



# Monthly Economic Review August 2015



## Global Economy

- ◆ In its "World Economic Outlook" update published in July, the International Monetary Fund (IMF) reduced its global growth forecast for 2015 to 3.3% from 3.5% while keeping its forecast for 2016 unchanged at 3.8%. IMF also trimmed growth forecast for advanced economies to 2.1% from 2.4% and indicated that the slowdown in developing economies will continue in forthcoming period.
- ◆ Greece and its creditors reached an agreement on third bailout program worth 86 billion euros on July 13. Concerns in global markets about Greece eased after the bailout deal.
- ◆ Annual inflation in the Euro Area was realized as 0.2% in June, down from 0.3% in May, mainly due to the decline in energy prices. Recent data releases showed signs of moderate improvement in region's economy.
- ◆ At its meeting that ended on July 29, the US Federal Reserve (Fed) decided to keep the policy interest rate unchanged. In its statement Fed indicated that the US economy continued to grow at a moderate pace while hinting that it was one-step closer to first rate-hike. This reinforced the expectations that Fed's first rate hike would come in September. A positive outlook for the US economy, which registered a growth rate of 2.3% in the second quarter, also supported these expectations.
- ◆ Chinese economy expanded by 7% yoy in the second quarter, unchanged from the first quarter and slightly above the expectations.
- ◆ Iran nuclear agreement was welcomed by the markets. Along with this development the downward trend in the oil prices accelerated.

## Turkish Economy

- ◆ The annual rise in industrial production decelerated in May compared to the previous month and became 2.4%. Nevertheless, industrial production data regarding the second quarter pointed to a better outlook for economic activity.
- ◆ Foreign trade deficit, which was realized as 7.9 billion USD in June 2014, fell to 6.2 billion USD in the same month of 2015. This result was broadly in line with the market expectation.
- ◆ Having followed broadly a favorable performance since early 2014, current account deficit displayed a limited deterioration in May. Indeed, 12-month cumulative current account deficit was 44.7 billion USD in May, slightly increasing on a monthly basis. It was noteworthy that 12-month cumulative current account deficit excluding net energy trade posted a deficit for the first time after ten straight months of surplus.
- ◆ Budget expenditures rose by 3.3% yoy while budget revenues surged by 14.5% yoy in June. As a result, budget balance, having posted a deficit of 0.6 billion TRY in June 2014, recorded a surplus of 3.2 billion TRY in the same month of this year. In the first half of the year, the rise in tax revenues on the back of the ongoing improvement in domestic demand affected favorably the budget balance.
- ◆ Having posted a moderate monthly increase in July, CPI increased by 6.81% on annual basis. In July, clothing and footwear together with recreations and culture groups had a downward impact on CPI inflation. Having followed an upward trend since March, annual D-PPI inflation dropped to 5.62%.

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## Unemployment rate was below 10%.

The unemployment rate, which was 9% in April 2014, came in at 9.6% in the same period of this year. Seasonally adjusted unemployment rate, on the other hand, continued to display a downward trend and became 9.9%, falling to single-digit level after ten months. Seasonally adjusted labor force participation rate followed a flat course in April.

## Industrial production performed better in the 2<sup>nd</sup> quarter compared to the 1<sup>st</sup> quarter.

The annual growth in industrial production decelerated in May compared to the previous month and became 2.4%. Nevertheless, industrial production data regarding the second quarter pointed to a better outlook for economic activity. Indeed, industrial production recorded an average growth rate of 3.1% yoy during April-May period while it grew by 1.3% yoy in the first quarter.

The expansion in the manufacture of durable and nondurable consumption goods thanks to the improving domestic demand conditions played a significant role in the upturn in industrial production registered in the second quarter. The recent growth in the manufacture of capital goods albeit losing some momentum in May implied that capital expenditures have recovered somewhat. However, the declining trend in the manufacture of intermediate goods prevailed in May due to the slowdown in exports.

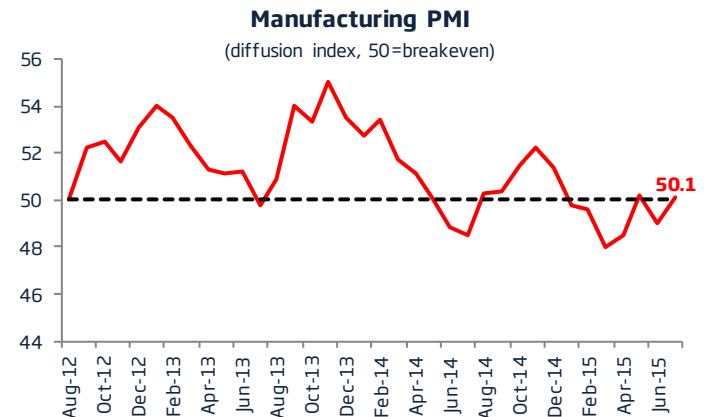
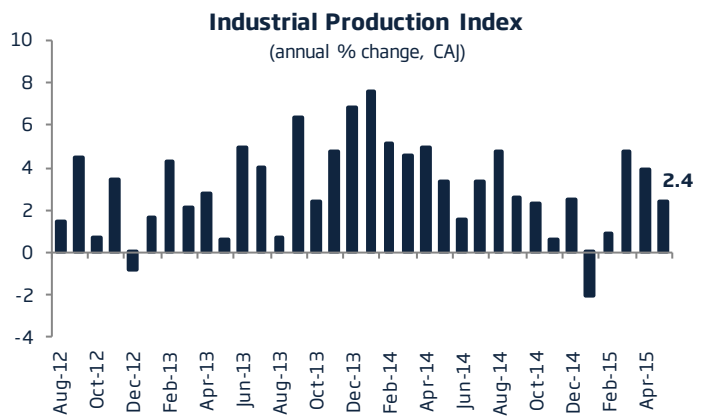
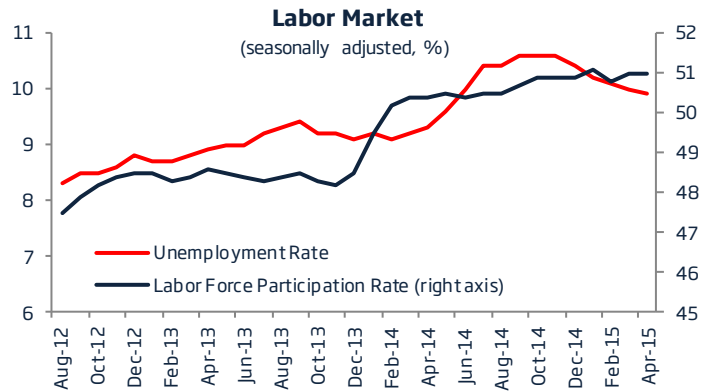
Capacity utilization ratio, as a leading indicator for the performance of the manufacturing sector in the third quarter, rose in July both on an annual and a monthly basis. Seasonally adjusted capacity utilization ratio, which was broadly flat in recent months, also increased by 0.2 point in July to 74.9%.

## Manufacturing PMI rose again above the breakeven level of 50.

Data released by Markit revealed that manufacturing PMI, which declined to 49 in June, came in at 50.1 in July, pointing to an expansion in the manufacturing sector. Having remained above the 50 breakeven level in 2 months out of the last 7 months, the index was mainly supported by improvement in employment and purchasing activity in July. Export orders, however, continued to fall during this period. This confirmed the recent weak course of export performance. A large portion of survey participants pointed to the ongoing political uncertainties for the sluggish outlook in economic activity.

## Real sector confidence increased in July.

After having deteriorated in June, real sector confidence surged by 0.5 point to 105.4 in July. The improvement in general business situation played a significant role in this upward movement of the overall index while the



expectations on the employment and export orders for the next three months worsened.

## Consumer confidence weakened once again.

Consumer confidence index had recovered in June after dropping to the lowest level of 6 years in May. However, consumer confidence deteriorated once again in July. Monthly changes showed that the fastest increase was registered in the probability of saving over the next 12 months while prospects for employment worsened to a considerable extent in this period.

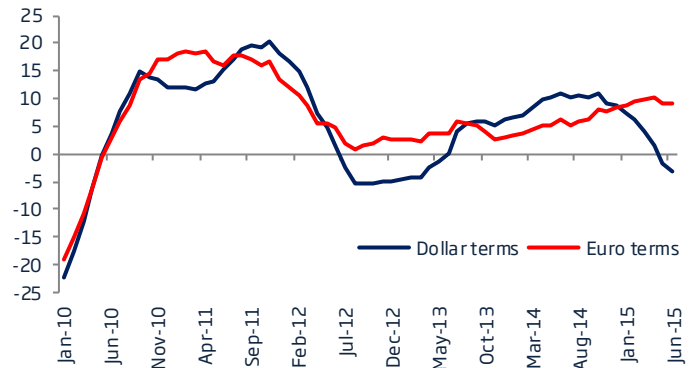
## Foreign trade deficit was 33 billion USD in the first half the year.

Export volume declined by 6.9% yoy to 12 billion USD in June while import volume shrank by 12.5% yoy to 18.2 billion USD. Thus, foreign trade deficit, which was realized as 7.9 billion USD in May 2014, fell to 6.2 billion USD in the same month of 2015. This result was broadly in line with the market expectation. In this period, the import coverage ratio increased to 65.9% from 61.9%.

In the first half of the year, export volume fell by 8.2% yoy while import volume contracted by 10.9% yoy. Parallel to this, foreign trade deficit narrowed by 16.3% yoy.

