



Monthly Economic Review

March 2016



Global Economy

- ◆ OECD expected the world economy to expand at a slower pace in 2016 compared to 2015 and record the weakest growth performance of the last five years. The Organization's global growth forecast for 2016 stood at 3%, down from the previously announced figure of 3.3%.
- ◆ The US economic growth rate was revised upward for the last quarter of 2015. Personal consumption expenditures inflation, one of the prominent indicators that shape the Fed's monetary policy, reached 1.3% in January.
- ◆ Recently, both the better-than-expected US GDP growth and improved inflation expectations caused the possibility of a rate hike by the Fed to increase somewhat.
- ◆ Consumer prices in the Euro Area dropped by 0.2% yoy in February contrary to the expectations that implied a flat course. ECB is expected to cut the deposit rate further and expand the size of the bond purchase program at its next monetary policy meeting to be held in March.
- ◆ The possibility of the UK leaving the European Union (Brexit) has been high on the agenda. The prevailing uncertainty about the outcome of the referendum to take place in June 23 put pressure on sterling.
- ◆ As hopes for a production freeze increased in February, oil prices have rebounded to some extent.

Turkish Economy

- ◆ Calendar adjusted industrial production surged by 4.5% yoy in December. Thus, in the last quarter of 2015, the annual expansion in industrial production became 4.2%, the largest since the first quarter of 2014. Against this backdrop, we expect that the 2015 GDP growth has been realized around 4%.
- ◆ Foreign trade deficit has kept its downward trend in the first month of 2016 as it had been throughout 2015. Despite of the low base-year effect, export volume decreased by 22% yoy. Import volume also plunged by 19.7% yoy in January. Hence, trade deficit narrowed by 13.4% yoy in this period. It was noteworthy that monthly export volume fell below 10 billion USD in January for the first time in the last 5 years.
- ◆ Current account deficit came in at 32.2 billion USD in 2015, the lowest level since 2009. The decline in foreign trade deficit has played a significant role in this development. Current account deficit excluding energy trade gave a surplus of 1.1 billion USD in 2015.
- ◆ Central government budget gave a surplus of 4.2 billion TRY in January, better than the last year's performance. The rise in privatization revenues was noteworthy while the minimum wage hike appeared to have had an impact on budget expenditures.
- ◆ Seasonal factors put a downward pressure on monthly inflation in February. CPI posted a monthly decline of 0.02% in this period. Having been on an upward trend since October, annual CPI inflation rate edged back down to 8.78% in February.

Contents

Turkish Economy	2
Banking Sector	9
Concluding Remarks	10
Graphs	11
Tables	14

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

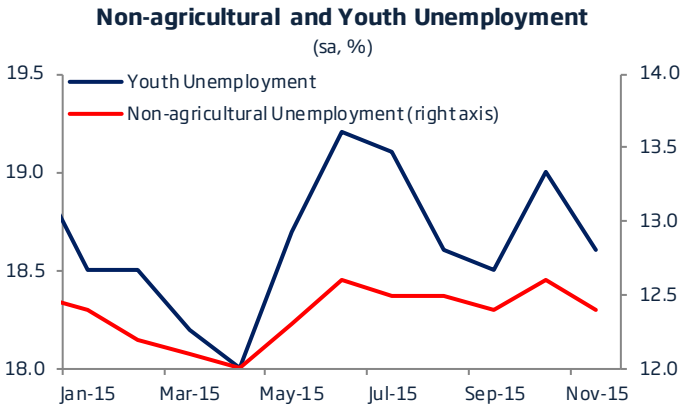
Eren Demir - Asst. Economist
eren.demir@isbank.com.tr

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

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

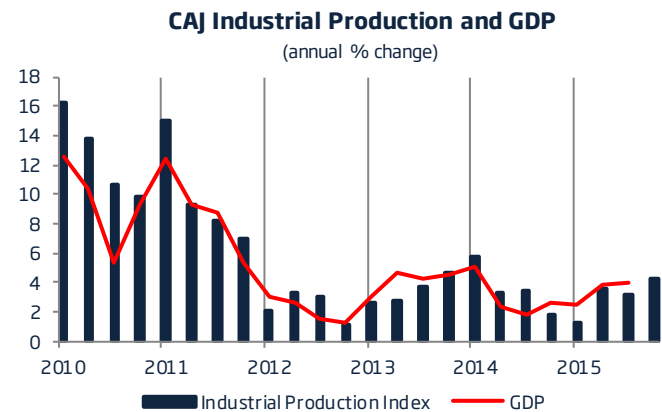
Unemployment rate stood at 10.5%.

Unemployment rate declined by 0.2 point and became 10.5% in November. This fall took place despite the increase registered in labor force participation ratio and is therefore regarded as a favorable development for the labor market. Relative recovery in economic activity in the last quarter of 2015 was confirmed as both non-agricultural and youth unemployment rates decreased during this period.



Rise in industrial production came in above the expectations.

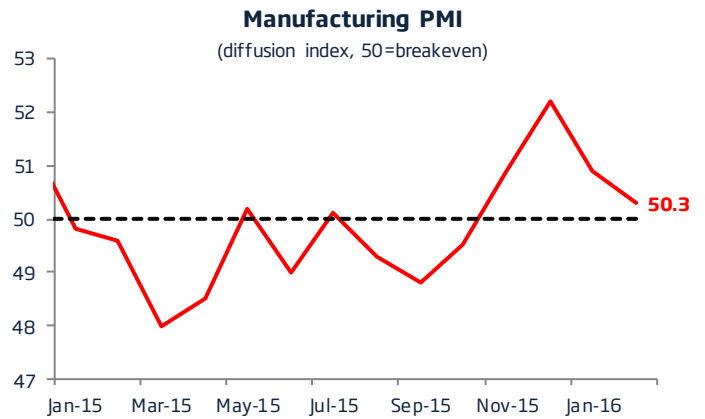
Calendar adjusted industrial production surged by 4.5% yoy in December. Thus, in the last quarter of 2015 the annual expansion in industrial production became 4.2%, the largest since the first quarter of 2014. The two fastest annual increases in the main industrial sectors were recorded in the manufacture of coke and refined petroleum products in which new production facilities were put into service in December and in the manufacture of electronic products. These two sectors posted annual rises of 46% and 24%, respectively. The basic metals sector, which contracted through the last year showed some signs of improvement. Production in the leather industry, which depends heavily on Russian market, fell by 11.5% yoy in December.



GDP growth estimates for 2015 were revised upwards thanks to the better-than-expected industrial production data. We think that the contribution of net exports might increase in the last quarter due to the favorable basis effect. Hence, the growth rate might surpass 5% in this period. In 2015 as a whole, the GDP growth might converge to 4%, the target of the Medium Term Programme.

PMI signals expansion in the manufacturing sector.

The manufacturing PMI receded by 0.6 point mom to 50.3 in February. Therefore, the index indicated that the sector continued to grow for the fourth consecutive months remaining above the 50 threshold level. While output and new orders pushed up the overall index, new export orders kept declining due to the growing geopolitical risks. It was also noteworthy that the input prices reached a four-month high during this period.



Capacity utilization ratio...

Capacity utilization ratio (CUR) increased by 0.7 point yoy and came in at 73.5% in February. CUR in the manufacture of coke and refined petroleum products sustained its strong outlook during this period. Also, the surge of CUR in the manufacture of motor vehicles persisted in February. However, CUR in the manufacture of chemical, rubber and plastic and leather products fell in this period.

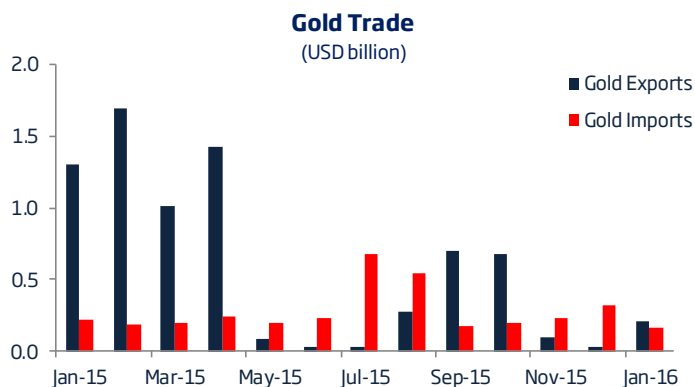
In January, foreign trade deficit narrowed by 13.4%.

Foreign trade deficit has kept its downward trend in the first month of 2016 as it had been throughout 2015. Despite of the low base-year effect, export volume decreased by 22% yoy, import volume also plunged by 19.7% yoy in January. Hence, trade deficit narrowed by 13.4% yoy in this period. It was noteworthy that monthly export volume fell below 10 billion USD in January for the first time in the last 5 years.

