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Economic Research Division

izlem 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

Trade war developments have driven the global risk appetite also in November. Uncertainty regarding the timing of the agreement on the first phase of the trade deal will be signed persisted.

The US GDP growth for the third quarter was revised up by 0.2 pp to 2.1%. Data regarding the fourth quarter have provided mixed signals on the economic activity.

Stating that the US economy has showed a strong performance, Fed Chair Powell suggested that a lower neutral interest rate and weak inflation have provided reasons why the current level of the policy rate is appropriate.

Recent data on Euro Area have signaled that the slowdown in economic activity could decelerate.

Christine Lagarde, pointed to the uncertainties surrounding global economy and stated that monetary policy will remain accommodative, at its first speech as the ECB Head.

Chinese Central Bank cut its short-term lending rates for the first time since 2015.

OECD announced its growth forecasts both for 2019 and 2020 at 2.9%.

Turkish Economy

Turkish economy grew by 0.9% yoy in the third quarter of the year, according to the chain-linked volume index.

Unemployment rate rose by 2.9 points to 14% in August compared to the same period of the previous year.

Calendar adjusted industrial production expanded annually for the first time since August 2018 by 3.4%.

Although the manufacturing PMI rose to 49.5 in November, it remained below the threshold level of 50, pointing weak outlook in the sector continues.

According to the provisional data announced by the Ministry of Commerce, exports was 15.5 billion USD in November, while imports rose by 9.2% to 17.6 billion USD. Thus, foreign trade deficit, which was 672 million USD in November 2018, was realized as 2,1 billion USD during the same period of this year.

Current account posted a surplus of 2.48 billion USD in September. 12-month cumulative current account surplus rose to a new historically high level of 5.9 billion USD in this period.

Central government budget deficit expanded by 177% yoy and was realized as 14.9 billion TRY in October. Central government budget deficit was realized as 100.7 billion TRY in the first ten months of the year by expanding 62% yoy.

In November, CPI increased by 0.38% mom, while domestic PPI (D-PPI) fell by 0.08%. Annual CPI and D-PPI inflation were 10.56% and 4.26%, respectively.

Turkish economy grew in line with expectations in Q3.

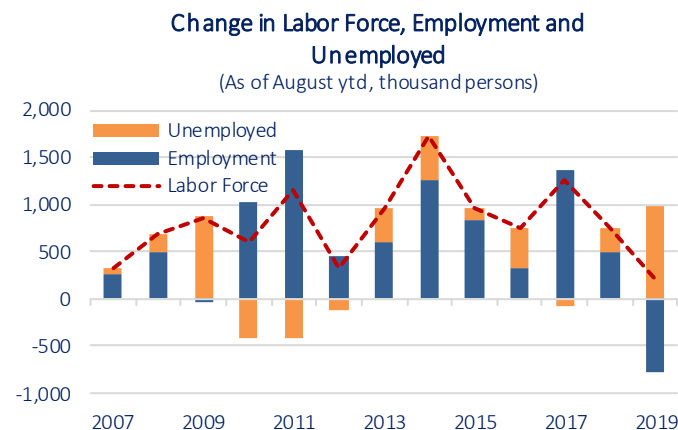
Turkish economy grew by 0.9% yoy in the third quarter of the year, according to the chain-linked volume index (2009=100). Market growth expectation was 1% in this period. Having contracted for three consecutive quarters yoy since 2018Q4, Turkish economy restarted to grow again on an annual basis. According to seasonally and calendar adjusted figures, the quarterly growth rate, which was 1% in the Q2, decreased to 0.4% in this period.

Private consumption expenditures, which dragged the annual growth down since the last quarter of 2018, made a positive contribution to growth by 0.9 pps. In this period, public consumption expenditures have continued to support the economic growth. Thus, total consumption expenditures made the highest impact of the last one year by 1.8 pps. Net exports, which provided a strong support to growth since the second half of 2018, made a negative contribution in Q3. In this period, export volume supported annual GDP growth by 1.2 pps, while the increase in import volume limited growth by 1.4 pps due to base effect and recovery in economic activity. Thus, net exports reduced the growth rate by 0.2 pps.

Contributions to Growth	2019				
	Annual	Q1	Q2	Q3	9M
Consumption	0.9	-2.1	-0.1	1.8	-0.1
Private	0.0	-3.0	-0.6	0.9	-0.8
Public	0.9	0.9	0.5	0.9	0.7
Investment	-0.2	-3.6	-7.0	-3.4	-4.7
Stock Change	-1.5	-6.0	-0.1	2.8	-0.9
Net Exports	3.6	9.5	5.7	-0.2	4.7
Exports	1.7	2.0	1.8	1.2	1.7
Imports	1.9	7.5	3.9	-1.4	3.1
GDP	2.8	-2.3	-1.6	0.9	-0.9

Negative outlook in labor market continues.

