



Monthly Economic Review

June 2015



Global Economy

Turkish Economy

- ◆ The US Federal Reserve (Fed) did not provide any clear signal on the timing of the first rate hike at its statement and the minutes of its monetary policy meeting held on April 28-29. Nonetheless, most of the Fed officials regarded a June rate hike as an immature step according to the minutes. However, Fed officials expected that economic activity would regain strength in the coming period following the slowdown observed in the first quarter and labor market would continue to improve.
- ◆ Having shrunk by 0.7% yoy in the first quarter of the year, the US economy has performed worse than expectations in the second quarter as the recent data suggested. In line with this, market expectations for the first rate hike by the Fed have intensified on the fourth quarter of the year.
- ◆ Euro Area economy expanded by 0.4% qoq in the first quarter of the year, slightly below the expectations. German economy, the region's largest economy, grew by 0.3% in this period as opposed to a market expectation of 0.5%, weighing on region's overall economic growth performance.
- ◆ Annual consumer price inflation in the Euro Area posted an increase of 0.3% in May, above the expectations. This data release supported the positive prospects for the economy.
- ◆ Greek economy contracted for a second consecutive quarter and entered into recession. In addition to this, the prevailing uncertainties regarding the debt talks with international creditors have fed concerns.
- ◆ Economic activity in China continued to signal a weak outlook. Chinese Central Bank decided to cut policy rate for the third time in six months on May 10.
- ◆ Calendar adjusted industrial production surged by 4.7% yoy in March, recording the fastest rise in the last seven months.
- ◆ Real sector confidence index recovered to some extent in the last couple of months while consumer confidence index continued to show weak performance.
- ◆ Export volume rose by 0.2% yoy while import volume decreased by 11.1% yoy in April. Thus, after having widened in March, foreign trade deficit narrowed in April once again.
- ◆ Current account deficit increased by 46.5% yoy and was realized around 5 billion USD in March. 12-month cumulative current account deficit also widened to 45.5 billion USD in this period. The main driver behind this development was the expansion in foreign trade deficit.
- ◆ The favorable outlook in budget balance was mainly driven by the increase in the tax revenues in April. In the first 4 months of the year, budget deficit decreased slightly and was realized as 4.1 billion TRY.
- ◆ Annual CPI inflation rose for the fourth month in a row in May. Having declined to as low as 7.24% in January, annual increase in CPI reached 8.09% in May.
- ◆ At its Monetary Policy Meeting held on May 20, CBRT kept monetary policy unchanged. In the summary of the meeting published on May 27, CBRT stated that a significant downward correction might be possible in food price inflation along with the introduction of new seasonal products to the market in the summer months.

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Industrial production posted a sharp rise in March.

Calendar adjusted industrial production surged by 4.7% yoy in March, recording the fastest rise of the last seven months. Analysis of the main industrial groups revealed that the sharpest increase was registered in capital goods while the manufacture of intermediate goods fell slightly. Calendar adjusted industrial production rose by 1.3% yoy in the first quarter, confirming the gloomy prospects for Q1 GDP growth.

PMI data came in above the 50 breakeven level in May for the first time since December.

According to data announced by Markit, manufacturing Purchasing Managers' Index (PMI) increased by 1.7 points and became 50.2 in May. Hence, the sector registered an expansion for the first time since December. Analysis of sub-indices revealed that employment growth continued while output and new orders exhibited marginal falls.

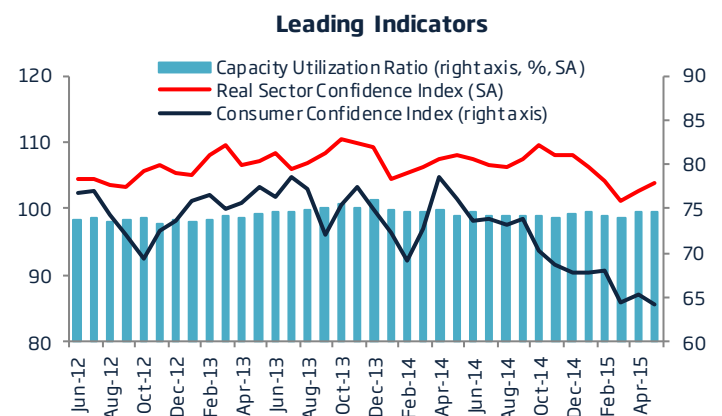
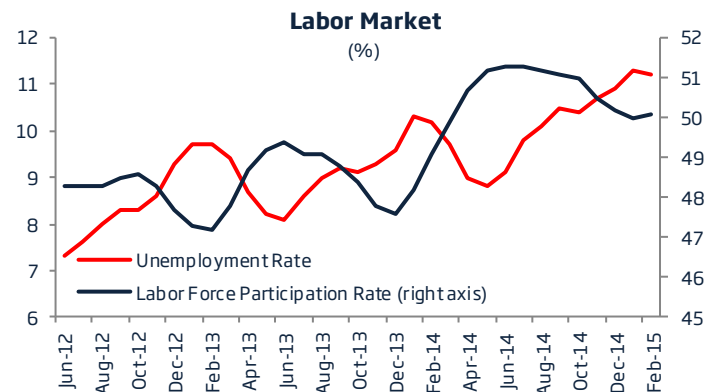
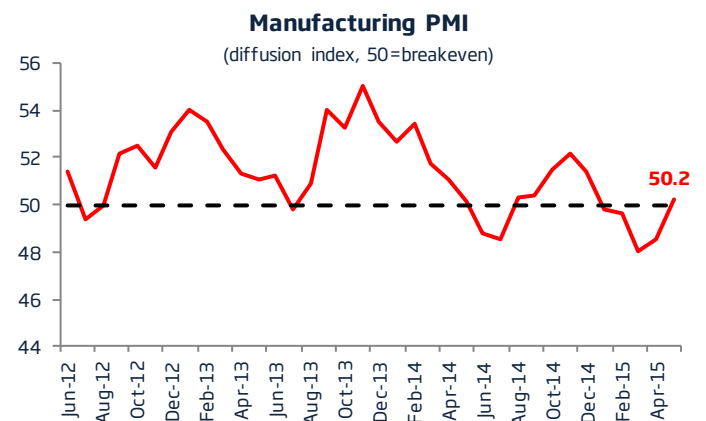
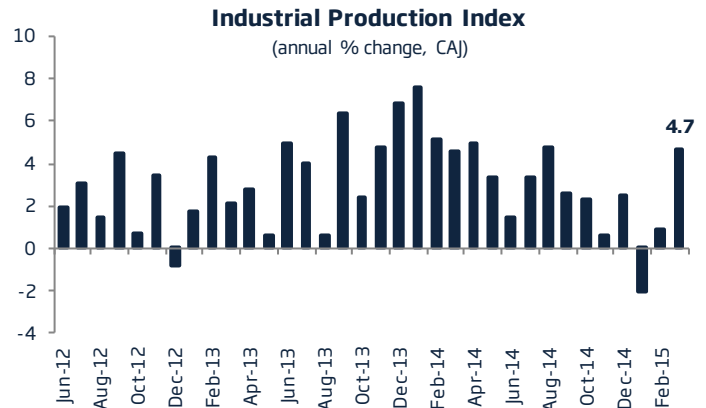
Unemployment rate was 11.2% in February.

Having climbed to the highest level since April 2010 by realizing as 11.3% in January, the unemployment rate came in at 11.2% in February. Increasing by 1 point on an annual basis. This figure confirmed the deceleration in economic activity in this period. Seasonally adjusted unemployment rate remained unchanged on a monthly basis at 10.2%. Labor force participation rate, on the other hand, registered a monthly decline for the first time since June 2014.

Mixed outlook in leading indicators

Capacity Utilization Ratio (CUR) rose by 0.8 point mom to 74.9% in May. Analyzing by the main industrial groups, it was seen that the fastest increase was recorded in intermediate goods. Also, seasonally adjusted capacity utilization ratio came in at the highest level of 13 months.

Confidence indicators displayed a mixed outlook recently. Real sector confidence recovered to some extent in the last couple of months while consumer confidence continued to show weak performance. In fact, while consumer confidence dropped to its lowest level in six years in May, real sector confidence index rose to 109 in this period from 107.9 in April. The increases in sub-items of general business situation and total amount of orders in the past three months played a significant role in the upward movement of the real sector confidence index.



Source: Datastream, Turkstat, CBRT, Markit

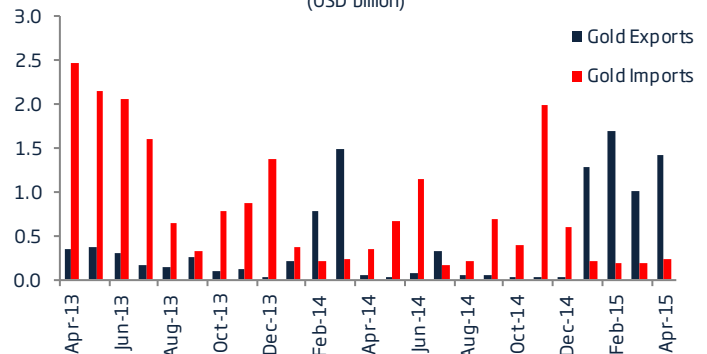
Foreign trade deficit narrowed in April.

