Monthly Economic Review
February 2015

Global Economy

- Both World Bank and IMF emphasized on the downward risks to global growth and the developments regarding the fall in oil prices in their latest reports published in January.
- At its meeting held on January 27-28, the Fed kept the policy interest rate unchanged and reiterated that it would be patient in beginning to normalize the stance of monetary policy.
- Indicators regarding the economic activity in the US showed that the economy's recovery trend remained intact.
- Recent data announcements in Euro Area heightened concerns about economic outlook. Industrial production and PMI figures reflected the weak performance of economic activity. In addition, annual inflation posted an annual decline of 0.6% In January intensifying concerns about deflation.
- At its monetary policy meeting on January 22, the European Central Bank decided to expand its asset purchase programme by 60 billion euro per month until September 2016. ECB also announced that it would start to buy government bonds by March 2015.
- Swiss National Bank announced on January 15 that it decided to abandon its minimum exchange rate cap of CHF 1.20 per euro which was introduced in September 2011.
- Radical left party Syriza won the general elections in Greece held on January 25. This development deteriorated risk perceptions towards the country.

Turkish Economy

- Calendar adjusted industrial production increased by 0.7% yoy in November, well below the market expectations. Seasonally and calendar adjusted industrial production, on the other hand, decreased by 0.1% mom.
- In 2014, despite the ongoing problems in both Iraq and Russia, exports to the United States as well as European Union (EU) countries (especially Germany and United Kingdom) have surged significantly. In this period, imports volume decreased owing to the weak domestic demand conditions and the sharp decline in oil prices recorded in the second half of the year. Hence, foreign trade deficit of Turkey shrank by 15.4% yoy.
- In November, current account deficit came in at 5.6 billion USD, close to the market expectations. In this period, current account deficit widened on an annual basis for the first time in 2014 due to the decline in annual exports and increase in gold imports which amounted to 2 billion USD.
- In 2014, budget expenditures and budget revenues increased by 9.8% and 9.3%, respectively. Although the budget deficit widened by 22.2% yoy, it remained well below the year-end target.
- CPI, which came in above the expectations in January, increased by 7.24% on annual basis, the lowest level since May 2013. Owing to the base effect, annual D-PPI inflation also declined to 3.28%, the lowest level of the last 20 months.
- At its monetary policy meeting held on January 20, CBRT cut policy rate (1-week repo rate) by 50 bps from 8.25% to 7.75%. Having described the rate cut as "measured", monetary policy committee grounded its decision on the positive developments in inflation and inflation expectations, especially in core inflation indicators, mainly thanks to the tight policy stance accompanied by macroprudential measures and falling oil prices.

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Industrial production rose by 0.7% yoy in November.

Calendar adjusted industrial production increased by 0.7% yoy in November, well below the market expectations. Seasonally and calendar adjusted industrial production, on the other hand, decreased by 0.1% mom. Industrial production figures pointed to a deceleration in economic activity in this period.

In January, manufacturing PMI declined by 1.6 points mom to 49.8. Thus, falling below the 50 threshold level and posting its lowest level in five months, manufacturing PMI indicated that production activity stagnated in the beginning of 2015. It was noteworthy that output, new orders, exports and purchases of inputs dropped in January.

The unemployment rate kept its high level.

According to the Household Labor Statistics, unemployment rate surged by 1.3 point yoy and was realized as 10.4% in October. Seasonally adjusted unemployment rate remained close to the highest level of last 4 years by 10.6%.

Analysis of labor statistics revealed that the rise in unemployment rate mainly stemmed from the moderate course of economic activity and the increase in labor participation rate.

The downward trend in confidence indices in January...

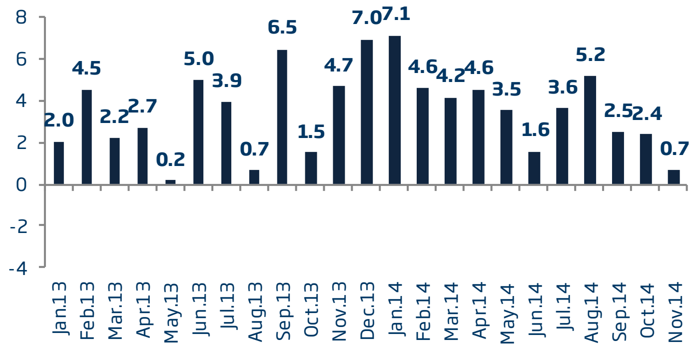
Real sector confidence index increased by 1.9 point yoy and was realized as 103.2. This development stemmed from the recovery in general business conditions due to the base effect. Seasonally adjusted index, on the other hand, fell by 1.6 point mom. Output and export orders for the next three months were influential on monthly decline.

Consumer confidence index fell by 0.1 point mom and was realized as 67.7. Thus, consumer confidence receded to its lowest level since 2012. This was attributable to the deterioration in financial situation expectation of households over the next 12 months.

Turkstat launched "economic confidence" index as a monthly composite index, encapsulating the evaluations of both consumers and producers on general economic situation, starting from January 2015. Economic confidence index dropped by 0.4% mom to 88.4 in January. This development stemmed from the decreases in all sub-indices (consumer, real sector, retail trade and construction confidence indices) except services confidence index.

Industrial Production Index*

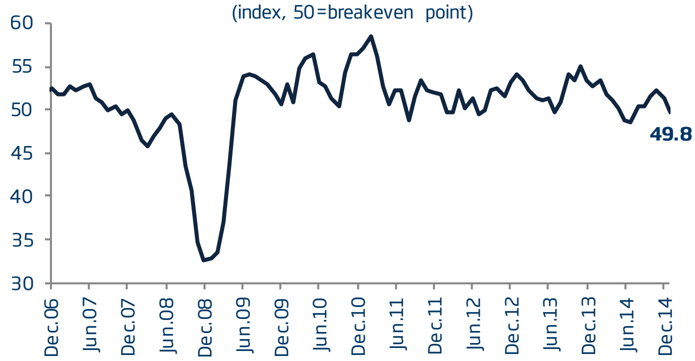
(annual % change)



(*) Calendar adjusted

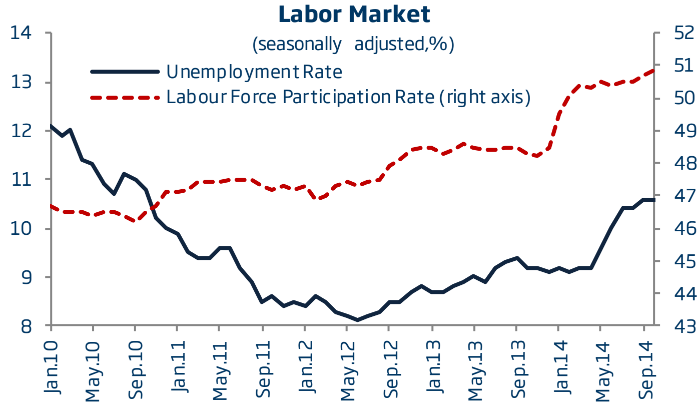
Manufacturing PMI

(index, 50=breakeven point)



Labor Market

(seasonally adjusted,%)



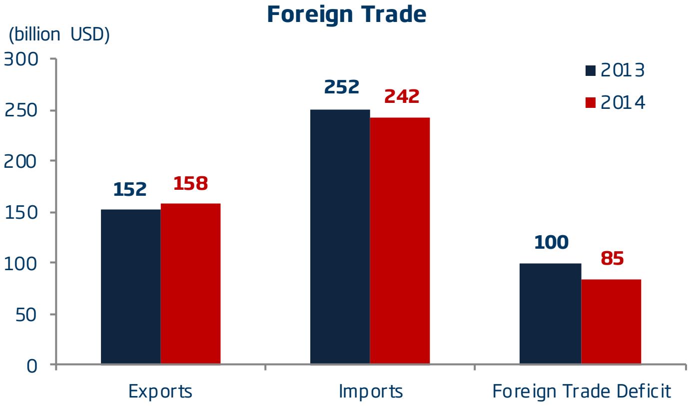
Source: Turkstat, CBRT

Foreign trade deficit contracted in December.

Export volume, which decreased on an annual basis in November, rose in the last month of 2014. Import volume, on the other hand, fell by 5.6% yoy, thus, the foreign trade deficit contracted by 14.6% compared to the same month of previous year.

In January-December period, despite the ongoing problems in both Iraq and Russia, exports to the United States as well as European Union (EU) countries (especially Germany and United Kingdom) have surged significantly. In this period, imports volume decreased owing to the weak domestic demand conditions and the sharp decline in oil prices recorded in the second half of the year. Hence, foreign trade deficit of Turkey shrank by 15.4% yoy and was realized as 84.5 billion USD.

Foreign Trade



A broad based acceleration in exports in 2014...

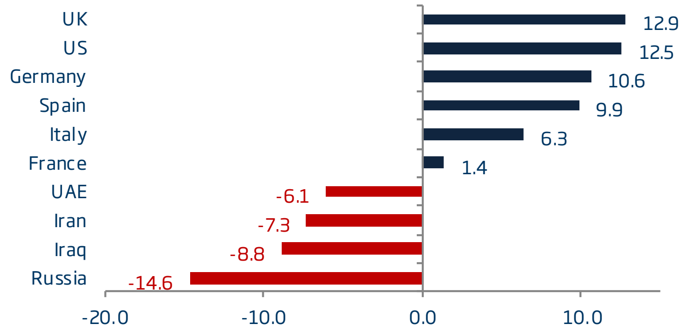
All export sub-items except iron and steel and mineral fuels and oils have increased in 2014. In this period, exports of motor vehicles continued to rank first in total exports with 18.1 billion USD.

Germany ranked first in total exports during 2014.

