

Global Economy

Turkish Economy

- ◆ Heightened political tension between the US and North Korea was the hottest topic for global markets in August. This tension has led to the deterioration of risk perception on a global scale and weighed on markets in the recent period.
- ◆ The Jackson Hole conference was one of the most important items on the agenda during the second half of August. The statements made by European Central Bank President Mario Draghi and Fed Chair Janet Yellen were closely followed. However, the heads of the central banks have not sent a new signal about the future path of the monetary policy.
- ◆ Second quarter growth of the US economy was revised up to 3%, above market expectations. However, the ongoing weakness in inflation indicators has made it harder for the Fed to move forward with further rate hikes.
- ◆ Economic activity in the Euro Area has continued to recover at a consistent pace. Furthermore, the favorable outlook in economic activity seems to have spread throughout the region.
- ◆ The inflation indicators painted a weak picture in the Euro Area as in the U.S. However, the recovery in the economy allows the views that the European Central Bank could start normalizing monetary policy sometime this year to remain relevant.
- ◆ Despite the negative supply-side developments, oil prices moved in a band of 49 to 53 USD/barrel in August.
- ◆ Gold prices, supported by rising geopolitical risks as well as the depreciation of the US dollar in global markets, followed an upward trajectory.
- ◆ According to the seasonally adjusted figures, unemployment rate for May was 11.3%, remained unchanged from the previous month.
- ◆ Calendar adjusted industrial production expanded by 3.4% yoy in June. In the second quarter, the annual increase in calendar adjusted industrial production was 4.5%. The biggest contribution to the rise in industrial production continued to come from the manufacture of motor vehicles, which have been the locomotive for export growth in the recent period.
- ◆ Leading indicators suggested that positive outlook in economic activity has prevailed.
- ◆ In July, exports and imports increased rapidly due to the base effect caused by the failed coup attempt that took place in the last year and the Ramadan holiday. Export volume increased by 28.3% yoy to 12.6 billion USD while import volume picked up by 46.2% to 21.5 billion USD. Thus, the foreign trade deficit widened by 82.5%.
- ◆ The current account deficit narrowed by 24.2% yoy to 3.8 billion USD in June 2017 due to the effect of the high base figure in June 2016 caused by the higher foreign trade deficit and lower tourism revenues. 12-month cumulative deficit dropped to 34.3 billion USD.
- ◆ Budget expenditures increased by 21.5% yoy in July while budget revenues rose by 23.3% yoy. Thus, central government budget surplus, which was 129 million TRY in July 2016, became 926 million TRY in the same month of this year. Due to the expansionary fiscal policies, budget ran a deficit of 24.3 billion TRY in the first 7 months of the year.
- ◆ Monthly CPI inflation came in at 0.52% in August, above market expectations. Domestic Producer Price Index (D-PPI) remained elevated posting a monthly rise of 0.85%.

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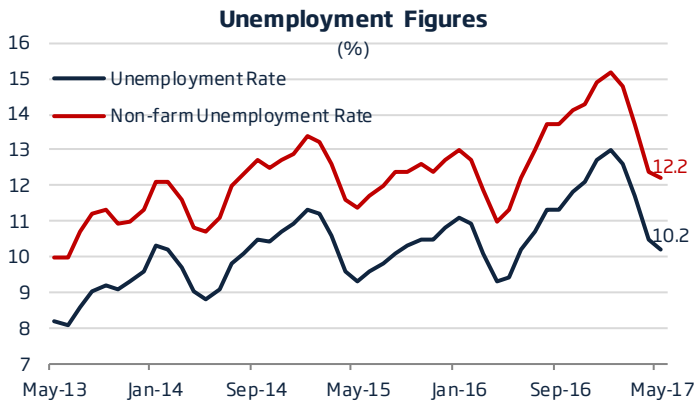
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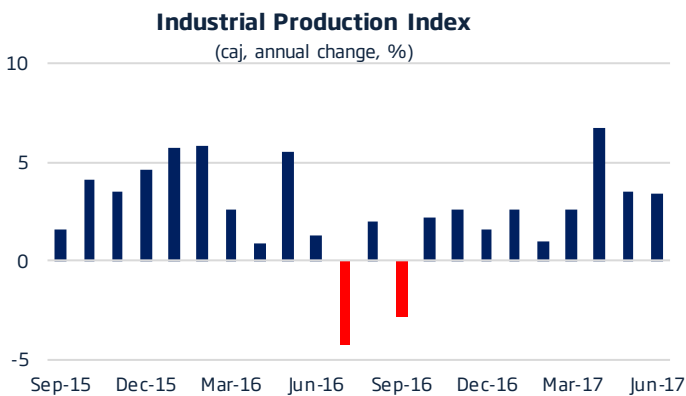
The unemployment rate became 10.2% in May.

Improvement in labor market indicators was sustained in May. Unemployment rate surged to 10.2% in May, up by 0.8 point compared to the previous month. Unemployment rate rose in this period as labor force increased by 950 thousand persons whereas the number of employed rose by 621 thousand persons. On the other hand, seasonally adjusted unemployment rate for May was 11.3%, remaining unchanged from April.



The pace of growth in industrial production accelerated.

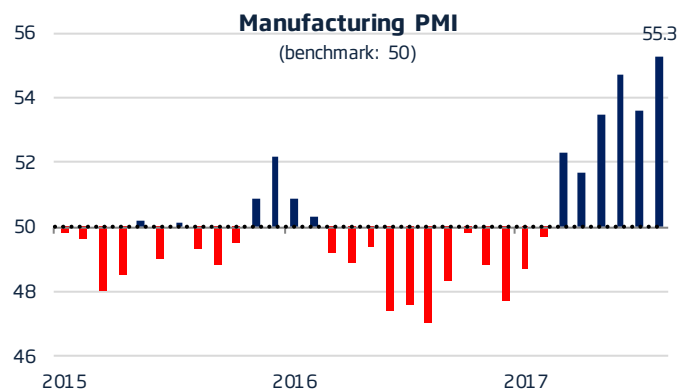
Calendar adjusted industrial production expanded by 3.4% yoy in June. The biggest contribution to the rise in industrial production continued to come from the manufacture of motor vehicles, which have been the locomotive for export growth in the recent period. Besides, it was noteworthy that the production of other transportation vehicles, which posted an annual rise of 27.9%, ranked third among the sub-sectors that made the highest contribution to the industrial production. On the other hand, the manufacture of tobacco products, wearing apparel and chemical products limited the rise in the industrial production. In the second quarter of the year, the annual increase in calendar adjusted industrial production was 4.5%. Comparing with the 2.1%



first quarter industrial production growth, the pace of industrial production has picked up in the second quarter.

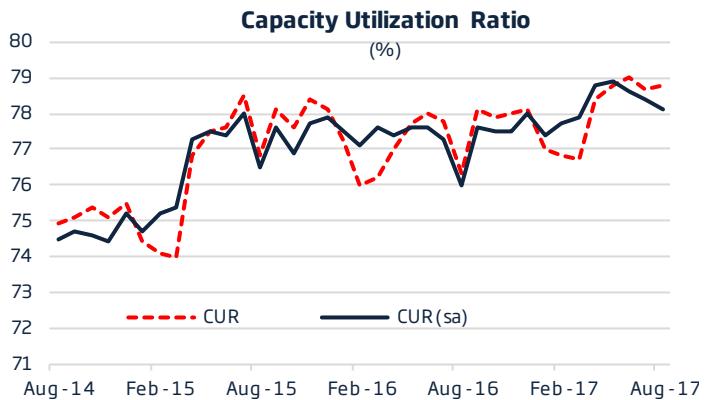
Sharp increase in PMI...

Manufacturing PMI index came in at 55.3 in August. The reading was the highest since March 2011. The recovery in new orders, purchasing activities and employment components of the index gathered steam. It was noteworthy that the production growth surged to the highest level in 6.5 years.



Leading indicators...

The capacity utilization rate in the manufacturing industry rose by 2.5 points from a year ago to 78.8% in August. Except for durable consumption goods, capacity utilization rates for all sub-sectors recorded rises during this period.



Real sector confidence index went up by 2.5 points compared to the previous month to 110.2 in August according to seasonally adjusted figures. On the other hand, consumer confidence index dropped to 71.1 in August, posting a monthly fall of 0.3%. This development was largely driven by the deterioration in the consumers' assessments on employment and savings. In this period, expectations regarding the general economic situation improved whereas the consumers' assessments on financial situation remained unchanged.

