



Monthly Economic Review August 2014



Global Economy

- ◆ In July, developments in both Israel and Ukraine were followed closely by global markets. Global risk perception deteriorated due to the economic sanctions adopted by the US and European Union against Russia. At the end of the month, raising concerns regarding Argentina's default increased risk indicators further.
- ◆ In the latest issue of World Economic Outlook Report published in July, IMF lowered its global economic growth forecast for 2014 by 0.3 percentage point to 3.4%.
- ◆ After having recorded a weak performance in the first quarter of the year, the US economy grew by 4% yoy in the second quarter of 2014, well above the market expectations.
- ◆ According to the latest Federal Open Market Committee (FOMC) meeting statement, Federal Reserve (Fed) indicated that despite the improvements in labor markets, there remained a significant underutilization of labor resources.
- ◆ In May, industrial production in Euro Area registered the biggest monthly fall of the last 20 months.
- ◆ Annual consumer price inflation was realized as 0.4% in July in Euro Area. Having declined to the lowest level since October 2009, the inflation figures increased concerns about the economic outlook for the region.
- ◆ Chinese economy expanded by 7.5% on an annual basis in the second quarter, slightly above the expectations. July PMI figures also gave positive signs about economic activity.

Turkish Economy

- ◆ After having displayed a better than expected performance in the first four months of the year, calendar adjusted industrial production increased by 3.3% yoy in May, lower than market expectations.
- ◆ According to seasonally adjusted figures, real sector confidence index and capacity utilization rate deteriorated in July. Having declined to 48.5 in July, manufacturing PMI remained below the threshold for the second consecutive month and indicated a contraction in production.
- ◆ Foreign trade deficit for June 2014 came in above the market expectations owing to the tensions in Iraq which put a downturn pressure on exports.
- ◆ Current account deficit came in lower than the market expectations at 3.4 billion USD and continued to narrow in May. In the first five months of 2014, the cumulative current account deficit decreased from 32.3 billion USD in the same period of the previous year to 19.8 billion USD (-38.5% yoy).
- ◆ After having exhibited an upward trend in the first five months of the year, annual CPI inflation decreased to some extent in June thanks to the base effect. However, annual CPI inflation gained momentum again and was realized as 9.32% in July. Annual Domestic PPI (D-PPI) inflation, on the other hand, eased for a third straight month due to the base effect and was realized as 9.46% in July.
- ◆ At its meeting held on July 17, CBRT cut the one-week repo rate (policy rate) by 50 basis points to 8.25% in parallel with the market expectations. With this move, the cumulative rate cuts made by the CBRT in the last three months reached 175 basis points. In addition, CBRT also cut the lower band of the interest rate corridor from 8% to 7.5%.

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Market expectations of further CBRT rate cuts were influential on domestic markets.

The expectation of further CBRT rate-cut at its July meeting had a favorable effect on domestic markets in the first half of the month. Despite the emergence of problems in Portugal's second largest bank as well as elevated geopolitical risks due to the developments in both Ukraine and Gaza, there had been no material reduction in risk appetite in domestic markets in July. The fears over oil supply disruptions from Iraq and Libya diminished to some extent, which in turn also supported the favorable outlook in domestic markets.

Risk premiums declined in July.

Following a flat course in the first half of July, risk premium of Turkish eurobonds declined after CBRT's interest rate cut decision. Risk premium of Turkish eurobonds was realized as 213 basis points as of July 31.

USD/TRY followed a volatile course in the second half of July.

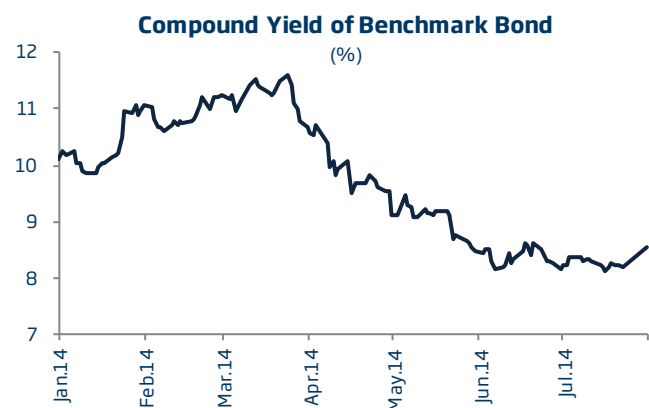
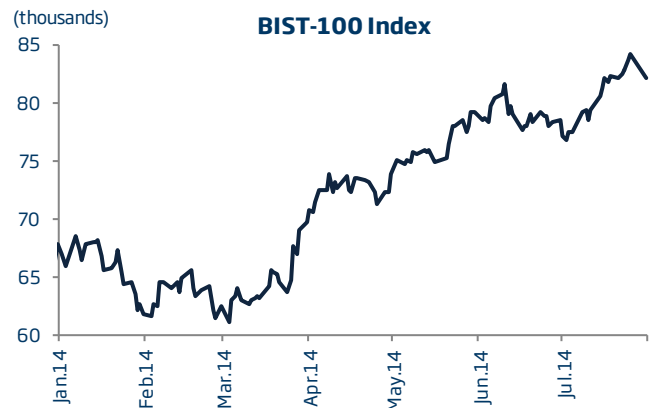
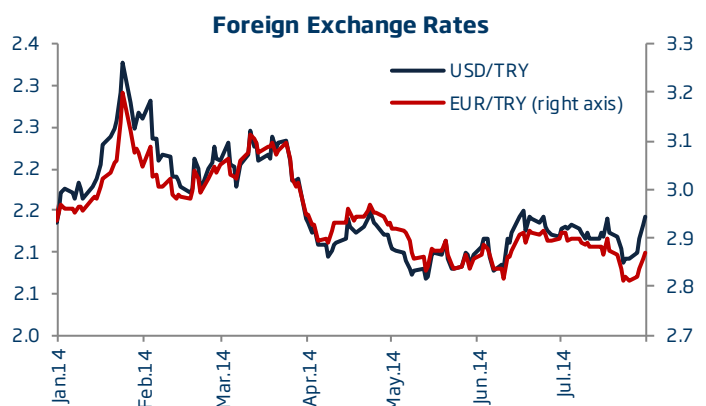
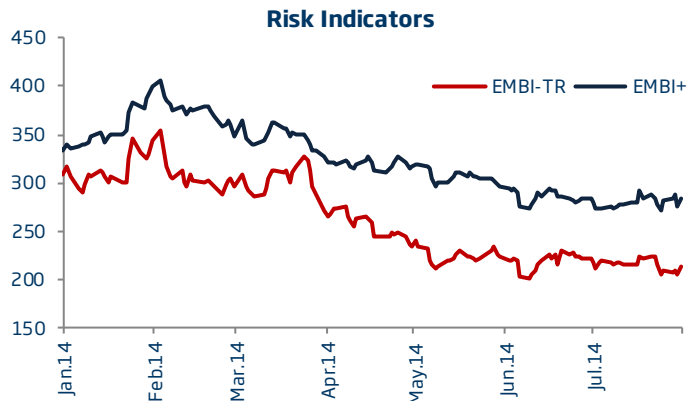
After having followed a flat course in the first half of July, USD/TRY declined due to the increased risk appetite arising from CBRT's interest rate cut decision on July, 17 and decreased to as low as 2.0830 as of July 23. However, at the end of July, the stronger than expected second-quarter growth data in the U.S. raised concerns regarding an earlier than expected interest rate cut. Owing to this development, USD/TRY increased again and was realized as 2.1411 as of July 31. EUR/TRY, on the other hand, was 2.8687 at the end of July.

BIST-100 index rose by 4.7% in July.

Despite the escalated geopolitical risks in the nearby regions of Turkey, the expectations for rate cuts by CBRT supported the stock market in the first half of July. BIST-100 index exceeded 84,000 level led by the banking sector stocks due to the CBRT's interest rate cut decision. As of July 31, BIST-100 index gained 4.7% on a monthly basis.

Benchmark interest rate decreased.

Benchmark bond yield followed a downward trend in the first half of July thanks to the expectations for rate-cut. Borrowing costs in debt auctions held by Treasury in mid-July came in below market expectations and in turn supported the downward trend in yields. After having declined to as low as 8.11%, benchmark bond yield rose to 8.55% at the end of month due to the increased global risk perception stemming from concerns about Argentina.



Source: JP Morgan, Reuters, BIST

Lower than expected increase in industrial production in May.

After having displayed a better than expected performance in the first four months of the year, calendar adjusted industrial production increased by 3.3% yoy in May, lower than market expectations. The seasonal and calendar adjusted industrial production index decreased by 1% mom.

Among the main industry groups, the highest monthly decline was registered in capital goods production in May (according to the seasonal and calendar adjusted index). The decrease in energy and durable goods production in the same period was also noteworthy.

According to Markit, having declined to 48.5 in July, manufacturing PMI remained below the threshold for the second consecutive month and indicated a contraction in production. This development was mainly stemmed from the decline in new orders.

Confidence indices...