In April, export volume rose by 0.2% yoy while import volume decreased by 11.1% yoy. Thus, after having widened in March, foreign trade deficit narrowed in April once again. The foreign trade deficit fell by 31.9% compared to the same month of the previous year and was realized as 5 billion USD. During this period, the import coverage ratio rose to 73% from 64.7%.

Foreign trade deficit narrowed by 18% yoy in the first four months of the year due to the faster decline in imports compared to exports although exports posted an annual decrease.

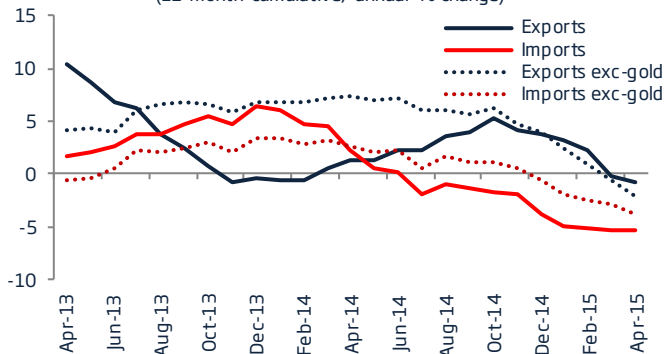
Gold Trade

(USD billion)



Foreign Trade Figures

(12-month cumulative, annual % change)



Gold exports ranked first.

The downward trend observed in the majority of export items has also continued in April. However, the rise in gold exports kept its strong pace in April. In this period, gold exports, which were realized as 1.4 billion USD, made a significant contribution to the total export volume. Indeed, total export volume decreased by 10.2% yoy when gold exports excluded. In the first four months of the year, gold exports accounted for nearly 11% of total exports.

EUR/USD was influential on export performance.

Exports in dollar terms to the European Union (EU) countries, being Turkey's main export market, continued to drop in April. The fall in exports to the EU countries was

mainly driven by sliding EUR/USD parity. In fact, during January-April period, having declined by 7.8% yoy in dollar terms, exports to these countries rose by 13.6% yoy in euro terms. On the other hand, exports to the US maintained its upward trend in April, albeit losing some momentum. It was noteworthy that exports to Iran increased by 30.6% yoy during this period.

Import volume continued to decline.

Turkey's energy bill continued to fall on the back of the significant annual decline in oil prices. In this framework, imports of mineral fuels and oils, which have the highest share in total imports, dropped by 32% yoy in April. Aside from this, the drops in most of the other importing items were also worth mentioning. Nonetheless, the increases in imports of aircraft and parts, which more than doubled compared to the previous year, and motor vehicles, which posted a rise of 13.7% yoy, limited the said decline.

Expectations

Gold exports played an important role in total export growth throughout 2015. Yet, the current trend might not prevail in the middle and long term. The positive impact of oil prices on import volume might fade and disappear eventually in the second half of the year. In this context, foreign trade figures, which displayed a strong outlook in 2014, are expected to exhibit a weaker performance this year.

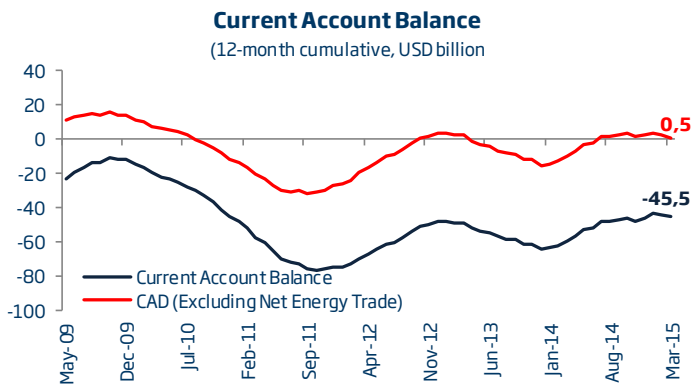
Foreign Trade Balance	(USD billion)					
	April		Change	Jan.-Apr.		Change
	2014	2015	(%)	2014	2015	(%)
Exports	13.4	13.4	0.2	53.5	50.5	-5.7
Imports	20.7	18.4	-11.1	78.1	70.7	-9.5
Foreign Trade Balance	-7.3	-5.0	-31.9	-24.6	-20.2	-18.0
Import Coverage Ratio (%)	64.7	73.0	-	68.5	71.4	-

Source: Datastream, Turkstat

In March, current account deficit came in above expectations.

In March, current account deficit increased by 46.5% yoy and was realized around 5 billion USD. The market expectation for current account deficit in March was 4.3 billion USD. Analysis of the quarterly figures revealed that current account deficit narrowed by 7.4% yoy to 10.9 billion USD in the first quarter.

12-month cumulative current account deficit widened to 45.5 USD billion USD by March. The main driver behind this development was the expansion in foreign trade deficit.



Gold exports lost momentum.

According to the balance of payments figures, exports fell by 16.2% yoy, the sharpest decline recorded since 2009. In this period, current account deficit widened compared to March 2014 because of a much limited decline in imports which posted an annual decrease of 5.5%. Besides, after displaying a strong performance in previous months, gold exports lost some momentum in March.

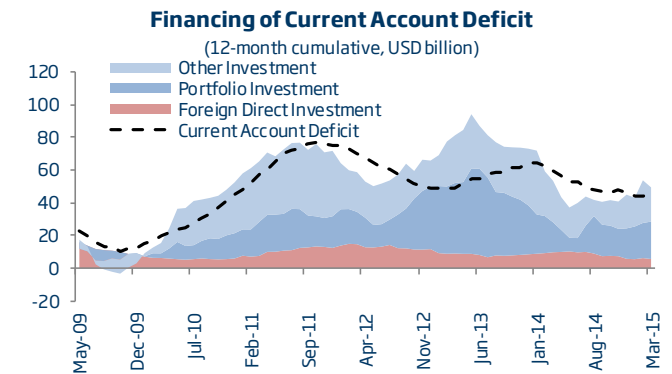
Flat course in tourism revenues...

In March, tourism revenues decreased by 2.6% yoy and was realized as 1.5 billion USD. On the other hand, in the first quarter of the year, tourism revenues recorded a slight

annual rise of 0.3%. In this period, while tourist arrivals from Russia fell by 27%, tourist arrivals from Germany surged by 11%. This development compensated the decline in tourism revenues to some degree.

Further capital outflows in portfolio investments account.

Having registered capital outflows in February, portfolio investment account recorded an outflow also in March. This net outflow amounted to 2.9 billion USD. In this period, non-residents sold net 580 million USD in equity market and bought net 444 million USD in debt security market. Regarding the debt securities issues abroad in the third month of the year, it is seen that general government realized a net repayment of 2.8 billion USD. Banks and other sectors borrowed net 553 million USD and 107 million USD, respectively.



In March, non-residents' foreign direct investments followed a flat course with 900 million USD. Moreover, residents' direct investments abroad, reaching 620 million USD, limited the rise in net foreign direct investments account.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	Dec. 2014		Mar. 2015		Breakdown of Net Capital Inflows (%)	
	Dec. 2014	Mar. 2015	Dec. 2014	Mar. 2015	Dec. 2014	Mar. 2015
Current Account Balance	-46,377	-45,499	-	-	-	-
Total Net Foreign Capital Inflows	45,909	46,278	100.0	100.0		
-Direct Investments	5,503	4,806	12.0	10.4		
-Portfolio Investments	20,009	20,944	43.6	45.3		
-Other Investments	17,080	21,586	37.2	46.6		
-Net Errors and Omissions	3,383	-1,011	7.4	-2.2		
-Other	-66	-47	-0.1	-0.1		
Reserves⁽¹⁾	468	-779	-	-		

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

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

Source: Datastream, CBRT

Banks raised net 3.2 billion USD of long-term loans from abroad.

Banking sector was a short-term net credit re-payer with 766 million USD in March. On the other hand, despite a net disbursement of 1.2 billion USD, the sector raised 4.4 billion USD of long-term loans from abroad. On net basis, long-term borrowing of banking sector was 3.2 billion USD, the highest monthly reading recorded since December 2006. Other sectors made a net credit repayment of 203 million USD during the same period.

In 12-month cumulative terms, banks' and nonbank sectors' long-term debt roll-over ratios were realized as 202% and 119% by March, respectively.