Germany kept its place among top export destinations in 2014 by ranking first. Exports to Iraq, which decelerated in the second half of the year due to the conflicts in the country, recovered slightly in the last month. Accordingly, Iraq, which declined to third place in the second half of the year, ranked second again at the year-end. United Kingdom maintained its third rank. In 2014, exports to Russia followed a downward trend and annual decline rate reached 14.6%. Thus, Russia's ranking dropped from fourth to seventh.

Exports to Main Export Destinations

(annual % change)



Exports to European countries rose in 2014.

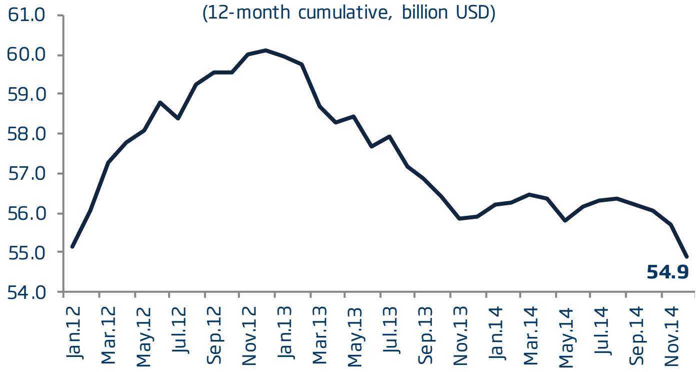
Although economic activity in the European Union countries weakened substantially, exports destined to the region increased by 8.8% yoy. In addition, exports to other European countries rose by 6.9% yoy. Exports to North American countries also increased by 10.9% yoy in line with the rise in exports to the US by 12.5% yoy. However, there was no significant change in exports to Middle Eastern countries.

Turkey's energy bill has reduced.

The impact of falling oil prices on imports became evident in December. Indeed, energy imports (classified as Chapter 27–

Energy Imports

(12-month cumulative, billion USD)



Foreign Trade Balance (USD billion)

	December		Change	January-December		Change
	2013	2014	(%)	2013	2014	(%)
Exports	13.2	13.3	1.2	151.8	157.7	3.9
Imports	23.1	21.8	-5.6	251.7	242.2	-3.7
Foreign Trade Balance	**-10.0**	**-8.5**	**-14.6**	**-99.9**	**-84.5**	**-15.4**
Import Coverage Ratio (%)	56.9	61.0	-	60.3	65.1	-

Source: Turkstat

mineral fuels and oils), which constitute around one fourth of Turkey's total imports, decreased by 15.2% yoy. In 2014, annual decline in this item was realized as 1.8%.

Normalization in gold trade…

The gold trade, which had been largely effective on foreign trade balance in 2012 and 2013, showed signs of normalization in 2014. Having a total amount of 15.1 billion USD in 2013, gold imports decreased to 7.1 billion USD in 2014, contributing to the improvement in imports. On the other hand, gold exports stayed flat in 2014 with 3.2 billion USD.

Expectations

In 2014 the favorable impact of the fall in oil prices on foreign trade balance became evident. This development is also expected to support foreign trade performance positively in the forthcoming period. However, the anticipated recovery in domestic demand conditions in 2015 may limit the effect of a lower energy billion foreign trade balance. On the other hand, the measures taken by European Central Bank to loose monetary policy were considered as a favorable development. Nevertheless, the impact of these policy decisions is expected to be limited in the short-term. In this context, weak outlook in the main export destinations of Turkey may cause exports to underperform compared to the previous year.

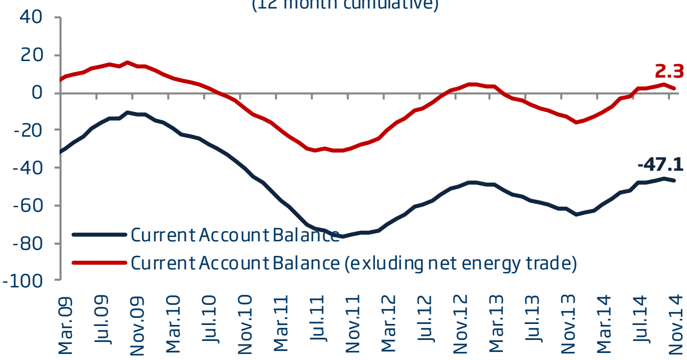
Source: Turkstat

On annual basis current account deficit widened.

In November, current account deficit came in at 5.6 billion USD, close to the market expectations. In this period, current account deficit widened on an annual basis for the first time in 2014 due to the decline in annual exports and increase in gold imports which amounted to 2 billion USD. In this context, 12-month cumulative current account deficit increased to 47.1 billion USD in November from 45.7 billion USD in October which was the lowest level recorded in almost last 4 years.

In the first 11 months of 2014, current account deficit narrowed by 31.7% yoy thanks to the favorable outlook in foreign trade performance in the previous months.

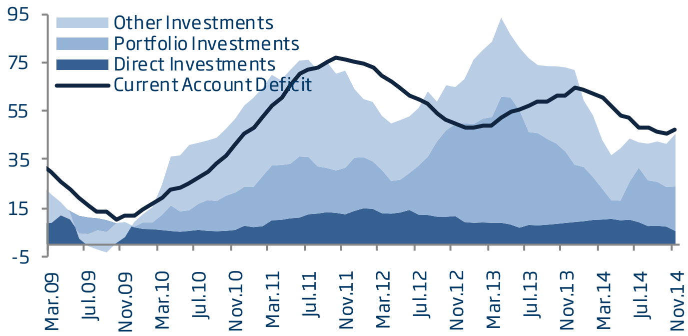
Current Account Balance
(12 month cumulative)



Sharp rise in foreign direct investments abroad...

In January-November period, foreign direct investment inflows remained flat compared to the same period of the previous year. On the other hand, the highest foreign direct investment outflows (1.9 billion USD) since March 2012 were recorded in November due to the other capital* outflows under the said account. In fact, capital outflows during the first 11 months of 2014 were approximately 2.5 times higher than that of the previous year. Thus, though there was no significant change in foreign direct inflows compared to 2013, net direct investment inflows decreased by 3.7 billion USD yoy to 4.3 billion USD during January-November period as a result of the surge in direct investments abroad.

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



Portfolio investments...

Portfolio investment inflows continued to contribute significantly to the financing of current account deficit in November. During this period, portfolio investments directed to debt securities were realized as 2.3 billion USD while 1.9 billion USD of this amount stemmed from the public bond issues. On the other hand, net capital inflows via equity securities amounted to 524 million USD.

Other investments...

In January-November, banking sector raised 11.1 billion USD net loans from abroad, 37.7% lower than the same period of the previous year. This drop mainly stemmed from the decline in short term funding needs of banking sector due to the ongoing weak domestic demand conditions. In contrast, banking sector kept raising long term loans during this period. As a matter of fact, 5.8 billion USD of net borrowing of banking sector was long-term while short-term borrowing was realized as 5.3 billion USD.

During the first 11 months of 2014, loans received from abroad by non-bank sectors' surged significantly. In this

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

			Breakdown of Capital Inflows (%)	
	December 2013	November 2014	December 2013	November 2014
Current Account Balance	**-65,035**	**-47,086**	-	-
Total Net Foreign Capital Inflows	**74,946**	**48,534**	**100.0**	**100.0**
-Direct Investments	9,187	5,458	12.3	11.2
-Portfolio Investments	23,692	18,412	31.6	37.9
-Other Investments	39,108	21,763	52.2	44.8
-Net Errors and Omissions	3,055	2,955	4.1	6.1
-Other	-96	-54	-0.1	-0.1
Reserves(1)	**-9,911**	**-1,448**	-	-

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

period, non-bank sectors' net borrowing from abroad increased by 4.2 billion USD to 5.2 billion USD. Banks' and nonbank sectors' long-term debt roll-over ratios were realized as 174% and 119%, respectively.

Net errors and omissions account recorded an outflow of 3.5 billion USD in November.

In November, net errors and omissions registered an outflow of 3.5 billion USD. As a result, capital inflows under net errors and omissions account declined to 2.3 billion USD in the first 11 months of the year. However, it was seen that this account continued to contribute to the financing of current account deficit. Reserve assets, on the other hand, increased by 5.2 billion USD during January-November period.

Expectations

In November, disruption in export growth and elevated gold imports led to an expansion in current account deficit on a monthly basis. Should the economic activity in the European countries continue to weaken, this might make it harder for Turkey to sustain the strong export performance of 2014 in the forthcoming period. That might result in an upward pressure on the current account deficit. However, the high amount of gold imports recorded in November is likely to be temporary. Moreover, lower energy bill of Turkey in line with the drop in oil prices is expected to support the improvement in current account balance.

