

## Global Economy

- ◆ IMF revised down its global forecasts by 0.1 point for 2016 and 2017 to 3.1% and 3.4% respectively. The reason behind IMF's downward revisions was Brexit which heightened uncertainty in global economy and especially in developed European economies.
- ◆ The US economy grew by an annual rate of 1.2% during the second quarter of this year, well below expectations. Besides, the growth rate of the first quarter was revised downward to 0.8% from 1.1%.
- ◆ Fed kept its policy interest rate unchanged in July meeting. Fed emphasized that near-term risks to the economic outlook have diminished and a rate hike decision would be dependent on upcoming macroeconomic data. Market expectations still heavily point to a single rate hike for current year.
- ◆ ECB kept monetary policy steady in its meeting held on July 21. ECB stated that the pressure on markets stemmed from Brexit was taken under control and if deemed necessary steps will be taken.
- ◆ Contrary to the expectations, Bank of England (BoE) kept interest rates on hold at its July meeting.
- ◆ Moderate stimulus measure taken by Bank of Japan (BoJ) in its July meeting did not meet the market expectations.
- ◆ In July, gold prices were supported by expectations of a delayed Fed rate hike decision. Oil prices, on the other hand, decreased in July, due to strong oil inventory data and concerns over lower global oil demand.

## Turkish Economy

- ◆ After a failed coup attempt domestic markets experienced sharp fluctuations. S&P cut Turkey's credit rating while Moody's placed Turkey's credit rating on review for a possible downgrade.
- ◆ According to the calendar adjusted figures industrial production posted a sharp annual increase of 5.6% in May. Increase in production was broad-based, however, it was noteworthy that motor vehicle production made the highest contribution of 1.6 percentage points to the total industrial production growth.
- ◆ While exports rose by 8.1% yoy in June, imports which have been on a downward trend since August 2014, recorded an increase.
- ◆ Current account balance posted a deficit of 2.9 billion USD in May 2016 from 4.3 billion USD in the same month a year earlier. Thus, current account deficit contracted by 26.7% yoy in the first five months of the year. Weakness in tourism revenues remain a drag on current account deficit improvement
- ◆ Budget expenditures rose at an annual pace of 43.1% in June while the increase in budget revenues stood at 11.4%. Having run 3.2 billion TRY surplus in June 2015, the budget registered a deficit of 7.9 billion TRY in the same month of this year. As a result, the figures showed a weaker budget outlook than recorded in the first 5 months of the year.
- ◆ In July, annual CPI inflation surged to 8.79%, the highest level of the last 6 months.
- ◆ CBRT cut the upper band of the interest rate corridor (overnight lending rate) by 25 basis points to 8.75% in line with the expectations

## Contents

Turkish Economy	2
Banking Sector	10
Concluding Remarks	11
Graphs	12
Tables	15

## Türkiye İş Bankası A.Ş. - Economic Research Division

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

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

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

**İlker Şahin - Economist**  
ilker.sahin@isbank.com.tr

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

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

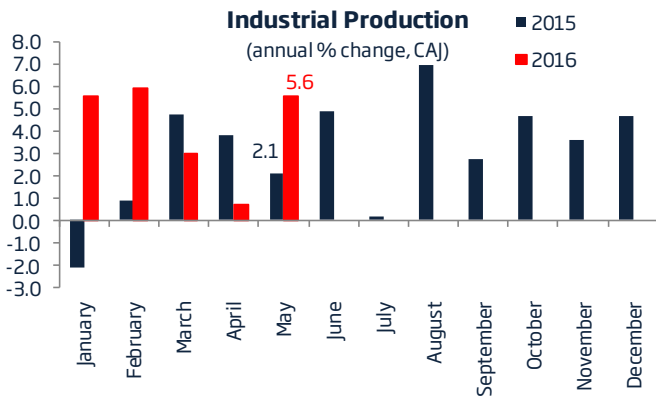
**Gamze Can - Asst. Economist**  
gamze.can@isbank.com.tr

### Lowest unemployment rate of the last one year...

Unemployment rate dropped by 0.3 point and came in at 9.3% in April. Thus, unemployment rate declined to the lowest level of the last one year. Even though labor participation rate surged almost one percentage point, during this period fall in unemployment rate has been a favorable development. Seasonally adjusted unemployment rate, on the other hand remained flat compared to the previous month.

### Sharp rise in industrial production.

According to the calendar adjusted figures, industrial production posted a sharp annual increase of 5.6% in May. Increase in production was broad-based while motor vehicle production made the highest contribution of 1.6 percentage points to the total industrial production growth in May due to low basis effect stemming from a strike held by automotive workers in the same period of previous year. Besides, food production also supported the rise in industrial production. Acceleration in food production activities to meet the high demand before the Ramadan was an important factor in this development.

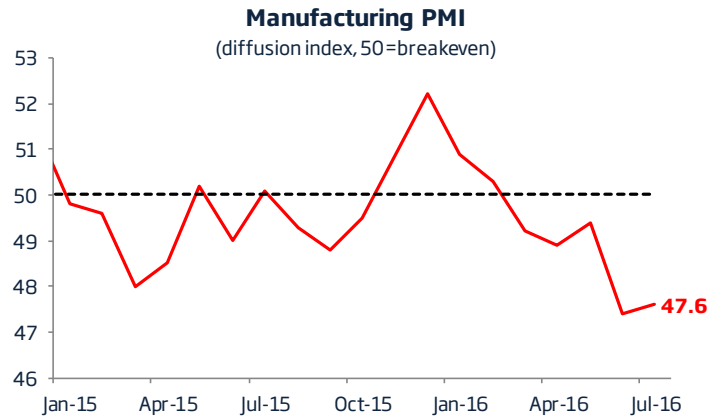


### Automotive production lost momentum in June.

According to data released by Automotive Manufacturers Association, automotive production (passenger car and light commercial vehicle), which had surged by 42% in May, rose by 5% in June. Thus, motor vehicle production, having made the highest contribution to the industrial production in May, might have a limited impact on the total industrial production growth in June.

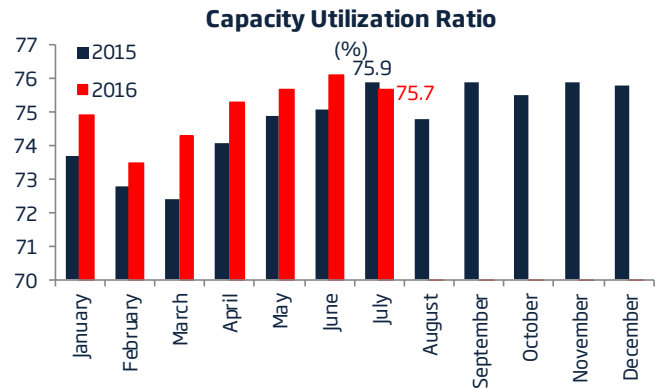
### Manufacturing PMI was at 47.6.

Manufacturing PMI index, which was 47.4 in June (the lowest level since 2009), was realized as 47.6 in July and pointed to a contraction for the 5th consecutive month. New orders and export orders continued to decline in July albeit at a slower pace compared to the June.



### CUR declined in July.

Capacity utilization ratio (CUR) in manufacturing industry declined by 0.2 points yoy and was realized as 75.7% in July. CUR in manufacture of refined petroleum, chemicals and beverages shrank drastically in this period. On the other hand, CUR in manufacture of motor vehicles, which had a significant impact on total industrial production growth recently, continued to recover.

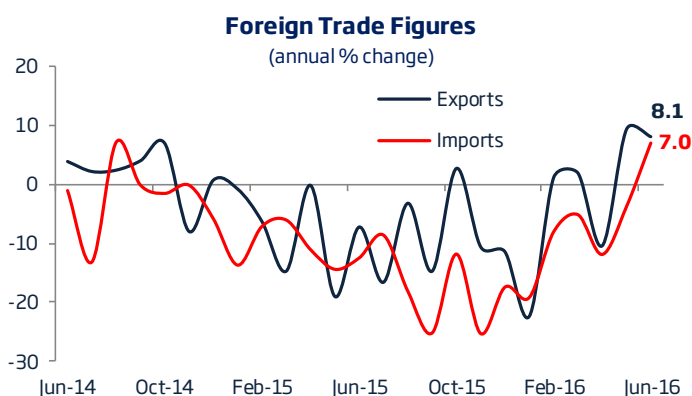


### Confidence indices...

According to seasonally adjusted figures, real sector confidence rose in July. This was mainly stemmed from better output volume expectations for the next 3 months. Consumer confidence, on the other hand, worsened mainly because of disruption in the financial situation expectation of households. In this respect, especially sharp decline in the probability of buying a house was noteworthy.

### Foreign trade deficit widened.

While exports rose by 8.1% yoy in June, imports which have been on a downward trend since August 2014, recorded an increase. Import volume surged by 7% yoy in this period to 19.5 billion USD, the highest reading of one-and-a-half years. Due to the upward movement in imports, contraction in foreign trade deficit stalled. Thus, the deficit expanded by 5% yoy in June.



In the first half of the year, both export and import volume decreased compared to the same period of the previous year. Foreign trade deficit dropped by 16% yoy as imports declined faster than exports.

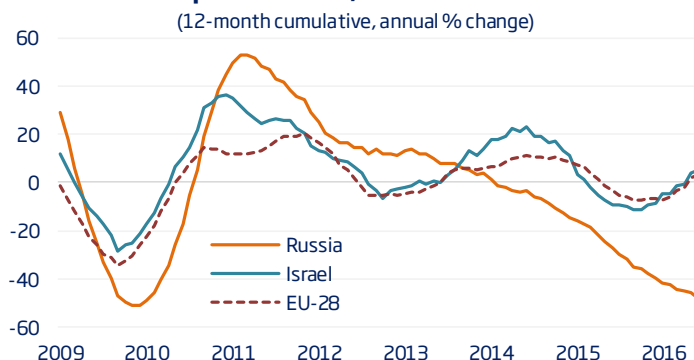
### Gold exports increased.

