# Turkey: Recent Developments and Future Prospects

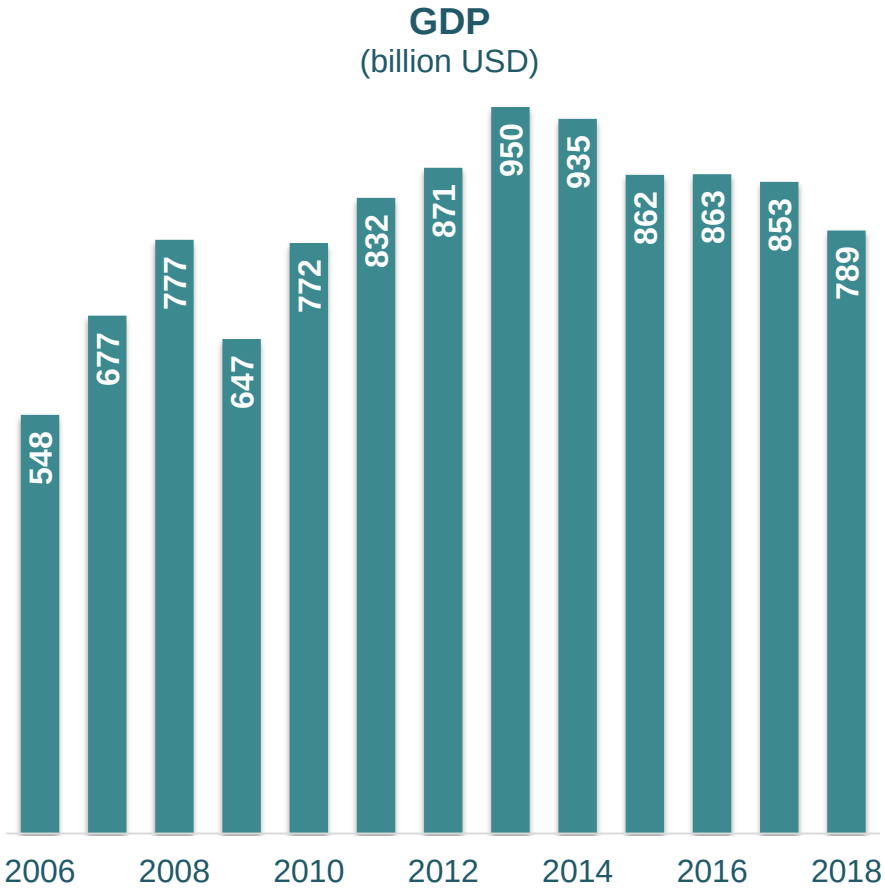
**ISBANK**
**Economic Research Division**
**October 2019**

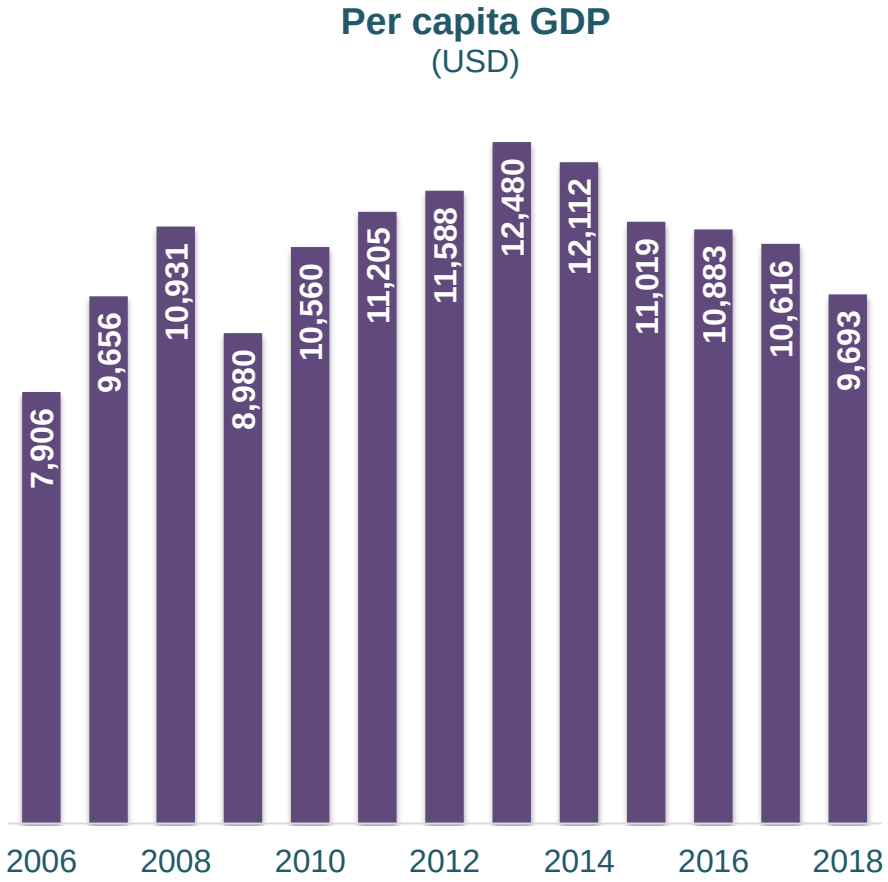
# Macroeconomic Outlook

# Strong Economic Growth Cycle

- GDP of 789 bn USD (2018), 9.7k USD (2018) per capita
- Average GDP growth rate of 5.0% between 2006-2018.
- 17th largest economy in the world & 7th largest economy amongst the EU countries (2017).
- More than 8.5 mn job creation since 2005.
- Loose fiscal policy since mid-2016.

