



Monthly Economic Review September 2014



Global Economy

- ◆ In August, risk perception in global markets fluctuated depending on the developments in Middle East and Ukraine.
- ◆ The US economy displayed a better growth performance in the second quarter of the year as the “temporary” factors that adversely affected the first quarter growth disappeared. Q2 GDP growth rate was revised up to 4.2% from 4%.
- ◆ According to the minutes of the Federal Reserve’s (Fed) meeting held on July 29-30, labor market conditions and inflation moved closer to longer-run objectives and that progress toward those goals was anticipated to continue. Thus, the markets’ expectations that the Fed might hike the rates sooner than expected increased as the recovery in the US economy has been faster than anticipated.
- ◆ There was zero GDP growth in the Euro Area economy in the second quarter of the year. It was noteworthy that German economy, which generally makes the biggest contribution to region’s economic growth, contracted for the first time since the first quarter of 2013 and Italian economy entered into technical recession again as its economy experienced two successive quarters of contraction.
- ◆ Annual inflation continued to follow a downward trend mostly due to the weak demand outlook in the Euro Area. Annual inflation fell to a 5-year low of 0.3% in August, intensifying concerns regarding the region’s economy.
- ◆ Japan, the world’s third largest economy, registered a contraction of 6.8% in the second quarter of the year. Thus, Japan suffered its worst economic contraction since the earthquake and tsunami in the first quarter of 2011.

Turkish Economy

- ◆ The calendar adjusted industrial production index increased by 1.4% yoy, lower than market expectations. On a quarterly basis, the index rose by 3.1% yoy in the second quarter of the year.
- ◆ According to seasonally adjusted figures, real sector confidence index and capacity utilization rate deteriorated in August. On the other hand, manufacturing PMI pointed out a marginal improvement in business conditions in August by realizing at above the threshold level with 50.3.
- ◆ Although exports exhibited the weakest performance of the last nine months with an increase of 2.6% yoy in July, foreign trade deficit narrowed to 6.5 billion USD, below the market expectations, thanks to the sharp decline in imports (13.5% yoy). The decline in exports to Iraq played an important role in the deceleration in total exports.
- ◆ Current account deficit came in slightly higher than markets expectations in June but kept its narrowing trend in recent months. Portfolio investments account registered 7 billion USD inflows in June, the highest amount since April 2013.
- ◆ After having followed an upward trend in July, the annual CPI inflation maintained relatively its strong pace in August and was realized as 9.54%. In the same period, owing to the diminishing base effect, the annual D-PPI inflation also rose to 9.88%, nearing double-digit levels.
- ◆ CBRT kept the policy rate at 8.25% at its meeting held on August 27. The marginal funding rate (the overnight lending rate) was reduced from 12% to 11.25% while overnight borrowing rate was also kept at 7.5%.

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Geopolitical risks and domestic political developments weighed on the markets.

The heightened political uncertainties ahead of the presidential election in August 10 continued even after the election as markets focused on who would be the successor prime minister. Thus, domestic markets fluctuated in the first half of the month. In addition, risk appetite declined due to the uncertainties over CBRT's monetary policy meeting in August. In the second half of the month, however, uncertainties regarding both domestic political issues and monetary policy decreased in turn risk appetite increased significantly. In addition to these, concerns stemming from the tension between Russia and Ukraine also led global and domestic markets to follow a volatile course in August.

Volatility in risk premiums...

Having remained relatively high in the first half of August, risk indicators followed a downward trend thanks to the removal of uncertainties regarding the new cabinet after the presidential election. Risk premiums of Turkish Eurobonds, which rose as high as 243 basis points during the month, decreased to 218 basis points as of August 29.

TRY appreciated in the second half of August.

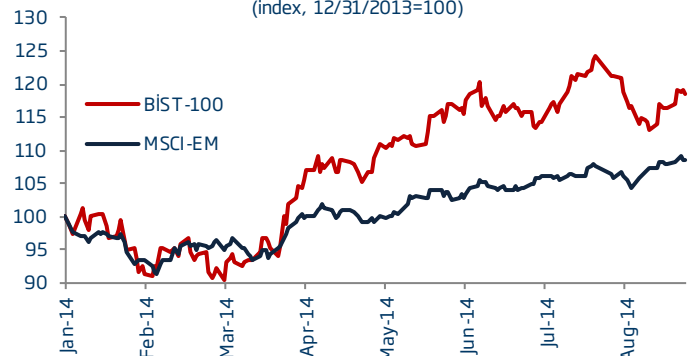
In the first half of August, USD/TRY reached 2.19 due to the ongoing domestic political uncertainties and increasing concerns that Fed might start to increase interest rates earlier than expected after data releases in the US indicating favorable economic outlook. In the following days TRY started to appreciate with the help of positive outlook in the domestic markets. USD/TRY decreased to 2.1632 as of August 29.

BIST-100 index fell by 2.2% in August.

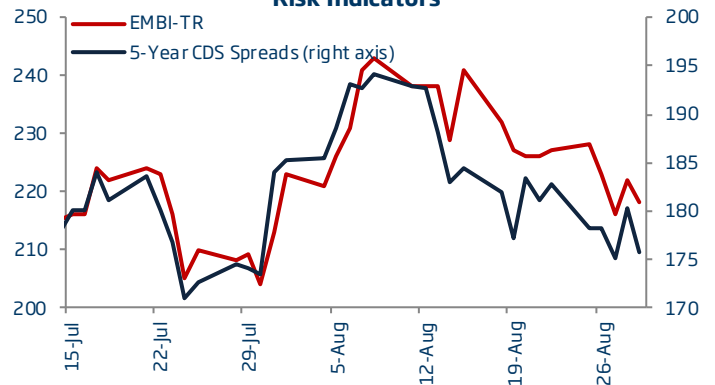
BIST-100 index, which followed an upward trend in recent months thanks to the Central Bank's interest rate cuts, was adversely affected from the heightened political uncertainties in August. The negative sentiment in the market also was reinforced by the assessments of international credit rating agencies, namely Fitch and Moody's, both indicated that political tension would remain high and in turn would lead economic fragility to heighten. It was stated that these development might weigh on Turkey's credit rating. Indeed, in the second week of the month the index declined as low as to 77,000 points. In the following period, on the other hand, increased expectations that the ECB would expand its monetary policy measures were also reflected to domestic markets positively. Thus, BIST-100 index declined by 2.2% mom and realized as 80,312 points as of August 29.

BIST-100 and MSCI Emerging Markets Indexes

(index, 12/31/2013=100)

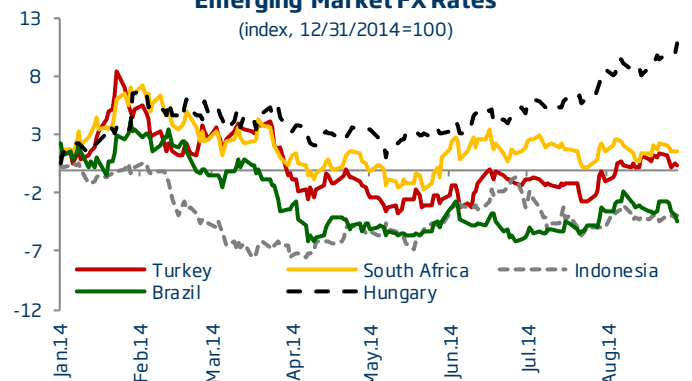


Risk Indicators



Emerging Market FX Rates

(index, 12/31/2014=100)



The fall in benchmark interest rate...

Having risen as high as 9.51% in August, Turkey's two-year (benchmark) Treasury bond's interest rate followed a downward trend after the political uncertainties diminished. Benchmark interest rate remained flat in the last week of the month with the help of the CBRT's decision to keep interest rates unchanged. The interest rate of benchmark bond (due June 13, 2016) was realized as 9.07% as of August 29.

Source: JP Morgan, Reuters, BIST

Industrial production displayed its slowest increase of the year in June.

The calendar adjusted industrial production index increased by 1.4% yoy in June, lower than market expectations. Seasonally and calendar adjusted industrial production index recorded a limited increase by 0.1% mom. On a quarterly basis, the index rose by 3.1% yoy in the second quarter of the year.

