



October 2018

## Economic Research Division

İzlem Erdem  
Chief Economist  
izlem.erdem@isbank.com.tr

Alper Gürler  
Unit Manager  
alper.gurler@isbank.com.tr

H. Erhan Gül  
Asst. Manager  
erhan.gul@isbank.com.tr

İlker Şahin  
Economist  
ilker.sahin@isbank.com.tr

Gamze Can  
Economist  
gamze.can@isbank.com.tr

Ayşim Kalkan  
Asst. Economist  
aysim.kalkan@isbank.com.tr

Turkish Economy .....	2
Financial Markets .....	6
Banking Sector.....	7
Concluding Remarks.....	8
Graphs.....	9
Tables.....	11

## Global Economy

Trade war concerns continued to be on the agenda. While US set 10% of tariffs on 200 billion USD worth of Chinese goods and decided to raise the rate to 25% in 2019, China announced that it will impose new tariffs (5%-10%) on 60 billion USD worth of US goods. On the other hand, US and Canada reached an agreement. USMCA, a replacement to the NAFTA, is expected to be signed by US, Canada and Mexico.

Fed raised the policy rate in line with expectations by 25 basis points to 2.0%-2.25% at its monetary policy meeting ended on September 26. In the FOMC statement, Fed underlined the strength of the economic activity and removed the language that defines its policy as “accommodative”.

In its meeting on September 13, ECB left the interest rates on hold and reaffirmed that the monthly asset purchases would be decreased to 15 billion EUR from October. Central Bank also revised its growth forecasts for 2018 and 2019 downwards.

Recent data in China indicates a deceleration in the economic activity.

Oil prices followed an increasing trend due to upcoming US sanctions on Iran and reluctant stance of OPEC against US call for a production increase.

## Turkish Economy

Slowdown in economic activity has started to appear in growth data as of the second quarter of 2018. According to the chained volume index, GDP grew by 5.2% compared to the same period of the previous year, broadly matching expectations.

Unemployment rate was realized as 10.2% in June. seasonally adjusted employment figures continued to deteriorate and came in at 10.9%.

Calendar adjusted industrial production index increased above expectations by 5.6% yoy in July. Manufacturing PMI continued to decrease in September and was realized as 42.7, the lowest level since March 2009.

In August, export volume contracted by 6.5% yoy to 12.4 billion USD while import volume declined by 22.7% to 14.8 billion USD. Thus, foreign trade deficit narrowed by 59% yoy. According to the provisionary foreign trade data released by the Ministry of Trade, foreign trade deficit declined by 76.9% yoy in September.

In July, current account deficit was realized as 1.75 billion USD in parallel with expectations. 12-month cumulative current account deficit fell to 54.6 billion USD in July, the lowest level in last five months.

Central government budget gave 5.8 billion TRY deficit. Budget deficit in the first 8 months, doubled compared to the same period of the previous year and reached 50.8 billion TRY.

In September, CPI rose above market expectations by 6.30% on a monthly basis. Having increased since April, annual CPI inflation continued its upward trend and surged up to 24.52% in September. Besides, annual increase in D-PPI reached 46.15%.

**Economic growth came in line with expectations at 5.2%.**

Normalization in economic activity has started to appear in growth data as of the second quarter of 2018. According to the chained volume index, GDP grew by 5.2% compared to the same period of the previous year, broadly matching expectations. First quarter growth rate was revised down to 7.3% from 7.4%. Thus, Turkey's GDP expanded by 6.2% yoy in the first half of the year. Private consumption expenditures and investment expenditures were the main drivers of growth in this period.

	Contributions to Growth (% point)			
	2017 Annual	2018		
		Q1	Q2	H1
<b>Consumption</b>	<b>4.4</b>	<b>6.5</b>	<b>4.8</b>	<b>5.6</b>
Private	3.7	5.8	3.8	4.7
Public	0.7	0.7	1.0	0.8
<b>Investment</b>	<b>2.3</b>	<b>2.3</b>	<b>1.2</b>	<b>1.7</b>
<b>Stock Change</b>	<b>0.6</b>	<b>2.0</b>	<b>-1.7</b>	<b>0.0</b>
<b>Net Exports</b>	<b>0.1</b>	<b>-3.5</b>	<b>1.0</b>	<b>-1.1</b>
Exports	2.5	0.2	1.0	0.6
Imports	-2.4	-3.6	-0.1	-1.8
<b>GDP</b>	<b>7.4</b>	<b>7.3</b>	<b>5.2</b>	<b>6.2</b>

Numbers may not add to total due to rounding.

Annual GDP growth increases to 5.5% when adjusted for calendar effect. Seasonally and calendar adjusted growth, on the other hand, became 0.9% qoq, the slowest pace in seven quarters.

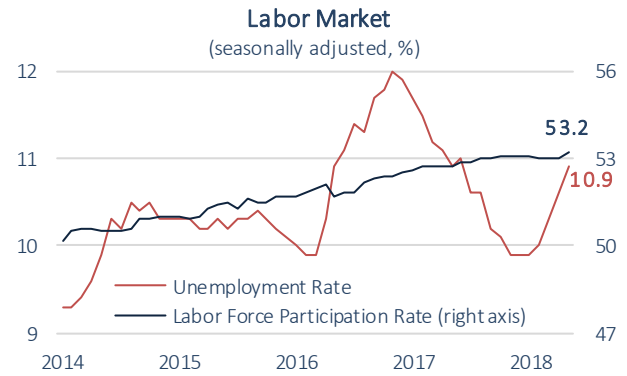
According to expenditure approach, the contribution of private consumption expenditures to second quarter GDP growth was 4.8 pp. 3.8 pp of this contribution stemmed from private consumption expenditures while the rest came from public consumption expenditures. Household expenditures for non-durable and semi-durable goods were behind this strong contribution while the fall in household demand for durable goods weighed on growth.

In the previous two quarters, net exports had considerably pushed growth down due largely to the increases in energy prices and gold imports. In the second quarter of the year, on the other hand, net exports added 1 pp to growth. The recovery in exports and the deceleration in imports, both due partly to TRY depreciation, were behind this performance.

GDP figures by production approach showed that all main sub-sectors except agricultural sector boosted growth in the second quarter of the year. Having the largest share in GDP, services sector contributed to economic growth 3.8 pp while the contribution of construction sector declined to 0.1 pp. Agricultural sector dragged growth down by 0.1 pp in this period.