Foreign Trade Balance	(USD billion)		
	January		Change
	2015	2016	(%)
Exports	12.3	9.6	-22.0
Imports	16.6	13.4	-19.7
Foreign Trade Balance	-4.3	-3.8	-13.4
Import Coverage Ratio (%)	73.9	71.8	-

Exports displayed a weak performance.

The sharpest annual decline registered in exports since the global crisis was mainly led by the drop in gold exports in January. During this period, 40% of the contraction in total exports (2.7 billion USD) stemmed from the decline in gold trade. Accordingly, exports to Switzerland and England fell



by 81.9% and 31% yoy, respectively.

Narrowing exports to Iraq, Russia, Iran and UAE due to the recent geopolitical developments also played a part in the weak performance of exports. Indeed, the fall in exports to these countries accounted for one-third of the annual decline recorded in total exports. Analyses of exports by sub-items revealed that the vegetables, fruits, motor vehicles and machinery exports to Russia contracted in January while raw leather and wearing apparel exports posted a slight increase. For Iraq, on the other hand, exports of the iron-steel, motor vehicles as well as food product exports such as vegetable oils and meat decreased. Fall in precious stones and metals exports was largely responsible for the contraction of exports to Iran and UAE.

Major Export Losses by Destination

(USD thousand)	2015-01	2016-01	(% change)
Switzerland	1,044,440	189,562	-81.9
Iraq	834,204	468,821	-43.8
England	941,629	650,193	-31.0
Russia	315,427	107,749	-65.8
UAE	455,894	287,505	-36.9
Iran	411,510	263,719	-35.9
Azerbaijan	187,513	45,017	-76.0
France	474,490	417,448	-12.0
Syria	135,575	86,954	-35.9
Turkmenistan	137,040	90,775	-33.8
Other	7,364,662	6,989,020	-5.1
Total	12,302,384	9,596,764	-22.0

In January, exports of Turkey recorded a decline for all country groups. Exports to EU countries, Turkey's largest export market, fell by 9.7% yoy (509 million USD) in this period. Low level of EUR/USD parity continued to have impact on this development, albeit to a limited extent. Moreover, exports to the other European countries dropped by 65% yoy (1.1 billion USD) in January.

The impact of falling oil prices on imports has persisted.

The lower oil prices continued to be instrumental in the decline of energy imports. Indeed, quantity of Turkey's oil imports increased by 19.6% yoy while value of energy imports (classified as Chapter-27, mineral fuels and mineral oil) dropped by 39.2% yoy.

The fall in imports was broad-based in the first month of the year due to the mild course of domestic demand conditions. Boilers-machineries and iron-steel, two of the first five most imported items, contracted by 8.2% yoy and 30% yoy, respectively.

Expectations...

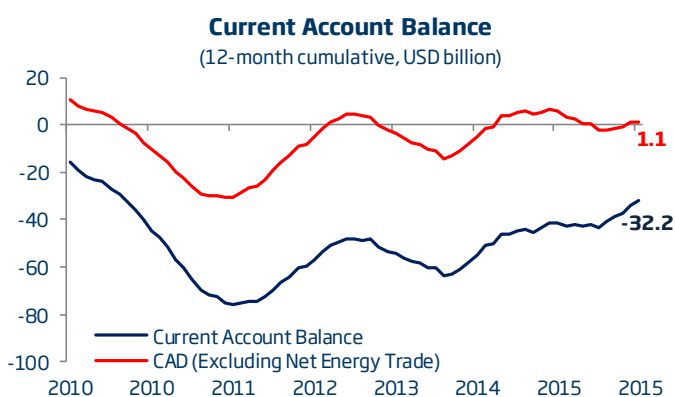
Exports exhibited a weak performance during the first month of the year whereas sliding imports on the back of the lower oil prices gave way to a smaller foreign trade deficit. However, we anticipate that the fall in imports might decelerate in the upcoming period along with the diminishing basis effect of low oil prices. On the exports front, the significance of the diversification of markets grows as geopolitical risks continue to pile up. Meanwhile, the lack of a sustainable growth performance in European Union countries constitutes another concern for Turkey's export outlook.

According to the provisional data, exports rose by 3.3% yoy while imports fell by 7.7% yoy in February. As a result, foreign trade deficit contracted by 34.7% yoy in this period.

Source: Datastream, Turkstat

Current account deficit became 5.1 billion USD in December.

Current account deficit came in at 5.1 billion USD, slightly above expectations in December. For the full year, the deficit decreased by 11.4 billion USD compared to 2014 to 32.2 billion USD, the lowest level since 2009. The decline in foreign trade deficit, which amounted to 15.8 billion USD, has played a significant role in this development. Current account deficit excluding energy trade gave a surplus of 1.1 billion USD in 2015.



Narrowing foreign trade deficit...

According to the balance of payments figures, exports recorded a fall of 10% yoy in 2015 due to the geopolitical developments and weak economic outlook in the major export markets. Nonetheless, the improvement in foreign trade deficit thanks to the decline in imports (14% yoy), which mostly stemmed from the falling energy prices, has supported the current account balance.

On the other hand, the decline in tourism and shuttle trade revenues limited the recovery in current account balance. The contraction in the Russian economy played a significant role in the fall of 3.1 billion USD in shuttle trade revenues and 3.2 billion USD in net tourism revenues in 2015. The number of Russian tourists visited Turkey decreased by 19% yoy in this period.



Capital outflows from portfolio investments persisted.

Portfolio investments recorded an outflow of 15.4 billion USD in 2015 due to the domestic political developments and volatile conditions in global markets. Almost half of this amount stemmed from the sales of the government domestic debt securities of non-residents. Equity securities also witnessed outflows during this period. It was noteworthy that portfolio investments recorded a net capital outflow for the first time on annual basis since the 2008 global crises.

Favorable outlook in foreign direct investments...

Foreign direct investments exhibited a strong performance during 2015. Net foreign direct investments rose by 6 billion USD compared to 2014 and came in at 11.5 billion USD. Banking and manufacture of coke, refined petroleum products attracted the highest amount of FDI during the year.

Private sector continued to raise funds from abroad.

Both banks and non-bank sectors continued to obtain funds from abroad in 2015. Further improving financing quality, banking sector was a net credit re-payer in short term loans with 21.4 billion USD while it became a net credit borrower in long-term loans with 26.2 billion USD. Banks' long-term debt roll-over ratio stood at 327% as of the end of 2015.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	USD million		Breakdown of Net Capital Inflows (%)	
	Dec. 2014	Dec. 2015	Dec. 2014	Dec. 2015
Current Account Balance	-43,552	-32,192	-	-
Total Net Foreign Capital Inflows	43,084	20,361	100.0	100.0
-Direct Investments	5,476	11,495	12.7	56.5
-Portfolio Investments	20,104	-15,411	46.7	-75.7
-Other Investments	16,014	14,640	37.2	71.9
-Net Errors and Omissions	1,560	9,658	3.6	47.4
-Other	-70	-21	-0.2	-0.1
Reserves⁽¹⁾	468	11,831	-	-

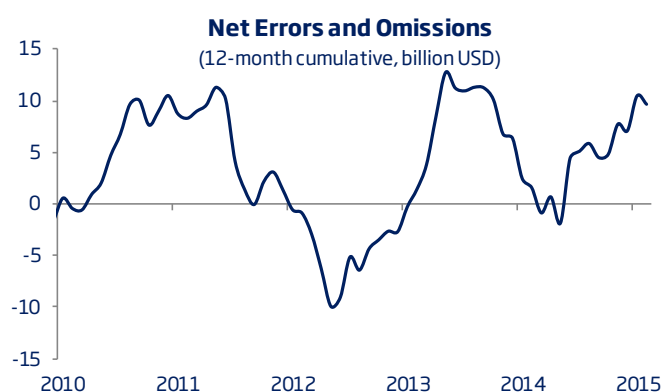
Note: The numbers may not add up to total due to rounding.

(1) (-) sign indicates an increase in reserves while (+) sign indicates a decrease.

Source: Datastream, CBRT

Non-bank sectors were net borrowers both in short-term and long-term loans. They raised credits amounting to a net figure of 10.7 billion USD in long-term while they used a lot lesser amount of short-term loans during this period.

Having fallen since August, reserve assets posted a record monthly fall of 6.6 billion USD in December. Consequently, reserve assets became a focus of attention registering a



decline of 11.8 billion USD in 2015 as a whole. Net errors and omissions account also recorded an outflow of 1.1 billion USD in December while it contributed significantly to the financing of the current account deficit by 9.7 billion USD during 2015.

