

Global Economy

- ◆ Expectations for the Fed's rate hike, the US presidential election and Brexit have been high on the agenda in recent period. These developments have caused increased volatility in global markets.
- ◆ With the support of exports and consumption expenditures, the US economy grew by 2.9% in the third quarter, marking the best performance in two years.
- ◆ Keeping the interest rate on hold at its November meeting as markets expected, the Fed is more widely anticipated to increase the rate in December.
- ◆ Brexit concerns intensified after the UK's Prime Minister Theresa May announced that the exit process will launch as of March 2017. In October, Sterling/USD parity declined to the lowest level in 31 years.
- ◆ ECB did not change the policy rate and asset purchase program at its last meeting. Mario Draghi, the president of the ECB, stated that the issue of tapering will be assessed in December meeting.
- ◆ China's growth performance in the third quarter indicated that the economy has been on a stable path. Also, it was noteworthy that producer prices increased in September for the first time in five years.
- ◆ Deflationary pressures continued to persist in Japan while the Central Bank did not change its monetary policy at its November meeting.
- ◆ Oil prices have rebounded after the expectations for a potential cooperation among the majority of producer countries on production freeze grew. However, the rebound remained limited as there is no concrete step taken so far.
- ◆ At its Global Economic Outlook report, IMF kept its global growth forecasts unchanged. The Fund lowered its growth forecast for advanced economies while revising up its growth forecast for emerging economies.

Turkish Economy

- ◆ Industrial production, which had contracted sharply in July, recorded a modest increase in August. Calendar adjusted industrial production expanded by 2.2% yoy in August. Thus, in the first two months of the third quarter, industrial production contracted by 1.4% compared to the same period of previous year.
- ◆ In September, export and import volume recorded annual falls of 5.6% and 0.7%, respectively. As exports declined more than imports, foreign trade deficit expanded by 14.1% yoy. Seasonally and calendar adjusted figures showed that exports shrank by 3% mom while imports increased by 3.1% mom. This data confirmed the upward pressures that the foreign trade deficit has faced during this period.
- ◆ Current account balance, which gave a surplus of 256 million USD in August 2015, was realized above expectations and posted a deficit of 1.8 billion USD in August this year. 12-month cumulative current account deficit rose by 2 billion USD compared to July and surpassed 31 billion USD.
- ◆ Budget deficit, which was 14.1 billion TRY in September of 2015, surged by 19.9% to 16.9 billion TRY in the same month of this year. This development stemmed mainly from the weak performance of budget revenues.
- ◆ In October, CPI increased by 1.44% compared to the previous month, below market expectations. Annual CPI inflation followed a downward trend for the third consecutive month and was realized as 7.16%.
- ◆ At its meeting held on October 20, CBRT did not change interest rates. In the note released after the meeting, it is stated that the weak total demand led to gradual declines in core inflation while exchange rate developments and other cost factors have limited the improvement in inflation outlook.

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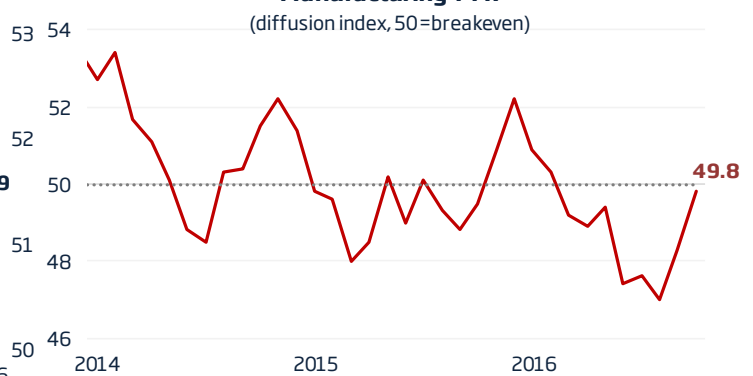
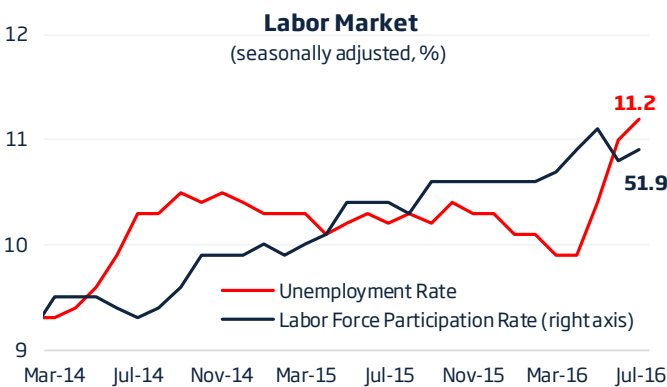
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Unemployment rate continued to increase.

According to labor force figures of July, employment posted an annual increase of 294 thousand people while number of unemployed people rose by 354 thousand. Therefore, the unemployment rate increased by 0.9 point compared to the previous year and reached 10.7%. Seasonally adjusted unemployment rate rose by 0.2 point compared to the previous month and became 11.2%, the highest level since May 2010. Negative impact of the rise in geopolitical tensions on tourism sector and the slowdown in economic activity played a significant role in this development.

Recovery signs in manufacturing industry...

Manufacturing PMI increased to 49.8 in October. Even though the index remained below 50 threshold level, it climbed to the highest level since May. This development showed that the conditions in the sector recorded some recovery in this period. Employment and purchasing activity indices exhibited a positive outlook surpassing 50 level. With the support of export orders, output and new orders indices climbed to the highest level since May but remained under threshold in October.

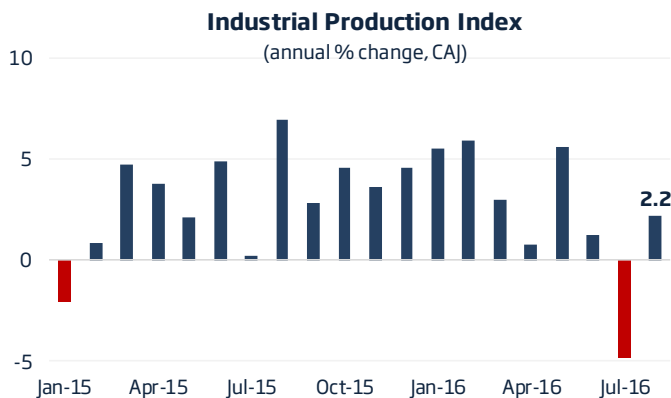


Mild rebound in industrial production...

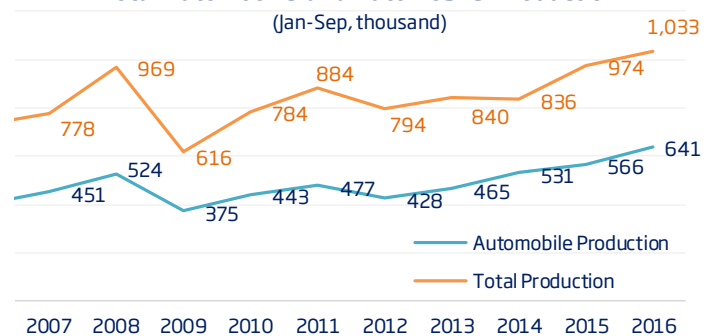
Industrial production, which had contracted sharply in July, recorded a modest increase in August. Calendar adjusted industrial production expanded by 2.2% yoy in August. Thus, in the first two months of third quarter, industrial production contracted by 1.4% compared to the same period of the previous year. Weak performance of industrial production caused growth expectations for the third quarter to deteriorate. In the last quarter of the year, on the other hand, economic activity is expected to gain momentum thanks to the support of public expenditures and the easing in macroprudential measures.

Rise in automotive production...

Automotive production widened by 6.1% yoy in January-September period, particularly thanks to the rise in automobile exports. Indeed, automobile production surged by 13.3% yoy in this period. These figures marked the historically high levels for January-September period. While exports of motor vehicles picked up by 12.7% yoy in this period, domestic market contracted by 5.8%.



Total Automotive and Automobile Production



Confidence indices...

Consumer confidence, which had risen sharply in August, remained mostly flat in September and October. Real sector confidence, on the other hand, deteriorated in October due largely to the declines recorded in total amount of orders in the past three months and export orders for the next three months.