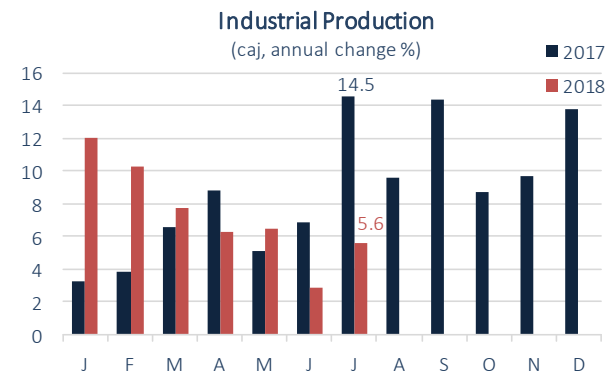
**Unemployment rate was 10.2% in June.**

Unemployment rate was realized as 10.2% in June. During this period, the number of employed persons maintained its tendency to increase with the contribution of industry and services sectors in particular, however; the capacity to create new jobs weakened due to the problems in agriculture and construction sectors. On the other hand, seasonally adjusted employment figures continued to deteriorate as it was the case since March. Seasonally adjusted unemployment rate came in at 10.9%.



**Industrial production increased by 5.6% in July.**

According to calendar adjusted figures, industrial production index increased above expectations by 5.6% yoy in July. The rise in the index was driven by the favorable course in the manufacturing industry and mining sector. The production rose in 18 sub-sectors out of 24 in the manufacturing industry. In this period, while activity in other transportation vehicles and basic pharmaceutical production gained pace; production in main metal industry decreased as a result of the uncertainties in construction sector and international markets.

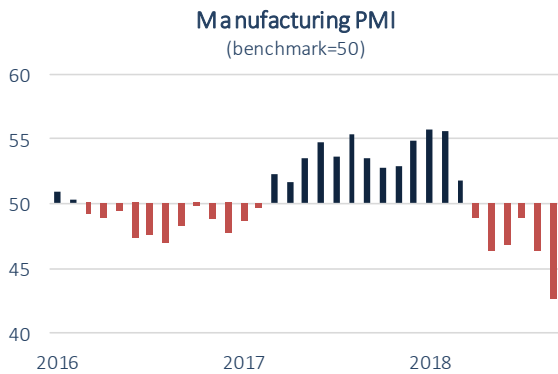


**Manufacturing PMI continued to decline.**

Manufacturing PMI continued to decrease in September and was realized as 42.7, the lowest level since March 2009. The sixth consecutive figure below the threshold indicated that the slowdown continued in the manufacturing sector. Regarding the sub-indexes, total

Source: Datastream, Markit, Turkstat

output, new orders and new export orders recorded declines. Input costs and output prices posted record increases in line with the high course in the exchange rates.

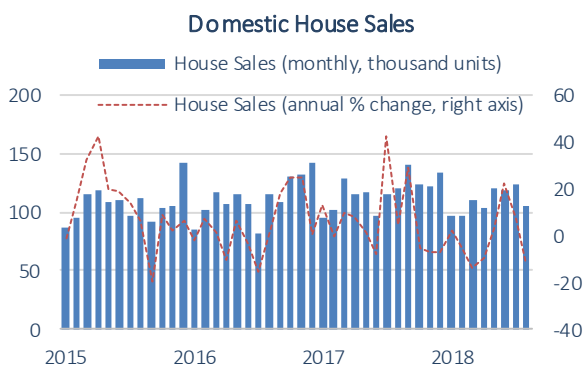


### Consumer confidence index decreased to 59.3.

Decreasing trend in confidence indices have also continued in September. Seasonally adjusted real sector confidence decreased by 5.9 points compared to the previous month to 90.4. Besides, confidence indices in all sectors fell in September while consumer confidence was realized as 59.3, the lowest level in last 3 years. As the decline in the consumer confidence index was broad based, the decline in the tendency to spending money on durable goods pointed out that the downside risks to economic growth became more evident. Capacity utilization rate (CUR) also declined in September. Seasonally adjusted CUR fell 1.8 points mom in September to 75.8%.

### House sales decreased by 12.5% yoy in August.

Following an upward trend since May thanks to incentives and discount campaigns, house sales declined by 12.5% yoy in August to 105,000 units. During this period, mortgaged house sales declined by 67.5% yoy, while other sales rose by 13.5%.



### House prices...

Hedonic house prices (adjusted prices for quality changes) rose by 9.4% yoy, continued to decline in real terms. House prices in Istanbul increased by 4.1%, one of

the lowest pace among other cities. On the other hand, house prices in Ankara and İzmir rose by 7.2% and 15.6%, respectively in this period.

### Central government budget gave 5.8 billion TRY deficit.

Central government budget deficit, which was 874 million TRY in August of last year, became 5.8 billion TRY in the same month of this year. Budget revenues increased by 23.3% yoy to 70.3 billion TRY, while expenditures increased by 31.5% and were realized as 76.1 billion TRY. Parallel to the rise in interest expenditures, the primary surplus decreased 2.1 billion TRY yoy to 2.5 billion TRY in August.

In January-August period, the budget deficit has doubled. Despite the 18.9% increase in budget revenues in the first 8 months, budget expenditures expanded by 23.7% in the same period. Thus, the budget deficit, which was 25.2 billion TRY in January-August period of last year, was realized as 50.8 billion TRY in the same period of this year. The primary balance, which gave a surplus of 13 billion TRY in the first 8 months of 2017, gave a deficit of 559 million TRY in the same period of this year.

#### Central Government Budget

	January-August 2017	January-August 2018	% Change
<b>Expenditures</b>	<b>433.8</b>	<b>536.5</b>	<b>23.7</b>
Interest Expenditures	38.2	50.2	31.5
Non-Interest Expenditures	395.7	486.3	22.9
<b>Revenues</b>	<b>408.7</b>	<b>485.7</b>	<b>18.9</b>
Tax Revenues	343.5	410.1	19.4
Other Revenues	65.1	75.6	16.1
<b>Budget Balance</b>	<b>-25.2</b>	<b>-50.8</b>	<b>101.6</b>
<b>Primary Balance</b>	<b>13.0</b>	<b>-0.6</b>	<b>-</b>

### In August, foreign trade deficit narrowed by 59% yoy.

In August, export volume contracted by 6.5% yoy to 12.4 billion USD while import volume declined by 22.7% to 14.8 billion USD. Thus, foreign trade deficit narrowed by 59% compared to the same period of the previous year, continuing its downward trend since June. Import coverage ratio, which was 69.1% in August 2017, increased to 83.6% in this period.

