

## Global Economy

## Turkish Economy

- ◆ OECD's Economic Outlook report suggested that the recovery in the global economy has continued to strengthen and become more broad-based. The Organization revised up its global growth forecasts for both 2017 and 2018 by 0.1 points to 3.6% and 3.7%, respectively.
- ◆ The third quarter US economic growth was revised up to 3.3% from a previously reported 3%. Even though economic activity has sustained its solid performance in the last quarter as well, inflation indicators remained somewhat subdued.
- ◆ The news flow regarding US tax cuts have been closely monitored. As the tax reform proposal passed from the Senate, the two versions of the proposals (the other of which was released and approved by the House of Representatives) will be reconciled.
- ◆ The minutes of the Fed's meeting ended on November 1<sup>st</sup> showed that some Fed officials cited concerns over sluggish inflation outlook.
- ◆ Coalition talks in Germany occasionally put downward pressure on euro.
- ◆ Economic activity in Euro Area continued to strengthen. PMI data have signaled that growth in manufacturing industry and services sector in the region has accelerated in November. Unlike the previous months, inflation has picked up on a monthly basis in November.
- ◆ As British Prime Minister May has agreed to EU demands on the Brexit bill on November 28<sup>th</sup>, the prospects for exit negotiations to move forward have improved.
- ◆ Recent data on Chinese economy have pointed to a mild slowdown.
- ◆ OPEC extended the deal to curb oil production from March 2018 to the end of 2018, as widely expected.
- ◆ Seasonally adjusted unemployment rate declined to 10.8% in August, down 0.3 points from the previous term. Labor force participation rate, on the other hand, continued to increase, reaching a historically high of 52.9%.
- ◆ Calendar adjusted industrial production expanded by 10.4% yoy in September. The rise in industrial production was supported by almost all main industrial groupings. Industrial production in the third quarter of the year, boosted by a low base effect, posted an annual expansion of 10%.
- ◆ Export volume increased by 9% yoy to 13.9 billion USD while import volume rose sharply by 25% yoy to 21.3 billion USD. Therefore, foreign trade deficit expanded by 74% yoy.
- ◆ Current account deficit came in at 4.5 billion USD in September, exceeding market expectations. 12-month cumulative current account deficit widened to 39.3 billion USD in September, the highest level in more than two years.
- ◆ Central government budget deficit, which was 104 million TRY in October 2016, realized as 3.3 billion TRY in the same month of this year. Having stood at 12.1 billion TRY in the first ten months of the previous year, budget deficit reached 35 billion TRY in the same period this year.
- ◆ Monthly CPI inflation was 1.49% in November, above market expectations. Annual CPI inflation reached 12.98% in this period.
- ◆ CBRT has started to launch Turkish lira-settled forward foreign exchange sale auctions in order to manage the risk of the real sector. Moreover, the CBRT has reduced the banks borrowing limits in the Interbank Money Market to zero for overnight transactions from November 22.

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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

**H. Erhan Gül** - Asst. Manager  
erhan.gul@isbank.com.tr

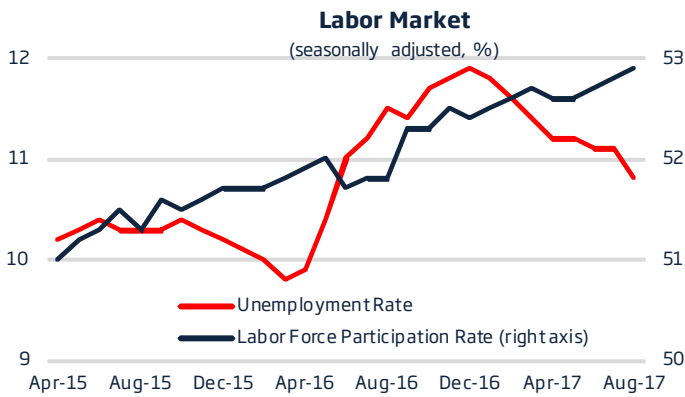
**İlker Şahin** - Economist  
ilker.sahin@isbank.com.tr

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

**Ayşim Kalkan** - Economist  
aysim.kalkan@isbank.com.tr

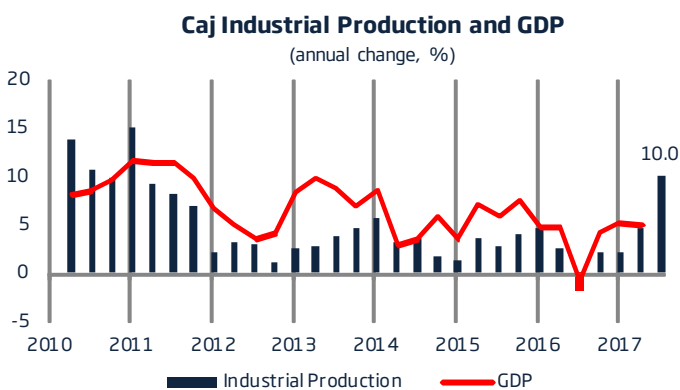
### Employment indicators...

Recovery in labor force indicators continued in August. The seasonally adjusted unemployment rate declined to 10.8% in August, down 0.3 points from the previous term. The labor force participation rate, on the other hand, continued to increase, reaching a historically high of 52.9%. In August, the number of employed persons increased by 204 thousand, while the number of unemployed persons decreased by 111 thousand. Analyzing the seasonally unadjusted figures, 2.2 million new jobs were created in the January-August period. Considering that the average number of jobs created in the first eight months between 2010 and 2016 is 1.5 million, the measures taken by the economy management seem to support employment.

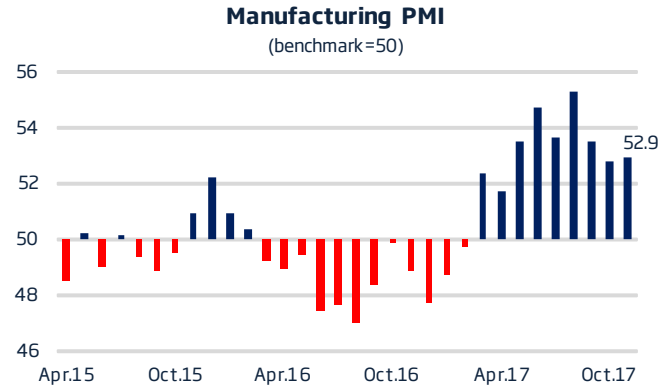


### Industrial production rose by 10% in the 3<sup>rd</sup> quarter.

In September, calendar adjusted industrial production expanded by 10.4% yoy. Due to the rise in durable consumer goods demand in the last month of special consumption tax (SCT) reductions, production in this group increased by 36.5%. Analyzing manufacturing sectors, rapid expansions among the most of the sectors attracted the attention, while the annual growth in furniture production (66.3%) stood out. Thus, industrial production expanded by 10% annually in the third quarter of this year thanks to the low base effect. On the other hand, it is estimated that industrial production will lose momentum in the last quarter of the year in line with the expiring SCT cuts and gradual disappearance of the base effect.

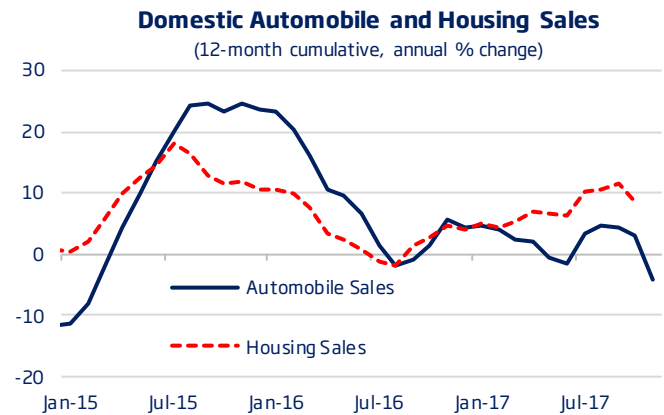


Manufacturing PMI index, on the other hand, was at 52.9 in November, confirming that the sector's expansion continued in 9 consecutive months.



### Loss of momentum in automobile and house sales...

In October, house sales decreased by 5.7% yoy to 122,882 units. In this period, the sharp decline of mortgaged sales by 19.8% put housing market under pressure. Other house sales, on the other hand, expanded by 2.6% in October limited the contraction in house sales. 12-month cumulative figures show that annual rate of increase, which was 11.5% in September, declined to 8.7% in October, indicates a loss of momentum in house sales.



In January-November period, domestic automobile sales contracted by 4% yoy. Due to the import-weighted market structure, the depreciation of the TL caused auto prices to increase resulting in weak market performance. In addition, the annual growth performance of the market may be negatively affected in the last month of 2017 as automobile demand was pulled forward last year in December due to the anticipation of tax increases.

