

Global Economy

- ◆ The minutes of FOMC's July meeting released in the mid-August showed that there is no consensus among Fed officials about the timing of a rate hike. Minutes revealed that the Fed will not move rapidly in raising the interest rate. On the other hand, comments from some of the major Fed members indicated that rate hike decision could come quite sooner than expected.
- ◆ The US economic growth for the second quarter, previously announced at 1.2%, was revised down to 1.1%. While consumer spending and exports supported the GDP growth in this period, the sharp decrease of inventories put pressure on growth performance.
- ◆ The US non-farm payrolls were realized below expectations in August. While unemployment rate remained at 4.9% in this period, weakening of increase in earnings was worth mentioning.
- ◆ Bank of England (BoE) made the moves that were widely anticipated after the Brexit. BoE cut the policy interest rate to 0.25% at its meeting held in the early August and expanded the size of its asset purchase program by 60 billion sterling to 435 billion sterling.
- ◆ Inflation in Euro Area remained weak in August according to flash estimates. On the other hand, results of the stress test of the EU banks demonstrated that the EU banking system was in a better condition compared to 2 years ago.
- ◆ The announcement that the leading oil producer countries will meet at the end of September aiming to stabilize the oil market, supported oil prices. Gold prices, however, remained under pressure in August due to the Fed's rate hike expectations.

Turkish Economy

- ◆ According to the calendar adjusted figures, industrial production recorded a limited annual increase by 1.1% in June. Growth in industrial production, which was 4.7% in the first quarter of the year, weakened in the 2nd quarter and dropped to 2.5%.
- ◆ In July, export and import volume posted an annual decrease of 11.5% and 19.7%, respectively. Foreign trade deficit narrowed as imports declined faster than exports. Thus, foreign trade deficit, which was 7.1 billion USD a year earlier in July, became 4.8 billion USD in the same month of this year.
- ◆ Current account deficit, which was 3.2 billion USD in June 2015, became 4.9 billion USD in the same month of this year. Thus, the deficit posted an annual increase for the first time since July 2015. On the other hand, the deficit decreased by 12.9% yoy in the first half of the year and was realized as 19.1 billion USD. According to 12-month cumulative figures, after falling for 10 consecutive months, current account deficit increased in June. 12-month cumulative deficit surged to 29.4 billion USD in this period.
- ◆ Budget revenues increased by 6.1% yoy in July while budget expenditures declined by 6.8% yoy. Thus, budget which posted a deficit of 5.4 billion TRY in July 2015, gave a surplus of 129 million TRY in the same month of 2016. In the first 7 months of the year budget posted a surplus of 1.3 billion TRY.
- ◆ CPI declined by 0.29% mom in August, marking the fastest monthly drop since June 2015. During this period, domestic PPI (D-PPI) recorded a limited monthly rise of 0.08%.
- ◆ CBRT cut the upper band of the interest rate corridor by 25 basis points in August. Hence, the cuts implemented since March reached 225 basis points.

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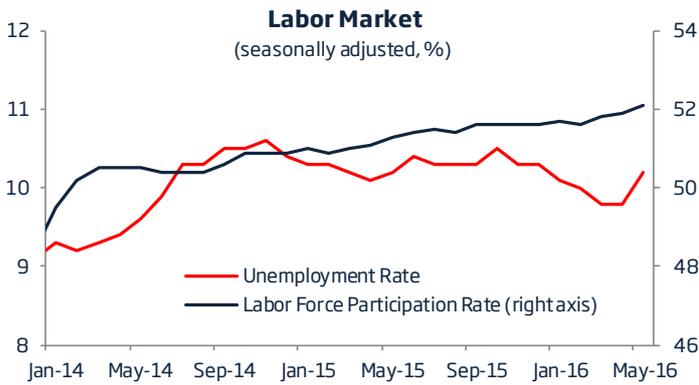
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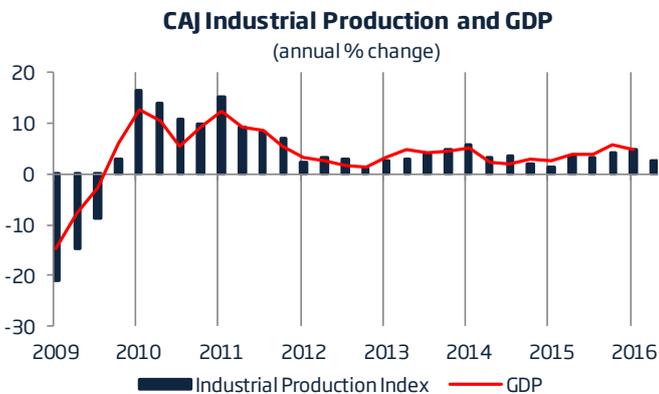
Unemployment rate was 9.4% in May.

Unemployment rate posted an annual rise of 0.1 point and was realized as 9.4% in May. A sharp increase of 0.8 point registered in the labor force participation rate was noted as a positive development in this period. Deterioration in seasonally adjusted employment figures was also worth mentioning. Indeed, unemployment rate rose by 0.4 points compared to the previous month and became 10.2% in May, while youth unemployment rate showed the most rapid monthly increase since November 2008 and came in at 19.1%.



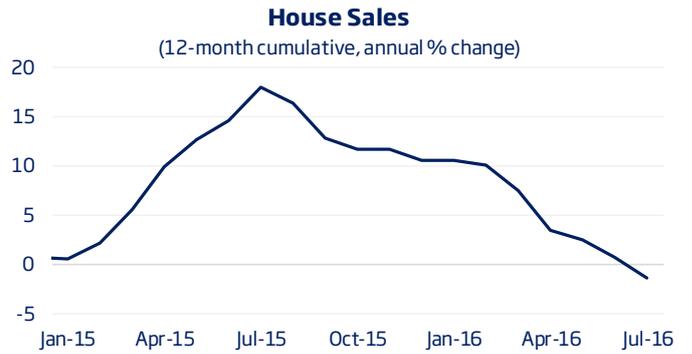
Industrial production lost momentum.

According to the calendar adjusted figures, industrial production recorded a limited annual increase by 1.1% in June. This development implied a loss of momentum in economic activity. While energy production and mining boosted industrial production in this period, manufacturing sector put downward pressure on the overall index. Thus, growth in industrial production, which was 4.7% in the 1st quarter of the year, weakened in the 2nd quarter and became 2.5%. Under these circumstances, we expect Turkish economy to have grown around 3% in the 2nd quarter of the year.



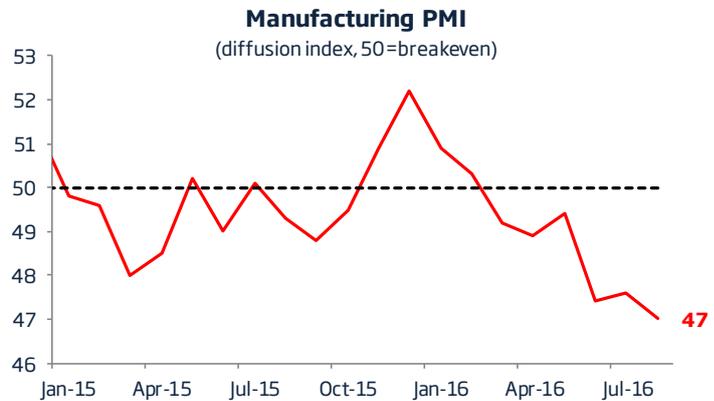
Fall in house sales...

In Turkey, house sales decreased by 15.8% in July compared to the same month of the previous and became 81.343. This decline was stemmed mainly from deterioration in risk appetite and religious holiday. The mortgaged house sales decreased by 22.8% and were realized as 23.756 in this period.



Manufacturing PMI dropped to 47.

Manufacturing PMI dropped to 47 in August and showed that economic activity in the sector weakened further for the sixth consecutive month. While the index fell to the lowest level since 2009, the declines in production and new orders were noteworthy. New export orders, on the other hand, posted an increase for the first time in 2016 marking a positive development.



Confidence indices...

Real sector confidence weakened in August as seasonally adjusted figures suggested. Sharp deterioration in the output orders as well as the rise in inventories considerably weighed on the real sector confidence. Consumer confidence, on the other hand, increased by 11.1% and became 74.4 in August. This performance marked the biggest monthly improvement recorded in consumer confidence since November 2015.