Among the main industry groups, annual growth in intermediate goods production remained unchanged while production in durable consumer goods rose by 6.7% yoy.

According to Markit, manufacturing PMI increased to 50.3 in August, a reading above the threshold 50 indicating an improvement in manufacturing activities. The index remained below 50 in both June and July, indicating a contraction in production. Although PMI pointed out a marginal improvement in business conditions in August, the index remained well below its long-run average of 51.

Confidence indices...

Real Sector Confidence Index decreased by 0.7 point yoy to 106.8 in August. The seasonally adjusted index also fell by 0.3 point mom. In the same period, the seasonally adjusted Capacity Utilization Rate declined by 0.2 point mom to 74.1%.

According to Turkstat, Consumer Confidence Index also drop by 0.9% mom to 73.2 in August. Analyzing the sub-indices, the deterioration in the households' expectations regarding both consumers' possibility of saving in the next 12 months and number of people unemployed was noteworthy.

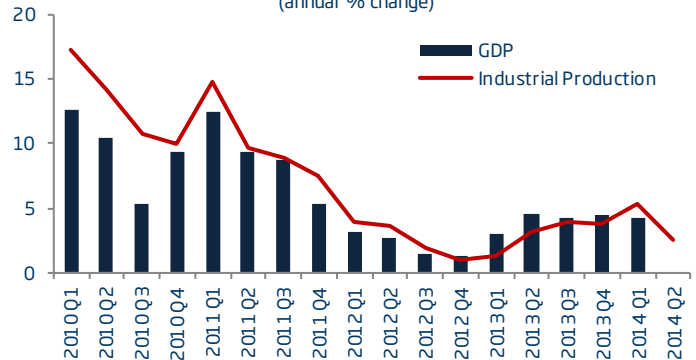
Unemployment rate was at 8.8%.

According to the Household Labor Force Survey, unemployment rate increased to 8.8% in May from 8.2% in the same month of the previous year. The non-agricultural unemployment and youth unemployment rates were realized as 10.7% and 15.8%, respectively.

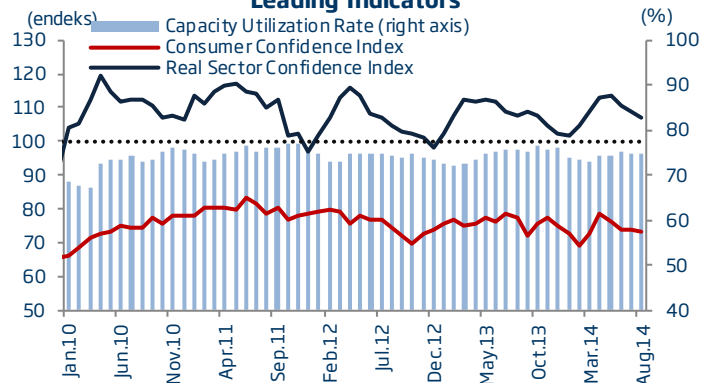
According to the seasonally adjusted figures, unemployment rate was realized as 9.5%, the highest level in the last 8 months. Contrary to the weak labor market figures, historically high levels of labor force participation rate and employment rate were recorded as 51.2% and 46.7%, respectively.

Industrial Production and GDP

(annual % change)

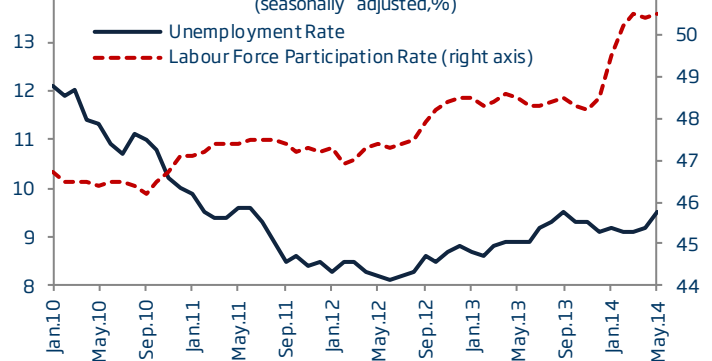


Leading Indicators



Labor Market

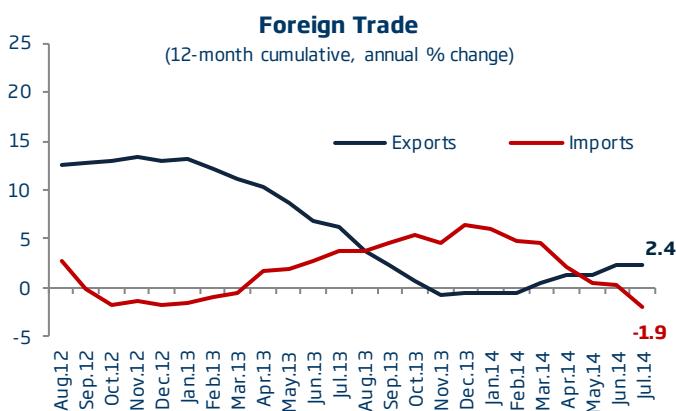
(seasonally adjusted,%)



Source: Turkstat,CBRT

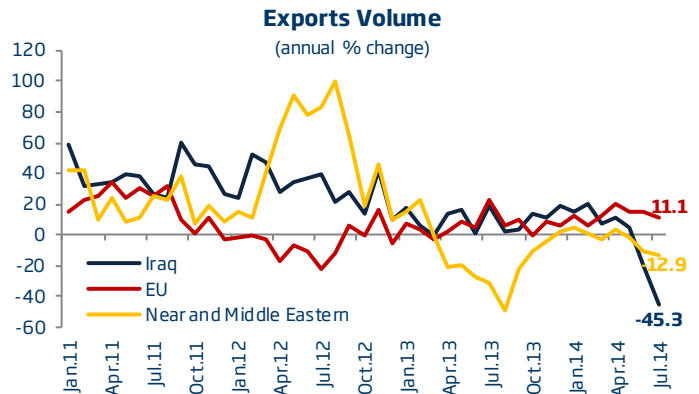
Foreign trade deficit came in below the market expectations.

Although exports exhibited the weakest performance of the last nine months with an increase of 2.6% yoy in July, foreign trade deficit narrowed to 6.5 billion USD, below the market expectations, thanks to the sharp decline in imports (13.5% yoy). In fact, imports dropped at the fastest rate since October 2009. Thus, the import coverage ratio increased by 10.6 points yoy and reached 67.5%, the highest level in four months. Seasonally and calendar adjusted figures also confirmed that exports performed much better than imports in July.



The decline in exports to Iraq played an important role in the deceleration in total exports. After having decreased in June, exports to Iraq continued to fall dramatically in July (by 45.3% yoy) due to the ongoing conflicts in this country. The fall in exports to Iraq was realized as 19.4% yoy in June. On the other hand, having dropped one place to third rank in total exports in June, Iraq maintained its rank in July despite the rapid decline. When Iraq is excluded, exports to Near and Middle Eastern countries registered a limited increase.

Exports to European Union countries also increased in the first seven months of this year compared to the previous year. In line with this development, the share of EU countries in total exports increased to 45% in July from 41.6% in the same month of last year. During the same period, the share of Near and Middle Eastern countries in total exports, on the other hand, exceeded to 19.9% from 23.4%.



The rapid decline in imports, which helped the foreign trade deficit come in below the expectations, indicated that the slowdown in domestic demand continued. In fact, imports of consumption goods declined on an annual basis for the sixth month in a row. In particular, the annual fall of 23.8% in motor vehicles item was noteworthy in July. Gold imports, which had been watched closely during last year, also supported the contraction in foreign trade deficit. Gold imports amounted to 182 million in July from 1.6 billion USD in the same month of the last year.

Expectations...

In addition to the concerns regarding Iraq, relative slowdown in European countries recorded recently, especially in Germany, might put a downward pressure on export performance of Turkey in the coming period. Nevertheless, both moderate domestic demand conditions and the potential trade agreements between Turkey and Russia in near future are anticipated to enforce the narrowing trend of foreign trade deficit.