Source: Treasury, Turkstat, Datastream, CBRT

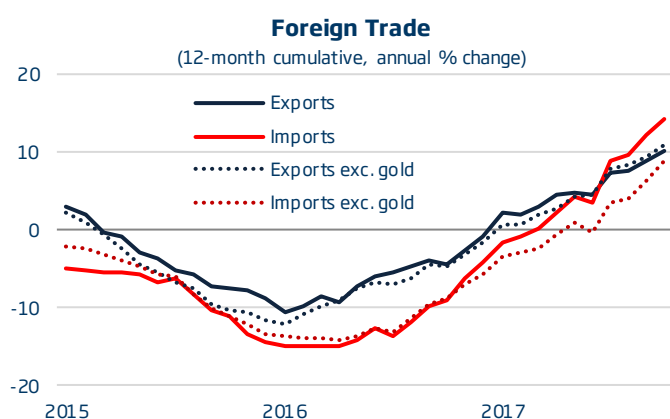
	October		Δ (%)	Jan.-Oct.		Δ (%)
	2016	2017		2016	2017	
Exports	12.8	13.9	9.0	117.0	129.0	10.3
Imports	17.0	21.3	25.0	163.3	190.2	16.5
<b>Foreign Trade Deficit</b>	<b>-4.2</b>	<b>-7.3</b>	<b>73.9</b>	<b>-46.3</b>	<b>-61.2</b>	<b>32.1</b>
Import Coverage (%)	75.2	65.6	-	71.6	67.8	-

### Foreign trade deficit continued to widen.

In October, foreign trade deficit continued to exhibit a rapid expansion as in September. Export volume increased by 9% yoy to 13.9 billion USD in this period while import volume rose sharply by 25% yoy to 21.3 billion USD. Therefore, foreign trade deficit expanded by 74% yoy.

In the first 10 months of the year, exports went up by 10.3% yoy while imports surged by 16.5%. The annual expansion in foreign trade deficit exceeded 30% in this period. Having stood at 71.6% in the first ten months of the previous year, import coverage ratio declined to 67.8% in the same period this year.

Gold trade continued to push foreign trade deficit up also in October. According to 12-month cumulative data, the annual expansion in foreign trade deficit, which was 24.8%, decreases to 4.5% when the gold trade was excluded. In this period, net gold trade added 9 billion USD to the expansion of the foreign trade deficit totaling 71 billion USD.



### Strong performance in automotive and machinery exports...

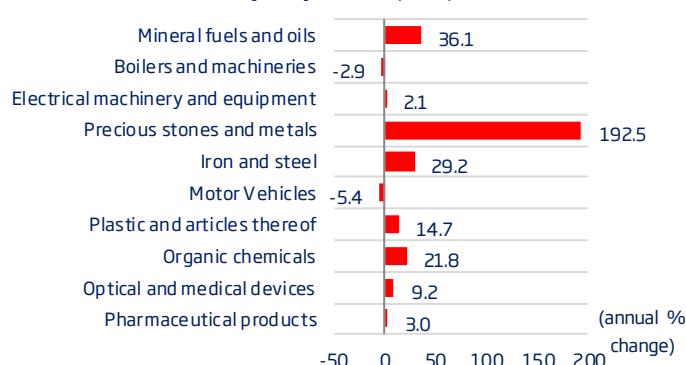
Exports of motor vehicles and boilers-machineries sustained their solid performance in October. Among the top 15 sectors with largest exports volume, only precious stones and metals sector registered an annual fall in this period. Having lost some steam in the third quarter of the year, iron and steel exports regained momentum in October. Strengthening euro, the currency through which Turkey conducts 50% of its total exports, provided a boost to the export figures during this period. The annual rise in EUR/USD parity reached almost 7% in October.

### Ongoing upward pressure from higher energy imports on the foreign trade deficit...

In addition to the strong gold imports, energy imports have been weighing on the foreign trade deficit. Upbeat economic activity and higher oil prices resulted in a 36.1% annual increase in energy imports in January-October period. During this period, due to a growing construction sector, expansion in iron and steel imports also stood out. Other than these, it was noteworthy that imports of organic chemical products, which provide inputs for many different sectors, remained elevated.

### Top 10 Import Items

(January-October period)



An improving economic activity continues to mirror in the import of intermediate goods. Intermediate goods imports increased by 35.2% year-on-year in October and by 27.5% in January-October period despite the rapid depreciation in TRY.

Having followed a weak course in the first months of the year, consumer goods imports continued to recover in October after September. Capital goods imports, which are an indication of investment outlook, have also displayed a mild growth performance for the last four months.

### Main export destinations...

Exports to Germany, our top export market, showed a positive trend. Exports to the UK, our second largest export market, declined on an annual basis in almost all months of the year. The US, having had an increasing share in Turkey's total exports in recent years, ranked third among the list of major export destinations. Exports to the US increased roughly by 33% yoy in the January-October period.

### Expectations...

As has been the case throughout the year, a possible rise in oil prices, as well as a strong domestic demand, may exert an upward pressure on foreign trade deficit in both November and December. On the other hand, we believe that the sustained recovery in EU economies, offering a better outlook for Turkey's exports, will somewhat limit the deterioration in foreign trade balance in the period ahead.

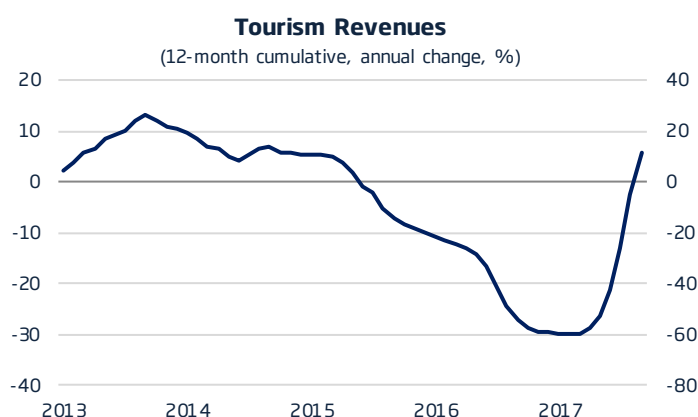
### A higher than expected current account deficit...

Current account deficit came in at 4.5 billion USD in September, exceeding market expectations. The deficit was 1.6 billion USD in the same month of last year. More than doubled foreign trade deficit was mainly behind this annual expansion. On the other hand, the recovery in tourism revenues continued in this period.

In the first 9 months of the year, current account deficit expanded by 27.1% yoy to 31.1 billion USD. According to 12-month cumulative data, current account deficit widened to 39.3 billion USD in September, the highest level in more than two years. Excluding gold and energy, the deficit remained limited with 0.7 billion USD.

### Rapid increase in tourism revenues...

Having improved since April this year, tourism revenues continued to recover in September. Tourism revenues, which reached the highest level of the last two years with 3.7 billion USD in August, picked up by 32.8% yoy to 3.1 billion USD in September. As of the first 9 months of the year, net tourism revenues increased 3 billion USD annually.



### Current account deficit was mostly driven by gold and energy trade.

Gold imports, which was 1.4 billion USD in September, amounted to 13.2 billion USD ytd and hence exerted an upward pressure on the deficit. An annual rise of 20% recorded in oil prices in September also had a negative impact on the current account balance.

### Portfolio investments continued to play a significant role in financing of the deficit.

Portfolio investments made a big contribution to the financing of the current account deficit in September as it has been the case so far this year. Portfolio investments recorded a net capital inflow of 3.4 billion USD in September. Non-residents made a net sale of 248 billion USD in equity securities during this period while bond markets witnessed strong capital inflows. Treasury's bond issuances were behind this performance. General government realized a net borrowing of 1.8 billion USD via bond issuances conducted in international capital markets.

Foreign direct investments (FDI), however, continued to perform weakly. Having a share of roughly 25% in total capital inflows according to 12-month cumulative figures, FDI remained below the average of this year in September with 544 million USD. FDI registered a net capital inflow of 5.5 billion USD in the first 9 months of the year.

Net other investments also continued to follow a mild course. In September, there has been a limited net outflow in other investments. Banks were net credit borrowers in both short term and long term. Other sectors were net credit payers in short term and net credit borrowers in long term. According to 12-month cumulative data, banks' long-term debt roll-over ratio was 93% in September while the same ratio for other sectors became 107%.

### Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	Breakdown of Net Capital Inflows (%)			
	December 2016	September 2017	December 2016	September 2017
<b>Current Account Balance</b>	<b>-32,640</b>	<b>-39,267</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>33,453</b>	<b>33,967</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	9,624	8,352	28.8	24.6
-Portfolio Investments	6,300	21,009	18.8	61.9
-Other Investments	6,725	-1,743	20.1	-5.1
-Net Errors and Omissions	10,781	6,331	32.2	18.6
-Other	23	18	0.1	0.1
<b>Reserves<sup>(1)</sup></b>	<b>-813</b>	<b>5,300</b>	-	-

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

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

Source: Datastream, CBRT

**Net errors and omissions recorded the highest inflow of the year.**

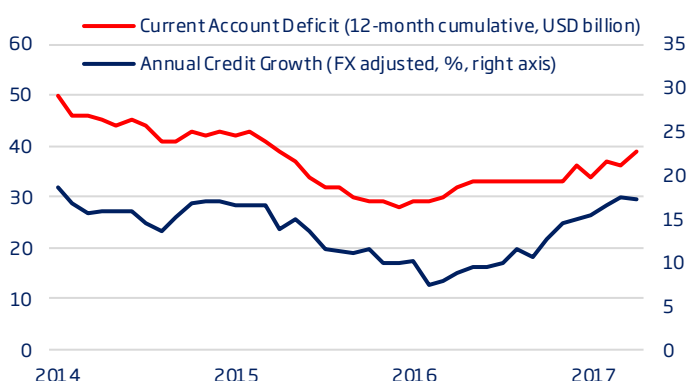
Net errors and omissions posted an inflow of 1.7 billion USD in September. In January-September period, on the other hand, there was a net outflow of 930 million USD.

