



# Monthly Economic Review December 2015



## Global Economy

- ◆ Expectations regarding monetary policies of the leading central banks' were at the top of the agenda in November. The divergence in monetary policies conducted by the central banks in advanced economies has made an impact especially on FX market while global markets, in general, continued to search for direction.
- ◆ The minutes of the Fed's October meeting indicated that most of the Fed officials believed the necessary conditions for a rate hike would be met by December. Recent economic data, particularly labor market figures, have presented a favorable outlook and reinforced the expectations for a December rate hike by the Fed.
- ◆ Euro Area economy, which is expected to end this year with a better performance compared to the previous year, witnessed a loss of momentum in the last months of 2015. The persistently low levels of inflation and a relatively weak economic activity fuelled the expectations for further measures by ECB to boost the economy.
- ◆ At its meeting on December 3<sup>rd</sup>, ECB cut the deposit facility interest rate by 10 basis points, extended the length of the asset purchase program and expanded the range of instruments.
- ◆ Having shrank by 0.3% qoq in the second quarter of the year, Japanese economy contracted by 0.2% qoq in the third quarter of the year. Hence, Japanese economy slid into recession for the second time in the last two years
- ◆ Chinese economy has kept losing steam. Chinese Central Bank, considering the slowdown in the economy, continued to adopt new measures.

## Turkish Economy

- ◆ The calendar adjusted industrial production increased by 2.8% yoy in September while the seasonally and calendar adjusted industrial production remained unchanged compared to the previous month. The calendar adjusted industrial production rose by 3.3% yoy in the third quarter.
- ◆ Diminished political uncertainties following the snap election in November led confidence indicators to improve.
- ◆ The improvement in foreign trade balance continued in October on the back of the ongoing contraction in imports led by the persistently low level of oil prices, the upturn in exports to Eurozone countries as well as the strong gold exports. Foreign trade deficit dropped by 42.5% yoy to 3,6 billion USD in October.
- ◆ Despite the decline in tourism revenues, current account balance gave a surplus of 95 million USD in September thanks to the contraction in foreign trade deficit. After two consecutive months of current account surpluses, 12-month cumulative current account deficit declined to 40.6 billion USD, its lowest level since October 2010.
- ◆ Budget expenditures decreased by 1.7% yoy in October while budget revenues expanded by 28.2% yoy. Having posted a deficit of 3 billion TRY in October 2014, budget balance registered a record high surplus of 7.2 billion TRY in October 2015.
- ◆ In November, CPI increased by 0.67% mom due to the seasonal factors. Domestic PPI (D-PPI) declined by 1.42% mom in this period, the steepest fall recorded since June 2012. Annual CPI, which decreased in October due to the base effect, reached its highest level in November so far in 2015 with 8.10%. Having declined since October, annual D-PPI inflation was realized as 5.25%.

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## Unemployment rate was at 10.1%.

Unemployment rate remained unchanged on an annual basis in August and came in at 10.1%. Together with the moderate course of economic activity, the rise in informal employment of Syrian refugees in the country is considered to push the unemployment rate up. The seasonally adjusted unemployment rate remained flat on a monthly basis in August. Labor force participation rate declined to 51.3% from the historically high level registered in the last two months.

## Industrial production rose by 2.8% in September.

The calendar adjusted industrial production increased by 2.8% yoy in September while the seasonally and calendar adjusted industrial production remained unchanged compared to the previous month. After expanding at an annual pace of 1.3% in the first quarter and 3.8% in the second quarter, the calendar adjusted industrial production rose by 3.3% yoy in the third quarter.

## Manufacturing PMI climbed to its highest level of this year in November.

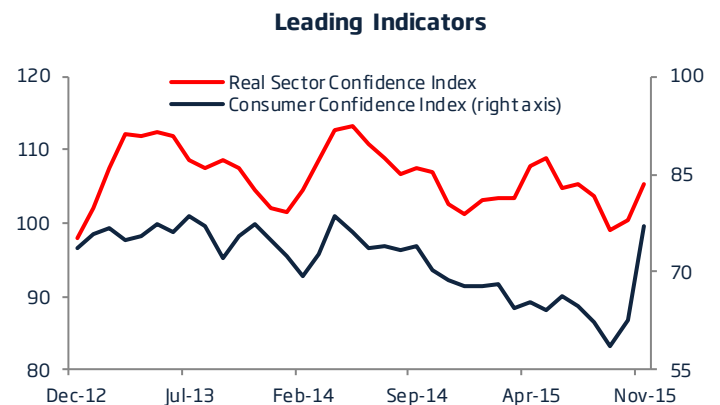
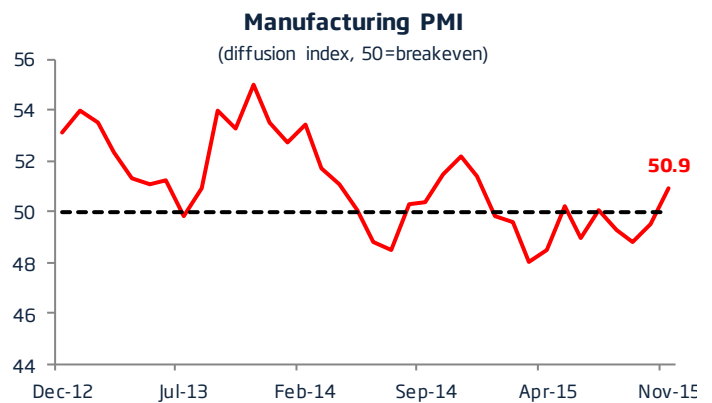
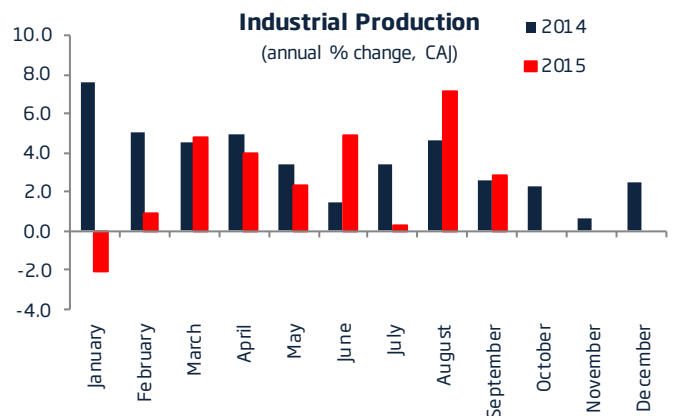
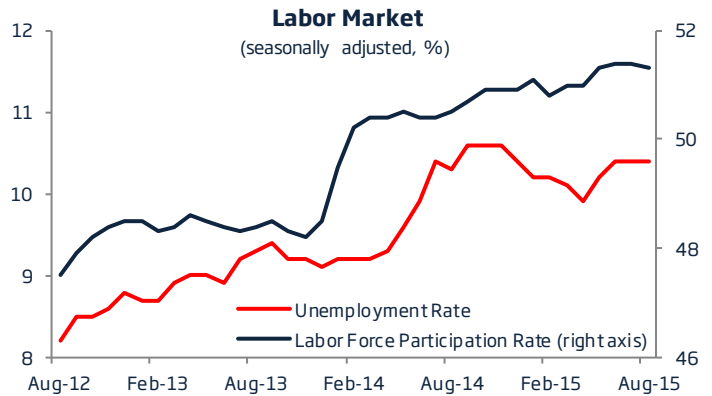
The data announced by Markit revealed that manufacturing PMI increased by 1.4 points on monthly basis and became 50.9 in November. This figure marked the highest level of the last 11 months. Almost all sub-indices of the index presented a favorable outlook. Diminished political uncertainties seemed to play a significant role in this development. The index had hovered below the threshold level of 50 in the eight out of the first ten months indicating contraction in the sector.

## Capacity utilization ratio surged in November.

Capacity utilization ratio (CUR), which followed a volatile course in the second half of the year, rose annually by 1.4 pp to 75.9% in November. CUR in manufacture of durable consumption goods and capital goods led the increase in the overall CUR as was the case in October. Similar to the previous month, the rises recorded especially in manufacture of coke and refined petroleum products and motor vehicles were worth mentioning.

## Improvement in confidence indicators...

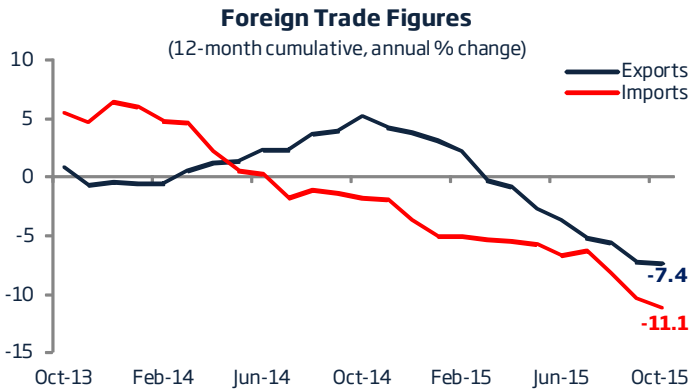
Fading political uncertainties following the snap election in November helped improve confidence indicators. Real sector confidence index rose annually by 2.6 points to 105.2. Assessments on general business situation recorded a considerable recovery in this period. Consumer confidence index also increased by 22.9% mom and became 77.1 in November.



