

Global Economy

- ◆ OECD has revised down its global growth forecast for 2016 from 3% to 2.9% in its Interim Economic Outlook report. OECD also cut its 2017 growth forecast by 0.1 point to 3.2%.
- ◆ At the unofficial OPEC meeting held in Algeria after the International Energy Forum, oil producers agreed to cut the oil production. Accordingly, the current 33.2 million barrels of daily crude oil production of the OPEC members are planned to be reduced to the level of 32.5 to 33.0 million barrels.
- ◆ The Fed kept the interest rate unchanged at its meeting on September 20-21. The Fed suggested that the case has strengthened for a rate hike, yet it would like to see more signs of an economic rebound. The Central Bank's statements after the meeting have supported the expectations for a December rate hike.
- ◆ The flash estimate for Euro Area annual inflation came in at 0.4% in September, bringing inflation up to its highest level since June 2014.
- ◆ The ECB did not change monetary policy in its meeting on September 8. The Bank of England also kept the interest rate intact and held the size of the asset purchase program at 435 billion pounds at the September meeting.
- ◆ Boj, revising the framework of its monetary policy, announced on September 21 that it shifted the focus of its monetary policy to the yield curve. Abandoning the monetary base target, Boj will use asset purchases in order to control the interest rates of long-term treasury bonds.

Turkish Economy

- ◆ On September 23, Moody's lowered Turkey's credit rating by one notch, to non-investment status.
- ◆ Year-on-year expansion in Turkish economy for the second quarter of 2016 was recorded as 3.1%. In the first half of the year, on the other hand, economy grew by 3.9% yoy.
- ◆ Loss of momentum in industrial production observed in the second quarter of the year prevailed in the third quarter. According to calendar adjusted figures, industrial production contracted by 4.9% yoy in July.
- ◆ In August, export and import volume posted annual increases of 7.7% and 3.7%, respectively. As exports grew more than imports, foreign trade deficit continued to narrow. Import coverage ratio rose by 2.7 points on an annual basis and reached 71.7%.
- ◆ The current account deficit decreased by 13.2% yoy in the first seven months of the year and stood at 21.7 billion USD. Having fallen by USD 500 million compared to the previous month, 12-month cumulative deficit became USD 28.9 billion in July. The impact of the fall in tourism revenues on current account balance was evident during summer months.
- ◆ Budget revenues rose by 18.9% yoy in August while budget expenditures increased by 25.9% yoy. Thus, central government budget posted a surplus of TRY 3.6 billion in this period. In the first eight months of the year budget surplus became TRY 4.9 billion.
- ◆ CPI increased by 0.18% mom in September, below the market expectations. Posting better-than-expected figures for the last two months, annual CPI inflation slid to 7.28% as of September.
- ◆ CBRT cut the upper band of the interest rate corridor by 25 basis points in September. Hence, the cuts implemented since March reached 250 basis points.

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Economy lost momentum in the second quarter.

Year-on-year expansion in Turkish economy for the second quarter of 2016 was recorded as 3.1%. The first quarter growth rate was revised down to 4.7% from 4.8%. In the first half of the year, on the other hand, economy grew by 3.9% compared to the same period of the previous year.

While there has been a limited calendar effect during the second quarter of the year, seasonal and calendar adjusted GDP posted a quarterly expansion of 0.3%.

GDP Figures (1998 prices)

	Calendar Adjusted GDP (yoy % change)	Seasonally and Calendar Adjusted GDP (qoq % change)
2014 Q1	5.2	1.6
2014 Q2	2.5	0.0
2014 Q3	1.8	0.3
2014 Q4	3.0	1.2
2015 Q1	2.5	1.1
2015 Q2	3.7	1.4
2015 Q3	4.9	1.0
2015 Q4	4.5	1.1
2016 Q1	4.4	0.7
2016 Q2	3.0	0.3

Turkey continued to grow with the support of domestic demand.

Although consumption expenditures lost some momentum in the second quarter, they still made the highest contribution to growth by 5.2 percentage points. During this period, public sector also speeded up its expenditures. Indeed, public consumption expenditures rose by 15.9% yoy, the strongest expansion in constant prices since the last quarter of 2009. Private consumption spending also has

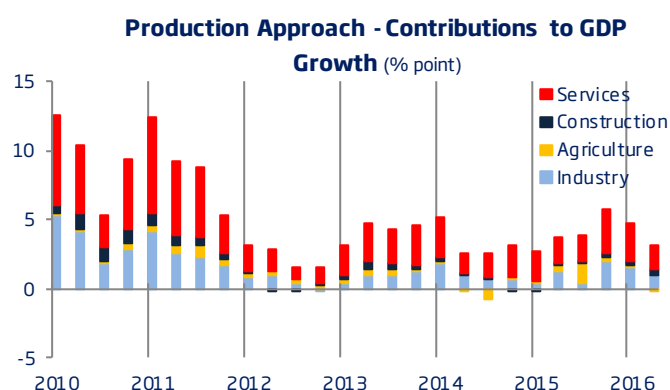
continued to support GDP growth substantially in this period. Thus, total consumption expenditures added 5.6 percentage points to growth in the first half of 2016.

Investment expenditures declined.

Adverse trend in investment expenditures has continued in the second quarter of the year. During this period, private sector investments declined while public investments recorded a slight increase. Thus, the total investment expenditures pulled down GDP by 0.1 percentage point in the second quarter.

Net exports continued to undermine GDP growth.

In the second quarter, exports made no contribution to GDP growth while imports still continued to drag it down. Thus, negative impact of net exports to GDP increased in the second quarter of the year. During this period, net exports displayed the worst quarterly performance since the last quarter of 2013, pulling down GDP growth by 2.1 points.



The services sector lost momentum in the second quarter.

According to the production approach, services sector, which has the highest share in GDP, contributed 1.8

Expenditure Approach - Contributions to GDP Growth (1998 prices)

(% point)

	2013						2014					2015					2016		
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	6-Month
Consumption	4.1	2.7	0.6	0.7	2.1	1.5	3.2	4.3	3.3	4.7	3.9	6.1	5.2	5.6					
Private	3.4	1.8	0.3	0.1	1.8	1.0	2.9	3.5	2.6	3.6	3.2	4.9	3.4	4.1					
Public	0.7	0.9	0.3	0.6	0.3	0.5	0.3	0.8	0.8	1.1	0.7	1.2	1.7	1.5					
Investment	1.1	-0.1	-0.9	-0.1	-0.3	-0.3	0.2	2.5	0.3	0.9	0.9	0.0	-0.1	-0.1					
Private	0.1	0.1	-0.3	0.4	0.1	0.1	0.2	2.1	-0.1	0.3	0.6	-0.2	-0.3	-0.3					
Public	1.0	-0.2	-0.6	-0.5	-0.3	-0.4	0.0	0.4	0.4	0.5	0.3	0.2	0.2	0.2					
Change in Stock	1.6	-0.3	-0.3	-1.5	1.5	-0.2	0.5	-1.9	0.3	-1.2	-0.6	0.1	0.2	0.2					
Net Export	-2.6	2.8	3.0	2.6	-0.3	2.0	-1.4	-1.2	-0.1	1.3	-0.3	-1.5	-2.1	-1.8					
Exports	-0.1	3.0	1.7	2.2	1.0	1.9	-0.4	-0.8	-0.4	0.5	-0.2	0.6	0.0	0.3					
Imports	-2.5	-0.2	1.4	0.5	-1.3	0.1	-1.0	-0.4	0.3	0.8	-0.1	-2.1	-2.2	-2.1					
GDP	4.2	5.2	2.4	1.8	3.0	3.0	2.5	3.7	3.9	5.7	4.0	4.7	3.1	3.9					

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

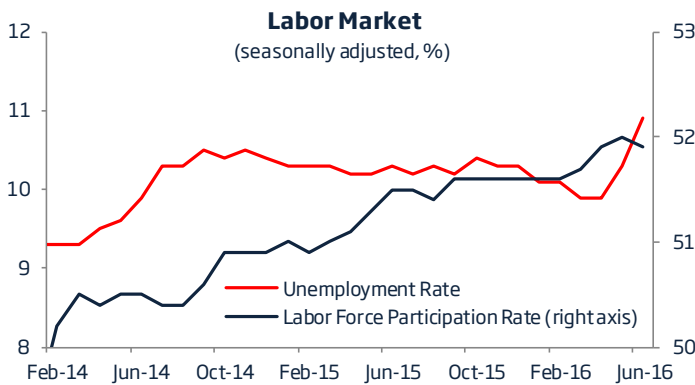
percentage points to the growth in the second quarter. Contribution of services sector to GDP is expected to continue to decline in the third quarter due to the negative developments in tourism sector. In the second quarter, industrial sector also made a contribution of 0.9 percentage points to the growth, expanding by 3.2% on an annual basis. Construction sector, gaining momentum, marked the fastest annual increase of approximately last 3 years and added 0.4 point to GDP. Agriculture sector, on the other hand, made a limited downward impact to GDP in the second quarter.

