013. Net errors and omissions recorded 1.6 billion USD of capital inflows in December and reached 3.8 billion USD in the whole year.

## Expectations...

In 2013, current account deficit increased rapidly in parallel with the developments in the non-monetary gold trade. Thus, excluding the gold trade, current account deficit decreases by 1.8% compared to 2012. This situation confirms the views that the rebalancing between domestic



Source: CBRT

and external demand continued gradually. In 2014, the expectation that the EU economy, which is the most important export market of Turkey, will continue to recover and the rise in the competitiveness of Turkey in export markets due to the decline in real effective exchange rate would affect the export volume positively. In addition, tight monetary policy of the CBRT and macroprudential measures taken by BRSA are expected to limit the domestic demand. In this context, we anticipate the rebalancing of domestic and external demand to continue in 2014 and the current account deficit/GDP ratio to decline to 5.5%.

On the other hand, the portfolio investments follow a weak course recently as Fed started to taper its asset purchasing program and risk perception towards Turkey was deteriorated due to the increasing political tension. However, despite the weakening observed in portfolio investments, banking sector did not face any difficulty in raising credits abroad and contribute to the financing of current account deficit increasingly. In this context, in 2014, Turkey is not expected to experience a significant problem in financing the current account deficit and Central Bank would support the market with reserves sales if necessary.

<b>Current Account Balance</b>	<b>(USD million)</b>			
	<b>December 2013</b>	<b>January-December 2012</b>		<b>%</b>
		<b>2012</b>	<b>2013</b>	<b>Change</b>
<b>Current Account Balance</b>	<b>-8,322</b>	<b>-48,497</b>	<b>-65,004</b>	<b>34.0</b>
Foreign Trade Balance	-7,990	-65,331	-79,817	22.2
Services Balance	471	22,562	23,064	2.2
Tourism Revenues (net)	919	21,251	23,180	9.1
Income Balance	-955	-7,161	-9,447	31.9
Current Transfers	152	1,433	1,196	-16.5
<b>Capital and Financial Accounts</b>	<b>6,708</b>	<b>47,438</b>	<b>61,204</b>	<b>29.0</b>
Direct Investments (net)	1,486	9,150	9,579	4.7
Portfolio Investments (net)	-181	40,789	23,743	-41.8
Assets	-36	2,657	2,653	-0.2
Liabilities	-145	38,132	21,090	-44.7
Equity Securities	-246	6,274	841	-86.6
Debt Securities	101	31,858	20,249	-36.4
Other Investments (net)	1,683	18,365	37,881	106.3
Assets	-1,664	-707	2,034	-
Currency and Deposits	-1,562	1,023	4,346	324.8
Liabilities	3,347	19,072	35,847	88.0
Trade Credits	1,358	1,008	5,601	455.7
Loans	3,718	9,780	22,087	125.8
Banking Sector	3,469	5,162	20,983	306.5
Non-bank Sectors	338	6,710	2,018	-69.9
Deposits	-1,745	7,799	7,579	-2.8
Foreign Banks	-1,559	7,129	6,309	-11.5
Foreign Exchange	-595	5,245	6,371	21.5
Turkish Lira	-964	1,884	-62	-
Non-residents	-16	2,913	3,270	12.3
Reserve Assets (net)	3,720	-20,814	-9,911	-52.4
<b>Net Errors and Omissions</b>	<b>1,614</b>	<b>1,059</b>	<b>3,800</b>	<b>258.8</b>

Source: CBRT

## Central government budget posted surplus in January.

According to data announced by Ministry of Finance, central government budget, which gave 5.9 billion TL surplus in January 2013, posted a surplus of 1.9 billion TL in the first month of 2014. The decrease in budget surplus in January was due to a much higher increase in budget expenditures compared to the budget revenues. The acceleration in budget expenditures was mainly due to the non-interest expenditures. On the revenues side, decrease in other revenues (excluding the tax revenues) was also noteworthy. In this period, primary surplus decreased by 38% and was realized as 6.9 billion TL.

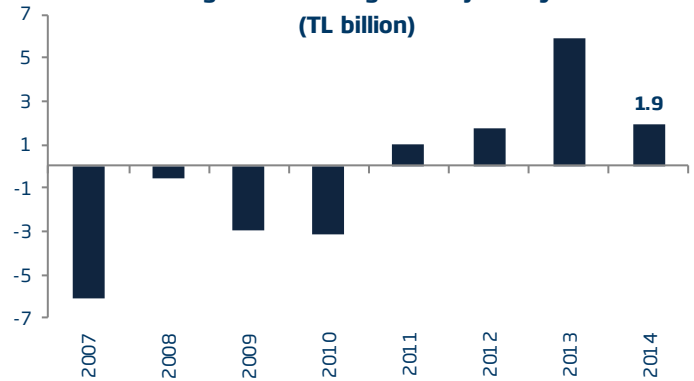
### Tax revenues increased...

In January, tax revenues increased by 15% compared to the same month of the previous year. During this period, total revenues collected from Special Consumption Tax (SCT) stayed flat. However, analyzing the sub-items of SCT revealed that despite the decrease in automotive sales in January, the tax increases which have been effective from the new year caused an increase in SCT revenues collected from the motor vehicle sales. The tax regulations also had an incremental impact on SCT revenues collected from tobacco products. In addition, in line with the rapid increase in foreign exchange rates in the beginning of the year, VAT on imports expanded by 38.7%. Domestic VAT, which increased by 15.7%, also had a positive impact on tax revenues. In addition to the tax revenues, privatization revenue was 551 million TL in January.

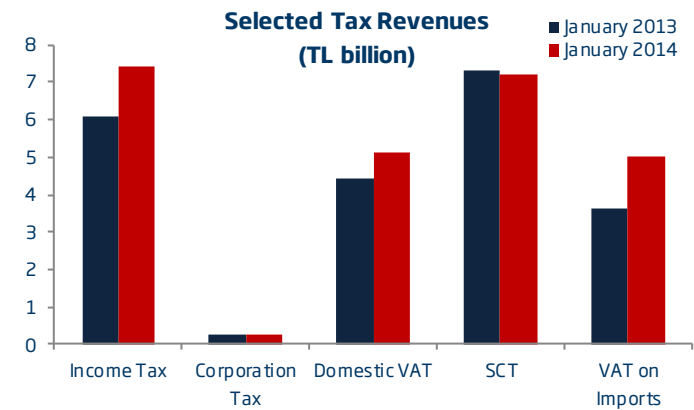
### Increase in budget expenditures stemmed from the current transfers.

