



# Monthly Economic Review October 2015



## Global Economy

- ◆ OECD stated that global growth exhibited a weak outlook in recent months and emphasized the deterioration of financial conditions in its interim report published on September 16. OECD lowered global growth forecasts for 2015 and 2016 from 3.1% to 3% and 3.8% to 3.6%, respectively.
- ◆ Federal Reserve (Fed) kept its policy rate unchanged at its meeting held on September 16-17. Fed Chairwoman Yellen stated that the recovery in the US economy continued while uncertainties over global economy and financial markets increased significantly in recent period. Fed stressed in its statement that developments in global markets have been influential on its monetary policy decisions.
- ◆ In September, the US nonfarm payrolls came in at 142.000, well below the expectations. It is seen that labor force participation rate fell to very low levels in this period. The unemployment rate, on the other hand, stood at 5.1%. As nonfarm payrolls lost momentum and global economy slowed down, it has been contemplated that the Fed might wait until 2016 before lifting rates.
- ◆ In the Eurozone, consumer prices posted an annual decrease of 0.1% in September, falling into the negative territory once again. The main driver behind this development was the drop in energy prices. The weak inflation outlook intensified the debates over the possible extension of the ECB's asset purchase programme.
- ◆ Slowdown in Chinese economy adversely affected the profits of companies. The biggest loss in profits was recorded in mining sector in the first eight months of the year.

## Turkish Economy

- ◆ Year-on-year expansion in Turkish economy for the second quarter of 2015 was recorded as 3.8%, above the expectations. In the first half of the year economy grew by 3.1% yoy. During this period, total consumption expenditures made the highest contribution to the growth by 3.6 pp while investment expenditures added to the growth by 1.2 pp. The change in inventories and net exports dragged down the growth.
- ◆ Industrial production made a weak start to the 3<sup>rd</sup> quarter. According to the calendar adjusted figures, industrial production rose by 0.3% yoy, well below the expectations.
- ◆ In August, annual contraction in exports lost momentum and became 2.8%. Imports, however, dropped by 18.2% yoy on the back of the sliding energy and commodity prices. As a result, foreign trade deficit narrowed by 39.8% yoy.
- ◆ In July, current account deficit decreased by 32.2% yoy. 12-month cumulative current account deficit was realized as 45 billion USD in July, slightly increasing on a monthly basis. According to the figures excluding net energy trade, the rise in 12-month cumulative current account deficit accelerated in July.
- ◆ Being realized well above the expectations for two consecutive months, CPI inflation reached 7.95% yoy in September. In this period, annual D-PPI inflation also confirmed the deterioration in inflation outlook by increasing to the highest level of 2015 with 6.92%.
- ◆ CBRT left policy rate at 7.5% in its monetary policy meeting held on September 22. CBRT also kept the interest rate corridor unchanged.

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## 2<sup>nd</sup> quarter growth came in above the expectations.

Year-on-year expansion in Turkish economy for the second quarter of 2015 was recorded as 3.8%, above the expectations. The markets expected an annual economic growth of 3.5% for this period according to Reuters' survey. The 1<sup>st</sup> quarter growth rate was revised up to 2.5% from 2.3%. In the first half of the year, on the other hand, economy grew by 3.1% compared to the same period of the previous year.

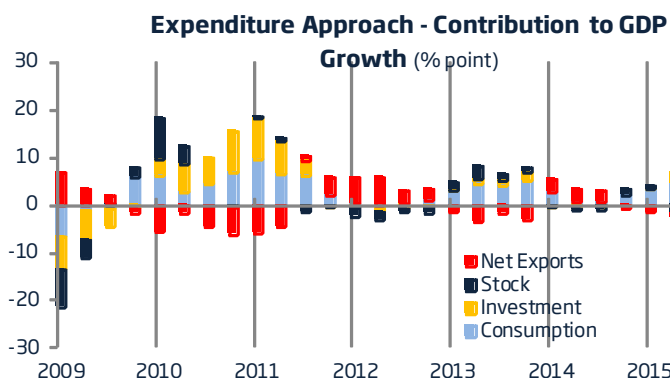
While no calendar effects were observed during the second quarter of the year, seasonal and calendar adjusted GDP posted a quarterly expansion of 1.3%, offering a positive assessment of the economic outlook. However, it was noteworthy that GDP per capita diminished to the 10 thousand USD level.

### GDP Figures (1998 prices)

Dönem	Calendar Adjusted GDP (yoy % change)	Seasonally and Calendar Adjusted GDP (qoq % change)
2013 Q1	3.6	1.6
2013 Q2	4.3	2.0
2013 Q3	4.1	0.3
2013 Q4	4.7	0.7
2014 Q1	5.0	1.5
2014 Q2	2.6	-0.2
2014 Q3	1.8	0.4
2014 Q4	2.6	1.0
2015 Q1	2.6	1.5
2015 Q2	3.8	1.3

### Domestic demand gained momentum in the 1<sup>st</sup> half.

Having exhibited a relatively weak outlook throughout 2014, domestic demand conditions recovered in the first half of 2015. Indeed, during the 2<sup>nd</sup> quarter of the year, private and public consumption expenditures contributed to the growth by 3.6 pp and 0.8 pp, respectively. Hence, total



consumption expenditures added 4.4 pp to the growth, the highest level in six quarters. It was seen that consumption expenditures made the highest contribution to the growth in the first half of the year as well.

### A fast increase in private investments...

The 11.4% annual rise in private investment expenditures had a significant impact on the better-than expected GDP figures in the second quarter. With the help of the slight increase in public investments, total investment expenditures added 2.4 pp to the growth. This was the highest reading since the 3<sup>rd</sup> quarter of 2011.

### Net exports continued to drag down the growth.

In contrast to the better-than expected consumption and investment expenditures, 2<sup>nd</sup> quarter GDP growth was dragged down considerably by net exports and change in stock.

Net exports put downward pressure on GDP growth in the 2<sup>nd</sup> quarter of the year as was the case in the previous quarter. Thus, net exports lowered GDP growth in the first half of the year by 1.2 pp. Despite the decline in foreign trade deficit in USD terms, the depreciation in TRY as well as the weak performance of tourism revenues was influential on this development.

It was noteworthy that the change in inventories, which is estimated as residual and also includes statistical

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

	2012						2013					2014					2015		
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	6-Month
<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>0.6</b>	<b>0.7</b>	<b>1.9</b>	<b>1.5</b>	<b>3.4</b>	<b>4.4</b>	<b>3.9</b>					
Private	-0.3	2.2	3.6	3.7	4.1	3.4	1.8	0.3	0.1	1.7	0.9	3.1	3.6	3.4					
Public	0.6	0.8	0.8	0.2	1.0	0.7	0.9	0.3	0.6	0.3	0.5	0.3	0.8	0.5					
<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>0.1</b>	<b>2.4</b>	<b>1.2</b>					
Private	-1.1	-1.3	-0.2	0.6	1.1	0.1	0.1	-0.3	0.4	0.1	0.1	0.4	2.3	1.4					
Public	0.4	1.4	1.1	0.7	0.7	1.0	-0.2	-0.6	-0.5	-0.4	-0.4	-0.3	0.0	-0.1					
<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>-0.2</b>	<b>-0.1</b>	<b>-1.2</b>	<b>1.5</b>	<b>0.0</b>	<b>0.4</b>	<b>-1.9</b>	<b>-0.8</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>-0.5</b>	<b>1.8</b>	<b>-1.4</b>	<b>-1.1</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	-0.3	-0.6	-0.4					
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.3	0.4	-1.4	0.0	-1.1	-0.5	-0.8					
<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>5.1</b>	<b>2.4</b>	<b>1.8</b>	<b>2.7</b>	<b>2.9</b>	<b>2.5</b>	<b>3.8</b>	<b>3.1</b>					

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

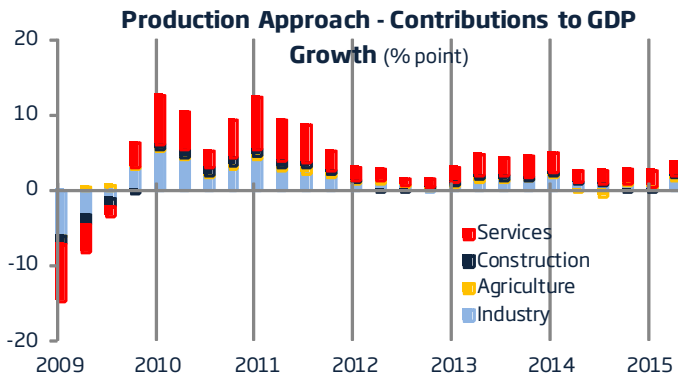
discrepancy, limited the GDP growth by 1.9 pp in the 2<sup>nd</sup> quarter. As a result, the change in inventories dragged down the growth by 0.8 pp in first half of the year.

### Positive outlook in industrial and agricultural sectors...

GDP figures by production approach revealed that services sector contributed most to the growth by 1.9 pp in the 2<sup>nd</sup> quarter and has been a locomotive of the economy. In the same period, the industrial sector also made a contribution of 1.3 pp to the growth expanding by 4.6% on an annual basis. After two consecutive quarters of contraction, construction sector recorded a limited contribution to the growth by 0.1 pp. Agricultural sector added 0.5 pp to the growth, the highest level since 2011, thanks to the favorable climate.

### Expectations

In the first half of the year, Turkish economy enjoyed a growth performance mainly stemmed from domestic demand given the lower political uncertainties. On the other hand, it was worth mentioning that net exports and change in inventories limited the economic growth markedly in this period. In the second half of the year, however, together with the unfavorable developments in global markets, the heightened political uncertainties following the general election and deepening domestic security concerns pose downside risks to the economic growth. These are considered to as unfavorable developments regarding the both domestic and foreign demand in the second half of the year. Besides, it is anticipated that public expenditures may recover to some extent in the forthcoming period. In this context, we expect that economic growth will exhibit a moderate course in the rest of the year and it may remain below 3% at the end of 2015.