In March, under the item of resident banks' currency and deposits held in foreign correspondent banks revealed an asset acquisition of 4 billion USD, the highest level in last seven years. Non-residents' currency and deposits held within domestic banks also increased by 2.7 billion USD.

Currency and deposits monitored under the other investments account registered an outflow of 1.4 billion USD due to a higher reading registered in net acquisition of financial assets.

The fast decline in reserve assets

In March, official reserves experienced a sharp fall of 6.6 billion USD. Having dropped by 1.1 billion USD in February, official reserves declined by 3.6 billion USD as of the first quarter.

Expectations

In recent months, a combination of the weak performance of exports and upward movements in oil prices has put pressure on current account deficit. This development indicated that the 12-month cumulative current account deficit, which widened in March, is likely to maintain this upward trend in the coming period as well.

					(USD million)
	March 2015	Jan. - Mar. 2014		% Change	12-Month Cumulative
Current Account Balance	-4,961	-11,788	-10,910	-7.4	-45,499
Foreign Trade Balance	-4,860	-12,049	-11,211	-7.0	-62,737
Services Balance	1,075	2,519	2,764	9.7	25,436
Travel (net)	1,102	2,767	2,852	3.1	24,565
Primary Income	-1,264	-2,445	-2,663	8.9	-9,335
Secondary Income	88	187	200	7.0	1,137
Capital Account	0	-21	-2	-90.5	-47
Financial Account	-4,870	-3,525	-7,022	99.2	-46,557
Direct Investments (net)	-280	-3,082	-2,385	-22.6	-4,806
Portfolio Investments (net)	2,949	2,475	1,540	-37.8	-20,944
Net Acquisition of Financial Assets	708	523	644	23.1	862
Net Incurrence of Liabilities	-2,241	-1,952	-896	-54.1	21,806
Equity Securities	-580	408	-621	-	1,530
Debt Securities	-1,661	-2,360	-275	-88.3	20,276
Other Investments (net)	-988	1,962	-2,544	-	-21,586
Currency and Deposits	1,383	1,877	-1,393	-	-3,961
Net Acquisition of Financial Assets	4,002	-532	5,543	-	6,348
Net Incurrence of Liabilities	2,619	-2,409	6,936	-	10,309
Central Bank	-44	-354	-116	-67.2	-2,095
Banks	1,456	-2,055	7,052	-	9,405
Foreign Banks	1,549	-2,027	6,330	-	6,499
Foreign Exchange	711	-1,361	5,340	-	3,847
Turkish Lira	1,094	-666	990	-	4,674
Non-residents	858	-28	722	-	3,883
Loans	-2,281	-3,006	-2,273	-24.4	-14,377
Net Acquisition of Financial Assets	-106	128	59	-53.9	1,794
Net Incurrence of Liabilities	2,175	3,134	2,332	-25.6	16,171
Banking Sector	2,431	1,387	1,750	26.2	12,384
Non-bank Sectors	-203	2,013	997	-50.5	4,827
Trade Credit and Advances	-65	3,184	1,164	-63.4	-2,828
Other Assets and Liabilities	-25	-93	-42	-54.8	-420
Reserve Assets (net)	-6,551	-4,880	-3,633	-25.6	779
Net Errors and Omissions	91	8,284	3,890	-53.0	-1,011

The figures used in the table are according to the Sixth Edition of the Balance of Payments Manual. You can find the details [here](#).

Source: Datastream, CBRT

In April, budget posted a surplus of 1.4 billion TRY.

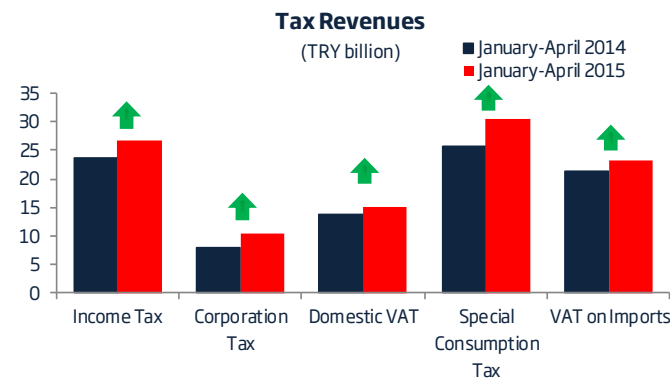
According to data announced by the Ministry of Finance, budget expenditures increased by 13.1% compared to the same period of the previous year while the rise in budget revenues was realized as 26.1% yoy. Hence, central government budget, having posted a deficit of 2.7 billion TRY in April 2014, registered a surplus of 1.4 billion TRY in same month of 2015.

In the first 4 months of the year, on the other hand, budget deficit decreased slightly and was realized as 4.1 billion TRY. Furthermore, the primary surplus displayed a strong performance and increased by 48.2% yoy to 20.1 billion TRY, reaching 60.9% of the year-end target.

The annual rise in tax revenues gained momentum.

In April, the favorable outlook in budget balance was mainly driven by the increase in the tax revenues. In this period, 40.6% surge in VAT on imports made the highest contribution to the rise in revenues. The strong performance in tax revenues also confirmed the recent improvement in leading indicators regarding the economic activity. Besides, in April "Property Income", which includes the revenues from SEE's and public banks surged by 61.4% yoy.

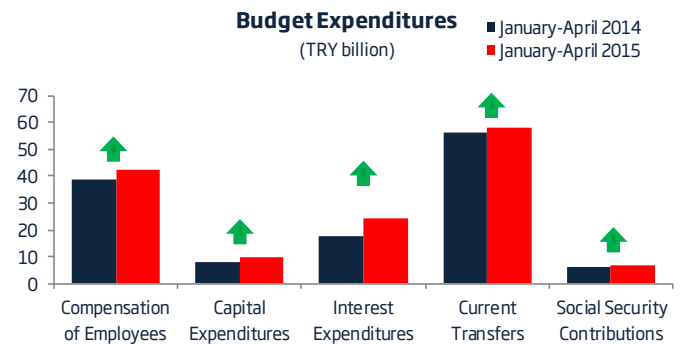
The trend in budget revenues has been compatible with the year-end targets in the first four months of the year. During



this period, tax revenues and other revenues increased by 15.5% yoy and 2.0% yoy, respectively.

58.6% rise in interest expenditures

The annual rise of 58.6% registered in interest expenditures limited the improvement in budget indicators in April. Together with the low base year effect, the upward movement in domestic yields since the beginning of 2014 and the high level of debt repayment made by the Treasury were influential in this development. In the same period, non-interest expenditures increased by 7.8%. The decline in treasury aids and lending to SEE's played a significant role in this limited rise of non-interest expenditures.



Year-to date figures revealed that non-interest expenditures rose by 9.0% yoy while interest expenditures surged by 35.8% yoy. Analyzing the sub-items of budget expenditures, it is seen that figures were in line with year-end targets.

Expectations

Parallel to the upturn in economic activity, the positive outlook in tax revenues is expected to persist in the coming period. Against this backdrop, we anticipate that there would be no problem in reaching year-end budget targets in 2015.

Central Government Budget

	April		%	January-April		%	(TRY billion)	
	2014	2015		Change	2014		2015	Change
Expenditures	36.8	41.6	13.1	142.6	160.2	12.3	472.9	33.9
Interest Expenditures	3.8	6.1	58.6	17.8	24.2	35.8	54.0	44.8
Non-Interest Expenditures	33.0	35.5	7.8	124.8	136.0	9.0	418.9	32.5
Revenues	34.1	43.0	26.1	138.4	156.2	12.9	452.0	34.5
Tax Revenues	25.9	31.9	23.4	111.0	128.2	15.5	389.5	32.9
Other Revenues	8.2	11.1	34.7	27.4	28.0	2.0	62.5	44.7
Budget Balance	-2.7	1.4	-	-4.2	-4.1	-4.2	-21.0	19.4
Primary Balance	1.1	7.5	567.3	13.6	20.1	48.2	33.0	60.9

Numbers may not add up to total value due to rounding.

CPI rose by 0.56% mom.

In May, CPI and Domestic PPI (D-PPI) registered a monthly increase of 0.56% and 1.11%, respectively. According to the Reuters' survey CPI was expected to rise by 0.65% in this period. The CBRT's survey suggested that markets' monthly CPI expectation for May was 0.52%.

May	CPI		D-PPI	
Change (%)	2014	2015	2014	2015
Monthly	0.40	0.56	-0.52	1.11
Year-to-Date	5.38	5.30	5.06	5.22
Annual	9.66	8.09	11.28	6.52
Annual Average	8.23	8.45	8.66	6.98

The annual CPI inflation was 8.09%.

