

DenizBank Economic Update

May 2017

- **Economy**
- **Financial Markets**
- **Banking Sector**

Economic Research and Strategy

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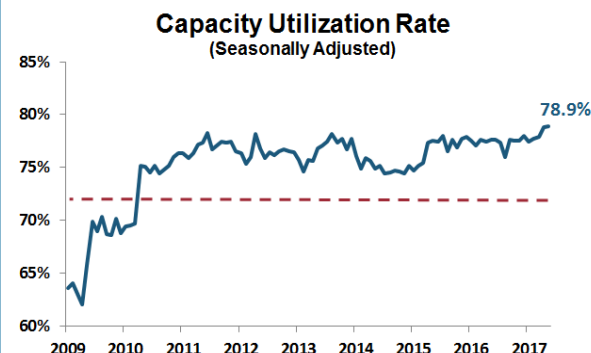
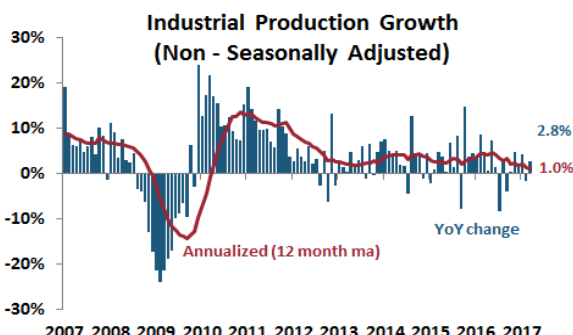
DenizBank 



DenizBank Economic Update

Economy (I)

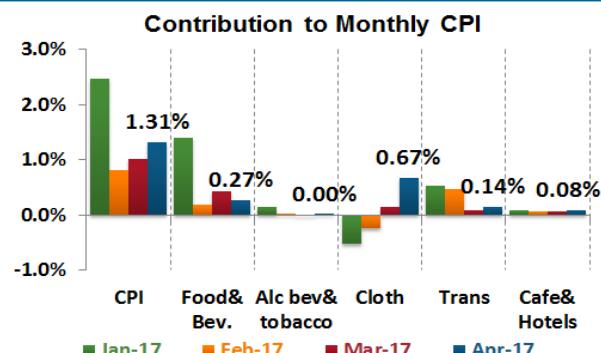
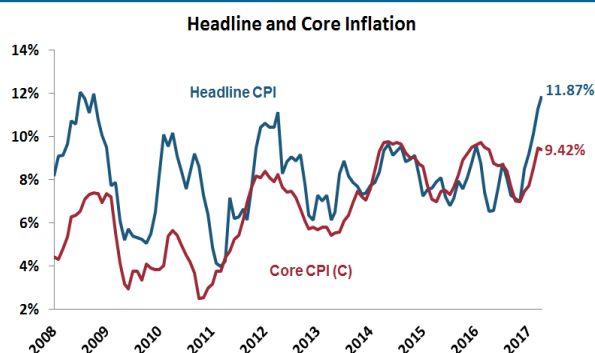
Growth



Mild economic recovery in 1Q17 is driven by industrial production and exports...

- Seasonally adjusted industrial production index rose by 1.3% in March, beating the market expectation of a 0.8% increase. Unadjusted index posted a 2.5% increase compared to the same month of last year. With March data, unadjusted index posted a 1.8% increase in 1Q17 Y-O-Y, indicating industrial production would make a moderate contribution to growth rate.
- Early indicators suggest that recovery extends into 2Q17 as well. Although PMI slightly decreased to 51.7 in April from 52.3 a month ago, the index signals to an expansion in economic activity as it continues to remain above 50. The retreat was caused by a slowing growth rate in new business volumes. On the other hand, new export orders increased for the fourth month in a row. PMI survey indicates employment in the manufacturing sector has increased.
- The strong growth in bank loans, especially since the beginning of April and currency appreciation may boost consumption and investment in 2Q17.

