

## Global Economy

- ◆ The IMF released the update of the "World Economic Outlook" report in July. IMF kept its global economic growth forecasts unchanged for 2017 and 2018, stating that risks to the global growth forecast appear broadly balanced in the short term.
- ◆ Recent data releases from the U.S. sent mixed signals about the economic outlook. While employment indicators posted solid growth, wages and inflation missed the expectations.
- ◆ Fed left the policy rates on hold at its meeting in July while stressing that annual inflation remained below 2% target. The U.S. dollar depreciated in international markets in July as recent remarks by the Fed officials interpreted as "dovish" and concerns over the Trump administration increased.
- ◆ Latest economic data on Euro Area painted a positive picture. Economic growth in the region was realized as 2.1% in the second quarter. The statements by ECB President Draghi have created anticipation that the monetary policy normalization might start earlier than had been expected. This has led to an appreciation in euro, government bond yields in the region also increased.
- ◆ In the second quarter, Chinese economy grew above expectations by 6.9% on annual basis. The upturn in global trade and domestic demand has supported economic growth.
- ◆ Having been fluctuating for a while, oil prices have risen in recent period due to supply side developments. Depreciation in the U.S. dollar in global markets has supported the gold prices.

## Turkish Economy

- ◆ Leading indicators pointed out that recovery in domestic economic activity has continued.
- ◆ Labor market indicators continued to recover in April. Seasonally adjusted unemployment rate fell to 11.3% in April, down by 0.2 point compared to the previous period. The number of people employed increased by 1.5 million in the first 4 months of the year compared to the end of 2016, exceeding 28 million persons.
- ◆ Calendar adjusted industrial production rose by 3.5% yoy in May while seasonal and calendar adjusted index decreased by 1.5% mom.
- ◆ Exports increased by 2.3% yoy in June while imports fell by 1.5% yoy. The upsurge in gold and energy imports in June limited the contraction in total imports to a large extent. Thus, foreign trade deficit shrank by 9.1% from a year earlier in June.
- ◆ Current account deficit posted a rapid increase by 68.4% in May compared to the same month of the previous year and was realized as 5.2 billion USD. According to 12-month cumulative figures, current account deficit rose to 35.3 billion USD.
- ◆ In the first half of the year, budget expenditures expanded by 18.5% compared to the last year due to the economic stimulus measures. In this period, the increase in budget revenues was recorded as 8.8%. Hence, the budget, which posted 1.1 billion TRY surplus in the first six months of the last year, gave a deficit of 25.2 billion TRY in the same period of 2017.
- ◆ The annual CPI inflation has lost steam for the third consecutive month in July and fell to single digit level by 9.79%. The annual D-PPI inflation, however, stood at 15.45%, the highest in the last three months.

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

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

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

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

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

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

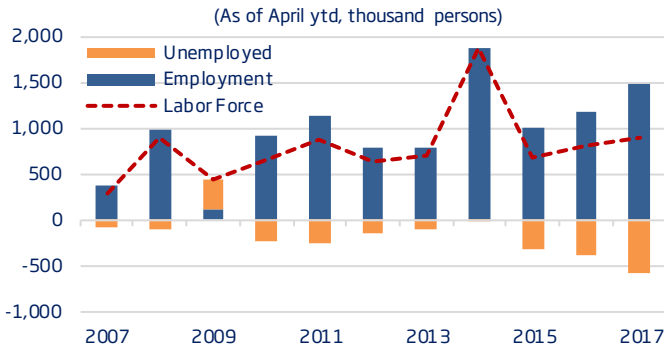
**Dr. Mustafa Kemal Gündoğdu** - Economist  
kemal.gundogdu@isbank.com.tr

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

**The unemployment rate came in at 11.3% in April.**

Labor market indicators continued to recover in April. Seasonally adjusted unemployment rate fell to 11.3% in April, down by 0.2 point compared to the previous month. In this period, the number of employed increased by 81 thousand persons and labor participation rate declined by 0.1 point. According to seasonally unadjusted figures, the number of people employed increased by 1.5 million in the first 4 months of the year compared to the end of 2016, exceeding 28 million persons. This development showed that the measures taken by the economic administration supported the employment.

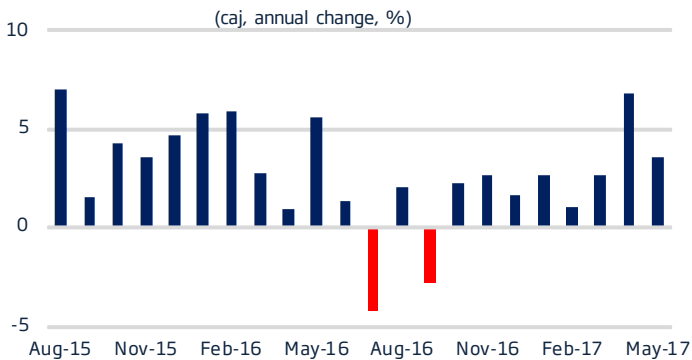
**Change in Labor Force, Employment and Unemployed**



**Slowdown in industrial production...**

Calendar adjusted industrial production rose by 3.5% yoy in May while seasonal and calendar adjusted index decreased by 1.5% mom. This performance mainly stemmed from the %2 monthly fall in manufacturing sector. On the other hand, the 1.7% increase in the electricity generation and distribution sub-index limited the decline in industrial production. In May, the 9.4% drop in capital goods production compared to the previous month raised questions over the pace of investments. Also, the production of durable consumer goods that declined by 5.3% indicated that the impact of SCT and VAT reductions has waned. Analyzing manufacturing sector sub-indices, it is

**Industrial Production Index**

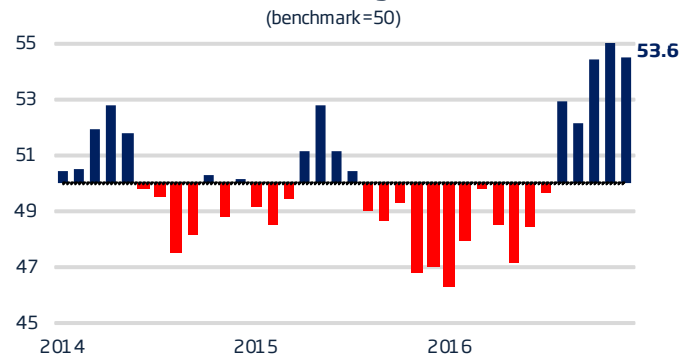


seen that the highest monthly increase was in the production of machinery and equipment and the fastest decrease was in the production of other transportation vehicles.

**Manufacturing PMI maintained its strong outlook.**

Although manufacturing PMI index declined in July compared to the previous month, it came in at 53.6, indicating that the sector continued to grow. While the production, new orders, purchasing activities and employment components of the index maintained their favorable outlook, it was noteworthy that the input prices decreased for the seventh consecutive month.

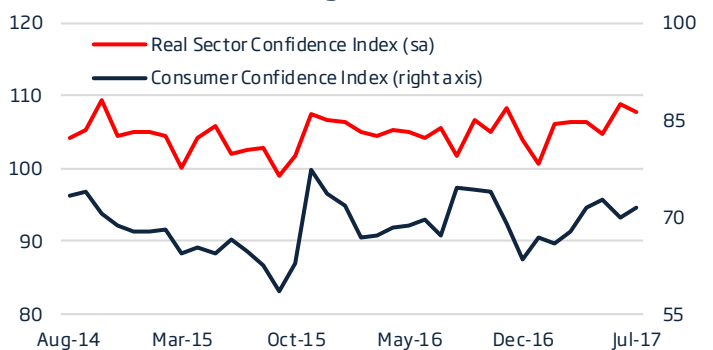
**Manufacturing PMI**



**Leading indicators...**

The capacity utilization rate in the manufacturing industry fell by 0.2 point from a month ago to 78.4% in July, according to seasonally adjusted figures. In this period, capacity utilization rate for investment goods, non-durable consumption goods, food and beverage increased while that for durable goods and intermediate goods decreased. In the same period, real sector confidence index decreased by 1.1 points compared to the previous month to 107.7. Consumer confidence index, on the other hand, posted a monthly rise of 1.9% in July. In this period, consumers' expectation regarding the general economic situation deteriorated whereas assessments on employment, savings and financial situation improved to some extent.

