



Monthly Economic Review

June 2016



Global Economy

- ◆ Global markets searched for direction in May while a volatile trend in financial markets of emerging economies was in place.
- ◆ OECD underlined that world economy fell into a low-growth trap in its Economic Outlook Report, which was published at the beginning of June. Global economic growth forecasts of the Organization for 2016 and 2017 have been held at 3% and 3.3%, respectively.
- ◆ The economic data on the US economy pointed to a better performance in May compared to the first quarter of the year. Rate hike expectations increased in response to the statements by the Fed officials and the minutes of the April meeting. However, May non-farm payrolls data released in early June performed quite weakly and, in turn, probability of a rate hike in summer months declined.
- ◆ The economic activity continued to perform moderately in Euro Area as the data on the second quarter of the year signaled. Inflation indicators, however, remained weak. According to flash estimates, consumer prices declined by -0.1% yoy in May increasing question marks over the effectiveness of ECB'S policy measures. ECB did not change its monetary policy stance in the meeting held on June, 2.
- ◆ Having revealed a favorable outlook for the Chinese economy in March; economic data, including industrial production, retail sales and fixed asset investments, displayed a sluggish performance in April.
- ◆ The price of Brent crude oil rebounded by about 80% in May from the dips recorded in January this year.
- ◆ Gold prices, testing 1,300 USD/ons in early May, moved downward during the rest of the month as the US dollar strengthened in international markets.

Turkish Economy

- ◆ Despite losing some momentum, industrial production continued to increase in March. Calendar adjusted industrial production posted an annual rise of 2.9% during this period. In the first quarter of 2016, industrial production surged by 4.7% yoy.
- ◆ In April, export and import volume declined by 10.2% yoy and 11.9% yoy, respectively. Foreign trade deficit, which resumed its downward trend for the ninth consecutive month, came in parallel to the market expectations.
- ◆ According to the 12-month cumulative figures, current account deficit kept its downward trend and became 29.5 billion USD in March. Thus, the deficit recorded its lowest reading since July 2010.
- ◆ Central government budget gave 5.4 billion TRY surplus in April, rising by 4 billion TRY yoy. Budget figures for the first four months of the year painted a better picture than the year-end targets.
- ◆ Annual CPI inflation remained at low levels and became 6.58% in May. Annual D-PPI inflation rose by 38 basis points compared to April due to the recent upturn in commodity prices, particularly in oil price, and came in at 3.25%.
- ◆ CBRT cut the upper band of the interest rate corridor (overnight lending rate) by 50 basis points to 9.50% in line with the expectations at its meeting held on May 24. The 1-week repo rate (policy rate) and the overnight borrowing rate remained unchanged at 7.5% and 7.25%, respectively.

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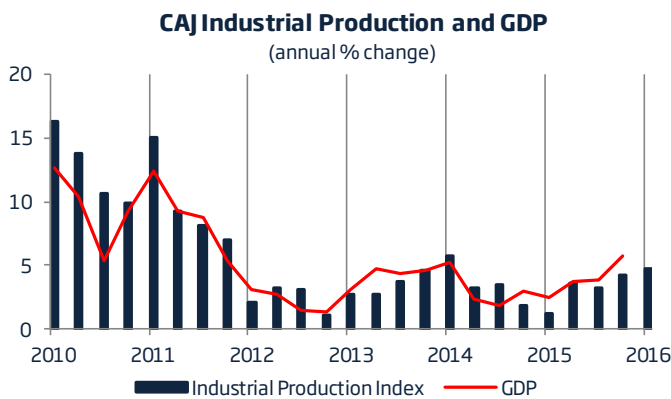
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Decline in unemployment rate...

Unemployment rate continued to fall in February and dropped by 0.3 point compared to the same period of the previous year and came in at 10.9%. In this period, the number of unemployed people remained flat at 3.2 million. Other labor force indicators also demonstrated a relatively positive performance. Analysis of seasonally adjusted labor force figures showed that the unemployment rate became 9.9%, falling to single-digit levels for the first time since May 2014.

Industrial production maintained its favorable outlook.

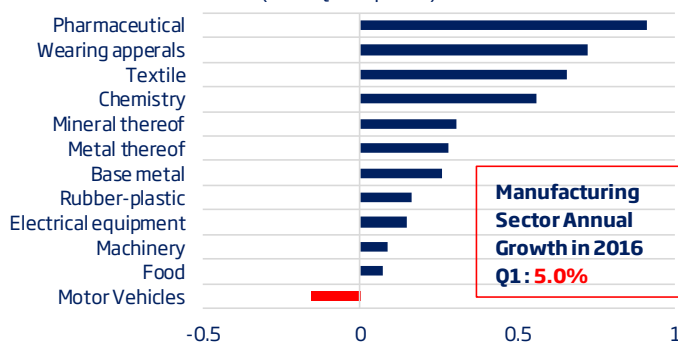
Despite losing some momentum, industrial production continued to increase in March. Calendar adjusted industrial production posted an annual rise of 2.9% during this period. In the first quarter of 2016, industrial production surged by 4.7% yoy. Taking this performance into consideration, GDP growth in this period is expected to have been around 5%.



The 5% expansion in industrial production recorded during the first quarter is worthy of attention. Wearing apparels and textile sectors made a combined contribution of 1.38 points to manufacturing sector in this period. Also, manufacture of pharmaceutical products and manufacture of chemicals provided positive contributions. Manufacture of motor vehicles, which had the largest share in the expansion of the manufacturing sector in 2015, limited the

Contributions to Manufacturing Sector

(2016 Q1, % points)



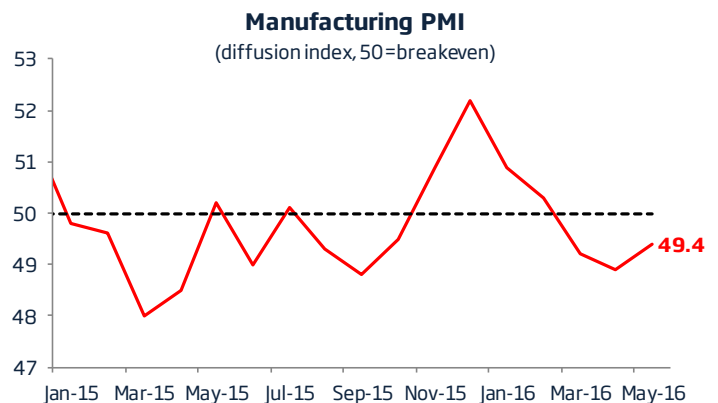
increase in manufacturing activity in the first three months of this year.

Drop in house sales...

According to the house sales figures, the contraction in mortgaged house sales accelerated in April. While house sales declined by 10.9% compared to the same month of the previous year, mortgaged house sales shrank by 27.4% yoy. In the first four months of the year, on the other hand, house sales declined by 1.6% compared to the same month of the previous year and became 410 thousands. In the same period, mortgaged house sales dropped by 19.9%, other house sales increased by 10%.

The manufacturing PMI remained below 50.

Manufacturing PMI suggested a contraction in the manufacturing sector for the third consecutive month in May. Despite staying below 50, the index reported a marginal improvement on a monthly basis. Indeed, the index increased to 49.4 in May from 48.9 in April. The falls in the new orders and exports lost some momentum compared to April and firms kept hiring employees. However, firms also reduced both their stocks of inputs and finished goods.



Leading indicators...

Leading indicators have been broadly flat in May compared to the previous month. In this period, consumer confidence index registered a limited increase of 0.4% while seasonally adjusted real sector confidence and capacity utilization ratio remained unchanged. Recovery in inflation expectations boosted consumer confidence index in May. Real sector confidence index was supported mainly by the total amount of orders in the past 3 months. On the other hand, other sub-items of the real sector confidence index, export orders and output volume for the next 3 months deteriorated and had an adverse impact on the expectations for the coming period.

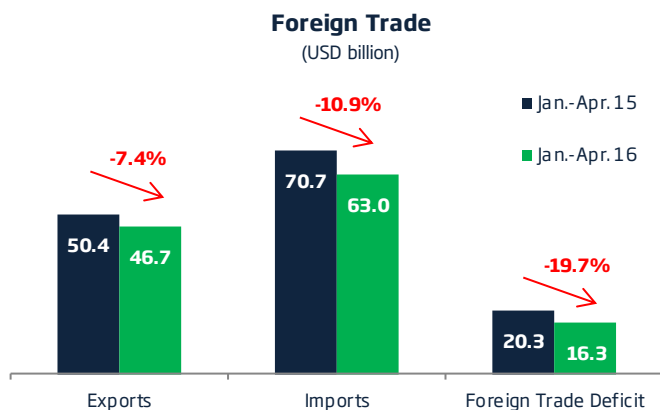
Source: Datastream, Turkstat, CBRT, Markit

(USD billion)	April		Change (%)
	2015	2016	
Exports	13.3	12.0	-10.2
Imports	18.4	16.2	-11.9
Foreign Trade Balance	-5.0	-4.2	-16.3
Import Coverage Ratio (%)	72.7	74.0	-

Foreign trade deficit narrowed for the ninth consecutive month.

