Monthly Economic Review
January 2015

Global Economy

- The sharp fall in oil prices has reshaped the expectations for global economic activity.
- Along with the US and the European Union's sanctions against Russia over Ukraine crises, the acceleration of the decline in oil prices exacerbated the concerns about the Russian economy.
- The US GDP growth for the third quarter was revised to 5%, the fastest pace recorded in the last 11 years, up from a previously announced 3.9%. Also, labor market indicators monitored by the Fed closely continue to present a favorable outlook.
- At its meeting held on December 16-17, the Fed decided to keep the policy interest rate unchanged in line with the expectations. Fed also stated that it would be patient in normalizing the stance of monetary policy.
- Worries over a prolonged period of low inflation and weak economic activity in the Euro Area have heightened. Despite the steps taken by the ECB to loose monetary policy, inflation remained at low levels in recent months.
- Greece will hold snap elections on January 25. The outcome of the elections is expected to be decisive in the new bailout agreement while the previous one has ended in December.
- In Japan, Liberal Democratic Party led by the prime minister Shinzo Abe won the elections which was held on December 14. Thus, Shinzo Abe and his economic policies, called as "Abenomics", gained public support.
- Central Bank of China pointed out that Chinese economy would only grow by 7.1% in 2015. This announcement intensified concerns about the global economy.

Turkish Economy

- Turkish economy grew by 1.7% yoy in the third quarter of 2014, missing market consensus with a wide margin. Thus, the economy registered the weakest quarterly growth performance since the last quarter of 2012.
- Calendar adjusted industrial production increased by 2.4% yoy in October, below the market expectations. Therefore, industrial production figures in October presented an unfavorable outlook regarding the growth expectations for the last quarter of 2014.
- In November, exports fell by 7.5% yoy, citing the first annual contraction in 2014. However, thanks to the strong performance in the first ten months of the year, exports rose by 4.2% yoy in January-November period.
- In October, current account deficit came in at 2 billion USD, close to the market expectations of 1.9 billion USD. Current account deficit was realized as 33.1 billion USD in the first 10 months of the year, declining by 36.8% yoy.
- Annual increase in CPI, which exhibited better than expected outlook in December, was realized as 8.17%, the lowest level of the last 10 months. Annual inflation in D-PPI came in at 6.36% in December, recording the lowest annual increase in 2014.
- At its monetary policy meeting held in December, CBRT kept policy rates unchanged. Following the meeting, CBRT announced that loan growth continued at reasonable levels thanks to the tight monetary policy stance and macroprudential measures while domestic demand started to make greater contribution to the growth.
- In its monetary and exchange rate policy for 2015, CBRT indicated that it would maintain the price stability-oriented monetary policy framework and also continue to support financial stability.

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Lower than expected GDP growth in the third quarter

Turkish economy grew by 1.7% yoy in the third quarter of 2014, missing market consensus with a wide margin. Thus, the economy registered the weakest quarterly growth performance since the last quarter of 2012. According to Reuters' Survey, the markets expected 3% yoy GDP growth.

Turkstat also made upward revisions to the GDP growth rates for the first quarter (from 4.7% to 4.8%) and the second quarter (from 2.1% to 2.2%). In the first nine months of 2014, GDP growth was realized as 2.8% yoy.

GDP (1998 prices) (% change)

Period	Compared to the same quarter of the previous year*	Compared to the previous quarter**
2011 Q1	12.6	2.5
2011 Q2	9.3	0.6
2011 Q3	8.7	1.3
2011 Q4	5.2	0.8
2012 Q1	2.5	-0.2
2012 Q2	3.1	1.1
2012 Q3	1.7	0.3
2012 Q4	1.3	0.3
2013 Q1	3.6	1.8
2013 Q2	4.2	1.6
2013 Q3	4.0	0.5
2013 Q4	4.6	0.8
2014 Q1	4.8	1.8
2014 Q2	2.5	-0.5
2014 Q3	1.8	0.4

*Calendar Adjusted GDP

**Seasonally and Calendar Adjusted GDP

The calendar adjusted GDP expanded by 1.8% yoy in the third quarter. The seasonally and calendar adjusted GDP increased by 0.4% qoq in the third quarter after having decreased in the second quarter.

Net exports continued to make the highest contribution to growth.

Net exports made 2.5 points contribution to growth in the third quarter. Despite the ongoing problems in Turkey's main export markets such as Russia and Iraq, the momentum in total exports was sustained thanks to the increase in exports destined to the European Union and the US. On the contrary, downward pressure on imports continued as the expected enlivening in domestic consumption expenditures was not materialized despite the CBRT's rate cuts.

Weak outlook in domestic consumption expenditures continued in the third quarter.

The impacts of the measures taken by the BRSA (Banking Regulation and Supervision Agency) in order to limit the growth in consumer loans and CBRT's rate hike at the end of January continued to be influential on private consumption expenditures in the third quarter as well. The private consumption expenditures, which have the highest share in GDP with 65.3% in the third quarter of 2014, made only 0.1 point contribution to growth. Their contributions to the growth in the first and the second quarters were 2.3 points and 0.3 point, respectively. Against this weak outlook in private consumption expenditures, public expenditures, which have around 10% share in GDP, increased by 6.6% yoy in real terms in the third quarter and made 0.6 point contribution to growth.

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

	2012	2013					2014			
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	9 Months
Consumption	**0.3**	**3.0**	**4.5**	**3.9**	**5.0**	**4.1**	**3.2**	**0.6**	**0.8**	**1.5**
Private	-0.3	2.2	3.6	3.7	4.0	3.4	2.3	0.3	0.1	0.9
Public	0.6	0.8	0.8	0.2	0.9	0.7	0.9	0.3	0.6	0.6
Investment	**-0.7**	**0.1**	**0.9**	**1.2**	**1.8**	**1.0**	**-0.1**	**-0.9**	**-0.1**	**-0.4**
Private	-1.1	-1.3	-0.2	0.5	1.2	0.1	-0.2	-0.8	0.0	-0.3
Public	0.4	1.4	1.1	0.7	0.7	0.9	0.2	-0.2	-0.1	0.0
Change in Stock	**-1.5**	**1.4**	**2.9**	**1.2**	**0.9**	**1.6**	**-1.0**	**-0.4**	**-1.5**	**-1.0**
Net Exports	**4.0**	**-1.4**	**-3.6**	**-2.0**	**-3.2**	**-2.6**	**2.6**	**2.9**	**2.5**	**2.6**
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	2.8	1.5	2.0	2.1
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.4	0.5	0.6
GDP	**2.1**	**3.1**	**4.6**	**4.2**	**4.5**	**4.1**	**4.8**	**2.2**	**1.7**	**2.8**

Numbers may not add to total due to rounding

Source: Calculated from Turkstat figures.

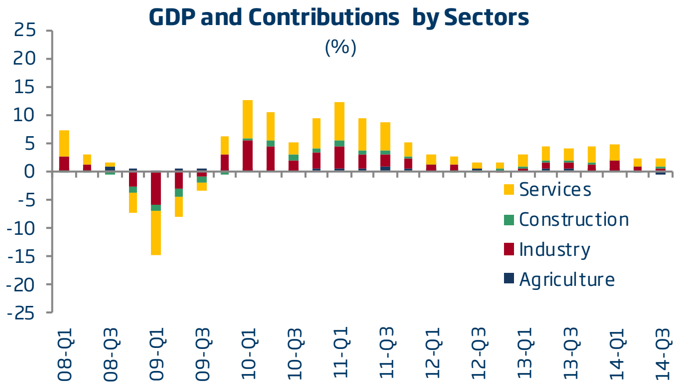
Source: Turkstat, CBRT

Fall in investment expenditures decelerated.

Total investment expenditures decreased by 0.4% yoy in the third quarter after having fallen by 3.5% in the second quarter. Private sector investment expenditures were almost unchanged in the third quarter compared to the same quarter of the previous year while public sector investment expenditures decreased by 2% in the same period. On the other hand, analysing the seasonally and calendar adjusted figures, it was seen that the private sector investment expenditures rose by 2.6% in the third quarter compared to the previous quarter. The fact that this increase was mainly originated from the machinery and equipment expenditures was noted as a favorable development.

Agriculture sector continued to perform poorly.

According to the production approach, the services sector, which has the biggest share in GDP, made the highest contribution to third quarter growth by 1.7 point. During the same period, industrial sector made 0.6 point and construction made 0.1 point contribution to growth. On the other hand, agriculture sector, whose share in GDP increases in the third quarters historically, continued to perform poorly due to adverse weather conditions. In fact, agricultural sector lowered the GDP growth by 0.7 point in the third quarter. Thus, the agriculture sector made the highest negative contribution to growth since the third quarter of 2007.



We expect that the 2014 year-end growth will be around 3%.

The private consumption expenditures were expected to enliven moderately in the third quarter thanks to the impacts of the CBRT's rate cuts and the diminishing domestic political uncertainties. However, third quarter GDP growth figures showed that this expected revival in private consumption expenditures has not been materialized yet. On the other hand, the year-over-year decrease in total investment expenditures slowed down in the third quarter while they increased compared to the second quarter according to the seasonally and calendar adjusted figures. This pick-up in investment expenditures was noted as a favorable development. In sum, the significantly lower than expected GDP growth in the third quarter points out that the Medium Term Program growth forecast of 3.3% for 2014 is unlikely to be achieved.

In the last quarter of the year, we expect that the private consumption expenditures will follow a flat course while public consumption expenditures will support the GDP growth to a limited extent. The net exports, which contributed by 2.6 points to the 2.8% growth that in the first nine months, is expected to support growth in the last quarter thanks to the continued increase in exports to the European Union and the decline in oil prices. In this context, we expect that the 2014 year-end growth will be around 3%.

Source: Turkstat, CBRT

Industrial production rose by 2.4% yoy in October.

Calendar adjusted industrial production increased by 2.4% yoy in October, remaining below the market expectations. According to the seasonally and calendar adjusted figures, on the other hand, industrial production declined by 1.8% mom.

It was seen that seasonally and calendar adjusted industrial production (3-month average) figures displayed a consistent outlook with the quarterly growth. Therefore, industrial production figures in October presented an unfavorable outlook regarding the growth expectations for the last quarter of 2014.

After increasing for 4 consecutive months, manufacturing PMI fell to 51.4 in December. Despite registering a decline, PMI remained above the 50-threshold, indicating an improvement in manufacturing industry.

Consumer confidence fell to its lowest level since January 2010.

