

# DenizBank Economic Update

March 2016

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

## Economic Research and Strategy

Saruhan Özel, Ph.D.

Ezgi Gülbaş

Orhan Kaya

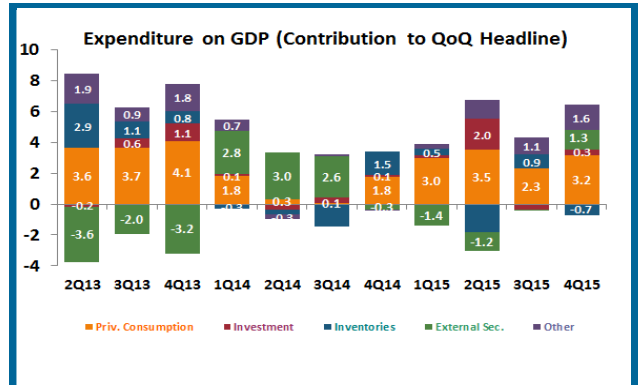
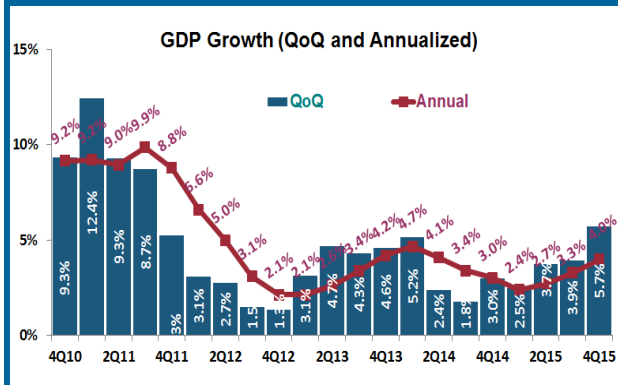
İnci Şengül



# DenizBank Economic Update

## Economy (I)

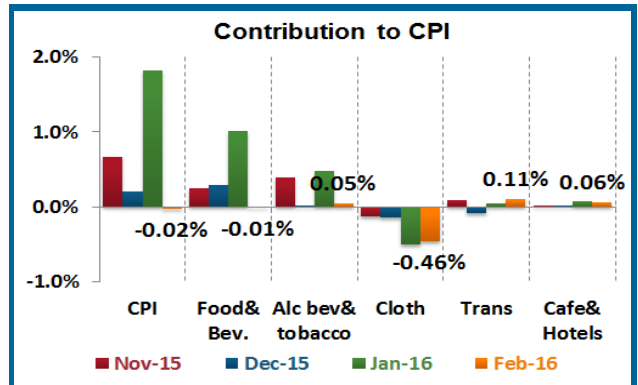
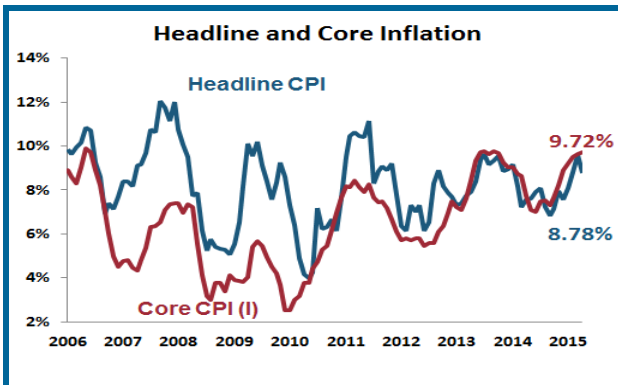
### Growth



### Domestic demand and net exports were the main driver of growth in the last quarter of 2015...

- Turkish economy grew by 5.7% in 4Q15 beating the market expectation of 5.0%. WDA growth Y-o-Y was also strong with 4.1%. With 4Q data, 2015 GDP growth reached 4.0%, above market expectation of 3.8%.
- Household spending picked up pace with a 4.7% growth, after increasing 3.6% in Q3. The contribution of household spending to the headline figure was 3.2 pps. Public spending grew by 8.1%, contributing 1.1 pps to quarterly growth. Thanks to the contraction in imports and a rise in exports, net exports made a 1.3 pps contribution. Change in stocks shaved off 0.7 pps.
- Despite political uncertainty, geopolitical risks and slowdown in the economies of major export partners, robust domestic demand allowed Turkey a growth rate that ranks it the highest among Emerging Europe. Strong domestic demand may continue this year with a boost from minimum wage hike. However, continuing geopolitical risks, slowdown in tourism may pose downside risks on economic performance in 2016.

