

## Global Economy

- ◆ In its "World Economic Outlook" report, IMF revised up its global economic growth forecast for 2017 by 0.1 point to 3.5% compared to the previous report while keeping the growth forecast for 2018 unchanged at 3.6%.
- ◆ The US economy expanded at an annual rate of only 0.7% in the first quarter of 2017, slowest pace in 3 years. This development mainly stemmed from the weakness in consumer spending. On the other hand, the recovery in investment and the rapid increase in wages painted a positive picture for the economy.
- ◆ Fed members held a discussion on the Fed's balance sheet reduction according to the minutes from the March meeting. Most of the members said that it would likely be appropriate to shrink Fed's 4.5 trillion USD balance sheet by the end of 2017 provided that the economy continued to perform about as expected.
- ◆ Fed left its policy rate unchanged at its meeting in May, in line with market expectations. As Fed stated that slowdown in the first quarter growth deemed temporary, probability of a June interest rate rise has strengthened.
- ◆ ECB decided to keep its policy rate unchanged at its meeting held in April 27. ECB announced that asset purchase program at current monthly pace of 60 billion euros would continue until the end of this year.
- ◆ UK Prime Minister Theresa May called for an early election to be held on June 8 in order to strengthen her hand in Brexit negotiations. British Parliament approved the plan to hold an early general election.
- ◆ In China, annual economic growth rate came in 6.9% in the first quarter, slightly higher than expectations.

## Turkish Economy

- ◆ Calendar adjusted industrial production index rose by 1% yoy in February. The index pointed to a sustained moderate growth in economic activity.
- ◆ In January period, unemployment rate rose to 13%, the highest level since February 2010. Youth unemployment rate also climbed to 24.5%, its highest level since global financial crisis.
- ◆ Improvement in leading indicators pointed to an acceleration in economic activity.
- ◆ During the first quarter of 2017, exports and imports picked up by 9.2% yoy and 7.7% yoy, respectively. Despite the increase in exports, foreign trade deficit widened by 3.3% compared to the first quarter of the previous year owing to the acceleration in imports.
- ◆ In February, current account deficit expanded by 28.7% yoy in parallel to widening in foreign trade deficit. The 12-month cumulative current account deficit also rose to 33.7 billion USD.
- ◆ The central government budget gave a record high deficit of 19.5 billion TRY in March. Budget figures showed a weak performance during the first quarter of this year largely due to the deterioration seen in March.
- ◆ Upward pressure on inflation since the start of the year has persisted in April. Annual increase in CPI has kept its highest levels since the global crisis with a rate of 11.87%.
- ◆ With the uncertainty of the constitutional referendum behind us, the positive atmosphere in the global markets has also been reflected in domestic markets.

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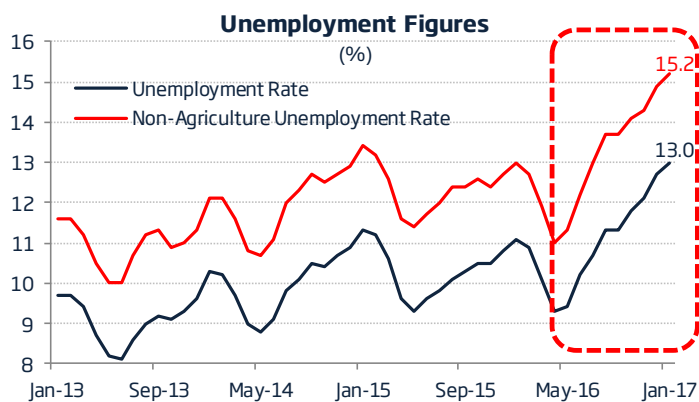
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**Unemployment rate reached 13%.**

In January period, unemployment rate rose to 13%, the highest level since February 2010. Youth unemployment rate also climbed to 24.5%, its highest level since global financial crisis. Although the annual rise in labor force was 1.1 million persons, total employment increased by 400 thousand persons. This led the number of unemployed to reach almost 4 million persons.

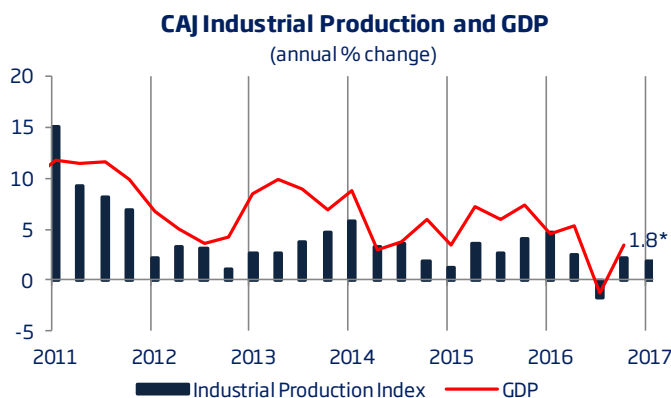
Labor force participation rate surged by 0.8 points yoy to 51.5% in January period. The share of workers not registered with social security institutions as a proportion of all workers was 32.5%, 0.7 percentage point higher than a year earlier.



**Moderate expansion in industrial production...**

Calendar adjusted industrial production index rose by 1% yoy in February. The index, which had contracted twice and had recorded the rate of increase below 3% since May 2016, pointed to a sustained moderate growth in economic activity.

In February, contraction in mining and quarrying sector played an important part in the weak performance of the index. The fall in this sector dragged down the increase in the index by 71 basis points. The manufacturing sector also performed weakly in February. Nevertheless, the significant



(\*): January-February period

upsurge in the production of motor vehicles was noteworthy in this period. The sector added 1.1 percentage points to the industrial production growth. The declines in both manufacture of wearing apparel, computer and optical products were also worthy of attention in February.

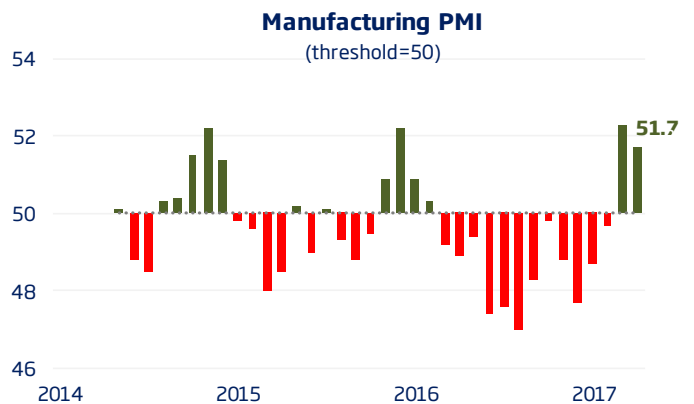
**Automotive sector...**

Total production in automotive sector picked up by 23% yoy in the first quarter of 2017. Domestic automotive demand fell in this period whereas total exports increased by 33% and 25% yoy in terms of number of units and amount, respectively.

It was remarkable that automobile exports in terms of amount expanded by 89% in this period. Domestic automobile market, on the other hand, contracted by 15% yoy in the first quarter due to the depreciation of TRY and tax regulations.

**Manufacturing PMI remained above the threshold.**

Manufacturing PMI came in at 51.7 in April, staying above the threshold level, and pointed to further improvement in business condition. Among the sub-indices, the output, new orders and employment continued to keep their rising trend. In addition, it is noteworthy that input price sub-index showed signs of an ease in inflationary pressure.



**Mixed signals from leading indicators of real-sector...**

The real sector confidence index climbed by 2.3 points to 111.2 in April compared to the previous month. During this period, the rapid pickup in the total orders for the last 3 months came in forefront. However, worsening expectations of the total employment for next 3 months restrained the improvement in the index.

Capacity utilization rate (CUR) surged by 1.4 points yoy in April to 78.4%. Seasonally adjusted CUR reached its highest level since August 2008 in this period.

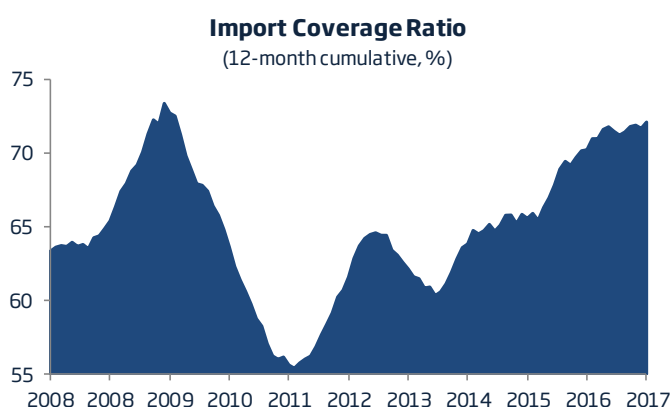
Source: Datastream, Turkstat, CBRT, Markit,

### Contraction in foreign trade deficit...

Exports increased by 13.6% in March compared to the same month of the previous year while the annual rise in imports was 6.9%. Hence, foreign trade deficit dropped by 10.3% in March from a year earlier.

