Monthly Economic Review
April 2014

Global Economy

- Following the unrest in the autonomous region of Crimea of Ukraine, Russian troops landed on the region and the issue moved to an international dimension and the consequent political tension between EU, US and Russia increased the risk perception in the global markets. International credit rating agency Moody's announced that they put Russia's credit rating of "Baa1" to review for a downgrade.
- Impacts of adverse weather conditions on US economy have diminished.
- Federal Reserve Open Market Committee reduced the amount of monthly asset purchases from 65 billion USD to 55 billion USD at its meeting held on 18-19 March. Yellen stated that the first interest rate hike decision could be taken depending on the developments in macroeconomic data after a reasonable time passed following the termination of the asset purchase program .
- The annual inflation in Euro Area declined to 0.5% in March, the lowest level since November 2009, and increased the expectations that the ECB will implement monetary policies aimed at supporting growth.
- International credit rating agency Standard and Poor's (S&P) cut Brazil's credit rating to "BBB-" from "BBB" while lowering the credit rating outlook to "negative" from "stable".
- The signs of slowdown in Chinese economy increasing. Indeed, industrial production recorded its lowest increase in the last 6 months in January- February period while increase in retail sales were at the lowest level of the last 3-years.
- Japan is fighting with deflation through fiscal and monetary stimulus on one hand in order to support private sector growth, on the other hand, levies additional taxes to keep its debt burden under control.

Turkish Economy

- The political uncertainties, which have been influential on the domestic markets since the beginning of the year, is expected to fade away for a while after the local elections.
- International credit rating agency Fitch has affirmed Turkey's credit rating at "BBB-" while keeping outlook "stable".
- Turkish economy grew above expectations in the last quarter of the year and overall GDP in 2013 grew by 4%.
- After December's strong performance, industrial production kept its momentum in January. The calendar adjusted industrial production, which increased by 7% yoy in December, rose by 7.3% yoy in January.
- According to Markit, manufacturing PMI decreased to 51.7 in March, however, the index kept its level above the 50 threshold.
- According to Turkstat, Consumer Confidence Index rose by 2.5 points mom to 72.7 in March. It was seen that all sub-indices of the consumer confidence index increased.
- In December 2013, unemployment rate decreased by 0.1 point yoy and was realized as 10%.
- The impacts of weakening domestic demand have been visible on foreign trade figures. Turkey's exports were up by 6.2% yoy while imports were down by 5.9% yoy in February.
- In the first month of 2014, current account deficit decreased by 16% yoy to 4.9 billion USD.
- The annual increase in CPI, following an upward trend since December 2013, followed a similar path in March and was realized as 8.39% yoy.
- At its meeting on March 18, CBRT kept policy rates unchanged.

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Risk premium of Turkish Eurobonds declined as the investors started to price in the outcome of the local elections positively.

The geopolitical concerns over Russia and Ukraine increased the risk perception towards domestic markets in early March. The domestic political developments ahead of the local elections also added to the concerns and investors were cautious against Turkish assets during this period. In fact, as of March 24, risk premium of Turkish Eurobonds, as measured by the JP Morgan's EMBI, rose by 31 points compared to the end-February. However, in the last week of March, investors started to price in the outcome of the local elections positively and the risk premiums have gone down rapidly closing the month 26 basis points lower than February. A similar course has been also observed in Turkey's 5-year CDS premiums.

Turkish lira surged to the highest level of 2014 against the USD at the end of March.

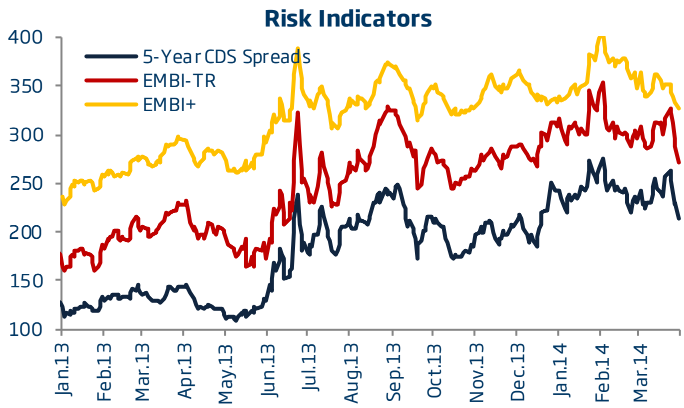
USD/TRY tested above 2.26 on March 12 due to the tension in Russia and Ukraine and later moved within a narrow band (2.20 - 2.23) until the last week of March. The parity declined below 2.20 threshold in the last week of the month as the investors started to price in the outcome of the elections positively. After the elections, USD/TRY further declined to year-to-date low of 2.1389 on March 31. Analyzing the performance of local currencies against the USD in Russia and the so-called fragile-five countries, which includes Turkey, it has been observed that Turkish Lira has started to outperform recently.

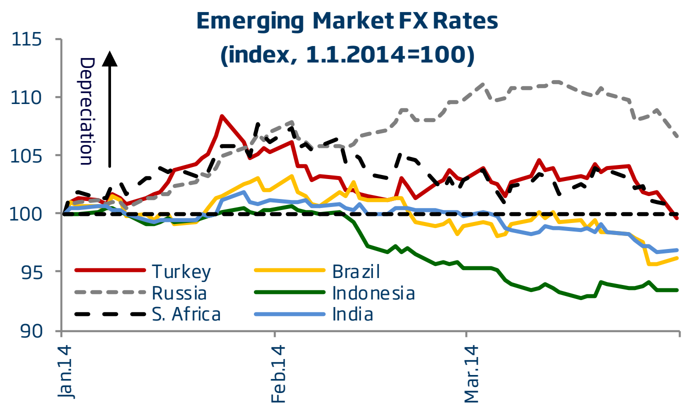
BIST-100 index closed March with a monthly gain over 11%.

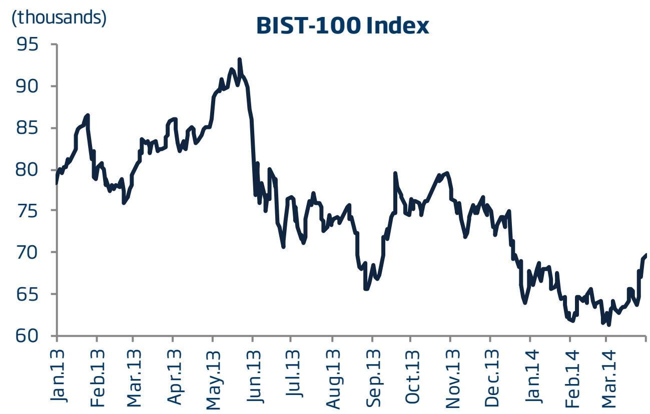
Despite the elevated risk perception in global markets and rising domestic political tension from time to time, BIST-100 index followed a rising trend throughout March. The rise in the index was especially noteworthy in the last week of the month and it closed March with a monthly gain of 11.5% reaching 69.736 points. The share of foreign investors in the market value of the BIST-100 index started to rise again. In fact, according to the Central Registry Agency's figures, the share of foreign investors, which was 61.1% as of March 3, increased to 61.9% as of March 17.

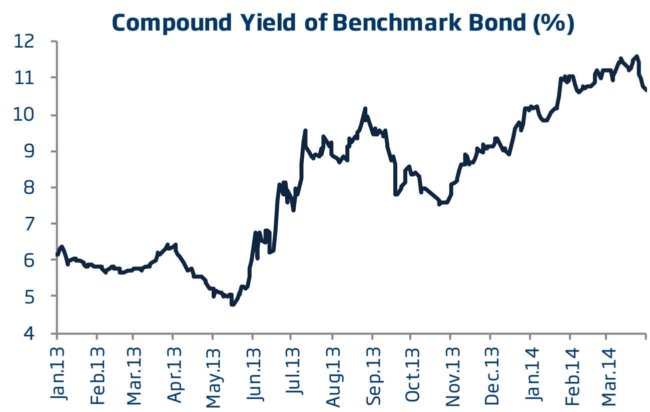
The yield of the benchmark bond declined after hitting a two-year high.

The annual compound yield of the benchmark bond, which hit two-year high level of 11.6% on March 24, declined to 10.69% on March 31 as the investors welcomed the elections results.









Source: JP Morgan, Reuters, BIST

Turkish Economy - GDP Growth

Turkish economy grew above expectations in the last quarter of the year.

Turkish economy continued to grow in the last quarter of the year and registered a real growth rate of 4.4% yoy, above the market expectation of 4%. Regarding the whole year, GDP grew by 4% and reached 820 billion USD. Per capita income increased to 10,782 USD from 10,459 USD in 2012. Turkstat also made revisions regarding the growth figures dating back to the first quarter of 2012. In this context, 2012 GDP growth figure was revised downwards from 2.2% to 2.1%.

Analyzing the calendar adjusted figures, it was seen that GDP increased by 4.7% yoy in the last quarter of the year .Seasonal and calendar adjusted GDP growth continued to decelerate since the third quarter and increased by 0.5% qoq.

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	0.8
2012 Q1	2.4	-0.5
2012 Q2	3.1	1.4
2012 Q3	1.8	0.3
2012 Q4	1.3	0.3
2013 Q1	3.6	1.4
2013 Q2	4.2	2.0
2013 Q3	4.3	0.8
2013 Q4	4.7	0.5

*Change compared to the same period of previous year
**Quarter over quarter change

Domestic demand re-accelerated in the last quarter.

Domestic consumption, which lost momentum in the third quarter of the year, re-accelerated in the last quarter. Private domestic consumption expenditures contributed to growth by 3.5 points while public consumption expenditures' contribution increased and was realized as 0.9 point. With the acceleration of consumption expenditures in the last quarter, consumption expenditures contributed 3.7 points to 2013 growth which is 4%.

The upward trend in private investment expenditures continued.

The private investment expenditures, limiting the growth figures since the first quarter of 2012, supported the economic activity in the last quarter of 2013. In this period, private investment expenditures increased by 4.9% yoy. Although the public sector investment expenditures lost momentum in the last quarter of 2013, they contributed to growth by 0.6 point. Throughout the whole year, the contribution of investment expenditures to growth was realized as 1.1 points.

Net exports continued to drag down the growth figures.

In last quarter of the year, the normalization of gold exports compared to 2012 and the rise in imports thanks to the buoyant domestic demand, the negative effect of the net exports on the growth figures became evident.