7 out of the top 10 export industries posted annual increases in June. Automotive and machinery became leading export sectors in this period. Besides, gold exports, which have remained solid, made great contribution to the export performance.

In the first 6 months of the year, automotive industry recorded the highest export reading. Due to gold exports, precious metal sector overtook the major export industries such as machinery and wearing apparels.

Exports to the EU countries posted a better performance compared to exports to other country groups in June. Germany became the biggest export market in this period. After ranking first in May, England took second place despite the annual increase of 36.3% in June. The weight of the EU-28 countries in our total export volume continued to rise. On the other hand, the recent improvement in political

### Export to Russia, Israel and EU-28



ties with Russia is likely to have positive repercussions on bilateral trade relations.

### Energy imports kept falling.

Despite losing some momentum, imports of mineral fuels and oils continued to decline. Indeed, the annual drop in the first six month of the year reached 37.3% yoy while the fall in June was 29.9% yoy.

Imports of boilers and machineries remained at the top of the list of Turkey's imports. In the first half of the year, boiler and machinery imports expanded by 7.2% yoy and accounted for 13.8% of the total imports. On the other hand, imports from China increased by 27.5% yoy in June thanks to the acceleration in imports of electronics and metal goods. Also, imports from the US recorded a rapid rise in this period due to aircraft purchases.

In the first 6 months, imports of intermediate goods kept falling on the back of the low commodity prices while imports of consumption goods decreased slightly. Imports of capital goods, on the other hand, recovered with the aid of the strong pickup in June.

### Expectations...

It was noteworthy that imports posted a rise in June while low commodity prices continued to put downward pressure on import volume. This development has raised the question marks over the sustainability of the downward trend in the foreign trade deficit. On the other hand, the recent steps taken to resolve the problems with Russia and Israel are considered to have a positive impact on export figures.

### Foreign Trade Balance

	(USD billion)					
	June		Change	Jan.-Jun.		Change
	2015	2016	(%)	2015	2016	(%)
Exports	11.9	12.9	8.1	73.4	71.7	-2.4
Imports	18.2	19.5	7.0	106.8	99.7	-6.7
<b>Foreign Trade Balance</b>	<b>-6.2</b>	<b>-6.6</b>	<b>5.0</b>	<b>-33.3</b>	<b>-28.0</b>	<b>-16.0</b>
Import Coverage Ratio (%)	65.7	66.3	-	68.8	71.9	-

Source: Datastream, Turkstat

### Current account deficit continued to improve.

Current account balance posted a deficit of 2.9 billion USD in May 2016 from 4.3 billion USD in the same month a year earlier. Thus, current account deficit contracted by 26.7% yoy in the first five months of the year.

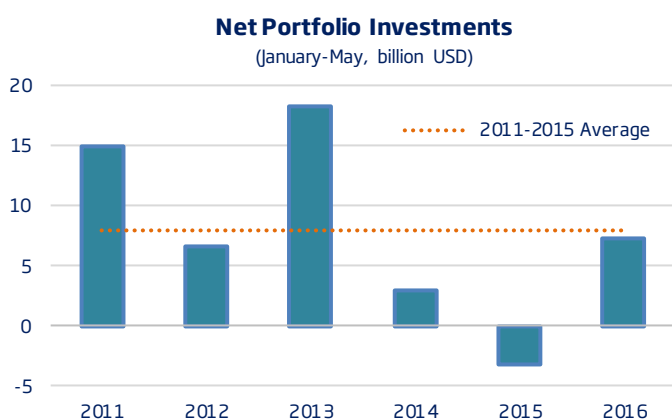
Fall in foreign trade deficit continued to bring down the current account deficit. Total export volume increased by 8.3% yoy in May thanks to the gold exports. Imports, on the other hand, kept declining in this period. Hence, the foreign trade deficit dropped by 31.4% yoy in May.

Weakness in tourism revenues remain a drag on current account deficit improvement. Together with the 559 million USD drop recorded in May, total loss in tourism revenues reached 1.9 billion USD in the first five months of the year compared to the same period of the previous year.

According to 12-month cumulative figures current account deficit narrowed to 27.2 billion USD, the lowest level since July 2010.

### Portfolio investments recovered in 2016.

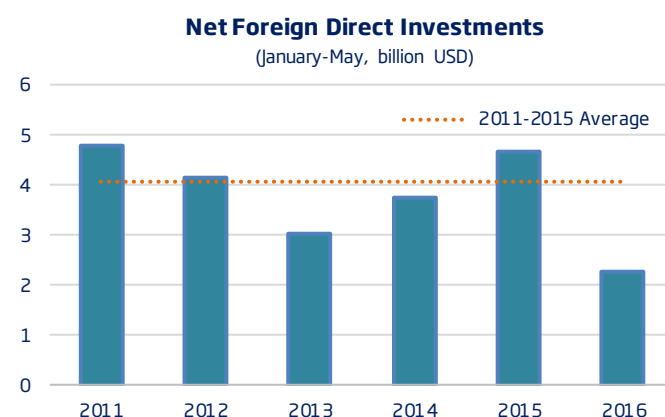
Analysis of the financing of the current account deficit showed that portfolio inflows recovered in the first 5 months of 2016 despite losing some momentum in May. Portfolio investments recorded a net capital inflow since February. Investments mainly directed to government debt securities during this period while equity securities also registered net inflows except May.



Regarding the first five months of the year, portfolio investments recovered substantially after showing a net outflow in 2015. During this period, portfolio inflows climbed close to the 5-year average.

### Deceleration in foreign direct investments

Unlike portfolio investments, direct investments have weakened in 2016 so far. In the first 5 months of the year, net direct investments came in well below the 5-year average. Foreign direct investments halved compared to the same period of the last year.



### Non-bank sectors borrowed 1.5 billion USD from abroad.

It was noteworthy that banks' appetite for foreign loans faltered in 2016 so far. The slowdown in domestic credit demand played a big part in this development. While residents borrowed 1.6 billion USD via loans from abroad, non-banks were responsible for almost all (1.5 billion USD) of this amount.

12-month trailing long-term debt rollover ratio of the banking sector declined to 174%, the lowest level seen since September 2013. The basis effect from the last year's shift by the banking sector away from short-term loans to long-term loans was mostly accountable for this fall. This ratio stood at 173% for non-bank sectors in this period.

	Breakdown of Net Capital Inflows		Breakdown of Net Capital Inflows (%)	
	Dec. 2015	May. 2016	Dec. 2015	May. 2016
<b>Current Account Balance</b>	<b>-32,238</b>	<b>-27,249</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>20,407</b>	<b>23,964</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	11,805	9,431	57.8	39.4
-Portfolio Investments	-15,498	-5,007	-	-
-Other Investments	14,750	17,255	72.3	72.0
-Net Errors and Omissions	9,371	2,290	45.9	9.6
-Other	-21	-5	-	-
<b>Reserves<sup>(1)</sup></b>	<b>11,831</b>	<b>3,285</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

### A sharp expansion in Central Bank reserves...

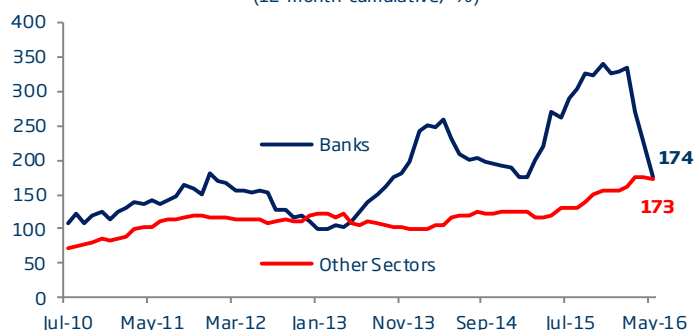
The rebound in capital flows toward Turkey was reflected positively in Central Bank reserves. Recording 2.3 billion USD rise in May, reserves increased by 4.8 billion USD during the first five months of the year. Net errors and omissions also posted an inflow of 1.9 billion USD in May.

### Expectations...

Despite the weakening in tourism revenues, foreign trade deficit has made it possible for the current account deficit to narrow. The impact of the fall in tourism revenues on the deficit is expected to become more evident along with the summer months. Nonetheless, the negative impact of the tourism might subside by August thanks to the diminishing tensions with Russia.