Inflation



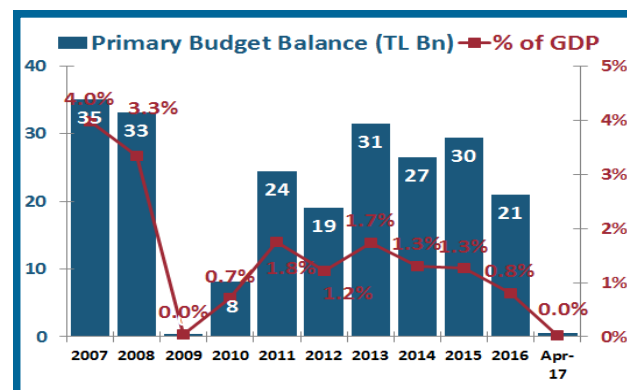
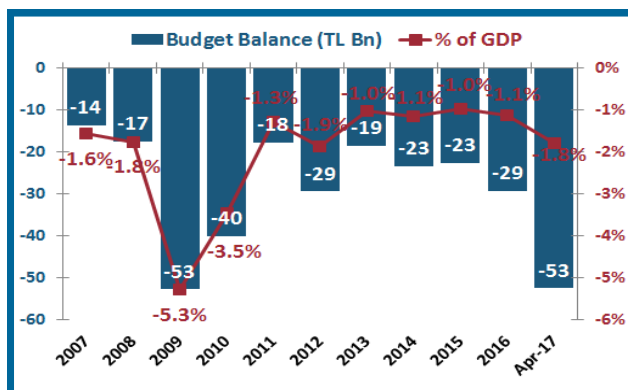
Market expectations indicate peak in annual inflation may have been reached...

- CPI in April increased MoM by 1.31%, in line with the market expectation. Food prices increased by 1.23% bringing annual food inflation up to 15.6% from 12.5% a month ago.
- Annual inflation went up to 11.9% from 11.3% a month ago. Rate of increase has slowed in one of the core indicators. Core inflation indicators B (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco, gold) and C (CPI excluding food, energy, non-alcoholic and alcoholic beverages, tobacco, gold) rose by 9.12% (previous: 9.07%) and 9.42% (previous: 9.46%) respectively. Producers' price index increased YoY by 16.4%.
- Starting with May, annual inflation rate may gradually decrease. As the latent affect of currency depreciation fades, there may be a downward trend in the remainder of the year. However, this downward movement should not be strong and inflation should be expected to continue to hover in low two digit levels. Despite the recent appreciation in Turkish Lira, Central Bank's monetary policy may continue to remain tight by keeping average funding rate high via continued usage of late liquidity window lending rate until inflation expectations improve significantly.

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Economy (II)

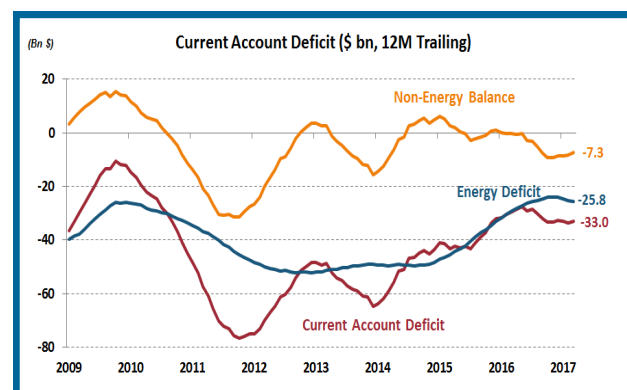
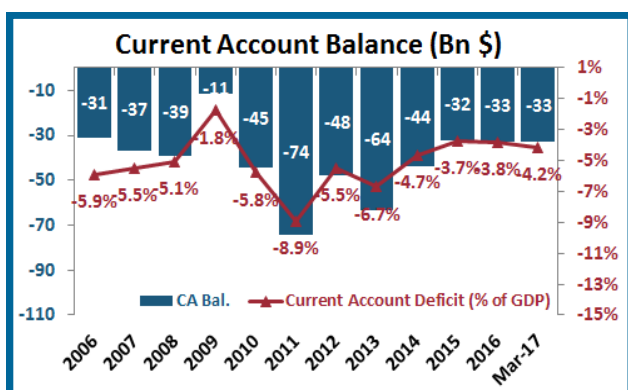
Fiscal Policy



Government is taking countercyclical fiscal measures to boost economic activity...

