



Monthly Economic Review September 2015



Global Economy

- ◆ August has been a month of growing concerns over emerging economies.
- ◆ Devaluation of yuan in August resulted in sharp fluctuations in global markets. Also, the intensifying concerns that the slowdown in Chinese economy would affect global growth adversely caused global risk sentiment to deteriorate. Against this backdrop, Chinese policy makers have continued to announce new measures in order to support the economy.
- ◆ On August 19, expectations that the first rate hike would take place in September diminished following the release of the minutes of the Fed's July's monetary policy meeting. Growing concerns in global markets supported the expectations that the Fed would raise the policy rate towards the end of this year. In this context, the US dollar, which has been strengthening until then, lost value in international markets.
- ◆ The 2nd quarter economic growth in the US revised up to 3.7% from 2.3%, surpassing the market expectations. While the economic data indicated that the US economy gained strength in recent period, statements made by the Fed officials were influential on the course of the financial markets.
- ◆ Having grown by 0.4% qoq in the 1st quarter of 2015, Euro Area economy expanded by 0.3% qoq in the 2nd quarter of the year. A combination of accommodative policies of the ECB and a weakening euro supporting export performance of the region curbed the momentum loss observed during this period.
- ◆ Oil prices fluctuated in August along with the deepening concerns over slowing Chinese economy and the developments recorded on the supply front.

Turkish Economy

- ◆ Annual growth in calendar adjusted industrial production accelerated in June compared to previous month and came in at 5.5%. Hence, industrial production figures indicated that domestic economic activity gained momentum in June as was the case in April and May. Indeed, the annual expansion in industrial production rose from 1.3% in the 1st quarter to 3.9% in the 2nd quarter.
- ◆ In July, foreign trade deficit expanded on annual basis for the first time since March 2015. In the first 7 months of the year, on the other hand, as the fall in imports was greater than exports, foreign trade deficit narrowed by 13% yoy.
- ◆ In June, current account deficit decreased by 19.5% yoy and was realized as 3.4 billion USD, higher than the market expectation of 3 billion USD. The current account deficit contracted by 7.5% yoy to 22.7 billion USD during the 1st half of the year. 12-month cumulative current account balance posted a deficit of 44.7 billion USD, maintaining its moderate course.
- ◆ Having declined to the lowest level of 26 months in July with 6.81% thanks to the favorable base effect, annual CPI inflation rose to 7.14% in August. Annual D-PPI inflation also surged to some extent and reached 6.21% in this period.
- ◆ Owing to the announcement of snap election, the impact of the political uncertainties emerged from election results on financial markets became more evident and sharp movements observed in exchange rates.
- ◆ CBRT kept its policy rates unchanged at its monetary policy meeting held on August 18. CBRT also announced policy reforms to be implemented before and during the normalization process of global monetary policies.

Contents

| | |
|------------------------|-----------|
| Turkish Economy | 2 |
| Banking Sector | 9 |
| Graphs | 11 |
| Tables | 14 |

Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Division Head
izlem.erdem@isbank.com.tr

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

Hatice Erkiletlioğlu - Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

Ilker Şahin - Economist
ilker.sahin@isbank.com.tr

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

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

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

Unemployment rate increased to 9.3%.

Unemployment rate, which was 8.8% in May 2014, came in at 9.3% in the same month of this year. In this period seasonally adjusted unemployment rate also rose to 10.2%, once again reaching double digit levels.

Industrial production rose by 3.9% in the 2nd quarter.

Annual growth in calendar adjusted industrial production accelerated in June compared to the previous month and came in at 5.5%. Hence, industrial production figures indicated that domestic economic activity gained momentum in June as was the case in April and May. Indeed, annual expansion in industrial production rose from 1.3% in the 1st quarter to 3.9% in the 2nd quarter.

The recovery in industrial production recorded in the 2nd quarter mainly stemmed from the expansion in the manufacture of durable goods thanks to the strong domestic automotive demand. Despite the strikes took place in automotive industry in May, the sector was able to compensate for the loss in production and thereby affected overall industrial production upwardly. While a relatively strong performance of domestic demand affected non-durable goods production positively, upturn in the manufacture of capital goods was also worth mentioning.

Fall in capacity utilization ratio...

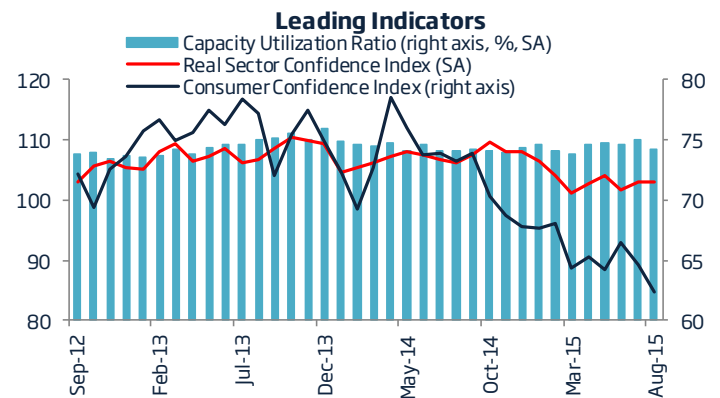
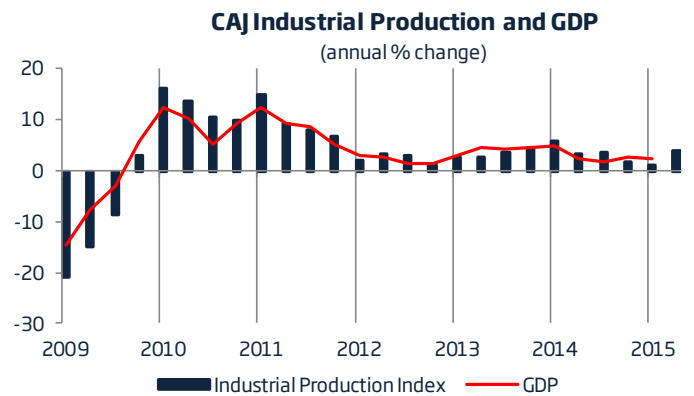
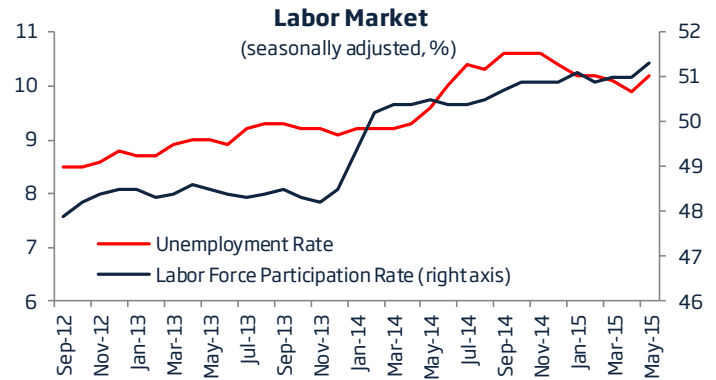
Capacity utilization ratio, as a leading indicator for the economic activity, lost momentum in August after displaying a positive outlook in July. Seasonally adjusted capacity utilization ratio decreased by 0.8 point on a monthly basis and was realized as 74.2%. Thus, capacity utilization ratio decreased to its lowest level since March.

PMI dropped to 49.3 in August.

Having been 50.1 in July, manufacturing PMI became 49.3 in August, showing signs of contraction. Manufacturing PMI realized below the breakeven level of 50 in 6 months out of last 8, indicating a weak outlook for manufacturing industry. In August, employment conditions had a negative impact on PMI index. Moreover, as a result of stagnant market conditions and political uncertainty, new orders fell for the 8th consecutive months.

Deterioration in confidence indices...

After posting a rise in July, real sector confidence decreased by 1.6 points to 103.7 in August. The deterioration in general business situation played a significant role in this development. Assessments regarding new orders and inventories brought the index down. Consumer confidence also exhibited a bleak outlook in August, posting its lowest level since March 2009. All sub-items of the index except probability of buying a car over the next 12 months declined in August while the sharp deterioration in expectations about general business situation was prominent.



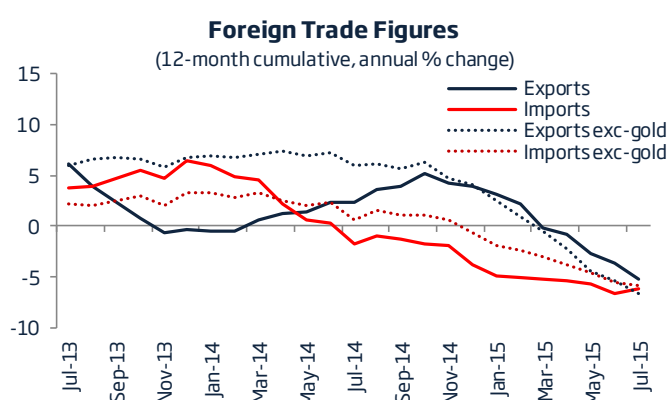
Source: Datastream, Turkstat, CBRT, Markit

Foreign trade deficit widened in July.

