Monthly Economic Review
January 2016

Global Economy

- US Federal Reserve raised the interest rates for the first time in 9 years on 16th December. The Fed Chairwoman Janet Yellen stated that despite this rate hike, the monetary policy stance would remain accommodative while signaling that the pace of future rate hikes would be gradual.
- The US GDP growth for the 3rd quarter was revised to an annualized rate of 2% from 2.1%. The downward revision mostly stemmed from the changes registered in inventories and net export. In this period, private consumption spending has been the main driver of the growth.
- Eurozone macroeconomic data painted a favorable outlook for December. Annual CPI, which was back in negative territory in September, has turned positive both in October and November. However, the general price level has been consistently below the ECB's target of 2% mostly due to the low levels of energy prices.
- Brazil's sovereign credit rating had been cut to junk status by Fitch, which became the second credit rating agency downgrading the country's investment credit rating.
- Bank of Japan (BoJ) made adjustments to its asset purchase program. However, it kept the amount of the liquidity being injected into the economy unchanged.
- Economic indicators for China continued to yield a mixed picture. In 2016, Chinese government is expected to increase its support to the economy.
- In December, the price of Brent crude oil slipped to an 11-year low. The ongoing downward pressure on oil prices has continued.

Turkish Economy

- Turkish economy grew well above the market expectations by 4% in third quarter. In the first nine months of 2015, Turkish economy expanded by 3.4% compared to the same period of the previous year. In the third quarter, while consumption spending continued to be the main driver of the growth, net exports once again made a positive contribution to growth.
- In October, the calendar adjusted industrial production index increased by 4.6% yoy. In this period, it is noteworthy that capital goods surged by 11% while durable consumer goods production had an upward impact on the index.
- The narrowing trend in foreign trade deficit continued also in November. Exports declined by 10.2% yoy while imports shrank faster by 25.3% yoy, falling for 15 consecutive months. Hence, foreign trade deficit recovered almost 50% in November compared to a year earlier and became 4.2 billion USD. As of the first 11 months of the year, the deficit fell by 25% yoy.
- In January-October period, current account deficit decreased by 24.9% yoy and was realized as 25.4 billion USD while 12-month cumulative deficit declined to 38.1 billion USD, its lowest level of last 5 years.
- During January-November period, budget expenditures and revenues surged by 12.3% yoy and 14.2% yoy, respectively. Thus, budget deficit, which was 11.3 billion TRY in the first 11 months of the previous year, recovered to 5.4 billion TRY in the same period of this year.
- Divergence between the annual CPI and D-PPI figures became more evident by the end of the year. In December, annual CPI inflation was realized as 8.81%, marking the highest year-end rate in last 4 years. Having declined on monthly basis since October, D-PPI inflation became 5.71% yoy, the lowest rate of annual inflation since 2012.

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Turkish Economy - GDP Growth

TÜRKİYE İŞ BANKASI

Turkish economy grew by 4% in third quarter.

Turkish economy grew well above the market expectations (2.8%) in the third quarter of 2015. In this period, GDP growth reached 4%, the highest level since the first quarter of 2014. Therefore, in the first nine months of 2015 Turkish economy grew by 3.4% compared to the same period of the previous year.

Seasonal and calendar adjusted GDP also posted a quarterly expansion of 1.3%, indicating a positive economic outlook. On the other hand, estimated GDP per capita was below 10,000 USD as of September according to annualized figures.

Domestic consumption was still the engine of growth.

According to expenditure approach, domestic consumption lost momentum in the third quarter compared to the previous one. Nevertheless, consumption expenditures made the highest contribution to the GDP growth by 3 percentage points. In this period, both private and public consumption expenditures exert an upward impact on GDP growth by 2.2 and 0.8 percentage points, respectively.

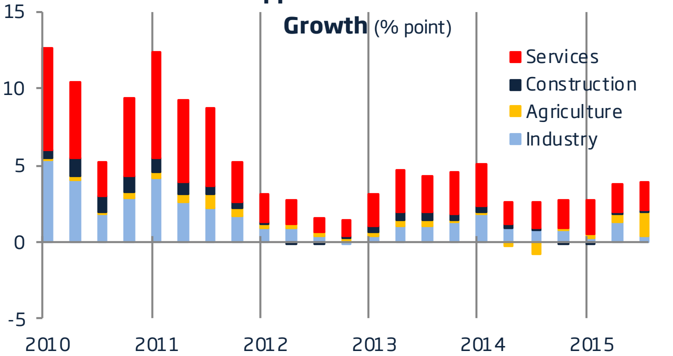
Investment expenditures, which have bolstered the GDP growth in the second quarter of 2015, pulled it down in the third quarter. This development stemmed from the slide in private sector's investment expenditures and there has not been a significant change in public consumption expenditures.

Net exports contributed to the GDP growth for the first time after three quarters.

There has been a significant drop in import volume in the third quarter thanks to the low energy prices. Therefore, imports made 0.3 percentage point contribution to the GDP growth in this period. Although exports continued to draw down GDP growth, its effect has tempered compared to the previous quarter. As a result, net exports, which had a downward impact on GDP growth for the last three quarters, contributed to growth as of third quarter of 2015.

It was noteworthy that the change in inventories, which are estimated as residual and also include statistical discrepancy, pushed the GDP growth up by 1 percentage points in the third quarter.

Production Approach - Contributions to GDP Growth (% point)



Significant contribution to GDP by agriculture sector...

According to production approach, services sector made the highest contribution to the GDP growth by 1.9 percentage points in the third quarter. Agriculture sector generally makes a high contribution to the GDP growth in third quarters due to the harvest season. However, agriculture sector exhibited a poor performance due to the adverse climatic conditions in 2014. Since, as the agricultural production was higher in this year, sector's contribution to GDP growth rose to the highest level of the last 10 years by 1.6 percentage points, also thanks to the base effect. On the other hand, both industry and construction sectors made a limited contribution to GDP growth by 0.4 and 0.1 percentage points, respectively.

Expectations...

Uncertainty related to the general elections and risks resulted by the depreciation in TRY were expected to leave GDP growth under pressure in the third quarter. Nevertheless, GDP growth gained momentum and was better than market expectations thanks to the strong performance of the agriculture sector, support of the domestic consumption and removal of the negative impact of net exports. Leading indicators showed that the economic recovery also continued in the last quarter of the year. In this context, we expect that Turkish economy would complete 2015 with 3.5% GDP growth.

Expenditure Approach - Contributions to GDP Growth (1998 prices) **(% point)**

	2012	2013					2014					2015			
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	9-Month
Consumption	**0.3**	**3.0**	**4.5**	**3.9**	**5.1**	**4.1**	**2.7**	**0.6**	**0.7**	**1.9**	**1.5**	**3.4**	**4.3**	**3.0**	**3.5**
Private	-0.3	2.2	3.6	3.7	4.1	3.4	1.8	0.3	0.1	1.7	0.9	3.1	3.5	2.2	2.9
Public	0.6	0.8	0.8	0.2	1.0	0.7	0.9	0.3	0.6	0.3	0.5	0.3	0.8	0.8	0.6
Investment	**-0.7**	**0.1**	**0.9**	**1.3**	**1.9**	**1.1**	**-0.1**	**-0.9**	**-0.1**	**-0.3**	**-0.3**	**0.1**	**2.4**	**-0.1**	**0.8**
Private	-1.1	-1.3	-0.2	0.6	1.1	0.1	0.1	-0.3	0.4	0.1	0.1	0.4	2.3	-0.1	0.8
Public	0.4	1.4	1.1	0.7	0.7	1.0	-0.2	-0.6	-0.5	-0.4	-0.4	-0.3	0.1	0.0	-0.1
Change in Stock	**-1.5**	**1.5**	**2.9**	**1.1**	**0.8**	**1.6**	**-0.2**	**-0.1**	**-1.2**	**1.5**	**0.0**	**0.3**	**-2.0**	**1.0**	**-0.2**
Net Export	**4.0**	**-1.4**	**-3.6**	**-2.0**	**-3.2**	**-2.6**	**2.6**	**2.8**	**2.4**	**-0.5**	**1.8**	**-1.3**	**-0.9**	**0.1**	**-0.7**
Exports	3.9	0.8	0.0	-0.6	-0.3	-0.1	2.8	1.5	2.0	0.9	1.8	-0.1	-0.5	-0.2	-0.3
Imports	0.1	-2.2	-3.6	-1.4	-2.9	-2.5	-0.2	1.3	0.4	-1.4	0.0	-1.1	-0.4	0.3	-0.4
GDP	**2.1**	**3.1**	**4.7**	**4.3**	**4.6**	**4.2**	**5.1**	**2.4**	**1.8**	**2.7**	**2.9**	**2.5**	**3.8**	**4.0**	**3.4**

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

Turkish Economy - Demand and Supply Conditions

Unemployment rate remained at double digits in September.

According to seasonally adjusted figures, unemployment rate was realized as 10.4% in September, remained unchanged for the fourth consecutive month. In this period, seasonally adjusted labor force participation rate increased by 0.2 pp compared to the previous month and reached its historical high level of 51.6%. Currently, while the share of services sector in total employment has been 52%, the share of agricultural and industrial sector stood at 21% and 20%, respectively. Only 7% of total employment was employed in construction sector.

Industrial production rose by 4.6% yoy in October.

In October, the calendar adjusted industrial production index increased by 4.6% yoy. In this period, it was noteworthy that capital goods surged by 11% while durable consumer goods production had an upward impact on the index. According to the seasonally and calendar adjusted figures, after narrowing by 0.1% mom in September, industrial production rose slightly by 0.1% mom in October.

Manufacturing PMI kept rising in December.

