



Monthly Economic Review February 2014



Global Economy

- ◆ IMF and World Bank revised upward their global economic growth forecasts for 2014.
- ◆ IMF pointed out that the final demand in advanced economies expanded as expected since the October 2013 forecast period. IMF also noted that the rebounding of exports in emerging markets limited the negative impacts of weakening domestic demand.
- ◆ World Bank also stated that the recovery in advanced economies became more evident recently. According to World Bank, this recovery mainly originated from the enlivening in both private and public sectors thanks to the improvement in financial conditions.
- ◆ At its meeting on January 29th, Fed decided to taper its monthly asset purchase program by an additional 10 billion USD per month. Hence, the amount of the program was reduced to 65 billion USD.
- ◆ In December, unemployment rate in US receded to 6.7%, the lowest level attained since October 2008. Hence, the unemployment rate got closer to the 6.5% long-term threshold set by the Fed as a reference level for monetary policy decisions.
- ◆ After having reduced the policy rate two times throughout 2013 due to the weak inflation outlook, ECB kept its policy rate unchanged at its monetary policy meeting on January 9th.
- ◆ Moody's upgraded Ireland's credit rating to investment grade (from "Ba1" to "Baa3") with a positive outlook on January 18th.
- ◆ Central banks of India, South Africa and Turkey, which are among the so-called "fragile five" countries, raised the policy rates in January.

Turkish Economy

- ◆ Rising political concerns following the corruption probe initiated on December 17th remained on the agenda throughout January and increased the risk perception towards Turkey.
- ◆ Seasonal and calendar adjusted industrial production index increased by 2.9% in November compared to the previous month. The highest monthly increase among the main industry groups was registered in intermediate goods production.
- ◆ According to Markit, the decline in PMI continued and the index was realized as 52.7 in January.
- ◆ In December, both Consumer Confidence Index and Real Sector Confidence Index declined compared to the previous month.
- ◆ The unemployment rate increased by 0.6 points in October 2013 compared to the same month of the previous year and was realized as 9.7%. In the same period, non-agricultural unemployment rate increased by 0.5 points to 11.9% and the youth unemployment (population aged between 15-24) increased by 1.2 points to 19.3%.
- ◆ Turkey's exports were realized as 151.9 billion USD while imports reached 251.7 billion USD. Thus, foreign trade deficit widened to 99.8 billion USD at the end of 2013.
- ◆ Current account deficit was realized as 3.9 billion USD in November, slightly below market expectations. In January-November period, current account deficit increased by 28.3% and reached 56 billion USD.
- ◆ Central budget deficit declined by 37.3% to 18.4 billion TL in 2013 compared to the previous year.
- ◆ The annual CPI, having followed a downward trend in the second half of 2013, started to increase in December and continued its rise in January, reaching 7.75%.
- ◆ CBRT hiked interest rates in its interim meeting.

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Political concerns continued to be influential on domestic markets.

Rising political concerns following the corruption probe initiated on December 17th remained on the agenda throughout January and increased the risk perception towards Turkey. Turkey's five-years CDS spreads, which already increased to the highest level since June 2012 with 242 at the end of December, increased further in January in line with the steep depreciation of TL and reached 280. The risk premium of Turkish eurobonds (EMBI-TR) also followed a similar outlook during the same period. After CBRT's rate hike, risk indicators decreased to some extent. However, in the following days they started to increase again. Five-years CDS spread and EMBI-TR were realized as 266 and 343 basis points, respectively as of January 31st.

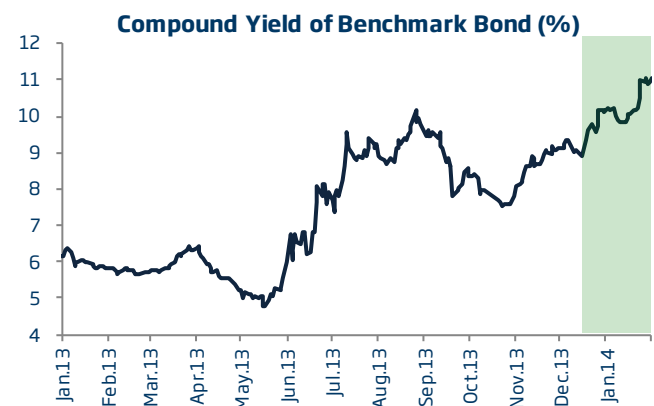
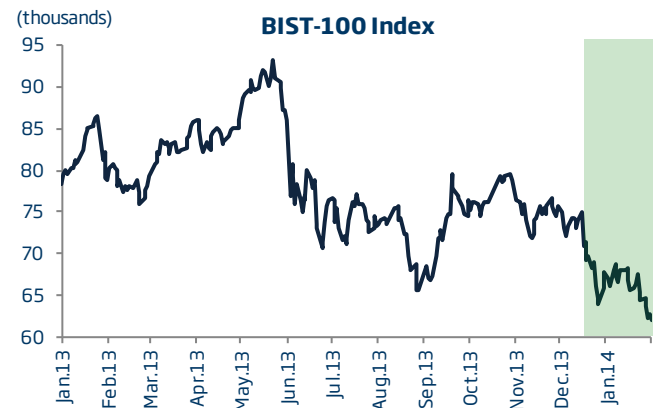
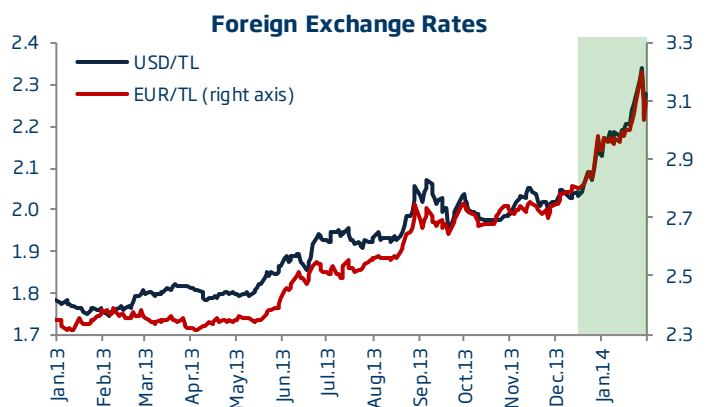
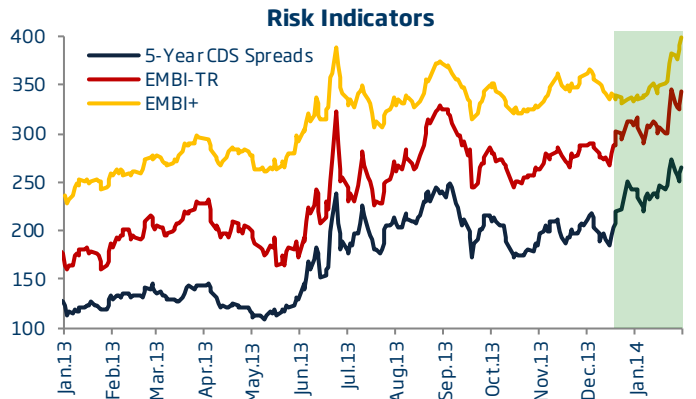
High volatility in FX rates...

Measures taken by CBRT through additional monetary tightening and direct interventions by selling FX in January were ineffective in preventing the depreciation of TL and USD/TL and EUR/TL rose to their historic-high levels of 2.3900 and 3.2723, respectively, on January 27th. In this context, CBRT decided to hold an interim meeting on January 28th and raised reference interest rates. After the rate hikes, USD/TL and EUR/TL eased to as low as 2.1619 and 2.9559, respectively. However, TL continued to depreciate due to increase in risk perception towards emerging markets in the following days. USD/TL and EUR/TL were realized as 2.2595 and 3.0484, respectively, as of January 31st.

Downward trend in BIST-100...

BIST-100 index, which closed 2013 at 67,802 points, dropped rapidly in the first half of January due to domestic political concerns and uncertainties regarding Fed's monetary policy decisions in global markets. After the CBRT's meeting on January 21st, the depreciation of TL accelerated and the downward trend in the BIST-100 also became more evident. In the following days, the selling pressure eased somewhat thanks to the expectations that the CBRT's rate hike would lessen the financial fragility in the long-term. As of January 31st, BIST-100 dropped by %8.8 on a monthly basis and was realized as 61,858 points.

Turkey's two-year (benchmark) Treasury bond's annual compound interest rate rose above 11% in January in line with the deterioration in risk perception.



Industrial production gained speed in November.

Seasonal and calendar adjusted industrial production index increased by 2.9% in November compared to the previous month. The highest monthly increase among the main industry groups was registered in intermediate goods production with a growth of 4.5%. The annual increase in the calendar adjusted industrial production was 4.7%.

According to Markit, the decline in PMI continued and the index was realized as 52.7 in January. However, an index level above 50 still indicated that production activity in manufacturing sector increased.

Decline in consumer confidence...