Source: Datastream, Turkstat, CBRT, Markit

## Foreign trade deficit continued to narrow.

In October, exports increased by 3.1% yoy and came in at 13.3 billion USD while imports dropped by 11.9% yoy to 16.9 billion USD. Thus, having kept its declining trend in October, foreign trade deficit fell by 42.5% yoy and realized as 3.6 billion USD. In the first 10 months of the year, foreign trade contracted by 22.2% yoy as the imports declined faster than exports.



Import coverage ratio continued to increase in October. The ratio, which was 67.2% in October 2014, became 78.6% in the same month of 2015.

## Gold export...

In October, gold export posted an annual rise of 637 million USD and made a significant contribution to the export performance. Also, exports of automotive, wearing apparel and fruit-vegetables exhibited a favorable outlook in this period. However, exports of iron and steel sector dropped by 34.7% yoy in October due to the intensifying competition on global level and the plunge in prices.

## Positive outlook in exports to Eurozone...

In October, exports to Eurozone in USD terms increased by 10.7% compared to the same month of the previous year, rising for the first time this year. It was noteworthy that exports to region in euro terms grew at a faster pace, increasing by 24.8% yoy. However, exports to other major markets, especially those in North Africa and Middle East,

diminished in this period. Analyzing exports by countries revealed that in the first ten months of the year Germany remained the biggest export market of Turkey by 9.2% share, followed by England, Iraq and Italy, respectively.

Being the most prominent item on the agenda along with the escalated tension between the two countries, exports to Russia fell by 38.9% yoy in the first ten months of the year. The statements regarding the economic sanctions against Turkey point out that trade relation will come under further pressure in the coming period. Exports of fruit and vegetables, having the biggest share among the exports from Turkey to Russia, are estimated to decrease. Taken into consideration that Russia is a key export market for agriculture, fishing as well as leather and textile products, the developments are likely to have notable impacts on these sectors' export performance.

## Export to Russia (12 month cumulative)

million USD	Export to Russia	Turkey's Export	Share (%)
Fruit and vegetables	1,030	7,837	13.1
Textile	570	11,405	5.0
Automotive	262	16,711	1.6
Wearing apparel	206	15,212	1.4
Metal products	172	5,881	2.9
Other	1,752	89,797	2.0
<b>Total</b>	<b>3,992</b>	<b>146,842</b>	<b>2.7</b>

## Sharp drop in imports...

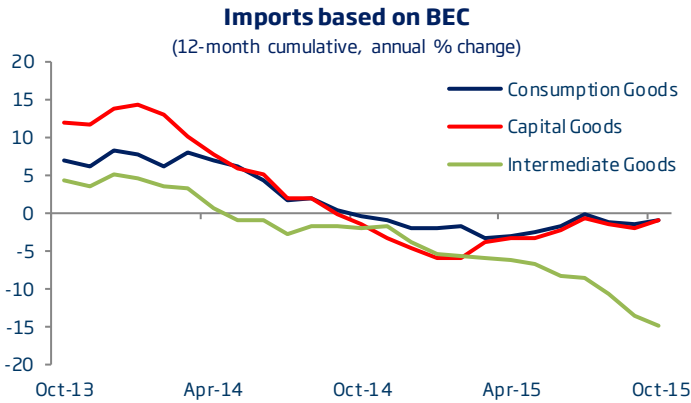
Downward trend in imports continued in October due to the low levels of commodity prices and the exchange rate developments. Even though the annual contraction in imports of intermediate goods marked a deceleration in this period compared to the previous months, it remained high at 18%. The annual decline in the imports of intermediate goods in the first ten months of the year also became 17.5%. The imports of mineral fuels and oils shrank by 30.1% yoy during this period. Although imports of oil and natural gas have a significant share in total imports from Russia, low demand elasticity for these products and the

## Foreign Trade Balance

(USD billion)

	October		Change (%)	Jan.-Oct.		Change (%)
	2014	2015		2014	2015	
Exports	12.9	13.3	3.1	131.3	120.5	-8.2
Imports	19.2	16.9	-11.9	199.0	173.2	-13.0
<b>Foreign Trade Balance</b>	<b>-6.3</b>	<b>-3.6</b>	<b>-42.5</b>	<b>-67.7</b>	<b>-52.7</b>	<b>-22.2</b>
Import Coverage Ratio (%)	67.2	78.6	-	66.0	69.6	-

Source: Datastream, Turkstat



difficulties in finding alternative sources in the short-run imply that the current levels of imports will prevail in the coming period. Nevertheless, the possibility of a lower bill of natural gas along with the price discount negotiations with Russia seems to have been dropped for the moment.

#### Import from Russia (12 month cumulative)

million USD	Import from Russia	Share (%)
Petroleum and Natural Gas	12,681	58.9
Iron-Steel	2,138	9.9
Other minings	1,174	5.5
Cereals	1,118	5.2
Coal	898	4.2
Other	3,512	16.3
<b>Total</b>	<b>21,521</b>	<b>100</b>

On the other hand, imports of motor vehicles rose by 17% yoy in the first ten months of the year thanks to the strong domestic demand for automotive products.

#### Expectations

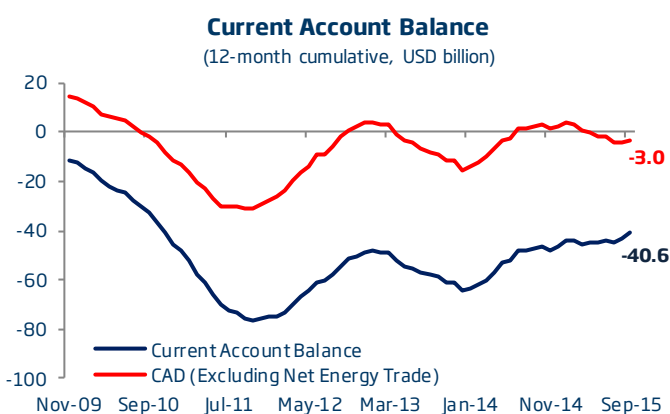
The improvement in foreign trade balance continued in October. The ongoing contraction in imports led by the persistently low level of oil prices, the upturn in exports to Eurozone countries as well as the strong gold exports played a significant role in this improvement. However, the recent developments regarding the relationship between Turkey and Russia might adversely affect the foreign trade figures in the forthcoming period, in particular, starting with 2016. We think that these developments can weigh on foreign trade performance.

According to the provisional data, while exports and imports contracted by 7.8% yoy and 25.2% yoy, respectively. Foreign trade deficit narrowed by 18.6% yoy, in particular with the help of the decline in energy imports.

## Current account posted a surplus in September.

Despite the decline in tourism revenues, current account balance gave a surplus of 95 million USD in September thanks to the contraction in foreign trade deficit. Also, August's data was revised to a surplus of 27 million USD from a deficit of 163 million USD. Thus, the current account recorded a monthly surplus for the first time since October 2009. After two consecutive months of current account surpluses, 12-month cumulative current account deficit declined to 40.6 billion USD, its lowest level since October 2010.

In the first nine months of the year, current account deficit contracted by 18.9% yoy and was realized as 25.6 billion USD.



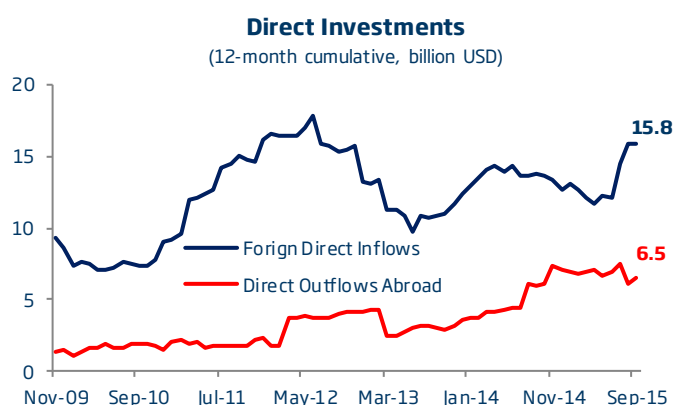
## The improvement in foreign trade continued to positively affect current account balance.

According to current account figures, exports declined by 2.3 billion USD yoy while imports fell by 4.8 billion USD yoy mainly driven by the slide in energy prices. Having been a net importer of gold in September 2014 with a volume of 649 million USD, Turkey became a net exporter of gold (520 million USD) in the same month of this year. Hence, the foreign trade deficit halved compared to the same period of the last year. On the other hand, tourism revenues have

been declining since March. Despite this weakening, net tourism revenues continued to make a significant contribution to the services balance by recording a 2.9 billion USD in September.

