Economics
23 September 2014

Turkey: Monthly Local Focus

High inflation weighing on CBT's credibility

On the inflation front, annual inflation remained close to double-digit levels. This reflects food prices on the back of adverse weather conditions weighing on agricultural production and their indirect effect on some other expenditure groups. However, core inflation indicators hint at the waning cumulative effects of recent currency developments, although they remain elevated.

Regarding expectations, we saw the forecast for end-2014 inflation jump in September, while 12M inflation expectations deteriorated further, creating additional concerns about pricing behaviour and the future outlook. Although 24M expectations remained flat, implying that participants see the recent rise in inflation as temporary, the probability distribution of inflation expectations reveals further worsening after a higher-than-consensus August reading. Hence, we see no potential for a policy rate cut in the near future until inflation expectations are better anchored, although the CBT might look for opportunities to further reduce the upper band by 25-50bp, if it thinks market conditions are appropriate. Going forward, we envisage an improvement in core indicators, as long as the TRY remains stable in the coming period, while annual inflation will drop with the start of 2015 due to significant base effects.

FX market (page 2). We have seen an adjustment in the economy, with CA deficit on a narrowing path, consequently supporting the TRY, although weakening against the USD recently with sluggish risk appetite. Going forward, the TRY should remain under pressure and exceed 2.25, given the expected slowdown in external rebalancing, the high sensitivity to normalisation in US rates as well the ongoing political cycle until Jun-15, although political noise is likely to be low in the short term, with a new PM and a new cabinet appointed.

USD:TRY support: 2.2150-2.2250 **Resistance:** 2.2400-2.2650

Bond market (page 4). The CBT sounded more concerned than before, given headline inflation came closer to the double-digit level, despite some moderation in non-food sectors and the waning impact of the currency pass-through on core indicators, while inflation expectations for end-2014 and 12M deteriorated further in September. We do not expect any change in the policy rate for a long time, especially given the recent weakening in the TRY, making the CBT more cautious. Therefore, currently, we do not see any strong driver to facilitate a sharp drop in benchmark yields to levels realised in July of c.8%.

About the latest data (page 7).

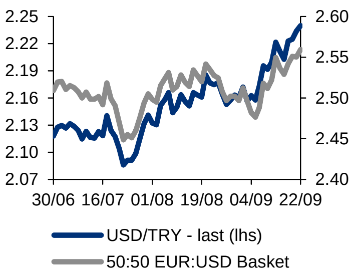
Reference charts (page 8-9).

Calendar

Date	Time (GMT)	Data/event	Forecast	Cons	Prev
25-Sep	1100	CBT Policy Rate (%)	-	-	8.25
29-Sep	0700	Sep Consumer Confidence	-	-	73.23
30-Sep	0700	Aug Trade Balance (USDbn)	-	-	-6.46
3-Oct	0700	Sep CPI, DPPI (MoM,%)	-	-	0.09/0.42
10-Oct	0700	Aug Industrial Production Index (%)	-	-	3.59
15-Oct	0700	Aug Current Account Balance (USDbn)	-	-	-2.63
15-Oct	0800	Sep Central Gov't Budget Balance (TRYbn)	-	-	5.9
15-Oct	0700	Jul Unemployment Rate (%)	-	-	9.10

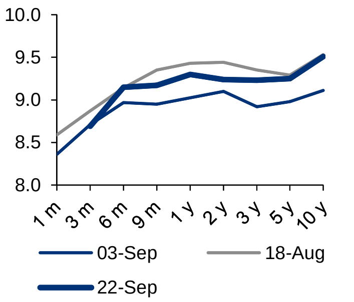
Source: TurkStat, Turkish Treasury, Ministry of Finance, CBT

USD/TRY, 50:50 EUR:USD basket



Source: Thomson Reuters

Bond yield curve (% cmp)



Source: ISE

Bird's eye view

As of 22 Sep 2014 vs 18 Aug 2014	Level	%ch
USD/TRY	2.2400	3.6
EUR/TRY	2.8790	-0.4
EUR/USD	1.2849	-3.8
5yr CDS Turkey	186.49	1.3
USD/TRY 1m vola.(%)	9.6%	-3.2
BIST-100	76,870	-0.6
Dow Jones Ind.	17,173	2.0
NIKKEI 225	16,206	5.8
Bmk local bond (%)	**Smp**	**Cmp**
22 Sep(cls)	9.11	9.32
18 Aug(cls)	9.14	9.35
Bmk Eurobond-2030 (22 Sep cls)		171.163
CBT one week repo rate (%)		8.25
CBT borrowing rate (%)		7.50
CBT lending rate (%)		11.25
CBT cost of avg. funding (%)		8.29
CBT sterilisation (TRYbn)		0.41
CBT repo funding + Interbank (TRYbn)		39.2
O/N trading band (%)		8.80 - 10.05