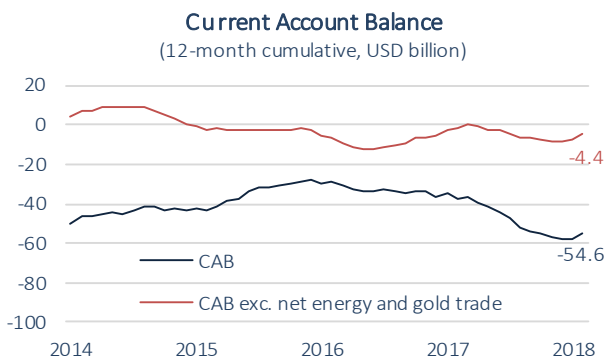
Having decreased by five consecutive months, imports of consumption goods declined by 42.4%, the fastest pace since November 2001. In this period, capital goods and intermediate goods imports declined by 36.3% and 16.5%, respectively. Decline in automobiles demand led the decrease in consumption goods.

According to the provisional foreign trade data released by the Ministry of Trade, foreign trade deficit continued to narrow in September. In this period, trade deficit declined by 76.9% yoy. Exports increased by 22.6% yoy and imports contracted by 18.1% yoy during this period.

	September		Δ (%)	Jan.- Sep.		Δ (%)
	2017	2018		2017	2018	
Exports	11.8	14.5	22.6	115.0	123.1	7.0
Imports	20.0	16.4	-18.1	169.0	174.2	3.1
Foreign Trade Balance	-8.2	-1.9	-76.9	-53.9	-51.1	-5.2
Import Coverage (%)	59.1	88.4	-	68.1	70.7	-

### Downward trend in current account deficit...

Contraction in the current account deficit, which began in June, continued in July, in line with the normalization in economic activity. In this period, the current account deficit was realized as 1.75 billion USD in parallel with expectations. In the same month of the previous year, the current account deficit was 4.7 billion USD. Shrinking foreign trade deficit due to decline in net non-monetary gold imports and the recovery in tourism revenues stood out in the recovery of current account balance.



12-month cumulative current account deficit fell to 54.6 billion USD in July, the lowest level in last five months. Current account deficit excluding net energy and gold imports also dropped to 4.4 billion USD, the lowest level since November 2017.

Reserve assets, which decreased by 9.8 billion USD in May-June period, increased 2.4 billion USD in July. Net errors and omissions, which made a strong contribution to the financing of current account deficit since February, also posted an inflow of 3 billion USD. Thus, in the first 7 months of the year, 51% (17 billion USD) of the current account deficit (which was 33.1 billion USD) was financed by reserve assets and net errors and omissions.

### CPI was far above expectations in September.

In September, CPI rose above market expectations by 6.30% on a monthly basis. Continuing its rapid increase, Domestic PPI (D-PPI) rose by 10.88% on a monthly basis in September, reaching double digits for the first time in 2003 based series.

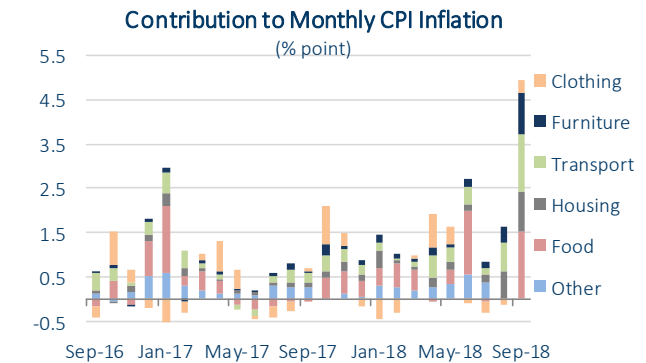
Having increased since April, annual CPI inflation continued its upward trend and surged up to 24.52% in September. Besides, annual increase in D-PPI reached

46.15%. Thus, annual rises in CPI and D-PPI touched their new peaks in 2003 based series.

In September, prices in all main expenditure groups

September (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	0.65	6.30	0.24	10.88
Year-to-Date	7.29	19.37	9.78	38.96
Annual	11.20	24.52	16.28	46.15
Annual Average	9.98	13.75	13.26	21.36

increased on a monthly basis. During this period, among the main expenditure groups, transportation group made the highest contribution to the monthly inflation by 167 bps, by increasing 9.15% mom. The food group, which has the highest share in CPI basket, made the second highest contribution to the monthly CPI inflation by 149 bps. In this period, price increases in housing and furnishings groups were also noteworthy.



Deterioration in CBRT's favorite core inflation indicators, B and C, continued in September. In this period, annual rises in B and C indexes were realized as 23.71% and 24.05%, respectively. Rising core inflation indicated that deterioration in pricing behavior will continue in the upcoming period. During this period seasonality had a limited impact on monthly inflation as headline CPI inflation declines slightly to 6.14% when all seasonal products are excluded.

In September, prices in all sub-sectors pushed the monthly D-PPI inflation up. In this period, electricity, gas production and distribution sector made the highest contribution to the monthly D-PPI increase with 274 bps.

### Strong interest rate hike from CBRT...

CBRT, which announced that it will reshape its monetary policy stance following the August inflation data, took a step beyond expectations on its meeting on September 13 by increasing the policy rate by 625 basis points to 24%. Markets were expecting CBRT to raise the policy rate by 200 to 500 basis points. CBRT stated that despite the slowdown in domestic demand conditions, the

Source: Turkstat, Datastream, CBRT

deterioration in the pricing behavior posed an upside risk to the inflation outlook. CBRT also added that a strong monetary tightening was implemented in order to support price stability.

#### **The deterioration in expectations continues.**

Fluctuations in financial markets weigh on medium term expectations. According to the Central Bank's Expectations Survey, annual CPI inflation and USD/TRY expectations for the end of 2018 increased rapidly compared to the previous month and became 19.6% and 6.59, respectively. Growth expectation of the survey participants decreased to 3.4% for 2018, while current account deficit projection decreased to 49.7 billion USD.

#### **New Economic Program...**

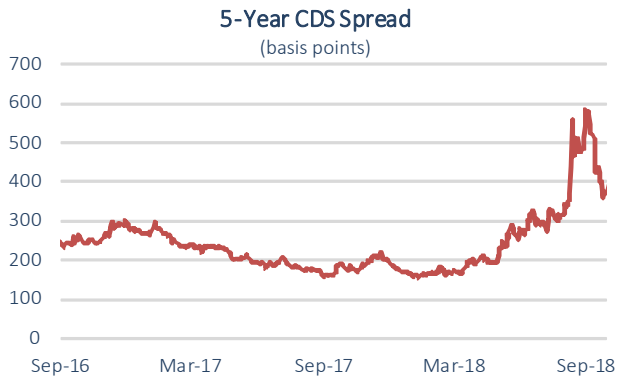
Medium term program of the Turkish government was announced on September 20 under its revised name of New Economic Program (NEP). Under this program, which covers 2019-2021 period, main objective of the economy management was stated as re-establishing price stability and financial stability. Moreover, strong emphasis on the re-balancing process in the economic activity and budget discipline was notable. Macroeconomic forecasts made within the program were generally in line with market expectations. Under this program, Turkish economy is forecasted to perform a slower growth than its potential during the period 2018-2020, however, the economic activity was anticipated to gain momentum by 2021. On the inflation front, single-digit levels are estimated to be achieved by the end of 2020.