**Leading Indicators**

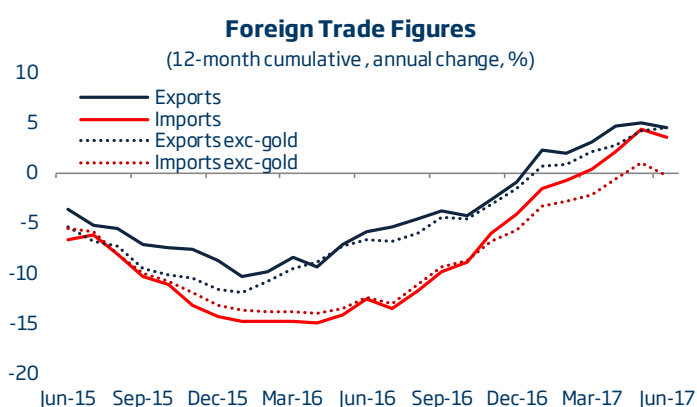


Source: Treasury, Datastream, Turkstat, CBRT

### Foreign trade deficit contracted in June.

Exports increased by 2.3% yoy in June while imports fell by 1.5% yoy. Thus, foreign trade deficit shrank by 9.1% from a year earlier and became USD 6 billion. Import coverage ratio rose to 68.7%.

In the first half of 2017, exports and imports surged by 8.2% yoy and 8.7% yoy, respectively. Foreign trade deficit stood at USD 30.9 billion during this period, expanding by 10% yoy.



### Surge in exports of motor vehicles and aircrafts...

Exports of motor vehicles, which had a strong performance throughout the year, reached USD 2.2 billion in June, increasing by USD 384 million. During this period, the export of aircrafts and parts thereof expanded more than 300 million USD and had a favorable impact on exports.

Exports to the EU countries remained flat in June while exports to the Near and Middle East countries contracted by 3% on annual basis. In this period, it was noteworthy that the exports to the UAE and the USA increased by 46.7% and 41.3%, respectively. Whereas gold exports played a big part in the increase of the exports to the UAE, exports of the aircrafts and parts thereof came to the forefront of the exports to the USA.

### Increase in gold and energy imports...

The upsurge in gold and energy imports in June limited the contraction in total imports to a large extent. Energy import bill picked up by 8.9% yoy in volume terms mainly due to the 6.9% annual rise in crude oil imports in quantity basis. In the same period, gold imports went up by USD 1.4 billion to USD

2 billion. In terms of gold imports, Switzerland, the UAE, Australia and Canada were the largest sellers.

### Trade ties with Germany...

As of the first half of the year, exports to Germany, the biggest export market of Turkey, reached 7 billion USD, increasing by 3.5% compared to the same period of the previous year. Despite this growth, the share of Germany in total exports decreased by 0.5 point to 9.3% in the first half of the year. Exports of motor vehicles and textile products were major export items to Germany.

#### Exports to Germany (January-June, USD million)

	2016	2017	(Δ %) Share %
Road vehicles	1,254	1,476	17.7 20.4
Articles of apparel and clothing	1,367	1,339	-2.1 18.5
Power generating machineries	571	573	0.5 7.9
Fruits and vegetables	462	444	-3.9 6.1
Textile yarn, fabrics	467	441	-5.4 6.1
Iron and steel	317	370	16.4 5.1
Electrical machineries	364	349	-4.3 4.8
Industrial machineries	278	286	3.0 4.0
Rubber manufactures	213	240	12.7 3.3
Non-ferrous metals	173	191	10.7 2.6
Other	1,519	1,520	0.0 21.0
<b>Total</b>	<b>6,985</b>	<b>7,229</b>	<b>3.5 100</b>

Imports from Germany, on the other hand, fell by 12.9% yoy to USD 9.5 billion in the first half of the year. Germany ranked second in Turkey's imports with 8.8% market share following China.

### Expectations

We think that the recent upturn in oil prices might lead to an upward pressure on energy imports. In addition, gold imports, which have constituted 7.4% of total imports in the first 6 months of the year, might have negative impact on foreign trade deficit if the rising trend persists. On the export side, the possible repercussions of ongoing problems with Germany will be significant. On the other hand, the upward trend in the EUR/USD parity is considered as a positive development that might affect positively the exports to the EU countries.

### Foreign Trade Figures

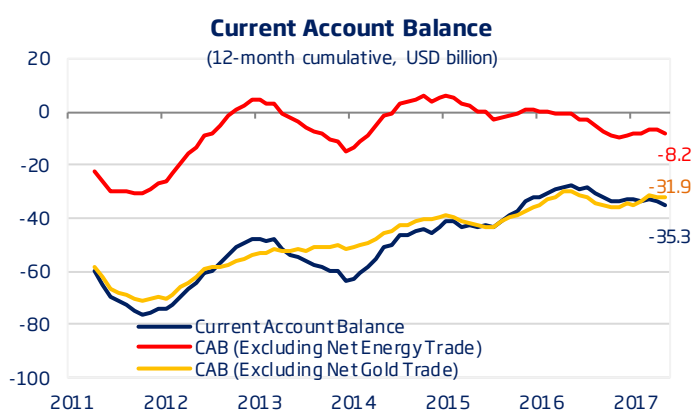
	(billion USD)					
	June		Change	January-June		Change
	2016	2017	(%)	2016	2017	(%)
Exports	12.9	13.2	2.3	71.6	77.5	8.2
Imports	19.5	19.2	-1.5	99.7	108.3	8.7
<b>Foreign Trade Deficit</b>	<b>-6.6</b>	<b>-6.0</b>	<b>-9.1</b>	<b>-28.1</b>	<b>-30.9</b>	<b>10.0</b>
Import Coverage (%)	66.1	68.7	-	71.8	71.5	-

Source: Datastream, Turkstat

### Current account deficit came in above expectations.

Current account deficit posted a rapid increase by 68.4% in May compared to the same month of the previous year and was realized as 5.2 billion USD. This development was led by the rise in non-monetary gold import. On the other hand, tourism revenues limited the deterioration in the current account deficit in May as it was the case in April, thanks to low base effect.

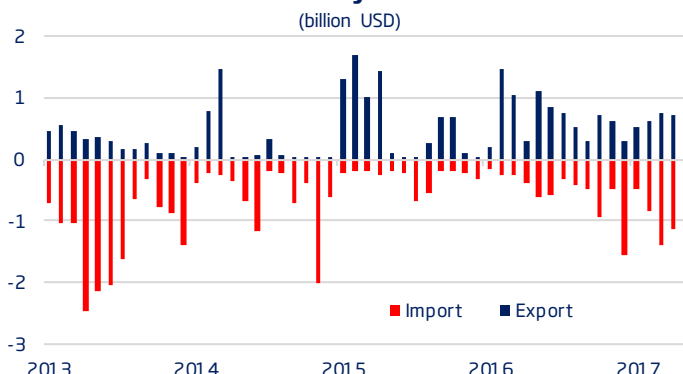
According to 12-month cumulative figures, current account deficit rose by 2.1 billion USD mom to 35.3 billion USD in May. Excluding net gold trade, 12-month cumulative deficit increased only by 71 million USD compared to April.



### Rapid increase in gold imports...

Non-monetary gold imports reached 2.1 billion USD in May, increasing by 2.5 times compared to the same month of the previous year. As the highest gold imports of the last 4 years were recorded and gold exports fell, non-monetary gold trade caused deterioration in both foreign trade balance and current account balance.

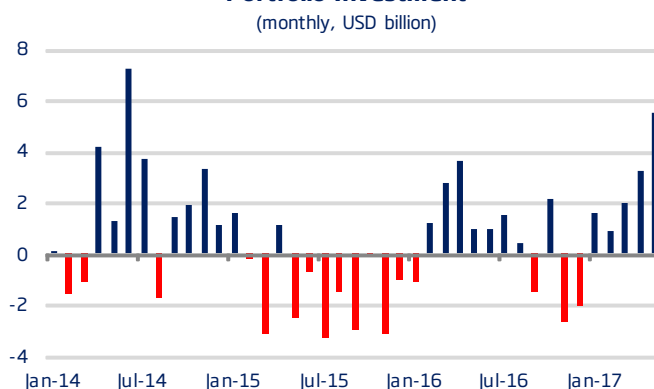
### Non-Monetary Gold Trade



### Positive outlook in portfolio investments...

Portfolio inflows maintained their positive performance in May. The highest portfolio inflow since the middle of 2014 was registered in this month. The debt securities issued abroad by both banks and Treasury have considerable weight in portfolio inflows. Net portfolio inflow was realized as 5.5 billion USD in May. 4.5 billion USD of this amount belonged to debt securities that were issued abroad. In this period foreign investors' interest in stock market was comparatively weak.