On the expenditures side, budget expenditures increased by 16.4% compared to the same month of the previous year. The rise in budget expenditures mainly stemmed from the personnel expenditures and current transfers. Resources transferred to the financing of the social security

Budget Balance Figures of January  
(TL billion)



Selected Tax Revenues  
(TL billion)



system, which constitutes 60% of current transfers, increased by 16.4% compared to the same month of the previous year and were realized as 7.8 billion TL.

### Expectations...

The central government budget displayed a relatively favorable performance in the first month of 2014. Although, the anticipated slowdown in domestic demand might put pressure on the tax revenues in the coming period, we think that the year-end budget deficit target is achievable.

Central Government Budget	(TL billion)				
	January		% 2014 Budget	2014 Budget	Real./
	2013	2014	Change	Target	Target(%)
<b>Expenditures</b>	<b>30.9</b>	<b>36.0</b>	<b>16.4</b>	<b>436.4</b>	<b>8.2</b>
Interest Expenditures	5.2	5.0	-4.0	52.0	9.6
Non-interest Expenditures	25.7	31.0	20.5	384.4	8.1
<b>Revenues</b>	<b>36.9</b>	<b>37.9</b>	<b>2.8</b>	<b>403.2</b>	<b>9.4</b>
Tax Revenues	28.4	32.7	15.0	348.4	9.4
Other Revenues	8.4	5.2	-38.3	54.8	9.5
<b>Budget Balance</b>	<b>5.9</b>	<b>1.9</b>	<b>-67.9</b>	<b>-33.3</b>	<b>-</b>
<b>Primary Balance</b>	<b>11.2</b>	<b>6.9</b>	<b>-38.0</b>	<b>18.7</b>	<b>36.9</b>

Numbers may not add up to total due to rounding

Source: Finance Ministry



## CPI inflation was in line with the expectations in February.

CPI and Domestic PPI (D-PPI) increased by 0.43% and 1.38% compared to the previous month in February, respectively. According to the Reuters' survey, monthly CPI was expected to rise by 0.4%. According to the CBRT's survey, markets' monthly CPI expectation was 0.69% in February.

## The annual increase in CPI was realized as 7.89%.

The annual increase in CPI, which declined to 7.32% in November 2013, was realized as 7.89% in February following a rising trend for the last three months. The coverage of the D-PPI was updated in January 2014 and the new index rose by 12.4% annually in February due to the depreciation of TL, which is the highest annual increase in the last 26 months.

## Increase in transportation prices have been influential on inflation since the beginning of the year.

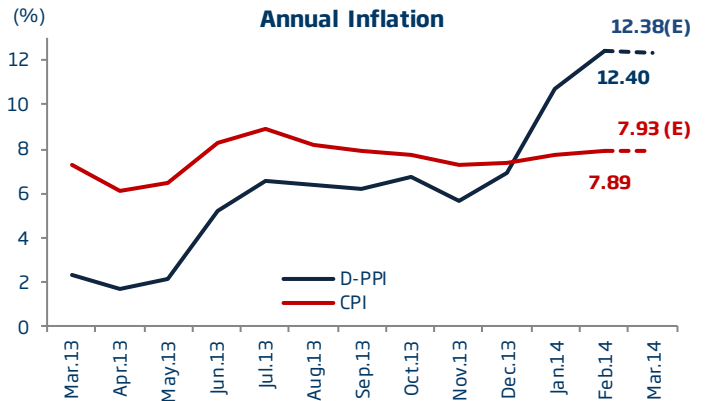
Analysis of the main expenditure groups in CPI revealed that only the prices of clothing and footwear groups declined in February thanks to the seasonal discounts. Prices in the said group recorded a monthly decrease of 5.06% in February and this development limited the monthly inflation by 39 basis points. On the contrary, rise in transportation prices, which was recorded as 2.29% in February, contributed to the monthly inflation by 39 basis points. Taking into account the sharp increase in transportation prices during the first 2 months of the year (4.85%), total contribution of price changes in the said group to the year to date inflation was realized as 80 basis points.

## Sharp increases in the annual core inflation aggregates...

In February, price developments in the seasonal products limited the increase in CPI. The fact that the annual CPI inflation increased by 8.43% in February when energy prices are excluded showed that the increase in transportation group prices stemmed from taxes and price regulations rather than the developments in energy prices. The annual increases in CBRT's favorite core indices denominated by H and I gained momentum in February and were realized as 8.63% and 8.43%, respectively. It is also noteworthy that the highest annual increase in I index since May 2007 was recorded in February.

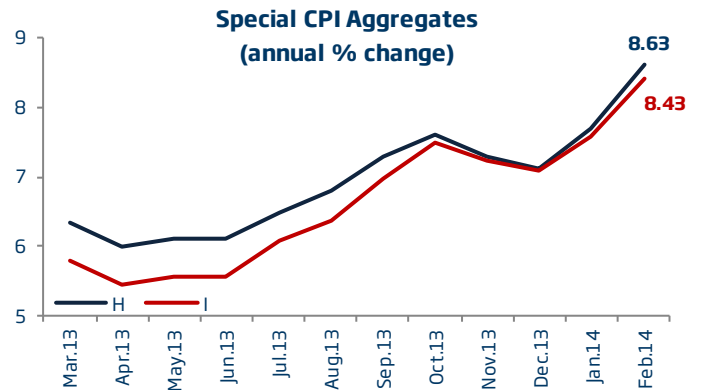
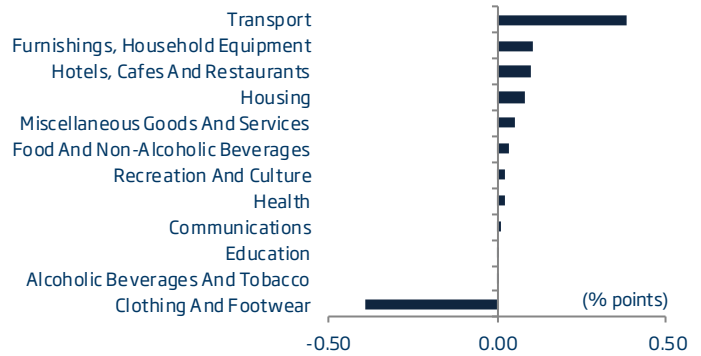
## D-PPI rose by 1.38% in February.

D-PPI, which has high sensitivity to changes in FX rates, rose well above the expectations in February due to sharp increases in the prices of food, textiles and motor vehicles products. In February, food prices increased by 2.58% and contributed to the monthly D-PPI inflation by 53 basis



(E) Estimate

## Contributions to the Monthly CPI by Subgroups



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

points, electricity and gas distribution prices, on the other hand, limit the inflation by 27 basis points.

