



Monthly Economic Review

May 2015



Global Economy

- ◆ In its "World Economic Outlook" report published on April 14, IMF stated that the upturn in global economy would continue to take place at a moderate pace. Keeping its global growth forecast for this year unchanged at 3.5%, IMF drew attention to the divergence of the growth performance among countries.
- ◆ Without sending a clear signal on the timing of the first rate hike at its monetary policy meeting held on April 28-29, Fed pointed to the deceleration of economic activity in the first quarter of the year.
- ◆ The US economy grew by 0.2% yoy in the first quarter of the year, well below the market expectations. Aside from the adverse weather conditions prevailed during this period, the drop in oil prices, which caused investments to decline in energy-related sectors, and appreciation in the US dollar played an important role in this loss of momentum.
- ◆ European Central Bank (ECB) decided to maintain its current monetary policy stance at its meeting held on April 15. The president of ECB, Mario Draghi, stated that the recent steps began to create positive effects on region's economy and commented that the economic recovery would accelerate gradually in the coming period.
- ◆ Annual consumer prices inflation in Euro Area came in at 0% in April, pointing to a halt in deflation. CPI had declined by 0.1% yoy in March, indicating that prices fell for the fourth consecutive month.
- ◆ The ongoing deceleration in Chinese economy strengthened the expectations of further monetary easing from the Central Bank.

Turkish Economy

- ◆ Calendar adjusted industrial production posted a limited annual rise of 1% in February. Economic sentiment indicators also exhibited a weak outlook in the first quarter of the year.
- ◆ Weak course in export volume since the beginning of the year has become more evident in March. However, the declining trend in exports to the EU countries mainly stemmed from the fall in EUR/USD parity. Despite losing some momentum, exports to the region in euro terms continued to increase.
- ◆ Current account balance posted a deficit of 3.2 billion USD in February, surpassing market expectations. In this period, the deficit narrowed by 4.4% yoy compared to the same period of last year. 12-month cumulative current account deficit continued to follow a downward trend and was realized as 42.8 billion USD in February.
- ◆ In the first quarter of 2015, budget expenditures surged by 12.1% compared to the same period of the previous year while the rise in budget revenues came in at 8.5% yoy. Hence, central government budget deficit increased to 5.4 billion TRY in the first quarter of 2015 from 1.5 billion TRY in the same period of last year.
- ◆ Annual CPI inflation came in at 7.91% in April. The higher than expected inflation figure was mostly attributable to the surge in clothing and footwear prices along with the rising food prices.
- ◆ At its meeting held on April 22, CBRT kept the one-week repo rate (the policy interest rate) unchanged at 7.5%. However, CBRT raised the remuneration rate for the required reserves maintained in Turkish liras by 50 bps while FX deposit rates applied to banks' 1 week maturity borrowings from the CBRT were reduced by 50 bps.
- ◆ CBRT announced that inflation was expected to be, with 70% probability, between 5.6% and 8.0% (with a mid-point of 6.8%) at end-2015 and between 3.7% and 7.3% (with a mid-point of 5.5%) at end-2016.

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Gradual recovery in industrial production...

Having displayed its weakest performance of the past 6 years at the beginning of the year, industrial production registered a gradual recovery in February. In the second month of the year, calendar adjusted industrial production rose by 1% yoy. Furthermore, seasonally and calendar adjusted industrial production surged by 1.7% mom.

According to data announced by Markit, despite increasing slightly in April with a reading of 48.5, manufacturing PMI pointed to a contraction in the sector for the fourth consecutive month. This development stemmed from the deceleration in both output and new orders.

In January, the unemployment rate was 11.3%.

The deceleration in economic activity has continued to weaken the labor market outlook. According to the Household Labor Statistics, the unemployment rate rose by 1 point yoy and was realized as 11.3% in January, its highest level since April 2010. Seasonally adjusted unemployment rate, on the other hand, kept its high level at 10.3%.

Analysis of the labor markets figures in the last 12 months revealed that the total employment rose by 998 thousand to 25.5 million people. In this period, the employment in construction sector decreased by 2 thousand people while that of agriculture sector increased by 55 thousand people, staying below its long term trend level. The 827 thousand job creation in the services sector, on the other hand, limited the rise in unemployment rate.

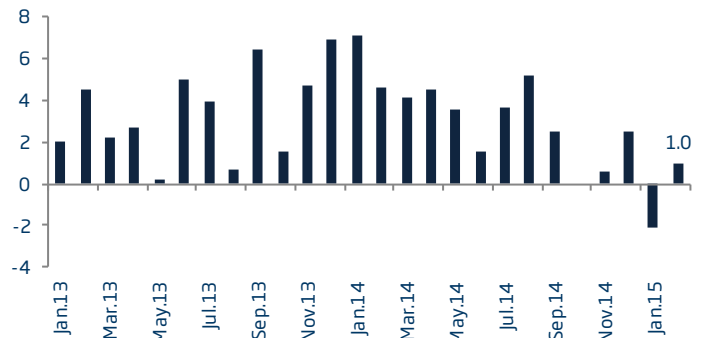
Positive signs for the second quarter...

After displaying a weak performance in the first quarter of the year, Turkish economy is anticipated to gain some momentum in the second quarter. Having fallen to its lowest level in the last 25 months in March, Capacity Utilization Ratio (CUR) rose to 74.1% in April, recording a monthly increase of 1.7 points. Analyzing the sub-items, it is seen that the recovery spread among the sectors while the seasonally adjusted reading rose to its highest level in the last 10 months with 74.6%.

It is worth mentioning that the other leading indicators pointed to a recovery in economic activity in April as well. Indeed, consumer and real sector confidence indices showed positive signs.

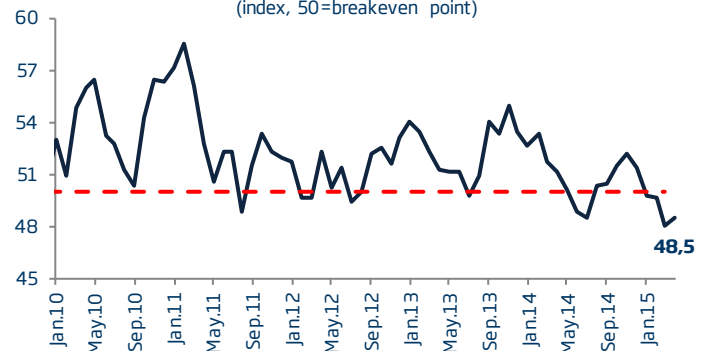
Industrial Production Index*

(annual % change)



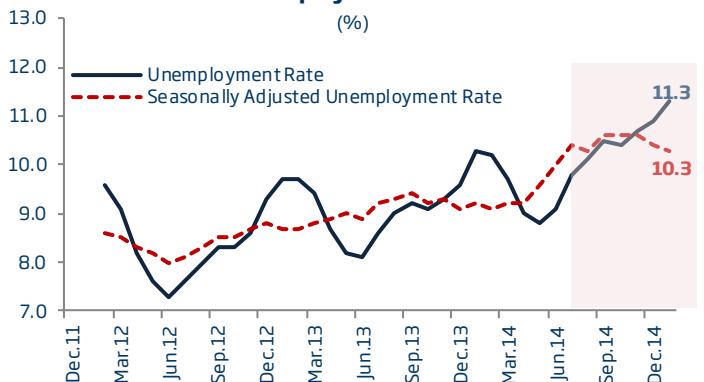
Manufacturing PMI

(index, 50=breakeven point)

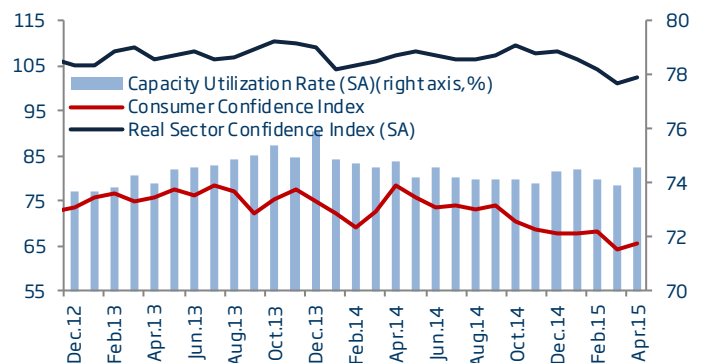


Unemployment Rate

(%)



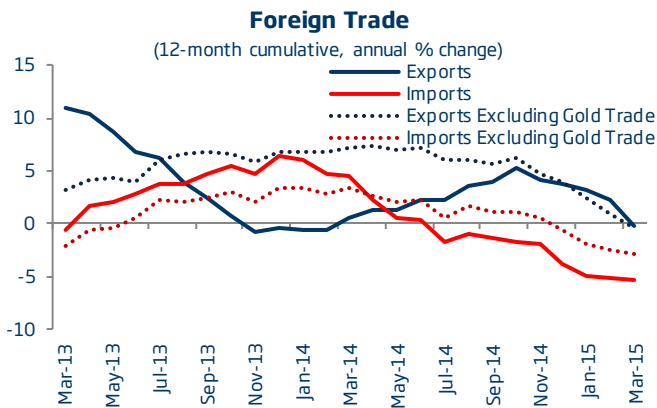
Leading Indicators



Source: Turkstat, CBRT, Markit

Foreign trade deficit widened in March.

