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Turkish Economy	2
Financial Markets	4
Banking Sector.....	5
Concluding Remarks.....	6
Graphs.....	8
Tables.....	9

Global Economy

Expectations that the US and China will reach an agreement at the trade talks have grown. On the other hand, uncertainty over the conditions on a possible deal persists.

Fed cut the policy rate to 1.50-1.75%, the third rate cut decision in this year.

US economy grew above expectations with 1.9% in the third quarter of the year, according to preliminary data. As labor market keeps its strength, private consumption expenditures continued to provide a boost to the growth performance.

At its October meeting, ECB did not change the interest rates yet stated that monetary policy might be eased further if deemed necessary.

Euro Area economy showed a moderate performance growing by 0.2% qoq in the third quarter of the year.

Brexit, which was previously scheduled for October 31, is delayed further to January 31. The UK Parliament voted for general election on December 12, before the Brexit deadline.

Despite the government's efforts to support the economy, Chinese economy continued to lose momentum in the third quarter and grew by 6% yoy.

Concerns over the global economic activity put downward pressure on oil prices.

At its World Economic Outlook report published in October, IMF lowered its global growth forecasts for both 2019 and 2020 to 3.0% and 3.4%, respectively.

Turkish Economy

Unemployment rate rose by 3.1 points to 13.9% in July compared to the same period of the previous year. The youth unemployment rate, covering the ages of 15-24, climbed to the highest level of the 2005-based series with 27.1%.

Calendar adjusted industrial production index declined by 3.6% yoy in August. The annual fall in the index accelerated in this period, somewhat weakening the view that the economy has recovered in the third quarter.

Manufacturing PMI, which was 50 in September, fell to 49 in October, signaling contraction in the sector.

In September, export volume expanded by 0.3% to 14.4 billion USD, while import volume increased by 1% to 16.5 billion USD. Thus, foreign trade deficit widened by 6.6% yoy to 2.1 billion USD.

Current account posted a surplus of 2.6 billion USD in August. 12-month cumulative current account surplus rose to a historically high level of 5.1 billion USD in this period.

Central government budget deficit expanded by 197% yoy and became 17.7 billion TRY in September. The deficit was 85.8 billion TRY in the first nine months of the year.

CPI increased by 2% on a monthly basis in October. Annual CPI inflation declined to 8.55% in this period.

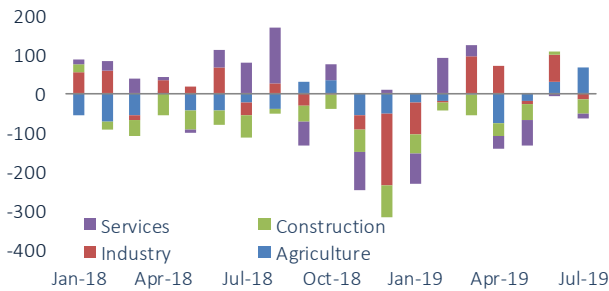
CBRT lowered the policy rate (one-week repo auction rate) from 16.50% to 14% at its October meeting.

CBRT, publishing its Inflation Report on October 31, lowered its year-end inflation estimate to 12%.

Employment indicators deteriorated further.

Unemployment rate rose by 3.1 points to 13.9% in July compared to the same period of the previous year. The youth unemployment rate, covering the ages of 15-24, climbed to the highest level of the 2005-based series with 27.1%. During this period, the deterioration in seasonally adjusted figures has also continued. The seasonally adjusted unemployment rate rose by 0.3 point mom to 14.3%. Parallel to the weak economic activity, the number of people employed increased by 67 thousand in agriculture, 34 thousand in construction, 16 thousand in industry and 15 thousand in services sector, according to seasonally adjusted figures.

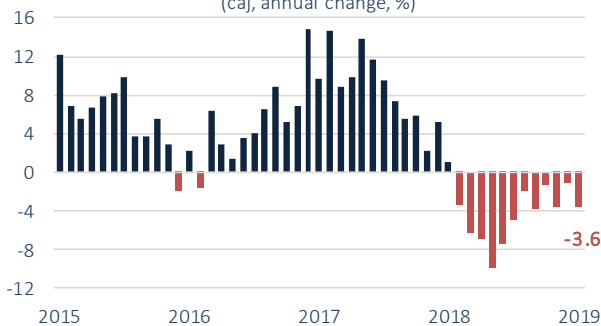
Monthly Change in Employment by Sectors
(sa, thousand persons)



Industrial production contracted by 3.6% yoy in August.

Calendar adjusted industrial production index declined by 3.6% yoy in August, contracting for 12 consecutive months. The annual fall in the index accelerated in August. This weakened the view that the economy has recovered in the third quarter. The production in 18 of 24 sub-sectors of manufacturing industry contracted. While the production in automotive, basic metals and non-metallic mineral products continued to display a weak outlook during this period, the annual falls in manufacture of machinery-equipment (8.6%) and intermediate goods (6.5%) had a negative impact on expectations for the upcoming period.

Industrial Production Index
(caj, annual change, %)



Manufacturing PMI fell below the threshold level.

Manufacturing PMI, which was 50 in September, fell to 49 in October, signaling contraction in the sector. During this period, new orders lost momentum due to weak domestic

and foreign demand conditions. On the other hand, the employment index rose for the second consecutive month.

Real sector confidence index increased in October.

