

DenizBank Economic Update

September 2017

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

Economic Research and Strategy

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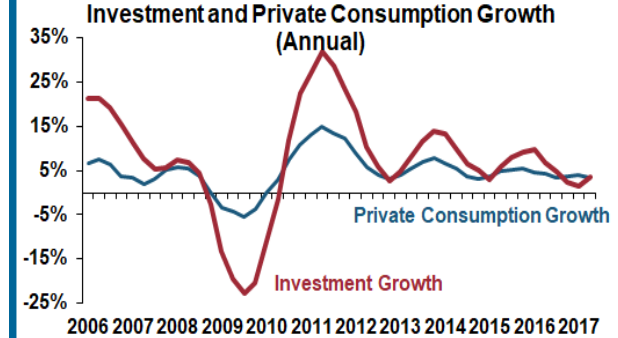
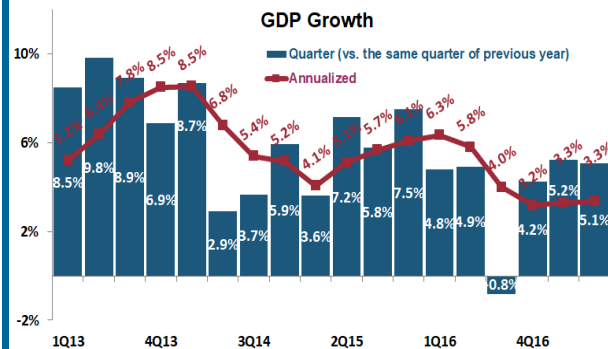
DenizBank 



DenizBank Economic Update

Economy (I)

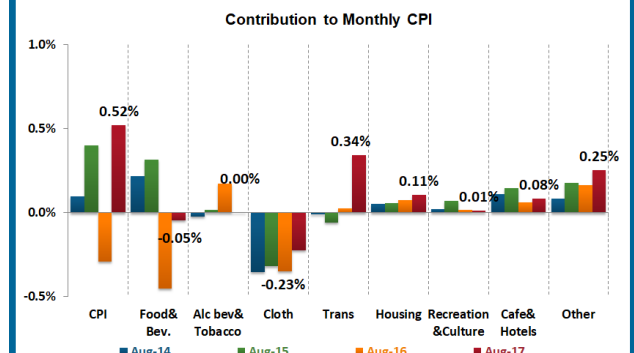
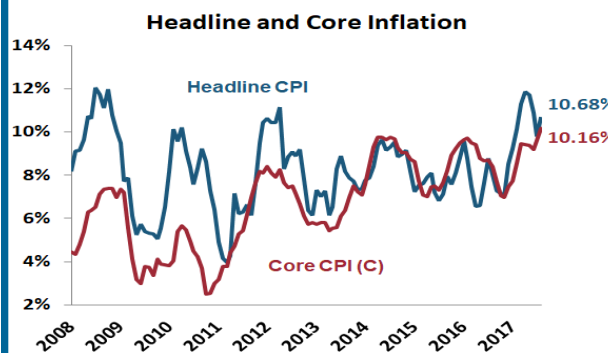
Growth



Strong growth performance continues in 2Q17, driven by investment and exports...

- GDP growth 2Q17 (vs. 2Q16) came at 5.1%, slightly below market expectation of 5.3%. Seasonally and calendar adjusted quarterly growth rate was also strong (2.1%).
- Looking at the breakdown by expenditures, drivers of growth were net exports and investment, while growth in domestic consumption continued to lose pace (from 3.6% in 1Q to 3.2% in 2Q) and public expenditure contracted by 4.3%. Growth of exports were 10.2%, exceeding the 2.3% growth of imports. Investments increased by 9.5%, thanks to a 24.6% rise in construction investments. Machinery and equipment, the other sub-item of investments, contracted by 8.6%
- Growth rate may accelerate in 3Q17 as the impact of supportive measures and incentives continued throughout the quarter. Another factor that will push growth rate further is the low base effect from previous year. As incentives (e.g. tax cuts) ends by 4Q17, growth rate may slow down. According to the medium term plan (MTP) for 2018—2020, annual growth rate is expected to rise to 5.5% for 2017 and remain at this level until 2020.

