

# DenizBank Economic Update

December 2014

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

## Economic Research and Strategy

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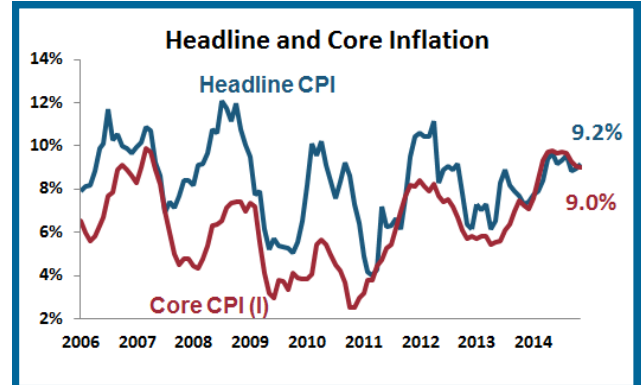
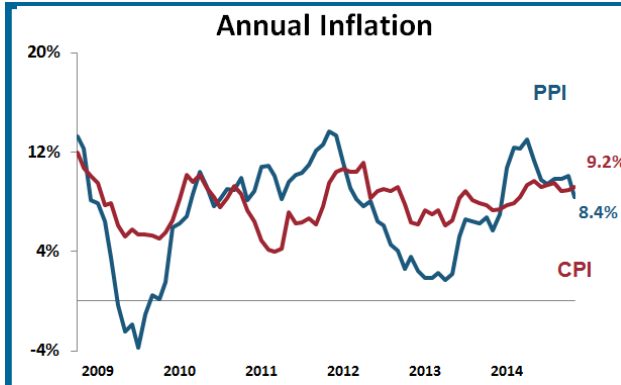
**DenizBank** 

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# DenizBank Economic Update

## Economy (I)

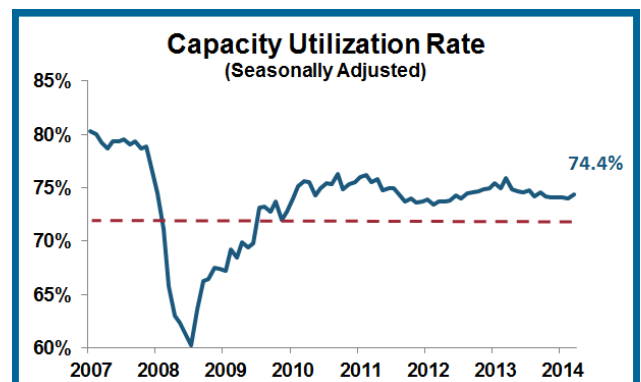
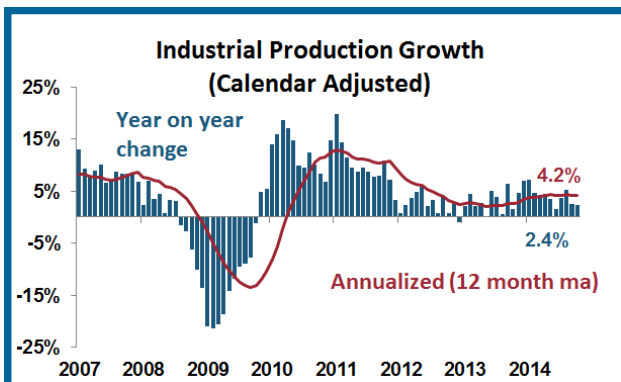
### Inflation



### Inflation is expected to fall in the first half of 2015...

- Inflation print was marginally below consensus expectations at 0.2% in November. Annual inflation slightly increased from 9.0% to 9.2% due to the low base effect and it is still substantially higher than the Central Bank's (CB) 5% ( $\pm 2\%$ ) inflation target.
- Annual core inflation, an important indicator of inflationary pressures, stayed stable in November. Annual Core I indicator remained at 9.0%.
- We expect headline inflation ease to 8.8% by the year-end 2014 and fall sharply in the first half of 2015 with favorable base effects. Falling energy prices and expected fall in food prices will also support disinflationary process. We expect headline inflation to fall gradually to 7.2% by the end of 2015. Our forecast as well as market expectation (7.2%) is above CB's revised forecasts of 6.1% for 2015.
- Benign inflation figures in the first half of 2015 could provide room for the measured policy rate cuts if global liquidity conditions permits.