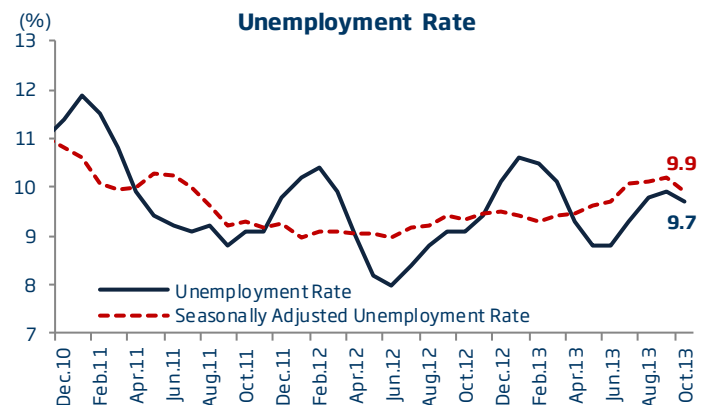
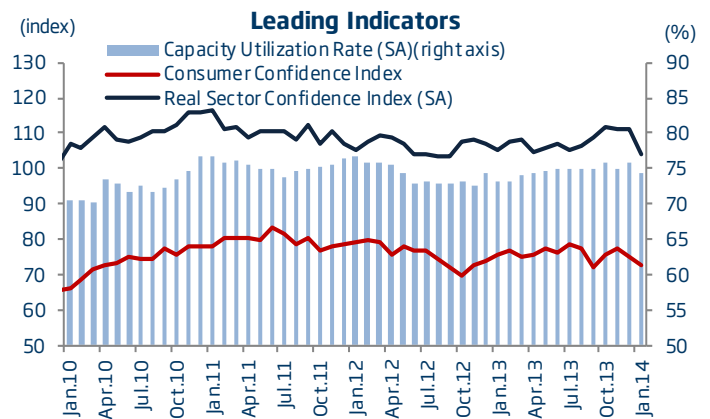
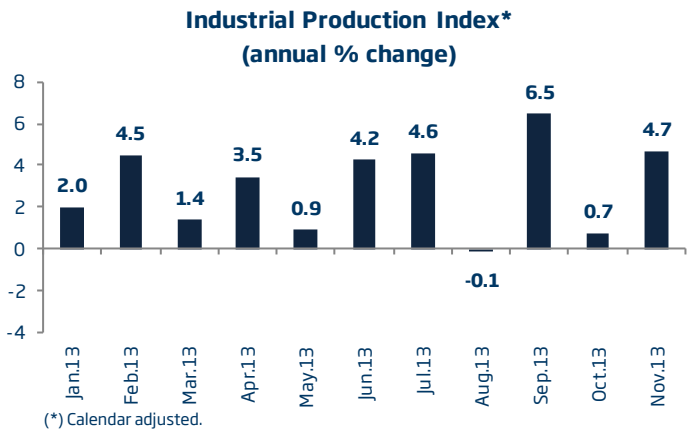
In January, Consumer Confidence Index declined by 2.6 points compared to the previous month. The deterioration in the households' expectations regarding the number of people unemployed, general economic situation and financial situation were influential in the decline of the index. On the other hand, the rise in the probability of saving limited the decline in the general index.

Real Sector Confidence Index decreased by 0.7 points to 101.4 points in January compared to the previous month. The decline in the seasonally adjusted Real Sector Confidence Index was much higher and the said index fell by 6.4 points compared to the previous month and was realized as 104.2. The seasonally adjusted Capacity Utilization Rate (CUR) also declined compared to the previous months and was realized as 74.5%.

Unemployment rate increased to 9.7%.

The unemployment rate increased by 0.6 points in October 2013 compared to the same month of the previous year and was realized as 9.7%. In the same period, non-agricultural unemployment rate increased by 0.5 points to 11.9% and the youth unemployment rate (population aged between 15-24) increased by 1.2 points to 19.3%.

Another noteworthy development in the Household Labor Force Survey was the significant decline in the share of non-registered employment in total employment. In October 2013, the share of the employment without any social security in total employment decreased by 3.4 points compared to the same month of the previous year and was realized as 36.3%. The share of unregistered employment in non-agricultural sectors declined to as low as 21.9%.

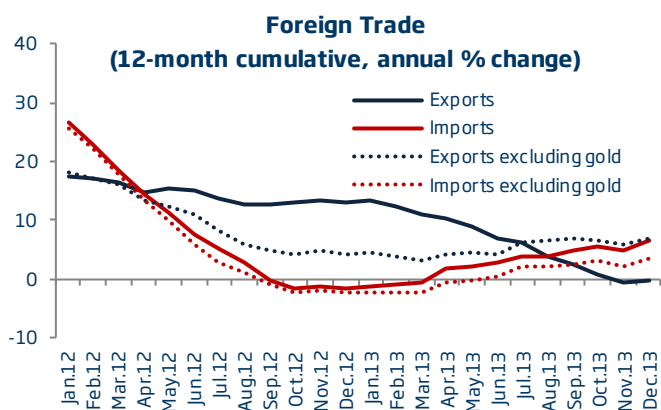


Source: Turkstat, CBRT

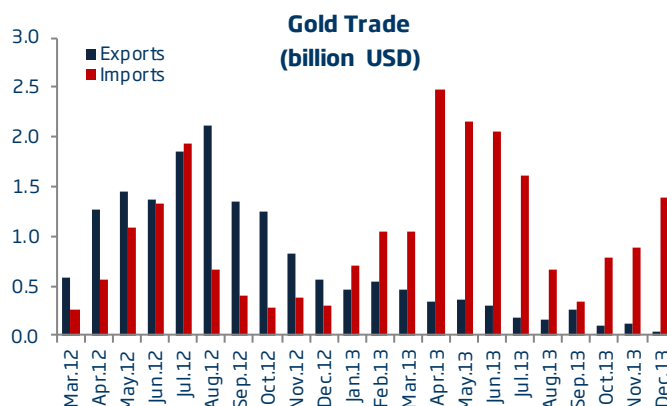
In 2013 the export volume was 152 billion USD.

Turkey's exports decreased by 0.4% in 2013 compared to the previous year and were realized as 151.9 billion USD while imports increased by 6.4% and reached 251.7 billion USD. Foreign trade deficit widened by 18.7% and reached 99.8 billion USD at the end of 2013. Compared to 2012, the import coverage ratio declined by 4.2 points to 60.3%.

The gold trade continued to be influential in the foreign trade statistics in 2013. After exporting a large amount of gold in 2012, Turkey became a net gold importer in 2013. Gold exports, which were 13.3 billion USD in 2012, declined to 3.3 billion USD in 2013. On the other hand, gold imports, which were 7.6 billion USD in 2012, increased to 15.1 billion USD in 2013. Excluding the gold trade, foreign trade figures displayed a more favorable outlook. In fact, non-gold exports expanded by 6.8% in 2013 compared to the previous year while the increase in non-gold imports was 3.3%. Thus, foreign trade deficit excluding the gold trade decreased by 2% in 2013 compared to the previous year.



In addition, after relatively losing momentum in August and September, there was a notable upward trend in gold imports since October. This trend became more evident in December. The amount of gold imports were 1.4 billion USD in December which was slightly above the average monthly gold imports of 2013.



Rapid increase in imports during December...

In December, imports increased by 16.7% compared to the same month of the previous year and recorded the highest increase since April when the gold imports reached their peak level. However, even after excluding gold, imports expanded by 11.4% in December. This situation indicates that the demand for imports might be front loaded due to the upward trend in exchange rates in the last months of 2013. Indeed, imports of intermediate goods and consumer goods increased by 17.7% and 18.1%, respectively in December compared to the same month of the previous year. On the other hand, exports increased by 4.9% in December compared to the same month of the previous year. When gold trade excluded, the rate of increase in exports was 9.5%.

Energy imports declined in 2013.

Although, energy imports declined by 7% in 2013 compared to the previous year, they have maintained their high level and were realized as 56 billion USD, constituting 22% of total imports and continued to rank first in total imports.

Analyzing the sub-items of exports, motor vehicles, which ranked first in total exports, increased by 12.3% compared to the previous year and reached 17 billion USD. Motor vehicles constituted 11% of total exports. This chapter was followed by boilers and machinery and electrical equipment.

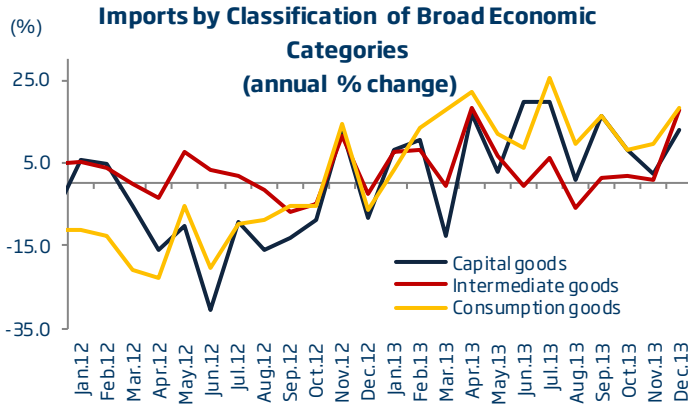
Import of consumption goods increased in 2013.

In 2013, the share of intermediate goods in total imports decreased slightly but maintained its high level with 73%.

Foreign Trade Balance	(USD billion)					
	December		Change	January-December		Change
	2012	2013	(%)	2012	2013	(%)
Exports	12.6	13.2	4.9	152.5	151.9	-0.4
Imports	19.8	23.1	16.7	236.5	251.7	6.4
Foreign Trade Balance	-7.2	-9.9	37.3	-84.1	-99.8	18.7
Import Coverage Ratio (%)	63.6	57.1	-	64.5	60.3	-

Source: Turkstat

On the other hand, in line with the improvement in domestic demand, consumption goods imports increased by 13.9% and their share in total imports rose to 12.1% in 2013 compared to the previous year. Capital goods imports increased by only 8.4%.



Share of European Union countries in exports increased.

In line with the downward trend in gold exports to Middle Eastern countries and the recent recovery in demand conditions in European countries, the share of European Union countries in Turkey's total exports increased to 41.5% in 2013 from 39% in 2012. The share of Near and Middle Eastern countries during this period decreased by 4.4 points to 23.4% .

