



Monthly Economic Review January 2014



Global Economy

- ◆ At its meeting on December 18th, Fed decided to taper its monthly 85 billion USD asset purchase program, which has been effective for more than one year, by 10 billion USD per month beginning from January 2014.
- ◆ Republicans and Democrats agreed upon the new budget proposal in US. New budget, which passed in House of Representatives and the Senate, was also approved by Obama on December 26th. Hence, the risks associated with the sustainability of government expenditures subsided to a large extent.
- ◆ Unemployment rate in US dropped to five-year low of 7%. In this period, non-farm payroll employment also came in well above the expectations.
- ◆ Positive expectations regarding Euro Area, which have been elevated in recent months, was interrupted to some extent after the macroeconomic figures of December.
- ◆ Standard and Poor's cut the European Union's credit rating from "AAA" to "AA+".
- ◆ At its meeting held on December 5th, European Central Bank kept its monetary policy unchanged in line with the expectations.
- ◆ Japanese economy shows mixed signs as so called "Abenomics" policies continue.
- ◆ In line with the measures in order to tighten liquidity conditions taken by People's Bank of China, the average one-week repo rate in interbank money market hit its six-month high in December.
- ◆ After following an upward trend in the first half of December, EUR/USD receded due to the Fed's tapering decision. In the following days, however, it began to rise again.

Turkish Economy

- ◆ The corruption probe initiated on December 17th, led to concerns that the political and economic stability might be undermined and the risk perception towards Turkey in the last weeks of the year increased. These developments were followed by a cabinet change.
- ◆ The recovery in Turkish economy continued in the third quarter of 2013 and GDP grew by 4.4% compared to the same period of previous year.
- ◆ After having increased well above the expectations in September, the seasonal and calendar adjusted industrial production decreased by 3.1% in October compared to the previous month.
- ◆ According to the data announced by Markit, manufacturing sector PMI decreased to 53.5 in December from 55 in November.
- ◆ In December, both Consumer Confidence Index and Real Sector Confidence Index declined compared to the previous month.
- ◆ The unemployment rate increased to 9.9% in September, the highest level of the last 6 months. The non-agricultural unemployment rate was 12.3% while youth unemployment rate was 19.4%.
- ◆ In January-November period foreign trade deficit widened by 16.8% and reached 89.8 billion USD.
- ◆ Current account deficit was realized as 2.9 billion USD in October, parallel to the expectations. During January-October, the deficit increased by 31.2% compared to the same period of the previous year and reached 51.9 billion USD.
- ◆ In December, compared to the previous month, CPI increased by 0.46%. Thus, the annual CPI inflation surpassed CBRT's 6.8% year-end forecast with %7.4.
- ◆ CBRT announced its monetary and exchange rate policy.

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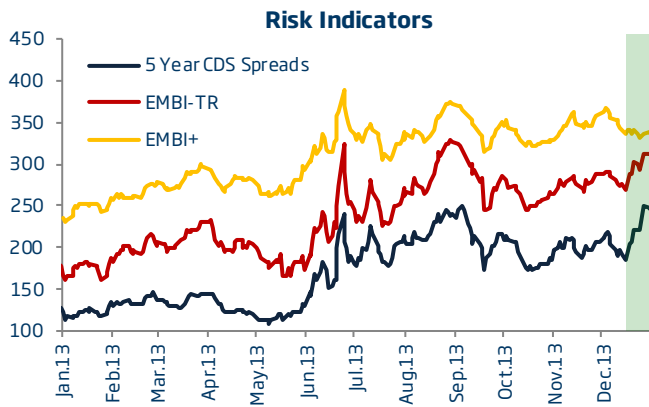
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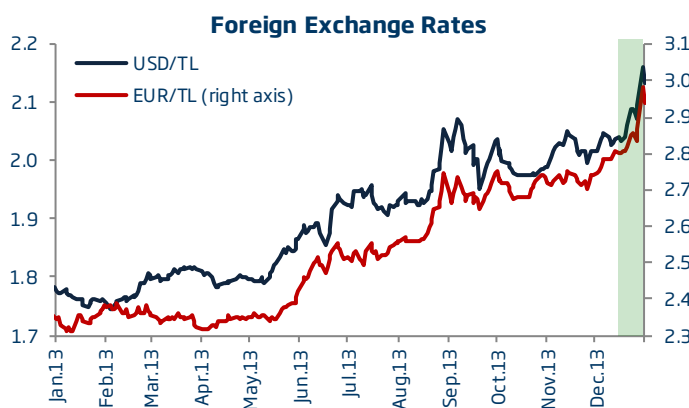
Risk perception towards domestic markets increased in the second half of December as a result of the political developments.

The corruption probe initiated on December 17th, led to concerns that the political and economic stability might be undermined and the risk perception towards Turkey in the last weeks of the year increased. These developments were followed by a cabinet change. By the end of December, Turkey's five-year CDS spreads reached their highest level since June 2012 and the risk premium of Turkish eurobonds (EMBI-TR) has increased by 41 basis from December 16th until December 31st. During the same period, risk premiums of other emerging market countries' eurobonds' (EMBI+) were flat.



Rapid rise in FX rates...

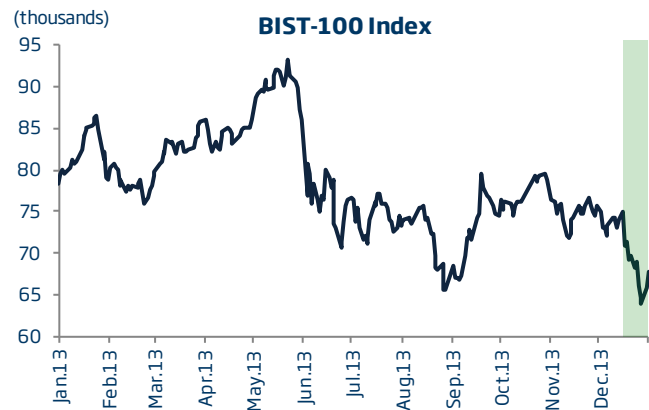
Although Fed decided to reduce the amount of monthly asset purchases by 10 billion USD starting from January 2014 at its December meeting, the impacts of decision on emerging market countries' local currencies were limited as the tapering decision has been largely priced in before and the Fed emphasized that asset purchases would not be reduced rapidly in the coming period. However, in contrast to other emerging markets, the corruption probe launched



in the second half of December led to a depreciation in the Turkish Lira. On December 27th, USD/TL and EUR/TL rose to their historic-high level of 2.1770 and 3.0155, respectively, in the interbank market. On December 31st, USD/TL and EUR/TL rates relaxed off their highs slightly and were realized as 2.1343 and 2.9365, respectively.

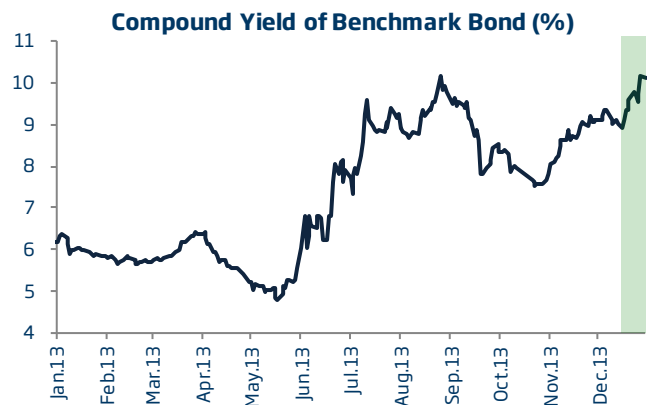
Decline in BIST-100 reached 15%.

Increase in the risk perception towards Turkey led the investors to prefer relatively safer investment instruments. In this context, BIST-100 index decreased rapidly starting from December 17th. As of December 27th, the losses reached 15% compared to December 16th. In the last days of the year, BIST-100 index recovered slightly and the index was realized as 67,802 points on December 31st decreasing by 9.4% compared to December 16th.



The compound interest rate of benchmark bond reached two-digit levels...

Impacts of the recent developments have also been observed in the bond market. Turkey's two-year Treasury bond's (benchmark) annual compound interest rate rose above 10% and reached double-digit levels for the first time since August in line with the deteriorations in risk indicators.



Source: Reuters

Turkish economy grew more than expected in the third quarter of the year.

The recovery in Turkish economy continued in the third quarter of 2013 and GDP grew by 4.4% compared to the same period of previous year. The market expectation was %4.05. In the first nine months of the year Turkish economy grew by 4% compared to the same period of 2012.

Analyzing the calendar adjusted figures, it was seen that GDP increased by 4.3% in the third quarter compared to the same period of previous year and registered the highest increase since the last quarter of 2011. Seasonal and calendar adjusted GDP increased by 0.9% compared to the previous quarter and pointed out that the economic activity accelerated despite the volatility in global markets.

GDP (1998 Prices)

Period	Calendar Adjusted GDP* (%)	Seasonally and Calendar Adjusted GDP** (%)
2011 Q1	12.5	2.2
2011 Q2	9.0	0.8
2011 Q3	8.4	1.3
2011 Q4	4.9	0.7
2012 Q1	2.4	-0.4
2012 Q2	3.1	1.4
2012 Q3	1.8	0.3
2012 Q4	1.4	0.2
2013 Q1	3.7	1.5
2013 Q2	4.2	2.0
2013 Q3	4.3	0.9

*Change compared to the same period of previous year

**Quarter over quarter change

On the other hand, Turkstat revised the GDP figures for the first and second quarters of 2013. In this context, the first quarter growth was revised from 2.9% to 3% and the second quarter growth from 4.4% to 4.5%.

GDP* Growth Rate Revisions (%)

	Old	New	Difference
2013			
I. Quarter	2.87	2.97	0.10
II. Quarter	4.44	4.53	0.09

* Constant prices

Domestic consumption lost momentum in the third quarter.