### Growth



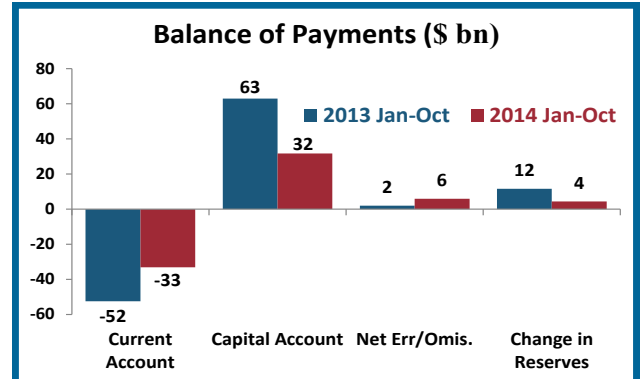
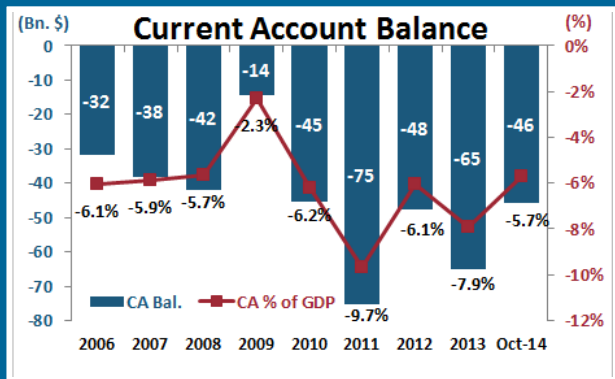
### Manufacturing activity remains subdued...

- The calendar adjusted industrial production index (IP) increased YoY by 2.4% in October below the market consensus of 4.0%. Seasonally adjusted IP index posted 1.8% MoM decline following a strong print of 2.1% in the previous month. Annualized increase in manufacturing activity increased to 4.2% in October.
- Leading indicators point to a moderate recovery of economic activity in the last quarter. Staying stable in October and November, capacity utilization in December improved to 74.4% from 74.0%. Nevertheless, PMI manufacturing index signals a relatively better outlook. PMI index increased for a fourth consecutive month in a row to 52.2 in November, which is the highest level since the end of 1Q14.
- Turkish economy is expected to grow 2.8% and 3.5% in 2014 and 2015, respectively. Although being below long term average GDP growth of c. 5%, this performance may be deemed given the across the board slowdown in economic activity in many emerging countries.

# DenizBank Economic Update

## Economy (II)

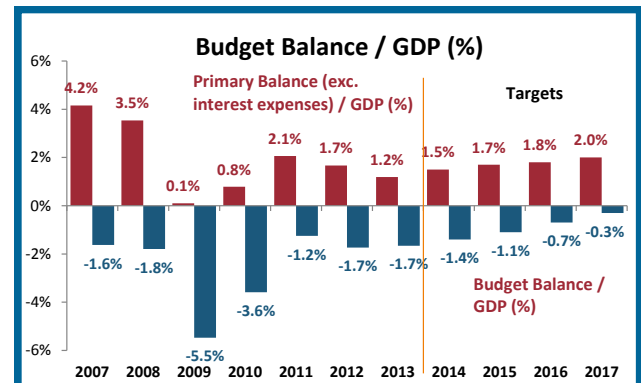
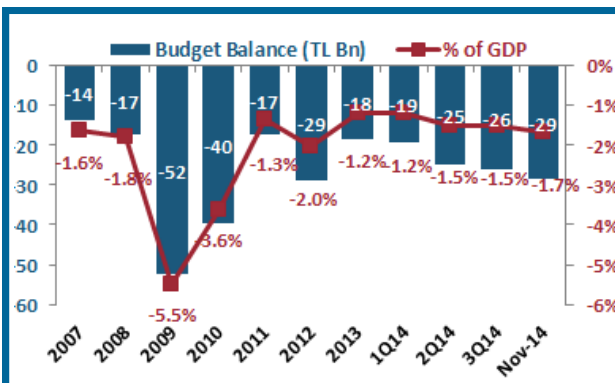
### External Sector



### Current account deficit continues narrowing in October.

- Current account deficit came at \$2.0 bn in October, above the consensus expectation of \$1.7 bn. 12 month cumulative current account deficit narrowed down from \$65 bn (7.9% of GDP) in 2013 to \$45.7 bn (5.7% of GDP).
- Despite the risks in export markets on the back of geopolitical developments, we expect current account deficit to GDP ratio to ease towards 5.5% at the year-end.
- We expect it to decelerate further to 4.5% at the end of 2015. Further decline in oil prices poses downside risks to our forecast for 2015.