## Unemployment rate surged to 9.6%.

In June unemployment rate rose by 0.5 pp compared to the same month of previous year and came in at 9.6%. While keeping its upward trend, the seasonally and calendar adjusted unemployment rate reached 10.4%. Labor force participation rate, on the other hand, increased to its historical high level with 51.4% in June mostly due to the upsurge in female participation rate.

## Industrial production lost momentum in July.

Industrial production made a weak start to the 3<sup>rd</sup> quarter. According to the calendar adjusted figures, industrial production rose by 0.3% yoy, well below the expectations. The seasonally and calendar adjusted industrial production, on the other hand, decreased by 1.5% compared to the previous month.

Analysis of the main industrial groups revealed that annual decrease recorded in capital goods and durable consumer goods put downward pressure on the index while the weak outlook in intermediate goods production was worth noting.

## Deterioration in manufacturing business conditions continued.

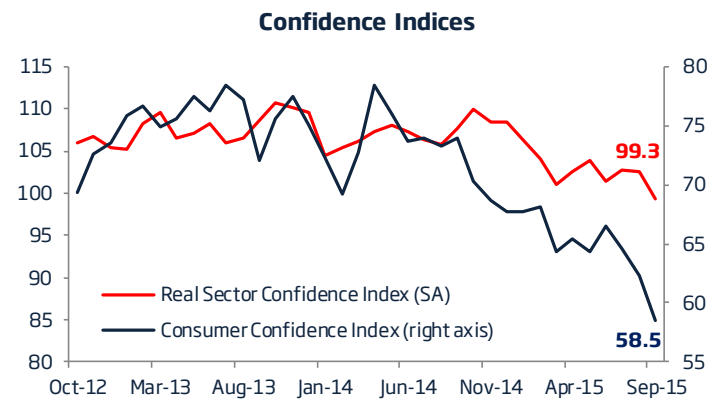
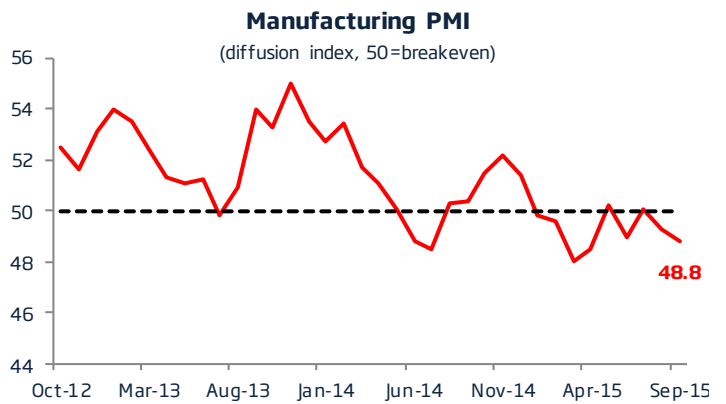
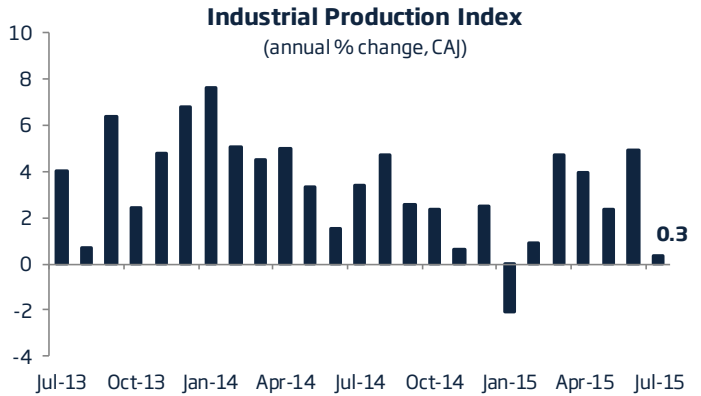
The figures announced by Markit highlighted a further worsening in manufacturing business conditions in September. PMI, which was 49.3 in August, decreased to 48.8 in September. New orders, which have been falling since the beginning of the year, kept its declining trend in September as well, while output contracted at its fastest pace since April. Firms also cut purchasing activity at the fastest rate in the last 14 months. The depreciation in TRY continued to put an upward pressure on input prices. Acceleration in export orders and relative improvement in employment, on the other hand, affected the index positively in this period.

## Capacity utilization ratio increased.

Capacity utilization ratio (CUR), which displayed a weak performance in August, rose by 1.5 pp yoy and was realized as 75.9% in September. The seasonally adjusted CUR also increased by 1 pp on a monthly basis and became 75.4%. Accordingly, CUR as a leading indicator pointed to a moderate recovery in the last month of the 3<sup>rd</sup> quarter.

## Weak outlook in confidence indices...

In September, the seasonally adjusted real sector confidence index dropped by 3.3 pp mom and came in at 99.3. Thus, the index decreased below the 100 threshold which is the breakeven level of optimism. Volume of export orders and production for the next 3 months were the sub-items that registered the most significant deterioration. It was also noteworthy that general business situation shrunk to its lowest level since March 2009.

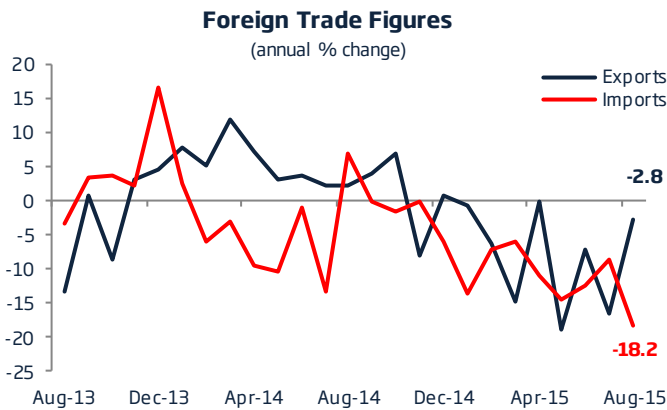


Consumer confidence index dropped to 58.5, its lowest reading since January 2009 when the global crisis had the greatest impact. Almost all sub-items of the index indicated a worsening in consumer confidence. It was seen that consumers were reluctant to spend a high amount of money in the coming 12 months.

Source: Datastream, Turkstat, CBRT, Markit

## Foreign trade deficit contracted in August.

In August, export volume declined by 2.8% yoy and was realized as 11.1 billion USD, while imports fell to 16 billion USD in this period, recording its fastest decline in the last 6 years by 18.2%. Thus, foreign trade deficit dropped by 39.8% compared to the same month of 2014. Having realized as 58.4% in August 2014, import coverage ratio reached 69.4% in the same period of 2015.



Compared to the same period of the previous year, foreign trade deficit contracted in the first eight months of the year as imports fell faster than exports.

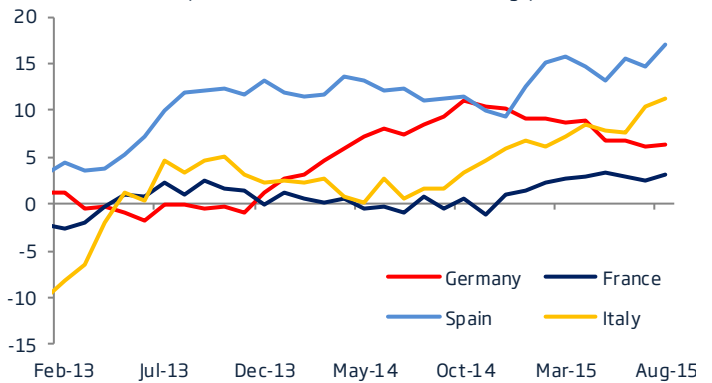
## Exports to main EU countries in euro terms kept increasing.

Despite exports to the EU countries continuing to decline in dollar terms due to the slide in EUR/USD parity, exports to these countries in euro terms kept rising. This development mainly stemmed from the acceleration in exports to key countries such as France, Italy and Spain. On the other hand, exports to Germany, Turkey's biggest export destination, lost momentum and limited this recovery.

The decrease in exports to Russia continued in August. In the first eight months of the year, exports to Russia declined by 39.1% yoy. It was noteworthy that exports to Iraq rose by 11.6% in August, recording the first annual increase since June 2013.

## Exports to Main EU Countries

(12-month cumulative, annual % change)



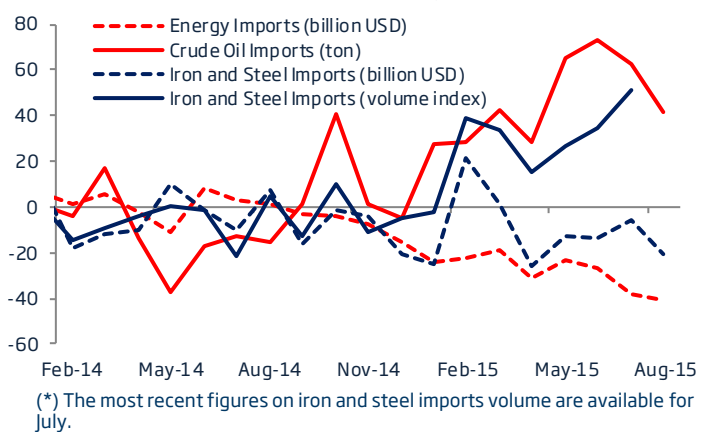
Analysis of the exports by chapters revealed that exports of knitted goods, iron and steel, machineries and fruits, which have been among the top export items, declined in August when compared to the same month of the previous year. Having risen by 10.6% during this period, motor vehicles exports limited the fall in total exports. After displaying a weak performance since May, gold exports, despite rising slightly, also supported the export performance.