Foreign Trade Balance	(USD billion)					
	July		Change (%)	January-July		Change (%)
	2013	2014		2013	2014	
Exports	13.1	13.4	2.6	88.2	93.5	6.1
Imports	23.0	19.9	-13.5	148.8	139.6	-6.2
Foreign Trade Balance	-9.9	-6.5	-34.8	-60.6	-46.1	-24.0
Import Coverage Ratio (%)	56.9	67.5	-	59.3	67.0	-

Source: Turkstat

Current account deficit contracted by 34.9% in the first half.

Current account deficit came in slightly higher than markets expectations in June but kept its narrowing trend in recent months. The deficit declined to 4.1 billion USD in June from 4.8 billion USD in the same month of the previous year. In the first half of the year, the deficit declined to 24.2 billion USD from 37.1 billion USD in the same period of the previous year (34.9% decrease). The 12-month cumulative current account deficit declined to 52.2 billion USD.

According to the balance of payments data, in the first half of 2014, foreign trade deficit declined to 29.3 billion USD from 40.6 billion USD in the same period of the previous year (27.8% decrease). The narrowing in the foreign trade deficit has lost some momentum compared to previous months mainly due to the lower exports to Iraq and the neighbouring regions as a result of the problems in the country. The decline in gold exports also supported the narrowing of the current account deficit in the first half of the year. In fact, non-monetary gold trade deficit, which was 7 billion USD in the first half of the previous year, was only 355 million USD in the same period of this year. The services balance, which is mainly composed of tourism revenues, increased by 10.5% yoy in the first half and contributed to the improvement in the current account balance.

The highest portfolio investment inflows since April 2013

Portfolio investments account registered 7 billion USD inflows in June, the highest amount since April 2013 (9.3 billion USD). 3.3 billion USD of this amount was non-residents' net purchases from the government domestic debt market. Regarding the bond issues in international capital markets, banks borrowed 2 billion USD and non-bank sectors borrowed 1.7 billion USD in June. Despite strong portfolio inflows in June, total portfolio inflows in the first

half of 2014 declined to 10.1 billion USD from 18 billion USD in the same period of the previous year reflecting the poor performance in the first quarter of this year.

Net loans raised by the banking sector from abroad reached 4.7 billion USD in the first half.

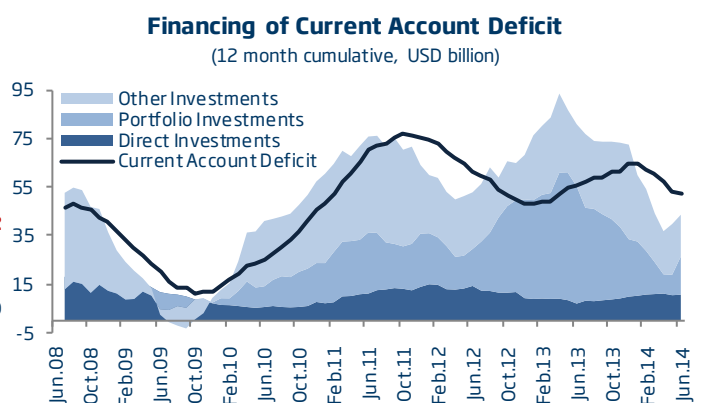
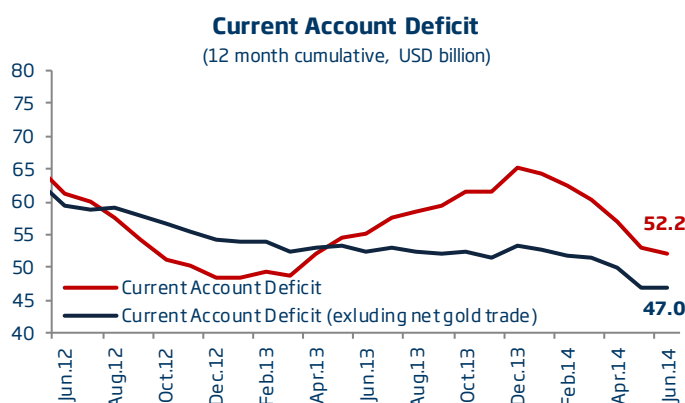
Banking sector did not face any difficulty in raising loans from abroad. The sector utilized net 662 million USD loans in June, bringing the total amount to 4.7 billion USD in the first half of the year. 3 billion USD of this amount were long-term loans. Non-bank sectors, on the other hand, realized a net repayment of 1.4 billion USD in June. In the first half, net loans raised from abroad by non-bank sectors were realized as 2.6 billion USD. During the same period, banks' and non-bank sectors' long-term debt roll-over ratios were 167% and 125%, respectively.

Foreign direct investments reached 4.6 billion USD in the first half.

Foreign direct investments account recorded 742 million USD inflow in June bringing the total amount of inflow to 4.6 billion USD in the first half of the year. This amount was 20.2% higher than that of the previous year. Analyzing the foreign direct investments according to sectors, it was seen that investments were concentrated in banking, energy, manufacture of electronic equipment, wholesale and retail trade sectors.

Rise in reserve assets

The high amount of capital inflows recorded under portfolio investments enabled the CBRT to increase its reserve assets by 1.5 billion USD in June. The net errors and omissions account recorded 1.3 billion USD outflow in June. On the other hand, net errors and omissions item recorded capital inflows amounting to 6.4 billion USD in the first half and 13.3 billion USD in the last 12 months, having a significant share in the financing of the current account deficit.



Source:CBRT

Expectations

We expect that the narrowing in the current account deficit will continue in the coming months but the improvement will lose pace compared to previous months. The declining exports to Iraq and the neighbouring region due to the ongoing problems in this country and the recent disappointing data announcements coming from the European Union, the largest exports market of Turkey, might have negative impacts on the export performance. In addition to that, CBRT's recent rate cuts might stimulate the domestic demand, which was relatively moderate in the first half, and might increase the import demand and limit the improvement in the current account deficit. Another factor to watch is the course of oil prices which may start to rise due to the geopolitical concerns. Despite these factors that might limit the improvement in the current account deficit, a factor that can support exports is Russia's food embargo against the EU and US. Russian importers will look for alternative suppliers and Turkey might benefit from this. We think that the current account deficit to GDP ratio, which

was 7.9% at the end of 2013, will decrease below 6% at the end-2014.

We do not expect any difficulty in the financing of the deficit in the coming months thanks to the high risk taking appetite in global markets. The expectations that the Fed will not start tightening before the second half of 2015 together with ECB and BoJ's continuation of accommodative policies support to capital inflows towards emerging markets.

Current Account Balance	(USD million)				
	June 2014	January-June 2013	January-June 2014	% Change	12 Month Cumulative
Current Account Balance	-4,093	-37,085	-24,151	-34.9	-52,176
Foreign Trade Balance	-6,213	-40,590	-29,322	-27.8	-68,755
Services Balance	2,744	8,413	9,296	10.5	23,969
Tourism Revenues (net)	2,748	8,885	9,231	3.9	23,526
Income Balance	-699	-5,445	-4,489	-17.6	-8,398
Current Transfers	75	537	364	-32.2	1,008
Capital and Financial Accounts	5,424	41,482	17,781	-57.1	38,877
Direct Investments (net)	742	3,859	4,639	20.2	10,584
Portfolio Investments (net)	7,046	18,036	10,139	-43.8	15,794
Assets	139	2,094	-1,079	-	-572
Liabilities	6,907	15,942	11,218	-29.6	16,366
Equity Securities	-153	-196	1,458	-	2,495
Debt Securities	7,060	16,138	9,760	-39.5	13,871
Other Investments (net)	-877	26,127	4,274	-83.6	17,233
Assets	-1,050	886	-655	-	841
Currency and Deposits	-1,283	1,985	-330	-	2,265
Liabilities	173	25,241	4,929	-80.5	16,392
Trade Credits	762	6,863	-926	-	-2,186
Loans	-857	7,700	6,628	-13.9	20,815
Banking Sector	662	10,362	4,738	-54.3	15,995
Non-bank Sectors	-1,436	-1,471	2,637	-	5,246
Deposits	172	10,435	-1,081	-	-2,883
Foreign Banks	112	9,150	-968	-	-2,892
Foreign Exchange	-1,718	7,285	-2,229	-	-3,140
Turkish Lira	1,830	1,865	1,261	-32.4	248
Non-residents	260	1,866	773	-58.6	2,314
Reserve Assets (net)	-1,487	-6,488	-1,258	-80.6	-4,681
Net Errors and Omissions	-1,331	-4,397	6,370	-	13,299

Source: CBRT

CPI inflation came in above the expectations in August.

