Monthly Economic Review
June 2017

Global Economy

- Macron won the presidential elections held in France on May 7th. Following this development, concerns about the future of the European Union have subsided and thus boosted the markets and economic expectations.
- Monetary policies of the central banks of the advanced economies, especially that of the Fed, as well as the political developments in the US have been high on the global markets agenda. Uncertainties about whether the Trump administration has sufficient support to implement its economic policies have put pressure on the markets.
- In the US, growth data for the first quarter of the year has beaten expectations and revised up to 1.2%. Leading indicators for the second quarter generally showed that economic activity has been accelerating.
- The rise in non-farm payroll in the US slowed down in May and remained below expectations with 138 thousand people. Following the data release, the expectations for an interest rate hike by the Fed for the period following June have weakened.
- The latest data in the Euro Area has indicated that the economic recovery has persisted. Real GDP grew by 0.5% qoq in parallel with expectations in the first quarter. Annual growth rate became 1.7% during this period.
- Leading indicators for China's manufacturing industry have sent mixed signals.
- Oil prices have declined despite the decision of the oil producers to extend the production cuts until the end of the first quarter of 2018.

Turkish Economy

- Total employment reached 27 million persons in February, rising by 500,000 persons compared to the same period of the previous year. However, surge in labor force participation rate in this period restrained the positive impact of the recovery in employment on the unemployment rate.
- Calendar adjusted industrial production index rose by 2.8% yoy in March. For the first quarter, 2.2% annual expansion in the index pointed to a moderate recovery in economic activity.
- In April, exports increased by 7.4% and imports picked up by 9.9% compared to the same month of the previous year. Thus, foreign trade deficit expanded by 16.7% from a year earlier.
- In March, current account deficit came in 3.1 billion USD, in line with the expectations, decreasing by 17.9% compared to the same month of the previous year. This development was led by the fall in foreign trade deficit. According to the 12-month cumulative figures, the current account deficit, on the other hand, decreased to 33 billion USD.
- Deterioration in budget figures continued in April because of a weak performance of the budget revenues and a noteworthy increase in budget expenditures in this period. Thus, the budget that gave a surplus of 5.4 million TRY in April 2016, gave a deficit of 3 billion TRY in the same period of this year.
- The annual CPI inflation, which had been on a rising trend since the beginning of 2017 and reached its peak in April, came down to 11.72% in May.

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Unemployment rate was 12.6% in February.

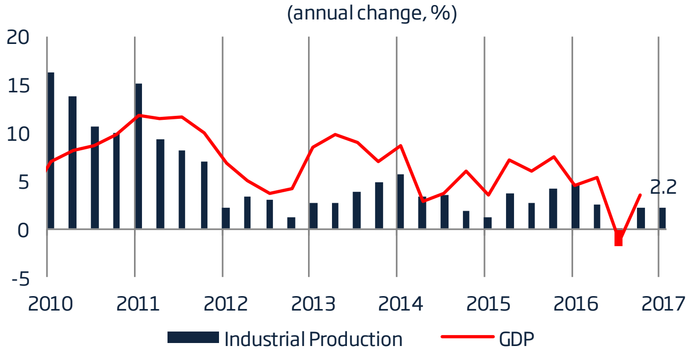
Total employment reached 27 million persons in February, rising by 500,000 persons compared to the same period of the previous year. However, surge in labor force participation rate in this period restrained the positive impact of the recovery in employment on the unemployment rate. Thus, unemployment rate became 12.6% in February, climbing by 1.7 points from a year earlier. Analysis of the seasonally adjusted figures revealed that the number of unemployed people fell in February from a month earlier and the unemployment rate dropped to 11.7%.

In February, employment in the services and agriculture sectors increased annually by 334,000 and 160,000 persons, respectively. While the employment in the construction sector recorded a limited increase with 30,000 persons, decline in employment in the manufacturing sector was noteworthy.

Moderate recovery in industrial production...

Calendar adjusted industrial production index rose by 2.8% yoy in March. For the first quarter, 2.2% annual expansion in the index pointed to a moderate recovery in economic activity. However, the expansion was not broad-based in this period, as 8 of the 24 sub-indices in the manufacturing sector declined and the growth in 7 sub-indices remained limited. Revival in the production of motor vehicles and electricity, gas production and distribution contributed 2.4 points to the rise in the index during the same period. On the other hand, contraction in mining and quarrying sector production was worthy of attention in the first quarter.

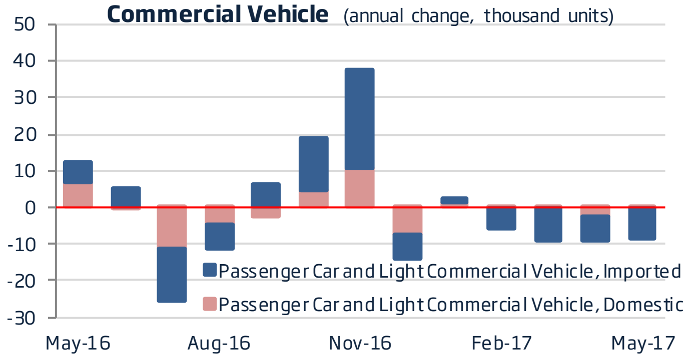
Caj Industrial Production and GDP
(annual change, %)



Automotive sector...

The high level of the USD/TRY and special consumption tax regulations continued to affect negatively automotive market. According to the figures compiled by the Automotive Distributors' Association, the domestic market of passenger car and light commercial vehicle shrank by 9% in May compared to the same month of the previous year. In the domestic market, which has contracted since February,

Domestic Sales of Passenger Car and Light Commercial Vehicle (annual change, thousand units)



total sales decreased by approximately 30,000 units in the January-May period to 317,500 units. Almost 30,000 units fall in sales of imported vehicle was also noteworthy in this period. Indeed, the positive contribution of the production of motor vehicles to the industrial production index stemmed from the strong export performance of the sector.

Highest PMI reading of 41 months...

Manufacturing PMI came in at 53.5 in May, the highest level since December 2013. Hence, the reading showed that the activity in the sector has accelerated. While, the output, new orders and employment recorded a rapid increase in May among the sub-indices, the upward pressure on capacity utilization increased as backlogs grew at the strongest pace since June 2006.

Leading indicators...

The seasonally adjusted real sector confidence index went down by 1.5 points to 104.8 in May compared to the previous month. During this period, the fall seen in the volume of output for the next 3 months and export orders came in forefront. However, recovery in expectations related to general business situation restrained the contraction in the index.

Seasonally adjusted capacity utilization rate (CUR) recorded a slight monthly increase in May. CUR rose by 0.1 point to 78.9%, the highest level since August 2008.

Consumer Confidence Index also painted a positive picture in May reaching its highest level since October 2016. The index that has been rising in the last three months fueled the optimism on domestic demand. The improvement in expectations regarding the general economic conditions in the next 12 months as well as the increase in spending tendency on semi-durable goods was worthy of attention in May. This development, however, raised concerns that the possibility of saving in the forthcoming period might diminish and consumer prices might increase.

Source: Datastream, Turkstat, CBRT, ODD

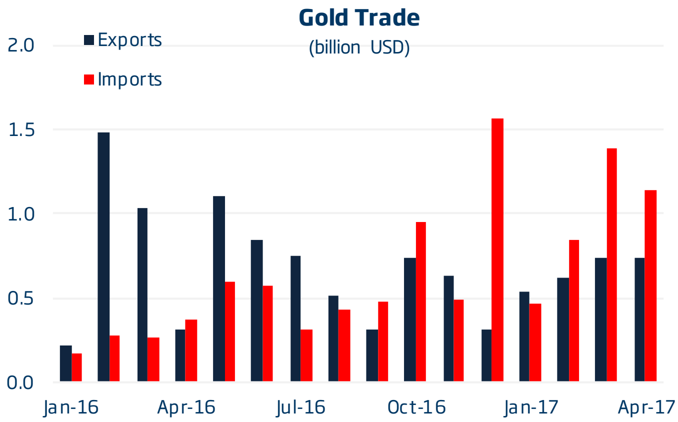
Expansion in foreign trade deficit...

In April, exports increased by 7.4% and imports picked up by 9.9% compared to the same month of the previous year. Thus, foreign trade deficit expanded by 16.7% from a year earlier.

In the first four months of 2017, exports and imports surged by 8.7% and 8.3%, respectively. The data indicated that March was the only month that registered a decline in foreign trade deficit during this period.

Motor vehicle exports maintained their strong growth.

As exports of motor vehicles went up by 20.2% in April thanks to the favorable external demand, motor vehicles continued to be the leading export sector. Gold was the another item that contributed significantly to the export growth in April. In this period, gold exports were 424 million USD higher than the same period of the previous year. Moreover, the strong outlook in iron and steel exports continued in April in line with the upsurge in metal prices. Indeed, iron and steel exports climbed by more than 80% annually.

