ING BANK A.Ş.

ECONOMIC RESEARCH GROUP

Economics
19 June 2014

Turkey: Monthly Local Focus

Rising geopolitical risks again

After the annexation of Ukraine and sanctions on Russia on the north, developments regarding Turkey's southern neighbour has once again increased geopolitical risk anticipation. Although a further spread of events does not seem feasible and involvement by the US and other countries is not on the agenda so far, oil prices have spiked noticeably since the outbreak of violence in Iraq.

Currently, a large portion of Iraqi oil is coming from the south, away from the conflict area. Thus, a major risk is not foreseen in the short run. However, the turmoil in Turkey's second biggest export market (with a 7.9% share in 2013 and one of the major contributors to export expansion in 2014 so far) and biggest oil supplier (having almost a one-third share, consistently increasing in recent years) threatens trade routes for Turkey that in return may create further challenges against efforts to curb the large current account deficit, moving with very clear signs of a rapid improvement. Additionally, the reaction within the FX market has so far been muted, but TRY still remains relatively weaker in comparison to EM peers. In that environment, the CBT Governor favours a measured cut (between 25-75bp) than an aggressive one in the near term. With presidential elections converging and downside risks on Turkey's growth outlook increasing slightly, June seems to be the best time to ease rates for the CBT before election and/or regional noises rise further. Given still weak credit expansion especially on the consumer loans front and stability in the currency, we continue to pencil in 100bp cuts for this year.

FX market (page 2). The positive mood in TRY, which started in the aftermath of local elections, halted recently due to the rising geopolitical risks. The future path of TRY will be determined by the length and depth of the crisis in Iraq, course of capital flows, the CBT's possible rate cut(s) and political risk anticipation during the presidential election period. In this regard, we maintain our cautious view on the TRY for the rest of the year.

USD:TRY support: 2.1080-2.1200   **Resistance:** 2.1350-2.1500

Bond market (page 4). The CBT's cautious stance in monetary policy reaction with measured rate cut(s) going forward due to elevated inflation, should limit the improvement in bond yields that have shown a strong downtrend in recent months. Under these circumstances, we expect a range-bound trend between 8.0-8.5% for rest of the year.

About the latest data (page 6).

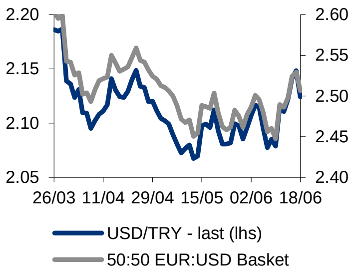
Reference charts (page 7-8).

Calendar

Date	Time (GMT)	Data/event	Forecast	Cons	Prev
24-Jun	1200	Jun MPC Meeting	-50bp	-50bp	-50bp
24-Jun	0800	Jun Real Sec. Conf and Capacity Util. Rate			113.3/76
30-Jun	0800	May Trade Balance (USDbn)			-7.2
3-Jul	0800	Jun CPI, DPPI (MoM,%)			0.40/-0.52
8-Jul	0800	May Industrial Production Index (SA,%)			4.6
11-Jul	0800	May Current Account Balance (USDbn)			-4.8
15-Jul	0900	Jun Central Gov't Budget Balance (TRYbn)			1.5

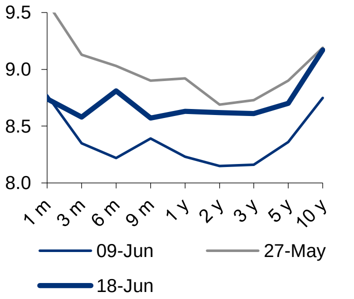
Source: TurkStat, Turkish Treasury, CBT

USD/TRY, 50:50 EUR:USD basket



Source: Thomson Reuters

Bond yield curve (% cmp)



Source: ISE

Bird's eye view

As of 18 Jun 2014 vs 27 May 2014	Level	Chg (%)
USD/TRY	2.1242	1.2
EUR/TRY	2.8655	0.0
EUR/USD	1.3595	-0.3
5yr CDS Turkey	181.43	-1.7
USD/TRY 1m vola.(%)	10.6%	17.9
BIST-100	78,093	0.7
Dow Jones Ind.	16,907	1.4
NIKKEI 225	15,116	3.3
Bmk local bond (%)	**Smp**	**Cmp**
28 May(cls)	8.45	8.63
18 Apr(cls)	8.49	8.67
Bmk Eurobond-2030 (27 May cls)		169.377
CBT one week repo rate (%)		9.50
CBT borrowing rate (%)		8.00
CBT lending rate (%)		12.00
CBT cost of avg. funding (%)		9.50
CBT sterilisation (TRYbn)		0.02
CBT repo funding + Interbank (TRYbn)		41.0
O/N trading band (%)	8.85	9.80

Source: Reuters, Bloomberg, CBT, OTC

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

Muammer Kömürcüoğlu
Istanbul +90 212 329 0753
muammer.komurcuoglu@ingbank.com.tr

FX and bond markets

FX market

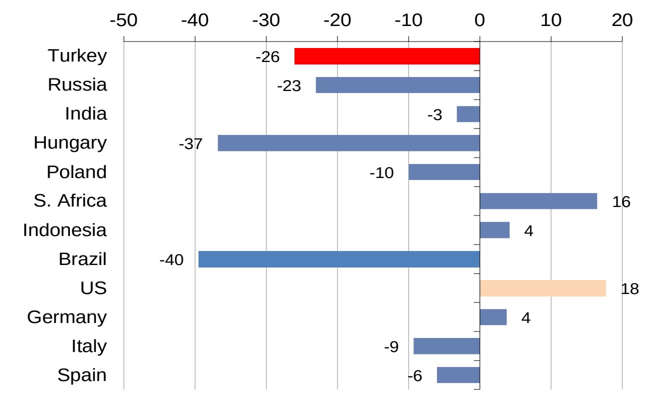
Positive sentiment in EMs ceased with the recent geopolitical outlook

Emerging markets continued to enjoy the positive sentiment in May and in the first week of June thanks to the ongoing recovery in US despite the downward revision to 1Q growth, recent ECB move and waning uncertainty regarding Ukraine. However, volatility has started to weigh on markets recently given rising tensions and geopolitical risks in Iraq.