## Sharp fall in imports...

The steep decline in import volume in August was mainly driven by the plunge in energy and commodity prices. In this period, oil prices posted an annual decline of 51.8%. In this

## Energy and Iron/Steel Imports

(annual % change)



## Foreign Trade Balance

(USD billion)

	August		Change (%)	Jan.-Aug.		Change (%)
	2014	2015		2014	2015	
Exports	11.4	11.1	-2.8	104.8	95.7	-8.7
Imports	19.5	16.0	-18.2	159.2	140.9	-11.5
<b>Foreign Trade Balance</b>	<b>-8.1</b>	<b>-4.9</b>	<b>-39.8</b>	<b>-54.4</b>	<b>-45.2</b>	<b>-16.9</b>
Import Coverage Ratio (%)	58.4	69.4	-	65.8	67.9	-

Source: Datastream, Turkstat

context, while the quantity of oil imports rose by 41.4% yoy, the value of energy imports (classified as Chapter 27-mineral fuels and mineral oil) decreased by 40.7% yoy in August. Likewise, the decline in metal prices was reflected in iron and steel imports. Parallel to the 69% yoy decline recorded in steel prices, the value of these imports fall by 20.3% in August. Besides, it is seen that the quantity of iron and steel imports kept its rising trend.

## Expectations

The recent downward trend in export volume lost some momentum in August. However, inflation in the Euro Area has turned negative once again in September and raised questions about the strength of economic activity. Should

the economic activity in the region remain under pressure in the coming period, this may affect Turkey's export performance adversely. On the other hand, the drop in energy and commodity prices caused Turkey's import volume to fall significantly and this trend is expected to be kept in the next months. This development points out that the contraction in trade deficit is likely to continue in the rest of the year.

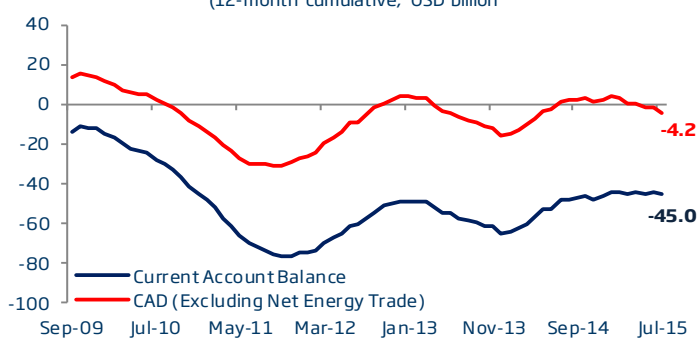
Indeed, according to the provisional data, foreign trade deficit contracted by 48% yoy in September. In line with the drop in energy prices, imports declined by 25% in this period. However, annual fall in exports gained momentum and became 12.9%.

## Lower than expected current account deficit

In July current account deficit widened by 32.2% yoy and was realized as 3.2 billion USD. The market expectation for the deficit was 3.5 billion USD in this period. In the first seven months of the year, on the other hand, current account deficit fell by 5.6% yoy to 25.4 billion USD.

12-month cumulative current account deficit was realized as 45 billion USD in July, slightly increasing on a monthly basis. According to the figures excluding net energy trade, the rise in 12-month cumulative current account deficit accelerated in July.

**Current Account Balance**  
(12-month cumulative, USD billion)



July figures suggested that foreign trade deficit, widening by 20.1% yoy, had a negative impact on current account balance. Non-monetary gold imports rose slightly and in turn put an upward pressure on current account deficit in this period.

Owing to the economic crisis in Russia and heightened geopolitical risks, tourism revenues recorded an annual decline of 7.5% in the first 7 month of the year. Although the number of tourists rose by 0.4% yoy during the said period, this development was not reflected in tourism revenues. The number of tourists from Russia declined by 22.7% yoy in the same period.

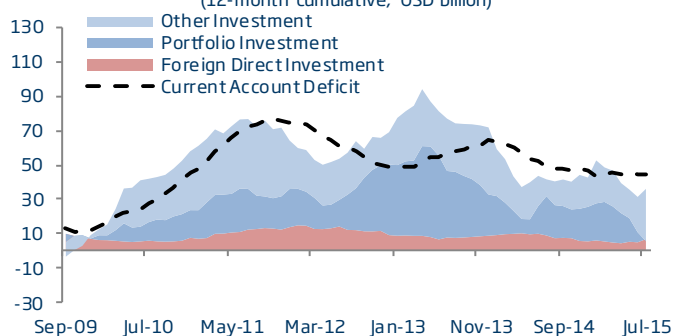
## The fast rise in direct investments

Foreign direct investments, which were 554 million USD in June, exceeded 2.5 billion USD in July with the help of the capital inflows linked to banking sector. Accordingly, in the first seven months of the year, foreign direct investments posted an annual rise of 23.8% and became 6.7 billion USD.

## Weak performance in portfolio investments

In addition to the meager performance of the capital inflows towards emerging economies, domestic political uncertainties resulted in a weak performance in portfolio investments. Indeed, net capital outflows registered under this item amounted to 3.3 billion USD in July. Non-residents sold net 0.5 billion USD worth of equity securities while they sold net 1.1 billion USD worth of government debt securities. Banking sector, on the other hand, realized a net payment of 0.8 billion USD regarding the bond issues abroad.

**Financing of Current Account Deficit**  
(12-month cumulative, USD billion)



## Banks continued to obtain long-term loans.

Having realized as 5.8 billion USD in July, capital inflows registered under other investments continued its contribution to the financing of the current account deficit. Indeed, banking and non-banking sectors continued to

## Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	Breakdown of Net Capital Inflows (%)			
	Dec. 2014	Jul. 2015	Dec. 2014	Jul. 2015
<b>Current Account Balance</b>	<b>-46,527</b>	<b>-45,027</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>46,059</b>	<b>40,561</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	5,542	6,828	12.0	16.8
-Portfolio Investments	20,109	-1,133	43.7	-2.8
-Other Investments	17,046	30,396	37.0	74.9
-Net Errors and Omissions	3,432	4,533	7.5	11.2
-Other	-70	-63	-0.2	-0.2
<b>Reserves<sup>(1)</sup></b>	<b>468</b>	<b>4,466</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

receive funds from abroad. In this period, banks were net re-payers in short-term loans while becoming net users in long-term loans. Thus, the banking sector raised net 2.3 billion USD credit. Non-banking sectors, on the other hand, were net users in both short-term and long-term loans.

According to 12-month cumulative figures, banks' and non-banking sector' long term debt rollover ratios were 289% and 134% respectively.

### Increase in reserve assets...

Reserve assets rose by 2 billion USD in July following the decline registered in May and June. On the other hand, the net errors and omissions, which recorded a capital outflow in June, posted an inflow of 105 million USD in July. In the first seven months of the year, net errors and omissions has contributed significantly to the financing of the current account deficit with the 9.1 billion USD of inflow.

### Expectations

Provisional foreign trade data indicated that the fall in exports lost some momentum in August, while imports kept its declining trend in line with low energy prices. However, capital flows towards developing countries were volatile recently due to the approaching Fed's first rate hike and growing concerns over a slowdown in Chinese economy. Taken into consideration the deepened security concerns and political uncertainty in Turkey, capital inflows are expected to keep its weakness in the coming period. In addition, internal security concerns are expected to weigh on tourism revenues.

Balance of Payments	(USD million)				
	July 2015	Jan. - Jul.		% Change	12-Month Cumulative
	2015	2014	2015		
<b>Current Account Balance</b>	<b>-3,154</b>	<b>-26,931</b>	<b>-25,431</b>	<b>-5.6</b>	<b>-45,027</b>
Foreign Trade Balance	-5,755	-34,183	-30,754	-10.0	-60,155
Services Balance	3,014	12,166	11,358	-6.6	24,361
Travel (net)	2,813	12,088	10,760	-11.0	23,152
Primary Income	-528	-5,459	-6,553	20.0	-10,313
Secondary Income	115	545	518	-5.0	1,080
<b>Capital Account</b>	<b>-32</b>	<b>-40</b>	<b>-33</b>	<b>-17.5</b>	<b>-63</b>
<b>Financial Account</b>	<b>-3,081</b>	<b>-18,973</b>	<b>-16,365</b>	<b>-13.7</b>	<b>-40,557</b>
Direct Investments (net)	-2,515	-5,395	-6,681	23.8	-6,828
Portfolio Investments (net)	3,260	-13,972	7,270	-	1,133
Net Acquisition of Financial Assets	786	842	3,401	303.9	3,300
Net Incurrence of Liabilities	-2,474	14,814	-3,869	-	2,167
Equity Securities	-474	2,138	-368	-	53
Debt Securities	-2,000	12,676	-3,501	-	2,114
Other Investments (net)	-5,845	-1,075	-14,425	1,241.9	-30,396
Currency and Deposits	-909	3,592	-2,088	-	-6,280
Net Acquisition of Financial Assets	811	2,662	9,098	241.8	6,732
Net Incurrence of Liabilities	1,720	-930	11,186	-	13,012
Central Bank	-119	-1,111	-410	-63.1	-1,632
Banks	1,456	181	11,596	6,306.6	9,405
Foreign Banks	1,549	-1,227	8,702	-	6,499
Foreign Exchange	-252	-2,151	5,611	-	4,908
Turkish Lira	991	924	3,091	234.5	5,117
Non-residents	1,100	1,408	2,894	105.5	4,619
Loans	-3,578	-5,464	-10,166	86.1	-19,869
Net Acquisition of Financial Assets	-167	1,952	537	-72.5	448
Net Incurrence of Liabilities	3,411	7,416	10,703	44.3	20,317
Banking Sector	2,250	3,933	5,581	41.9	13,484
Non-bank Sectors	1,283	4,169	5,774	38.5	7,690
Trade Credit and Advances	-1,332	1,175	-1,989	-	-3,972
Other Assets and Liabilities	-26	-378	-182	-51.9	-275
Reserve Assets (net)	2,019	1,469	-2,529	-	-4,466
<b>Net Errors and Omissions</b>	<b>105</b>	<b>7,998</b>	<b>9,099</b>	<b>13.8</b>	<b>4,533</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



## Central government budget registered a surplus of 639 million TRY in January-August period.

The Ministry of Finance released both July and August budget data due to the fiscal holiday. Budget figures displayed a balanced outlook in this period. Budget registered a deficit of 5.4 billion TRY in July while it gave a surplus of 5.2 billion TRY in August. Annual rises in both expenditures and revenues gained momentum in the July-August period compared to the first half of the year.