Expectations...

While GDP growth has continued to be demand-driven, public sector's support to growth has picked up lately. However, the failed coup attempt in July and weakening tourism sector are expected to increase downward pressures on growth performance in the third quarter. Indeed, the annual decline in industrial production recorded in July has led to a slight deterioration of expectations for the third quarter.

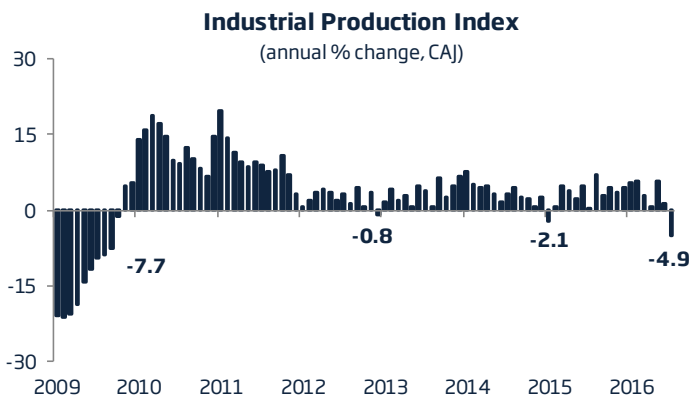
Unemployment rate increased in June.

Unemployment rate posted an annual rise of 0.6 point and was realized as 10.2% in June. Despite an expansion of 390 thousand persons in employment, the rise in the labor force by 637 thousand persons caused unemployment rate to increase. Weak performance of tourism sector seen this year was another factor that put upward pressure on unemployment rate. Seasonally adjusted unemployment rate also rose by 0.6 point in June compared to the previous period and became 10.9%, the highest level in almost six years.



Sharp decline in industrial production...

Loss of momentum in industrial production observed in the second quarter of the year prevailed in the third quarter. According to calendar adjusted figures, industrial production contracted by 4.9% yoy in July. The annual fall of 6.5% in manufacturing industry was worth mentioning during this period. According to main industrial groupings, durable goods production shrank by 16.6% yoy putting considerable downward pressure on overall industrial production.

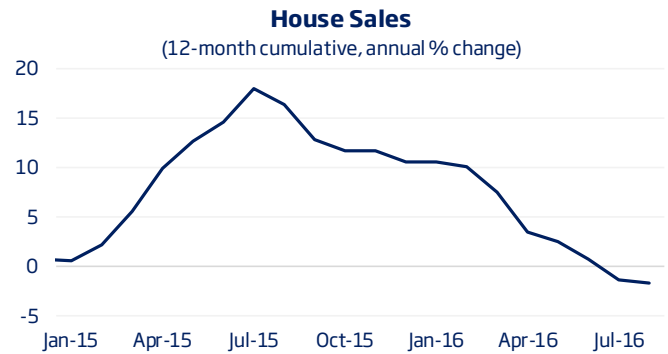


Signs of recovery in housing market...

Home sales, which had fallen by 15.8% yoy in July due to the religious holiday and a deteriorating risk sentiment, rose by

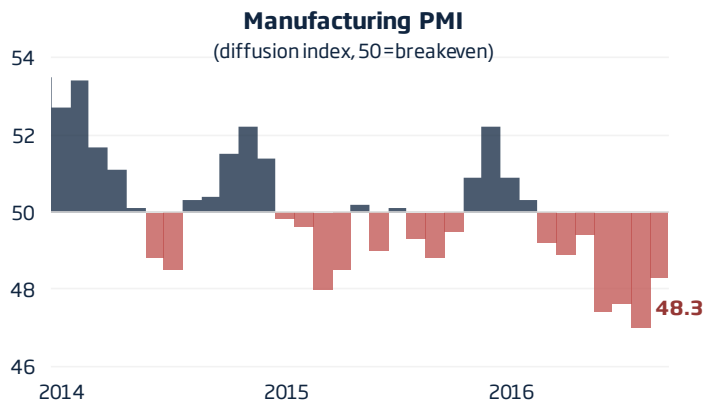
2% yoy in August. Having contracted by 22.8% yoy in July, home sales financed through mortgages increased by 1.2% in August.

Annual rise in house prices, which had declined to the lowest level since May 2014 in June, recorded a moderate recovery in July and became 14%. Recent arrangements aiming to support the domestic demand may provide a boost for the sector.



Manufacturing PMI was 48.3.

Manufacturing PMI became 48.3 in September. The index, remaining below 50 threshold level, showed that economic activity in the sector weakened further for the seventh consecutive month. The monthly rise in the index stemmed mostly from the loss of momentum in the fall of both production and new orders being observed since March. Also, employment increased for the second consecutive month in the sector.



Confidence indices...

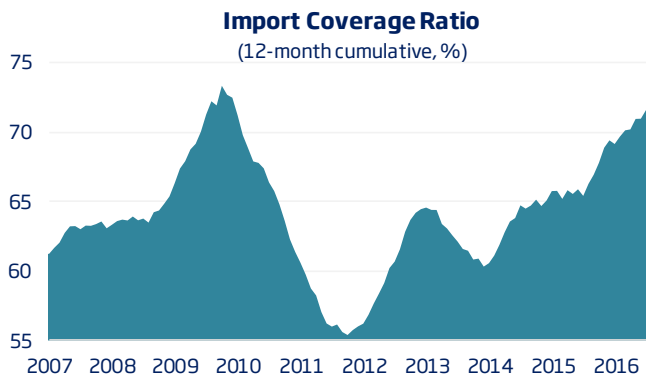
Real sector confidence improved in September as seasonally adjusted figures suggested. Consumer confidence, on the other hand, weakened somewhat in September following the sharp rise in August.

Source: Datastream, Turkstat, CBRT, Markit

Foreign Trade Balance	August		Change (%)
	2015	2016	
Exports	11.0	11.9	7.7
Imports	16.0	16.6	3.7
Foreign Trade Balance	-4.9	-4.7	-5.3
Import Coverage Ratio (%)	69.0	71.7	-

Foreign trade deficit kept narrowing.

In August, export and import volume posted annual increases of 7.7% and 3.7%, respectively. As exports grew more than imports, foreign trade deficit continued to narrow. Thus, foreign trade deficit contracted by 5.3% in August compared to the same month of the previous year and was realized as USD 4.7 billion. Import coverage ratio rose by 2.7 points and reached 71.7%. According to 12-month cumulative figures, this ratio climbed to 71.8%, the highest level since 2009.



In January-August period, export volume fell by 2.4% compared to the same period of the previous year and became USD 93.3 billion. Import volume also decreased by 7.2% in the same period and came in at USD 130.8 billion.

Sharp rise in automotive exports...

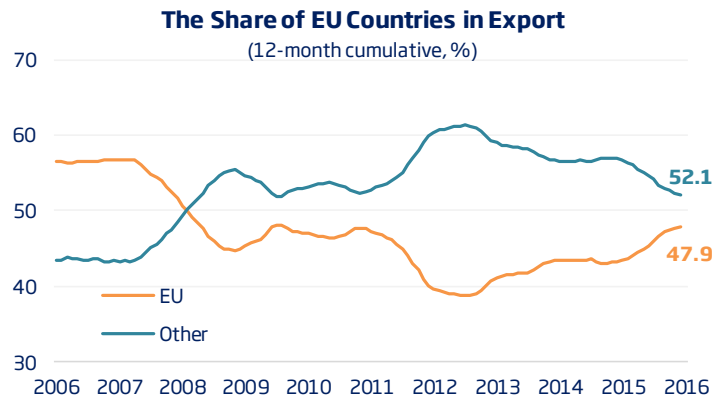
Exports of motor vehicles and precious metals kept their strong performance in August. Motor vehicles exports surged by 28.1% yoy and confirmed its place as the leading export industry in August. Exports of precious metals stand out with a rise of 39.2% yoy. Iron and steel exports, which had been displaying a weak performance due to low commodity prices, increased by 14.1% yoy in August. Electronic exports, on the other hand, continued to decline in this period.

According to the figures for the first 8 months, exports of motor vehicles posted an annual rise of 13%, ranking first in total exports. Precious metals and boilers and machineries followed motor vehicles in this period. Despite the fall in export volume in the first eight months, it was noteworthy

that top four export industries all recorded an annual rise.

Ongoing increase in the share of the EU countries in total exports...

Germany was the largest recipient of Turkish goods in August. UK, Iraq and the US followed Germany. According to classification by country groups, EU continued to be the main export market of Turkey. The share of EU exports in our total exports became 47.9% as 12-month cumulative data suggested. This marked the highest ratio seen since April 2010.



Fall in energy imports has decelerated.

Imports of mineral fuels and oils ranked first in total imports in August and imports of boilers and machineries sustained its strong performance. Fall in energy imports, due mostly to the lower oil prices, decelerated somewhat in this period.

