

Global Economy

Turkish Economy

- ◆ Geopolitical developments and central banks' signals on future steps were high on the agenda of global markets in September.
- ◆ At its meeting held on September 19-20, Fed did not change the interest rates. The Central Bank has announced that it will start to scale back its balance sheet in October. Market expectation for one more interest rate increase in 2017, which was around 30% at the beginning of September, surpassed 65% after the meeting.
- ◆ Rising possibility of the Fed's interest rate hike boosted the US dollar. The EUR / USD parity, approaching 1.21 in September, closed the month at 1.18.
- ◆ Data on labor market and economic activity in the US have presented a mixed picture for the third quarter.
- ◆ European Central Bank has left the decision on exit strategy regarding its asset purchase program to the upcoming meetings.
- ◆ The Bank of England kept its monetary policy stance intact at the September meeting. Following strong macroeconomic data, the likelihood of an interest rate increase has risen.
- ◆ S&P has lowered China's long-term sovereign rating by one notch to A+ from AA-.
- ◆ Oil prices hit the highest level in more than two years in September.
- ◆ Although growing concerns over North Korea led gold prices to surge in September, the prices fell at the end of the month due to the strengthening USD dollar.
- ◆ Along with the noteworthy contributions of investment expenditures and net exports, Turkish economy grew by 5.1% yoy in the second quarter of 2017. First quarter growth was revised up to 5.2%.
- ◆ Seasonally adjusted unemployment rate became 11.1% in June. While the contribution of the services sector to employment has continued to increase in this period, the industrial sector limited the rise in employment.
- ◆ With the help of the favorable base effect, calendar adjusted industrial production rose fast by 14.5% in July compared to a year ago.
- ◆ In August, exports and imports increased by 12.3% yoy and 15.3%, respectively. Thus, foreign trade deficit widened by 22.8%.
- ◆ The current account deficit became 5.1 billion USD in July. While gold imports led the current account deficit up, recovering tourism revenues offset some of the rise in the deficit. 12-month cumulative deficit stood at 37.1 billion USD as of July.
- ◆ Budget expenditures increased by 22.4% yoy in August while budget revenues rose by 12.0% yoy. Thus, central government budget, which posted a surplus of 3.6 billion TRY in August 2016, ran a deficit of 874 million TRY in the same month of this year.
- ◆ Monthly CPI inflation came in at 0.65% in September, somewhat lower than market expectations. Annual CPI inflation reached to 11.2% in this period.
- ◆ Medium Term Program covering 2018-2020 period was announced.

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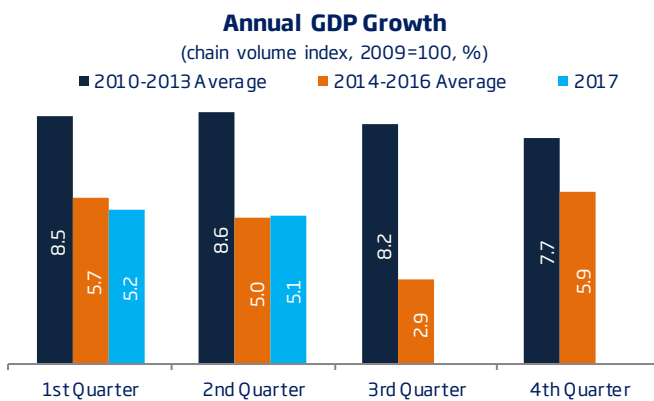
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Economic growth came in close to expectations.

Along with the upturn in domestic demand and measures taken by the public authorities, Turkish economy grew by 5.1% yoy in the second quarter of 2017, in line with the expectations. First quarter growth, which was previously announced as 5%, was revised up to 5.2%. Hence, growth rate of the first half of the year stood at 5.1% yoy. 2016 growth was also revised up to 3.2% from 2.9%.

Second quarter growth was above the average growth rate of the same periods of the last three years. However, it remained below 8.6%, 2010-2013 average trend for the second quarters.



GDP, which was 863 billion USD in 2016, became 834 billion USD in 4-quarter rolling terms as of the second quarter of this year. For the same period, GDP per capita in USD terms was down to almost 10,500 USD from 10,833 USD last year-end. This was chiefly led by the increase recorded in USD/TRY during this period.

According to the calendar adjusted figures, in the second quarter, Turkish economy marked the best performance of the last eight quarters. Seasonal and calendar adjusted data revealed that economic activity gained some momentum compared to the first quarter of the year.

GDP (2009 chain index volume)

Dönem	Calendar adjusted* (%)	Seasonal and calendar adjusted** (%)
2015 Q1	3.6	2.0
2015 Q2	7.2	1.7
2015 Q3	6.4	0.9
2015 Q4	6.0	0.9
2016 Q1	4.3	0.8
2016 Q2	4.1	0.7
2016 Q3	0.8	-1.2
2016 Q4	4.2	3.9
2017 Q1	4.9	1.3
2017 Q2	6.5	2.1

(*) Compared to a year ago

(**) Compared to the previous quarter

Strong support from investment expenditures...

Investment expenditures made the highest contribution to growth with 2.9 points in the second quarter. According to chain linked volume index, this performance was mostly driven by the increase of 25% recorded in construction expenditures. However, machinery and equipment investments shrank for the fourth quarter in a row. In the first half of the year, the contribution of investments to growth was 1.9 points.

Net exports continued to contribute positively to growth.

The positive contribution of net exports to growth decelerated compared to the previous quarter in the second quarter of 2017, yet it remained at high levels. During this period, particularly with the support of the automotive

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	Q2	H1
Consumption	3.1	5.1	2.3	5.0	3.9	3.2	5.2	1.0	4.7	3.5	3.5	1.3	2.4
Private	3.9	4.2	2.1	3.3	3.3	1.6	3.2	0.3	3.8	2.2	2.2	1.9	2.1
Public	-0.7	0.9	0.1	1.6	0.5	1.6	2.0	0.7	0.9	1.2	1.3	-0.6	0.3
Investment	1.0	3.9	2.5	3.2	2.7	1.8	0.6	0.1	0.4	0.7	0.9	2.9	1.9
Change in Stock	-0.2	-2.2	0.0	-1.7	-1.0	0.1	1.3	0.7	-0.7	0.3	-1.5	-0.8	-1.1
Net Export	-0.4	0.4	1.0	1.1	0.6	-0.3	-2.1	-2.5	-0.1	-1.3	2.3	1.7	2.0
Exports	0.6	1.0	1.1	1.1	1.0	0.4	-0.4	-2.1	0.5	-0.4	2.5	2.2	2.4
Imports	-1.0	-0.6	-0.1	-0.1	-0.4	-0.7	-1.7	-0.4	-0.7	-0.9	-0.2	-0.6	-0.4
GDP	3.6	7.2	5.8	7.5	6.1	4.8	4.9	-0.8	4.2	3.2	5.2	5.1	5.1

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

exports, export volume index rose by 10.5% yoy while import volume index increased only by 2.3% yoy. Therefore, net foreign trade made a contribution of 1.7 points to the GDP growth. In the first half of the year, on the other hand, the contribution of net foreign trade to growth was 2.0 points.

Public consumption expenditures weighed on growth.

Private consumption spending continued to pull growth up in the second quarter of the year, making a contribution of 1.9 points to growth. However, public consumption expenditures, which was the main driver of the recent upturn in economic activity, dragged the growth down in the second quarter as opposed to the performance seen in the first quarter. This reflected public authorities' preference for boosting investments over increasing consumption spending.

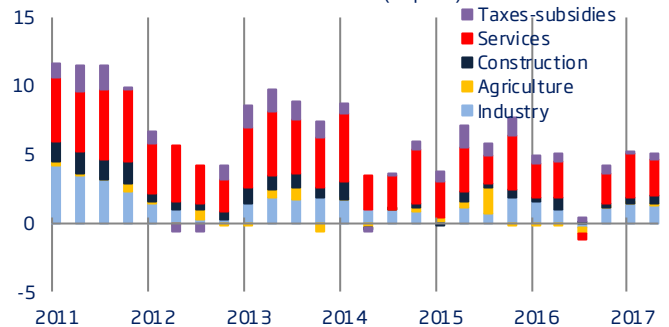
Assessing the sub-items of households' consumption expenditures, it was noteworthy that consumption expenditures for durable goods recorded a stronger rise in the second quarter compared to the first quarter with 4.8%.

Services sector is the locomotive of the economic growth.

According to production approach of GDP, services sector provided a significant support to the second quarter growth. Along with sustained recovery in the tourism sector, services sector made a contribution of 2.7 points to growth in this period.

Industrial sector, having the second biggest weight in GDP after services sector, added 1.3 points to growth.

Production Approach - Contributions to GDP Growth (% point)



Construction sector, presenting a more solid performance compared to the previous quarter, contributed 0.5 point to growth in this period. Agriculture sector also pushed growth up by 0.2 point, the highest contribution in the last seven quarters.

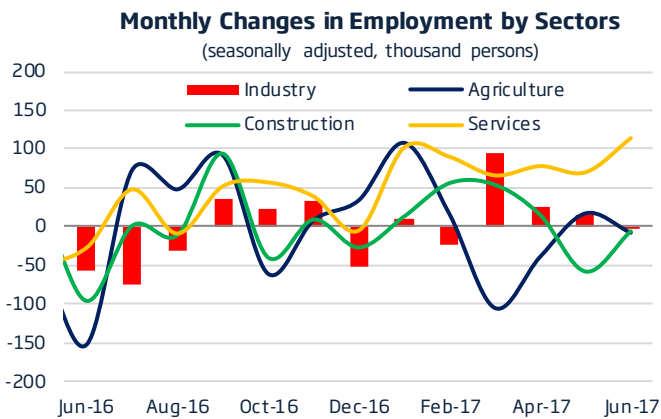
Expectations

As the measures undertaken by the policy makers continue to provide a boost to the economic activity, growth performance is expected to continue to be strong also in the third quarter of the year. Besides, the favorable base effect on growth will also be seen in the third quarter figures. For the rest of the year, we anticipate that private consumption will preserve its momentum and net exports will continue to make a positive contribution to growth albeit lower than the first two quarters. Against this backdrop, we estimate that the Turkish economy will expand by around 5% in 2017, close to its long-term average growth rate.

