



# Monthly Economic Review July 2015



## Global Economy

## Turkish Economy

- ◆ The US economy contracted by 0.2% on annual basis in the first quarter of 2015. Leading indicators, on the other hand, have sent mixed signals on economic activity in the second quarter.
- ◆ At its meeting that ended on June 17, the Fed decided to keep the policy interest rate unchanged at 0-0.25%, in line with expectations. In the statement released following the meeting, the Fed indicated that economic activity accelerated and housing sector had shown some improvement as the transitory factors that were observed in the first quarter of the year dissipated.
- ◆ Latest projections of Fed members pointed out that 15 out of 17 members predicted a rate hike in 2015. This indicated that the Fed would start rising rates by the last months of this year. However, downward revisions in the members' interest rate projections for the end of 2016 and 2017 were considered as a more gradual pace of rate hikes than previously expected.
- ◆ The economic activity in the euro area, particularly in the core economies, started to show signs of improvement thanks to the current asset purchase program implemented by the European Central Bank.
- ◆ As Greece failed to reach an agreement with its international creditors at meetings held in June, Greek Prime Minister Alexis Tsipras announced that the creditor's proposal were unacceptable for the government. Thus, Tsipras called for a referendum on the international creditors' proposals to be held on July 5. This development has deepened the concerns that Greece might leave the Euro Area.
- ◆ In the first quarter of 2015, Turkish economy grew by 2.3% yoy. Having recovered in the last quarter of 2014, consumption expenditures gained momentum in the first quarter.
- ◆ Having displayed a weak performance in the first two months of the year, industrial production recovered in March and maintained this trend in April. Calendar adjusted industrial production performed better than market expectations in April recording an annual rise of 3.8%.
- ◆ Foreign trade deficit, which was realized as 7.2 billion USD in May 2014, fell to 6.8 billion USD in the same month of 2015. During the first five months of the year, despite the fall in export volume, the foreign trade deficit contracted by 15.2% yoy with the help of the imports falling faster than exports.
- ◆ Regarding the first four months of the year, current account deficit fell by 13.4% yoy to 14.5 billion USD. 12-month cumulative current account deficit came in at 44.3 billion USD by April.
- ◆ Budget expenditures and budget revenues increased by 11.2% yoy in May. Thus, budget balance, having posted a surplus of 1.5 billion TRY in May 2014, registered a surplus of 1.6 billion TRY in the same month of this year.
- ◆ Having recorded the fastest monthly decline of the last 3 years in June, annual CPI inflation was 7.20%. Thus, annual inflation rate declined to its lowest level since May 2013. On the other hand, as the upward movement in D-PPI became more evident recently, D-PPI picked up by 6.73% yoy in June.
- ◆ At its Monetary Policy Meeting held on June 23, CBRT kept the one-week repo rate (the policy rate) at 7.5%. CBRT also left both the upper and lower bounds of the interest rate corridor unchanged.

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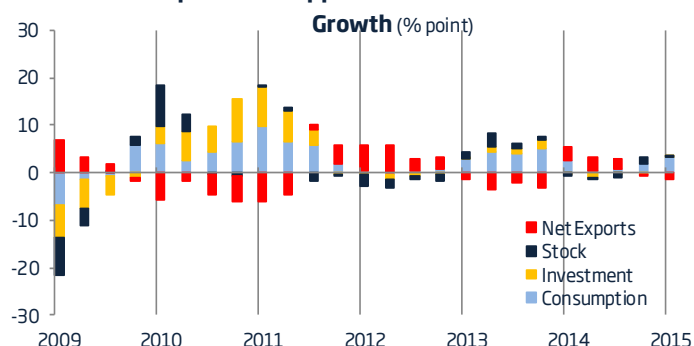
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## In the first quarter, Turkish economy performed well above the expectations.

In the first quarter of 2015, Turkish economy grew by 2.3% yoy well above the expectations. The markets expected 1.6% annual economic growth for this period. Thus, having followed a moderate course since the second quarter of 2014, economic activity kept this trend in the first quarter as well.

Analyzing the calendar adjusted figures, it was seen that GDP expanded by 2.4% yoy in the first quarter of 2015. Seasonal and calendar adjusted GDP growth, on the other hand, was realized as 1.3% qoq, reflecting a relative recovery in the economic activity.

## Expenditure Approach - Contributions to GDP



## Growth was driven by domestic demand.

After having supported the growth slightly throughout 2014, consumption expenditures made the highest contribution to growth in the first quarter by 3.3 points. Private consumption expenditures surged by 4.5% yoy and pushed the growth up by 3 points, the highest reading for the last 5 quarters. Public consumption expenditures, on the other hand, made only 0.3 point contribution to the GDP growth. In contrast to the consumption expenditures, investment expenditures had almost no impact on the first quarter growth figures. While private investment expenditures contributed to the growth by 0.4 point, public investment expenditures lowered the growth by the same amount.

## Net exports dragged down the growth.

First quarter GDP data implied that net exports, which made the highest contribution to growth in 2014, lowered the growth. Exports declined in this period owing to the adverse

## GDP Figures (1998 prices)

Period	Calendar Adjusted GDP (yoy % change)	Seasonal and Calendar Adjusted GDP (qoq % change)
2013 Q1	3.6	1.7
2013 Q2	4.3	2.0
2013 Q3	4.1	0.2
2013 Q4	4.7	0.7
2014 Q1	4.8	1.3
2014 Q2	2.5	0.0
2014 Q3	1.9	0.4
2014 Q4	2.5	0.8
2015 Q1	2.4	1.3

## Expenditure Approach - Contributions to GDP Growth (1998 prices)

(% point)

	2012		2013				2014				2015	
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1
<b>Consumption</b>	<b>0.3</b>	<b>3.0</b>	<b>4.5</b>	<b>3.9</b>	<b>5.1</b>	<b>4.1</b>	<b>2.7</b>	<b>0.5</b>	<b>0.7</b>	<b>1.8</b>	<b>1.4</b>	<b>3.3</b>
Private	-0.3	2.2	3.6	3.7	4.1	3.4	1.8	0.2	0.1	1.6	0.9	3.0
Public	0.6	0.8	0.8	0.2	1.0	0.7	0.9	0.3	0.6	0.2	0.5	0.3
<b>Investment</b>	<b>-0.7</b>	<b>0.1</b>	<b>0.9</b>	<b>1.3</b>	<b>1.9</b>	<b>1.1</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.3</b>	<b>0.0</b>
Private	-1.1	-1.3	-0.2	0.6	1.1	0.1	0.1	-0.3	0.4	0.2	0.1	0.4
Public	0.4	1.4	1.1	0.7	0.7	1.0	-0.2	-0.6	-0.5	-0.4	-0.4	-0.4
<b>Change in Stock</b>	<b>-1.5</b>	<b>1.5</b>	<b>2.9</b>	<b>1.1</b>	<b>0.8</b>	<b>1.6</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-1.1</b>	<b>1.4</b>	<b>0.0</b>	<b>0.2</b>
<b>Net Export</b>	<b>4.0</b>	<b>-1.4</b>	<b>-3.6</b>	<b>-2.0</b>	<b>-3.2</b>	<b>-2.6</b>	<b>2.6</b>	<b>2.8</b>	<b>2.4</b>	<b>-0.4</b>	<b>1.8</b>	<b>-1.2</b>
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	2.8	1.5	2.0	0.9	1.8	-0.1
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.3	0.4	-1.3	0.1	-1.2
<b>GDP</b>	<b>2.1</b>	<b>3.1</b>	<b>4.7</b>	<b>4.3</b>	<b>4.6</b>	<b>4.2</b>	<b>4.9</b>	<b>2.3</b>	<b>1.9</b>	<b>2.6</b>	<b>2.9</b>	<b>2.3</b>

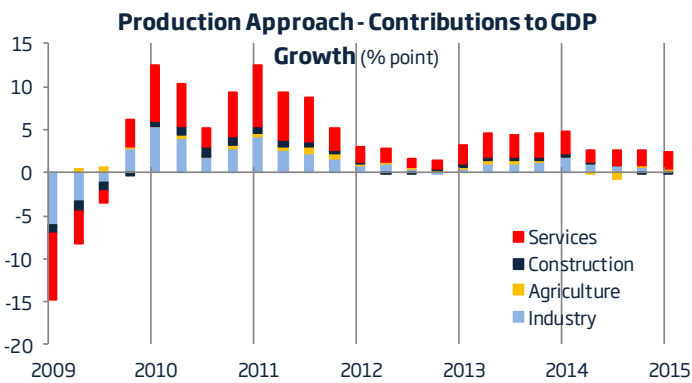
Numbers may not add to total due to rounding.

Source: Turkstat, Datastream

developments in some of our main export markets as well as the downward trend in the EUR/USD parity. Furthermore, the annual rise in imports continued in the first quarter of this year as was seen in the last quarter of 2014. So, the negative impact of this trend on growth figures became more evident. Thus, net exports had a 1.2 point decreasing impact on growth in the first quarter of the year, converging to its long term trend.

### The ongoing weak outlook in construction sector...

Analysis by production approach revealed that services sector, which has the biggest share in GDP, contributed most to growth by 2.2 points. It was noteworthy that



contribution of the industrial sector to growth came in at the lowest level of nine quarters. Construction sector contracted in the first quarter of the year as was the case in the last quarter of 2014. Accordingly, it dragged down the growth by 0.2 point in this period. On the other hand, agriculture sector, which has the smallest share in GDP with 4.6%, contributed to growth by 0.1 point in the first quarter of this year.

### Expectations

Having registered an export-led growth performance in 2014, Turkish economy grew on the back of domestic demand in the first quarter of 2015. In fact, the upturn in consumption expenditures observed since the last quarter of previous year became more evident in this period. Analysis of leading indicators pointed to a moderate recovery in economic activity in the second quarter of the year as well. Due to the ongoing problems in major export destinations, it is seen that net exports would be unable to support the growth positively this year unlike the previous year. Instead, domestic demand conditions would be the main driver behind the growth performance. Should the heightened political uncertainties following the general election diminish in the short term, the moderate recovery trend would prevail during the rest of the year. In this context, the economy is expected to grow by 3% in 2015.