### Inflation



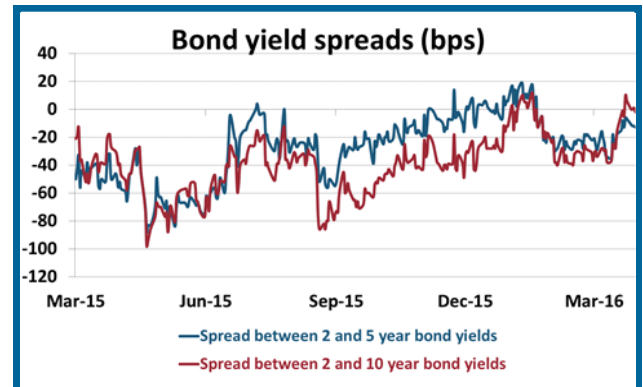
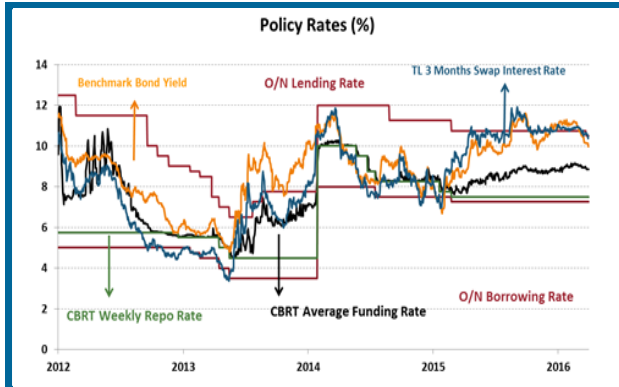
### Inflation took a downward turn in February...

- CPI in February decreased MoM by 0.02% contrary to the market expectation of a 0.50% increase. The contribution of food prices was -1.0 pps, first time negative since June 2015. Annual food inflation dropped to 8.8% from 11.7%.
- Annual inflation decreased to 8.78% from 9.58% driven by the drop in food prices and a stable Turkish Lira. Core indices continued to deteriorate as the I index increased to 9.63% from 9.51%. However, a slowdown in the pace of deterioration is observed in February.
- The continued appreciation of the Lira throughout the month may lead to further decline in annual inflation. Government's work on bringing down food prices may drive inflation further down in the coming months. However, market expectations—especially 24 months ahead are still above central bank's target. Thus, unless a significant improvement both in realizations and expectations is realized, CBT is expected to keep its monetary stance tight.

# DenizBank Economic Update

## Economy (II)

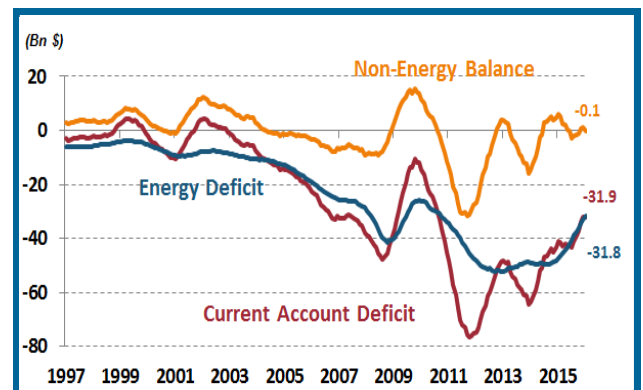
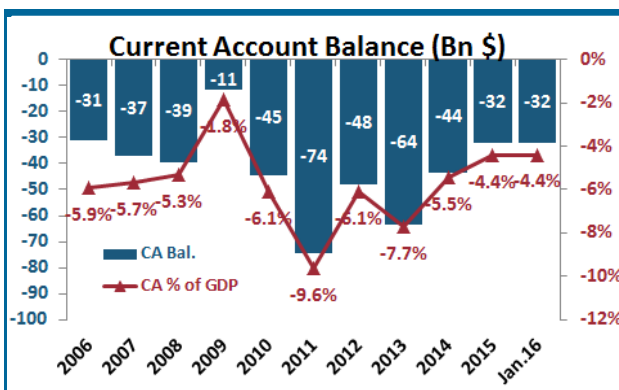
### Monetary Policy