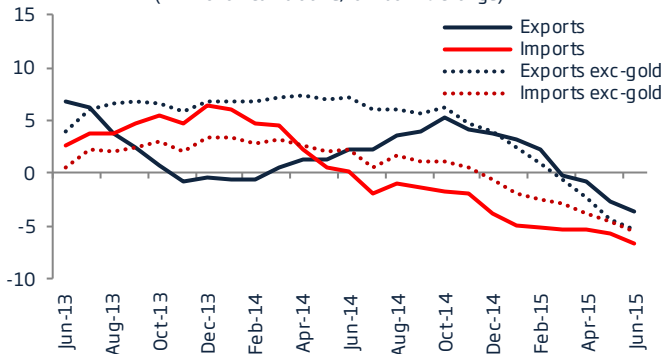
## Exports to EU Countries

(12-month cumulative, annual % change)



## Foreign Trade Figures

(12-month cumulative, annual % change)



## Diminishing support of gold exports on foreign trade figures...

Broad-based decline in export items observed so far this year also prevailed in June. In fact, nine out of the first ten biggest exporting items registered falls on an annual basis during this period. Having realized at high levels in the first four months of the year, gold exports came in at low levels in both May and June. Yet, the positive impact of gold exports on foreign trade performance is evident in the first six months of the year. Indeed, when gold exports were excluded, the annual rate of contraction in foreign trade deficit receded to 4.7% from 16.3% in this period.

## EUR/USD parity continued to be influential on exports.

Developments registered in EUR/USD played a prominent role in export performance also in June. While total export volume dropped by 8.2% yoy in dollar terms in the first half of the year, it registered an annual rise of 0.5% when the exports in euro terms were adjusted for parity changes. This development affected foreign trade balance of Turkey via the EU exports channel. Indeed, exports to these countries in dollar terms declined by 10% yoy while that in euro terms surged by 10.6% yoy in the first half of the year. Nevertheless, it was noteworthy that exports to the region in euro terms recovered fast in June after falling in May.

## The decrease in energy bill continues.

Low level of oil prices played a significant role in foreign trade balance improvement over one year period. Having the highest share in total import volume with 18%, imports of mineral fuels and oils declined in the tenth consecutive month in June. In this period, while quantity of oil imports rose by 73% yoy, value of mineral fuels and oils imports dropped by 26% yoy. However, this downward trend is expected to lose some momentum in second half of the year due to the fading base effect stemming from the fall in oil prices. On the other hand, the rise in import of investment goods for three months in a row in June was regarded as a positive development.

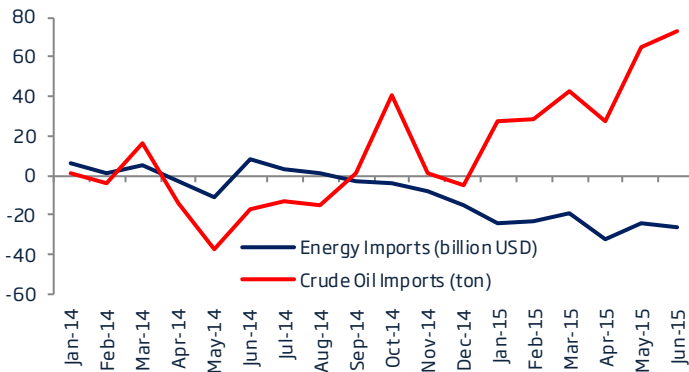
## Foreign Trade Balance

(USD billion)

	June		Change (%)	Jan.-Jun.		Change (%)
	2014	2015		2014	2015	
Exports	12.9	12.0	-6.9	80.1	73.5	-8.2
Imports	20.8	18.2	-12.5	119.8	106.7	-10.9
<b>Foreign Trade Balance</b>	<b>-7.9</b>	<b>-6.2</b>	<b>-21.6</b>	<b>-39.7</b>	<b>-33.2</b>	<b>-16.3</b>
Import Coverage Ratio (%)	61.9	65.9	-	66.8	68.9	-

Source: Datastream, Turkstat

**Energy Imports**  
(annual % change)



## Expectations

The recent rise in geopolitical concerns constitutes one of the biggest sources of uncertainty surrounding the foreign

trade performance of Turkey. The developments in the EU economies, the major export destination of Turkey, also continued to be significant on the said performance. In fact, the gradual recovery observed in the region economies during the last couple of months eased the downward pressures on exports. Along with these developments, favorable impact of the drop in energy imports on foreign trade balance is anticipated to prevail albeit diminishing to some extent. Against this backdrop, the risks to foreign trade performance are expected to be more balanced in the forthcoming period.

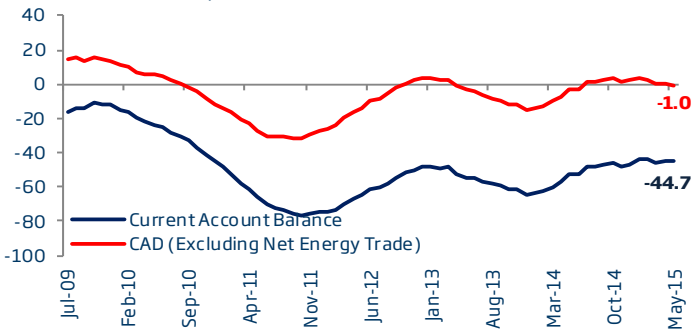
However, according to the provisional data announced by Ministry of Customs and Trade, exports dropped by 15.4% yoy in July while the annual contraction in imports became 8.5%.

## Current account deficit came in slightly above expectations.

Current account deficit widened by 9.4% yoy and was recorded as 4 billion USD in May. The market expectation for the deficit was 3.6 billion USD. In the first five months of the year, on the other hand, current account deficit fell by 9% yoy to 18.5 billion USD.

12-month cumulative current account deficit was realized as 44.7 billion USD in May, slightly increasing on a monthly basis. It was noteworthy that 12-month cumulative current account deficit excluding net energy trade posted a deficit for the first time after ten straight months of surplus.

**Current Account Balance**  
(12-month cumulative, USD billion)



May figures suggest that foreign trade deficit, narrowing by 2.3% yoy, had a positive impact on current account balance. However, the support of gold exports subsided in May after having been strong in the first months of the year. Tourism revenues, for which expectations have deteriorated due to the concerns over economic crisis in Russia and heightened geopolitical risks, registered a limited annual decline of 1.9% in May. It was seen that the increases in the number of European, especially German, and Asian tourists played a significant role in this development.

## Recovery in foreign direct investments...

Having exhibited a weak performance in April, net foreign investments recovered somewhat in May. However, in the first five months of the year, net foreign direct investments declined by 14.3% yoy and became 3.3 billion USD.

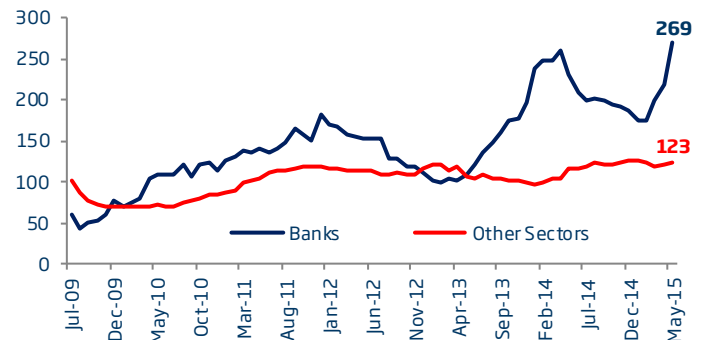
## Weak performance in portfolio investments...

In addition to the meager performance of capital inflows to the emerging economies in May, domestic political uncertainties resulted in a weak performance in portfolio investments. Net capital outflows registered under this item amounted to 2.5 billion USD in May. In this period, non-residents purchased net 74 million USD worth of equity securities and sold net 1.5 billion USD worth of government debt securities.

## Banks continued to raise long-term loans from abroad.

Other investments supported the current account balance by registering an inflow of 2 billion USD in May. Domestic banks' currency and deposits within their foreign correspondent banks recorded an increase of 3 billion USD while trade and other credits items registered a capital inflow of 2.3 billion USD and 2.8 billion USD, respectively. In fact, banks borrowed a net amount of 5.3 billion USD in long-term loans from abroad in May, marking a record reading for

**Long-term Debt Rollover Ratios**  
(12-month cumulative, %)



## Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	USD million		Breakdown of Net Capital Inflows (%)	
	Dec. 2014	May. 2015	Dec. 2014	May. 2015
<b>Current Account Balance</b>	<b>-46,516</b>	<b>-44,687</b>	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>46,048</b>	<b>40,683</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	5,492	4,941	11.9	12.1
-Portfolio Investments	20,109	13,736	43.7	33.8
-Other Investments	16,868	16,975	36.6	41.7
-Net Errors and Omissions	3,645	5,078	7.9	12.5
-Other	-66	-47	-0.1	-0.1
<b>Reserves<sup>(1)</sup></b>	<b>468</b>	<b>4,004</b>	-	-

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: Datastream, CBRT

this item on monthly basis. However, banking sector was a net credit re-payer in short-term loans with a disbursement of 3.6 billion USD. Other sectors received net 975 million USD long-term loans from abroad in this period.

According to 12-month cumulative figures, banks' and nonbank sectors' long-term debt rollover ratios were realized as 269% and 123%, respectively in May.

## Net errors and omissions...

Having increased in April, reserve assets dropped by 2 billion USD in May. On the other hand, having contributed most to the financing of current account deficit in April, net errors and emissions posted an inflow of 1.8 billion USD also in May. As of the first five months of the year, almost half of the current account deficit was financed by capital inflows registered under this item.

