KPMG

Bakış

Perspective

**Macro Trends
In Turkish and Global Economy
In 2016**

January 2016

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Preface

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Chairman, KPMG Turkey
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The Simple Picture

Dear Stakeholders,

We are happy to meet you via our new publication the "Bakış", which was created as an internal study initially among KPMG professionals. We believe it would be a good idea to benefit from this quarterly study for creating another communication channel with you.

You are reading the first issue of the "Bakış", which will be published every three months and provide information on main macroeconomic indicators in Turkish and global economy, along with brief commentary. Our motivation to produce a report of this kind was primarily covering "no more information" than what we need to underline while reading wider texts of similar articles. To be more distinctive and differentiated, we choose to tell the story in a casual tone while placing more graphs and tables as much as possible.

We hope that this publication, both in print and electronic forms, finds its place; on your car seat next to you as you drive to a meeting so that you could have a quick look, on your desk as you are having your morning coffee or among your files in your review and planning meetings, and continues to be published having been improved with your comments and recommendations.

If this happens, it will be another stroke to the beautiful composition of confidence that we build together, transformation that we jointly achieve and experience that we all share.

We wish you a great year, and hope to meet in the next issues...

General Outlook

Go back to last year, and try to remember what you were expecting from 2015, and what actually happened. We conducted a preliminary study for you, and found that 2015 turned out to be better than expected for some, and worse than expected for others. A year which is not better or worse in an absolute sense, better or worse than expected. A year in which expectations were not really met.

We do not know for sure how 2016 will turn out, but it looks like it is going to be one in which positive expectations decline because of political conflicts. The political and economic outlook for emerging economies is not positive. Of course, not all countries are the same. Among the larger economies, Russia, Brazil and Saudi Arabia have clear problems. So do China, South Africa, Kazakhstan and some Asian countries. There is also a belt of problematic countries around Turkey, which includes all of Turkey's neighbors.

In 2016, Turkey will be negatively affected both by global trends, because of the slowdown in the recovery of emerging economies, and by regional trends, because of the political crises in neighboring countries. The new year may be worse than 2015 for Turkey. And there is not much one can do about it. There are, however, some steps the government is expected to take, particularly in the area of foreign policy. Improvement in bilateral relations with countries such as Egypt and Israel can have a positive impact on economy too.

In terms of internal developments, Turkey is in a much better position compared to many emerging countries. There is a new government with a fresh mandate, which is not the case in many other countries. The new government also promises reforms. Among emerging economies, there is no other government that makes open promises of reform, except for Argentina, and Argentina is a country that succeeded in lowering its current account deficit, which is the most problematic economic indicator, to 5 percent. We have also seen that depreciation of the Turkish Lira (TRY) did not make as big of an impact on economic confidence and activity as was feared.

These are some of Turkey's strengths as we enter 2016. We believe external risks will not affect Turkey as much as they affect other emerging economies, assuming troubles in the region can be contained. This is why TRY is unlikely to experience a new and sustained wave of depreciation in 2016. If all emerging economies are in the same basket, Turkey is one of the good eggs in this basket.

Bilateral relations with Russia are likely to be one of the most hotly debated topics in 2016. This has been the main item on the agenda in the last two months. However, no dramatic changes should be expected in the economic dimension of the relations. In both 2014 and 2015, Russian imports from Turkey have gradually declined because of the fall in energy prices, along with their imports from the rest of the world, The total figure in 2015 was half of what it was in 2013. Russian tourists make up about one tenth of all tourists visiting Turkey. Their numbers have started declining, as well as the money they spend. The volume of shuttle trade has also declined in the last two years. Measures taken by the Russian government against Turkish workers, Turkish companies and imports from Turkey are indicators of disproportionate sensitivity and serve to escalate the tension, but we do not expect these measures to have a serious effect on the Turkish economy.

In 2016, the economy will probably grow faster than planned. The current medium term program (MTP) foresees a growth rate of 4 percent. Economic packages already announced and expected to be announced, as well as the increase in the minimum wage, will push the growth rate up. Although external factors are likely to be a drag on the growth rate, we expect the growth to be higher than planned in the MTP.

Global

2015 has been a year of many minuses and a few pluses for world economy.

One of the few pluses was the FED's rate hike. At least in a literal sense...

Things were mostly fine for Europe and the USA, whereas most emerging economies were not happy with their data.

Except for India, BRIC countries lost significant momentum. GDP growth, exports and public finances in Brazil, China, Russia and South Africa deteriorated for economic and/or political reasons. Will 2016 be different for these countries? Probably not. The trend is clearly downwards, particularly for Brazil, China and Russia.

Real economic indicators are improving in the USA, and unless a major mistake is made regarding the interest rate hike in 2016, they seem poised to continue this positive trend. In Europe, things are better compared to the last 4-5 years. Growth rate may keep rising in 2016, which may prove to be the most significant positive impact on Turkey.

Global economy expected to grow by 3% in 2016

In 2016, both developed and emerging economies are expected to grow at a faster rate.

Commodity prices, which started to decline by the end of 2014, lowered growth rates not only in commodity exporters, but also in other countries in 2015.

Appreciation in US Dollar and a decrease in commodity prices mean less trade, less tourism, and less direct investment income.

2016 could be a good year for «growth», partially due to base effect, and partially due to real recovery.

This, however, does not mean all is well.

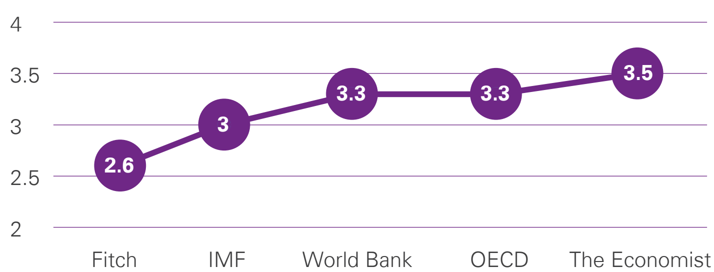
Countries	2015 Forecast (October 2015)	2016 Forecast (October 2016)
Global	2.5	3.0
Developed economies	2.0	2.2
USA	2.6	2.8
Euro Zone	1.5	1.6
EU 28	1.9	1.9
Japan	0.6	1.0
Emerging economies	4.0	4.5
CIS	-2.7	0.5
Asia	6.5	6.4
Middle East and N. Africa	2.5	3.9
Sub-Saharan Africa	3.8	4.3
Latin America	-0.3	0.8

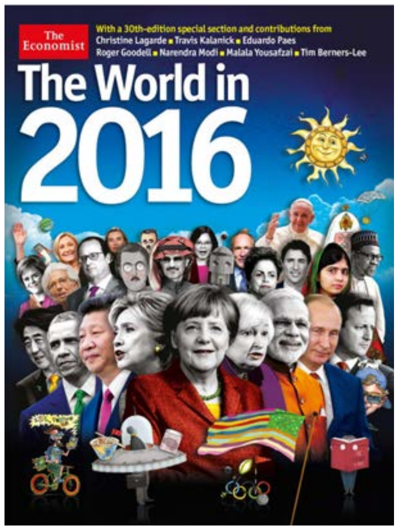
Source: IMF World Economic Outlook, October 2015

Growth expectations of corporate companies

The highest expectation is stated by The Economist, and the lowest by Fitch. Main determinants will be oil and the FED.

