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Global Economy

The announcement that the US and China would sign the first phase of the trade agreement on January 15, based on the consensus reached in October 2019, supported the markets. On the other hand, the US-Iran tension escalated with the killing of the Iranian general in the first days of the year put pressure on the risk appetite.

Oil and gold prices started the year with steep rises due to geopolitical developments. Gold prices hit the highest level since April 2013 on January 6 with 1,583 USD/ounce.

The US third quarter GDP growth was confirmed at 2.1%. The recent data releases draw a broadly positive picture of the US economy.

At the last monetary policy meeting of 2019, the Fed kept the policy rate at 1.50-1.75%. While there was no revision in the growth and inflation forecasts of the Fed members, 13 out of 17 Fed members predicted that the policy rate will remain at the current level next year.

In Euro Area, manufacturing data for the last quarter of 2019 displayed a weak picture, while inflation recovered slightly.

ECB did not change interest rates at its first meeting, chaired by Christine Lagarde. The notes released after the meeting did not differ from that of the previous meeting supporting the views that the new Chair will maintain the current monetary policy stance.

In China, policy makers are taking new measures to support the economy. The Central Bank of China has cut the reserve requirement ratios for the eighth time since the beginning of 2018, while the China's State Council has announced new employment incentives.

Turkish Economy

In September 2019, unemployment rate increased by 2.4 points compared to the same period of 2018 and became 13.8%.

Following September, the calendar adjusted industrial production index increased also in October on an annual basis. The index expanded by 3.8% in this period.

In December, manufacturing PMI in Turkey was unchanged compared to November at 49.5 remaining below the threshold level for the third consecutive month.

In November, export volume had a flat course compared to the previous year and reached 15.5 billion USD, while import volume increased by 9.7% to 17.7 billion USD. Thus, foreign trade deficit continued to expand rapidly and reached 2.2 billion USD in November.

Having improved since June 2018, 12-month cumulative current account balance worsened for the first time after 16 months in October. After reaching a historic high level of 5.4 billion USD in September, 12-month current account surplus decreased to 4.3 billion USD in October.

The central government budget posted a surplus of 7.8 billion TRY in November. During this period, budget revenues expanded by 1.7% yoy to 83.3 billion TRY, while budget expenditures increased by 1.6% to 75.5 billion TRY. In January-November, budget deficit surged by 70.4% yoy to 92.9 billion TRY.

CPI increased by 0.74% mom in December. Annual CPI inflation was at 11.84%.

CBRT lowered its policy interest rate from 14% to 12% in December meeting.

Leading Indicators

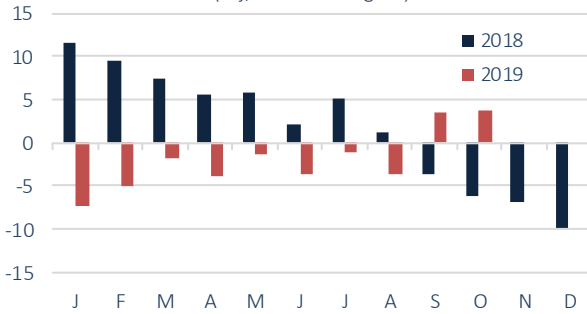
Negative outlook in the labor market continues.

In September 2019, unemployment rate increased by 2.4 points compared to the same period of 2018 and became 13.8%. In this period, youth unemployment covering the ages of 15-24 increased by 4.5 points yoy and reached 26.1%. In September, the number of employed people decreased by 623K on annual basis, while the number of unemployed ones rose by 817K. Construction sector recorded the highest employment loss with 432K people and service sector was the only sector in which employment rose (68K people). Seasonally and calendar adjusted unemployment rate decreased by 0.2 points to 13.9% in September.

Industrial production rose on annual basis in October.