## Unemployment rate was 10.6% in March.

Unemployment rate, which was 10.2% in March 2014, became 10.6% in March 2015. Nevertheless, following a downward trend since November 2014, seasonally adjusted unemployment rate was realized as 10% in March, the lowest level in the last 9 months.

## Recovery signs in industrial production...

Having displayed a weak performance in the first two months of the year, industrial production recovered in both March and April. In April, calendar adjusted industrial production performed better than market expectations with recording an annual rise of 3.8%.

Analysis of the main industry groups revealed that the capital goods registered the highest increase, indicating that investment expenditures gained some momentum in the beginning of the second quarter after having remained subdued in the first quarter. The buoyant course of the manufacture of durable goods also supported the positive expectations regarding the economic activity while the weakening exports led to a fall in the manufacture of intermediate goods.

## Manufacturing PMI fell back below the breakeven level of 50.

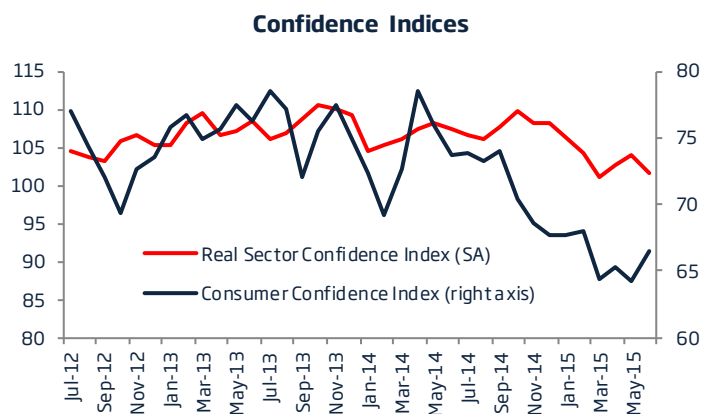
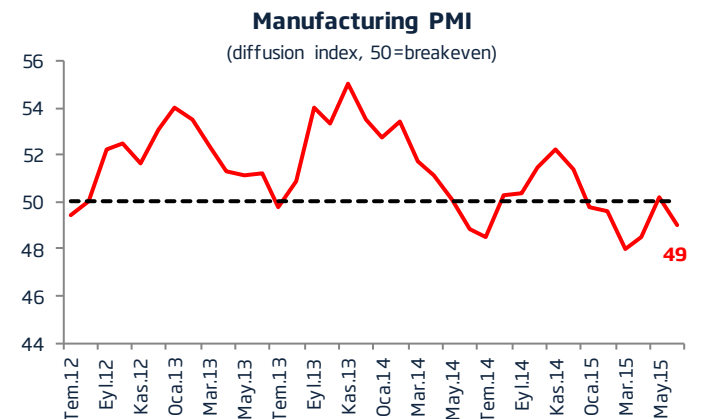
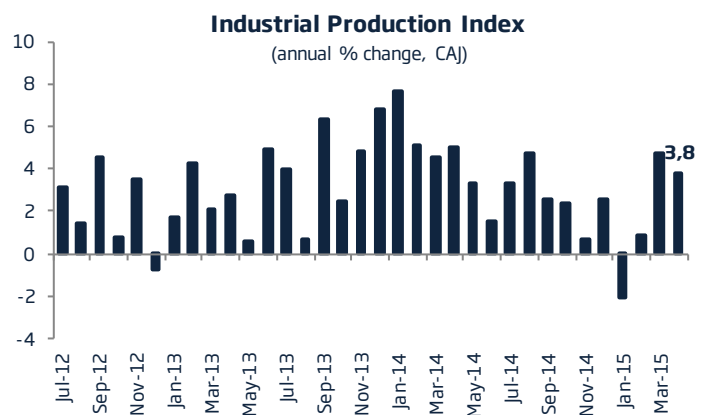
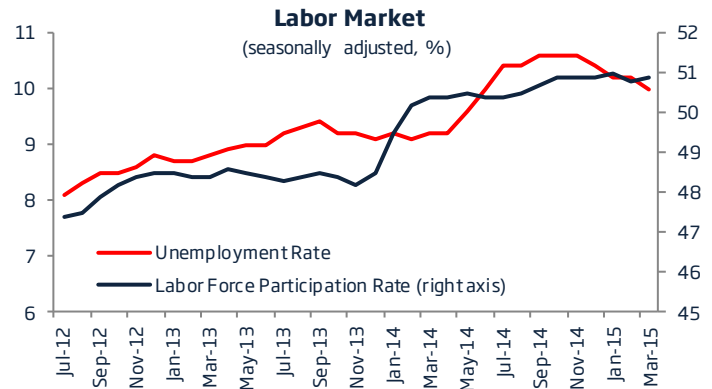
Having risen to 50.2 in May, manufacturing PMI fell to 49 in June according to the data released by Markit suggested. Hence, the data remained below the 50 breakeven level for the fifth time in six months. The fast drop in factory output and new orders along with a deceleration in job creation played a significant role in this downward movement of the index recorded in June.

## Deterioration in real sector's expectations...

Having recorded monthly increases since January, real sector confidence index declined in June. It was worth mentioning that the sharpest fall was registered in the sub-item of general business situation. Capacity utilization rate, on the other hand, recovered to some extent in the second quarter compared to the first quarter of the year.

## A slight upturn in consumer confidence...

Having dropped to the lowest level in 6 years in May, consumer confidence index increased on a monthly basis in June. Despite this upturn, it was seen that the index maintained its low levels.



Source: Datastream, Turkstat, CBRT, Markit

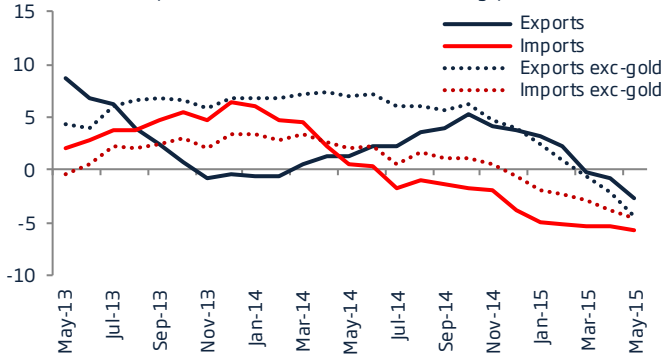
## Foreign trade deficit came in at 6.8 billion USD in May.

In May, export volume fell by 2.6 billion USD yoy to 11.1 billion USD while import volume dropped by 3 billion USD yoy to 17.9 billion USD. Thus, foreign trade deficit, which was realized as 7.2 billion USD in May 2014, fell to 6.8 billion USD in the same month of 2015. In this period, the import coverage ratio decreased to 62.2% from 65.5%.

During the first five months of the year, despite the fall in export volume, the foreign trade deficit contracted by 15.2% yoy with the help of the imports falling faster than exports.

### Foreign Trade Figures

(12-month cumulative, annual % change)



## Gold exports halted in May.

Broad-based decline in export also continued in May. On the other hand, gold exports, which made a significant contribution to the overall export performance in the first four months of the year, came in at low level in May. Having amounted to 5.4 billion USD in January-April period, gold exports were only 90 million USD in May. However, for the first five months of the year, the impact of gold exports on foreign trade performance was apparent. Indeed, when gold exports were excluded, the annual rate of contraction in foreign trade deficit fell to 3.3% from 15.2% in this period.

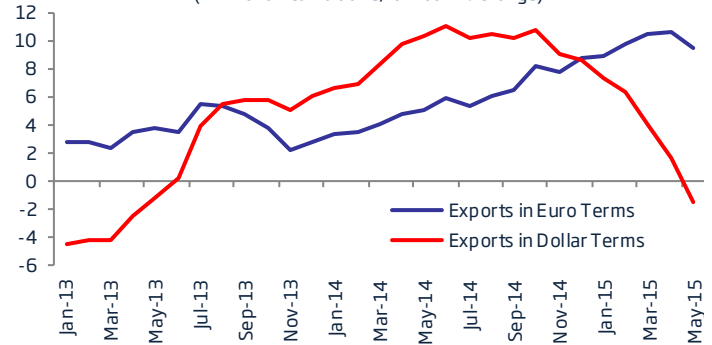
In May, the strikes in the automotive industry adversely affected the exports of motor vehicles. In this context, the export of motor vehicles decreased by 30% yoy in this period.

## The impact of EUR/USD parity on exports

Exports to the European Union (EU) countries continued to decline in dollar terms. Against this backdrop, the share of the

## Exports to EU Countries

(12-month cumulative, annual % change)



EU countries in total exports decreased from 43.8% to 42.5% in May, comparing with the same period of the previous year. The decline in exports to the region stemmed mainly from the developments in the EUR/USD parity. Indeed, exports to these countries in euro terms surged by 10% yoy while in dollar terms they dropped by 10.6% yoy in the first five months of the year. However, it was noteworthy that exports to the region in euro terms decreased in May as well.

## Import volume continued to decline.

Low level of oil prices has reduced the energy bill of Turkey significantly during the last 12 months. Imports of mineral fuels and oils, the largest import item, continued to decline on an annual basis in May. However, this downward trend is expected to lose some momentum in second half of the year due to the fading base effect stemming from the fall in oil prices. On the other hand, the upturn in imports of investment goods in both April and May is considered as a positive development.

## Expectations

Concerns over Greece remained as the main agenda of the global economy. The increased possibility of Greece's exit from the Euro Area raised uncertainty about the future of the region's economy. The unfavorable developments arising from Greece in the European economy, Turkey's most important export market, might adversely affect foreign trade performance. However, despite losing some momentum, the favorable impact of the energy imports on foreign trade balance is expected to continue. In this context, the improvement in the foreign trade balance is likely to remain relatively limited in the coming period.

