



Global Economy

- ◆ OECD lowered its global growth forecast for 2014 from 3.6% to 3.4% in its latest Economic Outlook Report published in early May, citing that global economy would gain strength in the following two years thanks to the recovery in advanced economies while emerging market economies would lose some momentum, particularly China.
- ◆ OECD emphasized on the need for structural reforms in emerging market economies and pointed to the domestic financial vulnerabilities in some emerging economies owing to the future steps towards tighter monetary policy in the US.
- ◆ Emphasizing on slowdown in domestic demand, OECD revised down its growth forecasts for Turkey, from 3.8% to 2.8% in 2014 and from 4.1% to 4% in 2015.
- ◆ The US economy contracted by %1 in the first quarter of 2014. Labor market indicators, on the other hand, continued to show further improvement.
- ◆ Fed FOMC minutes revealed that FOMC members focused on the path for normalizing monetary policy and emphasized the importance of communication of its plans to the public during this process.
- ◆ Euro Area posted a lower-than-expected growth of 0.2% qoq in the first quarter of the year.
- ◆ ECB president Mario Draghi suggested that prolonged low inflation and strong Euro would pose a serious threat to economic activity and added that ECB was ready to take action in June meeting to support the economy if it became necessary.
- ◆ Japan economy grew by 1.5% qoq and 5.9% yoy, well above the expectations.
- ◆ Chinese manufacturing PMI remained below the 50 threshold for a fifth consecutive month.

Turkish Economy

- ◆ Calendar adjusted industrial production index increased by 4.2% yoy in March, above the expectations. On unadjusted basis, industrial production index rose by 5.3% yoy in the first quarter of 2014.
- ◆ In May, real sector confidence index recorded an increase while consumer confidence deteriorated slightly.
- ◆ According to the new series, the unemployment rate increased to 10.2% February 2014 from 9.7% in the same period of the previous year. Seasonally adjusted unemployment rate, on the other hand, decreased by 0.1 point mom to 9.1%.
- ◆ In April, exports were realized as 13.4 billion USD (up 7.9% yoy) while imports came in 20.7 billion USD (down 9.5% yoy). Thus, the foreign trade deficit contracted by 30.3% yoy.
- ◆ The narrowing of the current account deficit in recent months continued. The 12-month cumulative current account deficit declined to 60 billion USD, the lowest level since September 2013.
- ◆ The annual increase in CPI which exhibited an upward trend during the last 6 months, was realized as 9.66% in May, the highest increase of the last 25 months. On the other hand, the annual increase in D-PPI was realized as 11.28% due to the monthly decline.
- ◆ CBRT, which significantly tightened monetary policy at its interim meeting in January, cut the one-week repo rate by 50 basis points to 9.5% on May 22.

Contents

Turkish Economy	1
Banking Sector	10
Graphs	12
Tables	15

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The risk premium of Turkish eurobonds increased slightly during the last week of May.

Turkey's risk premium indicators followed a downward trend in the first half of May parallel to that of emerging market economies. However, the indicators deteriorated slightly during the last week of the month. This development was mainly due to the CBRT's interest rate cut and the assessments regarding the monetary policy stance following the decision. The risk premium of Turkish eurobonds increased to 223 basis points as of May 30 from 211 basis points on May 8, the lowest level since June 2013. Turkey's 5-year CDS spreads also followed a similar path in May.

The growing expectations that ECB would ease monetary policy supported domestic markets.

In the first half of May, TRY appreciated owing to the the growing expectations that ECB would probably act to ease monetary policy in the coming period. As of May 14, USD/TRY dropped to 2.057, the lowest level since December 19, 2013. Following the CBRT's interest rate cut, on the other hand, USD/TRY weakened to some extent. As of May 30, USD/TRY and EUR/TRY was realized as 2.10 and 2.86, respectively.

BIST-100 index approached 80.000 level.

With the help of the increase in capital flows to Turkey, BIST -100 index kept its strong pace in May. Thus, BIST-100 index recorded an increase of 7.3% in May compared to the previous month and approached 80.000 level. During the same period, the increase in MSCI-EM index was registered as 3.3%.

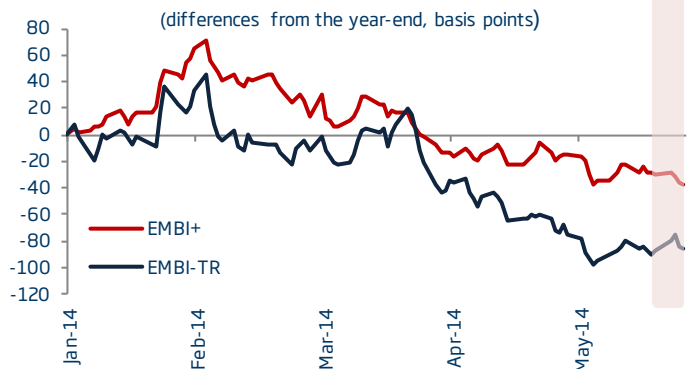
The yield of the benchmark bond declined during May.

In line with the positive mood in domestic financial markets and the CBRT's rate cut, the yield of the benchmark bond declined during May. As of 30 May, the yield of the benchmark bond dropped to 8.49%, the lowest level in nearly seven months.

In May, the yields in Treasury auctions were below expectations.

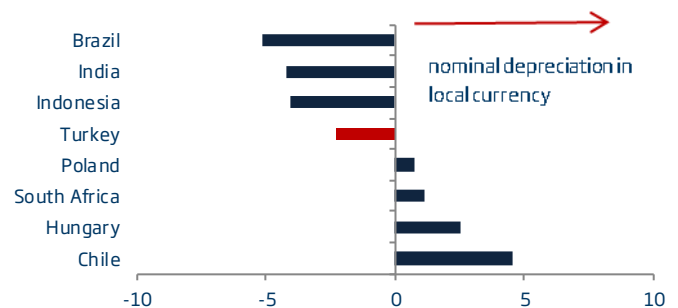
During May, the yields in Treasury auctions were realized below the market expectations. The downward trend in borrowing costs was regarded as a positive development.

Risk Indicators



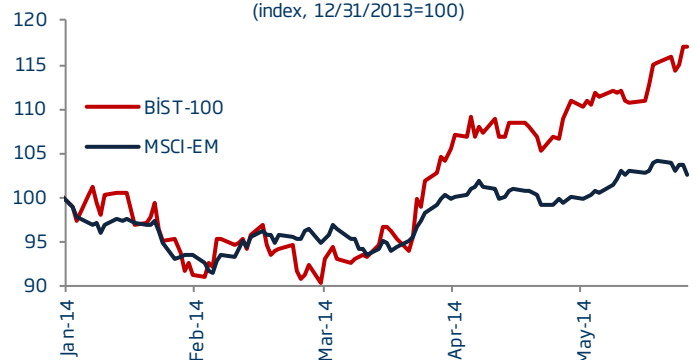
Local Currencies vs USD

(12/31/2013-05/30/2014, % change)



BIST-100 and MSCI Emerging Markets Indexes

(index, 12/31/2013=100)



Compound Yield of Benchmark Bond

(%)



Source: JP Morgan, Reuters, BIST

Increase in industrial production was above the expectations.

Calendar adjusted industrial production index increased by 4.2% yoy in March, above the expectations. Seasonal and calendar adjusted industrial production index, on the other hand, declined by 0.4% mom in March.

On unadjusted basis, industrial production index rose by 5.3% yoy in the first quarter of 2014. The stronger than expected industrial production growth also led to upward revisions in growth forecasts for 2014. In fact, in CBRT's Survey of Expectations the growth estimate for 2014, which declined to as low as 2.6% in March due to the volatility in global markets, heightened geopolitical risks and CBRT's interest rate hike decision taken in January, increased to 2.8% in the May Survey.

According to Markit, manufacturing PMI fell to 50.1 in May, remaining only just above the no-change mark of 50. The slowdown in PMI mainly stemmed from the deterioration in new orders and employment conditions.

The real sector confidence continues to recover.

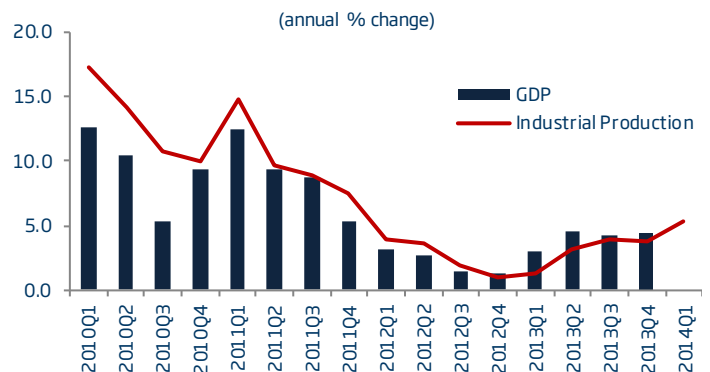
Real Sector Confidence Index increased by 0.9 points yoy and was realized as 113.3 in May. The seasonally adjusted index also increased by 1.2 points mom. Seasonally adjusted Capacity Utilization Rate (CUR), on the other hand, declined by 0.5 points mom and was recorded as 74.4 % in May.

According to data announced by Turkstat, consumer confidence decreased from 78.5 to 76 in May. This was mainly stemmed from the deterioration in the assessments regarding the general economic situation (over the next 12 months) and saving time condition in the current period.