Regarding the whole year, on the other hand, it was seen that the private consumption and investment expenditures made the highest contribution to the growth rate, while the net exports account put downward pressure on the economic activity similar to rapid growth years. This development confirms that the growth composition changed in 2013 compared to the 2012.

Expenditure Approach - Contribution to GDP (1998 Prices) **(% points)**

	2010	2011	2012					2013				
	Annual	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q3	Annual
Consumption	**4.9**	**5.8**	**0.2**	**-0.4**	**0.4**	**0.9**	**0.3**	**3.1**	**4.1**	**3.2**	**4.4**	**3.7**
Private	4.7	5.3	-0.3	-0.8	-0.1	-0.1	-0.3	2.4	3.3	3.1	3.5	3.1
Public	0.2	0.5	0.5	0.4	0.5	1.0	0.6	0.7	0.8	0.2	0.9	0.6
Investment	**6.1**	**4.3**	**-0.4**	**-1.2**	**-0.8**	**-0.4**	**-0.7**	**0.4**	**0.9**	**1.3**	**1.6**	**1.1**
Private	5.4	4.4	-0.4	-1.4	-1.1	-1.5	-1.1	-1.0	-0.2	0.7	0.9	0.1
Public	0.7	-0.1	0.0	0.2	0.3	1.1	0.4	1.4	1.1	0.7	0.6	0.9
Change in Stock	**2.5**	**-0.2**	**-2.3**	**-1.6**	**-0.8**	**-1.4**	**-1.5**	**0.1**	**2.9**	**1.9**	**1.4**	**1.6**
Net Exports	**-4.4**	**-1.1**	**5.5**	**5.9**	**2.6**	**2.3**	**4.0**	**-0.7**	**-3.4**	**-2.2**	**-3.0**	**-2.3**
Exports	0.9	1.9	2.8	5.4	3.4	4.0	3.9	1.3	0.0	-0.6	-0.4	0.0
Imports	-5.2	-3.0	2.7	0.5	-0.8	-1.7	-0.1	-2.0	-3.4	-1.5	-2.6	-2.4
GDP	**9.2**	**8.8**	**3.1**	**2.7**	**1.5**	**1.3**	**2.1**	**2.9**	**4.5**	**4.3**	**4.4**	**4.0**

Numbers may not add to total due to rounding

Source: Turkstat

Services sector grew by 4.7% yoy.

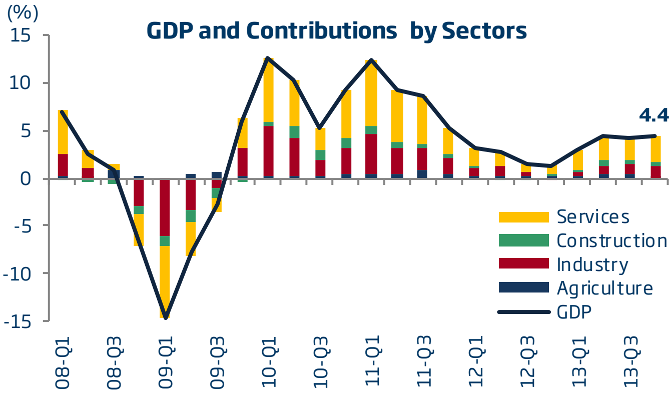
GDP figures by production approach revealed that services sector, which had the highest share in domestic production, grew by 4.7% yoy in the last quarter. The contribution of this sector to the overall GDP growth was realized as 2.7 points. Production in industrial and construction sectors, on the other hand, rose by 4.6% and 6.2% yoy and contributed to the GDP growth by 1.2 and 0.4 points, respectively.

Throughout 2013, construction sector became the fastest growing sector recording a 7.1% yoy growth in production. During the same period, services sector and industrial sector expanded by 4.2% and 3.4% yoy, respectively.

We expect 2.5% GDP growth in 2014.

Despite the fluctuations in capital flows stemming from the uncertainties over Fed's monetary policy throughout 2013, the weak growth outlook in Turkey's main trading partner, the EU, escalated political uncertainties and the resulting volatility in domestic financial markets, Turkish economy reached 4% GDP growth in 2013. The growth rate is above the Medium Term Program forecast but in line with our expectations.

The leading indicators for the first quarter of 2014 show that despite the slowdown in the domestic demand, due to the increasing export performance the moderate recovery in economic activity has been kept. However, during the rest of 2014, CBRT's monetary tightening and BRSA's measures to slow down the growth in consumer loans and credit cards will limit the domestic demand further. On the other hand, the anticipated recovery in Turkey's main trading partners is expected to support the growth via net exports. In this context, we expect 2.5% GDP growth in 2014.



Source: Turkstat

Industrial production remained strong.

After December's strong performance, industrial production kept its momentum in January. The calendar adjusted industrial production, which increased by 7% yoy in December, rose by 7.3% yoy in January. In January, the seasonal and calendar adjusted index also increased by 1.1% mom. Among the main industry groups, the highest increase was recorded in intermediate goods with 3.4% mom. On the other hand, durable consumer goods production decreased by 3.5% mom. After recording rapid increases in December and January, the industrial production index is expected to slow down in the following months due to the interest rate hike of CBRT in January which is anticipated to have put pressure on domestic demand. On the other hand, the performance of export oriented sectors might limit the anticipated slowdown in industrial production.

According to Markit, manufacturing PMI decreased to 51.7 in March. Although the index kept its level above the 50 threshold, output and new orders displayed the weakest increases since August and this was partly balanced by the strong increase in employment components.

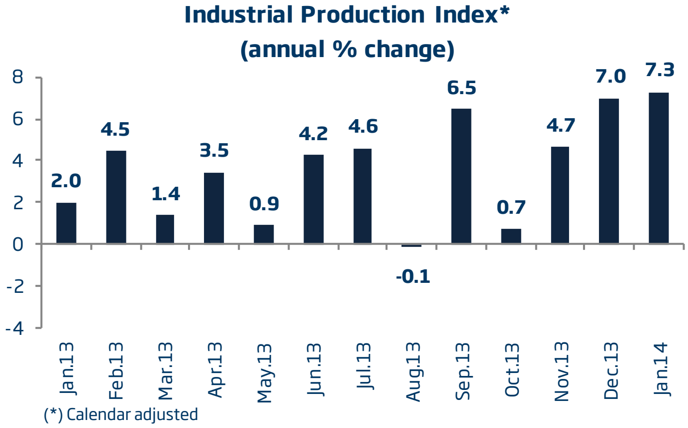
Recovery in consumer confidence...

According to Turkstat, Consumer Confidence Index rose by 2.5 points mom to 72.7 in March. It was seen that all sub-indices of the consumer confidence index increased.

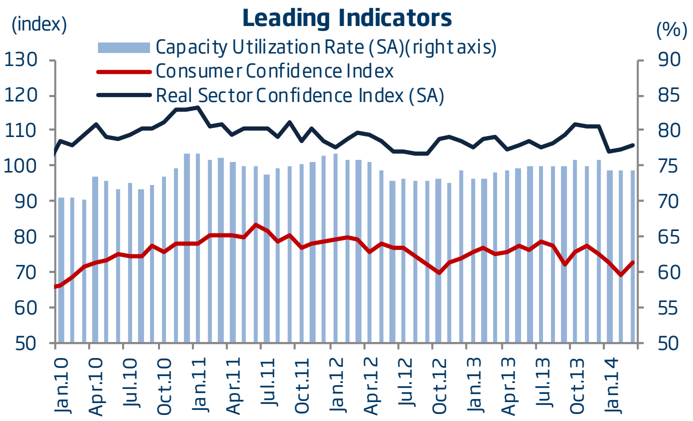
Real Sector Confidence Index of March displayed a similar course with the Consumer Confidence Index and increased by 4 points mom to 108.6, the highest level of the last 8 months. The seasonally adjusted index also increased by 1 point mom. The seasonally adjusted Capacity Utilization Rate (CUR) in March, on the other hand, decreased by 0.1 points mom and was realized as 74.3%.

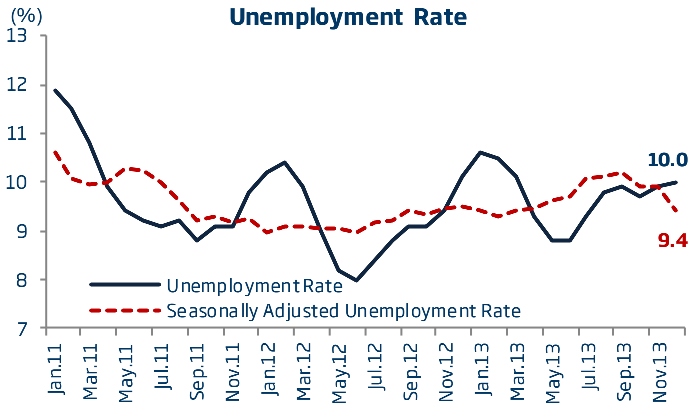
Unemployment rate is 10%.

In December 2013 period, unemployment rate decreased by 0.1 point yoy and was realized as 10%. During the same period, non-farm unemployment rate decreased by 0.3 point to 12.1% while youth unemployment rate (ages between 15-24) declined by 1.1 points to 18.7%. The seasonally adjusted unemployment rate also decreased by 0.4 point mom to 9.4%.



(*) Calendar adjusted

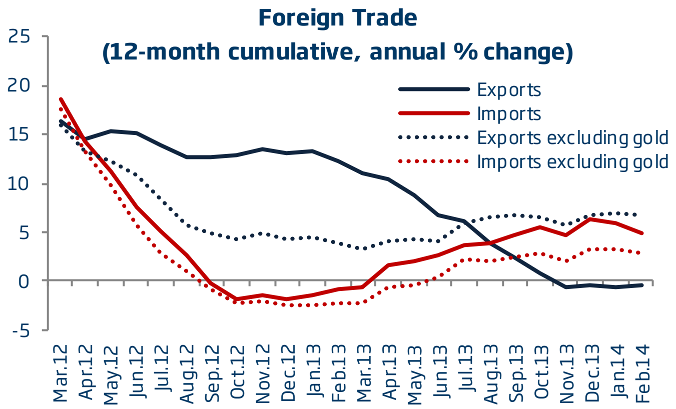




Source: Turkstat,CBRT

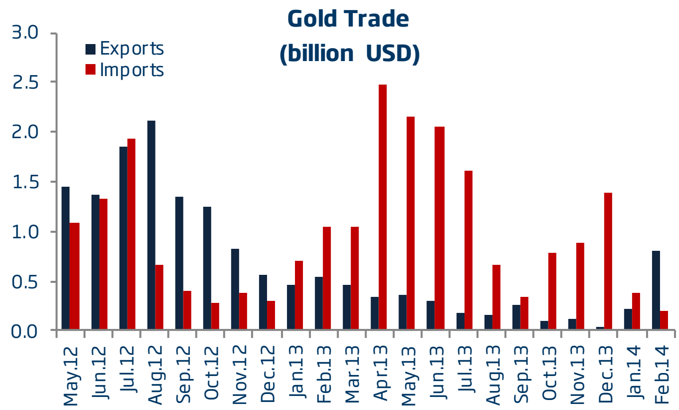
In the second month of the year, exports increased by 6.2% and imports decreased by 5.9%.