### Foreign Trade Balance

(USD billion)

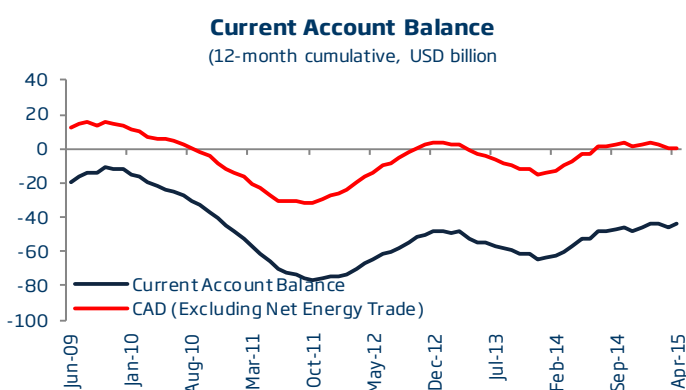
	May		Change (%)	Jan-May.		Change (%)
	2014	2015		2014	2015	
Exports	13.7	11.1	-18.8	67.2	61.6	-8.4
Imports	20.9	17.9	-14.4	99.0	88.5	-10.6
<b>Foreign Trade Balance</b>	<b>-7.2</b>	<b>-6.8</b>	<b>-6.1</b>	<b>-31.8</b>	<b>-27.0</b>	<b>-15.2</b>
Import Coverage Ratio (%)	65.5	62.2	-	67.9	69.5	-

Source: Datastream, Turkstat

## In April, current account deficit came in slightly above the expectations.

In April, current account deficit contracted by 30.8% yoy and was realized as 3.4 billion USD. The market expectation for the deficit was 3 billion USD. Regarding the first four months of the year, current account deficit fell by 13.4% yoy to 14.5 billion USD.

Current account deficit, after recording a rapid expansion in March parallel to the widening of foreign trade deficit, started to narrow once again in April. During this period, as the exports remained flat, this development mainly stemmed from the decline recorded in imports on annual basis. Furthermore, the strong performance of gold exports limited the current account deficit. In fact, when gold exports are excluded, exports fell by 9.8% yoy in April. 12-month cumulative current account deficit, on the other hand, came in at 44.3 billion USD by April.



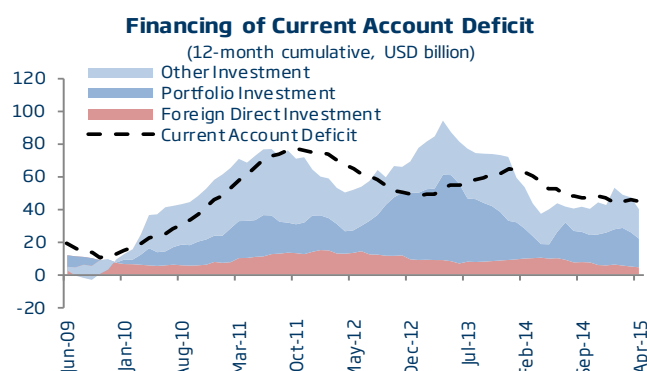
## The deceleration in foreign direct investments

In April, net foreign investments was realized as 0.2 billion USD, the lowest level of the last 11 months. In the first four months of the year, net foreign direct investments also dropped by 30.6% yoy and amounted to 2.6 billion USD. Analysis of the non-residents' direct investments in Turkey revealed that the weak performance become more evident

as the capital inflows registered under this item fell to its lowest level recorded since November 2011.

## The signs of recovery in portfolio inflows

Having registered capital outflows in the first quarter of this year due to the elevated political uncertainties, portfolio investments recovered slightly in April with a net inflow of 755 million USD. In this period, non-residents purchased net 652 million USD worth of equity securities and sold net 1 billion worth of government debt securities. In April, Treasury borrowed 1.5 billion USD via Eurobond issuance in the international capital markets while debt securities issued abroad by private sector remained limited. Thus, net inflow in debt securities was realized as 500 million USD in April.



## Banks continued to raise long-term loans from abroad.

Banks borrowed a net amount of 117 million USD from abroad in April. Analysis by maturity composition revealed that banking sector was a net credit re-payer in short-term loans while it was net credit user in long-term loans. In April, the long-term net borrowing of banks reached 2.9 billion USD, the highest figure recorded in almost last 8 years. Other sectors, on the other hand, received a net 1.2 billion USD long-term loans from abroad.

## Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2014	Apr. 2015	Dec. 2014	Apr. 2015
<b>Current Account Balance</b>	<b>-46,504</b>	<b>-44,257</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>46,036</b>	<b>44,221</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	5,492	4,337	11.9	9.8
-Portfolio Investments	20,109	17,550	43.7	39.7
-Other Investments	16,830	18,026	36.6	40.8
-Net Errors and Omissions	3,671	4,355	8.0	9.8
-Other	-66	-47	-0.1	-0.1
<b>Reserves<sup>(1)</sup></b>	<b>468</b>	<b>36</b>	-	-

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

According to 12-month cumulative figures, banks' and nonbank sectors' long-term debt roll-over ratios were realized as 220% and 121%, respectively by April.

## Net errors and omissions

Having declined sharply in March, reserve assets increased by 1.9 billion USD in April. However, it was worth mentioning that net errors and omissions registered an inflow of 2.9 billion USD and contributed most to the financing of current account deficit.

## Expectations

The current account deficit continued to narrow in line with expectations. Despite the upturn observed in consumer expenditures in the first quarter of the year, the sustained

low oil prices and strong gold exports enabled the current account deficit to narrow. We expect that current account deficit would keep its declining trend in the upcoming months and the current account deficit to GDP ratio would be around 5% at the end of this year.

On the financing side, weak outlook observed in the first quarter has improved somewhat as of April. While portfolio investments exhibited a moderate performance during this period, banking sector and other sectors kept borrowing comfortably from abroad. The heightened political uncertainties stemming from the general elections might cause fluctuations in capital flows in the short-run yet there would not be a persistent problem of financing the current account deficit in the medium term.

	<b>Current Account Balance</b>				<b>(USD million)</b>
	<b>April 2015</b>	<b>Jan. - Apr. 2014 2015</b>		<b>% Change</b>	<b>12-Month Cumulative</b>
<b>Current Account Balance</b>	<b>-3,408</b>	<b>-16,716</b>	<b>-14,469</b>	<b>-13.4</b>	<b>-44,257</b>
Foreign Trade Balance	-3,332	-17,629	-14,518	-17.6	-60,468
Services Balance	1,394	3,923	4,020	2.5	25,274
Travel (net)	1,364	4,204	4,216	0.3	24,492
Primary Income	-1,555	-3,293	-4,246	28.9	-10,162
Secondary Income	85	283	275	-2.8	1,099
<b>Capital Account</b>	<b>0</b>	<b>-21</b>	<b>-2</b>	<b>-90.5</b>	<b>-47</b>
<b>Financial Account</b>	<b>-515</b>	<b>-10,445</b>	<b>-7,495</b>	<b>-28.2</b>	<b>-39,949</b>
Direct Investments (net)	-234	-3,776	-2,621	-30.6	-4,337
Portfolio Investments (net)	-755	-1,727	832	-	-17,550
Net Acquisition of Financial Assets	397	934	1,130	21.0	937
Net Incurrence of Liabilities	1,152	2,661	298	-88.8	18,487
Equity Securities	652	987	31	-96.9	1,603
Debt Securities	500	1,674	267	-84.1	16,884
Other Investments (net)	-1,433	-2,784	-3,980	43.0	-18,026
Currency and Deposits	-1,240	-706	-2,649	275.2	-2,543
Net Acquisition of Financial Assets	182	-1,071	5,718	-	7,085
Net Incurrence of Liabilities	1,422	-365	8,367	-	9,628
Central Bank	-46	-508	-162	-68.1	-1,987
Banks	1,456	143	8,529	5,864.3	9,405
Foreign Banks	1,549	-846	7,931	-	6,499
Foreign Exchange	1,471	2	6,814	340,600.0	3,958
Turkish Lira	127	-848	1,117	-	4,915
Non-residents	-130	989	598	-39.5	2,742
Loans	-1,011	-4,032	-3,257	-19.2	-14,175
Net Acquisition of Financial Assets	180	132	264	100.0	1,995
Net Incurrence of Liabilities	1,191	4,164	3,521	-15.4	16,170
Banking Sector	117	1,396	1,889	35.3	12,283
Non-bank Sectors	1,239	3,249	2,213	-31.9	4,878
Trade Credit and Advances	857	2,131	2,007	-5.8	-933
Other Assets and Liabilities	-39	-177	-81	-54.2	-375
Reserve Assets (net)	1,907	-2,158	-1,726	-20.0	-36
<b>Net Errors and Omissions</b>	<b>2,893</b>	<b>6,292</b>	<b>6,976</b>	<b>10.9</b>	<b>4,355</b>

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

## Budget figures continued to demonstrate a solid performance.

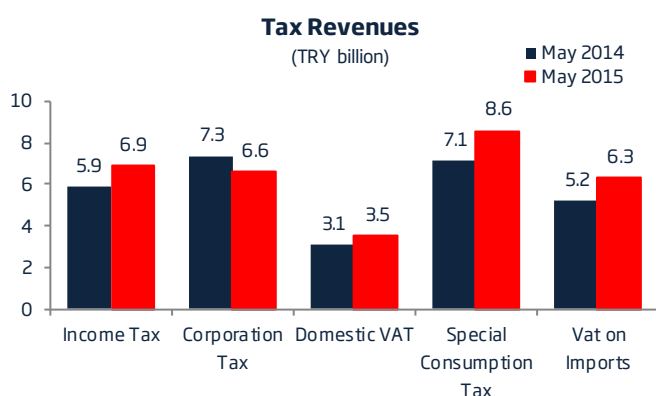
According to data released by the Ministry of Finance, both budget expenditures and budget revenues increased by 11.2% yoy in May. Thus, budget balance, having posted a surplus of 1.5 billion TRY in May 2014, registered a surplus of 1.6 billion TRY in the same month of this year.