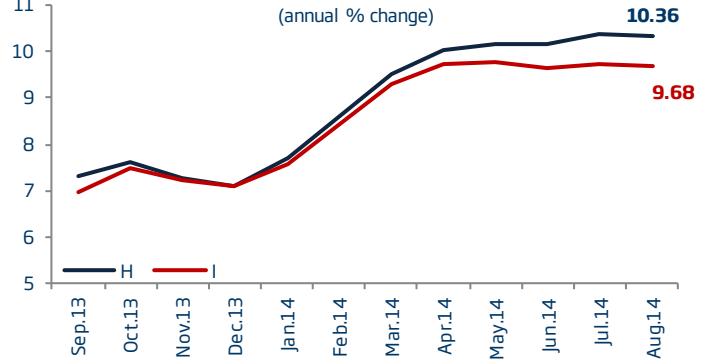
In August, CPI and Domestic PPI (D-PPI) increased by 0.09% and 0.42% mom, respectively. According to the Reuters' survey, monthly CPI was expected to fall by 0.10% mom in August. According to the CBRT's survey, on the other hand, markets' monthly CPI expectation was 0.15%.

The annual inflation in CPI was realized as 9.54%.

Monthly inflation, which generally follows a decreasing trend during summer months, continued to rise in this period of 2014. After having followed an upward trend in July, the annual CPI inflation maintained relatively its strong pace in August and was realized as 9.54%. In the same period, owing to the diminishing base effect, the annual D-PPI inflation also rose to 9.88%, nearing double-digit levels.

representing the main trend of inflation, continued to hover around their highest levels in 6 years. In fact, the annual increases in CBRT's favorite core indices denominated by H and I were realized as 10.36% and 9.68%, respectively.

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

The annual D-PPI inflation was 9.88% in August.

In August, developments in food prices were influential on the course of D-PPI. The price of food products increased by 1.59% mom and contributed to the inflation by 35 basis points. On the other hand, the prices in the manufacture of electricity and coke and refined petroleum products decreased in parallel with the decline in energy prices in global markets and limited the inflation by 15 basis points.

Expectations

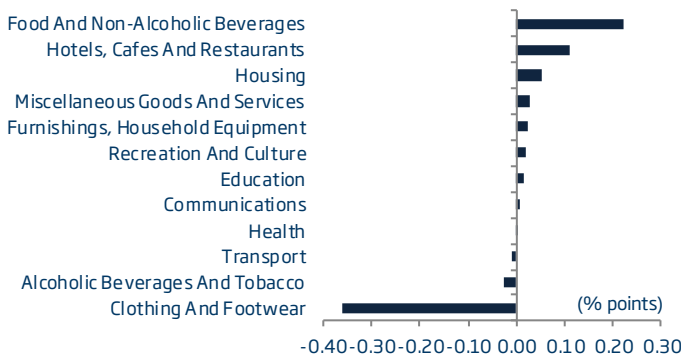
In September, we expect that the course of the food prices would continue to be influential on CPI figures, while transportation and education prices would also make positive contribution to inflation. However, clothing and footwear prices are anticipated to limit the rise in inflation thanks to the seasonal effects. In this context, we expect CPI and D-PPI to increase by 0.70% and 0.35% mom, respectively.

CPI - August	CPI - August		Domestic PPI - August	
	2013	2014	2013	2014
Monthly	-0.10	0.09	0.04	0.42
Year to Date	4.21	6.28	3.52	6.33
Annual	8.17	9.54	6.38	9.88
Annual Average	7.42	8.46	3.39	9.55

The rise in food prices...

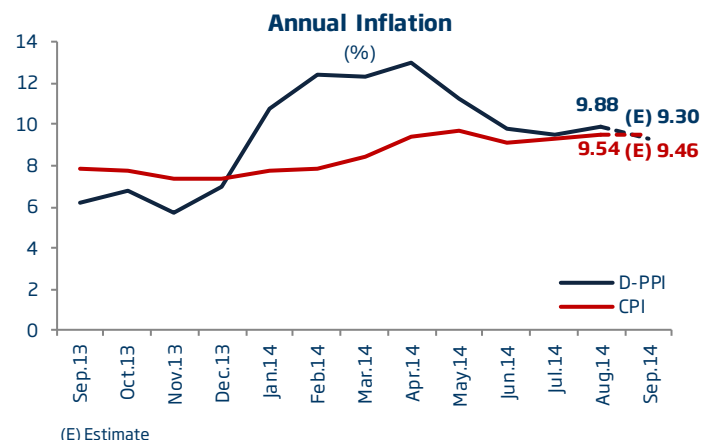
Analysis of the main expenditures groups in August revealed that the rise in inflation was widespread. In this period, the prices in food and beverages group increased by 0.89% mom and contributed to the monthly inflation by 22 basis points. After having remained stable in recent months, the price developments in hotels, cafes and restaurants, housing and miscellaneous goods and services also supported the rise in inflation. The seasonal price falls in the clothing and footwear, on the hand, limited the rise in inflation by 36 basis points.

Contributions to the Monthly CPI by Subgroups



The rise in core inflation indicators...

In August, seasonal factors limited the increase in monthly CPI inflation. Indeed, monthly inflation reached 0.49% when the seasonal products were excluded. The core inflation figures,



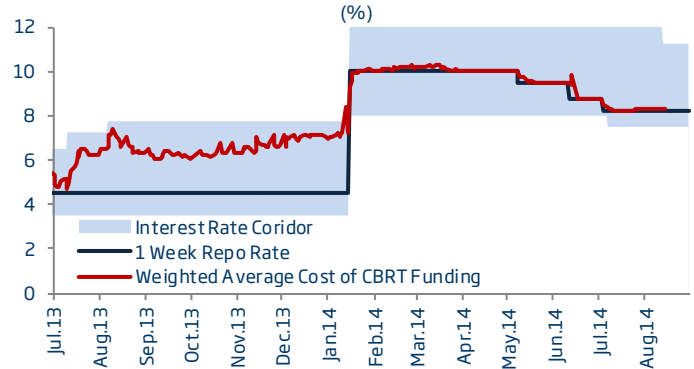
(E) Estimate

CBRT kept the policy rate unchanged at its August meeting.

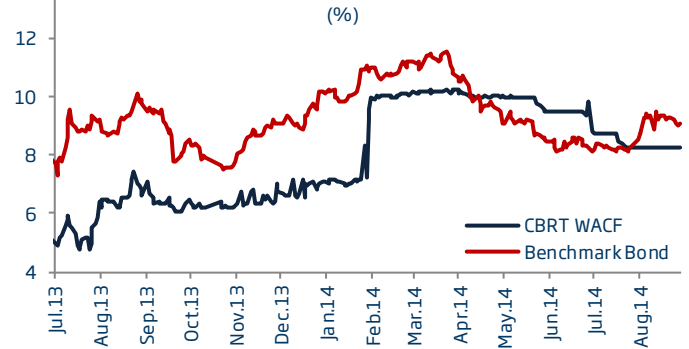
After having cut the one-week repo rate (policy rate) by a cumulative 175 basis points at its May, June and July meetings, CBRT kept the rate at 8.25% at its meeting held on August 27. The marginal funding rate (the overnight lending rate) was reduced from 12% to 11.25% while overnight borrowing rate was also kept at 7.5%. Following the meeting, CBRT announced that loan growth and private final domestic demand followed a modest course as a result of the tight monetary policy stance and macroprudential measures. CBRT also noted that the adverse impact of exchange rate developments on annual inflation diminished gradually. However, it was stressed that elevated food prices continued to delay the improvement in the inflation outlook.

We think that the room for further cuts in the policy rate is limited due to current rate of inflation which is significantly above the target and the data announcements regarding the US economy which show that the necessary conditions for rate hikes have started to develop.