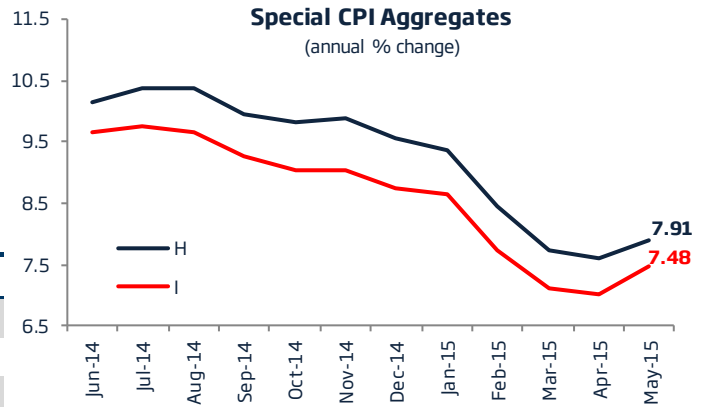
Annual CPI inflation rose for the fourth month in a row in May. Having declined to as low as 7.24% in January, annual increase in CPI reached 8.09% in May. The rise in PPI came in at 6.52% along with the fading base effect.

Upward pressure on CPI through clothing and footwear prices...

Seasonal factors were influential on clothing and footwear prices in May as was the case in April. In fact, the prices in this group surged by 10.1% mom and made the highest contribution to the monthly inflation by 64 basis points. The transportation group followed clothing and footwear group and contributed to the monthly inflation by 23 basis points. In contrast to the previous four months, food and non-alcoholic beverages put downward pressure on inflation as widely expected. Having the highest weight in the CPI basket with 24%, the prices in the said group dropped by 2.7% mom and limited the rise in monthly inflation by 56 basis points.

Core inflation indicators...

While monthly inflation excluding energy was lower with 0.46%, it was higher with 1.5% excluding unprocessed food. H and I core indices, the CBRT's favorite core indices,



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

recorded a monthly rise of 1.69% and 1.96%, respectively. They both continued to stay above the monthly headline inflation. Also, it was worth mentioning that the impact of the depreciation of TRY on core inflation indicators became more evident by May. Thus, the annual rises in H and I core indices accelerated during this period.

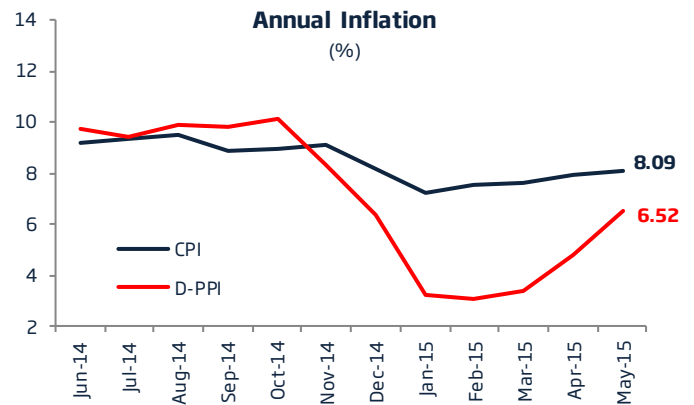
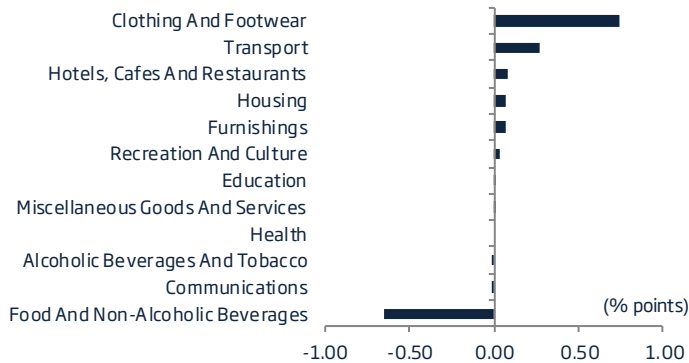
Monthly rise in D-PPI was 1.1%.

Having posted the fastest monthly increase of 15 months in April, the D-PPI registered a relatively moderate monthly rise by 1.1% in May. Food prices, which have the largest weight in the D-PPI basket, made the highest contribution to the monthly inflation in this period. Indeed, the said group prices surged by 1.9% mom. The second highest contribution came from the refined petroleum products by 25 basis points.

Expectations...

Clothing and footwear and food prices are expected to register a fall in June due to the seasonal factors and thereby drag down inflation figures. On the other hand, the fading favorable impact of the plunge in oil prices on inflation, as well as the high course of exchange rates, might limit this downward impact to some extent.

Contributions to the Monthly CPI by Subgroups

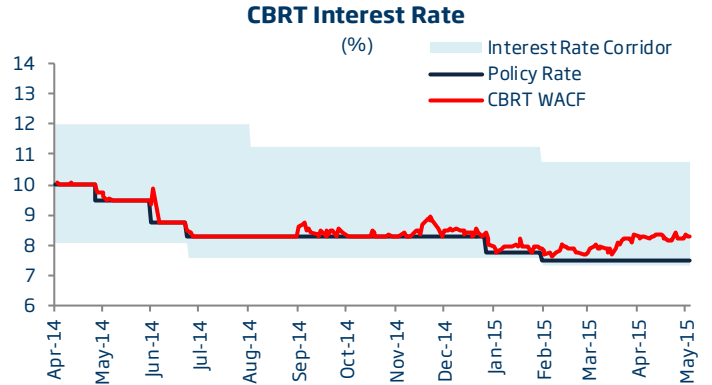


Source: Turkstat

CBRT kept interest rates on hold.

At its Monetary Policy Meeting held on May 20, CBRT kept the one-week repo rate (the policy rate) at 7.5%. CBRT also left both the upper and lower bound of the interest rate corridor unchanged.

CBRT stated that along with the cautious monetary and fiscal policies macro prudential measures continued to have a positive impact on inflation excluding energy and food (core inflation indicators). In addition to its previous statements, CBRT pointed out that volatility in exchange rates in recent months limited the recovery in core inflation indicators. Considering the current uncertainties prevailing in global markets and volatility in energy and food price inflation, CBRT reiterated its commitment to the cautious monetary policy stance which is planned to be maintained until there is a significant improvement in the inflation outlook. CBRT made similar assessments in the summary of the monetary policy committee meeting published on May 27. It added that a significant downward correction might be possible in food price inflation along with the introduction of new seasonal products to the market in the summer months.



Volatility in the domestic markets...

Recent figures showed that the economic activity continued to display a weak course in the US in the second quarter and therefore market expectations that a Fed rate hike would not come earlier than anticipated gained strength. In this context, emerging market currencies, which had depreciated against the US dollar since the beginning of the year, recovered to some extent in the first half of May. However, risk perceptions in international markets deteriorated once again in the second half of the month due to the mixed signals on the US economy and concerns over Greece.

In domestic markets, on the other hand, the uncertainties over the general elections to be held in June and the new economy management team have caused fluctuations in the markets in May.

TRY depreciated in the last couple of days in May.

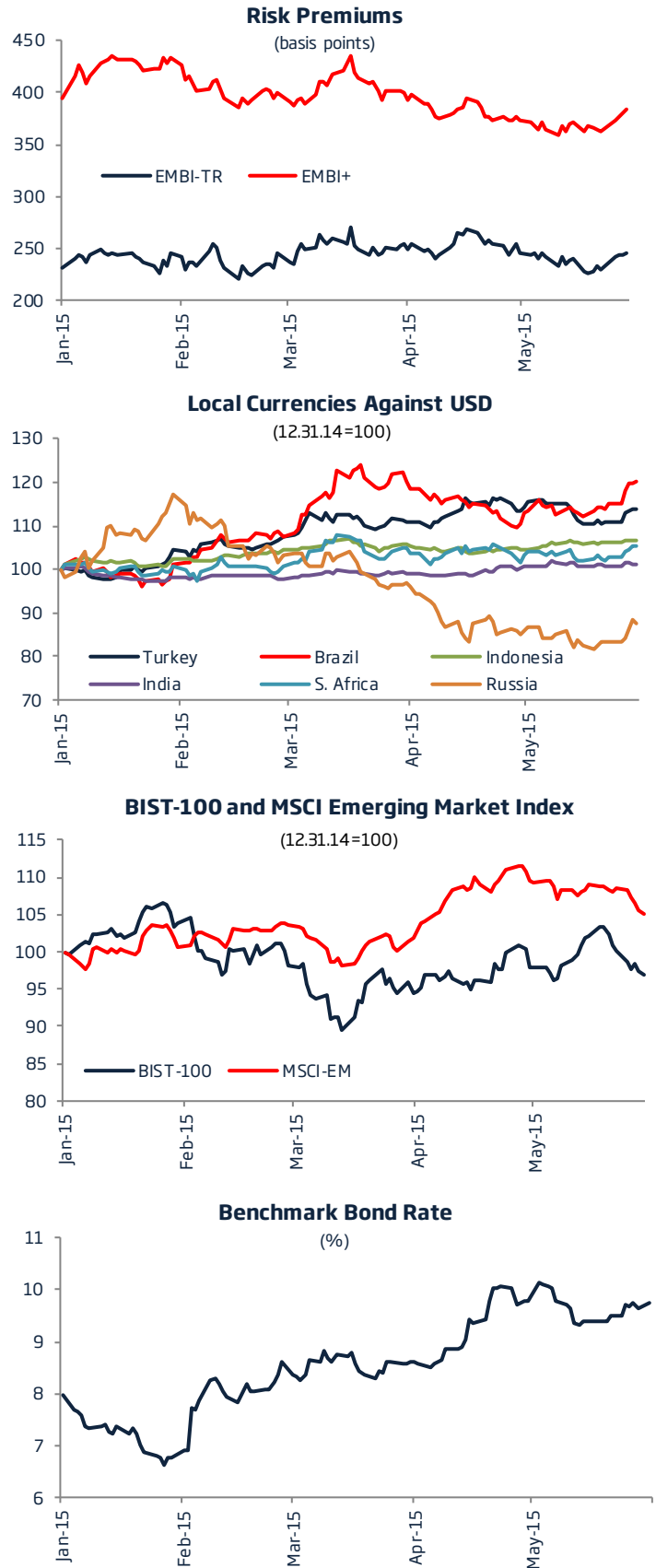
Having realized as 2.7069 at the start of May, USD/TRY followed a downward trend as domestic markets differentiated positively from its peers. USD/TRY, which dropped to as low as 2.5570 on May 21, started to increase since then. As of May 29, USD/TRY was realized as 2.6620.