In the first five months of the year, budget deficit narrowed by 12.4% yoy to 2.4 billion TRY. Primary surplus, on the other hand, recorded an annual increase of 15.7% and became 25.6 billion TRY, reaching 77.5% of the year-end target.

## Tax revenues increased by 11.8% yoy in May.

The surge in tax revenues continued to play a significant role in the positive outlook of budget performance as was the case in most of this year. Tax revenues, constituting 87% of budget revenues in this period, rose by 11.8% yoy. Special Consumption Tax (SCT) revenues contributed most to this rise by posting an annual increase of 1.5 billion TRY. Furthermore, 1.1 billion TRY rise in VAT on imports revenues also supported the favorable trend observed in budget balance. The performance of these tax revenues confirmed the ongoing recovery in domestic demand. TRY depreciation also played a role in this development.

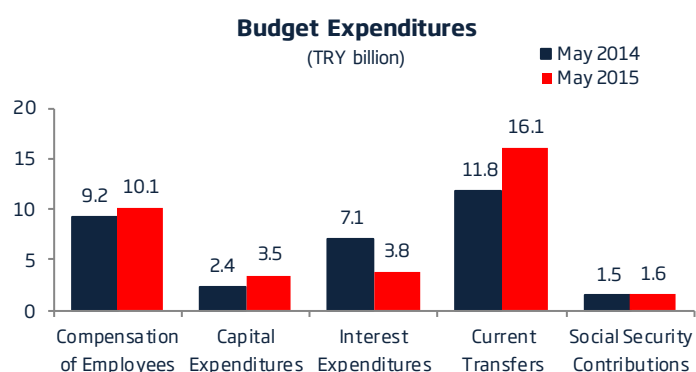
During the first five months of the year, budget revenues kept displaying a compatible picture to the year-end targets. In this period, SCT and VAT on imports increased by 19.7% and 11.8% yoy, respectively. These rises provided support to



the budget performance.

## A decline of 45.7% in interest expenditures...

The fast decline in interest expenditures also supported the budget balance in May. Having risen sharply in April due to seasonal factors, interest expenditures registered an annual decline of 45.7% in May. Non-interest expenditures, on the other hand, had a negative impact on budget balance by recording an increase of 25.1%. This rise particularly stemmed from the surge in current transfers. In fact, current transfers increased by 35.8% during this period and was realized as 16 billion TRY in May.



Year-to date figures revealed that interest and non-interest expenditures rose by 12.6% yoy and 12% yoy, respectively.

## Expectations...

Relative surge in domestic demand, that has been observed since the beginning of this year and confirmed by the first quarter GDP figures released recently, also prevailed in May as strong tax revenues suggested. Keeping in mind that the year-end target for budget deficit stands at 21 billion TRY, it can be contemplated that budget figures have been recording a solid performance during the first five months of the year. Against a backdrop of a preserved budget discipline on the eve of general elections and the recent increases in tax revenues, we anticipate that there would be no problem in attaining the year-end budget targets in 2015.

## Central Government Budget

	May			January-May			(TRY billion)	
	2014	2015	% Change	2014	2015	% Change	2015 Budget Target	Real/Target (%)
<b>Expenditures</b>	<b>36.1</b>	<b>40.1</b>	<b>11.2</b>	<b>178.7</b>	<b>200.3</b>	<b>12.1</b>	<b>472.9</b>	<b>42.4</b>
Interest Expenditures	7.1	3.8	-45.7	24.9	28.0	12.6	54.0	51.9
Non-Interest Expenditures	29.0	36.3	25.1	153.8	172.3	12.0	418.9	41.1
<b>Revenues</b>	<b>37.6</b>	<b>41.8</b>	<b>11.2</b>	<b>175.9</b>	<b>197.9</b>	<b>12.5</b>	<b>452.0</b>	<b>43.8</b>
Tax Revenues	32.4	36.2	11.8	143.3	164.4	14.7	389.5	42.2
Other Revenues	5.2	5.5	7.0	32.6	33.5	2.8	62.5	53.6
<b>Budget Balance</b>	<b>1.5</b>	<b>1.6</b>	<b>11.2</b>	<b>-2.8</b>	<b>-2.4</b>	<b>-12.4</b>	<b>-21.0</b>	<b>11.5</b>
<b>Primary Balance</b>	<b>8.6</b>	<b>5.5</b>	<b>-35.9</b>	<b>22.1</b>	<b>25.6</b>	<b>15.7</b>	<b>33.0</b>	<b>77.5</b>

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

Source: Ministry of Finance, Datastream



## CPI came in well below expectations in June.

In June, CPI decreased by 0.51% mom, while D-PPI increased by 0.25% mom. According to the Reuters' survey, market had expected a 0.25% mom decline in inflation while CPI was expected to rise by 0.17% mom according to the CBRT's survey of expectations.

June	CPI		D-PPI	
	2014	2015	2014	2015
<b>Change (%)</b>				
Monthly	0.31	-0.51	0.06	0.25
Year-to-Date	5.70	4.76	5.12	5.49
Annual	9.16	7.20	9.75	6.73
Annual Average	8.30	8.28	9.03	6.74

## Lowest annual rate of CPI inflation in the last 25 months...

Having recorded the fastest monthly decline of the last 3 years in June, annual CPI inflation was realized as 7.20%. Thus, annual inflation rate declined to its lowest level since May 2013. On the other hand as the upward movement in D-PPI became more evident recently, D-PPI picked up by 6.73% yoy in June.

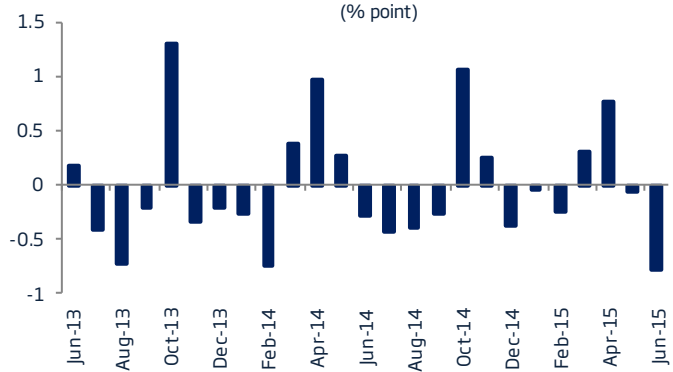
## The sharp decrease in food prices...

Food prices, which display generally a downward trend during summer months, recorded a monthly decrease of 2.79% in June and limited monthly inflation by 69 basis points. Seasonal factors were also influential on the prices of clothing and footwear group along with hotels and restaurants group. Indeed, the prices in clothing and footwear group dropped by 1.31% mom and lowered the monthly inflation by 10 basis points. Prices in hotels and restaurants group, on the other hand, recorded an increase of 2.64% mom and contributed to the monthly inflation by 10 basis points.

## Flat course in core inflation indicators...

Core inflation indicators confirmed that the downward movement in inflation stemmed from seasonal factors. In

## Contributions of Seasonal Factors



fact, CPI excluding seasonal products rose by 0.27% mom in this period. However, the price developments in administered goods as well as in alcoholic beverages and tobacco sub-items caused inflation to rise. In this period, CBRT's favorite core indices denominated by H and I remained relatively flat, recording an annual rise of 7.82% and 7.51%, respectively.

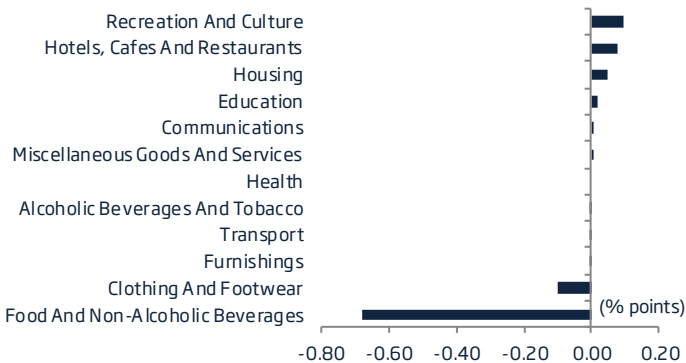
## A limited rise in D-PPI...

The rise in D-PPI was broad-based in June. The upsurges in prices of rubber products, textiles and chemical products together contributed to D-PPI inflation by 24 basis points. On the other hand, prices in production and distribution of electricity and gas fell by 1.84% mom and hence pulled down D-PPI inflation by 17 basis points.

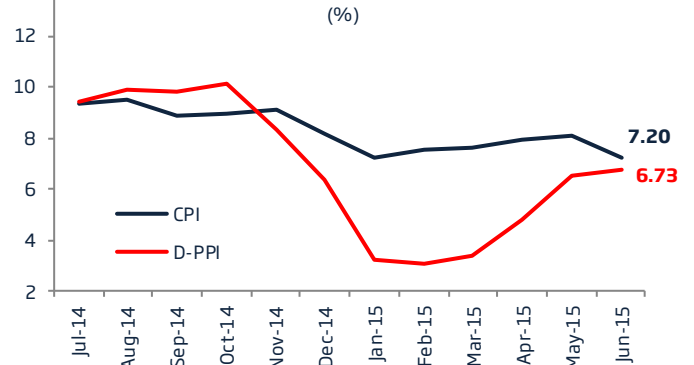
## Expectations

We expect that clothing and footwear prices will continue to decline in July due to the seasonal factors. Downward correction in food prices might face upward pressure by Ramadan. Yet, seasonal factors are anticipated to outpace this effect in food prices and have a decreasing effect on inflation. In addition to these, we think that foreign exchange developments will continue to be significant for inflation prospects in the forthcoming period.