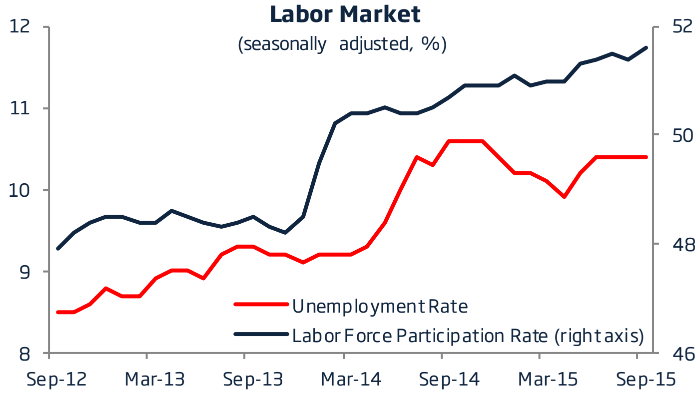
According to the figures announced by Markit, recovery in manufacturing industry has continued in December. Manufacturing PMI index rose by 1.3 points on monthly basis to 52.2 and reached the highest reading since November 2014. In this period, almost all sub-indices of manufacturing PMI presented a favorable outlook. Especially the increase recorded in new orders, which reached the highest level of the last two years, was worth noting. With the help of the enlivening economic activity in Eurozone, it was observed that the acceleration in new export orders gained momentum in this period.

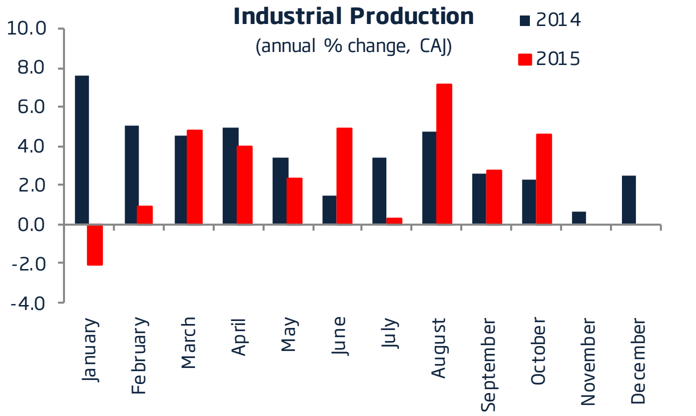
Capacity utilization ratio increased in December.

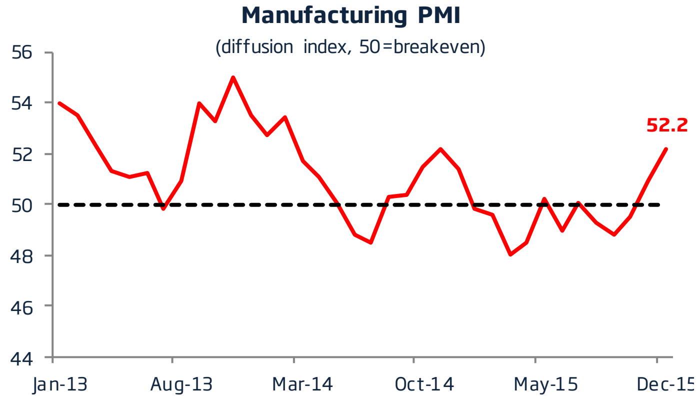
Capacity utilization ratio (CAR), which endured a volatile period in the second half of the year, increased by 1.2 pp annually and was realized as 75.8% in December. In this month, it was worth mentioning that manufacture of coke and refined petroleum products and motor vehicles maintained their high capacity utilization ratios in December. On the other hand, the annual drop registered in leather sector's CUR was noteworthy.

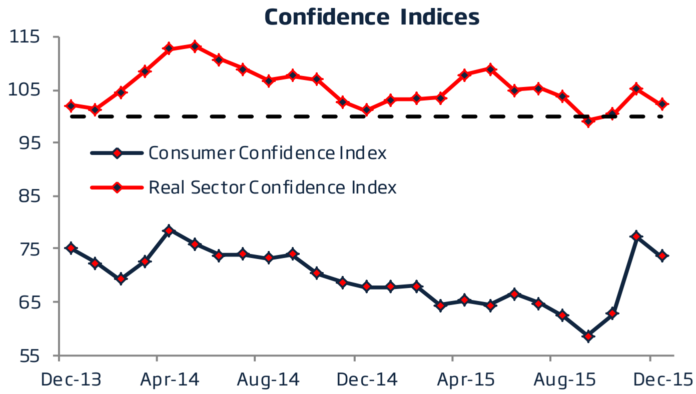
Confidence indicators…

Confidence indices had performed quite well in November thanks to the diminishing political uncertainties. In December, on the other hand, deepened geopolitical concerns put downward pressures on these indices. While real sector confidence index decreased by 3 points in December compared to the previous month and came in at 102.2, consumer confidence index fell by 4.6% mom and was realized as 73.58. Nevertheless, on annual basis, the two indices have been higher than their levels in the same period of the previous year.









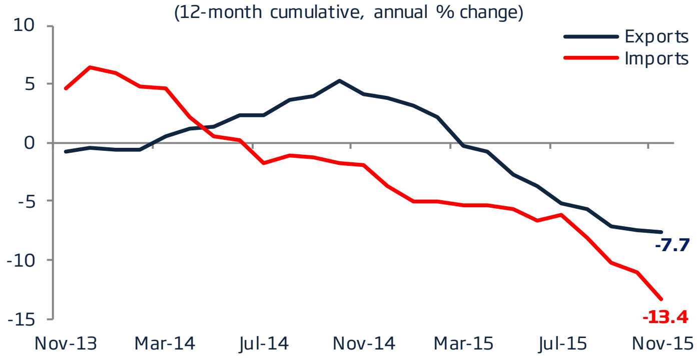
Source: Datastream, Turkstat, CBRT, Markit

Foreign trade deficit declined by 25% yoy in January-November period.

The narrowing trend in foreign trade deficit continued also in November. Exports declined by 10.2% yoy while imports shrank faster by 25.3% yoy, falling for 15 consecutive months. Hence, foreign trade deficit recovered almost 50% in November compared to a year earlier and became 4.2 billion USD. As of the first 11 months of the year, the deficit fell by 25% yoy.

Foreign Trade Figures

(12-month cumulative, annual % change)



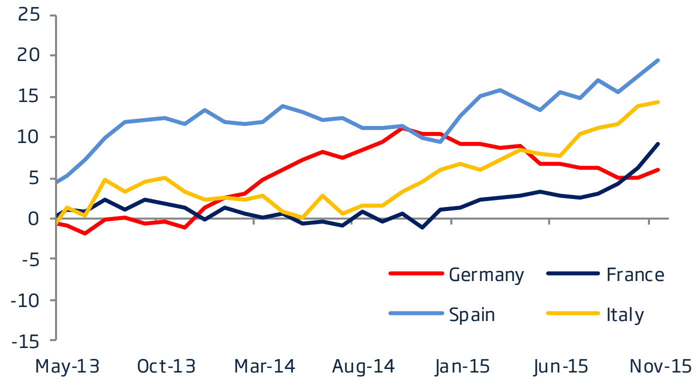
9 of the top 10 exporting items registered an annual fall in November. Only the exports of motor vehicles, which ranked first in the most exported items, rose during this period. In line with the fall in commodity prices, the drops in exports of iron-steel and mineral fuels and oils reached beyond 30% and played a significant role in the weak performance of exports.

The increase in exports to Euro Area in euro terms persisted.

The EUR/USD parity kept its importance for the outlook of exports

Exports to Major Euro Area Countries

(euro based, 12-month cumulative, annual % change)



to Euro Area. Exports to the region increased by 13.8% yoy in euro terms in November while exports in dollar terms contracted by 2% yoy. Exports to Spain surged by 24.2% during this period in euro terms. Exports to Germany, France and Italy also rose more than 10% annually.

While the disruptive effects of the tensions between Russia caused by the downing of a Russian warplane by Turkey on November 24 are expected to surface by 2016, exports to the country fell by 36.8% in November due to the economic crisis prevailing in Russia.

Imports by Chapters (GTIP classification, billion USD)

Chapters	November 2014	November 2015	Jan. Nov. 2014	Jan. Nov. 2015
Mineral Fuels and Oil	4.4	2.6	50.5	34.8
Boilers and Machineries	2.4	2.0	25.2	23.0
Electrical Machineries	1.6	1.5	16.2	16.0
Vehicles	1.6	1.5	13.9	15.9
Iron and Steel	1.4	1.1	16.2	13.7
Other	10.0	7.3	98.4	85.8
Total Imports	**21.4**	**16.0**	**220.4**	**189.2**

Energy bill continued to fall.

The decline in imports spread across most of the chapters in November, according to GTIP classification. Contraction in mineral fuels and oils imports continued during this period in parallel with the decline in energy prices. About one-third of the annual decline in total imports was driven by the fall of 1.8 billion USD registered in the said chapter. The drop in non-monetary gold trade which amounted to 1.8 billion USD, also supported the decline in imports. Analyses of the import figures according to the main industrial groups revealed that the annual drop in intermediate goods imports gained momentum in November. Contraction in unprocessed/processed raw materials imports stemming from the downward course of commodity prices was instrumental in this development.

Expectations...

The fall in commodity prices (foremost energy prices) together with the moderate course of the economic activity played a significant role in the contraction of the trade deficit in 2015. In 2016, on the other hand, it is expected that the recovery in domestic demand will strengthen imports while rising geopolitical risks in neighboring countries will pose downward pressure on the export performance. In this context, we anticipate that the foreign trade deficit will remain at sustainable levels next year although it might expand somewhat compared to 2015.