In the first eight months of 2015, budget revenues surged by 13.1% yoy and budget expenditures rose by 11.8% yoy. Accordingly, the budget, which gave a deficit of 2.7 billion TRY in the first eight months of the previous year, posted a surplus of 639 million TRY during the same period of 2015. The primary surplus was realized as 39 billion TRY in this period, remaining higher than the year-end target of 33 billion TRY.

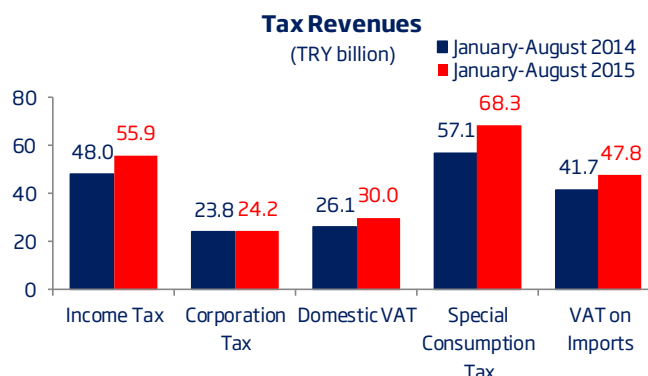
### Deceleration in tax revenues...

Despite registering a relatively high annual rise by 17.1% in July, tax revenues lost momentum considerably compared to June. Indeed, this deceleration also continued in August and the annual increase in tax revenues was realized as 13.3%, the lowest level of the last 7 months. It was seen that the modest expansion in domestic economic activity as well as the significant drop in imports limited the rise in tax revenues. In fact, Special Consumption Tax (SCT) registered in July and VAT on imports recorded in August exhibited a relatively weak performance.

Analysis of the budget figures in the January-August period revealed that all types of tax revenues, except corporate tax revenues which registered a limited increase in this period, remained compatible with the year-end targets. In fact, tax revenues reached 69% of the year-end target in the first eight months.

### Increase in interest expenditures...

In both July and August annual rise in budget expenditures was above than 2015 average. The deterioration in the risk perception towards Turkey since the second half of 2013 has led interest rates to rise. As a result, interest expenditures



surged significantly in this period. Especially in August, interest expenditures posted an annual rise of 31.1%. During July-August period, the increase in current transfers mainly stemmed from the rise in the financing of the social security deficit which expanded by 1 billion TRY annually. Indeed, current transfers surged by 17.3% yoy in July while rising by 24.8% yoy in August.

In the first 8 months of the year, the upward trend in interest expenditures was also prominent. During the January-August period, interest expenditures reached 71.1% of the year-end target. On the non-interest expenditures front, the upsurges in purchase of goods and services, capital transfers and lending were worth mentioning.

### Expectations

Having expanded at a moderate pace throughout 2015, domestic economic activity has put downward pressure on tax revenues. In addition, the depreciation in TRY, putting the imports of consumption goods under pressure, limited the increase in SCT as well as VAT on imports. In this context, it is expected that the slowdown in tax revenues will continue in the coming period. Regarding the expenditures, however, we anticipate that the upward trend in interest expenditures will prevail in the remaining part of the year. Nevertheless, taking into consideration the realizations in the first eight months, we think that there will be no problem in reaching the year-end budget targets in 2015.

## Central Government Budget

	July		August		January-August			(TRY billion)	
	2015	% Change	2015	% Change	2014	2015	Change	% '015 Budget Target	Real/Target (%)
<b>Expenditures</b>	<b>45.5</b>	<b>13.8</b>	<b>37.5</b>	<b>17.2</b>	<b>285.9</b>	<b>319.7</b>	<b>11.8</b>	<b>472.9</b>	<b>67.6</b>
Interest Expenditures	5.1	14.5	3.6	31.1	33.6	38.4	14.1	54.0	71.1
Non-Interest Expenditures	40.5	13.7	33.9	15.9	252.2	281.3	11.5	418.9	67.2
<b>Revenues</b>	<b>40.1</b>	<b>15.6</b>	<b>42.8</b>	<b>12.6</b>	<b>283.2</b>	<b>320.4</b>	<b>13.1</b>	<b>452.0</b>	<b>70.9</b>
Tax Revenues	36.0	17.1	38.1	13.3	232.4	268.7	15.6	389.5	69.0
Other Revenues	4.1	3.7	4.7	7.2	50.8	51.6	1.7	62.5	82.6
<b>Budget Balance</b>	<b>-5.4</b>	<b>2.1</b>	<b>5.2</b>	<b>-11.9</b>	<b>-2.7</b>	<b>0.6</b>	<b>-</b>	<b>-21.0</b>	<b>-</b>
<b>Primary Balance</b>	<b>-0.4</b>	<b>-60.1</b>	<b>8.9</b>	<b>1.7</b>	<b>30.9</b>	<b>39.0</b>	<b>26.2</b>	<b>33.0</b>	<b>118.1</b>

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

Source: Ministry of Finance, Datastream

## CPI inflation came in slightly above expectations.

CPI increased by 0.89% mom in September, slightly above the market expectations. D-PPI also surged by 1.53% mom in this period. Monthly CPI inflation was expected to be 0.80% according to the Reuters' survey while the latest CBRT's survey of expectations had projected an increase of 0.59%.

September	CPI		D-PPI	
	2014	2015	2014	2015
Change (%)				
Monthly	0.14	0.89	0.85	1.53
Year-to-Date	6.43	6.21	7.24	7.81
Annual	8.86	7.95	9.84	6.92
Annual Average	8.54	7.80	9.84	5.92

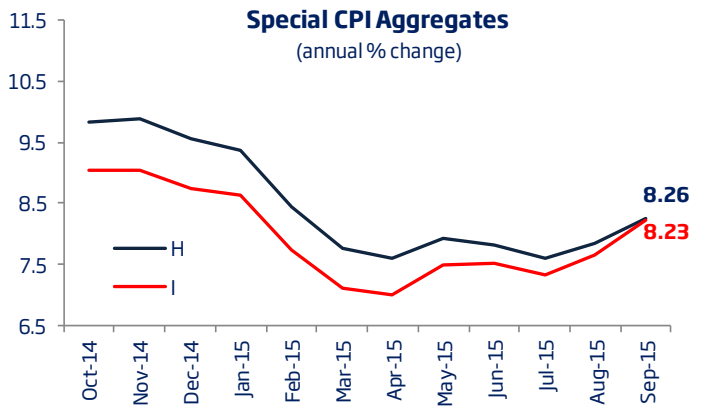
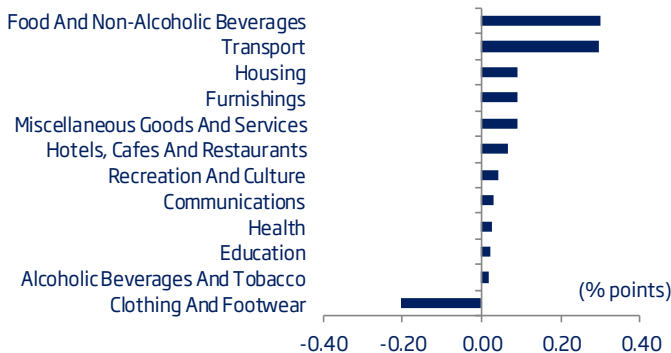
## Annual inflation was close to 8%.

Being realized well above the expectations for two consecutive months, CPI inflation reached 7.95% yoy in September. In this period, annual D-PPI inflation also confirmed the deterioration in inflation outlook by increasing to the highest level of 2015 with 6.92%.

## Increase in food and transportation prices...

Analyzing by main groups, it is seen that the price developments in food, transportation and clothing/footwear groups were influential on the CPI inflation in September. Food prices, which increased by 1.24% mom, made the highest contribution to monthly inflation by 31 points. The decline in prices of fresh fish and poultry limited the food price inflation during this period. On the other hand, prices of basic food products such as tea and egg and seasonal products surged in September. Prices in transportation group, which have a high sensitivity to the exchange rate developments, increased by 1.93% mom. Owing to the price upsurges in automobile and diesel, transportation group added to monthly inflation by 30 basis points. However, clothing/footwear was the only sub-item that pulled down the inflation during this period. Prices in the said group plunged by 2.76% due to the seasonal discounts and limited the monthly inflation by 21 basis

## 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.

points. Analysis of the price developments in both food and clothing/footwear groups revealed that the aggregate effect of seasonal factor on monthly inflation was counterbalanced in September.

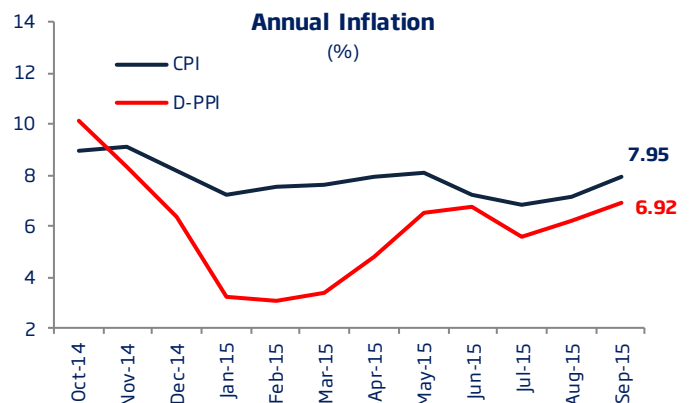
The deterioration in core inflation indicators became evident in September. Core inflation indices denominated by H and I, which constitute CBRT's favorite core indicators, increased by 8.26% and 8.23% yoy, respectively.