Source: Reuters, Bloomberg, CBT, OTC

Muhammet Mercan
Istanbul +90 212 329 0751
muhammet.mercan@ingbank.com.tr

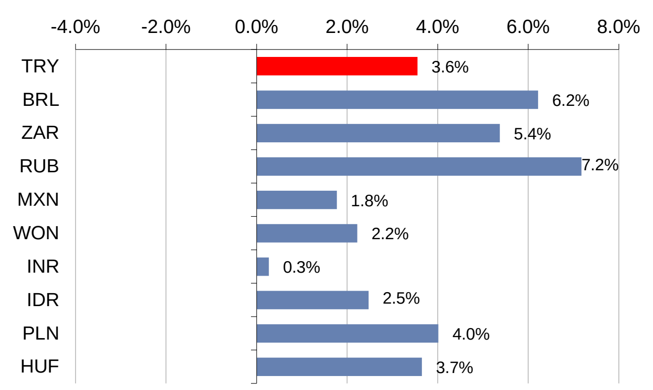
FX and bond markets

FX market

EUR/USD dropped by 4% since mid-August

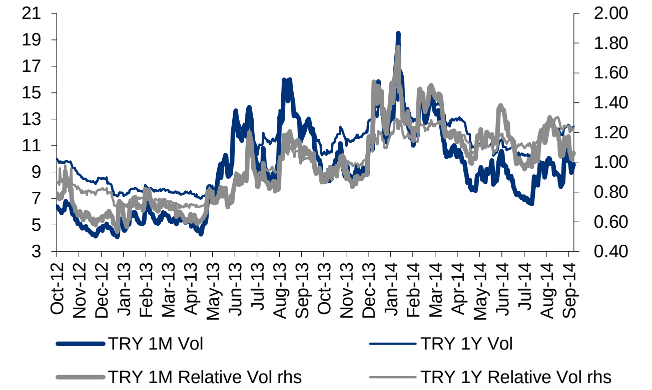
EUR/USD broke decisively lower since mid-August, from close to 1.34 to 1.28, on a c.4% drop on the back of the July FOMC minutes, the surprise ECB rate cut and the announcement of non-financial private asset purchases as well as the Fed's September rate-setting meeting. First, the release of the July FOMC minutes supported the USD as the Fed shifted growth risks to nearly balanced from downside risks and concluded that progress towards maximum employment and 2% inflation was occurring a little faster than previously anticipated. Second, the ECB surprised markets with a 10bp cut in the policy corridor and indicated that TLTROs and ABS bond buying in total would expand its balance sheet by EUR1tr, back to 2012 levels, although a lower-than-expected TLTRO allotment on 18 September should raise doubts about the feasibility of the ECB's goal at least for a while until results of the December TLTRO are out.

Fig 1 USD:TRY % change (18 Aug-22 Sep)



Source: Thomson Reuters

Fig 2 TRY's volatility* fluctuated recently



*TRY volatility as a percentage of average of BRL, MXN, CLP, COP,RON, PLN, IDR and ZAR volatilities

Source: Thomson Reuters, ING Bank

USD retains support as markets continue to price in an increasing likelihood of shift in Fed policy

There seems more scope for EUR depreciation, given the broad USD appreciation story, supported by a recent survey of the San Francisco Fed which suggests that the market is under-pricing the upcoming US tightening cycle. More importantly, USD retains support as markets continue to price in an increasing likelihood of an eventual shift in the Fed's policy stance. At the September meeting, although policy tightening still does not look imminent, as the Fed retained the "considerable time" phrase, it took another step towards policy normalisation and raised its interest rate forecasts slightly, with a median estimate for the Fed funds rate of 1.375% by 2015 and 2.875% by 2016, while growth and unemployment forecasts were revised down slightly. In addition, further sanctions against Russia via penalties levied by the EU and the US on Russia's largest bank and the expansion of financing restrictions on major energy and defence companies and a possible Russian retaliation might put additional downside pressure on European growth prospects and consequently on EUR versus USD.

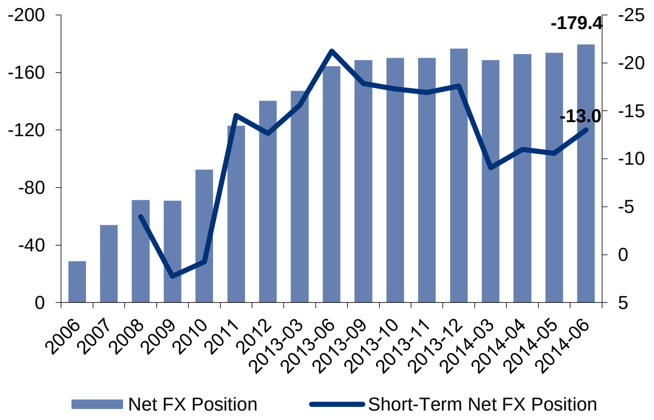
Risk assets remained fragile, with depreciation of EM currencies against USD

Accordingly, ING believes the USD will remain strong over the coming months, as both macro/monetary and geopolitical factors dominate, expecting EUR/USD to be c.1.28 over 1 and 3 months and decline further to 1.25 in 6 months, to 1.20 in 12 months and to 1.10 by end-2016. Risk assets remained mostly fragile, as recent US data fuelled concern that the Fed might raise borrowing costs earlier than expected, which could reduce the appeal of EM assets. Between 15 August and 19 September, major EM currencies depreciated against the USD in the 0-7% range, with the RUB in the frontline, as Russian assets and growth are under pressure alongside expanding sanctions and ongoing political uncertainty. On the flip side, USD/INR stayed broadly unchanged during the same period.

Improving short-term political risk outlook after the appointment of new PM and government

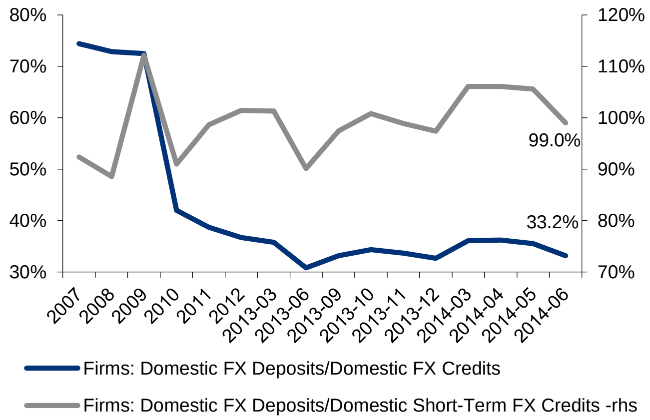
USD/TRY registered a 3.6% increase, close to the peer average. Increasing volatility in global financial markets recently weighing on risk appetite as well as annual inflation close to double-digit level continued to exert pressure on the TRY. In August, the CBT sounded more hawkish than before, given a worsening in pricing behaviour, which in return paved the way for an end to policy rate cuts. With no visible improvement in the inflation outlook and USD/TRY above 2.20, the CBT will be cautious in adding to depreciation pressures, suggesting that it will remain mute at the next meeting on 25 September. Regarding politics, the governing party managed a smooth transition following the success of PM Erdogan in the presidential elections, with the appointment of a new PM and a new cabinet, thus improving the short-term political risk outlook. However, politics is still closely watched due to its potential negative effect on policy predictability, given that parliamentary elections are due by June 2015, with a more structural change in the composition of the cabinet this time, particularly with regard to the team in charge of economic policy making.

Fig 3 FX short position of corporates still high...