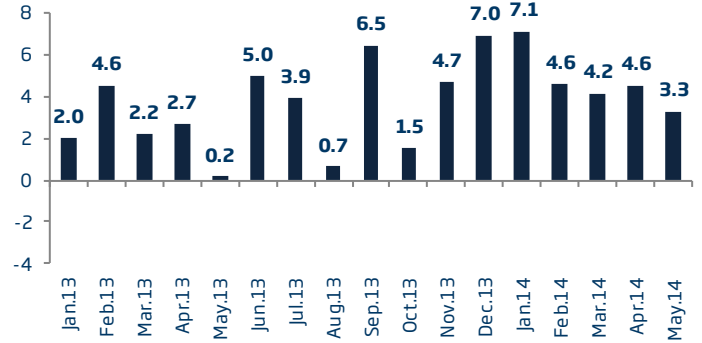
Real Sector Confidence Index increased by 0.3 point yoy in July and was realized as 109. The seasonally adjusted index, on the other hand, decreased by 0.8 point mom. The seasonally adjusted Capacity Utilization Rate also decreased by 0.4 point mom in July and was realized as 74.3%.

According to Turkstat, Consumer Confidence Index rose to 73.9 after declining for two consecutive months. Analyzing the sub-indices, it was noteworthy that the downward trend in consumers' possibility of buying a home over the next 12 months maintained.

Unemployment rate was at 9%.

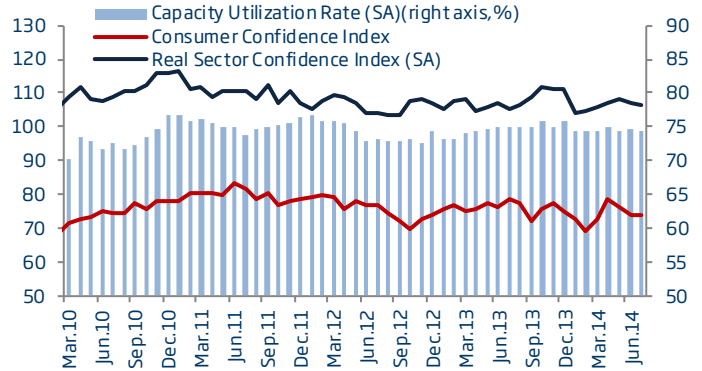
According to the Household Labor Force Survey, the unemployment rate increased to 9% in April 2014 from 8.7% in the same month of previous year. The non-agricultural unemployment and youth unemployment rates were realized as 10.8% and 15.5%, respectively. According to the seasonally adjusted figures, the unemployment rate stayed flat and was realized as 9.1%. It was also noteworthy that the labor force participation rate and employment rate reached 50.7% and 46.1% in April, respectively, the highest level in the post-2005 period.

Industrial Production Index*
(annual % change)

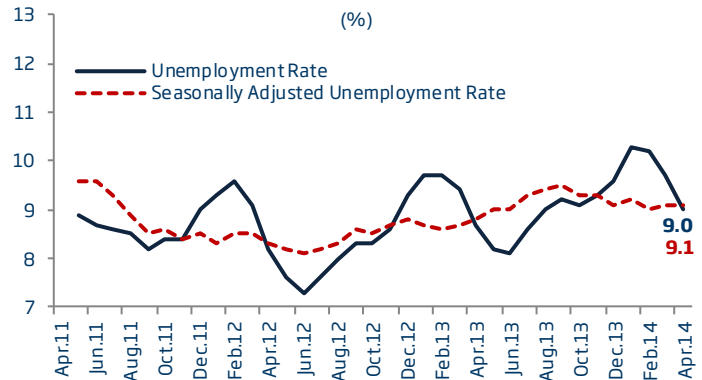


(* Calendar adjusted.

Leading Indicators



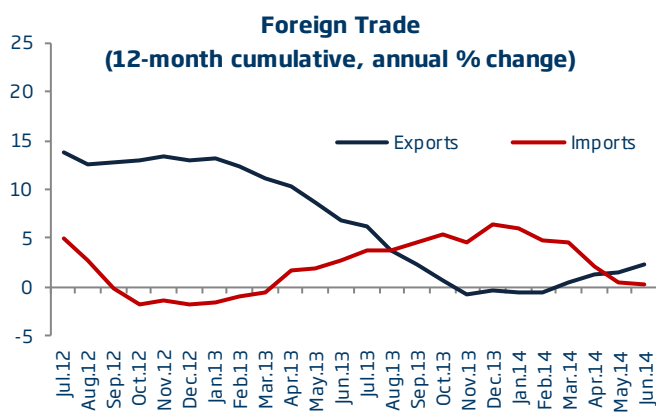
Unemployment Rate



Source: Turkstat, CBRT

Exports continued to positively affect foreign trade balance.

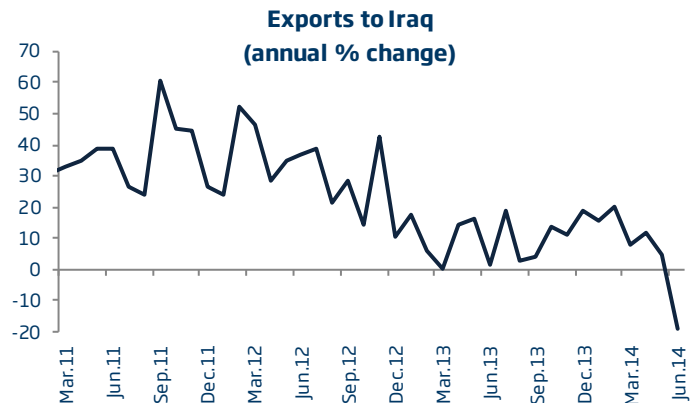
In June, exports increased by 4.2% yoy while imports decreased by 1.1% yoy. Export and import volumes were recorded as 12.9 billion USD and 20.8 billion USD, respectively. Thus, trade deficit was realized as 7.9 billion USD. Foreign trade deficit came in above the market expectations of 7.1 billion USD owing to the tensions in Iraq which put a downturn pressure on exports. Nevertheless, foreign trade deficit narrowed by 8.8% yoy in June with the help of the continued favorable trend in total exports. In this period, the import coverage ratio increased by 3.2 points yoy and reached 62.2%.



In the first six months of the year, the increase in exports due to the weak course of TRY compared to the previous year and the decline in imports stemming from mild domestic demand conditions significantly led foreign trade deficit to narrow. Indeed, in this period foreign trade deficit contracted by 21.9% yoy.

Exports to Iraq decreased by 19.3% yoy.

Following the occupation of Mosul by Islamic State (ID) militants in June, the conflicts disrupted Turkey's exports to Iraq which had been the second biggest export market. Exports to Iraq fell by 19.3% yoy to 745 million USD in June 2014 from 924 million USD in June 2013. As a result, Iraq ranked third in exports following Germany and UK in June. Contrary to the ongoing problems in Iraq, Turkey's total exports kept its upward trend.



Regarding Turkey's provinces, almost all of Şırnak's exports destined to Iraq in 2013, exports of Şırnak nearly halved in June. With a similar export composition, Mardin's exports to Iraq decreased by 13% yoy. Almost half of their exports were destined for Iraq, exports of Bolu and Diyarbakır to Iraq dropped by 34% and 14%, respectively while exports of Şanlıurfa remained flat in June.

The share of EU countries in total exports increased.

The decline in exports to Iraq due to the turmoil in the country and the recovery in European Union (EU) economies led the composition of Turkey's exports by country groups to change in favor of the EU countries. In this context, the share of EU countries in Turkey's total exports increased to 46% in June 2014 from 41.8% in the same month of previous year. In this period, the share of Near and Middle Eastern countries in total exports decreased by 3.5 points to 20.7%.

Expectations...

Recent problems in Iraq raised questions about their impacts on Turkey's overall export performance. Despite a significant drop was recorded in exports to Iraq in June, Turkey's total exports continued to increase. Recently, tensions in Iraq eased to some extent and in turn supported the favorable expectations for the coming period. In addition, the anticipated further recovery in EU countries is expected to contribute positively to Turkey's foreign trade performance.

Foreign Trade Balance	(USD billion)					
	June		Change (%)	January-June		Change (%)
	2013	2014		2013	2014	
Exports	12.4	12.9	4.2	75.1	80.2	6.7
Imports	21.0	20.8	-1.1	125.8	119.7	-4.8
Foreign Trade Balance	-8.6	-7.9	-8.8	-50.7	-39.6	-21.9
Import Coverage Ratio (%)	59.0	62.2	-	59.7	67.0	-

Source: Turkstat

Current account deficit narrowed by 38.5% yoy in the first five months of the year.

Current account deficit came in lower than the market expectations at 3.4 billion USD and continued to narrow in May. In the first five months of 2014, the cumulative current account deficit decreased from 32.3 billion USD in the same period of the previous year to 19.8 billion USD (-38.5% yoy). The deceleration in domestic consumption expenditures and the sustained increase in exports played role in the contraction of the current account deficit. In fact, foreign trade deficit (calculated according to the balance of payments methodology) narrowed by 32.4% yoy in the first five months of the year. In addition, 11.8% yoy increase in the services balance surplus also supported the improvement in the current account deficit. The 12-month cumulative current account deficit declined to 52.6 billion USD, the lowest level observed since April 2013.

Foreign direct investment inflows in the first five months of the year reached 5.7 billion USD.

Despite the fluctuations in domestic markets during the first five months of the year, non-residents' direct investments in Turkey increased by 25.2% yoy and reached 5.7 billion USD. In the same period, residents' direct investments abroad also increased by 51.7% yoy to 1.9 billion USD. Thus, the increase in net foreign direct investments was realized 15.3%.