Germany was the biggest export market of Turkey with 13.7 billion USD of export volume in 2013. The second and the third places belonged to Iraq and UK with 12 billion USD and 8.7 billion USD of export volume, respectively. Share of these three countries in total export volume was 22.7%. Regarding imports, Russia ranked first with 25 billion USD in 2013. Russia was followed by China and Germany with 24.7 billion USD and 24.2 billion USD of import volume, respectively. Share of these three countries in total import volume was 29.4%

Expectations

The recent recovery in advanced economies is also anticipated to lift growth in emerging market economies with the help of the increase in foreign trade. Turkey's exports growth is expected to gain momentum thanks to this stronger demand from advanced economies together with a weaker Turkish Lira. In addition, CBRT's recent tightening in monetary policy will further curb domestic demand . Thus, we expect that the foreign trade deficit will start to narrow in the coming months.

Current account deficit was 3.9 billion USD in November.

Current account deficit was realized as 3.9 billion USD in November, slightly below market expectations. In January-November period, current account deficit increased by 28.3% compared to the same period of previous year and reached 56 billion USD. In terms of 12 month cumulative figures, the current account deficit followed a flat course and was realized as 60.8 billion USD in November.

In 2013, the gold trade was influential on balance of payment figures. In fact, net non-monetary gold trade, which gave a surplus of 5.4 billion USD in the first 11 months of 2012, posted a deficit of 10.4 billion USD in 2013. In this context, excluding the gold trade, 12-month cumulative current account deficit was realized as 50.7 billion USD, following a relatively flat trend.

Tourism revenues lost momentum in November.

Tourism revenues started to slow down in November due to seasonal factors. However, during the first 11 months of the year tourism revenues increased by 12% compared to the same period of previous year.

Loss of momentum in portfolio investments...

Portfolio investments, which have displayed an upward trend in August-October 2013 period, lost momentum in November and declined to 1.2 billion USD. This was mainly stemmed from the non-resident's net sales of 1.2 billion USD in government domestic debt securities market. On the other hand, general government issued bonds in international markets amounting to 1.7 billion USD. Thus, as of the first 11 months of the year, in line with the increase in risk perception towards emerging market economies, portfolio investments, which followed a weaker trend than 2012, decreased by 32.1% compared to previous year.

Foreign direct investments were weak.

Contribution of foreign direct investments to the financing of current account deficit was low. In fact, 409 million USD

worth of capital inflow through net foreign direct investments in November was the lowest level of last 12 months. In January-November 2013 period, total net capital inflows through foreign direct investments decreased by 5.9% compared to the same period of previous year and were realized as 7.7 billion USD.

Other investments...

In November, the banking sector raised 588 million USD long-term credit from abroad. Thus, calculated on the basis of 12-month cumulative data, the long-term debt roll-over ratio of the banking sector continued to increase in November and reached 192%. On the other hand, it was noteworthy that banking sector raised 2.7 billion USD of short-term credit from abroad, the highest level since March.

Non-bank sectors, on the other hand, raised 2.1 billion USD of long term credit while they repaid 1.9 billion in November. The cumulative 12-month figures showed that non-bank sectors' long-term debt rollover ratio was realized as 99%.

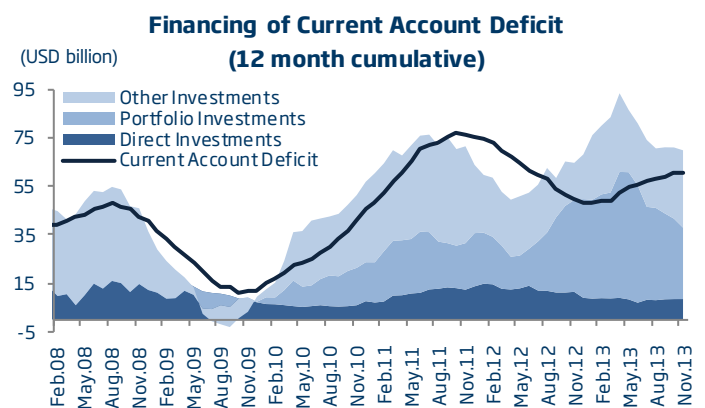
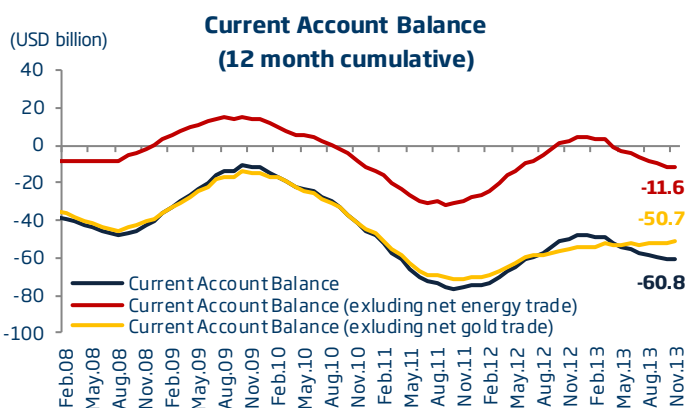
Increase in reserves...

Reserves increased by 2.1 billion USD in November and 13.6 billion USD during January-November period. Under the net errors and omissions account in November, 1 billion USD worth of capital inflows were registered.

Expectations...

The portfolio investment inflows in the forthcoming period are expected to be more volatile due to the increase in risk perception towards Turkey as a result of the Fed's tapering of asset purchases and the domestic political developments.

On the other hand, the expected recovery in European Union in 2014, which is the most important export destination of Turkey, and the developments in real effective exchange rate would have a positive impact on the export volume. Moreover, the trend of energy prices have an utmost importance for Turkey which is a net energy importer. In an environment where most of the



international organizations anticipate a downward trend in energy and commodity prices throughout 2014, increase in Turkey's energy bill is expected to be limited. In this context, foreign trade deficit and external financing requirement of Turkey are expected to be kept under control. The tight monetary policy of CBRT and the latest measures taken by

BRSA regarding the consumer credits would also have a positive impact on balance of payments figures by limiting the domestic consumption.

	(USD million)				
	November 2013	January-November 2012 2013		% Change	12 Month Cumulative
Current Account Balance	-3,935	-43,628	-55,962	28.3	-60,838
Foreign Trade Balance	-5,154	-59,953	-71,493	19.2	-76,872
Services Balance	1,423	21,925	23,017	5.0	23,694
Tourism Revenues (net)	1,377	20,330	22,335	9.9	23,256
Income Balance	-335	-6,710	-8,475	26.3	-8,922
Current Transfers	131	1,110	989	-10.9	1,262
Capital and Financial Accounts	2,980	41,483	51,123	23.2	56,947
Direct Investments (net)	409	8,215	7,728	-5.9	8,455
Portfolio Investments (net)	1,208	35,222	23,924	-32.1	29,491
Assets	-122	2,298	2,689	17.0	3,048
Liabilities	1,330	32,924	21,235	-35.5	26,443
Equity Securities	772	5,422	1,087	-80.0	1,939
Debt Securities	558	27,502	20,148	-26.7	24,504
Other Investments (net)	3,462	19,666	33,178	68.7	31,946
Assets	-1,306	2,316	1,188	-48.7	-1,697
Currency and Deposits	9	4,424	3,407	-23.0	151
Liabilities	4,768	17,350	31,990	84.4	33,643
Trade Credits	693	1,173	4,242	261.6	4,091
Loans	3,307	7,674	17,864	132.8	19,887
Banking Sector	2,948	3,885	17,534	351.3	18,811
Non-bank Sectors	569	5,933	1,193	-79.9	1,888
Deposits	764	8,022	9,315	16.1	9,092
Foreign Banks	688	7,437	7,859	5.7	7,551
Foreign Exchange	-220	5,931	6,957	17.3	6,271
Turkish Lira	908	1,506	902	-40.1	1,280
Non-residents	233	2,707	3,286	21.4	3,492
Reserve Assets (net)	-2,099	-21,576	-13,631	-36.8	-12,869
Net Errors and Omissions	955	2,145	4,839	125.6	3,891

Source: CBRT

Central government budget posted a deficit of 18.4 billion TL in 2013.

In general, central government budget gives a high amount of deficit in the last months of each year. This trend was also kept in 2013 and the budget posted a deficit of 17.2 billion TL in December. However, due to the strong performance in the first 11 months of the year, budget deficit declined by 37.3% to 18.4 billion TL compared to the previous year. It is anticipated that budget deficit to GDP ratio receded to 1.2% in 2013 from 2.1% in 2012.

In 2013, primary surplus increased by 65.9% to 31.5 billion TL. Thus, budget deficit was realized as only 54.3% of initial budget target while primary surplus surpassed the year-end target with a significant margin indicating a strong performance.

In 2013, budget expenditures rose by 12.7%, whereas budget revenues increased by 17.1%.

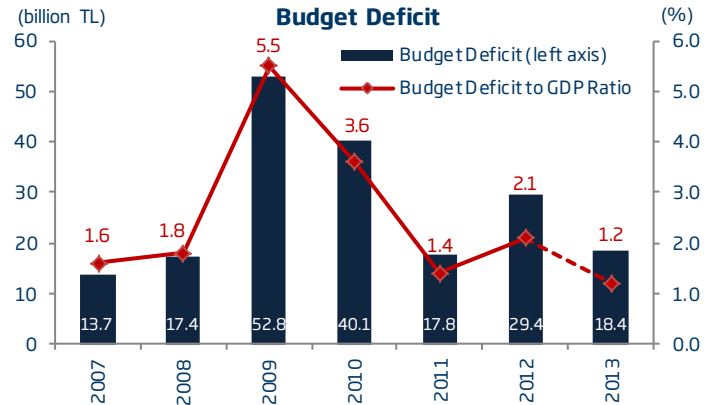
Tax revenues...