BIST-100 index fluctuated within a wide range in May.

BIST-100 index, which was 84,019 points in the beginning of May, rose more than 5% until May 18, exceeding the 88,000 points level. However, with the general elections approaching, the sell-off gained pace. The index was at 82,981 points at the end of May, falling by 1.2% mom.

2-year benchmark bond's interest rate returned to single-digit levels.

The interest rate of the 2-year benchmark bond, which reached its highest level in more than one year with 10.31% on May 6, receded below 10% level in the first half of May in line with the improvement in risk perception towards the emerging markets. Despite following a declining trend for a while thanks to the lower risk perception towards domestic markets as well, this fall in interest rate of 2-year benchmark bond was not permanent. Thus, the interest rate of 2-year benchmark bond surged again in the second half of the month and was close to 10% by the end of May.



Source: Reuters, Datastream, BIST

Annual rise in deposit volume was 19.6%.

According to BRSA's Weekly Bulletin, as of May 22, deposit volume expanded by 19.6% yoy and was realized as 1,208 billion TRY. Having risen to 8.4% as of May 8, year-to-date increase in deposit volume retreated to 7% by May 22. In this period, TRY deposits registered a decline of 1.7% while FX deposits grew fast by 20.8%. According to the exchange rate adjusted figures, annual expansion in deposit volume was only 9.4% while the year-to-date rise in deposits declined to 2.1%.

Annual credit growth was 24.6%.

Having posted the highest growth rate in a year by 26.2% as of May 8, the annual rise in credit volume declined to 24.6% as of May 22. The year-to-date expansion in credit volume was realized as 8.9%. In this period, TRY and FX loans surged by 7.2% and 13.2%, respectively. FX loans in USD terms increased by a mere 1.3%, reflecting the impact of the recent rise in exchange rates on credit growth. Indeed, according to the exchange rate adjusted figures, annual expansion in credit volume was 17.2% while the year-to-date rise in credits was recorded as 5.5%.

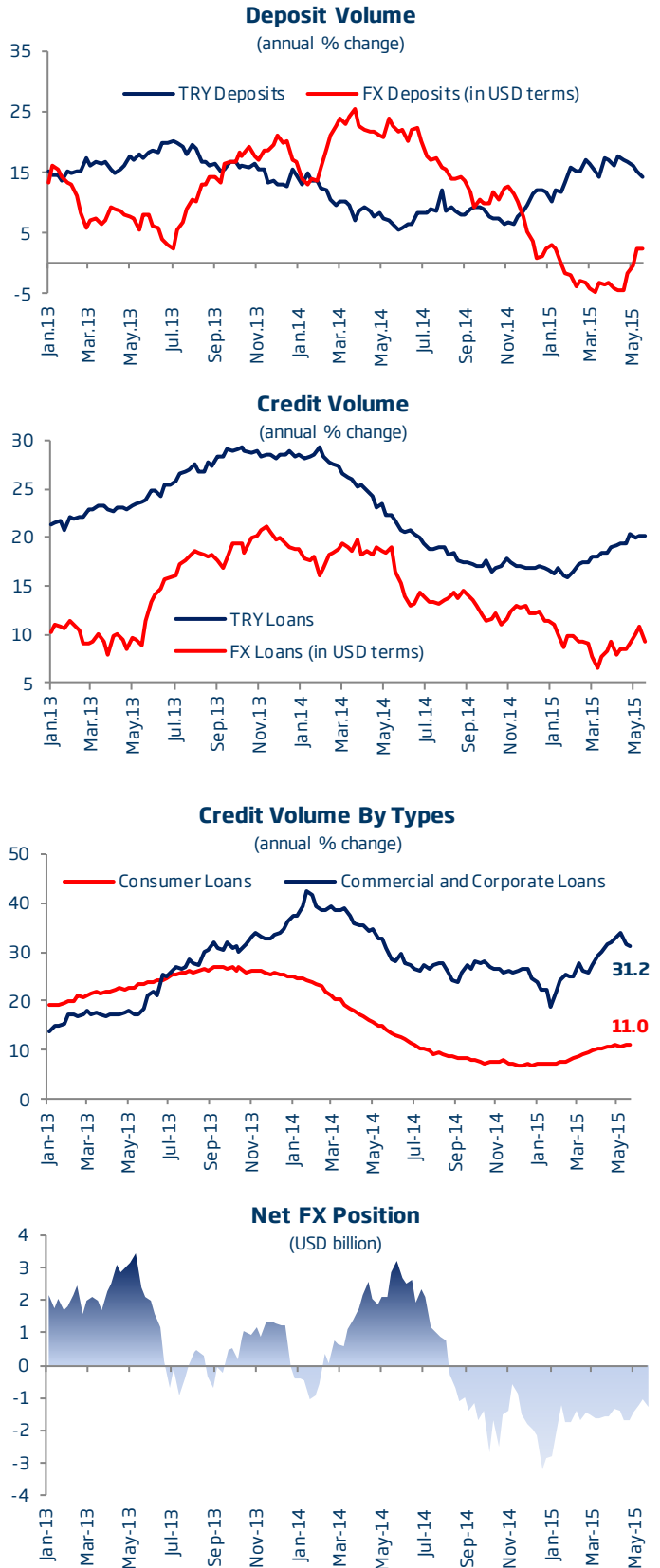
Analysis of the data by loan types revealed that the fastest rise was registered in commercial loans. As of May 22, commercial loans rose by 31.2% yoy while consumer loans posted a limited annual increase of 11%.

Securities portfolio...

Securities portfolio of the banking sector increased by 7.9% yoy and was realized as 312 billion TRY as of May 22. Securities subject to repo transactions, which have the highest share in securities portfolio, posted an annual rise of 12.2% in this period.

Net FX position...

Banks' on-balance sheet FX position was (-)43,309 million USD as of May 22 while off-balance sheet FX position was (+)42,054 million USD. Hence, banks' net FX position became (-)1,255 million USD.



Source: BRSA Weekly Bulletin

The divergence among monetary policies conducted by advanced economies continued to play a significant role on the course of global economy. The major source of volatility on a global scale has been the shifts in Fed rate hike expectations so far in 2015. Weak first quarter data on the US economy caused these expectations to move towards the last quarter of the year. Under the assumption that this loss of momentum in the US economy is transitory and hence the economic activity will regain strength in the coming period, volatility in the markets is expected to rise further as Fed will phase into normalization process of the monetary policy. Together with these, Euro Area economy continued to exhibit a weak outlook. Even though the ECB's recent actions have begun to bear fruit gradually, it seems that it will take more time for the economic recovery to reach a solid ground.

Global market volatility affected domestic markets as did the other emerging economies. In this context, TL depreciated and risk indicators deteriorated somewhat. Uncertainties over the general election results also had a significant impact on these developments.

Domestic economic activity performed moderately in the second quarter. On the other hand, the recent upward movements in oil prices started to put pressure on the current account deficit that had narrowed notably during the last twelve months. Leading indicators also presented a mixed economic outlook recently. Yet, domestic economic activity is expected to accelerate again along with the anticipated upturn in domestic demand and investments following the general election.