## Expectations...

In March, we anticipate that the measures taken by CBRT and BRSA would continue to limit demand side inflation in forthcoming period. On the other hand, considering the impacts of the depreciation in TL and seasonal factors in the next period, we expect CPI and D-PPI to increase by 0.70% and 0.80%, respectively.

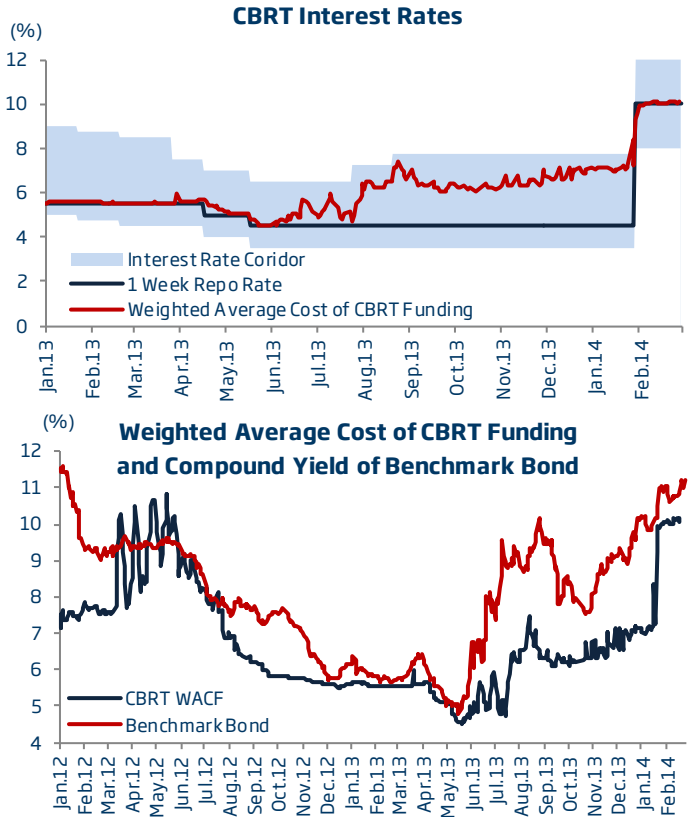
Source: Turkstat

## CBRT kept interest rates unchanged.

At its meeting on February 18<sup>th</sup>, CBRT kept the one-week repo rate unchanged at 10%. The lower and upper bounds of interest rate corridor were also kept unchanged at 8% and 12%, respectively. Moreover, CBRT did not change the reserve requirements and reserve option coefficients.

The Committee stated that they closely monitor recent deterioration in the inflation outlook and expectations. CBRT anticipates that inflation will hover above the 5% target for some time due to recent tax adjustments, exchange rate developments and elevated food prices. Moreover, the Committee remarked that they implemented a strong and front loaded monetary tightening at the interim meeting on January 28, 2014 in order to contain the deterioration in inflation expectations and pricing behavior. The committee reiterated that tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.

CBRT noted that loan growth started to slow down gradually due to the tight monetary policy stance, the recent macroprudential measures and weak capital flows. CBRT also pointed out that leading indicators regarding the first quarter of 2014 indicate some deceleration in private final domestic demand. Accordingly, CBRT emphasized that they expect a significant improvement in the current account deficit in 2014.



## FX deposits in USD terms increased by 6.4 billion USD compared to year-end.

According to BRSA's Weekly Bulletin, as of February 14<sup>th</sup>, 2014, total deposit volume increased by 0.6% compared to the year-end and was realized as 1,020.2 billion TL. Annual increase, on the other hand, was 24.4%. It was seen that exchange rate adjusted deposit volume increased by 14.4% compared to the same month of previous year. As of February 14<sup>th</sup>, TL deposits decreased by 2.7% while FX deposits in USD terms expanded by 3.4%.

### Loans...

As of February 14<sup>th</sup>, 2014, total loan volume expanded by 1.9% compared to the year-end and reached 1,085.4 billion TL. During the same period, TL loans increased by 1.6% and FX loans in USD terms rose by 0.7%. On an annual basis, total loans increased by 32.7% and the exchange rate adjusted increase in loan volume was 25.3%. Analyzing by types of loans, as of February 14<sup>th</sup>, 2014, consumer loans increased by 23.1% and commercial/corporate loans expanded by 37.1%, annually.

According to bank types, the loan growth in public banks increased by 2.6% and amounted 286.9 billion TL while the loan growth in private and foreign banks increased by 1.6% and reached 680.7 billion TL compared to the year-end.

On the other hand, the non-performing loan ratio of the banking sector, which was 2.7% at the end of 2013, increased to 2.8% as of February 14<sup>th</sup>, 2014.

### Securities portfolio...

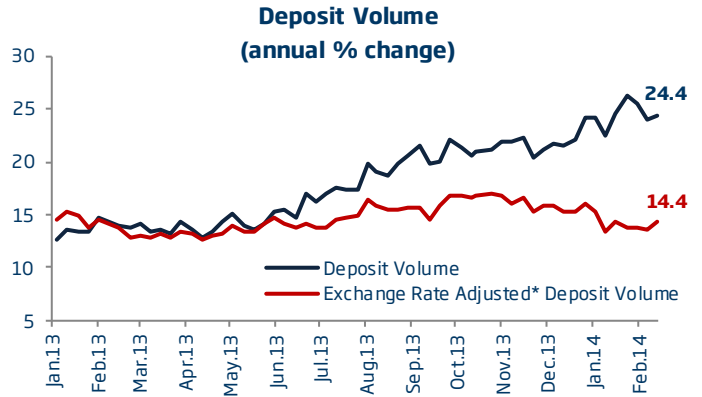
As of February 14<sup>th</sup>, 2014, securities portfolio of banking sector increased by 1.4% compared to the year-end. During this period, available for sale securities portfolio decreased by 4% and securities held to maturity portfolio receded by 19.2%. The securities subject to repo transactions, on the other hand, increased by 11.4%.