During the first quarter of 2017, exports and imports picked up by 9.2% yoy and 7.7% yoy respectively. Despite the increase in exports, foreign trade deficit widened by 3.3% compared to the first quarter of the previous year owing to the acceleration in imports.

Analysis of 12-month cumulative figures revealed that the imports recorded a slight increase in March after falling in nearly 3 years. Reversal of the downward trend in commodity prices and fading of the base effect played a big part in this development. It is also noteworthy that the rate of growth in exports jumped to the highest level in more than two years. Thus, recovery in import coverage ratio continued in this period.

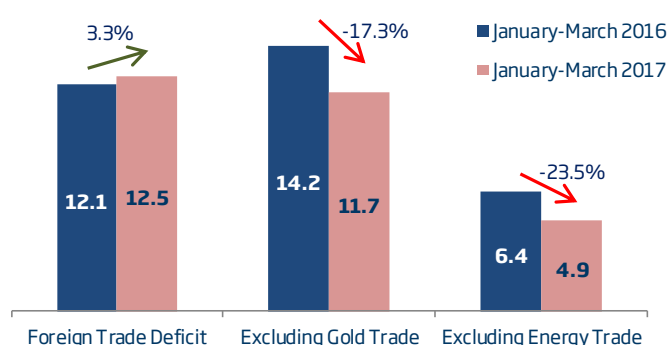


### Manufacture of motor vehicles was the locomotive for export growth.

Exports of motor vehicles have been ranked first by a wide margin as their exports surged by 35.6% in March from a year earlier. The annual increase of 602 million USD in this group constituted one-third of the rise in total exports. 78.7% annual growth in exports of iron and steel was also remarkable in March. On the other hand, the decline in gold exports restrained export performance.

As of first quarter, the upsurge in exports of motor vehicles and iron-steel accounted for more than half of the total increase in exports. On the other hand, fall in gold exports amounting to 838 million USD dragged down the export growth by 2.4 points.

### Foreign Trade Deficit (USD billion)



### Exports to the Middle East rose more than 30%.

Exports by county groups showed that the share of the exports to the Middle East countries in total exports surged in both March and January-March period. This development was driven by the gold exports to these countries. As exports to the Middle East countries rose by 2.2 billion USD in the first quarter from a year earlier, almost 80% of this amount stemmed from the gold exports.

The exports to EU countries rose at a slow pace of 5.3% in the first quarter compared to the same period of the previous year. 26.9% drop in exports to the UK in this period came to the forefront. Almost 15% fall in GBP/USD parity seemed to play an important role in this development.

### Upsurge in energy imports...

In March, imports of energy and gold had significant impact on rising imports. Gold imports went up by more than 1 billion USD in this period. In line with the rise in oil prices, energy bill climbed by more than 30% yoy. Import figures for the first quarter also painted a similar picture. Imports from Russia, Iran and BAE, which have a large share in imports of energy and gold, recorded sharp increases in the first quarter.

### Expectations

In the current conjuncture, as the effect of commodity prices on imports has reversed, foreign trade deficit has been on a rising trend. Although the recovery in exports restrains the widening tendency in the foreign trade deficit thanks to the rapid depreciation of TL, high imported input usage in main export sectors may cause a further expansionary pressure on the deficit in the upcoming period.

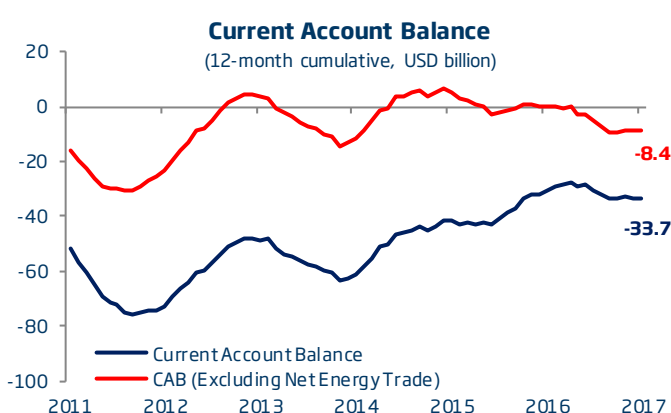
	Foreign Trade Balance			(USD billion)		
	March 2016	March 2017	Change (%)	Jan.-Mar. 2016	Jan.-Mar. 2017	Change (%)
Exports	12.8	14.5	13.6	34.7	37.9	9.2
Imports	17.8	19.0	6.9	46.8	50.4	7.7
<b>Foreign Trade Balance</b>	<b>-5.0</b>	<b>-4.5</b>	<b>-10.3</b>	<b>-12.1</b>	<b>-12.5</b>	<b>3.3</b>
Import Coverage Ratio (%)	71.8	76.3	-	74.1	75.1	-

(\*) As of February 2017, 12-month cumulative.

Source: Datastream, Turkstat

### Balance of payments posted a deficit of 2.5 billion USD.

According to the balance of payments figures, higher imports and lower exports in February led to a 28.1% annual increase in foreign trade deficit. Tourism revenues also continued to decline in February. However, the fall in tourism expenditures in this period caused net tourism revenues to increase compared to the same month of the previous year. Despite the narrowing effect of net tourism revenues, current account deficit reached 2.5 billion USD, expanding by 28.7% yoy. The 12-month cumulative current account deficit also rose to 33.7 billion USD.

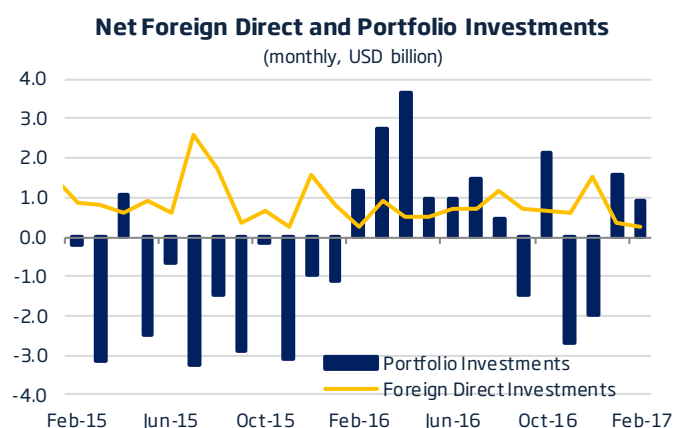


### Portfolio investments lost momentum in February.

Regarding the financing of the current account deficit, portfolio investments continued to slow down in February. After recording a net inflow of 1.6 billion USD in January, portfolio investments registered 907 million USD net capital inflows in February. Non-residents made a net purchase of 331 million USD in equity securities and only 78 million USD in debt securities in this period. Capital inflows in debt securities remained limited as the Treasury issued 1.3 billion worth of eurobonds while repaying 1.6 billion USD in February.

### Foreign direct investments continued to decelerate.

The contribution of direct investments to the financing of the current account deficit has been diminishing. The foreign direct investments, which were 602 million USD in January, decreased to 457 million USD in February. Thus, net foreign direct investments fell to 270 million USD, the lowest level since November 2015.



### Other investments posted a capital inflow due to deposit movements.

In February, both resident and non-resident banks brought their currency and deposits to Turkey. As a result, net capital inflows recorded under the currency and deposits item became 2.2 billion USD during this period.

In this period, capital inflows through credits were realized limited by 183 million USD as the banks were net credit payer and other sectors had a low level of credit utilization from abroad.

According to 12-month cumulative figures, banking sector was a net credit payer in short-term with 4.9 billion USD whereas the sector raised 1.3 billion USD of long-term credits. Long-term debt rollover ratio of the sector declined from 109% in January to 104% in February. The ratio for the other sectors became 141% in the same period.

### Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

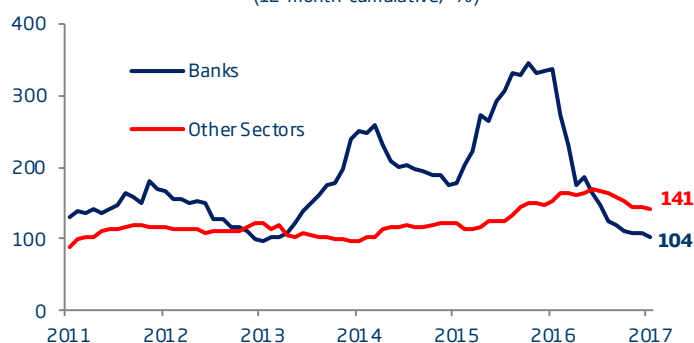
			Breakdown of Net Capital Inflows (%)	
	Dec. 2016	Feb. 2017	Dec. 2016	Feb. 2017
<b>Current Account Balance</b>	<b>-32,626</b>	<b>-33,747</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>33,439</b>	<b>32,472</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	9,148	8,716	27.4	26.8
-Portfolio Investments	6,292	8,704	18.8	26.8
-Other Investments	6,708	5,847	20.1	18.0
-Net Errors and Omissions	11,268	9,213	33.7	28.4
-Other	23	-8	0.1	0.0
<b>Reserves<sup>(1)</sup></b>	<b>-813</b>	<b>1,275</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, %)



In February, reserves increased by 576 million USD. On the other hand, net errors and omissions recorded a capital outflow in February as it was the case in January.