### Central Bank (CB) kept the policy rate unchanged, cuts the upper end of the interest rate corridor...

- In its monthly MPC Meeting, CB left the policy rate (one week repo rate) unchanged at 7.5%, in line with the market expectation. O/N lending rate was cut by 0.25% to 10.50%
- CBT states that the cut in the upper band was a cautious step to the policy simplification process. After several months of no reference to simplification, the drop in global volatility indices has led the bank to look into narrowing of the corridor. As the global volatility indices decrease, there is less need for a wide interest rate corridor. Should volatility continue to remain low, further amendments to O/N lending and borrowing rates may be expected.
- As market conditions were favorable in March, CBT was able to decrease the average O/N funding rate slightly, to an average of 8.95% from 9.06% in February. Even if the interest rate corridor narrows down further in the coming months, further cuts in the average funding rate should not be expected unless a significant improvement in inflation outlook and/or appreciation in the Lira is observed.

### External Sector



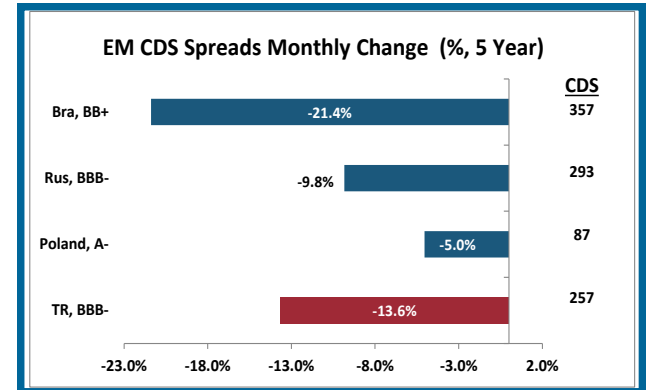
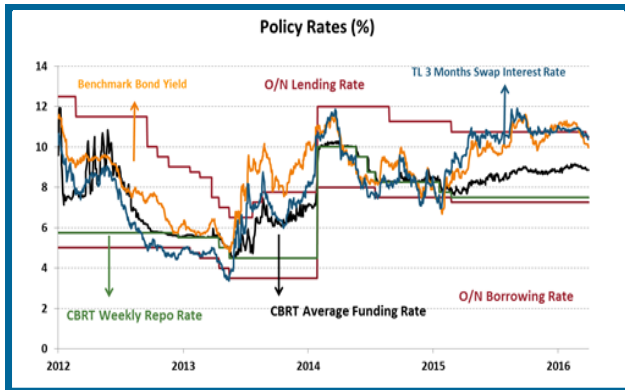
### Current Account Deficit continues to narrow in 2016...

- Current account deficit (CAD) in January came at \$2.2 bn. 12 month cumulative CAD narrowed down to \$31.9 bn (4.4% of GDP) from \$32.1bn in December.
- On the financing side, there has been an FDI inflow of \$0.3bn in January. Outflow from bond market was \$93mln and the outflow from the equity market was \$0.3 bn. There was a slight decrease in reserves amounting to \$37mln.
- 12 month cumulative energy deficit in January shrank by 33% on an annual basis to \$31.9 bn.
- Improvement in the current account deficit should continue as energy prices are expected to remain low in 2016.

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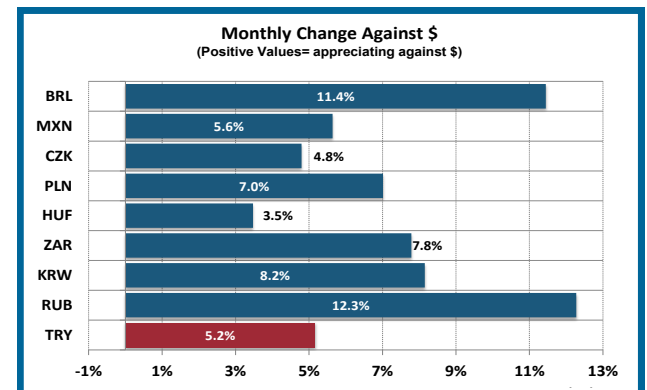
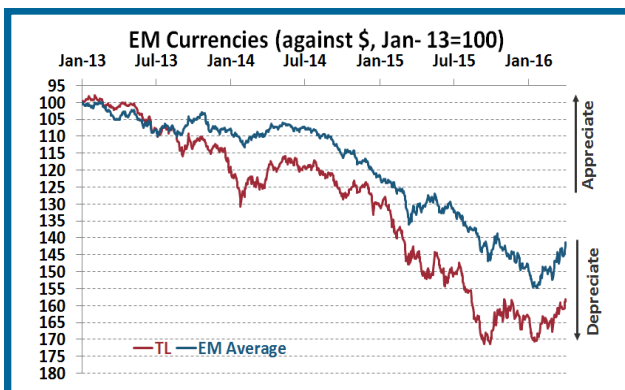
## Financial Markets

