

Global Economy

- ◆ The expectations for global economic activity have remained positive. In its Economic Outlook report released in early June, the World Bank revised its growth forecasts for advanced economies upward. The OECD also raised its global economic growth forecast for 2017.
- ◆ At its meeting held in mid-June, the Fed hiked the interest rate by 25 basis points in parallel with expectations and unveiled some details about the balance sheet unwind plan.
- ◆ Leading indicators in the US have offered signs of a slight loss of momentum in economic activity. It was noteworthy that, in its recent assessment of the US economy, the IMF has lowered its growth forecasts.
- ◆ Prime Minister May's party failed to secure enough majority to form a government on its own in Britain's early elections. This has led to growing uncertainties surrounding the Brexit negotiation process.
- ◆ Following the latest announcements of the Bank of England authorities, the possibility of a policy rate hike and a tapering of the current asset purchase program in near future have been added to the picture.
- ◆ Economic activity in Euro Area has continued to improve. The region's economy recorded the strongest growth of the last two years with 0.6% in the first quarter of the year.
- ◆ ECB kept its monetary policy unchanged in its June meeting. The Central Bank has revised inflation forecasts downwards, but GDP growth projections have been revised upwards.
- ◆ Although oil producer countries have decided to extend production cuts until the first quarter of 2018, oil prices have sustained a downward trend recently.

Turkish Economy

- ◆ Turkish economy grew by 5% in the first quarter of 2017, well above expectations. Data has boosted growth prospects for 2017.
- ◆ Seasonally adjusted figures showed that the number of unemployed persons continued to decline on a monthly basis. The seasonally adjusted unemployment rate was down to 11.5% in March.
- ◆ Calendar adjusted industrial production made a strong start to the second quarter of the year and posted the best performance since August 2015, rising by 6.7% yoy in April.
- ◆ Exports increased by 12.5% yoy in May while imports rose by 21.7% yoy. Thus, foreign trade deficit widened by 43.3% from a year earlier and became 7.3 billion USD.
- ◆ The current account deficit increased by 17.6% in April compared to the same month of the previous year and was realized as 3.6 billion USD. According to the 12-month cumulative figures, the current account deficit remained relatively flat at 33.2 billion USD.
- ◆ Central government budget presented a favorable performance in May. This was led by the rapid rise in tax revenues and the loss of momentum in budget expenditures.
- ◆ The annual CPI, which also declined in May, fell to 10.9% in June. Following a similar trend, the annual inflation in the D-PPI also declined to 14.87%, the lowest level since January.
- ◆ In line with the expectations, CBRT kept the interest rates on hold at its meeting on June 15. The Central Bank reiterated that the tight monetary policy stance would be preserved until there is a significant improvement in inflation expectations.

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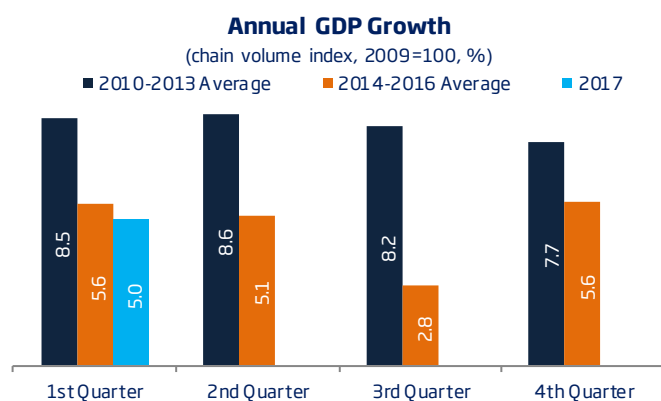
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Economic growth has beaten expectations.

Turkish economy grew by 5% in the first quarter of 2017, well above expectations. Data has boosted growth prospects for 2017. However, although the growth rate in the first quarter exceeded consensus estimates, it remained below 2010-2016 average trend.



GDP in USD terms fell by 8.8% yoy in the first quarter. This was led by an increase of 25% recorded in USD/TRY during this period. Hence, GDP in USD terms declined to 840 billion USD. GDP per capita was down to almost 10,600 USD, around the levels last seen in 2010.

Turkstat announced a change in calculating the seasonal and calendar adjusted figures, revising the data on 2009-2016 period. No revision has been made in calculating the unadjusted data.

Robust performance of consumption spending...

Consumption spending continued to be the main engine of growth in the first quarter of the year. Private consumption and public expenditures posted annual rises of 5.1% and 9.4%, respectively. Assessing the sub-items of

Seasonally and Calendar Adjusted GDP Figures

(growth, qoq, %)

		Old Method*	New Method**	Revision
2015	1 st Quarter	2.1	1.9	-0.2
	2 nd Quarter	1.5	1.6	0.1
	3 rd Quarter	1.3	1.1	-0.3
	4 th Quarter	1.1	0.9	-0.2
2016	1 st Quarter	0.0	0.4	0.4
	2 nd Quarter	1.7	1.3	-0.5
	3 rd Quarter	-2.1	-1.6	0.5
	4 th Quarter	3.8	3.4	-0.4
2017	1 st Quarter		1.4	-

(*) Direct Approach
(**) Indirect Approach

consumption expenditures, the increases registered under non-durable goods and services spending stood out. During this period, consumption expenditures for durable goods recorded a limited rise of 0.6% while that for semi-durable goods contracted by 1.2%.

Positive contribution of net exports to growth...

The positive contribution of net exports to growth was noteworthy in the first quarter of 2017. During this period, with the support of the automotive exports, export volume index rose by 10.6% while import volume index increased only by 0.8%. Therefore, net foreign trade made a contribution of 2.2 points to the GDP growth.

Construction driven investment spending...

In January-March period, the upturn in investment expenditures also played a part in reaching the better-than-expected growth performance. Analyzing the sub-items of

Expenditure Approach - Contributions to GDP Growth (chain linked volume index 2009=100) (% point)

	2015					2016					2017
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1
Consumption	3.1	5.2	2.3	5.0	3.9	1.9	4.4	-0.3	3.6	2.4	4.4
Private	3.9	4.2	2.2	3.3	3.4	0.6	2.5	-1.0	3.4	1.4	3.1
Public	-0.7	1.0	0.1	1.7	0.5	1.3	1.9	0.7	0.1	1.0	1.3
Investment	1.0	3.9	2.5	3.1	2.7	1.9	1.2	0.1	0.6	0.9	0.6
Change in Stock	-0.2	-2.4	0.1	-1.8	-1.1	1.0	1.9	1.5	-0.4	1.0	-2.3
Net Export	-0.4	0.4	0.9	1.0	0.5	-0.4	-2.2	-2.5	-0.2	-1.3	2.2
Exports	0.6	1.0	1.1	1.1	0.9	0.3	-0.4	-2.1	0.5	-0.5	2.4
Imports	-1.0	-0.6	-0.1	-0.1	-0.4	-0.7	-1.8	-0.5	-0.7	-0.9	-0.2
GDP	3.5	7.2	5.9	7.4	6.1	4.5	5.3	-1.3	3.5	2.9	5.0

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

investment expenditures revealed that construction investment surged by 10%. Machinery and equipment investments, however, shrank by 10.1% during the same period.

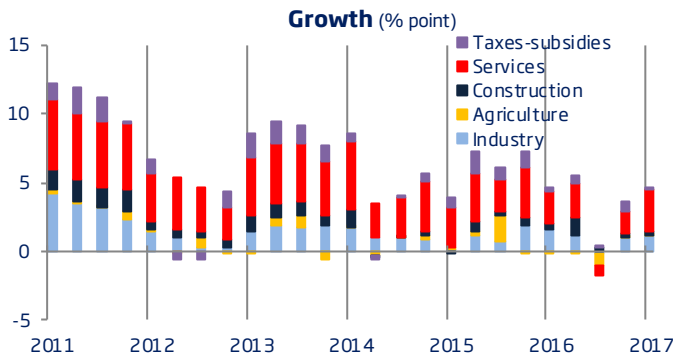
In the first quarter, inventory change was a factor that has dragged the growth down.

Industrial sector, having a 20% weight in GDP, pushed growth up by 1.1 points. Construction sector presented a similar performance to the last quarter of 2016 and contributed 0.3 point to growth. Agriculture sector, on the other hand, provided the weakest support to growth by 0.1 point.

Expectations

The recent measures implemented by the policymakers following the challenging conditions clouded the economic activity last year have provided support for the growth performance. In addition to this, the increase in the contribution of net exports to growth has also boosted Turkish economy in the first quarter. It is anticipated that consumption expenditures in particular will continue to have a strong outlook during the rest of the year. Against this backdrop, we believe that the economic activity is more likely to end 2017 with a better performance than envisaged at the beginning of the year.

Production Approach - Contributions to GDP



Rapid growth in services sector...

According to production approach of GDP, services sector, having an almost 60% share in GDP, provided significant support to the first quarter growth. Having presented a weak outlook in previous quarters, mainly due to the headwinds the tourism sector had faced, services sector made a contribution of 3.1 points to growth, marking the strongest first quarter performance of the last three years.

