DenizBank Economic Update

April 2017

- Economy
- Financial Markets
- Banking Sector

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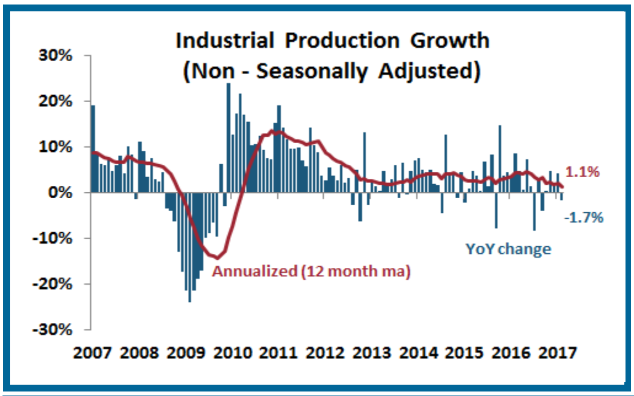
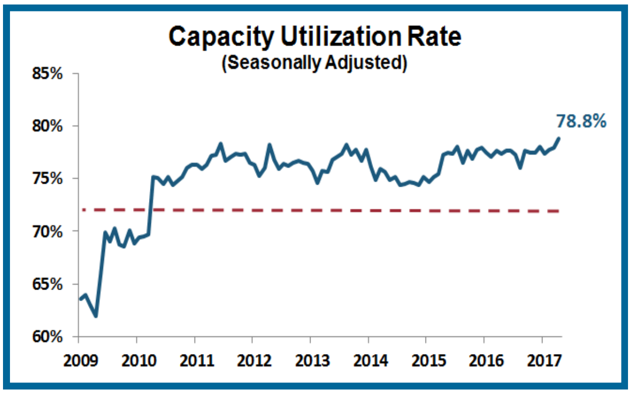
DenizBank Economic Update

Economy (I)

Growth





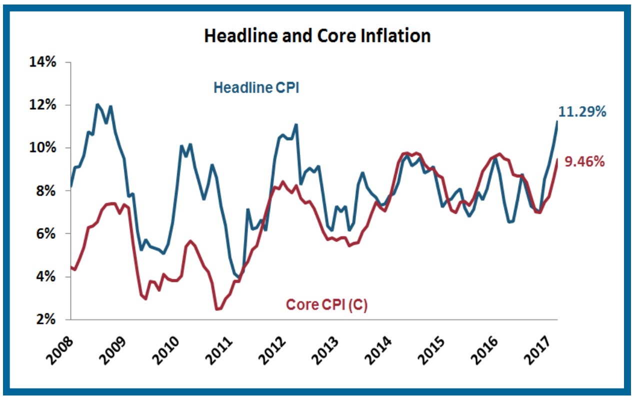
Economic recovery may have lost some pace, but continues in 1Q17...

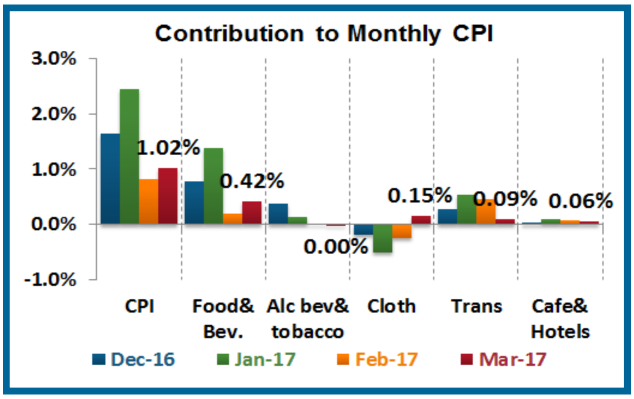
● After a 1.3% MoM rise in January, seasonally adjusted industrial production index contracted by 0.4% in February. The unadjusted index contracted by 1.7% compared to a year ago, after expanding 4.2% in January. In the first two months of the year, the unadjusted index rose by 1.2%.