According to broad economic classification, in the first 8 months of the year, only imports of capital goods increased on an annual basis. Particularly, intermediate goods imports declined by 10% yoy during this period.

Imports from China continued to surge in August accounting for 15.3% of total imports. The country held the first place in imports, being followed by Germany and Russia.

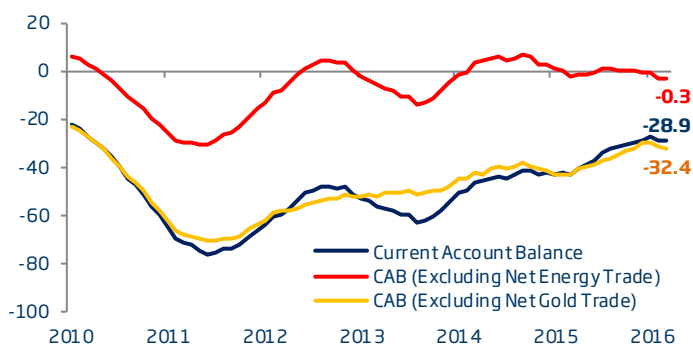
Expectations...

After the fall in exports recorded in July, the August rebound came as a relief. The favorable impact of low commodity prices on foreign trade figures continued albeit to a decreasing extent. Also thanks to the support of the normalization process in relations with Russia, the mild course in foreign trade outlook is expected to prevail in the period ahead.

Current account deficit was 2.6 billion USD in July.

Current account deficit, which was USD 3.1 billion in July 2015, became 2.6 billion USD in the same month of this year. The deficit decreased by 13.2% yoy in the first seven months of the year and stood at USD 21.7 billion. Having fallen by USD 500 million compared to the previous month, 12-month cumulative deficit became USD 28.9 billion in July.

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



Against the improvement in foreign trade balance supported by net gold trade, abrupt decline in tourism revenues weighed on the current account balance in July. Net tourism revenues, which were USD 2.7 billion in July 2015, declined to USD 1.5 billion in the same month of 2016. Adding this

Net Tourism Revenues

(12-month cumulative, annual % change)

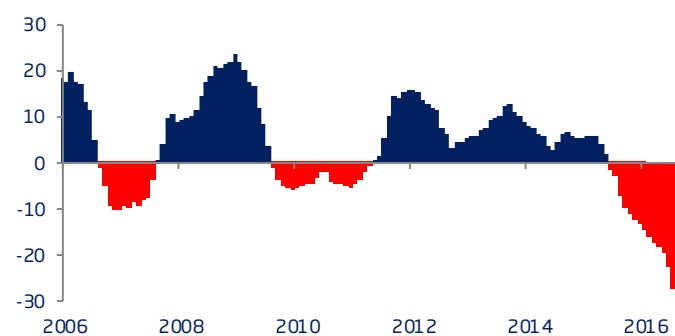


figure to the picture, annual deterioration in net tourism revenues stepped into its 17th consecutive month.

Weak outlook in foreign direct investments...

The slowdown in foreign direct investments prevailed in July. Having reached USD 10.5 billion in the first seven months of 2015, net foreign direct investments remained limited at USD 4.8 billion.

Favorable performance in portfolio investments...

The size of the negative impact of the mid-July events remained relatively modest. Portfolio investments recorded a net inflow of USD 1.4 billion in this period as USD 1.1 billion of this amount stemmed from the reductions in residents' holdings of securities issued in international markets. Equity markets witnessed a capital outflow of USD 348 million while bond markets recorded a capital inflow of USD 645 million in July.

Likewise, portfolio investments painted a favorable picture in the first seven months of the year compared to a year ago. Having recorded a net outflow of USD 7.1 billion in the first seven months of 2015, portfolio investments posted a net inflow of USD 9.7 billion. It was a positive development that portfolio investments have inched into positive territory for the first time since June 2015, according to 12-month cumulative figures.

Capital outflow in other investments...

Other investments registered an outflow of USD 3.1 billion in July as domestic banks increased their currency and deposit holdings within their foreign correspondent banks by USD 3.5 billion during this period. In June, on the other hand, domestic banks had reduced their currency and deposit holdings within their foreign correspondent banks by USD 4.8 billion.

Banking sector borrowed USD 3.3 billion from abroad in long term loans while it made a repayment of USD 3.1 billion. Non-bank sector also raised long-term credits by USD 1.6 billion and repaid USD 1.4 billion during this period. Hence, long-term debt rollover ratios continued to hover above 100%.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2015	Jul. 2016	Dec. 2015	Jul. 2016
Current Account Balance	-32,241	-28,931	-	-
Total Net Foreign Capital Inflows	20,410	26,402	100.0	100.0
-Direct Investments	11,827	7,096	57.9	26.9
-Portfolio Investments	-15,498	1,259	-	-
-Other Investments	14,724	14,204	72.1	53.8
-Net Errors and Omissions	9,378	3,805	45.9	14.4
-Other	-21	38	-0.1	0.1
Reserves⁽¹⁾	11,831	2,529	-	-

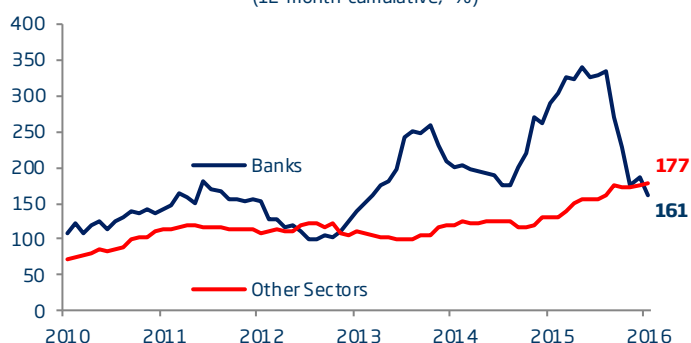
Note: The numbers may not add up to total due to rounding.

(1) (-) sign indicates an increase in reserves while (+) sign indicates a decrease.

Source: Datastream, CBRT

Long-term Debt Rollover Ratios

(12-month cumulative, %)



Having said that, 12-month cumulative figures revealed that the debt rollover ratio of the banking sector fell behind that of non-bank sector in July for the first time since April 2013.

Reserves & net errors and omissions...

Having expanded by USD 3.7 billion in June, reserves declined by USD 1.7 billion in July. In the first seven months of

the year, on the other hand, reserves rose by 6.8 billion USD.

Net errors and omissions played a significant part in the financing of current account deficit posting an inflow of USD 2.1 billion in July. The total net inflow recorded in 2016 so far reached USD 3.5 billion.

Expectations...

The impact of the fall in tourism revenues on current account balance became more evident in the summer months. On the other hand, as charter flights to Turkey restarted thanks to the ongoing normalization process between Turkey and Russia, positive expectations grew for the period ahead. Should the improvement in foreign trade balance be sustained as suggested by the provisional data on August, the recovery trend in current account deficit can be maintained to a large extent. Having said that, current account balance may come under pressure if the upward moves in commodity prices, particularly in oil prices, continue. The loss of momentum in the improvement of the current account deficit excluding energy supports this expectation.

Balance of Payments	(USD million)				
	July 2016	Jan. - Jul. 2015	Jan. - Jul. 2016	% Change	12-Month Cumulative
Current Account Balance	-2,602	-25,011	-21,701	-13.2	-28,931
Foreign Trade Balance	-3,725	-31,291	-24,057	-23.1	-40,923
Services Balance	1,659	11,671	6,522	-44.1	18,969
Travel (net)	1,456	10,629	6,162	-42.0	16,781
Primary Income	-605	-6,029	-5,108	-15.3	-8,603
Secondary Income	69	638	942	47.6	1,626
Capital Account	11	-33	26	-	38
Financial Account	-501	-16,012	-18,216	13.8	-25,088
Direct Investments (net)	-458	-7,720	-2,989	-61.3	-7,096
Portfolio Investments (net)	-1,417	7,104	-9,653	-	-1,259
Net Acquisition of Financial Assets	-1,120	3,405	-382	-	2,342
Net Incurrence of Liabilities	297	-3,699	9,271	-	3,601
Equity Securities	-348	-541	399	-	-1,455
Debt Securities	645	-3,158	8,872	-	5,056
Other Investments (net)	3,063	-12,867	-12,347	-4.0	-14,204
Currency and Deposits	3,340	-1,395	-2,639	89.2	840
Net Acquisition of Financial Asse	2,928	9,791	1,819	-81.4	6,999
Net Incurrence of Liabilities	-412	11,186	4,458	-60.1	6,159
Central Bank	-54	-410	-232	-43.4	-738
Banks	-358	11,596	4,690	-59.6	6,897
Foreign Banks	-47	8,702	3,627	-58.3	4,867
Foreign Exchange	-112	5,611	-349	-	-1,252
Turkish Lira	65	3,091	3,976	28.6	6,119
Non-residents	-311	2,894	1,063	-63.3	2,030
Loans	221	-9,261	-7,562	-18.3	-11,899
Net Acquisition of Financial Asse	-34	537	207	-61.5	462
Net Incurrence of Liabilities	-255	9,798	7,769	-20.7	12,361
Banking Sector	-420	5,593	-66	-	-711
Non-bank Sectors	84	4,740	8,650	82.5	14,568
Trade Credit and Advances	-485	-2,029	-2,188	7.8	-3,107
Other Assets and Liabilities	-13	-182	42	-	-38
Reserve Assets (net)	-1,689	-2,529	6,773	-	-2,529
Net Errors and Omissions	2,090	9,032	3,459	-61.7	3,805

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 3.6 billion TRY surplus in August.