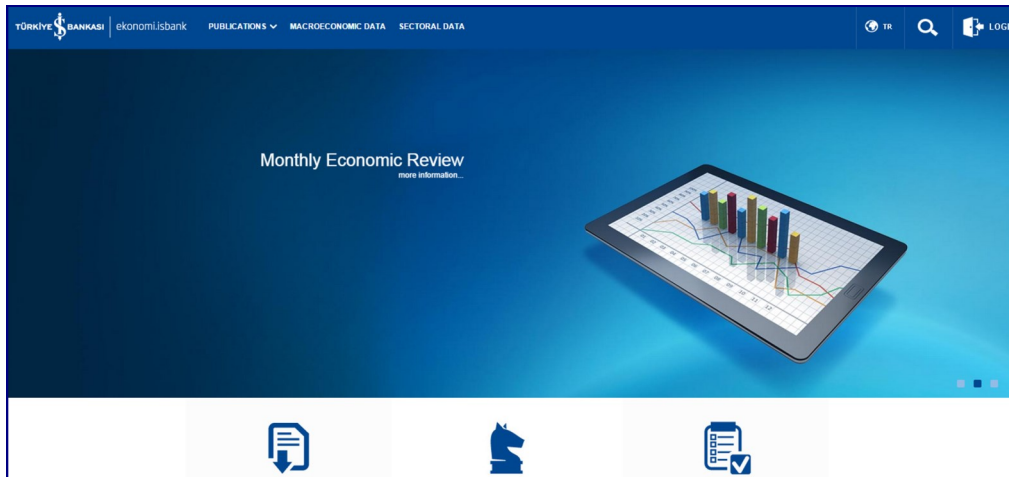
Forecasts (%)	2014 (R)	2015
Growth	2.9	3.0-3.5
CA Deficit/GDP	5.8	5.1
Inflation	8.2	8.0
GDDI Interest*	9.8	9.0

(* Annual compound average interest rate in treasury auctions

(R) Realization

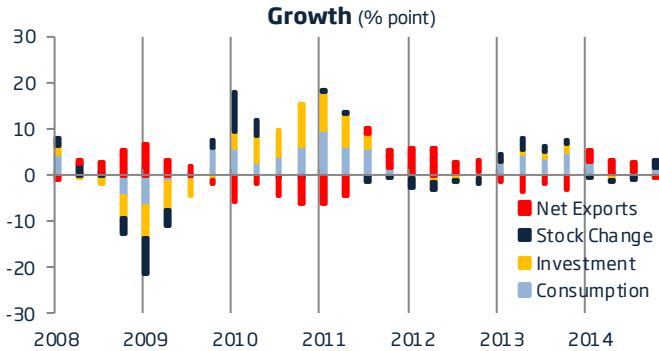
Interest and inflation are year-end forecasts

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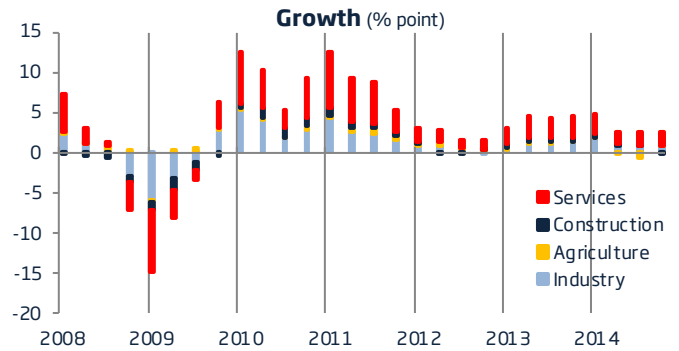