● Manufacturing PMI signals economic activity has expanded in March passing the 50 threshold for the first time in 13 months. The index was up to 52.3, driven by increasing new orders. Growth rate of orders from abroad reached its 2015 high levels. According to revised data by the central bank (CBT), seasonally adjusted capacity utilization rate continued to increase reaching 78.8%, its highest level since August 2008.

● Following the recovery in 4Q16, economic activity continues to increase moderately. The depreciation in currency may have caused the pace to slightly slow down. Going forward, the recovery in Eurozone economy may lead to an increase in exports' contribution to the GDP, while domestic demand and investments may pick up pace slightly, driven by the incentives authorities have put in place.

Inflation





Inflation remains high, peak may be reached in May...

● CPI in March increased MoM by 1.02%, above the market expectation of 0.63%. Food prices increased by 1.93% bringing annual food inflation up to 12.5% from 8.7% a month ago.

● Annual inflation went up to 11.3% from 10.1% a month ago. Deterioration in core inflation gained momentum. 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 9.07% and 9.46% respectively. Producers' price index increased YoY by 16.1%.

● In its April inflation report, CBT revised its 2017 inflation forecast to 8.5% from 8.0%. 2018 inflation forecast is also revised up to 6.4% from 6%. Inflation is expected to fall down to CBT's 5% target in the medium term. Within the report and the presentation that accompanied it, CBT governor aimed to re-establish the bank's monetary stance as mainly focused on inflation. After May, annual inflation may retreat from its high levels within the year, however it will most likely still remain in double digits until December. CBT affirmed that the retreat will not cause a slide in the bank's tight monetary stance and they will work to bring inflation down along with government officials.

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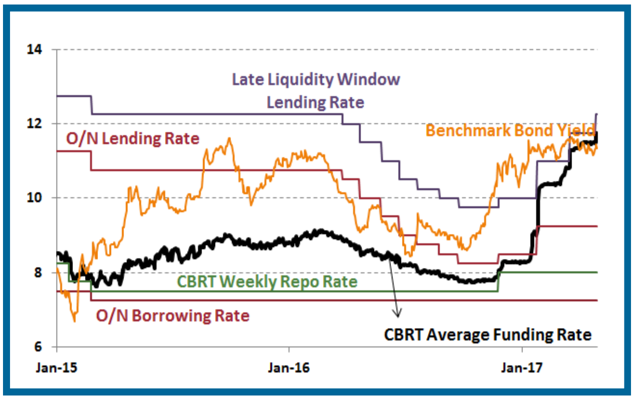
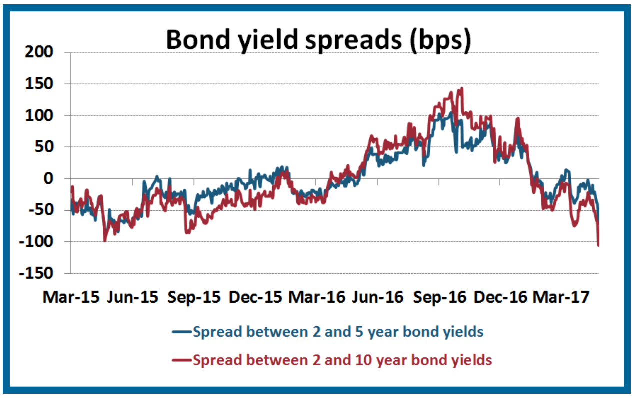
Economy (II)

Monetary Policy





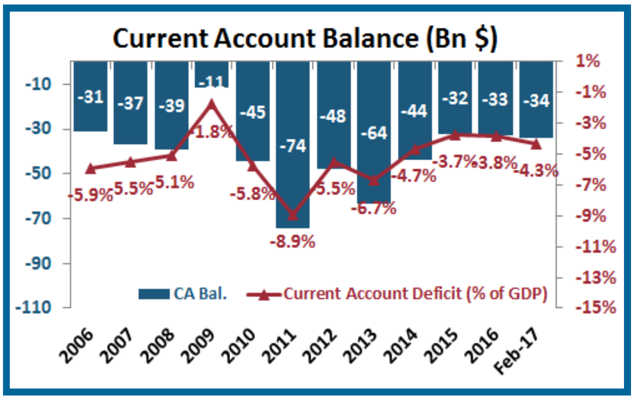
CBT hikes Late Liquidity Window (LLW) lending rate, yet again in a surprising fashion...