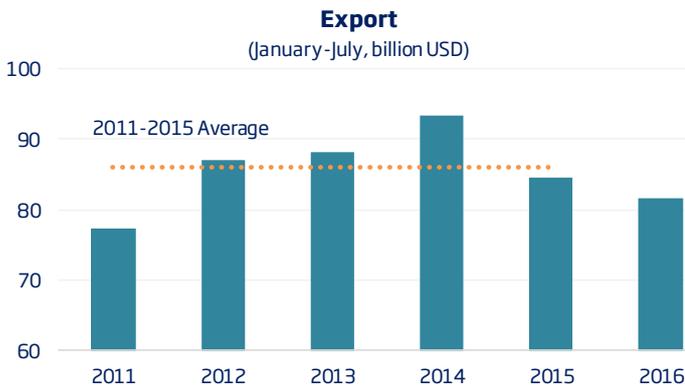
Source: Datastream, Turkstat, CBRT, Markit

Foreign Trade Balance	(USD billion)		
	July		Change
	2015	2016	(%)
Exports	11.1	9.9	-11.5
Imports	18.2	14.6	-19.7
Foreign Trade Balance	-7.1	-4.8	-32.5
Import Coverage Ratio (%)	61.1	67.3	-

Contraction in foreign trade deficit...

In July, export and import volume posted an annual decrease of 11.5% and 19.7%, respectively. Foreign trade deficit narrowed as imports declined faster than exports. Thus, foreign trade deficit, which was 7.1 billion USD a year earlier in July, became 4.8 billion USD in the same month of this year.

For the first seven months of the year, export volume was realized as 81.5 billion USD, the weakest performance since 2011. In this period, exports and imports recorded an annual decline of 3.6% and 8.6%, respectively. Hence, foreign trade deficit contracted by 18.9% yoy in the first 7 months of the year and came in at 32.8 billion USD.



Strong increase in gold exports...

A nine-day public holiday for Eid in July also played a role in the decrease in export volume. Calendar adjusted trade figures showed that decrease in export volume was realized as 6.8% compared to the same month of the previous year. Export volume contracted in almost all key sectors in July. Machinery, iron-steel, electronic and wearing apparels have been the main sectors that registered falls in exports in this period. Increase in exports of automotive and precious stones, on the other hand, limited the decrease in total export volume. In this respect, annual rise of 689 million USD in gold exports has been influential.

For the first 7 months, the highest export volume was registered by automotive, precious stones and machinery sectors, respectively. As 7 out of the top 10 export industries posted annual falls in this period, it was seen that

the decline became widespread among sectors.

Share of the EU countries in total exports kept rising.

Despite a fall in exports to EU countries in July, after showing an upward trend lately, drop in exports to the region was limited compared to exports to other country groups. Accordingly, the share of EU countries kept rising in our total exports and became 48.6% in the first 7 months.



The ongoing decline in energy imports....

Due to low levels of commodity prices, imports of mineral fuels and oils continued to decline. As a result, imports of boilers and machineries remained at the top of the list of Turkey's imports. While imports of mineral fuels and oils fell by 31.1% yoy in July, the annual contraction in this item was realized as 36.5% in January-July period. In the first 7 month of the year, total import volume decreased by 10.7 billion USD whereas the imports of mineral fuels and oils dropped by 8.6 billion USD.



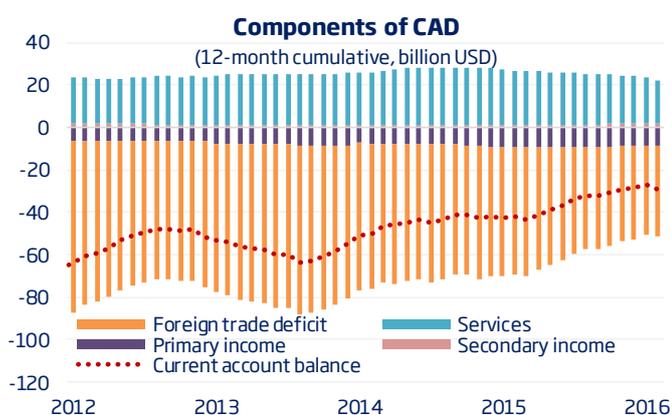
Expectations...

Despite a contraction in foreign trade deficit in July, the fall in export volume was worth mentioning. It is important to monitor incoming data to analyze to what extent this situation stemmed from temporary factors.

Current account deficit came in above expectations.

Current account deficit, which was 3.2 billion USD in June 2015, became 4.9 billion USD in the same month of this year. Thus the deficit posted an annual increase for the first time since July 2015. On the other hand, the deficit decreased by 12.9% yoy in the first half of the year and was realized as 19.1 billion USD.

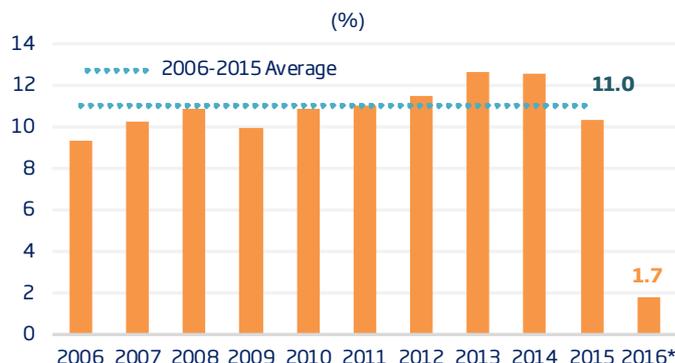
According to 12-month cumulative figures, after falling for 10 consecutive months, current account deficit once again increased in June. 12-month cumulative deficit surged to 29.4 billion USD in this period.



Sharp drop in tourism revenues played an important role in rise in current account deficit in June. Net tourism revenues, which were 2.2 billion USD in June 2015, contracted by 51.2% yoy and were realized as 1.1 billion USD in the same month of 2016.

In the first half of the year, the number of Russian tourists decreased by 86% yoy. While the decrease in total foreign visitors was 3.6 million in this period, the number of Russian tourists fell by 1.1 million. Having been as high as 11% during 2006-2015 period, the share of Russian visitors in total foreign visitors dropped to 1.7% in the first half of the year. As Russia and Turkey have taken steps towards normalizing relations, the restart of charter flights to Turkey is expected to lead to a pickup in this ratio. Nevertheless, it will take some time to get there.

Share of Russian Tourists

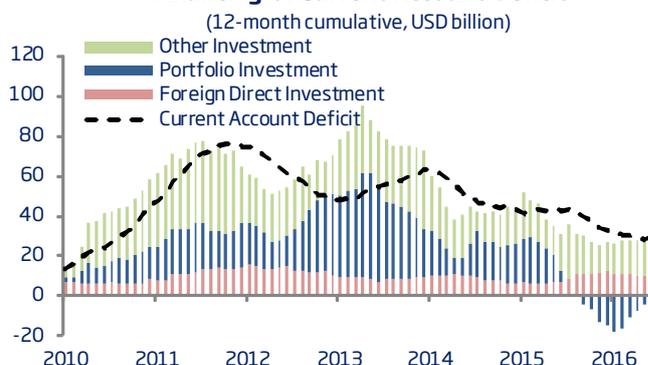


Foreign trade figures had a limited impact on current account deficit in June. Increase in imports was partly offset by the rise in non-monetary gold exports in this period. Analyses of the 12-month cumulative figures showed that non-monetary gold trade has continued to pull down the deficit.

Almost 1 billion USD inflows in portfolio investment...

Portfolio investments recorded a net inflow of 996 million USD in June. Non-residents were sellers in both government domestic debt securities and equity securities, albeit marginal. On the other hand, regarding the bond issues in international capital markets, general government and banks realized a net borrowing of 1 billion USD and 235 million USD, respectively. In the first half of the year,

Financing of Current Account Deficit



Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2015	Jun. 2016	Dec. 2015	Jun. 2016
Current Account Balance	-32,241	-29,416	-	-
Total Net Foreign Capital Inflows	-1,686	-25,783	100.0	100.0
-Direct Investments	-11,807	-8,880	700.3	34.4
-Portfolio Investments	15,498	3,372	-	-
-Other Investments	-14,739	-22,681	874.2	88.0
-Net Errors and Omissions	9,383	2,411	-556.5	-9.4
-Other	-21	-5	-0.1	0.0
Reserves⁽¹⁾	-11,831	1,179	-	-

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

portfolio investment registered a net inflow of 8.3 billion USD.