Source: Datastream, Turkstat

Base effect in July caused a rapid increase in foreign trade indicators.

In July, exports and imports increased rapidly due to the base effect caused by the failed coup attempt that took place in the last year and the Ramadan holiday. Export volume increased by 28.3% yoy to 12.6 billion USD while import volume picked up by 46.2% to 21.5 billion USD. Thus, the foreign trade deficit widened by 82.5% to 8.8 billion USD. Analysis of the average of July over the 2011-2015 period showed that exports and imports were realized as 12.4 billion USD and 20.6 billion USD, respectively. Hence, exports in July were close to their historical average value while imports came in slightly above the average level.

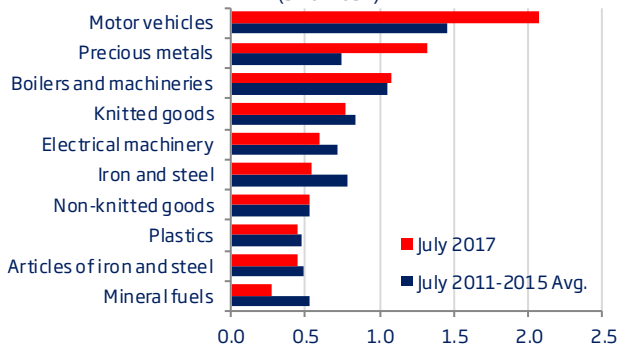
Considering the 7 seven months of 2017, exports expanded by 10.6% and imports rose by 13.5% compared to the same period of the previous year. In this period, foreign trade deficit reached 39.7 billion USD, surging by 20.7%.

Export performance...

Due to the base effect in July, sub-items of exports posted a high pace of growth. For this reason, it would be appropriate to compare the performance of export products in July with that of the historical averages. When top 10 list of exported products was examined, it was seen that exports of motor vehicles and precious metals showed a better performance in 2017 than the average of July over the 2011-2015 period. However, exports of iron-steel, electrical machinery and mineral fuels came in below the averages. The exports of other items were close to their historical averages.

Top 10 Export Items

(billion USD)



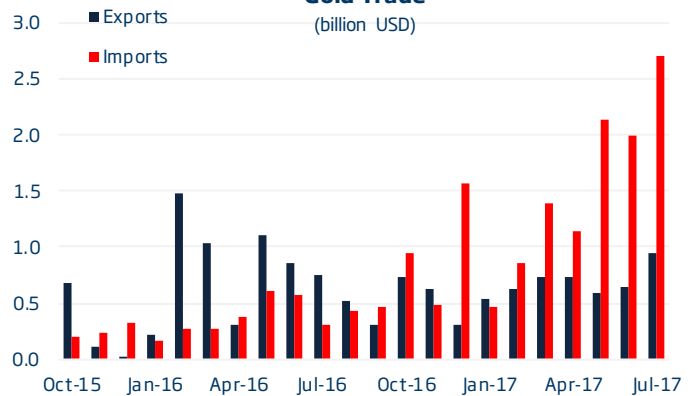
In the first 7 months of the year, it is seen that the increase in exports was broad based among the sub-items. On the country basis, the rapid export increase to United Arab Emirates was noteworthy due to the high growth rate of gold exports. In this period, exports to Russia also climbed by 59.7% in line with the normalization of the bilateral relations.

Gold and energy imports continue to increase.

Gold imports continued to rise at a fast pace in July. As Turkey imported about 9 times more gold in July than the same month of the previous year, gold imports recorded in the first 7 months played a significant role in the expansion of the import volume, posting an annual rise of 8.1 billion USD. In addition to this, energy prices that have remained at higher levels throughout the year compared to the past year average led energy imports to increase.

Gold Trade

(billion USD)



Expectations

Even though oil prices fell below 50 USD per barrel in July they again rose above this level. Unless there is a significant decline in prices, oil prices will remain above the last year's level until the end of this year. Moreover, the significant increase in gold imports has been the main driver behind the rise in imports recently. If this trend persists, given the course of oil prices, we anticipate that foreign trade deficit will continue to expand over the remainder of the year. On the other hand, the EUR/USD parity exceeded the 1.20 mark at the end of August, the highest level in 2 years. We foresee that the appreciation in euro might positively affect exports to the EU countries, the biggest export market of Turkey.

Foreign Trade Figures

(billion USD)

	July		Change (%)	January-July		Change (%)
	2016	2017		2016	2017	
Exports	9.9	12.6	28.3	81.4	90.1	10.6
Imports	14.7	21.5	46.2	114.4	129.8	13.5
Foreign Trade Deficit	-4.8	-8.8	82.5	-32.9	-39.7	20.7
Import Coverage (%)	67.0	58.8	-	71.2	69.4	-

Source: Datastream, Turkstat

Current account deficit declined in June.

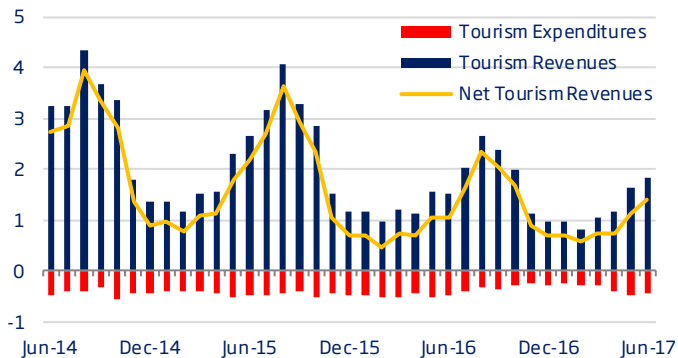
The current account deficit narrowed by 24.2% yoy to 3.8 billion USD in June 2017 due to the effect of the high base figure in June 2016 caused by the higher foreign trade deficit and lower tourism revenues. Decline in the foreign trade deficit and the recovery in tourism revenues had a positive impact on the current deficit this year, however, the surge in gold imports limited this effect.

According to 12-month cumulative figures, the current account deficit decreased by 1.2 billion USD in June compared to the previous month to 34.3 billion USD.

Recovery in tourism revenues...

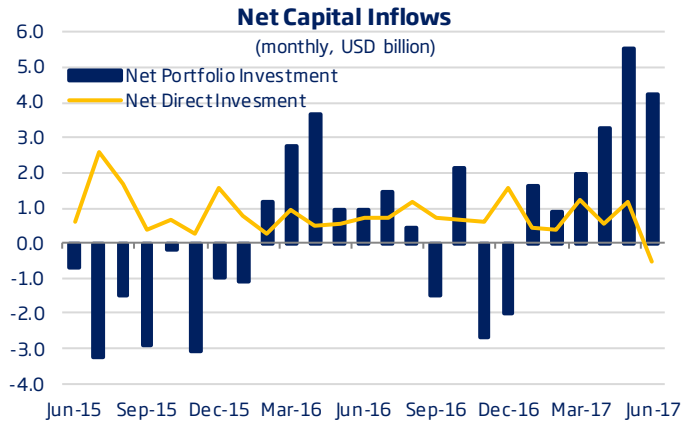
In June, tourism revenues increased by 19.8% yoy to 1.8 billion USD. In this period, tourism expenditures continued to fall. Thus, net tourism revenues were 30.2% higher in June than a year ago, rising to 1.4 billion USD. Taking into account that Turkey registered net tourism revenues of 2.3 billion USD on average for the month of June during the 2011-2015 period, June 2017 figure still remained so low.

Tourism Revenues
(monthly, billion USD)



Positive outlook in portfolio investments...

The portfolio investments continued to perform well in June. In this period, net portfolio investments recorded an inflow of 4.2 billion USD. Non-residents made a net purchase of 693 million USD in equity securities and 3.8 billion USD in debt securities. In this period, eurobond issues of banks and general government in international markets came to the forefront.



Foreign direct investment outflows...

Having followed a recovery trend in most part of the year, net direct investments displayed a negative outlook in June. Foreign direct investments recorded a net outflow of 515 million USD during this period. This was the first net outflow seen since November 2014. Thus, net direct investments over the past 12 months have fallen to 8.6 billion USD. Nonresidents' real estate investments amounted to 4.5 billion USD in the same period.