### Public Sector



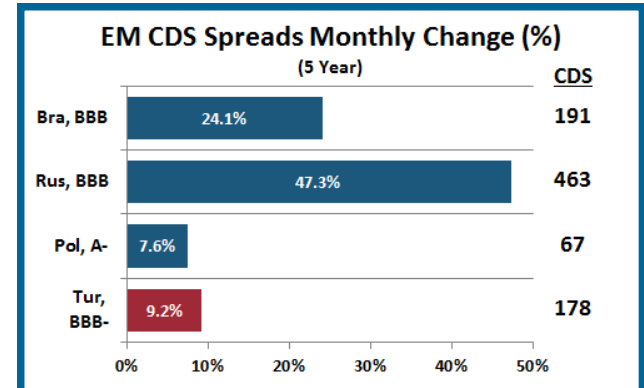
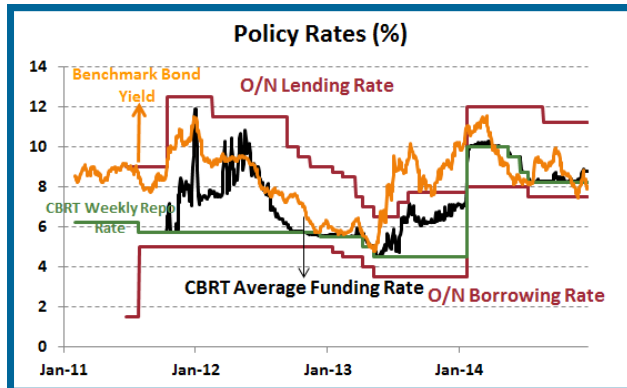
### Budget deficit would surpass the targets in 2014...

- As the end of November, 2014 the central government budget posted YTD deficit of TL11.3 bn, while primary surplus reached to TL37.1 bn. While budget deficit is worse than the year-end targets, primary surplus figures are better than the revised year-end targets of Medium Term Program.
- YTD increase in non-tax revenues was strong (up YoY by 13.3%) driven by one-off privatization revenues and new items classified under other revenues. On the other hand, YTD tax revenues are relatively weak (up YoY by 7.4%) due to moderating domestic demand. Overall, increase in total revenues (8.4%) did not fully balance the deterioration on the expenditure side which is up YoY by 11.2%
- New Medium Term Plan (MTP) for the years 2015-17 set more challenging budget targets for 2015 and the following years, such that Budget Deficit / GDP target for 2015 was reduced to 1.1%, corresponding to best performance since 2006.

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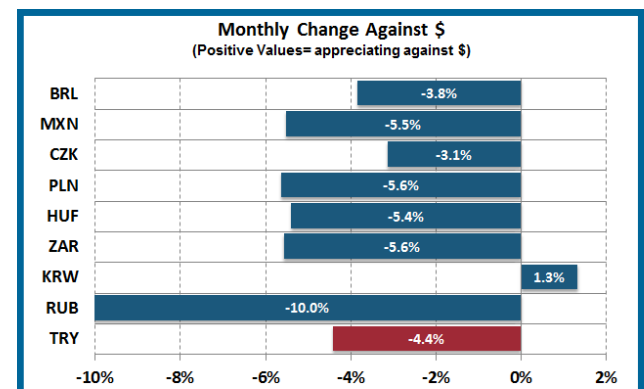
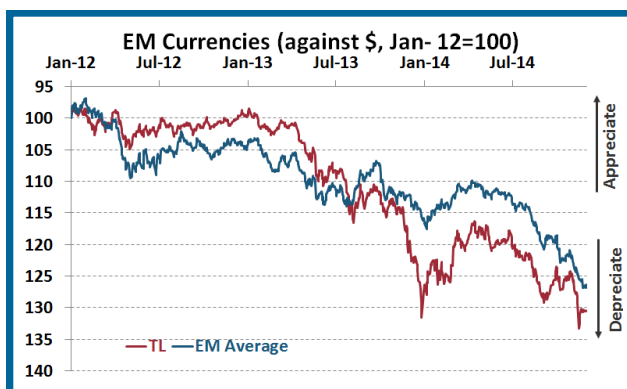
## Financial Markets