Foreign Trade Balance **(USD billion)**

	November 2014	November 2015	Change (%)	Jan.-Nov. 2014	Jan.-Nov. 2015	Change (%)
Exports	13.1	11.7	-10.2	144.3	132.2	-8.4
Imports	21.4	16.0	-25.3	220.4	189.2	-14.1
Foreign Trade Balance	**-8.3**	**-4.2**	**-49.1**	**-76.0**	**-57.0**	**-25.0**
Import Coverage Ratio (%)	61.1	73.5	-	65.5	69.9	-

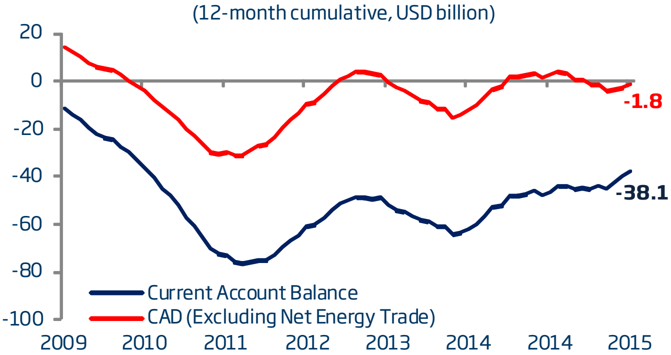
Source:

Current account deficit was 133 million USD in October.

In October, current account deficit receded by 2.2 billion USD yoy to 133 million USD. Thus, current account figures exhibited a positive outlook right after posting surpluses in both August and September. In January-October period, current account deficit decreased by 24.9% yoy and was realized as 25.4 billion USD while 12-month cumulative current account deficit declined to 38.1 billion USD, its lowest level of last 5 years.

Current Account Balance

(12-month cumulative, USD billion)



Improving foreign trade balance affected positively current account figures.

Lower imports thanks to the slide in energy prices were influential on the improvement in current account deficit throughout the year. According to balance of payment figures, imports shrank by 2,1 billion USD yoy in October. Additionally, exports which exhibited a weak performance throughout 2015, had a positive impact on the current account balance in October and increased by 271 million USD yoy. Gold exports also supported the current account balance in October. On the other hand, weak performance in tourism revenues continued in October.

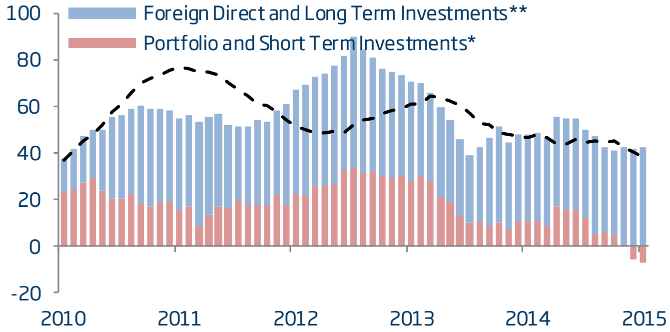
During the January-October period, the improvement in trade balance lowered the current account deficit by 10.8 billion USD yoy. On the other hand, in this period, net tourism revenues decreased by 11.5% (USD 2.6 billion) and limited the improvement in the current account deficit.

Decrease in foreign direct investments...

Net foreign direct investments have made a significant contribution to the financing of current account deficit during summer months. However, net foreign direct investments were only 367 million USD in October. In this period, non-residents' foreign direct investments were recorded as 318 million USD while acquisitions of real estate were realized 450 million USD. Net foreign direct investments, which have exhibited a weak performance since 2011, increased by 3.5 billion USD yoy to 9.1 billion USD in January-October period.

Financing of Current Account Deficit

(12-month cumulative, USD billion)



(*) Short-term capital movements are sum of banking and real sectors' short term net credits and deposits in banks.

(**) Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury

Limited inflow in portfolio investments...

Portfolio investments, which posted an outflow since May 2015, recorded a limited inflow of 147 million USD in October. In this period, equity and debt securities posted a net inflow of total 428 million USD. Regarding the bond issues in international capital markets, banking sector made a net repayment of 211 million USD, while other sectors borrowed net 466 million USD.

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

			Breakdown of Net Capital Inflows (%)	
	Dec. 2014	**Oct. 2015**	**Dec. 2014**	**Oct. 2015**
Current Account Balance	**-46,523**	**-38,109**	-	-
Total Net Foreign Capital Inflows	**46,055**	**28,304**	**100.0**	**100.0**
-Direct Investments	5,702	9,166	12.4	32.4
-Portfolio Investments	20,104	-7,123	43.7	-25.2
-Other Investments	16,936	19,317	36.8	68.2
-Net Errors and Omissions	3,383	6,952	7.3	24.6
-Other	-70	-8	-0.2	0.0
Reserves[(1)]	**468**	**9,805**	-	-

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

In the first ten months of the year, capital outflows via portfolio investments reached 11.6 billion USD. 5.2 billion of this amount stemmed mainly from debt securities' repayments.

Total credit repayment of General Government and banking sector was 533 million USD in October. Other sectors, on the other hand, were a net credit borrower of 2.5 billion USD in October. Thus, total loans raised from abroad contributed to the financing of current account deficit by 1.9 billion USD in October. However other investments receded to 558 million USD due to the outflow of 1.4 billion USD through cash-deposits and commercial loans.

In October, reserve assets decreased by 1.2 billion USD while net errors and omissions posted an outflow of 2.1 billion USD. Having a significant contribution to the financing of current account deficit throughout the year, net errors and omissions registered an inflow of 11.2 billion USD in the first ten months of the year.

According to the 12-month cumulative figures, banks' and non-bank sectors' long-term debt roll-over ratios kept rising and were 316% and 154% in October, respectively.

Expectations

Decline in energy prices gained momentum recently. Additionally, export prospects based on European demand support positive expectations on current account deficit. In this context, it is anticipated that the contraction in the foreign trade deficit has also continued in the last months of the year. However, the rising geopolitical concerns and tensions regarding Russia might adversely affect the foreign trade figures and tourism revenues in 2016. In this context, the current account deficit to GDP ratio, which is expected to fell below 5% at the end of 2015, would be higher in 2016.

Balance of Payments (USD million)

	October	Jan. - Oct.		%	12-Month
	2015	2014	2015	Change	Cumulative
Current Account Balance	**-133**	**-33,825**	**-25,411**	**-24.9**	**-38,109**
Foreign Trade Balance	-2,356	-50,167	-39,376	-21.5	-52,793
Services Balance	2,854	23,136	22,044	-4.7	24,072
Travel (net)	2,472	22,213	19,656	-11.5	21,923
Primary Income	-721	-7,706	-8,858	14.9	-10,362
Secondary Income	90	912	779	-14.6	974
Capital Account	**0**	**-68**	**-6**	-91.2	**-8**
Financial Account	**-2,269**	**-26,259**	**-14,214**	**-45.9**	**-31,165**
Direct Investments (net)	-367	-5,622	-9,086	61.6	-9,166
Portfolio Investments (net)	-147	-15,677	11,550	-	7,123
Net Acquisition of Financial Assets	281	2,012	5,432	170.0	4,166
Net Incurrence of Liabilities	428	17,689	-6,118	-	-2,957
Equity Securities	204	2,039	-873	-	-353
Debt Securities	224	15,650	-5,245	-	-2,604
Other Investments (net)	-558	-9,325	-11,706	25.5	-19,317
Currency and Deposits	547	630	2,106	234.3	867
Net Acquisition of Financial Assets	1,457	1,313	14,482	1,003.0	13,456
Net Incurrence of Liabilities	910	683	12,376	1,712.0	12,589
Central Bank	-95	-2,146	-826	-61.5	-1,013
Banks	1,456	2,829	13,202	366.7	9,405
Foreign Banks	1,549	279	9,432	3,280.6	6,499
Foreign Exchange	347	-593	5,005	-	2,744
Turkish Lira	224	872	4,427	407.7	6,505
Non-residents	434	2,550	3,770	47.8	4,353
Loans	-1,941	-10,103	-13,248	31.1	-18,194
Net Acquisition of Financial Assets	16	2,108	466	-77.9	221
Net Incurrence of Liabilities	1,957	12,211	13,714	12.3	18,415
Banking Sector	-382	8,736	4,853	-44.4	7,953
Non-bank Sectors	2,490	4,071	9,788	140.4	11,680
Trade Credit and Advances	844	613	-302	-	-1,722
Other Assets and Liabilities	-8	-465	-262	-43.7	-268
Reserve Assets (net)	-1,197	4,365	-4,972	-	-9,805
Net Errors and Omissions	**-2,136**	**7,634**	**11,203**	**46.8**	**6,952**

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 registered a surplus of 798 million TRY in November.

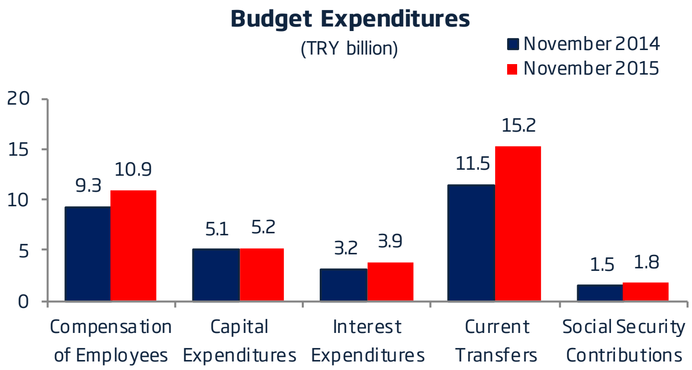
Budget expenditures rose by 20.8% yoy in November while the expansion in budget revenues became 11.7% yoy. Having registered a deficit of 3.6 billion TRY in November 2014, budget posted a surplus of 798 million TRY in November 2015.

During January-November period, budget expenditures and budget revenues surged by 12.3% yoy and 14.2% yoy, respectively. Thus, budget deficit, which was 11.3 billion TRY in the first 11 months of the previous year, recovered to 5.4 billion TRY in the same period of this year.

Even though the primary surplus remained below the last year's level in November, the primary balance displayed a favorable performance according to the year-to-date figures. The primary surplus increased by 23.5% yoy to 45.8 billion TRY in this period.

A sharp increase in current transfers....

