



Monthly Economic Review

April 2016



Global Economy

- ◆ The recovery in oil prices which has taken place since February continued in March. Brent crude oil prices hovered around 40 USD/barrel.
- ◆ In addition to the upturn in oil prices, decisions taken by the leading central banks and remarks of the central banks' officials played a significant part in the trajectory of markets. Global risk appetite rose noticeably with the help of the accommodative monetary policy stances of central banks.
- ◆ Positive mood in the global markets was also reflected in emerging markets. As capital inflows towards these countries gained strength, local currencies appreciated against the US dollar.
- ◆ Fed kept interest rates unchanged at its meeting ended on March, 16. Fed cited that the economic activity has been expanding at a moderate pace in its statement issued after the meeting. The Fed officials predicted 2 rate hikes through the rest of the 2016, instead of the 4 increases projected in December.
- ◆ ECB took additional expansionary measures in line with the expectations at its meeting held on March, 10. ECB also revised downwards its expectations for the Euro Area owing to the developments in global economy. It was worth noting that annual inflation forecast for the end-2016 was lowered to 0.1% from 1%.
- ◆ Boj left its current monetary policy settings unchanged at its March meeting. The deterioration in the recent economic data increased question marks over the effectiveness of the economic policy.

Turkish Economy

- ◆ Turkish economy expanded by 5.7% yoy in the last quarter of 2015 marking the fastest pace of growth in the last 17 quarters. The rise in domestic demand and the positive contribution of net exports played a big part in this performance. In 2015 as a whole, the economy grew by 4.0% yoy, close to its potential growth rate.
- ◆ Industrial production displayed a strong performance by recording an annual increase of 5.6% in January, according to calendar adjusted figures. On the other hand, other leading indicators have painted a relatively weak picture.
- ◆ In February, export volume rose by 1.4% yoy and became 12.4 billion USD. In this period, the fall in import volume continued, but it lost momentum and was realized as 8.1% yoy. Thus, foreign trade deficit contracted by 32.8% yoy.
- ◆ Despite the low base effect, current account deficit came in at 2.2 billion USD in January, slightly below market expectations. Although tourism revenues exhibited a weak performance and net gold trade fell by 1 billion USD yoy, the contraction in current account deficit was noteworthy.
- ◆ Having posted a deficit of 2.4 billion TRY in February 2015, central government budget registered a surplus of 2.4 billion TRY in February 2016. Primary surplus also expanded by 44.4% yoy and became 6.5 billion TRY.
- ◆ Annual CPI inflation, which rose almost to double-digit level in January, decreased to 7.46% thanks to the second consecutive monthly fall. Having been at low levels during the last year with the help of the plunge in commodity prices, annual D-PPI inflation came in at 3.8%.

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The economy grew by 5.7% yoy in the 4th quarter.

Turkish economy expanded by 5.7% yoy in the last quarter of 2015 marking the fastest pace of growth in the last 17 quarters. The rise in domestic demand and the positive contribution of net exports played a big part in this performance. Seasonality and calendar shifts also had a favorable impact on growth. Indeed, calendar adjusted GDP growth was 4.1% yoy during this period. Seasonally and calendar adjusted GDP, registering an increase of 0.7% qoq, exhibited the weakest quarterly performance of 2015.

In 2015 as a whole, the economy grew by 4.0% yoy, close to its potential growth rate. Market expectations regarding the annual growth for 2015 had been hovering around 3% during the first few months of the last year.

National income in USD terms stands at the lowest level in 6 years...

GDP declined to 720 billion USD in 2015. GDP per capita dropped to 9,261 USD falling again below 10,000 USD after five consecutive years. This outlook mostly stemmed from the depreciation of TRY during this period.

Domestic demand gained momentum.

The revival in domestic demand pushed up the growth numbers throughout 2015. Private and public consumption expenditures contributed to growth by 3.0 and 0.7 pp, respectively. During the last quarter of the year, public expenditures' contribution of 1.1 pp to growth, the highest in six years, was noteworthy.

Investment expenditures supported the growth.

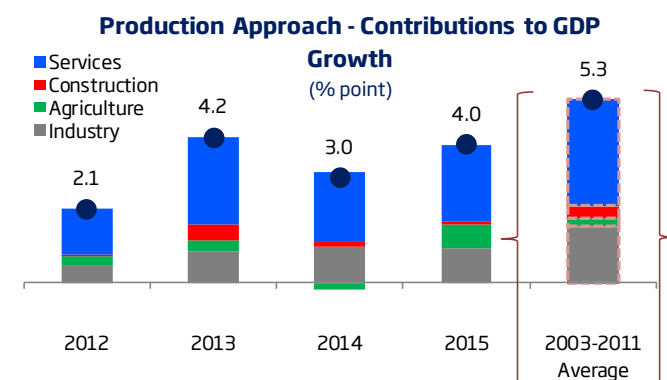
Having had an unfavorable impact on growth in 2014 mostly due to the fall in public investments, investment expenditures added 0.9 pp to growth in 2015. The increase in investments despite the heightened political uncertainties was worthy of attention. Public investments, supporting the growth in almost all 2015, made a contribution of 0.5 pp in the last quarter of the year.

Positive contribution of net exports in the 4Q ...

Net exports contributed 1.3 pp to the GDP growth in the last quarter partly thanks to the favorable base-effect. In 2015 as a whole, on the other hand, both imports and exports dragged down the economic growth. Thus, net exports limited the growth in 2015 by 0.3 pp.

The sectoral composition of growth ...

Production approach revealed that services sector, which has the highest share in GDP with 59.6% as of 2015, pushed up the growth by 2.2 pp. Services sector was followed by industrial sector with a contribution of 1 pp. Displaying the strongest performance of the last 10 years, agricultural sector made 0.7 pp contribution to growth. The construction sector, however, made a marginal contribution to growth in 2015 despite its solid performance in the last quarter of the year.



The positive outlook in the leading indicators...

Despite all the political and geopolitical vulnerabilities prevailed in 2015, Turkish economy recorded an annual growth performance of 4%, especially with the boost of the last quarter's growth data. Leading indicators suggested that the relatively strong performance in economic activity persisted also in the first quarter of 2016. Besides, the favorable base-effect for both net exports and industrial sector is considered to have supported the economic growth in this period. We expect that economic activity will sustain its moderate performance throughout the year.

Expenditure Approach - Contributions to GDP Growth (1998 prices)

(% point)

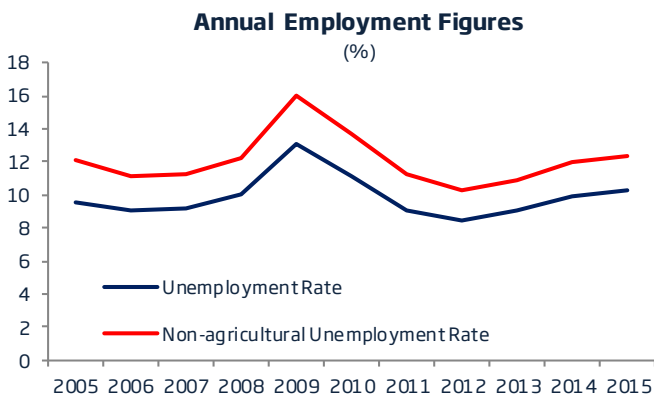
	2012		2013				2014					2015				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	0.3	3.0	4.5	3.9	5.1	4.1	2.7	0.6	0.7	2.1	1.5	3.3	4.3	3.1	4.3	3.7
Private	-0.3	2.2	3.6	3.7	4.1	3.4	1.8	0.3	0.1	1.8	1.0	3.0	3.5	2.3	3.2	3.0
Public	0.6	0.8	0.8	0.2	1.0	0.7	0.9	0.3	0.6	0.3	0.5	0.3	0.8	0.8	1.1	0.7
Investment	-0.7	0.1	0.9	1.3	1.9	1.1	-0.1	-0.9	-0.1	-0.3	-0.3	0.1	2.4	0.0	0.9	0.9
Private	-1.1	-1.3	-0.2	0.6	1.1	0.1	0.1	-0.3	0.4	0.1	0.1	0.2	2.0	-0.4	0.3	0.5
Public	0.4	1.4	1.1	0.7	0.7	1.0	-0.2	-0.6	-0.5	-0.3	-0.4	0.0	0.4	0.4	0.5	0.3
Change in Stock	-1.5	1.5	2.9	1.1	0.8	1.6	-0.3	-0.3	-1.5	1.5	-0.2	0.5	-1.8	0.9	-0.7	-0.3
Net Export	4.0	-1.4	-3.6	-2.0	-3.2	-2.6	2.8	3.0	2.6	-0.3	2.0	-1.4	-1.2	-0.1	1.3	-0.3
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	3.0	1.7	2.2	1.0	1.9	-0.4	-0.7	-0.4	0.6	-0.2
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.4	0.5	-1.3	0.1	-1.1	-0.4	0.3	0.8	-0.1
GDP	2.1	3.1	4.7	4.3	4.6	4.2	5.2	2.4	1.8	3.0	3.0	2.5	3.7	3.9	5.7	4.0

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

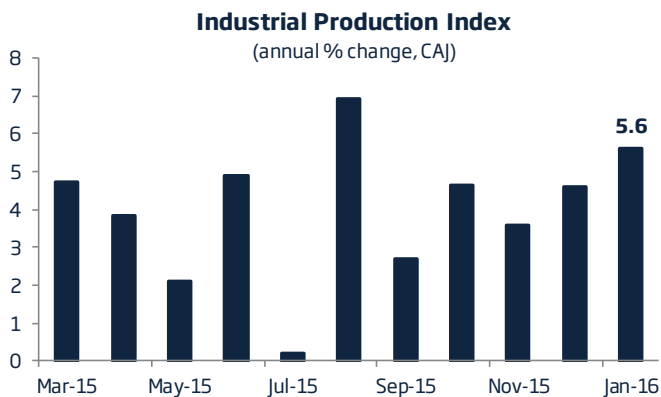
Unemployment rate came in at 10.3%.