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

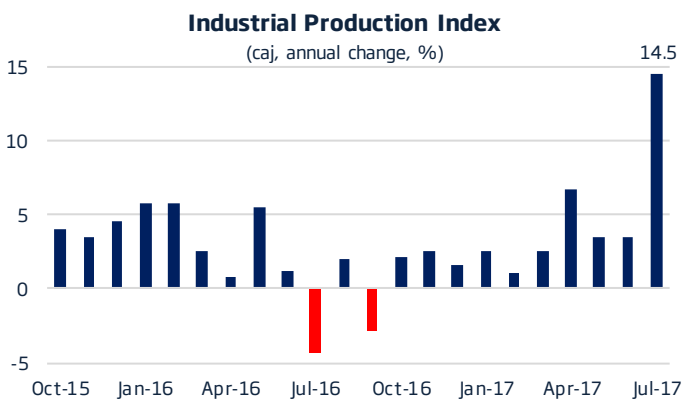
Unemployment rate came in at 10.2% in June.

Unemployment rate was realized as 10.2% in June. Although the labor force participation rate rose to 53.4% with an increase of 1 percentage point on an annual basis, the unemployment rate did not change due to the 1.1 million job creation. On the other hand, seasonally adjusted unemployment rate fell by 0.2 percentage point mom to 11.1%. The contribution of the services sector to the employment rise has increased in this period, whereas that of the industrial sector continued to decrease gradually.



Rapid rise in industrial production...

In July, calendar adjusted industrial production rose by 14.5% yoy, the fastest rate since January 2011. Analyzing the main industrial groups, the increase in intermediate goods and capital goods production gave positive signals for foreign trade and investments. When the sub-sectors of the manufacturing industry are examined, it is seen that the production of motor vehicles, which had a positive performance since the beginning of the year, made the highest contribution to industrial production. Low base effect stemming from the failed coup attempt of July 2016 has played a major role in this rise. However, seasonally and calendar adjusted series also supported the strong outlook in production. Accordingly, industrial production went up by



2.3% mom in July.

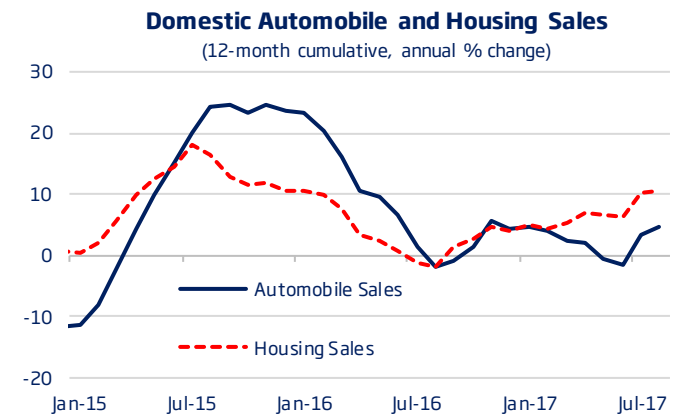
A limited fall in PMI...

Having reached the highest level in the last 6.5 years with 55.3 in August, manufacturing PMI declined to 53.5 in September. However, as the index in the third quarter was above the second quarter, positive expectations about production activities have strengthened.

Exports supported the automotive industry.

According to data released by the Automotive Industry Association, total automobile production in the first 8 months of the year picked up by 19% yoy to 1.1 million units. In the same period, automobile production climbed by 33% while light commercial vehicle production dropped by 4% yoy. As SCT rate that saw a hike at the end of 2016 pushed the prices of vehicle prices, total domestic vehicle and automobile market in 2017 shrank by 3%. The exports of the sector went up by 26% thanks to the 42% growth in automobile exports.

On the other hand, it is observed that the domestic automobile market has showed signs of recovery according to the 12-month cumulative data. As of August, automobile sales for the last 12 months increased by 5% yoy, exceeding 742,000 units.



Housing sector...

Domestic home sales, which surged by 42.4% yoy due to calendar effect in July, rose by 4.7% yoy to 120,000 units in August. Mortgage home sales, which account for one third of total housing sales, surged by 6.3% yoy in August whereas other home sales rose by 4%.

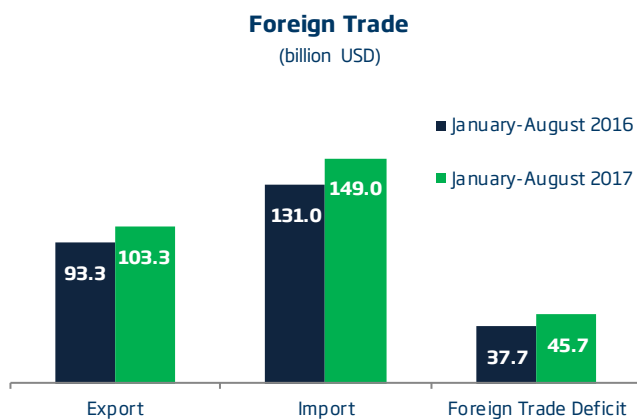
According to the statistics of house prices announced by CBRT, the pace of increase in prices continued to slow down in the sector. As the latest figures revealed, house prices in July recorded the weakest performance of this year, with a monthly increase of 0.7%. The annual rate of increase in this period has also been the lowest since December 2012.

Source: Treasury, Turkstat, Datastream, CBRT

Foreign trade deficit kept expanding.

In August, export volume increased by 12.3% yoy and import volume rose by 15.3% yoy. Thus, foreign trade deficit expanded by 22.8% yoy.

In the first 8 months of the year, exports went up by 10.8% yoy and imports surged by 13.8% yoy. While the annual expansion in foreign trade deficit became 21.1% in this period, import coverage ratio was 69.4%, declining by 1.8 points from a year ago.



Rise in exports was spread across almost all sectors.

Export growth in August was broadly spread across sectors. Considering the top 20 sectors with largest exports volume, only 2 sectors posted annual declines in this period, albeit slightly.

In the first 8 months, motor vehicles continued to become the most significant export item. The exports of motor vehicles had a strong performance, posting an annual growth of 25% in this period. Having surged by 35.9% annually, iron and steel exports had been remarkable. During the January-August period, approximately half of the 10.8% increase recorded in total export volume came from the said two sectors.

On the country basis, Germany and Iraq were two of the biggest export markets in August. After the referendum held in Northern Iraq, our trade relations with Iraq gained importance on the agenda. The share of Iraq in Turkey's total exports was 5.4% in 2016, it rose to 6.2% in the first 8 months of this year as exports to Iraq climbed by 35.3% yoy. Turkey has a significant share in Iraq's imports in many

sectors. Among Turkey's export items, Iraq has a big weight especially in food products. On the other hand, Iraq stands out in Turkey's crude oil imports. According to Energy Market Regulatory Authority (EMRA) data, nearly 20% of Turkey's crude oil imports have been supplied from Iraq in recent years.

Exports to Iraq (2016)

	Exports to Iraq (mn USD)	Share of Iraq in Turkey's Exports (%)	Share of Turkey in Iraq's Imports (%)
Precious metals	597	4.9	95.5
Milling products	548	42.7	99.4
Animal or vegetable fats	494	47.2	85.4
Furniture, bedding etc.	451	17.0	51.2
Plastics and articles thereof	402	8.0	37.5
Articles of iron and steel	370	7.4	30.4
Cereals etc.	367	24.4	66.2
Electrical machineries	314	4.0	11.0
Articles of apparel and clothing	306	3.5	34.5
Milk, egg etc.	302	51.0	43.4
Other	3,489	3.6	18.5
Total	7,640	5.4	26.6

The effects of energy and gold imports have been evident.

The high level of gold imports has been sustained in August, despite losing some momentum. Due to the recovery in economic activity and the rise in oil prices, energy imports also surged rapidly in this period. In the first 8 months, 11.3 points of 13.8% annual growth in imports stemmed from the imports of precious metals and mineral fuels.

Expectations...

Despite heightened geopolitical risks, the trajectory of TL and upturn in global trade are likely to support exports. However, the upward pressures of the higher oil prices and the revival in economic activity on imports have persisted. Gold imports continue to display an unfavorable outlook for foreign trade figures. In light of these developments, foreign trade deficit is anticipated to continue to widen in the coming period.

Foreign Trade Figures

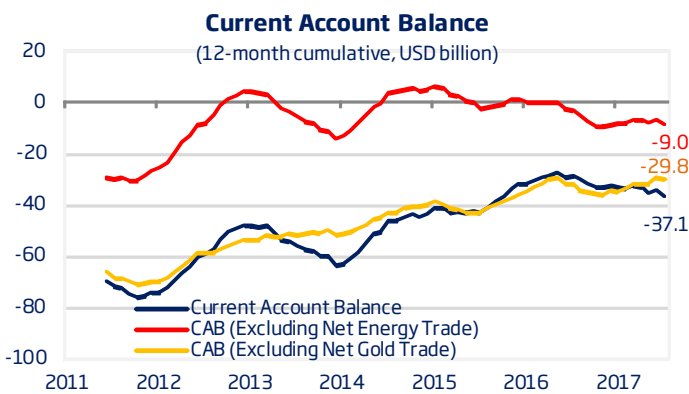
	(billion USD)					
	August		Change (%)	January-August		Change (%)
	2016	2017		2016	2017	
Exports	11.8	13.3	12.3	93.3	103.3	10.8
Imports	16.6	19.2	15.3	131.0	149.0	13.8
Foreign Trade Deficit	-4.8	-5.9	22.8	-37.7	-45.7	21.1
Import Coverage (%)	71.2	69.3	-	71.2	69.4	-

Source: Datastream, Turkstat

Current account deficit expanded in July.

