Inflation remains elevated due to high food prices...

- Inflation came above consensus expectations (0.8%) at 1.19% in March due to the higher than expected food inflation (2.5%). Annual inflation increased slightly to 7.61% from 7.55%.
- There was a continued improvement in core inflation, pointing to easing inflationary pressures. Annual core I indicator went down to 7.1% from 7.73%.
- We might see food prices to decline in the coming period as the weather conditions improve and support headline inflation to fall down in the second half of 2015.
- Central Bank (CB) revised its inflation expectation for the year-end 2015 to 6.8% from 5.5%. Our year-end inflation forecast for 2015 stays slightly above CB’s expectation at 7%.
Current account deficit continued narrowing down...

- Current account deficit came at $3.2 bn in February, worse than consensus expectation ($2.8). 12 month cumulative current account deficit narrowed down from $46 bn (5.7% of GDP) in 2014 to $42.8 bn (5.4% of GDP).
- On the financing side, there was an outflow of $503 mn and $950 mn from equity markets and bond markets, respectively. On the other hand, there was long-term financing inflow of $3.0bn in February. FDI inflows limited to $613 mn (vs $1.6 bn). The long-term debt rollover ratios (12M trailing) for corporates and banks was stable at 124% and 178%, respectively.
- Weak economic performance together with lower oil prices will help lower financing needs. We expect current account deficit to GDP ratio to ease further to 4.7% in 2015.

Manufacturing activity remains weak....

- The calendar adjusted industrial production index (IP) increased YoY by 1% in February against the market consensus of –0.6%. Seasonally adjusted IP index posted strong 2.1% MoM increase following decline of 1.4% in the previous month.
- Leading indicators point to slightly better picture for the second quarter of the year. Capacity utilization increased to 74.6% from 73.8% in April.
- We expect Turkish economy to grow by 3.0% in 2015. 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.
Benchmark bond yield jumped above 9% level with political risks.

TRY is one worst performer among EMs.

Istanbul Stock Exchange’s performance separated from its peers.
Banks were able to keep their CAR ratio at 16%.

Share of deposits in funding has decreased slightly to 59% as of March-15.

Annualized loan growth reached to 17%, compatible with Central Bank’s long term target of 15%.
Loan to deposit ratio stable at 116% in March.

Headline NPL ratio for the sector is at 2.8%. Protested bills and unpaid cheques don’t signal a deterioration on outlook for the next months.

Due to a better profitability performance (on YoY monthly basis), sector’s ROE increased to 12%, as of March-15.