### Portfolio Investment



### Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	December 2016	May 2017	December 2016	May 2017
<b>Current Account Balance</b>	<b>-32,564</b>	<b>-35,340</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>33,377</b>	<b>26,004</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	9,163	9,456	27.5	36.4
-Portfolio Investments	6,292	12,101	18.9	46.5
-Other Investments	7,115	1,414	21.3	5.4
-Net Errors and Omissions	10,784	3,032	32.3	11.7
-Other	23	1	0.1	0.0
<b>Reserves(1)</b>	<b>-813</b>	<b>9,336</b>	-	-

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

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

Source: Datastream, CBRT

### Rise in foreign direct investments...

The recovery in foreign direct investments continued in May. According to 12-month cumulative figures, net foreign direct investments reached 12.8 billion USD in May, the highest level of the last 10 months.

Other investments item posted an outflow of 444 million USD in May. Banks became net payers with an amount of 1 billion USD in May. Other sectors were net payers for short term loans whereas they were net borrowers for long term loans.

Net errors and omissions recorded an inflow of 1.7 billion USD in May. CBRT reserves increased in May after a two-month break.

### Expectations...

According to the provisional foreign trade data, the rising trend in gold imports continued in June. On the other hand, provisional data suggests a contraction in the foreign trade deficit in this period which will likely have a positive impact on the current account balance. We anticipate that the recovery in tourism revenues will also become more visible in the summer and, in turn, will support the current account balance.

Balance of Payments	(USD million)				
	May 2017	Jan. - May. 2016 2017		% Change	12-Month Cumulative
<b>Current Account Balance</b>	<b>-5,242</b>	<b>-14,073</b>	<b>-16,849</b>	<b>19.7</b>	<b>-35,340</b>
Foreign Trade Balance	-5,645	-15,069	-17,608	16.8	-43,395
Services Balance	1,118	3,711	4,372	17.8	16,157
Travel (net)	1,213	3,638	4,114	13.1	14,436
Primary Income	-956	-3,530	-4,329	22.6	-9,796
Secondary Income	241	815	716	-12.1	1,694
<b>Capital Account</b>	<b>1</b>	<b>15</b>	<b>-7</b>	<b>-</b>	<b>1</b>
<b>Financial Account</b>	<b>-3,581</b>	<b>-10,958</b>	<b>-21,508</b>	<b>96.3</b>	<b>-32,307</b>
Direct Investments (net)	-944	-3,019	-3,312	9.7	-9,456
Portfolio Investments (net)	-5,528	-7,395	-13,204	78.6	-12,101
Net Acquisition of Financial Assets	158	438	-106	-	967
Net Incurrence of Liabilities	5,686	7,833	13,098	67.2	13,068
Equity Securities	272	841	1,510	79.5	1,492
Debt Securities	5,414	6,992	11,588	65.7	11,576
Other Investments (net)	444	-5,325	376	-	-1,414
Currency and Deposits	1,672	-1,418	2,417	-	5,623
Net Acquisition of Financial Asse	3,745	4,762	7,741	62.6	8,359
Net Incurrence of Liabilities	2,073	6,180	5,324	-13.9	2,736
Central Bank	-23	-141	-68	-51.8	-403
Banks	2,096	6,321	5,392	-14.7	3,139
Foreign Banks	1,690	5,634	4,961	-11.9	3,809
Foreign Exchange	-1,232	1,970	-560	-	-2,348
Turkish Lira	2,922	3,664	5,521	50.7	6,157
Non-residents	406	687	431	-37.3	-670
Loans	367	-3,421	694	-	-1,579
Net Acquisition of Financial Asse	-239	167	-279	-	-217
Net Incurrence of Liabilities	-606	3,588	-973	-	1,362
Banking Sector	-1,002	-1,444	-1,934	33.9	-3,175
Non-bank Sectors	525	5,756	1,036	-82.0	4,807
Trade Credit and Advances	-1,596	-556	-2,737	392.3	-5,498
Other Assets and Liabilities	1	70	2	-97.1	40
Reserve Assets (net)	2,447	4,781	-5,368	-	-9,336
<b>Net Errors and Omissions</b>	<b>1,660</b>	<b>3,100</b>	<b>-4,652</b>	<b>-</b>	<b>3,032</b>

Source: Datastream, CBRT

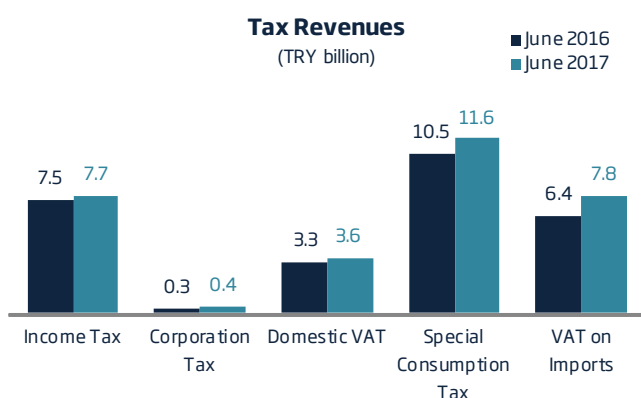
### The central government ran a budget deficit in June.

In June, budget expenditures increased by 11% compared to the same month of the previous year. On the other hand, budget revenues decreased by 0.3% yoy due to the base effect stemming from the high level of privatization revenues in June last year. Thus, central government budget deficit which was 7.9 billion TRY in June 2016 became 13.7 billion TRY in the same month of this year.

In the first half of the year, budget expenditures expanded by 18.5% compared to the last year due to the economic stimulus measures. In this period, the increase in budget revenues was recorded as 8.8%. Hence, the budget, which posted 1.1 billion TRY surplus in the first six months of the year, gave a deficit of 25.2 billion TRY in the same period of 2017.

### Recovery in tax revenues slowed down.

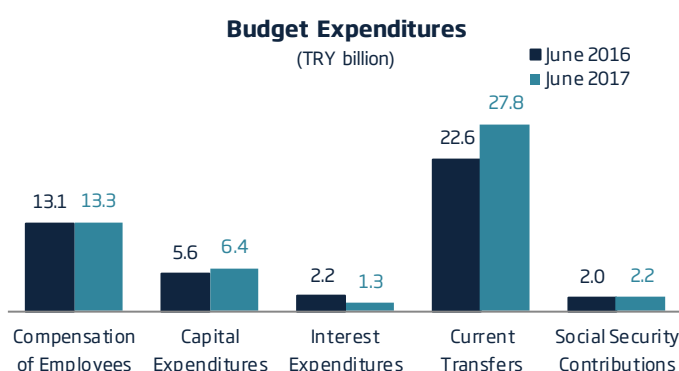
Tax revenues, which increased rapidly in April and May, lost momentum in June. Having come in at 9.7% in June, the rate of growth in tax revenues was below the 10-year average of 12.7% for the month. Import VAT revenues made the highest contribution to the increase in tax revenues in June expanding by 21.4% on an annual basis while special consumption tax and domestic VAT rose by 9.9% and 9.5%, respectively.



Revenues recorded under the Law on Restructuring of Certain Receivables (the Law No. 6736) provided limited support to the budget in June.

### Budget expenditures...

In June, current transfers were the biggest contributors to the 11% rise in budget expenditures. This was largely led by the social security deficit financing which has tripled compared to the past year. On the other hand, goods and services purchases and capital expenditures were the other factors that put upward pressure on expenditures in June. Interest expenditures also declined in June after May and thus had a positive impact on the budget performance.



### Expectations

The recovery in the economy is expected to support tax revenues in the second half of the year. However, current realizations indicate that tax revenues may be slightly below the budget target by the end of the year. On the expenditure side, although a more cautious stance will be taken in the rest of the year, the budget deficit is anticipated to expand due to the impact of fiscal stimulus. Indeed, Minister of Finance Naci Ağbal stated that the stimulus will bring an additional burden of 11.9 billion TRY on the budget throughout 2017. These developments suggest that the year-end budget deficit might surpass target.