## The increase in foreign direct investment lost momentum in September.

Foreign direct investments, which played an important role in the financing of current account deficit in July and August, lost momentum in September. In this period, non-residents' foreign direct investments were recorded as 791 million USD while residents' direct investments abroad became 536 million USD. Thus, net capital inflows registered under foreign direct investments were 255 million USD. Foreign direct investment posted a net inflow of 1.7 billion USD in the previous month. In the first nine months of the year, on the other hand, net capital inflows increased by 71% yoy to 8.7 billion USD.



## Capital outflows from portfolio investments continued.

Having recorded a net capital outflow since May, portfolio investments posted an outflow of 2.9 billion USD in September as well. Capital outflows via portfolio investments gained momentum due to the ongoing fall in non-residents' equity and debt security investments as well

## Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2014	Sep. 2015	Dec. 2014	Sep. 2015
<b>Current Account Balance</b>	<b>-46,525</b>	<b>-40,569</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>46,057</b>	<b>33,421</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	5,702	9,324	12.4	27.9
-Portfolio Investments	20,104	-5,256	43.7	-15.7
-Other Investments	16,917	21,381	36.7	64.0
-Net Errors and Omissions	3,404	7,981	7.4	23.9
-Other	-70	-9	-0.2	0.0
<b>Reserves<sup>(1)</sup></b>	<b>468</b>	<b>7,148</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

as the acceleration in resident banks' portfolio investments abroad. In the first nine months of the year, net capital outflows under portfolio investments reached 11.6 billion USD.

## Banks and non-bank sectors continue to raise funds from abroad...

In September, the banking sector raised 3 billion USD of net long-term credit from abroad while it repayed the same amount of net short-term debt. In the first nine months of the year, banking sector became a net credit borrower. The non-bank sectors, on the other hand, obtained 1.3 billion USD of net long term credit and 164 million USD of net short-term credit. In January-September period, the non-bank sectors were also a net credit borrower.

According to the 12-month cumulative figures, banks' and non-bank sectors' long-term debt roll-over ratios kept rising and were 318% and 143% in September, respectively.

## 2 billion USD worth of inflow was recorded in net errors and omissions...

Net errors and emissions registered an inflow of 2 billion USD in September. Financing account, which posted a deficit of 2.1 billion USD mainly because of the outflows in portfolio investments, was compensated by the capital inflows via net errors and emissions account. In the first nine months of the year, net errors and omissions, amounting to 13.4 billion USD, made a significant contribution to the financing of current account deficit.

## Expectations

It is expected that Turkey's foreign trade deficit will continue to contract in the rest of the year and, in turn, the current account balance is anticipated to keep improving. On the other hand, the expected rate hike from Fed at the end of this year is likely to lead capital flows to the emerging market economies including Turkey weaken. Despite this outlook, banks' and other sectors' borrowing from abroad will continue to play an important role in the financing of the current account deficit.

Balance of Payments	(USD million)				
	September 2015	Jan. - Sep. 2014 2015		% Change	12-Month Cumulative
<b>Current Account Balance</b>	<b>95</b>	<b>-31,517</b>	<b>-25,561</b>	<b>-18.9</b>	<b>-40,569</b>
Foreign Trade Balance	-2,527	-45,485	-37,198	-18.2	-55,297
Services Balance	3,445	20,112	19,022	-5.4	24,074
Travel (net)	2,913	19,390	17,184	-11.4	22,274
Primary Income	-942	-6,961	-8,107	16.5	-10,358
Secondary Income	119	817	722	-11.6	1,012
<b>Capital Account</b>	<b>0</b>	<b>-67</b>	<b>-6</b>	<b>-91.0</b>	<b>-9</b>
<b>Financial Account</b>	<b>2,075</b>	<b>-22,718</b>	<b>-12,124</b>	<b>-46.6</b>	<b>-32,597</b>
Direct Investments (net)	-255	-5,097	-8,719	71.1	-9,324
Portfolio Investments (net)	2,871	-13,736	11,624	-	5,256
Net Acquisition of Financial Assets	1,346	701	5,221	644.8	5,266
Net Incurrence of Liabilities	-1,525	14,437	-6,403	-	10
Equity Securities	-233	1,608	-948	-	3
Debt Securities	-1,292	12,829	-5,455	-	7
Other Investments (net)	306	-6,790	-11,254	65.7	-21,381
Currency and Deposits	940	1,781	1,572	-11.7	-818
Net Acquisition of Financial Asse	1,252	1,844	13,038	607.0	11,481
Net Incurrence of Liabilities	312	63	11,466	18,100.0	12,299
Central Bank	-125	-1,986	-731	-63.2	-1,078
Banks	1,456	2,049	12,197	495.3	9,405
Foreign Banks	1,549	-120	8,861	-	6,499
Foreign Exchange	-134	-2,425	4,658	-	4,229
Turkish Lira	612	2,305	4,203	82.3	4,848
Non-residents	-41	2,169	3,336	53.8	4,300
Loans	-1,249	-8,503	-11,481	35.0	-18,007
Net Acquisition of Financial Asse	54	2,031	450	-77.8	282
Net Incurrence of Liabilities	1,303	10,534	11,931	13.3	18,289
Banking Sector	-42	7,416	5,212	-29.7	9,632
Non-bank Sectors	1,420	4,035	7,491	85.7	9,403
Trade Credit and Advances	637	381	-1,091	-	-2,280
Other Assets and Liabilities	-22	-449	-254	-43.4	-276
Reserve Assets (net)	-847	2,905	-3,775	-	-7,148
<b>Net Errors and Omissions</b>	<b>1,980</b>	<b>8,866</b>	<b>13,443</b>	<b>51.6</b>	<b>7,981</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 posted a surplus of 7.2 billion TRY in October.

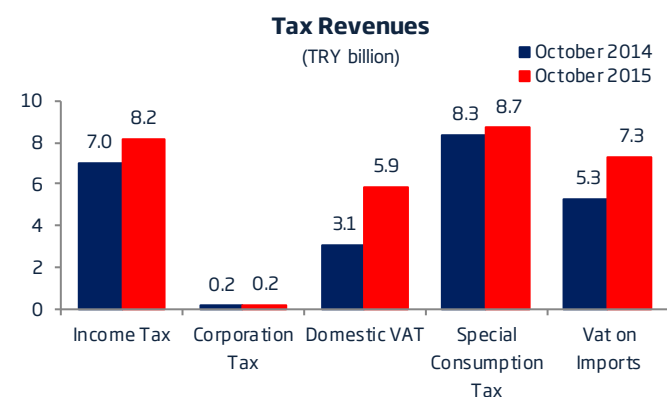
Budget expenditures decreased by 1.7% yoy in October while budget revenues expanded by 28.2% yoy. Having posted a deficit of 3 billion TRY in October 2014, budget registered a surplus of 7.2 billion TRY in October 2015, reaching a record level.

In the first 10 months of the year, budget expenditures and budget revenues increased by 11.5% yoy and 14.5% yoy, respectively. Budget deficit narrowed by 58.3% yoy to 6.2 billion TRY during this period. It was 14.9 billion TRY in the same period of the previous year.

The primary balance figures also confirmed the significant improvement in the budget outlook. The primary surplus surged by 35.7% yoy to 41.2 billion TRY during the first 10 months of the year. This level indicated that the primary balance reached 140% of the year-end estimate of Medium Term Program.

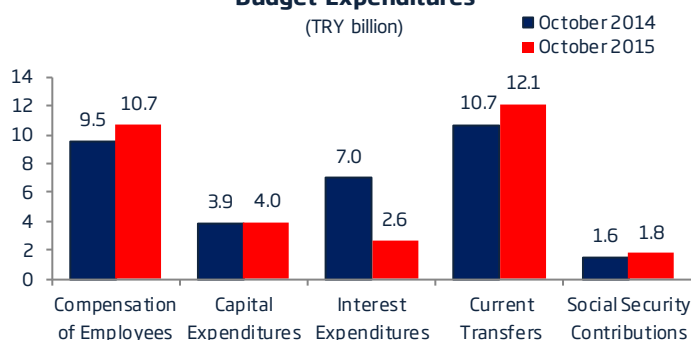
### Acceleration in tax revenue growth....

The increase in tax revenues, which had lost some momentum in the third quarter of the year due to the moderate outlook in domestic demand, accelerated again in October. Constituting 80% of the total budget revenues in this period, tax revenues increased by 7 billion TRY compared to a year ago. More than 90% annual expansion in the revenues via value added tax (VAT) played a significant role in this development. VAT on imports, recording an annual increase of 38.1%, was also



## Budget Expenditures

(TRY billion)



influential in this strong performance of revenues with the help of the better domestic demand conditions in October. The rises in these sub-items of tax revenues were attributable to the base effect as well. Income tax revenues expanded by 16.4% yoy in this period while special consumption tax revenues posted a limited increase of 4.3%. Aside from the surge in tax revenues, 2.3 billion TRY rise recorded in property income, mostly thanks to the growth in portfolio revenue of Treasury, also supported the budget balance in October 2015.