Expectations

The current trajectory of energy prices presents a favorable outlook for Turkey's current account balance. However, the latest data on leading indicators in Euro Area have signaled that the economy has recently lost some steam. Furthermore, the rising geopolitical risks are expected to weigh on tourism and shuttle trade revenues as well as exports in the upcoming period. The signs of recovery in domestic demand may also limit the improvement in current account balance via import channel. Against this backdrop, the upward pressures on current account deficit are expected to intensify in 2016 compared to 2015.

	(USD million)			
	December 2015	Jan. - Dec. 2014	Jan. - Dec. 2015	% Change
Current Account Balance	-5,073	-43,552	-32,192	-26.1
Foreign Trade Balance	-4,972	-63,597	-47,820	-24.8
Services Balance	611	26,768	23,959	-10.5
Travel(net)	690	24,480	21,248	-13.2
Primary Income	-839	-8,130	-9,523	17.1
Secondary Income	127	1,407	1,192	-15.3
Capital Account	-15	-70	-21	-70.0
Financial Account	-6,207	-42,062	-22,555	-46.4
Direct Investments (net)	-1,245	-5,476	-11,495	109.9
Portfolio Investments (net)	957	-20,104	15,411	-
Net Acquisition of Financial Assets	-895	746	6,041	709.8
Net Incurrence of Liabilities	-1,852	20,850	-9,370	-
Equity Securities	-417	2,559	-2,395	-
Debt Securities	-1,435	18,291	-6,975	-
Other Investments (net)	728	-16,014	-14,640	-8.6
Currency and Deposits	1,868	437	2,122	385.6
Net Acquisition of Financial Assets	1,961	283	15,009	5,203.5
Net Incurrence of Liabilities	93	-154	12,887	-
Central Bank	-39	-2,333	-916	-60.7
Banks	132	2,179	13,803	533.5
Foreign Banks	157	-954	9,942	-
Foreign Exchange	-419	-3,904	4,708	-
Turkish Lira	576	2,950	5,234	77.4
Non-residents	-25	3,133	3,861	23.2
Loans	539	-15,173	-13,592	-10.4
Net Acquisition of Financial Assets	267	1,863	792	-57.5
Net Incurrence of Liabilities	-272	17,036	14,384	-15.6
Banking Sector	-164	11,837	4,866	-58.9
Non-bank Sectors	353	6,086	10,756	76.7
Trade Credit and Advances	-1,676	-807	-2,908	260.3
Other Assets and Liabilities	-3	-471	-262	-44.4
Reserve Assets (net)	-6,647	-468	-11,831	2,428.0
Net Errors and Omissions	-1,119	1,560	9,658	519.1

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

Source: CBRT, Datastream

Central government budget gave a surplus of 4.2 billion TRY.

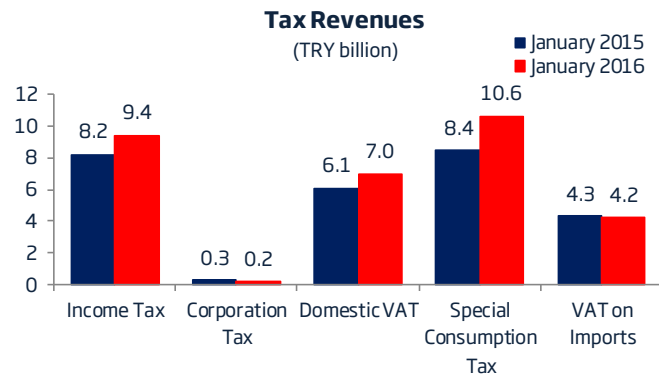
Central government budget surplus, which became 3.8 billion TRY in the first month of the previous year, rose by 11.4% yoy to 4.2 billion TRY in January 2016. In this period, primary surplus also surged by 11.7% and was realized as 9.8 billion TRY. In January, budget balance pointed to a better outlook than the same month of the previous year.

Significant pick-up in privatization revenues...

In the first month of 2016, central government budget revenues recorded an annual increase of 6.6 billion TRY. Having recorded an annual rise of 2 billion TRY, privatization revenues played a big role in this development.

In January, tax revenues expanded by 4.8 billion TRY (13.8%) yoy. Almost half of the rise in tax revenues stemmed from the hikes in special consumption taxes (SCT) levied predominantly on tobacco products in the new year. It is noteworthy that despite the sliding energy prices in global markets, SCT imposed on petroleum and natural gas products climbed by 17.4%.

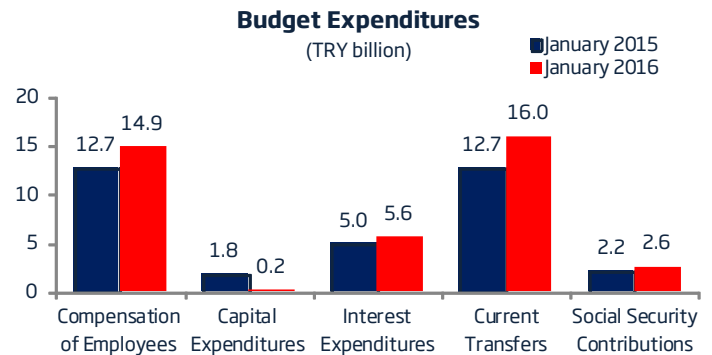
Value added tax (VAT) revenues grew by 14.4% yoy on the back of the moderate recovery trend in economic activity. However, the decline in VAT on imports revenues in January limited the expansion in tax revenues.



The impact of minimum wage hike on budget expenditures...

In the first month of the year, central government budget expenditures surged by 17% compared to the same month of 2015. On the other hand, interest expenditures posted a mild increase of 11.9% in this period. The substantial expansion in non-interest expenditures was worth mentioning. The minimum wage rise appeared to have had an impact on budget expenditures. In January, the rises in compensation of employees and current transfers led the budget expenditures to go up by a total of 5.5 billion TRY.

Moreover, the surge in agricultural subsidies was noteworthy. Capital expenditures item, on the other hand, was the only expenditure item that fell on annual basis and thereby lowered budget expenditures.



Expectations

It is anticipated that economic activity will continue to expand at a moderate pace in 2016. Against this backdrop, the budget revenues are expected to keep rising via tax revenues. On the other hand, minimum wage hike and the other election pledges may put downward pressure on budget balance in the coming period.

Central Government Budget

	(TRY billion)				
	2015	January 2016	% Change	2016 MTP Forecast	Real/Forecast (%)
Expenditures	36.3	42.5	17.0	918.7	4.6
Interest Expenditures	5.0	5.6	11.9	58.4	9.6
Non-Interest Expenditures	31.3	36.9	17.8	860.3	4.3
Revenues	40.1	46.7	16.5	903.8	5.2
Tax Revenues	34.9	39.7	13.8	471.7	8.4
Other Revenues	5.2	7.0	34.5	432.1	1.6
Budget Balance	3.8	4.2	11.4	-14.9	-
Primary Balance	8.8	9.8	11.7	43.5	22.6

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

Source: Ministry of Finance, Datastream

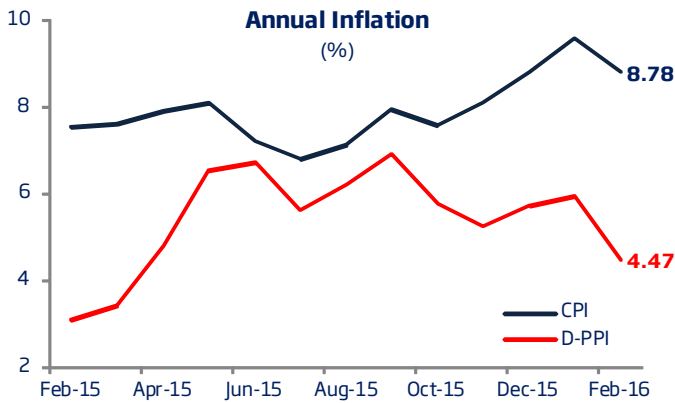
CPI posted an unexpected monthly decline.

In February, CPI and D-PPI decreased by 0.02% mom and 0.2% mom, respectively. Markets expected a 0.3% monthly CPI rise in this period. According to the CBRT's Survey of Expectations, CPI was anticipated to increase by 0.68%.

February	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	0.71	-0.02	1.20	-0.20
Year-to-Date	1.82	1.80	1.53	0.34
Annual	7.55	8.78	3.10	4.47
Annual Average	8.77	7.97	8.79	5.61

CPI registered an annual rise of 8.78%.

Having been on an upward trend since October, annual CPI inflation rate edged back down to 8.78% in February. Annual increase in D-PPI also lost momentum rapidly compared to the previous month and was realized as 4.47% in this period. Thus, annual D-PPI inflation fell to the lowest level of the last eleven months.