	31/Aug	28/Sep	Change	
5-Y CDS (basis points)	575	372	-202 bps	▼
TR 2-Y Benchmark Yield	24.47%	25.82%	135 bps	▲
BIST-100	92,723	99,957	7.8%	▲
USD/TRY	6.5180	6.0550	-7.1%	▼
EUR/TRY	7.5929	7.0251	-7.5%	▼
Currency Basket*	7.0555	6.5401	-7.3%	▼

(\*) (0.5 USD/TL + 0.5 EUR/TL)

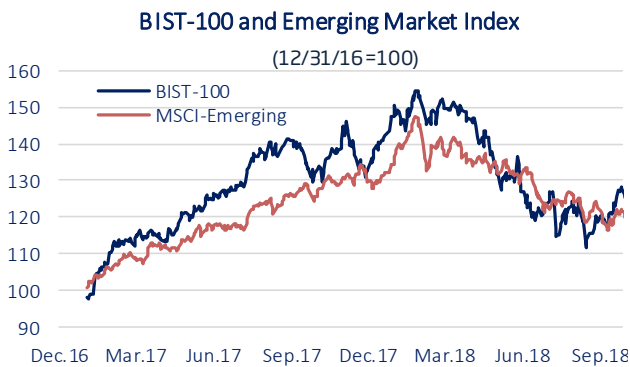
### Slight recovery in domestic markets...

The volatile course in domestic markets since previous months was slightly alleviated in the second half of September, thanks to the decisions taken. CBRT's interest rate hike on September 13 which was far above expectations and New Economic Program which largely met market expectations supported the domestic markets. In addition, the optimistic views regarding the US-Turkey relations, which was deteriorated recently improved the risk perception towards the domestic markets. In this context, Turkey's 5-year CDS premiums decreased to 372 basis points posting a rapid decline in September. On the other hand, ongoing trade tensions in international markets and occasional selling pressure on emerging markets were reflected in domestic markets.



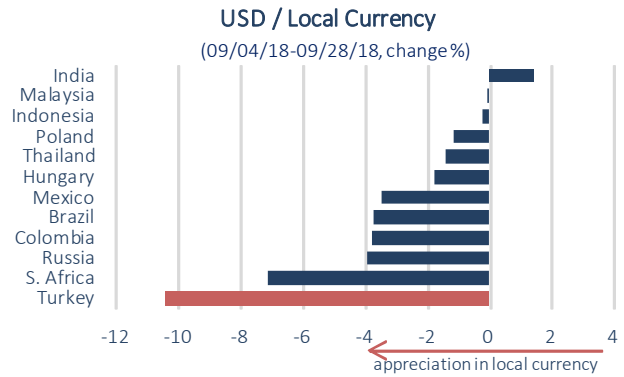
### BIST-100 index increased by 7.8% in September.

In September, BIST-100 index displayed a positive outlook in parallel with favorable course in domestic markets. The index, which increased by 7.8% compared to the end of August, closed September at 99.957.



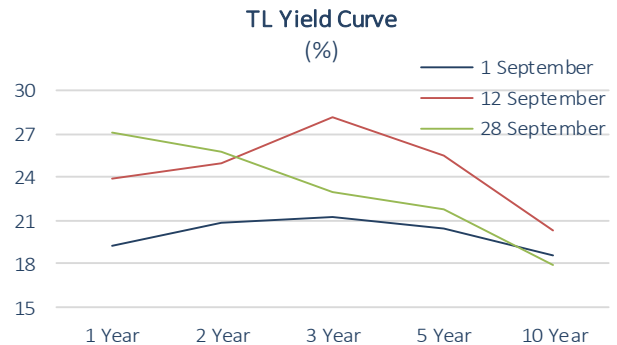
### Some recovery in Turkish lira...

The strengthening expectation after August's inflation data that CBRT will increase interest rate supported TRY in the first weeks of September. In the second half the month, TRY gained value thanks to the continuing contacts with US officials and the news regarding the Chinese investors' interest in some sectors in Turkey. In this framework, USD/TRY and EUR/TRY declined by 7.1% and 7.5% mom in September, respectively.



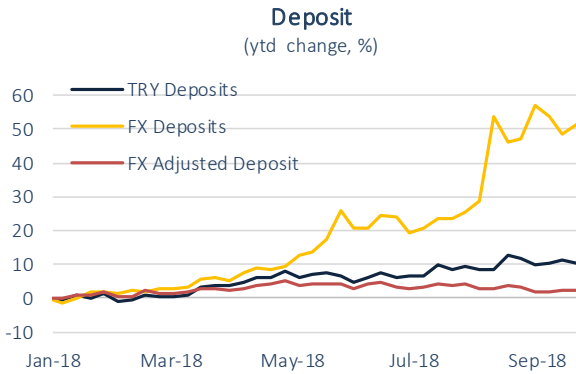
### Rise in bond yields lost momentum.

Having accelerated in August, bond interest rates continued to rise albeit a momentum loss. 2-year benchmark bond yield increased by 135 basis points compared to end of August and was realized as 25.82% on September 28. Long-term government bonds interest rates, on the other hand, declined rapidly after CBRT's interest rate decision.



**Deposit volume reached 2.3 trillion TRY.**

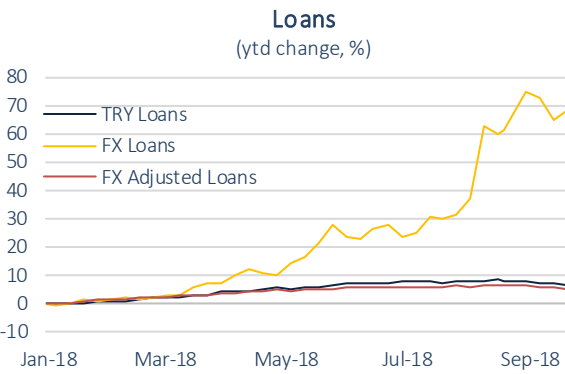
As of September 21, deposit volume widened by 29.2% compared to the end of 2017 and realized as 2,328 billion TRY. In this period, TL and FX deposits rose by 10.4% and 51.5%, respectively. On the other hand, FX deposits in USD terms contracted by 7.4%.