#### Long-term Debt Rollover Ratios

(12-month cumulative, %)



#### Balance of Payments

(USD million)

	May 2016	Jan. - May. 2015	2016	% Change	12-Month Cumulative
<b>Current Account Balance</b>	<b>-2,863</b>	<b>-18,668</b>	<b>-13,679</b>	<b>-26.7</b>	<b>-27,249</b>
Foreign Trade Balance	-3,764	-20,520	-14,968	-27.1	-42,602
Services Balance	1,378	6,163	4,018	-34.8	21,974
Travel (net)	1,222	5,757	3,887	-32.5	19,378
Primary Income	-442	-4,741	-3,529	-25.6	-8,313
Secondary Income	-35	430	800	86.0	1,692
<b>Capital Account</b>	<b>0</b>	<b>-1</b>	<b>15</b>	<b>-</b>	<b>-5</b>
<b>Financial Account</b>	<b>-1,008</b>	<b>-8,966</b>	<b>-11,042</b>	<b>23.2</b>	<b>-24,964</b>
Direct Investments (net)	-587	-4,659	-2,285	-51.0	-9,431
Portfolio Investments (net)	-947	3,162	-7,329	-	5,007
Net Acquisition of Financial Assets	281	2,287	568	-75.2	4,410
Net Incurrence of Liabilities	1,228	-875	7,897	-	-597
Equity Securities	-838	-68	841	-	-1,486
Debt Securities	2,066	-807	7,056	-	889
Other Investments (net)	-1,731	-3,704	-6,209	67.6	-17,255
Currency and Deposits	131	1,584	-1,898	-	-1,405
Net Acquisition of Financial Asse	1,262	9,900	4,477	-54.8	9,541
Net Incurrence of Liabilities	1,131	8,316	6,375	-23.3	10,946
Central Bank	-38	-230	-141	-38.7	-827
Banks	1,169	8,546	6,516	-23.8	11,773
Foreign Banks	740	7,695	5,638	-26.7	7,885
Foreign Exchange	1,027	6,715	1,974	-70.6	-33
Turkish Lira	-287	980	3,664	273.9	7,918
Non-residents	429	851	878	3.2	3,888
Loans	-2,106	-4,955	-3,954	-20.2	-12,615
Net Acquisition of Financial Asse	-490	265	186	-29.8	713
Net Incurrence of Liabilities	1,616	5,220	4,140	-20.7	13,328
Banking Sector	120	3,496	-1,439	-	13
Non-bank Sectors	1,489	2,287	6,327	176.7	14,716
Trade Credit and Advances	264	-203	-426	109.9	-3,172
Other Assets and Liabilities	-20	-130	69	-	-63
Reserve Assets (net)	2,257	-3,765	4,781	-	-3,285
<b>Net Errors and Omissions</b>	<b>1,855</b>	<b>9,703</b>	<b>2,622</b>	<b>-73.0</b>	<b>2,290</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: CBRT, Datastream

### Budget posted a deficit of 7.9 billion TRY in June.

Budget expenditures rose at an annual pace of 43.1% in June while the increase in budget revenues stood at 11.4%. Having run 3.2 billion TRY surplus in June 2015, the budget registered a deficit of 7.9 billion TRY in the same month of this year. As a result, the figures showed a weaker budget outlook than recorded in the first 5 months of the year.

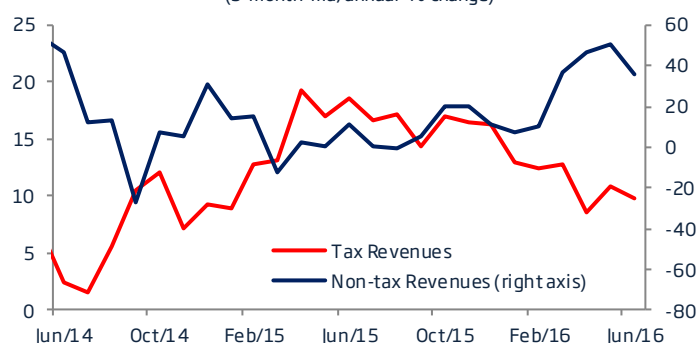
On the other hand, the budget posted 1.1 billion TRY surplus in the first half of the year, achieving a similar performance to that in the last year. However, 9.8% annual drop in the primary surplus was worthy of attention. Despite this unfavorable development, primary surplus has been equivalent to 105% of the year-end target.

### The rise in tax revenues lost momentum in June.

After expanding at an annual pace of 17% in May, tax revenues decelerated somewhat and rose by 9.7% yoy in June. Constituting 75% of the total budget revenues, tax revenues found support mostly from the special consumption tax (SCT) and income tax. Having a share of more than 30% in tax revenues, revenues obtained from SCT went up by 13.1% yoy in June. This stemmed largely from the rise in tax revenues collected from tobacco products and motor vehicles. Income tax revenues, increasing by 16.2% yoy, also made a positive contribution to the budget balance. Value Added Tax on imports,

### Tax and Non-tax Revenues

(3-month ma, annual % change)



however, followed a relatively flat path in the first half compared to a year earlier.

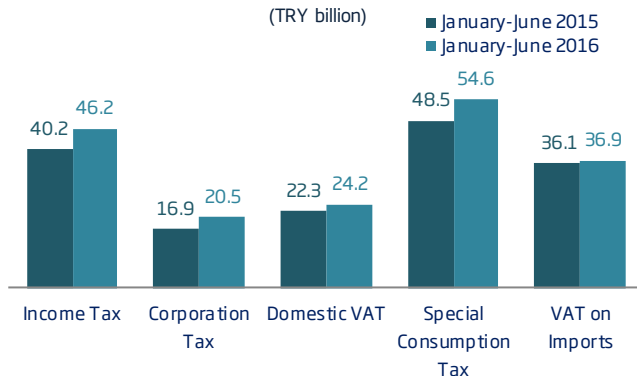
### Non-tax revenues provided a considerable boost to the budget.

Having played a significant part in the better-than-expected performance of the budget revenues during January-May period, the growth in non-tax revenues lost some steam in June. This aside, the revenues through interest, shares and fines jumped fast in June as was the case in the January-May period.

During the first six months of the year, tax revenues picked up by 11.2% yoy while the growth in non-tax revenues

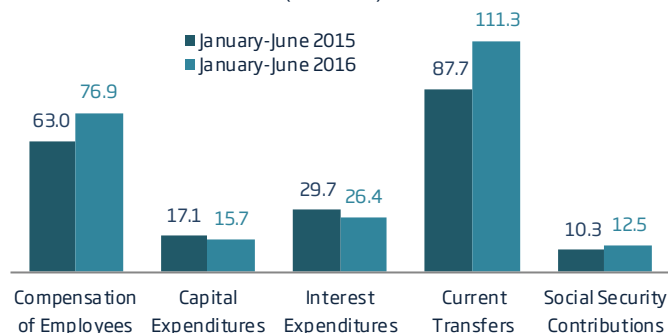
### Tax Revenues

(TRY billion)



### Budget Expenditures

(TRY billion)



### Central Government Budget

(TRY billion)

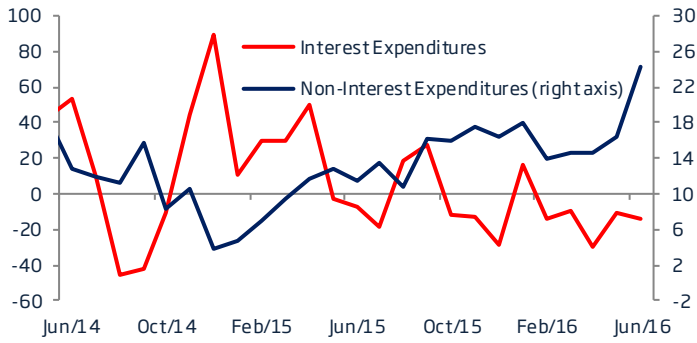
	June			January-June			2016 Budget	
	2015	2016	% Change	2015	2016	% Change	Target	Real./Target (%)
<b>Expenditures</b>	<b>36.3</b>	<b>52.0</b>	<b>43.1</b>	<b>236.7</b>	<b>273.9</b>	<b>15.7</b>	<b>570.5</b>	<b>48.0</b>
Interest Expenditures	1.7	2.2	30.3	29.7	26.4	-11.2	56.0	47.1
Non-Interest Expenditures	34.6	49.8	43.7	206.9	247.5	19.6	514.5	48.1
<b>Revenues</b>	<b>39.6</b>	<b>44.1</b>	<b>11.4</b>	<b>237.5</b>	<b>275.0</b>	<b>15.8</b>	<b>540.8</b>	<b>50.8</b>
Tax Revenues	30.2	33.2	9.7	194.7	216.6	11.2	459.2	47.2
Other Revenues	9.3	10.9	16.8	42.8	58.4	36.6	81.7	71.6
<b>Budget Balance</b>	<b>3.2</b>	<b>-7.9</b>	<b>-</b>	<b>0.8</b>	<b>1.1</b>	<b>42.9</b>	<b>-29.7</b>	<b>-</b>
<b>Primary Balance</b>	<b>4.9</b>	<b>-5.7</b>	<b>-</b>	<b>30.5</b>	<b>27.5</b>	<b>-9.8</b>	<b>26.3</b>	<b>104.7</b>

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

Source: Datastream, Ministry of Finance (\*) January-May period

became 36.6% yoy. This strong outcome was mostly attributable to the Central Bank's profits transferred to Treasury, interest revenues of Treasury and privatization revenues.

**Interest and Non-interest Expenditures**  
(3-month ma, annual % change)



**Sharp rise in current transfers and personnel expenses...**Current transfers, which hold the highest share in budget expenditures in June, rose by 63% yoy during this period. Adding this figure to the picture, we see that the upward pressure from minimum wage hike on expenditures has become more evident. Personnel expenditures increased by 28.4% yoy and ranked second after current transfers in deteriorating the budget balance.

In the first half of the year, payments to social security system, which are classified among duty losses placed under current transfers, escalated by 32% yoy. Treasury aid to social security system also increased fast by 51% yoy.

Even though interest expenditures posted a rapid rise in June, they provided support to the budget balance in the first half of the year as a whole. The annual change in interest expenditures remained in negative territory in June, according to the 3-month trailing figures.

#### Expectations...

Notwithstanding the severe rise in non-interest expenditures led by the minimum wage hike and the rise in personnel expenses, the improvement in non-tax revenues made it possible for the budget to present a balanced outlook in the first half of the year. Budget realizations for January-June period indicated that Turkey is likely to succeed in achieving the year-end targets despite the weak June data.