### Central Government Budget

	(TRY billion)								
	June			January-June			% 2017 Budget		Real./ Target (%)
	2016	2017	% Change	2016	2017	% Change	Target		
<b>Expenditures</b>	<b>52.0</b>	<b>57.7</b>	<b>11.0</b>	<b>273.9</b>	<b>324.4</b>	<b>18.5</b>	<b>645.1</b>	<b>50.3</b>	
Interest Expenditures	2.2	1.3	-41.9	26.4	27.0	2.3	57.5	46.9	
Non-Interest Expenditures	49.8	56.4	13.3	247.5	297.4	20.2	587.6	50.6	
<b>Revenues</b>	<b>44.1</b>	<b>43.9</b>	<b>-0.3</b>	<b>275.0</b>	<b>299.2</b>	<b>8.8</b>	<b>598.3</b>	<b>50.0</b>	
Tax Revenues	33.2	36.4	9.7	216.6	246.1	13.6	511.1	48.1	
Other Revenues	10.9	7.5	-30.9	58.4	53.1	-9.1	87.2	60.9	
<b>Budget Balance</b>	<b>-7.9</b>	<b>-13.7</b>	<b>73.6</b>	<b>1.1</b>	<b>-25.2</b>	<b>-</b>	<b>-46.9</b>	<b>53.9</b>	
<b>Primary Balance</b>	<b>-5.7</b>	<b>-12.5</b>	<b>118.1</b>	<b>27.5</b>	<b>1.8</b>	<b>-93.6</b>	<b>10.6</b>	<b>16.5</b>	

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

### CPI moved in line with expectations.

CPI increased by 0.15% compared to the previous month in July, in accord with market expectations. On the other hand, Domestic Producer Price Index (D-PPI) posted a relatively rapid rise with 0.72%.

July (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	1.16	0.15	0.21	0.72
Year-to-Date	4.84	6.05	3.41	8.60
Annual	8.79	9.79	3.96	15.45
Annual Average	7.91	9.44	4.77	10.94

### Annual inflation fell to single-digit level.

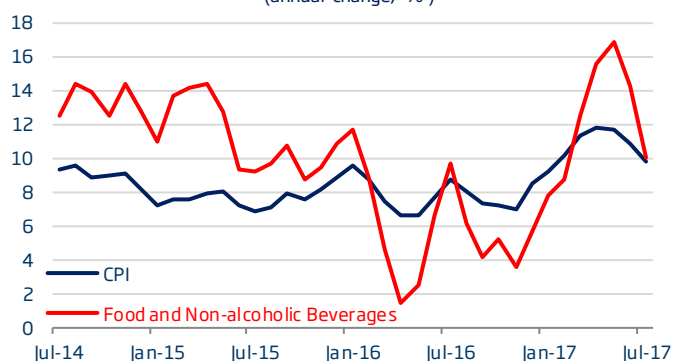
The annual CPI inflation has lost steam for the third consecutive month in July and fell to single digit level by 9.79%. The annual D-PPI inflation, however, stood at 15.45%, the highest in the last three months.

### Clothing and food prices tamed inflation.

Clothing and food prices became the two main expenditure groups that pulled the inflation down in July as was the case in June. Clothing and footwear prices slumped by 3.5% compared to the previous month and limited the rise in CPI by 25 basis points. Having declined by 0.71% mom on the back of the falls in the prices of fresh fruit and vegetables, food prices pushed the inflation down by 15 basis points.

The main expenditure groups that contributed largely to the rise in monthly CPI inflation were transportation, hotels, cafes and restaurants as well as housing. Transportation prices surged fast by 1.13% and made a contribution of 18 basis points to the monthly CPI inflation. Hotels, cafes and restaurants followed transportation group by a contribution of 14 basis points while housing added 6 basis points to the monthly rise in the overall index.

**Food Prices and CPI**  
(annual change, %)



**Gap Between Core (C)\* and Headline Inflation**  
(% point)



\*Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold

### Rise in core inflation indicators...

The increase in CPI was limited by the seasonal products in July. Indeed, when seasonal products are excluded, monthly consumer price inflation becomes 0.74%. In this period, main core inflation indicators each registered rises by around 40 basis points. Adding these figures into the picture, the gap between core inflation and headline inflation narrowed to the lowest level seen this year. This weakens the optimism about the course of inflation.

Looking at the prices of the goods group, it is seen that the energy prices, which had been decreasing since March, went up in July. Durable goods prices also rose by 0.88%, pointing to inflationary pressures. The increase in the price of the services group has been high as it is so in each July.

### D-PPI...

Energy and furniture group prices eased the monthly rise in D-PPI in July while basic metals and textile products exerted upward pressure on it. Looking at the main industrial groups, it was noteworthy that capital goods prices recorded the fastest rise in six months.

### Expectations...

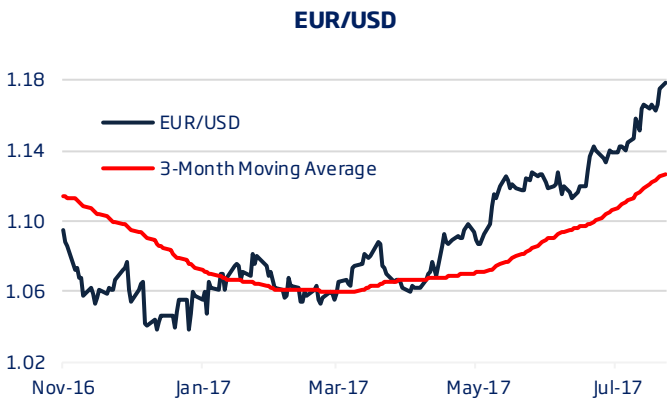
We believe that monthly CPI inflation would remain at benign levels in August due to seasonality in clothing and food prices. Along with the measures taken by the Food Committee, volatility in food prices would fade somewhat and inflation outlook would be brighter. However, we expect annual inflation to climb to double-digit levels again in August as monthly CPI inflation was negative in the same month of the last year.

Source: Datastream, Turkstat

**The ECB has been high on the agenda recently.**

The developments in monetary policies by the Fed and the ECB have been closely monitored by global markets in the recent period. In the first half of July, seemingly "hawkish" statements from the Fed officials supported the US dollar. In the following period, risk appetite improved in global markets as remarks by the Fed Chair Yellen and the messages from the Fed after the meeting were interpreted as "dovish".

Expectations that the ECB may begin monetary policy normalization earlier than anticipated boosted the euro. Although the ECB kept its commitment to the asset purchase program at the monetary policy meeting on July 20th, the statements by the ECB President Draghi resulted in comments that the ECB would start to reduce the size of its asset purchase program. That led EUR/USD parity to close July at 1.1840.



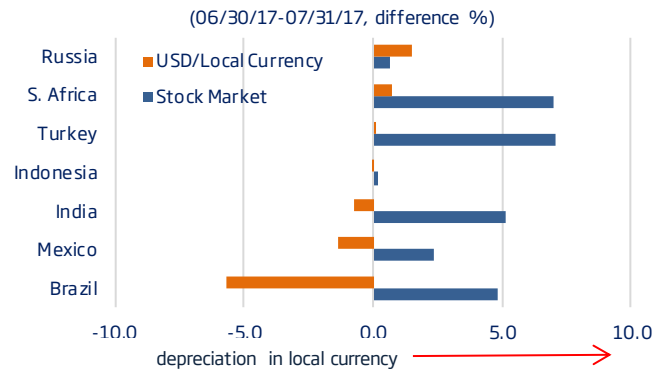
**BIST-100 index at its historical high...**

With the growing expectations that the Fed will move more slowly than anticipated, the rising risk appetite in global markets positively affected the domestic markets. Latest domestic economic data showing a relative improvement in inflation and employment also supported the markets. The BIST-100 index increased by 7.1% compared to the end of June to 107,531 points as of July 31.

**Volatile course of TRY...**

Developing countries' currencies depreciated sharply in the first half of July due to the reinforced expectations that the developed countries' central banks will start to reduce global liquidity in the upcoming period. In this period, USD/TRY exceeded 3.64, EUR/TRY rose above 4.16. In the following period, USD/TRY followed a volatile course moving within a range of 3.50-3.55 thanks to easing concerns about the Fed. Although EUR/TRY declined as low as to 4.05, it moved up again due to the shifting ECB expectations. The USD/TRY which was realized as 3.52 at the end of July, remaining flat compared to the end of June.

**Financial Indicators in Emerging Countries**



EUR/TRY, on the other hand, rose by 3.6% mom to 4.17 in the same period.

**Rise in bond yields...**

Treasury raised a total of 16 billion TRY through 6 auctions under the financing program for July. The amount borrowed by Treasury's was realized above the forecast in July as it was the case in June. The size of positive effect of the improvement in risk perception on interest rates for developing countries was limited by this development. The compound interest rate of the 2-year benchmark bond, which was 11.12% at the end of June, rose to 11.55% as of July 31.