In August, budget revenues rose by 18.9% yoy while budget expenditures increased by 25.9%. Thus, central government budget, which posted a surplus of TRY 5.2 billion in August 2015, gave a surplus of TRY 3.6 billion in the same month of 2016.

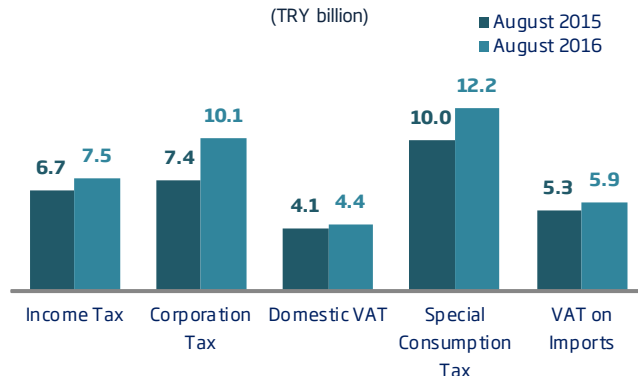
In the first eight months of the year budget surplus came in at TRY 4.9 billion. During this period, primary surplus rose to TRY 40.3 billion reaching 153% of the year-end target.

Tax revenues surged by 19%.

In August, tax revenues expanded by 19.3% compared to the same month of the previous year. Revenues collected via special consumption tax (SCT) recorded a rapid increase in August mainly due to a hike in cigarette prices. During this period, SCT revenues picked up by 22.1% yoy while revenues collected via domestic value added tax (VAT) and VAT on imports rose by 7.3% and 10.5%, respectively. Additionally, non-tax revenues expanded by 15.2% compared to the same month of the previous year to TRY 5.4 billion.

Tax Revenues

(TRY billion)



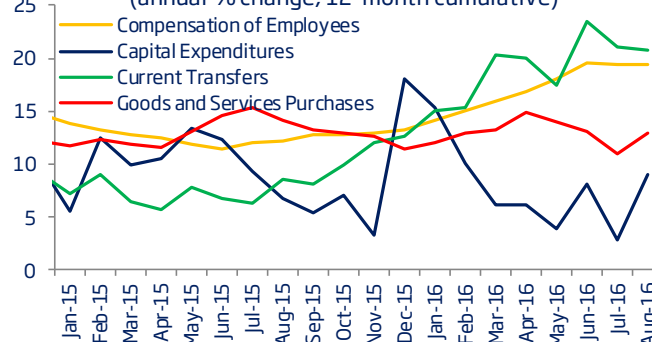
In January-August period total budget revenues increased by 15% yoy while the annual growth in tax revenues was realized as 10.9%.

Rapid increase in budget expenditures...

Budget expenditures were up by 25.9% in August compared to a year earlier. The increase was broad-based across sub-items. Current transfers and personnel expenditures, which have the largest share in budget expenditures, rose by 20% yoy and 17.3% yoy during this period. It was also noteworthy that goods and services procurements, which comprise defense and security expenditures, surged by 32.9% yoy. In addition, interest expenditures jumped sharply adding to the upward pressures on total expenditures during this period.

Selected Budget Expenditure Accounts

(annual % change, 12-month cumulative)



During the first 8 months of the year, budget expenditures rose by 13.7%, at a relatively milder pace. Interest expenditures declined by 7.7% yoy in this period while non-interest expenditures expanded by 16.6% yoy.

Expectations...

Despite the swift increase in budget expenditures in August, budget revenues rose faster than budget expenditures in the first 8 months of the year. As the SCT imposed on fuel oil was raised in September, budget revenues are expected to surge. However, the upward pressures on budget expenditures are anticipated to prevail in the coming period.

Central Government Budget

(TRY billion)

	August			January-August			% 2016 Budget	
	2015	2016	% Change	2015	2016	% Change	Target	Real./Target (%)
Expenditures	37.5	47.3	25.9	319.7	363.5	13.7	570.5	63.7
Interest Expenditures	3.6	4.8	34.0	38.4	35.4	-7.7	56.0	63.3
Non-Interest Expenditures	33.9	42.4	25.0	281.3	328.1	16.6	514.5	63.8
Revenues	42.8	50.9	18.9	320.4	368.4	15.0	540.8	68.1
Tax Revenues	38.1	45.4	19.3	268.7	298.1	10.9	459.2	64.9
Other Revenues	4.7	5.4	15.2	51.6	70.3	36.2	81.7	86.1
Budget Balance	5.2	3.6	-31.4	0.6	4.9	662.0	-29.7	-
Primary Balance	8.9	8.4	-4.7	39.0	40.3	3.3	26.3	153.2

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

Source: Datastream, Ministry of Finance

September	CPI		D-PPI	
	2015	2016	2015	2016
Change (%)				
Monthly	0.89	0.18	1.53	0.29
Year-to-Date	6.21	4.72	7.81	3.79
Annual	7.95	7.28	6.92	1.78
Annual Average	7.80	7.92	5.92	4.07

CPI inflation came in below the expectations.

CPI increased by 0.18% mom in September, below the market expectations. Monthly rise in D-PPI stood at 0.29% in this period. Monthly CPI inflation was expected to be 0.66% according to the Reuters' survey while the latest CBRT's survey of expectations had projected an increase of 0.72%.

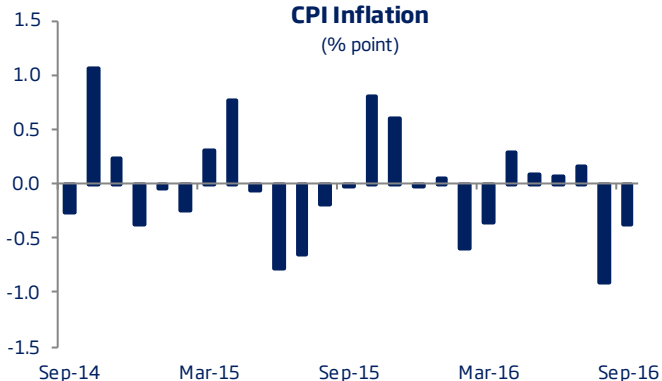
Annual CPI inflation was 7.28%.

Posting better-than-expected figures for the last two months, annual CPI inflation declined as low as 7.28% in September. Annual D-PPI inflation became 1.78% during this period, the lowest level seen since April 2013.

Seasonal factors had a downward impact on inflation.

In September, food and clothing prices played a significant role in the fall of CPI inflation as was the case in August. Clothing prices, which declined by 3.5% mom, pushed monthly inflation down by 31 basis points. Food prices also had a downward impact on monthly inflation by 20 basis points during this period. This stemmed mostly from the sharp declines in prices of fresh fish and poultry.

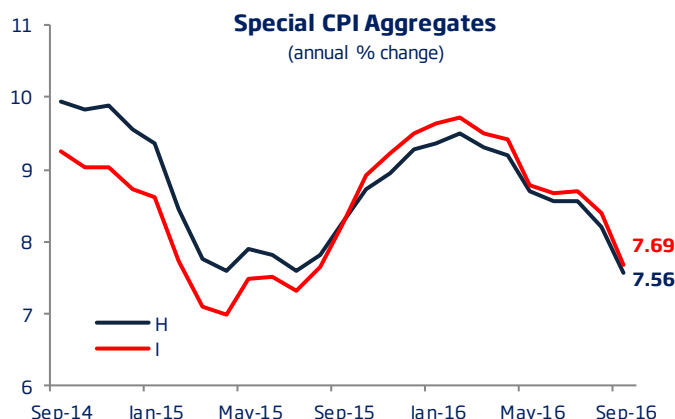
Contribution of Seasonal Factors to Monthly CPI Inflation
(% point)



As Special Consumption Tax on fuel oils was raised in September, prices in transportation group contributed most to the monthly inflation. Transportation prices, having a high sensitivity to the exchange rate developments, surged by 2.7% mom and added to monthly inflation by 46 basis points.

Core inflation indicators continued to improve.