## Expectations

Having followed broadly a favorable performance since the early 2014, current account deficit displayed a limited

deterioration in May. Continued narrowing in foreign trade deficit, in particular thanks to the persistently low levels of oil prices, supported the current account deficit in this period. Provisional foreign trade figures indicated that the current account deficit again narrowed on an annual basis in June.

On the financing side, a relatively weak outlook has been observed so far in 2015. We think that portfolio investments might keep presenting a sluggish performance in the short-term depending on the expectations for the Fed's rate hike and prevailing domestic political uncertainties as a new government is expected to be formed following the general election. On the other hand, banks and other sectors keep borrowing comfortably from abroad. Against this backdrop, we do not foresee any difficulty in financing the current account deficit in the medium term.

Current Account Balance	(USD million)				
	May 2015	Jan. - May. 2015		% Change	12-Month Cumulative
<b>Current Account Balance</b>	<b>-3,994</b>	<b>-20,376</b>	<b>-18,547</b>	<b>-9.0</b>	<b>-44,687</b>
Foreign Trade Balance	-5,367	-23,123	-19,917	-13.9	-60,373
Services Balance	2,138	6,333	6,139	-3.1	24,981
Travel (net)	2,110	6,483	6,326	-2.4	24,323
Primary Income	-814	-3,968	-5,093	28.4	-10,344
Secondary Income	49	382	324	-15.2	1,049
<b>Capital Account</b>	<b>0</b>	<b>-21</b>	<b>-2</b>	<b>-90.5</b>	<b>-47</b>
<b>Financial Account</b>	<b>-2,193</b>	<b>-12,932</b>	<b>-9,651</b>	<b>-25.4</b>	<b>-39,656</b>
Direct Investments (net)	-638	-3,841	-3,290	-14.3	-4,941
Portfolio Investments (net)	2,505	-3,024	3,349	-	-13,736
Net Acquisition of Financial Assets	1,174	1,533	2,304	50.3	1,512
Net Incurrence of Liabilities	-1,331	4,557	-1,045	-	15,248
Equity Securities	74	1,630	105	-93.6	1,034
Debt Securities	-1,405	2,927	-1,150	-	14,214
Other Investments (net)	-2,021	-5,838	-5,945	1.8	-16,975
Currency and Deposits	3,076	-300	463	-	163
Net Acquisition of Financial Asse	3,035	-1,553	8,788	-	10,637
Net Incurrence of Liabilities	-41	-1,253	8,325	-	10,474
Central Bank	-68	-686	-230	-66.5	-1,877
Banks	1,456	-567	8,555	-	9,405
Foreign Banks	1,549	-1,080	7,702	-	6,499
Foreign Exchange	-91	-511	6,722	-	4,379
Turkish Lira	-137	-569	980	-	4,499
Non-residents	255	513	853	66.3	3,473
Loans	-2,797	-7,521	-6,016	-20.0	-13,483
Net Acquisition of Financial Asse	5	22	269	1,122.7	2,110
Net Incurrence of Liabilities	2,802	7,543	6,285	-16.7	15,593
Banking Sector	1,734	3,939	3,580	-9.1	11,431
Non-bank Sectors	1,173	4,258	3,370	-20.9	5,064
Trade Credit and Advances	-2,252	2,213	-263	-	-3,285
Other Assets and Liabilities	-48	-230	-129	-43.9	-370
Reserve Assets (net)	-2,039	-229	-3,765	1,544.1	-4,004
<b>Net Errors and Omissions</b>	<b>1,801</b>	<b>7,465</b>	<b>8,898</b>	<b>19.2</b>	<b>5,078</b>

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: Datastream, CBRT

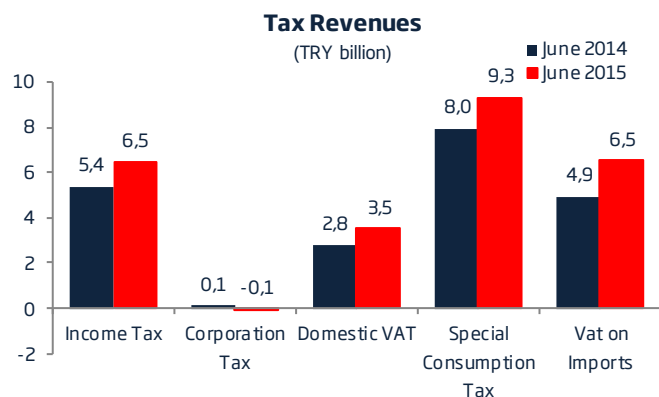
## Budget gave a surplus in June.

According to data released by the Ministry of Finance, budget expenditures rose by 3.3% yoy while budget revenues surged by 14.5% yoy in June. As a result, budget balance, having posted a deficit of 0.6 billion TRY in June 2014, recorded a surplus of 3.2 billion TRY in the same month of this year.

Regarding the first half of the year, while budget deficit was 3.4 billion TRY in 2014, budget posted a surplus of 0.8 billion TRY in this year. In the same period, primary surplus registered an annual increase of 32.2% and reached 92.4% of the year-end target.

## Annual rise in tax revenues was 22.2% in June.

The strong pick-up in tax revenues continued to affect positively the budget balance. Indeed, tax revenues, which accounted for 76% of budget revenues in June, surged by 22.2% yoy. Having posted an annual rise of 32%, Value Added Tax (VAT) on imports contributed most to this expansion in budget revenues. Special Consumption Tax (SCT) revenues followed this item by recording an annual increase of 17%. Furthermore, it is seen that income tax, which has gone up by 20% yoy, provided support to the budget outlook. The positive performance of the tax revenues reflected a sustained recovery in domestic demand. The depreciation in TRY also played a part in the



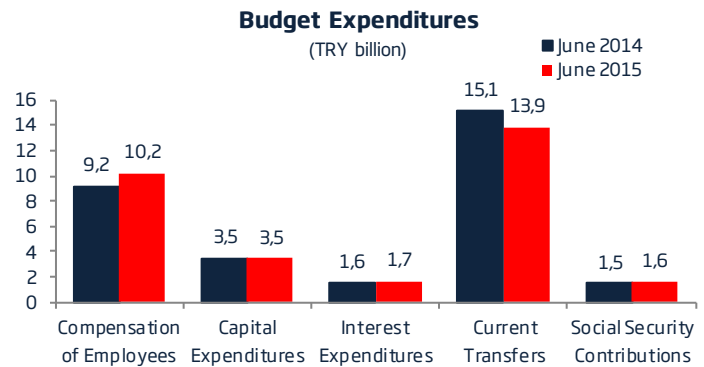
strong growth recorded in VAT on imports.

Budget figures for the first half of 2015 revealed that tax revenues were fully in line with the year-end targets.

## Current transfers dropped by 8% yoy.

In June, having the highest share in total budget expenditures, compensation of employees rose by 11.2% on annual basis. Nevertheless, the decline in current transfers strongly supported the budget balance. Thus, the annual expansion in non-interest expenditures was realized as low as 3.1%. Interest expenditures, on the other hand, increased by 7.6% in this period.

During the first half of the year, the limited rise in current transfers had a favorable impact on budget balance. On the other hand, rising by 22.8% yoy, capital expenditures indicated that public investments improved to some extent in the first half of the year.



## Expectations

In the first half of the year, the surge in tax revenues on the back of the ongoing improvement in domestic demand affected favorably the budget balance. Comparing with the year-end figures, despite the heightened political uncertainties, it is observed that budget has remained broadly on track. Against this backdrop, budget disciplined will continue to be main pillar of Turkish economy.

## Central Government Budget

	June		%	January-June		%	2015 Budget		Real/Target (%)
	2014	2015		Change	2014		2015	Change	
<b>Expenditures</b>	<b>35.2</b>	<b>36.3</b>	<b>3.3</b>	<b>213.9</b>	<b>236.7</b>	<b>10.7</b>	<b>472.9</b>	<b>50.0</b>	
Interest Expenditures	1.6	1.7	7.6	26.5	29.7	12.3	54.0	55.0	
Non-Interest Expenditures	33.6	34.6	3.1	187.4	206.9	10.4	418.9	49.4	
<b>Revenues</b>	<b>34.6</b>	<b>39.6</b>	<b>14.5</b>	<b>210.5</b>	<b>237.5</b>	<b>12.8</b>	<b>452.0</b>	<b>52.5</b>	
Tax Revenues	24.8	30.2	22.2	168.1	194.7	15.8	389.5	50.0	
Other Revenues	9.8	9.3	-5.0	42.4	42.8	1.0	62.5	68.5	
<b>Budget Balance</b>	<b>-0.6</b>	<b>3.2</b>	<b>-</b>	<b>-3.4</b>	<b>0.8</b>	<b>-</b>	<b>-21.0</b>	<b>-</b>	
<b>Primary Balance</b>	<b>1.0</b>	<b>4.9</b>	<b>412.6</b>	<b>23.1</b>	<b>30.5</b>	<b>32.2</b>	<b>33.0</b>	<b>92.4</b>	

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

Source: Ministry of Finance, Datastream

## A slight rise in CPI in July...

In July, CPI increased by 0.09% mom, while D-PPI decreased by 0.32% mom. According to the Reuters' survey, market had expected no change in inflation while CPI had been expected to rise by 0.12% mom according to the CBRT's survey of expectations.