Foreign direct investments...

As foreign direct investments have lost momentum, the contribution of foreign direct investments to the financing of current account deficit remained limited by 2.3 billion USD.

Other investments were at all-time high...

Other investments received an inflow of 8.9 billion USD in June, at a historic high. This development stemmed mostly from the 4.8 billion USD decrease recorded in domestic banks' currency and deposit holdings within their foreign correspondent banks. Besides, residents borrowed net 3.7 billion USD from abroad. Banking and non-banking sectors were net credit borrowers with 1.8 billion USD and 2.1 billion USD, respectively.

After falling to the lowest level of last 3 years in May, 12-month trailing long-term debt rollover ratio of the

banking sector increased to 186% in June. This ratio for non-banking sector stood at 174%.

Expansion in Central Bank reserves...

Reserves surged by 3.7 billion USD in June. In the first half of the year, the rise in reserves was realized as 8.5 billion USD. Net errors and omissions item posted an outflow of 1.5 billion USD in June.

Expectations...

With the start of the summer season, the impact of tourism revenues on current account balance became more evident. Despite recent improvements in the bilateral relations between Russia and Turkey, more time is required for the tourism revenues to fully recover. Against this backdrop, we think that this unfavorable impact of tourism on the deficit is likely to prevail in the coming period.

	(USD million)				
	June 2016	Jan. - Jun. 2015 2016		% Change	12-Month Cumulative
Current Account Balance	-4,942	-21,886	-19,061	-12.9	-29,416
Foreign Trade Balance	-5,228	-25,424	-20,306	-20.1	-43,039
Services Balance	1,194	8,590	4,875	-43.2	20,403
Travel (net)	1,068	7,947	4,706	-40.8	18,007
Primary Income	-997	-5,573	-4,502	-19.2	-8,453
Secondary Income	89	521	872	67.4	1,673
Capital Account		-1	15	-	-5
Financial Account	-6,475	-13,284	-17,415	31.1	-27,010
Direct Investments (net)	-271	-5,197	-2,270	-56.3	-8,880
Portfolio Investments (net)	-996	3,840	-8,286	-	3,372
Net Acquisition of Financial Assets	167	2,615	735	-71.9	4,249
Net Incurrence of Liabilities	1,163	-1,225	9,021	-	877
Equity Securities	-59	-67	782	-	-1,546
Debt Securities	1,222	-1,158	8,239	-	2,423
Other Investments (net)	-8,889	-7,379	-15,321	107.6	-22,681
Currency and Deposits	-4,026	-603	-5,982	892.0	-3,295
Net Acquisition of Financial Assets	-5,526	8,863	-1,107	-	5,001
Net Incurrence of Liabilities	-1,500	9,466	4,875	-48.5	8,296
Central Bank	-37	-291	-178	-38.8	-803
Banks	-1,463	9,757	5,053	-48.2	9,099
Foreign Banks	-1,958	7,963	3,680	-53.8	5,659
Foreign Exchange	-2,205	5,863	-231	-	-1,386
Turkish Lira	247	2,100	3,911	86.2	7,045
Non-residents	495	1,794	1,373	-23.5	3,440
Loans	-3,694	-5,943	-7,709	29.7	-15,379
Net Acquisition of Financial Assets	75	704	242	-65.6	330
Net Incurrence of Liabilities	3,769	6,647	7,951	19.6	15,709
Banking Sector	1,789	3,356	342	-89.8	1,934
Non-bank Sectors	2,129	3,704	8,503	129.6	15,472
Trade Credit and Advances	-1,155	-677	-1,686	149.0	-3,957
Other Assets and Liabilities	-14	-156	56	-	-50
Reserve Assets (net)	3,681	-4,548	8,462	-	1,179
Net Errors and Omissions	-1,533	8,603	1,631	-81.0	2,411

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 surplus in July.

Budget revenues increased by 6.1% yoy in July while budget expenditures declined by 6.8% yoy. Thus, budget which posted a deficit of 5.4 billion TRY in July 2015, gave a surplus of 129 million TRY in the same month of 2016.

Budget, which posted a deficit of 4.6 billion TRY in the first 7 months of 2015, recorded a surplus of 1.3 billion TRY in the same period of 2016. During January-July period, primary surplus was realized as 31.9 billion TRY, reaching 121% of its year-end target.

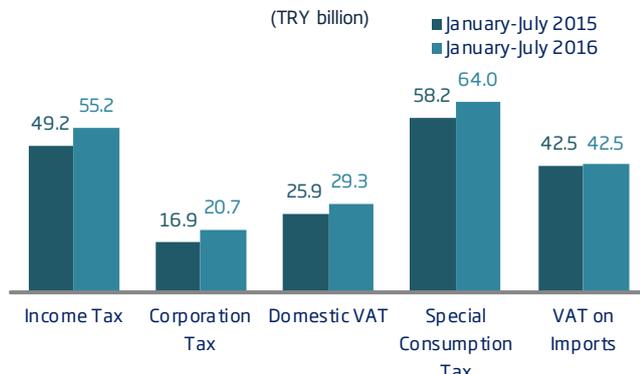
Tax revenues remained flat.

Tax revenues stayed flat in July compared to the previous year. Revenues collected from value added tax (VAT) surged by 38.9% yoy during this period while revenues collected via VAT on imports and special consumption tax dropped. Growth in total budget revenues was mainly driven by the rise in non-tax revenues in July. Indeed, non-tax revenues rose by 2.3 billion TRY compared to the same month of the previous year and was realized as 6.4 billion TRY.

With climbing by 38.3% yoy, non-tax revenues supported the total central government budget revenues during January-July period. Tax revenues expanded by 9.5% yoy in the same period.

Tax Revenues

(TRY billion)

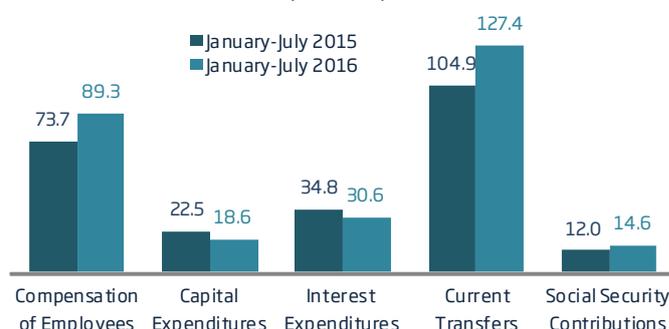


Decline in budget expenditures...

It was noteworthy that budget expenditures dropped by

Budget Expenditures

(TRY billion)



6.8% yoy in July. The 16.9% fall in interest expenditures played an important role in this development. On the other hand, the annual decline in non-interest expenditures has remained limited by 5.5%. While government's contribution to social security system and personnel expenditures surged by 20.3% yoy and 15.1% yoy, respectively, all other expenditure items came down on an annual basis. In particular, capital expenditures have been on a sharp downward trend. In fact, this item fell by 2.5 billion TRY yoy to 2.9 billion TRY. Despite coming under pressure of health, retirement and social aid expenditures, current transfers came in well below last year's level.

In the first 7 months of the year, budget expenditures were 12.1% higher than a year earlier. During this period, interest expenditures declined by 12% while non-interest expenditures picked up by 15.5%. The annual pace of growth in personnel expenditures, government's contribution to social security system and current transfers exceeded the 20% level during this period.

Expectations...

In 2016 so far, the weakness in tax revenues was offset by growth in non-tax revenues. Indeed, in the first 7 months of the year, non-tax revenues reached 80% of the target for the year-end. Fiscal discipline has been maintained also with the help of the expenditures which have not deviated from the target.