### The fall in interest expenditures had also a significant impact on the favorable budget outlook in October.

Interest expenditures, which had reached 7 billion TRY in October 2014 due to a periodic rise depending on the maturity structure of the debt stock, receded to 2.6 billion TRY in October 2015. Domestic interest payments declined by 4.4 billion TRY during this period. Non-interest expenditures, however, rose by 3.7 billion TRY compared to the same period of the previous year. This rise mainly stemmed from the increases registered in the current transfers and personnel expenditures.

### Expectations

Budget indicators have performed better than the year-end targets as of October. This favorable outlook indicates that fiscal policy-makers have enough room for maneuver in order to boost the economy in the coming period if it is deemed necessary.

## Central Government Budget

(TRY billion)

	October			January-October			2015 Budget		
	2014	2015	% Change	2014	2015	% Change	Target	MTP Target	Real/MTP Target (%)
<b>Expenditures</b>	<b>37.2</b>	<b>36.6</b>	<b>-1.7</b>	<b>362.6</b>	<b>404.2</b>	<b>11.5</b>	<b>472.9</b>	<b>503.0</b>	<b>80.4</b>
Interest Expenditures	7.0	2.6	-62.3	45.3	47.4	4.7	54.0	54.0	87.8
Non-Interest Expenditures	30.2	33.9	12.4	317.3	356.8	12.4	418.9	449.0	79.5
<b>Revenues</b>	<b>34.2</b>	<b>43.8</b>	<b>28.2</b>	<b>347.7</b>	<b>398.0</b>	<b>14.5</b>	<b>452.0</b>	<b>478.5</b>	<b>83.2</b>
Tax Revenues	27.9	35.1	25.6	286.6	333.3	16.3	389.5	405.8	82.1
Other Revenues	6.2	8.7	39.7	61.1	64.6	5.8	62.5	72.8	88.8
<b>Budget Balance</b>	<b>-3.0</b>	<b>7.2</b>	<b>-</b>	<b>-14.9</b>	<b>-6.2</b>	<b>-58.3</b>	<b>-21.0</b>	<b>-24.5</b>	<b>25.4</b>
<b>Primary Balance</b>	<b>4.0</b>	<b>9.9</b>	<b>147.2</b>	<b>30.3</b>	<b>41.2</b>	<b>35.7</b>	<b>33.0</b>	<b>29.5</b>	<b>139.6</b>

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

## Monthly inflation came in above expectations in November.

In November, CPI increased by 0.67% mom, slightly above the expectations. On the other hand, Domestic PPI (D-PPI) declined by 1.42% mom in this period, the steepest fall recorded since June 2012. Monthly CPI inflation was expected to pick up by 0.46% according to the Reuters poll, while CBRT Survey of Expectations suggested that CPI would post a monthly rise of 0.43% in November.

November	CPI		D-PPI	
	2014	2015	2014	2015
Change (%)	0.18	0.67	-0.97	-1.42
Monthly	0.18	0.67	-0.97	-1.42
Year-to-Date	8.65	8.58	7.18	6.06
Annual	9.15	8.10	8.36	5.25
Annual Average	8.80	7.61	10.32	5.33

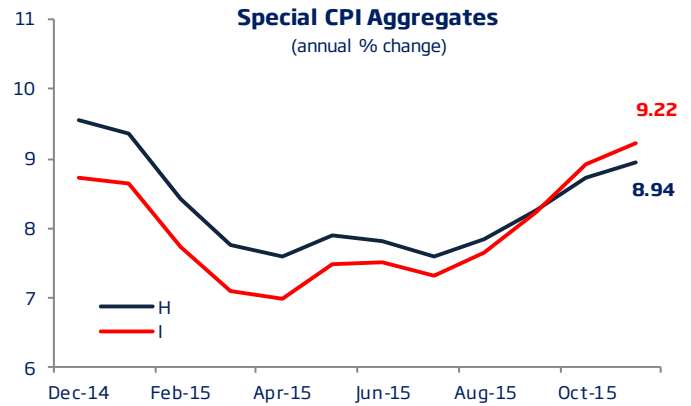
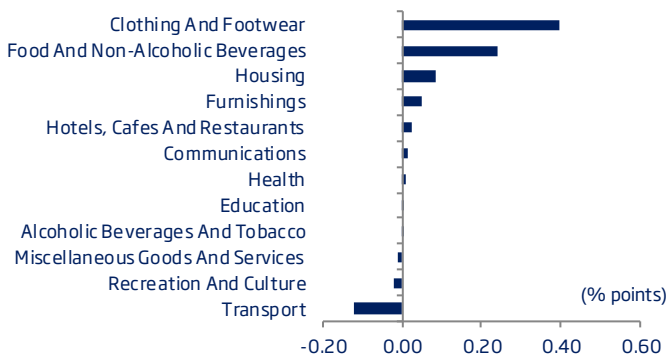
## Annual inflation climbed to its highest level of 2015...

Annual CPI, which decreased in October due to the base effect, reached its highest level in November so far in 2015 at 8.10%. Having declined since October, annual D-PPI inflation was realized as 5.25%.

## Clothing and food prices were behind the surge in CPI.

Seasonal factors played a prominent role in CPI figure in November. The clothing and footwear prices rose by 5.37% mom and made the highest contribution to the CPI increase by 39 basis points. In addition, food and non-alcoholic beverage group pushed up inflation as unprocessed food prices such as vegetables pursuing a seasonally high course in winter. Monthly CPI increase came down to 0.08% when seasonal products were excluded. Relatively more favorable course of TRY throughout November due to the diminishing political uncertainties led prices in transportation group, which has a high sensitivity to the exchange rate developments, to plunge.

### 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.

## Core inflation indicators...

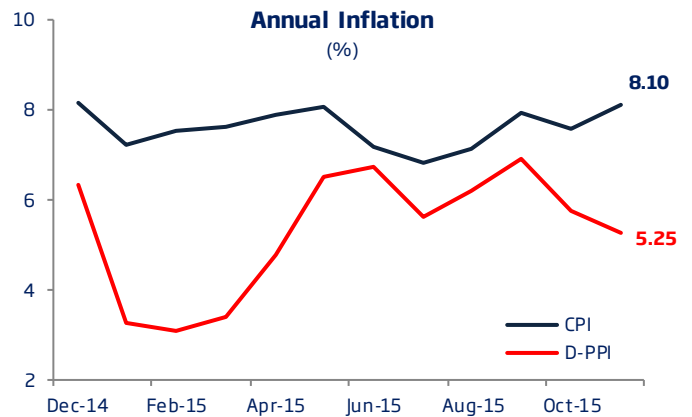
The upward trend in core inflation indicators also continued in November. The divergence between the two main core inflation indices monitored closely by CBRT, denominated by H and I, became more evident because of the surge in unprocessed food prices. The indices rose by 8.94% and 9.22% yoy, respectively.

## Sharp decline in D-PPI...

In November, D-PPI recorded a monthly drop mostly thanks to the contribution of lower energy and commodity prices as well as the decline in prices of food production. Analyses by main industrial groups revealed that prices in all groups fell on monthly basis.

## Expectations

In the last month of 2015, the anticipated decline in clothing and footwear prices seems have a downward impact on CPI while low levels of energy and commodity prices are expected to continue to pull down inflation indicators. In addition, food prices, which tend to rise seasonally in December, might fall on the back of excess supply to domestic market related to the disruption of exports to Russia.



Source: Datastream, Turkstat



## Domestic markets...

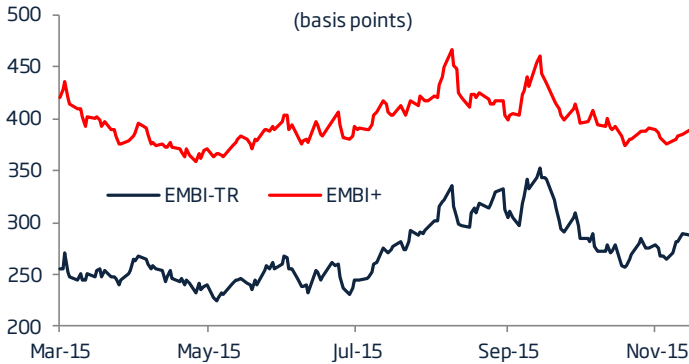
Along with the fading political uncertainties following the election, risk-taking appetite rose in domestic markets. Having had decoupled negatively from its emerging market peers before the general election, domestic markets recorded a sharp correction in early November. However, economic data on the US economy and the statements of the Fed officials resulted in a rise in the possibility of a December rate hike and this, in turn, put selling pressure on global markets in the following days. This outlook weighed heavily on emerging markets as well as on Turkey. Moreover, the rising tensions between Russia and Turkey also put pressure on markets.