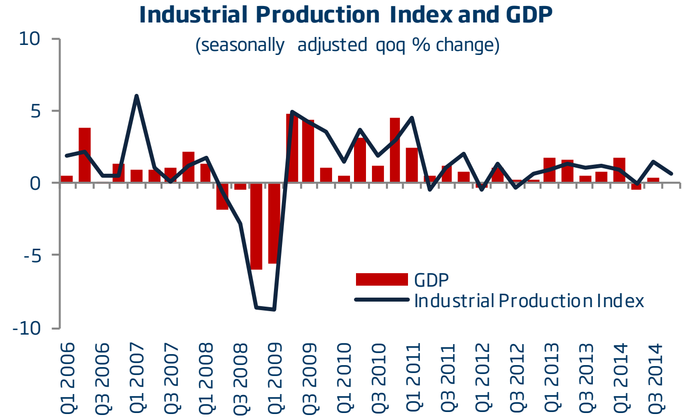
In December, consumer confidence index dropped to its lowest level in the last 5 years with 67.7. The decline in consumer confidence confirmed the deceleration in household demand observed throughout 2014.

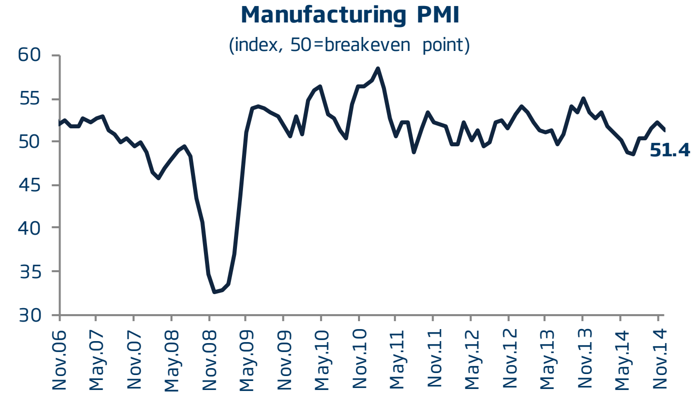
In December, the real sector confidence index also decreased to 101.2, the lowest level of 2014. It was seen that only two sub-indices (export orders in the next three months and total order amount over the past three months) had an upward impact on the index. On the other hand, according to the seasonally adjusted figures, real sector confidence index recorded a slight increase compared to the previous month.

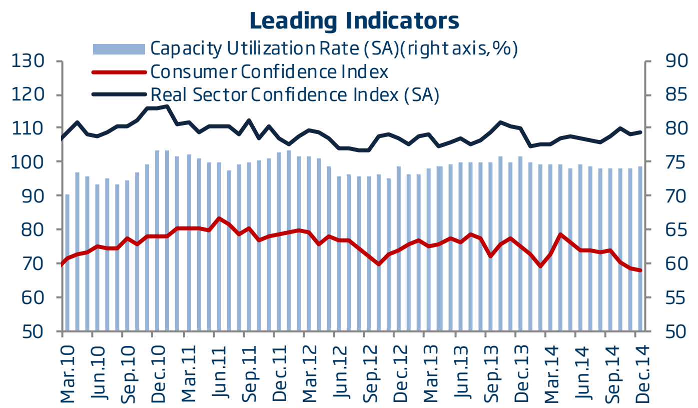
In December capacity utilization rate (CUR) was realized as 74.6%, 1.4 percentage points below previous year's level of 76%.

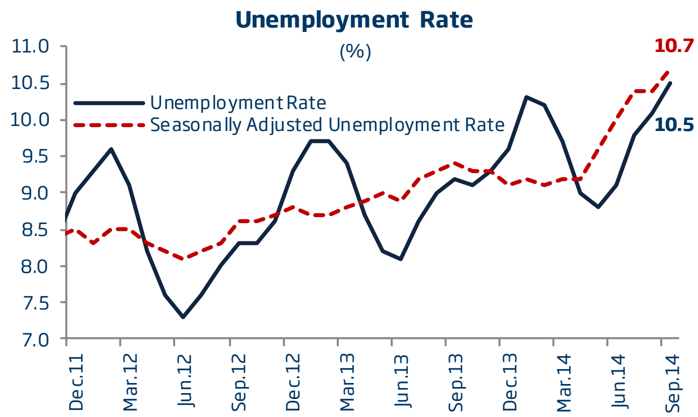
The unemployment rate continued to rise.

According to the Household Labor Statistics, in September the unemployment rate increased by 1.3 percentage points to 10.5% compared to the same month of 2013. Thus, the unemployment rate reached the highest level since February 2011. The seasonally adjusted unemployment rate also increased by 0.3 percentage point in September compared to the previous month to 10.7%, indicating a 47-month peak.









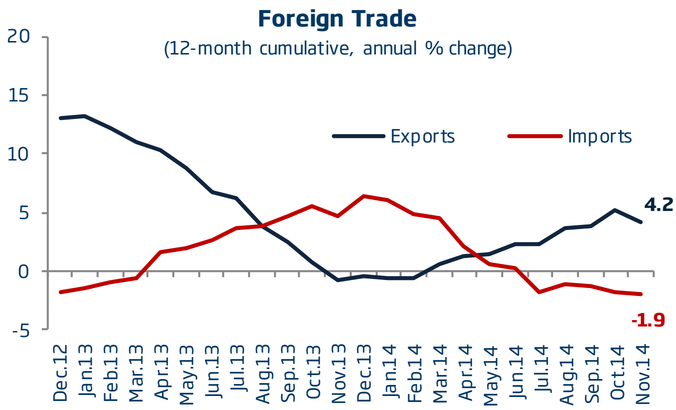
Source: Turkstat, CBRT

Higher than expected foreign trade deficit in November

In November, exports fell by 7.5% yoy, the first annual contraction in 2014. However, thanks to the strong performance in the first ten months of the year, exports rose by 4.2% yoy in January-November of 2014.

Imports, which have decreased throughout 2014, rose by 0.2% yoy in November. During January-November period, imports decreased by 3.5% yoy.

Foreign trade deficit widened to 8.3 billion USD in November, surpassing the market expectation of 7.8 billion USD. The foreign trade deficit contracted by 15.5% yoy to 76 billion USD in the first eleven months of the year.

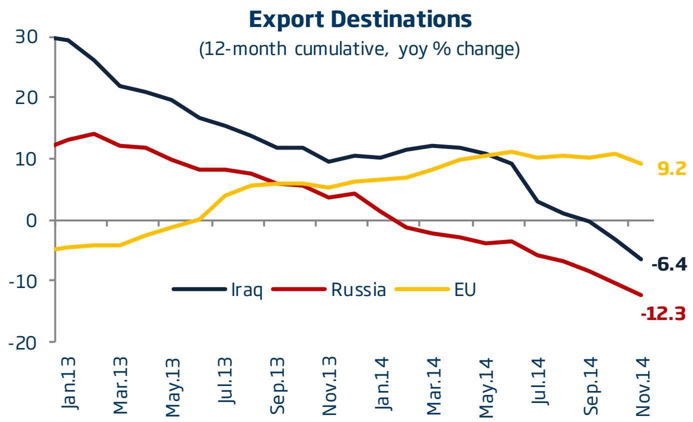


Fall in exports in November was broad based.

Among the top 20 export chapters, there were annual contractions in 16 of them. Especially, the fall in motor vehicles (-11.2%), machineries and mechanical appliances (-12.6%) and iron-steel (-21.8%) exports were noteworthy. On the other hand, exports of precious stones and metals (33.9%), fruits (11.7%), vegetables (8.5%) and mineral fuels-oils (4.5%) increased in November.

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

Exports to Iraq and Russia, which were the second and the fourth biggest export markets of Turkey as of 2013, continued to decline in November due to the ongoing problems in both countries. Exports to Iraq decreased by 22.3% yoy and exports to Russia fell by 23% yoy in



November. In the first eleven months, exports to Iraq and Russia decreased by 8.8% yoy and 14% yoy, respectively. Considering that the problems in both countries are not likely to be solved in the short-term, it would take time to increase the exports to these destinations to their former levels.

Exports to EU also decreased in November.

Although the recovery in the European Union economies were disappointing, Turkey's exports to the region were increasing throughout 2014. However, the weak demand conditions in the region have started to affect Turkey's exports to the region recently. In fact, Turkey's exports to European Union decreased by 8.3% yoy in November. Analyzing by countries, especially the decrease in exports to Germany (-7.8%), France (-19.5%) and Netherlands (-22.3%) were notable. However, thanks to strong performance in the first ten months, exports to the European Union countries increased by 9.5% yoy during January-November and their share in Turkey's total exports increased from 41.7% to 43.8% during the same period. On the other hand, Turkey's exports to the US continued to increase in November.

The impacts of the fall in oil prices on imports have become visible.

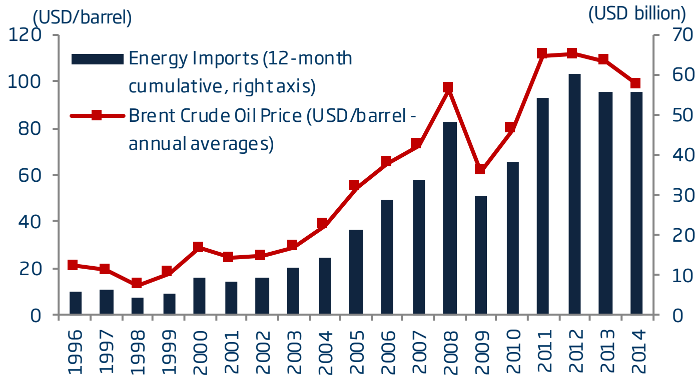
Energy imports (classified as Chapter 27 – Mineral fuels, mineral oil) constitute around one fourth of Turkey's total imports. The impacts of the falling oil prices in international markets have become visible on the energy imports of Turkey in November. In fact, the quantity of crude oil

Foreign Trade Balance (USD billion)

	November		Change	January-November		Change
	2013	2014	(%)	2013	2014	(%)
Exports	14.2	13.1	-7.5	138.6	144.5	4.2
Imports	21.4	21.4	0.2	228.5	220.5	-3.5
Foreign Trade Balance	**-7.2**	**-8.3**	**15.3**	**-89.9**	**-76.0**	**-15.5**
Import Coverage Ratio (%)	66.3	61.2	-	60.7	65.5	-

Source: Turkstat

Energy Imports and Oil Prices



Note: 2014 figure shows the annualized energy imports as of November 2014.

imports rose by 1.6% yoy in November whereas the total energy bill decreased by 6.3% in the same period. Turkstat does not disclose the value of crude oil imports because of confidentiality since 2002. However, considering the high correlation between oil prices and the value of total energy imports, it is thought that the impacts of the falling oil prices on Turkey's energy bill would be more evident in the coming period.

