Monthly Economic Review
December 2014

Global Economy

- In November, G-20 leaders agreed to take new measures to support the global economy. Implementation of these strategies is expected to lift their collective GDP by USD 2 trillion through to 2018.
- In "Economic Outlook Report" published in November, OECD lowered its global growth forecasts compared to the previous report published in May. The Organization anticipated that the global growth would realize as 3.3%, 3.7% and 3.9% in 2014, 2015 and 2016, respectively.
- In the US, the 3rd quarter growth rate was revised up to 3.9% from 3.5%. Contrary to this upward revision to the growth figures, data announcements regarding the economy fell short of expectations and pointed to a gradual recovery in the economic activity. In this conjuncture, the growing expectations that the Fed would not be in hurry to increase the rates were maintained.
- A prolonged period of low inflation has remained as a concern regarding the Euro Area economies. According to preliminary figures, annual inflation decreased to 0.3% in November. On the other hand, economic growth was realized as 0.2% qoq in the third quarter, above the market expectations of 0.1%.
- Japanese economy unexpectedly contracted by 1.6% qoq in the third quarter of the year. With two consecutive quarters of shrinking economic activity, Japan's economy fell into a technical recession.
- At its meeting held on November 27, OPEC decided to keep its oil production target unchanged. Having faced growing pressures after the decision, oil prices dropped by 38% as of November 28 compared to end of June.

Turkish Economy

- In the third quarter of the year, industrial production index increased by 3.6% yoy. The increase in index was 3.2% yoy in the second quarter. Hence, the data revealed that industrial production gained momentum in the third quarter compared to the previous one.
- The foreign trade figures of October showed that the re-balancing in Turkish economy continued. Despite the ongoing problems in Turkey's main export markets, the total exports increased by 7.3% yoy in October. In contrast to the rise in exports, imports decreased by 1.5% yoy in October as a result of the fact that the expected revival in domestic demand have not materialized yet and the oil prices fell rapidly.
- In September current account deficit came in below the market expectations. For the first nine months of the year, the current account deficit narrowed by 37.2% yoy to 30.9 billion USD.
- Central government budget expenditures increased by 12% in October compared to the same period of the previous year. Budget revenues, on the other hand, rose by 13.8% in the same period. Thus, the budget deficit decreased from 3.2 billion TRY in October 2013 to 3 billion TRY in October 2014.
- While the monthly CPI inflation was below the expectations, the annual CPI inflation reached 9.15% due to the base effect. Contrary to expectations of a rise on monthly basis , D-PPI dropped compared to the previous month.
- At its Monetary Policy Meeting on November 20, CBRT kept the one-week repo rate (the policy rate), O/N borrowing rate and O/N lending rate unchanged at 8.25%, 7.5% and 11.25%, respectively.

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Industrial production increased by 2.2% yoy in September.

The calendar adjusted industrial production index rose by 2.2% yoy in September, in line with the market expectations. In the third quarter of the year, the index increased by 3.6% yoy. The annual increase in the index was 3.2% in the second quarter. Hence, the data revealed that industrial production gained momentum in the third quarter compared to the previous one. In fact, seasonally and calendar adjusted index also posted an increase of 1.5% on a quarterly basis. This reaffirmed that the improvement in the index did not stem from seasonality.

According to Markit, manufacturing PMI increased by 0.7 point mom and was realized as 52.2 in November, the highest level registered in nine months. This development mainly stemmed from the rise in output, new orders and purchasing items recorded during the said period. Hence, the index continued to stay above the threshold level of 50, which signals an expansion in manufacturing sector, for the fourth consecutive months.

Decline in confidence indices...

Real sector confidence index decreased by 1.8 points yoy to 102.7 in November. The seasonally adjusted index also fell by 1.4 points mom. The drop in total amount of orders (over the past 3 months), volume of output (for the next 3 months) and export orders (for the next 3 months) played a significant role in the deterioration of the business sentiment. Fixed investment expenditures and general business situation items, on the other hand, posted increases during this period.

Consumer confidence index also dropped by 1.7 points mom in November. Having fallen to 68.7, the index came in at the lowest level observed in over the last 4 years. Analyzing the sub-indices, it was seen that the fall registered in the items of probability of saving (over the next 12 months), buying a car (over the next 12 months) and buying a home (over the next 12 months) affected the confidence index negatively. On the other hand, the probability of borrowing money (over the next 3 months) had the strongest performance among all sub-indices.

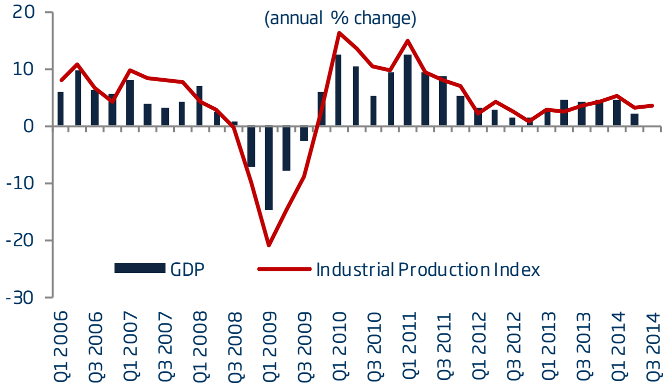
Having been 74.5% in November, capacity utilization rate of manufacturing industry declined on a monthly basis for the fifth month in a row. However, the seasonally adjusted rate continued to follow a flat course as it has been the case since July 2014.

Unemployment rate continued to follow an upward trend.

According to the Household Labor Force Survey, unemployment rate increased by 1.1 points yoy and reached 10.1% in August. In the same period, seasonally adjusted unemployment rate, on the other hand, followed a flat course on a monthly basis.

Industrial Production Index* and GDP

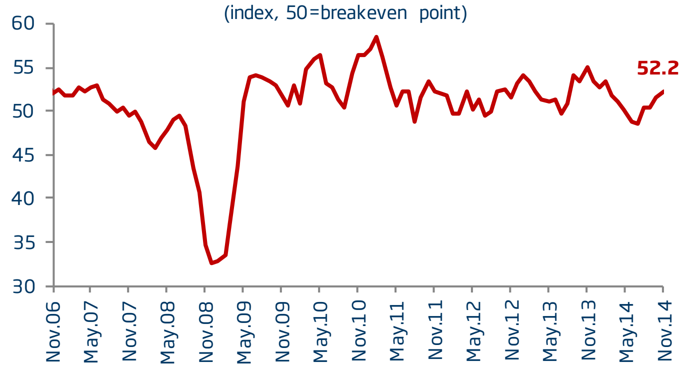
(annual % change)



(*) Calendar adjusted

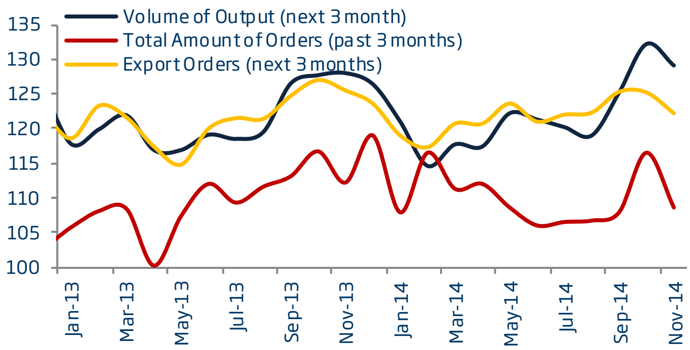
Manufacturing PMI

(index, 50=breakeven point)



Real Sector Confidence Index

(seasonally adjusted)



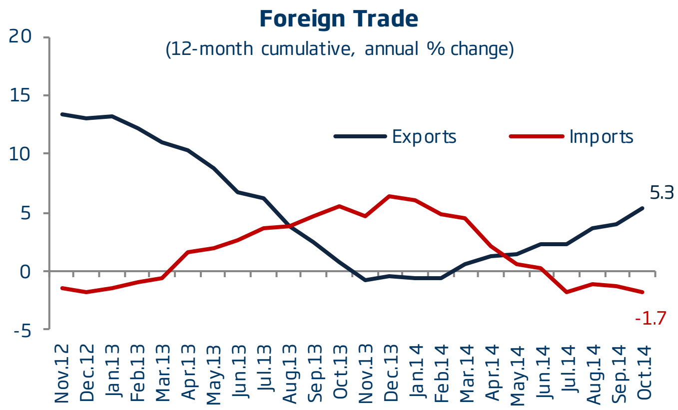
Source: Turkstat, CBRT

In October, exports increased by 7.3% while imports declined by 1.5%.

The foreign trade figures of October showed that the re-balancing in Turkish economy continued. Despite the ongoing problems in Turkey's main export markets, the total exports increased by 7.3% yoy in October. For the first ten months, exports increased by 5.6% yoy.

In contrast to the rise in exports, imports decreased by 1.5% yoy in October as a result of the fact that the expected revival in domestic demand have not materialized yet and the oil prices fell rapidly. In the first ten months, imports decreased by 3.9% yoy.

Thus, the foreign trade deficit narrowed by 18.2% in the first ten months and the import coverage ratio increased from 60.1% to 66%.

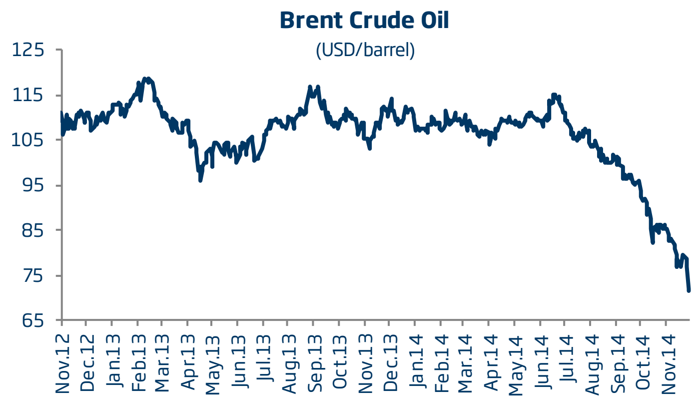


Automotive sector continued to rank first in exports.