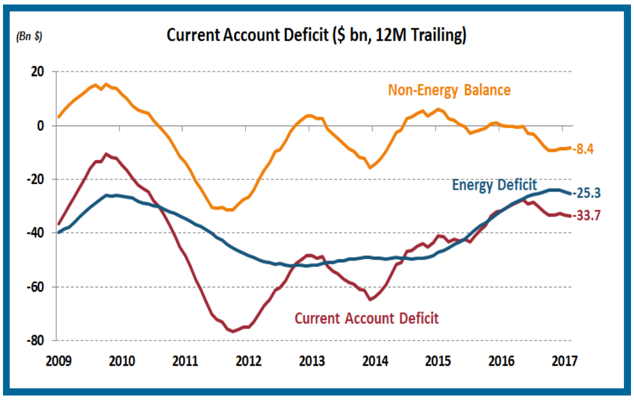
● In its March meeting CBT kept weekly repo, O/N lending and borrowing rates unchanged at 8.0%, 9.25% and 7.25% respectively. The bank hiked LLW lending rate by 50 bps to 12.25%, while market expectation was a no change, due to recent currency appreciation.

● The slight amendments to decision statement and remarks from April inflation report suggests that the bank's tight monetary stance exercised via a high LLW lending rate will continue for the foreseeable future, until there is a lasting fall in inflation and inflation expectations.

● Average funding rate has jumped to 11.7% following the Monetary Policy meeting, from 11.5%. CBT may not increase funding rate as high as 12.25%, but prefer to choose the remaining room in case of a shock to the currency. As per the bank's annual calendar the next MPC meeting will take place on June 15th. Messages from MPC decision statement and inflation report were clear that the bank will continue its tight monetary stance and is ready to tighten even more should that be necessary, using all available tools at its disposal.

External Sector





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

● Current account deficit (CAD) in February was in line with expectations at $2.5 bn. 12 month cumulative CAD increased to $33.7bn from $33.2 bn in January.

● On the financing side, there has been an FDI inflow of $0.3 bn in February and net portfolio inflow of $0.9 bn. Reserve assets increased by $0.6bn and there has been an outflow of $84 mn in net errors and omissions. 12 month cumulative energy deficit went up to $25.3 bn from $24.6 bn a month ago. Annual tourism revenues dropped YoY by 34% to $13.9 bn.

● The outlook for current account deficit remains stable. Energy bill may continue to put pressure on the deficit, but further increase in the rest of the year may be limited as energy prices struggle to go up. Along with the continuation of weak tourism revenues, current account deficit to GDP ratio may increase to 5%. Pick up in exports should hinder further deterioration.

