

## Global Economy

- ◆ After the Republican candidate Donald Trump won presidential elections in the United States, global markets experienced sharp fluctuations.
- ◆ Recent macroeconomic indicators suggested that economic activity in the US has been stabilizing. The economic growth in the third quarter came in above expectations at 3.2%.
- ◆ Trump's economic policy proposals have led to increases both in the US dollar and US Treasury yields. The possibility that the Fed may have to raise interest rates faster than anticipated in the upcoming period has grown.
- ◆ OPEC decided to cut oil production at the meeting held on the end of November. Russia has also declared that it would cut its oil production in line with this decision. These developments supported oil prices in the recent period.
- ◆ Even though the UK Prime Minister has announced that EU withdrawal process would begin in March 2017, the UK Supreme Court has ruled that the steps to be taken in withdrawal process should be submitted to the Parliament for approval.
- ◆ The growth in the Euro Area was 0.3% qoq in the third quarter, indicating that the economic activity displayed a relatively moderate outlook despite the Brexit decision. However, after the constitutional referendum in Italy, political uncertainties in the region have intensified.
- ◆ The OECD revised its global growth forecast for 2017 upward. The Organization stated that fiscal policies, designed in a way that they provide more support to the economy and target a more inclusive growth, should be seen as an important tool to avoid low growth trap.

## Turkish Economy

- ◆ Having recorded a modest increase in August, calendar-adjusted industrial production declined by 3.1% yoy in September. Thus, industrial production in the third quarter fell by 1.9% yoy. The weak course in industrial production had a negative impact on the growth forecasts for the third quarter of the year.
- ◆ In October, exports fell by 3% on an annual basis while imports rose by 0.5%. Thus, foreign trade deficit widened by 13.2% yoy. In the first 10 months of the year, while exports decreased by 2.8% yoy, imports declined by 5.8% due to the low course of commodity prices. In light of these developments, foreign trade deficit remained below last year's level.
- ◆ Current account balance, which posted a surplus of 167 million USD in September 2015, recorded a deficit of 1.7 billion USD in the same month of this year. The deterioration in services balance played a significant role in current account deficit rise. The deficit excluding net energy trade hit the highest level in the last 30 months, according to 12-month cumulative figures.
- ◆ Budget expenditures increased by 18.9% yoy in October while budget revenues decreased by 1.0% yoy. Thus, budget, which gave a surplus of 7.2 billion TRY in October 2015, posted a deficit of 104 million TRY in the same month of this year.
- ◆ In November, CPI increased by 0.52% mom, remained below market expectations. The annual CPI inflation, which has been declining for the last four months, dropped to its lowest level by 7% since May.
- ◆ At the meeting held on November 24<sup>th</sup>, CBRT hiked the policy rate and the overnight lending rate by 50 and 25 basis points, respectively due to global uncertainties and the exchange rate developments. CBRT also lowered foreign exchange reserve requirement ratios by 50 basis points for all maturity brackets.

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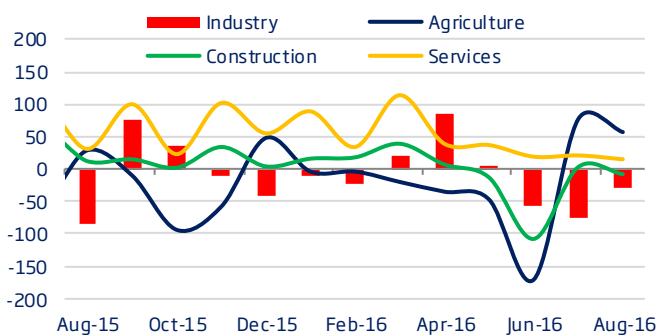
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### Deterioration in the labor market has continued.

Employment increased by 323 thousand persons while the number of unemployed rose by 435 thousand on an annual basis. Thus, unemployment rate increased by 1.2 points to 11.3% compared to the previous year. Seasonally adjusted unemployment rate also reached its highest level since March 2010 with 11.4%. The weak performance in the tourism sector, coupled with the slowdown in economic activity, played a significant role in this development.

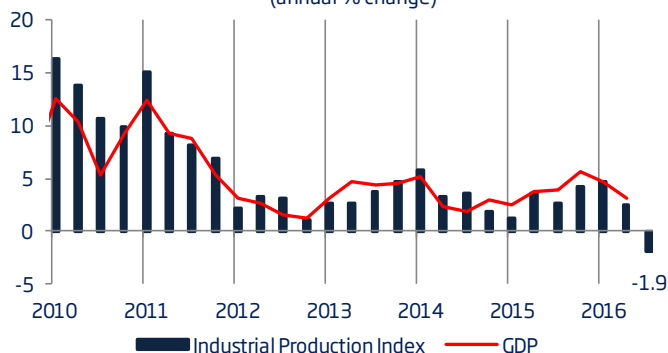
**Monthly Changes in Employment by Sectors**  
(seasonally adjusted, thousand persons)



### Industrial production fell by 1.9% in the third quarter.

Having recorded a modest increase in August, calendar-adjusted industrial production declined by 3.1% yoy in September. This fall was mostly attributable to the contraction in manufacturing industry. 16 in 24 sub-sectors of the manufacturing industry declined in this period. Hence, industrial production in the third quarter fell by 1.9% yoy. The weak course in industrial production had a negative impact on the growth forecasts for the third quarter of the year. Nevertheless, thanks to the easing of macroprudential measures and the support of public spending, the expectations that economic activity could recover in the last quarter are preserved.

**CAJ Industrial Production and GDP**  
(annual % change)

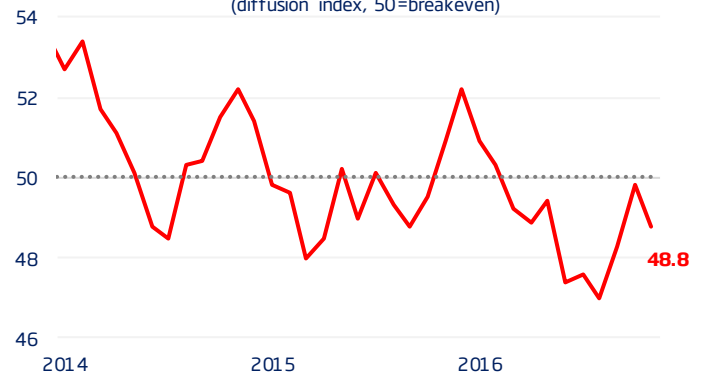


### Weak performance of manufacturing industry...

The Manufacturing Industry Purchasing Managers' Index (PMI) fell to 48.8 in November due to the decline of

production and new orders sub-indices. Thus, the index has remained below 50 threshold for the 9<sup>th</sup> month in a row. On the other hand, assessments on exports and employment improved in this period, marking a positive development.

**Manufacturing PMI**  
(diffusion index, 50=breakeven)



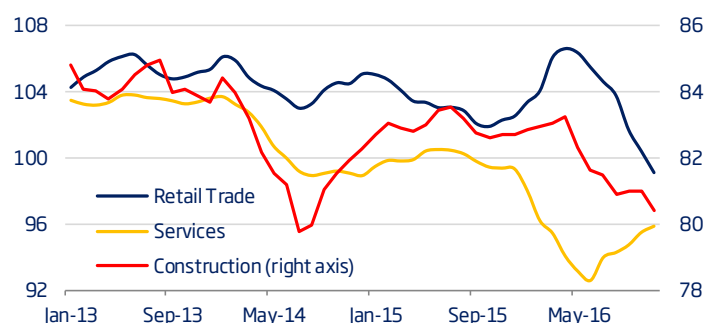
### Increase in automotive production...

According to data announced by the Automotive Industry Association, in the January-October period, automotive industry production rose by 7% annually mainly due to the rise in automobile exports. Automotive production has surged to a historically high level by 1.2 million in this period while the exports of the sector presented a positive outlook. However, domestic market continued to contract in this period.

### Mixed outlook in confidence indices...

Seasonally adjusted real sector confidence index reached its highest level of this year in November, while consumer confidence declined by 6.9% mom, pointing to an unfavorable outlook. The rapid increase in the sub-item of total amount of orders in the past 3 months boosted the real sector confidence. Among the sub-items of consumer confidence, the sharp decline in the probability of buying a house over the next 12-months was noteworthy. Sectoral confidence indices also showed a mixed outlook in this period. 6-month moving average figures suggested that the service sector confidence recovered somewhat in the past

**Sectoral Confidence Indices**  
(seasonally adjusted, 6-month moving average)



Source: Datastream, Turkstat, CBRT, Markit, AMA

### Export volume declined.

In October, exports fell by 3% on an annual basis while imports rose by 0.5%. Thus, foreign trade deficit widened by 13.2% yoy and became 4.2 billion USD. The import coverage ratio decreased by 2.7 points compared to a year ago and was realized as 75.5%. According to seasonally and calendar adjusted figures, exports increased by 2.5% mom in October while imports dropped by 1.7%.