CBRT Interest Rates



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



Source: CBRT, Borsa Istanbul

The growth rate in deposit volume continued to decelerate.

According to BRSA's Weekly Bulletin, as of August 22, total deposit volume recorded a limited increase of 4.1% ytd and was realized as 1,057 billion TRY.

The annual growth in deposits, which followed a downward trend in the first half of the year, displayed a relatively moderate course in July but started to decline again in August. As of August 22, the annual increase in deposits was realized as 14.7%, the lowest level since May 2013. During this period, TRY deposits rose by 8.5% and FX deposits in USD terms increased by 13.9%.

Annual growth rate of loan volume fell below 20%.

As the deceleration in total loan volume continued, the annual expansion in loans fell to 19.6% as of August 22. Year to date increase in loan volume, on the other hand, was realized as 8.4% and reached 1,154 billion TRY.

Consumer loans registered a limited increase of 2.4% ytd in line with the measures taken by the BRSA in the beginning of the year in order to slow down the growth in consumer loans. In the same period, commercial and corporate loans expanded by 11.1%.

Regarding non-performing loans (NPL), it was noteworthy that the NPL ratio of consumer loans rose by 0.5 point ytd to 3.4% as of August 22. NPL ratio of total credit volume was realized as 2.8%.

Securities portfolio...

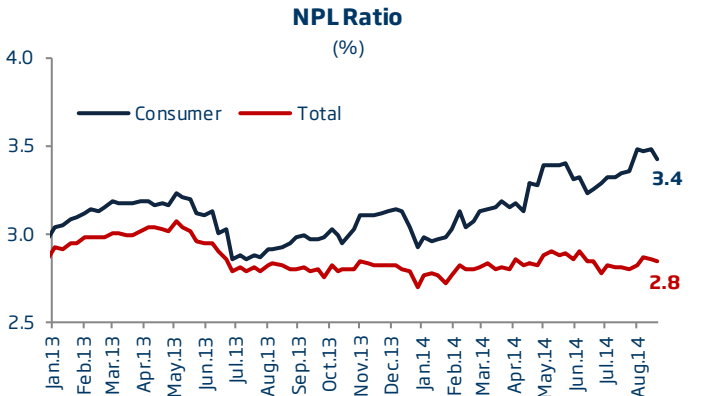
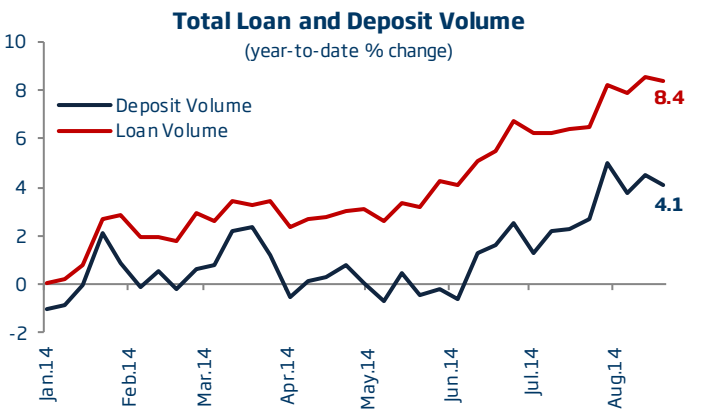
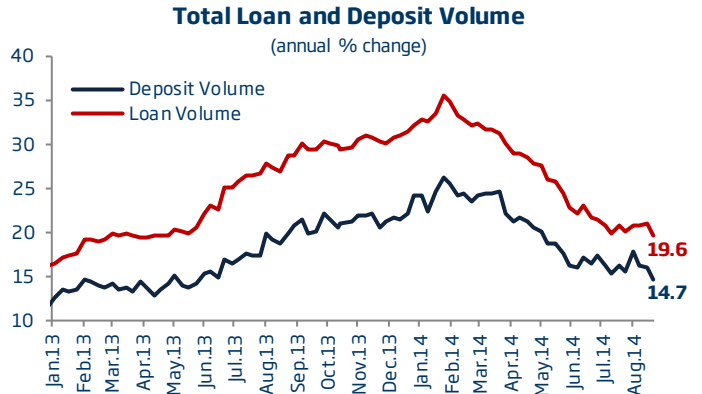
Securities portfolio of the banking sector increased by 1.7% ytd as of August 22. The increase was mainly stemmed from the expansion in securities subject to repo transactions.

Securities held in custody accounts...

In nominal terms, securities held in custody accounts rose by 5.7% ytd as of August 22. In this period, residents' portfolio increased by 8.6% while the rise in non-residents' portfolio was realized as 3.1%.

Net FX position...

As of August 22, banks' on-balance sheet FX position was (-) 37,257 million USD while off-balance sheet FX position was (+) 36,143 million USD. Hence, banks' net FX position was realized as (+) 1,114 million USD.



Source: BRSA Weekly Bulletin

Euro Area's GDP remained flat in the second quarter of the year and inflation kept its ultra-low level confirming that the weak economic outlook in the region persists. Whilst the Euro area is stagnating, the US economy gained pace in the second quarter of the year. According to the FOMC meeting minutes published in August, Fed officials stressed the improvement in the labor market and debated whether to increase interest rates sooner than previously anticipated should the positive trend in the labor market continued. Thus, economic data announcements which will give signals about the strength of the recovery in the US and Fed officials' comments on rate hikes might create volatility in capital flows to emerging markets in the coming period. Another risk factor to watch is the rising geopolitical concerns due to the recent developments in the Middle East and the continuing tension between Russia and Ukraine.

Regarding Turkish economy, with the presidential elections behind us and new cabinet was formed, political uncertainties have diminished. However, increasing number of leading indicators started to show loss of momentum in economic activity in recent months. While the real sector and consumer confidence indices declined, the ongoing problems in Middle East started to impact foreign trade figures negatively. The current inflation rate which is significantly above the target and Fed's being one step closer to the interest rate hikes in line with the recovery in the US economy make it harder for CBRT to lower the policy rate in order to support economy. The conflicts in Turkey's neighbours might also create downward pressure on economic activity in the coming period.

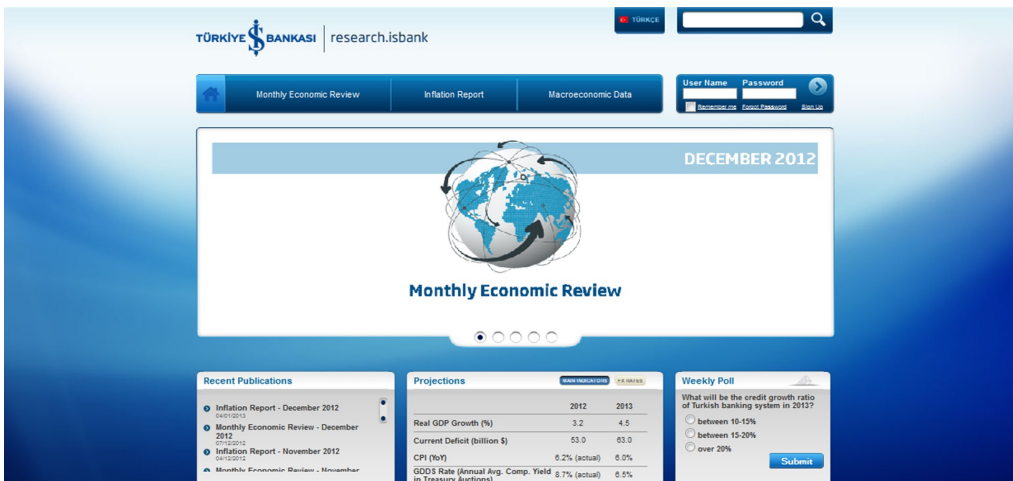
Forecasts (%)	2013 (R)	2014
Growth	4.0	3.0-3.5
CA Deficit/GDP	7.9	5.5
Inflation	7.4	8.5
GDDI Interest*	7.7	11.0

(*) Annual compound average interest rate in treasury auctions

(R) Realization

Interest and inflation are year-end forecasts

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 (04/02/2013)
- Monthly Economic Review - November (04/02/2013)

