Monthly Economic Review
November 2015

Global Economy

- The fall in commodity prices and slowdown in Chinese economy constitute the major risks for the global economy, according to IMF's World Economic Outlook report published in October. IMF cut its global economic growth forecasts from 3.3% to 3.1% for 2015 and from 3.8% to 3.6% for 2016. The report stated that in the rest of the year economic activity in advanced economies is expected to gain momentum compared to the previous year while that in emerging economies is projected to lose steam.
- The US economy grew by 1.5% yoy in the 3rd quarter of the year, below the expectations. This development mainly stemmed from the slide in inventories. On the other hand, private consumption expenditures, which expanded by 3.2% yoy, supported the economic activity during this period.
- At its meeting ended on October 28, the Fed did not change the policy rate in line with the market expectations. Unlike its September meeting, the Fed did not make a reference to global economic and financial developments in its last meeting note. The views that December option for the first rate hike is still on the table strengthened following the Fed's latest statements.
- The low inflation figures in Euro Area and the still lower-than-desired upturn in economic activity reinforced the expectations that ECB would take more measures in the coming period. Indeed, following its last monetary policy meeting, ECB stated that they have reviewed the potential measures that could be taken against the deflationary pressures.
- Chinese Central Bank cut the benchmark one-year borrowing and lending rates by 25 basis points each. It also lowered the reserve requirement ratios for all banks by 50 basis points.

Turkish Economy

- Having made a weak start to the 3rd quarter, the calendar adjusted industrial production surpassed the expectations in August by posting an annual rise of 7.2%. Hence, industrial production exhibited its best performance since January 2014. Leading indicators also showed signs of improvement in the recent period.
- In September, export declined by 14.2% yoy while imports contracted by 25.2% yoy. Thus, foreign trade deficit dropped by 46.6% compared to the same month of 2014. Import coverage ratio, which was 66% in September 2014, reached 75.7% in the same period of 2015.
- Current account posted a deficit of 163 million USD in August as opposed to the market expectations envisaging a surplus of 50 million USD. Nevertheless, this figure marked the lowest deficit level in current account balance since October 2009. The substantial drop in imports led current account deficit to come in at low level.
- In September, budget expenditures increased by 21.2% yoy while budget revenues expanded by 11.5% yoy. Thus, monthly budget deficit widened by 53.1% yoy and was realized as 14.1 billion TRY. Considering the first 9 months of the year, both budget revenues and expenditures increased by 13% presenting a balanced outlook.
- In October, CPI increased by 1.55% mom, slightly above the expectations. Domestic PPI (D-PPI), on the other hand, decreased by 0.2% in this period. Having stood at 7.95% in September, annual CPI fell in October due to the basis effect and was realized as 7.58%. In this period, annual D-PPI inflation displayed a similar pattern and came in at 5.74%.
- The end of political uncertainty after the election results has a positive impact on domestic markets.

Contents

Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Division Head
izlem.erdem@isbank.com.tr

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

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

Ilker Şahin–Economist
Ilker.sahin@isbank.com.tr

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

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

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

Unemployment rate remained flat.

On annual basis, unemployment rate remained unchanged at 9.8% in July. The seasonally and calendar adjusted unemployment rate also followed a flat path and became 10.4%. Labor force participation rate, on the other hand, reached its historical high level of 51.5% in this period.

Industrial production gained momentum in August.

Having made a weak start to the 3rd quarter, the calendar adjusted industrial production surpassed the expectations in August by posting an annual rise of 7.2%. Hence, industrial production exhibited its best performance since January 2014. The seasonally and calendar adjusted industrial production also increased by 2.9% compared to the previous month.

Analysis of the main industrial groups revealed that durable consumer goods and capital goods played a significant role in the strong performance of industrial production. However, it was worth mentioning that sluggish export performance weighed on the production of intermediate goods during this period.

Manufacturing PMI rose to 49.5.

The data announced by Markit indicated that manufacturing PMI came in at 49.5 in October, pointing to an upturn compared to the previous month. However, as the index stayed below the threshold level of 50, it pointed out that the contraction in the sector continued. Having climbed above the threshold level only two times in the last 10 months, the index was pulled down by falling output and new orders in October. On the other hand, employment, increasing for the two consecutive months, as well as new export orders, recording a monthly rise, supported the overall index during this period.

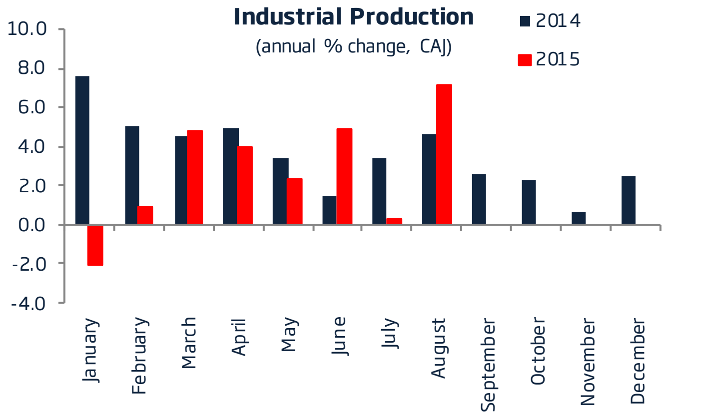
Capacity utilization ratio became 75.5%.

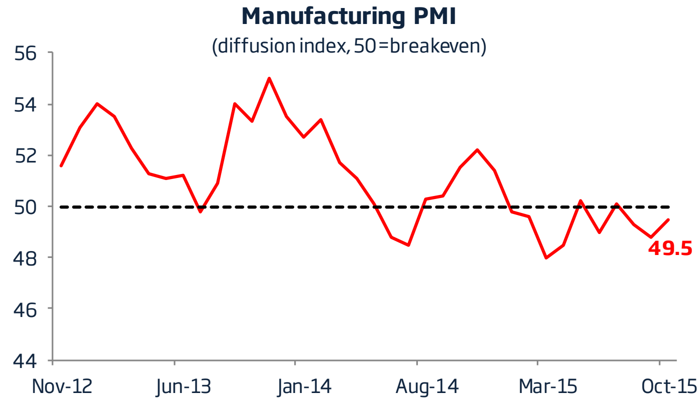
Capacity utilization ratio (CUR) came in at 75.5% in October, by rising 0.6 pp compared to the previous year. CUR in manufacture of durable consumption goods and capital goods increased during this period. The rises recorded especially in manufacture of coke and refined petroleum products and motor vehicles were noteworthy.

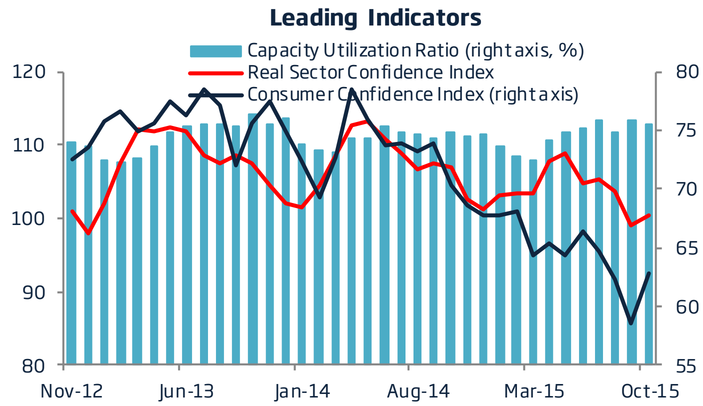
Confidence indices...

The real sector confidence index fell by 6.5 pp yoy to 100.5 in October. The deterioration in total amount of orders in the last 3 months and expectations for general business situation played a significant part in this decline. It was also worthy of attention that the assessments on the volume of output in the next three months have worsened considerably.

Consumer confidence index, on the other hand, recovered somewhat and surged to 62.8. All main sub-items of the index have showed improvement in October.







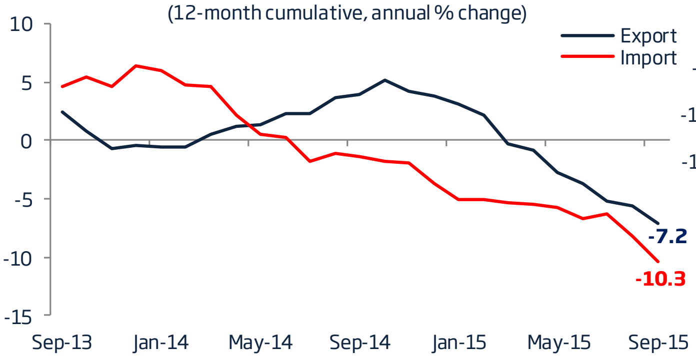
Source: Datastream, Turkstat, CBRT, Markit

TÜRKİYE İŞ BANKASI

Contraction in foreign trade deficit continued.

In September, export declined by 14.2% yoy and was realized as 11.7 billion USD, while imports contracted by 25.2% to 15.4 billion USD. Thus, foreign trade deficit dropped by 46.6% compared to the same month of 2014.

Foreign Trade Figures
(12-month cumulative, annual % change)



Import coverage ratio, which was 66% in September 2014, reached 75.7% in the same period of 2015. Thus, the said ratio exceeded 75% level for the first time since 2009 when imports fell rapidly due to global crisis.