Export volume declined by 16.2% yoy to 11.2 billion USD in July while import volume dropped by 8.7% yoy to 18.2 billion USD. Thus, foreign trade deficit expanded for the first time since March 2015.

In the first 7 months of the year, on the other hand, as the fall in imports was greater than exports, foreign trade deficit narrowed by 13% yoy.

Having realized as 66.9% in July 2014, import coverage ratio fell to 66.9% in the same period of 2015. On the other hand, the said ratio improved slightly during the first 7 months of the year.



Weak outlook in main export markets...

Stagnant performance in traditional export markets continued in July. While exports to the EU countries in USD terms maintained their downward momentum, the fall in exports to Russia reached a remarkable level. In fact, while exports to Russia decreased by nearly 15% yoy throughout 2014, it dropped by almost 40% yoy in January-July 2015 period. On the other hand, it was worth mentioning that exports to Iraq posted an annual rise in July for the first time in the last 13 months.

The euro's weakness against the USD continued to affect Turkey's export performance adversely. Indeed, the decline in Turkey's export to the EU countries was 10.6% yoy in USD terms. Yet, in euro terms, exports to the region kept increasing. Owing to the relatively stronger economic performances seen in both UK and US among developed

countries, exports to these countries surged in this period. Moreover, an increasing trend observed in exports to Iran is worth mentioning.

Top Export Destinations

| | Jan.-Jul. 2014 | | Jan. - Jul.2015 | | Change (%) |
|--------------|----------------|------------|-----------------|------------|-------------|
| | Value | Share % | Value | share % | |
| Germany | 9,007 | 9.6 | 7,599 | 9.0 | -15.6 |
| UK | 5,760 | 6.2 | 6,181 | 7.3 | 7.3 |
| Iraq | 6,433 | 6.9 | 5,094 | 6.0 | -20.8 |
| Italy | 4,356 | 4.7 | 3,926 | 4.6 | -9.9 |
| US | 3,445 | 3.7 | 3,712 | 4.4 | 7.7 |
| France | 3,934 | 4.2 | 3,308 | 3.9 | -15.9 |
| UAE | 2,849 | 3.0 | 3,114 | 3.7 | 9.3 |
| Spain | 2,794 | 3.0 | 2,704 | 3.2 | -3.2 |
| Iran | 1,782 | 1.9 | 2,176 | 2.6 | 22.1 |
| S. Arabia | 1,794 | 1.9 | 2,150 | 2.5 | 19.9 |
| Russia | 3,503 | 3.7 | 2,118 | 2.5 | -39.5 |
| Other | 47,756 | 51.1 | 42,572 | 50.3 | -10.9 |
| Total | 93,412 | 100 | 84,653 | 100 | -9.4 |

Drop in exports spread across most sectors.

Analyzing the exports by sectors, it is seen that export volume contracted in almost all key sectors except basic metals sector during January-July period. Indeed, basic metal sector recorded the highest export volume thanks to the rise in gold exports. However, when gold exports were excluded, basic metal exports displayed a weak outlook. On the other hand, exports of fruits and vegetables exhibited a favorable performance as drought conditions eased in this year.

The monthly decline in imports was 8.7% in July.

Energy imports sustained its positive impact on foreign trade balance. It was noteworthy that automotive imports posted a significant rise in 2015 in line with the strong demand. Analysis of imports by sub-sectors revealed that while production remained weak, domestic demand and investments rose, albeit slowly.

Foreign Trade Balance

| | (USD billion) | | | | | |
|------------------------------|---------------|-------------|------------|--------------|--------------|--------------|
| | July | | | Jan.-Jul. | | |
| | 2014 | 2015 | Change (%) | 2014 | 2015 | Change (%) |
| Exports | 13.3 | 11.2 | -16.2 | 93.4 | 84.7 | -9.4 |
| Imports | 19.9 | 18.2 | -8.7 | 139.7 | 125.0 | -10.6 |
| Foreign Trade Balance | -6.6 | -7.0 | 6.5 | -46.3 | -40.3 | -13.0 |
| Import Coverage Ratio (%) | 66.9 | 61.4 | - | 66.9 | 67.7 | - |

Source: Datastream, Turkstat

Expectations

While downward pressure on exports has increased, exports exhibited an unfavorable performance in July. Given the challenges in this conjuncture, the latest developments in China are considered as putting additional downward pressures on global trade. The China's devaluation of the yuan is likely to support Chinese firms' competitive advantage which in turn might pose risks on our export performance. On the other hand, the mild upturn in the EU economies is expected to support export performance to some degree in the coming period. However, the volatility in the EUR/USD parity might limit this impact on overall export performance. Also, it is seen that the positive impact of low energy prices on foreign trade balance has continued

despite losing some momentum. In this context, in terms of economic growth foreign demand is anticipated to remain weak in the coming period.

According to the provisional data, foreign trade deficit contracted by 41% yoy in August. This fall mainly stemmed from the drop in energy imports. In fact, imports decreased by 18% in this period while the contraction in exports became only 1.5%.

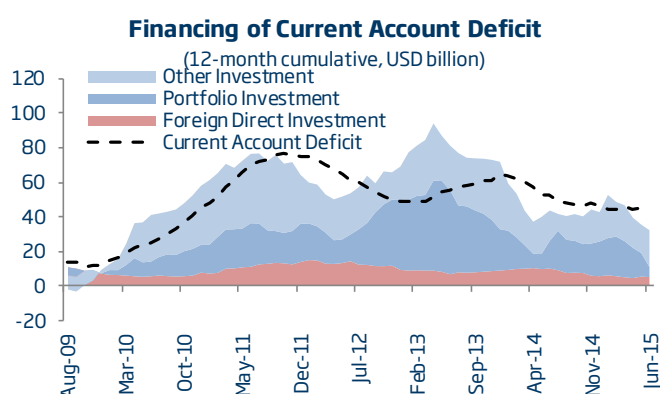
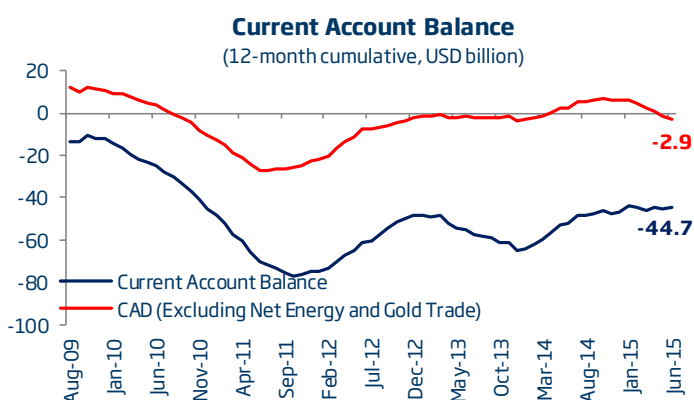
Current account deficit was slightly above the expectations in June.

In June, current account deficit decreased by 19.5% yoy and was realized as 3.4 billion USD, higher than the market expectation of 3 billion USD. Thus, the current account deficit contracted by 7.5% yoy to 22.7 billion USD during the first half of the year. 12-month cumulative current account balance posted a deficit of 44.7 billion USD maintaining its moderate course.

yoy to 5.5 billion USD limiting the contraction observed in the current account deficit in the first half of 2015.

Slowdown in direct investments...

The downward trend in net foreign direct investments continued in June. Net foreign direct investments declined by 35.7% yoy and was realized as 554 million USD. Net foreign direct investments also contracted by 11.3% yoy during the first half of the year, while the contraction was 17.2% when only inflows were taken into account.



Weak tourism revenues...

Net tourism revenues fell by 17.5% yoy in June, mainly due to the increasing geopolitical concerns in 2015 and the economic crisis in Russia. Thus, net tourism revenues dropped by 10.4% on annual basis in January-June period.

Despite the low trade volume in non-monetary gold trade in June, net non-monetary gold exports limited the current account deficit by 4.3 billion USD in the first six months of the year. Improvement in the foreign trade balance also played a significant role in the contraction of the current account deficit.

Upward trend in investment expenditures, which was monitored under the primary income balance, prevailed in June 2015. Investment expenditures increased by 28.2%

Sluggish performance in portfolio investments...