Inflation



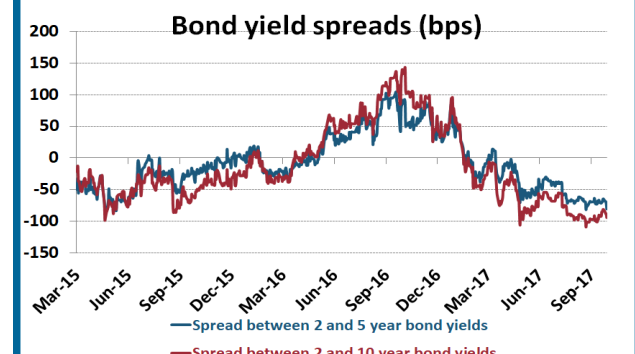
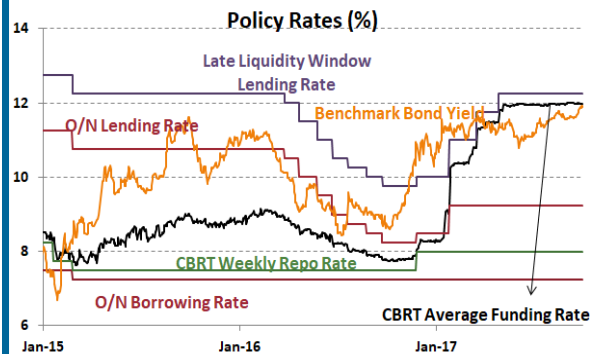
Inflation jumps back to double digits in August, with a leap stronger than anticipated...

- CPI in August increased MoM by 0.52%, above the market expectation of 0.13%. Food prices continued to decrease, as the monthly change in prices was -0.22%.
- Annual inflation jumped to 10.7% from 9.8% a month ago. Annual food inflation went up to 12% from 10% a month ago, due to low base effect. Core CPI (CPI excluding food, energy, non-alcoholic and alcoholic beverages, tobacco, gold) increased to 10.2% from 9.6%. Producers' price index increased YoY by 16.3%.
- After falling down to single digits in July, the move back to double digit level in annual inflation was expected. Between September and November, low base effect from previous year will be in play causing inflation to remain above 10%. As of December, with the removal of base effect, a downward trend in inflation may be expected. However, since the magnitude of the increase in prices in August was high, the timing and the pace of the expected downward trend may be negatively affected. As per the 2018—2020 MTP, inflation is expected to be 9.5% at the end of 2017 and reach CBT's 5% target by 2020.

DenizBank Economic Update

Economy (II)

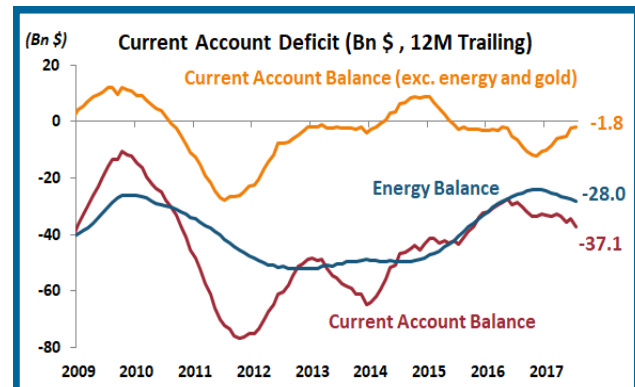
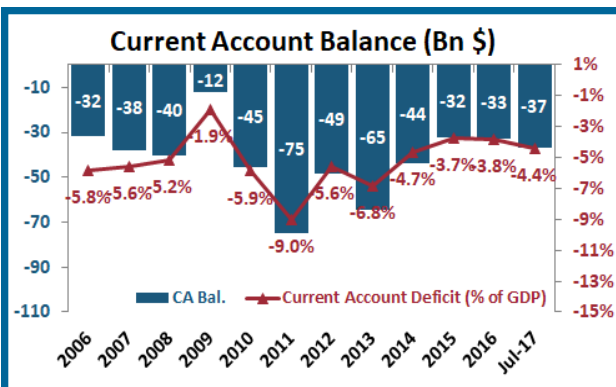
Monetary Policy



CBT kept all rates unchanged, focused on risk of deteriorating pricing behavior at September meeting...

