

DenizBank Economic Update

April 2015

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

Economic Research and Strategy

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Çağlar Kuzlukluoğlu

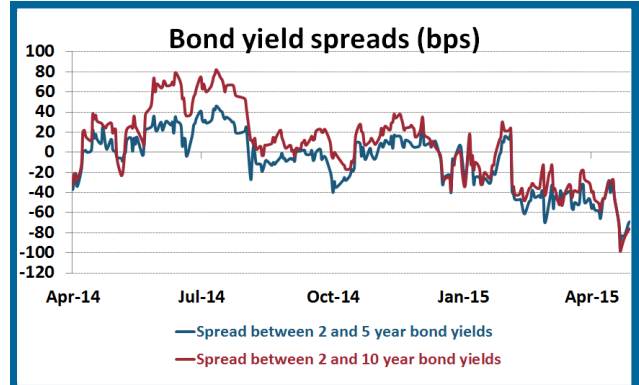
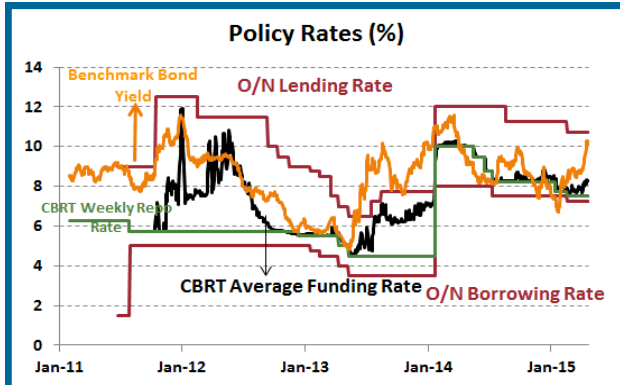
DenizBank 

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DenizBank Economic Update

Economy (I)

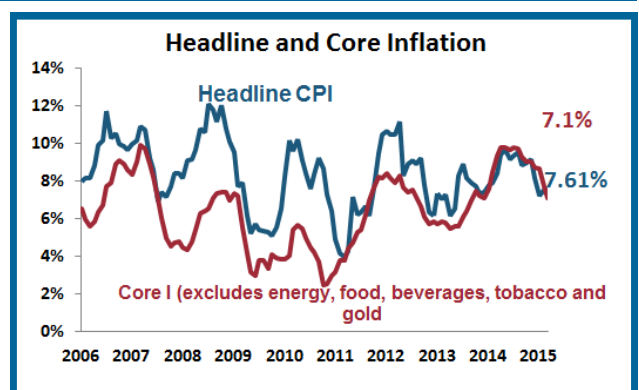
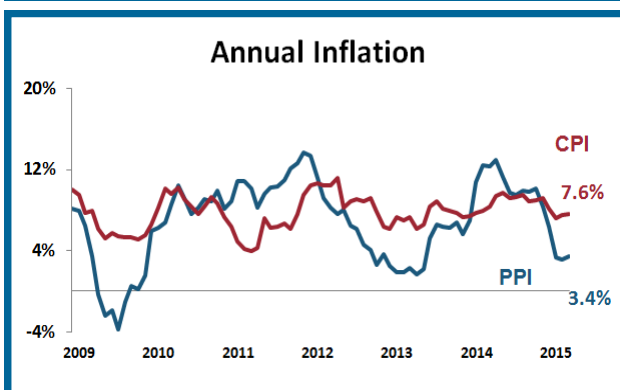
Policy Rates



Central Bank (CB) left the policy rate unchanged...

- The CB kept one-week repo rate (policy rate) at 7.50% as well as leaving the lower (O/N borrowing rate) and the upper bound (O/N lending rate) of the corridor untouched at 7.25% and 10.75%, respectively.
- In order to support financial stability, the CB increased the interest rate on Turkish Lira required reserves by 50 bps. Foreign currency depo rates were lowered to 4% from 4.5% for the dollar and to 2% from 2.5% for the euro.
- The CB emphasized the ongoing rebalancing processes but also underlined that the monetary policy should remain cautious due to the uncertainties in global markets and increase in food/energy prices.
- We expect CB to keep monetary policy tight by adjusting Turkish lira liquidity conditions in the coming period and use macro-prudential measures if necessary.