Following September, the calendar adjusted industrial production index increased also in October on an annual basis. Although the index expanded by 3.8% compared to the same month of 2018, it remained below the market expectations, foreseeing production would increase by 6.2% yoy. The annual decline in production in 9 out of the 24 sub-sectors under the manufacturing industry played role in keeping industrial production below the expectations. In October, manufacturing industry production widened by 3.7% yoy, contribution of clothing and textile products to annual increase stood out. On the other hand, seasonally and calendar adjusted industrial production decreased by 0.9% mom. The monthly decline of 1.1% in the manufacturing industry was remarkable.

Industrial Production
(caj, annual change %)



Manufacturing PMI showed that the weakness in the sector continued in December.

In December, manufacturing PMI in Turkey remained unchanged at its level in November, which was 49.5. Output sub-index recorded a limited growth in December as it was the case in November while new orders and export orders pointed to a contraction. In the last month of the year, the decline in employment sub-index continued.

Real sector confidence ended the year with an increase.

In December, seasonally adjusted real sector confidence index rose to 108.7, the highest level since March 2018.

Sub-index regarding the volume of production expectation for the next 3 months posted the most positive outlook since October 2017, while the sub-index of export orders continued to remain close to the highest levels for more than a year. These positive expectations affect the expectations regarding real sector's investment decisions. The sub-index on fixed capital investment expenditures increased for the third consecutive month, indicating that the real sector's investment appetite has reached its highest level since June 2018. In this period, seasonally adjusted capacity utilization ratio of manufacturing industry climbed to the peak of more than a year with 76.9%.

The rapid rise in mortgage house sales continues.

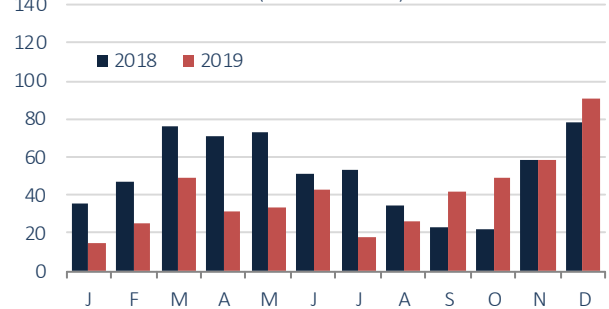
With the support of interest rate cuts, the upward trend in mortgage sales since August continued also in November 2019. In November, total house sales in Turkey increased by 54.4% yoy thanks to the low base effect and became 138,372. In the same period, mortgage house sales reached eightfold of the level of November 2018. The 12.1% rise in other sales, which has been in a downward trend since April, was also a positive development. House sales to foreigners, which have been decreasing since August, continued to contract by 14.6% in November.

The Housing Price Index, published by the CBRT, increased by 0.8% mom in October. On an annual basis, housing prices recorded the highest increase of 6.7% for the last one year. Accordingly, the real decline in prices has been the weakest since January 2018, at 1.7%.

Automotive market contracted by 22.9% in 2019.

The gradual recovery in domestic automotive sales continued in December thanks to the fall in interest rates as well as the realization of deferred demand. However, in 2019, the automotive market contracted by 22.9% compared to 2018, and became 479K units. In terms of total market volume, this represents the lowest value recorded since 2003. In 2019, passenger car sales declined by 20.4% to 387,256 units, while light commercial vehicle sales decreased by 31.8% to 91,804 units. In 2020, the total market is expected to be around 525,000-575,000 units.

Passenger Car and Light Commercial Vehicle
(thousand units)

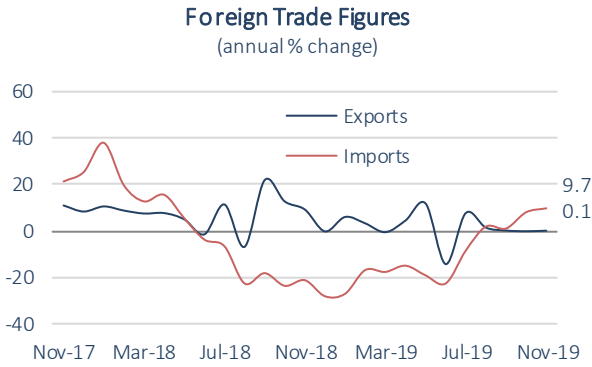


Source: Turkstat, CBRT, Datastream

Foreign Trade Balance

Foreign trade deficit continued to expand.