Recovery in domestic demand conditions in the first nine months of 2013 had a positive impact on consumption expenditures. In the third quarter, although private consumption expenditures lost momentum compared to the previous quarter, they kept their relatively high level. Private consumption expenditures, which increased by 5.1% in real terms compared to the same period of previous year, contributed to GDP growth by 3.3 points. In this period, public consumption expenditures contributed to GDP growth by only 0.1 point.

Private investment spending increased while public investment spending lost momentum.

Private sector investment expenditures, which had a downward impact on GDP growth since the first quarter of 2012, increased by 5.3% in the third quarter compared to same period of previous year and contributed to GDP growth by 1 point. Public investment spending, on the other hand, lost momentum and its contribution to GDP growth declined to the lowest level of 2013.

Net exports continued to have a downward impact on growth.

The negative impact of net exports on GDP growth weakened in the third quarter thanks to the normalization in gold imports starting from August.

Expenditure Approach - Contribution to GDP (1998 Prices)

	2010		2011		2012			2013				9 months
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3		
Consumption	4.9	5.8	0.3	-0.3	0.3	0.8	0.3	3.1	4.4	3.4	3.6	3.1
Private	4.7	5.3	-0.3	-0.8	-0.2	-0.3	-0.4	2.4	3.6	3.3	3.1	3.1
Public	0.2	0.5	0.5	0.4	0.5	1.0	0.6	0.7	0.8	0.1	0.5	0.5
Investment	6.1	4.3	-0.4	-1.2	-0.8	-0.4	-0.7	0.6	1.0	1.3	1.0	1.0
Private	5.4	4.4	-0.3	-1.4	-1.0	-1.4	-1.1	-1.6	-0.4	1.0	-0.3	-0.3
Public	0.7	-0.1	0.0	0.2	0.3	1.0	0.3	2.3	1.5	0.4	1.3	1.3
Change in Stock	2.5	-0.2	-2.3	-1.6	-0.6	-1.3	-1.4	0.0	2.5	1.9	1.5	1.5
Net Exports	-4.4	-1.1	5.6	6.0	2.7	2.4	4.1	-0.8	-3.4	-2.2	-2.2	-2.2
Exports	0.9	1.9	2.9	5.5	3.4	4.1	4.0	1.3	0.0	-0.6	0.2	0.2
Imports	-5.2	-3.0	2.7	0.5	-0.8	-1.7	0.1	-2.1	-3.5	-1.6	-2.4	-2.4
GDP	9.2	8.8	3.1	2.8	1.5	1.4	2.2	3.0	4.5	4.4	4.0	4.0

Numbers may not add to total due to rounding

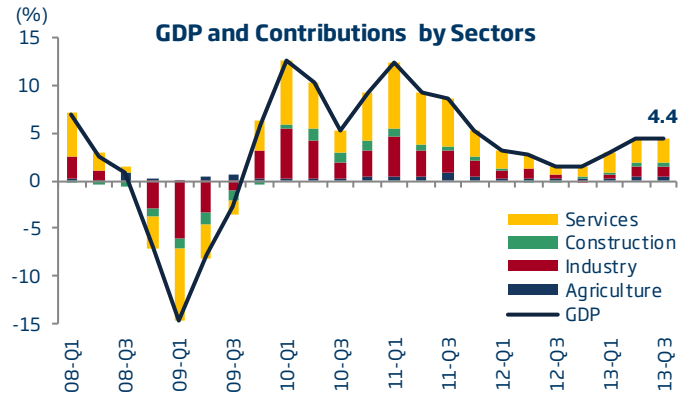
Source: Turkstat

The construction sector grew by 8.7% on annual basis.

According to production approach, services sector, which has the highest share in GDP, grew by 4.3% in real terms in the third quarter of the year and made a contribution of 2.4 points to growth. Activity in the construction sector continued to gain momentum and recorded a real increase of 8.7% in this period, contributing 0.5 point to GDP. Industrial production made 1.1 points contribution to GDP growth, increasing by 4.3% in real terms in third quarter of 2013.

We expect GDP growth to have been realized around 4% in 2013.

Third quarter GDP figures indicated that recovery in Turkish economy continued. During this period, consumption expenditures lost some momentum, however, increase in private investment spending compensated the negative impacts of this momentum loss on GDP growth. Thus, Turkish economy displayed a better than expected growth



performance in the third quarter. Despite the moderate trend of economic activity in the last quarter of the year, it is thought that tight monetary policy implemented by CBRT and measures taken by BRSA regarding the consumer loans have restrained growth to some extent. In this context, we expect that Turkish economy grew by around 4% in 2013.

Industrial production slowed down in October.

After having increased well above the expectations in September, the seasonal and calendar adjusted industrial production decreased by 3.1% in October compared to the previous month. Analyzing the main industry groups, the monthly decline in durable goods production was noteworthy in October. Compared to the same month of the previous year, the calendar adjusted industrial production increased by 0.7% in October. The average annual increase in the calendar adjusted index during the first 9 months was 3.1%.

According to the data announced by Markit, manufacturing sector PMI decreased to 53.5 in December from 55 in November. However, an index level above 50 still indicated that new orders in manufacturing sector increased.

Decline in consumer confidence...

In December, the Consumer Confidence Index declined by 2.5 basis points compared to the previous month and was realized as 75. The decline in the index mainly stemmed from the deterioration in consumers' expectations about the general economic situation.

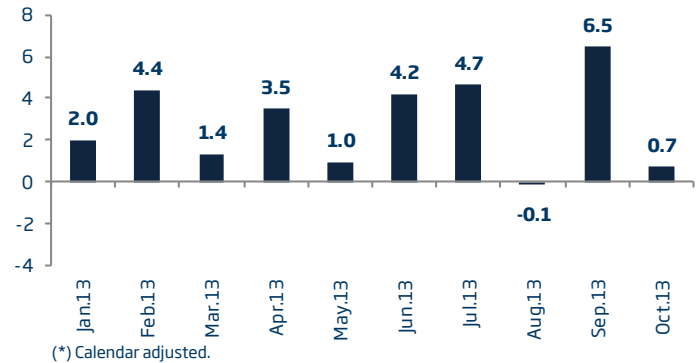
In addition to the decline in Consumer Confidence Index, seasonally adjusted Real Sector Confidence Index also dropped by 0.6 point compared to the previous month and was realized as 110.9. The rise in the number of respondents who expect a decrease both in the export and domestic orders were influential in the decline in Real Sector Confidence. On the other hand, the seasonally adjusted Capacity Utilization Ratio increased by 0.9 point compared to previous month and was realized as 75.9%.

The unemployment rate continued to increase.

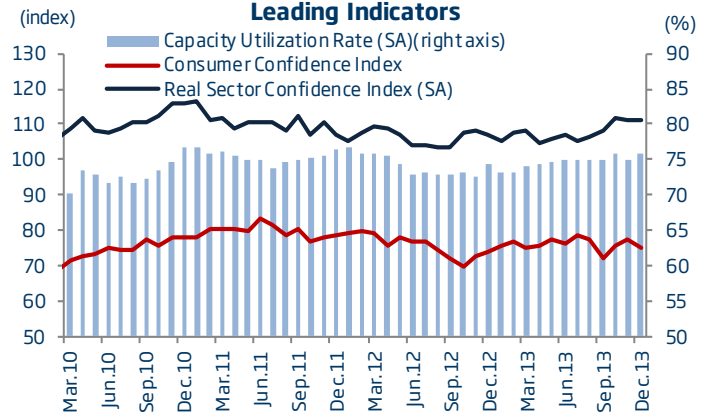
According to the data announced by Turkstat, the unemployment rate increased to 9.9% in September, the highest level of the last 6 months. The non-agricultural unemployment rate was 12.3% while youth unemployment rate was 19.4%. The number of unemployed increased by 292 thousand persons in September compared to the same month of the previous year and the labor force participation rate increased by 0.3 point to 51.3%.

The seasonal and calendar adjusted unemployment rate also continued to increase and was realized a 10.2%.

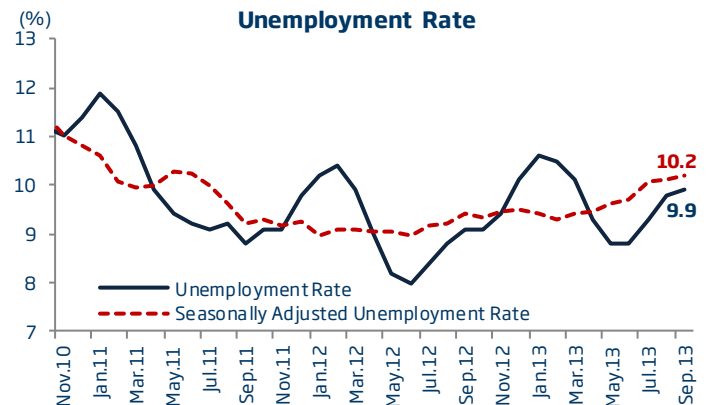
Industrial Production Index*
(annual % change)



Leading Indicators



Unemployment Rate

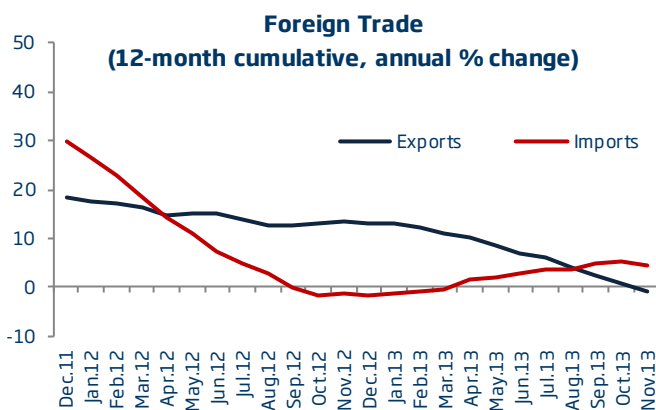


Source: Turkstat, CBRT

Foreign trade deficit in November came in lower than expected with 7.2 billion USD.

According to data released by Turkstat, in November exports increased by 3.6% to 14.3 billion USD compared to the same month of the previous year while imports increased by 2.2% to 21.4 billion USD. Hence, foreign trade deficit narrowed by 0.6% and was realized as 7.2 billion USD, below the market expectations. Import coverage ratio, which was 65.7% in November 2012, rose to 66.6% in November 2013.