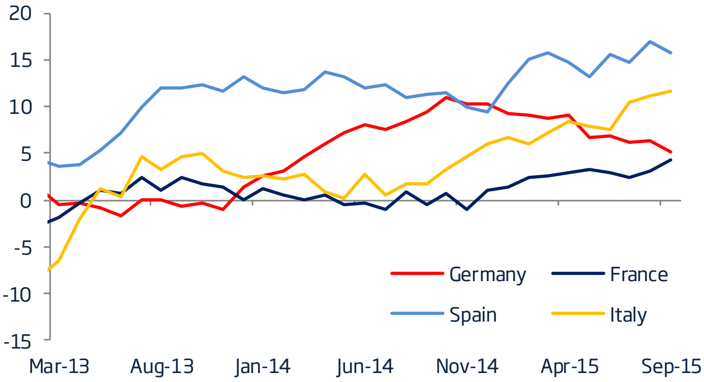
Exports in euro terms kept increasing.

In September, weakness in exports spread to almost all export markets. Exports to Russia, Iraq, Iran and Egypt, which are among our main export markets, dropped significantly in this period. Indeed, 928 million USD decline was recorded in exports towards these countries in September, accounting for approximately half of the fall in exports.

So far this year, exports to Euro Zone countries, as the biggest export partner, diminished in dollar terms especially due to the slide in EUR/USD parity. In fact, exports to these countries in USD terms fell by 12.4% yoy during January-September period. According to euro terms, however, exports to the Euro Zone countries rose by 4.3% yoy in September and 6.5% yoy in January-September period.

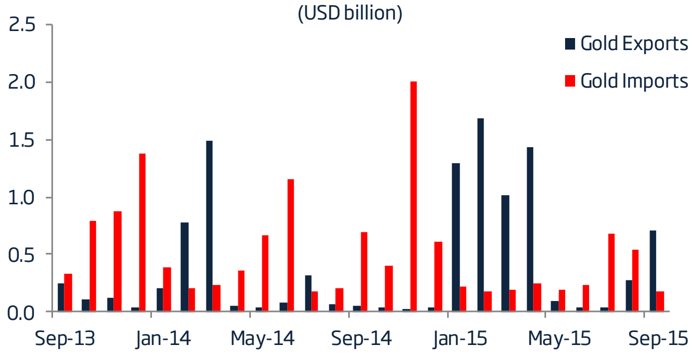
Analysis of the exports by chapters revealed that exports of vehicles exhibited a relatively flat outlook in September,

Exports to Main EZ Countries
(euro based, 12-month cumulative, annual % change)



despite the sharp decreases in other chapters. Exports of the iron-steel and mineral fuels posted a sharp drop in line with the sliding energy and commodity prices. On the other hand, gold exports amounting to 702 million USD in

Gold Trade
(USD billion)



September limited the decline in total export volume to some extent. The shares of Switzerland and U.K in total gold exports were realized as 67.5% and 22.5%, respectively.

Sharp fall in imports...

Imports remained under pressure because of moderate economic activity and developments in FX markets. The intermediate goods imports, which constitute almost three-quarters of total imports, fell by 30.2% yoy in September.

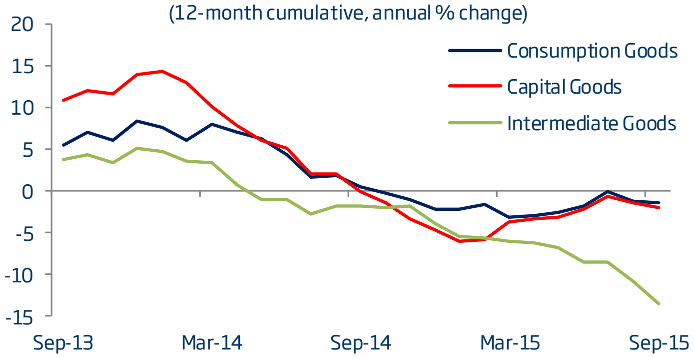
Foreign Trade Balance (USD billion)

	September		Change	Jan.-Sep.		Change
	2014	**2015**	**(%)**	**2014**	**2015**	**(%)**
Exports	13.6	11.7	-14.2	118.4	107.3	-9.4
Imports	20.6	15.4	-25.2	179.8	156.3	-13.1
Foreign Trade Balance	**-7.0**	**-3.7**	**-46.6**	**-61.4**	**-49.0**	**-20.2**
Import Coverage Ratio (%)	66.0	75.7	-	65.8	68.6	-

Source: Datastream, Turkstat

Having exhibited a weak performance throughout the year, intermediate goods imports decreased by 17.5% yoy in the first nine months of the year. Moreover, it was noteworthy that consumption goods imports receded by 17.1% yoy in September as they remained flat during January-September period.

Imports based on BEC
(12-month cumulative, annual % change)



In September, lower energy and commodity prices have been one of the main determinants of falling imports. Indeed, energy imports (classified as Chapter 27-mineral fuels and mineral oil) decreased by 38.6% yoy in this period. Iron and steel imports also dropped by 28.8% yoy.

Expectations

Moderate domestic economic activity as well as the developments in FX markets and lower energy prices led imports to remain under pressure in the first nine months of 2015. Exports also contracted significantly during this period owing to the weak global trade outlook and ongoing unfavorable developments in our main export markets. In addition, the decrease in the EUR/USD parity also played a significant role in falling import readings recorded in USD terms. It is anticipated that the foreign trade figures will exhibit a similar performance in the rest of the year. In this context, we foresee that the year-end foreign trade deficit and current account deficit will be 56 and 38 billion USD, respectively.

According to the provisional data, while exports posted an annual rise of 0.2% in October, imports contracted by 13% yoy. The rise in gold exports supported the export performance in this period.

Source: Datastream, Turkstat

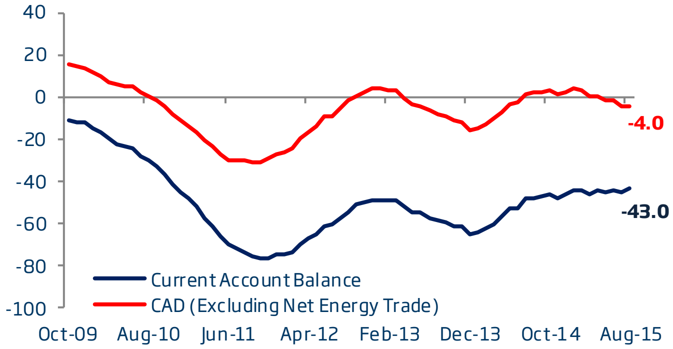
A low level of current account deficit in August...

Current account posted a deficit of 163 million USD in August as opposed to the market expectations envisaging a surplus of 50 million USD. Nevertheless, this figure marked the best performance since October 2009. Current account deficit was 2.2 billion USD in August last year.

Realizing at 25.7 billion USD in the first eight months of the year, current account deficit narrowed by 11.9% yoy. This development stemmed mostly from the decline in foreign trade deficit which fell by 14.8% yoy in the same period. The 12-month cumulative current account deficit declined to 43 billion USD in August, the lowest level registered since November 2010.

Current Account Balance

(12-month cumulative, USD billion)



The improvement in external balance supported current account balance.

The decline of 3.7 billion USD in imports recorded in August resulted in a limited amount of current account deficit. Indeed, imports posted the fastest drop since September 2009. Energy prices and weak domestic demand conditions played a considerable role in this development. Net services revenues, on the other hand, fell by 12.9% yoy in August and limited the improvement in current account balance. Net tourism revenues monitored under services balance shrank annually for the sixth consecutive month. Tourism revenues declined by 8.7% yoy in the first eight months of the year. Economic crisis in Russia and growing concerns over security in Turkey were the main reasons behind this development. Moreover, it was noteworthy that shuttle trade also declined by 32.5% yoy during this period.

Ongoing positive outlook in foreign direct investments...

In August, a period in which capital inflows to Turkey exhibited a weak outlook, foreign direct investment inflows contributed 1.7 billion USD to the financing of the deficit. The highest amount of foreign direct investment was recorded in the manufacture of coke, refined petroleum products and nuclear fuel in this period. Non-residents' foreign direct investment in Turkey increased by 35.5% yoy to 11.8 billion USD in the first eight months of the year. However, real estate investments (net), which constitute 21.4% of total foreign direct investments, fell by 8.7% yoy during this period.

Capital outflow recorded in portfolio investments...

Having registered a net capital outflow since May, portfolio investments also recorded a net outflow of 1.5 billion USD in August. The net outflow in this item reached 8.8 billion UDS as of the first eight months of the year. Non-residents' equity and debt securities portfolios marked a net sales of 0.7 billion USD and 4.2 billion USD, respectively. Furthermore, it was seen that residents acquired a net amount of 3.9 billion USD worth of assets abroad during this period. In line with the deterioration in risk perception towards the emerging markets, capital flows to emerging countries including Turkey displayed a weak performance.

Banking sector became a net credit repayer in August.