### Debt Market



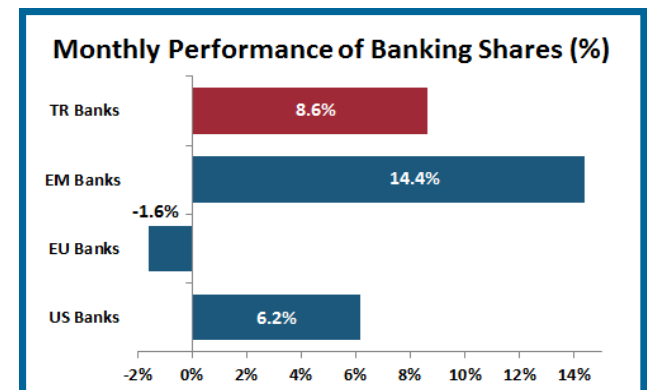
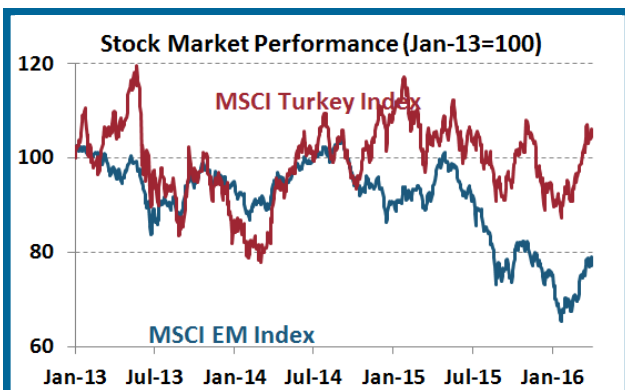
Benchmark bond yield is slightly below 10%.

### Currency Market



EM currencies appreciated against US Dollar in March.

### Stock Market

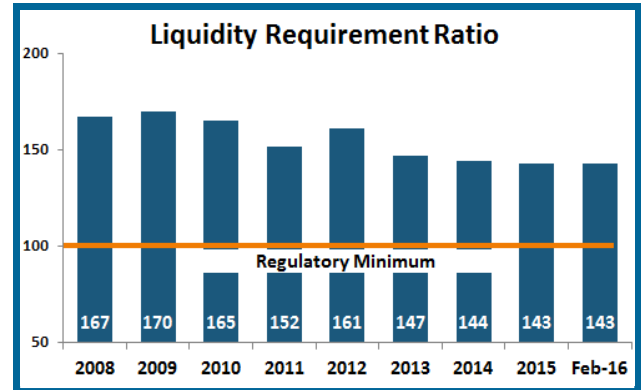
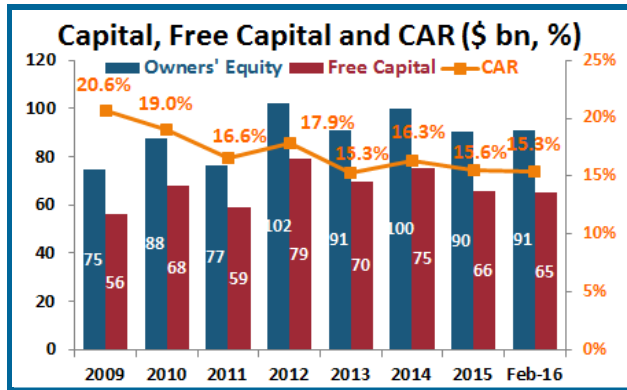


MSCI Turkey equity index' performance was in line with other EMs in March.