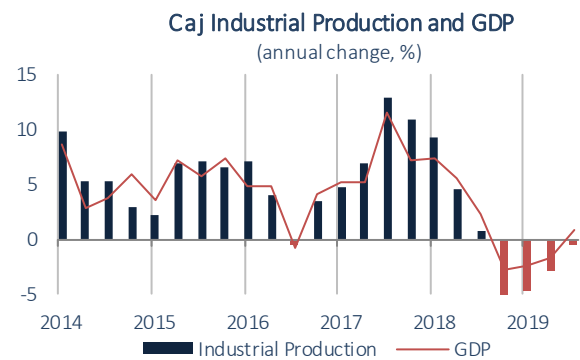
In the first 8 months of 2019, the deterioration in labor market continued parallel to the weak outlook in economic activity. In August period, unemployment rate



rose by 2.9 pps yoy to 14%. Youth unemployment, covering the ages of 15-24, reached the highest level of 2005 based series with 27.4%. As of August, employment decreased by 789 thousand people compared to the same period of the previous year. In this period, the increase in the number of unemployed people was 980 thousand people. According to the seasonally adjusted data, employment rose only in services sector on a monthly basis in August.

Industrial production increased in September.

Seasonally and calendar adjusted industrial production increased by 3.2% mom in September. Calendar adjusted industrial production expanded annually for the first time since August 2018 by 3.4%. In the third quarter, industrial production contracted by 0.4% compared to the same period of the previous year.



Production increased in 14 out of 24 sub-sectors among manufacturing industry, which contributed 3 pps to the 3.4% increase in the industrial production index. Manufacture of computer, electronic and optical products, and manufacture of wearing apparel pushed the index up by 1.1 and 0.8 pps, respectively, while the decline in manufacture of basic metals and non-metallic mineral products limited the rise of the index by 1.3 pts. According to the main industrial groups, the only group that suppressed the index was durable consumer goods. During this period, durable consumer goods production declined by 15.8% yoy, the sharpest decline since July 2016.

Manufacturing PMI was realized below the threshold level also in November

Although the manufacturing PMI rose to 49.5 in November, it remained below the threshold level of 50, pointing weak outlook in the sector continues. In this period, due to the improvement in market conditions, production increased for the first time in over a year and a half, while the slowdown in new orders eased off. On the other hand, the employment index, which rose in September and October, declined in November.

Real sector confidence kept increasing.

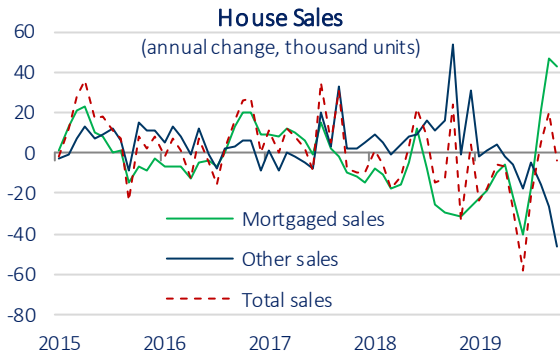
In November, seasonally adjusted real sector confidence index increased by 1.7 pps compared to previous month

Source: Datastream, Markit, Turkstat, CBRT

to 105.9. This improvement was attributable to the favorable course of export orders and improvement in the total order volume. In the same period, seasonally adjusted capacity utilization ratio increased by 0.7 pps compared to the previous month and reached 76.7%. In November, consumer confidence index increased by 5.2% to 59.9.

Mortgage sales increased rapidly in October.

According to Turkstat, house sales decreased by 2.5% yoy to 142,810 in October, after increasing in August and September. In this period, mortgaged sales continued to increase rapidly with the support of decrease in housing loan interest rates. In October, 50,411 house sold via mortgage, which was 8,065 in the same month last year. Other sales, on the other hand, decreased by 33.3% in this period. House sales to foreigners have also declined on an annual basis for the last three months.



White goods sales rose in October.

According to the Automotive Distributors' Association (ODD) data, automobiles and light commercial vehicles sales, which increased by 127.5% yoy to 49,075 units in October, remained unchanged in November and realized as 58,176 units. In the first 11 months of the year, the automobile and light commercial vehicle market contracted by 28.5%. ODD, predicting that market volume will be 450-500 thousand vehicles in 2019, forecasts a growth of nearly 16% in the market in 2020.

In October, white goods sales recorded a rapid recovery and increased by 25.8% compared to the same month of the previous year. In October, exports of the sector decreased by 2.9% and imports increased by 74.4%. Sales declined by 7.9% in the first 10 months of the year. In this period, exports of the sector increased by 0.6%, while imports decreased by 43%.

A rapid increase in foreign trade deficit...

Foreign trade deficit, which was 497 million USD in October 2018, rose to 1.8 billion USD in the same period of this year. Export volume declined by 0.1% yoy to 15.7 billion USD, while import volume recorded the largest increase since April 2018 with 8% yoy and became 17.5 billion USD. During this period, import coverage ratio was 89.6%.

Foreign Trade Balance

(USD billion)

	November		Δ	Jan.- Nov.		Δ
	2018	2019	(%)	2018	2019	(%)
Exports	15.5	15.5	0.0	154.1	156.9	1.8
Imports	16.2	17.6	9.2	206.5	183.6	-11.1
Foreign Trade Balance	-0.7	-2.1	219.4	-52.4	-26.7	-49.1
Import Coverage (%)	95.8	87.8	-	74.6	85.5	-

12-month cumulative exports and imports became 170.7 billion USD and 198.7 billion USD, respectively.

According to the provisional data announced by the Ministry of Commerce, exports had a limited increase on annual basis to 15.5 billion USD in November, while imports rose by 9.2% to 17.6 billion USD. Thus, foreign trade deficit, which was 672 million USD in November 2018, was realized as 2,1 billion USD during the same period of this year.