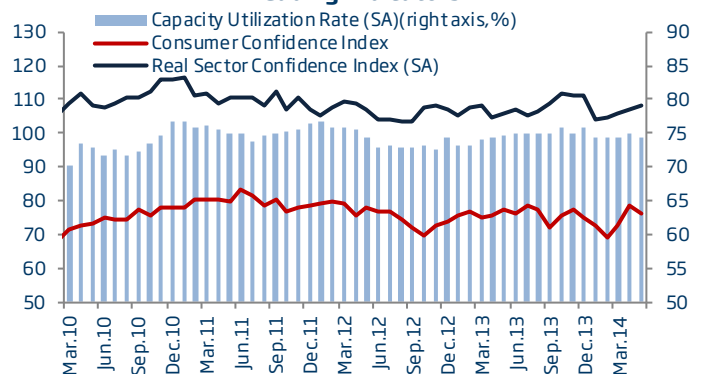
Household labor force statistics have been revised.

New regulations have been made in Household Labour Force Survey in order to ensure full compliance with the European Union starting from February 2014. According to these changes, the reference week of the survey and duration of unemployment criteria have been changed, and also new population projections and new administrative division were taken into account. According to the new series, the unemployment rate increased to 10.2% February 2014 from 9.7% in the same period of the previous year. Seasonally adjusted unemployment rate, on the other hand, decreased by 0.1 point mom to 9.1 %.

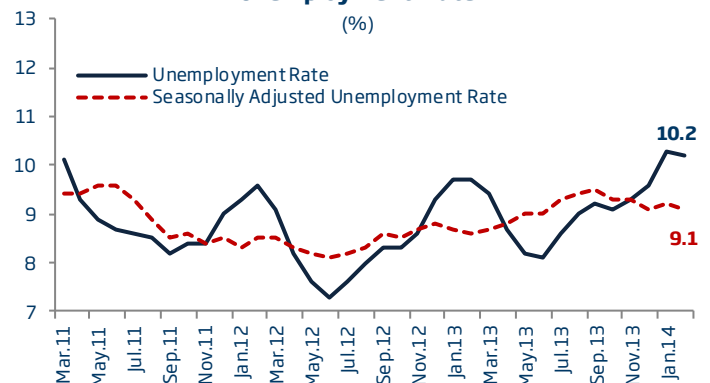
Industrial Production and GDP



Leading Indicators



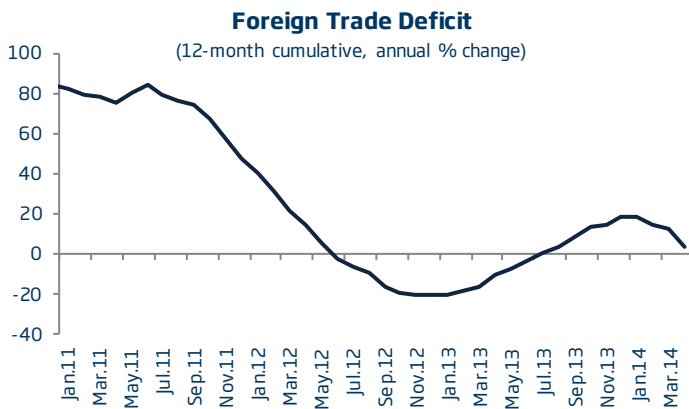
Unemployment Rate



Source: Turkstat, CBRT

Foreign trade deficit continued to narrow.

In April, exports were realized as 13.4 billion USD (up 7.9% yoy) while imports came in 20.7 billion USD (down 9.5% yoy). Thus, the foreign trade deficit contracted by 30.3% yoy and import coverage ratio was realized as 65.1%. Exports and imports of gold did not have a major impact on foreign trade figures in April. In January-April period, it was also seen that exports rose while imports declined.

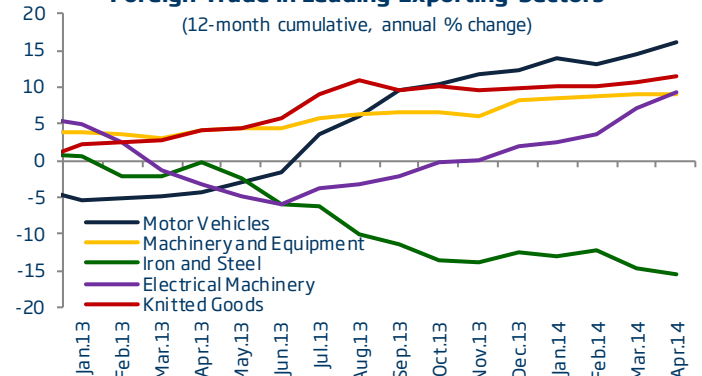


Motor vehicle exports continued to have a positive impact on total export growth.

Among the top three export items in April, exports of motor vehicles together with machinery and equipment increased by 21.7% and 11%, respectively while iron and steel exports declined by 7.3% yoy.

According to 12-month cumulative figures, exports of motor vehicles, which ranked first in the total exports, had a positive impact on total exports volume since July 2013 in line with the depreciation in TRY. In addition, the ongoing recovery in the EU economies also supported export performance. During this period, exports of electrical machinery also followed a similar course while knitted goods exports displayed a steady increasing trend since the beginning of 2013. However, exports of iron and steel, which ranked third in total exports as of April, continued to exhibit a downward trend since January 2013, therefore, limiting total export growth. This was mainly stemmed from the increasing share of China in global steel supply.

Foreign Trade in Leading Exporting Sectors

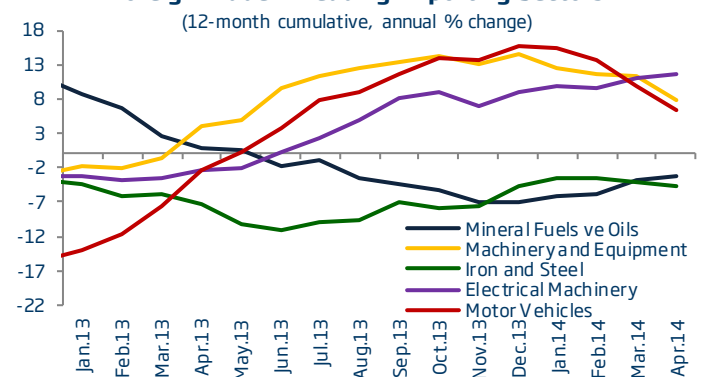


Decreasing trend in energy imports...

Imports of mineral fuels and oils, machinery and equipment together with iron and steel, which were top three import items in April, declined by 2.6%, 5.3% and 9.9% yoy, respectively.

12-month cumulative figures showed that after depreciation in TRY become more evident at the end of December 2013, the increase in imports of motor vehicles lost momentum. During this period, boilers and machinery imports also followed a similar trend. Besides, the decline in imports of mineral fuels and oils, which ranked first in total imports, since June 2013 was noteworthy. These developments limited the import growth and have been the main cause behind the contraction in the foreign trade deficit in 2014.

Foreign Trade in Leading Importing Sectors

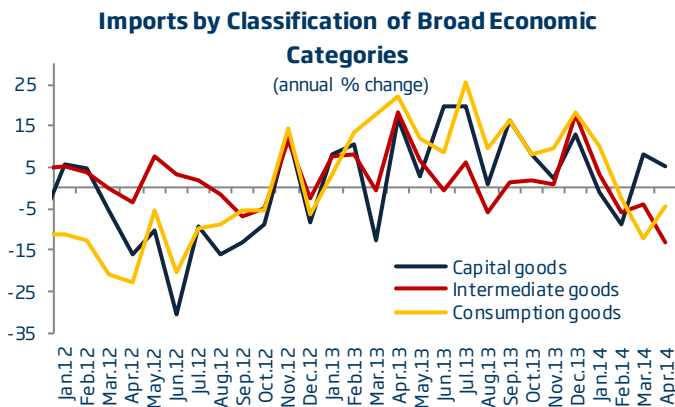


Foreign Trade Balance	(USD billion)					
	April		Change (%)	January-April		Change (%)
	2013	2014		2013	2014	
Exports	12.5	13.4	7.9	49.5	53.7	8.5
Imports	22.8	20.7	-9.5	81.6	78.1	-4.2
Foreign Trade Balance	-10.4	-7.2	-30.3	-32.1	-24.5	-23.8
Import Coverage Ratio (%)	54.6	65.1	-	60.6	68.7	-

Source: Turkstat

Intermediate goods imports continued to decline.

According to the classification of broad economic categories, the slowdown in domestic demand has also been reflected on the import figures of commodity groups. Indeed, imports of intermediate goods, constituting around 70% of total imports, declined in the last three months. Although imports of consumption goods recorded a slight increase, maintained their downward trend in April. Capital goods imports, on the other hand, after a steep rise in March lost some momentum in April.



The share of the European Union in total exports increased to 44.2%.

Share of exports to the European Union in total exports, which was 39.6% in April 2013, increased to 44.2% in line with the recovery in economic activity in the same period of 2014. Share of exports to Near and Middle Eastern countries in total exports, on the other hand, decreased somewhat in April and was realized as 23.1%.

According to Turkey's exports by countries, Germany ranked first in April with 1.3 billion USD of exports. Iraq followed Germany with 1 billion USD and United Kingdom ranked third with 855 million USD. Regarding imports, Russia ranked first with 2.1 billion USD due to the high energy imports. Russia was followed by Germany and China, respectively.

Ratio of exports of high-tech products in manufacturing industries was 3.8%

The ratio of high-technology products in exports of manufacturing industries, which was 3.5% in April 2013, increased to 3.8% in April 2014. The ratio of medium-high-technology products in manufacturing industries, on the other hand, rose by 2.1 points to 33.4%. The ratio of high-technology products in imports of manufacturing industries' products increased by 3.5 points and was realized as 14.6% in the same period.