Other investments also posted a net outflow of 1.9 billion UDS in August. A net rise of 2.3 billion USD registered in currency and deposits held by domestic banks' in their foreign correspondent banks and a net fall of 0.3 billion USD foreign banks' currency and deposits within domestic banks played a part in this development. Furthermore, banking sector became a net credit repayer with 335 million USD in August. Banking sector was a net credit borrower of 2.2 billion USD in long-term loans in this period while it was a net credit repayer of 2.5 billion

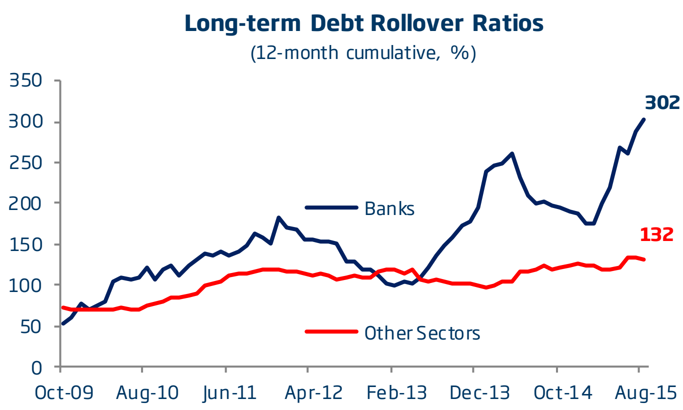
Breakdown of Net Capital Inflows **(12-month cumulative, USD million)**

			Breakdown of Net Capital Inflows (%)	
	Dec. 2014	**Aug. 2015**	**Dec. 2014**	**Aug. 2015**
Current Account Balance	**-46,525**	**-43,047**	**-**	**-**
Total Net Foreign Capital Inflows	**46,057**	**36,297**	**100.0**	**100.0**
-Direct Investments	5,718	9,710	12.4	26.8
-Portfolio Investments	20,109	-945	43.7	-2.6
-Other Investments	16,980	22,442	36.9	61.8
-Net Errors and Omissions	3,320	5,110	7.2	14.1
-Other	-70	-20	-0.2	-0.1
Reserves(1)	**468**	**6,750**	**-**	**-**

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



USD in short-term loans. Non-bank sectors, on the other hand, borrowed a net amount of 694 million USD in August. In the same period, non-banking sector was a net credit borrower of 441 million USD in long-term loans. They were a net credit user of 253 million USD in short-term loans as well.

12-month cumulative data indicated that banks' and non-bank sectors' long-term debt roll-over ratios stood at 302% and 132% in August, respectively.

An inflow of 11 billion USD in net errors and omissions account...

Net errors and omissions account posted a surge of 1.4 billion USD in August. Hence, capital inflows recorded under this item, which was 9.2 billion USD in the first eight months of 2014, became 11 billion USD in the same period of this year. Accordingly, this account continued to make a significant contribution to the financing of the current account deficit.

Expectations...

In line with the expectations that the narrowing of foreign trade deficit might persist in the coming period, current account balance is expected to continue to improve. On the financing front, fluctuations have been observed owing to the shifts in expectations regarding the normalization process of Fed's policy. Moreover, the deterioration in risk perception toward emerging markets, in particular China, reinforced capital outflows recently. Nonetheless, as banks and non-banking sectors have no difficulty in accessing funds in international markets, it is anticipated that no setbacks will be faced in financing the current account deficit in the forthcoming period.

Balance of Payments (USD million)

	August 2015	Jan. - Aug. 2014	Jan. - Aug. 2015	% Change	12-Month Cumulative
Current Account Balance	**-163**	**-29,152**	**-25,674**	**-11.9**	**-43,047**
Foreign Trade Balance	-3,634	-40,419	-34,441	-14.8	-57,606
Services Balance	3,947	16,696	15,287	-8.4	23,755
Travel (net)	3,364	16,038	14,124	-11.9	22,566
Primary Income	-586	-6,104	-7,147	17.1	-10,255
Secondary Income	110	675	627	-7.1	1,059
Capital Account	**27**	**-56**	**-6**	-89.3	**-20**
Financial Account	**1,294**	**-20,052**	**-14,734**	**-26.5**	**-37,957**
Direct Investments (net)	-1,675	-4,474	-8,466	89.2	-9,710
Portfolio Investments (net)	1,477	-12,290	8,764	-	945
Net Acquisition of Financial Assets	453	784	3,871	393.8	3,828
Net Incurrence of Liabilities	-1,024	13,074	-4,893	-	2,883
Equity Securities	-347	2,014	-715	-	-170
Debt Securities	-677	11,060	-4,178	-	3,053
Other Investments (net)	1,891	-6,642	-12,104	82.2	-22,442
Currency and Deposits	2,111	414	47	-88.6	-967
Net Acquisition of Financial Asse	2,077	187	11,199	5,888.8	11,308
Net Incurrence of Liabilities	-34	-227	11,152	-	12,275
Central Bank	-196	-1,645	-606	-63.2	-1,294
Banks	1,456	1,418	11,758	729.2	9,405
Foreign Banks	1,549	-229	8,381	-	6,499
Foreign Exchange	-821	-765	4,790	-	2,701
Turkish Lira	500	536	3,591	570.0	6,005
Non-residents	483	1,647	3,377	105.0	4,863
Loans	-461	-6,542	-10,203	56.0	-18,762
Net Acquisition of Financial Asse	-141	1,724	396	-77.0	535
Net Incurrence of Liabilities	320	8,266	10,599	28.2	19,297
Banking Sector	-335	4,267	5,254	23.1	12,823
Non-bank Sectors	694	4,779	6,033	26.2	7,273
Trade Credit and Advances	294	-98	-1,713	1,648.0	-2,423
Other Assets and Liabilities	-53	-416	-235	-43.5	-290
Reserve Assets (net)	-399	3,354	-2,928	-	-6,750
Net Errors and Omissions	**1,430**	**9,156**	**10,946**	**19.6**	**5,110**

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

Central government budget posted 14.1 billion TRY deficit in September.

In September budget expenditures increased by 21.2% yoy while budget revenues expanded by 11.5%. Thus, budget deficit widened by 53.1% yoy and was realized as 14.1 billion TRY. It was the highest monthly budget deficit figure of all time, excluding Decembers where the central government budget traditionally posts a significant amount of deficit.

In the first 9 months of the year, both budget revenues and expenditures increased by 13% presenting a balanced outlook. During this period, budget deficit increased by 12.8% to 13.5 billion TRY.

Slowdown in tax revenues together with the increase in personnel expenses and current transfers were influential on the higher budget deficit figure.

Tax revenues also continued to lost momentum in September following July and August. VAT on imports weakened due to the significant drop in exports and the special consumption tax revenues (particularly in tobacco products) slowed down. However, earnings via value added tax gained momentum in September and supported the overall tax revenues.

In September, the annual 8.4 billion TRY increase in budget expenditures mainly stemmed from the rise in personnel expenditures and current transfers. Personnel expenditures, dominated by the salaries of civil servants, increased by 19.6%, while it was noteworthy that payments to workers and contractual personnel recorded a significant rise in this period. 23.1% annual increase in current transfers mainly stemmed from the health, retirement, social aid expenditures and social transfers.

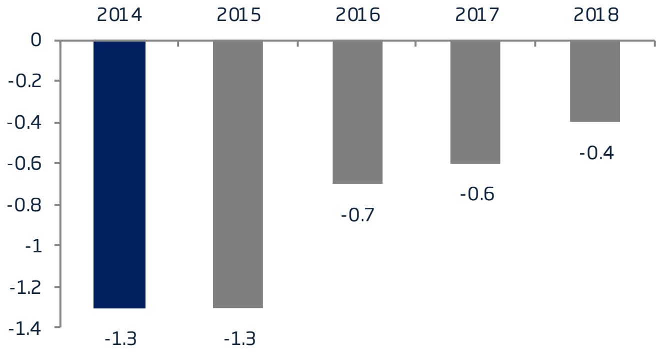
On the other hand, the deterioration in the risk perception towards Turkey since the second half of 2013 led interest rates to rise. Thus, increase in interest expenditures continued in September.

Budget projections in Medium Term Program...

According to the Medium Term Program (MTP), the ratio of public expenditures and revenues to GDP will continue to shrink so that public sector's weight in economic activity will decline gradually in the coming period. The central government budget deficit to GDP ratio in 2015 year-end, which was set as 1.1% in the previous MTP, is forecasted to realize as 1.3%. The primary surplus to GDP ratio, which was set as 1.7% in the previous MTP, is anticipated to be 1.5% in the year-end. The central government budget deficit to GDP ratio is targeted to decrease to 0.7% in 2016 and further to 0.4% at the end of the Program period. In other words, central government budget will be almost "balanced" at the end of 2018. The EU defined general government debt stock to GDP ratio, which was 33.5% in 2014, is forecasted to somewhat increase to 34% at the end of 2015 and is targeted to further decrease to 30% at the end of the Program.

Central Government Budget Balance

(% GDP)



Note: 2015-2018 Medium Term Program projections

Expectations

The expected improvement in nominal debt stock to GDP ratio indicates that the public sector will borrow less in the MTP period. However, after the general elections to be held in November in 2015 the new government might revise the MTP projections. Considering the budget realizations so far we expect that the budget figures will remain compatible with the targets in the remaining part of the year.