In March, exports contracted by 14.4% yoy, the steepest decline since 2009. In this period, imports also decreased by 6.1% yoy. Thus, exports declined faster than imports for the first time since November 2014 and the foreign trade deficit expanded by 17.2% compared to the same month of the previous year and reached 6.2 billion USD. During this period, the import coverage ratio fell from 73.7% to 67.1%.



Analyses of first quarter figures revealed that decline in exports gained momentum while contraction in imports slowed down.

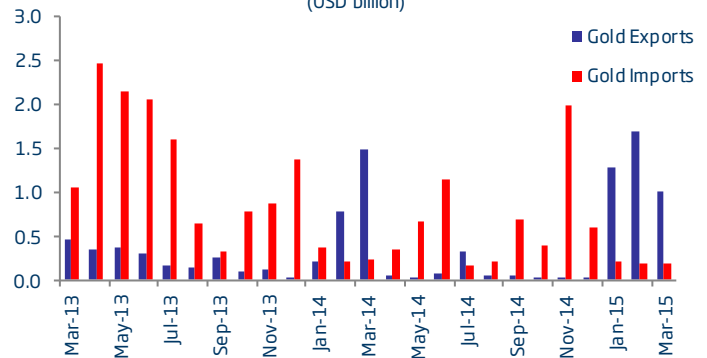
Widespread drop in exports...

The broad based downward trend in exports observed in the first two months of the year has accelerated in March. Hence, 7 out of top 10 export items receded by more than 10% yoy in the first quarter. It was noteworthy that only gold exports posted an increase among the said items. Gold exports reached 4 billion USD in the first three months of the year. Excluding gold exports, total exports contracted by 12% yoy.

EUR/USD parity was influential on export performance.

Exports to the European Union (EU) countries being Turkey's main export market continued to drop in March.

Gold Trade (USD billion)



Within the foremost EU countries, only exports to the UK rose in this period. However, putting aside gold exports, total exports to the UK declined by 9.5% yoy. Furthermore, analyses of top 20 countries revealed that when gold exports excluded only total exports to the United States, Saudi Arabia and Iran surged in March. Yet, it was seen that the decline in exports to the EU countries stemmed from the fall in EUR/USD parity. Indeed, exports to the region in euro terms climbed by 13.4% yoy.

Exports to EU Countries in Euro Terms (January-March)

	Exports to EU28 (USD million)	EUR/USD (average)	Exports in Euro Terms (EUR million)
2014	16,939	1.37	12,362
2015	15,790	1.13	14,016
% Change	-6.8	-17.8	13.4

Downward trend in import volume is losing momentum.

Despite the positive impact of lower oil prices on Turkey's energy imports, the upsurge in some import items limited the downward trend in total import volume. In this period, while quantity of oil imports rose by 42.7% yoy, value of energy imports dropped by 18.9% yoy. In contrast, Turkey's cereal imports more than doubled and imports of motor vehicles increased by 32.6% yoy.

Foreign Trade Balance

	March		Change (%)	January-March		Change (%)
	2014	2015		2014	2015	
Exports	14.7	12.6	-14.4	40.1	37.1	-7.5
Imports	19.9	18.7	-6.1	57.5	52.3	-9.0
Foreign Trade Balance	-5.3	-6.2	17.2	-17.3	-15.2	-12.5
Import Coverage Ratio (%)	73.7	67.1	-	69.8	71.0	-

Source: Turkstat

Expectations

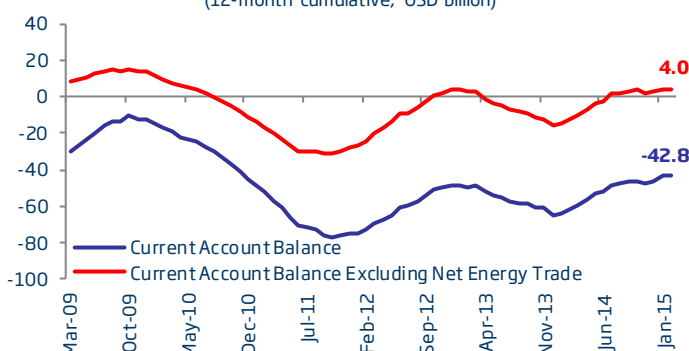
Weak course in export volume since the beginning of the year has become more evident in March. When gold exports were excluded, the outlook has worsened. It was noteworthy that declining trend in exports to the EU countries mainly stemmed from the fall in EUR/USD parity. Despite losing some momentum, exports to the region in euro terms continued to increase. Although lower oil prices

are considered as a positive development in terms of import performance, it is expected that recovery in domestic demand will accelerate to some extent in the second half of the year following the general elections. This suggests that the decline in imports might continue to lose momentum in the coming period. In addition to that, under the assumption that EUR/USD parity will keep its low levels, narrowing trend in foreign trade deficit registered in 2014 seems unlikely to be achievable throughout 2015.

Current account deficit came in at 3.2 billion USD, above expectations.

Current account balance posted a deficit of 3.2 billion USD in February, surpassing market expectations. In this period, the deficit narrowed by 4.4% yoy compared to the same period of last year. 12-month cumulative current account deficit continued to follow a downward trend and was realized as 42.8 billion USD as of February.

Balance of Payments
(12-month cumulative, USD billion)



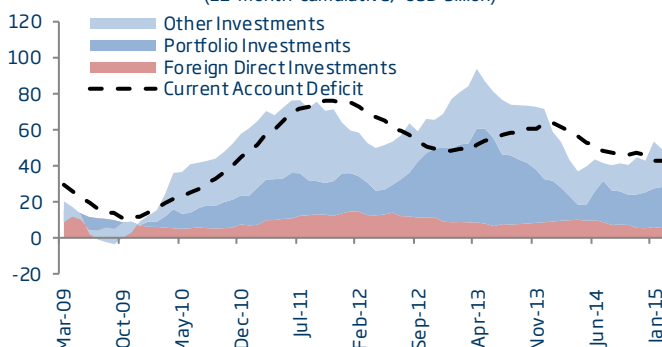
Strong rise in gold exports...

According to the balance of payments figures of February, while imports declined by 6.8% yoy, exports exhibited a weak outlook. This caused the deficit in commodity trade to widen. In fact, exports fell by 13.2% yoy during this period. However, strong rise in gold exports paved the way for a narrower current account deficit. Net gold exports, which were nearly 0.6 billion USD in February 2014, reached 1.5 billion USD in February 2015, showing a significant rise.

The outflow in direct investment item under primary income account including distributed profits was a noteworthy development observed in February. The outflow in this item surged by 221 million USD yoy to 358 million USD in February.

Financing of Current Account Deficit

(12-month cumulative, USD billion)



Net errors and omissions account registered a capital inflow of 4.3 billion USD.

Capital outflow of 1.1 billion USD registered under finance account did not contribute to the financing of the current account deficit. On the other hand, it was noteworthy that 4.3 billion USD worth of capital inflows registered under net errors and omissions item contributed the most to the financing of the current account deficit. In fact, this amount was the highest monthly figure recorded since 1998 under the said account. In this period, reserve assets shrank by 1.1 billion USD.

Weak outlook in portfolio flows...

Portfolio investment flows exhibited a weak outlook in February. In this period, debt securities displayed its weakest performance in the past six months. Equity securities recorded an outflow of 503 million USD. On the other hand, banks borrowed an amount of 1.1 billion USD via the bond issues abroad. Yet, there was a net capital outflow of 168 million USD in portfolio investments due to the outflows registered in public debt securities in February.

After posting a strong figure in January, foreign direct investment inflows demonstrated a moderate course in February.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	December 2014		February 2015	
	December 2014	February 2015	December 2014	February 2015
Current Account Balance	-45,947	-42,822	-	-
Total Net Foreign Capital Inflows	45,479	49,456	100.0	100.0
-Direct Investments	5,488	5,621	12.1	11.4
-Portfolio Investments	19,980	22,829	43.9	46.2
-Other Investments	17,590	20,925	38.7	42.3
-Net Errors and Omissions	2,487	127	5.5	0.3
-Other	-66	-46	-0.1	-0.1
Rezervler⁽¹⁾	468	-6,634	-	-

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

Banking sector was net credit re-payer in short term loans in February.

While banking sector was net credit re-payer in short term loans with a net repayment of 2.5 billion USD, it was net credit user in long-term loans with a net drawing of 398 million USD. In this period, while non-bank sectors were net credit re-payers with a net disbursement of 17 million USD in short term loans, they were net credit users in long term loans with a net drawing of 257 million USD.

In 12-month cumulative terms, banks' and nonbank sectors' long-term debt roll-over ratios were realized as 178% and 124%, respectively.

Expectations

Even though sustained low oil prices in international markets led to a lower import bill, modest upturn in domestic demand mitigated this favorable impact. Nonetheless, the weak course of economic activity in European Union countries, Turkey's major export destination, and the ongoing problems in other important trade partners including Russia and Iraq cause export performance to lose momentum. These, in turn, create an upward risk for current account deficit. In light of these developments, the recent recovery observed in current account deficit would be hard to sustain in the forthcoming period.