The current account deficit amounted to USD 5.1 billion in July. Although the deficit doubled from the same month of 2016 due to the low-base effect, it came in lower than market expectations. The expansion in current account was led by surge in foreign trade deficit arising from the rise in gold imports in July.

In January-July period, the deficit picked up by 20.8% yoy to USD 26 billion. According to 12-month cumulative figures, the current account deficit reached USD 37.1 billion, the highest level of the last 22 months.

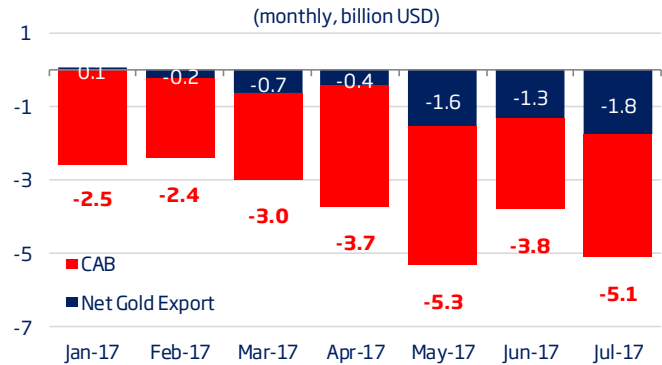


Gold imports hit record high.

According to balance of payments figures, gold imports hit the highest level with USD 2.7 billion in July. As the increase in gold exports remained relatively subdued, net gold trade constituted 82.2% of the annual expansion in current account deficit in July.

Gold imports put an upward pressure on the current account deficit not only in July but also throughout the year. Net gold exports were USD 3.2 billion in the first seven months of 2016 whereas net gold imports amounting to USD 5.9 billion in the same period of 2017, playing a big part in the expansion of current account deficit.

Net Gold Export and CAB



Recovery in tourism revenues...

Tourism revenues increased by 34.3% yoy to USD 2.7 billion in July. Despite the sharp increase, this amount remained below the average July figures of the 2009-2015 period (USD 3.1 billion). Along with a slight increase in tourism expenses in July, net tourism revenues also rose by 40.1% year-on-year to 2.3 billion USD.

Portfolio investments lost momentum.

Portfolio investments, which had a strong performance throughout the year, recorded the lowest monthly net capital inflow of the year with USD 570 million. In this period, the repayment of USD 2.3 billion of the eurobonds issued by General Government played an important part in this development.

Direct investments recorded a net capital inflow of USD 1.1 billion in July. Thus, total net direct investments reached USD 4.3 billion throughout the year. However, this amount remained well below the average of January-July over the 2009-2015 period (USD 6 billion).

Having fluctuated throughout the year, other investments registered a limited inflow of USD 173 million in July. The fact that the banking sector became a net credit payer in July with USD 1.6 billion, was the main driver behind the

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	December 2016		July 2017		Breakdown of Net Capital Inflows (%)	
	December 2016	July 2017	December 2016	July 2017	December 2016	July 2017
Current Account Balance	-32,639	-37,112	-	-	-	-
Total Net Foreign Capital Inflows	33,452	26,353	100.0	100.0	100.0	100.0
-Direct Investments	9,160	8,959	27.4	34.0		
-Portfolio Investments	6,292	14,467	18.8	54.9		
-Other Investments	6,350	-1,355	19.0	-5.1		
-Net Errors and Omissions	11,627	4,276	34.8	16.2		
-Other	23	6	0.1	0.0		
Reserves(1)	-813	10,759	-	-		

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

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

Source: Datastream, CBRT

weak performance of other investments.

Banking sector's debt rollover ratio was below 100%.

According to the 12-month cumulative figures, long-term debt rollover ratio of the banking sector maintained its downward trend and thus decreased to 91%. The long-term debt rollover ratio of the other sectors, on the other hand, was 109%, having been flat in July.

Net errors and omissions recorded an inflows of USD 911 million in July. CBRT reserves contributed USD 2.4 billion to the financing of the current account deficit.

Expectations...

As the foreign trade deficit was realized as almost USD 6 billion in August according to the provisional data, rising trend in current account deficit is likely to continue in the coming period. On the other hand, increase in gold exports and the recovery in tourism revenues in August could somewhat limit the widening of the current account deficit.

Balance of Payments	(USD million)				
	July 2017	2016	January - July 2017	% Change	12-month Cumulative
Current Account Balance	-5,121	-21,485	-25,958	20.8	-37,112
Foreign Trade Balance	-7,267	-24,095	-29,725	23.4	-46,489
Services Balance	2,541	6,792	8,561	26.0	17,208
Travel (net)	2,278	6,332	7,586	19.8	15,214
Primary Income	-621	-5,150	-6,088	18.2	-9,936
Secondary Income	226	968	1,294	33.7	2,105
Capital Account	11	26	9	-65.4	6
Financial Account	-4,199	-17,641	-29,482	67.1	-32,830
Direct Investments (net)	-1,057	-4,461	-4,260	-4.5	-8,959
Portfolio Investments (net)	-570	-9,840	-18,015	83.1	-14,467
Net Acquisition of Financial Assets	-1,005	-606	-867	43.1	1,250
Net Incurrence of Liabilities	-435	9,234	17,148	85.7	15,717
Equity Securities	488	399	2,691	574.4	3,115
Debt Securities	-923	8,835	14,457	63.6	12,602
Other Investments (net)	-173	-10,113	-2,408	-76.2	1,355
Currency and Deposits	244	-1,023	90	-	2,901
Net Acquisition of Financial Assets	-1,415	3,250	1,117	-65.6	3,247
Net Incurrence of Liabilities	-1,659	4,273	1,027	-76.0	346
Central Bank	-35	-232	-116	-50.0	-360
Banks	-1,624	4,505	1,143	-74.6	706
Foreign Banks	-1,807	3,627	512	-85.9	1,367
Foreign Exchange	-1,154	-349	-513	47.0	18
Turkish Lira	-653	3,976	1,025	-74.2	1,349
Non-residents	183	878	631	-28.1	-661
Loans	913	-6,919	1,502	-	3,491
Net Acquisition of Financial Assets	44	207	-190	-	-168
Net Incurrence of Liabilities	-869	7,126	-1,692	-	-3,659
Banking Sector	-1,628	-124	-2,940	2,271.0	-6,353
Non-bank Sectors	867	8,040	1,612	-80.0	3,190
Trade Credit and Advances	-1,315	-2,218	-3,977	79.3	-5,075
Other Assets and Liabilities	-15	47	-23	-	38
Reserve Assets (net)	-2,399	6,773	-4,799	-	-10,759
Net Errors and Omissions	911	3,818	-3,533	-	4,276

Source: Datastream, CBRT

Budget deficit became 874 million TRY.

In August, budget expenditures increased by 22.4% compared to the same month of the previous year while budget revenues rose by 12.0%. Thus, the central government budget, which gave a surplus of 3.6 billion TRY in August 2016, gave a deficit of 874 million TRY in the same month of this year. The primary surplus decreased from 8.4 billion TRY to 4.6 billion TRY, falling by 46.1%.

In January-August period, the budget which posted a surplus of 4.9 billion TRY in 2016, gave a deficit of 25.2 billion TRY in the same period of this year. Budget expenditures expanded by 19.3% annually while budget revenues rose by 10.9% in this period.

Weak outlook in domestic taxes...

In August, tax revenues rose by 13.1% yoy. In the same period, corporate and income taxes expanded by 17.2% and 15%, respectively. Value added tax (VAT) on imports climbed by 31.2% also due to the upsurge in FX rates. The weak performance of domestic tax on goods and services in August was worthy of attention. While domestic VAT increased by 8.2% yoy in August, special consumption tax rose by only 4.3% over this period. The decrease in tax revenues collected from tobacco products played a role in this development.

In the first eight months of the year, especially corporate tax and VAT on imports have positive impacts on budget revenues. Domestic VAT rose by 5.5% yoy during January - August period. On the other hand, fall in portfolio revenue of Treasury limited the growth in budget revenues.

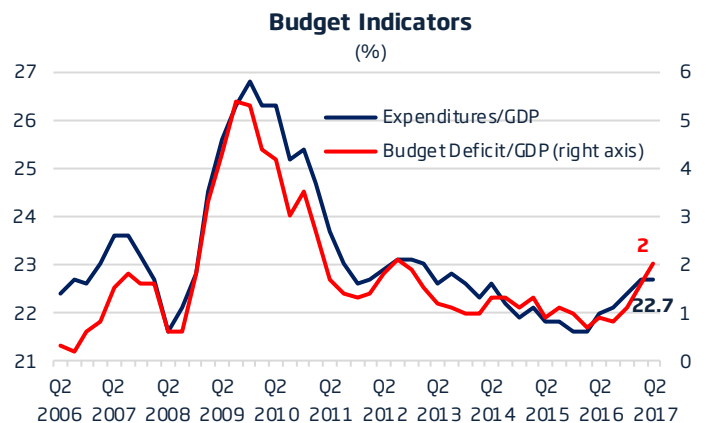
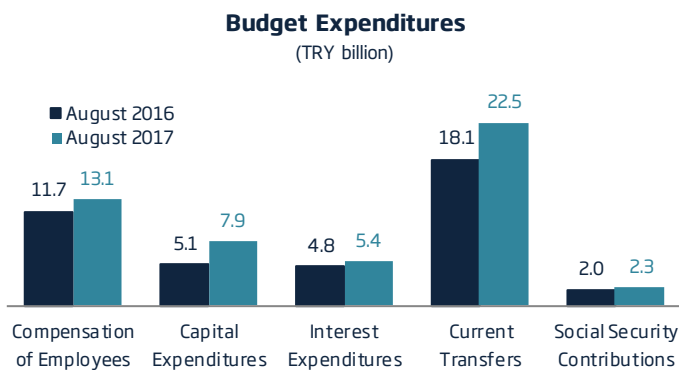
Rapid pick-up in public expenditures...