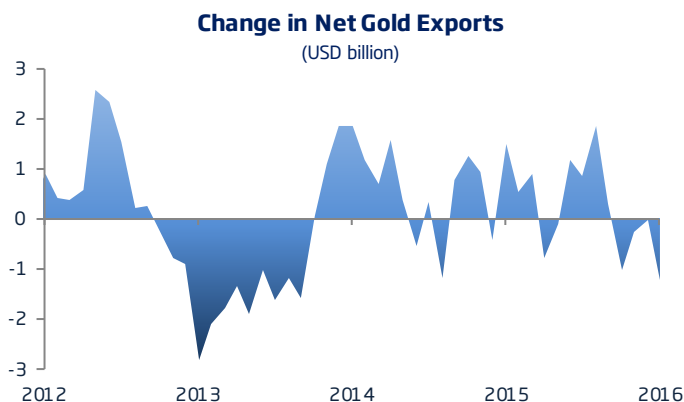
In April, export and import volume declined by 10.2% yoy and 11.9% yoy, respectively. Foreign trade deficit, resumed its downward trend for the ninth consecutive month, came in parallel to the market expectations. However, seasonally and calendar adjusted foreign trade deficit widened for the second month in a row due to the relative strength of the fall in exports versus imports.

During the first 4 months of the year, on the other hand, exports dropped by 7.4% yoy to 46.7 billion USD while imports plunged by 10.9% to 63 billion USD. Year-to-date foreign trade deficit, therefore, contracted by 4 billion USD on an annual basis.



Decline in exports was partly offset by the automotive, machinery and textile sectors.

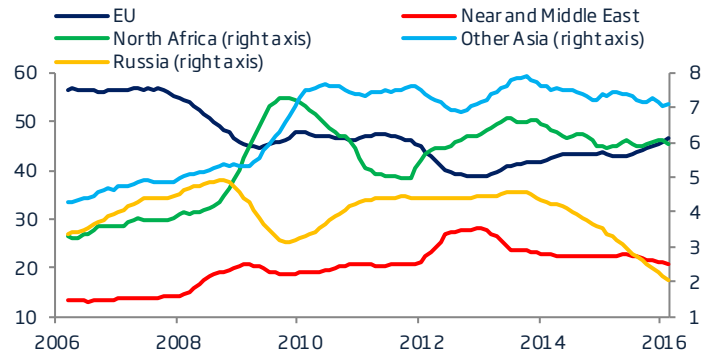
5 out of the first 10 export items in April supported the export performance. Motor vehicles, rising by 8.3% yoy, led these 5 items which, as a whole, have a 40% share in total exports. Boilers and machineries, increasing by 8.2% yoy, followed motor vehicles. The surge of 10.8% yoy in the exports of



knitted goods also provided a boost for the exports. Nonetheless, the shrinking exports of precious stones and metals in this period, quite mostly due to the fall in gold exports, pushed exports down by more than 1 billion USD. Besides, the fall in iron and steel exports gained speed and, in turn, weighed further on foreign trade outlook.

Leading Export Markets

(12-month cumulative, % share)



The upward trend in exports to the EU continued.

Exports to the EU countries rose by 7.5% yoy in April and became 5.7 billion USD. Hence, the share of these countries in total exports, which was 39.5% in April 2015, reached 47.3% in the same month of this year. On the contrary, trade relations with some of our export markets, like Russia and Iraq, with which problems have been experienced, continued to deteriorate. Having ranked 12th in April 2015 in export markets of Turkey, Russia dropped down to 22th place in the same period of this year. Exports to Iraq fell by over 20% yoy in April 2016, according to 12-month cumulative figures.

Machinery imports surpassed energy imports.

Imports of mineral fuels and oils, which have been declining annually for almost 2 years, came in below that of boilers and machinery. While imports of mineral fuels and oils dropped by 33.8% yoy in this period, boilers and machinery imports picked up by 5.7%. Moreover, imports continued to display a broad-based fall heavily concentrated in intermediate goods.

The improvement in foreign trade deficit might continue to lose momentum.

The upward movements in oil prices together with the strength of foreign demand, especially the European demand, will be significant for the foreign trade outlook. While problems in our export markets such as Iraq and Russia are anticipated to prevail, the pace of the decline in imports is likely to lose steam somewhat due to firm domestic demand. Both of these developments might have an adverse impact on foreign trade numbers in the forthcoming period.

According to the provisional data, exports surged by 10% yoy in May.

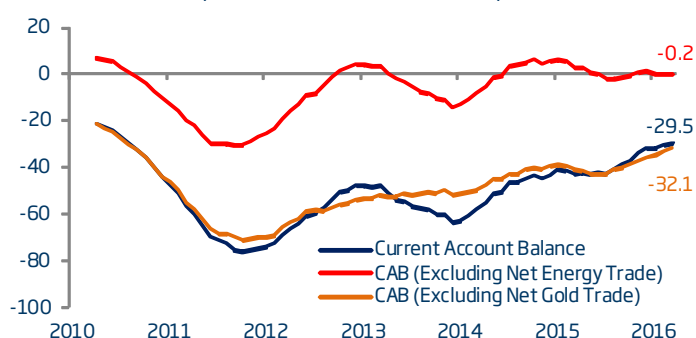
Exports rebounded in May rising by 10% yoy while imports continued to fall, according to the data released by the Ministry of Customs and Trade. Foreign trade deficit, thus, contracted by 26.1% yoy in May and by 21.1% yoy in January-May period.

Source: Datastream, Turkstat

Current account deficit was in line with the expectations.

Current account deficit contracted by 22.9% yoy in March and was realized as 3.7 billion USD. In the first quarter of the year, the deficit narrowed by 25.1% compared to the same period of 2015 and came in at 7.9 billion USD. Decrease in trade deficit played a significant role in the positive performance of the current account balance.

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



12-month cumulative deficit shrank to the lowest level of 68 months.

According to the 12-month cumulative figures, current account deficit kept its downward trend in March. 12-month deficit was realized as 29.5 billion USD in March, falling by 1.1 billion USD compared to February. Thus, the deficit recorded its lowest reading since July 2010.

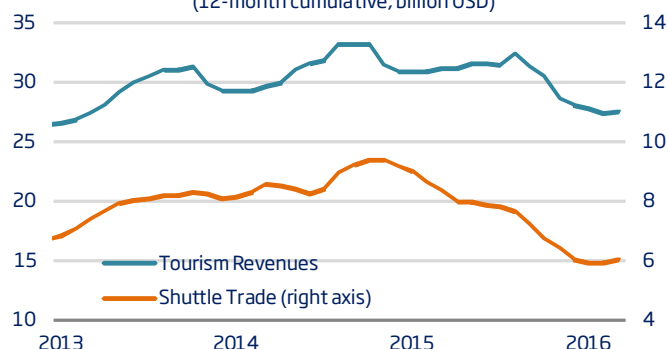
Improvement in foreign trade deficit continued.

While export of goods rose by 3.2% in March compared to the same month of 2015, the decline in imports persisted despite losing momentum. Contracting by 1.3 billion USD in the same period, the fall in foreign trade deficit was higher than that of current account deficit (1.1 billion USD).

Analysis of the quarterly figures revealed that while export volume posted a limited decrease, import volume declined by more than 10%. In this context, developments in the foreign trade balance had positive repercussions for the current account balance. On the other hand, as travel

Tourism Revenues and Shuttle Trade

(12-month cumulative, billion USD)



revenues dropped by 16.8% yoy in this period, services revenues continued to affect negatively current account deficit.

Rapid increase in portfolio inflows...

In line with the increase in capital flows into emerging countries, portfolio inflows to Turkey gained momentum in March. Portfolio inflows contributed to the financing of the current account deficit by 2.7 billion USD in March, after registering 1.1 billion USD capital inflows in February. Government domestic debt securities posted an inflow of 0.5 billion USD and inflows via equity securities were realized as 1 billion USD in March. Regarding the bond issues in international capital markets, general government and other sectors borrowed net 0.7 billion USD and 0.8 billion USD, respectively. Hence, net portfolio inflows amounted to 2.6 billion USD in the first quarter.

Weak performance in foreign direct investments...

Having exhibited a sluggish performance in the first two months of the year, foreign direct investments continued to lose steam in March. Net foreign direct investments fell by almost 60% yoy in the first quarter.