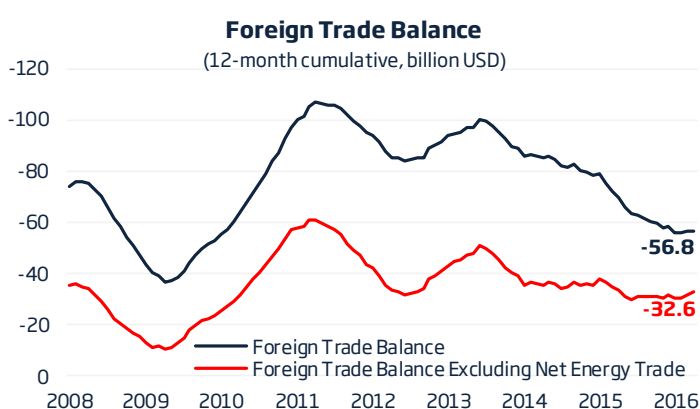
In the first 10 months of the year, while exports decreased by 2.8% compared to the same period of 2015, imports declined by 5.8% due to the low course of commodity prices. In light of these developments, foreign trade deficit remained below last year's level.

In the January-October period, EU countries continued to be the largest export market of Turkey. The share of the EU countries in total exports, which was 44.0% in the first ten months of 2015, surged to 48.5% in the same period of this year.

### Strong rise in gold imports...

In October, the highest amount of imports was recorded by mineral fuels and oils. Imports of this item, on the other hand, declined by 16.9% yoy on the back of the fall in energy prices. After registering the highest import in the past few months, boilers and machineries dropped to the second place in October. However, they ranked first in January-October period.

It is observed that gold imports recorded a rapid increase in October compared to the same month of the previous year. Indeed, gold imports rose to 949 million USD from 203 million USD in this period, reaching the highest level in the last two years.

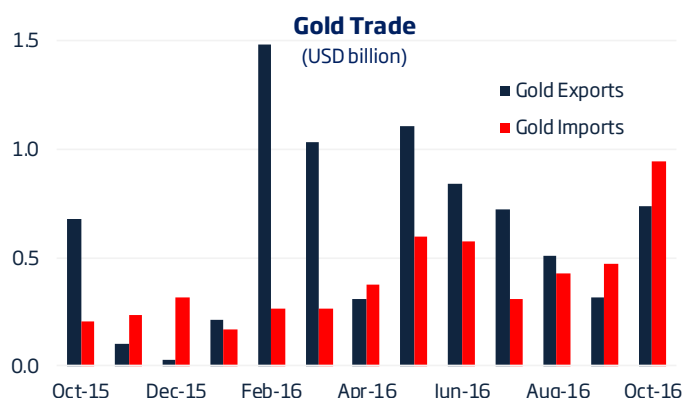


Regarding the realizations in the last 12 months, foreign trade deficit has remained flat at around 56.8 billion USD in the past few months. Excluding energy trade, the foreign trade deficit reached 32.6 billion USD, the highest level in a year.

### Automotive exports have sustained a strong performance.

In October, while exports of the motor vehicles industry ranked first, exports of precious metals came in second place thanks to gold exports. Apart from these two chapters, among the top 10 exporting sectors, the only sector that increased its exports on an annual basis was iron and steel.

In the first 10 months, motor vehicles maintained their position as the biggest exporter. This sector was followed by precious metals and boilers and machineries.



### Expectations...

Owing to the weak performance of exports, foreign trade deficit widened in October as was the case in September. On the import side, the positive impact of commodity prices continued to fade. Notwithstanding the fact that the recent easing of macroprudential measures might support domestic demand and, in turn, imports, rapid depreciation of TRY is likely to put downward pressure on imports.

	Foreign Trade Balance (USD billion)					
	October		Change (%)	Jan.-Oct.		Change (%)
	2015	2016		2015	2016	
Exports	13.2	12.8	-3.0	120.4	117.0	-2.8
Imports	16.9	17.0	0.5	173.3	163.3	-5.8
<b>Foreign Trade Balance</b>	<b>-3.7</b>	<b>-4.2</b>	<b>13.2</b>	<b>-52.9</b>	<b>-46.2</b>	<b>-12.5</b>
Import Coverage Ratio (%)	78.3	75.5	-	69.5	71.7	-

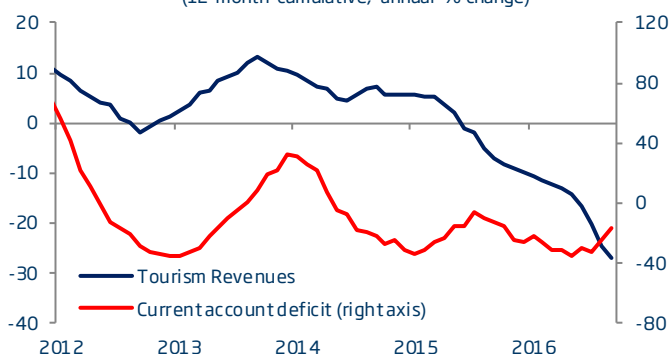
Source: Datastream, Turkstat

### Current account deficit was 1.7 billion USD in September.

Current account balance, which posted a surplus of 167 million USD in September 2015, recorded a deficit of 1.7 billion USD in the same month this year. On the other hand, this level suggested a better outlook than markets expected.

In the first nine months of the year, the current account deficit widened by 1% yoy and became 24.8 billion USD. 12-month cumulative current account deficit, however, stood at 32.4 billion USD, the highest since December 2015. It was also noteworthy that the current account deficit excluding net energy trade hit the highest level in the last 30 months, according to 12-month cumulative figures.

**Current Account and Tourism Revenues**  
(12-month cumulative, annual % change)



The deterioration in services balance played a significant role in the rise in the current account deficit in September. The surplus in services balance declined by 1.2 billion USD on an annual basis. About 900 million USD of this fall stemmed from the drop in tourism revenues. Indeed, net tourism revenues shrank by 30.5% yoy while the annual rate of decline reached almost 40% in the first nine months of the year. The foreign trade also contributed to the rise in current account deficit in September. Foreign trade deficit widened by 27% yoy during this period. The fall of 5.6% in exports was behind this performance.

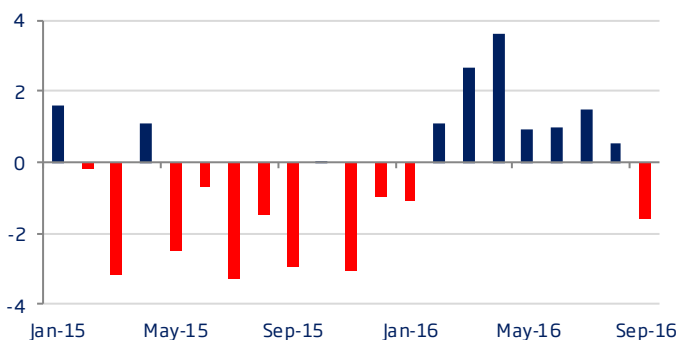
### FDI is above the year-average.

Net foreign direct investments increased by 468 million USD compared to a year-ago. Nevertheless, in January-September period, foreign direct investments almost halved compared to the same period of the previous year despite the upturn observed in September.

### Capital outflow in portfolio investment account...

In September, portfolio investments posted a net capital outflow of 1.6 billion USD, the largest since November 2015. Equities and government debt securities recorded a limited inflow by the purchases of non-residents in this period. Government's net payment of 2 billion USD regarding its bond issues in international markets led the portfolio investment account to become negative in September.

**Portfolio Flows**  
(monthly, USD billion)



For the first nine months, portfolio investments continued to paint a better picture compared to the previous year. Net portfolio investments, which had posted an outflow of 11.5 billion USD in January-September period last year, recorded an inflow of 8.7 billion USD in the same period of this year.

