Monthly Economic Review
March 2017

Global Economy

- Growth figures and the decisions from major central banks have come to the forefront of the global markets in the recent period. The upward trend in global inflation rates due to the gradual removal of the base effect stemming from energy prices raised questions over the future of expansionary monetary policies.
- Latest U.S. macroeconomic data showed that the economic activity maintained its strength. Especially along with the rise in inflation rates, the views that Fed would hike interest rate in March reinforced instead of the previously anticipated hike in June.
- While economic activity continued to recover in the Euro Area, annual inflation in January came in at the highest level in more than four years. The incoming elections in the major economies of the region cause political risks to be high on the agenda.
- Bank of Japan, which did not change its monetary policy at the meeting held in late January, revised its inflation expectations downwards while it lifted its forecasts for growth.
- Inflation in China has also been on a rising trend. Provided that the inflation continues to remain at high levels and capital outflows persist, a tighter monetary policy can be implemented in the coming period.
- Gold prices moved up as the high volatility in global risk perception led to a shift towards investment vehicles regarded as safe havens.

Turkish Economy

- The number of unemployed persons in Turkey surged to 3.7 million during the November period, rising by 590 thousand on an annual basis. Unemployment rate picked up by 1.6 pp in this period to 12.1%, the highest rate in nearly 7 years.
- Calendar adjusted industrial production posted an annual rise of 1.3% in December. Despite the weak performance across most sub-indices, the strong expansion in motor vehicles, pharmaceuticals industry and other transport equipment played big part in the industrial production growth.
- In January, export volume grew at its fastest annual pace in more than 4 years, rising by 18.1%. In this period, imports surged by 15.9%, the highest level in 3 years, due to low base effect from energy prices. Thus, foreign trade deficit expanded by 10.3% in January from a year earlier.
- In 2016, the deficit rose by 0.5 billion USD compared to 2015 to 32.6 billion USD. The deficit picked up as the contraction in foreign trade deficit was counterbalanced by the decline in tourism revenues. The current account balance, excluding energy trade, gave a deficit of 8.7 billion USD in 2016.
- In the first month of 2017, central government budget revenues registered a robust growth of 25.8% yoy. In this period, budget expenditures increased by 11.3% yoy. Thus, the budget posted a surplus of 11.4 billion TRY in January.
- The annual CPI, which has been rising since December, was realized as 10.13%, climbing at a double digit pace for the first time since 2012.

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Unemployment rate rose to 12.1%.

The number of unemployed persons in Turkey surged to 3.7 million during the November period, rising by 590 thousand on an annual basis. Unemployment rate picked up by 1.6 pp in this period to 12.1%, the highest rate in nearly 7 years. It was noteworthy that youth unemployment rate increased by 3.5 pp to 22.6%.

Although the number of employed persons rose on annual basis in November, the surge in labor force participation rate caused to a deterioration in employment figures.

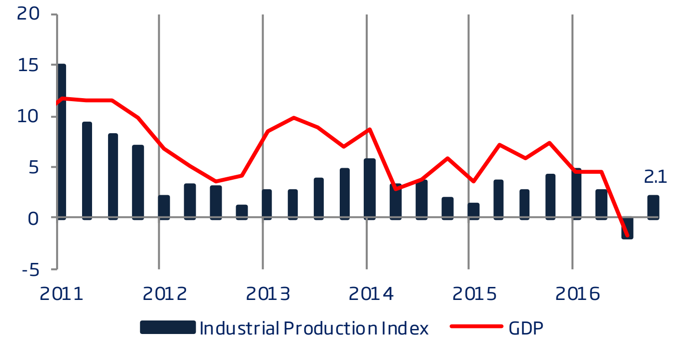
Industrial production rose by 2.1% in the last quarter.

Calendar adjusted industrial production posted an annual rise of 1.3% in December. Despite the weak performance across most sub-indices, the strong expansion in motor vehicles, pharmaceuticals industry and other transport equipment played big part in the industrial production growth. In December, pharmaceuticals industry increased by 52% yoy and made 1.65 pp contribution to the expansion in industrial production while the contributions of the motor vehicles and other transport equipment vehicles were 1.2 pp and 0.9 pp, respectively.

As industrial production index posted an annual decline of 1.9% in the third quarter of 2016, it signaled that GDP would contract in this period. The index recorded a limited increase of 2.1% yoy in the fourth quarter according to calendar adjusted figures. Thus, it pointed to a slight recovery in economic activity in the last quarter of 2016.

CAJ Industrial Production and GDP

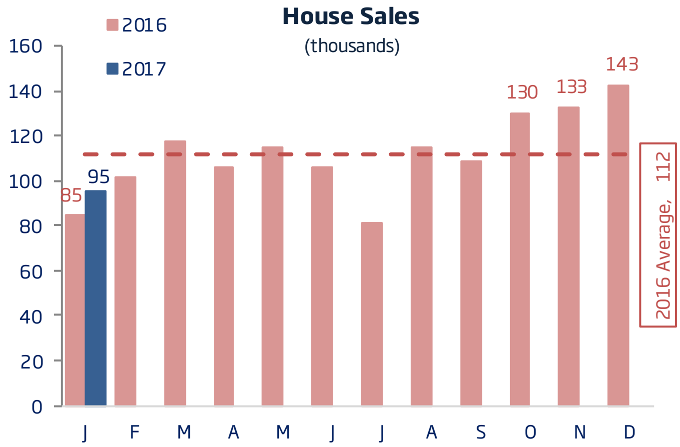
(annual % change)



Housing sector…

Total sales in housing sector surged by 12.8% yoy to 95,389 units in the first month of 2017. Despite this upsurge in January, sales volume was lower than the monthly average of 112 thousands recorded in 2016. The sales gained momentum since September 2016 and the annual increase was realized as 4% in the entire year of 2016.

On the other hand, it was noteworthy that mortgaged house sales climbed by 35.4% in January on the back of firms' campaigns and reduction in interest rates for housing loans. As a result, the share of mortgaged house sales in total sales climbed from 31.4% in January 2016 to 37.7% in the first month of 2017. Other sales, on the other hand, recorded a limited annual increase of 2.5% in this period.

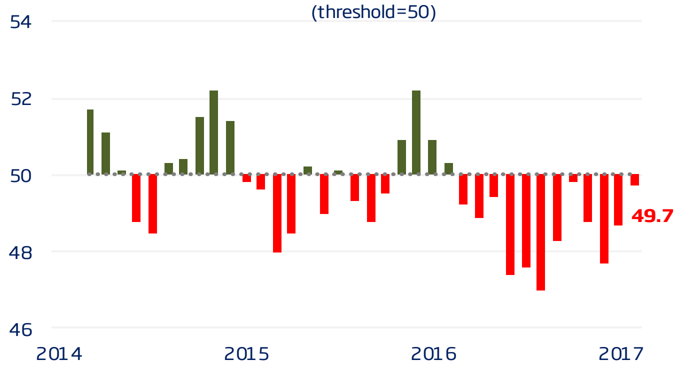


PMI remained below the threshold for a year.

Despite the upturn in the Purchasing Managers' Index (PMI) in January, the index remained just below the threshold with a level of 49.7. Hence, PMI remained below the threshold level for a year. Among sub-indices, assessments on output and employment have recovered. However, the depreciation of the Turkish lira continued to exert upward pressure on manufacturing input prices.

Manufacturing PMI

(threshold=50)



Weak outlook in consumer confidence…

Manufacturing capacity utilization ratio and real sector confidence index recovered in February. On the other hand, the declining trend in consumer confidence index has persisted in February.

Source: Datastream, Turkstat, CBRT, Markit,

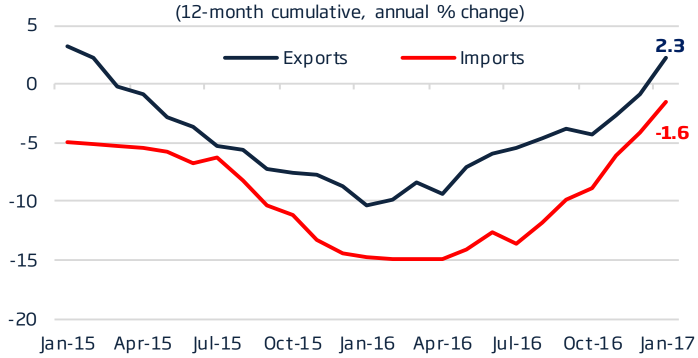
Foreign Trade Balance			**(USD billion)**
	January		**Change**
	2016	**2017**	**(%)**
Exports	9.5	11.3	18.1
Imports	13.5	15.6	15.9
Foreign Trade Balance	**-3.9**	**-4.3**	**10.3**
Import Coverage Ratio (%)	71.0	72.4	-

Foreign trade deficit widened by 10.3%

Both export and import volumes rose sharply In January. In the same month of the previous year, they posted an annual decline of about 20%. In the first month of 2017, export volume grew at its fastest annual pace in more than 4 years, rising by 18.1%. In this period, imports surged by 15.9%, the highest level in 3 years, due to low base effect from energy prices. Thus, foreign trade deficit expanded by 10.3% in January from a year earlier.