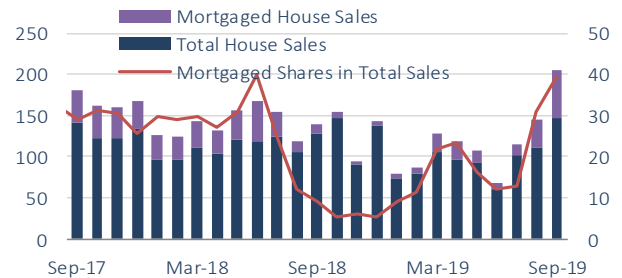
Leading indicators pointed to a recovery in October. According to seasonally adjusted data, real sector confidence index rose by 4.5 points to 104.2, reaching the highest level since May 2018. All sub-indices improved except the general business sentiment. Consumer confidence index also increased by 2.1% in October compared to the previous month and became 57. In the same period, seasonally adjusted capacity utilization ratio remained flat on a monthly basis at 76%.

House sales increased by 15.4% yoy in September.

According to the data released by Turkstat, house sales increased by 15.4% compared to the same period of the previous year and became 146,903 units in September. House sales had also increased in August. In September, mortgaged house sales increased by 410.2% thanks to the fall in interest rates. In line with this rise, the share of mortgaged sales in total house sales increased to 39.4%. Other sales fell by 23.2% in the same period.

Housing Sales

(monthly, thousand units)



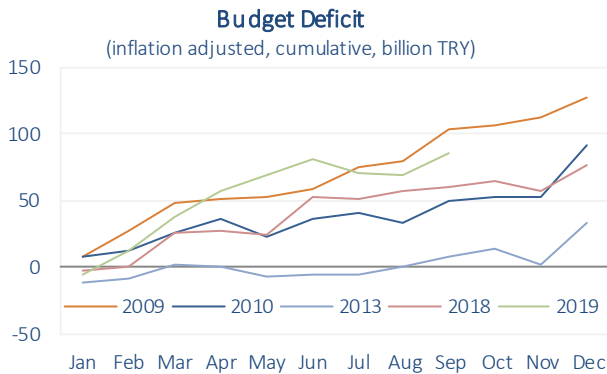
Mild recovery in housing demand is also mirrored in prices. Residential Property Price Index, which is calculated by CBRT to monitor quality-adjusted price changes, increased by 0.6% mom in August. The index recorded an annual increase of 4% in nominal terms and an annual fall of 9.6% in real terms. Analyzing the price changes in the three biggest cities reveals that housing prices in Istanbul decreased by 3.4% yoy while the prices in Ankara and Izmir recorded annual increases of 3.8% and 2.2%, respectively.

Budget posted a deficit of 17.7 billion TRY in September.

Central government budget deficit expanded by 197% yoy and was realized as 17.7 billion TRY in September. In this period, budget revenues increased by 3.3% yoy to 63.1 billion TRY, while budget expenditures surged up by 20.5% to 80.8 billion TRY. Primary budget balance, which gave a surplus of 4.3 billion TRY in September 2018, posted a deficit of 5.6 billion TRY in the same month of this year.

Source: Datastream, Markit, Turkstat, CBRT

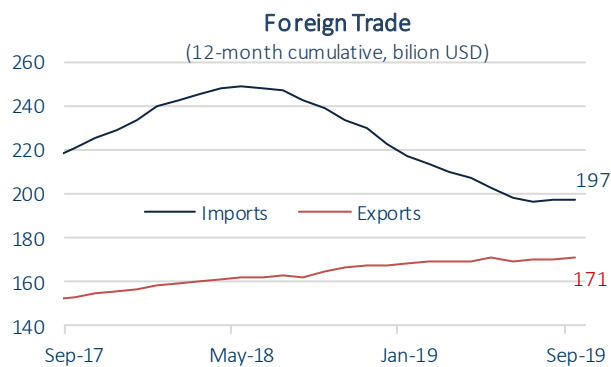
Central government budget deficit, which was 56.7 billion TRY in the first nine months of 2018, was realized as 85.8 billion TRY in the same period of this year.



In September, foreign trade deficit expanded by 6.6% yoy.

In September, export volume expanded by 0.3% to 14.4 billion USD, while import volume increased by 1% to 16.5 billion USD. Thus, foreign trade deficit widened by 6.6% yoy to 2.1 billion USD. During this period, import coverage ratio declined to 87.5%.

12-month cumulative figures reveal that exports and imports became 170.7 billion USD and 197.3 billion USD, respectively. During this period, foreign trade deficit was realized as 26.6 billion USD.



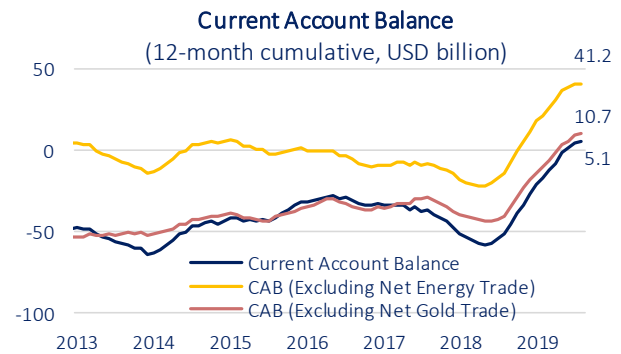
According to the provisional data announced by the Ministry of Commerce, exports decreased %0.1 yoy to 15.7 billion USD in October, while imports rose by %7.8 to 17.4 billion USD. Thus, foreign trade deficit expanded by 256% and came in at 1.8 billion USD.

Current account surplus came in at 2.6 billion USD.

Current account balance has also posted a surplus in August. In this period, current account surplus increased by 27% compared to the same period of the previous year and came in at 2.6 billion USD, slightly below expectations. The course of the general merchandise trade and the rise in tourism revenues were behind this development.