In November, export volume had a flat course compared to the previous year and reached 15.5 billion USD, while import volume increased by 9.7% to 17.7 billion USD. Thus, foreign trade deficit continued to expand rapidly and reached 2.2 billion USD in November. Import coverage ratio, which reached 95.8% in November 2018, became 87.4% in the same month of this year.



According to the 12-month cumulative figures, the export volume, which has been around 171 billion USD since July, maintained this trend in November as well. The decline of cumulative import volume has lost momentum and this figure has exceeded 200 billion USD after 5 months again. According to provisional data published by the Ministry of Trade, in the whole year of 2019 export and import volumes were realized as 171.6 billion USD and 202.7 billion USD, respectively.

Decline in major export chapters...

In November, export volume of motor vehicles and other major export chapters declined annually. Export volume of 6 chapters out of first 10 with highest export volume declined in this period yoy and this played a role in the flat course of exports. In terms of chapters, motor vehicles continued to have highest exports, while boilers and machinery remained as second. Exports of iron and steel, one of the leading export chapters, contracted by 47.7% (592 million USD) on an annual basis due to tax and quota measures of the US and EU, limiting the increase in export volume by 3.8 pts.

Main export markets...

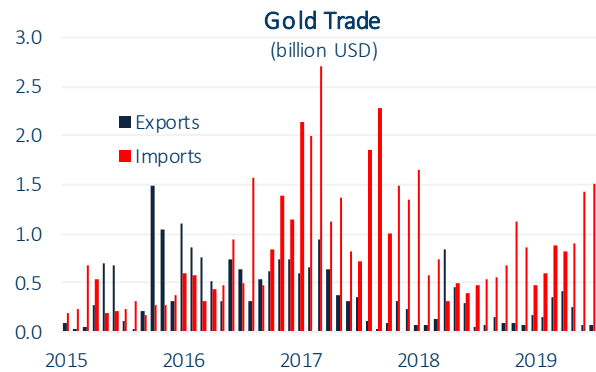
In November, Germany remained as the largest export market. Iraq and the United Kingdom were recorded as

other countries with the largest export, respectively. In this period, export volume increased only to Iraq, among the first 5 countries with the highest export. From top 5 markets, export volume to USA, which is aimed to increase, declined by 18.2% yoy in November.

Analyzing country groups reveals that, in November exports to EU countries decreased by 4.9%, whereas exports to Near and Middle Eastern countries increased by 10.2%

Gold import increased rapidly.

In November, expansion in import volume was driven by growth of precious stones and metals imports. The increase in the mentioned chapter made the strongest contribution with 6.6 pts to 9.7% rise of imports volume. On the other hand, mineral fuels continued to have the largest import volume.



Expectations...

In November, import volume continued to expand parallel to the gradual recovery in domestic demand. On the other hand, weak course of the European Union economies continues to suppress export volume. It is expected that foreign trade deficit will gradually widen as the recovery in domestic economic activity becomes more evident in the coming period. In this context, we think that the 12-month cumulative current account balance will move back to negative zone in the first half of 2020.

Foreign Trade Figures	(billion USD)					
	November		Change	Jan-Nov		Change
	2018	2019	(%)	2018	2019	(%)
Exports	15.5	15.5	0.1	154.1	156.9	1.8
Imports	16.2	17.7	9.7	206.5	183.7	-11.0
Foreign Trade Deficit	-0.7	-2.2	232.2	-52.4	-26.8	-48.8
Import Coverage (%)	95.8	87.4	-	74.6	85.4	-

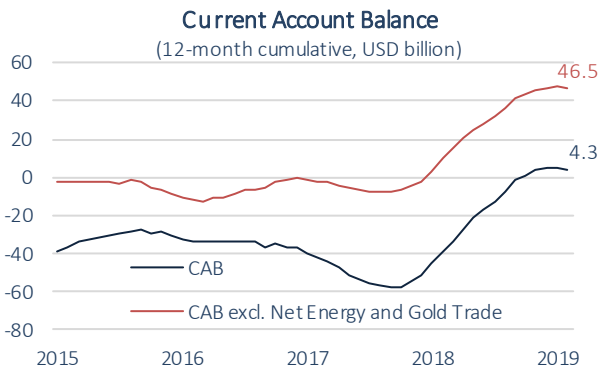
Source: Datastream, Turkstat

Balance of Payments

In October, current account gave 1.55 billion USD surplus.