### Expectations...

According to the preliminary data released by Ministry of Customs and Trade, the foreign trade deficit narrowed in March. However, we believe that the increase in net gold imports and the weak performance in tourism revenues could limit the improvement in the current account deficit. The recent upward trend in energy prices also might continue to exert upward pressure on current account deficit in the upcoming period.

Balance of Payments	(USD million)				
	February 2017	Jan. - Feb. 2016	2017	% Change	12-Month Cumulative
<b>Current Account Balance</b>	<b>-2,527</b>	<b>-4,166</b>	<b>-5,287</b>	<b>26.9</b>	<b>-33,747</b>
Foreign Trade Balance	-2,491	-4,632	-5,614	21.2	-41,825
Services Balance	519	1,129	1,117	-1.1	15,407
Travel (net)	502	1,196	1,091	-8.8	13,855
Primary Income	-709	-1,162	-1,108	-4.6	-8,937
Secondary Income	154	499	318	-36.3	1,608
<b>Capital Account</b>	<b>0</b>	<b>15</b>	<b>-16</b>	<b>-</b>	<b>-8</b>
<b>Financial Account</b>	<b>-2,611</b>	<b>-2,918</b>	<b>-6,125</b>	<b>109.9</b>	<b>-24,542</b>
Direct Investments (net)	-270	-1,063	-631	-40.6	-8,716
Portfolio Investments (net)	-907	-70	-2,482	3,445.7	-8,704
Net Acquisition of Financial Assets	-498	384	-474	-	653
Net Incurrence of Liabilities	409	454	2,008	342.3	9,357
Equity Securities	331	183	980	435.5	1,620
Debt Securities	78	271	1,028	279.3	7,737
Other Investments (net)	-2,010	-2,394	-1,533	-36.0	-5,847
Currency and Deposits	-2,150	-1,908	-75	-96.1	3,661
Net Acquisition of Financial Asse	-1,136	2,087	2,203	5.6	5,536
Net Incurrence of Liabilities	1,014	3,995	2,278	-43.0	1,875
Central Bank	-8	-36	-16	-55.6	-456
Banks	1,022	4,031	2,294	-43.1	2,331
Foreign Banks	936	4,253	2,448	-42.4	2,677
Foreign Exchange	862	582	1,418	143.6	1,018
Turkish Lira	74	3,671	1,030	-71.9	1,659
Non-residents	86	-222	-154	-30.6	-346
Loans	-183	-1,416	-883	-37.6	-4,797
Net Acquisition of Financial Asse	-24	603	-81	-	-455
Net Incurrence of Liabilities	159	2,019	802	-60.3	4,342
Banking Sector	-256	464	-69	-	-3,568
Non-bank Sectors	280	1,649	566	-65.7	8,432
Trade Credit and Advances	326	830	-578	-	-4,722
Other Assets and Liabilities	-3	100	3	-97.0	11
Reserve Assets (net)	576	609	-1,479	-	-1,275
<b>Net Errors and Omissions</b>	<b>-84</b>	<b>1,233</b>	<b>-822</b>	<b>-</b>	<b>9,213</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](#).

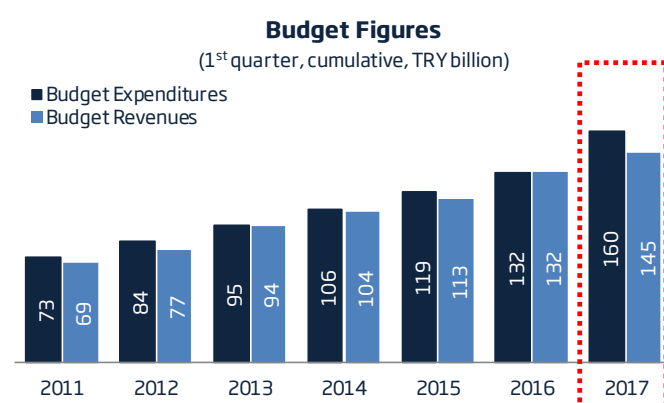
Source: CBRT, Datastream

### Budget gave 19.5 billion TRY deficit.

The central government budget recorded a deficit of 19.5 billion TRY in March. Except for the December's figures with periodic budget spending increases, the budget deficit reached record level. Budget expenditures surged by 25% yoy while budget revenues contracted by 3% yoy in March. Excluding privatization revenues that made 4 billion TRY contribution to the budget in March 2016, budget revenues expanded by 7.8% yoy. The budget, which gave a limited primary surplus of 160 million TRY in March of last year, recorded a deficit of 12.4 billion TRY in the same month of this year.

### Weak performance in budget indicators...

Budget figures showed a weak performance during the first quarter of this year, largely due to the deterioration seen in March. Budget, which gave 46 million TRY surplus in the first quarter of 2016 period, recorded a deficit of 14.9 billion TRY in the same period of 2017.



Budget expenditures expanded by 21.3% yoy in the first quarter owing to the pick-up in current transfers. Increase in budget revenues, on the other hand, was realized as 9.9% yoy, below the average inflation rate during this period.

### Moderate course in tax revenues...

Despite the relatively weak course in February and March, tax revenues surged by 12% yoy in the first quarter of the year mainly due to the strong performance in the first month of the year. Income revenues recorded a slight annual increase by 9.2% yoy while corporate tax revenues increased by 22.8% yoy in the same period. Tax revenues from tobaccos and beverages were influential in the 10.9% yoy increase in SCT revenues. A limited increase in domestic VAT revenues pointed out the moderate course in domestic economic activity in the first quarter of the year

The privatization revenues which were 6.1 billion TRY in the first quarter of 2016, remained 4.2 billion TRY in the same period of 2017. According to year-end target, privatization revenues are estimated to be approximately 9 billion TRY in the rest of the year. On the other hand, if the privatization revenues are started to be transferred to the Türkiye Wealth Fund, budget revenues may remain below the year-end target.

### More than 20% increase in budget expenditures...

Personnel expenditures rose by 8.4% yoy in the first quarter while current transfers drove up the budget deficit, expanding by 31.7% yoy. The amount of 19.8 billion TRY transferred by the Treasury for the social security deficit finance and reduction made on the employer's insurance contribution constituted almost 40% of the increase in

### Central Government Budget

	March		%	January-March		%	2017 Budget		Real./
	2016	2017		2016	2017		Target	Target (%)	
			Change			Change			
<b>Expenditures</b>	<b>46.8</b>	<b>58.6</b>	<b>25.0</b>	<b>131.7</b>	<b>159.7</b>	<b>21.3</b>	<b>645.1</b>	<b>24.7</b>	
Interest Expenditures	6.7	7.2	6.3	16.5	18.8	14.3	57.5	32.7	
Non-Interest Expenditures	40.1	51.4	28.2	115.2	140.8	22.2	587.6	24.0	
<b>Revenues</b>	<b>40.3</b>	<b>39.1</b>	<b>-3.0</b>	<b>131.7</b>	<b>144.7</b>	<b>9.9</b>	<b>598.3</b>	<b>24.2</b>	
Tax Revenues	30.5	33.2	8.9	108.5	121.6	12.0	511.1	23.8	
Other Revenues	9.8	5.9	-40.1	23.2	23.1	-0.2	87.2	26.5	
<b>Budget Balance</b>	<b>-6.6</b>	<b>-19.5</b>	<b>197.0</b>	<b>0.0</b>	<b>-14.9</b>	<b>-</b>	<b>-46.9</b>	<b>31.9</b>	
<b>Primary Balance</b>	<b>0.2</b>	<b>-12.4</b>	<b>-</b>	<b>16.5</b>	<b>3.9</b>	<b>-76.4</b>	<b>10.6</b>	<b>36.6</b>	

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

Source: Ministry of Finance, Datastream



budget expenditures. 13% of the expansion in the total expenditures stemmed from agricultural subsidies and the shares of local government. Due to the increase in cost of borrowing, interest expenditures also increased by 2.4 billion TRY compared to the previous year.

### Expectations

A significant deterioration was recorded in budget indicators in March. A similar amount of the deficit in the first quarter of 2017 was given in the first quarter of 2009 as an expansionary fiscal policy was implemented during this period in order to support economic activity. But since then, the budget deficits for the first quarter were well below that level. Nonetheless, first quarter budget performance has been in harmony with the year-end targets. Besides, the budget spending for the full year is likely to exceed the year-end goal due to the unveiled measures to boost the economy. We think that the budget revenues might keep their weak course in the face of the extension of the tax reductions in white goods and furniture products unless there is a rapid recovery in domestic demand. Hence, the budget deficit might surpass the target level at the end of 2017. However, given the current low level of the budget deficit /GDP ratio (2016: 1.1%), we think that widening in the budget deficit might be manageable to the extent that budget expenditures support the economic activity.