July	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	0.09	1.16	-0.32	0.21
Year-to-Date	4.85	4.84	5.15	3.41
Annual	6.81	8.79	5.62	3.96
Annual Average	8.07	7.91	6.43	4.77

### Sharp rise in CPI in July...

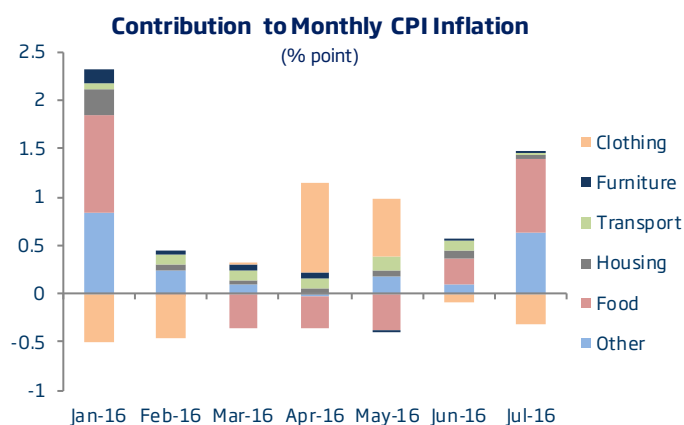
CPI increased by 1.16% mom in July, well above the market expectations of 0.72%. During this period, domestic PPI (D-PPI) rose by 0.21% mom.

### Highest annual inflation rate of the last 6 months...

In July, annual CPI inflation surged to 8.79%, the highest level of the last 6 months. Annual D-PPI inflation was realized as 3.96% in July, increasing by 55 basis points compared to May mainly due to base effect.

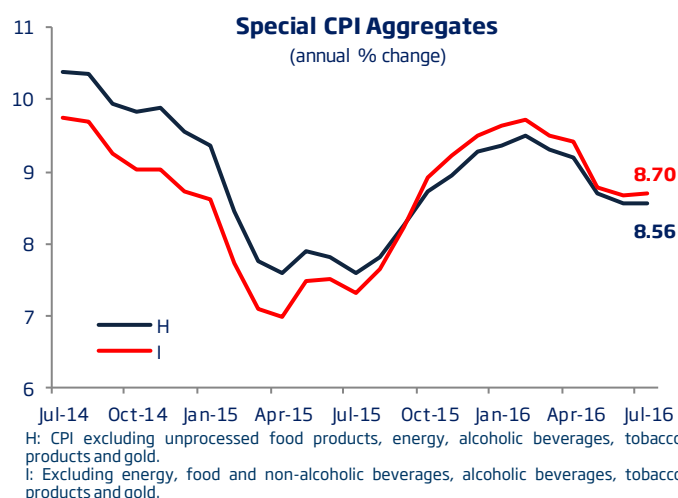
### Food and tobacco prices elevated CPI.

In July, prices in almost all expenditure sub-groups have increased. Food prices, which increased by 3.15% mom, made the highest contribution to CPI by 74 basis points. Moreover, prices in tobacco group surged by 7% compared to the June due to a hike in cigarette prices in July and lifted monthly CPI by 35 basis points. Clothing and footwear prices, which continued to decline due to the seasonal factors, was the only expenditure group making a downward impact on monthly CPI. Clothing and footwear prices brought down monthly CPI by 30 basis points.

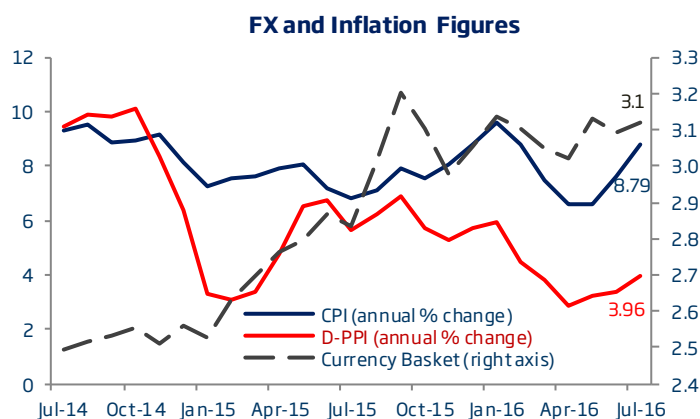


### Flat course in core inflation indicators.

The core inflation indicators, which have been recovering in recent months, remained relatively stable in July. H and I core indices, which are closely monitored by the CBRT, increased by 8.56% yoy and 8.70% yoy, respectively.



On the other hand, recent depreciation in TRY intensify the fears that the ongoing recovery in core inflation indicators might not be permanent.



### Moderate D-PPI increase in July.

Monthly increase in D-PPI slowed down due to the slide in energy prices. Indeed, energy group, which have been making an upward contribution to D-PPI increase, brought down the producer prices in July. During this period, textile sector made the highest contribution to D-PPI increase.

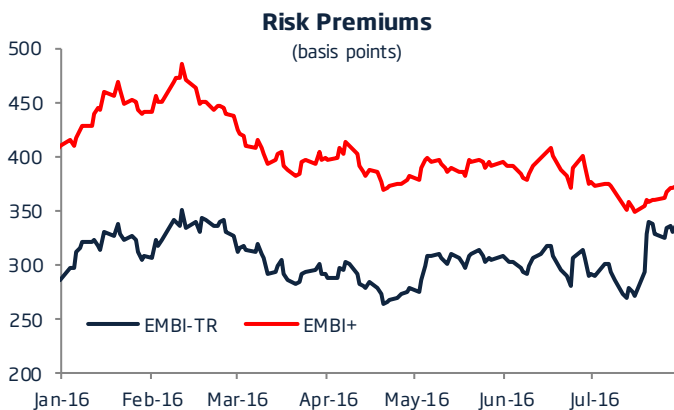
### Expectations

We expect that the fall in clothing and footwear prices will continue in August due to the seasonal factors. We anticipate that food prices, which have been one of the main factors behind the course of inflation, will continue to weigh on CPI. On the other hand, we think that if the depreciation in TRY becomes permanent the upward pressure on CPI might increase.



**Volatility in financial markets...**

Following the failed coup attempt on July 15, risk perception towards Turkey deteriorated. Moody's, one of the two credit institutions rated Turkey as an investment grade country along with Fitch, announced that it placed Turkey's credit rating on review for a possible downgrade. Moreover, S&P downgraded Turkey's credit rating from BB+ to BB, putting pressure over markets. However, in the following days, diminished concerns led risk perception to recover. While TRY gained strength against USD and EUR, BIST-100 index recovered its losses to some extent.



**Domestic markets recovered in the last week of the month.**

USD/TRY, which rose to 3.0476 in international markets on 15th July, declined to an intraday low of 2.92 on 18th of June thanks to policy measures taken. In the following days USD/TRY had a volatile course and reached to record high of 3.0995 on July 20. In the last week of July, however, TRY gained strength against USD. As of 29th July, USD/TRY was realized as 2.9873.

BIST-100 index also plunged after coup attempt. On June 18 the index declined by 7.1%, the sharpest daily drop since more than 3 years. Through 18-22 July stock market of Turkey underperformed compared to those in peer

developing countries. At the last week of the month, on the other hand, BIST-100 also recovered its losses to some extent.

Similarly, interest rates in bond markets surged in the week following the coup attempt. The yield on the 2-year-benchmark note rose by 100 basis points and reached 9.6%, the highest level since May. In the following days, the yield on 2-year-benchmark note slide back to 9.24%, still 50 basis points higher compared to the previous month.

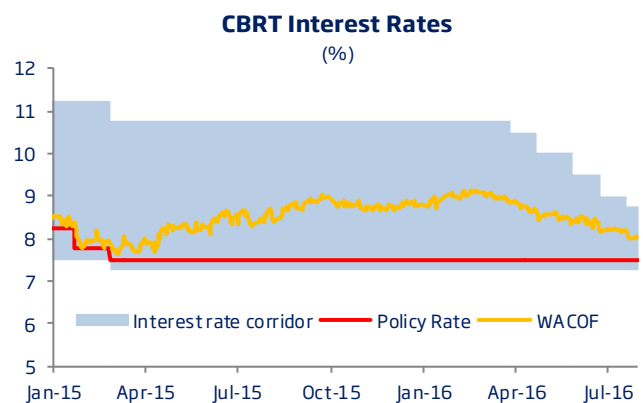
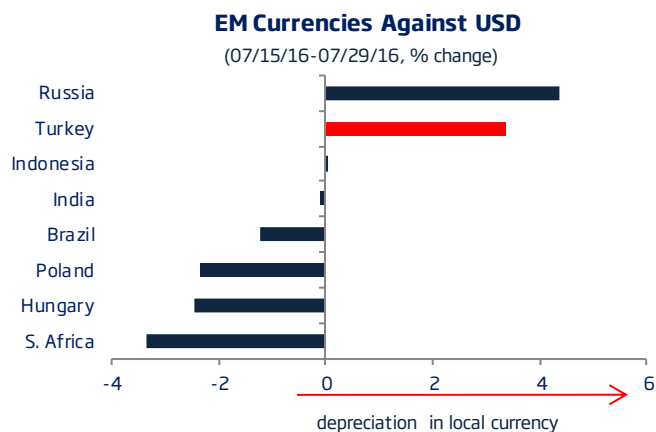
**Relieving measures from CBRT...**

Following the coup attempt, CBRT announced a couple of measures to provide the efficient functioning of markets. CBRT stated that it will provide banks with needed liquidity without limits and commission rate for the Intraday Liquidity Facility will be zero. Besides, CBRT expressed that with the aim of supporting efficient liquidity management of banks, the haircut/discount rates of Turkish lira and foreign currency denominated collaterals pledged against Turkish lira transactions have been changed by taking into account of their types and maturities and additional measures will be taken to ensure financial stability, if deemed necessary.