**The year-end inflation expectation of the market at 9.49%...**

According to the CBRT's Survey of Expectations, the market's inflation expectation for the year-end declined to 9.49% in July. On the other hand, inflation expectation for 12-month and 24-month ahead have increased somewhat. While the exchange rate expectations for the end of 2017 deteriorated, it was worth mentioning that the growth estimate for 2017, which was 3.4% in June, rose to 4.1% in July.

**CBRT's inflation forecast for 2017 became 8.7%.**

CBRT revised its inflation forecast for the end of 2017 up by 0.2 point according to the third Inflation Report of the year. CBRT kept the inflation forecasts for 2018 and 2019 unchanged. It is predicted that inflation will be at 8.7% at the end of 2017 while declining to 6.4% at the end of 2018. CBRT foresees that inflation will stabilize at around 5% in the medium term. Upward revision to the inflation estimate for 2017 stemmed from rise in output gap forecast due to the recovery in economic activity as well as food inflation estimate.

Source: CBRT, Reuters, Datastream



**Weak course in TRY deposits ...**

According to the Weekly Bulletin published by the BRSA, total deposit volume expanded by 9.6% compared to the end of 2016 and amounted to TRY 1.689 billion as of July 21. Since the level of USD/TRY in July was close the previous year-end level, the effect of FX on deposit volume remained limited in this period. As of July 21, TRY deposits grew by 6.7% ytd while FX deposits increased by 13.3% ytd. FX deposits in USD terms also expanded by the same rate.

**Loan volume increased by 11.1% ytd.**

As of July 21, the total loan volume surged by 11.1% ytd mainly due to the loans supported by Credit Guarantee Fund (CGF). In this period, the growth in TRY loan volume was 15% while the expansion of FX loans in terms of USD was 3.9%.

**The performance of public banks ...**

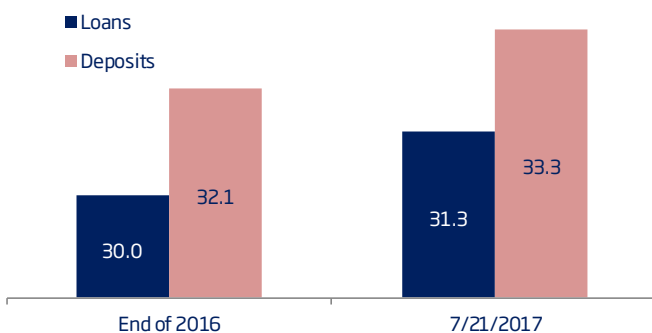
Public deposit banks have registered rapid growth on both deposits and loans. As of July 21, the total deposit volume of the banking sector expanded by 9.6% ytd while the deposits kept in public deposit banks increased by 13.5% in the same period. Thus, the share of deposits held in public deposit banks in total deposit volume rose by more than 1 point ytd and became 33.3%.

As of July 21, loan volume of public banks increased by 15.7% ytd with the support of TRY loans, against the 11.1% of loan growth in the sector. Thus, the share of public banks in total loans, which was 30% at the end of 2016, reached 31.3% as of July 21.

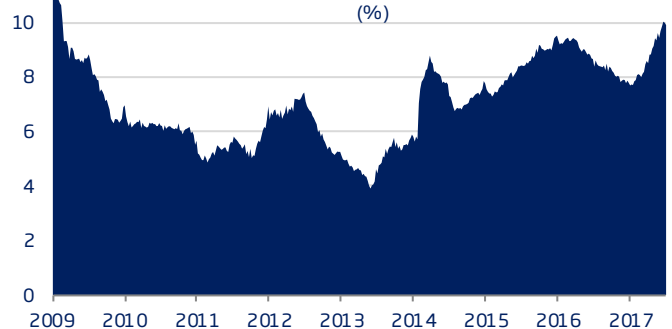
**Increase in the ratio of TRY loans/TRY deposits ...**

The rapid increase in the TRY loan volume pushed the ratio of TRY loan/TRY deposit in the banking sector up to the historical high levels. Having exceeded 145% at the beginning of June, the ratio eased slightly in the following period and became 142.2% as of July 21. The expansion of TRY loan volume boosted the demand for the TRY source of the banking sector and thus exert an upward pressure on the interest rates on the TRY deposits.

**Share of Public Deposit Banks (%)**



**Difference Between Interest Rates on TRY and FX Deposits\* (%)**



(\* ) Based on weighted average interest rates on deposits. Interest rates onFX deposits represents average of interest rates on both USD and EUR denominated time deposits.

**Securities portfolio...**

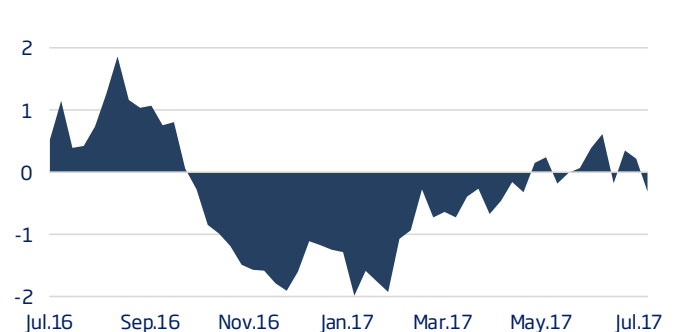
Securities portfolio of the banking sector, which recorded a weak performance throughout the year, grew by only 4.2% ytd as of July 21.

The portfolio of securities held under custody surged by 10.3% ytd as of July 21. Residents' and non-residents' securities rose by 4.6% and 18.3%, respectively. Thus, the share of residents' securities in total securities portfolio dropped as low as to 55%.

**Net foreign currency position...**

As of July 21, banks' on-balance sheet FX position was (-) USD 48,159 million while off-balance sheet FX position was realized as (+) USD 47,582 million. Hence, banking sector's net FX position became (-) USD 307 million.

**Net FX Position (USD billion)**



Source: BRSA Weekly Bulletin

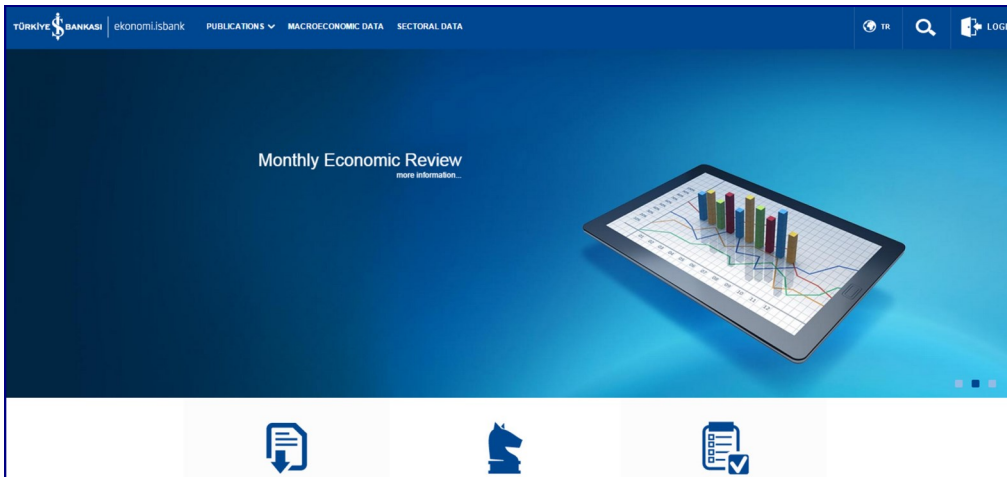
The global economy has recovered somewhat, particularly thanks to the favorable outlook in China and the Euro Area. In the United States, on the other hand, growth prospects have been subdued as views that President Trump's election promises may not be fulfilled have strengthened. Emerging economies have generally experienced higher growth rates than the last year even though their economic performances have been largely divergent. While the exit strategies from ultra-loose monetary policies of major advanced economies are being intensely debated, globally weak inflation indicators cast uncertainty over the steps to be taken by central banks. Depending on the data flow, the slower or faster than anticipated moves of the central banks may cause severe fluctuations in the markets in the upcoming period. This is of significance for the capital flows to emerging markets since it can especially weigh on countries with high debt burden.

Upturn in Turkish economy has prevailed in the second quarter of the year. We believe that the measures taken to support the economy will continue to have a significant impact on the outlook in the second half of the year as well. Nevertheless geopolitical developments and decisions by the central banks of advanced economies pose risks somewhat for the economic activity.