Having experienced the fastest rise in a year in August, CBRT reserves posted a moderate increase in September.

**Upward risks on current account deficit...**

We expect that current account deficit will face mostly upside risks in the period ahead as credit growth leads to stronger economic activity and oil prices display a recovery trend in international markets. Foreign trade performance recorded particularly in the last couple of months supports our view. According to the provisional data, foreign trade deficit expanded rapidly in October due to the rise in imports of intermediate goods, especially energy imports. Nevertheless, a sustained recovery in tourism revenues will have a positive impact on the current account balance.

**Credit Growth and CAD**



Balance of Payments	(USD million)				
	September 2017	January - September 2016	January - September 2017	% Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-4,527</b>	<b>-24,482</b>	<b>-31,109</b>	<b>27.1</b>	<b>-39,267</b>
Foreign Trade Balance	-6,666	-30,945	-40,751	31.7	-50,665
Services Balance	3,014	12,094	15,817	30.8	19,169
Travel (net)	2,686	10,696	13,710	28.2	16,974
Primary Income	-1,073	-6,816	-7,842	15.1	-10,027
Secondary Income	198	1,185	1,667	40.7	2,256
<b>Capital Account</b>	<b>1</b>	<b>23</b>	<b>18</b>	<b>-21.7</b>	<b>18</b>
<b>Financial Account</b>	<b>-2,851</b>	<b>-20,939</b>	<b>-32,021</b>	<b>52.9</b>	<b>-32,918</b>
Direct Investments (net)	-544	-6,787	-5,515	-18.7	-8,352
Portfolio Investments (net)	-3,430	-8,809	-23,518	167.0	-21,009
Net Acquisition of Financial Assets	-111	-546	-1,122	105.5	935
Net Incurrence of Liabilities	3,319	8,263	22,396	171.0	21,944
Equity Securities	-248	738	2,963	301.5	3,048
Debt Securities	3,567	7,525	19,433	158.2	18,896
Other Investments (net)	194	-10,987	-2,519	-77.1	1,743
Currency and Deposits	-63	-3,107	-777	-75.0	4,118
Net Acquisition of Financial Assets	183	791	803	1.5	5,392
Net Incurrence of Liabilities	246	3,898	1,580	-59.5	1,274
Central Bank	-40	-392	-206	-47.4	-290
Banks	286	4,290	1,786	-58.4	1,564
Foreign Banks	406	3,696	549	-85.1	1,335
Foreign Exchange	400	-915	51	-	1,148
Turkish Lira	6	4,611	498	-89.2	187
Non-residents	-120	594	1,237	108.2	229
Loans	490	-5,348	1,662	-	1,710
Net Acquisition of Financial Assets	680	347	622	79.3	504
Net Incurrence of Liabilities	190	5,695	-1,040	-	-1,206
Banking Sector	1,213	-2,511	-2,160	-14.0	-2,931
Non-bank Sectors	-490	9,032	2,116	-76.6	2,820
Trade Credit and Advances	-224	-2,539	-3,367	32.6	-4,144
Other Assets and Liabilities	-9	7	-37	-	59
Reserve Assets (net)	929	5,644	-469	-	-5,300
<b>Net Errors and Omissions</b>	<b>1,675</b>	<b>3,520</b>	<b>-930</b>	<b>-</b>	<b>6,331</b>

Source: Datastream, CBRT

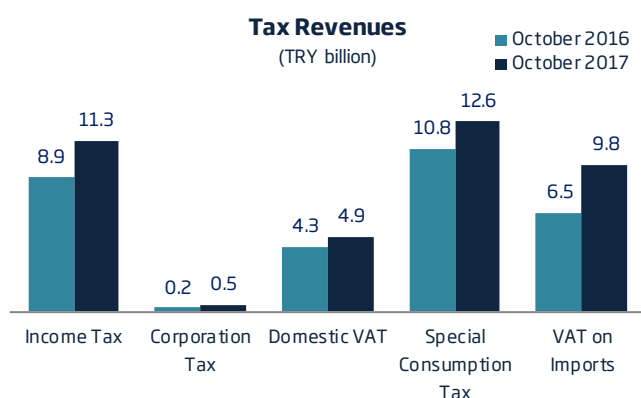
### Budget deficit was 3.3 billion TRY in October.

In October, budget expenditures and revenues increased by 29.2% and 21.8% yoy, respectively. Thus, central government budget deficit, which was 104 million TRY in October 2016, realized as 3.3 billion TRY in the same month of this year. Primary balance gave a surplus of 197 million TRY.

In the first ten months of the year, while budget expenditures and revenues increased by 18.4% and 13.8%, respectively, budget deficit reached 35 billion TRY. In this period, the primary surplus was realized as 15.2 billion TRY. In the same period of 2016, budget deficit and primary surplus was realized as 12.1 billion TRY and 32.4 billion TRY.

### Tax revenues remained strong.

Tax revenues, which had rapidly expanded in October, maintained its strong performance albeit losing some momentum. In this period, due to increase in imports and in exchange rates, Special Consumption Tax (SCT) and Value Added Tax (VAT) on imports contributed to the rise in tax revenues significantly. VAT on imports, which rose rapidly in October like in September, contributed 9.0 points to the annual increase of 26.3% in tax revenues. Annual expansion in SCT was driven by the increases recorded in tax revenues collected on motor vehicles (rising by 39.1% yoy) and tobacco products (rising by 33.8% yoy).



In January-October period, budget revenues expanded by 13.8% yoy. In this period, tax revenues mounted by 18% and led the increase in budget revenues. Due to the increase in import figures, VAT on imports in the first ten months of the year contributed 4.0 points to the rise in budget revenues. Income tax and SCT received from petroleum and natural gas products have been the main other items driving up tax revenues in this period. On the other hand, the decline in property income negatively affected the budget outlook.

### Acceleration in budget expenditures...

Budget expenditures increased rapidly by 29.2% yoy in October due to the rise in current transfers. The increase in current transfers for health, retirement and social aid expenditures played a significant role in the rise in budget expenditures. During this period, interest expenditures rose by 22%.

The impact of the increase in current transfers on budget expenditures was significant in the first 10 months of the year. During January-October period, budget expenditures rose by 18.4%, half of which (9.2 points) was due to the increase in current transfers.

### Expectations...

In the first ten months of the year, increase in primary expenditures which was made in order to support economic activity was influential on the widening budget deficit. On the other hand, recovery in economic activity limited the budget deterioration through rising tax incomes. We anticipate that the budget revenues will continue to recover in the upcoming period and budget deficit will be realized at the levels compatible with MTP targets at the end of the year.

### Central Government Budget

(TRY billion)

	October			January-October			2017 Budget Target	MTP Target	Real/MTP Target (%)
	2016	2017	% Change	2016	2017	% Change			
<b>Expenditures</b>	<b>43.5</b>	<b>56.2</b>	<b>29.2</b>	<b>460.0</b>	<b>544.4</b>	<b>18.4</b>	<b>645.1</b>	<b>673.7</b>	<b>80.8</b>
Interest Expenditures	2.9	3.5	22.0	44.6	50.1	12.4	57.5	57.5	87.2
Non-Interest Expenditures	40.6	52.6	29.8	415.4	494.3	19.0	587.6	616.2	80.2
<b>Revenues</b>	<b>43.4</b>	<b>52.8</b>	<b>21.8</b>	<b>447.9</b>	<b>509.4</b>	<b>13.8</b>	<b>598.3</b>	<b>612.0</b>	<b>83.2</b>
Tax Revenues	36.1	45.6	26.3	365.0	430.9	18.0	511.1	520.5	82.8
Other Revenues	7.3	7.3	-0.4	82.8	78.5	-5.2	87.2	91.6	85.7
<b>Budget Balance</b>	<b>-0.1</b>	<b>-3.3</b>	<b>3,116.6</b>	<b>-12.1</b>	<b>-35.0</b>	<b>188.0</b>	<b>-46.9</b>	<b>-61.7</b>	<b>56.7</b>
<b>Primary Balance</b>	<b>2.8</b>	<b>0.2</b>	<b>-93.0</b>	<b>32.4</b>	<b>15.2</b>	<b>-53.3</b>	<b>10.6</b>	<b>-4.2</b>	<b>-</b>

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

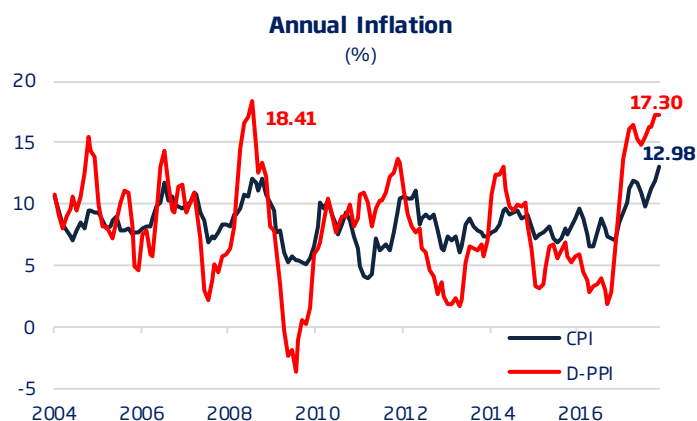
### CPI increased above expectations.