### Other investments...

Other investments registered a net outflow of 2.3 billion USD in September. This mainly stemmed from the rise in domestic banks' currency and deposits within their foreign correspondent banks and the decline in foreign banks'

### Breakdown of Net Capital Inflows

### (12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2015	Sep. 2016	Dec. 2015	Sep. 2016
<b>Current Account Balance</b>	<b>-32,170</b>	<b>-32,412</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>20,339</b>	<b>30,000</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	11,862	7,099	58.3	23.7
-Portfolio Investments	-15,498	4,648	-	-
-Other Investments	14,838	16,068	73.0	53.6
-Net Errors and Omissions	9,158	2,177	45.0	7.3
-Other	-21	8	-0.1	0.0
<b>Reserves<sup>(1)</sup></b>	<b>11,831</b>	<b>2,412</b>	-	-

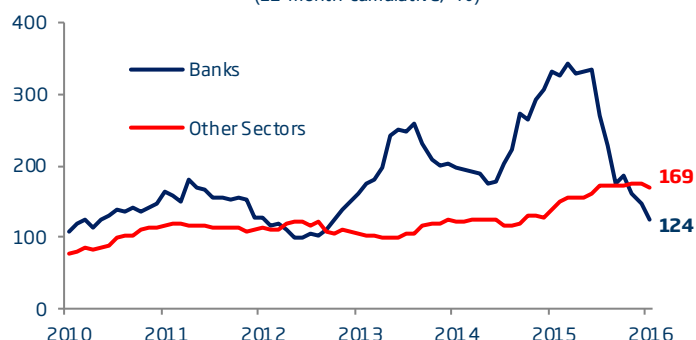
Note: The numbers may not add up to total due to rounding.

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

Source: Datastream, CBRT

### Long-term Debt Rollover Ratios

(12-month cumulative, %)



deposits held within domestic banks as well as the net credit repayments of banking sector amounting to 1.2 billion USD. It is seen that banking sector has become a net credit repayer for the last three consecutive months. Non-banking sector, on the other hand, raised a net 245 million USD of credit from abroad.

As 12-month cumulative figures suggested, long-term debt rollover ratios of banking and non-banking sectors stood at 124% and 169%, respectively.

### Fall in reserves ...

Reserves posted a rapid decline by 4.8 billion USD in September. Net errors and omissions registered a limited inflow of 36 million USD in this period.

### Expectations...

We believe that the risks to current account deficit are tilted to the upside for the coming period. The widening of the foreign trade deficit in October, revealed by the provisional data, supports our view. Furthermore, we expect the current account deficit to remain under pressure for a while longer by the fall in tourism revenues. Together with these, the steps taken by the policymakers to increase domestic demand and the possibility of an oil price rebound imply that the current account deficit could widen in the forthcoming period.

Balance of Payments	(USD million)				
	September 2016	Jan. - Sep. 2015	Jan. - Sep. 2016	% Change	12-Month Cumulative
<b>Current Account Balance</b>	<b>-1,684</b>	<b>-24,551</b>	<b>-24,793</b>	<b>1.0</b>	<b>-32,412</b>
Foreign Trade Balance	-3,235	-37,509	-30,924	-17.6	-41,529
Services Balance	2,336	19,544	11,817	-39.5	16,420
Travel (net)	2,025	17,184	10,696	-37.8	14,760
Primary Income	-927	-7,422	-6,793	-8.5	-8,896
Secondary Income	142	836	1,107	32.4	1,593
<b>Capital Account</b>	<b>0</b>	<b>-6</b>	<b>23</b>	<b>-</b>	<b>8</b>
<b>Financial Account</b>	<b>-1,648</b>	<b>-12,130</b>	<b>-19,324</b>	<b>59.3</b>	<b>-30,227</b>
Direct Investments (net)	-719	-9,669	-4,906	-49.3	-7,099
Portfolio Investments (net)	1,589	11,495	-8,651	-	-4,648
Net Acquisition of Financial Assets	-26	5,230	-331	-	568
Net Incurrence of Liabilities	-1,615	-6,265	8,320	-	5,216
Equity Securities	308	-1,125	738	-	-532
Debt Securities	-1,923	-5,140	7,582	-	5,748
Other Investments (net)	2,300	-10,181	-11,411	12.1	-16,068
Currency and Deposits	1,135	2,387	-3,111	-	-3,417
Net Acquisition of Financial Asse	572	13,853	971	-93.0	2,086
Net Incurrence of Liabilities	-563	11,466	4,082	-64.4	5,503
Central Bank	-65	-731	-392	-46.4	-577
Banks	-498	12,197	4,474	-63.3	6,080
Foreign Banks	-353	8,861	3,695	-58.3	4,776
Foreign Exchange	-617	4,658	-915	-	-865
Turkish Lira	264	4,203	4,610	9.7	5,641
Non-residents	-145	3,336	779	-76.6	1,304
Loans	1,201	-11,139	-5,812	-47.8	-8,382
Net Acquisition of Financial Asse	155	450	349	-22.4	691
Net Incurrence of Liabilities	-1,046	11,589	6,161	-46.8	9,073
Banking Sector	-1,228	5,434	-2,529	-	-2,870
Non-bank Sectors	245	6,774	9,570	41.3	13,420
Trade Credit and Advances	-24	-1,175	-2,505	113.2	-4,278
Other Assets and Liabilities	-12	-254	17	-	9
Reserve Assets (net)	-4,818	-3,775	5,644	-	-2,412
<b>Net Errors and Omissions</b>	<b>36</b>	<b>12,427</b>	<b>5,446</b>	<b>-56.2</b>	<b>2,177</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

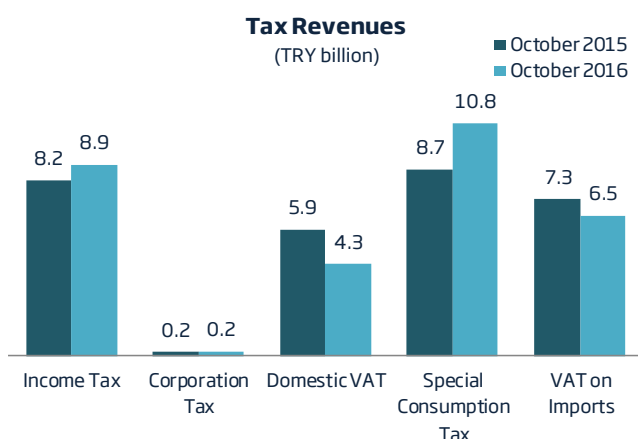
### Budget posted 104 million TRY deficit in October.

Budget expenditures increased by 18.9% yoy in October while budget revenues decreased by 1.0% yoy. Thus, budget, which gave a surplus of 7.2 billion TRY in October 2015, posted a deficit of 104 million TRY in the same month of this year.

In the first 10 months of the year, budget expenditures and budget revenues increased by 13.8% yoy and 12.5% yoy, respectively. Compared to the same period of the previous year, budget deficit almost doubled and became 12.1 billion TRY. Although primary balance fell by 21.2% yoy to 32.4 billion TRY, it stood above the MTP target.

### Fall in budget revenues...

Tax revenues kept losing momentum in October. Annual rise in tax revenues, which was 4.5% in September, dropped to 2.8% in October. Weak performance of tax revenues stemmed mostly from fall in revenues collected via domestic VAT and VAT on imports. On the other hand, the hike in special consumption tax imposed on petroleum and natural gas products affected the budget revenues positively.



While a high level of income was generated from the Treasury portfolio and subsidiaries in October 2015, it was not the case in October of this year. This development also played a role in the weak performance of revenues. Tax

### Central Government Budget

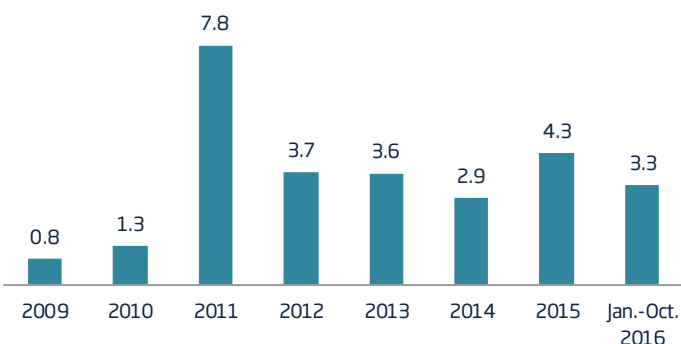
	October			January-October			(TRY billion)		
	2015	2016	% Change	2015	2016	% Change	2016 Budget Target	MTP Target	Real/MTP Target (%)
<b>Expenditures</b>	<b>36.6</b>	<b>43.5</b>	<b>18.9</b>	<b>404.2</b>	<b>460.0</b>	<b>13.8</b>	<b>570.5</b>	<b>581.1</b>	<b>79.2</b>
Interest Expenditures	2.6	2.9	10.2	47.4	44.6	-5.9	56.0	51.5	86.6
Non-Interest Expenditures	33.9	40.6	19.6	356.8	415.4	16.4	514.5	529.6	78.4
<b>Revenues</b>	<b>43.8</b>	<b>43.4</b>	<b>-1.0</b>	<b>398.0</b>	<b>447.9</b>	<b>12.5</b>	<b>540.8</b>	<b>546.5</b>	<b>81.9</b>
Tax Revenues	35.1	36.1	2.8	333.3	365.0	9.5	459.2	450.0	81.1
Other Revenues	8.7	7.3	-16.3	64.6	82.8	28.1	81.7	96.5	85.8
<b>Budget Balance</b>	<b>7.2</b>	<b>-0.1</b>	<b>-</b>	<b>-6.2</b>	<b>-12.1</b>	<b>94.9</b>	<b>-29.7</b>	<b>-34.6</b>	<b>35.1</b>
<b>Primary Balance</b>	<b>9.9</b>	<b>2.8</b>	<b>-71.6</b>	<b>41.2</b>	<b>32.4</b>	<b>-21.2</b>	<b>26.3</b>	<b>16.9</b>	<b>192.0</b>

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

amnesty provided a revenue of 1.4 billion TRY in October and 3.7 billion TRY in the first ten months of the year.