The impacts of weakening domestic demand have been visible on foreign trade figures. Turkey's exports were realized as 13.2 billion USD (up 6.2% yoy) while imports were 18.3 billion USD (down 5.9% yoy) in February. Foreign trade deficit decreased yoy and came in 5.1 billion USD. In parallel with a narrowing trade deficit, the import coverage ratio increased by 8.2 points yoy and reached 72.1%. In the first two months of the year, exports also increased yoy while imports decreased. During the first two months, foreign trade deficit narrowed from 14.3 billion USD to 11.9 billion USD.



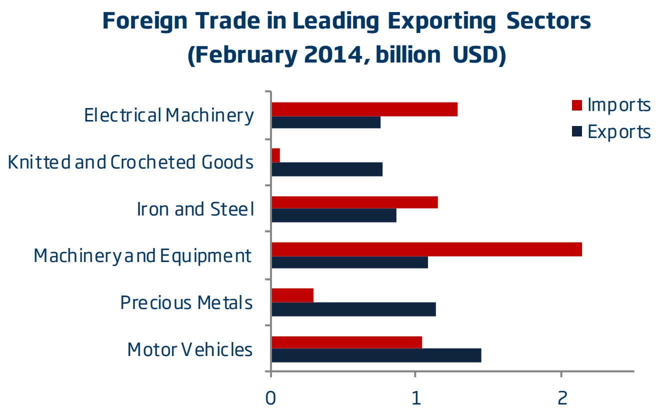
Seasonally and calendar adjusted data revealed that foreign trade figures displayed a favorable outlook in February 2014. In fact, the data indicated that exports grew by 4.5% mom while imports dropped by 2.9% mom in February.

The gold trade, which became influential on foreign trade figures during the recent years, made a positive impact on trade deficit. During the second month of the year, gold exports and imports were realized as 797 and 209 million USD, respectively. During 2013, on a monthly average basis, gold exports and imports were 279 million USD and 1.3 billion USD, respectively.



In February, exports of motor vehicles increased by 0.9% yoy.

Motor vehicles exports, which ranked first in total exports, were realized as 1.5 billion USD (up 0.9% yoy) in February. Following motor vehicles, precious metal and stones exports ranked second with 1.1 billion USD exports volume. Knitted and crocheted goods' exports ranked third.



Energy imports were 4.6 billion USD in February.

Mineral fuels and mineral oil imports rose by 0.8% yoy and were realized as 4.5 billion USD in February. Constituting 24.9% of total imports, this item was followed by machinery and equipment with an import volume of 2.1 billion USD.

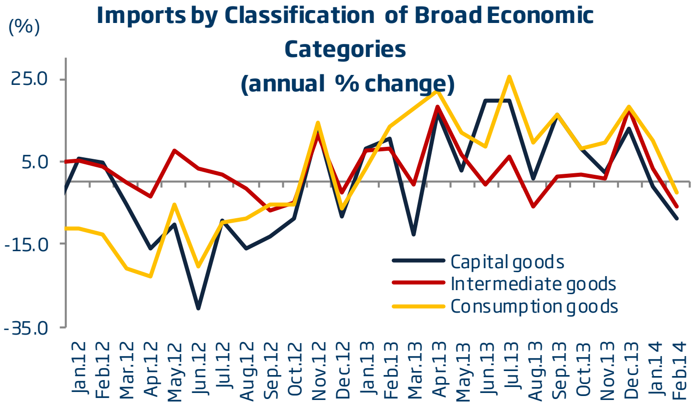
Foreign Trade Balance (USD billion)

	February		Change	January-February		Change
	2013	2014	(%)	2013	2014	(%)
Exports	12.4	13.2	6.2	23.9	25.6	7.2
Imports	19.4	18.3	-5.9	38.2	37.5	-1.7
Foreign Trade Balance	**-7.0**	**-5.1**	**-27.2**	**-14.3**	**-11.9**	**-16.6**
Import Coverage Ratio (%)	63.9	72.1	-	62.5	68.2	-

Source: Turkstat

Consumption goods imports in February decreased by %2.3.

In February, consumption goods imports decreased by 2.3% yoy. The capital and intermediate goods imports also decreased by 8.8% and 5.9% in the same period. The intermediate goods imports, which constitute 70% of total imports, decreased for the first time in last six months and this is a sign of momentum loss in economic activity.



Exports to European Union increased by 7.5%.

In line with the recovery in economic activity in European Union countries, Turkey's exports to the region increased by 7.5% yoy in February and constituted 41.6% of Turkey's total exports. In February, Turkey's exports to Near and Middle Eastern countries, which have become one of Turkey's major trading partners in the last 10 years, also increased by 1.6% yoy and the share of these countries in total exports remains at 22.6%.

According to Turkey's exports by countries, Germany continued to rank first in February with 1.2 billion USD of exports. Iraq followed Germany with 1 billion USD and UK ranked third with 729 million USD. Regarding imports, Russia ranked first with 2 billion USD. Russia was followed by China and Germany with 1.9 billion USD and 1.7 billion USD, respectively.

Expectations...

The signs of recovery observed in developed economies recently, especially in the European Union countries, are expected to have positive impacts on foreign trade figures throughout 2014. The recent depreciation in TRY will also support the increase in exports. Besides, Central Bank's dedication to the tight monetary policy implementation until an improvement in the inflation outlook emerges is anticipated to limit domestic demand and thus imports. As a result, we think that foreign trade performance of Turkey will gradually improve throughout the year.

Source: Turkstat

Current account deficit was slightly below expectations in January.

In the first month of 2014, current account deficit decreased by 16% yoy to 4.9 billion USD. The market expectation was 5 billion USD. Non-monetary gold trade, which was influential on foreign trade figures in the last 2 years, slowed down significantly in January. Thus, non-monetary gold trade volume in January 2014 declined by 63.7% compared to the previous 24-month average and non-monetary gold exports were realized as 212 million USD, while imports amounted to 387 million USD.

Increase in tourism revenues...

Tourism revenues, which have a large share in the services balances, continued to increase in January. In the first month of the year, net tourism revenues increased by 7.8% yoy and reached 966 million USD. 12-month cumulative net tourism revenues were 23.3 billion USD.

Significant loss of momentum in portfolio investments...

In January, the growing uncertainty in the global markets as well as the deterioration in the perception of political risk towards Turkey have led the portfolio investments to be realized at low levels. Indeed, portfolio investments which recorded 215 million USD outflow in December, were realized at a fairly low level with 72 million USD in January. During this period, non-residents' net sales were 319 million USD in the stock market and 1,105 million USD in government domestic debt securities. In contrast, in January, via bond issues in international markets the general government and banking sector borrowed 2.5 billion USD and 503 million USD, respectively.

Increase in net foreign direct investments

After having a rapid increase in December, foreign direct investments registered a notable increase also in January. In January, the net foreign direct investments increased by 52.1% yoy and reached 917 million USD. According to the 12-month cumulative figures, net foreign direct investment inflows increased by 13.9% yoy and reached 10.1 billion USD as of January.

4.1 billion USD capital outflow in other investments account

The deterioration in risk perception towards domestic markets led 4.1 billion USD outflow in other investments account, the highest outflow since December 2011. In January, banks and real sector increased their deposits in foreign banks by 1.888 million USD. On the other hand, the deposits of non-resident banks within domestic banks recorded net outflow of 911 million USD.

Banking sector, which raised 767 million USD long-term loans from abroad while repaying 260 million USD, was a net credit user in January. On the other hand, it was noteworthy that in this period non-banking sector raised 1,958 million USD long-term loans from abroad while repaying 1,668 million USD. Regarding the 12-month cumulative figures, long-term debt roll-over ratio of the banking sector was 252% and that of non-banking sectors was 98%.

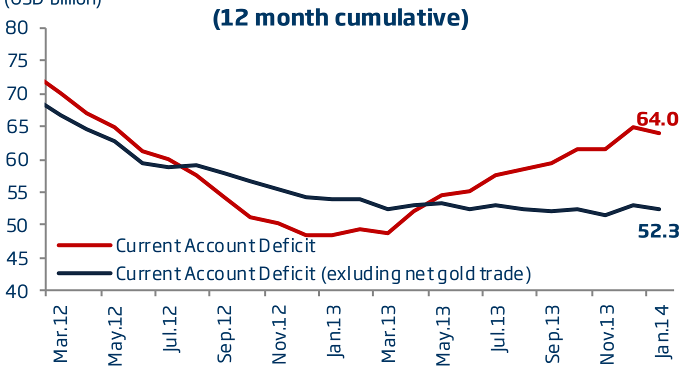
Reserve assets...

In January, as a result of the CBRT's record high FX selling to markets, reserve assets recorded a sharp decrease by 5.8 billion USD. According to the 12-month cumulative figure, on the other hand, reserves increased by only 408 million USD. In January, net errors and omissions account registered an inflow of 2.2 billion USD.

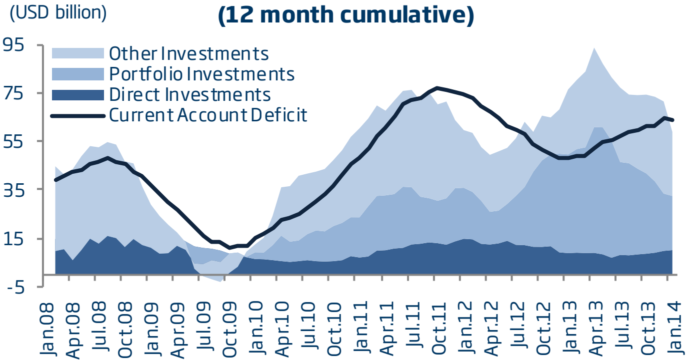
Expectations...