**Loan volume expanded by 26.7% compared to the end of 2017.**

As of September 21, total loan volume expanded by 26.7% ytd and reached 2,705 billion TRY. Annual growth rate in loan volume was 35.1%. While TL loans increased by 6.2% compared to the year-end and reached 1,520 billion TRY, FX loans in USD terms posted a slight increase by 2.8% and became 192 billion USD.

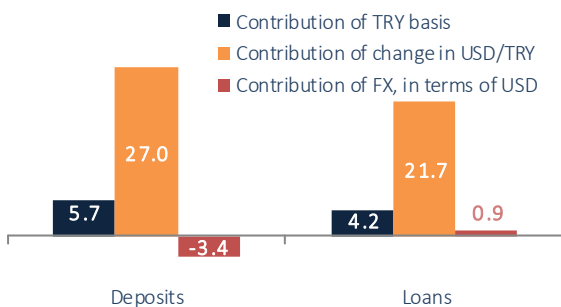
FX adjusted credit volume increased by 5.1% compared to year-end and by 9.1% on annual basis.



Since the beginning of the year, exchange rate developments played an important role in the rise in deposit and credit volume.

**Change in Loans and Deposits**

(as of Sep 21, ytd change %)



**Non-performing loan ratio is 3%.**

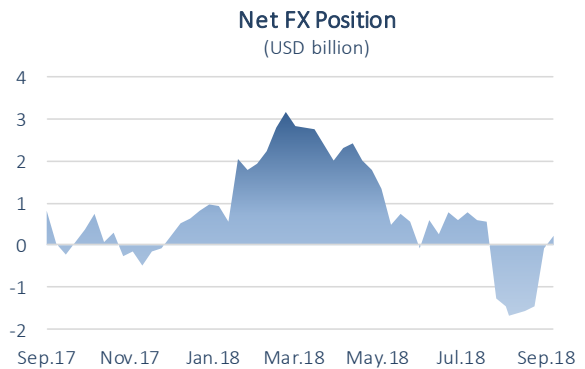
As of September 21, NPL ratio was realized as 3%. This ratio was 3.52% in consumer loans and 2.94% in commercial loans.

**Securities portfolio...**

Despite the contraction in securities available for sale, as of September 21, securities portfolio of the sector expanded by 20.5% ytd and became 484 billion TRY. In this period, securities available for sale decreased by 15.1% ytd, while held to maturity portfolio surged by 129.3%. Securities subject to repo transaction, which have an important place in the securities portfolio, increased by 56% compared to the end of 2017 and became 164 billion TRY. In this period, the securities portfolio of residents increased by 19.8% ytd, while, the non-residents' portfolio contracted by 6.8% ytd.

**Net foreign currency position...**

As of September 21, banks' on-balance sheet FX position was (-) 31,258 million USD, while off-balance sheet FX position was (+) 31,473 million USD. Hence, banking sector's net FX position was realized as (+) 215 million USD.



Source: BRSA Weekly Bulletin

## Concluding Remarks

---

Trade war concerns and heavier US sanctions on Iran continued to keep risks on global economy alive. The increasing protectionist measures between the United States and China and anti-globalization statements of the US President Trump indicate that protectionist policies may rise in the following period. On the other hand, the agreement of US, Mexico and Canada on a new trade deal (USMCA), which has abolished NAFTA and was prepared closer to the US's demands, was an important development.

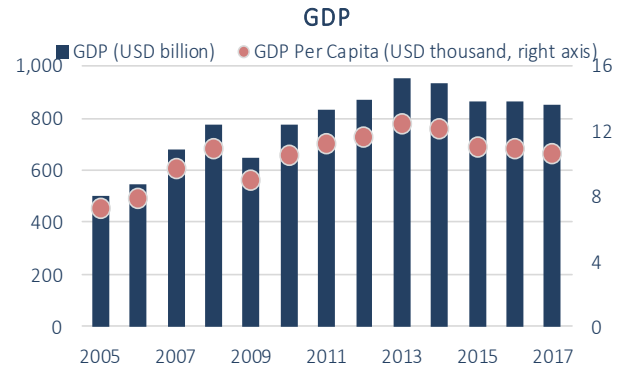
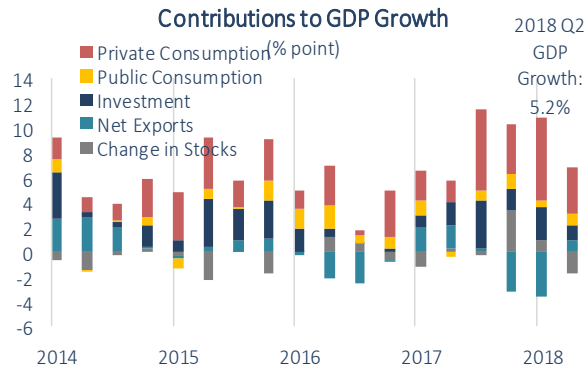
Central bank meetings in September did not surprise the markets. In line with the expectations, Fed increased its policy rate by 25 basis points and Fed officials revised their growth forecasts for the US economy upwards. ECB kept interest rates unchanged and reaffirmed that the monthly asset purchases will be reduced to 15 billion euro in October.

In September, the agenda of the domestic markets was also busy. After the bold rate hike of CBRT on September 13, medium term program were on focus. New Economy Program was announced by Treasury and Finance Minister Berat Albayrak on September 20. In the program covering the years 2019-2021, price stability and the restoration of financial stability were determined as the main objective of the economy policies, while the rebalancing in the economy and the strong emphasis on budget discipline drew attention. Under the program, Turkish economy is forecasted to perform below its potential during the years 2018-2020. According to the Program, economic activity is expected to accelerate by 2021.