Expectations...

The impact of the significant depreciation in TRY became evident on foreign trade figures. Indeed, during this period as the exports increased faster than imports foreign trade deficit contracted. Moreover, the recovery in the economies of European Union also was reflected positively on Turkey's foreign trade performance. Tight monetary policy stance of CBRT and the measures taken by BRSB in order to slow down consumption expenditures continues to put downward pressure on domestic demand. Thus, foreign trade deficit is anticipated to continue to narrow in the coming period. In this context, net exports' contribution to growth is expected to continue throughout the rest of the year.

Current account deficit narrowed by 30.8% in the first quarter.

The narrowing of the current account deficit in recent months continued in March. In fact, the deficit decreased by 43.4% yoy to 3.2 billion USD in March in line with the market expectations. Imports started to decrease thanks to the CBRT's rate hike in the beginning of 2014 and BRSA's measures to slow down the growth in consumer loans. The continued economic recovery in the European Union helped exports to gain strength. In addition to this rebalancing in demand conditions, the gold trade, which widened the deficit in the first quarter of the previous year, also contributed the narrowing of the deficit in the first quarter of 2014 by giving surplus. Thus, the current account deficit narrowed by 30.8% yoy in the first quarter and was realized as 11.5 billion USD. The 12-month cumulative current account deficit declined to 60 billion USD, the lowest level observed since September 2013.

The rise in FDI was noteworthy.

Despite the low share of FDI in the financing of the current account deficit, the rate of increase in FDI during the first quarter of 2014 was noteworthy. The sustained increase in FDI despite the elevated uncertainties and tighter global financial conditions in the first quarter was evaluated as a quite positive development. In fact, net FDI inflows increased by 48.9% yoy in the first quarter. According to the 12-month cumulative figures, net FDI inflows reached 10.8 billion USD as of March 2014.

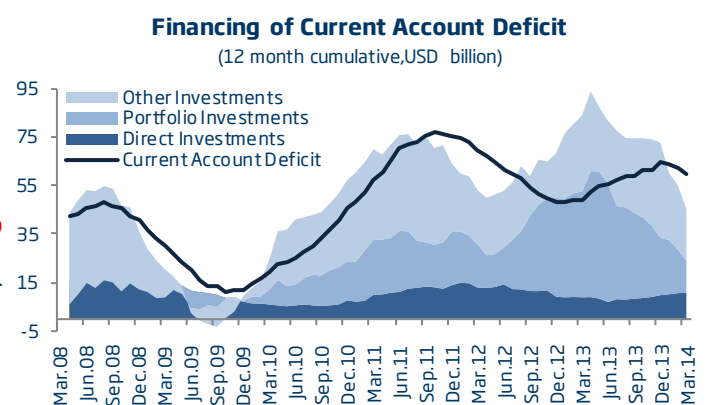
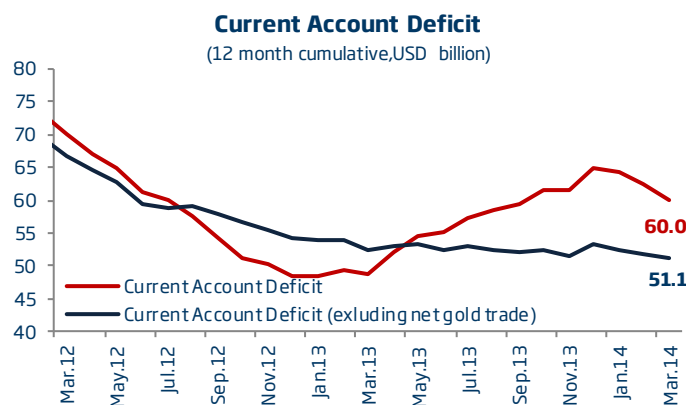
2.5 billion USD net capital outflow from portfolio investments...

Portfolio investments recorded capital outflow in March, as well as in February, as a result of the volatile course of risk perception towards emerging markets and the increased uncertainties in the domestic markets ahead of the local elections. The total net outflow from portfolio investments in the first quarter reached 2.5 billion USD, including the 1

billion USD outflow recorded in March. During the same period of the previous year, portfolio investments recorded 8.1 billion USD net capital inflow. Analyzing the details of the portfolio investments, the highest amount of capital outflow was recorded in government domestic debt securities. Non-residents' net sales in the said market reached 3 billion USD in the first quarter, including the 1.7 billion USD net sales in March. Opposed to the net sales in the debt securities market, non-residents' net equity securities purchases reached 811 million USD in March. Investors increased their interest in the equity market especially during the last week of March as they started to price in the outcome of the local elections positively. Non-residents' net purchases in the equity market were realized as 408 million USD in the first quarter.

Other investments...

141 million USD net capital inflow was recorded under the other investments account in March. In the first quarter, on the other hand, there was 713 million USD capital outflow in the said account. During the first quarter of the previous year, 17.2 billion USD inflow was recorded under other investments account. Analyzing the details of the other investments account, the loans raised from abroad decreased to 3.1 billion USD in the first quarter of 2014 from 7 billion USD in the same period of the previous year. This decline was mainly stemmed from the decrease in the short-term loans raised by the banking sector from abroad. On the other hand, regarding long-term loans raised from abroad, both the banking sector and non-banking sector did not face any difficulty despite the tighter global financial conditions and rising political uncertainties in domestic markets. In fact, in the first quarter, banks and other sectors raised long-term loans from abroad amounting to 1.4 billion USD and 1.9 billion USD, respectively. During the same period, banks' and other sectors' long-term debt rollover ratios were 175% and 139%, respectively.



2.4 billion USD of net outflow was recorded under the deposits account. During the same period of the previous year, there was 4.8 billion USD capital inflow under this account. This decline was mainly attributable to the fall in non-resident banks' deposits.

Reserve assets and net errors and omissions...

CBRT's reserve assets decreased by 700 million USD in March. The total decrease in the reserve assets reached 4.9 billion USD in the first quarter of the year. The high amount of capital inflow under the net errors and omissions account continued also in March. Total inflow under this account reached 6.6 billion USD in the first quarter, including the 2.4 billion USD inflow in March.

Expectations

The narrowing of the current account deficit gained speed as we have envisaged before. The impacts of the CBRT's interest rate hike in January and BRSA's measures to slow down the growth in consumer loans on domestic demand

have become more evident recently. In addition, the sustained increase in exports has also supported the narrowing of the current account deficit. We think that the current account deficit will continue to narrow in the coming months and the deficit to GDP ratio, which was 7.9% at the end of 2013, will decrease to around 5.5% as of end-2014.

Regarding the financing of the deficit, we anticipate that portfolio investments, which recorded significant amount of outflow in the first quarter due to the uncertainties in domestic markets and the volatility in international markets, will recover in the coming months.

Current Account Balance	(USD million)				
	March 2014	January-March 2013 2014		% Change	12 Month Cumulative
Current Account Balance	-3,194	-16,551	-11,460	-30.8	-59,970
Foreign Trade Balance	-3,318	-17,215	-11,987	-30.4	-74,788
Services Balance	1,179	2,447	2,676	9.4	23,353
Tourism Revenues (net)	1,108	2,780	2,767	-0.5	23,167
Income Balance	-1,147	-2,035	-2,314	13.7	-9,628
Current Transfers	92	252	165	-34.5	1,093
Capital and Financial Accounts	761	20,411	4,825	-76.4	47,233
Direct Investments (net)	965	2,109	3,141	48.9	10,786
Portfolio Investments (net)	-1,042	8,122	-2,467	-	13,120
Assets	-519	827	-263	-	1,529
Liabilities	-523	7,295	-2,204	-	11,591
Equity Securities	811	393	408	3.8	856
Debt Securities	-1,334	6,902	-2,612	-	10,735
Other Investments (net)	141	17,221	-713	-	21,425
Assets	-1,000	1,862	828	-55.5	1,328
Currency and Deposits	271	2,299	1,857	-19.2	4,121
Liabilities	1,141	15,359	-1,541	-	20,097
Trade Credits	-325	3,542	-2,282	-	-221
Loans	1,885	7,037	3,082	-56.2	18,956
Banking Sector	1,483	6,842	1,226	-82.1	15,958
Non-bank Sectors	511	543	2,125	291.3	3,789
Deposits	-457	4,773	-2,418	-	711
Foreign Banks	-226	3,963	-2,036	-	496
Foreign Exchange	-6	3,357	-1,371	-	1,646
Turkish Lira	-220	606	-665	-	-1,150
Non-residents	-97	1,048	-28	-	2,331
Reserve Assets (net)	696	-7,024	4,880	-	1,993
Net Errors and Omissions	2,433	-3,860	6,635	-	12,737

Source: CBRT

The central government budget posted a deficit of 2.7 billion TRY in April.

According to data announced by the Ministry of Finance, budget expenditures expanded by 23.1% yoy while increase in budget revenues was recorded as 11.7% yoy. The relatively weak performance of revenues stemmed from the loss of momentum in tax revenues due to the gradual slowdown in domestic demand. Thus, the central government budget posted a deficit of 2.7 billion TRY in April.

Central government budget, which posted a deficit of 0.3 billion TRY in the first four months of previous year, gave a deficit of 4.2 billion TRY in the same period of 2014. In this period, primary surplus decreased by 24.3%.