2016 Growth Forecasts for World Economy (%)





The Economist:

- World economy will grow by 3.5% in 2016.
- Growth rate will be 2.3% in developed economies, 1.6% in Japan and the Euro Zone, 2.5% in the US, and 6.5% in China.
- India will be one of the fastest growing economies in 2016, with a growth rate of 7.1%.

Growth forecasts by country in 2016

Countries	2016 Forecast
Russia	-0.6
China	6.3
India	7.5
Brazil	-1.0
Mexico	2.8
Iran	4.4
Saudi Arabia	2.2
UAE	3.1
Qatar	4.9
Kuwait	2.5
Iraq	7.1
Egypt	4.3
Indonesia	5.1

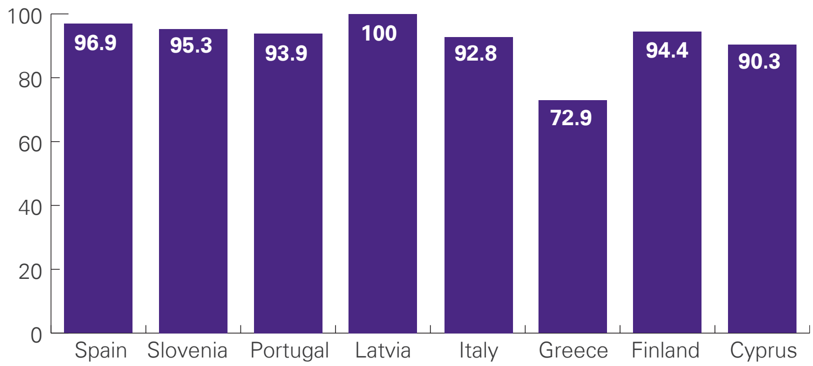
Source: IMF World Economic Outlook, October 2015

- In early January, oil prices hit their lowest level since December 2003. If oil prices remain at these levels, the contraction in Russian economy in 2016 may exceed expectations.
- Turkey's exports to Iraq, Syria, Russia, Ukraine and Egypt are likely to stay low.
- The only positive development in Turkey's neighbors seems to be the lifting of sanctions on Iran.
- Iran's economy is expected to grow by 4.4 percent. Iran seems to be returning to the growth levels it had in the decade before the global financial crisis.
- Removal of trade restrictions is an even more significant development than the acceleration of the growth rate.
- In 2016, Turkish exports to Iran may grow by 12-13 percent.

Recovery in the Euro zone

- 2015 is over, but 8 members of the 19-member Euro Zone are yet to reach, in real terms, their economic size in 2008.
- Greece, Italy, Cyprus and Portugal are top of the list of countries whose economies are smaller than what they were in 2008.
- The best performers are Luxembourg, Malta and Slovakia.
- Draghi, the President of the European Central Bank said they would extend quantitative easing until March 2017, and beyond if necessary, in order to increase inflation, which is currently below 2%, and to meet inflation targets in the medium term.
- The asset purchase program will remain at its current level of 60 billion Euros.

The size of the economy at the end of 2015, taking 2008 as 100...



2016 could see a re-focus on European markets

Growth in Europe is currently more homogenous than it had been in a long time. Improvement in economic confidence, Purchasing Manager's Index (PMI) and unemployment numbers is continuing.

Romania and Poland are expected to have the highest growth rates in Europe.

Many countries in the Euro Zone are set to experience their highest growth rate in the last decade. One of these countries is Italy.

Given the negative developments in the Russian and Middle Eastern markets, the European markets, even with modest growth rates, seem to be the best option for Turkish producers.

For exporters who are looking to diversify their markets, North America, Africa and South America seem to be the best options...

Countries	2016 Forecast
Germany	1.6
UK	2.2
France	1.5
Italy	1.3
Spain	2.5
The Netherlands	1.9
Denmark	2.0
Belgium	1.5
Sweden	3.0
Austria	1.6
The Czech Republic	2.6
Poland	3.5
Portugal	1.5
Romania	3.9

Source: IMF World Economic Outlook, October 2015

The FED loves me... Loves me not

Yes, the suspense seems to be over.

In its December meeting, the FED finally raised the interest rate, and the markets are focused on a second rate hike in 2016.

The FED implied that there could be as much as four hikes.

Now the question is how the Central Bank of the Republic of Turkey (CBRT) will respond.

The meeting on December 22 did not change the interest rate, but left the door open for future hikes.

We expect the Monetary Policy Committee (MPC) to start increasing the rate, if only after some delay and monitoring developments in markets.

Yet we are confident in making the prediction that the FED rate hike will be less painful for Turkey than anticipated.

2016 growth forecasts for BRIC countries

2015 was not a good year for emerging economies. All of their currencies depreciated significantly, with the exception of China.

	2015 Forecast	2016 Forecast
Brazil	-3.0	-1.0
Russia	-3.8	-0.6
China	6.8	6.3
India	7.3	7.5
South Africa	1.4	1.3

China's economy, which seems detached from global trends, is slowing down in its own lane. If it grows by 6.8 percent in 2015, as expected, this will be the lowest growth rate recorded since 1990. In 2016, growth is expected to be 6.3 percent.

Russia has the economy that suffers the most from the decline in energy prices. 2016 will not be a good year for Russia, which is dependent on energy for its public spending, exports, and economy in general.

Brazil is not only troubled by the decline in commodity prices, it is also yearning for the days of Lula da Silva, the previous president. The economy is expected to contract one more time in 2016, and the commodity prices, expected to stay low, are the biggest problem.

India is the only country in this group that is stable and expected to increase its growth rate. One of its advantages is that, unlike Brazil or Russia, its growth model is not dependent on natural resources.

2015-2016: Lost years for global trade in goods

In 2015, the global trade in goods is expected to be 16.5 trillion USD. That is to say, all the growth recorded in trade since 2010 seems to be evaporating. This finding, of course, applies if trade is measured in USD terms.

Foreign trade is no longer growing by double digits, which was the case in the 2000s. Trade declined worldwide in 2015, not only in Turkey.

The two main reasons behind this were the appreciation of the US Dollar and the decline in commodity prices. In addition, the fall in commodity prices put pressure on demand in many countries. The slowdown in China is another factor.

The following table offers an interesting picture. As you can see, the decline is only in value; the volume, however, has increased.

	2008	2009	2010	2011	2012	2013	2014	2015F	2016F
Trade in Goods (Billion $)	15,731	12,261	14,928	17,911	18,092	18,521	18,611	16,531	16,984
Growth (% Value)	15.2	-22.1	21.8	20	0.1	0.2	0.1	-11.4	0.3
Growth (% Volume)	2.5	-11.8	14.3	6.7	2.5	3.0	3.1	3.0	3.9

Raw material prices may keep falling in 2016

Oil prices were not the only thing that fell in 2015. Energy, metal and food prices have also declined. In 2016, the US Dollar seems likely to remain strong, and commodity prices low. However, this does not mean that the steep fall observed in 2015 will continue at the same rate. We expect falling commodity prices to keep creating problems for emerging economies.