Current Account Balance	(USD million)				
	February 2015	January - February 2014	February 2015	% Change	12 Month Cumulative
Current Account Balance	-3,196	-8,326	-5,201	-37.5	-42,822
Foreign Trade Balance	-3,143	-8,689	-5,723	-34.1	-60,606
Services Balance	724	1,397	1,727	23.6	25,554
Travel (net)	769	1,659	1,759	6.0	24,580
Primary Income	-853	-1,156	-1,356	17.3	-8,922
Secondary Income	76	122	151	23.8	1,152
Capital Account	0	-22	-2	-90.9	-46
Financial Account	1,086	-3,050	-2,265	-25.7	-42,741
Direct Investments (net)	-713	-2,180	-2,313	6.1	-5,621
Portfolio Investments (net)	168	1,440	-1,409	-	-22,829
Net Acquisition of Financial Assets	-311	12	-64	-	665
Net Incurrence of Liabilities	-479	-1,428	1,345	-	23,494
Equity Securities	-503	-403	-41	-89.8	2,921
Debt Securities	24	-1,025	1,386	-	20,573
Other Investments (net)	2,730	1,874	-1,461	-	-20,925
Currency and Deposits	342	1,301	-2,754	-	-5,259
Net Acquisition of Financial Assets	1,768	-660	1,541	-	1,961
Net Incurrence of Liabilities	1,426	-1,961	4,295	-	7,220
Central Bank	-30	-220	-72	-67.3	-2,185
Banks	1,456	-1,741	4,367	-	9,405
Foreign Banks	1,549	-1,810	4,525	-	6,499
Foreign Exchange	2,602	-1,365	4,629	-	3,140
Turkish Lira	-1,053	-445	-104	-76.6	3,359
Non-residents	-93	69	-158	-	2,906
Loans	1,941	-1,073	69	-	-13,963
Net Acquisition of Financial Assets	39	28	165	489.3	2,000
Net Incurrence of Liabilities	-1,902	1,101	96	-91.3	15,963
Banking Sector	-2,128	-261	-681	160.9	11,585
Non-bank Sectors	240	1,519	1,147	-24.5	5,482
Trade Credit and Advances	458	1,702	1,241	-27.1	-1,272
Other Assets and Liabilities	-11	-56	-17	-69.6	-431
Reserve Assets (net)	-1,099	-4,184	2,918	-	6,634
Net Errors and Omissions	4,282	5,298	2,938	-44.5	127

The figures used in the table are according to the Sixth Edition of the Balance of Payments Manual. You can find the details [here](#).

Source: CBRT

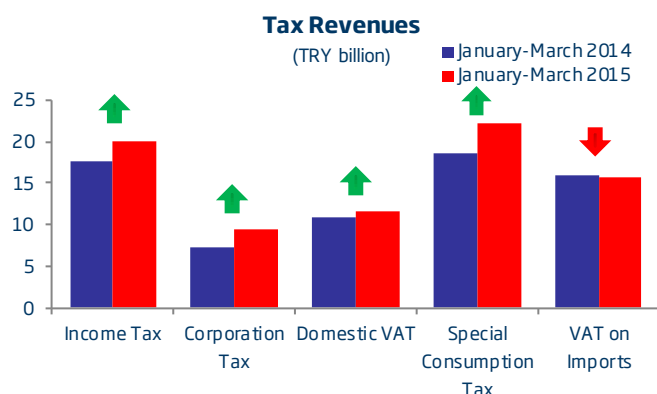
Budget posted a deficit of 5.4 billion TRY in the first quarter of the year.

According to data announced by the Ministry of Finance, budget expenditures surged by 12.1% compared to the same period of the previous year while the rise in budget revenues came in at 8.5% yoy. Hence, central government budget deficit increased to 5.4 billion TRY in the first quarter of 2015 from 1.5 billion TRY in the same period of last year. Primary surplus, on the other hand, followed a relatively flat course during this period.

The increase in tax revenues was 13.2% yoy in the first quarter.

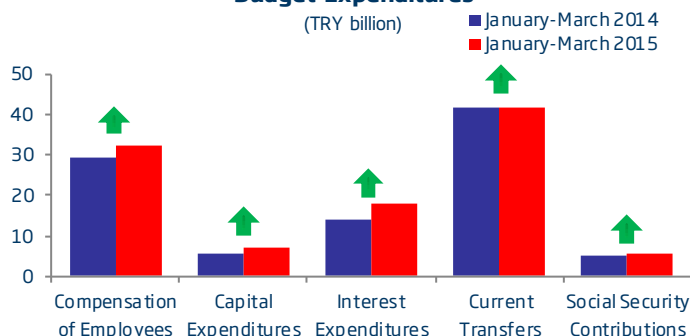
Tax revenues increased by 13.2% yoy in January-March period. This surge mostly stemmed from the annual rise of 32.4% in revenues collected from corporation tax. In this period, 19.8% expansion in special consumption tax and 13.3% expansion in income tax further supported the overall tax revenues. On the other hand, VAT on imports declined by 1.1% yoy due to the falling imports.

Putting tax revenues aside, budget revenues dropped by 12% on annual basis in the first quarter of the year. The weak course of privatization revenues played some role in this development. In fact, privatization revenues amounted to 1.6 billion TRY in the first three months of 2015 as a result of the privatization revenues registered in March. The year-end target for privatization revenues is 8.7 billion TRY.



Budget Expenditures

(TRY billion)



Non-interest expenditures rose by 9.4% yoy in the first quarter.

In the first quarter of the year, non-interest expenditures increased by 9.4% yoy. This escalation was mostly explained by the 10.1% annual surge in compensation of employees which had a share of 30% in total non-interest expenditures. Also, 28.2% annual rise recorded in capital expenditures was influential in the upswing of non-interest expenditures. Moreover, the expansion in payments to the metropolitan and borough municipalities by 4 billion TRY put upward pressure on budget expenditures. It was also noteworthy that lending to domestic public enterprises posted a 2.2 billion TRY rise during this period.

Another remarkable point regarding the budget figures of the first quarter was the 29.5% annual growth in interest expenditures. Under the item of interest expenditures, interest payments on domestic debt constituted 76% of total interest payments.

Expectations

Despite the acceleration in tax revenues, the notable increases recorded in both interest and capital expenditures had a negative impact on budget outlook. Nonetheless, analysis of the realizations in the first quarter revealed that budget figures continued to be widely in harmony with the year-end targets. With the help of the reducing uncertainties following the general elections to be held in June, domestic demand is likely to revive and in turn will support budget revenues. Having realized as 1.3% in 2014, budget deficit to GDP ratio is anticipated to maintain its favorable outlook also in 2015 thanks to the sustained fiscal discipline.

Central Government Budget

(TRY billion)

	March			January-March			2015 Budget	
	2014	2015	% Change	2014	2015	% Change	Target	Real/Target (%)
Expenditures	37.1	39.8	7.3	105.8	118.6	12.1	472.9	25.1
Interest Expenditures	5.6	6.2	9.9	14.0	18.1	29.5	54.0	33.5
Non-Interest Expenditures	31.4	33.6	6.8	91.8	100.5	9.4	418.9	24.0
Revenues	32.0	32.9	3.0	104.3	113.2	8.5	452.0	25.0
Tax Revenues	22.9	26.8	17.2	85.1	96.3	13.2	389.5	24.7
Other Revenues	9.1	6.1	-32.8	19.2	16.9	-12.0	62.5	27.0
Budget Balance	-5.1	-6.8	34.4	-1.5	-5.4	258.2	-21.0	25.9
Primary Balance	0.5	-0.7	-	12.5	12.7	1.6	33.0	38.3

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

Source: Ministry of Finance, Datastream

In April, CPI came in well above expectations.

In April, CPI and Domestic PPI (D-PPI) posted a monthly increase of 1.63% and 1.43%, respectively. According to the Reuters' survey CPI was expected to rise by 1.43% in said period. The CBRT's survey, on the other hand, showed that markets' monthly CPI expectation was 0.85%.

April	CPI		Domestic PPI	
	2014	2015	2014	2015
Change (%)				
Monthly	1.34	1.63	0.09	1.43
Year To Date	4.96	4.71	5.61	4.06
Annual	9.38	7.91	12.98	4.80
Annual Average	7.97	8.57	7.89	7.36

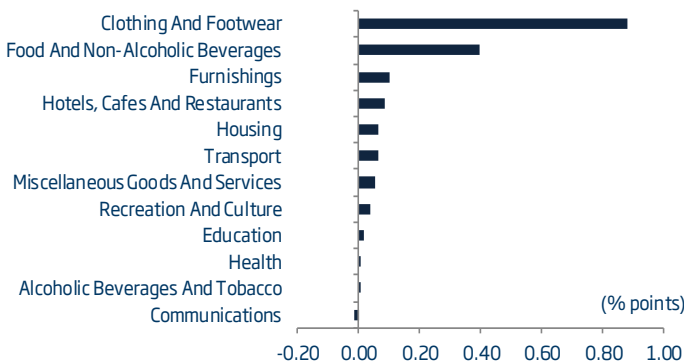
The annual CPI inflation was realized as 7.91%.