July	CPI		D-PPI	
Change (%)	2014	2015	2014	2015
Monthly	0.45	0.09	0.73	-0.32
Year-to-Date	6.18	4.85	5.89	5.15
Annual	9.32	6.81	9.46	5.62
Annual Average	8.35	8.07	9.26	6.43

## Annual inflation fell below 7%.

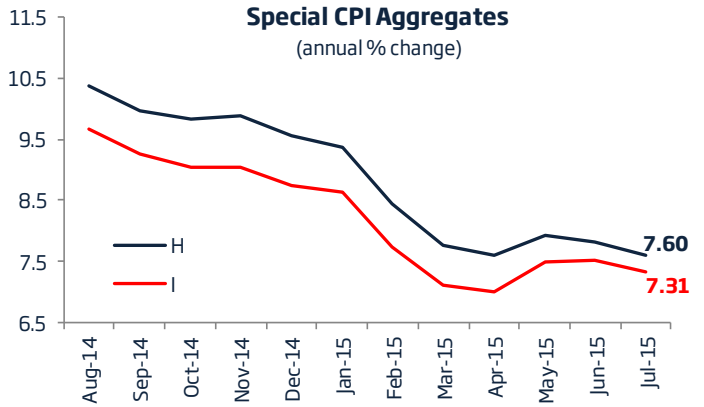
Despite posting a monthly increase in July, CPI decreased to 6.81% on annual basis thanks to the base effect. Having followed an upward trend since March, annual D-PPI inflation dropped to 5.62%.

## Decline in clothing and footwear prices...

In July, all items except clothing/footwear and recreation/culture had an upward impact on CPI. Clothing and footwear prices, which have decreased almost %5 mom due to the seasonal factors, limited the CPI increase by 33 basis points. Having risen by 1.60% mom, furnishing prices made the highest contribution to monthly inflation by 11 basis points. This group was followed by restaurants and hotels, which were registered a monthly increase of 1.21%, adding to inflation by 8 basis points. After declining by two consecutive months, food prices also surged in July mainly because of the Ramadan effect. Besides, annual rise in food prices, which came down to single digit levels since March, kept its downward trend albeit losing some momentum.

## Core inflation indicators exhibited a downward movement.

Core inflation indicators showed that the downward trend in



inflation mostly stemmed from the seasonal factors. In fact, CPI inflation excluding seasonal products rose by 0.75% mom in July. Core inflation indices denominated by H and I was realized as 7.60% and 7.31%, respectively. Despite falling down in July, these indicators remain at relatively high levels owing to the movements in exchange rates.

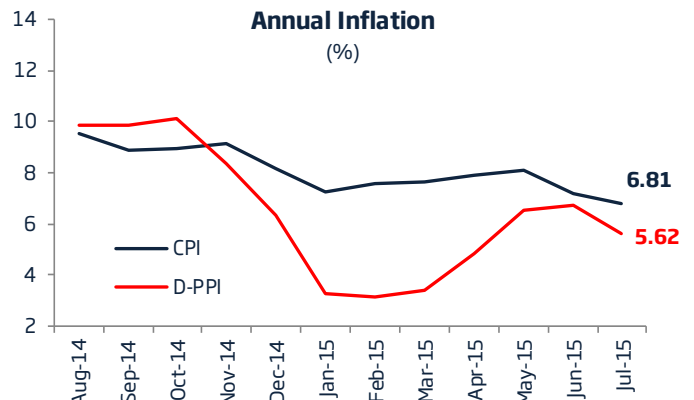
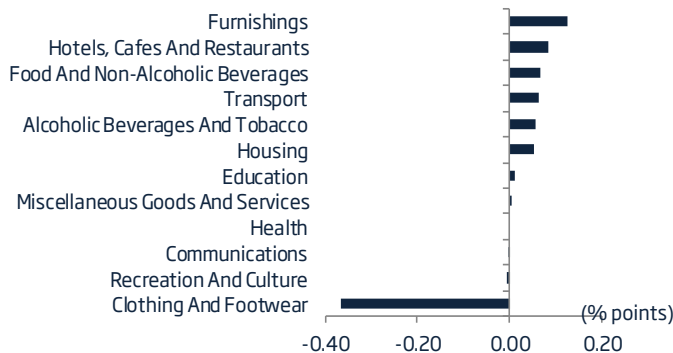
## D-PPI fell by 0.32% mom.

It was seen that the plunge in commodity prices was influential on D-PPI in July. Indeed, the monthly price declines in basic metals together with coke and refined petroleum products lowered PPI inflation by 43 basis points. Food products, on the other hand, limited the drop in PPI by contributing 11 basis points.

## Expectations

In August, we expect that clothing and footwear prices will continue to decline thanks to the seasonal factors. Despite a partial correction in food prices seen recently, the upward pressures on prices are still considered to exist. Moreover, upward movement in exchange rates is likely to pose a significant risk in terms of inflation, if recent trend continues.

## Contributions to the Monthly CPI by Subgroups



source: Turkstat



## CBRT kept interest rates on hold.

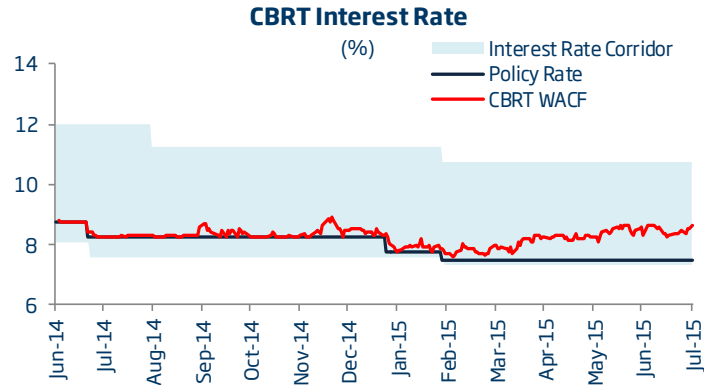
At its Monetary Policy Meeting held on July 23, CBRT kept the one-week repo rate (the policy rate) at 7.5%. CBRT also left both the upper and lower bounds of the interest rate corridor unchanged.

In its statement released following the meeting, CBRT noted that loan growth continued to stay at reasonable levels along with the tight monetary policy stance and macroprudential measures. According to the statement, external demand remained weak while domestic demand contributed to growth moderately. CBRT also declared that inflation is expected to decline in the short term owing to the seasonal factors. On the other hand, CBRT stated that recent upward movements in exchange rates have delayed the improvement in core inflation indicators.

## CBRT raised its year-end inflation forecast to 6.9%.

In the 3<sup>rd</sup> Inflation Report published on 30 July, CBRT noted that the cautious monetary policy stance was maintained in the second quarter in response to the uncertainties over global markets and fluctuations in food and energy prices. Having said that interest rates were kept unchanged in this period, CBRT stressed that tight liquidity policy was sustained to contain risks to core inflation and inflation expectations. The bank announced that the food prices pulled inflation down in the second quarter, yet the depreciation in the Turkish lira limited this decline. Therefore, the desired improvement in the inflation outlook has not been materialized yet. Owing to the expected partial correction in food prices accompanied by the cautious monetary policy, CBRT anticipated that the deterioration in the inflation outlook is anticipated to remain limited and inflation is expected to reach the target in the medium term.

According to the report, CPI estimate was revised upwards by 0.1 point for 2015 while that for 2016 was kept unchanged. In this context, inflation was expected to be, with 70% probability, between 6.0% and 7.8% (with a mid-point of 6.9%) at end-2015 and between 3.7% and 7.3% (with a mid-point of 5.5%) at end-2016.



## Expectations for the Fed's rate hike are influential on global markets.

While concerns over Greece weighed on global markets during the first half of July, expectations for the Fed's rate hike regained its place at the top of the agenda during the rest of the month. Mixed signals on the US economy increased uncertainty surrounding the timing of the Fed's first rate hike decision. On the other hand, Fed Chairwoman Yellen's latest speeches indicated that the rate hike process would start this year should the economy move close to the projected trajectory. The agreement reached by the Western countries and Iran was welcomed by global markets. The downward pressure on oil prices stemming from this agreement was also considered as a favorable development particularly for the oil-importer countries including Turkey.

Domestic markets have decoupled negatively from international markets, especially in the second half of July. Together with the heightened political uncertainties following the general election, reemergence of geopolitical risks weighed on domestic markets.