The automotive sector ranked first in exports in the first ten months of the year with an export volume of 15.1 billion USD. This sector was followed by machineries while knitted goods ranked third. The iron and steel exports, on the other hand, declined during this period.

The fall in oil prices is expected to lower the import bill.

Imports of mineral fuels and oils, which constitute around one fourth of Turkey's total imports, decreased by 3.8% yoy in October. In the first ten months, imports of this chapter remained almost unchanged compared to the same month of the previous year. As the fall in oil prices accelerated recently in global markets, the mineral fuels and oils import bill is expected to decline further.



The gold imports continued to decline in October and made significant contribution to the narrowing in foreign trade deficit during 2014. The precious metals imports, which include mainly gold imports, decreased from 13.8 billion USD in the first ten months of 2013 to 5.3 billion USD in the same period of 2014. Thus, 8.4 billion USD of the total 15.1 billion USD decline in the foreign trade deficit in the first ten months of 2014 stemmed from the developments in the said chapter.

Turkey's exports to Iraq and Russia continued to decline.

Turkey's exports to Iraq and Russia, which were the second and the fourth biggest export markets of Turkey as of 2013, continued to decline in October due to the ongoing problems in both countries. Exports to Iraq decreased by 18.2% yoy and exports to Russia fell by 20.3% yoy in October. In the first ten months, exports to Iraq and Russia decreased by 7% yoy and 12.9% yoy, respectively. Iraq continued to keep its place in Turkey's top 10 export markets by ranking second. However, Russia fell from the fourth place to the seventh. Considering that the problems in both countries are not likely to be solved in the short-term, it will take time to increase the exports to these destinations to their former levels.

Exports to European Union increased by 11.7% in the first ten months.

Although the recovery in the European Union economies is weaker than expected and the demand conditions in the region is poor, Turkey's exports to the European Union increased by 8.1% yoy in October. The increase in the first ten months was 11.7% yoy. Thus, the share of European

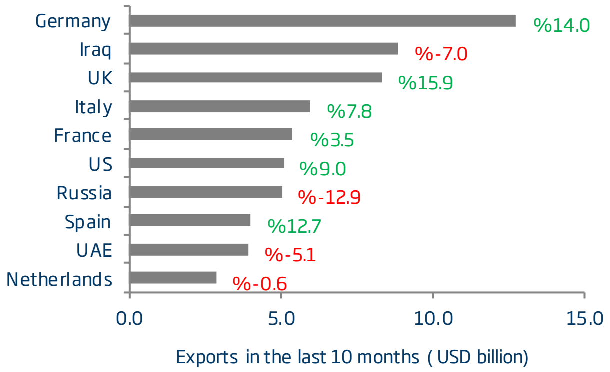
Foreign Trade Balance (USD billion)

	October		Change	January-October		Change
	2013	2014	(%)	2013	2014	(%)
Exports	12.1	12.9	7.3	124.4	131.4	5.6
Imports	19.5	19.2	-1.5	207.1	199.0	-3.9
Foreign Trade Balance	**-7.4**	**-6.3**	**-15.8**	**-82.7**	**-67.6**	**-18.2**
Import Coverage Ratio (%)	61.9	67.4	-	60.1	66.0	-

Source: Turkstat

Union in Turkey's total exports increased from 41.4% in the first ten months of 2013 to 43.8% in the same period of 2014. Analyzing by countries, the exports to Germany increased by 14% yoy and exports to UK increased by 15.9% yoy in the first ten months. It was also noteworthy that the exports to US increased by 9% yoy in this period.

Top 10 Export Destinations of Turkey



Note: Figures on the right side of bars show the yoy change in the first ten months of 2014.

Expectations

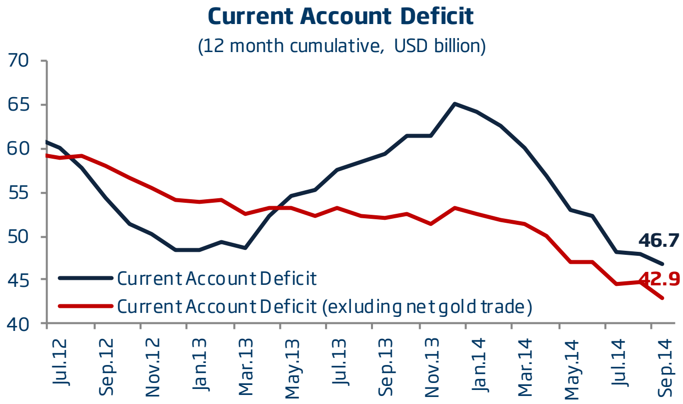
The foreign trade figures pointed out that the export momentum of Turkey was broadly kept thanks to the rising exports to European Union and US despite the ongoing problems in Turkey's other main export destinations, namely Iraq and Russia.

Imports might start to accelerate in the coming months in parallel with the expected enlivening in domestic demand as a result of the lagged impacts of the CBRT's interest rate cuts in previous months. On the other hand, recent fall in oil prices is estimated to balance the upward pressure on imports that might stem from the enlivening in domestic demand. In fact, oil prices declined by around 35% since June due to the mounting concerns over global economic growth. Lately, OPEC's decision to keep the oil supply unchanged also accelerated the fall in oil prices.

Source: Turkstat

Current account deficit continued to narrow.

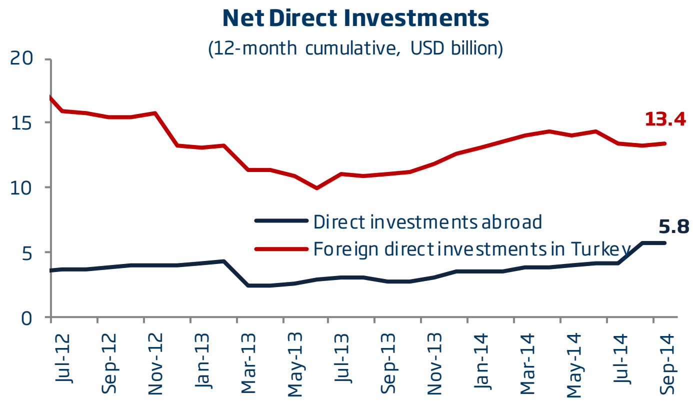
Current account deficit came in 2.2 billion USD in September, below the market expectation of 2.6 billion USD. For the first nine months of the year, the current account deficit narrowed by 37.2% yoy to 30.9 billion USD. The 12-month cumulative current account deficit decreased to 46.7 billion USD. The highest level of the 12-month current account deficit was registered in October 2011 with 76.8 billion USD. CBRT started to publish the balance of payment figures in accordance with the Sixth Edition of the Balance of Payments Manual.



The narrowing in the foreign trade deficit made the highest contribution to the improvement in the current account deficit. In fact, the measures taken by the BRSA and CBRT'S tight monetary policy implementation limited the growth in domestic demand and thus imports (according to the balance of payments figures) decreased by 4.1% yoy in the first nine months. During the same period, despite the ongoing problems in Turkey's main export destinations, exports were up 6.6% yoy. In addition, the negative impacts of the gold trade on the current account deficit have disappeared to a large extent during 2014. The deficit stemming from gold trade decreased to 1 billion USD in the first nine months of the year, down from 9 billion USD during the same period of the previous year. The surplus in services balance, which has mainly stemmed from tourism revenues, increased by 12.6% yoy in the first nine months and notably contributed to the narrowing of the current account deficit.

Net portfolio inflows amounted to 13.6 billion USD in the first nine months.

Portfolio investments continued to have the highest share in the financing of the current account deficit. Following the capital outflow in August, portfolio investments registered net 1.4 billion USD inflow in September. Thus, the total net portfolio inflows in the first nine months reached 13.6 billion USD.



Foreign direct investment inflows in the first nine months reached 9.1 billion USD.

The foreign direct investment inflows in the first nine months reached 9.1 billion USD in the first nine months of the year, up from 8.4 billion USD in the same period of the previous year. The rise in foreign direct investment inflows despite the slowdown in Turkish economy and the heightened geopolitical risks in Turkey's neighbors is regarded as a very encouraging development. During the first nine months, foreign direct investment outflows increased to 4.2 billion USD, up from 2 billion USD a year ago.

Breakdown of Net Capital Inflows Towards Turkey (12-month cumulative, million USD)

			Breakdown of Capital Inflows (%)	
	December 2013	September 2014	December 2013	September 2014
Current Account Balance	**-65,034**	**-46,731**	-	-
Total Net Foreign Capital Inflows	**74,945**	**50,184**	**100.0**	**100.0**
-Direct Investments	9,196	7,671	12.3	15.3
-Portfolio Investments	23,692	18,239	31.6	36.3
-Other Investments	38,980	16,528	52.0	32.9
-Net Errors and Omissions	3,170	7,799	4.2	15.5
-Other	-93	-53	-0.1	-0.1
Reserves(1)	**-9,911**	**-3,453**	-	-

Note: The numbers may not add up to total due to rounding.
(1) (-) sign indicates an increase in reserves while (+) sign indicates a decrease.

Source: CBRT

Thus, net portfolio investments decreased compared to the same period of the previous year.

Banking sector continued to raise funds from abroad.

Banking sector borrowed net 3.2 billion in September, bringing the total net borrowing of the banking sector to 7.9 billion USD in the first nine months. 5 billion USD of this amount is long term loans while the rest is short term loans. The non-bank sectors, on the other hand, borrowed net 3.3 billion USD from abroad. Of this amount, 3.1 billion USD is long term loans. During the same period, banks' and non-bank sectors' long-term debt roll-over ratios were realized as 177% and 119%, respectively.