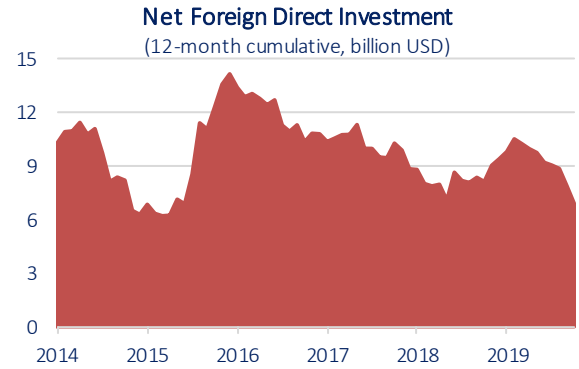
In October, current account surplus decreased by 41% yoy to 1.55 billion USD, due to the gradual recovery in economic activity. In the same month of last year current account surplus was 2.6 billion USD. The foreign trade balance, which gave a surplus of 630 million USD in October 2018, posted a deficit of 924 million USD in the same month of this year and played an important role in this development. The positive effect of tourism revenues, which increased by 238 million USD yoy in October, started to decelerate due to the end of the summer season.

Having improved since June 2018, 12-month cumulative current account balance worsened for the first time after 16 months in October. After reaching a historic high level of 5.4 billion USD in September, 12-month current account surplus, decreased to 4.3 billion USD in October. Excluding net energy and gold trade current account surplus fell to 46.5 billion USD in this period.



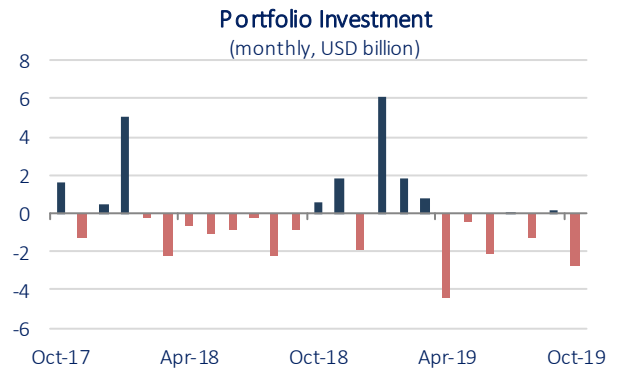
Weak course in foreign direct investments...

The weak outlook in net foreign direct investments continued in October. Net foreign direct investments decreased by 1 billion USD compared to the same month of last year to 448 million USD. Thus, 12-month cumulative net foreign direct investments came in at 6.9 billion USD, the lowest level since June 2015.



Capital outflows in portfolio investments...

In October, portfolio investments recorded a strong capital outflow of 2.7 billion USD. In this period, non-residents' equity securities transactions and government domestic debt securities transactions recorded net sales of USD 492 million and USD 929 million, respectively. In addition, banks' bond repayments of 1.7 billion USD were also effective in the capital outflows recorded in portfolio investments.



Capital inflows in other investments...

In October, other investments recorded a net capital inflow of 2.2 billion USD. In this period, the decrease of 4.1 billion USD in banks' currency and deposits within their foreign correspondent banks and the increase of nonresident banks' deposits held within domestic banks by 978 million USD stood out. Banks, General

Net Capital Flows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2018	Oct. 2019	Dec. 2018	Oct. 2019
Current Account Balance	-27,158	4,336	-	27.4
Total Net Foreign Capital Flows	-2,438	1,971	-	-
-Direct Investment	9,412	6,889	24.1	43.5
-Portfolio Investment	-3,115	-2,348	-	-
-Other Investment	-8,797	-2,590	-	-
-Other	62	20	0.2	0.1
Net Errors and Omissions	19,219	4,593	49.2	29.0
Reserves(1)	10,377	-10,900	26.6	-

Note: The numbers may not add up total due to rounding.