Growth

Expenditure Approach - Contributions to GDP

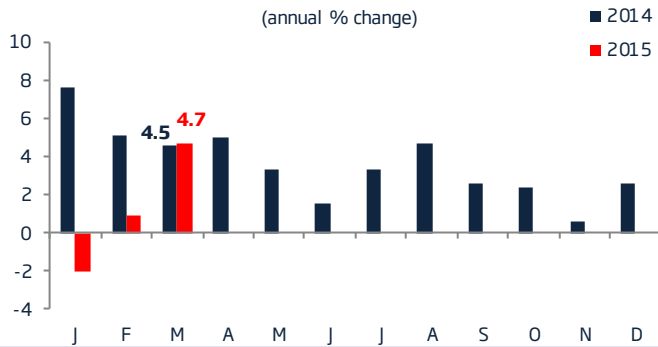


Production Approach - Contributions to GDP

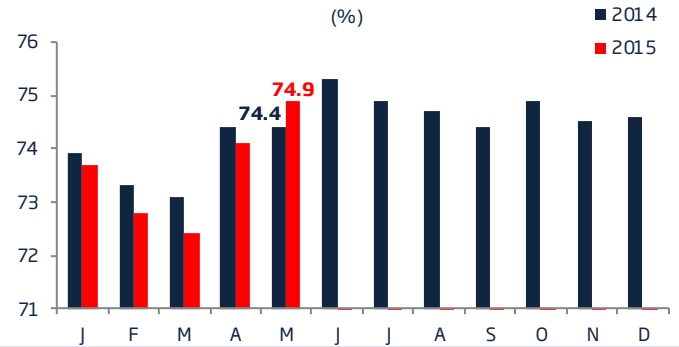


Industrial Production and Capacity Utilization Ratio

Industrial Production*

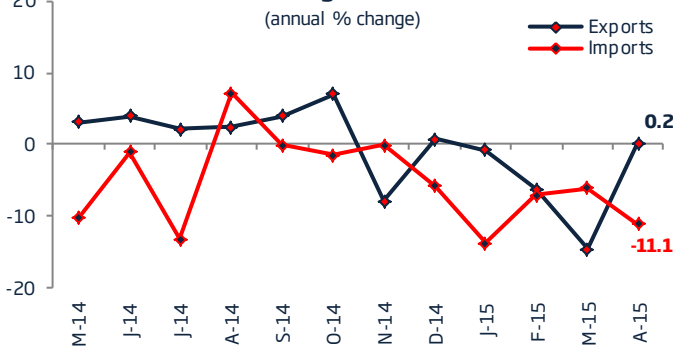


Capacity Utilization Ratio

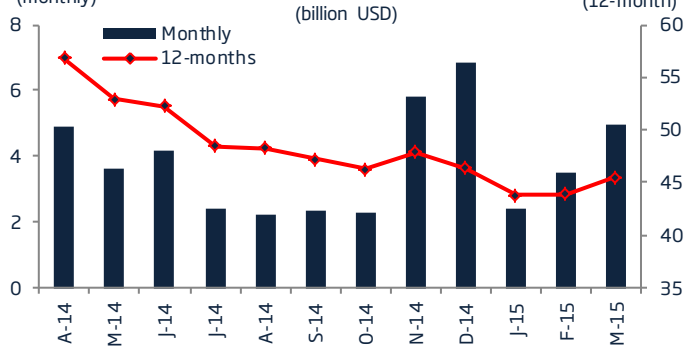


Foreign Trade and Current Account Balance

Foreign Trade

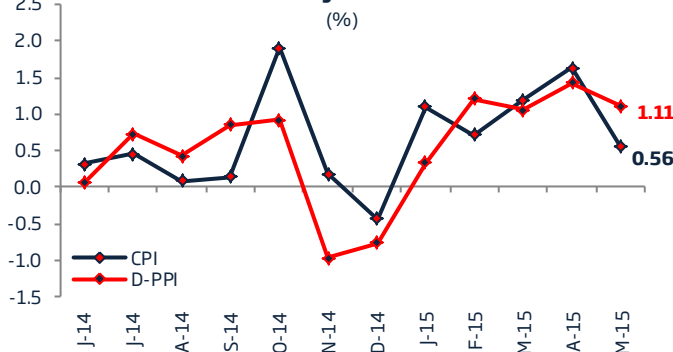


Current Account Deficit

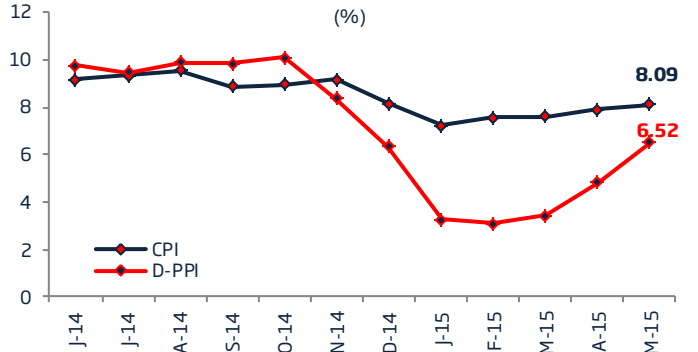


Inflation

Monthly Inflation



Annual Inflation

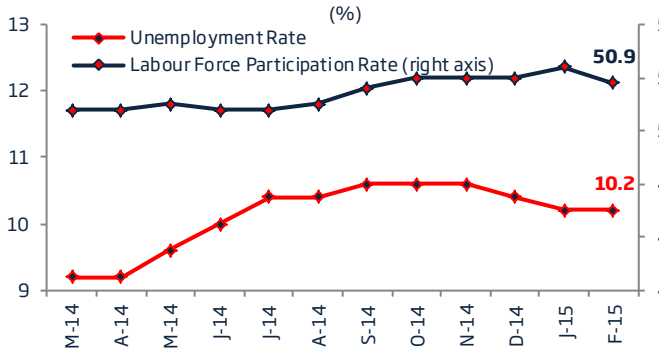


(*) Calendar adjusted figures

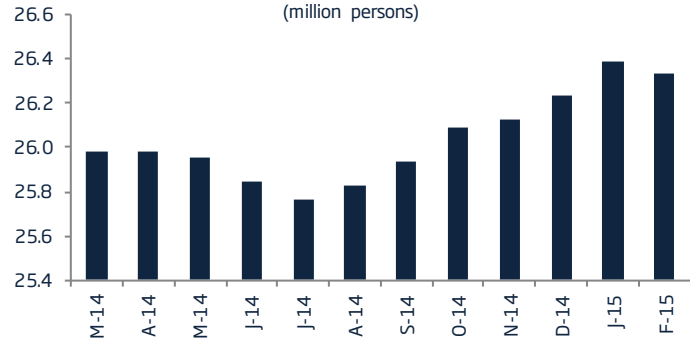
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)

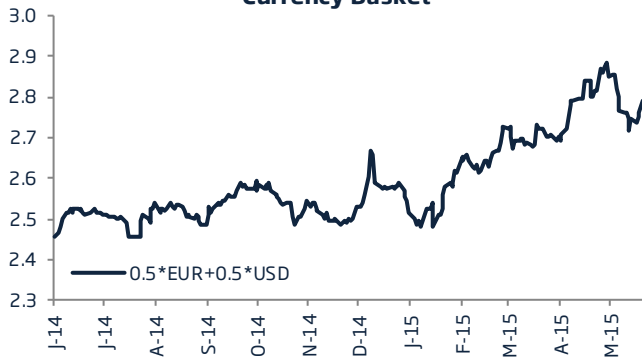


Seasonally Adjusted Employment (million persons)

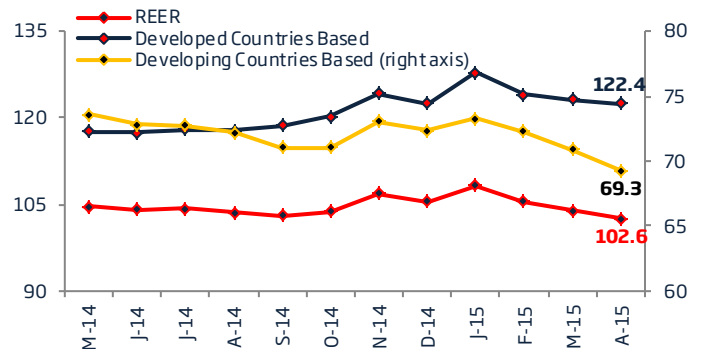


FX Market

Currency Basket

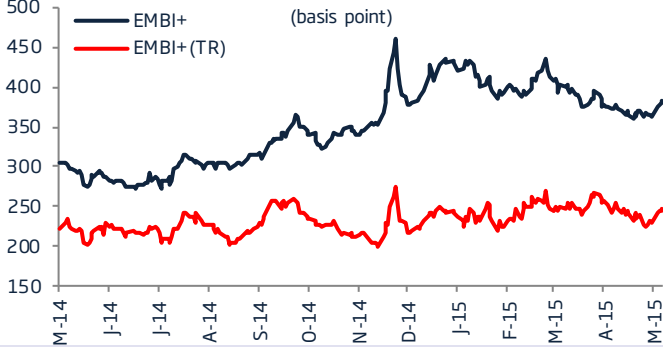


CPI Based Real Effective Exchange Rate



Risk Indicators

Risk Premiums (basis point)

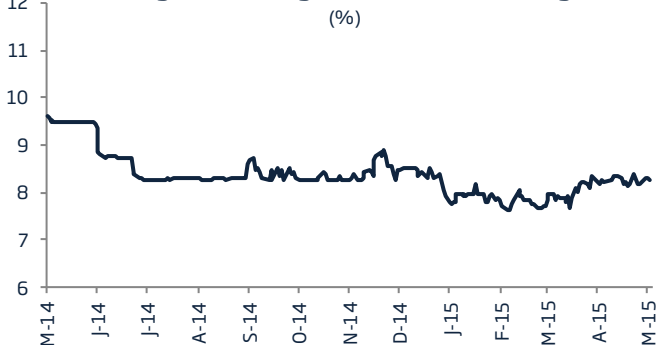


VIX



Interest Rates

Weighted Average Cost of CBRT Funding (%)

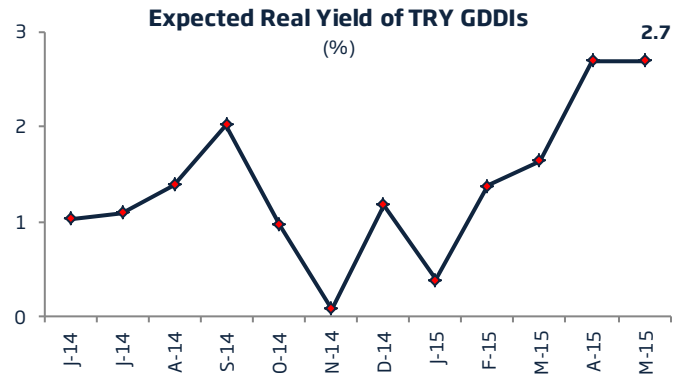
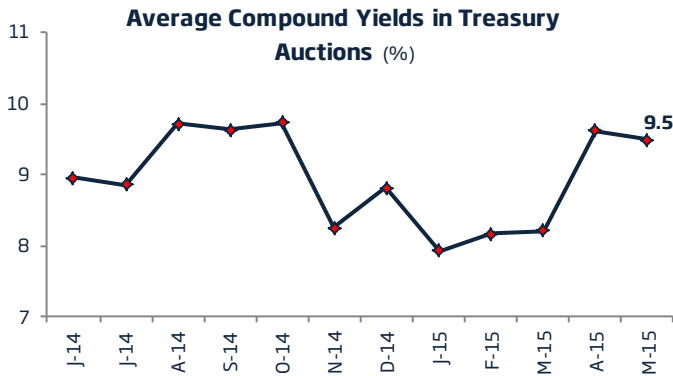


Compound Yield of 2-Year Benchmark Bond (%)