- In the first 4 months of the year central government budget gave a deficit of TRY 17.9 bn compared to a surplus of TRY 5.4 bn in the same period of 2016. 12 month cumulative budget deficit to GDP ratio went up to 1.8%.
- In order to create additional jobs, at the beginning of 2017 government postponed the payments of social security premiums for the newly hired, which caused a decrease in tax revenues. In order to spur consumption, tax rates charged in furniture and home appliances were lowered. As a result, expenditures increased by 23% in the 4 months leading to April, far surpassing the increase rate in revenues which was limited to 9%.
- The widening in central government deficit is in line with the government's plan announced in late 2016. In 2017, ministry of finance foresees deficit may further widen to TL 61.1 bn. Despite the fiscal loosening, deficit to GDP ratio is not expected to exceed the 3% level set by Maastricht Criteria.

External Sector



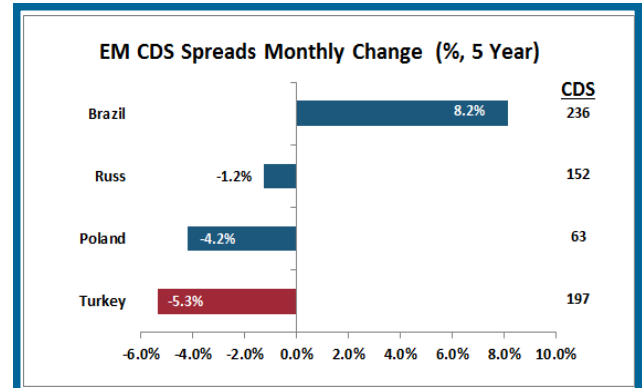
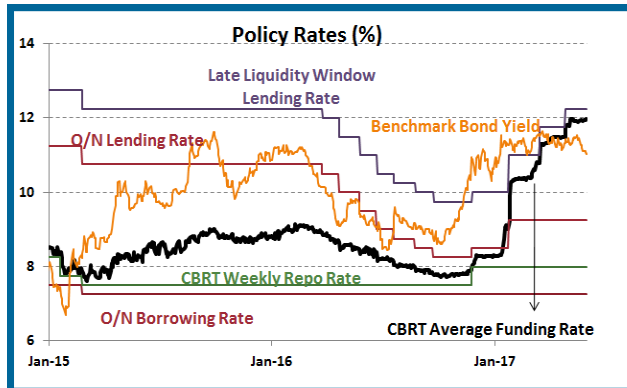
Annual current account deficit widens, as energy bill increases..

- Current account deficit (CAD) in March was slightly below expectations (\$ 3.2 bn) at \$3.06 bn. 12 month cumulative CAD decreased to \$33.0bn from \$33.7 bn in February.
- On the financing side, there has been an FDI inflow of \$1.2 bn in March and net portfolio inflow of \$1.9 bn. Reserve assets decreased by \$2.5bn and there has been an outflow of \$1.1 bn in net errors and omissions. 12 month cumulative energy deficit went up to \$25.8 bn from \$25.3 bn a month ago. Annualized tourism revenues dropped YoY by 32% to \$14.1 bn.
- In April, widening trade deficit may put upward pressure on current account. On the positive side, number of tourists have increased for the first time in the last 20 months in April, possibly boosting tourism revenues. In the remainder of the year, increasing demand from Euro zone should help push exports up and keep the widening in current account deficit at a sustainable level.

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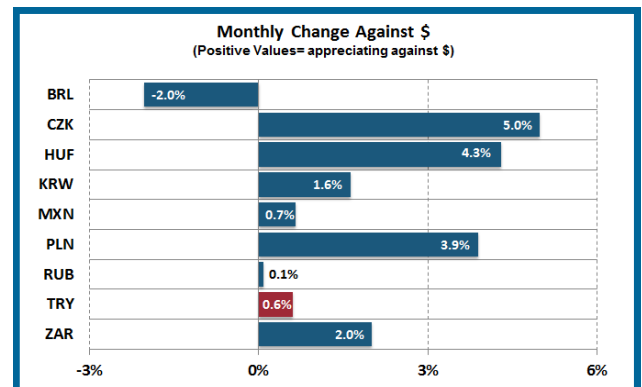
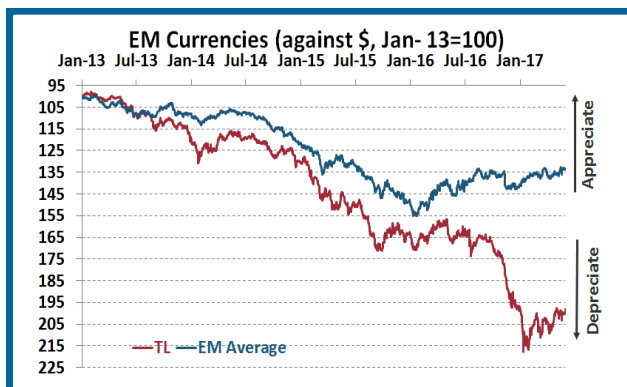
Financial Markets