## A volatile course in USD/TRY...

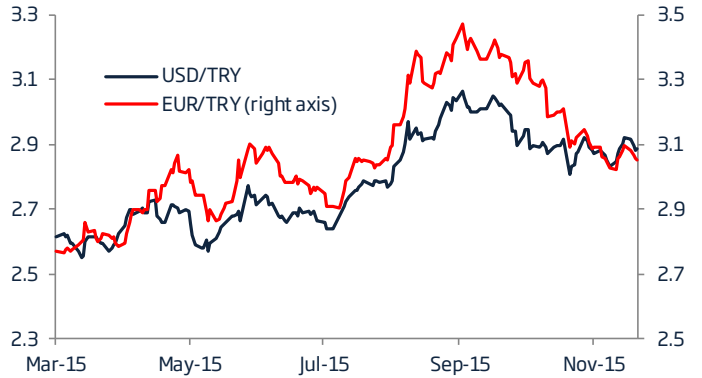
TRY had a weaker performance compared to the other emerging markets' currencies throughout the year due to the political uncertainties. USD/TRY, that fell as low as 2.75 on November 2 after the snap election, rose again above 2.93 in following days along with the fall in risk appetite. USD/TRY was realized as 2.9135 as of November 30.

Compound yield of 2-year benchmark bond declined to single-digit levels right after the election yet these levels were unable to sustain for long and reached double-digit numbers in the following days. The compound yield of 2-year benchmark was 10.29% as of November 30.

**Risk Premiums**  
(basis points)



**FX Rates**



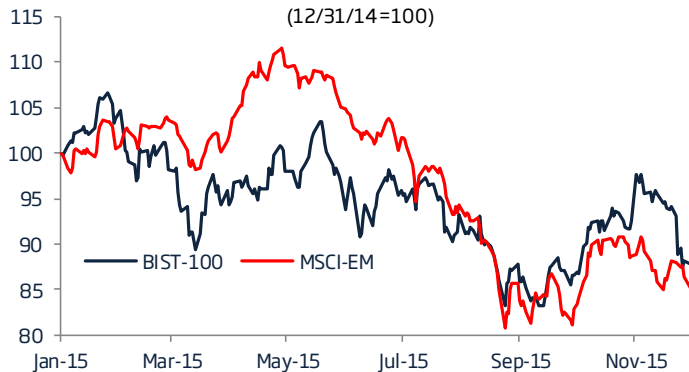
## Fall in BIST-100...

BIST-100 index, which had slid under 78.000 just before the general elections held on November 1st, climbed above 84.000 in the day after the election. However, the index followed a downward trend in the following days due to the profit realizations and the selling pressure stemmed from both domestic and international developments. Elevated tension with Russia was one of the main sources of concern that weighed on stocks in this period. Index decreased by 5.3% compared to the end of October and became 75,233 as of November 30.

## CBRT kept the policy rates on hold.

CBRT did not change the interest rates at its meeting held on November 24. In the press release published following the meeting, it is noted that energy prices continued to have a favorable impact on inflation whereas cumulative foreign exchange movements delayed the improvement in core inflation indicators. Moreover, it is stated that, considering the effects of the uncertainties in global markets on inflation expectations and fluctuations in energy and unprocessed food prices, tight stance in liquidity policy would be preserved as long as it is deemed necessary.

**BIST-100 and MSCI Emerging Market Index**  
(12/31/14=100)



Source: CBRT, Reuters, Datastream, BIST

## FX deposit volume surged by 34.6% ytd.

According to BRSA's Weekly Bulletin, deposit volume increased by 19.1% yoy as of November 20 and was realized as 1,287 billion TRY. Total deposit volume, on the other hand, rose by 14.1% ytd. In year-to-date terms, TRY deposit volume expanded by only 1.2% while FX deposit volume surged by 34.6% due to the depreciation of the TRY. Indeed, expansion in deposit volume fell to 7.3% yoy and 4.6% ytd, according to the exchange rate adjusted figures.

## The annual rise in loan volume was 21.5%.

Loan volume rose by 21.5% yoy as of November 20 and realized as 1,470 billion TRY. Analysis by types of credits revealed that commercial loans increased by 26.8% yoy owing to the upsurge in foreign exchange rates while the growth in consumer loans has been losing momentum recording an annual rise of 8.6%. According to exchange rate adjusted figures, credit volume expanded by 10.3% yoy.

As of November 20, non-performing loan ratio came in at 3.1% reaching its highest level since May 2011. Non-performing loan ratio for consumer loans increased to 4.36% while that for commercial loans became 2.66%.

## Securities portfolio...

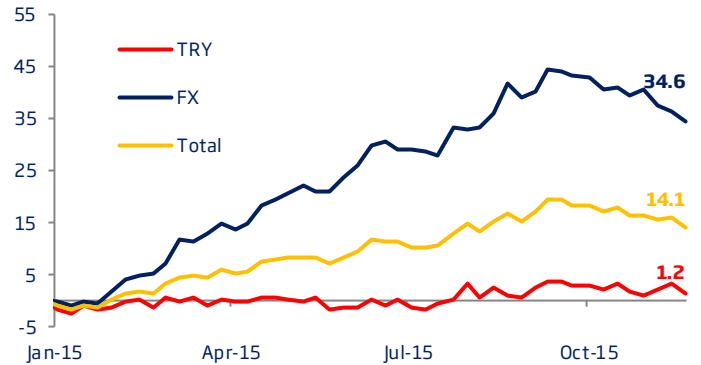
Securities portfolio of banking sector rose by 7.7% ytd and was realized as 324 billion TRY as of November 20. Securities subject to repo transactions, which have the highest share in securities portfolio, increased by 16.9% in this period. Available for sale securities, however, decreased by 9% ytd.

## Net FX position...

As of November 20, banks' on-balance sheet FX position was (-) 35,659 million USD while off-balance sheet FX position was (+) 37,256 million USD. Hence, banks' net FX position was realized as (+) 1,597 million USD.

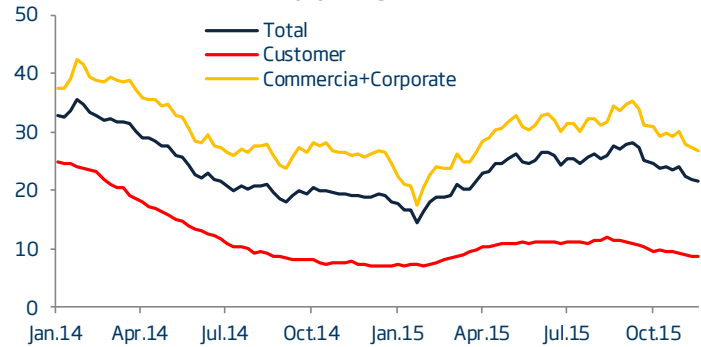
### Deposit Volume

(ytd % change)



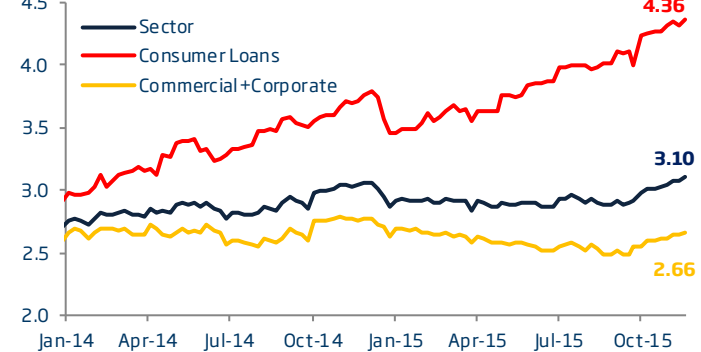
### Credit Volume

(yoy change, %)



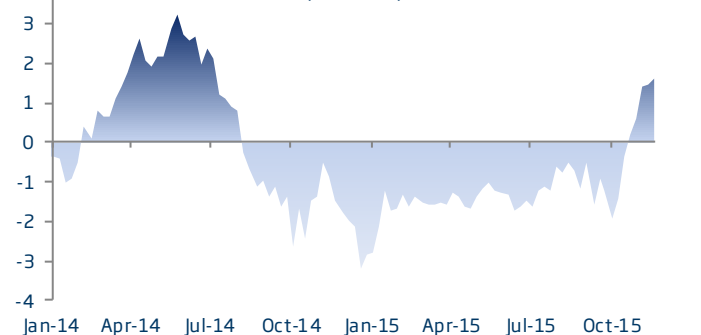
### NPL Ratios by Loan Type

(%)



### Net FX Position

(USD billion)



Source: BRSA Weekly Bulletin

## Concluding Remarks

Recently, expectations that after nine years Fed will make the first interest rate hike in December, grew significantly. Even though this situation puts selling pressure on the markets, the statements that the rate increases will be quite gradual were viewed positively by markets. The anticipated further monetary policy measures by the ECB also supported the markets in November. The divergence between the monetary policies conducted by the central banks in advanced economies has been making an impact especially on FX markets while global markets continued to search for direction.