- In its September meeting, CBT kept weekly repo, O/N lending and borrowing rates and late liquidity funding lending rate unchanged at 8.0%, 9.25%, 7.25% and 12.25% respectively. Monetary Policy Committee will convene on October 26th.
- In the decision statement, different from previous months, CBT no longer refers to the positive impact of supportive measures and incentives provided, as most will not be extended after 3Q17. Yet the bank expects economic activity to maintain its strength. On inflation front, the bank says improvement in cost factors and expected partial correction in food prices due to Food Committee's intervention, will contribute to disinflation.
- CBT also underlines concerns that current high levels of inflation may cause upside risks on inflation. Thus, the bank can be expected to keep its tight policy stance by holding average funding rates at current levels (close to 12%).

External Sector



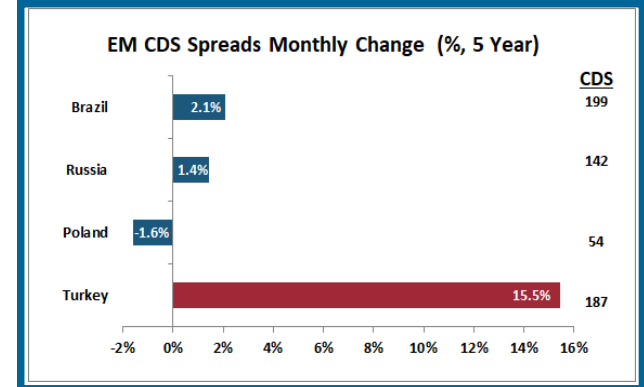
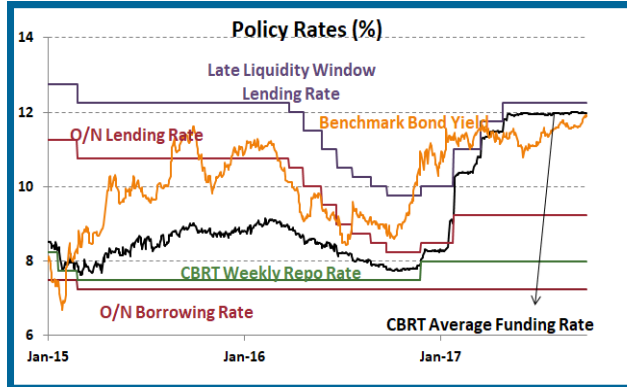
Current account deficit increases driven by gold and energy imports.

- Current account deficit (CAD) in July came slightly below expectations (Bloomberg: \$5.5 bn) at \$5.1 bn. 12 month cumulative CAD rose to \$37.1 bn from \$34.4 bn in June (July 2016: \$28.6 bn).
- Current account financing continues to heavily rely on portfolio investments. Portfolio inflows in the first 7 months of the year posted a 83% increase to \$18.0bn. Along with the recovery in tourism sector, annualized tourism revenues increased slightly to \$15.2bn from \$14.6bn a month ago.
- Annualized core deficit narrowed to \$1.8bn in July from \$2.1bn from a month ago. Annualized gold deficit increased to \$7.3 bn from \$5.1 bn a month ago.. Annualized energy deficit increased to \$28.0 bn from \$27.2bn a month ago.
- According to 2018—2020 medium term plan, CAD to GDP ratio forecast is 4.6%, which signals that 12 month cumulative deficit may expand slightly further in the remainder of the year.

DenizBank Economic Update

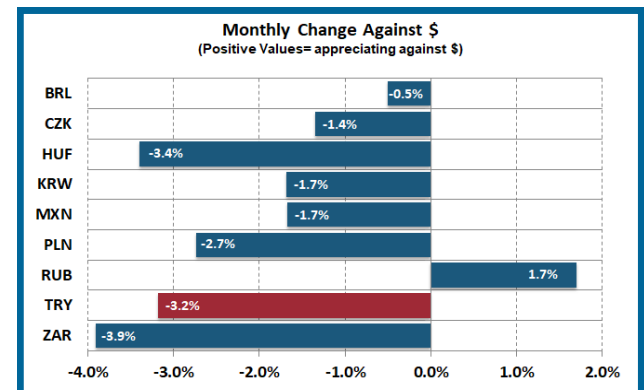
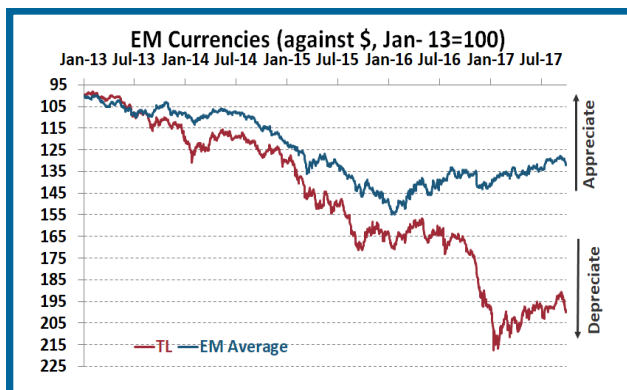
Financial Markets