## BIST-100 index declined on a monthly basis in July.

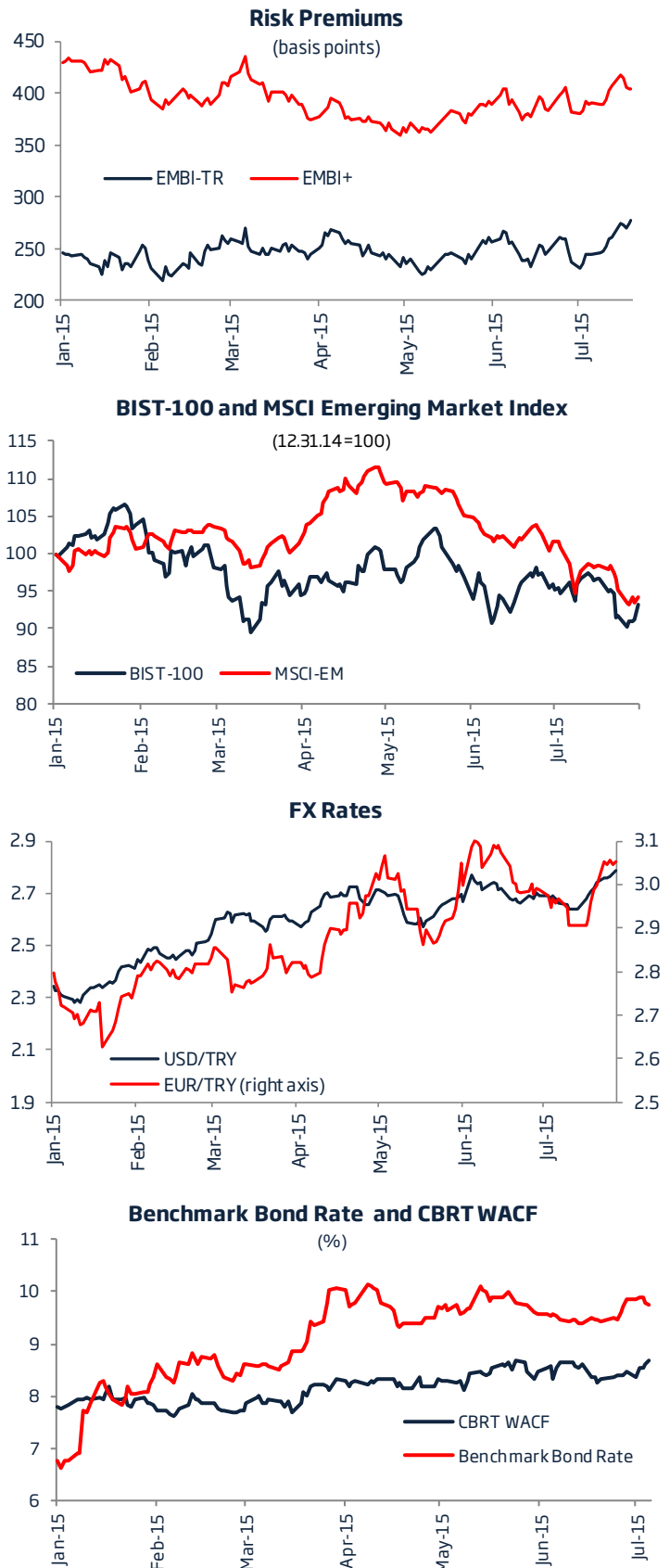
As stock market index has been quite volatile after the general election, BIST-100 index dropped by 2.8% mom in July. A combination of political uncertainties and growing geopolitical concerns put downward pressure on the index. As of July 31, it declined by 6.8% compared to the end of 2014.

## USD/TRY rose owing to increased geopolitical concerns.

Despite the prevailing political uncertainties, USD/TRY displayed a relatively moderate course in June. Yet, exchange rates followed an upward trend in July, in particular, during the second half of the month along with the negative decoupling of domestic markets from its counterparts in terms of risk perception. USD/TRY reached as high as 2.7971 as of July 31 and tested all time high levels seen after the general election.

## 2-year benchmark bond's interest rate...

The interest rate of the 2-year benchmark bond, which receded to as low as 9.58% on July 10, again hovered above two-digit levels as risk sentiment has deteriorated in the following days. The interest rate of 2-year benchmark bond was realized as 9.98% as of July 31.



Source: Reuters, Datastream, BIST

## Deposit volume grew by 22.3% yoy.

According to BRSA's Weekly Bulletin, as of July 24, total deposit volume increased by 22.3% yoy and reached 1,275 billion TRY. The year-to-date rise in deposit volume was 12.9%. During this period, TRY deposits expanded by only 0.1% while FX deposits surged by 33.3% due to the depreciation in TRY. FX deposits in USD terms, on the other hand, rose by 12.9% during the same period.

According to the exchange rate adjusted figures, annual expansion in deposit volume was 9.1% while the year-to-date rise in deposits was 5.1%.

## Annual credit growth was 25.8%.

As of July 24, credit volume picked up by 25.8% yoy and reached 1,426 billion TRY. The year-to-date expansion in credit volume was 13.5%. In this period, TRY loans surged by 10.2% while FX loans in USD terms increased by 3.2%.

Analyzing by types of loans, as of July 24, consumer loans and commercial loans rose by 5.8% and 16.6% yoy, respectively.

## The rise in securities portfolio...

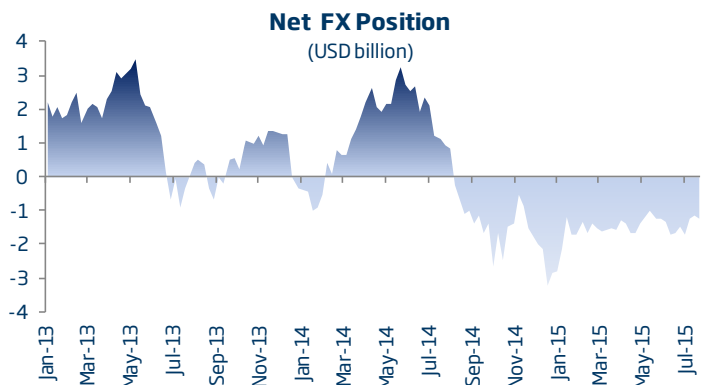
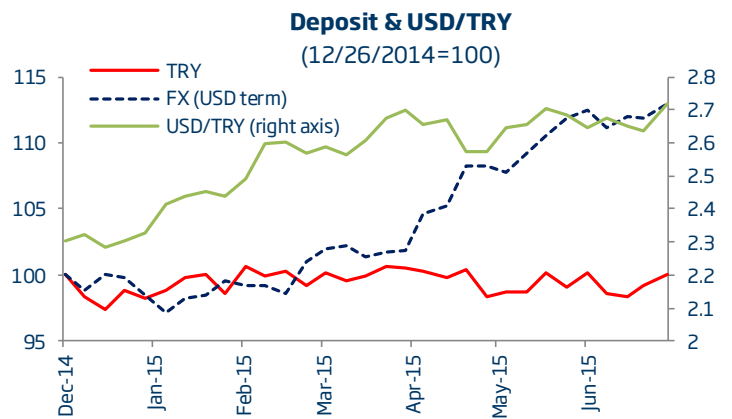
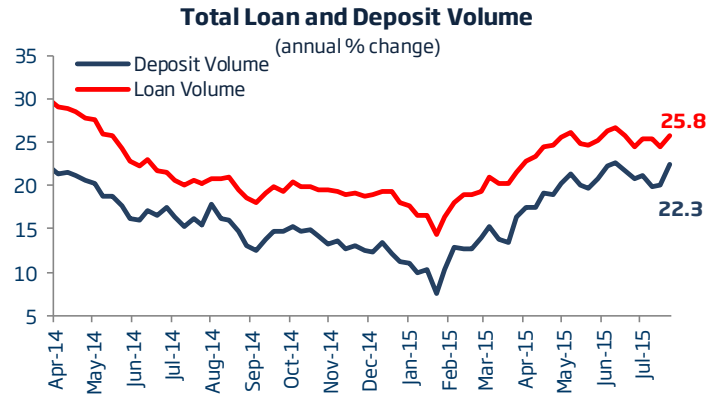
As of July 24, securities portfolio of the banking sector increased by 4.5% year-to-date and was realized as 314 billion TRY. Securities subject to repo transactions, which have the highest share in securities portfolio, rose by 5.8% in this period.

## Securities held in custody accounts...

As of July 24, securities held in custody accounts increased by 0.4% in nominal terms compared to the year-end. Nonresidents' portfolio, which followed a downward trend recently, dropped by 7.8% in the same period. Residents' portfolio, on the other hand, posted an increase of 8.6% during this period.

## Net FX position...

As of July 24, banks' on-balance sheet FX position was (-)48,023 million USD while off-balance sheet FX position was (+)46,767 million USD. Hence, banks' net FX position was realized as (-)1,256 million USD.



Source: BRSA Weekly Bulletin

Concerns over Greece have been one of the top items on the agenda of global markets recently. As the worries eased somewhat thanks to the agreement reached by Greece and its international creditors in the second half of July, global markets breathed a sigh of relief. After the Greek deal, markets' focus shifted to the expectations for the Fed's rate hike. As the Fed's officials' statements indicated that at least one rate hike in 2015 was very probable, expectations for a September rate hike strengthened. This situation, in turn, has weighed on emerging markets. Indeed, capital inflows to these markets posted a weak performance in recent months.

In addition to these, the latest developments in China were also closely monitored by the markets. While the sharp declines in Chinese equity market were reflected only marginally in the global markets, commodity prices, especially metal prices, fell significantly. Despite the fact that the second quarter growth figures presented a better outlook than expectations, concerns regarding a potential further slowdown in Chinese economy are frequently expressed.

Forecasts (%)	2014 (R)	2015
Growth	2.9	3.0
CA Deficit/GDP	5.8	5.1
Inflation	8.2	8.0
GDDI Interest*	9.8	9.0

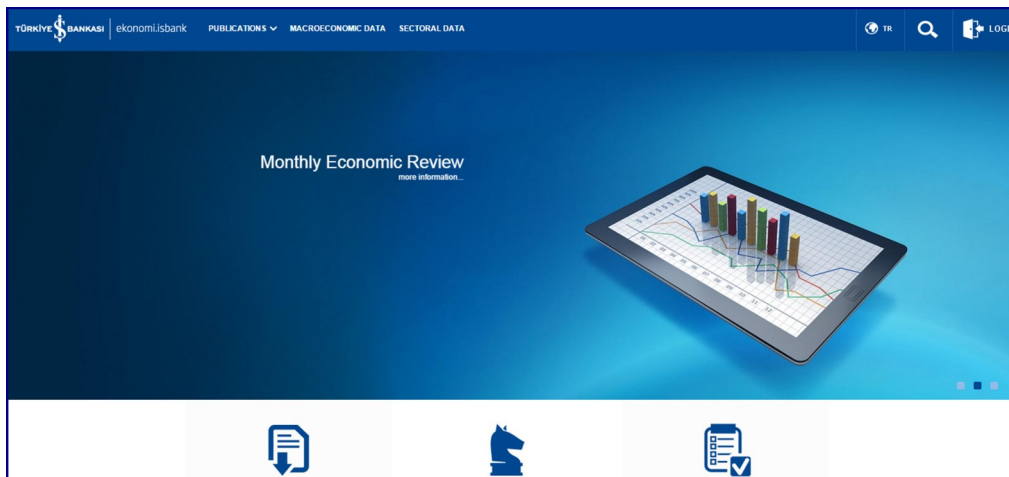
(\*) Annual compound average interest rate in treasury auctions