Source: Thomson Reuters, CBT, ING Bank

Fig 4 ...but short-term currency risk manageable



Source: CBT, ING Bank

Relatively leveraged balance sheets of Turkish corporates remains a concern

It is widely accepted that the corporate sector requires attention – a rise in funding rates, below-potential growth and weaker TRY could exert pressure on the relatively leveraged balance sheets of Turkish corporates. As of June 2014, firms' FX short position rose to USD179.4bn (USD13.0bn for short term only, both increasing since March 2014) due to the rise in long-term domestic FX credits by USD1.9bn and a drop in deposits by USD2.6bn, while short-term currency risk is manageable, with the ratio of domestic FX deposits to domestic short-term FX credits standing close to 100%, although having dropped over a month ago.

Capital flows to be impacted by global central bank actions and geopolitical risks to weigh on TRY

We think the likelihood of another policy rate cut is relatively low, given the sensitivity of Turkish assets to the prospect of a first rate hike by the Fed, although domestic demand softened in 2Q in response to tightening measures introduced earlier in the year. Fragile global risk sentiment has also once again weighed on the TRY. For the rest of the year, changes in capital inflows should be impacted by global central bank actions, and ongoing geopolitical risks will be the main factors that determine the course of the TRY. Accordingly, we think USD/TRY could come under further pressure, exceeding 2.25.

Fig 5 ING forecasts

	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q14F	4Q15F
USD:TRY	2.19	2.12	2.20	2.25	2.31	2.32	2.24	2.20
EUR:TRY	3.01	2.89	2.82	2.88	2.89	2.90	2.69	2.60
EUR:USD	1.37	1.36	1.28	1.28	1.25	1.25	1.20	1.18

Source: ING estimates

muhammet.mercan@ingbank.com.tr

Bond market

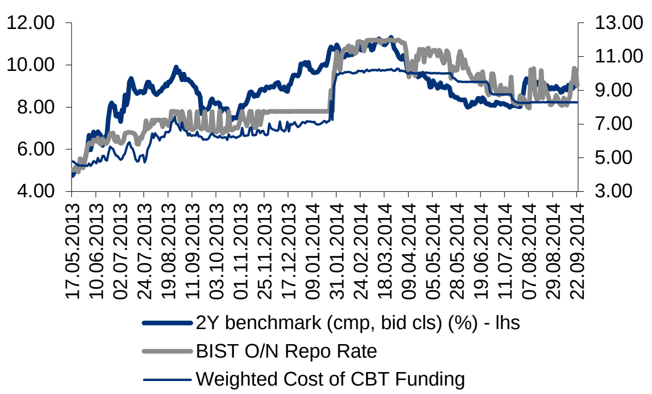
Possible improvement in core inflation indicators going forward, as long as TRY remains stable

CPI increased by 0.05% in August, pulling annual inflation up to 9.54% from 9.32% in July. In the breakdown, food prices are once again the major factor, on the back of adverse weather conditions weighing on agricultural production, up by 0.89% MoM. Consequently, annual food inflation reached 14.4% as of August, well above the CBT's 9% assumption for the whole year, showing a strong, ongoing threat to the disinflation process. Given that they are used as inputs in dining & lodging, food prices indirectly impacted this group, recording a 1.6% MoM increase with the second-highest contribution. However, core inflation indicators hint waning cumulative effects of currency pass-through. We expect an improvement in core indicators, as long as the TRY remains stable over the coming period. Given ongoing inflationary pressure and a worsening of pricing behaviour, both creating concern about the future outlook, we do not see any potential for a policy rate cut in the near future at least until inflation expectations are better anchored.

Bond yields recently under pressure due to concerns about Fed actions

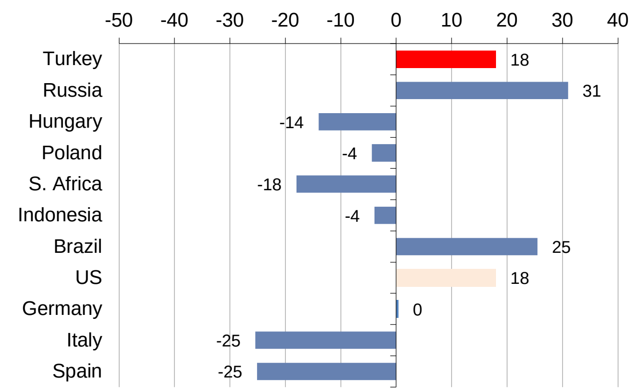
We saw the impact of sensitivity to global central bank actions with the ECB's decision for another rate cut at the beginning of September, accompanied by an ABS purchasing programme and a new covered bonds purchasing programme, as 2Y benchmark bond yields turned south, hitting 8.9% as of 5 September, followed by an increase again to 9.3% due to concerns about earlier-than-expected normalisation in US rates. All in all, the average 2YR yield that came up to 9.25% in August from 8.26% in July dropped to an average 9.08% in September so far. With the end of the CBT's easing cycle on the policy rate side, the downtrend in the bond market has ended, while an escalation in volatility has been observed recently. At the longer end of the curve, 10YR bond rates for the same periods were 8.93% (July), 9.34% (August) and 9.19% (September), respectively.

Fig 6 Pressure on O/N repo rate in recent days



Source: Thomson Reuters, ING Bank

Fig 7 10YR benchmark bonds (bp ch, 18Aug-22 Sep)



Source: Thomson Reuters

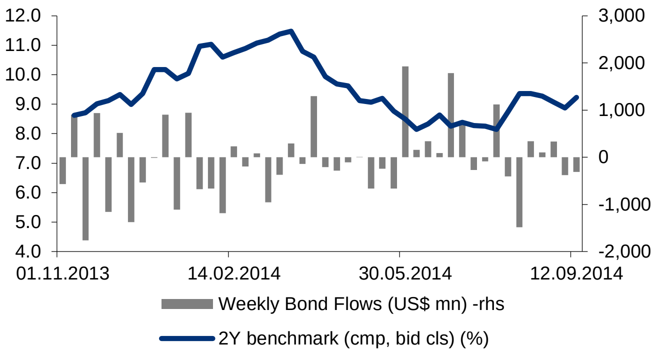
Uneven distribution of liquidity among banks sometimes pressuring o/n repo rate

Until August, the overnight lending rate (upper band) remained unchanged at 12.0%, hinting at the intention of the CBT to conduct tightening within the corridor if/when the market pressures intensify again, as we observed at the beginning of August when the interbank repo rate touched double-digit levels. The CBT stated the reason for the cut this time in August as "to maintain the current stance within a more symmetric interest rate corridor". The move will reduce uncertainty for the banks, as they should be relatively less worried about the extent of liquidity tightening. In addition, on previous occasions, the CBT aggressively used the upper band to respond to improving global liquidity conditions and risk appetite. So, the latest move shows the CBT's relatively optimistic stance regarding capital flows. Going forward, the CBT might look for opportunities to further reduce the upper band, if market conditions allow. In this environment, although the CBT did not tighten liquidity, we saw pressure on the BIST interbank o/n repo rate recently, attributable to the uneven distribution of liquidity among banks. Thus, o/n interbank rates, which reached the 8-8.5% range in the first half of September, jumped sharply to double-digit levels in recent days, reaching 9.3% as of September 22.