Debt Market



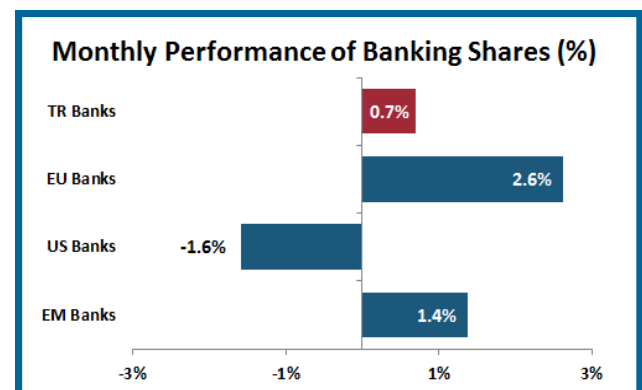
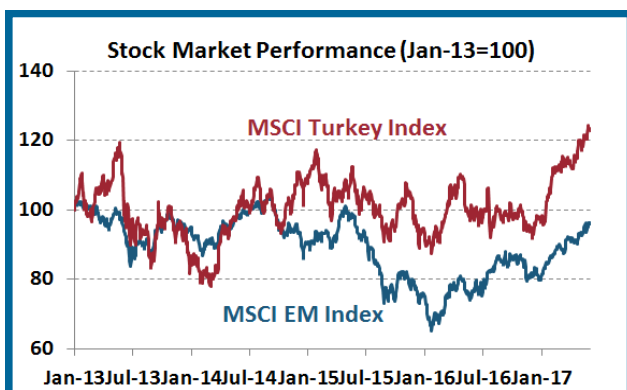
2-year benchmark bond yield is at 11.04%.

Currency Market



EM currencies appreciated against USD on average.

Stock Market

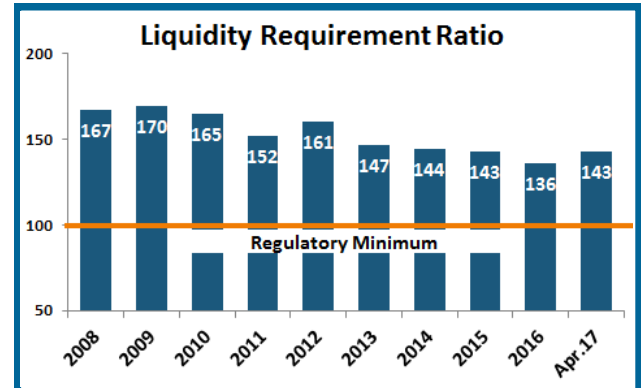
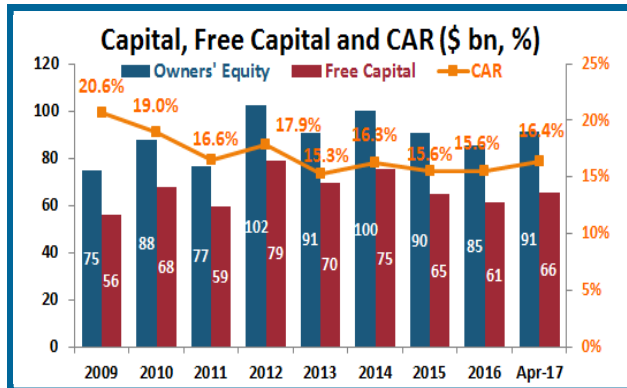


EM equity markets continued to perform well in May.