Net errors and omissions account recorded 7.6 billion USD inflows in the first nine months of the year.

In September, net errors and omissions account registered an outflow of 321 million USD. In the first nine months of the year, on the other hand, 7.6 billion USD of inflow was registered and this account also played an important role in the financing of the deficit. Reserve assets increased by 2.9 billion USD in the first nine months.

Expectations

The improvement in the current account deficit in the first nine months of the year was mainly driven by two factors. One is the fact that the export momentum was sustained despite the ongoing problems in the main export markets. The other is the delay in the expected revival in domestic demand which helps to contain import growth. Should the domestic demand enliven in the rest of the year, the improvement in the current account might lose pace. On the other hand, oil prices fell by almost 30% in the last five months. If the oil prices keep their low level, they will also help to ease the upward pressures on the current account deficit. We expect that the current account deficit to GDP ratio, which was 7.9% at the end of 2013, will decline to 5.7% at the end of 2014.

The expectations that the Fed is in no hurry to raise the interest rates increased, which is positive for the financing of the current account deficit. Besides, the fact that the ECB and BoJ are maintaining their expansionary monetary policies might improve the global liquidity conditions.

Current Account Balance (USD million)

	September 2014	Jan.-Sep. 2013	Jan.-Sep. 2014	% Change	12 Month Cumulative
Current Account Balance	**-2,224**	**-49,163**	**-30,860**	**-37.2**	**-46,731**
Foreign Trade Balance	-5,002	-60,854	-45,481	-25.3	-64,840
Services Balance	3,457	18,146	20,432	12.6	25,418
Tourism Revenues (net)	3,352	17,877	19,390	8.5	24,693
Income Balance	-817	-7,432	-6,630	-10.8	-8,548
Current Transfers	138	977	819	-16.2	1,239
Capital and Financial Accounts	**2,545**	**46,209**	**23,277**	**-49.6**	**38,932**
Direct Investments (net)	609	6,438	4,913	-23.7	7,671
Portfolio Investments (net)	1,443	19,013	13,560	-28.7	18,239
Assets	116	2,428	-613	-	-440
Liabilities	1,327	16,585	14,173	-14.5	18,679
Equity Securities	-408	-326	1,583	-	2,751
Debt Securities	1,735	16,911	12,590	-25.6	15,928
Other Investments (net)	47	30,214	7,762	-74.3	16,528
Assets	-2,843	3,240	-2,533	-	-3,403
Currency and Deposits	-1,693	4,406	-471	-	-329
Liabilities	2,890	26,974	10,295	-61.8	19,931
Trade Credits	333	3,828	-397	-	1,378
Loans	2,234	13,870	10,175	38.0	18,099
Banking Sector	3,154	14,781	7,885	-46.7	14,738
Non-bank Sectors	-768	-416	3,270	-	4,716
Deposits	290	8,742	81	-99.1	-28
Foreign Banks	109	7,368	-102	-	-244
Foreign Exchange	-1,660	8,284	-2,425	-	-4,335
Turkish Lira	1,769	-916	2,323	-	4,091
Non-residents	522	2,871	2,169	-24.5	2,705
Reserve Assets (net)	449	-9,363	-2,905	-69.0	-3,453
Net Errors and Omissions	**-321**	**2,954**	**7,583**	**156.7**	**7,799**

Source: CBRT

The central government budget gave 14.9 billion TRY deficit during January-October.

According to the Ministry of Finance's announcements, central government budget expenditures increased by 12% in October compared to the same period of the previous year. Budget revenues, on the other hand, rose by 13.8% in the same period. Thus, the budget deficit decreased from 3.2 billion TRY in October 2013 to 3 billion TRY in October 2014.

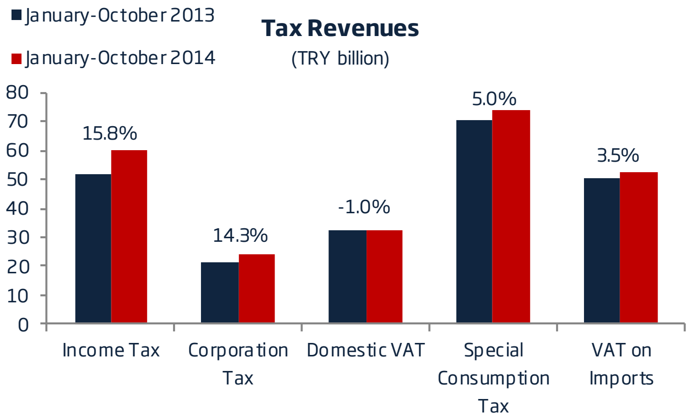
Regarding the cumulative figures for the first 10 months, budget expenditures increased by 10.6% yoy while budget revenues recorded a relatively low growth rate of 8.6% yoy. In this context, the budget deficit increased from 7.7 billion TRY in the first 10 months of 2013 to 14.9 billion TRY in the same period of 2014. Thus, the cumulative deficit reached 61.2% of the year-end target (24.4 billion TRY) as of October. During the same period, primary surplus was realized as 30.3 billion TRY.

The expansion in interest expenditures...

Regarding the budget expenditures, annual growth rate in interest expenditures was realized as 190.7% in October. Ministry of Finance announced that the sharp increase in the interest expenditures was periodic and mainly depended on the maturity of debt stock. In addition, the Ministry of Finance pointed out that the interest expenditures exhibited a balanced outlook, in line with the year-end targets.

In October, the increase in budget expenditures mainly stemmed from the expansion in personal expenditures as well as acceleration in goods and services purchases. On the other hand, a 23.5% yoy fall in health, retirement and social aid expenditures limited the increase in total expenditures in October. It was seen that the budget expenditures generally were in line with the year-end targets while funds allocated to metropolitan municipalities exceeded the year-end target.

In January-October period, on the other hand, interest expenditures declined by 2.1% yoy, while non-interest expenditures increased by 12.7% yoy. In this period, current transfers, which have the highest share among non-interest expenditures, rose by 10.3% yoy, while the increase in the personal expenditures, the second biggest account, was realized as 14.9%.



Weak performance in tax collection...

In October, increase in non-tax revenues was influential on the course of budget revenues in October. The rise in tax revenues remained limited due to the moderate course of domestic economic activity in 2014. In fact, tax collection increased by 7.3% yoy, while portfolio revenue of treasury was realized as 2.5 billion TRY, expanding by almost 5-fold. Analysis of tax revenues revealed that special consumption tax revenues from motor vehicles increased by 63.2% yoy in October.

During January-October period, having increased by 8.6% yoy, total budget revenues reached 82% of the year-end target. In this period, domestic VAT revenues contracted by 1% yoy, while revenues collected from Special Consumption Tax recorded a limited increase of 5% yoy. On the other hand, during the same period, revenues from income and corporation taxes expanded by 15.8% and 14.3% yoy, respectively.

Expectations

Central government budget figures for the first ten months of 2014 revealed that the tax revenues followed a weak course while non-interest expenditures recorded a substantial increase. However, budget realizations remained consistent with the year-end targets.

Central Government Budget (TRY billion)

	October 2013	October 2014	% Change	January-October 2013	January-October 2014	% Change	2014 Budget Target	MTP Target (%)	Real./ MTP Tar. (%)
Expenditures	**33.2**	**37.2**	**12.0**	**327.7**	**362.6**	**10.6**	**436.4**	**448.4**	**80.9**
Interest Expenditures	2.4	7.0	190.7	46.2	45.3	-2.1	52.0	50.2	90.2
Non-interest Expenditures	30.8	30.2	-1.9	281.5	317.3	12.7	384.4	398.2	79.7
Revenues	**30.0**	**34.2**	**13.8**	**320.1**	**347.7**	**8.6**	**403.2**	**424.0**	**82.0**
Tax Revenues	26.0	27.9	7.3	266.3	286.6	7.6	348.4	351.6	81.5
Other Revenues	4.0	6.2	56.4	53.8	61.1	13.6	54.8	72.4	84.4
Budget Balance	**-3.2**	**-3.0**	**-5.0**	**-7.7**	**-14.9**	**94.9**	**-33.3**	**-24.4**	**61.2**
Primary Balance	**-0.8**	**4.0**	**-**	**38.6**	**30.3**	**-21.4**	**18.7**	**25.8**	**117.6**

Numbers may not add up to total due to rounding
Source: Finance Ministry

CPI inflation came in below the expectations in November.

In November, CPI increased by 0.18% mom while Domestic PPI (D-PPI) decreased by 0.97% mom. According to the Reuters' survey, CPI was expected to rise by 0.30% mom in November. According to the CBRT's survey, markets' monthly CPI expectation was 0.46%.

Annual CPI inflation was realized as 9.15%.

While the monthly CPI inflation was below the expectations, the annual CPI inflation reached 9.15% due to the base effect. Contrary to expectations of a rise on monthly basis , D-PPI dropped compared to the previous month. Accordingly, annual inflation in D-PPI was realized as 8.36% in November, recording the lowest annual increase in 2014.

A significant fall was recorded in transport prices.

Analysis of the main expenditure groups in November showed that the decline in the transport prices was influential in the lower than expected monthly CPI inflation. Indeed, owing to the fall in energy prices, 1.79% mom decline in transport prices lowered monthly inflation by 29 basis points. In addition, the decline in the prices of recreation and culture and communication groups made 6 basis points decreasing effect on the CPI. On the other hand, seasonal price increases in clothing and footwear group made 31 basis points contribution to the inflation. The developments in food prices, which were responsible for the higher than expected course of the CPI inflation throughout the year, made a limited contribution of 6 basis points to the CPI.