### Securities held in custody accounts...

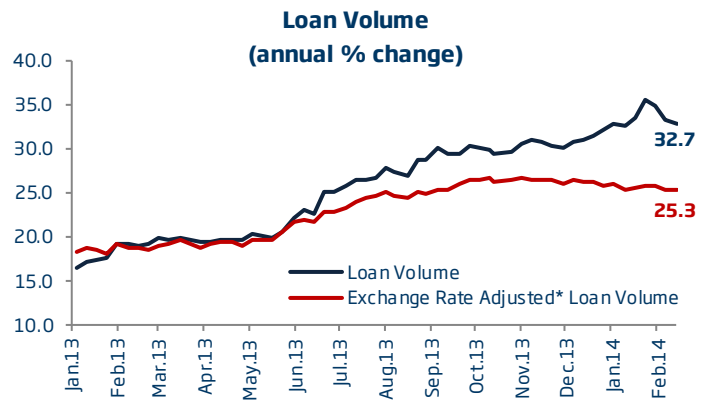
In nominal terms, securities held in custody accounts decreased by 1.1% as of February 14<sup>th</sup>, 2014, compared to the year-end. During this period, non-residents' portfolio increased by 1% and was realized as 101.2 billion TL. Residents' portfolio, on the other hand, decreased by 3.1% to 103.7 billion TL.

### Net FX position...

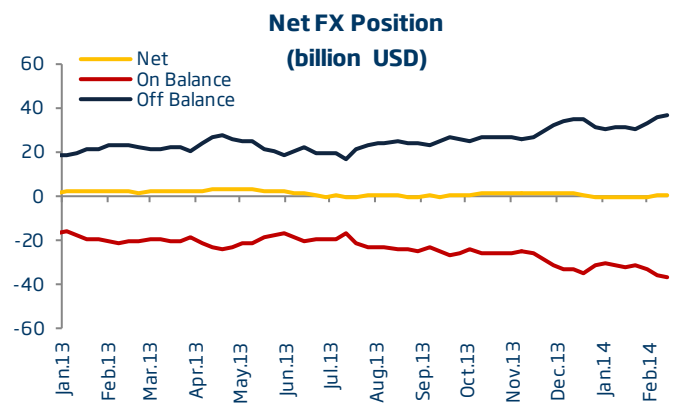
As of February 14<sup>th</sup>, 2014, banks' on-balance sheet FX position was (-) 36,603 million USD while off-balance sheet FX position was (+) 36,659 million USD. Hence, banks' net FX position was realized as (+) 56 million USD.



(\* ) 2012 year-end USD/TL is used.



(\* ) 2012 year-end USD/TL is used.



Source: BRSA Weekly Bulletin

The loss of momentum in US economy stemming from adverse weather conditions during January is anticipated to be temporary. Thus, recovery in developed countries is expected to continue in the forthcoming period. Minutes of Fed's latest meeting showed that the size of the asset purchase program will continue to be reduced gradually. In this context, the volatility in capital inflows to emerging markets are expected to continue throughout the year. However, since the steps related to the tapering of asset purchases are already priced in the market to a large extent, the volatility that might originate from them is expected to be relatively low. On the other hand, the minutes of Fed revealed that some of the committee members also emphasized the importance of financial stability in determining policy interest rates in addition to the labor market conditions and inflation outlook.

Regarding Turkish economy, with the support of strong industrial production figure in December we expect that growth in the last quarter of 2013 was realized around %4. On the other hand, CBRT's tight monetary policy stance will put pressure on economic activity throughout 2014. Accordingly, we anticipate that growth rate in 2014 will be lower than 2013 in parallel with the expected slowdown in consumption expenditures and we expect a significant decrease in current account deficit.

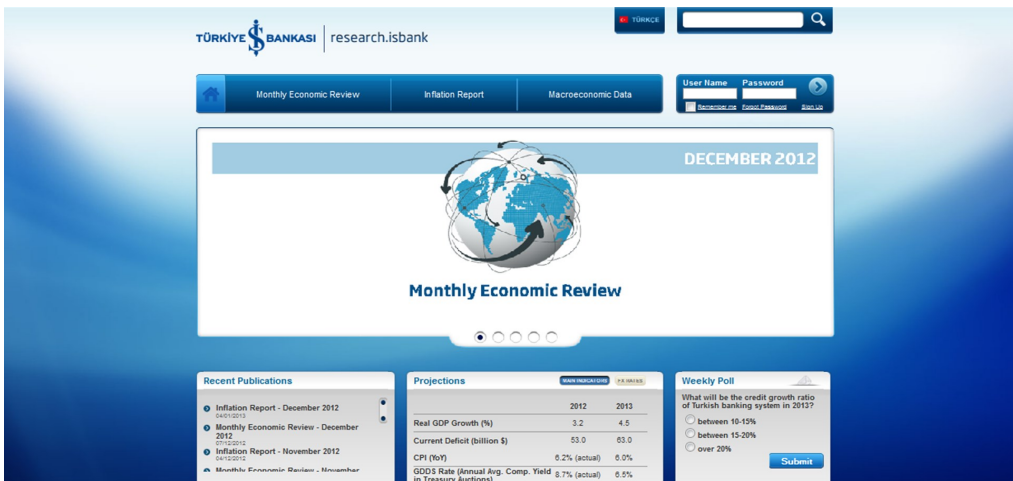
Forecasts	2013	2014 (E)
Growth (%)	4.0 (E)	2.5
CA Deficit/GDP (%)	7.2 (E)	5.5
Inflation (%)	7.4	8.5
GDDI Interest* (%)	7.6	11.0

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

(E) Estimate

Interest and inflation are year-end forecasts

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**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%
GDS Rate (Annual Avg. Comp. Yield in Treasury Auctions)	8.7% (actual)	6.5%

**Weekly Poll**

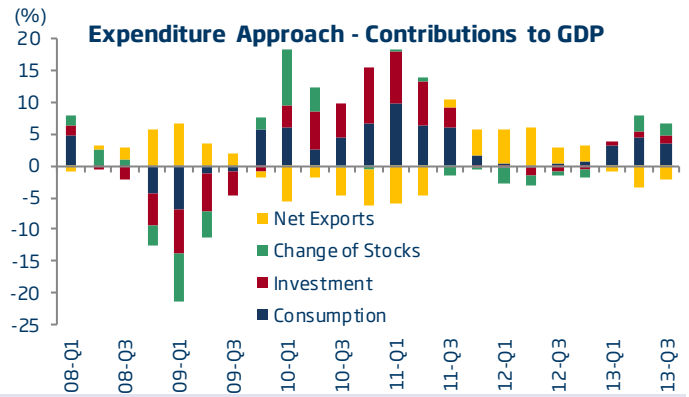
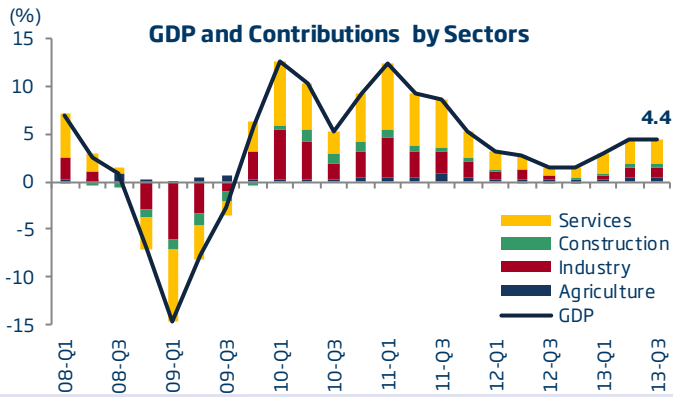
What will be the credit growth ratio of Turkish banking system in 2013?