In 2014, the policy decisions of major central banks would continue to be influential in the course of global capital inflows. In this period, the developments regarding the domestic markets and Turkey's export performance would be effective on the balance of payment figures. Furthermore, the expectations that the Euro Area economy, which is the most important export market of Turkey, will continue to recover and the rise in the competitiveness of Turkey in export markets due to the decline in real effective exchange rate will support the exports. On the other hand,

Current Account Deficit (12 month cumulative)



Financing of Current Account Deficit (12 month cumulative)



we anticipate that measures taken to limit the domestic demand will limit the rise in imports and the current account deficit as well. In this period, CBRT's interest rate hike would have a positive impact on portfolio inflows. Besides, we anticipate that banking sector will not face any difficulty in raising credits from abroad and contribute to the financing of current account deficit increasingly. In this context, we forecast the current account deficit/GDP ratio to be 5.5% in 2014.

Current Account Balance (USD million)

	January		%	12 Month
	2013	**2014**	**Change**	**Cumulative**
Current Account Balance	**-5,809**	**-4,877**	**-16.0**	**-64,008**
Foreign Trade Balance	-5,869	-5,239	-10.7	-79,229
Services Balance	632	888	40.5	23,323
Tourism Revenues (net)	896	966	7.8	23,250
Income Balance	-601	-544	-9.5	-9,287
Current Transfers	29	18	-37.9	1,185
Capital and Financial Accounts	**5,800**	**2,660**	**-54.1**	**58,449**
Direct Investments (net)	603	917	52.1	10,072
Portfolio Investments (net)	1,375	72	-94.8	22,406
Assets	53	318	500.0	2,884
Liabilities	1,322	-246	-	19,522
Equity Securities	235	-319	-	287
Debt Securities	1,087	73	-93.3	19,235
Other Investments (net)	7,539	-4,113	-	26,473
Assets	2,344	-1,530	-	-2,020
Currency and Deposits	2,078	-1,888	-	74
Liabilities	5,195	-2,583	-	28,493
Trade Credits	1,392	-743	-	3,465
Loans	1,425	-832	-	20,254
Banking Sector	595	-1,216	-	19,567
Non-bank Sectors	945	523	-44.7	1,581
Deposits	2,370	-1,040	-	4,170
Foreign Banks	2,246	-911	-	3,155
Foreign Exchange	1,060	-648	-	4,666
Turkish Lira	1,186	-263	-	-1,511
Non-residents	215	-10	-	3,043
Reserve Assets (net)	-3,703	5,800	-	-408
Net Errors and Omissions	**9**	**2,217**	**24,533.3**	**5,559**

Source: CBRT

Central government budget posted a surplus of 1.7 billion TRY in February.

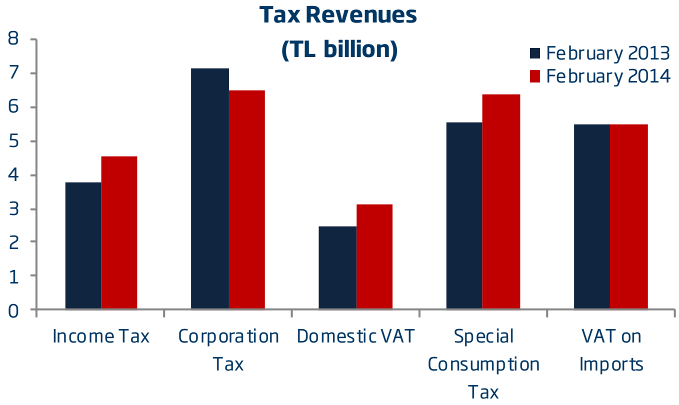
According to data announced by the Ministry of Finance, budget expenditures decreased while budget revenues increased in February compared to the same month of the previous year. In this context, central government budget, which gave 1.4 billion TRY deficit in February 2013, posted a surplus of 1.7 billion TRY in the same month of 2014. In this period, primary surplus increased by 40.7% and was realized as 5 billion TRY.

Tax revenues lost momentum in February.

Tax revenues, which increased by 13% annually on average in last 6 months, rose only 7% yoy in February. Revenues collected from VAT on imports declined during this period and pointed out a loss of momentum in imports in February due to the lagged impacts of the depreciation in TRY. Besides, the decline in corporation tax was also influential in the relatively weak performance of total tax revenues. On the other hand, revenues collected from income tax and value added tax, which increased by 20.5% and 24.9% yoy, respectively in February, limited the deceleration in tax revenues. Regarding non-tax revenues, 455 million TRY privatization revenue in February also supported the budget revenues.

Budget expenditures declined in February.

Analyzing budget expenditures, it was seen that expenditures decreased by 3.5% yoy. The decrease in budget expenditures mainly stemmed from the decline in interest expenditures. During this period, the increase in personnel expenses and purchase of goods/services was compensated by the decrease in the current transfers, thus, non-interest expenditures, which constitute 90% of total budget expenditures, remained flat.



Expectations...

The central government budget figures of February 2014 showed that fiscal performance continued to remain strong. Although the impacts of the depreciation of TRY on tax revenues became evident recently, there is no significant deterioration in tax revenues stemming from the slowdown in domestic consumption. However, the depreciation of TRY might still create pressure on tax revenues via deceleration in imports related taxes though this pressure will be removed over the medium to long-term. The expected slowdown in domestic demand conditions might also have negative impacts on tax revenues in the coming months. Analysis of the realizations in the first two months of the year showed that the progress of budget figures was in line with the year-end targets.

Central Government Budget (TRY billion)

	February		%	January-February		%	2014 Budget	Real./
	2013	2014	Change	2013	2014	Change	Target	Target (%)
Expenditures	**33.9**	**32.8**	**-3.5**	**64.9**	**68.8**	**6.0**	**436.4**	**15.8**
Interest Expenditures	5.0	3.3	-33.4	10.2	8.3	-18.4	52.0	16.0
Non-interest Expenditures	29.0	29.4	1.7	54.7	60.4	10.5	384.4	15.7
Revenues	**32.5**	**34.4**	**5.9**	**69.4**	**72.3**	**4.3**	**403.2**	**17.9**
Tax Revenues	27.6	29.5	7.0	56.0	62.2	11.1	348.4	17.9
Other Revenues	4.9	4.9	-0.3	13.3	10.1	-24.3	54.8	18.4
Budget Balance	**-1.4**	**1.7**	**-**	**4.5**	**3.6**	**-20.4**	**-33.3**	**-**
Primary Balance	**3.5**	**5.0**	**40.7**	**14.7**	**11.9**	**-19.0**	**18.7**	**63.6**

Numbers may not add up to total due to rounding

Source: Finance Ministry

CPI inflation was higher than the expectations in March.

In March, CPI and Domestic PPI (D-PPI) increased by 1.13% and 0.74% mom, respectively. According to the Reuters' survey, monthly CPI was expected to rise by 0.86%. According to the CBRT's survey, markets' monthly CPI expectation was 0.65% in March.

The annual increase in CPI became evident.

The annual increase in CPI, following an upward trend since December 2013, followed a similar path in March and was realized as 8.39% yoy. The D-PPI, which is more sensitive to the developments in FX rates, increased by 12.31% yoy in March and maintained its double digit levels.

In March, the rise in food and non-alcoholic beverages made the highest contribution to the inflation.

Analysis of the main expenditure groups in CPI revealed that all the subgroups except alcoholic beverages and tobacco had an upward impact on inflation. In this period, the 2.10% mom increase in food and non-alcoholic prices made the highest contribution to the inflation by 51 basis points. In March, clothing and footwear prices rose due to the seasonal factors while developments in automobile prices led to an increase in transportation subgroup.

Sharp increases in the annual core inflation aggregates...

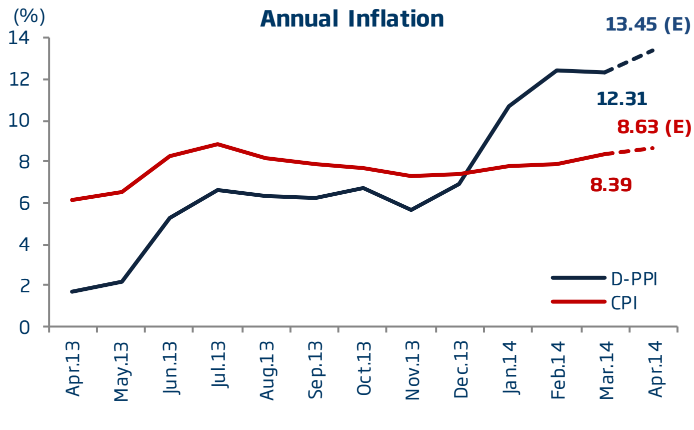
In March, it was noteworthy that the rise in CPI became widespread among all product groups while the price developments in energy and alcoholic beverages limited this pressure. On the other hand, the core inflation aggregates, which reflect the developments in FX rates, also recorded sharp increases in March. In fact, the annual increase in CBRT's favorite core index denominated by H was realized as 9.52% and rose to the highest level since October 2008. The core I index, which is also an important indicator for the headline inflation, rose by 9.32% yoy in March, approaching to the highest level for the last 7 years.

D-PPI rose by 0.74% mom in March.

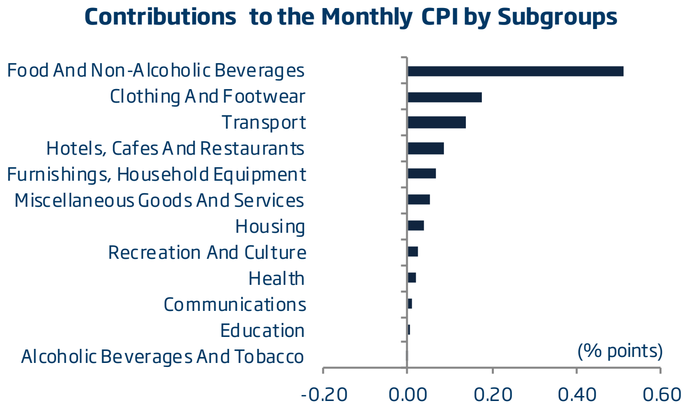
In March, the price increases in food products, other non-metallic mineral products and textile made the highest contribution to the D-PPI. On the other hand, the fall in energy prices limited the increase in PPI. In fact, the fall in electricity and gas distribution prices made 16 points decreasing impact on inflation.