The Fed's latest downward revision in long-term interest rates supported the mood in EMs

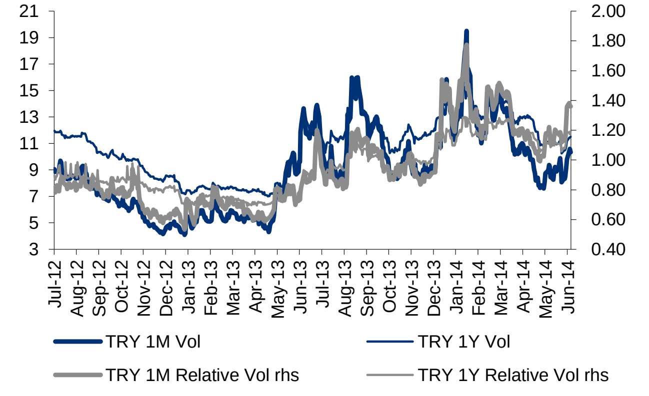
On the US side, the Fed continued to scale back its bond purchasing programme by another US$10bn in the June FOMC meeting, pulling the total amount down to US$35bn. The Bank preserves its recovery expectation in growth via saying "economic activity is rebounding and will continue to expand at a moderate pace". In addition, the Fed lowered its long-term interest rate forecast for 2016 to 3.75% (from 4%), which is the most eye-catching part and welcomed by markets. Regarding the inflation outlook, we do not see a change in the statement, as noted that it is running below the committee's long-run objective. On the macro developments front, since the effect of the adverse weather conditions were more than expected, US GDP growth for the first quarter was revised down notably to -1% from the 0.1% initial estimate. Although the US economy contracted for the first time in the last three years, market participants preserved their recovery assumption in the second quarter as the disappointing outcome was attributable to climate conditions. On the job creation front, the recent non-farm data of 217K realized was in line with market consensus and showed that employment growth remained above 200K for the last four months, signalling that the gradual improvement in the labour market keeps its momentum. On the flip side, despite the strengthening in the labour market, real wage increases remained at 0.2% MoM and hinted that there is no pressure from this side to inflation. Finally, US May CPI realized at 0.4% MoM, was higher than market consensus and triggered concerns that the Fed might start rate hikes at an earlier time than expected. But in our view, the Fed will not change its stance till September and continue its tapering at its regular pace.

Fig 1 USD:TRY % change (28 May-18 June)



Source: Thomson Reuters

Fig 2 TRY's volatility* increased recently



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

Source: Thomson Reuters, ING Bank

ECB came with supportive measures in the June meeting

The expected move in the Eurozone finally came in the June meeting and the ECB cut the reference rate by 10bp to 0.15% accompanied with a 35bp trim in the marginal funding rate to 0.40%. In addition, deposit rates were pulled down to the negative region (-0.10%). The ECB also signalled for further measures such as a series of targeted longer-term refinancing operations in order to restore the monetary policy transmission mechanism and support corporate lending. Revisions on the Bank staff estimates were the main underlining reason for the ECB's actions, where growth estimates were ticked down to 1.0%, 1.7% and

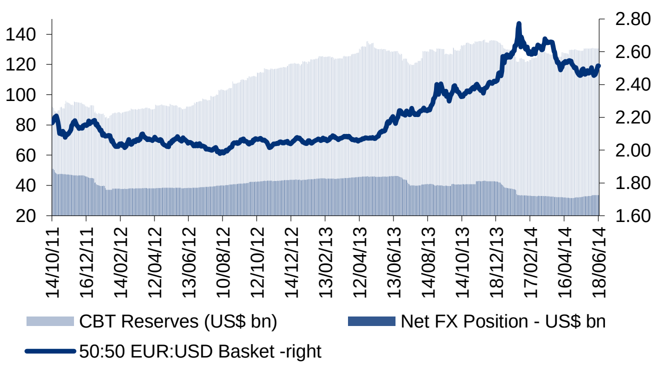
1.8% for 2014, 2015 and 2016, respectively. Inflation forecasts were also changed to 1.1% in 2014, 1.4% in 2015 and 1.4% in 2016. Taking into account the ECB's potential steps, we do not foresee a further upside trend in EUR:USD parity in the period ahead. Moreover, towards the last quarter of the year, the Fed's first rate hike action is likely to start to be priced, possibly supporting the valuation of USD against EUR, pulling the parity down below the 1.30 level towards the end of the year.

Emerging markets preserved their positive performance until the end of the first week of June, but lost their gains then as geopolitical risks started to rise due to the tension in Iraq. Accordingly, almost all emerging market currencies weakened against the USD in the 0.1-3.2% range between 28 May-17 June, except the RUB, PLN and BRL, which appreciated mildly by 0.6% for the first two and 0.2% for the latter. Moving in line with other EM currencies, USD:TRY fell by 1.3% in this period also driven by growing expectations that the CBT will continue its rate cut actions in the June meeting. In this period, the IDR was at the fore, losing 3.2%, followed by the INR with 2.3% and the IDR with 1.8% as well. Going forward, sentiment towards emerging markets will be determined by the endurance of the geopolitical tension and US data that will shape the expectations regarding the timing of the first rate hike.