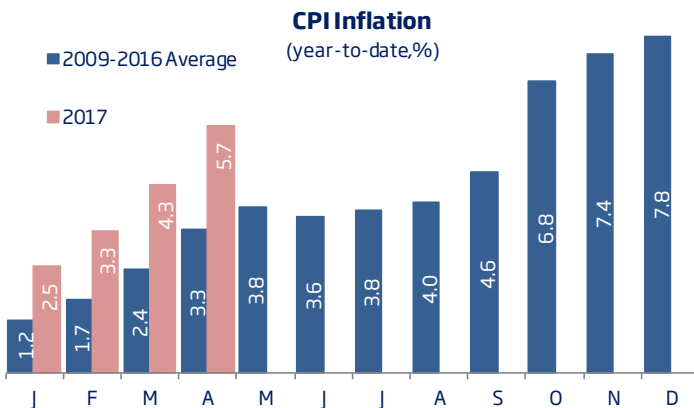
**CPI was in line with the expectations.**

CPI increased by 1.31% in April from the previous month, in line with the market expectations. According to the Reuters survey, monthly CPI inflation had been anticipated to be 1.30%. Domestic PPI (D-PPI) also rose by 0.76% mom in April.

April (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	0.78	1.31	0.52	0.76
Year-to-Date	2.55	5.71	1.27	7.19
Annual	6.57	11.87	2.87	16.37
Annual Average	7.84	8.66	5.47	8.01

**Annual inflation reached 11.87%.**

Upward pressure on inflation since the start of the year has persisted in April. The year-to-date rise in the CPI became 5.71% as of April. This figure was almost twice of the average of the 2009-2016 period. Annual increase in CPI has kept its highest levels since the global crisis with a rate of 11.87% as of April. Despite having recorded its lowest monthly rise in 7 months, the D-PPI surged by 16.37% from a year earlier, the highest reading of almost 9 years.

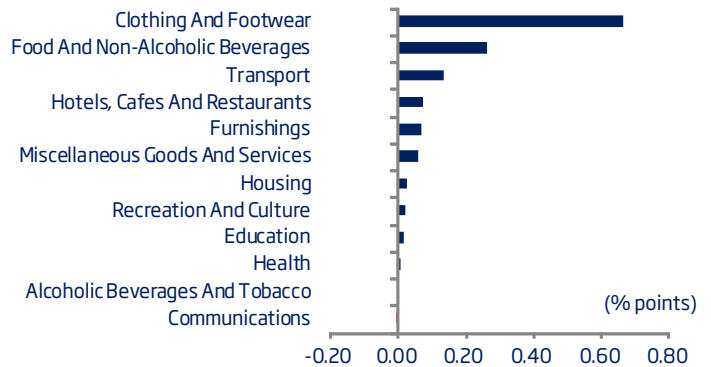


**Monthly inflation in clothing was 9.13%.**

Except for communication, prices in almost all expenditure sub-groups posted monthly rises in April. Clothing and footwear group made the highest contribution to the monthly inflation in April while price developments in both food and transportation groups pushed the CPI higher. Clothing prices contributed 64 basis points to the inflation, climbing by 9.13% mom due to the seasonal factors. Total contribution of the price increases in food and transportation to the monthly inflation were 39 basis points. Escalation of the unprocessed food prices also drove CPI inflation up in April. Despite the downward impact of the decline in energy prices, a sustained rise in prices of the transportation services was worth of attention.

Seasonal factors continued to exert upward pressure on the CPI in April. Excluding seasonal products, annual inflation fell

**Contributions to the Monthly CPI Inflation**

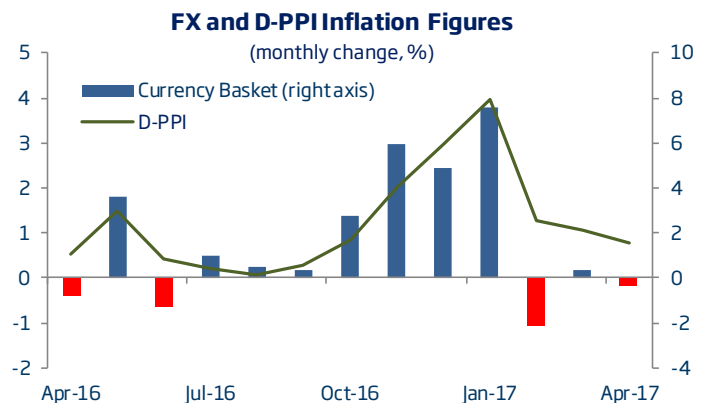


to 11.13%.

On a monthly basis, core inflation exceeded the headline inflation in April. Thus, core inflation C index, which excludes energy, food, alcoholic and non-alcoholic beverages, tobacco and gold prices, went up by 1.89% from March. However, the annual rise in C index dropped slightly to 9.42% due to the high base effect.

**Increase in D-PPI lost momentum.**

D-PPI inflation decelerated as TRY has reversed its weakening trend seen in early 2017. Nevertheless, prices almost in all sub-groups of D-PPI rose in April. In this period, upsurge in input cost of food production came to the forefront. On the other hand, the fall in prices of crude oil and mining sectors restrained the increase in D-PPI to some extent.



**Expectations**

We anticipate that the inflation will remain in double-digit levels during the first half of the year due to the lagged impacts of the depreciation of TRY and the partial recovery in demand conditions. In the remaining part of the year, however, we expect that upward pressure on inflation will ease in parallel to the appreciation of TRY and tax reductions.

Source: Datastream, Turkstat



**Geopolitical tensions have escalated.**

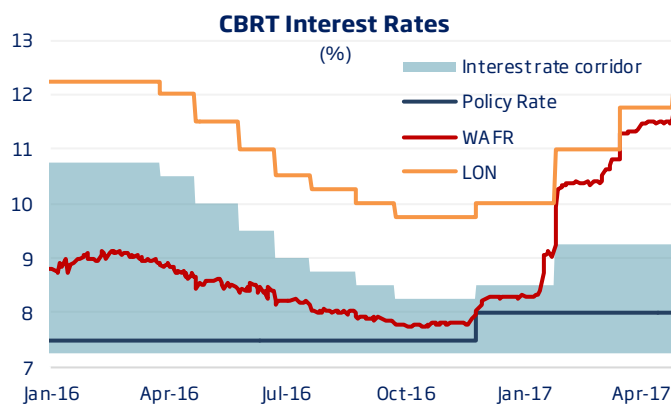
Geopolitical and political developments weighed on global markets in the first half of April. As tensions between the US and Syria, in addition to North Korea, have mounted significantly, geopolitical risks heightened. After Macron's victory in the first round of the French election, the concerns about the future of the EU has eased and, in turn, led the risk appetite to increase on a global scale.

With the uncertainty of the constitutional referendum behind us, the positive atmosphere in the global markets has also been reflected in domestic markets.

**CBRT increased LON interest rate by 50 basis points.**

The CBRT raised the late liquidity window (LON) interest rate by 50 basis points to 12.25% while keeping the other interest rates unchanged at its meeting held on April 26. CBRT stated that strengthening monetary tightening decision has been held in order to contain the deterioration in the inflation outlook and tight monetary policy will be implemented until significant recovery achieved in inflation outlook. CBRT also reiterated that further monetary tightening will be delivered, if needed. As the CBRT funding has been made mainly through LON facility, the weighted average cost of the CBRT funding (WAFR) increased to 11.8%.

CBRT published the second inflation report of the year and revised upwards inflation forecasts for 2017 and 2018 by 0.5 and 0.4 percentage points to 8.5% and 6.4% respectively.

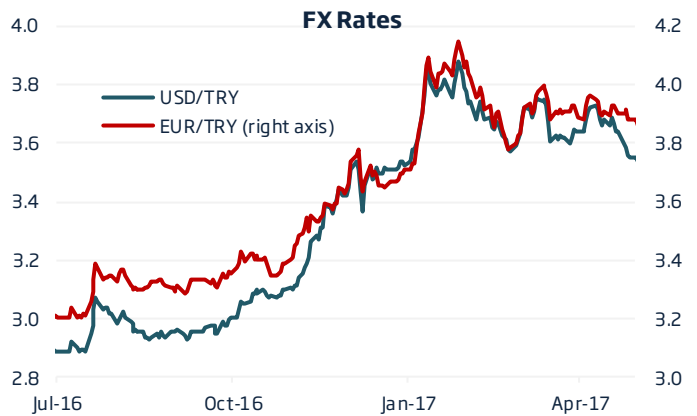


**The benchmark bond yield was 11.3%.**

The interest rate of 2-year benchmark bond has been below the weighted average funding cost since the end of March. Having been fluctuated between 11.15%-11.49% during April, the interest rate of the 2-year benchmark bond increased by 4 basis points to 11.34% as of April 28 compared to the end of March.