Other investments registered an inflow of 2.1 billion USD in June. This development is largely due to the increase in nonresident banks' deposits held within domestic banks. In this period, banks were net credit users of 704 million USD. Other sectors, on the other hand, were net credit payers with an amount of 441 million USD.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

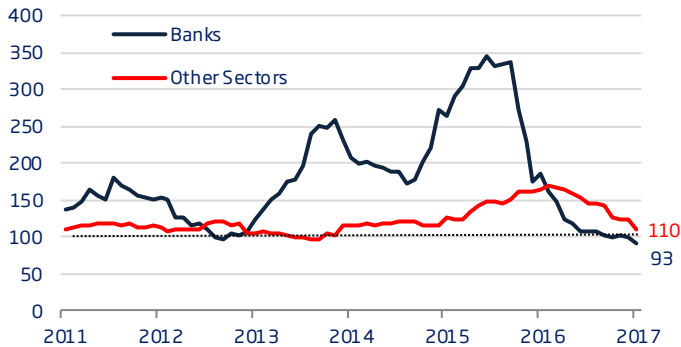
	Breakdown of Net Capital Inflows (%)			
	December 2016	June 2017	December 2016	June 2017
Current Account Balance	-32,606	-34,340	-	-
Total Net Foreign Capital Inflows	33,419	24,291	100.0	100.0
-Direct Investments	9,160	8,639	27.4	35.6
-Portfolio Investments	6,292	15,335	18.8	63.1
-Other Investments	6,361	-4,948	19.0	-20.4
-Net Errors and Omissions	11,583	5,259	34.7	21.6
-Other	23	6	0.1	0.0
Reserves(1)	-813	10,049	-	-

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

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

Source: Datastream, CBRT

Long-term Debt Rollover Ratios
(12-month cumulative, %)



Banking sector's debt rollover ratio fallen below 100%...

According to the 12- month cumulative figures, long-term debt rollover ratio of the banking sector has fallen below 100% for the first time since February 2013 and became

93% in June. Along with the slowdown in economic growth in 2016, sluggish investments have reduced the demand of banks for long-term borrowing. The long-term debt rollover ratio of the private sector, on the other hand, was 110%.

Net errors and omissions recorded capital inflows in June as was the case in May. CBRT reserves rose by 3 billion USD in this period.

Expectations...

According to the provisional data, foreign trade deficit posted a rapid increase in July owing to the base effect. During this period, gold trade continued to increase due mostly to the rising imports. Hence, we expect the current account deficit to expand in July. Nevertheless, we believe that the recovery in tourism revenues could somewhat limit the widening of the current account deficit.

	(USD million)				
	June 2017	January - June 2016	January - June 2017	% Change	12-month Cumulative
Current Account Balance	-3,763	-19,039	-20,773	9.1	-34,340
Foreign Trade Balance	-4,573	-20,313	-22,453	10.5	-42,999
Services Balance	1,678	4,900	6,091	24.3	16,663
Travel (net)	1,391	4,706	5,308	12.8	14,562
Primary Income	-1,150	-4,543	-5,485	20.7	-9,940
Secondary Income	282	917	1,074	17.1	1,936
Capital Account	2	15	-2	-	6
Financial Account	-2,774	-17,174	-25,249	47.0	-29,075
Direct Investments (net)	515	-3,725	-3,204	-14.0	-8,639
Portfolio Investments (net)	-4,206	-8,367	-17,410	108.1	-15,335
Net Acquisition of Financial Assets	279	599	173	-71.1	1,085
Net Incurrence of Liabilities	4,485	8,966	17,583	96.1	16,420
Equity Securities	693	747	2,203	194.9	2,279
Debt Securities	3,792	8,219	15,380	87.1	14,141
Other Investments (net)	-2,051	-13,544	-2,235	-83.5	4,948
Currency and Deposits	-2,102	-4,748	-157	-96.7	6,379
Net Acquisition of Financial Asse	-717	-65	2,529	-	7,974
Net Incurrence of Liabilities	1,385	4,683	2,686	-42.6	1,595
Central Bank	-13	-178	-81	-54.5	-379
Banks	1,398	4,861	2,767	-43.1	1,974
Foreign Banks	1,392	3,674	2,319	-36.9	3,127
Foreign Exchange	1,199	-237	641	-	1,060
Turkish Lira	193	3,911	1,678	-57.1	2,067
Non-residents	6	1,187	448	-62.3	-1,153
Loans	-31	-7,111	570	-	2,740
Net Acquisition of Financial Asse	53	241	-234	-	-246
Net Incurrence of Liabilities	84	7,352	-804	-	-2,986
Banking Sector	704	345	-1,312	-	-5,194
Non-bank Sectors	-441	7,882	762	-90.3	2,506
Trade Credit and Advances	91	-1,741	-2,640	51.6	-4,215
Other Assets and Liabilities	-9	56	-8	-	44
Reserve Assets (net)	2,968	8,462	-2,400	-	-10,049
Net Errors and Omissions	987	1,850	-4,474	-	5,259

Source: Datastream, CBRT

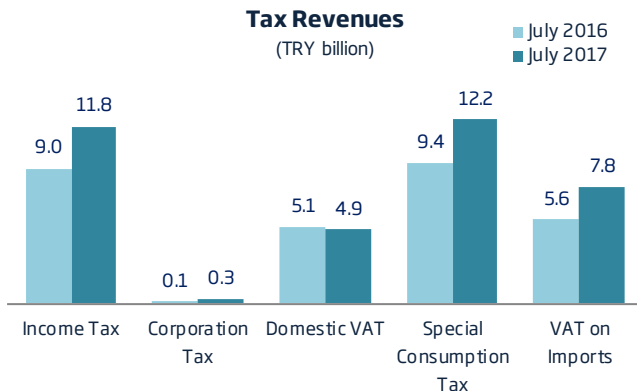
The central government budget posted a surplus in July.

Budget expenditures increased by 21.5% in July compared to the same month of the previous year while budget revenues rose by 23.3%. Thus, central government budget surplus, which was 129 million TRY in July 2016, became 926 million TRY in the same month of this year. Primary surplus surged by 2.4 billion TRY and became 6.7 billion TRY during this period.

Due to the expansionary fiscal policies, budget ran a deficit of 24.3 billion TRY in the first 7 months of the year. In this period, budget expenditures rose by 18.9% yoy while the growth in budget revenues remained limited with 10.7%.

Best performance of the year in tax revenues...

Tax revenues increased rapidly in July due to restructuring of public receivables and recovery in economic activity. The annual increase in tax revenues was 27.6% in this period. The largest contributions to this increase came from income tax and special consumption tax revenues, both up by around 30% on an annual basis. Increasing by 39.4%, VAT on imports also pushed tax revenues up partly due to the effect of the rise in exchange rates.



Budget expenditures...

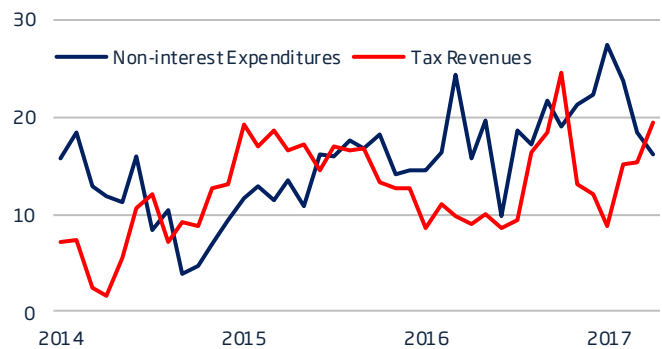
Non-interest expenditures, which account for 90% of budget expenditures, increased by 19.8% in July. This

increase stemmed mostly from the rises recorded in compensation of employees, current transfers and capital expenditures. In addition to these, defense and security spending, which is monitored under goods and services procurements, was 656 million TRY higher than a year ago and hence had an upward impact on budget expenditures.

Having declined in both May and June, interest expenditures showed the fastest increase in almost two years in July. This also had a negative impact on the budget performance. In this period, interest payments on external debt amounted to 1.5 billion TRY.

Non-interest Expenditures and Tax Revenues

(3-month ma, annual % change)



Expectations...

In line with the expectations, the upturn in the economy has begun to be felt in tax revenues in July, the first month of the second half of the year. Revenues from restructurings have also supported the budget performance since the beginning of the year. Budget expenditures, on the other hand, are expected to lose some steam should new stimulus packages not come to the table to support economic activity. Furthermore, the deficit widening impact of postponing the social security premium payments, totaling 9 billion TRY, to the last three months of the year is also expected to disappear in the last quarter of the year.