According to 12-month cumulative figures, export volume expanded for the first time since February 2015. The contraction in import volume, on the other hand, continued to lose momentum.

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

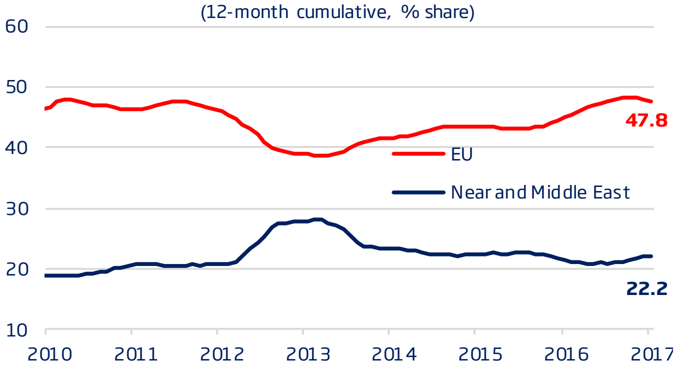


Ongoing growth momentum in automotive exports...

The increase in export volume was widely spread among the sectors on the back of the depreciation in TRY. Among the top 20 sectors, only 4 sectors posted declines in exports. The automotive sector, which has been the biggest exporter in 2016, kept its place in the first month of 2017. The strong performance of gold exports in this period was also worthy of attention. Gold exports picked up by 151.4% yoy. The high increase in gold imports, however, offset the positive impact of this on foreign trade balance.

Among the export markets that recovered in January, Middle Eastern countries stood out. Exports to Iraq, having been affected negatively by geopolitical events, rose by 47.8%. Thus, Iraq became the second largest export market following Germany. Exports to the United Arab Emirates also posted a steep increase by 129.3% in this period. Exports of gold played a big role in this rise. In line with this development, as the exports to the Near and Middle Eastern countries surged by 37.3% yoy, the share of them in our total exports rose. Having been increased by 12%, exports to the EU countries continued to support our export performance.

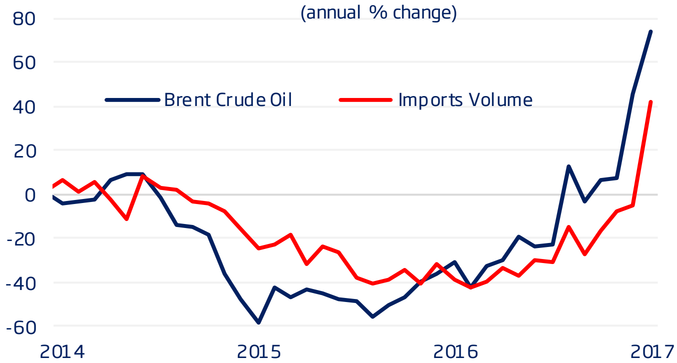
Main Export Markets
(12-month cumulative, % share)



Strong rise in energy imports...

Due to the low base effect in energy prices, energy imports posted an annual increase once again. Energy imports, which have been on a declining trend since September 2014, rose by 42.4% compared to the same month of the previous year due to the exceptionally cold winter in January and thus became the biggest import item.

Energy Imports and Oil Prices
(annual % change)



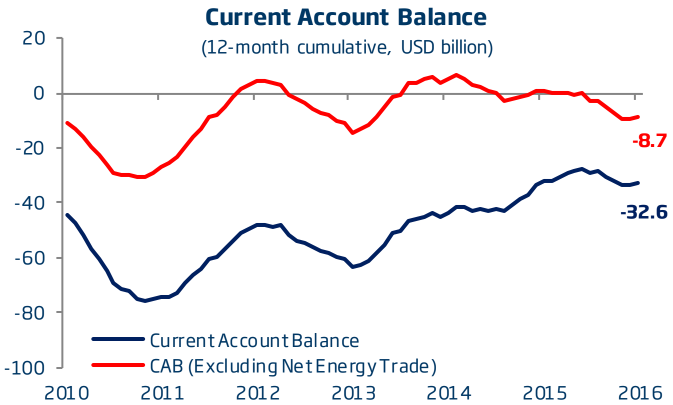
Expectations...

We anticipate that import volume will rise in the coming months due to the increase in oil prices. We think that the weak performance of the Turkish Lira will support exports and in turn will limit the expansion of foreign trade deficit. We expect that the upturn economic activity in the EU countries, which have been our biggest export market, will be a key factor in export volume.

Source: Datastream, Turkstat

Current account deficit became 32.6 billion USD in 2016.

The current account deficit was realized as USD 4.3 billion in December, slightly below market expectations. In 2016, the deficit rose by 0.5 billion USD compared to 2015 to 32.6 billion USD. The deficit picked up as the contraction in foreign trade deficit was counterbalanced by the decline in tourism revenues. The current account balance, excluding energy trade, gave a deficit of 8.7 billion USD in 2016.

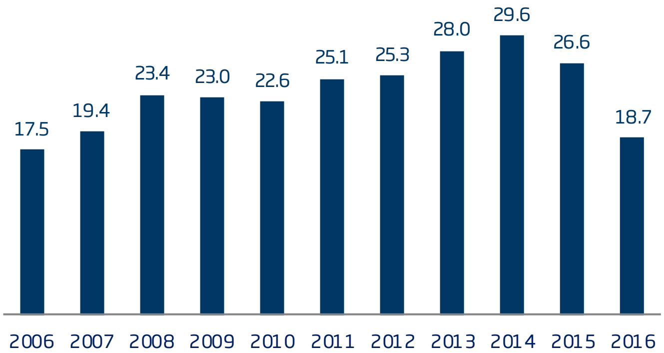


Contraction in foreign trade deficit...

According to the balance of payments figures, the decline in both export and import volumes lost momentum compared to the previous year. In 2016, exports posted an annual decrease of 1.2% and imports fell by 4.6%. It is seen that the recovery in exports to the European countries supported the exports in this period. The fading of the base effect from the declined energy prices, on the other hand, played a role in the deceleration of the import volume.

In 2016, geopolitical developments continued to negatively affect the current account balance. The effects of heightened domestic security concerns and political problems with Russia were felt on tourism revenues. Tourism revenues, which declined by 9.9% yoy in 2015, fell further by 29,6% yoy in 2016. The total number of tourists visiting Turkey fell to 25.3 million in 2016 from 35.6 million in 2015, dropping by 29%. It was an outstanding development that the number of tourists from Russia came in lower than 1 million people from 3.7 million people. Among the top 20 countries, Saudi Arabia and Israel were the only two countries that the number of tourists arriving in Turkey posted a rise compared to 2015.

Tourism Revenues
(12-month cumulative, billion USD)



Capital inflows registered in portfolio investments...

Despite all the unfortunate events in 2016, portfolio investments recorded a net inflow of 6.4 billion USD after posting an outflow of 15.8 billion USD in 2015. Capital inflows towards government domestic debt securities transactions played an important role in this development. In 2016, non-residents also realized net purchases of equity securities, albeit by a limited amount.

Loss of momentum in FDI...

A net inflow of 9 billion USD recorded under the foreign direct investments in 2016 remained below the previous year level. However, in the last months of the year capital inflows are observed to recover. Banking and electricity, gas production and distribution sectors attracted the highest amount of FDI during the year.

Capital inflows under other investments lost pace.

Other investments made 6.9 billion USD contribution to the

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

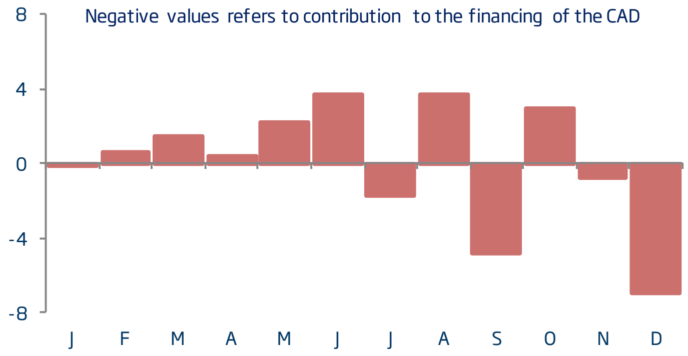
	Dec. 2015	Dec. 2016	Breakdown of Net Capital Inflows (%) Dec. 2015	Dec. 2016
Current Account Balance	**-32,118**	**-32,605**	**-**	**-**
Total Net Foreign Capital Inflows	**20,287**	**33,423**	**100.0**	**100.0**
-Direct Investments	12,455	8,998	61.4	26.9
-Portfolio Investments	-15,719	6,404	-77.5	19.2
-Other Investments	13,374	6,929	65.9	20.7
-Net Errors and Omissions	10,198	11,069	50.3	33.1
-Other	-21	23	-0.1	0.1
Reserves[(1)]	**11,831**	**-818**	**58.32**	**-2.45**

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

financing of current account deficit. Banking sector, which became a net credit payer in short-term with 6 billion USD, was a net borrower in long-term by 3 billion USD. Long-term debt rollover ratio of the sector, which posted a decrease, was realized as 109% in 2016. While other sectors were net credit borrower both in short-term and long-term, the long-term debt rollover ratio became 147%.