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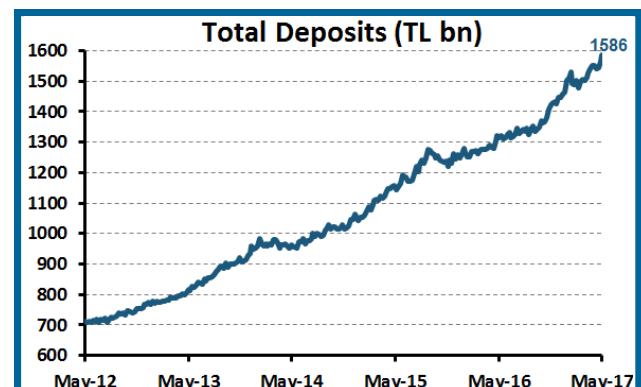
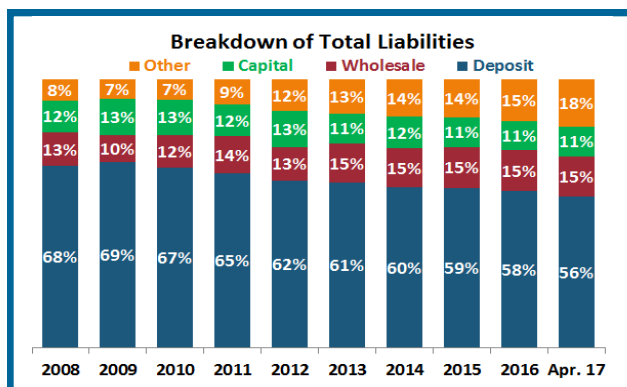
Banking Sector (I)

Capital



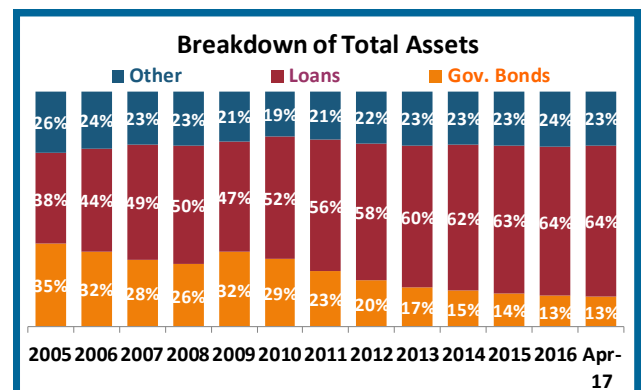
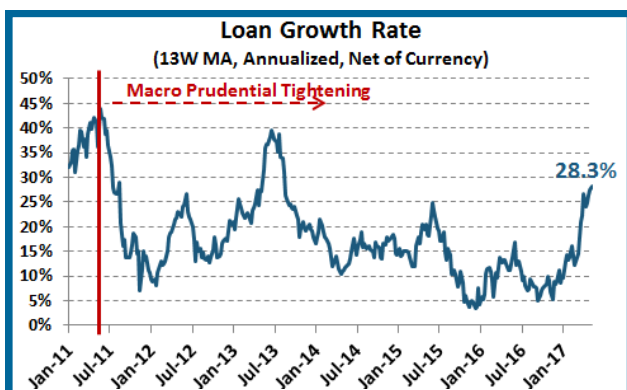
CAR increased to 16.4% in Apr '17.

Funding



Share of deposits in funding was at 56% as of Apr 17.

Lending

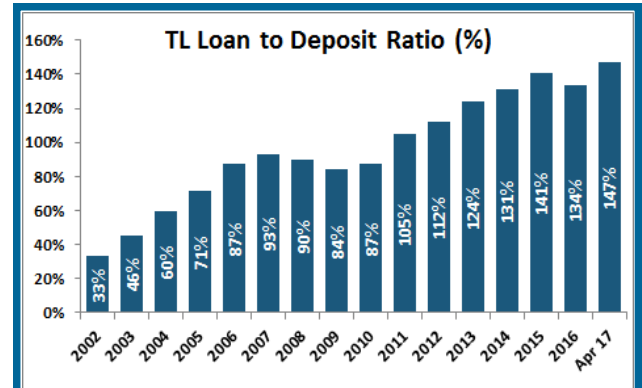
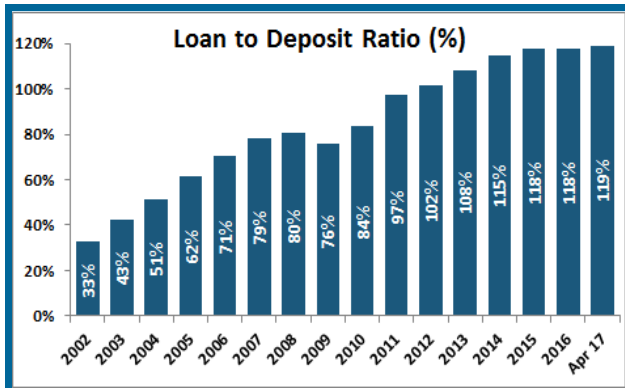