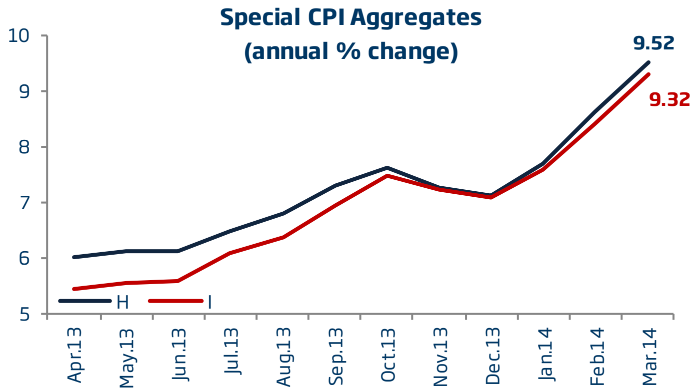
Expectations...

Due to the easing in political tension after the local elections in Turkey, the appreciation in the local currency is anticipated to limit the pressure on inflation in the coming period. On the other hand, we foresee that due to the seasonal factors the clothing and footwear prices would continue to rise in April. In this context, we expect CPI and D-PPI to increase by 0.65% and 0.50% mom, respectively.



(E) Estimate





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

Source: Turkstat

CBRT kept policy rates unchanged.

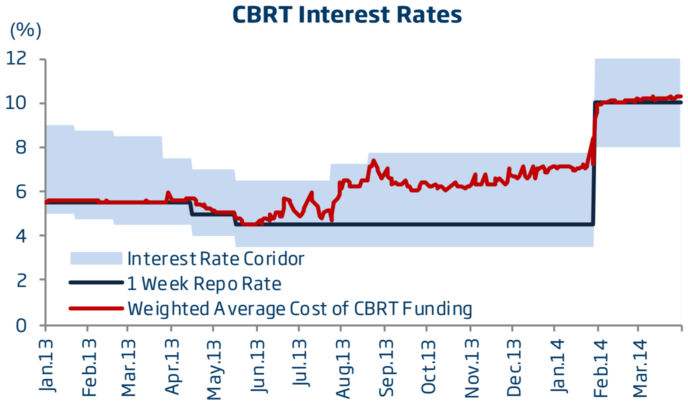
At its meeting on March 18th, CBRT kept the one-week repo rate unchanged at 10%. The lower and upper bounds of interest rate corridor were also kept unchanged at 8% and 12%, respectively. Moreover, CBRT did not change the reserve requirements and reserve option coefficients.

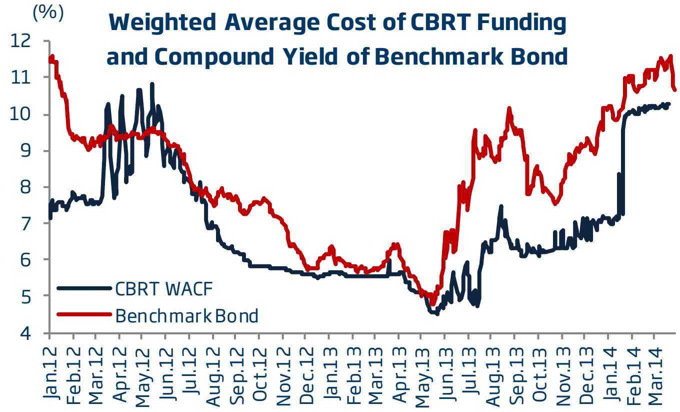
CBRT stated that upside risks on inflation continued to prevail while strong monetary tightening put into practice at the end of January helped improving the sentiment towards the medium term inflation expectations. While anticipating that inflation would follow an upward trend in the next three months, CBRT pledged to implement tight monetary policy until a significant improvement in the inflation outlook is seen.

CBRT pointed out that macroprudential measures and weak capital inflows limited the credit growth recently and also decreased private sector's final demand. Having cited that net exports would contribute positively to economic growth thanks to the rise in foreign demand, CBRT envisaged that total demand conditions would limit inflation and current account deficit would shrink significantly in 2014.

CBRT announced that it might pay interest on TRY reserve requirements if deemed necessary.

In the minutes of the monetary policy committee meeting published on March 25, it was noted that CBRT might pay interest on TRY reserve requirements if deemed necessary. A notification that allowed the interest payments on reserve requirements on the day after the announcement published in Official Gazette (official journal of Turkey that publish the new legislation and other official announcements). This development strengthened positive expectations regarding banks' profits. CBRT have stopped the policy of paying interest on reserve requirements in September 2010.





Source: CBRT, Borsa Istanbul

TÜRKİYE İŞ BANKASI

Total deposits grew by 24.6% on annual basis.

According to BRSA's Weekly Bulletin, as of March 21, 2014, total deposit volume increased by 2.3% ytd and was realized as 1,038 billion TRY. While TRY deposits dropped by 2.8% ytd, FX deposits in USD terms expanded by 5.7% ytd. On the other hand, the rise in deposits was 24.6% yoy, following a flat path for the last few weeks. The increase in TRY deposits receded to 9.6% yoy while FX deposits in USD terms increased by 24.2% yoy.

Annual loan growth decreased to 31.3%.

As of March 21, 2014, total loan volume increased by 3.2% ytd and was realized as 1,099 billion TRY. TRY and FX loans in USD terms increased by 2.1% and 1.7% ytd, respectively. Annual increase in loan volume continued to lose pace and total loans increased by 31.3% yoy, the lowest rate registered in the last 14 weeks.

Due to the measures taken by BRSA, individual credit cards volume decreased by 5.7% ytd. This was mainly stemmed from the 11.6% ytd drop in consumer credit cards installments. Besides, the loss of momentum in vehicle loans continued and they decreased by 7.2% ytd.

The non-performing loan ratio of the banking sector, which declined to as low as 2.7% at the end of 2013, increased slightly to 2.8% as of March 21, 2014.

Securities portfolio…

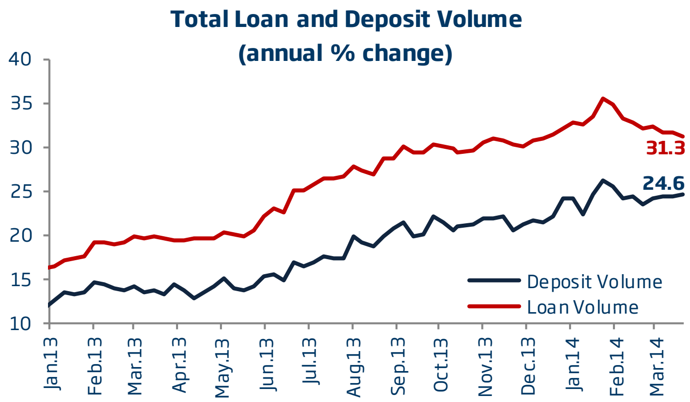
In nominal terms, securities portfolio of banking sector increased by 3.7% ytd as of March 21, 2014. During this period, private and public banks' portfolios increased by 5.3% and 3.2% respectively while foreign banks' portfolio decreased by 3.5%.

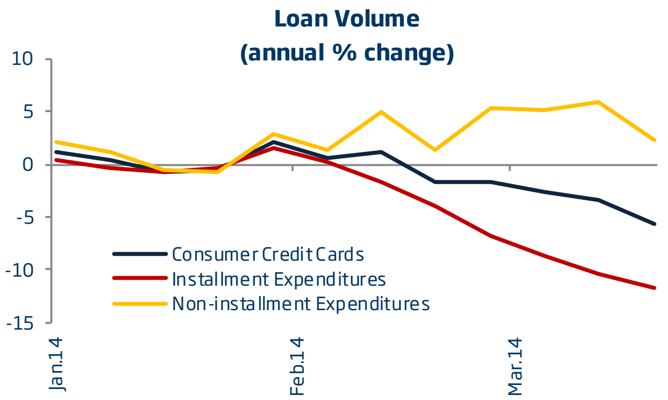
Securities held in custody accounts…

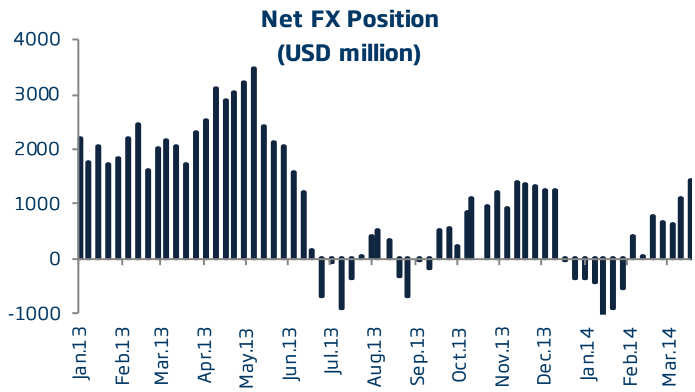
In nominal terms, securities held in custody accounts dropped by 0.5% ytd as of March 21, 2014. During this period, non-residents' portfolio was realized as 101.8 billion TRY and residents' portfolio came in 104.3 billion TRY, reaching record high level.

Net FX position…

As of March 21, 2014, banks' on-balance sheet FX position was (-) 39,118 million USD while off-balance sheet FX position was (+) 40,540 million USD. Hence, banks' net FX position was realized as (+) 1,422 million USD, the highest level recorded since the end of May 2013.







Source: BRSA Weekly Bulletin

Expectations

Adverse weather conditions have put pressure on economic activity in US since the beginning of this year. However, the latest figures have shown that the impacts of weather conditions on US economy have started to fade away . Fed Chairwoman Janet Yellen also stated that the Fed will continue to cut down the amount of monthly asset purchases and the program could be terminated in September if loss of momentum in economic activity due to the weather conditions proves to be temporary and there would not be any other unexpected development. Reduction of asset purchases is expected to continue to adversely affect the capital flows towards the developing countries. In addition, recent developments in Ukraine and the Crimean autonomous region have been an important issue of the global economy. After Crimea's secession from Ukraine and joining Russia, a variety of sanctions against Russia were taken by US and European Union which in turn caused deterioration in global risk perception. However, considering Russia's share in world trade, sanctions taken against this country are not expected to be comprehensive.