(1) (-) sign indicates an increase in reserves, while (+) sign indicates decrease.

Source: CBRT, Datastream

Balance of Payments

Government and other sectors made net repayments of 2.2 billion USD, 27 million USD and 304 million USD, respectively. Thus, according to 12-month cumulative figures, the long-term debt roll-over ratio of the banking sector decreased to 64%, while the ratio decreased to 101% in other sectors.

Reserves and net errors and omissions...

In October, official reserves increased by 1.9 billion USD. Net errors and omissions also posted an inflow of 454 million USD.

Expectations...

Due to the expected seasonal decline in tourism revenues in addition to the gradual recovery in economic activity, we anticipate that the current account balance will begin to give deficit again in the following period. This view is supported by developments regarding foreign trade also. We expect the current account balance, which will probably post deficit in the last two months of the year, will end 2019 with 12-month cumulative surplus, albeit at a limited level.

Balance of Payments	(USD million)				
	Oct. 2019	Jan. - Oct. 2018	2019	% Change	12-month Cumulative
Current Account Balance	1,549	-26,675	4,819	-	4,336
Foreign Trade Balance	-924	-40,558	-14,009	-65.5	-15,367
Services Balance	3,415	23,045	28,227	22.5	31,013
Travel (net)	2,759	18,490	22,553	22.0	24,688
Primary Income	-1,074	-9,671	-10,250	6.0	-12,506
Secondary Income	132	509	851	67.2	1,196
Capital Account	-1	64	22	-65.6	20
Financial Account	2,002	-9,535	7,291	-	8,949
Direct Investment (net)	-448	-7,269	-4,746	-34.7	-6,889
Portfolio Investment (net)	2,729	3,022	2,255	-25.4	2,348
Net Acquisition of Financial Assets	-447	1,706	3,644	113.6	5,085
Net Incurrence of Liabilities	-3,176	-1,316	1,389	-	2,737
Equity Securities	-492	-1,397	62	-	328
Debt Securities	-2,684	81	1,327	1,538.3	2,409
Other Investment (net)	-2,150	9,869	3,662	-62.9	2,590
Currency and Deposits	-4,625	4,456	739	-83.4	-3,218
Net Acquisition of Financial Assets	-3,563	13,298	9,727	-26.9	3,714
Net Incurrence of Liabilities	1,062	8,842	8,988	1.7	6,932
Central Bank	-2	5,024	506	-89.9	-243
Banks	1,064	3,818	8,482	122.2	7,175
Foreign Banks	978	3,404	5,279	55.1	3,610
Foreign Exchange	713	-262	4,977	-	2,735
Turkish Lira	265	3,666	302	-91.8	875
Non-residents	86	414	3,203	673.7	3,565
Loans	2,681	4,962	13,351	169.1	17,764
Net Acquisition of Financial Assets	143	-266	179	-	566
Net Incurrence of Liabilities	-2,538	-5,228	-13,172	152.0	-17,198
Banking Sector	-2,207	-10,944	-10,939	0.0	-15,077
Non-bank Sectors	-304	6,382	-1,170	-	-903
Trade Credit and Advances	-197	520	-10,345	-	-11,968
Other Assets and Liabilities	-9	-69	-83	20.3	12
Reserve Assets (net)	1,871	-15,157	6,120	-	10,900
Net Errors and Omissions	454	17,076	2,450	-85.7	4,593

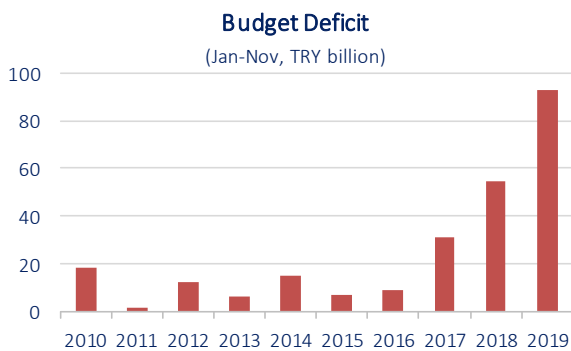
Source: CBRT, Datastream

Budget Balance

Central government budget posted a surplus in November.

