Monthly Economic Review
April 2015

Global Economy

- In its meeting held on March 17-18, Fed decided to drop its pledge to be patient from its policy statement. Nonetheless, Fed's downward revisions of projections for the GDP growth and inflation implied that it would be in no hurry to raise interest rates. In fact, the Fed officials also slashed their median estimate for the Fed funds rate for the end of 2015, another sign supporting the previous argument.
- After having exhibited a strong performance recently, non-farm employment rose by 126 thousand persons in March, well below market expectations. This figure also pointed to the weakest performance since December 2013. This development has backed the views that Fed would not act earlier than anticipated in raising interest rates.
- European Central Bank (ECB) kept policy rate unchanged at its meeting held on March 3 and also announced that it would start buying government bonds by March 9 under the Public Sector Purchase Programme.
- Consumer prices in Eurozone declined by 0.1% yoy in March, indicating that deflation persisted for the fourth consecutive months. On the other hand, despite having fallen to 11.3% in January, unemployment rate maintained its high levels.
- The loss of momentum in China's economic activity strengthened expectations that central bank would take new measures to boost the economy.
- Brazilian central bank increased policy rate by 50 basis points in March to 12.75%, its highest level in 6 years.
- Brent crude, which rose as high as 63 USD/barrel in February, has dropped again in March.

Turkish Economy

- Turkish economy grew by 2.6% yoy in the last quarter of 2014. In 2014, GDP growth was realized as 2.9% yoy.
- Calendar adjusted industrial production decreased by 2.2% yoy in January, missing the market expectations. Economic sentiment indicators have displayed a weak outlook in the first quarter of the year.
- In February, export and import volumes declined by 6% and 7.2% yoy, respectively. Hence, foreign trade deficit contracted by 10.2% yoy and came in at 4.7 billion USD.
- In January, current account deficit came in below market expectations and was realized as 2 billion USD. 12-month cumulative current account deficit fell to 42.9 billion USD, its lowest level since November 2010, driven by the declining foreign trade deficit.
- According to data announced by the Ministry of Finance, budget expenditures increased by 29.8% yoy while budget revenues rose by 16.6% yoy in February. Thus, central government budget, which registered a surplus of 1.7 billion TRY in February 2014, posted a deficit of 2.4 billion TRY in the same month of 2015.
- Having risen to 7.61% in March, the upturn in annual CPI inflation has continued. The higher than expected inflation figure was mostly attributable to the surge in food prices.
- In March, CBRT made new arrangements in reserve requirement ratios and reserve option coefficients while foreign exchange deposit rates were reduced.
- At its Monetary Policy Meeting held on March 17, CBRT kept interest rates unchanged.

Contents

Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Manager
izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager
alper.gurler@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

Bora Çevik - Economist
bora.cevik@isbank.com.tr

Eren Demir - Asst. Economist
eren.demir@isbank.com.tr

M. Kemal Gündoğdu - Asst. Economist
kemal.gundogdu@isbank.com.tr

Gamze Can - Asst. Economist
gamze.can@isbank.com.tr

Turkish economy grew above the expectations in the 4th quarter of 2014.

Turkish economy grew by 2.6% yoy in the last quarter of 2014 and performed better than expectations. The market anticipated 2% yoy GDP growth in the last quarter.

Analyzing the calendar adjusted figures, it was seen that GDP expanded by 2.4% yoy in the last quarter of 2014. Also, seasonal and calendar adjusted GDP growth was realized as 0.7% qoq.

In 2014 GDP growth, expanding by 2.9% yoy, was realized well below its long-term trend. Owing to the depreciation of TRY during 2014, nominal GDP in USD terms fell to 800 billion USD and per capita income decreased to 10,404 USD in 2014 from 10,822 USD in 2013. Turkstat made upward revisions in the previously announced growth figures. In this context, 2013 GDP growth figure was revised from 4.1% to 4.2% and GDP growth rates in the first three quarters of 2014 were also revised up.

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	1.2
2011 Q4	5.2	0.8
2012 Q1	2.5	-0.3
2012 Q2	3.1	1.1
2012 Q3	1.7	0.3
2012 Q4	1.3	0.3
2013 Q1	3.7	1.8
2013 Q2	4.3	1.7
2013 Q3	4.1	0.4
2013 Q4	4.6	0.7
2014 Q1	4.8	1.6
2014 Q2	2.6	-0.4
2014 Q3	2.0	0.5
2014 Q4	2.4	0.7

*Calendar Adjusted GDP

**Seasonally and Calendar Adjusted GDP

Domestic consumption gained momentum in the last quarter.

Having exhibited a weak performance in the second and third quarters of 2014, domestic consumption posted a gradual recovery in the last quarter. In this period, private domestic consumption expenditures contributed to the growth by 1.6 points while public consumption expenditures' contribution was quite limited with 0.2 point. Regarding the whole year, total consumption expenditures expanded by 1.8% yoy and contributed to the 2014 growth by 1.4 points.

Total investment expenditures decreased.

In the last quarter of 2014, private investment expenditures registered a limited increase and contributed 0.2 point to the growth. On the other hand, as public sector investment expenditures decreased by 8.8% yoy, total investment expenditures lowered the GDP growth by 0.3 point.

Net exports limited the economic growth in the last quarter.

In last quarter of 2014, the contribution of exports to the growth fell compared to the previous quarters as a result of the deceleration in export volume. On the other hand, it was noteworthy that imports, which increased by 4.6% yoy in the last quarter of the year, reduced the growth by 1.3 points. Therefore, the net exports negatively affected the fourth quarter growth with 0.4 point. Regarding the whole year, on the other hand, net exports made the highest contribution to the growth rate by 1.8 points.

GDP composition has changed in the fourth quarter of 2014 compared to the previous quarters. Indeed, domestic demand became the main driver of the growth.

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

	2012	2013					2014				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	**0.3**	**3.0**	**4.5**	**3.9**	**5.1**	**4.1**	**2.7**	**0.5**	**0.7**	**1.8**	**1.4**
Private	-0.3	2.2	3.6	3.7	4.1	3.4	1.8	0.2	0.1	1.6	0.9
Public	0.6	0.8	0.8	0.2	1.0	0.7	0.9	0.3	0.6	0.2	0.5
Investment	**-0.7**	**0.1**	**0.9**	**1.3**	**1.9**	**1.1**	**-0.1**	**-0.9**	**-0.1**	**-0.3**	**-0.3**
Private	-1.1	-1.3	-0.2	0.6	1.1	0.1	0.1	-0.3	0.4	0.2	0.1
Public	0.4	1.4	1.1	0.7	0.7	1.0	-0.2	-0.6	-0.5	-0.4	-0.4
Change in Stock	**-1.5**	**1.5**	**2.9**	**1.1**	**0.8**	**1.6**	**-0.4**	**-0.1**	**-1.1**	**1.4**	**0.0**
Net Exports	**4.0**	**-1.4**	**-3.6**	**-2.0**	**-3.2**	**-2.6**	**2.6**	**2.8**	**2.4**	**-0.4**	**1.8**
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	2.8	1.5	2.0	0.9	1.8
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.3	0.4	-1.3	0.1
GDP	**2.1**	**3.1**	**4.7**	**4.3**	**4.6**	**4.2**	**4.9**	**2.3**	**1.9**	**2.6**	**2.9**

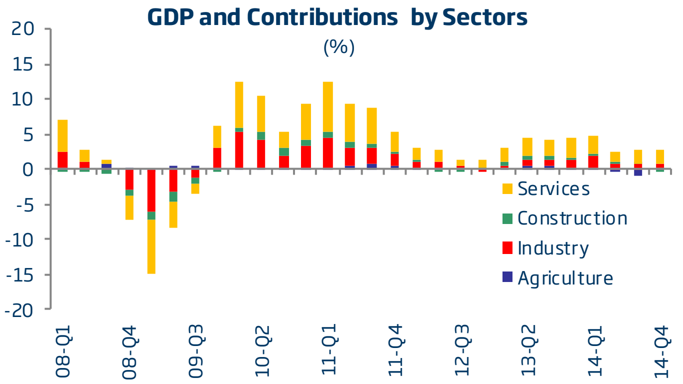
Numbers may not add to total due to rounding

Source: Calculated from Turkstat figures.

Source: Turkstat

Construction sector shrank in the last quarter of 2014.

According to the production approach, the services sector, which has the biggest share in GDP, made the highest contribution to the last quarter growth by 1.9 points. Contribution of the industrial sector, on the other hand, declined to 0.7 point, losing momentum for the fourth consecutive quarter. The construction sector, which has slowed down since the third quarter of 2013, contracted in the last quarter of 2014. Accordingly, construction sector reduced the GDP growth for the first time since global financial crisis. Having lowered the GDP growth in the second and third quarters due to the drought during the last summer, agriculture sector made only 0.1 point contribution to the growth in the last quarter.



In 2014, services, industrial and construction sectors made a contribution of 1.9, 1.0 and 0.1 points to the GDP growth respectively while agriculture sector lowered the GDP growth by 0.2 point.

Expectations

After displaying a weak performance throughout 2014, consumption expenditures recovered in the last quarter of the year. However, 2014 growth rate came in below the Medium Term Program estimate of 3.3% due to the weak course of investment expenditures and the negative contribution of the net exports.

The declining trend in total exports volume recorded in the first two months of the year in line with the drop in exports to EU countries indicated that contribution of net exports to growth would continue to diminish in the coming period. Besides, the industrial production and the leading indicators worsened in the first quarter of 2015. This suggested that the mild recovery occurred in domestic demand conditions in the last quarter of 2014 might be temporary. In light of these developments, the growth in the first quarter of 2015 is expected to have exhibited a weak course.

Source: Turkstat,

Industrial production declined by 2.2% yoy in January.

Calendar adjusted industrial production decreased by 2.2% yoy in January, missing the market expectations. Recent figures indicated that industrial production displayed its weakest monthly performance recorded since September 2009. Seasonally and calendar adjusted industrial production fell by 1.4% mom, confirming the recent slowdown in production activities.