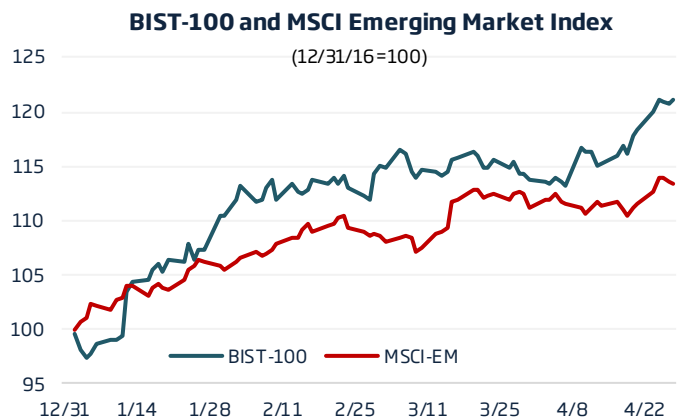
**Fall in USD/TRY...**

TRY came under pressure in the first half of April in parallel to the other emerging markets' currencies. Domestic political developments also weighed on exchange rates in this period. Towards the end of the month, TRY appreciated thanks to global market rally and diminishing uncertainty stemming from the referendum. Improved risk appetite in global markets following the French elections and the CBRT's additional tightening led USD/TRY to decline to its lowest level in 4 months. USD/TRY, which was 3.6386 at the end of March, decreased to 3.55 at the end of April.



**BIST-100 index...**

After falling at the start of April, BIST-100 index surpassed 90 thousand levels during the month. The index rose to a historic high of 95,196 on April 27. BIST-100 index became 94,655, surging by 6.4% compared to the end of March.



Source: CBRT, Reuters, Datastream

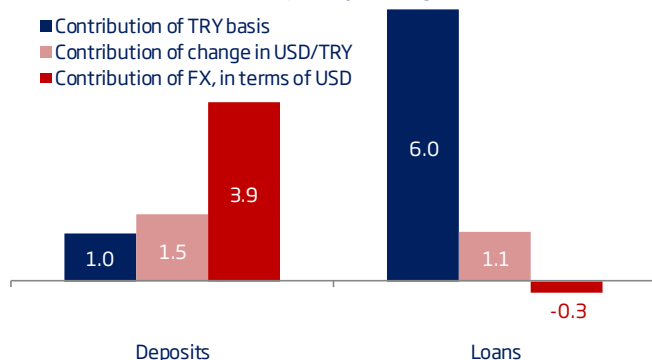
### Demand for FX deposits continued to increase.

According to the BRSA's Weekly Bulletin, deposit volume reached 1,641 billion TRY as of April 21, expanding by 6.5% compared to the end of 2016. After fluctuating until March this year due to the volatile movements in foreign exchange rates, deposit growth gained pace in the following period.

TRY deposits posted a year-to-date rise of 1.9% as of April 21. FX deposits in USD terms recorded a rapid increase of 9.1% in the same period. While expansion in TRY deposits added 1 point to the deposit growth, FX deposits in USD terms contributed 3.9 points to the deposit growth. Year-to-date change in USD/TL also made 1.5 points contribution to the increase in deposit volume. Indeed, the growth rate of deposits reduced to 5% in this period, according to the exchange rate adjusted figures.

#### Contributions of Change in Loans and Deposits

(as of April 21, ytd change %)



### Loan volume expanded by 6.8% ytd.

Loan volume continued to increase thanks to the solid growth in TRY loan volume. As of April 21, total loan volume climbed to 1,885 billion TRY, surging by 6.8% ytd. On a year-to-date basis, 9.2% rise in TRY loans made 6 points contribution to the loan growth. On the other hand, FX loan volume continued to fall in this period. As a result, the contraction in FX loans in USD terms restrained the loan growth by 0.3 point. However, 1.1 points contribution of depreciation in TRY fully offset this impact. According to the exchange rate adjusted figures, loan volume grew by 5.7% ytd.

The acceleration in loan volume was mainly driven by the growth in commercial loans supported by the Credit Guarantee Fund (CGF). As of April 21, consumer loans grew by 3.9% ytd while commercial and corporate loans picked up by 7.7% in the same period. Vehicle loans have continued to lose momentum whereas 7% ytd rise in housing loans was remarkable.

Non-performing loans ratio went down from 3.20% at the end of 2016 to 3.15% as of April 21 thanks to the expansion in loan volume.

### Securities portfolio...

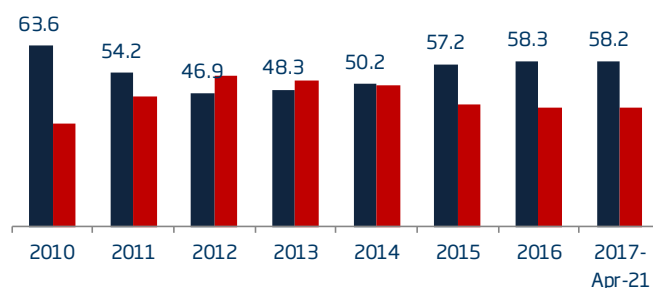
Securities portfolio of the banking sector grew by 4.9% ytd as of April 21. It was noteworthy that the securities available for sale fell by 9.5% in this period.

The portfolio of securities held under custody surged by 2.9% ytd. Residents' and non-residents' securities rose by 2.6% and 3.4%, respectively. Thus, the share of residents' securities in total securities portfolio dropped slightly compared to the year-end.

#### Securities Portfolio Held in Custody Accounts

(% of total)

■ Residents  
■ Non-residents

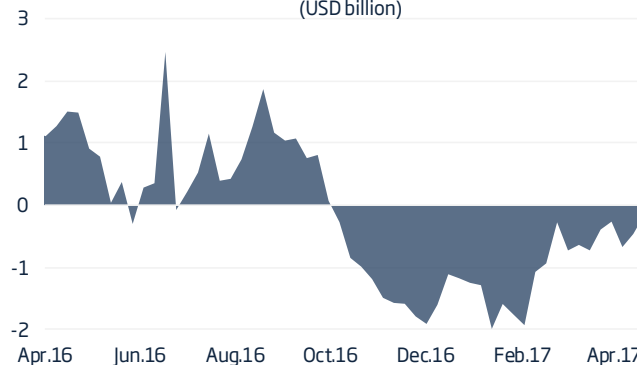


### Net FX position...

As of April 21, banks' on-balance sheet FX position was (-) USD 45,383 million while off-balance sheet FX position realized as (+) USD 45,225 million. Hence, banking sector's net FX position became (-) USD 159 million.

#### Net FX Position

(USD billion)



Political developments in the US and Europe continued to be one of the major factors behind the performance of economic activity. Decreased concerns about the future of EU following the French elections and news on the Trump administration's tax reform plan caused improvement in risk appetite and increased demand for risky assets.

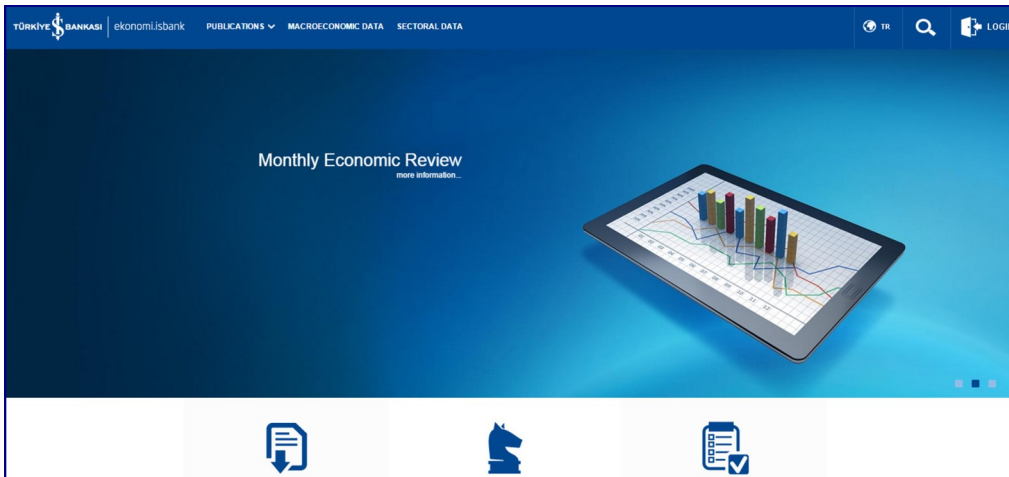
Even if the inflation indicators have been on upward trend in developed countries, question marks remain over whether that momentum will be sustained. This development is very important for monetary policy stances of major central banks and is watched closely for the global liquidity conditions.

The result of the constitutional referendum, which was a major source of political uncertainty in Turkey, was welcomed by the markets. The agenda regarding the transition to the new system and efforts in the structural reform area are expected to have impact on the course of economic activity in the coming period.