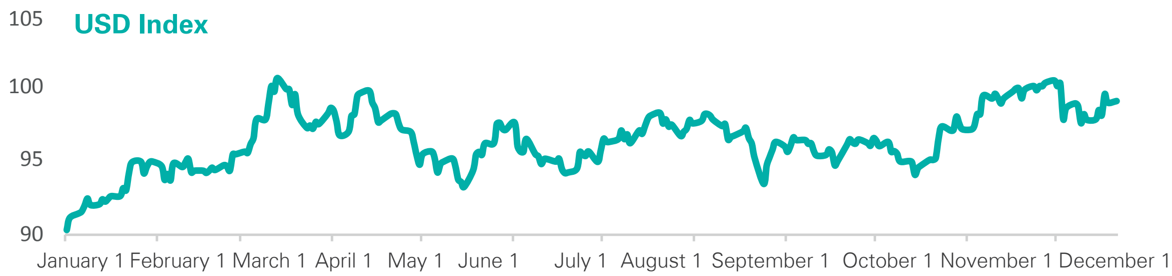
Decline in commodity prices over the last year

- Natural gas -45%
- Coal -17%
- Aluminum -57%
- Gold -13%
- Coffee -28%

The FED's announcement after its December meeting regarding gradual increase in interest rates will keep pressuring commodity prices. In addition, the slowdown in the growth of emerging economies, China in particular, will also keep pressuring commodity prices, as was the case in 2015.

The fall in commodity prices will keep acting as a brake on the growth of countries that largely depend on commodity exports, countries such as Russia, Brazil, Venezuela, Algeria, Nigeria and Sub-Saharan Africa.

2015 was the year of the Dollar

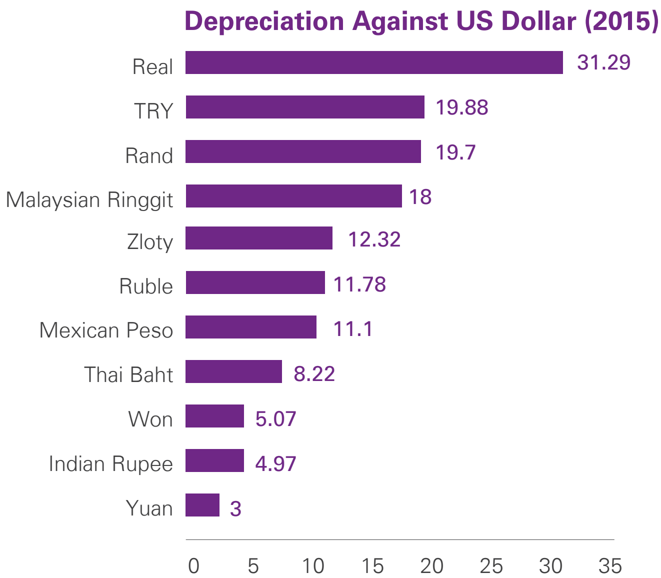


In 2015, the US Dollar appreciated against the currencies of both developed and emerging economies.

The USD index has increased by 9 percent since the beginning of 2015.

With the FED's rate hike, the US Dollar has appreciated all around the world, and its biggest impact was on the currencies of emerging economies.

The Brazilian Real, which became increasingly vulnerable with the fall in commodity prices and internal political problems, was the currency that depreciated the most against the US Dollar in 2015, followed by the Turkish Lira, South African Rand, and Malaysian Ringgit.



Turkey

In 2015, both the external and internal risks that Turkey faced increased.

Before the elections in November, economic expectations and confidence declined to levels seen in the 2008-2009 crisis.

General elections and the renewed terrorist attacks caused a lot of concern.

However, internal demand performed better than anticipated, and growth numbers were high. Although the US Dollar value of exports declined due to external developments, they increased in volume.

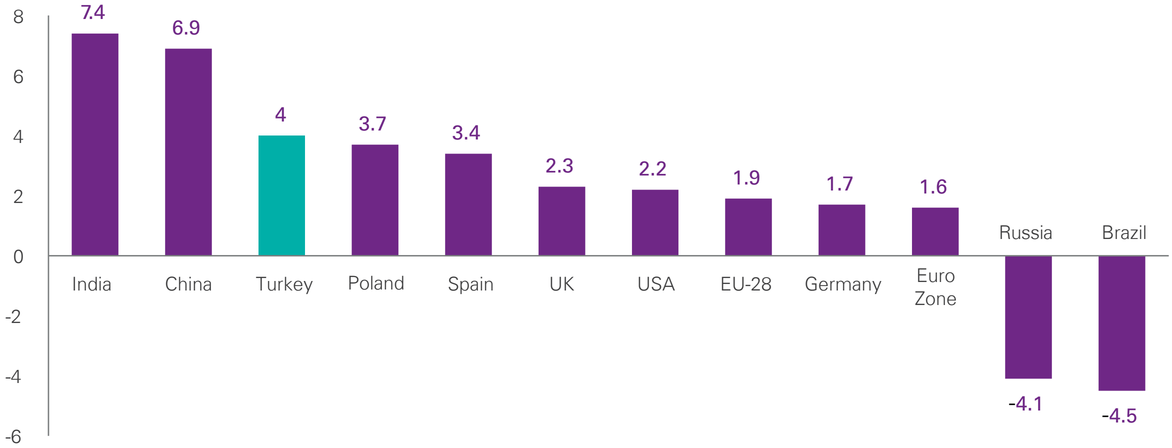
Because of the increase in the exchange rate, we will see a significant decline in the 2015 GDP, measured in terms of US Dollar. National income will decline to about 710-720 billion USD, and per capita income to a little above 9000 USD.

Despite a better than expected growth performance, 2016 will not be very different from 2015 because of the increase in the exchange rate.

Political and economic crises in neighboring countries mean that there will be no dramatic increase in exports in 2016. It is high time for Turkey to go beyond making pronouncements and start taking tangible action to achieve high value added production and exports.

3rd quarter growth and country comparisons

3rd Quarter Growth Rates (%)



In the 3rd quarter of 2015

- India recorded the highest growth rate among emerging economies
- The growth rate in China declined to less than 7 percent
- After Malta and the Czech Republic, Turkey had the fastest growing economy in the EU
- The USA continued its strong growth performance
- Recovery in the EU continued, but was limited
- With the fall in the price of oil, Russia went into recession, and the negative effects of the Petrobras crisis on Brazilian economy are still felt.