### Debt Market



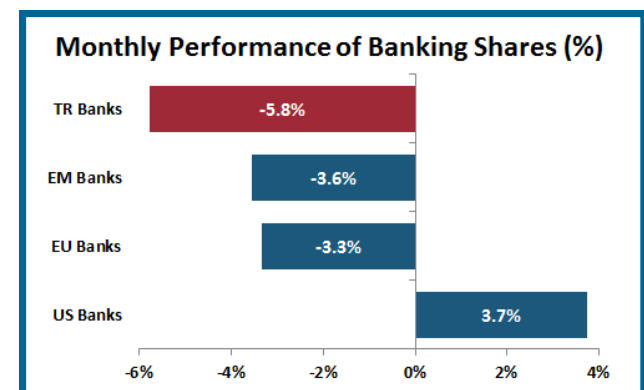
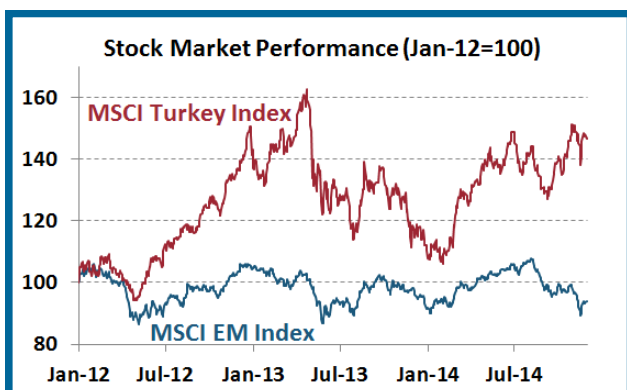
On the back of rate cut expectations, benchmark bond yield was down to 8% despite tumultuous movements in EM financial markets.

### Currency Market



The depreciation in the TL in December was in line with EM currencies' average...

### Stock Market

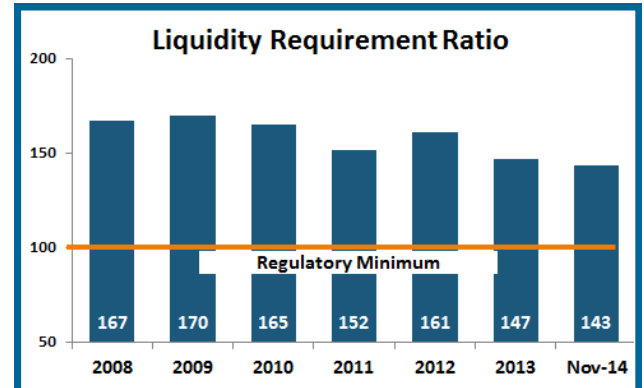
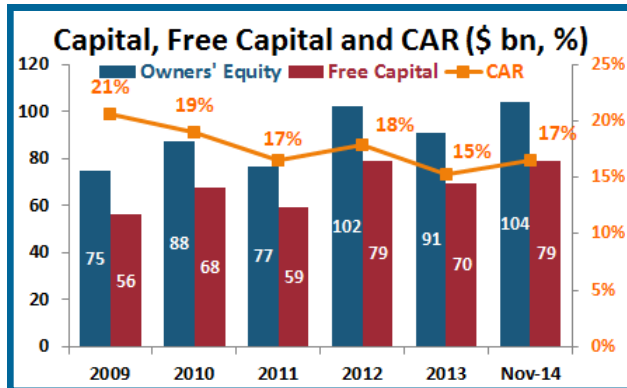


Borsa Istanbul continues to overperform EM equity index despite unfavorable performance of banking stocks in December 2014.