Central Government Budget (TRY billion)

	September 2014	September 2015	% Değişim	January-September 2014	January-September 2015	% Değişim	2015 Budget Target	MTP Target	Real/MTP Target (%)
Expenditures	**39.6**	**47.9**	**21.2**	**325.4**	**367.7**	**13.0**	**472.9**	**503.0**	**73.1**
Interest Expenditures	4.6	6.4	37.7	38.3	44.8	17.0	54.0	54.0	82.9
Non-Interest Expenditures	34.9	41.6	19.0	287.2	322.9	12.4	418.9	449.0	71.9
Revenues	**30.3**	**33.8**	**11.5**	**313.5**	**354.2**	**13.0**	**452.0**	**478.5**	**74.0**
Tax Revenues	26.2	29.5	12.6	258.7	298.3	15.3	389.5	405.8	73.5
Other Revenues	4.1	4.3	4.7	54.9	55.9	1.9	62.5	72.8	76.8
Budget Balance	**-9.2**	**-14.1**	**53.1**	**-11.9**	**-13.5**	**12.8**	**-21.0**	**-24.5**	**54.9**
Primary Balance	**-4.6**	**-7.7**	**68.7**	**26.3**	**31.3**	**18.8**	**33.0**	**29.5**	**106.1**

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

Source: Ministry of Finance, Datastream

CPI inflation came in slightly above expectations.

In October, CPI increased by 1.55% mom, slightly above the expectations. Domestic PPI (D-PPI), on the other hand, decreased by 0.2% in this period. Monthly CPI inflation was expected to become 1.35% according to the Reuters poll, while CBRT Survey of Expectations suggested CPI would post a monthly rise of 1.26% in October.

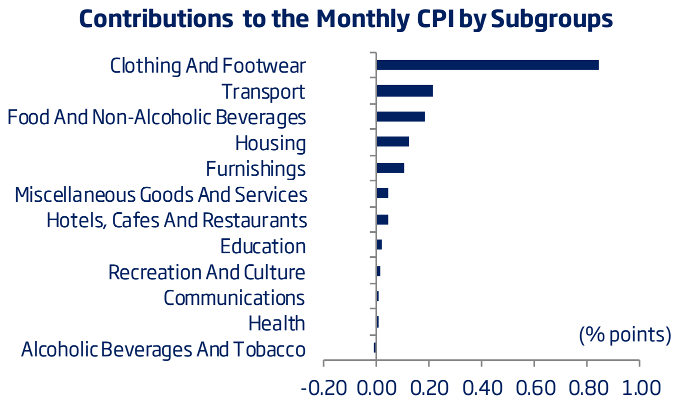
October	CPI		D-PPI	
Change (%)	2014	2015	2014	2015
Monthly	1.90	1.55	0.92	-0.20
Year-to-Date	8.45	7.86	8.22	7.59
Annual	8.96	7.58	10.10	5.74
Annual Average	8.65	7.69	10.11	5.58

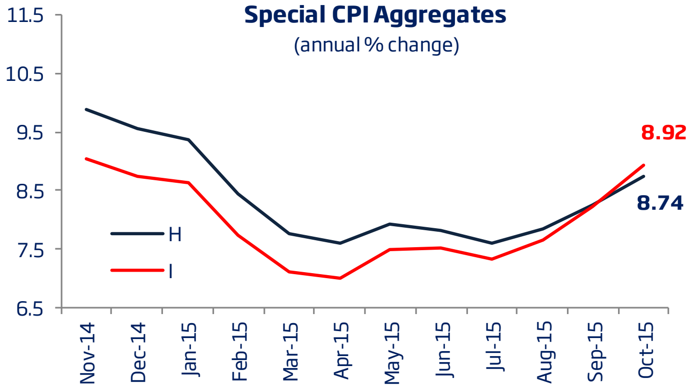
Decline in annual inflation...

Having stood at 7.95% in September, annual CPI fell in October due to the basis effect and was realized as 7.58%. In this period, annual D-PPI inflation displayed a similar pattern and came in at 5.74%.

Sharp increase in clothing and footwear prices...

Analysis by the main expenditure groups revealed that the increase in clothing and footwear prices due to the seasonal factors played a significant role in the CPI inflation. Indeed, clothing and footwear prices picked up by 11.43% mom and contributed to inflation by 84 basis points. Data on inflation by item basket showed that the first 21 largest price increases were recorded in the items which belong to clothing and footwear group. Prices in transportation group, which has a high sensitivity to the exchange rate developments, surged by 1.40% mom and made the second biggest contribution to inflation. Among this group, the increase in the prices of vehicles was worthy of attention. Moreover, the prices in food and non-alcoholic beverages group, which has the highest share in CPI basket, put upward pressure on inflation during this period. However, the falls in some of the unprocessed food prices such as lemon and apple thanks to the harvest season contained this upward pressure. The only main expenditure group of which prices decreased on a monthly basis, albeit to a very small extent, was alcoholic beverages and tobacco.





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.

Core inflation indicators...

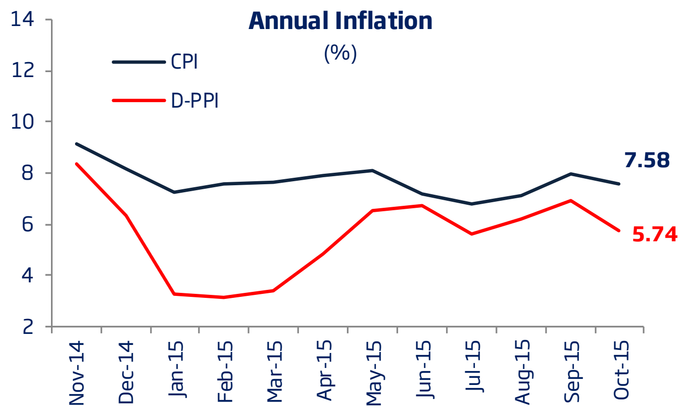
The ongoing deterioration in core CPI inflation indicators gained momentum in October due to the lagged effects of exchange rates. Indeed, the two core inflation indices monitored closely by CBRT, denominated by H and I, increased by 8.74% and 8.92% yoy, respectively.

Fall in D-PPI...

Having followed an upward trajectory in the recent period, D-PPI fell in October thanks to a relatively more stable exchange rates. While the prices of intermediate and non-durable goods followed a downward path on a monthly basis, the prices in the other main industrial groups increased in this period. According to the annual figures, on the other hand, among the main industry groups only energy prices declined in October.

Expectations

It is estimated that seasonal factors will put upward pressure on inflation in November. On the other hand, downward movements in exchange rates, along with the low energy and commodity prices, might ease this upward pressure slightly during this period.



Source: Turkstat, Datastream

Optimism over the Fed drove financial markets up in October.

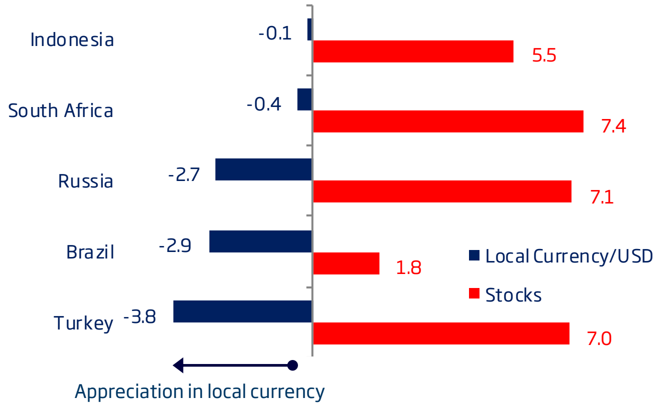
The Fed's decision to hold interest rates intact and its emphasis on the concerns over global developments caused a delay in rate hike expectations. In addition, ECB's signals for further monetary easing and the rate cut decision of Chinese Central Bank enhanced the positive mood of the markets. In this context, capital flows towards emerging economies including Turkey have accelerated. Consequently, their currencies appreciated against dollar and their stock markets presented a favorable outlook.

In line with the wave of optimism in global markets, CDS premiums of Turkey, which reached 325 basis points on September 29, dropped to 252 as of end-October. Having hovered above 3-level throughout September, USD/TRY also receded to 2.8550, the lowest level in the last two months. Similarly, BIST-100 index increased fast in October and climbed above 80 thousand points. The monthly rise in the index was 7% as of end-October.

As risk appetite increased and capital inflows to Turkey gained momentum, interest rates in bond market declined in October. 2-year benchmark bond yield, which closed September above 11%, became 10.18% as of end-October. The favorable outlook in the financial markets prevailed in the first days of November following the general election.

Financial Indicators in Emerging Economies

(monthly % change)



CBRT kept the rates on hold.

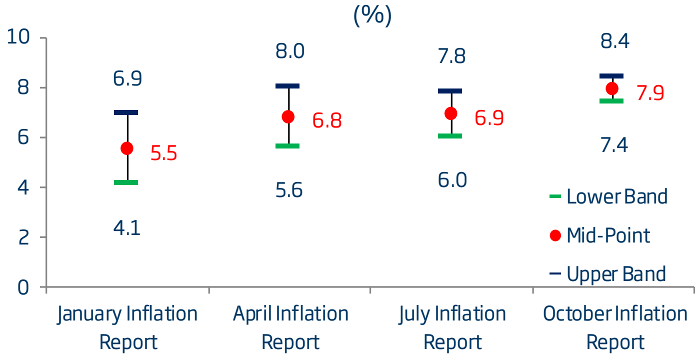
CBRT maintained its monetary policy stance at its meeting held on October 21. In the press release published after the meeting, CBRT noted that energy prices continued to have a favorable impact on inflation while foreign exchange movements delayed the improvement in core inflation indicators. In this regard, CBRT pledged to maintain its tight stance in liquidity policy as long as it is deemed necessary.