Current Account Balance (USD million)

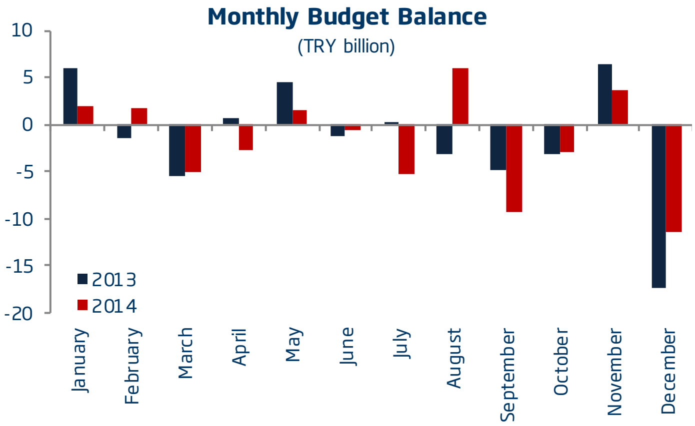
	November 2014	Jan.-Nov. 2013	Jan.-Nov. 2014	% Change	12 Month Cumulative
Current Account Balance	**-5,636**	**-56,665**	**-38,716**	**-31.7**	**-47,086**
Foreign Trade Balance	-6,598	-72,128	-57,011	-21.0	-65,096
Services Balance	1,462	22,738	25,189	10.8	25,584
Tourism Revenues (net)	1,449	22,261	23,842	7.1	24,761
Income Balance	-598	-8,499	-7,923	-6.8	-8,776
Current Transfers	98	1,224	1,029	-15.9	1,202
Capital and Financial Accounts	**9,098**	**54,282**	**36,433**	**-32.9**	**44,131**
Direct Investments (net)	-1,035	8,019	4,290	-46.5	5,458
Portfolio Investments (net)	3,203	23,924	18,644	-22.1	18,412
Assets	422	2,689	-1,590	-	-1,678
Liabilities	2,781	21,235	20,234	-4.7	20,090
Equity Securities	524	1,087	2,540	133.7	2,295
Debt Securities	2,257	20,148	17,694	-12.2	17,795
Other Investments (net)	7,733	36,066	18,721	-48.1	21,763
Assets	2,028	3,970	548	-86.2	-1,052
Currency and Deposits	1,690	6,151	2,211	-64.1	608
Liabilities	5,705	32,096	18,173	-43.4	22,815
Trade Credits	1,363	4,242	643	-84.8	2,004
Loans	3,433	17,966	15,481	35.9	19,437
Banking Sector	1,916	17,764	11,066	-37.7	14,938
Non-bank Sectors	1,645	984	5,167	425.1	5,339
Deposits	904	9,324	1,592	-82.9	901
Foreign Banks	456	7,868	740	-90.6	98
Foreign Exchange	-1,111	6,966	-1,704	-	-2,296
Turkish Lira	1,567	902	2,444	171.0	2,394
Non-residents	549	3,286	3,099	-5.7	3,220
Reserve Assets (net)	-803	-13,631	-5,168	-62.1	-1,448
Net Errors and Omissions	**-3,462**	**2,383**	**2,283**	**-4.2**	**2,955**

Source: CBRT

TÜRKİYE İŞ BANKASI

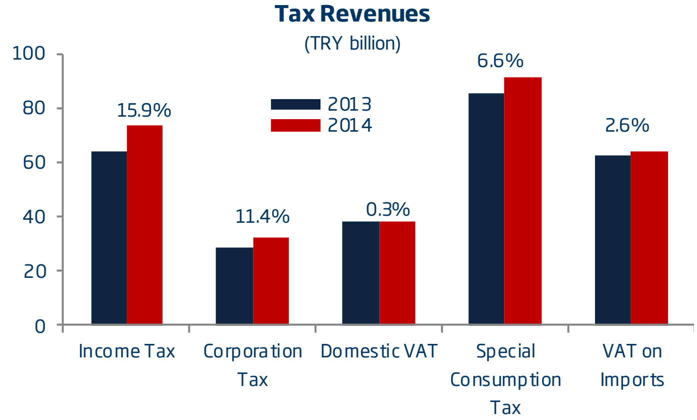
Central government budget posted a deficit of 22.7 billion TRY in 2014.

According to the data released by Ministry of Finance, central government budget posted a deficit of 11.3 billion TRY in December 2014. Historically, central government budget gives relatively high level of deficit in the last months of each year. Although this trend was also kept in December 2014, the budget deficit narrowed by 34.5% yoy. Regarding the whole year, although the budget deficit widened by 22.2% yoy, it remained well below the year-end target. On the other hand, having declined by 13.4% yoy, primary surplus exceeded the year-end target.



Budget revenues displayed a strong performance in December.

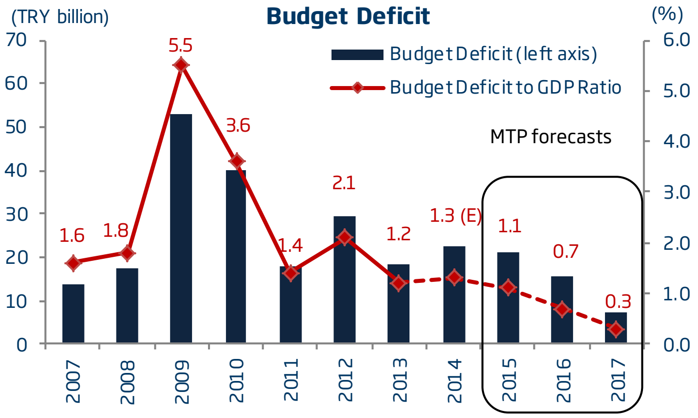
Budget revenues surged by 18.8% yoy in December, exhibiting a solid performance. For the whole year, budget revenues rose by 9.3% yoy, expanding at a more moderate pace. Analyzing the course of tax revenues throughout the year, it was seen that the highest annual increase was recorded under the item of income tax with 15.9%. Having increased by 11.4% yoy, revenues collected from corporate tax also supported the budget balance. However, relatively modest expansions were recorded on the other sub-items of tax revenues in line with the course of economic activity. Privatization revenues continued to make positive contribution to the budget revenues in 2014. Although



privatization revenues declined on annual basis, they came in at 7.8 billion TRY, providing a considerable support to the budget revenues.

Non-interest expenditures rose by 11.2% in 2014.

Budget expenditures displayed a limited increase in December as non-interest expenditures remained flat compared to the previous year. Nevertheless, it was seen that a great amount of the goods and services purchases together with the capital expenditures and transfers were made in the last month of the year. Regarding the whole year, budget expenditures rose by 9.8% yoy. Analysis of annual budget expenditures revealed that personnel expenditures and current transfers increased by 14.7% yoy



(E) Estimate

Central Government Budget (TRY billion)

	December		%	January-December		%	2014 Budget	MTP	Real./
	2013	2014	Change	2013	2014	Change	Target	Target (%)	MTP Tar. (%)
Expenditures	**50.0**	**50.2**	**0.4**	**408.2**	**448.4**	**9.8**	**436.4**	**448.4**	**100.0**
Interest Expenditures	2.0	1.4	-27.0	50.0	49.9	-0.2	52.0	50.2	99.4
Non-interest Expenditures	48.0	48.7	1.5	358.2	398.5	11.2	384.4	398.2	100.1
Revenues	**32.7**	**38.9**	**18.8**	**389.7**	**425.8**	**9.3**	**403.2**	**424.0**	**100.4**
Tax Revenues	26.8	30.8	14.9	326.2	352.4	8.1	348.4	351.6	100.2
Other Revenues	5.9	8.1	36.8	63.5	73.3	15.4	54.8	72.4	101.3
Budget Balance	**-17.3**	**-11.3**	**-34.5**	**-18.5**	**-22.7**	**22.2**	**-33.3**	**-24.4**	**92.9**
Primary Balance	**-15.3**	**-9.9**	**-35.5**	**31.4**	**27.2**	**-13.4**	**18.7**	**25.8**	**105.6**

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

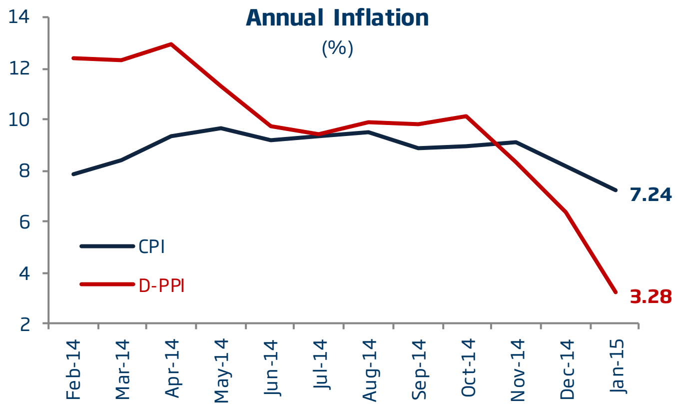
and 9.1% yoy, respectively. These sub-items, which constitute 61% of total budget expenditures, rose faster than inflation in 2014.

Expectations

Central budget realizations proved that Turkey maintained fiscal discipline throughout 2014. Indeed, the budget deficit to GDP ratio, which decreased as low as to 1.2% in 2013, is expected to have been realized at 1.3% in 2014. It is anticipated that the budget discipline will be maintained also in 2015 and the general elections, which will be held in June, is expected to have limited adverse effect on budget indicators. According to the Medium Term Program, budget deficit to GDP ratio is expected to fall down to 1.1% in 2015 and 0.7% in 2016, displaying a relatively better outlook.

CPI inflation increased by 1.10% mom in January.

In January, CPI and Domestic PPI (D-PPI) increased by 1.10% and 0.33% mom, respectively. According to the Reuters' survey, on the other hand, CPI was expected to rise by 0.70% in January. According to the CBRT's survey, markets' monthly CPI expectation was 0.72%.

