DenizBank Economic Update

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Economic Research and Strategy
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Central Bank (CB) kept the policy rate unchanged ...

- In its monthly MPC Meeting, CB left the policy rate (one week repo rate) unchanged at 7.5%. CB did not touch the interest rate corridor either, leaving overnight lending rate at 10.75% and overnight borrowing rate at 7.25%.
- The move was in line with market expectations and there was almost no market reaction.
- As there is upward pressure on inflation from food prices and depreciation in lira, we expect the bank to keep the rates unchanged in its next meeting as well.

Current account continues narrowing in March...

- Above expectations, current account deficit came at $4.96 bn in March stemming from slowdown in exports. In turn, 12 month cumulative current account deficit increased to $45.5 bn (5.7% of GDP) in March from $43.9 bn (5.5% of GDP) in February.
- On the financing side, there has been an outflow of $2.9 bn in portfolio investments. FDI decreased to $280 mn from a level of $622 mn in March 2014. We may see a recovery in portfolio investments, should political uncertainty ease after the elections.
- We expect current account deficit to ease to 5.0% of GDP this year driven by the slowdown in imports with weaker domestic demand and falling oil prices.
Industrial Production beats expectations in March...

- The calendar adjusted industrial production index (IP) increased YoY by 4.71% in March, whereas seasonally adjusted IP increased MoM by 2.2%.
- Industrial production increased by 1.2% compared with the last quarter and 1.3% compared with the 1st quarter of last year. The pick-up in March was not enough to boost 1st quarter data, which showed very little increase in the first 2 months of the year.
- As Industrial production data suggests, GDP growth in the first quarter will be moderate (c. 1.5%) compared to the previous year. As early indicators, such as PMI (April:48.5, May: 50.2) show, we do not expect to see a fast recovery in the second quarter, as well. However, pick up in the third quarter is likely with the diminishing political uncertainty following the general elections.

Inflation is still rising; led by the increase in food prices...

- Inflation came above expectations in April and annual inflation further accelerated to 7.91% from 7.61%. High food inflation is the main reason behind the rise in inflation. Annual food inflation rose by 14.36%, the highest level since November 2010 due to the drought.
- Although core inflation (I-index) came above expectations at 7.0%, there was a slight decrease from 7.1% in March..
- Increase in food prices and volatility in the exchange rates cause CB’s expectation of disinflationary process in the core index not to be realized, which was mentioned in the Inflationary Outlook Report. This may put an upward pressure on year-end CPI forecast of 6.8%, as well.
Benchmark bond yield jumped above 9% level with political risks.

TRY has been positively differentiated among EM currencies in May.

Istanbul Stock Exchange had a negative performance in line with other EM equity markets.
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 18.4%. The growth rate has been increasing since the beginning of the year, yet it is not a threat CB’s target of 15% growth.
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 remained stable at 11.6%, as of March-15.