Central Government Budget

	July			January-July			2017 Budget		Real./ Target (%)
	2016	2017	% Change	2016	2017	% Change	Target	Target (%)	
Expenditures	42.4	51.5	21.5	316.3	376.0	18.9	645.1	58.3	
Interest Expenditures	4.2	5.8	37.2	30.6	32.8	7.1	57.5	57.0	
Non-Interest Expenditures	38.2	45.8	19.8	285.7	343.2	20.1	587.6	58.4	
Revenues	42.5	52.5	23.3	317.5	351.7	10.7	598.3	58.8	
Tax Revenues	36.1	46.1	27.6	252.7	292.1	15.6	511.1	57.2	
Other Revenues	6.4	6.4	-0.4	64.9	59.5	-8.2	87.2	68.3	
Budget Balance	0.1	0.9	615.3	1.3	-24.3	-	-46.9	51.9	
Primary Balance	4.3	6.7	54.5	31.9	8.4	-73.5	10.6	79.3	

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

Source: Ministry of Finance, Datastream

CPI Higher-than-expected monthly CPI growth...

Monthly CPI inflation came in at 0.52% in August, above market expectations. This was the strongest August increase since 2012. On the other hand, Domestic Producer Price Index (D-PPI) remained elevated posting a monthly rise of 0.85%.

August (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	-0.29	0.52	0.08	0.85
Year-to-Date	4.53	6.60	3.49	9.52
Annual	8.05	10.68	3.03	16.34
Annual Average	7.98	9.66	4.51	12.05

Annual CPI inflation back to double-digit levels...

Annual CPI inflation went back to double-digit levels in August standing at 10.7%. The annual D-PPI inflation also surged to 16.3%, marking the highest figure in the last four months.

Clothing and food prices continued to pull inflation down.

As was the case in both June and July, clothing and food prices became the main expenditure groups that pulled the inflation down in August. Clothing and footwear prices contracted by 3.1% compared to the previous month and limited the rise in CPI by 23 basis points. Declining by 0.22% mom, food prices dragged the inflation down by 5 basis points. Increase in demand for food and clothing ahead of Sacrifice Feast holiday may have offset further price declines in these items. As a matter of fact, clothing and footwear prices have exhibited the weakest August decline since 2004.

The main expenditure groups that contributed most to the rise in monthly CPI inflation were transportation, household equipment and housing. Transportation prices, which have the second biggest weight in CPI basket after food prices, surged fast by 2.1% mom on the back of automobile and fuel prices. Registering such a performance, transportation

prices made a contribution of 34 basis points to the monthly CPI inflation. Housing equipment followed transportation group by a contribution of 13 basis points while housing added 11 basis points to the monthly rise in the overall index.

Surge in core inflation indicators...

The increase in CPI was limited by the seasonal products in August. Indeed, excluding seasonal products, monthly consumer price inflation becomes 1.05%. In this period, C index*, which is the CBRT's favorite among the main core inflation indicators, recorded an annual rise of 10.16% continuing to move upward as in July.

Looking at the prices of the goods group in August, it is seen that the energy prices posted the fastest monthly rise since January. Durable goods prices also rose by 1.98%, pointing to inflationary pressures.

D-PPI reflects higher energy prices...

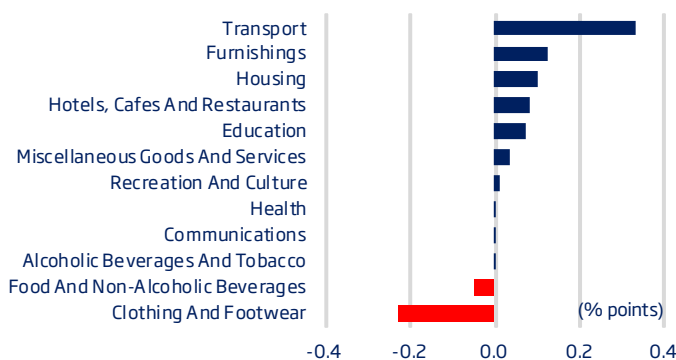
Energy, metals and furniture group prices brought the monthly D-PPI inflation up in August while textile products and food prices exerted downward pressure on it. According to main industrial groups, it was noteworthy that energy prices recorded the fastest rise since January.

Deterioration in inflation might persist until December.

During the upcoming fall months, annual inflation is expected to maintain high levels due to seasonal factors. Movements in FX rates and oil prices will also preserve their importance to the overall course of price levels.

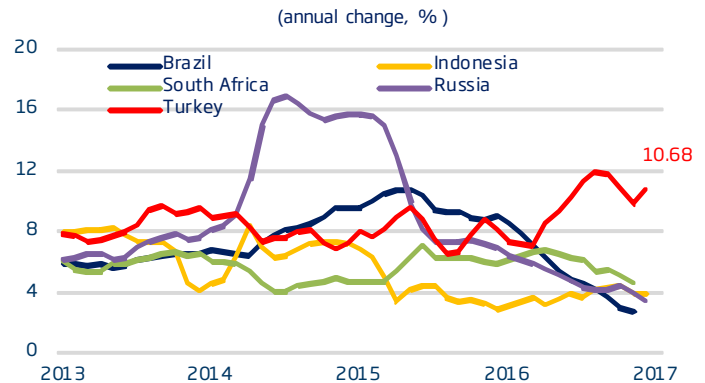
Adding the August data into the picture, Turkey resumed decoupling negatively from its peer countries in inflation indicators. Deterioration in pricing behaviors plays a huge role in this development as well as the country-specific conditions. Against this backdrop, the trajectory of market expectations for long-term inflation rates and Central Bank policies will continue to be monitored closely in the period ahead.

Contributions to the Monthly CPI Inflation



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

Emerging Market CPI's



Source: Datastream, Turkstat

Geopolitical developments and central banks' messages weighed on markets.

Geopolitical developments have substantially set the agenda for global markets in the first half of August. Markets remained under pressure during this period as the escalating tensions between the United States and North Korea were closely monitored. The VIX index, which reflects global risk perception, has recorded a sharp increase, hitting its highest level since November 2016. In the following days, on the other hand, weak data on inflation indicators in the US as well as the decline in geopolitical tensions resulted in an increase in risk appetite.

Investors maintained a cautious mode ahead of the Jackson Hole conference held towards the end of August. Following this conference where the heads of the leading central banks gave no signals about monetary policy, the euro continued to appreciate as the expectation of a move towards normalization in monetary policy in the Euro Area continued to strengthen somewhat. Along with the ongoing turbulences in the US government, the weakening of the Fed's interest rate hike expectations provided support to global markets.

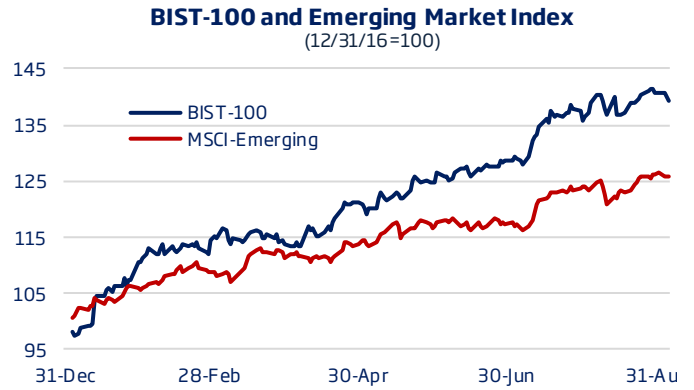


BIST-100 index...

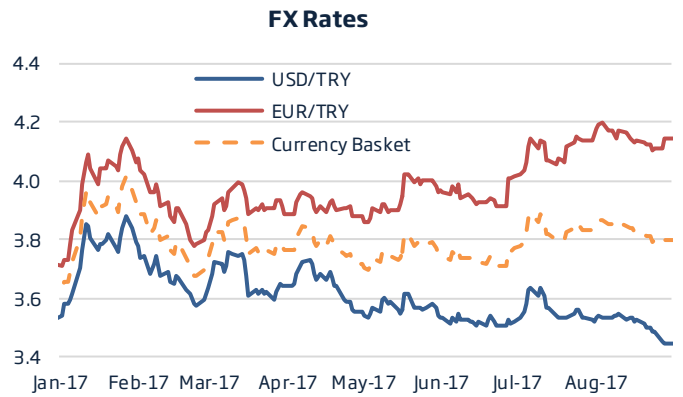
The stock market, having been on an upward trend since the beginning of the year, sustained its strong performance during the first week of August. In the following days, the global sell-off due to the geopolitical developments has also weighed on domestic markets. Against this backdrop, the BIST-100 index has fluctuated in the second half of August. As of August 31, the index increased by 2.3% compared to the end of July, reaching 110.010.