**CBRT continued to lower the upper band in July.**

CBRT cut the upper band of the interest rate corridor (overnight lending rate) by 25 basis points to 8.75% at its meeting held on July 19. CBRT stated that policy simplification process is about to come to an end. CBRT reiterated that taking into account the inflation expectations; the tight monetary policy stance will be maintained.

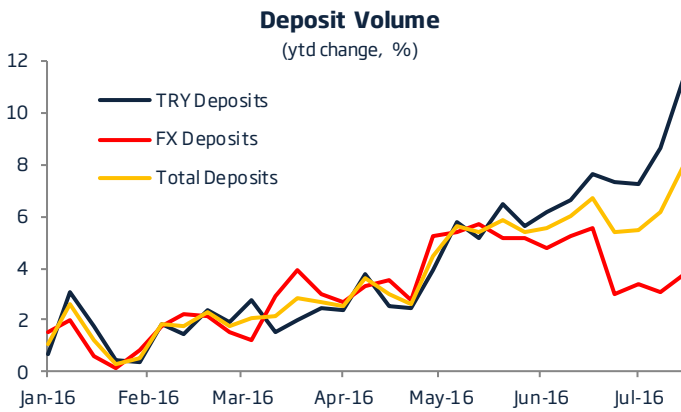
CBRT kept its year-end inflation forecasts unchanged for 2016 and 2017 at 7.5% and 6%, respectively, in the 3rd Inflation Report of the year published on July 29. At the briefing on inflation report, CBRT Governor Murat Çetinkaya assessed that they do not expect depreciation on TRY due to the simplification measures, on the contrary, the predictability of monetary policy will lead to a better risk perception for Turkey.



Source: CBRT, Reuters, Datastream

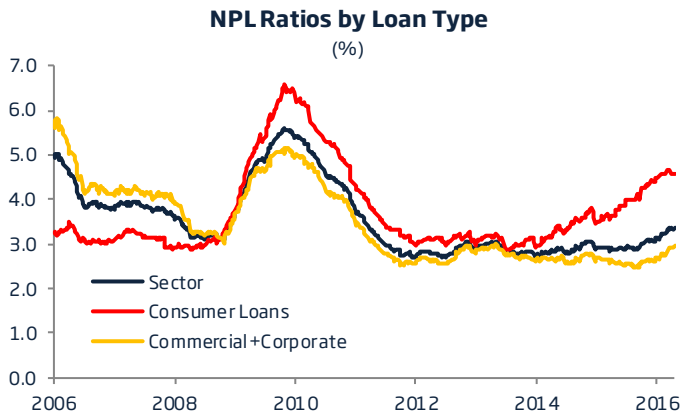
**Sharp increase in TRY deposits**

The annual increase in deposits became 12% in the week ending 22 July. During this period, the annual surge in TRY deposits stood at 18.6%, gaining the fastest weekly momentum since the week ending 6 May. The rapid decline of 6.9% yoy of FX deposits in USD terms indicated that depositors transferred a bulk of their savings from foreign currency accounts to TRY accounts. Indeed, despite the increase recorded in foreign exchange rates in the week ending 22 July, FX deposits in TRY terms posted a limited rise of 4.1% yoy. Along with these developments, the share of TRY deposits in total deposits continued to escalate and reached 57.6% as of July 22.



**Annual loan growth was 13.1%.**

Credit volume expanded by 13.1% yoy in the week ending 22 July. While commercial loans played the biggest part in the rise in total loan volume, retail credits grew by 5.4% yoy. Housing loans had the strongest performance among other branches of consumer credits. The downward trend in



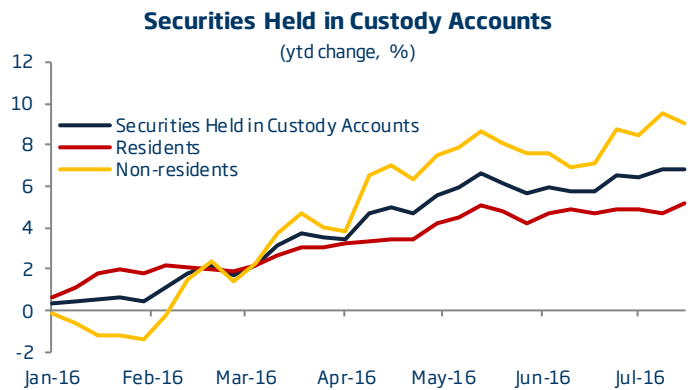
vehicle loans, however, persisted.

**NPL ratio remained flat.**

Starting 2016 with an upward trend, non-performing loan ratio has not recorded a significant change in the recent weeks. Non-performing loan ratio in banking sector came in at 3.4% as of July 22. This ratio for consumer loans stood at 4.6% during this period, while it was 3% for commercial loans.

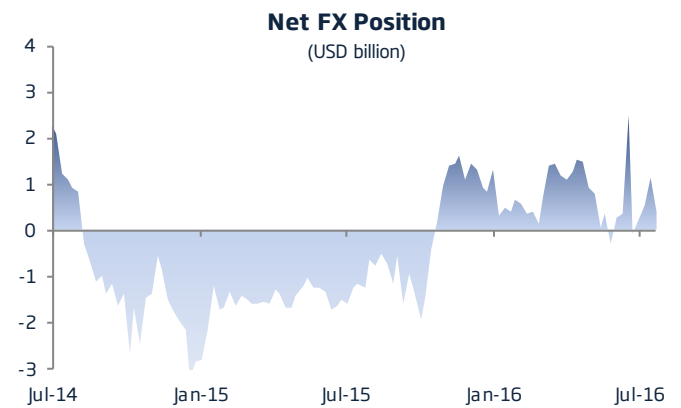
**Securities held under custody...**

Banks' portfolio of securities held under custody maintained the improvement as of 22 July. This account registered an annual rise of 5.5%. During this period, purchases of residents' surged by 9.7% yoy while that of nonresidents' followed a flat path.



**Net FX position...**

As of 22 July, banks' on-balance sheet FX position was (-) 14,663 million USD while off-balance sheet FX position became (+)15,055 million USD, declining to the lowest levels since August 2011. Hence, banks' net FX position stood at (+)392 million USD.



Since UK's decision to leave EU caused turmoil, its impact had been short-lived. Furthermore, additional stimulus expectations from central banks boosted the financial markets recently. Considering the leaving process will take some time, we think that the decision will not create a significant threat for the global economy in the short term. Indeed, international organizations like IMF have made minor downward changes in their global growth forecasts.

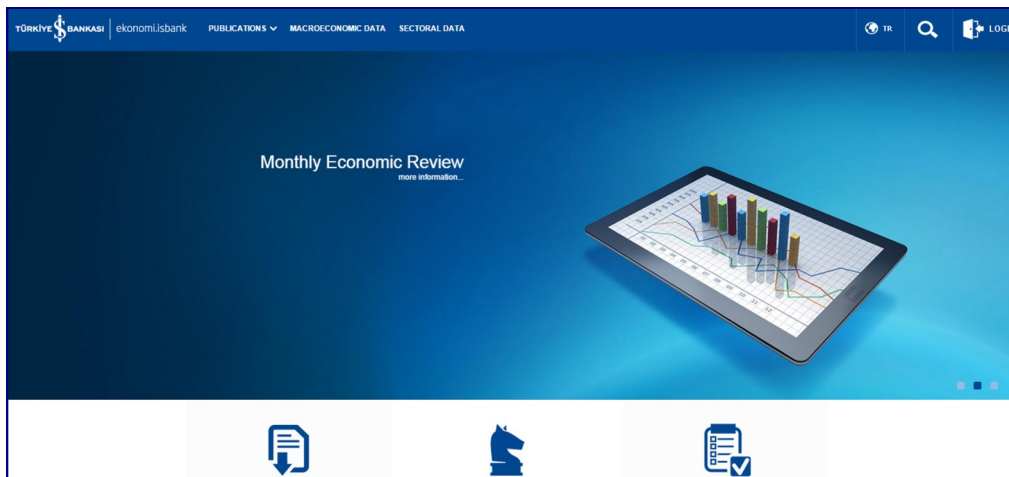
The positive atmosphere in global markets also enlivened domestic markets until 15<sup>th</sup> of July. However, in the following period, the failed coup attempt in Turkey increased the volatility in the markets. But, we think that this situation is highly unlikely to be permanent. We anticipate that after a short rebalancing period, growth rate of Turkish economy will continue to be close to its potential growth rate. However in this process, we expect especially tourism and tourism-related sectors to be under significant pressure.

Moreover, a relative slowdown in the second half of the year might undermine the budget revenues. However, we think that strong budget figures provide a buffer on the fiscal side thanks to the past policies devoted to budget discipline. Due to the fall in tourism revenues improvement in the current account deficit might lose some momentum, but flat course of low energy prices would lead to a moderate current account deficit. With a 24% share in CPI and high volatility, food prices will continue to be an important component of inflation in the future. Furthermore, the recent depreciation in TRY may put additional pressure on inflation.