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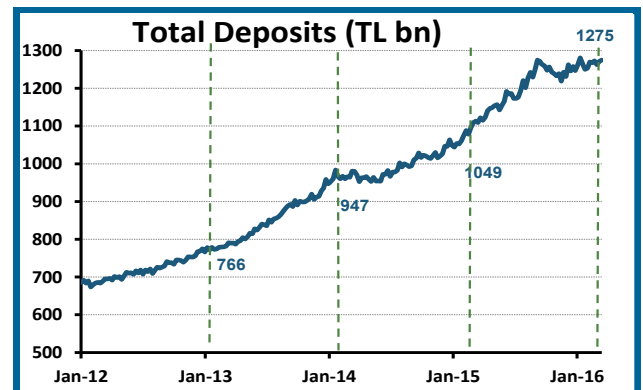
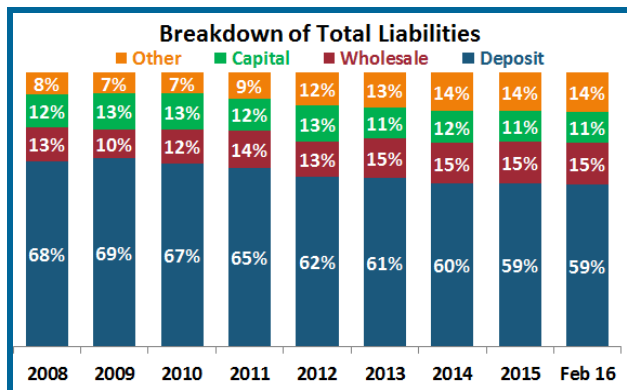
## Banking Sector (I)

### Capital



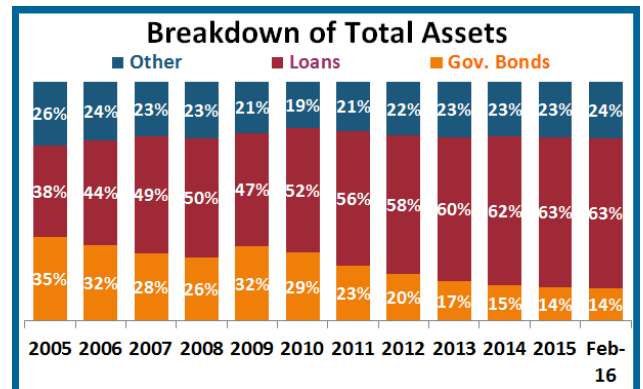
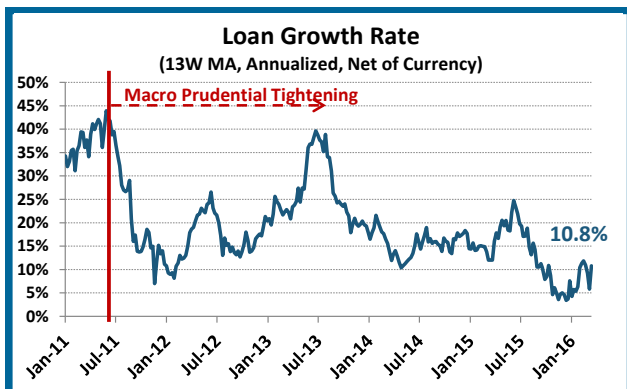
CAR is at 15.3% in February, compared to 15.6% as the end of 2015.

### Funding



Share of deposits in funding was at 59% as of Feb16.

### Lending



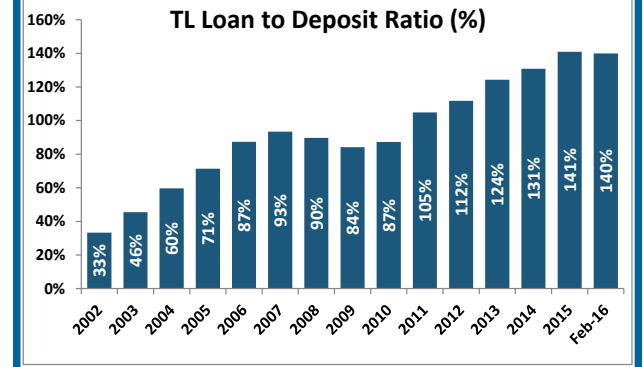
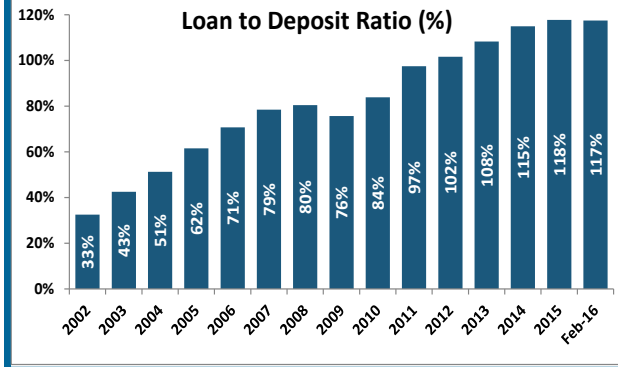
Annualized loan growth is at 10.8% as of March 25th.