Tax revenues reached 326 billion TL in 2013 and were realized slightly above initial budget target. In 2013, revenues from Domestic Value Added Tax (VAT), Special Consumption Tax (SCT) and VAT on imports increased by 20.3%, 19.2% and 25.5%, respectively. Those three items had a share of 57.1% in total tax revenues.

Analyzing the budget targets, all tax items except SCT on alcoholic beverages reached the year-end budget targets. The said item however reached only 87% of the year-end target.

Budget expenditures...

Analyzing the budget expenditures, in the last month of the year expenditures reached 49.7 billion TL, highest amount in 2013 as the goods and services purchases together with capital expenditures and transfers were generally made in December. Thus, budget expenditures were realized as



407.9 billion TL in parallel with initial budget targets. During this period, non-interest expenditures increased by 14.2% whereas, the rise in interest expenditures remained limited with 3.2%. In 2013, personnel expenditures and current transfers increased by 11.3% and 14.9%, respectively. Those two items had a share of 60% in total budget expenditures.

Expectations...

In 2013, domestic demand conditions were reflected on budget positively via increase in tax revenues and budget discipline was maintained. In 2014, we expect that the anticipated slowdown in domestic demand would affect the budget performance; however, we think that the budget deficit target in Medium Term Program (MTP), which is 33.2 billion TL, is achievable.

Central Government Budget

	December			January-December			Budget Target	Real./ Target (%)	MTP Real. Estimates
	2012	2013	% Change	2012	2013	% Change			
Expenditures	44.2	49.7	12.5	361.9	407.9	12.7	404.0	101.0	406.6
Interest Expenditures	1.7	2.0	16.9	48.4	50.0	3.2	53.0	94.3	50.5
Non-interest Expenditures	42.5	47.7	12.3	313.5	357.9	14.2	351.0	102.0	356.1
Revenues	28.1	32.5	15.6	332.5	389.4	17.1	370.1	105.2	387.2
Tax Revenues	23.1	26.7	15.8	278.8	326.1	17.0	317.9	102.6	325.1
Other Revenues	5.0	5.7	14.8	53.7	63.3	17.9	52.1	121.4	62.0
Budget Balance	-16.1	-17.2	7.0	-29.4	-18.4	-37.3	-34.0	54.3	-19.4
Primary Balance	-14.4	-15.2	5.9	19.0	31.5	65.9	19.0	165.6	31.1

Numbers may not add up to total due to rounding

Source: Finance Ministry

CPI came above the expectations in January.

In January, compared to the previous month, CPI and Domestic PPI (D-PPI) increased by 1.98% and 3.32%, respectively. According to the Reuters' survey, monthly CPI was expected to rise by 1.60%. According to the CBRT's survey, markets' monthly CPI expectation was 1.06% in January.

The annual increase in CPI was realized as 7.75%.

The annual increase in CPI, having followed a downward trend in the second half of 2013, started to increase in December. The annual inflation continued to rise also in January and reached 7.75%. The D-PPI, which is more sensitive to the developments in the FX rates, recorded also a rapid rise in January and reached 10.72%. Thus, the annual D-PPI inflation rose to double-digit levels again after a two-year break.

Food and Non-Alcoholic Beverages...

In January, significant price increases were registered in all the subgroups except clothing and communications. In this period, due to the seasonal factors, food and non-alcoholic prices increased by 5.16% on monthly basis, the highest increase recorded since the index was started to be calculated in 2003. Indeed, this development contributed to monthly inflation by 126 basis points. Transportation prices, on the other hand, rose by 2.5% compared to the previous month because of the upward trend in energy prices and the price hikes in public transportation. The alcoholic beverages and tobacco prices also increased by 7.45% on a monthly basis due to the tax adjustments. The rise in inflation, on the other hand, was limited by the 7.59% decline in clothing and footwear group thanks to the seasonal factors.

The rise in the core inflation aggregates...

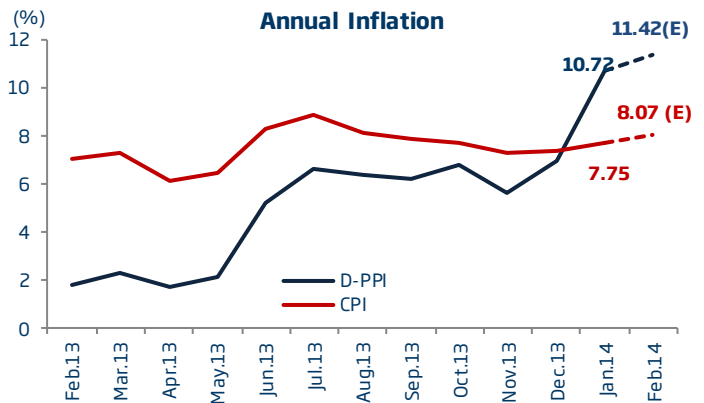
Analysis of the core inflation aggregates in January revealed that the unprocessed food prices contributed to the sharp increase in inflation. The annual increases in CBRT's favorite core indices denominated by H and I gained momentum in January and were realized as 7.70% and 7.59%, respectively.

D-PPI rose by 3.32% in January.

In order to ensure the compliance with European Union norms, Domestic Producer Price Index (D-PPI) was begun to be released instead of PPI. In January, D-PPI rose by 3.32% on monthly basis, the highest increase since April 2008. This development was mainly due to the sharp price increases in petroleum production and basic metal industry, which are more sensitive to the developments in FX rates.

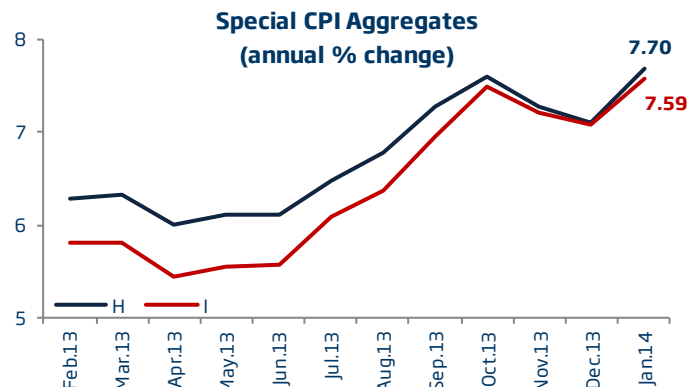
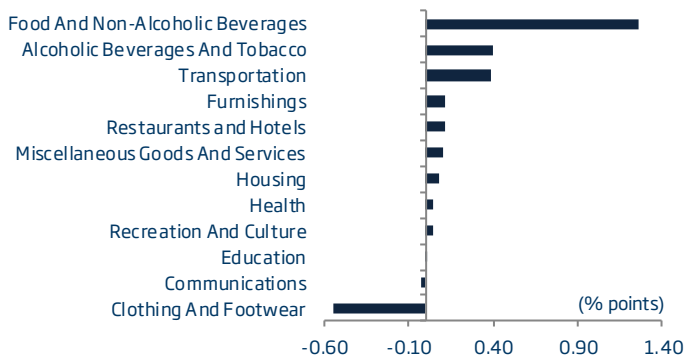
Expectations...

In February, we anticipate that the course of FX rates and its second round effects on pricing behavior would be



(E) Estimate

Contributions to the Monthly CPI by Subgroups



H: CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold.
I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco

influential on the inflation figures. On the other hand, the seasonal discounts in clothing might limit the rise in inflation to some extent. In this context, we expect CPI and D-PPI to increase by 0.60% and 0.50%, respectively.

Source: Turkstat

CBRT held an interim monetary policy meeting...

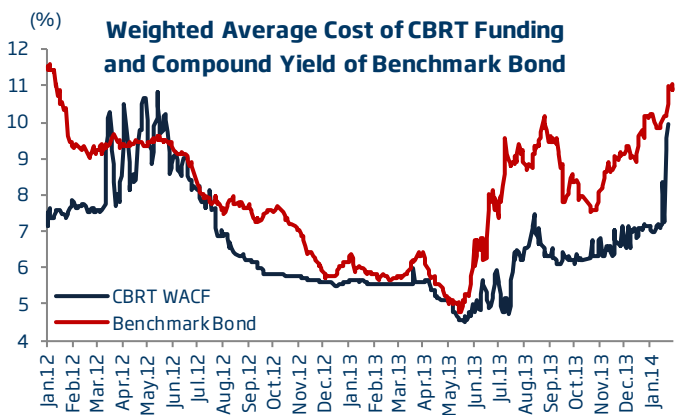
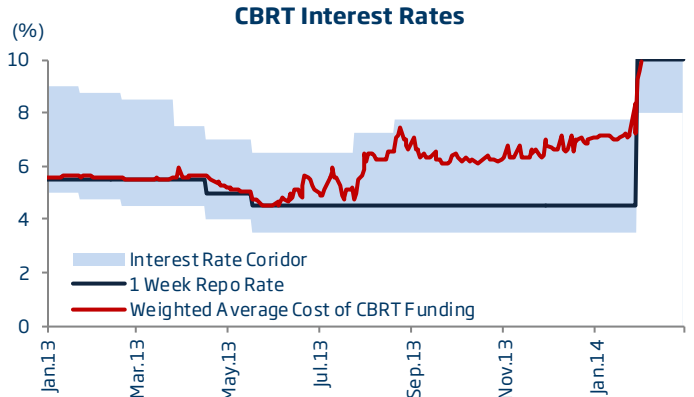
CBRT's decided to tighten the liquidity stance in additional monetary tightening days in order to materialize the interbank money market interest rates at 9% instead of 7.75% at its regular monetary policy meeting held on January 21st. Markets found this tightening in monetary policy not enough to contain the inflation outlook, hence, TL depreciated significantly and risk premiums increased rapidly. In response to these developments, CBRT directly intervened in the foreign exchange market by selling FX but this move was also ineffective to make the desired impact.