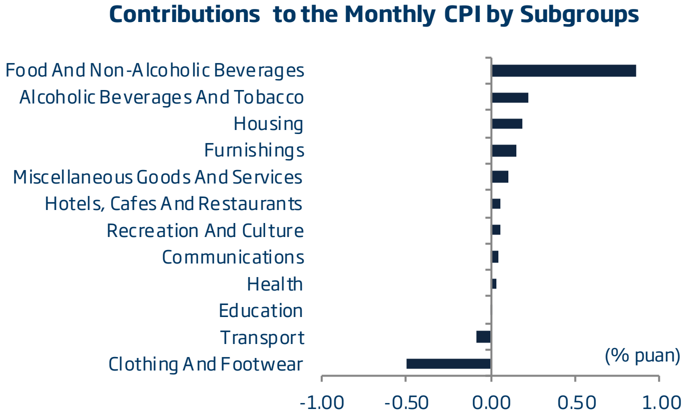


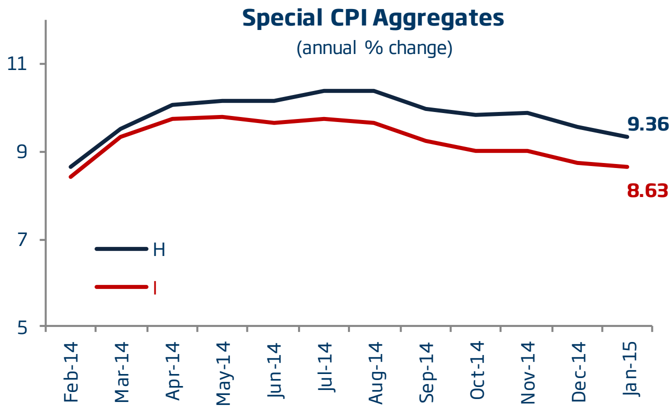
Annual CPI inflation was realized as 7.24%.

CPI, which came in above the expectations in January, increased by 7.24% on annual basis, the lowest level since May 2013. Owing to the base effect annual D-PPI inflation also declined to 3.28%, the lowest level of the last 20 months.

Food prices rose by 3.52% mom.

Analysis of the main expenditure groups in January showed that the rise in prices of food and non-alcoholic beverages was influential on the higher than expected increase in consumer prices. Indeed, prices in the said group surged by 3.52% mom and contributed to the monthly inflation by 85 basis points. Having risen by 4.19% mom due to tax adjustments, the price increases in alcoholic beverages and tobacco group also made a contribution of 20 basis points to the monthly CPI inflation.





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

Seasonal price discounts in clothing and footwear group limited the CPI inflation by 51 basis points. On the other hand, the downward impact of transportation prices on CPI inflation due to the lower oil prices diminished in January. Indeed, slight fall in the transportation prices limited the monthly inflation only by 9 basis points.

Decline in core inflation indicators...

In January, developments especially in unprocessed food products were influential on the course of CPI inflation. In fact, the monthly CPI inflation excluding the said group was realized as 0.41% yoy. Annual increases in CBRT's favorite core indices denominated by H and I continued to follow a downward trend and were realized as 9.36% and 8.63%, respectively.

The annual D-PPI inflation was recorded as 3.28%.

Favorable effects of the falling oil prices on D-PPI inflation have continued. In fact, the decline in prices of coke and refined petroleum products reduced the monthly D-PPI inflation by 52 basis points in January. On the other hand, price increases in food products (1.9% mom) have been influential on the inflation and contributed by 38 basis points to the monthly D-PPI inflation.

Expectations

We anticipate that seasonal price discounts in clothing and footwear group together with the transportation prices will have a downward impact on the CPI figures in February. On the other hand, price developments in administered prices and food products are also expected to be influential on the course of the CPI.

Source: Turkstat

CBRT cut policy rate by 50 bps at its January meeting.

At its monetary policy meeting held on January 20, CBRT cut policy rate (1-week repo rate) by 50 basis points from 8.25% to 7.75% and kept O/N borrowing and lending rates unchanged at 7.5% and 11.25%, respectively. In its policy statement, it was restated that the loan growth was realized at reasonable levels thanks to the tight monetary policy stance and macroprudential measures while domestic demand made a moderate contribution to growth recently. Having described the rate cut as "measured", monetary policy committee grounded its decision on the positive developments in inflation and inflation expectations, especially in core inflation indicators, mainly thanks to the tight policy stance accompanied by macropriudential measures and falling oil prices. CBRT also stressed the significance of the need for further prudent monetary policies in order to sustain the recent downward trend in inflation indicators in the coming period.

CBRT lowered its inflation forecast for 2015.

CBRT published the first "Inflation Report" of the year on January 27. According to the report, CBRT forecasts annual inflation to be, with 70% probability, between 4.1% and 6.9% (mid-point of 5.5%) at the end of 2015 and between 3.2% and 6.8% (mid-point of 5%) at the end of 2016 . In the previous inflation report published in October 2014, the mid -point of 2015 inflation forecast was 6.1%. The latest report suggested that the sliding oil prices and normalization in food prices were influential on the downward revisions in inflation forecasts. In addition, the report underlined that the base effect was expected to pull inflation down until August 2015.

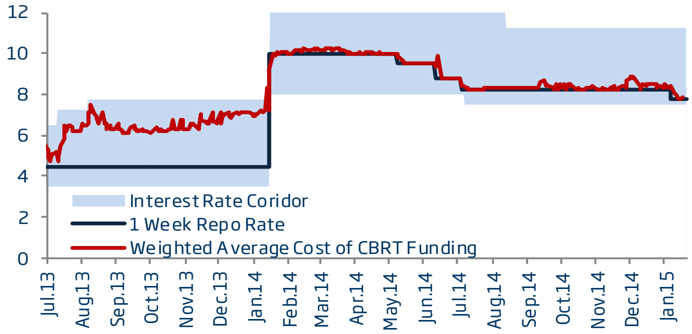
Moreover, CBRT pointed to the divergence of monetary policy implementations on a global scale and the increase in volatility recorded in global financial markets lately. Thus, CBRT emphasized that during this period although exchange rates exhibited fluctuations in domestic markets, declining commodity prices (especially oil prices) supported inflation and external balance outlook. In this framework, it was noted that the preserved tight monetary policy stance also limited the negative impact of global turbulences on Turkish economy.

CBRT has been monitoring the markets closely.

On January 27, the governor of CBRT stated that should the annual inflation register a decline of more than 100 basis points in January, Monetary Policy Committee could arrange an interim meeting and cut policy interest rates. However, CBRT published a press release on January 30 stating that the recent market movements were not compatible with "the degree of caution of the rate cut cycle" anticipated by the CBRT in response to the upward trend in exchange rates. After the inflation data released on February 3, CBRT announced that it would make an assessment about the monetary policy stance on the previously scheduled date (on February 24). Nonetheless, benign inflation outlook thanks to base effect and low oil prices is anticipated to allow CBRT to have room to cut policy rate further in the coming period.

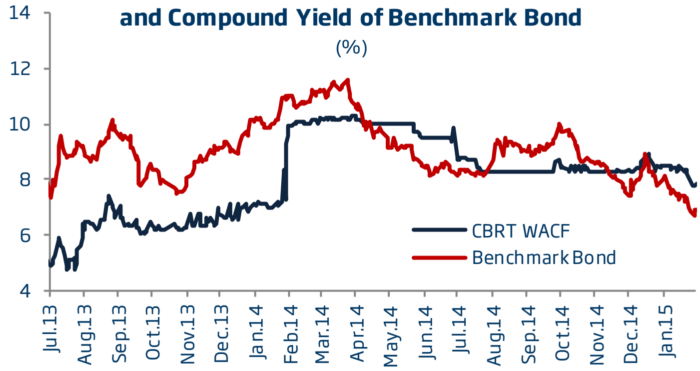
CBRT Interest Rates

(%)



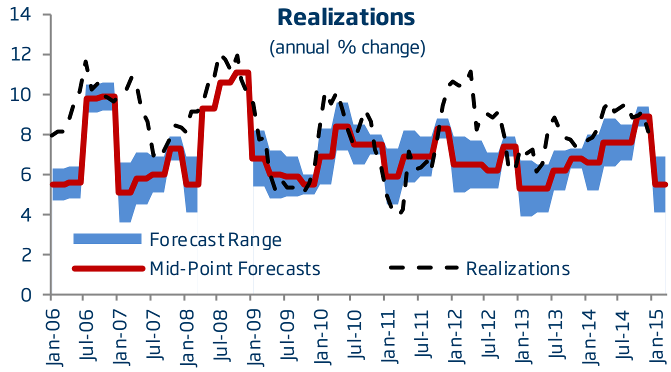
Weighted Average Cost of CBRT Funding and Compound Yield of Benchmark Bond

(%)



CBRT's CPI Inflation Forecasts* and Realizations

(annual % change)



(*) These are the year-end CPI inflation forecasts published in the associated period's Inflation Report

Source: CBRT, Borsa Istanbul

Developments in January had a positive impact on global markets.

The expectations that Fed would be patient in raising interest rates had a favorable impact on international markets in January while the growing political uncertainty ahead of elections in Greece caused some distress. The positive effect of lower oil prices on domestic markets has continued in the first month of 2015. CBRT's decision to cut the policy rate also supported financial markets. However, the expectations that CBRT would arrange an interim meeting and cut interest rates resulted in fluctuations in domestic markets.

Upward trend in the Istanbul Stock Exchange in January...

Having increased recently thanks to the fall in oil prices, BIST-100 index kept its upward trend in the second half of January, mostly led by banking sector shares following the CBRT's rate cut decision. Yet, index fell down in the last week of the month due to the CBRT's announcement on monetary policy. As of January 30, BIST-100 increased by 3.8% compared to the year-end.

Volatility in foreign exchange market...

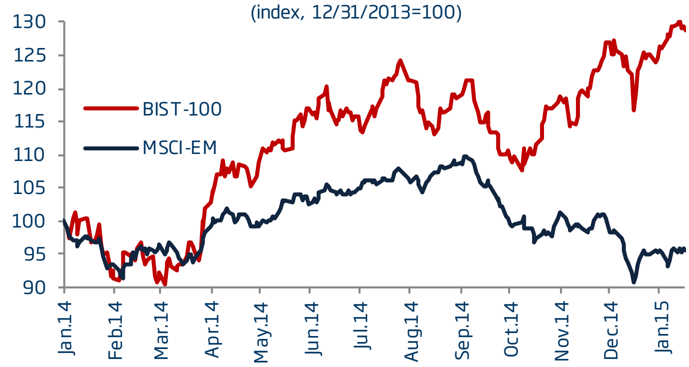
USD/TRY, which was realized as 2.33 at the end of 2014, receded as low as 2.27 in the first half of January. Then, it started to increase again and reached historically high levels due to the CBRT's rate cut and related announcements. As of January 30, USD/TRY was realized as 2.45. EUR/TRY followed a downward trend throughout January in line with the fall in EUR/USD parity while this trend reversed towards the end of the month. As of January 30, EUR/TRY was realized as 2.76.