between 10-15%

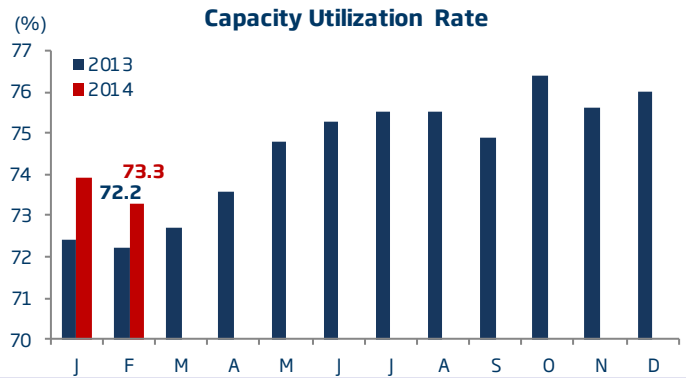
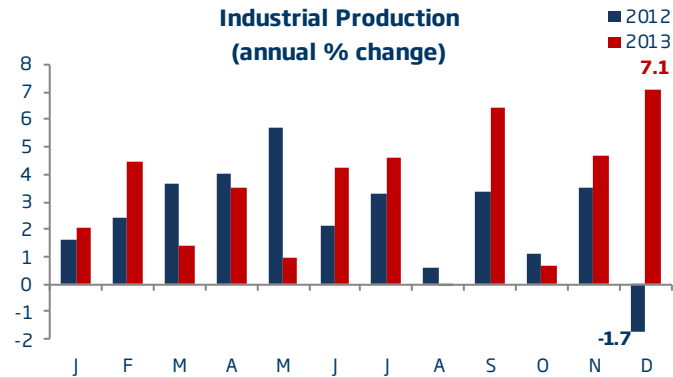
between 15-20%

over 20%

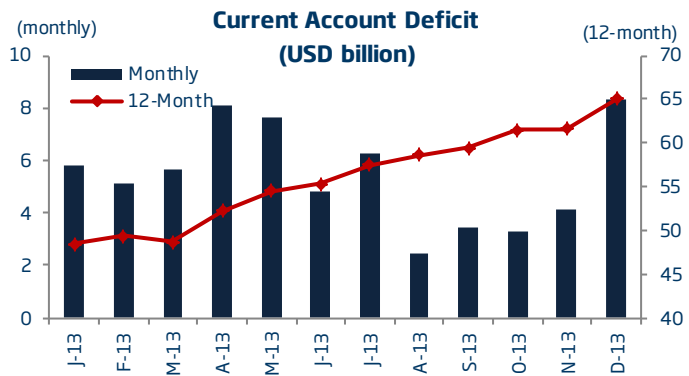
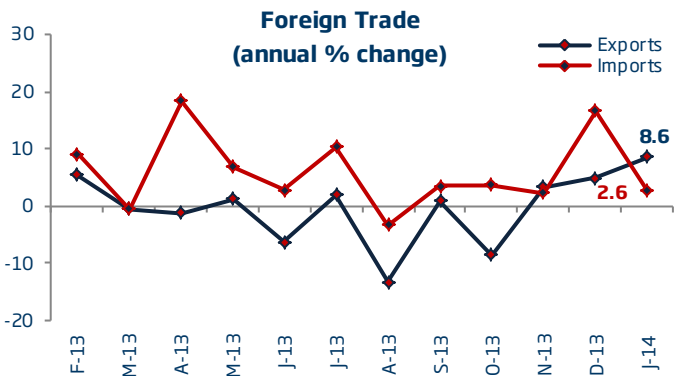
## Growth



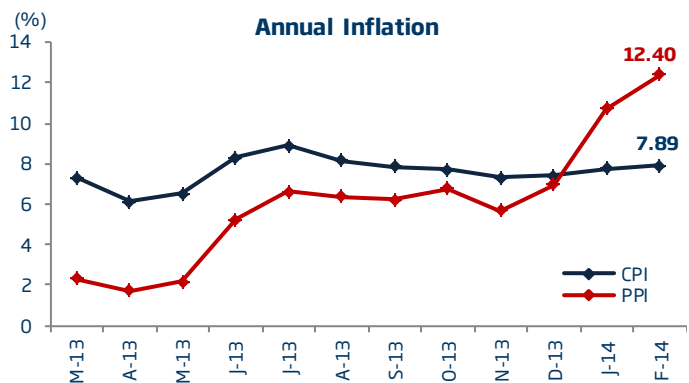
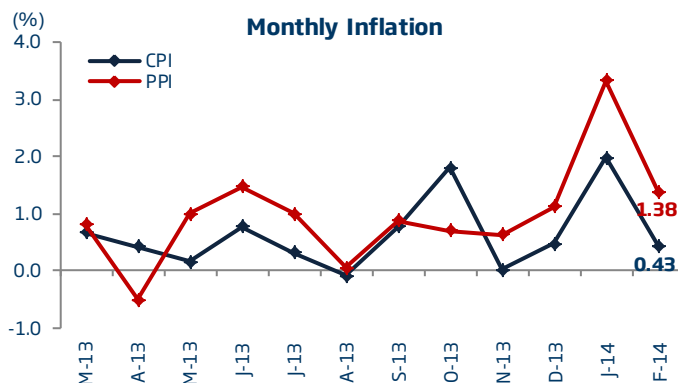
## Industrial Production