In March, manufacturing PMI also exhibited its weakest performance recorded in almost six years. Index was realized at 48, below the 50 breakeven level, indicating a decline in manufacturing activity for the third consecutive month. This decline stemmed from the acceleration in the fall of new orders, factory output and new export orders. It was also noteworthy that employment sub-item of the index did not register growth for the first time in nearly six years.

Unemployment rate is at 10.9%.

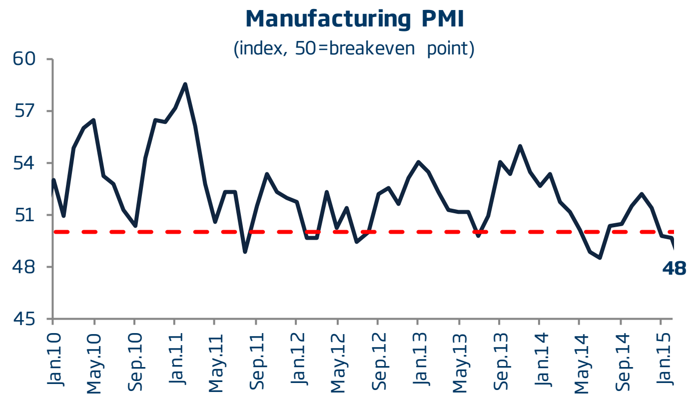
Slowdown in economic activity caused labor market to weaken. According to the Household Labor Statistics, the unemployment rate rose by 1.3 points yoy and was realized as 10.9% in December, its highest level since January 2011. Seasonally adjusted unemployment rate, on the other hand, declined by 0.2 point mom to 10.4%.

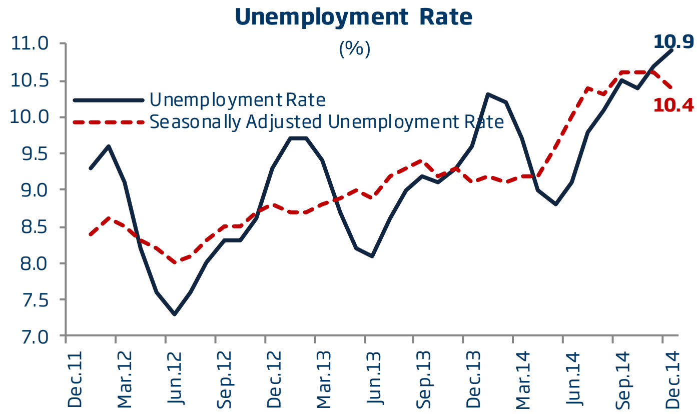
Recent developments in the labor market revealed that labor force participation rate followed a downward trend in the last couple of months. In fact, labor force participation rate came in at 50.2% in December, its lowest level in 9 months. This limited the surge in the unemployment rate to some extent.

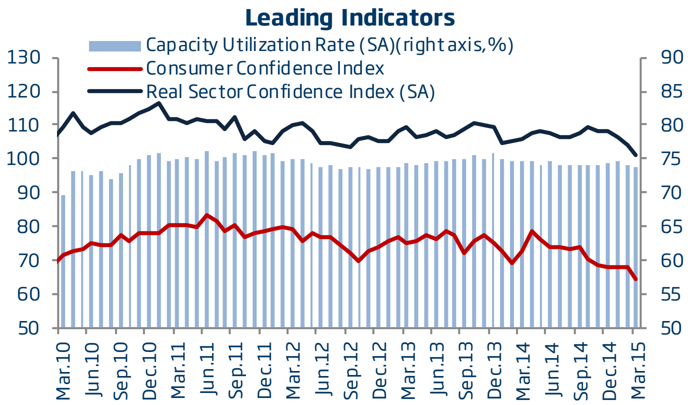
Weakness in confidence indicators and capacity utilization ratio

The weak outlook in economic sentiment figures continued in March. Consumer confidence index shrank by 5.4% on a monthly basis, posting its worst performance of the last six years. Seasonally adjusted real sector confidence index also recorded its fastest decline since January 2014. Economic confidence index was realized at its lowest level recorded in more than 3 years.

In March, capacity utilization ratio (CUR) declined for the ninth month in a row and came in at 72.4%. Thus, CUR fell to its lowest level in 25 months. Analyzing the sub-items, the sharpest declines were observed in the capacity utilization ratios of intermediate and durable consumer goods.







Source: Turkstat, CBRT

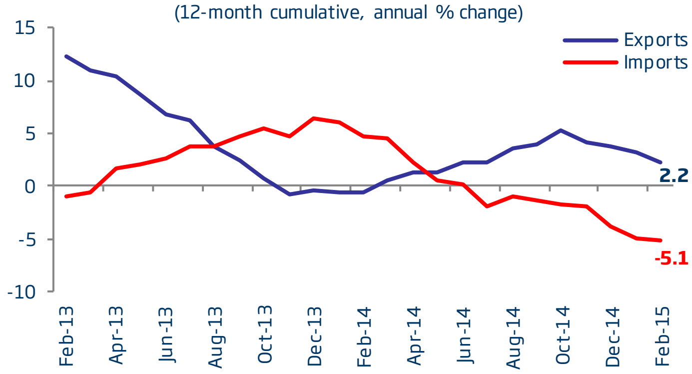
Turkish Economy - Foreign Trade Balance

Foreign trade deficit narrowed by 10.2% yoy in February.

In February, export and import volumes declined by 6% and 7.2% yoy, respectively. Hence, foreign trade deficit contracted by 10.2% yoy and came in at 4.7 billion USD. In this period, import coverage ratio increased to 72.5% from 71.6%.

Foreign Trade

(12-month cumulative, annual % change)



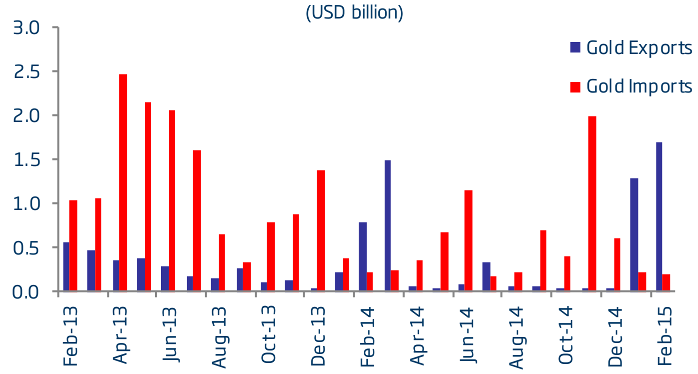
12-month cumulative foreign trade figures revealed that exports exhibited the weakest performance in the last nine months with an annual rise of 2.2%. On the other hand, imports fell for an eighth consecutive month in February, which in turn had a favorable impact on the foreign trade balance.

Gold exports continued their strong performance.

As was in January, fall in export volume was broad based in February. In fact, among the first 20 leading export items only two of them registered an annual increase, namely "precious metals" and "vegetables and fruits". In particular, the strong export performance of precious metals comprising gold exports limited the drop in export volume, to a considerable extent. In this period, the three largest destinations of gold exports were Switzerland, UK and UAE, respectively.

Gold Trade

(USD billion)



The drop in oil prices has been playing a significant role in the declining imports.

The weak pace of oil prices has continued to have a positive impact on Turkey's energy import. While the quantity of oil imports rose by 29% yoy in February, the value of energy imports decreased by 23% yoy to 3.5 billion USD. Besides, the recent moderate course of domestic demand supported the downward trend in total imports. The second largest import item following energy imports, boilers and machineries, posted an annual fall of 7.4% in February.

Exports to EU countries lost momentum.

Rise in exports to European Union (EU) countries was one of the most important factors that enhanced Turkey's export growth performance during the previous year. Nonetheless, it was noteworthy that exports to the region shrank in the first two months of this year. Having dropped by 3.5% yoy in January, exports to the region declined by 4.3% yoy in February, because of the sluggish economic activity in the region. The share of the EU countries in total export volume, on the other hand, followed a relatively flat course, realizing at 42%. Exports to US and UK, which are the two leading engine of global economic growth lately, sustained their upward trends in February. Yet, exports to Iraq and Russia, the fourth and the tenth biggest export destinations of Turkey, fell by 26% yoy and 40% yoy, respectively.

Expectations

Sluggish economic activity in the main trading partner of Turkey, namely the EU countries, adversely affected export performance in February. However, foreign trade deficit, despite losing some momentum, continued to narrow thanks to the moderate course of domestic demand along with the drop in oil prices that has put downward pressure on imports. Rise in gold exports in the first two months of the year was also influential in this development. In an environment such that foreign demand would not exhibit a sharp upturn while domestic demand would be able to revive slightly, we expect that foreign trade deficit is likely to face difficulty in sustaining its recovery. Indeed, according to the provisional data announced by Ministry of Customs and Trade, trade deficit widened in March.

Foreign Trade Balance (USD billion)

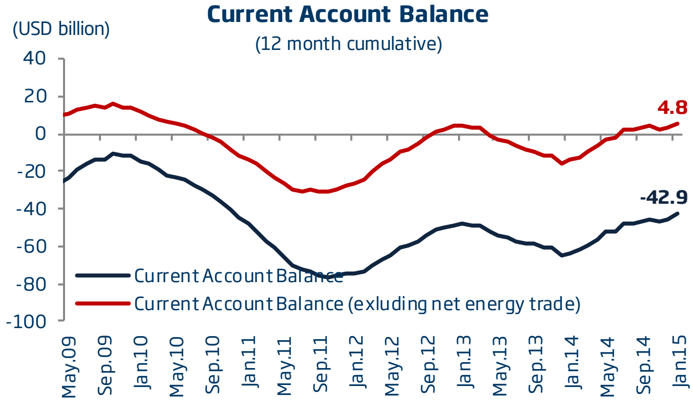
	February		Change	January-February		Change
	2014	2015	(%)	2014	2015	(%)
Exports	13.1	12.3	-6.0	25.5	24.6	-3.4
Imports	18.2	16.9	-7.2	37.5	33.6	-10.6
Foreign Trade Balance	**-5.2**	**-4.7**	**-10.2**	**-12.1**	**-9.0**	**-25.7**
Import Coverage Ratio (%)	71.6	72.5	-	67.8	73.3	-

Source: Turkstat

Current account deficit kept contracting in the first month of 2015.