Sectoral growth performance

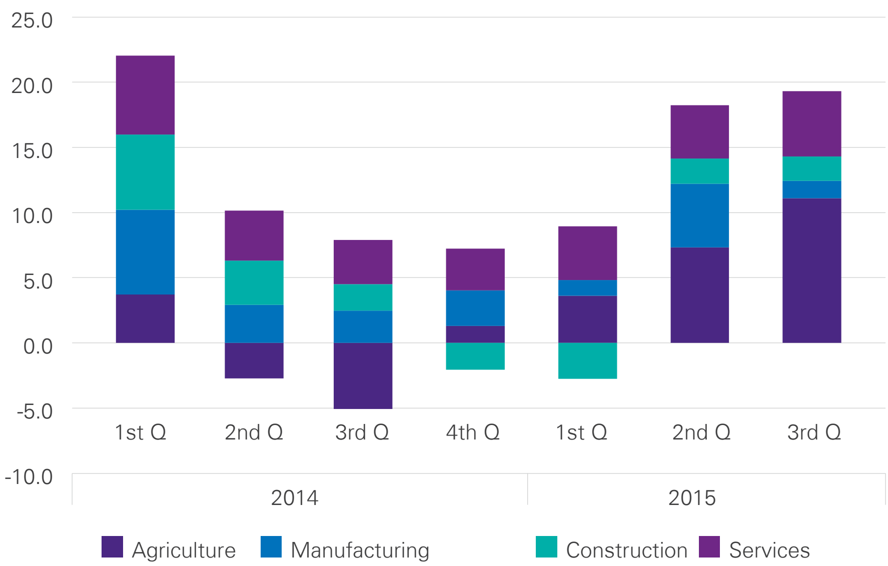
Growth performance exceeded expectations in 2015, and the agricultural sector made the single biggest contribution to growth. Turkish economy grew by 4% in the third quarter, whereas the agricultural sector grew by 11.1%.

The construction sector contracted at the end of 2014, as well as in the first quarter of 2015, but started to grow in the rest of the year.

The manufacturing sector grew more than expected in the second quarter because there were more workdays due to religious holidays, but grew less than expected in the third quarter.

The service sector, which makes up about 60% of the GDP, was the second largest contributor to growth in 2015, after agriculture.

Sector	Growth
Professional, scientific and technical activities	11.8
Water supply, sewage	10.2
Finance and insurance	10
Agriculture, forestry and fishing	8.9
Education	4.9
Accommodation and catering	4.9
Administrative and support services	4.8
Culture, art, entertainment, leisure and sports	4.1
Information and communication	3.5
Real estate	3.3
Manufacturing	2.5
Human health and social work	2.5
Public administration and defense; social security	2.3
Transportation and warehousing	2.0
Electricity, gas, steam and air conditioning	1.6
Wholesale and retail trade	1.3
Construction	0.4
Other services	-0.1
Households as employers	-2.6
Mining and quarrying	-5.1



Sources of growth

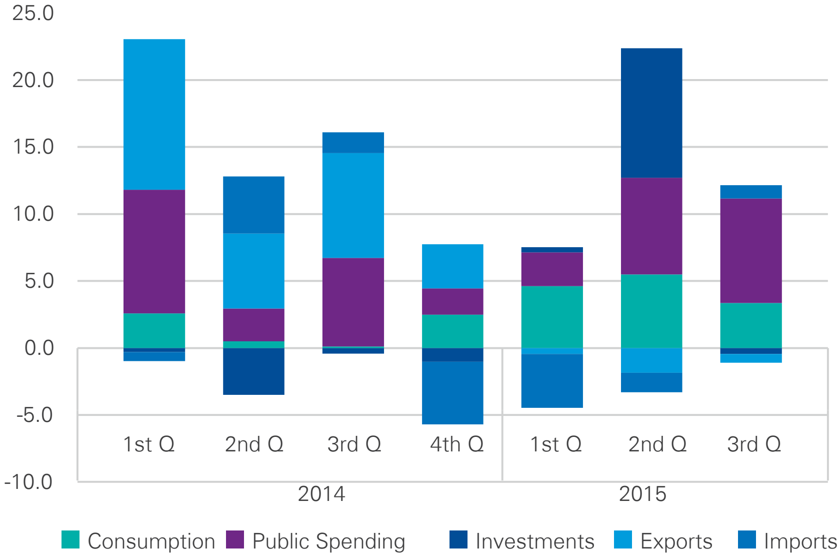
Turkey grew by net exports in 2014, and by internal demand in 2015.

In the second half of 2015, net exports became positive.

In the 4th quarter growth data to be announced on 31 March 2016, we may see net exports making a contribution of 1 point.

Consumer spending, which makes up two thirds of the GDP, was weak in 2014, but was strengthened in 2015, making a significant contribution to growth.

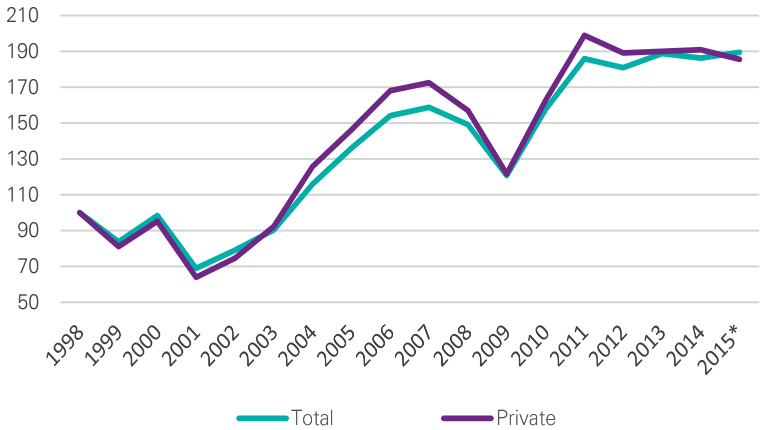
In 2014, increase in net exports was an important component of the overall growth. In 2015, however, internal demand makes a bigger contribution to growth. Having said that, the net contribution of exports became positive in the 3rd quarter. The good news is that this contribution is set to increase further in the final quarter.



Investments decreased in 2014, have significantly increased in the second quarter of 2015 by 9.7%, but decreased again in the third quarter.

Investments

Growth in Investments (1998=100)



If we take investments in 1998 to be 100, there was a cumulative growth of 90% until the end of 2015.

Has the new system of incentives that went into effect in 2012 failed to work, or, alternatively, would the numbers be worse in the absence of this new system?

For the Turkish economy to achieve sustainable and stable growth, investments need to increase, particularly private sector investments in industry.

The overall picture shows that there has been no growth in investments in recent years, and private sector investments have actually declined.

Investment growth rate declined rapidly during the global crisis that started at the end of 2008, bounced back in 2010-2011, and remained stagnant for the last 4 years.

The stagnant performance may be due to global developments, problems in neighboring regions, or the slowdown in growth. One thing, however, is clear: reliable growth is impossible in the absence of investment growth.

Foreign trade in goods - General

US $bn	2014	2015	Change %
Exports	157.4	143.9	-8.6
Imports	242.2	207.1	-14.5
Volume	399.6	351	-12.2
Balance	-84.8	-63.1	-25.5

As can be seen, foreign trade has declined all over the world, not just in Turkey.

Exports in 2015 were brought down

- by 13 billion USD by the depreciation of the Euro against US Dollar
- by 6.5 billion USD by the decline in commodity prices, and
- by 4 billion USD by problems in neighboring countries.