The interest rate of 2-year benchmark bond fell.

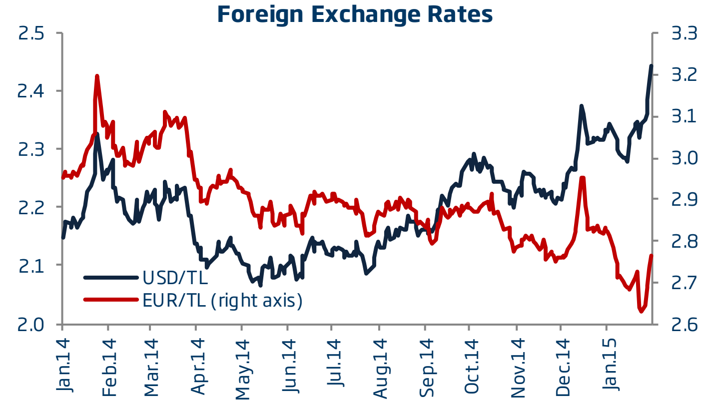
In addition to the improvement in domestic risk perception mainly caused by low oil prices, CBRT's rate cut decision led the interest rate of 2-year benchmark bond to decline in January. In this respect, the interest rate of 2-year benchmark bond declined by 113 basis points mom to 6.89% as of January 30.

BIST-100 and MSCI Emerging Markets Indexes

(index, 12/31/2013=100)



Foreign Exchange Rates



Compound Yield of Benchmark Bond

(%)

Source: JP Morgan, Reuters, BIST

Annual growth in deposit volume was 11.2% in 2014.

According to BRSA's Weekly Bulletin, as of December 26, deposit volume grew by 11.2% yoy and was realized as 1,129 billion TRY. As of January 23, on the other hand, the annual increase in deposit volume slowed to 7.6%. In this period, TRY deposits recorded an annual rise of 11.9%, while FX deposits in USD terms, having displayed a weak performance recently, contracted by 0.1%.

Credit volume expanded by 18% yoy in 2014.

As of December 26, credit volume recorded an annual increase of 18% and was realized as 1,256 billion TRY. The deceleration in credit volume has continued in January. Indeed, the annual growth in credit volume was realized as 14.4% as of January 25, the lowest level observed since August 2012. In this period, TRY and FX loans denominated in USD terms rose by 16.1% and 8.7%, respectively.

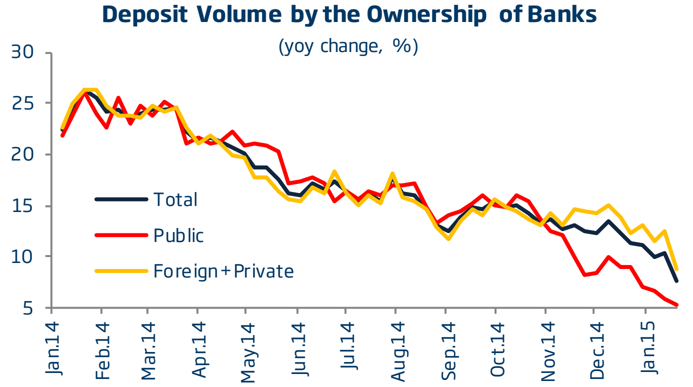
The moderate course of economic activity in 2014 led to a slight increase in non-performing loans (NPL) ratio. The NPL ratio, which was 2.7% in 2013, reached 2.9% at the end of 2014. As of January 23, the NPL ratio of the banking sector continued to be at 2.9%, while the NPL ratios of public and foreign and private banks were 3.1% and 2.9%, respectively.

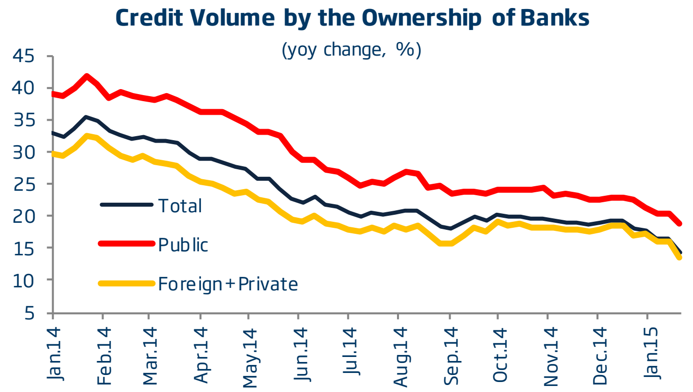
Securities portfolio...

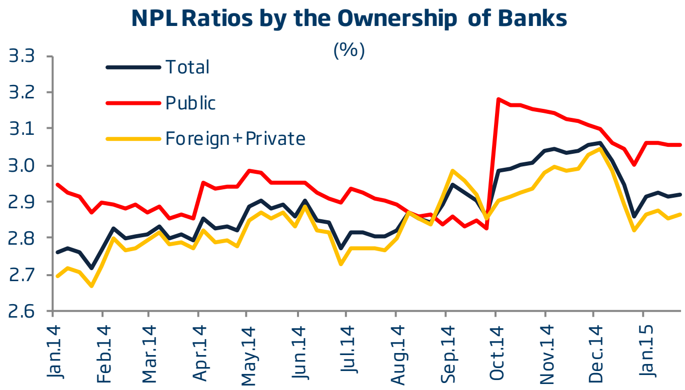
Having increased by 4.9% yoy in 2014, the securities portfolio recorded a ytd increase of 1.5% and was realized as 305.5 billion TRY as of January 23.

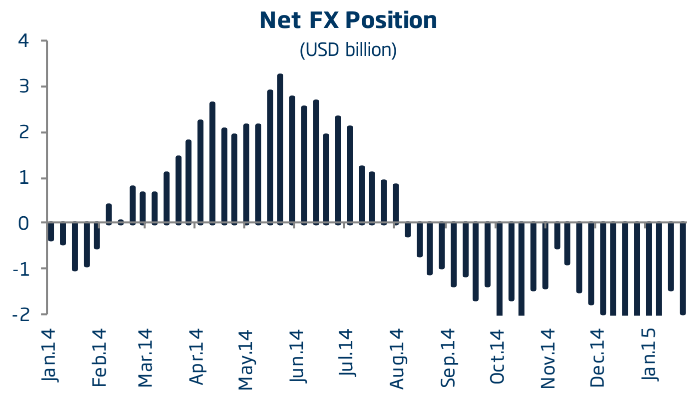
Net FX position...

As of January 23, banks' on-balance sheet FX position was (-) 33,911 million USD while off-balance sheet FX position was (+) 31,939 million USD. Hence, banks' net FX position was realized as (-) 1,972 million USD.









Source: BRSA Weekly Bulletin

Expectations

2015 started with global economic growth forecast cuts by international institutions. These downward revisions mostly stemmed from the weak economic outlook in advanced economies (except for the US economy) and the anticipation that the sharp drop in oil prices would not be enough to create the anticipated revival in global economy. Yet, there are significant uncertainties owing to the monetary policies pursued by the key advanced economies in upcoming period. The Fed's statement of the last meeting emphasized on strong recovery in the US economy and ongoing upturn in labor market which in turn increased the expectations for the first rate hike at the mid-year meeting. Capital flows might shift their direction as a result of a rate hike by the Fed and this could weaken the performance of emerging economies compared to previous years. On the other hand, steps taken by ECB would improve global liquidity conditions in this period.

Turkey has been cited as one of the countries to benefit most from the declining oil prices. Hence, 2015 would be a year where macroeconomic fragilities might reduce in line with the favorable impact of the slipping oil prices on current account deficit and inflation. Nonetheless, the most significant source of concern appears to be the Fed's rate hike in 2015 and geopolitical problems also seem to persist. During the rebalancing process in global economy, Turkey is expected to experience an economic growth performance driven mainly by domestic demand while the contribution of net exports is likely to fall.