(R) Realization

Interest and inflation are year-end forecasts

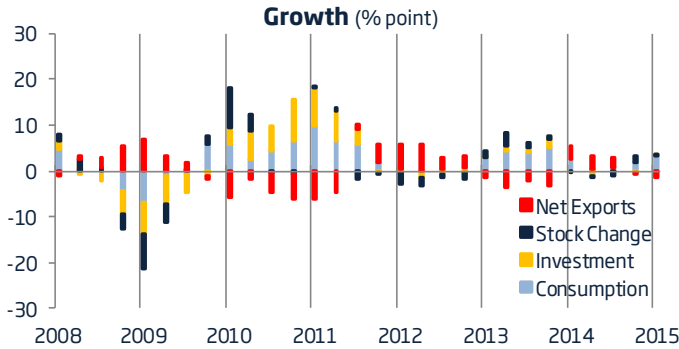
On the domestic front, the prevailing political uncertainties after the general election continued to weigh on markets. As a matter of fact, expectations for the Turkish economy deteriorate time to time as a snap election possibility remains on the table. Besides, domestic demand is expected to keep supporting the economic activity in the coming period should a new government be formed soon. Also, the lift of sanctions against Iran following the nuclear agreement signed between Iran and the Western countries and hence increased expectations for a further decline in oil prices are regarded as favorable developments for Turkish economy in the medium term.

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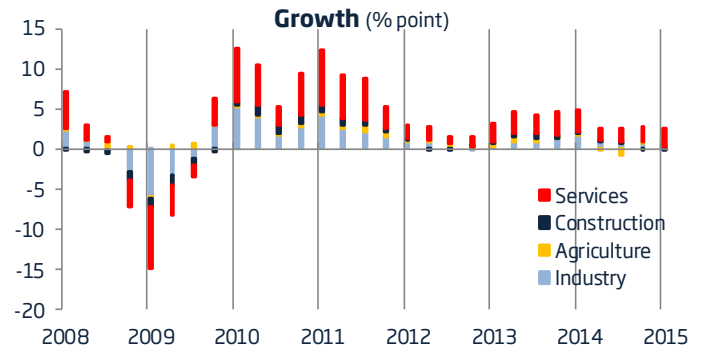