Inflation



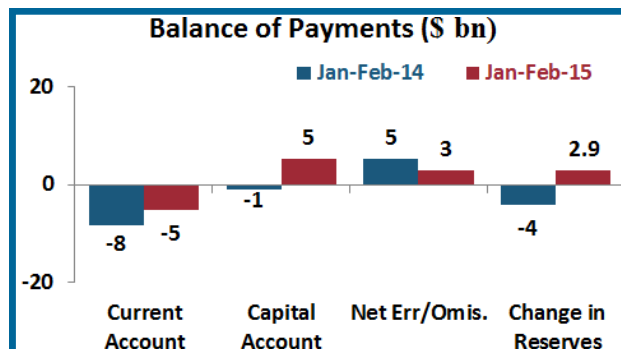
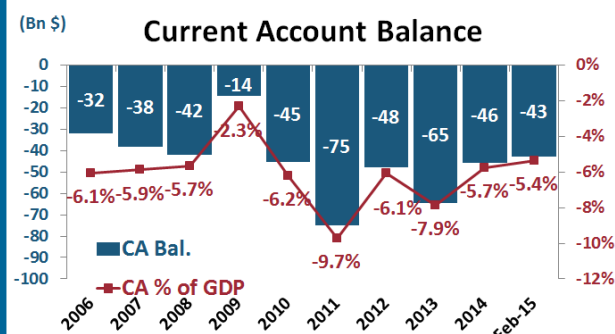
Inflation remains elevated due to high food prices...

- 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%.

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Economy (II)

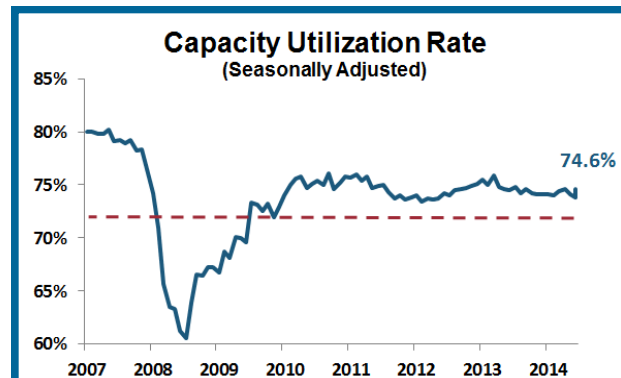
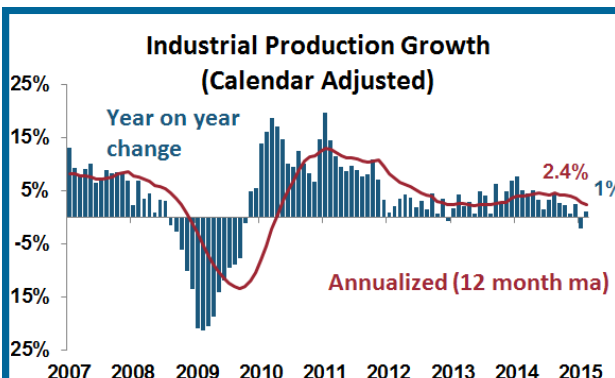
External Sector



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.

Growth



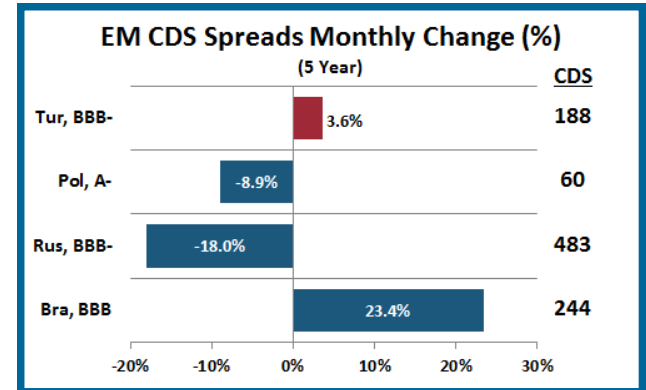
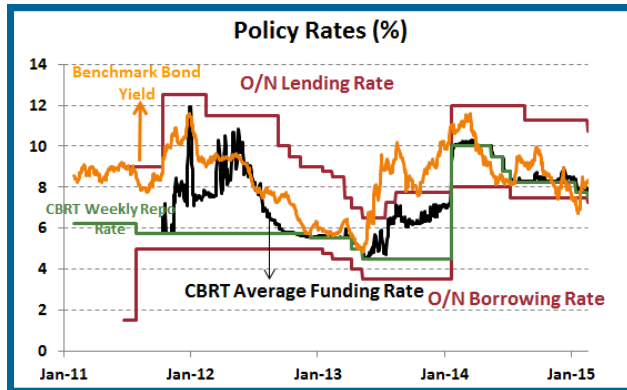
Manufacturing activity remains weak....