As of January-November 2013, exports contracted by 0.8% compared to the same period of the previous year, whereas imports rose by 5.4%. During the same period, foreign trade deficit widened by 16.8% and reached 89.8 billion USD. Excluding gold trade, while exports increased by 6.5% in January-November period compared to the same period of the previous year, imports rose by 2.6%. Thus the foreign trade deficit excluding gold trade declined by 3.6% annually and was realized as 79.4 billion USD.



In November, exports of motor vehicles ranked first in total exports.

The exports of motor vehicles, which ranked first in total exports, increased by 25.6% in November compared to the same month of the previous year and were realized as 1.7 billion USD. The exports of boilers, machinery and mechanical appliances, having the second highest export volume, recorded an increase of 12.3% in the same period. The share of the said two chapters in total exports were at 19.7% in the January-November period. On the other hand, iron and steel exports, which fell for the seventh month in a

row, declined by 13.3% in the first eleven months of the year.

Share of imports of the intermediate goods in total imports declined.

The annual increase in the imports of intermediate goods were below the increase in total imports during the year. In November imports of the intermediate goods rose by only 1%. Thus, the share of the intermediate goods in total imports decreased by 1.1 points to 73.2% in January-November period.

The annual increase in the imports of consumption goods was realized as 9.8% in November. As of January-November period, imports of consumption goods increased by 13.5% on annual basis and their share in total imports increased by 0.9 point in the same period. On the other hand, increase in the imports of consumption goods decelerated during the last two months.

The imports of capital goods recorded an annual increase of 2.1% on annual basis. Annual increase in the imports of capital goods in January-November period was realized as 7.8% which was slightly above the annual increase in total imports.

The share of European Union in exports increased to 44.1% in November.

The share of European Union countries in Turkey's total exports increased by 2.1 points in November compared to the same month of the previous year and reached 44.1%. During the same period, the share of Near and Middle Eastern countries decreased by 1.8 points to 22.9%.

In terms of countries, Germany continued to be the biggest export market of Turkey in November with a share of 9.6%. Regarding imports, Russia ranked first in November with a share of 10.9%. Exports to Germany increased by 12.4% compared to the same month of the previous year while imports from Russia increased by 3.1%.

Expectations...

The recovery in global demand might create a positive impact on exports in the forthcoming period. Accelerated depreciation of TL during the last month of the year is also anticipated to limit the foreign trade deficit. Moreover, the new measures taken by BRSA and CBRT are expected to create a downward pressure on domestic demand and therefore on imports volume.

Foreign Trade Balance	(USD billion)					
	November		Change	January-November		Change
	2012	2013	(%)	2012	2013	(%)
Exports	13.8	14.3	3.6	139.9	138.7	-0.8
Imports	20.9	21.4	2.2	216.7	228.5	5.4
Foreign Trade Balance	-7.2	-7.2	-0.6	-76.9	-89.8	16.8
Import Coverage Ratio (%)	65.7	66.6	-	64.5	60.7	-

Source: Turkstat

Current account deficit came in line with the expectations in October.

The current account deficit was realized as 2,890 million USD in October, parallel to the expectations. During January-October, the deficit increased by 31.2% compared to the same period of the previous year and reached 51,901 million USD. 12-month cumulative current account deficit was 60,855 million as of October.

Gold imports deteriorated the current account deficit during the first 10 months of the year.

According to the balance of payments statistics, foreign trade deficit of October was 5,606 million USD. 685 million USD of this amount stemmed from the deficit originating from the gold trade. Thus, foreign trade deficit during January-October period, which increased by 21.1% compared to the same period of the previous year, in fact narrowed by 5.2% when gold trade excluded from foreign trade figures. Also, excluding the gold trade, the current account deficit declines to 42,220 million USD during January-October period and 12-month cumulative deficit narrows to 51,898 million USD.

Rising tourism revenues...

Despite the increase in total foreign trade deficit, tourism revenues continued to limit the current account deficit. Net tourism revenues rose by 10.7% in January-October period compared to the same period of the previous year and reached 20,958 million USD.

Investment income balance...

Under the investment income balance, direct, portfolio and other investments recorded a net income outflow of 7,931 million USD during January-October period increasing by 28.6% compared to the same period of the previous year and contributed to the widening in the current account deficit.

Capital inflows through portfolio investments continued.

After recording a net capital outflow of 3,421 million USD during June and July, portfolio investments account started to register net capital inflow starting from August. Including 3,757 million USD worth of net inflows in October, the total net portfolio investments inflows during August, September and October reached 7,843 million USD. Analyzing the details of the portfolio investments during October, non-residents' equity transactions recorded net purchases of 641 million USD. On the other hand, non-residents' sold net 243 million USD of government domestic debt securities. The general government issued lease certificates and borrowed 1,250 million USD from the international markets. In addition, regarding the bond issuances in international markets, the banking sector and non-bank sectors borrowed 1,190 million USD and 500 million USD, respectively.

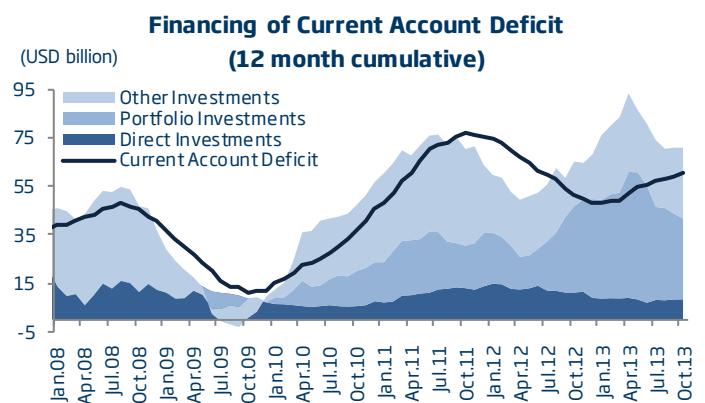
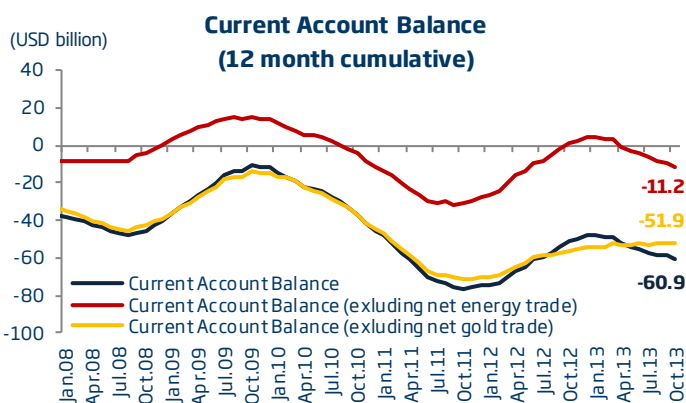
Foreign direct investments kept their weak level.

The foreign direct investments continued to keep their low level in financing of the current account deficit. Capital inflows registered through net foreign direct investments were 505 million USD in October. Net foreign direct investments in the first ten months of the year decreased by 7.8% compared to the same period of previous year and were realized as 7,211 million USD.

Other investments account...

Analyzing the assets item of other investments account, it was observed that deposits of Turkish banks and real sector held abroad decreased by 1,710 million USD in October.

On the liabilities side, the banking sector raised 1,700 million USD long-term loans from abroad. Thus, calculated on the basis of 12-month cumulative data, the long-term debt rollover ratio of the banking sector continued to increase in October and reached 190%. Regarding short-term loans, banking sector made 1,651 million USD worth of



net re-payment in October. Non-bank sectors, on the other hand, were net credit payer in long-term loans with 193 million USD while raising short-term loans amounting to 978 million USD. The cumulative 12-month figures showed that non-bank sectors' long-term debt rollover ratio was realized as 100%.

Reserves increased.

Reserves increased by 2,169 million USD in October and 11,532 million USD during January-October period. 1,450 million USD capital outflows were registered under the net errors and omissions account in October.

Expectations...

Excluding the gold trade, the current account deficit showed a declining trend. The improvement in current account deficit excluding gold trade is anticipated to continue in the coming months as the impacts of monetary

tightening of CBRT begins to become more evident and the recent measures against the excessive rise in household indebtedness become effective.

Despite the continuation of the portfolio investments in the last three months, there might be fluctuations in inflows depending on the policy decisions of Fed. In addition, the recent rise in the domestic political tension might also increase the volatility in capital flows towards Turkey.

Current Account Balance	(USD million)				
	October 2013	January-October 2012 2013		% Change	12 Month Cumulative
Current Account Balance	-2,890	-39,553	-51,901	31.2	-60,855
Foreign Trade Balance	-5,606	-54,684	-66,236	21.1	-76,887
Services Balance	3,351	20,451	21,636	5.8	23,787
Tourism Revenues (net)	3,080	18,927	20,958	10.7	23,282
Income Balance	-742	-6,340	-8,159	28.7	-8,976
Current Transfers	107	1,020	858	-15.9	1,221
Capital and Financial Accounts	4,340	35,807	48,064	34.2	59,529
Direct Investments (net)	505	7,820	7,211	-7.8	8,335
Portfolio Investments (net)	3,757	30,276	22,770	-24.8	33,283
Assets	383	3,121	2,811	-9.9	2,347
Liabilities	3,374	27,155	19,959	-26.5	30,936
Equity Securities	641	3,039	315	-89.6	3,550
Debt Securities	2,733	24,116	19,644	-18.5	27,386
Other Investments (net)	2,247	18,747	29,691	58.4	29,341
Assets	1,977	3,126	2,468	-21.0	-1,226
Currency and Deposits	1,710	4,890	3,393	-30.6	-328
Liabilities	270	15,621	27,223	74.3	30,567
Trade Credits	-279	398	3,556	793.5	4,180
Loans	710	6,041	14,551	140.9	18,169
Banking Sector	49	2,369	14,616	517.0	17,409
Non-bank Sectors	785	5,267	585	-88.9	1,908
Deposits	-192	8,686	8,550	-1.6	7,663
Foreign Banks	-198	8,228	7,170	-12.9	6,071
Foreign Exchange	-1,108	6,691	7,176	7.2	5,730
Turkish Lira	910	1,537	-6	-	341
Non-residents	182	2,428	3,053	25.7	3,538
Reserve Assets (net)	-2,169	-20,992	-11,532	-45.1	-11,354
Net Errors and Omissions	-1,450	3,746	3,837	2.4	1,326

Source: CBRT

Central government budget posted a surplus in November.