Debt Market



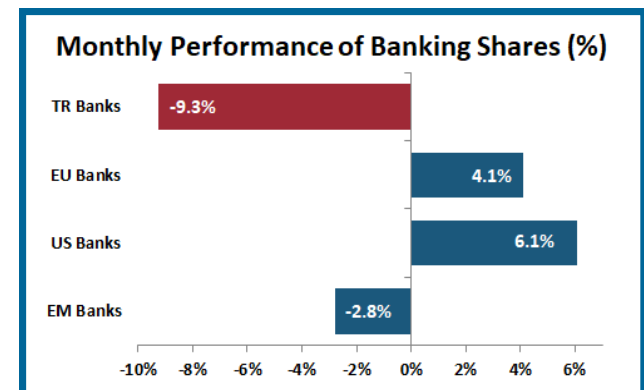
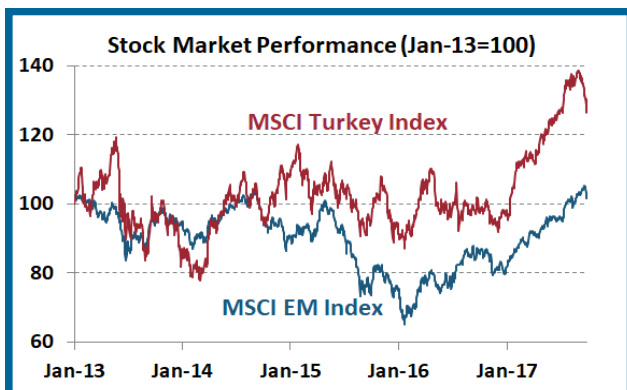
2-year benchmark bond yield is at 11.89%.

Currency Market



EM currencies depreciated against USD.

Stock Market

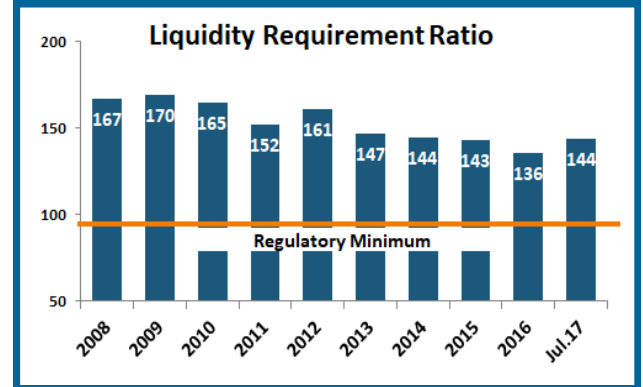
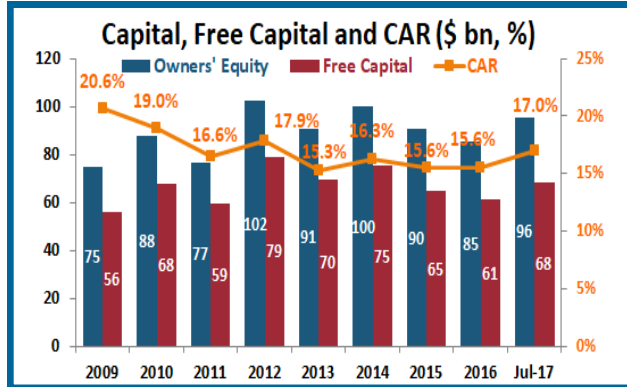


Stock market indices in EM fell on average in September.