Inflow in portfolio investments

After having registered significant capital outflow in the first quarter of the year 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, portfolio investments recorded 4.2 billion USD inflow in April with the removal of the elections uncertainty. Non-residents' interest in Turkish assets also continued in May and portfolio investments inflows amounted to 1.4 billion USD. Thus, net portfolio

investments reached 3.1 billion USD in the first five months of the year. Besides, benefiting from the decline in domestic uncertainties and the positive sentiment towards emerging markets, the banking sector increased bond issues in international markets. As regards to the bond issues in international capital markets, banks borrowed net 895 million USD from international markets via bond issues in May bringing the net borrowings in the first five months of the year to 3.1 billion USD.

Other investments

Capital inflow recorded under the other investment account was 3.1 billion USD in May. It was noteworthy that both the banking sector and non-bank sectors did not face any difficulty regarding raising long-term loans from abroad. In fact, long-term loans raised from abroad in the first five months of 2014 by banks and non-bank sectors amounted to 2.3 billion USD and 4 billion USD, respectively. During the same period, banks' and other sectors' long-term debt roll-over ratios were 167% and 143%, respectively.

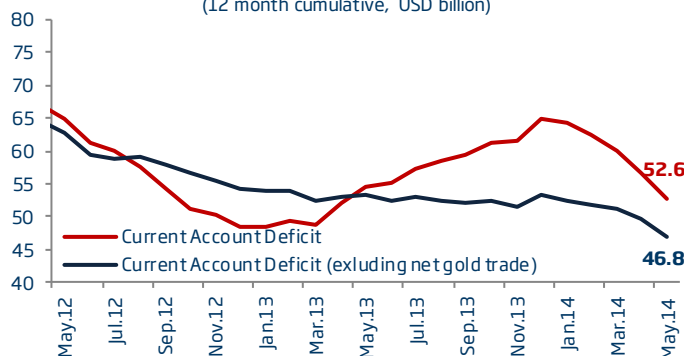
Increase in reserve assets

The high amount of capital inflow recorded under portfolio investments and other investments enabled the CBRT to increase its reserve assets by 1.9 billion USD in May. The net errors and omissions account recorded 948 million USD inflow in May bringing the net inflow under this account to 6.7 billion USD in the first five months of the year.

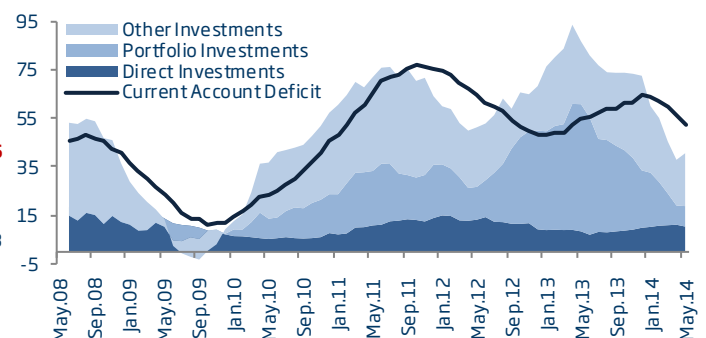
Expectations

The narrowing in the current account deficit continued in May. The slowdown in domestic consumption expenditures and the sustained increase in exports have been supporting the improvement in 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. On the other hand, recent developments in Iraq, Turkey's second largest export market, raised concerns

Current Account Deficit
(12 month cumulative, USD billion)



Financing of Current Account Deficit
(12 month cumulative, USD billion)



Source:CBRT

about the future of Turkey's exports to Iraq and to neighbouring countries over Iraq. Although the developments in Iraq have the potential to negatively affect Turkey's export performance and limit the improvement in the current account deficit, the fact that Turkey's trade with Iraq is generally concentrated in the country's north part, which is relatively less affected from clashes than central Iraq, eases the short-term concerns. Another concern raised by the developments in Iraq is a possible surge in oil prices which might put further pressure on Turkey's current account deficit. However, until now there was not any significant impact on oil prices.

Regarding the financing of the deficit, the negative outlook that was observed in the first quarter has disappeared to a large extent in April and May. Portfolio investments were very strong while banks and non-banks sector continued to borrow from abroad without facing a major problem. We think that there will not be any long-lasting difficulty in the financing of the current account deficit.

	(USD million)				
	May 2014	January-May 2013 2014		% Change	12 Month Cumulative
Current Account Balance	-3,434	-32,268	-19,839	-38.5	-52,636
Foreign Trade Balance	-5,262	-33,578	-22,710	-32.4	-69,154
Services Balance	2,396	5,749	6,426	11.8	23,807
Tourism Revenues (net)	2,280	6,358	6,458	1.6	23,280
Income Balance	-622	-4,896	-3,786	-22.7	-8,244
Current Transfers	54	457	231	-49.5	955
Capital and Financial Accounts	2,486	35,130	13,131	-62.6	40,589
Direct Investments (net)	-13	3,313	3,820	15.3	10,312
Portfolio Investments (net)	1,378	18,348	3,093	-83.1	8,436
Assets	-504	1,350	-1,218	-	33
Liabilities	1,882	16,998	4,311	-74.6	8,403
Equity Securities	624	1,034	1,611	55.8	1,418
Debt Securities	1,258	15,964	2,700	-83.1	6,985
Other Investments (net)	3,050	23,264	6,005	-74.2	21,836
Assets	344	1,184	1,696	43.2	2,876
Currency and Deposits	707	2,059	2,271	10.3	4,774
Liabilities	2,706	22,080	4,309	-80.5	18,960
Trade Credits	347	7,022	-1,677	-	-3,096
Loans	3,349	7,309	7,181	-1.8	21,786
Banking Sector	2,674	8,751	3,935	-55.0	16,784
Non-bank Sectors	898	-310	3,974	-	5,468
Deposits	-1,041	7,611	-1,405	-	-383
Foreign Banks	-387	6,554	-1,232	-	-560
Foreign Exchange	-666	6,555	-664	-	-845
Turkish Lira	279	-1	-568	56,700.0	285
Non-residents	-476	1,515	513	-66.1	2,405
Reserve Assets (net)	-1,929	-9,764	229	-	82
Net Errors and Omissions	948	-2,862	6,708	-	12,047

Source: CBRT

Central government budget posted a surplus of 613 million TRY in June.

According to data announced by the Ministry of Finance, budget expenditures increased by 7.9% yoy while budget revenues rose by 10% yoy in June. Thus, central government budget deficit, which was realized as 1.2 billion TRY in June 2013, decreased to 613 million TRY in the same month of 2014.

Regarding the first six months of the year, after having posted a 3.1 billion TRY surplus in 2013, the budget gave a deficit of 3.4 billion TRY in 2014. In the same period, primary surplus decreased to 23.1 billion TRY.

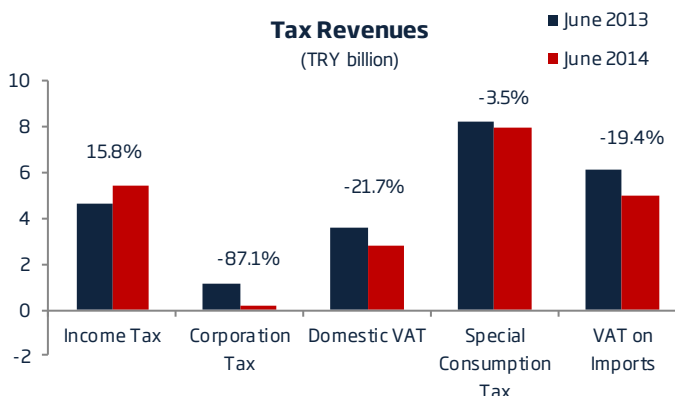
Decline in tax revenues...

In June, non-tax revenues made a positive contribution to the central government budget revenues while tax revenues dropped significantly. Indeed, tax revenues declined by 7.3% on an annual basis and was realized as 24.8 billion TRY in June. The decrease in tax revenues stemmed from the contraction in Value Added Tax (VAT) on imports, corporation tax and domestic VAT income revenues. During this period, decline amounted to 1.9 billion TRY in total tax revenues, 1.2 billion TRY in VAT on imports, 975 million TRY in corporate tax, 773 million TRY in domestic VAT. On the other hand, income tax revenues, which registered an increase of 738 million TRY, limited the decline in tax revenues in June. In addition, privatization revenues in this period amounted to 3 billion TRY and an increase of 723 million TRY in interest revenues had a positive impact on the budget performance in June.

During January-June period, total budget revenues increased by 10.2% yoy and reached 52.2% of the 2014 year-end target.

A limited increase in interest expenditures...

Regarding budget expenditures, total budget expenditures expanded by 2.6 billion TRY yoy and was realized as 35.2 billion TRY in June. During this period, increase of 1.3 billion TRY in the personal expenditures with a share of 26.1% in non-interest expenditures was noteworthy. On the other



hand, together with the interest expenditures which remained flat in the same period the annual decrease of 1.2 billion TRY in agricultural subsidies limited the increase in budget expenditures.

In January-June period, interest expenditures increased by 13.6% yoy and non-interest expenditures rose by 13.9% yoy. In this period, current transfers, which had 44.3% share in non-interest expenditures, increased by 10.1% yoy, while personal expenditures, ranked second, rose by 16.5%.

Expectations...