CBRT revised upwards its inflation forecasts.

CBRT made upward revisions to its inflation forecasts for both 2015 and 2016 as announced in the latest Inflation Report of the year published on October 28. New inflation projections are based on the assumption that the tight monetary policy stance will be sustained until a significant improvement in inflation outlook is observed and the annual loan-growth rates will continue to stay at reasonable levels thanks to the macroprudential measures. Accordingly, CBRT expects with a 70% probability that the annual inflation will stand between 7.4% and 8.4% (with a mid-point of 7.9%) at the year-end. It also anticipates that annual inflation at the end of 2016 will be between 5.0% and 8.0% (with a mid -point of 6.5%). The previous mid-point forecasts for 2015 and 2016 were 6.5% and 5.5%, respectively. Also, it was noteworthy that the new inflation expectations are above the targets announced in the Medium Term Programme which is published at the beginning of October.

Inflation Forecasts for the end-2015 by CBRT

(%)



Source: CBRT, Reuters, Datastream, BIST

Exchange rate adjusted deposit volume rose by 5.8% ytd.

According to BRSA's Weekly Bulletin, annual deposit growth became 21.2% as of October 23 while the year-to-date expansion in deposits was 16.4%. The deceleration in deposits was mainly driven by the decline in FX deposits due to the appreciation in TL. In fact, throughout the year, the FX deposit growth considerably surpassed that of TRY deposits because of the developments in FX rates. The year-to-date increase in total deposits was realized as 5.8%, according to exchange rate adjusted figures.

Exchange rate adjusted loan volume grew by 10.3% ytd.

The annual growth in total loan volume was 23.6% as of October 23 while the year-to-date rise in loan volume became 17.7%. FX loans in USD terms lost momentum in recent months whereas TRY loans accelerated slightly. Exchange rate adjusted credit volume rose by 10.3% ytd.

Non-performing loans ratio in banking sector picked up in the recent period. The NPL ratio of the sector was realized as 3.03% as of October 23. Analysis by types of loans revealed that NPL ratio for commercial loans stood at 2.61%. NPL ratio for consumer loans, on the other hand, was 4.26%.

The rise in securities portfolio...

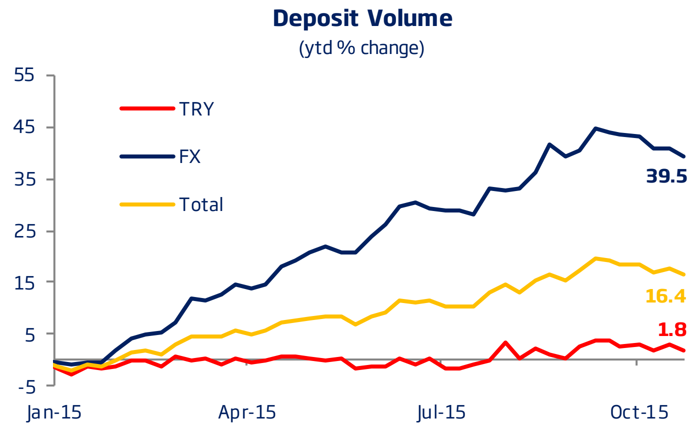
Securities portfolio of the banking sector increased by 7.8% ytd as of October 23. It was seen that securities subject to repo transactions declined notably in recent weeks while available for sale securities portfolio surged.

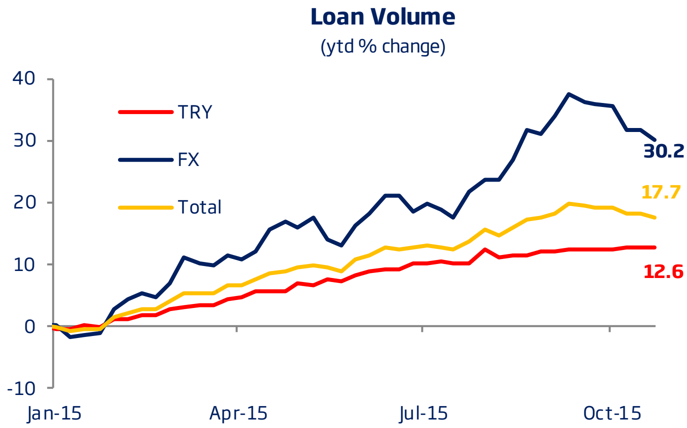
Securities held in custody accounts...

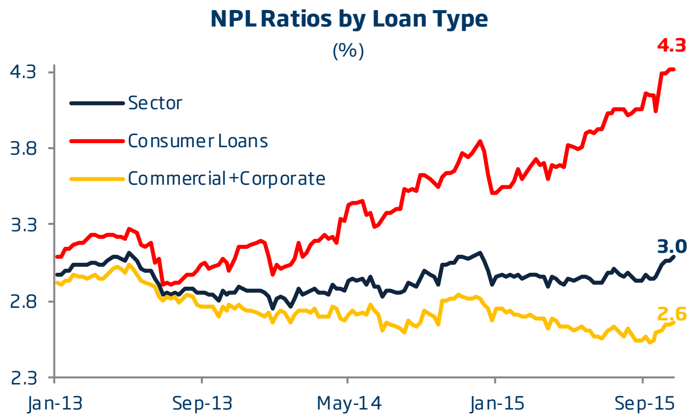
As of October 23, securities held in custody accounts remained flat in nominal terms compared to the year-end. Residents' portfolio posted a rise of 10.7% in this period while nonresidents' portfolio fell by 11.3%.

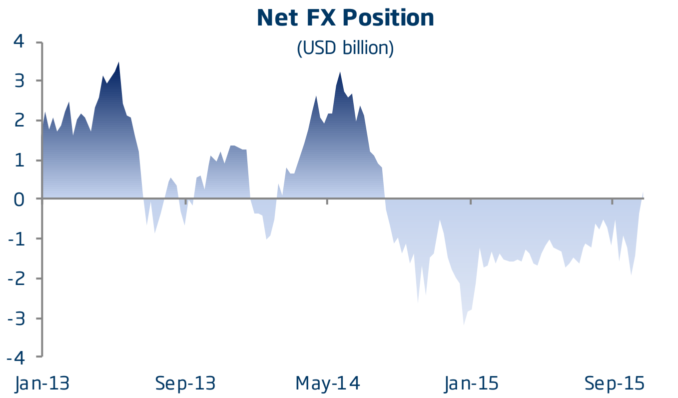
Long position in FX...

Banks' on-balance sheet FX position was (-)36,808 million USD while off-balance sheet FX position stood at (+)36,981 million USD as of October 23. Hence, banks' net FX position became (+)173 million USD, holding a net long position in FX for the first time since August 2014.









Source: BRSA Weekly Bulletin

Concluding Remarks

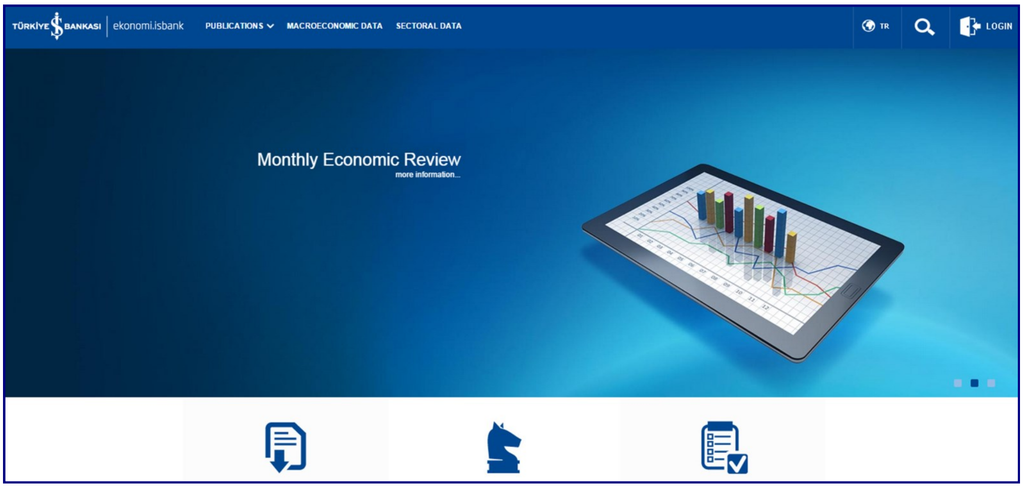
Economic data, which are of importance for the trajectory of the Fed's monetary policy, Fed officials' statements and rate hike expectations continued to be the key drivers of the financial markets. Indeed, the moderate performance of the US economy and the delay in rate hike expectations led to a recovery in global risk perception. Parallel to this, capital flows towards emerging markets have improved. However, as the Fed did not make a reference to global economic and financial developments in its last meeting announcement and Fed officials' statements did not sound as much dovish as before, the views that December option for the first rate hike is still on the table strengthened. On the contrary, growing signs of a more expansionary monetary policy stance by ECB and Chinese Central Bank provided support to the global financial markets to some extent. Against this backdrop, volatility in global markets mounted.

Positive atmosphere in global markets in October reflected in domestic markets as well despite the ongoing domestic uncertainties. The first impact of the November 1 election results on financial markets was also favorable as political uncertainties disappeared. So, TRY strengthened and risk premiums fell during the first days of November.