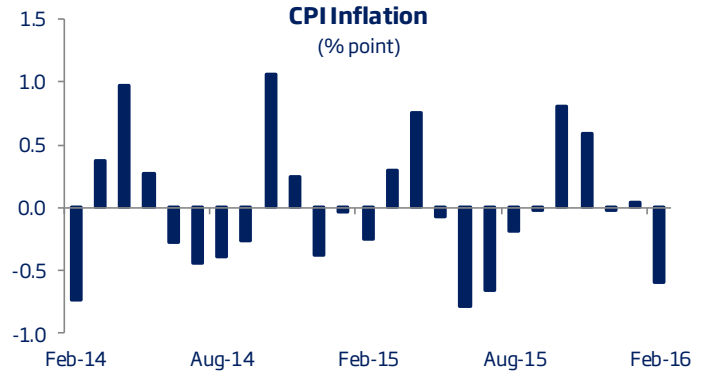


Clothing and footwear prices declined by 6.2% mom.

Seasonal factors put a downward pressure on monthly inflation in February. Having decreased by 6.2% on monthly basis, clothing and footwear group made the biggest contribution to the drop registered in CPI.

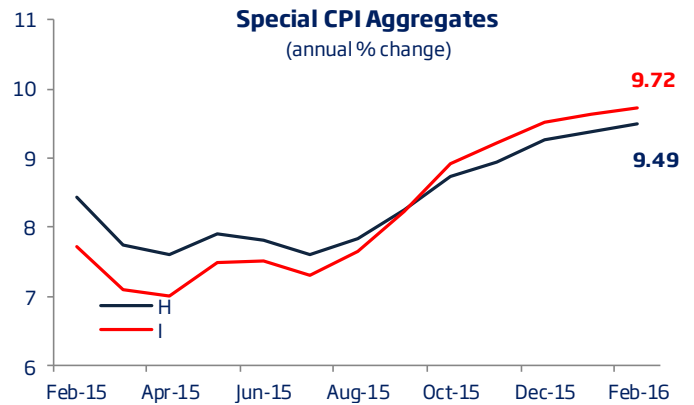
It was worth mentioning that food and nonalcoholic beverages prices, which generally exert significant upward pressure on inflation, recorded a monthly decline albeit to a limited extent. Having the second biggest weight in CPI basket (15.9%) following the food group, the surge in housing prices limited the fall in CPI. On the other hand, increase in the prices of vehicles under the transportation group, whose prices are highly sensitive to the developments in foreign exchange rates, made the highest positive contribution to the CPI during this period.

Contribution of Seasonal Factors to Monthly



Surge in the core inflation indicators...

Despite the decrease in CPI in February, the core inflation indices kept their rising trends. H and I indices, followed by CBRT closely, recorded annual increases of 9.49% and 9.72%, respectively in this period. Hence, these indices reached their highest readings for more than a year.



Low energy prices had substantial impact on D-PPI.

Analysis of the main industrial groups revealed that the prices of energy sector fell by 3% on a monthly basis and by 7.6% on annual basis in February. This development played a significant role in decreasing D-PPI. On the other hand, the downward price movements in domestic energy prices remained limited compared to the global prices owing to the rise in foreign exchange rates.

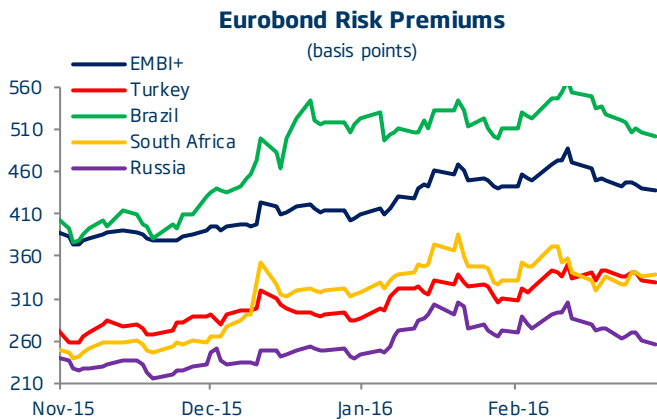
Expectations...

We expect that the annual inflation will continue to decline thanks to the favorable base effect in March. Moreover, the performance of TRY as well as the possible impact of minimum wage hike on services inflation will be the key factors regarding the inflation outlook in the upcoming months.

Source: Datastream, Turkstat

Downward movement in the risk premiums...

Having started the year with a quite weak performance, global markets recovered somewhat in February. The risk premiums followed a downward trend on a global scale particularly during the second half of the month as it was considered that the risks facing the global economy were not as high as previously anticipated and as the expectations that the leading central banks may come up with new stimulus measures grew. The bouncing oil prices, trimming its losses for 2016 to a large extent, also supported the global markets during this period.

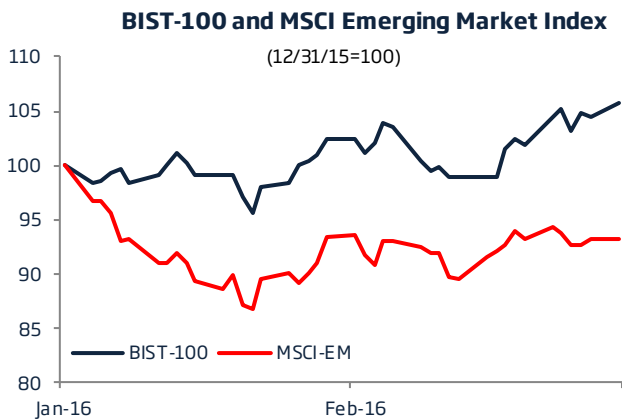


CBRT held the policy rate intact.

CBRT kept the interest rates on hold in February. Without changing its assessments on economic situation, CBRT, in practice, continued to implement a tighter monetary policy stance via the liquidity policy. The weighted average cost of funding (WACF) reached 9.14% on February 9, the highest level since June 2014. The WACF became 9.09% as of February 29.

Upward trend in BIST-100 index...

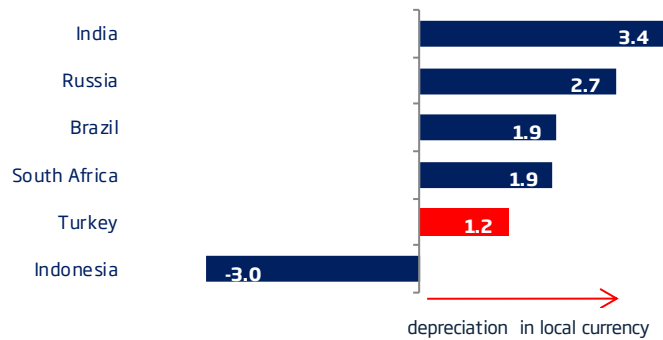
BIST-100 index performed better than its emerging market peers in the first two months of the year. BIST-100 index rose by an almost 6% as of February 29 compared to the end of 2015 despite the rising geopolitical risks.



Large fluctuations in USD/TRY...

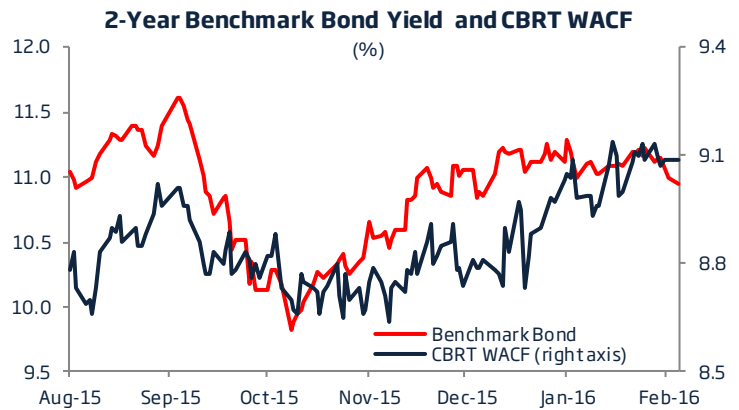
Having declined to a two-month low of 2.8853 on February 4, USD/TRY fluctuated in a wide band in the following period especially due to the geopolitical developments. USD/TRY jumped as high as 2.9990 on February 26 and closed out the month at 2.9644.

The Performances of USD/Local Currency (% change compared to the year-end, as of Feb. 29)



A moderate fall in 2-year benchmark bond yield...