YTD flows to bond market slightly negative as of mid-September

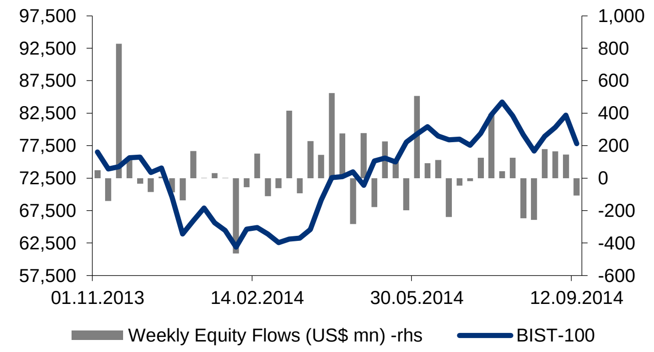
Regarding foreign appetite to TL bonds, flows so far in 2014 have approached zero, with a mere USD0.3bn (in the negative territory without repo at USD-0.5bn). On the other hand, flows to the equity market have been relatively stronger, amounting to USD2.1bn since the beginning of 2014, accelerating after the local elections. The share of non-residents in the domestic debt stock stood at 25.7% as of 12 September, with USD53.5bn (USD39.9bn without repo) worth of bonds.

Fig 8 Non-residents' weekly bond flows



Source: Thomson Reuters, CBT, ING Bank

Fig 9 Non-residents' weekly equity flows



Source: Thomson Reuters, CBT, ING Bank

Heavy borrowing schedule of the Treasury until end-September

Having a cumulative TRY28.1bn redemption in September and October, the Treasury plans to borrow TRY20.5bn (of which, TRY15.8bn from markets, TRY3.2bn from the public sector and TRY1.5bn via sukuk issue) via 10 auctions. However, TRY23.3bn of the total repayments is scheduled for the last week of September and the first week of October, while the Treasury is due to hold 8 auctions between 22 and 30 September.

Fig 10 Domestic borrowing programme for September and October 2014

Term	Security type	Auction date	Value date	Maturity date
14 months (427 days)	TRY denominated zero coupon G.Bond	16.09.2014	17.09.2014	18.11.2015
5 years (1750 days)	TRY denominated fixed coupon G.Bond-6M couponed (r-o)	22.09.2014	24.09.2014	10.07.2019
7 years (2548 days)	TRY denominated floating rate G.Bond-6M couponed	22.09.2014	24.09.2014	15.09.2021
2 years (658 days)	TRY denominated fixed coupon G.Bond-6M couponed (r-o)	23.09.2014	24.09.2014	13.07.2016
10 years (3591 days)	TRY denominated fixed coupon G.Bond-6M couponed (r-o)	23.09.2014	24.09.2014	24.07.2024
5 years (1743 days)	TRY denominated fixed coupon G.Bond-6M couponed (r-o)	29.09.2014	01.10.2014	10.07.2019
10 years (3640 days)	TRY- denominated CPI Linker G.Bond-6M couponed	29.09.2014	01.10.2014	18.09.2024
2 years (651 days)	TRY denominated fixed coupon G.Bond-6M couponed (r-o)	30.09.2014	01.10.2014	13.07.2016
10 years (3584 days)	TRY denominated fixed coupon G.Bond-6M couponed (r-o)	30.09.2014	01.10.2014	24.07.2024
13 months (392 days)	TRY denominated zero coupon G.Bond (r-o)	21.10.2014	22.10.2014	18.11.2015

Source: Turkish Treasury

Turkey still sensitive to global liquidity conditions

Overall, the Turkish economy remains vulnerable to adverse changes in the global liquidity conditions despite an improvement in external balances since the beginning of this year, while ongoing geopolitical risks from neighbouring countries might weigh on the performance of local financial markets. In addition, we do not expect any change on the 1-week repo rate (the policy rate) in line with the market consensus, since there is no room for complacency given the elevated headline inflation and still de-anchored inflation expectations. Therefore, we do not see any strong driver in the short term to facilitate a sharp drop in benchmark yields to levels realised in July of c.8%.

Fig 11 Rate forecasts (%)

	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q14F	4Q15F
CBT key rate	10.00	8.75	8.25	8.25	8.25	8.25	8.25	8.25
2Y benchmark	10.69	8.15	9.05	9.10	8.65	9.30	9.20	9.05
10Y benchmark	10.26	8.90	9.15	9.25	9.90	9.65	9.55	9.45

Source: ING estimates

muhammet.mercan@ingbank.com.tr

About the latest data

Trade balance

29 August. The trade balance, better than the market consensus in July, stood at USD6.5bn and was impacted by fewer working days due to the Bayram holiday, pulling the 12M rolling deficit down to USD85.3. Better Eurozone demand continued to support exports, while the sharp rise in geopolitical risks weighed on trade with Iraq.

Inflation

3 September. CPI increased by 0.05% in August, higher than the market consensus at -0.10%, due to direct and indirect effects of ongoing pressure on food prices, pulling annual inflation up to 9.54% from 9.32% in July. Domestic Producer Price Index (D-PPI) registered a 0.42% rise on the back of a strong uptick in food product prices, with a strong 35bp contribution to the headline. Accordingly, annual figure climbed to 9.88% from 9.46% a month ago.

Industrial production

8 September. July IP grew 3.6% YoY, lower than the market consensus at 1.5%, translating into 1.8% MoM growth in volatile seasonally adjusted indicators. The first release of the 3Q suggests an improving outlook in economic growth after a momentum loss in 2Q.

GDP Growth

10 September. GDP grew by 2.1% YoY in 2Q14, well below the market consensus, and pulled the annualised growth down to 3.9%. Already weak private consumption as well as investment spending slowed further with a declining contribution to headline growth, while exports maintained support, albeit at a decelerating pace in contrast to weakening imports attributable to softer domestic demand.