According to the data released by the Ministry of Finance, budget revenues increased by 10.7% in November compared to the same month of previous year and were realized as 36.9 billion TL. During the same period, expenditures increased by 9.1% to 30.5 billion TL. Thus, central budget, which posted a surplus of 5.4 billion TL in November 2012, gave a surplus of 6.4 billion TL in November 2013.

Regarding the first 11 months of 2013, budget revenues and expenditures increased by 17.3% and 12.7% compared to the same period of the previous year, respectively. Rate of increase in the budget revenues surpassed that of budget expenditures, thus, budget deficit decreased by 90.7% annually and was realized as 1.2 billion TL. In this period, primary surplus increased by 40.1% and reached 46.8 billion TL.

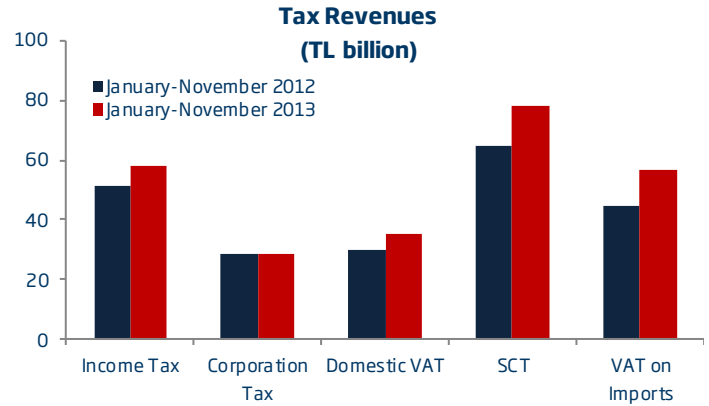
Tax revenues, which lost momentum in October, rebounded in November again.

Rate of increase in tax revenues, which lost momentum in October, rebounded in November and increased by 12.2% compared to the same month of the previous year. Thus, tax revenues were realized as 33.1 billion TL in November. Analyzing the sub-items revealed that revenues collected from Domestic VAT, Special Consumption Tax and VAT on Imports increased by 18%, 16.2% and 21.2%, respectively and kept their positive outlook.

As of the first 11 months of the year, it was seen that majority of the revenue items displayed an outlook parallel to the year-end targets except revenues collected from alcoholic beverages.

Budget expenditures...

In November, non-interest budget expenditures increased by 17.4% compared to the same month of previous year and were realized as 28.7 billion TL while interest expenditures decreased by 49.3% and limited the increase in the budget



expenditures. The increase in non-interest expenditures mainly stemmed from the health, retirement and social aid expenditures monitored under the current transfers item. Besides, salary payments made to the people who are over the age of 65 and in need according to the law no. 2022 together with the agricultural subsidies also made an upward contribution the current transfers.

Analyzing the first 11 month cumulative figures, it was seen that central government budget expenditures reached 88.7% of the year-end target and were realized as 358.2 billion TL. In the same period interest and non-interest expenditures increased by 2.7% and 14.5%, respectively.

Expectations...

During the first 11 months of the year, budget realizations were in line with the year-end targets. In addition, it was seen that the momentum loss in tax revenues recorded in October was temporary and this pointed out that the budget performance would continue its favorable outlook in the coming period. On the other hand, considering the high level of spending recorded in the last month of previous years, it is anticipated that the budget expenditures might accelerate in December and budget deficit might approach to the year-end target.

Central Government Budget

	November		%	January-November		%	Budget Target	(TL billion)	
	2012	2013		Change	2012			2013	Change
Expenditures	27.9	30.5	9.1	317.7	358.2	12.7	404.0	88.7	406.6
Interest Expenditures	3.5	1.8	-49.3	46.7	48.0	2.7	53.0	90.6	50.5
Non-interest Expenditures	24.5	28.7	17.4	271.0	310.2	14.5	351.0	88.4	356.1
Revenues	33.4	36.9	10.7	304.4	357.0	17.3	370.1	96.5	387.2
Tax Revenues	29.5	33.1	12.2	255.7	299.4	17.1	317.9	94.2	325.1
Other Revenues	3.9	3.8	-0.9	48.7	57.6	18.2	52.1	110.5	62.0
Budget Balance	5.4	6.4	18.5	-13.3	-1.2	-90.7	-34.0	3.7	-19.4
Primary Balance	8.9	8.2	-7.9	33.4	46.8	40.1	19.0	245.5	31.1

Numbers may not add up to total due to rounding

Source: Finance Ministry

CPI came slightly above the expectations in December.

In December, compared to the previous month, CPI and PPI increased by 0.46% and 1.11%, respectively. According to the Reuters' survey, monthly CPI was expected to rise by 0.40%. According to the CBRT's survey, markets' monthly CPI expectation was 0.42% in December.

In December, annual CPI inflation increased.

The annual increase in CPI, after following a downward trend since July, rose to 7.40% in December. Thus, the annual CPI inflation surpassed CBRT's 6.8% year-end forecast. Annual PPI inflation also recorded a sharp increase in December and rose to 6.97%, the highest level of the last 19 months.

The decrease in clothing prices limited the inflation.

In December, 1.46% increase in the food and non-alcoholic beverages prices contributed to monthly inflation by 35 basis points. In this period, in line with the depreciation in Turkish Lira and the rise in LPG prices, transportation and housing groups pushed inflation by 19 and 15 points, respectively. On the other hand, alcoholic beverages and tobacco together with clothing and footwear prices limited the rise in inflation in December.

The decline in the core inflation aggregates...

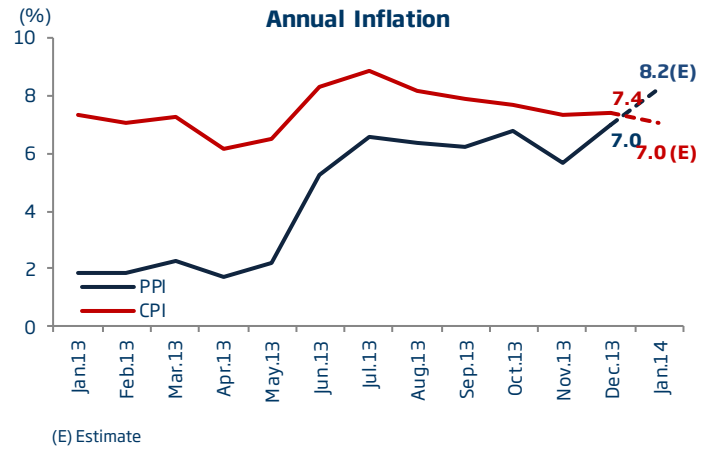
Analysis of the core inflation aggregates in December revealed that seasonal factors limited the rise in inflation. In fact, monthly CPI inflation recorded an increase of 0.68% when seasonal products are excluded. The annual increases in CBRT's favorite core indices denominated by H and I continued to decrease also in December and were realized as 7.11% and 7.08%, respectively.

In December PPI rose by 1.11%.

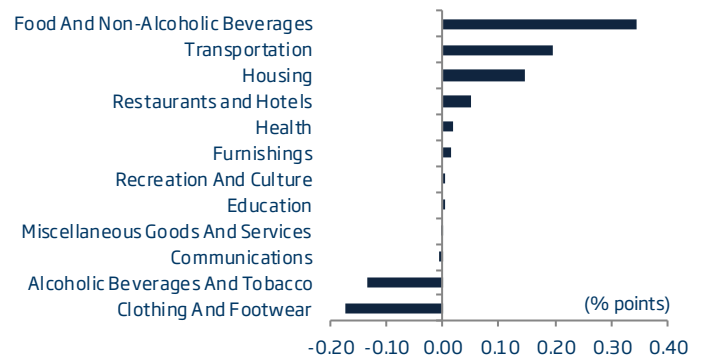
In December, PPI recorded an increase of 1.11%, the highest increase registered since June. In this period, the price developments in the agriculture and hunting together with the food products and beverages made the highest contribution to the monthly inflation.

Expectations...

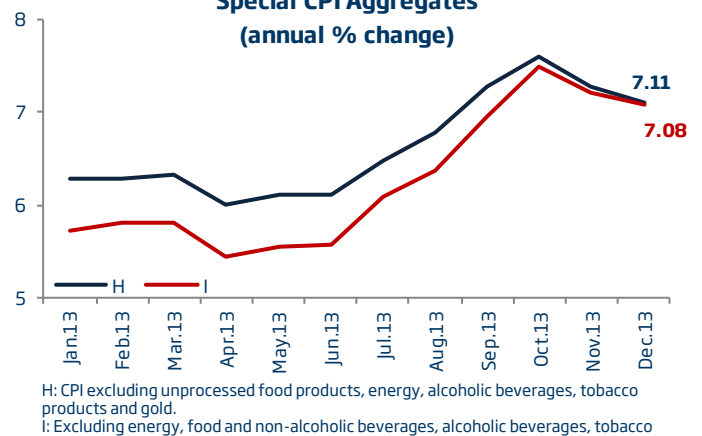
In January, we anticipate that the developments in foreign exchange rates and the adjustments in the Special Consumption Tax (SCT) would contribute to the rise in the inflation rate. On the other hand, we think that the seasonal discounts in clothing and footwear prices would limit the rise in inflation to some extent. In this context, we forecast CPI and PPI to rise by 1.30% and 1%, respectively. Besides, we estimate that the recent adjustments in SCT would made contribution to the annual inflation by 50-100 basis points.