CBRT Reserves
(USD billion)



In December, reserves contracted by an all-time high amount of 7 billion USD. However, the reserves surged by 818 million USD for the full year.

Net errors and omissions made an important contribution to the financing of current account deficit by 11.1 billion USD in 2016.

Expectations...

As the base effect stemming from the declined energy prices started to fade, positive impact of the foreign trade balance on the current account balance has declined. Although relations with Russia have begun to recover, it is understood that this will reflect in tourism revenues over time. In this framework, we estimate that the current account deficit may increase somewhat in 2017 compared to the last year.

Balance of Payments (USD million)

	December	Jan. - Dec.		%
	2016	2015	2016	Change
Current Account Balance	**-4,268**	**-32,118**	**-32,605**	**1.5**
Foreign Trade Balance	-4,213	-48,114	-40,746	-15.3
Services Balance	624	24,208	15,396	-36.4
Travel (net)	700	21,248	13,960	-34.3
Primary Income	-933	-9,642	-9,009	-6.6
Secondary Income	254	1,430	1,754	22.7
Capital Account	**0**	**-21**	**23**	-
Financial Account	**-2,304**	**-21,941**	**-21,513**	**-2.0**
Direct Investments (net)	-1,535	-12,455	-8,998	-27.8
Portfolio Investments (net)	1,914	15,719	-6,404	-
Net Acquisition of Financial Assets	1,463	6,129	1,447	-76.4
Net Incurrence of Liabilities	-451	-9,590	7,851	-
Equity Securities	118	-2,395	823	-
Debt Securities	-569	-7,195	7,028	-
Other Investments (net)	4,283	-13,374	-6,929	-48.2
Currency and Deposits	3,527	2,666	1,832	-31.3
Net Acquisition of Financial Asse	2,629	15,148	5,424	-64.2
Net Incurrence of Liabilities	-898	12,482	3,592	-71.2
Central Bank	-16	-916	-476	-48.0
Banks	-882	13,398	4,068	-69.6
Foreign Banks	-323	9,942	4,482	-54.9
Foreign Exchange	-276	4,708	182	-96.1
Turkish Lira	-47	5,234	4,300	-17.8
Non-residents	-559	3,456	-414	-
Loans	1,756	-12,832	-5,547	-56.8
Net Acquisition of Financial Asse	139	792	231	-70.8
Net Incurrence of Liabilities	-1,617	13,624	5,778	-57.6
Banking Sector	-594	5,297	-3,003	-
Non-bank Sectors	-989	9,513	9,702	2.0
Trade Credit and Advances	-1,096	-2,946	-3,313	12.5
Other Assets and Liabilities	96	-262	99	-
Reserve Assets (net)	-6,966	-11,831	818	-
Net Errors and Omissions	**1,964**	**10,198**	**11,069**	**8.5**

The figures used in the table are according to the Sixth Edition of the Balance of Payments

Source: CBRT, Datastream

Budget posted a surplus In January.

In the first month of 2017, central government budget revenues registered a robust growth of 25.8% yoy. In this period, budget expenditures increased by 11.3% yoy. Thus, the budget posted a surplus of 11.4 billion TRY in January.

Sharp increase in tax revenues…

The rapid increase in budget revenues in January mainly stemmed from the rise in tax revenues. In this period, revenues collected from domestic value added tax (VAT) and special consumption tax (SCT) picked up by about 20% on an annual basis while VAT on imports surged by more than 40%. Hence, these three tax items accounted for 63% of the expansion in tax revenues.

The contribution of income collected from fees to the budget revenues also increased considerably in the new year due to lump-sum tax adjustments. This item, which contributed only 0.13 point to the increase in total budget revenues in January 2016, made a contribution of 1.6 points in 2017. On the other hand, the support of income and corporate tax to total revenues remained relatively low.

Privatization revenues, on the other hand, had positive impact on budget in January. In this period, privatization revenues, which were recorded as 4.2 billion TRY, made a contribution of 4.6 points to the total budget revenues.

Budget expenditures…

Surge in budget expenditures was largely due to the rise in compensation of employees and current transfers in January. In this period, compensation of employees and current transfers increased by 9.3% yoy and by 14.2% yoy, respectively. As a result, 76% of the growth in budget expenditures came from these two items. Health, retirement and social aid expenditures have constituted the largest portion of the current transfer expenditures.

Contribution of Sub-Items to Budget Revenues*

	Δ%	points %
Central Budget Revenues	**25.8**	**25.8**
1-Tax Revenues	**22.0**	**18.7**
a-Taxes on Income, Profits and Cap. Gains	13.6	2.8
b-Taxes on Property	24.1	1.5
c-Domestic Taxes on Good and Services	19.9	8.2
Domestic VAT	19.7	2.9
Special Consumption Tax (SCT)	21.9	5.0
Other	7.8	0.3
d-Taxes on International Trade and Trans.	42.9	4.4
VAT on Imports	43.5	3.9
Other	38.6	0.5
e-Fees	42.1	1.6
f-Other	8.5	0.3
2-Property Income	**13.3**	**0.3**
3-Grants, Aids and Special Revenues	**40.1**	**0.3**
4-Interest, Shares and Fines	**12.6**	**0.6**
5-Capital Revenues	**103.1**	**4.7**
Sales of Other Capital (Privatization)	104.1	4.6
6-Revenues from Special Budget Ins.	**42.5**	**1.0**
7-Revenues from Reg. & Superv. Inst.	**17.4**	**0.2**

Expectations

Tax hikes had apparently an enormous impact on tax revenues in the first month of 2017. On the other hand, tax cuts on white goods and furniture in February may limit this upward trend. In this context, considering the anticipated pick-up in public expenditures due to the stimulus measures, the course of domestic demand will be influential on the tax revenues and thus budget balance in the coming period.

Central Government Budget (TRY billion)

	January 2016	January 2017	% Change	2017 Budget Target	Real./ Target (%)
Expenditures	**42.5**	**47.3**	**11.3**	**645.1**	**7.3**
Interest Expenditures	5.6	6.6	17.4	57.5	11.5
Non-Interest Expenditures	36.9	40.8	10.4	587.6	6.9
Revenues	**46.7**	**58.8**	**25.8**	**598.3**	**9.8**
Tax Revenues	39.7	48.4	22.0	511.1	9.5
Other Revenues	7.0	10.4	47.2	87.2	11.9
Budget Balance	**4.2**	**11.4**	**172.3**	**-46.9**	**-**
Primary Balance	**9.8**	**18.0**	**83.7**	**10.6**	**169.2**

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

Δ% is the annual increase in the relevant item, points% is the item's contribution to the increase in the budget revenue

CPI came in above the expectations in February.

In February, CPI increased by 0.81% mom, more than market expectations. According to the Reuters survey, monthly CPI inflation had been anticipated to be 0.47%. Domestic PPI (D-PPI) also rose by 1.26 % in February.

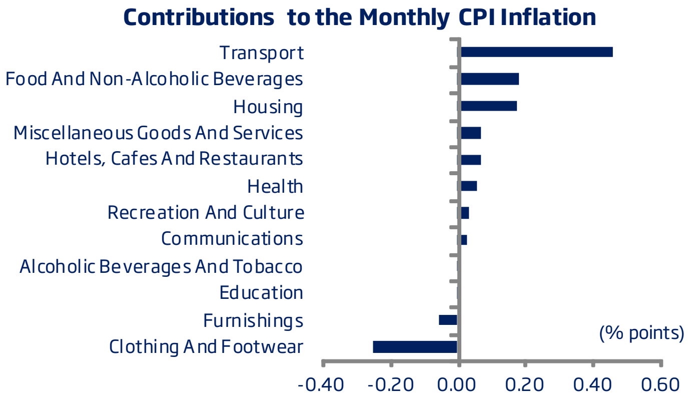
February	CPI		D-PPI	
(change %)	2016	2017	2016	2017
Monthly	-0.02	0.81	-0.20	1.26
Year-to-Date	1.80	3.29	0.34	5.29
Annual	8.53	10.13	4.47	15.36
Annual Average	7.97	7.88	5.61	5.87

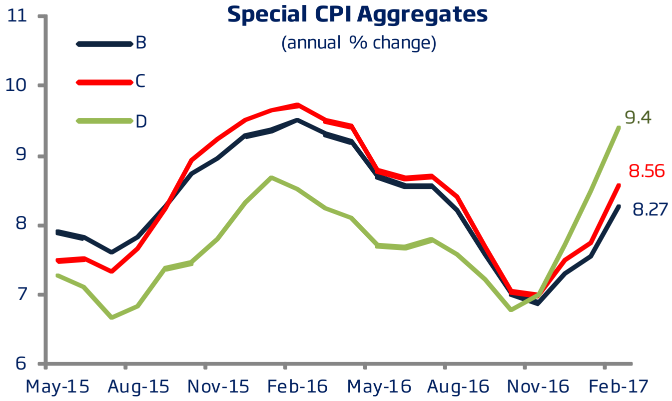
Annual CPI reached double-digit level again.