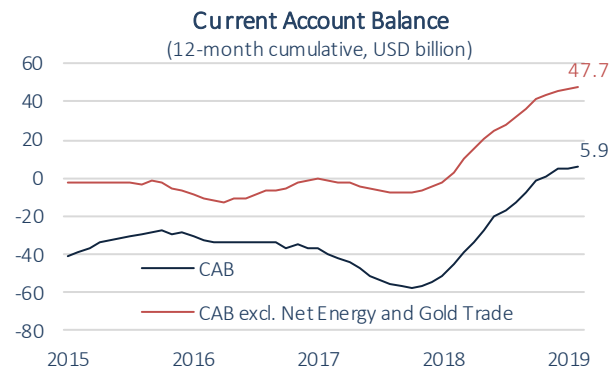
Budget posted a deficit of 14.9 billion TRY in October.

Central government budget deficit expanded by 177% yoy and was realized as 14.9 billion TRY in October. Primary budget balance also posted a deficit of 8.1 billion TRY by increasing %597. In this period, budget revenues increased by 5.2%, while budget expenditures surged up by 18.9%.

Central government budget deficit was realized as 100.7 billion TRY in the first ten months of the year by expanding 62% yoy. Primary budget balance, which gave a surplus of 2.5 billion TRY in the first ten months of the last year, posted a deficit of 12.4 billion TRY in the same period of this year.

In September, current account posted a surplus of 2.48 billion USD.

Relatively weak course of economic activity continued to be effective on current account balance in September. In this month, current account surplus widened by 31.9% yoy and was realized as 2.48 billion USD. The increase in travel revenues was decisive in this development. Foreign trade balance, which recently played an important role in the improvement of current account balance, had a little impact on the rise in surplus in September. The annual contraction in foreign trade



Source: Turkstat, Datastream, Ministry of Trade

deficit was 5.2%, a more moderate rate compared to previous months. Having reached new historically high level with 5.9 billion USD, 12-month cumulative current account became 47.7 billion USD when net energy and gold trade excluded.

In November, CPI came in below expectations.

CPI increased by 0.38% mom in November, beating expectations. According to the Reuters survey, expectation was a rise of 0.7%. In November, domestic PPI (D-PPI) recorded a limited monthly decline, falling by 0.08%.

November (change %)	CPI		D-PPI	
	2018	2019	2018	2019
Monthly	-1.44	0.38	-2.53	-0.08
Year-to-Date	20.79	11.01	36.68	6.63
Annual	21.62	10.56	38.54	4.26
Annual Average	15.63	15.87	25.52	19.68

Annual CPI inflation, which declined to 8.55% in October, went up to 10.56% in November. Annual rise in D-PPI rose to 4.26% during same period.

Clothing and footwear, in which prices increased by 2.7% on a monthly basis due to the seasonal effects, made the highest contribution to November inflation by 18 bps. On the other hand, price movements in hotels, cafes & restaurants and miscellaneous goods & services had a limited downward effect on the monthly CPI inflation.

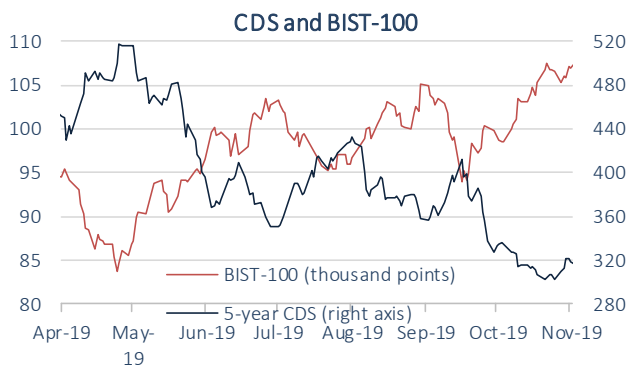
	31-Oct	29-Nov	Change
5-Y CDS (basis points)	331	313	-18 bps ▼
TR 2-Y Benchmark Yield	12.58%	12.14%	-44 bps ▼
BIST-100	98,469	106,904	8.6% ▲
USD/TRY	5.7126	5.7435	0.5% ▲
EUR/TRY	6.3732	6.3328	-0.6% ▼
Currency Basket*	6.0429	6.0382	-0.1% ▼

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

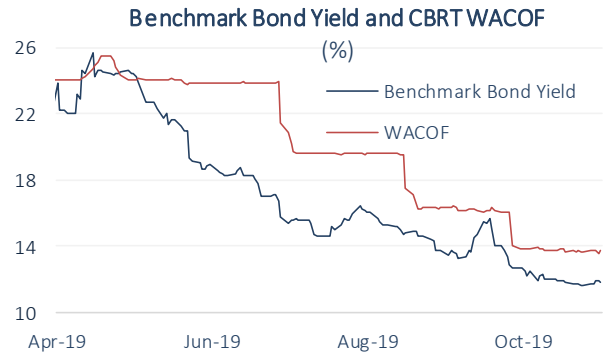
Positive performance in domestic markets...

In November, developments regarding the future of trade negotiations between the US and China were influential in the course of global markets. The statements about trade talks generally supported the global markets. On the other hand, the tension between the two countries after the US President Trump's approval of the legislation about protests in Hong Kong that authorizes sanctions on China put selling pressure on markets in the last days of November. However, the reflection of the heightened trade war worries on domestic markets was limited.