The share of one-off budget revenues, which consist of tax amnesty and privatization revenues, in total revenues has been 3.3% in January-October period.

### One-Off Revenues / Budget Revenues \* (%)



### Budget expenditures...

Interest expenditures rose by 10.2% yoy in October. With the impact of the minimum wage hike on the public finance, non-interest expenditures also increased by 19.6% on an annual basis. The increase of 2.4 billion TRY recorded in health, retirement and social aid expenditures in October led the share of current transfers' in budget expenditures to increase. In line with the government's increasing support to growth through investments, road construction expenditures also surged in October.

For the first 10 months, non-interest expenditures increased by 16.4% on an annual basis, while current transfers surged by 21.2% in the same period.

### Expectations...

It is anticipated that the budget deficit will continue to expand as the government begins to use the policy space that it has to support growth. Furthermore, the views that tax reductions may come to the stage in order to stimulate domestic demand also signal that the budget revenues may remain under pressure in the period ahead.

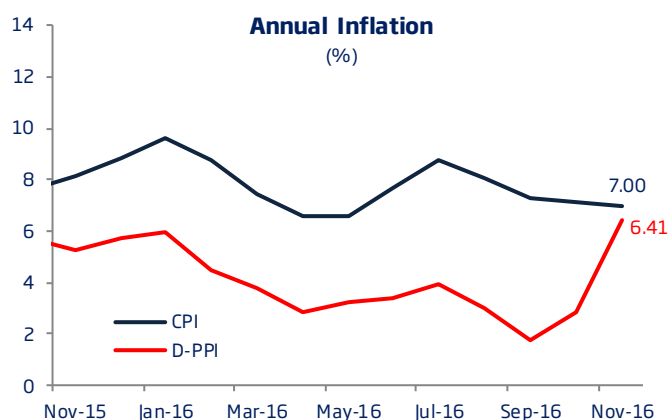
November	CPI		D-PPI	
	2015	2016	2015	2016
Change (%)				
Monthly	0.67	0.52	-1.42	2.00
Year-to-Date	8.58	6.78	6.06	6.76
Annual	8.10	7.00	5.25	6.41
Annual Average	7.61	7.79	5.33	3.93

### CPI came in better than expected in November.

In November, CPI increased by 0.52% mom, remained below market expectations. According to the Reuters survey, monthly CPI inflation was anticipated to be 0.8%. According to the CBRT's Survey of Expectations, CPI was expected to increase by 0.83%. Domestic PPI (D-PPI) posted the biggest monthly rise since January 2014, increasing by 2% in November.

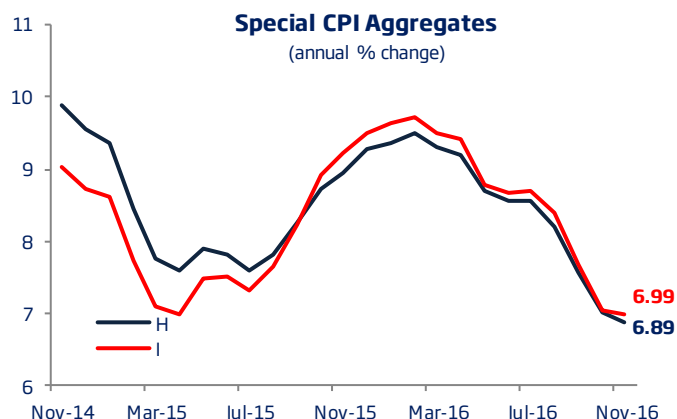
### Annual inflation fell to 7%.

The annual CPI inflation, which has been declining for the last four months, dropped to its lowest level by 7% since May. Annual PPI inflation, which was 2.84% in October, surged to 6.41% in this period. The low-base effect arising from the decline recorded in D-PPI in November 2015 also played a part in this upsurge.



### Food prices pulled down the CPI.

Food and furnishing prices fell on a monthly basis in November while education, health, alcoholic beverages and tobacco prices remained flat. Due to seasonal effects, clothing and footwear group made the biggest contribution to the CPI increase in November with 29 basis points. In November, TL depreciated by 11% against USD compared to the previous month. Thus, housing and transport groups, which are highly sensitive to movements in exchange rates, made the highest contribution to monthly CPI increase with 14 and 7 basis points, respectively, following the clothing and footwear group.



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.

### Core inflation indicators continued to decline.

The core inflation indicators, which fell in the face of the weakening of domestic demand conditions, continued to be on declining trend in November. CBRT's favorite core indices denominated by H and I, were realized as 6.89% and 6.99%, respectively, declined to the lowest level in more than three years.

### Broad-based increase in D-PPI...

The increase in oil prices as well as the depreciation of TL in November played a significant role in the course of D-PPI. Prices of crude petroleum and natural gas products rose by 10.61% on a monthly basis while prices of basic metals, which picked up by 10.13% compared to the previous month, made the largest contribution to D-PPI increase. This group was followed by food, chemical and textile products. In November, clothing, electricity and gas production/distribution were the only two groups to record price declines.

### Expectations...

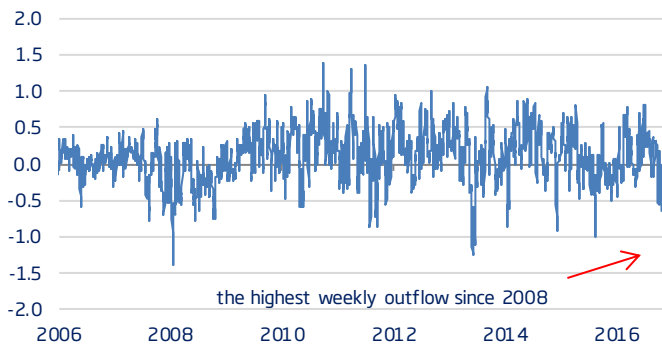
Owing to winter season discounts, we anticipate that clothing and footwear group will pull down inflation in December. On the other hand, we think that the increase in oil prices after the OPEC members' decision to cut oil production and the cumulative effects of the depreciation in TL will continue to exert upward pressure on inflation. Since the hike in Special Consumption Tax on alcoholic beverages and tobacco group was advanced to the beginning of December, we anticipate that this development will also have an upward impact on the CPI in next month. However, weak demand conditions suggest that the decline in food prices might prevail in the coming month.

Source: Datastream, Turkstat

**After the US presidential election, capital outflows from emerging economies have intensified.**

After the US presidential election on November 8<sup>th</sup>, global markets experienced severe fluctuations. Expectations that Trump will implement expansionary fiscal policy have strengthened the view that the Fed could raise interest rates faster than anticipated. Against this backdrop, the US dollar appreciated against other advanced economies' currencies and hit the highest level of the last 14 years. Emerging currencies have also been adversely affected by a strengthening US dollar. Portfolio flows to emerging economies have displayed their weakest weekly performance since 2008, along with the accelerating capital outflows following the US elections.

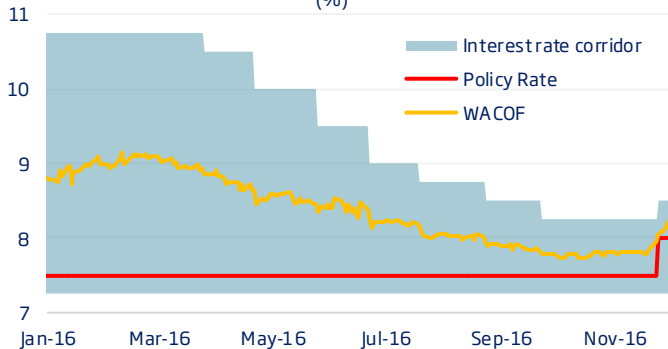
**Portfolio Flows to Emerging Economies**  
(USD billion, 7 day moving average, latest data:1 Dec.)