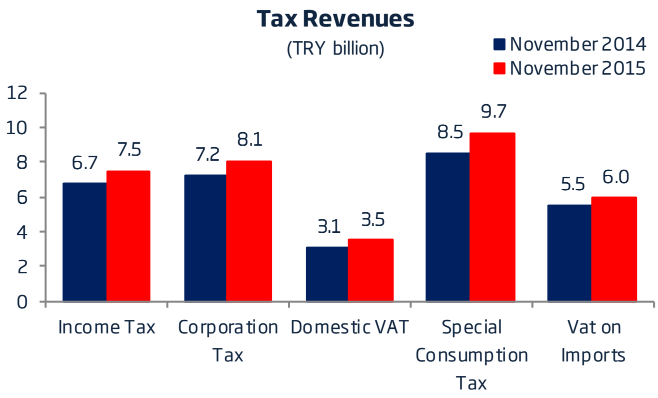
The surge in current transfers was largely responsible for the fast increase in budget expenditures in November. Having a share of nearly 40% in total non-interest budget expenditures, current transfers rose by 32.9% yoy in this period and reached above 15.2 billion TRY. The escalation in health, retirement and social aid expenditures played a significant role in this rise. Aside from the rise in current transfers, 16.9% increase in personnel expenditures was also significant for the total budget spending.



Interest expenditures rose by 21.4% yoy to 3.9 billion TRY in November due to the rapid increase in external debt repayments. Interest expenditures became 51.3 billion TRY in the first 11 months of the year reaching almost 95% of the year-end target.

Moderate rise in tax revenues...

The upturn in tax revenues lost some steam in November following the acceleration recorded in October. Representing 90% of the total budget revenues in November, tax revenues posted an annual growth rate of 12.3% and were realized as 39.4 billion TRY. Special consumption tax revenues performed stronger than the other tax revenue accounts during this period.



Expectations

Budget indicators have suggested a better outlook so far this year compared to the year-end targets. A comparison of the budget deficit of 5.4 billion TRY registered in January-November period with the Medium Term Program estimate of 24.5 billion TRY reveals that there remains a large room for budget expenditures in December.

Central Government Budget (TRY billion)

	November		%	January-November		%	2015 Budget	MTP	Real/MTP
	2014	2015	Change	2014	2015	Change	Target	Target	Target (%)
Expenditures	**35.6**	**43.0**	**20.8**	**398.2**	**447.2**	**12.3**	**472.9**	**503.0**	**88.9**
Interest Expenditures	3.2	3.9	21.4	48.5	51.3	5.8	54.0	54.0	94.9
Non-Interest Expenditures	32.4	39.1	20.7	349.8	396.0	13.2	418.9	449.0	88.2
Revenues	**39.2**	**43.8**	**11.7**	**386.9**	**441.8**	**14.2**	**452.0**	**478.5**	**92.3**
Tax Revenues	35.1	39.4	12.3	321.7	372.7	15.9	389.5	405.8	91.9
Other Revenues	4.1	4.4	6.4	65.2	69.0	5.8	62.5	72.8	94.8
Budget Balance	**3.6**	**0.8**	**-77.8**	**-11.3**	**-5.4**	**-52.1**	**-21.0**	**-24.5**	**22.2**
Primary Balance	**6.8**	**4.7**	**-31.2**	**37.1**	**45.8**	**23.5**	**33.0**	**29.5**	**155.4**

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

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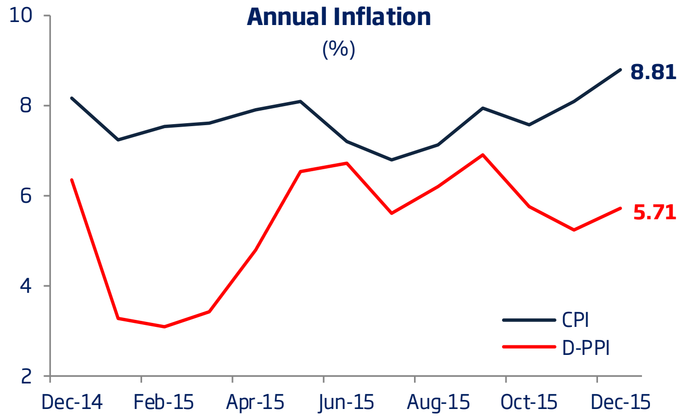
Monthly inflation surpassed expectations in December.

In December, CPI increased by 0.21% mom, contrary to the expectations of a decline. On the other hand, Domestic PPI (D-PPI) declined by 0.33% mom in this period. Monthly CPI inflation was expected to fall by 0.04% according to the Reuters poll, while CBRT Survey of Expectations suggested that CPI would post a limited increase of 0.07% mom in December.

December	CPI		D-PPI	
Change (%)	2014	2015	2014	2015
Monthly	-0.44	0.21	-0.76	-0.33
Year-to-Date	8.17	8.81	6.36	5.71
Annual	8.17	8.81	6.36	5.71
Annual Average	8.85	7.67	10.25	5.28

Annual inflation was 8.81% at the end of 2015.

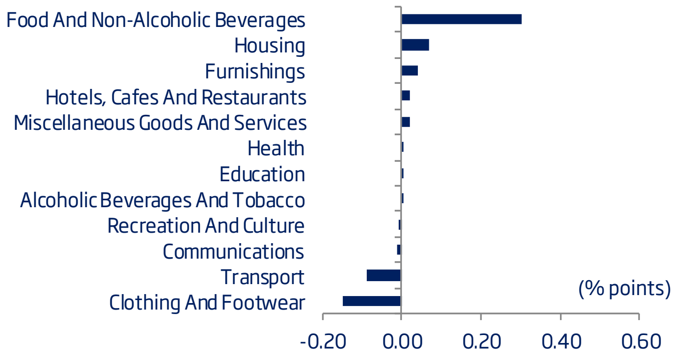
Divergence between the annual CPI and D-PPI figures became more evident by the end of the year. In December, annual CPI inflation was realized as 8.81%, marking the highest year-end rate in last 4 years. Having declined on monthly basis since October, D-PPI inflation became 5.71% yoy, the lowest rate of annual inflation since 2012.



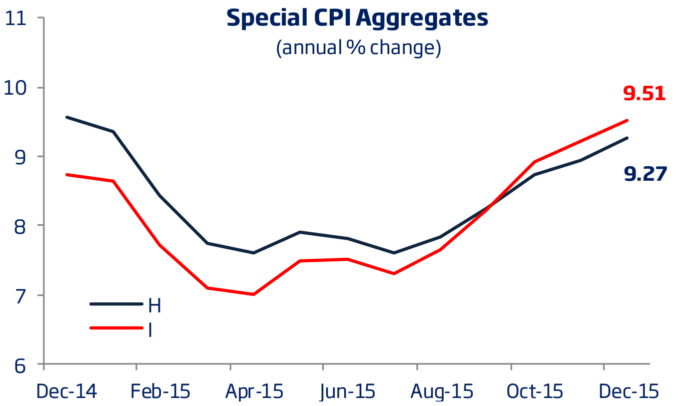
The upsurge in food prices has continued.

Prices in food and non-alcoholic beverage group surged by 1.24% mom and made the contribution to CPI inflation by 30 basis points. Price increase in unprocessed foods, such as vegetables and fruits, due to the winter season was significant in this development. The rise in housing and furniture prices also made contribution to monthly inflation by 11 basis points. On the other hand, the clothing and footwear prices declined by 1.98% mom and limited the increase in CPI by 15 basis points. Thus, seasonal factors exhibited a balanced outlook in December. However, as seasonal discounts in clothing and footwear prices remained limited compared to the previous years, this development also played an important role in higher-than-expected inflation rate.

The highest annual rate of price increase was registered in hotels, cafes and restaurants (13.23%). Annual inflation also came in above 10% in food and furniture as well as recreation and culture groups.



Annual inflation in the two core inflation indices monitored closely by CBRT, denominated by H and I, have moved upward since August. The indices rose by 9.27% and 9.51% yoy, respectively.



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.

Steep decline in D-PPI...

In December, the downward trend in commodity prices, particularly in oil prices, remained influential on the fall in D-PPI. In this respect, almost 10% monthly drop recorded in the prices of coke and refined petroleum products had a downward impact on the D-PPI inflation by 24 basis points. On the other hand, increase in food prices limited the drop in D-PPI by 9 basis points.

Expectations

With the start of the new year, increase in electricity tariff along with the bridge and highway tolls and Special Income Tax hikes on alcoholic beverages and tobacco products will have an upward effect on inflation. In addition, it is estimated that the impact of minimum wage hike on inflation will be 1.1-2.2 pp on annual basis throughout 2016. We expect that prices in all sub-groups, except clothing and footwear, will post a rise in the first month of 2016 owing to adjustments in administered prices and seasonal factors.

Source: Datastream, Turkstat

The focus of the markets was on the Fed meeting in December.

The volatility in emerging markets increased in the first half of December amid growing expectations of a rate hike by the Fed. The rising political and geopolitical risks in these countries also weighed on the markets. The tension between Russia and Turkey together with the political uncertainties in South Africa and Brazil played a significant role in the deterioration of risk sentiment.

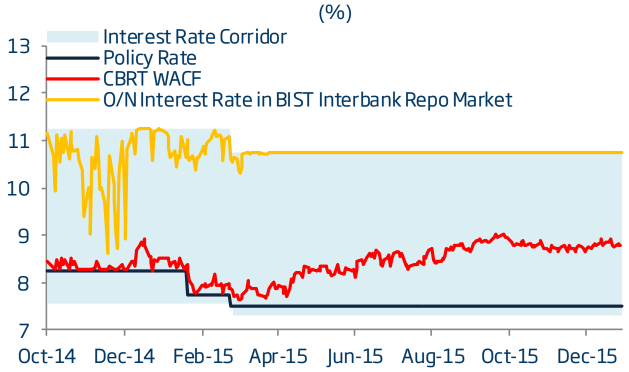
Having recovered to some extent thanks to the decline in political uncertainties in November, domestic risk indicators have tumbled again due to the above mentioned troubles. The statements by the Fed revealing that the future rate hikes will be gradual, on the other hand, supported the emerging markets in the immediate aftermath of the widely -expected rate hike announcement made on December 16.