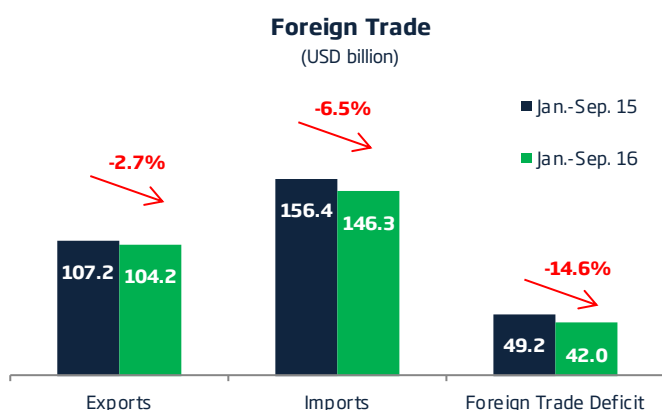
Source: Datastream, Turkstat, CBRT, Markit, AMA

(USD billion)	September		Change (%)
	2015	2016	
Exports	11.6	10.9	-5.6
Imports	15.4	15.3	-0.7
Foreign Trade Balance	-3.8	-4.4	14.1
Import Coverage Ratio (%)	75.2	71.5	-

Foreign trade deficit widened in September.

In September, export and import volume recorded annual falls of 5.6% and 0.7%, respectively. As exports declined more than imports, foreign trade deficit expanded by 14.1% yoy. Seasonally and calendar adjusted figures showed that exports shrank by 3% mom while imports increased by 3.1% mom. This data confirmed the upward pressures that the foreign trade deficit has faced during this period.

In January-September period, export volume contracted by 2.7% on an annual basis. During this period, import volume declined by 6.5% due mostly to the falling energy costs. Hence, foreign trade deficit narrowed by 14.6% yoy and came in at 42 billion USD.



Falls in 8 out of the 10 top export items...

All export items except motor vehicles and boilers and machinery experienced annual falls in September. Precious stones item, under which gold is classified, posted the sharpest drop and played a significant role in the weak performance of exports. Following the strong rise in August, motor vehicles exports recorded a limited increase by 1.2% yoy in September.

According to the figures for the first 9 months, exports of motor vehicles posted an annual rise of 11.6%, continuing to rank first in total exports. Precious metals and boilers and machineries followed motor vehicles in this period.

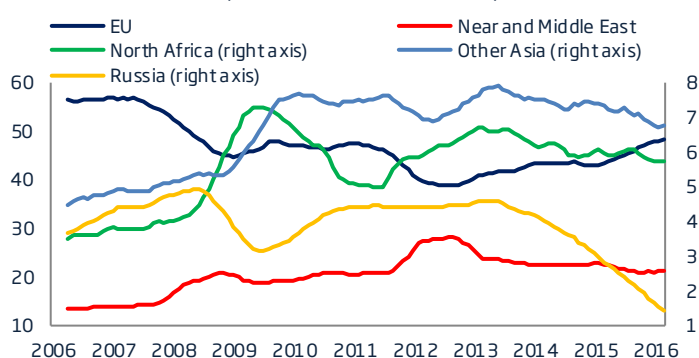
Rising share of the EU countries in our total exports...

Exports to the EU countries continued to increase in September albeit at a slower pace. On the other hand, analyzing on a country basis, it is seen that exports to UK, the second major export market of Turkey, declined. Exports to

Iran, which ranked seventh in our total exports, rose by more than 100%. The figures revealed that exports to Russia did not show any recovery signs yet in September, contrary to the expectations fed by the ongoing normalization process in bilateral relations. Having a relatively small share in our total exports by 1.3%, exports to Russia contracted by 48.8% yoy.

In January-September period, EU continued to be the major export destination of Turkey. The share of EU exports in our total exports, which was 43.6% in the first nine months of 2015, became 48.5% in the same period this year.

Leading Export Markets (12-month cumulative, % share)



Energy imports continued to decline.

Imports of boilers and machineries ranked first in total imports with an import volume of 2.1 billion USD in September. Mineral fuels and oils followed this item. Imports of the said item fell by 10 billion USD compared to the same period of the previous year indicating that the improvement in foreign trade deficit was driven by the fall in energy imports.

According to broad economic classification, only consumption goods imports increased on an annual basis. Having declined by 0.3% yoy in August, consumption goods imports surged by 9.4% yoy in September. It was noteworthy that this increase was the sharpest one since June 2015. Among the consumption goods, the largest rises were recorded in the sub-items of non-durable goods and automobiles. Consumption goods imports could sustain this performance in the forthcoming period due to the potential impact of the recent implementations aiming at buoying domestic demand.

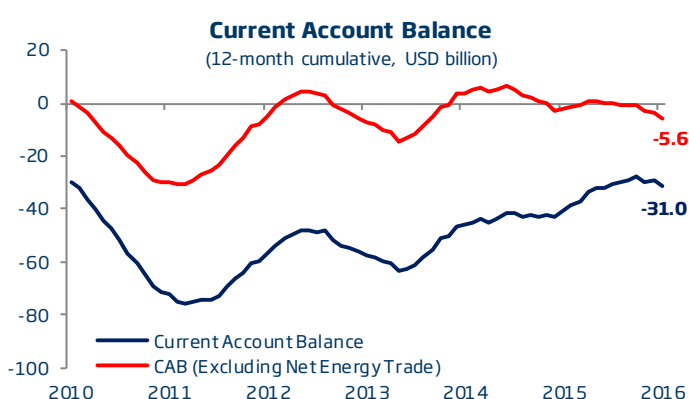
Expectations...

Foreign trade outlook has somewhat deteriorated due to weak exports in September. While the positive impact of falling commodity prices has persisted albeit to a lesser extent, the upward pressure on imports has piled up on the back of the expectations that domestic demand will pick up and oil prices will rebound. Against this framework, risks of a larger foreign trade deficit are tilted to the upside for the period ahead.

Current account deficit was 1.8 billion USD in August.

Current account balance, which gave a surplus of 256 million USD in August 2015, was realized above expectations and posted a deficit of 1.8 billion USD in August this year. In the first eight months of the year, the deficit contracted by 4.9% yoy and became 23.5 billion USD.

12-month cumulative current account deficit, on the other hand, rose by 2 billion USD compared to July and surpassed 31 billion USD. Thus, current account deficit reached the highest level since January. Excluding net energy trade, 12-month cumulative current account deficit hit the highest level since March 2014.

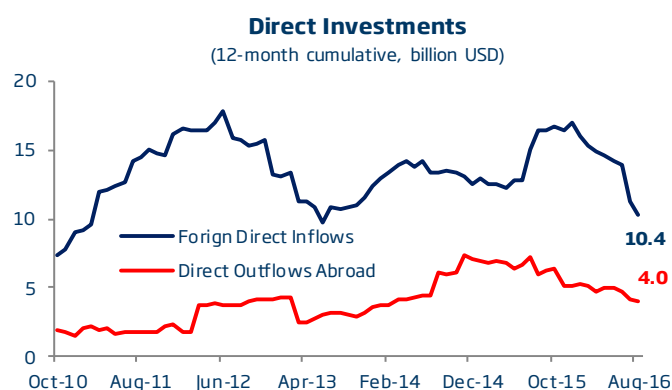


The support of net gold trade on current account balance diminished to a great extent in August. The recovery in foreign trade balance also remained limited compared to July. Indeed, import volume posted an annual rise for the second time in the last 24 months.

Deterioration in tourism revenues became evident in summer months. Sharp decline in tourism revenues in August weighed on the current account balance as was also the case in June and July. Net tourism revenues, which were 3.6 billion USD in August 2015, decreased to 2.2 billion USD in the same month of this year. Adding this figure to the picture, annual deterioration in net tourism revenues stepped into its 18th consecutive month.

FDI continued to decline.

Foreign direct investments halved in August compared to the same month of the previous year. A similar picture is also observed for the January-August period. According to 12-month cumulative figures FDI decreased to its lowest level since June 2015.



Portfolio investments...

Equity markets, which had witnessed outflows in July due to domestic developments, recorded a limited inflow in August. Bonds market recorded an inflow of 1 billion USD via purchases of government domestic debt securities. On the other hand, expansion in non-banking sectors' portfolio investments and repayments of banks for securities issued abroad limited the rise in portfolio investments. Thus, portfolio investments lost momentum in August compared to the previous month.

For the first eight months, portfolio investments continued to present a positive outlook compared to the previous year. Portfolio investments, which had posted an outflow of 8.6 billion USD in January-August period last year, recorded an inflow of 10.1 billion USD in the same period of this year.

2.1 billion USD inflow in other investments...