The central government budget posted a surplus of 7.8 billion TRY in November. During this period, budget revenues expanded by 1.7% yoy to 83.3 billion TRY, while budget expenditures increased by 1.6% to 75.5 billion TRY. Primary surplus, which was 14.8 billion TRY in November 2018, reached 15.2 billion TRY in this period.

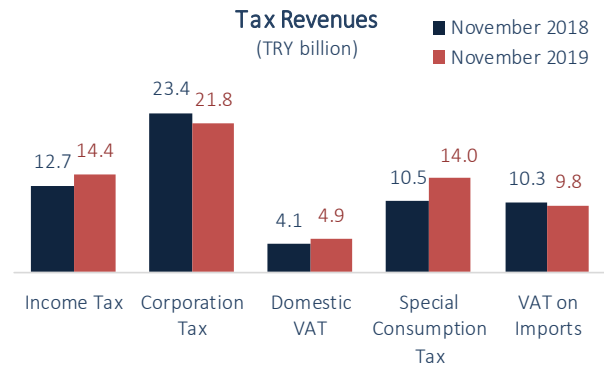
In January-November, budget deficit surged by 70.4% yoy to 92.9 billion TRY. Primary balance, which came in at 17.3 billion TRY in the first 11 months of 2018, declined to 2.8 billion TRY in the same period of this year.



Tax revenues increased by 8% yoy.

Tax revenues expanded by 8% yoy in November. During this period, special consumption tax (SCT), which increased by 33.5%, was the main driver of the rise in tax revenues. The contributions of petroleum and natural gas products and tobaccos in the increase in SCT revenues, which were realized as 13.7 and 7.1 points respectively, were significant. While annual rise of 180.3% in SCT from durable goods and others was another remarkable development during this period, the motor vehicles surged up rapidly by 46.7% due to the relative recovery in domestic demand and the base effect stemmed from SCT reduction last year. On the other hand, corporation tax limited the increase in budget revenues, declining by 7% yoy in this period.

The rapid decline in other miscellaneous revenue under interest, share and fines item limited the increase in budget revenues by 4.4 points. The said item was influential in budget revenues last year due to the paid military service revenues.



Budget expenditures...

Compensation of employees continued to drive the rise in budget expenditures in November. The said item made the highest contribution to the increase in budget expenditures by 5.3 points. In this period, interest expenditures rose by 3.1%. On the other hand, the decline in health, retirement and social aid expenses due to the fall in government social security contribution stood out in this period. It limited the rise in budget expenditures by 2.2 points.

Expectations...

Budget indicators recovered in November thanks to the low base effect stemmed from SCT revenues. On the other hand, in the first 11 months of the year, central government budget displayed a weak outlook compared to the same period of last year, exceeding a deficit of 90 billion TRY. In the last month of the year, we believe that the recovery in economic activity may support budget performance.

Central Government Budget

(billion TRY)

	November		%	January-November		%	2019 Budget		NEP	Real/NEP
	2018	2019		Change	2018		2019	Change		
Expenditures	74.3	75.5	1.6	745.4	895.4	20.1	961.0	992.4	90.2	
Interest Expenditures	7.2	7.5	3.1	71.9	95.8	33.2	117.3	103.1	92.9	
Non-Interest Expenditures	67.1	68.0	1.5	673.5	799.6	18.7	843.7	899.3	88.9	
Revenues	81.9	83.3	1.7	690.8	802.5	16.2	880.4	867.4	92.5	
Tax Revenues	67.9	73.4	8.0	575.8	613.2	6.5	756.5	667.6	91.9	
Other Revenues	13.9	9.9	-28.7	115.0	189.2	64.5	123.9	199.8	94.7	
Budget Balance	7.6	7.8	2.8	-54.5	-92.9	70.4	-80.6	-125.0	74.4	
Primary Balance	14.8	15.2	3.0	17.3	2.8	-83.6	36.7	-21.9	-	

Numbers may not add up to total value due to rounding.