In January, current account deficit came in below market expectations and was realized as 2 billion USD. 12-month cumulative current account deficit fell to its lowest level since November 2010, driven by the declining foreign trade deficit. Net non-monetary gold exports, amounted to 1.1 billion USD in January, was also played an important role in this development. Besides, tourism revenues continued to contribute to the current account balance by increasing 11.7% yoy.

Current Account Balance
(12 month cumulative)



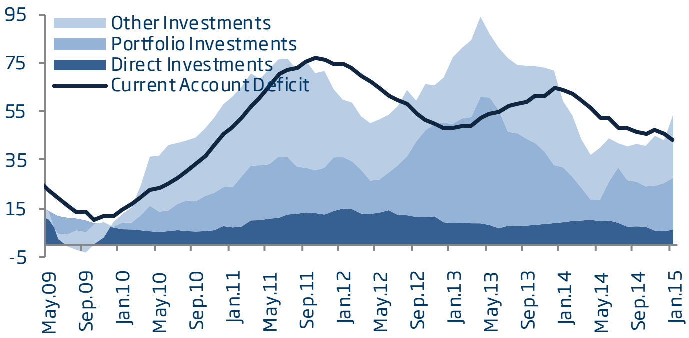
Increase in foreign direct investment inflows...

Foreign direct investment inflows came in at 1.8 billion USD in January, highest monthly inflow during the last 1 year. Sectorial breakdown showed that the capital inflows were towards to the energy and transportation/storage sectors. On the other hand, 12-month cumulative foreign direct investment inflows still remained weak compared to the levels registered before the global financial crisis.

Portfolio investment inflows were realized as 1.6 billion USD in January ...

Portfolio investment inflows continued to contribute to the financing of the current account deficit in January. In this period, capital inflows directed to debt securities were realized as 1.4 billion USD, mainly stemmed from the eurobond issues of public sector. Moreover, net capital inflows via equity securities amounted 462 million USD.

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



Nonresident banks increased their foreign currency deposits in January.

Net capital inflows via currency and deposits account were realized as 3.5 billion USD in January. While 2.5 billion USD of this amount were held as foreign currency by nonresident banks, approximately 1 billion USD was held as Turkish Lira.

Banks and non-bank sectors raised 2.3 billion USD of loans from abroad.

Banking sector raised 1.5 billion USD of net short term loans from abroad in January while sector was net credit re-payer in long term loans. In this period, non-bank sectors raised 1.4 billion USD long term loans despite a repayment of 1.1 billion USD. Thus, adding 670 million USD worth of short term loans, in total, non-bank sectors raised 889 million USD net loans abroad in January. In 12-month cumulative terms, banks' and nonbank sectors' long-term debt roll-over ratios were realized as 177% and 125%, respectively.

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

			Breakdown of Capital Inflows (%)	
	December 2014	January 2015	December 2014	January 2015
Current Account Balance	**-45,846**	**-42,866**	-	-
Total Net Foreign Capital Inflows	**45,378**	**52,215**	**100.0**	**100.0**
-Direct Investments	5,487	6,154	12.1	11.8
-Portfolio Investments	19,934	21,475	43.9	41.1
-Other Investments	17,629	26,182	38.8	50.1
-Net Errors and Omissions	2,394	-1,551	5.3	-3.0
-Other	-66	-45	-0.1	-0.1
Reserves[(1)]	**468**	**-9,349**	-	-

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

Increase in reserve assets ...

In January, net errors and omissions account registered an outflow 1.5 billion USD while reserve assets increased by 4 billion USD.

Expectations

Turkey's current account deficit kept contracting, driven by the relatively lower energy bill. However, exports to the European Union countries started to decrease lately due to the weak economic activity in the region, which in turn, may adversely affect the foreign trade performance. This would also have a negative impact on current account deficit, following a downward trend since 1 year. However, leading indicators showed that domestic demand conditions started 2015 with a weak course. Should the expected recovery in domestic demand take time the imports might be suppressed and current account deficit would be affected positively.

Current Account Balance (USD million)

	January 2014	January 2015	% Change	12 Month Cumulative
Current Account Balance	**-4,982**	**-2,002**	**-59.8**	**-42,866**
Foreign Trade Balance	-5,200	-2,563	-50.7	-60,905
Services Balance	713	990	38.8	25,573
Travel (net)	906	990	9.3	24,564
Primary Income	-541	-503	-7.0	-8,685
Secondary Income	46	74	60.9	1,151
Capital Account	**-22**	**-1**	**-95.5**	**-45**
Financial Account	**-2,522**	**-3,466**	**37.4**	**-44,462**
Direct Investments (net)	-933	-1,600	71.5	-6,154
Portfolio Investments (net)	-72	-1,613	2,140.3	-21,475
Net Acquisition of Financial Assets	-318	270	-	1,347
Net Incurrence of Liabilities	-246	1,883	-	22,822
Equity Securities	-318	462	-	3,339
Debt Securities	72	1,421	1,873.6	19,483
Other Investments (net)	4,283	-4,270	-	-26,182
Currency and Deposits	3,055	-3,522	-	-7,813
Net Acquisition of Financial Assets	2,015	-225	-	-2,507
Net Incurrence of Liabilities	-1,040	3,297	-	5,306
Central Bank	-119	-42	-64.7	-2,256
Banks	-921	3,339	-	7,562
Foreign Banks	-911	3,404	-	4,484
Foreign Exchange	-648	2,455	-	249
Turkish Lira	-263	949	-	4,235
Non-residents	-10	-65	550.0	3,078
Loans	946	-1,852	-	-17,915
Net Acquisition of Financial Assets	54	126	133.3	1,935
Net Incurrence of Liabilities	-892	1,978	-	19,850
Banking Sector	-1,220	1,446	-	14,801
Non-bank Sectors	466	889	90.8	6,162
Trade Credit and Advances	326	1,110	240.5	-22
Other Assets and Liabilities	-44	-6	-86.4	-432
Reserve Assets (net)	-5,800	4,017	-	9,349
Net Errors and Omissions	**2,482**	**-1,463**	**-**	**-1,551**

Source: CBRT

TÜRKİYE İŞ BANKASI

Central government budget posted a deficit of 2.4 billion TRY in February.

According to data announced by the Ministry of Finance, budget expenditures increased by 29.8% yoy while budget revenues rose by 16.6% yoy in February. Thus, central government budget, which registered a surplus of 1.7 billion TRY in February 2014, posted a deficit of 2.4 billion TRY in the same month of 2015. In this period, primary surplus decreased by 9.3% yoy and was realized as 4.5 billion TRY.

In the first two months of 2015, budget expenditures, increasing faster than revenues, also put downward pressure on budget balance.

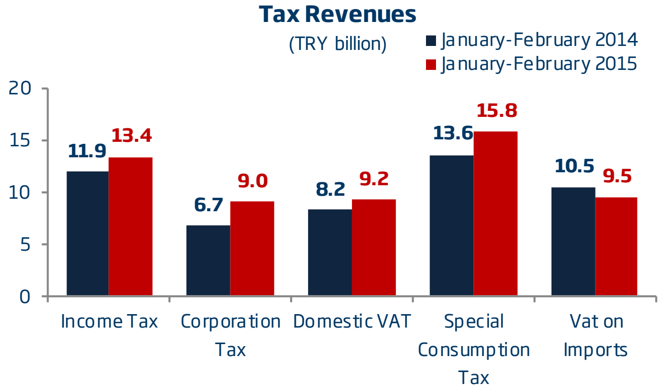
Tax revenues gained momentum in February.

Tax revenues, which exhibited a weak course throughout 2014, surged by 17.2% yoy in February. This recovery stemmed from the rise in revenues collected from corporation tax, which expanded by 35.3% yoy, together with the increase in special consumption tax (SCT) revenues. Analysis of the sub-items of the SCT revealed that tax revenues collected from motor vehicles increased by 43% yoy. On the other hand, VAT on imports significantly declined during this period owing to the current loss of momentum in imports.

Budget revenues grew by 11% on annual basis in the first two months of the year. In this period, the contraction in VAT on imports became more evident while corporation tax revenues contributed to total budget revenues by 2.3 billion TRY.

Significant increase in interest expenditures...

Total budget expenditures accelerated substantially in February, rising by 29.8% yoy. It was noteworthy that interest expenditures doubled compared to the same month of the previous year. In this period, interest payments on domestic debt constituted 85% of total debt interest payments. Non-interest expenditures expanded also by 21% yoy. Especially, capital expenditures and lending to public enterprises recorded significant increases in the same period.



Regarding the cumulative figures for the first two months of the year, interest expenditures registered a high rate of annual increase as well. In this period, the expansion in payments to the metropolitan and borough municipalities by 2.6 billion TRY was influential on the sharp increase in budget expenditures.

Expectations

Although tax revenues gained momentum in February, the remarkable increases in both interest and capital expenditures affected the budget figures adversely. Analysis of the realizations in the first two months of the year, on the other hand, showed that the budget figures were in line with the year-end targets.

Central Government Budget (TRY billion)

	February		%	January-February		%	2015 Budget	Real/
	2014	2015	Change	2014	2015	Change	Target	Target (%)
Expenditures	**32.8**	**42.5**	**29.8**	**68.8**	**78.9**	**14.7**	**472.9**	**16.7**
Interest Expenditures	3.3	6.9	107.1	8.3	11.9	42.7	54.0	22.0
Non-Interest Expenditures	29.4	35.6	21.0	60.4	66.9	10.8	418.9	16.0
Revenues	**34.4**	**40.2**	**16.6**	**72.3**	**80.3**	**11.0**	**452.0**	**17.8**
Tax Revenues	29.5	34.6	17.2	62.2	69.5	11.7	389.5	17.8
Other Revenues	4.9	5.5	13.0	10.1	10.8	6.6	62.5	17.2
Budget Balance	**1.7**	**-2.4**	**-**	**3.6**	**1.4**	**-60.6**	**-21.0**	**-**
Primary Balance	**5.0**	**4.5**	**-9.3**	**11.9**	**13.3**	**11.7**	**33.0**	**40.3**

Numbers may not add up to total value due to rounding.