Unemployment rate was realized as 10.3% in 2015, the highest annual reading of the last 5 years. In this period, youth unemployment rate and non-agricultural unemployment rate rose to 18.5% and 12.4%, respectively. The annual increase in employment, which was 1.3 million persons in 2014, dropped to 688 thousand persons in 2015. The only favorable development in employment figures was that the labor force participation rate reached a record level of 51.3%.



Industrial production surged above the expectations.

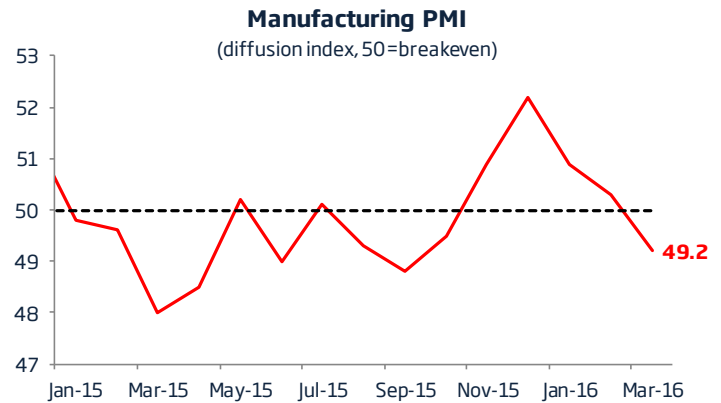
Positive outlook in industrial production figures persisted also in the first month of 2016. Industrial production, a prominent leading indicator for economic growth, displayed a strong performance by recording an annual increase of 5.6% in January, according to calendar adjusted figures. Contributions of pharmacy and textiles sectors to the surge in industrial production were noteworthy in this period. On the other hand, upward momentum in the index was limited by the contraction in the electronic sector as well as automotive sector which had marked a solid performance in 2015.



Manufacturing PMI fell below the threshold of 50.

The manufacturing PMI dropped to 49.2 in March from 50.3 in February. This below-threshold reading pointed to the

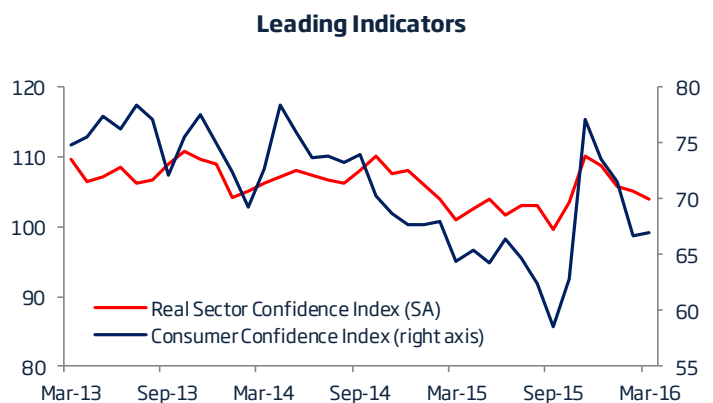
first deterioration in manufacturing business conditions since last October. Analysis of the sub-indices of the PMI revealed that output, orders and exports declined while employment stagnated. This outlook suggested that the rate of increase in industrial production might slow down in the upcoming months.



Fall in real sector confidence index...

Monthly decline in the seasonally adjusted real sector confidence index in March pointed to the deterioration in the sector's confidence on business conditions. Breakdowns in the assessments on both production and orders were the main drivers behind this decline. On the other hand, the participants' assessments on the general business situation were relatively optimistic in March. In this period, the consumer confidence index also continued to perform weakly.

According to seasonally adjusted figures, capacity utilization ratio (CUR) increased by 1.1 points mom. Pick-up of the capacity utilization in the manufacturing of coke and refined petroleum products, thanks to the "Resid Upgrading Project" initiated by TUPRAS at the end of 2014, continued to play a significant role in the rise of the CUR.



Source: Datastream, Turkstat, CBRT, Markit

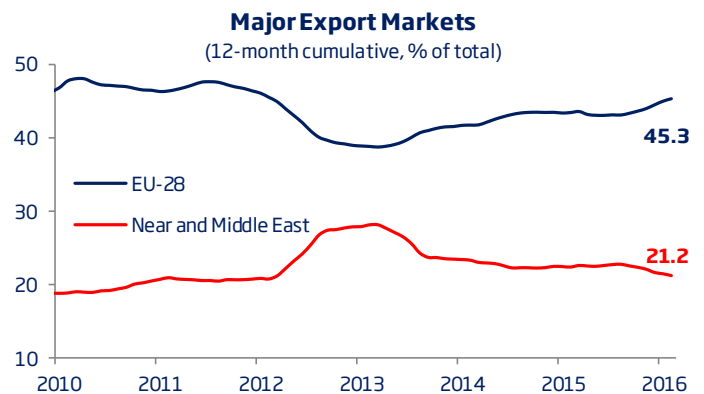
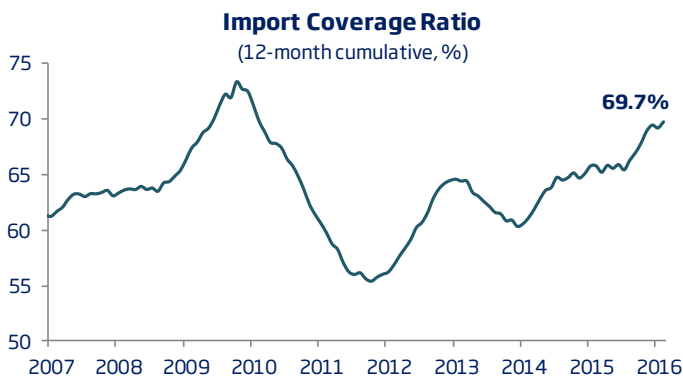
Foreign trade deficit narrowed by 32.8%.

In February, export volume rose by 1.4% yoy and became 12.4 billion USD. In this period, the fall in import volume continued, but it lost momentum and was realized as 8.1%. Thus, foreign trade deficit declined by 32.8% yoy and came in at 3.2 billion USD in the second month of the year.

According to the 12-month cumulative figures, export volume increased slightly to 141.3 billion USD while import volume fell to 202.6 billion USD. Accordingly, import coverage ratio reached 69.7%, the highest level of the last 6 years. Low energy prices which put downward pressure on imports played a significant role in this development.

rising by 17.4% yoy. In February, it was noteworthy that wearing apparels, one of the major export categories, posted an annual increase while the drop in exports of iron and steel was realized as 27.7% due to the sliding commodity prices and intensified global competition.

In line with the slightly recovering economic activity in the EU, exports to these countries displayed a positive outlook. In February, exports to the region surged by 10.8% yoy and reached 5.7 billion USD. 12-month cumulative figures revealed that exports to the EU countries climbed as high as 64 billion USD, equivalent to 45.3% of total exports. Exports to the Near and Middle Eastern countries, on the other hand, exhibited a weak outlook in the face of



Gold exports...

Despite falling by 9.1% in February compared to the previous year, precious stones and metals have been the biggest export item as their export volume amounted to 1.7 billion USD. In this period, exports of motor vehicles made also positive contribution to overall export performance,

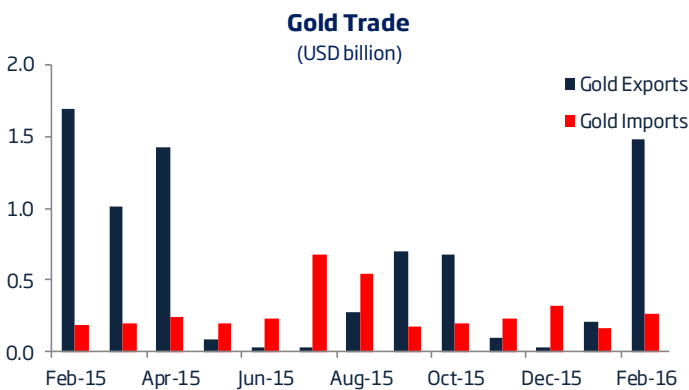
geopolitical developments.

The downward trend in energy imports continued.

The annual fall in Turkey's imports amounted to 1.4 billion USD in February. Energy import volume also plunged by 1.5 billion USD. Imports of iron and steel posted a substantial drop in this period on the back of the low metal prices due to the global excess supply. However, the rises in imports of automotive and aircraft were worth mentioning.