**CBRT raised interest rates for the first time since January 2014.**

CBRT hiked the policy rate by 50 basis points from 7.5% to 8.0% and increased the overnight lending rate by 25 basis points from 8.25% to 8.5% at the meeting held on November 24<sup>th</sup>. The Central Bank also lowered foreign exchange reserve requirement ratios by 50 basis points for all maturity brackets and provided the opportunity to extend the maturity of the rediscount credits, which will be

**CBRT Interest Rates**  
(%)

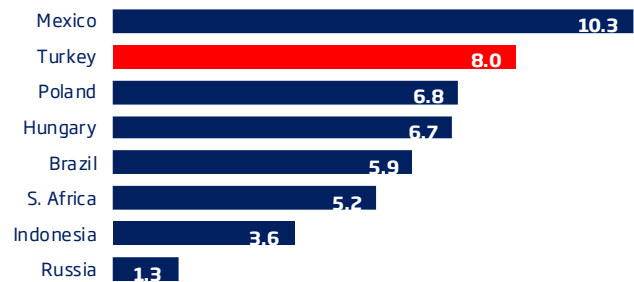


closed until 31 December 2016, to 31 March 2017 at the latest. Along with these decisions, CBRT aimed to mitigate the recent inflationary pressures caused by the depreciation of Turkish lira. The new regulation on reserve requirements is expected to provide the market with an additional 1.5 billion USD.

**USD/TRY has reached an all-time high.**

Remaining under pressure by external developments, Turkish lira has been further weighed on by geopolitical and political developments. Hence, TRY decoupled negatively from its emerging market peers in the recent period. Starting the month with an upward trend, the depreciation in TRY accelerated following the US elections and has hit the historically high levels. During the last days of the month, on the other hand, TRY displayed a relatively flat course thanks to the support of CBRT's interest rate hikes. USD/TRY, which eased somewhat after reaching 3.4754 on November 25<sup>th</sup>, ended the month at the level of 3.43.

**EM Currencies Against USD**  
(11/08/16-11/30/16, % change)



depreciation in local currency

**Fall in BIST-100 index...**

BIST-100 index dropped by 5.8% in November compared to the end-October, having the worst monthly performance since May.

**Rapid rise in interest rates...**

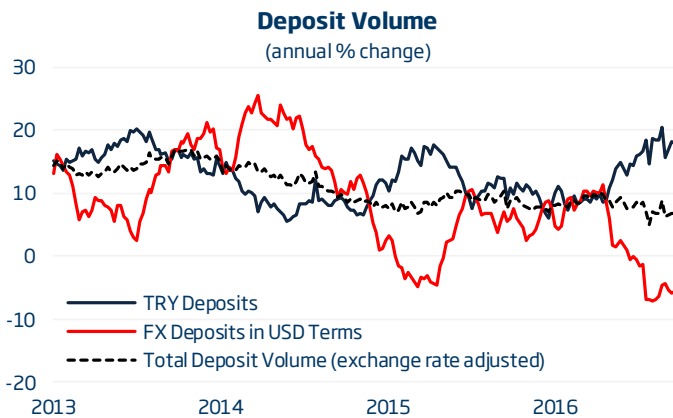
Interest rates in the bond market, which followed an upward trend throughout October, continued this trend also in November. The compound interest rate of the 2-year benchmark bond, which reached the highest level since February on November 23<sup>rd</sup> with 10.95%, declined slightly in the last days of the month and became 10.46% on November 30<sup>th</sup>.

Source: CBRT, Reuters, Datastream, IIF



**Annual deposit growth was 15.4%.**

Having gained momentum in October, deposit volume continued to rise in November. Deposit volume rose by 15.4% yoy and became 1,517 billion TRY as of November 25. This rise was mostly attributable to foreign exchange developments. Indeed, annual deposit growth rate fell to 7.8% according to FX adjusted figures.

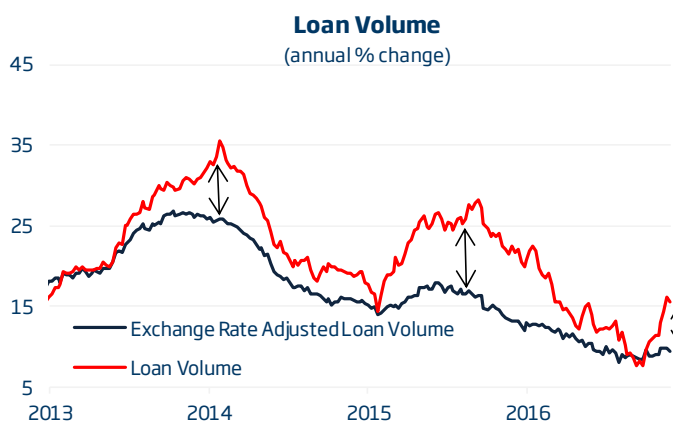


Foreign exchange developments also played a significant role in currency composition of deposit volume. Having shown a downward trend until November 11, FX deposits in USD terms increased in the following weeks. FX deposits in USD terms contracted by 16.5 billion USD between 15 July-11 November while they surged by 1.2 billion USD between 11-25 November\*. Therefore, the share of TRY deposits in total deposits declined to 56.9%, the lowest level in more than 4 months.

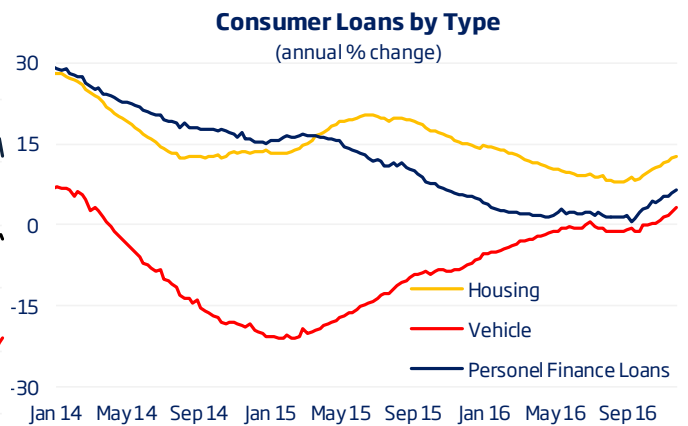
**Recovery in loan growth...**

As of November 25, loan volume expanded by 15.5% yoy and became 1,725 billion TRY. It was noteworthy that the annual growth in TRY loans remained at 9.8% in the same period.

The recent easing of macroprudential measures has a positive impact on retail loan demand. As of November 25, housing loans grew by 12.7% yoy, the strongest increase in

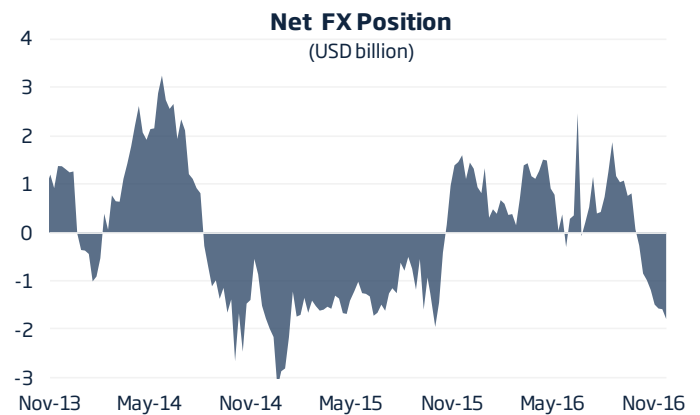


the last eight months. Vehicle loans rose by 3.1%, the fastest rate of increase recorded since February 2014. During this period, the recovery in personal finance loans has also proceeded. Annual growth in consumer credit cards remained within the band of 5-7% as was the case throughout the year.



**Net FX position...**

As of November 25, banks' on-balance sheet FX position was (-)USD 14,466 million while off-balance sheet FX position realized as (+)USD 12,676 million. Hence, banking sector's net FX position posted the biggest deficit in more than a year with (-)USD 1,790 million.



Source: BRSA Weekly Bulletin, (\*) Excluding interbank deposits.