Recent tension in Iraq ended the strengthening trend in TRY

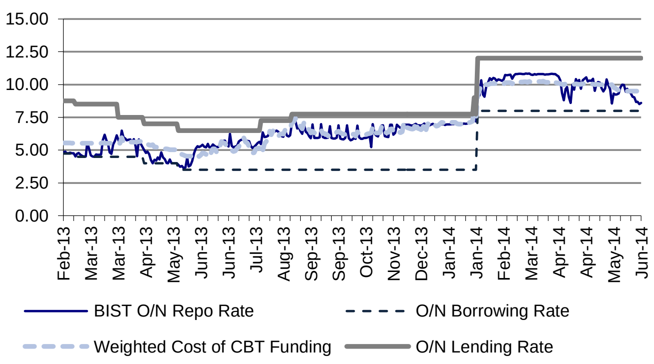
Responding to the CBT's reduction in the policy rate in the May meeting, USD/TRY followed an upward trend to the end of May on the back of corporate demand and the Prime Minister's comment that the CBT's rate cut is insufficient, paving the way for an increase in rate cut expectations. However, supported by the positive mood for all EMs in the wake of the ECB's the latest action list, TRY gained value against USD till the beginning of second week of June, when ISIS started to capture some parts of Iraq, again bringing geopolitical risks to the fore. Accordingly, USD/TRY turned its direction to the north towards 2.13-2.15 levels recently, accompanied with growing relative volatility in this period.

Fig 3 Direction is still up in the FX reserves



Source: Thomson Reuters, CBT, ING Bank

Fig 4 No change in the boundaries of rate corridor



Source: Thomson Reuters

CBT gradually adds to the FX reserves

Adopting a cautious stance in reserve management strategy since January 2014 and reducing FX sales amounts gradually in daily auctions accordingly, the CBT sold US$740m since May and carried the total YTD amount to US$6.5bn. Besides, the recent ECB action supports the expectations that capital inflows to the EMs might accelerate and backs the CBT's optimistic view on that front. Accordingly, committing to FX reserve accumulation in the case of acceleration in capital inflows, we can see the CBT terminating FX selling auctions in the period ahead. In addition, the CBT started to use the export credit facility effectively since the beginning of 2013 so as to support net FX reserves and added US$12.7bn via this channel. In the first five months of 2014, the overall contribution from this tool reached US$3.8bn and, according to the CBT's calculations, total FX support will reach US$18bn for the whole year. All in all, gross reserves (excluding gold) came up to US$110.4bn as of 6 June, from US$102-103bn in January.

Fig 5 Export credits supports to the net reserves

USD bn	FX Sales (-)	Export Credit (+)		FX Sales (-)	Export Credit (+)
Jun-13	1.70		Jan-14	5.80	0.57
Jul-13	5.15	0.97	Feb-14	1.00	0.30
Aug-13	1.95	1.19	Mar-14	1.05	0.48
Sep-13	1.86	1.15	Apr-14	1.02	0.36
Oct-13	0.84	1.07	May-14	0.74	2.05
Nov-13	1.44	1.70	Jun-14		1.51
Dec-13	4.67	1.02	Jul-14		1.45
TOTAL	**17.61**	**7.10**	Aug-14		1.35

Source: CBT *Estimates, **As of 27 May

Fig 6 Increase in reserve option mechanism utilization

	Bank's FX holdings in CBT Reserves (USD bn)				
	Dec-13	Feb-14	Mar-14	Apr-14	May-14
ROM FX	34.6	33.6	34.5	34.9	39.0
FX Required Reserves	30.3	30.5	31.4	31.9	33.3
Total	64.9	64.1	65.9	66.8	72.3

Source: CBT

Residents' FX holdings have remained relatively stable since April

Resident FX deposits, which were on a strong uptrend to the end of 1Q14, started to follow a relatively moderate course since April. In addition, although the downtrend in USD/TRY accelerated especially since the local elections, we have not seen an eye-catching fall in FX deposits so far. Accordingly, FX deposits fell moderately in the last two weeks till 6 June to US$142.1bn, mainly stemming from the corporates. Taking into account the current path, we do not foresee a sizable drop in FX deposit holdings for the rest of the year as well.

We preserve our cautious stance on USD:TRY for the rest of the year

Overall, the downtrend in USD/TRY has been halted by the recent tension in Iraq. For the rest of the year, a reflection of a possible increase in capital inflows due to ECB action, probability of rising political uncertainty during the presidential election period, and continuation of conflict in Iraq will be the main factors that determine the path of the TRY. In addition, the continuation of rate cuts depending on the inflation outlook might also create pressure on TRY. Hence, taking into account all of these aspects, we expect USD/TRY to follow a moderate uptrend and reach the 2.20 level towards the end of year.

Fig 7 ING forecasts

	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q14F	4Q15F
USD:TRY	2.19	2.11	2.17	2.20	2.18	2.15	2.12	2.10
EUR:TRY	3.01	2.85	2.87	2.84	2.75	2.67	2.57	2.52
EUR:USD	1.37	1.35	1.32	1.29	1.26	1.24	1.21	1.20

Source: ING estimates

muammer.komurcuoglu@ingbank.com.tr

Bond market

Bond yields that dropped markedly since end-March ended the downtrend with recent conflict in Iraq

The downward movement in bond yields that started in April thanks to the waning domestic uncertainties and accompanied TRY appreciation continued until recently, especially in the 2YR after the CBT's rate cut. In addition, positive expectations on capital flows to EMs in the aftermath of the ECB's decisions increased perceptions that the CBT will continue with the rate-cut cycle, which in return further compressed 2YR benchmark bond yields, touching its lowest levels since November 2013 at 8.18%. However, bond yields have moved up again recently on the back of the rising geopolitical risks weighing on financial markets. All in all, the average 2YR yield that dipped to 8.99% in May from the 9.94% April figure dropped further to 8.38% in the first 18 days of June. The 10YR bond rates for the same periods were 10.07%, 9.27% and 9.05%, respectively.