Central government budget figures for the first six months of 2014 pointed out that the tax revenues followed a relatively weak course compared to the previous year in parallel with the slowdown in domestic demand and the increase in non-interest expenditures became evident due to the expansion in personal expenditures. On the other hand, negative impact of the weakening in tax revenues on the budget was partly offset by privatization revenues. Thus, it was seen that budget realizations were in line with the year-end targets during the first half of the year. The tax revenues, on the other hand, are also expected to recover in the second half thanks to the improvement in domestic demand conditions.

Central Government Budget

	June			January-June			2014 Budget	
	2013	2014	% Change	2013	2014	% Change	Target	Real./ Target (%)
Expenditures	32.6	35.2	7.9	187.9	213.9	13.8	436.4	49.0
Interest Expenditures	1.5	1.6	2.5	23.3	26.5	13.6	52.0	50.9
Non-interest Expenditures	31.1	33.6	8.1	164.6	187.4	13.9	384.4	48.7
Revenues	31.4	34.6	10.0	190.9	210.5	10.2	403.2	52.2
Tax Revenues	26.7	24.8	-7.3	158.4	168.1	6.1	348.4	48.3
Other Revenues	4.7	9.8	108.6	32.6	42.4	30.1	54.8	77.3
Budget Balance	-1.2	-0.6	-48.9	3.1	-3.4	-	-33.3	10.1
Primary Balance	0.3	1.0	186.4	26.4	23.1	-12.4	18.7	123.2

Numbers may not add up to total due to rounding

Source: Finance Ministry

CPI inflation came in above the expectations in July.

In July, CPI and Domestic PPI (D-PPI) increased by 0.45% and 0.73% mom, respectively. According to the Reuters' survey, monthly CPI was expected to rise by 0.15% mom in July. According to the CBRT's survey, markets' monthly CPI expectation was 0.06% in July.

The annual inflation in CPI was realized as 9.32%.

After having exhibited an upward trend in the first five months of the year, annual CPI inflation decreased to some extent in June thanks to the base effect. However, annual CPI inflation gained momentum again and was realized as 9.32% in July. Annual D-PPI inflation, on the other hand, eased for a third straight month due to the base effect and was realized as 9.46% in July.

In July, only clothing and footwear prices declined.

Among the main expenditures groups, only clothing and footwear prices registered a decrease in July. The said group prices decreased by 3.28% mom and limited the monthly inflation by 23 basis points. Price developments in the main expenditure groups generally made a balanced contribution to the inflation. On the other hand, the highest contribution to the inflation by 11 basis points was registered by the increase in transport prices in July. Despite the fact that summer season eases food prices, food prices has contributed to the monthly inflation by 7 points in July owing to the effect of Ramadan.

The increase in core inflation indicators...

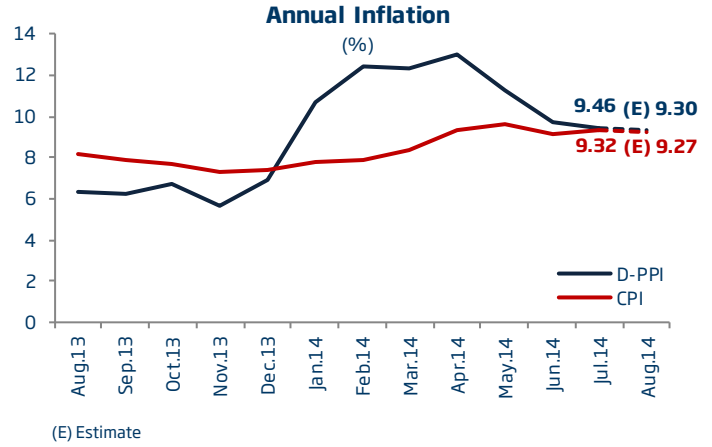
In July, seasonal factors limited the rise in monthly CPI. Indeed, monthly inflation reached 0.89% when the seasonal products were excluded. On the other hand, as the developments in energy and alcoholic beverages and tobacco prices had an upward impact on monthly inflation, monthly inflation declined to 0.31% when the said subgroups were excluded. In this period, the increase in CBRT's favorite core indices denominated by H and I accelerated to some extent and were realized as 10.39% and 9.75%, respectively.

The annual D-PPI inflation was 9.46% in July.

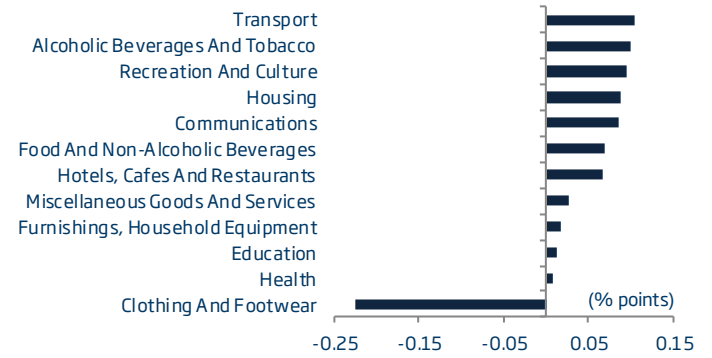
In July, the developments in food prices were influential on the course of D-PPI. Thus, the price of food products increased by 1.55% mom and contributed to the inflation by 32 basis points. The electricity and gas production and distribution prices, which declined in recent months, increased again and contributed to the inflation by 8 basis points. No significant price fall was observed in the subgroups of D-PPI in July.

Expectations

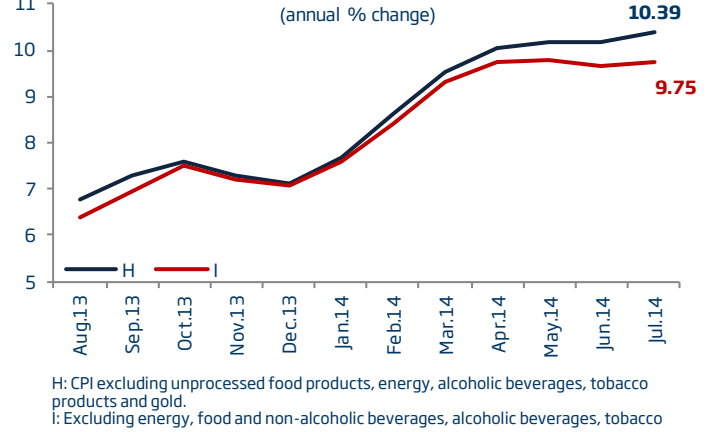
In August, we expect that the clothing and footwear prices will continue to fall due to the seasonal factors and upward



Contributions to the Monthly CPI by Subgroups



Special CPI Aggregates



pressure on food prices will diminish following Ramadan period. In this context, we expect CPI and D-PPI to decrease by 0.15% and 0.1% mom, respectively.

CBRT delivered another “measured” interest rate cut in July.

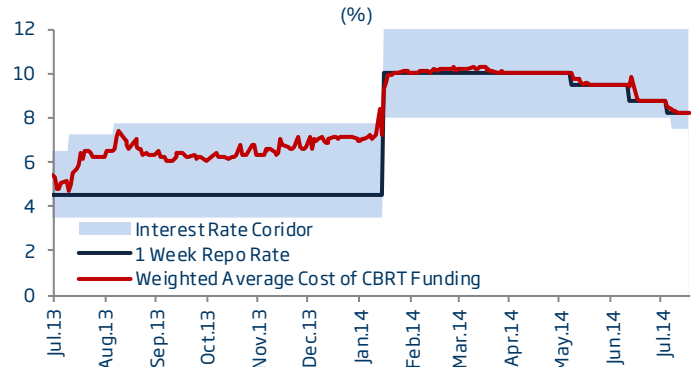
At its meeting held on July 17, CBRT cut the one-week repo rate (policy rate) by 50 basis points to 8.25% in parallel with the market expectations. With this move, the cumulative rate cuts made by the CBRT in the last three months reached 175 basis points. In addition, CBRT also cut the lower band of the interest rate corridor from 8% to 7.5%. On the other hand, the upper band of the interest rate corridor was kept unchanged at 12%.

CBRT’s post-meeting statements were widely similar to its prior meetings. CBRT noted that the loan growth continued at reasonable levels, total demand conditions would support disinflation and there would be a significant improvement in the current account deficit. CBRT highlighted that the adverse impacts of the exchange rate developments since mid-2013 on annual inflation were gradually disappearing while noting that elevated food prices had been the main factor limiting the pace of decline in inflation. In addition, the Committee also took into account the improvement in global liquidity conditions in recent months in its assessment for the policy rate cut.

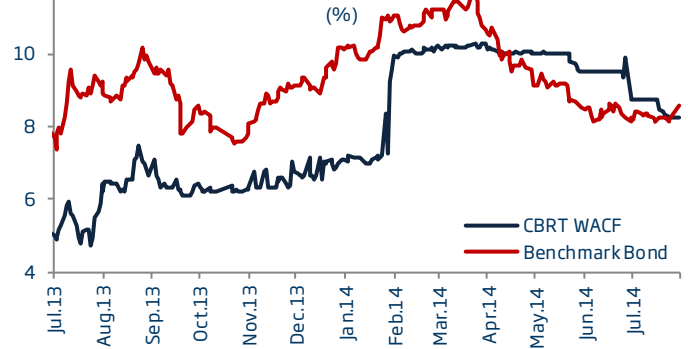
CBRT published its Inflation Report in July.