Central Government Budget

(TRY billion)

	July			January-July			% 2016 Budget	
	2015	2016	% Change	2015	2016	% Change	Target	Real./Target (%)
Expenditures	45.5	42.4	-6.8	282.2	316.3	12.1	570.5	55.4
Interest Expenditures	5.1	4.2	-16.9	34.8	30.6	-12.0	56.0	54.6
Non-Interest Expenditures	40.5	38.2	-5.5	247.4	285.7	15.5	514.5	55.5
Revenues	40.1	42.5	6.1	277.6	317.5	14.4	540.8	58.7
Tax Revenues	36.0	36.1	0.3	230.7	252.7	9.5	459.2	55.0
Other Revenues	4.1	6.4	56.5	46.9	64.9	38.3	81.7	79.4
Budget Balance	-5.4	0.1	-	-4.6	1.3	-	-29.7	-
Primary Balance	-0.4	4.3	-	30.2	31.9	5.6	26.3	121.1

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

Source: Datastream, Ministry of Finance

August	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	0.40	-0.29	0.98	0.08
Year-to-Date	5.27	4.53	6.19	3.49
Annual	7.14	8.05	6.21	3.03
Annual Average	7.88	7.98	6.14	4.51

CPI fell in August.

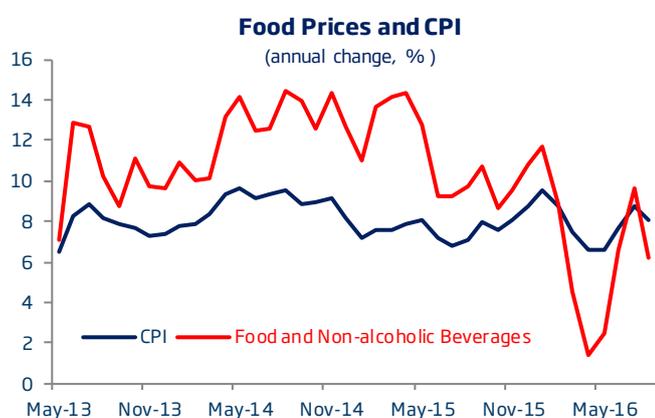
CPI declined by 0.29% mom in August in line with the market expectations marking the fastest monthly drop since June 2015. During this period, domestic PPI (D-PPI) recorded a limited monthly rise of 0.08%.

Annual CPI inflation slowed down to 8.05%.

Having stood at a six-month-high of 8.79% in July, annual CPI inflation came down to 8.05% in August. Thanks to the favorable base effect, annual D-PPI inflation became 3.03% declining by 93 basis points on a monthly basis.

The drop in CPI was driven by food and clothing prices.

Falling by 1.92% mom in August, food prices made the highest contribution to the decline in CPI by 40 basis points. Clothing and footwear prices, which slumped by 4.69% mom thanks to the seasonal factors, became the other main expenditure group that pushed the inflation down.

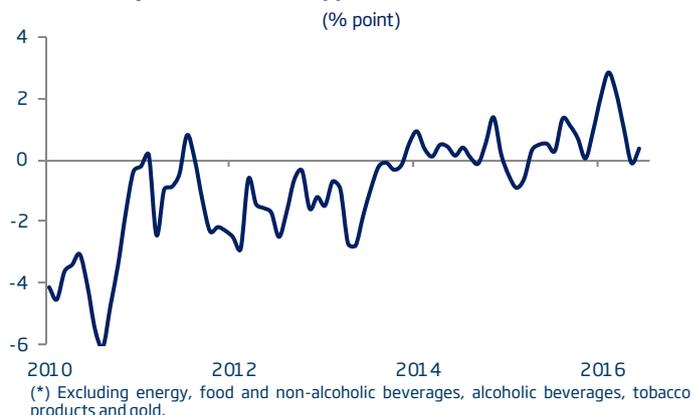


The other main expenditure groups all posted price increases during this period. The impact of cigarette price hikes conducted in July prevailed in August. Indeed, prices in alcoholic beverages and tobacco group lifted monthly CPI by 15 basis points.

Favorable outlook in core inflation indicators...

The recovery in core inflation indicators continued also in August. As the effects of the changes in currency basket faded somewhat during this period, the annual rises in H

Gap Between Core (I)* and Headline Inflation

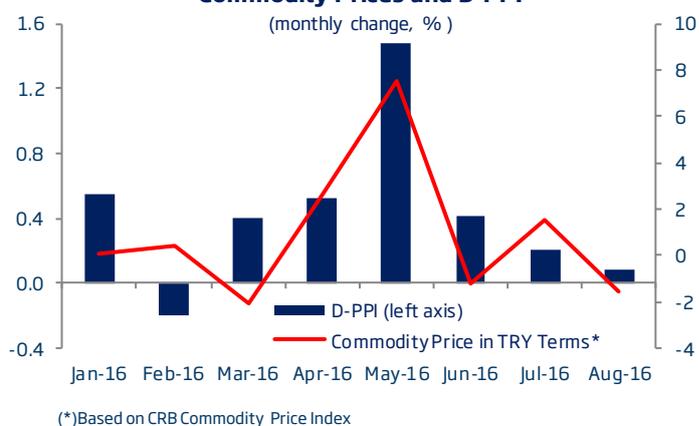


and I core indices, which are closely monitored by the CBRT, slid to 8.21% and 8.41%, respectively.

Energy prices supported the D-PPI...

Energy prices made a downward contribution to D-PPI in August led by electric and gas sector. During this period, the biggest upward contributions to D-PPI came from textile and clothing sectors.

Commodity Prices and D-PPI

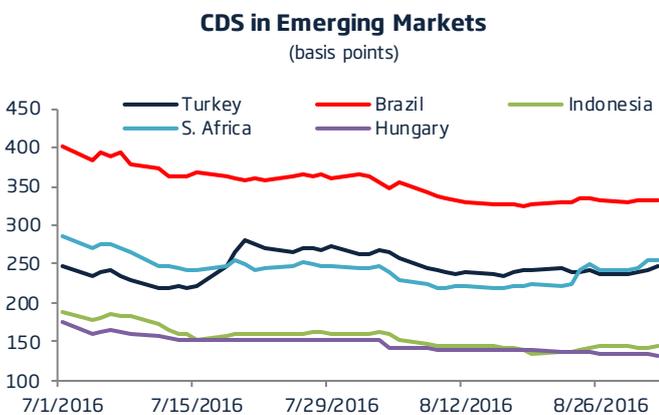


Inflation outlook could deteriorate somewhat in September.

The downward moves in food and clothing prices boosted the inflation outlook in August. In September, however, we think that inflation will increase as a pick-up in food prices is expected due to seasonality. These aside, oil prices and the trajectory of the expectations for the Fed's decision to raise the interest rate are among the most influential external factors that could affect the performance of inflation indicators during this period.

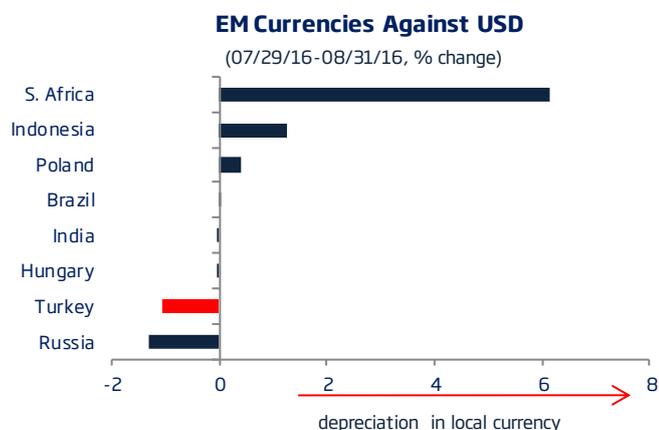
The impact of political and geopolitical events remained mild.

Having deteriorated after the failed coup attempt in the mid-July, risk perception towards Turkey gradually improved in the following period. While geopolitical factors occupied a lot of space on the agenda, no significant fluctuation has been observed in the markets. Concerns that Turkey might lose investment grade rating have subsided somewhat as Moody's did not move on August 5 and Fitch downgraded only the outlook on Turkey's credit rating on August 19. Meanwhile, TRY recovered somewhat and BIST-100 index pared part of its losses. However, in the second half of the month, domestic markets remained broadly weak as dollar gained strength and capital flows into emerging market equities slowed down.



