

April 2015

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Economic Research and Strategy

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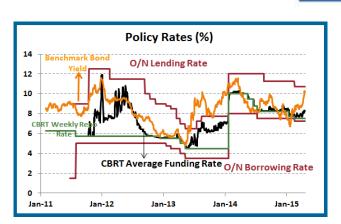


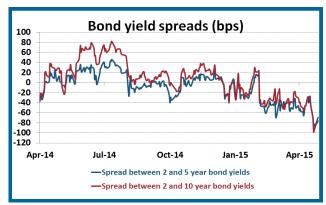
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Economy (I)

Policy Rates

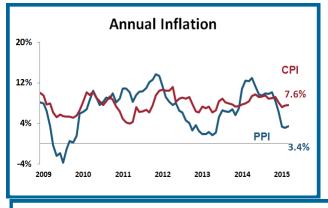


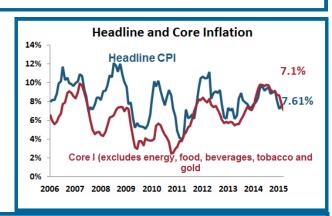


Central Bank (CB) left the policy rate unchanged...

- 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.

nflation

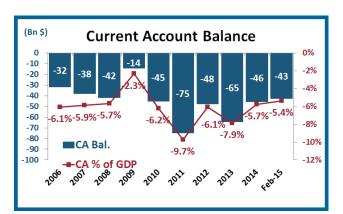


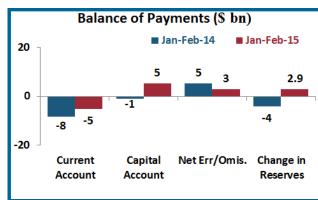


Inflation remains elevated due to high food prices...

- 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%.

Economy (II)

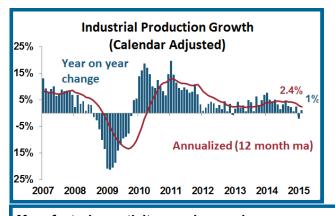


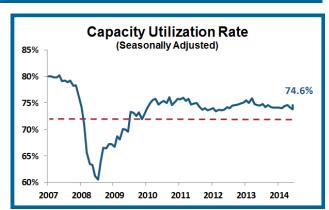


Current account deficit continued narrowing down...

- 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



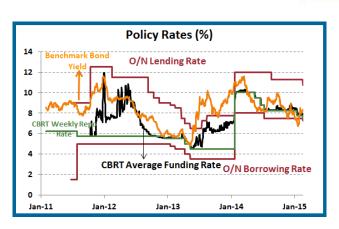


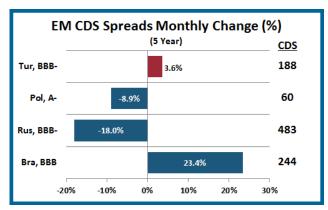
Manufacturing activity remains weak....

- 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.

Financial Markets

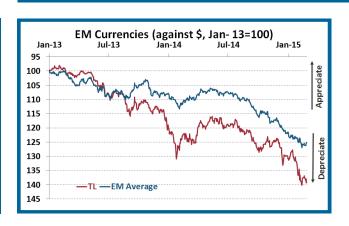
Debt Market

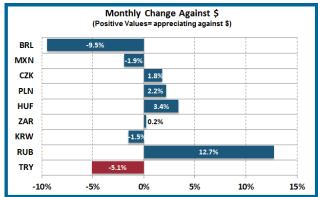




Benchmark bond yield jumped above 9% level with political risks.

Currency Market

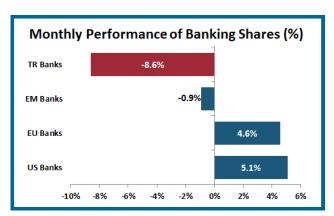




TRY is one worst performer among EMs.

Stock Market

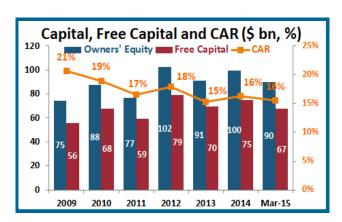




Istanbul Stock Exchange's performance separated from its peers.

Banking Sector (I)

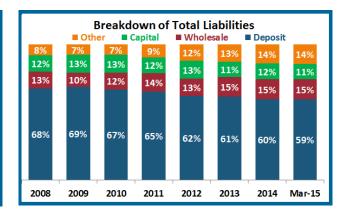
Capital

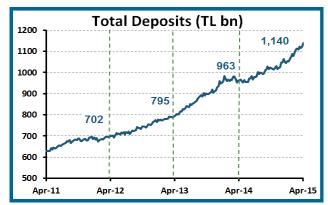




Banks were able to keep their CAR ratio at 16%.

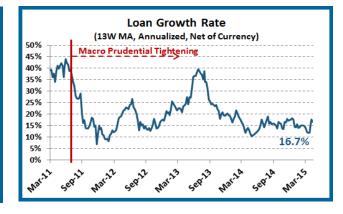
Funding

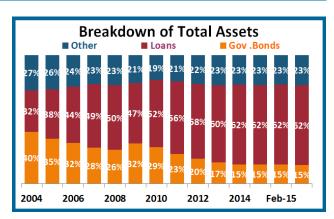




Share of deposits in funding has decreased slightly to 59% as of March-15.

Lending

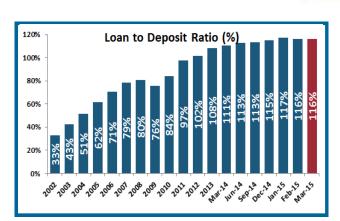


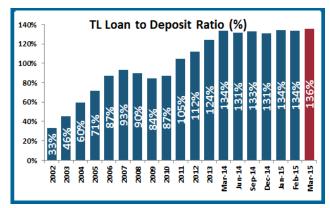


Annualized loan growth reached to 17%, compatible with Central Bank's long term target of 15%.

Banking Sector (II)

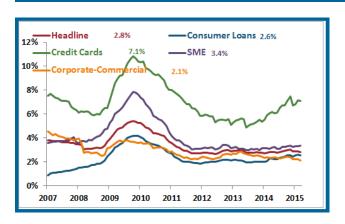
Loan to Deposit Ratios

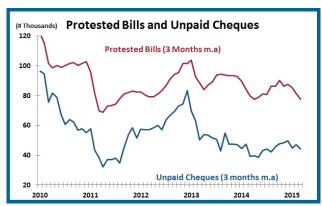




Loan to deposit ratio stable at 116% in March.

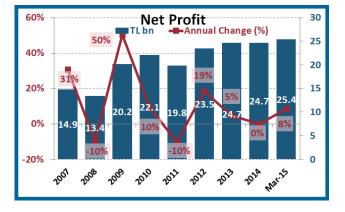
Loan Quality

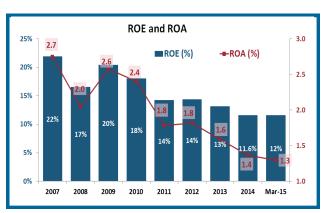




Headline NPL ratio for the sector is at 2.8%. Protested bills and unpaid cheques don't signal a deterioration on outlook for the next months.

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