Having followed a rising trend in both February and March, the upturn in annual CPI inflation has also continued in April and was realized as 7.91%. The rise in PPI, on the other hand, gained some momentum due to the fading base effect and reached 4.80%.

Clothing and footwear prices rose by 12.3% mom.

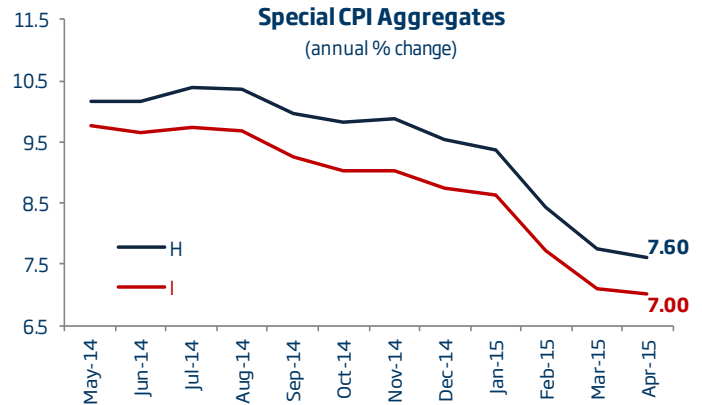
In April, having surged by 12.3% mom, clothing and footwear prices made the highest contribution to the monthly inflation by 85 basis points. The prices in food and non-alcoholic beverages group also rose by 1.63% mom and pushed the CPI further by 37 basis points. Besides, it was seen that the annual food inflation maintained its double-digit levels for the last 19 months. Price increases have continued to spread across services sectors in April. On the other hand, the 0.28% price fall registered in communication group slightly limited the rise in inflation.

Contributions to the Monthly CPI by Subgroups



Core inflation indicators...

The developments in seasonal products prices were influential on the CPI inflation in April. In fact, monthly inflation excluding the said group was realized as low as 0.87%. However, analysis of the core inflation indicators



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

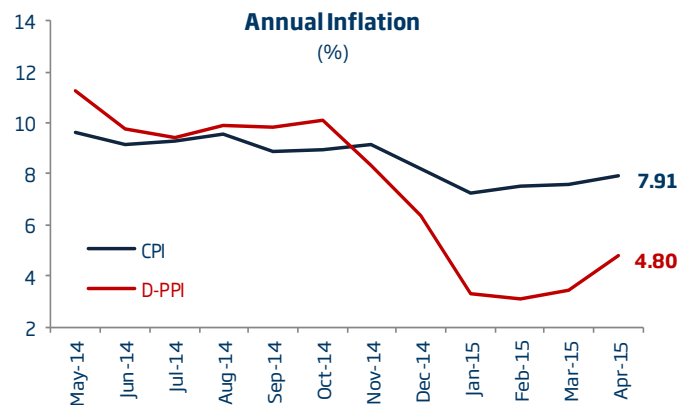
revealed that CBRT's favorite core indices denominated by H and I recorded a monthly rise of 1.78% and 2.03%, respectively, well above the headline inflation.

Monthly rise in D-PPI was 1.43%.

Having remained on an upward trend in April, the D-PPI registered its highest monthly increase for the last 15 months with 1.43%. In this period, the 1.65% mom surge in food prices made the highest contribution to inflation by 33 basis points. Furthermore, price developments in electrical equipment and basic metal pushed the inflation upwards by 12 basis points each.

Expectations

We expect that the upward pressure on annual inflation will continue owing to the recent upswing in oil prices in global markets and heightened volatility in exchange rates. In addition, we anticipate that seasonal factors will continue to add further pressure on clothing prices in May as well. While food prices are likely to have a positive impact on inflation outlook, it is estimated that annual inflation would keep its increasing trend.



Source: Turkstat

CBRT kept interest rates unchanged.

At its Monetary Policy Meeting held on April 22, CBRT kept the one-week repo rate (the policy rate) unchanged at 7.5%. CBRT also left both O/N borrowing and lending rates unchanged together with the interest rate on borrowing facilities provided for primary dealers via repo transactions at 10.25%. Nevertheless, CBRT raised the remuneration rate for the required reserves maintained in Turkish liras by 50 basis points. In line with global interest rate developments, FX deposit rates applied to banks' one week maturity borrowings from the CBRT were reduced from 4.5% to 4% for USD and from 2.5% to 2% for EUR.

In the statement released following the meeting, CBRT restated that loan growth continued at reasonable levels in response to the tight monetary policy stance and macroprudential measures while external demand remained weak and domestic demand contributed to growth moderately. CBRT pointed to favorable developments in core inflation indicators while indicating that cautious monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.

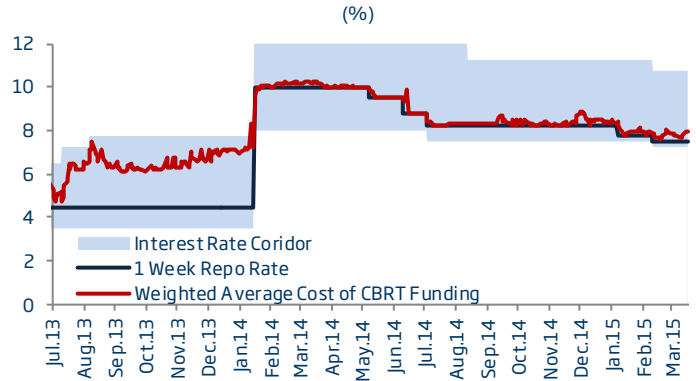
CBRT announced new measures.

In its statement released on May 2, CBRT announced that the US dollars denominated required reserves, reserve options and free reserves held at the CBRT would be remunerated. The remuneration interest rate will be set on a daily basis by taking global and local financial markets conditions into consideration. The overnight rate for May 5th was announced as 0.12% per annum.

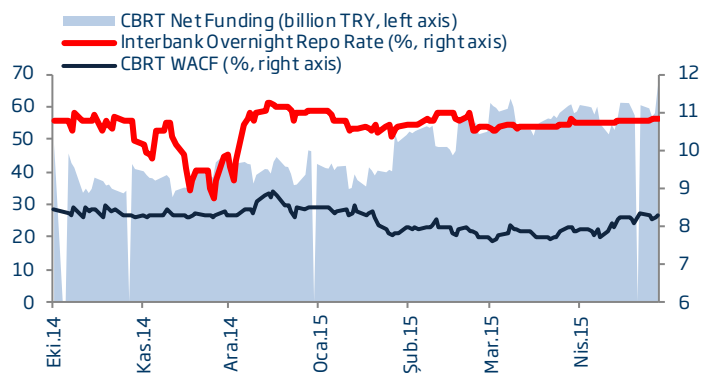
CBRT revised the year-end inflation estimate upward to 6.8%.

In the 2nd Inflation Report published on 30 April, CBRT anticipated that year-end inflation would be realized well above the 5% target due to the recent upward trend in oil prices and depreciation in TRY. Thus, CBRT revised its CPI estimates upwards by 1.3 points for 2015 and 0.5 point for 2016. In this context, inflation was expected to be, with 70% probability, between 5.6% and 8.0% (with a mid-point of 6.8%) at end-2015 and between 3.7% and 7.3% (with a mid-point of 5.5%) at end-2016. CBRT envisaged that base effects would be the determinant factor in the course of inflation during the rest of 2015, causing a rise in annual inflation starting from August. Accordingly, annual inflation was envisaged to decline until the third quarter and increased slightly afterwards.

CBRT Interest Rates



CBRT Net Funding and Interest Rate



Weak outlook in domestic markets

The recent data on the US economy indicated a slowdown in economic activity and therefore caused first rate hike expectations to be pushed towards the late-2015. As a matter of fact, at its meeting held on April 28-29, Fed reaffirmed its dovish stance and its commitment to economic data in changing the course of monetary policy in the coming future. Against this backdrop, currencies which depreciated fast against the US dollar since the beginning of the year recovered to some extent in the last few days of April. In particular, emerging markets displayed a strong performance in this period.

The risk sentiment towards the domestic markets deteriorated due to the uncertainties regarding the general elections to be held in June and the succeeding names to be in charge of the economy. In this context, domestic markets decoupled negatively from its emerging market peers recently. On the other hand, there has been a recovery in domestic markets at the end of the month along with the expectations that the Fed would delay the rate hike.

USD/TRY reached its historic-high level with 2.7428.