The annual CPI, which has been rising since December, was realized as 10.13%, climbing at a double digit pace for the first time since 2012. Annual D-PPI reached 15.36%, its highest level since July 2008.

Monthly inflation in February was largely driven by the rise in transportation prices.

In February, the lagged pass-through impact stemming from the depreciation in TRY and the relatively high level of energy prices lifted up prices mainly in transportation and housing groups. Transportation prices surged by 2.82% mom, pushed the inflation up by 48 basis points. The prices in housing group, which increased by 1.18% in this period, also contributed 18 basis points to the inflation. The upward trend in food prices continued in February despite losing momentum compared to January. Food prices, which increased by 0.84% mom, added 19 basis points to inflation.





B:excluding unprocessed food, energy, alcoholic beverages, tobacco and gold
C:excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold
D:excluding unprocessed food, alcoholic beverages and tobacco

On the other hand, clothing and footwear group limited the increase in inflation by 26 basis points, posting a monthly price decline of 3.35% thanks to the ongoing seasonal discounts. Moreover, special consumption tax reduction on white goods led to 0.67% monthly price decline in household appliances.

Core inflation indicators continued to surge in February. The annual increases in B and C indices reached 8.27% and 8.56%, respectively, the highest levels of last 7 months.

Food prices and exchange rate developments were influential in the course of the D-PPI.

In February, the upsurge in D-PPI mainly stemmed from the higher food prices and the lagged impacts of TRY depreciation. Prices of food products increased by 1% mom, making the highest contribution to D-PPI by 18 basis points. Chemical sector, highly dependent on imported inputs, was affected from the depreciation in the TRY and contributed 14 basis points to the D-PPI. In addition, rising prices in textile sector, also pulled the D-PPI up by 12 basis points.

Expectations…

The lagged impacts of the depreciation in TRY and relatively high level of energy prices led inflation to rise to double digit figures. Taking the low base year effect into consideration, we predict that inflation will continue to hover at double-digit levels in the short-term. The continuation of the upward trend in core inflation indicators also implies that CBRT will continue to implement tight liquidity policy in the coming period.

Source: Datastream, Turkstat

Global equity indices continued to rise.

Although the policies of Trump administration are not yet clear and the uncertainty about Fed's interest rate hike has persisted, global stock market indices generally moved higher in February. In this period, while the US equity indices has gone up to the historic levels, emerging market equity indices have risen to their highest levels for more than one and a half years.

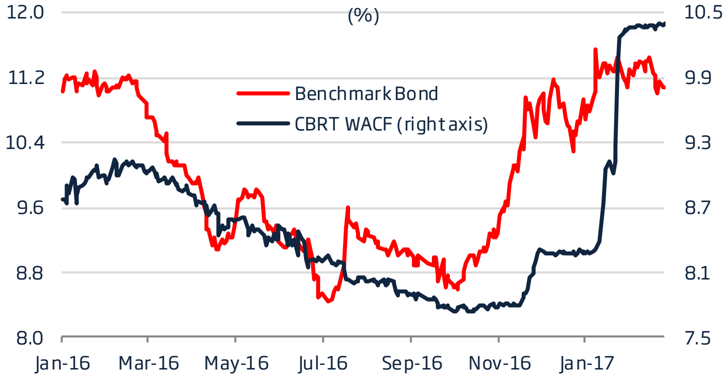
The domestic markets, which came under pressure before the Fitch's downgrade decision, had a favorable outlook after this decision along with the decline in uncertainties.

CBRT continues to implement tight liquidity policy.

The CBRT has maintained its tight liquidity policy in February. Having cancelled the one-week repo auctions since January 18, the CBRT continued to fund the market via late liquidity window facility. Accordingly, the weighted average cost of funding was close to 10.4% at the end of February, the highest rate in the last 5 years.

2-Year Benchmark Bond Yield and CBRT WACF

(%)



CBRT also allows rediscount credits for export and foreign exchange earning services, which were extended before January 1, 2017 and will be due by May 31, 2017, to be repaid in Turkish lira with the level of USD/TRY exchange rate that was announced by the Central Bank for January 2, 2017. With this facility, it is aimed to reduce domestic foreign currency demand.

Interest rates...

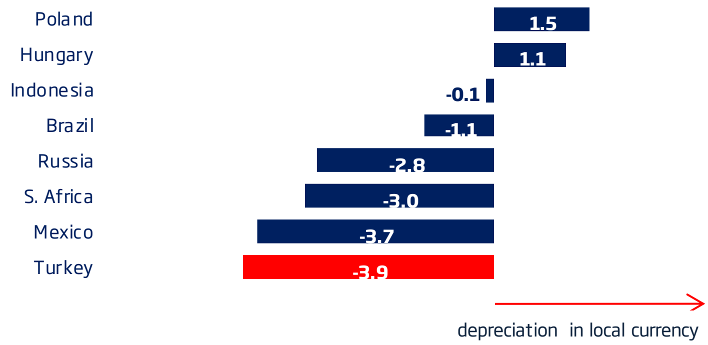
The compound interest rate of 2-year benchmark bond, which was 11.15% at the end of January, followed an upward trend in the first half of February. After rising to 11.45% on February 17, the interest rate showed a slight decline in the following period. On February 28, the compound interest rate of 2-year benchmark bond was realized as 11.09%.

USD/TRY declined in February.

Although the US dollar strengthened in February, at a limited pace, the Turkish lira appreciated. A combination of the steps taken by the CBRT that have increased the cost of funding and the rise in global risk appetite has played a big role in this development. Thus, the Turkish lira performed better than other emerging currencies in February. In the last week of February, the significant strengthening for expectations of the Fed's interest rate hike at March meeting exerted pressure on the TRY. The USD/TRY, which ended January at the level of 3.79, was realized as 3.61 as of February 28.

EM Currencies Against USD

(01/31/17-02/28/17, % change)

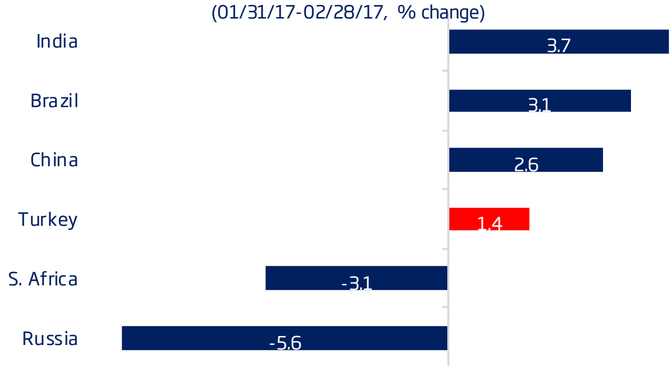


BIST-100 index...

The upward trend in global equity markets also reflected to the domestic stock market. The BIST-100 index, which reached its highest level in two years, rose by 1.4% compared to the end of January, reaching 87,478 as of February 28.

Equity Indices

(01/31/17-02/28/17, % change)

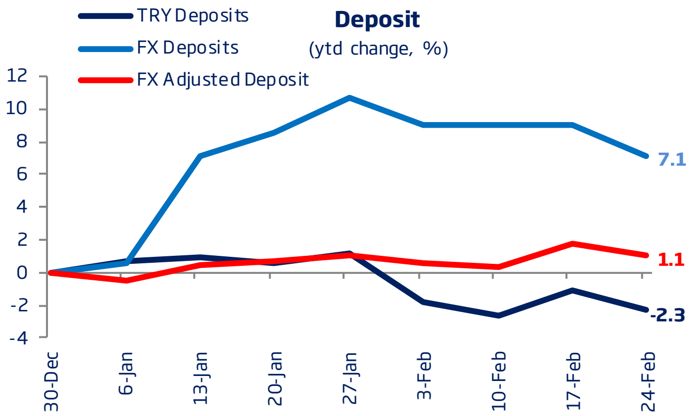


Source: CBRT, Reuters, Datastream

Deposit volume rose by 1.8% ytd.