Core inflation indicators experienced a strong improvement in September. Core inflation indices denominated by H and I,



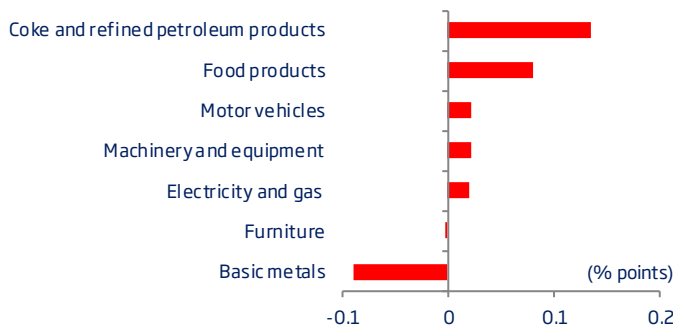
H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.
I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold.

which constitute CBRT's favorite core indicators, increased by 7.56% and 7.69% yoy, respectively.

The highest contribution to monthly D-PPI came from petroleum products.

Coke and petroleum products made the largest contribution to the monthly D-PPI inflation in September. Manufacture of food products followed this sub-sector. Except for basic metals, most of the sub-industry groups registered rises in this period while the strongest increase was recorded in energy prices.

Contributions to the Monthly D-PPI by Sub-sectors
(% points)



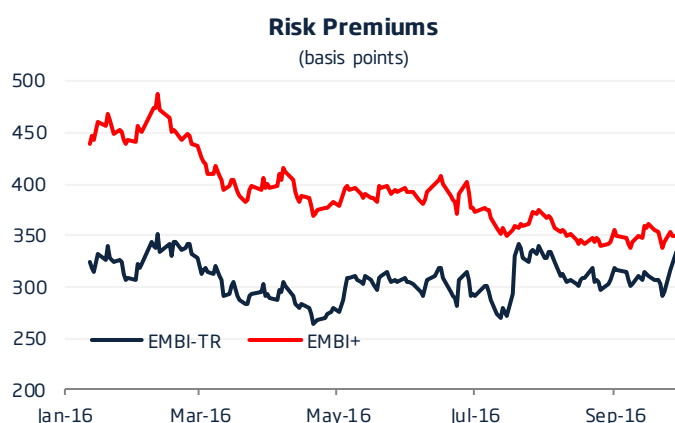
Expectations

We think that the brighter prospects for oil prices following the OPEC deal as well as the seasonal factors might put some upward pressure on inflation in October. Aside from this, the elevated level of currency basket is another factor that increases the upside risks to prices. On the other hand, we expect CBRT to continue with the monetary policy simplification process as we witness a more benign performance in inflation for the last two months.

Source: Datastream, Turkstat

Domestic markets...

Central Banks were at the top of the agenda in September. In line with market expectations, the Fed did not raise the interest rate at its September meeting. However, the Fed suggested that the case for an increase in the federal funds rate strengthened and therefore rate hike possibility was on the table. Along with the decisions taken by other major central banks, cautious mood in the markets was altered and risk appetite for emerging markets increased. During this period, domestic markets followed a similar path to global markets.



On September 23, however, Moody's lowered Turkey's long term foreign currency rating by one notch, to non-investment status. The reasons behind this downgrade were stated as the increase in the risks related to Turkey's sizeable external funding requirements and the weakening in growth and institutional strength. This decision first put downward pressure on markets, yet, in the following days, the adverse impact was softened. On the other hand, assessments regarding the extension of state of emergency caused risk sentiment to deteriorate again.

Domestic Markets As of end-September	Change from the year end	Change from July 15	Change from September 23
5Y CDS (bps)	-7	40	18
The yield of 10Y Treasury Bond (bps)	-97	61	20
BIST-100 (%)	6.6	-7.6	-4.1
USD/TRY (%)	2.8	4.1	1.8

BIST-100 index...

As the steps taken by major central banks provided support to global markets, BIST-100 index rose by 5% as of September 23 compared to the end-August. TRY assets

remained under selling pressure after the Moody's rating cut decision. BIST-100 index closed the month with a slight increase of 0.7% compared to end-August.

USD/TRY...

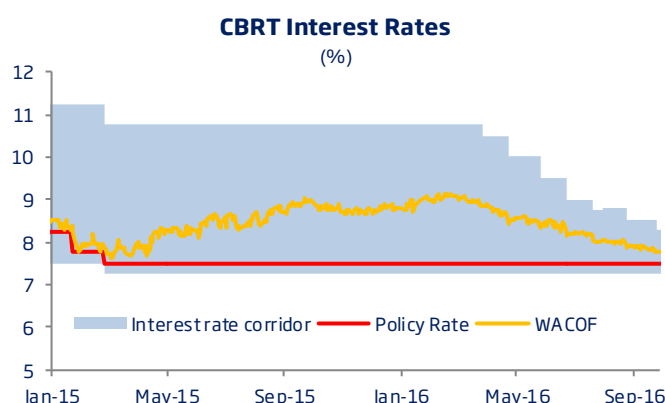
The cautious mood prevailing in global markets ahead of the Fed's meeting resulted in a flat performance for USD/TRY in September. USD/TRY fell back below 2.95 due to the increasing risk appetite after the Fed meeting. Following the Moody's decision, USD/TRY reached as high as 2.9981 on September 26. News on the extension of state of emergency caused USD/TRY to rise again and to test 3.01. The exchange rate ended the month at 3.0031.

CBRT continued to cut the interest rate.

At its Monetary Policy Committee meeting held on September 22, CBRT cut the upper band of the interest rate corridor (overnight lending rate) further by 25 basis points to 8.25%, in line with the expectations. Late liquidity window lending rate was also pulled down to 9.75%. In its statement, CBRT emphasized that economic activity has lost steam in the third quarter of the year and financial conditions were tight. CBRT also pointed out that the developments in tourism sector would have a negative impact on current account balance. It was also noteworthy that the phrase of "tight monetary policy" was replaced with "cautious monetary policy" in the statement.

Downward trend in CBRT's cost of funding...

The average cost of funding continued to decline in parallel with the interest rate cuts by CBRT. Having stood at 7.78% as of 30 September, CBRT's average cost of funding has hovered around the lowest levels in one and a half years in the recent weeks. The yield of 2-year benchmark bond declined by 36 basis points to 8.71% on September 30 compared to end-August.

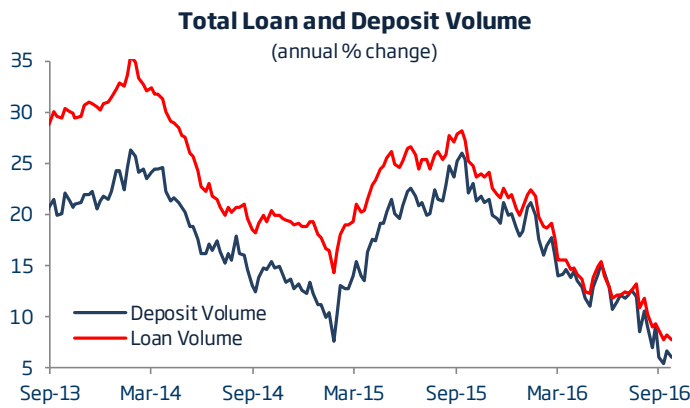


Source: CBRT, Reuters, Datastream

Deposit volume rose by 5.9% yoy.

At the beginning of September annual growth in deposit volume was 5.4%, the lowest level since 2003. Deposits posted an annual rise of 5.9% as of September 23. Deposit volume of banking sector was realized as TRY 1,416 billion in this period.

As of September 23, TRY deposits registered an annual increase of 18% while FX deposit volume contracted by 7.7% yoy in this period. FX deposits in USD terms also kept its declining momentum on annual basis. The share of TRY deposits in total deposits became 59.2% as of September 23.



Loan growth...

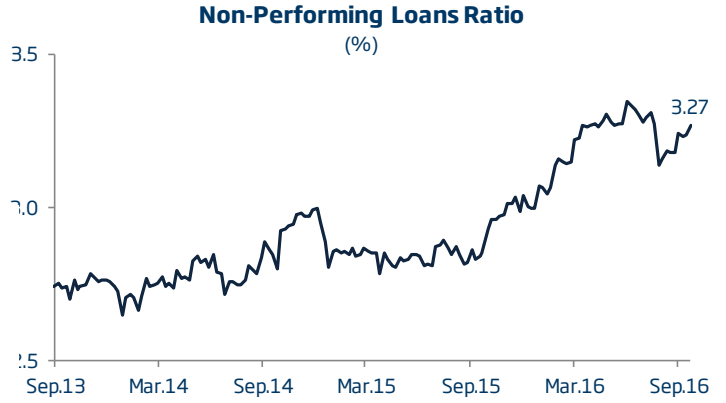
Annual loan growth rate continued to decelerate. In the week to September 23, loan volume expanded by 7.7% yoy, the lowest level since 2010. Loan volume of banking sector became TRY 1,611 billion in this period.

As of September 23, annual growth rate of commercial loans was realized as 8.6%. Consumer loans, on the other hand, have gained pace in September. This development was mainly driven by the moderate recovery in consumer credit cards and housing loans. Recent declines in banks' lending rates on housing loans are expected to support the recovery in the housing loans in the upcoming period.