Domestic markets displayed a positive performance thanks to the improvement in US-Turkey relations. Turkey's 5-year CDS, which was realized as 300 bps on November 22, the lowest level since January 2019 in parallel to the recovery in risk perception towards Turkey, declined by 18 bps on a monthly basis in November and completed the month at 318. BIST-100 index, which decreased by 6.2% in October, surged up by 8.6% mom in November to 106,904. As of November 29, USD/TRY recorded a limited increase compared to the end of October and came in at 5.7435.



Bond yields maintained their downward trend, being supported by the expectations that CBRT could continue interest rate cuts. Having tested the lowest level in 2 years, compound yield of 2-year benchmark bond decreased by 44 bps mom to 12.14% as of the end of November.

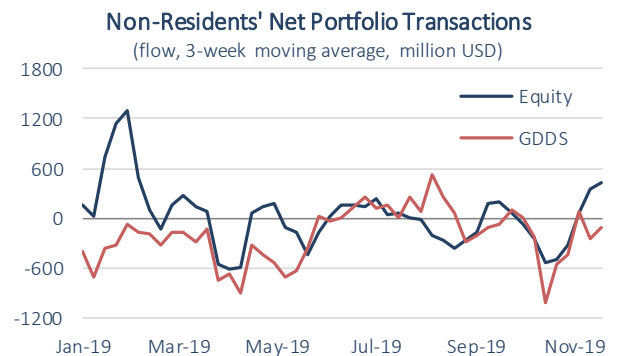


CBRT published its Financial Stability Report.

CBRT published the second Financial Stability Report of the year on November 29. Projecting that the positive effects of recent recovery in credit conditions on domestic demand would be stronger starting from the Q4 of 2019; CBRT presented the rise in TRY liquidity, fall in funding costs and improved expectations of economic activity as being the main factors which led to credit expansion. While emphasizing the overall favourable economic activity outlook, CBRT considered the possibility of negative developments regarding the global growth prospects, risk appetite and perceptions of uncertainty, as well as geopolitical events as being the relevant risk factors.

Non-residents' securities portfolio...

In line with the recovery in the risk perception towards domestic markets, non-residents' demand on equity market increased. In the week of November 15, non-residents' equity shares, adjusted for foreign exchange and market price effects, posted a net purchase of 301 million USD, the highest weekly increase since January. Accordingly, non-residents' equity portfolio expanded by 419 million USD in last 3 weeks, while government domestic debt securities fell by 116 million USD during the same period. Considering year-end figures, non-residents' equity portfolio grew by 471 million USD, while that of government domestic debt securities transactions posted a net sales of 3.1 billion USD.



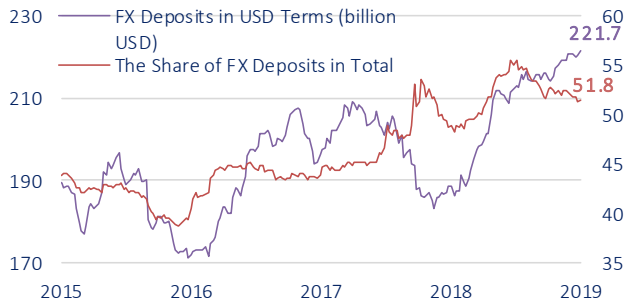
Source: CBRT, Datastream, Reuters, BIST

Banking Sector

Deposit volume was realized as 2,447 billion TRY.

According to BRSA Weekly Bulletin, as of November 22, deposit volume increased by 21% compared to the same period of the previous year to 2,447 billion TRY. TRY deposits rose by 14.9%, the fastest since September 2018. FX deposits in USD terms continued to rise, reaching 221.7 billion USD.

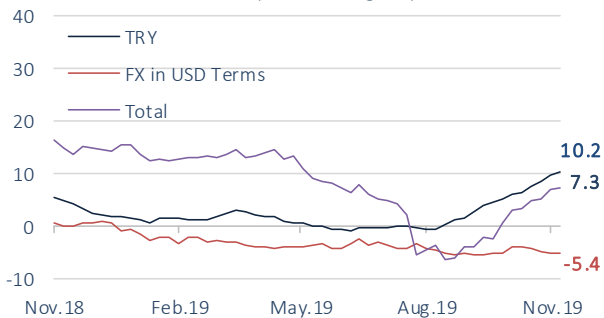
FX Deposits in USD Terms and Share of FX Deposits



Annual rise in loan volume accelerated.

Annual increase in loan volume continued to accelerate. As of November 22, loan volume expanded by 7.3% to 2,574 billion TRY. TRY loans recorded the fastest increase in a year with 10.2%, while FX loans in USD terms contracted by 5.2%.

Loan Volume (annual change, %)



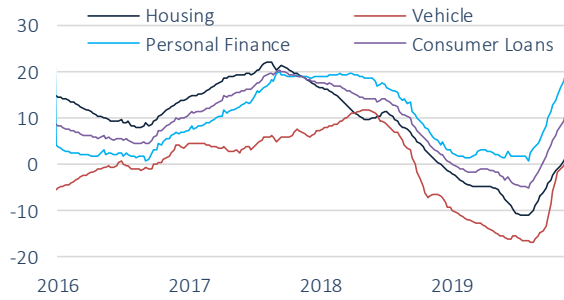
FX adjusted volumes...

According to FX rate adjusted figures, as of November 22, deposit volume surged up by 16.2% yoy, the highest level in 6 years. Loan volume rose by 4.1% during the same period.

Consumer loans kept recovering.