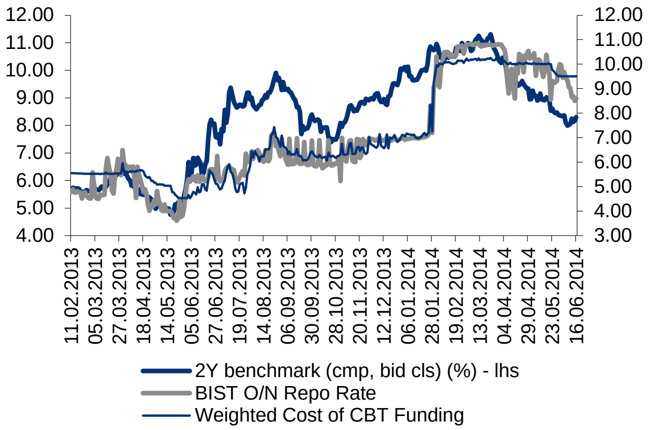
Steepening of the yield curve continues

Regarding the yield curve, turning to the positively sloped shape as of April as the CBT started easing its policy stance, steepened further after the Bank's latest rate cut with rising expectations of further cuts in the period ahead. Accordingly, the average 10YR-2YR spread ticked up to 33bp in May from 14bp in April and rose further to 67bp in the first 18 days of June. Going forward, we might see the continuation of gradual steepening on the back of the CBT's anticipated easing actions depending on the pace of TRY and capital inflows.

We have not seen a sustainable strong inflow trend yet

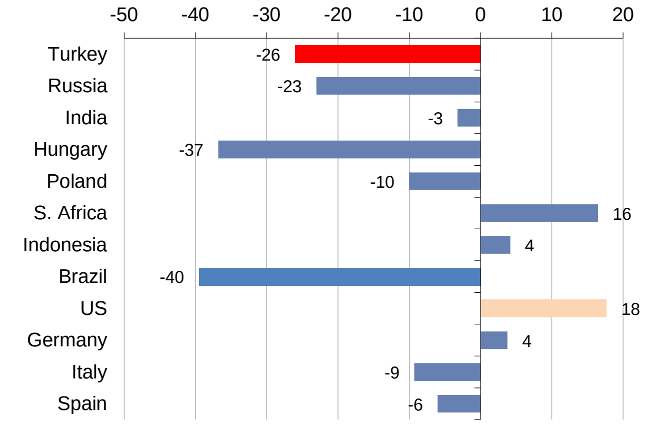
Despite the downtrend in yields, we have not witnessed strong foreign inflows with the exception of US$1.3bn (US$1.5bn excluding repo transactions) in the beginning of April, and US$1.9bn (US$1.4bn without repo) at the end of May. Total YTD flows still linger in negative territory with US$1.6bn (US$0.2bn after excluding repo transactions). On the other hand, there are sustained flows to the equity market with US$1.7bn since the beginning of 2014.

Fig 8 Cost of funding lingers around 9.5%



Source: Thomson Reuters, ING Bank

Fig 9 10YR benchmark bonds (bp chg, 28 May-18 June)



Source: Thomson Reuters

Demand for long-term assets remains strong

In terms of the share of non-residents in total GDDS (including repo transactions, market value in US-dollar terms), thanks to the two series of inflows mentioned above, we see a partial recovery in the share to 24.8%. But it is still lower than 28.2% at end-May 2013, the date that all of the volatility started as the tapering story emerged. Finally, the share of short-term (up to one year) holdings of non-residents continued to move to the south, reached 20.8% supporting the view that demand for longer-term maturity holdings follows an uptrend. Going forward, expectations to see some positive figures are getting stronger after the ECB's recent move. However, we think the realization of this expectation depends on the presidential elections and its potential impact on financial markets.

Fig 10 Treasury financing remains on track

Treasury's Total Borrowing	Target in 2014 Programme			YTD Realization			YTD Realization/ Annual Target (%)
	TRYbn	US$bn	EURbn	TRYbn	US$bn	EURbn	For TRY
Domestic	134.6	67.9	48.2	79.2	36.6	26.7	58.8
Foreign*	14.8	7.5	5.3	13.1	6.0	4.4	88.7
Total	149.3	75.4	53.5	92.3	42.6	31.1	61.8

* USD640m of November 2013 issue is for pre-financing of 2014 external borrowing programme

Source: Turkish Treasury

Treasury plans to borrow TRY12.3bn in July

On the fiscal side, the weakening in the April and May figures supports our view that the budget performance might be slightly below the annual targets set in the medium-term programme. On the revenues front, we see the reflection of momentum loss in domestic demand to tax revenue collection. Regarding the financing, the Treasury continues to borrow without difficulty so far; successfully rolling over its debt while achieving 62% of its domestic borrowing target in the first half of the year. Moreover, thanks to the recent improvement in market sentiment, the cost of borrowing continued its journey to the south with 9.19% in June from 9.37% a month ago. Specifically, the Treasury borrowed TRY12.1bn (the target was TRY13.0bn) in six auctions, compared with repayments of TRY16.9bn of debt. Hence, the rollover ratio in the first half of the year reached 83.3%, up from 84.5% in 2013. Finally, according to the June-July-August programme, the Treasury plans to borrow TRY12.3bn (of which, TRY9.0bn from the markets and TRY3.3bn from the public sector) against TRY14.8bn repayments in July.