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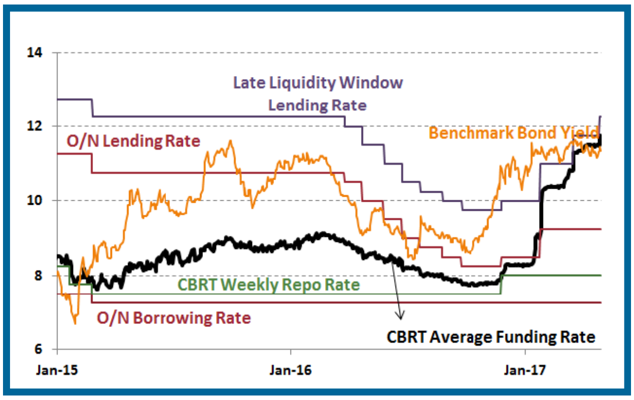
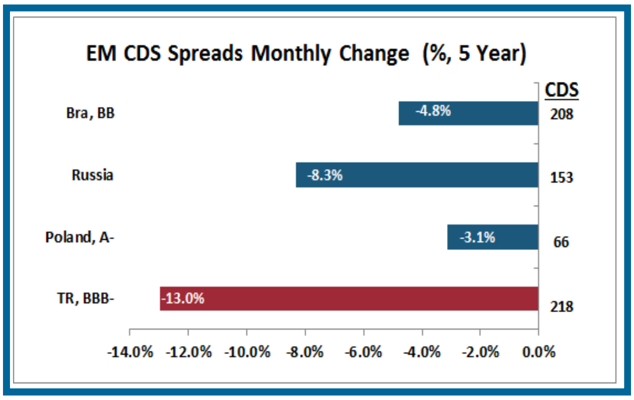
Financial Markets

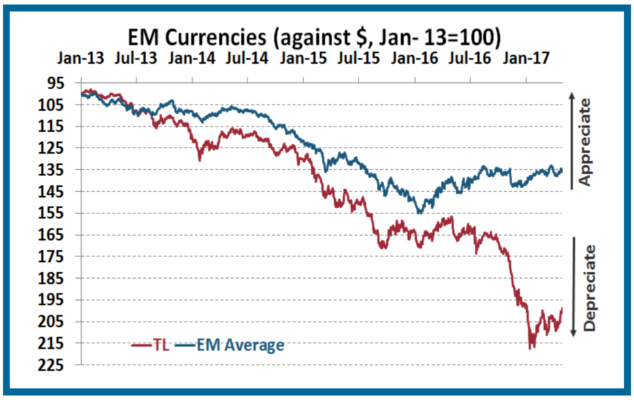
Debt Market

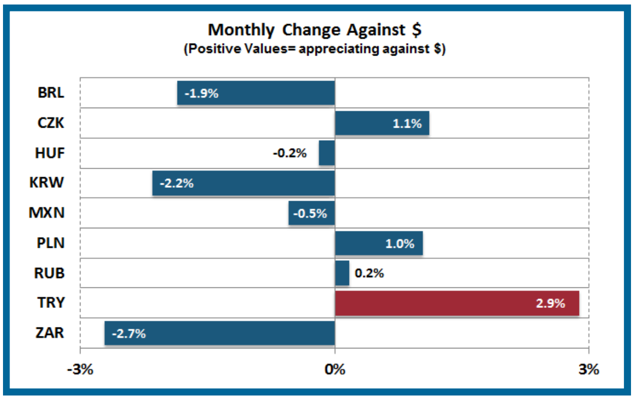




2-year benchmark bond yield is at 11.34%.