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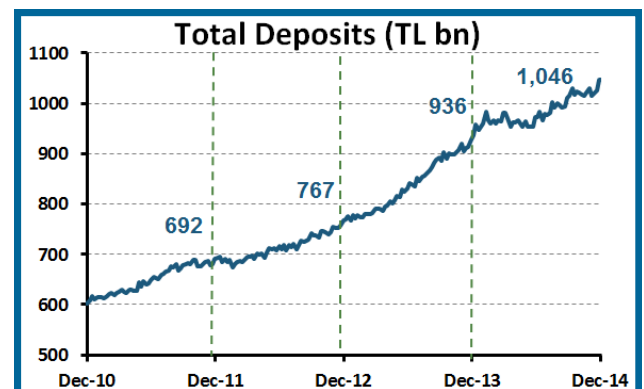
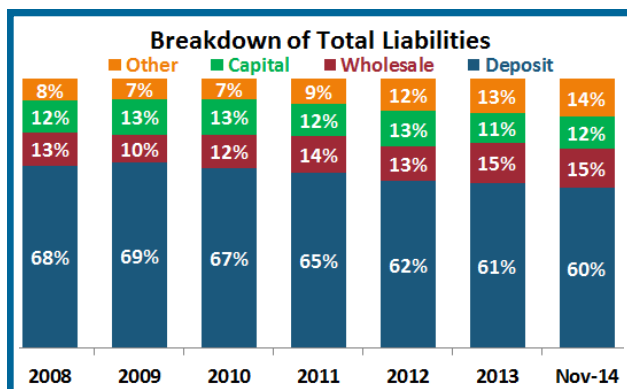
## Banking Sector (I)

### Capital



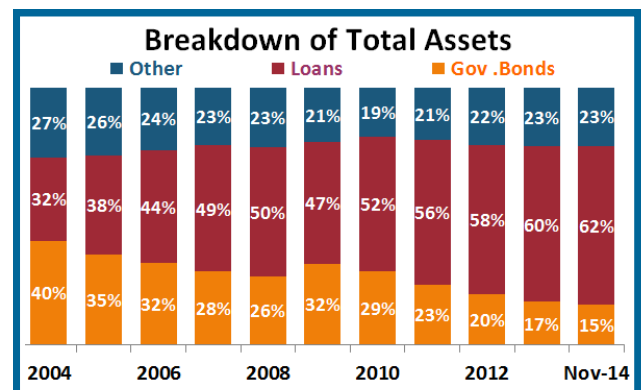
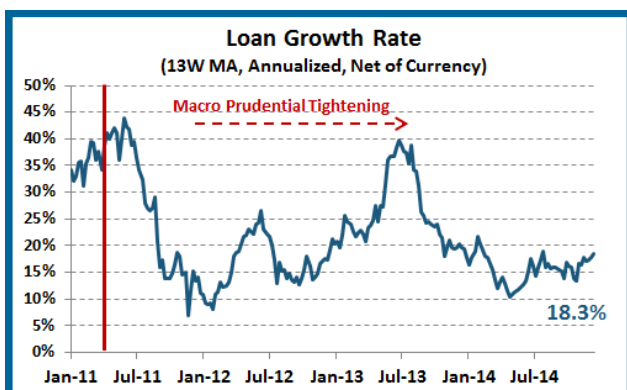
Despite declining profitability, banks still manage to keep their CAR ratio high above 16%...

### Funding



Share of deposits in funding has decreased slightly to 60% in the last quarter.

### Lending



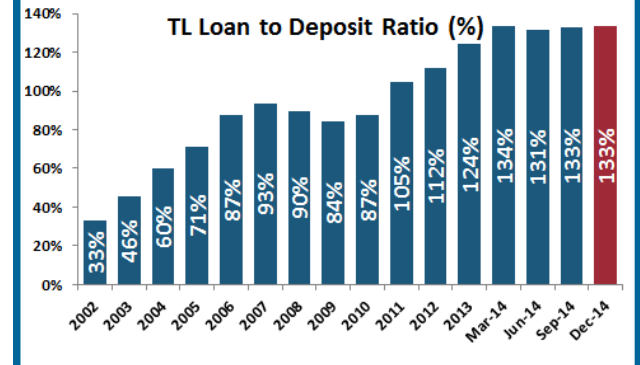
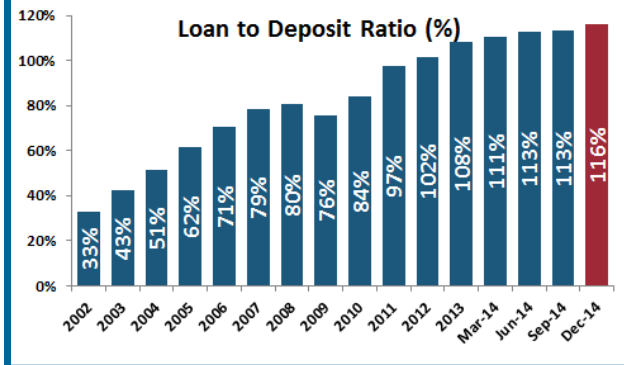
Annualized loan growth is slightly above Central Bank's long term target of 15% in December.