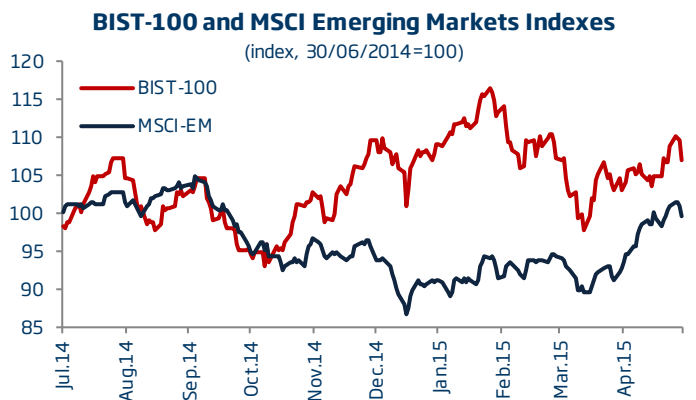
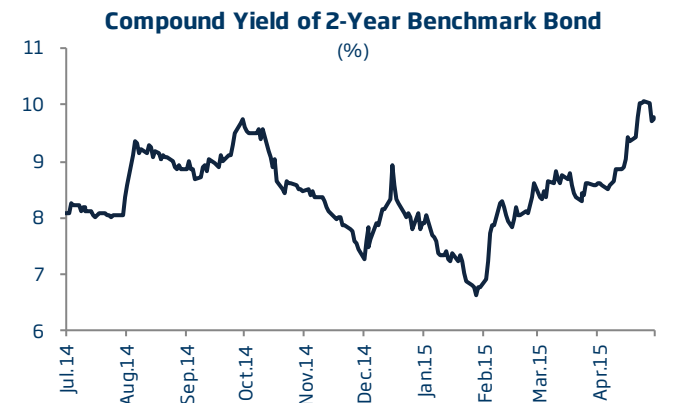
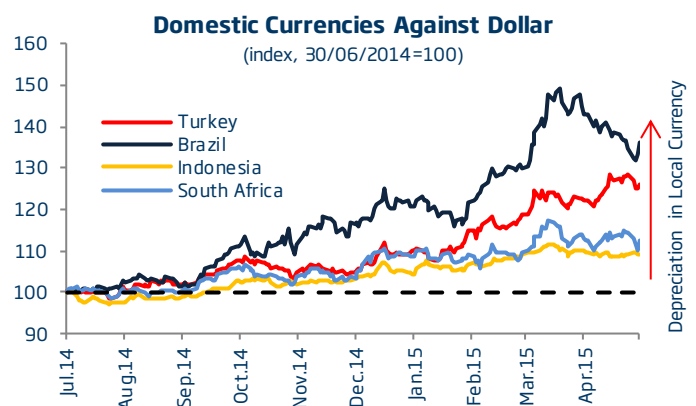
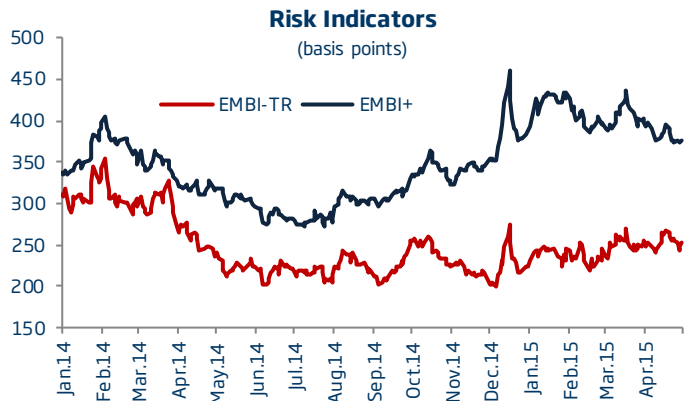
Having started April at 2.5980, USD/TRY kept its upward trend until the last week of April. By April 24, it reached its new record high level with 2.7428. In the following days, it declined somewhat in line with the weakening of the US dollar in international markets. Declining to as low as 2.6420 on April 29, USD/TRY ended the month at 2.6713.

The interest rate of 2-year benchmark bond reached double-digit levels.

The interest rate of the 2-year benchmark bond, which surged as high as 10.29% on April 27, receded below 10% level in the last days of the month as risk appetite towards the emerging markets in international markets improved. It should also be noted that the yield was realized lower than the expectations at the treasury auction of the reissuance of 2-year benchmark bond. Thanks to the improving risk sentiment following the Fed meeting, yield of the 2-year benchmark bond was realized as 10% as of April 30.

A limited rise in BIST-100

After declining to as low as 80,700 on April 14, BIST-100 index compensated some of its losses in the following days. Yet, it shrank by 2.4% in the last day of April and closed the month at 83,947. Hence, the monthly gain in the index was limited with 3.8%.



Source: Reuters, Datastream, BIST

Annual increase in deposits was 19%.

According to BRSA's Weekly Bulletin, as of April 24, deposit volume grew by 7.8% ytd and was realized as 1,217 billion TRY. In this period, while TRY deposits recorded a limited increase by 0.6%, FX deposits expanded by 19.3%. On the other hand, year-to-date increase in FX deposits in USD terms was realized as 1.8% as of April 24. These developments indicated that the depreciation of TRY was the main factor behind the deposit growth. Analyses of the annual figures showed that the rise in total deposits was 19% as of April 24.

Annual increase in credit volume reached 24.7%.

As of April 24, credit volume grew by 8.9% ytd and was realized as 1,368 billion TRY. In this period, TRY and FX loans surged by 5.7% and 16.9%, respectively. FX loans in USD terms, on the other hand, recorded a limited decrease by 0.2% ytd. The annual expansion in total credit volume reached 24.7%, the highest level since May 2014.

Analyzing the figures of credit volume according to the ownership of banks revealed that public banks' appetite for lending has been stronger than that of private and foreign banks up until now. In fact, as of April 24 loans volume of public banks rose by 11.5% ytd to 382 billion TRY. On the other hand, total loan volume of private and foreign banks reached 986 billion TRY with surging by 8% ytd.

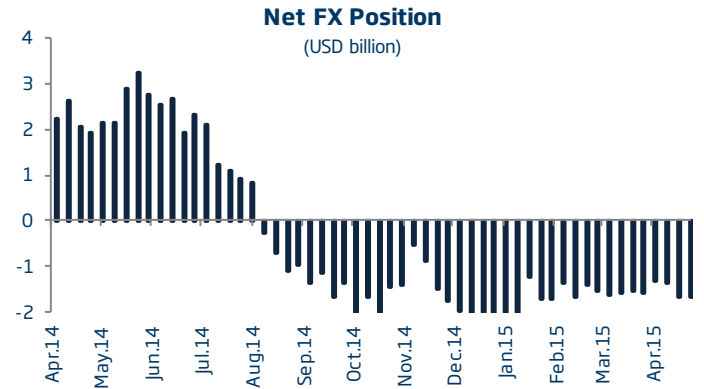
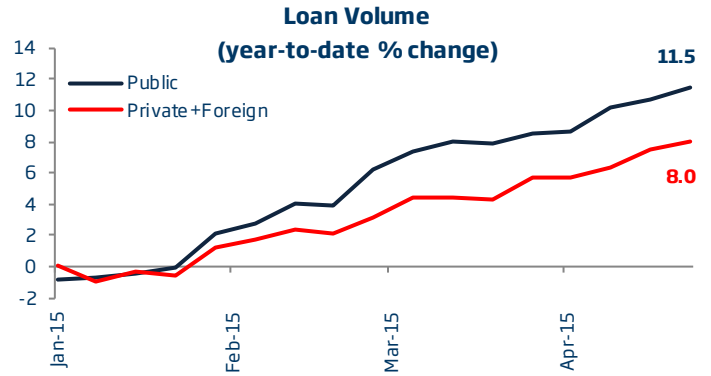
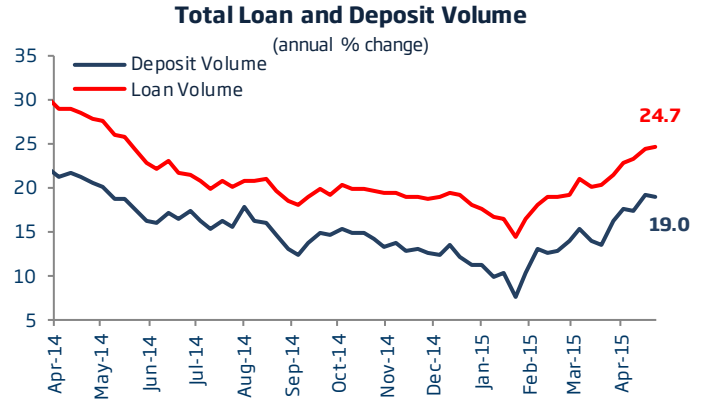
As of April 24, NPL ratio of the banking sector continued to follow a flat course at 2.9%.

Securities portfolio

Securities portfolio of the sector increased by 5% ytd as of April 24. In this period, securities portfolio held by private and foreign banks surged by 6%, while that of public banks rose by only 3%.

Net FX position

As of April 24, banks' on-balance sheet FX position was (-) 36,614 million USD while off-balance sheet FX position was (+) 34,929 million USD. Hence, banks' net FX position rose to (-) 1,685 million USD.



Source: BRSA Weekly Bulletin

While global economy continued to grow at a moderate pace so far this year, growth performance diverged among countries significantly. In fact, advanced countries performed better than the previous year whereas emerging economies kept losing momentum. Other than lower oil prices, exchange rate movements were the main factors that affected the global economy recently. Although it is anticipated that strengthening US dollar reflecting the expected divergence among monetary policies conducted by advanced economies would have a negative impact on export performance, lower oil prices and still-loose monetary policy would support the US economy. In both Japan and Euro Area, weakening local currencies are expected to enhance their export performances. Also, low oil prices and expansionary monetary policies are likely to help economic activity rebound. On the emerging market front, geopolitical and financial risks prevailed. Oil-exporter emerging economies exhibited a weak outlook.