In order to contain the negative impacts of increasing risk perception towards Turkey on inflation and macroeconomic stability, CBRT decided to held an interim meeting on January 28th. In this meeting, CBRT tightened the monetary policy aggressively and simplified the operational framework of the policy. In this respect, CBRT increased the one-week repo rate from 4.5% to 10% while indicating that Central Bank liquidity will be provided primarily from one-week repo rate in the forthcoming period instead of the marginal funding rate period, which was also lifted to 12%. In this perspective, the new policy stance of CBRT allows funding costs to be increased if deemed necessary. Furthermore, on January 29th, CBRT announced that additional monetary tightening implementations will be ended, in line with the simplification decision taken at the MPC meeting on previous day.

CBRT revised upward its 2014 inflation forecast.

In its first Inflation Report of 2014 published in January, CBRT revised its 2014 year-end inflation forecast to between 5.2% and 8% (with a mid-point of 6.6%). As a result, the year-end inflation forecast for 2014 was revised upward by 1.3 points from 5.3% forecasted at the October 2013 Inflation Report. 0.5 points of this revision stemmed from the recent depreciation in FX rates, 0.5 points stemmed from the tax adjustments and 0.3 points stemmed from the rise in food prices.

CBRT also stated that excluding the recent temporary volatility in gold trade, the 12-month cumulative non-gold current account deficit, which reflects the underlying current account balance, continued to improve. According to the CBRT, the decline in real exchange rate is also expected to support the improvement in current account balance in the coming period.



Deposits...

According to BRSA's Weekly Bulletin, as of January 17th, 2014, TL deposit volume decreased by 7.3 billion TL compared to the 2013 year-end. During the same period, FX deposits in USD terms decreased by 2.8 billion USD. However, FX deposits in TL terms increased rapidly during the same period as a result of the rise in FX rates. Compared to the same week of the previous year, TL deposits increased by 15% and FX deposits in USD terms increased by 13%.

Loans...

As of January 17th, 2014, total credit volume increased by 8.8 billion TL compared to the 2013 year-end. This rise, however, mainly reflects the increase in TL equivalent of FX loans as a result of the increase in FX rates. Compared to the same month of the previous year, TL loans increased by 28.3% and FX loans in USD terms increased by 17.7%.

Loan rates, which have been increasing since the second half of 2013, are expected to rise further in the coming months after CBRT's strong monetary tightening at its meeting on January 28th. The additional measures taken by the BRSA to limit the growth in consumer loans and credit cards together with CBRT's recent policy decisions are expected to slow the loan growth throughout 2014.

Securities portfolio...

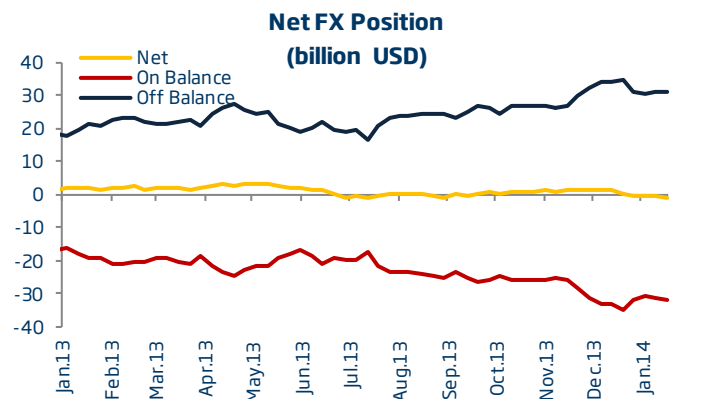
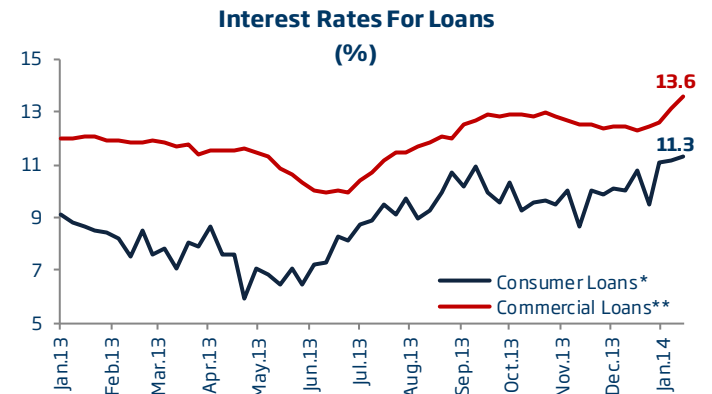
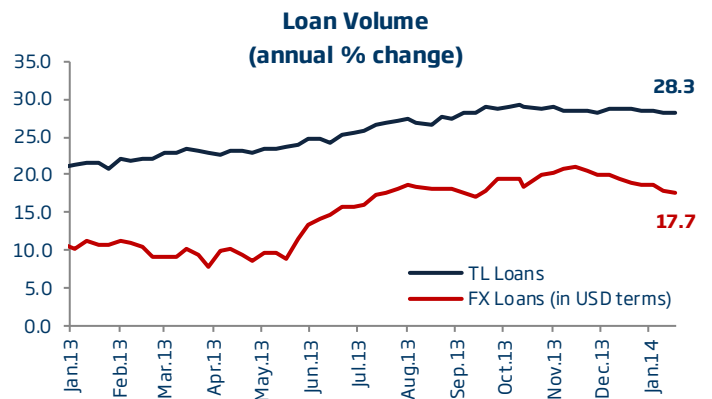
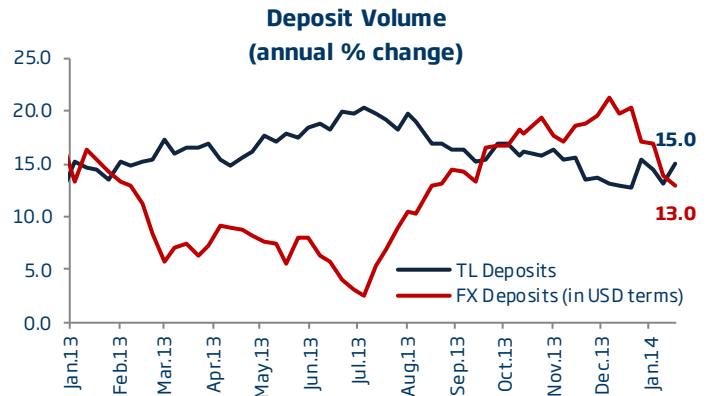
As of January 17th, 2014, securities portfolio of banking sector increased by 924 million TL compared to the 2013 year-end. During this period, while available for sale securities portfolio increased by 3.6 billion TL, securities held to maturity portfolio decreased by 4.4 billion TL.

Securities held in custody accounts...

In nominal terms, securities held in custody accounts decreased by 760 million TL as of January 17th, 2014, compared to the 2013 year-end. During this period, non-residents' portfolio rose by 28 million TL while residents' portfolio decreased by 788 million TL.

Net FX position...

As of January 17th, 2014, banks' on-balance sheet FX position was (-) 31,988 million USD while off-balance sheet FX position was (+) 31,062 million USD. Hence, banks' net FX position was realized as (-) 926 million USD. The banking sector's cautious stance regarding the net FX position limits the negative direct impacts of the depreciation of TL on sector's balance sheet.



(*) Personal, vehicle, housing loans

(**) Excluding corporate overdraft account and corporate credit cards

Source: BRSA Weekly Bulletin

Latest data announcements indicated that the recovery in US economy continued in 2014. Despite being under pressure, economic activity in Euro Area has also displayed a gradual improvement. Global growth projections have been revised upward due to this favorable outlook in developed countries. Developing countries would also benefit from the recovery in developed countries through foreign trade channel. This would compensate the impacts of the recent slowdown in economic activity in developing countries. However, concerns related to Fed's decisions about the asset purchase program have been causing fluctuations in capital inflows towards developing countries, in response, some of these countries raised interest rates. This tightening in monetary policies intensifies the concerns that the slowdown in developing countries would continue.

Regarding Turkey, industrial production and leading indicators pointed out that the economic activity displayed a favorable outlook in the last quarter of 2013. However, since the beginning of 2014 leading indicators have somewhat weakened. In addition, the corruption probe launched on December 17th caused a deterioration in the risk perception towards Turkey and had a major influence on financial markets. Should the tension continue in the coming period, economic activity will remain under pressure. On the other hand, CBRT's recent strong monetary tightening and their announcement that the tight monetary policy stance will be sustained until there is a significant improvement in inflation outlook are positive steps towards balancing the current macroeconomic risks.