New measures have been taken by authorities in order to support the credit growth in the recent period. The number of credit card installments was raised and the installment limit for consumer loans was extended from 36 months to 48 months. Moreover, loan to value ratio for housing loans was raised to 80% from 75%.

NPL ratio was 3.27%.

As of September 23, banking sector's non-performing loan ratio posted a limited increase compared to the end of August and was realized as 3.27%. This ratio was 4.7% for consumer loans and 2.9% for commercial loans.

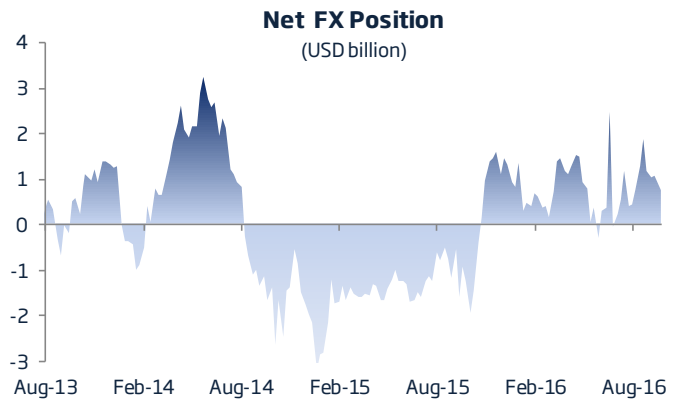


Securities held under custody...

Banks' portfolio of securities held under custody has kept increasing. This account registered an annual rise of 5.9% in the week to September 23. During this period, purchases of residents' surged by 6.5% yoy while that of nonresidents' increased by 5.1% yoy.

Net FX position...

As of September 23, banks' on-balance sheet FX position was (-)USD 12,425 million while off-balance sheet FX position realized as (+)USD 13,231 million. Hence, banks' net FX position became (+)USD 807 million.



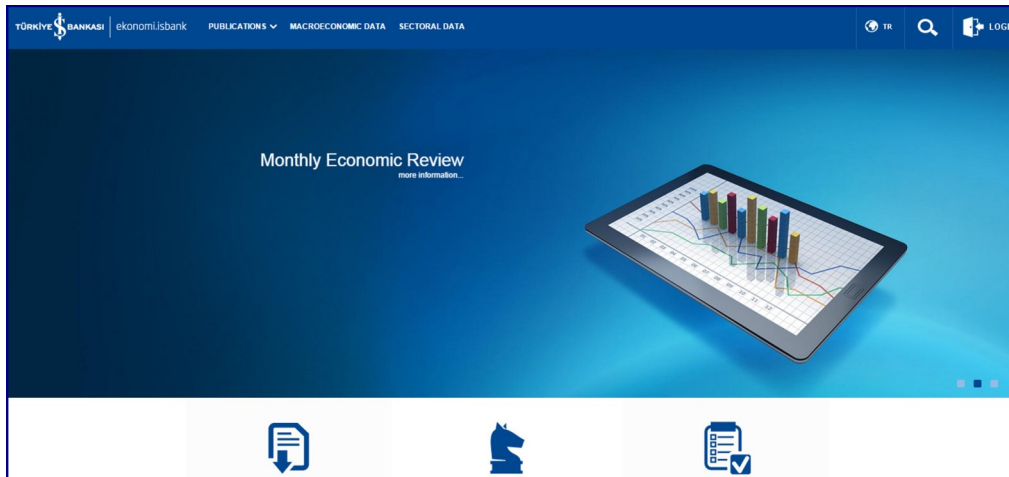
The weak outlook on investments, trade volume, productivity and wages weighs on the world economy. The inability to achieve the desired results, despite the intensive use of monetary policies, has brought the need for fiscal policies and structural reforms to the agenda. Indeed, extraordinary low or even negative interest rates have been introduced. Yet, the limits and effectiveness of these policies remained highly controversial. In addition, the downward pressure created by the negative interest rate policies on profitability of financial institutions became more evident as a factor limiting the recovery in economic activity. In this context, the decisions taken by the Bank of Japan in September are being closely watched by the markets.

On the domestic front, economic activity has been experiencing a slowdown since the second quarter. It is expected that recent arrangements regarding retail loans and credit cards, aiming to curb the loss of momentum in economic activity, would support credit growth in the period ahead. Moody's downgrade on September 23, bringing Turkey's credit rating below investment grade, has put some downward pressure on financial indicators.

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

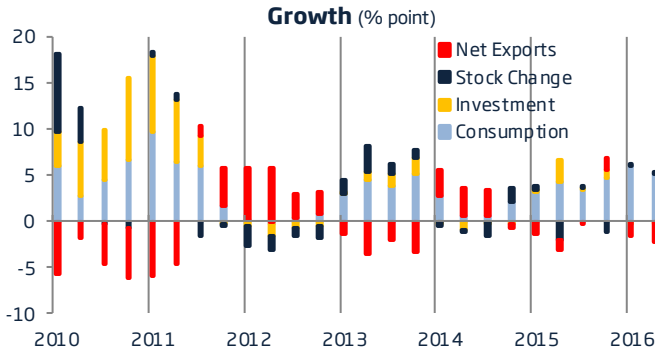
(R) Realization
Year-end forecast for inflation