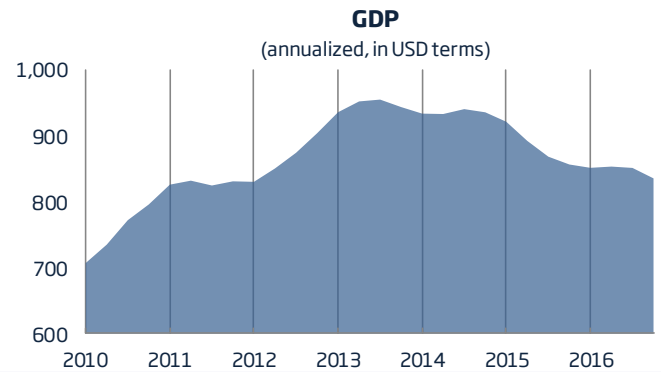
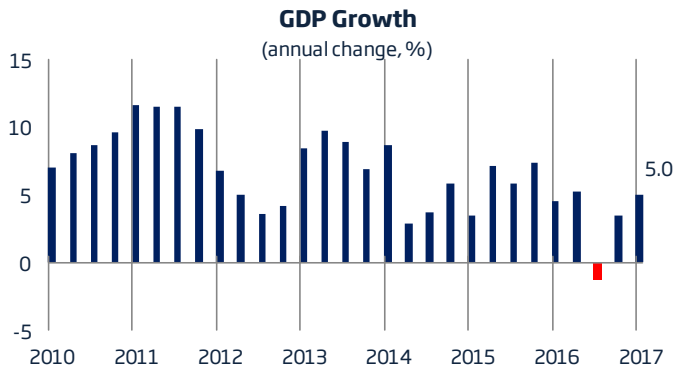
Forecasts (%)	2017	2018
Growth	4.7	4.1
CA Deficit/GDP	4.5	4.8
Inflation	9.5	8.5

Year-end forecast for inflation

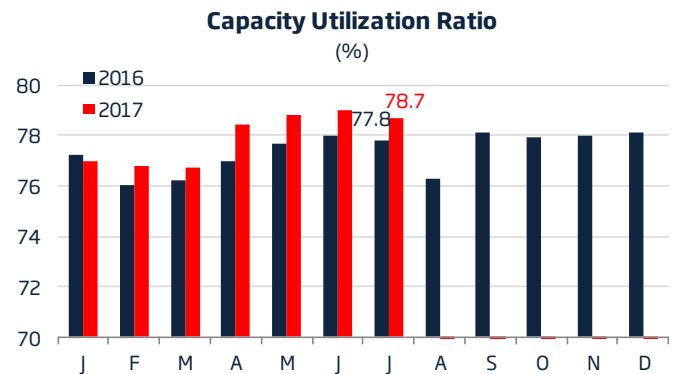
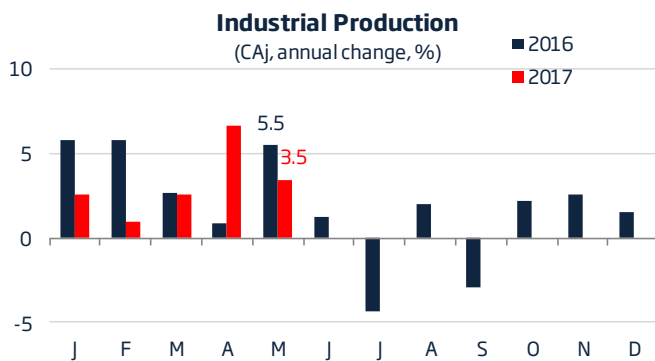
Our reports are available on our website <https://research.isbank.com.tr>



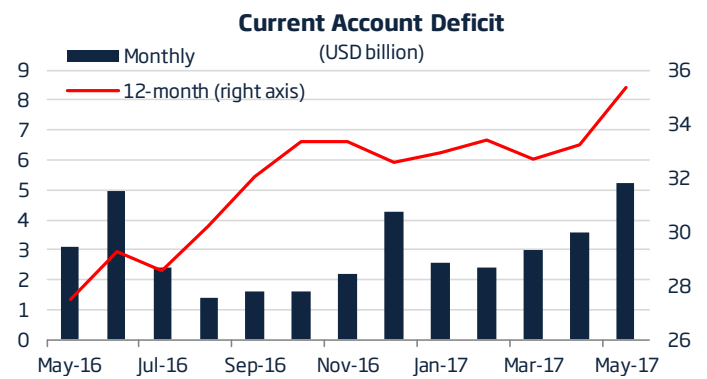
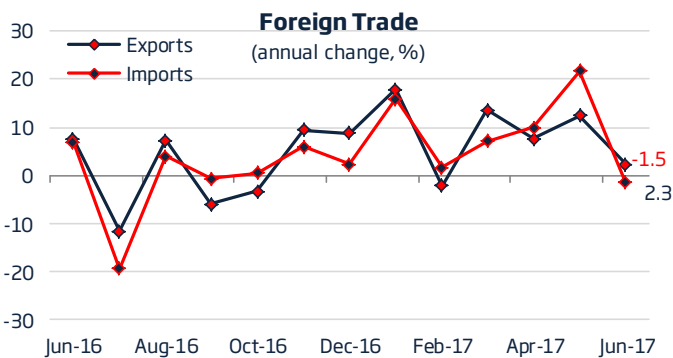
## Growth



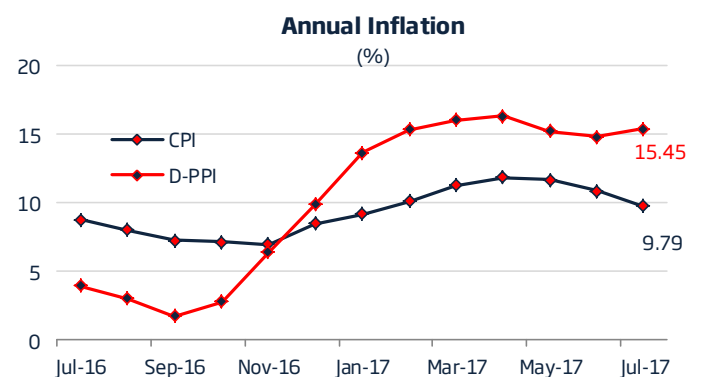
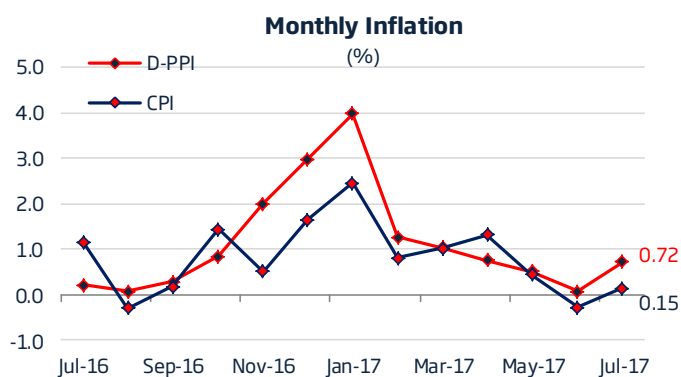
## Industrial Production and Capacity Utilization Ratio



## Foreign Trade and Current Account Balance



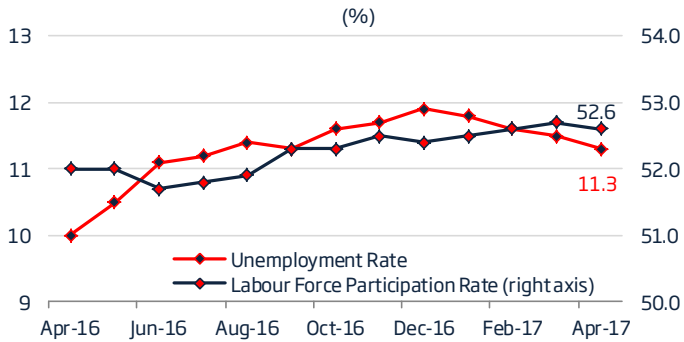
## Inflation



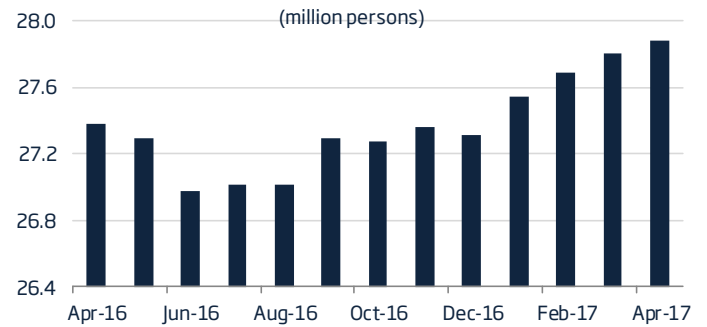
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators (%)