The upward impact of the measures taken to support economic activity was felt on budget expenditures in August. In this period, the expenditures rose by 22.4%, 9.4 points of this rise came from current transfers and 5.8 points from immovable capital produce.

Expectations...

Budget revenues expanded at a mild pace despite the strong outlook of economic activity. To what extent the recovery in the economy will be translated into tax revenues in the coming period matters to budget revenues.

According to the GDP growth figures for the 2nd quarter of 2017, the budget deficit recorded in the last 12 months reached 2% of GDP, the highest level in 5 years. In the 2nd half of the year, we expect that budget deficit/GDP ratio will remain broadly flat.



Central Government Budget

	August		%	January-August		%	2017 Budget		Real./
	2016	2017		Change	2016		2017	Change	
Expenditures	47.3	57.9	22.4	363.5	433.8	19.3	645.1	67.2	
Interest Expenditures	4.8	5.4	11.9	35.4	38.2	7.7	57.5	66.4	
Non-Interest Expenditures	42.4	52.4	23.6	328.1	395.7	20.6	587.6	67.3	
Revenues	50.9	57.0	12.0	368.4	408.7	10.9	598.3	68.3	
Tax Revenues	45.4	51.4	13.1	298.1	343.5	15.2	511.1	67.2	
Other Revenues	5.4	5.6	3.1	70.3	65.1	-7.4	87.2	74.7	
Budget Balance	3.6	-0.9	-	4.9	-25.2	-	-46.9	53.8	
Primary Balance	8.4	4.6	-46.1	40.3	13.0	-67.8	10.6	122.0	

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

Source: Ministry of Finance, Datastream

Lower-than-expected monthly CPI increase...

Monthly CPI inflation came in at 0.65% in September, below market expectations. According to the Reuters' survey CPI was expected to rise by 0.76% in September. Increase in Domestic Producer Price Index (D-PPI), on the other hand, was relatively low with 0.24% in the same period.

September	CPI		D-PPI	
(change %)	2016	2017	2016	2017
Monthly	0.18	0.65	0.29	0.24
Year-to-Date	4.72	7.29	3.79	9.78
Annual	7.28	11.20	1.78	16.28
Annual Average	7.92	9.98	4.07	13.26

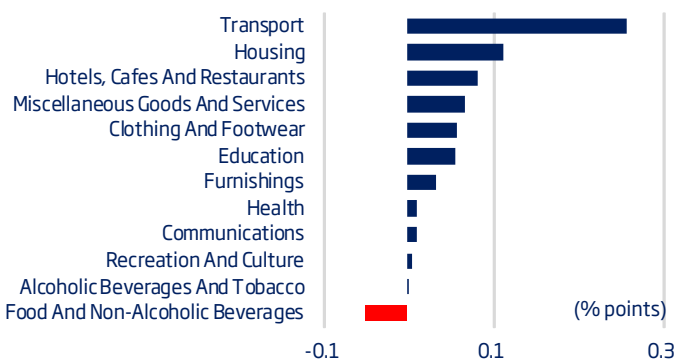
Double-digit annual CPI inflation...

Annual CPI inflation reached to 11.2% in September. The upward trend in core inflation indicators in this period raised the concerns that CPI inflation will remain in double-digit levels for a while. The annual D-PPI inflation also remained high at 16.3% in September

Rapid increase in transportation prices...

Among the main expenditure groups, only food prices, which have the highest weight in CPI basket, declined on a monthly basis in September. Thus, the limited monthly fall in the food prices dragged the inflation down by 5 basis points. Transportation prices, on the other hand, surged by 1.58% making a contribution of 26 basis points to monthly inflation. Analysis of the details of transportation prices revealed that the increases in shuttle fees, LPG fees and motorcycle prices came to the forefront in September. Surge in housing prices together with the restaurant and hotel prices contributed 20 basis points to the monthly inflation in total.

Contributions to the Monthly CPI Inflation



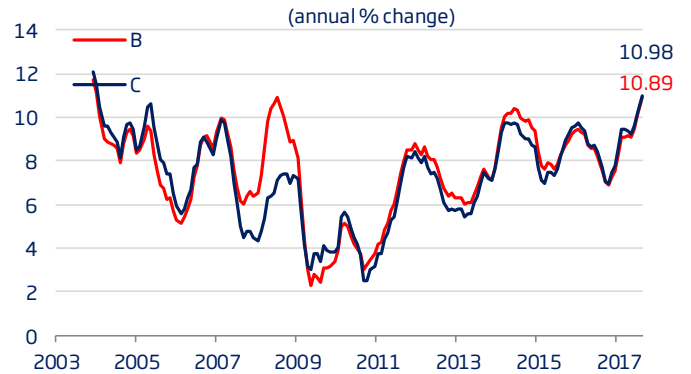
Surge in core inflation continued.

The deterioration in core inflation indicators continued in September. In this period, C index, which is the CBRT's favorite among the main core inflation indicators, recorded

an annual rise of 10.98%, the highest reading of almost in 14 years. In addition, annual inflation in B index reached its highest level since August 2008 with 10.89%.

Seasonal factors exerted a downward pressure on CPI figures in September. Indeed, excluding seasonal products, monthly consumer price inflation becomes 0.70%.

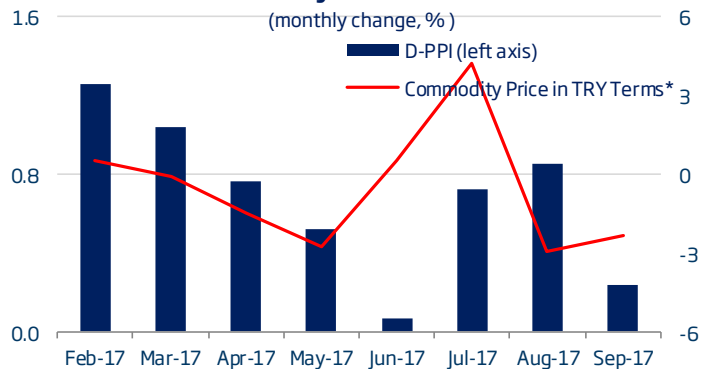
Special CPI Aggregates



The decline in food prices limited D-PPI.

Rise in the prices of coke and refined petroleum products and basic metals made a contribution of 42 basis points to the monthly increase in D-PPI. Besides, food prices, which decreased by 1.8% mom in September, reduced the monthly inflation by 39 basis points. In addition, the decline in electricity and gas prices reduced D-PPI by 13 basis points.

Commodity Prices and D-PPI



Inflation will remain at double-digit levels until December.

Although monthly inflation was below the expectations in September, we anticipate that the annual inflation will maintain high levels due to seasonal factors in October and will remain at double-digit levels until December. However, we expect that the annual inflation would decline to single-digit levels in December mainly due to the favorable base effect.

Source: Datastream, Turkstat

Fed meeting was high on the agenda.

Despite the sanctions imposed by developed countries, North Korea continued to test missiles in September which put pressure on global markets. Demand for safe assets increased due to low risk appetite.

Another factor affected the course of global markets in September was the changing expectations regarding Fed's interest rate hike. After the Fed meeting ended on September 20 and consumer price inflation that surpassed the market forecasts, expectations for another interest rate hike in 2017 have been strengthened.

Domestic markets, on the other hand, have been distressed by the increase in geopolitical concerns stemming from the referendum held in northern Iraq.

CBRT kept monetary policy unchanged.

CBRT did not change interest rates at its meeting held on September 14. In the announcement published after the meeting, it is stated that current elevated levels of inflation and developments in core inflation indicators pose risks on the pricing behavior and tight monetary policy stance has been maintained. Markets have welcomed the emphasis of the committee on further tightening of the monetary policy if deemed necessary.

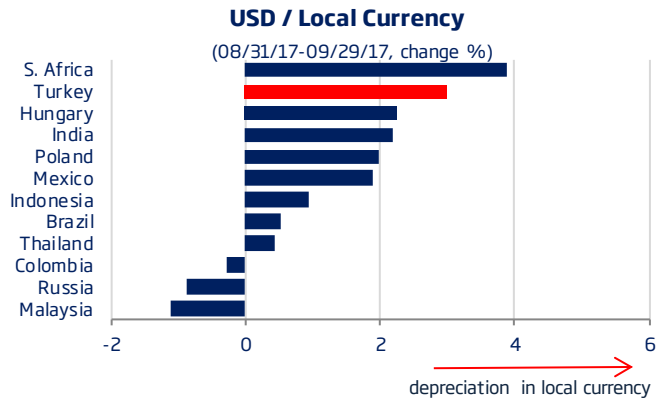
Downturn in BIST-100 index...

BIST-100 index, which reached historical high levels with 110,423 points on August 29, followed a downward trend afterwards due to increasing geopolitical concerns. Thus, the BIST-100 index decreased by 6.5% compared to the end of August and became 102,908 points as of September 29.

Fluctuations in USD/TRY...