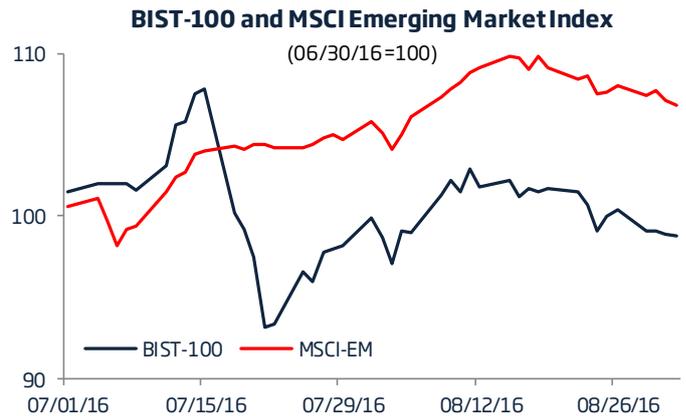
Rebound in TRY...

Having hit a record high of 3.0955 on July 20, USD/TRY declined to as low as 2.9118 on August 18 along with the developments in global markets. During the rest of the month, TRY lost some strength against dollar. USD/TRY declined by 1% to 2.9570 compared to the end of July as of August 31.



BIST-100 index...

After falling by 1.8% mom in July, BIST-100 index moved upwards particularly in the first half of August. The ongoing normalization process in relations with Russia also supported the equity markets. Positive expectations towards tourism sector led increases particularly in aviation stocks. BIST-100 index rose by 0.7% mom as of August 31 and became 75,968.



The yield of the 2-year-benchmark bond was around %9.

During the first week of August, together with the unexpected surge in inflation and the pressure stemmed from the Moody's decision to place Turkey's credit rating on review for a possible downgrade, bond yields followed an upward trend. In the following period, the improvement in the risk sentiment towards Turkey made it possible for the yields to decline. The yield of 2-year-benchmark bond slid 17 basis points to 9.07% as of August 31 compared to the end of July.

Monetary policy...

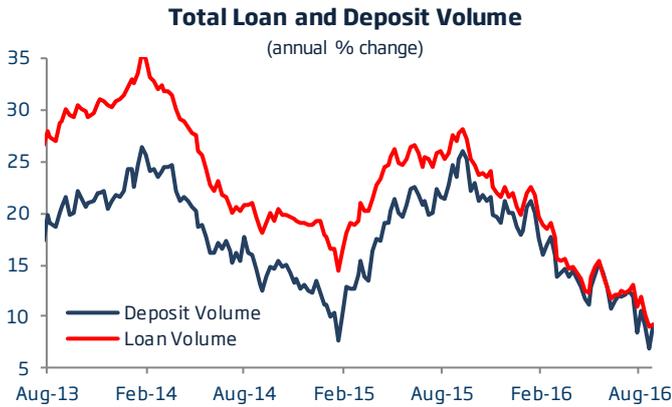
CBRT cut the upper band of the interest rate corridor (overnight lending rate) further in line with the expectations at its Monetary Policy Committee meeting held on August 23. Hence the cuts implemented since March reached 225 basis points.

CBRT stated that tight liquidity policy would be preserved depending on the inflation outlook. The Bank pointed out that the deterioration in domestic markets observed in the aftermath of the July 15 has largely been compensated by the increase in global risk appetite and policy measures implemented by the authorities. CBRT assessed that domestic demand has recently lost some momentum reaffirming that loan growth continued at a reasonable pace.

Source: CBRT, Reuters, Datastream

Rapid increase in TRY deposits persisted.

Deposit volume rose by 9.2% yoy and became 1,422 billion TRY in the week ending 26 August. During this period, TRY deposits increased by 20.6%, marking the fastest rise since March 2011. FX deposits in USD terms, on the other hand, maintained its downward trend indicating that depositors transferred a bulk of their savings from foreign currency accounts to TRY accounts. Parallel to these developments, the share of TRY deposits in total deposits kept rising and reached 59% as of August 26.



Annual loan growth continued to lose momentum.

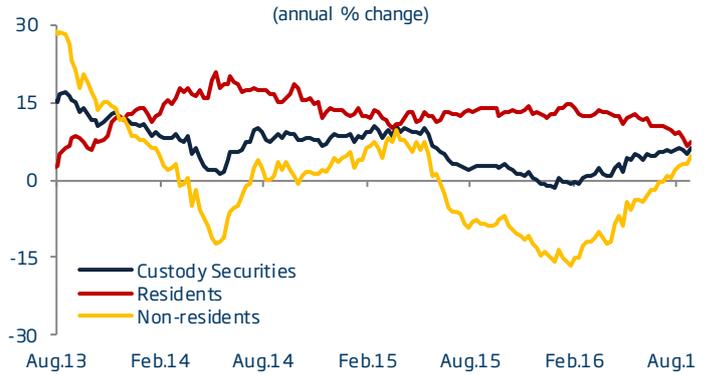
Loan volume expanded by 9.2% yoy and stood at 1,615 billion TRY in the week ending 26 August. The slowdown was broad based across credit groups. While commercial loans, playing the biggest part in the rise in total loan volume, rose by 10.8% yoy, the annual growth rate in retail credits remained limited at 4.8%.

Along with the latest measures, the growth in housing loans recovered somewhat. While interest rates on housing loans declined by an almost 150 basis points in August, the weekly nominal increase in housing loans during this period marked the best performance in more than one year.

NPL ratio was 3.18%.

NPL ratio of the sector, which climbed to 3.34% in the first week of June, had dropped to 3.14% in the week ending 29 July. During the last couple of weeks, on the other hand, this ratio remained flat. NPL ratio, which informs about the asset quality of banking sector, was realized as 3.18% as of 26 August. This ratio was 4.6% for consumers loans and 2.7% for commercial loans in the same period.

Securities Held in Custody Accounts



Securities held under custody...

Banks' portfolio of securities held under custody maintained its increase in August. This account registered an annual rise of 6.1% in the week ending 26 August. During this period, purchases of residents' surged by 7.4% yoy while that of nonresidents' purchases of securities increased by 4.6% yoy.

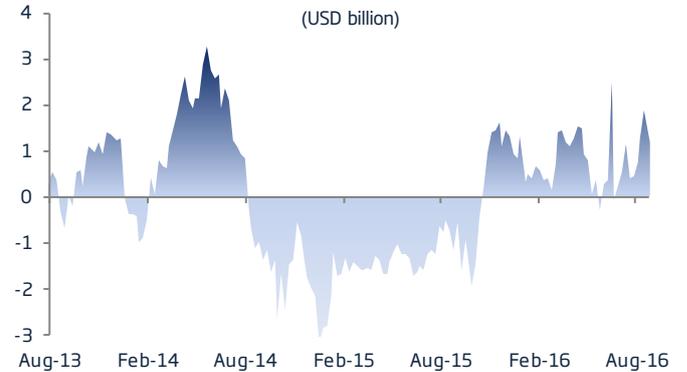
Net FX position...

As of 26 August, banks' on-balance sheet FX position was (-) 13,681 million USD while off-balance sheet FX position realized as (+) 14,846 million USD. Hence, banks' net FX position became (+) 1,165 million USD.