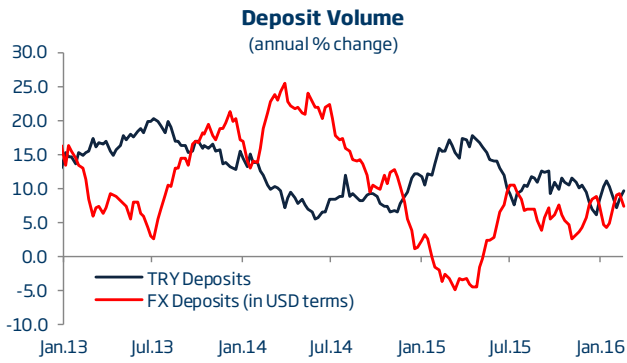
Having hovered around 11% since the mid-December, 2-year benchmark bond yield retreated slightly in the recent period. The yield was realized as 10.97% on February 29.



Source: CBRT, Reuters, Datastream, BIST

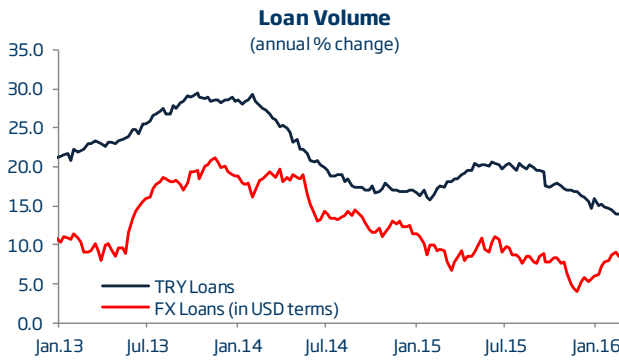
Deposit volume rose by 17.7% yoy.

According to BRSA's Weekly Bulletin, deposit volume expanded by 17.7% yoy and reached 1,345 billion TRY as of February 19. According to exchange rate adjusted figures, on the other hand, annual increase in total deposits was realized as 8.7%. In this period, TRY deposit volume surged by 9.6% yoy while FX deposit volume rose by 29.8% yoy due to the rise in FX rates. Indeed, FX deposits in USD terms recorded a limited annual increase of 7.3%.



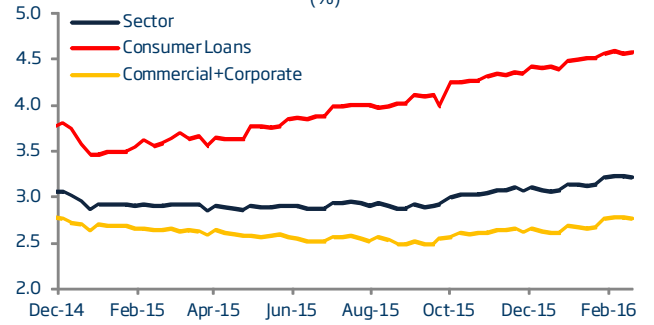
Loan volume...

The annual growth in total loan volume was 19.1% as of February 19. TRY loans posted an annual rise of 14%, the slowest rate in 6 years. In this period, FX loans grew by 31.3% yoy whereas FX loans in USD terms increased by only 8.6% yoy.



Non-performing loans (NPL) ratio in the banking sector was realized as 3.22% as of February 19. Analysis by types of loans revealed that NPL ratio for consumer loans surged by 100 basis points compared to the same period of the previous year and reached 4.58%. It was noteworthy that gross NPL value for consumer loans picked up by 36.4% while consumer loans increased by 6.9% in this period. NPL

NPL Ratios by Loan Type (%)



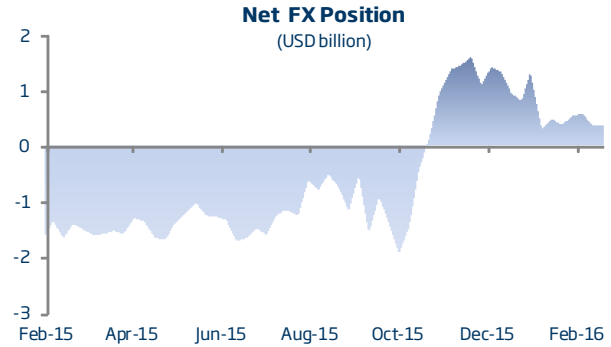
ratio for commercial loans, on the other hand, remained relatively flat in this period and stood at 2.76%.

The rise in securities portfolio continued.

Securities portfolio of banking sector rose by 8.1% yoy and was realized as 333 billion TRY as of February 19. Securities subject to repo transactions, which have the highest share in securities portfolio by %50, increased by 12% in this period.

Net FX position...

Banks' on-balance sheet FX position was (-)24,476 million USD while off-balance sheet FX position stood at (+)24,856 million USD as of February 19. Hence, banks' net FX position became (+)380 million USD in this period.



Source: BRSA Weekly Bulletin

Concluding Remarks

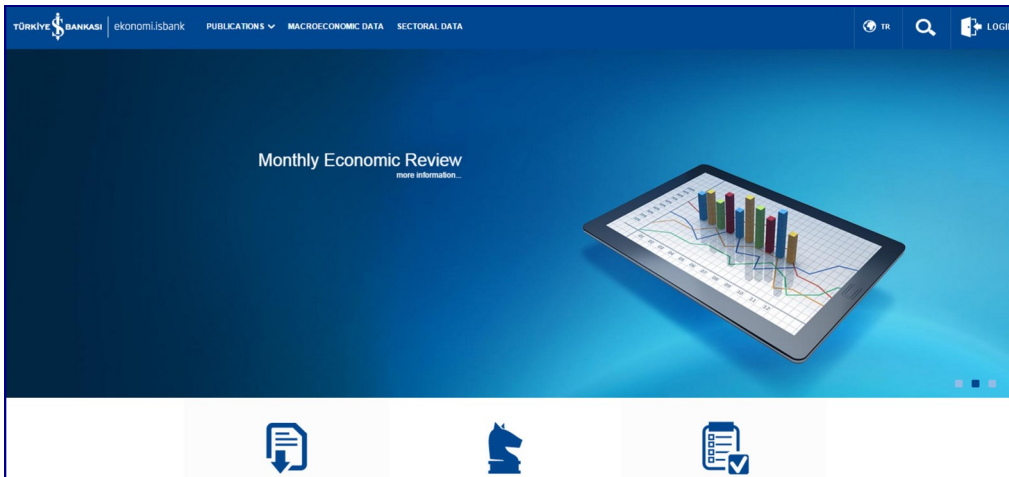
Global markets suffered a bad start to 2016. On the other hand, risk perception showed signs of improvement since the mid-February as the expectations that the major central banks would intensify efforts to support the economies via expansionary monetary policies grew. In light of this situation, global markets witnessed upward movements during this period. Nonetheless, it is hard to guess how long this optimistic mood will last in such an environment that markets change direction so abruptly.

Since the beginning of the year, volatility in domestic markets remained relatively limited compared to its emerging peers. Nevertheless, geopolitical risks have caused the uncertainties regarding the outlook of the Turkish economy. What the current conjuncture suggests is that structural reforms have gained further significance for Turkey to attain a higher and more sustainable growth performance.

Forecasts (%)	2015	2016
Growth	4.0	3.5
CA Deficit/GDP	4.5	5.5
Inflation	8.8 (R)	7.5

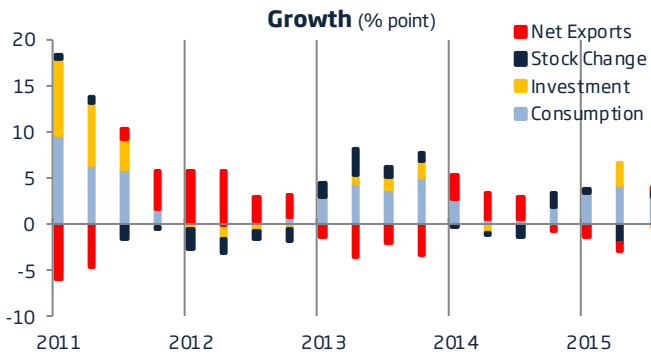
(R) Realization
Year-end forecast for inflation