## Rising trend in D-PPI continued.

As the exchange rate pass-through to D-PPI inflation has been relatively high, D-PPI maintained its upward movement in September. While the rise was broad-based, only food and energy prices declined in this period among the main industry groups. Analyzing D-PPI figures by sectors, on the other hand, it is seen that the price hikes in manufacturing and electricity/gas sectors were significant.

## Expectations

It is anticipated that the inflation will exhibit an accelerating pace in October due to the seasonal factors. Also, it is expected that the prices in clothing/footwear, housing and transportation groups might rise in this period. Together with the high course in the exchange rates, upside risks to the inflation outlook is likely to continue.

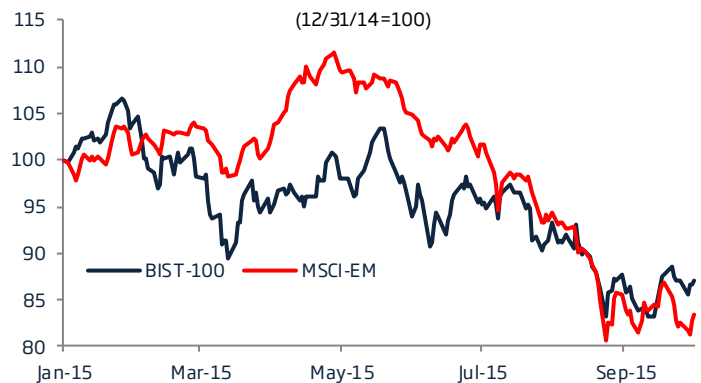


Source: Turkstat

## Fluctuations in global markets...

Expectations about the monetary policy of the Fed and growing concerns over emerging market economies, in particular over China, had significant impact on global markets in September. As the Fed did not raise the interest rate at its September meeting, emerging markets breathed a sigh of relief during the first days following the meeting. However, the economic data announced afterwards and the comments by the Fed officials boosted the expectations that the Fed would hike the interest rate most likely sometime this year. Therefore, the financial markets deteriorated again.

## BIST-100 and MSCI Emerging Market Index



September. Having closed the day at its lowest level since April 2014 on September 10, the index shrank by 13.4% at the end of September compared to the year-end. It also declined by 1.3% compared to the end of August.

### 2-year benchmark interest rate stood above 11%.

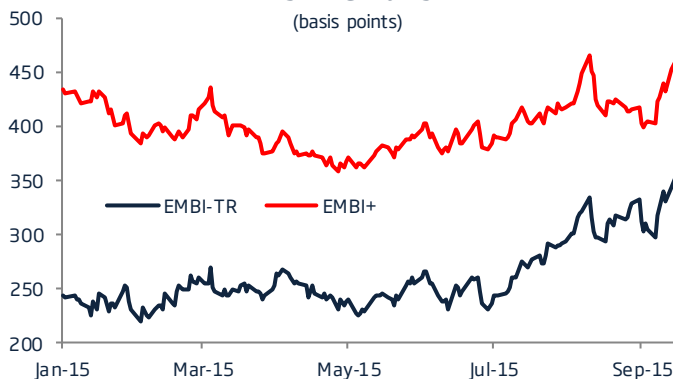
Negative risk perception in global markets together with the concerns over domestic environment caused interest rates in bond market to rise. The compound yield of 2-year benchmark bond reached 11.61% on September 29, the highest level since July 2009.

### CBRT kept the rates unchanged.

CBRT left policy rate at 7.5% in its monetary policy meeting held on September 22. CBRT also kept the interest rate corridor unchanged. On the other hand, the weighted average funding rate of CBRT stayed on an upward trajectory in recent period. This rate reached as high as 9.02% on September 22, the highest figure since June 2014.

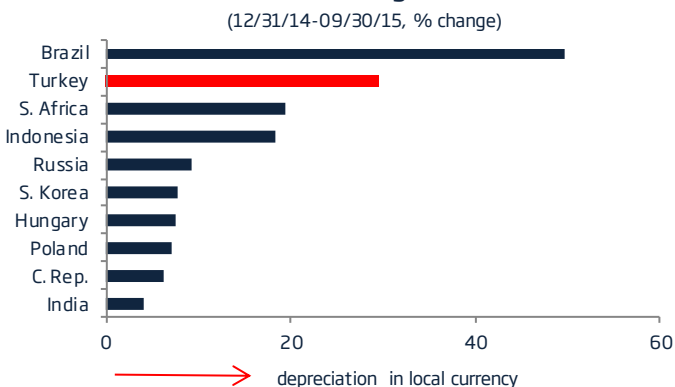
In the press release published after the September meeting, CBRT noted that low energy prices had a favorable impact on inflation while the depreciation of TRY delayed the improvement in core inflation indicators. In addition to these, CBRT suggested that the composition of growth might evolve in favor of the net exports thanks to the upturn in European Union countries.

## Risk Premiums



Political uncertainties and security concerns caused risk perception towards Turkey to deteriorate further. Parallel to this, Turkey decoupled negatively from its emerging market peers. Indeed, 5-year CDS spreads of Turkey closed the day at 325 on September 29, its highest level since January 2012. USD/TRY also hit its new record high level with 3.0744 on September 24. USD/TRY increased by 30% as of end-September compared to the year-end.

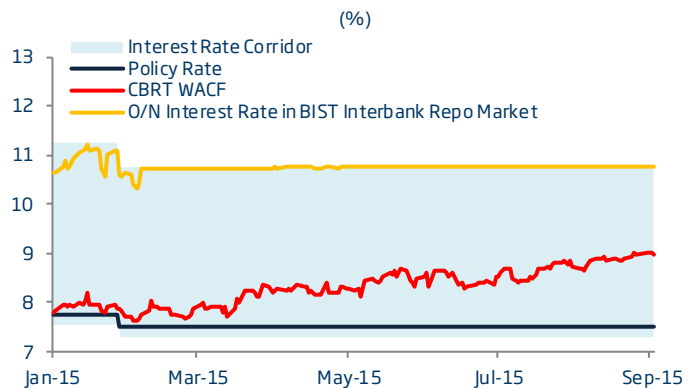
## EM Currencies Against USD



## BIST-100 index dropped by 13.4% compared to the end of 2014.

Political uncertainties and selling pressure in global markets have led BIST-100 index to exhibit a weak performance in

## CBRT Interest Rate



Source: CBRT, Reuters, Datastream, BIST

## TRY deposit volume rose by 2.7% ytd.

According to BRSA's Weekly Bulletin, annual deposit growth became 22.1% as of September 23. The year to date expansion in total deposit volume was 18.5%. It was seen that the weakening of TRY has continued to be influential on banking indicators during this period. Indeed, TRY deposit volume increased by only 2.7% ytd while FX deposits in USD terms surged by 10.1% ytd. The rise in FX deposit volume in TRY terms reached 43.4% during this period.

## TRY loans grew by 12.3% ytd.

The annual growth in total credit volume became 25.2% as of September 23, the lowest level in 10 weeks. Year to date expansion in credit volume was 19.1%. Due to the increase in exchange rates, FX loans surged by 36% ytd while FX loans in USD terms rose by 4.3%. TRY loans increased by 12.3% in this period.

Non-performing loans ratio in banking sector remained flat. The NPL ratio of the sector was realized as 2.91% as of September 23. The NPL ratio for commercial loans stood at 2.54% while that for consumer loans was 3.99%. Data revealed that NPL ratio for consumer loans has been on an upward trend since the second half of 2013.

## The rise in securities portfolio continued.

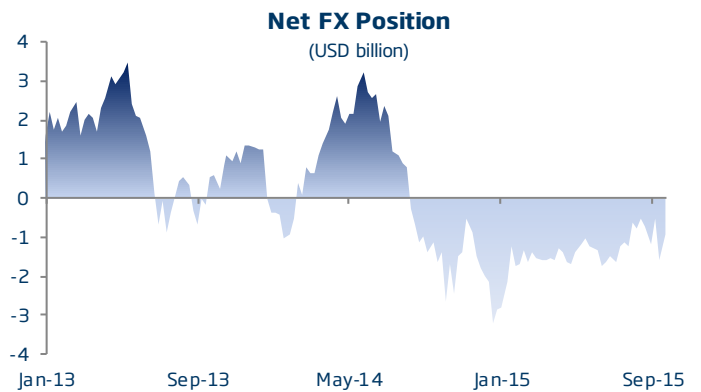
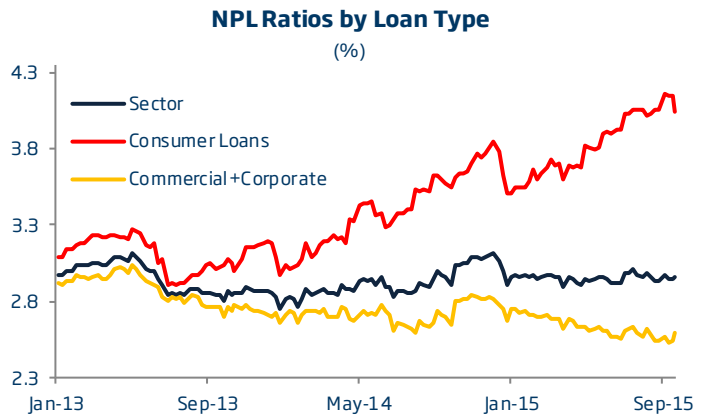
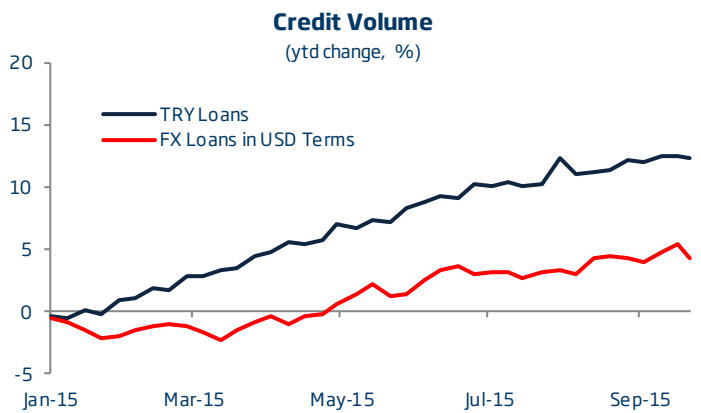
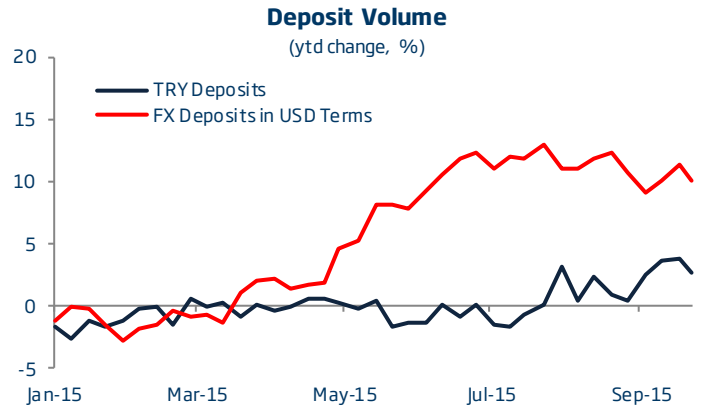
Securities portfolio of the banking sector increased by 10.4% yoy as of September 11, at its fastest rate since May 2014. Securities portfolio expanded by 9.1% yoy as of September 23. Securities subject to repo transactions, which have the highest share in securities portfolio by 50%, rose fast by 21.9% in this period.