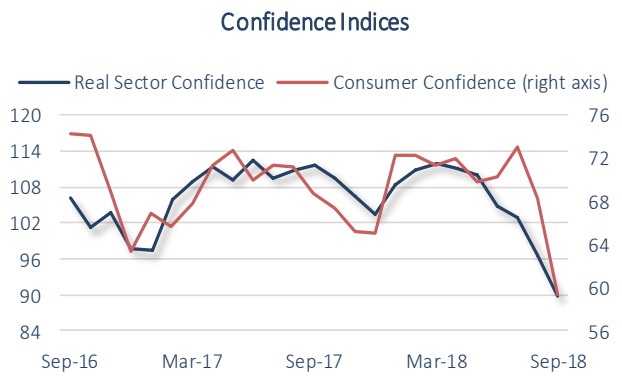
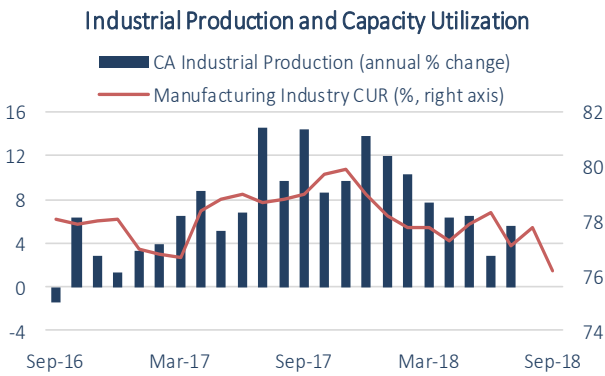
Turkish lira appreciated in September thanks to CBRT's higher-than-expected interest rate hike, New Economy Program that covers market expectations and the improvements in the international relations. On the other hand, macroeconomic data indicated that domestic economic activity has continued to slow down. Manufacturing PMI, which stayed below 50 in the last six months, decreased to its lowest level since March 2009 in September. Far higher than expected inflation figure in September and ongoing deterioration in core indicators indicate that the price stability will remain as the focal point of the domestic markets. Besides, widening margin between producer and consumer prices shows that the supply side inflationary pressures will continue.



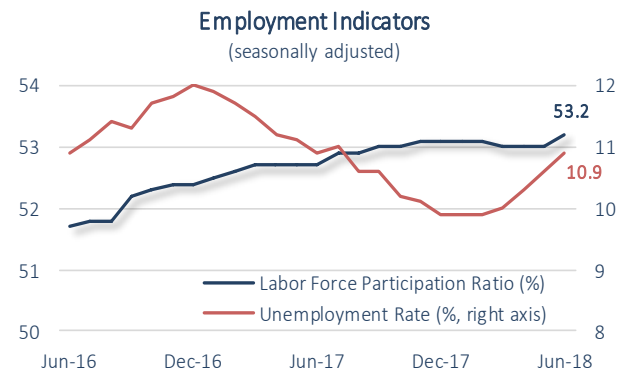
Growth



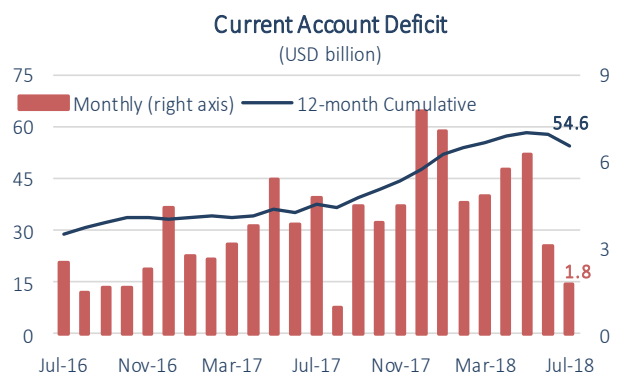
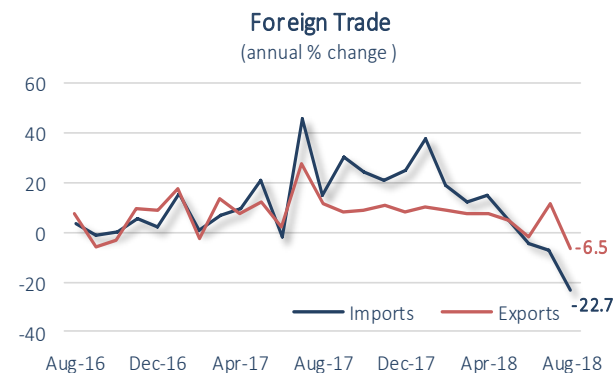
Leading Indicators



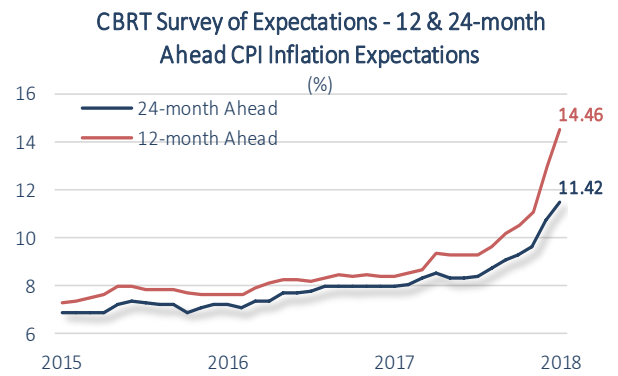
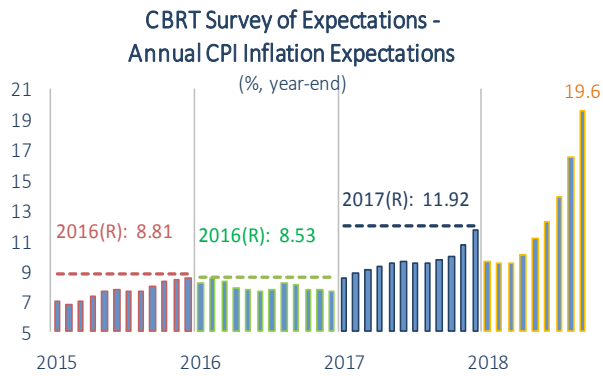
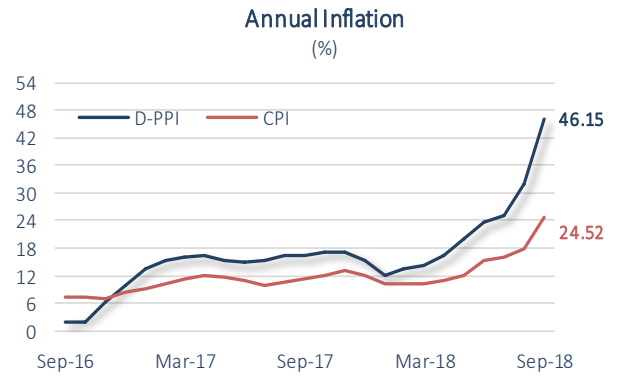
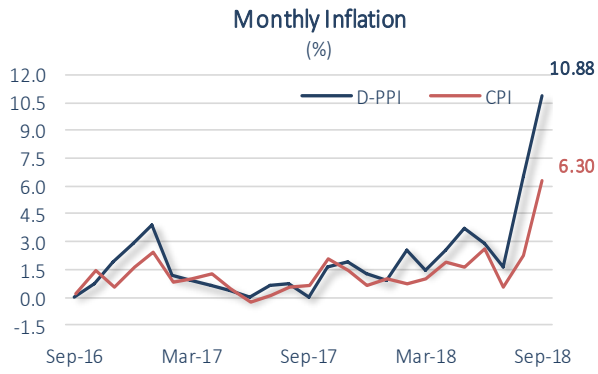
Labor Market