Surge in gold imports in November

It is noteworthy that most of the import categories that have high shares in total imports declined in November on an annual basis due to the fact that domestic demand has not yet revived as much as expected. On the other hand, gold imports, which had been following a downward trend during the first ten months of the year, increased from 0.9 billion USD a year earlier to 2 billion USD in November. As a matter of fact, it is seen that imports excluding gold imports declined by 5.3% yoy in this period.

Expectations

November foreign trade data revealed that ongoing problems in Russia and Iraq, which are among the major export destinations of Turkey, would adversely affect export performance in the coming period as well. The unfavorable impact of these two countries on Turkey's exports so far has been compensated partially by the increase in exports to European Union. However, the drops in exports to France and Germany in November raised some concern. Should this situation prevail in the coming months, it would be harder for Turkey to sustain its strong exports growth in 2015. On the imports front, when gold imports were excluded, there has yet been no pressure stemming from domestic demand. Also, the fact that the sharp drop in oil prices began to be reflected in the energy bill is regarded as a favorable development experienced recently.

Source: Turkstat

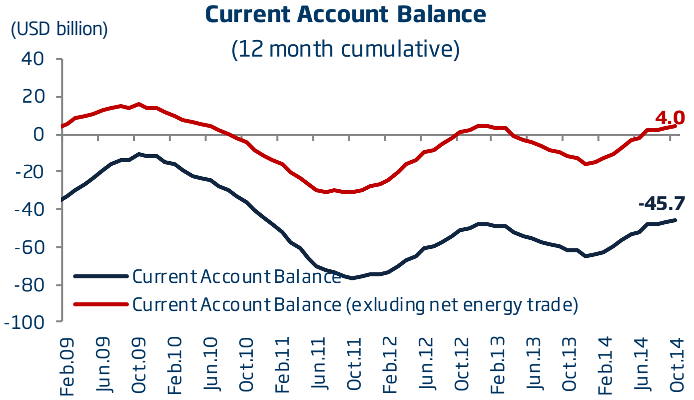
Contraction in current account deficit continued.

In October, current account deficit came in at 2 billion USD, close to the market expectations of 1.9 billion USD. Current account deficit was realized as 33.1 billion USD in the first 10 months of the year, declining by 36.8% yoy. The 12-month cumulative current account deficit also declined to the lowest level of the last 4 years with 45.7 billion USD.

Improvement in foreign trade remained to be the most important factor in narrowing of current account deficit. According to the balance of payments figures, exports rose by 6.6% yoy while imports declined by 3.8% yoy in the first 10 months of the year. Moreover, having increased by 7.5% yoy in this period, net tourism revenues had a positive impact on current account balance.

Current Account Balance

(12 month cumulative)

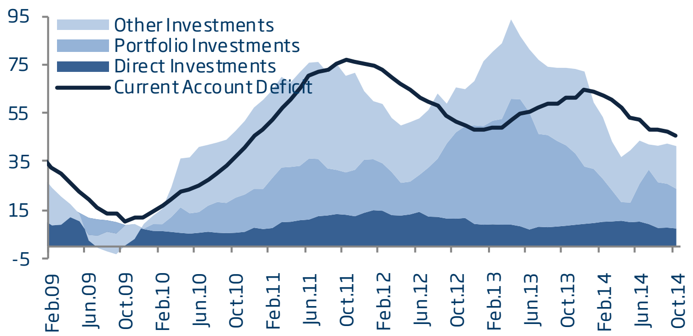


Foreign direct investments...

Foreign direct investment inflows came in at 9.8 billion USD in the first 10 months of the year. Compared to the same period of the previous year, this item registered a limited increase. On the other hand, net foreign direct investment outflows rose by 112% yoy in the same period. Thus, total net foreign direct investment flows declined by 26% yoy.

Financing of Current Account Deficit

(12 month cumulative, USD billion)



A noteworthy increase in bond issues of banking sector in October...

Portfolio investment inflows continued to contribute significantly to the financing of current account deficit. During this period, portfolio investment inflows directed to debt securities was realized as 2.8 billion USD while 2.5 billion USD of this amount was stemmed from the bond issues of banking sector. On the other hand, capital inflows via equity securities were 432 million USD.

Other investments...

Net loans raised by the banking sector from abroad were 9.2 billion USD in the first 10 months of the year. It was noteworthy that there was a fall of 38.3% year-on year in this account. This was mainly stemmed from the slowdown in domestic demand which in turn lowered short-term funding needs of banks. By contrast, the long-term borrowing requirement of banks maintained its upward trend. During this period, 5.6 billion USD of net borrowing of banking sector was long-term while the total amount of short-term borrowing was 3.5 billion USD. In the first 10 months of the year, non-bank sectors' net borrowing from abroad increased from 547 million USD in 2013 to 3.4 billion USD in 2014. Banks' and nonbank sectors' long-term debt roll-over ratios were realized as 178% and 116%, respectively.

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

			Breakdown of Capital Inflows (%)	
	December 2013	October 2014	December 2013	October 2014
Current Account Balance	**-65,034**	**-45,726**	-	-
Total Net Foreign Capital Inflows	**74,945**	**48,470**	**100.0**	**100.0**
-Direct Investments	9,212	7,300	12.3	15.1
-Portfolio Investments	23,692	16,416	31.6	33.9
-Other Investments	39,333	17,674	52.5	36.5
-Net Errors and Omissions	2,804	7,134	3.7	14.7
-Other	-96	-54	-0.1	-0.1
Reserves(1)	**-9,911**	**-2,744**	-	-

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

Net errors and omissions recorded an outflow of 1.9 billion USD in October.

In October, net errors and omissions registered an outflow of 1.9 billion USD. As a result, capital inflow under net errors and omissions account declined to 5.9 billion USD in the first 10 months of the year. However, this account continued to play a significant role in the financing of current account deficit in the first 10 months. On the other hand, reserve assets reached 4.4 billion USD in the first 10 months of the year. 1.5 billion USD of this amount was recorded in October.

Expectations

Since June, oil prices have declined by more than 40%. Turkey is expected to substantially benefit from this development as a net energy importer and having a large current account deficit. In this context, the narrowing of current account deficit is expected to continue in the coming period. Besides, weak domestic demand conditions throughout 2014 were also influential on the improvement in the current account deficit. The expected improvement in current account deficit stemming from the fall in energy prices might be limited in a case of a recovery in domestic demand.

Current Account Balance (USD million)

	October 2014	Jan.-Oct. 2013	Jan.-Oct. 2014	% Change	12 Month Cumulative
Current Account Balance	**-2,027**	**-52,449**	**-33,141**	**-36.8**	**-45,726**
Foreign Trade Balance	-4,662	-66,744	-50,375	-24.5	-63,844
Services Balance	3,216	21,367	23,626	10.6	25,391
Tourism Revenues (net)	3,003	20,832	22,393	7.5	24,741
Income Balance	-697	-8,156	-7,323	-10.2	-8,517
Current Transfers	116	1,084	931	-14.1	1,244
Capital and Financial Accounts	**3,946**	**50,863**	**27,225**	**-46.5**	**38,592**
Direct Investments (net)	416	7,241	5,329	-26.4	7,300
Portfolio Investments (net)	1,961	22,716	15,440	-32.0	16,416
Assets	-1,311	2,811	-2,012	-	-2,222
Liabilities	3,272	19,905	17,452	-12.3	18,638
Equity Securities	432	315	2,015	539.7	2,542
Debt Securities	2,840	19,590	15,437	-21.2	16,096
Other Investments (net)	3,029	32,534	10,875	-66.6	17,674
Assets	994	5,078	-1,502	-	-4,210
Currency and Deposits	990	5,961	520	-91.3	-893
Liabilities	2,035	27,456	12,377	-54.9	21,884
Trade Credits	-316	3,550	-709	-	1,346
Loans	1,713	14,793	11,944	37.8	19,296
Banking Sector	1,318	14,842	9,155	-38.3	15,948
Non-bank Sectors	78	547	3,439	528.7	4,272
Deposits	620	8,551	688	-92.0	770
Foreign Banks	399	7,171	284	-96.0	339
Foreign Exchange	1,832	7,177	-593	-	-1,396
Turkish Lira	-1,433	-6	877	-	1,735
Non-residents	381	3,053	2,550	-16.5	2,904
Reserve Assets (net)	-1,460	-11,532	-4,365	-62.1	-2,744
Net Errors and Omissions	**-1,919**	**1,586**	**5,916**	**273.0**	**7,134**

Source: CBRT

The central government budget gave 11.3 billion TRY deficit during January-November period.

According to the Ministry of Finance's announcements, central government budget expenditures rose by 16.8% yoy in November while budget revenues recorded a limited increase of 6.2% yoy. Thus, the budget balance, which gave 6.4 billion TRY surplus in November 2013, registered a surplus of 3.6 billion TRY in the same month of 2014.

In the first 11 months of 2014, budget expenditures increased by 11.2% yoy while the expansion in budget revenues was realized as 8.4% yoy. In this context, the budget deficit increased from 1.2 billion TRY in the first 11 months of previous year to 11.3 billion TRY in the same period of 2014. Despite the widening of budget deficit, it was noteworthy that the cumulative deficit in this period reached only 46.5% of the year-end target set in Medium Term Program (MTP). During the same period, primary surplus, on the other hand, surpassed the MTP's target.

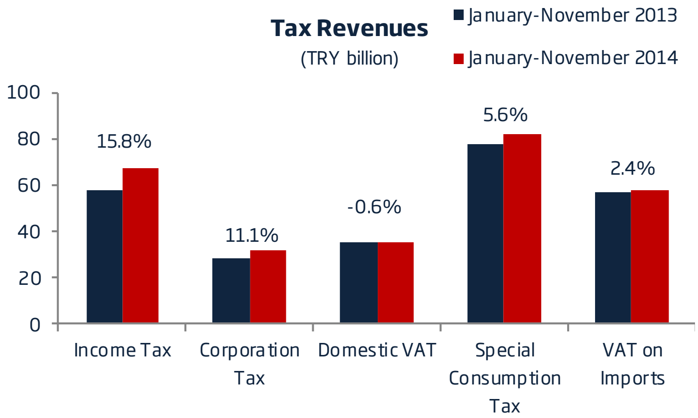
Acceleration in interest expenditures...

Analysis of budget expenditures revealed that the upward course in interest expenditures was kept in November. In addition to annual growth rate in interest expenditures which was realized as 81.3% in November, the increase in capital expenditures was 62.9% yoy. In fact, these two items were responsible for the two-thirds of total expansion in budget expenditures in November.