Fig 11 Domestic borrowing programme for July 2014

Term	Security type	Auction date	Value date	Maturity date
5 years (1820 days)	TRY denominated fixed coupon G.Bond-6M couponed	14.07.2014	16.07.2014	10.07.2019
7 years (2499 days)	TRY denominated floating rate G.Bond-6M couponed (r-o)	14.07.2014	16.07.2014	19.05.2021
2 years (728 days)	TRY denominated fixed coupon G.Bond-6M couponed	15.07.2014	16.07.2014	13.07.2016
10 years (3535 days)	TRY denominated fixed coupon G.Bond-6M couponed (r-o)	15.07.2014	16.07.2014	20.03.2024
10 years (3584 days)	TRY- denominated CPI Linker G.Bond-6M couponed (r-o)	15.07.2014	16.07.2014	08.05.2024
13 months (392 days)	TRY denominated zero coupon G.Bond (r-o)	22.07.2014	23.07.2014	19.08.2015

Source: Turkish Treasury

Improvement in bond yields might be limited for the rest of the year

Finally, regarding the inflation outlook, there was another surprising outcome in May, but the downside this time carried annual inflation close to 9.66%, its peak according to our estimates. Moreover, core indicators continued to rise in June with H & I indicators reaching 10.16% and 9.77%, respectively, but started to lose steam, hinting for a reverse back in trend in the period ahead as the lagged effect of TRY depreciation is getting weaker. For the rest of the year, we expect annual inflation to follow a moderate fall but with a high probability staying above the CBT's latest estimate of 7.6%. Hence, taking into account the inflation outlook and possible global backdrop in the second half of this year, we anticipate a 100bp cut in the policy rate for the year, but the extent of easing will be determined by data flow on the inflation side. In this regard, the CBT's cautious stance might limit the further downtrend in bond yields, staying in the 8.0-8.5% range for the rest of the year.

Fig 12 Rate forecasts (%)

	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q14F	4Q15F
CBT key rate	10.00	9.00	8.50	8.50	8.50	8.00	7.50	7.50
2Y benchmark	10.69	8.61	8.50	8.56	8.75	8.19	7.52	7.46
10Y benchmark	10.26	9.34	9.38	9.59	9.87	9.40	8.82	8.85

Source: ING estimates

muammer.komurcuoglu@ingbank.com.tr

About the latest data

Trade balance

30 May. According to April foreign trade figures, imports posted a 9.5% contraction and stood at US$20.7bn, thanks to the notable reduction in gold trade similar to the readings in the first three months of this year. On the other hand, total exports grew by 7.9% to US$13.5bn, lower than envisaged by the consensus, as gold exports contracted on an annual basis in contrast to a significant growth expectation. Accordingly, the monthly foreign trade balance at US$7.2bn came in worse than the US$6.6bn market consensus, but carried the 12-month rolling deficit down to US$92.2bn from US$95.3bn a month ago. Moreover, the 12-month rolling trade deficit excluding energy, maintained its downtrend in April as well with US$42.3bn, supporting the view that domestic demand has been losing steam in 2014.

Inflation

3 June. CPI increased by 0.40% in May, below the market consensus of 0.50% due to the more-than-expected fall in food prices. Details of the monthly reading show that the main contributor to the headline in May was again the clothing group. On the flip side, volatility in food prices continued but this time with a positive surprise, followed by the fall in the transportation group possibly impacted by the recent TRY appreciation. Thus, annual inflation in May 2014 was realized at 9.66%, up from the 9.38% April level. Domestic Producer Price Index (D-PPI) on the other hand fell on monthly basis by 0.52%, and pulled the annual figure down in May 2014 to 11.28% from 12.98% a month ago.

Industrial production

9 June. The industrial production index continued its journey to the north with 4.6% YoY growth (calendar adjusted basis) in April, surpassing the expectations for the last four consecutive months. Additionally, contracting on a monthly basis in February and March, the seasonal and calendar adjusted IP index reversed its direction and expand by 1% MoM in April and signalled that the favourable outlook in growth might continue in the second quarter as well.

Growth

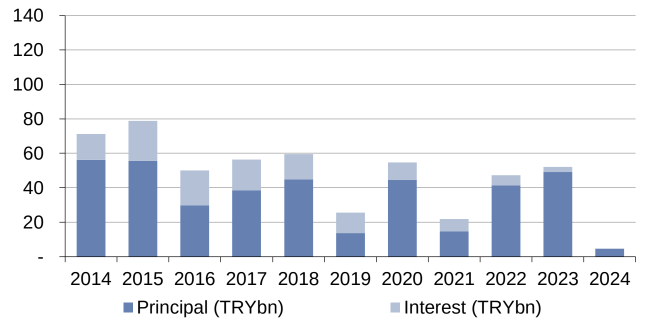
10 June. GDP grew by 4.3% YoY, in 1Q14 in line with market consensus and pulled the annualized growth up to 4.4%. Private consumption as well as investment spending slowed down with a declining contribution to the headline growth, while exports surged in contrast to weakening imports attributable to softer domestic demand. Going forward we may see some strengthening in private consumption and investment given the improving political risk outlook and the CBT’s easing stance.

Balance of payments

12 June. Thanks to ongoing improvement in the trade balance, the c/a deficit continued to follow a downtrend in April with US$4.8bn, in line with the consensus. Hence, the 12-month rolling deficit kept falling with a further acceleration to US$57bn. Besides, the non-energy deficit sustained its journey to the south, pulling the 12-month rolling figure to US$6.9bn. Accordingly, the deficit reached its lowest level since June 2013, suggesting that the current slowdown in domestic demand portrays a recovery in the c/a balance.