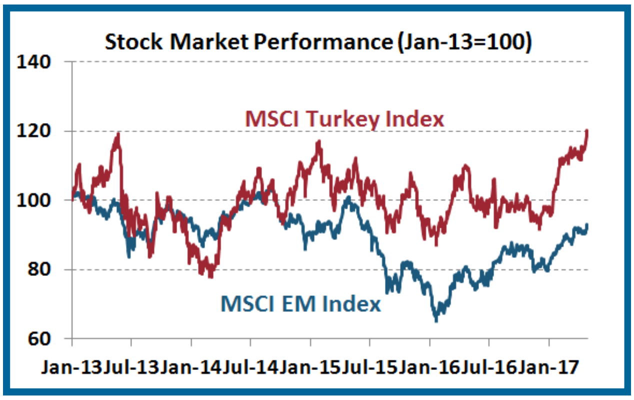
Currency Market

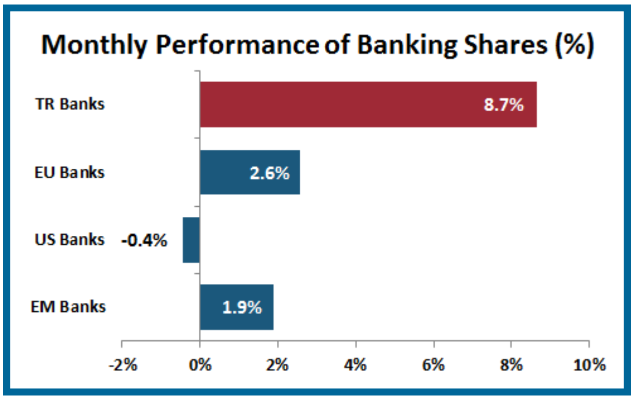




EM currencies appreciated slightly against USD on average. Lira was one of the top performers.

Stock Market





EM equity markets continued to perform positively in April.

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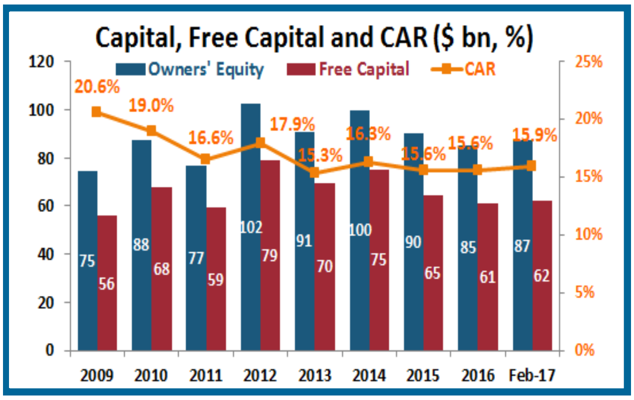
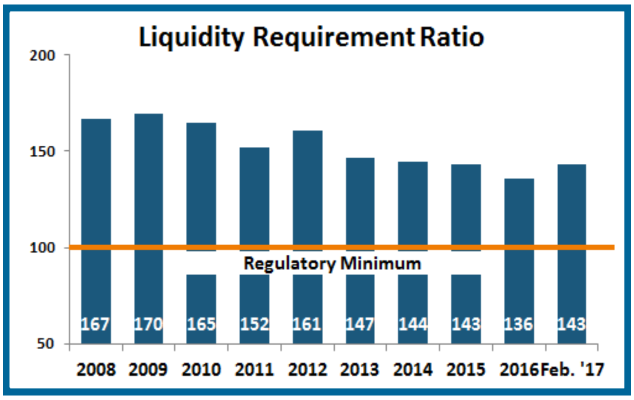
Banking Sector (I)

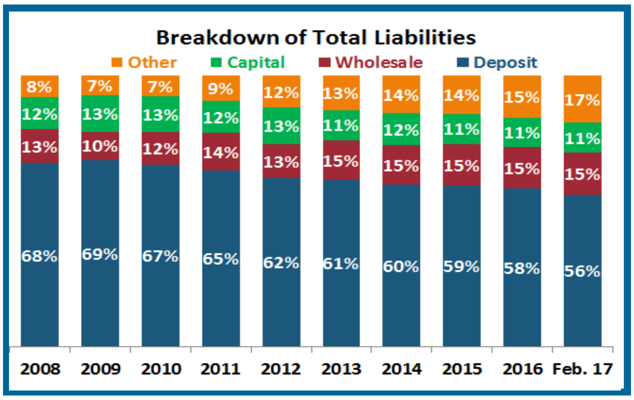
Capital

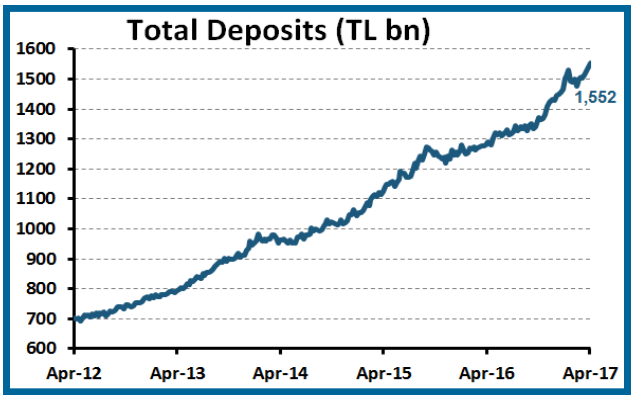




CAR increased to 15.9% in Feb '17.