# Gross Domestic Product



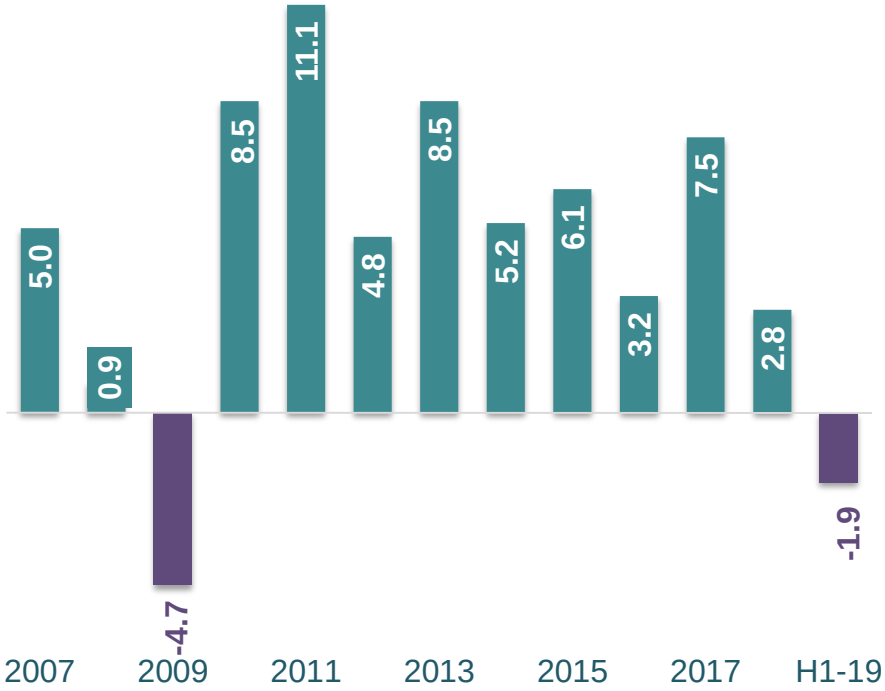





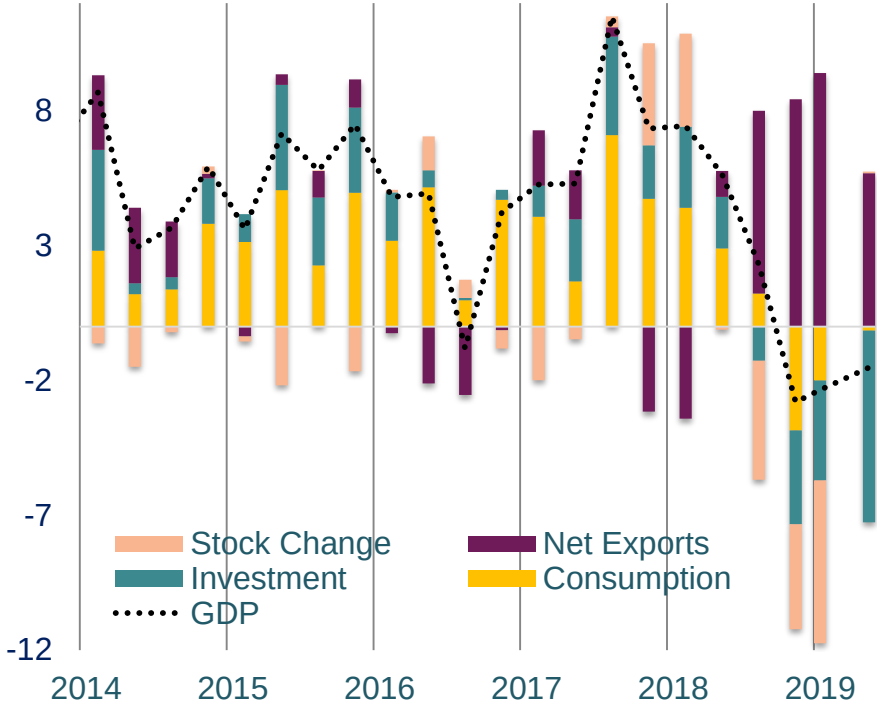

Kaynak: Datastream, Turkstat

# Economic Growth

## Annual Real GDP Growth
(%)

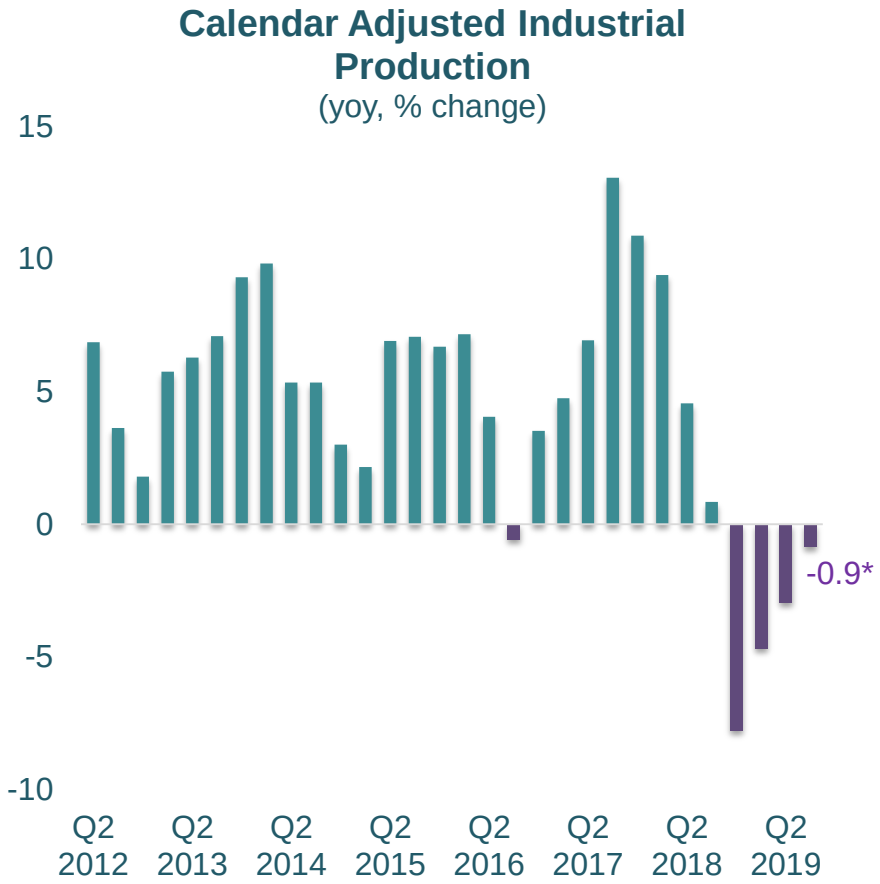


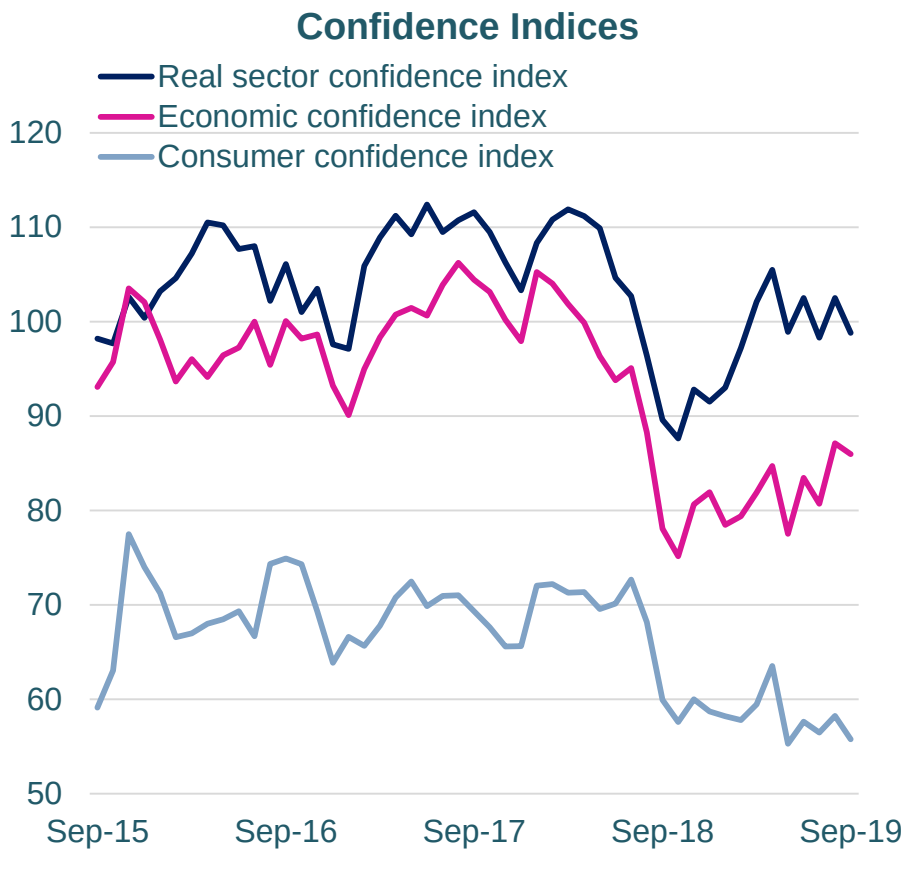

## Contributions to Growth
(2009=100 chain linked volume index % points)




Source: Datastream, Turkstat

# Leading Indicators



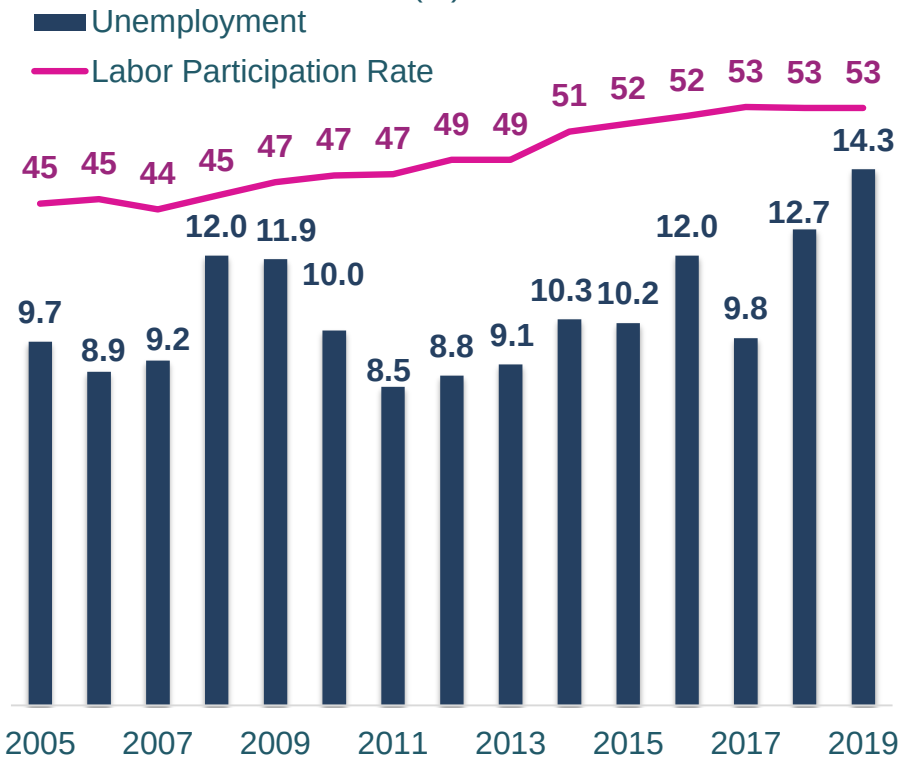

(*) As of July-August



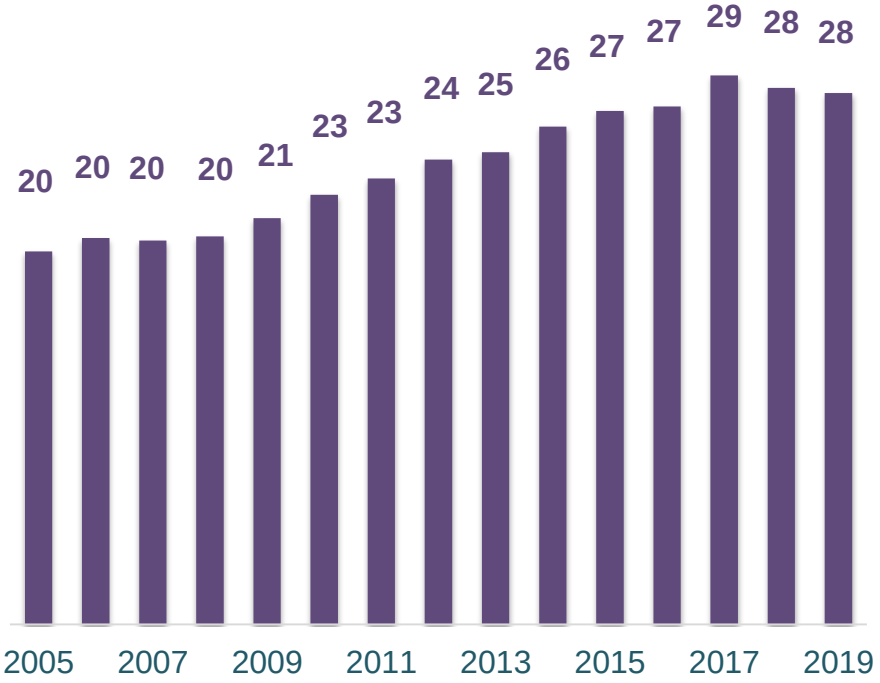
Source: Datastream, Turkstat

# Labor Market

## Labor Market Indicators*
(%)




## Employment*
(million persons)

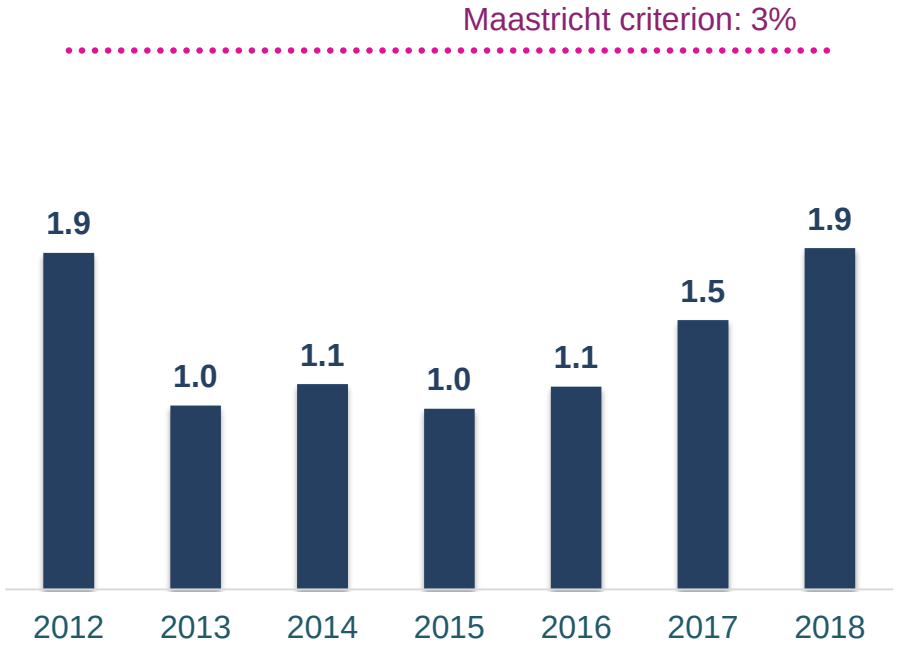



(*) Seasonally adjusted figures. Latest figure as of July 2019.

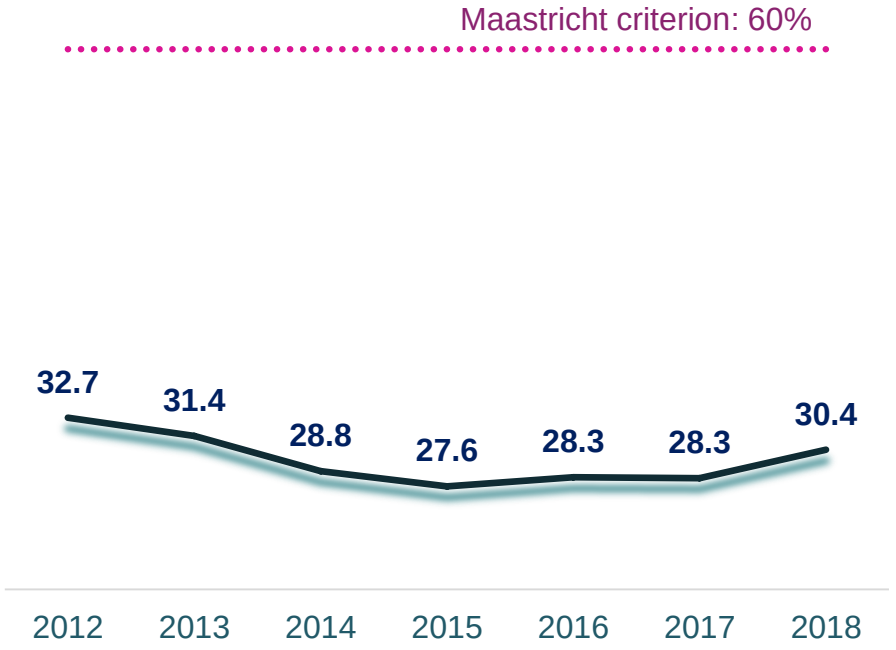
Source: Datastream, Turkstat

# Fiscal Discipline

## Budget Deficit
(% GDP)

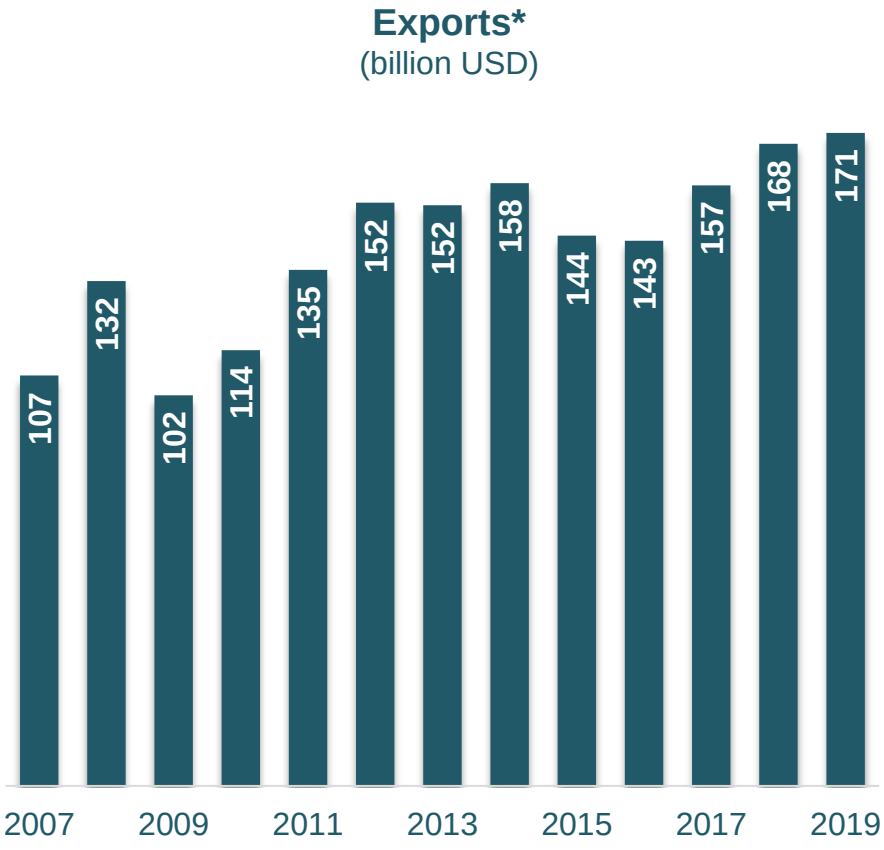