Banks were net credit repayer in March.

Other investments registered an inflow of 0.7 billion USD in March as the rise in domestic banks' currency and deposit holdings within their foreign correspondent banks softened compared to February. Having reached 3.7 billion USD in the

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	Breakdown of Net Capital Inflows (%)			
	Dec. 2015	Mar. 2016	Dec. 2015	Mar. 2016
Current Account Balance	-32,136	-29,491	-	-
Total Net Foreign Capital Inflows	-1,749	-7,052	100.0	100.0
-Direct Investments	-11,725	-9,828	670.4	139.4
-Portfolio Investments	15,498	11,137	-	-
-Other Investments	-14,800	-16,535	846.2	234.5
-Net Errors and Omissions	9,299	8,179	-531.7	-116.0
-Other	-21	-5	-0.1	0.1
Reserves⁽¹⁾	-11,831	-6,091	-	-

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

first two months of the year and become instrumental in the course of the other investments, non-resident banks' TRY deposits within domestic banks rose by 0.1 billion USD in March.

Banks were net credit repayers in March in both short-term and long-term loans. The sector realized a net disbursement of 1.5 billion USD during this period. Non-banking sectors were net credit repayer in short-term loans while they are net credit borrower in long-term loans. Non-banking sector became a net borrower of 1.9 billion USD in long term loans in March and of 3.1 billion USD in the first quarter.

The long-term debt rollover ratio of the banking sector, according to 12-month cumulative data, came in at high levels despite the sharp monthly decline in March. That ratio of non-banking sector, on the other hand, maintained its upward trend during this period.

Reserves increased by 1.5 billion USD in March while net errors and omissions posted an inflow of 1.1 billion USD. The ratio of the capital inflows recorded under the net error and omissions item to current account deficit became 36% in the first quarter.

Long-term Debt Rollover Ratios
(12-month cumulative, %)



Expectations...

The contraction in the foreign trade deficit has supported the improvement in current account deficit. The adverse impact of geopolitical developments, however, unraveled itself through the channel of tourism revenues. The more sluggish the performance of tourism revenues becomes in the period ahead, the more severe the unfavorable impact on the current account deficit will be.

Balance of Payments

	(USD million)				
	March 2016	Jan. - Mar. 2015 2016		% Change	12-Month Cumulative
Current Account Balance	-3,677	-10,523	-7,878	-25.1	-29,491
Foreign Trade Balance	-3,566	-11,408	-8,149	-28.6	-44,686
Services Balance	575	3,003	1,628	-45.8	22,642
Travel (net)	721	2,852	1,917	-32.8	20,313
Primary Income	-723	-2,480	-1,873	-24.5	-8,923
Secondary Income	37	362	516	42.5	1,476
Capital Account		-1	15	-	-5
Financial Account	-2,563	-6,566	-5,025	-23.5	-21,317
Direct Investments (net)	-650	-3,165	-1,268	-59.9	-9,828
Portfolio Investments (net)	-2,693	1,749	-2,612	-	11,137
Net Acquisition of Financial Assets	220	716	777	8.5	6,190
Net Incurrence of Liabilities	2,913	-1,033	3,389	-	-4,947
Equity Securities	999	-794	1,182	-	-419
Debt Securities	1,914	-239	2,207	-	-4,528
Other Investments (net)	-718	-1,517	-3,252	114.4	-16,535
Currency and Deposits	-516	-970	-2,300	137.1	748
Net Acquisition of Financial Assets	716	5,975	2,972	-50.3	11,962
Net Incurrence of Liabilities	1,232	6,945	5,272	-24.1	11,214
Central Bank	-30	-116	-66	-43.1	-866
Banks	1,262	7,061	5,338	-24.4	12,080
Foreign Banks	664	6,333	4,917	-22.4	8,526
Foreign Exchange	521	5,343	1,103	-79.4	468
Turkish Lira	143	990	3,814	285.3	8,058
Non-residents	598	728	421	-42.2	3,554
Loans	222	-1,637	-1,468	-10.3	-13,507
Net Acquisition of Financial Assets	-48	84	555	560.7	1,263
Net Incurrence of Liabilities	-270	1,721	2,023	17.5	14,770
Banking Sector	-1,537	1,670	-1,073	-	2,198
Non-bank Sectors	1,760	364	3,692	914.3	14,071
Trade Credit and Advances	-419	1,132	420	-62.9	-3,652
Other Assets and Liabilities	-5	-42	96	-	-124
Reserve Assets (net)	1,498	-3,633	2,107	-	-6,091
Net Errors and Omissions	1,114	3,958	2,838	-28.3	8,179

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

Budget posted a surplus of 5.4 billion TRY in April.

Central government budget gave 5.4 billion TRY surplus in April, rising by 4 billion TRY yoy. Primary balance also posted a surplus of 8 billion TRY parallel to the figures for April 2015.

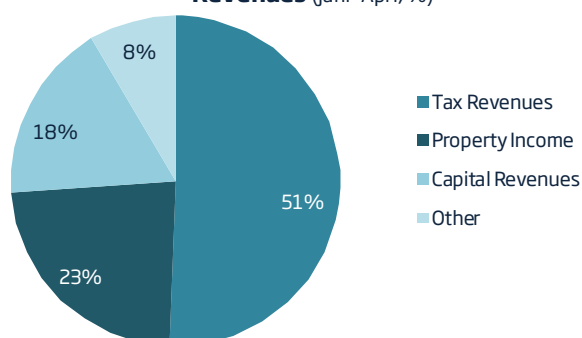
Regarding the first four months of the year, the central government budget surplus was realized as 5.4 billion TRY. Recording a deficit of 4.1 billion in the same period of 2015, budget displayed a strong performance this year especially thanks to the increase in both property income and capital revenues.

Sharp increase in revenues...

Budget revenues surged by 15.7% yoy in April. Having risen by 5.7 billion TRY compared to the same month of 2015, property income constituted 85% of the increase in total budget revenues (6.7 billion TRY). Central Bank's profit of 2015 transferred to Undersecretariat of Treasury is considered to have played an important role in this rise. After having a great contribution to budget revenues in March, privatization revenues had no impact on the budget performance in April.

The other revenue items also remained relatively flat in April. Tax revenues rose by only 1.7% yoy in April. It was noteworthy that the value added tax on imports fell by 1.1 billion TRY in this period. While domestic VAT and special consumption tax revenues posted an annual rise of 3.5% and 5.6% respectively, income tax revenues picked up at a stronger pace by 14.8%.

The Breakdown of the Rise in Budget Revenues (Jan.-Apr., %)



In the first four months of the year, budget revenues increased by 16.2% yoy. More than half of 25.3 billion TRY annual expansion recorded in budget revenues stemmed from rise in

tax revenues. Property income and capital revenues also made an important contribution to total revenues. Property income and capital revenues accounted for 23.2% and 17.6% of the growth in budget revenues, respectively.

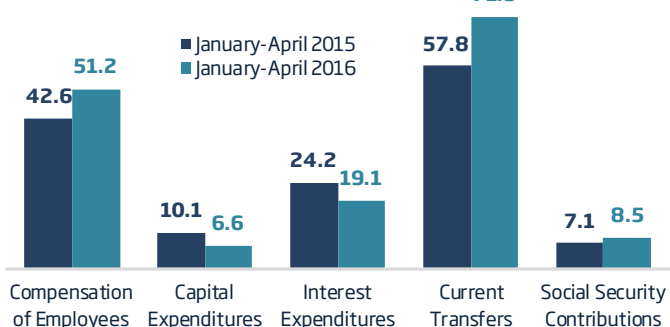
The fall in interest expenditures...

Another factor behind the favorable performance of budget balance was the slow growth in budget expenditures in April. Thanks to 3.4 billion TRY drop in interest expenditures in this period, budget spending supported the budget outlook. On the other hand, expansion in personnel expenses, purchase of goods/services and current transfers limited the solid budget performance.

Falling interest expenditures also exerted a visible favorable impact on four-month budget performance. In this period, the drop in capital expenditures lowered the rise in total expenditures as well. On the other hand, having recorded an annual rise of 14.1 billion TRY in January-April period, current transfers played a significant role in the rise of total expenditures, amounting to 15.8 billion TRY.

Budget Expenditures

(TRY billion)



Expectations...

Budget figures for the first four months of the year painted a better picture than the year-end targets. However, the upward pressure on current transfers and personnel expenses stemming from the minimum wage hike is likely to adversely affect budget figures. Besides, the high share of one-off revenues in total revenues has raised questions on the health of budget performance.