The core inflation indicators exhibited a flat course.

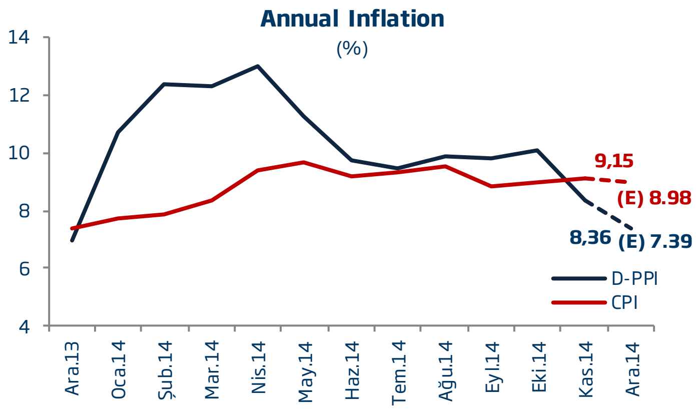
In November, seasonal factors had an upward impact on the CPI inflation. In fact, CPI fell by 0.05% mom when seasonal products are excluded. On the other hand, monthly CPI inflation excluding energy prices, which had a significant impact on the course of CPI in November, rose to 0.44%. Annual increases in CBRT's favorite core indices denominated by H and I, were realized as 9.89% and 9.03%, respectively, exhibiting a flat course in November.

The annual D-PPI inflation receded to 8.36% in November.

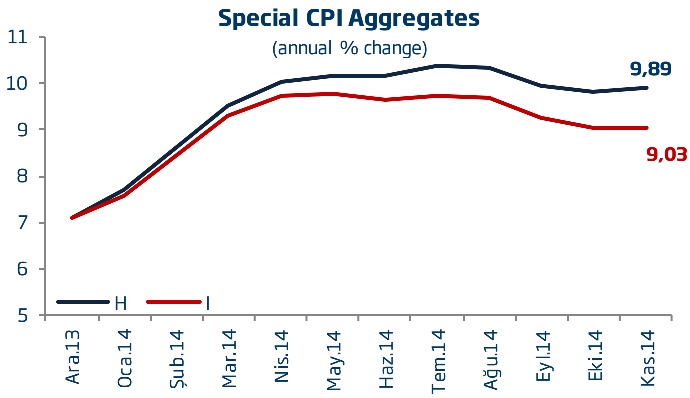
Annual increase in D-PPI, which reached a peak of 13% in April 2014, declined to 8.36% in November on the back of the lower energy prices. Analysis of the price developments in sub-sectors revealed that there had been a broad-based deceleration in the prices in November. The D-PPI inflation was mostly driven by the price developments in coke and refined petroleum products, electricity and gas production and distribution and basic metals sectors. Indeed, the price falls in the said groups reduced the monthly CPI inflation by 64 basis points in November.

Expectations

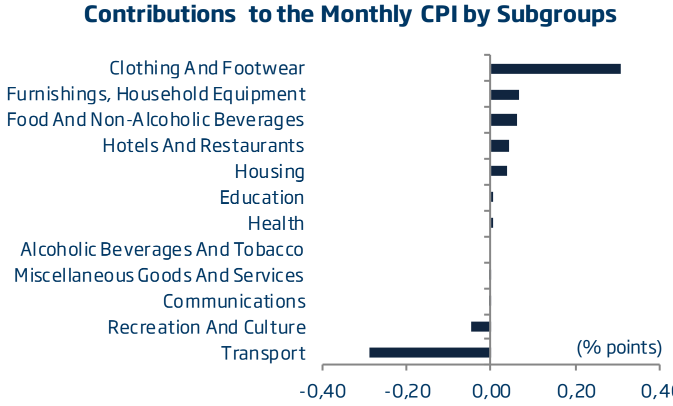
We anticipate that the seasonal price discounts in clothing and footwear group together with the low level of the energy prices will be influential on the course of the CPI inflation in December. In this context, we expect CPI and D-PPI to increase by 0.30% and 0.20% mom, respectively. We anticipate that the year-end annual CPI inflation will be around 9%.



(E) Estimate



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



Source: Turkstat

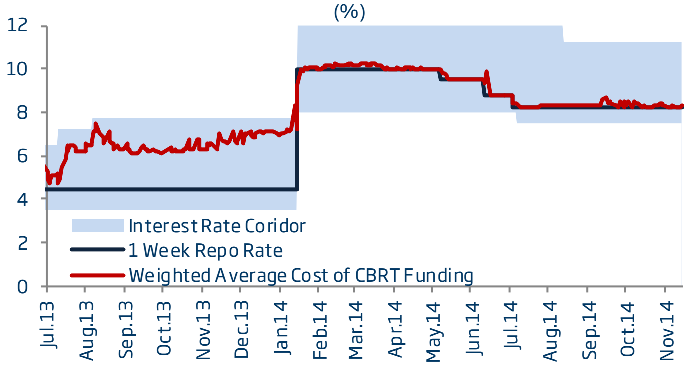
CBRT kept the policy rate unchanged at its November meeting.

At its Monetary Policy Meeting on November 20, CBRT kept the one-week repo rate (the policy rate), O/N borrowing rate and O/N lending rate (marginal funding rate) unchanged at 8.25%, 7.5% and 11.25%, respectively.

Following the meeting, CBRT announced that the loan growth was at reasonable levels thanks to the tight monetary policy stance and macroprudential measures. However, CBRT also noted that the domestic demand started to make a higher contribution to growth recently. The rise in food prices were cited as the main factor delaying the improvement in inflation outlook. On the other hand, CBRT stated that the downward trend in commodity prices, in particular falling oil prices, would support the expected decrease in inflation in the coming period. Regarding the current account deficit, it was announced that the moderate course of consumer loans and the favorable terms of trade might contribute to the improvement in the current account balance.

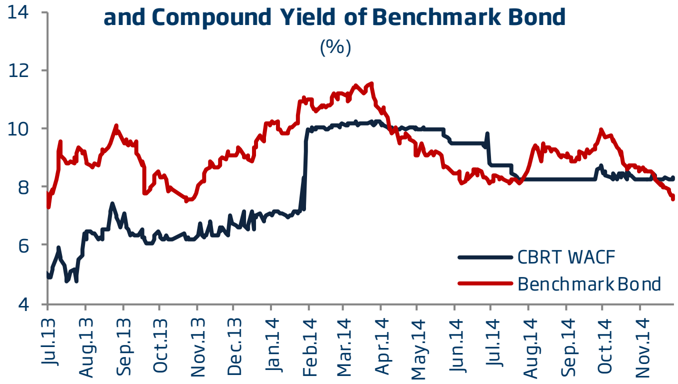
CBRT Interest Rates

(%)



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

(%)



CBRT published the Financial Stability Report.

CBRT published the second Financial Stability Report of 2014 in November. According to the Report, the macroprudential measures have contributed significantly to the gradual improvement in the ratio of household financial assets to household financial liabilities. The growth in household financial assets continued thanks to the rising savings rate and the increase in pension funds. On the liabilities front, it was noted that the increase in household indebtedness slowed down as the growth in individual credit card debts and vehicle loans were taken under control.

Analyzing the developments in real sector, it was noted that the ratio of real sector's financial liabilities to GDP continued to increase mainly due to the rise in domestic liabilities. CBRT noted that the increase in real sector's domestic liabilities originated from the rise in TL loans while the growth in FX loans was relatively moderate. According to the Report, the ratio of real sector's foreign liabilities to GDP followed a stable course. In addition, the fall in the share of short-term foreign liabilities in real sector's total foreign liabilities was cited as a positive development in terms of debt sustainability.

Source: CBRT, Borsa Istanbul

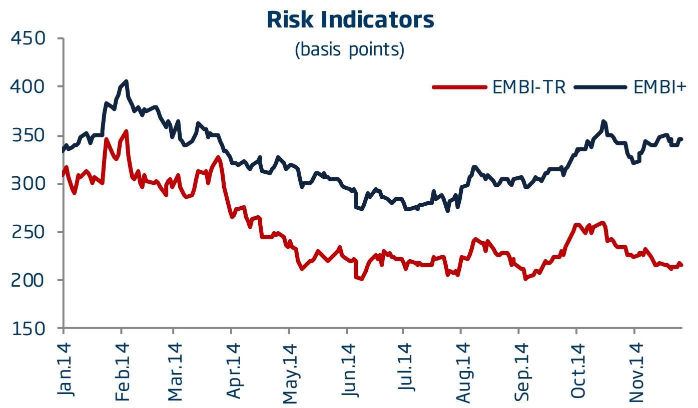
Risk perception towards Turkey followed a volatile course in November.

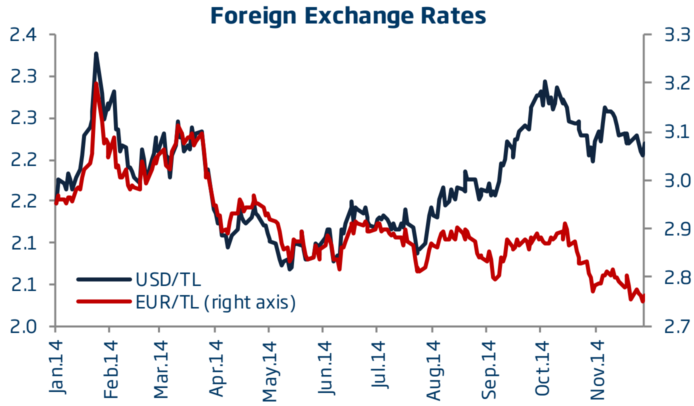
The news that the conflicts in Ukraine started again at the beginning of November increased the risk perception towards the emerging market economies including Turkey. Moreover, strong US job data raised expectations that Fed might increase rates sooner rather than later. In this context, risk indicators of Turkey moved upward, Turkish Lira depreciated against USD and stock market index dropped sharply in the first week of November.