Contributions to the Monthly CPI by Subgroups



Special CPI Aggregates (annual % change)



CBRT kept the interest rates unchanged.

At its meeting on December 17th, CBRT kept the one-week repo rate unchanged at 4.5%. The lower and upper bounds of interest rate corridor were also kept unchanged at 3.5%, and 7.75%, respectively. CBRT also maintained the interest rate on borrowing facilities provided for primary dealers via repo transactions at 6.75%.

CBRT indicated that final domestic demand and exports continued to grow at a moderate pace and present policy framework contributed to the improvement in the current account balance. In addition, CBRT stressed that cautious monetary policy stance, the new macroprudential measures and the weakness in capital flows would bring down the loan growth rates to more reasonable levels in the coming period.

CBRT tightened the liquidity conditions.

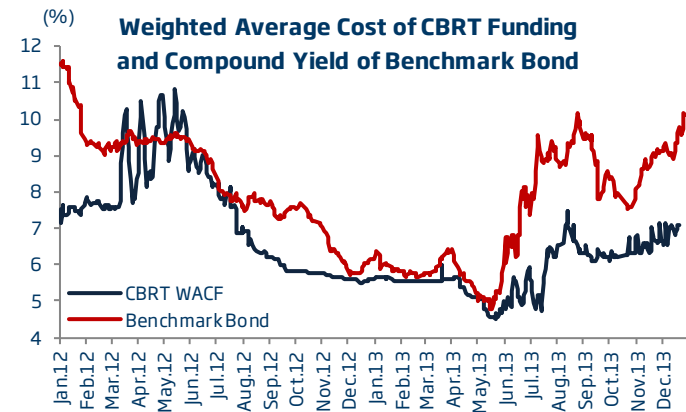
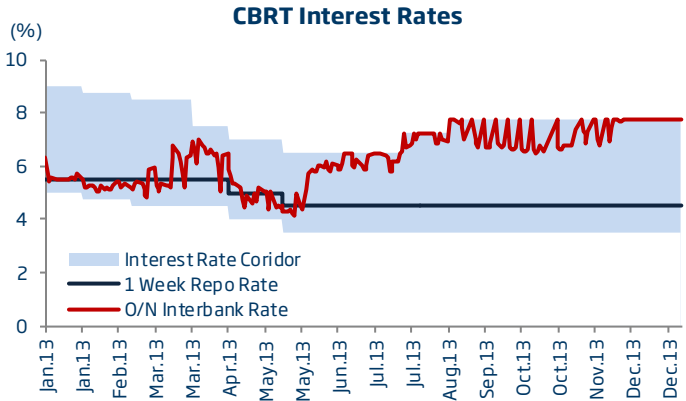
CBRT reduced the maximum outstanding amount of the funding provided via one-week repo auctions from 10 billion TL to 6 billion TL. The total amount of funds available to primary dealer banks was also decreased from 23 billion TL to approximately 6.5 billion TL. Although the interest rates were kept unchanged, due to those changes in liquidity policy the interbank money market rates would materialize close to 7.75% and the weighted average cost of funding will materialize at 6.75% or above in the forthcoming period according to the CBRT. CBRT also stressed that inflation indicators are likely to hover above the target for some time, however, the current stance of the monetary policy was appropriate to contain inflationary risks.

CBRT announced its monetary and exchange rate policy for 2014.

In its monetary and exchange rate policy for 2014, CBRT indicated that they will continue to oversee financial stability in consideration of macroeconomic risks together with price stability, as in recent years. In addition, it was stressed that practices will be sustained to pursue monetary policy and liquidity management more effectively. In this context, CBRT will continue to use instruments like liquidity management, borrowing and lending interest rates corridor and required reserves. CBRT indicated that, through the liquidity policy practices, the credit growth will be oriented towards business loans rather than consumer loans.

Measures against the depreciation in TL...

On the other hand, from December 24th, the minimum daily foreign exchange selling auction amount was increased to 450 million USD for each day until the end of December. Due to the increased volatility in TL, CBRT sold a total of 4.7 billion USD throughout December. CBRT also announced that minimum daily foreign exchange selling auction



Reserve Option Coefficients

FX Facility Tranches (%)	Current ROC	New ROC
0-30	1.4	1.4
30-35	1.5	1.5
35-40	1.8	1.8
40-45	2.2	2.6
45-50	2.5	2.9
50-55	2.7	3.1
55-60	2.8	3.2

amount will be 100 million USD for each day in January.

In addition, CBRT adopted a new approach to calculate liabilities subject to reserve requirements, and announced that with the revisions, FX liquidity of approximately 1 billion USD is projected to be injected to the market.

In addition, CBRT also made adjustments in the reserve option mechanism which allows banks to hold a certain fraction of their TL reserve requirements in FX. In this context, the reserve option coefficients (ROC) were also increased in order to provide more effective functioning of this mechanism as an automatic stabilizer. Thus, the average ROC increased from 1.825 to 1.93. The utilization ratio, which is 90.6% for the banks using this facility, is expected to decrease with the new revision.

Deposit volume grew by 21.1% compared to the year-end.

According to BRSA's Weekly Bulletin, as of December 20th, 2013, total deposit volume increased by 21.1% compared to the year-end and amounted to 989.5 billion TL. During the same period, TL deposits increased by 12.3% and FX deposits in USD terms expanded by 17.9%. It was seen that the exchange rate adjusted increase in deposit volume was 14.2%.

Loans...

As of December 20th, 2013, total loan volume expanded by 29.6% compared to the year-end and reached 1,044.3 billion TL. During the same period, TL loans increased by 26.9% and FX loans in USD terms rose by 17.3%. The year-to-date increase in loans recede to 24.4% when adjusted for exchange rate.

Analyzing by types, personal finance loans increased by 24% and commercial loans expanded by 32.3% compared to year-end.

Sector's non-performing loans ratio kept its stable course and was realized as 2.78% as of December 20th. On the other hand, it was noteworthy that the non-performing loan volume of personal credit cards followed an upward trend recently and the said ratio reached 6%.

Securities portfolio...

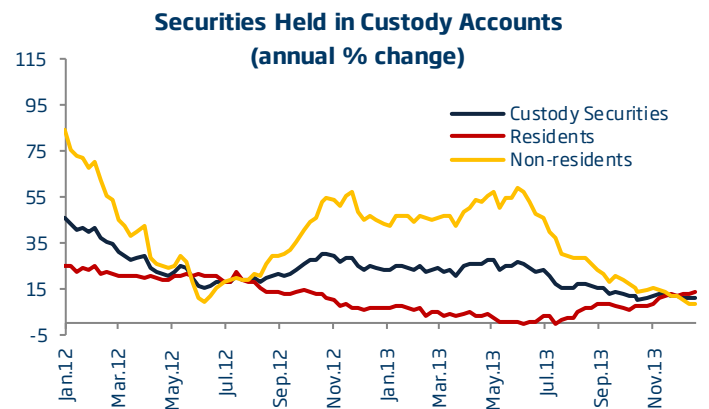
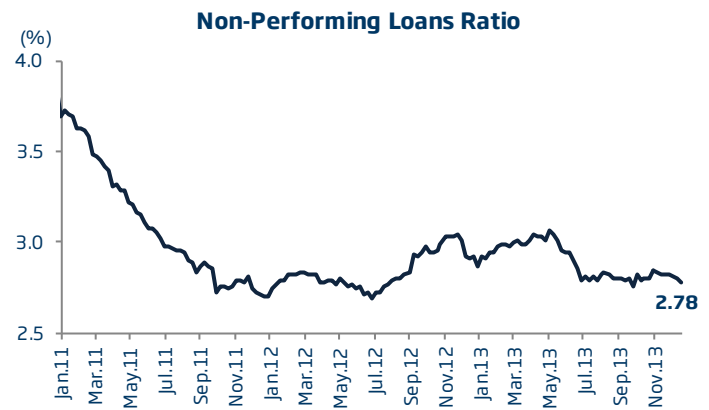
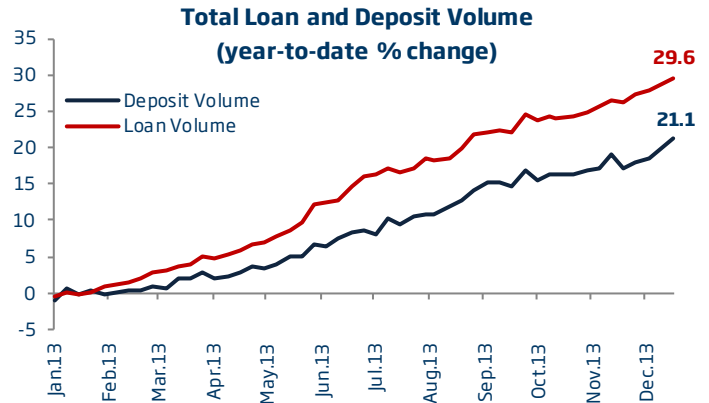
As of December 20th, 2013, securities portfolio of banking sector increased by 4.9% compared to the year-end. During this period, while available for sale securities portfolio decreased by 25%, securities held to maturity portfolio increased by 17.1%. The securities subject to repo transactions also increased by 38.7%.

Securities held in custody accounts...

In nominal terms, securities held in custody accounts grew by 10.2% as of December 20th, 2013, compared to the year-end. Non-residents' portfolio rose by 7.7% and was realized as 107 billion TL during the same period. Residents' portfolio also expanded by 12.9% to 99.3 billion TL.

Net FX position...

As of December 20th, 2013, banks' on-balance sheet FX position was (-) 34,749 million USD while off-balance sheet FX position was (+) 34,727 million USD. Hence, banks' net FX position was realized as (-) 22 million USD.



Source: BRSA Weekly Bulletin

Global economy, in general, performed a weaker than expected performance in 2013. In this period, recovery in developed countries continued while the growth rates of developing countries decelerated. In addition, the anticipations regarding a possible tapering by Fed caused significant fluctuations in the global markets throughout the second half of the year. The expectations about US economy point a better outlook for 2014 while the recovery in the Euro Area is expected to be gradual during the same period. On the other hand, economic performances of developing countries are anticipated to be mostly shaped by Fed's decisions.