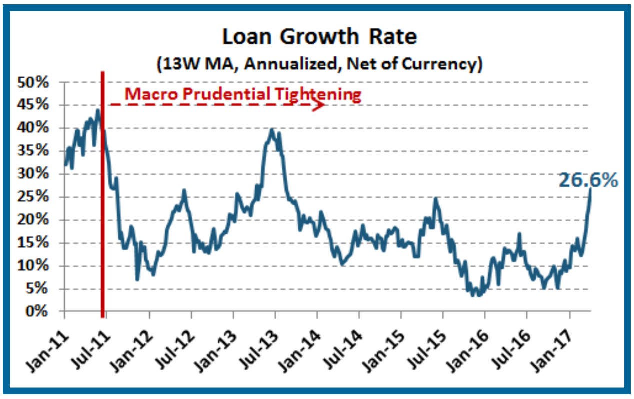
Funding

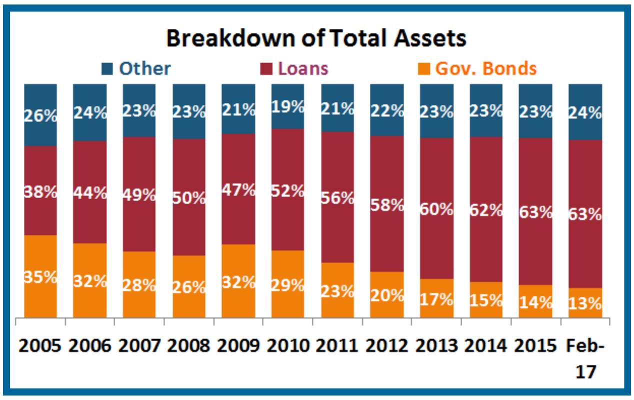




Share of deposits in funding was at 56% as of Feb 17.

Lending





Annualized loan growth is at 26.6% as of April 14th.

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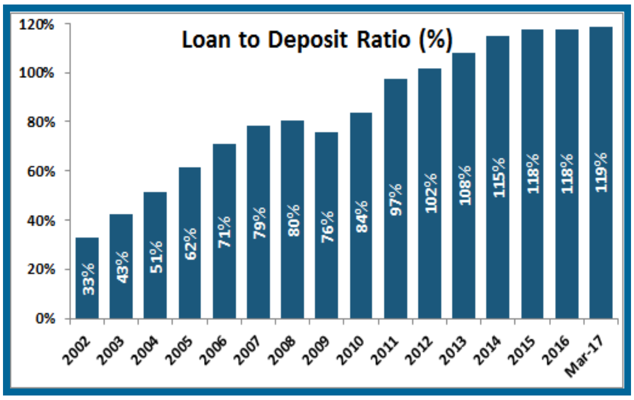
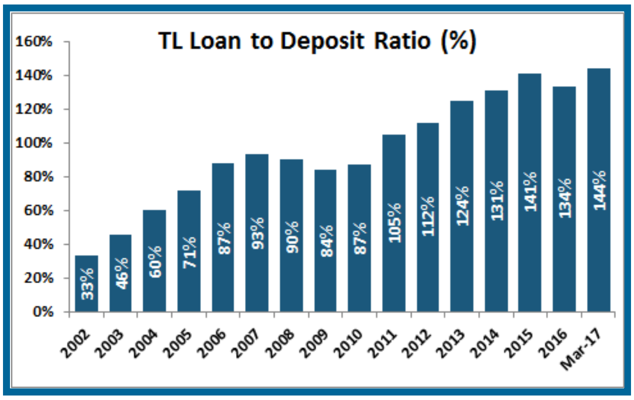
Banking Sector (II)