### Seasonally Adjusted Employment (million persons)

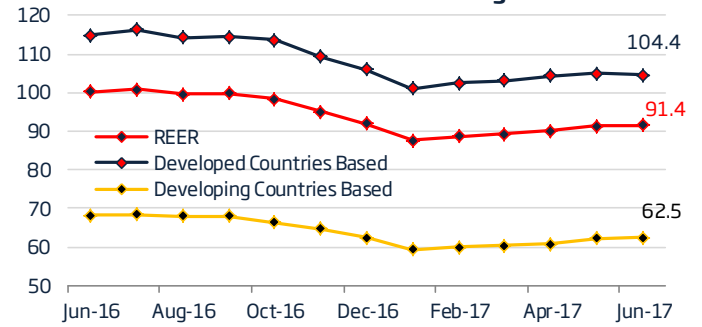


## FX Market

### Currency Basket

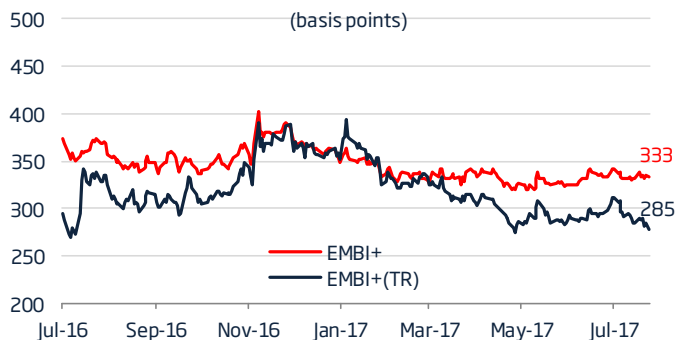


### CPI Based Real Effective Exchange Rate

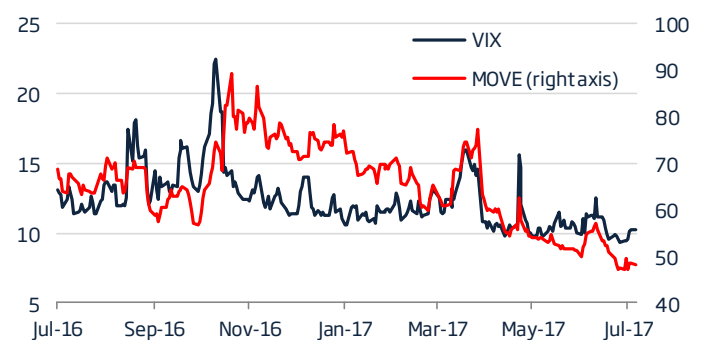


## Risk Indicators

### Risk Premiums (basis points)

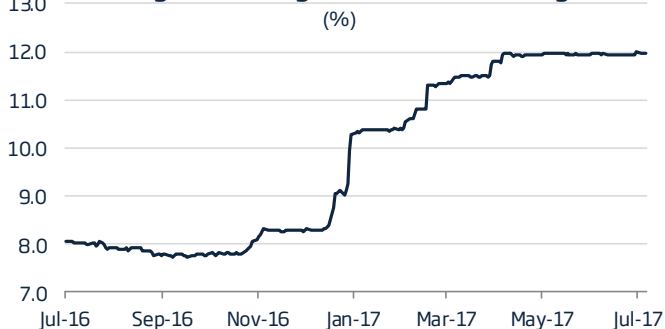


### VIX and MOVE Index



## Interest Rates

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



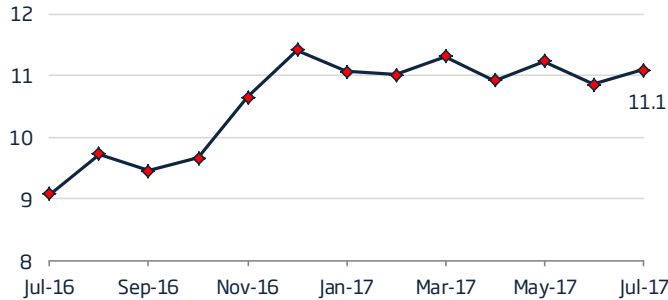
### Yield of 2-Year Benchmark Bond (%)



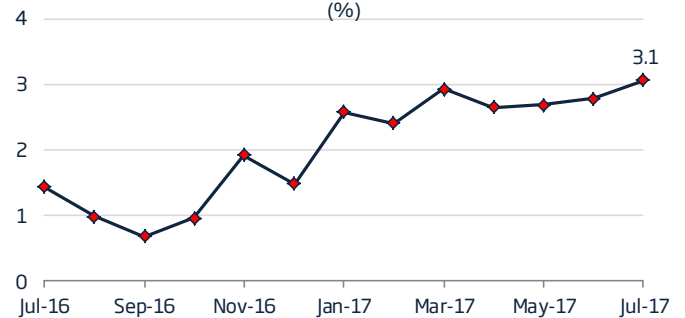
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## Bond-Bill Market

### Average Compound Yields in Treasury Auctions (%)

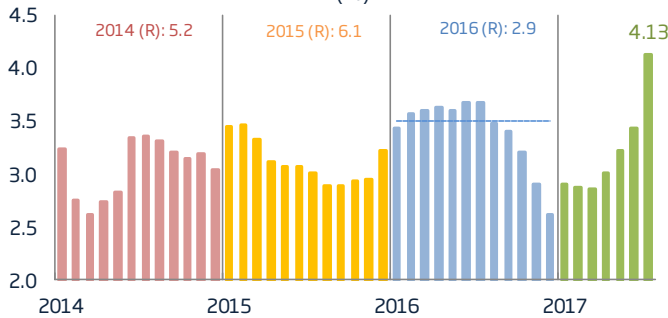


### Expected Real Yield of TRY GDDIs (%)

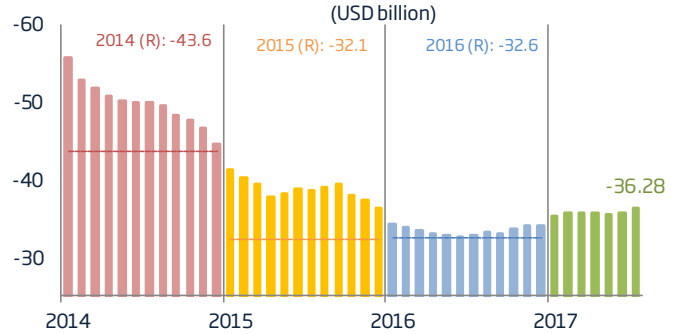


## CBRT's Survey of Expectations and Other Leading Indicators

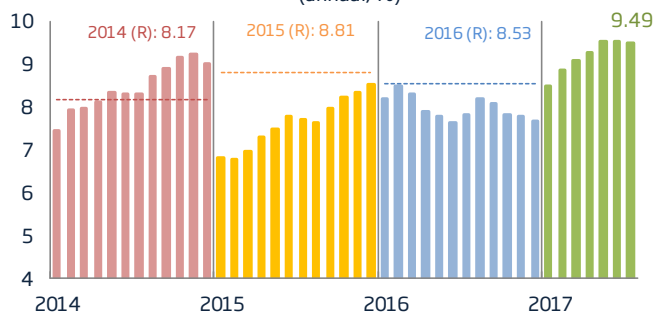
### Expected GDP Growth for the Current Year (%)



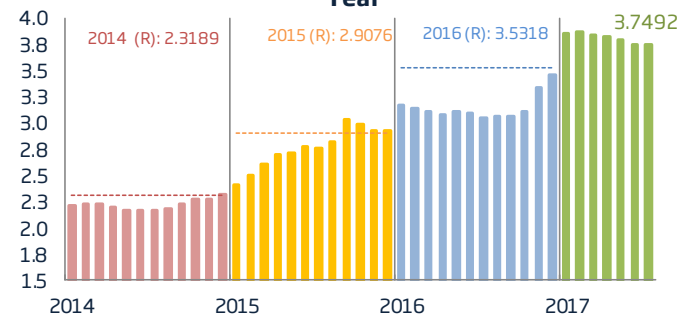
### Expected CAD for the Current Year (USD billion)