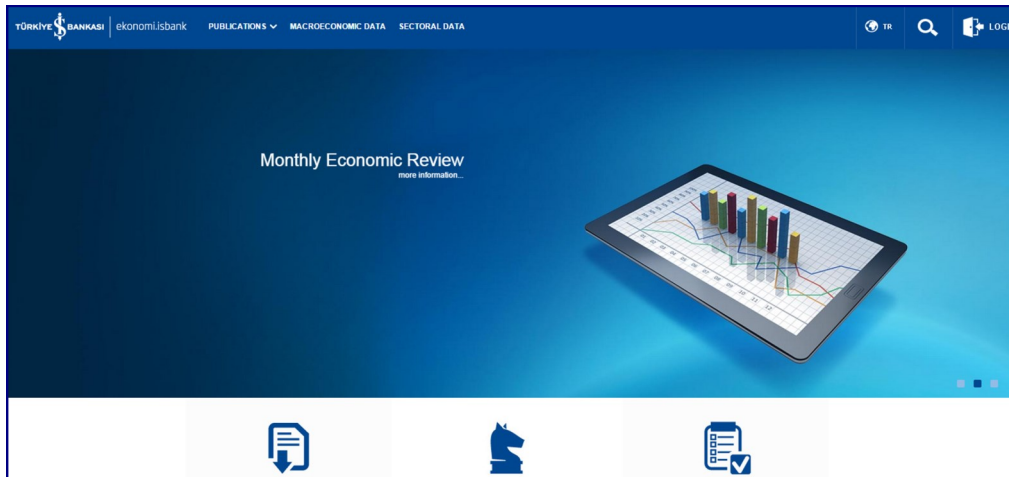
Even though the diminished political uncertainties following the snap election have been welcomed by the markets, the recent deterioration in global risk perception had negative repercussions on the domestic markets. The unprecedented shifts in risk perception continued to cause large fluctuations in the markets. The potential adverse effects of the recent developments between Turkey and Russia on bilateral economic relations are expected to emerge, in particular, in 2016. This indicated that the recovery trend in foreign trade balance can come under pressure in the forthcoming period. Taking the current global conjuncture into the consideration, concrete steps must be taken by Turkey in the area of structural reforms in order to decouple positively from its emerging market peers.

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

(R) Realization

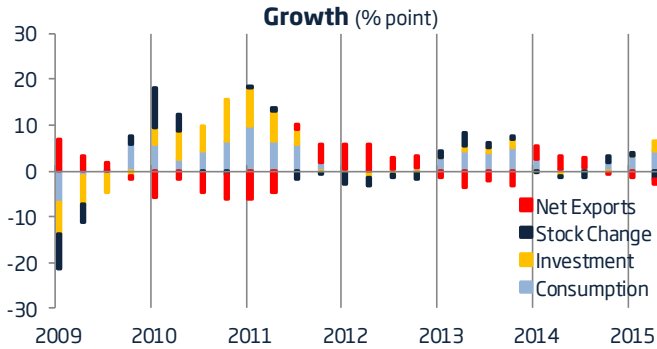
Interest and inflation are year-end forecasts