- Between January-October 2015, exports decreased by 8.2% year on year, to 120.5 billion USD.
- Imports decreased even more, to 173.2 billion USD.
- In this period, the foreign trade deficit decreased by 22.2%, to 52.7 billion USD.
- Paralleling the decline in trade deficit, the ratio of exports to imports rose by 3.6 points to 69.6%.
- In 2015, total exports will be a little above 143 billion USD, which means a decline of 14 billion USD compared to 2014.
- Exports, on the other hand, will decline by 34 billion USD to 208 billion USD.

Exports by commodity group

In foreign trade, goods are usually classified using two-digit codes.

Categories are assigned one of the numbers between 1 and 99. (77 and 98 are blank)

The table on the side compares 10-month periods from 2015 and 2014, for the top 5 categories of exports.

US $bn	2014	2015	Share %	Change %
1 - 87 Motorized Land Vehicles	18.0	17.5	12.1	-3.2
2 - 84 Machinery	13.6	12.3	8.6	-9.1
3 - 85 Electrical Machinery and Equipment	9.7	8.3	5.8	-14.3
4 - 61 Articles of Knitted Apparel	10.0	8.9	6.2	-10.8
5 - 8 Edible Fruits	4.3	4.4	3.0	0.9
List Total	55.6	51.4	35.7	-7.6
Sum Total	157.4	143.9	100.0	-8.6

Source: GTB

In 2015, exports of almost all categories of goods declined, and with the exception of fresh (edible) fruits, exports of each of the top 5 categories other than gold decreased. Among these five categories, the largest decline was observed in exports of electrical machinery and equipment, by 14.3%.

Exports of motorized land vehicles, which make up the largest portion of total exports, declined by 3.2% in 2015.

The top 5 categories other than gold made up 35.7% of total exports in 2015, and the average decline across these five categories was 7.6%.

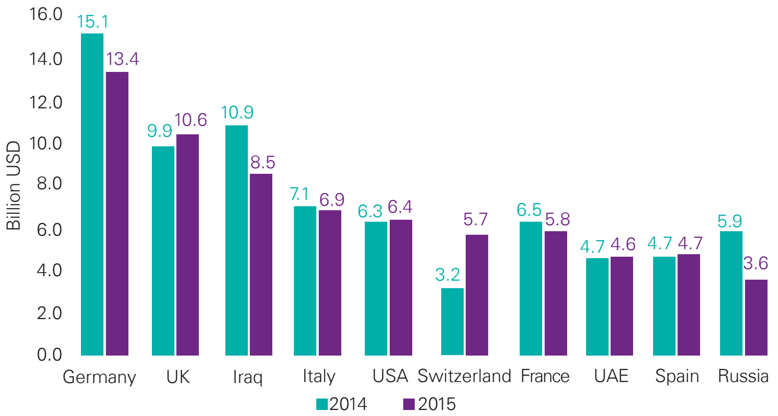
Top 5 in foreign trade

Turkey's exports to EU countries, in terms of the Euro, increased by about 10% in 2015. However, exports declined in terms of US Dollar because of the exchange rate effect.

In 2015, Turkish exports to Germany declined by 11.3%, exports to Italy declined by 3.4%, and exports to France declined by 9.4%.

Our exports to Iraq decreased by 22%, and exports to Russia, which is deeply affected by the fall in the price of oil, decreased by 39%.

Among our top 10 export partners, exports increased only to the UK, the USA and Switzerland, and the reason behind the increase in exports to the UK and Switzerland was probably driven by exports of gold.



Decline in EUR/USD decreases not only exports, but also Turkey's imports. In 2015, Turkish imports from Germany and Italy decreased by 4.8% and 11.7%, respectively.

Most of Turkey's imports from Russia consist of oil and natural gas. In 2015, paralleling the decline in the price of oil, Turkish imports from Russia decreased by 19.5%. In terms of monetary value, imports from Russia have declined by about 5 billion US Dollars.

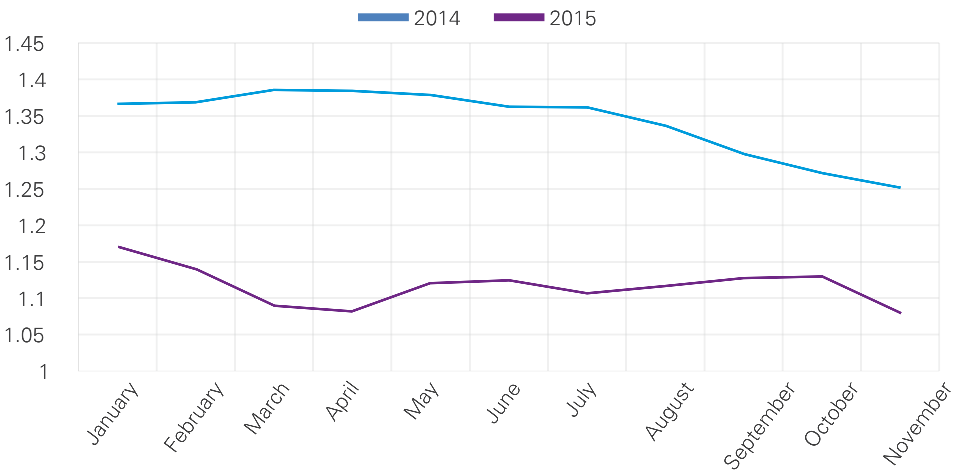
Turkey's top 5 import partners make up about two fifths of total imports, and imports from these countries declined by 9.3% compared to 2014.

	Imports			
Billion USD	2014	2015	Share %	Change %
1 - China	24.92	24.86	12.0	-0.2
2 - Germany	22.4	21.3	10.3	-4.8
3 - Russia	25.3	20.4	9.8	-19.5
4 - Italy	12.1	10.7	5.1	-11.7
5 - USA	12.7	11.1	5.4	-12.6
List Total	97.4	88.3	42.6	-9.3
Sum Total	242.2	207.1	100.0	-14.5

In 2015, Turkey's imports from each of its top 5 five import partners decreased.

Side effects on foreign trade of goods

EUR / USD



EUR/USD exchange rate effect refers to a decline or increase in the US Dollar value of Euro exports because of changes in the EUR/USD exchange rate.

If a 100 Euro commodity, which was recognized as 130 US Dollars in 2014, is recorded as 108 USD in December 2015, this corresponds to a negative effect of 22 USD.

- The EUR/USD exchange rate in December was down by 13.6 percent year on year, and by 16.9 percent since the beginning of the year.
- This decline had a 750 million USD effect on Turkey's exports in December, and a 11.9 billion USD effect over 11 months.
- A total negative effect of 24 billion USD is expected by the end of the year, 13 billion of which is due to the EUR/USD exchange rate effect, 6.5 billion due to commodity prices, and 4 billion due to negative developments in neighboring countries.

Developments in foreign trade of goods

In 2014, Turkish exports of services increased by 8.1% to 50.4 billion USD, and imports of services increased by 6.1% to 25.2 billion USD.

In the period January-October 2015, service exports declined by 7% to 41 billion USD, and service imports declined by 9.5% to 19 billion USD.

		2014	2015	Change %
Income	Services	44,124	41,030	-7.0
	Transportation	12,315	12,317	**0.0**
	Tourism	26,409	24,100	-8.7
Expenses	Services	20,988	18,986	-9.5
	Transportation	8,582	6,977	-18.7
	Tourism	4,196	4,444	**5.9**

Turkey is the 17th largest exporter of services.