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

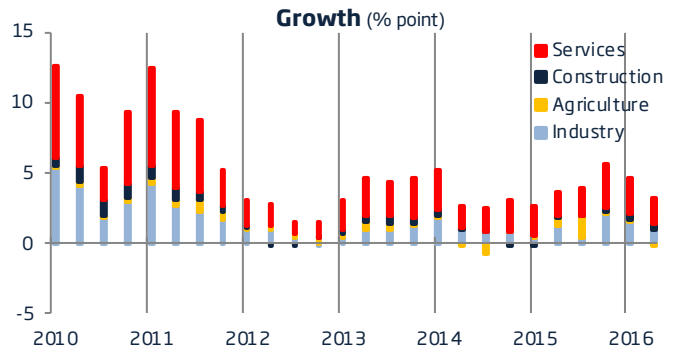


Growth

Expenditure Approach - Contributions to GDP

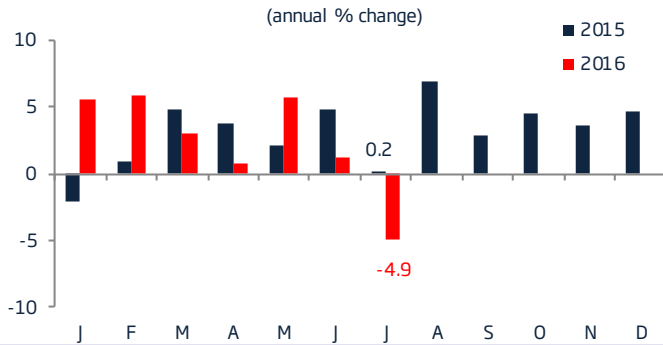


Production Approach - Contributions to GDP

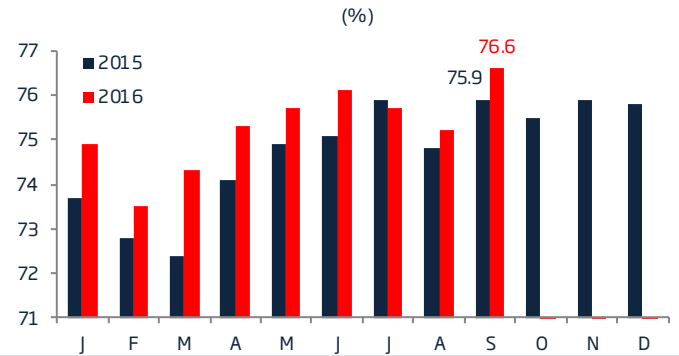


Industrial Production and Capacity Utilization Ratio

Industrial Production*

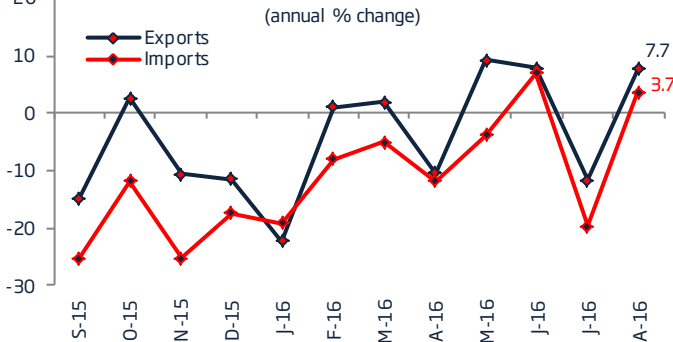


Capacity Utilization Ratio

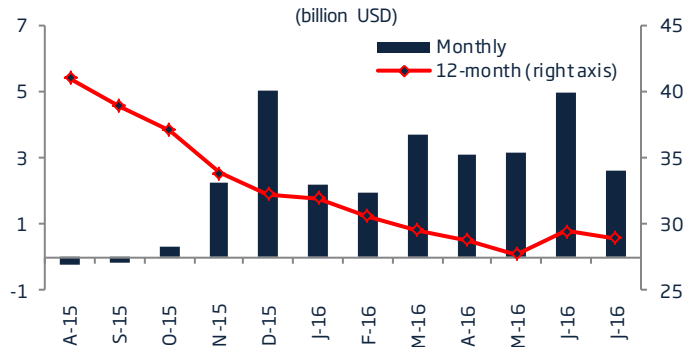


Foreign Trade and Current Account Balance

Foreign Trade

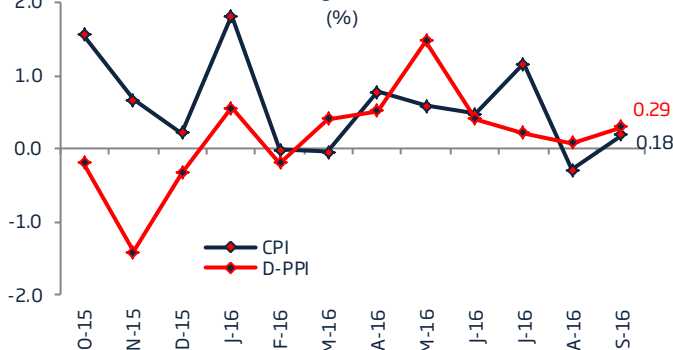


Current Account Deficit

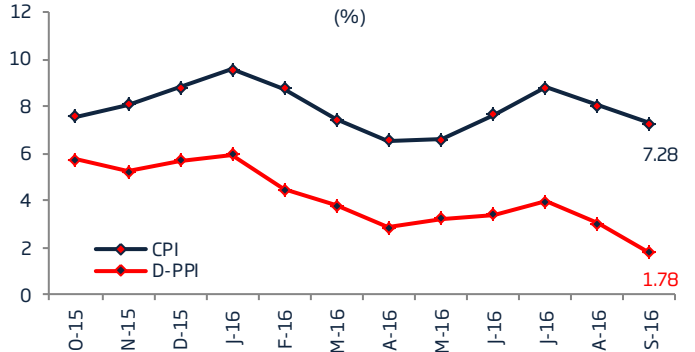


Inflation

Monthly Inflation



Annual Inflation

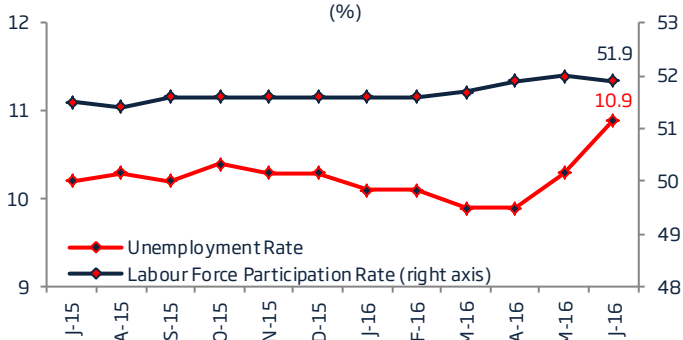


(*) Calendar adjusted figures

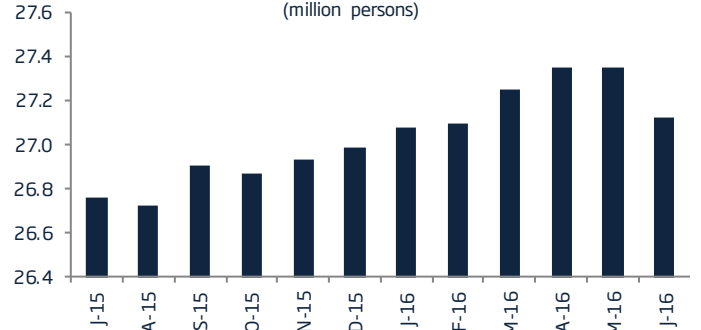
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

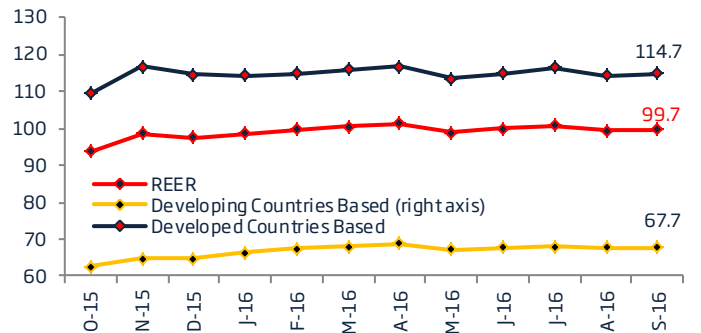


FX Market

Currency Basket

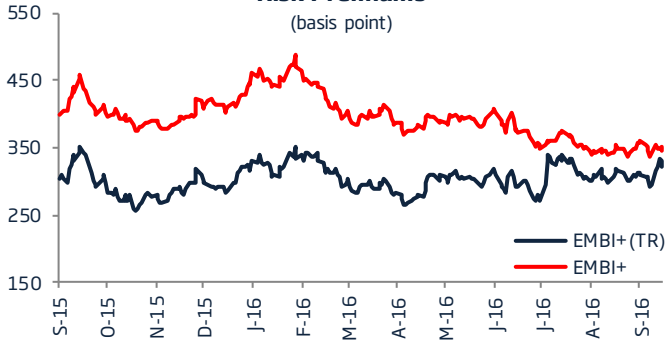


CPI Based Real Effective Exchange Rate



Risk Indicators

Risk Premiums (basis point)

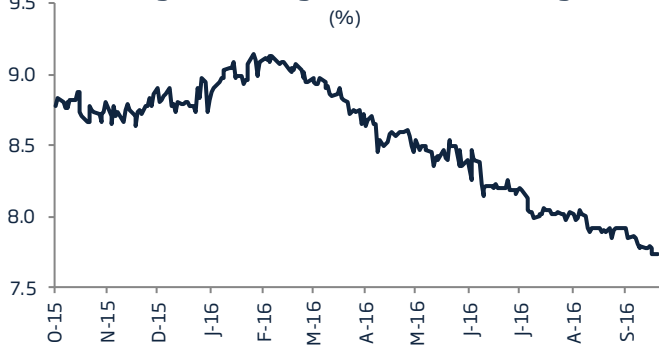


VIX

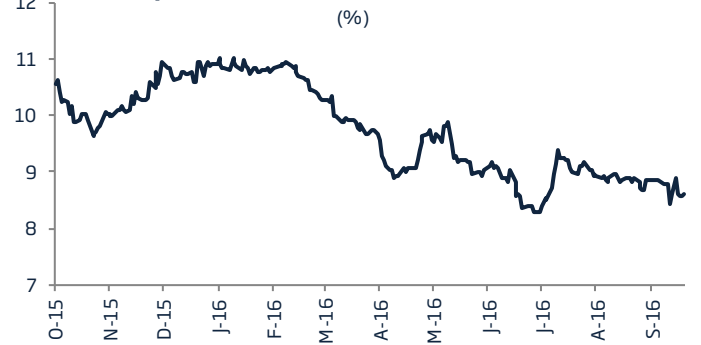


Interest Rates

Weighted Average Cost of CBRT Funding (%)

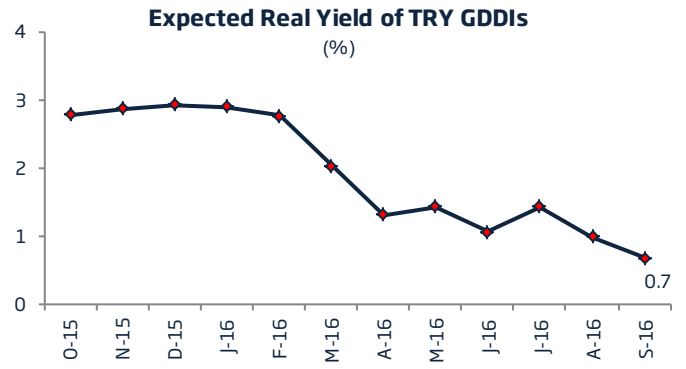
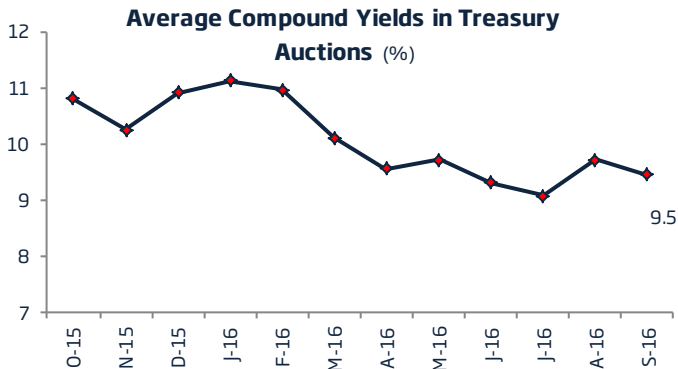