- 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.

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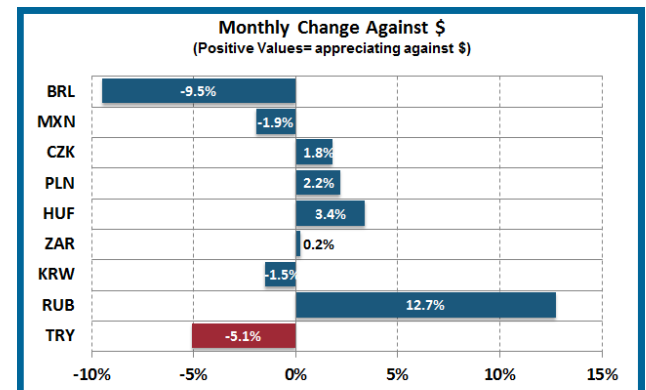
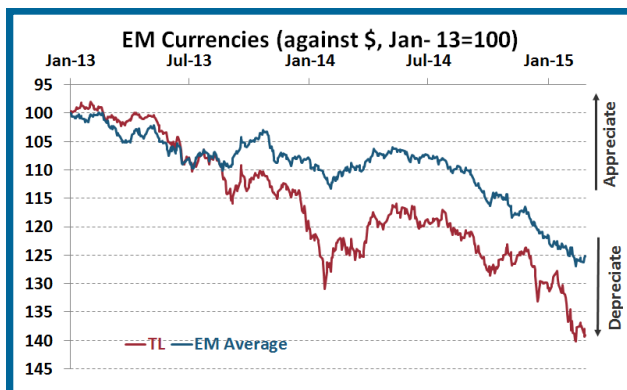
Financial Markets

Debt Market



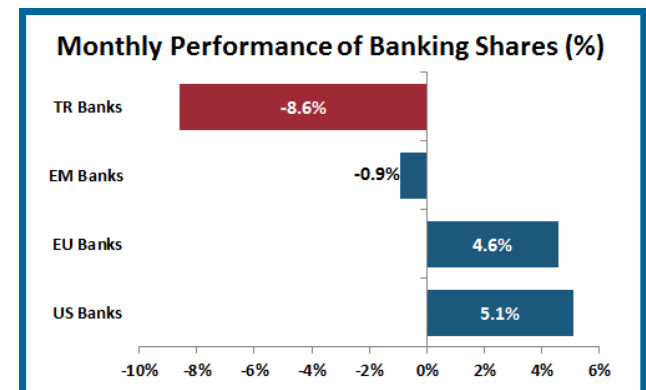
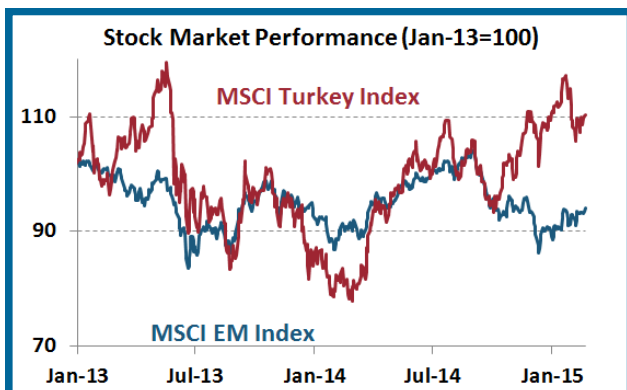
Benchmark bond yield jumped above 9% level with political risks.

Currency Market



TRY is one worst performer among EMs.

Stock Market

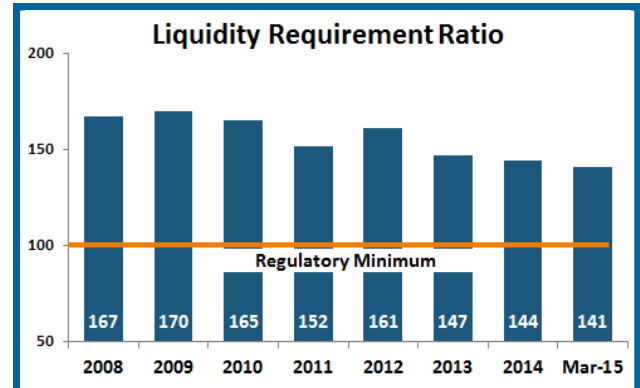
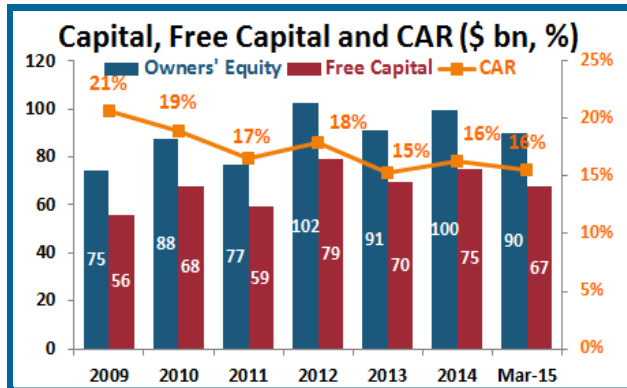