## Contributions to the Monthly CPI by Subgroups



## Annual Inflation



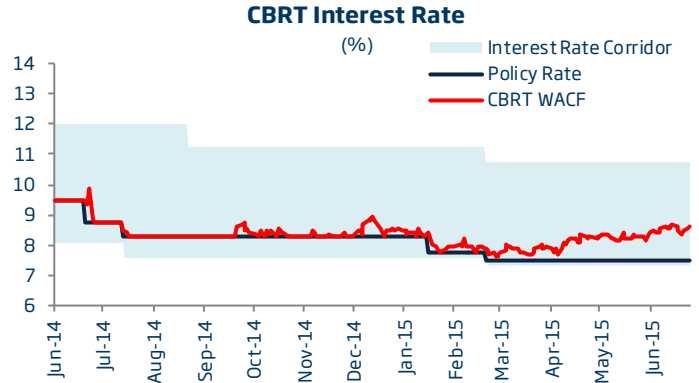
## CBRT kept interest rates on hold.

At its Monetary Policy Meeting held on June 23, CBRT kept the one-week repo rate (the policy rate) at 7.5%. CBRT also left both the upper and lower bounds of the interest rate corridor unchanged.

In its statement released following the meeting, CBRT noted that loan growth continued to stay at reasonable levels along with the tight monetary policy stance and macroprudential measures while domestic demand contributed positively to growth. CBRT, taking a more cautious tone on price stability, declared that inflation is expected to decline in the short term owing to the seasonal factors. On the other hand, CBRT also stated that recent upward movements in exchange rates have delayed the improvement in core inflation indicators.

## The upward trend in weighted average cost of funding...

It was seen that CBRT maintained its cautious policy stance by taking tightening measures against a backdrop of surge in volatility across domestic markets. In this framework, CBRT's weighted average cost of funding (WACF) has followed an upward trend since the beginning of the second quarter of the year. WACF reached the highest level of the year by 8.67% on June 19. Having fallen during the rest of the month, CBRT's WACF was realized as 8.59% at the end of the month.



## Developments in Greece put pressure on global markets.

Global markets followed a volatile course in June mainly due to the mixed-signals from the US economy, statements from Fed officials on rate hike and concerns over the probable exit of Greece from Euro Area. After the Fed's meeting, strengthening expectations of a gradual monetary policy tightening supported global markets to some extent. However, failures of negotiations between Greece and its international creditors weighed on global markets.

Along with the heightened political uncertainties due to the general elections held on June 7, escalated geopolitical risks were influential on domestic markets.

## Fluctuations in BIST-100 index

BIST-100 index, which was 82,981 points at the end of May, fluctuated during the first half of June due to the increased political uncertainties. The index dropped to its intraday lowest level of 75,268 points on the day after the general election. On the other hand, rising optimism about coalition scenarios and impulse purchases enabled the index to move upward again. It reached 82,250 points at the end of June, showing a relatively stable course compared to the end of previous month.

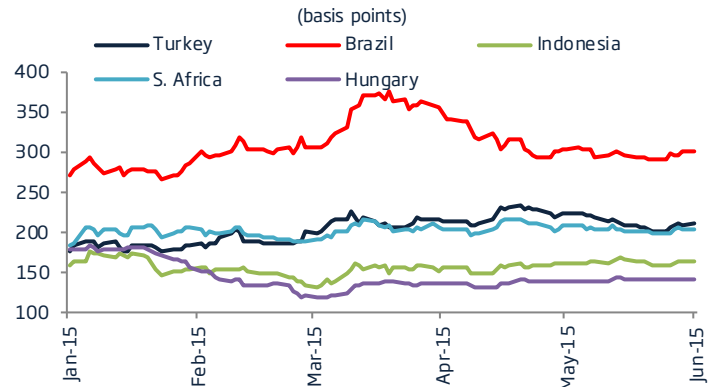
## USD/TRY hit its historically high level.

Heightened political uncertainties had added upward pressure on the USD/TRY. Indeed, right after the general election USD/TRY reached its historically high level with 2.8085. The surge in EUR/TRY, on the other hand, remained limited due to the concerns over Greece. TRY appreciated to some degree in the following days against both EUR and USD thanks to the recovery in risk sentiment. USD/TRY became 2.6809 as of June 30, while EUR/TRY was 2.9857.

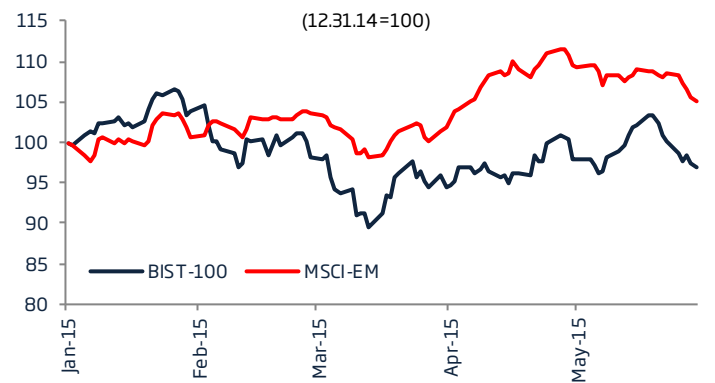
## 2-year benchmark bond's interest rate kept its high level.

The interest rate of the 2-year benchmark bond, which was realized as 9.88% at the end of May, hovered around 10% before the general election. After the election, the interest rate of 2-year benchmark bond rose to as high as 10.29% on June 9. The benchmark yield was 9.74% as of end-June.

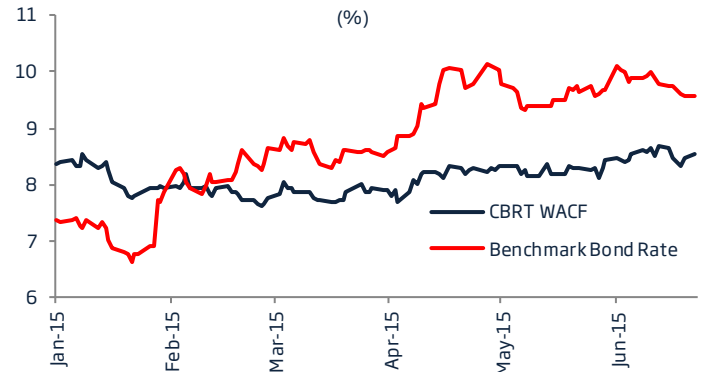
CDS in Emerging Markets



BIST-100 and MSCI Emerging Market Index



Benchmark Bond Rate and CBRT WACF



Source: Reuters, Datastream, BIST

## Deposit volume grew by 21.7% yoy.

According to BRSA's Weekly Bulletin, as of June 19, total deposit volume increased by 11.2% compared to the year-end and reached 1,255 billion TRY. The annual rise in total deposits was recorded as 21.7%. According to year-end figures, TRY deposits narrowed by 0.9% while FX deposits expanded by 30.5%. FX deposits in USD terms rose by 11.9% during the same period.

Having been 39% at the end of 2014, the share of FX deposits in total deposits followed a steady upward trend in 2015 and reached 45% as of June 19.

## Annual loan growth was 25.8%.

As of June 19, total loan volume grew by 12.5% compared to the year-end and was realized as 1,414 billion TRY. Total loan volume recorded an annual increase of 25.8%. TRY loans rose by 9.1% ytd while FX loans in USD terms expanded by 3.7% ytd as of June 19.

Analyzing by types of loans, it was seen that consumer loans increased by 5.4% compared to the year-end. On the other hand, commercial loans, which are more sensitive to the FX rates as FX loans have a share of 40%, picked up by 15.3% in the same period. Annual growth rate, on the other hand, was 11.2% in consumer loans and 32% in commercial loans.

## Increase in securities portfolio...

As of June 19, securities portfolio of banking sector recorded an increase of 4.6% compared to the year-end. During this period, securities subject to repo transactions, having the highest share in total securities portfolio, posted a rise of 13.5%.

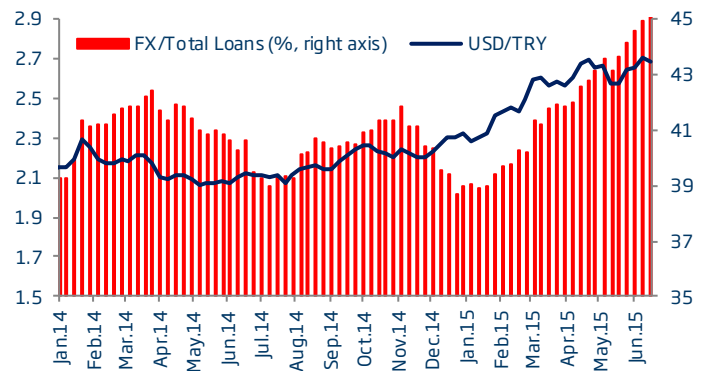
## Securities held in custody accounts...

As of June 19, securities held in custody accounts declined by 0.4% in nominal terms compared to the year-end. Non-residents' portfolio, following a downward trend recently, decreased by 7.7% ytd. Residents' portfolio, on the other hand, posted an increase of 6.9% during this period. In this sense, the share of non-residents' portfolio in total securities held in custody accounts has kept falling also in 2015.

## Net FX position...

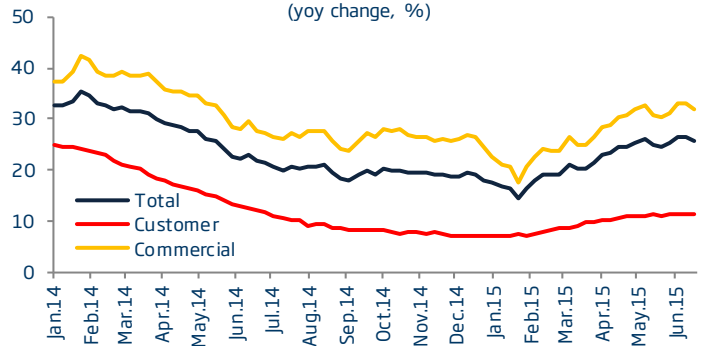
As of June 19, banks' on-balance sheet FX position was (-)47,229 million USD while off-balance sheet FX position was (+)45,568 million USD. Hence, banks' net FX position was realized as (-)1,661 million USD.