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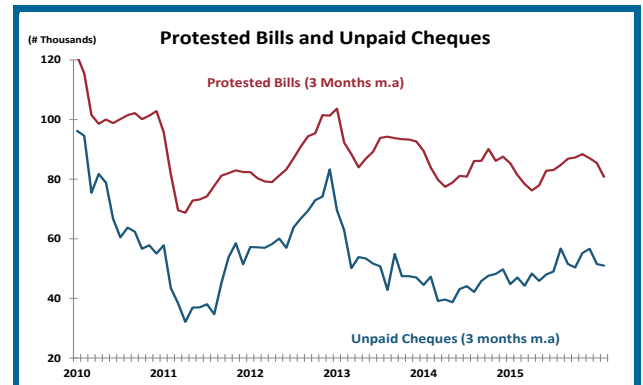
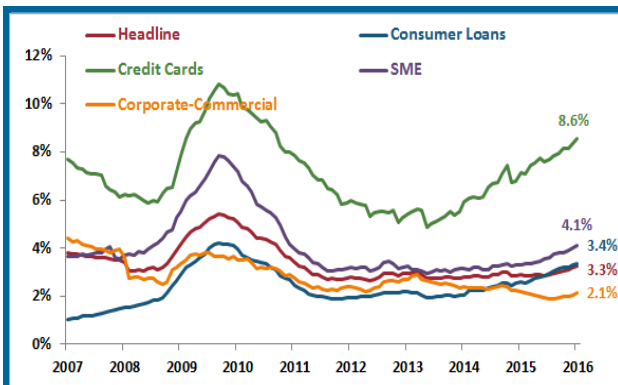
## Banking Sector (II)

### Loan to Deposit Ratios



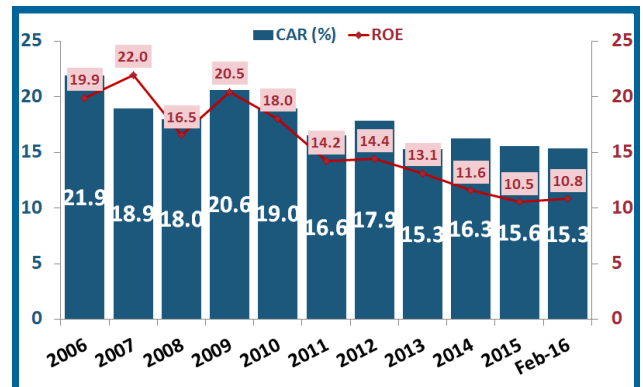
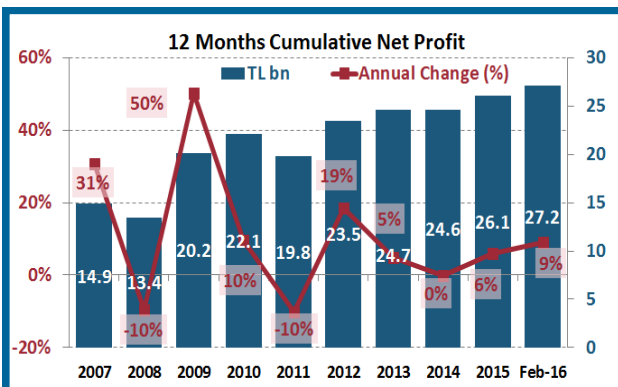
Loan to deposit ratio is 117% in February.

### Loan Quality



Headline NPL ratio for the sector is at 3.3%.

### P & L



As of February, sector's 12 month cumulative profit increased YoY by 9%. ROE is at 10.8%.