Both the plunge in capital inflows to the emerging economies and the heightened domestic political uncertainties resulted in a weak performance in portfolio investments in the recent period. Indeed, portfolio investment recorded a net outflow of 661 million USD in June. While equity securities held by foreign residents remained flat during this period, government domestic debt securities held by foreign residents posted a net sale of USD 452 million USD.

During the first half of the year, the outflow in portfolio investments amounted to 4 billion USD. In the same period of 2014, on the other hand, net portfolio investment recorded an inflow of 10.3 billion USD.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

| | Breakdown of Net Capital Inflows (%) | |
|--|--------------------------------------|----------------|
| | Dec. 2014 | Jun. 2015 |
| Current Account Balance | -46,531 | -44,691 |
| Total Net Foreign Capital Inflows | 46,063 | 38,417 |
| -Direct Investments | 5,549 | 5,017 |
| -Portfolio Investments | 20,109 | 5,846 |
| -Other Investments | 17,034 | 21,359 |
| -Net Errors and Omissions | 3,437 | 6,239 |
| -Other | -66 | -44 |
| Reserves⁽¹⁾ | 468 | 6,274 |

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' net drawings of long-term loans from abroad were 3.3 billion USD in the first half of the year.

Banking sector made a net credit repayment of 144 million USD in June. The sector was a net borrower in long term loans with a relatively low amount of 2 billion USD. In the first half of the year, however, banking sector was a net credit re-payer in short-term loans with a disbursement of 8.8 billion USD while it borrowed a net 12.2 billion USD in long-term loans from abroad in the same period. Thus, the net drawings of banks from abroad contracted by 22.3% yoy and was realized as 3.3 billion USD in the first six months of the year. The non-banking sector, on the other hand, borrowed a net amount of 2.2 billion USD from abroad in June. In January-June period, non-banking sector was also a net borrower with an amount of 5.5 billion USD.

According to 12-month cumulative figures, banks' and nonbank sectors' long-term debt rollover ratios were

realized as 262% and 138%, respectively, in June.

Net errors and omissions...

Reserve assets made a contribution of 783 million USD to the financing of current account deficit in June. Net errors and emissions, which registered an inflow of 10.1 billion USD in the first five month of the year, posted an outflow of 1.4 billion USD in June.

Expectations

According to the provisional foreign trade figures, foreign trade deficit recorded a limited annual rise of 5.1% in July. In this context, it is anticipated that the current account deficit may expand in July. Weak performance in tourism revenues is also expected to be influential on the increase in the current account deficit in this period.

We think that the expectations for the Fed's first rate hike together with the domestic security concerns and political

| Balance of Payments | (USD million) | | | | |
|-------------------------------------|---------------|----------------|----------------|--------------|---------------------|
| | June 2015 | Jan. - Jun. | | % Change | 12-Month Cumulative |
| | 2015 | 2014 | 2015 | | |
| Current Account Balance | -3,356 | -24,545 | -22,705 | -7.5 | -44,691 |
| Foreign Trade Balance | -4,839 | -29,392 | -24,944 | -15.1 | -59,136 |
| Services Balance | 2,292 | 9,085 | 7,828 | -13.8 | 23,908 |
| Travel (net) | 2,190 | 9,231 | 7,947 | -13.9 | 23,196 |
| Primary Income | -909 | -4,717 | -6,002 | 27.2 | -10,504 |
| Secondary Income | 100 | 479 | 413 | -13.8 | 1,041 |
| Capital Account | 0 | -24 | -2 | -91.7 | -44 |
| Financial Account | -4,799 | -18,752 | -14,088 | -24.9 | -38,496 |
| Direct Investments (net) | -554 | -4,702 | -4,170 | -11.3 | -5,017 |
| Portfolio Investments (net) | 661 | -10,253 | 4,010 | - | -5,846 |
| Net Acquisition of Financial Assets | 311 | 1,210 | 2,615 | 116.1 | 2,146 |
| Net Incurrence of Liabilities | -350 | 11,463 | -1,395 | - | 7,992 |
| Equity Securities | 1 | 1,478 | 106 | -92.8 | 1,187 |
| Debt Securities | -351 | 9,985 | -1,501 | - | 6,805 |
| Other Investments (net) | -4,123 | -5,055 | -9,380 | 85.6 | -21,359 |
| Currency and Deposits | -1,899 | 629 | -1,035 | - | -2,264 |
| Net Acquisition of Financial Assets | -894 | -457 | 8,286 | - | 9,039 |
| Net Incurrence of Liabilities | 1,005 | -1,086 | 9,321 | - | 11,303 |
| Central Bank | -61 | -886 | -291 | -67.2 | -1,738 |
| Banks | 1,456 | -200 | 9,612 | - | 9,405 |
| Foreign Banks | 1,549 | -973 | 7,963 | - | 6,499 |
| Foreign Exchange | -852 | -2,229 | 5,863 | - | 5,238 |
| Turkish Lira | 1,120 | 1,256 | 2,100 | 67.2 | 3,794 |
| Non-residents | 798 | 773 | 1,649 | 113.3 | 4,009 |
| Loans | -1,747 | -6,449 | -7,553 | 17.1 | -16,259 |
| Net Acquisition of Financial Assets | 463 | 132 | 728 | 451.5 | 2,459 |
| Net Incurrence of Liabilities | 2,210 | 6,581 | 8,281 | 25.8 | 18,718 |
| Banking Sector | -144 | 4,281 | 3,327 | -22.3 | 10,881 |
| Non-bank Sectors | 2,219 | 3,070 | 5,484 | 78.6 | 8,488 |
| Trade Credit and Advances | -454 | 1,089 | -640 | - | -2,537 |
| Other Assets and Liabilities | -23 | -324 | -152 | -53.1 | -299 |
| Reserve Assets (net) | -783 | 1,258 | -4,548 | - | -6,274 |
| Net Errors and Omissions | -1,443 | 5,817 | 8,619 | 48.2 | 6,239 |

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

CPI inflation came in above expectations.

CPI increased by 0.40% mom in August, above the market expectations. D-PPI rose by 0.98% mom in this period. Monthly CPI inflation was expected to be 0.11% according to the Reuters' survey while the latest CBRT's survey of expectations had projected a rise of 0.15%.

| August | CPI | | D-PPI | |
|----------------|------|------|-------|------|
| Change (%) | 2014 | 2015 | 2014 | 2015 |
| Monthly | 0.09 | 0.40 | 0.42 | 0.98 |
| Year-to-Date | 6.28 | 5.27 | 6.33 | 6.19 |
| Annual | 9.54 | 7.14 | 9.88 | 6.21 |
| Annual Average | 8.46 | 7.88 | 9.55 | 6.14 |

Annual inflation was 7.14%.

Having declined to the lowest level of 26 months in July with 6.81% thanks to the favorable base effect, annual CPI inflation rose to 7.14% in August. Annual D-PPI inflation also surged to some extent and reached 6.21% in this period.

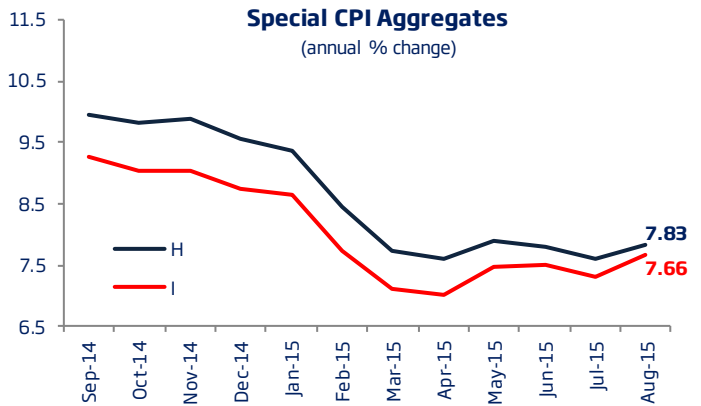
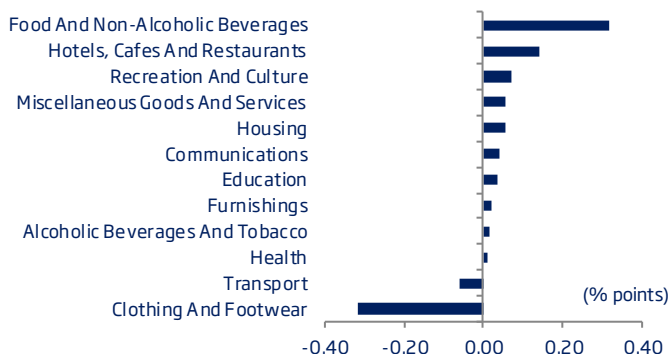
Food prices were a major contributor to the CPI inflation.