Source: Datastream , Ministry of Treasury and Finance

Inflation

In December, CPI inflation came in above expectations.

CPI increased by 0.74% mom in December. According to the Reuters survey, markets expected a rise of 0.49%. Domestic PPI (D-PPI) recorded an increase of 0.69% during this period.

December (change %)	CPI		D-PPI	
	2018	2019	2018	2019
Monthly	-0.40	0.74	-2.22	0.69
Annual	20.30	11.84	33.64	7.36
Annual Average	16.33	15.18	27.01	17.56

2019-end inflation is at 11.84%.

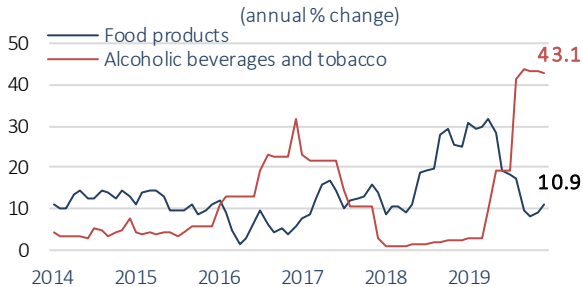
Annual CPI inflation, which ended 2018 at 20.30%, became 11.84% in 2019-end. CBRT had expected the year-end inflation to be 12% in its Inflation Report published in late October. Annual rise in D-PPI, which was 33.64% in December 2018, stood at 7.36% during the same period in 2019.

Food prices drove CPI inflation up.

Food group, in which prices increased by 2.9% on a monthly basis in December, made the highest contribution to inflation by 66 bps. Food prices were followed by transportation group with a positive contribution of 9 bps. Clothing and footwear group, in which prices declined by 1.9% on a monthly basis in December, made the largest negative contribution to monthly inflation by 13 bps.

Looking at the annual CPI inflation, the highest contributions came from food and transportation groups with 254 and 205 bps, respectively. In addition, alcoholic beverages and tobacco, in which prices surged more rapidly than the prices in other main expenditure groups by 43.1% yoy, added 182 bps to the annual consumer inflation.

Food and Alcoholic Beverages & Tobacco Prices

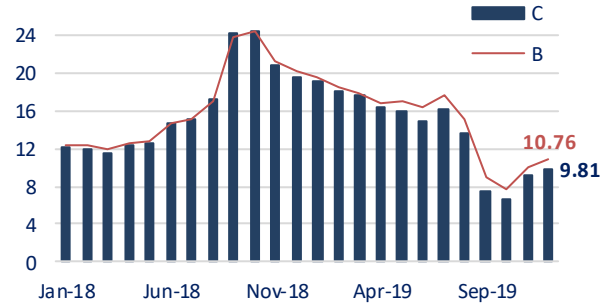


Core inflation indicators...

CPI excluding seasonal products increased at a similar rate to headline inflation with 0.73% mom. One of the CBRT's favorite core inflation indicators, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold), increased 0.41% mom. C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic

beverages, tobacco and gold) followed an almost flat path during this period. Annual increases in B and C indices were realized as 10.76% and 9.81%, respectively.

Special CPI Aggregates

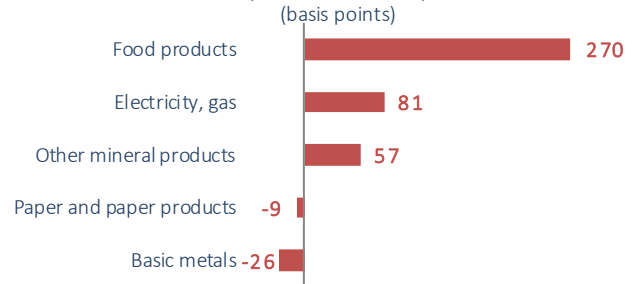


Food and basic metals pushed up monthly D-PPI inflation.