In its Inflation Report published in July, CBRT stated that annual inflation would start to decrease in the second half of 2014 with the help of the gradual elimination of cost pressures caused by exchange rate, lagged positive effects of monetary tightening on inflation and weak course of private domestic demand conditions. CBRT also stated that annual inflation would stay elevated for a while due to the increase in food prices and lagged effects of depreciation in TRY. Thus, annual inflation would considerably exceed the 5% target at the year-end. Accordingly, CBRT expects annual inflation to be between 6.7% and 8.5% with a mid-point of 7.6% at the year-end. Compared to the previous Inflation Report, inflation expectation was kept the same while forecast range had been narrowed.

CBRT Interest Rates



Weighted Average Cost of CBRT Funding and Compound Yield of Benchmark Bond



Annual growth in deposits was at 16.2%.

According to BRSA's Weekly Bulletin, as of July 18, total deposit volume recorded an increase of 2.3% ytd and was realized as 1,038 billion TRY. While TRY deposits rose by 2% ytd, FX deposits in USD terms increased by 3.5%. The annual increase in deposit volume was realized as 16.2%.

Analyzing the ytd deposit growth according to the ownership of banks, deposit volume held by public banks declined while deposit volume held by private and foreign banks continued to follow an upward trend. As of July 18, private and foreign banks' deposit volumes increased by 2.9% ytd and 6.5% ytd, respectively. During the same period, public banks' deposits declined by 0.3%.

Annual growth in loans was recorded as 20.7%.

As of July 18, total loan volume increased by 6.4% ytd and was realized as 1,133 billion TRY. Annual increase in total loan volume was realized as 20.7%. During the same period, the annual rise in corporate loans was 25.7% while that of retail loans was realized as only 10.3%. The measures taken in order to limit private consumption expenditures played a significant role in retail loans' slowdown. In fact, consumer credit cards dropped by 10.9% ytd, decline in installment expenditures via consumer credit cards reached 25.4% ytd.

Securities portfolio...

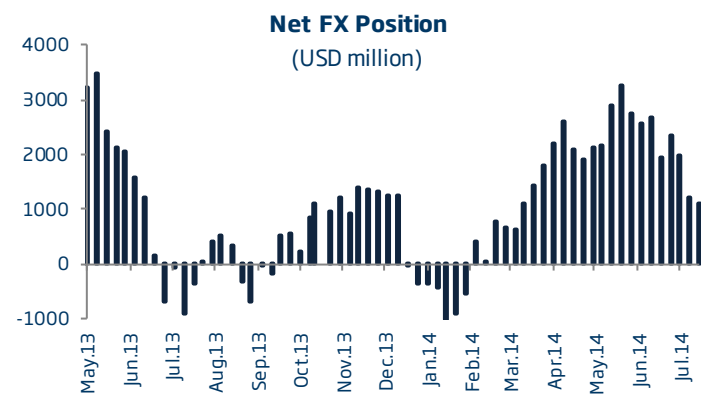
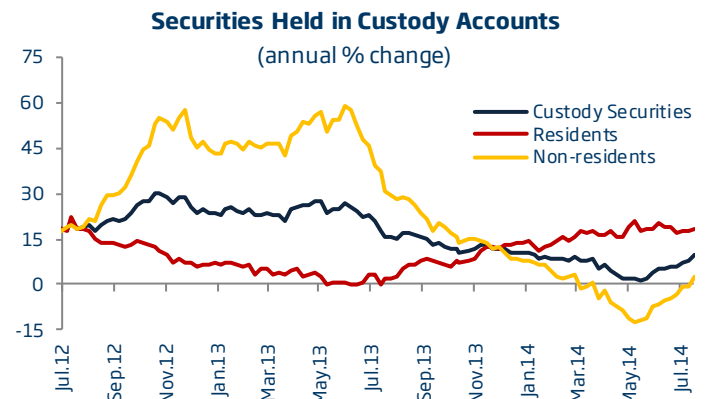
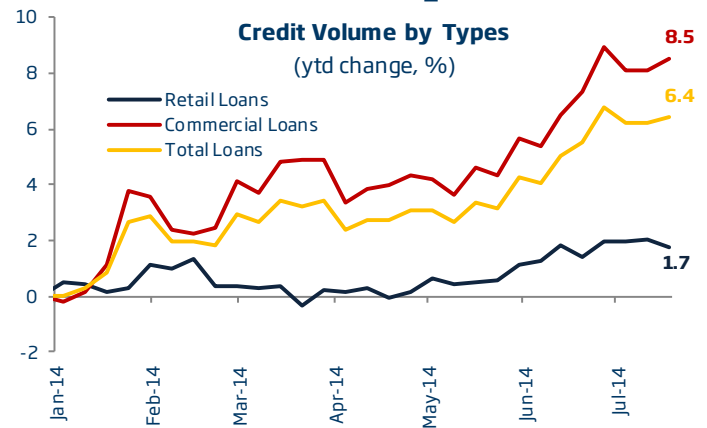
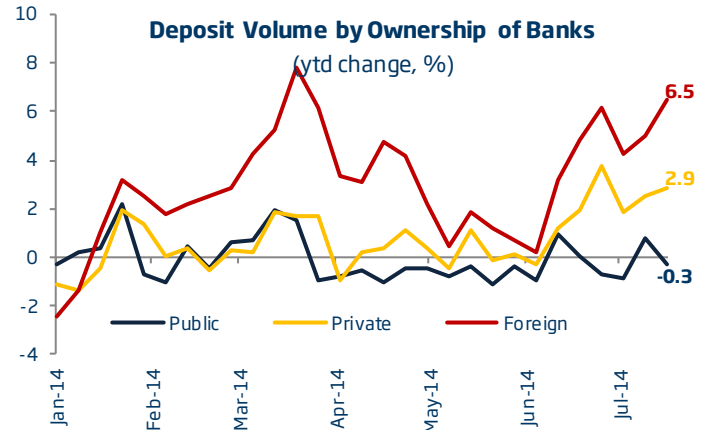
Having followed an upward trend in the first quarter in line with the heightened risk perception, securities portfolio of the banking sector lost momentum in the following period and grew by 0.8% ytd as of July 18. During the same period, the downward trend in securities portfolio of public and foreign banks continued and the increase in securities portfolio of private banks slowed down to 4.3%.

Securities held in custody accounts...

In nominal terms, securities held in custody accounts rose by 5.2% ytd as of July 18. In this period, residents' portfolio increased by 7.4% while the rise in non-residents' portfolio was realized as 3.1%.

Net FX position...

As of July 18, banks' on-balance sheet FX position was (-) 35,846 million USD while off-balance sheet FX position was (+) 36,953 million USD. Hence, banks' net FX position was realized as (+) 1,107 million USD.



Source: BRSA Weekly Bulletin

The improvement in the US labor market thanks to the recent pick-up in economic activity has been supporting the normalization in Fed's monetary policy implementations. In fact, minutes of FOMC's June meeting revealed that the asset purchase program would be completely over as of October. The recovery in Euro Area economies, on the other hand, has not based on solid ground yet and the policy makers have been taking new steps in order to support economic activity. The ECB aims to encourage bank lending with a new program although uncertainties over the effectiveness of the program persist.

Regarding domestic economy, the economic activity decelerated somewhat in the second quarter after displaying a positive performance in the first quarter. On the other hand, recent rate cuts from CBRT are expected to support domestic demand. The recovery in the Euro Area is also expected to contribute to Turkey's growth via exports channel. The uncertainties over Iraq, Turkey's second biggest export market, however, have the potential to impact the export performance of Turkey negatively in the coming period. On the other hand, the current level of inflation decreases the possibility of further policy rate cuts by CBRT in the coming period.

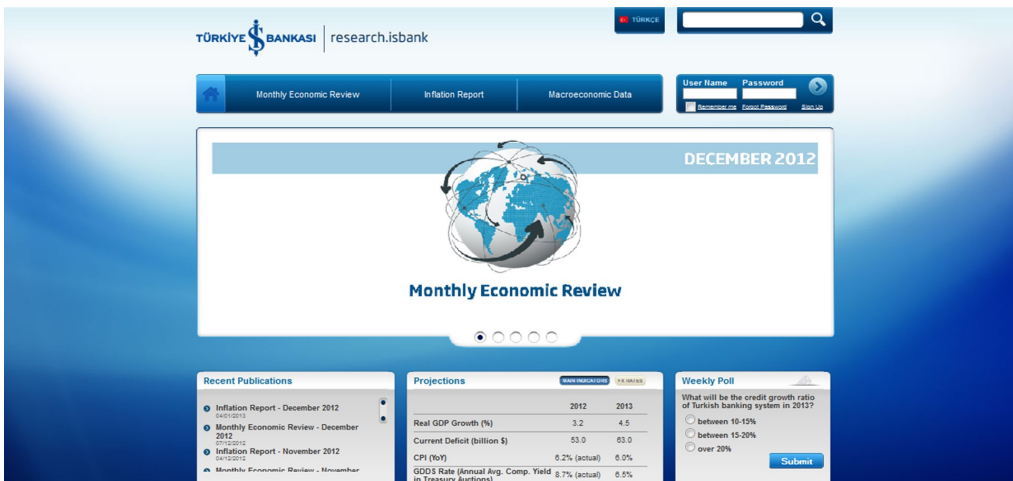
Forecasts (%)	2013 (R)	2014
Growth	4.0	4.0
CA Deficit/GDP	7.9	5.5
Inflation	7.4	8.5
GDDI Interest*	7.7	11.0