### FX Loans



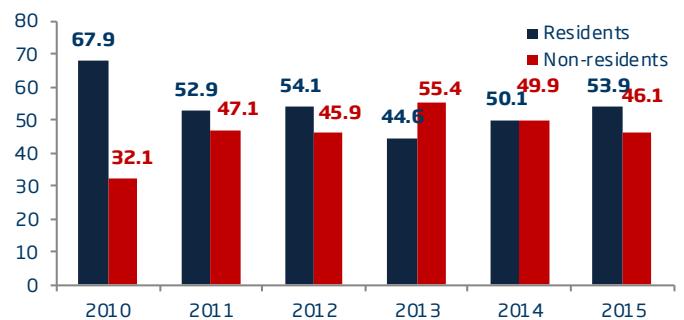
### Credit Volume

(yoy change, %)



### Securities Portfolio Held in Custody Accounts\*

(% of total)



\*As of the same week of June

Source: BRSA Weekly Bulletin

Developments regarding the Fed's monetary policy stance continued to be the top topic on the agenda of the year, causing abrupt shifts in global markets. In fact, global risk appetite was bolstered lately by the delay in expectations for the first rate hike by the Fed. Most of the emerging economies, struggling with their own issues, have benefited from this development. On the other hand, Greece, which has been unable to reach an agreement with international creditors, constituted a major source of uncertainty and therefore deepened concerns over the fate of both Greece and the Euro Area.

On the domestic markets, the heightened political uncertainties and the possibility of a snap election, albeit only small, created new risks for this year. However, it is seen that markets have already priced in the normalization process of the Fed's monetary policy and domestic uncertainties. In this context, we expect that domestic demand will gain some momentum and contribute further to the growth performance if a new government is formed. We also anticipate that foreign demand, which presented a weak outlook in the last couple of months, will strengthen to some extent in the forthcoming period should the upturn in Euro Area continue.

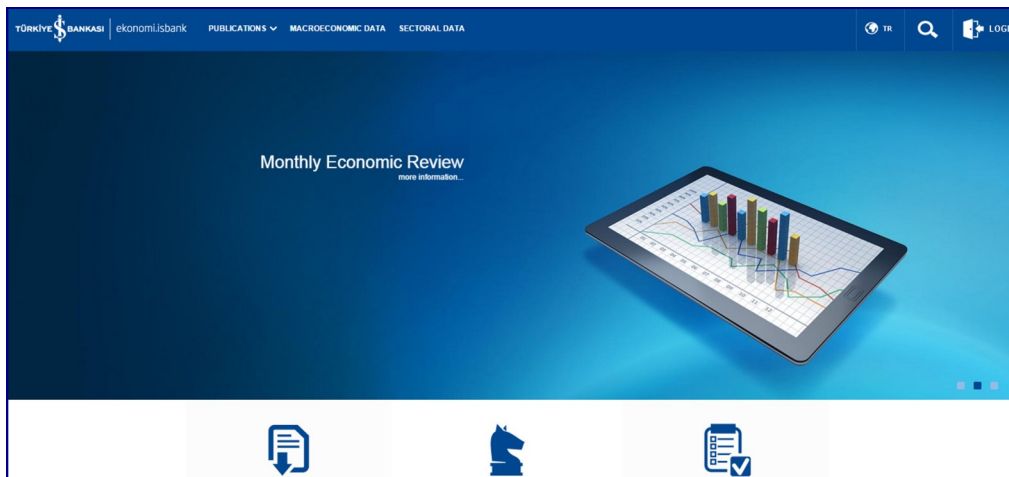
Forecasts (%)	2014 (R)	2015
Growth	2.9	3.0
CA Deficit/GDP	5.8	5.1
Inflation	8.2	8.0
GDDI Interest*	9.8	9.0

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

(R) Realization

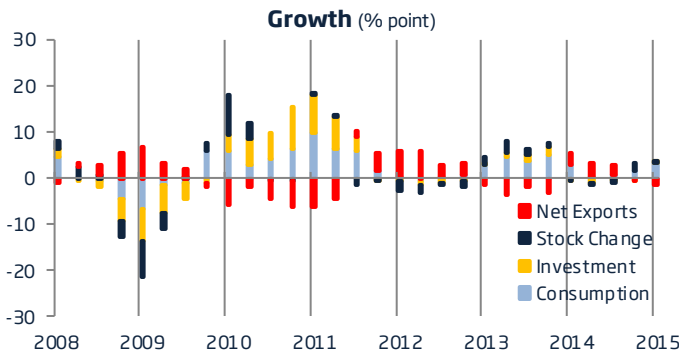
Interest and inflation are year-end forecasts

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

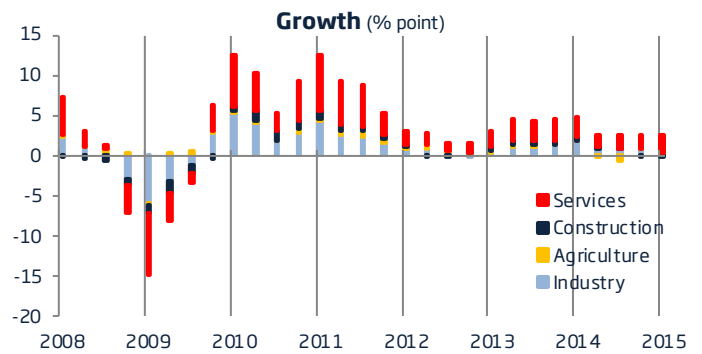


## Growth

### Expenditure Approach - Contributions to GDP

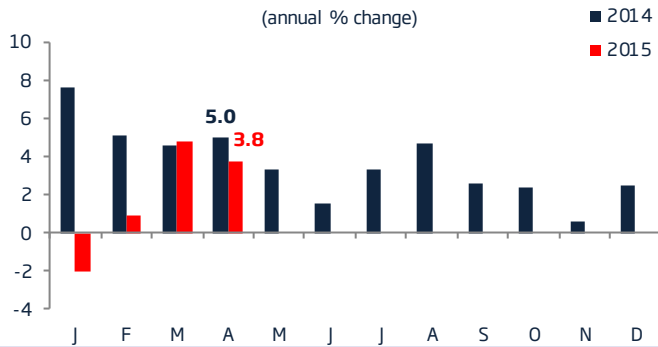


### Production Approach - Contributions to GDP

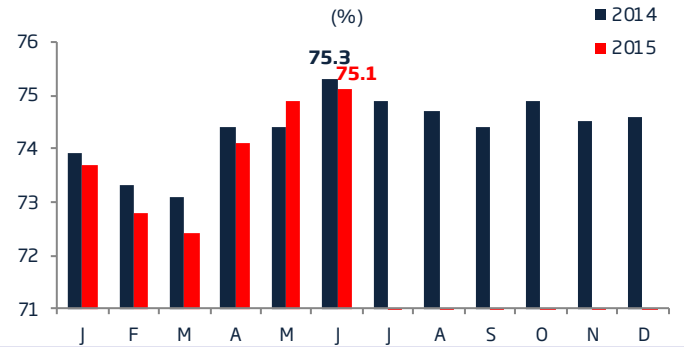


## Industrial Production and Capacity Utilization Ratio

### Industrial Production\*

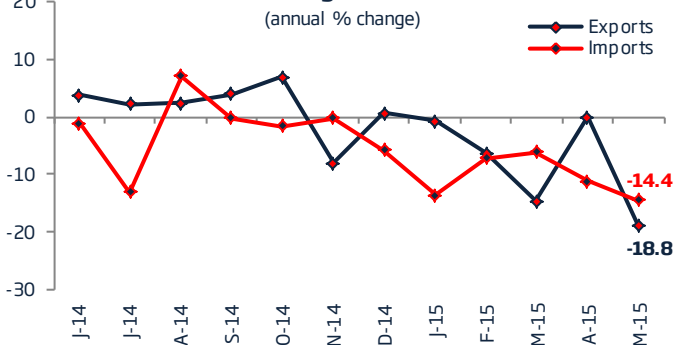


### Capacity Utilization Ratio

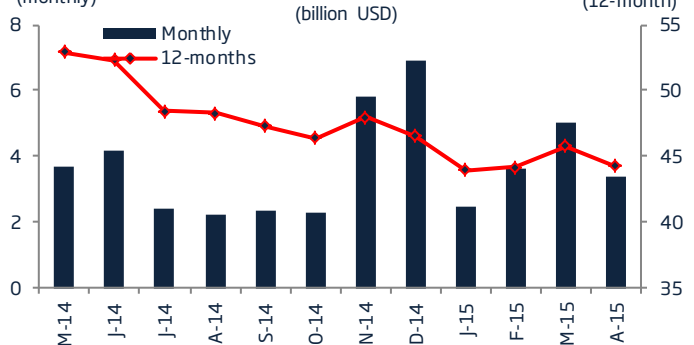


## Foreign Trade and Current Account Balance

### Foreign Trade



### Current Account Deficit

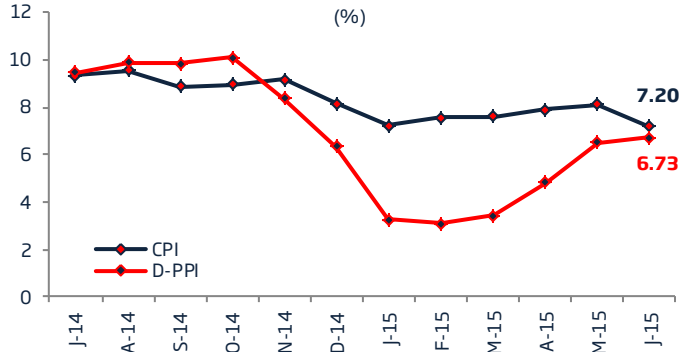


## Inflation

### Monthly Inflation



### Annual Inflation

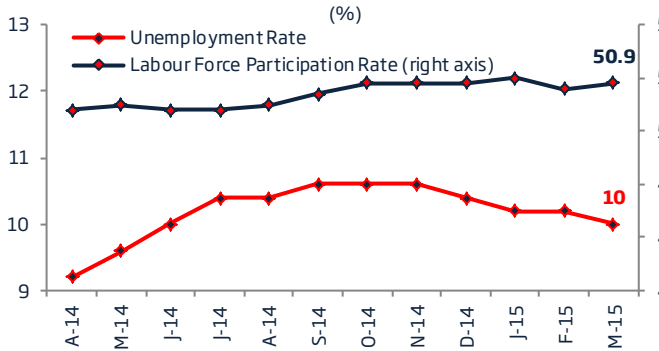


(\*) Calendar adjusted figures

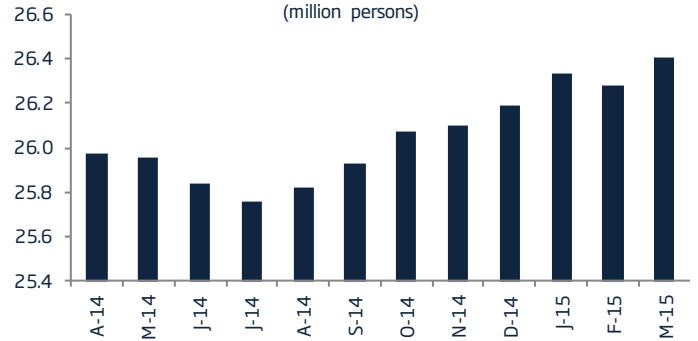
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators

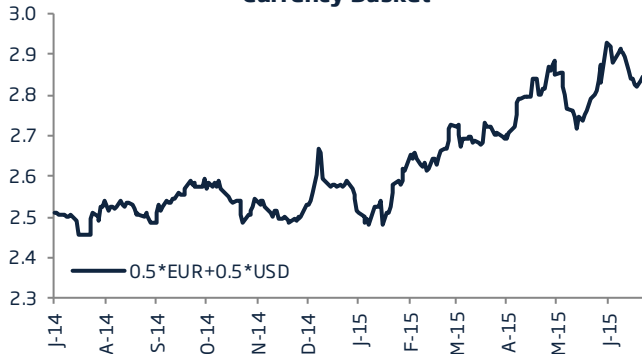


### Seasonally Adjusted Employment

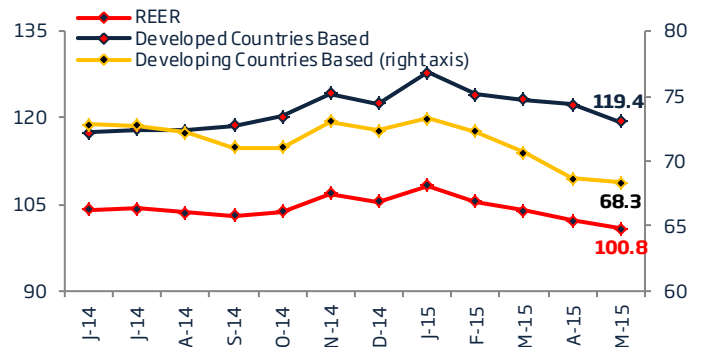


## FX Market

### Currency Basket

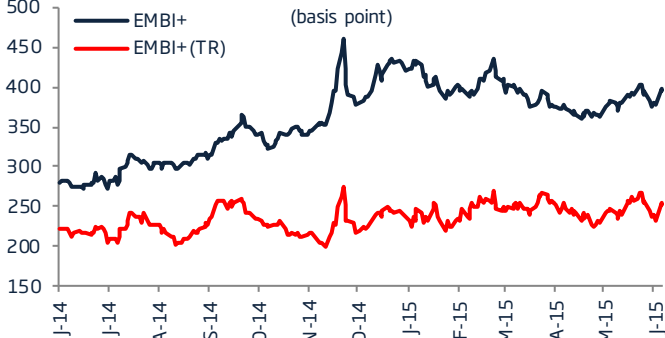


### CPI Based Real Effective Exchange Rate

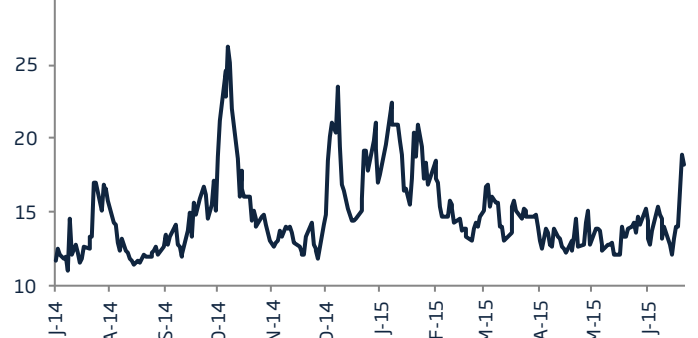


## Risk Indicators

### Risk Premiums

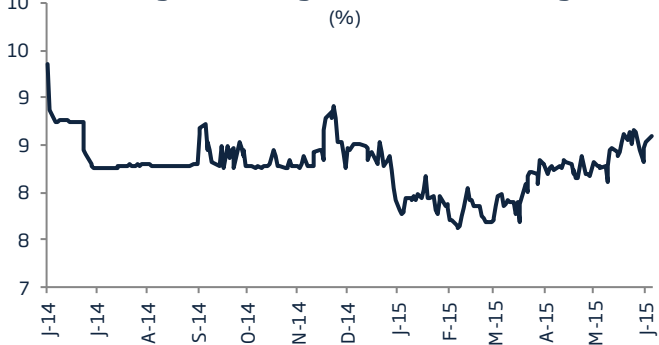


### VIX



## Interest Rates

### Weighted Average Cost of CBRT Funding

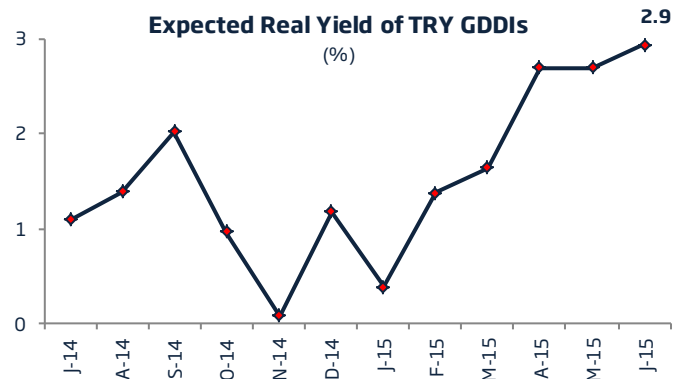
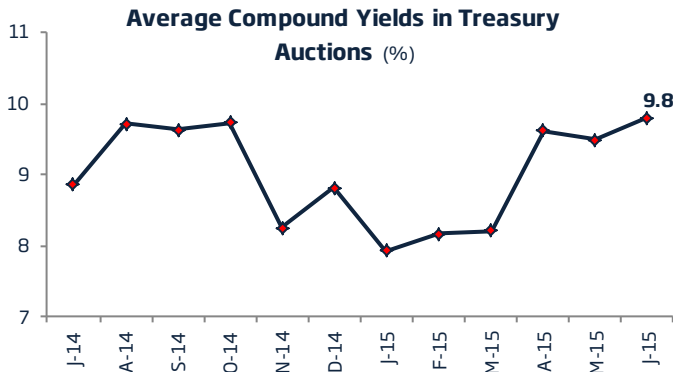


### Compound Yield of 2-Year Benchmark Bond

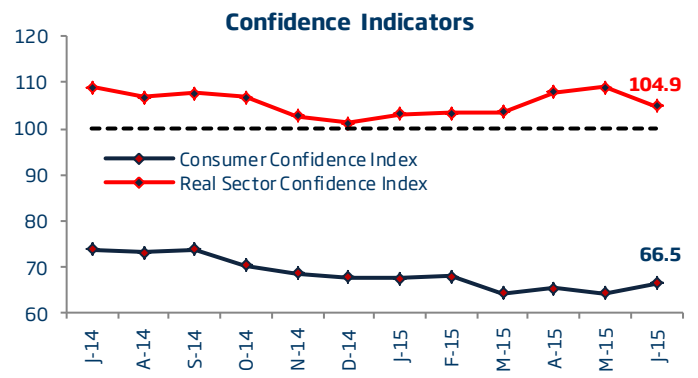
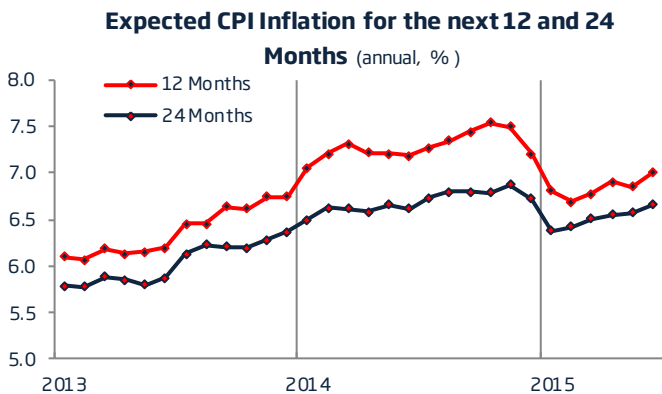
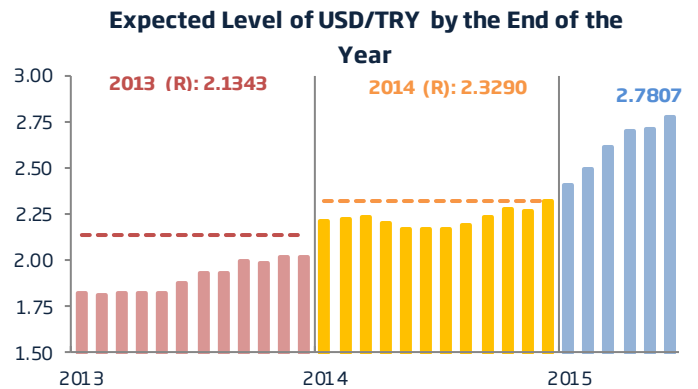
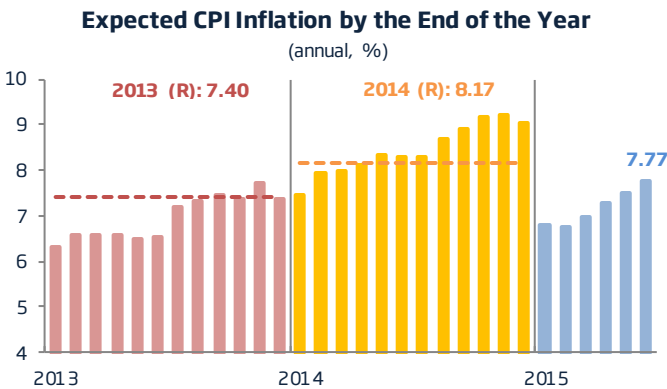
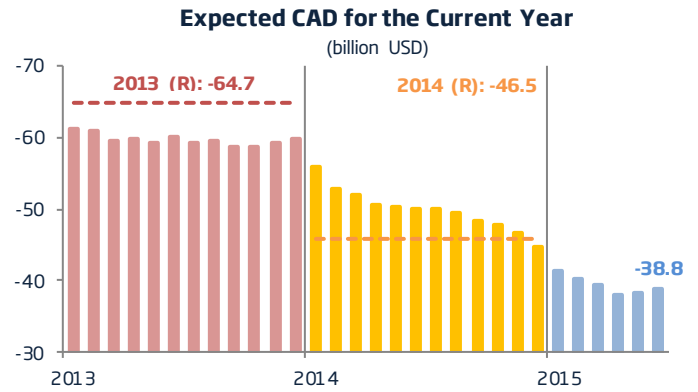
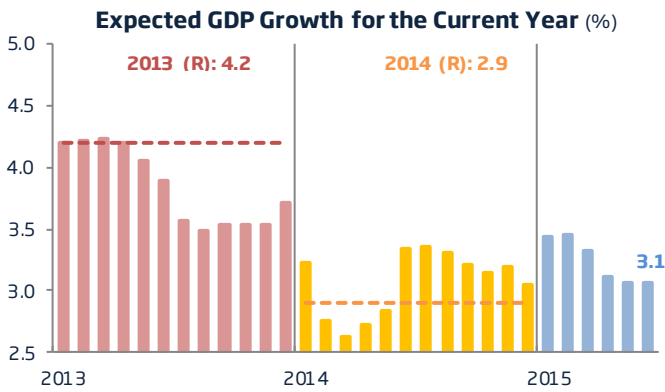