## Foreign Trade and Current Account Balance

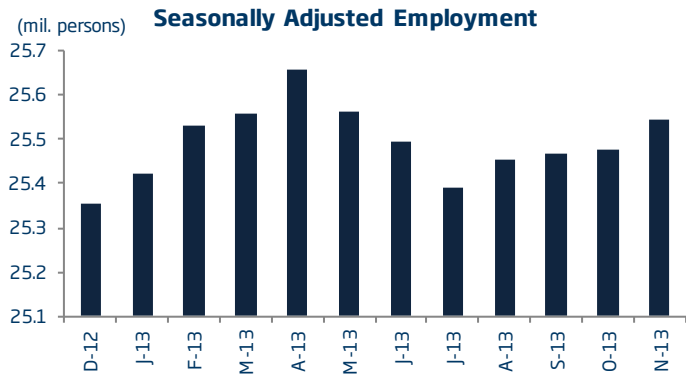
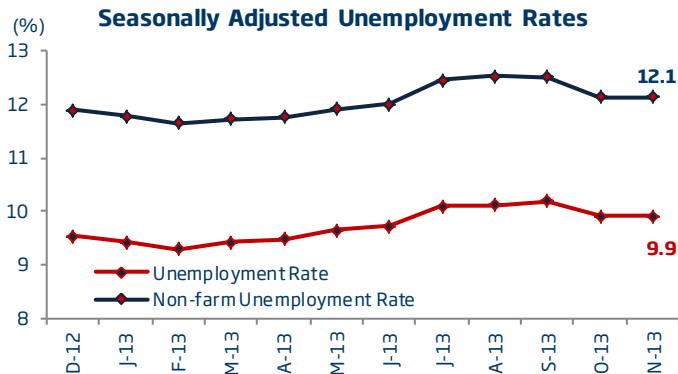


## Inflation

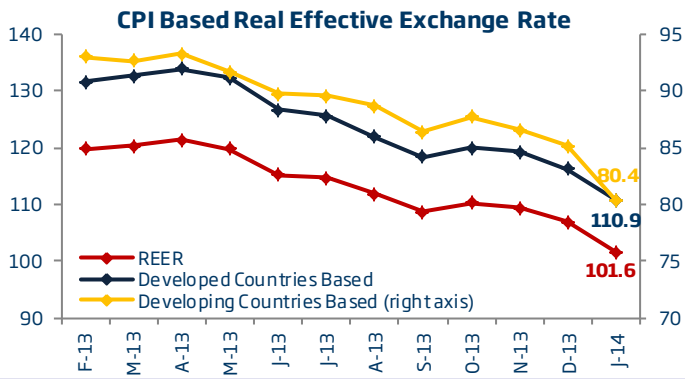
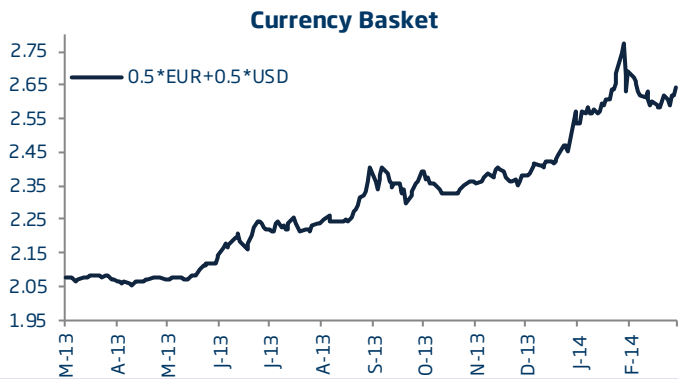


Source: Turkstat, CBRT

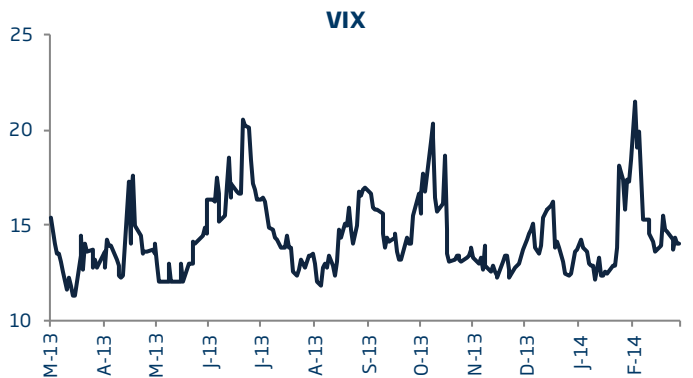
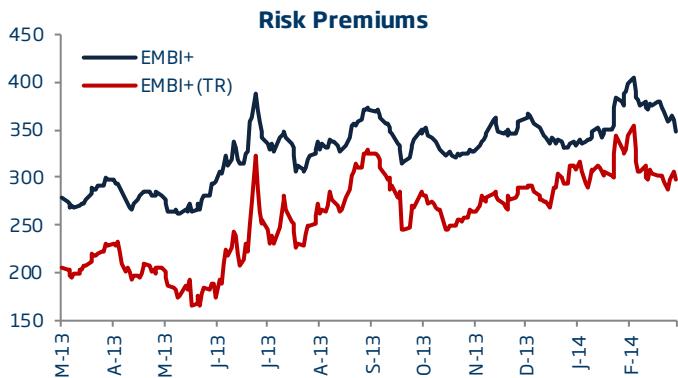
## Labor Market



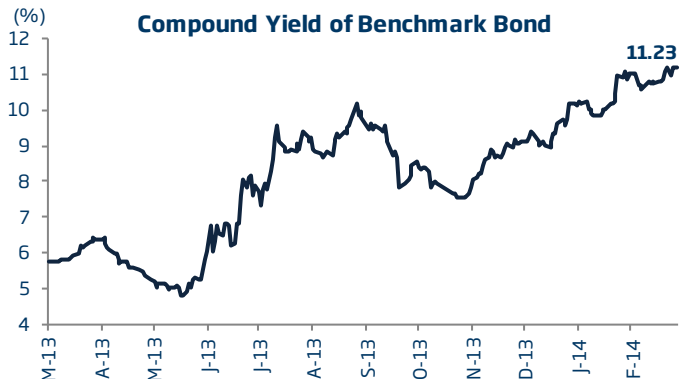
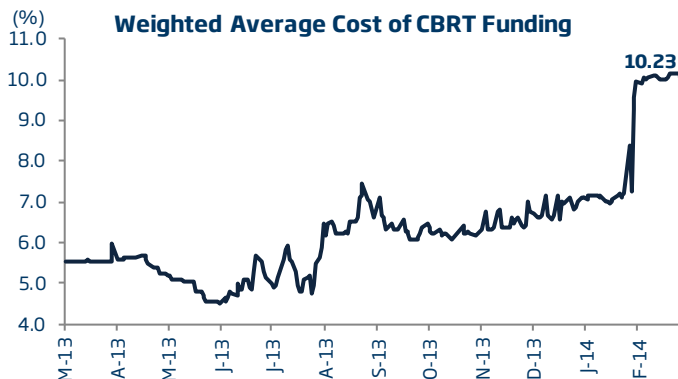
## FX Market