The rising geopolitical risks and Fed's reduction of monthly asset purchases have continued to adversely affect Turkish economy. On the other hand, the political uncertainties, which have been influential on the domestic markets since the beginning of the year, are expected to diminish for a while after the local elections. However, the political uncertainties will most probably come to agenda again before the presidential elections which will be held in August. Taking into account that politics will be an issue again in the coming months, CBRT's interest rate hike in January and the measures taken by BRSA in order to slow down credit growth, we anticipate that GDP growth will slow down stemming from the weakening of domestic demand. On the other hand, the recovery in EU, Turkey's largest trading partner, would limit the slowdown in GDP through the exports channel.

Forecasts	2013 (R)	2014
Growth (%)	4.0	2.5
CA Deficit/GDP (%)	7.9	5.5
Inflation (%)	7.4	8.5
GDDI Interest* (%)	7.7	11.0

(*) Annual compound average interest rate in treasury auctions
(R) Realization
Interest and inflation are year-end forecasts

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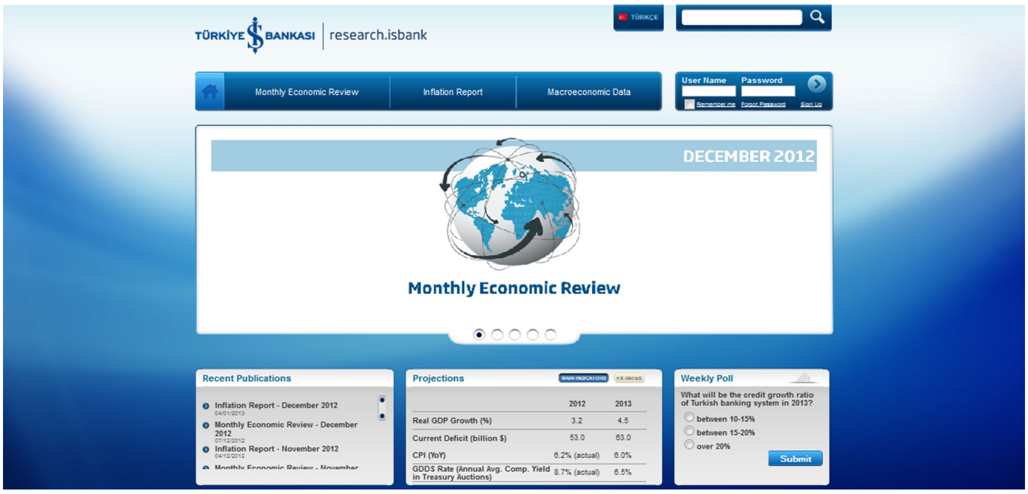
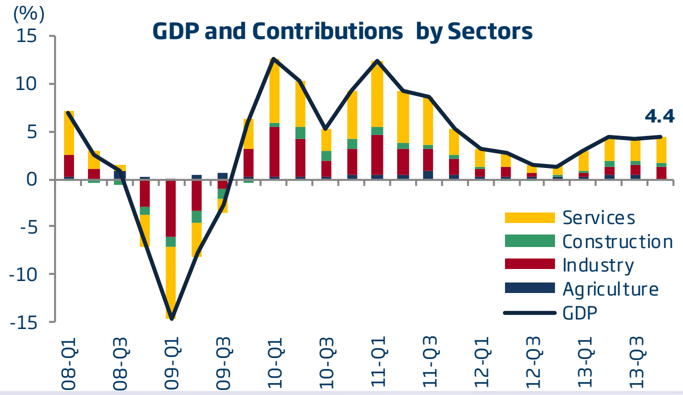
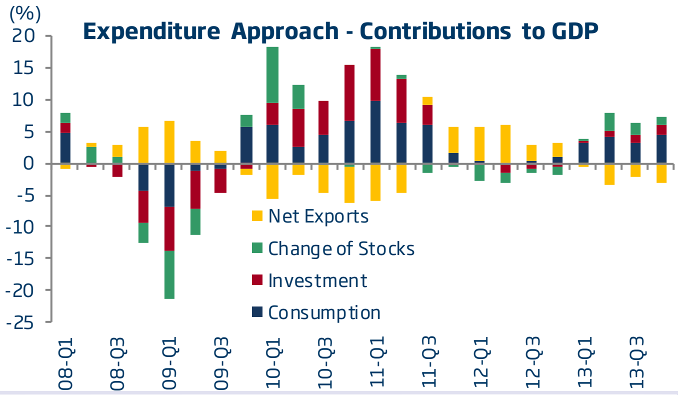


Turkish Economy at a Glance

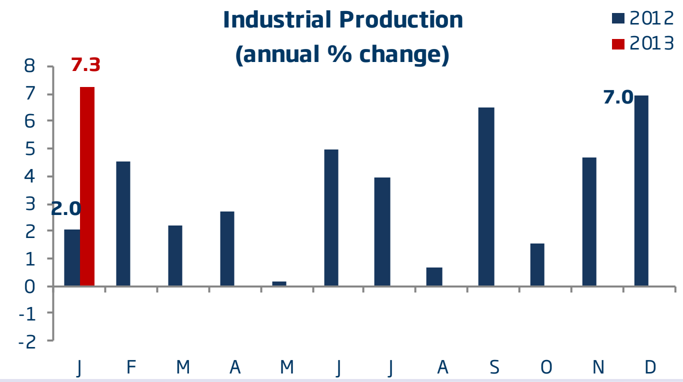
TÜRKİYE İŞ BANKASI

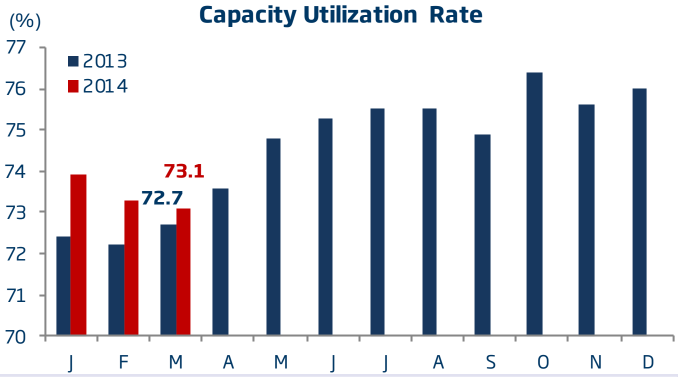
Growth



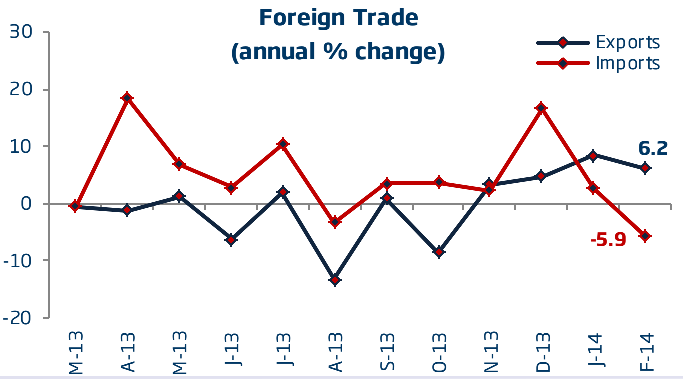


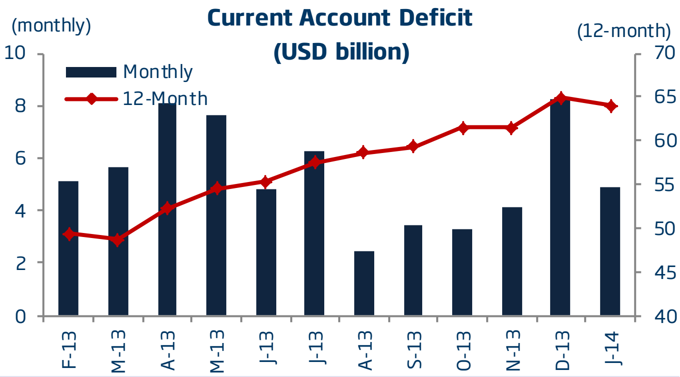
Industrial Production



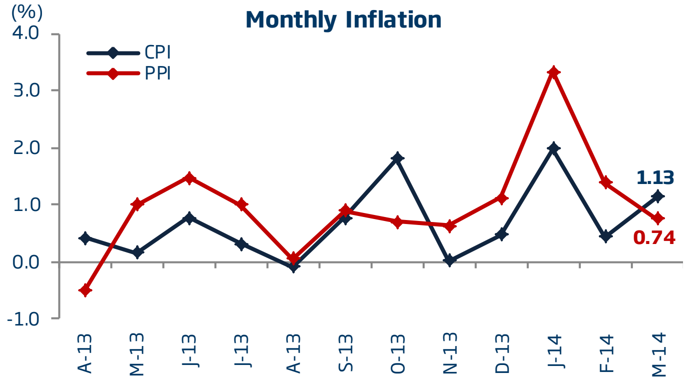


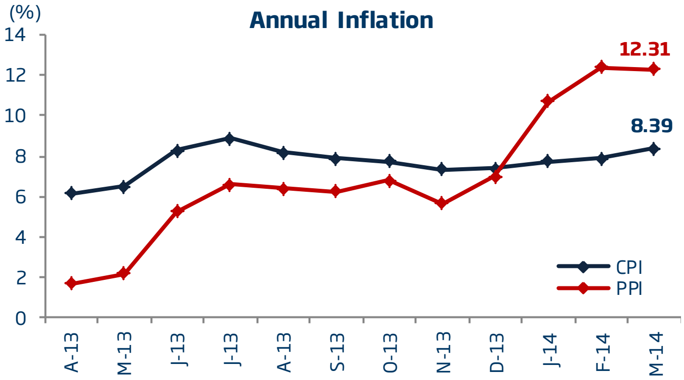
Foreign Trade and Current Account Balance