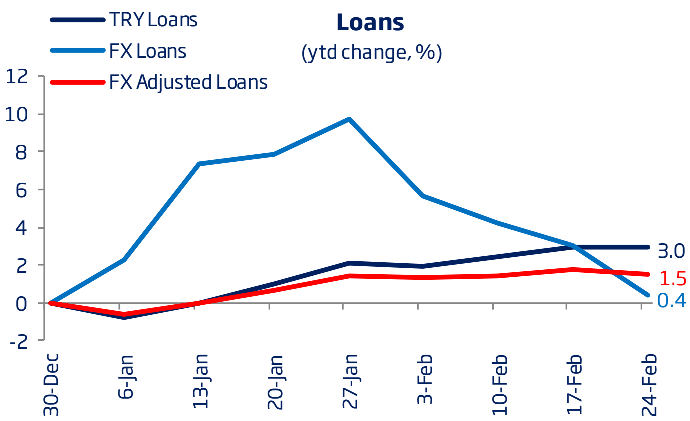
As of February 24, deposit volume surged by 1.8% compared to the end of 2016 and became TRY 1,569 billion. According to exchange rate adjusted figures, the year-to-date expansion in deposit volume was 1.1% as of February 24.

Exchange rate movements led to a shift in demand to FX deposits from TRY deposits at the beginning of 2017. Indeed, FX deposits in USD terms increased by 5.5% ytd to USD 202 billion. As USD/TRY picked up by 2.2% ytd as of February 24, FX deposits in TRY terms expanded by 7.1%. TRY deposits, on the other hand, contracted by 2.3% in this period.



The rate of growth in loan volume became 2.1%.

As of February 24, total loan volume rose to TRY 1,801 billion, growing by 2.1% compared to the end of 2016. According to the exchange rate adjusted figures, the growth rate in loan volume was 1.5% in this period. While TRY loans surged by 3.0% in this period, the high volatility in FX market reduced the tendency towards FX loans. As of February 24, FX loans in USD terms contracted by 1.1% ytd whereas FX loans recorded a limited increase of 0.4% ytd.



As of February 24, consumer loans posted a rise of 1.5% compared to the end of 2016. Having increased by 2.4% ytd, housing loans played a significant role in this development.

Owing to the FX developments, commercial and corporate loans expanded by 2.2% ytd.

NPL ratio was 3.3%.

As of February 24, the non-performing loans volume increased by TRY 1.6 billion compared to the end of the year. Hence, NPL ratio went up by 2 basis points to 3.30%. NPL ratio for consumer loans fell by 10 basis points to 4.36% as the limited contraction was recorded in NPL volume. For commercial and corporate loans NPL ratio rose by 6 basis points to 2.97%.

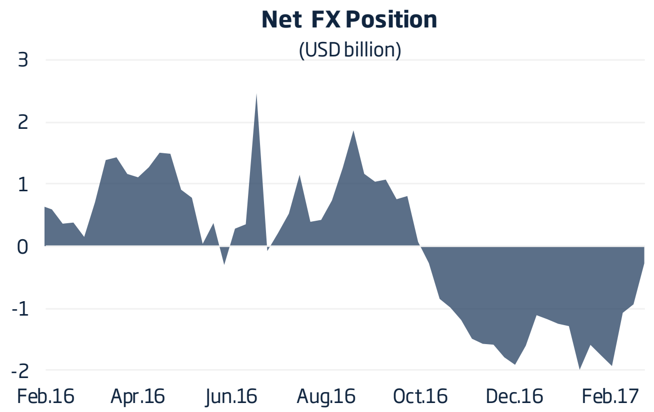
Securities portfolio…

As of February 24, banks' securities portfolio grew by 2.2% compared to the year-end. As a result of the changes in the funding composition of the CBRT, banks started to classify significant amount of "securities subject to repo" as "securities held as collateral" since January 13th. Thus, the securities subject to repo in the banking sector contracted by 28.8% ytd while the portfolio of securities held as collateral expanded by TRY 44.8 billion to TRY 105 billion.

There has been no significant change in the portfolio of securities held under custody in this period. Residents' securities increased by 1.5% ytd while non-residents' securities portfolio dropped by 1.2% as of February 24.

Net FX position…

As of February 24, banks' on-balance sheet FX position was (-)USD 35,853 million while off-balance sheet FX position realized as (+)USD 35,575 million. Hence, banking sector's net FX position became (-)USD 277 million.



Source: BRSA Weekly Bulletin

Concluding Remarks

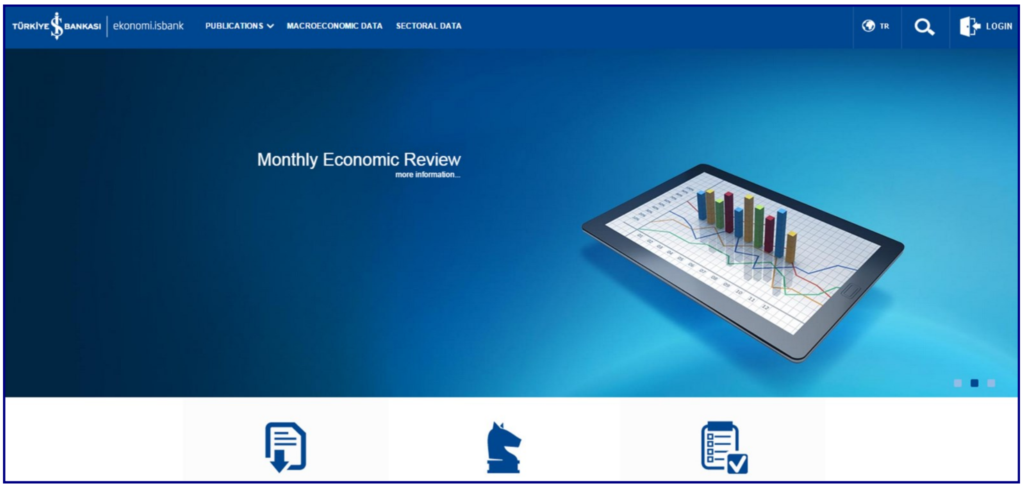
The policies of Trump administration, which have not been yet clear, have continued to be a major risk factor for the U.S. economy as well as global economy. However, global inflation rates have been on a rising trend as a result of the gradual removal of the base effect stemming from energy prices. This development raised questions over the future of expansionary monetary policies. Along with the upsurge in inflation rates and strong U.S. macroeconomic data, the views that Fed would hike interest rate in March have strengthened. This led the US dollar to gain strength and thus put pressure on the emerging currencies including Turkish lira.

Domestic leading indicators pointed out that economic activity has recovered slightly. However, it was noteworthy that consumer confidence has remained weak. Taking domestic and global uncertainties into account, it is highly likely that economic activity will remain under pressure in the first half of the year.

Forecasts (%)	2016	2017
Growth	2.5	3.3
CA Deficit/GDP	3.9	4.2
Inflation	8.5 (R)	9.0

(R) Realization
Year-end forecast for inflation

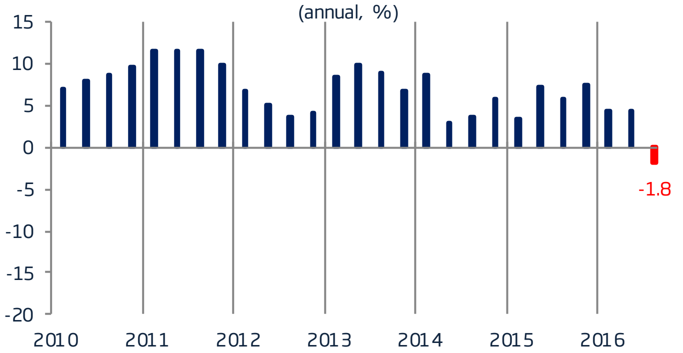
Our reports are available on our website **https://research.isbank.com.tr**



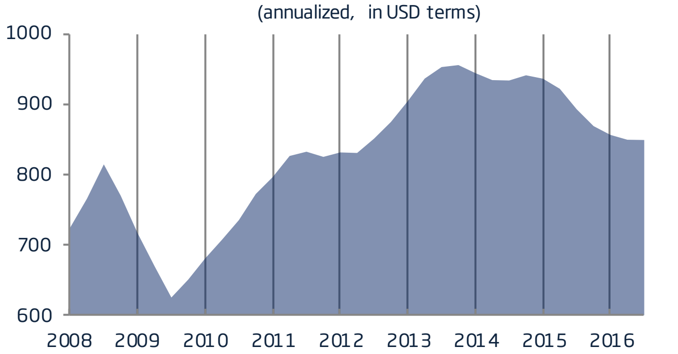
Turkish Economy at a Glance

Growth

GDP Growth
(annual, %)

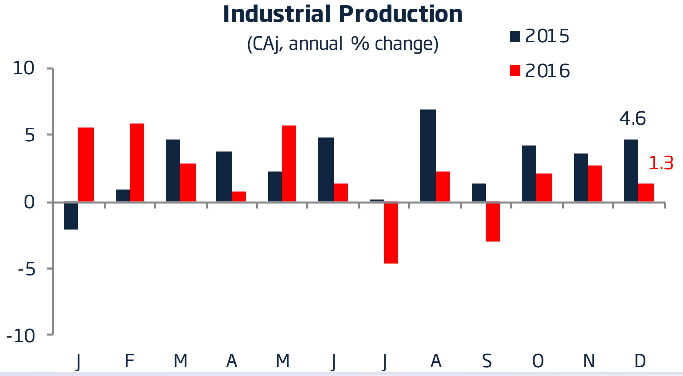


GDP
(annualized, in USD terms)