Expectations

The pace of economic activity in the EU, which has been the biggest export market of Turkey, continue to be important for export performance. On the other hand, geopolitical developments pose a downside risk to demand for exports. Recently, the relatively flat path of oil prices suggests that the ongoing drop in imports might lose momentum in the coming period.



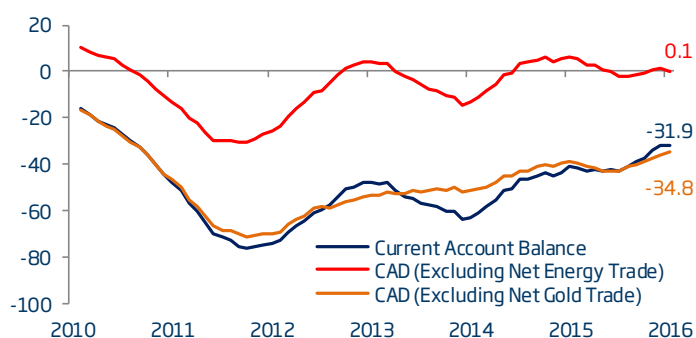
	February		Change (%)	Jan.-Feb.		Change (%)
	2015	2016		2015	2016	
Exports	12.2	12.4	1.4	24.5	22.0	-10.5
Imports	16.9	15.6	-8.1	33.6	29.0	-13.6
Foreign Trade Balance	-4.7	-3.2	-32.8	-9.1	-7.1	-22.0
Import Coverage Ratio (%)	72.2	79.7	-	73.0	75.7	-

Source: Datastream, Turkstat

The ongoing downward trend in CAD...

Despite the low base effect, current account deficit (CAD) came in at 2.2 billion USD in January, slightly below market expectations. Although tourism revenues exhibited a weak performance and net gold trade fell by 1 billion USD in this period, the contraction in CAD was noteworthy. 3 billion USD decline in imports played a significant role in this development. Thus, 12-month cumulative CAD was 31.9 billion USD, the lowest level in more than 5 years.

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



Decline in direct investment inflows...

Foreign direct investment inflow recorded an annual decrease of 1.1 billion USD in January and became 620 million USD. The reading was the lowest monthly capital inflow of last 17 months. As a result, net foreign direct investments, which exhibited a positive outlook throughout 2015, declined by 1.3 billion USD on an annual basis in the first month of 2016.

Outflow from portfolio investments continued.

Having registered a capital outflow of 15.5 billion USD in 2015, portfolio investments also posted an outflow of 1.2 billion USD in January 2016. A significant amount of this outflow stemmed from the redemption of banks' bond issues in international markets and non-residents' sales in equity market in this period. According to the 12-month cumulative data, net capital outflow in portfolio investments reached 18.2 billion USD, a record high level.

Elevated geopolitical risks and volatile conditions in global markets were significant in this development.

An inflow of 4.2 billion USD in other investments...

While foreign direct and portfolio investments displayed an unfavorable performance in the first month of the year, other investments posted a capital inflow of 4.2 billion USD. The rise of 2.4 billion USD in non-resident banks' currency and deposits held within domestic banks supported the increase in other investments. Also, a limited amount of inflow (585 million USD) was registered under the credit item.

Banks became a net credit borrower with a small amount of 53 million USD. On the other hand, non-bank sectors, using 1 billion USD net credits, contributed to the financing of the current account deficit. According to 12-month cumulative figures, banks' and non-bank sectors' long-term debt roll-over ratios became 329% and 157%, respectively. These high roll-over ratios indicated that the sectors did not face any difficulty in raising funds from abroad.

There has been no need for using CBRT reserves in current account financing in January. Having marked a significant contribution to the financing of the current account in 2015 as a whole, net errors and omissions posted an outflow of 1.1 billion USD in the first month of 2016.

Expectations...

Low energy prices continue to mitigate the risks to the current account through the import channel. However, the weak performance of the world trade as well as geopolitical issues exerts downward pressure on exports. In addition, should the domestic demand rise in the upcoming period, the decline in imports may lose steam along with an unfavorable basis effect. In 2016, the estimated decline in tourism revenues may also exacerbate the risks, yet the deficit is expected to remain relatively low.

Non-bank sectors were net borrowers both in short-term and long-term loans. They raised credits amounting to a net figure of 10.7 billion USD in long-term while they used a lot lesser amount of short-term loans during this period.

Breakdown of Net Capital Inflows

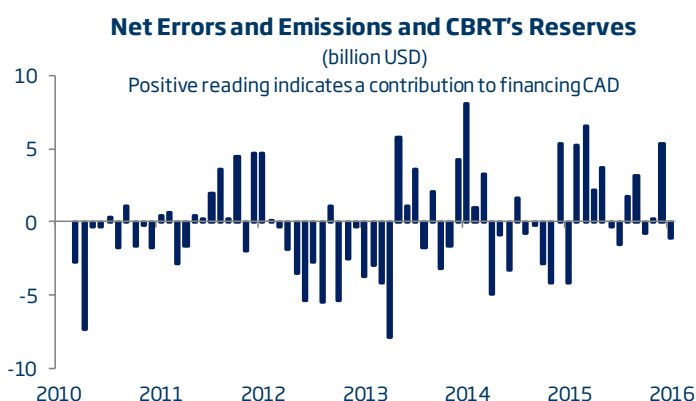
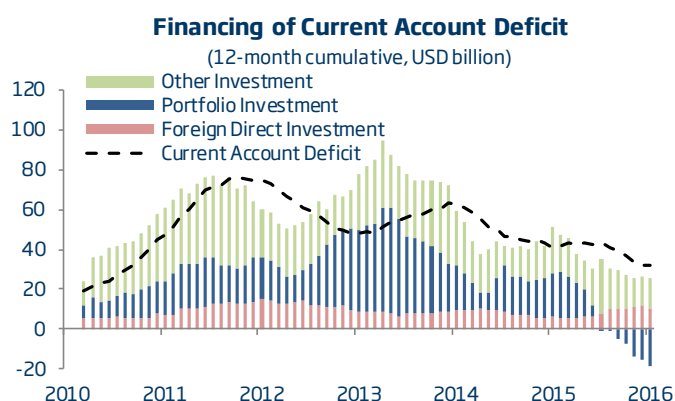
(12-month cumulative, USD million)

	USD million		Breakdown of Net Capital Inflows (%)	
	Dec. 2015	Jan. 2016	Dec. 2015	Jan. 2016
Current Account Balance	-32,105	-31,889	-	-
Total Net Foreign Capital Inflows	20,274	16,004	100.0	100.0
-Direct Investments	11,666	10,410	57.5	65.0
-Portfolio Investments	-15,468	-18,225	-76.3	-113.9
-Other Investments	14,753	15,406	72.8	96.3
-Net Errors and Omissions	9,344	8,417	46.1	52.6
-Other	-21	-4	-0.1	0.0
Reserves⁽¹⁾	11,831	15,885	-	-

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



Balance of Payments

(USD million)

	January		%	12-Month
	2015	2016	Change	Cumulative
Current Account Balance	-2,443	-2,227	-8.8	-31,889
Foreign Trade Balance	-3,095	-2,845	-8.1	-47,659
Services Balance	1,109	957	-13.7	23,863
Travel (net)	967	785	-18.8	21,066
Primary Income	-459	-434	-5.4	-9,502
Secondary Income	2	95	4,650.0	1,409
Capital Account	-2	15	-	-4
Financial Account	-2,642	-3,336	26.3	-23,476
Direct Investments (net)	-1,536	-280	-81.8	-10,410
Portfolio Investments (net)	-1,590	1,167	-	18,225
Net Acquisition of Financial Assets	278	393	41.4	6,213
Net Incurrence of Liabilities	1,868	-774	-	-12,012
Equity Securities	506	-261	-	-3,162
Debt Securities	1,362	-513	-	-8,850
Other Investments (net)	-3,533	-4,186	18.5	-15,406
Currency and Deposits	-2,504	-3,342	33.5	1,269
Net Acquisition of Financial Assets	365	-945	-	13,684
Net Incurrence of Liabilities	2,869	2,397	-16.5	12,415
Central Bank	-42	-18	-57.1	-892
Banks	2,911	2,415	-17.0	13,307
Foreign Banks	2,976	2,440	-18.0	9,406
Foreign Exchange	2,027	706	-65.2	3,387
Turkish Lira	949	1,734	82.7	6,019
Non-residents	-65	-25	-61.5	3,901
Loans	-1,797	-585	-67.4	-12,465
Net Acquisition of Financial Assets	109	390	257.8	1,073
Net Incurrence of Liabilities	1,906	975	-48.8	13,538
Banking Sector	1,407	53	-96.2	3,496
Non-bank Sectors	801	1,038	29.6	11,094
Trade Credit and Advances	774	-363	-	-4,058
Other Assets and Liabilities	-6	104	-	-152
Reserve Assets (net)	4,017	-37	-	-15,885
Net Errors and Omissions	-197	-1,124	471	8,417

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: CBRT, Datastream

Favorable budget performance in the first two months of the year...

Having posted a deficit of 2.4 billion TRY in February 2015, central government budget registered a surplus of 2.4 billion TRY in February 2016. Primary surplus also expanded by 44.4% yoy and became 6.5 billion TRY.