Source:Ministry of Finance, Datastream

In March, CPI came in above expectations.

In March, CPI and Domestic PPI (D-PPI) increased by 1.19% and 1.05% mom, respectively. According to the Reuters' survey CPI was expected to rise by 0.89% in March. According to the CBRT's survey, on the other hand, markets' monthly CPI expectation was 0.69%.

March	CPI		Domestic PPI	
Change (%)	2014	2015	2014	2015
Monthly	1.13	1.19	0.74	1.05
Year To Date	3.57	3.03	5.52	2.60
Annual	8.39	7.61	12.31	3.41
Annual Average	7.70	8.70	6.95	8.03

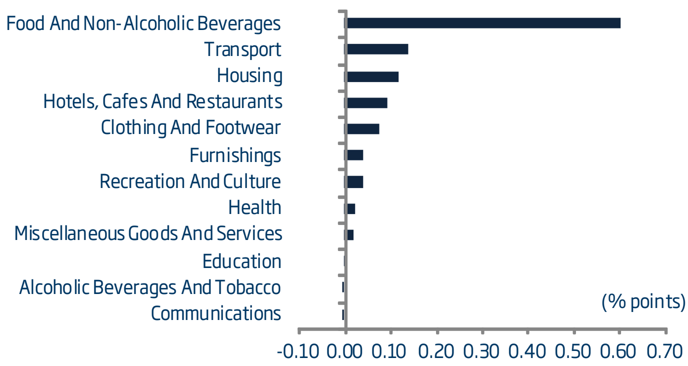
The annual CPI inflation was realized as 7.61%.

Having risen to 7.61% in March, the upturn in annual CPI inflation has continued. The rise in PPI also gained some momentum due to the unfavorable base effect and reached 3.41%.

Food prices rose by 2.47% mom.

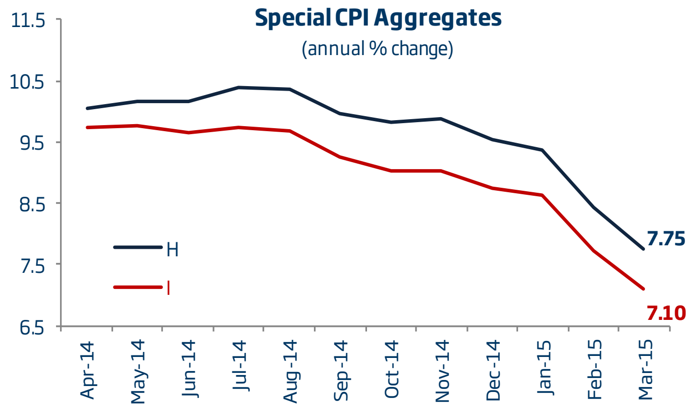
In March, the higher than expected inflation figures were mostly attributable to the surge in food prices. In this period, the 2.47% price increase in the said group made the highest contribution to the monthly inflation by 61 basis points. Besides, the price hikes in transportation and housing groups contributed to the inflation by 14 and 12 basis points, respectively. In March, it was also seen that the rise in prices spread across other services groups after having followed a relatively stable course in February.

Contributions to the Monthly CPI by Subgroups



Declining trend in core inflation indicators

The course of the unprocessed food prices continued to be influential on the CPI inflation in March. In fact, monthly inflation excluding the said group was realized as 0.72%. On the other hand, analysis of the developments in core inflation indicators on an annual basis revealed that the downward trend prevailed in core inflation aggregates. In



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

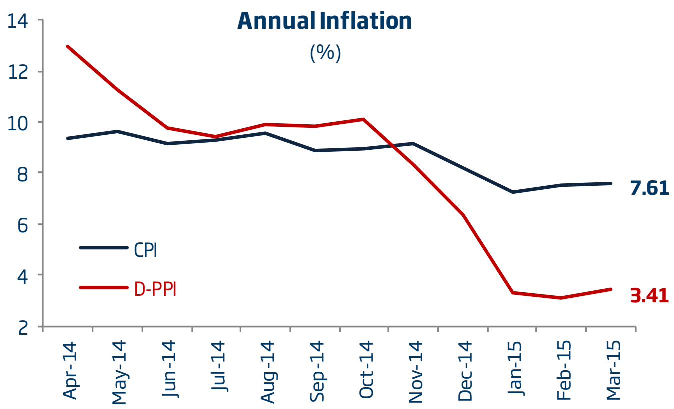
March, annual increases in CBRT's favorite core indices denominated by H and I, were realized as 7.75% and 7.10%, respectively, their lowest levels in almost 14 months.

Monthly rise in D-PPI was 1.05%.

As was the case in February, D-PPI registered a notable monthly increase in March. The increase of 41.61% mom recorded in crude petroleum and natural gas sub-group prices made the highest contribution to the monthly D-PPI inflation. The price development in this group caused monthly D-PPI inflation to increase by 23 basis points.

Expectations

We anticipate that the annual CPI inflation will recede to 7% in April thanks to the favorable base effect. On the other hand, the rise in clothing and footwear prices as a result of seasonal factors might limit the anticipated decline in inflation to some extent.



Source: Turkstat

CBRT kept policy interest rate unchanged.

At its Monetary Policy Meeting held on March 17, CBRT kept the one-week repo rate (the policy rate) unchanged at 7.5%. Having decided to leave the interest rate corridor on hold, CBRT also kept the interest rate on borrowing facilities provided for primary dealers via repo transactions at 10.25%. In its policy statement, CBRT reiterated that the loan growth rate receded to reasonable levels thanks to the tight monetary policy stance and macro prudential measures, while domestic demand made a moderate contribution to the growth and foreign demand exhibited a weak performance. CBRT pointed to the downward trend in core inflation indicators yet dropped its statement that this trend would continue in the coming period. In addition, CBRT stated that cautious monetary stance would be preserved until a considerable improvement in inflation indicators was observed.

Foreign exchange deposit rates were reduced.

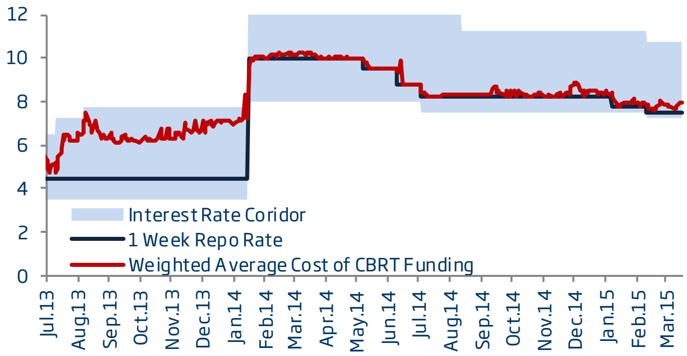
The interest rates applied to banks' one week maturity borrowings from the Central Bank was reduced in order to support TRY. The rates were cut to 4.5% from 7.5% for USD and to 2.5% from 6.5% for EUR, effective as of March 10.

New arrangement in reserve requirement ratios and reserve option coefficients

In order to promote long-term external financing, CBRT increased the reserve requirement ratios for FX denominated non-core liabilities with a maturity up to 2 years. With this new arrangement, CBRT stated that the effective FX reserve requirement ratio would be 13.1%, up from the current level of 12.7%, and 1.3 billion USD would be added to the central bank reserves. Accordingly, CBRT changed reserve option coefficients to meet the temporary foreign exchange liquidity needs of the financial sector as a result of the latest revisions in reserve requirement ratios. This revision is expected to lead to a release of 1.5 billion USD from the FX reserves of Central Bank. In doing so, CBRT aimed at rendering the FX liquidity put under reserve option mechanism more steady.

CBRT Interest Rates

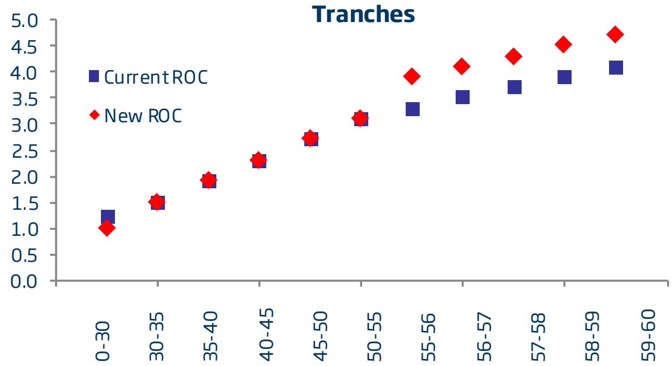
(%)



Reserve Requirement Ratios for Liabilities Other Than Deposit/Participation Funds

Maturity	Current Ratios (%)	New Ratios (%)
Up to (and including) 1 year	18	20
Up to (and including) 2 year	13	14
Up to (and including) 3 year	8	8
Up to (and including) 5 year	7	7
Longer than 5 years	6	6

Reserve Option Coefficients For FX Facility Tranches



Source: CBRT, Borsa Istanbul

Volatile course in domestic markets...

In March, markets mainly focused on the developments in the US economy. Fed's statement after its meeting held on March 18 supported the expectations that rate hikes would be at a gradual pace and in turn, increased investors' demand for high yielding assets. However, the prevailing uncertainties about the timing of Fed's rate hike caused volatility in the markets.

Domestic markets diverged negatively from the global markets, especially in the second week of March. This development stemmed mainly from the criticism of the CBRT's monetary policy stance, while the easing tension over the policy along with the impulse purchases reflected positively to the markets in the following days.

BIST-100 declined to 5-month low.

BIST-100 index, which closed at above 84 thousand level at the end of February, fell to 76,642 on March 13, the lowest level for the last 5 months. In the following days, on the other hand, the index recovered some of its losses and exceeded 80 thousand as of March 31.