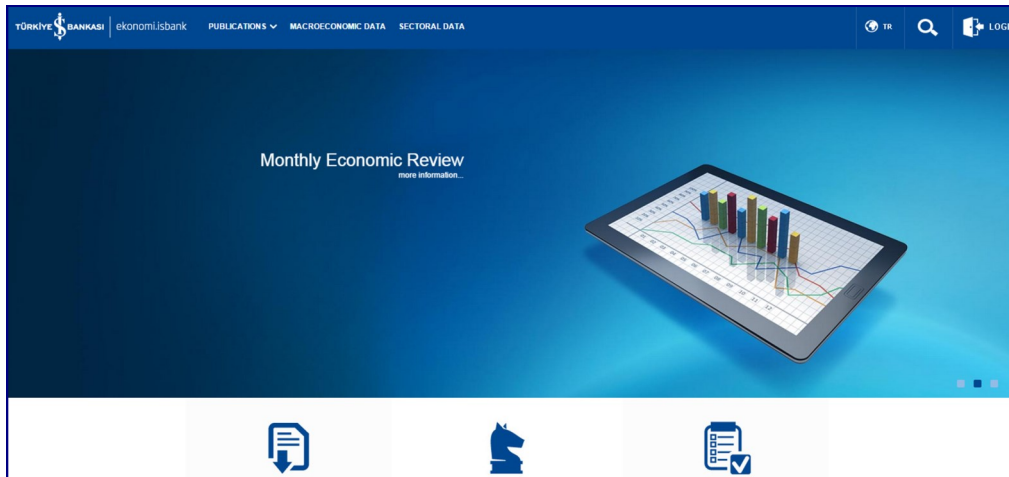
Global markets have witnessed large fluctuations in the last quarter of 2016. While the political uncertainties increase on a global scale, the predictability of economic policy is considerably diminished. While protectionist approaches to international trade, which came under focus after the presidential elections in the US, have raised concerns due to their possible negative impacts on the world trade, uncertainties about the Fed's monetary policy have also surged. Should the Fed's moves be faster than anticipated due to changes in economic policies, volatility in international financial markets could increase and emerging economies, in particular with high external financing needs, could face additional pressures. Indeed, Mexican peso, which is expected to be affected most by the protectionist policies of Trump, became the worst performing emerging market currency following the US election. Turkish lira has also weakened considerably during this period .

Political developments in the European Union countries, which have a heavy election and referendum agenda, starting from December, stand also as important risk factors. In such an economic conjuncture, we believe that the economic performance to be displayed in the upcoming period will depend on the management of the global risks by policy makers.

Forecasts (%)	2015(R)	2016
Growth	4.0	3.0
CA Deficit/GDP	4.5	4.9
Inflation	8.8	7.5

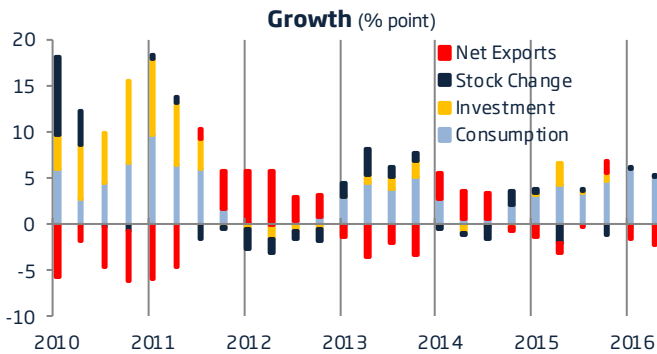
(R) Realization  
Year-end forecast for inflation