Central Government Budget

(TRY billion)

	April			January-April			2016 Budget	
	2015	2016	% Change	2015	2016	% Change	Target	Real./ Target (%)
Expenditures	41.6	44.3	6.6	160.2	176.0	9.9	570.5	30.9
Interest Expenditures	6.1	2.7	-55.9	24.2	19.1	-20.8	56.0	34.2
Non-Interest Expenditures	35.5	41.7	17.3	136.0	156.9	15.3	514.5	30.5
Revenues	43.0	49.7	15.7	156.2	181.4	16.2	540.8	33.5
Tax Revenues	31.9	32.4	1.7	128.2	141.0	10.0	459.2	30.7
Other Revenues	11.1	17.3	56.1	28.0	40.4	44.6	81.7	49.5
Budget Balance	1.4	5.4	289.7	-4.1	5.4	-	-29.7	-
Primary Balance	7.5	8.0	7.8	20.1	24.6	22.0	26.3	93.3

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

(*)

One-off revenues includes tax and social security payment amnesties introduced

Source: Ministry of Finance, Datastream

May	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	0.56	0.58	1.11	1.48
Year-to-Date	5.30	3.15	5.22	2.77
Annual	8.09	6.58	6.52	3.25
Annual Average	8.45	7.71	6.98	5.19

Monthly CPI inflation was below market expectations.

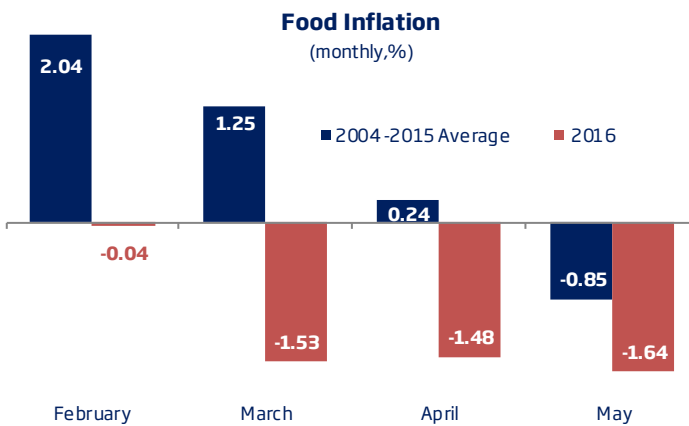
CPI posted a monthly rise of 0.58% in May, below the market expectations of 0.78%. Domestic PPI (D-PPI), on the other hand, surged by 1.48% mom, the highest May level for the last eight years.

CPI recorded an annual increase of 6.58%.

Annual CPI inflation remained at low levels and became 6.58% in May. Annual D-PPI inflation rose by 38 basis points compared to April due to the recent upturn in commodity prices, particularly in oil price, and came in at 3.25%.

Food prices continued to have a big part in the positive performance of CPI.

Having recorded monthly declines since February, food prices performed better than the historical averages. Food prices, which have 24% weight in the overall CPI, dragged the monthly inflation down by 38 basis points in May while they pushed the annual inflation up by 58 basis points. Other than food prices, furnishings and household equipment also limited the rise in inflation albeit to a marginal extent.

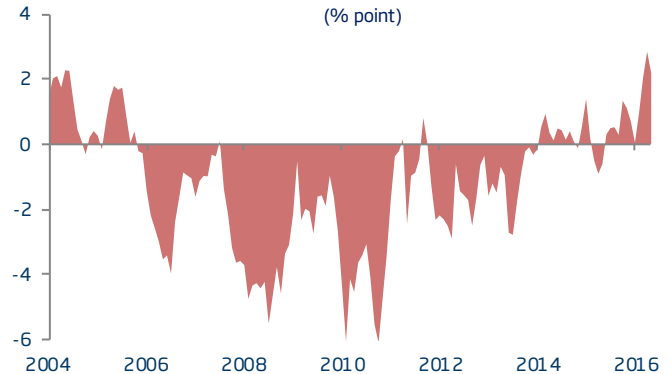


Nevertheless, seasonal factors put upward pressure on CPI in May as was the case in April. Clothing and footwear, having followed an upward trend in the last three months, made the biggest contribution to monthly CPI inflation by 58 basis points. Transport and housing groups followed clothing and footwear providing marginal contributions of 15 and 6 basis points, respectively.

Improvement in core inflation...

Core inflation indicators continued to recover along with the fading cumulative effects of exchange rates on inflation. Hence, the gap between the core and headline inflations,

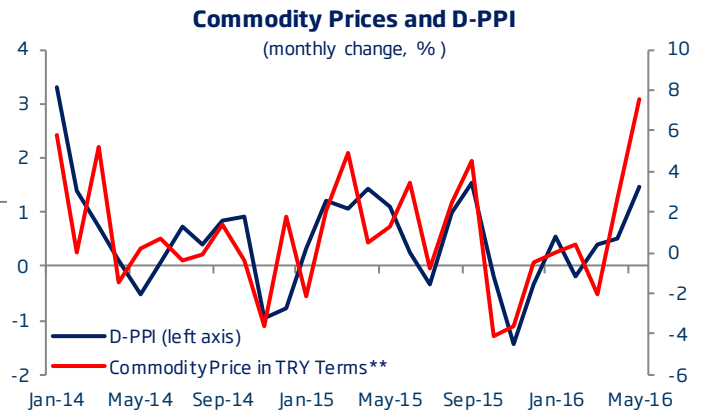
Gap* Between Core (I) and Headline Inflation



causing debates lately as it widened recently, narrowed somewhat. Indeed, H and I core inflation indicators, which are closely monitored by the CBRT, fell to 8.7% from 9.2% and to 8.8% from 9.4%, respectively. However, risks over the core inflation might resurge in the coming period considering the depreciation in TRY observed in May.

Rapid increase in D-PPI...

The recent rebound in commodity prices played a significant role in the performance of D-PPI in May. It was worthy of attention that CRB commodity price index in TRY terms, rising by 7.5% mom with also the impact of TRY weakening, registered the highest surge since August 2011. Analysis by the main industrial groupings showed that three-month long rise in energy prices gained momentum.



The performance of TRY will be one of the main drivers of inflation.

Clothing and footwear as well as food prices are expected to fall in June thanks to seasonality. However, the upturn in commodity prices together with a weakening TRY continues to pose risks to inflation outlook. Against this backdrop, we think that dips have been seen already in annual CPI inflation during the recent months and the trend in annual inflation seems to be upwards in the period ahead.

(*) (Core Inflation – Headline Inflation) (**) Based on CRB Commodity Price Index Source: Datastream, Turkstat

Cautious outlook in global markets...

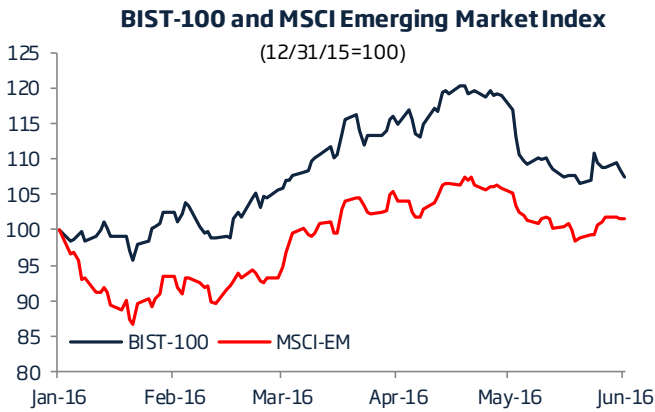
Once again, cautious outlook prevailed in global markets since the beginning of May. Global risk appetite faded after the expectations for a summer rate hike by the Fed grew and question marks over the state of economic activity in China raised. These developments weighed particularly on emerging markets. In the last week of May, on the other hand, the upturn in the US equities was mirrored in global markets as well.

Volatility in domestic markets...

Political uncertainty, arisen in early May, prompted the selling pressure in domestic markets. Yet, risk appetite towards Turkey recovered after the markets welcomed the new economy administration.

Sharp decline in BIST-100 Index...

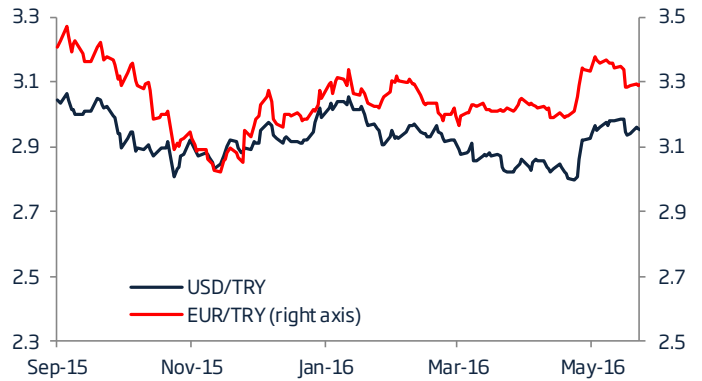
BIST-100 index, which approached 87,000 in the mid-April parallel to the upward movements in global markets, declined somewhat in the rest of the month as investors acted cautiously. In May, on the other hand, domestic political developments were back on the agenda leading to a selling pressure on the equity market. As of 31 May, the index plunged by 8.8% compared to the end of April and became 77,803.