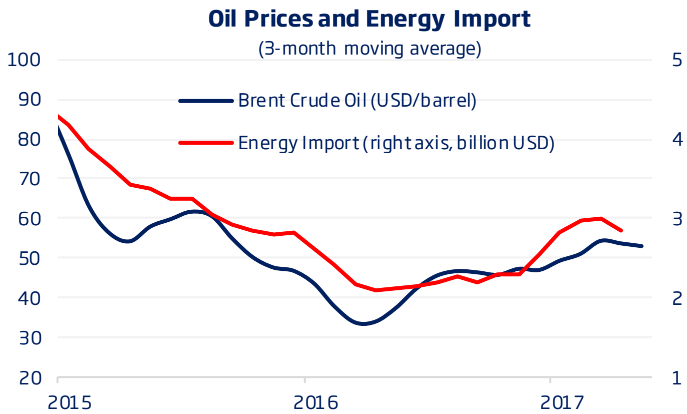


Exports to Middle East continued to rise.

Exports to Middle Eastern countries, which have been on a rising trend in recent period, have maintained this trend in April. This development mainly stemmed from the gold exports to the Middle Eastern countries, especially the United Arab Emirates. Exports to the European Union countries, on the other hand, recorded a slight increase. Throughout the region, higher exports to Mediterranean countries such as Spain and Italy were noteworthy.

Energy imports have been the main factor behind the higher foreign trade deficit.

In the first four months of 2017, Turkey's crude oil imports, on quantity basis, surged by 15.5% compared to the same period of the previous year. Oil prices also climbed by 48.7% in the same period. As a result of these developments, Turkey's energy bill increased by 37.6% in the first 4 months of the year.



Gold imports, which have posted relatively strong performance since October 2016, kept their pace in April and exerted upward pressure on imports. In April, Turkey's gold imports were 766 million USD higher than the same month of the previous year.

Expectations...

Since the major oil producing countries extended the agreement regarding the cut output, oil prices look unlikely to decline in the forthcoming period. Assuming that oil prices will not fall below 50 USD/barrel on monthly average, we anticipate energy imports to continue to put upward pressure on total imports throughout the year, except for the last quarter. On the other hand, the ongoing rise in capacity utilization rate in the manufacture of motor vehicles and iron-steel, which was also the case in May, suggests that these sectors will keep their paces of export growth. In this framework, we think that gold trade will continue to be a driver of foreign trade deficit in May.

Foreign Trade Figures (billion USD)

	April		Change	January-April		Change
	2016	2017	(%)	2016	2017	(%)
Exports	12.0	12.8	7.4	46.6	50.7	8.7
Imports	16.2	17.8	9.9	63.0	68.2	8.3
Foreign Trade Deficit	**-4.2**	**-4.9**	**16.7**	**-16.4**	**-17.5**	**7.1**
Import Coverage (%)	73.8	72.2	-	74.0	74.3	-

Source: Datastream, Turkstat

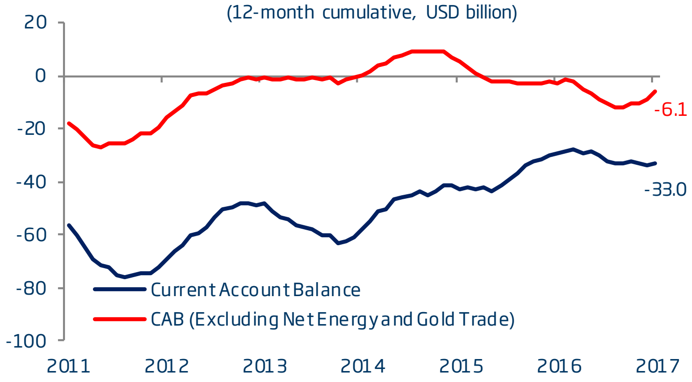
Current account deficit is narrower than the previous year.

In March, current account deficit came in 3.1 billion USD, in line with the expectations, decreasing by 17.9% compared to the same month of the previous year. This development was led by the fall in foreign trade deficit as exports rose faster than imports in this period. Foreign trade deficit went down by 793 million USD from a year earlier while current account deficit narrowed by 666 million USD. In addition, despite the fact that tourism revenues were below the previous year's result in March, net tourism revenues increased as tourism expenditures decreased. Thus, net tourism revenues limited the deficit in March as it was the case in February.

5.2% expansion in the first quarter deficit...

Analyzing the figures of the first quarter of the year, it is seen that the current account deficit reached 8.3 billion USD, picking up by 5.2% yoy. The increase in imports of gold during this period played a role in the widening deficit. According to the 12-month cumulative figures, the current account deficit, on the other hand, decreased to 33 billion USD. Excluding energy and gold trading, the deficit has improved.

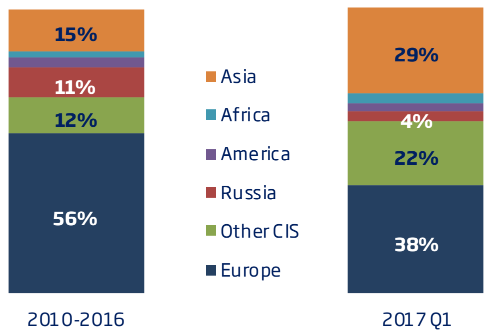
Current Account Balance
(12-month cumulative, USD billion)



The changing composition of visitor arrivals...

The negative impact of geopolitical developments on tourism revenues continued in the first quarter of the year. Tourism revenues dropped by 16.4% in the first quarter compared to the same period of last year and the number of tourists also decreased by 6%. The composition of arrivals has also changed. In this period, the number of tourists from Europe and America decreased by 21.6% and 29.5%, respectively. Even if the number of tourists coming from Russia doubled and the tourists coming from other CIS (Commonwealth of Independent States) increased by 12.8% yoy, the fall in total number of tourists could not be offset The growth rate of the number of tourists from Middle Eastern countries was around 3%.

Composition of Tourists
(%)



Portfolio flows to turkey have strengthened....

Portfolio investments, driven by strong demand for debt securities, had the best first-quarter performance since 2013. Also, direct investment inflows were close to the previous year's level in the first quarter of the year thanks to the inflow of 1.6 billion USD registered in March. Thus, portfolio investments and direct investments contributed 6.4 billion USD to the financing of current account in the first quarter.

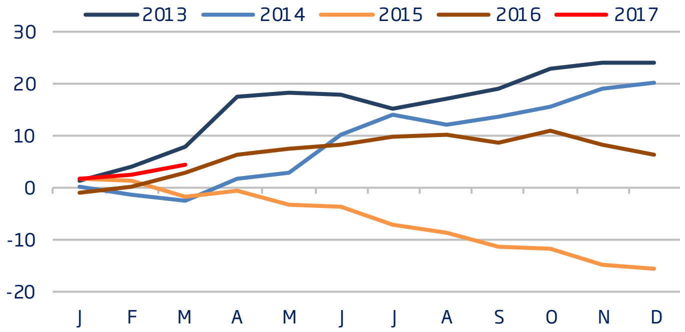
Breakdown of Net Capital Inflows (12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2016	**Mar. 2017**	**Dec. 2016**	**Mar. 2017**
Current Account Balance	**-32,615**	**-33,023**	**-**	**-**
Total Net Foreign Capital Inflows	**33,428**	**27,733**	**100.0**	**100.0**
-Direct Investments	9,147	9,128	27.4	32.9
-Portfolio Investments	6,292	7,912	18.8	28.5
-Other Investments	7,082	4,307	21.2	15.5
-Net Errors and Omissions	10,884	6,394	32.6	23.1
-Other	23	-8	0.1	0.0
Reserves[(1)]	**-813**	**5,290**	**-**	**-**

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

Cumulative Portfolio Inflows
(billion USD)



Other investments, on the other hand, posted a net outflow of 1.4 billion USD in March. This development stemmed from banks and other sectors which became net credit payers. In the first quarter, on the other hand, other investments recorded a net inflow of 97 million USD. According to the 12-month cumulative figures, the long-term debt rollover ratio of the banking sector and other sectors was 104% and 127%, respectively.

In March, reserves decreased by 2.5 billion USD. The net outflow of 1.1 billion USD in errors and omissions was also remarkable. While reserves fell by 4 billion USD in the first quarter, net errors and omissions recorded an outflow of 2.2 billion USD.

Expectations...

According to the preliminary data, the foreign trade deficit narrowed by 15.8% in April from a year earlier. Even though the recovery in tourism revenues stemming from Russian tourists as well as the weakness of tourism expenditures have positive impacts on the current account deficit, the foreign trade deficit is expected to be the main driver of the current account balance in the coming months.