Balance of payments

11 September. C/A balance posted a deficit of USD2.6 in July, close to the consensus at USD2.5bn, pulling the annual deficit sharply to USD48.5bn on the back of resilient exports despite the developments in Iraq and the correction in gold imports. Going forward, momentum loss in Eurozone recovery, reflections of geopolitical risks in the second-largest export market, Iraq (as evidenced by a 32% contraction in June-August, according to the Turkish Exporters Assembly data) as well as impact of the CBT's recent easing stance will weigh on the performance, with a significant easing in the improvement trend in external balances.

Budget

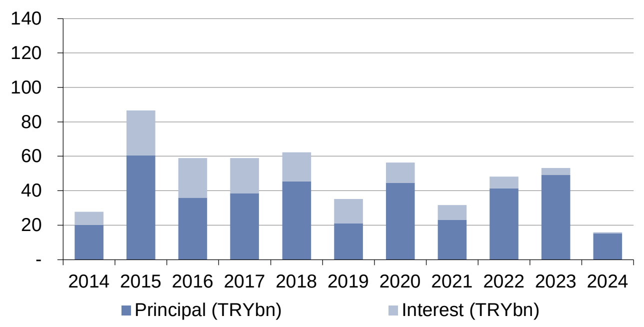
15 September. Budget balance posted a deficit in January-August 2014 of TRY 2.7bn versus a TRY0.2bn surplus in the same period the previous year. Primary surplus deteriorated, albeit remaining well above of the end-year target, showing room to manoeuvre on the fiscal side going forward. Overall, when we compare the Medium Term Programme (MTP) target and the realisations so far, fiscal performance seems to be close to projections. However, YTD figures show that budget performance worsened over 2013 despite one-off contributions from privatisation and some other items, but expectedly to recover over the rest of the year with the support of new restructuring laws.

Unemployment

15 September. The unemployment rate (covering May-June-July), continued its journey to the north, rising to 9.1% from 8.1% a year ago. The seasonally adjusted (SA) figure showed a strong uptick to 9.9% from 9.5% in May due to a decline in employment.

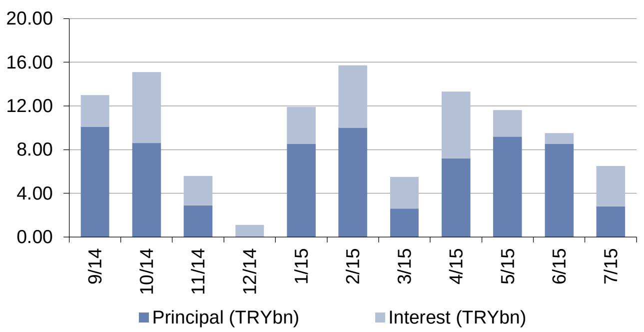
Reference charts

Fig 12 Government domestic bond payment schedule



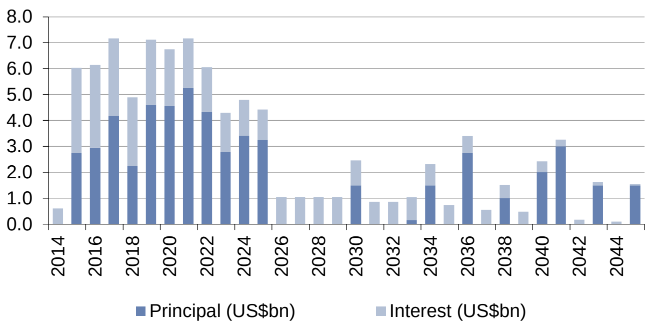
Source: Bloomberg

Fig 13 Government domestic bond payment schedule



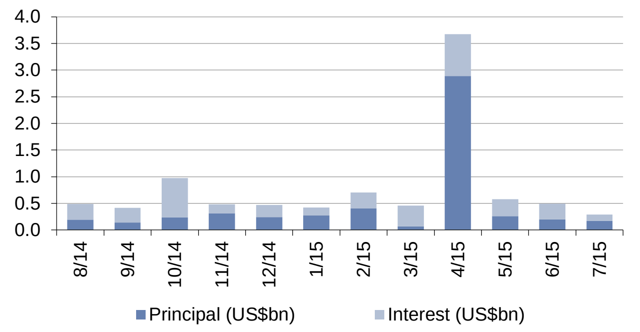
Source: Turkish Treasury

Fig 14 Government external bond payment schedule



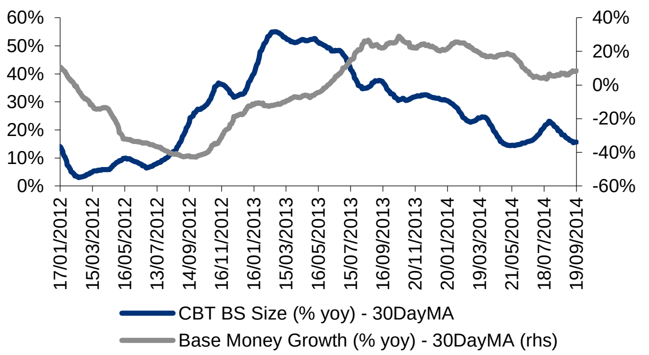
Source: Bloomberg

Fig 15 Central govt external debt payment schedule



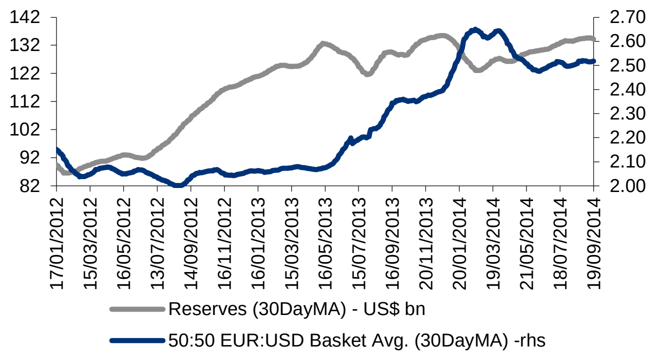
Source: Turkish Treasury

Fig 16 YoY changes (TRY, 30-day ma)