Non-Performing Loans Ratio



Net FX Position

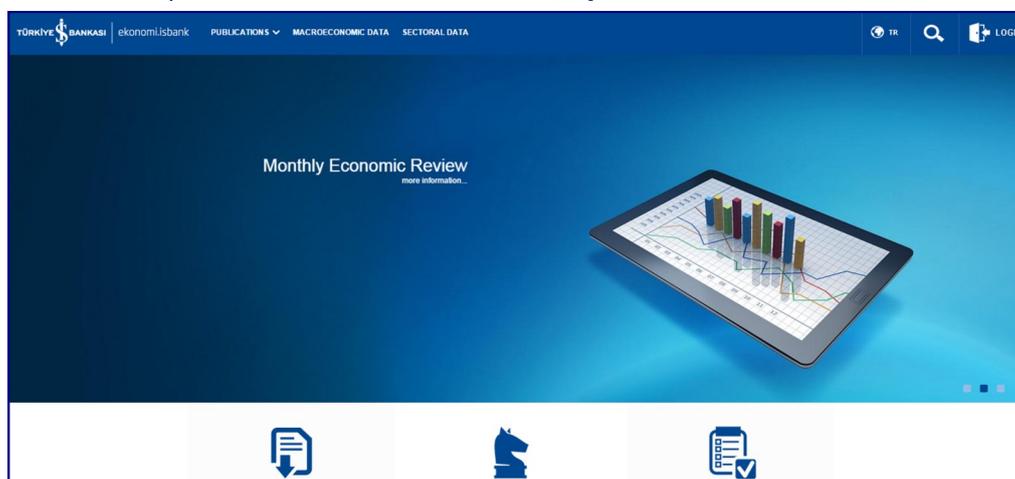


Fed's rate hike prospects have been once again placed at the top of the agenda in August. Until more recently, views that the Fed would not be in a hurry for the next rate hike and even that it would wait until 2017 had dominated the discussions. Nevertheless, a series of comments from the major Fed officials in August implied that the September option for an interest rate increase was still on the table. On the other hand, Fed Chair Janet Yellen, in her speech at Jackson Hole, maintained her dovish stance without providing any clues on the rate path and pointed to the macroeconomic data flow for the incoming moves. Besides, non-farm payrolls for August also supported that the Fed will choose to wait. Against this backdrop, even though there has been a surge in the probability of a September rate hike since mid-August, expectations that the Fed will hold the rate intact still predominate.

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

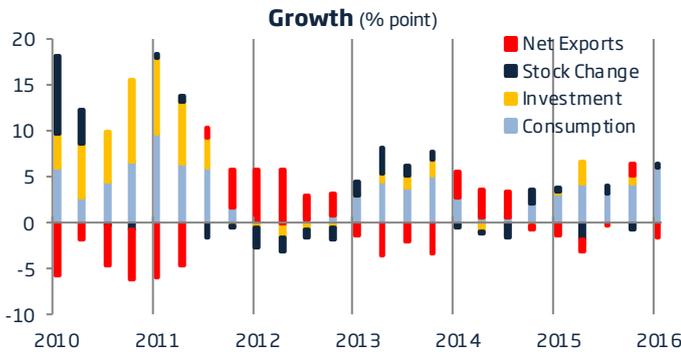
(R) Realization
Year-end forecast for inflation

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



Growth

Expenditure Approach - Contributions to GDP

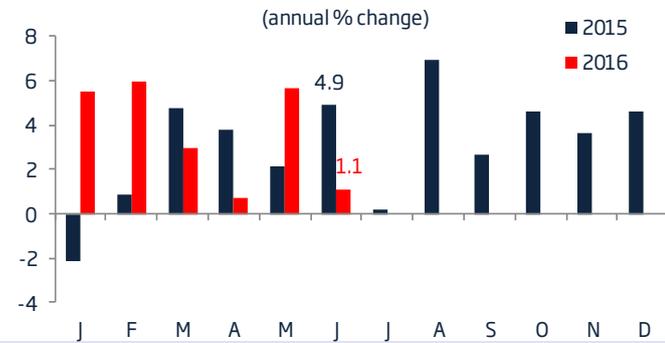


Production Approach - Contributions to GDP

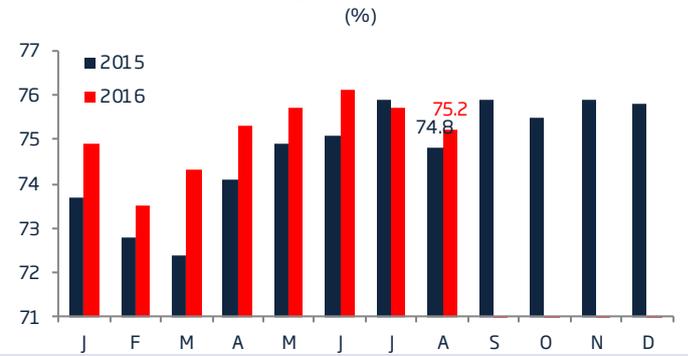


Industrial Production and Capacity Utilization Ratio

Industrial Production*

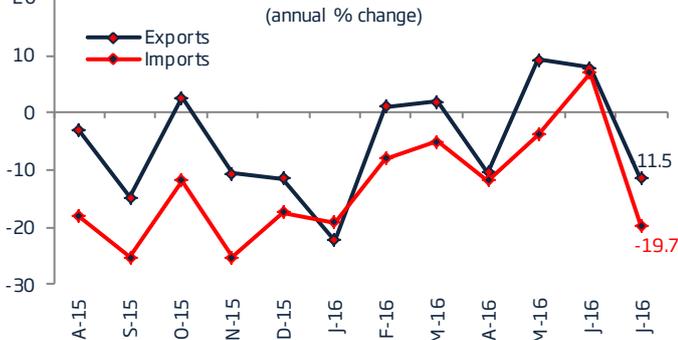


Capacity Utilization Ratio

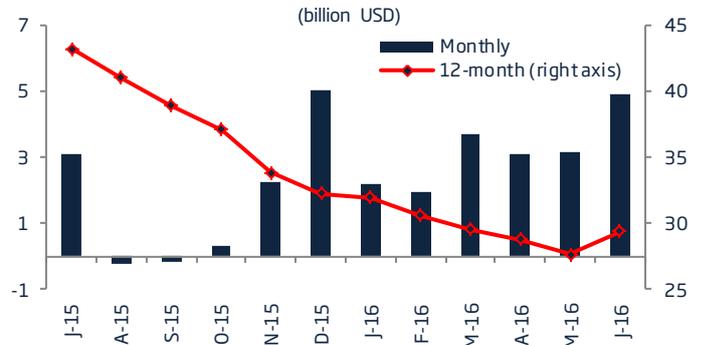


Foreign Trade and Current Account Balance

Foreign Trade

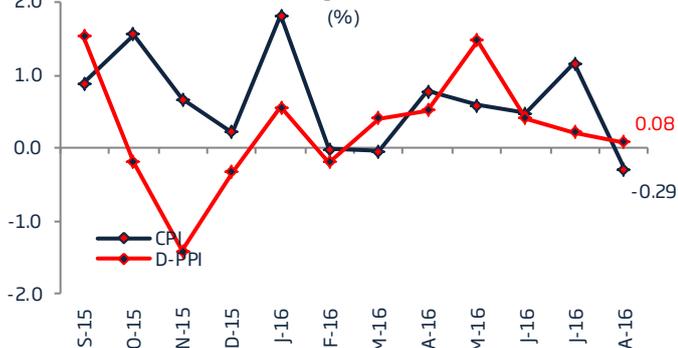


Current Account Deficit

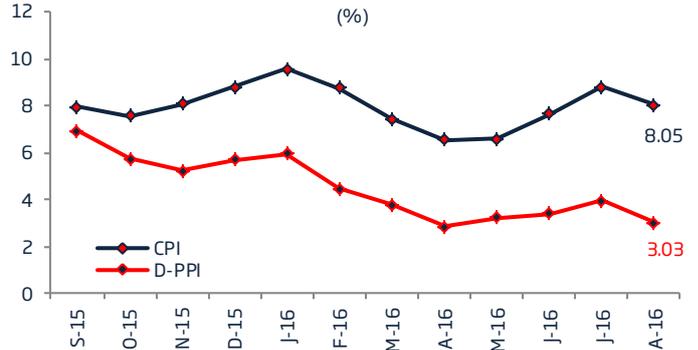


Inflation

Monthly Inflation



Annual Inflation

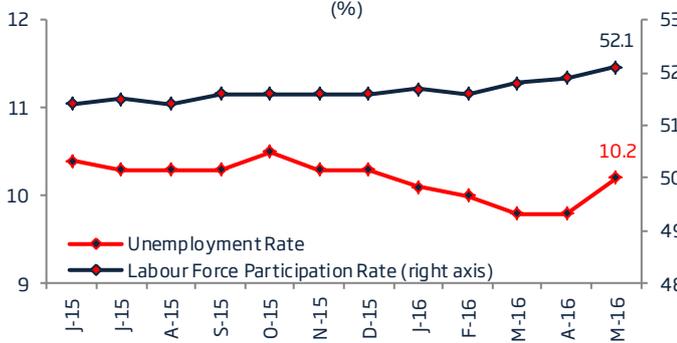


(* Calendar adjusted figures)