Analyzing by main expenditure groups, it is seen that food prices, which have the highest share in CPI basket with 24%, contributed most to the inflation in August. Adding this figure to the two preceding figures revealed that the decline in food prices in summer months did not take place as much as anticipated. In August, restaurants/hotels and recreation/culture sub-items made the next highest contributions to the monthly inflation following the food prices as they linked to tourism sector having a high sensitivity to exchange rate developments. On the other hand, transport and clothing/footwear prices were the two sub-items that pulled down the inflation during this period.

Deterioration in core inflation indicators...

In August, depreciation of TRY was chiefly influential on the deterioration in core inflation indicators. It was noteworthy that all core groups registered monthly rises. The core group

Contributions to the Monthly CPI by Subgroups



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

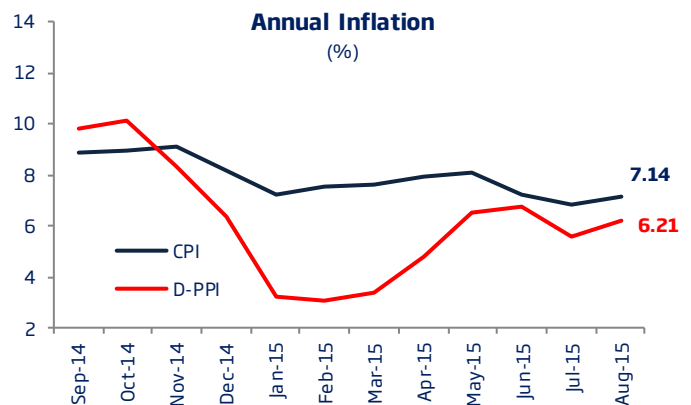
of CPI inflation excluding seasonal products increased most during this period. Hence, it was evident that seasonal factors continued to play a key role in limiting the rise in inflation. In addition, low level of energy prices kept bringing down the inflation indicators. The upward movement in the core inflation indices denominated by H and I, which constitute CBRT's favorite core indicators, drew a gloomy picture for inflation prospects for the forthcoming period.

A fast rise in D-PPI...

The upward trend in foreign exchange rates is considered to play a significant role in the surge of D-PPI observed in August as well. Analyses by main industrial groups revealed that capital and intermediate goods recorded the fastest monthly increases since January 2014. On the other hand, the prices in energy grouping declined by 2.8% in the last three months as of August and limited the rise of D-PPI during this period.

Expectations...

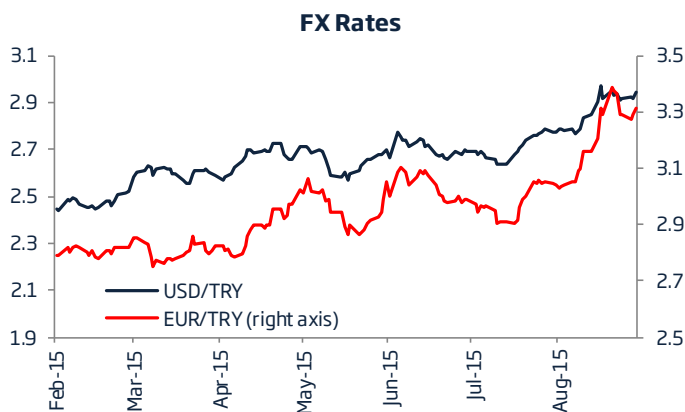
In the period ahead, it is expected that inflation will exhibit an accelerating pace due to the seasonal factors with the arrival of fall season. In addition to this, persistently high levels of exchange rates and fading favorable base effect indicated that upward risks on inflation have increased recently by a considerable degree.



Source: Turkstat

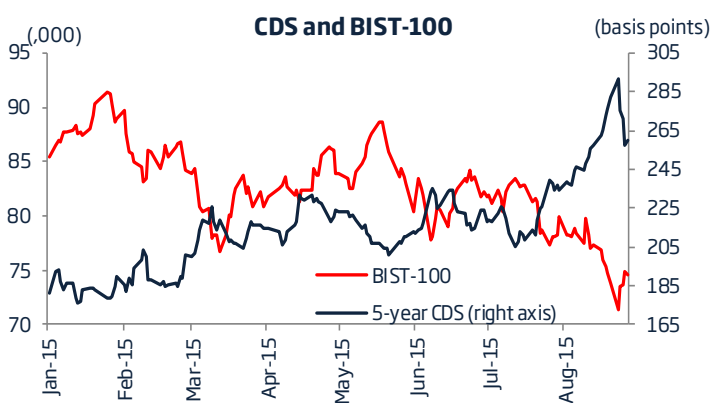
Ongoing political uncertainties weigh on domestic markets.

Following the failure of coalition talks, the impact of political uncertainties on financial markets became more evident. Along with the decision to hold a snap election on November 1, expectations for the Fed's rate hike and domestic security concerns led to sharp movements in exchange rates. In fact, USD/TRY moved close to the level of 3 while EUR/TRY exceeded 3.38. While CBRT's latest steps did not have a considerable impact on exchange rates, the currency basket reached its record high level by approaching 3.17.



In parallel with the deterioration in risk sentiment, Turkey's 5-year CDS premiums reached their highest level which was last seen just before the local election held in March 2014. Having remained relatively flat during the second half of July, BIST-100 index dropped to its lowest level in one and a half year in August. Interest rates in bond market rose and compound yield of 2-year benchmark bond surpassed 11%.

Nevertheless, the diminishing volatility in global markets during the last days of August had a positive impact on



domestic markets. Accordingly, exchange rates and risk premiums receded to some degree. However, domestic volatility prevailed as political uncertainties and the expectations that the Fed's first rate hike will take place in this year persist.

CBRT kept the policy rate unchanged in August.

CBRT kept its policy rate (one-week repo rate) at 7.5% at the monetary policy meeting held on August 18. CBRT also did not change the lower and the upper bounds of the interest rate corridor.

In the press release published after the meeting, CBRT noted that loan growth continued to stay at reasonable levels along with the tight monetary policy stance and macroprudential measures. It was stressed that monetary policy would be conducted in accordance with the improvement in inflation outlook. Considering the global and domestic uncertainties as well as the volatility in energy and food prices, a tighter monetary policy would be implemented as long as deemed necessary.

A new road map from CBRT...

On August 18, CBRT announced policy reforms to be implemented before and during the normalization process of global monetary policies. In this context, while stating that it will simplify its monetary policy framework, CBRT pointed out that interest rate corridor will become narrower and more symmetric around the policy rate. Also, foreign exchange liquidity will be provided through the increase in the remuneration rate of Turkish lira required reserves or adjustments of Reserve Options Coefficients (ROC). CBRT also announced that the remuneration rate of the USD denominated required reserves, reserve options and free reserves held at the CBRT will be kept close to the upper bound of the Fed funds target rate range. Moreover, CBRT stressed that the remuneration rate of Turkish lira required reserves will be fine-tuned in the coming period to pull down the intermediation cost of banking sector and to enhance core liabilities if deemed necessary. This new framework indicated that domestic monetary policies will be shaped in accordance with the Fed's rate hike decisions.

Although the CBRT's statements suggesting that the adjustments in interest rate corridor would be applied as the normalization process in global monetary policies begins, a further deterioration in risk sentiment towards Turkey and heightened volatility in foreign exchange as well as an acceleration in foreign capital outflows might result in a hike in the policy rate shifting it above the weighted average cost of funding.

Source: Reuters, Datastream, BIST

FX deposit volume surged by 41.8% ytd.

According to BRSA's Weekly Bulletin, as of August 21, deposit volume grew by 24.7% yoy and was realized as 1,317 billion TRY. Total deposit volume, on the other hand, rose by 16.7% ytd. In year-to-date terms, TRY deposit volume expanded by only 0.9% while FX deposit volume surged by 41.8% due to the depreciation of the TRY. It was noteworthy that the rise in total deposit volume fell to 9.6% yoy and 5.3% ytd, according to exchange rate adjusted figures.

The annual rise in loan volume was 27.6%.

As of August 21, loan volume increased by 27.6% yoy and reached 1,473 billion TRY. According to exchange rate adjusted figures, on the other hand, the annual growth in credit volume was realized as 16.9%. Analyzing by the types of credits, commercial loans surged by 34.3% yoy thanks to the increase in exchange rates while the rise in consumer loans was realized as 11.4% in this period.