Other investments registered an inflow of 2.1 billion USD in August. This development mainly stemmed from both the

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2015	Aug. 2016	Dec. 2015	Aug. 2016
Current Account Balance	-32,228	-31,019	-	-
Total Net Foreign Capital Inflows	20,397	32,578	100.0	100.0
-Direct Investments	11,862	6,318	58.2	19.4
-Portfolio Investments	-15,498	3,218	-	-
-Other Investments	14,829	18,663	72.7	57.3
-Net Errors and Omissions	9,225	4,371	45.2	13.4
-Other	-21	8	-0.1	0.0
Reserves⁽¹⁾	11,831	-1,559	-	-

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

decline in domestic banks' currency and deposits within their foreign correspondent banks by 2.7 billion USD and increase in foreign banks' deposits held within domestic banks by 421 million USD.

Banking sector was a net credit repayer with 1.2 billion USD in August. Non-banking sector, on the other hand, was a net credit borrower with 568 million USD. As 12-month cumulative figures suggested, both banking and non-banking sectors long-term borrowings were realized above their credit repayments. On the other hand, long-term rollover ratio of banking sector declined to 147%, the lowest level since July 2013.

Reserves & net errors and omissions...

Reserves expanded fast by 3.7 billion USD in August. In the first eight months of the year, the rise in reserves was 10.5 billion USD. Net errors and omissions registered an inflow of 2 billion USD in August. During the January-August period, this account made a considerable contribution to the financing of current account deficit by recording an inflow of more than 5.4 billion USD.

Expectations...

Having expanded in August according to 12-month cumulative figures, current account deficit is expected to widen in the coming period. Indeed, provisional data on September revealed that a widening trend in the foreign trade deficit seems likely. Furthermore, we think that it will take some time for the tourism revenues to recover and therefore the adverse impact on the current account balance will persist for a while. The dismal outlook for energy imports due to the recent rises in oil prices; led by the potential deal among oil producing countries to freeze production, also constitutes another risk factor for the current account.

	Balance of Payments				(USD million)
	August 2016	Jan. - Aug. 2015 2016		% Change	12-Month Cumulative
Current Account Balance	-1,776	-24,756	-23,547	-4.9	-31,019
Foreign Trade Balance	-3,529	-34,989	-27,618	-21.1	-40,786
Services Balance	2,547	16,036	9,031	-43.7	17,127
Travel (net)	2,234	14,271	8,396	-41.2	15,373
Primary Income	-848	-6,537	-5,956	-8.9	-8,944
Secondary Income	54	734	996	35.7	1,584
Capital Account	-3	-6	23	-	8
Financial Account	211	-14,480	-18,096	25.0	-26,640
Direct Investments (net)	-859	-9,418	-3,874	-58.9	-6,318
Portfolio Investments (net)	-495	8,580	-10,136	-	-3,218
Net Acquisition of Financial Assets	188	3,858	-177	-	2,094
Net Incurrence of Liabilities	683	-4,722	9,959	-	5,312
Equity Securities	31	-888	430	-	-1,077
Debt Securities	652	-3,834	9,529	-	6,389
Other Investments (net)	-2,124	-10,714	-14,548	35.8	-18,663
Currency and Deposits	-2,499	1,300	-5,127	-	-4,343
Net Acquisition of Financial Assets	-2,312	12,454	-482	-	2,035
Net Incurrence of Liabilities	187	11,154	4,645	-58.4	6,378
Central Bank	-95	-606	-327	-46.0	-637
Banks	282	11,760	4,972	-57.7	7,015
Foreign Banks	421	8,383	4,048	-51.7	5,607
Foreign Exchange	51	4,792	-298	-	-382
Turkish Lira	370	3,591	4,346	21.0	5,989
Non-residents	-139	3,377	924	-72.6	1,408
Loans	647	-10,026	-6,982	-30.4	-10,659
Net Acquisition of Financial Assets	-13	396	194	-51.0	590
Net Incurrence of Liabilities	-660	10,422	7,176	-31.1	11,249
Banking Sector	-1,222	5,374	-1,288	-	-1,614
Non-bank Sectors	568	5,590	9,284	66.1	14,357
Trade Credit and Advances	-258	-1,756	-2,467	40.5	-3,659
Other Assets and Liabilities	-14	-232	28	-	-2
Reserve Assets (net)	3,689	-2,928	10,462	-	1,559
Net Errors and Omissions	1,990	10,282	5,428	-47.2	4,371

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

Budget posted a deficit of 16.9 billion TRY.

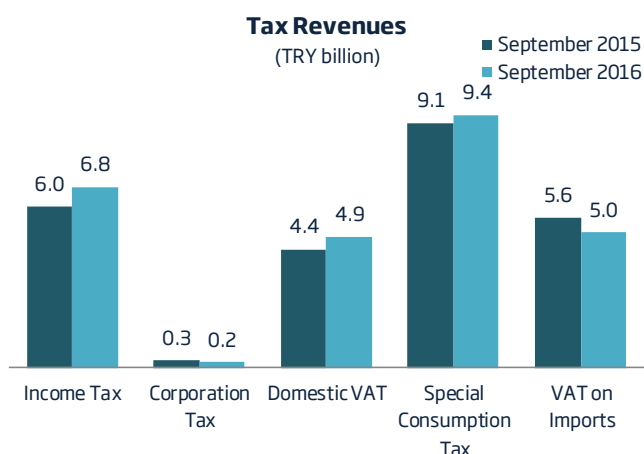
While budget expenditures increased by 10.5% yoy, budget revenues rose by 6.6% in September. Thus, budget deficit, which was 14.1 billion TRY in September of 2015, surged by 19.9% to 16.9 billion TRY in the same month of this year. This development stemmed mainly from the weak performance of budget revenues. Budget deficit had been larger than the previous months in September 2015 as well.

In the first 9 months, budget revenues grew faster than expenditures. In this period, revenues and expenditures rose by 14.2% yoy and 13.3% yoy, respectively. During January-September period, budget deficit declined by 10.6% yoy to 12 billion TRY.

Loss of momentum in revenues...

Deceleration in tax revenues put pressure on total revenues in September. Tax revenues, which had increased by 19.3% yoy in August, rose only by 4.5% yoy in September. Having contracted by 9.6% yoy in September, VAT on imports limited the increase in tax revenues. Besides, fall in special consumption tax (SCT) revenues collected from tobacco products led to a deceleration in SCT revenues.

During January-September period, sharp increases recorded in privatization revenues, revenues obtained from interest, shares and fines and property income stood out.



Budget expenditures...

Interest expenditures contracted by 2.2% yoy in September. Expenditures excluding interest, on the other hand, posted a rapid increase of 12.5% yoy. The effect of minimum wage increase over central government budget became more evident in this month. Indeed, along with increase in government social security contributions, which amounted to 1.1 billion TRY, 5 points deduction in social security payments created 0.9 billion TRY additional burden on government budget. This development led to a sharp rise in current transfers. Defense and security expenditures, despite their small amount, picked up by 36.2% yoy.

In the first 9 months of the year, interest payments together with capital expenditures and transfers contracted. It was worth mentioning that the other main expenditure items, on the other hand, rose steeply.

Expectations...

In parallel with the slowdown in economic activity since the second quarter of the year, Medium Term Program (MTP) covering 2017-2019 period was prepared with a perspective of prioritizing growth performance. It is expected that the fiscal policies will be supportive for economic activity, especially via investments. Accordingly, public sector is anticipated to make higher contribution to growth compared to the previous years. Budget deficit to GDP ratio, on the other hand, is projected to remain below 2%, indicating that budget discipline will be maintained in Turkey.

Taking into account that budget deficit will be at around 34.6 billion TRY according to the MTP, it is apparent that budget will give large deficits in the last quarter of the year as well.

Central Government Budget Balance (% GDP)

	2016	2017	2018	2019
2017-19 MTP Exp.	-1.6	-1.9	-1.6	-1.3
2016-18 MTP Exp.	-1.3	-1.0	-0.8	-

Central Government Budget

	September			January-September			2016 Budget		
	2015	2016	% Change	2015	2016	% Change	Target	MTP Target	Real/MTP Target (%)
Expenditures	47.9	53.0	10.5	367.7	416.5	13.3	570.5	581.1	71.7
Interest Expenditures	6.4	6.2	-2.2	44.8	41.7	-6.9	56.0	51.5	80.9
Non-Interest Expenditures	41.6	46.7	12.5	322.9	374.8	16.1	514.5	529.6	70.8
Revenues	33.8	36.1	6.6	354.2	404.5	14.2	540.8	546.5	74.0
Tax Revenues	29.5	30.9	4.5	298.3	329.0	10.3	459.2	450.0	73.1
Other Revenues	4.3	5.2	20.9	55.9	75.5	35.0	81.7	96.5	78.2
Budget Balance	-14.1	-16.9	19.9	-13.5	-12.0	-10.6	-29.7	-34.6	34.8
Primary Balance	-7.7	-10.7	38.1	31.3	29.6	-5.3	26.3	16.9	175.4

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

Source: Datastream, Ministry of Finance

October	CPI		D-PPI	
Change (%)	2015	2016	2015	2016
Monthly	1.55	1.44	-0.20	0.84
Year-to-Date	7.86	6.23	7.59	4.66
Annual	7.58	7.16	5.74	2.84
Annual Average	7.69	7.89	5.58	3.83

In October CPI came in below expectations.