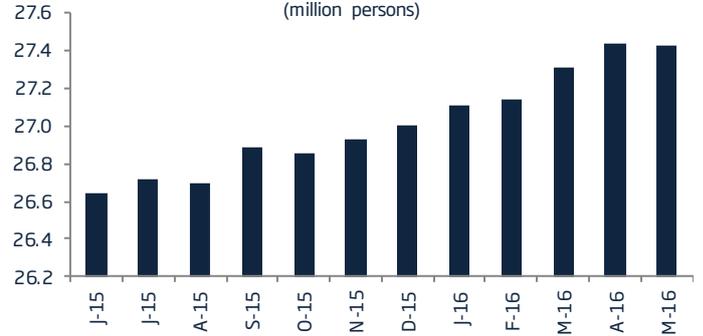
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

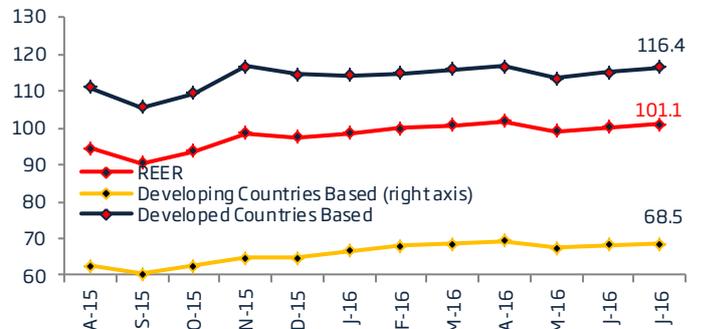


FX Market

Currency Basket



CPI Based Real Effective Exchange Rate

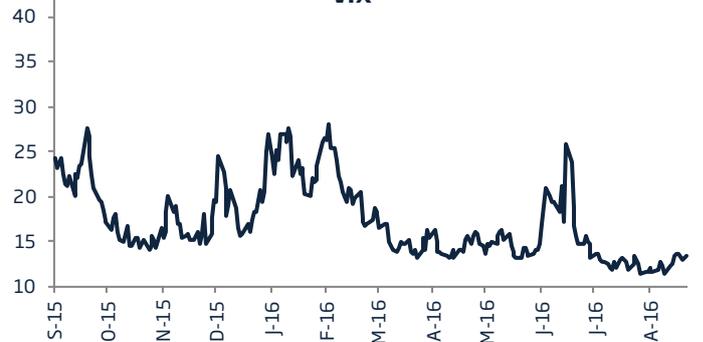


Risk Indicators

Risk Premiums (basis point)

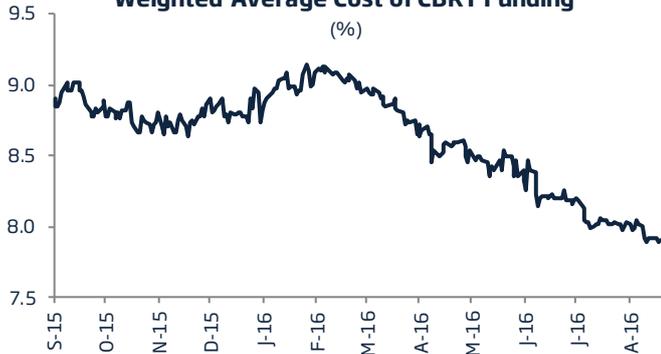


VIX



Interest Rates

Weighted Average Cost of CBRT Funding (%)

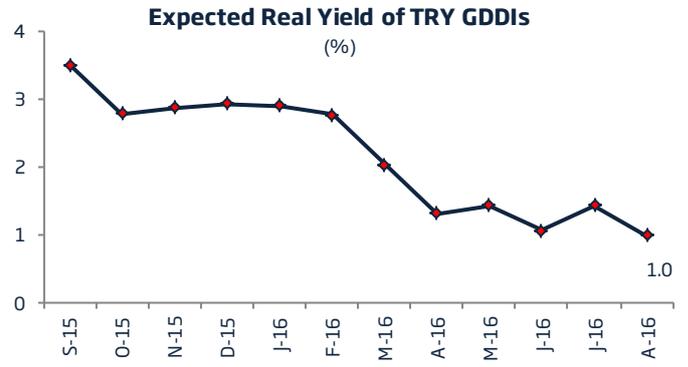
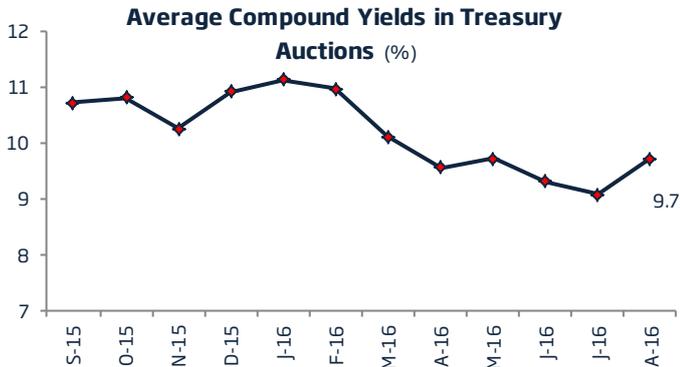


Compound Yield of 2-Year Benchmark Bond (%)

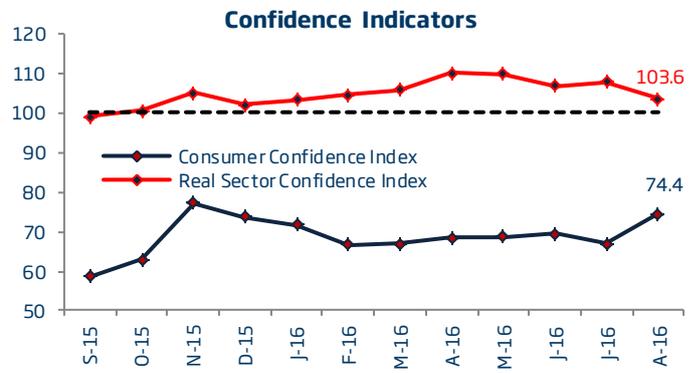
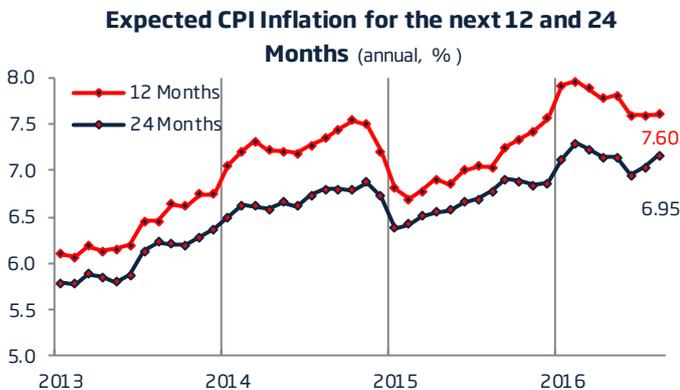
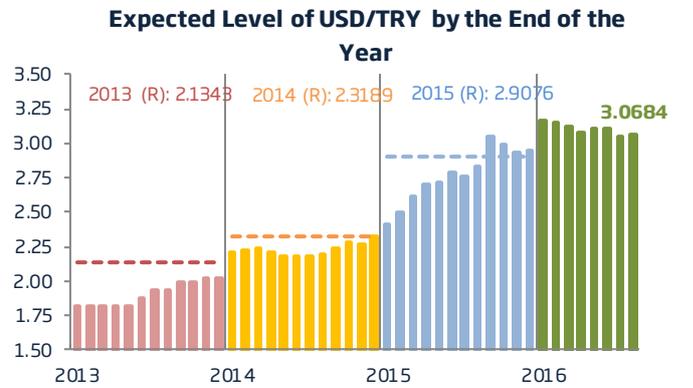
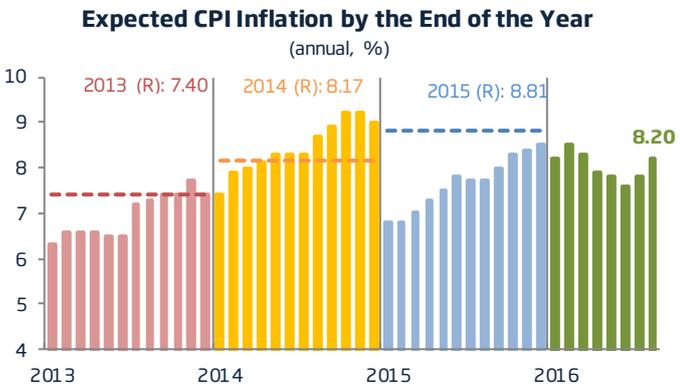
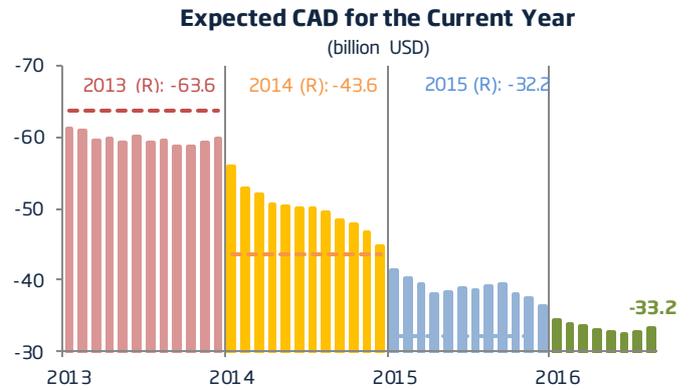
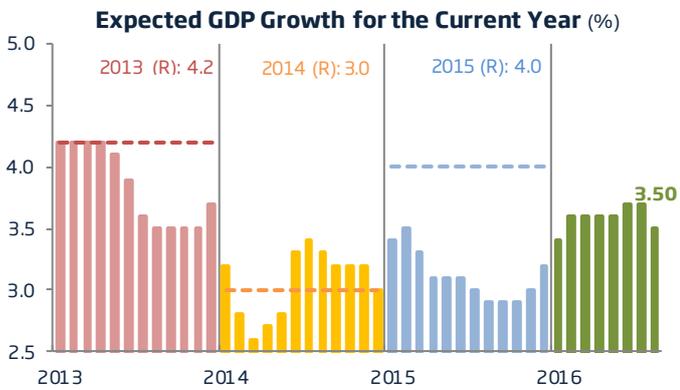