Fall in USD/TRY...

USD/TRY, which moved in a band of 3.50 to 3.55 in the first half of August, resumed the downward trend through the end of the month. As of August 31, USD/TRY was 3.4526. EUR/TRY, however, recorded only a limited decline in this

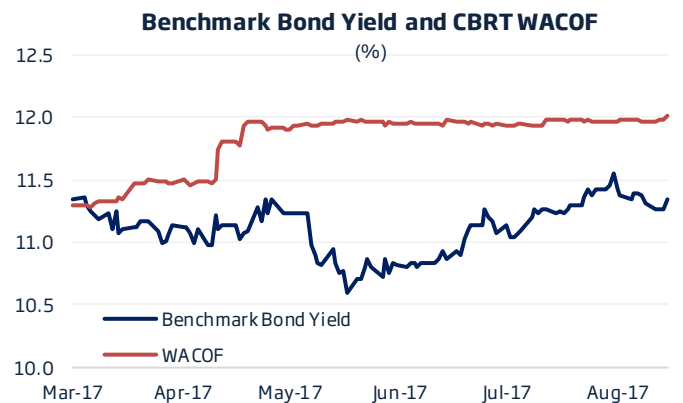


period due to the performance of EUR/USD parity and became 4.1048.



2-year benchmark bond yield...

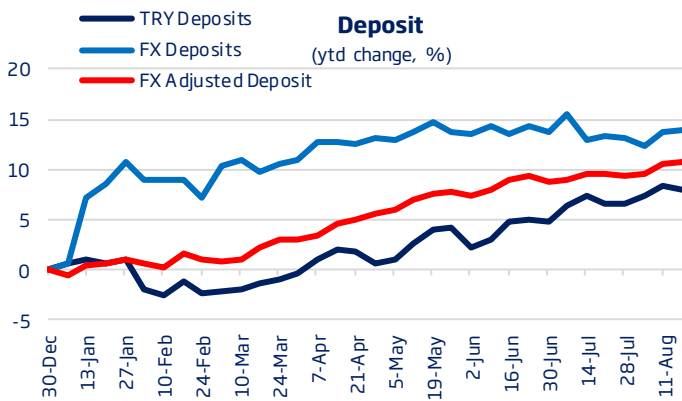
In line with the tight liquidity policy, the weighted average cost of the CBRT funding hovered just below 12% in August. However, the rise in Treasury's borrowing requirement and, consequently, the increase of Treasury's debt rollover ratio above the 100% level have put upward pressure on interest rates. Thanks to the rising risk appetite towards the end of the month, the compound yield of the 2-year benchmark bond moved downward and became 11.34% as of August 31.



Source: CBRT, Reuters, Datastream

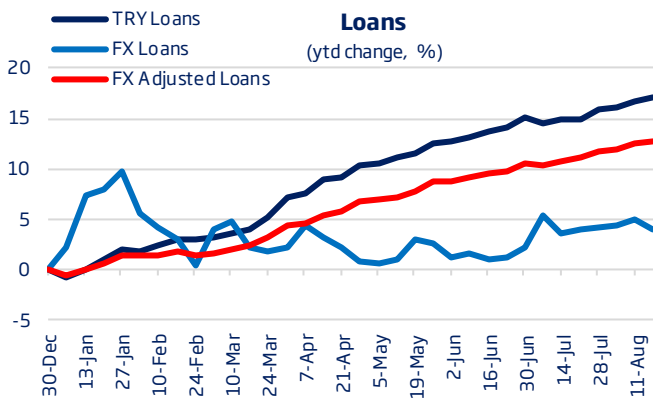
Deposit volume rose by 10.6% ytd.

According to Weekly Bulletin published by BRSA, as of 18 August total deposit volume rose by 10.6% compared to the end of 2016 and was realized as 1,704 billion TRY. In this period, increase in TRY deposit was 7.9% while FX deposit expanded by 14%. Expansion in FX deposits in USD terms became 14.4% in the same period. As the exchange rates fell below the year-end level, the effect of FX on total deposit volume has weakened. Indeed, growth in total deposits was 10.7% ytd according to the exchange rate adjusted figures.



TRY loan volume expanded by 17.1% ytd.

Despite the moderate rise in the volume of deposits, loans continued to rise steadily. As of August 18, TRY loan volume picked up by 17.1% compared to the end of 2016. Although FX loan volume in USD terms was on the rise since the end of June, it fell slightly in the week ended 18 August and thus surged by 4.4% compared to the year-end. Hence, total credit volume increased by 12.6% in the same period. While 11.1 points of this increase stemmed from TRY loans, FX loans contributed to the expansion of the total loan volume by 1.5 points. As of August 18, credit growth was 12.7% ytd according to the exchange rate adjusted figures.



Analysis of annual growth rates showed that deposit volume increased by 21.0% as of August 18 while the loan volume expanded by 23.8%.

Non-performing loan ratio in the banking sector came in at 3.05% as of August 18. NPL ratios for consumer and commercial loans became 3.91% and 2.89%, respectively.

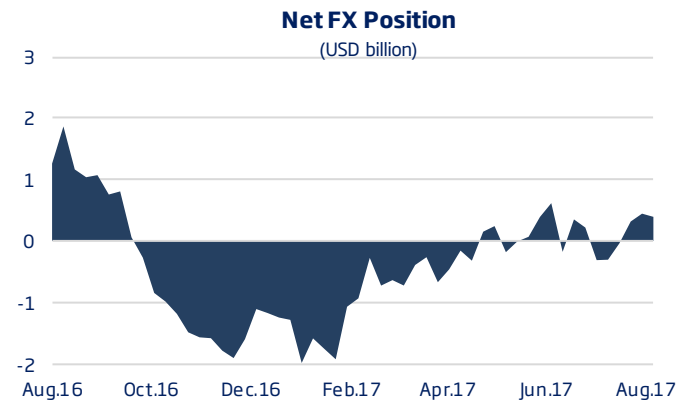
Securities portfolio...

As of August 18, securities portfolio of the banking sector grew by 4.8% compared to the year-end. However, the securities available for sale fell by 19.8% in this period. While the securities subject to repo and held to maturity contracted due to the changes in the funding composition of the CBRT, the portfolio of securities held as collateral continued to expand.

The portfolio of securities held under custody surged by 11.2% ytd as of August 18. Non-residents' growing demand for government domestic debt securities was worthy of attention. The year-to-date rise in non-residents' and residents' securities was 16.9% and 7.1%, respectively.

Net foreign currency position...

As of August 18, banks' on-balance sheet FX position was (-) USD 48,472 million while off-balance sheet FX position was realized as (+) USD 48.864 million. Hence, banking sector's net FX position became (+) USD 392 million.



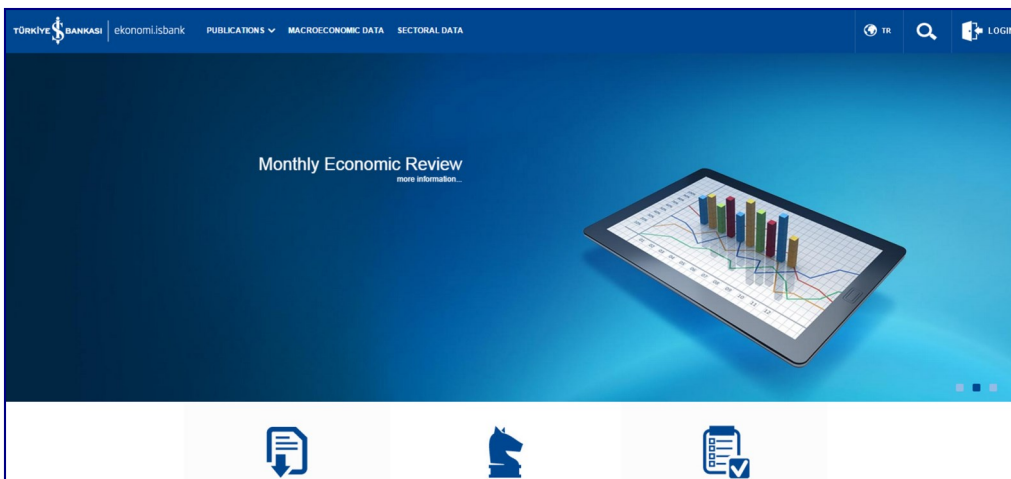
Political developments have been high on the agenda of the global economy in the recent period. The global risk perception has deteriorated due to escalated political tensions between North Korea and the United States. Domestic political developments in the US. have also made it even harder for President Trump to find support for his economic policies, which, in turn, have increased the question marks over the future performance of the U.S. economy.