USD/TRY, which declined due to the depreciation in US dollar in the first half of September, fell below 3.40 on September 11 and tested the lowest levels of 2017. This also stemmed from the strong second quarter growth data. However, in the following days USD/TRY increased again

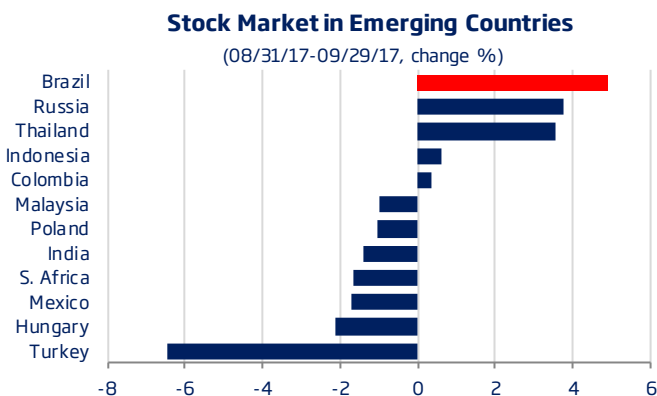
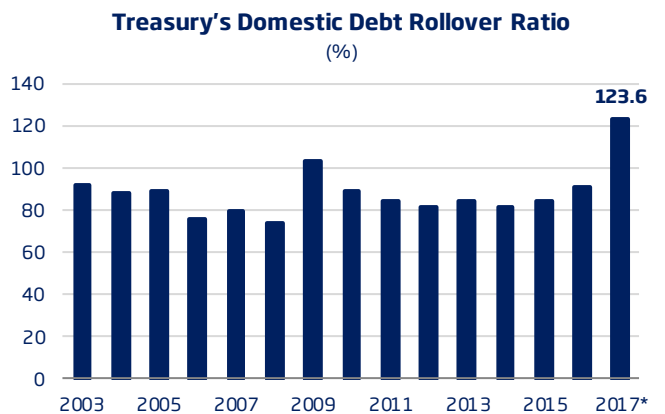
due to the higher expectations regarding an interest rate hike from Fed and the developments in the northern Iraq. USD/TRY rose by 3% compared to the end of August and stood at 3.56 as of September 29.



Compared to similar countries, Turkey displayed a weaker performance in September in terms of both equities and exchange rates. The developments in the neighborhood of Turkey have been considerably effective on this performance.

Treasury's domestic debt rollover ratio is rising.

Realizing at a higher level compared to the previous years, Treasury's domestic debt rollover ratio has put pressure on bond interests. The compound interest rate of 2-year benchmark bond increased by 27 basis points to 11.61% compared to the end of August as of September 29.



(*) January-August
Source: Datastream, Treasury, CBRT

Medium Term Program covering 2018-2020 was announced.

According to Medium Term Program (MTP), Turkish economy will grow by 5.5% in each of the following three years. It is estimated that consumption expenditures will contribute to growth by 2.9 points in 2018 while fixed capital investments will make a contribution of 1.6 points. On the other hand, a relative decline in contribution of net exports is foreseen. For the years 2019 and 2020, the contribution of consumption, investments and net exports are projected to be 3.1, 1.7 and 0.7 point, respectively.

It is estimated that the rise in CPI, which is expected to be realized at 9.5% at the end of 2017 in the MTP, will gradually decrease in the following years and become 5% in 2020. Decline in inflation is backed by the assumption that oil prices will stay at the band of 55-60 USD/barrel level and the increase in exchange rates will remain below inflation.

A moderate outlook has been offered on foreign trade side. It is estimated that, in the period of 2018-2020, the average annual increase will be 7.7% in exports and 7% in imports. It is expected that tourism revenues will also recover in this period. Against this backdrop, current account deficit to GDP ratio is expected to decline gradually to 4.3% in 2018 and go down as low as to 3.9% at the end of 2020. While generating these projections, it is considered that resources will be directed to high value-added areas, the recovery in the economies of trade partners will become stable, and the barriers to international trade will decrease.

The unemployment rate over the time horizon of the MTP will gradually decline and stand at 9.6% in 2020. Taking into consideration that the labor force participation rate will increase to 54.7% in this period, it is predicated that more employment opportunities will be created in the next 3 years than in the previous years.

On the public finance front, it is aimed to limit the share of expenditures in national income during the MTP period. Nevertheless, the increase in budget expenditures in 2018

MTP Forecasts	2017E	2018P	2019P	2020P
GDP (annual, %)	5.5	5.5	5.5	5.5
GDP (billion TRY)	3,035	3,446	3,872	4,321
GDP (billion USD)	847	923	988	1,074
GDP Per Capita (USD)	10,579	11,409	12,100	13,024
GDP Per Capita (PPP, USD)	26,140	27,915	29,804	31,774
Exports (billion USD)	157	169	182	195
Imports (billion USD)	222	237	253	272
CAD (billion USD)	39.2	40.0	40.9	41.9
CAD / GDP (%)	4.6	4.3	4.1	3.9
Unemployment rate (%)	10.8	10.5	9.9	9.6
CPI (annual, %)	9.5	7.0	6.0	5.0
USD/TRY*	3.58	3.73	3.92	4.02
Budget Deficit / GDP (%)	2.0	1.9	1.9	1.6
Debt Stock** / GDP (%)	28.5	28.5	28.0	27.5

(*) According to above GDP figures

(**) EU-defined general government debt stock

is expected to be in double-digit levels due mostly to the rise in interest expenditures. In MTP, it is aimed to increase tax revenues to levels that meet expenditures. In this respect, Finance Minister Naci Ağbal has announced some tax rate increases that will take effect with a new bill.

In general, it is understood that economic growth will remain a priority thanks to the supportive fiscal policies during the period of 2018-2019. Besides, exit from the expansionary fiscal policies seems to be realized in 2020. However, it is noteworthy that the relationship between growth and some other indicators like inflation and current account deficit is weak in the plan which forecasts a stable growth outlook with 5.5%.

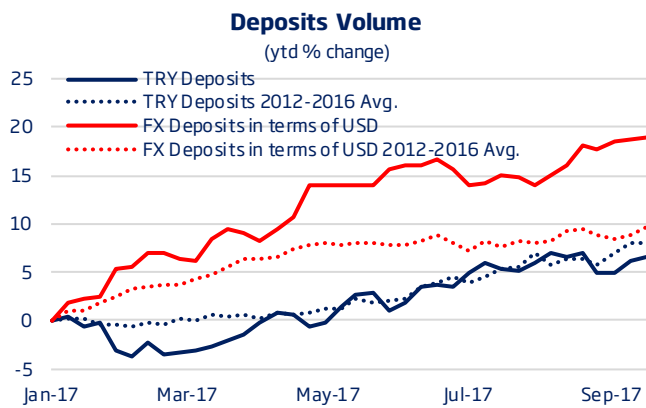
MTP Central Government Budget Forecasts

	(billion TRY)				(annual % change)		
	2017	2018	2019	2020	2018	2019	2020
Total Expenditures	673.7	762.8	838.5	912.9	13.2	9.9	8.9
Non-interest	616.2	691.1	753.5	816.9	12.2	9.0	8.4
Interest	57.5	71.7	85.0	96.0	24.7	18.5	12.9
Total Revenues	612.0	696.8	765.3	842.3	13.9	9.8	10.1
Tax	520.5	599.4	663.9	730.5	15.2	10.8	10.0
Other	91.6	97.4	101.4	111.8	6.3	4.1	10.3
Budget Balance	-61.7	-65.9	-73.2	-70.5	6.8	11.1	-3.7

Source: Ministry of Development

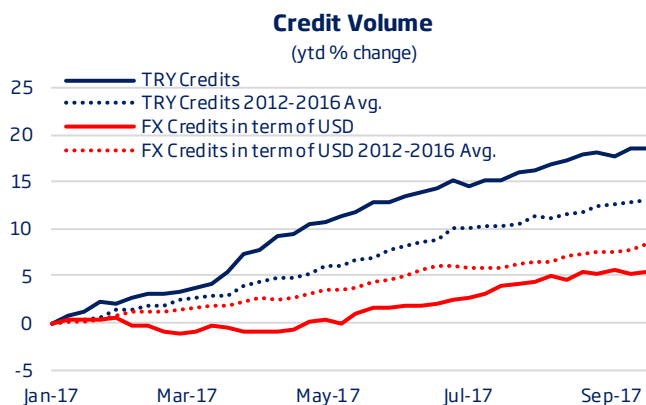
The volume of deposits increased by 11.6% compared to the end of the previous year.

According to the Weekly Bulletin published by the BRSA, as of 22 September total deposits expanded by 11.6% compared to end of 2016 to TRY 1,720 billion. Having lost some speed in the previous weeks, the volume of TRY deposits has regained momentum in recent weeks and increased by 8% compared to the end of the previous year, while the volume of FX deposits expanded by 16.2%. FX deposits in terms of USD, on the other hand, increased by 17.2%. In this period, the growth of TRY deposits was close to the previous years' averages, while USD denominated FX deposits have increased considerably faster than their previous years' averages.



High growth in TRY credits...

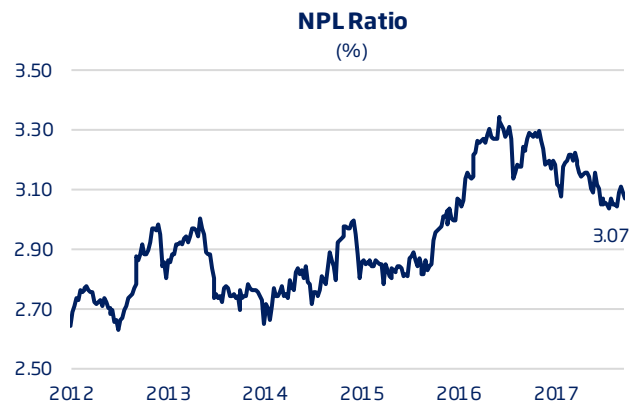
Especially in the first half of the year, the volume of the TRY credits rose rapidly due to the increase in loans supported by the Credit Guarantee Fund (CGF). Thus, TRY credit volume expanded by 18.5% compared to the year-end as of September 22. The year-to-date increase in TRY credits was substantially above the average of the last 5 years. FX loans in terms of USD, which displayed a weak performance due to depreciation in TRY, have recently presented an upward trend, but are still well below 2012-2016 average. As of September 22, total credit volume grew by 13.5% compared to the year-end.