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

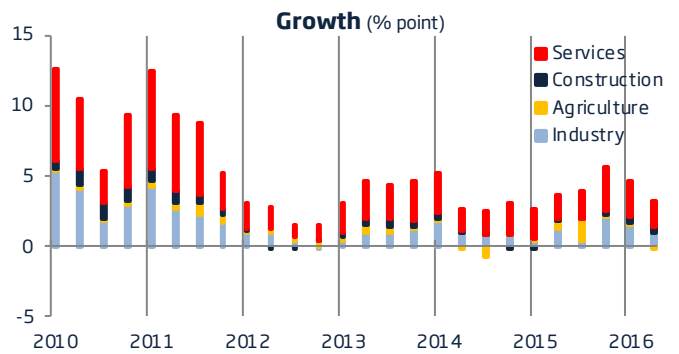


## Growth

### Expenditure Approach - Contributions to GDP

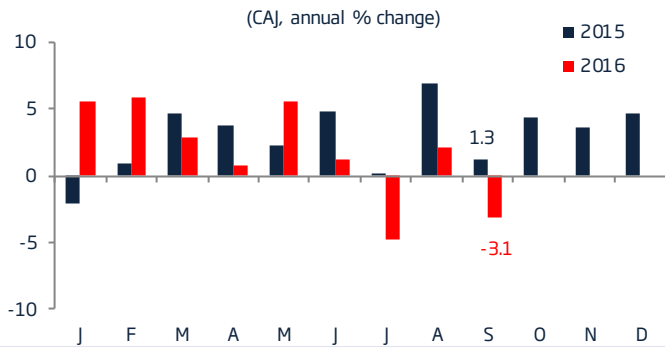


### Production Approach - Contributions to GDP

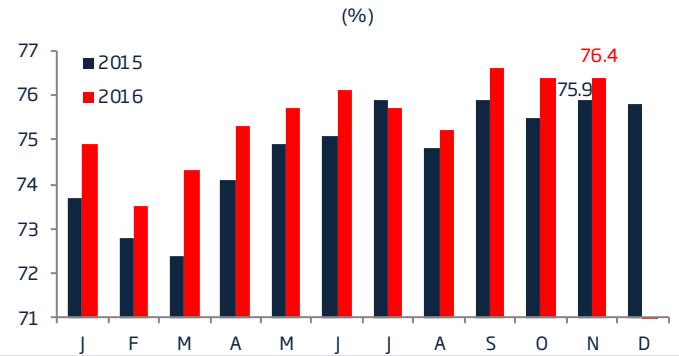


## Industrial Production and Capacity Utilization Ratio

### Industrial Production

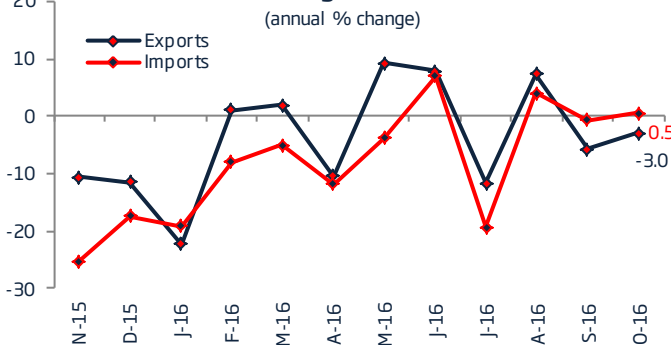


### Capacity Utilization Ratio

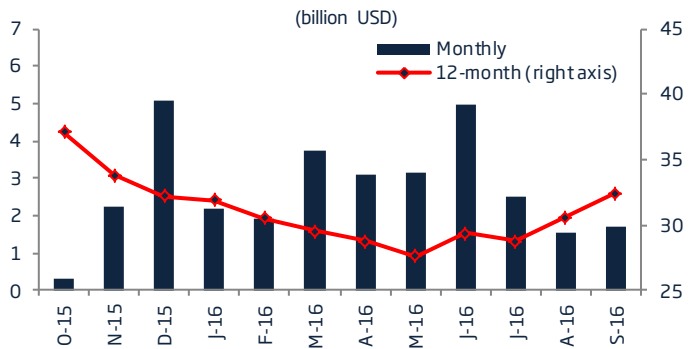


## Foreign Trade and Current Account Balance

### Foreign Trade

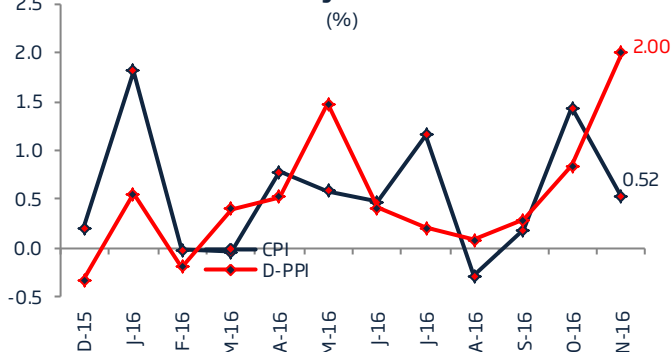


### Current Account Deficit

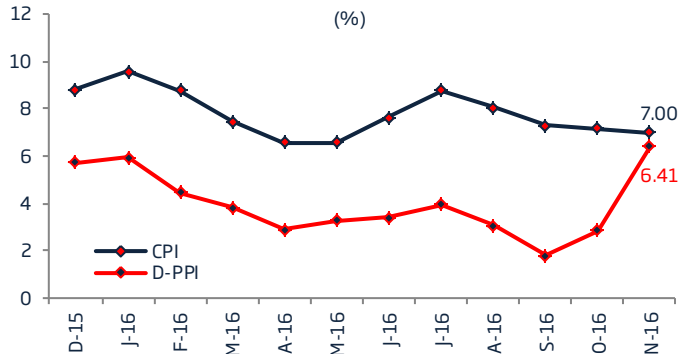


## Inflation

### Monthly Inflation



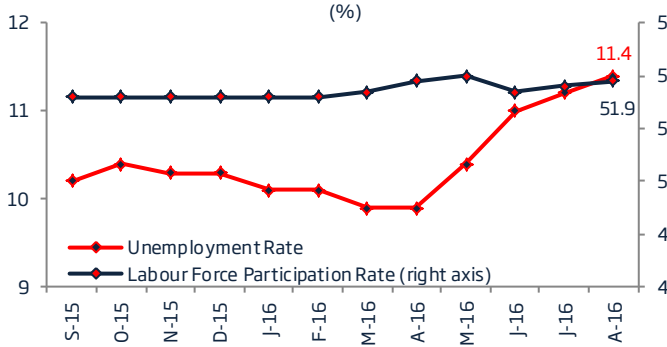
### Annual Inflation



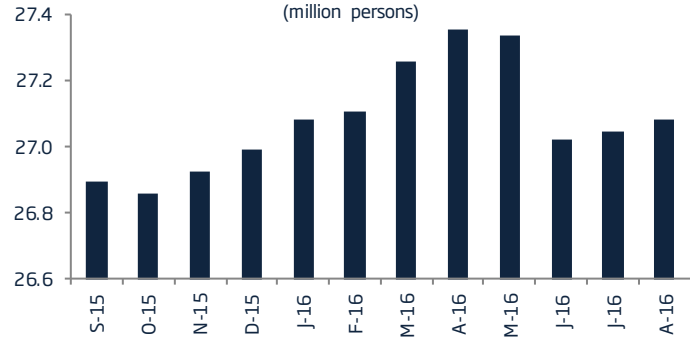
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators (%)



### Seasonally Adjusted Employment (million persons)

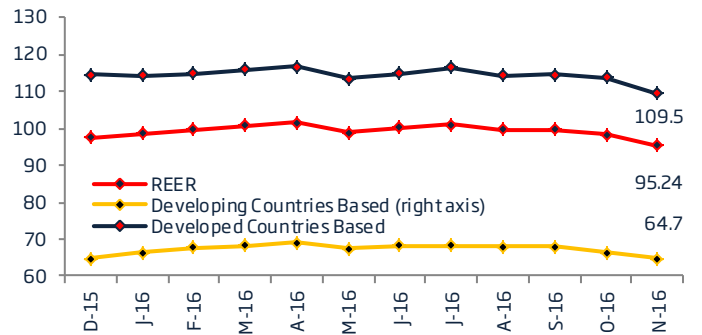


## FX Market

### Currency Basket

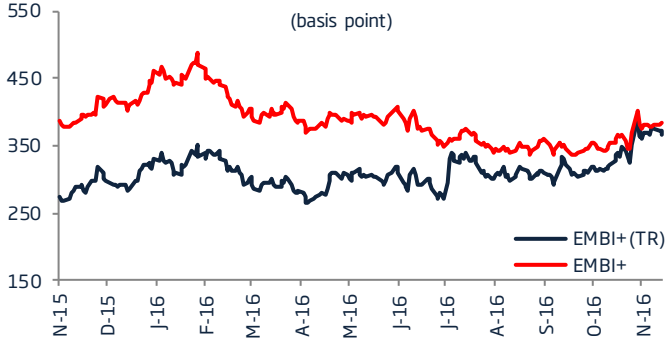


### CPI Based Real Effective Exchange Rate



## Risk Indicators

### Risk Premiums (basis point)

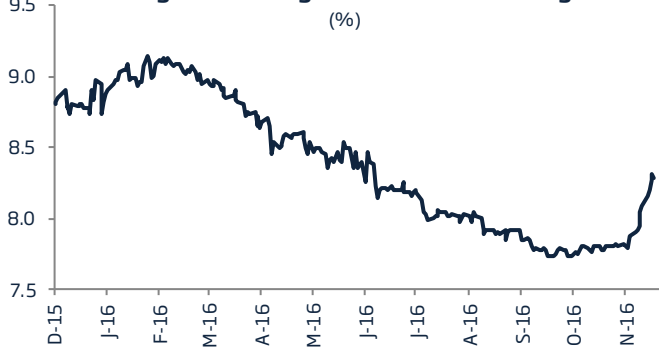


### VIX



## Interest Rates

### Weighted Average Cost of CBRT Funding (%)

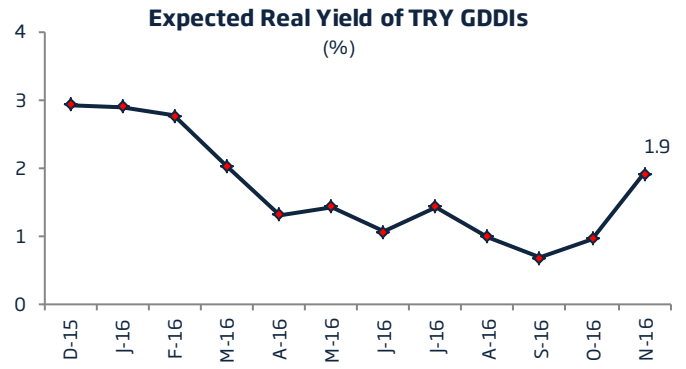
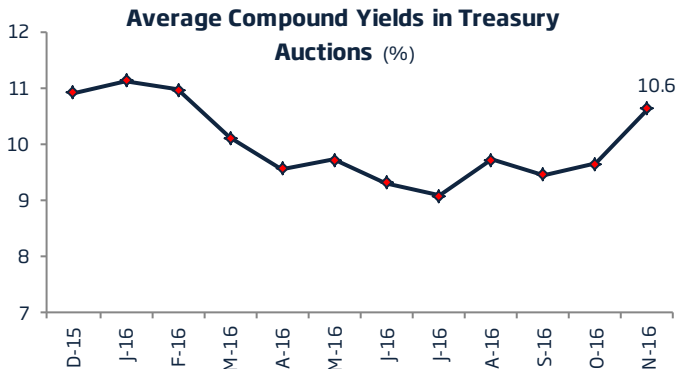