The views that advanced economies have neared the end of extra loose monetary policies have maintained their place on the agenda. In the current conjuncture where inflation indicators are persistently weak, the signals given by the Fed have caused the possibility of an interest rate increase during the rest of this year to diminish. Nevertheless, the Fed is expected to take its first step on balance sheet unwinding process in near future. ECB might also give exit signals from its asset purchase programme later this year as the economy in the region has a stable outlook. It is noteworthy that, even though all these developments occasionally put pressure on markets, the global volatility indices still remain at comparatively low levels. This keeps concerns over the sustainability of the surge in asset prices alive.

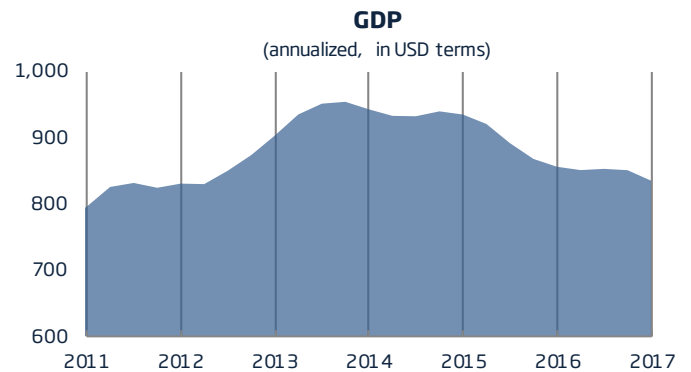
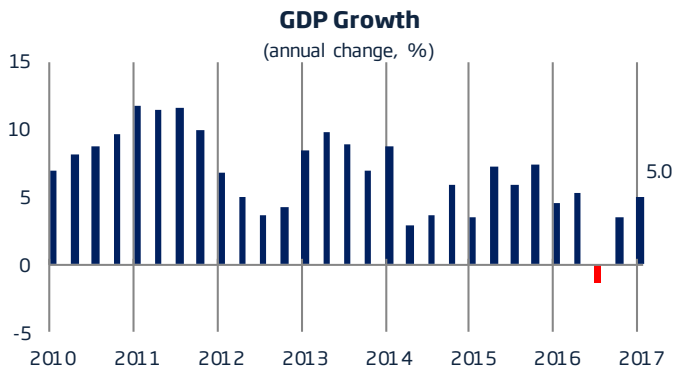
Forecasts (%)	2017	2018
Growth	4.7	4.1
CA Deficit/GDP	4.5	4.8
Inflation	9.5	8.5

Year-end forecast for inflation

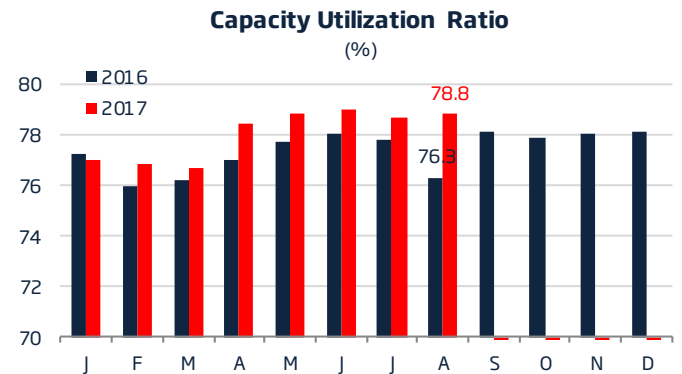
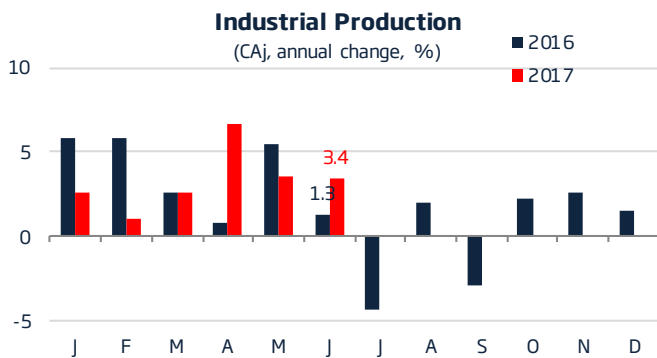
Our reports are available on our website <https://research.isbank.com.tr>



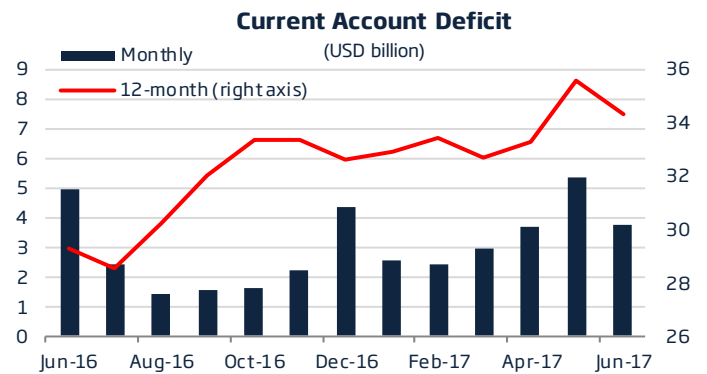
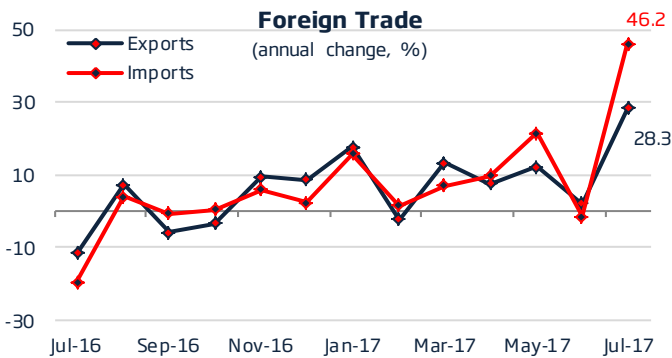
Growth



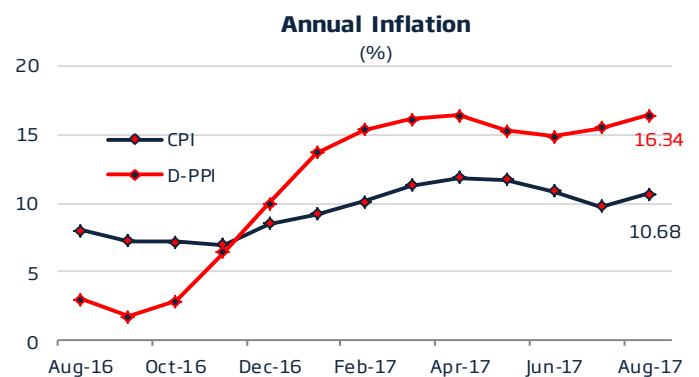
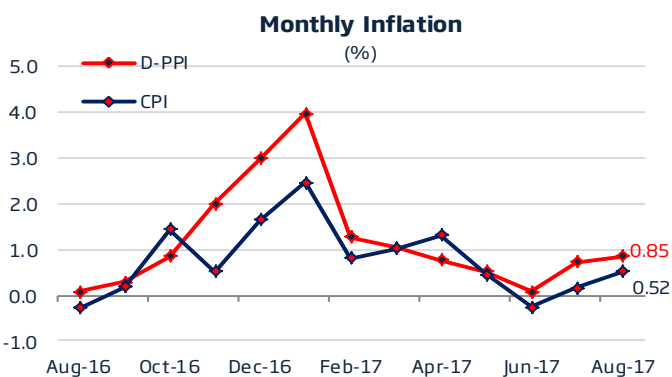
Industrial Production and Capacity Utilization Ratio