During the first two months of the year, budget surplus came in at 6.6 billion TRY, significantly exceeding the figure recorded in the same period last year (1.4 billion TRY). This favorable performance mostly stemmed from the falls in capital and interest expenditures along with the strong surge in tax revenues.

Tax revenues continued to support the budget balance.

Tax revenues increased annually by more than 10% in February. The composition of the 3.7 billion TRY rise in tax revenues during this period revealed that 37% of the increase came from income taxes. Another 36% of the rise stemmed from expansion in value added tax (VAT) on imports. VAT revenues also grew by 11.4% yoy in line with the moderate outlook in domestic demand. Having backed the budget revenues in January, special consumption tax revenues slid in February.

A sharp fall in interest expenditures...

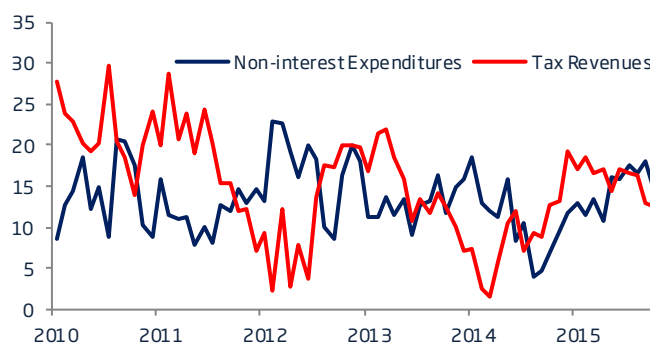
Interest expenditures, which stood at high levels in February 2015, dropped by 40.1% yoy in February 2016.

Capital expenditures also painted a similar picture. Along with the 1.1 billion TRY decline in “immovable capital produce” expenses, the contraction in total capital expenditures bolstered budget performance. However, the surges in current transfers and personnel expenditures raised the budget expenditures. Non-interest expenditures, having expanded by 21% in February 2015, posted a mild increase of 7.2% in February 2016

Against this backdrop, the recent steps that are expected to widen the expenditures, such as the minimum wage hike, had a limited impact on budget balance as of February 2016. Indeed, the courses of tax revenues and non-interest expenditures followed a similar pattern in the first two months of the year. In 2015 as a whole, on the other hand, tax revenues had outperformed the non-interest expenditures.

Non-interest Expenditures and Tax Revenues

(3-month ma, annual % change)

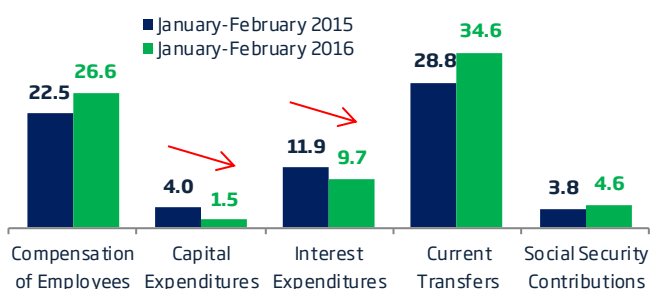


A better-than-expected outlook...

As the election promises are coming into effect, non-interest expenditures are expected to increase. Even though this implies that the budget deficit may grow in the upcoming period, no sign of deterioration was observed during the first two months of 2016.

Budget Expenditures

(TRY billion)



Central Government Budget

(TRY billion)

	February			January-February			2016 Budget	
	2015	2016	% Change	2015	2016	% Change	Target	Real./Target (%)
Expenditures	42.5	42.3	-0.5	78.9	84.8	7.6	570.5	14.9
Interest Expenditures	6.9	4.1	-40.1	11.9	9.7	-18.2	56.0	17.4
Non-Interest Expenditures	35.6	38.2	7.2	66.9	75.1	12.2	514.5	14.6
Revenues	40.2	44.7	11.4	80.3	91.4	13.9	540.8	16.9
Tax Revenues	34.6	38.4	10.8	69.5	78.0	12.3	459.2	17.0
Other Revenues	5.5	6.4	14.8	10.8	13.4	24.4	81.7	16.4
Budget Balance	-2.4	2.4	-	1.4	6.6	369.2	-29.7	-
Primary Balance	4.5	6.5	44.4	13.3	16.4	22.8	26.3	62.1

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

Source: Ministry of Finance, Datastream

CPI recorded a monthly fall.

CPI dropped by 0.04% mom in March while Domestic PPI (D-PPI) rose by 0.40% mom. The market had expected a more than 0.5% increase in CPI in this period. As a result, CPI recorded a limited decline contrary to the market expectation of a rise as it was the case in the last month.

March	CPI		D-PPI	
	2015	2016	2015	2016
Change (%)				
Monthly	1.19	-0.04	1.05	0.40
Year-to-Date	3.03	1.75	2.60	0.75
Annual	7.61	7.46	3.41	3.80
Annual Average	8.70	7.96	8.03	5.64

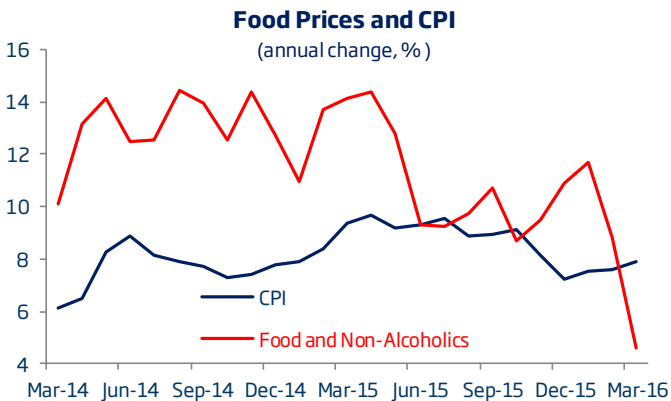
Annual CPI inflation was 7.46%.

Annual CPI inflation, which approached double-digit level in January, decreased to 7.46% thanks to the second consecutive monthly fall. Having been at low levels during the last year with the help of the plunge in commodity prices, annual D-PPI inflation came in at 3.8%.

Food prices pulled the inflation down.

Seasonal factors limited the monthly inflation in March. Indeed, monthly CPI inflation rose to 0.32% when seasonal products are excluded. On the other hand, as the monthly CPI excluding energy prices dropped by 0.14%, the developments in energy prices had an upward impact on CPI.

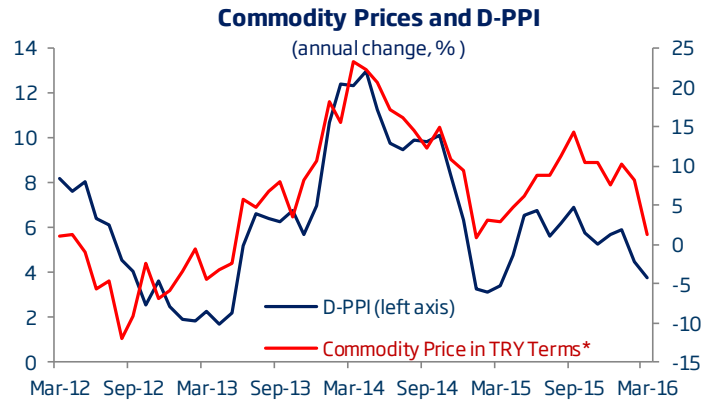
In March, food, communication and recreation-culture were the only sub-groups which registered a monthly price decline. 1.53% of decrease in food prices, having the biggest share (23.68%) among CPI basket, was main driver behind the fall in inflation. Annual rise in food prices fell to 4.58%, the lowest level since December 2012. The drop recorded in food prices for the second month in a row and the high base effect of the last year played an important role in this development. Annual food inflation surpassed 14% in March 2015. Despite the second consecutive fall in CPI, annual inflation in core indicators stood higher than 9%.



D-PPI rose by 0.40%.

The increase in global commodity prices observed in March played a big part in the rise of D-PPI. The CRB commodity price index went up by 2.8% mom during this period. On the other hand, the mild appreciation in TRY limited the impact of surging commodity prices on D-PPI ([The Impact of Commodity Prices on Inflation](#)).

The prices of coke and refined petroleum products surged by 9.31% mom as the oil prices moved up in March. In addition, the price increases in basic metals industry also pushed D-PPI upwards during this period. On the other hand, the drop in prices of electricity and gas sectors pulled D-PPI down by 14 basis points.



Expectations...

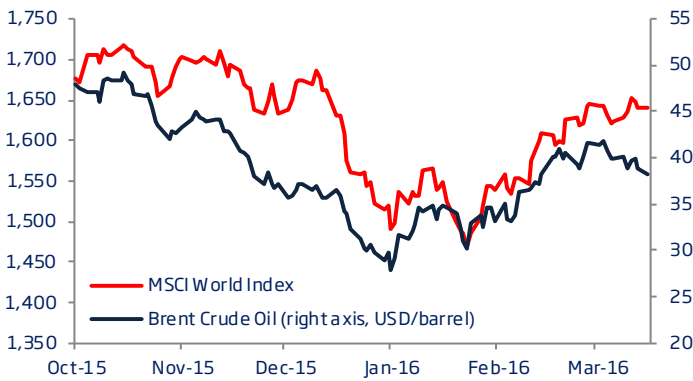
We expect that seasonal factors will put some upward pressure on CPI inflation in April. In particular, we estimate that the contribution of the price increases in clothing and footwear group to the monthly inflation may hover around 80-100 basis points. However, this unfavorable effect can largely be eliminated should the downward trend in food prices persist and the improvement in TRY provide further support.