12-month cumulative current account balance rose to a historically high level with a surplus of 5.1 billion USD in

August. Excluding net energy trade, 12-month current account surplus reached to 41.2 billion USD, while current account surplus excluding gold trade increased to 10.7 billion USD.



The contribution of tourism revenues to the current account balance have continued in August. Net tourism revenues rose by 22.2% yoy to 4.1 billion USD, reaching historically high level. According to the general merchandise on a balance of payments basis, foreign trade deficit narrowed by 42.8% to 1.2 billion USD. On the other hand, non-monetary gold trade, which posted a surplus of 531 million USD in August 2018, gave a deficit in the same month of this year, putting pressure on current account balance.

CPI came in parallel with expectations.

In October, CPI increased in line with market expectations by 2% on a monthly basis, while domestic PPI (D-PPI) rose by 0.17%.

	CPI		D-PPI	
October (change %)	2018	2019	2018	2019
Monthly	2.67	2.00	0.91	0.17
Year-to-Date	22.56	10.59	40.22	6.71
Annual	25.24	8.55	45.01	1.70
Annual Average	14.90	16.81	23.73	22.58

Annual CPI inflation dropped to 8.55%, the lowest level since December 2016 thanks to favorable base effect. Annual D-PPI fell to 1.7%, the lowest level of almost 10 years.

Prices in all main expenditure groups except recreation and culture increased in October. Clothing and footwear group, in which prices increased by 11.7% on a monthly basis due to seasonal factors, made the highest contribution to October inflation by 73 bps. During this period, housing group pushed the consumer inflation up by 52 bps due to the hike in electricity prices. Also, food and non-alcoholic beverages gave the third highest contribution to the monthly inflation with 38 bps, mainly affected by the rise in fresh fruit and vegetable prices.

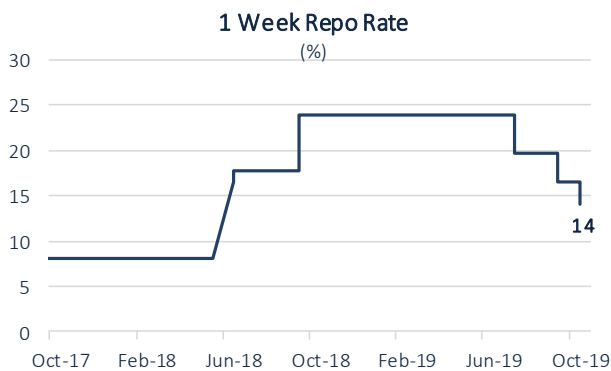
Source: Turkstat, Datastream, Ministry of Trade

	30/Sep	31/Oct	Change
5-Y CDS (basis points)	349	331	-18 bps ▼
TR 2-Y Benchmark Yield	16.49%	12.58%	-391 bps ▼
BIST-100	96,718	98,469	1.8% ▲
USD/TRY	5.6465	5.7126	1.2% ▲
EUR/TRY	6.1558	6.3732	3.5% ▲
Currency Basket*	5.9012	6.0429	2.4% ▲

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

CBRT cut the policy rate by 250 basis points.

At the Monetary Policy Committee meeting held on 24 October, CBRT lowered the policy rate, (1-week repo auction rate) from 16.50% to 14%. In the statement of the decision, it is expressed that the recent moderate recovery in economic activity, downward trend in inflation and the improvement in financial conditions will continue. Thus, the policy rate was reduced by 1,000 bps in 2019 with the cuts made in July, September and October.



CBRT lowered the year-end inflation expectation to 12%.

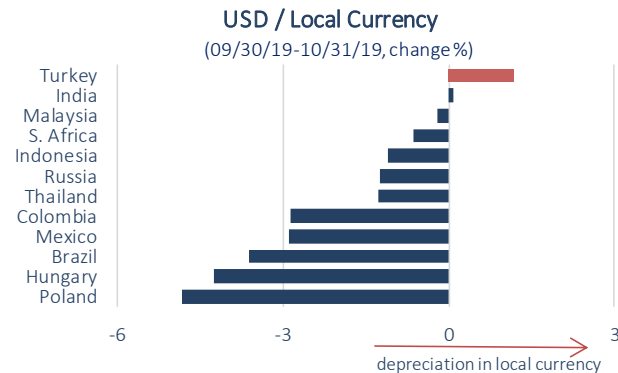
In its last Inflation Report of 2019 published in 31 October, CBRT decreased the year-end inflation expectation for 2019 to 12%, 1.9 points lower than the July forecast. As reasons for downward revision, CBRT asserted the significant improvement in the underlying trend of inflation, the downward revisions to import prices and food prices. However, CBRT indicated that the moderate recovery in the output gap and the tax hikes for alcoholic beverages and tobacco products pushed year-end inflation forecasts upward compared to the previous report period. Besides, 2020 year-end inflation forecast was kept at 8.2%. Speaking at the briefing of the report, CBRT Governor Murat Uysal said that the room for maneuver for rate cut narrowed.

Geopolitical developments were influential in domestic markets.

In October, geopolitical developments were influential in the course of domestic markets. In the first half of the month, domestic markets were under pressure due to the heightened geopolitical concerns following Turkey's

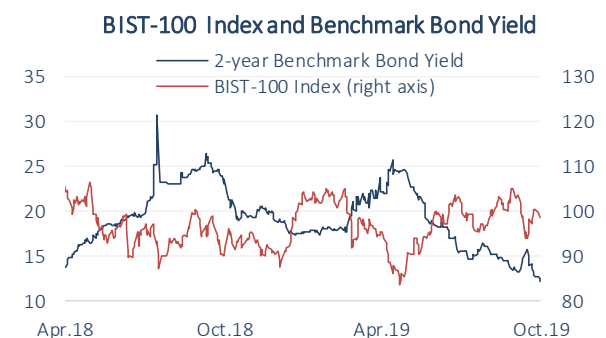
military operation in Syria and US' statements about Turkey. In the upcoming days, agreement between the US and Turkey, Trump's pledge on the suspension of the sanctions and the deal reached between Turkey and Russia had a positive impact on markets. Accordingly, Turkey's 5-year CDS, which followed a fluctuating course throughout the month, declined 18 bps compared to the end of September and came in at 331 on October 31.