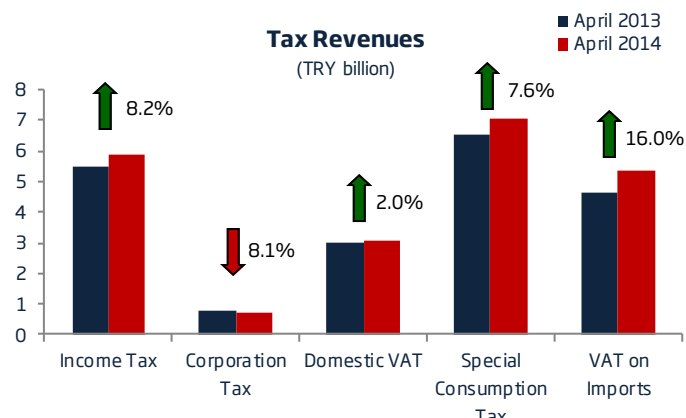
Relatively weak course in tax revenues...

In April, tax revenues increased by 7.2% yoy and have continued their flat course since February. During this period, the Value Added Tax (VAT) increased only by 2% yoy, indicating the ongoing slowdown in domestic demand. In April, revenues collected from Special Consumption Tax and VAT on Imports expanded by 7.6% and 16% yoy, respectively. Portfolio revenue of Treasury rose from 2.5 billion TRY in April 2013 to 3.6 billion TRY in April 2014, contributing positively to budget performance.

In the first four months of the year, tax revenues rose by 9.3% annually. In the same period, the increase in total revenues was realized as 11% yoy.

The rapid increase in budget expenditures also continued in April.

Budget expenditures kept their upward trend in April, following their surge in March. In fact, both interest expenditures and non-interest expenditures increased by around 20-25% in April. However, contribution of interest expenditures to the increase in total budget expenditures remained limited due to their low share in total



expenditures. Regarding non-interest expenditures, significant increase in the financing of the social security deficit monitored under the current transfers item was noteworthy. Lending to Public Economic Enterprises (PEE) contributed also to the increase in budget expenditures.

In January-April period, on the other hand, interest expenditures registered a limited decrease while non-interest expenditures increased by 17% yoy. Thus, the total budget expenditures enjoyed a higher growth rate than budget revenues in the first four months of the year.

Expectations...

In 2014, while gradual slowdown in domestic demand limited the increase in tax revenues, budget expenditures gained momentum especially in the last two months. However, a significant deterioration was not observed in budget performance and realizations are still in line with the year-end targets.

Central Government Budget

(TRY billion)

	April			January-April			% 2014 Budget		Real/Target (%)
	2013	2014	% Change	2013	2014	Change	Target		
Expenditures	29.9	36.8	23.1	124.9	142.6	14.1	436.4	32.7	
Interest Expenditures	3.1	3.8	24.8	18.2	17.8	-2.3	52.0	34.2	
Non-interest Expenditures	26.8	33.0	22.9	106.7	124.8	17.0	384.4	32.5	
Revenues	30.5	34.1	11.7	124.6	138.4	11.0	403.2	34.3	
Tax Revenues	24.1	25.9	7.2	101.5	111.0	9.3	348.4	31.9	
Other Revenues	6.4	8.2	29.0	23.2	27.4	18.4	54.8	50.0	
Budget Balance	0.6	-2.7	-	-0.3	-4.2	1303.3	-33.3	12.7	
Primary Balance	3.7	1.1	-69.5	17.9	13.6	-24.3	18.7	72.4	

Numbers may not add up to total due to rounding

Source: Finance Ministry

CPI inflation came in lower than expectations in May.

In May, CPI increased by 0.40% mom, while Domestic PPI (D-PPI) decreased by 0.52% mom. According to the Reuters' survey, monthly CPI was expected to rise by 0.50%. According to the CBRT's survey, markets' monthly CPI expectation was 0.63% in May.

The annual inflation in CPI reached 9.66%.

The annual increase in CPI which exhibited an upward trend during the last 6 months, was realized as 9.66% in May, the highest increase of the last 25 months. The ytd rise in CPI was 5.38%, the highest increase in any May in the last 6 years. On the other hand, the annual increase in D-PPI was realized as 11.28% due to the monthly decline.

In May, clothing and footwear together with food and non-alcoholic beverages prices were influential on the course of inflation.

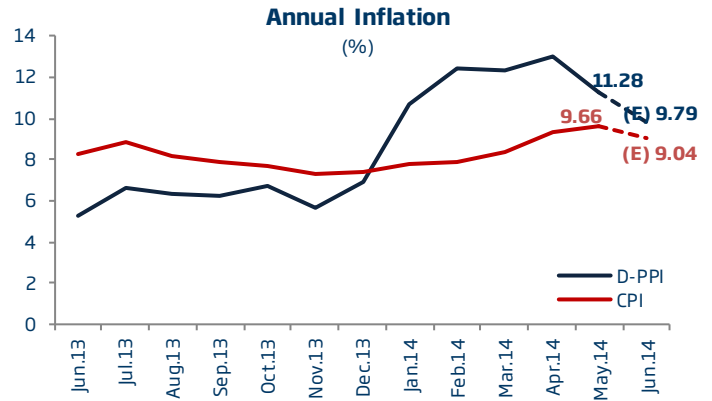
Analysis of the main expenditure groups in CPI showed that the rise in clothing and footwear prices together with the decline in food and non-alcoholic beverages prices were the main drivers of the inflation in May. Thus, the 9.19% mom increase in clothing and footwear prices in May made the highest contribution to the inflation by 61 basis points. On the other hand, the decrease in food and non-alcoholic beverages prices, which was recorded as 1.35%, lowered the monthly inflation by 31 basis points. The price developments in other sub-groups have a limited impact on the monthly inflation.

Annual inflation in H index remained at double-digit levels in May.

In May, seasonal factors were influential on the CPI increase. Indeed, monthly inflation was realized as 0.12% excluding seasonal products. On the other hand, developments in unprocessed food and energy prices limited the rise in inflation. Monthly inflation reaches 1.26% when the said sub-groups are excluded. The monthly increases in CBRT's favorite core indices denominated by H and I were realized at high levels as 1.40% and 1.50%, respectively. In this context, the annual inflation in those indices, following an upward trend for a fifth consecutive month, reached 10.16% and 9.77%, respectively.

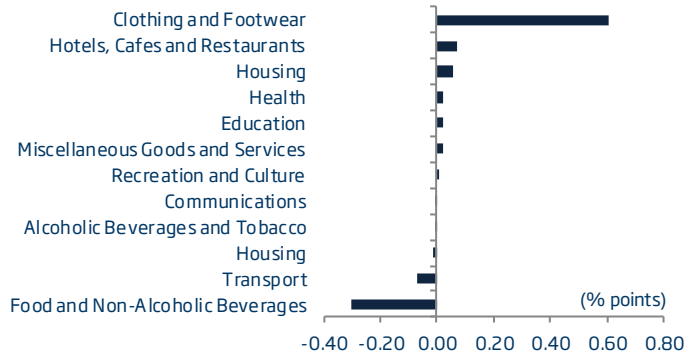
D-PPI fell in May.

In May, the fall in electricity and gas production and distribution prices was influential on the decrease of D-PPI. In the said sector, the prices decreased by 3.60% on a monthly basis and made 32 basis points decreasing impact on D-PPI. According to main industrial groupings classification, on the other hand, the only category registering an increase was nondurable consumer goods prices.

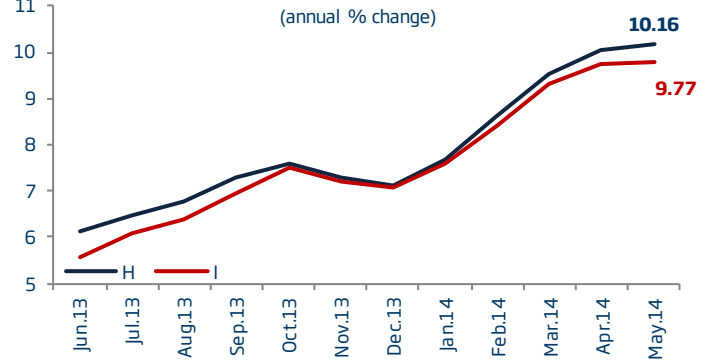


(E) Estimate

Contributions to the Monthly CPI by Subgroups



Special CPI Aggregates



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

Expectations...

In June, we expect that the seasonal factors affecting the clothing and footwear prices in recent months will have relatively little impact and the course of the food prices will continue to be effective on the CPI. In this context, we expect CPI and D-PPI to increase only by 0.2% and 0.1% mom, respectively.