(*) Based on CRB Commodity Price Index
Source: Datastream, Turkstat

Positive mood in global markets...

The upturn in oil prices supported the global markets in March. Even though markets have been uneasy before the Fed's March meeting, recovery trend continued after the meeting as the Fed's statements remained accommodative. The improvement was more evident in emerging markets. In the following period, Yellen's cautious comments over rate hikes boosted risk appetite despite the divergent opinions by the Fed officials on interest rate policy. Against this backdrop, VIX index, a measure for global risk perception, fell to the lowest level in the last seven and a half months on March 30.

MSCI World Index and Oil Price



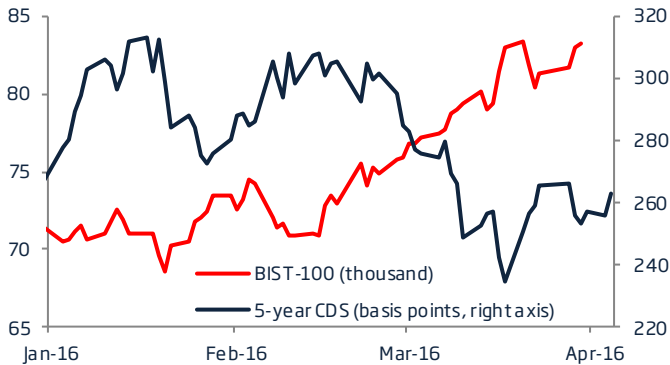
Upward trend in BIST-100 index...

The positive mood in global markets mirrored in domestic markets. CDS premiums generally moved down since the mid-February and BIST-100 index increased. However, the rising geopolitical risks weighed on the markets somewhat. BIST-100 index went up by 9.8% on a monthly basis as of March 31.

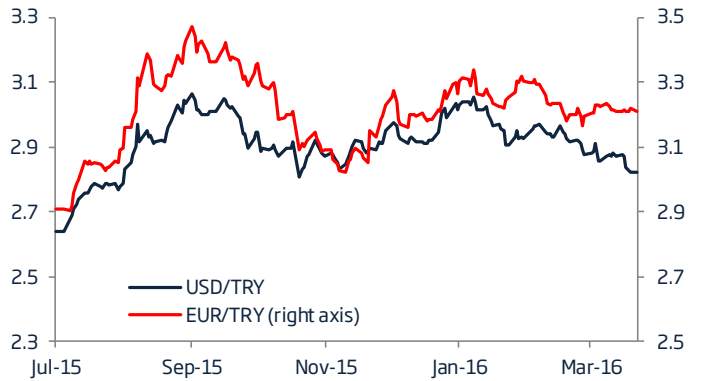
Decline in USD/TRY...

Following a declining trend since the mid-February, USD/TRY fell to 2.8110 on March 31, the lowest level since November 3. USD/TRY dropped by 5% on a monthly basis and stood at 2.8274 at the end of the month.

CDS and BIST-100



FX Rates

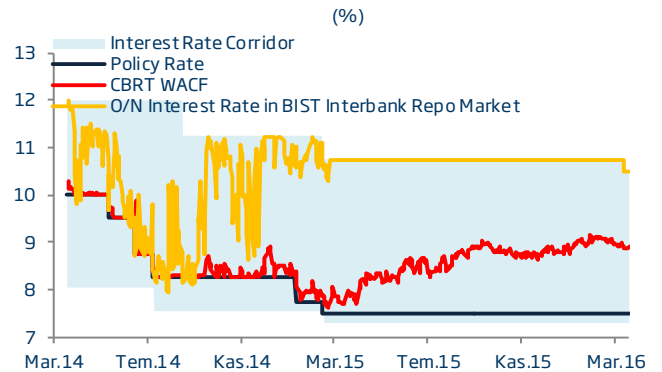


2-year benchmark yield declined as the foreign capital inflows increased. The yield receded again to single-digit level and became 9.99% as of March 31.

CBRT lowered the upper band.

CBRT cut the upper band of the interest rate corridor by 25 basis points to 10.50% at its meeting held on March 24. Policy rate and the lower band of the corridor (ON borrowing rate) remained unchanged at 7.5% and 7.25%, respectively. The cut in the upper band indicated that the first steps towards the simplification of monetary policy, which had been announced in August 2015, began to be taken. CBRT suggested in its statement that the need for a wider interest rate corridor lessened along with the drop in global volatility and the effective use of monetary policy instruments.

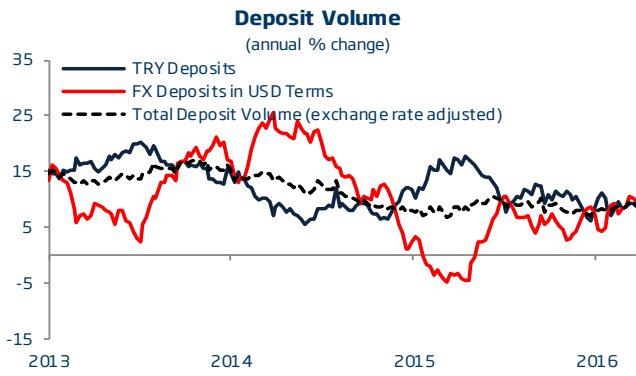
CBRT Interest Rates



Source: CBRT, Reuters, Datastream, BIST

Deposit growth slowed down.

According to BRSA's Weekly Bulletin, deposit volume expanded by 13.8% yoy as of March 25 and reached 1,359 billion TRY. The annual growth rate in deposit volume came in at the lowest reading for the last one year. Exchange rate adjusted deposit volume increased by 9.0% in this period. While TRY deposits rose by 8.5% yoy, FX deposits in USD terms gained momentum in recent weeks when a downward movement in FX rates was registered.

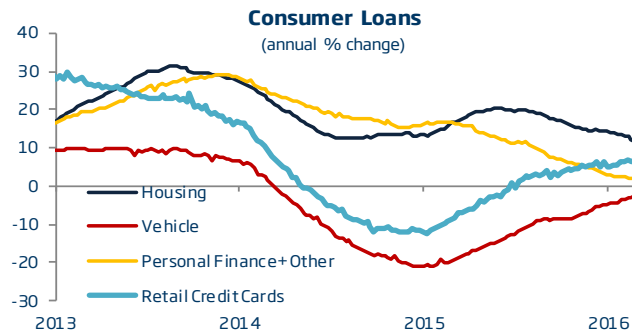


Loan volume posted an annual rise of 14.5%.

As of March 25, loan volume increased by 14.5% yoy and was realized as 1,532 billion TRY. According to the exchange rate adjusted figures, the annual rate of growth in loans fell to 11.1%.

Consumer loans posted an annual increase of 6.1%. Thus, consumer loans expanded at its lowest pace since October 2009. Retail credit card volume also exhibited a weak outlook in this period, rising by 5.9% yoy. 3.5% year-to-date contraction in retail credit card volume was worth mentioning.

As of March 25, commercial and corporate loans expanded by 17.7% yoy. According to the exchange rate adjusted figures, commercial and corporate loans grew by 12.9% yoy, the lowest reading since August 2012.

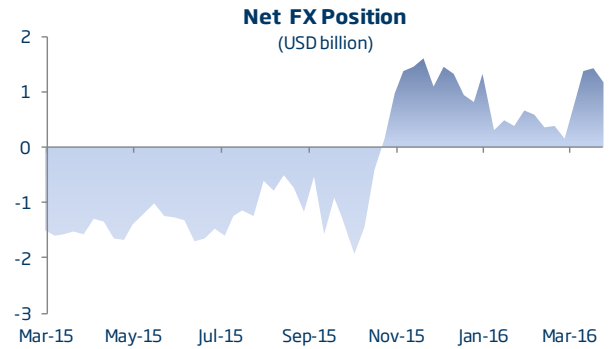


Securities portfolio...

Securities portfolio of banking sector remained relatively flat. Securities portfolio of banking sector rose by 0.9% ytd and came in at 331 billion TRY as of March 25. Securities subject to repo transactions, which have the highest share in securities portfolio, decreased by 1.2% in this period. Available for sale securities portfolio, however, expanded by 8.5% ytd.

Net FX position...

As of March 25, banks' on-balance sheet FX position was (-)27,313 million USD while off-balance sheet FX position was (+)28,477 million USD. Hence, banks' net FX position was realized as (+) 1,163 million USD.