In January-November period, on the other hand, interest expenditures exhibited a flat course compared to the same period of the previous year. In this period, current transfers, which have the highest share among non-interest expenditures, rose by 9.7% yoy while the surge in the personal expenditures, having the second largest share, were realized as 14.8% yoy. Whereas total interest expenditures in the first 11 months of the year mostly converged to the year-end target of the MTP, non-interest expenditures reached only 87.8% of the targeted level.

Weak performance in tax collection continued.

Weak performance in tax revenues have persisted in November. Indeed, tax revenues, which constituted 90% of total budget revenues in November, grew by 6% yoy.



Analysis of tax revenues pointed out that revenues collected from income tax and special consumption tax rose by 15.5% and 11.1% yoy, respectively. On the other hand, having increased by only 1.8% yoy in the same period, corporation tax revenues restrained the increase in tax revenues.

During January-November period, tax revenues recorded a limited increase of 7.4% yoy due to the moderate course of economic activity in 2014. Indeed, taking into consideration that the annual CPI inflation was 9.15% in November, tax revenues registered a decline in real terms. Regarding the composition of tax revenues in the first 11 months of the year, domestic VAT revenues contracted by 0.6% yoy, while revenues collected from VAT on imports and special consumption tax recorded a limited increase of 2.4% and 5.6% yoy, respectively. On the other hand, during the same period, income tax and corporation tax revenues expanded by 15.8% and 11.1% yoy, respectively.

Expectations

Having given a surplus in November, central government budget figures for the first eleven months of 2014 revealed that the budget realizations remained consistent with the year-end targets. However, considering the high level of budget spending recorded in the last month of previous years, it is likely that that the budget expenditures might accelerate in December 2014 as well. In this framework, budget deficit might converge to the year-end target in the next month.

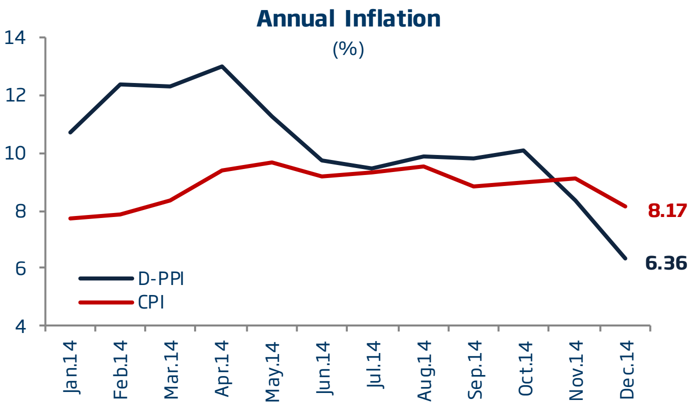
Central Government Budget (TRY billion)

	November		%	January-November		%	2014 Budget	MTP	Real./
	2013	2014	Change	2013	2014	Change	Target	Target (%)	MTP Tar. (%)
Expenditures	**30.5**	**35.6**	**16.8**	**358.2**	**398.2**	**11.2**	**436.4**	**448.4**	**88.8**
Interest Expenditures	1.8	3.2	81.3	48.0	48.5	0.9	52.0	50.2	96.5
Non-interest Expenditures	28.7	32.4	12.8	310.2	349.8	12.8	384.4	398.2	87.8
Revenues	**36.9**	**39.2**	**6.2**	**357.0**	**386.9**	**8.4**	**403.2**	**424.0**	**91.2**
Tax Revenues	33.1	35.1	6.0	299.4	321.7	7.4	348.4	351.6	91.5
Other Revenues	3.8	4.1	8.1	57.6	65.2	13.3	54.8	72.4	90.1
Budget Balance	**6.4**	**3.6**	**-43.9**	**-1.2**	**-11.3**	**813.5**	**-33.3**	**-24.4**	**46.5**
Primary Balance	**8.2**	**6.8**	**-17.0**	**46.8**	**37.1**	**-20.6**	**18.7**	**25.8**	**143.9**

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

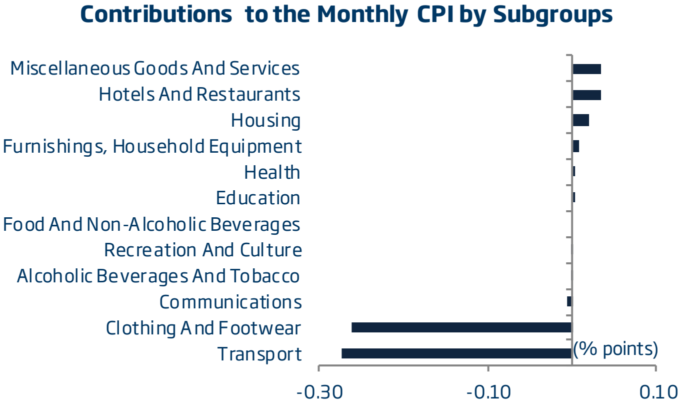
CPI inflation decreased by 0.44% mom in December.

In December, CPI and Domestic PPI (D-PPI) decreased by 0.44% and 0.76% mom, respectively. According to the Reuters' survey, on the other hand, CPI was expected to remain unchanged in December. According to the CBRT's survey, markets' monthly CPI expectation was 0.31%.



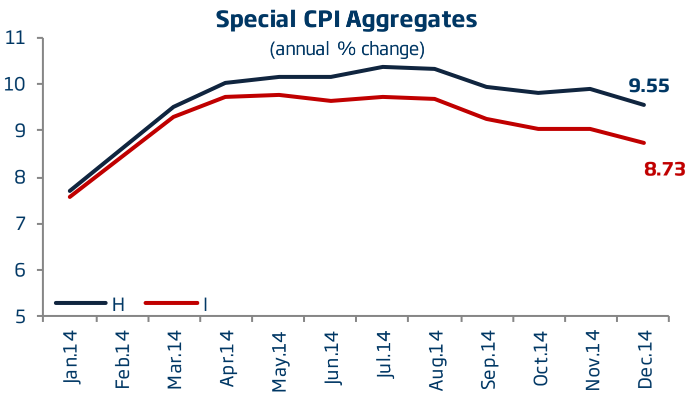
Annual CPI inflation was realized as 8.17%.

Annual increase in CPI, which exhibited better than expected outlook in December, was realized as 8.17%, the lowest level of the last 10 months. Having declined in November on monthly basis, D-PPI inflation recorded a significant fall in December as well. Thus, annual inflation in D-PPI came in at 6.36% in December, recording the lowest annual increase in 2014.



Fall in oil prices were influential on the course of CPI.

Analysis of the main expenditure groups in December showed that the decline in the clothing and footwear prices together with the transport prices were influential on consumer prices. Owing to the fall in international oil prices, transport prices continued to display a downward course in December. Indeed, the prices in the said group dropped by 1.78% mom in December and lowered monthly inflation by 27 basis points. Moreover, seasonal price decreases in clothing and footwear (3.71% mom) limited the CPI inflation by another 26 basis points. On the other hand, it was noteworthy that the prices in food and non-alcoholic beverages, which have the highest share among main expenditure groups with around 25%, remained unchanged in December. The price developments in the other sub-groups had limited impact on the CPI inflation in this period.



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

Decline in the core inflation indicators...

In December, seasonal factors along with the developments in energy prices had a downward impact on the CPI inflation. In fact, the fall in CPI was realized as 0.06% and 0.23% mom in December when seasonal and energy products are excluded, respectively. In the last month of the year, annual increases in CBRT's favorite core indices, denominated by H and I, were 9.55% and 8.73%, respectively.

The annual D-PPI inflation recorded as 6.36%.

Analysis of the sub-sectors of D-PPI revealed a broad-based deceleration in the prices in December. Especially, the price decreases in coke and refined petroleum products, electricity and gas production and distribution and motor vehicles played an important role in deceleration in D-PPI. Indeed, the said groups reduced the monthly CPI inflation by 78 basis points in December.

Expectations

We anticipate that the seasonal price discounts in clothing and footwear group together with the drop in the energy prices will have a downward impact on the CPI figures in January. On the other hand, tax hike in alcoholic beverages and tobacco group is considered to mitigate this impact on consumer prices. Taking into account the sharp increase registered in CPI in January 2014, we expect that the annual inflation will continue to decrease in the first month of the 2015 thanks to the base effect.

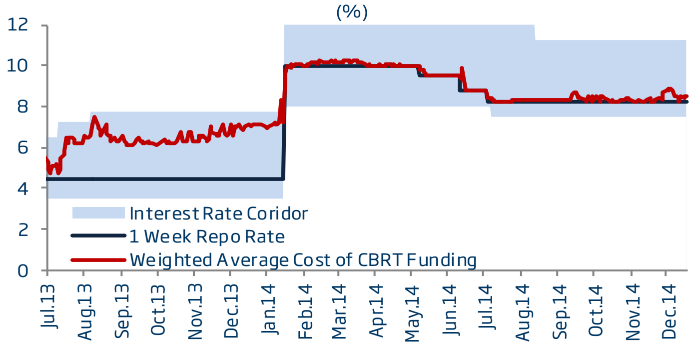
Source: Turkstat

CBRT kept the policy rate unchanged at its December meeting.

At its Monetary Policy Meeting on December 24, 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.

Following the meeting, CBRT announced that loan growth continued at reasonable levels thanks to the tight monetary policy stance and macroprudential measures while domestic demand started to make greater contribution to the growth. Besides, CBRT declared that that the implementation of the announced structural reforms would contribute to the potential growth significantly. CBRT stated that the measures taken at the beginning of the year had a favorable impact on the core inflation trend and anticipated that the headline inflation would decline throughout 2015, at a faster pace in the first half of the year.

CBRT Interest Rates
(%)

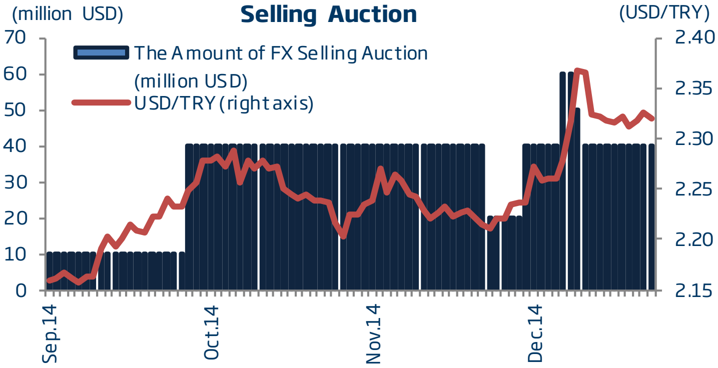


Measures taken by the CBRT in December...