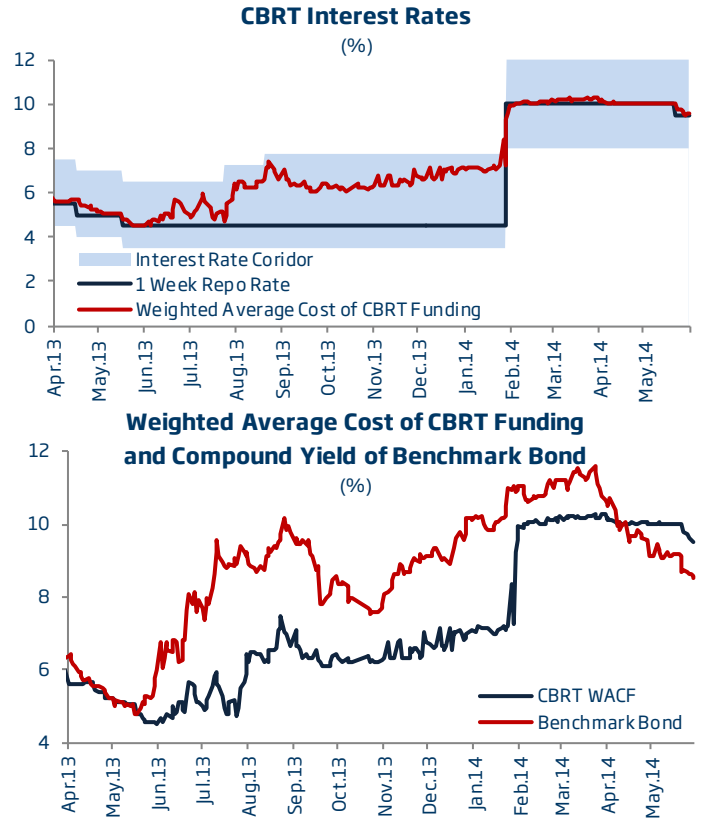
Source: Turkstat

CBRT cut the policy rate.

CBRT, which significantly tightened monetary policy at its interim meeting in January, cut the one-week repo rate by 50 basis points to 9.5% on May 22. On the other hand, O/N borrowing rate and O/N lending rate remained unchanged at 8% and 12%, respectively. The required reserve ratios and reserve option coefficients were also left unchanged.

CBRT stated that with the recent decline in uncertainties and improvement in the risk premium indicators, market interest rates have fallen across all maturities which allowed a decrease in the policy interest rate. On the other hand, CBRT stressed that inflation expectations, pricing behavior and other factors that affect inflation will be closely monitored and the tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.

CBRT pointed out that loan growth continued at reasonable levels in response to the tight monetary policy stance and macroprudential measures while private final domestic demand followed a modest course. In this context, CBRT expects that such a demand composition will support disinflation and will lead to a significant improvement in the current account deficit in 2014.



Deceleration in total deposits became evident.

According to BRSA's Weekly Bulletin, as of May 23, total deposit volume recorded a decrease of 0.5% ytd and was realized as 1,010 billion TRY. During the same period, while TRY deposits dropped by 3.5%, FX deposits in USD terms expanded by 7%. The annual growth in total deposits slowed from 24.2% at the end of 2013 to 17.6% as of May 23, the lowest rate registered in the last 10 months.

Annual loan growth fell below 25%.

As of May 23, total loan volume increased by 3.2% ytd and was realized as 1,098 billion TRY. Year to date increases were 4.3% in TRY loans and 3.2% in FX loans in USD terms. Annual increase in loan volume continued to lose momentum since the beginning of the year due to the measures taken by BRSA and CBRT. Thus, as of May 23, annual loan growth decreased to 24.3%, the lowest level since June 2013.

As of May 23, retail loans increased by 14% yoy, the lowest figure registered since February 2010. This development stemmed, in particular, from personal credit cards which registered an increase of only 0.5% yoy. On the other hand, commercial loans increased by 29.3% yoy as of May 23.

Securities portfolio...

On weekly basis, securities portfolio of the banking sector recorded a significant decrease and narrowed by 2% as of May 23. On the other hand, securities portfolio increased by 0.9% ytd as of May 23.

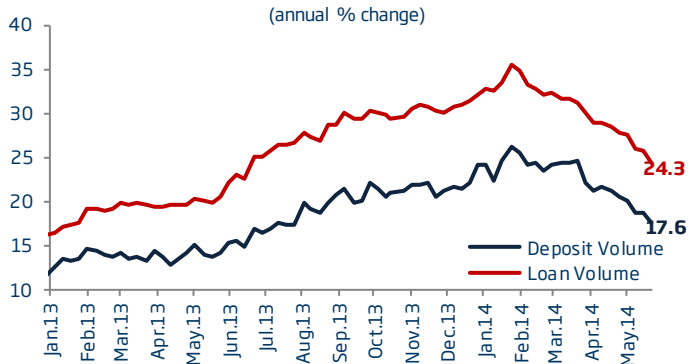
Securities held in custody accounts...

In nominal terms, securities held in custody accounts dropped by 0.1% ytd as of May 23. During this period, non-residents' portfolio decreased to 102 billion TRY while residents' portfolio increased to 105.4 billion TRY.

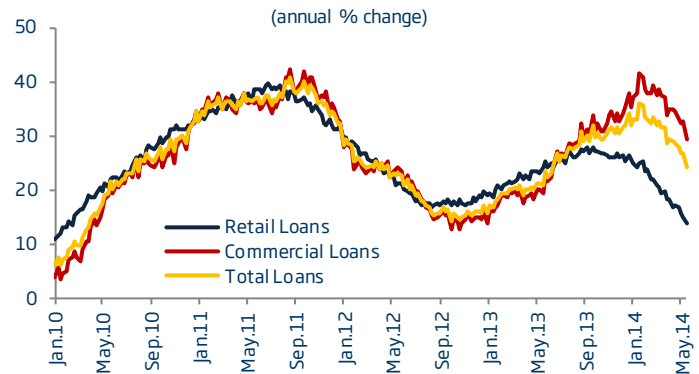
Net FX position...

As of May 23, banks' on-balance sheet FX position was (-) 44,796 million USD while off-balance sheet FX position was (+) 48,039 million USD. Hence, banks' net FX position was realized as (+) 3,243 million USD.

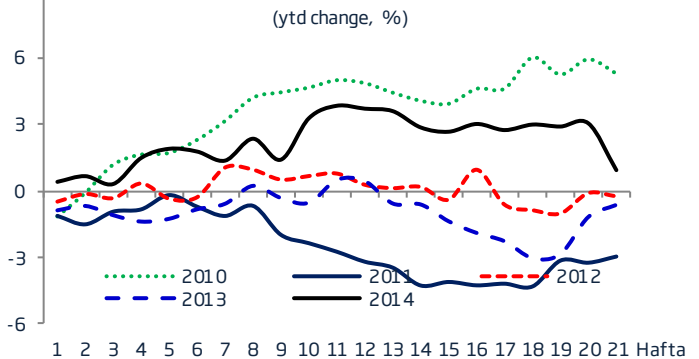
Total Loan and Deposit Volume



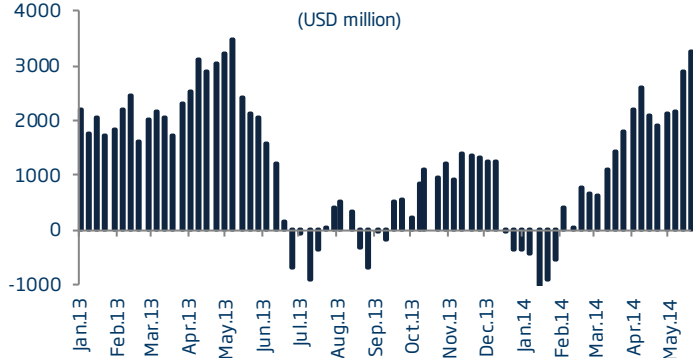
Credit Volume By Types



Securities



Net FX Position



Source: BRSA Weekly Bulletin

In 2014, global economy has continued to recover in parallel with the rebound in advanced economies. The recovery in advanced economies also supported emerging market economies through trade channel. On the other hand, steps taken by the Fed towards normalization of the monetary policy and the specific challenges facing emerging market economies led to a weak outlook for these countries. In fact, the recent signs of slowdown in Chinese economy and the negative assessments about its banking sector led China to be a major source of concern in global economy. However, taking into consideration that Fed will not raise policy rates earlier than predicted together with ECB and BoJ will maintain their accommodative monetary policy stance for a while, we expect that capital inflows toward emerging markets will continue in the coming period.

Owing to the diminished political uncertainty following the local elections, domestic markets experienced a quick upturn accompanied by increasing capital inflows towards Turkey. Also, rebalancing between the domestic and external demand continued with the help of the current measures aiming at curbing the domestic demand and the improvement in Euro Area economy, the main trading partner of Turkey. Along with these developments, we expect that foreign trade and current account deficits of Turkey will continue to narrow.