Monthly CPI increase in November was realized as 1.49%, higher than the market anticipations. Seasonal factors played an important role in this development, by adding 41 points to CPI increase. According to the Reuters' survey, CPI was expected to rise by 1.21% in this period. Increase in Domestic Producer Price Index (D-PPI), on the other hand, was realized as 2.02% in November.

November (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	0.52	1.49	2.00	2.02
Year-to-Date	6.78	11.16	6.76	13.91
Annual	7.00	12.98	6.41	17.30
Annual Average	7.79	10.87	3.93	15.38

### Annual inflation climbed to 12.98%

Upward pressure on inflation since the start of the year has persisted in November. The year-to-date rise in the CPI became 11.16% as of November. This figure was almost 3.8 points higher than the average of the 2009-2016 period. Moreover, annual increase in CPI climbed to the highest level in the 2003 based year inflation index.



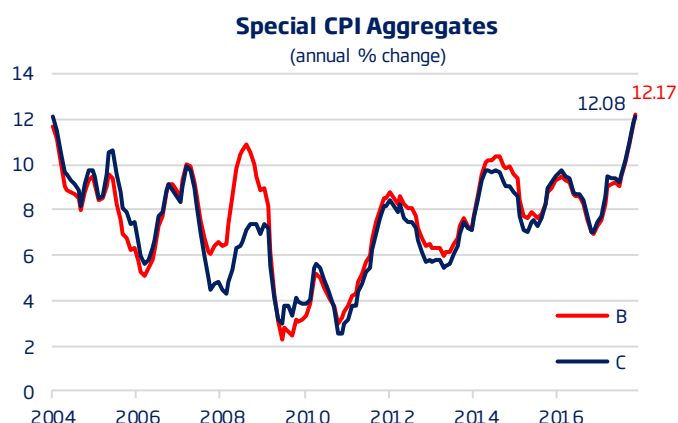
### Sharp increase in food prices...

Prices in all main expenditure groups increased in November. The first 15 products that posted the highest price increases are food and clothing products. In this period, the food and non-alcoholic beverage group, which has the highest weight in the index, pushed up monthly inflation by 46 basis points. The transportation group supported by the upward trend in oil prices and clothing and footwear groups, influenced by seasonal factors, also affected monthly inflation considerably. These two groups pushed monthly inflation up by 33 and 28 basis points, respectively.

Regarding annual contributions of expenditure items, 6.47 points of 12.98% annual CPI increase stemmed from increases in food and transport groups.

### Core inflation indicators kept rising.

Core inflation figures, which have been rising steadily since July, continued to increase in November. Annual inflation in B index, which is one of the core inflation indicators closely monitored by CBRT, has reached its highest level by 12.17% since the base year of inflation has changed in 2003. Annual inflation in C index has exceeded 12% for the first time since January 2004 with 12.08%.



B:excluding unprocessed food, energy, alcoholic beverages, tobacco and gold  
C:excluding energy, food, non-alcoholic beverages, alcoholic beverages, tobacco and gold

### Energy prices are pushing D-PPI up.

In addition to the rising energy and metal prices on global scale, exchange rate developments continued to be effective on D-PPI. In November, two sub-sectors posting highest increases were "coke and refined petroleum products" and "crude petroleum and natural gas", respectively, pushing producer prices up by 35 basis points in November. The contribution of base metal sector, on the other hand, was 41 basis points. In this framework, D-PPI increased by 17.3% yoy, fastest rate since July 2008.

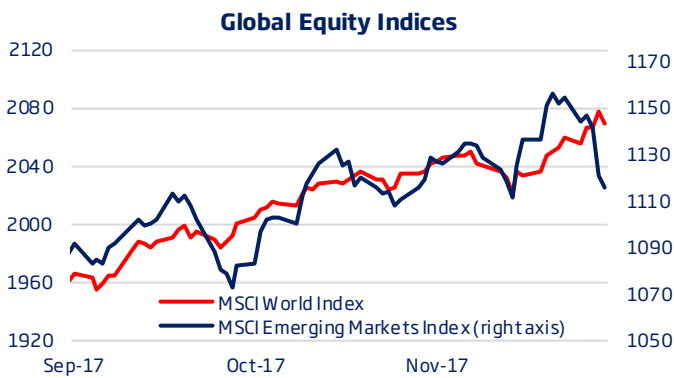
### Expectations...

In addition to the rising tendency of oil prices in the international level, the depreciation of TL causes the upward pressure on inflation to continue. Moreover, continuing increase in core inflation indicators leads to gradual deterioration in inflation expectations. In this framework, we think that annual CPI increase may surpass 11% at the end of 2017. On the other hand, although it is expected to fall in December due to base effect, the high level of CPI strengthens expectations that the CBRT will raise interest rates on its meeting on December 14th.

Source: Datastream, Turkstat

**In November, euro gained strength as US dollar tended to depreciate in international markets.**

In November, global equity indices surged thanks to the rise in developed countries' equity markets. Developing markets was under pressure in the last week of the month due to concerns that the economic activity in China may lose momentum and there would be further tightening in its financial markets. US dollar declined compared to the end of October, as positive expectations for tax cuts started to wane throughout the month. The euro appreciated in international markets, with the strong outlook for economic activity and the optimism about the establishment of a coalition in Germany towards the end of the month.



In the first half of November, pressures on the domestic markets eased as some steps were taken to overcome the visa crisis with the US. However, this positive effect is limited by the possibility of new diplomatic tensions with the US. In addition to the monetary policy decisions, CBRT's moves to reduce the FX risk have also been closely monitored in the recent period.

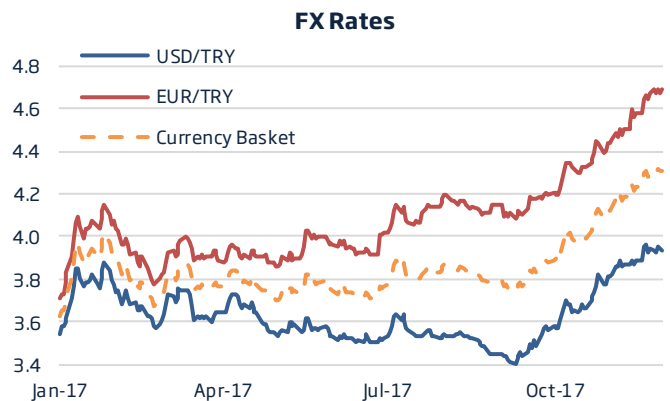
**New measures from the CBRT...**

The CBRT has started to launch Turkish lira-settled forward foreign exchange sale auctions in order to manage the risk of the real sector. It is stated that via this new facility, the difference between the pre-determined exchange rate and the exchange rate at the maturity date will be settled in TL helping the real sector to manage its FX risks. According to the CBRT's calendar; auctions will be held three times a week with 1-month maturity (150 million USD), once a week with 3-month maturity (100 million USD) and with 6-month maturity (100 million USD). CBRT stated that the timetable for the next year's auctions will be announced later. Auctions will be held via the traditional (multi-price) method and the maximum bid amount for each bank is limited to 20% of the total bid. Banks will hold deposit at the rate of 2.5% of the outstanding foreign exchange positions in the CBRT during the maturity period.

Moreover, due to the increase in fluctuations in foreign exchange rates, the CBRT has reduced the banks borrowing limits (BBL) in the Interbank Money Market to zero for overnight transactions from November 22. To be effective from the same date, the limits set for banks for intraday liquidity facility increased to twice the BBL limits valid on November 21. Thus, since November 22, the CBRT has begun to make its full daily funding over the Late Liquidity Window (by increasing the weighted averaged cost of funding by 26 basis points to 12.25% compared to 20 November).

**Financial indicators...**

As the deterioration in the risk perception towards Turkey lasts, ongoing depreciation of TL since September also continued in November. USD/TL and EUR/TL reached new records and the currency basket, which was 4.11 at the end of October, was realized as 4.29 on November 30<sup>th</sup>.