Forecasts (%)	2016 [R]	2017
Growth	2.9	3.3
CA Deficit/GDP	3.8	4.2
Inflation	8.5	9.0

(R) Realization  
Year-end forecast for inflation

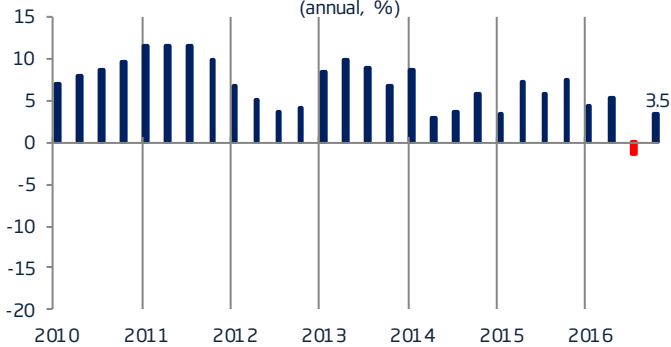
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## Growth

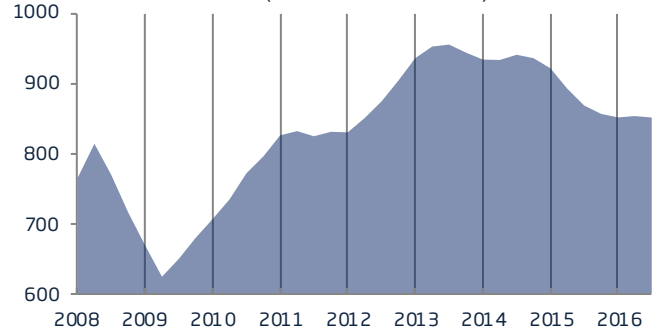
### GDP Growth

(annual, %)



### GDP

(annualized, in USD terms)



## Industrial Production and Capacity Utilization Ratio

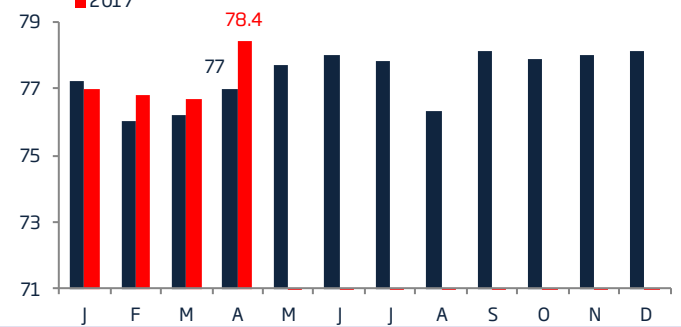
### Industrial Production

(CAJ, annual % change)



### Capacity Utilization Ratio

(%)



## Foreign Trade and Current Account Balance

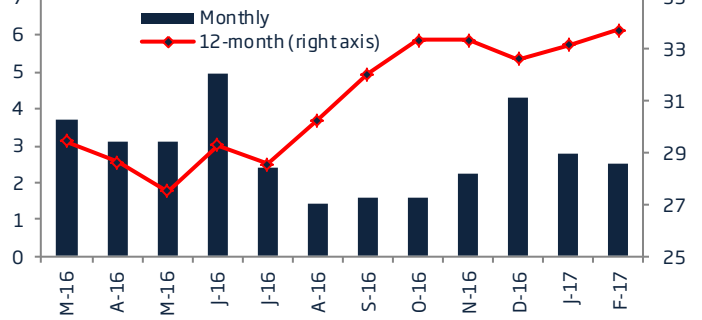
### Foreign Trade

(annual % change)



### Current Account Deficit

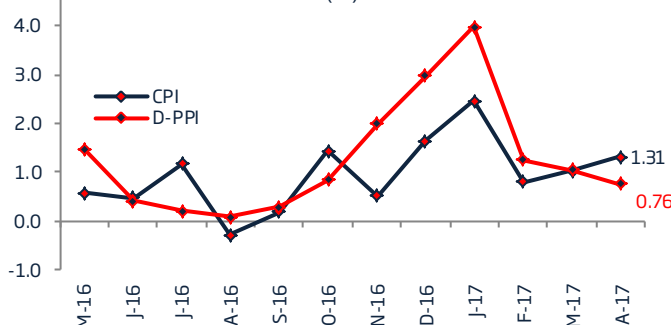
(billion USD)



## Inflation

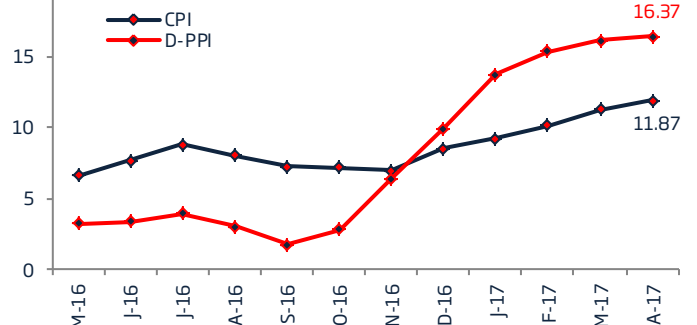
### Monthly Inflation

(%)



### Annual Inflation

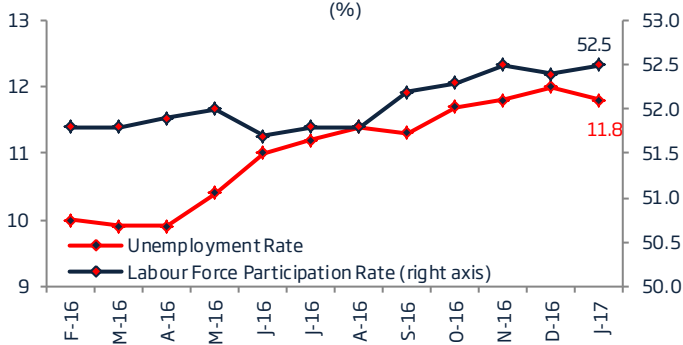
(%)



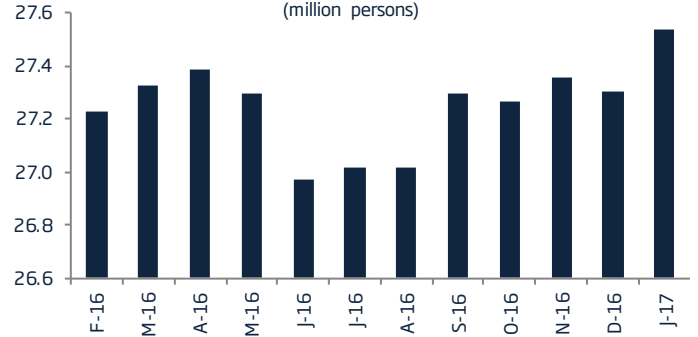
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators (%)