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%

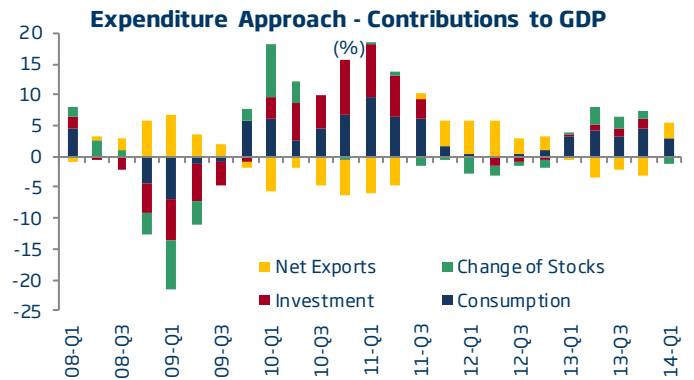
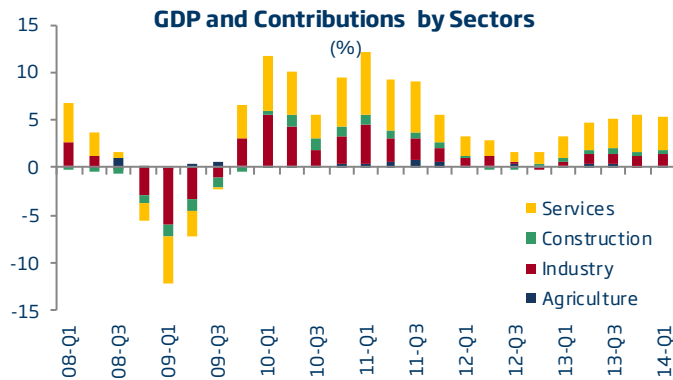
Weekly Poll

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

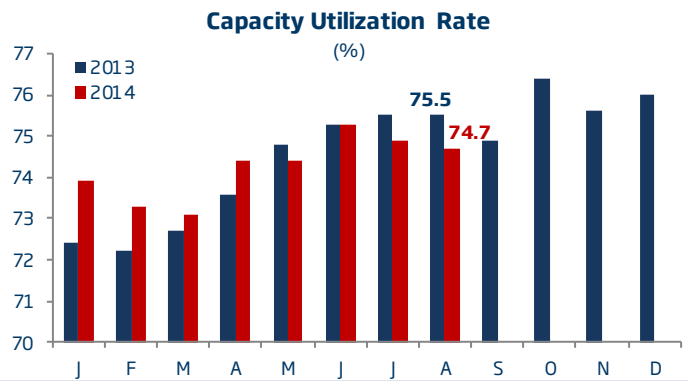
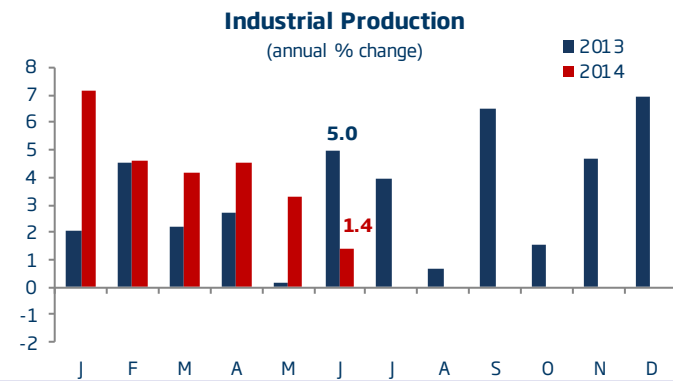
between 10-15%
 between 15-20%
 over 20%

Submit

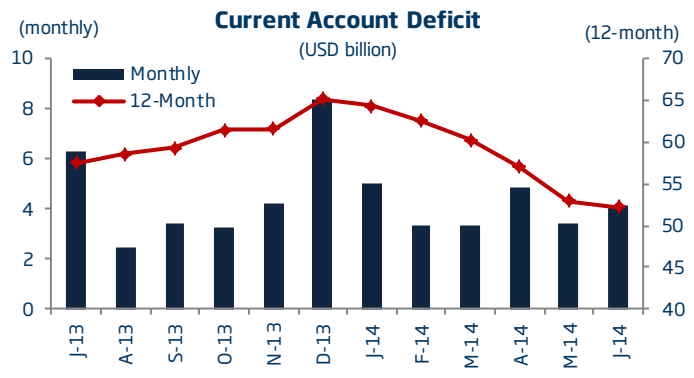
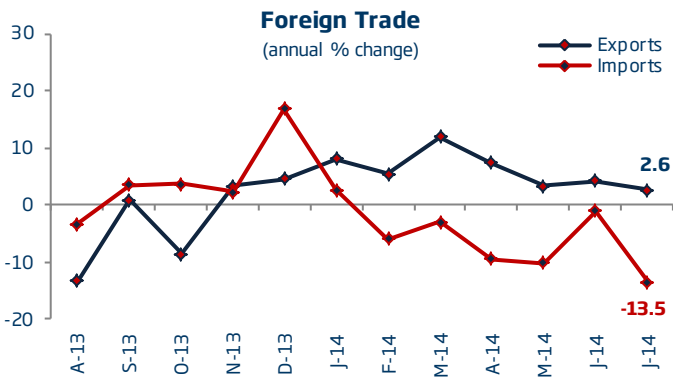
Growth



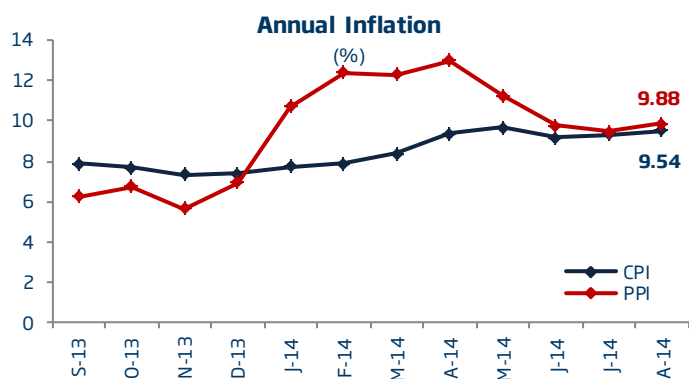
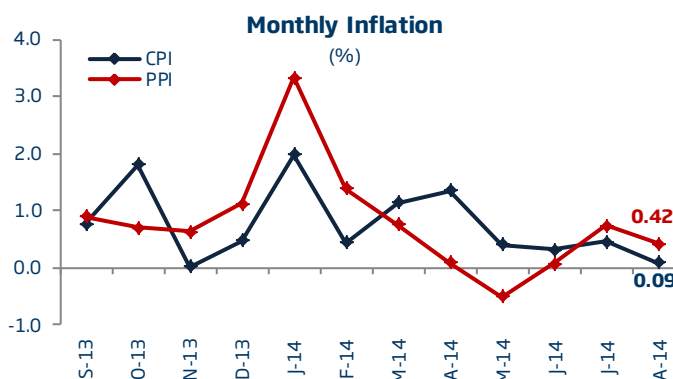
Industrial Production



Foreign Trade and Current Account Balance



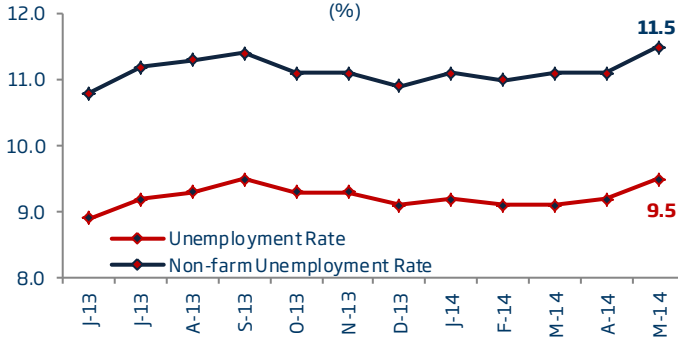
Inflation



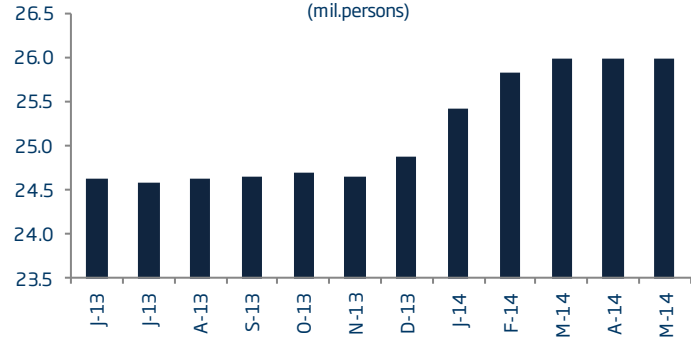
Source: Turkstat, CBRT

Labor Market

Seasonally Adjusted Unemployment Rates (%)