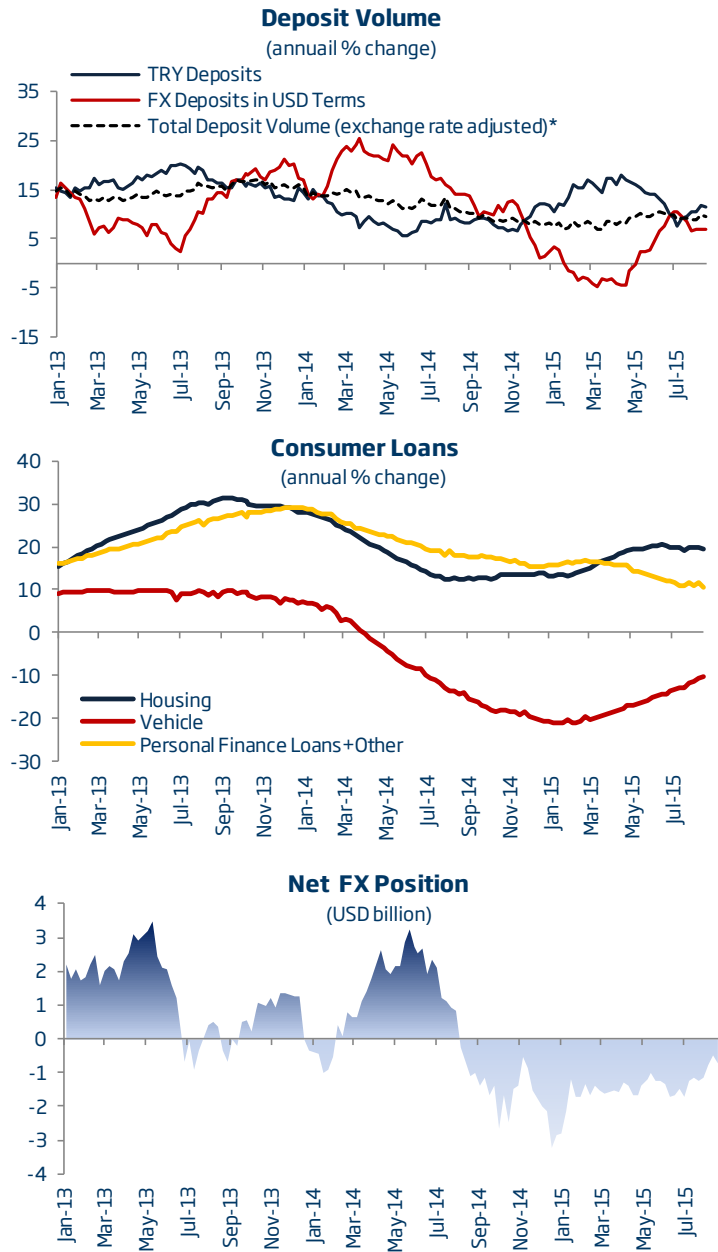
In line with the strong domestic automotive sales, the contraction in vehicle loans lost momentum. In fact, vehicle loans posted an annual decline of 10.2% as of August 21 while the annual decline in vehicle loans exceeded 20% throughout 2015.

Securities portfolio...

As of August 21, securities portfolio of the banking sector increased by 6% ytd and was realized as 319 billion TRY. Securities subject to repo transactions, which have the highest share in securities portfolio, rose by 18.3% in this period. Securities available for sale portfolio, however, decreased by 15.4% in the same period.

Net FX position...

As of August 21, banks' on-balance sheet FX position was (-)40,352 million USD while off-balance sheet FX position was (+)39,600 million USD. Hence, banks' net FX position was realized as (-)751 million USD.



Source: BRSA Weekly Bulletin

Macroeconomic data announcements in the US and the statements made by the Fed officials have been shaping the expectations for the Fed's first rate hike. Furthermore, increasing risks associated with the emerging economies, in particular the slowdown in Chinese economy, might affect the timing and the pace of this rate hike. Against this backdrop, the expectations that the Fed will raise the policy rate in September meeting have weakened. Hence, persistent uncertainties over the timing of the first rate hike continued to cause fluctuations in markets. Devaluation of yuan by the Chinese Central Bank also had a considerable impact on global financial markets. As being the second biggest economy in the world, the next possible steps in this direction and other new measures to be taken by China in response to slowing economy will be of great importance to the global economy in the forthcoming period.

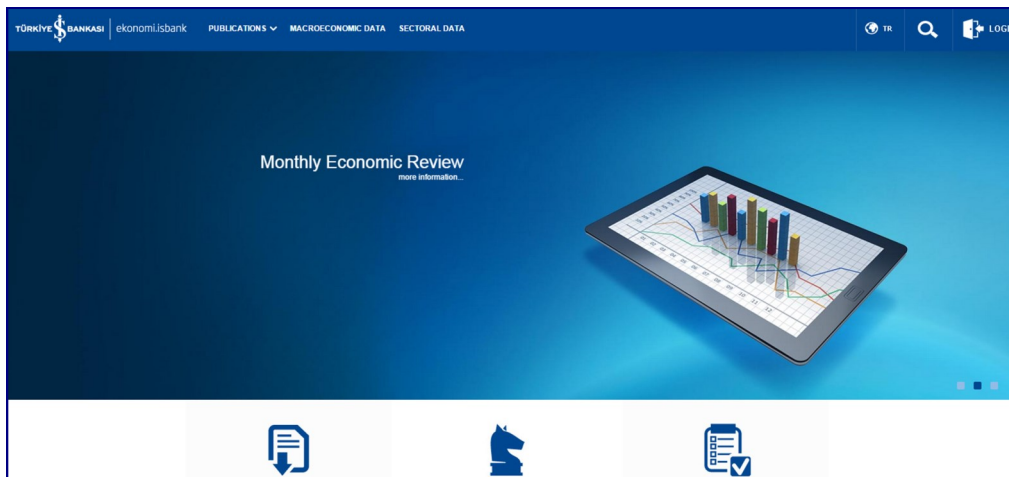
On the domestic front, political uncertainties, having increased after the general election results, deepened as coalition talks failed. The decision to hold a snap election in November added further downward pressure on domestic markets. Even though the recent data announcements indicated that domestic economic activity expanded moderately, it might be possible that the downside risks to economic activity will increase further in case of a rate hike by the Fed towards the end of 2015 and persistence of political uncertainties and security concerns inside.

| Forecasts (%) | 2014 (R) | 2015 |
|----------------|----------|------|
| Growth | 2,9 | 3,0 |
| CA Deficit/GDP | 5,8 | 5,1 |
| Inflation | 8,2 | 8 |

(R) Realization

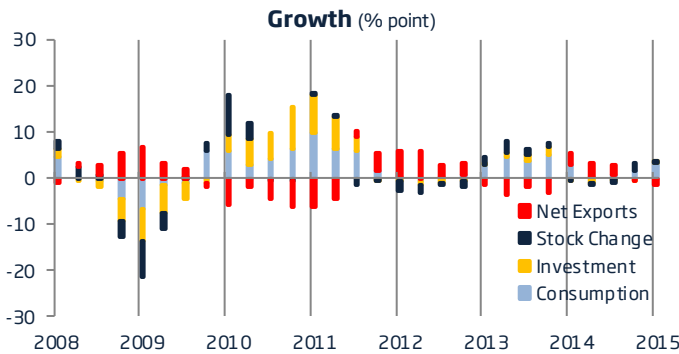
Interest and inflation are year-end forecasts