Balance of Payments (USD million)

	March	Jan. - Mar.		%	12-Month
	2017	2016	2017	Change	Cumulative
Current Account Balance	**-3,057**	**-7,888**	**-8,296**	**5.2**	**-33,023**
Foreign Trade Balance	-2,844	-8,269	-8,363	1.1	-40,936
Services Balance	672	1,762	1,760	-0.1	15,430
Travel (net)	749	1,917	2,013	5.0	14,056
Primary Income	-1,043	-1,914	-2,155	12.6	-9,239
Secondary Income	158	533	462	-13.3	1,722
Capital Account	**0**	**15**	**-16**	-	**-8**
Financial Account	**-4,204**	**-5,551**	**-10,480**	**88.8**	**-26,637**
Direct Investments (net)	-1,158	-1,986	-1,967	-1.0	-9,128
Portfolio Investments (net)	-1,938	-2,800	-4,420	57.9	-7,912
Net Acquisition of Financial Assets	294	456	-180	-	875
Net Incurrence of Liabilities	2,232	3,256	4,240	30.2	8,787
Equity Securities	-49	1,182	931	-21.2	572
Debt Securities	2,281	2,074	3,309	59.5	8,215
Other Investments (net)	1,409	-2,872	-97	-96.6	-4,307
Currency and Deposits	-172	-2,235	-247	-88.9	3,776
Net Acquisition of Financial Asse	-656	3,024	1,547	-48.8	3,903
Net Incurrence of Liabilities	-484	5,259	1,794	-65.9	127
Central Bank	-16	-66	-32	-51.5	-442
Banks	-468	5,325	1,826	-65.7	569
Foreign Banks	-546	5,034	1,902	-62.2	1,350
Foreign Exchange	-627	1,103	791	-28.3	-130
Turkish Lira	81	3,931	1,111	-71.7	1,480
Non-residents	78	291	-76	-	-781
Loans	1,507	-1,053	649	-	-3,959
Net Acquisition of Financial Asse	-5	556	-86	-	-413
Net Incurrence of Liabilities	-1,512	1,609	-735	-	3,546
Banking Sector	-473	-1,181	-542	-54.1	-2,046
Non-bank Sectors	-930	3,370	-389	-	5,737
Trade Credit and Advances	77	322	-502	-	-4,141
Other Assets and Liabilities	-3	94	3	-96.8	17
Reserve Assets (net)	-2,517	2,107	-3,996	-	-5,290
Net Errors and Omissions	**-1,147**	**2,322**	**-2,168**	-	**6,394**

Source: CBRT, Datastream

Budget gave 3 billion TRY deficit.

Budget expenditures surged by 26.3% yoy while budget revenues expanded by 6.7% yoy in April. Deterioration in budget figures continued because of a weak performance of the budget revenues and a noteworthy increase in budget expenditures in this period. Thus, the budget that gave a surplus of 5.4 million TRY in April 2016, gave a deficit of 3 billion TRY in the same period of this year.

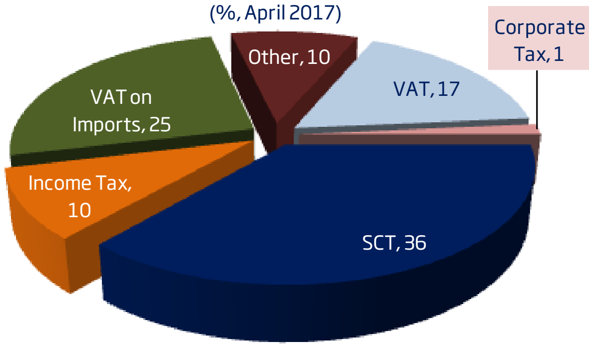
Budget expenditures expanded by 22.5% yoy in the first four months of the year mainly owing to the jump in current transfers. Increase in budget revenues, on the other hand, was realized as 9% yoy in January-April period, below the average inflation rate (10.6%) for this period. Budget, which gave 5.4 billion TRY surplus in the first four months of 2016, recorded a deficit of 17.9 billion TRY in the same period of 2017.

Recovery in tax revenues...

Despite the moderate course in the first quarter of the year, tax revenues surged by 14.3% yoy in the April. The 22.2% yoy increase in domestic VAT revenues supported the views that the economic activity gained momentum to some extent in April. In addition, increase in SCT revenues was also noteworthy in this period. According to April figures, the impact of SCT reductions in consumer durables on budget revenues remained rather limited.

Having increased by 18% yoy also due to the deprecation in TRY, VAT on imports revenues drove up tax revenues in April. Thus, total increase in both SCT and VAT on imports constituted more than half of the upsurge in tax revenues. On the other hand, the 24.4% yoy contraction in portfolio revenue of treasury restrained the rise in budget revenues by 4.7 points.

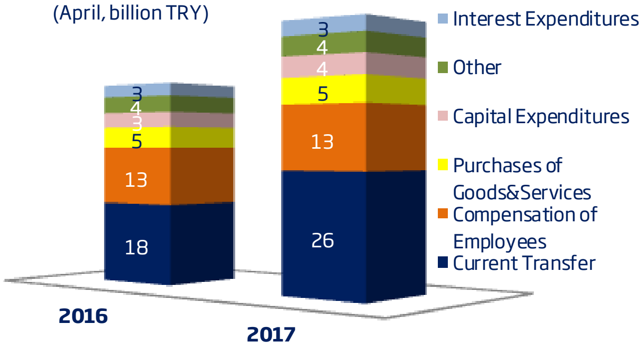
Composition of the Hike in Tax Revenues
(%, April 2017)



Rapid increase in current transfers...

Two-thirds of the increase in budget expenditures in April stemmed from the widening in current transfers. In April 2016, only 400 million TRY had been transferred for social security deficit financing by Treasury while that amount climbed to 3.4 billion TRY in the same month of 2017. In addition, the 30.8% yoy increase in amount transferred by Treasury for the reduction made on the employer's insurance was also influential on the upsurge in budget expenditures. Thus, current transfers expanded by 7.9 billion TRY on annual basis in April. The expansionary trend in interest expenditures was persisted in April as well.

Budget Expenditures
(April, billion TRY)



Expectations

Although the tax revenues exhibited a moderate course in April, the total tax revenues collected in the first four months of the year remained below the budget target. Moreover, expansionary trend in both current transfers and interest expenditures indicated that the budget expenditures will exceed the target level at the end of the year. In this framework, we think that the budget deficit might surpass the year-end target of 46.9 billion TRY.

Central Government Budget (TRY billion)

	April			January-April			2017 Budget	Real./
	2016	2017	% Change	2016	2017	% Change	Target	Target (%)
Expenditures	**44.3**	**56.0**	**26.3**	**176.0**	**215.7**	**22.5**	**645.1**	**33.4**
Interest Expenditures	2.7	3.2	20.2	19.1	22.0	15.1	57.5	38.3
Non-Interest Expenditures	41.7	52.8	26.7	156.9	193.6	23.4	587.6	32.9
Revenues	**49.7**	**53.0**	**6.7**	**181.4**	**197.8**	**9.0**	**598.3**	**33.1**
Tax Revenues	32.4	37.1	14.3	141.0	158.7	12.6	511.1	31.1
Other Revenues	17.3	16.0	-7.5	40.4	39.1	-3.3	87.2	44.8
Budget Balance	**5.4**	**-3.0**	**-**	**5.4**	**-17.9**	**-**	**-46.9**	**38.2**
Primary Balance	**8.0**	**0.3**	**-96.7**	**24.6**	**4.2**	**-83.0**	**10.6**	**39.2**

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

CPI came in above expectations.

CPI increased by 0.45% in May compared to the previous month, slightly above market expectations. Economists had expected a rise of 0.35% in this period. The monthly increase in Domestic Producer Price Index (D-PPI) was realized as 0.52%.

May	CPI		D-PPI	
(change %)	2016	2017	2016	2017
Monthly	0.58	0.45	1.48	0.52
Year-to-Date	3.15	6.18	2.77	7.74
Annual	6.58	11.72	3.25	15.26
Annual Average	7.71	9.09	5.19	9.02

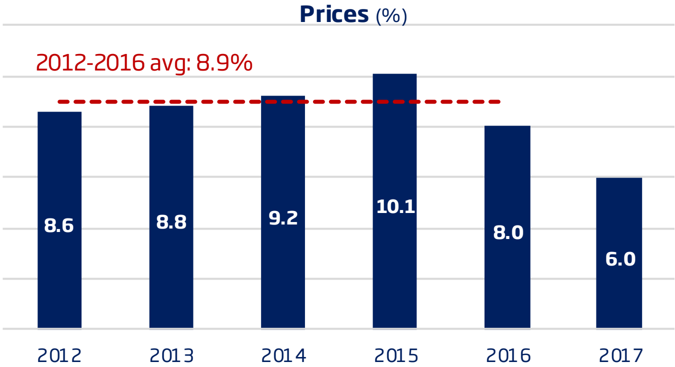
Annual increase in CPI fell to 11.72%.