Foreign Trade and Current Account Balance



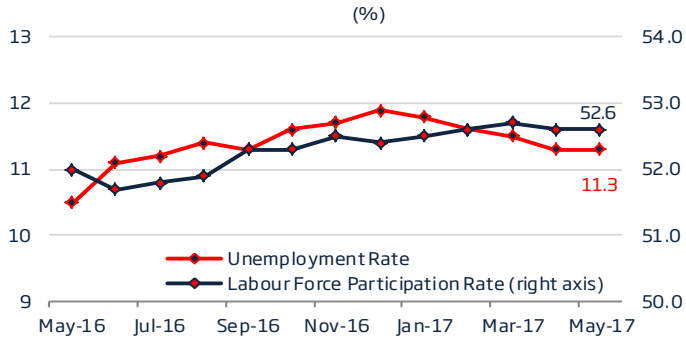
Inflation



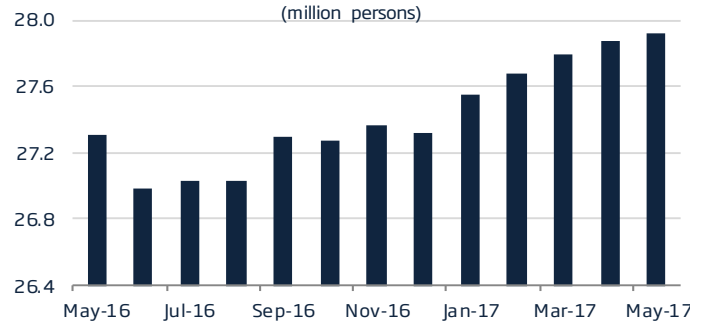
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

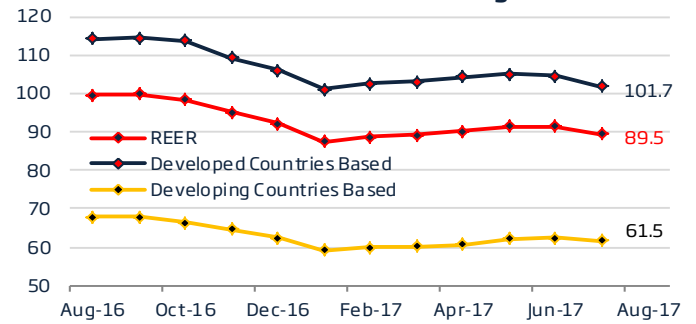


FX Market

Currency Basket

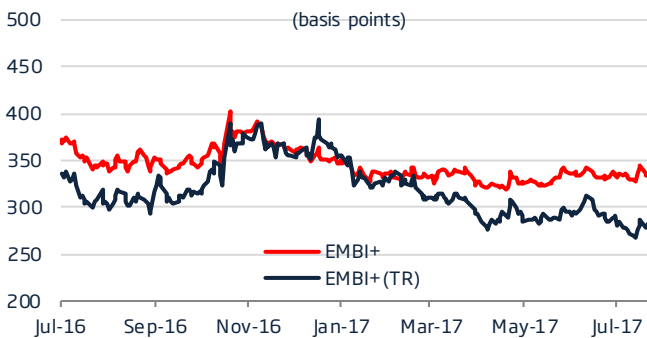


CPI Based Real Effective Exchange Rate

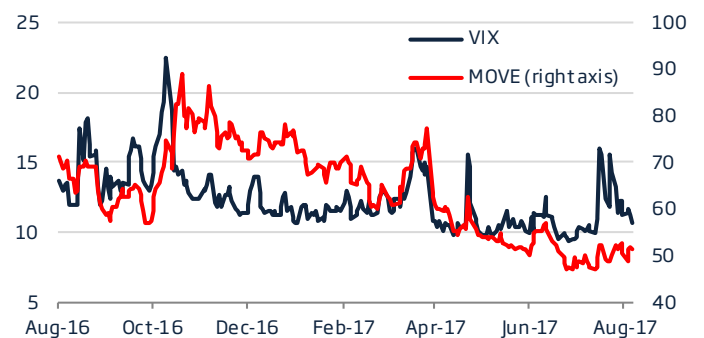


Risk Indicators

Risk Premiums (basis points)

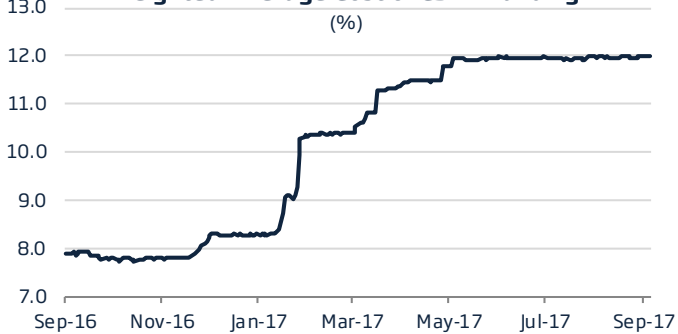


VIX and MOVE Index

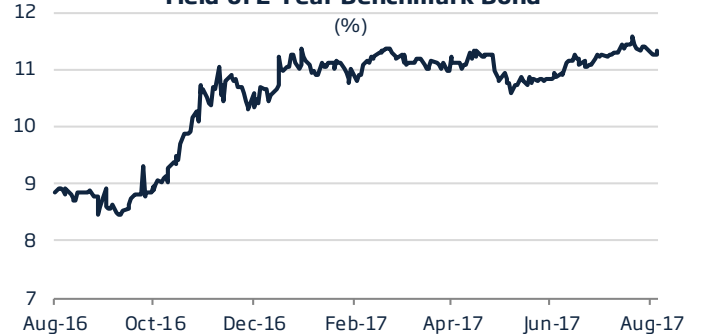


Interest Rates

Weighted Average Cost of CBRT Funding (%)



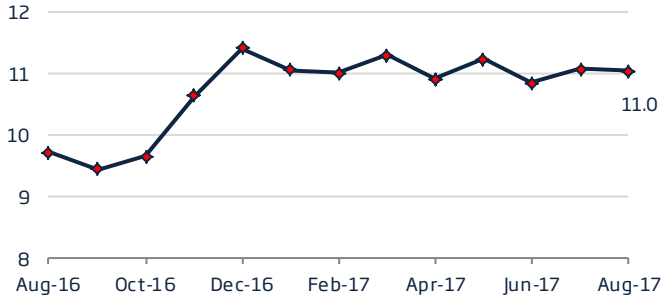
Yield of 2-Year Benchmark Bond (%)



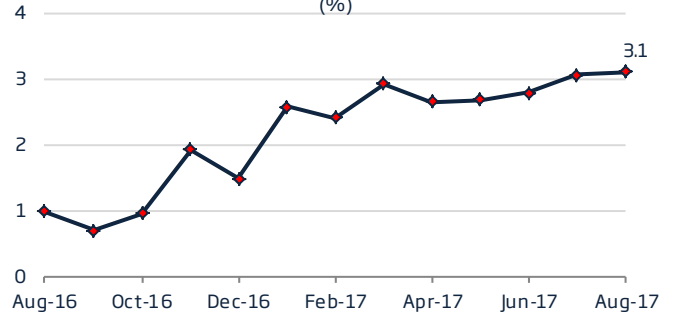
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market

Average Compound Yields in Treasury Auctions (%)

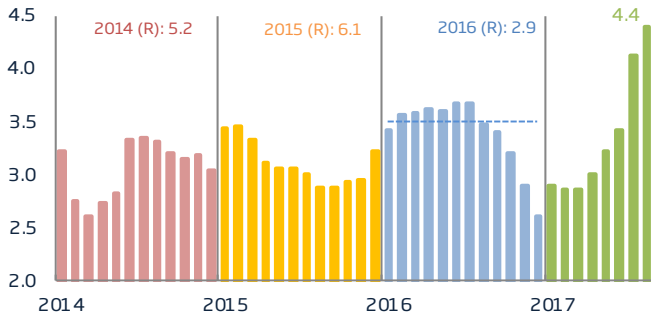


Expected Real Yield of TRY GDDIs (%)

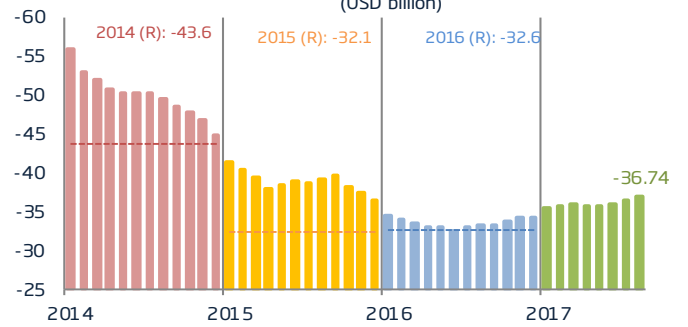


CBRT's Survey of Expectations and Other Leading Indicators

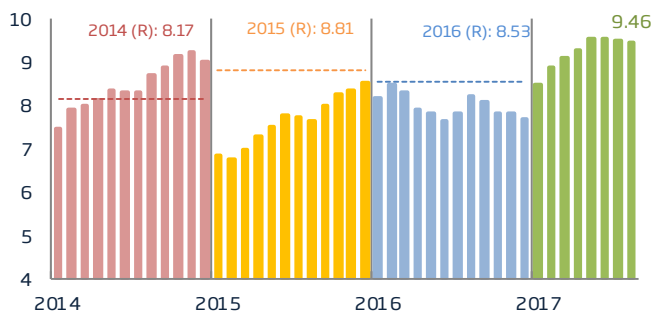
Expected GDP Growth for the Current Year (%)