Note: Services sector constitutes of the information and communication, financial and insurance activities, real estate activities, professional, administrative and support service activities, public administration, education, human health and social work activities and other service activities

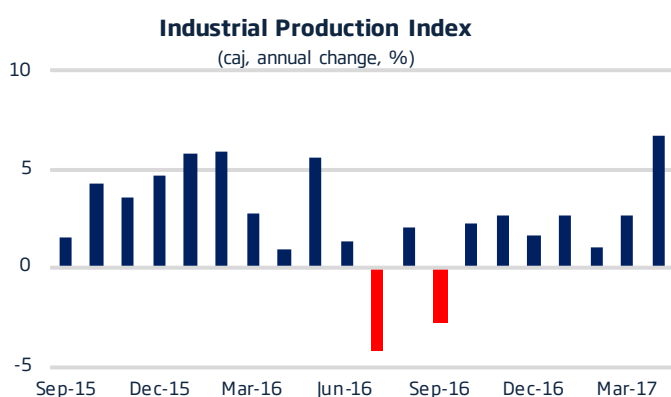
Source: Datastream, Turkstat

Unemployment rate became 11.7% in March.

Unemployment rate increased by 1.6 points compared to a year ago and became 11.7% in March. Labor force expanded by 1.1 million persons while total employment rose by 496 thousand persons. This resulted in a surge in the unemployment rate. Labor force participation ratio increased by 0.9 point to 52.5% during this period. Seasonally adjusted figures, on the other hand, showed that the number of unemployed persons continued to decline on a monthly basis. The seasonally adjusted unemployment rate was down to 11.5% in March.

A solid increase in industrial production...

Calendar adjusted industrial production made a strong start to the second quarter of the year and posted its best performance since August 2015, rising by 6.7% yoy in April. During this period, manufacturing sector made a contribution of 6 points to the rise in the industrial production index. Among the 24 sub-sectors of manufacturing sector, only 5 of them recorded annual declines. The sharp increase in the manufacture of other transport equipment was particularly noteworthy. The said sub-sector added 2.1 points to the growth in the industrial production. Having played a significant role in the increases of industrial production recently, the manufacture of motor vehicles sustained its strong performance and pushed the overall index up by 1.4 points in April.



Exports continued to support automotive sector.

The depreciation in TRY and the special consumption tax adjustments have led to a decline in domestic automotive sales in 2017. According to the data released by Automotive Manufacturers Association (AMA), domestic sales dropped by 10% yoy in the first five months of the year. On the other hand, strong export performance boosted automobile production also in 2017 so far. Automobile production increased by 37% yoy in May as automobile exports picked up by 44% in the same period. This indicated that the positive contribution of automotive industry on industrial production has persisted also in May.

The positive impact of the tax cuts on the white goods sector has persisted.

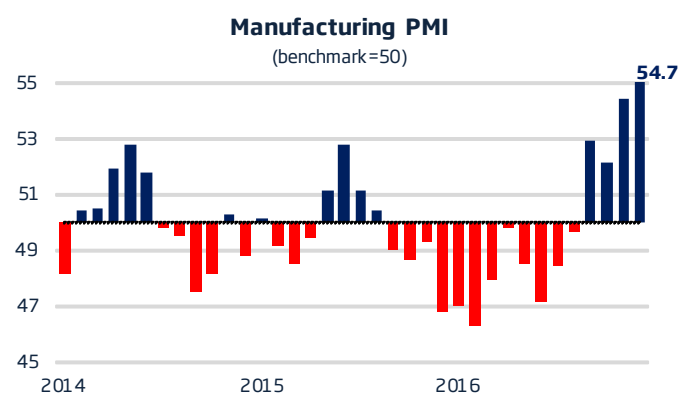
Despite losing some momentum in May, production and domestic sales in the white goods sector continued to rise thanks to the boost coming from tax cuts. Domestic sales increased by 17% yoy while annual production growth, which was 20.3% in April, dropped to 6.3% in May. It was noteworthy that the export of white goods has gained momentum in this period.

Housing sector...

The pace of growth in house sales has slowed down a little bit in May. House sales, which grew by 7.6% in April, posted a growth rate of 1.5% in May. Having lost some steam, the increase in mortgage sales has fallen from 30% in previous months to 17.8% in May.

PMI figure inched up to a 43-month peak.

In June, manufacturing PMI reached the highest level since November 2013 at 54.7, indicating that manufacturing activities have accelerated. The improvement in new orders, output and employment particularly drove this development. The loss of momentum in input and output price inflations was also regarded as positive during this period.



Leading indicators...

Real sector confidence index and capacity utilization ratio (CUR) in manufacturing industry suggested a strong outlook in June. According to the seasonally adjusted figures, real sector confidence index increased to 108.8, the highest level since October 2014. The rise was mostly attributable to the assessments on volume of output and export orders for the next 3 months as well as on general business situation. During this period, CUR reached the highest level since September 2008 and became 79%. Hence, leading indicators overall have offered signs of continued improvement in economic activity during the second quarter of the year.

Source: Treasury, Datastream, Turkstat, CBRT, AMA

Foreign trade deficit continued to expand.

Exports increased by 12.5% yoy in May while imports rose fast by 21.7% yoy. Thus, foreign trade deficit widened by 43.3% from a year earlier and became 7.3 billion USD. Import coverage ratio declined to 65.1%, the lowest level seen in almost the last two years.

In the first 5 months of 2017, exports and imports increased by 9.5% yoy and 11.2% yoy, respectively. Foreign trade deficit surged by 15.7% yoy and stood at 24.8 billion USD during this period.

Increased use of TRY in foreign trade...

Exports in TRY terms rose by 113% in January-May period compared to the same period of the previous year, while the surge in imports remained at a more limited level with 24%.

Transport-related sectors stood out in exports.

Having an almost 16% share in total exports, motor vehicles continued to become the most significant item that boosted exports in May. Exports of motor vehicles went up by 523 million USD on an annual basis in this period.

The second largest contribution to the rise in exports with 400 million USD came from aircrafts and parts thereof. Having recorded a monthly average of 60 million USD throughout the year, exports of this item climbed to 452 million USD in May. Also in April, exports of aircraft and parts thereof had become 157 million USD, performing much better compared to the same period of the previous year. Moreover, the production of other transport vehicles, which is closely linked to this item, had made a noticeable contribution of 2.1 points to industrial production during that month.

The increase in iron and steel exports persisted in May partly reflecting the rebound in metal prices. Exports of the sector soared by 241 million USD on a yearly basis, marking the third highest increase among export items.

Exports to European Union countries rose by 4.4%.

Exports to European Union countries went up by 4.4% in dollar terms in May. The euro-based rise was above 7% during this period. A similar picture was the case for the January-May period.

Exports to the Near and Middle Eastern countries, which accounted for nearly one fourth of our total exports, increased at a rapid rate of 18.7% in May. This rise was

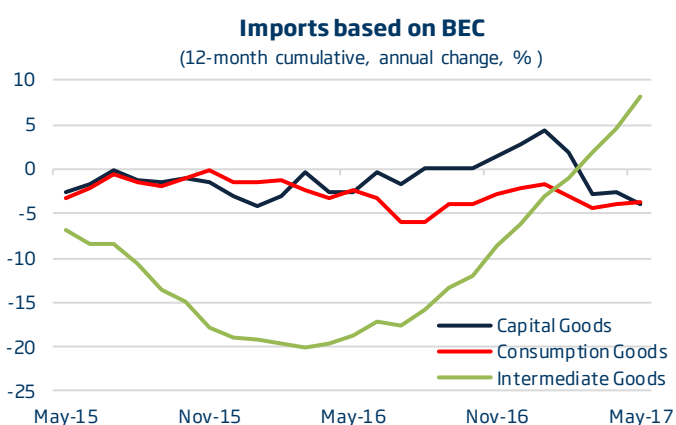
mostly attributable to the surge in gold exports to the UAE.

Sharp increase in gold imports...

While gold exports declined in May on an annual basis, gold imports increased sharply. This weighed on foreign trade balance. During the first five months of the year, a similar performance was observed. In this period, gold imports increased by 4.3 billion USD while gold exports decreased by 931 million USD.

Energy imports continued to increase.

In May, crude oil imports on quantity basis increased by 22.9% compared to the previous year. Moreover, oil prices rose by 7.4% in the same period. This caused Turkey's energy bill to register an annual rise of 38.4% in May. In line with this development, the increase in imports of intermediate goods continued to gain momentum.



Balanced risks on foreign trade deficit...

Despite the measures taken by the producer countries, oil prices have remained at low levels. This has reinforced positive expectations for Turkish economy. In addition to this, considering the fact that our exports are predominantly conducted with euros and most of our import bills are paid in the US dollars, the recent strengthening of the expectations that euro would appreciate against the US dollar supports optimistic views on foreign trade balance. Although the negative effect of gold trade continues, under the assumptions that oil prices would follow a relatively flat course and foreign demand would maintain a positive performance, we believe that risks on foreign trade balance would remain largely balanced.

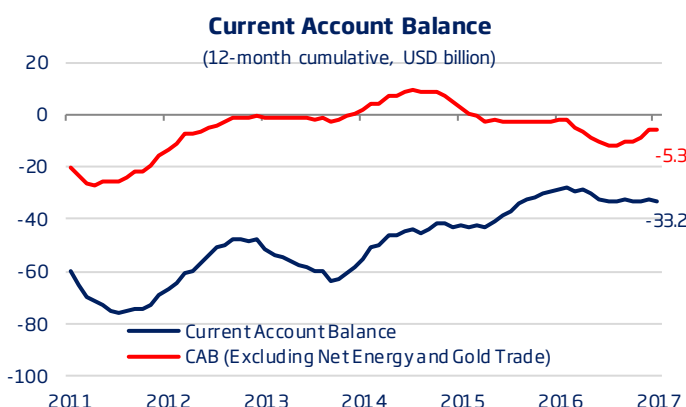
Foreign Trade Figures

	(billion USD)					
	May		Change (%)	January-May		Change (%)
	2016	2017		2016	2017	
Exports	12.1	13.6	12.5	58.7	64.3	9.5
Imports	17.2	20.9	21.7	80.2	89.1	11.2
Foreign Trade Deficit	-5.1	-7.3	43.3	-21.5	-24.8	15.7
Import Coverage (%)	70.4	65.1	-	73.2	72.1	-

Source: Datastream, Turkstat

Current account deficit was in line with expectations.