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

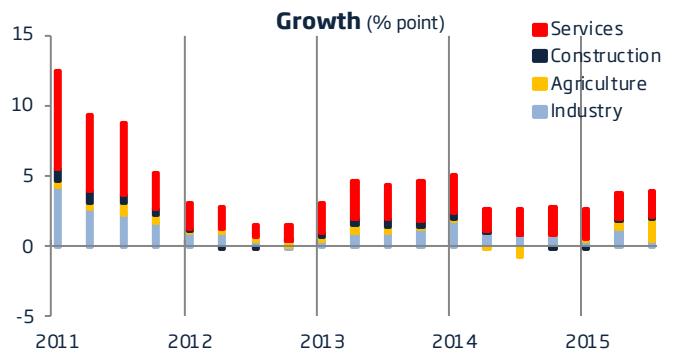


Growth

Expenditure Approach - Contributions to GDP

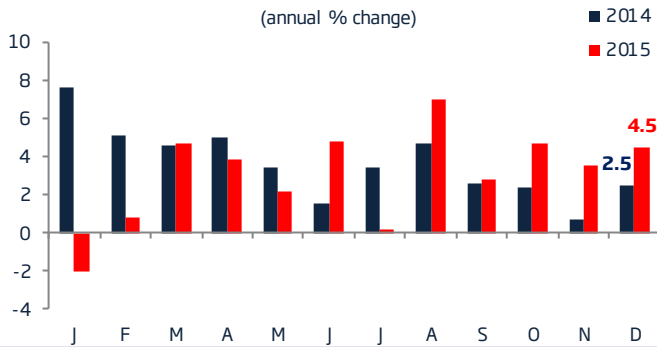


Production Approach - Contributions to GDP

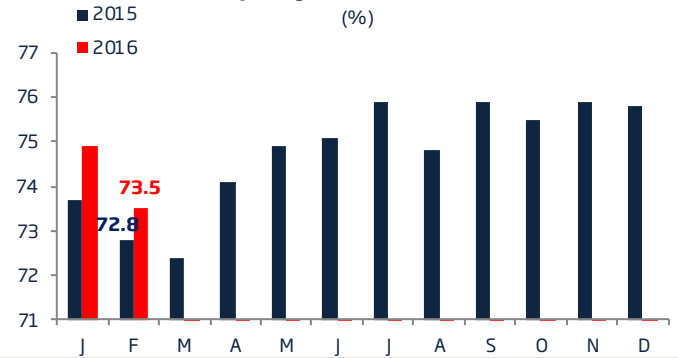


Industrial Production and Capacity Utilization Ratio

Industrial Production*

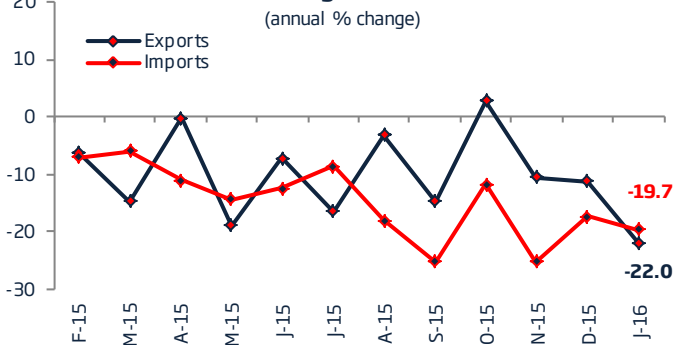


Capacity Utilization Ratio

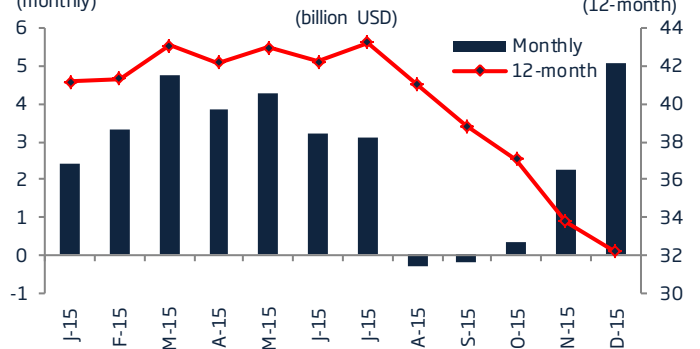


Foreign Trade and Current Account Balance

Foreign Trade

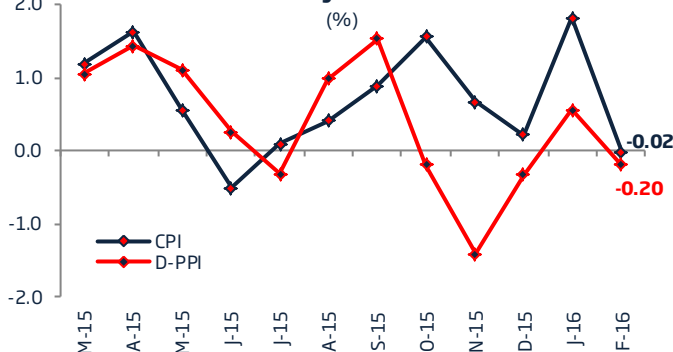


Current Account Deficit

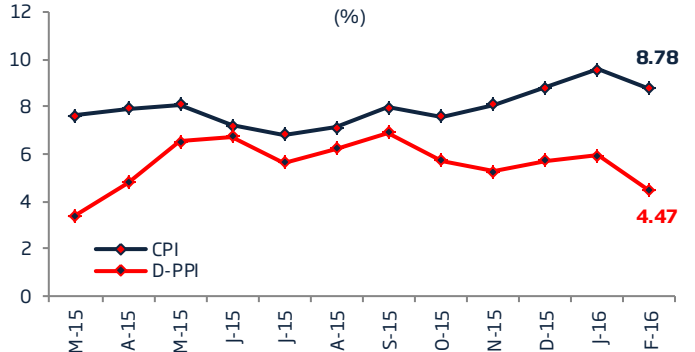


Inflation

Monthly Inflation



Annual Inflation

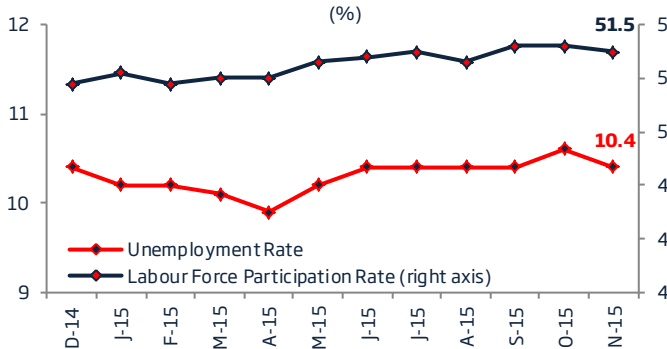


(*) Calendar adjusted figures

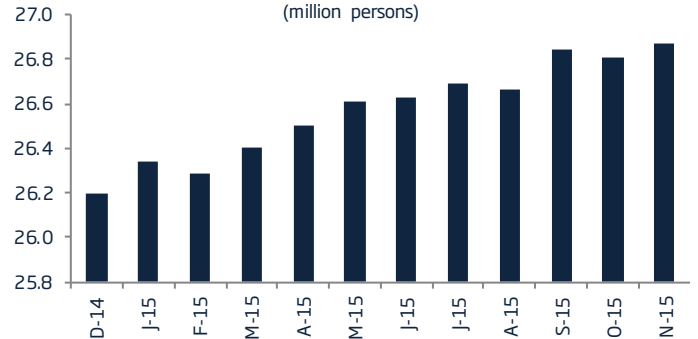
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)

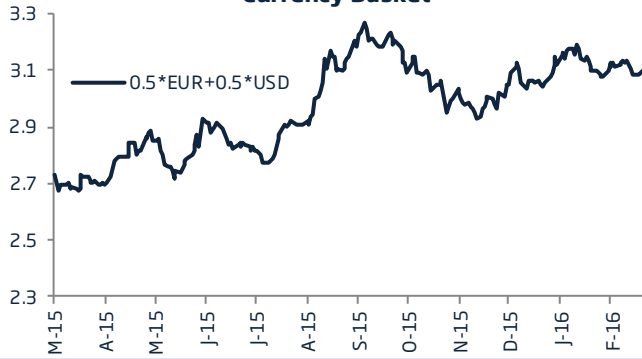


Seasonally Adjusted Employment (million persons)