### Seasonally Adjusted Employment (million persons)

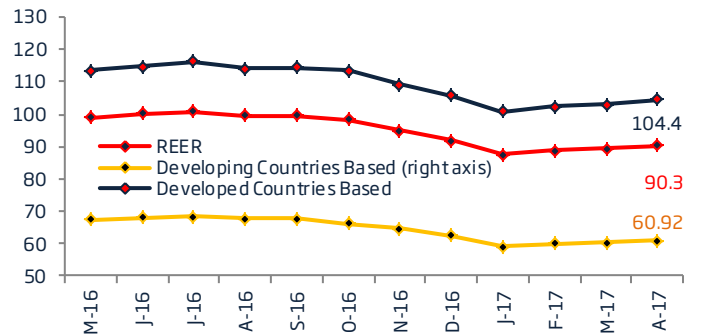


## FX Market

### Currency Basket

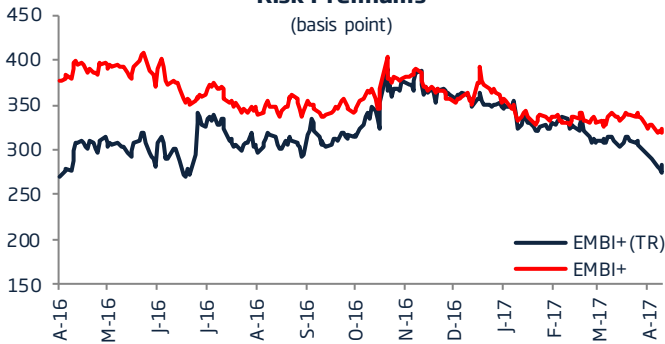


### CPI Based Real Effective Exchange Rate

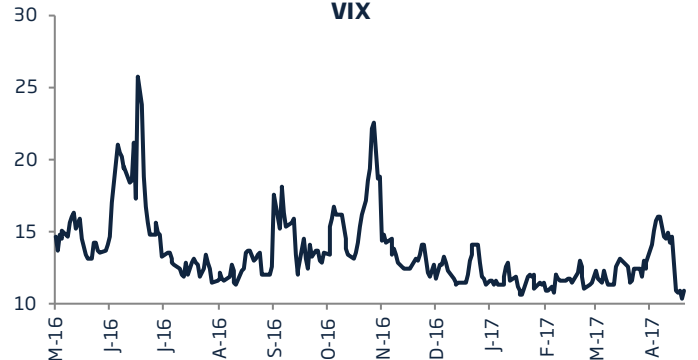


## Risk Indicators

### Risk Premiums (basis point)

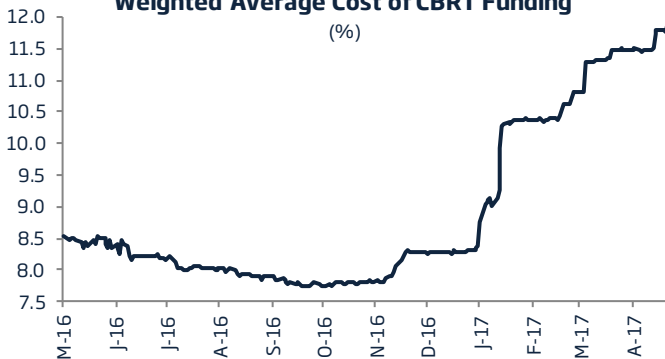


### VIX

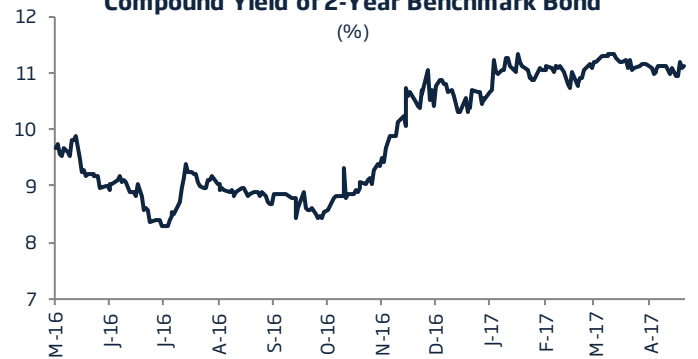


## Interest Rates

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

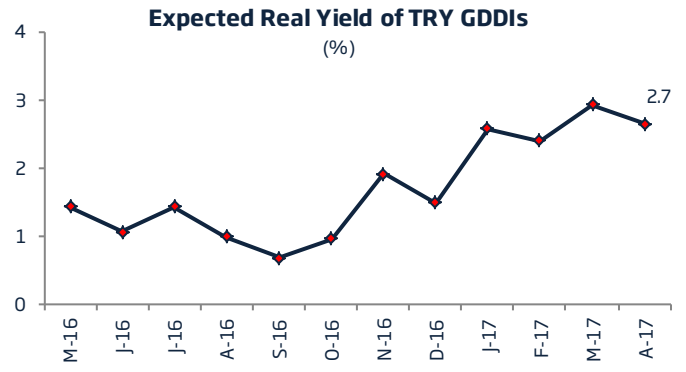
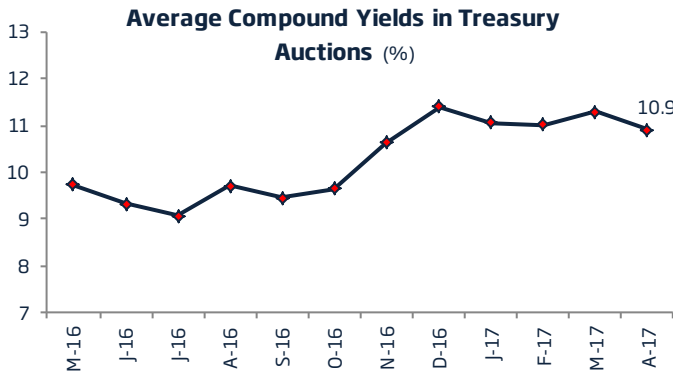


### Compound Yield of 2-Year Benchmark Bond (%)

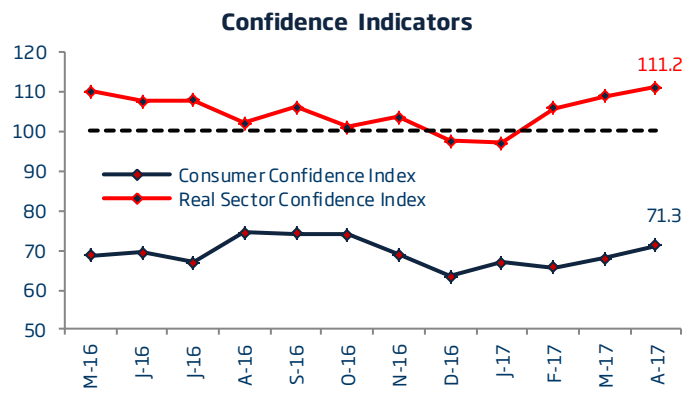
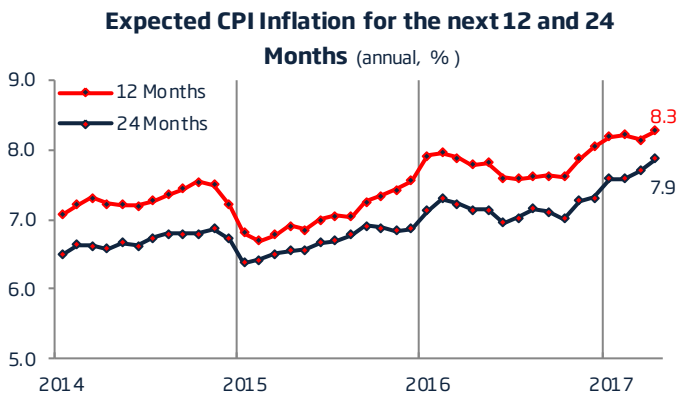
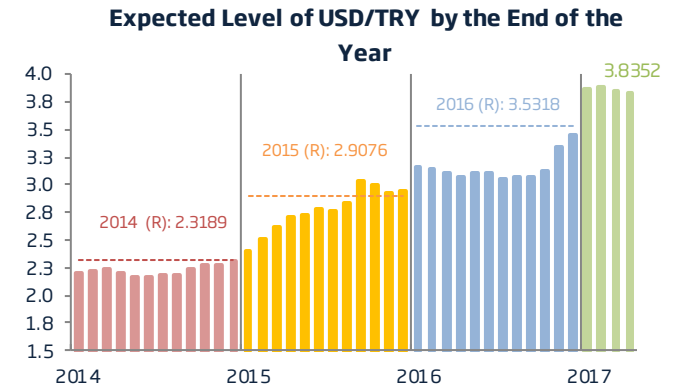
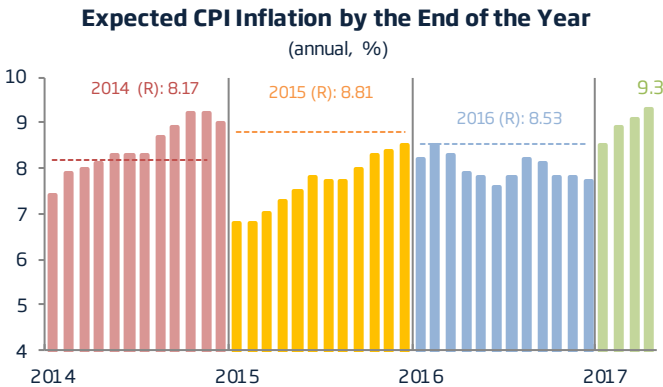
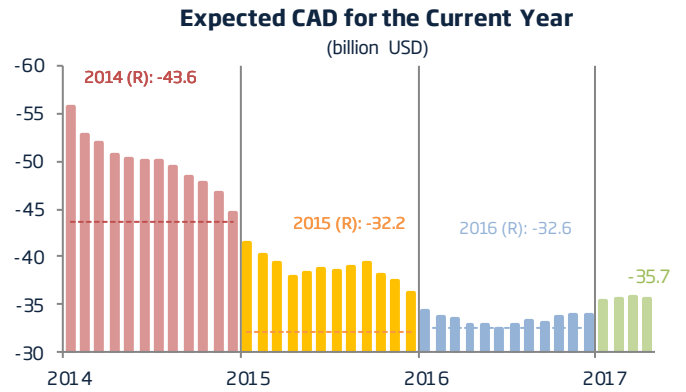
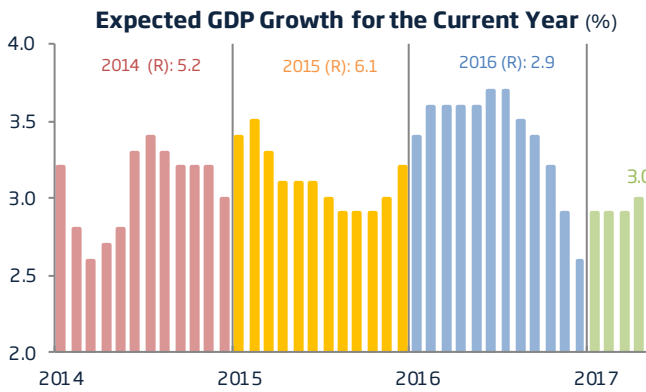


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## 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