Expectations about the trajectory of Fed's monetary policy are still the most prominent item on agenda this year. Along with the stagnant performance in the first quarter, the Fed reaffirmed its dovish stance and its commitment to being data dependent in changing the course of monetary policy. This, in turn, increased risk appetite in the last few days of April and supported the emerging markets. Nonetheless, international markets are expected to continue to follow a

volatile path in the coming period due to the possible shifts in market expectations regarding Fed's rate lift-off.

In an environment such that the effects of global financial crisis have not yet disappeared totally, it is assessed that almost all countries' potential growth rates diminished. The steps, which are designed according to country-specific fragilities and aim at supporting growth, will be critical for economic performance. In this context, decisive implementations of the new stimulus package and structural reform programmes might enable growth to converge to its long-term trend in the coming period. Indeed, growth performance of Turkish economy in the recent years, i.e. an annual average growth of 3% in the last three years, further reveals the importance of these steps.

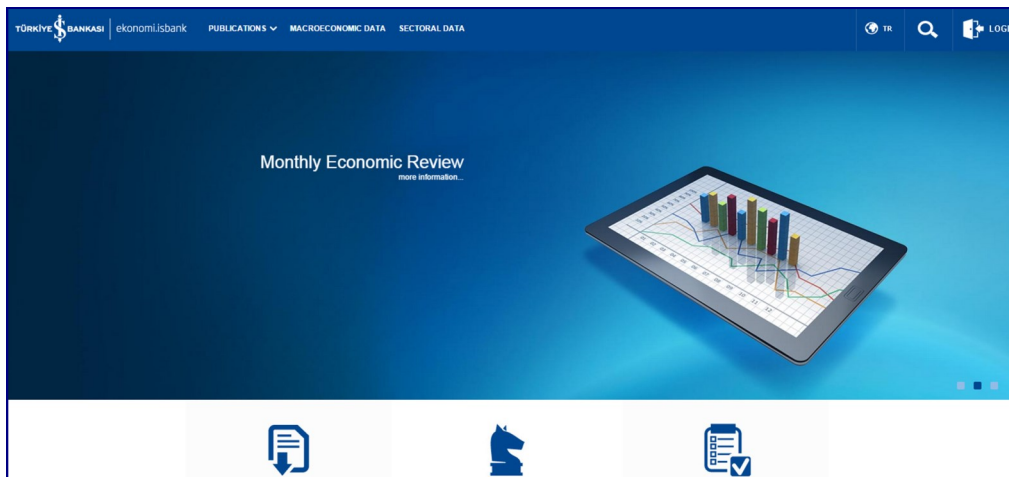
Forecasts (%)	2014 (R)	2015
Growth	2.9	3.0-3.5
CA Deficit/GDP	5.7	5.1
Inflation	8.2	8.0
GDDI Interest*	9.8	9.0

(*) Annual compound average interest rate in treasury auctions

(R) Realization

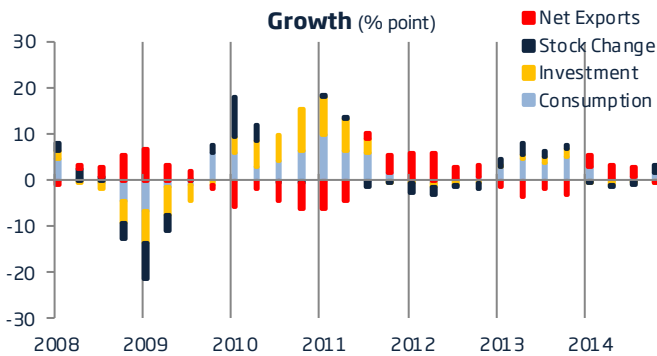
Interest and inflation are year-end forecasts

Our reports are available on our website <https://research.isbank.com.tr>

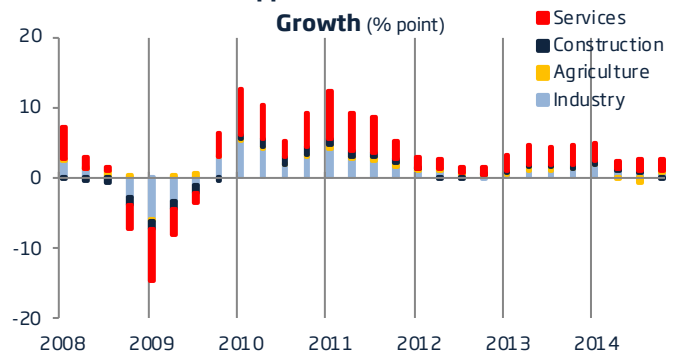


Growth

Expenditure Approach - Contributions to GDP

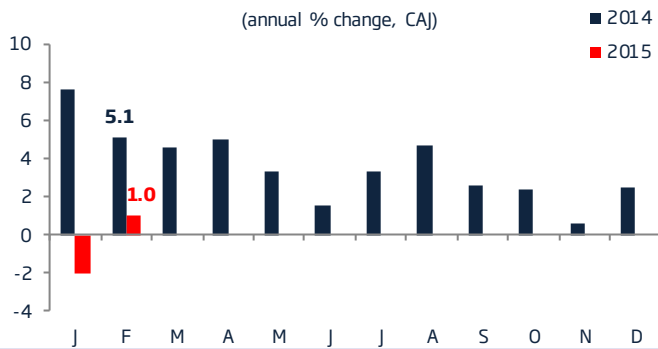


Production Approach - Contributions to GDP

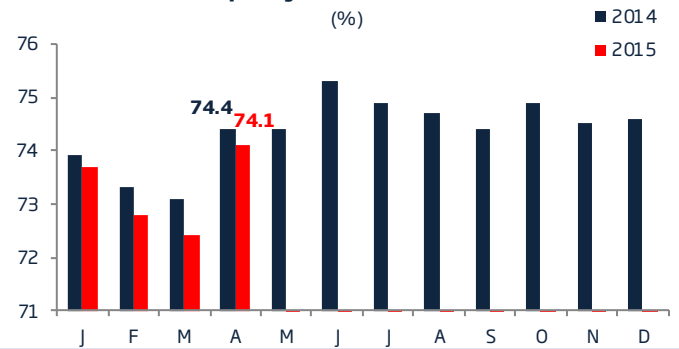


Industrial Production

Industrial Production (annual % change, CA)

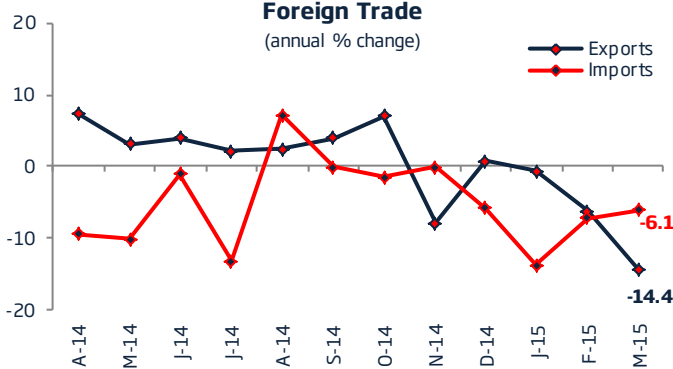


Capacity Utilization Ratio (%)

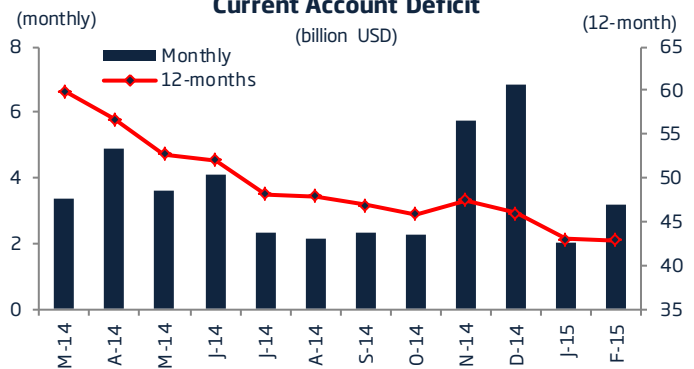


Foreign Trade and Current Account Balance

Foreign Trade (annual % change)

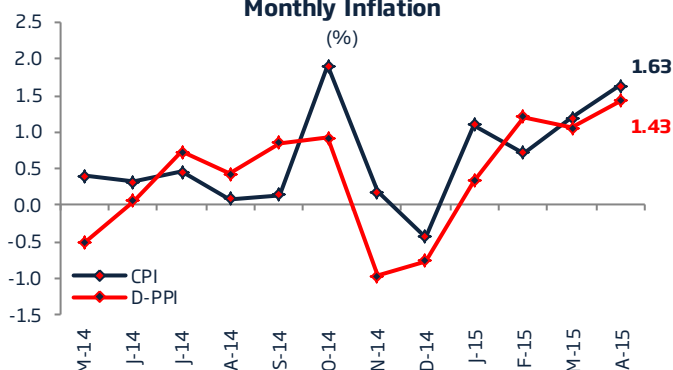


Current Account Deficit (billion USD)