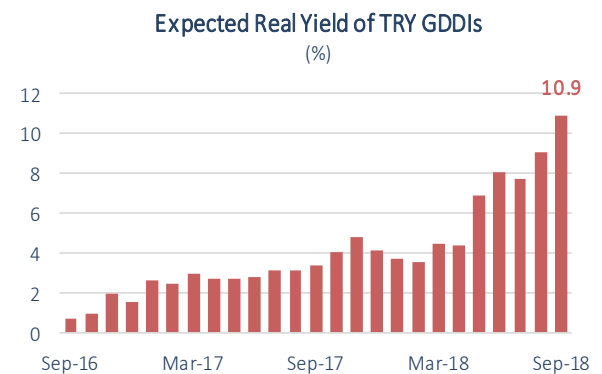
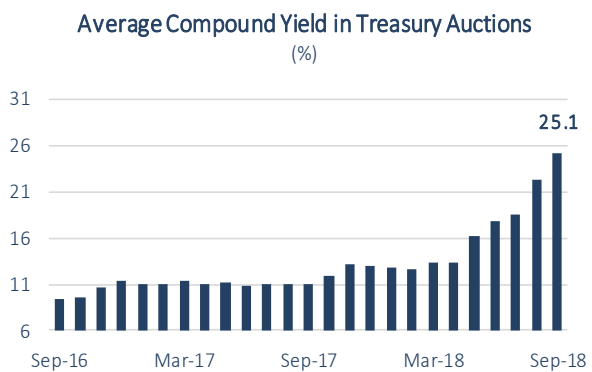
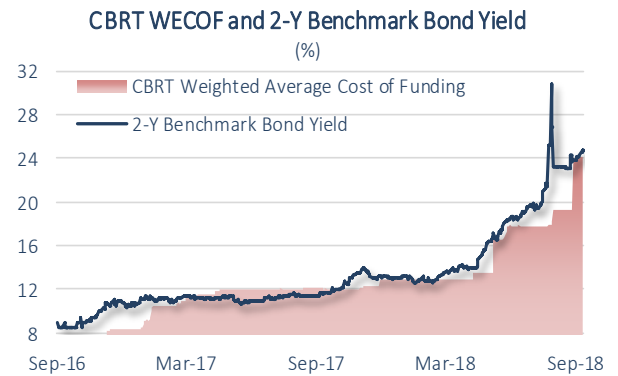
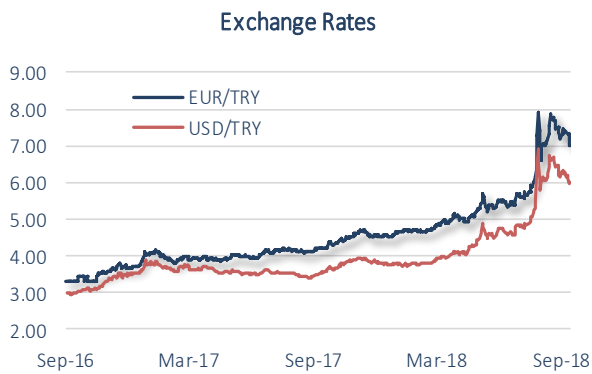
Foreign Trade and Current Account Balance