## Securities held in custody accounts...

As of September 23, securities held in custody accounts increased by 1.6% in nominal terms compared to the year-end and became 229 billion TRY. Residents' portfolio posted a rise of 17.5% during this period. Nonresidents' portfolio, on the other hand, fell by 14.4% ytd. Nonresidents' portfolio has displayed a downward trend on an annual basis since June.

## Net FX position...

Banks' on-balance sheet FX position was (-)33,993 million USD while off-balance sheet FX position stood at (+)32,730 million USD as of September 23. Hence, banks' net FX position, which has been registering an open position since August 2014, became (-)1,263 million USD.



Source: BRSA Weekly Bulletin

## Concluding Remarks

Risk perception on a global scale has deteriorated notably in the recent period due to the concerns that slowdown in Chinese economy would pull down global economic growth. Ongoing uncertainties over the timing of the first rate hike by the Fed, the top topic on the agenda in 2015, continued to cause fluctuations in global markets. Rate hike expectations moved towards December since the Fed held the interest rate steady at its September meeting due to the low inflation figures and a slowing world economy. On the other hand, the lower than expected non-farm payrolls data in September and the deceleration in global economic activity gave way to comments claiming that the Fed might wait until 2016 to take action.

The current economic conjuncture intensified pressures on the emerging economies struggling with structural problems. In the following period, the increased geopolitical risks along with a potential tightening in global liquidity conditions might weigh on the capital flows to emerging markets especially to the ones with high external financing needs. This vulnerable group of countries is expected to witness lower growth rates compared to the period before the crisis.

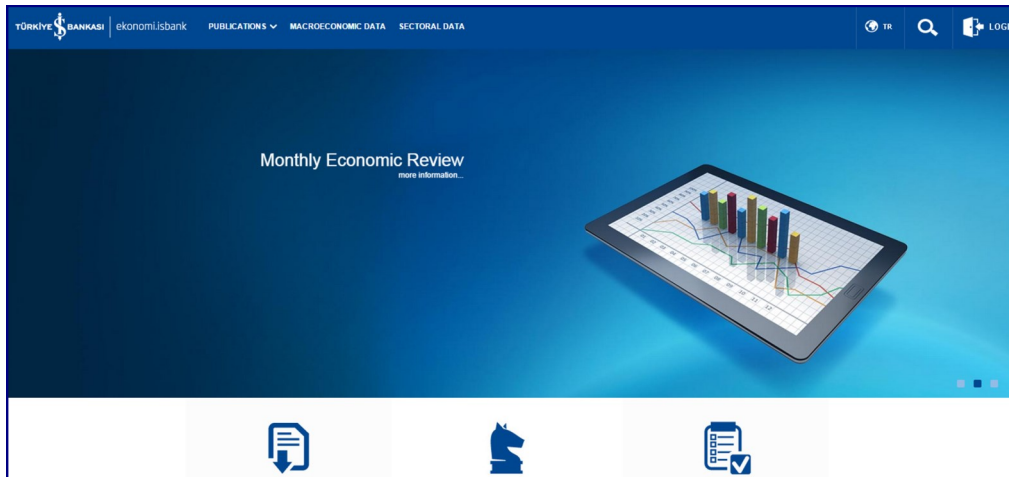
Turkish economy displayed a relatively strong growth performance in the second quarter thanks to domestic demand. On the other hand, heightened domestic political uncertainties and deepened security concerns, as well as the developments in global markets, have added to downward pressures on growth performance in the second half of the year. The recent leading indicators also pointed to a deceleration in economic activity. Against this backdrop, growth rates are projected to remain below the potential levels in 2015.

Forecasts (%)	2014 (R)	2015
Growth	2.9	2.5-3.0
CA Deficit/GDP	5.8	5.1
Inflation	8.2	8.0

(R) Realization

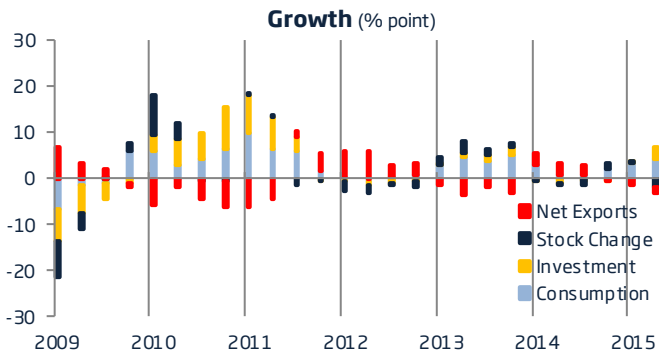
Interest and inflation are year-end forecasts