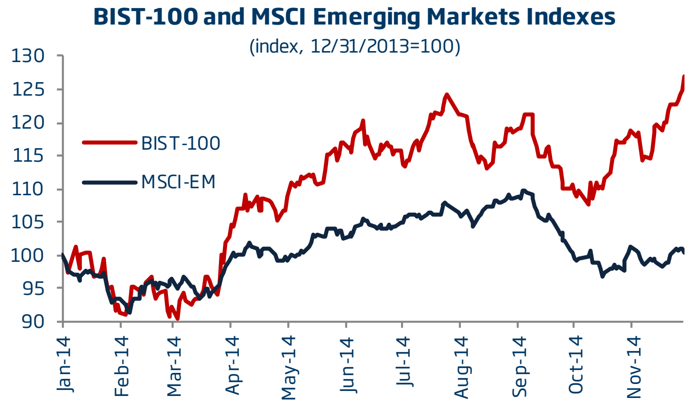
In the following days, on the other hand, the concerns eased to some extent and the fall in oil prices is expected to lead to an improvement in current account balance and inflation of Turkey. Risk appetite for Turkey's assets started to recover as these developments reinforced the expectations of a rate cut by the CBRT. As a result, since the second week of November, Turkish Lira appreciated and İstanbul stock exchange diverged positively from other emerging markets and exceeded 85.000 points level.

Interest rates fell in the bond market.

Interest rate of 2 year benchmark bond, which followed a flat course in the beginning of November, declined to the lowest level in more than a year due to the rise in risk appetite with the help of the favorable expectations regarding Turkish economy. As of November 28, interest rate of 2 year benchmark bond was at 7.56%, decreasing by 100 basis points compared to the end of October and by 254 basis points compared to the year-end.







Source: JP Morgan, Reuters, BIST

Deposit volume grew by 6.6% year to date.

According to BRSA's Weekly Bulletin, as of November 21, total deposit volume recorded an increase of 6.6% ytd and was realized as 1,081 billion TRY. In this period, TRY deposits increased by only 3.2%, while the demand for FX deposits increased significantly parallel to the depreciation of TL. In fact, FX deposits increased by 11.8% ytd and rose to 444.5 billion TRY as of November 21. During this period, FX deposits in USD terms increased by 7.7% ytd.

Recovery in loans volume continued.

Total loan volume expanded by 13.6% ytd and reached 1,209 billion TRY as of November 21. In this period, TRY and FX loans increased by 13.3% and 14.4%, respectively.

After having followed a weak course due to the measures taken by BRSA in 2014, consumer loans recovered slightly thanks to the CBRT's decision to cut rates in the summer. Consumer loans increased by 11.1% ytd while consumer credit cards volume shrank by 12.6% ytd. During this period, commercial and corporate loans rose by 17.3%.

Securities portfolio...

Securities portfolio of the banking sector declined by 2.1% ytd as of November 21. The fall in securities available to sale was influential in this development.

Net FX position...

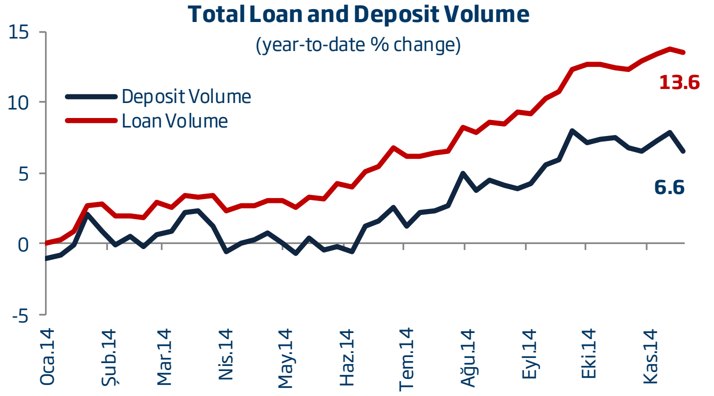
As of November 21, banks' on-balance sheet FX position was (-)45,477 million USD while off-balance sheet FX position was (+)43,962 million USD. Hence, banks' net FX position was realized as (-)1,515 million USD.

CBRT stated that some technical adjustments might be conducted in required reserve ratios and reserve option coefficients.

In the latest Financial Stability Report, CBRT pointed out that the banking sector continued to sustain its healthy and sound outlook. It was stated that banking system's sensitivity to interest rate risks stayed limited and banks did not face any difficulty in raising loans from abroad despite the fluctuations in global markets. Also it was assured that banking sector had adequate liquidity buffers to absorb likely FX liquidity shocks stemming from the change in global liquidity conditions. In addition, CBRT indicated that some technical adjustments in the reserve option coefficients and rearrangements in required reserve ratios might be conducted in the coming period in order to promote longer maturities for non-core liabilities. In this framework, it was added that the ratio of foreign exchange reserves to short-term external debt was anticipated to exhibit a considerable rise during 2015.

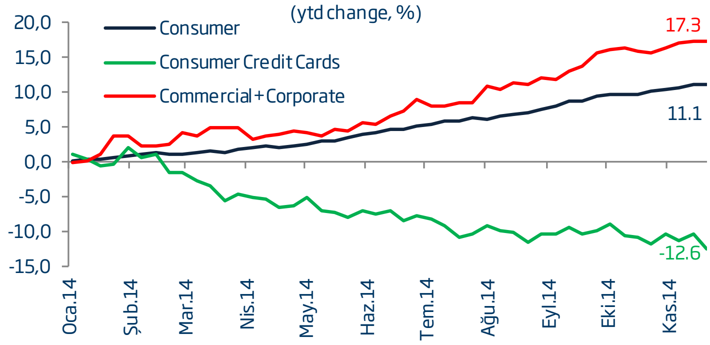
Total Loan and Deposit Volume

(year-to-date % change)



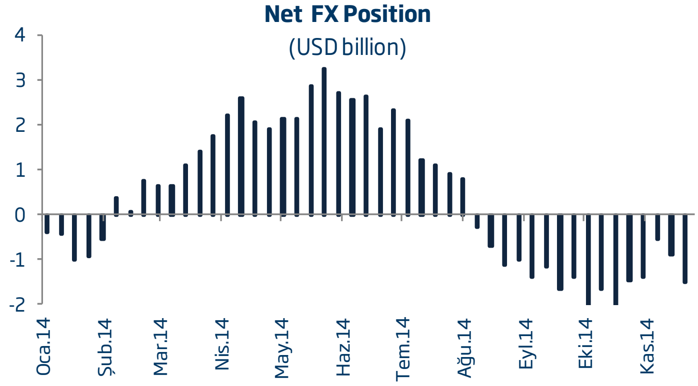
Credit Volume

(ytd change, %)



Net FX Position

(USD billion)



Source: BRSA Weekly Bulletin

Expectations

The recent data announcements regarding the US economy confirmed that the growth accelerated in the third quarter and the decrease in unemployment rate continued. Although the US economy signaled that the appropriate conditions for Fed's rate hikes started to develop, the increasing signs of slowdown in global economy and the decline in oil prices which pose downward risks to inflation together reaffirmed that the Fed will not hurry to raise the interest rates.

In contrast to this positive outlook in the US economy, the problems in the Euro Area economies continued and Japanese economy re-entered recession in the third quarter of the year. Thus, in order to support their economies European Central Bank and Bank of Japan have maintained their accommodative monetary policies which might in turn soothe the possible impacts of the Fed's hikes.

Another major development in the global agenda was the rapid fall in commodity and oil prices in response to the concerns over global economic growth. The commodity exporter countries are expected to be negatively affected from these developments while net energy importers like Turkey will benefit from this conjecture by improving their foreign trade balances.

In Turkey, the increase in exports kept its momentum despite the ongoing problems in main export markets. Moreover, the expected revival in domestic demand was not fully materialized yet, putting a downward pressure on imports which, in turn, led current account deficit to improve. In the coming period, the expected revival in domestic demand might put pressure on the current account deficit though this impact is expected to be balanced by the fall in oil prices. In the next months, the inflation, which has been significantly above the target, is also anticipated to decline thanks to the lower oil prices and base effect.

Forecasts (%)	2013 (R)	2014
Growth	4.1	3.4
CA Deficit/GDP	7.9	5.0
Inflation	7.4	9.0
GDDI Interest*	7.6	9.8

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

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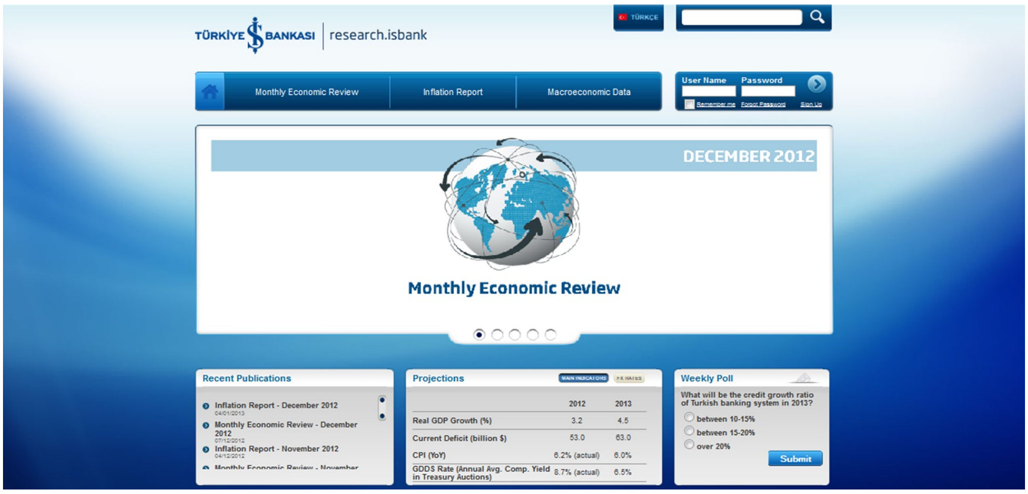
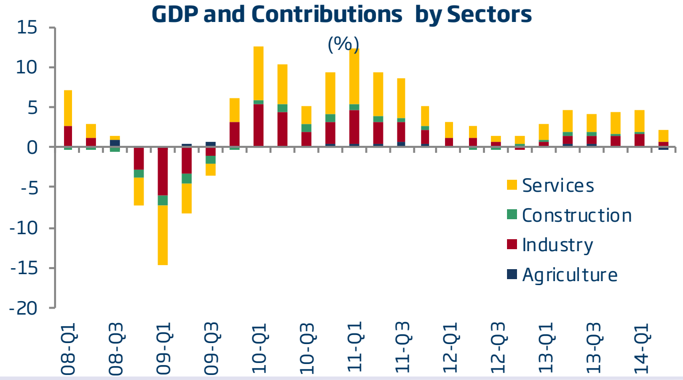