The annual CPI inflation, which had been on a rising trend since the beginning of 2017 and reached its peak in April, came down to 11.72% in May. Similarly, annual inflation in D-PPI, which posted rapid increase in the recent period, slowed down to 15.26%.

The highest increase was recorded in clothing and footwear.

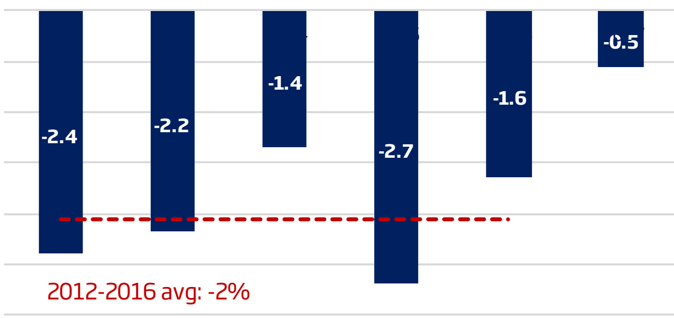
Clothing and footwear prices added 41 basis points to CPI inflation, surging by 6% in May on a monthly basis. Although clothing and footwear registered the highest monthly rise among sub-groups in May, the monthly increase in this group came in well below the historical average. This development was led by the change in the calculation method of consumer price index as it is no longer based on a variable weight but a fixed weight since the beginning of 2017. According to the previous method, the weights of seasonal products in the CPI were used to differ each month.

Monthly Change in Clothing and Footwear Prices (%)



In May, 0.55% monthly decline in food prices remained considerably limited compared to the previous years. Indeed, food prices decreased by 2% on average during May for the past 5 years. It is considered that Ramadan effect also played a part in this development. Especially the surges in meat and grain prices have stood out. The transport group

Monthly Change in Food Prices (%)



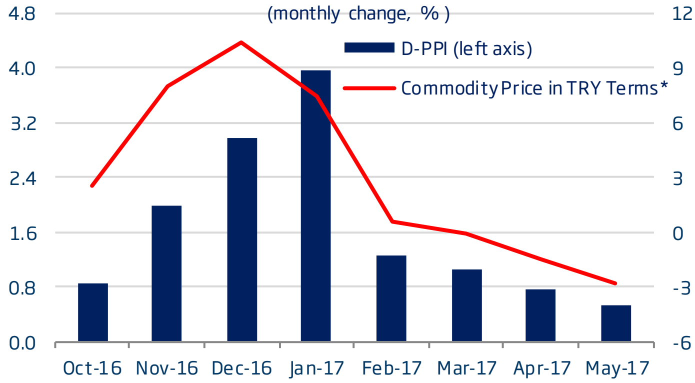
was another important item that restrained the monthly increase in CPI.

The core inflation indicators displayed a relatively flat outlook in May. C index, which excludes energy, food, alcoholic and non-alcoholic beverages, tobacco and gold prices, posted an annual rise of 9.38%, falling slightly compared to April.

D-PPI...

The decline in commodity prices in TRY terms, particularly the decline in energy prices, became the main determinant of the D-PPI inflation. The highest monthly increase among the manufacturing sub-groups was recorded in furniture products with 3.24%. Computers, electronic and optical products and tobacco products followed this group in May.

Commodity Prices and D-PPI



Expectations...

Seasonal fall in prices of clothing and footwear products is expected to have a positive impact on inflation outlook in June. Moreover, the relatively flat course of exchange rates and oil prices at around 50 USD per barrel are most likely to affect general price level favorably. On the other hand, given the high volatility that food prices have recently demonstrated, this group is supposed to continue to drive the inflation outlook.

(*)Based on CRB Commodity Price Index

Source: Datastream, Turkstat

Political developments in the US have weighed on global markets.

The political developments in the United States have raised questions about to what extent President Trump will be able to find support in implementing his economic policies. Improved risk appetite following the outcome of the French election deteriorated owing to these political developments, emerging markets also came under pressure.

In domestic markets, TRY assets had positive performance also thanks to diminishing uncertainties after the referendum.

Average funding cost of the CBRT has been hovering close to 12%.

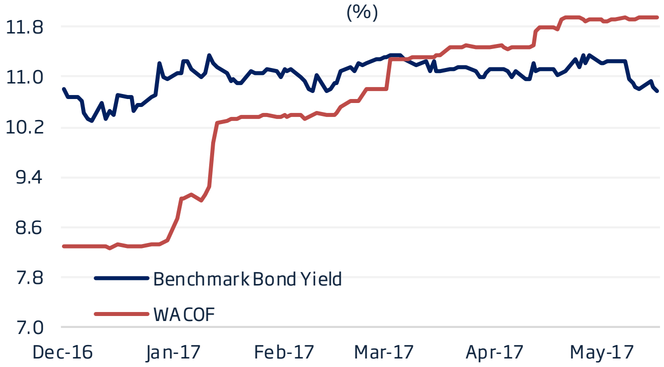
CBRT kept its tight liquidity monetary policy stance in May. CBRT, which had increased the late liquidity window (LON) interest rate in its meeting held in April, continued to fund the market via LON facility with a share of 90%. As of May 31, the weighted average cost of the CBRT funding (WAFR) dating back to 2011, which was 11.8% at the end of April, reached its highest level with 11.97%. CBRT stressed that the tight liquidity policy would be maintained until a significant improvement in inflation indicators was achieved.

The fall in benchmark interest rate…

While the weighted average cost of the CBRT funding recorded a rapid increase since January, the rise in Treasury bond yields remain limited. The interest rate of 2-year benchmark bond, which remained flat in April, declined in the second half of May and was around 11%.

Benchmark Bond Yield and CBRT WACOF

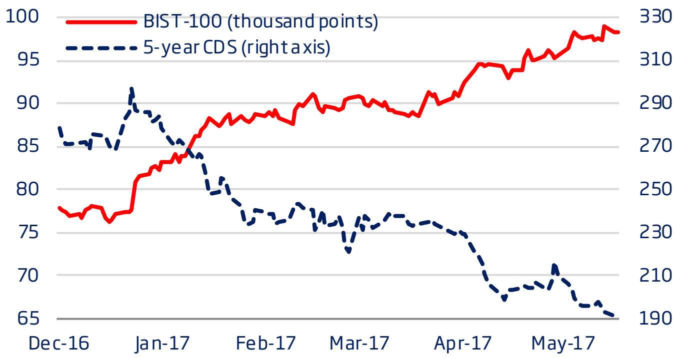
(%)



BIST-100 index…

The diminishing uncertainties regarding the domestic political developments and the recovery in global risk appetite led to an upsurge in the stock market. The BIST-100 index, which reached its all-time high on May 24 with 98,795 in line with the improvement in the risk perception towards Turkey, remained under pressure in the following days due to the risk-off mood in global markets. As of 31 May, the BIST-100 index closed at 97,542, rising by 3% compared to the end of April.

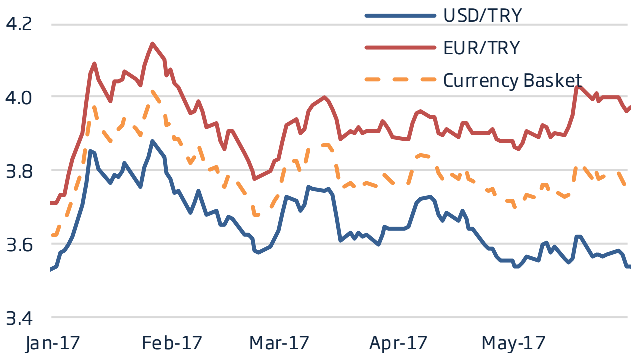
CDS and BIST-100



USD/TRY declined below 3.54.

Despite the depreciation in the US dollar in May, the USD/TRY remained relatively flat. The USD/TRY tested above 3.60 due to the US political developments in the middle of May and declined in the following days thanks to the recovery in risk appetite. Euro, on the other hand, appreciated due to the easing uncertainties about the future of EU and the speech of Germany's Chancellor Angela Merkel as she stated that the value of Euro was too weak. The USD/TRY reached 3.5365 as of May 31, declining by 0.5% compared to the end of April. The EUR/TRY increased by 2.8% to 3.9768 in the same period.