The recent data announcements in US pointed out that the recovery in economy continued. Thus, Fed decided to cut its asset purchase program in December. Bernanke stated that further cuts would take place in a moderate pace and the tapering process will last until the end of 2014. Thus, markets' perception is that the Fed will not hurry to tighten the monetary policy. Euro Area, which still struggles with the negative impacts of global financial crisis, continue to recover but economic activity still remains under pressure.

Turkish economy has adapted to the frequently changing and turbulent global conjuncture in 2013 and displayed a growth performance which is in line with the expectations. During the last quarter of the year, economic activity maintained its positive outlook and the leading indicators did not show any noteworthy deterioration. On the other hand, regarding 2014, the tightening measures of CBRT and recent measures to slow down the growth in consumer loans are anticipated to limit consumption spending. Additionally, fluctuations in global liquidity conditions and the rise in domestic political risks will play an important role on the course of capital flows into Turkish economy.

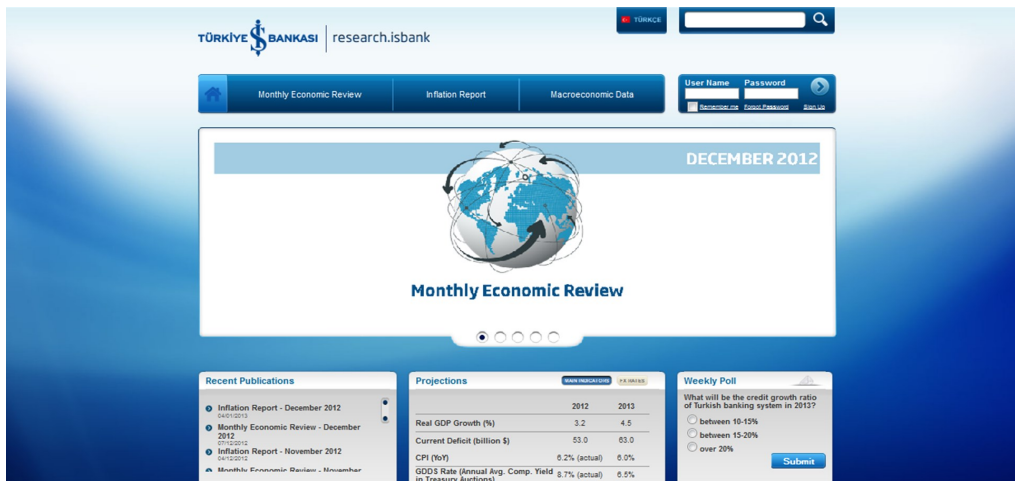
Forecasts	2013	2014 (E)
Growth (%)	4.0 (E)	3.5-4.0
CA Deficit (USD billion)	60.0 (E)	63.0
CA Deficit/GDP (%)	7.2 (E)	7.1
Inflation (%)	7.4	7.5
GDDI Interest* (%)	7.6	8.9

(* Annual compound average interest rate in treasury auctions)

(E) Estimate

Interest and inflation are year-end forecasts

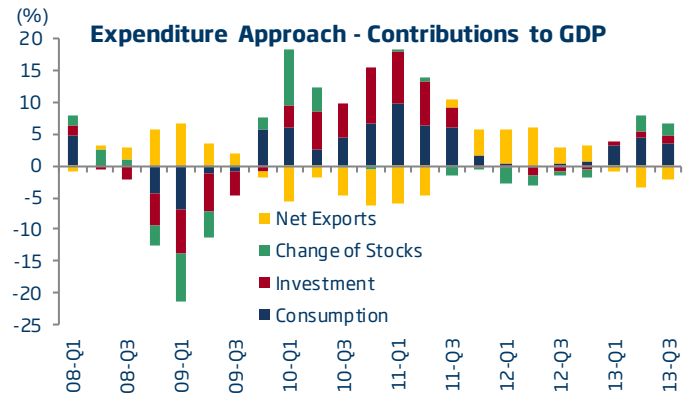
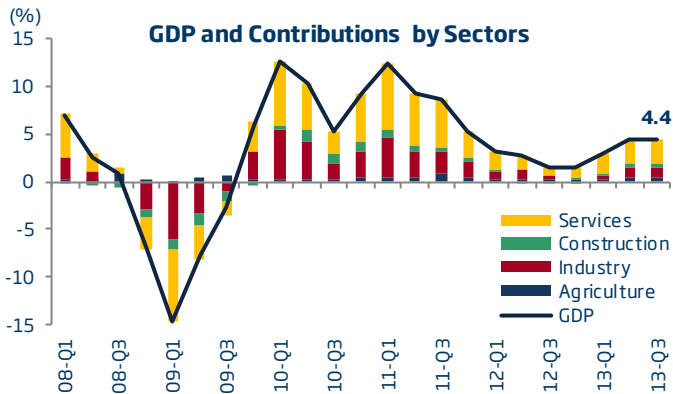
Our reports are available on our website <http://research.isbank.com.tr>



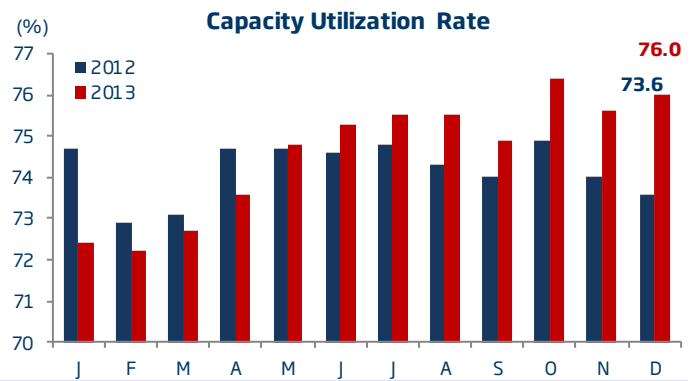
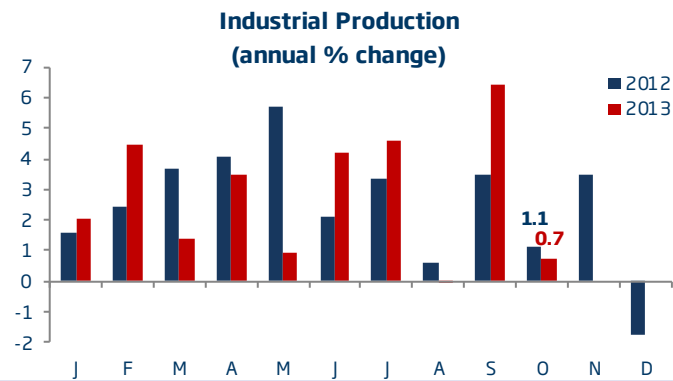
The screenshot shows the website interface for Türkiye Bankası's research department. The main navigation bar includes 'Monthly Economic Review', 'Inflation Report', and 'Macroeconomic Data'. The central content area is titled 'DECEMBER 2012' and 'Monthly Economic Review'. Below this, there are three main sections: 'Recent Publications' listing reports from December 2012 and November 2012; 'Projections' with a table comparing 2012 and 2013 data; and a 'Weekly Poll' asking about the credit growth ratio of the Turkish banking system in 2013.

	2012	2013
Real GDP Growth (%)	3.2	4.5
Current Deficit (billion \$)	53.0	63.0
CPI (YoY)	0.2% (actual)	0.0%
GDDI Rate (Annual Avg. Comp. Yield in Treasury Auctions)	8.7% (actual)	8.5%

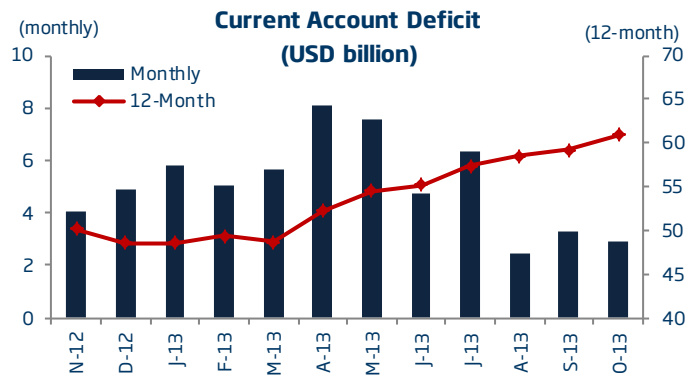
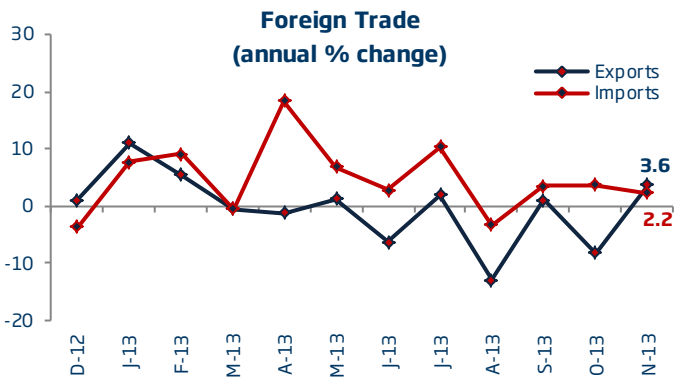
Growth