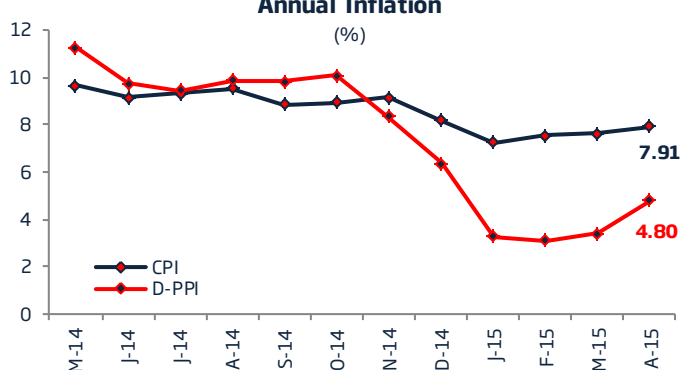


Inflation

Monthly Inflation (%)



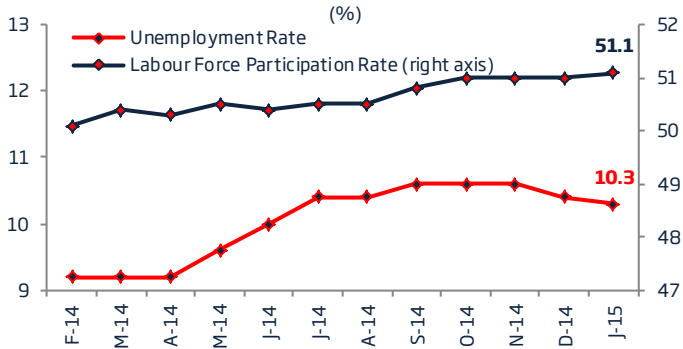
Annual Inflation (%)



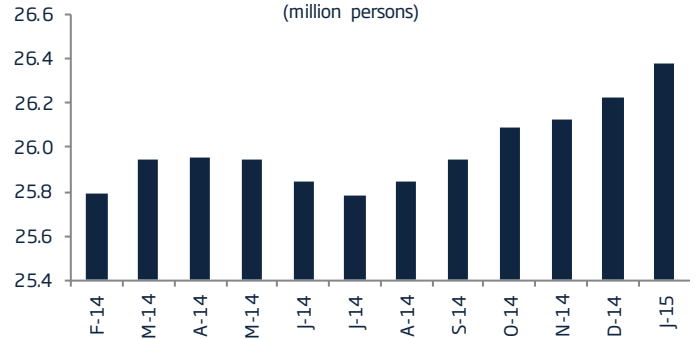
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

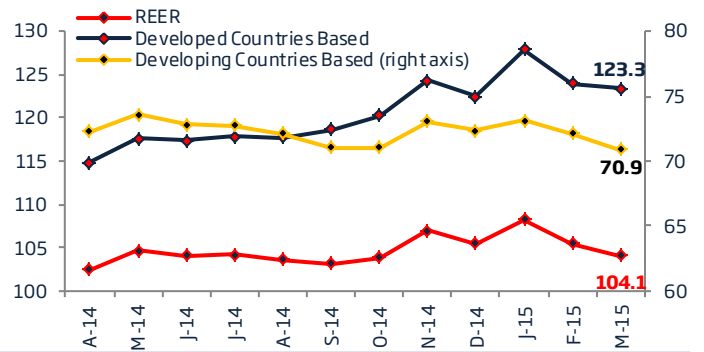


FX Market

Currency Basket

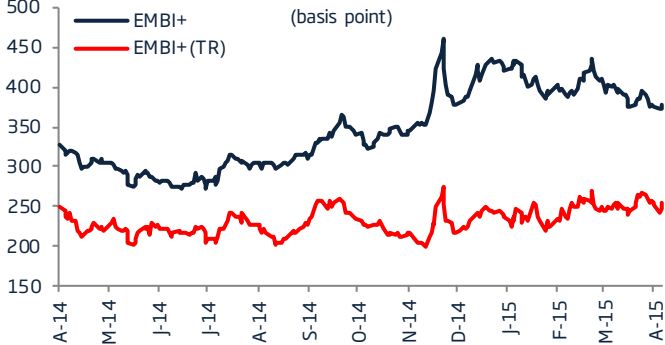


CPI Based Real Effective Exchange Rate

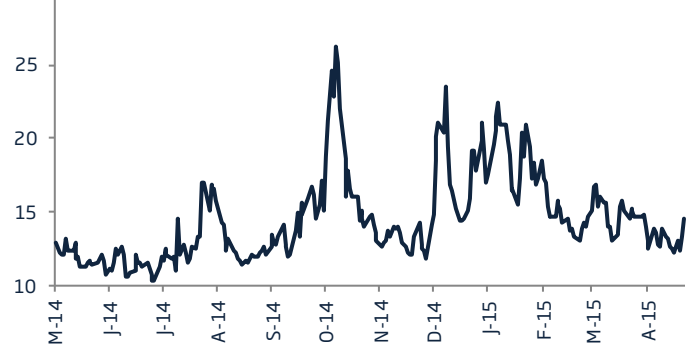


Risk Indicators

Risk Premiums (basis point)

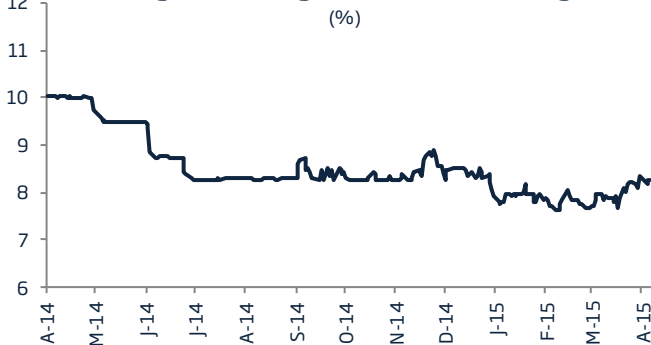


VIX



Interest Rates

Weighted Average Cost of CBRT Funding (%)

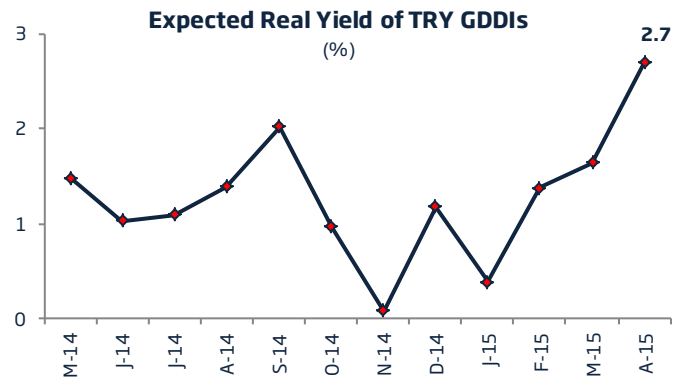
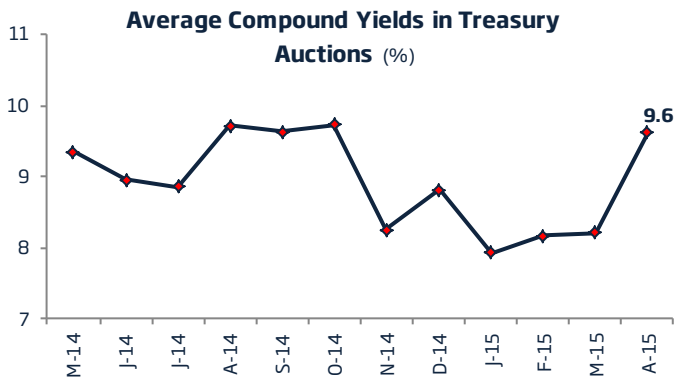


Compound Yield of Benchmark Bond (%)