Seasonally Adjusted Employment (mil.persons)

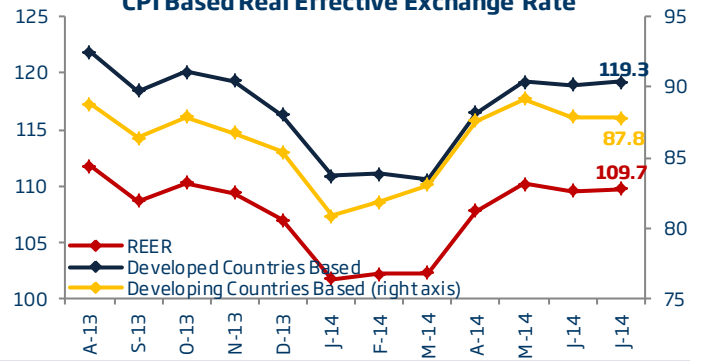


FX Market

Currency Basket

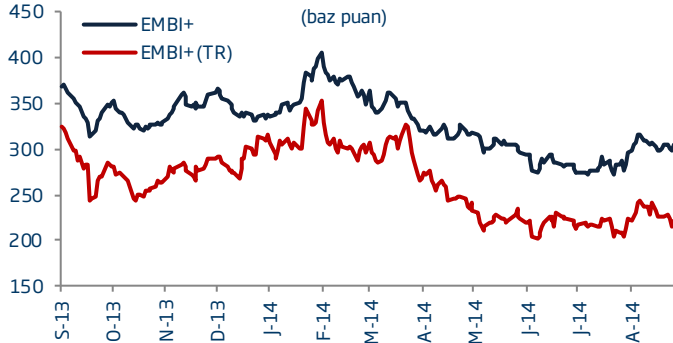


CPI Based Real Effective Exchange Rate

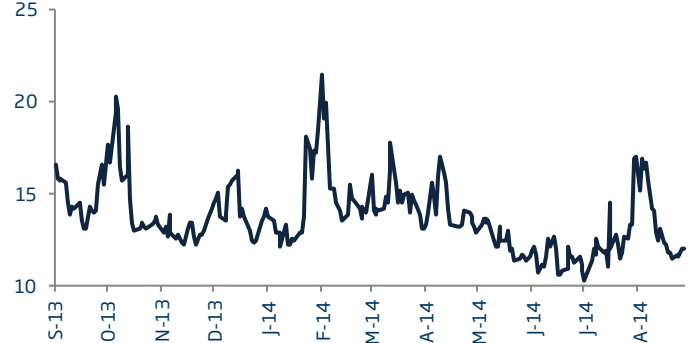


Risk Indicators

Risk Premiums (baz puan)

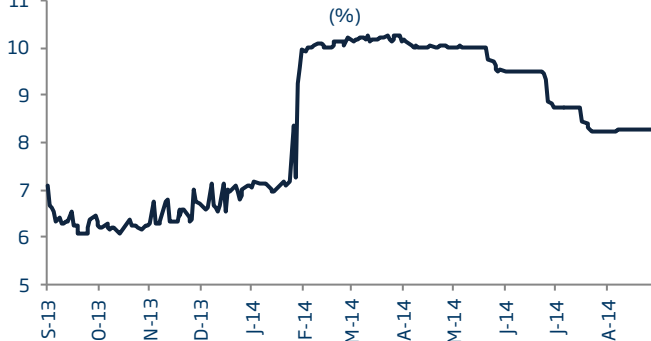


VIX



Interest Rates

Weighted Average Cost of CBRT Funding (%)

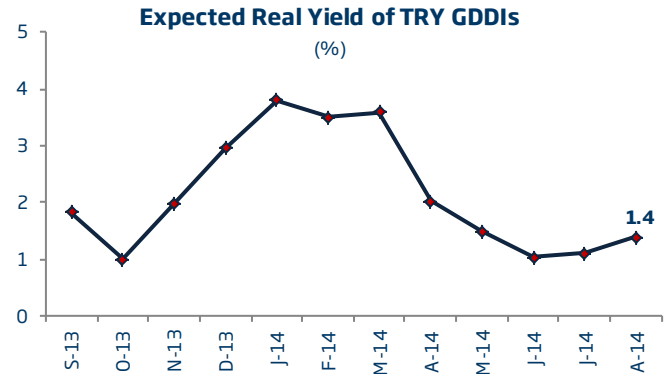
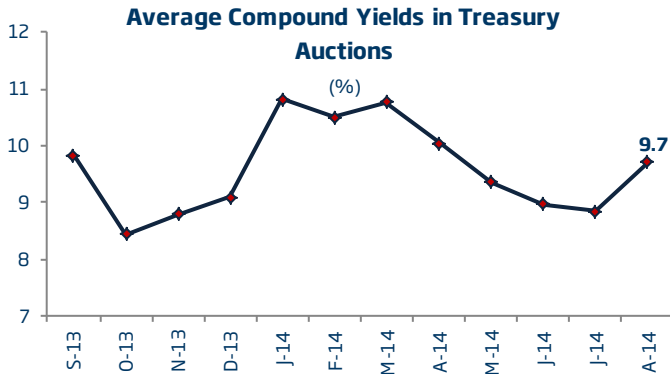


Compound Yield of Benchmark Bond (%)