USD/TRY reached its historic-high level.

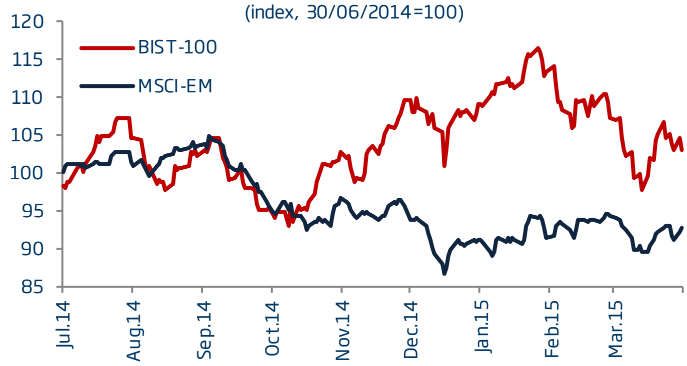
USD/TRY, which was realized as 2.4786 at the end of February, kept its upward trend in the first 2 weeks of March. In fact, USD/TRY rose to its historic-high level in March 13, with 2.6481. In the following days, the weakening of USD in global markets and the easing tension over CBRT's monetary stance supported TRY. As of March 31, USD/TRY was realized as 2.6102.

The interest rate of 2-year benchmark bond was 8.77%.

The interest rate of the 2-year benchmark bond, which was 8.39% in the beginning of March, kept its rising trend in first half of the March due to the deterioration in risk perception. After the Fed's meeting held in March, on the other hand, interest rates decreased to some extent. As of March 31, the interest rate of the 2-year benchmark bond was realized as 8.77%.

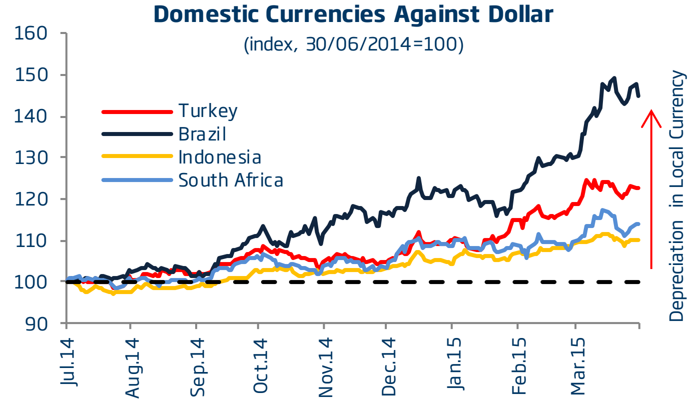
BIST-100 and MSCI Emerging Markets Indexes

(index, 30/06/2014=100)



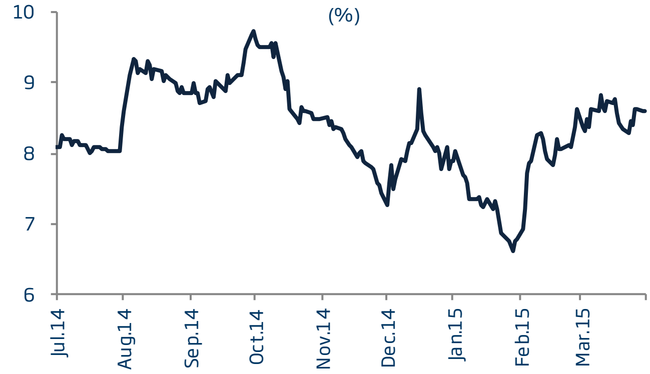
Domestic Currencies Against Dollar

(index, 30/06/2014=100)



Compound Yield of 2-Year Benchmark Bond

(%)



Source: JP Morgan, Reuters, BIST

Annual increase in deposits was 13.5%.

According to BRSA's Weekly Bulletin, as of March 20, deposit volume grew by 13.5% yoy and was realized as 1,178 billion TRY. After displaying a weak course in the first weeks of 2015 owing to base effect, deposit volume gained momentum that was driven by the sharp increase in FX deposits.

As of March 20, deposits rose by 4.4% ytd. In this period, while TRY deposits contracted slightly, FX deposits recorded an annual increase of 12.7%. On the other hand, year-to-date contraction of 1.1% in FX deposits in USD terms indicated that the depreciation of TRY was influential on the surge in FX deposits in TRY terms.

Credit volume expanded by 20% yoy.

As of March 20, credit volume grew by 20.3% yoy and was realized as 1.323 billion TRY. In this period, TRY loans and FX loans in USD terms increased by 18.4% and 7.8%, respectively. According to year-to-date figures, the rise in TRY loans was recorded as 3.4% and FX loans rose by 9.9%. Thus, total credit volume expanded by 5.3% ytd.

Analyzing by types of loans, as of March 20, the annual increase in commercial loans was realized as 25.7% while that of consumer loans was 9.7%.

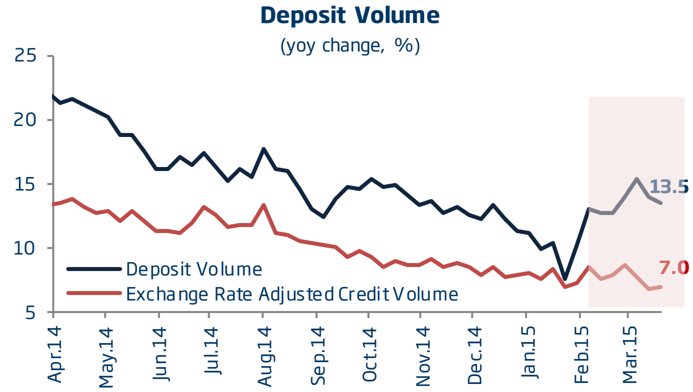
In this context, the course of both loan and deposit figures were particularly affected by the developments in FX market. According to the exchange rate adjusted figures, the annual growth in loans and deposits volume was realized as 15.3% and 7%, respectively.

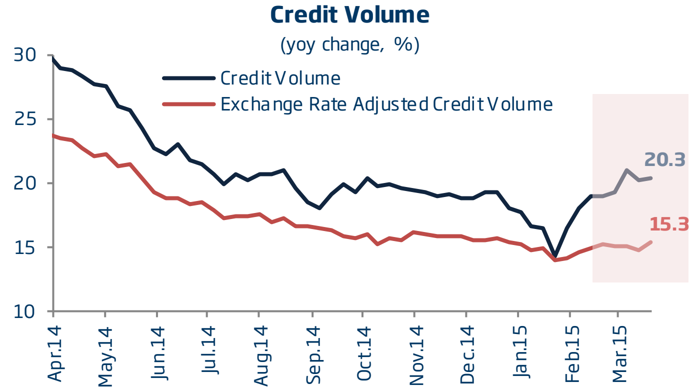
Securities portfolio...

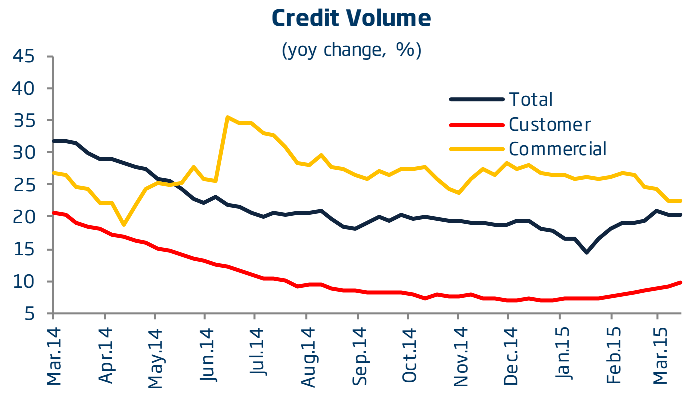
Securities portfolio of the sector increased by 3.2% ytd, and was realized as 311 billion TRY. It was noteworthy that securities subject to repo transactions, which have the highest share in securities portfolio, recorded an annual increase of 11.7% in this period.

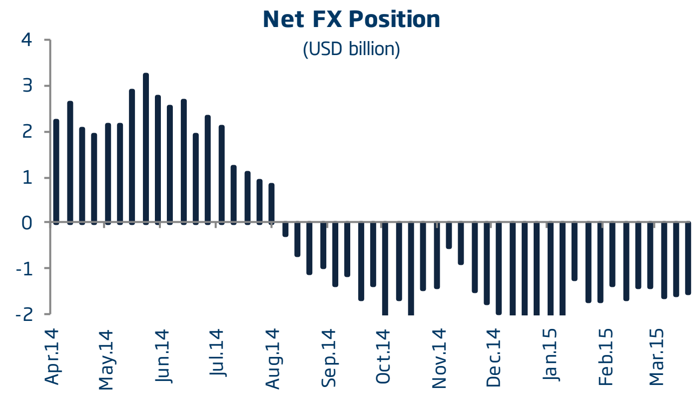
Net FX position...

As of March 20, banks' on-balance sheet FX position was (-) 36,582 million USD while off-balance sheet FX position was (+) 35,046 million USD. Hence, banks' net FX position was realized as (-) 1,536 million USD.









Source: BRSA Weekly Bulletin

Expectations

Even though economic activity in the US has lost some momentum due to the adverse weather conditions in the first months of the year, the sustained improvement in labor market indicators supported optimistic expectations for the US economy. On the other hand, the negative impact of strengthening US dollar on export performance and the downward pressure on inflation arising from the falling commodity prices are regarded as key risk factors facing the US economy. In fact, the reductions in median forecasts of FOMC members for interest rates indicate that dovish stance in monetary policy will be maintained despite the removal of the word “patient” from its statement. Nonetheless, volatile market conditions have continued as a rate hike by the Fed in its June meeting remains a possibility.

The weak economic outlook in Euro Area continues to be a significant source of concern for the global economy. Recent data on economic activity reinforce the signs of fragility even though the latest move of ECB to promote monetary expansion led to an improvement in inflation expectations and confidence indicators. In addition, the prevailing uncertainty over Greece’s assistance package intensified concerns about the region’s economy.