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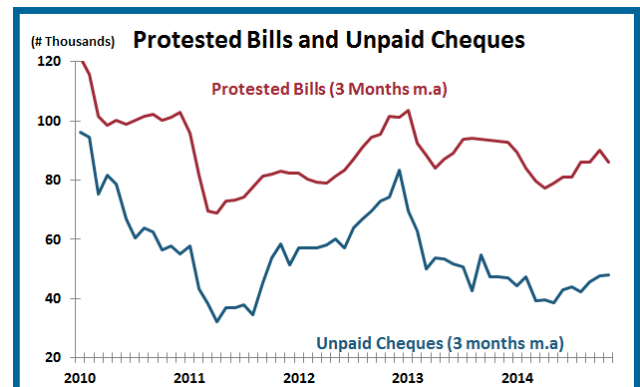
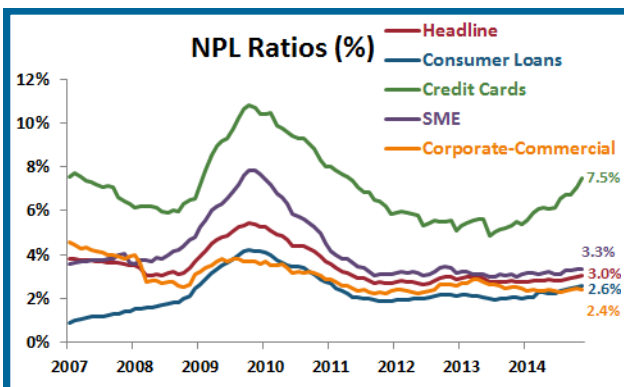
## Banking Sector (II)

### Loan to Deposit Ratios



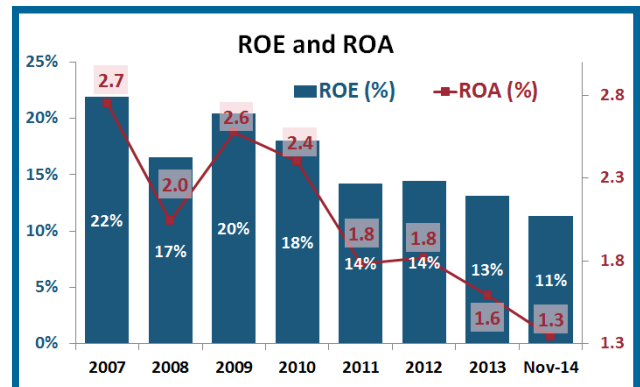
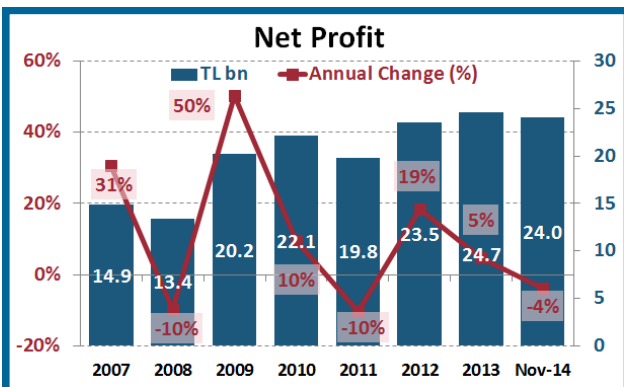
Loan to deposit ratio has increased to 116% in December from 108% in the end of 2013.

### Loan Quality



As expected, NPL ratio slightly increased due to slowing loan growth...

### P & L



Profitability of the Sector is declining gradually mainly due to lower lending volumes and declining NIMs...The ROE for the year end, accordingly, is expected to ease below 12%...