Forecasts (%)	**2014**	**2015**
Growth	3.0	3.5
CA Deficit/GDP	5.0	5.1
Inflation	8.2 (R)	6.5-7.0
GDDI Interest*	9.8 (R)	7.5-8.0

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

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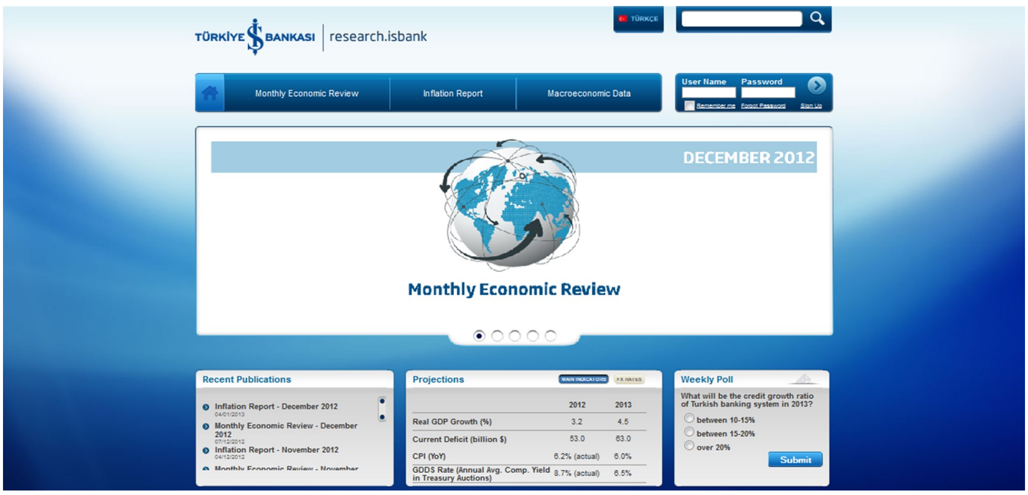
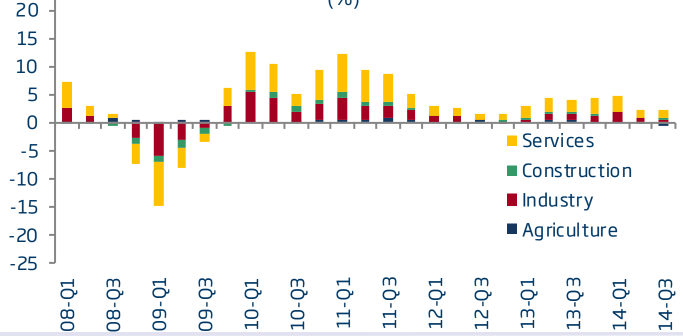


Turkish Economy at a Glance

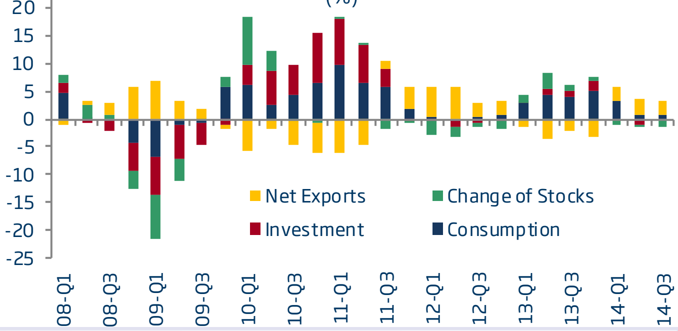
TÜRKİYE İŞ BANKASI

Growth

GDP and Contributions by Sectors
(%)

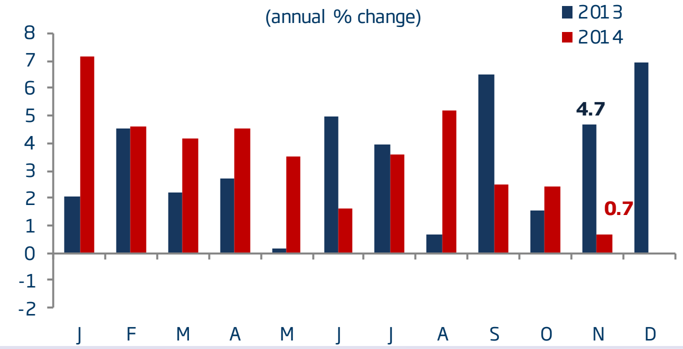


Expenditure Approach - Contributions to GDP
(%)

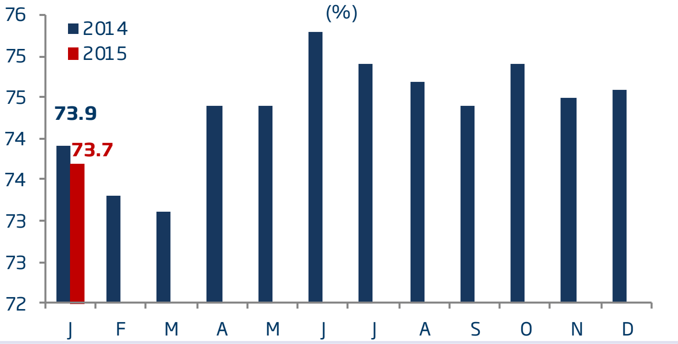


Industrial Production

Industrial Production
(annual % change)

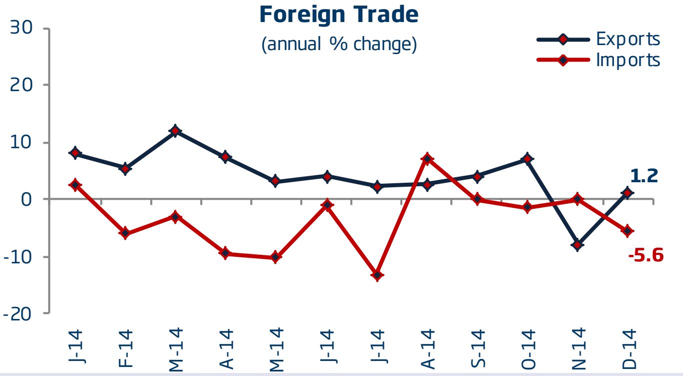


Capacity Utilization Rate
(%)

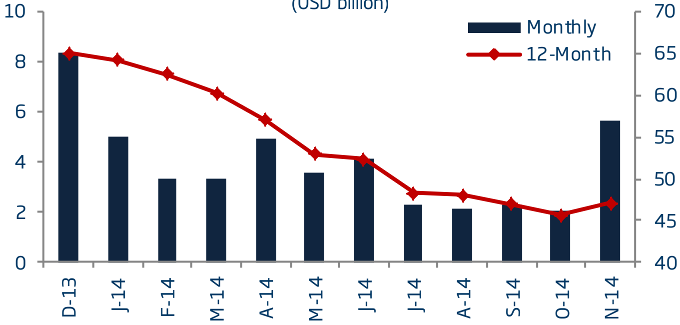


Foreign Trade and Current Account Balance

Foreign Trade
(annual % change)

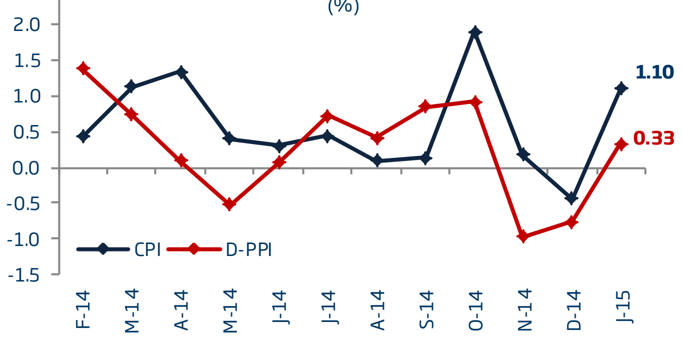


Current Account Deficit
(USD billion)

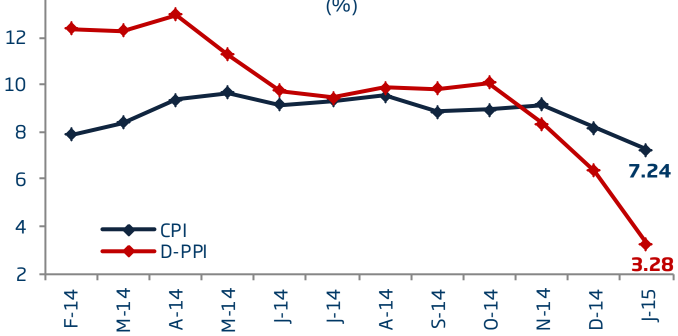


Inflation

Monthly Inflation
(%)



Annual Inflation
(%)