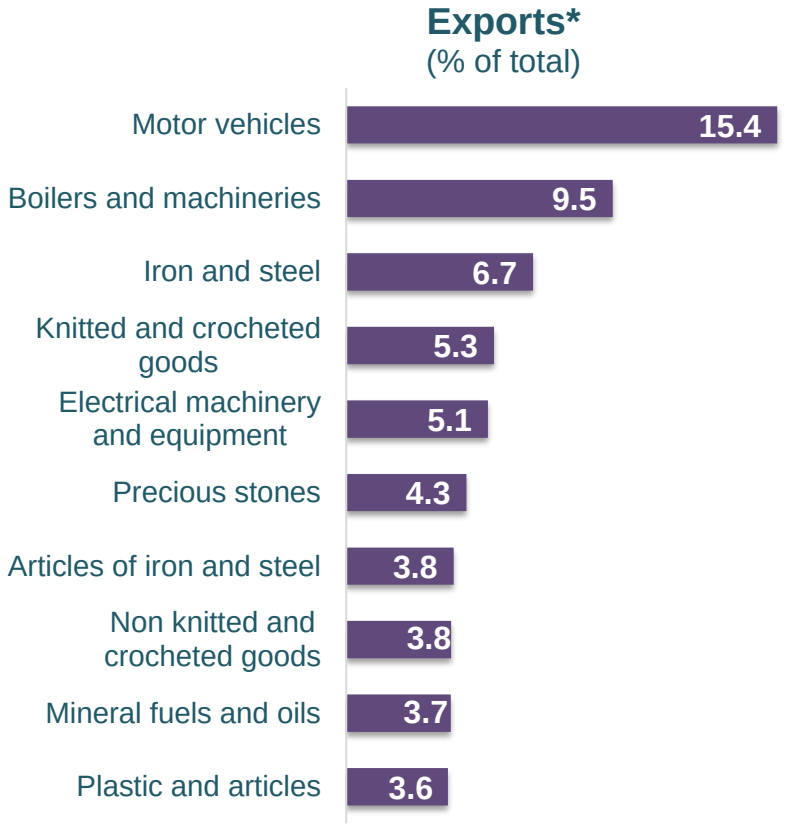

## General Government Debt Stock
(% GDP)




Source: Turkstat, Ministry of Treasury and Finance

# Exports




(*) 12-month cumulative figures as of August 2019

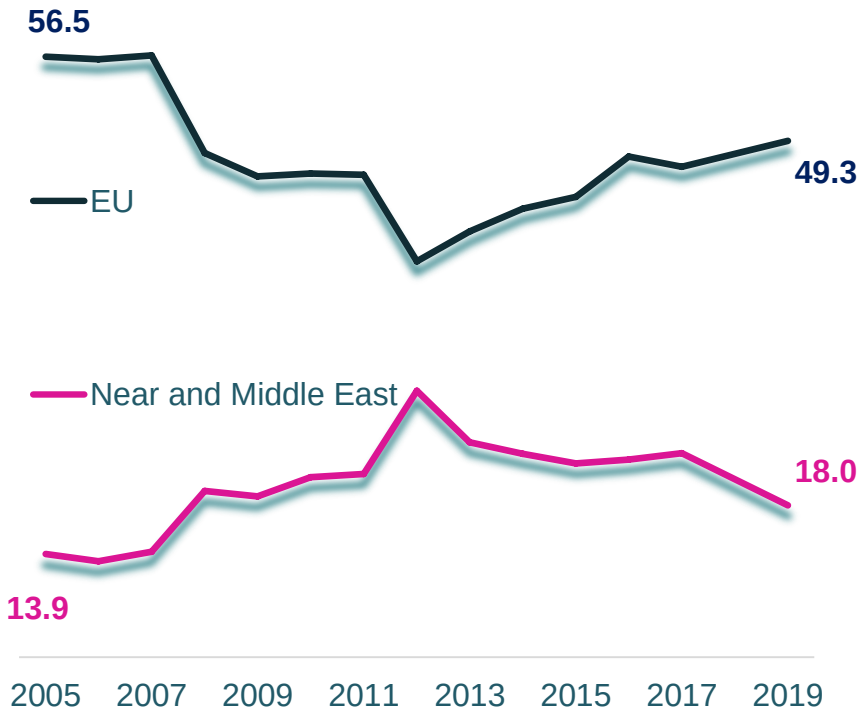
Source: Datastream, Turkstat

# Exports

## Top 10 Export Markets

| 2007 | | % of total | 2019* | | % of total |
|---|---|---|---|---|---|
| 1. | Germany | 11.2 | 1. | Germany | 9.2 |
| 2. | UK | 8.0 | 2. | UK | 6.5 |
| 3. | Italy | 7.0 | 3. | Italy | 5.4 |
| 4. | France | 5.6 | 4. | Iraq | 5.1 |
| 5. | Russia | 4.4 | 5. | USA | 4.8 |
| 6. | Spain | 4.3 | 6. | Spain | 4.6 |
| 7. | USA | 3.9 | 7. | France | 4.4 |
| 8. | Romania | 3.4 | 8. | Netherlands | 3.1 |
| 9. | UAE | 3.0 | 9. | Israel | 2.4 |
| 10. | Netherlands | 2.8 | 10. | Romania | 2.3 |
| The share of first 10 | | 53.6 | The share of first 10 | | 47.8 |

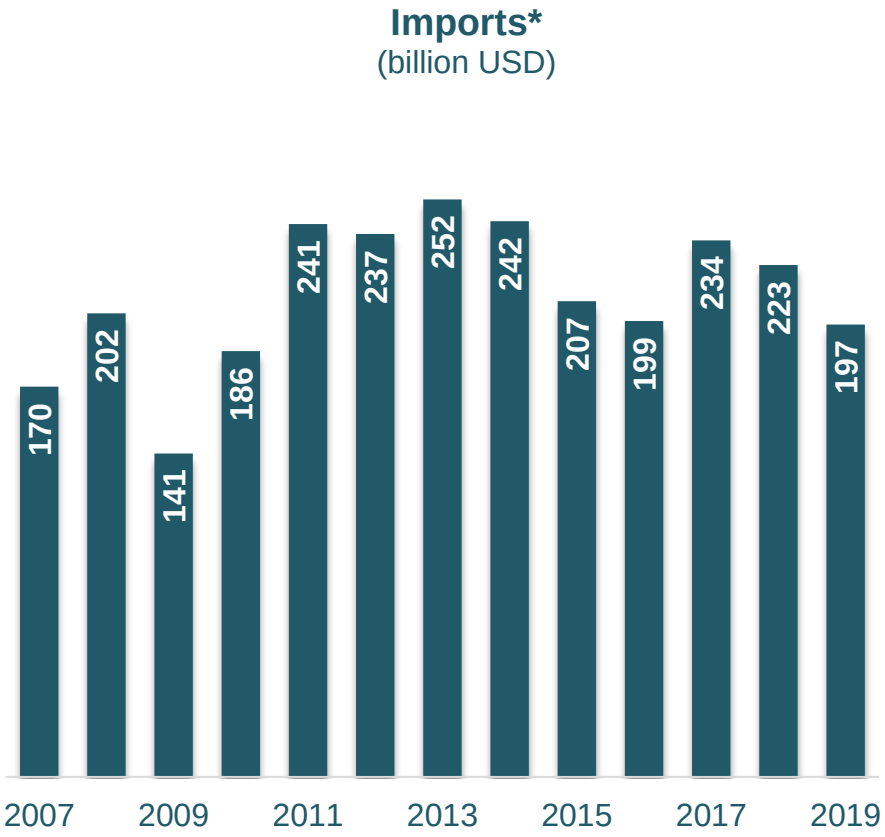
## Exports*
(% of total)