Annualized loan growth is at 28.3% as of May 18th.

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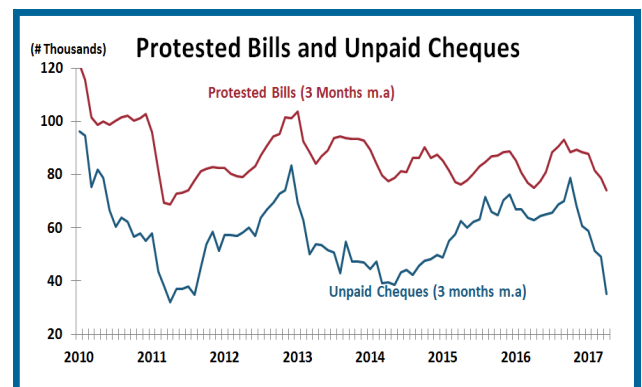
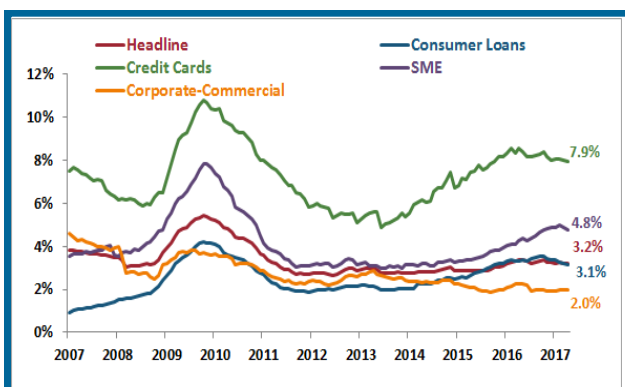
Banking Sector (II)

Loan to Deposit Ratios



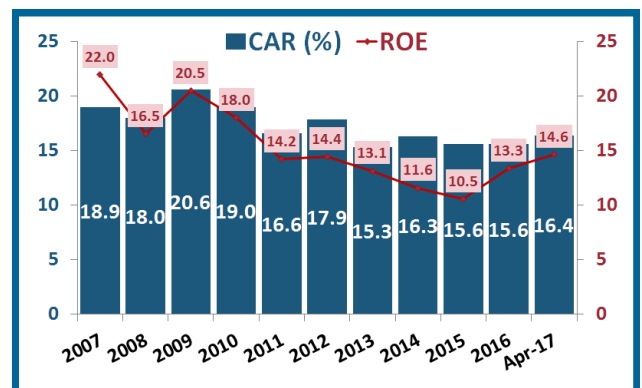
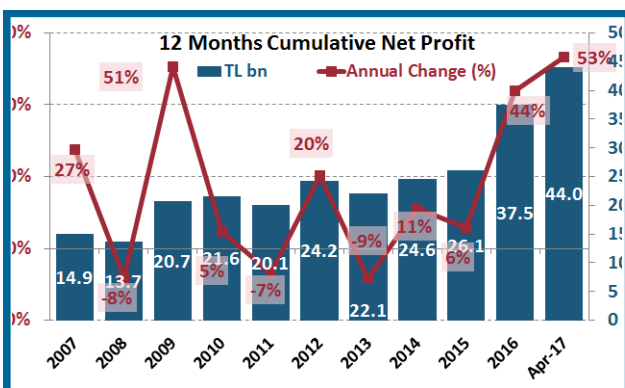
Loan to deposit ratio is 119% in April.

Loan Quality



Headline NPL ratio for the sector is at 3.2% as of Apr 17.

P & L



In Apr 17, banking sector's annual profit increased YoY by 53% while ROE reached 14.6%.