Inflation





Source: Turkstat, CBRT

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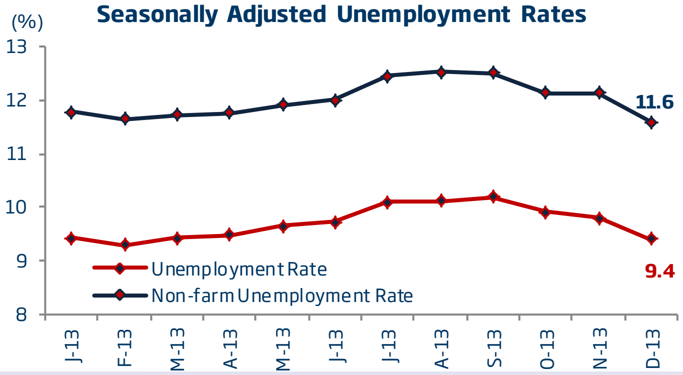
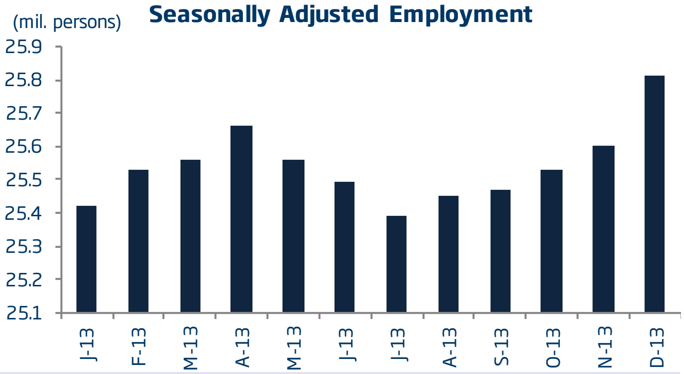
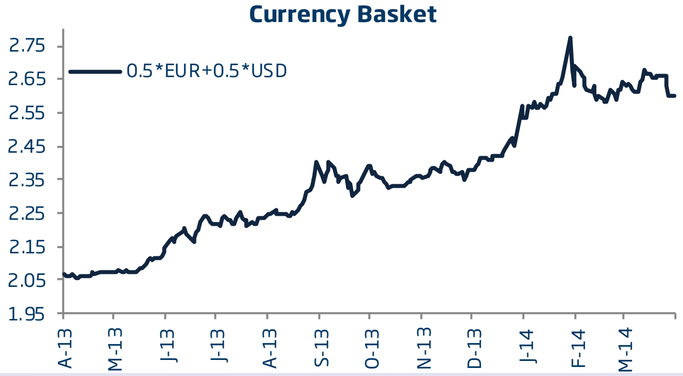
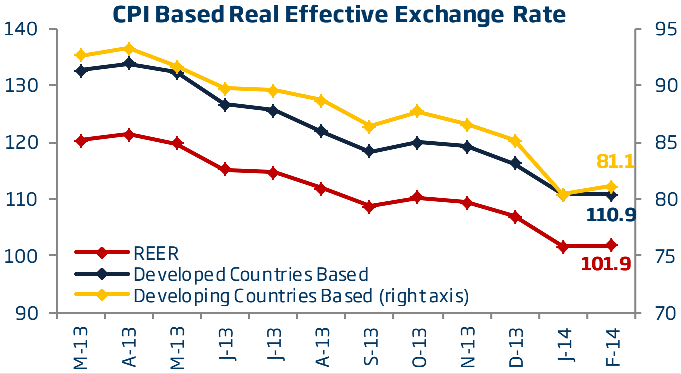
Labor Market



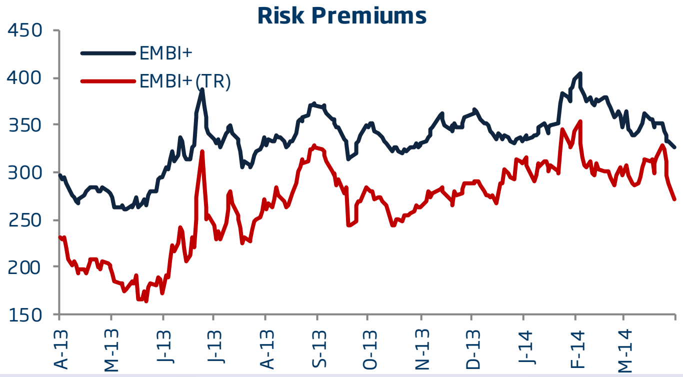


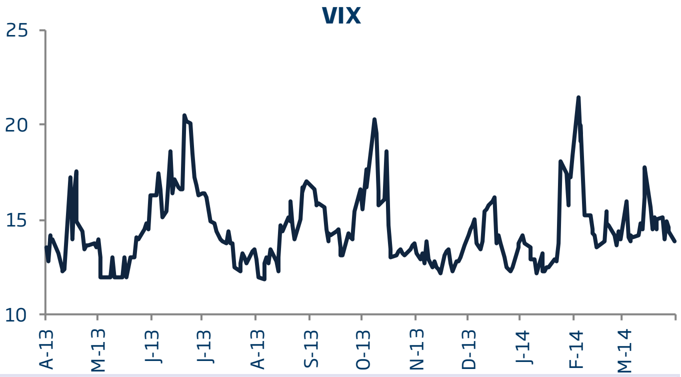
FX Market



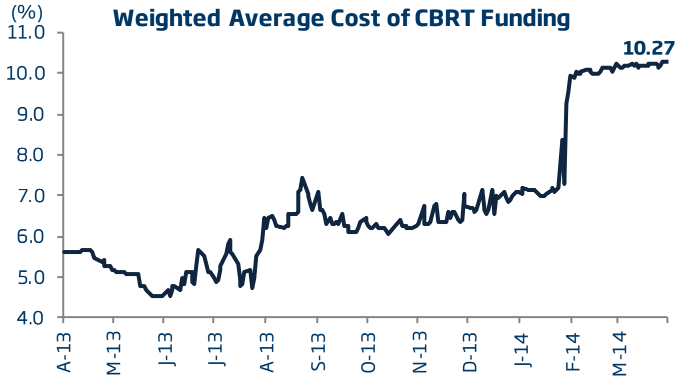


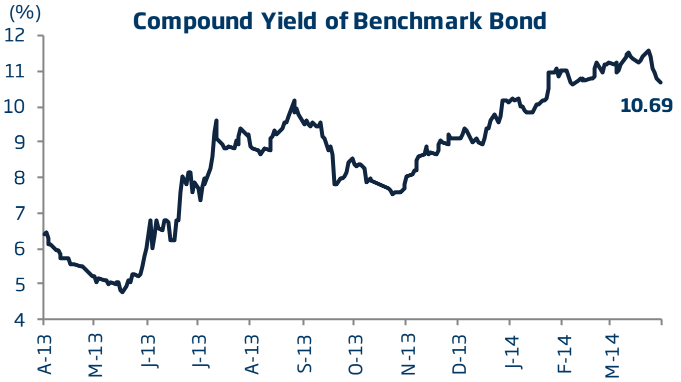
Risk Indicators





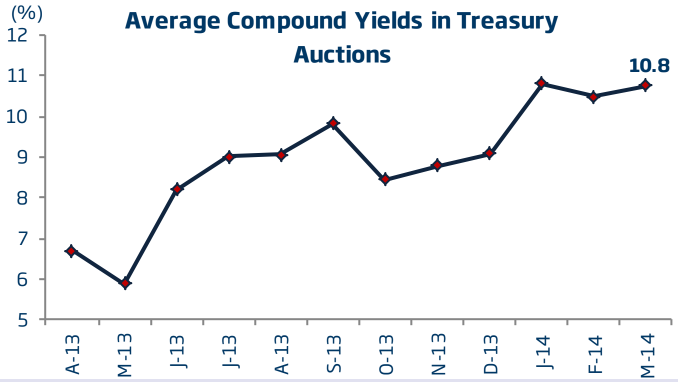
Interest Rates

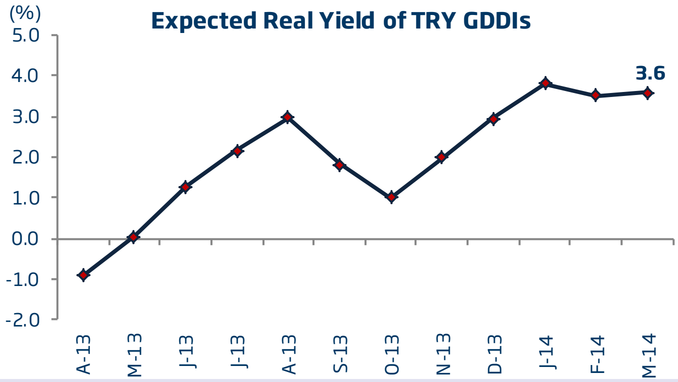




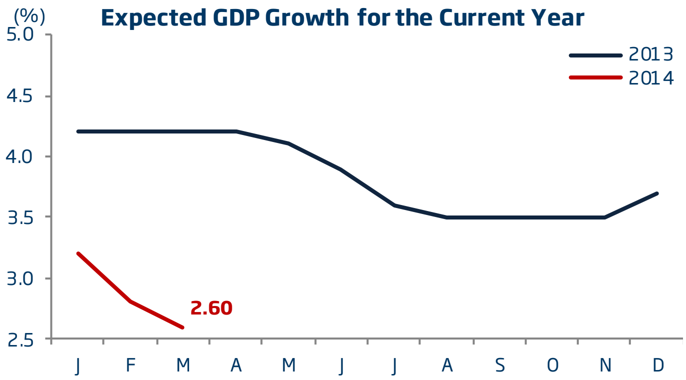
Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