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

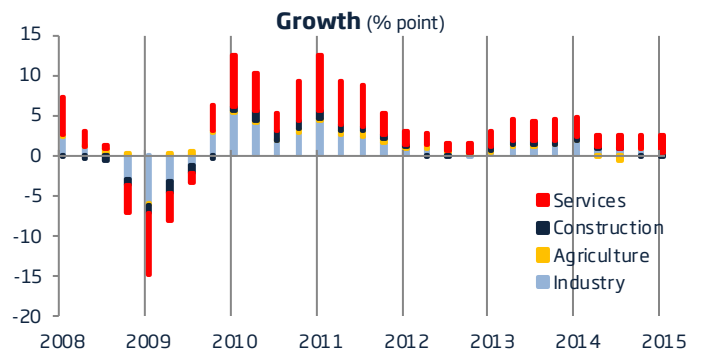


Growth

Expenditure Approach - Contributions to GDP

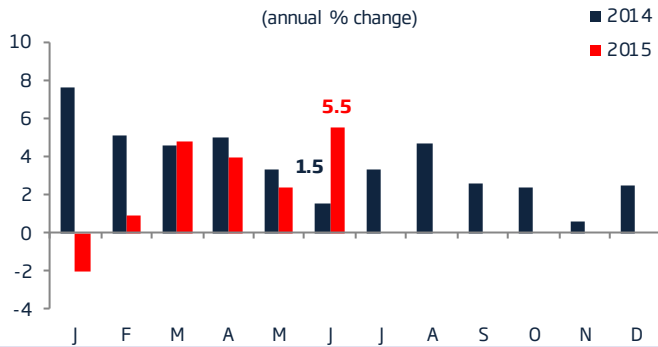


Production Approach - Contributions to GDP

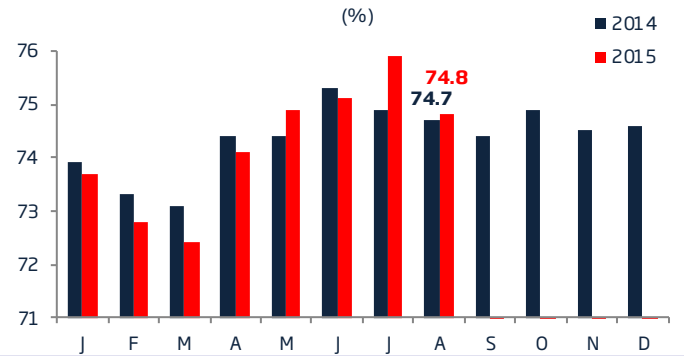


Industrial Production and Capacity Utilization Ratio

Industrial Production*

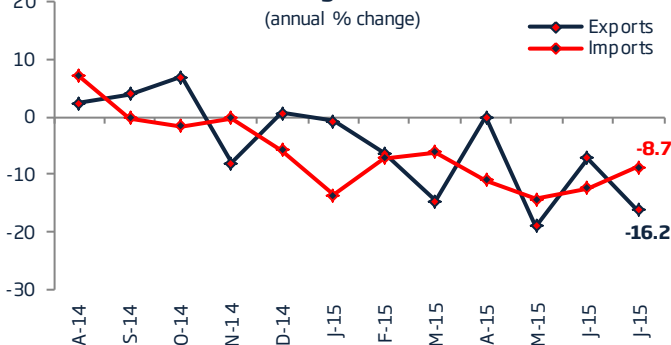


Capacity Utilization Ratio

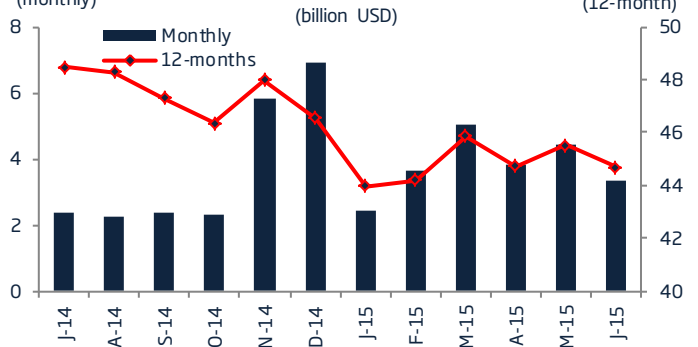


Foreign Trade and Current Account Balance

Foreign Trade

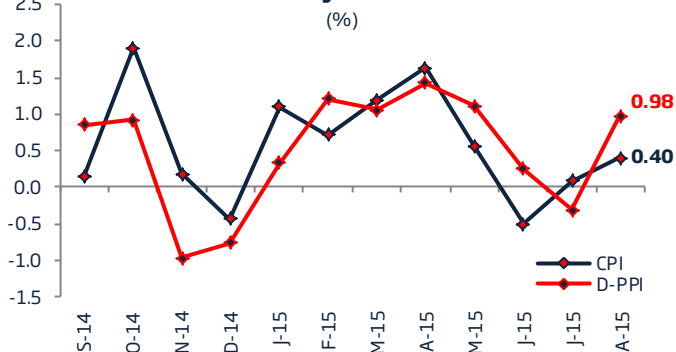


Current Account Deficit

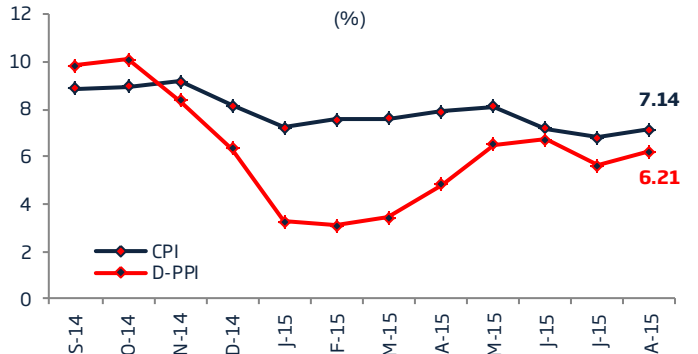


Inflation

Monthly Inflation



Annual Inflation

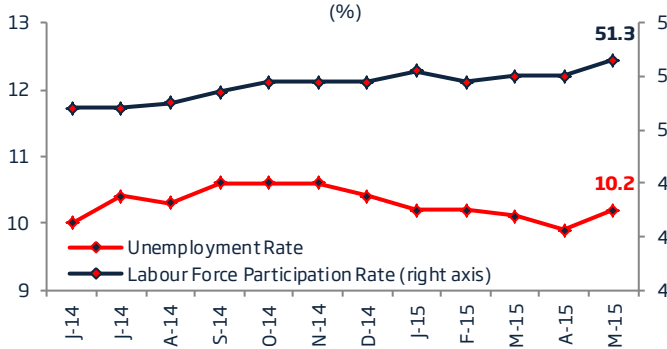


(* Calendar adjusted figures)

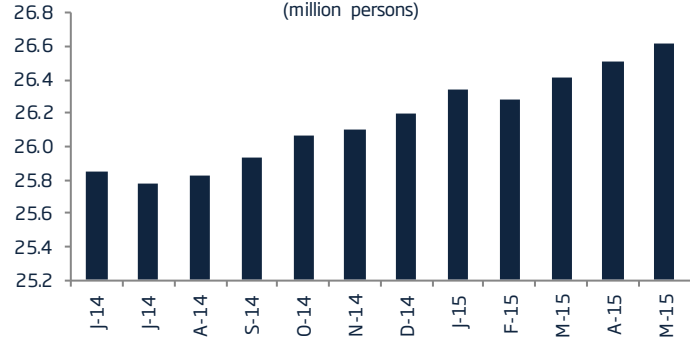
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

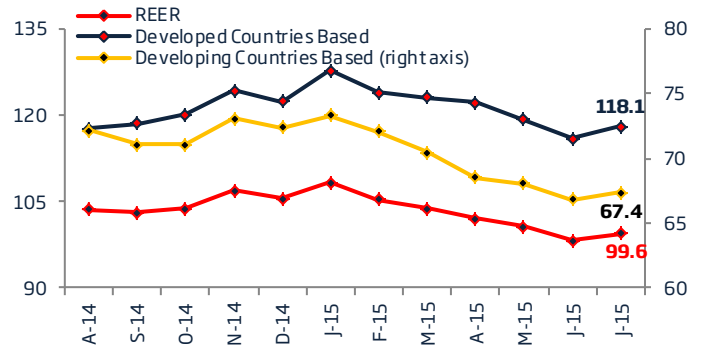


FX Market

Currency Basket

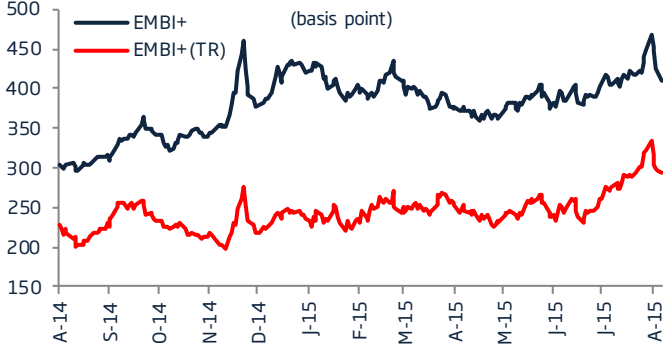


CPI Based Real Effective Exchange Rate

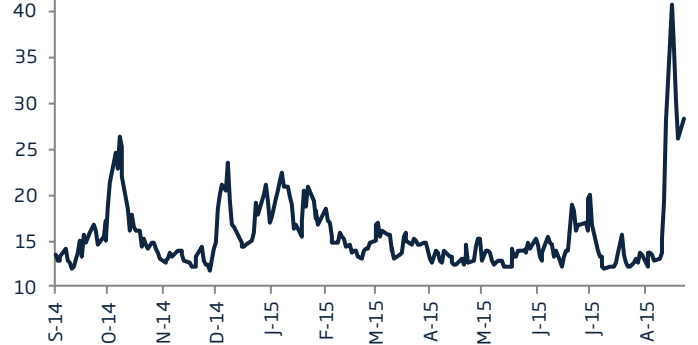


Risk Indicators

Risk Premiums (basis point)