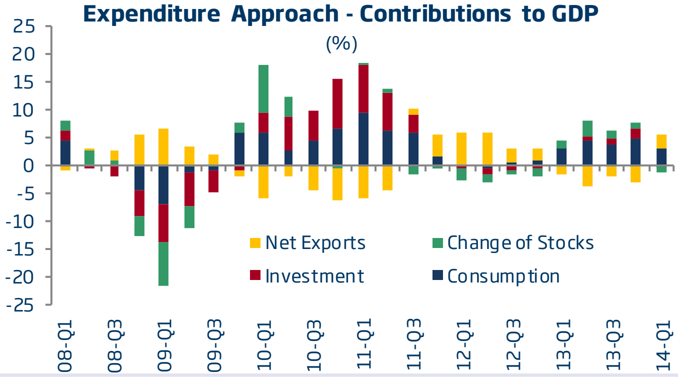
TÜRKİYE İŞ BANKASI

Growth

GDP and Contributions by Sectors
(%)

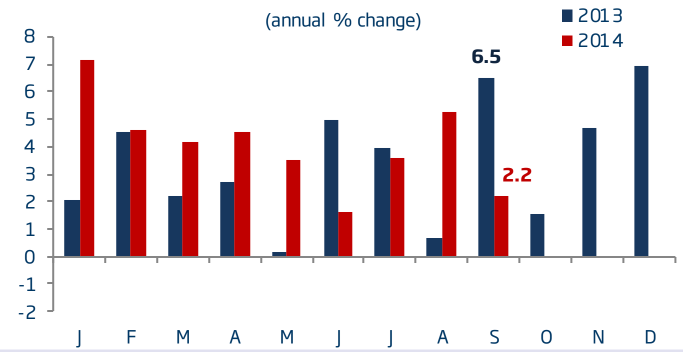


Expenditure Approach - Contributions to GDP
(%)

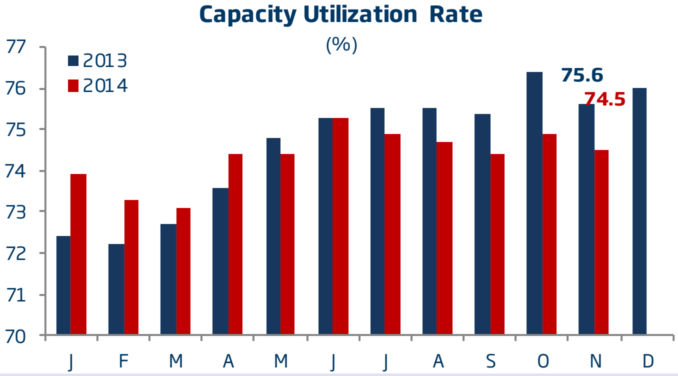


Industrial Production

Industrial Production
(annual % change)

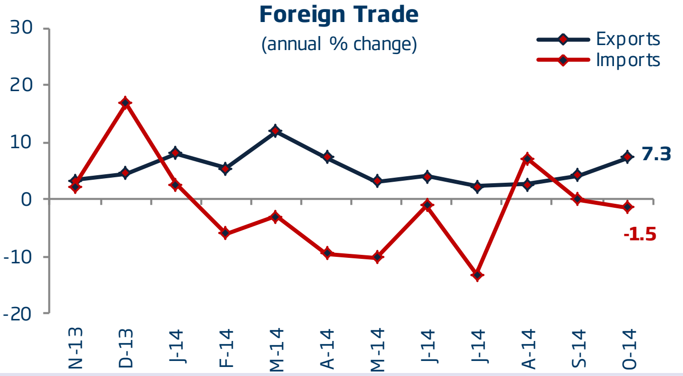


Capacity Utilization Rate
(%)

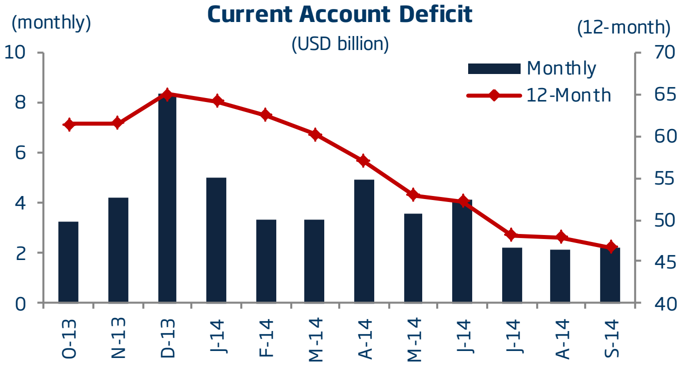


Foreign Trade and Current Account Balance

Foreign Trade
(annual % change)

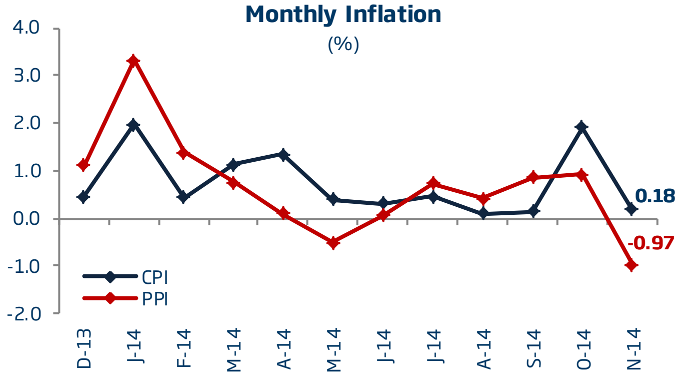


Current Account Deficit
(USD billion)

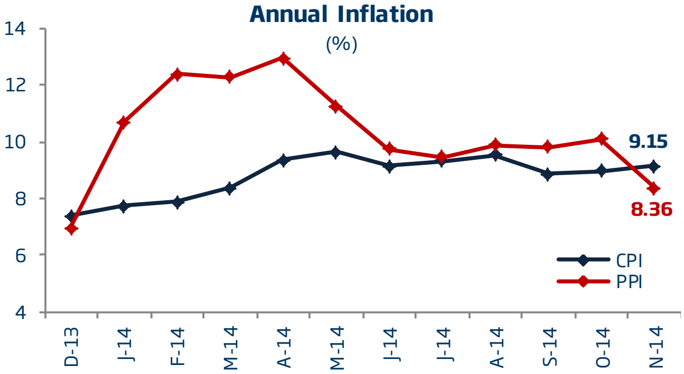


Inflation

Monthly Inflation
(%)



Annual Inflation
(%)

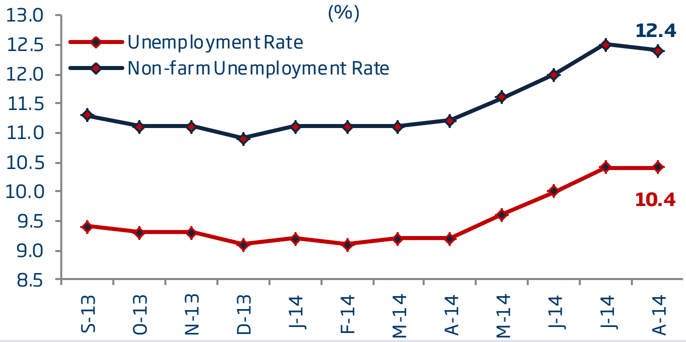


Source: Turkstat, CBRT

Labor Market

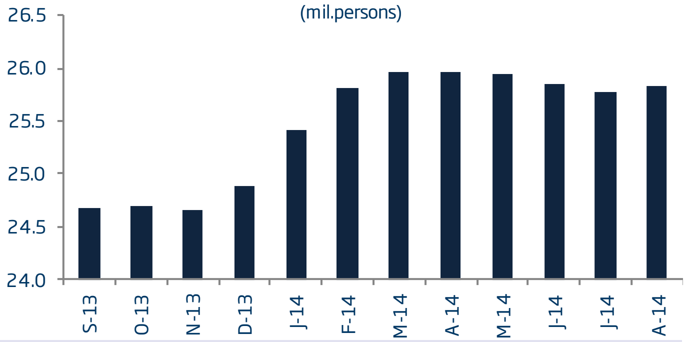
Seasonally Adjusted Unemployment Rates

(%)