CBRT kept the rates on hold.

As the Fed started to raise interest rates in December, domestic markets turned their attention to CBRT. Following the Fed meeting, CBRT raised the remuneration rate of the dollar-denominated required reserves, reserve options and free reserves held at the CBRT from 0.24% to 0.49%. However, CBRT did not change the policy rate at its meeting held on December 22, contrary to the market expectations. The summary of the meeting signaled that CBRT may launch the simplification process of the monetary policy by the next meeting (January 19, 2016) should the decline in volatility led by the normalization moves in global monetary policies prove to be persistent. As will be remembered, CBRT had announced in August that it will simplify the monetary policy framework in conjunction with the Fed's rate hikes.

CBRT Interest Rate

(%)

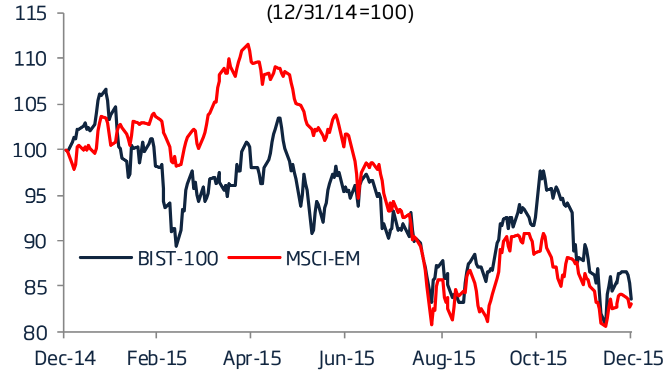


BIST-100 index fell below 70.000 in December.

BIST-100 index declined by 4.1% in the first half of December compared to end of November. In the following days, it recovered somewhat thanks to the impulse purchases. The index fell by 16.3% compared to the year end and closed 2015 at 71.727.

BIST-100 and MSCI Emerging Market Index

(12/31/14=100)

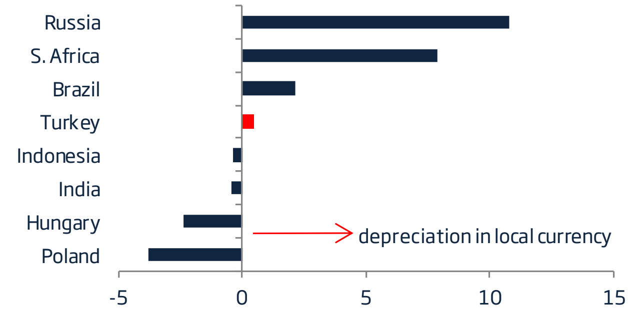


USD/TRY slid following the Fed decision.

Turkish lira, which has become one of the weakest performers among emerging market currencies together with Brazil real, has gained strength after the Fed meeting. Having declined to as low as 2.9010 on December 18, TL outperformed its peers. Overall in 2015, USD/TL surged by 25.4% on an annual basis and reached 2.9207.

EM Currencies Against USD

(11/30/15-12/30/15, % change)



Having soared into double digit levels as of the second half of November, two-year benchmark yield continued to move upwards in December. It reached 11.08% on December 22, the highest level in more than two months. The two-year benchmark yield closed the year at 10.86%, increasing by 284 basis points on an annual basis.

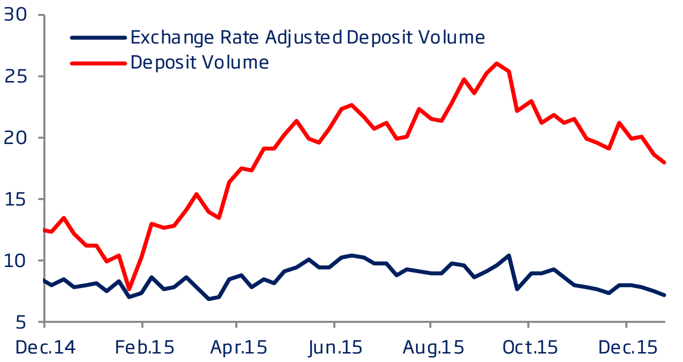
Source: CBRT, Reuters, Datastream, BIST

Deposit volume surged by 17.9% ytd.

According to BRSA's Weekly Bulletin, deposit volume increased by 17.9% compared to end-2014 as of December 25 and was realized as 1,331 billion TRY. In year-to-date terms, TRY deposit volume grew by 6.1% while FX deposit volume picked up by 36.8% owing to the depreciation of the TRY. The expansion in deposit volume fell to 7.1% ytd, according to the exchange rate adjusted figures.

Deposit Volume

(annual % change)



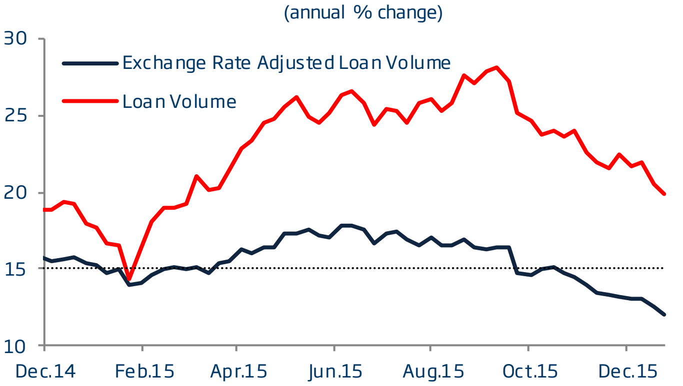
The year-to-date growth in loan volume came in below 20%.

Loan volume rose by 19.9% ytd as of December 25 and realized as 1,506 billion TRY. The increase in TRY loans was realized as 14.6% in this period, remaining below the rate of 15% which has been regarded as reasonable by Central Bank. However, FX denominated loans surged by 32.8% ytd due to the weakness in TRY. Largely because of this development, total loan growth picked up to 20%. According to exchange rate adjusted figures, loan growth became 12% in year-to-date terms.

Analysis by types of credits revealed that commercial loans increased by 24.5% ytd while retail loans posted a rise of 8% ytd. The expansion in commercial loans stemmed mainly from the 32.8% rise in FX commercial loans resulting from the depreciation of TRY.

Loan Volume

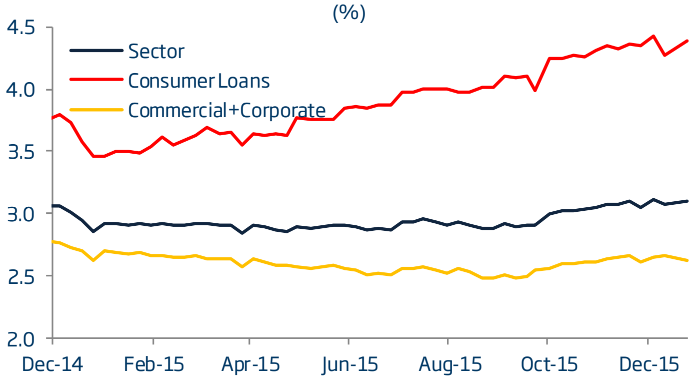
(annual % change)



As of December 25, non-performing loan ratio was realized as 3.07%. Non-performing loan ratio for consumer loans reached 4.39% while that for commercial loans became 2.62%.

NPL Ratios by Loan Type

(%)



Securities portfolio...

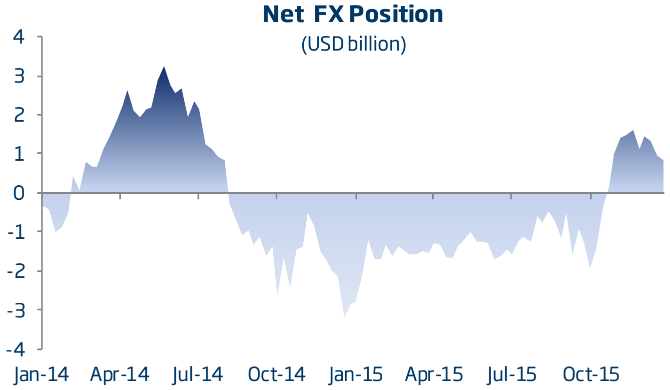
Securities portfolio of banking sector rose by 9.2% ytd and was realized as 328 billion TRY as of December 25. Securities subject to repo transactions, which have the highest share in securities portfolio, increased by 14% in this period. Available for sale and held to maturity securities portfolios, however, remained relatively flat.

Net FX position...

As of December 25, banks' on-balance sheet FX position was (-) 32,769 million USD while off-balance sheet FX position was (+) 33,582 million USD. Hence, banks' net FX position was realized as (+) 813 million USD.

Net FX Position

(USD billion)



Source: BRSA Weekly Bulletin

Concluding Remarks

Fed raised the policy rate at its December meeting for the first time in nine years. Hence, a prolonged source of uncertainty, which had caused volatility in global markets, disappeared. However, ECB and BoJ seem to continue to implement expansionary monetary policies for some more time in order to strengthen their economies suffering from persistently fragile conditions. In this context, the US dollar strength is projected to persist in 2016 as the diversion among the monetary policies of major advanced economies deepens. The trajectory of global capital flows is expected to depend mostly on the pace and the size of the rate hikes to be conducted during this period. On the other hand, the signals provided by the Fed that upcoming rate hikes would be both moderate and gradual and accommodative monetary policy stance would be preserved for a longer period of time have soothed the markets in recent period.