## Risk Indicators

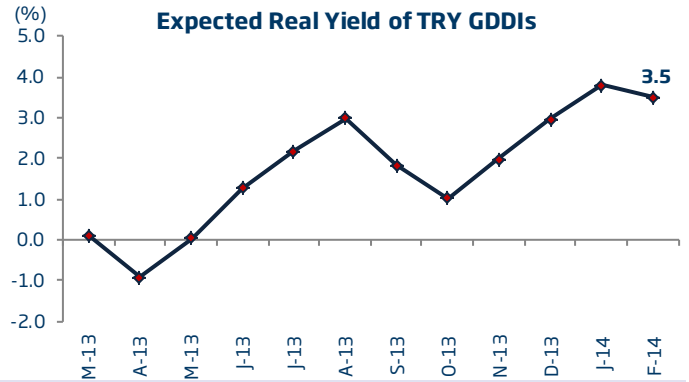
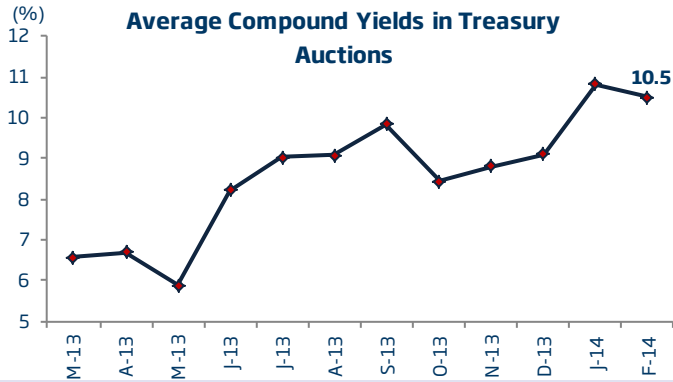


## Interest Rates

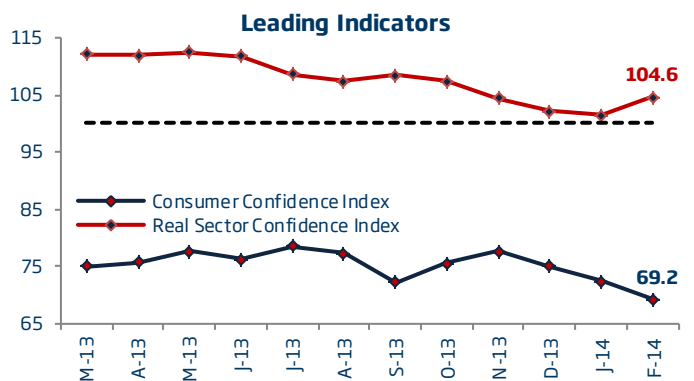
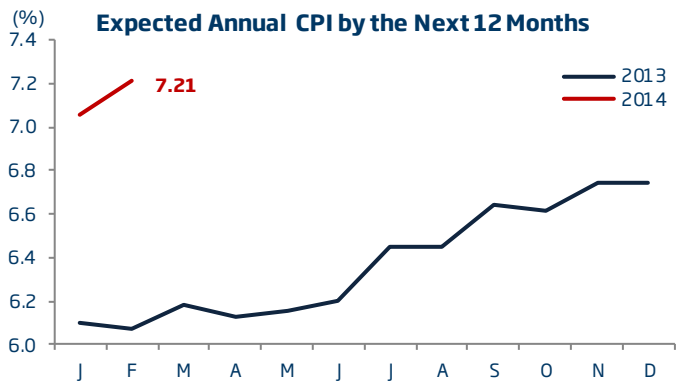
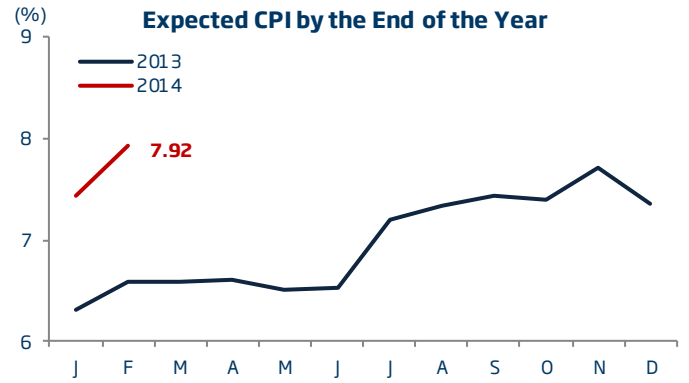
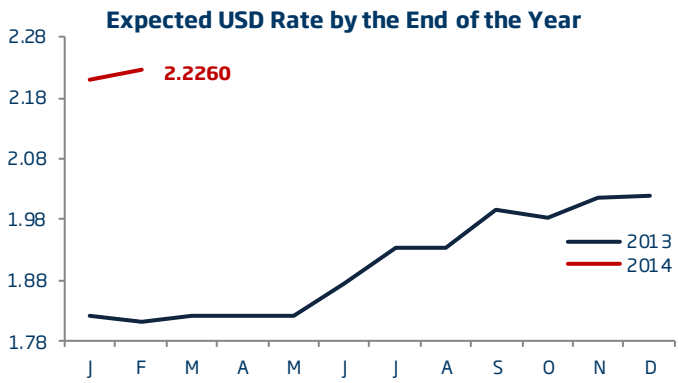
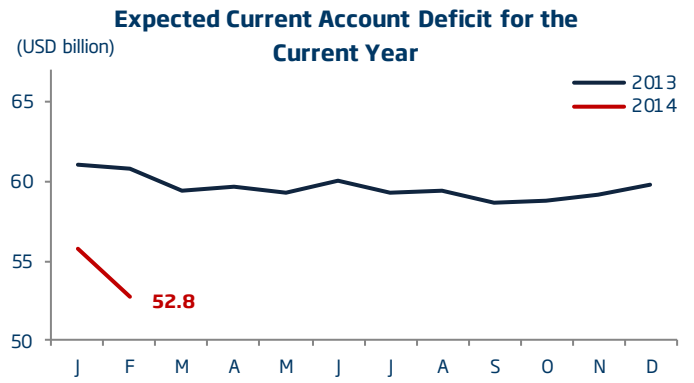
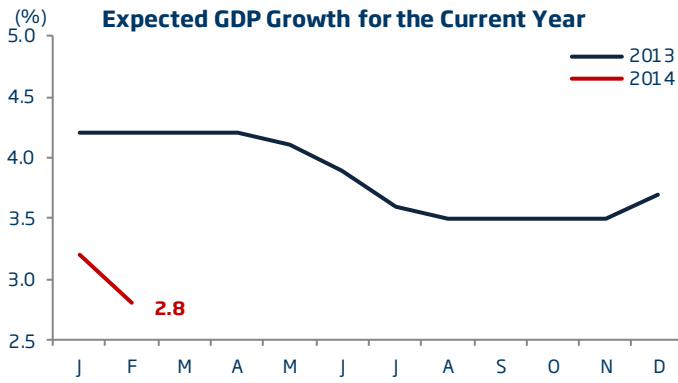