(*): 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 (03/20/2013)
- Inflation Report - November 2012 (04/25/2012)
- Monthly Economic Review - November (04/25/2012)

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%

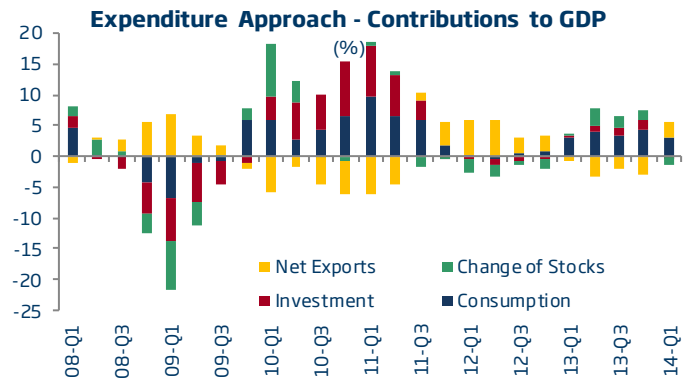
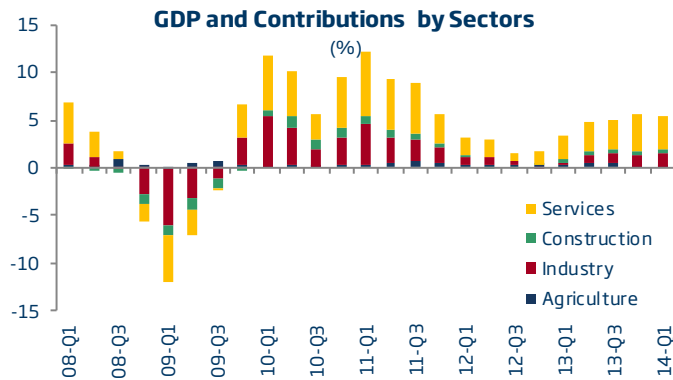
Weekly Poll

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

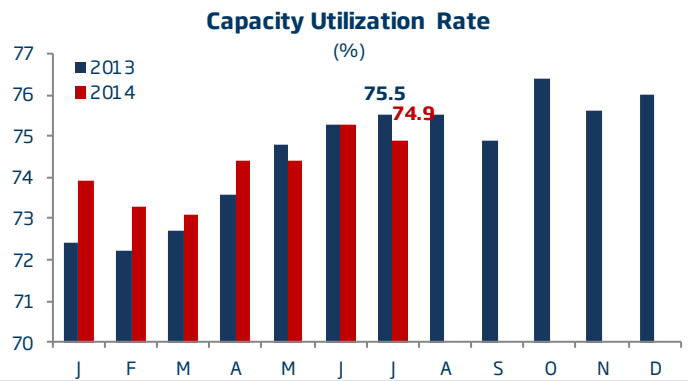
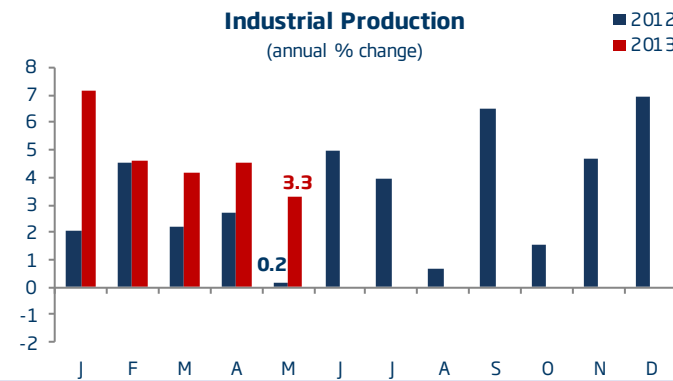
between 10-15%
 between 15-20%
 over 20%

Submit

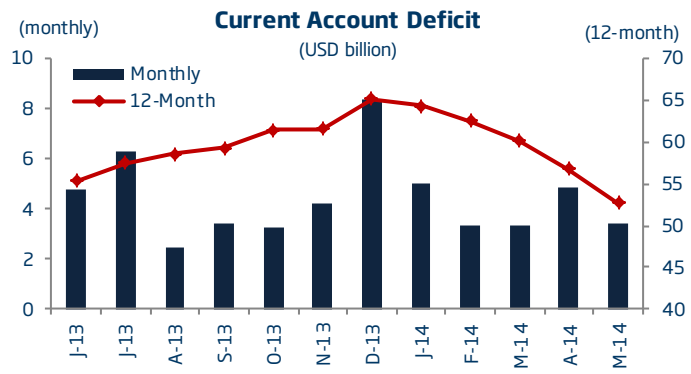
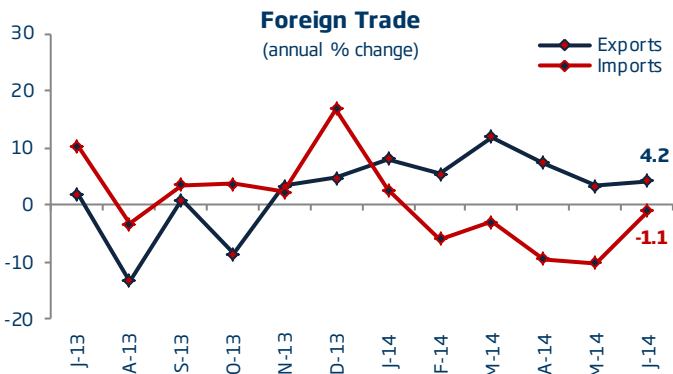
Growth



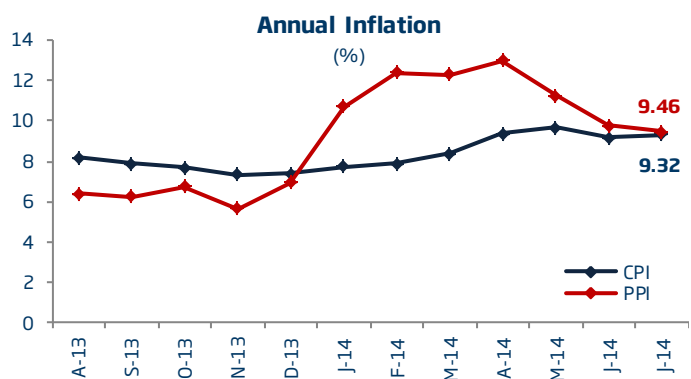
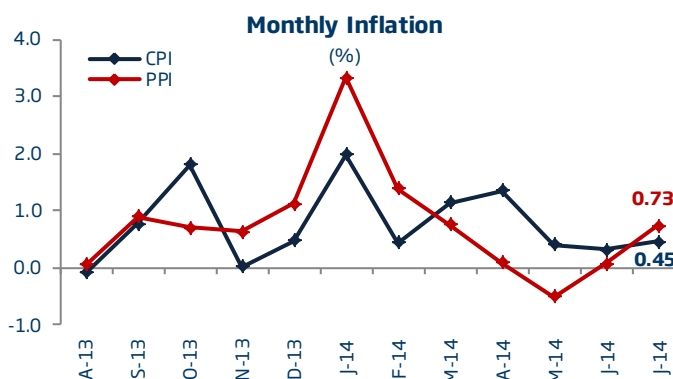
Industrial Production



Foreign Trade and Current Account Balance



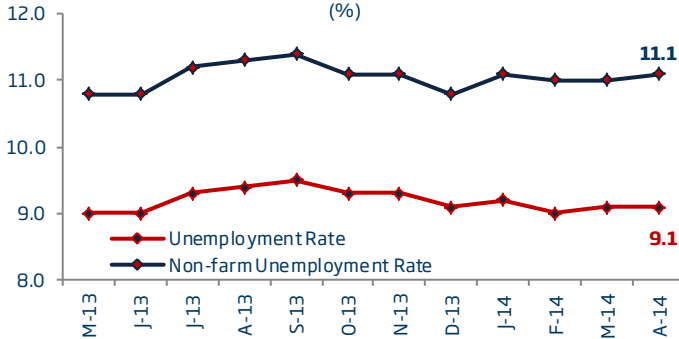
Inflation



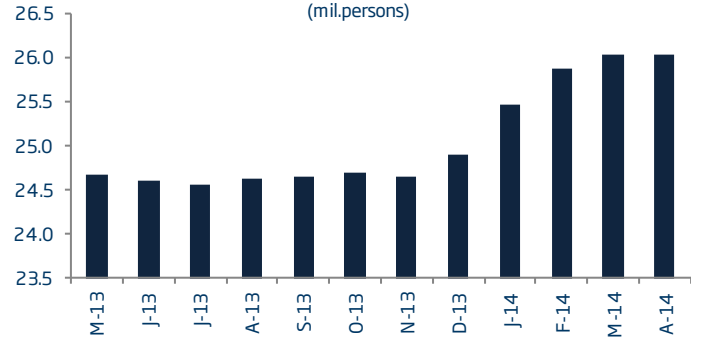
Source: Turkstat, CBRT

Labor Market

Seasonally Adjusted Unemployment Rates (%)