It is the 4th largest destination for foreign tourists in Europe, and the 6th largest in the world.

Tourism and transportation account for 90 percent of Turkish service exports, and 60 percent of service imports.

Why did service exports decline?

Revenues from tourism decreased by 8.7% in the January-October period, to 24.1 billion USD. Revenues from transportation, on the other hand, remained the same, at 12.3 billion USD. Tourism expenses, on the other hand, increased by 5.9%, whereas transportation expenses decreased by 18.7%.

The decline in tourism revenues is explained by economic crises experienced in Russia and Ukraine and depreciation of the Euro, whereas the decline in transportation expenses is explained by the fall in oil prices.

Foreign investments (inbound and outbound)

	2014	2015	Change %
Net FDI Inflows	10,340	13,424	29.8
Capital	6,895	9,304	34.9
Other Capital (Net)	-170	764	-549.4
Real Estate (Net)	3,615	3,356	-7.2

Total FDI inflows to Turkey exceeded 175 billion USD

In the first 10 months of 2015, foreign direct investment inflows increased by 30% despite the decline in the parity.

Inflows to the real estate sector declined by 7.2% over this period, whereas there was a large increase in the inflows to the finance sector, originating from Spain, which was responsible for the overall increase.

	2014	2015	Change %
Net FDI Outflows	4,718	4,338	-8.1
Capital	4,448	3,984	-10.4
Other Capital (Net)	270	354	31.1

Total FDI outflows from Turkey exceeded 35 billion USD

During the same period, investment outflows from Turkey declined by 8.1%. Investment outflows totalled 4.3 billion USD, of which 1.2 billion went to the Netherlands, and 1.1 to the USA.

Current account deficit

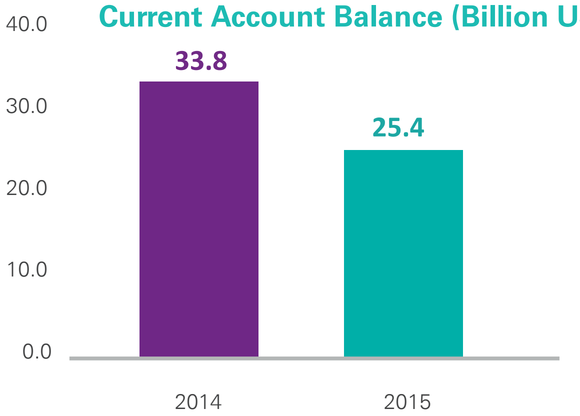
Between January-October 2015, the current account deficit decreased by 24.9% year on year, from 33.8 to 25.4 billion USD.

Exports of goods and services made a negative contribution of 16.2 billion USD, and the 25.9 billion USD decline in imports of goods and services made a positive contribution to this improvement of 8.4 billion USD in the current account deficit. In other words, the main reason behind the improvement in the current account deficit was the fact that imports decreased more than exports.

The current account deficit has now declined to a sustainable level, both in terms of absolute value and of percentage. This makes the Turkish economy more resilient to external shocks.

The current account deficit has improved not only in terms of size, but also in terms of the quality of financing.

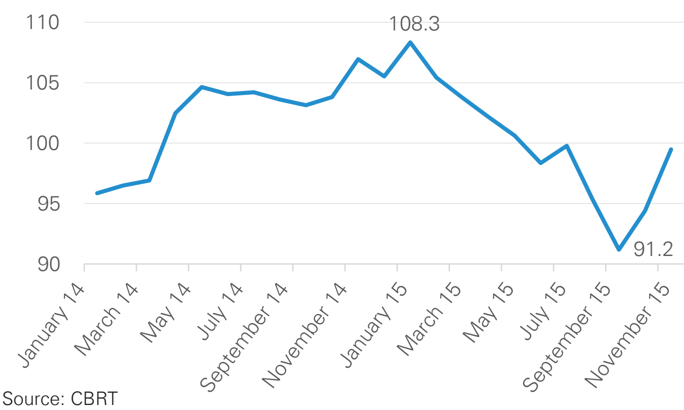
Current Account Balance (Billion USD)



The ratio of current account deficit to GDP, which was 9.7 in 2011, will decrease to about 5.3 this year.

Developments in exchange rate - Real

Real effective exchange rate (REER)



Source: CBRT

The Turkish Lira started to depreciate not in June 2014, when the US Dollar started to appreciate worldwide, but at the beginning of 2015.

With this depreciation, the real exchange rate in September declined to its lowest level since January 2003.

In October, TRY started to appreciate in real terms, getting closer to its normal level of 100.

REER rarely goes below 100, and when it does, it quickly bounces back. Since the beginning of 2004, it was below 100 for only 14 months.

Industrial production

		Q1	Q2	Q3	Q4
2014	IPI	5.4	3.1	3.4	1.9
	Growth	5.1	2.4	1.8	2.7
2015	IPI	1.5	3.6	3.4	4.9
	Growth	2.5	3.8	4.0	-

Industrial production grew by 1.5% in the first quarter of 2015, and by more than 3% in the following two quarters. Final quarter growth is expected to be the highest recorded this year.

Industrial production is not only a major and early indicator of growth, it is also an indicator of sustainable and high-quality growth.

Based on industrial production data, which are early indicators of growth, Turkey's growth rate in the fourth quarter is expected to be higher compared to the first three quarters.

In August, industrial production made its biggest leap in the last 12 months. Growth in industrial production kept exceeding expectations in the following two months, as well.

There is a positive relationship between industrial production index and growth. This positive relationship is usually observed in quarters other than the third quarter, during which construction, agriculture and tourism tend to be dominant.

In 2015, the main driver of industrial production index was the automotive sector. In addition, the fuel oil conversion facility of TÜPRAŞ, which became operational within this year, made a positive contribution to the industrial production index.

Labor market indicators: September 2015

The economy has created jobs for 987 thousand people in the last 12 months.

Rate of participation in the labor force did not change in September compared to the previous month, and remained at 52.1%. Although this is a little lower than the 52.4% recorded in July, which was an all-time high, it still represents a 1 point increase year on year. This rate keeps increasing because of the increase in women's participation in the labor force.

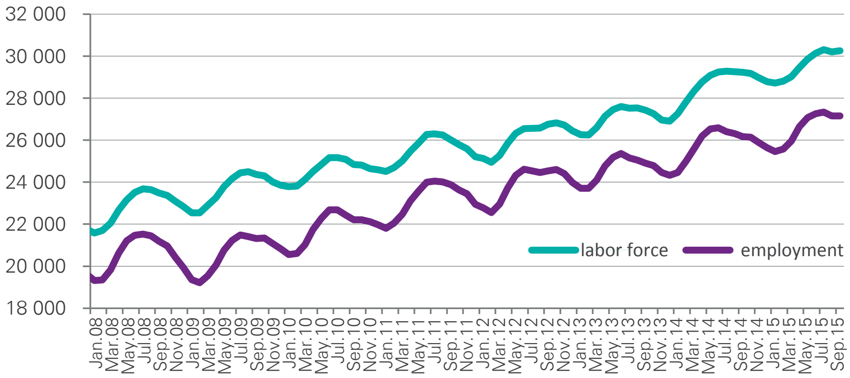
On a year on year basis, all sectors experienced a growth in employment, with the service sector making the largest contribution. Compared to the same period of last year, the number of employed increased by 987 thousand, of which 700 thousand came from the service sector.