We anticipate that Turkish economy will maintain its moderate growth performance in 2016 on the back of the economic recovery in its major export destinations together with the favorable domestic demand conditions. Besides, the large fiscal space for further support to the economy if needed will continue to constitute a significant advantage. However, rising geopolitical tensions in recent period may weigh on growth albeit to a limited extent. The foreseen upturn in domestic demand and the tension between Turkey and Russia may put some upward pressure on current account deficit in this period while persistently low oil prices along with the decline in overall commodity prices are expected to continue to support the recovery in current account balance.

Forecasts (%)	2015	2016
Growth	3.5	3.5
CA Deficit/GDP	4.9	5.5
Inflation	8.8 (R)	7.0

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

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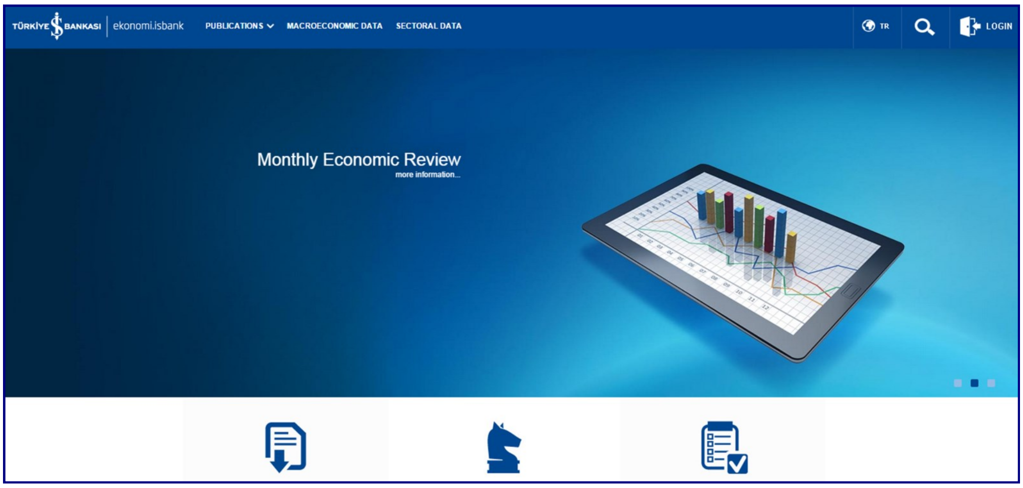

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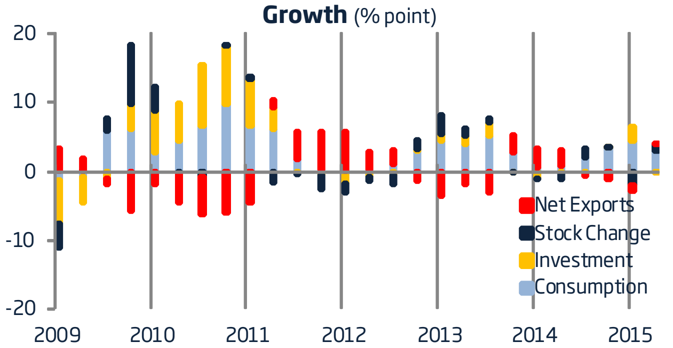
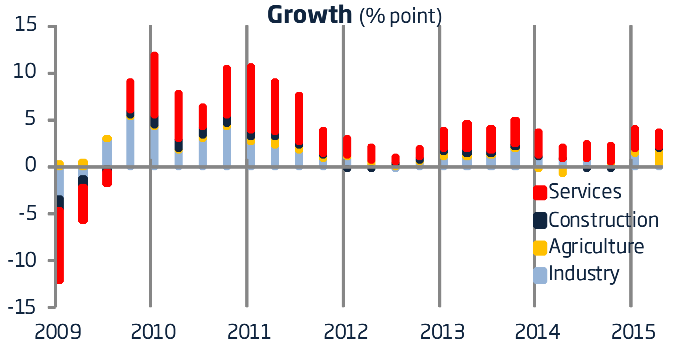
Growth

Expenditure Approach - Contributions to GDP Growth (% point)



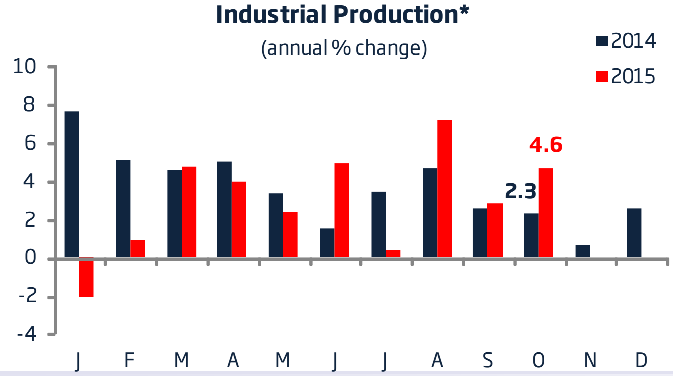
Production Approach - Contributions to GDP Growth (% point)



Industrial Production and Capacity Utilization Ratio

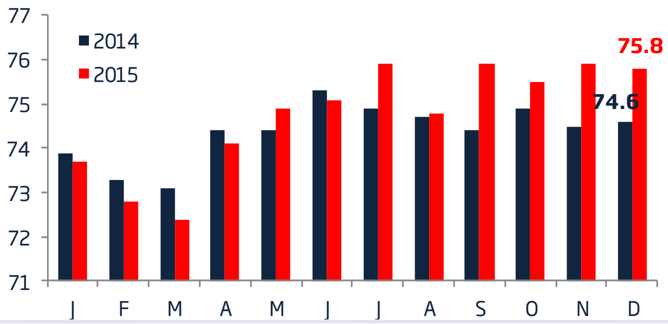
Industrial Production*

(annual % change)



Capacity Utilization Ratio

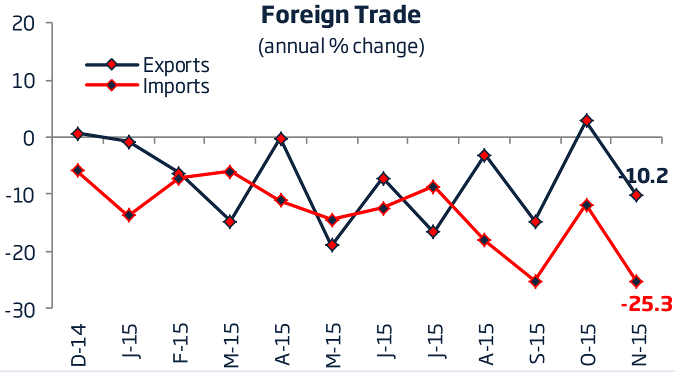
(%)



Foreign Trade and Current Account Balance

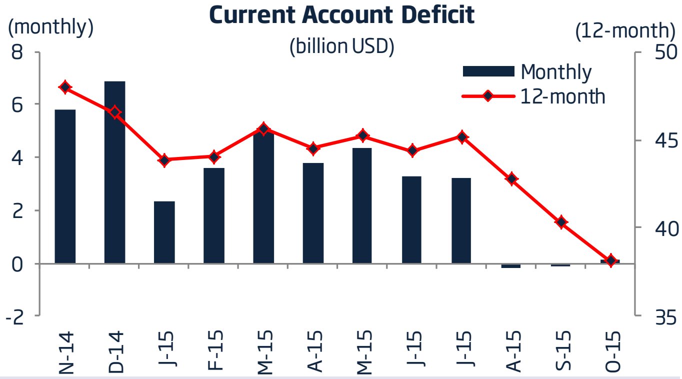
Foreign Trade

(annual % change)



Current Account Deficit

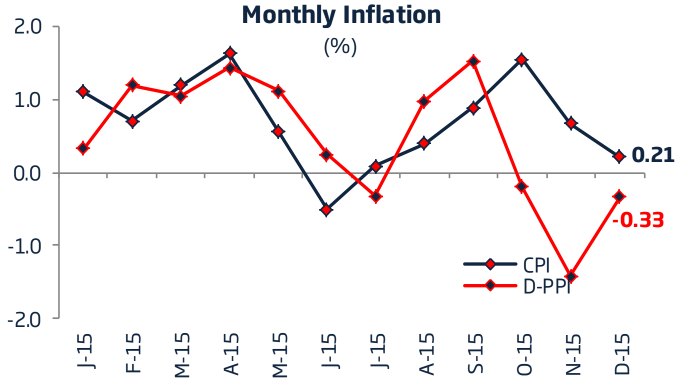
(billion USD)



Inflation

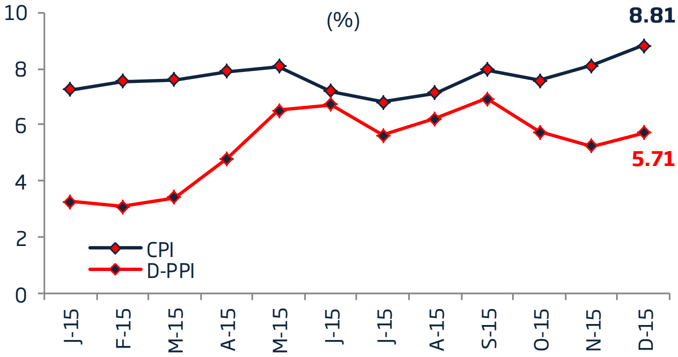
Monthly Inflation

(%)



Annual Inflation

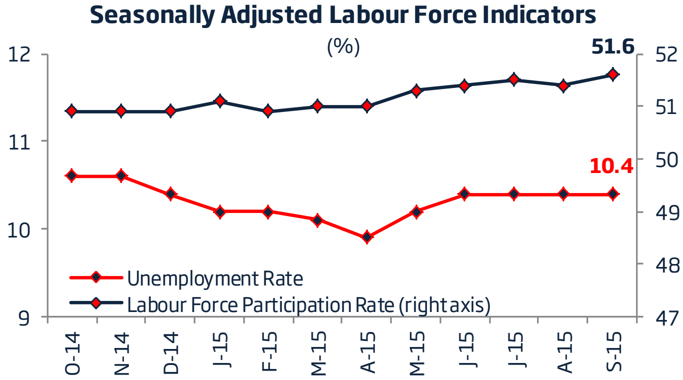
(%)