In parallel to the course of risk appetite, USD/TRY tested 5.94 on October 14. Having decreased in the following days, USD/TRY closed the month at 5.7129 with a rise of 1.2%.



In addition to the geopolitical developments, the BIST-100 index declined to 93,000 in mid-October due to news on US indictment against Halkbank. Pairing some of its losses in the following days, the index fell 6.2% on a monthly basis and closed the month at 98,469.

Bond yields continued to decline in October. Compound yield of 2-year benchmark bond fell to 12.58% on 31 October.



Fitch upgraded Turkey's credit rating outlook to stable.

Fitch raised Turkey's credit rating outlook from "negative" to "stable", and maintained its credit rating at BB-. In the statement, Fitch noted that Turkey has made progress in balancing the economy and the downside risks were relieved.

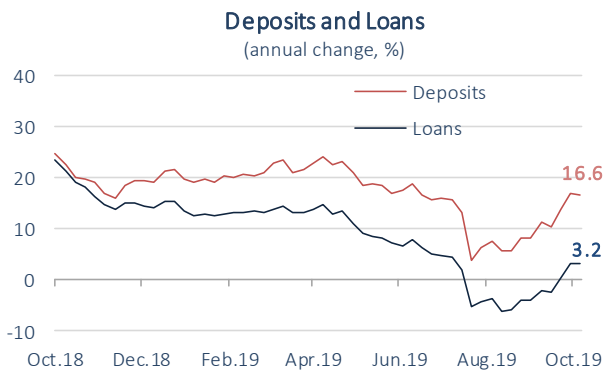
Source: CBRT, Datastream, Reuters, BIST

Banking Sector

Annual rise in TRY deposits was 12%.

According to BRSA Weekly Bulletin, as of October 25, deposit volume increased by 16.6% compared to the same period of the previous year to 2,439 billion TRY. TRY deposits, which have been displaying a weak outlook since the beginning of 2019, recovered somewhat recently. Indeed, TRY deposits recorded the fastest increase in more than a year during this period with an annual rise of 12%. This was mainly driven by the low base effect in the last quarter of 2018. During the same period, FX deposits in USD terms expanded by 18.3% to 221 billion USD, reaching a new record high.

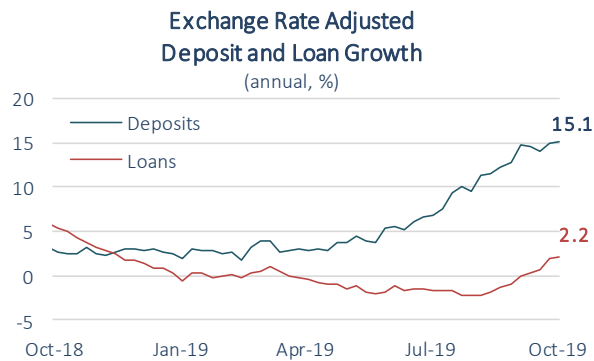
Loan volume, which rose annually on the week of October 11 for the first time since August, expanded by 3.2% to 2,563 billion TRY as of October 25. This development was mainly due to the low base effect in 2018. During this period, TRY loans increased by 6.4%, while FX loans in USD terms decreased by 3.9%.



Compared to the year-end figures, total deposit volume surged up by 19.3%, while loan volume expanded by 7.1%.

FX adjusted volumes...

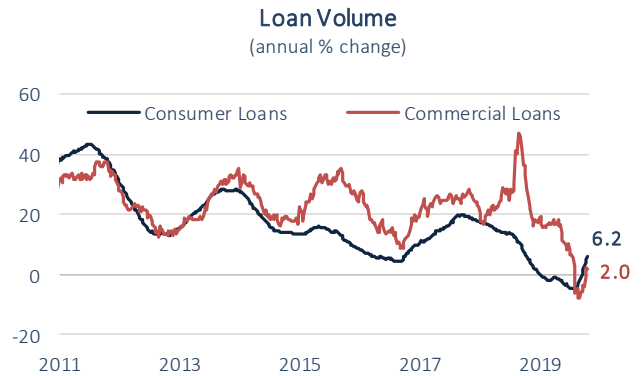
According to FX rate adjusted figures, as of October 25, deposit and loan volume increased by 15.1% and 2.2% yoy, respectively.



Commercial loans increased on an annual basis.

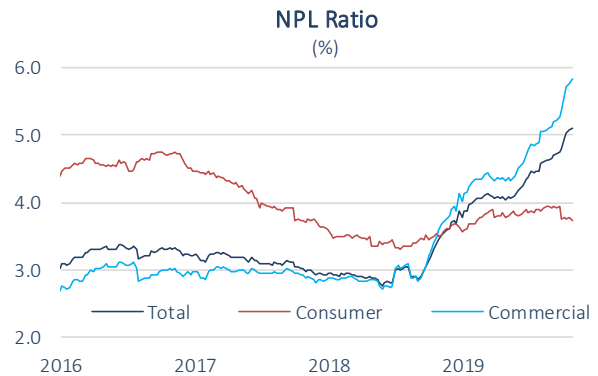
Having decreased annually since August, commercial loans increased by 2% compared to the same period of

the previous year in the week of October 25. The recovery in consumer loans excluding consumer credit cards continued in this period. As of October 25, consumer loans recorded the fastest increase since October 2018 by increasing 6.2% yoy. The recent recovery in housing loan volume was also influential in this development.



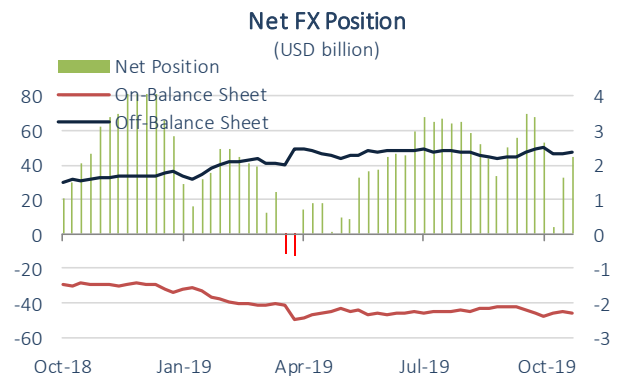
NPL ratio kept rising.

The NPL ratio continued to increase due to the rise in NPL in commercial loans. As of October 25, NPL ratio reached the highest level since February 2010 with 5.11%. The said ratio was realized as 3.6% for consumer loans and 5.51% in commercial loans.



Net foreign currency position...

As of October 25, banks' on-balance sheet FX position was (-) 45,585 million USD, while off-balance sheet FX position was (+) 47,847 million USD. Hence, banking sector's net FX position was realized as (+) 2,261 million USD.



Source: BRSA Weekly Bulletin

Concluding Remarks

In its World Economic Outlook report, the IMF revised its forecasts for global growth downwards, citing trade war and Brexit uncertainty. The new forecast for 2019, corresponding to the lowest growth performance since the global financial crisis, reflected the level of concerns about global economic activity. In line with these concerns, the Fed delivered its third rate cut of the year at the October meeting, while the ECB signaled that the monetary policy might be eased further if deemed necessary. In October, the resumption of trade negotiations between the US and China and the developments in the Brexit process were the other important agenda items for the global economy.

Domestic markets mostly decoupled negatively from global markets in October. Increased geopolitical risks and the US statements following the operation launched in northern Syria created a volatile demand for TL-denominated assets. Agreements with the US and Russia in the second half of the month, on the other hand, supported the markets.

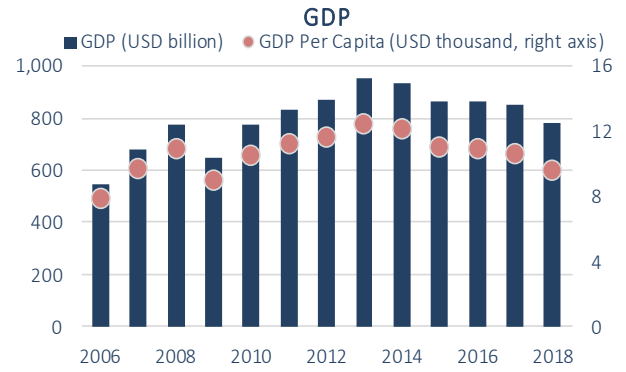
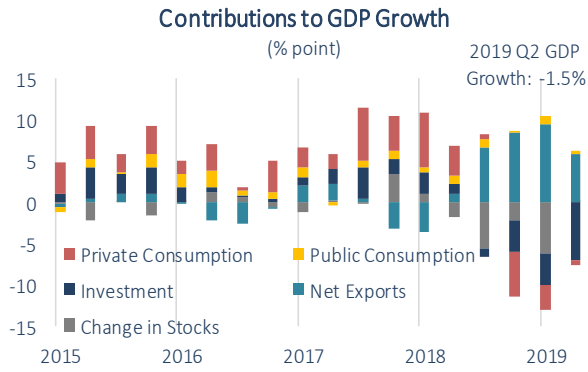
In this period, CBRT continued to support the economy in parallel with the leading central banks. The Central Bank cut the policy rate by 250 basis points to 14% at its October meeting, bringing the cumulative cut since July 2019 to 1,000 basis points. CBRT revised its year-end inflation forecast down to 12%. The trajectory of annual CPI inflation, which fell to single-digit levels in September and remained there in October, will be closely monitored as it will offer a hint on future monetary policy.

Leading indicators announced in the recent period present a mixed outlook for the Turkish economy. Manufacturing PMI, which rose to 50 threshold level in September, returned to contraction territory in October. Confidence indices, on the other hand, showed a mild recovery in this period.

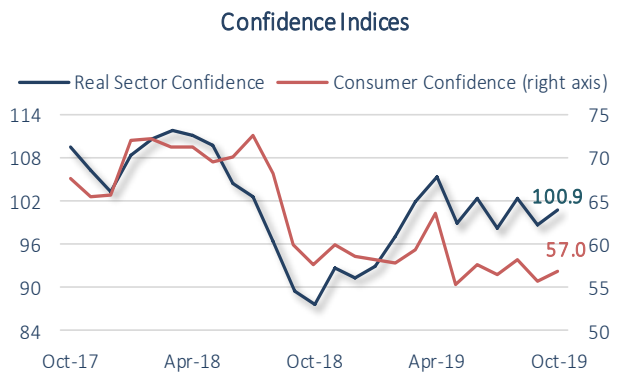
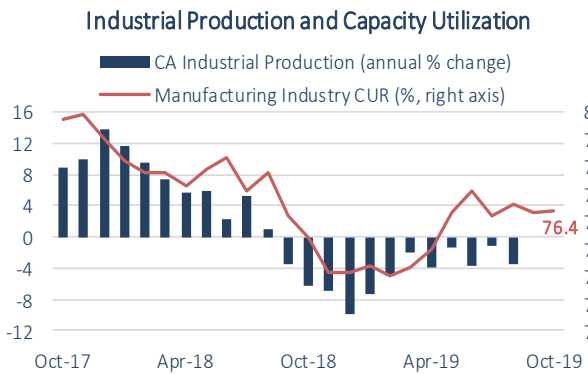
Forecasts (%)	2018 (A)	2019
Growth	2.8	0.5
Current Account Balance/GDP	-3.4	0.0
Inflation (year-end)	20.3	12.0

(A) Actual

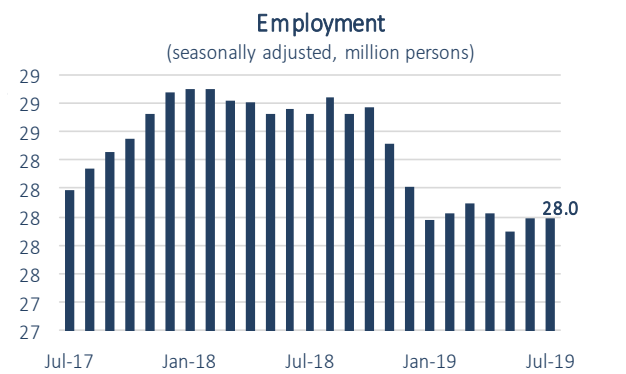
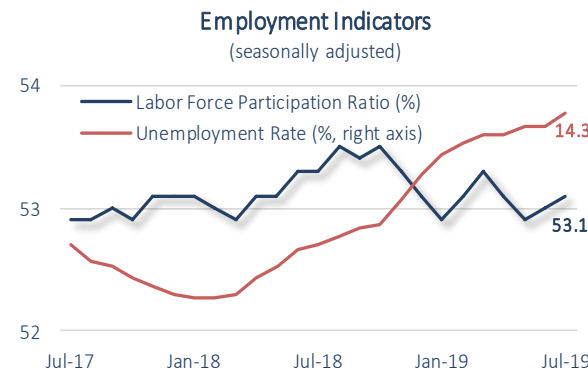
Growth



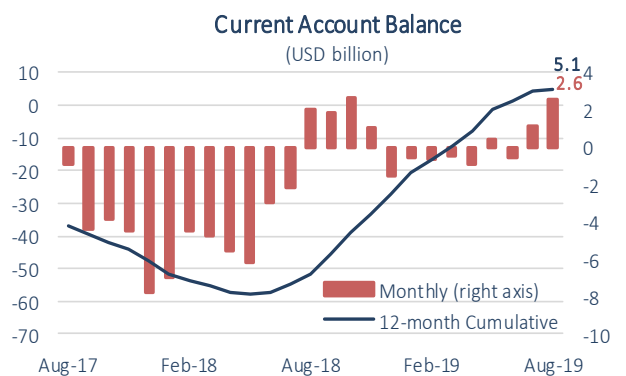
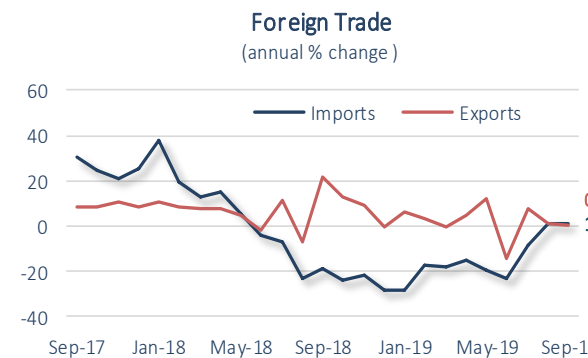
Leading Indicators



Labor Market



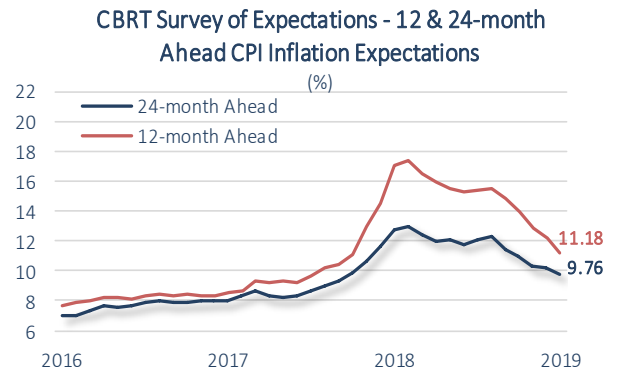
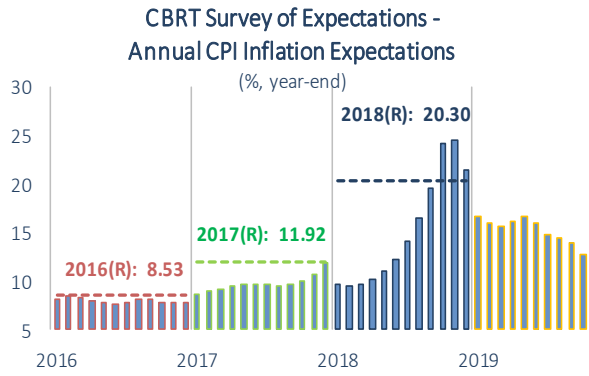
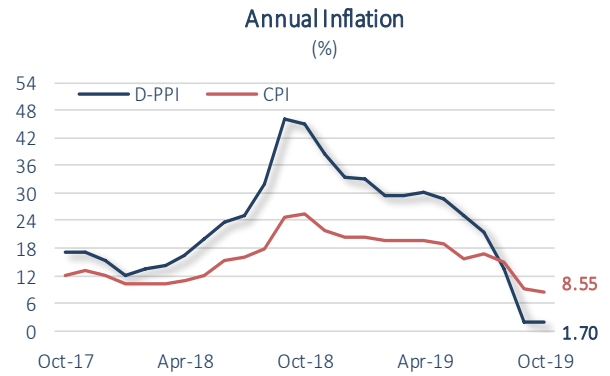
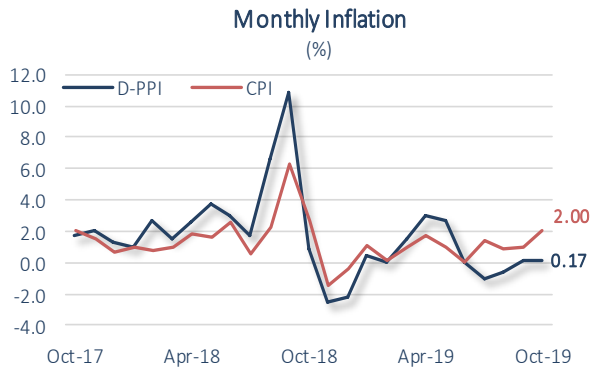
Foreign Trade and Current Account Balance



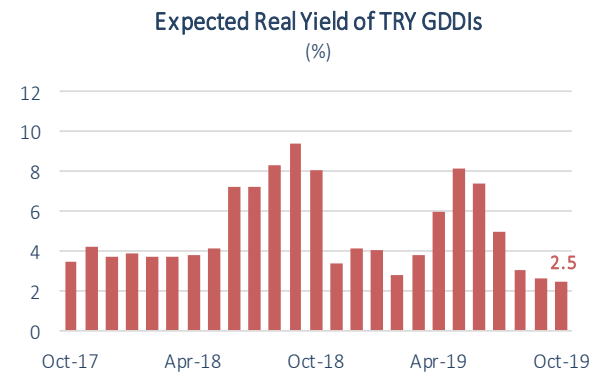
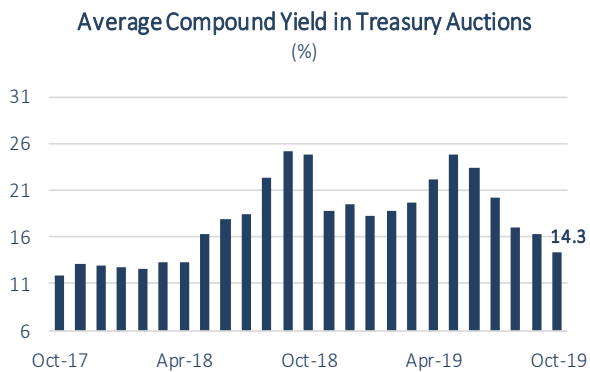
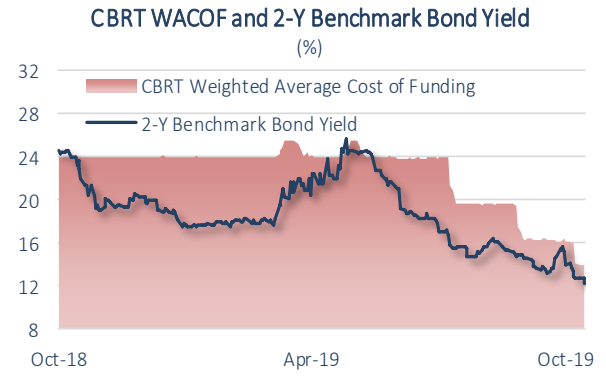
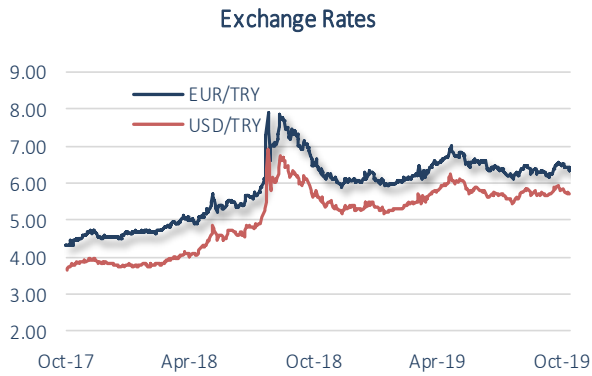
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2014	2015	2016	2017	2018	19-Q1	19-Q2	
GDP (USD billion)	935	862	863	853	789	172	175	
GDP (TRY billion)	2,045	2,339	2,609	3,111	3,724	921	1,024	
GDP Growth Rate (%)	5.2	6.1	3.2	7.5	2.8	-2.4	-1.5	
Inflation (%)						Aug-19	Sep-19	Oct-19
CPI (annual)	8.17	8.81	8.53	11.92	20.30	15.01	9.26	8.55
Domestic PPI (annual)	6.36	5.71	9.94	15.47	33.64	13.45	2.45	1.70
Seasonally Adjusted Labor Market Figures						May-19	Jun-19	Jul-19
Unemployment Rate (%)	10.3	10.2	12.0	9.9	12.8	14.00	14.00	14.30
Labor Force Participation Rate (%)	51.0	51.7	52.4	53.1	53.1	52.90	53.00	53.10
FX Rates						Aug-19	Sep-19	Oct-19
CPI Based Real Effective Exchange Rate	105.9	99.2	93.6	86.3	76.4	77.0	76.8	76.9
USD/TRY	2.3378	2.9189	3.5176	3.7916	5.3199	5.8263	5.6465	5.7126
EUR/TRY	2.8288	3.1708	3.7102	4.5530	6.0815	6.4162	6.1558	6.3732
Currency Basket (0.5*EUR+0.5*USD)	2.5833	3.0448	3.6139	4.1723	5.7007	6.1212	5.9012	6.0429
Foreign Trade Balance⁽¹⁾ (USD billion)						Jul-19	Aug-19	Sep-19
Exports	157.6	143.8	142.5	157.0	167.9	170.5	170.7	170.7
Imports	242.2	207.2	198.6	233.8	223.0	196.9	197.2	197.3
Foreign Trade Balance	-84.6	-63.4	-56.1	-76.8	-55.1	-26.4	-26.5	-26.6
Import Coverage Ratio (%)	65.1	69.4	71.8	67.1	75.3	86.6	86.6	86.5
Balance of Payments⁽¹⁾ (USD billion)						Jun-19	Jul-19	Aug-19
Current Account Balance	-43.6	-32.1	-33.1	-47.3	-27.0	1.2	4.5	5.1
Capital and Financial Accounts	-43.2	-22.7	-22.0	-46.7	-7.9	13.5	13.8	8.7
Direct Investments (net)	-6.3	-14.2	-10.8	-8.8	-9.4	-9.2	-9.2	-9.1
Portfolio Investments (net)	-20.2	15.5	-6.3	-24.5	3.1	1.4	1.0	0.1
Other Investments (net)	-16.2	-12.1	-5.7	-5.2	8.7	23.1	23.0	10.5
Reserve Assets (net)	-0.5	-11.8	0.8	-8.2	-10.4	-1.8	-1.1	7.3
Net Errors and Omissions	0.5	9.5	11.1	0.6	19.1	12.2	9.2	3.6
Current Account Balance/GDP (%)	-4.7	-3.7	-3.8	-5.6	-3.4	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Jul-19	Aug-19	Sep-19
Expenditures	448.8	506.3	584.1	678.3	830.5	565.1	658.8	739.6
Interest Expenditures	49.9	53.0	50.2	56.7	74.0	58.5	69.3	81.5
Non-interest Expenditures	398.8	453.3	533.8	621.6	756.5	506.6	589.5	658.1
Revenues	425.4	482.8	554.1	630.5	757.8	496.4	590.7	653.8
Tax Revenues	352.5	407.8	459.0	536.6	621.3	366.1	432.7	485.3
Budget Balance	-23.4	-23.5	-29.9	-47.8	-72.6	-68.7	-68.1	-85.8
Primary Balance	26.5	29.5	20.3	8.9	1.3	-10.2	1.2	-4.3
Budget Balance/GDP (%)	-1.1	-1.0	-1.1	-1.5	-1.9	-	-	-
Central Government Debt Stock (TRY billion)						Jul-19	Aug-19	Sep-19
Domestic Debt Stock	414.6	440.1	468.6	535.4	586.1	680.8	692.4	701.0
External Debt Stock	197.9	238.1	291.3	341.0	480.6	535.0	555.9	538.2
Total Debt Stock	612.5	678.2	760.0	876.5	1,067.1	1,215.8	1,248.3	1,239.2