In October, CPI increased by 1.44% compared to the previous month, below market expectations. During this period, domestic PPI (D-PPI) rose by 0.84%. Monthly CPI inflation was expected to be 1.62% according to the Reuters' survey.

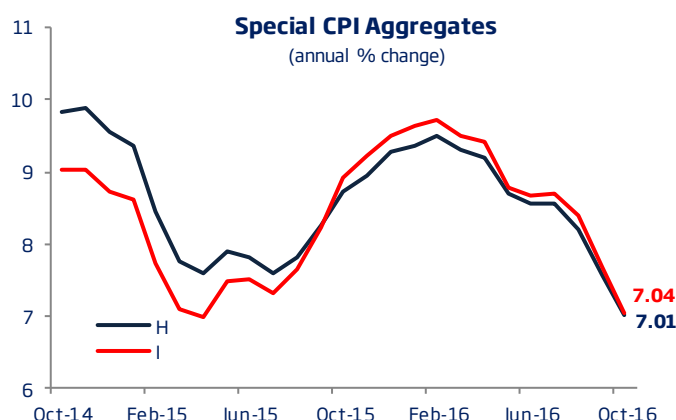
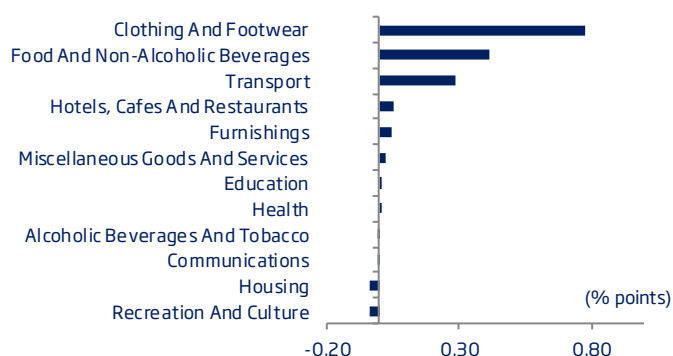
Annual inflation fell to 7.16%.

In October, monthly increase in CPI is generally higher than other months due to seasonality. Nevertheless, monthly inflation in October 2016 remained lower compared to the previous years and posted the lowest rate since 2006. Annual CPI inflation followed a downward trend for the third consecutive month and was realized as 7.16%. Annual D-PPI inflation became 2.84% in this period, remaining at low levels.

Rapid increase in clothing and footwear prices...

Surge in clothing and footwear prices due to the seasonal factors played a significant role in the CPI inflation in October. Indeed, clothing and footwear prices picked up by 10.43% mom and pushed up inflation by 73 basis points. Prices of food and non-alcoholic beverages, which have the highest share in inflation basket, increased by 1.76% compared to the previous month, contributing to the monthly CPI by 39 basis points. Prices in transportation group, which have a high sensitivity to the exchange rate developments, surged by 2% mom due to the depreciation in TRY as well as the hike in fuel prices during October, making the third biggest contribution to inflation. On the

Contributions to the Monthly CPI by Subgroups



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.

other hand, housing group pulled down the CPI mainly because of the discount in the natural gas prices.

Downward trend in core inflation indicators continued.

Core inflation indicators continued to improve in October. Annual increases in CBRT's favorite core indices denominated by H and I, were realized as 7.01% and 7.04%, respectively, nearing the lowest level of the last three years.

Petroleum products made the highest contribution to monthly D-PPI inflation.

Coke and petroleum products, increasing by 9.83% mom, made the largest contribution to the monthly D-PPI inflation. Basic metals followed this group. Unlike the case in CPI, food products had a downward impact on D-PPI while the discount in natural gas prices led to a fall in the prices of electricity and gas group.

Expectations

We expect the upward pressure of the clothing and footwear prices on CPI inflation to persist in November. Besides, we anticipate that the cumulative impact of the recent weakening of TRY as well as the volatility in oil prices due to the potential agreement on a production freeze assessed by the OPEC members may create inflationary pressures in the rest of the year. Against this backdrop, even though this better-than-expected inflation figure provides CBRT with room for action to take the last step in completing the simplification process, we believe that the downward pressure on TRY, if persist, could limit the CBRT's capability to move.

Source: Datastream, Turkstat

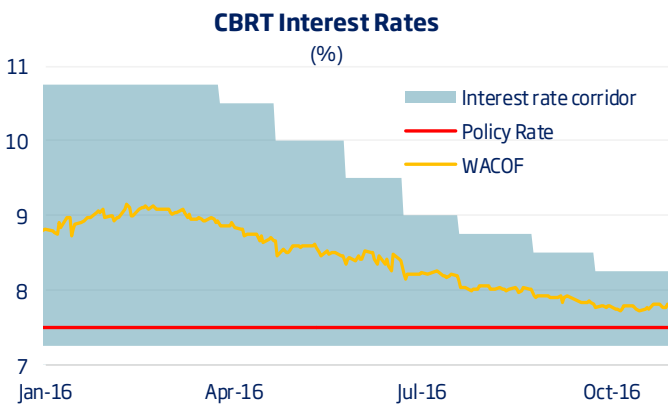
Volatility in domestic markets...

Expectations for the Fed's interest rate hike and the upcoming US presidential election were high on the global markets' agenda in October. The US dollar strengthened against other major currencies as the probability of a rate hike before the end of 2016 has increased along with the strong economic data announcements and statements by the Fed officials emphasizing on the risks that low interest rate environment may cause. Aside from the rising prospects for a rate hike by the Fed, the news that ECB may taper asset purchases and the growing concerns over a higher likelihood of a hard-Brexit scenario weighed on global markets in the recent period.

Other than these developments in global markets, political and geopolitical risks inside as well as the expectations on the CBRT's interest rate decision have put additional pressure on domestic markets.

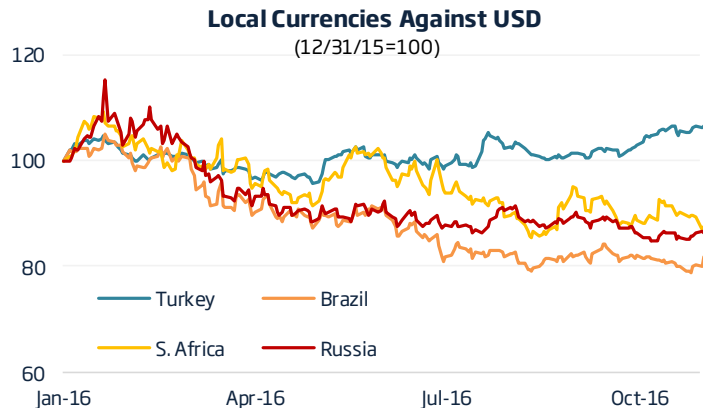
CBRT kept the rates on hold.

At its meeting held on October 20, CBRT has paused its cuts on the upper band of the interest rate corridor that it has been implementing since March this year. In the note released after the meeting, it is stated that recent developments in exchange rates and other cost factors have limited the improvement in inflation outlook despite the recovery recorded in the inflation indicators, making it necessary for the CBRT to maintain a cautious stance in monetary policy.



USD/TRY saw record high levels.

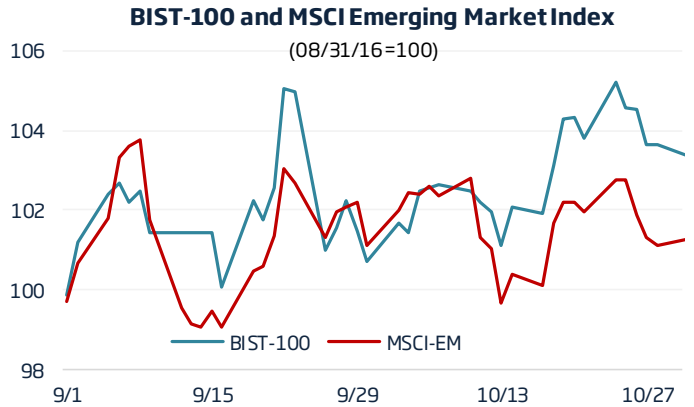
TRY has decoupled negatively from its emerging market counterparts in October. Early in the month, the better than expected inflation data, fuelling the expectations for further rate cuts by the CBRT, weakened TRY. On the other hand, CBRT's decision to pause supported the TRY somewhat in the following days. The strengthening trend of the US dollar, however, limited this favorable impact. Having ended September below 3 level, USD/TRY saw its record



high level of 3.1268 on October 28. The exchange rate became 3.0929 on October 31.