Forecasts (%)	2014 (R)	2015
Growth	2,9	3,0
CA Deficit/GDP	5,8	5,3
Inflation	8,2	8,0

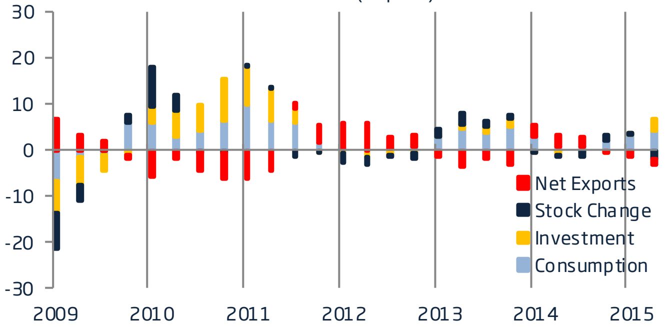
(R) Realization
Interest and inflation are year-end forecasts

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

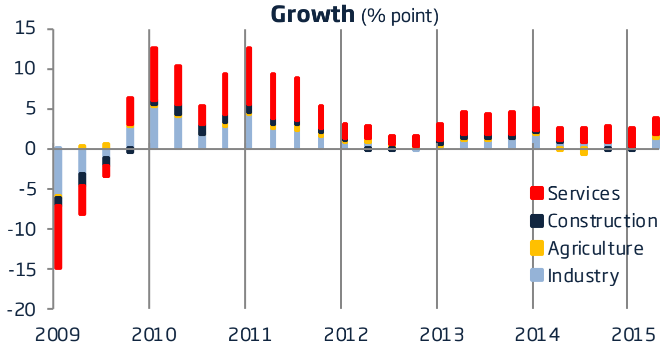


Growth

Expenditure Approach - Contributions to GDP Growth (% point)



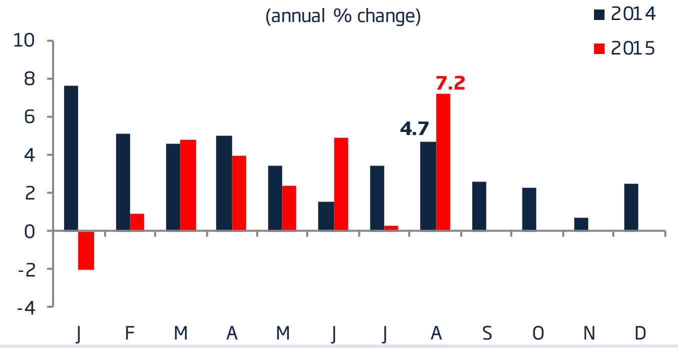
Production Approach - Contributions to GDP Growth (% point)



Industrial Production and Capacity Utilization Ratio

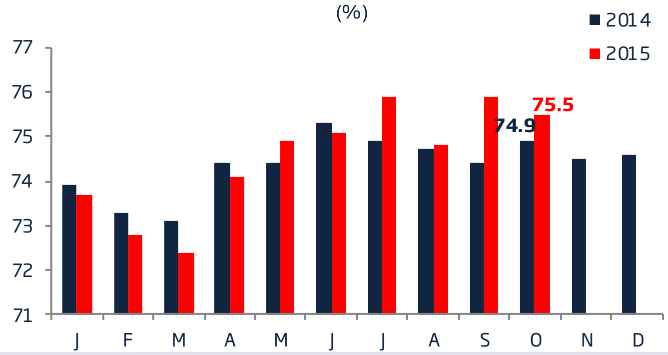
Industrial Production*

(annual % change)



Capacity Utilization Ratio

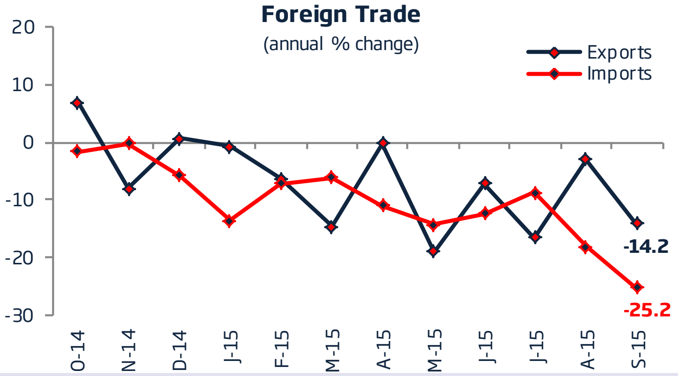
(%)



Foreign Trade and Current Account Balance

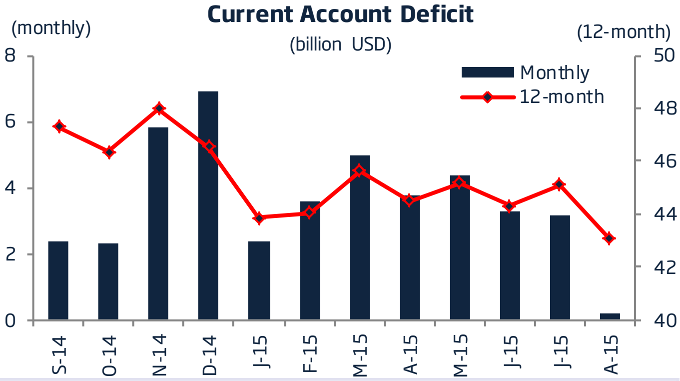
Foreign Trade

(annual % change)



Current Account Deficit

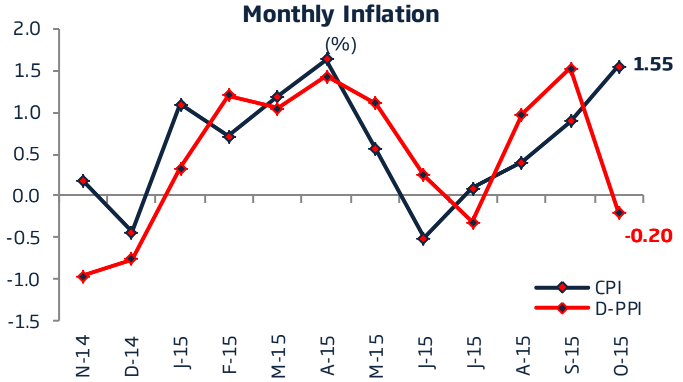
(billion USD)



Inflation

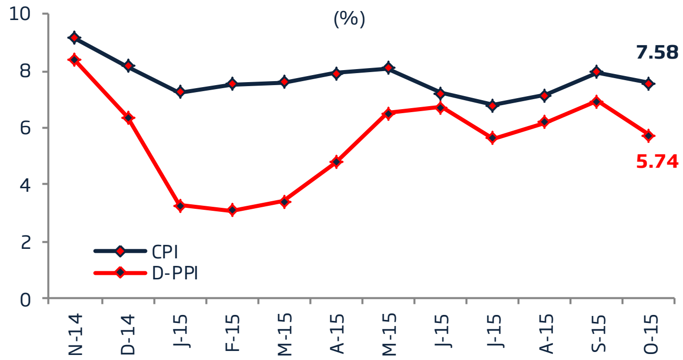
Monthly Inflation

(%)



Annual Inflation

(%)