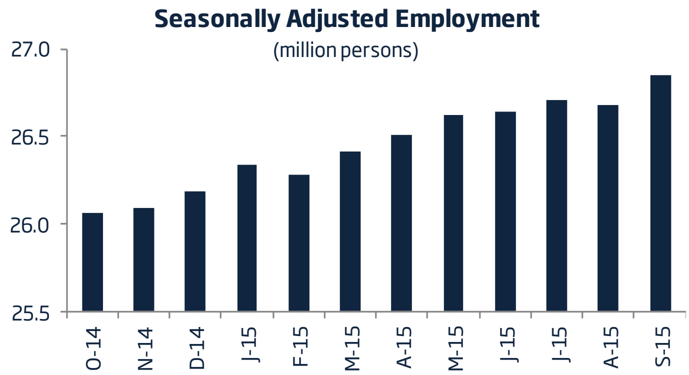


(*) Calendar adjusted figures

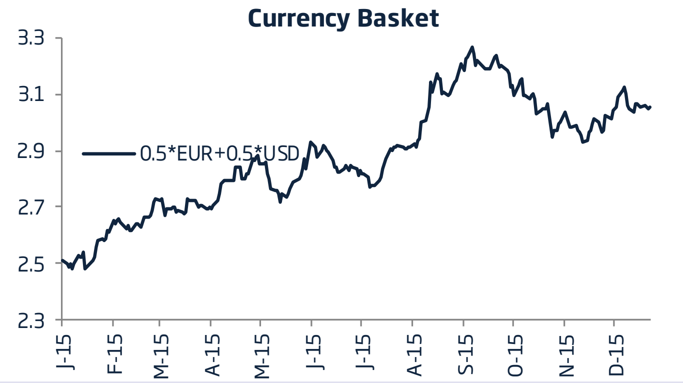
Source: CBRT, Datastream, Turkstat

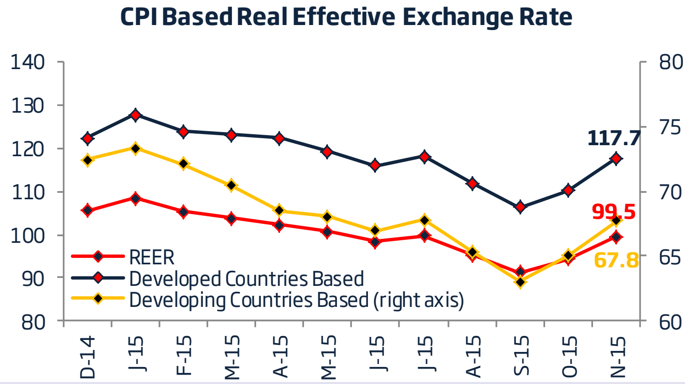
Labor Market



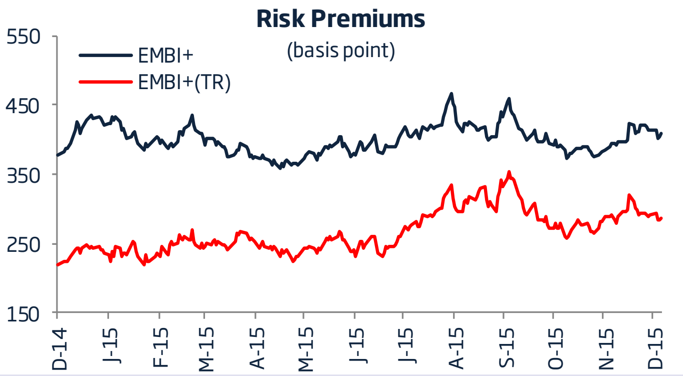


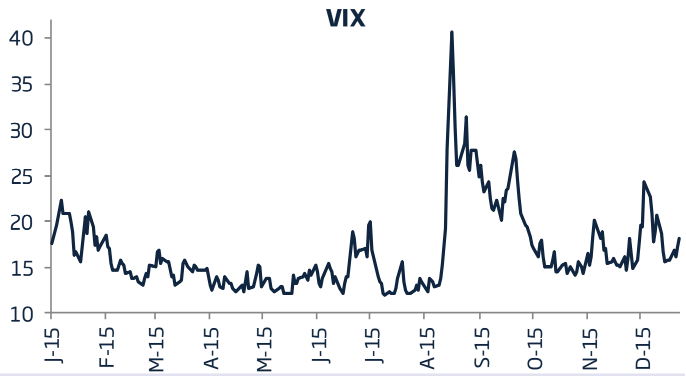
FX Market



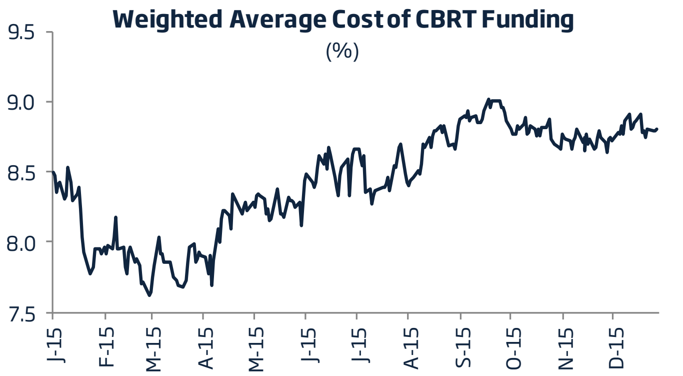


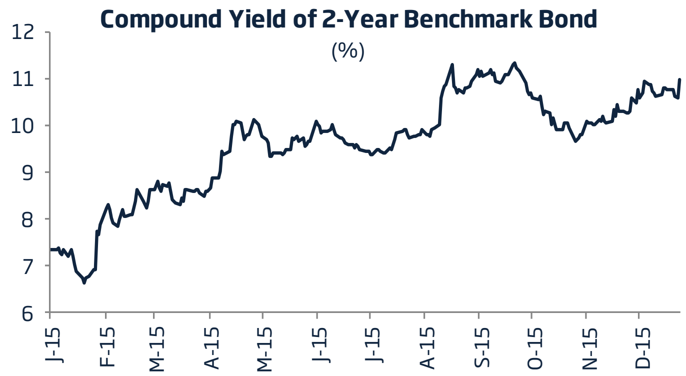
Risk Indicators





Interest Rates





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

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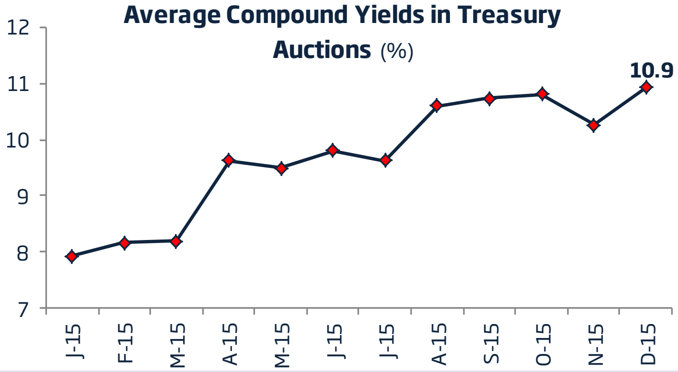
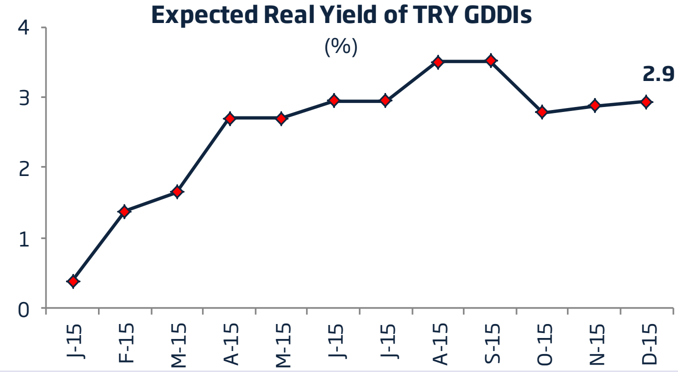
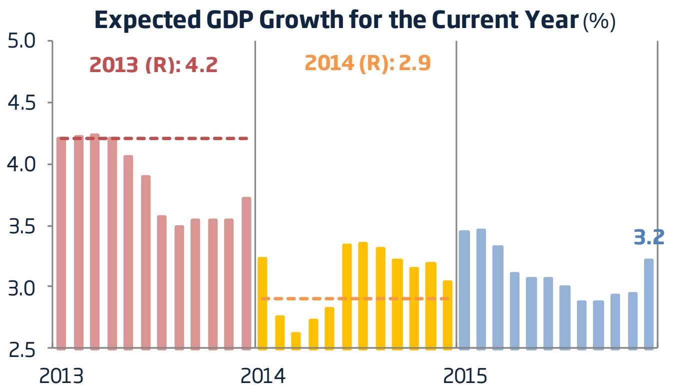
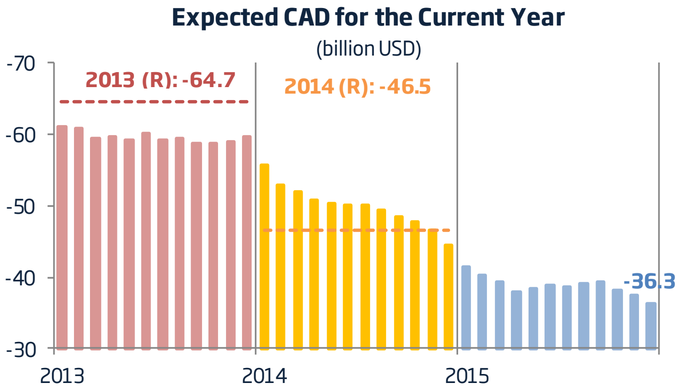
Bond-Bill Market