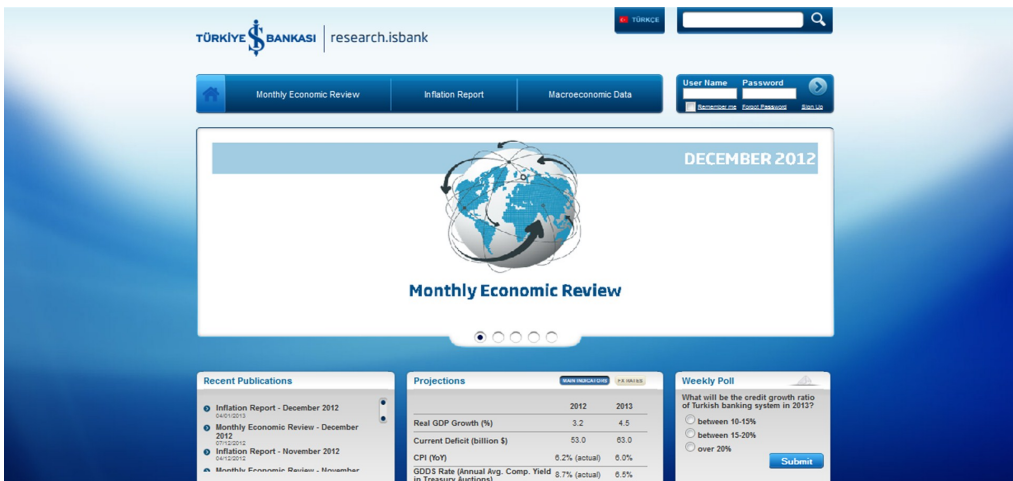
Forecasts	2013 (R)	2014
Growth (%)	4.0	3.0
CA Deficit/GDP (%)	7.9	5.5
Inflation (%)	7.4	8.5
GDDI Interest* (%)	7.7	11.0

(*) Annual compound average interest rate in treasury auctions

(R) Realization

Interest and inflation are year-end forecasts

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



Recent Publications

- Inflation Report - December 2012 (04/01/2013)
- Monthly Economic Review - December 2012 (03/20/12)
- Inflation Report - November 2012 (04/02/12)
- Monthly Economic Review - November (04/02/12)

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)	6.7% (actual)	6.5%

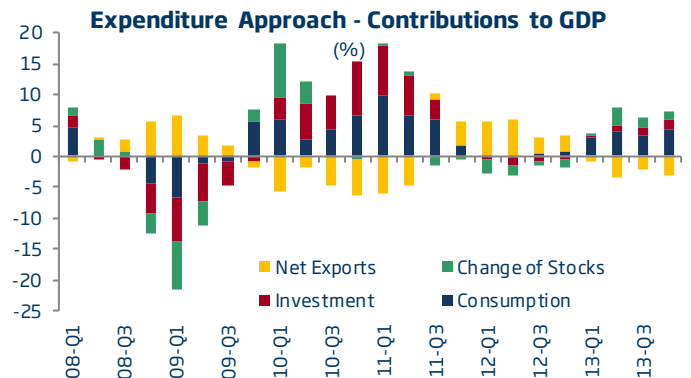
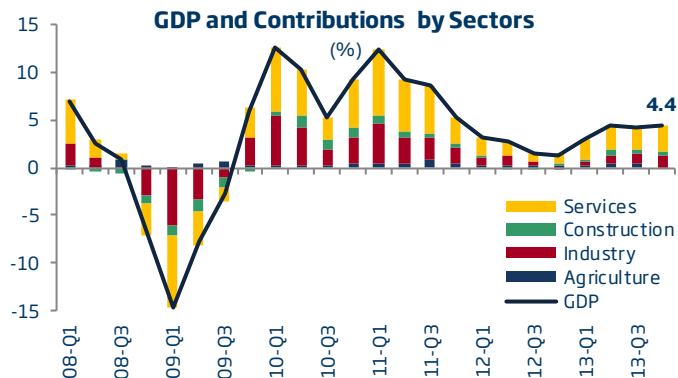
Weekly Poll

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

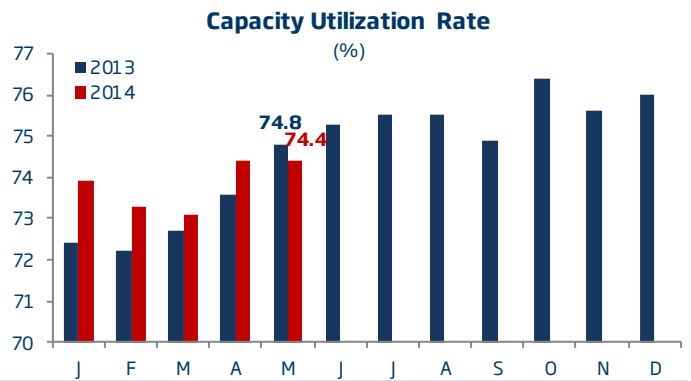
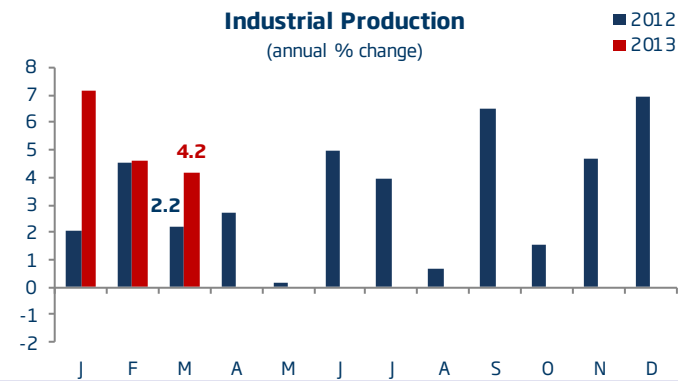
between 10-15%
 between 15-20%
 over 20%

Submit

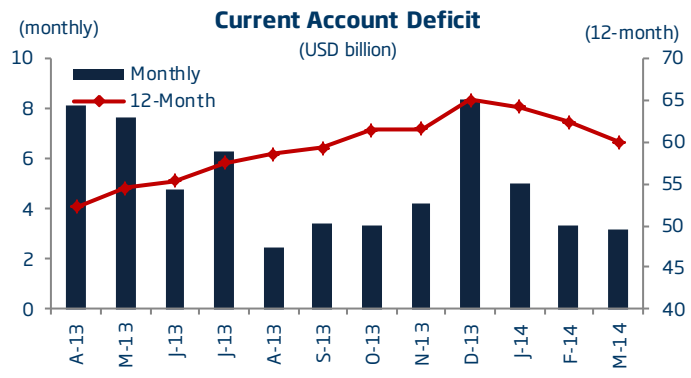
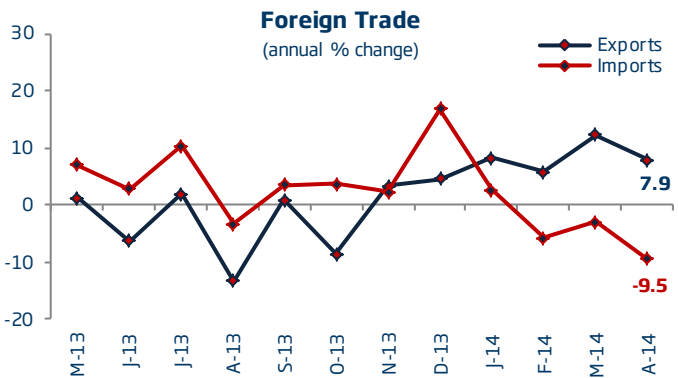
Growth



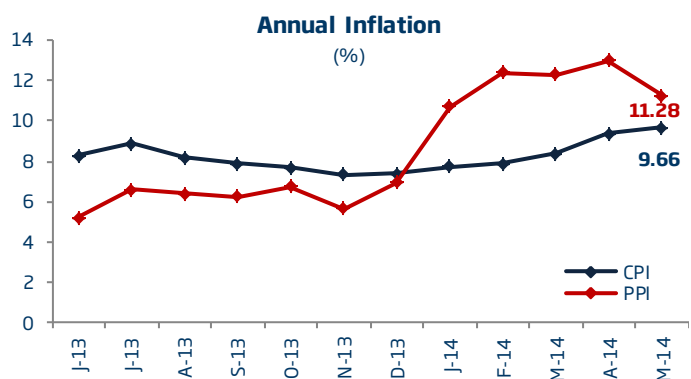
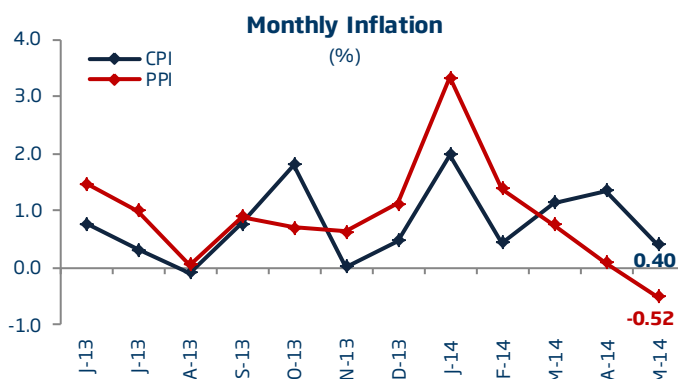
Industrial Production



Foreign Trade and Current Account Balance



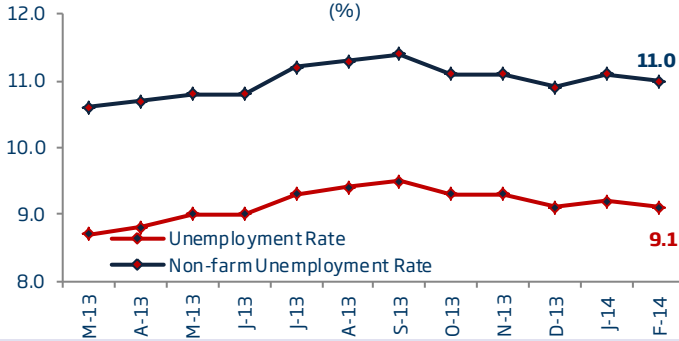
Inflation



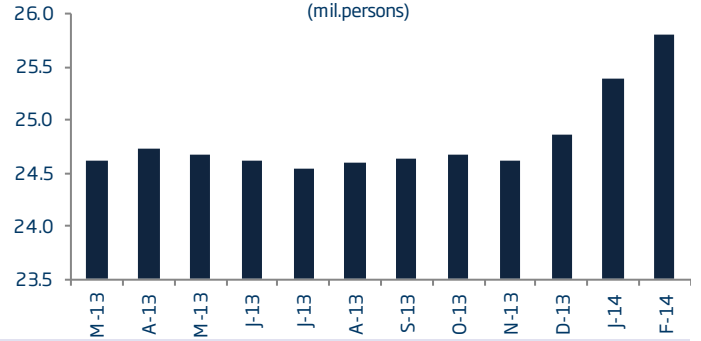
Source: Turkstat, CBRT

Labor Market

Seasonally Adjusted Unemployment Rates (%)