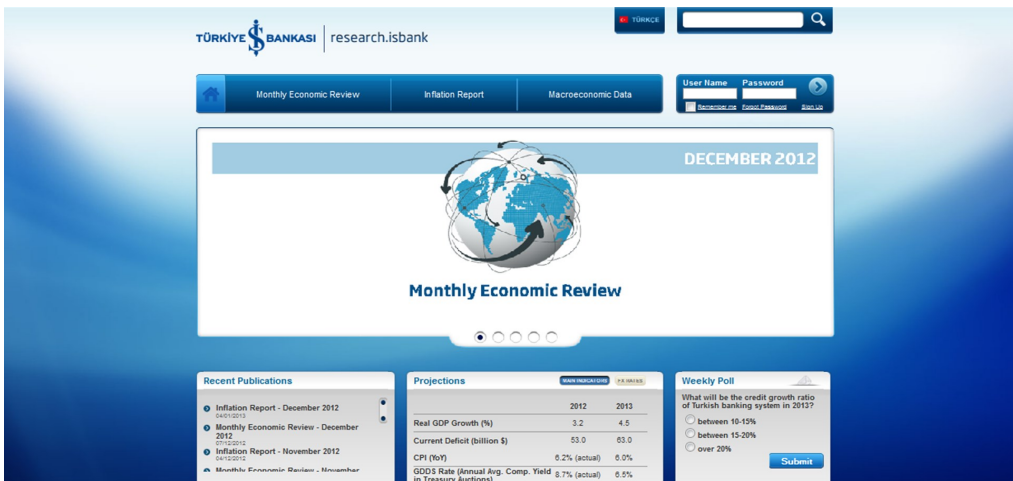
Forecasts	2013	2014 (E)
Growth (%)	4.0 (E)	3.0
CA Deficit/GDP (%)	7.2 (E)	5.0
Inflation (%)	7.4	7.5
GDDI Interest* (%)	7.6	8.9

(*) 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>



Projections

	2012	2013
Real GDP Growth (%)	3.2	4.5
Current Deficit (billion \$)	53.0	63.0
CPI (YoY)	0.2% (actual)	0.0%
GDS Rate (Annual Avg. Comp. Yield in Treasury Auctions)	8.7% (actual)	6.5%

Weekly Poll

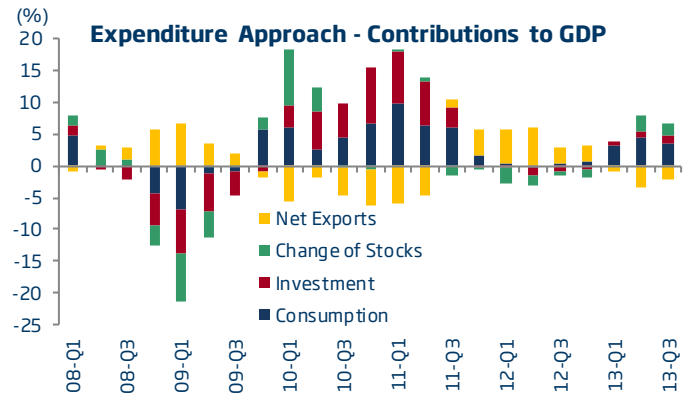
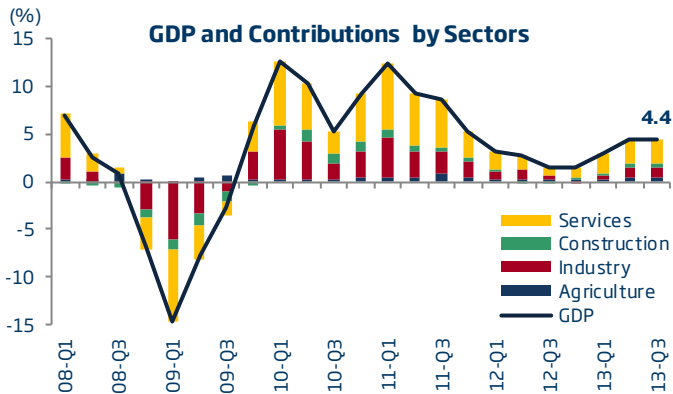
What will be the credit growth ratio of Turkish banking system in 2013?

between 10-15%

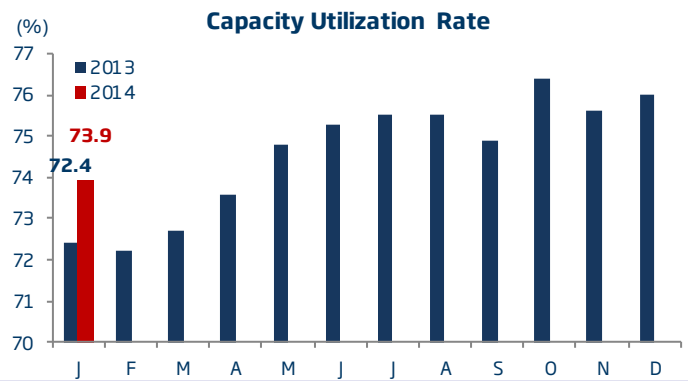
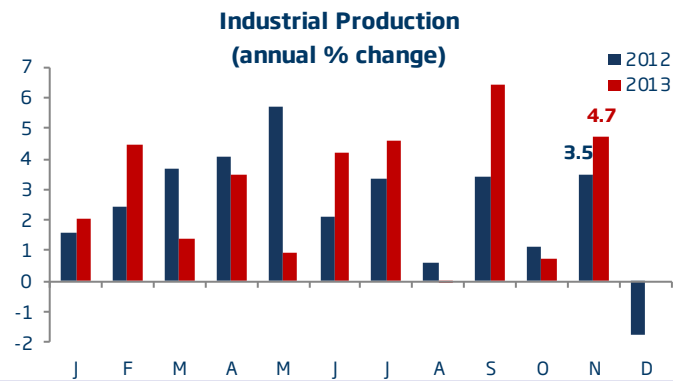
between 15-20%

over 20%

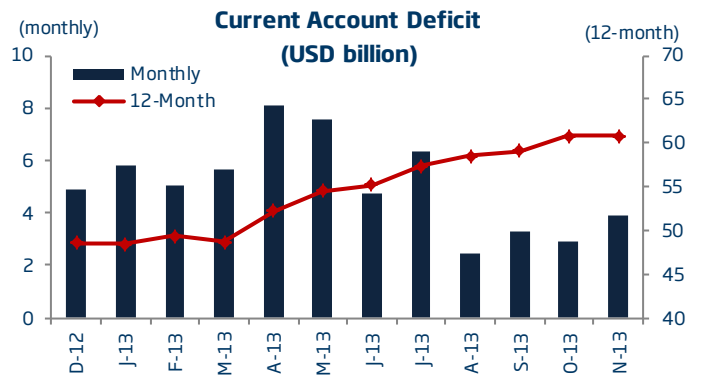
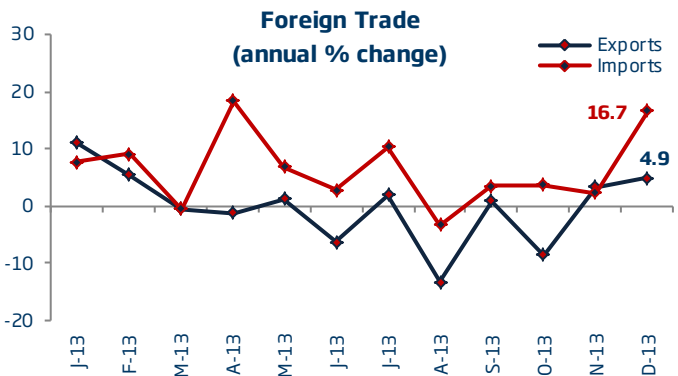
Growth



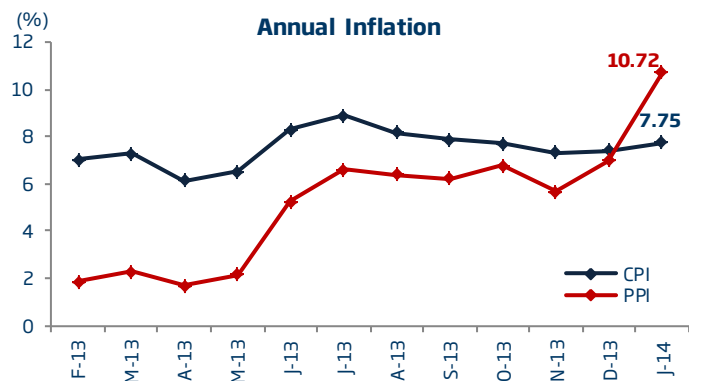
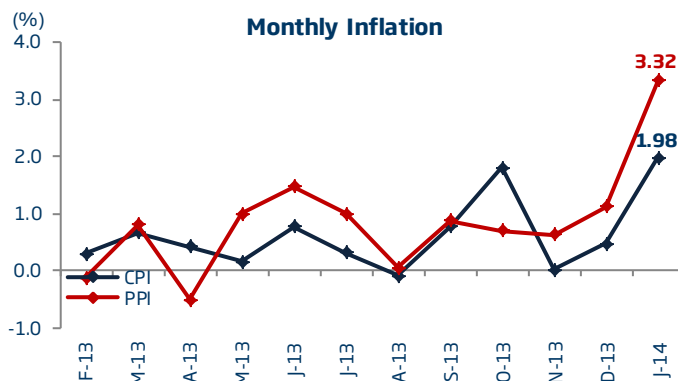
Industrial Production



Foreign Trade and Current Account Balance

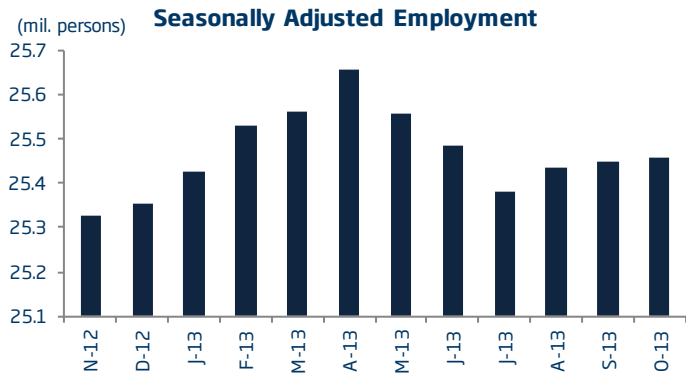
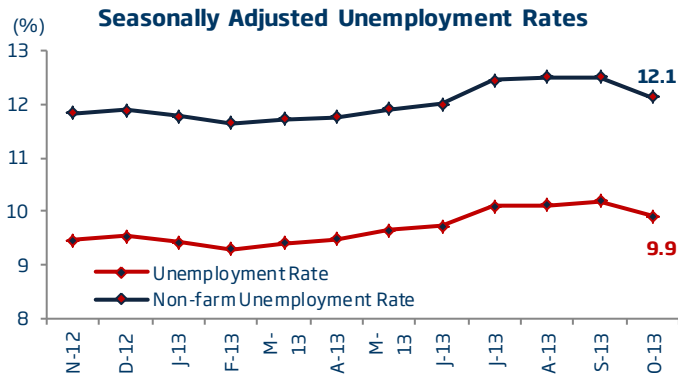