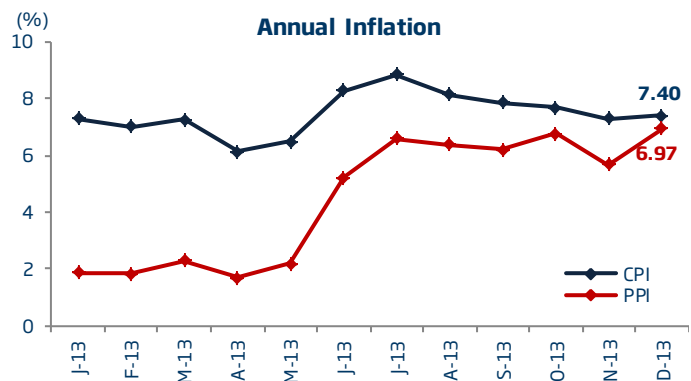
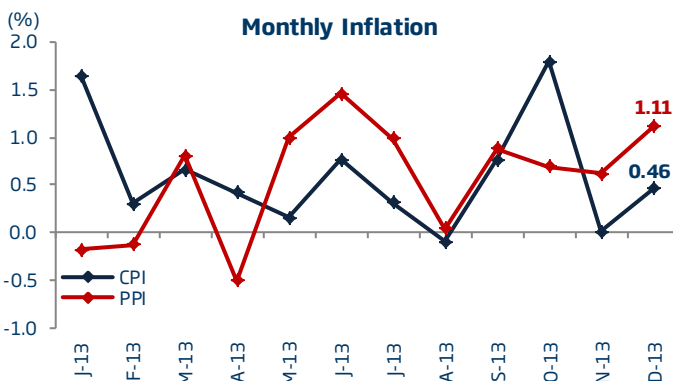
Industrial Production



Foreign Trade and Current Account Balance

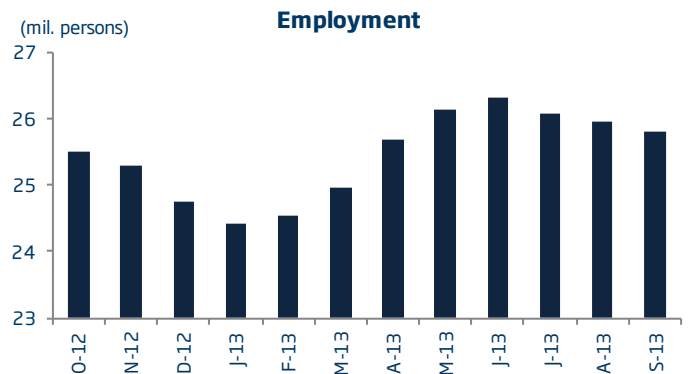
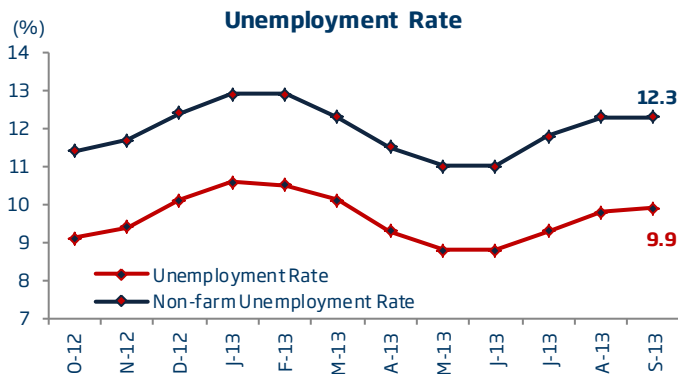


Inflation

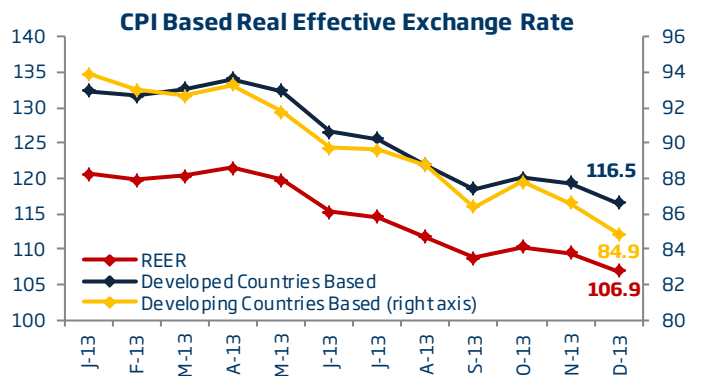
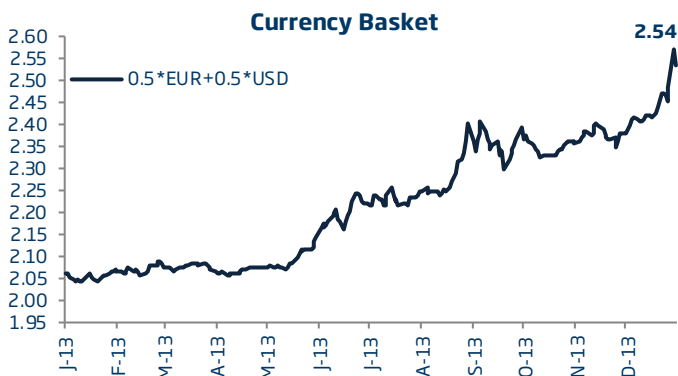


Source: Turkstat, CBRT

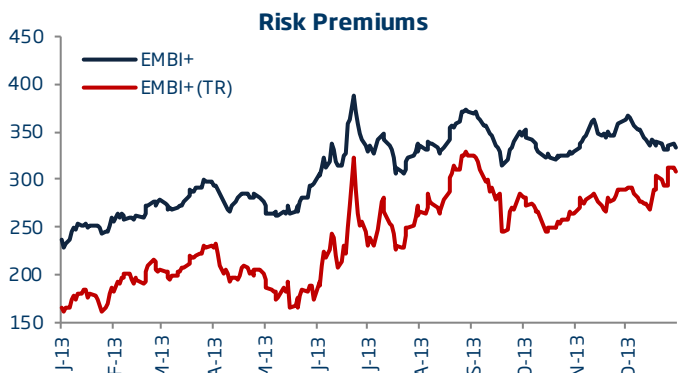
Labor Market



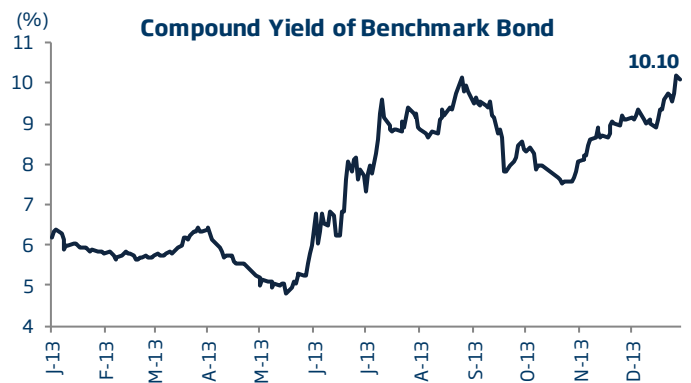
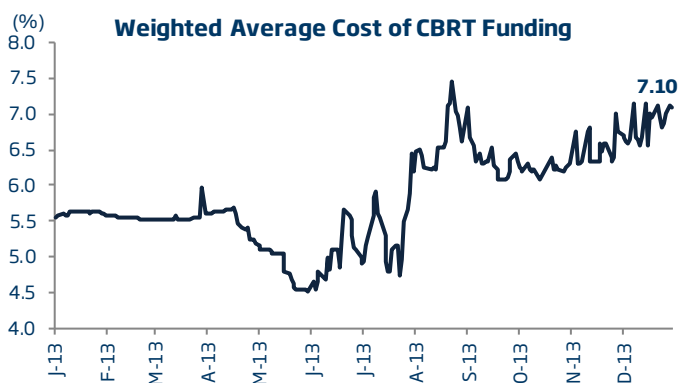
FX Market



Risk Indicators

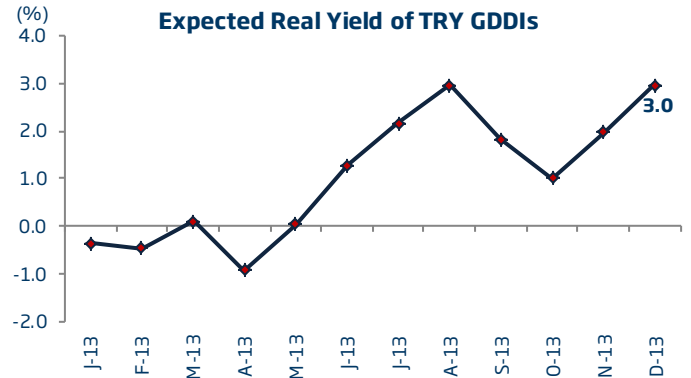
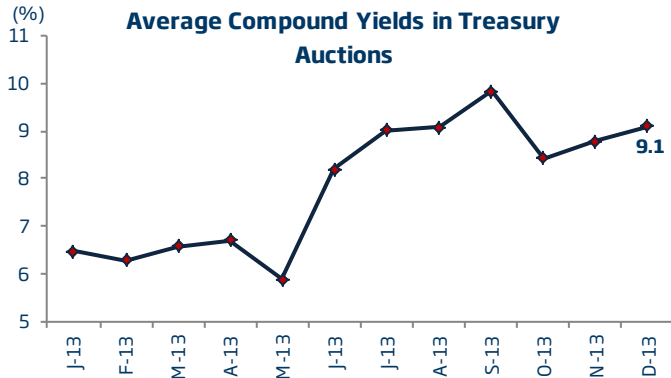