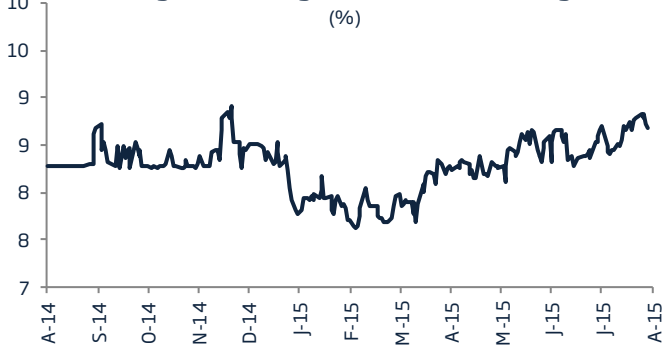


VIX



Interest Rates

Weighted Average Cost of CBRT Funding (%)

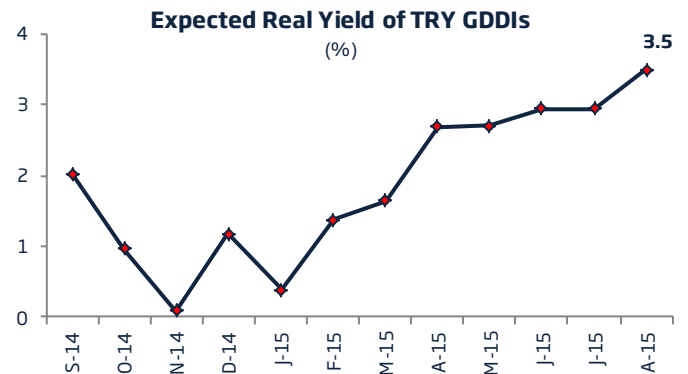
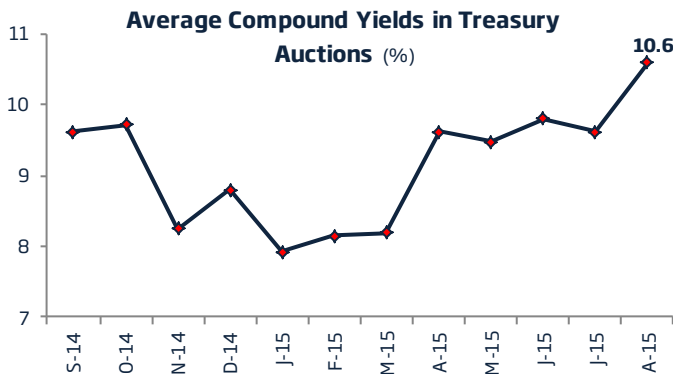


Compound Yield of 2-Year Benchmark Bond (%)

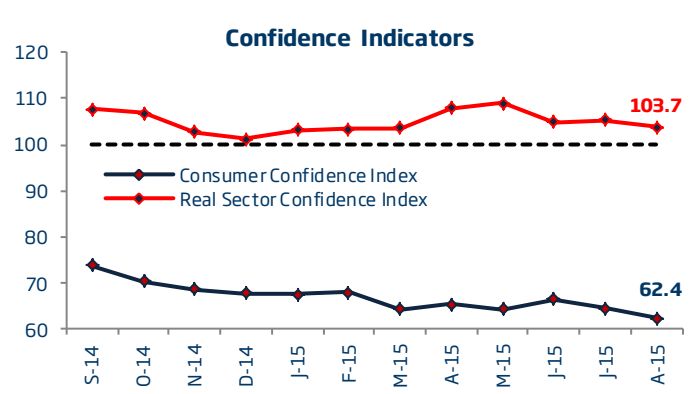
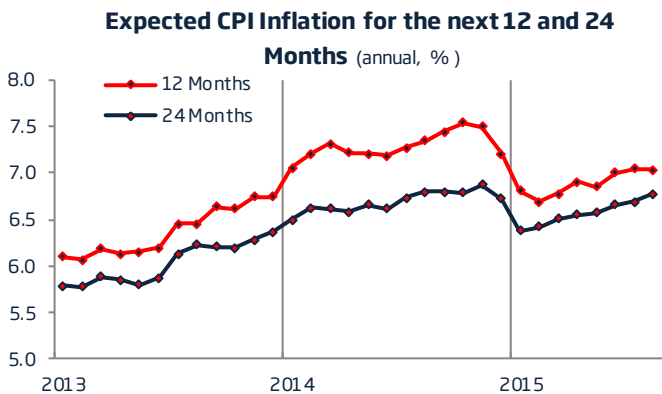
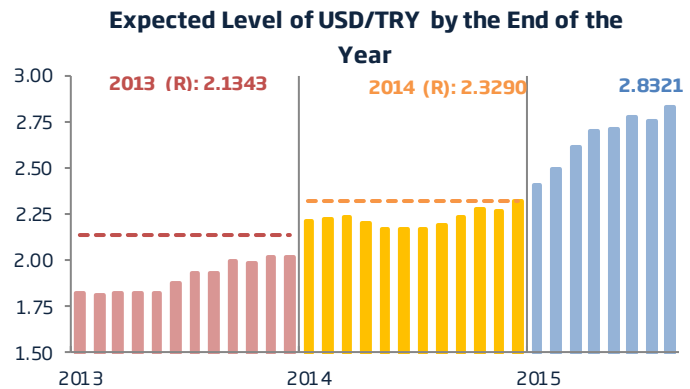
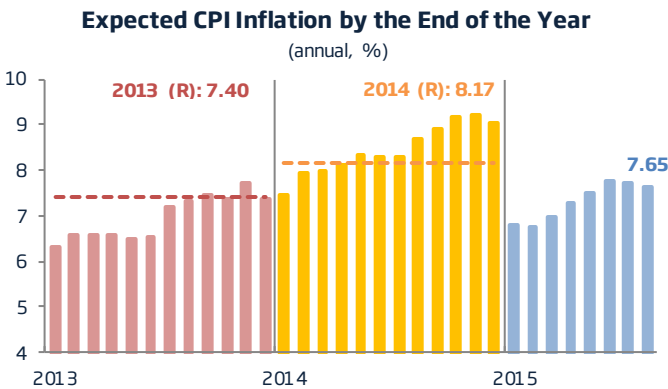
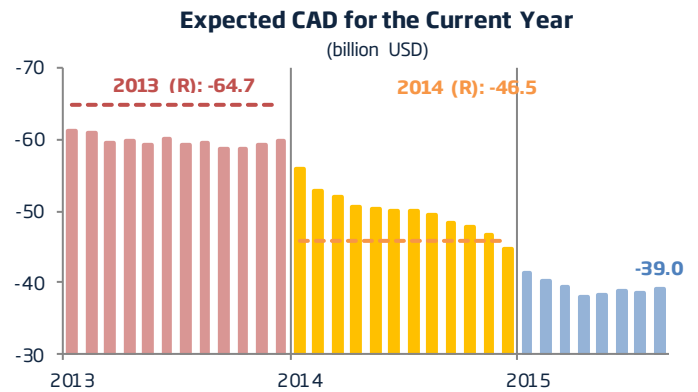
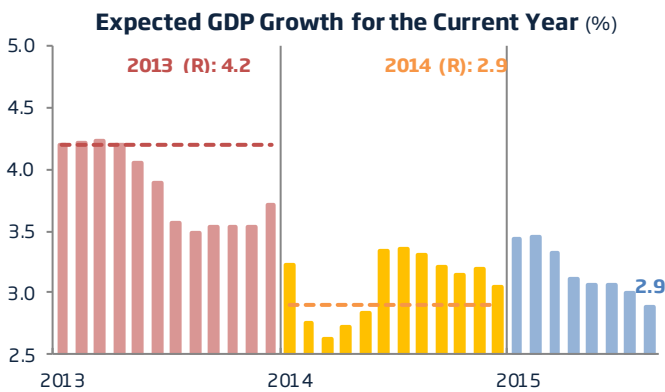