Considering the annual growth rates, it is seen that the deposit volume and the credit volume expanded by 21.4% and 24.3%, respectively.

NPL ratio at 3.07%...

Gross non-performing loans, which had stood at TRY 57.9 billion at the end of 2016, was realized as TRY 63 billion on September 22. Despite the 5.1 billion TRY increase in non-performing loans, the sector's NPL ratio declined from 3.20% to 3.07%. This was stemmed from the upsurge of 238 billion TRY in credit volume.



Securities portfolio...

As of September 22, banks' securities portfolio expanded by 6.1% compared to the year-end. The decline in the available-for-sale securities portfolio was around 26% in this period. As of September 22, securities given as collateral has reached TRY 159 billion, increasing from TRY 60 billion at the end of 2016.

The portfolio of securities held under custody gained some momentum and increased by 15% as of September 22, compared to the end of 2016. This was mainly stemmed from the 24.3% increase in the securities portfolio of non-residents. Residents' securities portfolio expanded at a slower rate with 8.3% in this period.

Net FX position...

As of September 22, banks' on-balance sheet FX position was (-) USD 52,437 million while off-balance sheet FX position was realized as (+) USD 52,465 million. Hence, banking sector's net FX position became (+) USD 28 million.

In addition to North Korea-related political tensions, new geopolitical problems have come to the scene in the recent period. In this context, rising political risks stand out as a significant source of uncertainty surrounding the global economy and markets.

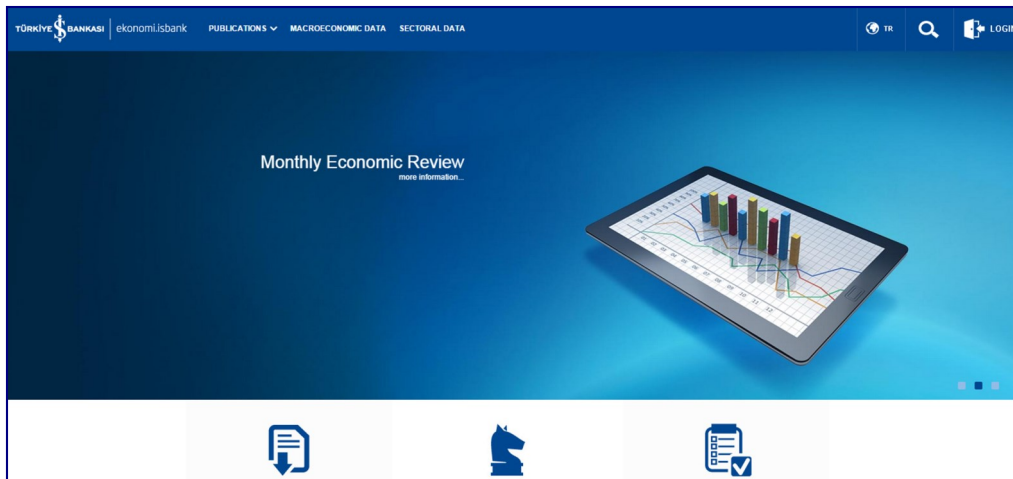
Besides all these developments, the steps taken by advanced economies' central banks and the statements they have made are closely monitored. The exit signals from these central banks' excessive loose monetary policies have been creating question marks over the sustainability of the upturn in the financial markets fueled by the current strength of global risk appetite.

Domestic markets have remained under pressure recently due to the increase in geopolitical concerns related to our neighborhood geography. In an environment such that consumer price inflation reached double digit levels again, a strong outlook for economic growth in the recent quarters provides enough space for the CBRT to maintain its tight monetary policy stance.

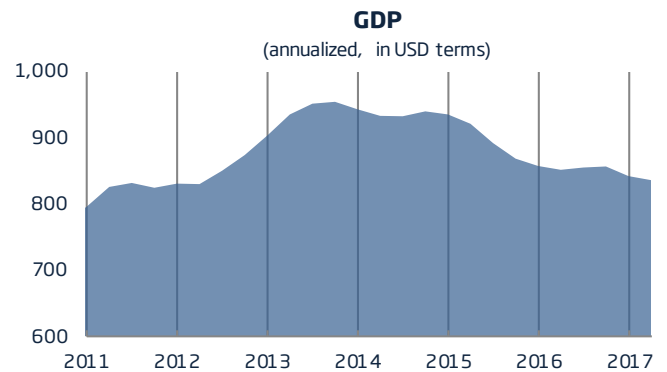
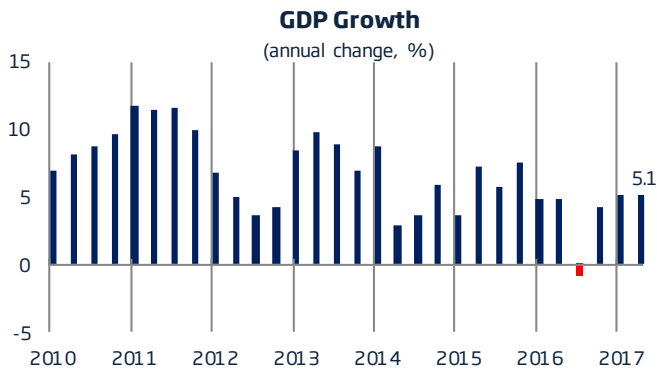
Forecasts (%)	2017	2018
Growth	5.0	4.1
CA Deficit/GDP	4.5	4.8
Inflation	9.5	8.5

Year-end forecast for inflation

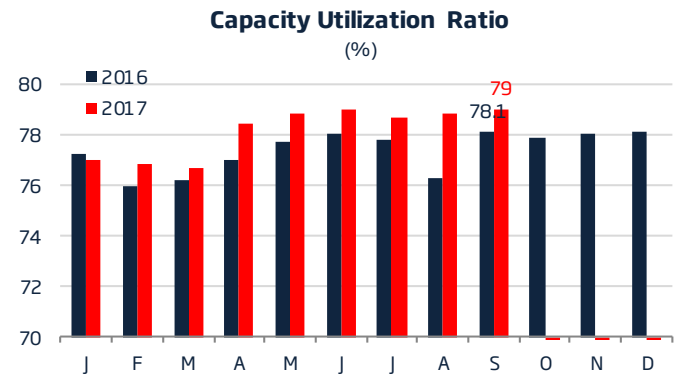
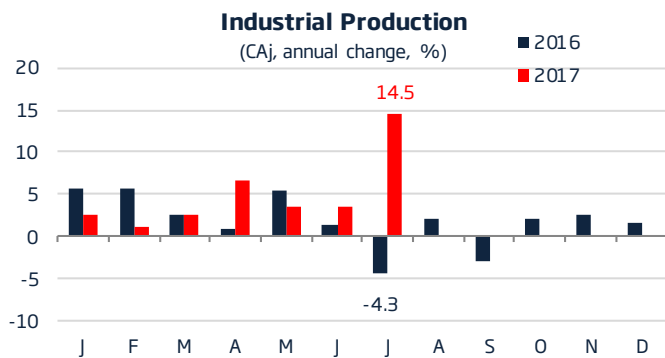
Our reports are available on our website <https://research.isbank.com.tr>



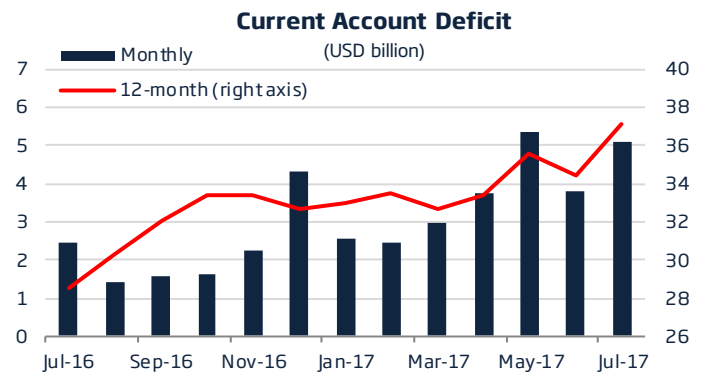
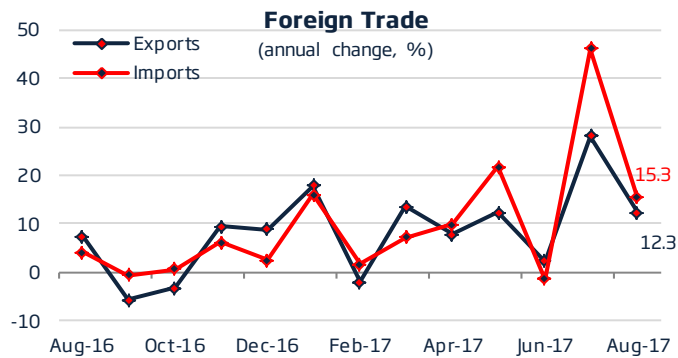
Growth