Concluding Remarks

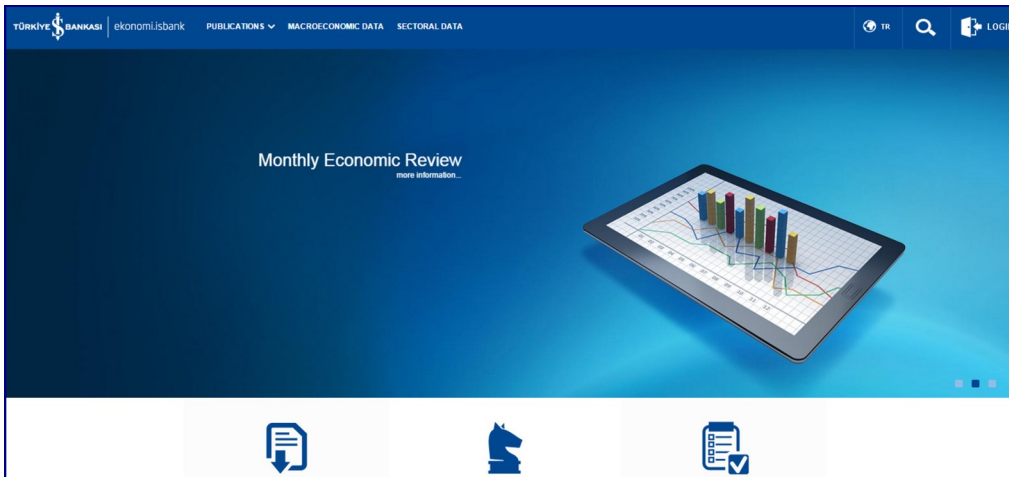
Global markets witnessed a broad-based upsurge in March. Particularly, as the signs were reinforced by the March meeting that the path of the Fed rate hikes would be gradual, risk appetite of investors increased considerably. However, mixed messages from the Fed officials and fluctuations in oil prices exert some downward pressure on the markets occasionally. In an environment where there have been abrupt shifts in the direction of markets, questions over the persistence of upward trend increased.

The favorable mood in international markets was also reflected in domestic markets. However, ongoing geopolitical risks have limited this impact. Turkish economy, which performed far stronger than the expectations in 2015, is anticipated to have grown at a similar pace in the first few months of 2016. Nevertheless, a combination of the slowing global trade and elevating geopolitical risks keep weighing on the economy via export and tourism channels. Yet, sustained low energy prices have exhibited a favorable outlook in terms of current account deficit which has long been main source of fragility for Turkish economy.

Forecasts (%)	2015(R)	2016
Growth	4,0	3,5
CA Deficit/GDP	4,5	5,5
Inflation	8,8	7,5

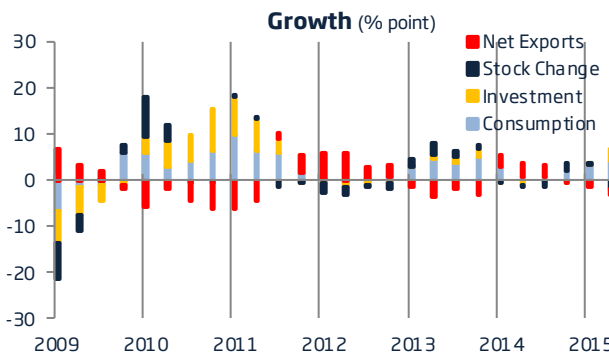
(R) Realization
Year-end forecast for inflation

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

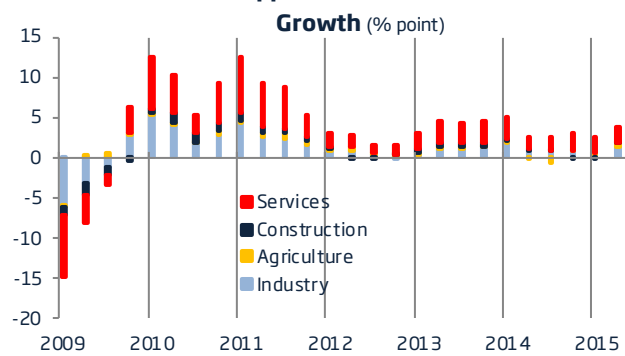


Growth

Expenditure Approach - Contributions to GDP

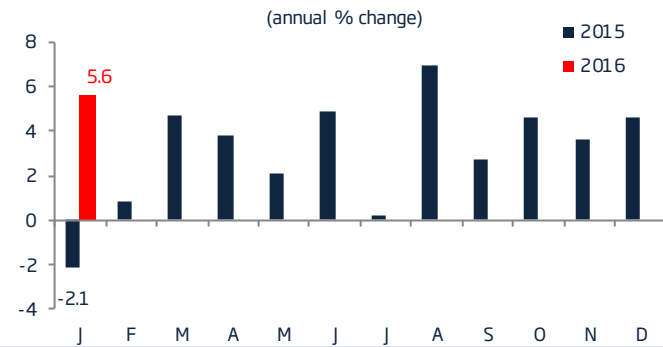


Production Approach - Contributions to GDP

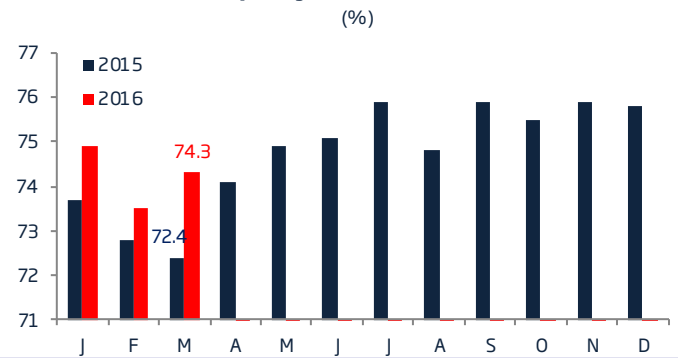


Industrial Production and Capacity Utilization Ratio

Industrial Production*

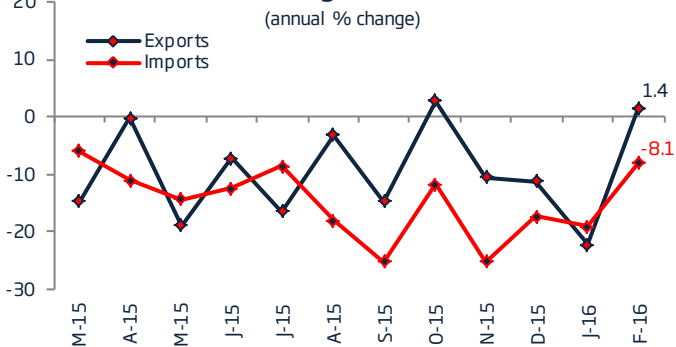


Capacity Utilization Ratio

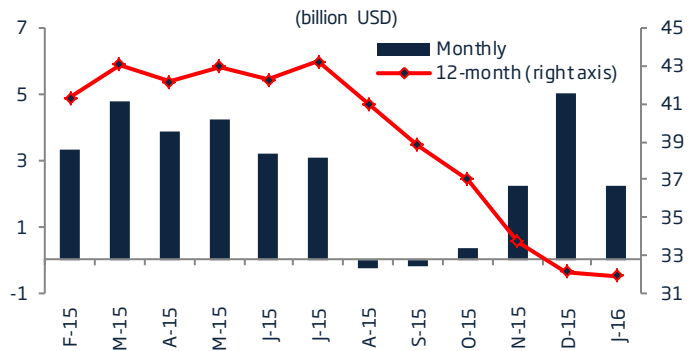


Foreign Trade and Current Account Balance

Foreign Trade

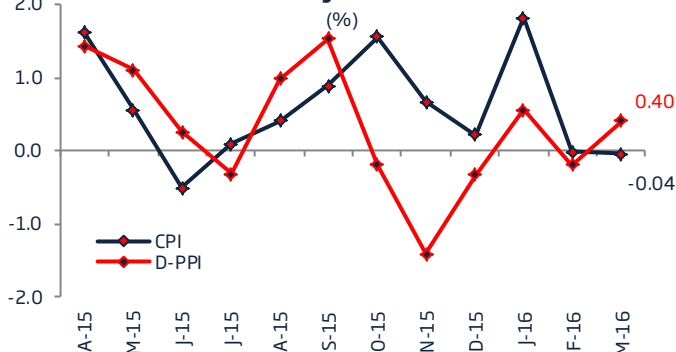


Current Account Deficit

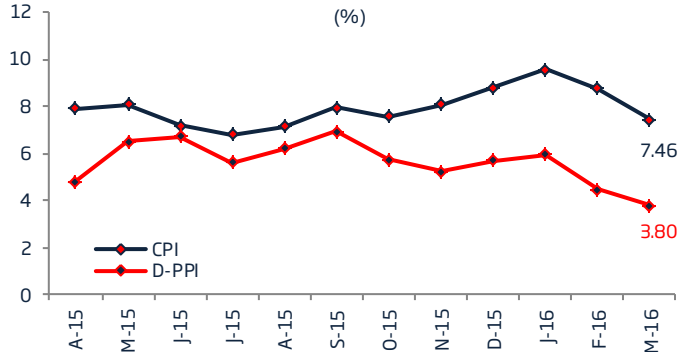


Inflation

Monthly Inflation



Annual Inflation

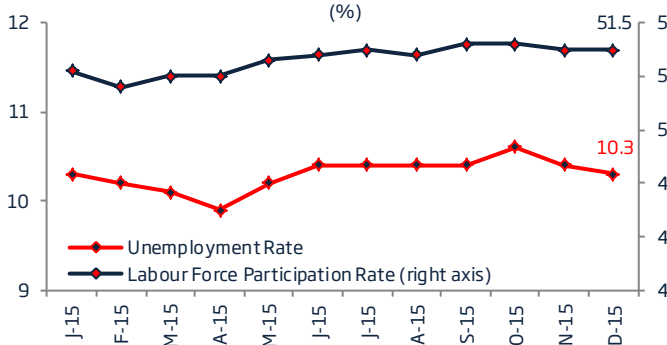


(*) Calendar adjusted figures

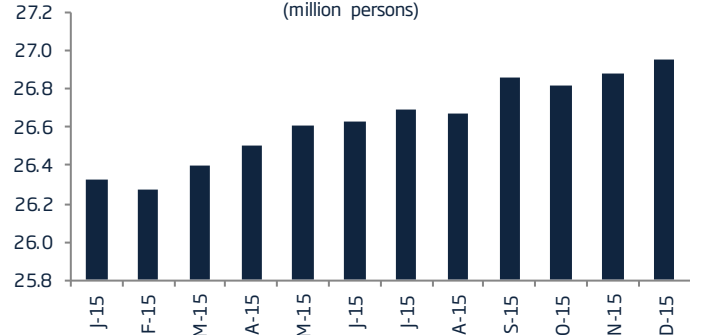
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