The recovery in consumer loans excluding consumer credit cards continued in the week of November 22. Annual increase in consumer loans was 10.2% while consumer credit cards expanded by 12.5% yoy. Vehicle loans, which exhibited an annual fall since September 2018 due to the weak course of the automotive market, had a limited annual increase in the week of November 22. During the same period, housing loans rose by 1.3%, signaling a recovery, while the increase in personal finance loans accelerated to 19.3%.

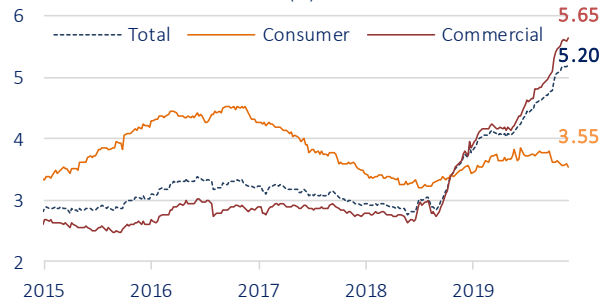
Consumer Loans (annual % change)



NPL ratio is at 5.2%.

Having followed an upward trend since August 2018 non-performing loans (NPL) ratio continued to rise in the week of November 22 and was realized as 5.2%. This was mainly led by the rise in NPL ratio in commercial loans. While NPL ratio declined to 3.55% in consumer loans, the said ratio was at 5.65% in commercial loans.

Non-performing Loans (%)



Net foreign currency position...

As of November 22, banks' on-balance sheet FX position was (-)47,652 million USD, while off-balance sheet FX position was (+)51,328 million USD. Hence, banking sector's net FX position was realized as (+)3,676 million USD.

Net FX Position (USD billion)



Source: BRSA Weekly Bulletin

Concluding Remarks

Trade negotiations between the US and China continued to drive global markets in November. Statements made by both sides and uncertainty regarding the timing of the first phase of the trade agreement will be signed created a cautious atmosphere in the markets.

On the other hand, the negative impact of the trade war on global economic activity continued to be monitored. Recent data showed that Asian economies further lost momentum while leading indicators in the US economy showed a mixed picture.

Data on Turkish economy, which recorded a positive growth in the third quarter of the year, painted a mixed picture. Confidence indicators recovered in October, while manufacturing PMI, remaining below the 50 level, pointed to a contraction in the sector.

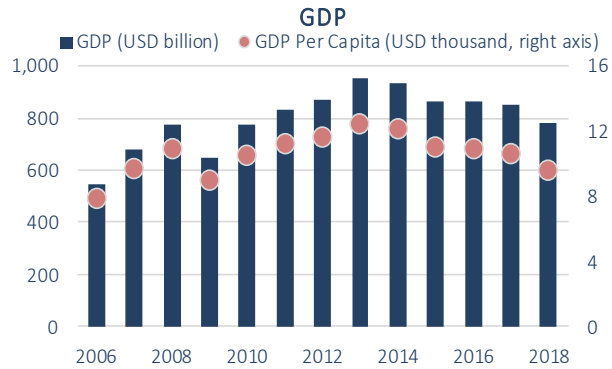
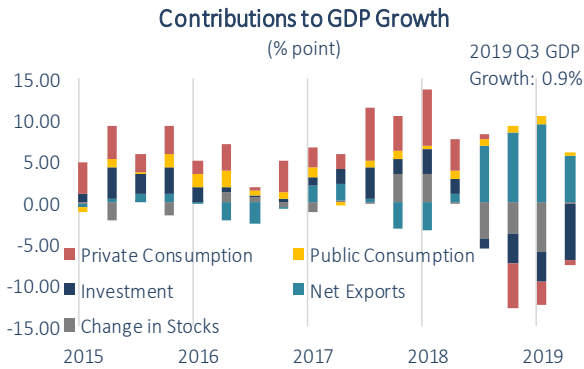
Domestic financial markets showed a strong performance in November. In addition to the improvement in risk perception towards Turkey, CBRT President Murat Uysal's speech at the presentation of Inflation Report signaling a moderate rate cut in December supported local markets.

Forecasts (%)	2018 (A)	2019
Growth	2.8	0.5
Current Account Balance/GDP	-3.4	0.1
Inflation (year-end)	20.3	11.5

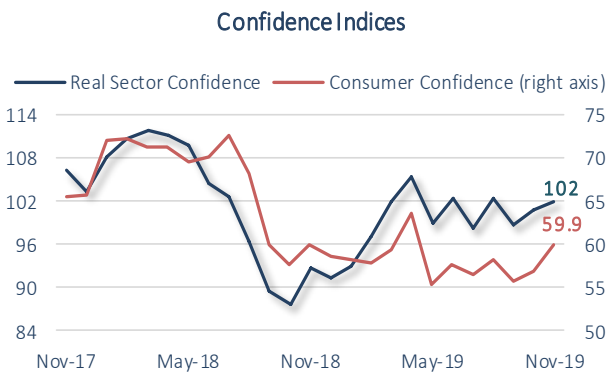
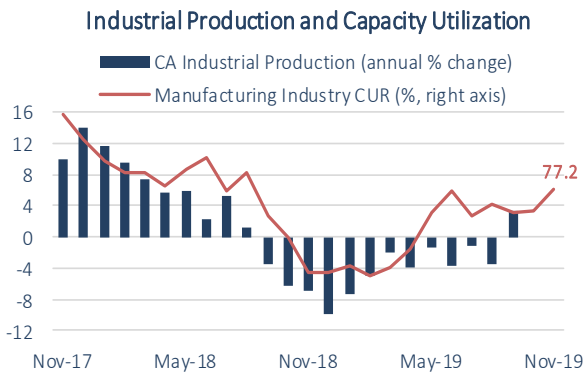
(A) Actual