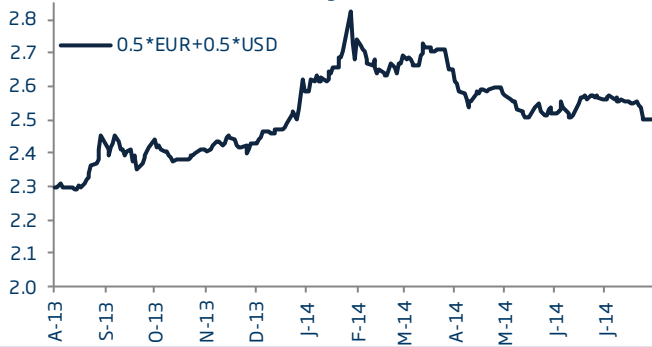


Seasonally Adjusted Employment (mil.persons)

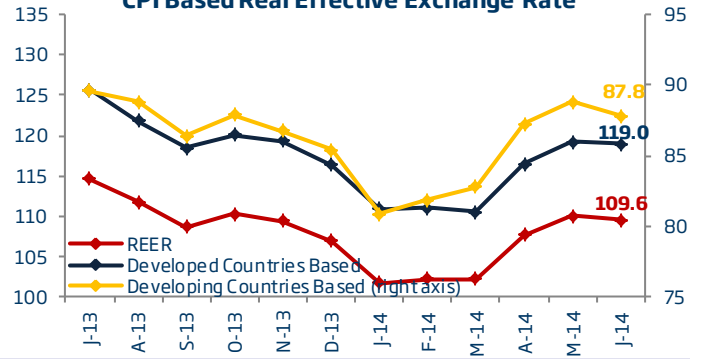


FX Market

Currency Basket

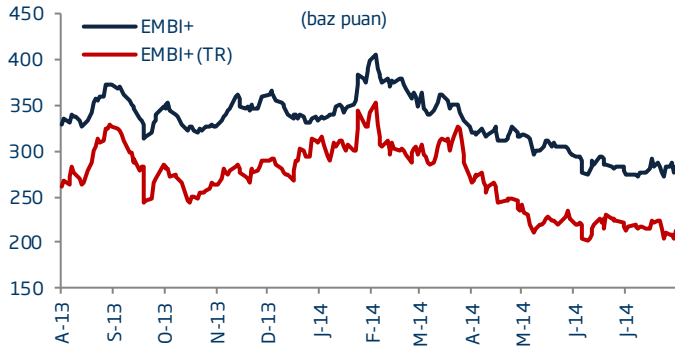


CPI Based Real Effective Exchange Rate

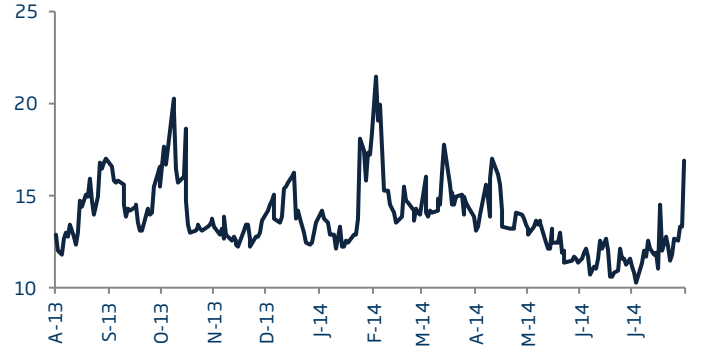


Risk Indicators

Risk Premiums (baz puan)

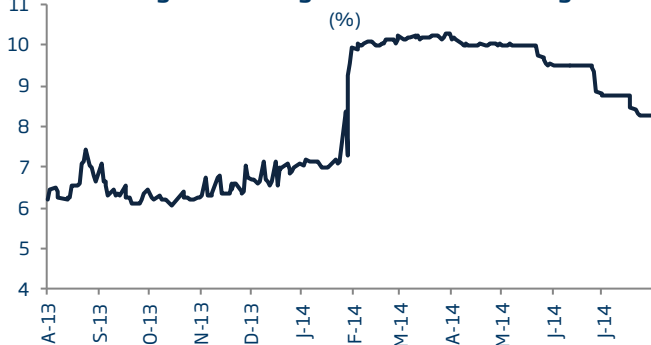


VIX

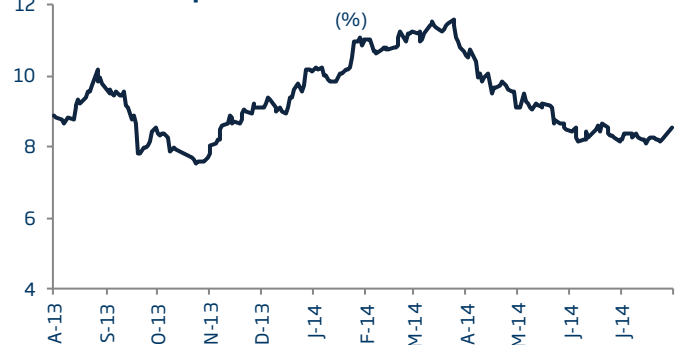


Interest Rates

Weighted Average Cost of CBRT Funding (%)

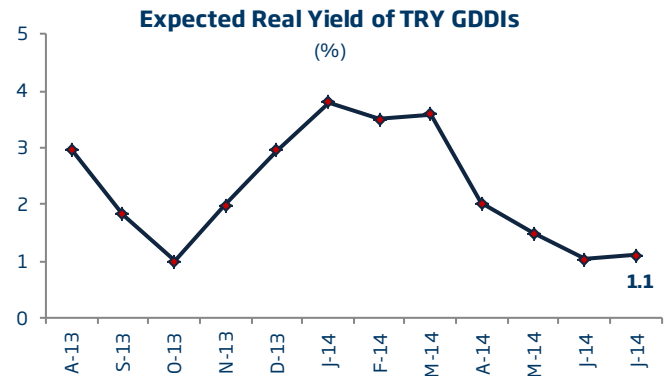
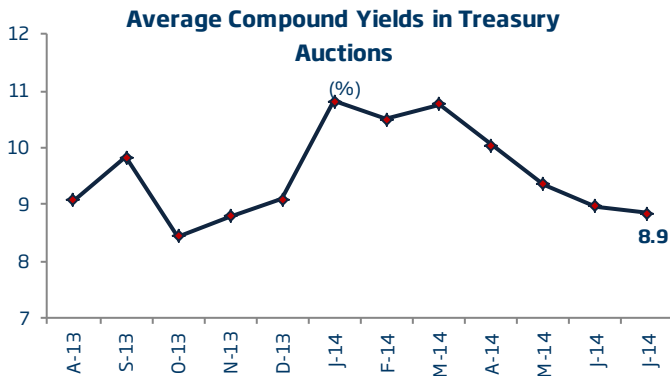


Compound Yield of Benchmark Bond (%)