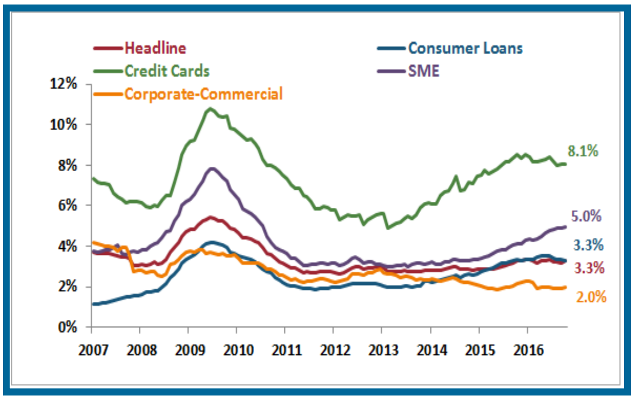
Loan to Deposit Ratios

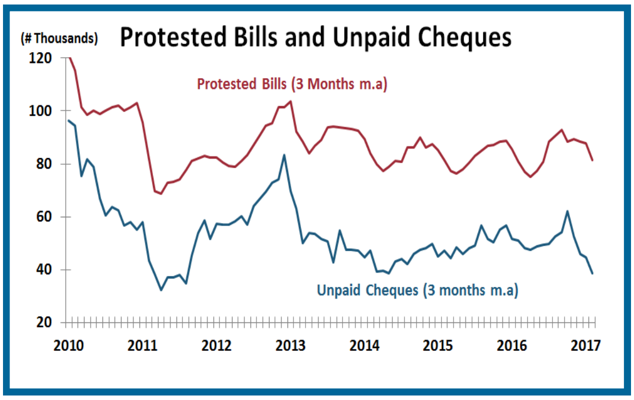




Loan to deposit ratio is 119% in March.

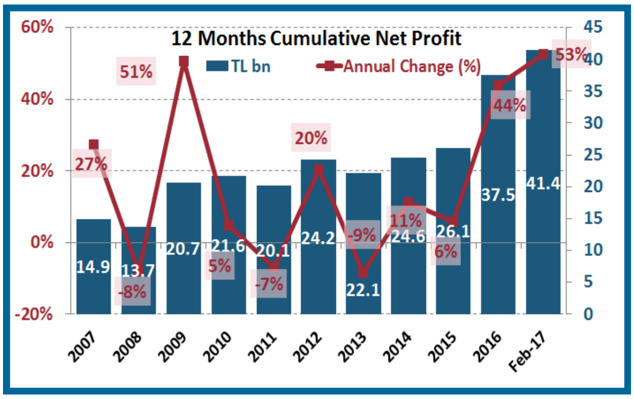
Loan Quality

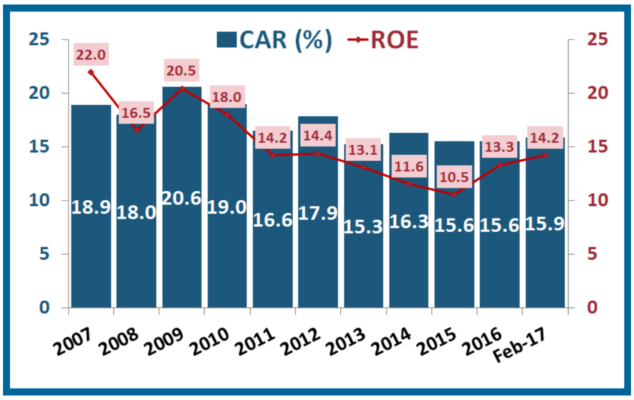




Headline NPL ratio for the sector is at 3.3% as of Feb 17.

P & L





In Feb 17, banking sector's annual profit increased YoY by 53% while ROE reached 14.2%.