Turkish Economy- Macroeconomic Indicators

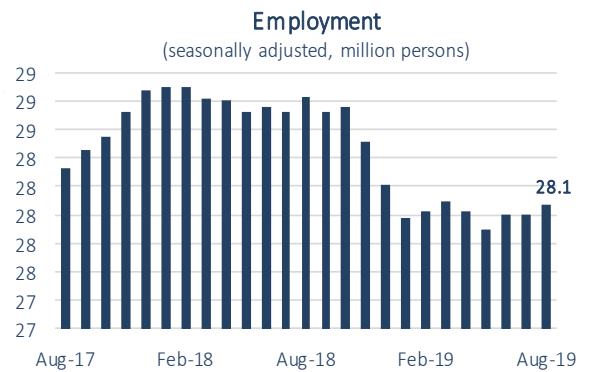
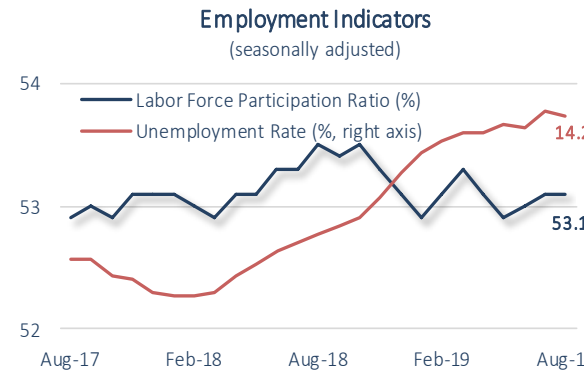
Growth



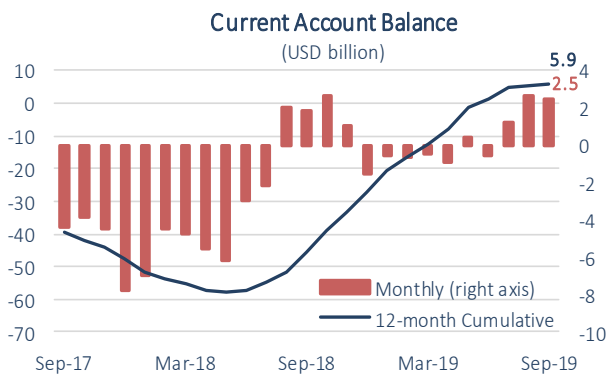
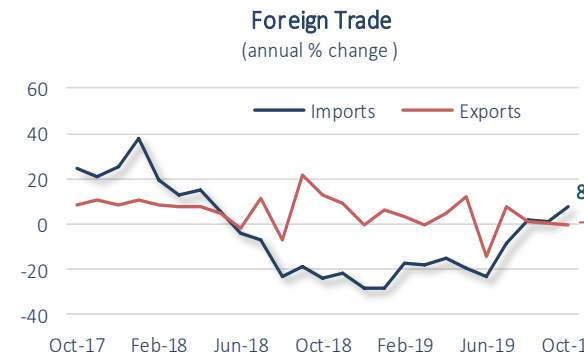
Leading Indicators



Labor Market



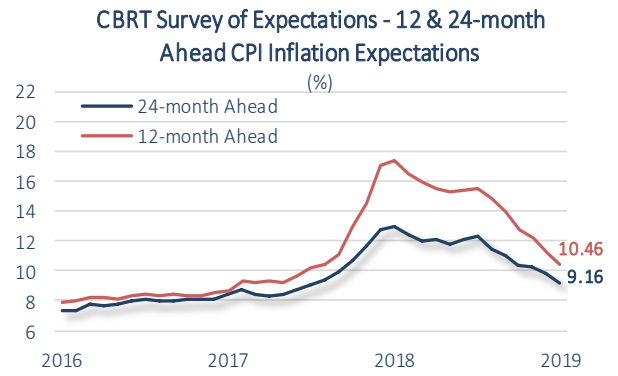
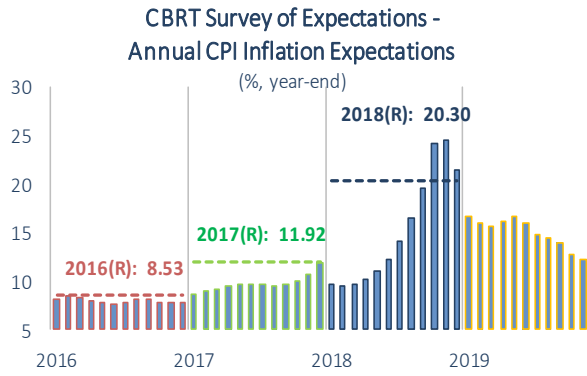
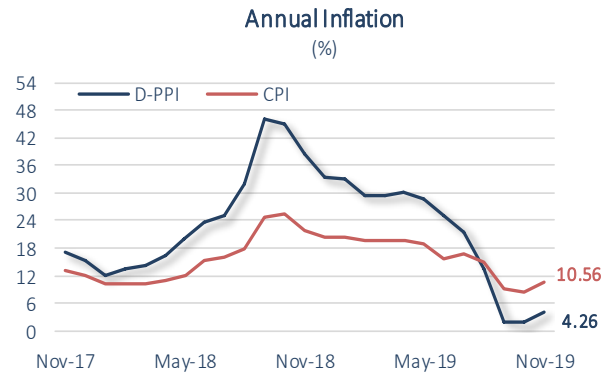
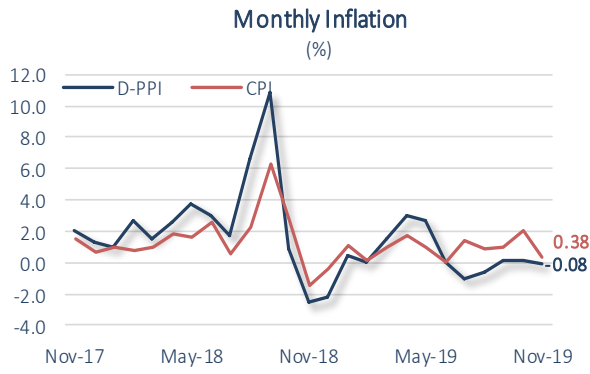
Foreign Trade and Current Account Balance