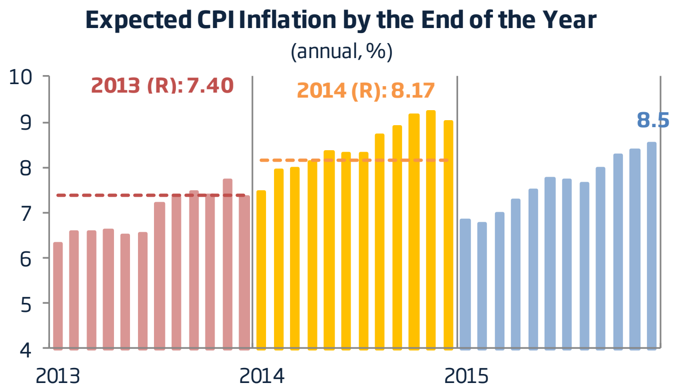


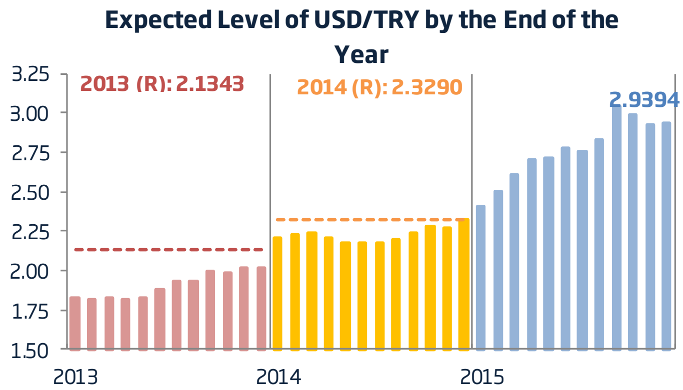


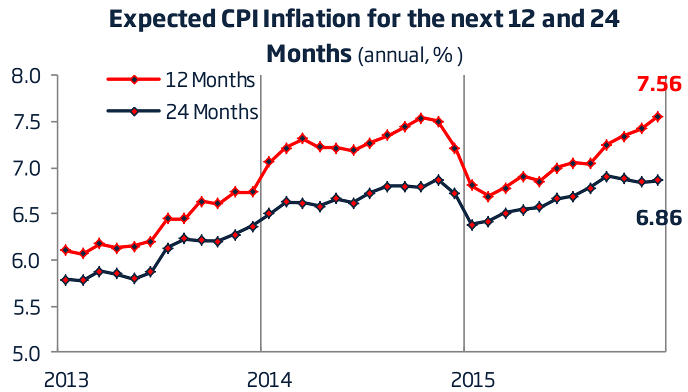
Survey of Expectations and Other Leading Indicators

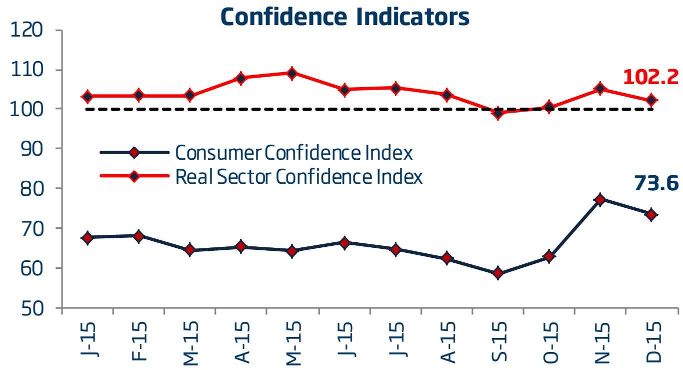












(R) Realization

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

Turkish Economy at a Glance

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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	181.1	180.7	184.2
GDP (TRY billion)	1,099	1,298	1,417	1,567	1,747	444.6	482.4	518.6
GDP Growth Rate (%)	9.2	8.8	2.1	4.2	2.9	2.5	3.8	4.0
Inflation (%)						**Oct-15**	**Nov-15**	**Dec-15**
CPI (annual)	6.40	10.45	6.16	7.40	8.17	7.58	8.10	8.81
Domestic PPI (annual)	8.87	13.33	2.45	6.97	6.36	5.74	5.25	5.71
Seasonally Adjusted Labor Market Figures						**Jul-15**	**Aug-15**	**Sep-15**
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.4	10.4	10.4
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	50.9	51.5	51.4	51.6
FX Rates						**Oct-15**	**Nov-15**	**Dec-15**
CPI Based Real Effective Exchange Rate	119.2	102.7	110.3	101.0	105.5	94.4	99.5	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.9175	2.9135	2.9207
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	3.2096	3.0822	3.1867
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	3.0636	2.9979	3.0537
Foreign Trade Balance(1) (USD billion)						**Sep-15**	**Oct-15**	**Nov-15**
Exports	113.9	134.9	152.5	151.8	157.6	146.4	146.8	145.5
Imports	185.5	240.8	236.5	251.7	242.2	218.7	216.4	211.0
Foreign Trade Balance	**-71.7**	**-105.9**	**-84.1**	**-99.9**	**-84.6**	**-72.3**	**-69.6**	**-65.5**
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	67.0	67.8	68.9
Current Account Balance(1) (USD billion)						**Aug-15**	**Sep-15**	**Oct-15**
Current Account Balance	**-45.3**	**-75.0**	**-48.5**	**-64.7**	**-46.5**	**-42.8**	**-40.3**	**-38.1**
Capital and Financial Accounts	**-45.1**	**-66.0**	**-48.2**	**-62.0**	**-43.2**	**-37.3**	**-32.5**	**-31.2**
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.7	-9.7	-9.3	-9.2
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.1	1.0	5.3	7.1
Other Investments (net)	-34.2	-28.2	-18.9	-39.1	-16.9	-21.9	-21.3	-19.3
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	-6.8	-7.1	-9.8
Net Errors and Omissions	**0.2**	**9.0**	**0.3**	**2.8**	**3.4**	**5.5**	**7.8**	**7.0**
Current Account Balance/GDP (%)	**-6.2**	**-9.7**	**-6.2**	**-7.9**	**-5.8**	-	-	-
Budget(2)(3) (TRY billion)						**Sep-15**	**Oct-15**	**Nov-15**
Expenditures	**294.4**	**314.6**	**361.9**	**408.2**	**448.8**	**367.7**	**404.2**	**447.2**
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	44.8	47.4	51.3
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.8	322.9	356.8	396.0
Revenues	**254.3**	**296.8**	**332.5**	**389.7**	**425.4**	**354.2**	**398.0**	**441.8**
Tax Revenues	210.6	253.8	278.8	326.2	352.5	298.3	333.3	372.7
Budget Balance	**-40.1**	**-17.8**	**-29.4**	**-18.5**	**-23.4**	**-13.5**	**-6.2**	**-5.4**
Primary Balance	**8.2**	**24.4**	**19.0**	**31.4**	**26.5**	**31.3**	**41.2**	**45.8**
Budget Balance/GDP (%)	**-3.6**	**-1.4**	**-2.1**	**-1.2**	**-1.3**	-	-	-
Central Government Debt Stock (TRY billion)						**Sep-15**	**Oct-15**	**Nov-15**
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	438.2	438.2	439.5
External Debt Stock	120.7	149.6	145.7	182.8	197.5	251.6	239.4	236.8
Total Debt Stock	**473.6**	**518.4**	**532.2**	**585.8**	**612.1**	**689.8**	**677.6**	**676.2**

(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	Oct.15	Nov.15	Change[(1)]
TOTAL ASSETS	**1,006.7**	**1,217.7**	**1,370.7**	**1,732.4**	**1,994.3**	**2,347.7**	**2,346.6**	**17.7**
Loans	**525.9**	**682.9**	**794.8**	**1,047.4**	**1,240.7**	**1,465.7**	**1,468.9**	**18.4**
TRY Loans	383.8	484.8	588.4	752.7	881.0	996.0	1,007.1	14.3
Share (%)	73.0	71.0	74.0	71.9	71.0	68.0	68.6	-
FX Loans	142.1	198.1	206.4	294.7	359.7	469.7	461.7	28.3
Share (%)	27.0	29.0	26.0	28.1	29.0	32.0	31.4	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	45.6	46.4	27.3
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	3.0	3.1	-
Securities	**287.9**	**285.0**	**270.0**	**286.7**	**302.3**	**325.6**	**326.5**	**8.0**
TOTAL LIABILITIES	**1,006.7**	**1,217.7**	**1,370.7**	**1,732.4**	**1,994.3**	**2,347.7**	**2,346.6**	**17.7**
Deposits	**617.0**	**695.5**	**772.2**	**945.8**	**1,052.7**	**1,238.3**	**1,238.2**	**17.6**
TRY Deposits	433.5	460.0	520.4	594.1	661.3	679.5	697.6	5.5
Share (%)	70.3	66.1	67.4	62.8	62.8	54.9	56.3	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	558.8	540.7	38.2
Share (%)	29.7	33.9	32.6	37.2	37.2	45.1	43.7	-
Securities Issued	**3.1**	**18.4**	**37.9**	**60.6**	**89.3**	**100.7**	**99.8**	**11.8**
Payables to Banks	**122.4**	**167.4**	**173.4**	**254.2**	**293.2**	**361.4**	**356.4**	**21.5**
Funds from Repo Transactions	**57.5**	**97.0**	**79.9**	**119.1**	**137.4**	**157.0**	**148.7**	**8.3**
SHAREHOLDERS' EQUITY	**134.5**	**144.6**	**181.9**	**193.7**	**232.0**	**256.0**	**259.1**	**11.7**
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	21.2	23.9	-
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	62.4	62.6	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	13.9	13.9	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	52.7	52.8	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	118.4	118.6	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	15.3	15.5	-

(1) Year-to-date % change

Source: BRSA

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