Compound Yield of 2-Year Benchmark Bond (%)

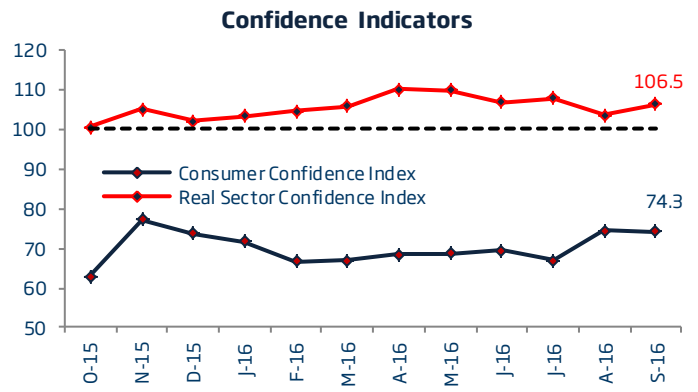
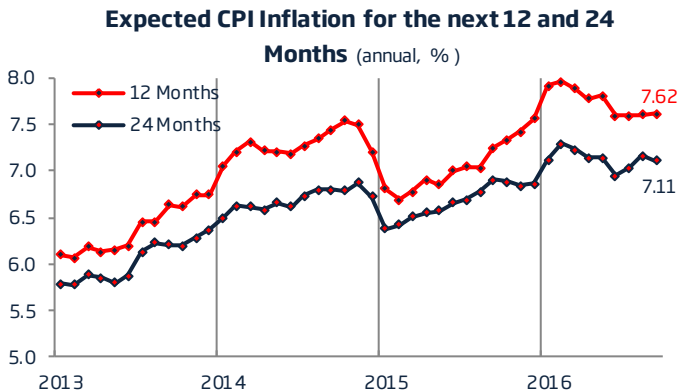
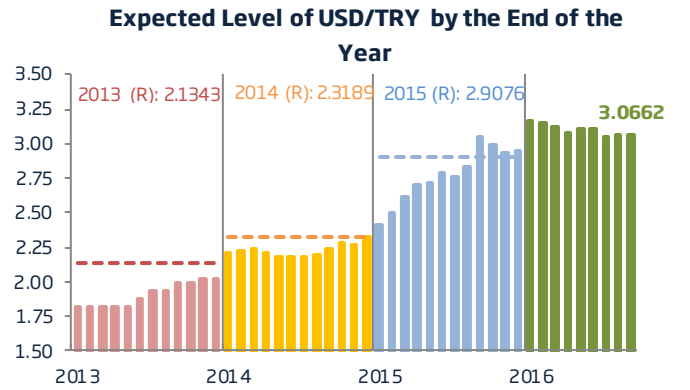
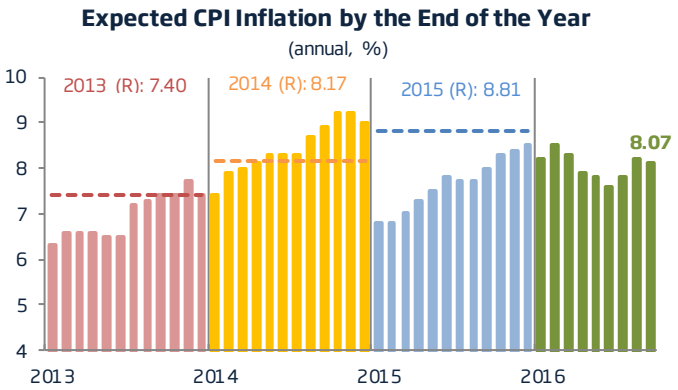
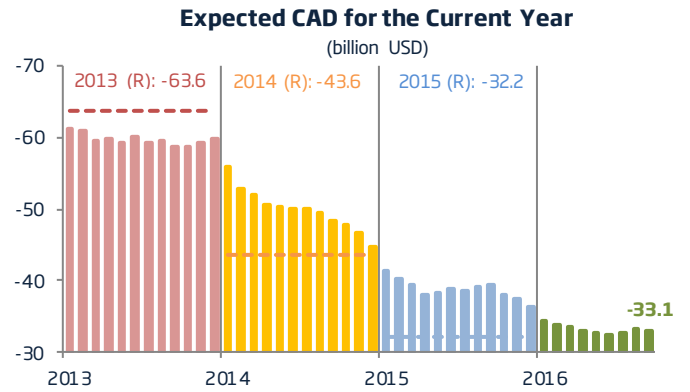
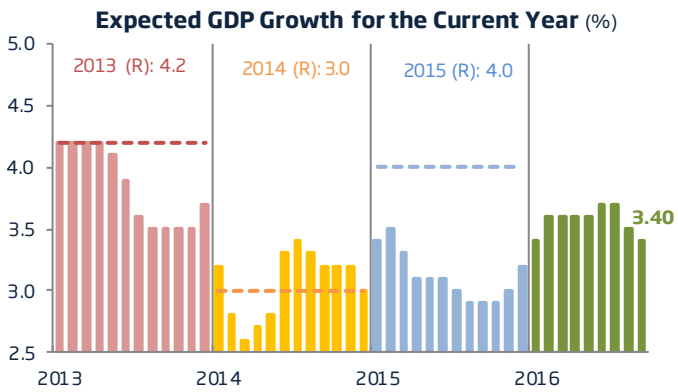


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

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

Growth	2011	2012	2013	2014	2015	16-Q1	16-Q2	16-Q3
GDP (USD billion)	774	786	823	799	720	169.0	181.4	-
GDP (TRY billion)	1,298	1,417	1,567	1,748	1,953	497.8	525.9	-
GDP Growth Rate (%)	8.8	2.1	4.2	3.0	4.0	4.7	3.1	-
Inflation (%)								
CPI (annual)	10.45	6.16	7.40	8.17	8.81	Jul-16	Aug-16	Sep-16
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	8.79	8.05	7.28
						3.96	3.03	1.78
Seasonally Adjusted Labor Market Figures								
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.3	Apr-16	May-16	Jun-16
Labor Force Participation Rate (%)	47.2	48.5	48.4	50.9	51.6	9.9	10.3	10.9
						51.9	52.0	51.9
FX Rates								
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	105.0	97.5	Jul-16	Aug-16	Sep-16
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	100.7	99.5	99.7
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.0152	2.9570	3.0031
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.3476	3.2940	3.3578
						3.1814	3.1255	3.1805
Foreign Trade Balance⁽¹⁾ (USD billion)								
Exports	134.9	152.5	151.8	157.6	143.8	Jun-16	Jul-16	Aug-16
Imports	240.8	236.5	251.7	242.2	207.2	142.0	140.7	141.6
Foreign Trade Balance	-105.9	-84.1	-99.9	-84.6	-63.4	200.1	196.5	197.1
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	-58.1	-55.8	-55.6
						71.0	71.6	71.8
Balance of Payments⁽¹⁾ (USD billion)								
Current Account Balance	-74.4	-48.0	-63.6	-43.6	-32.2	May-16	Jun-16	Jul-16
Capital and Financial Accounts	-66.1	-48.9	-62.3	-42.1	-22.9	-27.7	-29.5	-28.9
Direct Investments (net)	-13.8	-9.2	-8.8	-5.5	-11.8	-24.9	-27.3	-25.1
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.5	-9.2	-9.2	-7.1
Other Investments (net)	-28.3	-19.6	-39.5	-16.0	-14.7	5.1	3.4	-1.3
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	-17.5	-22.8	-14.2
Net Errors and Omissions	8.3	-0.9	1.4	1.6	9.4	2.8	2.1	3.8
Current Account Balance/GDP (%)	-9.6	-6.1	-7.7	-5.5	-4.5	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)								
Expenditures	314.6	361.9	408.2	448.8	506.0	Jun-16	Jul-16	Aug-16
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	273.9	316.3	363.5
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	26.4	30.6	35.4
Revenues	296.8	332.5	389.7	425.4	483.4	247.5	285.7	328.1
Tax Revenues	253.8	278.8	326.2	352.5	407.5	275.0	317.5	368.4
Budget Balance	-17.8	-29.4	-18.5	-23.4	-22.6	216.6	252.7	298.1
Primary Balance	24.4	19.0	31.4	26.5	30.4	1.1	1.3	4.9
Budget Balance/GDP (%)	-1.4	-2.1	-1.2	-1.3	-1.2	-	-	-
Central Government Debt Stock (TRY billion)								
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	Jun-16	Jul-16	Aug-16
External Debt Stock	149.6	145.7	182.8	197.5	237.5	453.3	455.3	458.4
Total Debt Stock	518.4	532.2	585.8	612.1	677.6	246.7	256.5	252.5
						700.0	711.8	710.9

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2011	2012	2013	2014	2015	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	76.1	-	-	-
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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