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

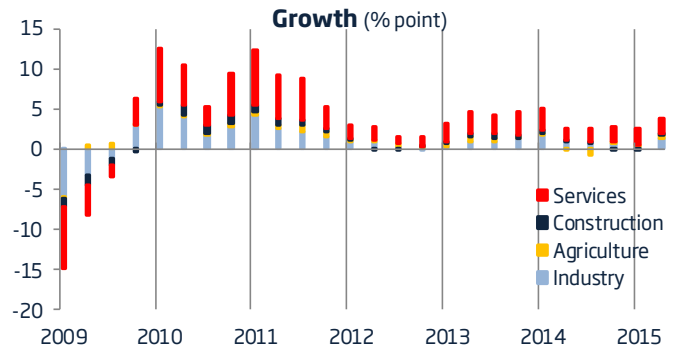


## Growth

### Expenditure Approach - Contributions to GDP

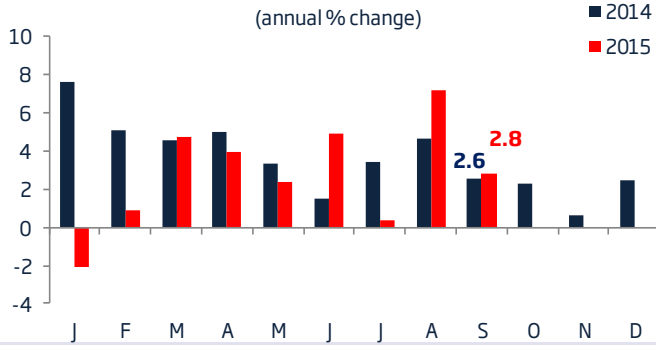


### Production Approach - Contributions to GDP

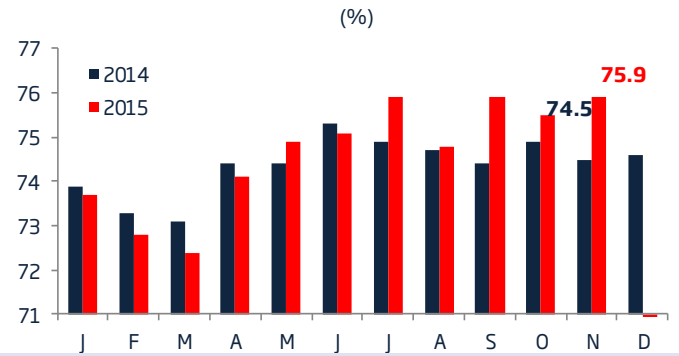


## Industrial Production and Capacity Utilization Ratio

### Industrial Production\*

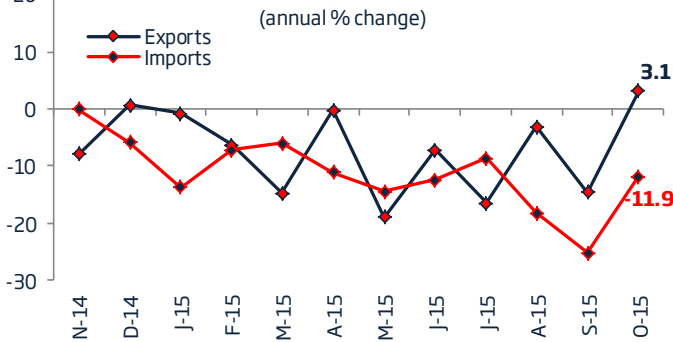


### Capacity Utilization Ratio

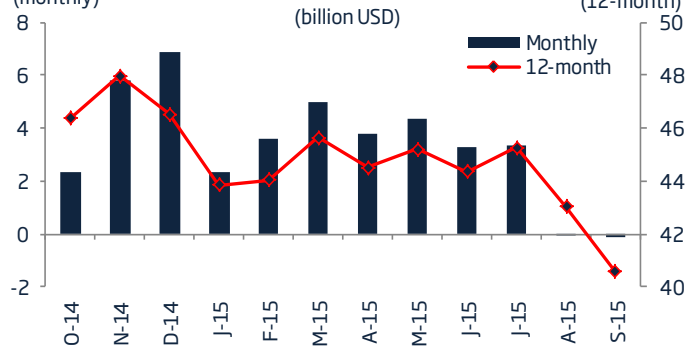


## Foreign Trade and Current Account Balance

### Foreign Trade

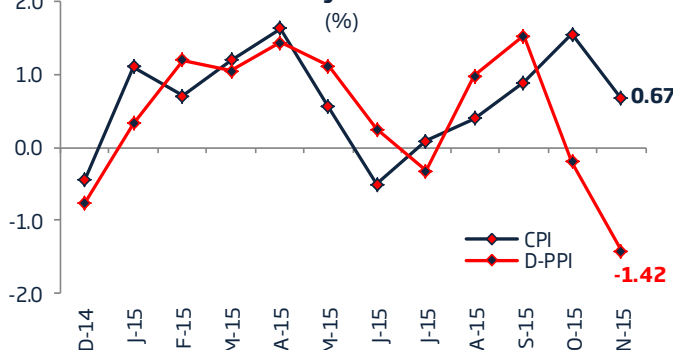


### Current Account Deficit

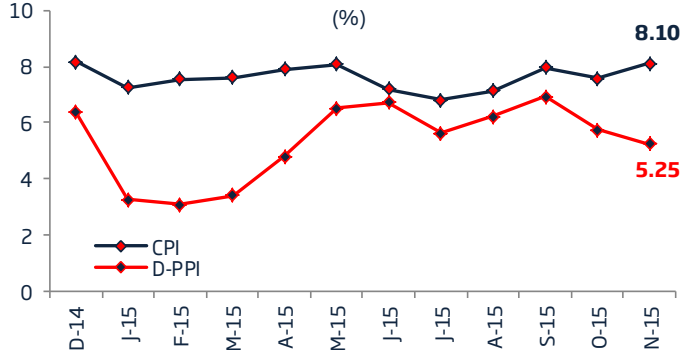


## Inflation

### Monthly Inflation



### Annual Inflation

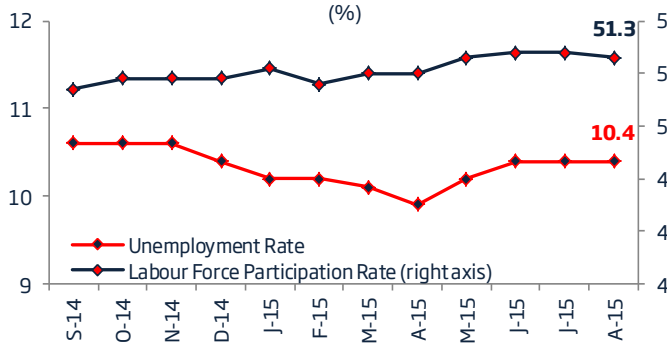


(\*) Calendar adjusted figures

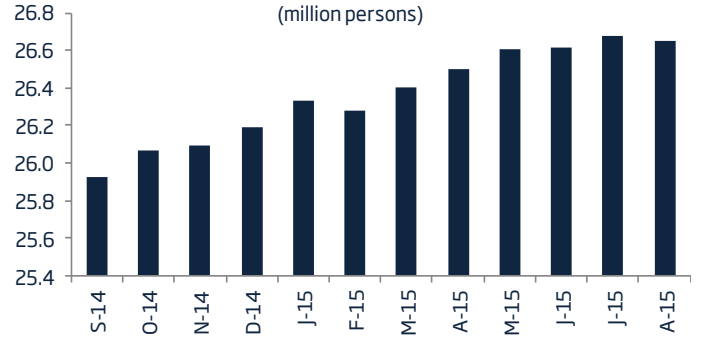
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators (%)

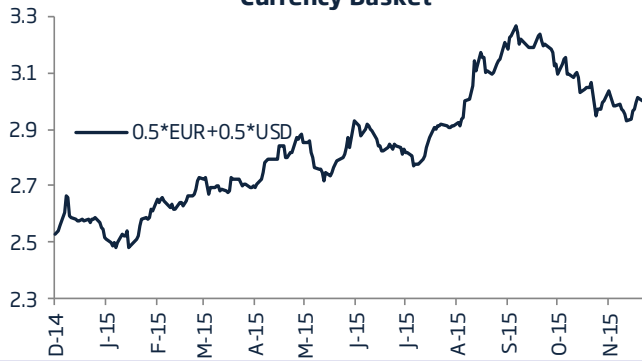


### Seasonally Adjusted Employment (million persons)

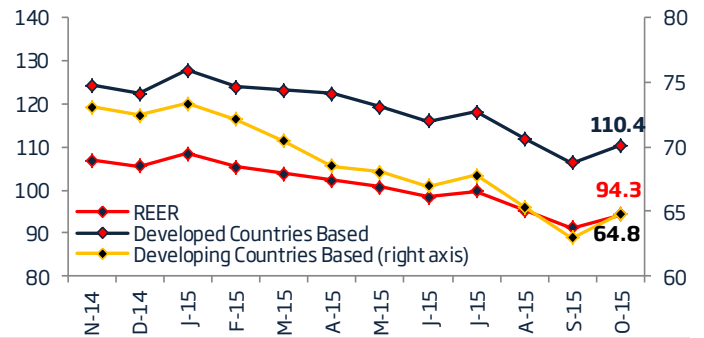


## FX Market

### Currency Basket

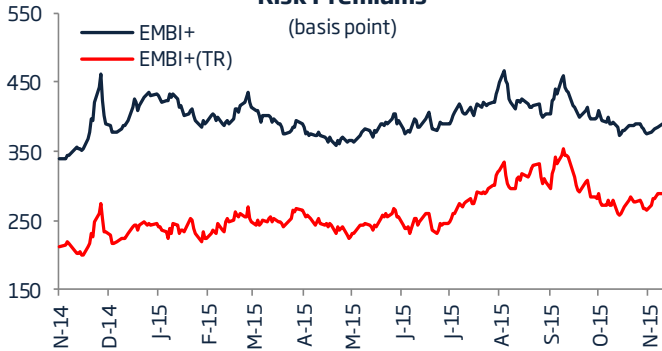


### CPI Based Real Effective Exchange Rate

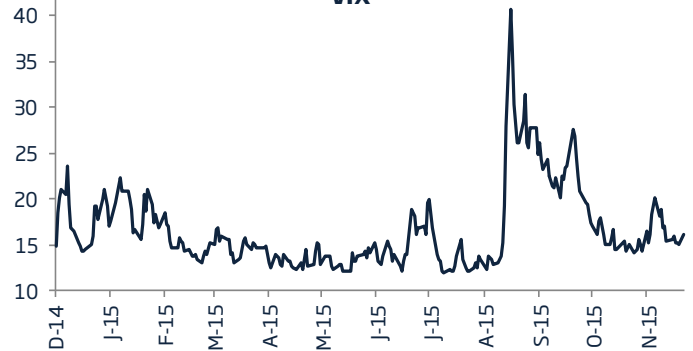


## Risk Indicators

### Risk Premiums (basis point)

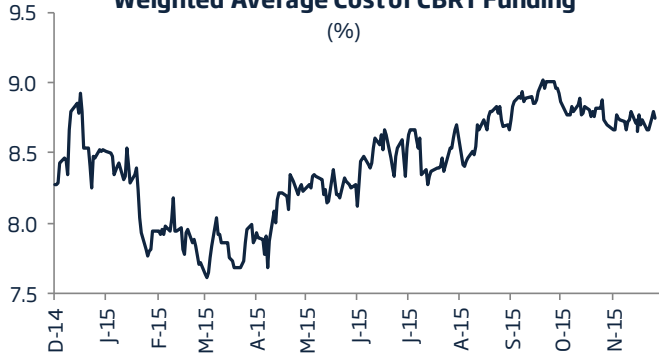


### VIX

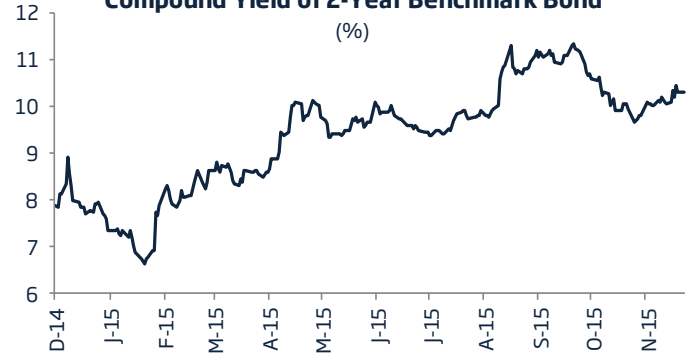


## Interest Rates

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

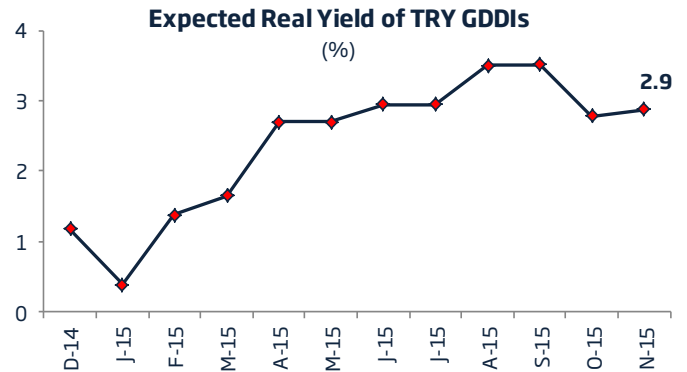
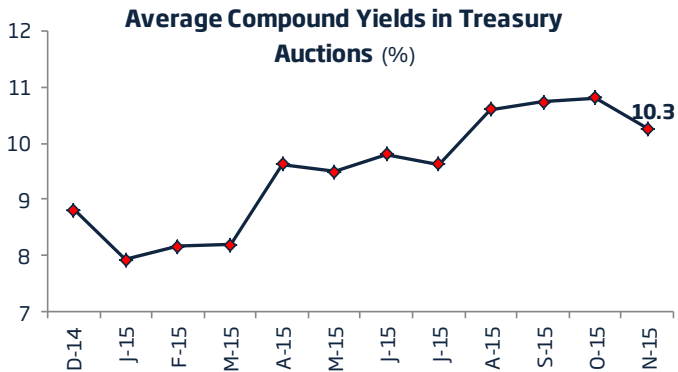