Inflation

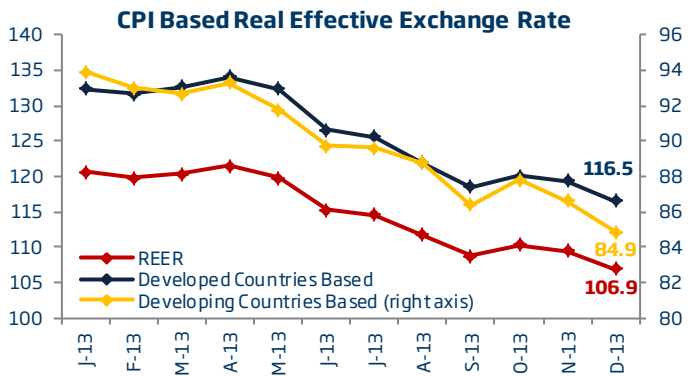
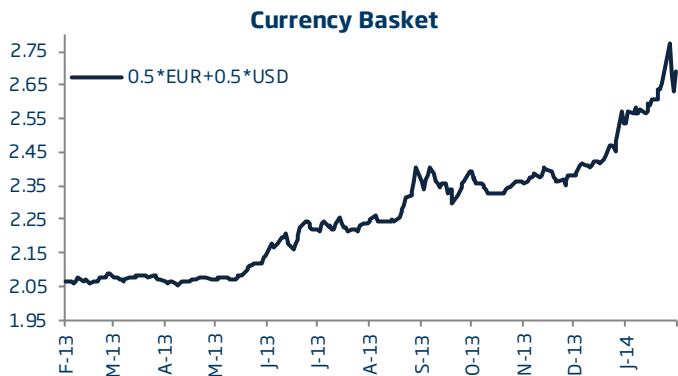


Source: Turkstat, CBRT

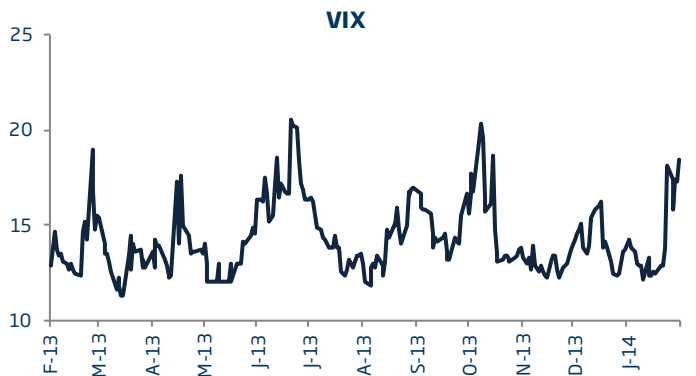
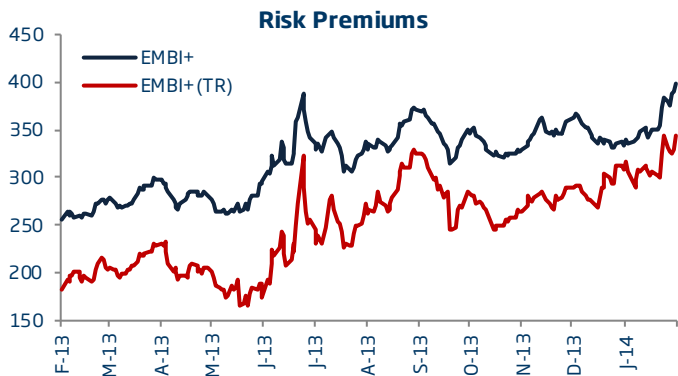
Labor Market



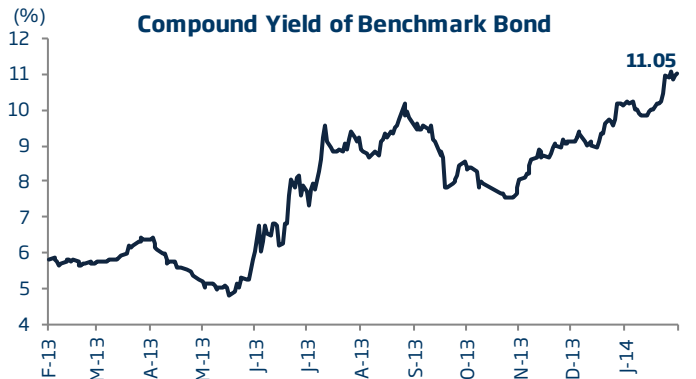
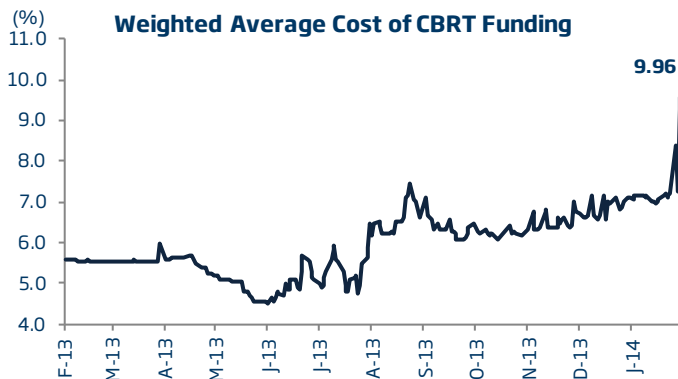
FX Market



Risk Indicators

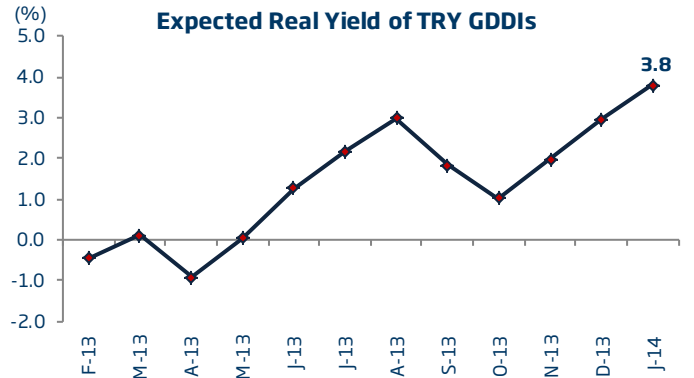
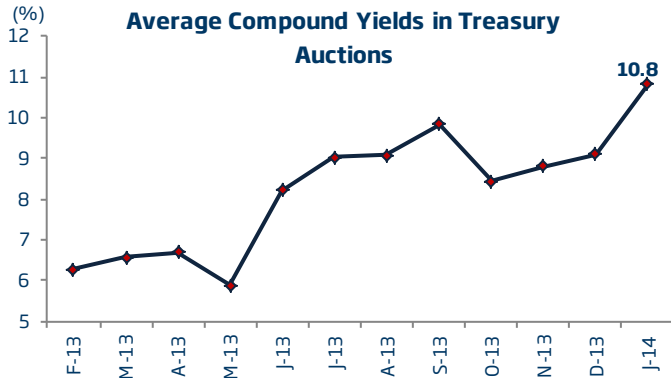