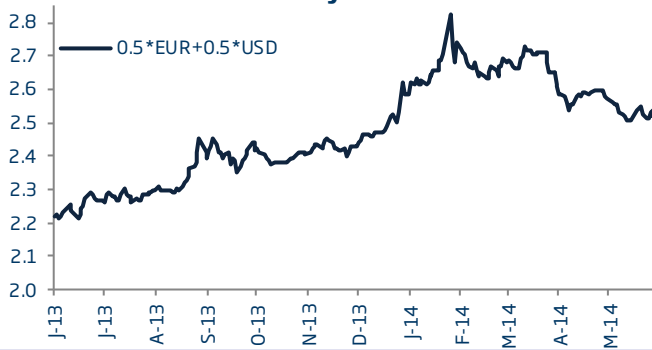


Seasonally Adjusted Employment (mil.persons)

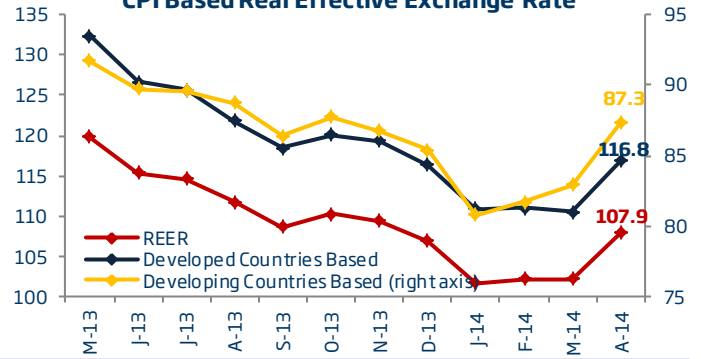


FX Market

Currency Basket

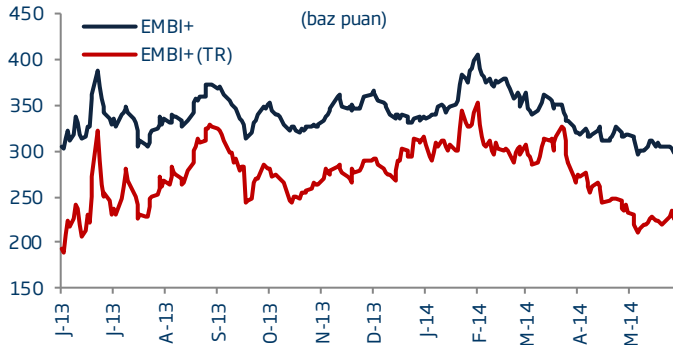


CPI Based Real Effective Exchange Rate

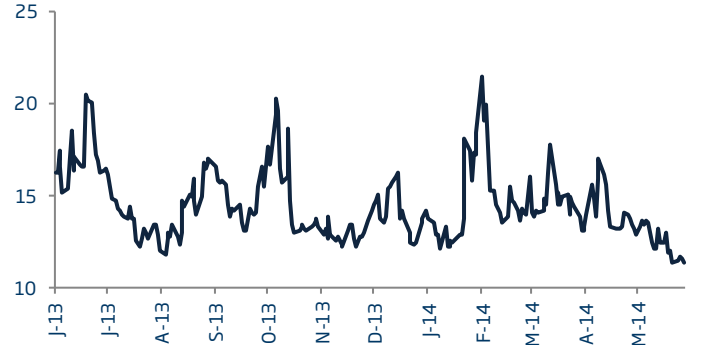


Risk Indicators

Risk Premiums (baz puan)

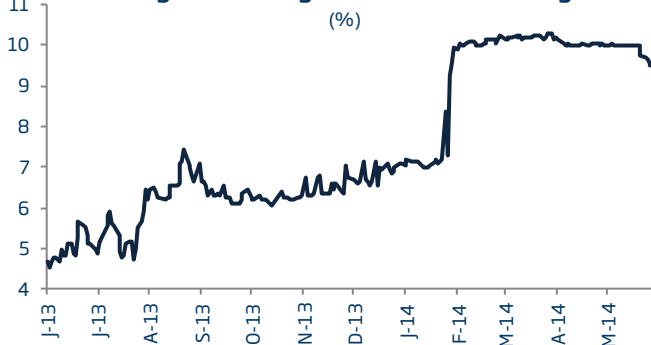


VIX

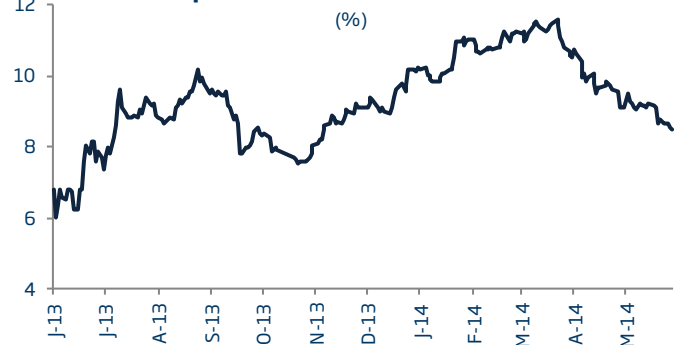


Interest Rates

Weighted Average Cost of CBRT Funding (%)

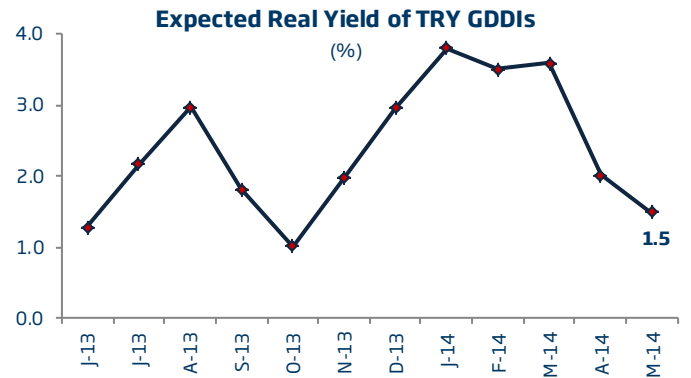
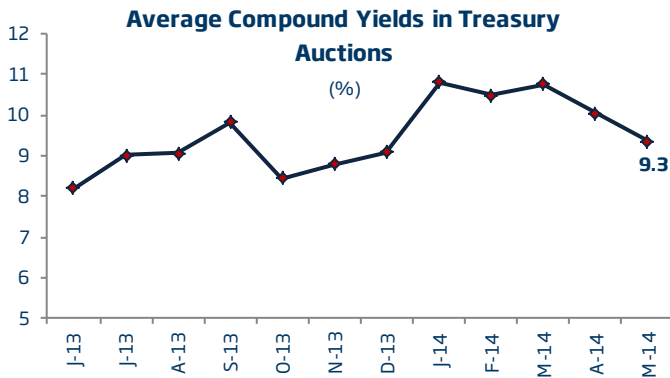


Compound Yield of Benchmark Bond (%)