Forecasts (%)	2015(R)	2016
Growth	4.0	3.5
CA Deficit/GDP	4.5	5.0
Inflation	8.8	7.5

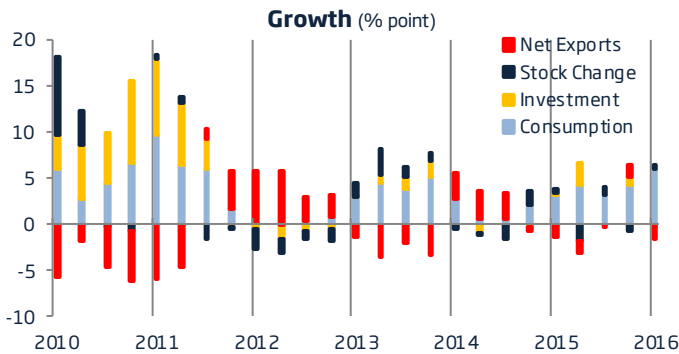
(R) Realization  
Year-end forecast for inflation

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

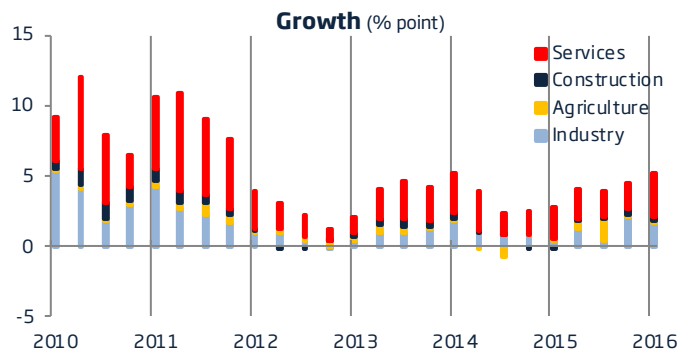


## Growth

### Expenditure Approach - Contributions to GDP

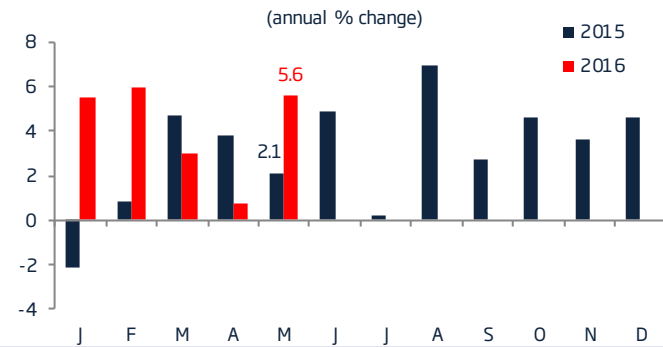


### Production Approach - Contributions to GDP

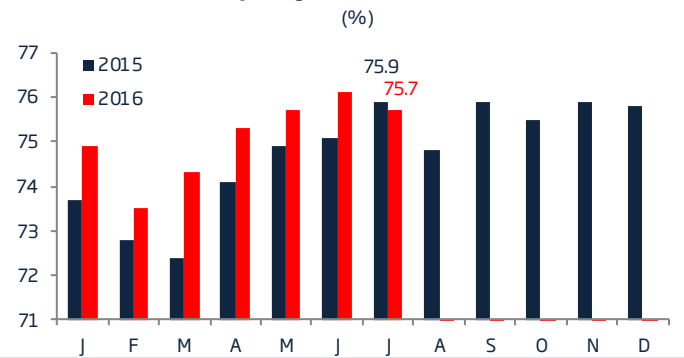


## Industrial Production and Capacity Utilization Ratio

### Industrial Production\*

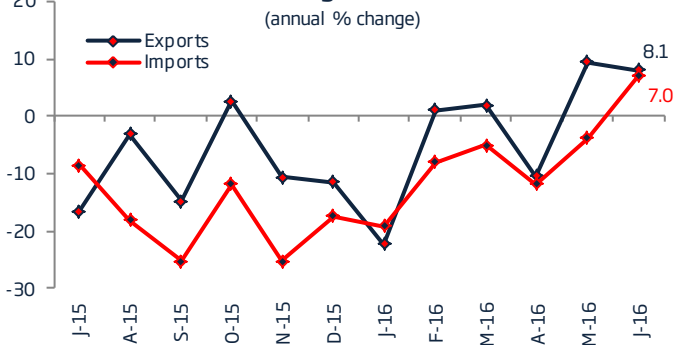


### Capacity Utilization Ratio

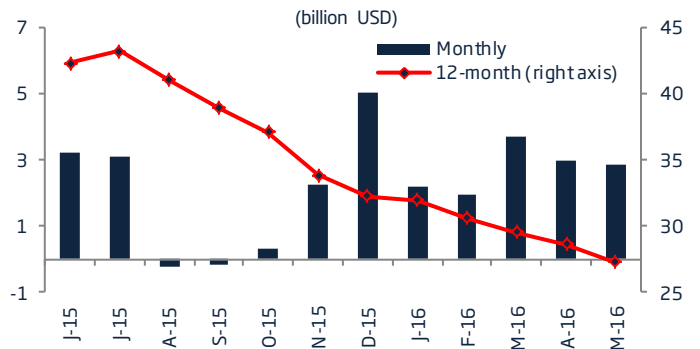


## Foreign Trade and Current Account Balance

### Foreign Trade

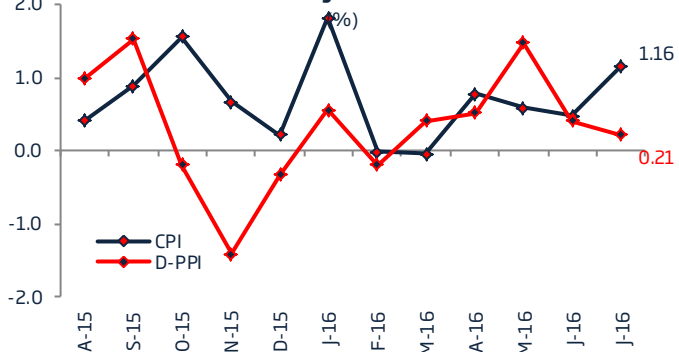


### Current Account Deficit

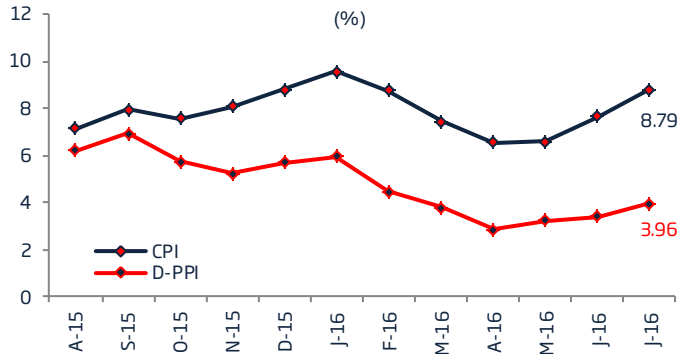


## Inflation

### Monthly Inflation



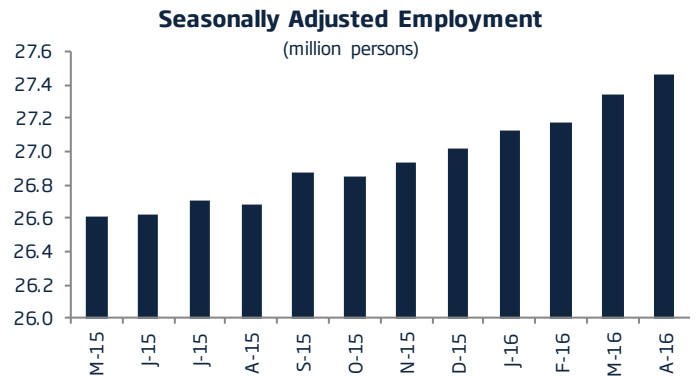
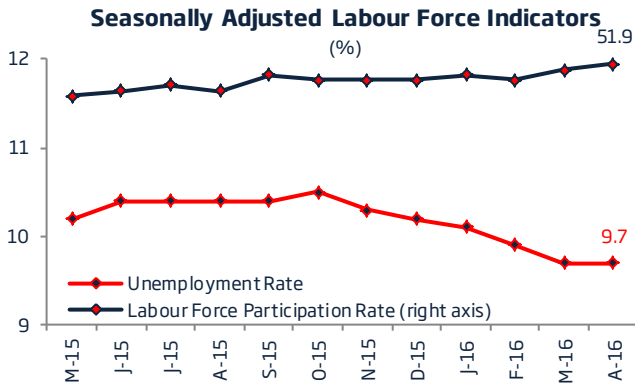
### Annual Inflation



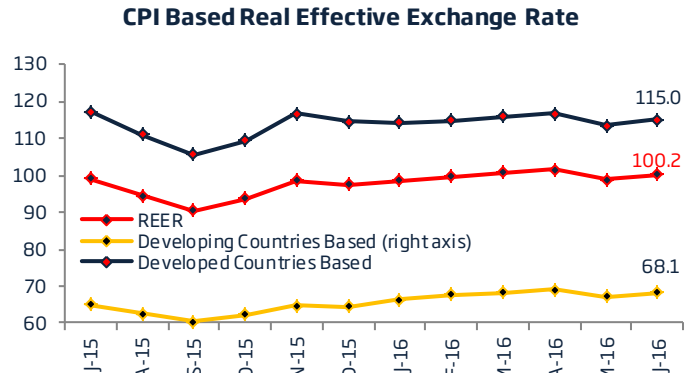
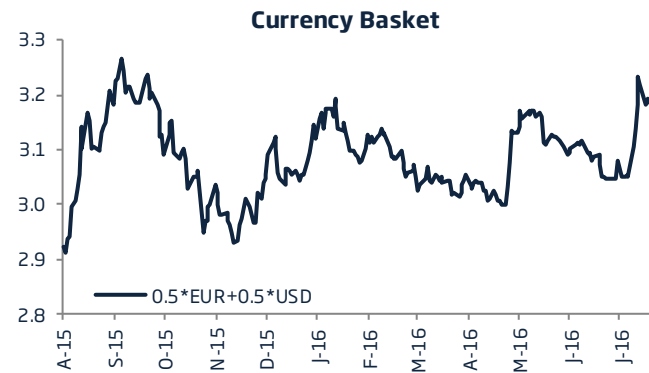
(\*) Calendar adjusted figures