In April, current account deficit came in line with expectations. The deficit, which increased by 17.6% compared to the same month of the previous year, was realized as 3.6 billion USD. As foreign trade deficit surged by 563 million USD, the current account deficit expanded by 542 million USD in this period. Jump in gold imports in April drove current account deficit higher. On the other hand, tourism revenues limited the deterioration in current account deficit by recording an annual increase for the first time in more than two years.

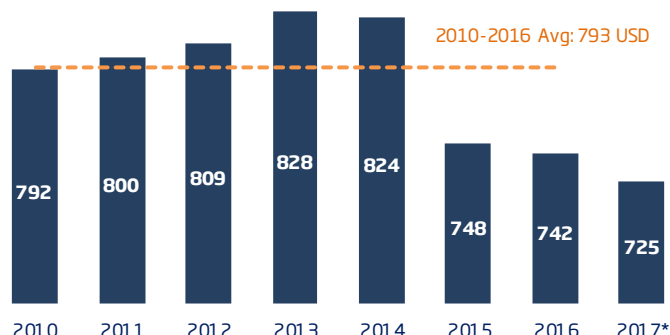


According to the 12-month cumulative figures, the current account deficit remained relatively flat at 33.2 billion USD. Excluding net energy and gold trading, the current account deficit fell to the lowest level of 10 months.

Recovery in tourism revenues...

Tourism revenues that had been under pressure due to the geopolitical developments and thus affected current account balance negatively, posted an annual increase in April. Normalization of relations between Russia and Turkey as well as low base effect played a part in this development. In April, tourism revenues picked up by 9.5% from a year earlier. On the other hand, analysis of tourism revenues per visitor indicated that the weak outlook has persisted. While

Tourism Revenues Per Foreign Visitor (USD)

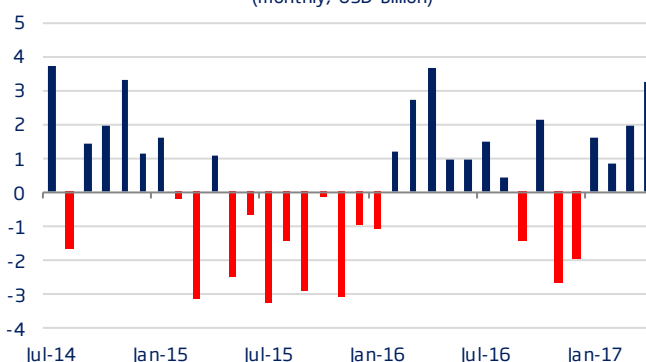


the revenue per visitor in the period 2010-2016 was 793 USD, it dropped to 725 USD in the 12 months ended April 2017.

Solid portfolio inflows...

Positive performance of portfolio inflows observed since the beginning of the year continued in April. Portfolio investments posted a net inflow of 3.3 billion USD mainly due to the strong demand for the government debt instruments. Foreign direct investments, on the other hand, remained below the last year's reading.

Portfolio Investment (monthly, USD billion)



Breakdown of Net Capital Inflows

	(12-month cumulative, USD million)		Breakdown of Net Capital Inflows (%)	
	December 2016	April 2017	December 2016	April 2017
Current Account Balance	-32,590	-33,227	-	-
Total Net Foreign Capital Inflows	33,403	23,701	100.0	100.0
-Direct Investments	9,148	9,013	27.4	38.0
-Portfolio Investments	6,292	7,527	18.8	31.8
-Other Investments	7,085	3,368	21.2	14.2
-Net Errors and Omissions	10,855	3,793	32.5	16.0
-Other	23	0	0.1	0.0
Reserves(1)	-813	9,526	-	-

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

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

Other investments recorded an inflow of only 40 million USD in April. While banks were net credit payers with 0.4 billion USD, other sectors were net credit borrowers of 1.1 billion USD. Nevertheless, it is noteworthy that both groups were net credit borrowers in long term loans. According to the 12-month cumulative figures, long-term debt rollover ratios of banking and other sectors' were realized as 105% and 125%, respectively.

In April, net errors and omissions showed an outflow of 3.9 billion USD, the highest reading since October 1998. Fall in the reserves accelerated in April, declining by 3.8 billion USD on a monthly basis.

Expectations...

Preliminary data indicated that the foreign trade deficit widened by almost 50% in May from a year ago due to the strong upsurge in gold imports. Besides, indicators related to the economic activity painted a positive picture for domestic demand. In this framework, despite the signs of recovery from tourism revenues, we expect that the current account deficit will continue to widen. Regarding the financing side, Turkey is anticipated to attract inflows via loans received from abroad and portfolio investments.

Balance of Payments	(USD million)				
	April 2017	Jan. - Apr. 2016	2017	% Change	12-Month Cumulative
Current Account Balance	-3,615	-10,959	-11,596	5.8	-33,227
Foreign Trade Balance	-3,533	-11,240	-11,965	6.5	-41,579
Services Balance	1,112	2,531	3,248	28.3	16,185
Travel (net)	888	2,606	2,901	11.3	14,255
Primary Income	-1,192	-3,095	-3,353	8.3	-9,255
Secondary Income	-2	845	474	-43.9	1,422
Capital Account	8	15	-8	-	0
Financial Account	-7,480	-10,082	-17,804	76.6	-29,434
Direct Investments (net)	-362	-2,500	-2,365	-5.4	-9,013
Portfolio Investments (net)	-3,259	-6,441	-7,676	19.2	-7,527
Net Acquisition of Financial Assets	-166	164	-264	-	1,083
Net Incurrence of Liabilities	3,093	6,605	7,412	12.2	8,610
Equity Securities	307	1,679	1,238	-26.3	382
Debt Securities	2,786	4,926	6,174	25.3	8,228
Other Investments (net)	-40	-3,665	52	-	-3,368
Currency and Deposits	1,062	-1,780	838	-	4,406
Net Acquisition of Financial Assets	2,519	3,273	4,089	24.9	6,196
Net Incurrence of Liabilities	1,457	5,053	3,251	-35.7	1,790
Central Bank	-13	-103	-45	-56.3	-418
Banks	1,470	5,156	3,296	-36.1	2,208
Foreign Banks	1,369	4,898	3,271	-33.2	2,855
Foreign Exchange	-119	947	672	-29.0	-93
Turkish Lira	1,488	3,951	2,599	-34.2	2,948
Non-residents	101	258	25	-90.3	-647
Loans	-532	-1,260	324	-	-4,081
Net Acquisition of Financial Assets	46	676	-40	-	-487
Net Incurrence of Liabilities	578	1,936	-364	-	3,594
Banking Sector	-424	-1,561	-966	-38.1	-2,090
Non-bank Sectors	1,152	4,233	549	-87.0	5,814
Trade Credit and Advances	-568	-713	-1,111	55.8	-3,714
Other Assets and Liabilities	-2	88	1	-98.9	21
Reserve Assets (net)	-3,819	2,524	-7,815	-	-9,526
Net Errors and Omissions	-3,873	862	-6,200	-	3,793

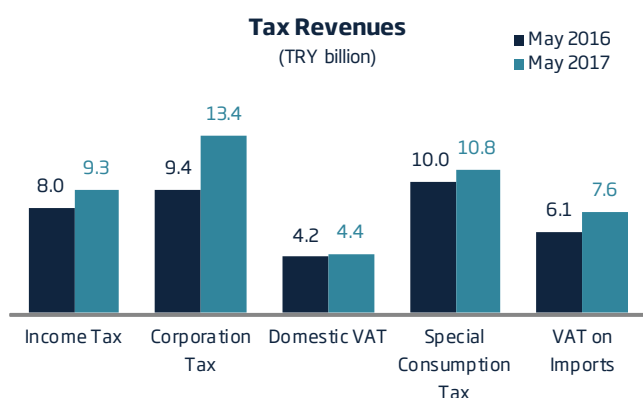
Source: Datastream, CBRT

A favorable budget outcome in May...

In May, budget expenditures increased by 11.4% yoy and budget revenues rose by 16.1% yoy. The rapid growth in budget expenditures in the past three months has lost pace in May. Budget revenues recovered on the back of the strong tax revenues. Thus, the central government budget, which posted a surplus of 3.7 billion TRY in May 2016, gave a surplus of 6.4 billion TRY in the same month of this year.

Rapid increase in tax revenues...

Tax revenues continued to recover in May following April. Tax revenues expanded at an annual pace of 20.3% thanks to the pickup in corporate tax, VAT on imports and income tax. The revenues collected from these taxes climbed by 42.7%, 24.4% and 17.1%, respectively. In addition, revenues recorded under the Law on Restructuring of Certain Receivables (the Law No. 6736) provided significant support to the budget amounting to 2.5 billion TRY in May. Nearly one-third of the increase in budget revenues was led by the said revenues.