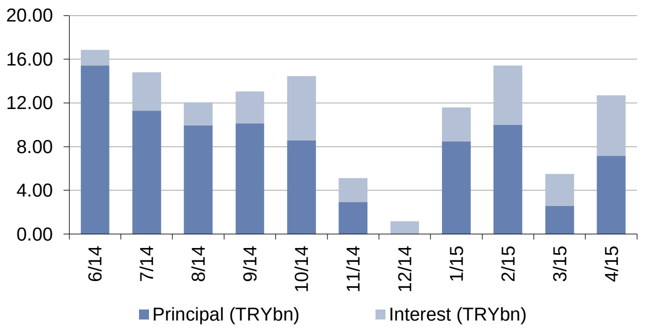
Reference charts

Fig 13 Government domestic bond payment schedule



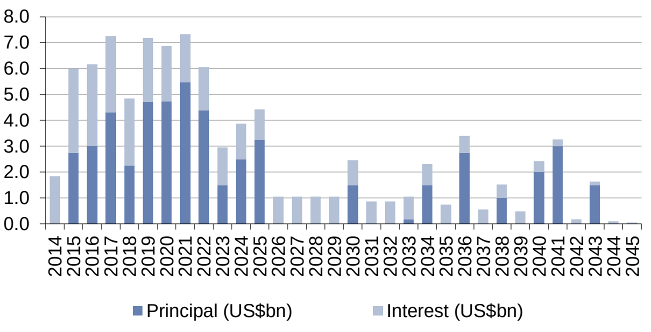
Source: Bloomberg

Fig 14 Government domestic bond payment schedule



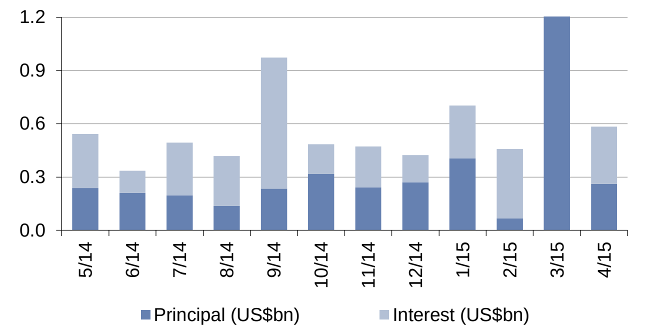
Source: Turkish Treasury

Fig 15 Government external bond payment schedule



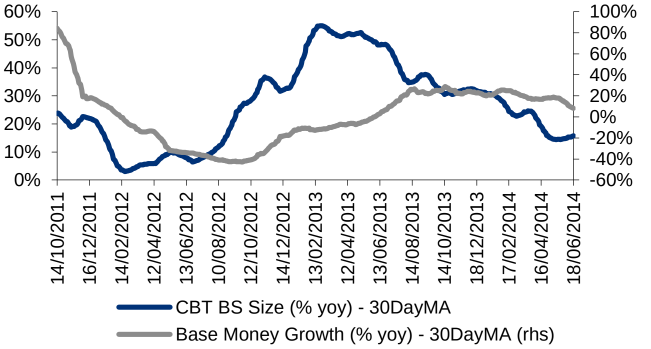
Source: Bloomberg

Fig 16 Central govt external debt payment schedule



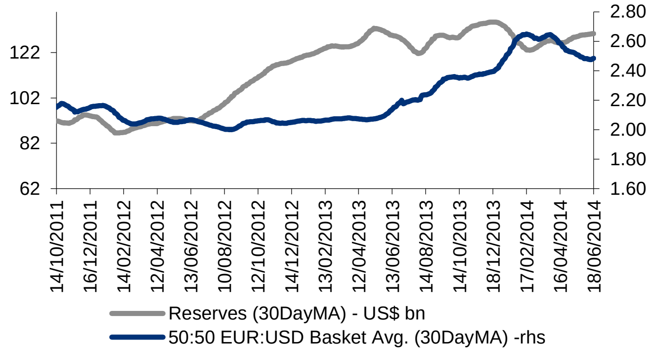
Source: Turkish Treasury

Fig 17 YoY changes (TRY, 30-day ma)



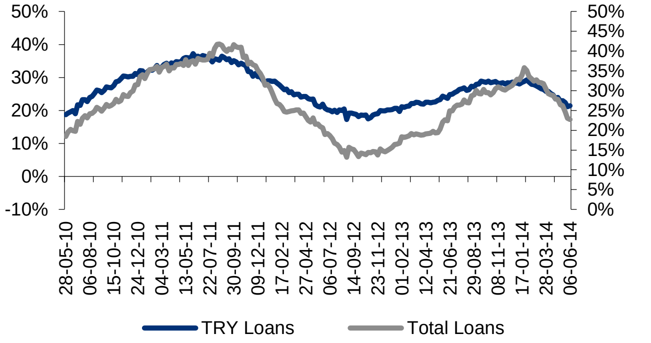
Source: CBT, ING

Fig 18 FX reserves and 50:50 EUR:USD basket (30-day ma)



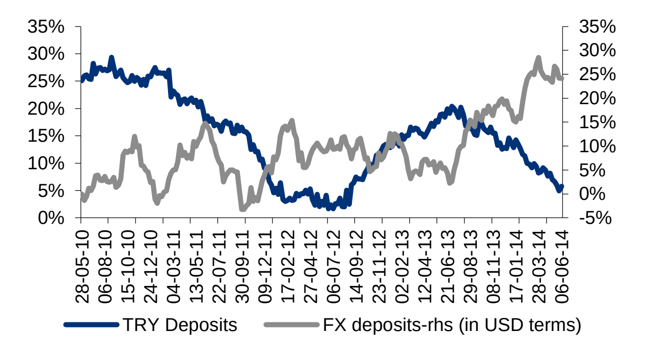
Source: CBT

Fig 19 Loan growth (% in TRY terms, YoY)



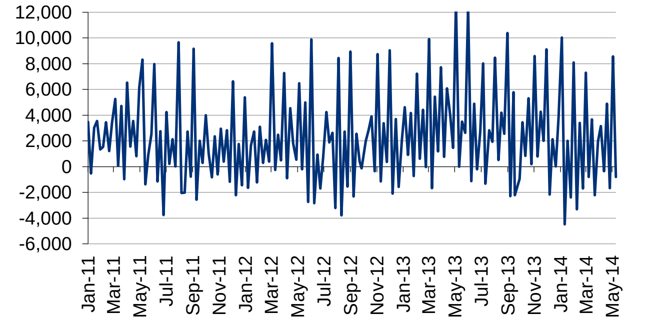
Source: BRSA

Fig 20 Deposit growth (% YoY)