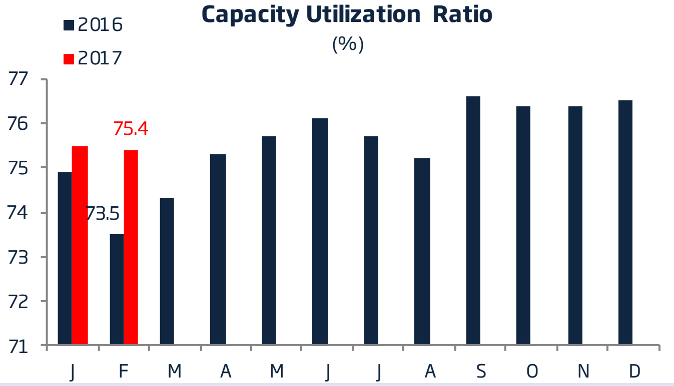


Industrial Production and Capacity Utilization Ratio

Industrial Production
(CAj, annual % change)

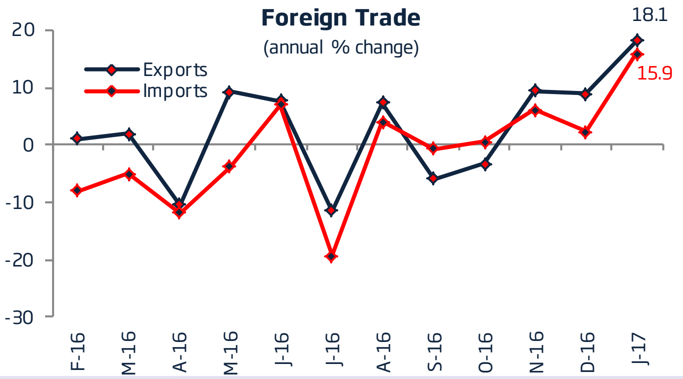


Capacity Utilization Ratio
(%)

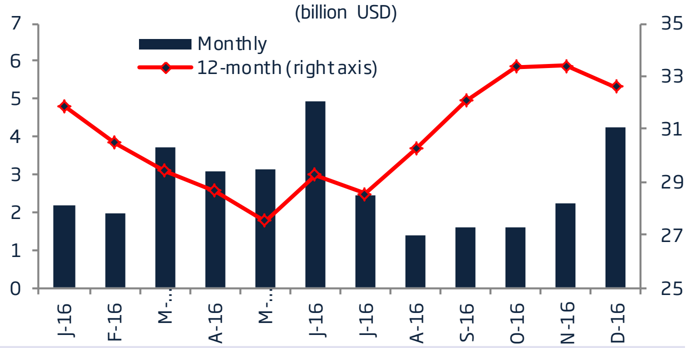


Foreign Trade and Current Account Balance

Foreign Trade
(annual % change)

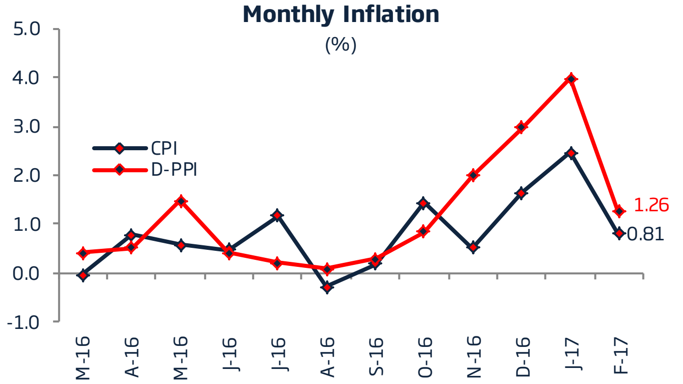


Current Account Deficit
(billion USD)

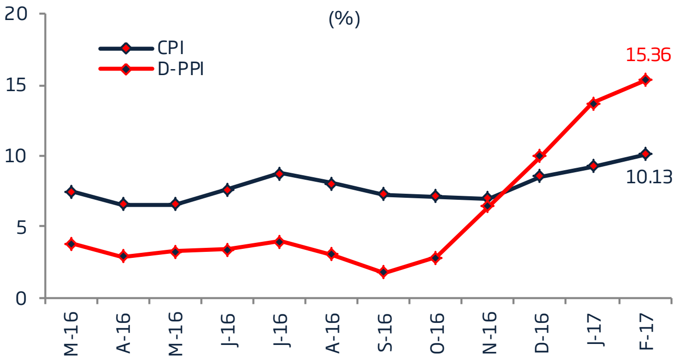


Inflation

Monthly Inflation
(%)



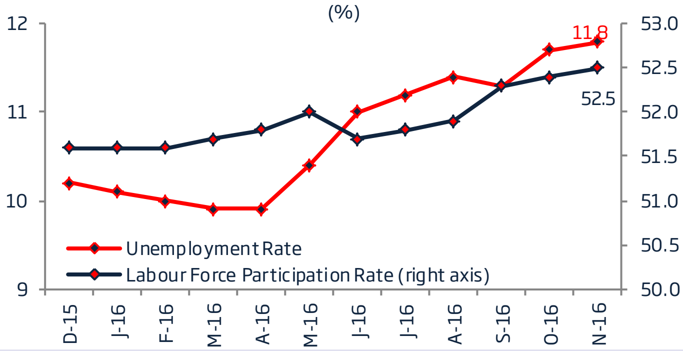
Annual Inflation
(%)



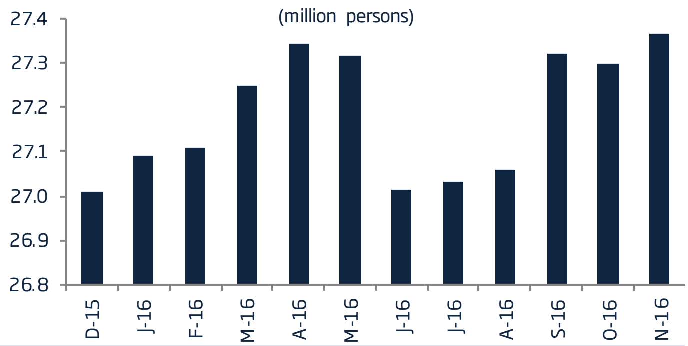
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators

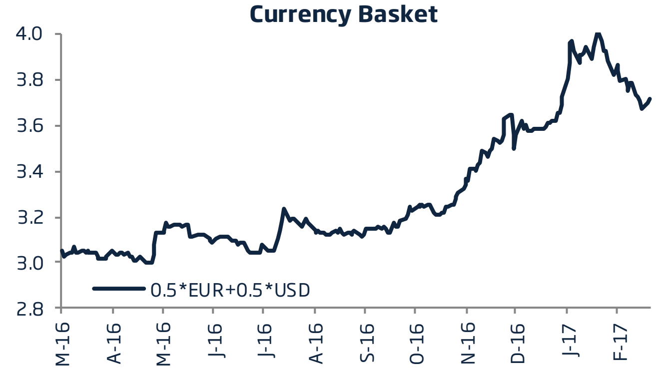


Seasonally Adjusted Employment

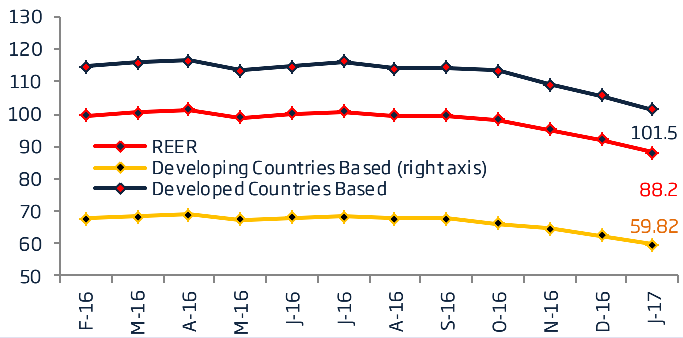


FX Market

Currency Basket

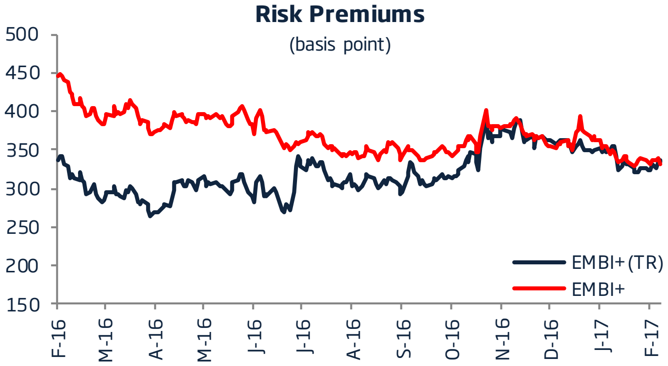


CPI Based Real Effective Exchange Rate

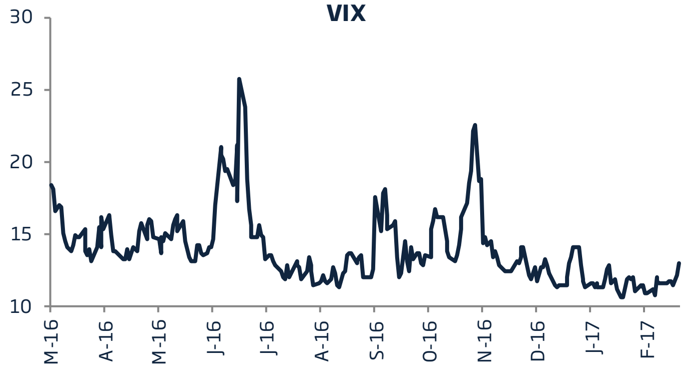


Risk Indicators

Risk Premiums

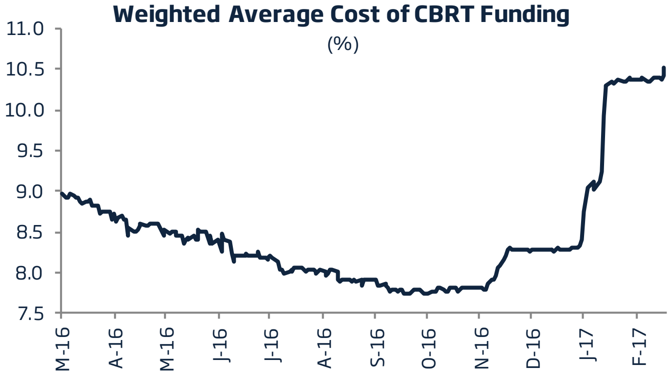


VIX

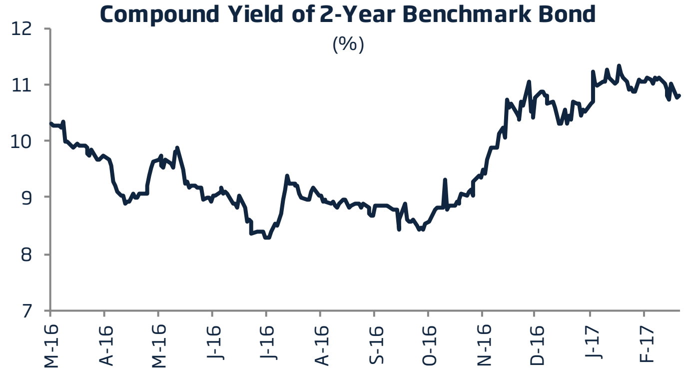


Interest Rates

Weighted Average Cost of CBRT Funding



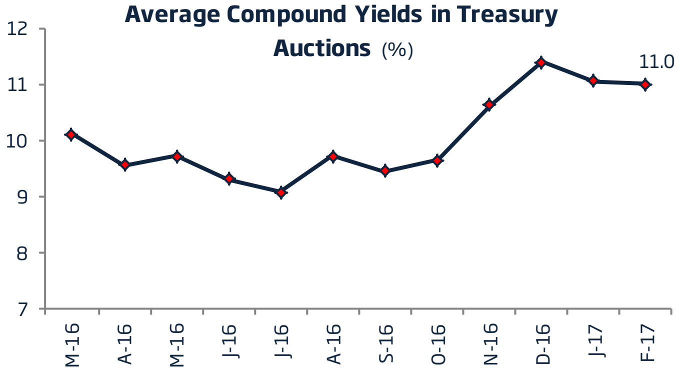
Compound Yield of 2-Year Benchmark Bond



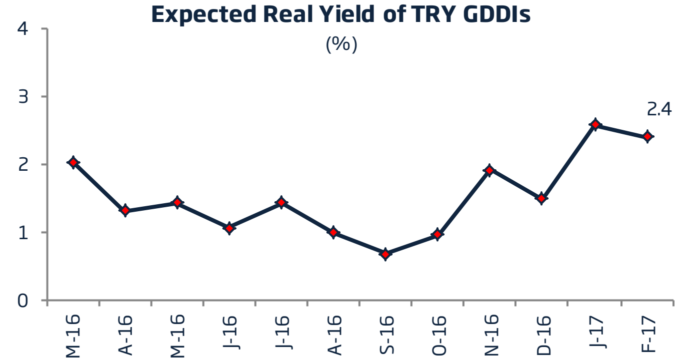
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market

Average Compound Yields in Treasury Auctions (%)

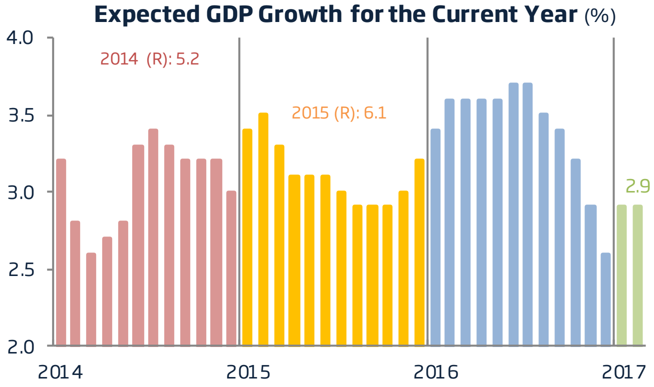


Expected Real Yield of TRY GDDIs (%)

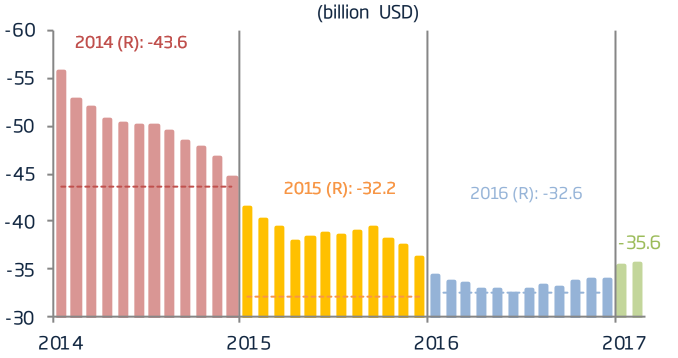


CBRT's Survey of Expectations and Other Leading Indicators

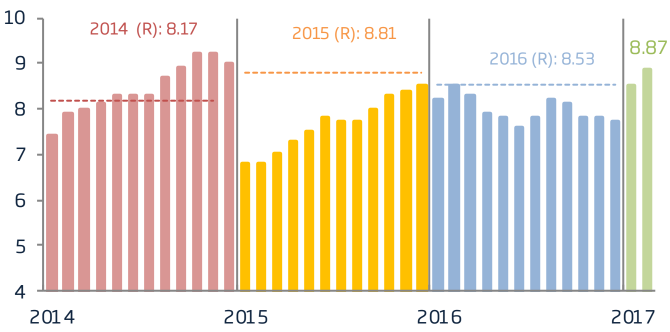
Expected GDP Growth for the Current Year (%)



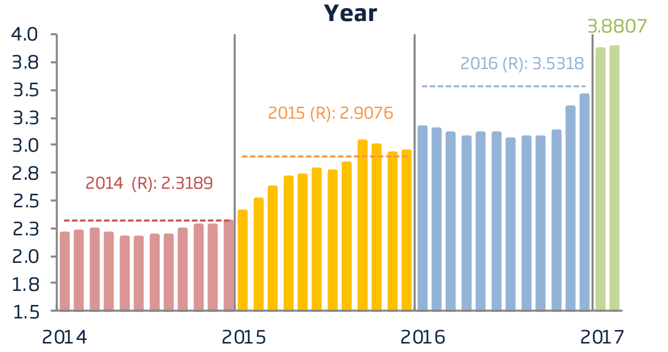
Expected CAD for the Current Year (billion USD)



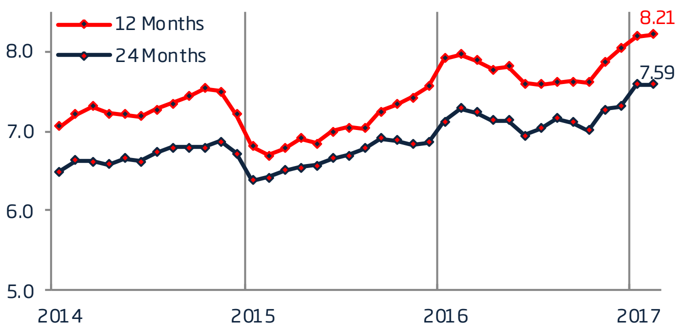
Expected CPI Inflation by the End of the Year (annual, %)