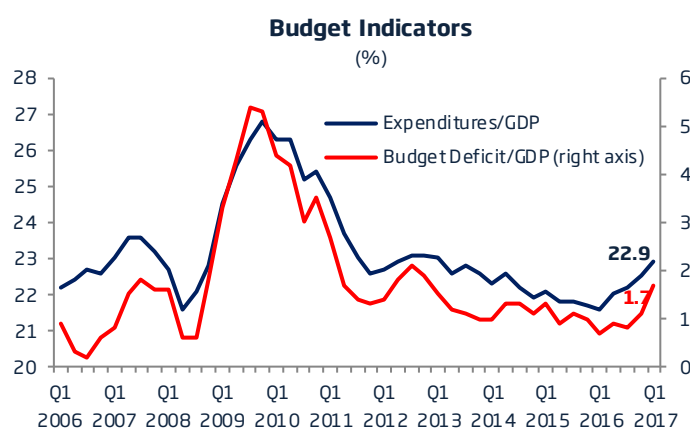
Budget expenditures lost momentum in May.

Expansion in budget expenditures continued in May, but the pace of growth slowed down. In this period, current transfers made the highest contribution to the increase in budget expenditures. Approximately half of the rise was led by current transfers. This was driven mainly by the rise in health, retirement and social aid expenditures. On the other hand, higher good and services purchases and capital

expenditures were the other factors that put upward pressure on expenditures in May. Interest expenditures, which displayed an upward trend since the beginning of the year, declined and thus had a positive impact on the budget balance in May.

Budget deficit to GDP ratio rose in the first quarter.

The data on growth announced at the beginning of the week showed that budget expenditures to GDP ratio for the first quarter of 2017 has picked up, according to the 12-month cumulative figures. Indeed, budget deficit to GDP ratio surged to 1.7% in this period. However, given 3.4 billion TRY budget surplus recorded during the April-May period, budget outlook in the second quarter might be better after posting a deficit of 14.9 billion TRY in the first quarter.



Expectations

Although tax revenues continued to recover thanks to the restructuring of receivables as well as the revival in economy, recent realizations indicated that tax revenues may come in slightly below the budget target in 2017. On the expenditure side, it seems that government takes a more cautious stance in the second quarter of the year. Nevertheless, budget expenditures are expected to surpass the initial target as the stimulus measures led to a higher than expected increase in this item so far this year. Yet, it is considered that the budget deficit to GDP ratio will not exceed 2% at the year-end.

Central Government Budget

	(TRY billion)								
	May			January-May			% 2017 Budget		Real./
	2016	2017	Change	2016	2017	Change	Target	Target (%)	
Expenditures	45.9	51.1	11.4	221.9	266.8	20.2	645.1	41.3	
Interest Expenditures	5.0	3.7	-27.3	24.2	25.7	6.3	57.5	44.7	
Non-Interest Expenditures	40.8	47.4	16.2	197.7	241.0	21.9	587.6	41.0	
Revenues	49.5	57.5	16.1	230.9	255.3	10.5	598.3	42.7	
Tax Revenues	42.4	50.9	20.3	183.4	209.6	14.3	511.1	41.0	
Other Revenues	7.1	6.5	-8.5	47.6	45.6	-4.1	87.2	52.3	
Budget Balance	3.7	6.4	74.4	9.1	-11.5	-	-46.9	24.5	
Primary Balance	8.7	10.0	15.5	33.3	14.2	-57.2	10.6	133.5	

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

Source: Ministry of Finance, Datastream

CPI declined in June.

In June, CPI dropped by 0.27% compared to the previous month. Market had expected a rise of 0.1% in this period. On the other hand, Domestic Producer Price Index (D-PPI) recorded a limited monthly increase of 0.07%.

June (change %)	CPI		D-PPI	
	2016	2017	2016	2017
Monthly	0.47	-0.27	0.41	0.07
Year-to-Date	3.63	5.89	3.19	7.82
Annual	7.64	10.90	3.41	14.87
Annual Average	7.74	9.36	4.91	9.98

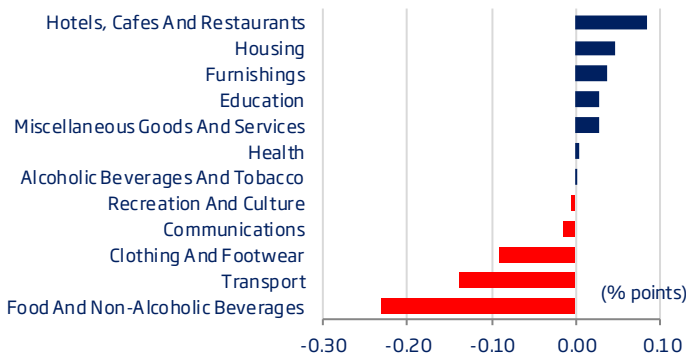
Annual inflation fell to 10.9%.

The annual CPI, which also declined in May, fell to 10.9% in June. Following a similar course, the annual inflation in the D-PPI also declined to 14.87%, the lowest level since January.

Food, transport and clothing groups pulled down inflation.

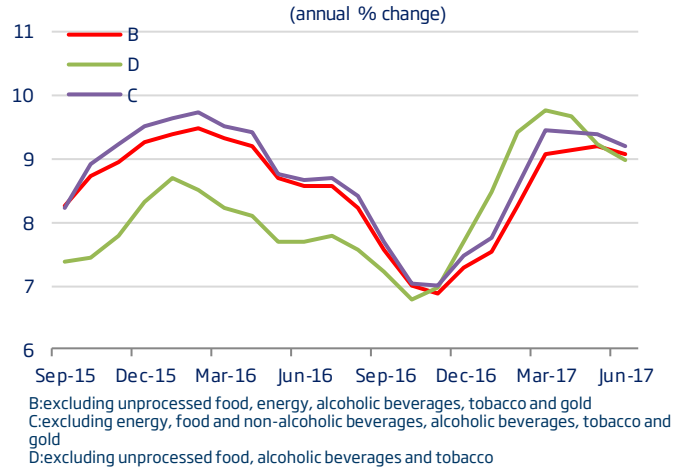
In June, food prices slumped by 1.1% compared to the previous month, due to the decline in unprocessed food prices, mainly fresh fruit and vegetables. Food prices, which have the highest weight in inflation basket, made the highest contribution to the decline in CPI by 24 basis points. Transportation prices dropped thanks to the lower oil prices compared to the previous month and flat course in TRY. Prices in transportation group declined by 0.84% mom, having 15 basis points downward impact on monthly CPI. Clothing and footwear prices, which also declined due to the seasonal factors, became the other main expenditure group that pulled the monthly inflation down. On the other hand, rising prices in restaurants and hotels, housing and furnishings groups limited the fall in the CPI.

Contributions to the Monthly CPI Inflation



In June, seasonal factors had a downward impact on CPI. Indeed, monthly inflation increased by 0.25% excluding seasonal products. During this period, the annual rise in D

Special CPI Aggregates

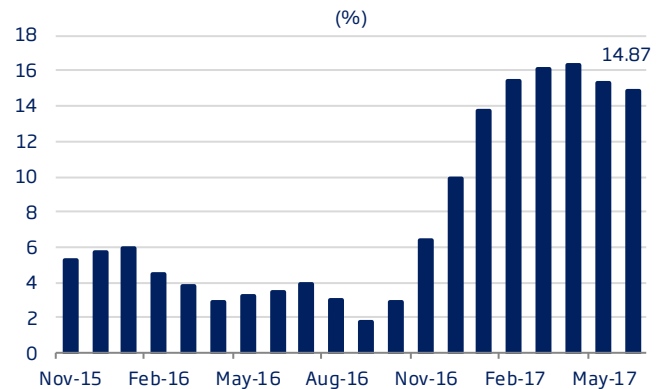


index, which excludes unprocessed food, alcoholic beverages and tobacco, lost momentum while B and C indices displayed a relatively flat outlook.

D-PPI...

The decline in energy and metal prices were influential on the annual decline in D-PPI. Processed/crude oil products and base metals were the key factors limiting the increase in D-PPI. In this period, food and textile products exert upward pressure on D-PPI.

D-PPI Inflation



Expectations

Seasonal fall in prices of clothing and footwear products is expected to have a downward impact on inflation in July. On the other hand, it is expected that the hikes on public transport prices in Istanbul effective from July 1 would put pressure on transport group prices. The increase in special consumption tax to be made on alcoholic beverages in July is also expected to raise inflation slightly. Given the high volatility that food prices have recently displayed, this group is supposed to continue to have a significant impact on inflation outlook.

Source: Datastream, Turkstat

Global markets...

Ahead of the Fed meeting on June 13-14, a sense of caution prevailed in global markets. After the meeting and the widely expected interest rate hike decision, the details provided by the Fed about the plan to shrink balance sheet have weighed initially on the markets. In the following days, global risk appetite recovered on the back of rising expectations for the global economy. Towards the end of the month, the Fed and ECB officials' statements have caused markets to seek direction.

Emerging markets also remained under pressure during this period due to the political and geopolitical developments. Yet, global risk appetite, mostly maintaining its high levels, supported these markets.