### Compound Yield of 2-Year Benchmark Bond (%)

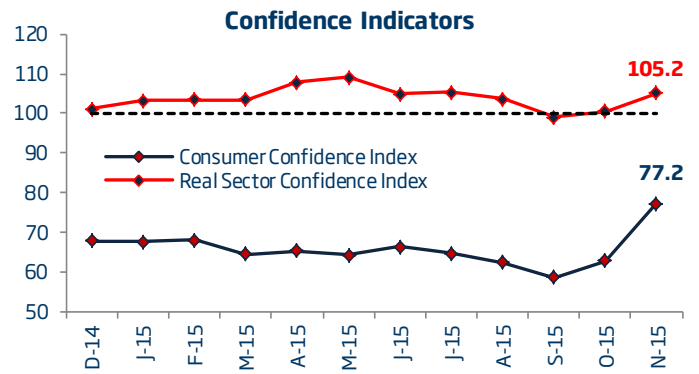
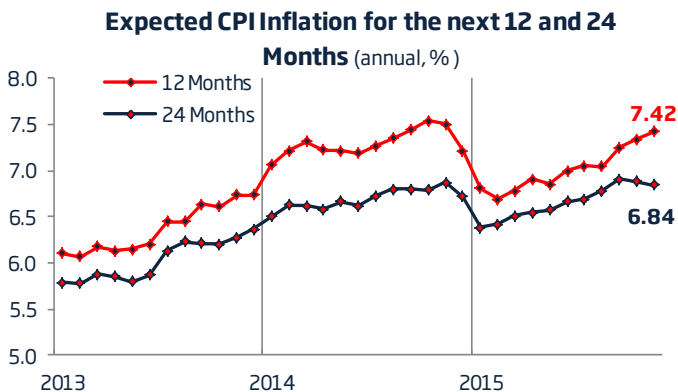
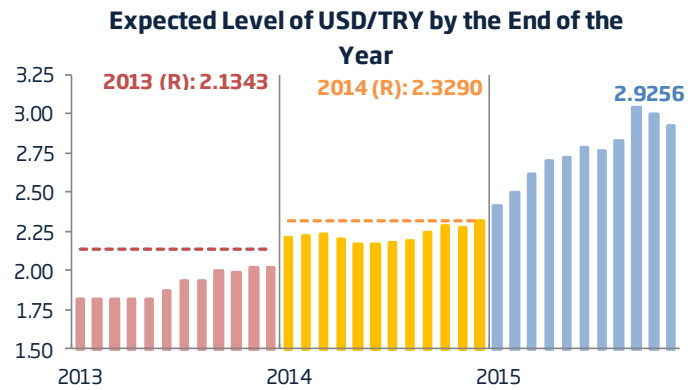
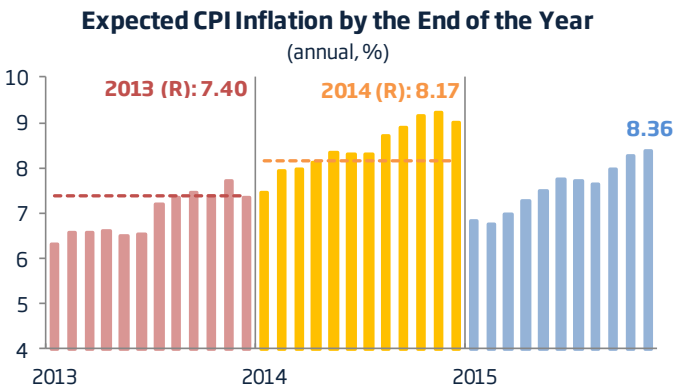
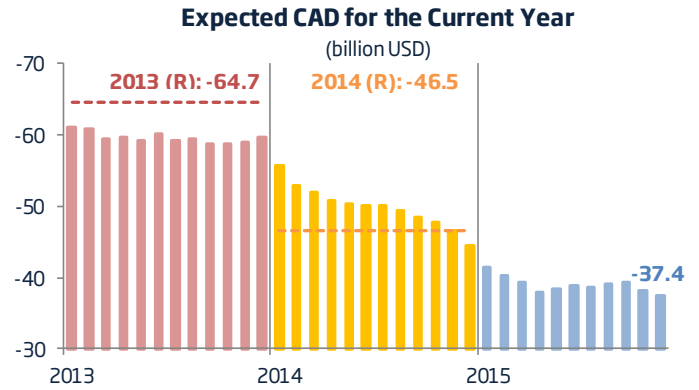
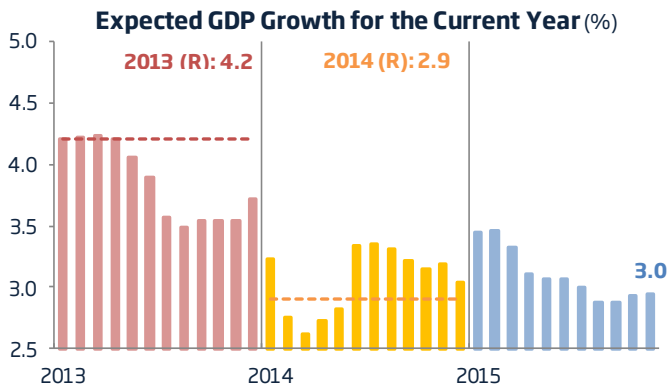


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## 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>Sep-15</b>	<b>Oct-15</b>	<b>Nov-15</b>
CPI (annual)	6.40	10.45	6.16	7.40	8.17	7.95	7.58	8.10
Domestic PPI (annual)	8.87	13.33	2.45	6.97	6.36	6.92	5.74	5.25
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Jun-15</b>	<b>Jul-15</b>	<b>Aug-15</b>
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.4	10.4	10.4
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	50.9	51.4	51.4	51.3
<b>FX Rates</b>						<b>Sep-15</b>	<b>Oct-15</b>	<b>Nov-15</b>
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	91.2	94.3	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	3.0278	2.9175	2.9135
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	3.3971	3.2096	3.0822
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	3.2125	3.0636	2.9979
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Aug-15</b>	<b>Sep-15</b>	<b>Oct-15</b>
Exports	113.9	134.9	152.5	151.8	157.6	148.4	146.4	146.8
Imports	185.5	240.8	236.5	251.7	242.2	223.9	218.7	216.4
<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>-75.4</b>	<b>-72.2</b>	<b>-69.6</b>
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	66.3	67.0	67.9
<b>Current Account Balance<sup>(1)</sup> (USD billion)</b>						<b>Jul-15</b>	<b>Aug-15</b>	<b>Sep-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>-45.3</b>	<b>-43.0</b>	<b>-40.6</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>-39.5</b>	<b>-37.3</b>	<b>-32.6</b>
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.7	-6.9	-9.7	-9.3
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.1	1.1	0.9	5.3
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-16.9	-29.2	-21.8	-21.4
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	-4.5	-6.8	-7.1
<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>5.9</b>	<b>5.7</b>	<b>8.0</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>Aug-15</b>	<b>Sep-15</b>	<b>Oct-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>319.7</b>	<b>367.7</b>	<b>404.2</b>
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	38.4	44.8	47.4
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.8	281.3	322.9	356.8
<b>Revenues</b>	<b>254.3</b>	<b>296.8</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>320.4</b>	<b>354.2</b>	<b>398.0</b>
Tax Revenues	210.6	253.8	278.8	326.2	352.5	268.7	298.3	333.3
<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>0.6</b>	<b>-13.5</b>	<b>-6.2</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>39.0</b>	<b>31.3</b>	<b>41.2</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>Aug-15</b>	<b>Sep-15</b>	<b>Oct-15</b>
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	435.0	438.2	438.2
External Debt Stock	120.7	149.6	145.7	182.8	197.5	241.2	251.6	239.4
<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>676.2</b>	<b>689.8</b>	<b>677.6</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	Sep.15	Oct.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>2,395.9</b>	<b>2,347.7</b>	<b>17.7</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>1,482.2</b>	<b>1,465.7</b>	<b>18.1</b>
TRY Loans	383.8	484.8	588.4	752.7	881.0	996.0	996.0	13.1
Share (%)	73.0	71.0	74.0	71.9	71.0	67.2	68.0	-
FX Loans	142.1	198.1	206.4	294.7	359.7	486.2	469.7	30.6
Share (%)	27.0	29.0	26.0	28.1	29.0	32.8	32.0	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	44.8	45.6	25.3
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	2.9	3.0	-
<b>Securities</b>	<b>287.9</b>	<b>285.0</b>	<b>270.0</b>	<b>286.7</b>	<b>302.3</b>	<b>322.2</b>	<b>325.6</b>	<b>7.7</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>2,395.9</b>	<b>2,347.7</b>	<b>17.7</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>1,269.2</b>	<b>1,238.3</b>	<b>17.6</b>
TRY Deposits	433.5	460.0	520.4	594.1	661.3	703.7	679.5	2.7
Share (%)	70.3	66.1	67.4	62.8	62.8	55.4	54.9	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	565.5	558.8	42.8
Share (%)	29.7	33.9	32.6	37.2	37.2	44.6	45.1	-
<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>104.2</b>	<b>100.7</b>	<b>12.8</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>377.0</b>	<b>361.4</b>	<b>23.2</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>150.9</b>	<b>157.0</b>	<b>14.3</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>247.3</b>	<b>256.0</b>	<b>10.3</b>
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	18.8	21.2	-
<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	61.9	62.4	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	13.5	13.9	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	53.0	52.7	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	116.8	118.4	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	14.6	15.3	-

(1) Year-to-date % change





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