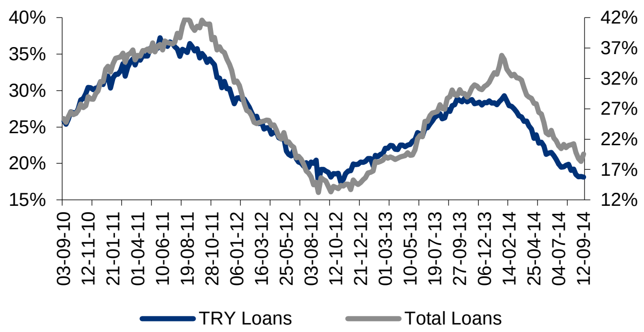
Source: CBT, ING

Fig 17 FX reserves and 50:50 EUR:USD basket (30-day ma)



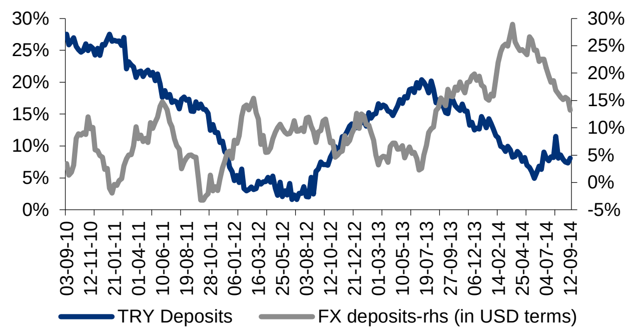
Source: CBT

Fig 18 Loan growth (% in TRY terms, YoY)



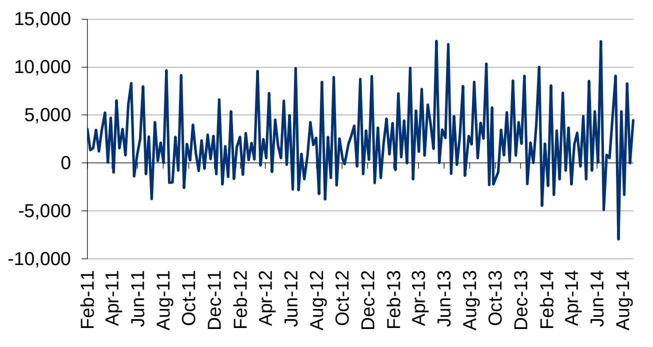
Source: BRSA

Fig 19 Deposit growth (% YoY)



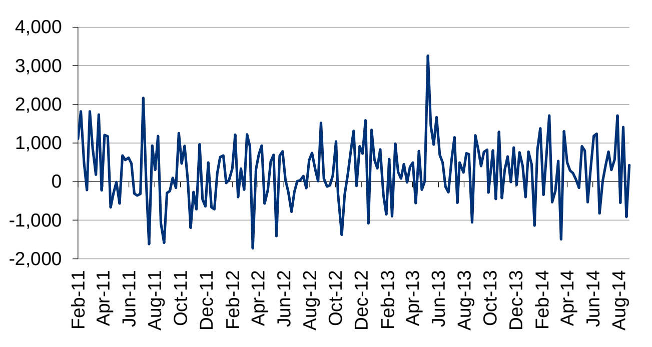
Source: BRSA

Fig 20 Weekly change in TRY Loans (TRYm)



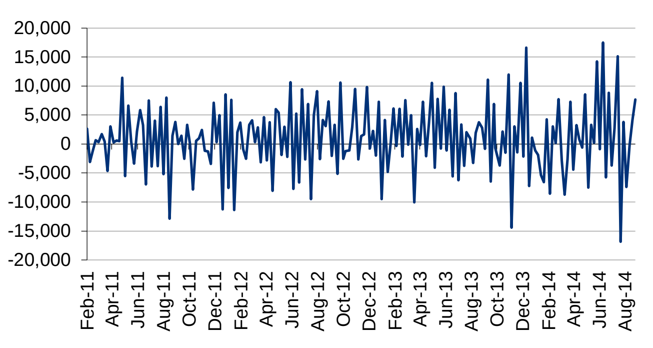
Source: BRSA

Fig 21 Weekly change in FX loans (USDm)



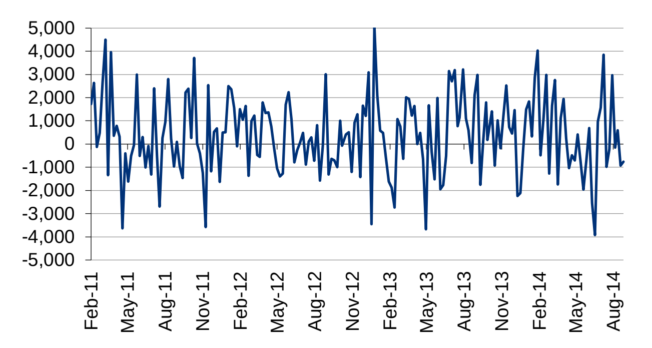
Source: BRSA

Fig 22 Weekly change in TRY deposits (TRYm)



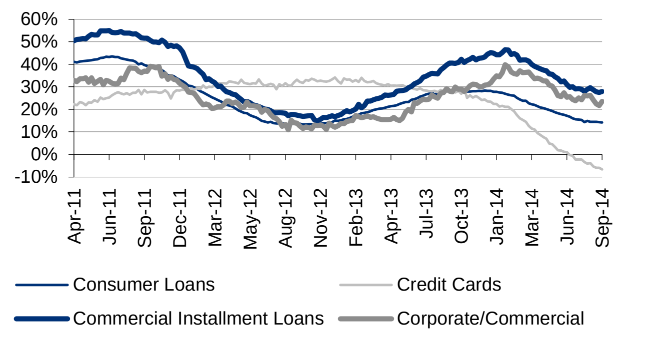
Source: BRSA

Fig 23 Weekly change in FX deposits (USDm)