Interest Rates

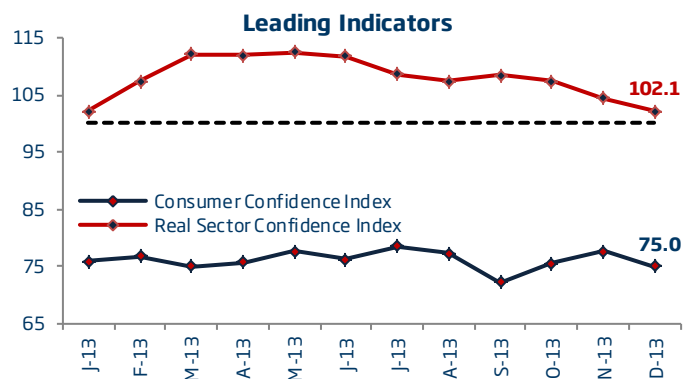
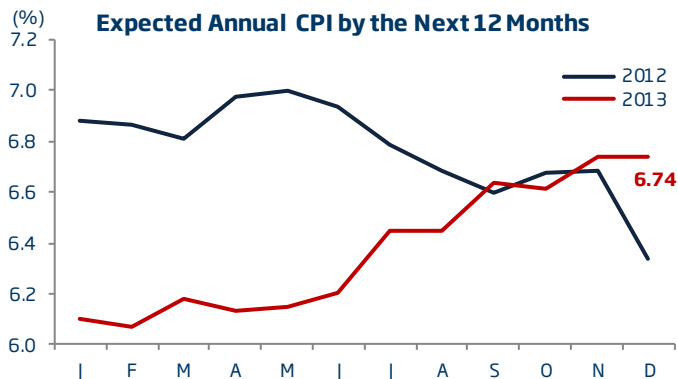
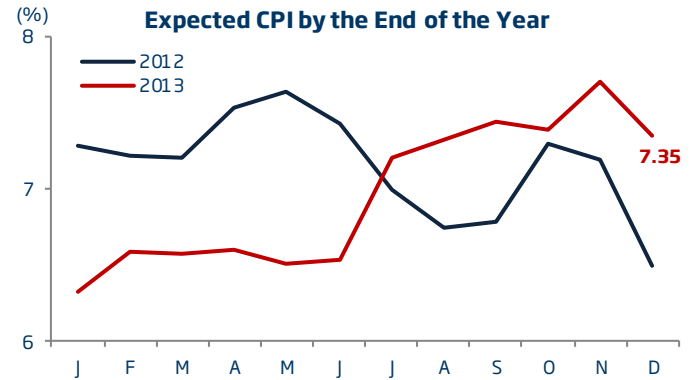
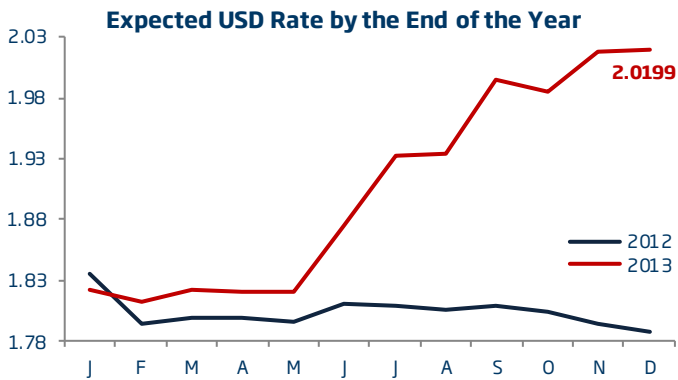
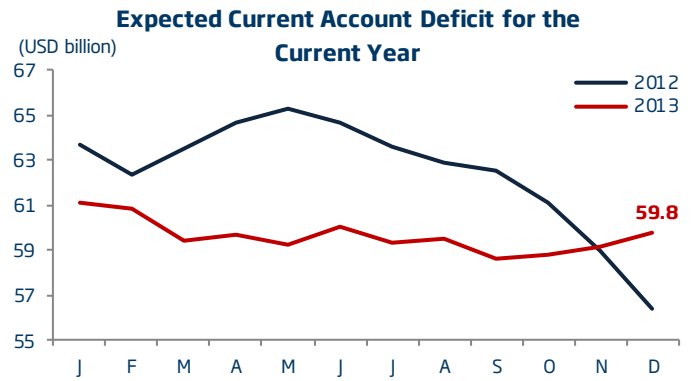
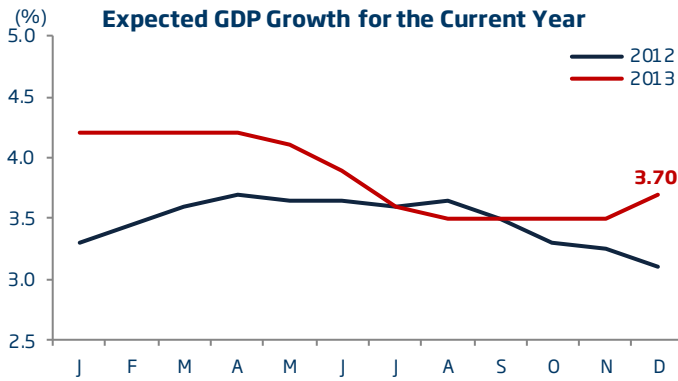


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

Bond-Bill Market



Survey of Expectations and Other Leading Indicators



Source: Treasury, BIST, CBRT, Economic Research Division

Turkish Economy at a Glance

Growth	2008	2009	2010	2011	2012	13-Q1	13-Q2	13-Q3
GDP (USD Billion)	742.1	616.7	731.6	774.0	785.7			
GDP Growth Rate (%)	0.7	-4.8	9.2	8.8	2.2	3.0	4.5	4.4
Inflation (%)						Oct-13	Nov-13	Dec-13
CPI (annual)	10.1	6.5	6.4	10.4	6.2	7.7	7.3	7.4
PPI (annual)	8.1	5.9	8.9	13.3	2.5	6.8	5.7	7.0
Labor Market						Jul-13	Aug-13	Sep-13
Unemployment Rate (%)	11.0	14.0	11.9	9.8	9.2	9.3	9.8	9.9
Employment (thousand persons)	21,194	21,277	22,594	24,110	24,821	26,099	25,960	25,808
FX Rates						Oct-13	Nov-13	Dec-13
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.2	110.2	109.4	106.9
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	1.9888	2.0166	2.1343
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.7361	2.7423	2.9365
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.3625	2.3795	2.5354
Foreign Trade Balance⁽¹⁾ (USD billion)						Sep-13	Oct-13	Nov-13
Exports	132.0	102.1	113.9	134.9	152.5	151.9	150.8	151.3
Imports	202.0	140.9	185.5	240.8	236.5	247.2	247.9	248.3
Foreign Trade Balance	-69.9	-38.8	-71.7	-105.9	-84.1	-95.2	-97.1	-97.0
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5	61.5	60.8	60.9
Current Account Balance⁽¹⁾ (USD billion)						Aug-13	Sep-13	Oct-13
Current Account Balance	-40.4	-12.2	-45.4	-75.1	-48.5	-58.4	-59.1	-60.9
Capital and Financial Accounts	37.4	9.3	44.0	65.7	47.3	56.7	57.2	59.5
Direct Investments (net)	17.2	7.1	7.6	13.7	9.0	7.9	8.3	8.3
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	38.1	35.5	33.3
Other Investments (net)	24.2	2.1	33.2	28.2	18.5	24.5	27.2	29.3
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-13.8	-13.7	-11.4
Net Errors and Omissions	3.0	2.9	1.4	9.4	1.2	1.8	1.9	1.3
Current Account Deficit/GDP	-5.4	-2.0	-6.2	-9.7	-6.2	-	-	-
Budget⁽²⁾⁽³⁾ (TL billion)						Sep-13	Oct-13	Nov-13
Expenditures	227.0	268.2	294.4	314.6	360.5	294.5	327.7	358.2
Interest Expenditures	50.7	53.2	48.3	42.2	48.4	43.8	46.2	48.0
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1	250.7	281.5	310.2
Revenues	209.6	215.5	254.3	296.8	331.7	290.0	320.1	357.0
Tax Revenues	168.1	172.4	210.6	253.8	278.8	240.3	266.3	299.4
Budget Balance	-17.4	-52.8	-40.1	-17.8	-29.4	-4.5	-7.7	-1.2
Primary Balance	33.2	0.4	8.2	24.4	19.6	39.3	38.6	46.8
Budget Balance/GDP	-1.8	-5.5	-3.6	-1.4	-2.1	-	-	-
Central Government Debt Stock (TL billion)						Sep-13	Oct-13	Nov-13
Domestic Debt Stock	274.8	330.0	352.8	368.8	386.5	407.9	406.9	405.4
External Debt Stock	105.5	111.5	120.7	149.6	145.7	168.5	168.0	172.4
Total	380.3	441.5	473.6	518.4	532.2	576.4	574.9	577.8

(1) 12 month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TL billion)	2008	2009	2010	2011	2012	Sep-13	Oct-13	Change ⁽¹⁾
TOTAL ASSETS	732.5	834.0	1006.7	1217.7	1370.7	1649.1	1636.1	19.4
Loans	367.4	392.6	525.9	682.9	794.8	990.4	990.5	24.6
TL Loans	262.1	288.2	383.8	484.8	588.4	721.3	723.2	22.9
Share (%)	71.3	73.4	73.0	71.0	74.0	72.8	73.0	-
FX Loans	105.3	104.4	142.1	198.1	206.4	269.1	267.2	29.5
Share (%)	28.7	26.6	27.0	29.0	26.0	27.2	27.0	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	28.0	28.5	21.7
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	2.7	2.8	-
Securities	194.0	262.9	287.9	285.0	270.0	288.2	284.4	5.4
TOTAL LIABILITIES	732.5	834.0	1006.7	1217.7	1370.7	1649.1	1636.1	19.4
Deposits	454.6	514.6	617.0	695.5	777.2	902.7	899.5	15.7
TL Deposits	294.1	341.4	433.5	460.0	520.4	582.5	576.8	10.8
Share (%)	64.7	66.3	70.3	66.1	67.4	64.5	64.1	-
FX Deposits	160.5	173.2	183.5	235.5	251.8	320.2	322.7	28.2
Share (%)	35.3	33.7	29.7	33.9	32.6	35.5	35.9	-
Securities Issued	0.0	0.1	3.1	18.4	37.9	52.8	56.5	49.3
Payables to Banks	92.7	86.1	122.4	167.4	173.4	229.7	225.7	30.2
Funds from Repo Transactions	40.8	60.7	57.5	97.0	79.9	117.4	112.9	41.3
TOTAL SHAREHOLDERS' EQUITY	86.4	110.9	134.5	144.6	181.9	188.8	193.5	6.4
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	19.8	21.7	-
RATIOS (%)								
Loans/Assets	50.2	47.1	52.2	56.1	58.0	60.1	60.5	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	17.5	17.4	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	54.7	55.0	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.2	91.1	90.8	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	15.7	15.8	-

(1) Year-to-date % change



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