Interest Rates

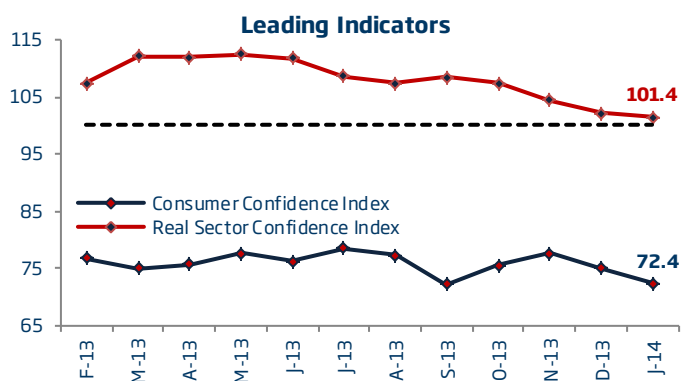
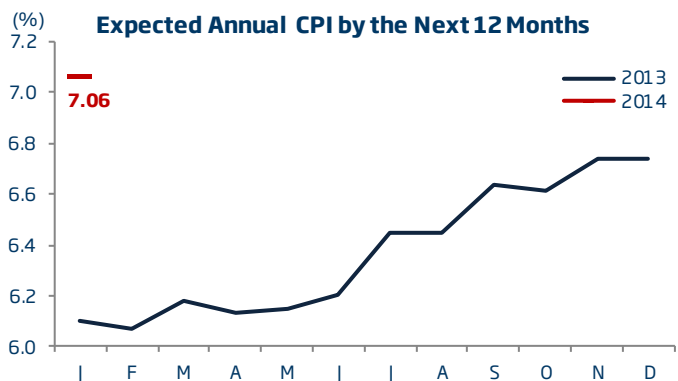
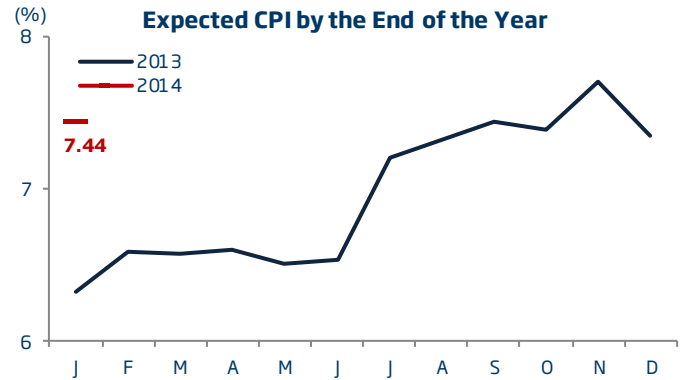
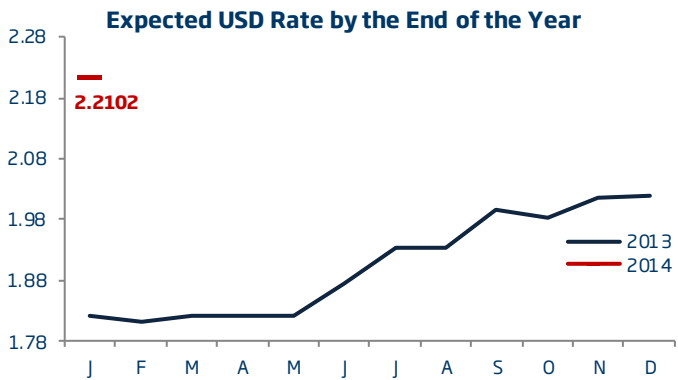
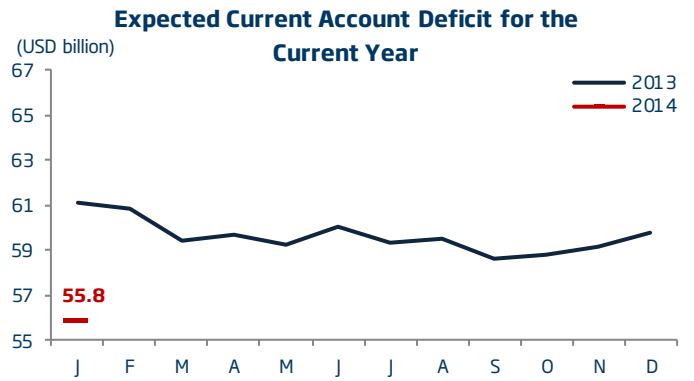
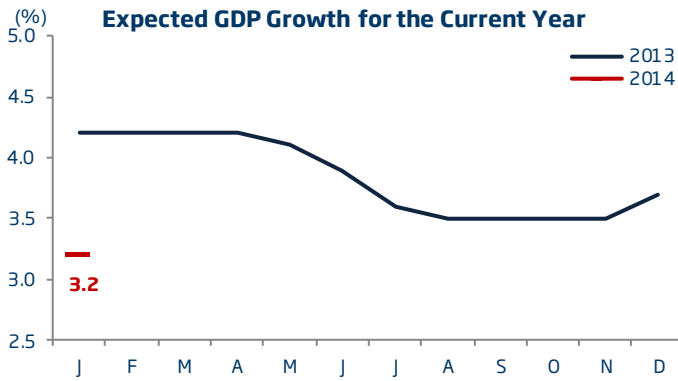


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

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 (%)						Nov-13	Dec-13	Jan-14
CPI (annual)	10.1	6.5	6.4	10.4	6.2	7.3	7.4	7.8
PPI (annual)	8.1	5.9	8.9	13.3	2.5	5.7	7.0	10.7
Seasonally Adjusted Labor Market Figures						Aug-13	Sep-13	Oct-13
Unemployment Rate (%)	13.1	12.7	10.7	9.2	9.5	10.1	10.2	9.9
Employment (thousand persons)	21,044	22,100	23,384	24,300	25,355	25,438	25,450	25,457
FX Rates						Nov-13	Dec-13	Jan-14
CPI Based Real Effective Exchange Rate	114.9	116.8	125.7	109.5	118.2	109.4	106.9	
USD/TL	1.5123	1.5057	1.5460	1.9065	1.7826	2.0166	2.1343	2.2795
EUR/TL	2.1408	2.1603	2.0491	2.4592	2.3517	2.7423	2.9365	3.1003
Currency Basket (0.5*EUR+0.5*USD)	1.8266	1.8330	1.7976	2.1829	2.0672	2.3795	2.5354	2.6899
Foreign Trade Balance⁽¹⁾ (USD billion)						Oct-13	Nov-13	Dec-13
Exports	132.0	102.1	113.9	134.9	152.5	150.8	151.3	151.9
Imports	202.0	140.9	185.5	240.8	236.5	247.9	248.3	251.7
Foreign Trade Balance	-69.9	-38.8	-71.7	-105.9	-84.1	-97.1	-97.1	-99.8
Import Coverage Ratio (%)	65.4	72.5	61.4	56.0	64.5	60.8	60.9	60.3
Current Account Balance⁽¹⁾ (USD billion)						Sep-13	Oct-13	Nov-13
Current Account Balance	-40.4	-12.2	-45.4	-75.1	-48.5	-59.2	-61.0	-60.8
Capital and Financial Accounts	37.4	9.3	44.0	65.7	47.3	57.4	59.6	56.9
Direct Investments (net)	17.2	7.1	7.6	13.7	8.9	8.4	8.4	8.5
Portfolio Investments (net)	-5.0	0.2	16.1	22.0	40.8	35.5	33.2	29.5
Other Investments (net)	24.2	2.1	33.2	28.2	18.4	27.3	29.4	31.9
Reserve Assets (net)	1.1	-0.1	-12.8	1.8	-20.8	-13.7	-11.4	-12.9
Net Errors and Omissions	3.0	2.9	1.4	9.4	1.2	1.9	1.3	3.9
Current Account Deficit/GDP	-5.4	-2.0	-6.2	-9.7	-6.2	-	-	-
Budget⁽²⁾⁽³⁾ (TL billion)						Oct-13	Nov-13	Dec-13
Expenditures	227.0	268.2	294.4	314.6	360.5	327.7	358.2	407.9
Interest Expenditures	50.7	53.2	48.3	42.2	48.4	46.2	48.0	50.0
Non-interest Expenditures	176.4	215.0	246.1	272.4	312.1	281.5	310.2	357.9
Revenues	209.6	215.5	254.3	296.8	331.7	320.1	357.0	389.4
Tax Revenues	168.1	172.4	210.6	253.8	278.8	266.3	299.4	326.1
Budget Balance	-17.4	-52.8	-40.1	-17.8	-29.4	-7.7	-1.2	-18.4
Primary Balance	33.2	0.4	8.2	24.4	19.6	38.6	46.8	31.5
Budget Balance/GDP	-1.8	-5.5	-3.6	-1.4	-2.1	-	-	-
Central Government Debt Stock (TL billion)						Oct-13	Nov-13	Dec-13
Domestic Debt Stock	274.8	330.0	352.8	368.8	386.5	406.9	405.4	403.0
External Debt Stock	105.5	111.5	120.7	149.6	145.7	168.1	172.5	182.7
Total	380.3	441.5	473.6	518.4	532.2	575.0	577.9	585.7

(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	Oct-13	Nov-13	Change ⁽¹⁾
TOTAL ASSETS	732.5	834.0	1006.7	1217.7	1370.7	1636.1	1653.6	20.6
Loans	367.4	392.6	525.9	682.9	794.8	990.5	1010.0	27.1
TL Loans	262.1	288.2	383.8	484.8	588.4	723.2	736.7	25.2
Share (%)	71.3	73.4	73.0	71.0	74.0	73.0	72.9	-
FX Loans	105.3	104.4	142.1	198.1	206.4	267.2	273.2	32.4
Share (%)	28.7	26.6	27.0	29.0	26.0	27.0	27.1	-
Non-performing Loans	14.1	21.9	20.0	19.0	23.4	28.5	28.9	23.3
Non-performing Loan Rate (%)	3.7	5.3	3.7	2.7	2.9	2.8	2.8	-
Securities	194.0	262.9	287.9	285.0	270.0	284.4	283.2	4.9
TOTAL LIABILITIES	732.5	834.0	1006.7	1217.7	1370.7	1636.1	1653.6	20.6
Deposits	454.6	514.6	617.0	695.5	777.2	899.5	910.9	17.2
TL Deposits	294.1	341.4	433.5	460.0	520.4	576.8	578.6	11.2
Share (%)	64.7	66.3	70.3	66.1	67.4	64.1	63.5	-
FX Deposits	160.5	173.2	183.5	235.5	251.8	322.7	332.3	32.0
Share (%)	35.3	33.7	29.7	33.9	32.6	35.9	36.5	-
Securities Issued	0.0	0.1	3.1	18.4	37.9	56.5	56.1	48.2
Payables to Banks	92.7	86.1	122.4	167.4	173.4	225.7	234.3	35.1
Funds from Repo Transactions	40.8	60.7	57.5	97.0	79.9	112.9	116.8	46.3
TOTAL SHAREHOLDERS' EQUITY	86.4	110.9	134.5	144.6	181.9	193.5	193.7	6.5
Profit (Loss) of the Period	13.4	20.2	22.1	19.8	23.5	21.7	23.3	-
RATIOS (%)								
Loans/Assets	50.2	47.1	52.2	56.1	58.0	60.5	61.1	-
Securities/Assets	26.5	31.5	28.6	23.4	19.7	17.4	17.1	-
Deposits/Liabilities	62.1	61.7	61.3	57.1	56.3	55.0	55.1	-
Deposits/Loans	123.7	131.1	117.3	101.8	97.2	90.8	90.2	-
Capital Adequacy (%)	18.0	20.6	19.0	16.6	17.9	15.8	15.6	-

(1) Year-to-date % change



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