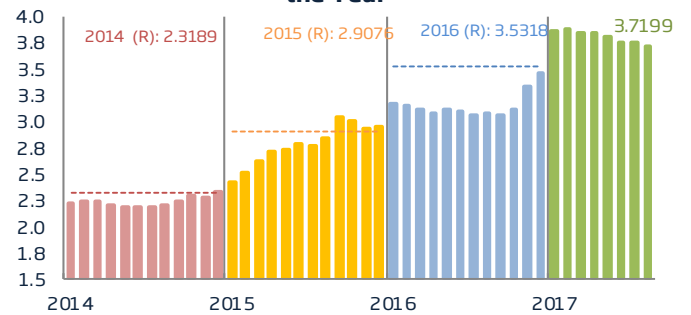
Expected CAD for the Current Year (USD billion)



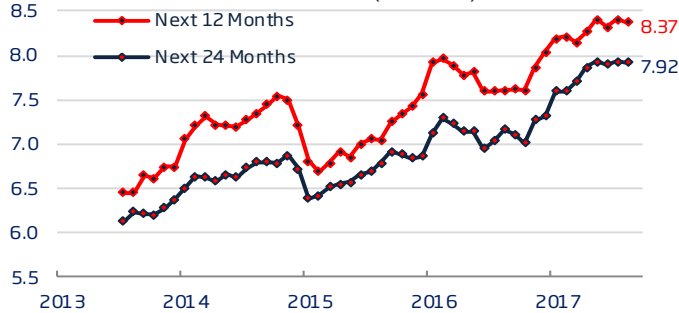
Expected CPI Inflation by the End of the Year (annual, %)



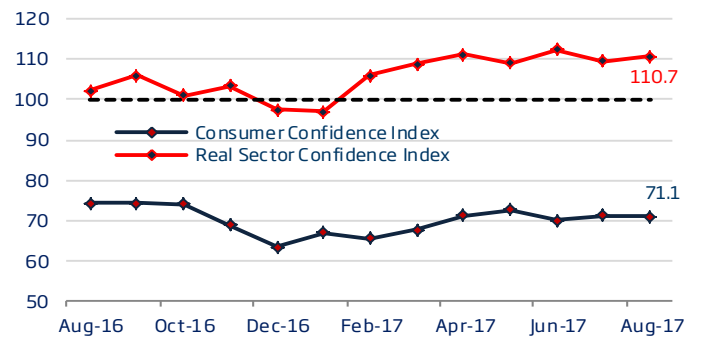
Expected Level of USD/TRY by the End of the Year



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
Growth								
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	-	-
Inflation (%)						Jun-17	Jul-17	Aug-17
CPI (annual)	6.16	7.40	8.17	8.81	8.53	10.90	9.79	10.68
Domestic PPI (annual)	2.45	6.97	6.36	5.71	9.94	14.87	15.45	16.34
Seasonally Adjusted Labor Market Figures						Mar-17	Apr-17	May-17
Unemployment Rate (%)	8.8	9.1	10.3	10.2	11.9	11.5	11.3	11.3
Labor Force Participation Rate (%)	48.5	48.5	51.0	51.7	52.4	52.7	52.6	52.6
FX Rates						Jun-17	Jul-17	Aug-17
CPI Based Real Effective Exchange Rate	110.3	100.3	105.0	97.5	92.0	91.5	89.5	89.7
USD/TRY	1.7847	2.1485	2.3378	2.9189	3.5176	3.5226	3.5237	3.4526
EUR/TRY	2.3530	2.9605	2.8288	3.1708	3.7102	4.0177	4.1544	4.1048
Currency Basket (0.5*EUR+0.5*USD)	2.0688	2.5545	2.5833	3.0448	3.6139	3.7701	3.8390	3.7787
Foreign Trade Balance⁽¹⁾ (USD billion)						May-17	Jun-17	Jul-17
Exports	152.5	151.8	157.6	143.8	142.5	148.1	148.4	151.2
Imports	236.5	251.7	242.2	207.2	198.6	207.6	207.3	214.1
Foreign Trade Balance	-84.1	-99.9	-84.6	-63.4	-56.1	-59.5	-58.9	-62.9
Import Coverage Ratio (%)	64.5	60.3	65.1	69.4	71.8	71.3	71.6	70.6
Balance of Payments⁽¹⁾ (USD billion)						Apr-17	May-17	Jun-17
Current Account Balance	-48.0	-63.6	-43.6	-32.1	-32.6	-33.3	-35.5	-34.3
Capital and Financial Accounts	-48.9	-62.1	-41.6	-21.9	-21.0	-29.5	-32.4	-29.1
Direct Investments (net)	-9.5	-9.3	-5.8	-12.5	-9.2	-9.2	-9.9	-8.6
Portfolio Investments (net)	-41.0	-24.0	-20.1	15.7	-6.3	-7.5	-12.1	-15.3
Other Investments (net)	-19.2	-38.8	-15.3	-13.4	-6.4	-3.2	-1.1	4.9
Reserve Assets (net)	20.8	9.9	-0.5	-11.8	0.8	-9.5	-9.3	-10.0
Net Errors and Omissions	-0.9	1.6	2.0	10.2	11.6	3.8	3.1	5.3
Current Account Balance/GDP (%)	-5.5	-6.7	-4.7	-3.7	-3.8	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						May-17	Jun-17	Jul-17
Expenditures	361.9	408.2	448.8	506.3	583.7	266.8	324.4	376.0
Interest Expenditures	48.4	50.0	49.9	53.0	50.2	25.7	27.0	32.8
Non-interest Expenditures	313.5	358.2	398.8	453.3	533.4	241.0	297.4	343.2
Revenues	332.5	389.7	425.4	482.8	554.4	255.3	299.2	351.7
Tax Revenues	278.8	326.2	352.5	407.8	458.7	209.6	246.1	292.1
Budget Balance	-29.4	-18.5	-23.4	-22.6	-29.3	-11.5	-25.2	-24.3
Primary Balance	19.0	31.4	26.5	30.4	21.0	14.2	1.8	8.4
Budget Balance/GDP (%)	-1.9	-1.0	-1.1	-1.0	-1.1	-	-	-
Central Government Debt Stock (TRY billion)						May-17	Jun-17	Jul-17
Domestic Debt Stock	386.5	403.0	414.6	440.1	468.6	490.2	495.3	504.6
External Debt Stock	145.7	182.8	197.9	238.1	291.0	316.2	316.4	312.5
Total Debt Stock	532.2	585.8	612.5	678.2	759.6	806.4	811.8	817.1

(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 ⁽¹⁾
TOTAL ASSETS	1,370.7	1,732.4	1,994.3	2,357.4	2,731.0	2,931.0	2,972.0	8.8
Loans	794.8	1,047.4	1,240.7	1,485.0	1,734.3	1,889.2	1,919.2	10.7
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	-
Securities	270.0	286.7	302.3	329.7	351.6	366.2	368.2	4.7
TOTAL LIABILITIES	1,370.7	1,732.4	1,994.3	2,357.4	2,731.0	2,931.0	2,972.0	8.8
Deposits	772.2	945.8	1,052.7	1,245.4	1,453.6	1,559.5	1,578.1	8.6
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	-
Securities Issued	37.9	60.6	89.3	97.8	116.3	127.1	131.0	12.7
Payables to Banks	173.4	254.2	293.2	361.3	417.6	420.0	425.1	1.8
Funds from Repo Transactions	79.9	119.1	137.4	156.7	137.8	86.9	87.4	-36.5
SHAREHOLDERS' EQUITY	181.9	193.7	232.0	262.3	300.3	327.6	330.9	10.2
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	21.2	25.4	-
RATIOS (%)								
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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