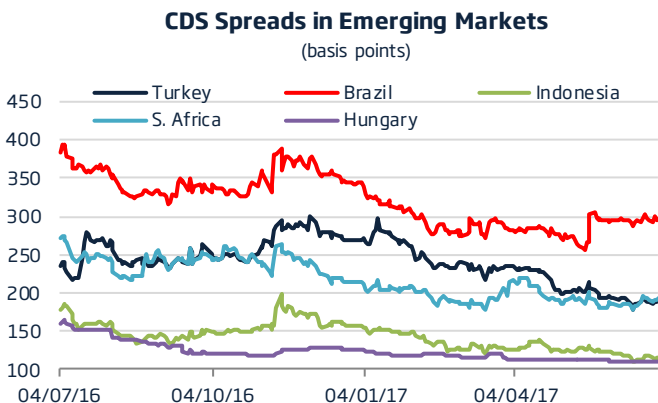
CBRT maintained its tight liquidity policy.

In line with the expectations, CBRT kept the interest rates on hold at its meeting on June 15. The Central Bank reiterated that the tight monetary policy stance would be preserved and additional tightening measures could be taken if deemed necessary. Despite the decline in foreign exchange rates, ongoing deterioration in the inflation expectations made the odds for an easing in near future decrease.

According to the Survey of Expectations announced by the CBRT in June, the inflation expectation for the end of this year worsened for the sixth month in a row. Markets predicted that the annual increase in CPI would be 9.55% at the end of 2017.

Bond yields increased somewhat.

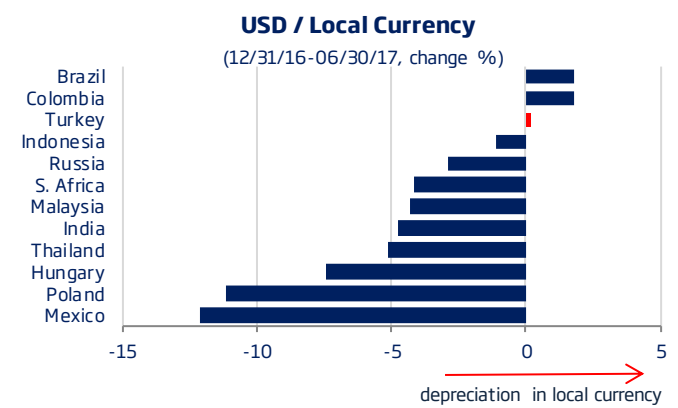
Treasury bond yields, which had declined in the second half of May, increased slightly in June. The compound yield of 2-year benchmark bond was realized as 11.12% on June 30 partly due to the upward pressure caused by the Treasury's higher than projected borrowing from domestic markets. On the other hand, the favorable course of risk appetite has led to a decline in Turkey's CDS premiums. 5-year CDS premium,



which was down to 179 basis points in the middle of June, became 193 basis points at the end of the month.

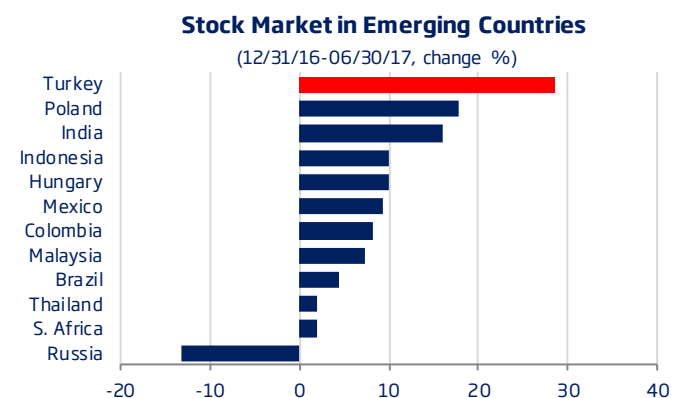
The USD/TRY exchange rate has dropped as low as to 3.47.

The volatility in the TRY has decreased in recent months due to the CBRT's continued tight liquidity policy and the increase in risk appetite. After the Fed meeting in mid-June, the USD/TRY exchange rate, which came under upward pressure, loosened slightly and fell as low as to the level of 3,4725 on June 14th. Following a slightly upward trend towards the end of the month, USD/TRY was 3.52 as of June 30.



BIST-100 index over 100 thousand...

In June, global equity markets were in a bullish mood in general. As data on Turkish economy boosted positive prospects, Turkey has been even decoupled positively from other emerging economies. As a matter of fact, the BIST-100 index exceeded 100 thousand level in June, reaching historic high levels. The index, which declined slightly in the face of profit-taking in the following days, ended the month at 100,440.



Source: CBRT, Reuters, Datastream

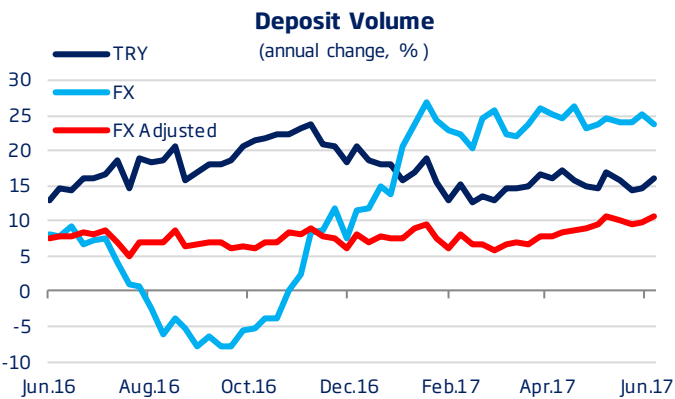
Deposit volume increased by 19.5% annually.

According to BRSA's Weekly Bulletin, as of June 16, total deposit volume reached 1.673 billion TRY, expanding by 19.5% from a year ago. The growth rate of deposits declined to 10.7% according to the exchange rate adjusted figures.

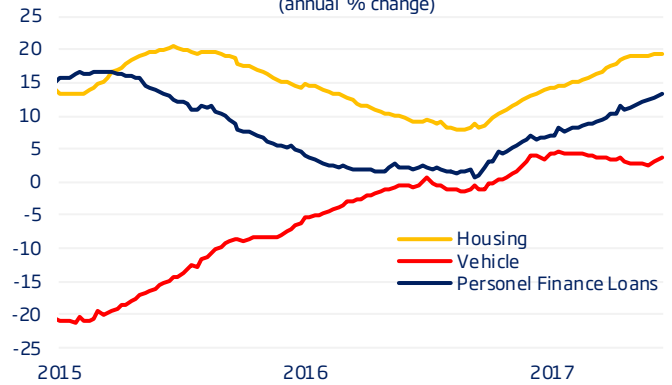
As of June 16, TRY deposits grew by 16.1% compared to the same period of the previous year. In this period, FX deposits registered a steep increase of 23.9%. This mainly stemmed from the fastest increase of more than one year recorded in FX deposits in terms of USD (3.7% yoy) and foreign exchange rates hovering above the last year's levels.

Consumer loans...

Housing loans continued to surge despite losing some momentum in recent weeks. Personal finance loans continued to gain momentum and the rate of increase in vehicle loans also recovered in recent weeks. As of June 16, housing loans rose by 19.4% compared to the same period of 2016. Personal finance and vehicle loans posted annual rises of 13.4% and 3.6%, respectively in this period.



Consumer Loans by Type
(annual % change)



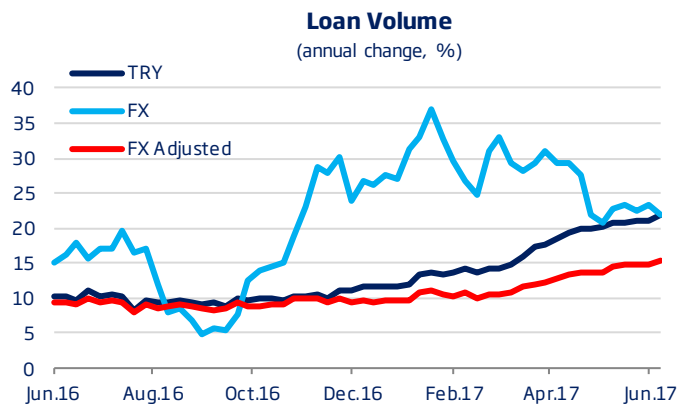
The upward trend in loan volume has maintained.

TRY depreciation and the rapid increase in TRY loan volume continued to be determining factors in the acceleration of loan growth. Especially, loans supported by Credit Guarantee Fund (CGF) seem to boost the increase in TRY loans.

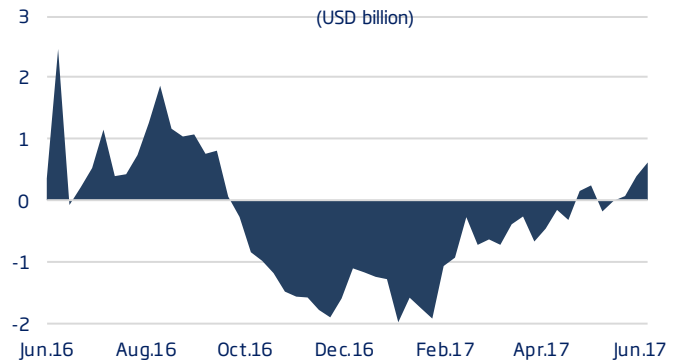
As of June 16, total loan volume picked up by 21.8% yoy to 1,930 billion TRY. According to the exchange rate adjusted figures, growth in total loan volume fell to 15.4%. TRY loan volume expanded by 21.8% registering the highest increase in the last 3 years. FX loans in terms of USD, on the other hand, rose by 1.9%.

Net FX position...

As of June 16, banks' on-balance sheet FX position was (-) 53,678 million USD while off-balance sheet FX position was realized as (+) 54,293 million USD. Hence, banking sector's net FX position posted a surplus of 615 million USD.