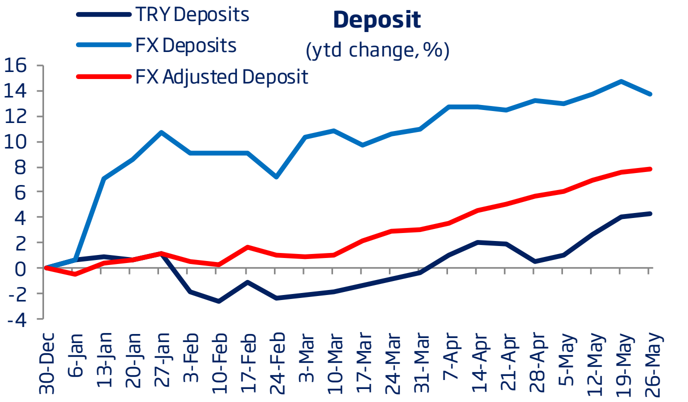
FX Rates



Source: CBRT, Reuters, Datastream

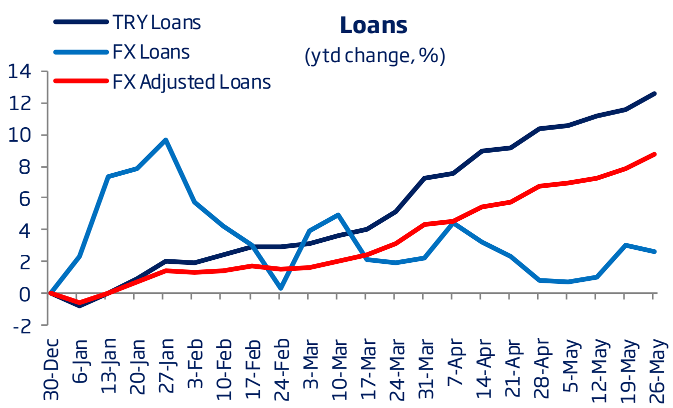
The growth in deposits in USD terms was 12.4%.

According to the BRSA's Weekly Bulletin, deposit volume reached 1,670 billion TRY as of May 26, expanding by 8.4% compared to the end of 2016. While TRY deposits posted a year-to-date rise of 4.3%, FX deposits grew by 13.7% in this period. FX deposits in USD terms recorded an increase of 12.4% in the same period. Since the USD/TRY was almost unchanged in May compared with the year-end 2016, the impact of exchange rates on deposit growth weakened. Indeed, the growth rate of deposits was 7.8%, according to the exchange rate adjusted figures.



Loan volume grew by 9.1% year-to-date.

The expansion in loans supported by the Credit Guarantee Fund (CGF) was the main driving force behind the acceleration of TRY loans. As of May 26, TRY loan volume surged by 12.6% ytd. FX loans in USD terms, on the other hand, recorded a limited increase of 1.5% in the same period. As a result, total loan volume grew by 9.1% ytd as of May 26. 8.2 points of this expansion came from the rise in TRY loan volume. The contribution of FX loans to the total loan growth rate was only 0.4 point as the USD/TRY recorded a limited year-to-date increase. Indeed, total loan volume increased by 8.7% ytd as of May 26, according to the exchange rate adjusted figures.



On an annual basis, the growth rate of TRY loans exceeded 20% as of May 26. It is anticipated that the current growth rate will be maintained until the end of the year with the support of CGF loans. Assuming that FX loans in USD terms will contract by around 1% and inflation will be at 9% in the remaining part of the year, the real rate of growth in total loans is anticipated to be 6.5% at the end of 2017. This development suggested that the economy might grow by 3.5-4.0% in 2017.

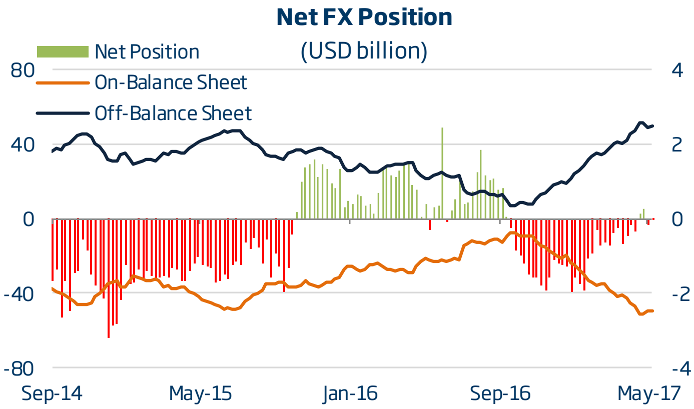
Securities portfolio…

Securities portfolio of the banking sector rose by 4.2% ytd as of May 26. However, the securities available for sale fell by 10.8% in this period. While the securities subject to repo and held to maturity contracted as a result of the changes in the funding composition of the CBRT, the portfolio of securities held as collateral continued to expand.

The portfolio of securities held under custody surged by 5.2% ytd as of May 26. Residents' and non-residents' securities rose by 3.5% and 7.5%, respectively. Thus, the share of residents' securities in total securities portfolio dropped significantly in May compared to the year-end.

Net FX position…

As of May 26, banks' on-balance sheet FX position was (-)USD 49,839 million while off-balance sheet FX position was realized as (+)USD 49,829 million. Hence, banking sector's net FX position, which had turned positive in the first week of May for the first time in 7 months, became (-) USD 10 million.



Source: BRSA Weekly Bulletin

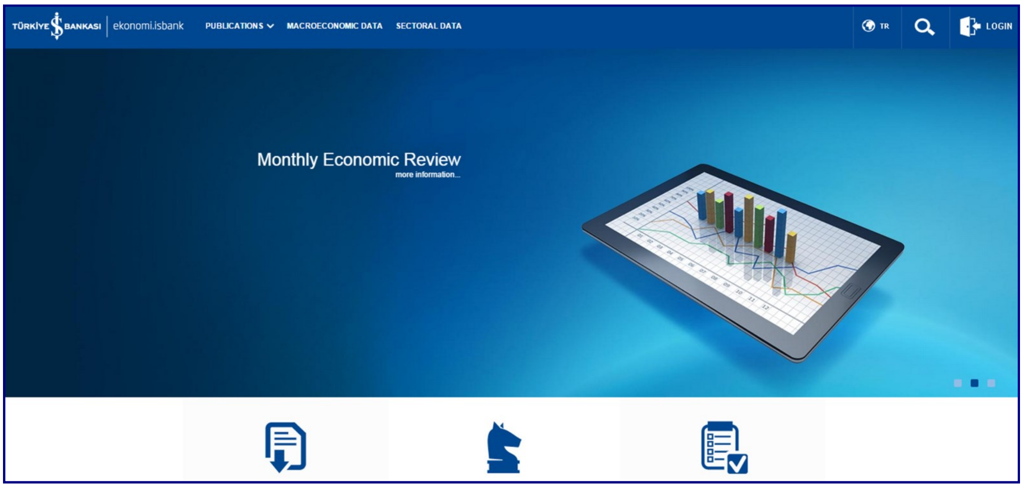
The recovery trend in global economic activity has prevailed in May. The bright prospects for economic growth in Euro Area have strengthened as concerns over the rise of populist movements in the region have faded after Macron's victory In French election. Despite the improvement in the global economic outlook, the heightened political tensions in the US and expectations regarding the Fed's interest rate hikes have created uncertainty in the markets. The difficulty the US President Trump faced in realizing his election promises has indicated that the planned pro-growth policies could not be implemented quickly in the coming period. In this context, political developments in the US are considered to continue to dominate the agenda of the markets. The policies adopted by major central banks such as the Fed and the ECB and the pace of these policies will shape the course of global liquidity and will have a say in sustainability of the rapid rise in asset prices. In addition to these developments, geopolitical risks seemed to put considerable weight on the agenda.

Recent data released in Turkey have suggested that economic activity has rebounded due to the measures implemented. We believe that the rapid increase in credit demand stemming from the loans provided via the CGF scheme will boost economic growth in both the second and third quarters.

Forecasts (%)	2017	2018
Growth	4.0	4.0
CA Deficit/GDP	4.5	4.8
Inflation	9.0	8.5

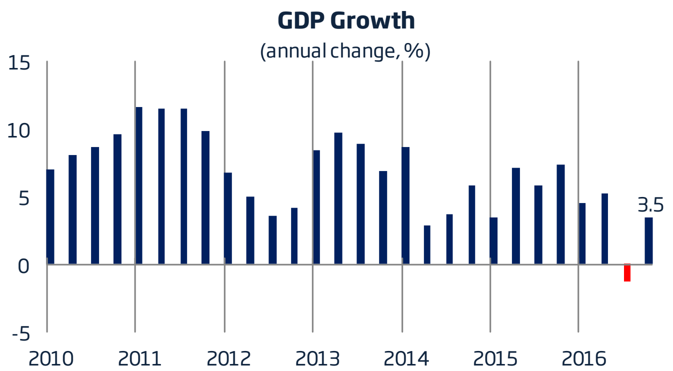
Year-end forecast for inflation

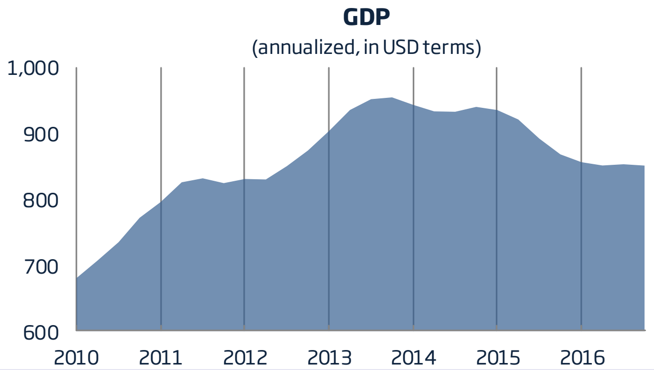
Our reports are available on our website **https://research.isbank.com.tr**