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market



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	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	-	-
Inflation (%)						Jun-16	Jul-16	Aug-16
CPI (annual)	10.45	6.16	7.40	8.17	8.81	7.64	8.79	8.05
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	3.41	3.96	3.03
Seasonally Adjusted Labor Market Figures						Mar-16	Apr-16	May-16
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.3	9.8	9.8	10.2
Labor Force Participation Rate (%)	47.2	48.5	48.4	50.9	51.6	51.8	51.9	52.1
FX Rates						Jun-16	Jul-16	Aug-16
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	105.0	97.5	100.3	101.1	
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	2.8874	3.0152	2.9570
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.2106	3.3476	3.2940
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.0490	3.1814	3.1255
Foreign Trade Balance⁽¹⁾ (USD billion)						May-16	Jun-16	Jul-16
Exports	134.9	152.5	151.8	157.6	143.8	141.1	142.0	140.8
Imports	240.8	236.5	251.7	242.2	207.2	198.9	200.1	196.5
Foreign Trade Balance	-105.9	-84.1	-99.9	-84.6	-63.4	-57.8	-58.1	-55.7
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	70.9	71.0	71.7
Balance of Payments⁽¹⁾ (USD billion)						Apr-16	May-16	Jun-16
Current Account Balance	-74.4	-48.0	-63.6	-43.6	-32.2	-28.8	-27.7	-29.4
Capital and Financial Accounts	-66.1	-48.9	-62.3	-42.1	-22.9	-26.4	-24.9	-27.0
Direct Investments (net)	-13.8	-9.2	-8.8	-5.5	-11.8	-9.7	-9.1	-8.9
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.5	8.5	5.0	3.4
Other Investments (net)	-28.3	-19.6	-39.5	-16.0	-14.7	-17.7	-17.5	-22.7
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	-7.6	-3.3	1.2
Net Errors and Omissions	8.3	-0.9	1.4	1.6	9.4	2.4	2.8	2.4
Current Account Balance/GDP (%)	-9.6	-6.1	-7.7	-5.5	-4.5	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						May-16	Jun-16	Jul-16
Expenditures	314.6	361.9	408.2	448.8	506.0	221.9	273.9	316.3
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	24.2	26.4	30.6
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	197.7	247.5	285.7
Revenues	296.8	332.5	389.7	425.4	483.4	230.9	275.0	317.5
Tax Revenues	253.8	278.8	326.2	352.5	407.5	183.4	216.6	252.7
Budget Balance	-17.8	-29.4	-18.5	-23.4	-22.6	9.1	1.1	1.3
Primary Balance	24.4	19.0	31.4	26.5	30.4	33.3	27.5	31.9
Budget Balance/GDP (%)	-1.4	-2.1	-1.2	-1.3	-1.2	-	-	-
Central Government Debt Stock (TRY billion)						May-16	Jun-16	Jul-16
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	452.3	453.3	455.3
External Debt Stock	149.6	145.7	182.8	197.5	237.5	248.2	246.7	256.5
Total Debt Stock	518.4	532.2	585.8	612.1	677.6	700.5	700.0	711.8

(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	Jun.16	Jul.16	Change ⁽¹⁾
TOTAL ASSETS	1,217.7	1,370.7	1,732.4	1,994.3	2,357.4	2,477.3	2,497.6	5.9
Loans	682.9	794.8	1,047.4	1,240.7	1,485.0	1,570.4	1,583.5	6.6
TRY Loans	484.8	588.4	752.7	881.0	1,013.4	1,077.0	1,070.5	5.6
Share (%)	71.0	74.0	71.9	71.0	68.2	68.6	67.6	-
FX Loans	198.1	206.4	294.7	359.7	471.5	493.4	513.0	8.8
Share (%)	29.0	26.0	28.1	29.0	31.8	31.4	32.4	-
Non-performing Loans	19.0	23.4	29.6	36.4	47.5	53.6	52.0	9.4
Non-performing Loan Rate (%)	2.7	2.9	2.8	2.9	3.1	3.3	3.2	-
Securities	285.0	270.0	286.7	302.3	329.7	331.4	333.3	1.1
TOTAL LIABILITIES	1,217.7	1,370.7	1,732.4	1,994.3	2,357.4	2,477.3	2,497.6	5.9
Deposits	695.5	772.2	945.8	1,052.7	1,245.4	1,311.7	1,324.5	6.4
TRY Deposits	460.0	520.4	594.1	661.3	715.4	768.0	792.1	10.7
Share (%)	66.1	67.4	62.8	62.8	57.4	58.6	59.8	-
FX Deposits	235.5	251.8	351.7	391.4	530.0	543.7	532.4	0.5
Share (%)	33.9	32.6	37.2	37.2	42.6	41.4	40.2	-
Securities Issued	18.4	37.9	60.6	89.3	97.8	99.5	103.1	5.4
Payables to Banks	167.4	173.4	254.2	293.2	361.3	363.6	372.0	3.0
Funds from Repo Transactions	97.0	79.9	119.1	137.4	156.7	154.8	163.4	4.3
SHAREHOLDERS' EQUITY	144.6	181.9	193.7	232.0	262.3	284.5	284.7	8.6
Profit (Loss) of the Period	19.8	23.5	24.7	24.6	26.1	19.0	22.8	-
RATIOS (%)								
Loans/GDP	52.6	56.1	66.8	63.5	76.0	-	-	-
Loans/Assets	56.1	58.0	60.5	62.2	63.0	63.4	63.4	-
Securities/Assets	23.4	19.7	16.6	15.2	14.0	13.4	13.3	-
Deposits/Liabilities	57.1	56.3	54.6	52.8	52.8	52.9	53.0	-
Loans/Deposits	98.2	102.9	110.7	117.9	119.2	119.7	119.6	-
Capital Adequacy (%)	16.6	17.9	15.3	16.3	15.6	15.8	15.8	-

(1) Year-to-date % change



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