Fluctuations in BIST-100 index...

In the first half of October, both domestic political agenda and developments in global markets weighed on BIST-100 index. Having followed an upward trend since mid-October, BIST-100 index reached 80,291 on October 25, the highest level in the last 3 months. In the following days, the increase in the possibility of a Fed's rate hike had an adverse impact on the equity market. The index rose by 2.7% mom to 78,536 as of October 31.



Increase in the benchmark bond yield...

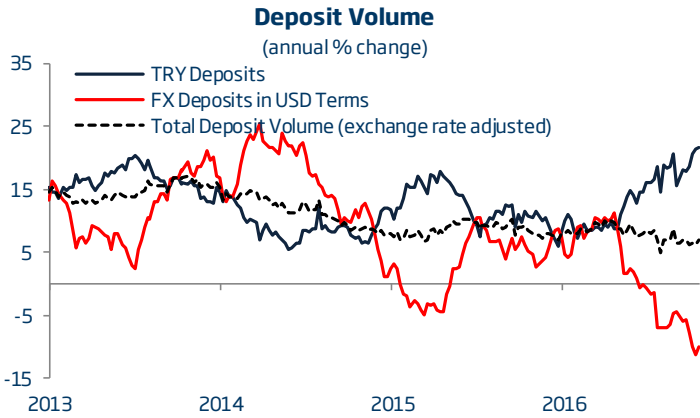
Bond yields have been on an upward trend during the month, driven by both domestic and foreign developments. The compound yield of 2-year benchmark bond increased 53 basis points from the end-September and became 9.24% as of October 31.

Source: CBRT, Reuters, Datastream

Recovery in deposit growth...

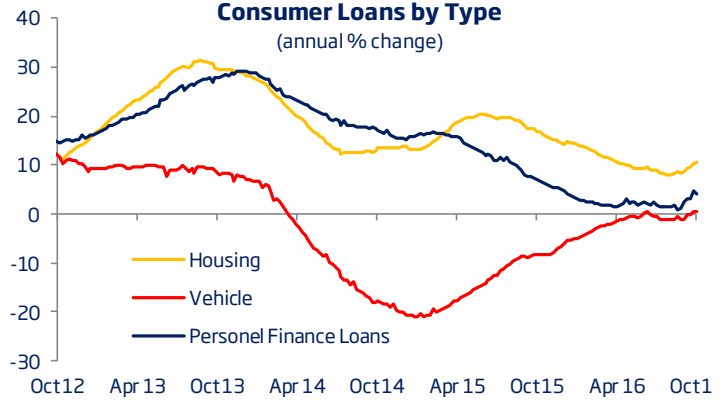
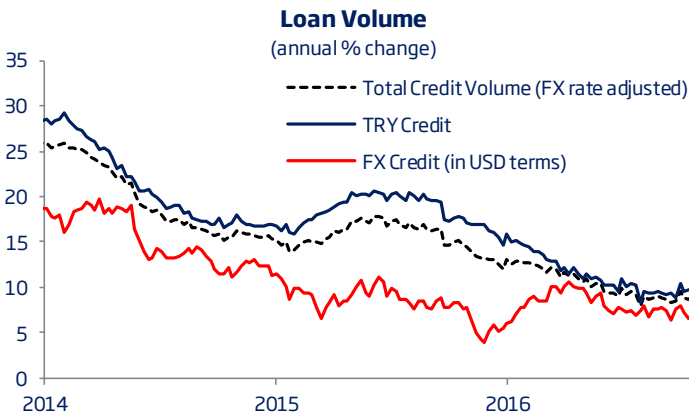
Recovery trend in annual deposit growth, which had started in September, gained momentum in October and became 9.8% as of October 21. Deposit volume of the banking sector was realized as 1,443 billion TRY in this period.

FX rate developments played a significant role over the composition of deposit volume. As depositors tended to shift their FX holdings to TRY, volume of TRY deposits recorded rapid increases while volume of FX deposits in USD terms contracted. As of October 21, while TRY deposits expanded by 21.7% yoy, FX deposits in USD terms declined by 10.1% yoy. Thus, the share of TRY deposit in total deposit increased to 59.5%.



Annual loan growth is at 11.3%.

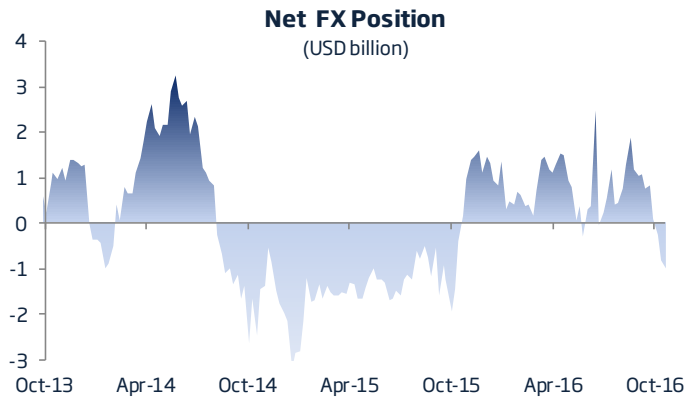
Loan volume rose by 11.3% yoy and realized as 1,646 billion TRY in the week to October 21. Annual loan growth was mostly driven by the recovery in credit demand observed in recent weeks as well as FX rate developments. While TRY loans rose by 9.8% yoy, FX loans grew by 14.6% yoy. FX loans in USD terms posted an annual increase of 7.2%.



The recent steps taken by the authorities to support loan growth have led to upward movements in consumer loans, particularly in housing loans. Having declined as low as 7.8% on August 19, the annual growth in housing loans reached 10.5% as of October 21.

Securities held under custody...

Banks' portfolio of securities held under custody registered an annual rise of 7.4% in the week to October 21 and became 241 billion TRY. During this period, purchases of residents' surged by 8.5% yoy while that of nonresidents' increased by 5.9% yoy.



Net FX position...

As of October 21, banks' on-balance sheet FX position was (-)USD 9,639 million while off-balance sheet FX position realized as (+)USD 8,649 million. Hence, banking sector's net FX position became (-)USD 990 million, the highest deficit in more than one year.

Political developments are increasingly high on the agenda of the global markets. Some of which can be counted as the presidential election in the US, Brexit as well as the growing anti-establishment sentiments in Europe and rising geopolitical risks in the Middle East. The IMF, in its recently published reports of Global Economic Outlook and Global Financial Stability Report, pointed out the increasing political risks and stated that economic activity has been suppressed by the uncertainties surrounding the global economy.

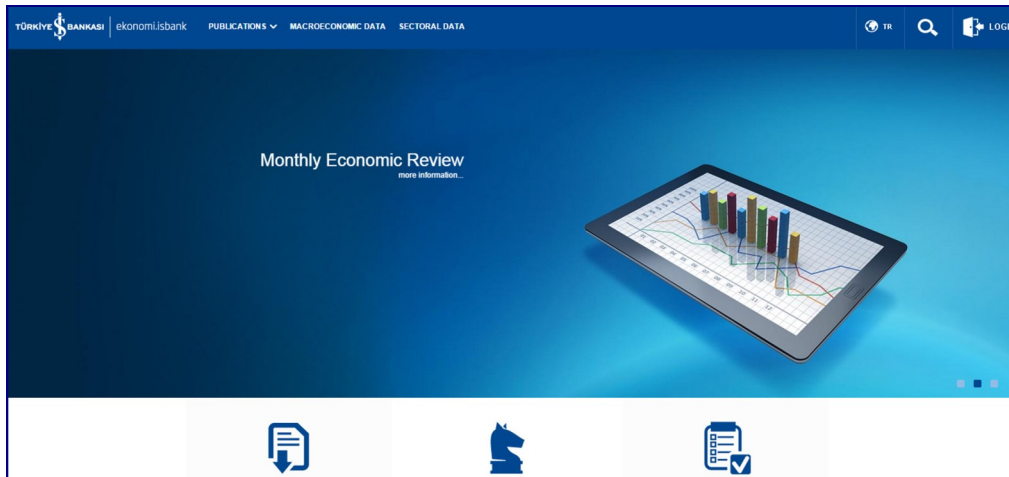
In addition to these, the decisions taken by the leading central banks in advanced economies and expectations towards these decisions are still being monitored closely. Keeping the interest rate on hold at its November meeting in line with the market expectations, the Fed is more widely anticipated to increase the rate in December. On the other hand, ECB has not changed its monetary policy despite the news that it could taper asset purchases.