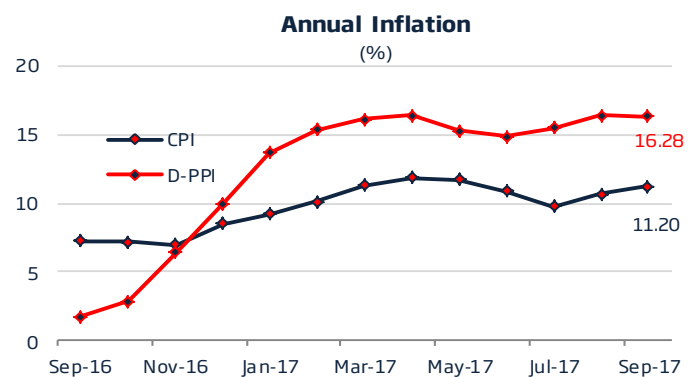
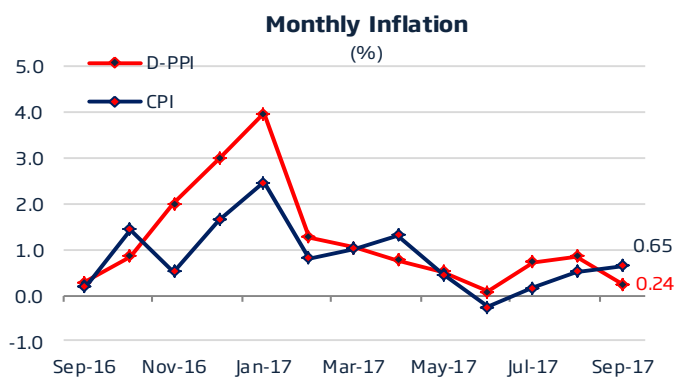
Industrial Production and Capacity Utilization Ratio



Foreign Trade and Current Account Balance



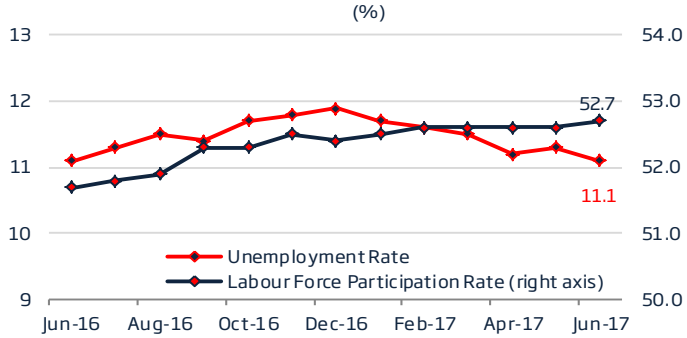
Inflation



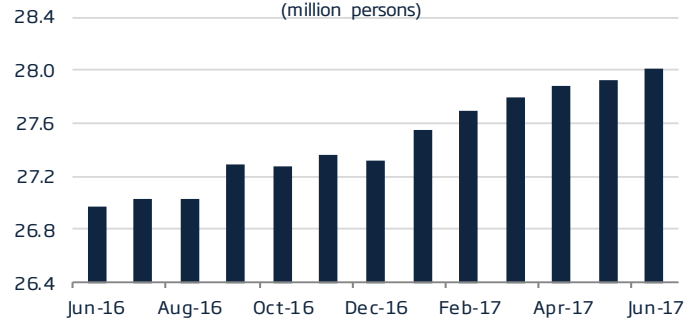
Source: CBRT, Datastream, Turkstat

Labor Market

Seasonally Adjusted Labour Force Indicators (%)



Seasonally Adjusted Employment (million persons)

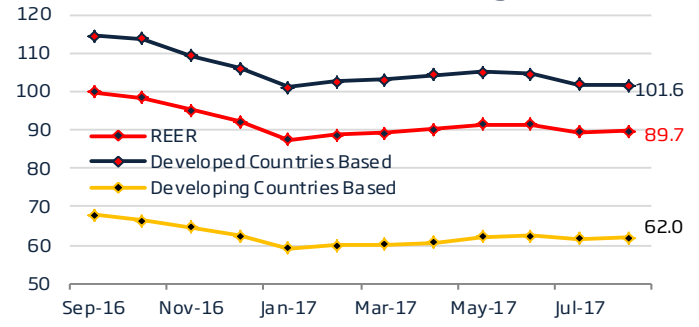


FX Market

Currency Basket

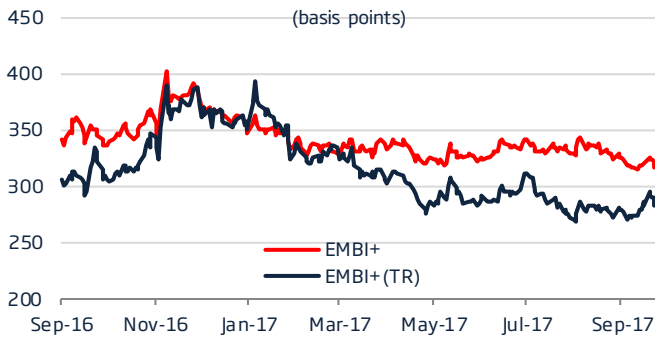


CPI Based Real Effective Exchange Rate

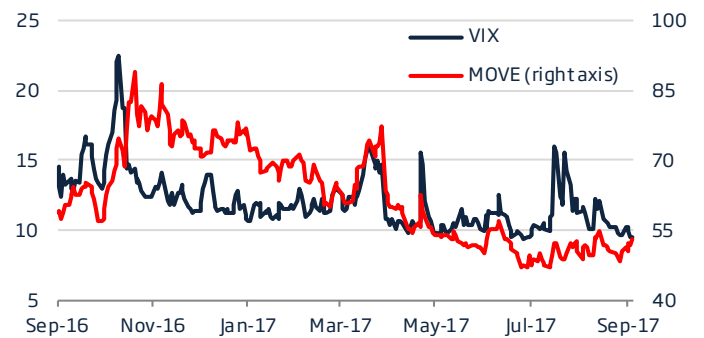


Risk Indicators

Risk Premiums (basis points)

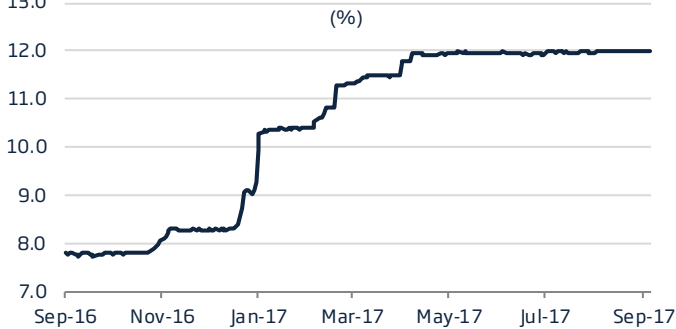


VIX and MOVE Index



Interest Rates

Weighted Average Cost of CBRT Funding (%)



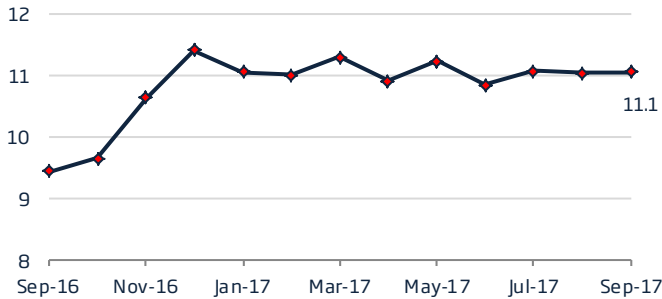
Yield of 2-Year Benchmark Bond (%)



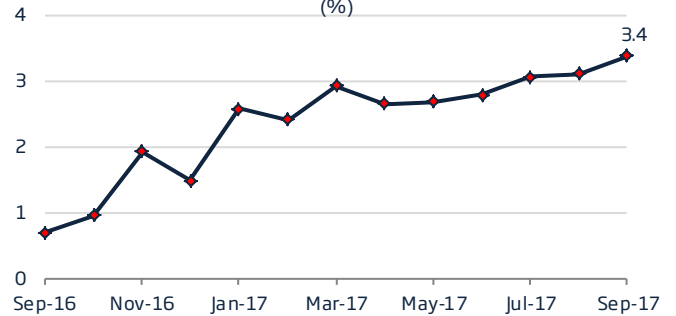
Source: BIST, CBRT, Datastream, JP Morgan, Reuters, Turkstat

Bond-Bill Market

Average Compound Yields in Treasury Auctions (%)

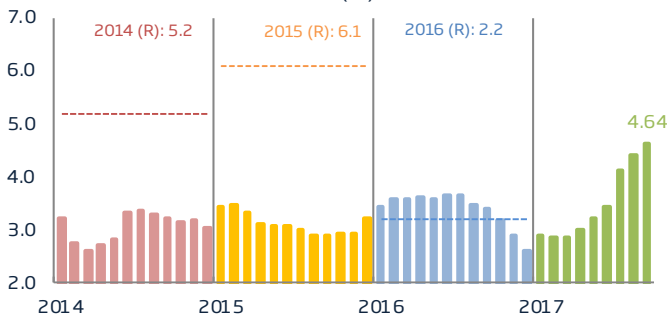


Expected Real Yield of TRY GDDIs (%)

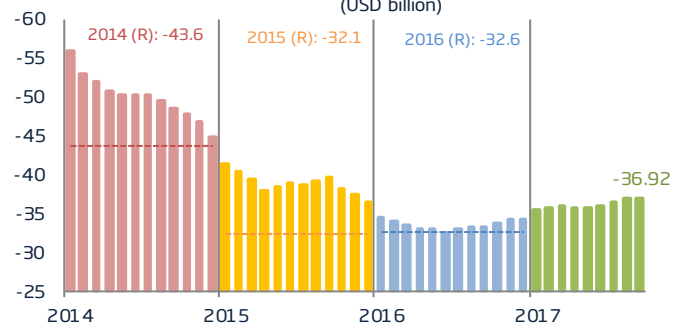


CBRT's Survey of Expectations and Other Leading Indicators

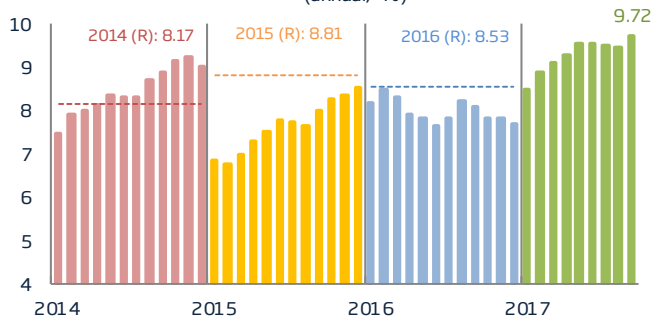
Expected GDP Growth for the Current Year (%)