Taking the expected improvements in the balance of payments into account, CBRT decided to decrease the amount of FX selling auction from minimum 40 million USD to minimum 20 million USD, on November 28. In the following period, owing to the deterioration in risk perception towards the emerging markets, the Central Bank increased its the daily FX selling auction amount to 60 million USD. In the second half of the month, CBRT announced to sell 40 million USD at its FX selling auctions as TRY followed a flat course.

In addition, on December 16, it was stated that the foreign exchange needs of the energy importing state owned enterprises would be met directly by the CBRT and the Undersecretariat of Treasury.

USD/TRY and the amount of the CBRT's FX Selling Auction



CBRT announced its monetary and exchange rate policy for 2015.

In its monetary and exchange rate policy for 2015, CBRT indicated that it would maintain the price stability-oriented monetary policy framework and also continue to support financial stability. CBRT pointed out that volatility in portfolio flows to emerging markets was expected to continue in 2015 while using the instruments of interest rate corridor and reserve option mechanism (ROM) to mitigate the spillover effects of these developments. Furthermore, CBRT stressed that it was crucial to implement policies that contain macrofinancial risks and FX denominated borrowing. Pointing out that external debt of banking sector has a relatively shorter average maturity, CBRT pledges to support prudent borrowing with raising core liability's ratio (deposits+shareholder's equity/cerdits) and lengthening the average maturity level of external debt in the sector.

CBRT revised reserve requirement ratios and reserve option mechanism coefficients.

In order to support financial stability, CBRT revised the reserve requirement ratios and reserve option mechanism (ROM) coefficients, on January 3, 2015. It was cited that the reserve requirement ratios of foreign exchange denominated liabilities of banks and financing companies were revised to encourage the extension of maturities of non-core liabilities. According to the announcement, the average reserve requirement ratio for FX, which currently stands at 11.7%, will rise to 12.8% while this action is expected to contribute to the Central Bank FX reserves by approximately 3.2 billion USD. Besides, to strengthen the automatic stabilizing feature of the ROM, technical adjustments were implemented in reserve option tranches and coefficients. Should the ROM facility continue to be used at the same level by banks and financing companies, the revisions in ROM would release approximately 2.4 billion USD from Central Bank reserves.

Source: CBRT, Borsa Istanbul

Ahead of the Fed meeting risk perception deteriorated in December.

In the first half of December global risk perception deteriorated substantially, particularly in emerging markets. This stemmed from the growing anticipation of an earlier than expected interest rate hike prior to the Fed's December meeting due to the favorable economic conditions in the US, deceleration in Chinese economy verified by latest figures and the heightened concerns related to Russian economy. Uncertainties caused by the downward trend in commodity prices, especially in oil prices, also led to a deterioration of risk perception in global markets.

The statements following the Fed's meeting held on December 17 and new measures taken by the Russian policymakers led to an improvement in risk perception.

Risk perception towards Turkey also increased in the first half of December due to the developments in global markets as well as the heavy domestic political agenda. In the following period, domestic financial markets also exhibited a favorable outlook in line with the global financial markets.

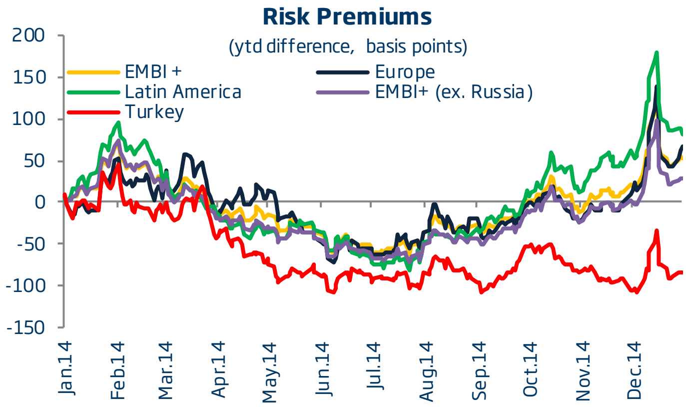
In December, USD/TRY reached 2.4120.

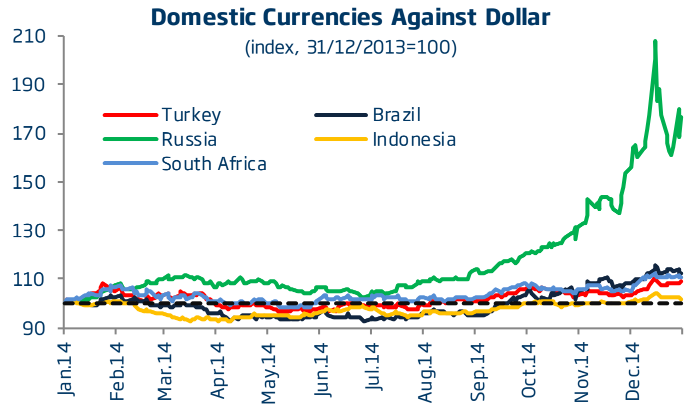
Having fallen to as low as 2.20 in November, USD/TRY increased rapidly in December as a result of the deterioration in risk perception. Indeed, USD/TRY reached its historical high level with 2.4120 on December 16. EUR/TRY also followed a similar course.

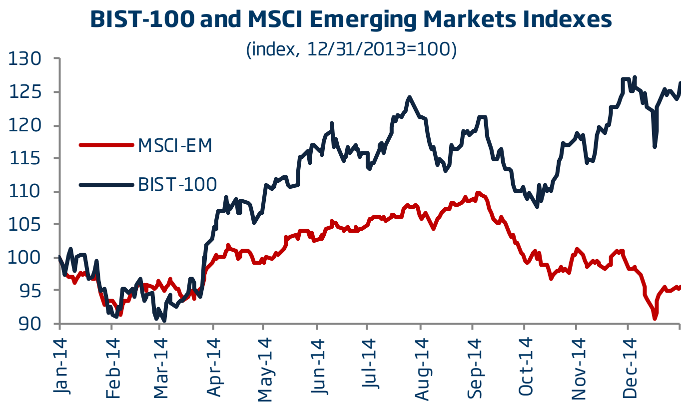
With the decline in risk perception as the decisions taken by the Fed calmed the markets, USD/TRY and EUR/TRY completed the year at 2.33 and 2.83, respectively. BIST-100 index, on the other hand, rose by 26% yoy in 2014.

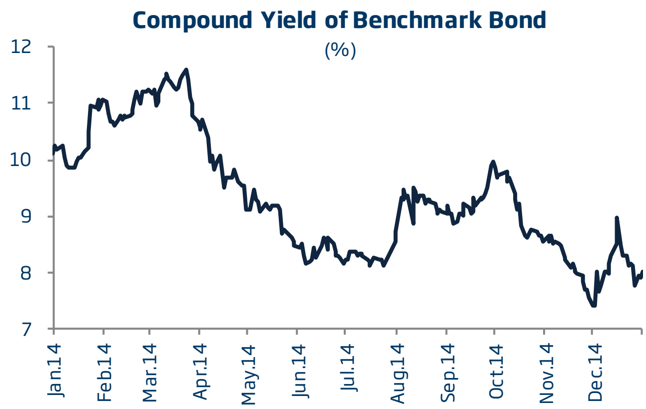
Interest rates increased in bond markets.

Interest rate of 2 year benchmark bond has dropped to one-year low in November thanks to favorable economic outlook for Turkish economy backed by the falling oil prices. However, interest rate increased rapidly in the first half of December, reaching nearly 9%. In the following period, interest rate of 2 year benchmark bond fell and was realized as 8.02% in the year-end.









Source: JP Morgan, Reuters, BIST

Increase in deposit volume continued.

According to BRSA's Weekly Bulletin, as of December 19, total deposit volume recorded an increase of 9.4% ytd and was realized as 1,110 billion TRY. In this period, deposit volume of the private and foreign banks' grew by 10.8%. Having followed a volatile course in recent months, the deposit volume of public banks increased by 6.6% ytd.

Loan volume grew by 16.9% ytd.

Having displayed an upward trend, total loan volume expanded by 16.9% ytd and reached 1,245 billion TRY as of December 19. In this period, the loan portfolio of the private and foreign banks increased by 15.5% while that of public banks rose by 21.1%, gaining momentum in the last quarter of the year.

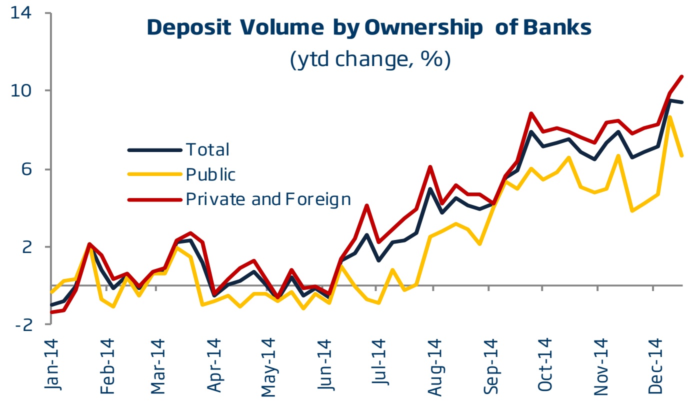
Analyzing by types of loans, as of December 19, commercial and corporate loans kept their upward trend and increased by 21.7% ytd while consumer loans expanded by 6.3% ytd.

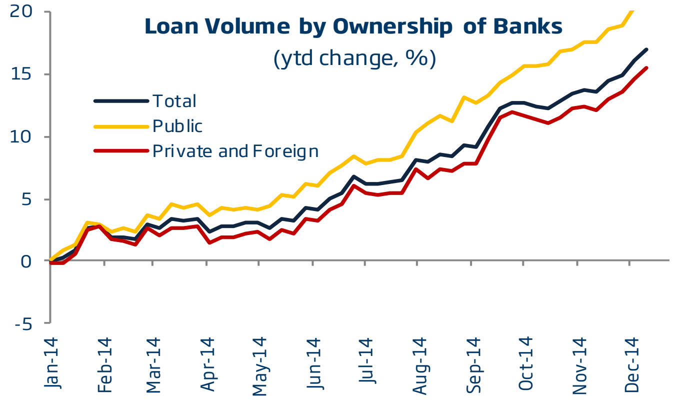
Securities portfolio...

Securities portfolio of the banking sector rose by 5% ytd to 301.2 billion TRY, as of December 19. In this period, FX securities portfolio rose by 33.8% ytd due to the developments in FX rates while TRY securities portfolio declined by 1.3% ytd.

Net FX position...

Banking sector's net FX position was realized as (-)3,221 million USD as of December 19. Banks' on-balance sheet FX position was (-)34,993 million USD while off-balance sheet FX position was (+)31,772 million USD.