BIST-100 index was under downward pressure throughout November. The index, which declined by 5.6% in November, was largely influenced by the political and diplomatic risks and the reduced risk appetite.

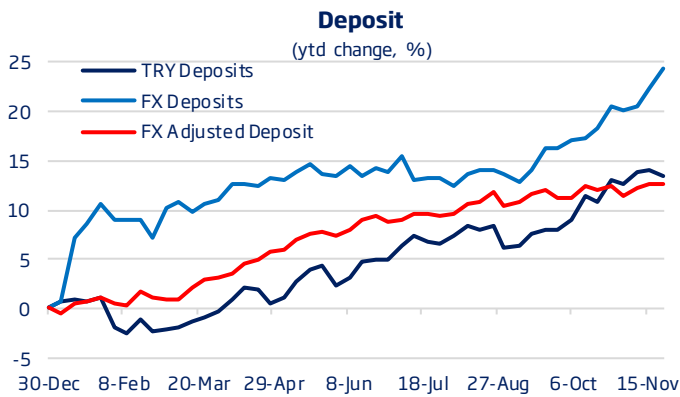
The compound interest rate of the 2-year benchmark bond, which was 12.8% in October, reached 14.34% on November 22<sup>th</sup>, the highest level since March 16, 2009. In the last week of the month, there was some recovery in bond interest rates. As of November 30<sup>th</sup>, the compound interest rate of 2-year benchmark bond was 13.73%.

Source: Datastream, Treasury, CBRT



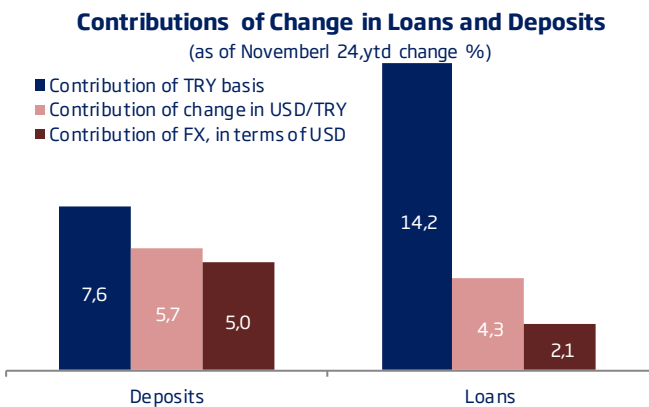
**Deposit volume rose by 18.2% ytd.**

According to Weekly Bulletin published by BRSA, as of November 24<sup>th</sup>, total deposit volume rose by 18.2% ytd to TRY 1,822 billion. The recent upsurge in FX rates led to an acceleration in total deposit growth. Indeed, year-to-date expansion in total deposits was 12.6% according to the exchange rate adjusted figures. In this period, TL deposit volume increased by TRY 116 billion (13.4%) while the FX deposit in TRY terms expanded TRY 163 billion (24.5%). FX deposits in USD terms increased by USD 22 billion (11.5%) ytd. Analyzing the contributions, the increase in the volume of TRY deposits constituted 7.6 points of the 18.2% increase in the total deposit volume, while the increase in the USD currency FX deposit volume contributed 5.0 points. The contribution of the increase in USD/TL was 5.6 points.



**Credit volume increased by 20.6% ytd.**

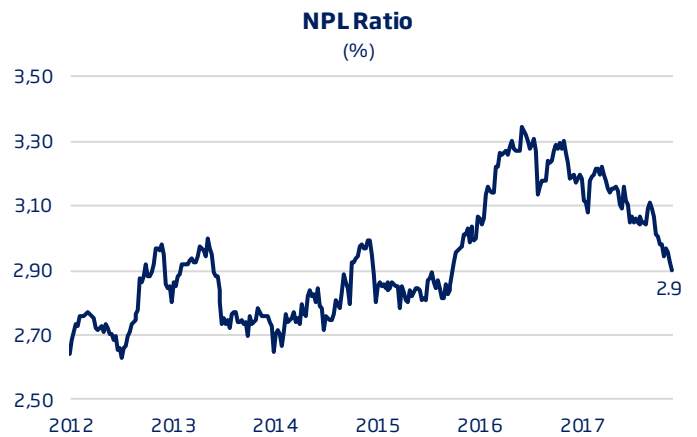
The total credit volume expanded by 20.6% as of November 24<sup>th</sup>, compared to the end of 2016, thanks to the support of the loans extended by the Credit Guarantee Fund. During this period, TL credit volume contributed notably to the total loan increase by 14.2 points. On the other hand, USD denominated FX loan volume, which expanded by 6.1% compared to the end of the year, contributed to the increase in total loan volume by 2.1 points. The rise in USD/TL contributed 4.3 points to the increase in credit volume in this period.



Considering the annual growth rates, it is seen that deposit and credit volume expanded by 20.1% and 23.5%, respectively.

**NPL ratio at 2.90%...**

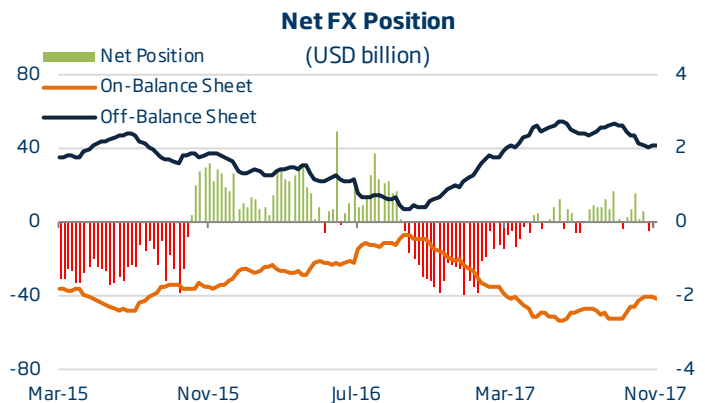
Gross non-performing loans, which had stood at TRY 57.9 billion at the end of 2016, were realized as TRY 63.3 billion as of November 24<sup>th</sup>. Despite the rise in gross non-performing loans, non-performing loan ratio decreased from 3.2% to 2.9% in this period thanks to the upsurge of credit volume by TRY 364 billion.



As of November 24<sup>th</sup>, NPL ratio on individual loans has declined from the year-end figure of 4.46% to 3.72%. The decline in the NPL ratio on commercial loans declined slightly from 2.91% to 2.75%.

**Net FX position...**

As of November 24<sup>th</sup>, banks' on-balance sheet FX position was (-) USD 41,889 million while off-balance sheet FX position was realized as (+) USD 41,396 million. Hence, banking sector's net FX position became its lowest level in 7.5 months by (-) USD 502 million.



Source: BRSB Weekly Bulletin

Expectations for the monetary policies of advanced economies, the news flow on US tax reform plan and the political agenda in Europe have been closely monitored by the markets in the recent period.

While it seems almost certain that the Fed will conduct another rate hike in December, Trump's pick to be the next chairman of Fed, Powell, is expected to continue Yellen's policy approach. On the other side of the Atlantic, the recent normalization steps taken by the ECB and the Bank of England's first interest rate hike in 10 years have not yet created an anticipation of a tightening in financial conditions. It is widely believed that leading advanced country central banks will continue to take steps toward normalization of monetary policy only in a gradual and cautious manner.

It remains unclear whether a reconciliation of the two different versions of the tax reform proposals in the United States is practicable. This situation, occasionally exerting pressure on the US dollar and stock markets, has also pushed gold prices up.

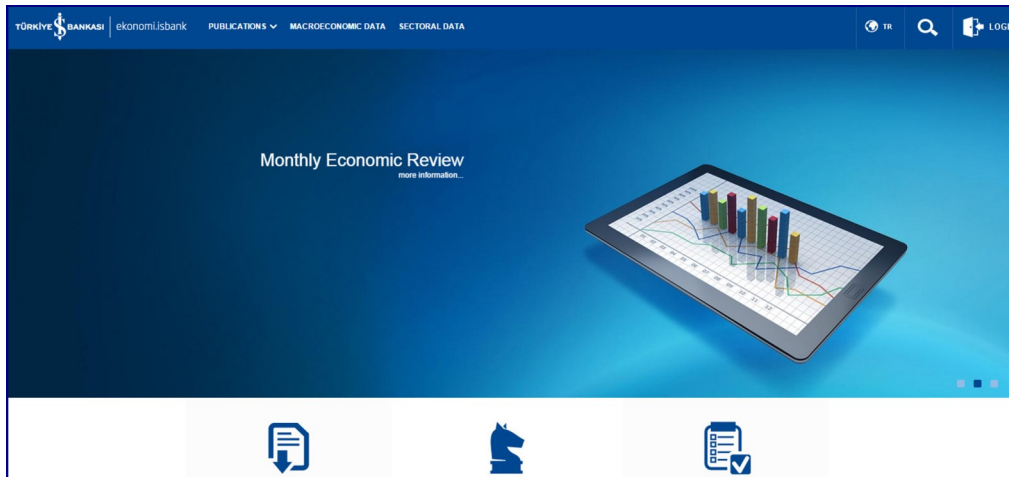
There have been a series of political developments in Europe to note in November. One of the major Brexit hurdles seems to have been overcome for the time being, as Prime Minister May appears to be on the same page with the EU leaders on Brexit bill. While the impact of the Catalan Parliament's decision of independence in Spain has largely been eased, the deadline went by without a breakthrough in Germany's preliminary coalition talks.