## Growth

### Expenditure Approach - Contributions to GDP

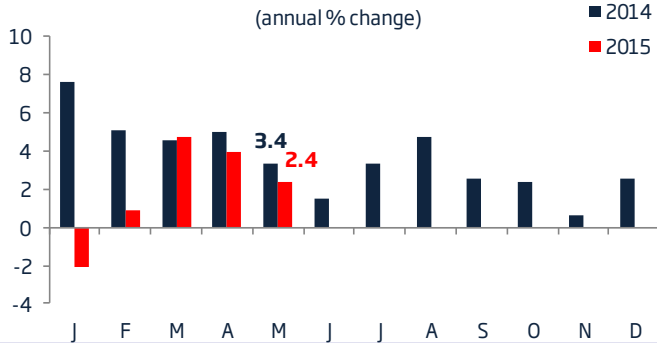


### Production Approach - Contributions to GDP

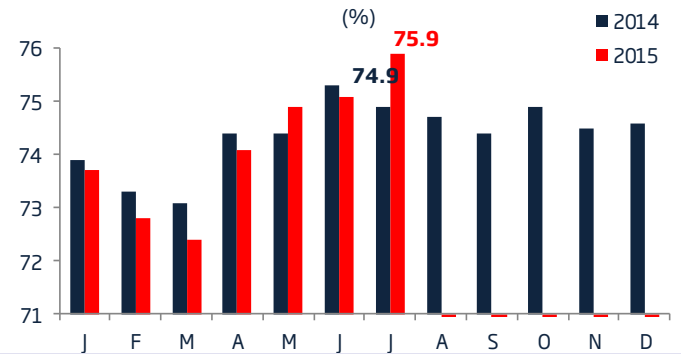


## Industrial Production and Capacity Utilization Ratio

### Industrial Production\*

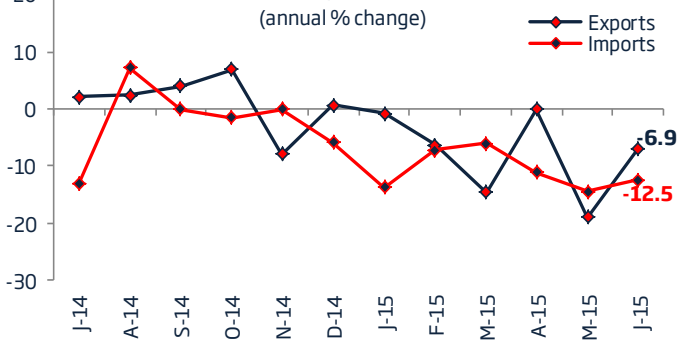


### Capacity Utilization Ratio

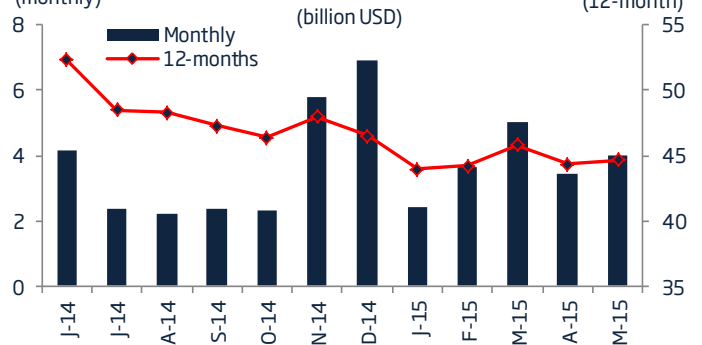


## Foreign Trade and Current Account Balance

### Foreign Trade

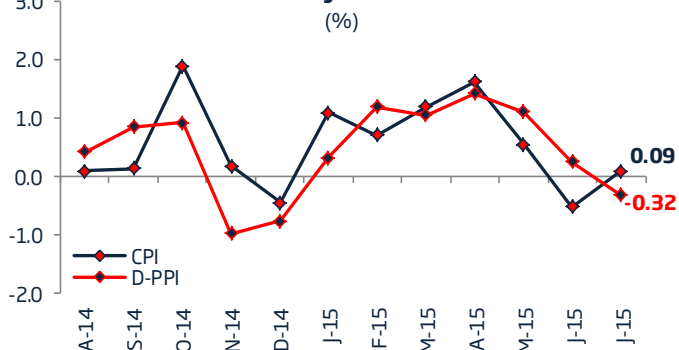


### Current Account Deficit

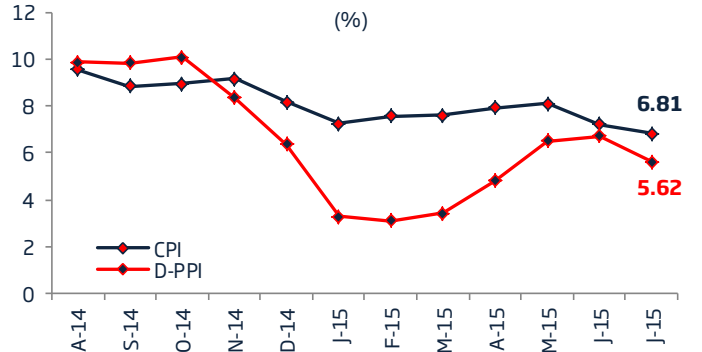


## Inflation

### Monthly Inflation



### Annual Inflation

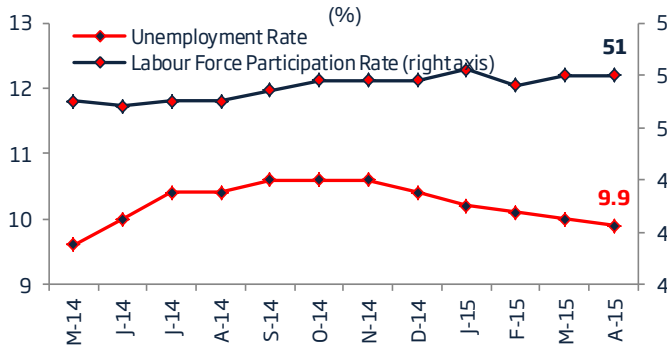


(\*) Calendar adjusted figures

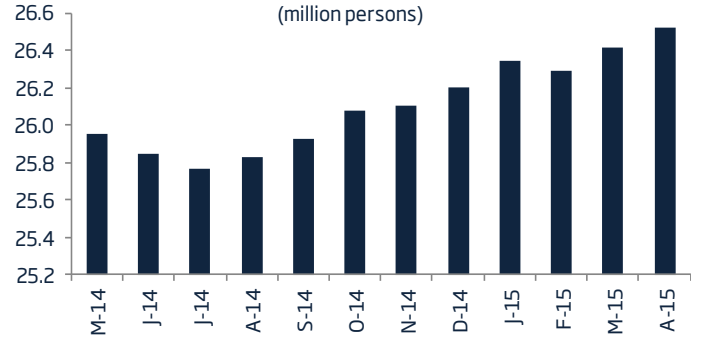
Source: CBRT, Datastream, Turkstat

## Labor Market

### Seasonally Adjusted Labour Force Indicators



### Seasonally Adjusted Employment

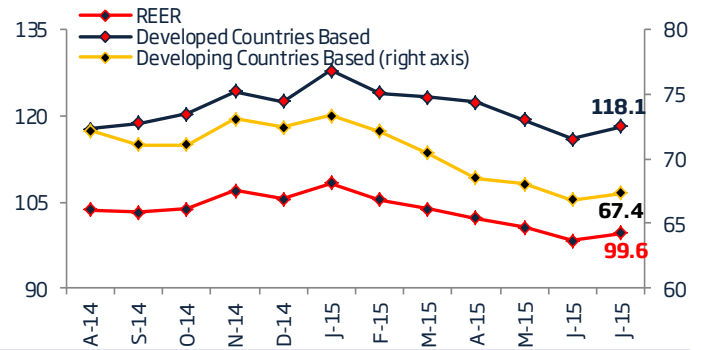


## FX Market

### Currency Basket

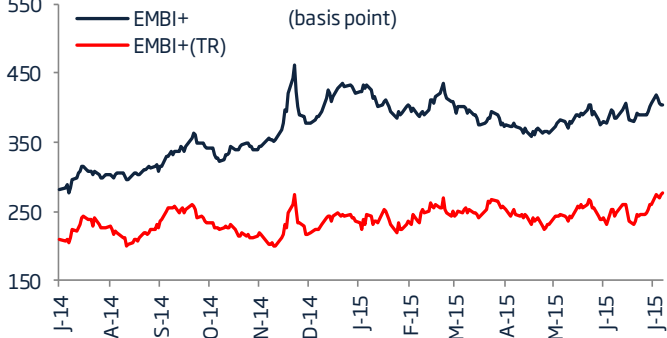


### CPI Based Real Effective Exchange Rate

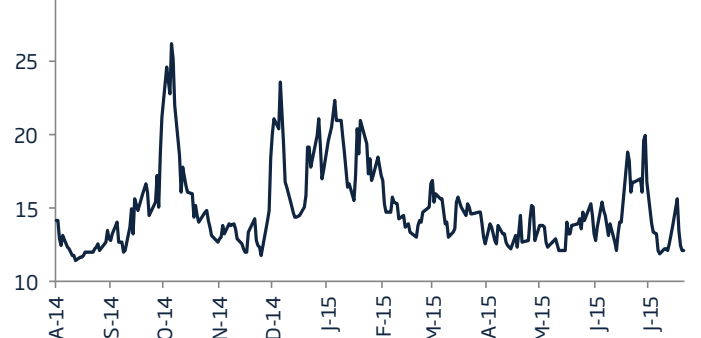


## Risk Indicators

### Risk Premiums

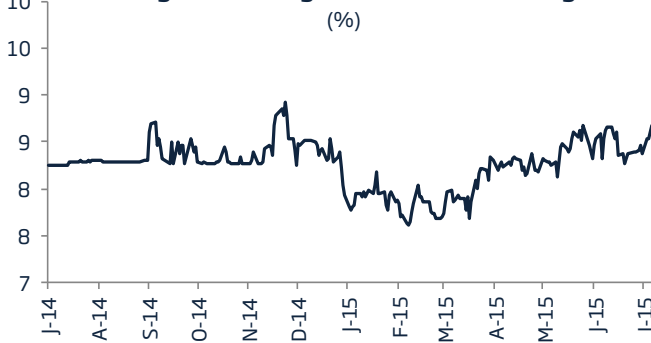


### VIX

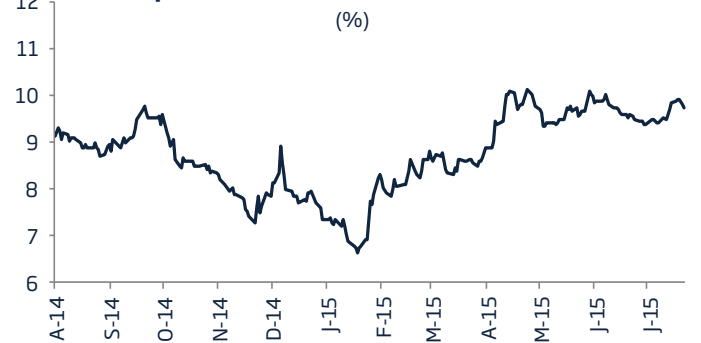


## Interest Rates

### Weighted Average Cost of CBRT Funding

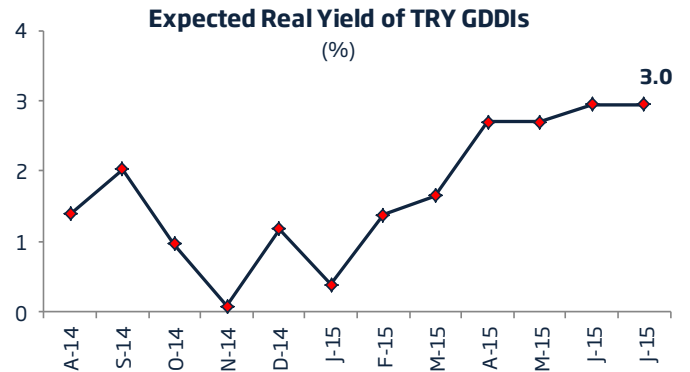
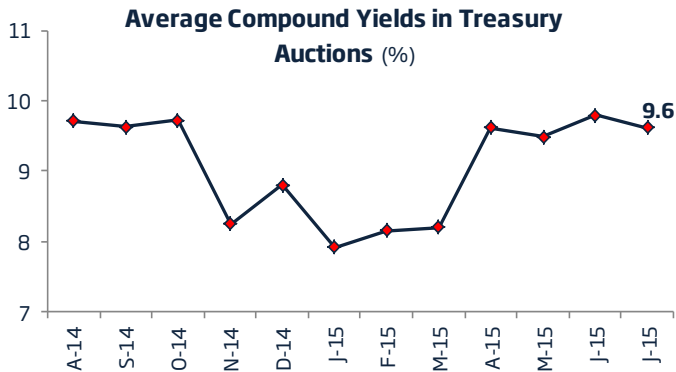


### Compound Yield of 2-Year Benchmark Bond

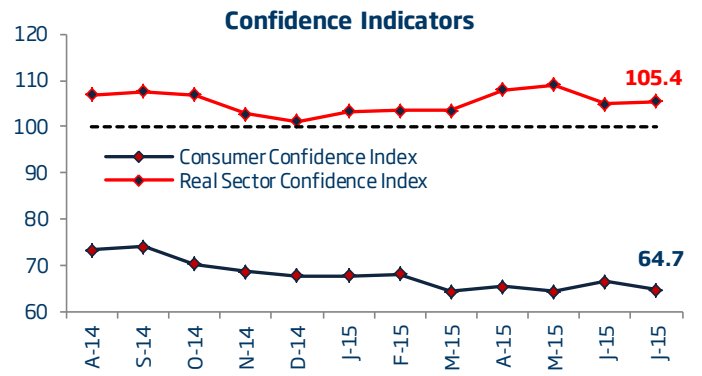
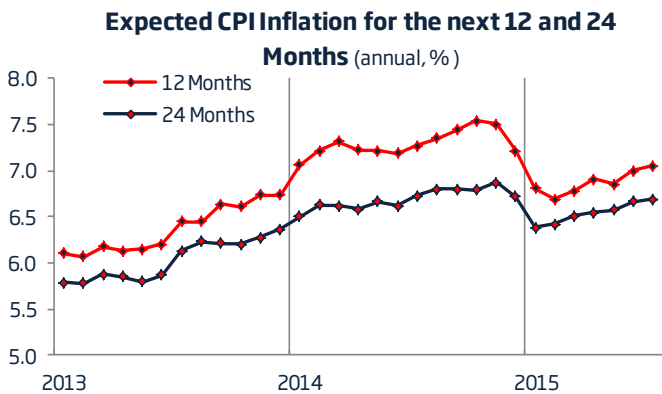
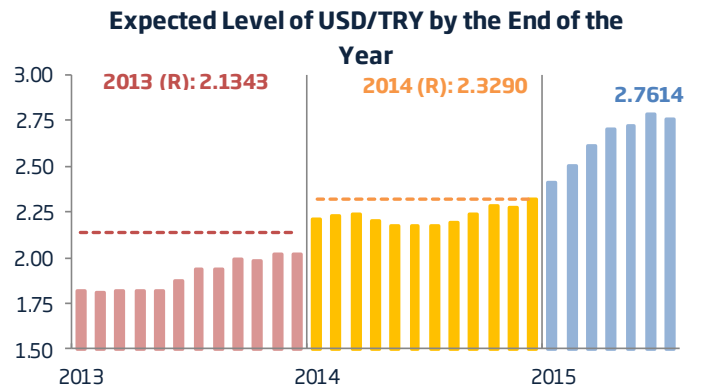
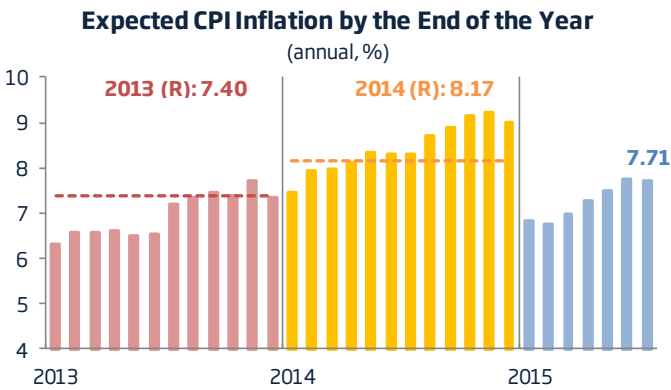
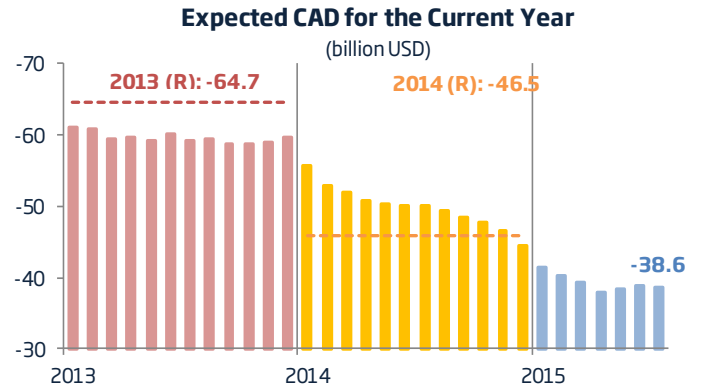
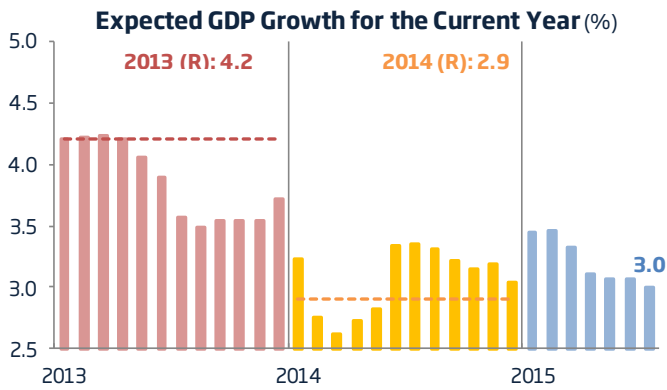