The weak course of commodity prices, which put downward pressure on global inflation, continues to prevail. Indeed, the upturn in oil prices observed in February proved to be temporary with the decline recorded in March. Although the declining trend in oil prices is still considered as a favorable development for oil-importer countries including Turkey, it brings substantial risks for the global economy.

Forecasts (%)	2014 (R)	2015
Growth	2,9	3,5
CA Deficit/GDP	5,7	5,1
Inflation	8,2	6.5-7.0
GDDI Interest*	9,8	7.5-8.0

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

Turkey’s economic growth performance in 2014 stayed below its long-run trend with realizing at 2.9%. In the last quarter of the year, it was noteworthy that Turkish economy started to exhibit domestic demand-driven growth once again. However, latest weak data on industrial production and leading indicators have adversely affected the growth expectations for 2015.

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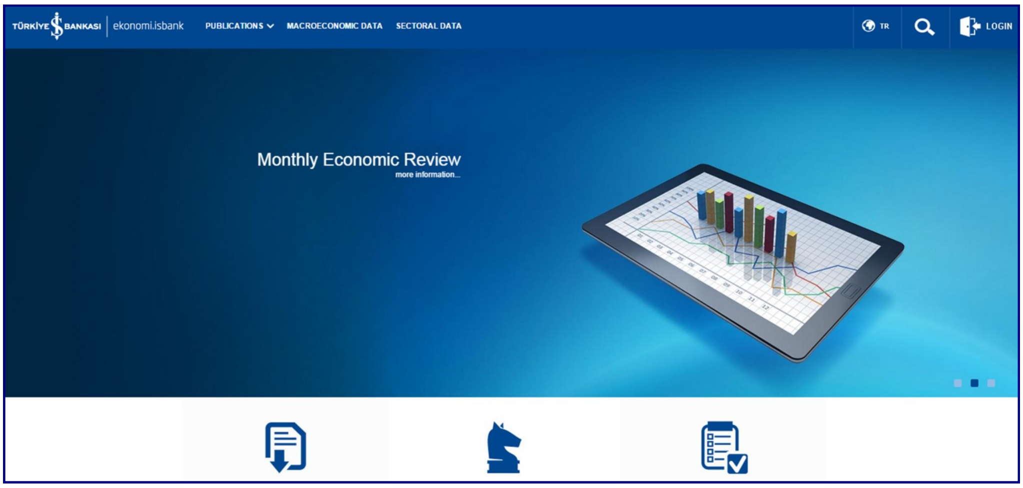
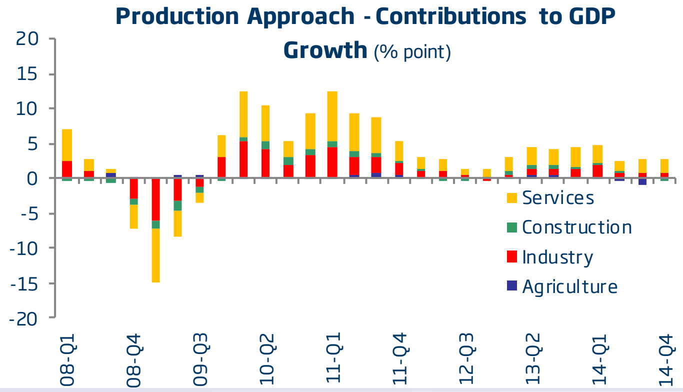
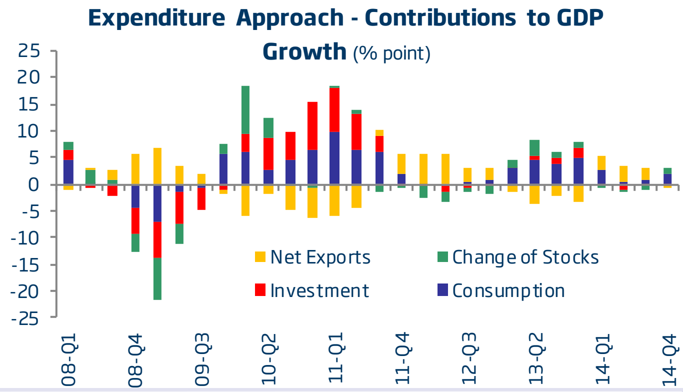


Turkish Economy at a Glance

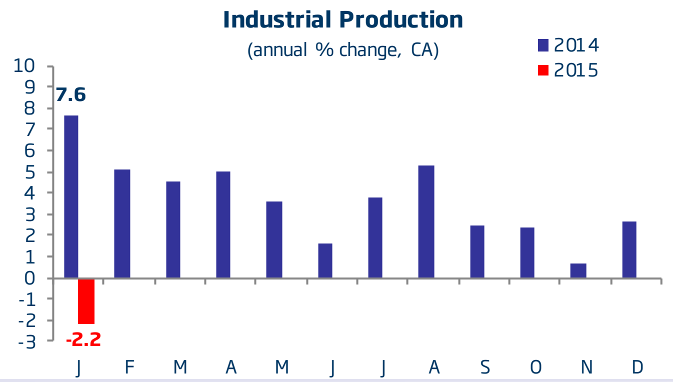
TÜRKİYE İŞ BANKASI

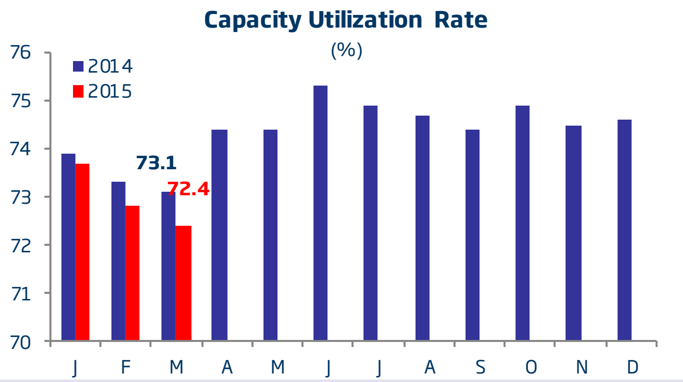
Growth



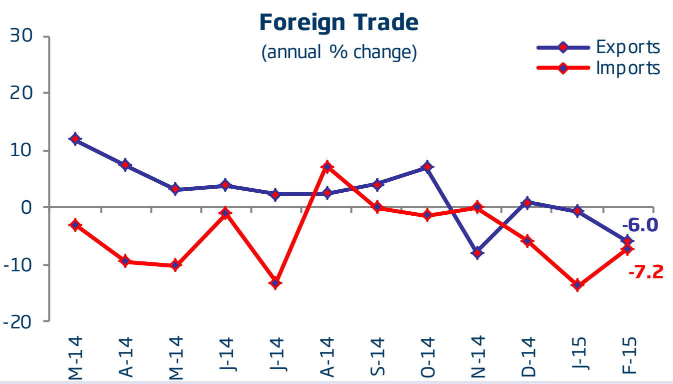


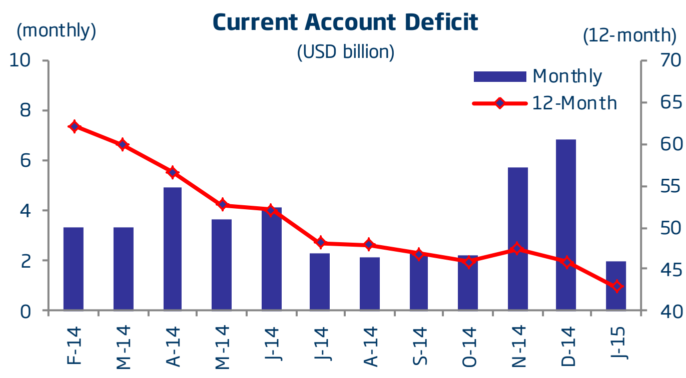
Industrial Production



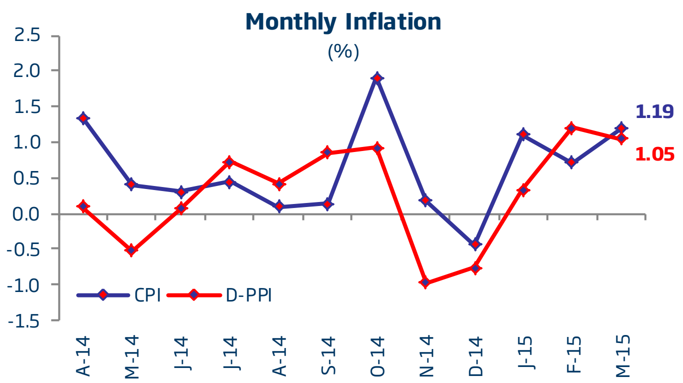


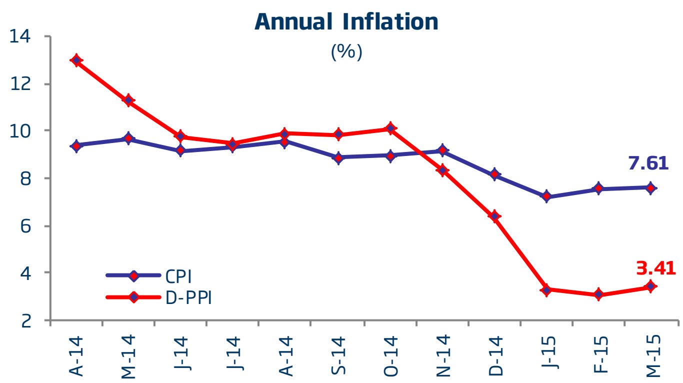
Foreign Trade and Current Account Balance