Source: BRSA Weekly Bulletin

Expectations

The magnitude of the volatility in global markets increased in the last month of 2014. The rising tension in the markets ahead of the Fed's meeting on December 17 and ruble's slide due to the tumbling of oil prices deteriorated the risk perception towards emerging market economies. In the second half of the month, however, global risk perception improved again as markets welcomed the Fed's announcements.

Another noteworthy development in December was the slide in oil prices. The ongoing weak demand conditions and OPEC's decision to keep its production ceiling unchanged at its November meeting were the main factors that accelerated the fall in oil prices. Considering the expectations that the global economic growth will continue to be weak in the coming period, oil prices are expected to keep their low levels unless a supply disruption occurs. Low oil prices are negative for countries that depend on oil revenues. Russia, which has been already exposed to several sanctions in 2014, has particularly hit hard by the slide in oil prices. On the other hand, low oil prices helps net energy importer countries to improve their external balances.

Regarding Turkey, the expected revival in domestic demand has not materialized yet despite the CBRT's interest rate cuts in summer. Thus, the 2014 year-end growth forecasts were revised downwards.

The improvement in Turkey's external balances is expected to continue in the coming period should the oil prices keep their current low level. Oil prices will also help to accelerate the improvement in inflation outlook. However, considering that the risk perception changes quickly in the current global conjuncture, CBRT is expected to keep its cautious policy stance for a while.

Forecasts (%)	2014	2015
Growth	3.0	3.5
CA Deficit/GDP	5.0	5.1
Inflation	8.2 (R)	7.0
GDDI Interest*	9.8 (R)	8.0

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

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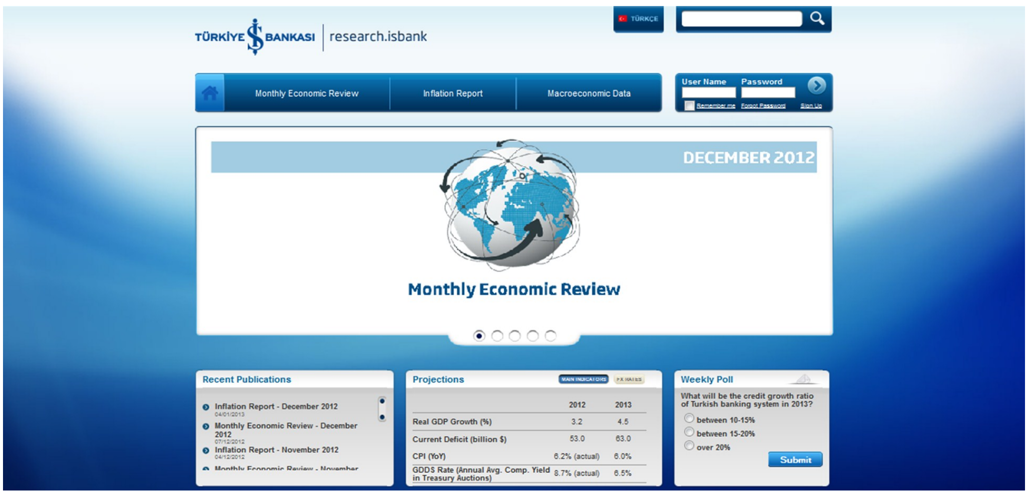

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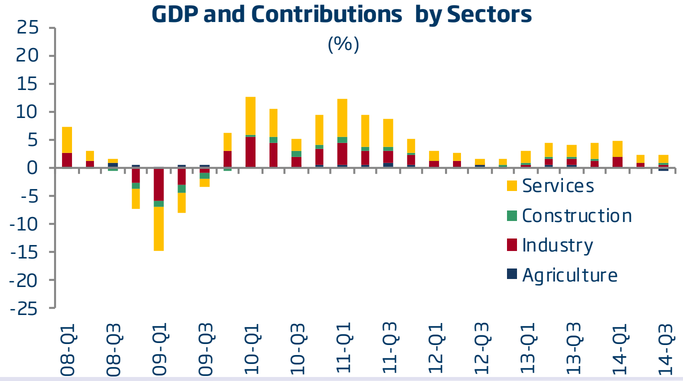
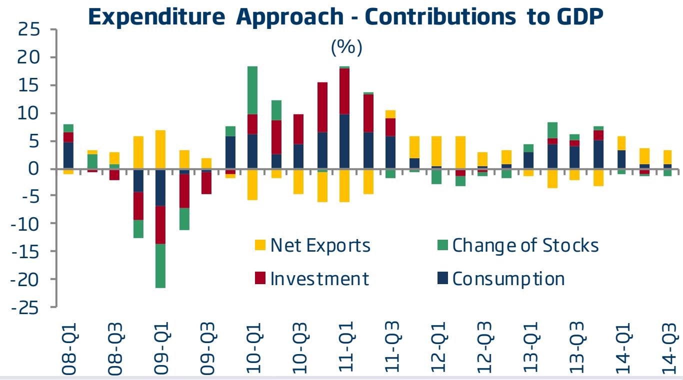
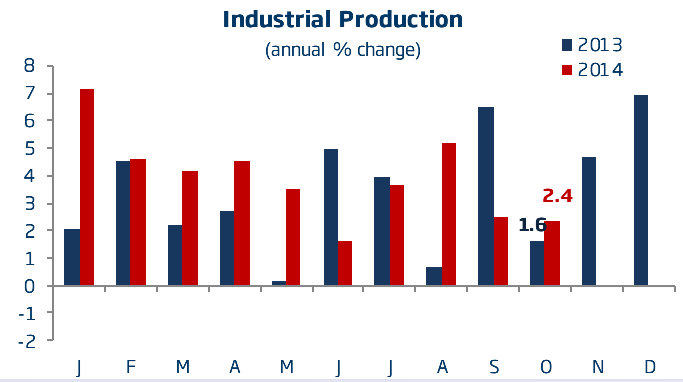
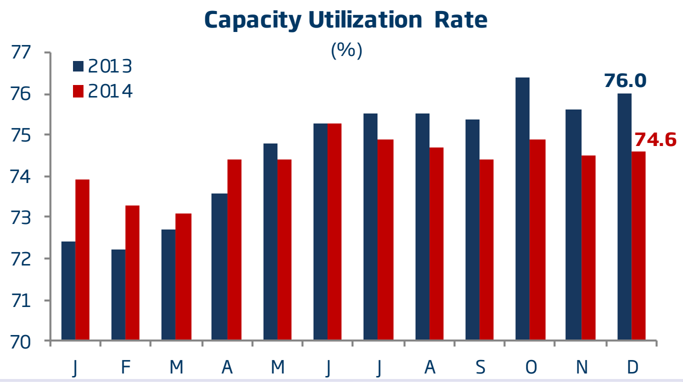
Growth



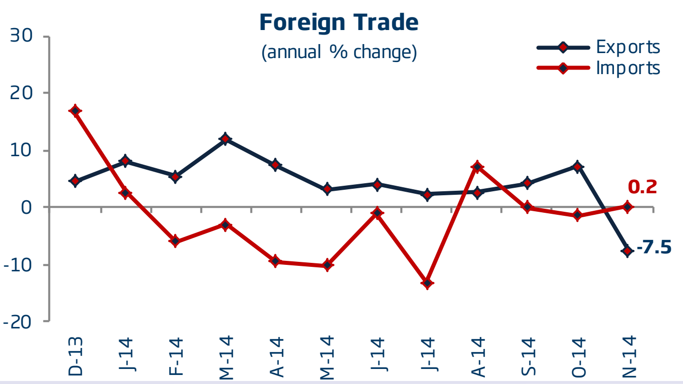


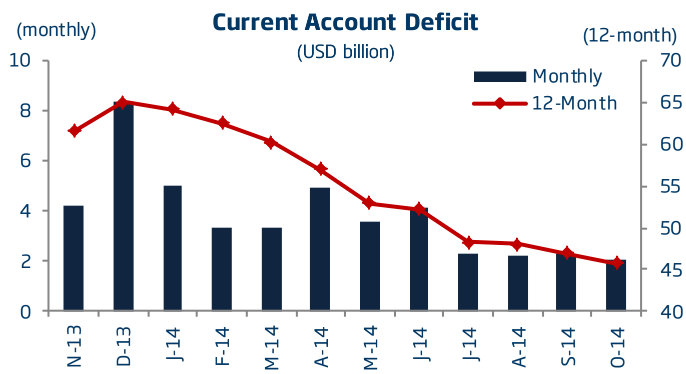
Industrial Production



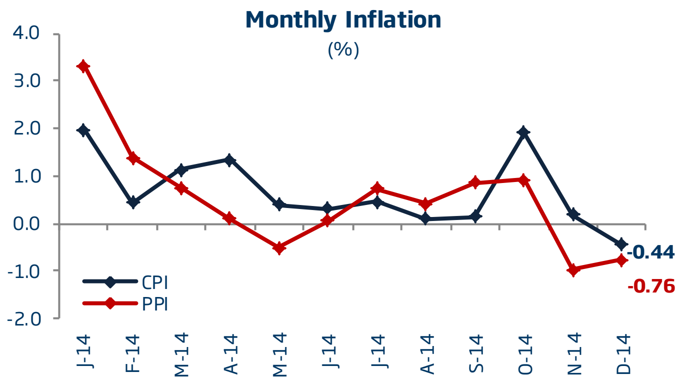


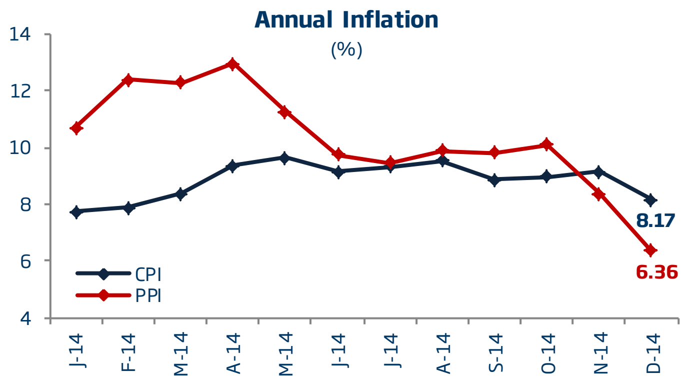
Foreign Trade and Current Account Balance