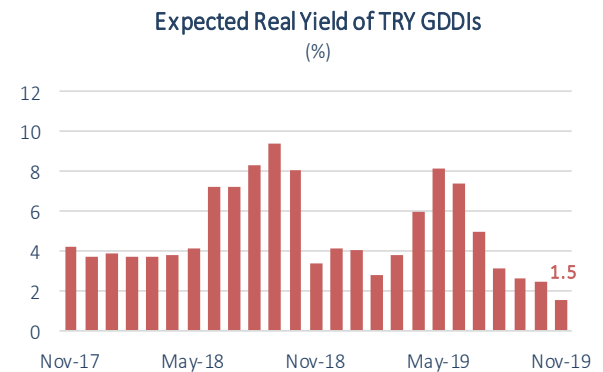
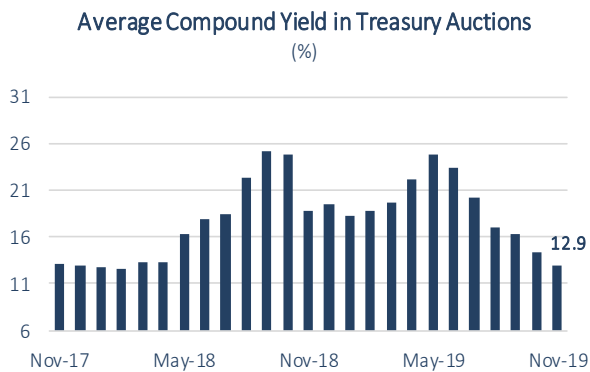
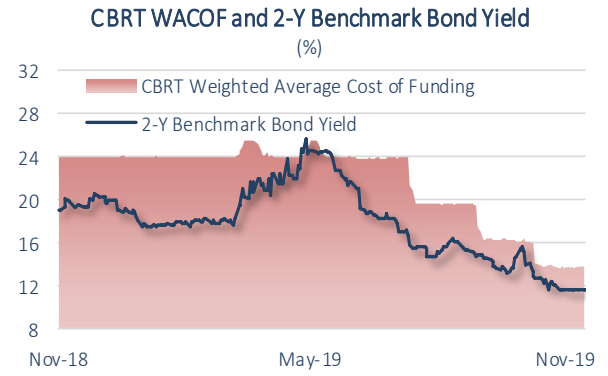
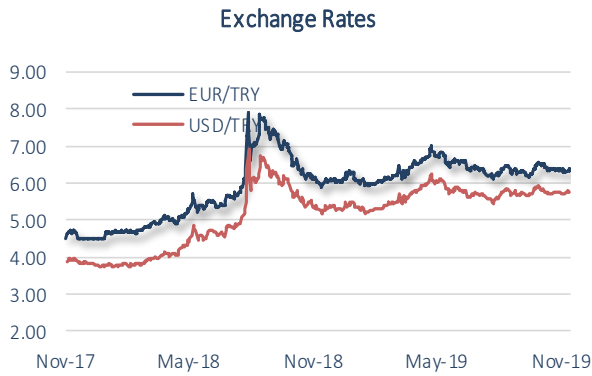
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2014	2015	2016	2017	2018	19-Q1	19-Q2	19-Q3
GDP (USD billion)	935	862	863	853	789	172	175	202
GDP (TRY billion)	2,045	2,339	2,609	3,111	3,724	922	1,024	1,145
GDP Growth Rate (%)	5.2	6.1	3.2	7.5	2.8	-2.3	-1.6	0.9
Inflation (%)						Sep-19	Oct-19	Nov-19
CPI (annual)	8.17	8.81	8.53	11.92	20.30	9.26	8.55	10.56
Domestic PPI (annual)	6.36	5.71	9.94	15.47	33.64	2.45	1.70	4.26
Seasonally Adjusted Labor Market Figures						Jun-19	Jul-19	Aug-19
Unemployment Rate (%)	10.3	10.2	12.0	9.9	12.8	13.90	14.30	14.20
Labor Force Participation Rate (%)	51.0	51.7	52.4	53.1	53.1	53.00	53.10	53.10
FX Rates						Sep-19	Oct-19	Nov-19
CPI Based Real Effective Exchange Rate	105.9	99.2	93.6	86.3	76.4	76.8	76.9	77.4
USD/TRY	2.3378	2.9189	3.5176	3.7916	5.3199	5.6465	5.7126	5.7435
EUR/TRY	2.8288	3.1708	3.7102	4.5530	6.0815	6.1558	6.3732	6.3328
Currency Basket (0.5*EUR+0.5*USD)	2.5833	3.0448	3.6139	4.1723	5.7007	5.9012	6.0429	6.0382
Foreign Trade Balance⁽¹⁾ (USD billion)						Aug-19	Sep-19	Oct-19
Exports	157.6	143.8	142.5	157.0	167.9	170.7	170.7	170.7
Imports	242.2	207.2	198.6	233.8	223.0	197.2	197.4	198.7
Foreign Trade Balance	-84.6	-63.4	-56.1	-76.8	-55.1	-26.5	-26.6	-28.0
Import Coverage Ratio (%)	65.1	69.4	71.8	67.1	75.3	86.6	86.5	85.9
Balance of Payments⁽¹⁾ (USD billion)						Jul-19	Aug-19	Sep-19
Current Account Balance	-43.6	-32.1	-33.1	-47.3	-27.0	4.7	5.3	5.9
Capital and Financial Accounts	-43.2	-22.7	-22.0	-46.7	-7.9	14.9	9.9	9.1
Direct Investments (net)	-6.3	-14.2	-10.8	-8.8	-9.4	-9.1	-8.9	-7.9
Portfolio Investments (net)	-20.2	15.5	-6.3	-24.5	3.1	1.0	0.1	-1.0
Other Investments (net)	-16.2	-12.1	-5.7	-5.2	8.8	24.0	11.5	7.3
Reserve Assets (net)	-0.5	-11.8	0.8	-8.2	-10.4	-1.1	7.3	10.8
Net Errors and Omissions	0.5	9.5	11.1	0.6	19.1	10.2	4.6	3.2
Current Account Balance/GDP (%)	-4.7	-3.7	-3.8	-5.6	-3.4	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Aug-19	Sep-19	Oct-19
Expenditures	448.8	506.3	584.1	678.3	830.5	658.8	739.6	819.9
Interest Expenditures	49.9	53.0	50.2	56.7	74.0	69.3	81.5	88.3
Non-interest Expenditures	398.8	453.3	533.8	621.6	756.5	589.5	658.1	731.6
Revenues	425.4	482.8	554.1	630.5	757.8	590.7	653.8	719.2
Tax Revenues	352.5	407.8	459.0	536.6	621.3	432.7	485.3	539.9
Budget Balance	-23.4	-23.5	-29.9	-47.8	-72.6	-68.1	-85.8	-100.7
Primary Balance	26.5	29.5	20.3	8.9	1.3	1.2	-4.3	-12.4
Budget Balance/GDP (%)	-1.1	-1.0	-1.1	-1.5	-1.9	-	-	-
Central Government Debt Stock (TRY billion)						Aug-19	Sep-19	Oct-19
Domestic Debt Stock	414.6	440.1	468.6	535.4	586.1	692.4	701.0	712.8
External Debt Stock	197.9	238.1	291.3	341.0	480.6	556.6	538.9	547.9
Total Debt Stock	612.5	678.2	760.0	876.5	1,067.1	1,249.1	1,239.9	1,260.7

(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	Sep.19	Oct.19	Change ⁽¹⁾
TOTAL ASSETS	1,994	2,357	2,731	3,258	3,867	4,273	4,322	11.8
Loans	1,241	1,485	1,734	2,098	2,395	2,532	2,563	7.0
TRY Loans	881	1,013	1,131	1,414	1,439	1,557	1,574	9.4
Share (%)	71.0	68.2	65.2	67.4	60.1	61.5	61.4	-
FX Loans	360	472	603	684	956	975	989	3.5
Share (%)	29.0	31.8	34.8	32.6	39.9	38.5	38.6	-
Non-performing Loans	36.4	47.5	58.2	64.0	96.6	132.7	139.5	44.4
Non-performing Loan Rate (%)	2.9	3.1	3.2	3.0	3.9	5.0	5.2	-
Securities	302	330	352	402	478	608	622	30.1
TOTAL LIABILITIES	1,994	2,357	2,731	3,258	3,867	4,273	4,322	11.8
Deposits	1,053	1,245	1,454	1,711	2,036	2,362	2,421	18.9
TRY Deposits	661	715	845	955	1,042	1,133	1,163	11.6
Share (%)	62.8	57.4	58.1	55.8	51.2	48.0	48.0	-
FX Deposits	391	530	609	756	994	1,229	1,258	26.6
Share (%)	37.2	42.6	41.9	44.2	48.8	52.0	52.0	-
Securities Issued	89	98	116	145	174	193	184	5.7
Payables to Banks	293	361	418	475	563	524	521	-7.5
Funds from Repo Transactions	137	157	138	99	97	144	149	54.1
SHAREHOLDERS' EQUITY	232	262	300	359	421	466	472	12.2
Profit (Loss) of the Period	24.6	26.1	37.5	49.1	53.5	36.2	41.3	-
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	59.3	59.3	-
Securities/Assets	15.2	14.0	12.9	12.3	12.4	14.2	14.4	-
Deposits/Liabilities	52.8	52.8	53.2	52.5	52.6	55.3	56.0	-
Loans/Deposits	117.9	119.2	119.3	122.6	117.6	107.2	105.9	-
Capital Adequacy (%)	16.3	15.6	15.6	16.9	17.3	18.4	18.5	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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