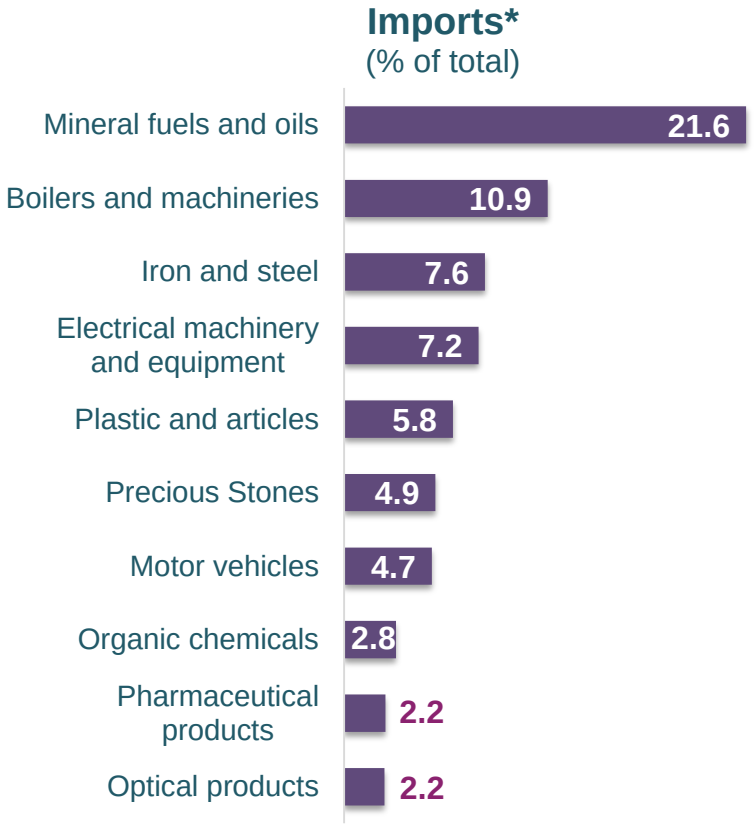



(*) 12-month cumulative figures as of August 2019

Source: Datastream, Turkstat

# Imports




(*) 12-month cumulative figures as of August 2019

Source: Datastream, Turkstat

# Imports

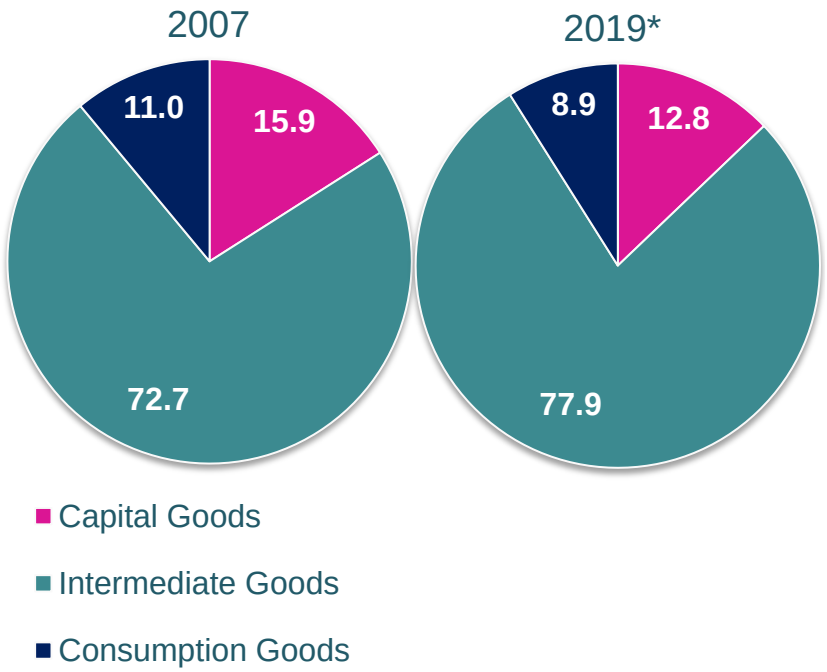
## Top 10 Import Markets

| 2007 | | % of total |
|---|---|---|
| 1. | Russia | 13.8 |
| 2. | Germany | 10.3 |
| 3. | China | 7.8 |
| 4. | Italy | 5.7 |
| 5. | USA | 4.8 |
| 6. | France | 4.6 |
| 7. | Iran | 3.9 |
| 8. | UK | 3.2 |
| 9. | Switzerland | 3.1 |
| 10. | Ukraine | 2.7 |
| **The share of first 10** | | **59.9** |

| 2019* | | % of total |
|---|---|---|
| 1. | Russia | 11.1 |
| 2. | Germany | 9.0 |
| 3. | China | 8.7 |
| 4. | USA | 5.9 |
| 5. | Italy | 4.3 |
| 6. | India | 3.4 |
| 7. | France | 3.0 |
| 8. | South Korea | 2.8 |
| 9. | UK | 2.6 |
| 10. | Iran | 2.4 |
| **The share of first 10** | | **53.2** |

## Composition of Imports

(%)

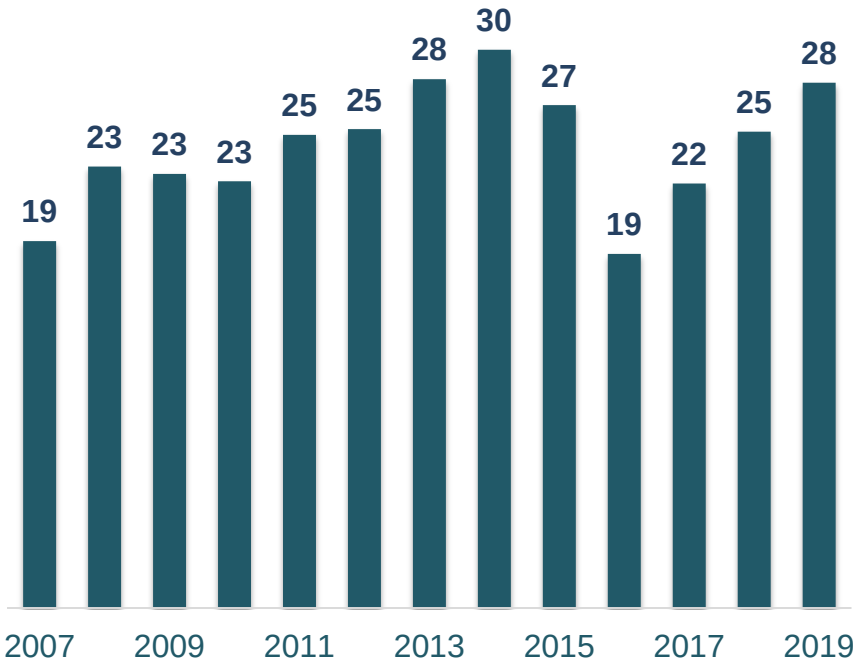



(*) 12-month cumulative figures as of August 2019

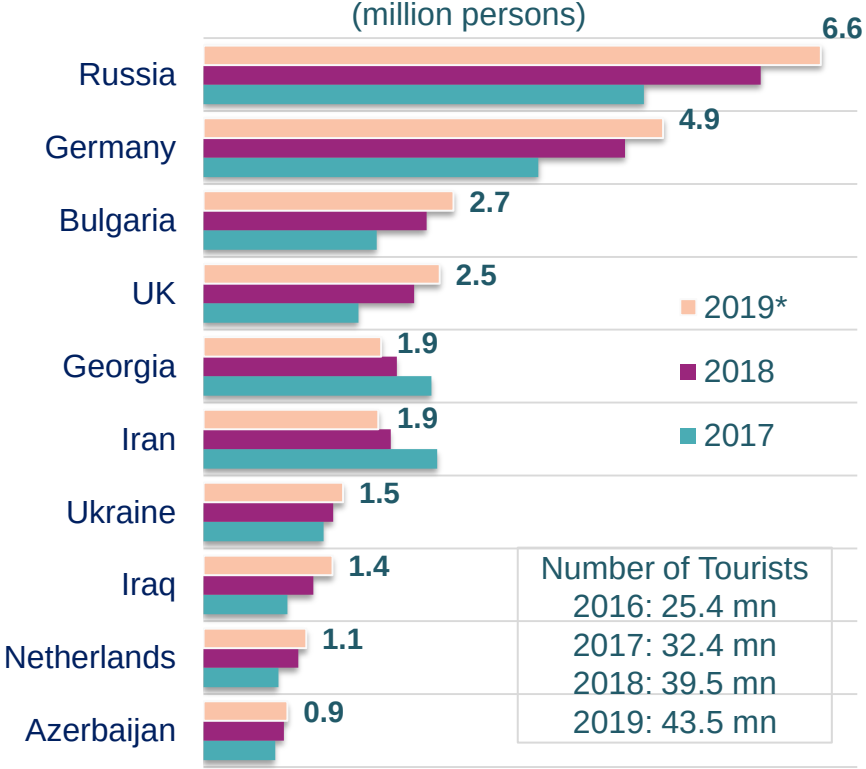
Source: Datastream, Turkstat

# Tourism

## Tourism Revenues*
(USD bn)



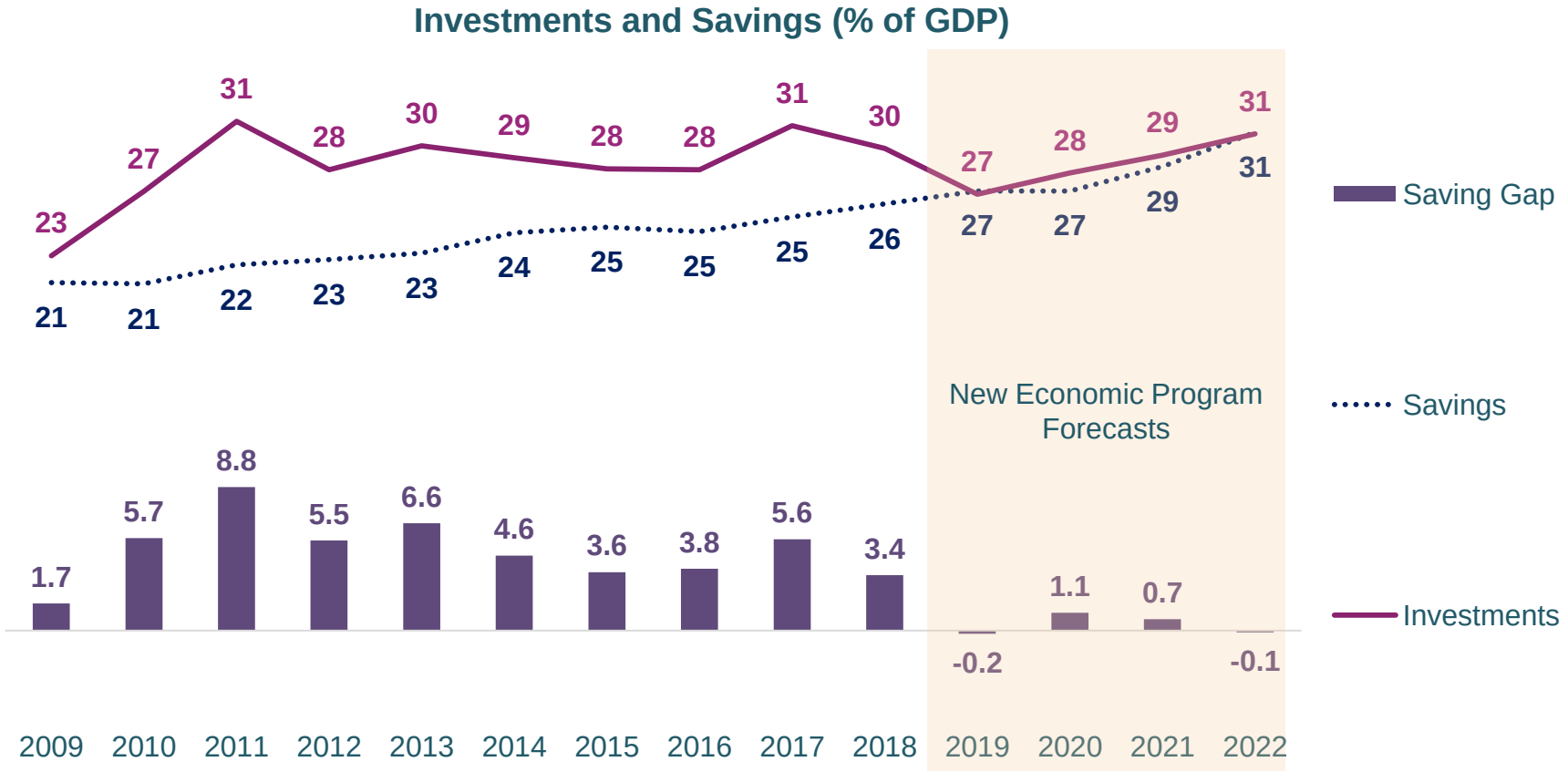

## The Number of Tourists
(million persons)




(*) 12-month cumulative figures as of August 2019

Source: CBRT, Ministry of Culture and Tourism

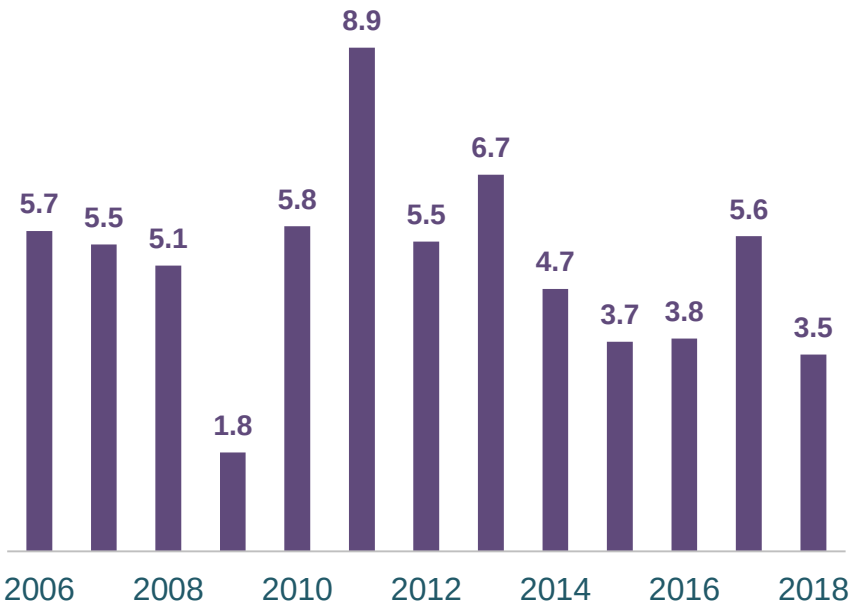
# Savings & Investments



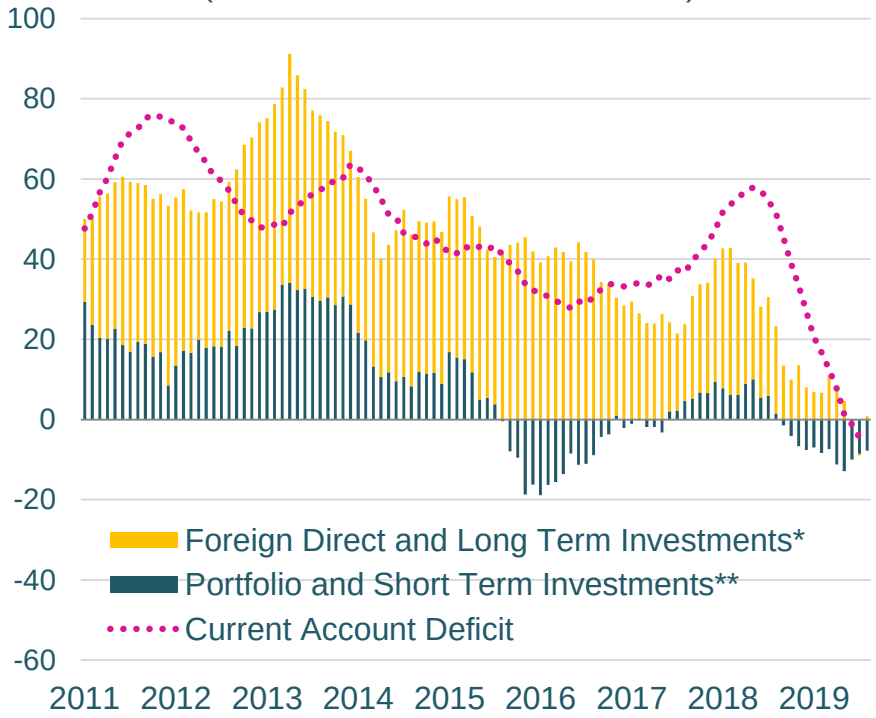

Source: Turkstat, New Economic Program (2020-2022)

# Current Account Balance

## Current Account Deficit
(% of GDP)




## Financing of CAD
(12-month cumulative, billion USD)



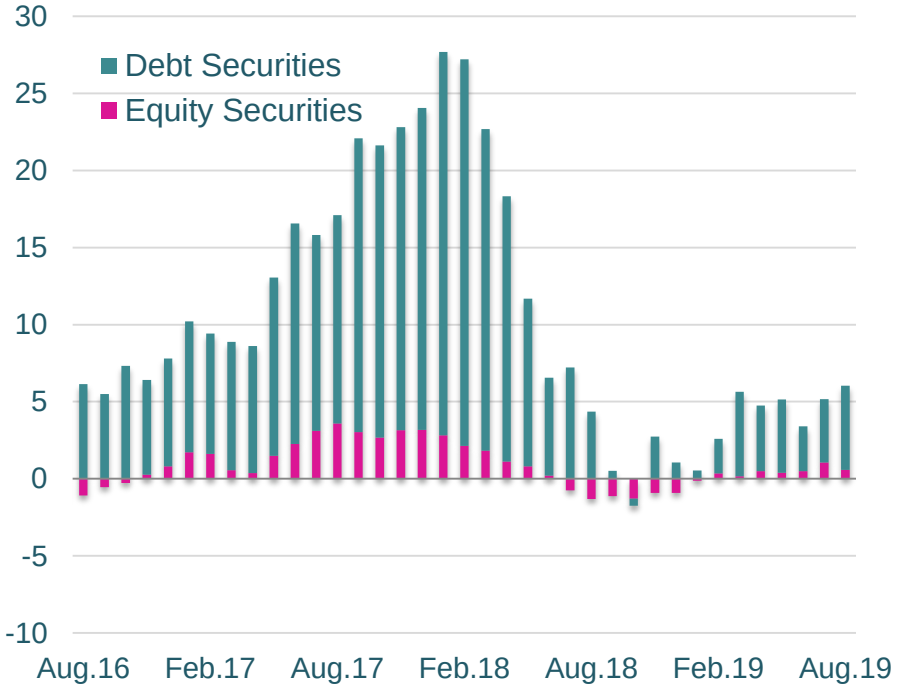

(*) Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury
(**) Short-term capital movements are sum of banking and real sectors' short term net credits and deposits in banks.



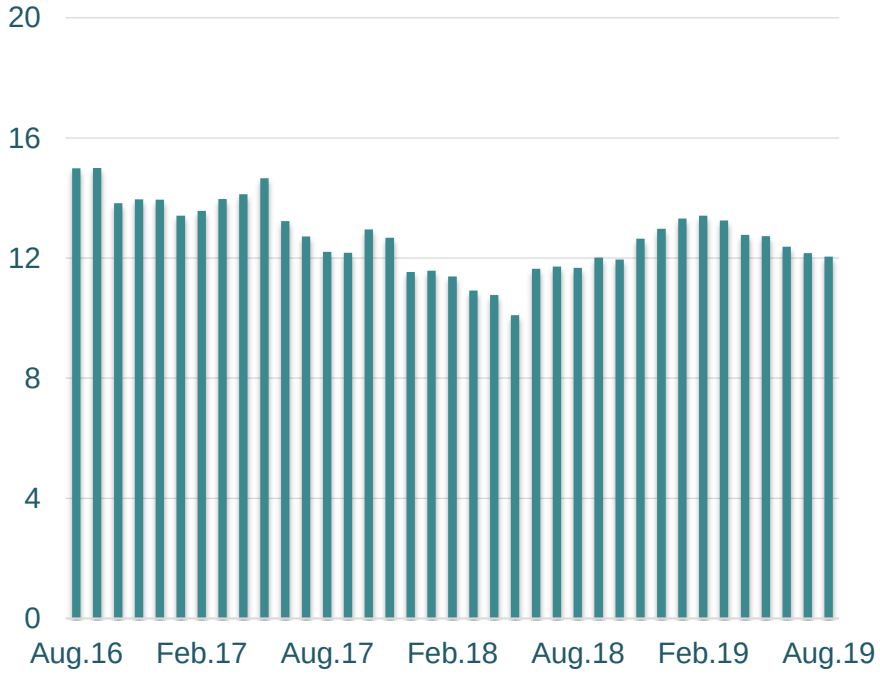
Source: CBRT, Turkstat

# Capital Flows

## Portfolio Inflows
(12-month cumulative, billion USD)




## Foreign Direct Investment Inflows
(12- month cumulative, billion USD)

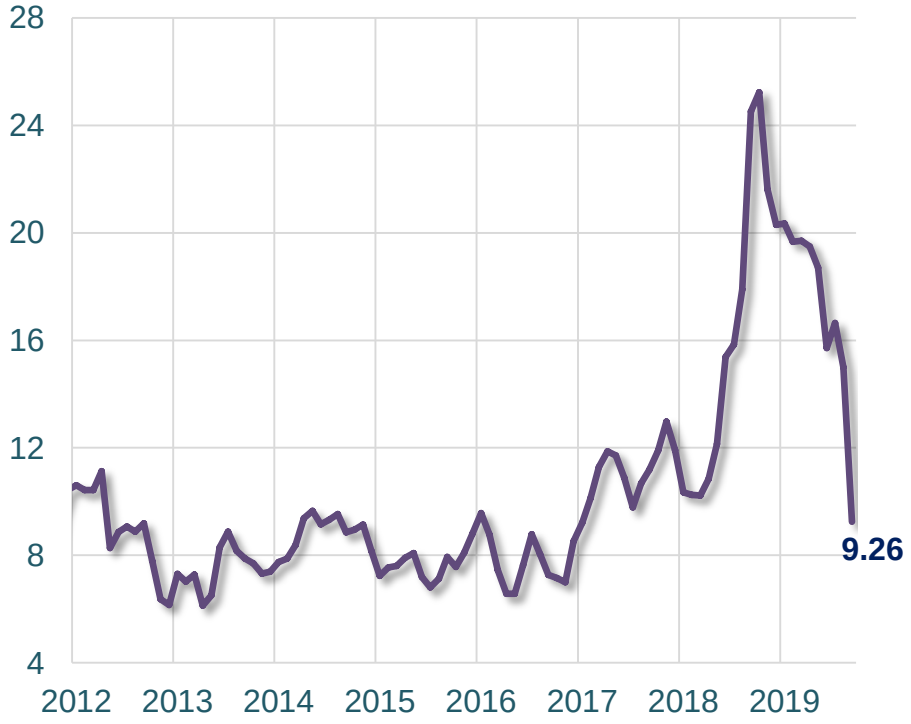




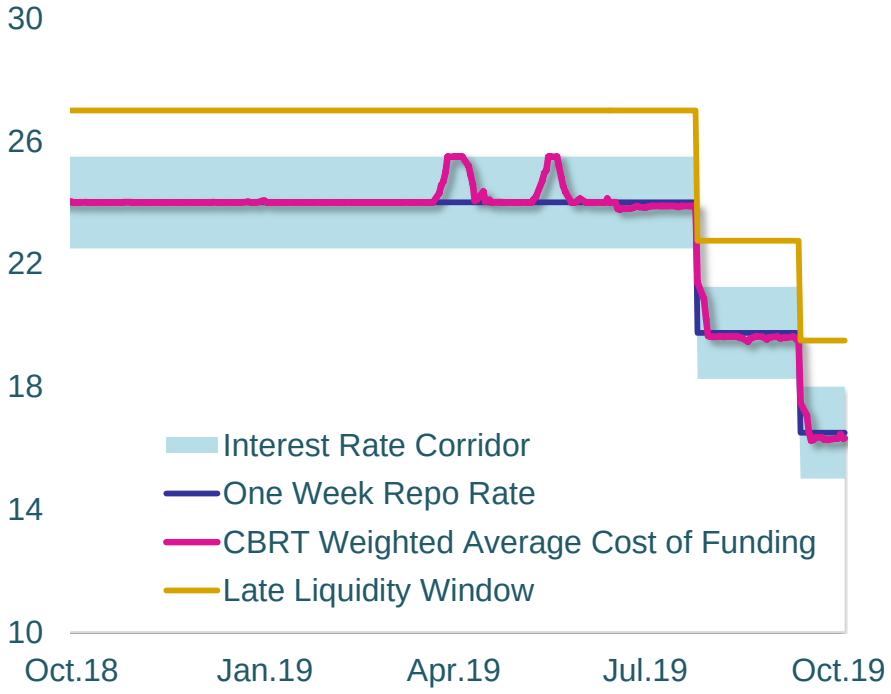

Source: CBRT

# Monetary Policy

## Annual CPI Inflation*
(%)




## Interest Rates
(%)



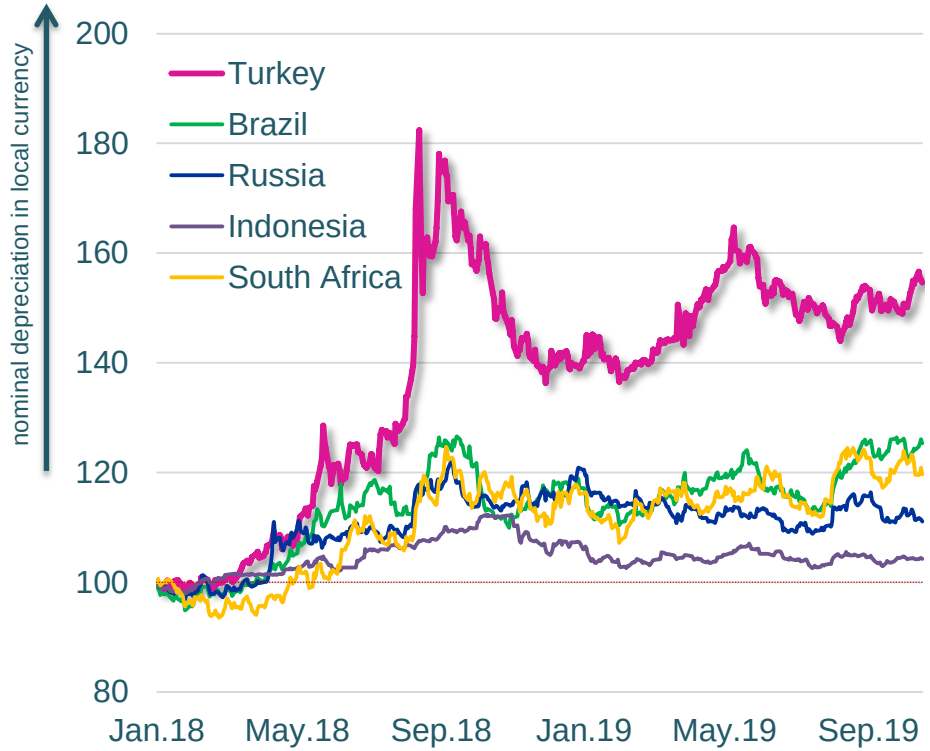

(*) Latest figure as of September 2019



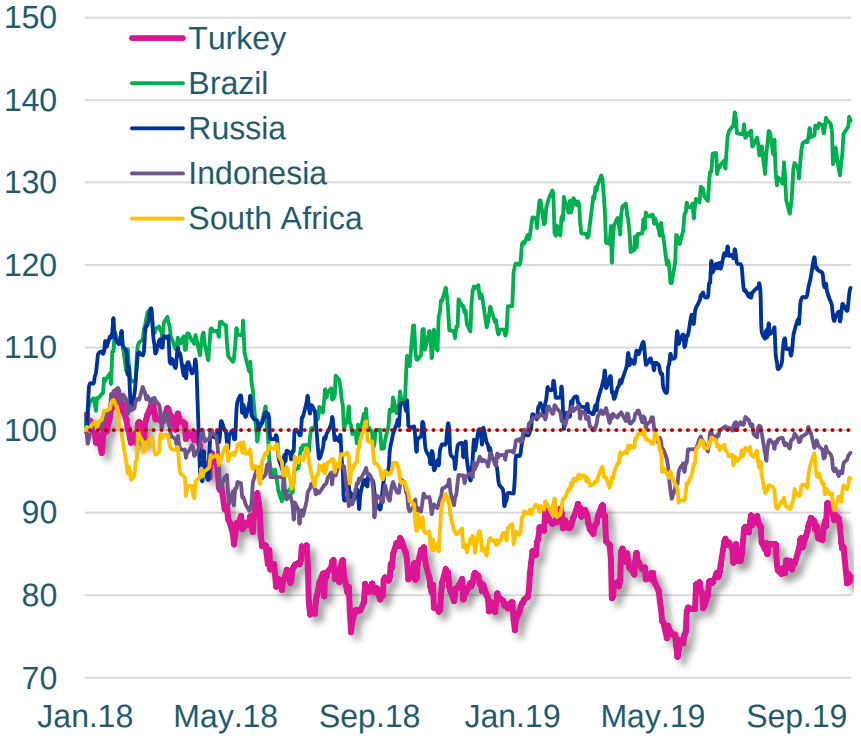
Source: CBRT, Datastream

# Financial Markets

## USD vs Local Currencies
(Dec. 31, 2017 = 100)




## Equity Indices
(Dec. 31, 2017 = 100)



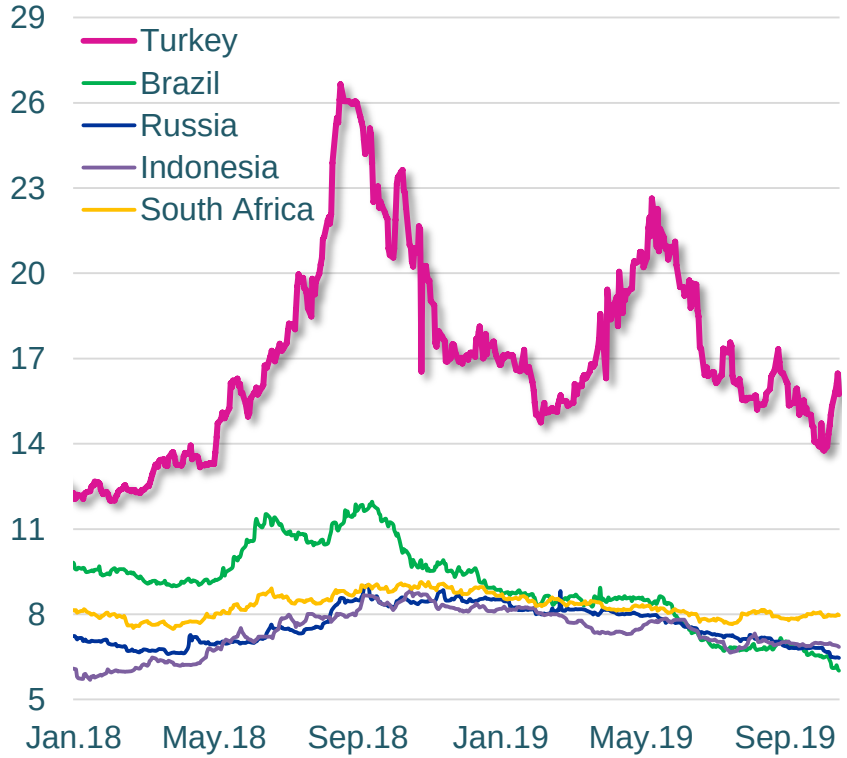

(*) Latest figure as of October 17



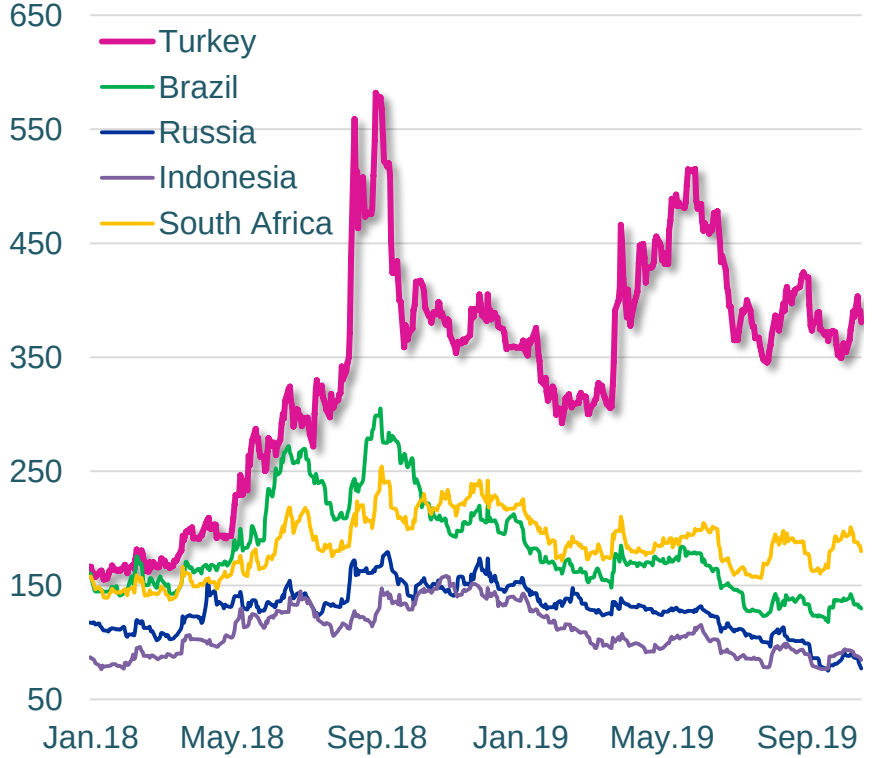
Source: Datastream

# Financial Markets

## 5Y Government Bond Yields
(%)




## 5Y CDS Spreads
(bps)




(*) Latest figure as of October 17

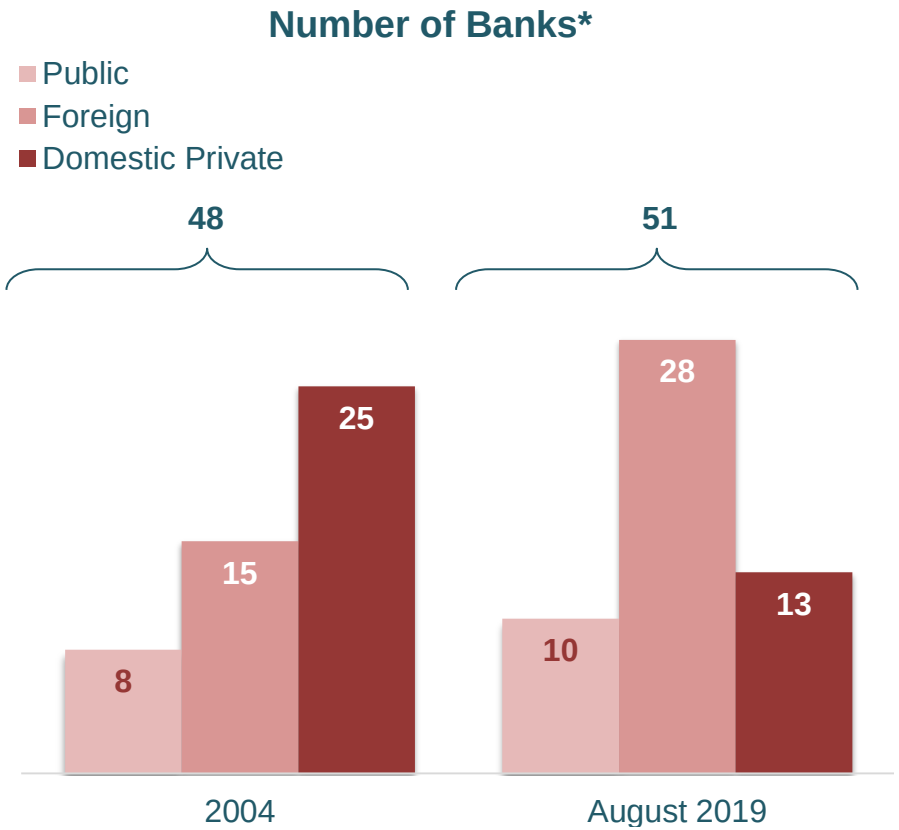
Source: Datastream

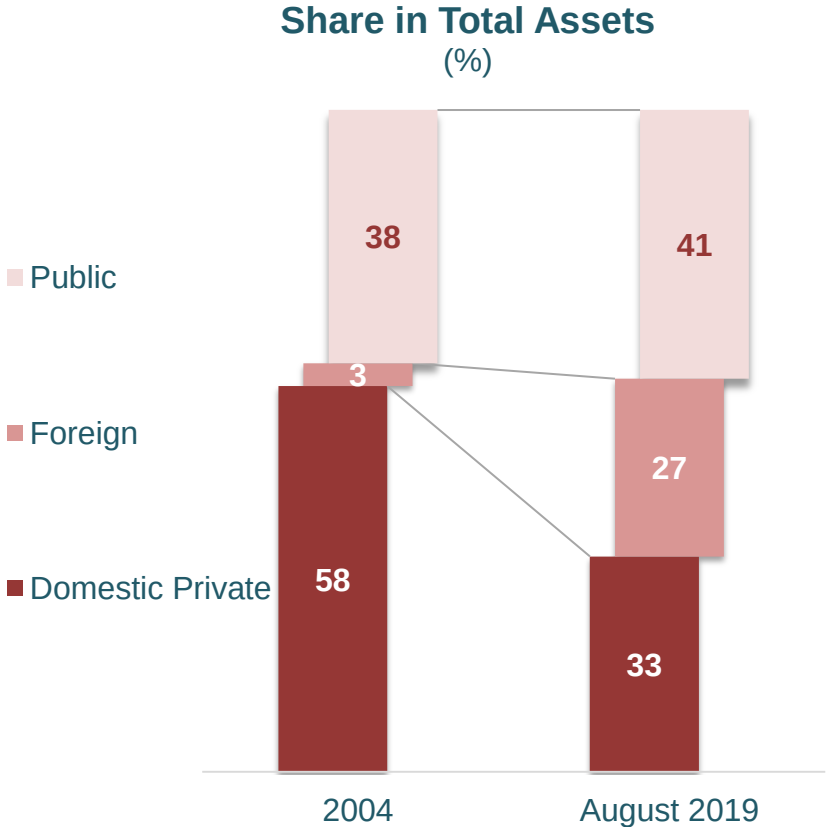
# Banking Sector Dynamics

# Banking Sector Dynamics

- Increased intermediation activity by financing the growth of Turkish economy
- Diversification of funding sources by increasing access to international markets
- Shifting focus from growth to asset quality and stable funding structure
- Strengthened asset quality confirmed by low NPL ratios
- High capital adequacy ratio
- Strong growth potential

# Basic Indicators



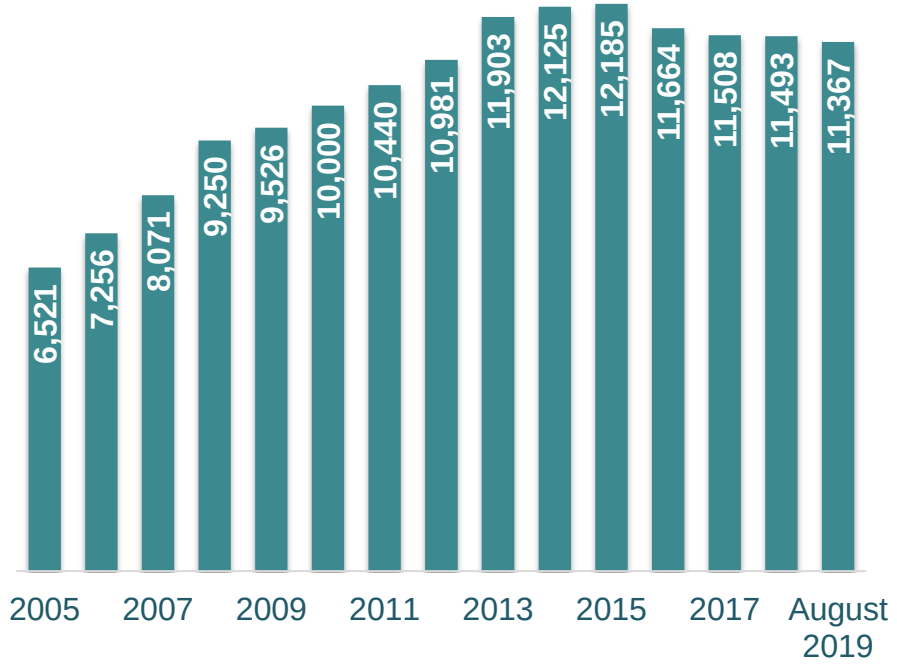

(*) Excluding the banks under the administration of the SDIF



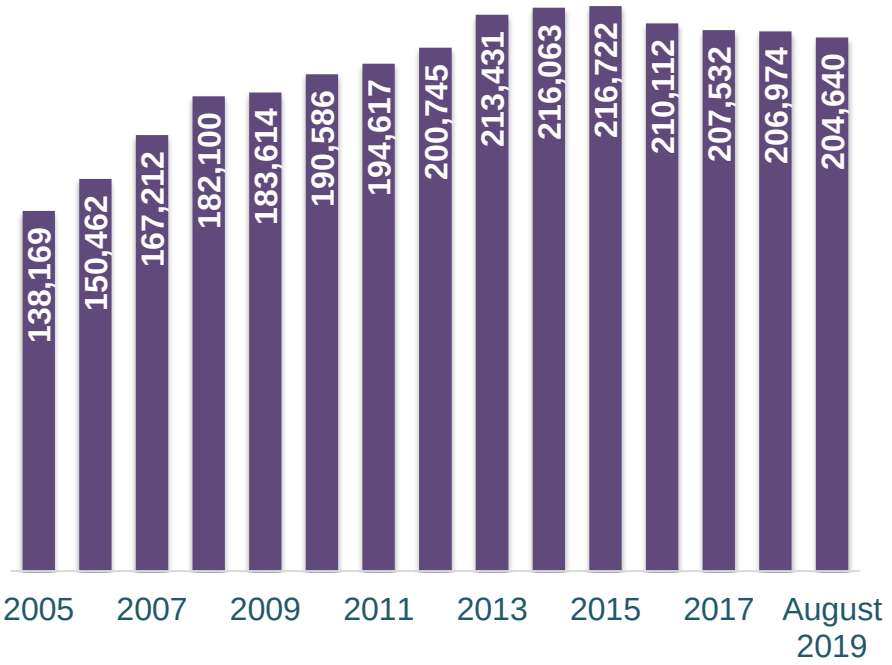
Source: BRSA

# Basic Indicators

## Number of Domestic Branches



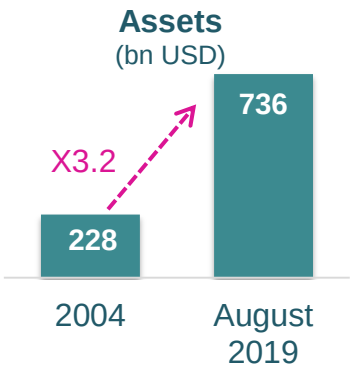

## Number of Domestic Staff

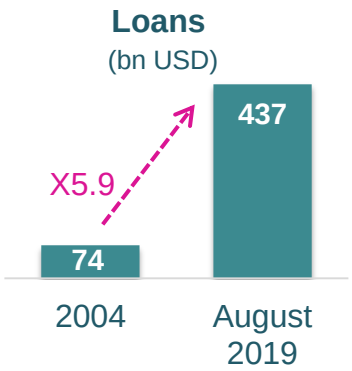


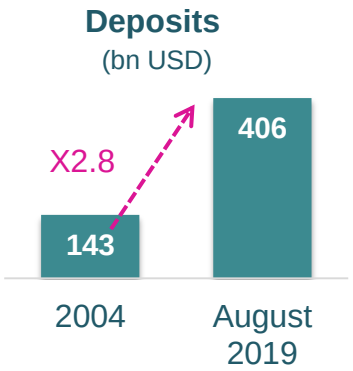


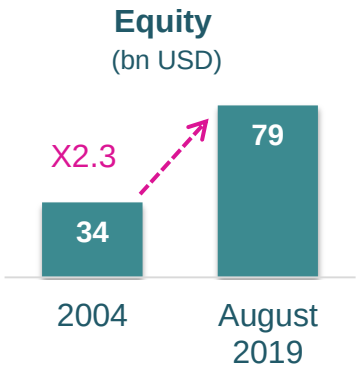

Source: BRSA

# Basic Indicators



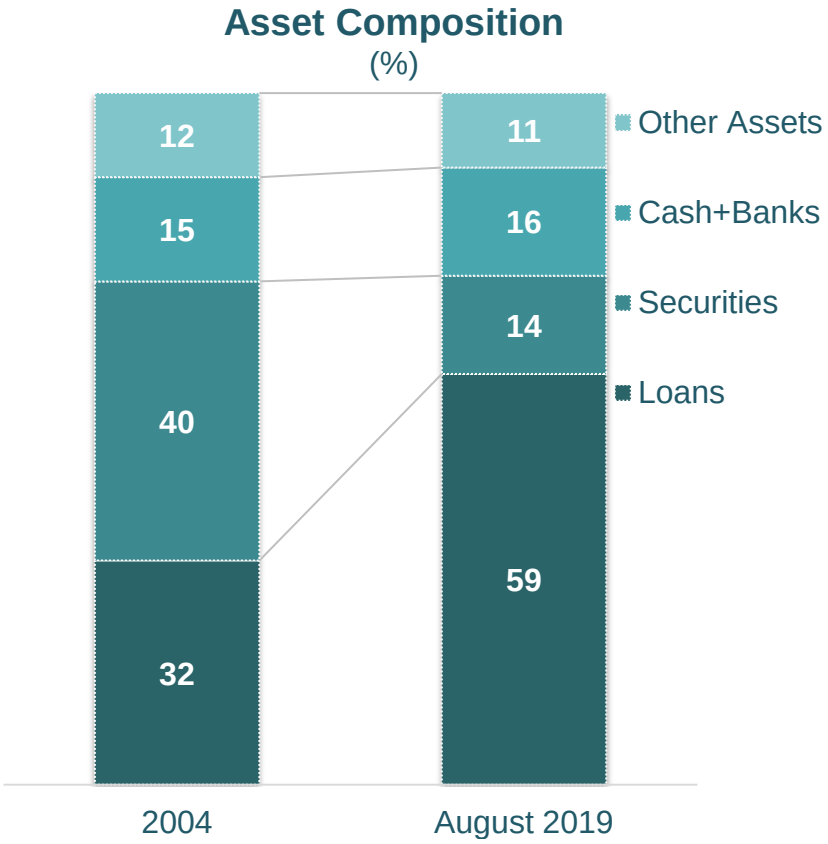



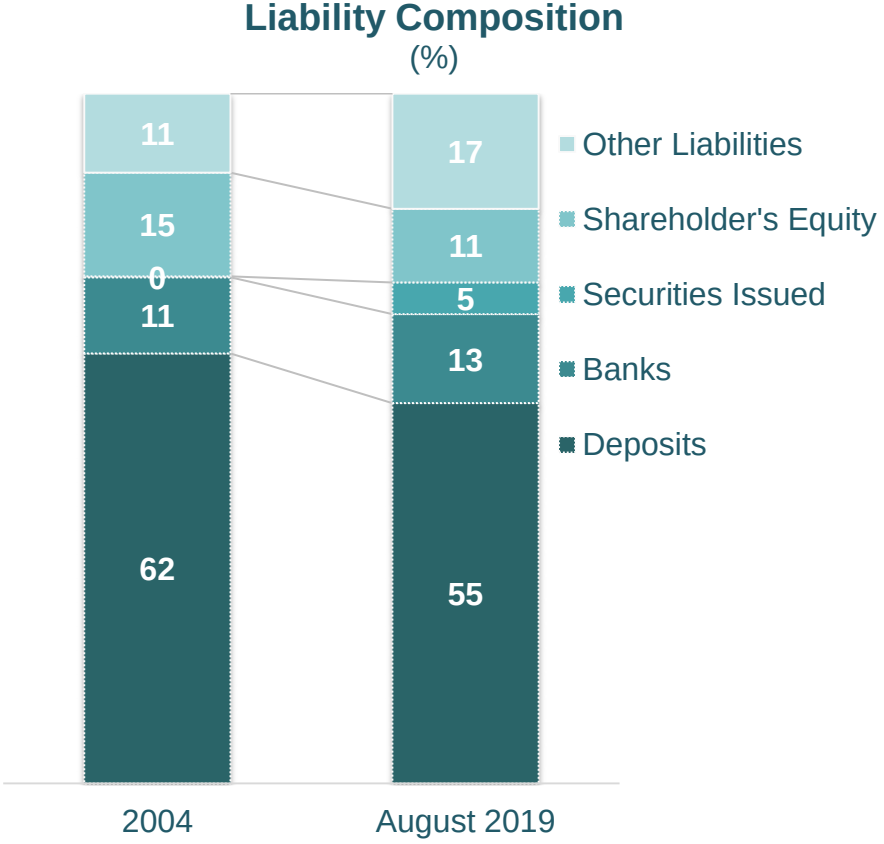






Source: BRSA, Turkstat

# Balance Sheet Items



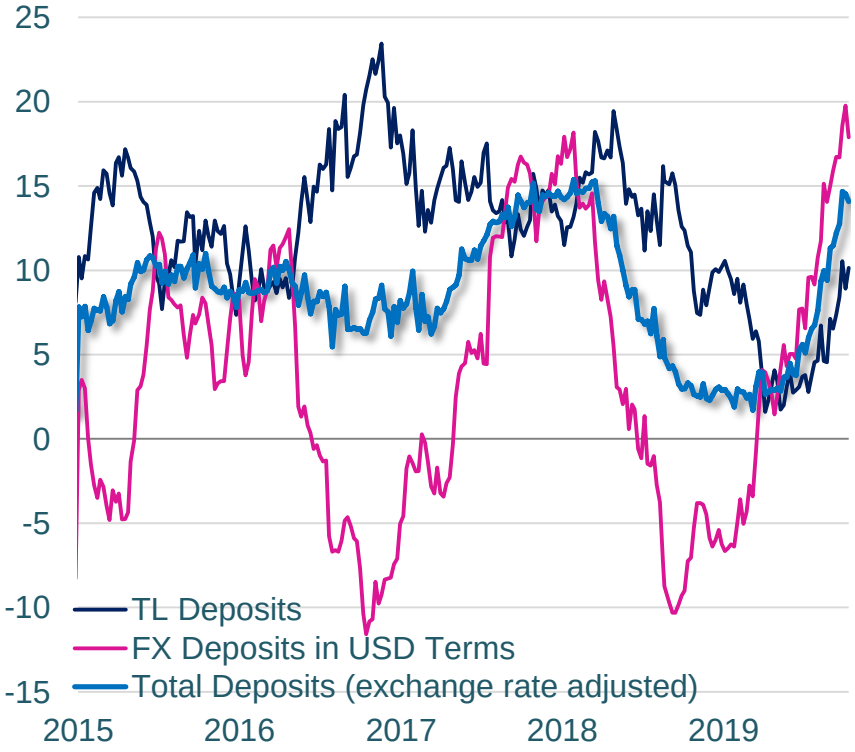






Source: BRSA

# Deposits

## Deposit Volume
(annual % change)




## Share of TL Deposits in Total
(%)

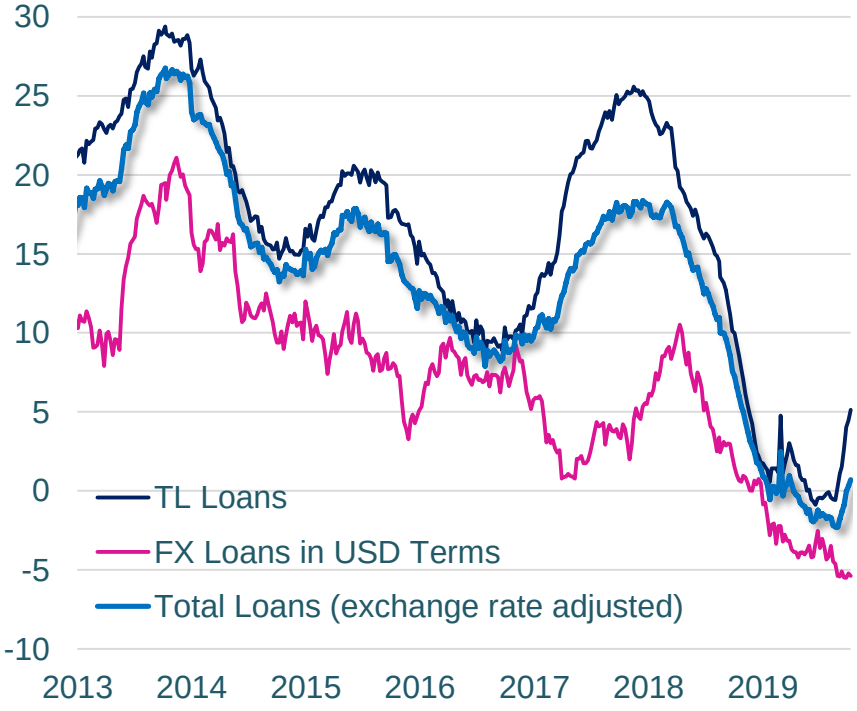
Latest figure as of October 11, 2019



Source: BRSA

# Loans

## Loan Volume
(annual % change)




## Share of TL Loans in Total
(%)

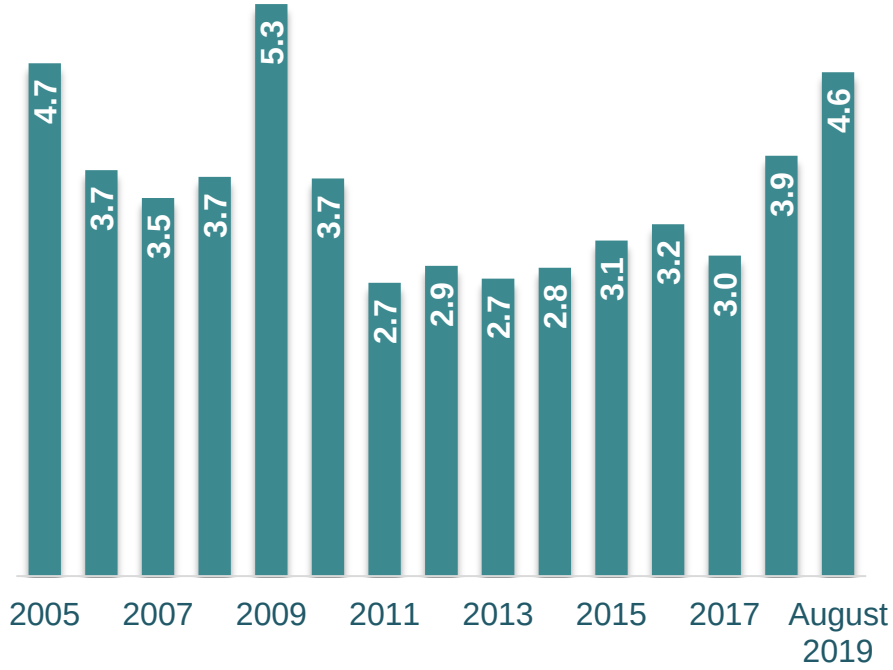
Latest figure as of October 11, 2019



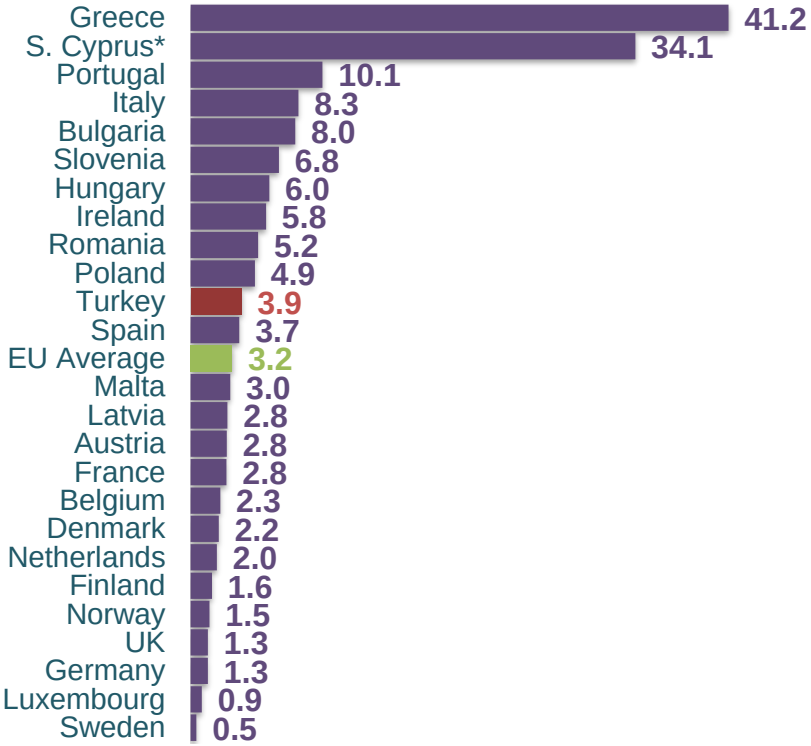
Source: BRSA

# Non-Performing Loans

## Non-performing Loan Ratio
(%)




## NPL Ratio
(%, 2018)



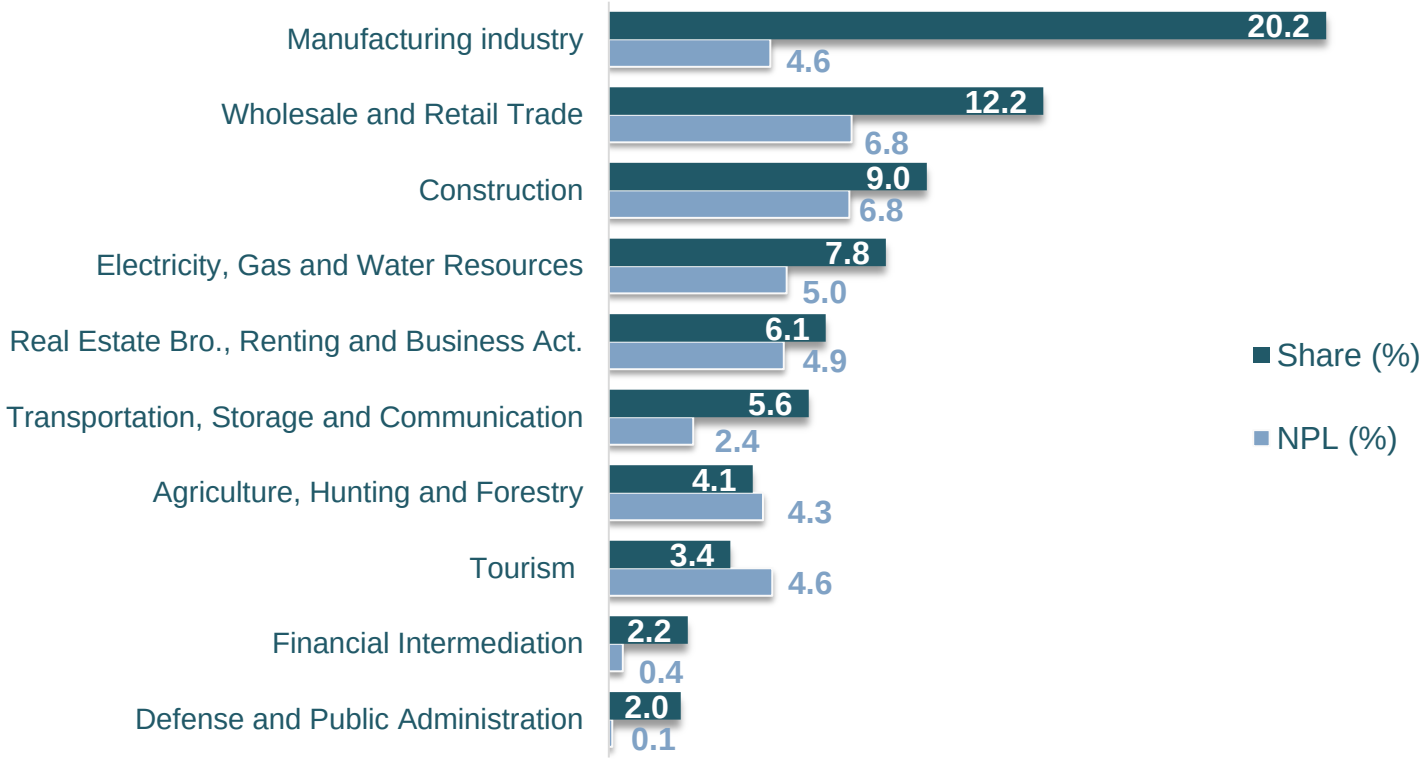

(*) As of 2018 H1.



Source: BRSA, EBA

# Loans by Sectors

## Loans by Main Industry Groups

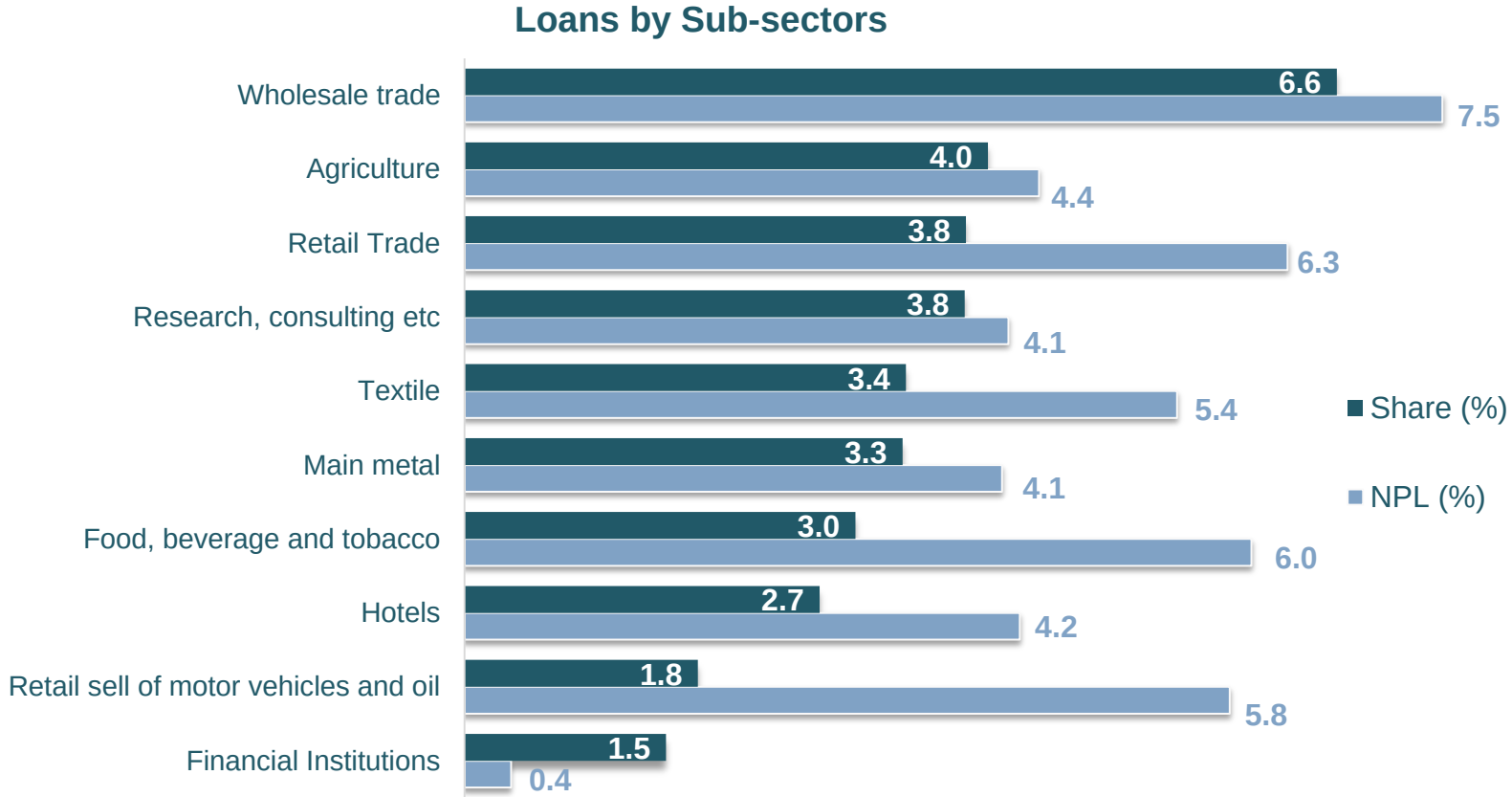



(*) as of August 2019



Source: BRSA

# Loans by Sub-Sectors

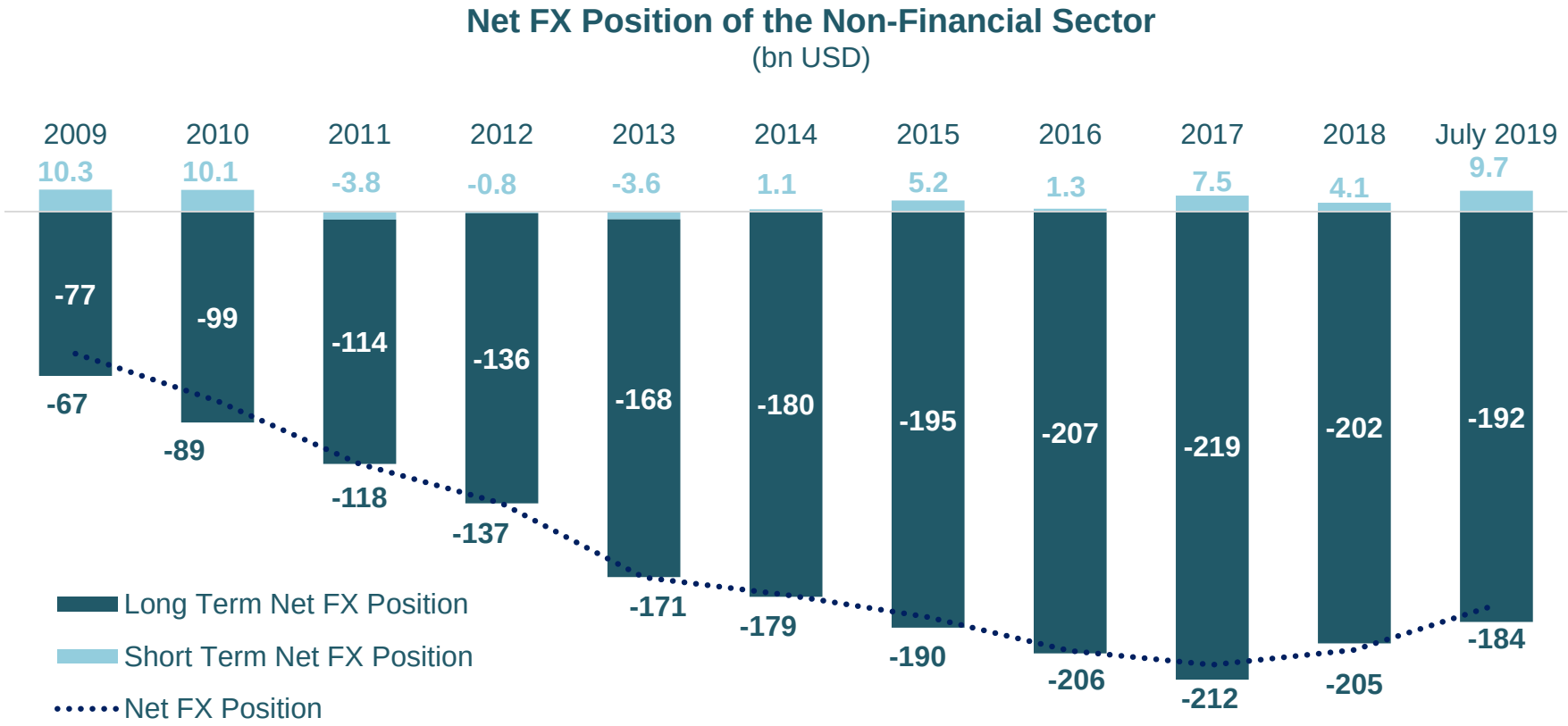



(*) as of August 2019



Source: BRSA

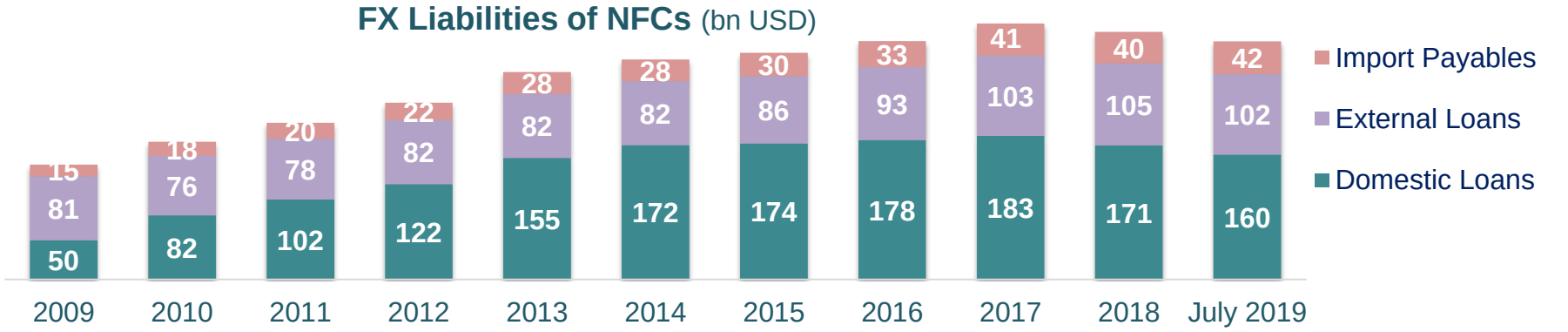
# Net FX Position of NFCs

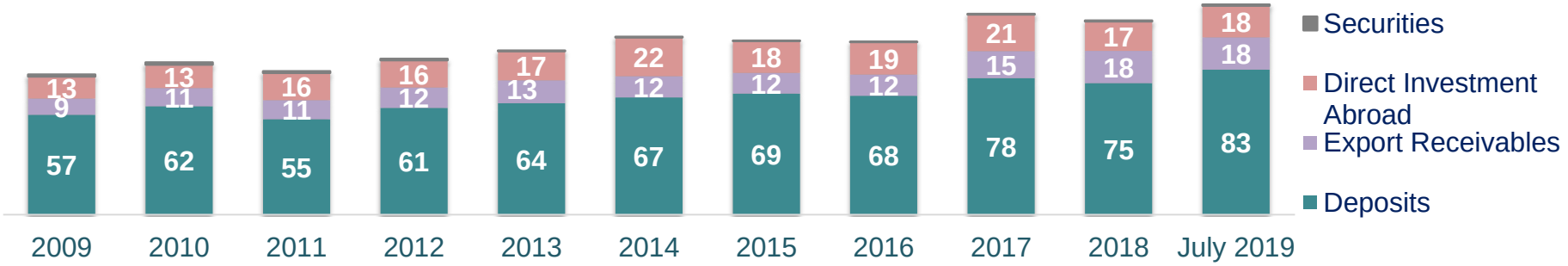





Source: CBRT

# FX Assets & Liabilities of NFCs




Source: CBRT

# Short Term External Debt Stock

| August 2019 (*) | (bn USD) | Share (%) |
|---|---|---|
| **Central Bank** | **6.4** | **3.7** |
| **General Government** | **4.6** | **2.7** |
| **Banks** | **83.7** | **48.7** |
| Credits | 36.0 | 20.9 |
| FX Deposits | 20.7 | 12.0 |
| Bank Accounts | 13.7 | 7.9 |
| Branches and Affiliates Abroad | 5.8 | 3.4 |
| TRY Deposits | 13.4 | 7.8 |
| Branches and Affiliates Abroad | 6.9 | 4.0 |
| **Other Sectors** | **77.2** | **44.9** |
| Trade Credits | 52.9 | 30.7 |
| Other Credits | 24.4 | 14.2 |
| Public | 0.1 | 0.1 |
| Private | 24.3 | 14.1 |
| **Total** | **172.0** | **100.0** |

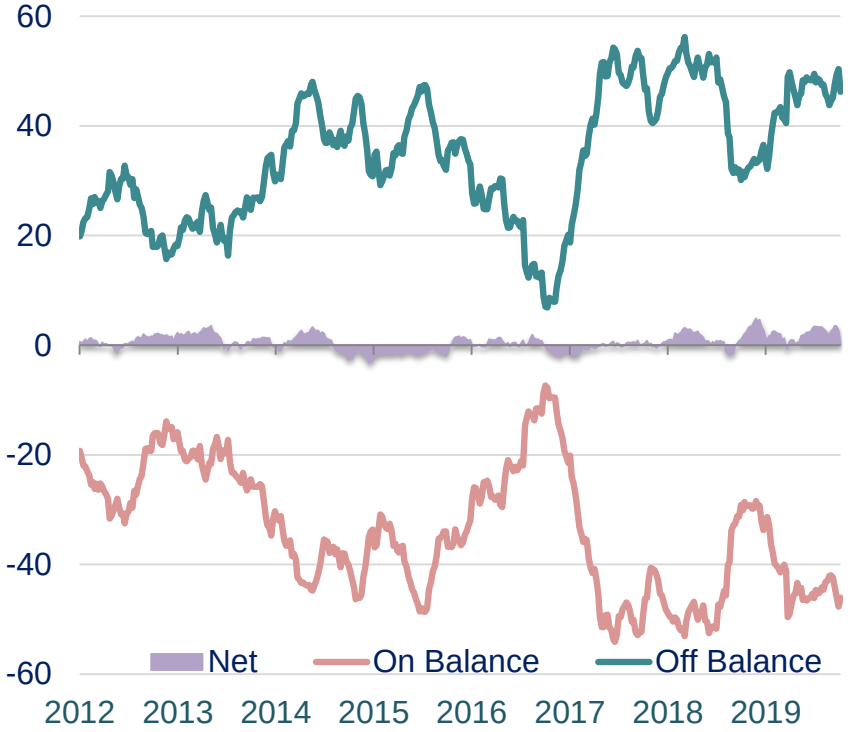
(*) External debt maturing within 1 year or less regardless of the original maturity.



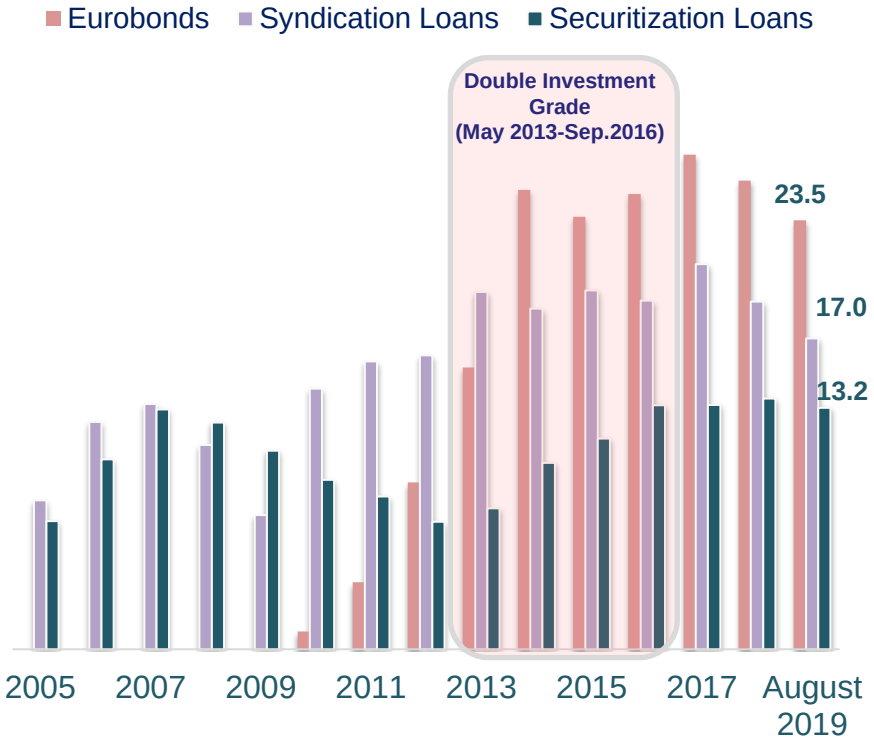
Source: CBRT

# Non-Deposit Sources

## Net FX Position*
(billion USD)




## External Borrowings of the Banks
(outstanding amount, billion USD)

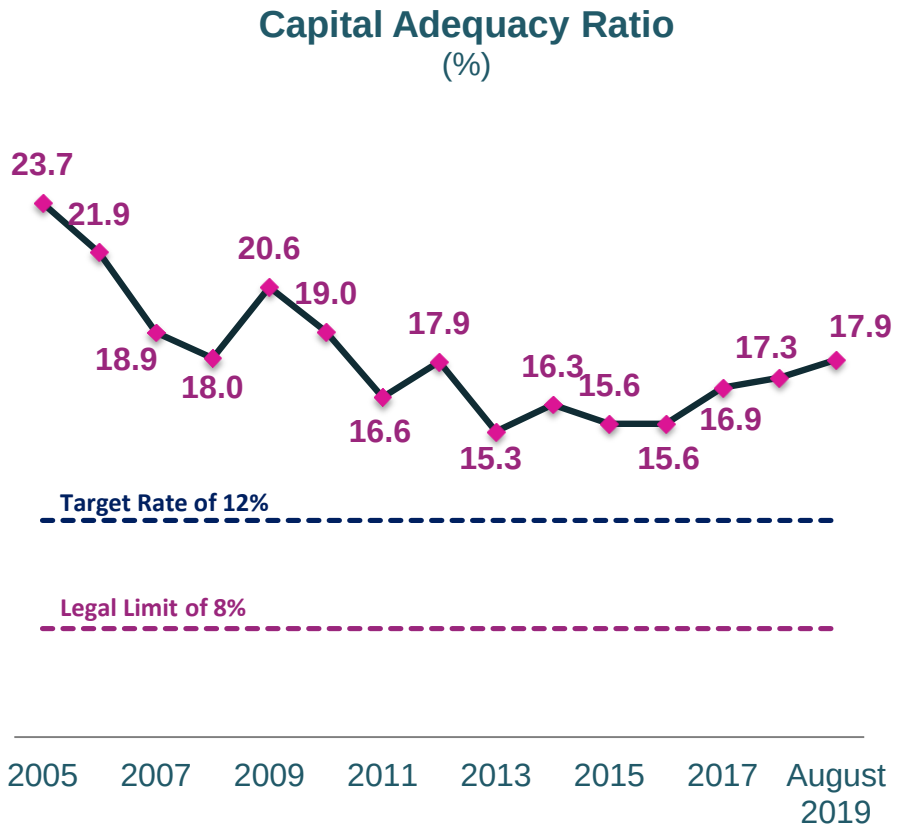


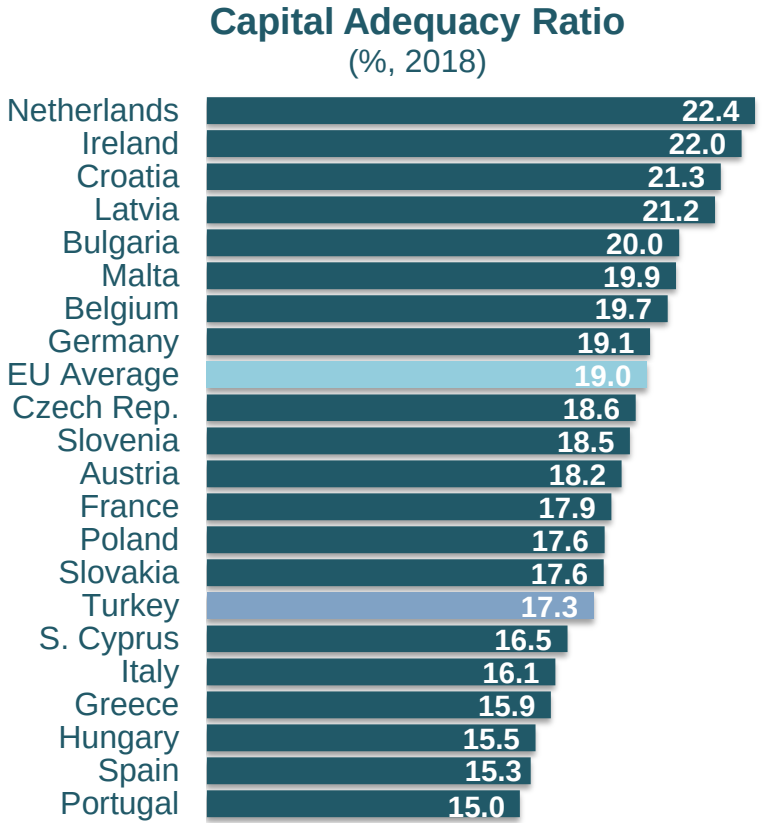

(*) Latest figure as of October 11, 2019



Source: BRSA

# Capital Adequacy Ratio



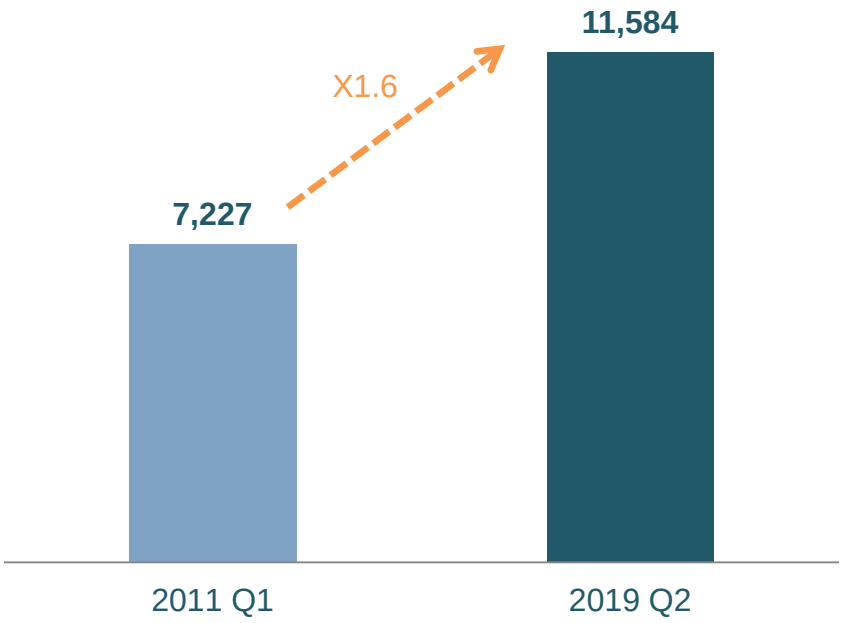





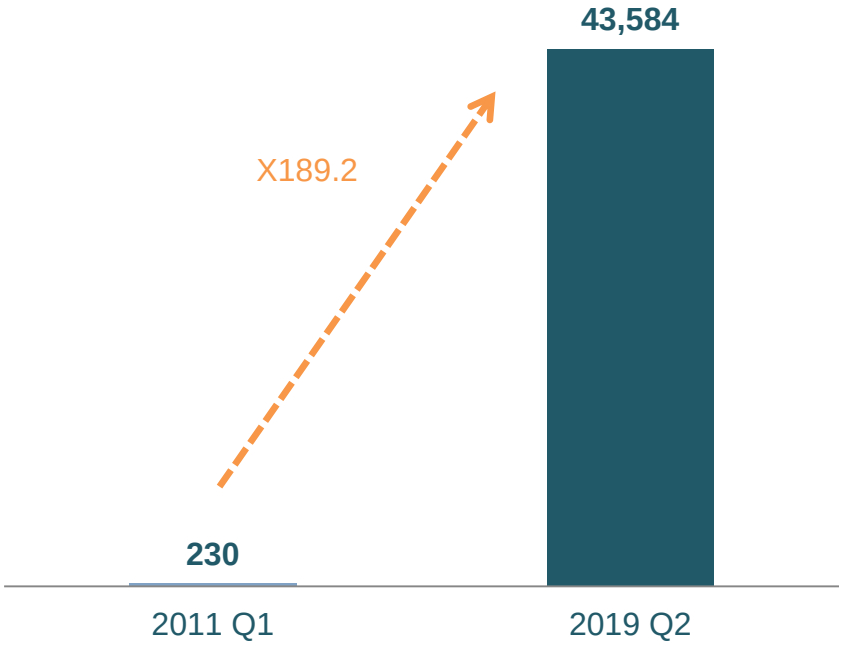

Source: BRSA, EBA

# Alternative Banking Channels

## Internet Banking
(number of active customers, thousand persons)



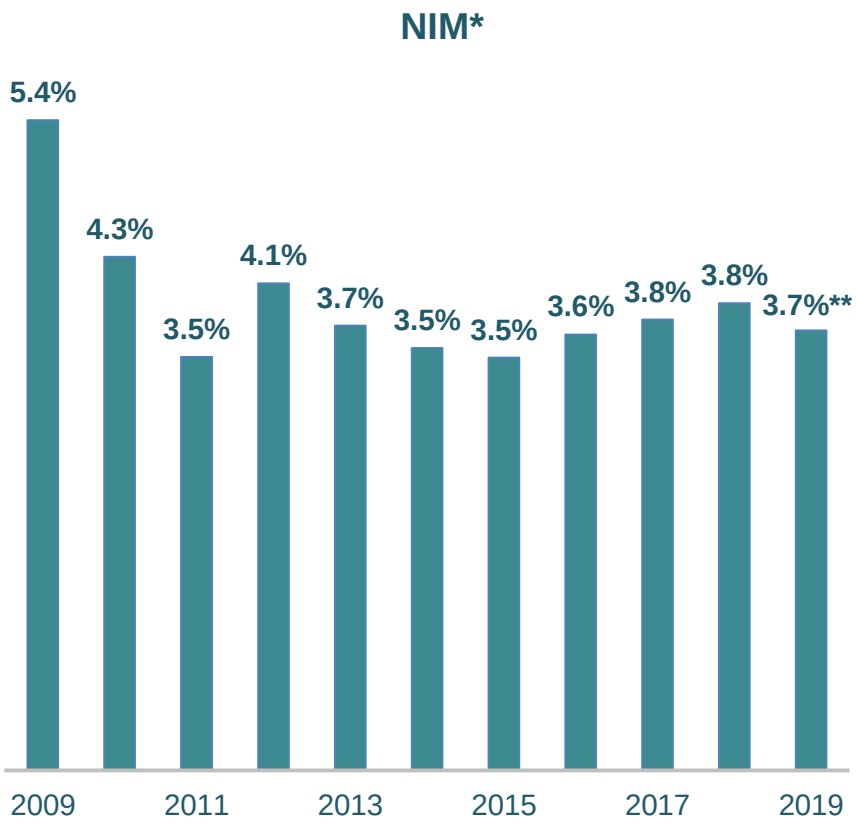

## Mobile Banking
(number of active customers, thousand persons)

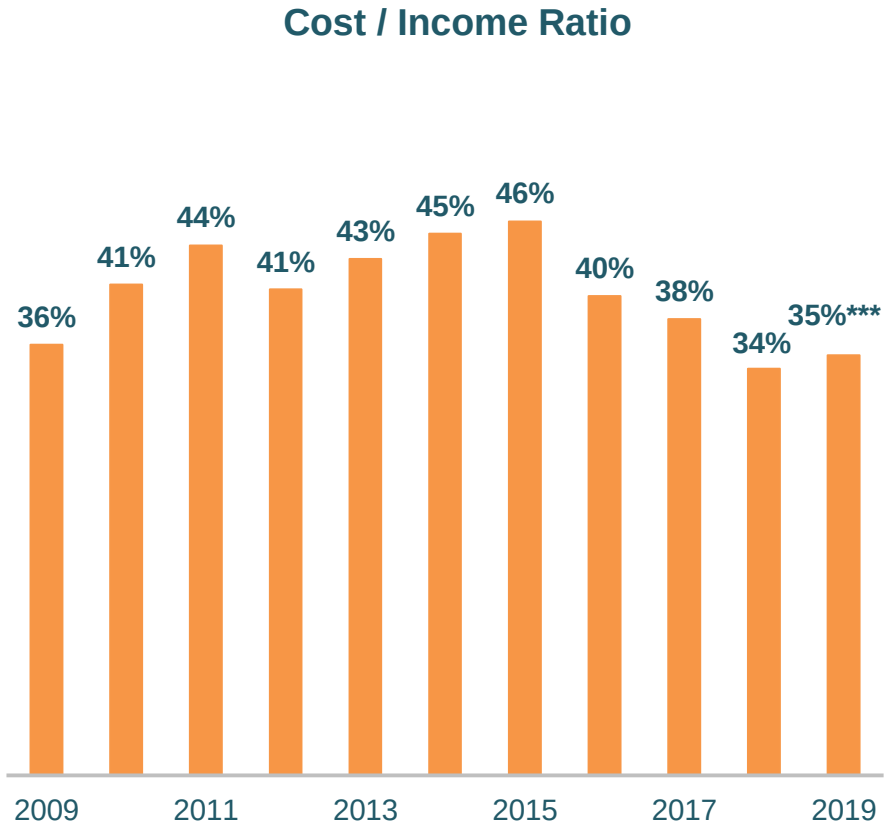





Source: BRSA, EBA

# Profitability



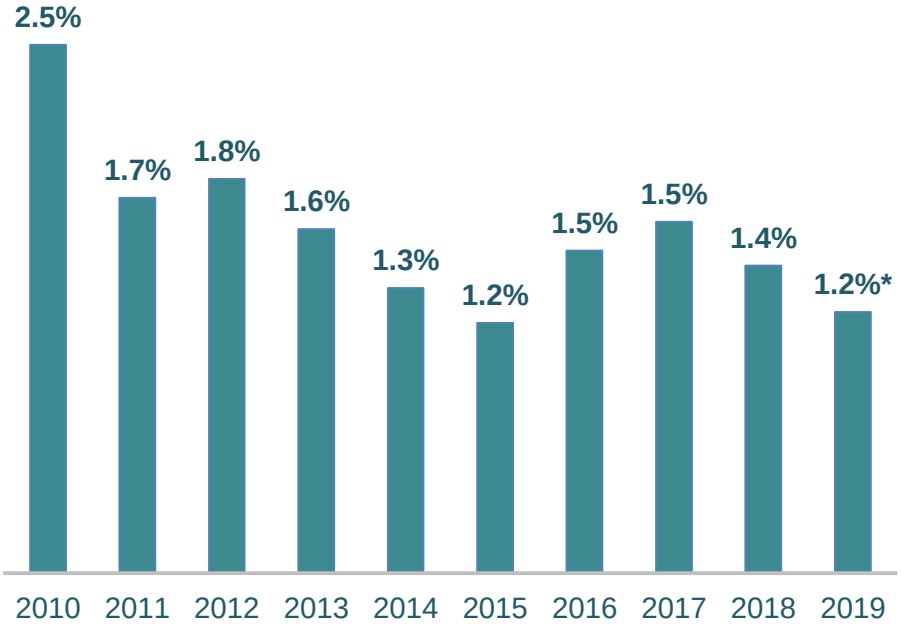

(*) Net interest income / average total assets
(**) 12-month cumulative as of August
(***) As of H1



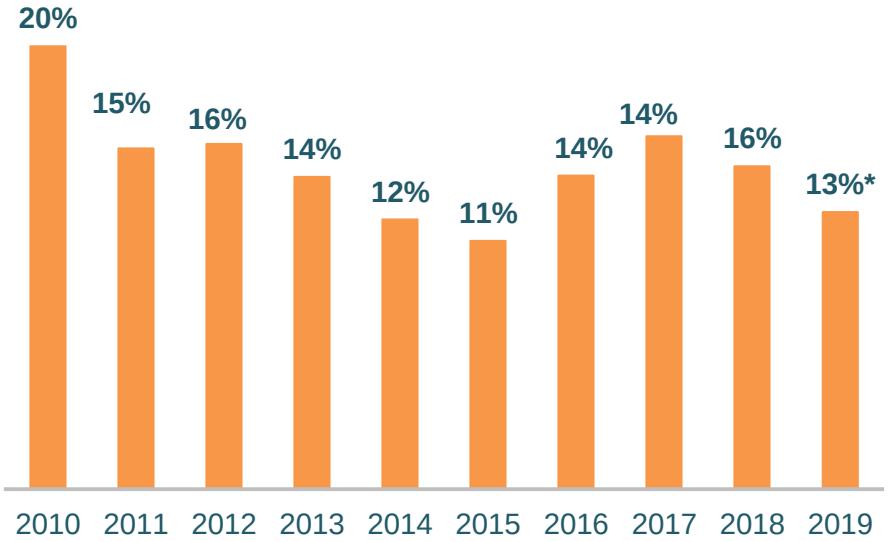
Source: BRSA

# Profitability

## ROAA




## ROAE

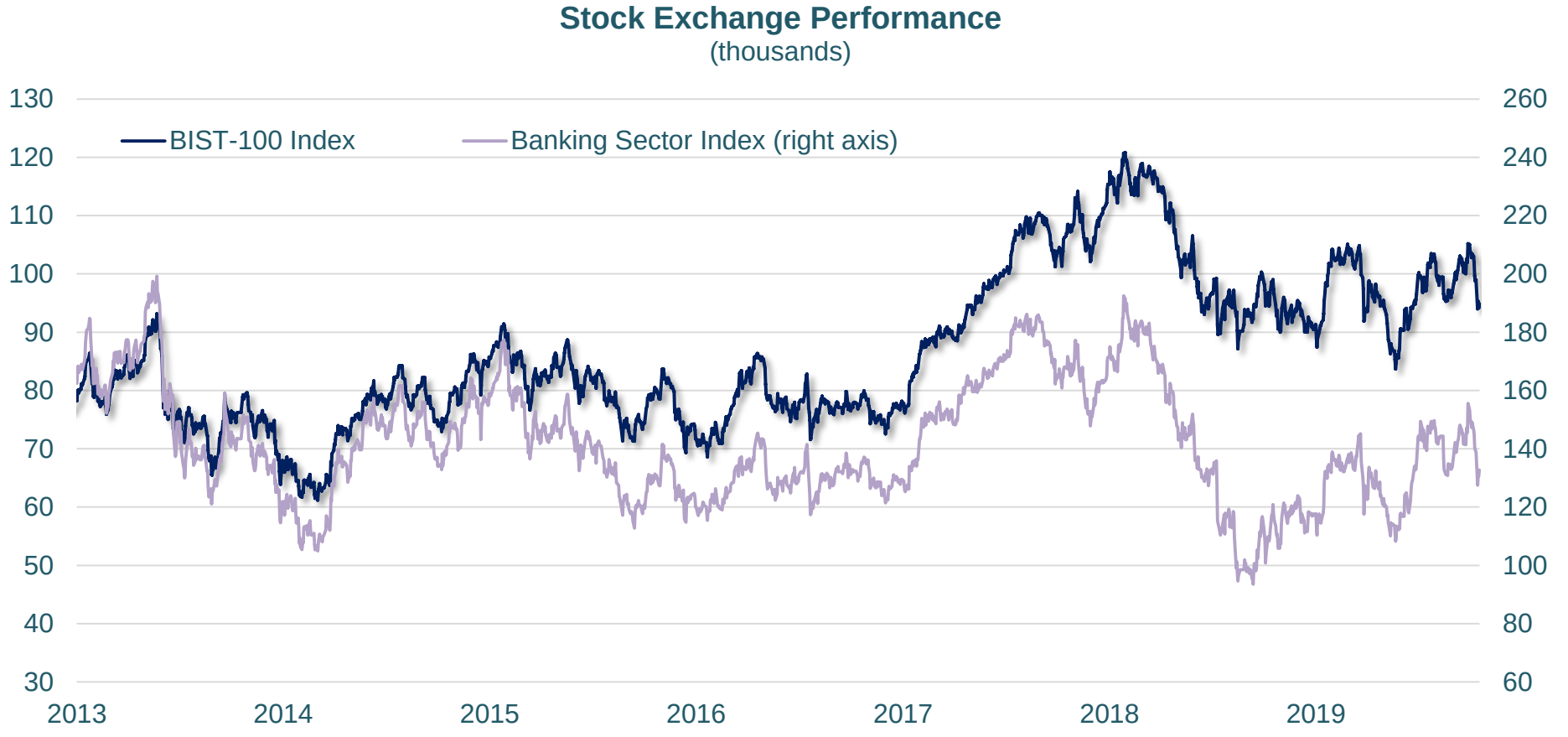



(*) As of H1



Source: BRSA

# Stock Exchange Performance



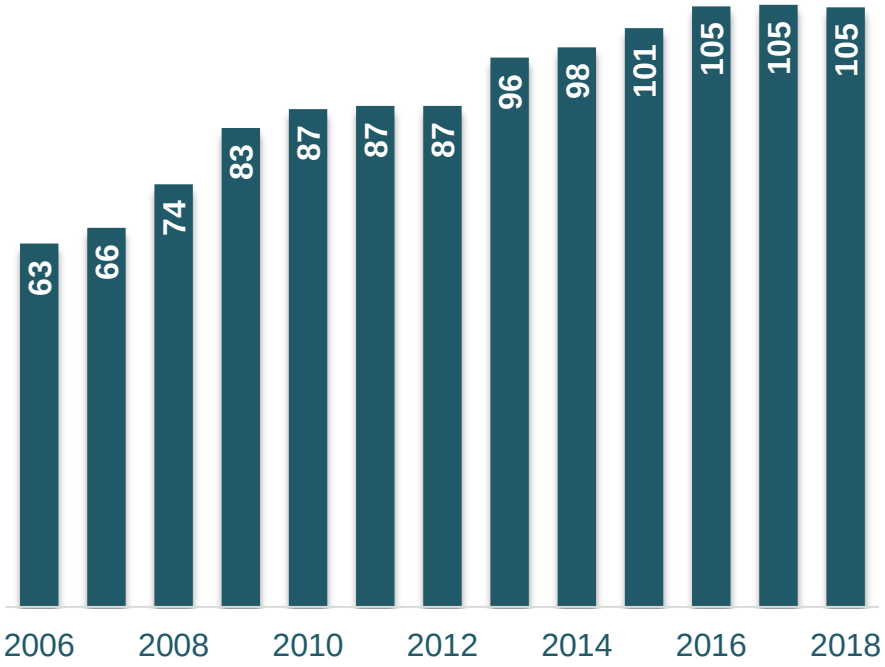

Latest figure as of October 17



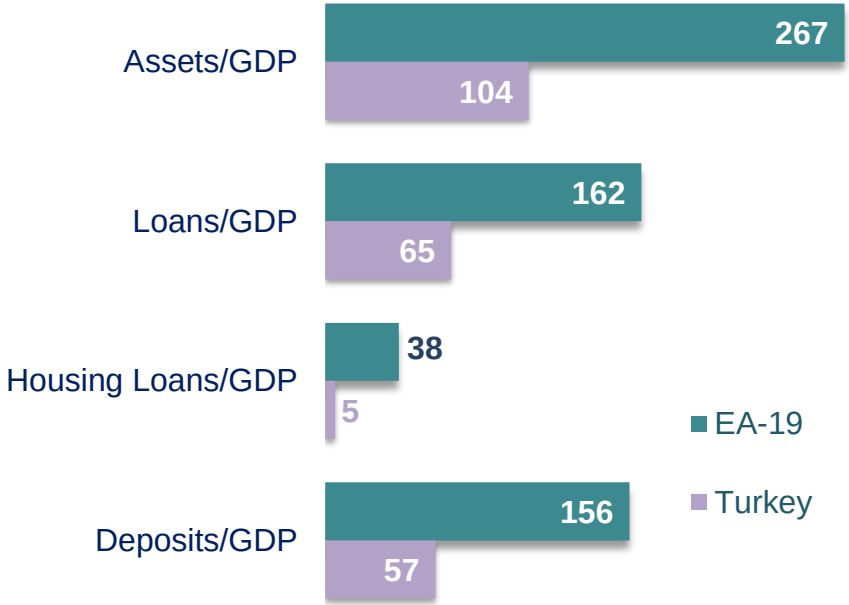
Source: Datastream

# Banking Sector Comparison

## Banking Sector's Assets in Turkey
(% GDP)




## Banking Sector's Comparison with Euro Area
(%, 2018)






Source: BRSA, Turkstat, ECB, Eurostat

# Forecasts

| | 2018 (R) | 2019 |
|---|---|---|
| Real GDP Growth (%) | 2.6 | 0.5 |
| Current Account Balance (% of GDP) | -3.4 | 0.2 |
| CPI (%) | 20.3 | 12.5 |

*(R) Realization*

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