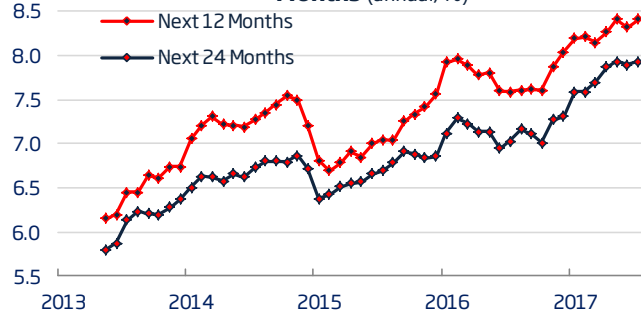
### Expected CPI Inflation by the End of the Year (annual, %)



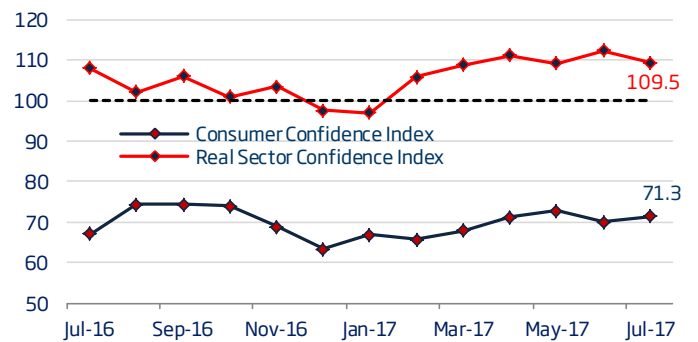
### Expected Level of USD/TRY by the End of the Year



### Expected CPI Inflation for the next 12 and 24 Months (annual, %)



### Confidence 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	173.8	-	-
GDP (TRY billion)	1,570	1,810	2,045	2,338	2,591	641.6	-	-
GDP Growth Rate (%)	4.8	8.5	5.2	6.1	2.9	5.0	-	-
<b>Inflation (%)</b>						<b>May-17</b>	<b>Jun-17</b>	<b>Jul-17</b>
CPI (annual)	6.16	7.40	8.17	8.81	8.53	11.72	10.90	9.79
Domestic PPI (annual)	2.45	6.97	6.36	5.71	9.94	15.26	14.87	15.45
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Feb-17</b>	<b>Mar-17</b>	<b>Apr-17</b>
Unemployment Rate (%)	8.8	9.1	10.3	10.2	11.9	11.6	11.5	11.3
Labor Force Participation Rate (%)	48.5	48.5	51.0	51.7	52.4	52.6	52.7	52.6
<b>FX Rates</b>						<b>May-17</b>	<b>Jun-17</b>	<b>Jul-17</b>
CPI Based Real Effective Exchange Rate	110.3	100.3	105.0	97.5	92.0	91.4	91.4	89.4
USD/TRY	1.7847	2.1485	2.3378	2.9189	3.5176	3.5365	3.5226	3.5237
EUR/TRY	2.3530	2.9605	2.8288	3.1708	3.7102	3.9768	4.0177	4.1544
Currency Basket (0.5*EUR+0.5*USD)	2.0688	2.5545	2.5833	3.0448	3.6139	3.7567	3.7701	3.8390
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Apr-17</b>	<b>May-17</b>	<b>Jun-17</b>
Exports	152.5	151.8	157.6	143.8	142.5	146.6	148.1	148.4
Imports	236.5	251.7	242.2	207.2	198.6	203.9	207.6	207.3
<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>-57.3</b>	<b>-59.5</b>	<b>-58.9</b>
Import Coverage Ratio (%)	64.5	60.3	65.1	69.4	71.8	71.9	71.3	71.6
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						<b>Mar-17</b>	<b>Apr-17</b>	<b>May-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>-32.7</b>	<b>-33.2</b>	<b>-35.3</b>
<b>Capital and Financial Accounts</b>	<b>-48.9</b>	<b>-62.1</b>	<b>-41.6</b>	<b>-21.9</b>	<b>-21.8</b>	<b>-26.6</b>	<b>-29.6</b>	<b>-32.3</b>
Direct Investments (net)	-9.5	-9.3	-5.8	-12.5	-9.2	-9.2	-9.0	-9.5
Portfolio Investments (net)	-41.0	-24.0	-20.1	15.7	-6.3	-7.9	-7.5	-12.1
Other Investments (net)	-19.2	-38.8	-15.3	-13.4	-7.1	-4.2	-3.5	-1.4
Reserve Assets (net)	20.8	9.9	-0.5	-11.8	0.8	-5.3	-9.5	-9.3
<b>Net Errors and Omissions</b>	<b>-0.9</b>	<b>1.6</b>	<b>2.0</b>	<b>10.2</b>	<b>10.8</b>	<b>6.1</b>	<b>3.6</b>	<b>3.0</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>Apr-17</b>	<b>May-17</b>	<b>Jun-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>215.7</b>	<b>266.8</b>	<b>324.4</b>
Interest Expenditures	48.4	50.0	49.9	53.0	50.2	22.1	25.7	27.0
Non-interest Expenditures	313.5	358.2	398.8	453.0	533.4	193.6	241.0	297.4
<b>Revenues</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>483.4</b>	<b>554.4</b>	<b>197.8</b>	<b>255.3</b>	<b>299.2</b>
Tax Revenues	278.8	326.2	352.5	407.5	458.7	158.7	209.6	246.1
<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>-17.9</b>	<b>-11.5</b>	<b>-25.2</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>4.2</b>	<b>14.2</b>	<b>1.8</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>Apr-17</b>	<b>May-17</b>	<b>Jun-17</b>
Domestic Debt Stock	386.5	403.0	414.6	440.1	468.6	486.9	490.2	495.3
External Debt Stock	145.7	182.8	197.9	238.1	291.0	307.6	316.2	316.4
<b>Total Debt Stock</b>	<b>532.2</b>	<b>585.8</b>	<b>612.5</b>	<b>678.2</b>	<b>759.6</b>	<b>794.5</b>	<b>806.4</b>	<b>811.8</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	May.17	Jun.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>2,931.0</b>	<b>2,972.0</b>	<b>8.8</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>1,889.2</b>	<b>1,919.2</b>	<b>10.7</b>
TRY Loans	588.4	752.7	881.0	1,013.4	1,131.4	1,277.2	1,304.1	15.3
Share (%)	74.0	71.9	71.0	68.2	65.2	67.6	68.0	-
FX Loans	206.4	294.7	359.7	471.5	602.9	611.9	615.0	2.0
Share (%)	26.0	28.1	29.0	31.8	34.8	32.4	32.0	-
Non-performing Loans	23.4	29.6	36.4	47.5	58.2	62.2	61.3	5.5
Non-performing Loan Rate (%)	2.9	2.8	2.9	3.1	3.2	3.2	3.1	-
<b>Securities</b>	<b>270.0</b>	<b>286.7</b>	<b>302.3</b>	<b>329.7</b>	<b>351.6</b>	<b>366.2</b>	<b>368.2</b>	<b>4.7</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>2,931.0</b>	<b>2,972.0</b>	<b>8.8</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>1,559.5</b>	<b>1,578.1</b>	<b>8.6</b>
TRY Deposits	520.4	594.1	661.3	715.4	845.1	865.9	882.6	4.4
Share (%)	67.4	62.8	62.8	57.4	58.1	55.5	55.9	-
FX Deposits	251.8	351.7	391.4	530.0	608.5	693.6	695.5	14.3
Share (%)	32.6	37.2	37.2	42.6	41.9	44.5	44.1	-
<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>127.1</b>	<b>131.0</b>	<b>12.7</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>420.0</b>	<b>425.1</b>	<b>1.8</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>86.9</b>	<b>87.4</b>	<b>-36.5</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>327.6</b>	<b>330.9</b>	<b>10.2</b>
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	21.2	25.4	-
<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	64.5	64.6	-
Securities/Assets	19.7	16.6	15.2	14.0	12.9	12.5	12.4	-
Deposits/Liabilities	56.3	54.6	52.8	52.8	53.2	53.2	53.1	-
Loans/Deposits	102.9	110.7	117.9	119.2	119.3	121.1	121.6	-
Capital Adequacy (%)	17.9	15.3	16.3	14.6	15.6	16.7	16.9	-

(1) Year-to-date % change



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