Source: CBRT, Datastream, Turkstat

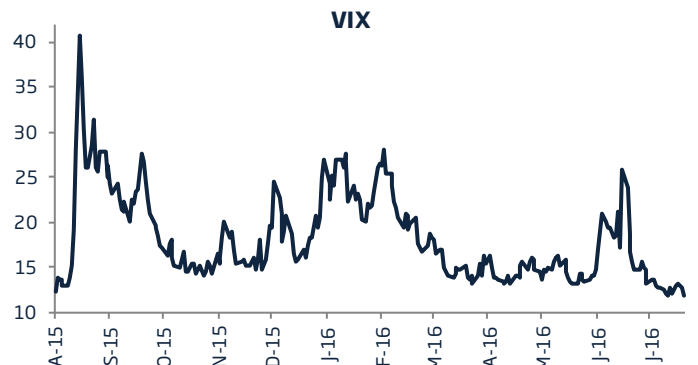
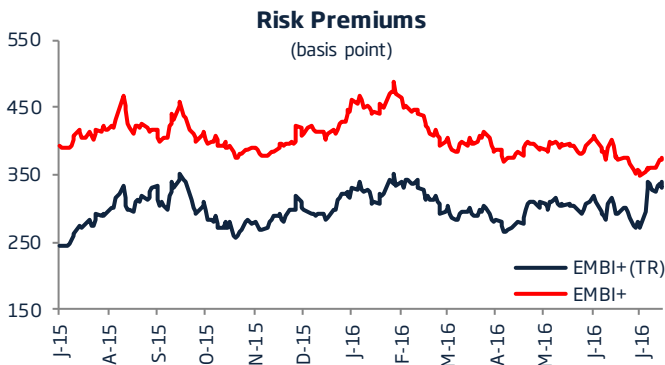
## Labor Market



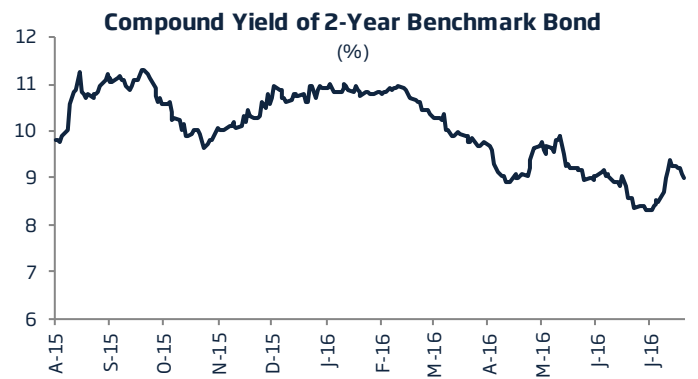
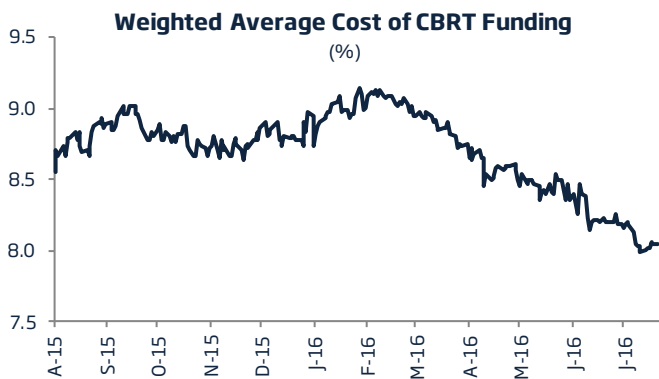
## FX Market



## Risk Indicators

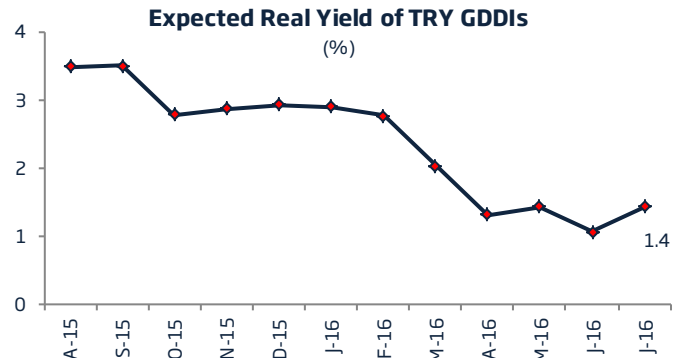
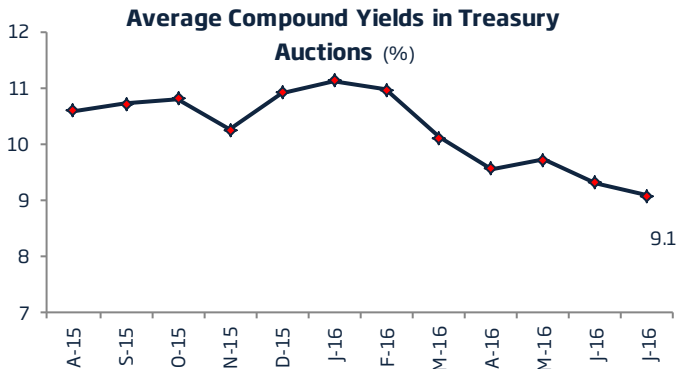


## Interest Rates

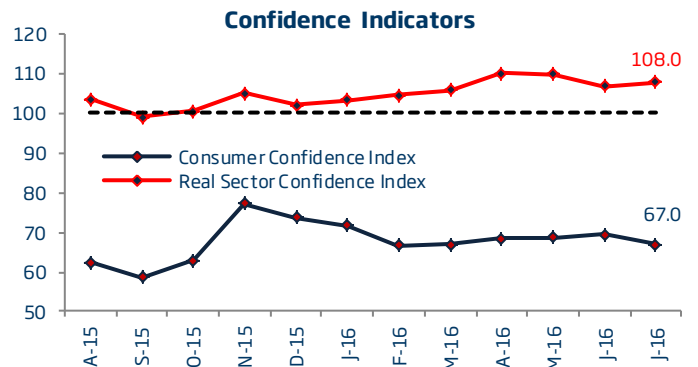
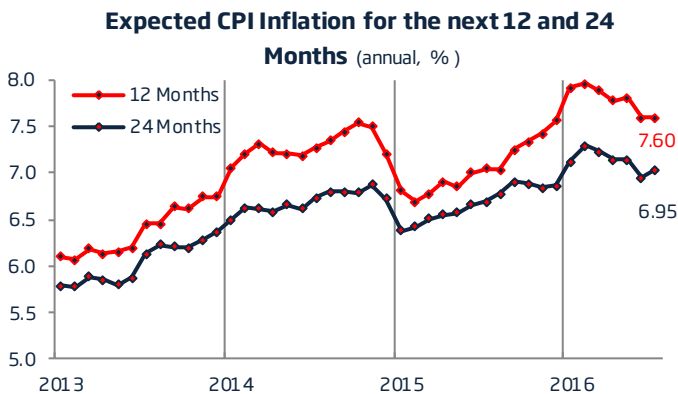
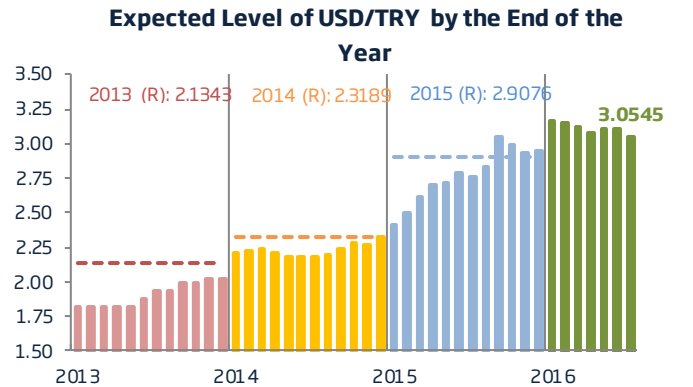
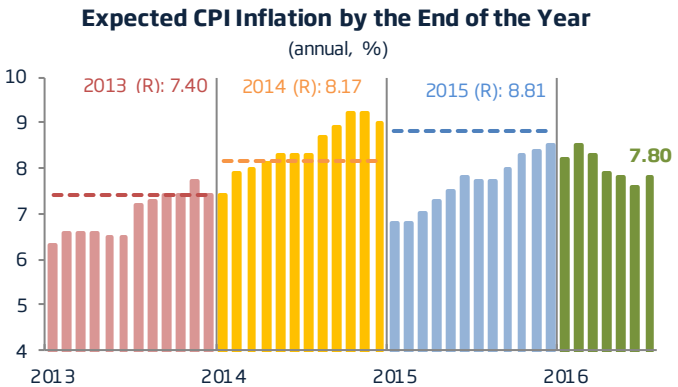
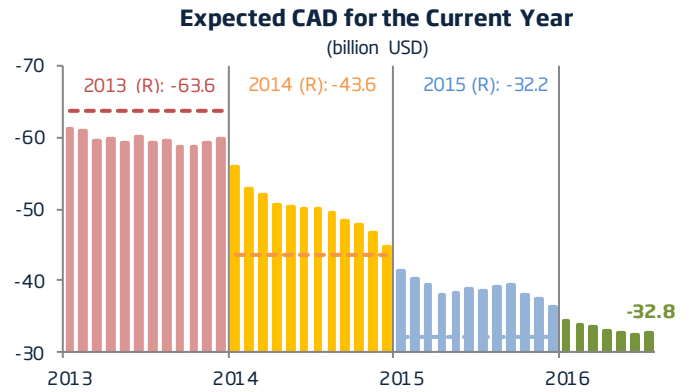
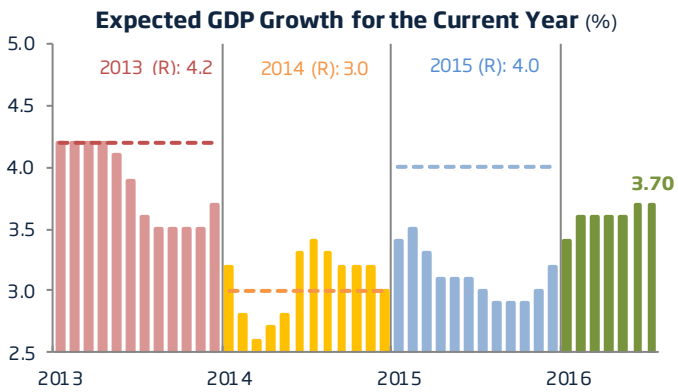