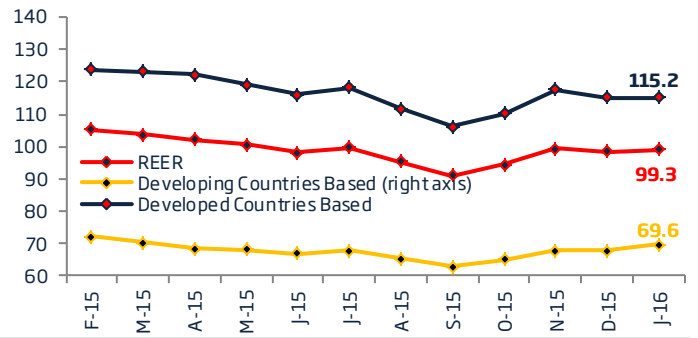


FX Market

Currency Basket

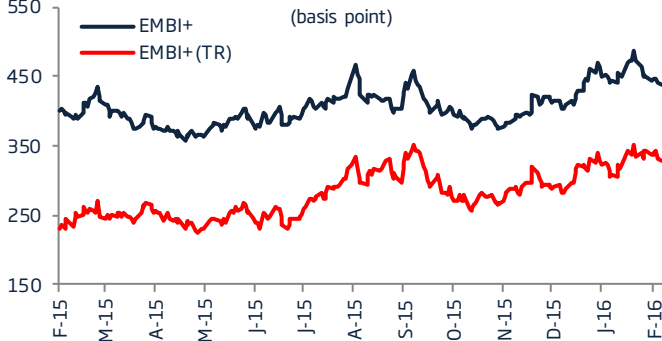


CPI Based Real Effective Exchange Rate

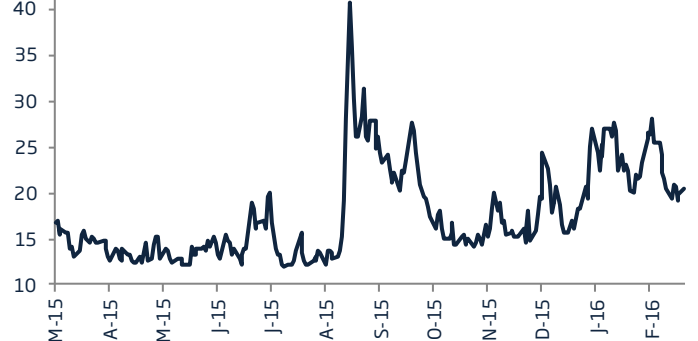


Risk Indicators

Risk Premiums (basis point)

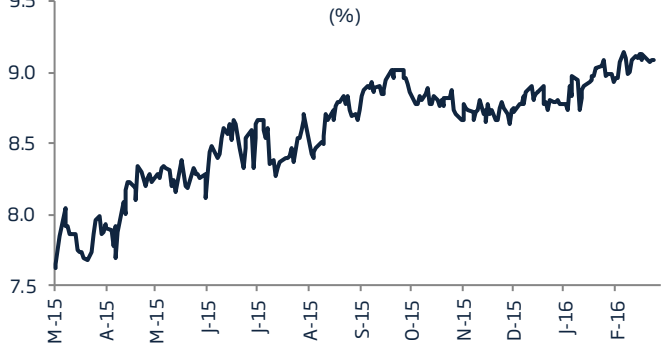


VIX

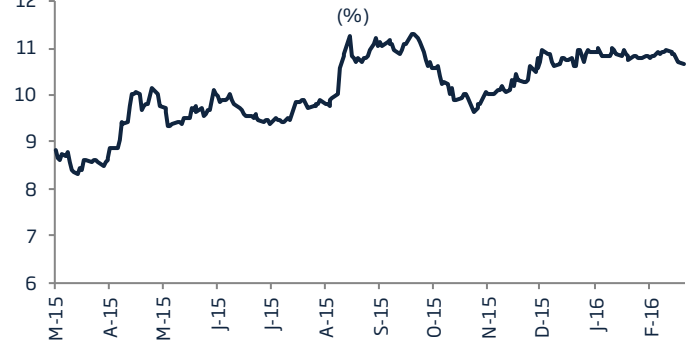


Interest Rates

Weighted Average Cost of CBRT Funding (%)

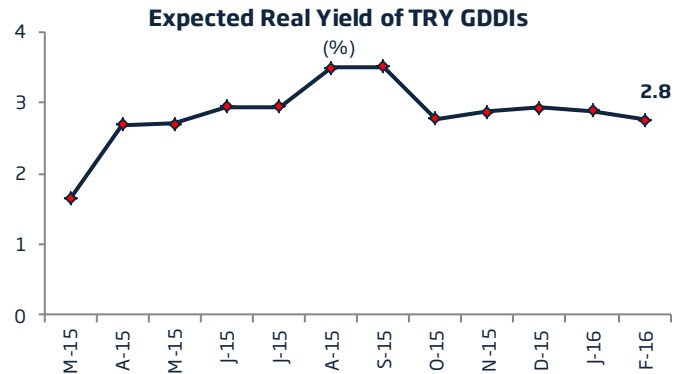
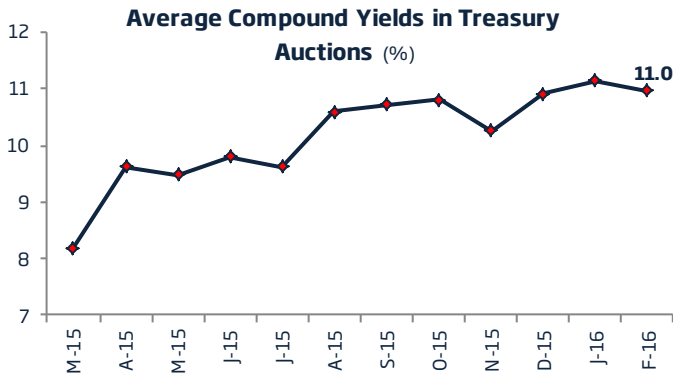


Compound Yield of 2-Year Benchmark Bond (%)

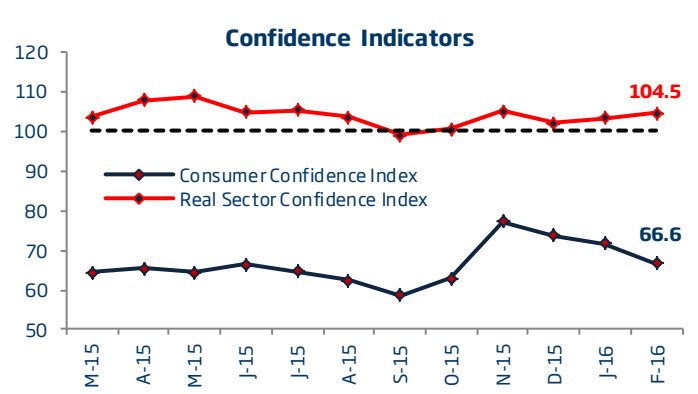
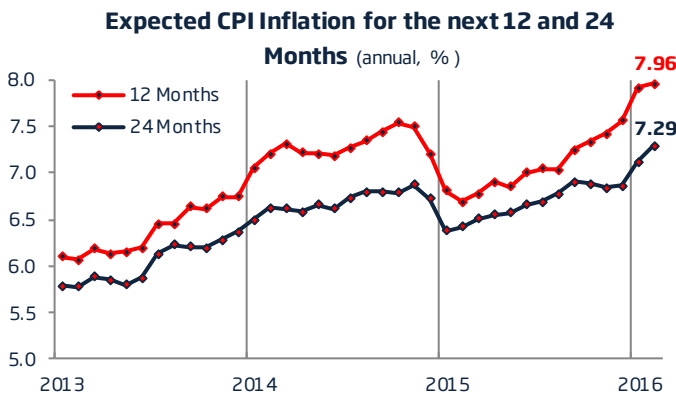
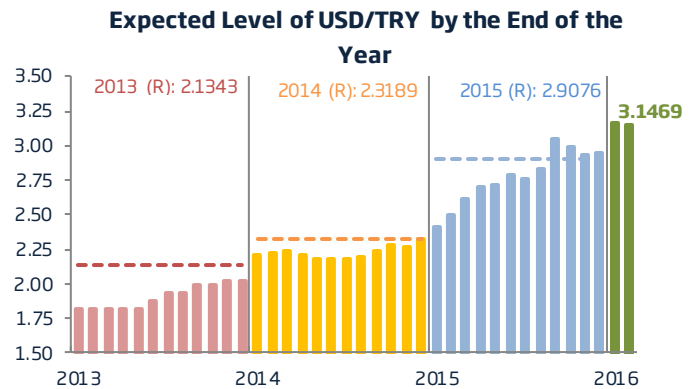
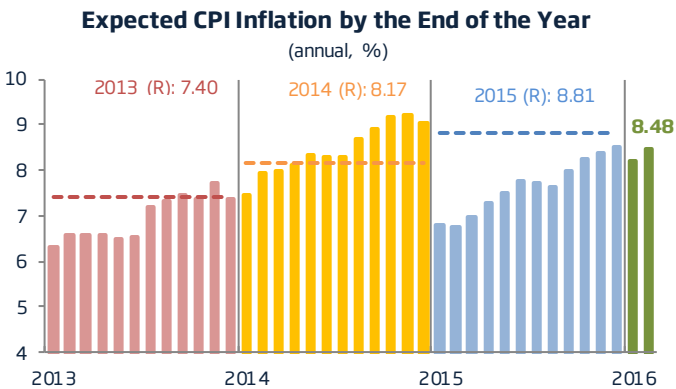
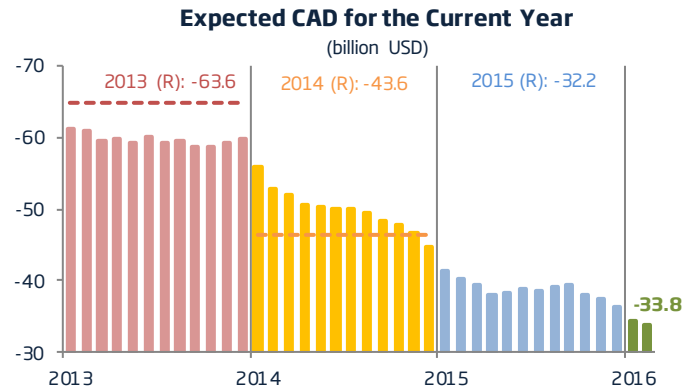
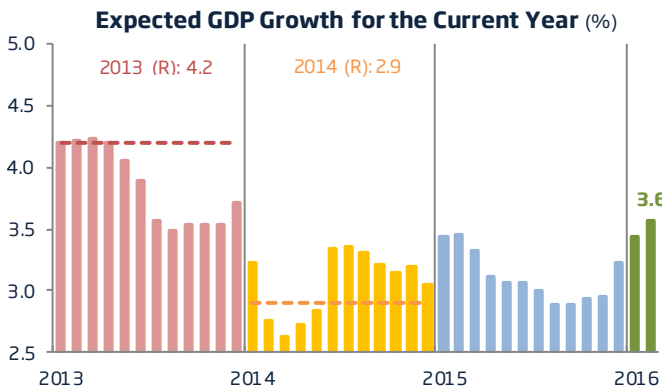