Istanbul Stock Exchange's performance separated from its peers.

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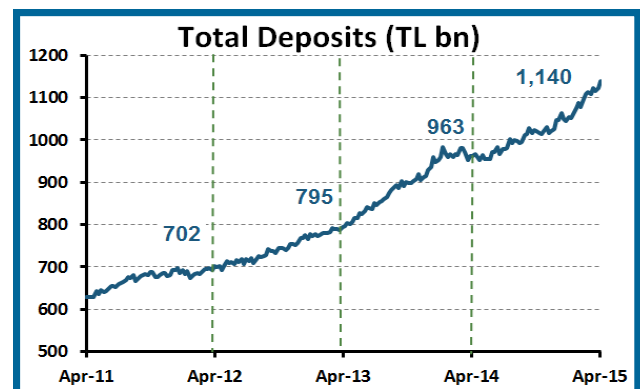
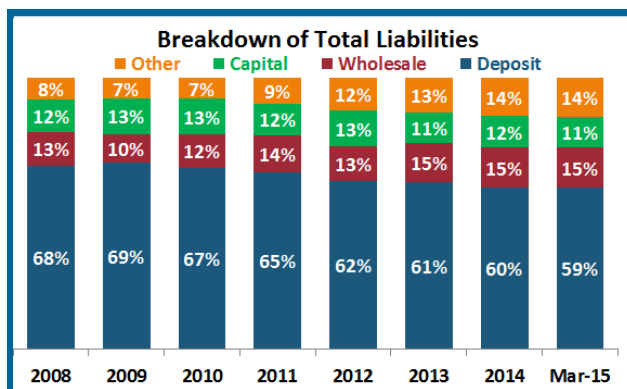
Banking Sector (I)

Capital



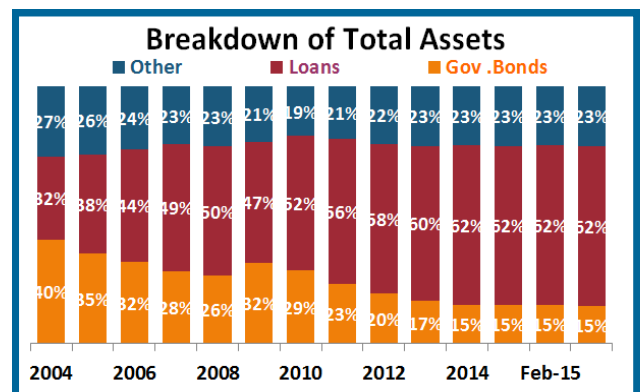
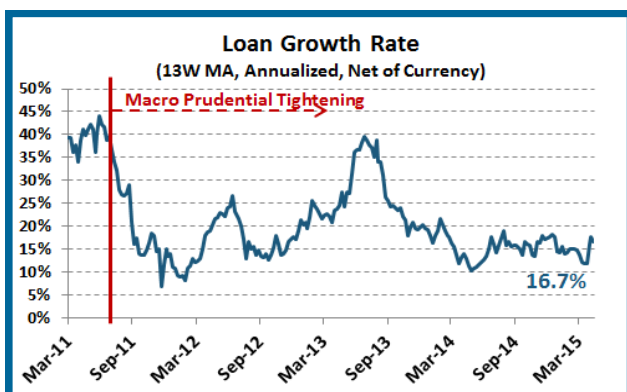
Banks were able to keep their CAR ratio at 16%.