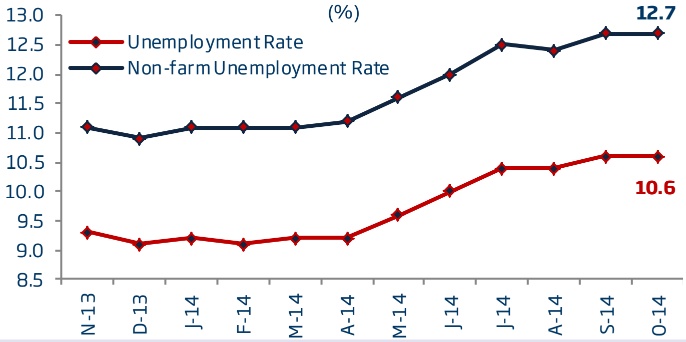
Source: Turkstat, CBRT

Turkish Economy at a Glance

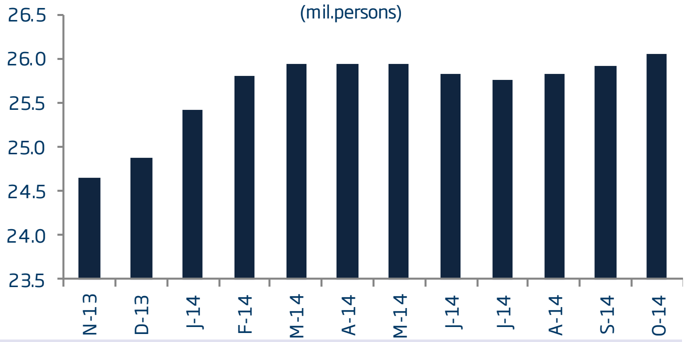
TÜRKİYE İŞ BANKASI

Labor Market

Seasonally Adjusted Unemployment Rates

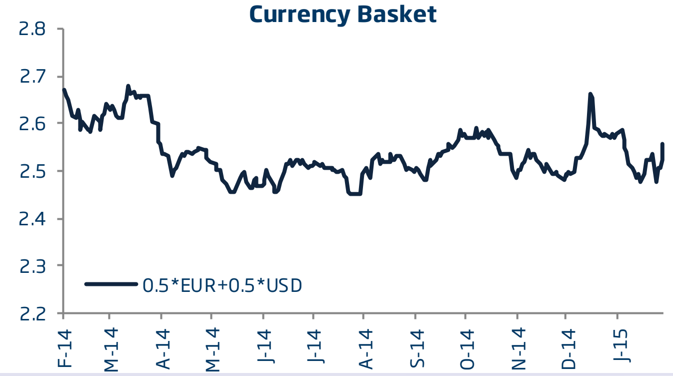


Seasonally Adjusted Employment

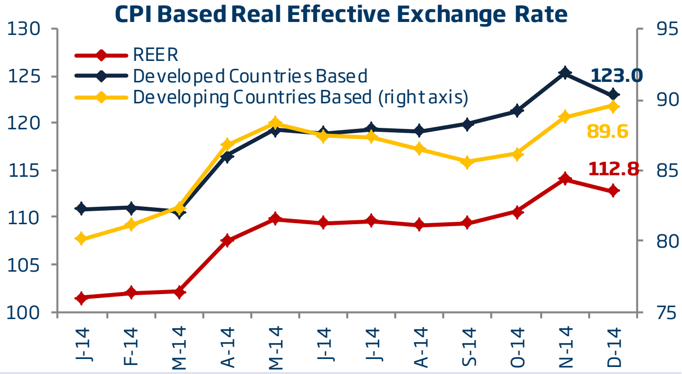


FX Market

Currency Basket

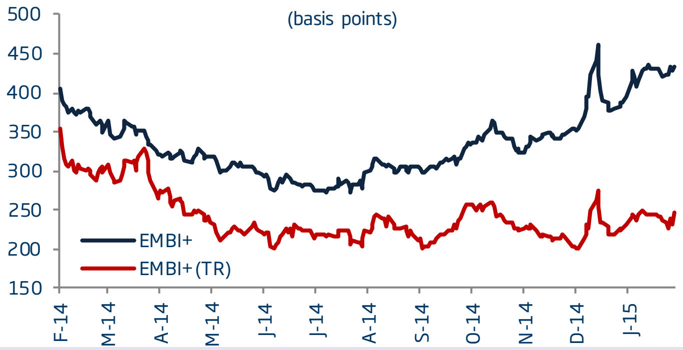


CPI Based Real Effective Exchange Rate

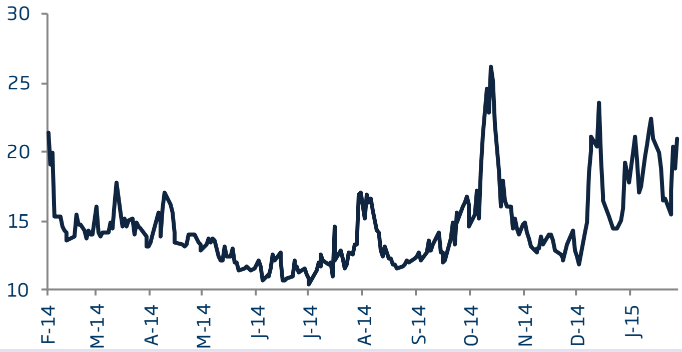


Risk Indicators

Risk Premiums

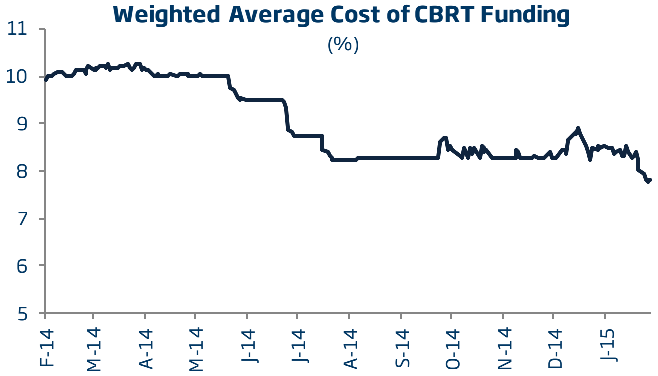


VIX

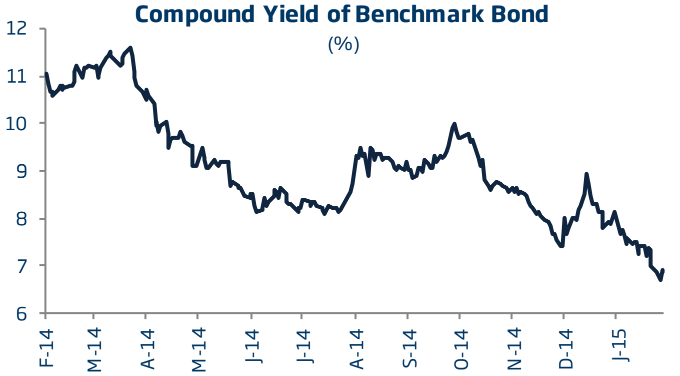


Interest Rates

Weighted Average Cost of CBRT Funding



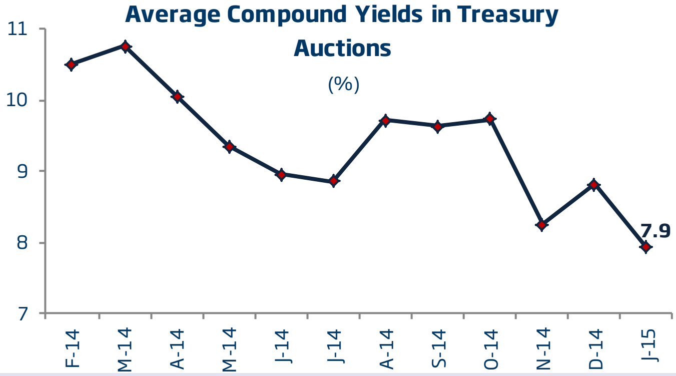
Compound Yield of Benchmark Bond



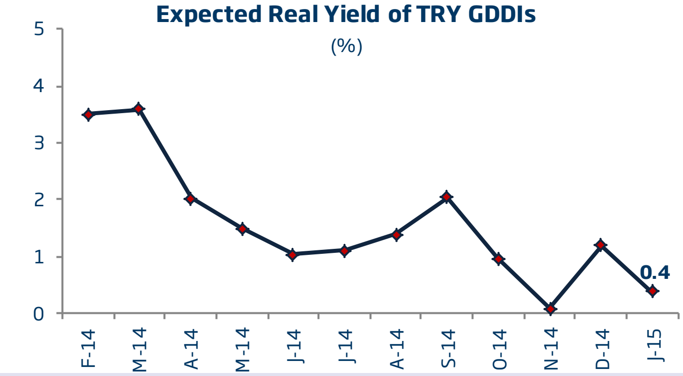
Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

Bond-Bill Market

Average Compound Yields in Treasury Auctions

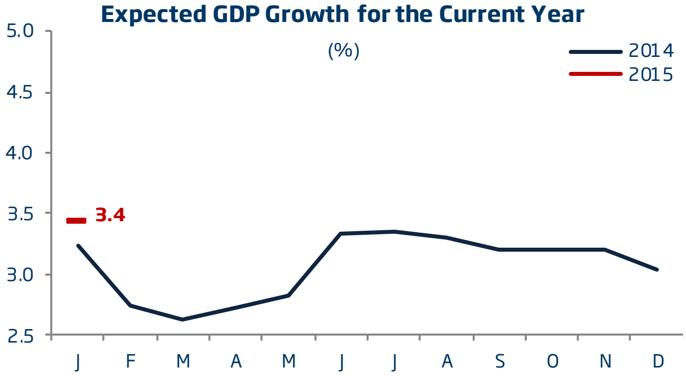


Expected Real Yield of TRY GDDIs

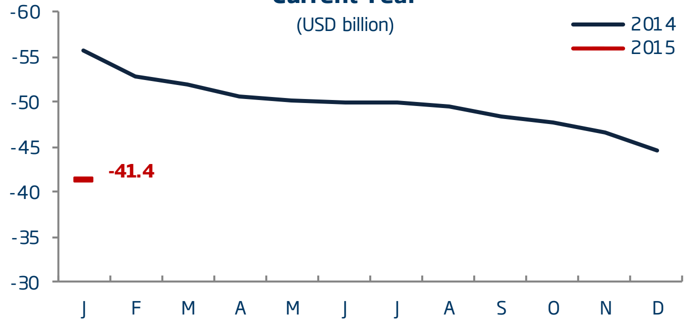


Survey of Expectations and Other Leading Indicators

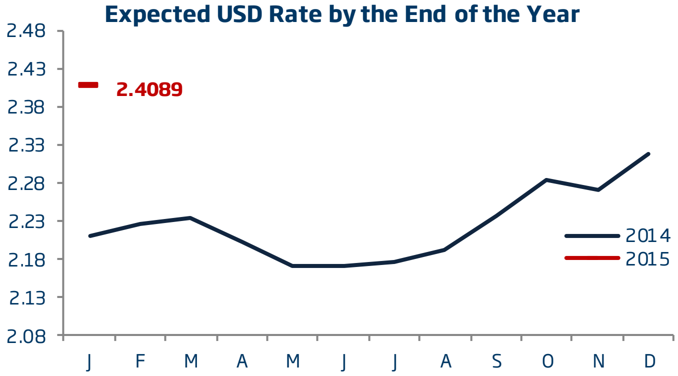
Expected GDP Growth for the Current Year