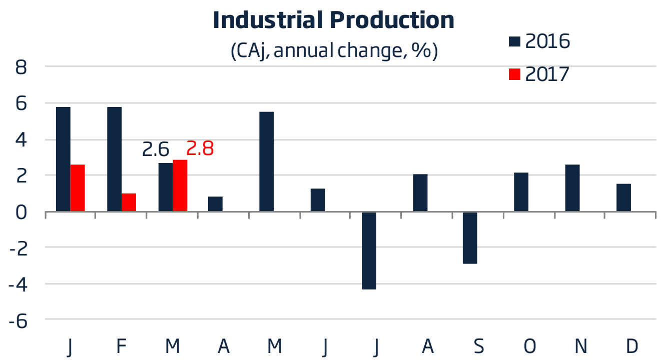
Turkish Economy at a Glance

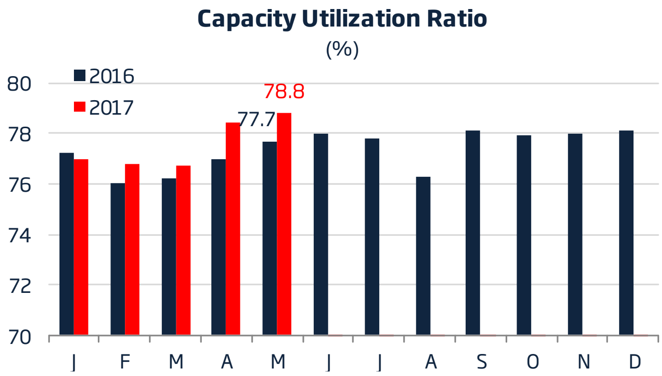
Growth



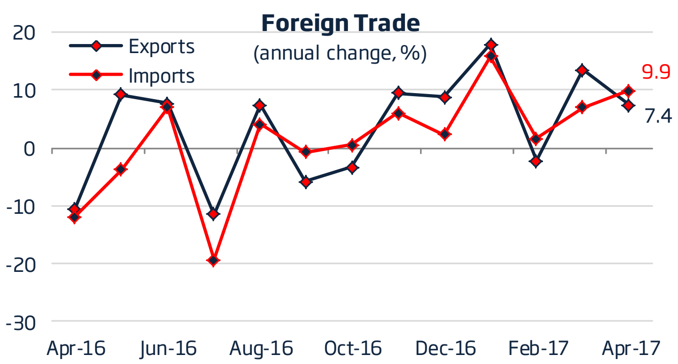


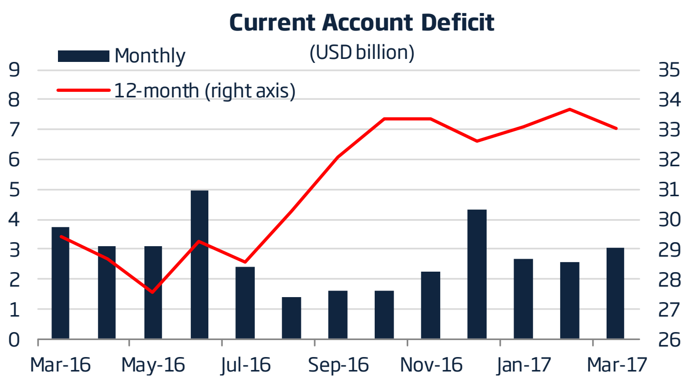
Industrial Production and Capacity Utilization Ratio



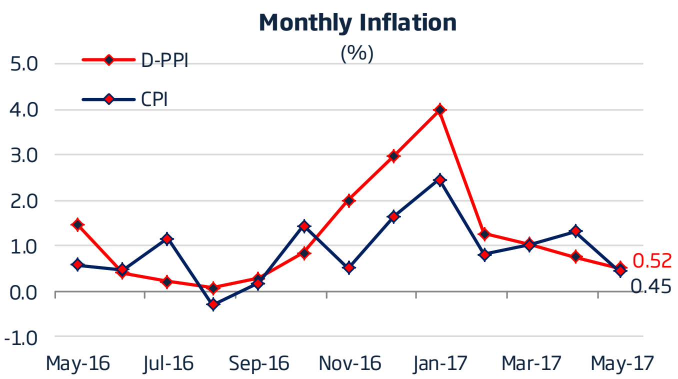


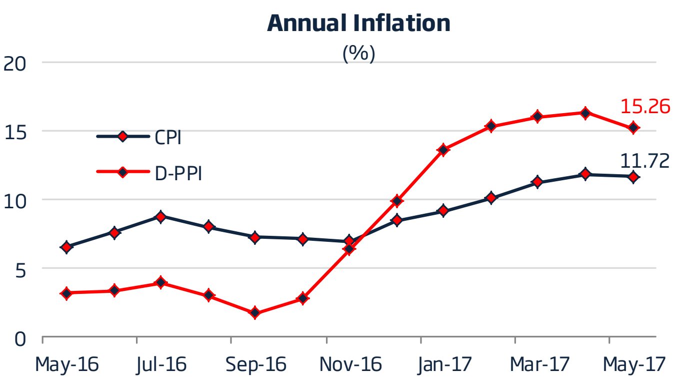
Foreign Trade and Current Account Balance





Inflation

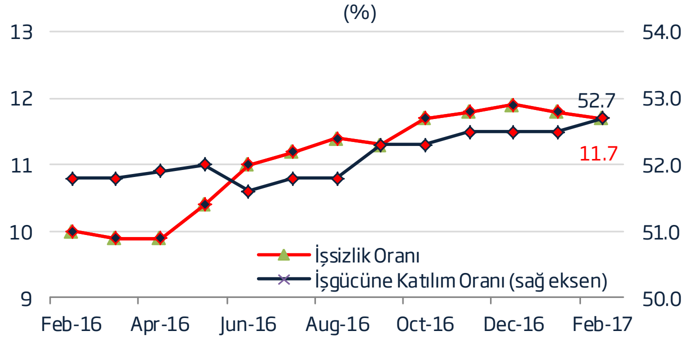




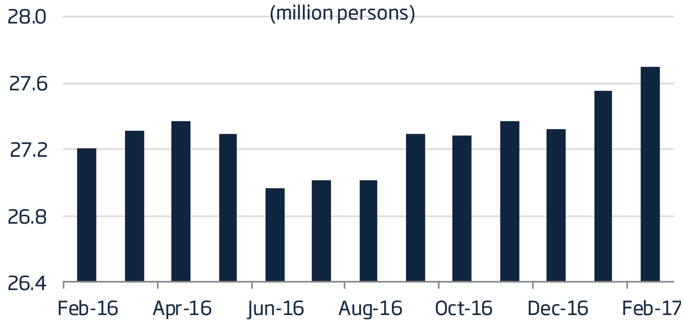
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators

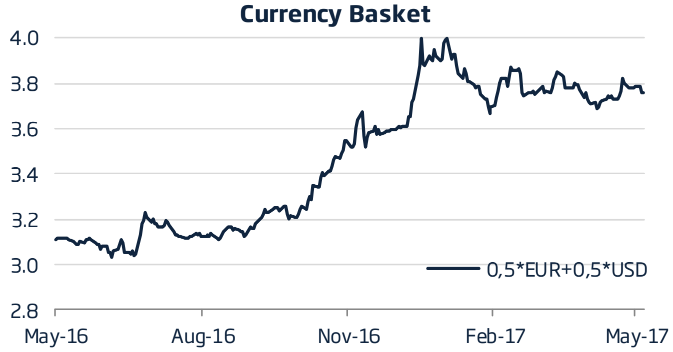


Seasonally Adjusted Employment

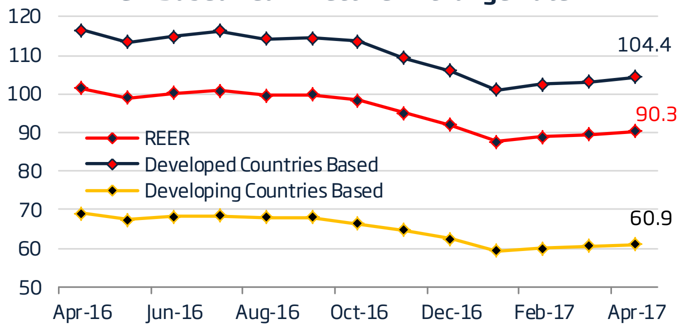


FX Market

Currency Basket

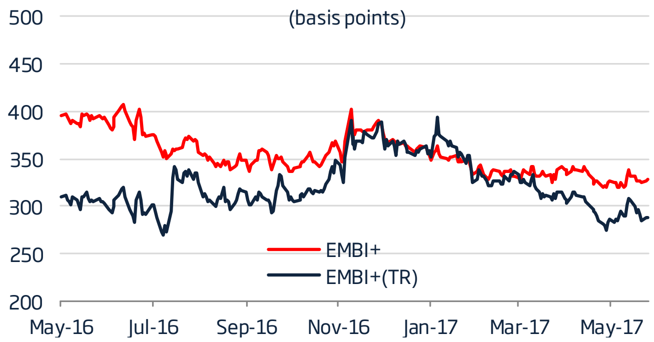


CPI Based Real Effective Exchange Rate

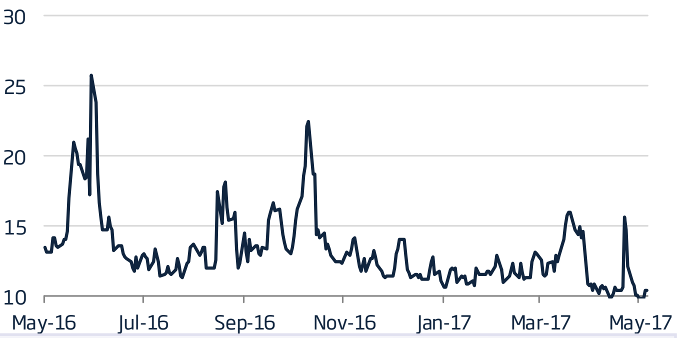


Risk Indicators

Risk Premiums

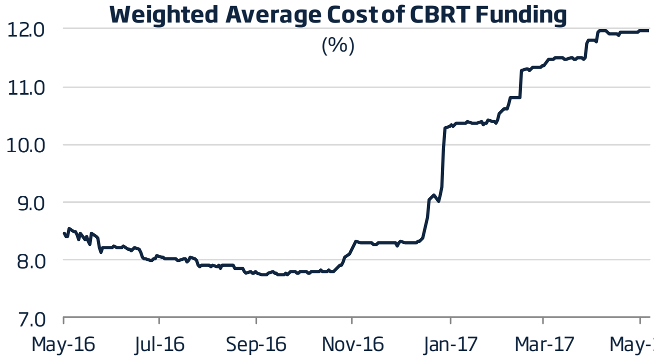


VIX

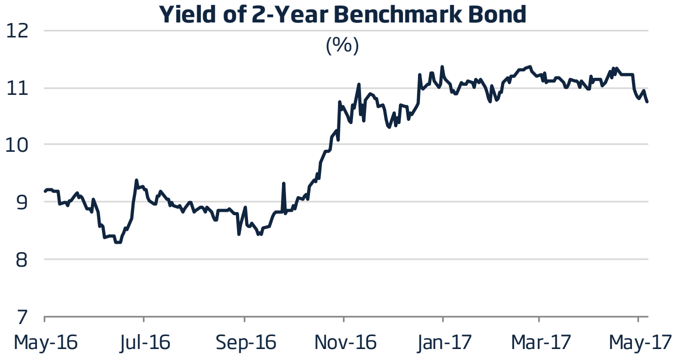


Interest Rates

Weighted Average Cost of CBRT Funding



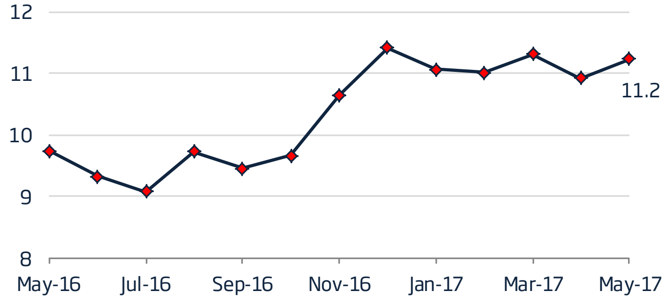
Yield of 2-Year Benchmark Bond



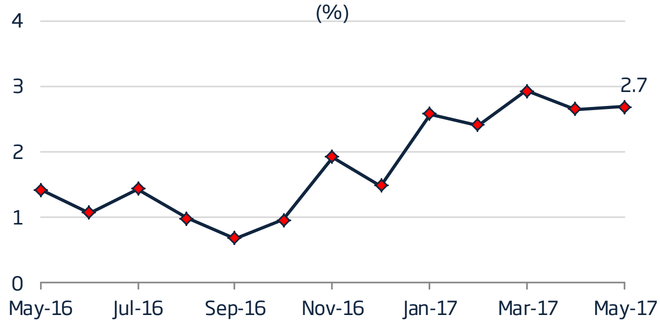
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market

Average Compound Yields in Treasury Auctions (%)

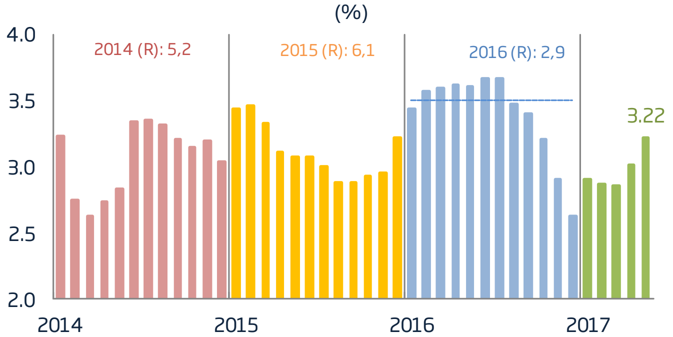


Expected Real Yield of TRY GDDIs
(%)

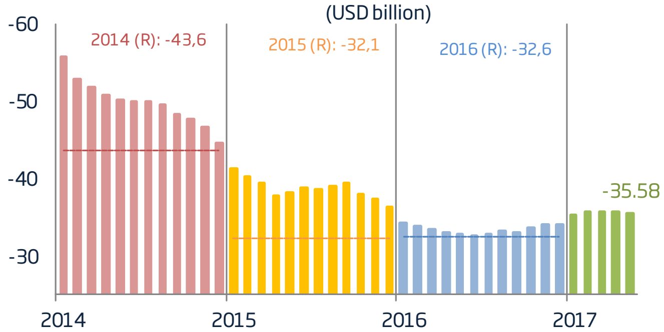


CBRT's Survey of Expectations and Other Leading Indicators

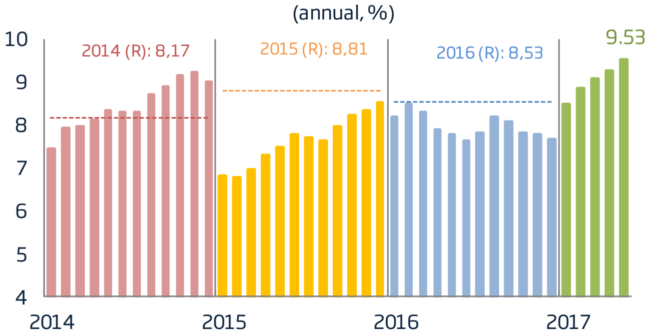
Expected GDP Growth for the Current Year
(%)



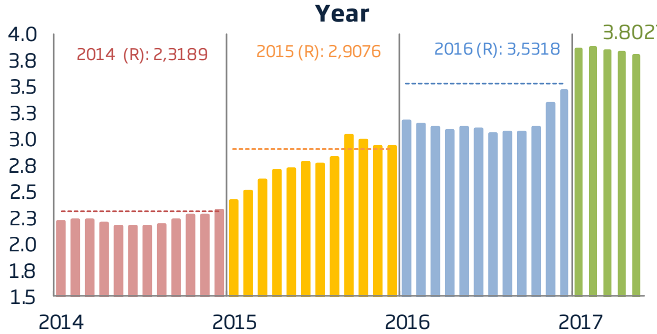
Expected CAD for the Current Year
(USD billion)



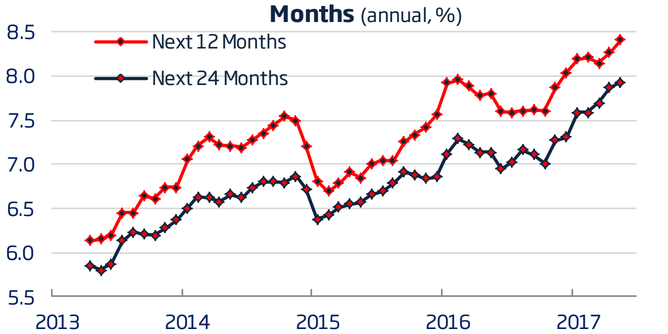
Expected CPI Inflation by the End of the Year
(annual, %)



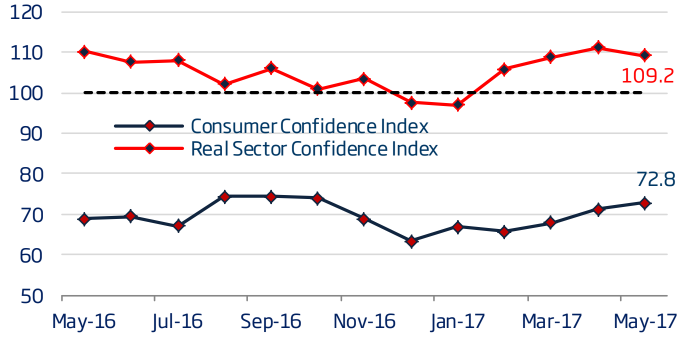
Expected Level of USD/TRY by the End of the Year



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

Growth	2012	2013	2014	2015	2016	17-Q1	17-Q2	17-Q3
GDP (USD billion)	871	950	935	861	857	-	-	-
GDP (TRY billion)	1,570	1,810	2,045	2,338	2,591	-	-	-
GDP Growth Rate (%)	4.8	8.5	5.2	6.1	2.9	-	-	-
Inflation (%)						**Mar-17**	**Apr-17**	**May-17**
CPI (annual)	6.16	7.40	8.17	8.81	8.53	11.29	11.87	11.72
Domestic PPI (annual)	2.45	6.97	6.36	5.71	9.94	16.09	16.37	15.26
Seasonally Adjusted Labor Market Figures							**Jan-17**	**Feb-17**
Unemployment Rate (%)	8.8	9.1	10.3	10.2	11.9		11.8	11.7
Labor Force Participation Rate (%)	48.5	48.5	51.0	51.7	52.5		52.5	52.7
FX Rates						**Mar-17**	**Apr-17**	**May-17**
CPI Based Real Effective Exchange Rate	110.3	100.3	105.0	97.5	92.0	89.4	90.3	
USD/TRY	1.7847	2.1485	2.3378	2.9189	3.5176	3.6417	3.5538	3.5365
EUR/TRY	2.3530	2.9605	2.8288	3.1708	3.7102	3.8950	3.8699	3.9768
Currency Basket (0.5*EUR+0.5*USD)	2.0688	2.5545	2.5833	3.0448	3.6139	3.7683	3.7118	3.7567
Foreign Trade Balance[(1)] (USD billion)						**Feb-17**	**Mar-17**	**Apr-17**
Exports	152.5	151.8	157.6	143.8	142.5	144.0	145.7	146.6
Imports	236.5	251.7	242.2	207.2	198.6	201.0	202.2	203.8
Foreign Trade Balance	**-84.1**	**-99.9**	**-84.6**	**-63.4**	**-56.1**	**-57.0**	**-56.5**	**-57.3**
Import Coverage Ratio (%)	64.5	60.3	65.1	69.4	71.8	71.6	72.0	71.9
Balance of Payments[(1)] (USD billion)						**Jan-17**	**Feb-17**	**Mar-17**
Current Account Balance	**-48.0**	**-63.6**	**-43.6**	**-32.1**	**-32.6**	**-33.1**	**-33.7**	**-33.0**
Capital and Financial Accounts	**-48.9**	**-62.1**	**-41.6**	**-21.9**	**-21.7**	**-22.0**	**-25.1**	**-26.6**
Direct Investments (net)	-9.5	-9.3	-5.8	-12.5	-9.1	-8.8	-8.9	-9.1
Portfolio Investments (net)	-41.0	-24.0	-20.1	15.7	-6.3	-9.0	-8.7	-7.9
Other Investments (net)	-19.2	-38.8	-15.3	-13.4	-7.1	-3.0	-6.2	-4.3
Reserve Assets (net)	20.8	9.9	-0.5	-11.8	0.8	-1.2	-1.3	-5.3
Net Errors and Omissions	**-0.9**	**1.6**	**2.0**	**10.2**	**10.9**	**11.1**	**8.6**	**6.4**
Current Account Balance/GDP (%)	**-5.5**	**-6.7**	**-4.7**	**-3.7**	**-3.8**	-	-	-
Budget[(2)(3)] (TRY billion)						**Feb-17**	**Mar-17**	**Apr-17**
Expenditures	**361.9**	**408.2**	**448.8**	**506.0**	**583.7**	**101.1**	**159.7**	**215.7**
Interest Expenditures	48.4	50.0	49.9	53.0	50.2	11.7	18.8	22.1
Non-interest Expenditures	313.5	358.2	398.8	453.0	533.4	89.4	140.8	193.6
Revenues	**332.5**	**389.7**	**425.4**	**483.4**	**554.4**	**105.7**	**144.7**	**197.8**
Tax Revenues	278.8	326.2	352.5	407.5	458.7	88.4	121.6	158.7
Budget Balance	**-29.4**	**-18.5**	**-23.4**	**-22.6**	**-29.3**	**4.6**	**-14.9**	**-17.9**
Primary Balance	**19.0**	**31.4**	**26.5**	**30.4**	**21.0**	**16.3**	**3.9**	**4.2**
Budget Balance/GDP (%)	**-1.9**	**-1.0**	**-1.1**	**-1.0**	**-1.1**	-	-	-
Central Government Debt Stock (TRY billion)						**Feb-17**	**Mar-17**	**Apr-17**
Domestic Debt Stock	386.5	403.0	414.6	440.1	468.6	478.6	483.3	486.9
External Debt Stock	145.7	182.8	197.5	237.5	291.0	304.5	310.0	307.6
Total Debt Stock	**532.2**	**585.8**	**612.1**	**677.6**	**759.6**	**783.1**	**793.3**	**794.5**

(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	Mar.17	Apr.17	Change[(1)]
TOTAL ASSETS	**1,370.7**	**1,732.4**	**1,994.3**	**2,357.4**	**2,731.0**	**2,866.0**	**2,889.3**	**5.8**
Loans	**794.8**	**1,047.4**	**1,240.7**	**1,485.0**	**1,734.3**	**1,830.3**	**1,857.8**	**7.1**
TRY Loans	588.4	752.7	881.0	1,013.4	1,131.4	1,214.0	1,251.2	10.6
Share (%)	74.0	71.9	71.0	68.2	65.2	66.3	67.3	-
FX Loans	206.4	294.7	359.7	471.5	602.9	616.3	606.6	0.6
Share (%)	26.0	28.1	29.0	31.8	34.8	33.7	32.7	-
Non-performing Loans	23.4	29.6	36.4	47.5	58.2	60.8	61.4	5.6
Non-performing Loan Rate (%)	2.9	2.8	2.9	3.1	3.2	3.2	3.2	-
Securities	**270.0**	**286.7**	**302.3**	**329.7**	**351.6**	**365.9**	**365.1**	**3.9**
TOTAL LIABILITIES	**1,370.7**	**1,732.4**	**1,994.3**	**2,357.4**	**2,731.0**	**2,866.0**	**2,889.3**	**5.8**
Deposits	**772.2**	**945.8**	**1,052.7**	**1,245.4**	**1,453.6**	**1,518.0**	**1,536.0**	**5.7**
TRY Deposits	520.4	594.1	661.3	715.4	845.1	842.2	848.9	0.5
Share (%)	67.4	62.8	62.8	57.4	58.1	55.5	55.3	-
FX Deposits	251.8	351.7	391.4	530.0	608.5	675.8	687.0	12.9
Share (%)	32.6	37.2	37.2	42.6	41.9	44.5	44.7	-
Securities Issued	**37.9**	**60.6**	**89.3**	**97.8**	**116.3**	**121.1**	**120.8**	**3.9**
Payables to Banks	**173.4**	**254.2**	**293.2**	**361.3**	**417.6**	**431.6**	**430.8**	**3.1**
Funds from Repo Transactions	**79.9**	**119.1**	**137.4**	**156.7**	**137.8**	**96.3**	**91.1**	**-33.9**
SHAREHOLDERS' EQUITY	**181.9**	**193.7**	**232.0**	**262.3**	**300.3**	**317.3**	**323.7**	**7.8**
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	13.2	17.5	-
RATIOS (%)								
Loans/GDP	50.6	57.9	60.7	63.5	67.0	-	-	-
Loans/Assets	58.0	60.5	62.2	63.0	63.5	63.9	64.3	-
Securities/Assets	19.7	16.6	15.2	14.0	12.9	12.8	12.6	-
Deposits/Liabilities	56.3	54.6	52.8	52.8	53.2	53.0	53.2	-
Loans/Deposits	102.9	110.7	117.9	119.2	119.3	120.6	121.0	-
Capital Adequacy (%)	17.9	15.3	16.3	14.6	15.6	16.1	16.4	-

(1) Year-to-date % change

Source: BRSA

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