DenizBank Economic Update

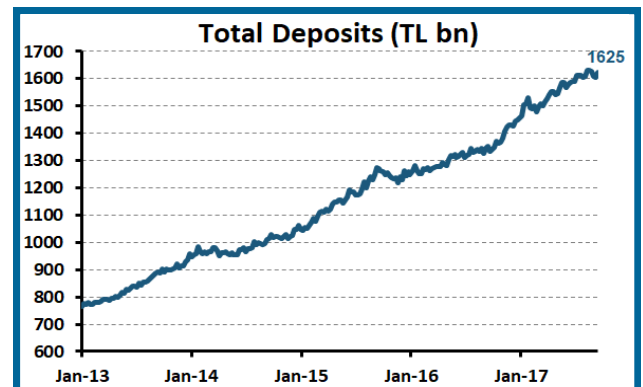
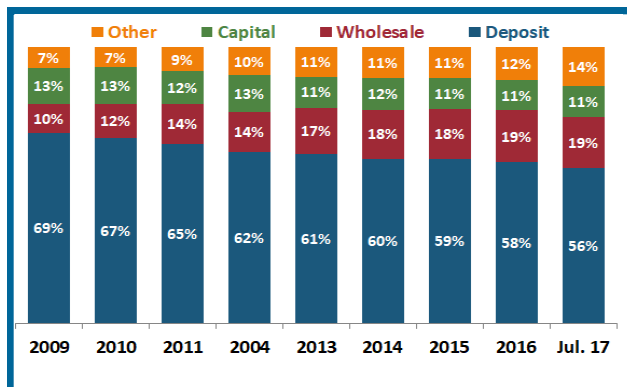
Banking Sector (I)

Capital



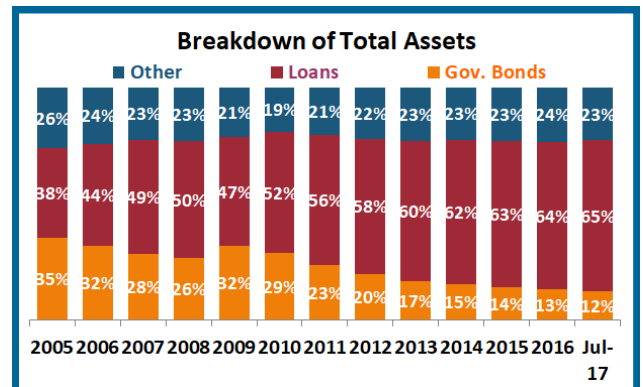
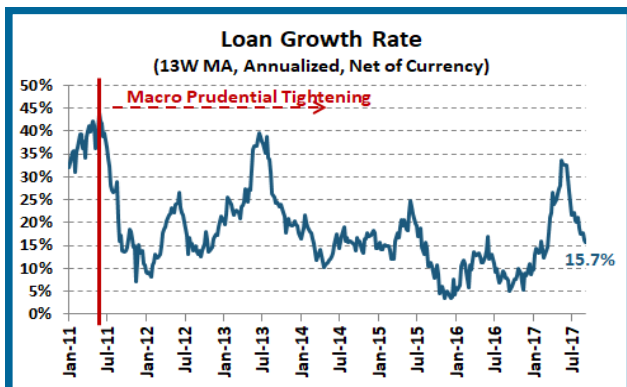
CAR increased to 17% in Jul 2017.

Funding



Share of deposits in funding was at 56% as of Jul 2017.

Lending

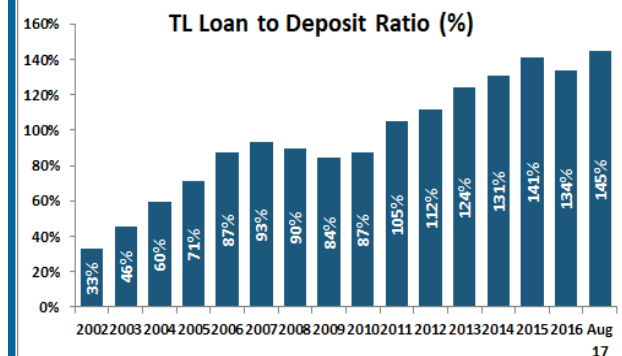
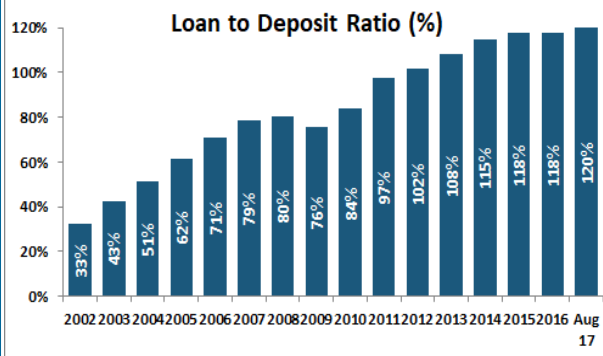