Recently, the main drivers of market movements in Turkey have been occasionally escalating diplomatic tensions with the US and other political and geopolitical developments within the country. Macroeconomic data have also been looked over much more thoroughly by the markets compared to the first months of the year. In recent months, cautious assessments particularly for inflation, current account deficit and budget indicators have stood out. Deteriorations in core inflation and long-term inflation expectations have brought about the discussions on possible additional measures in the monetary policy. Bond yields stayed elevated and TRY weakened in the financial markets. On the other hand, leading indicators such as industrial production and PMI have indicated that the economy continued to perform strongly. Hence, heightening of risk perception on Turkey remained limited.

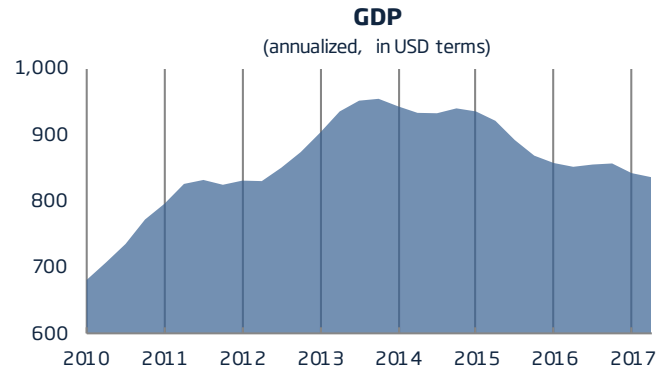
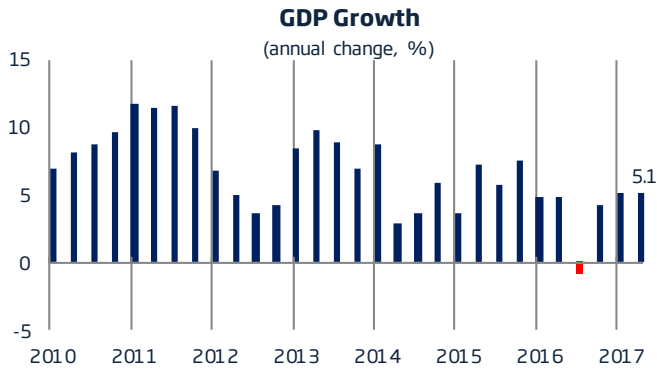
Forecasts (%)	2017	2018
Growth	6.0	4.1
CA Deficit/GDP	5.7	6.0
Inflation	11.7	10.2

Year-end forecast for inflation

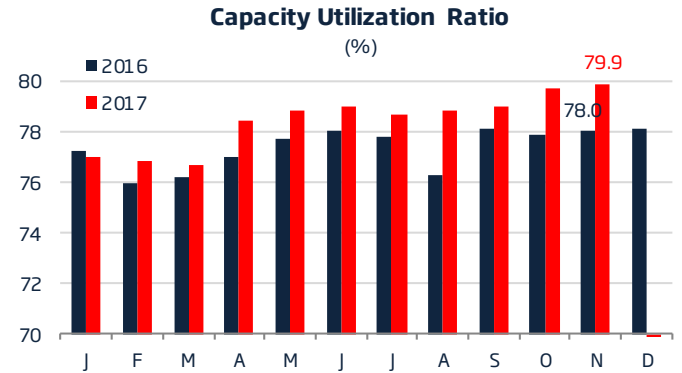
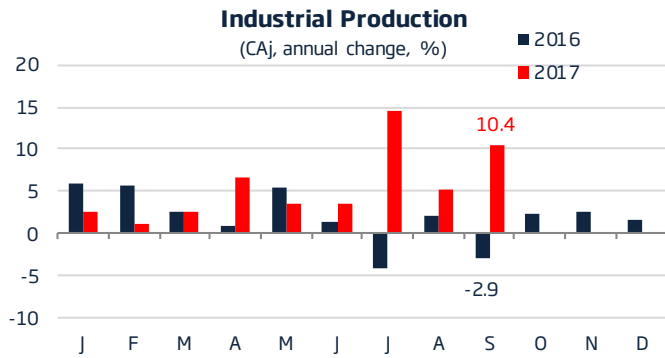
Our reports are available on our website <https://research.isbank.com.tr>



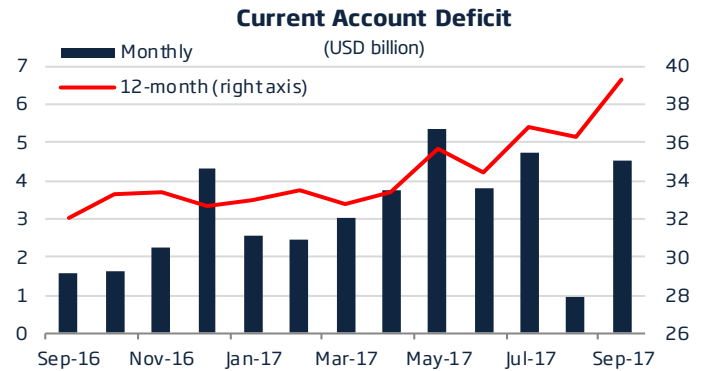
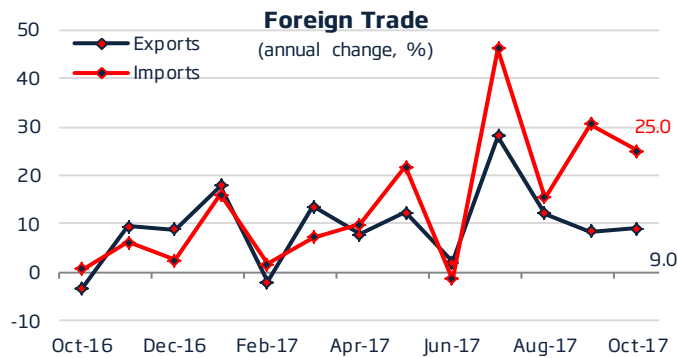
## Growth



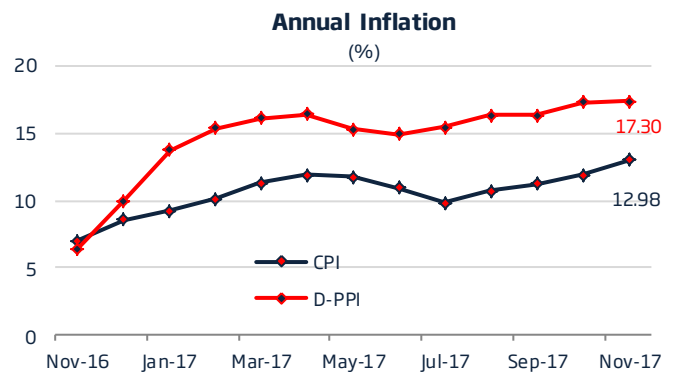
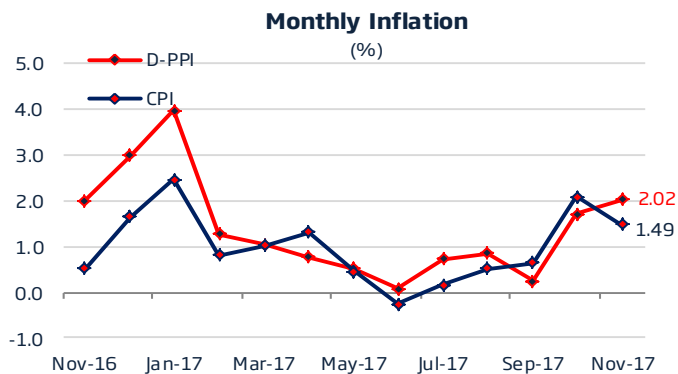
## Industrial Production and Capacity Utilization Ratio



## Foreign Trade and Current Account Balance



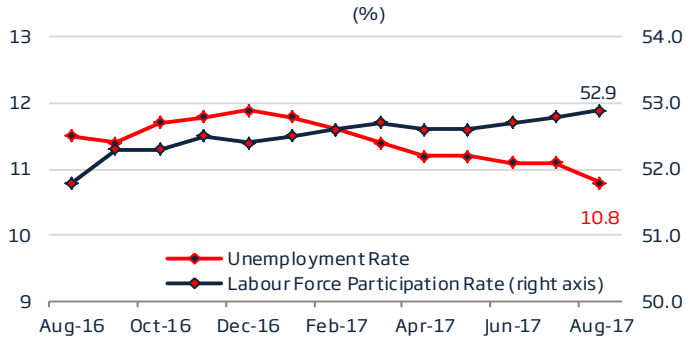
## Inflation



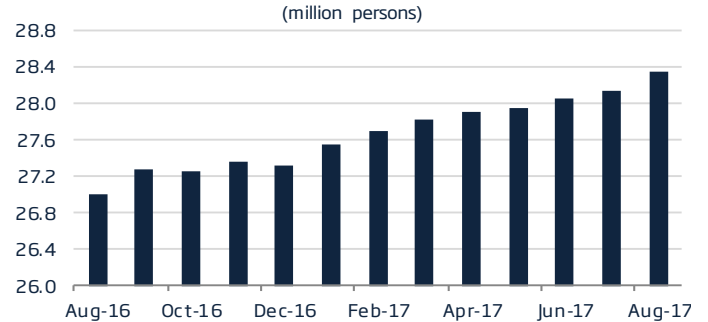
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators (%)