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

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 | 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 | - | - |
| Inflation (%) | | | | | | Jun-15 | Jul-15 | Aug-15 |
| CPI (annual) | 6.40 | 10.45 | 6.16 | 7.40 | 8.17 | 7.20 | 6.81 | 7.14 |
| PPI (annual) | 8.87 | 13.33 | 2.45 | 6.97 | 6.36 | 6.73 | 5.62 | 6.21 |
| Seasonally Adjusted Labor Market Figures | | | | | | Mar-15 | Apr-15 | May-15 |
| Unemployment Rate (%) | 10.0 | 8.5 | 8.8 | 9.1 | 10.4 | 10.1 | 9.9 | 10.2 |
| Labor Force Participation Rate (%) | 47.1 | 47.2 | 48.5 | 48.5 | 50.9 | 51.0 | 51.0 | 51.3 |
| FX Rates | | | | | | Jun-15 | Jul-15 | Aug-15 |
| CPI Based Real Effective Exchange Rate | 119.2 | 102.7 | 110.3 | 101.0 | 105.5 | 98.3 | 99.6 | |
| USD/TRY | 1.5413 | 1.8934 | 1.7819 | 2.1323 | 2.3290 | 2.6874 | 2.7864 | 2.9205 |
| EUR/TRY | 2.0600 | 2.4497 | 2.3508 | 2.9370 | 2.8297 | 3.0009 | 3.0533 | 3.2745 |
| Currency Basket (0.5*EUR+0.5*USD) | 1.8007 | 2.1716 | 2.0664 | 2.5347 | 2.5794 | 2.8442 | 2.9199 | 3.0975 |
| Foreign Trade Balance⁽¹⁾ (USD billion) | | | | | | May-15 | Jun-15 | Jul-15 |
| Exports | 113.9 | 134.9 | 152.5 | 151.8 | 157.6 | 151.9 | 151.0 | 148.9 |
| Imports | 185.5 | 240.8 | 236.5 | 251.7 | 242.2 | 231.7 | 229.1 | 227.4 |
| Foreign Trade Balance | -71.7 | -105.9 | -84.1 | -99.9 | -84.6 | -79.8 | -78.1 | -78.6 |
| Import Coverage Ratio (%) | 61.4 | 56.0 | 64.5 | 60.3 | 65.1 | 65.6 | 65.9 | 65.5 |
| Current Account Balance⁽¹⁾ (USD billion) | | | | | | Apr-15 | May-15 | Jun-15 |
| Current Account Balance | -45.3 | -75.0 | -48.5 | -64.7 | -46.5 | -44.7 | -45.5 | -44.7 |
| Capital and Financial Accounts | -45.1 | -66.0 | -48.2 | -62.0 | -43.2 | -39.5 | -39.5 | -38.5 |
| Direct Investments (net) | -7.6 | -13.8 | -9.2 | -8.8 | -5.5 | -4.4 | -5.3 | -5.0 |
| Portfolio Investments (net) | -16.1 | -22.2 | -41.0 | -24.0 | -20.1 | -17.5 | -13.7 | -5.8 |
| Other Investments (net) | -34.2 | -28.2 | -18.9 | -39.1 | -17.0 | -17.5 | -16.4 | -21.4 |
| Reserve Assets (net) | 12.8 | -1.8 | 20.8 | 9.9 | -0.5 | 0.0 | -4.0 | -6.3 |
| Net Errors and Omissions | 0.2 | 9.0 | 0.3 | 2.8 | 3.4 | 5.2 | 6.1 | 6.2 |
| Current Account Balance/GDP (%) | -6.2 | -9.7 | -6.2 | -7.9 | -5.8 | - | - | - |
| Budget⁽²⁾⁽³⁾ (TRY billion) | | | | | | Apr-15 | May-15 | Jun-15 |
| Expenditures | 294.4 | 314.6 | 361.9 | 408.2 | 448.8 | 160.2 | 200.3 | 236.7 |
| Interest Expenditures | 48.3 | 42.2 | 48.4 | 50.0 | 49.9 | 24.2 | 28.0 | 29.7 |
| Non-interest Expenditures | 246.1 | 272.4 | 313.5 | 358.2 | 398.8 | 136.0 | 172.3 | 206.9 |
| Revenues | 254.3 | 296.8 | 332.5 | 389.7 | 425.4 | 156.2 | 197.9 | 237.5 |
| Tax Revenues | 210.6 | 253.8 | 278.8 | 326.2 | 352.5 | 128.2 | 164.4 | 194.7 |
| Budget Balance | -40.1 | -17.8 | -29.4 | -18.5 | -23.4 | -4.1 | -2.4 | 0.8 |
| Primary Balance | 8.2 | 24.4 | 19.0 | 31.4 | 26.5 | 20.1 | 25.6 | 30.5 |
| Budget Balance/GDP (%) | -3.6 | -1.4 | -2.1 | -1.2 | -1.3 | - | - | - |
| Central Government Debt Stock (TRY billion) | | | | | | May-15 | Jun-15 | Jul-15 |
| Domestic Debt Stock | 352.8 | 368.8 | 386.5 | 403.0 | 414.6 | 429.4 | 430.2 | 434.4 |
| External Debt Stock | 120.7 | 149.6 | 145.7 | 182.8 | 197.5 | 217.8 | 220.7 | 227.5 |
| Total Debt Stock | 473.6 | 518.4 | 532.2 | 585.8 | 612.1 | 647.2 | 650.9 | 661.9 |

(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 | Jun.15 | Jul.15 | Change ⁽¹⁾ |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------------|
| TOTAL ASSETS | 1,006.7 | 1,217.7 | 1,370.7 | 1,732.4 | 1,994.3 | 2,223.2 | 2,274.5 | 14.0 |
| Loans | 525.9 | 682.9 | 794.8 | 1,047.4 | 1,240.7 | 1,398.3 | 1,428.6 | 15.1 |
| TRY Loans | 383.8 | 484.8 | 588.4 | 752.7 | 881.0 | 972.3 | 986.8 | 12.0 |
| Share (%) | 73.0 | 71.0 | 74.0 | 71.9 | 71.0 | 69.5 | 69.1 | - |
| FX Loans | 142.1 | 198.1 | 206.4 | 294.7 | 359.7 | 425.9 | 441.8 | 22.8 |
| Share (%) | 27.0 | 29.0 | 26.0 | 28.1 | 29.0 | 30.5 | 30.9 | - |
| Non-performing Loans | 20.0 | 19.0 | 23.4 | 29.6 | 36.4 | 41.6 | 42.3 | 16.1 |
| Non-performing Loan Rate (%) | 3.7 | 2.7 | 2.9 | 2.8 | 2.9 | 2.9 | 2.9 | - |
| Securities | 287.9 | 285.0 | 270.0 | 286.7 | 302.3 | 313.3 | 316.3 | 4.6 |
| TOTAL LIABILITIES | 1,006.7 | 1,217.7 | 1,370.7 | 1,732.4 | 1,994.3 | 2,223.2 | 2,274.5 | 14.0 |
| Deposits | 617.0 | 695.5 | 772.2 | 945.8 | 1,052.7 | 1,167.7 | 1,219.2 | 15.8 |
| TRY Deposits | 433.5 | 460.0 | 520.4 | 594.1 | 661.3 | 660.3 | 693.1 | 4.8 |
| Share (%) | 70.3 | 66.1 | 67.4 | 62.8 | 62.8 | 56.5 | 56.8 | - |
| FX Deposits | 183.5 | 235.5 | 251.8 | 351.7 | 391.4 | 507.4 | 526.2 | 34.4 |
| Share (%) | 29.7 | 33.9 | 32.6 | 37.2 | 37.2 | 43.5 | 43.2 | - |
| Securities Issued | 3.1 | 18.4 | 37.9 | 60.6 | 89.3 | 100.1 | 100.2 | 12.3 |
| Payables to Banks | 122.4 | 167.4 | 173.4 | 254.2 | 293.2 | 338.1 | 350.3 | 19.5 |
| Funds from Repo Transactions | 57.5 | 97.0 | 79.9 | 119.1 | 137.4 | 153.8 | 137.5 | 0.1 |
| SHAREHOLDERS' EQUITY | 134.5 | 144.6 | 181.9 | 193.7 | 232.0 | 243.8 | 244.5 | 5.4 |
| Profit (Loss) of the Period | 22.1 | 19.8 | 23.5 | 24.7 | 24.6 | 13.6 | 15.4 | - |
| 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 | 62.9 | 62.8 | - |
| Securities/Assets | 28.6 | 23.4 | 19.7 | 16.6 | 15.2 | 14.1 | 13.9 | - |
| Deposits/Liabilities | 61.3 | 57.1 | 56.3 | 54.6 | 52.8 | 52.5 | 53.6 | - |
| Loans/Deposits | 85.2 | 98.2 | 102.9 | 110.7 | 117.9 | 119.7 | 117.2 | - |
| Capital Adequacy (%) | 19.0 | 16.6 | 17.9 | 15.3 | 16.3 | 15.4 | 16.3 | - |

(1) Year-to-date % change



LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