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

## 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	4.5	4.4
<b>Inflation (%)</b>						<b>Dec-13</b>	<b>Jan-14</b>	<b>Feb-14</b>
CPI (annual)	10.1	6.5	6.4	10.4	6.2	7.4	7.8	7.9
PPI (annual)	8.1	5.9	8.9	13.3	2.5	7.0	10.7	12.4
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Sep-13</b>	<b>Oct-13</b>	<b>Nov-13</b>
Unemployment Rate (%)	13.1	12.7	10.7	9.2	9.5	10.2	9.9	9.9
Employment (thousand persons)	21,044	22,100	23,387	24,302	25,353	25,469	25,476	25,546
<b>FX Rates</b>						<b>Dec-13</b>	<b>Jan-14</b>	<b>Feb-14</b>
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.2	106.8	101.5	
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	2.1343	2.2795	2.2342
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.9365	3.1003	3.0508
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.5354	2.6899	2.6425
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Nov-13</b>	<b>Dec-13</b>	<b>Jan-14</b>
Exports	132.0	102.1	113.9	134.9	152.5	151.2	151.8	152.8
Imports	202.0	140.9	185.5	240.8	236.5	248.3	251.7	252.1
<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>-97.1</b>	<b>-99.8</b>	<b>-99.3</b>
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5	60.9	60.3	60.6
<b>Current Account Balance<sup>(1)</sup> (USD billion)</b>						<b>Oct-13</b>	<b>Nov-13</b>	<b>Dec-13</b>
<b>Current Account Balance</b>	<b>-40.4</b>	<b>-12.1</b>	<b>-45.4</b>	<b>-75.1</b>	<b>-48.5</b>	<b>-61.5</b>	<b>-61.5</b>	<b>-65.0</b>
<b>Capital and Financial Accounts</b>	<b>37.5</b>	<b>9.0</b>	<b>44.5</b>	<b>65.9</b>	<b>47.4</b>	<b>62.9</b>	<b>60.3</b>	<b>61.2</b>
Direct Investments (net)	17.2	7.1	7.6	13.8	9.2	8.6	8.8	9.6
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	33.2	29.5	23.7
Other Investments (net)	24.3	1.9	33.7	28.4	18.4	32.5	35.0	37.9
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-11.4	-12.9	-9.9
<b>Net Errors and Omissions</b>	<b>2.9</b>	<b>3.1</b>	<b>0.9</b>	<b>9.1</b>	<b>1.1</b>	<b>-1.4</b>	<b>1.2</b>	<b>3.8</b>
<b>Current Account Deficit/GDP</b>	<b>-5.4</b>	<b>-2.0</b>	<b>-6.2</b>	<b>-9.7</b>	<b>-6.2</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TL billion)</b>							<b>Dec-13</b>	<b>Jan-14</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>407.9</b>	<b>36.0</b>
Interest Expenditures	50.7	53.2	48.3	42.2	48.4		50.0	5.0
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1		357.9	31.0
<b>Revenues</b>	<b>209.6</b>	<b>215.5</b>	<b>254.3</b>	<b>296.8</b>	<b>331.7</b>		<b>389.4</b>	<b>37.9</b>
Tax Revenues	168.1	172.4	210.6	253.8	278.8		326.1	32.7
<b>Budget Balance</b>	<b>-17.4</b>	<b>-52.8</b>	<b>-40.1</b>	<b>-17.8</b>	<b>-29.4</b>		<b>-18.4</b>	<b>1.9</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>31.5</b>	<b>6.9</b>
<b>Budget Balance/GDP</b>	<b>-1.8</b>	<b>-5.5</b>	<b>-3.6</b>	<b>-1.4</b>	<b>-2.1</b>		-	-
<b>Central Government Debt Stock (TL billion)</b>						<b>Nov-13</b>	<b>Dec-13</b>	<b>Jan-14</b>
Domestic Debt Stock	274.8	330.0	352.8	368.8	386.5	405.4	403.0	406.3
External Debt Stock	105.5	111.5	120.7	149.6	145.7	172.6	182.8	196.2
<b>Total</b>	<b>380.3</b>	<b>441.5</b>	<b>473.6</b>	<b>518.4</b>	<b>532.2</b>	<b>578.0</b>	<b>585.8</b>	<b>602.5</b>

(1) 12 month cumulative

(2) Year-to-date cumulative

(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	Nov-13	Dec-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>1653.6</b>	<b>1732.4</b>	<b>26.4</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>1010.0</b>	<b>1047.4</b>	<b>31.8</b>
TL Loans	262.1	288.2	383.8	484.8	588.4	736.7	752.7	27.9
Share (%)	71.3	73.4	73.0	71.0	74.0	72.9	71.9	-
FX Loans	105.3	104.4	142.1	198.1	206.4	273.2	294.7	42.8
Share (%)	28.7	26.6	27.0	29.0	26.0	27.1	28.1	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	28.9	29.6	26.4
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	2.8	2.7	-
<b>Securities</b>	<b>194.0</b>	<b>262.9</b>	<b>287.9</b>	<b>285.0</b>	<b>270.0</b>	<b>283.2</b>	<b>286.7</b>	<b>6.2</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>1653.6</b>	<b>1732.4</b>	<b>26.4</b>
<b>Deposits</b>	<b>454.6</b>	<b>514.6</b>	<b>617.0</b>	<b>695.5</b>	<b>772.2</b>	<b>910.9</b>	<b>945.8</b>	<b>22.5</b>
TL Deposits	294.1	341.4	433.5	460.0	520.4	578.6	594.1	14.2
Share (%)	64.7	66.3	70.3	66.1	67.4	63.5	62.8	-
FX Deposits	160.5	173.2	183.5	235.5	251.8	332.3	351.7	39.7
Share (%)	35.3	33.7	29.7	33.9	32.6	36.5	37.2	-
<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>56.1</b>	<b>60.6</b>	<b>60.0</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>234.3</b>	<b>254.2</b>	<b>46.6</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>116.8</b>	<b>119.1</b>	<b>49.1</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>193.7</b>	<b>193.7</b>	<b>6.5</b>
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	23.3	24.7	-
<b>RATIOS (%)</b>								
Loans/Assets	50.2	47.1	52.2	56.1	58.0	61.1	60.5	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	17.1	16.6	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	55.1	54.6	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.2	90.2	90.3	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	15.6	15.3	-

(1) Year-to-date % change



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