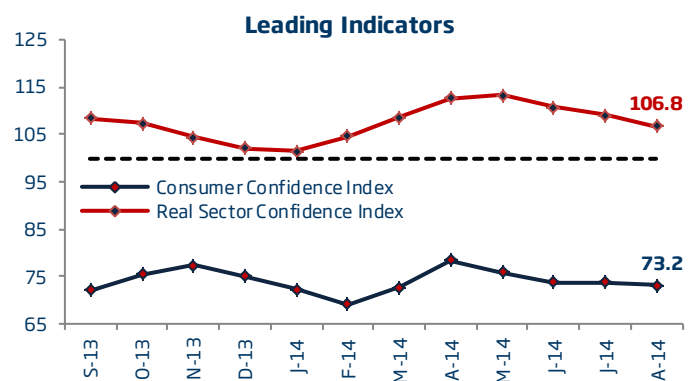
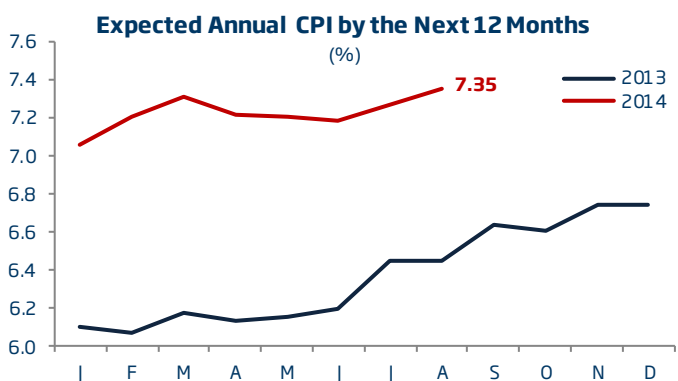
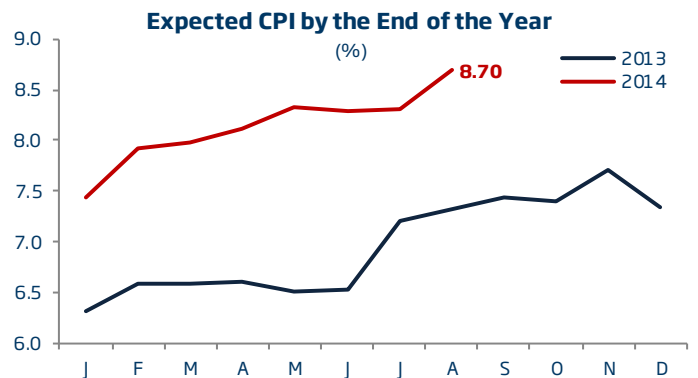
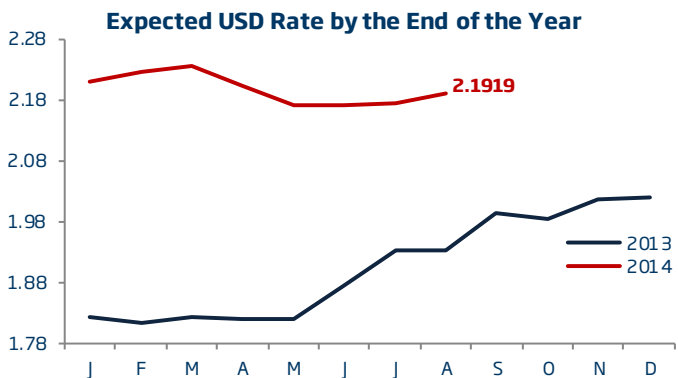
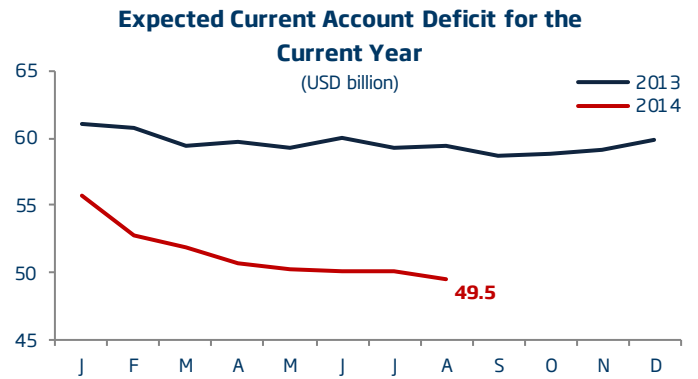
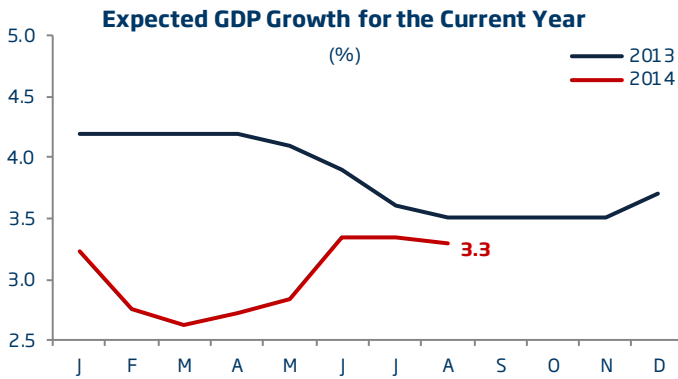


Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

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 (%)						Jun-14	Jul-14	Aug-14
CPI (annual)	6.5	6.4	10.4	6.2	7.4	9.2	9.3	9.5
PPI (annual)	5.9	8.9	13.3	2.5	7.0	9.8	9.5	9.9
Seasonally Adjusted Labor Market Figures						Mar-14	Apr-14	May-14
Unemployment Rate (%)	11.9	10.0	8.5	8.8	9.1	9.1	9.2	9.5
Employment (thousand persons)	21,413	22,631	23,498	24,484	24,891	25,994	26,002	25,996
FX Rates						Jun-14	Jul-14	Aug-14
CPI Based Real Effective Exchange Rate	116.8	125.8	109.6	118.2	107.0	109.6	109.7	
USD/TRY	1.5057	1.5460	1.9065	1.7826	2.1343	2.1234	2.0919	2.1619
EUR/TRY	2.1603	2.0491	2.4592	2.3517	2.9365	2.8919	2.8135	2.8528
Currency Basket (0.5*EUR+0.5*USD)	1.8330	1.7976	2.1829	2.0672	2.5354	2.5077	2.4527	2.5074
Foreign Trade Balance⁽¹⁾ (USD billion)						May-14	Jun-14	Jul-14
Exports	102.1	113.9	134.9	152.5	151.8	156.3	156.8	157.2
Imports	140.9	185.5	240.8	236.5	251.7	245.8	245.6	242.5
Foreign Trade Balance	-38.8	-71.7	-105.9	-84.1	-99.9	-89.5	-88.8	-85.3
Import Coverage Ratio (%)	72.5	61.4	56.0	64.5	60.3	63.6	63.9	64.8
Current Account Balance⁽¹⁾ (USD billion)						Apr-14	May-14	Jun-14
Current Account Balance	-12.1	-45.4	-75.1	-48.5	-65.1	-57.0	-52.9	-52.2
Capital and Financial Accounts	9.0	44.5	65.9	47.4	62.6	43.3	39.8	38.9
Direct Investments (net)	7.1	7.6	13.8	9.2	9.8	11.1	10.4	10.6
Portfolio Investments (net)	0.2	16.1	22.0	40.8	23.7	7.9	8.4	15.8
Other Investments (net)	1.9	33.7	28.4	18.4	39.1	17.8	21.0	17.2
Reserve Assets (net)	-0.1	-12.8	1.8	-20.8	-9.9	6.5	0.1	-4.7
Net Errors and Omissions	3.1	0.9	9.1	1.1	2.5	13.7	13.1	13.3
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	361.9	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	313.5	357.9	124.8	153.8	187.4
Revenues	215.5	254.3	296.8	332.5	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	19.0	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	Jun-14	Jul-14	Change ⁽¹⁾
TOTAL ASSETS	834.0	1006.7	1217.7	1370.7	1732.4	1830.2	1851.5	6.9
Loans	392.6	525.9	682.9	794.8	1047.4	1123.5	1137.6	8.6
TRY Loans	288.2	383.8	484.8	588.4	752.7	815.1	823.9	9.5
Share (%)	73.4	73.0	71.0	74.0	71.9	72.5	72.4	-
FX Loans	104.4	142.1	198.1	206.4	294.7	308.4	313.7	6.4
Share (%)	26.6	27.0	29.0	26.0	28.1	27.5	27.6	-
Non-performing Loans	21.9	20.0	19.0	23.4	29.6	32.2	32.9	11.0
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	291.3	288.6	0.7
TOTAL LIABILITIES	834.0	1006.7	1217.7	1370.7	1732.4	1830.2	1851.5	6.9
Deposits	514.6	617.0	695.5	772.2	945.8	975.1	1000.6	5.8
TRY Deposits	341.4	433.5	460.0	520.4	594.1	613.1	627.5	5.6
Share (%)	66.3	70.3	66.1	67.4	62.8	62.9	62.7	-
FX Deposits	173.2	183.5	235.5	251.8	351.7	362.0	373.1	6.1
Share (%)	33.7	29.7	33.9	32.6	37.2	37.1	37.3	-
Securities Issued	0.1	3.1	18.4	37.9	60.6	71.4	75.2	24.1
Payables to Banks	86.1	122.4	167.4	173.4	254.2	259.7	261.9	3.0
Funds from Repo Transactions	60.7	57.5	97.0	79.9	119.1	126.1	111.6	-6.3
TOTAL SHAREHOLDERS' EQUITY	110.9	134.5	144.6	181.9	193.7	214.5	217.3	12.2
Profit (Loss) of the Period	20.2	22.1	19.8	23.5	24.7	12.4	14.5	-
RATIOS (%)								
Loans/Assets	47.1	52.2	56.1	58.0	60.5	61.4	61.4	-
Securities/Assets	31.5	28.6	23.4	19.7	16.6	15.9	15.6	-
Deposits/Liabilities	61.7	61.3	57.1	56.3	54.6	53.3	54.0	-
Deposits/Loans	131.1	117.3	101.8	97.2	90.3	86.8	88.0	-
Capital Adequacy (%)	20.6	19.0	16.6	17.9	15.3	16.3	16.3	-

(1) Year-to-date % change



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