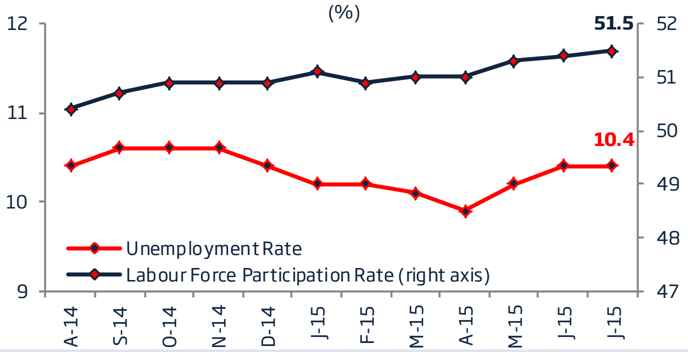
(*) Calendar adjusted figures

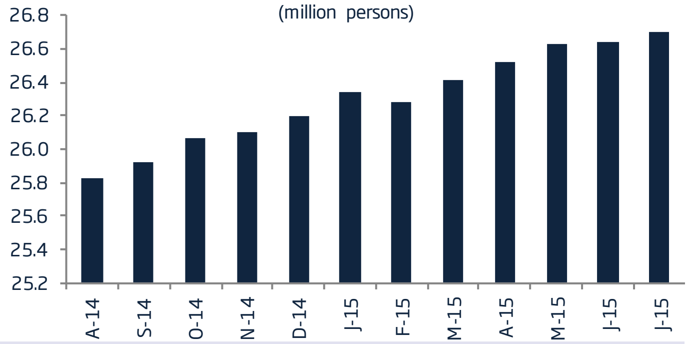
Source: CBRT, Datastream, Turkstat

Turkish Economy at a Glance

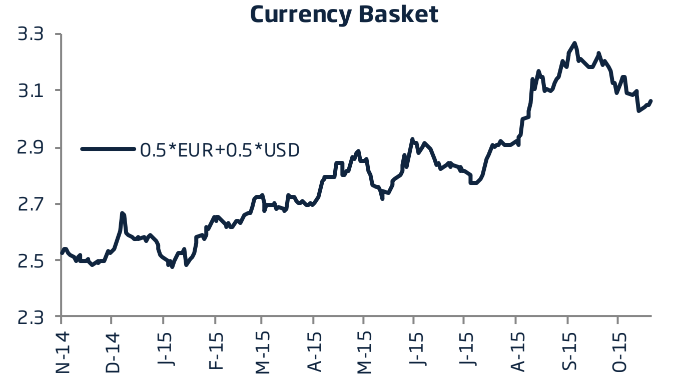
TÜRKİYE İŞ BANKASI

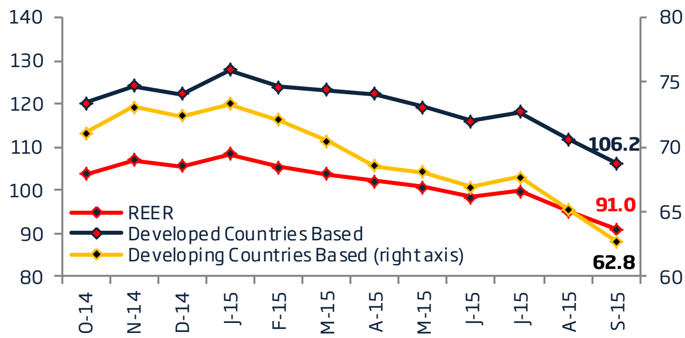
Labor Market



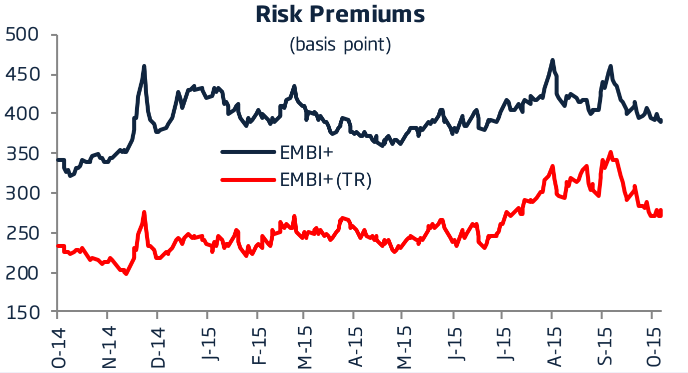


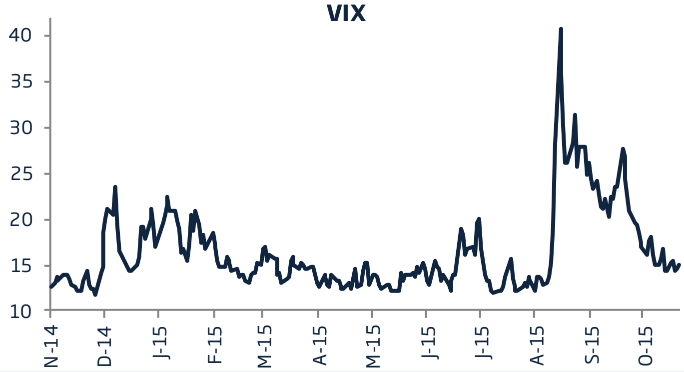
FX Market



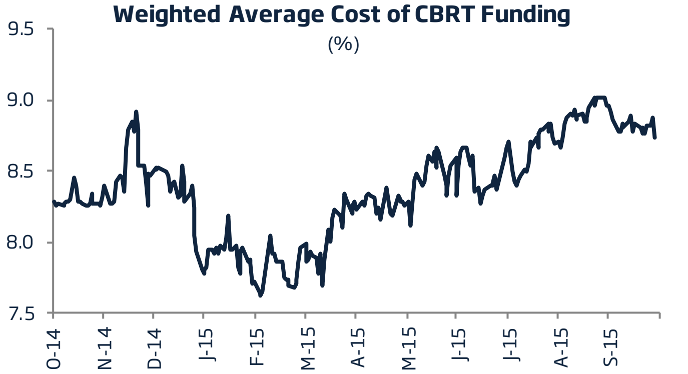


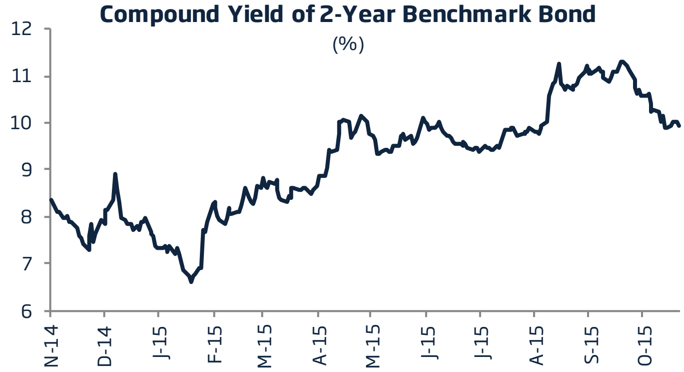
Risk Indicators





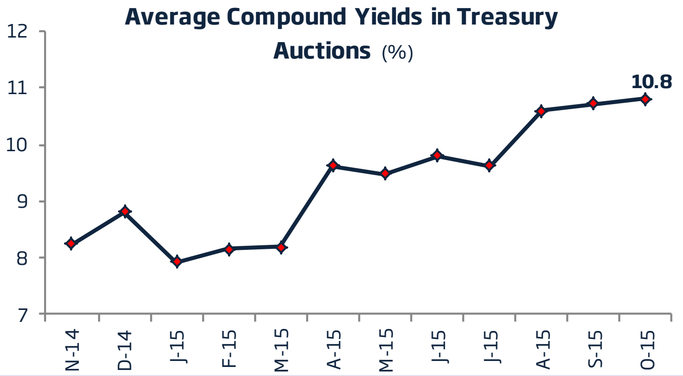
Interest Rates

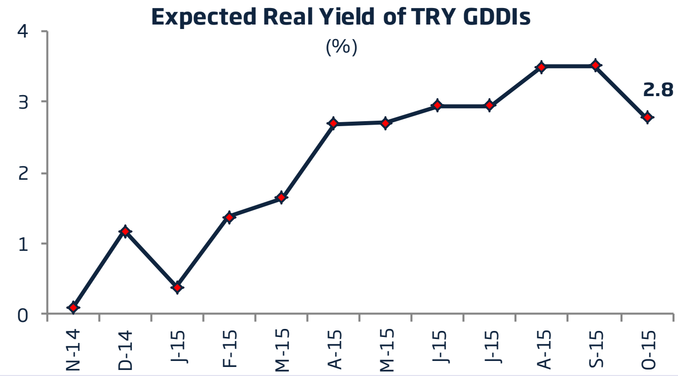




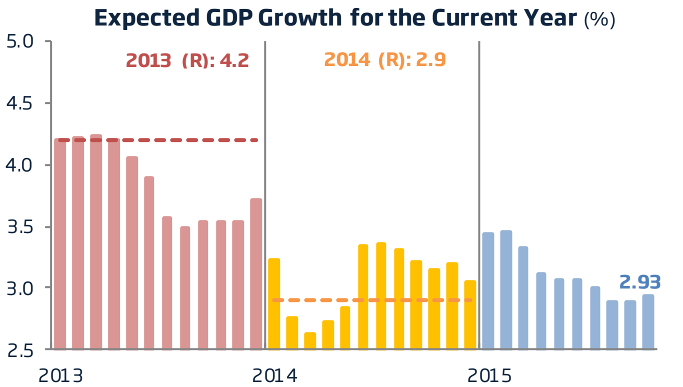
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