### Compound Yield of 2-Year Benchmark Bond (%)

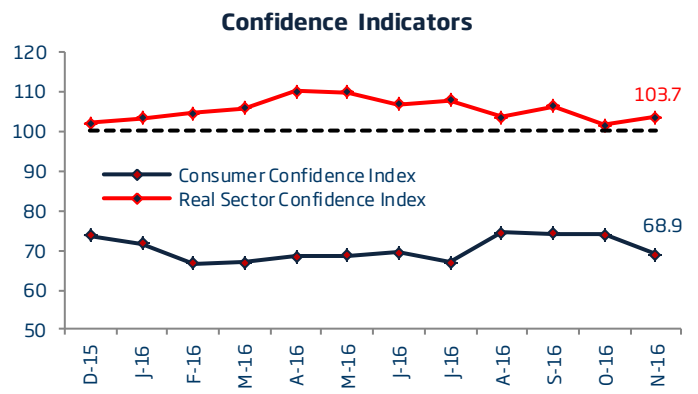
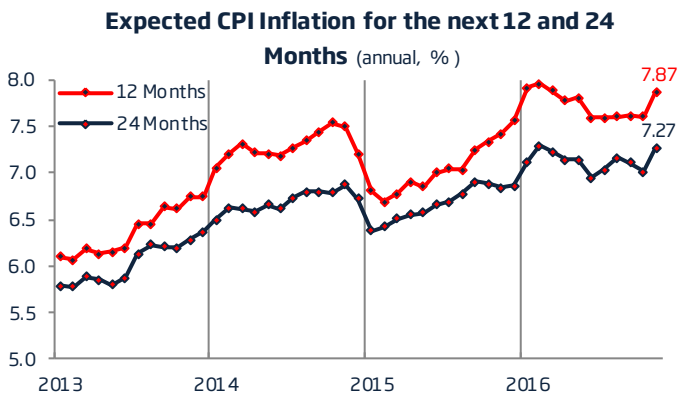
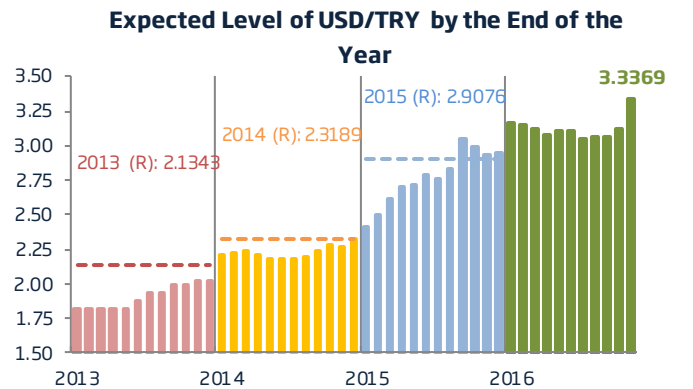
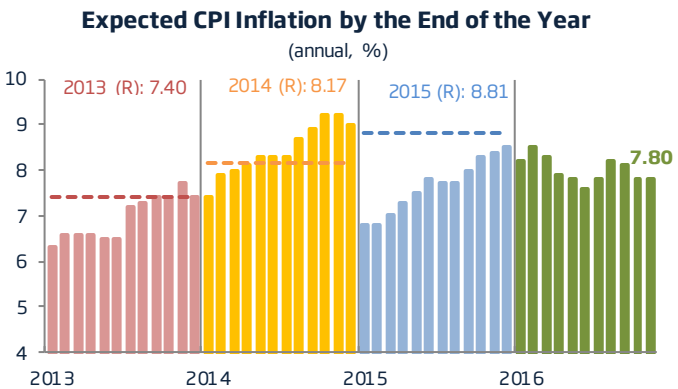
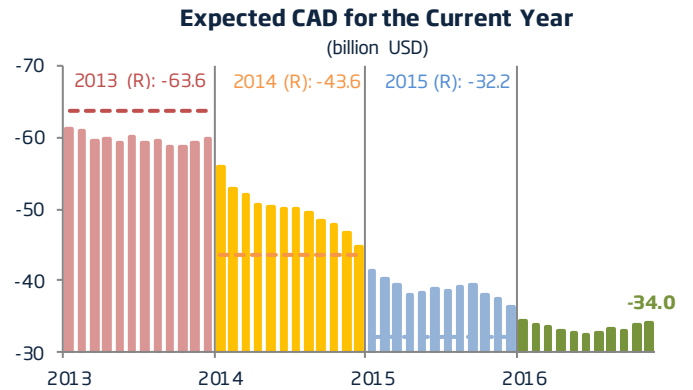
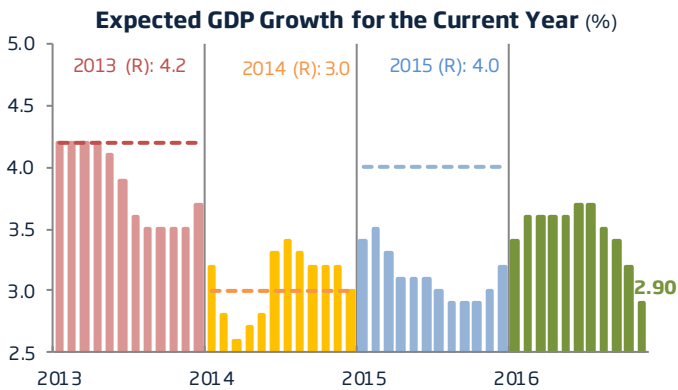


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## 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

<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	169.0	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	-
<b>Inflation (%)</b>						<b>Sep-16</b>	<b>Oct-16</b>	<b>Nov-16</b>
CPI (annual)	10.45	6.16	7.40	8.17	8.81	7.28	7.16	7.00
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	1.78	2.84	6.41
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Jun-16</b>	<b>Jul-16</b>	<b>Aug-16</b>
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.3	11.0	11.2	11.4
Labor Force Participation Rate (%)	47.2	48.5	48.4	50.9	51.6	51.7	51.8	51.9
<b>FX Rates</b>						<b>Sep-16</b>	<b>Oct-16</b>	<b>Nov-16</b>
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	105.0	97.5	99.8	98.5	
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	3.0031	3.1052	3.4205
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.3578	3.4024	3.6397
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.1805	3.2538	3.5301
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Aug-16</b>	<b>Sep-16</b>	<b>Oct-16</b>
Exports	134.9	152.5	151.8	157.6	143.8	141.5	140.9	140.5
Imports	240.8	236.5	251.7	242.2	207.2	197.2	197.1	197.2
<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>-55.7</b>	<b>-56.3</b>	<b>-56.8</b>
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	71.7	71.4	71.2
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						<b>Jul-16</b>	<b>Aug-16</b>	<b>Sep-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>-28.8</b>	<b>-30.6</b>	<b>-32.4</b>
<b>Capital and Financial Accounts</b>	<b>-66.1</b>	<b>-48.9</b>	<b>-62.3</b>	<b>-42.1</b>	<b>-23.0</b>	<b>-24.6</b>	<b>-26.2</b>	<b>-30.2</b>
Direct Investments (net)	-13.8	-9.2	-8.8	-5.5	-11.9	-7.3	-6.6	-7.1
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.5	-1.3	-3.3	-4.6
Other Investments (net)	-28.3	-19.6	-39.5	-16.0	-14.8	-13.4	-17.9	-16.1
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	-2.5	1.6	-2.4
<b>Net Errors and Omissions</b>	<b>8.3</b>	<b>-0.9</b>	<b>1.4</b>	<b>1.6</b>	<b>9.2</b>	<b>4.1</b>	<b>4.3</b>	<b>2.2</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>Aug-16</b>	<b>Sep-16</b>	<b>Oct-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>363.5</b>	<b>416.5</b>	<b>460.0</b>
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	35.4	41.7	44.6
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	328.1	374.8	415.4
<b>Revenues</b>	<b>296.8</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>483.4</b>	<b>368.4</b>	<b>404.5</b>	<b>447.9</b>
Tax Revenues	253.8	278.8	326.2	352.5	407.5	298.1	329.0	365.0
<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>4.9</b>	<b>-12.0</b>	<b>-12.1</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>40.3</b>	<b>29.6</b>	<b>32.4</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>Aug-16</b>	<b>Sep-16</b>	<b>Oct-16</b>
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	458.4	463.1	465.0
External Debt Stock	149.6	145.7	182.8	197.5	237.5	252.5	249.8	260.4
<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>710.9</b>	<b>712.9</b>	<b>725.4</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	Sep.16	Oct.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>2,533.9</b>	<b>2,581.5</b>	<b>9.5</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>1,609.8</b>	<b>1,635.8</b>	<b>10.2</b>
TRY Loans	484.8	588.4	752.7	881.0	1,013.4	1,088.7	1,095.7	8.1
Share (%)	71.0	74.0	71.9	71.0	68.2	67.6	67.0	-
FX Loans	198.1	206.4	294.7	359.7	471.5	521.1	540.1	14.5
Share (%)	29.0	26.0	28.1	29.0	31.8	32.4	33.0	-
Non-performing Loans	19.0	23.4	29.6	36.4	47.5	55.2	56.6	19.1
Non-performing Loan Rate (%)	2.7	2.9	2.8	2.9	3.1	3.3	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>329.2</b>	<b>334.5</b>	<b>1.5</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>2,533.9</b>	<b>2,581.5</b>	<b>9.5</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>1,340.7</b>	<b>1,363.0</b>	<b>9.4</b>
TRY Deposits	460.0	520.4	594.1	661.3	715.4	818.8	831.9	16.3
Share (%)	66.1	67.4	62.8	62.8	57.4	61.1	61.0	-
FX Deposits	235.5	251.8	351.7	391.4	530.0	522.0	531.1	0.2
Share (%)	33.9	32.6	37.2	37.2	42.6	38.9	39.0	-
<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>101.9</b>	<b>108.9</b>	<b>11.3</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>369.0</b>	<b>375.8</b>	<b>4.0</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>154.0</b>	<b>143.3</b>	<b>-8.5</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>292.8</b>	<b>294.9</b>	<b>12.4</b>
Profit (Loss) of the Period	19.8	23.5	24.7	24.6	26.1	28.9	32.1	-
<b>RATIOS (%)</b>								
Loans/GDP	52.6	56.1	66.8	63.5	76.1	-	-	-
Loans/Assets	56.1	58.0	60.5	62.2	63.0	63.5	63.4	-
Securities/Assets	23.4	19.7	16.6	15.2	14.0	13.0	13.0	-
Deposits/Liabilities	57.1	56.3	54.6	52.8	52.8	52.9	52.8	-
Loans/Deposits	98.2	102.9	110.7	117.9	119.2	120.1	120.0	-
Capital Adequacy (%)	16.6	17.9	15.3	16.3	15.6	16.0	16.0	-

(1) Year-to-date % change



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