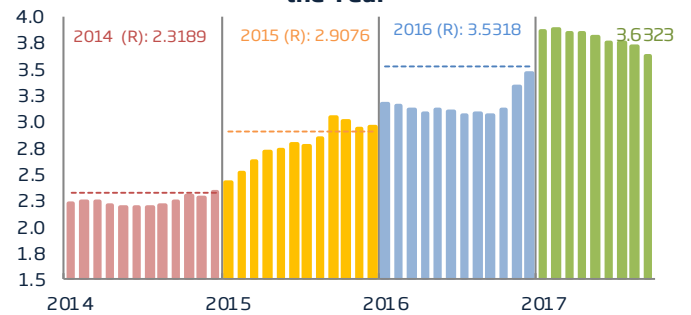
Expected CAD for the Current Year (USD billion)



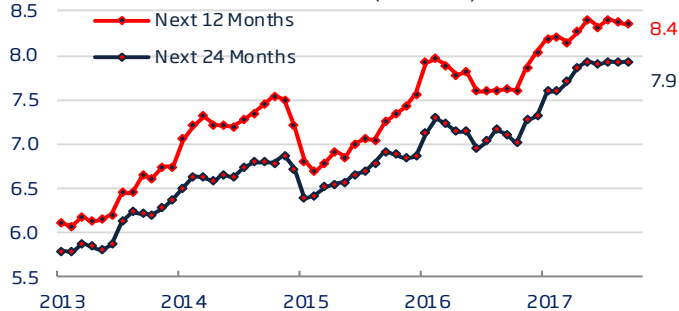
Expected CPI Inflation by the End of the Year (annual, %)



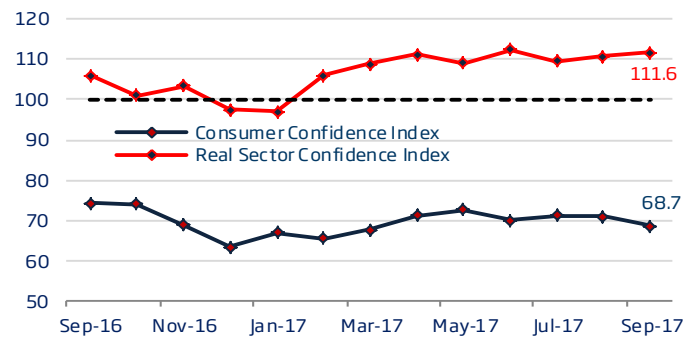
Expected Level of USD/TRY by the End of the Year



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	862	863	175.9	204.8	-
GDP (TRY billion)	1,570	1,810	2,045	2,339	2,609	649.5	734.2	-
GDP Growth Rate (%)	4.8	8.5	5.2	6.1	3.2	5.2	5.1	-
Inflation (%)						Jul-17	Aug-17	Sep-17
CPI (annual)	6.16	7.40	8.17	8.81	8.53	9.79	10.68	11.20
Domestic PPI (annual)	2.45	6.97	6.36	5.71	9.94	15.45	16.34	16.28
Seasonally Adjusted Labor Market Figures						Apr-17	May-17	Jun-17
Unemployment Rate (%)	8.8	9.1	10.3	10.2	11.9	11.2	11.3	11.1
Labor Force Participation Rate (%)	48.5	48.5	51.0	51.7	52.4	52.6	52.6	52.7
FX Rates						Jul-17	Aug-17	Sep-17
CPI Based Real Effective Exchange Rate	110.3	100.3	105.0	97.5	92.0	89.5	89.7	
USD/TRY	1.7847	2.1485	2.3378	2.9189	3.5176	3.5237	3.4526	3.5561
EUR/TRY	2.3530	2.9605	2.8288	3.1708	3.7102	4.1544	4.1048	4.2040
Currency Basket (0.5*EUR+0.5*USD)	2.0688	2.5545	2.5833	3.0448	3.6139	3.8390	3.7787	3.8801
Foreign Trade Balance⁽¹⁾ (USD billion)						Jun-17	Jul-17	Aug-17
Exports	152.5	151.8	157.6	143.8	142.5	148.4	151.1	152.6
Imports	236.5	251.7	242.2	207.2	198.6	207.3	214.1	216.6
Foreign Trade Balance	-84.1	-99.9	-84.6	-63.4	-56.1	-58.9	-63.0	-64.0
Import Coverage Ratio (%)	64.5	60.3	65.1	69.4	71.8	71.6	70.6	70.4
Balance of Payments⁽¹⁾ (USD billion)						May-17	Jun-17	Jul-17
Current Account Balance	-48.0	-63.6	-43.6	-32.1	-32.6	-35.6	-34.4	-37.1
Capital and Financial Accounts	-48.9	-62.1	-41.6	-21.9	-21.0	-32.4	-29.1	-32.8
Direct Investments (net)	-9.5	-9.3	-5.8	-12.5	-9.2	-9.9	-8.6	-9.0
Portfolio Investments (net)	-41.0	-24.0	-20.1	15.7	-6.3	-12.1	-15.4	-14.5
Other Investments (net)	-19.2	-38.8	-15.3	-13.4	-6.4	-1.1	5.0	1.4
Reserve Assets (net)	20.8	9.9	-0.5	-11.8	0.8	-9.3	-10.0	-10.8
Net Errors and Omissions	-0.9	1.6	2.0	10.2	11.6	3.2	5.3	4.3
Current Account Balance/GDP (%)	-5.5	-6.7	-4.7	-3.7	-3.8	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Jun-17	Jul-17	Aug-17
Expenditures	361.9	408.2	448.8	506.3	583.7	324.4	376.0	433.8
Interest Expenditures	48.4	50.0	49.9	53.0	50.2	27.0	32.8	38.2
Non-interest Expenditures	313.5	358.2	398.8	453.3	533.4	297.4	343.2	395.7
Revenues	332.5	389.7	425.4	482.8	554.4	299.2	351.7	408.7
Tax Revenues	278.8	326.2	352.5	407.8	458.7	246.1	292.1	343.5
Budget Balance	-29.4	-18.5	-23.4	-22.6	-29.3	-25.2	-24.3	-25.2
Primary Balance	19.0	31.4	26.5	30.4	21.0	1.8	8.4	13.0
Budget Balance/GDP (%)	-1.9	-1.0	-1.1	-1.0	-1.1	-	-	-
Central Government Debt Stock (TRY billion)						Jun-17	Jul-17	Aug-17
Domestic Debt Stock	386.5	403.0	414.6	440.1	468.6	495.3	504.6	513.3
External Debt Stock	145.7	182.8	197.9	238.1	291.0	316.4	312.5	307.2
Total Debt Stock	532.2	585.8	612.5	678.2	759.6	811.8	817.1	820.5

(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	Jun.17	Jul.17	Change ⁽¹⁾
TOTAL ASSETS	1,370.7	1,732.4	1,994.3	2,357.4	2,731.0	2,972.0	2,997.4	9.8
Loans	794.8	1,047.4	1,240.7	1,485.0	1,734.3	1,919.2	1,943.8	12.1
TRY Loans	588.4	752.7	881.0	1,013.4	1,131.4	1,304.1	1,318.8	16.6
Share (%)	74.0	71.9	71.0	68.2	65.2	68.0	67.8	-
FX Loans	206.4	294.7	359.7	471.5	602.9	615.0	625.0	3.7
Share (%)	26.0	28.1	29.0	31.8	34.8	32.0	32.2	-
Non-performing Loans	23.4	29.6	36.4	47.5	58.2	61.3	62.2	7.0
Non-performing Loan Rate (%)	2.9	2.8	2.9	3.1	3.2	3.1	3.1	-
Securities	270.0	286.7	302.3	329.7	351.6	368.2	367.1	4.4
TOTAL LIABILITIES	1,370.7	1,732.4	1,994.3	2,357.4	2,731.0	2,972.0	2,997.4	9.8
Deposits	772.2	945.8	1,052.7	1,245.4	1,453.6	1,578.1	1,595.3	9.7
TRY Deposits	520.4	594.1	661.3	715.4	845.1	882.6	904.0	7.0
Share (%)	67.4	62.8	62.8	57.4	58.1	55.9	56.7	-
FX Deposits	251.8	351.7	391.4	530.0	608.5	695.5	691.3	13.6
Share (%)	32.6	37.2	37.2	42.6	41.9	44.1	43.3	-
Securities Issued	37.9	60.6	89.3	97.8	116.3	131.0	130.0	11.8
Payables to Banks	173.4	254.2	293.2	361.3	417.6	425.1	420.7	0.7
Funds from Repo Transactions	79.9	119.1	137.4	156.7	137.8	87.4	87.3	-36.6
SHAREHOLDERS' EQUITY	181.9	193.7	232.0	262.3	300.3	330.9	335.7	11.8
Profit (Loss) of the Period	23.5	24.7	24.6	26.1	37.5	25.4	29.0	-
RATIOS (%)								
Loans/GDP	50.6	57.9	60.7	63.5	66.5	-	-	-
Loans/Assets	58.0	60.5	62.2	63.0	63.5	64.6	64.8	-
Securities/Assets	19.7	16.6	15.2	14.0	12.9	12.4	12.2	-
Deposits/Liabilities	56.3	54.6	52.8	52.8	53.2	53.1	53.2	-
Loans/Deposits	102.9	110.7	117.9	119.2	119.3	121.6	121.8	-
Capital Adequacy (%)	17.9	15.3	16.3	14.6	15.6	16.9	17.0	-

(1) Year-to-date % change



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