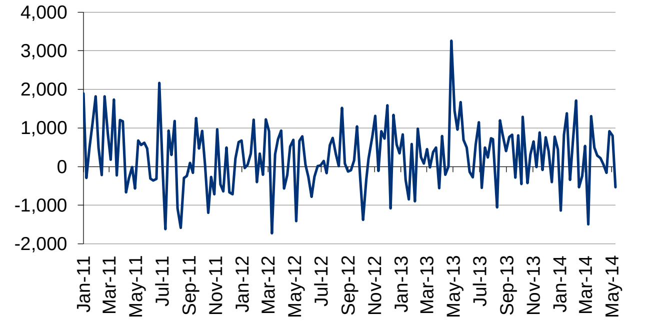
Source: BRSA

Fig 21 Weekly change in TRY Loans (TRYm)



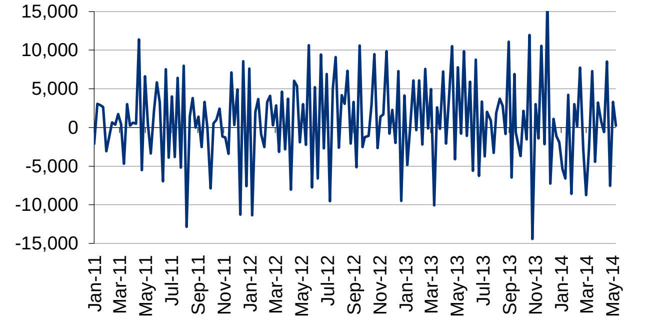
Source: BRSA

Fig 22 Weekly change in FX loans (US$m)



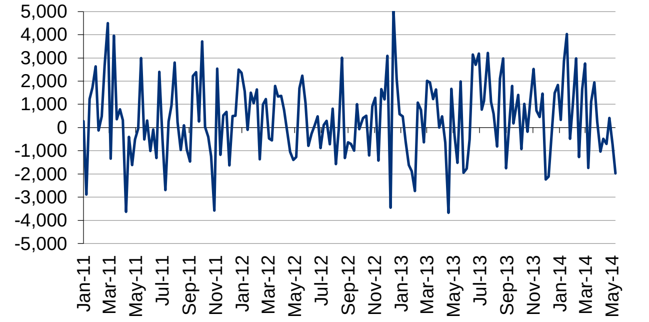
Source: BRSA

Fig 23 Weekly change in TRY deposits (TRYm)



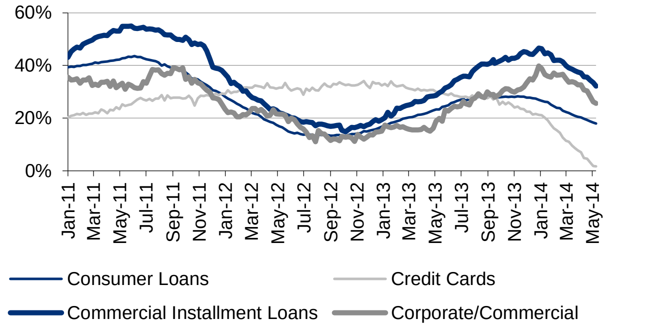
Source: BRSA

Fig 24 Weekly change in FX deposits (US$m)



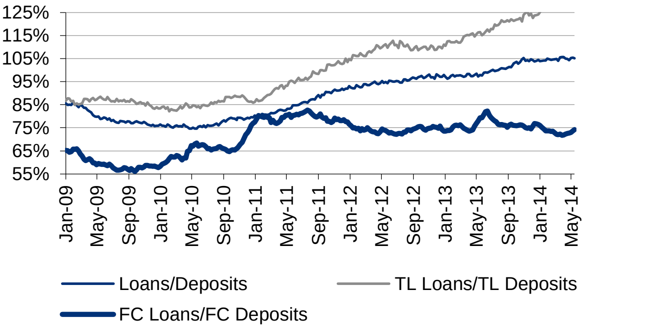
Source: BRSA

Fig 25 YOY loan growth by category (annualized)