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## 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

<b>Growth</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>16-Q1</b>	<b>16-Q2</b>	<b>16-Q3</b>
GDP (USD billion)	774	786	823	799	720	169.5	-	-
GDP (TRY billion)	1,298	1,417	1,567	1,748	1,954	499.3	-	-
GDP Growth Rate (%)	8.8	2.1	4.2	3.0	4.0	4.8	-	-
<b>Inflation (%)</b>						<b>May-16</b>	<b>Jun-16</b>	<b>Jul-16</b>
CPI (annual)	10.45	6.16	7.40	8.17	8.81	6.58	7.64	8.79
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	3.25	3.41	3.96
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Feb-16</b>	<b>Mar-16</b>	<b>Apr-16</b>
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.2	9.9	9.7	9.7
Labor Force Participation Rate (%)	47.2	48.5	48.4	50.9	51.6	51.6	51.8	51.9
<b>FX Rates</b>						<b>May-16</b>	<b>Jun-16</b>	<b>Jul-16</b>
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	105.0	97.5	98.8	100.2	
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	2.9541	2.8874	3.0152
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.2910	3.2106	3.3476
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.1226	3.0490	3.1814
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Apr-16</b>	<b>May-16</b>	<b>Jun-16</b>
Exports	134.9	152.5	151.8	157.6	143.8	140.1	141.1	142.1
Imports	240.8	236.5	251.7	242.2	207.2	199.5	198.9	200.1
<b>Foreign Trade Balance</b>	<b>-105.9</b>	<b>-84.1</b>	<b>-99.9</b>	<b>-84.6</b>	<b>-63.4</b>	<b>-59.5</b>	<b>-57.7</b>	<b>-58.1</b>
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	70.2	71.0	71.0
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						<b>Mar-16</b>	<b>Apr-16</b>	<b>May-16</b>
<b>Current Account Balance</b>	<b>-74.4</b>	<b>-48.0</b>	<b>-63.6</b>	<b>-43.6</b>	<b>-32.2</b>	<b>-29.5</b>	<b>-28.7</b>	<b>-27.2</b>
<b>Capital and Financial Accounts</b>	<b>-66.1</b>	<b>-48.9</b>	<b>-62.3</b>	<b>-42.1</b>	<b>-22.9</b>	<b>-22.0</b>	<b>-26.6</b>	<b>-25.0</b>
Direct Investments (net)	-13.8	-9.2	-8.8	-5.5	-11.8	-10.1	-9.8	-9.4
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.5	11.0	8.5	5.0
Other Investments (net)	-28.3	-19.6	-39.5	-16.0	-14.8	-16.9	-17.7	-17.3
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	-6.1	-7.6	-3.3
<b>Net Errors and Omissions</b>	<b>8.3</b>	<b>-0.9</b>	<b>1.4</b>	<b>1.6</b>	<b>9.4</b>	<b>7.5</b>	<b>2.1</b>	<b>2.3</b>
<b>Current Account Balance/GDP (%)</b>	<b>-9.6</b>	<b>-6.1</b>	<b>-7.7</b>	<b>-5.5</b>	<b>-4.5</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						<b>Apr-16</b>	<b>May-16</b>	<b>Jun-16</b>
<b>Expenditures</b>	<b>314.6</b>	<b>361.9</b>	<b>408.2</b>	<b>448.8</b>	<b>506.0</b>	<b>176.0</b>	<b>221.9</b>	<b>273.9</b>
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	19.1	24.2	26.4
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	156.9	197.7	247.5
<b>Revenues</b>	<b>296.8</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>483.4</b>	<b>181.4</b>	<b>230.9</b>	<b>275.0</b>
Tax Revenues	253.8	278.8	326.2	352.5	407.5	141.0	183.4	216.6
<b>Budget Balance</b>	<b>-17.8</b>	<b>-29.4</b>	<b>-18.5</b>	<b>-23.4</b>	<b>-22.6</b>	<b>5.4</b>	<b>9.1</b>	<b>1.1</b>
<b>Primary Balance</b>	<b>24.4</b>	<b>19.0</b>	<b>31.4</b>	<b>26.5</b>	<b>30.4</b>	<b>24.6</b>	<b>33.3</b>	<b>27.5</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.4</b>	<b>-2.1</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-1.2</b>	-	-	-
<b>Central Government Debt Stock (TRY billion)</b>						<b>Apr-16</b>	<b>May-16</b>	<b>Jun-16</b>
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	449.4	452.3	453.3
External Debt Stock	149.6	145.7	182.8	197.5	237.5	233.3	248.2	246.7
<b>Total Debt Stock</b>	<b>518.4</b>	<b>532.2</b>	<b>585.8</b>	<b>612.1</b>	<b>677.6</b>	<b>682.8</b>	<b>700.5</b>	<b>700.0</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)	2011	2012	2013	2014	2015	May.16	Jun.16	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>1,217.7</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,357.4</b>	<b>2,469.0</b>	<b>2,477.3</b>	<b>5.1</b>
<b>Loans</b>	<b>682.9</b>	<b>794.8</b>	<b>1,047.4</b>	<b>1,240.7</b>	<b>1,485.0</b>	<b>1,555.4</b>	<b>1,570.4</b>	<b>5.8</b>
TRY Loans	484.8	588.4	752.7	881.0	1,013.4	1,054.8	1,077.0	6.3
Share (%)	71.0	74.0	71.9	71.0	68.2	67.8	68.6	-
FX Loans	198.1	206.4	294.7	359.7	471.5	500.6	493.4	4.6
Share (%)	29.0	26.0	28.1	29.0	31.8	32.2	31.4	-
Non-performing Loans	19.0	23.4	29.6	36.4	47.5	54.1	53.6	12.8
Non-performing Loan Rate (%)	2.7	2.9	2.8	2.9	3.1	3.4	3.3	-
<b>Securities</b>	<b>285.0</b>	<b>270.0</b>	<b>286.7</b>	<b>302.3</b>	<b>329.7</b>	<b>331.9</b>	<b>331.4</b>	<b>0.5</b>
<b>TOTAL LIABILITIES</b>	<b>1,217.7</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,357.4</b>	<b>2,469.0</b>	<b>2,477.3</b>	<b>5.1</b>
<b>Deposits</b>	<b>695.5</b>	<b>772.2</b>	<b>945.8</b>	<b>1,052.7</b>	<b>1,245.4</b>	<b>1,309.9</b>	<b>1,311.7</b>	<b>5.3</b>
TRY Deposits	460.0	520.4	594.1	661.3	715.4	756.0	768.0	7.4
Share (%)	66.1	67.4	62.8	62.8	57.4	57.7	58.6	-
FX Deposits	235.5	251.8	351.7	391.4	530.0	553.9	543.7	2.6
Share (%)	33.9	32.6	37.2	37.2	42.6	42.3	41.4	-
<b>Securities Issued</b>	<b>18.4</b>	<b>37.9</b>	<b>60.6</b>	<b>89.3</b>	<b>97.8</b>	<b>100.9</b>	<b>99.5</b>	<b>1.7</b>
<b>Payables to Banks</b>	<b>167.4</b>	<b>173.4</b>	<b>254.2</b>	<b>293.2</b>	<b>361.3</b>	<b>368.7</b>	<b>363.6</b>	<b>0.6</b>
<b>Funds from Repo Transactions</b>	<b>97.0</b>	<b>79.9</b>	<b>119.1</b>	<b>137.4</b>	<b>156.7</b>	<b>164.1</b>	<b>154.8</b>	<b>-1.2</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>144.6</b>	<b>181.9</b>	<b>193.7</b>	<b>232.0</b>	<b>262.3</b>	<b>278.2</b>	<b>284.7</b>	<b>8.5</b>
Profit (Loss) of the Period	19.8	23.5	24.7	24.6	26.1	14.1	19.0	-
<b>RATIOS (%)</b>								
Loans/GDP	52.6	56.1	66.8	63.5	76.0	-	-	-
Loans/Assets	56.1	58.0	60.5	62.2	63.0	63.0	63.4	-
Securities/Assets	23.4	19.7	16.6	15.2	14.0	13.4	13.4	-
Deposits/Liabilities	57.1	56.3	54.6	52.8	52.8	53.1	52.9	-
Loans/Deposits	98.2	102.9	110.7	117.9	119.2	118.7	119.7	-
Capital Adequacy (%)	16.6	17.9	15.3	16.3	15.6	15.5	15.6	-

(1) Year-to-date % change