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

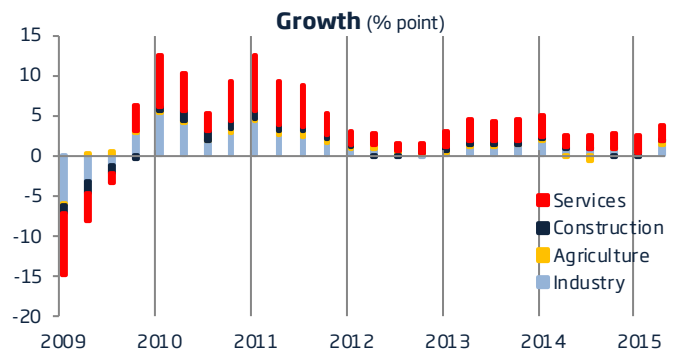


## Growth

### Expenditure Approach - Contributions to GDP

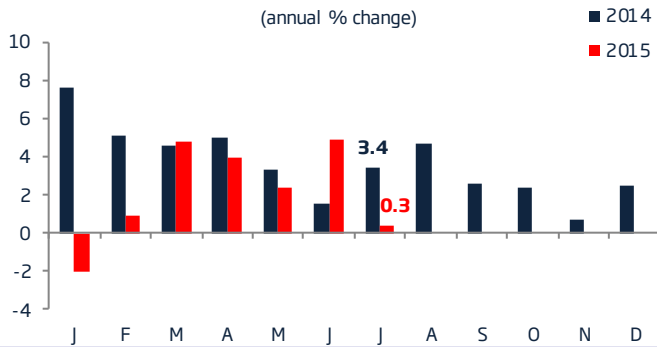


### Production Approach - Contributions to GDP

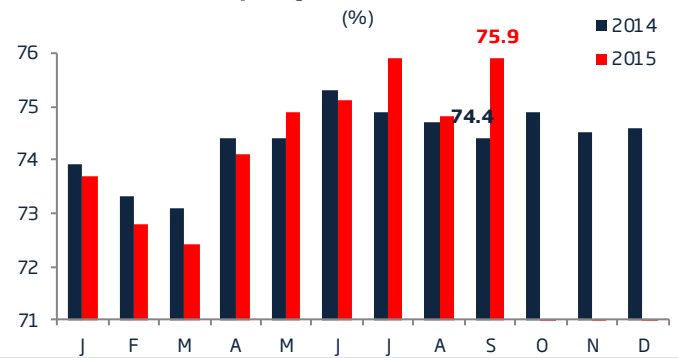


## Industrial Production and Capacity Utilization Ratio

### Industrial Production\*

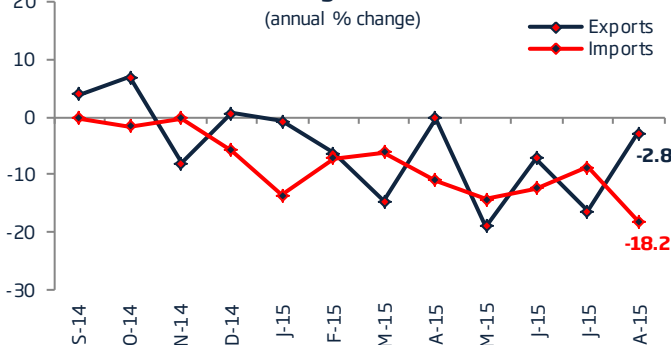


### Capacity Utilization Ratio

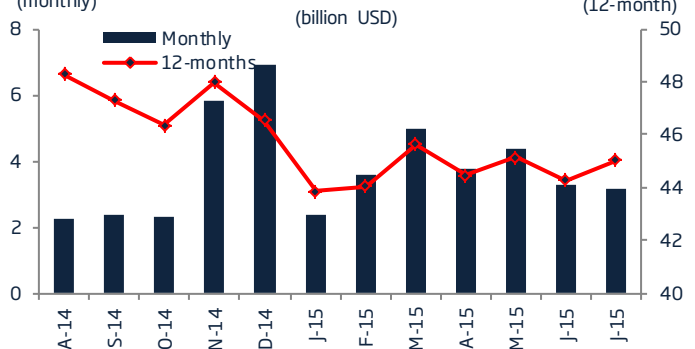


## Foreign Trade and Current Account Balance

### Foreign Trade

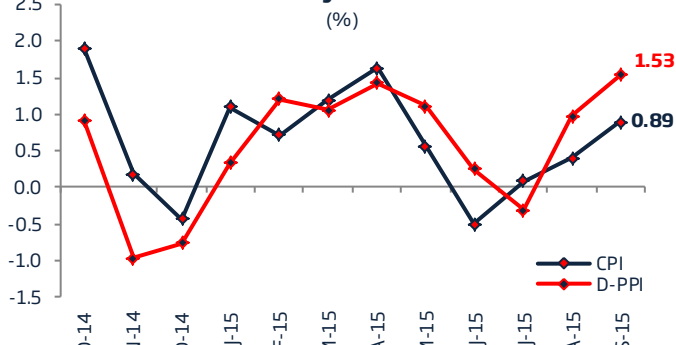


### Current Account Deficit

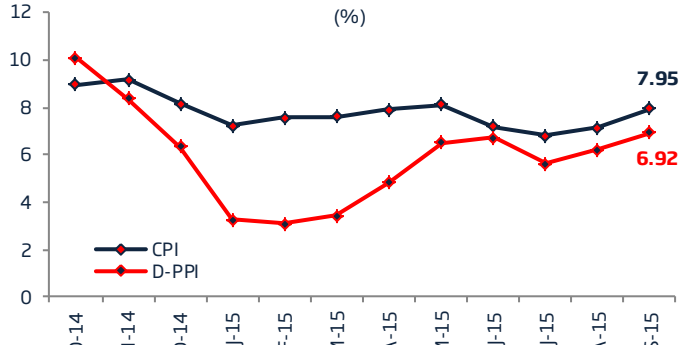


## Inflation

### Monthly Inflation



### Annual Inflation

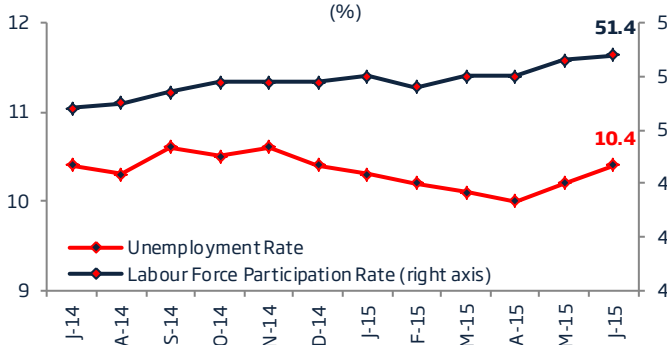


(\* Calendar adjusted figures)

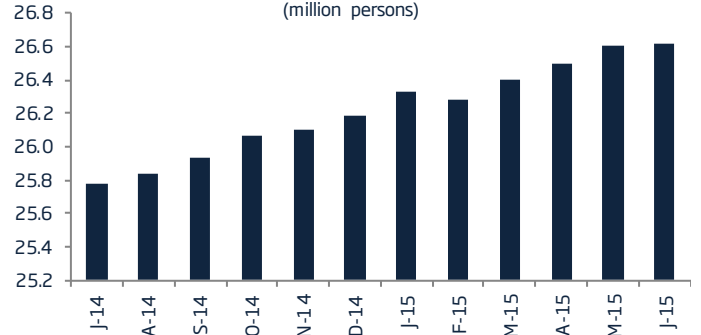
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators (%)

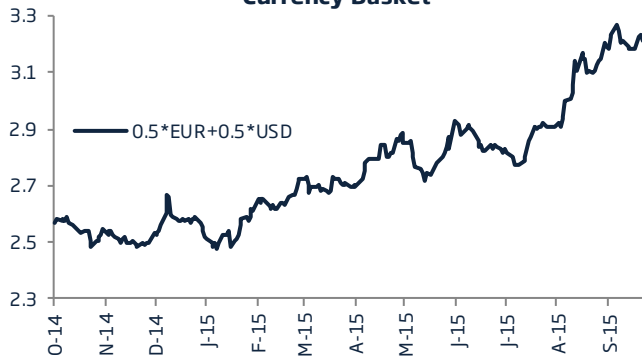


### Seasonally Adjusted Employment (million persons)

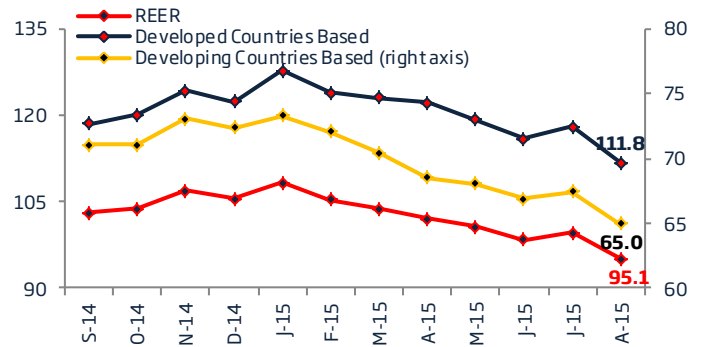


## FX Market

### Currency Basket

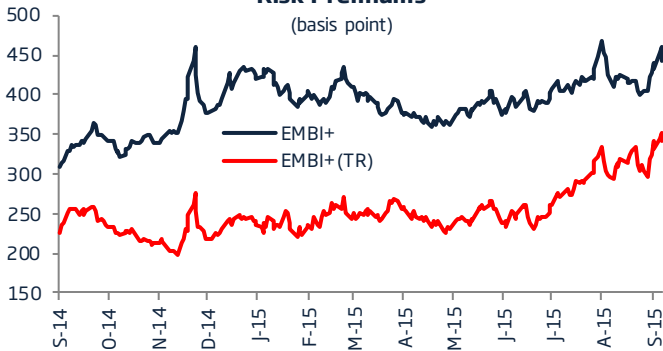


### CPI Based Real Effective Exchange Rate

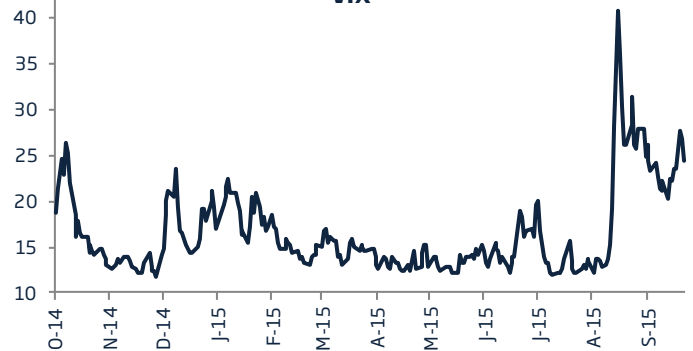


## Risk Indicators

### Risk Premiums (basis point)

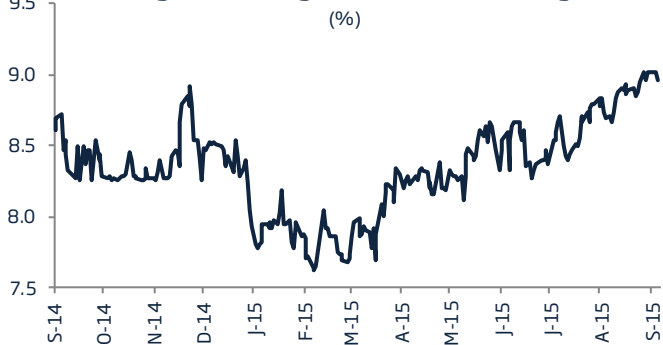


### VIX



## Interest Rates

### Weighted Average Cost of CBRT Funding (%)

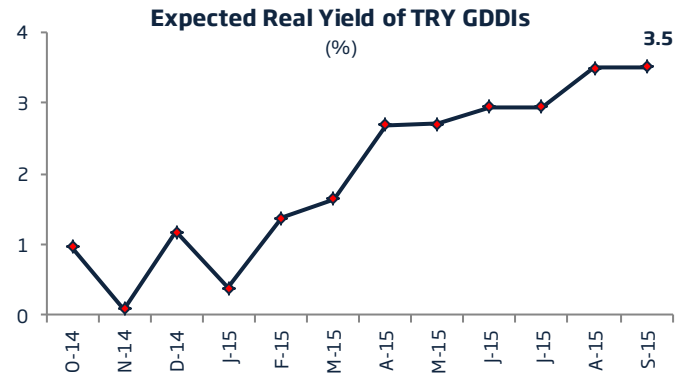
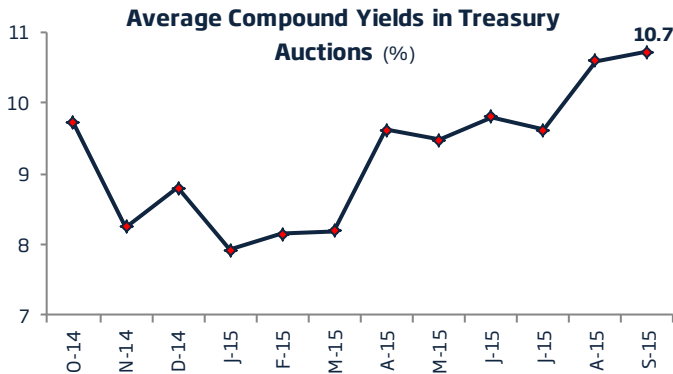