### Seasonally Adjusted Employment (million persons)

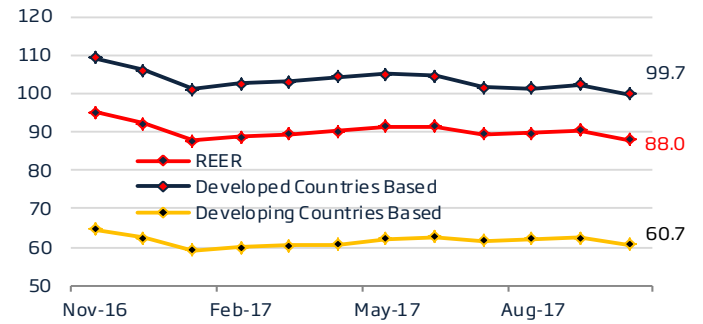


## FX Market

### Currency Basket

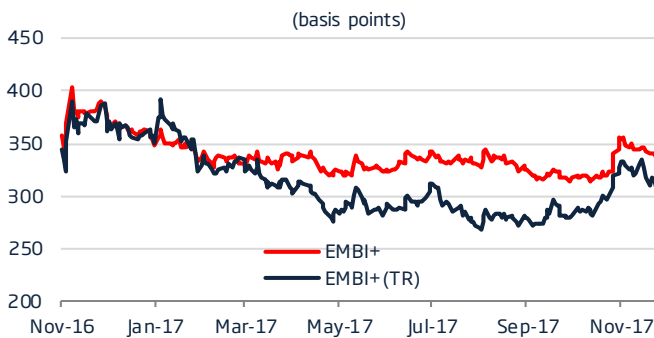


### CPI Based Real Effective Exchange Rate

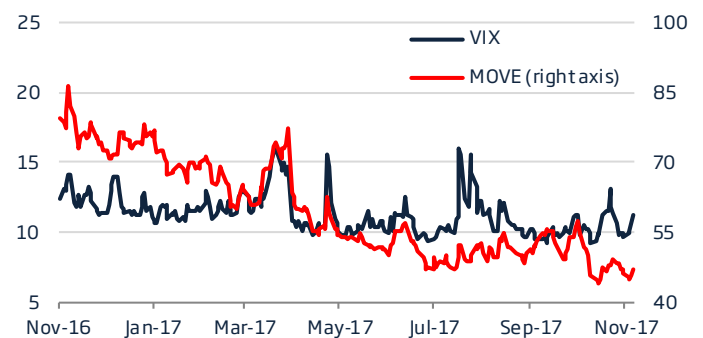


## Risk Indicators

### Risk Premiums (basis points)

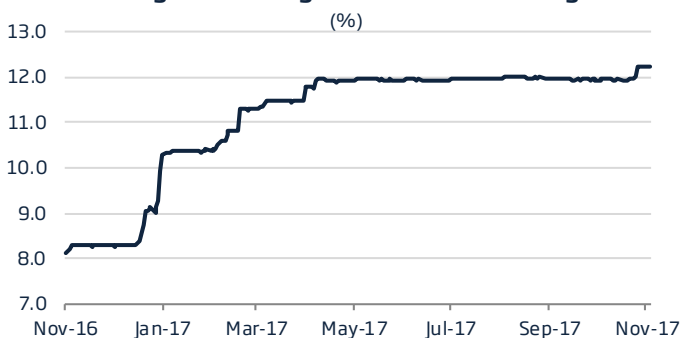


### VIX and MOVE Index

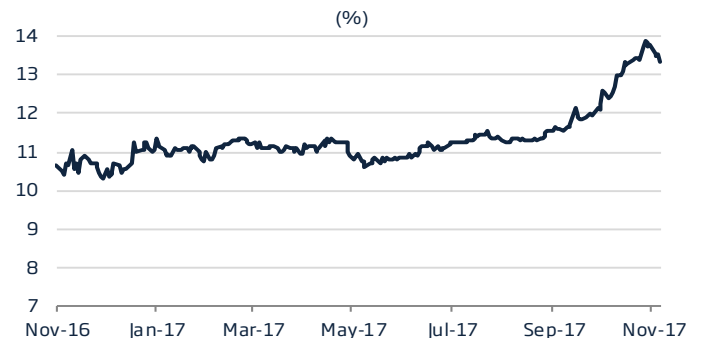


## Interest Rates

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



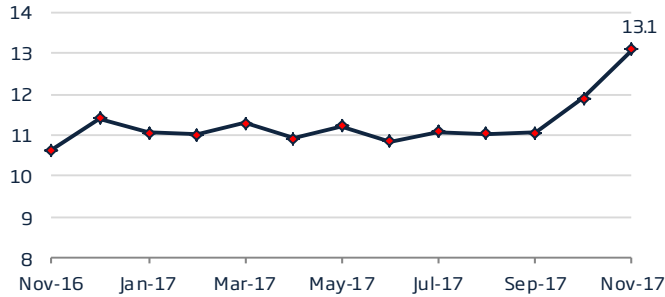
### Yield of 2-Year Benchmark Bond (%)



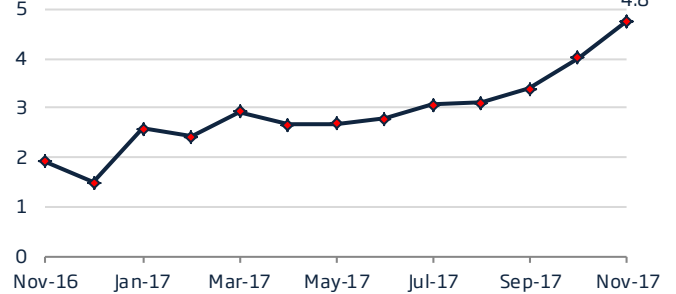
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## Bond-Bill Market

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

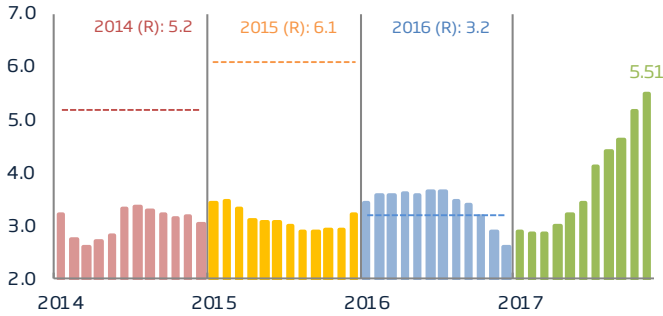


### Expected Real Yield of TRY GDDIs (%)

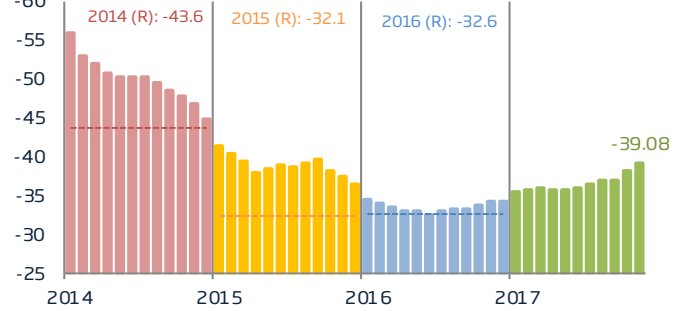


## CBRT's Survey of Expectations and Other Leading Indicators

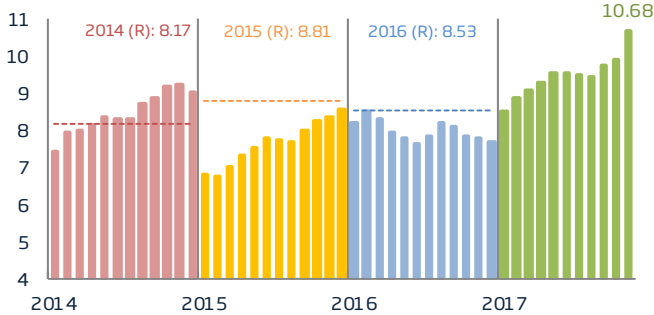
### Expected GDP Growth for the Current Year (%)