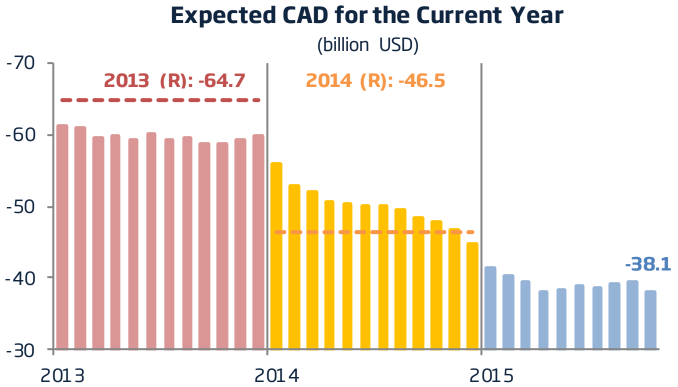
Bond-Bill Market

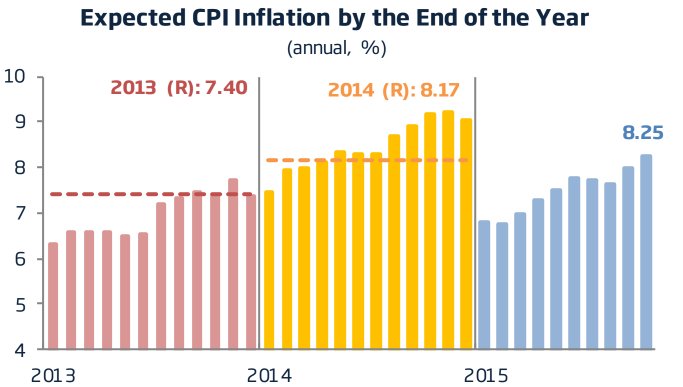


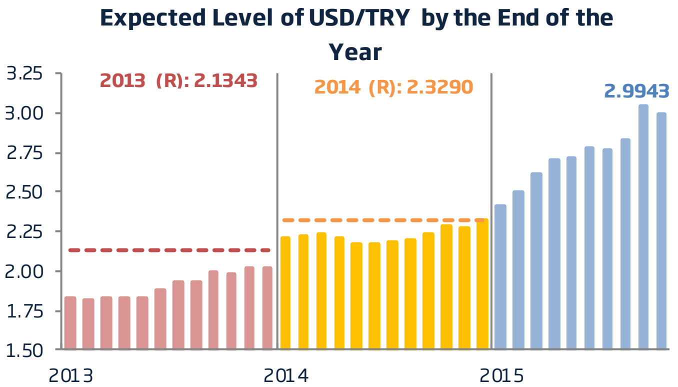


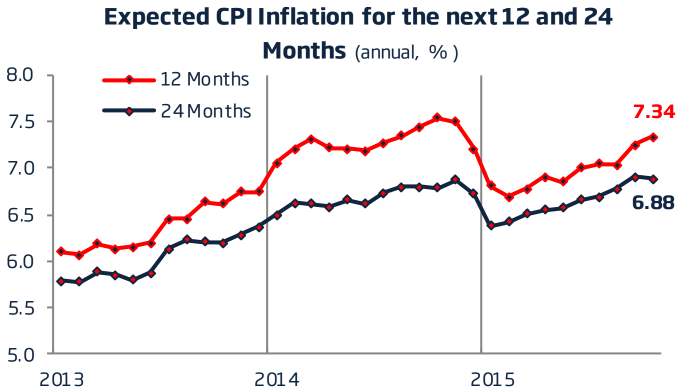
Survey of Expectations and Other Leading Indicators

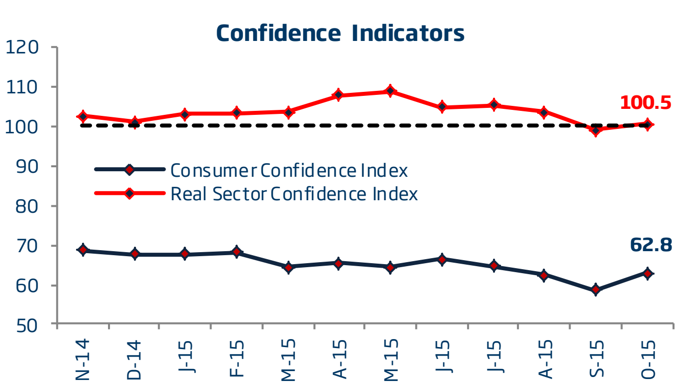












(R) Realization

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

Turkish Economy at a Glance

TÜRKİYE İŞ BANKASI

Growth	**2010**	**2011**	**2012**	**2013**	**2014**	**15-Q1**	**15-Q2**	**15-Q3**
GDP (USD billion)	731.6	774.0	786.3	823.0	799.0	181.0	180.5	-
GDP (TRY billion)	1,099	1,298	1,417	1,567	1,747	444.3	481.7	-
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	2.5	3.8	-
Inflation (%)						**Aug-15**	**Sep-15**	**Oct-15**
CPI (annual)	6.40	10.45	6.16	7.40	8.17	7.14	7.95	7.58
Domestic PPI (annual)	8.87	13.33	2.45	6.97	6.36	6.21	6.92	5.74
Seasonally Adjusted Labor Market Figures						**May-15**	**Jun-15**	**Jul-15**
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.2	10.4	10.4
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	50.9	51.3	51.4	51.5
FX Rates						**Aug-15**	**Sep-15**	**Oct-15**
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	95.2	91.0	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.9205	3.0278	2.9175
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	3.2745	3.3971	3.2096
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	3.0975	3.2125	3.0636
Foreign Trade Balance[1] (USD billion)						**Jul-15**	**Aug-15**	**Sep-15**
Exports	113.9	134.9	152.5	151.8	157.6	148.8	148.4	146.5
Imports	185.5	240.8	236.5	251.7	242.2	227.4	223.9	218.7
Foreign Trade Balance	**-71.7**	**-105.9**	**-84.1**	**-99.9**	**-84.6**	**-78.6**	**-75.4**	**-72.2**
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	65.4	66.3	67.0
Current Account Balance[1] (USD billion)						**Jun-15**	**Jul-15**	**Aug-15**
Current Account Balance	**-45.3**	**-75.0**	**-48.5**	**-64.7**	**-46.5**	**-44.3**	**-45.1**	**-43.0**
Capital and Financial Accounts	**-45.1**	**-66.0**	**-48.2**	**-62.0**	**-43.3**	**-37.7**	**-40.2**	**-38.0**
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.7	-5.3	-6.9	-9.7
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.1	-5.8	1.2	0.9
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-17.0	-20.3	-29.9	-22.4
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	-6.3	-4.5	-6.8
Net Errors and Omissions	**0.2**	**9.0**	**0.3**	**2.8**	**3.3**	**6.6**	**5.0**	**5.1**
Current Account Balance/GDP (%)	**-6.2**	**-9.7**	**-6.2**	**-7.9**	**-5.8**	-	-	-
Budget[2][3] (TRY billion)						**Jul-15**	**Aug-15**	**Sep-15**
Expenditures	**294.4**	**314.6**	**361.9**	**408.2**	**448.8**	**282.2**	**319.7**	**367.7**
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	34.8	38.4	44.8
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.8	247.4	281.3	322.9
Revenues	**254.3**	**296.8**	**332.5**	**389.7**	**425.4**	**277.6**	**320.4**	**354.2**
Tax Revenues	210.6	253.8	278.8	326.2	352.5	230.7	268.7	298.3
Budget Balance	**-40.1**	**-17.8**	**-29.4**	**-18.5**	**-23.4**	**-4.6**	**0.6**	**-13.5**
Primary Balance	**8.2**	**24.4**	**19.0**	**31.4**	**26.5**	**30.2**	**39.0**	**31.3**
Budget Balance/GDP (%)	**-3.6**	**-1.4**	**-2.1**	**-1.2**	**-1.3**	-	-	-
Central Government Debt Stock (TRY billion)						**Jul-15**	**Aug-15**	**Sep-15**
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	434.4	435.0	438.2
External Debt Stock	120.7	149.6	145.7	182.8	197.5	227.5	241.2	251.6
Total Debt Stock	**473.6**	**518.4**	**532.2**	**585.8**	**612.1**	**661.9**	**676.2**	**689.8**

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

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

TÜRKİYE İŞ BANKASI

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2010	2011	2012	2013	2014	Aug.15	Sep.15	Change[(1)]
TOTAL ASSETS	**1,006.7**	**1,217.7**	**1,370.7**	**1,732.4**	**1,994.3**	**2,346.1**	**2,396.1**	**20.1**
Loans	**525.9**	**682.9**	**794.8**	**1,047.4**	**1,240.7**	**1,456.8**	**1,482.3**	**19.5**
TRY Loans	383.8	484.8	588.4	752.7	881.0	988.6	996.0	13.1
Share (%)	73.0	71.0	74.0	71.9	71.0	67.9	67.2	-
FX Loans	142.1	198.1	206.4	294.7	359.7	468.1	486.3	35.2
Share (%)	27.0	29.0	26.0	28.1	29.0	32.1	32.8	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	43.4	44.8	22.9
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	2.9	2.9	-
Securities	**287.9**	**285.0**	**270.0**	**286.7**	**302.3**	**320.5**	**322.2**	**6.6**
TOTAL LIABILITIES	**1,006.7**	**1,217.7**	**1,370.7**	**1,732.4**	**1,994.3**	**2,346.1**	**2,396.1**	**20.1**
Deposits	**617.0**	**695.5**	**772.2**	**945.8**	**1,052.7**	**1,229.0**	**1,269.2**	**20.6**
TRY Deposits	433.5	460.0	520.4	594.1	661.3	680.9	703.7	6.4
Share (%)	70.3	66.1	67.4	62.8	62.8	55.4	55.4	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	548.2	565.5	44.5
Share (%)	29.7	33.9	32.6	37.2	37.2	44.6	44.6	-
Securities Issued	**3.1**	**18.4**	**37.9**	**60.6**	**89.3**	**103.3**	**104.2**	**16.7**
Payables to Banks	**122.4**	**167.4**	**173.4**	**254.2**	**293.2**	**364.3**	**377.0**	**28.6**
Funds from Repo Transactions	**57.5**	**97.0**	**79.9**	**119.1**	**137.4**	**162.0**	**150.9**	**9.8**
SHAREHOLDERS' EQUITY	**134.5**	**144.6**	**181.9**	**193.7**	**232.0**	**246.4**	**247.4**	**6.7**
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	16.2	18.6	-
RATIOS (%)								
Loans/GDP	47.9	52.6	56.1	66.8	71.0	-	-	-
Loans/Assets	52.2	56.1	58.0	60.5	62.2	62.1	61.9	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	13.7	13.4	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	52.4	53.0	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	118.5	116.8	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	14.8	14.7	-

(1) Year-to-date % change

Source: BRSA

LEGAL NOTICE