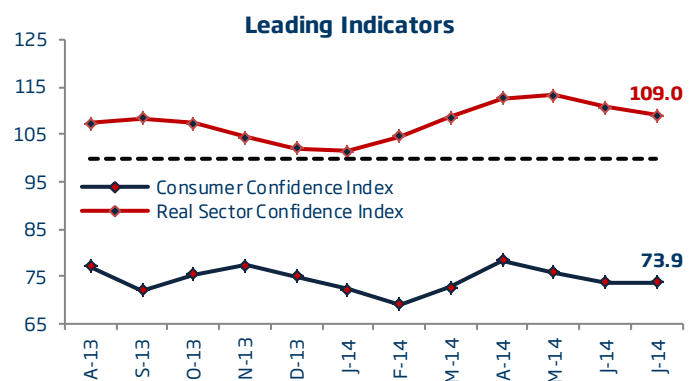
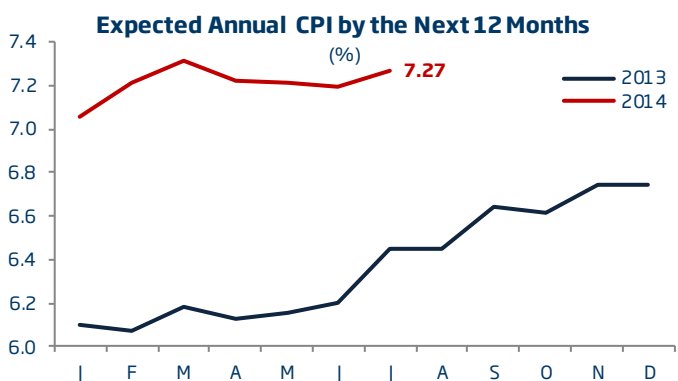
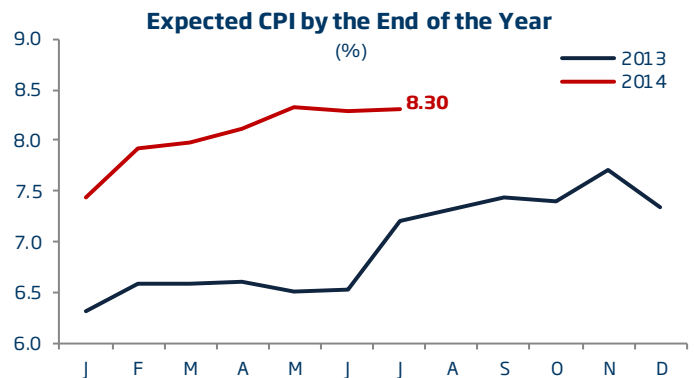
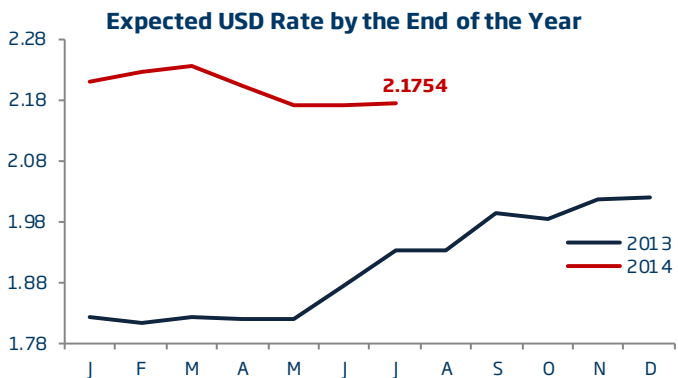
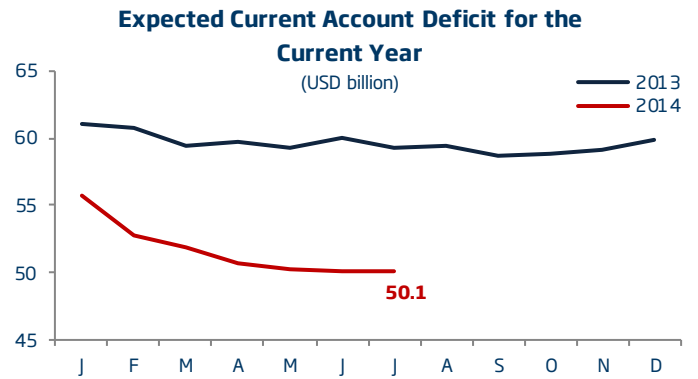
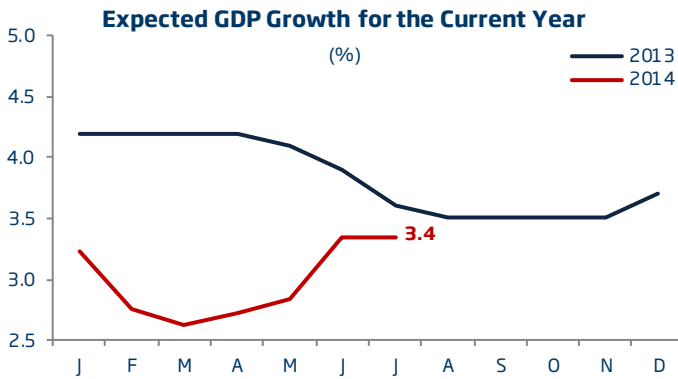


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

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	805.6*		
GDP Growth Rate (%)	-4.8	9.2	8.8	2.1	4.0	4.3	-	-
Inflation (%)						May-14	Jun-14	Jul-14
CPI (annual)	6.5	6.4	10.4	6.2	7.4	9.7	9.2	9.3
PPI (annual)	5.9	8.9	13.3	2.5	7.0	11.3	9.8	9.5
Seasonally Adjusted Labor Market Figures						Feb-14	Mar-14	Apr-14
Unemployment Rate (%)	11.9	10.0	8.5	8.8	9.1	9.0	9.1	9.1
Employment (thousand persons)	21,413	22,631	23,501	24,491	24,906	25,883	26,030	26,032
FX Rates						May-14	Jun-14	Jul-14
CPI Based Real Effective Exchange Rate	116.8	125.8	109.6	118.2	107.0	110.1	109.6	
USD/TRY	1.5057	1.5460	1.9065	1.7826	2.1343	2.0922	2.1234	2.0919
EUR/TRY	2.1603	2.0491	2.4592	2.3517	2.9365	2.8476	2.8919	2.8135
Currency Basket (0.5*EUR+0.5*USD)	1.8330	1.7976	2.1829	2.0672	2.5354	2.4699	2.5077	2.4527
Foreign Trade Balance⁽¹⁾ (USD billion)						Apr-14	May-14	Jun-14
Exports	102.1	113.9	134.9	152.5	151.8	155.9	156.3	156.8
Imports	140.9	185.5	240.8	236.5	251.7	248.2	245.8	245.6
Foreign Trade Balance	-38.8	-71.7	-105.9	-84.1	-99.9	-92.3	-89.5	-88.7
Import Coverage Ratio (%)	72.5	61.4	56.0	64.5	60.3	62.8	63.6	63.9
Current Account Balance⁽¹⁾ (USD billion)						Mar-14	Apr-14	May-14
Current Account Balance	-12.2	-45.4	-75.1	-48.5	-65.1	-60.1	-56.8	-52.6
Capital and Financial Accounts						Apr-14	May-14	Jun-14
Capital and Financial Accounts	9.3	44.0	65.7	47.3	62.6	47.3	44.3	40.6
Direct Investments (net)	7.1	7.6	13.7	8.9	9.8	10.9	11.1	10.3
Portfolio Investments (net)	0.2	16.1	22.0	40.8	23.7	13.1	7.9	8.4
Other Investments (net)	2.1	33.2	28.2	18.4	39.1	21.5	18.9	21.8
Reserve Assets (net)	-0.1	-12.8	1.8	-20.8	-9.9	2.0	6.5	0.1
Net Errors and Omissions	2.9	1.4	9.4	1.2	2.5	12.8	12.5	12.0
Current Account Deficit/GDP	-2.0	-6.2	-9.7	-6.2	-7.9	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Apr-14	May-14	Jun-14
Expenditures	268.2	294.4	314.6	360.5	407.9	142.6	178.7	213.9
Interest Expenditures	53.2	48.3	42.2	48.4	50.0	17.8	24.9	26.5
Non-interest Expenditures	215.0	246.1	272.4	312.1	357.9	124.8	153.8	187.4
Revenues	215.5	254.3	296.8	331.7	389.4	138.4	175.9	210.5
Tax Revenues	172.4	210.6	253.8	278.8	326.1	111.0	143.3	168.1
Budget Balance	-52.8	-40.1	-17.8	-29.4	-18.4	-4.2	-2.8	-3.4
Primary Balance	0.4	8.2	24.4	19.6	31.5	13.6	22.1	23.1
Budget Balance/GDP	-5.5	-3.6	-1.4	-2.1	-1.2	-	-	-
Central Government Debt Stock (TRY billion)						Apr-14	May-14	Jun-14
Domestic Debt Stock	330.0	352.8	368.8	386.5	403.0	409.4	412.4	408.4
External Debt Stock	111.5	120.7	149.6	145.7	182.8	186.0	182.5	185.0
Total	441.5	473.6	518.4	532.2	585.8	595.4	594.9	593.4

(1) 12 month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

(*) Annualized

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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2009	2010	2011	2012	2013	Apr-14	May-14	Change ⁽¹⁾
TOTAL ASSETS	834.0	1006.7	1217.7	1370.7	1732.4	1792.9	1794.8	3.6
Loans	392.6	525.9	682.9	794.8	1047.4	1086.1	1092.8	4.3
TRY Loans	288.2	383.8	484.8	588.4	752.7	787.1	793.5	5.4
Share (%)	73.4	73.0	71.0	74.0	71.9	72.5	72.6	-
FX Loans	104.4	142.1	198.1	206.4	294.7	299.1	299.3	1.6
Share (%)	26.6	27.0	29.0	26.0	28.1	27.5	27.4	-
Non-performing Loans	21.9	20.0	19.0	23.4	29.6	31.6	31.9	7.8
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	295.5	292.8	2.1
TOTAL LIABILITIES	834.0	1006.7	1217.7	1370.7	1732.4	1792.9	1794.8	3.6
Deposits	514.6	617.0	695.5	772.2	945.8	967.3	953.4	0.8
TRY Deposits	341.4	433.5	460.0	520.4	594.1	587.1	580.2	-2.3
Share (%)	66.3	70.3	66.1	67.4	62.8	60.7	60.9	-
FX Deposits	173.2	183.5	235.5	251.8	351.7	380.1	373.2	6.1
Share (%)	33.7	29.7	33.9	32.6	37.2	39.3	39.1	-
Securities Issued	0.1	3.1	18.4	37.9	60.6	65.0	66.7	10.0
Payables to Banks	86.1	122.4	167.4	173.4	254.2	257.3	259.8	2.2
Funds from Repo Transactions	60.7	57.5	97.0	79.9	119.1	121.1	131.3	10.2
TOTAL SHAREHOLDERS' EQUITY	110.9	134.5	144.6	181.9	193.7	206.9	210.8	8.8
Profit (Loss) of the Period	20.2	22.1	19.8	23.5	24.7	7.6	10.1	-
RATIOS (%)								
Loans/Assets	47.1	52.2	56.1	58.0	60.5	60.6	60.9	-
Securities/Assets	31.5	28.6	23.4	19.7	16.6	16.5	16.3	-
Deposits/Liabilities	61.7	61.3	57.1	56.3	54.6	53.9	53.1	-
Deposits/Loans	131.1	117.3	101.8	97.2	90.3	89.1	87.2	-
Capital Adequacy (%)	20.6	19.0	16.6	17.9	15.3	16.1	16.3	-

(1) Year-to-date % change



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