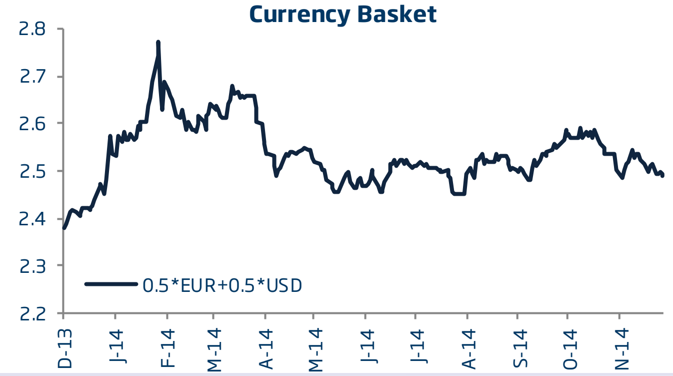
Seasonally Adjusted Employment

(mil.persons)

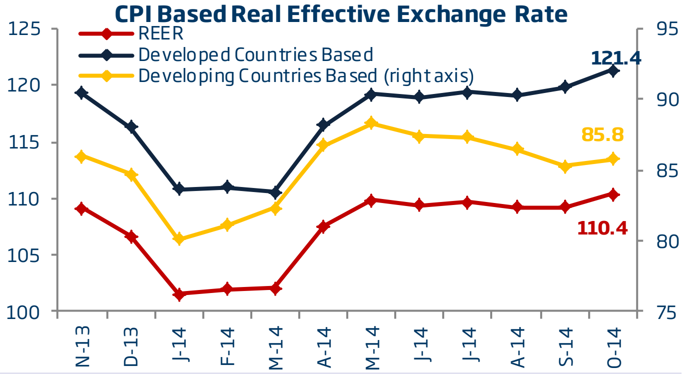


FX Market

Currency Basket



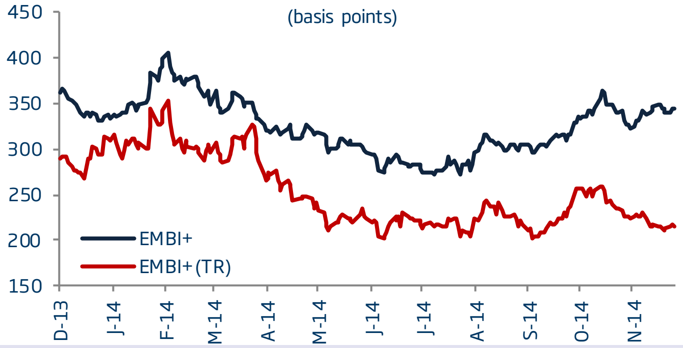
CPI Based Real Effective Exchange Rate



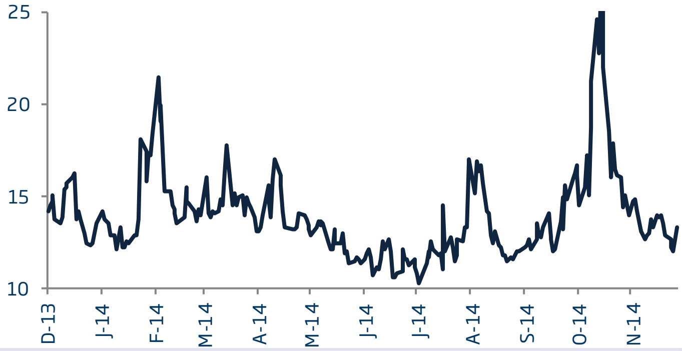
Risk Indicators

Risk Premiums

(basis points)



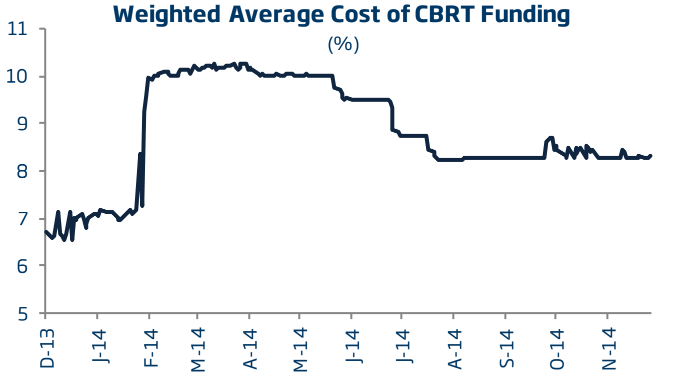
VIX



Interest Rates

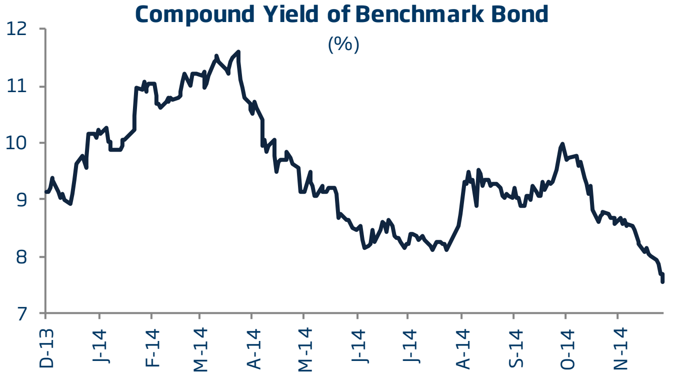
Weighted Average Cost of CBRT Funding

(%)



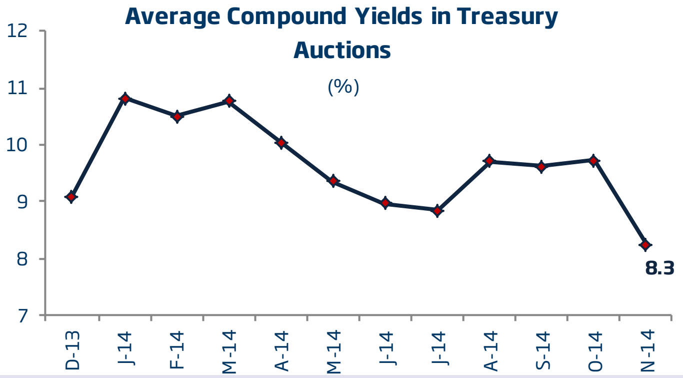
Compound Yield of Benchmark Bond

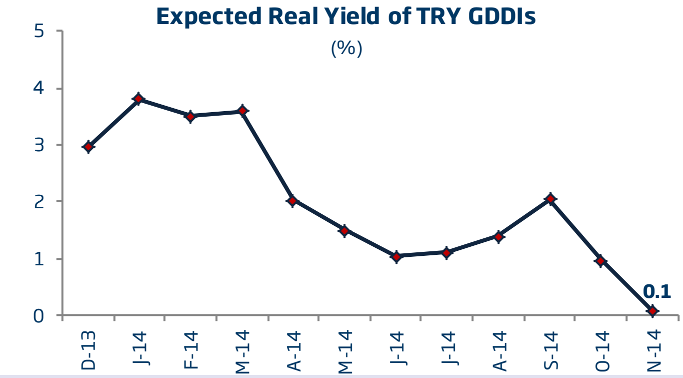
(%)



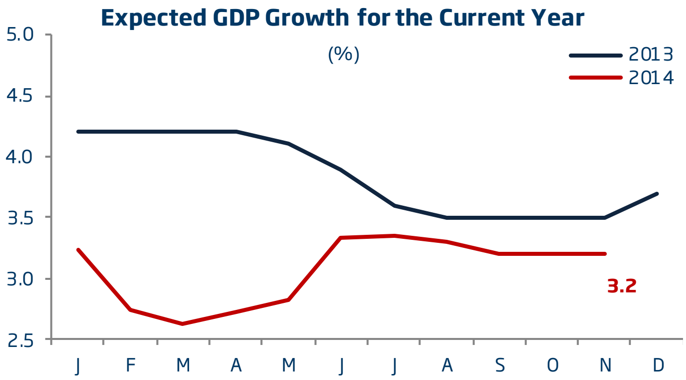
Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