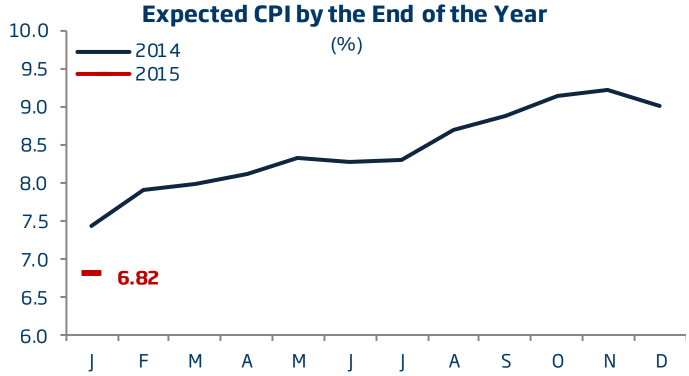
Expected Current Account Deficit for the Current Year



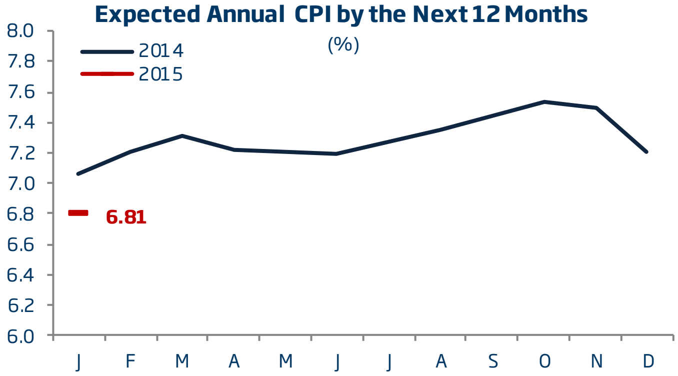
Expected USD Rate by the End of the Year



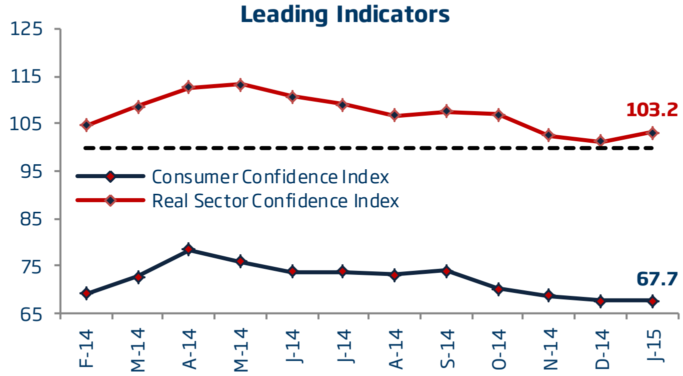
Expected CPI by the End of the Year



Expected Annual CPI by the Next 12 Months



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	807.9*	798.8*	799.8*
GDP Growth Rate (%)	-4.8	9.2	8.8	2.1	4.1	4.8	2.2	1.7
Inflation (%)						**Nov-14**	**Dec-14**	**Jan-15**
CPI (annual)	6.53	6.40	10.45	6.16	7.40	9.15	8.17	7.24
PPI (annual)	5.93	8.87	13.33	2.45	6.97	8.36	6.36	3.28
Seasonally Adjusted Labor Market Figures						**Aug-14**	**Sep-14**	**Oct-14**
Unemployment Rate (%)	11.9	10.0	8.5	8.8	9.1	10.4	10.6	10.6
Employment (thousand persons)	21,413	22,631	23,496	24,481	24,888	25,827	25,926	26,058
FX Rates						**Nov-14**	**Dec-14**	**Jan-15**
CPI Based Real Effective Exchange Rate	116.6	125.5	109.4	117.9	106.7	114.1	112.8	-
USD/TRY	1.5057	1.5460	1.9065	1.7826	2.1343	2.2149	2.3189	2.4013
EUR/TRY	2.1603	2.0491	2.4592	2.3517	2.9365	2.7644	2.8207	2.7136
Currency Basket (0.5*EUR+0.5*USD)	1.8330	1.7976	2.1829	2.0672	2.5354	2.4897	2.5698	2.5575
Foreign Trade Balance[1] (USD billion)						**Oct-14**	**Nov-14**	**Dec-14**
Exports	102.1	113.9	134.9	152.5	151.8	158.7	157.6	157.7
Imports	140.9	185.5	240.8	236.5	251.7	243.6	243.5	242.2
Foreign Trade Balance	**-38.8**	**-71.7**	**-105.9**	**-84.1**	**-99.9**	**-84.9**	**-86.0**	**-84.5**
Import Coverage Ratio (%)	72.5	61.4	56.0	64.5	60.3	65.2	64.7	65.1
Current Account Balance[1] (USD billion)						**Sep-14**	**Oct-14**	**Nov-14**
Current Account Balance	**-12.0**	**-45.3**	**-75.1**	**-48.5**	**-65.0**	**-46.9**	**-45.7**	**-47.1**
Capital and Financial Accounts	**9.0**	**44.5**	**65.9**	**47.4**	**62.0**	**39.0**	**38.7**	**44.1**
Direct Investments (net)	7.1	7.6	13.8	9.2	9.2	7.7	7.3	5.5
Portfolio Investments (net)	0.2	16.1	22.0	40.8	23.7	18.2	16.4	18.4
Other Investments (net)	1.9	33.6	28.4	18.3	39.1	16.7	17.8	21.8
Reserve Assets (net)	-0.1	-12.8	1.8	-20.8	-9.9	-3.5	-2.7	-1.4
Net Errors and Omissions	**3.0**	**0.8**	**9.1**	**1.1**	**3.1**	**8.0**	**7.0**	**3.0**
Current Account Deficit/GDP	**-1.9**	**-6.2**	**-9.7**	**-6.2**	**-7.9**	-	-	-
Budget[2][3] (TRY billion)						**Oct-14**	**Nov-14**	**Dec-14**
Expenditures	**268.2**	**294.4**	**314.6**	**361.9**	**408.2**	**362.6**	**398.2**	**448.4**
Interest Expenditures	53.2	48.3	42.2	48.4	50.0	45.3	48.5	49.9
Non-interest Expenditures	215.0	246.1	272.4	313.5	358.2	317.3	349.8	398.5
Revenues	**215.5**	**254.3**	**296.8**	**332.5**	**389.7**	**347.7**	**386.9**	**425.8**
Tax Revenues	172.4	210.6	253.8	278.8	326.2	286.6	321.7	352.4
Budget Balance	**-52.8**	**-40.1**	**-17.8**	**-29.4**	**-18.5**	**-14.9**	**-11.3**	**-22.7**
Primary Balance	**0.4**	**8.2**	**24.4**	**19.0**	**31.4**	**30.3**	**37.1**	**27.2**
Budget Balance/GDP	**-5.5**	**-3.6**	**-1.4**	**-2.1**	**-1.2**	-	-	-
Central Government Debt Stock (TRY billion)						**Oct-14**	**Nov-14**	**Dec-14**
Domestic Debt Stock	330.0	352.8	368.8	386.5	403.0	411.1	413.6	414.6
External Debt Stock	111.5	120.7	149.6	145.7	182.8	188.6	188.6	197.3
Total	**441.5**	**473.6**	**518.4**	**532.2**	**585.8**	**599.7**	**602.2**	**612.0**

(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	Nov-14	Dec-14	Change[1]
TOTAL ASSETS	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1935.5**	**1994.2**	**15.1**
Loans	**392.6**	**525.9**	**682.9**	**794.8**	**1047.4**	**1200.1**	**1240.7**	**18.5**
TRY Loans	288.2	383.8	484.8	588.4	752.7	860.4	881.0	17.0
Share (%)	73.4	73.0	71.0	74.0	71.9	71.7	71.0	-
FX Loans	104.4	142.1	198.1	206.4	294.7	339.8	359.7	22.1
Share (%)	26.6	27.0	29.0	26.0	28.1	28.3	29.0	-
Non-performing Loans	21.9	20.0	19.0	23.4	29.6	37.3	36.4	22.9
Non-performing Loan Rate (%)	5.3	3.7	2.7	2.9	2.8	3.0	2.9	-
Securities	**262.9**	**287.9**	**285.0**	**270.0**	**286.7**	**297.0**	**302.3**	**5.4**
TOTAL LIABILITIES	**834.0**	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1935.5**	**1994.2**	**15.1**
Deposits	**514.6**	**617.0**	**695.5**	**772.2**	**945.8**	**1019.9**	**1052.7**	**11.3**
TRY Deposits	341.4	433.5	460.0	520.4	594.1	618.9	661.3	11.3
Share (%)	66.3	70.3	66.1	67.4	62.8	60.7	62.8	-
FX Deposits	173.2	183.5	235.5	251.8	351.7	401.0	391.4	11.3
Share (%)	33.7	29.7	33.9	32.6	37.2	39.3	37.2	-
Securities Issued	**0.1**	**3.1**	**18.4**	**37.9**	**60.6**	**86.4**	**89.3**	**47.4**
Payables to Banks	**86.1**	**122.4**	**167.4**	**173.4**	**254.2**	**284.2**	**293.2**	**15.3**
Funds from Repo Transactions	**60.7**	**57.5**	**97.0**	**79.9**	**119.1**	**132.5**	**137.4**	**15.3**
TOTAL SHAREHOLDERS' EQUITY	**110.9**	**134.5**	**144.6**	**181.9**	**193.7**	**229.9**	**232.1**	**19.8**
Profit (Loss) of the Period	20.2	22.1	19.8	23.5	24.7	22.7	24.7	-
RATIOS (%)								
Loans/Assets	47.1	52.2	56.1	58.0	60.5	62.0	62.2	-
Securities/Assets	31.5	28.6	23.4	19.7	16.6	15.3	15.2	-
Deposits/Liabilities	61.7	61.3	57.1	56.3	54.6	52.7	52.8	-
Deposits/Loans	131.1	117.3	101.8	97.2	90.3	85.0	84.8	-
Capital Adequacy (%)	20.6	19.0	16.6	17.9	15.3	16.6	16.3	-

(1) Year-to-date % change

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