Rate of unemployment is 10.3% (a decline of 0.2 points year on year, and an increase of 0.2 points month on month)

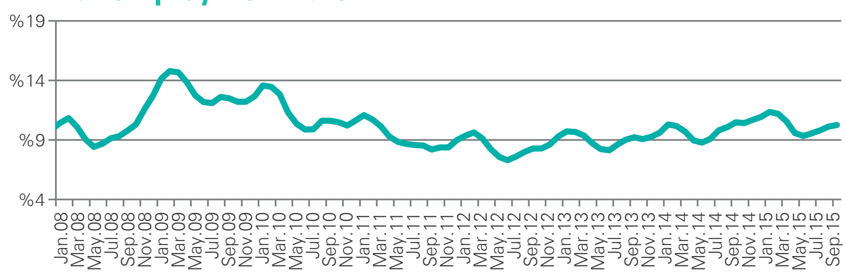
Rate of participation in the labor force is 52.1% (an increase of 1 point year on year, same as the previous month)

Rate of employment is 46.8% (an increase of 1 point year on year, same as the previous month)

Labor force - Employment



Unemployment rate



What to expect in 2016

Other

The increase in the minimum wage will have a negative effect on exports, and a positive effect on internal demand and economic growth.

The economic package announced in December will not have a significant effect on macro indicators in 2016.

With new economic packages to be announced, increasing economic confidence, and an increase in the minimum wage, growth in 2016 can be 1.5 points higher than planned in the MTP.

We expect a growth of 4.4 percent in 2016.

Growth

Similar to 2015, exports may perform weakly. Commodity prices may stay low, and EUR/USD close to 1.

Commodity prices are still low, decreasing imports. Imports in 2016 will depend on the increase in internal demand and on the exchange rate.

Countries with troubled economies, such as Russia, Ukraine, Iraq, Syria, Libya and Egypt, are likely to keep being risk factors for exports.

Our foreign trade expectations for 2016:

Exports - 146 billion US Dollars

Imports - 217 billion US Dollars

Foreign trade

USD/TRY: 3.08

EUR/TRY: 3.30

EUR/USD: 1.07

Oil: 47 $

(annual average)

Credit rating

Turkey has an investment grade rating from Moody's and Fitch.

S&P's rating for Turkey is just below investment grade.

	Rating	Outlook
Moody's	Baa3	Negative
Standard & Poors	BB+	Negative
Fitch Ratings	BBB-	Stable

Turkey's credit rating is not expected to move downwards in the short term.

The upcoming period will be critical for the credit ratings of emerging economies. As the interest rate in the USA increases and the funds injected to the market through quantitative easing find their way back into the USA, currencies of emerging economies will come under increasing pressure, and these counties are likely to have a harder time financing their current account deficits and borrowing.

In this period, Turkey is in a relatively better position compared to similar countries.

- Current account deficit is in decline
- Political stability is strong
- There are no elections for 4 years
- The government promises reform
- The economy keeps growing
- Confidence indexes are on the rise

International rankings

Turkey

Global Competitiveness Index	45th
Ease of doing business	55th
Gender inequality	130th
Economic Freedom Index	70th
Human Development Index	72nd
Global Innovation Index	58th
Global Entrepreneurship Index	28th

Internal debt

As of the 2nd quarter of 2015, Turkey has

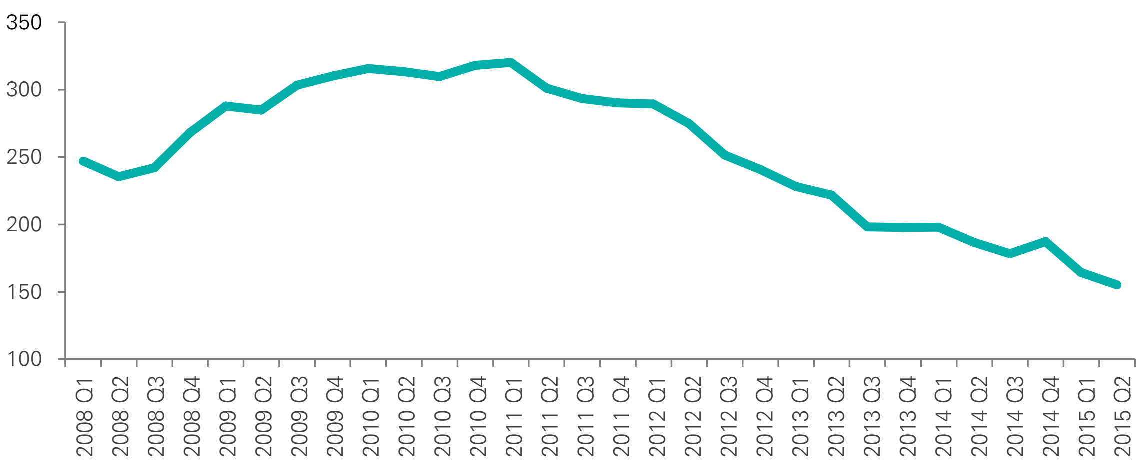
- a gross domestic public debt of TRY459.9 billion,
- a gross external public debt of TRY231.4 billion, and
- a net public debt of TRY155.3 billion.

Net public debt reached a record high of TRY320 billion in the first quarter of 2011, and continuously decreased from that time onwards.

One of the best things Turkey does is to keep fiscal discipline in all periods.

Figures for Turkey's budget deficit, domestic public debt and external public debt are better compared to many other countries.

Total Net Public Debt Stock



External debt

As of the 2nd quarter of 2015, Turkey has

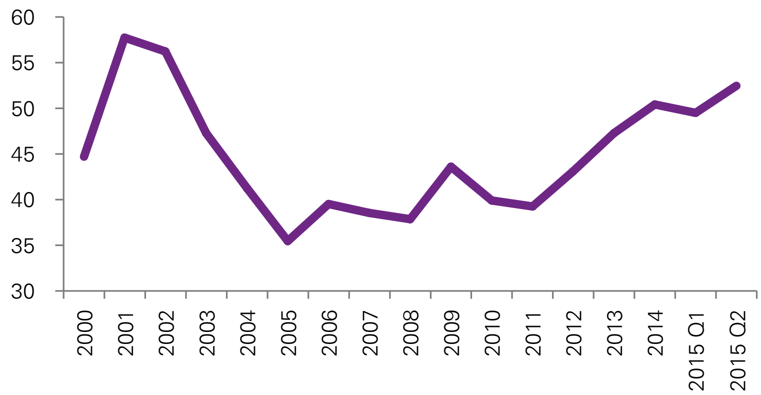
- a public external debt of USD115.7 billion,
- a private external debt of USD287.5 billion, and
- a gross external debt of USD405.2 billion.

Short term debts make up about one third of the gross external debt.