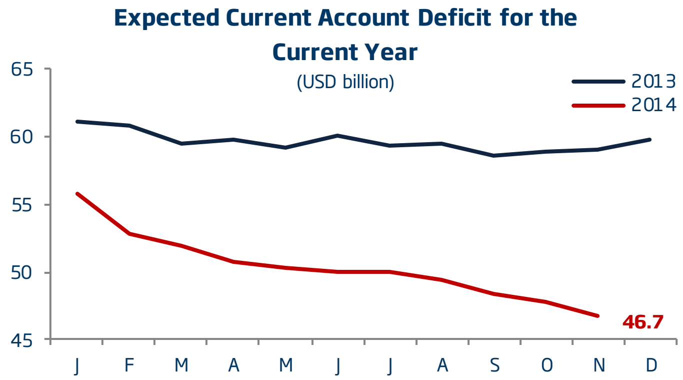
Bond-Bill Market

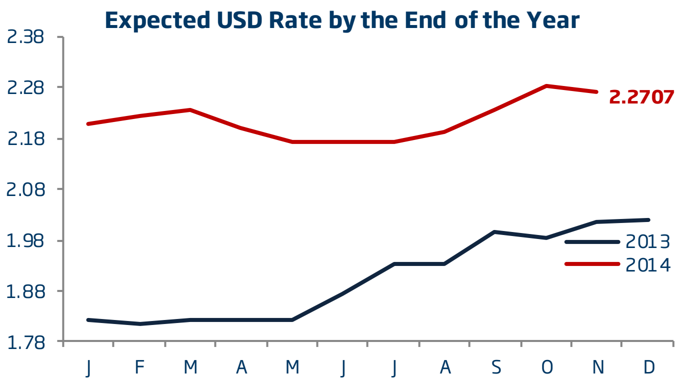


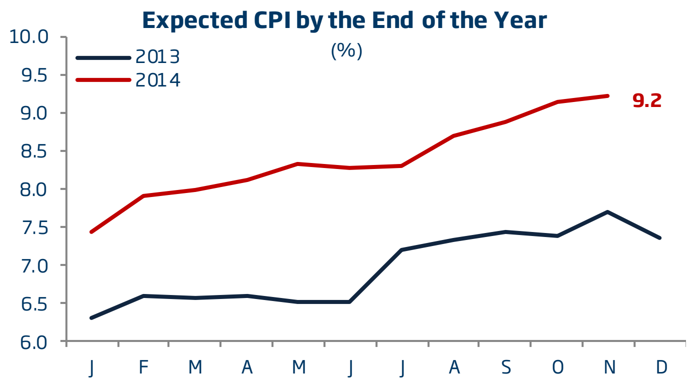


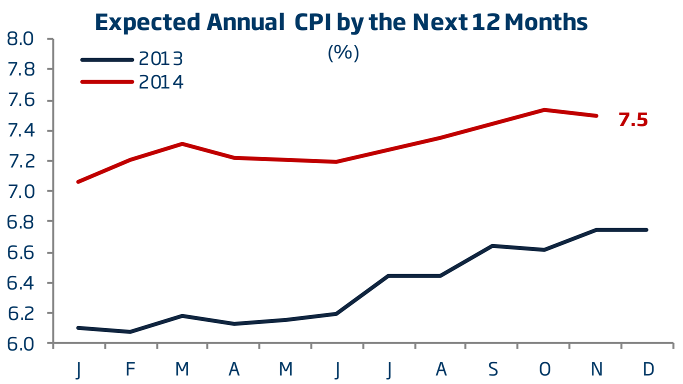
Survey of Expectations and Other Leading Indicators

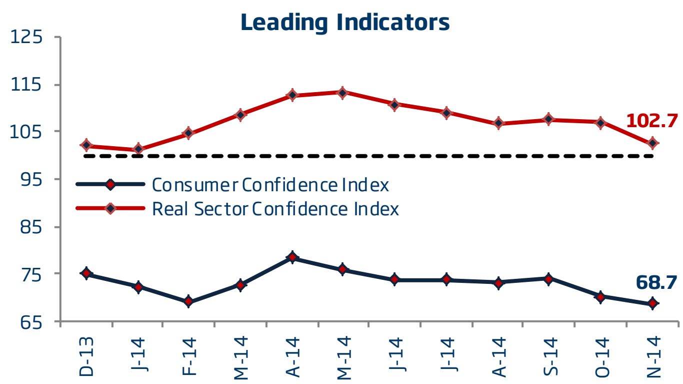












Source: Treasury, BIST, CBRT, Economic Research Division

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	821.9	807.5*	797.5*	
GDP Growth Rate (%)	-4.8	9.2	8.8	2.1	4.1	4.7	2.1	-
Inflation (%)						**Sep-14**	**Oct-14**	**Nov-14**
CPI (annual)	6.53	6.40	10.45	6.16	7.40	8.86	8.96	9.15
PPI (annual)	5.93	8.87	13.33	2.45	6.97	9.84	10.10	8.36
Seasonally Adjusted Labor Market Figures						**Jun-14**	**Jul-14**	**Aug-14**
Unemployment Rate (%)	11.9	10.0	8.5	8.8	9.1	10.0	10.4	10.4
Employment (thousand persons)	21,413	22,631	23,496	24,483	24,889	25,852	25,782	25,835
FX Rates						**Sep-14**	**Oct-14**	**Nov-14**
CPI Based Real Effective Exchange Rate	116.6	125.5	109.4	117.9	106.7	109.3	110.4	-
USD/TRY	1.5057	1.5460	1.9065	1.7826	2.1343	2.2789	2.2171	2.2149
EUR/TRY	2.1603	2.0491	2.4592	2.3517	2.9365	2.8914	2.7902	2.7644
Currency Basket (0.5*EUR+0.5*USD)	1.8330	1.7976	2.1829	2.0672	2.5354	2.5852	2.5037	2.4897
Foreign Trade Balance[1] (USD billion)						**Aug-14**	**Sep-14**	**Oct-14**
Exports	102.1	113.9	134.9	152.5	151.8	157.3	157.9	158.8
Imports	140.9	185.5	240.8	236.5	251.7	243.9	243.9	243.6
Foreign Trade Balance	**-38.8**	**-71.7**	**-105.9**	**-84.1**	**-99.9**	**-86.5**	**-86.0**	**-84.8**
Import Coverage Ratio (%)	72.5	61.4	56.0	64.5	60.3	64.5	64.7	65.2
Current Account Balance[1] (USD billion)						**Jul-14**	**Aug-14**	**Sep-14**
Current Account Balance	**-12.0**	**-45.3**	**-75.1**	**-48.5**	**-65.0**	**-48.2**	**-47.9**	**-46.7**
Capital and Financial Accounts	**9.0**	**44.5**	**65.9**	**47.4**	**61.9**	**35.4**	**36.9**	**38.9**
Direct Investments (net)	7.0	7.6	13.8	9.2	9.2	9.1	7.5	7.7
Portfolio Investments (net)	0.2	16.1	22.0	40.8	23.7	22.6	19.0	18.2
Other Investments (net)	1.9	33.7	28.4	18.3	39.0	10.4	15.1	16.5
Reserve Assets (net)	-0.1	-12.8	1.8	-20.8	-9.9	-6.7	-4.5	-3.5
Net Errors and Omissions	**3.0**	**0.9**	**9.1**	**1.1**	**3.2**	**12.8**	**11.0**	**7.8**
Current Account Deficit/GDP	**-1.9**	**-6.2**	**-9.7**	**-6.2**	**-7.9**	-	-	-
Budget[2][3] (TRY billion)						**Aug-14**	**Sep-14**	**Oct-14**
Expenditures	**268.2**	**294.4**	**314.6**	**361.9**	**408.2**	**285.9**	**325.4**	**362.6**
Interest Expenditures	53.2	48.3	42.2	48.4	50.0	33.6	38.3	45.3
Non-interest Expenditures	215.0	246.1	272.4	313.5	358.2	252.2	287.2	317.3
Revenues	**215.5**	**254.3**	**296.8**	**332.5**	**389.7**	**283.2**	**313.5**	**347.7**
Tax Revenues	172.4	210.6	253.8	278.8	326.2	232.4	258.7	286.6
Budget Balance	**-52.8**	**-40.1**	**-17.8**	**-29.4**	**-18.5**	**-2.7**	**-11.9**	**-14.9**
Primary Balance	**0.4**	**8.2**	**24.4**	**19.0**	**31.4**	**30.9**	**26.3**	**30.3**
Budget Balance/GDP	**-5.5**	**-3.6**	**-1.4**	**-2.1**	**-1.2**	-	-	-
Central Government Debt Stock (TRY billion)						**Aug-14**	**Sep-14**	**Oct-14**
Domestic Debt Stock	330.0	352.8	368.8	386.5	403.0	407.4	408.2	411.1
External Debt Stock	111.5	120.7	149.6	145.7	182.8	186.0	194.9	188.6
Total	**441.5**	**473.6**	**518.4**	**532.2**	**585.8**	**593.4**	**603.2**	**599.7**

(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	Aug-14	Sep-14	Change[1]
TOTAL ASSETS	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1929.7**	**1916.4**	**10.6**
Loans	**392.6**	**525.9**	**682.9**	**794.8**	**1047.4**	**1187.3**	**1182.6**	**12.9**
TRY Loans	288.2	383.8	484.8	588.4	752.7	847.9	850.1	12.9
Share (%)	73.4	73.0	71.0	74.0	71.9	71.4	71.9	-
FX Loans	104.4	142.1	198.1	206.4	294.7	339.4	332.5	12.8
Share (%)	26.6	27.0	29.0	26.0	28.1	28.6	28.1	-
Non-performing Loans	21.9	20.0	19.0	23.4	29.6	35.7	36.6	23.6
Non-performing Loan Rate (%)	5.3	3.7	2.7	2.9	2.8	2.9	3.0	-
Securities	**262.9**	**287.9**	**285.0**	**270.0**	**286.7**	**297.2**	**294.5**	**2.7**
TOTAL LIABILITIES	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1929.7**	**1916.4**	**10.6**
Deposits	**514.6**	**617.0**	**695.5**	**772.2**	**945.8**	**1020.1**	**1012.6**	**7.1**
TRY Deposits	341.4	433.5	460.0	520.4	594.1	622.2	609.3	2.6
Share (%)	66.3	70.3	66.1	67.4	62.8	61.0	60.2	-
FX Deposits	173.2	183.5	235.5	251.8	351.7	397.9	403.3	14.7
Share (%)	33.7	29.7	33.9	32.6	37.2	39.0	39.8	-
Securities Issued	**0.1**	**3.1**	**18.4**	**37.9**	**60.6**	**82.9**	**86.2**	**42.3**
Payables to Banks	**86.1**	**122.4**	**167.4**	**173.4**	**254.2**	**282.6**	**282.1**	**10.9**
Funds from Repo Transactions	**60.7**	**57.5**	**97.0**	**79.9**	**119.1**	**133.5**	**125.9**	**5.7**
TOTAL SHAREHOLDERS' EQUITY	**110.9**	**134.5**	**144.6**	**181.9**	**193.7**	**219.1**	**224.2**	**15.7**
Profit (Loss) of the Period	20.2	22.1	19.8	23.5	24.7	18.7	20.8	-
RATIOS (%)								
Loans/Assets	47.1	52.2	56.1	58.0	60.5	61.5	61.7	-
Securities/Assets	31.5	28.6	23.4	19.7	16.6	15.4	15.4	-
Deposits/Liabilities	61.7	61.3	57.1	56.3	54.6	52.9	52.8	-
Deposits/Loans	131.1	117.3	101.8	97.2	90.3	85.9	85.6	-
Capital Adequacy (%)	20.6	19.0	16.6	17.9	15.3	15.9	16.4	-

(1) Year-to-date % change

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