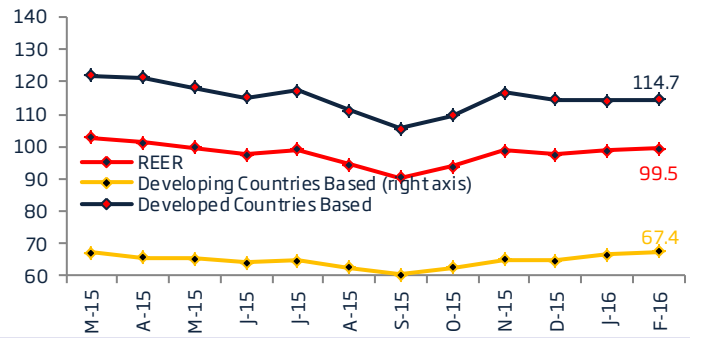


FX Market

Currency Basket

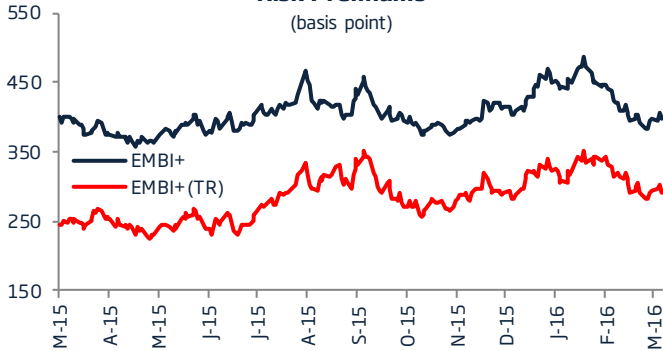


CPI Based Real Effective Exchange Rate

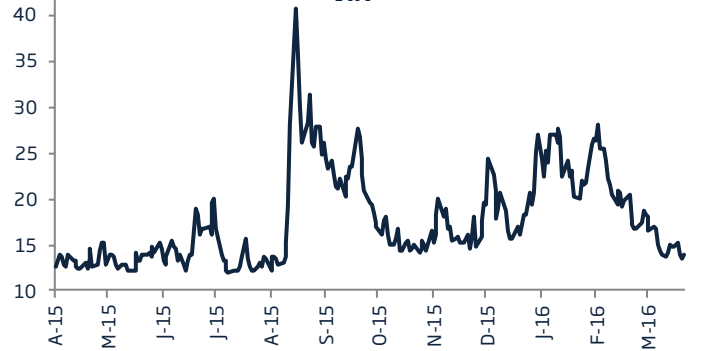


Risk Indicators

Risk Premiums (basis point)

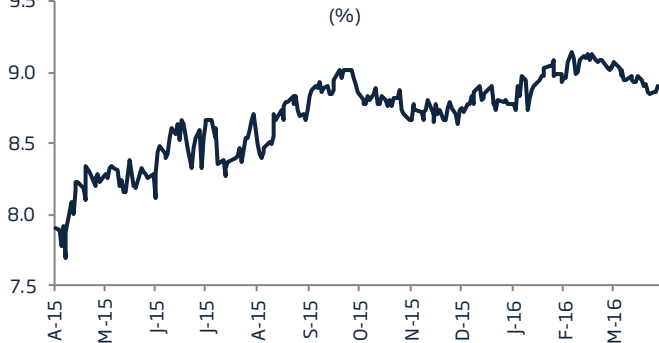


VIX

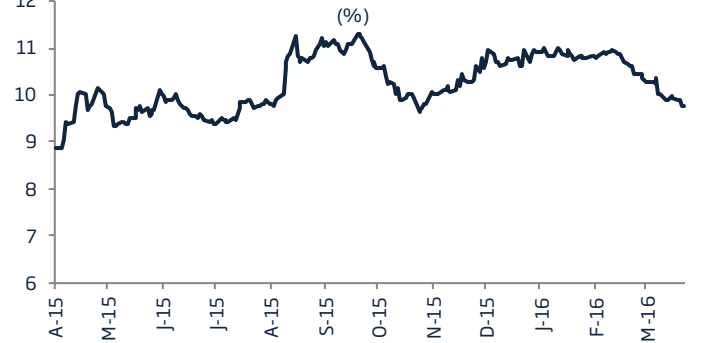


Interest Rates

Weighted Average Cost of CBRT Funding (%)

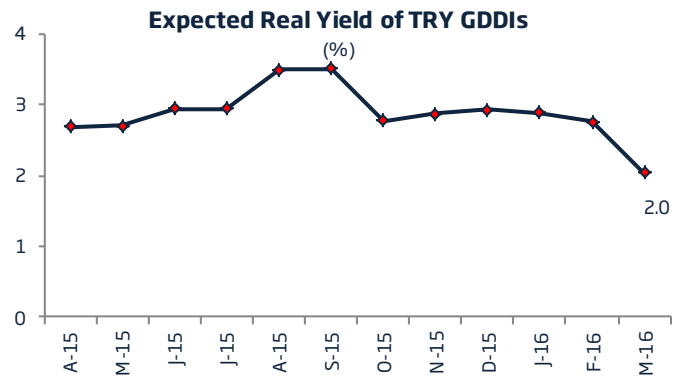
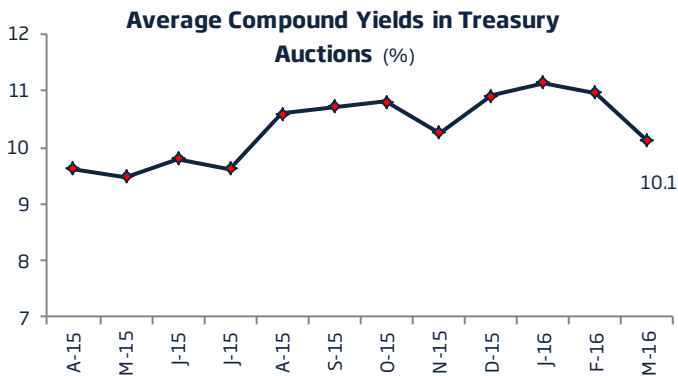


Compound Yield of 2-Year Benchmark Bond (%)