Funding



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

Lending

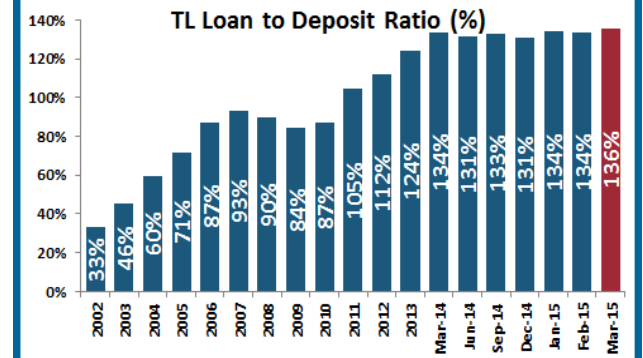
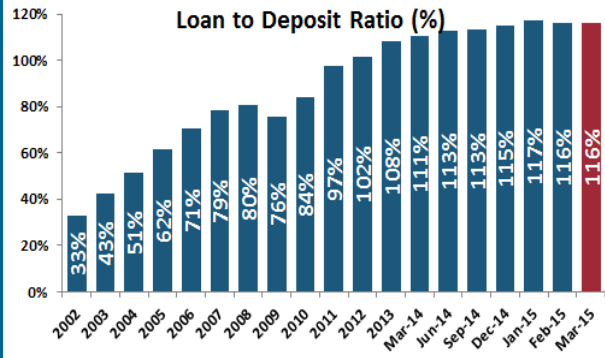


Annualized loan growth reached to 17%, compatible with Central Bank's long term target of 15%.

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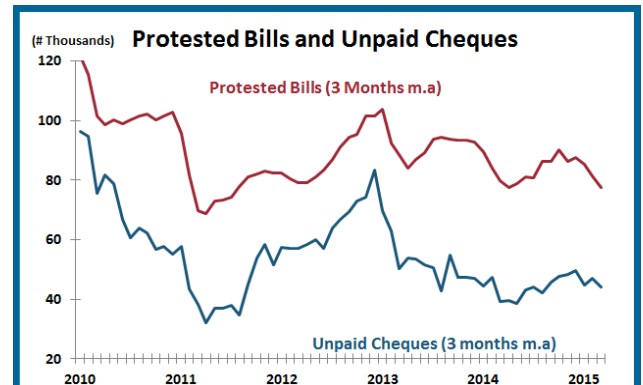
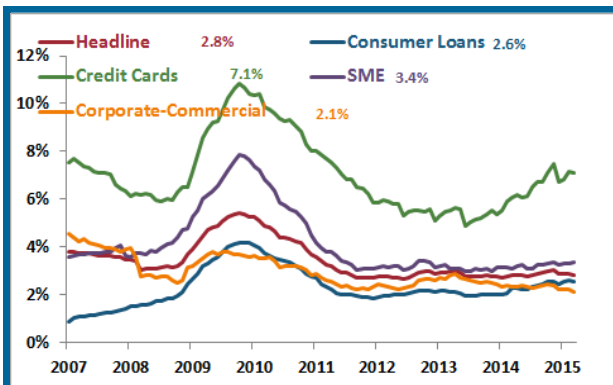
Banking Sector (II)

Loan to Deposit Ratios



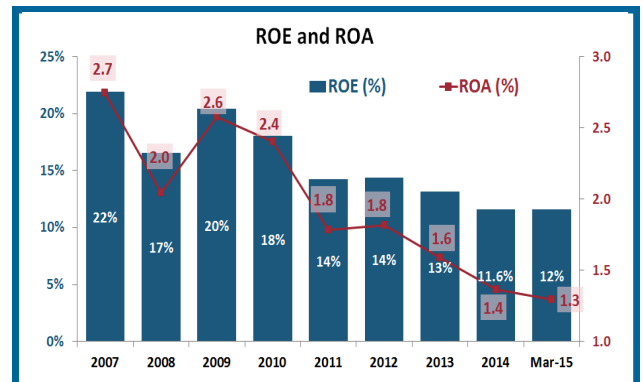
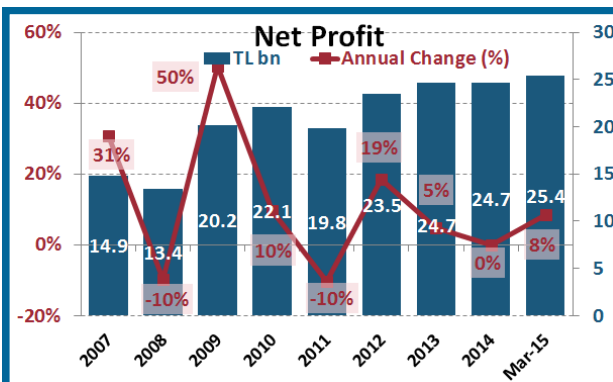
Loan to deposit ratio stable at 116% in March.

Loan Quality



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.

P & L



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