Inflation



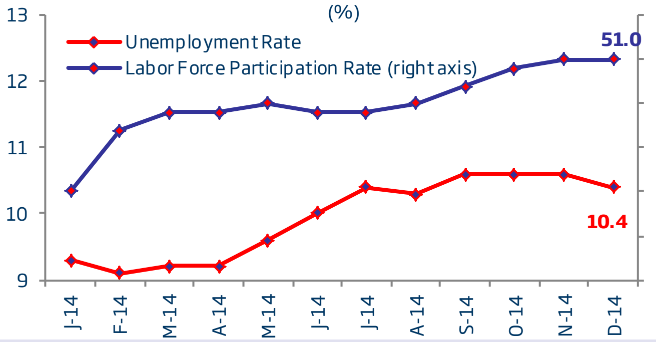


Source: Turkstat, CBRT

Labor Market

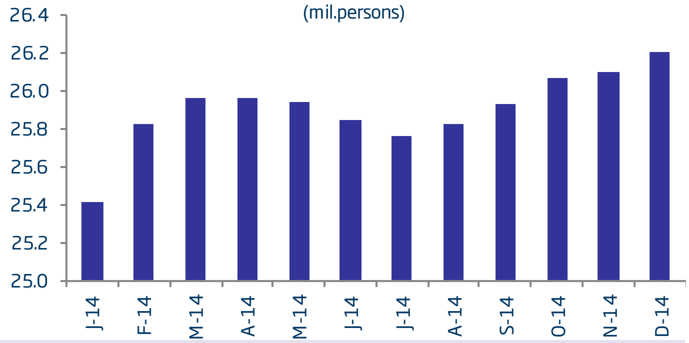
Seasonally Adjusted Unemployment Rates

(%)



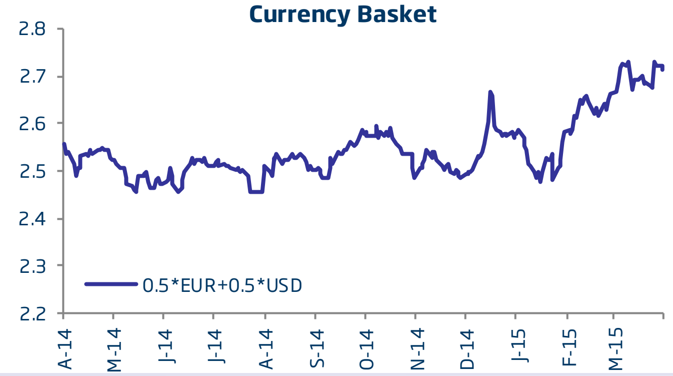
Seasonally Adjusted Employment

(mil.persons)

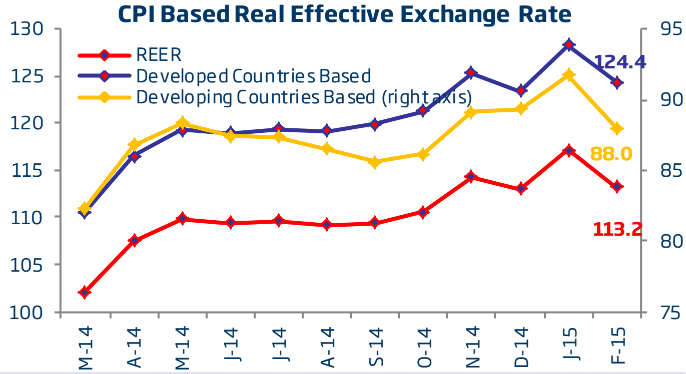


FX Market

Currency Basket



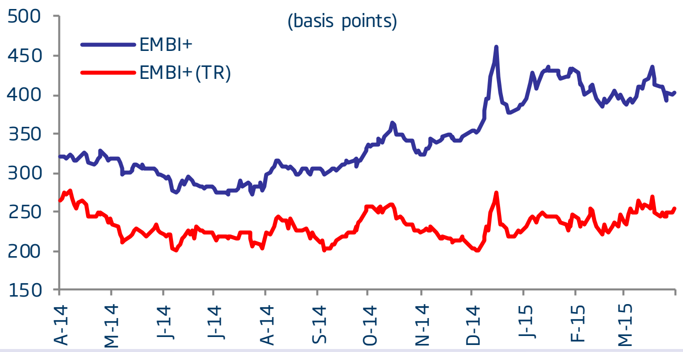
CPI Based Real Effective Exchange Rate



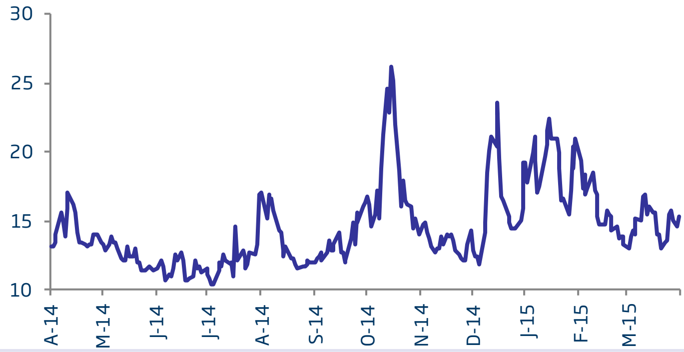
Risk Indicators

Risk Premiums

(basis points)



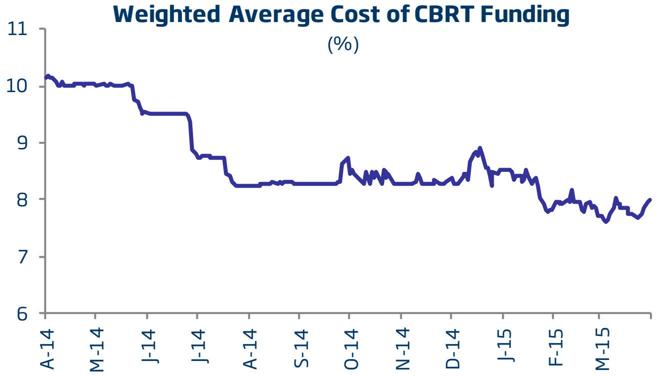
VIX



Interest Rates

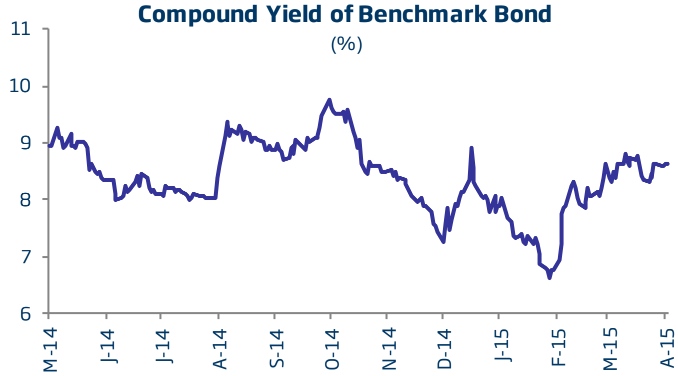
Weighted Average Cost of CBRT Funding

(%)



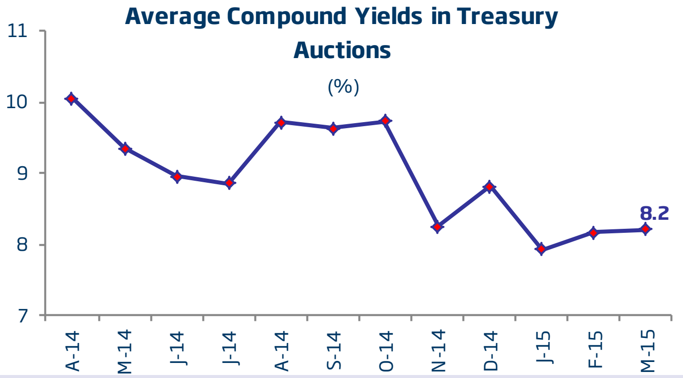
Compound Yield of Benchmark Bond

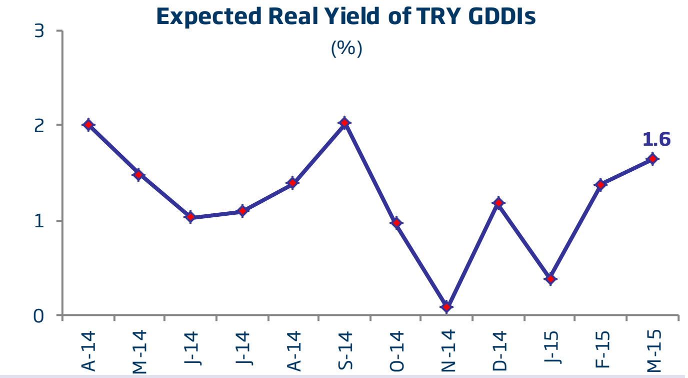
(%)



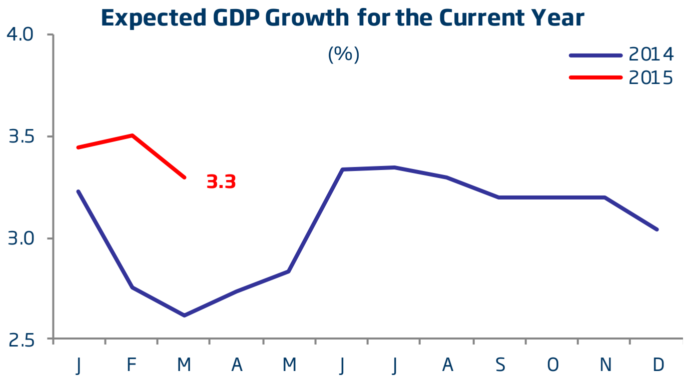
Source: Turkstat, CBRT, JP Morgan, Reuters, BIST