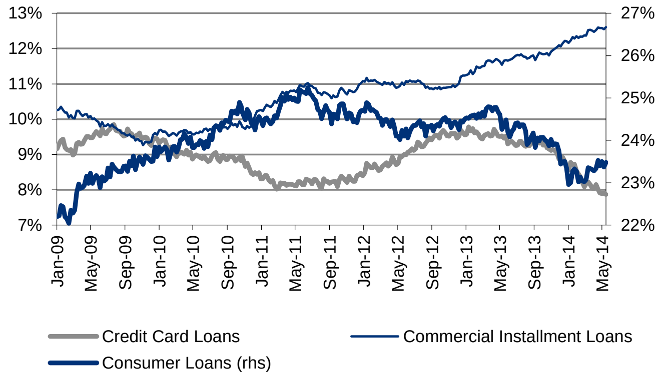
Source: BRSA

Fig 26 Loans/deposits



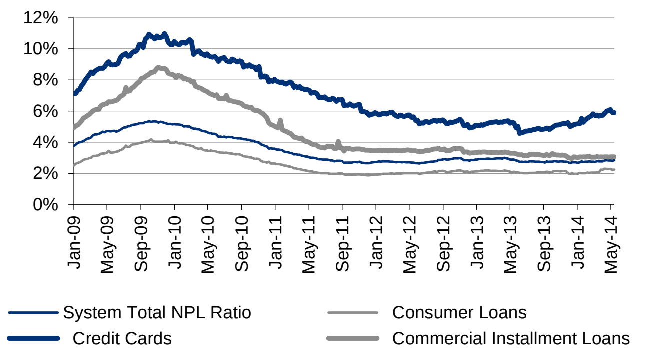
Source: BRSA

Fig 27 Share in total loans



Source: BRSA

Fig 28 NPL ratios



Source: BRSA

Fig 29 Key economic forecasts

	2007	2008	2009	2010	2011	2012	2013F	2014F	2015	2016
Activity										
Real GDP (%YoY)	4.7	0.7	-4.8	9.2	8.8	2.1	4.0	3.4	4.0	4.5
Private consumption (%YoY)	5.5	-0.3	-2.3	6.7	7.7	-0.5	4.6	3.0	4.6	5.2
Government consumption (%YoY)	6.5	1.7	7.8	2.0	4.7	6.1	5.9	2.9	3.0	2.8
Investment (%YoY)	3.1	-6.2	-19.0	30.5	18.0	-2.7	4.3	2.5	6.6	9.0
Industrial production (%YoY)	6.9	-0.9	-10.4	12.4	9.7	2.5	3.0	4.3	5.0	5.6
Unemployment rate year-end (%)	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	1,766	1,954	2,167
Nominal GDP (EURbn)	474	501	442	552	558	615	608	607	737	845
Nominal GDP (US$bn)	649	742	617	732	774	786	820	813	910	1063
GDP per capita (USD)	9,240	10,438	8,559	10,022	10,466	10,504	10,722	10,518	11,649	13,461
Prices										
CPI (average %YoY)	8.8	10.4	6.3	8.6	6.5	8.9	7.5	8.7	6.5	5.8
CPI (end-year %YoY)	8.39	10.06	6.5	6.4	10.4	6.2	7.4	8.5	6.3	5.6
PPI - WPI until 2003 (average %YoY)	6.3	12.7	1.2	8.5	11.1	6.1	4.5	10.2	6.2	6.5
Fiscal balance (% of GDP)										
Consolidated government balance	-1.6	-1.8	-5.5	-3.6	-1.4	-2.1	-1.2	-2.3	-1.9	-1.7
Primary balance	4.1	3.5	0.1	0.8	1.9	1.3	2.0	0.5	0.9	1.1
Total public debt	39.9	40.0	46.0	42.3	39.2	36.2	35.0	34.5	33.6	32.5
External balance										
Exports (US$bn)	115.4	140.8	109.6	120.9	143.4	163.2	163.4	182.3	200.4	218.7
Imports (US$bn)	162.2	193.8	134.5	177.3	232.5	228.6	243.3	245.0	271.9	303.4
Trade balance (US$bn)	-46.9	-53.0	-24.9	-56.4	-89.1	-65.3	-79.8	-62.7	-71.6	-84.7
Trade balance (% of GDP)	-7.2	-7.1	-4.0	-7.7	-11.5	-8.3	-9.7	-7.7	-7.9	-8.0
Current account balance (US$bn)	-37.8	-40.4	-12.2	-45.4	-75.1	-48.5	-64.9	-46.0	-56.6	-70.7
Current account balance (% of GDP)	-5.8	-5.4	-2.0	-6.2	-9.7	-6.2	-7.9	-5.7	-6.2	-6.6
Net FDI (US$bn)	19.9	17.2	7.1	7.6	13.7	9.2	9.6	7.8	9.6	12.0
Net FDI (% of GDP)	3.1	2.3	1.2	1.0	1.8	1.2	1.2	1.0	1.1	1.1
Current account balance plus FDI (% of GDP)	-2.7	-3.1	-0.8	-5.2	-7.9	-5.0	-6.8	-4.7	-5.2	-5.5
Export volume (%YoY)	12	7	-8	11	6	16	-1	10	4	5
Import volume (%YoY)	13	-1	-13	18	13	1	7	-3	10	8
Foreign exchange reserves (ex-gold, US$bn)	73.3	71.0	70.7	80.7	78.5	99.9	112.7	119.0	127.0	136.0
Import cover (months of merchandise imports)	5.4	4.4	6.3	5.5	4.0	5.2	5.6	5.8	5.6	5.4
Debt indicators										
Gross external debt (US$bn)	250	281	269	292	304	338	388	422	465	519
Gross external debt (% of GDP)	39	38	44	40	39	43	47	52	51	49
Gross external debt (% of exports)	217	200	245	241	212	207	238	231	232	237
Total debt service (US$bn)	48.7	53.9	59.0	55.9	50.9	52.7	55.0	97.2	80.3	75.3
Total debt service (% of GDP)	8	7	10	8	7	7	7	12	9	7
Total debt service (% of exports)	42	38	54	46	36	32	34	53	40	34
Interest & exchange rates										
Central bank key rate (%) year-end	15.75	15.00	6.50	6.50	5.75	5.50	4.50	8.50	7.50	7.00
Broad money supply (%YoY)	15.4	27.5	12.9	19.0	11.5	10.3	23.2	14.1	12.1	12.4
3-mth interest rate average (%)	17.3	17.6	10.2	7.4	8.5	8.7	6.9	9.8	8.1	7.2
Exchange rate year-end (TRY/USD)	1.16	1.51	1.51	1.55	1.91	1.78	2.13	2.20	2.10	2.00
Exchange rate annual average (TRY/USD)	1.30	1.29	1.55	1.50	1.67	1.79	1.93	2.17	2.15	2.04
Exchange rate year-end (TRY/EUR)	1.71	2.14	2.16	2.05	2.46	2.35	2.94	2.84	2.52	2.60
Exchange rate annual average (TRY/EUR)	1.78	1.90	2.15	1.99	2.32	2.30	2.57	2.91	2.65	2.56
3M USDLIBOR (eop)	4.70	1.43	0.25	0.30	0.58	0.30	0.30	0.30	1.10	2.65
EUR/USD (eop)	*1.46*	*1.40*	*1.43*	*1.34*	*1.29*	*1.32*	*1.38*	*1.29*	*1.20*	*1.30*

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

Source: National sources, ING forecasts (last update 12 June 2014)

ING Bank A.Ş. Economic Research Group

Muhammet Mercan	Senior Economist	+ 90 212 329 0751	muhammet.mercan@ingbank.com.tr
Muammer Kömürcüoğlu	Economist	+ 90 212 329 0753	muammer.komurcuoglu@ingbank.com.tr

DISCLAIMER: