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Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

H. Erhan Gül
Asst. Manager
erhan.gul@isbank.com.tr

İlker Şahin
Economist
ilker.sahin@isbank.com.tr

Gamze Can
Economist
gamze.can@isbank.com.tr

Ayşim Kalkan
Asst. Economist
aysim.kalkan@isbank.com.tr

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Global Economy

IMF revised its growth forecasts for global economy downwards in April 2019 World Economic Outlook report. The Fund expects global economy to recover in the second half of 2019, and to grow by 3.3% in the whole year. The IMF expects Turkish economy to contract by 2.5% this year and expand by the same rate in 2020.

Despite the expectation that trade negotiations between the US and China may result in recent period, US President Trump's threat to increase taxes on Chinese goods at the beginning of May raised questions about the process.

Fed left policy rate unchanged at its May meeting. Statements made after the meeting indicated that Fed would keep interest rates at current levels unless there is a significant development. On the other hand, by growing by 3.2% in the Q1, US economy pointed to a more positive outlook than expectations.

EU leaders agreed to delay Brexit until October 31.

In its April meeting, ECB did not change its policy rate and forward guidance.

Chinese economy grew by 6.4% yoy in the first quarter. Recent data reveal that economic activity in China is better than anticipated.

Oil prices kept its upward trend in April due to supply side developments. Gold prices fell to the lowest level in 2019 thanks to the improvement in risk perception.

Turkish Economy

In January period, unemployment rate increased to 14.7%, the highest level since March 2009. Seasonally adjusted unemployment rate also rose to 13.3%, while labor force participation rate became 52.9%.

Annual contraction in industrial production decelerated in February. According to calendar adjusted data, industrial production index decreased by 5.1% in February.

Manufacturing PMI, which declined to 46.8 in April, pointed to a slowdown in the sector for more than a year.

Foreign trade deficit continued to contract in March. During this period, exports posted a limited decline and came in at 15.5 billion USD, while imports decreased by 17.8% yoy to 17.6 billion USD.

In February, current account deficit decreased by 84% to 718 million USD, while 12-month cumulative deficit became 17 billion USD, the lowest level of last 9 years.

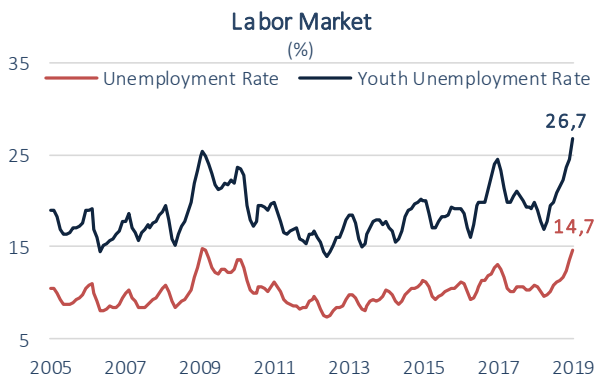
Central government budget deficit increased by 21% yoy to 24.5 billion TRY in March.

In April, monthly CPI inflation came in at 1.69%, below market expectations. Annual inflation was 19.5% in this period.

In the Monetary Policy Committee meeting held on April 25th, the CBRT kept the policy rate unchanged at 24% in line with the expectations. In the second Inflation Report of the year, CBRT did not revise its inflation forecasts for 2019 and 2020.

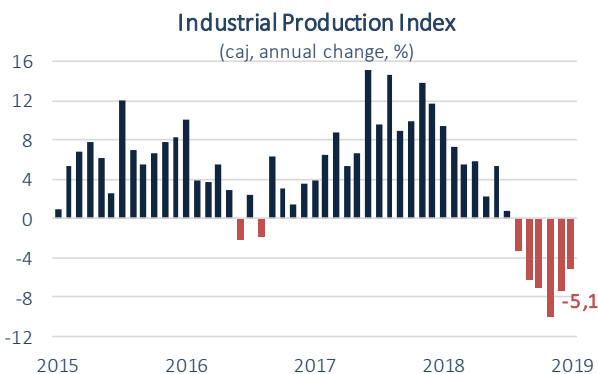
Unemployment rate reached the highest level since March 2009.

In January period, unemployment rate increased by 3.9 points compared to the same period of the previous year to 14.7%, the highest level since March 2009. While the number of persons employed declined by 872K during this period, the fall in construction and agriculture employment stood out. Unemployment rate among the young population covering 15-24 years of age rose by 6.8 points in the same period and reached the highest level of 2005 based series with 26.7%. Seasonally adjusted figures also pointed to a worsening labor market situation in January period. During this period, seasonally adjusted unemployment rate increased to 13.3% while labor force participation rate continued to decline and came in at 52.9%.



The fall in industrial production decelerated.

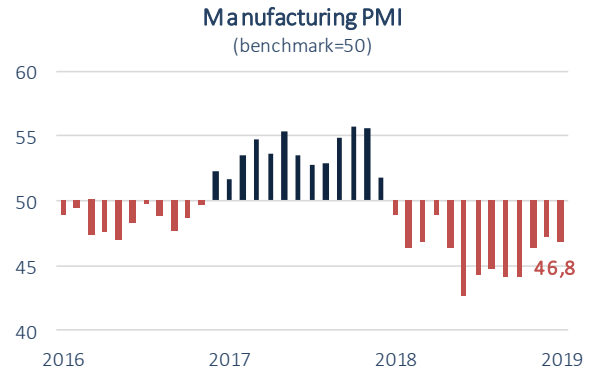
The fall in industrial production decelerated in February for the second month in a row. Calendar adjusted industrial production index contracted by 5.1% yoy in February. Production in 16 out of 24 sub-sectors of the manufacturing industry declined on an annual basis. During this period, contraction in non-metallic minerals, machinery-equipment and basic metals sectors stood out. According to main expenditure groups, intermediate and capital goods production decreased by 9.7% yoy and 7.8% yoy, respectively. Yet, durable consumer goods production increased by 5% yoy. On the other hand, the seasonal and calendar adjusted index continued to increase on a monthly basis for the two consecutive months. This was noted as a positive development.



Manufacturing PMI decreased in April.

Manufacturing PMI, which was 47.2 in March, fell to 46.8 in April. Remaining below 50 threshold level, manufacturing PMI indicated that activity across the sector has continued to weaken. The sub-indices of new orders and production slowed down during this period while the employment sub index presented a steady outlook.

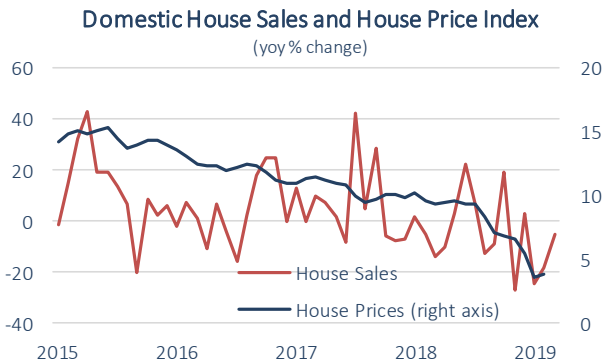
Moderate recovery in confidence indicators...



Having followed a weakening trend recently, leading indicators showed signs of moderate recovery in April. The seasonally adjusted capacity utilization rate rose by 0.3 point to 75% in this period. Real sector confidence index increased by 0.7 point to 100. Also, seasonally adjusted consumer confidence index surged up by 6.9% to 63.5 in the same period.

House sales declined in March.

House sales in Turkey fell by 5.3% in March compared to the same period of the last year. During this period, mortgage sales dropped by 30.6% yoy while other sales increased by 5.3% yoy. The decline in mortgage sales, which had been very steep since August 2018, decelerated in March. Despite having relatively small share in total, sales to foreigners remained strong during this period.



CBRT's Residential Property Price Index, which measures quality adjusted price changes in Turkey, increased by 1% mom in February. On an annual basis, the index increased by 3.8% in nominal terms and decreased by 13.3% in real terms.

Central government budget deficit was 24.5 billion TRY in March.

Central government budget deficit increased by 21.0% yoy to 24.5 billion TRY in March. During this period, budget expenditures and budget revenues expanded by 15.2% and 12.8%, respectively. The primary deficit, which was 10.6 billion TRY in March 2018, rose by 23.1% to 13.1 billion TRY in the same period of this year.

In the first quarter of the year, budget performance was weaker than in the same period of the previous year. While central government budget deficit expanded by 77.1% to 36.2 billion TRY, primary balance posted a deficit of 2.8 billion TRY.

Central Government Budget

	January-March		% Change
	2018	2019	
Expenditures	187.9	254.4	35.4
Interest Expenditures	22.3	33.4	49.8
Non-Interest Expenditures	165.6	221.1	33.5
Revenues	167.4	218.3	30.4
Tax Revenues	145.8	154.3	5.8
Other Revenues	21.6	64.0	195.9
Budget Balance	-20.4	-36.2	--
Primary Balance	1.9	-2.8	-

Foreign trade deficit kept contracting.

In March, exports came in at 15.5 billion USD, while imports decreased by 17.8% yoy to 17.6 billion USD. In this period, foreign trade deficit decreased by 63.7% compared to March 2018 and was realized as 2.1 billion USD. Thus, foreign trade deficit contracted for the tenth consecutive month.

In the first quarter of the year, the export volume expanded by 2.7% compared to the previous year, while the import volume decreased by 20.8%. In this period, foreign trade deficit contracted by 14 billion USD (67.4%) to 6.8 billion USD.

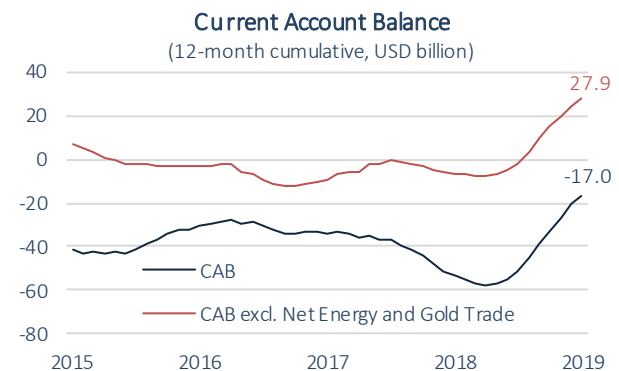
(billion USD)	Jan-Mar		Change (%)
	2018	2019	
Exports	41.1	42.2	2.7
Imports	61.9	49.0	-20.8
Foreign Trade Deficit	-20.8	-6.8	-67.4
Import Coverage (%)	66.5	86.2	-

According to the provisional data announced by the Ministry of Commerce, the foreign trade deficit continued to contract on an annual basis in April. In this period, exports increased by 5.4%, while imports decreased by 14.6%. Thus, foreign trade deficit narrowed by 57.8%.

Current account deficit was 718 million USD in February.

Current account deficit kept contracting in parallel with rebalancing in economic activity. In the second month of the year, current account deficit decreased by 84% to 718 million USD, while current account excluding net gold and energy trade gave a surplus of 2.7 billion USD.

12-month cumulative figures revealed that current account deficit kept declining and came in at 17 billion USD, the lowest level of last 9 years. In this period, current account balance excluding net energy and gold trade posted a surplus of 27.9 billion USD, a new historically high level.



Portfolio investments were strong in February due to eurobond issues abroad. 12-month cumulative inflows recorded under net errors and omissions item surpassed 12-month cumulative current account deficit for the first time since 2002.

In April, CPI inflation came in below the expectations.

In April, monthly CPI came in at 1.69%, below market expectations. According to the Reuters' survey, the monthly CPI inflation was expected to be 2.4%. Monthly D-PPI increase was 2.98% in this period.

Annual CPI inflation posted a slight decline and was realized as 19.5% in April. Rise in annual D-PPI inflation continued in April and reached 30.12%.

April (change %)	CPI		D-PPI	
	2018	2019	2018	2019
Monthly	1.87	1.69	2.60	2.98
Year-to-Date	4.69	4.00	8.03	5.18
Annual	10.85	19.50	16.37	30.12
Annual Average	11.06	19.39	15.36	32.24

In April, prices in all major sub-groups excluding communication, increased on a monthly basis. Alcoholic beverages and tobacco prices rising by 6.77% on a monthly basis due to the increase in cigarette prices were also influential in the monthly CPI.

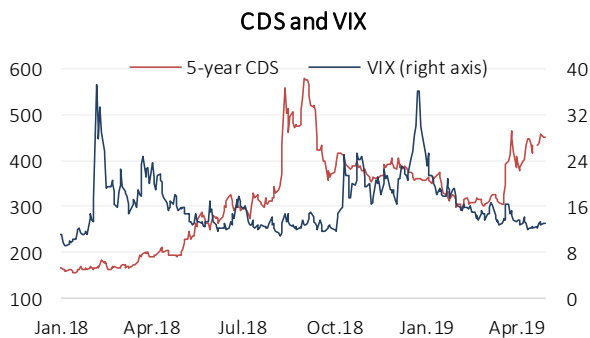
Source: Turkstat, Datastream, Ministry of Trade

	29/Mar	30/Apr	Change
5-Y CDS (basis points)	419	447	28 bps ▲
TR 2-Y Benchmark Yield	21.19%	20.92%	-27 bps ▼
BIST-100	93,784	95,416	1.7% ▲
USD/TRY	5.6496	5.9695	5.7% ▲
EUR/TRY	6.3437	6.6900	5.5% ▲
Currency Basket*	5.9966	6.3298	5.6% ▲

(*) (0.5 USD/TRY + 0.5 EUR/TRY)

Deterioration in risk perception towards Turkey...

Domestic markets were under pressure in April due to the concerns regarding international relations, the uncertainty over the İstanbul elections and the news about CBRT's foreign exchange reserves. The change that CBRT made in its statement also weighed on market sentiment. Turkey's 5-year CDS risk premium rose by 28 bps in April parallel to the deterioration in risk perception and reached 447 on April 30.



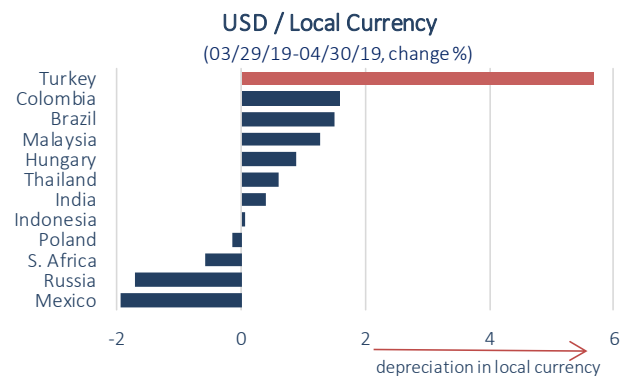
Holding the policy rate intact, CBRT modified its policy statement.

In the Monetary Policy Committee meeting held on April 25, CBRT left the policy rate unchanged at 24% in line with the expectations. The Central Bank pointed out that the rebalancing in the economy has been ongoing and the current account balance will continue to improve. In its statement published after the meeting, the expression that "further monetary tightening would be delivered if needed" was removed while the expression that "the monetary stance will be determined to keep inflation at levels consistent with the targeted path" was added.

In the second Inflation Report of 2019, CBRT kept its inflation forecasts for 2019 and 2020 at 14.6% and 8.2%, respectively. In the report, it is stated that although the increases in unprocessed food and Turkish lira-denominated import prices affected the inflation forecasts upwards, the improvement in the underlying trend of inflation, widening of the output gap and the downward revision to the administered price increases offset these upward effects.

Depreciation in Turkish lira...

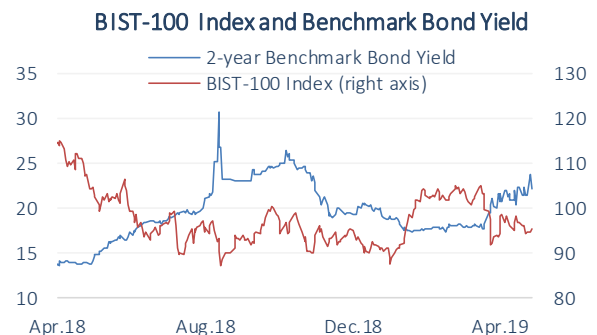
In the first half of April, TRY remained under pressure due to the rising concerns about Turkey-US relations and the uncertainty over İstanbul elections. Increasing risk appetite in global markets and optimism about election process supported TRY somewhat in mid-month. However, the positive impact was short-lived. In the following days, TRY depreciated due to the news on CBRT's foreign exchange reserves, appreciation in the US dollar in global markets and the change that CBRT made in its statement which was interpreted as a softening of the tight monetary policy tone. USD/TRY reached the highest level since October 2018 with 5.9836 on April 30 and closed the day at 5.9695.



BIST-100 index followed a volatile course in April.

BIST-100, which declined after the rapid rise in interest rates in London swap market put selling pressure on domestic markets at the end of March, pared some of its losses in the first week of April. Having followed a volatile course during the rest of the month, the index rose by 1.7% mom in April to 95.416.

2-year benchmark bond yield, which rose to 21.19% at the end of March, declined in April. 2-year benchmark bond yield fell by 27 basis points on a monthly basis and stood at 20.92% on April 30.

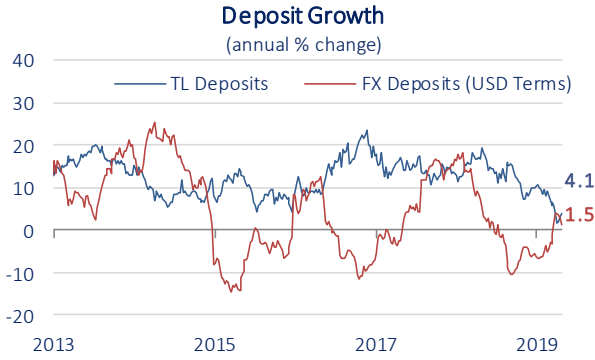


Source: CBRT, Datastream, Reuters, BIST

Banking Sector

Deposit volume reached 2,292 billion TRY.

According to the Weekly Bulletin published by the BRSA, as of April 26, deposit volume increased by 24.2% yoy and by 12.1% compared to the year-end of 2018 and reached 2,292 billion TRY. While TRY deposit expanded by 4.1% yoy, FX deposits in USD terms increased by 1.5%.

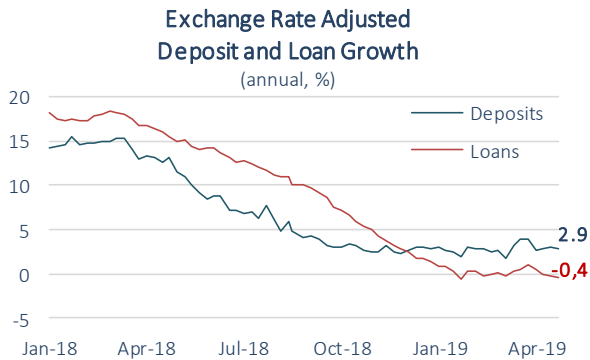


Annual loan growth remained weak.

Demand for loans continued to remain weak. As of April 26, total loan volume expanded by 14.6% yoy to 2,564 billion TRY. The rise in loan volume was 7.1% compared to the year-end. While TRY loans increased by 1.6% yoy to 1,509 billion TRY, FX loans in USD terms, declining on an annual basis since the beginning of the year, fell by 4.2% to 179 billion USD. Compared to the year-end figures, TRY loans increased by 5.0%, whereas FX loans in USD terms decreased by 1.9%.

FX adjusted volumes...

According to FX rate adjusted figures annual rise in deposits volume was realized as 2.9% as of April 26, while loans volume declined by 0.4% yoy.

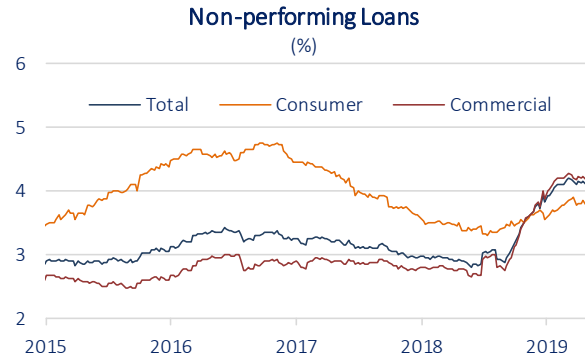


Consumer loans continued to decline on an annual basis.

Consumer loans excluding consumer credit cards have been declining since the beginning of the year. As of April 26, consumer loans contracted by 1.4% yoy. During this period, vehicle loans decreased by 14.3% yoy in parallel with the weak course in automotive sector, while the decline in housing loans was 5.1%. On the other hand, personal finance loans rose by 2.5% yoy.

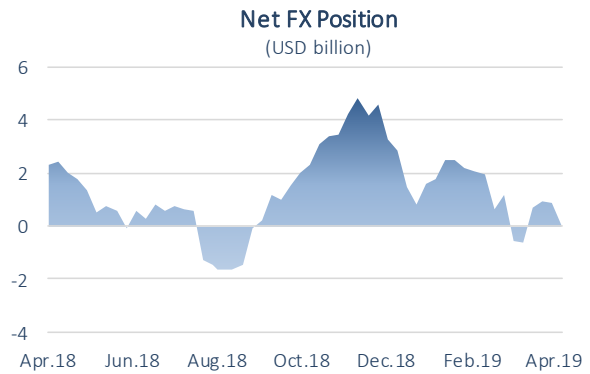
NPL ratio was 4.09%.

NPL ratio, which displayed an upward trend and reached the highest level since October 2010 with 4.19% on March 8, fell to 4.09% as of April 26. In the same period, NPL ratio for consumer and commercial loans were 3.78% and 4.16%, respectively.



Net foreign currency position...

As of April 26, banks' on-balance sheet FX position was (-) 45.3 billion USD, while off-balance sheet FX position was (+) 45.3 billion USD. Hence, banking sector's net FX position was realized as (+) 17.1 million USD.



Concluding Remarks

The news that the US and China are close to a trade agreement supported the global markets, while the uncertainty regarding the local elections in Istanbul and the news on CBRT reserves put pressure on local markets. Besides, market's reaction to the structural transformation steps announced on 10 April was limited. On the other hand, US President Trump's statements on the trade war at the beginning of May have raised questions about the negotiation process, which is expected to come to an end with reconciliation.

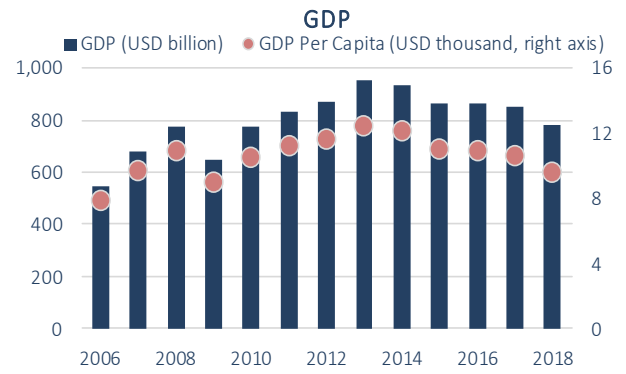
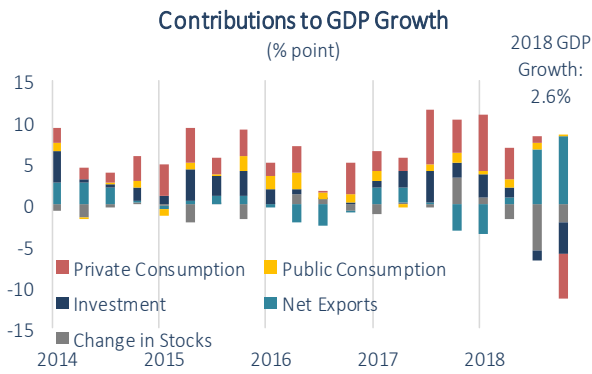
Macroeconomic data in April indicated that the slowdown in economic activity continued, albeit losing momentum. Industrial production continued to contract in February. Manufacturing PMI kept shrinking in April, indicating that the slowdown in the sector has continued

for more than one year. On the other hand, 12-month cumulative current account deficit continued to decline and decreased to the lowest level in the last 9 years. Lower-than-expected April inflation data was noted as a positive development. The impacts of the course of Turkish Lira and the acceleration in producer prices on consumer inflation would also be monitored in the upcoming period.

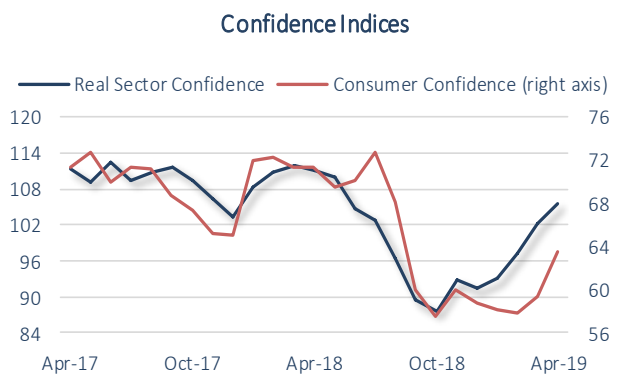
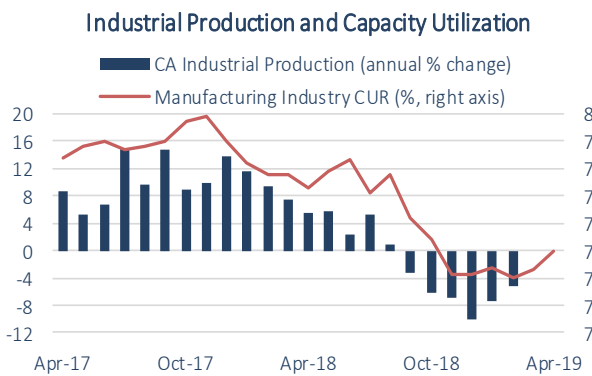
Forecasts (%)	2018 (A)	2019
Growth	2.6	1.0
Current Account Deficit/GDP	3.5	2.0
Inflation (year-end)	20,3	16.0

(A) Actual

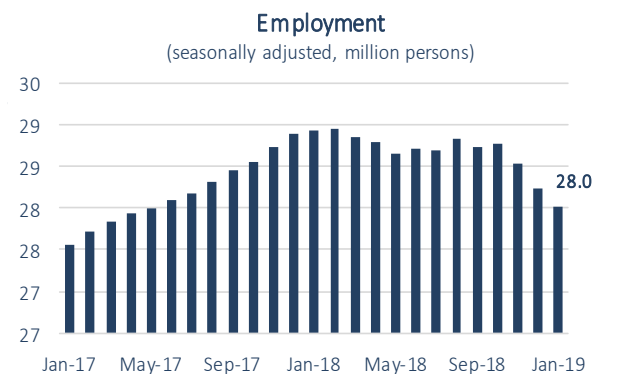
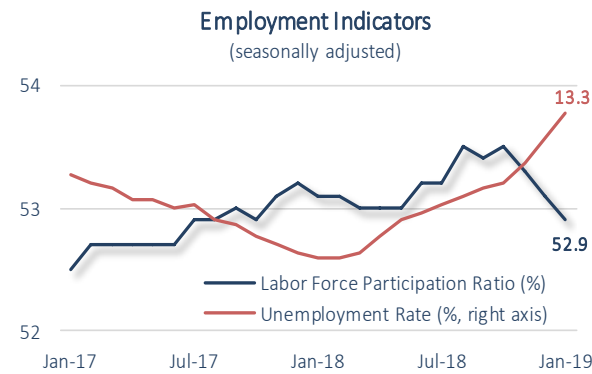
Growth



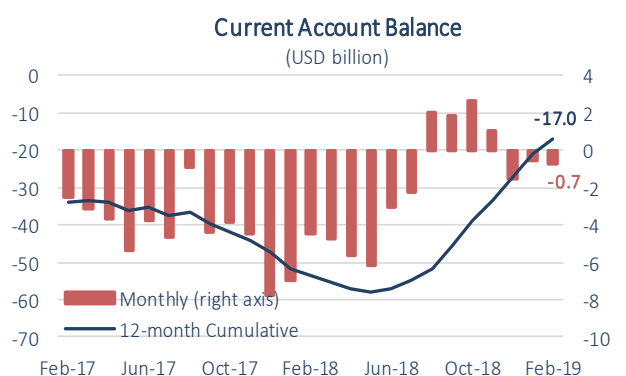
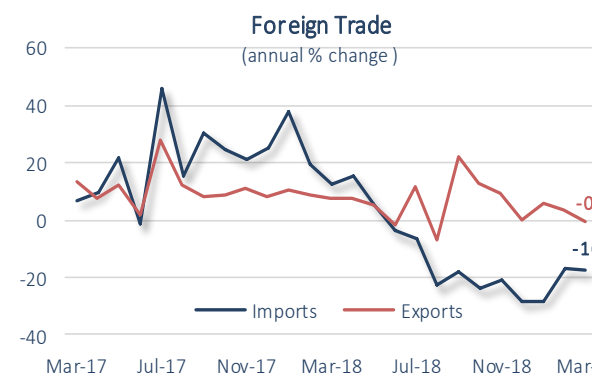
Leading Indicators



Labor Market



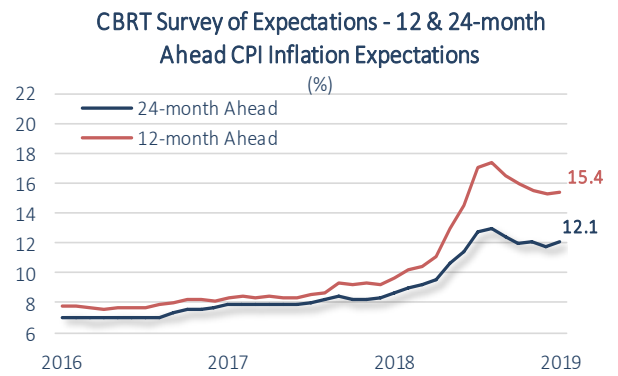
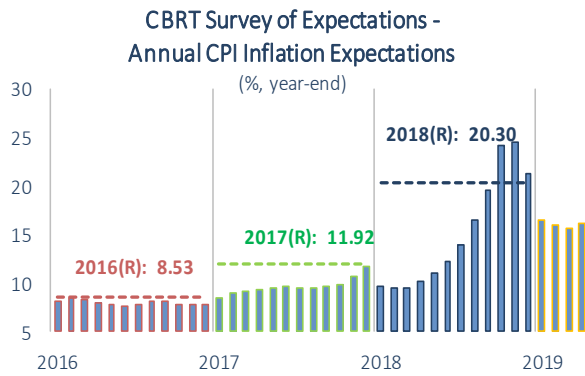
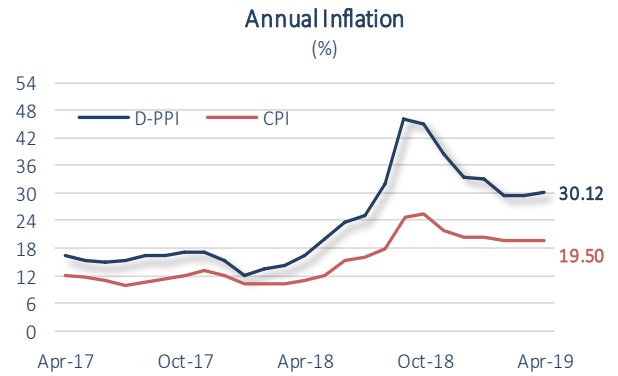
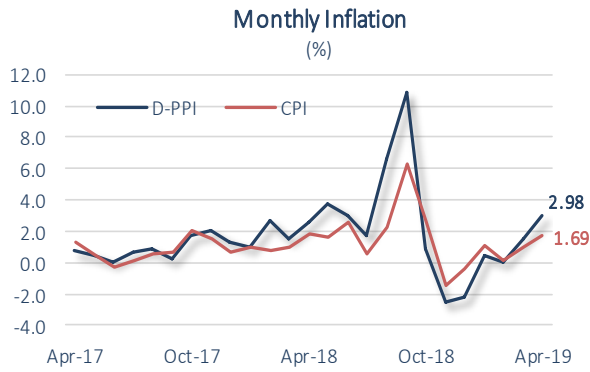
Foreign Trade and Current Account Balance



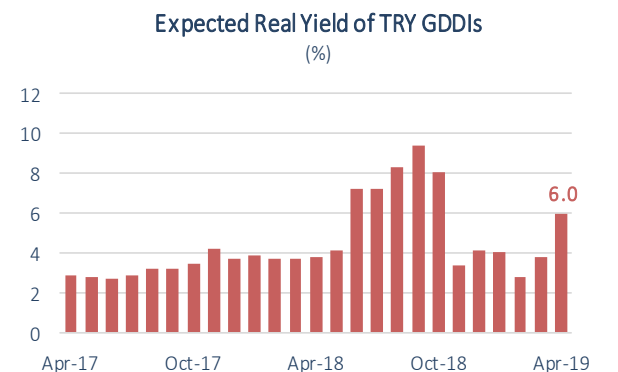
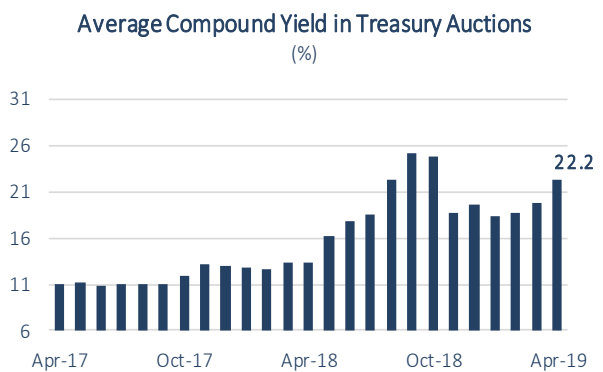
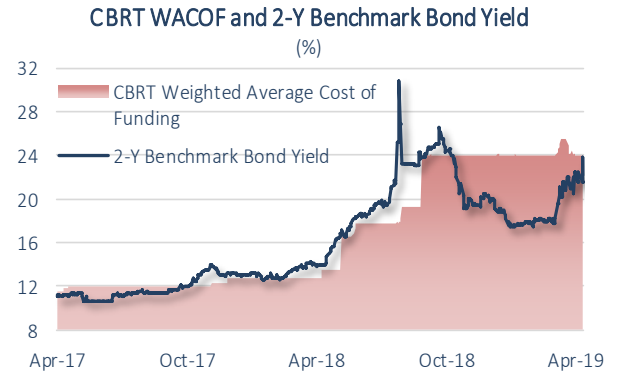
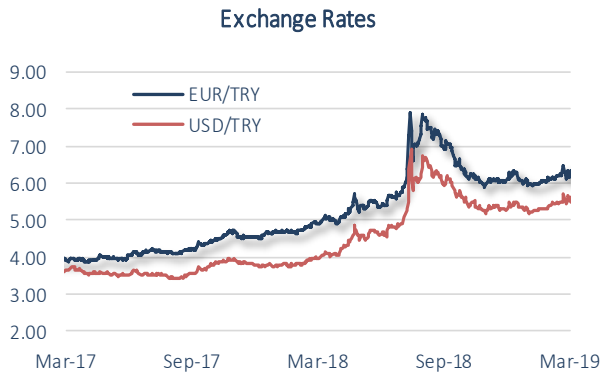
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2014	2015	2016	2017	2018			
GDP (USD billion)	935	862	863	851	784			
GDP (TRY billion)	2,045	2,339	2,609	3,107	3,701			
GDP Growth Rate (%)	5.2	6.1	3.2	7.4	2.6			
Inflation (%)						Feb-19	Mar-19	Apr-19
CPI (annual)	8.17	8.81	8.53	11.92	20.30	19.67	19.71	19.50
Domestic PPI (annual)	6.36	5.71	9.94	15.47	33.64	29.59	29.64	30.12
Seasonally Adjusted Labor Market Figures								Jan-19
Unemployment Rate (%)	10.3	10.2	12.0	9.9	12.7			13.30
Labor Force Participation Rate (%)	51.0	51.7	52.4	53.2	53.1			52.90
FX Rates						Feb-19	Mar-19	Apr-19
CPI Based Real Effective Exchange Rate	105.9	99.2	93.6	86.3	76.3	77.4	75.1	72.7
USD/TRY	2.3378	2.9189	3.5176	3.7916	5.3199	5.3340	5.6496	5.9695
EUR/TRY	2.8288	3.1708	3.7102	4.5530	6.0815	6.0739	6.3437	6.6900
Currency Basket (0.5*EUR+0.5*USD)	2.5833	3.0448	3.6139	4.1723	5.7007	5.7039	5.9966	6.3298
Foreign Trade Balance⁽¹⁾ (USD billion)						Jan-19	Feb-19	Mar-19
Exports	157.6	143.8	142.5	157.0	167.9	168.7	169.1	169.0
Imports	242.2	207.2	198.6	233.8	223.0	217.2	214.0	210.2
Foreign Trade Balance	-84.6	-63.4	-56.1	-76.8	-55.1	-48.5	-44.9	-41.1
Import Coverage Ratio (%)	65.1	69.4	71.8	67.1	75.3	77.7	79.0	80.4
Balance of Payments⁽¹⁾ (USD billion)							Jan-19	Feb-19
Current Account Balance	-43.6	-32.1	-33.1	-47.3	-27.2		-20.8	-17.0
Capital and Financial Accounts	-43.2	-22.7	-22.0	-46.7	-6.9		-1.6	1.7
Direct Investments (net)	-6.3	-14.2	-10.8	-8.8	-9.3		-9.8	-10.5
Portfolio Investments (net)	-20.2	15.5	-6.3	-24.5	2.9		1.8	-0.3
Other Investments (net)	-16.2	-12.1	-5.7	-5.2	10.0		17.6	20.7
Reserve Assets (net)	-0.5	-11.8	0.8	-8.2	-10.4		-11.2	-8.1
Net Errors and Omissions	0.5	9.5	11.1	0.6	20.3		19.1	18.7
Current Account Balance/GDP (%)	-4.7	-3.7	-3.8	-5.6	-3.5		-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Jan-19	Feb-19	Mar-19
Expenditures	448.8	506.3	584.1	678.3	830.5	91.9	175.6	254.4
Interest Expenditures	49.9	53.0	50.2	56.7	74.0	7.3	22.0	33.4
Non-interest Expenditures	398.8	453.3	533.8	621.6	756.5	84.6	153.6	221.1
Revenues	425.4	482.8	554.1	630.5	757.8	97.0	163.9	218.3
Tax Revenues	352.5	407.8	459.0	536.6	621.3	55.7	113.2	154.3
Budget Balance	-23.4	-23.5	-29.9	-47.8	-72.6	5.1	-11.7	-36.2
Primary Balance	26.5	29.5	20.3	8.9	1.3	12.4	10.3	-2.8
Budget Balance/GDP (%)	-1.1	-1.0	-1.1	-1.5	-2.0	-	-	-
Central Government Debt Stock (TRY billion)						Jan-19	Feb-19	Mar-19
Domestic Debt Stock	414.6	440.1	468.6	535.4	586.1	597.9	615.2	623.9
External Debt Stock	197.9	238.1	291.3	341.0	480.6	500.3	511.1	538.5
Total Debt Stock	612.5	678.2	760.0	876.5	1,067.1	1,098.2	1,126.2	1,162.4

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2014	2015	2016	2017	2018	Feb.19	Mar.19	Change ⁽¹⁾
TOTAL ASSETS	1,994	2,357	2,731	3,258	3,867	3,936	4,139	7.0
Loans	1,241	1,485	1,734	2,098	2,395	2,422	2,518	5.1
TRY Loans	881	1,013	1,131	1,414	1,439	1,462	1,508	4.8
Share (%)	71.0	68.2	65.2	67.4	60.1	60.4	59.9	-
FX Loans	360	472	603	684	956	959	1,009	5.6
Share (%)	29.0	31.8	34.8	32.6	39.9	39.6	40.1	-
Non-performing Loans	36.4	47.5	58.2	64.0	96.6	103.9	106.4	10.1
Non-performing Loan Rate (%)	2.9	3.1	3.2	3.0	3.9	4.1	4.1	-
Securities	302	330	352	402	478	511	531	11.0
TOTAL LIABILITIES	1,994	2,357	2,731	3,258	3,867	3,936	4,139	7.0
Deposits	1,053	1,245	1,454	1,711	2,036	2,097	2,208	8.4
TRY Deposits	661	715	845	955	1,042	1,034	1,022	-2.0
Share (%)	62.8	57.4	58.1	55.8	51.2	49.3	46.3	-
FX Deposits	391	530	609	756	994	1,062	1,186	19.3
Share (%)	37.2	42.6	41.9	44.2	48.8	50.7	53.7	-
Securities Issued	89	98	116	145	174	183	209	19.9
Payables to Banks	293	361	418	475	563	561	593	5.4
Funds from Repo Transactions	137	157	138	99	97	116	174	79.3
SHAREHOLDERS' EQUITY	232	262	300	359	421	433	433	2.8
Profit (Loss) of the Period	24.6	26.1	37.5	49.1	53.5	6.5	12.4	-
RATIOS (%)								
Loans/GDP	60.7	63.5	66.5	67.6	64.7			
Loans/Assets	62.2	63.0	63.5	64.4	61.9	61.5	60.8	-
Securities/Assets	15.2	14.0	12.9	12.3	12.4	13.0	12.8	-
Deposits/Liabilities	52.8	52.8	53.2	52.5	52.6	53.3	53.3	-
Loans/Deposits	117.9	119.2	119.3	122.6	117.6	115.5	114.1	-
Capital Adequacy (%)	16.3	15.6	15.6	16.9	17.3	17.0	16.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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