### Compound Yield of 2-Year Benchmark Bond (%)

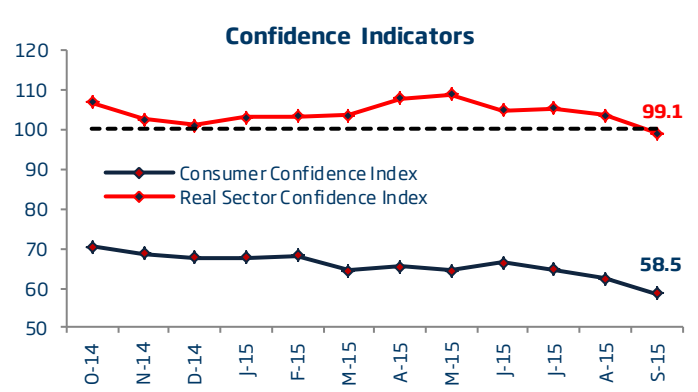
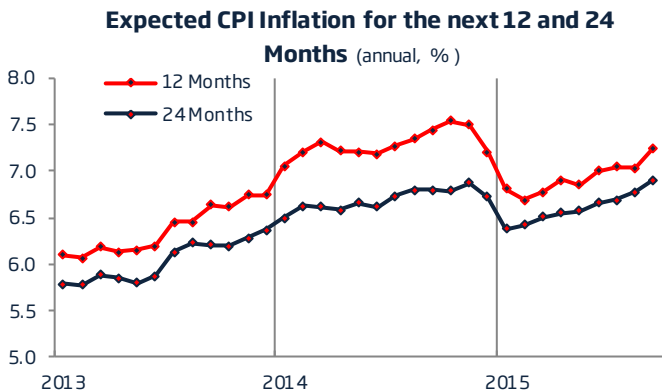
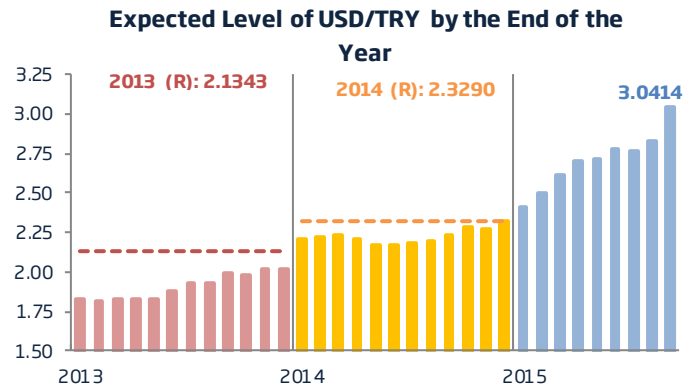
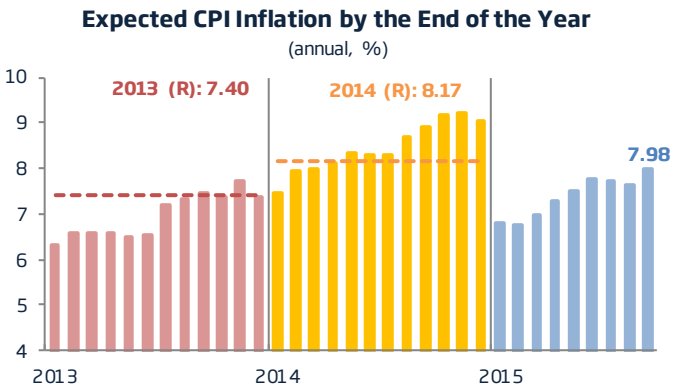
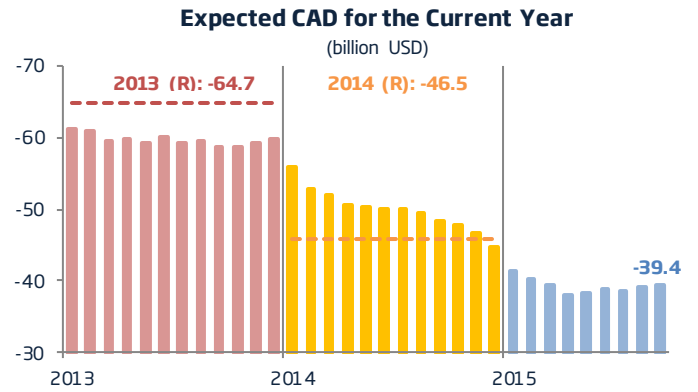
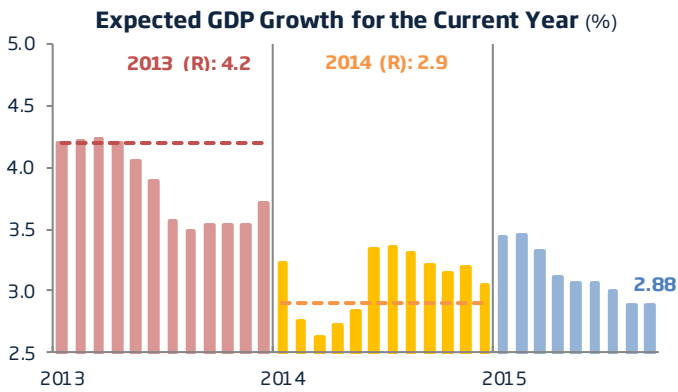


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## 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

<b>Growth</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>15-Q1</b>	<b>15-Q2</b>	<b>15-Q3</b>
GDP (USD billion)	731.6	774.0	786.3	823.0	799.0	181.0	180.5	-
GDP (TRY billion)	1,099	1,298	1,417	1,567	1,747	444.3	481.7	-
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	2.5	3.8	-
<b>Inflation (%)</b>						<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-15</b>
CPI (annual)	6.40	10.45	6.16	7.40	8.17	6.81	7.14	7.95
Domestic PPI (annual)	8.87	13.33	2.45	6.97	6.36	5.62	6.21	6.92
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Apr-15</b>	<b>May-15</b>	<b>Jun-15</b>
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.0	10.2	10.4
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	50.9	51.0	51.3	51.4
<b>FX Rates</b>						<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-15</b>
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	99.6	95.1	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.7864	2.9205	3.0278
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	3.0533	3.2745	3.3971
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	2.9199	3.0975	3.2125
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>
Exports	113.9	134.9	152.5	151.8	157.6	151.0	148.8	148.5
Imports	185.5	240.8	236.5	251.7	242.2	229.1	227.4	223.9
<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>-78.1</b>	<b>-78.6</b>	<b>-75.4</b>
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	65.9	65.4	66.3
<b>Current Account Balance<sup>(1)</sup> (USD billion)</b>						<b>May-15</b>	<b>Jun-15</b>	<b>Jul-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>-45.1</b>	<b>-44.3</b>	<b>-45.0</b>
<b>Capital and Financial Accounts</b>	<b>-45.1</b>	<b>-66.0</b>	<b>-48.2</b>	<b>-62.0</b>	<b>-43.2</b>	<b>-39.7</b>	<b>-37.7</b>	<b>-40.6</b>
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.5	-5.3	-5.0	-6.8
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.1	-13.7	-5.8	1.1
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-17.0	-16.6	-20.6	-30.4
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	-4.0	-6.3	-4.5
<b>Net Errors and Omissions</b>	<b>0.2</b>	<b>9.0</b>	<b>0.3</b>	<b>2.8</b>	<b>3.4</b>	<b>5.5</b>	<b>6.6</b>	<b>4.5</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>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>
<b>Expenditures</b>	<b>294.4</b>	<b>314.6</b>	<b>361.9</b>	<b>408.2</b>	<b>448.8</b>	<b>236.7</b>	<b>282.2</b>	<b>319.7</b>
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	29.7	34.8	38.4
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.8	206.9	247.4	281.3
<b>Revenues</b>	<b>254.3</b>	<b>296.8</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>237.5</b>	<b>277.6</b>	<b>320.4</b>
Tax Revenues	210.6	253.8	278.8	326.2	352.5	194.7	230.7	268.7
<b>Budget Balance</b>	<b>-40.1</b>	<b>-17.8</b>	<b>-29.4</b>	<b>-18.5</b>	<b>-23.4</b>	<b>0.8</b>	<b>-4.6</b>	<b>0.6</b>
<b>Primary Balance</b>	<b>8.2</b>	<b>24.4</b>	<b>19.0</b>	<b>31.4</b>	<b>26.5</b>	<b>30.5</b>	<b>30.2</b>	<b>39.0</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>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	430.2	434.4	435.0
External Debt Stock	120.7	149.6	145.7	182.8	197.5	220.7	227.5	241.2
<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>650.9</b>	<b>661.9</b>	<b>676.2</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	Jul.15	Aug.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>2,274.5</b>	<b>2,346.1</b>	<b>17.6</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>1,428.6</b>	<b>1,456.8</b>	<b>17.4</b>
TRY Loans	383.8	484.8	588.4	752.7	881.0	986.8	988.6	12.2
Share (%)	73.0	71.0	74.0	71.9	71.0	69.1	67.9	-
FX Loans	142.1	198.1	206.4	294.7	359.7	441.8	468.1	30.1
Share (%)	27.0	29.0	26.0	28.1	29.0	30.9	32.1	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	42.3	43.4	19.2
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>316.3</b>	<b>320.5</b>	<b>6.0</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>2,274.5</b>	<b>2,346.1</b>	<b>17.6</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>1,219.2</b>	<b>1,229.0</b>	<b>16.7</b>
TRY Deposits	433.5	460.0	520.4	594.1	661.3	693.1	680.9	2.9
Share (%)	70.3	66.1	67.4	62.8	62.8	56.8	55.4	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	526.2	548.2	40.1
Share (%)	29.7	33.9	32.6	37.2	37.2	43.2	44.6	-
<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>100.2</b>	<b>103.3</b>	<b>15.7</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>350.3</b>	<b>364.3</b>	<b>24.2</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>137.5</b>	<b>162.0</b>	<b>17.9</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>244.5</b>	<b>246.4</b>	<b>6.2</b>
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	15.4	16.2	-
<b>RATIOS (%)</b>								
Loans/GDP	47.9	52.6	56.1	66.8	71.0	-	-	-
Loans/Assets	52.2	56.1	58.0	60.5	62.2	62.8	62.1	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	13.9	13.7	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	53.6	52.4	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	117.2	118.5	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	15.1	14.8	-

(1) Year-to-date % change



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