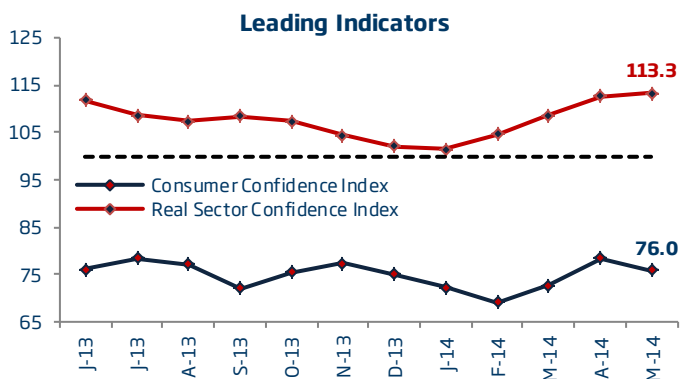
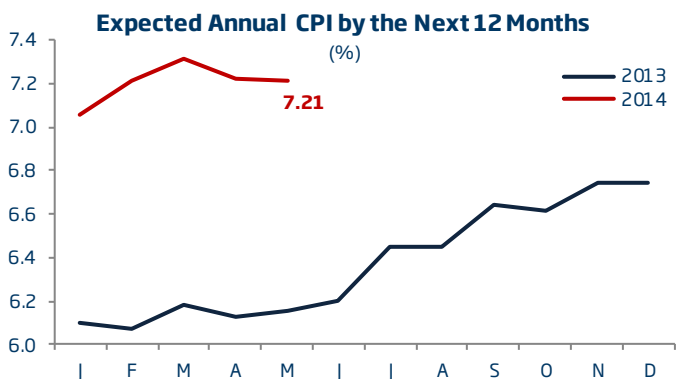
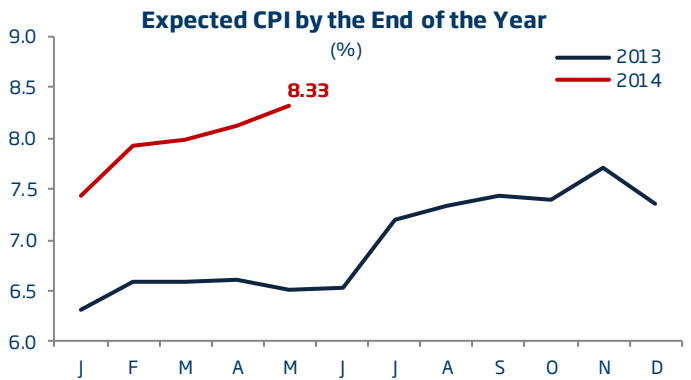
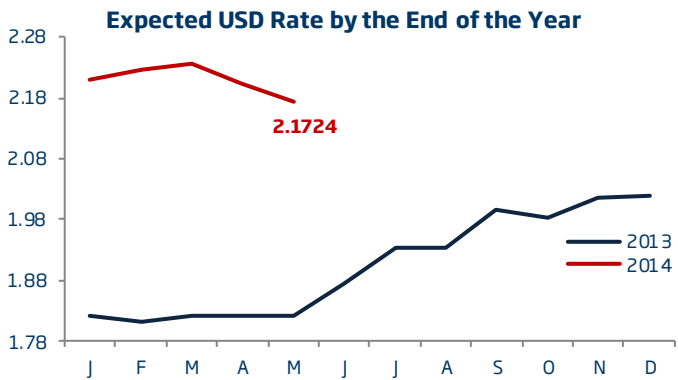
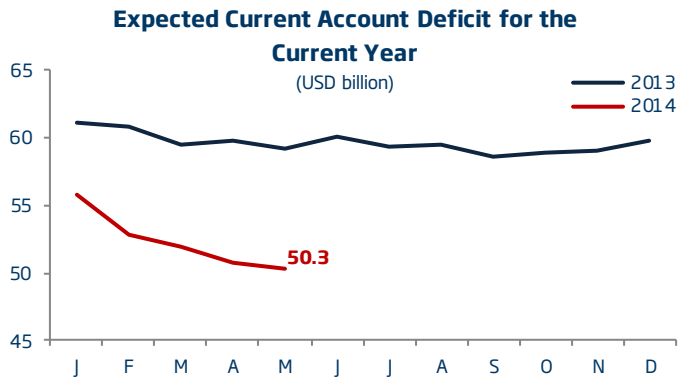
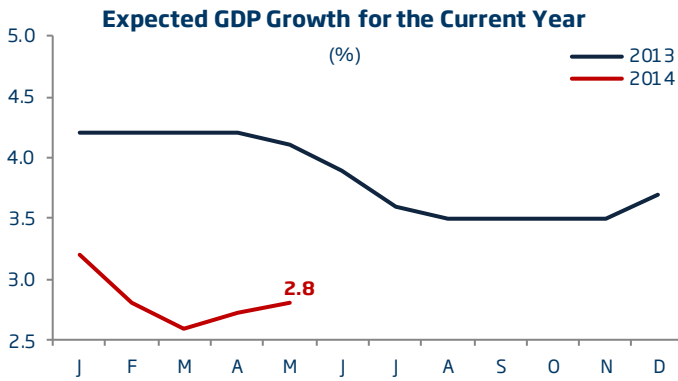


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

Bond-Bill Market



Survey of Expectations and Other Leading Indicators



Source: Treasury, BIST, CBRT, Economic Research Division

Turkish Economy at a Glance

Growth	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 (%)						Mar-14	Apr-14	May-14
CPI (annual)	6.5	6.4	10.4	6.2	7.4	8.4	9.4	9.7
PPI (annual)	5.9	8.9	13.3	2.5	7.0	12.3	13.0	11.3
Seasonally Adjusted Labor Market Figures						Jan-14	Feb-14	
Unemployment Rate (%)	11.9	10.0	8.5	8.8	9.1		9.2	9.1
Employment (thousand persons)	21,413	22,631	23,506	24,500	24,853		25,393	25,811
FX Rates						Mar-14	Apr-14	May-14
CPI Based Real Effective Exchange Rate	116.8	125.7	109.5	118.2	107.0	102.3	107.9	
USD/TRY	1.5057	1.5460	1.9065	1.7826	2.1343	2.1898	2.1180	2.0922
EUR/TRY	2.1603	2.0491	2.4592	2.3517	2.9365	3.0072	2.9350	2.8476
Currency Basket (0.5*EUR+0.5*USD)	1.8330	1.7976	2.1829	2.0672	2.5354	2.5985	2.5265	2.4699
Foreign Trade Balance⁽¹⁾ (USD billion)						Feb-14	Mar-14	Apr-14
Exports	102.1	113.9	134.9	152.5	151.8	153.4	155.0	156.0
Imports	140.9	185.5	240.8	236.5	251.6	251.0	250.4	248.2
Foreign Trade Balance	-38.8	-71.7	-105.9	-84.1	-99.8	-97.6	-95.3	-92.2
Import Coverage Ratio (%)	72.5	61.4	56.0	64.5	60.3	61.1	61.9	62.9
Current Account Balance⁽¹⁾ (USD billion)						Jan-14	Feb-14	Mar-14
Current Account Balance	-12.2	-45.4	-75.1	-48.5	-65.1	-64.2	-62.4	-60.0
Capital and Financial Accounts	9.3	44.0	65.7	47.3	62.8	59.7	54.0	47.2
Direct Investments (net)	7.1	7.6	13.7	8.9	9.8	10.1	10.6	10.8
Portfolio Investments (net)	0.2	16.1	22.0	40.8	23.7	22.4	18.0	13.1
Other Investments (net)	2.1	33.2	28.2	18.4	39.4	27.7	26.6	21.4
Reserve Assets (net)	-0.1	-12.8	1.8	-20.8	-9.9	-0.4	-1.2	2.0
Net Errors and Omissions	2.9	1.4	9.4	1.2	2.2	4.5	8.4	12.7
Current Account Deficit/GDP	-2.0	-6.2	-9.7	-6.2	-7.9	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Feb-14	Mar-14	Apr-14
Expenditures	268.2	294.4	314.6	360.5	407.9	68.8	105.8	142.6
Interest Expenditures	53.2	48.3	42.2	48.4	50.0	8.3	14.0	17.8
Non-interest Expenditures	215.0	246.1	272.4	312.1	357.9	60.4	91.8	124.8
Revenues	215.5	254.3	296.8	331.7	389.4	72.3	104.3	138.4
Tax Revenues	172.4	210.6	253.8	278.8	326.1	62.2	85.1	111.0
Budget Balance	-52.8	-40.1	-17.8	-29.4	-18.4	3.6	-1.5	-4.2
Primary Balance	0.4	8.2	24.4	19.6	31.5	11.9	12.5	13.6
Budget Balance/GDP	-5.5	-3.6	-1.4	-2.1	-1.2	-	-	-
Central Government Debt Stock (TRY billion)						Feb-14	Mar-14	Apr-14
Domestic Debt Stock	330.0	352.8	368.8	386.5	403.0	407.1	409.0	409.4
External Debt Stock	111.5	120.7	149.6	145.7	182.8	193.0	189.3	185.9
Total	441.5	473.6	518.4	532.2	585.8	600.1	598.3	595.3

(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	Feb-14	Mar-14	Change ⁽¹⁾
TOTAL ASSETS	834.0	1006.7	1217.7	1370.7	1732.4	1789.8	1797.3	3.7
Loans	392.6	525.9	682.9	794.8	1047.4	1078.2	1082.9	3.4
TRY Loans	288.2	383.8	484.8	588.4	752.7	769.8	780.4	3.7
Share (%)	73.4	73.0	71.0	74.0	71.9	71.4	72.1	-
FX Loans	104.4	142.1	198.1	206.4	294.7	308.4	302.5	2.6
Share (%)	26.6	27.0	29.0	26.0	28.1	28.6	27.9	-
Non-performing Loans	21.9	20.0	19.0	23.4	29.6	30.9	31.3	5.8
Non-performing Loan Rate (%)	5.3	3.7	2.7	2.9	2.8	2.8	2.8	-
Securities	262.9	287.9	285.0	270.0	286.7	291.1	296.6	3.4
TOTAL LIABILITIES	834.0	1006.7	1217.7	1370.7	1732.4	1789.8	1797.3	3.7
Deposits	514.6	617.0	695.5	772.2	945.8	962.8	959.5	1.4
TRY Deposits	341.4	433.5	460.0	520.4	594.1	578.3	577.7	-2.8
Share (%)	66.3	70.3	66.1	67.4	62.8	60.1	60.2	-
FX Deposits	173.2	183.5	235.5	251.8	351.7	384.6	381.8	8.5
Share (%)	33.7	29.7	33.9	32.6	37.2	39.9	39.8	-
Securities Issued	0.1	3.1	18.4	37.9	60.6	61.9	61.6	1.8
Payables to Banks	86.1	122.4	167.4	173.4	254.2	261.2	257.9	1.5
Funds from Repo Transactions	60.7	57.5	97.0	79.9	119.1	131.4	139.6	17.2
TOTAL SHAREHOLDERS' EQUITY	110.9	134.5	144.6	181.9	193.7	198.1	202.0	4.3
Profit (Loss) of the Period	20.2	22.1	19.8	23.5	24.7	3.2	5.8	-
RATIOS (%)								
Loans/Assets	47.1	52.2	56.1	58.0	60.5	60.2	60.2	-
Securities/Assets	31.5	28.6	23.4	19.7	16.6	16.3	16.5	-
Deposits/Liabilities	61.7	61.3	57.1	56.3	54.6	53.8	53.4	-
Deposits/Loans	131.1	117.3	101.8	97.2	90.3	89.3	88.6	-
Capital Adequacy (%)	20.6	19.0	16.6	17.9	15.3	15.5	15.7	-

(1) Year-to-date % change



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