Inflation

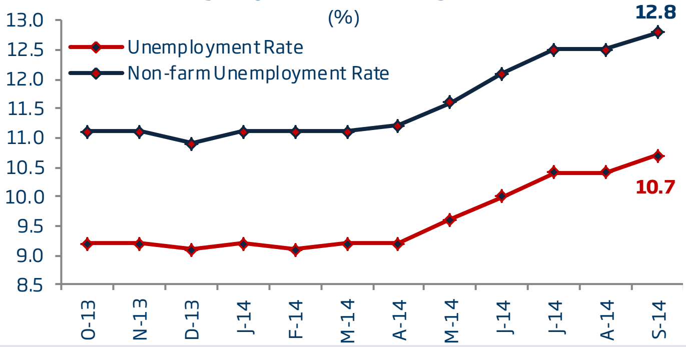




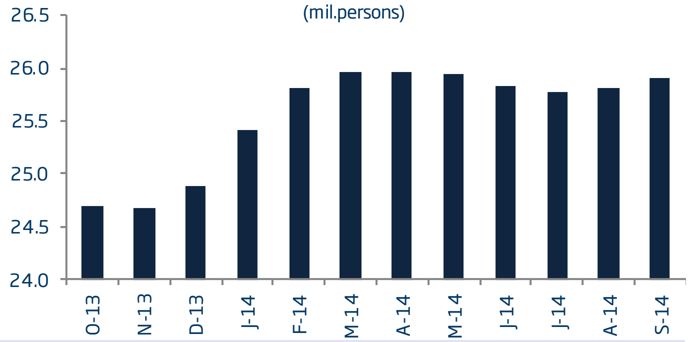
Source: Turkstat, CBRT

Labor Market

Seasonally Adjusted Unemployment Rates
(%)

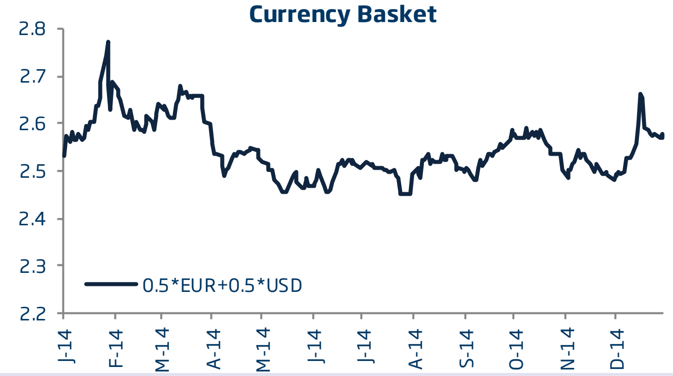


Seasonally Adjusted Employment
(mil.persons)

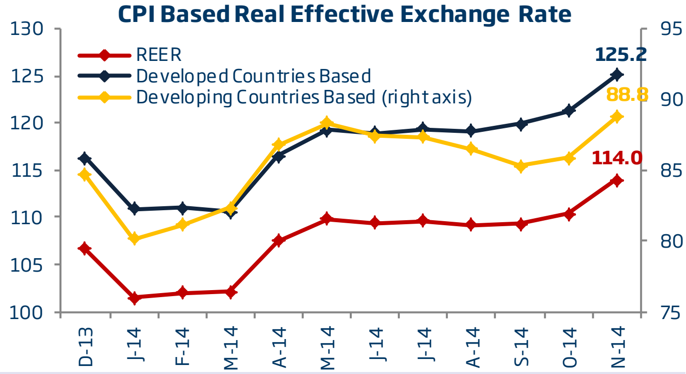


FX Market

Currency Basket

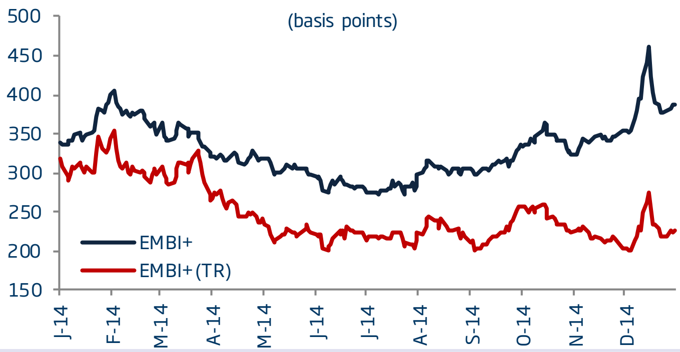


CPI Based Real Effective Exchange Rate

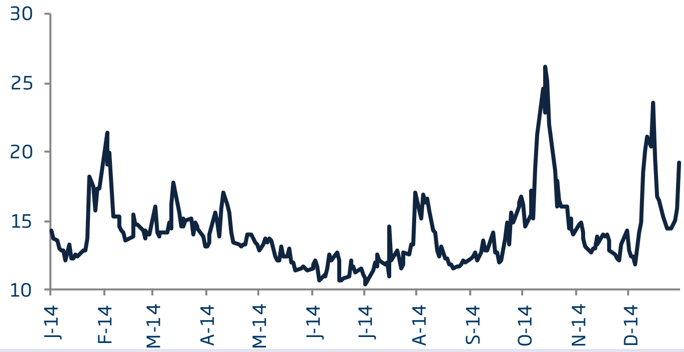


Risk Indicators

Risk Premiums
(basis points)

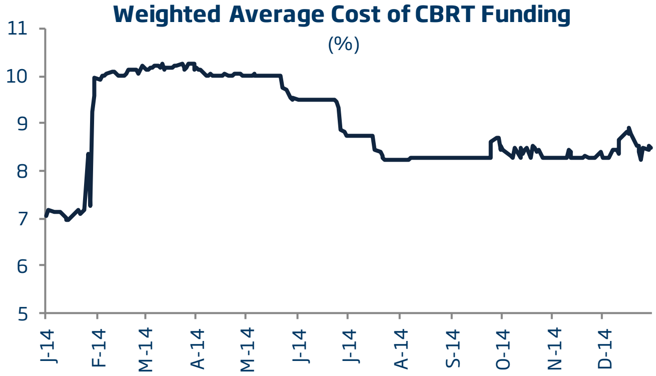


VIX

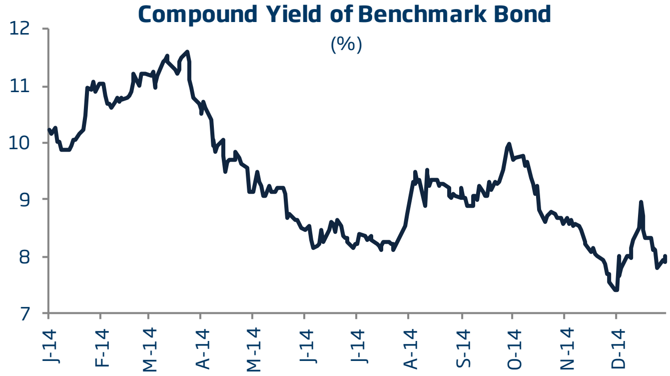


Interest Rates

Weighted Average Cost of CBRT Funding
(%)



Compound Yield of Benchmark Bond
(%)



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

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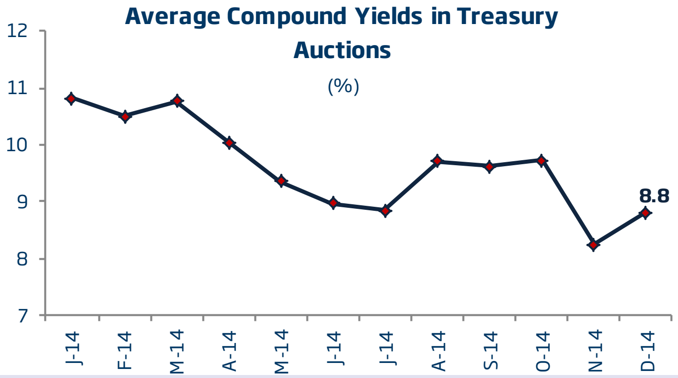
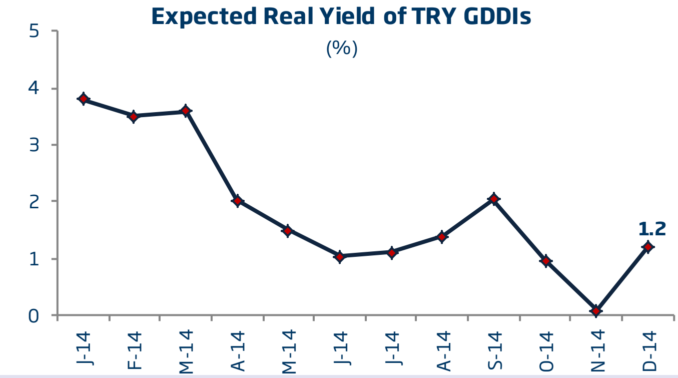
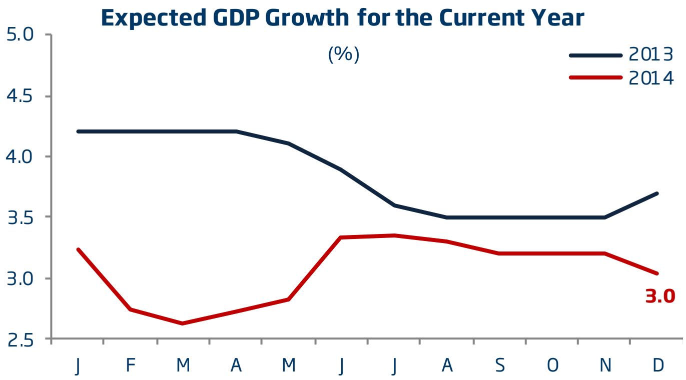
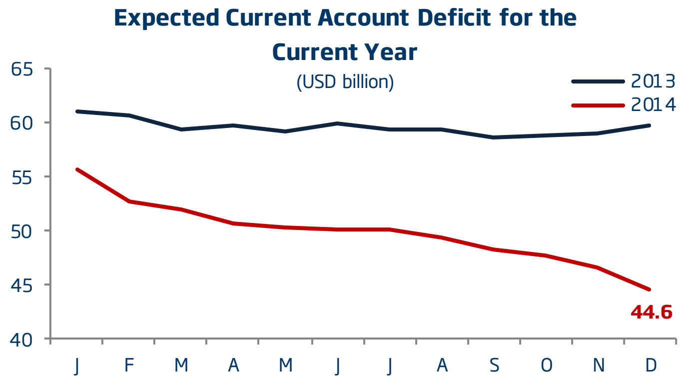
Bond-Bill Market