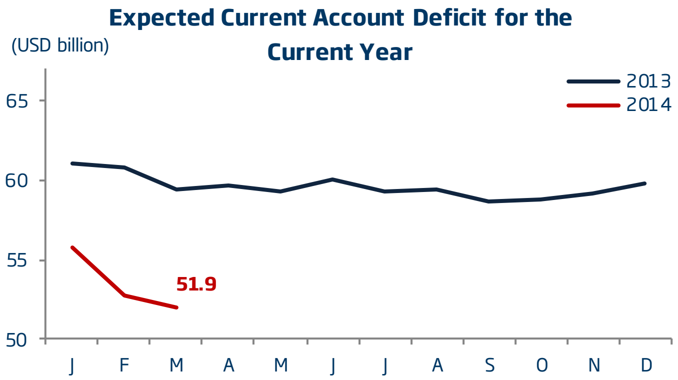
Bond-Bill Market

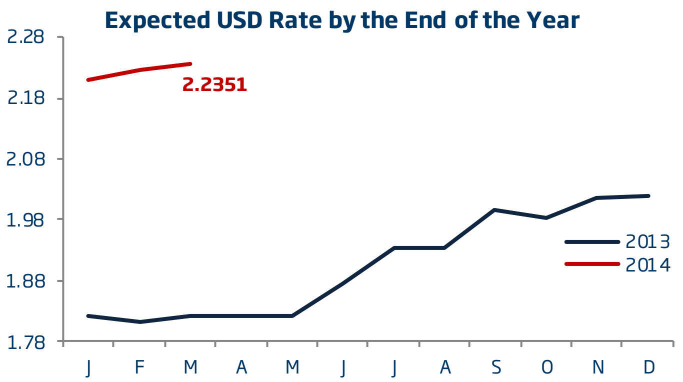


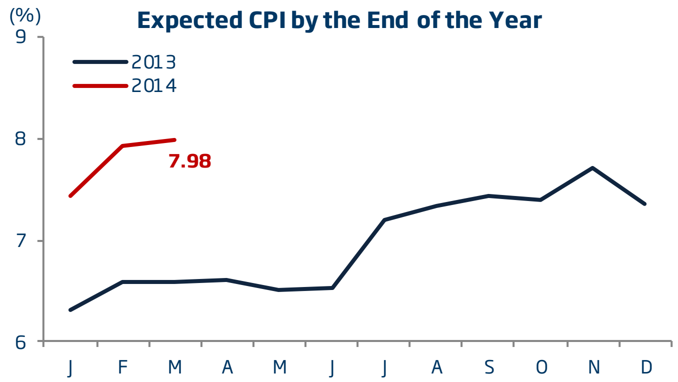


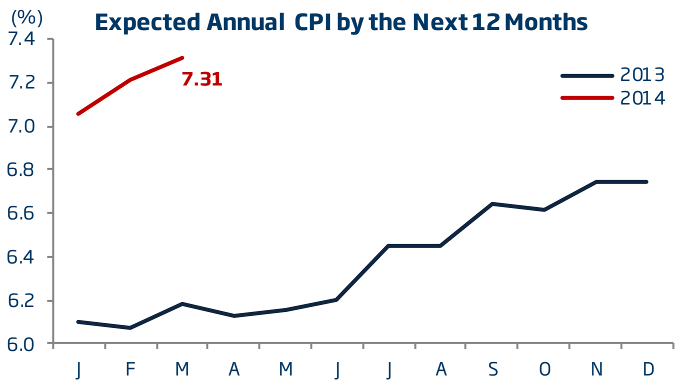
Survey of Expectations and Other Leading Indicators

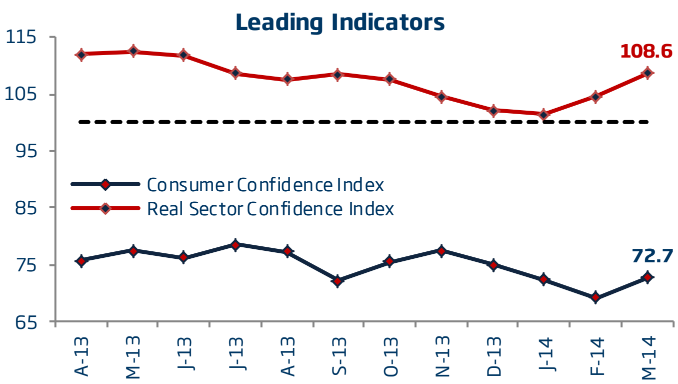












Source: Treasury, BIST, CBRT, Economic Research Division

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TÜRKİYE İŞ BANKASI

Growth	**2009**	**2010**	**2011**	**2012**	**2013**	**14-Q1**	**14-Q2**	**14-Q3**
GDP (USD Billion)	616.7	731.6	774.0	786.3	820.0			
GDP Growth Rate (%)	-4.8	9.2	8.8	2.1	4.0	-	-	-
Inflation (%)						**Jan-14**	**Feb-14**	**Mar-14**
CPI (annual)	6.5	6.4	10.4	6.2	7.4	7.8	7.9	8.4
PPI (annual)	5.9	8.9	13.3	2.5	7.0	10.7	12.4	12.3
Seasonally Adjusted Labor Market Figures						**Oct-13**	**Nov-13**	**Dec-13**
Unemployment Rate (%)	12.7	10.7	9.2	9.5	9.4	9.9	9.8	9.4
Employment (thousand persons)	22,100	23,380	24,295	25,326	25,812	25,530	25,602	25,812
FX Rates						**Jan-14**	**Feb-14**	**Mar-14**
CPI Based Real Effective Exchange Rate	116.8	125.7	109.5	118.2	106.9	101.6	101.9	
USD/TRY	1.5057	1.5460	1.9065	1.7826	2.1343	2.2795	2.2342	2.1898
EUR/TRY	2.1603	2.0491	2.4592	2.3517	2.9365	3.1003	3.0508	3.0072
Currency Basket (0.5*EUR+0.5*USD)	1.8330	1.7976	2.1829	2.0672	2.5354	2.6899	2.6425	2.5985
Foreign Trade Balance[1] (USD billion)							**Jan-14**	**Feb-14**
Exports	102.1	113.9	134.9	152.5	151.8		152.8	153.5
Imports	140.9	185.5	240.8	236.5	251.7		252.1	251.0
Foreign Trade Balance	**-38.8**	**-71.7**	**-105.9**	**-84.0**	**-99.9**		**-99.4**	**-97.5**
Import Coverage Ratio (%)	72.5	61.4	56.0	64.5	60.3		60.6	61.2
Current Account Balance[1] (USD billion)						**Nov-13**	**Dec-13**	**Jan-13**
Current Account Balance	**-12.2**	**-45.4**	**-75.1**	**-48.5**	**-64.9**	**-61.5**	**-64.9**	**-64.0**
Capital and Financial Accounts	**9.3**	**44.0**	**65.7**	**47.3**	**61.6**	**60.5**	**61.6**	**58.4**
Direct Investments (net)	7.1	7.6	13.7	8.9	9.8	9.0	9.8	10.1
Portfolio Investments (net)	0.2	16.1	22.0	40.8	23.7	29.5	23.7	22.4
Other Investments (net)	2.1	33.2	28.2	18.4	38.1	35.0	38.1	26.5
Reserve Assets (net)	-0.1	-12.8	1.8	-20.8	-9.9	-12.9	-9.9	-0.4
Net Errors and Omissions	**2.9**	**1.4**	**9.4**	**1.2**	**3.4**	**1.0**	**3.4**	**5.6**
Current Account Deficit/GDP	**-2.0**	**-6.2**	**-9.7**	**-6.2**	**-7.9**	-	-	-
Budget[2][3] (TRY billion)							**Jan-14**	**Feb-14**
Expenditures	**268.2**	**294.4**	**314.6**	**360.5**	**407.9**		**36.0**	**68.8**
Interest Expenditures	53.2	48.3	42.2	48.4	50.0		5.0	8.3
Non-interest Expenditures	215.0	246.1	272.4	312.1	357.9		31.0	60.4
Revenues	**215.5**	**254.3**	**296.8**	**331.7**	**389.4**		**37.9**	**72.3**
Tax Revenues	172.4	210.6	253.8	278.8	326.1		32.7	62.2
Budget Balance	**-52.8**	**-40.1**	**-17.8**	**-29.4**	**-18.4**		**1.9**	**3.6**
Primary Balance	**0.4**	**8.2**	**24.4**	**19.6**	**31.5**		**6.9**	**11.9**
Budget Balance/GDP	**-5.5**	**-3.6**	**-1.4**	**-2.1**	**-1.2**		-	-
Central Government Debt Stock (TRY billion)							**Jan-14**	**Feb-14**
Domestic Debt Stock	330.0	352.8	368.8	386.5	403.0		406.3	407.1
External Debt Stock	111.5	120.7	149.6	145.7	182.8		196.2	192.9
Total	**441.5**	**473.6**	**518.4**	**532.2**	**585.8**		**602.5**	**600.0**

(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

(TRY billion)	2009	2010	2011	2012	2013	Jan-14	Change[1]
TOTAL ASSETS	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1794.4**	**3.6**
Loans	**392.6**	**525.9**	**682.9**	**794.8**	**1047.4**	**1077.2**	**2.8**
TRY Loans	288.2	383.8	484.8	588.4	752.7	766.1	1.8
Share (%)	73.4	73.0	71.0	74.0	71.9	71.1	-
FX Loans	104.4	142.1	198.1	206.4	294.7	311.1	5.6
Share (%)	26.6	27.0	29.0	26.0	28.1	28.9	-
Non-performing Loans	21.9	20.0	19.0	23.4	29.6	30.3	2.3
Non-performing Loan Rate (%)	5.3	3.7	2.7	2.9	2.8	2.7	-
Securities	**262.9**	**287.9**	**285.0**	**270.0**	**286.7**	**292.0**	**1.8**
TOTAL LIABILITIES	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1794.4**	**3.6**
Deposits	**514.6**	**617.0**	**695.5**	**772.2**	**945.8**	**965.7**	**2.1**
TRY Deposits	341.4	433.5	460.0	520.4	594.1	585.0	-1.5
Share (%)	66.3	70.3	66.1	67.4	62.8	60.6	-
FX Deposits	173.2	183.5	235.5	251.8	351.7	380.7	8.2
Share (%)	33.7	29.7	33.9	32.6	37.2	39.4	-
Securities Issued	**0.1**	**3.1**	**18.4**	**37.9**	**60.6**	**62.3**	**2.8**
Payables to Banks	**86.1**	**122.4**	**167.4**	**173.4**	**254.2**	**263.6**	**3.7**
Funds from Repo Transactions	**60.7**	**57.5**	**97.0**	**79.9**	**119.1**	**135.5**	**13.8**
TOTAL SHAREHOLDERS' EQUITY	**110.9**	**134.5**	**144.6**	**181.9**	**193.7**	**195.3**	**0.8**
Profit (Loss) of the Period	20.2	22.1	19.8	23.5	24.7	1.4	-
RATIOS (%)							
Loans/Assets	47.1	52.2	56.1	58.0	60.5	60.0	-
Securities/Assets	31.5	28.6	23.4	19.7	16.6	16.3	-
Deposits/Liabilities	61.7	61.3	57.1	56.3	54.6	53.8	-
Deposits/Loans	131.1	117.3	101.8	97.2	90.3	89.7	-
Capital Adequacy (%)	20.6	19.0	16.6	17.9	15.3	15.1	-

(1) Year-to-date % change

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