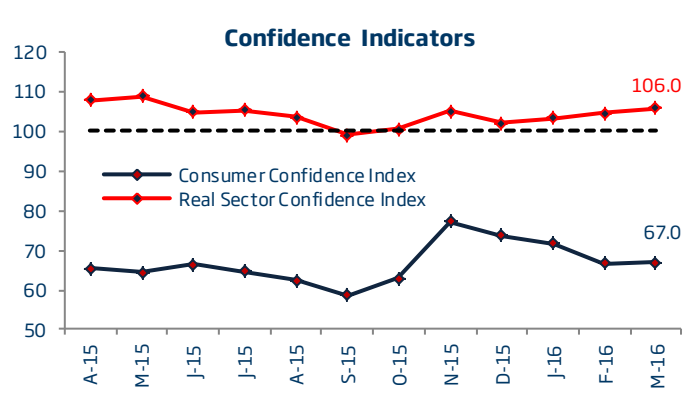
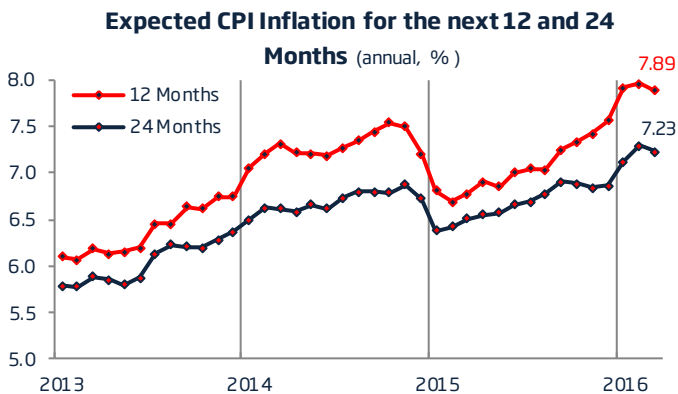
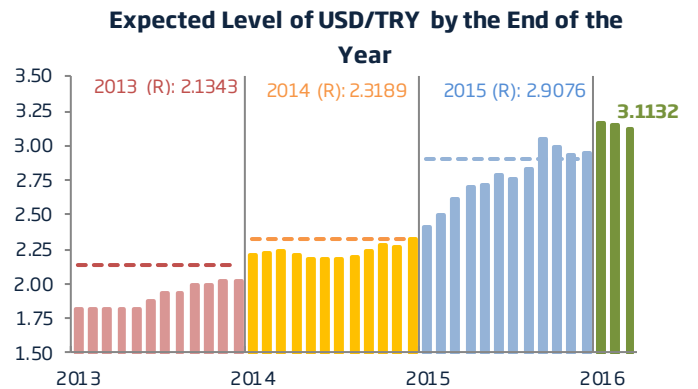
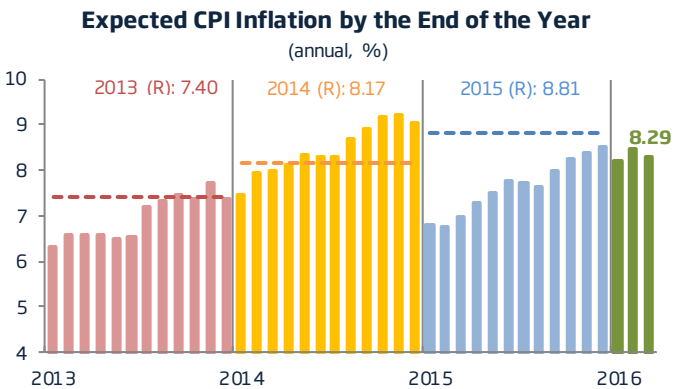
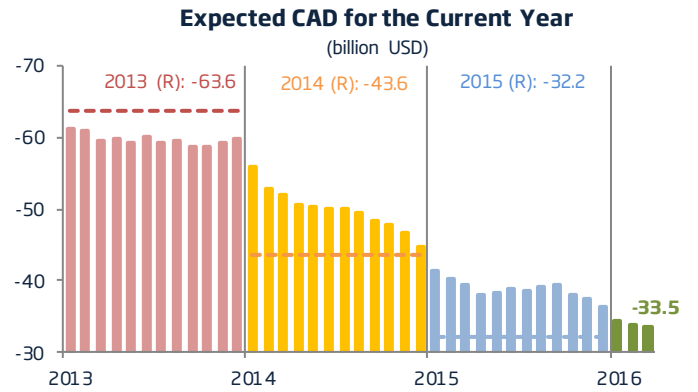
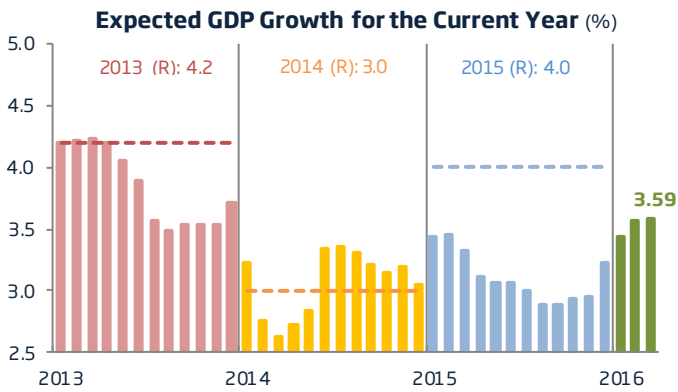


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

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

Growth	2011	2012	2013	2014	2015	16-Q1	16-Q2	16-Q3
GDP (USD billion)	774	786	823	799	720			
GDP (TRY billion)	1,298	1,417	1,567	1,748	1,954			
GDP Growth Rate (%)	8.8	2.1	4.2	3.0	4.0			
Inflation (%)						Jan-16	Feb-16	Mar-16
CPI (annual)	10.45	6.16	7.40	8.17	8.81	9.58	8.78	7.46
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	5.94	4.47	3.80
Seasonally Adjusted Labor Market Figures								
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.3			
Labor Force Participation Rate (%)	47.2	48.5	48.5	50.9	51.5			
FX Rates						Jan-16	Feb-16	Mar-16
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	104.9	97.7	98.8	99.5	
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	2.9635	2.9638	2.8274
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.2321	3.2334	3.2119
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.0978	3.0986	3.0197
Foreign Trade Balance⁽¹⁾ (USD billion)						Jan-16	Feb-16	
Exports	134.9	152.5	151.8	157.6	143.9	141.1	141.3	
Imports	240.8	236.5	251.7	242.2	207.2	204.0	202.6	
Foreign Trade Balance	-105.9	-84.1	-99.9	-84.6	-63.3	-62.9	-61.3	
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	69.2	69.7	
Balance of Payments⁽¹⁾ (USD billion)						Jan-16		
Current Account Balance	-74.4	-48.0	-63.6	-43.6	-32.1	-31.9		
Capital and Financial Accounts	-66.1	-48.9	-62.3	-42.1	-22.8	-23.5		
Direct Investments (net)	-13.8	-9.2	-8.8	-5.5	-11.7	-10.4		
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.5	18.2		
Other Investments (net)	-28.3	-19.6	-39.5	-16.0	-14.8	-15.4		
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	-15.9		
Net Errors and Omissions	8.3	-0.9	1.4	1.6	9.3	8.4		
Current Account Balance/GDP (%)	-9.6	-6.1	-7.7	-5.5	-4.5	-		
Budget⁽²⁾⁽³⁾ (TRY billion)						Jan-16	Feb-16	
Expenditures	314.6	361.9	408.2	448.8	506.0	42.5	84.8	
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	5.6	9.7	
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	36.9	75.1	
Revenues	296.8	332.5	389.7	425.4	483.4	46.7	91.4	
Tax Revenues	253.8	278.8	326.2	352.5	407.5	39.7	78.0	
Budget Balance	-17.8	-29.4	-18.5	-23.4	-22.6	4.2	6.6	
Primary Balance	24.4	19.0	31.4	26.5	30.4	9.8	16.4	
Budget Balance/GDP (%)	-1.4	-2.1	-1.2	-1.3	-1.2	-	-	
Central Government Debt Stock (TRY billion)						Jan-16	Feb-16	
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	443.1	444.1	
External Debt Stock	149.6	145.7	182.8	197.5	237.5	242.8	240.8	
Total Debt Stock	518.4	532.2	585.8	612.1	677.6	685.8	684.9	

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2011	2012	2013	2014	2015	Jan.16	Feb.16	Change ⁽¹⁾
TOTAL ASSETS	1,217.7	1,370.7	1,732.4	1,994.3	2,357.5	2,375.4	2,415.9	2.5
Loans	682.9	794.8	1,047.4	1,240.7	1,485.0	1,498.0	1,511.2	1.8
TRY Loans	484.8	588.4	752.7	881.0	1,013.4	1,017.0	1,027.2	1.4
Share (%)	71.0	74.0	71.9	71.0	68.2	67.9	68.0	-
FX Loans	198.1	206.4	294.7	359.7	471.5	481.0	484.0	2.6
Share (%)	29.0	26.0	28.1	29.0	31.8	32.1	32.0	-
Non-performing Loans	19.0	23.4	29.6	36.4	47.5	49.3	51.1	7.4
Non-performing Loan Rate (%)	2.7	2.9	2.8	2.9	3.1	3.2	3.3	-
Securities	285.0	270.0	286.7	302.3	329.7	334.8	334.3	1.4
TOTAL LIABILITIES	1,217.7	1,370.7	1,732.4	1,994.3	2,357.5	2,375.4	2,415.9	2.5
Deposits	695.5	772.2	945.8	1,052.7	1,245.4	1,249.8	1,269.4	1.9
TRY Deposits	460.0	520.4	594.1	661.3	715.4	722.0	736.6	3.0
Share (%)	66.1	67.4	62.8	62.8	57.4	57.8	58.0	-
FX Deposits	235.5	251.8	351.7	391.4	530.0	527.8	532.8	0.5
Share (%)	33.9	32.6	37.2	37.2	42.6	42.2	42.0	-
Securities Issued	18.4	37.9	60.6	89.3	97.8	98.1	97.1	-0.8
Payables to Banks	167.4	173.4	254.2	293.2	361.3	366.6	371.5	2.8
Funds from Repo Transactions	97.0	79.9	119.1	137.4	156.7	163.7	162.9	4.0
SHAREHOLDERS' EQUITY	144.6	181.9	193.7	232.0	262.3	264.3	268.0	2.2
Profit (Loss) of the Period	19.8	23.5	24.7	24.6	26.1	2.5	4.6	-
RATIOS (%)								
Loans/GDP	52.6	56.1	66.8	63.5	76.0	-	-	-
Loans/Assets	56.1	58.0	60.5	62.2	63.0	63.1	62.6	-
Securities/Assets	23.4	19.7	16.6	15.2	14.0	14.1	13.8	-
Deposits/Liabilities	57.1	56.3	54.6	52.8	52.8	52.6	52.5	-
Loans/Deposits	98.2	102.9	110.7	117.9	119.2	119.9	119.1	-
Capital Adequacy (%)	16.6	17.9	15.3	16.3	15.6	15.2	15.4	-

(1) Year-to-date % change



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