(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	Aug.19	Sep.19	Change ⁽¹⁾
TOTAL ASSETS	1,994	2,357	2,731	3,258	3,867	4,270	4,273	10.5
Loans	1,241	1,485	1,734	2,098	2,395	2,537	2,532	5.7
TRY Loans	881	1,013	1,131	1,414	1,439	1,517	1,557	8.2
Share (%)	71.0	68.2	65.2	67.4	60.1	59.8	61.5	-
FX Loans	360	472	603	684	956	1,020	975	2.0
Share (%)	29.0	31.8	34.8	32.6	39.9	40.2	38.5	-
Non-performing Loans	36.4	47.5	58.2	64.0	96.6	123.8	132.7	37.3
Non-performing Loan Rate (%)	2.9	3.1	3.2	3.0	3.9	4.7	5.0	-
Securities	302	330	352	402	478	607	608	27.2
TOTAL LIABILITIES	1,994	2,357	2,731	3,258	3,867	4,270	4,273	10.5
Deposits	1,053	1,245	1,454	1,711	2,036	2,354	2,362	16.0
TRY Deposits	661	715	845	955	1,042	1,112	1,133	8.7
Share (%)	62.8	57.4	58.1	55.8	51.2	47.3	48.0	-
FX Deposits	391	530	609	756	994	1,242	1,229	23.6
Share (%)	37.2	42.6	41.9	44.2	48.8	52.7	52.0	-
Securities Issued	89	98	116	145	174	196	193	10.9
Payables to Banks	293	361	418	475	563	551	524	-6.9
Funds from Repo Transactions	137	157	138	99	97	123	144	48.4
SHAREHOLDERS' EQUITY	232	262	300	359	421	456	466	10.7
Profit (Loss) of the Period	24.6	26.1	37.5	49.1	53.5	32.8	36.2	-
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	59.4	59.3	-
Securities/Assets	15.2	14.0	12.9	12.3	12.4	14.2	14.2	-
Deposits/Liabilities	52.8	52.8	53.2	52.5	52.6	55.1	55.3	-
Loans/Deposits	117.9	119.2	119.3	122.6	117.6	107.8	107.2	-
Capital Adequacy (%)	16.3	15.6	15.6	16.9	17.3	17.9	18.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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