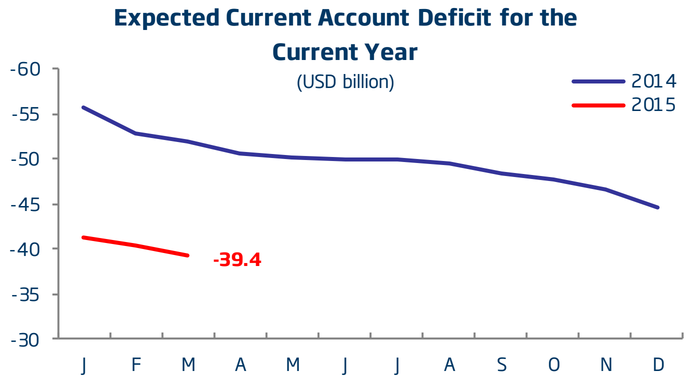
Bond-Bill Market

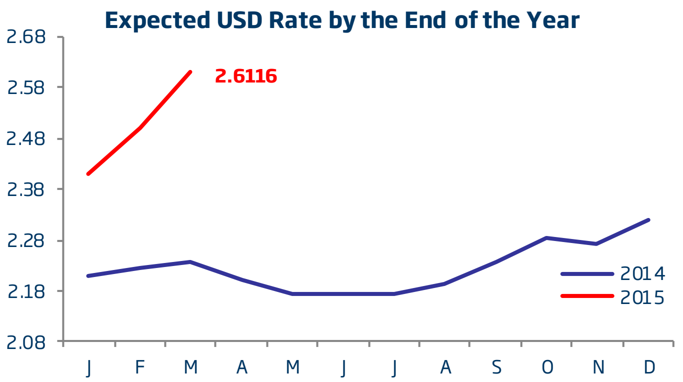


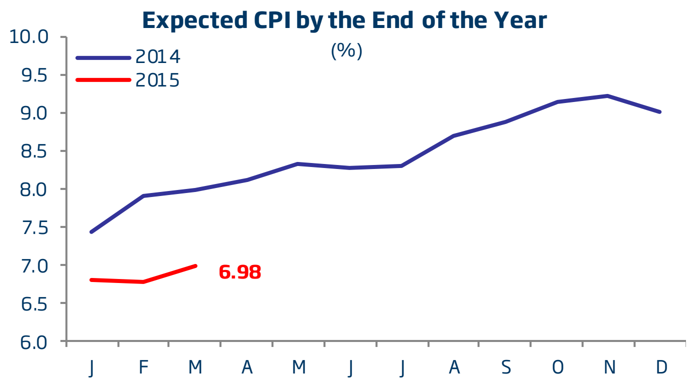


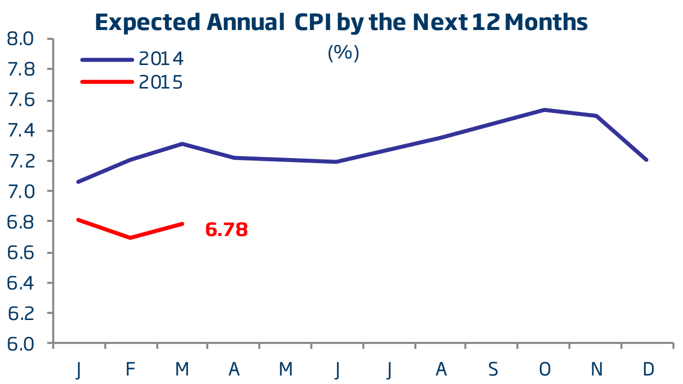
Survey of Expectations and Other Leading Indicators

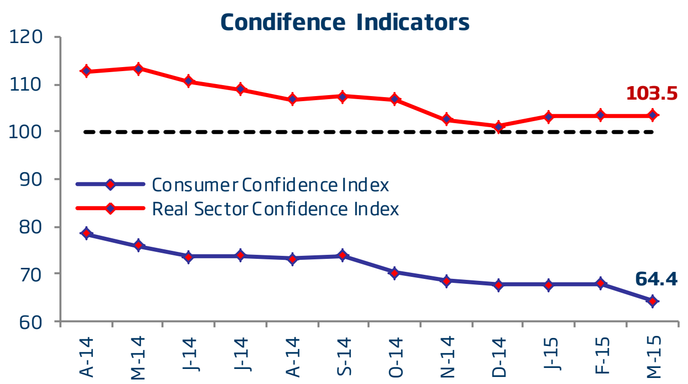












Source: Treasury, BIST, CBRT, Economic Research Division

Turkish Economy at a Glance

Growth	2010	2011	2012	2013	2014	15-Q1	15-Q2	15-Q3
GDP (USD Billion)	731.6	774.0	786.3	823.0	800.1	-	-	-
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	-	-	-
Inflation (%)						**Jan-15**	**Feb-15**	**Mar-15**
CPI (annual)	6.40	10.45	6.16	7.40	8.17	7.24	7.55	7.61
PPI (annual)	8.87	13.33	2.45	6.97	6.36	3.28	3.10	3.41
Seasonally Adjusted Labor Market Figures						**Oct-14**	**Nov-14**	**Dec-14**
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.6	10.6	10.4
Employment (thousand persons)	22,631	23,492	24,475	24,878	26,205	26,074	26,105	26,205
FX Rates						**Jan-15**	**Feb-15**	**Mar-15**
CPI Based Real Effective Exchange Rate	125.5	109.4	117.9	106.7	113.0	117.1	113.2	-
USD/TRY	1.5460	1.9065	1.7826	2.1343	2.3189	2.4013	2.4786	2.6102
EUR/TRY	2.0491	2.4592	2.3517	2.9365	2.8207	2.7136	2.8137	2.8309
Currency Basket (0.5*EUR+0.5*USD)	1.7976	2.1829	2.0672	2.5354	2.5698	2.5575	2.6462	2.7206
Foreign Trade Balance[1] (USD billion)							**Jan-15**	**Feb-15**
Exports	113.9	134.9	152.5	151.8	157.6		157.5	156.8
Imports	185.5	240.8	236.5	251.7	242.2		239.5	238.2
Foreign Trade Balance	**-71.7**	**-105.9**	**-84.1**	**-99.9**	**-84.6**		**-82.0**	**-81.5**
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1		65.8	65.8
Current Account Balance[1] (USD billion)								**Jan.15**
Current Account Balance	**-45.3**	**-75.0**	**-48.5**	**-64.7**	**-45.8**			**-42.9**
Capital and Financial Accounts	**-45.1**	**-66.0**	**-48.2**	**-62.0**	**-43.5**			**-44.5**
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.5			-6.2
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-19.9			-21.5
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-17.6			-26.2
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5			9.3
Net Errors and Omissions	**0.2**	**9.0**	**0.3**	**2.8**	**2.4**			**-1.6**
Current Account Deficit/GDP (%)	**-6.2**	**-9.7**	**-6.2**	**-7.9**	**-5.7**			-
Budget[2][3] (TRY billion)							**Jan-15**	**Feb-15**
Expenditures	**294.4**	**314.6**	**361.9**	**408.2**	**448.4**		**36.3**	**78.9**
Interest Expenditures	48.3	42.2	48.4	50.0	49.9		5.0	11.9
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.5		31.3	66.9
Revenues	**254.3**	**296.8**	**332.5**	**389.7**	**425.8**		**40.1**	**80.3**
Tax Revenues	210.6	253.8	278.8	326.2	352.4		34.9	69.5
Budget Balance	**-40.1**	**-17.8**	**-29.4**	**-18.5**	**-22.7**		**3.8**	**1.4**
Primary Balance	**8.2**	**24.4**	**19.0**	**31.4**	**27.2**		**8.8**	**13.3**
Budget Balance/GDP (%)	**-3.6**	**-1.4**	**-2.1**	**-1.2**	**-1.3**		-	-
Central Government Debt Stock (TRY billion)							**Jan-15**	**Feb-15**
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6		416.9	421.2
External Debt Stock	120.7	149.6	145.7	182.8	197.5		204.3	211.3
Total	**473.6**	**518.4**	**532.2**	**585.8**	**612.0**		**621.2**	**632.5**

(1) 12 month cumulative
(2) Year-to-date cumulative
(3) According to Central Government Budget

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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2010	2011	2012	2013	2014	Jan-15	Feb-15	Change[1]
TOTAL ASSETS	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1994.2**	**2033.0**	**2073.3**	**4.0**
Loans	**525.9**	**682.9**	**794.8**	**1047.4**	**1240.7**	**1255.9**	**1287.8**	**3.8**
TRY Loans	383.8	484.8	588.4	752.7	881.0	887.3	903.8	2.6
Share (%)	73.0	71.0	74.0	71.9	71.0	70.6	70.2	-
FX Loans	142.1	198.1	206.4	294.7	359.7	368.6	384.0	6.7
Share (%)	27.0	29.0	26.0	28.1	29.0	29.4	29.8	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	37.2	38.2	5.0
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	2.9	2.9	-
Securities	**287.9**	**285.0**	**270.0**	**286.7**	**302.3**	**308.2**	**310.0**	**2.6**
TOTAL LIABILITIES	**1006.7**	**1217.7**	**1370.7**	**1732.4**	**1994.2**	**2033.0**	**2073.3**	**4.0**
Deposits	**617.0**	**695.5**	**772.2**	**945.8**	**1,052.7**	**1061.2**	**1096.2**	**4.1**
TRY Deposits	433.5	460.0	520.4	594.1	661.3	659.2	672.2	1.6
Share (%)	70.3	66.1	67.4	62.8	62.8	62.1	61.3	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	401.9	424.1	8.4
Share (%)	29.7	33.9	32.6	37.2	37.2	37.9	38.7	-
Securities Issued	**3.1**	**18.4**	**37.9**	**60.6**	**89.3**	**91.7**	**94.9**	**6.3**
Payables to Banks	**122.4**	**167.4**	**173.4**	**254.2**	**293.2**	**304.4**	**305.9**	**4.3**
Funds from Repo Transactions	**57.5**	**97.0**	**79.9**	**119.1**	**137.4**	**145.8**	**146.3**	**6.5**
TOTAL SHAREHOLDERS' EQUITY	**134.5**	**144.6**	**181.9**	**193.7**	**232.0**	**235.4**	**234.9**	**1.3**
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	2.1	3.5	-
RATIOS (%)								
Loans/Assets	52.2	56.1	58.0	60.5	62.2	61.8	62.1	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	15.2	15.0	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	52.2	52.9	-
Loans/Deposits	98.2	102.9	110.7	117.9	117.9	118.3	117.5	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	16.0	15.7	-

(1) Year-to-date % change

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