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

## 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

<b>Growth</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>15-Q1</b>	<b>15-Q2</b>	<b>15-Q3</b>
GDP (USD billion)	731.6	774.0	786.3	823.0	800.1	180.5	-	-
GDP (TRY billion)	1,099	1,298	1,417	1,567	1,750	443.2	-	-
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	2.3	-	-
<b>Inflation (%)</b>						<b>May-15</b>	<b>Jun-15</b>	<b>Jul-15</b>
CPI (annual)	6.40	10.45	6.16	7.40	8.17	8.09	7.20	6.81
PPI (annual)	8.87	13.33	2.45	6.97	6.36	6.52	6.73	5.62
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Feb-15</b>	<b>Mar-15</b>	<b>Apr-15</b>
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.1	10.0	9.9
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	50.9	50.8	51.0	51.0
<b>FX Rates</b>						<b>May-15</b>	<b>Jun-15</b>	<b>Jul-15</b>
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	100.6	98.3	99.6
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.6611	2.6874	2.7864
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	2.9172	3.0009	3.0533
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	2.7892	2.8442	2.9199
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Apr-15</b>	<b>May-15</b>	<b>Jun-15</b>
Exports	113.9	134.9	152.5	151.8	157.6	154.5	151.9	151.1
Imports	185.5	240.8	236.5	251.7	242.2	234.7	231.7	229.1
<b>Foreign Trade Balance</b>	<b>-71.7</b>	<b>-105.9</b>	<b>-84.1</b>	<b>-99.9</b>	<b>-84.6</b>	<b>-80.2</b>	<b>-79.8</b>	<b>-78.1</b>
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	65.8	65.6	65.9
<b>Current Account Balance<sup>(1)</sup> (USD billion)</b>						<b>Mar-15</b>	<b>Apr-15</b>	<b>May-15</b>
<b>Current Account Balance</b>	<b>-45.3</b>	<b>-75.0</b>	<b>-48.5</b>	<b>-64.7</b>	<b>-46.5</b>	<b>-45.8</b>	<b>-44.3</b>	<b>-44.7</b>
<b>Capital and Financial Accounts</b>	<b>-45.1</b>	<b>-66.0</b>	<b>-48.2</b>	<b>-62.0</b>	<b>-42.9</b>	<b>-46.3</b>	<b>-39.9</b>	<b>-39.7</b>
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.5	-4.8	-4.4	-4.9
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.1	-21.0	-17.5	-13.7
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-16.9	-21.3	-18.0	-17.0
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	0.8	0.0	-4.0
<b>Net Errors and Omissions</b>	<b>0.2</b>	<b>9.0</b>	<b>0.3</b>	<b>2.8</b>	<b>3.6</b>	<b>-0.5</b>	<b>4.5</b>	<b>5.1</b>
<b>Current Account Balance/GDP (%)</b>	<b>-6.2</b>	<b>-9.7</b>	<b>-6.2</b>	<b>-7.9</b>	<b>-5.8</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						<b>Apr-15</b>	<b>May-15</b>	<b>Jun-15</b>
<b>Expenditures</b>	<b>294.4</b>	<b>314.6</b>	<b>361.9</b>	<b>408.2</b>	<b>448.8</b>	<b>160.2</b>	<b>200.3</b>	<b>236.7</b>
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	24.2	28.0	29.7
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.8	136.0	172.3	206.9
<b>Revenues</b>	<b>254.3</b>	<b>296.8</b>	<b>332.5</b>	<b>389.7</b>	<b>425.4</b>	<b>156.2</b>	<b>197.9</b>	<b>237.5</b>
Tax Revenues	210.6	253.8	278.8	326.2	352.5	128.2	164.4	194.7
<b>Budget Balance</b>	<b>-40.1</b>	<b>-17.8</b>	<b>-29.4</b>	<b>-18.5</b>	<b>-23.4</b>	<b>-4.1</b>	<b>-2.4</b>	<b>0.8</b>
<b>Primary Balance</b>	<b>8.2</b>	<b>24.4</b>	<b>19.0</b>	<b>31.4</b>	<b>26.5</b>	<b>20.1</b>	<b>25.6</b>	<b>30.5</b>
<b>Budget Balance/GDP (%)</b>	<b>-3.6</b>	<b>-1.4</b>	<b>-2.1</b>	<b>-1.2</b>	<b>-1.3</b>	-	-	-
<b>Central Government Debt Stock (TRY billion)</b>						<b>Apr-15</b>	<b>May-15</b>	<b>Jun-15</b>
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	428.5	429.4	430.2
External Debt Stock	120.7	149.6	145.7	182.8	197.5	219.2	217.8	220.7
<b>Total Debt Stock</b>	<b>473.6</b>	<b>518.4</b>	<b>532.2</b>	<b>585.8</b>	<b>612.1</b>	<b>647.7</b>	<b>647.2</b>	<b>650.9</b>

(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	May.15	Jun.15	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>1,006.7</b>	<b>1,217.7</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,175.7</b>	<b>2,223.2</b>	<b>11.5</b>
<b>Loans</b>	<b>525.9</b>	<b>682.9</b>	<b>794.8</b>	<b>1,047.4</b>	<b>1,240.7</b>	<b>1,368.3</b>	<b>1,398.3</b>	<b>12.7</b>
TRY Loans	383.8	484.8	588.4	752.7	881.0	952.6	972.3	10.4
Share (%)	73.0	71.0	74.0	71.9	71.0	69.6	69.5	-
FX Loans	142.1	198.1	206.4	294.7	359.7	415.7	425.9	18.4
Share (%)	27.0	29.0	26.0	28.1	29.0	30.4	30.5	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	40.6	41.6	14.1
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	2.9	2.9	-
<b>Securities</b>	<b>287.9</b>	<b>285.0</b>	<b>270.0</b>	<b>286.7</b>	<b>302.3</b>	<b>313.6</b>	<b>313.3</b>	<b>3.7</b>
<b>TOTAL LIABILITIES</b>	<b>1,006.7</b>	<b>1,217.7</b>	<b>1,370.7</b>	<b>1,732.4</b>	<b>1,994.3</b>	<b>2,175.7</b>	<b>2,223.2</b>	<b>11.5</b>
<b>Deposits</b>	<b>617.0</b>	<b>695.5</b>	<b>772.2</b>	<b>945.8</b>	<b>1,052.7</b>	<b>1,154.9</b>	<b>1,167.7</b>	<b>10.9</b>
TRY Deposits	433.5	460.0	520.4	594.1	661.3	662.5	660.3	-0.2
Share (%)	70.3	66.1	67.4	62.8	62.8	57.4	56.5	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	492.4	507.4	29.7
Share (%)	29.7	33.9	32.6	37.2	37.2	42.6	43.5	-
<b>Securities Issued</b>	<b>3.1</b>	<b>18.4</b>	<b>37.9</b>	<b>60.6</b>	<b>89.3</b>	<b>99.7</b>	<b>100.1</b>	<b>12.2</b>
<b>Payables to Banks</b>	<b>122.4</b>	<b>167.4</b>	<b>173.4</b>	<b>254.2</b>	<b>293.2</b>	<b>331.3</b>	<b>338.1</b>	<b>15.3</b>
<b>Funds from Repo Transactions</b>	<b>57.5</b>	<b>97.0</b>	<b>79.9</b>	<b>119.1</b>	<b>137.4</b>	<b>146.4</b>	<b>153.8</b>	<b>12.0</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>134.5</b>	<b>144.6</b>	<b>181.9</b>	<b>193.7</b>	<b>232.0</b>	<b>239.4</b>	<b>244.0</b>	<b>5.2</b>
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	10.9	13.8	-
<b>RATIOS (%)</b>								
Loans/GDP	47.9	52.6	56.1	66.8	70.9	-	-	-
Loans/Assets	52.2	56.1	58.0	60.5	62.2	62.9	62.9	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	14.4	14.1	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	53.1	52.5	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	118.5	119.7	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	15.3	15.4	-

(1) Year-to-date % change



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