USD/TRY...

USD/TRY exchange rate, which was below 2.80 at the end of April, surpassed 3 level in May for the first time since January 28 due to domestic political developments. Only after the political tension normalized, the exchange rate moved downward. However, appreciation trend in USD caused USD/TRY to increase. As of 31 May, USD/TRY stood at 2.9480, 5.5% higher than the end of April.

FX Rates



The yield of 2-year benchmark bond increased.

The yield of 2-year benchmark bond, which slipped below 9% at the end of April, had an upward trend in following period due to global developments and domestic political agenda. The yield turned downward once again following the announcement of new Cabinet and CBRT's interest rate cut decision. As of 31 May, the compound yield of 2-year benchmark bond was 9.29%.

In May, CBRT lowered the upper band by 50 basis points.

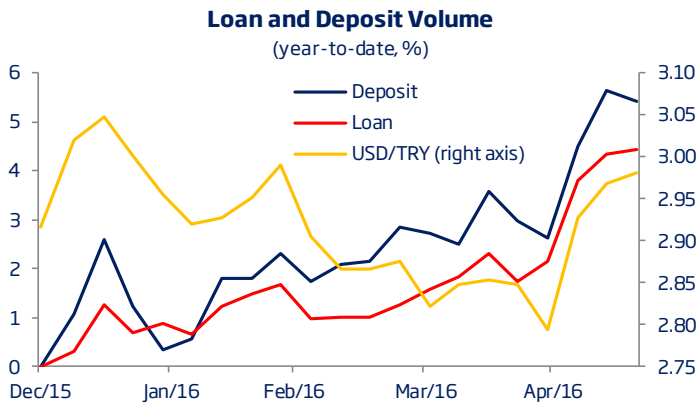
CBRT continued to take simplification steps following a total cut of 75 basis points in March and April. CBRT cut the upper band of the interest rate corridor (overnight lending rate) by 50 basis points to 9.50% in line with the expectations at its meeting held on May 24. The 1-week repo rate (policy rate) and the overnight borrowing rate remained unchanged at 7.5% and 7.25%, respectively.

In its policy statement published after the meeting, CBRT pointed out that volatility in global markets surged in the recent period. Moreover, the Central Bank stated that tight monetary policy stance, cautious macro-prudential policy framework and effective use of policy tools as offered in the roadmap published in August 2015 increased the resilience of the overall economy against shocks. The Committee suggested that the inflation has had a clear downward trend in the recent period mainly due to the decline in unprocessed food prices. Having said that, CBRT reaffirmed that tight stance in liquidity policy would be preserved since the recovery in core inflation indicators remained delicate.

Source: CBRT, Reuters, Datastream, BIST

Depreciation in TRY supported the rise in deposit volume in May.

Having registered the lowest increase rate of more than a year with 11.1% in April, annual deposit growth became 15.3% as of May 20. Depreciation of TRY played a significant role in this development. As some of the depositors realized their gains by selling FX assets, FX deposit volume in USD terms contracted by 3.3% compared to the end of April. However, because of the depreciation in TRY, FX deposit volume in TRY terms rose by 2.9%. During this period, TRY deposit volume also increased by 2.6% signaling that FX deposits have been converted into TRY deposits at appropriate profit margins.



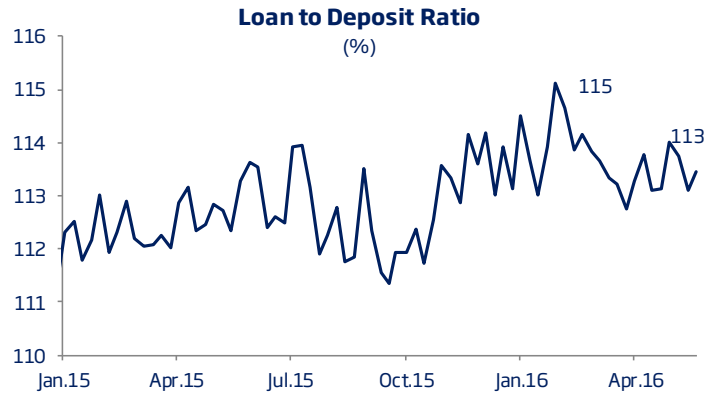
Banking sector's appetite for lending remained weak.

At the end of April, the annual rise of loan volume of banking sector declined to 12.2%, the lowest level in the last 6 years. Banking sector's appetite for lending remained weak also in May. As of May 20, total TRY loans showed almost no change compared to the end of April. In this period, while FX loans in USD terms did not record a significant change either, FX loans in TRY terms increased by 6.2%. This development suggested that the rise in total loan volume stemmed from the depreciation in TRY.

Along with the movements in loan and deposit volumes, loan to deposit ratio declined by 1.1 points compared to the year-end level of 114.5% as of May 20, according to the BRSA's Weekly Bulletin. Moreover, nonperforming loan ratio of the sector surged by 21 basis points compared to end of 2015 and came in at 3.35%.

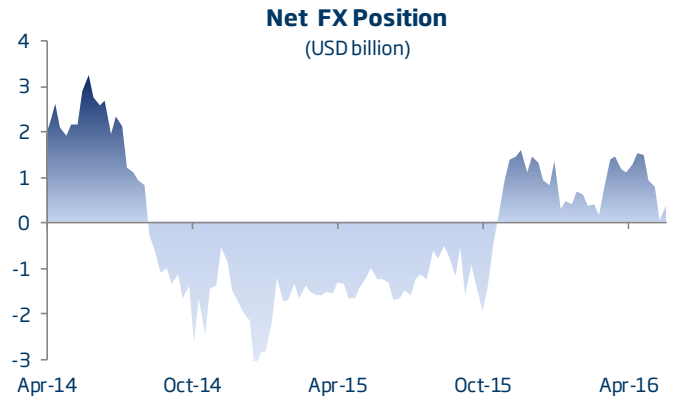
Residents preferred securities.

Recently, it is observed that the residents preferred government securities. Indeed, banks' portfolio of securities held under custody, which had contracted annually in 2015, rose by 4.9% yoy as of May 20. In this period, while residents' securities portfolios widened by 12.7%, non-residents portfolio shrank by 3.7%.



Net FX position...

As of May 20, banks' on-balance sheet FX position was (-)21,378 million USD while off-balance sheet FX position became (+)21,750 million USD. Hence, banks' net FX position stood at (+) 372 million USD.



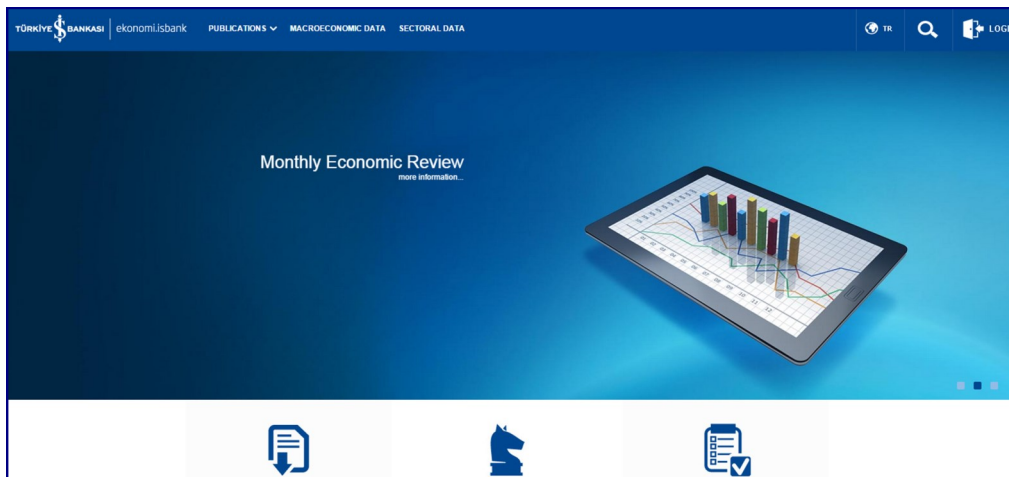
Concluding Remarks

Positive mood in global markets, which has been prevalent since mid-February, dissolved into pessimism with the start of May. Economies of EU, Japan and China, remaining far from reaching stability, suggested an outlook which requires a cautious approach from investors. Even though oil price rebounded from the dips recorded in January to almost 50 USD/varil in May, it still constituted a big source of uncertainty for global markets. A more significant source of uncertainty, on the other hand, remained as the trajectory of the Fed's monetary policy. Even though earlier rate hike scenarios had gained strength since the mid-May until the end of the month, May non-farm payrolls data released in early June weakened rate hike expectations once more. Together with these, Brexit referendum to be held on June 23 in the UK continued to be a major risk factor in the markets. In such an environment, particularly emerging markets witnessed an upsurge in volatility.