Net FX Position
(USD billion)



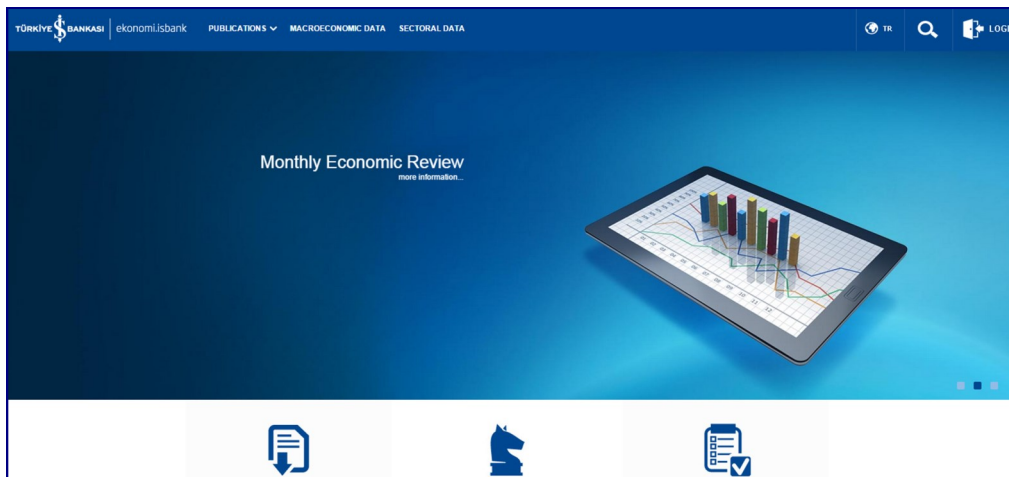
Euro Area had been at the forefront of the global agenda with elevated political risks in recent years. However, positive prospects for region's economic growth have strengthened thanks to a less busy election agenda and cyclical factors. Nevertheless, weakness in inflation indicators on a global scale has created uncertainty about the steps to be taken by the major central banks including the ECB. In addition, persistent dominance of political developments in the US on the agenda of the markets as well as the ongoing geopolitical risks has weighed on markets. Against this backdrop, the moves made by the central banks such as the Fed and the ECB as well as the pace of these moves will be of great significance for the course of global liquidity and have implications for the sustainability of the rise recorded in asset prices.

Data released in Turkey have showed that economic activity continued to recover with the help of the measures adopted to support the economy. The first-quarter growth marked a stronger economic performance than anticipated. It was noteworthy that net exports made a positive contribution to growth as also did the domestic demand. For the rest of the year, we believe that the Turkish economy may be able to end 2017 with a more solid performance than expected at the beginning of the year, especially as consumption spending continues to present a strong outlook.

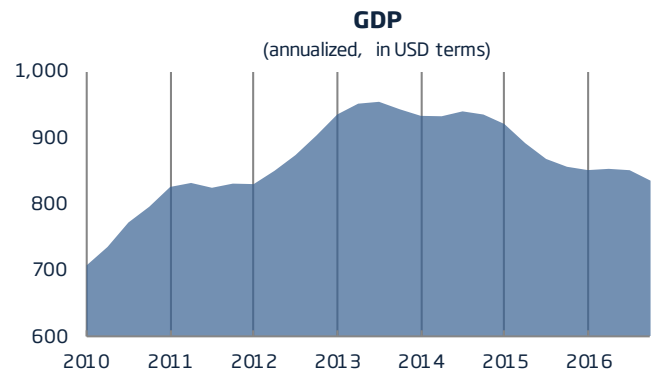
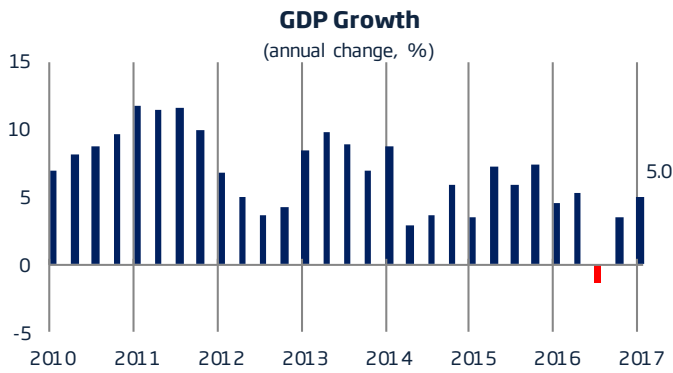
Forecasts (%)	2017	2018
Growth	4.0	4.0
CA Deficit/GDP	4.5	4.8
Inflation	9.0	8.5

Year-end forecast for inflation

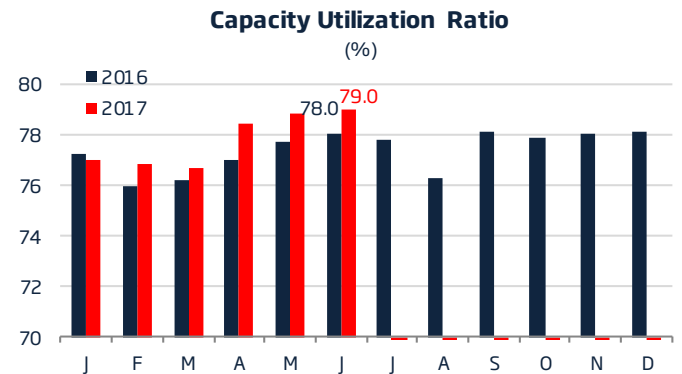
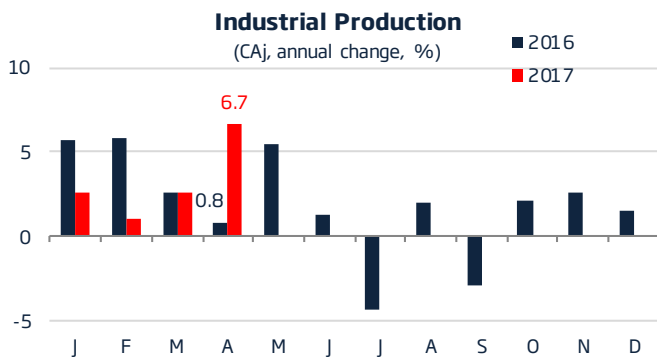
Our reports are available on our website <https://research.isbank.com.tr>



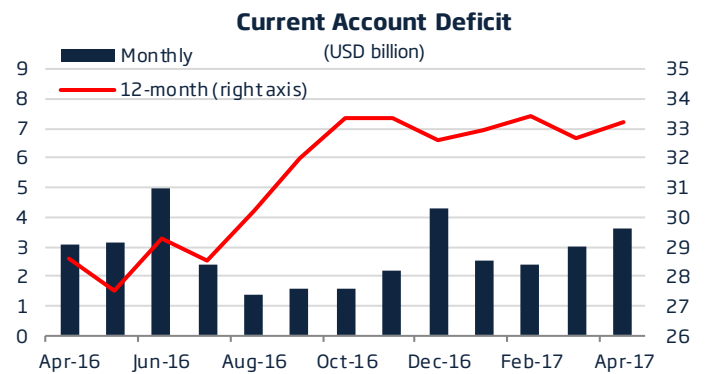
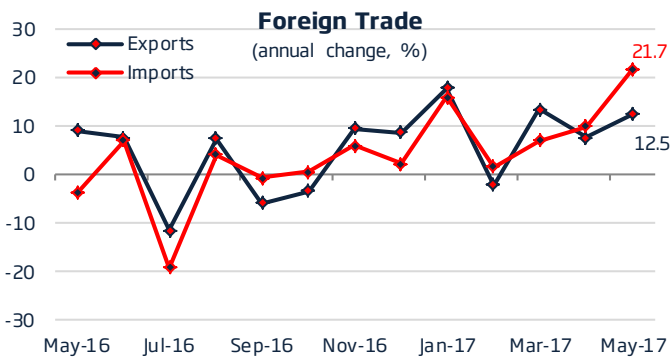
Growth



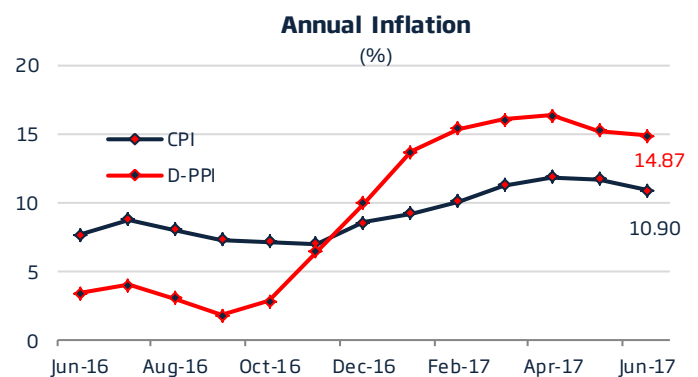
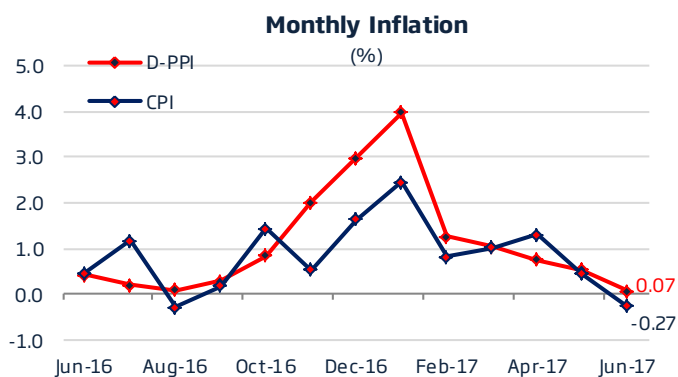
Industrial Production and Capacity Utilization Ratio