	2012	2013	2014	2015	2016	17-Q1	17-Q2	17-Q3
<b>Growth</b>								
GDP (USD billion)	871	950	935	861	857	-	-	-
GDP (TRY billion)	1,570	1,810	2,045	2,338	2,591	-	-	-
GDP Growth Rate (%)	4.8	8.5	5.2	6.1	2.9	-	-	-
<b>Inflation (%)</b>						<b>Feb-17</b>	<b>Mar-17</b>	<b>Apr-17</b>
CPI (annual)	6.16	7.40	8.17	8.81	8.53	10.13	11.29	11.87
Domestic PPI (annual)	2.45	6.97	6.36	5.71	9.94	15.36	16.09	16.37
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Jan-17</b>		
Unemployment Rate (%)	8.8	9.1	10.3	10.2	12.0			11.8
Labor Force Participation Rate (%)	48.5	48.5	51.0	51.7	52.4			52.5
<b>FX Rates</b>						<b>Feb-17</b>	<b>Mar-17</b>	<b>Apr-17</b>
CPI Based Real Effective Exchange Rate	110.3	100.3	105.0	97.5	92.0	88.8	89.4	90.3
USD/TRY	1.7819	2.1323	2.3290	2.9207	3.5223	3.6110	3.6394	3.5536
EUR/TRY	2.3508	2.9370	2.8297	3.1867	3.7132	3.8256	3.8886	3.8779
Currency Basket (0.5*EUR+0.5*USD)	2.0664	2.5347	2.5794	3.0537	3.6178	3.7183	3.7640	3.7158
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Jan-17</b>	<b>Feb-17</b>	<b>Mar-17</b>
Exports	152.5	151.8	157.6	143.8	142.5	144.3	144.0	145.7
Imports	236.5	251.7	242.2	207.2	198.6	200.8	201.0	202.2
<b>Foreign Trade Balance</b>	<b>-84.1</b>	<b>-99.9</b>	<b>-84.6</b>	<b>-63.4</b>	<b>-56.1</b>	<b>-56.5</b>	<b>-57.0</b>	<b>-56.5</b>
Import Coverage Ratio (%)	64.5	60.3	65.1	69.4	71.8	71.9	71.6	72.1
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						<b>Jan-17</b>		
<b>Current Account Balance</b>	<b>-48.0</b>	<b>-63.6</b>	<b>-43.6</b>	<b>-32.1</b>	<b>-32.6</b>		<b>-33.2</b>	<b>-33.7</b>
<b>Capital and Financial Accounts</b>	<b>-48.9</b>	<b>-62.1</b>	<b>-41.6</b>	<b>-21.9</b>	<b>-21.3</b>		<b>-21.6</b>	<b>-24.5</b>
Direct Investments (net)	-9.5	-9.3	-5.8	-12.5	-9.1		-8.7	-8.7
Portfolio Investments (net)	-41.0	-24.0	-20.1	15.7	-6.3		-9.0	-8.7
Other Investments (net)	-19.2	-38.8	-15.3	-13.4	-6.7		-2.7	-5.8
Reserve Assets (net)	20.8	9.9	-0.5	-11.8	0.8		-1.2	-1.3
<b>Net Errors and Omissions</b>	<b>-0.9</b>	<b>1.6</b>	<b>2.0</b>	<b>10.2</b>	<b>11.3</b>		<b>11.6</b>	<b>9.2</b>
<b>Current Account Balance/GDP (%)</b>	<b>-5.5</b>	<b>-6.7</b>	<b>-4.7</b>	<b>-3.7</b>	<b>-3.8</b>		-	-
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						<b>Jan-17</b>	<b>Feb-17</b>	<b>Mar-17</b>
<b>Expenditures</b>	<b>361.9</b>	<b>408.2</b>	<b>448.8</b>	<b>506.0</b>	<b>583.7</b>	<b>47.3</b>	<b>101.1</b>	<b>159.7</b>
Interest Expenditures	48.4	50.0	49.9	53.0	50.2	6.6	11.7	18.8
Non-interest Expenditures	313.5	358.2	398.8	453.0	533.4	40.8	89.4	140.8
<b>Revenues</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>483.4</b>	<b>554.4</b>	<b>58.8</b>	<b>105.7</b>	<b>144.7</b>
Tax Revenues	278.8	326.2	352.5	407.5	458.7	48.4	88.4	121.6
<b>Budget Balance</b>	<b>-29.4</b>	<b>-18.5</b>	<b>-23.4</b>	<b>-22.6</b>	<b>-29.3</b>	<b>11.4</b>	<b>4.6</b>	<b>-14.9</b>
<b>Primary Balance</b>	<b>19.0</b>	<b>31.4</b>	<b>26.5</b>	<b>30.4</b>	<b>21.0</b>	<b>18.0</b>	<b>16.3</b>	<b>3.9</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.9</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-1.0</b>	<b>-1.1</b>	-	-	-
<b>Central Government Debt Stock (TRY billion)</b>						<b>Jan-17</b>	<b>Feb-17</b>	<b>Mar-17</b>
Domestic Debt Stock	386.5	403.0	414.6	440.1	468.6	473.5	478.6	483.3
External Debt Stock	145.7	182.8	197.5	237.5	291.0	326.7	304.5	310.0
<b>Total Debt Stock</b>	<b>532.2</b>	<b>585.8</b>	<b>612.1</b>	<b>677.6</b>	<b>759.6</b>	<b>800.2</b>	<b>783.1</b>	<b>793.3</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)	2012	2013	2014	2015	2016	Feb.17	Mar.17	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,357.4</b>	<b>2,731.0</b>	<b>2,819.8</b>	<b>2,866.0</b>	<b>4.9</b>
<b>Loans</b>	<b>794.8</b>	<b>1,047.4</b>	<b>1,240.7</b>	<b>1,485.0</b>	<b>1,734.3</b>	<b>1,788.2</b>	<b>1,830.3</b>	<b>5.5</b>
TRY Loans	588.4	752.7	881.0	1,013.4	1,131.4	1,176.0	1,214.0	7.3
Share (%)	74.0	71.9	71.0	68.2	65.2	65.8	66.3	-
FX Loans	206.4	294.7	359.7	471.5	602.9	612.2	616.3	2.2
Share (%)	26.0	28.1	29.0	31.8	34.8	34.2	33.7	-
Non-performing Loans	23.4	29.6	36.4	47.5	58.2	60.3	60.8	4.5
Non-performing Loan Rate (%)	2.9	2.8	2.9	3.1	3.2	3.3	3.2	-
<b>Securities</b>	<b>270.0</b>	<b>286.7</b>	<b>302.3</b>	<b>329.7</b>	<b>351.6</b>	<b>360.2</b>	<b>365.9</b>	<b>4.1</b>
<b>TOTAL LIABILITIES</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,357.4</b>	<b>2,731.0</b>	<b>2,819.8</b>	<b>2,866.0</b>	<b>4.9</b>
<b>Deposits</b>	<b>772.2</b>	<b>945.8</b>	<b>1,052.7</b>	<b>1,245.4</b>	<b>1,453.6</b>	<b>1,484.2</b>	<b>1,518.0</b>	<b>4.4</b>
TRY Deposits	520.4	594.1	661.3	715.4	845.1	832.3	842.2	-0.3
Share (%)	67.4	62.8	62.8	57.4	58.1	56.1	55.5	-
FX Deposits	251.8	351.7	391.4	530.0	608.5	651.8	675.8	11.1
Share (%)	32.6	37.2	37.2	42.6	41.9	43.9	44.5	-
<b>Securities Issued</b>	<b>37.9</b>	<b>60.6</b>	<b>89.3</b>	<b>97.8</b>	<b>116.3</b>	<b>119.0</b>	<b>121.1</b>	<b>4.2</b>
<b>Payables to Banks</b>	<b>173.4</b>	<b>254.2</b>	<b>293.2</b>	<b>361.3</b>	<b>417.6</b>	<b>436.9</b>	<b>431.6</b>	<b>3.3</b>
<b>Funds from Repo Transactions</b>	<b>79.9</b>	<b>119.1</b>	<b>137.4</b>	<b>156.7</b>	<b>137.8</b>	<b>98.3</b>	<b>96.3</b>	<b>-30.1</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>181.9</b>	<b>193.7</b>	<b>232.0</b>	<b>262.3</b>	<b>300.3</b>	<b>315.0</b>	<b>317.6</b>	<b>5.8</b>
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	8.5	13.5	-
<b>RATIOS (%)</b>								
Loans/GDP	50.6	57.9	60.7	63.5	67.0	-	-	-
Loans/Assets	58.0	60.5	62.2	63.0	63.5	63.4	63.9	-
Securities/Assets	19.7	16.6	15.2	14.0	12.9	12.8	12.8	-
Deposits/Liabilities	56.3	54.6	52.8	52.8	53.2	52.6	53.0	-
Loans/Deposits	102.9	110.7	117.9	119.2	119.3	120.5	120.6	-
Capital Adequacy (%)	17.9	15.3	16.3	14.6	15.6	15.9	16.1	-

(1) Year-to-date % change



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