59% of Turkey's external debt is denominated in USD, 31% is denominated in EUR, and 6.4% is denominated in TRY.

The ratio of external debt to GDP reached its highest level in 2001, with 57.7%, and decreased to 35.5% in 2005, which was the lowest level recorded in the last 10 years.

External Debt / GDP (%)

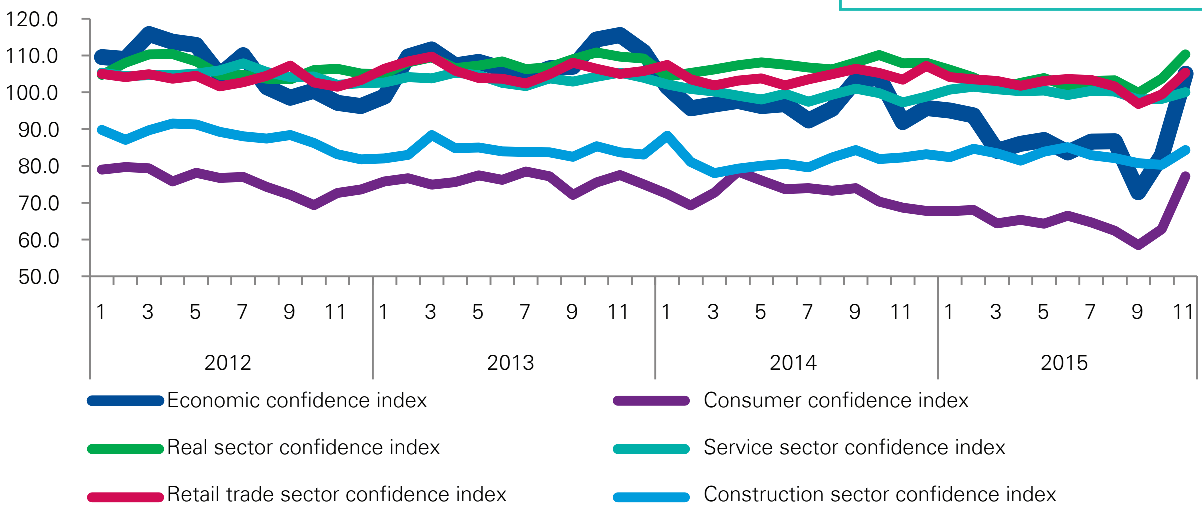


This ratio started to increase one more time from 2011 onwards, and reached 52.5% in the second quarter of 2015.

The increase in the exchange rate played an important role in this development.

Economic confidence index

In this complicated graph, we would like to draw your attention to the upward movement in all indexes in the last few months.



The consumer confidence index started to decline from mid-2014 onwards, when the USD appreciated against TRY. Parallel to the decrease in consumer confidence index, the economic confidence index, which consists of five dimensions, also started to decline, reaching its lowest level in September 2015.

In October, there was a sharp upturn both in consumer confidence index and economic confidence index.

Inflation

Inflation will be effected negatively by the appreciation of the USD, which started in 2015 and is expected to continue in 2016, and positively by the commodity prices, which we expect to stay low.

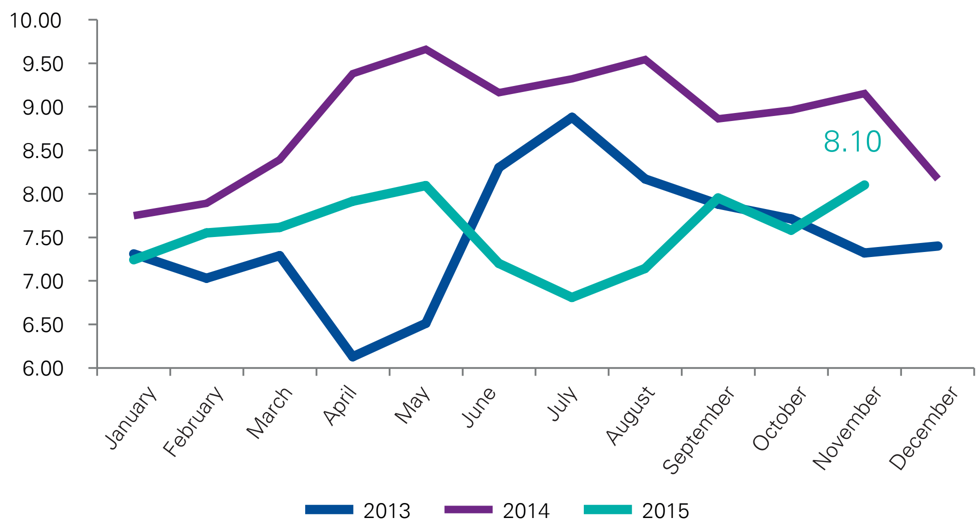
With the cumulative effect of the increase in the exchange rate, inflation started to rise again.

Inflation rate was relatively low in 2013, but increased in 2014 mainly because of increases in food prices due to drought.

According to CBRT's survey of expectations in December, the year-end inflation rate is expected to be 8.5% after the MTP.

Inflation started to decline in late 2014, parallel to the fall in the price of oil, but this decline was limited because of the increase in the exchange rate. In addition, food prices were lower in 2015 compared to 2014, which decreased inflation to a level lower than what it was 2014.

Inflation (CPI)



Conclusion

2015 was a year of many surprises and uncertainties for the world economy. The sharp fall in the price of oil, low commodity prices, the crisis in Greece, the economic crises in Russia and Ukraine, negative trends in the economies of Brazil and China, the escalation of the Syrian crisis...

Turkey is not isolated from all these developments. To the contrary, it is at the center of many of these developments, and is directly or indirectly affected by all of them.

The oil price is declining... At first glance, this is a positive development for Turkey, because Turkey imports about 50 billion US Dollars' worth of energy. However, 30 percent of Turkish exports go to energy exporters, one fourth of all tourists to Turkey come from these countries, and almost all of Turkey's shuttle trade is also with these countries. A majority of Turkey's foreign investment is also in these countries.

Turkey faced risks not only from external developments, but also from domestic uncertainties. For a period of close to six months, Turkey did not have an active government, and consecutive elections posed another serious risk. These risks were reflected in consumer confidence, real sector confidence and overall economic confidence, which reached their lowest levels in this period.

Despite all these internal and external risks, growth rates for each of the first three quarters exceeded market expectations and boosted morale. 2015 growth will exceed all forecasts.

In 2016, none of the external risks are likely to disappear, to the contrary, there might be more risks. This is the bad news. The good news is that uncertainty regarding the government has ceased, and there will be no elections for quite a long time. In addition, the economic package already announced, and more packages expected to come, will result in higher expectations for growth in 2016.

The announcement on December 30 that increased the minimum wage to TRY1300 a month was certainly good news for a lot of people. However, its effects on exports, exporters, and in the medium term, on firms producing for the domestic market is open to different interpretations.

Turkey mostly exports low-tech, unbranded and low value added products. One of its biggest advantages is that costs are lower, and by extension, so are prices.

Given this basic equation, and unless it is followed by serious steps to create technology intensive and high value added production, increasing labor costs may create additional costs in the form of deterioration in parameters such as current account deficit and inflation.

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