Foreign Trade and Current Account Balance



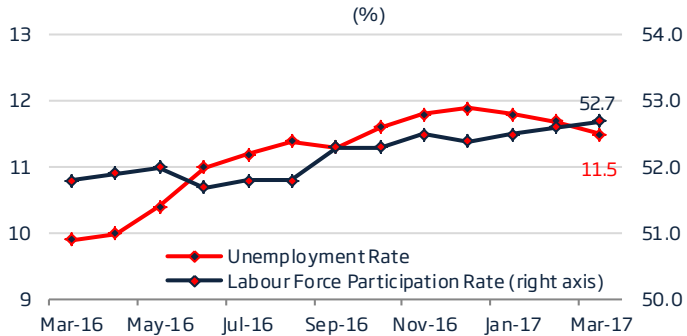
Inflation



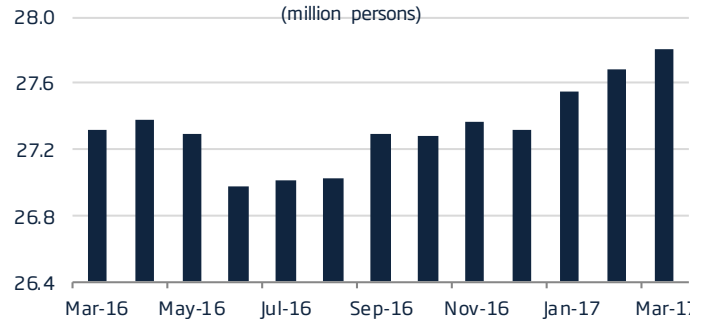
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

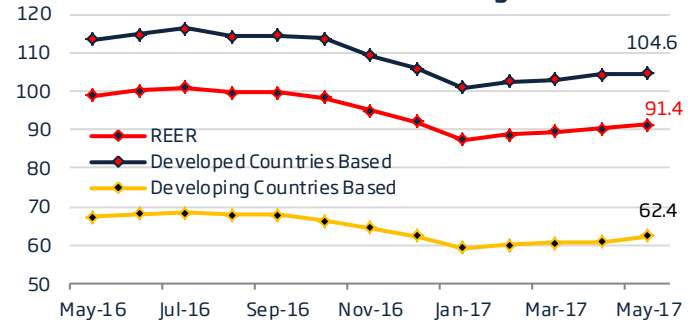


FX Market

Currency Basket

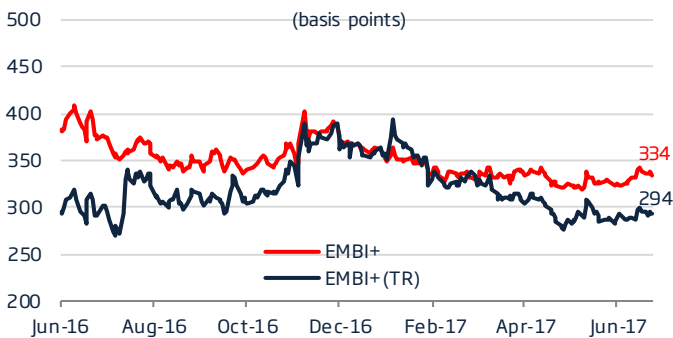


CPI Based Real Effective Exchange Rate

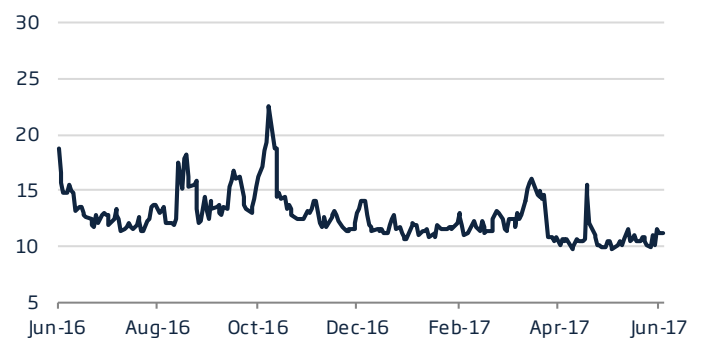


Risk Indicators

Risk Premiums (basis points)

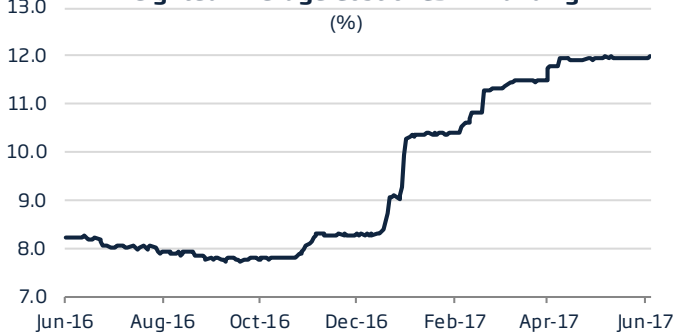


VIX

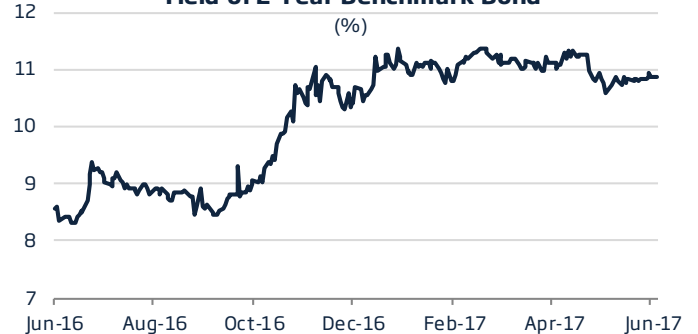


Interest Rates

Weighted Average Cost of CBRT Funding (%)



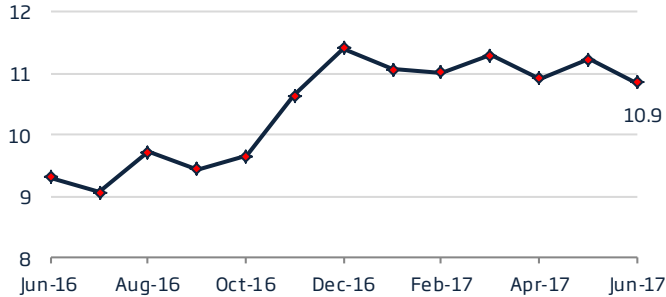
Yield of 2-Year Benchmark Bond (%)



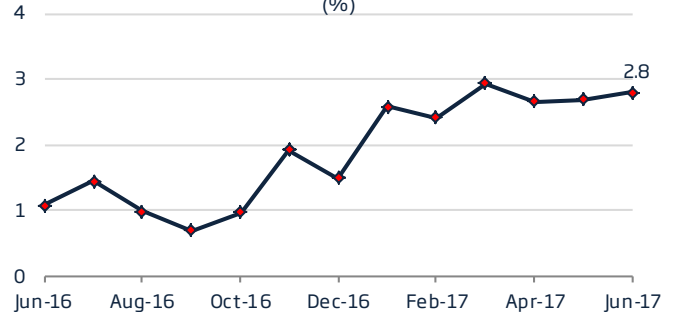
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market

Average Compound Yields in Treasury Auctions (%)

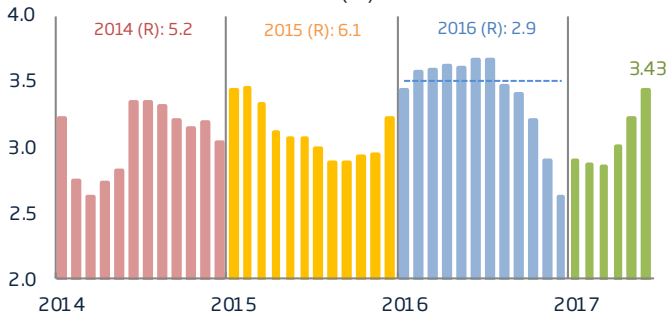


Expected Real Yield of TRY GDDIs (%)

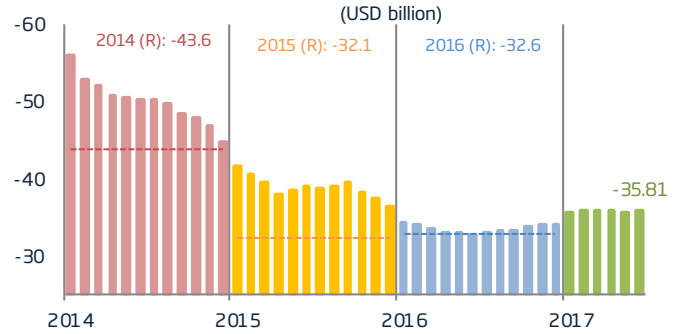


CBRT's Survey of Expectations and Other Leading Indicators

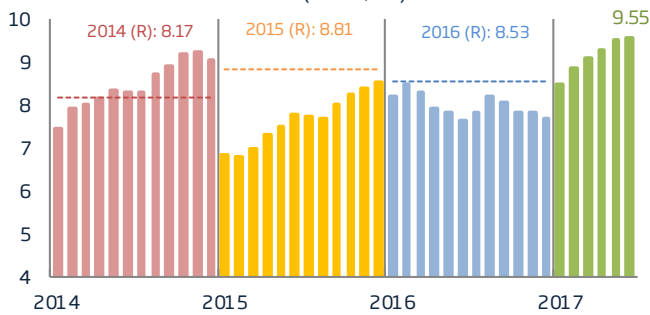
Expected GDP Growth for the Current Year (%)