Along with the several uncertainties continuing to persist in global economy, political and geopolitical risks dominate the agenda of the Turkish economy. Leading indicators pointed to a significant slowdown in economic activity in the third quarter. In line with these developments, it is seen that the Medium Term Program announced by the government is built on a perspective that focuses on growth performance. As the estimates offered in the program suggest, the contribution of the public expenditures, particularly public investment expenditures, to growth is expected to be considerably higher in the coming period than in the previous ones due to the implementation of expansionary fiscal policies aiming to support the economy.

Forecasts (%)	2015(R)	2016
Growth	4.0	3.0
CA Deficit/GDP	4.5	4.8
Inflation	8.8	7.8

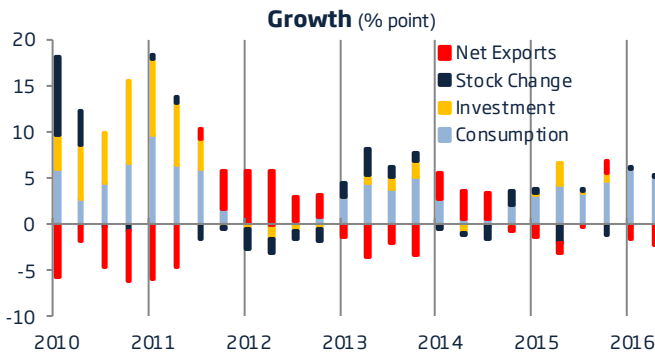
(R) Realization
Year-end forecast for inflation

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

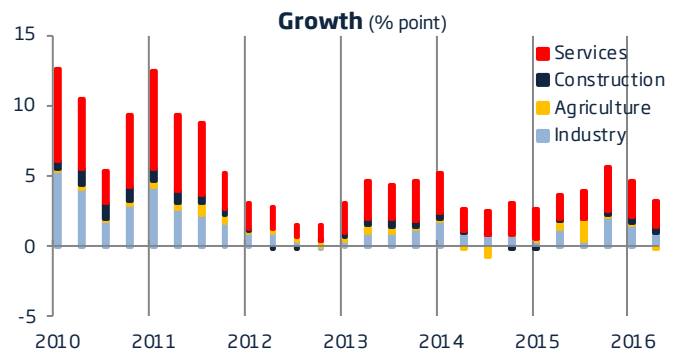


Growth

Expenditure Approach - Contributions to GDP

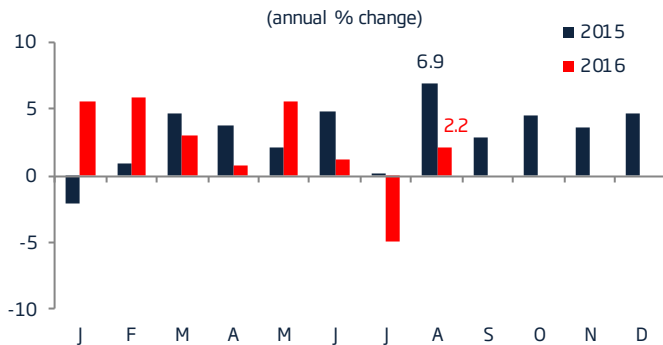


Production Approach - Contributions to GDP

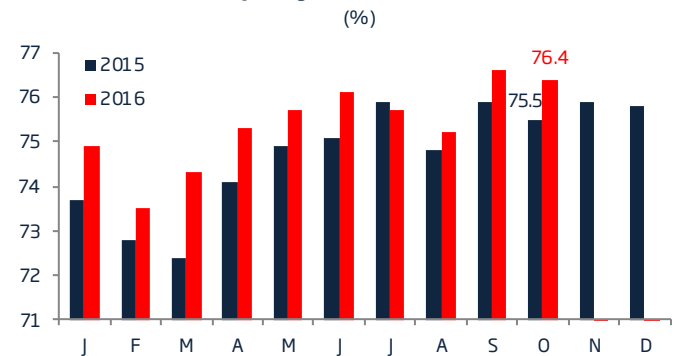


Industrial Production and Capacity Utilization Ratio

Industrial Production*

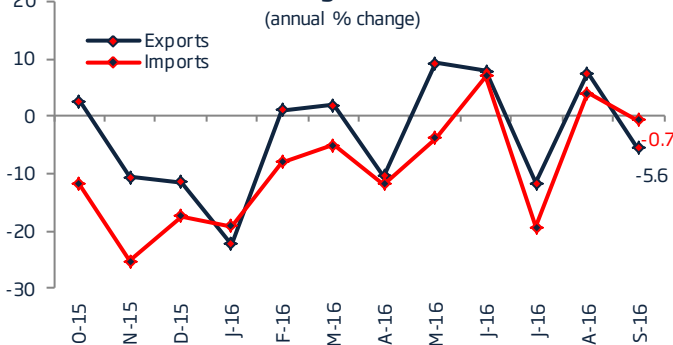


Capacity Utilization Ratio

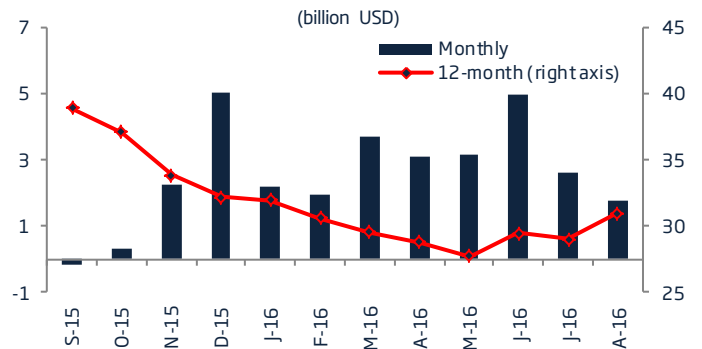


Foreign Trade and Current Account Balance

Foreign Trade

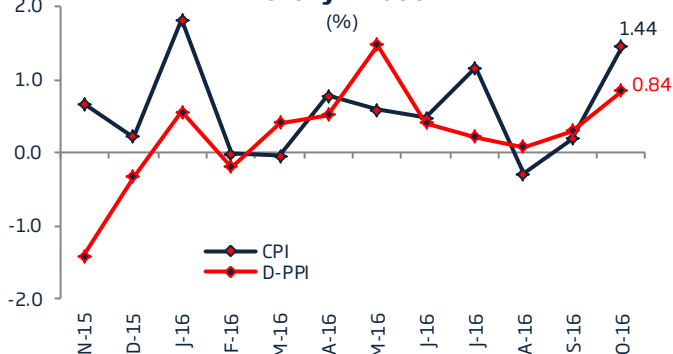


Current Account Deficit

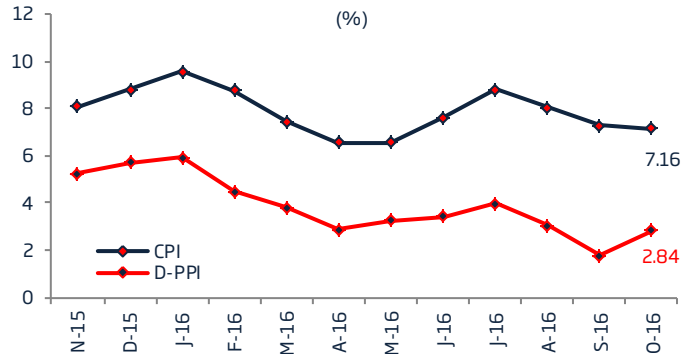


Inflation

Monthly Inflation



Annual Inflation

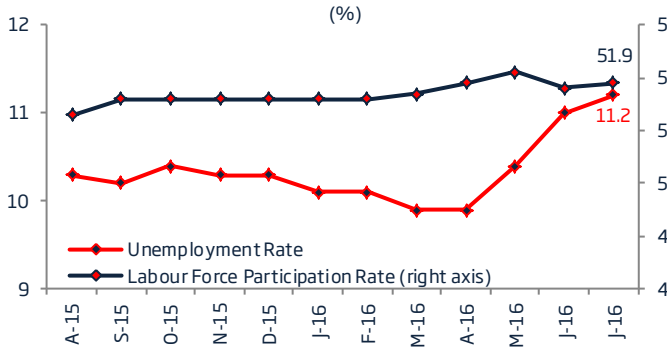


(*) Calendar adjusted figures

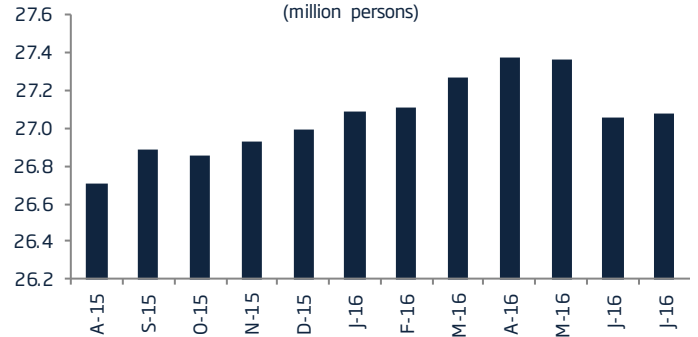
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators



Seasonally Adjusted Employment

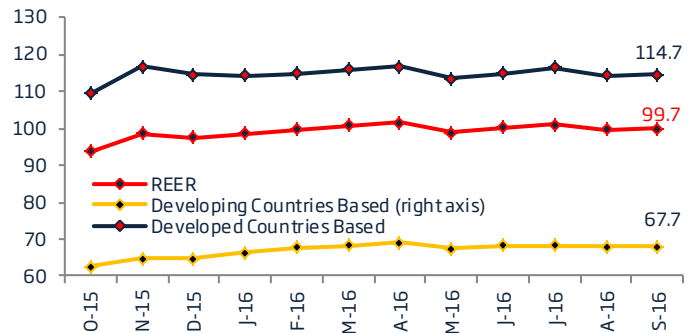


FX Market

Currency Basket

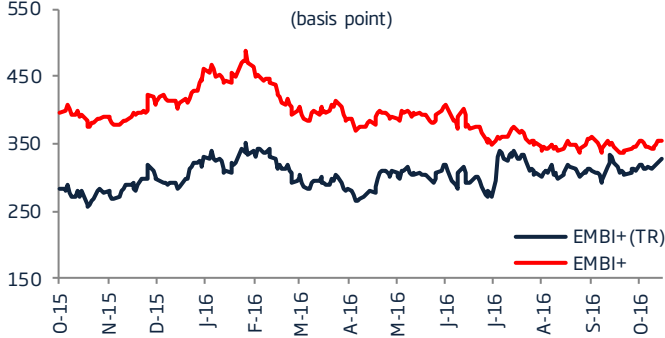


CPI Based Real Effective Exchange Rate



Risk Indicators

Risk Premiums

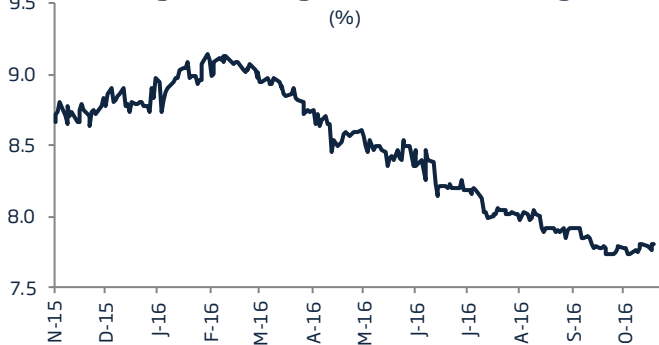


VIX

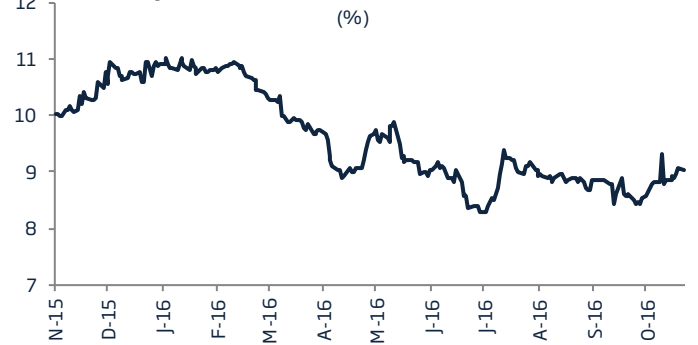


Interest Rates

Weighted Average Cost of CBRT Funding

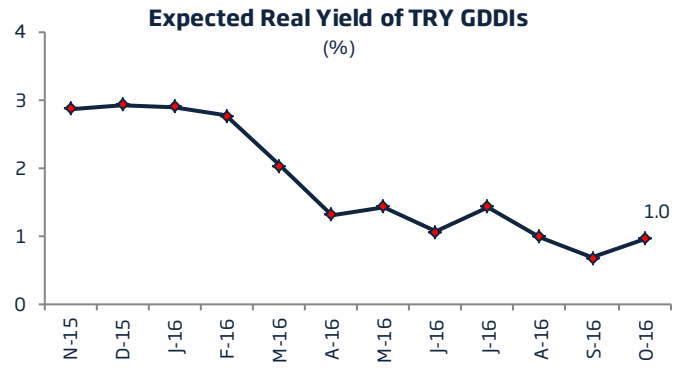
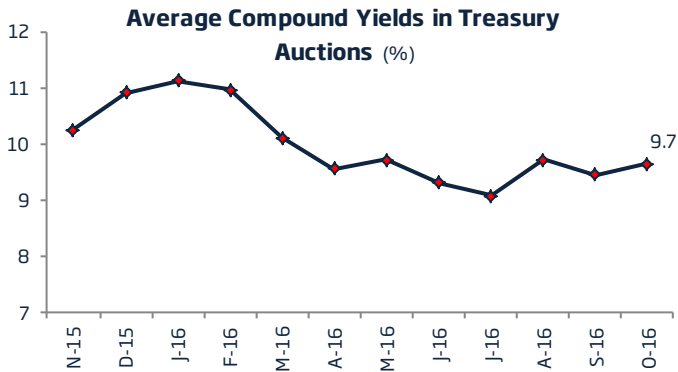


Compound Yield of 2-Year Benchmark Bond

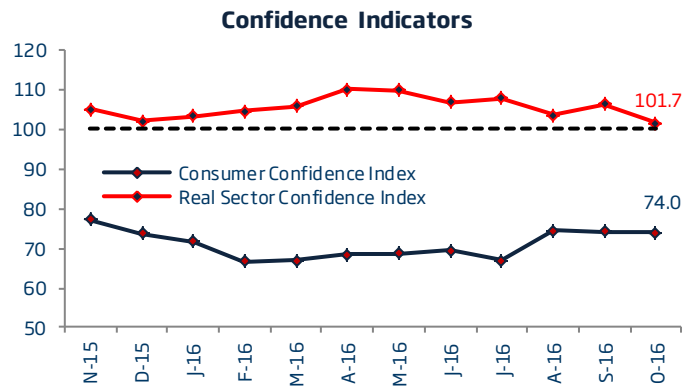
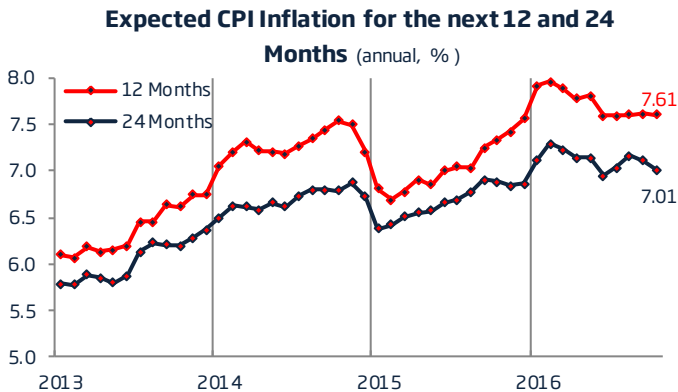
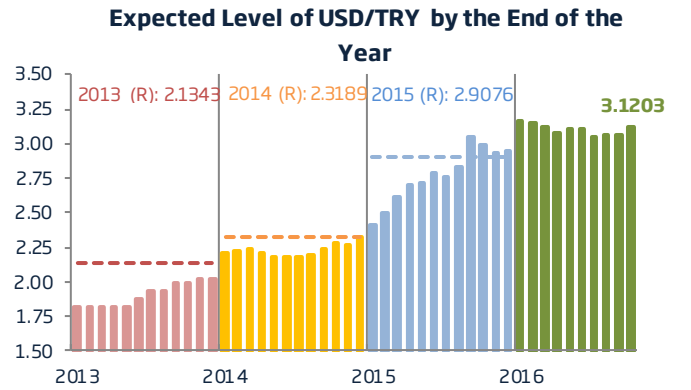
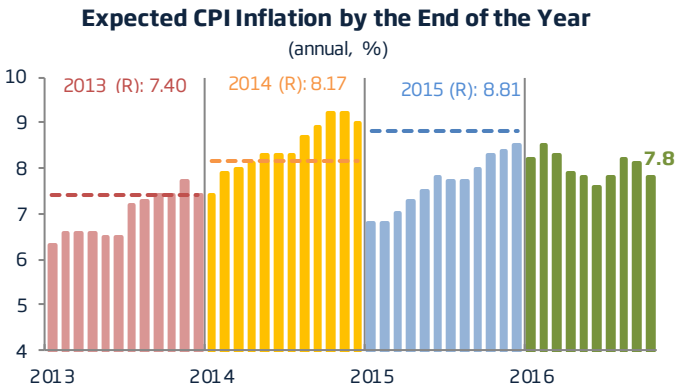
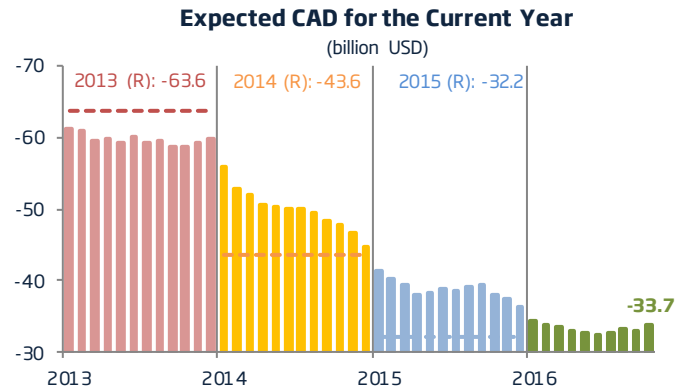
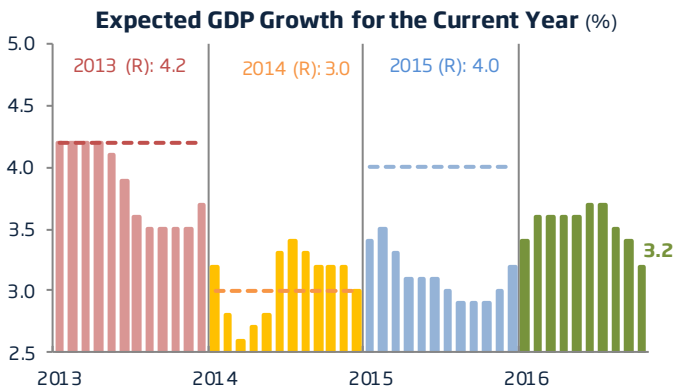


Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market



CBRT's Survey of Expectations and Other Leading Indicators



(R) Realization

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

Turkish Economy at a Glance

Growth	2011	2012	2013	2014	2015	16-Q1	16-Q2	16-Q3
GDP (USD billion)	774	786	823	799	720	169.0	181.4	-
GDP (TRY billion)	1,298	1,417	1,567	1,748	1,953	497.8	525.9	-
GDP Growth Rate (%)	8.8	2.1	4.2	3.0	4.0	4.7	3.1	-
Inflation (%)						Aug-16	Sep-16	Oct-16
CPI (annual)	10.45	6.16	7.40	8.17	8.81	8.05	7.28	7.16
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	3.03	1.78	2.84
Seasonally Adjusted Labor Market Figures						May-16	Jun-16	Jul-16
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.3	10.4	11.0	11.2
Labor Force Participation Rate (%)	47.2	48.5	48.5	50.9	51.6	52.1	51.8	51.9
FX Rates						Aug-16	Sep-16	Oct-16
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	105.0	97.5	99.5	99.7	
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	2.9570	3.0031	3.1052
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.2940	3.3578	3.4024
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.1255	3.1805	3.2538
Foreign Trade Balance⁽¹⁾ (USD billion)						Jul-16	Aug-16	Sep-16
Exports	134.9	152.5	151.8	157.6	143.8	140.7	141.5	140.9
Imports	240.8	236.5	251.7	242.2	207.2	196.6	197.2	197.1
Foreign Trade Balance	-105.9	-84.1	-99.9	-84.6	-63.4	-55.9	-55.7	-56.2
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	71.6	71.8	71.5
Balance of Payments⁽¹⁾ (USD billion)						Jun-16	Jul-16	Aug-16
Current Account Balance	-74.4	-48.0	-63.6	-43.6	-32.2	-29.5	-29.0	-31.0
Capital and Financial Accounts	-66.1	-48.9	-62.3	-42.1	-23.0	-27.4	-25.2	-26.6
Direct Investments (net)	-13.8	-9.2	-8.8	-5.5	-11.9	-9.2	-7.2	-6.3
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.5	3.4	-1.2	-3.2
Other Investments (net)	-28.3	-19.6	-39.5	-16.0	-14.8	-22.8	-14.3	-18.7
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	1.2	-2.5	1.6
Net Errors and Omissions	8.3	-0.9	1.4	1.6	9.2	2.0	3.7	4.4
Current Account Balance/GDP (%)	-9.6	-6.1	-7.7	-5.5	-4.5	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Jul-16	Aug-16	Sep-16
Expenditures	314.6	361.9	408.2	448.8	506.0	316.3	363.5	416.5
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	30.6	35.4	41.7
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	285.7	328.1	374.8
Revenues	296.8	332.5	389.7	425.4	483.4	317.5	368.4	404.5
Tax Revenues	253.8	278.8	326.2	352.5	407.5	252.7	298.1	329.0
Budget Balance	-17.8	-29.4	-18.5	-23.4	-22.6	1.3	4.9	-12.0
Primary Balance	24.4	19.0	31.4	26.5	30.4	31.9	40.3	29.6
Budget Balance/GDP (%)	-1.4	-2.1	-1.2	-1.3	-1.2	-	-	-
Central Government Debt Stock (TRY billion)						Jul-16	Aug-16	Sep-16
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	455.3	458.4	463.1
External Debt Stock	149.6	145.7	182.8	197.5	237.5	256.5	252.5	249.8
Total Debt Stock	518.4	532.2	585.8	612.1	677.6	711.8	710.9	712.9

(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)	2011	2012	2013	2014	2015	Aug.16	Sep.16	Change ⁽¹⁾
TOTAL ASSETS	1,217.7	1,370.7	1,732.4	1,994.3	2,357.4	2,507.4	2,533.7	7.5
Loans	682.9	794.8	1,047.4	1,240.7	1,485.0	1,589.9	1,609.8	8.4
TRY Loans	484.8	588.4	752.7	881.0	1,013.4	1,081.4	1,088.7	7.4
Share (%)	71.0	74.0	71.9	71.0	68.2	68.0	67.6	-
FX Loans	198.1	206.4	294.7	359.7	471.5	508.5	521.1	10.5
Share (%)	29.0	26.0	28.1	29.0	31.8	32.0	32.4	-
Non-performing Loans	19.0	23.4	29.6	36.4	47.5	53.7	55.2	16.2
Non-performing Loan Rate (%)	2.7	2.9	2.8	2.9	3.1	3.3	3.3	-
Securities	285.0	270.0	286.7	302.3	329.7	329.7	329.2	-0.1
TOTAL LIABILITIES	1,217.7	1,370.7	1,732.4	1,994.3	2,357.4	2,507.4	2,533.7	7.5
Deposits	695.5	772.2	945.8	1,052.7	1,245.4	1,322.7	1,340.7	7.7
TRY Deposits	460.0	520.4	594.1	661.3	715.4	795.4	818.8	14.4
Share (%)	66.1	67.4	62.8	62.8	57.4	60.1	61.1	-
FX Deposits	235.5	251.8	351.7	391.4	530.0	527.3	522.0	-1.5
Share (%)	33.9	32.6	37.2	37.2	42.6	39.9	38.9	-
Securities Issued	18.4	37.9	60.6	89.3	97.8	101.2	101.9	4.1
Payables to Banks	167.4	173.4	254.2	293.2	361.3	365.7	369.0	2.1
Funds from Repo Transactions	97.0	79.9	119.1	137.4	156.7	154.0	154.0	-1.7
SHAREHOLDERS' EQUITY	144.6	181.9	193.7	232.0	262.3	290.7	292.8	11.6
Profit (Loss) of the Period	19.8	23.5	24.7	24.6	26.1	26.6	29.0	-
RATIOS (%)								
Loans/GDP	52.6	56.1	66.8	63.5	76.1	-	-	-
Loans/Assets	56.1	58.0	60.5	62.2	63.0	63.4	63.5	-
Securities/Assets	23.4	19.7	16.6	15.2	14.0	13.2	13.0	-
Deposits/Liabilities	57.1	56.3	54.6	52.8	52.8	52.8	52.9	-
Loans/Deposits	98.2	102.9	110.7	117.9	119.2	120.2	120.1	-
Capital Adequacy (%)	16.6	17.9	15.3	16.3	15.6	16.0	16.0	-

(1) Year-to-date % change



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