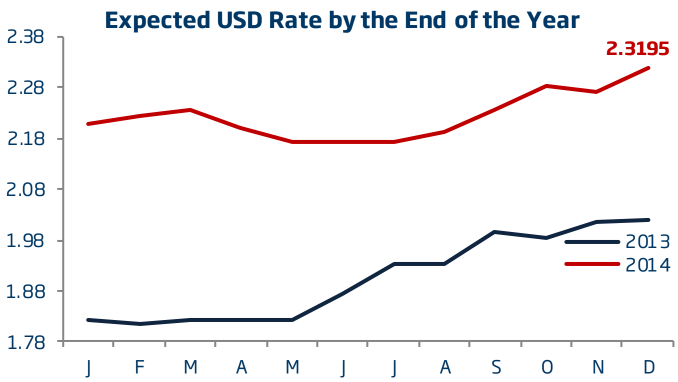


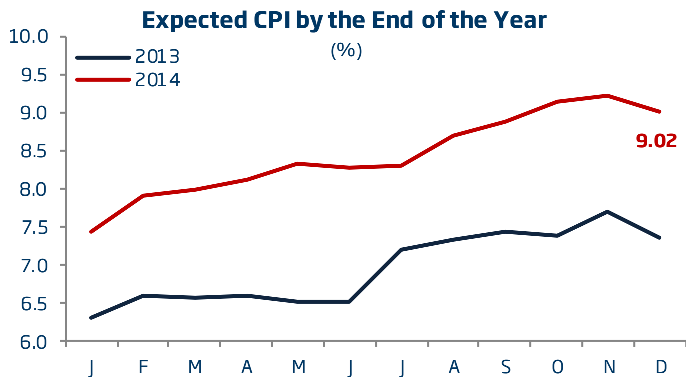


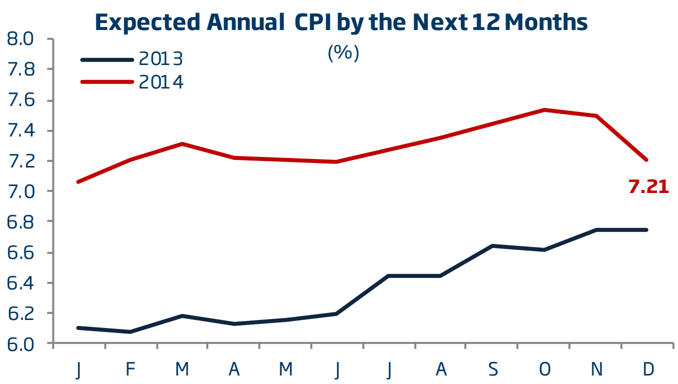
Survey of Expectations and Other Leading Indicators

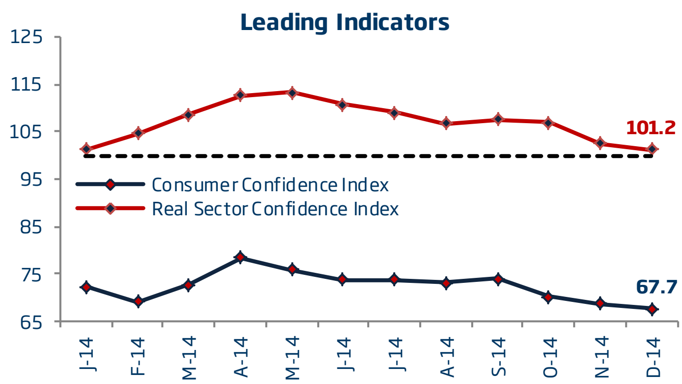












Source: Treasury, BIST, CBRT, Economic Research Division

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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	807,9*	798,8*	799,8*
GDP Growth Rate (%)	-4.8	9.2	8.8	2.1	4.1	4.8	2.2	1.7
Inflation (%)						**Oct-14**	**Nov-14**	**Dec-14**
CPI (annual)	6.53	6.40	10.45	6.16	7.40	8.96	9.15	8.17
PPI (annual)	5.93	8.87	13.33	2.45	6.97	10.10	8.36	6.36
Seasonally Adjusted Labor Market Figures						**Jul-14**	**Aug-14**	**Sep-14**
Unemployment Rate (%)	11.9	10.0	8.5	8.8	9.1	10.4	10.4	10.7
Employment (thousand persons)	21,413	22,631	23,496	24,482	24,891	25,766	25,818	25,916
FX Rates						**Oct-14**	**Nov-14**	**Dec-14**
CPI Based Real Effective Exchange Rate	116.6	125.5	109.4	117.9	106.7	110.4	114.0	-
USD/TRY	1.5057	1.5460	1.9065	1.7826	2.1343	2.2171	2.2149	2.3189
EUR/TRY	2.1603	2.0491	2.4592	2.3517	2.9365	2.7902	2.7644	2.8207
Currency Basket (0.5*EUR+0.5*USD)	1.8330	1.7976	2.1829	2.0672	2.5354	2.5037	2.4897	2.5698
Foreign Trade Balance[1] (USD billion)						**Sep-14**	**Oct-14**	**Nov-14**
Exports	102.1	113.9	134.9	152.5	151.8	157.9	158.7	157.7
Imports	140.9	185.5	240.8	236.5	251.7	243.9	243.6	243.6
Foreign Trade Balance	**-38.8**	**-71.7**	**-105.9**	**-84.1**	**-99.9**	**-86.0**	**-84.8**	**-85.9**
Import Coverage Ratio (%)	72.5	61.4	56.0	64.5	60.3	64.7	65.2	64.7
Current Account Balance[1] (USD billion)						**Aug-14**	**Sep-14**	**Oct-14**
Current Account Balance	**-12.0**	**-45.3**	**-75.1**	**-48.5**	**-65.0**	**-48.1**	**-47.0**	**-45.7**
Capital and Financial Accounts	**9.0**	**44.5**	**65.9**	**47.4**	**62.2**	**36.9**	**38.9**	**38.6**
Direct Investments (net)	7.1	7.6	13.8	9.2	9.2	7.5	7.7	7.3
Portfolio Investments (net)	0.2	16.1	22.0	40.8	23.7	18.9	18.2	16.4
Other Investments (net)	1.9	33.6	28.4	18.3	39.3	15.1	16.6	17.7
Reserve Assets (net)	-0.1	-12.8	1.8	-20.8	-9.9	-4.5	-3.5	-2.7
Net Errors and Omissions	**3.0**	**0.8**	**9.1**	**1.1**	**2.8**	**11.2**	**8.1**	**7.1**
Current Account Deficit/GDP	**-1.9**	**-6.2**	**-9.7**	**-6.2**	**-7.9**	-	-	-
Budget[2][3] (TRY billion)						**Sep-14**	**Oct-14**	**Nov-14**
Expenditures	**268.2**	**294.4**	**314.6**	**361.9**	**408.2**	**325.4**	**362.6**	**398.2**
Interest Expenditures	53.2	48.3	42.2	48.4	50.0	38.3	45.3	48.5
Non-interest Expenditures	215.0	246.1	272.4	313.5	358.2	287.2	317.3	349.8
Revenues	**215.5**	**254.3**	**296.8**	**332.5**	**389.7**	**313.5**	**347.7**	**386.9**
Tax Revenues	172.4	210.6	253.8	278.8	326.2	258.7	286.6	321.7
Budget Balance	**-52.8**	**-40.1**	**-17.8**	**-29.4**	**-18.5**	**-11.9**	**-14.9**	**-11.3**
Primary Balance	**0.4**	**8.2**	**24.4**	**19.0**	**31.4**	**26.3**	**30.3**	**37.1**
Budget Balance/GDP	**-5.5**	**-3.6**	**-1.4**	**-2.1**	**-1.2**	-	-	-
Central Government Debt Stock (TRY billion)						**Sep-14**	**Oct-14**	**Nov-14**
Domestic Debt Stock	330.0	352.8	368.8	386.5	403.0	408.2	411.1	413.6
External Debt Stock	111.5	120.7	149.6	145.7	182.8	194.9	188.6	188.6
Total	**441.5**	**473.6**	**518.4**	**532.2**	**585.8**	**603.2**	**599.7**	**602.2**

(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	Oct-14	Nov-14	Change[1]
TOTAL ASSETS	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1916.4**	**1935.5**	**11.7**
Loans	**392.6**	**525.9**	**682.9**	**794.8**	**1047.4**	**1182.6**	**1200.1**	**14.6**
TRY Loans	288.2	383.8	484.8	588.4	752.7	850.1	860.4	14.3
Share (%)	73.4	73.0	71.0	74.0	71.9	71.9	71.7	-
FX Loans	104.4	142.1	198.1	206.4	294.7	332.5	339.8	15.3
Share (%)	26.6	27.0	29.0	26.0	28.1	28.1	28.3	-
Non-performing Loans	21.9	20.0	19.0	23.4	29.6	36.6	37.3	26.0
Non-performing Loan Rate (%)	5.3	3.7	2.7	2.9	2.8	3.0	3.0	-
Securities	**262.9**	**287.9**	**285.0**	**270.0**	**286.7**	**294.5**	**297.0**	**3.6**
TOTAL LIABILITIES	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1916.4**	**1935.5**	**11.7**
Deposits	**514.6**	**617.0**	**695.5**	**772.2**	**945.8**	**1012.6**	**1019.9**	**7.8**
TRY Deposits	341.4	433.5	460.0	520.4	594.1	609.3	618.9	4.2
Share (%)	66.3	70.3	66.1	67.4	62.8	60.2	60.7	-
FX Deposits	173.2	183.5	235.5	251.8	351.7	403.3	401.0	14.0
Share (%)	33.7	29.7	33.9	32.6	37.2	39.8	39.3	-
Securities Issued	**0.1**	**3.1**	**18.4**	**37.9**	**60.6**	**86.2**	**86.4**	**42.7**
Payables to Banks	**86.1**	**122.4**	**167.4**	**173.4**	**254.2**	**282.1**	**284.2**	**11.8**
Funds from Repo Transactions	**60.7**	**57.5**	**97.0**	**79.9**	**119.1**	**125.9**	**132.5**	**11.3**
TOTAL SHAREHOLDERS' EQUITY	**110.9**	**134.5**	**144.6**	**181.9**	**193.7**	**224.2**	**229.9**	**18.7**
Profit (Loss) of the Period	20.2	22.1	19.8	23.5	24.7	20.8	22.7	-
RATIOS (%)								
Loans/Assets	47.1	52.2	56.1	58.0	60.5	61.7	62.0	-
Securities/Assets	31.5	28.6	23.4	19.7	16.6	15.4	15.3	-
Deposits/Liabilities	61.7	61.3	57.1	56.3	54.6	52.8	52.7	-
Deposits/Loans	131.1	117.3	101.8	97.2	90.3	85.6	85.0	-
Capital Adequacy (%)	20.6	19.0	16.6	17.9	15.3	16.4	16.6	-

(1) Year-to-date % change

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