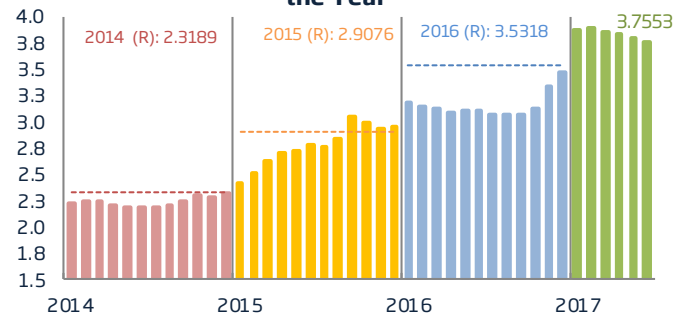
Expected CAD for the Current Year (USD billion)



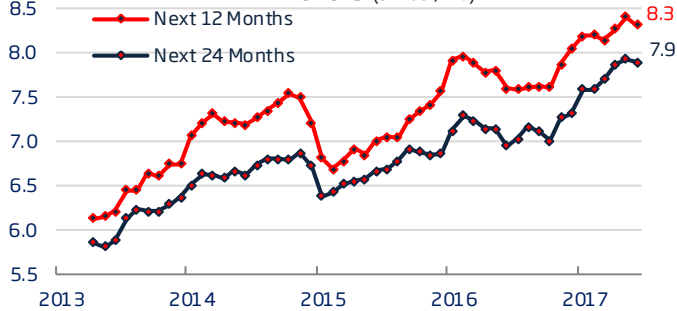
Expected CPI Inflation by the End of the Year (annual, %)



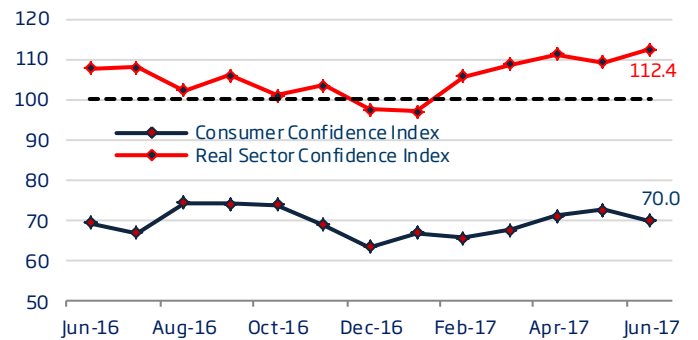
Expected Level of USD/TRY by the End of the Year



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	173.8	-	-
GDP (TRY billion)	1,570	1,810	2,045	2,338	2,591	641.6	-	-
GDP Growth Rate (%)	4.8	8.5	5.2	6.1	2.9	5.0	-	-
Inflation (%)						Apr-17	May-17	Jun-17
CPI (annual)	6.16	7.40	8.17	8.81	8.53	11.87	11.72	10.90
Domestic PPI (annual)	2.45	6.97	6.36	5.71	9.94	16.37	15.26	14.87
Seasonally Adjusted Labor Market Figures						Jan-17	Feb-17	Mar-17
Unemployment Rate (%)	8.8	9.1	10.3	10.2	11.9	11.8	11.7	11.5
Labor Force Participation Rate (%)	48.5	48.5	51.0	51.7	52.4	52.5	52.6	52.7
FX Rates						Apr-17	May-17	Jun-17
CPI Based Real Effective Exchange Rate	110.3	100.3	105.0	97.5	92.0	90.2	91.4	
USD/TRY	1.7847	2.1485	2.3378	2.9189	3.5176	3.5538	3.5365	3.5226
EUR/TRY	2.3530	2.9605	2.8288	3.1708	3.7102	3.8699	3.9768	4.0177
Currency Basket (0.5*EUR+0.5*USD)	2.0688	2.5545	2.5833	3.0448	3.6139	3.7118	3.7567	3.7701
Foreign Trade Balance⁽¹⁾ (USD billion)						Mar-17	Apr-17	May-17
Exports	152.5	151.8	157.6	143.8	142.5	145.7	146.6	148.1
Imports	236.5	251.7	242.2	207.2	198.6	202.3	203.9	207.6
Foreign Trade Balance	-84.1	-99.9	-84.6	-63.4	-56.1	-56.6	-57.3	-59.5
Import Coverage Ratio (%)	64.5	60.3	65.1	69.4	71.8	72.0	71.9	71.4
Balance of Payments⁽¹⁾ (USD billion)						Feb-17	Mar-17	Apr-17
Current Account Balance	-48.0	-63.6	-43.6	-32.1	-32.6	-33.4	-32.7	-33.2
Capital and Financial Accounts	-48.9	-62.1	-41.6	-21.9	-21.7	-25.1	-26.6	-29.4
Direct Investments (net)	-9.5	-9.3	-5.8	-12.5	-9.1	-8.9	-9.2	-9.0
Portfolio Investments (net)	-41.0	-24.0	-20.1	15.7	-6.3	-8.7	-7.9	-7.5
Other Investments (net)	-19.2	-38.8	-15.3	-13.4	-7.1	-6.3	-4.2	-3.4
Reserve Assets (net)	20.8	9.9	-0.5	-11.8	0.8	-1.3	-5.3	-9.5
Net Errors and Omissions	-0.9	1.6	2.0	10.2	10.9	8.3	6.1	3.8
Current Account Balance/GDP (%)	-5.5	-6.7	-4.7	-3.7	-3.8	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Mar-17	Apr-17	May-17
Expenditures	361.9	408.2	448.8	506.0	583.7	159.7	215.7	266.8
Interest Expenditures	48.4	50.0	49.9	53.0	50.2	18.8	22.1	25.7
Non-interest Expenditures	313.5	358.2	398.8	453.0	533.4	140.8	193.6	241.0
Revenues	332.5	389.7	425.4	483.4	554.4	144.7	197.8	255.3
Tax Revenues	278.8	326.2	352.5	407.5	458.7	121.6	158.7	209.6
Budget Balance	-29.4	-18.5	-23.4	-22.6	-29.3	-14.9	-17.9	-11.5
Primary Balance	19.0	31.4	26.5	30.4	21.0	3.9	4.2	14.2
Budget Balance/GDP (%)	-1.9	-1.0	-1.1	-1.0	-1.1	-	-	-
Central Government Debt Stock (TRY billion)						Mar-17	Apr-17	May-17
Domestic Debt Stock	386.5	403.0	414.6	440.1	468.6	483.3	486.9	490.2
External Debt Stock	145.7	182.8	197.5	237.5	291.0	310.0	307.6	316.2
Total Debt Stock	532.2	585.8	612.1	677.6	759.6	793.3	794.5	806.4

(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	Apr.17	May.17	Change ⁽¹⁾
TOTAL ASSETS	1,370.7	1,732.4	1,994.3	2,357.4	2,731.0	2,889.3	2,931.0	7.3
Loans	794.8	1,047.4	1,240.7	1,485.0	1,734.3	1,857.8	1,889.2	8.9
TRY Loans	588.4	752.7	881.0	1,013.4	1,131.4	1,251.2	1,277.2	12.9
Share (%)	74.0	71.9	71.0	68.2	65.2	67.3	67.6	-
FX Loans	206.4	294.7	359.7	471.5	602.9	606.6	611.9	1.5
Share (%)	26.0	28.1	29.0	31.8	34.8	32.7	32.4	-
Non-performing Loans	23.4	29.6	36.4	47.5	58.2	61.4	62.2	7.0
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	365.1	366.2	4.2
TOTAL LIABILITIES	1,370.7	1,732.4	1,994.3	2,357.4	2,731.0	2,889.3	2,931.0	7.3
Deposits	772.2	945.8	1,052.7	1,245.4	1,453.6	1,536.0	1,559.5	7.3
TRY Deposits	520.4	594.1	661.3	715.4	845.1	848.9	865.9	2.5
Share (%)	67.4	62.8	62.8	57.4	58.1	55.3	55.5	-
FX Deposits	251.8	351.7	391.4	530.0	608.5	687.0	693.6	14.0
Share (%)	32.6	37.2	37.2	42.6	41.9	44.7	44.5	-
Securities Issued	37.9	60.6	89.3	97.8	116.3	120.8	127.1	9.3
Payables to Banks	173.4	254.2	293.2	361.3	417.6	430.8	420.0	0.6
Funds from Repo Transactions	79.9	119.1	137.4	156.7	137.8	91.1	86.9	-37.0
SHAREHOLDERS' EQUITY	181.9	193.7	232.0	262.3	300.3	323.7	327.6	9.1
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	17.5	21.2	-
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	64.3	64.5	-
Securities/Assets	19.7	16.6	15.2	14.0	12.9	12.6	12.5	-
Deposits/Liabilities	56.3	54.6	52.8	52.8	53.2	53.2	53.2	-
Loans/Deposits	102.9	110.7	117.9	119.2	119.3	121.0	121.1	-
Capital Adequacy (%)	17.9	15.3	16.3	14.6	15.6	16.4	16.7	-

(1) Year-to-date % change



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