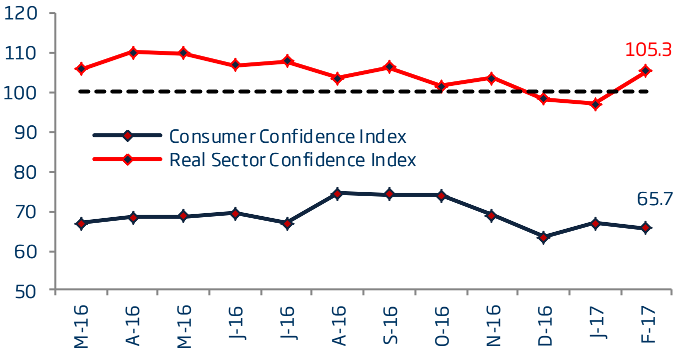
Expected Level of USD/TRY by the End of the Year



Expected CPI Inflation for the next 12 and 24 Months (annual, %)



Confidence Indicators



(R) Realization

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

Turkish Economy at a Glance

TÜRKİYE İŞ BANKASI

Growth	2011	2012	2013	2014	2015	16-Q1	16-Q2	16-Q3
GDP (USD billion)	832	871	950	935	861	189.8	216.3	221.6
GDP (TRY billion)	1,395	1,570	1,810	2,045	2,338	559.3	627.5	655.4
GDP Growth Rate (%)	11.1	4.8	8.5	5.2	6.1	4.5	4.5	-1.8
Inflation (%)						**Dec-16**	**Jan-17**	**Feb-17**
CPI (annual)	10.45	6.16	7.40	8.17	8.81	8.53	9.22	10.13
Domestic PPI (annual)	13.33	2.45	6.97	6.36	5.71	9.94	13.69	15.36
Seasonally Adjusted Labor Market Figures						**Sep-16**	**Oct-16**	**Nov-16**
Unemployment Rate (%)	8.5	8.8	9.1	10.4	10.2	11.3	11.7	11.8
Labor Force Participation Rate (%)	47.2	48.5	48.5	50.9	51.6	52.3	52.4	52.5
FX Rates						**Dec-16**	**Jan-17**	**Feb-17**
CPI Based Real Effective Exchange Rate	102.8	110.3	100.3	105.0	97.5	92.1	88.2	
USD/TRY	1.8934	1.7819	2.1323	2.3290	2.9207	3.5223	3.7908	3.6110
EUR/TRY	2.4497	2.3508	2.9370	2.8297	3.1867	3.7132	4.0595	3.8256
Currency Basket (0.5*EUR+0.5*USD)	2.1716	2.0664	2.5347	2.5794	3.0537	3.6178	3.9252	3.7183
Foreign Trade Balance(1) (USD billion)						**Nov-16**	**Dec-16**	**Jan-17**
Exports	134.9	152.5	151.8	157.6	143.8	141.5	142.6	144.3
Imports	240.8	236.5	251.7	242.2	207.2	198.2	198.6	200.7
Foreign Trade Balance	**-105.9**	**-84.1**	**-99.9**	**-84.6**	**-63.4**	**-56.7**	**-56.1**	**-56.5**
Import Coverage Ratio (%)	56.0	64.5	60.3	65.1	69.4	71.4	71.8	71.9
Balance of Payments(1) (USD billion)						**Oct-16**	**Nov-16**	**Dec-16**
Current Account Balance	**-74.4**	**-48.0**	**-63.6**	**-43.6**	**-32.1**	**-33.4**	**-33.4**	**-32.6**
Capital and Financial Accounts	**-66.1**	**-48.9**	**-62.1**	**-41.6**	**-21.9**	**-29.2**	**-26.6**	**-21.5**
Direct Investments (net)	-13.8	-9.5	-9.3	-5.8	-12.5	-8.8	-9.0	-9.0
Portfolio Investments (net)	-22.2	-41.0	-24.0	-20.1	15.7	-6.9	-7.3	-6.4
Other Investments (net)	-28.3	-19.2	-38.8	-15.3	-13.4	-15.2	-11.4	-6.9
Reserve Assets (net)	-1.8	20.8	9.9	-0.5	-11.8	1.7	1.1	0.8
Net Errors and Omissions	**8.3**	**-0.9**	**1.6**	**2.0**	**10.2**	**4.2**	**6.8**	**11.1**
Current Account Balance/GDP (%)	**-8.9**	**-5.5**	**-6.7**	**-4.7**	**-3.7**	-	-	-
Budget(2)(3) (TRY billion)						**Nov-16**	**Dec-16**	**Jan-17**
Expenditures	**314.6**	**361.9**	**408.2**	**448.8**	**506.0**	**510.7**	**583.7**	**47.3**
Interest Expenditures	42.2	48.4	50.0	49.9	53.0	48.4	50.2	6.6
Non-interest Expenditures	272.4	313.5	358.2	398.8	453.0	462.3	533.4	40.8
Revenues	**296.8**	**332.5**	**389.7**	**425.4**	**483.4**	**508.6**	**554.4**	**58.8**
Tax Revenues	253.8	278.8	326.2	352.5	407.5	419.1	458.7	48.4
Budget Balance	**-17.8**	**-29.4**	**-18.5**	**-23.4**	**-22.6**	**-2.1**	**-29.3**	**11.4**
Primary Balance	**24.4**	**19.0**	**31.4**	**26.5**	**30.4**	**46.3**	**21.0**	**18.0**
Budget Balance/GDP (%)	**-1.3**	**-1.9**	**-1.0**	**-1.1**	**-1.0**	-	-	-
Central Government Debt Stock (TRY billion)						**Oct-16**	**Dec-16**	**Jan-17**
Domestic Debt Stock	368.8	386.5	403.0	414.6	440.1	465.0	468.6	473.5
External Debt Stock	149.6	145.7	182.8	197.5	237.5	260.4	291.0	326.7
Total Debt Stock	**518.4**	**532.2**	**585.8**	**612.1**	**677.6**	**725.4**	**759.6**	**800.2**

(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)	2012	2013	2014	2015	2016	Jan.17	Change[1]
TOTAL ASSETS	**1,370.7**	**1,732.4**	**1,994.3**	**2,357.4**	**2,730.9**	**2,866.4**	**5.0**
Loans	**794.8**	**1,047.4**	**1,240.7**	**1,485.0**	**1,734.3**	**1,804.2**	**4.0**
TRY Loans	588.4	752.7	881.0	1,013.4	1,131.4	1,154.0	2.0
Share (%)	74.0	71.9	71.0	68.2	65.2	64.0	-
FX Loans	206.4	294.7	359.7	471.5	602.9	650.2	7.8
Share (%)	26.0	28.1	29.0	31.8	34.8	36.0	-
Non-performing Loans	23.4	29.6	36.4	47.5	58.1	59.5	2.5
Non-performing Loan Rate (%)	2.9	2.8	2.9	3.1	3.2	3.2	-
Securities	**270.0**	**286.7**	**302.3**	**329.7**	**351.6**	**364.5**	**3.7**
TOTAL LIABILITIES	**1,370.7**	**1,732.4**	**1,994.3**	**2,357.4**	**2,730.9**	**2,866.4**	**5.0**
Deposits	**772.2**	**945.8**	**1,052.7**	**1,245.4**	**1,453.7**	**1,499.8**	**3.2**
TRY Deposits	520.4	594.1	661.3	715.4	845.1	833.0	-1.4
Share (%)	67.4	62.8	62.8	57.4	58.1	55.5	-
FX Deposits	251.8	351.7	391.4	530.0	608.5	666.9	9.6
Share (%)	32.6	37.2	37.2	42.6	41.9	44.5	-
Securities Issued	**37.9**	**60.6**	**89.3**	**97.8**	**116.3**	**122.6**	**5.5**
Payables to Banks	**173.4**	**254.2**	**293.2**	**361.3**	**417.6**	**448.5**	**7.4**
Funds from Repo Transactions	**79.9**	**119.1**	**137.4**	**156.7**	**137.8**	**98.0**	**-28.8**
SHAREHOLDERS' EQUITY	**181.9**	**193.7**	**232.0**	**262.3**	**300.2**	**308.4**	**2.8**
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	3.7	-
RATIOS (%)							
Loans/GDP	57.0	66.7	68.6	63.5	74.2	-	-
Loans/Assets	58.0	60.5	62.2	63.0	63.5	62.9	-
Securities/Assets	19.7	16.6	15.2	14.0	12.9	12.7	-
Deposits/Liabilities	56.3	54.6	52.8	52.8	53.2	52.3	-
Loans/Deposits	102.9	110.7	117.9	119.2	119.3	120.3	-
Capital Adequacy (%)	17.9	15.3	16.3	14.6	15.6	15.2	-

(1) Year-to-date % change

Source: BRSA

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