Forecasts (%)	2015(R)	2016
Growth	4.0	3.5
CA Deficit/GDP	4.5	5.5
Inflation	8.8	7.5

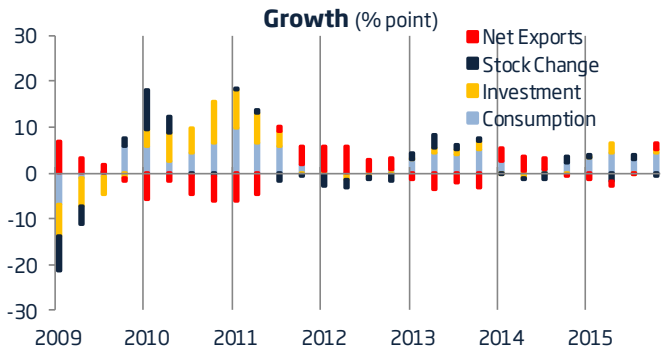
(R) Realization
Year-end forecast for inflation

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

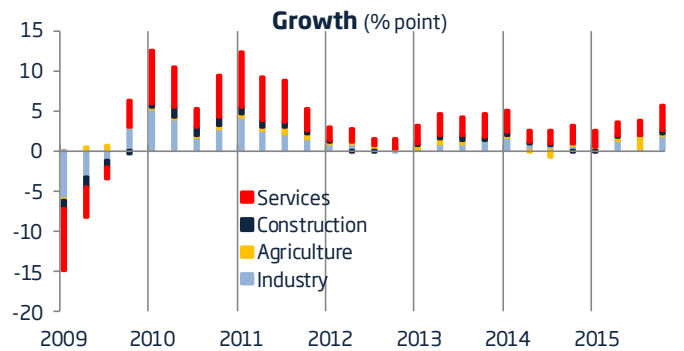


Growth

Expenditure Approach - Contributions to GDP

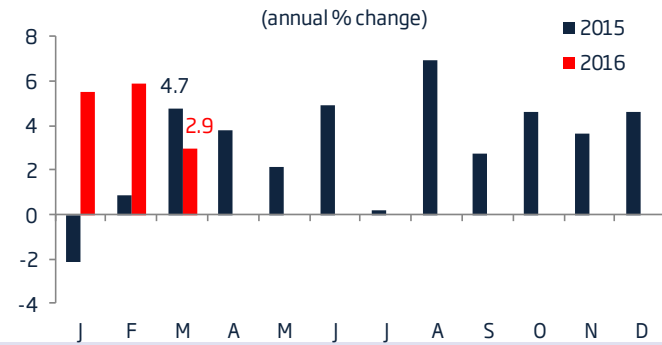


Production Approach - Contributions to GDP

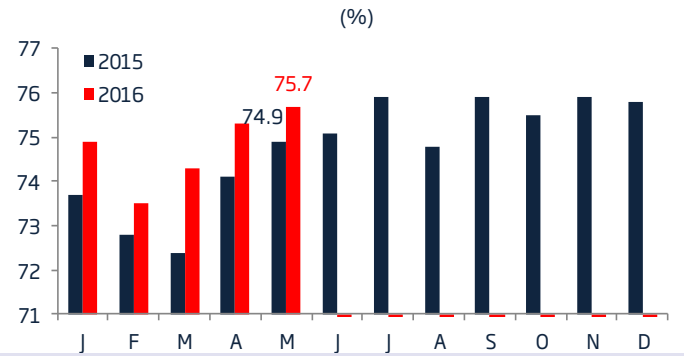


Industrial Production and Capacity Utilization Ratio

Industrial Production*

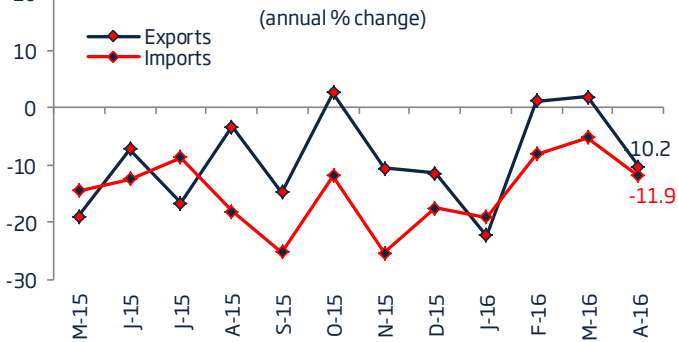


Capacity Utilization Ratio

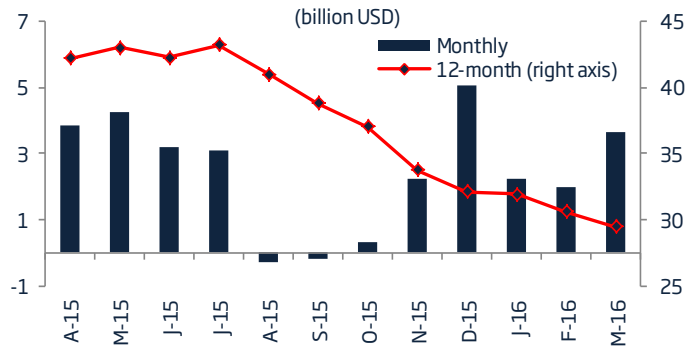


Foreign Trade and Current Account Balance

Foreign Trade

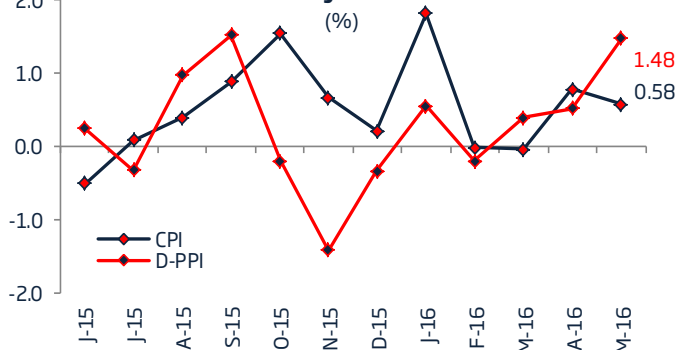


Current Account Deficit

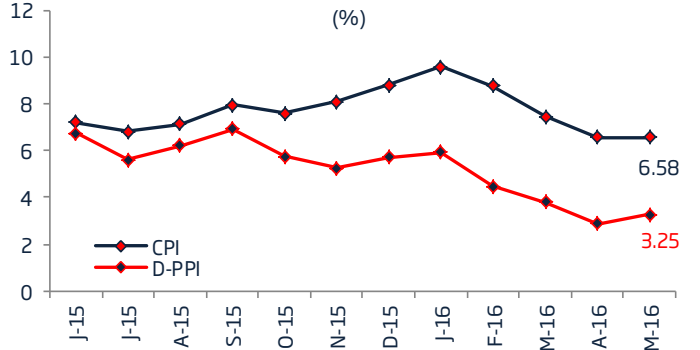


Inflation

Monthly Inflation



Annual Inflation

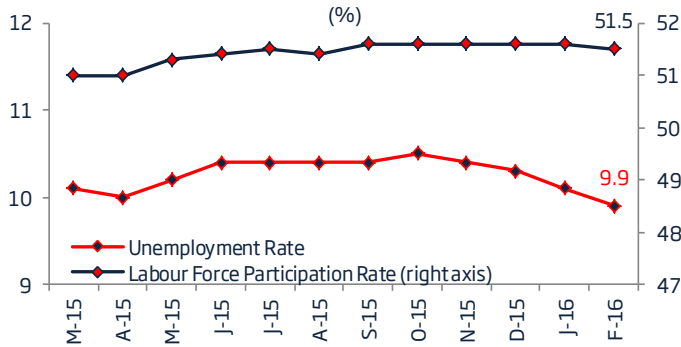


(*) Calendar adjusted figures

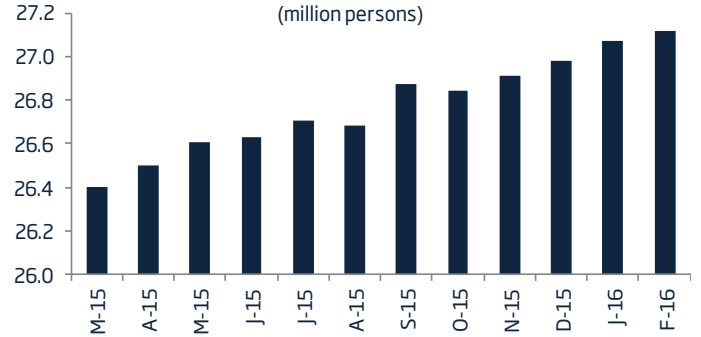
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators

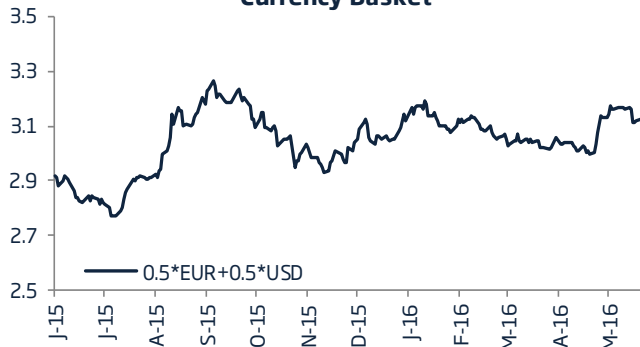


Seasonally Adjusted Employment

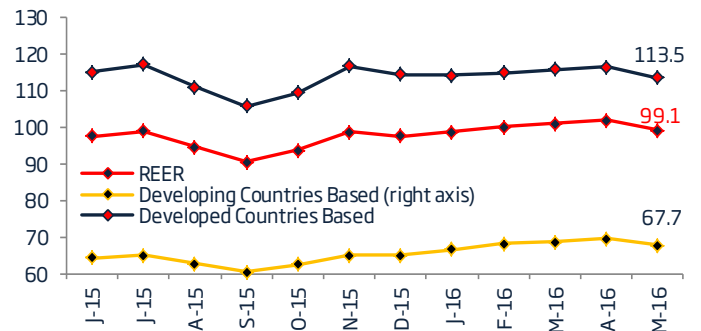


FX Market

Currency Basket

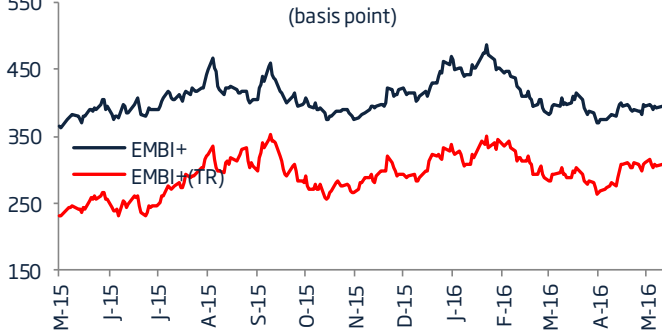


CPI Based Real Effective Exchange Rate



Risk Indicators

Risk Premiums

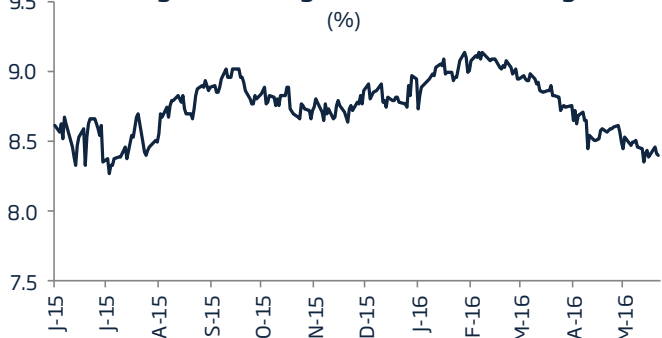


VIX

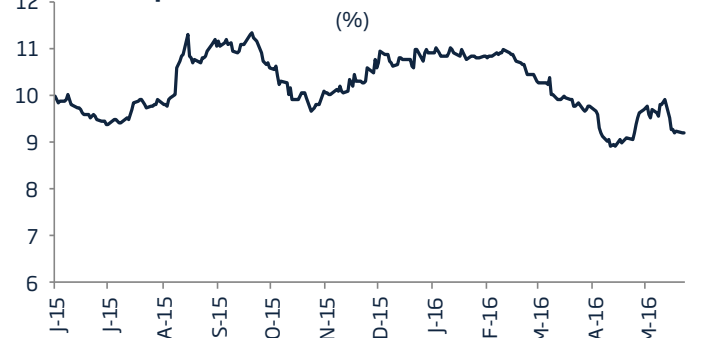


Interest Rates

Weighted Average Cost of CBRT Funding

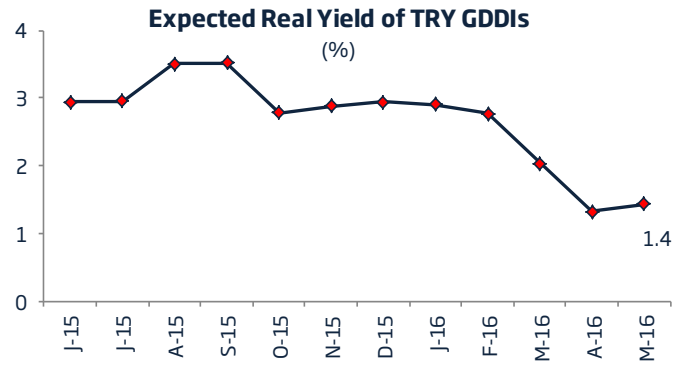
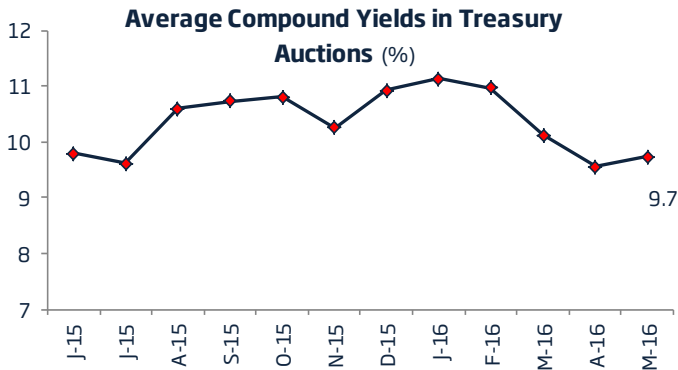