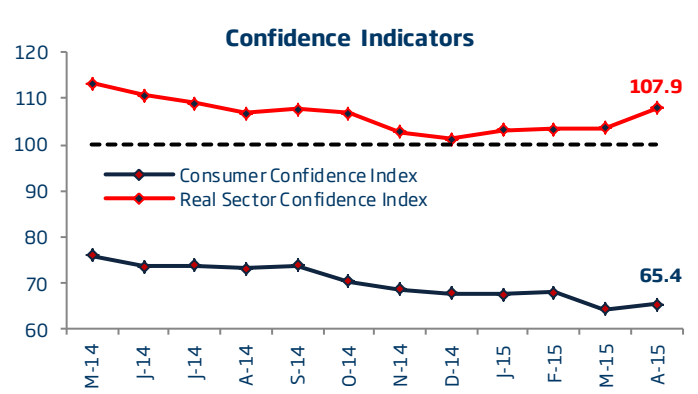
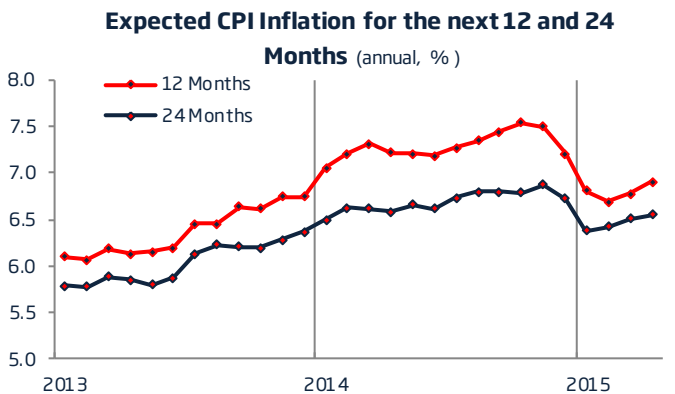
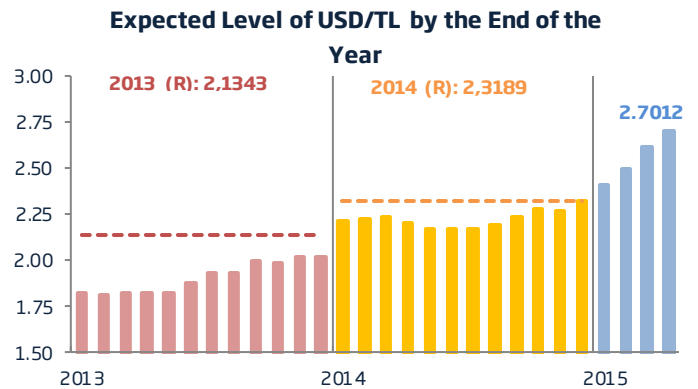
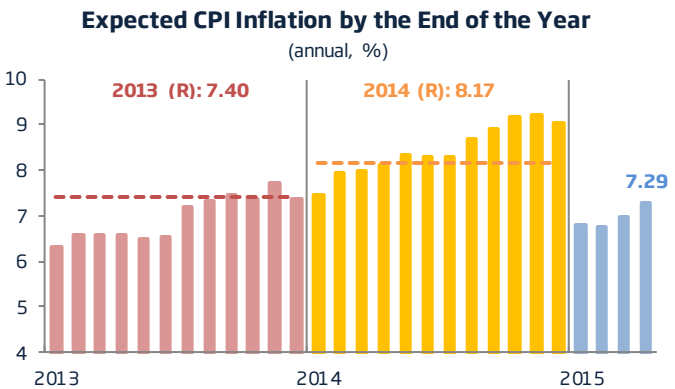
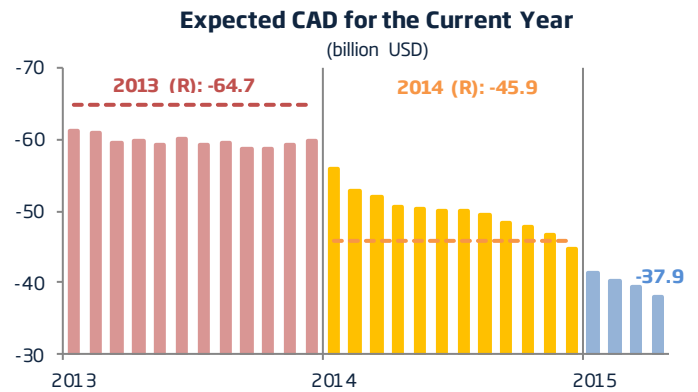
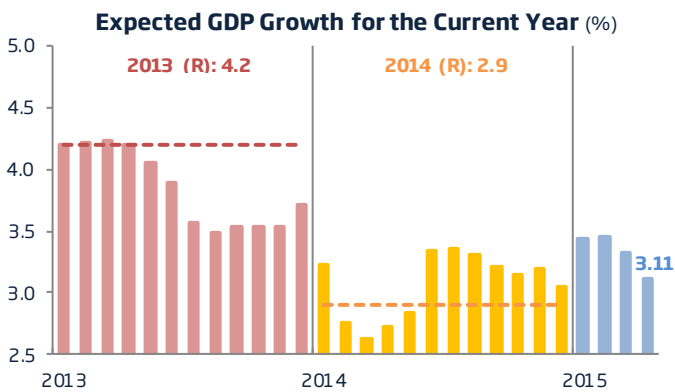


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market



Survey of Expectations and Other Leading Indicators



(R) Realization

Source: BIST, CBRT, Datastream, Economic Research Division, Treasury

Turkish Economy at a Glance

	2010	2011	2012	2013	2014	15-Q1	15-Q2	15-Q3
Growth								
GDP (USD billion)	731.6	774.0	786.3	823.0	800.1	-	-	-
GDP (TRY billion)	1,099	1,298	1,417	1,567	1,750	-	-	-
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	-	-	-
Inflation (%)						Feb-15	Mar-15	Apr-15
CPI (annual)	6.40	10.45	6.16	7.40	8.17	7.55	7.61	7.91
PPI (annual)	8.87	13.33	2.45	6.97	6.36	3.10	3.41	4.80
Seasonally Adjusted Labor Market Figures						Jan-15		
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4			10.3
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	51.0			51.1
FX Rates						Feb-15	Mar-15	Apr-15
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	105.4	104.1	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.5100	2.6157	2.6583
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	2.8173	2.8100	2.9736
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	2.6637	2.7129	2.8160
Foreign Trade Balance⁽¹⁾ (USD billion)						Jan-15	Feb-15	Mar-15
Exports	113.9	134.9	152.5	151.8	157.6	157.5	156.7	154.6
Imports	185.5	240.8	236.5	251.7	242.2	239.5	238.2	237.0
Foreign Trade Balance	-71.7	-105.9	-84.1	-99.9	-84.6	-82.0	-81.5	-82.4
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	65.8	65.8	65.2
Current Account Balance⁽¹⁾ (USD billion)						Jan-15		
Current Account Balance	-45.3	-75.0	-48.5	-64.7	-45.9		-43.0	-42.8
Capital and Financial Accounts							-44.4	-42.7
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.5		-6.2	-5.6
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.0		-21.5	-22.8
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-17.6		-26.1	-20.9
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5		9.3	6.6
Net Errors and Omissions	0.2	9.0	0.3	2.8	2.5		-1.3	0.1
Current Account Deficit/GDP (%)	-6.2	-9.7	-6.2	-7.9	-5.7	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Jan-15	Feb-15	Mar-15
Expenditures	294.4	314.6	361.9	408.2	448.4	36.3	78.9	118.6
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	5.0	11.9	18.1
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.5	31.3	66.9	100.5
Revenues	254.3	296.8	332.5	389.7	425.8	40.1	80.3	113.2
Tax Revenues	210.6	253.8	278.8	326.2	352.4	34.9	69.5	96.3
Budget Balance	-40.1	-17.8	-29.4	-18.5	-22.7	3.8	1.4	-5.4
Primary Balance	8.2	24.4	19.0	31.4	27.2	8.8	13.3	12.7
Budget Balance/GDP (%)	-3.6	-1.4	-2.1	-1.2	-1.3	-	-	-
Central Government Debt Stock (TRY billion)						Jan-15	Feb-15	Mar-15
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	416.9	421.2	423.2
External Debt Stock	120.7	149.6	145.7	182.8	197.5	204.3	211.3	210.4
Total	473.6	518.4	532.2	585.8	612.1	621.2	632.5	633.5

(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	Feb.15	Mar.15	Change ⁽¹⁾
TOTAL ASSETS	1,006.7	1,217.7	1,370.7	1,732.4	1,994.2	2,073.3	2,128.1	6.7
Loans	525.9	682.9	794.8	1,047.4	1,240.7	1,287.8	1,323.2	6.6
TRY Loans	383.8	484.8	588.4	752.7	881.0	903.8	924.4	4.9
Share (%)	73.0	71.0	74.0	71.9	71.0	70.2	69.9	-
FX Loans	142.1	198.1	206.4	294.7	359.7	384.0	398.8	10.9
Share (%)	27.0	29.0	26.0	28.1	29.0	29.8	30.1	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	38.2	38.7	6.2
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	2.9	2.8	-
Securities	287.9	285.0	270.0	286.7	302.3	310.0	312.6	3.4
TOTAL LIABILITIES	1,006.7	1,217.7	1,370.7	1,732.4	1,994.2	2,073.3	2,128.1	6.7
Deposits	617.0	695.5	772.2	945.8	1,052.7	1,096.2	1,115.8	6.0
TRY Deposits	433.5	460.0	520.4	594.1	661.3	672.2	670.1	1.3
Share (%)	70.3	66.1	67.4	62.8	62.8	61.3	60.1	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	424.1	445.6	13.9
Share (%)	29.7	33.9	32.6	37.2	37.2	38.7	39.9	-
Securities Issued	3.1	18.4	37.9	60.6	89.3	94.9	98.3	10.2
Payables to Banks	122.4	167.4	173.4	254.2	293.2	305.9	318.7	8.7
Funds from Repo Transactions	57.5	97.0	79.9	119.1	137.4	146.3	150.4	9.5
SHAREHOLDERS' EQUITY	134.5	144.6	181.9	193.7	231.9	234.9	235.5	1.5
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	3.5	6.7	-
RATIOS (%)								
Loans/GDP	47.9	52.6	56.1	66.8	70.9	-	-	-
Loans/Assets	52.2	56.1	58.0	60.5	62.2	62.1	62.2	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	15.0	14.7	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	52.9	52.4	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	117.5	118.6	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	15.7	15.5	-

(1) Year-to-date % change



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