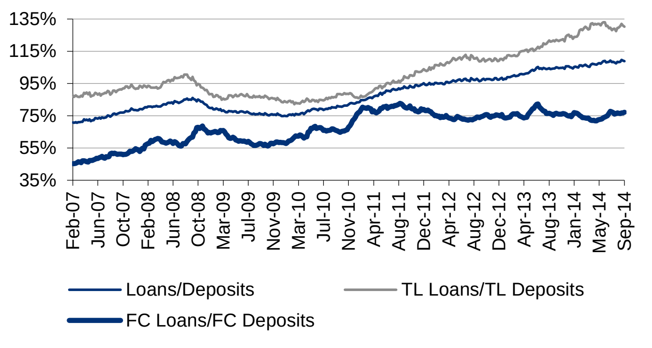
Source: BRSA

Fig 24 YoY loan growth by category



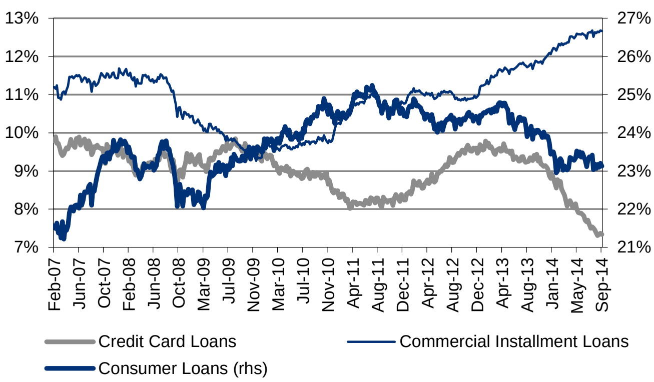
Source: BRSA

Fig 25 Loans/deposits



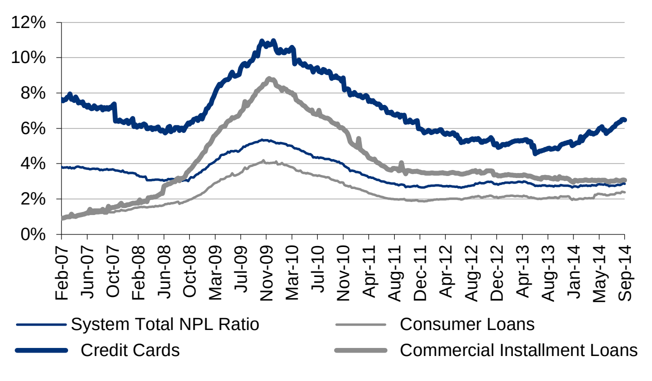
Source: BRSA

Fig 26 Share in total loans



Source: BRSA

Fig 27 NPL ratios



Source: BRSA

Fig 28 Key economic forecasts

	2007	2008	2009	2010	2011	2012	2013F	2014F	2015F	2016F
Activity										
Real GDP (%YoY)	4.7	0.7	-4.8	9.2	8.8	2.1	4.1	3.1	3.9	4.3
Private consumption (%YoY)	5.5	-0.3	-2.3	6.7	7.7	-0.5	5.1	2.5	3.7	4.8
Government consumption (%YoY)	6.5	1.7	7.8	2.0	4.7	6.1	6.2	3.9	3.9	2.4
Investment (%YoY)	3.1	-6.2	-19.0	30.5	18.0	-2.7	4.2	-1.5	4.6	7.5
Industrial production (%YoY)	6.9	-0.9	-10.4	12.4	9.7	2.5	3.4	3.9	4.8	5.3
Unemployment rate (%)	9.2	10.0	13.1	11.1	9.1	8.4	9.0	9.6	9.4	9.1
Nominal GDP (TRYbn)	843	951	953	1,099	1,297	1,417	1,562	1,767	1,967	2,179
Nominal GDP (€bn)	474	501	442	552	558	615	608	608	703	877
Nominal GDP (USDbn)	649	742	617	732	774	786	820	810	864	1004
GDP per capita (USD)	9,240	10,438	8,559	10,022	10,466	10,504	10,722	10,476	11,058	12,711
Prices										
CPI (average %YoY)	8.8	10.4	6.3	8.6	6.5	8.9	7.5	9.0	7.0	6.2
CPI (end-year %YoY)	8.39	10.06	6.5	6.4	10.4	6.2	7.4	8.9	6.9	6.0
D-PPI (average %YoY)	6.3	12.7	1.2	8.5	11.1	6.1	4.5	10.6	7.2	6.3
Fiscal balance (% of GDP)										
Consolidated government balance	-1.6	-1.8	-5.5	-3.6	-1.4	-2.1	-1.2	-2.4	-2.2	-2.1
Primary balance	4.1	3.5	0.1	0.8	1.9	1.3	2.0	0.5	0.5	0.5
Total public debt	39.9	40.0	46.0	42.3	39.2	36.2	35.0	34.6	34.1	33.6
External balance										
Exports (USDbn)	115.4	140.8	109.6	120.9	143.4	163.2	163.4	173.1	187.6	205.8
Imports (USDbn)	162.2	193.8	134.5	177.3	232.5	228.6	243.4	238.8	261.9	293.7
Trade balance (USDbn)	-46.9	-53.0	-24.9	-56.4	-89.1	-65.3	-80.0	-65.7	-74.3	-87.9
Trade balance (% of GDP)	-7.2	-7.1	-4.0	-7.7	-11.5	-8.3	-9.8	-8.1	-8.6	-8.8
Current account balance (USDbn)	-37.8	-40.4	-12.2	-45.4	-75.1	-48.5	-65.1	-46.6	-54.0	-65.6
Current account balance (% of GDP)	-5.8	-5.4	-2.0	-6.2	-9.7	-6.2	-7.9	-5.7	-6.3	-6.5
Net FDI (USDbn)	19.9	17.2	7.1	7.6	13.7	9.2	9.8	8.5	10.3	12.3
Net FDI (% of GDP)	3.1	2.3	1.2	1.0	1.8	1.2	1.2	1.1	1.2	1.2
Current account balance plus FDI (% of GDP)	-2.7	-3.1	-0.8	-5.2	-7.9	-5.0	-6.7	-4.7	-5.1	-5.3
Export volume (%YoY)	12	7	-8	11	6	16	-1	6	6	7
Import volume (%YoY)	13	-1	-13	18	13	1	8	-3	8	9
Foreign exchange reserves (ex gold, USDbn)	73.3	71.0	70.7	80.7	78.5	101.7	110.3	116.6	125.1	136.9
Import cover (months of merchandise imports)	5.4	4.4	6.3	5.5	4.0	5.3	5.4	5.9	5.7	5.6
Debt indicators										
Gross external debt (USDbn)	250	281	269	292	304	338	388	409	447	494
Gross external debt (% of GDP)	39	38	44	40	39	43	47	50	52	49
Gross external debt (% of exports)	217	200	245	241	212	207	238	236	238	240
Total debt service (USDbn)	48.7	53.9	59.0	55.9	50.9	52.7	55.3	69.1	59.7	54.8
Total debt service (% of GDP)	8	7	10	8	7	7	7	9	7	5
Total debt service (% of exports)	42	38	54	46	36	32	34	40	32	27
Interest & exchange rates										
Central bank key rate (%) year-end	15.75	15.00	6.50	6.50	5.75	5.50	4.50	8.25	8.25	7.50
Broad money supply (%YoY)	15.4	27.5	12.9	19.0	11.5	12.9	22.8	14.2	12.3	11.8
3-mth interest rate (%) average	17.3	17.6	10.2	7.4	8.5	8.7	6.9	9.8	9.3	8.5
Exchange rate (TRY/USD) year-end	1.16	1.51	1.51	1.55	1.91	1.78	2.13	2.25	2.20	2.15
Exchange rate (TRY/USD) annual average	1.30	1.29	1.55	1.50	1.67	1.79	1.93	2.18	2.28	2.17
Exchange rate (TRY/€) year-end	1.71	2.14	2.16	2.05	2.46	2.35	2.94	2.88	2.60	2.37
Exchange rate (TRY/€) annual average	1.78	1.90	2.15	1.99	2.32	2.30	2.57	2.91	2.80	2.48
3M USDLIBOR (eop)	4.70	1.43	0.25	0.30	0.58	0.30	0.30	0.30	1.10	2.65
US Dollar per euro (yr-end)	*1.46*	*1.40*	*1.43*	*1.34*	*1.29*	*1.32*	*1.38*	*1.28*	*1.18*	*1.10*