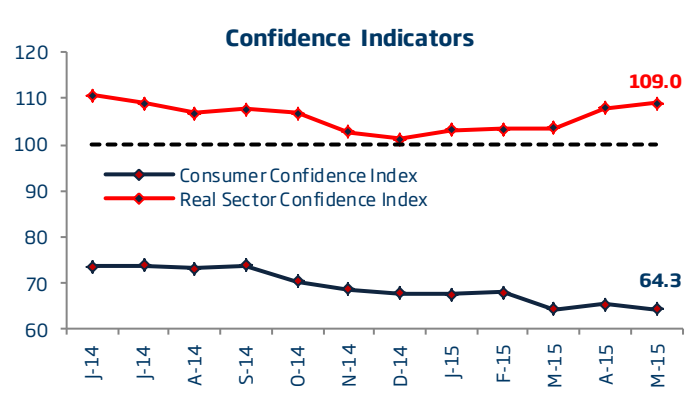
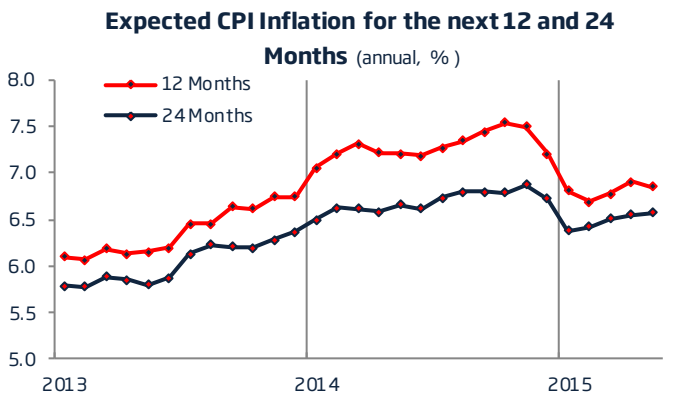
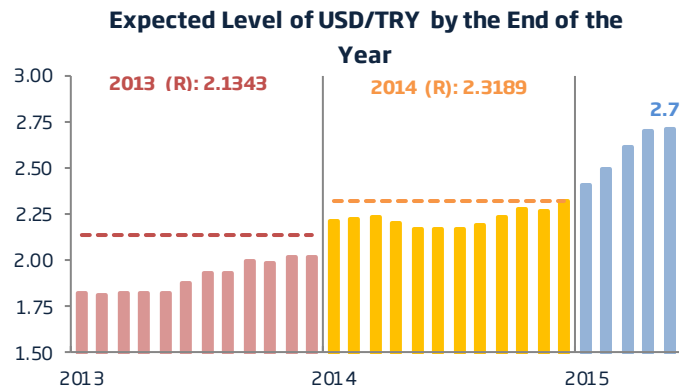
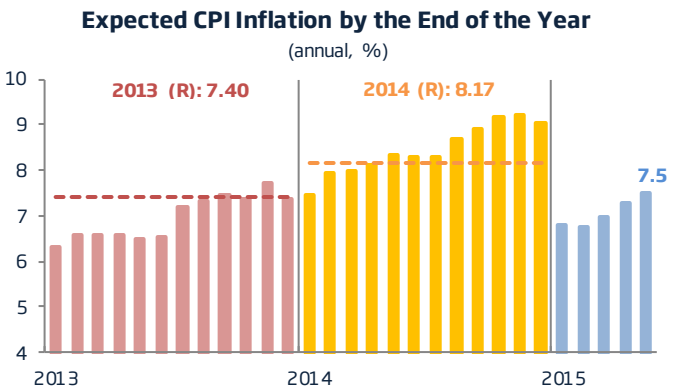
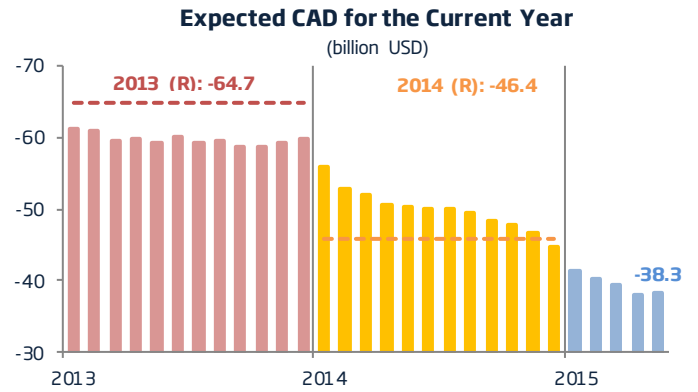
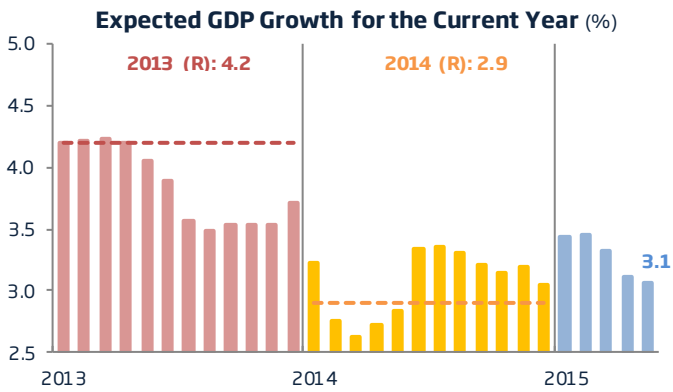


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market



Survey of Expectations and Other Leading Indicators



(R) Realization

Source: BIST, CBRT, Datastream, Economic Research Division, Treasury

Turkish Economy at a Glance

	2010	2011	2012	2013	2014	15-Q1	15-Q2	15-Q3
Growth								
GDP (USD billion)	731.6	774.0	786.3	823.0	800.1	-	-	-
GDP (TRY billion)	1,099	1,298	1,417	1,567	1,750	-	-	-
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	-	-	-
Inflation (%)						Mar-15	Apr-15	May-15
CPI (annual)	6.40	10.45	6.16	7.40	8.17	7.61	7.91	8.09
PPI (annual)	8.87	13.33	2.45	6.97	6.36	3.41	4.80	6.52
Seasonally Adjusted Labor Market Figures							Jan-15	Feb-15
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4		10.2	10.2
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.4	51.0		51.2	50.9
FX Rates						Mar-15	Apr-15	May-15
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	104.0	102.6	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.6157	2.6583	2.6611
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	2.8100	2.9736	2.9172
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	2.7129	2.8160	2.7892
Foreign Trade Balance⁽¹⁾ (USD billion)						Feb-15	Mar-15	Apr-15
Exports	113.9	134.9	152.5	151.8	157.6	156.7	154.6	154.6
Imports	185.5	240.8	236.5	251.7	242.2	238.2	237.0	234.7
Foreign Trade Balance	-71.7	-105.9	-84.1	-99.9	-84.6	-81.5	-82.5	-80.1
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	65.8	65.2	65.9
Current Account Balance⁽¹⁾ (USD billion)						Jan-15	Feb-15	Mar-15
Current Account Balance	-45.3	-75.0	-48.5	-64.7	-46.4	-43.8	-43.9	-45.5
Capital and Financial Accounts	-45.1	-66.0	-48.2	-62.0	-43.1	-43.8	-42.2	-46.6
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.5	-6.0	-5.4	-4.8
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.0	-21.5	-22.9	-20.9
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-17.1	-25.6	-20.5	-21.6
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	9.3	6.6	0.8
Net Errors and Omissions	0.2	9.0	0.3	2.8	3.4	0.0	1.8	-1.0
Current Account Balance/GDP (%)	-6.2	-9.7	-6.2	-7.9	-5.8	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Feb-15	Mar-15	Apr-15
Expenditures	294.4	314.6	361.9	408.2	448.4	78.9	118.6	160.2
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	11.9	18.1	24.2
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.5	66.9	100.5	136.0
Revenues	254.3	296.8	332.5	389.7	425.8	80.3	113.2	156.2
Tax Revenues	210.6	253.8	278.8	326.2	352.4	69.5	96.3	128.2
Budget Balance	-40.1	-17.8	-29.4	-18.5	-22.7	1.4	-5.4	-4.1
Primary Balance	8.2	24.4	19.0	31.4	27.2	13.3	12.7	20.1
Budget Balance/GDP (%)	-3.6	-1.4	-2.1	-1.2	-1.3	-	-	-
Central Government Debt Stock (TRY billion)						Feb-15	Mar-15	Apr-15
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	421.2	423.2	428.5
External Debt Stock	120.7	149.6	145.7	182.8	197.5	211.3	210.4	219.2
Total Debt Stock	473.6	518.4	532.2	585.8	612.1	632.5	633.5	647.7

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

Source: CBRT, Datastream, Ministry of Finance, Reuters, Treasury, Turkstat

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2010	2011	2012	2013	2014	Mar.15	Apr.15	Change ⁽¹⁾
TOTAL ASSETS	1,006.7	1,217.7	1,370.7	1,732.4	1,994.3	2,128.2	2,179.0	9.3
Loans	525.9	682.9	794.8	1,047.4	1,240.7	1,323.2	1,355.8	9.3
TRY Loans	383.8	484.8	588.4	752.7	881.0	924.4	939.6	6.7
Share (%)	73.0	71.0	74.0	71.9	71.0	69.9	69.3	-
FX Loans	142.1	198.1	206.4	294.7	359.7	398.8	416.2	15.7
Share (%)	27.0	29.0	26.0	28.1	29.0	30.1	30.7	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	38.7	39.9	9.4
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	2.8	2.9	-
Securities	287.9	285.0	270.0	286.7	302.3	312.6	313.7	3.8
TOTAL LIABILITIES	1,006.7	1,217.7	1,370.7	1,732.4	1,994.3	2,128.2	2,179.0	9.3
Deposits	617.0	695.5	772.2	945.8	1,052.7	1,115.8	1,146.7	8.9
TRY Deposits	433.5	460.0	520.4	594.1	661.3	670.1	671.4	1.5
Share (%)	70.3	66.1	67.4	62.8	62.8	60.1	58.6	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	445.6	475.3	21.5
Share (%)	29.7	33.9	32.6	37.2	37.2	39.9	41.4	-
Securities Issued	3.1	18.4	37.9	60.6	89.3	98.3	99.8	11.8
Payables to Banks	122.4	167.4	173.4	254.2	293.2	318.7	332.1	13.3
Funds from Repo Transactions	57.5	97.0	79.9	119.1	137.4	150.4	150.0	9.2
SHAREHOLDERS' EQUITY	134.5	144.6	181.9	193.7	232.0	235.5	234.4	1.0
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	6.7	8.3	-
RATIOS (%)								
Loans/GDP	47.9	52.6	56.1	66.8	70.9	-	-	-
Loans/Assets	52.2	56.1	58.0	60.5	62.2	62.2	62.2	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	14.7	14.4	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	52.4	52.6	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	118.6	118.2	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	15.5	15.1	-

(1) Year-to-date % change



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