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## 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
<b>Growth</b>								
GDP (USD billion)	731.6	774.0	786.3	823.0	800.1	180.5	-	-
GDP (TRY billion)	1,099	1,298	1,417	1,567	1,750	443.2	-	-
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	2.3	-	-
<b>Inflation (%)</b>						<b>Apr-15</b>	<b>May-15</b>	<b>Jun-15</b>
CPI (annual)	6.40	10.45	6.16	7.40	8.17	7.91	8.09	7.20
PPI (annual)	8.87	13.33	2.45	6.97	6.36	4.80	6.52	6.73
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Jan-15</b>	<b>Feb-15</b>	<b>Mar-15</b>
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.2	10.2	10.0
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	50.9	51.0	50.8	50.9
<b>FX Rates</b>						<b>Apr-15</b>	<b>May-15</b>	<b>Jun-15</b>
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	102.2	100.8	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.6583	2.6611	2.6874
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	2.9736	2.9172	3.0009
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	2.8160	2.7892	2.8442
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Mar-15</b>	<b>Apr-15</b>	<b>May-15</b>
Exports	113.9	134.9	152.5	151.8	157.6	154.6	154.6	152.0
Imports	185.5	240.8	236.5	251.7	242.2	237.0	234.7	231.7
<b>Foreign Trade Balance</b>	<b>-71.7</b>	<b>-105.9</b>	<b>-84.1</b>	<b>-99.9</b>	<b>-84.6</b>	<b>-82.5</b>	<b>-80.2</b>	<b>-79.7</b>
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	65.2	65.8	65.6
<b>Current Account Balance<sup>(1)</sup> (USD billion)</b>						<b>Feb-15</b>	<b>Mar-15</b>	<b>Apr-15</b>
<b>Current Account Balance</b>	<b>-45.3</b>	<b>-75.0</b>	<b>-48.5</b>	<b>-64.7</b>	<b>-46.5</b>	<b>-44.2</b>	<b>-45.8</b>	<b>-44.3</b>
<b>Capital and Financial Accounts</b>	<b>-45.1</b>	<b>-66.0</b>	<b>-48.2</b>	<b>-62.0</b>	<b>-42.9</b>	<b>-42.1</b>	<b>-46.4</b>	<b>-39.9</b>
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.5	-5.4	-4.8	-4.3
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.1	-23.0	-21.0	-17.6
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-16.8	-20.3	-21.4	-18.0
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	6.6	0.8	0.0
<b>Net Errors and Omissions</b>	<b>0.2</b>	<b>9.0</b>	<b>0.3</b>	<b>2.8</b>	<b>3.7</b>	<b>2.1</b>	<b>-0.6</b>	<b>4.4</b>
<b>Current Account Balance/GDP (%)</b>	<b>-6.2</b>	<b>-9.7</b>	<b>-6.2</b>	<b>-7.9</b>	<b>-5.8</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						<b>Mar-15</b>	<b>Apr-15</b>	<b>May-15</b>
<b>Expenditures</b>	<b>294.4</b>	<b>314.6</b>	<b>361.9</b>	<b>408.2</b>	<b>448.4</b>	<b>118.6</b>	<b>160.2</b>	<b>200.3</b>
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	18.1	24.2	28.0
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.5	100.5	136.0	172.3
<b>Revenues</b>	<b>254.3</b>	<b>296.8</b>	<b>332.5</b>	<b>389.7</b>	<b>425.8</b>	<b>113.2</b>	<b>156.2</b>	<b>197.9</b>
Tax Revenues	210.6	253.8	278.8	326.2	352.4	96.3	128.2	164.4
<b>Budget Balance</b>	<b>-40.1</b>	<b>-17.8</b>	<b>-29.4</b>	<b>-18.5</b>	<b>-22.7</b>	<b>-5.4</b>	<b>-4.1</b>	<b>-2.4</b>
<b>Primary Balance</b>	<b>8.2</b>	<b>24.4</b>	<b>19.0</b>	<b>31.4</b>	<b>27.2</b>	<b>12.7</b>	<b>20.1</b>	<b>25.6</b>
<b>Budget Balance/GDP (%)</b>	<b>-3.6</b>	<b>-1.4</b>	<b>-2.1</b>	<b>-1.2</b>	<b>-1.3</b>	-	-	-
<b>Central Government Debt Stock (TRY billion)</b>						<b>Mar-15</b>	<b>Apr-15</b>	<b>May-15</b>
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	423.2	428.5	429.4
External Debt Stock	120.7	149.6	145.7	182.8	197.5	210.4	219.2	217.8
<b>Total Debt Stock</b>	<b>473.6</b>	<b>518.4</b>	<b>532.2</b>	<b>585.8</b>	<b>612.1</b>	<b>633.5</b>	<b>647.7</b>	<b>647.2</b>

(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	Apr.15	May.15	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>1,006.7</b>	<b>1,217.7</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,179.0</b>	<b>2,175.7</b>	<b>9.1</b>
<b>Loans</b>	<b>525.9</b>	<b>682.9</b>	<b>794.8</b>	<b>1,047.4</b>	<b>1,240.7</b>	<b>1,355.8</b>	<b>1,368.3</b>	<b>10.3</b>
TRY Loans	383.8	484.8	588.4	752.7	881.0	939.6	952.6	8.1
Share (%)	73.0	71.0	74.0	71.9	71.0	69.3	69.6	-
FX Loans	142.1	198.1	206.4	294.7	359.7	416.2	415.7	15.6
Share (%)	27.0	29.0	26.0	28.1	29.0	30.7	30.4	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	39.9	40.6	11.5
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	2.9	2.9	-
<b>Securities</b>	<b>287.9</b>	<b>285.0</b>	<b>270.0</b>	<b>286.7</b>	<b>302.3</b>	<b>313.7</b>	<b>313.6</b>	<b>3.8</b>
<b>TOTAL LIABILITIES</b>	<b>1,006.7</b>	<b>1,217.7</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,179.0</b>	<b>2,175.7</b>	<b>9.1</b>
<b>Deposits</b>	<b>617.0</b>	<b>695.5</b>	<b>772.2</b>	<b>945.8</b>	<b>1,052.7</b>	<b>1,146.7</b>	<b>1,154.9</b>	<b>9.7</b>
TRY Deposits	433.5	460.0	520.4	594.1	661.3	671.4	662.5	0.2
Share (%)	70.3	66.1	67.4	62.8	62.8	58.6	57.4	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	475.3	492.4	25.8
Share (%)	29.7	33.9	32.6	37.2	37.2	41.4	42.6	-
<b>Securities Issued</b>	<b>3.1</b>	<b>18.4</b>	<b>37.9</b>	<b>60.6</b>	<b>89.3</b>	<b>99.8</b>	<b>99.7</b>	<b>11.7</b>
<b>Payables to Banks</b>	<b>122.4</b>	<b>167.4</b>	<b>173.4</b>	<b>254.2</b>	<b>293.2</b>	<b>332.1</b>	<b>331.3</b>	<b>13.0</b>
<b>Funds from Repo Transactions</b>	<b>57.5</b>	<b>97.0</b>	<b>79.9</b>	<b>119.1</b>	<b>137.4</b>	<b>150.0</b>	<b>146.4</b>	<b>6.6</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>134.5</b>	<b>144.6</b>	<b>181.9</b>	<b>193.7</b>	<b>232.0</b>	<b>234.4</b>	<b>239.4</b>	<b>3.2</b>
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	8.3	10.9	-
<b>RATIOS (%)</b>								
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	62.9	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	14.4	14.4	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	52.6	53.1	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	118.2	118.5	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	15.2	15.3	-

(1) Year-to-date % change



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