Annualized loan growth is at 15.7% as of Sep 15th.

DenizBank Economic Update

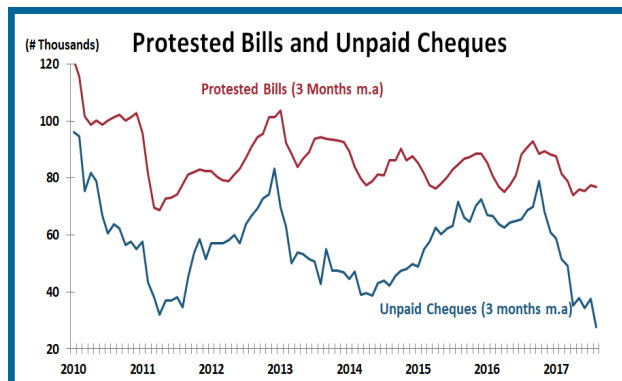
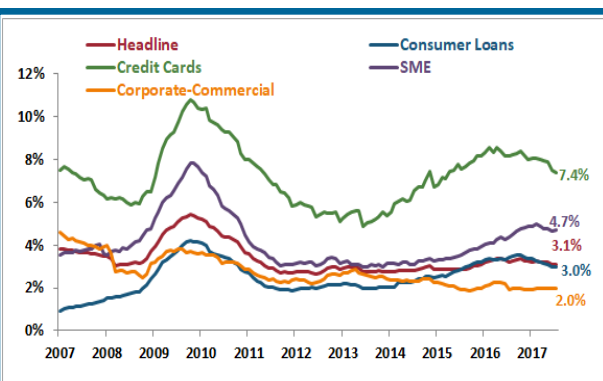
Banking Sector (II)

Loan to Deposit Ratios



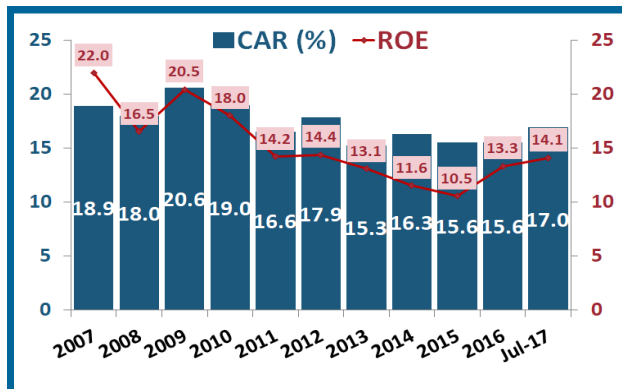
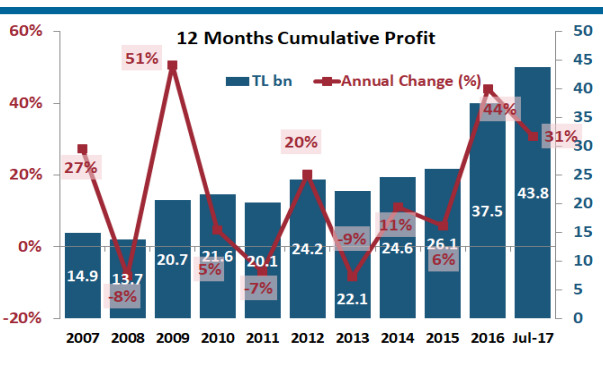
Loan to deposit ratio is 120% in August.

Loan Quality



Headline NPL ratio for the sector is at 3.1% as of Jul 2017.

P & L



In Jul 2017, banking sector's annual profit increased YoY by 31% while ROE is 14.1%.