Inflation



Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

<b>Growth</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>18-Q1</b>	<b>18-Q2</b>	<b>18-Q3</b>
GDP (USD billion)	950	935	862	863	851	208	204	
GDP (TRY billion)	1,810	2,045	2,339	2,609	3,107	793	884	
GDP Growth Rate (%)	8.5	5.2	6.1	3.2	7.4	7.4	5.2	
<b>Inflation (%)</b>						<b>Jul-18</b>	<b>Aug-18</b>	<b>Sep-18</b>
CPI (annual)	7.40	8.17	8.81	8.53	11.92	15.85	17.90	24.52
Domestic PPI (annual)	6.97	6.36	5.71	9.94	15.47	25.00	32.13	46.15
<b>Seasonally Adjusted Labor Market Figures</b>						<b>Apr-18</b>	<b>May-18</b>	<b>Jun-18</b>
Unemployment Rate (%)	9.1	10.3	10.2	12.0	9.9	10.3	10.6	10.9
Labor Force Participation Rate (%)	48.5	51.0	51.7	52.4	53.1	53.0	53.0	53.2
<b>FX Rates</b>						<b>Jul-18</b>	<b>Aug-18</b>	<b>Sep-18</b>
CPI Based Real Effective Exchange Rate	100.6	104.8	97.6	91.8	85.2	75.9	64.8	
USD/TRY	2.1485	2.3378	2.9189	3.5176	3.7916	4.9090	6.6223	6.0073
EUR/TRY	2.9605	2.8288	3.1708	3.7102	4.5530	5.7438	7.7050	6.9775
Currency Basket (0.5*EUR+0.5*USD)	2.5545	2.5833	3.0448	3.6139	4.1723	5.3264	7.1636	6.4924
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						<b>Jun-18</b>	<b>Jul-18</b>	<b>Aug-18</b>
Exports	151.8	157.6	143.8	142.5	157.0	161.8	163.3	162.4
Imports	251.7	242.2	207.2	198.6	233.8	248.4	247.0	242.7
<b>Foreign Trade Balance</b>	<b>-99.9</b>	<b>-84.6</b>	<b>-63.4</b>	<b>-56.1</b>	<b>-76.8</b>	<b>-86.6</b>	<b>-83.8</b>	<b>-80.3</b>
Import Coverage Ratio (%)	60.3	65.1	69.4	71.8	67.1	65.1	66.1	66.9
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						<b>May-18</b>	<b>Jun-18</b>	<b>Jul-18</b>
<b>Current Account Balance</b>	<b>-63.6</b>	<b>-43.6</b>	<b>-32.1</b>	<b>-33.1</b>	<b>-47.4</b>	<b>-58.3</b>	<b>-57.5</b>	<b>-54.6</b>
<b>Capital and Financial Accounts</b>	<b>-62.7</b>	<b>-42.6</b>	<b>-22.4</b>	<b>-22.1</b>	<b>-46.6</b>	<b>-42.4</b>	<b>-42.3</b>	<b>-36.5</b>
Direct Investments (net)	-9.9	-6.1	-12.9	-10.2	-8.2	-6.3	-7.7	-7.2
Portfolio Investments (net)	-24.0	-20.2	15.7	-6.3	-24.5	-12.0	-6.9	-6.1
Other Investments (net)	-38.7	-15.9	-13.3	-6.5	-5.7	-20.5	-14.2	-14.5
Reserve Assets (net)	9.9	-0.5	-11.8	0.8	-8.2	-3.6	-13.6	-8.7
<b>Net Errors and Omissions</b>	<b>1.0</b>	<b>1.1</b>	<b>9.8</b>	<b>11.0</b>	<b>0.9</b>	<b>15.8</b>	<b>15.2</b>	<b>18.0</b>
<b>Current Account Balance/GDP (%)</b>	<b>-6.7</b>	<b>-4.7</b>	<b>-3.7</b>	<b>-3.8</b>	<b>-5.6</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						<b>Jun-18</b>	<b>Jul-18</b>	<b>Aug-18</b>
<b>Expenditures</b>	<b>408.2</b>	<b>448.8</b>	<b>506.3</b>	<b>584.1</b>	<b>678.3</b>	<b>399.7</b>	<b>460.4</b>	<b>536.5</b>
Interest Expenditures	50.0	49.9	53.0	50.2	56.7	33.8	42.0	50.2
Non-interest Expenditures	358.2	398.8	453.3	533.8	621.6	365.9	418.5	486.3
<b>Revenues</b>	<b>389.7</b>	<b>425.4</b>	<b>482.8</b>	<b>554.1</b>	<b>630.5</b>	<b>353.6</b>	<b>415.4</b>	<b>485.7</b>
Tax Revenues	326.2	352.5	407.8	459.0	536.6	294.8	349.2	410.1
<b>Budget Balance</b>	<b>-18.5</b>	<b>-23.4</b>	<b>-23.5</b>	<b>-29.9</b>	<b>-47.8</b>	<b>-46.1</b>	<b>-45.0</b>	<b>-50.8</b>
<b>Primary Balance</b>	<b>31.4</b>	<b>26.5</b>	<b>29.5</b>	<b>20.3</b>	<b>8.9</b>	<b>-12.3</b>	<b>-3.0</b>	<b>-0.6</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-1.5</b>	-	-	-
<b>Central Government Debt Stock (TRY billion)</b>						<b>Jun-18</b>	<b>Jul-18</b>	<b>Aug-18</b>
Domestic Debt Stock	403.0	414.6	440.1	468.6	535.4	561.2	571.3	579.4
External Debt Stock	183.2	197.9	238.1	291.3	341.0	408.7	438.3	574.1
<b>Total Debt Stock</b>	<b>586.2</b>	<b>612.5</b>	<b>678.2</b>	<b>760.0</b>	<b>876.5</b>	<b>969.9</b>	<b>1,009.6</b>	<b>1,153.5</b>

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2013	2014	2015	2016	2017	Jul.18	Aug.18	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>1,732</b>	<b>1,994</b>	<b>2,357</b>	<b>2,731</b>	<b>3,258</b>	<b>3,829</b>	<b>4,490</b>	<b>37.8</b>
<b>Loans</b>	<b>1,047</b>	<b>1,241</b>	<b>1,485</b>	<b>1,734</b>	<b>2,098</b>	<b>2,419</b>	<b>2,703</b>	<b>28.8</b>
TRY Loans	753	881	1,013	1,131	1,414	1,514	1,508	6.6
Share (%)	71.9	71.0	68.2	65.2	67.4	62.6	55.8	-
FX Loans	295	360	472	603	684	906	1,195	74.7
Share (%)	28.1	29.0	31.8	34.8	32.6	37.4	44.2	-
Non-performing Loans	29.6	36.4	47.5	58.2	64.0	76.2	79.5	24.2
Non-performing Loan Rate (%)	2.8	2.9	3.1	3.2	3.0	3.1	2.9	-
<b>Securities</b>	<b>287</b>	<b>302</b>	<b>330</b>	<b>352</b>	<b>402</b>	<b>449</b>	<b>481</b>	<b>19.7</b>
<b>TOTAL LIABILITIES</b>	<b>1,732</b>	<b>1,994</b>	<b>2,357</b>	<b>2,731</b>	<b>3,258</b>	<b>3,829</b>	<b>4,490</b>	<b>37.8</b>
<b>Deposits</b>	<b>946</b>	<b>1,053</b>	<b>1,245</b>	<b>1,454</b>	<b>1,711</b>	<b>1,970</b>	<b>2,226</b>	<b>30.1</b>
TRY Deposits	594	661	715	845	955	1,024	1,035	8.5
Share (%)	62.8	62.8	57.4	58.1	55.8	52.0	46.5	-
FX Deposits	352	391	530	609	756	946	1,191	57.4
Share (%)	37.2	37.2	42.6	41.9	44.2	48.0	53.5	-
<b>Securities Issued</b>	<b>61</b>	<b>89</b>	<b>98</b>	<b>116</b>	<b>145</b>	<b>185</b>	<b>225</b>	<b>54.7</b>
<b>Payables to Banks</b>	<b>254</b>	<b>293</b>	<b>361</b>	<b>418</b>	<b>475</b>	<b>617</b>	<b>780</b>	<b>64.3</b>
<b>Funds from Repo Transactions</b>	<b>119</b>	<b>137</b>	<b>157</b>	<b>138</b>	<b>99</b>	<b>215</b>	<b>212</b>	<b>114.8</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>194</b>	<b>232</b>	<b>262</b>	<b>300</b>	<b>359</b>	<b>398</b>	<b>396</b>	<b>10.2</b>
Profit (Loss) of the Period	24.7	24.6	26.1	37.5	49.1	33.6	38.0	-
<b>RATIOS (%)</b>								
Loans/GDP	57.9	60.7	63.5	66.5	67.6			
Loans/Assets	60.5	62.2	63.0	63.5	64.4	63.2	60.2	-
Securities/Assets	16.6	15.2	14.0	12.9	12.3	11.7	10.7	-
Deposits/Liabilities	54.6	52.8	52.8	53.2	52.5	51.4	49.6	-
Loans/Deposits	110.7	117.9	119.2	119.3	122.6	122.8	121.4	-
Capital Adequacy (%)	15.3	16.3	15.6	15.6	16.9	16.1	17.3	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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

**LEGAL NOTICE**

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.