Note: Please refer to previous pages for interest rate and FX forecasts

Source: National sources, ING forecasts (last update 15 September 2014)

Disclosures Appendix

ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

IMPORTANT DISCLOSURES

Company disclosures are available from the disclosures page on our website at http://research.ing.com.

The *remuneration of research analysts* is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

Securities prices: Prices are taken as of the previous day's close on the home market unless otherwise stated.

Conflicts of interest policy. ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at http://research.ing.com.

Research analyst(s): The research analyst(s) for this report may not be registered/qualified as a research analyst with the NYSE and/or NASD. The research analyst(s) for this report may not be an associated person of ING Financial Markets LLC and therefore may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst's account.

FOREIGN AFFILIATES DISCLOSURES

Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

ING

AMSTERDAM	BRUSSELS	LONDON	NEW YORK	SINGAPORE
Tel: 31 20 563 8955	Tel: 32 2 547 2111	Tel: 44 20 7767 1000	Tel: 1 646 424 6000	Tel: 65 6535 3688
Bratislava	**Frankfurt**	**Madrid**	**Paris**	**Sofia**
Tel: 421 2 5934 6111	Tel: 49 69 75936 519	Tel: 34 91 789 8880	Tel: 33 1 56 39 32 84	Tel: 359 2 917 6400
Bucharest	**Geneva**	**Manila**	**Prague**	**Taipei**
Tel: 40 21 222 1600	Tel: 41 22 592 3079	Tel: 63 2 479 8888	Tel: 420 257 474 111	Tel: 886 2 8729 7600
Budapest	**Hong Kong**	**Mexico City**	**Sao Paulo**	**Tokyo**
Tel: 36 1 235 8800	Tel: 852 2848 8488	Tel: 52 55 5258 2000	Tel: 55 11 4504 6000	Tel: 81 3 3217 0301
Buenos Aires	**Istanbul**	**Milan**	**Seoul**	**Warsaw**
Tel: 54 11 4310 4700	Tel: 90 212 329 0752	Tel: 39 02 89629 3610	Tel: 82 2 317 1800	Tel: 48 22 820 4696
Dublin	**Kiev**	**Moscow**	**Shanghai**	
Tel: 353 1 638 4000	Tel: 380 44 230 3030	Tel: 7 495 755 5400	Tel: 86 21 2020 2000	

Research offices: legal entity/address/*primary securities regulator*

Amsterdam	ING Bank N.V., Foppingadreef 7, Amsterdam, Netherlands, 1102BD. *Netherlands Authority for the Financial Markets*
Brussels	ING Belgium S.A./N.V., Avenue Marnix 24, Brussels, Belgium, B-1000. *Financial Services and Market Authority (FSMA)*
Bucharest	ING Bank N.V. Amsterdam - Bucharest Branch, 48 Lancu de Hunedoara Bd., 011745, Bucharest 1, Romania. *Financial Supervisory Authority*
Budapest	ING Bank N.V. Hungary Branch, Dozsa Gyorgy ut 84\B, H - 1068 Budapest, Hungary. *National Bank of Hungary*
Istanbul	ING Bank A.S., ING Bank Headquarters, Resitpasa Mahallesi Eski Buyukdere Cad. No: 8, 34467 Sariyer, Istanbul , Turkey. *Capital Markets Board*
London	ING Bank N.V. London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom. *Authorised by the Dutch Central Bank*
Manila	ING Bank N.V., Manila Branch, 20/F Tower One, Ayala Triangle, Ayala Avenue, 1226 Makati City, Philippines. *Philippine Securities and Exchange Commission*
Milan	ING Bank N.V. Milano, Via Arbe, 49, Milano, Italy, 20125. *Commissione Nazionale per le Società e la Borsa*
Moscow	ING BANK (EURASIA) ZAO, 36, Krasnoproletarskaya ulitsa, 127473 Moscow, Russia. *Federal Financial Markets Service*
Mumbai	ING Vysya Bank Limited, Plot C-12, Block-G, 7th Floor, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051, India. *Securities and Exchange Board of India*
New York	ING Financial Markets LLC, 1325 Avenue of the Americas, New York, United States,10019. *Securities and Exchange Commission*
Prague	ING Bank N.V., Prague Branch, Plzeňská 345/5, 150 00 Prague 5, Czech Republic*. Czech National Bank*
Singapore	ING Bank N.V. Singapore Branch, 19/F Republic Plaza, 9 Raffles Place, #19-02, Singapore, 048619. *Monetary Authority of Singapore*
Warsaw	ING Bank Slaski S.A, Ul. Pulawska 2, Warsaw, Poland, 02-566. *Polish Financial Supervision Authority*

Disclaimer