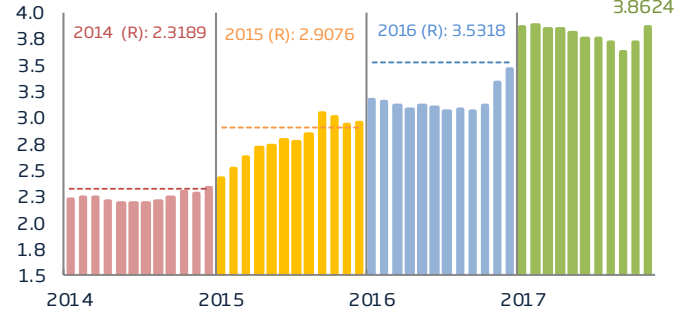
### Expected CAD for the Current Year (USD billion)



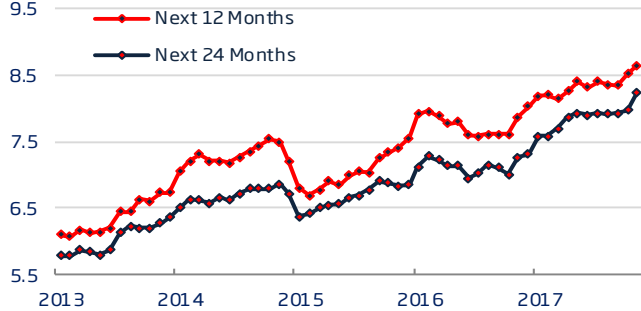
### Expected CPI Inflation by the End of the Year (annual, %)



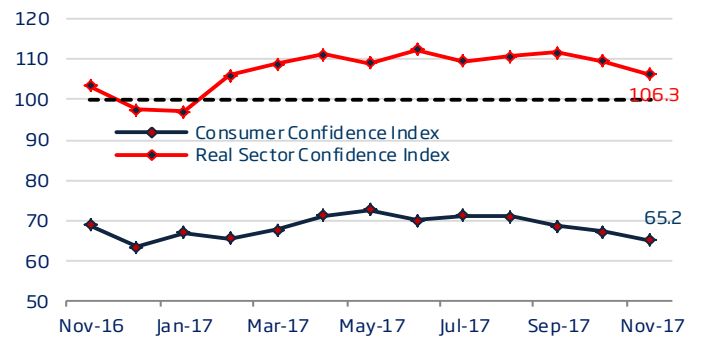
### Expected Level of USD/TRY by the End of the Year



### 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

<b>Growth</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>17-Q1</b>	<b>17-Q2</b>	<b>17-Q3</b>
GDP (USD billion)	871	950	935	862	863	175.9	204.8	-
GDP (TRY billion)	1,570	1,810	2,045	2,339	2,609	649.5	734.2	-
GDP Growth Rate (%)	11.1	4.8	8.5	5.2	6.1	5.2	5.1	-
<b>Inflation (%)</b>						<b>Sep-17</b>	<b>Oct-17</b>	<b>Nov-17</b>
CPI (annual)	6.16	7.40	8.17	8.81	8.53	11.20	11.90	12.98
Domestic PPI (annual)	2.45	6.97	6.36	5.71	9.94	16.28	17.28	17.30
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Jun-17</b>	<b>Jul-17</b>	<b>Aug-17</b>
Unemployment Rate (%)	8.8	9.1	10.3	10.2	11.9	11.1	11.1	10.8
Labor Force Participation Rate (%)	48.5	48.5	51.0	51.7	52.4	52.7	52.8	52.9
<b>FX Rates</b>						<b>Sep-17</b>	<b>Oct-17</b>	<b>Nov-17</b>
CPI Based Real Effective Exchange Rate	110.3	100.3	105.0	97.5	92.0	90.3	88.0	
USD/TRY	1.7847	2.1485	2.3378	2.9189	3.5176	3.5561	3.7966	3.9061
EUR/TRY	2.3530	2.9605	2.8288	3.1708	3.7102	4.2040	4.4228	4.6574
Currency Basket (0.5*EUR+0.5*USD)	2.0688	2.5545	2.5833	3.0448	3.6139	3.8801	4.1097	4.2817
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Aug-17</b>	<b>Sep-17</b>	<b>Oct-17</b>
Exports	152.5	151.8	157.6	143.8	142.5	152.5	153.5	154.6
Imports	236.5	251.7	242.2	207.2	198.6	216.6	221.3	225.6
<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>-64.1</b>	<b>-67.9</b>	<b>-71.0</b>
Import Coverage Ratio (%)	64.5	60.3	65.1	69.4	71.8	70.4	69.3	68.5
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						<b>Jul-17</b>	<b>Aug-17</b>	<b>Sep-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>-36.8</b>	<b>-36.3</b>	<b>-39.3</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>-33.1</b>	<b>-32.1</b>	<b>-32.9</b>
Direct Investments (net)	-9.5	-9.3	-5.8	-12.5	-9.6	-9.0	-8.5	-8.4
Portfolio Investments (net)	-41.0	-24.0	-20.1	15.7	-6.3	-14.3	-16.1	-21.0
Other Investments (net)	-19.2	-38.8	-15.3	-13.4	-6.7	0.9	3.5	1.7
Reserve Assets (net)	20.8	9.9	-0.5	-11.8	0.8	-10.8	-11.0	-5.3
<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>3.6</b>	<b>4.2</b>	<b>6.3</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>Aug-17</b>	<b>Sep-17</b>	<b>Oct-17</b>
<b>Expenditures</b>	<b>361.9</b>	<b>408.2</b>	<b>448.8</b>	<b>506.3</b>	<b>583.7</b>	<b>433.8</b>	<b>488.2</b>	<b>544.4</b>
Interest Expenditures	48.4	50.0	49.9	53.0	50.2	38.2	46.6	50.1
Non-interest Expenditures	313.5	358.2	398.8	453.3	533.4	395.7	441.6	494.3
<b>Revenues</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>482.8</b>	<b>554.4</b>	<b>408.7</b>	<b>456.6</b>	<b>509.4</b>
Tax Revenues	278.8	326.2	352.5	407.8	458.7	343.5	385.3	430.9
<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>-25.2</b>	<b>-31.6</b>	<b>-35.0</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>13.0</b>	<b>15.0</b>	<b>15.2</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>Aug-17</b>	<b>Sep-17</b>	<b>Oct-17</b>
Domestic Debt Stock	386.5	403.0	414.6	440.1	468.6	513.3	523.5	530.5
External Debt Stock	145.7	182.8	197.9	238.1	291.0	307.2	319.0	336.9
<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>820.5</b>	<b>842.5</b>	<b>867.4</b>

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

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

## BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2012	2013	2014	2015	2016	Sep.17	Oct.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>3,053.9</b>	<b>3,168.4</b>	<b>16.0</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>1,993.9</b>	<b>2,045.6</b>	<b>17.9</b>
TRY Loans	588.4	752.7	881.0	1,013.4	1,131.4	1,356.2	1,367.9	20.9
Share (%)	74.0	71.9	71.0	68.2	65.2	68.0	66.9	-
FX Loans	206.4	294.7	359.7	471.5	602.9	637.7	677.6	12.4
Share (%)	26.0	28.1	29.0	31.8	34.8	32.0	33.1	-
Non-performing Loans	23.4	29.6	36.4	47.5	58.2	62.7	63.6	9.3
Non-performing Loan Rate (%)	2.9	2.8	2.9	3.1	3.2	3.0	3.0	-
<b>Securities</b>	<b>270.0</b>	<b>286.7</b>	<b>302.3</b>	<b>329.7</b>	<b>351.6</b>	<b>375.7</b>	<b>386.4</b>	<b>9.9</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>3,053.9</b>	<b>3,168.4</b>	<b>16.0</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>1,635.3</b>	<b>1,686.1</b>	<b>16.0</b>
TRY Deposits	520.4	594.1	661.3	715.4	845.1	918.4	951.0	12.5
Share (%)	67.4	62.8	62.8	57.4	58.1	56.2	56.4	-
FX Deposits	251.8	351.7	391.4	530.0	608.5	716.8	735.0	20.8
Share (%)	32.6	37.2	37.2	42.6	41.9	43.8	43.6	-
<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>134.9</b>	<b>146.4</b>	<b>25.9</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>427.4</b>	<b>461.0</b>	<b>10.4</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>97.1</b>	<b>98.3</b>	<b>-28.7</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>345.0</b>	<b>348.9</b>	<b>16.2</b>
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	37.2	41.2	-
<b>RATIOS (%)</b>								
Loans/GDP	50.6	57.9	60.7	63.5	66.5	-	-	-
Loans/Assets	58.0	60.5	62.2	63.0	63.5	65.3	64.6	-
Securities/Assets	19.7	16.6	15.2	14.0	12.9	12.3	12.2	-
Deposits/Liabilities	56.3	54.6	52.8	52.8	53.2	53.5	53.2	-
Loans/Deposits	102.9	110.7	117.9	119.2	119.3	121.9	121.3	-
Capital Adequacy (%)	17.9	15.3	16.3	15.6	15.6	17.2	16.9	-

(1) Year-to-date % change



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