Compound Yield of 2-Year Benchmark Bond

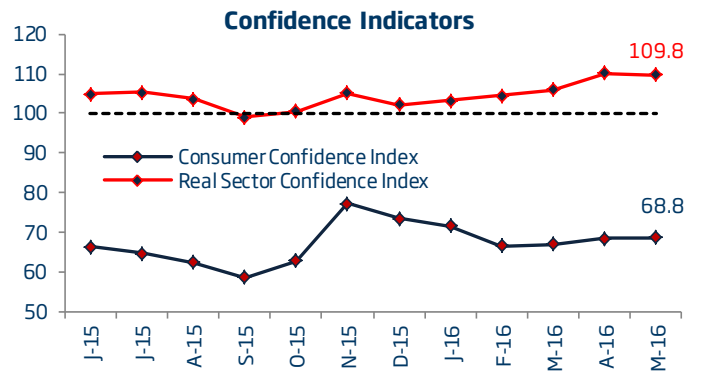
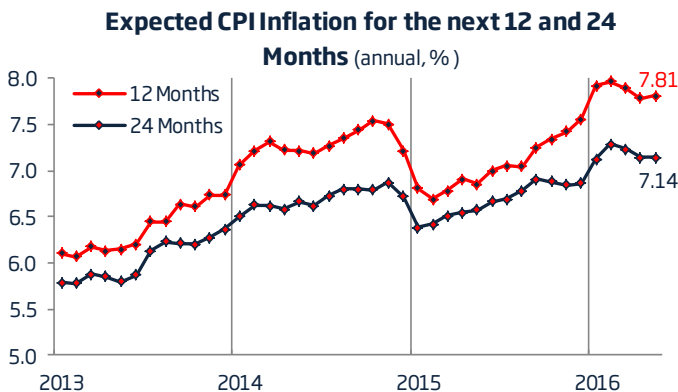
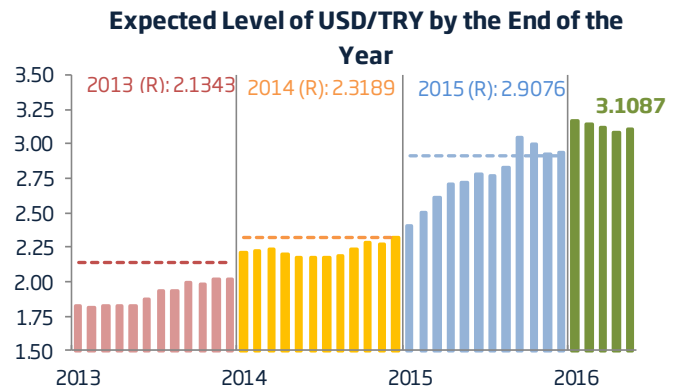
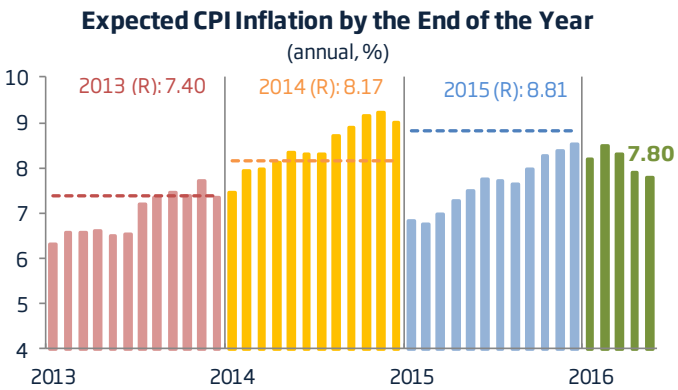
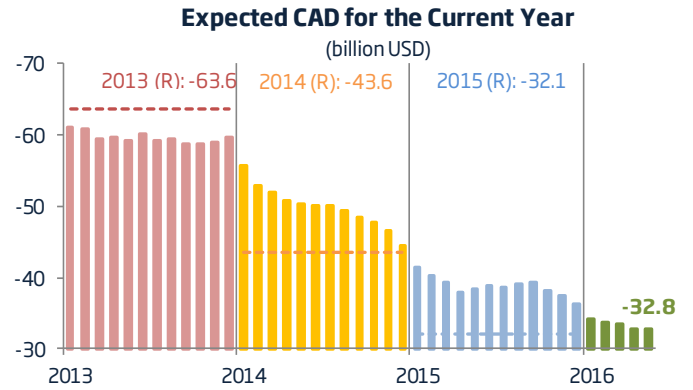
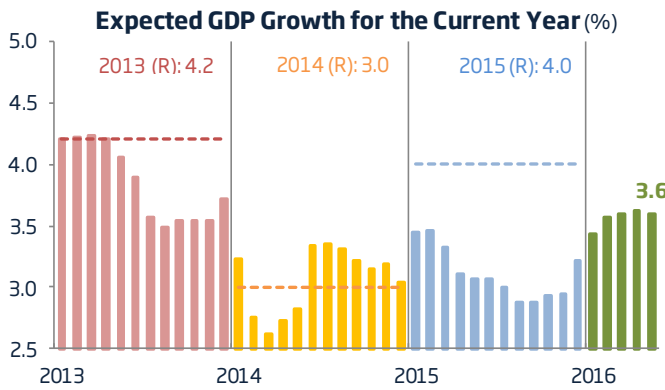


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market



CBRT's Survey of Expectations and Other Leading Indicators



(R) Realization

Source: BIST, CBRT, Datastream, Economic Research Division, Treasury

Turkish Economy at a Glance

	2011	2012	2013	2014	2015	16-Q1	16-Q2	16-Q3
Growth								
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 (%)						Mar-16	Apr-16	May-16
CPI (annual)	10.45	6.16	7.40	8.17	8.81	7.46	6.57	6.58
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	3.80	2.87	3.25
Seasonally Adjusted Labor Market Figures						Jan-16	Feb-16	
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.3	9.9	9.9	
Labor Force Participation Rate (%)	47.2	48.5	48.4	50.9	51.6	51.5	51.5	
FX Rates						Mar-16	Apr-16	May-16
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	105.0	97.6	100.9	101.8	99.1
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	2.8274	2.8039	2.9541
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.2119	3.1937	3.2910
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.0197	2.9988	3.1226
Foreign Trade Balance⁽¹⁾ (USD billion)						Feb-16	Mar-16	Apr-16
Exports	134.9	152.5	151.8	157.6	143.8	141.2	141.5	140.1
Imports	240.8	236.5	251.7	242.2	207.2	202.6	201.7	199.5
Foreign Trade Balance	-105.9	-84.1	-99.9	-84.6	-63.4	-61.4	-60.2	-59.4
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	69.7	70.2	70.2
Balance of Payments⁽¹⁾ (USD billion)						Jan-16	Feb-16	Mar-16
Current Account Balance	-74.4	-48.0	-63.6	-43.6	-32.1	-31.9	-30.6	-29.5
Capital and Financial Accounts	-66.1	-48.9	-62.3	-42.1	-22.9	-23.8	-23.5	-21.3
Direct Investments (net)	-13.8	-9.2	-8.8	-5.5	-11.7	-10.6	-10.0	-9.8
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.5	18.3	17.0	11.1
Other Investments (net)	-28.3	-19.6	-39.5	-16.0	-14.8	-15.5	-16.3	-16.5
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	-15.9	-14.1	-6.1
Net Errors and Omissions	8.3	-0.9	1.4	1.6	9.3	8.2	7.1	8.2
Current Account Balance/GDP (%)	-9.6	-6.1	-7.7	-5.5	-4.5	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Feb-16	Mar-16	Apr-16
Expenditures	314.6	361.9	408.2	448.8	506.0	84.8	131.7	176.0
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	9.7	16.5	19.1
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	75.1	115.2	156.9
Revenues	296.8	332.5	389.7	425.4	483.4	91.4	131.7	181.4
Tax Revenues	253.8	278.8	326.2	352.5	407.5	78.0	108.5	141.0
Budget Balance	-17.8	-29.4	-18.5	-23.4	-22.6	6.6	0.0	5.4
Primary Balance	24.4	19.0	31.4	26.5	30.4	16.4	16.5	24.6
Budget Balance/GDP (%)	-1.4	-2.1	-1.2	-1.3	-1.2	-	-	-
Central Government Debt Stock (TRY billion)						Feb-16	Mar-16	Apr-16
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	444.1	448.2	449.4
External Debt Stock	149.6	145.7	182.8	197.5	237.5	240.8	235.2	233.3
Total Debt Stock	518.4	532.2	585.8	612.1	677.6	684.9	683.5	682.8

(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	Mar.16	Apr.16	Change ⁽¹⁾
TOTAL ASSETS	1,217.7	1,370.7	1,732.4	1,994.3	2,357.4	2,407.6	2,396.1	1.6
Loans	682.9	794.8	1,047.4	1,240.7	1,485.0	1,511.5	1,515.1	2.0
TRY Loans	484.8	588.4	752.7	881.0	1,013.4	1,036.7	1,041.8	2.8
Share (%)	71.0	74.0	71.9	71.0	68.2	68.6	68.8	-
FX Loans	198.1	206.4	294.7	359.7	471.5	474.9	473.3	0.4
Share (%)	29.0	26.0	28.1	29.0	31.8	31.4	31.2	-
Non-performing Loans	19.0	23.4	29.6	36.4	47.5	51.5	52.7	11.0
Non-performing Loan Rate (%)	2.7	2.9	2.8	2.9	3.1	3.3	3.4	-
Securities	285.0	270.0	286.7	302.3	329.7	330.8	326.9	-0.8
TOTAL LIABILITIES	1,217.7	1,370.7	1,732.4	1,994.3	2,357.4	2,407.6	2,396.1	1.6
Deposits	695.5	772.2	945.8	1,052.7	1,245.4	1,274.2	1,277.5	2.6
TRY Deposits	460.0	520.4	594.1	661.3	715.4	730.3	731.0	2.2
Share (%)	66.1	67.4	62.8	62.8	57.4	57.3	57.2	-
FX Deposits	235.5	251.8	351.7	391.4	530.0	543.9	546.6	3.1
Share (%)	33.9	32.6	37.2	37.2	42.6	42.7	42.8	-
Securities Issued	18.4	37.9	60.6	89.3	97.8	94.9	96.6	-1.3
Payables to Banks	167.4	173.4	254.2	293.2	361.3	360.8	352.4	-2.5
Funds from Repo Transactions	97.0	79.9	119.1	137.4	156.7	159.6	152.2	-2.9
SHAREHOLDERS' EQUITY	144.6	181.9	193.7	232.0	262.3	273.0	277.5	5.8
Profit (Loss) of the Period	19.8	23.5	24.7	24.6	26.1	8.2	11.0	-
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	62.8	63.2	-
Securities/Assets	23.4	19.7	16.6	15.2	14.0	13.7	13.6	-
Deposits/Liabilities	57.1	56.3	54.6	52.8	52.8	52.9	53.3	-
Loans/Deposits	98.2	102.9	110.7	117.9	119.2	118.6	118.6	-
Capital Adequacy (%)	16.6	17.9	15.3	16.3	15.6	15.5	15.8	-

(1) Year-to-date % change



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