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market



Survey of Expectations and Other Leading Indicators



(R) Realization

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

Turkish Economy at a Glance

	2010	2011	2012	2013	2014	15-Q1	15-Q2	15-Q3
Growth								
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 (%)						Dec-15	Jan-16	Feb-16
CPI (annual)	6.40	10.45	6.16	7.40	8.17	8.81	9.58	8.78
Domestic PPI (annual)	8.87	13.33	2.45	6.97	6.36	5.71	5.94	4.47
Seasonally Adjusted Labor Market Figures						Sep-15	Oct-15	Nov-15
Unemployment Rate (%)	10.0	8.5	8.8	9.1	10.4	10.4	10.6	10.4
Labor Force Participation Rate (%)	47.1	47.2	48.5	48.5	50.9	51.6	51.6	51.5
FX Rates						Dec-15	Jan-16	Feb-16
CPI Based Real Effective Exchange Rate	119.1	102.7	110.2	100.9	105.5	98.4	99.3	
USD/TRY	1.5413	1.8934	1.7819	2.1323	2.3290	2.9207	2.9635	2.9638
EUR/TRY	2.0600	2.4497	2.3508	2.9370	2.8297	3.1867	3.2321	3.2334
Currency Basket (0.5*EUR+0.5*USD)	1.8007	2.1716	2.0664	2.5347	2.5794	3.0537	3.0978	3.0986
Foreign Trade Balance⁽¹⁾ (USD billion)						Nov-15	Dec-15	Jan-16
Exports	113.9	134.9	152.5	151.8	157.6	145.4	143.9	141.2
Imports	185.5	240.8	236.5	251.7	242.2	211.0	207.2	203.9
Foreign Trade Balance	-71.7	-105.9	-84.1	-99.9	-84.6	-65.6	-63.3	-62.7
Import Coverage Ratio (%)	61.4	56.0	64.5	60.3	65.1	68.9	69.4	69.2
Balance of Payments⁽¹⁾ (USD billion)						Oct-15	Nov-15	Dec-15
Current Account Balance	-44.6	-74.4	-48.0	-63.6	-43.6	-37.1	-33.8	-32.2
Capital and Financial Accounts	-45.1	-66.1	-48.9	-62.3	-42.1	-30.0	-23.3	-22.6
Direct Investments (net)	-7.6	-13.8	-9.2	-8.8	-5.5	-10.1	-11.2	-11.5
Portfolio Investments (net)	-16.1	-22.2	-41.0	-24.0	-20.1	7.0	13.3	15.4
Other Investments (net)	-34.2	-28.3	-19.6	-39.5	-16.0	-17.0	-14.6	-14.6
Reserve Assets (net)	12.8	-1.8	20.8	9.9	-0.5	-9.8	-10.8	-11.8
Net Errors and Omissions	-0.5	8.3	-0.9	1.4	1.6	7.1	10.5	9.7
Current Account Balance/GDP (%)	-6.1	-9.6	-6.1	-7.7	-5.5	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Nov-15	Dec-15	Jan-16
Expenditures	294.4	314.6	361.9	408.2	448.8	447.2	506.0	42.5
Interest Expenditures	48.3	42.2	48.4	50.0	49.9	51.3	53.0	5.6
Non-interest Expenditures	246.1	272.4	313.5	358.2	398.8	396.0	453.0	36.9
Revenues	254.3	296.8	332.5	389.7	425.4	441.8	483.4	46.7
Tax Revenues	210.6	253.8	278.8	326.2	352.5	372.7	407.5	39.7
Budget Balance	-40.1	-17.8	-29.4	-18.5	-23.4	-5.4	-22.6	4.2
Primary Balance	8.2	24.4	19.0	31.4	26.5	45.8	30.4	9.8
Budget Balance/GDP (%)	-3.6	-1.4	-2.1	-1.2	-1.3	-	-	-
Central Government Debt Stock (TRY billion)						Nov-15	Dec-15	Jan-16
Domestic Debt Stock	352.8	368.8	386.5	403.0	414.6	439.5	440.1	443.1
External Debt Stock	120.7	149.6	145.7	182.8	197.5	236.8	237.5	242.8
Total Debt Stock	473.6	518.4	532.2	585.8	612.1	676.2	677.6	685.8

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2010	2011	2012	2013	2014	Dec.15	Jan.16	Change ⁽¹⁾
TOTAL ASSETS	1,006.7	1,217.7	1,370.7	1,732.4	1,994.3	2,357.5	2,375.4	19.1
Loans	525.9	682.9	794.8	1,047.4	1,240.7	1,485.0	1,498.0	20.7
TRY Loans	383.8	484.8	588.4	752.7	881.0	1,013.4	1,017.0	15.4
Share (%)	73.0	71.0	74.0	71.9	71.0	68.2	67.9	-
FX Loans	142.1	198.1	206.4	294.7	359.7	471.5	481.0	33.7
Share (%)	27.0	29.0	26.0	28.1	29.0	31.8	32.1	-
Non-performing Loans	20.0	19.0	23.4	29.6	36.4	47.5	49.3	35.3
Non-performing Loan Rate (%)	3.7	2.7	2.9	2.8	2.9	3.1	3.2	-
Securities	287.9	285.0	270.0	286.7	302.3	329.7	334.8	10.8
TOTAL LIABILITIES	1,006.7	1,217.7	1,370.7	1,732.4	1,994.3	2,357.5	2,375.4	19.1
Deposits	617.0	695.5	772.2	945.8	1,052.7	1,245.4	1,249.8	18.7
TRY Deposits	433.5	460.0	520.4	594.1	661.3	715.4	722.0	9.2
Share (%)	70.3	66.1	67.4	62.8	62.8	57.4	57.8	-
FX Deposits	183.5	235.5	251.8	351.7	391.4	530.0	527.8	34.9
Share (%)	29.7	33.9	32.6	37.2	37.2	42.6	42.2	-
Securities Issued	3.1	18.4	37.9	60.6	89.3	97.8	98.1	9.9
Payables to Banks	122.4	167.4	173.4	254.2	293.2	361.3	366.6	25.0
Funds from Repo Transactions	57.5	97.0	79.9	119.1	137.4	156.7	163.7	19.1
SHAREHOLDERS' EQUITY	134.5	144.6	181.9	193.7	232.0	262.3	264.3	13.9
Profit (Loss) of the Period	22.1	19.8	23.5	24.7	24.6	26.1	2.5	-
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	63.0	63.1	-
Securities/Assets	28.6	23.4	19.7	16.6	15.2	14.0	14.1	-
Deposits/Liabilities	61.3	57.1	56.3	54.6	52.8	52.8	52.6	-
Loans/Deposits	85.2	98.2	102.9	110.7	117.9	119.2	119.9	-
Capital Adequacy (%)	19.0	16.6	17.9	15.3	16.3	15.6	15.2	-

(1) Year-to-date % change



LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