In December, the rise in D-PPI was mainly driven by food products and basic metals sub-sectors. The said groups dragged monthly D-PPI inflation down by 36 bps and 14 bps, respectively. During this period, electricity&gas sector, in which prices fell by 0.88% mom, made the largest negative contribution to monthly D-PPI inflation by 6 bps.

Looking at the annual D-PPI inflation, the highest positive contributions came from food products and electricity&gas while basic metals stood out with a negative contribution.

Contributions to Annual D-PPI Inflation by Main Sub-Groups



Expectations...

The 4.6% monthly rise in currency basket in December and the 15% increase to the minimum wage for 2020 are among the upside risks to inflation. On the other hand, the recent cancellation of automatic price hikes in tobacco and alcohol products for the first half of the year and the cut in value-added tax in furniture products are expected to have a positive impact on inflation outlook. We expect annual CPI inflation to hover around double-digits during the first half of 2020. CBRT's inflation forecast for the 2020-end was announced as 8.2% at the end of October 2019.

	29-Nov	31-Dec	Change
5-Y CDS (basis points)	313	277	-36 bps ▼
TR 2-Y Benchmark Yield	12.14%	11.78%	-36 bps ▼
BIST-100	106,904	114,425	7.0% ▲
USD/TRY	5.7435	5.9510	3.6% ▲
EUR/TRY	6.3328	6.6800	5.5% ▲
Currency Basket*	6.0382	6.3155	4.6% ▲

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

In Turkey, relations with the US and CBRT's actions were high on the agenda.

In December, the announcement that the US and China will sign the first phase of the trade agreement early 2020 supported global risk appetite and, along with this positive mood, global stock indices reached historical highs led by advanced country equities. Expectations that leading central banks will continue their expansionary monetary policies in the following period also supported the markets.

In Turkey, uncertainties about the relations with the US and CBRT's actions were closely monitored in the last month of the year.

CBRT lowered the policy rate to 12%.

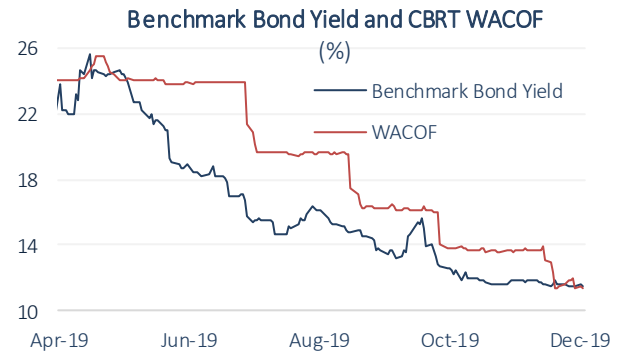
At its Monetary Policy Committee meeting held on December 12, CBRT cut the policy rate from 14% to 12%. With this decision, CBRT's total interest rate cuts since July reached 1,200 bps. In the press release published after the meeting, it was stated that inflation expectations displayed a broad-based decline and the risks regarding the disinflation path for 2020 were balanced.

CBRT revised its reserve requirement regulation that links the reserve requirement ratios and remuneration rates to loan growth rates. The previous implementation of lowering the reserve requirement ratios for most Turkish lira liabilities for banks that have nominal loan growth rates between 10-20% was revised to a real loan growth (CPI inflation-adjusted) of 5-15%. With this revision, the implementation promotes commercial loans with a two-year and longer maturity and housing loans with five-year and longer maturity.

CBRT linked also FX reserve requirements to real loan growth rates of banks in the last days of 2019. Having decided to increase the reserve requirement ratios applied to FX deposits/participation funds by 200 bps for all maturity brackets, CBRT announced that the said rates will be applied 200 bps lower for the banks which comply the TRY real loan growth conditions, in order to ensure that these banks are not affected by this increase.

The downward trend in interest rates continued.

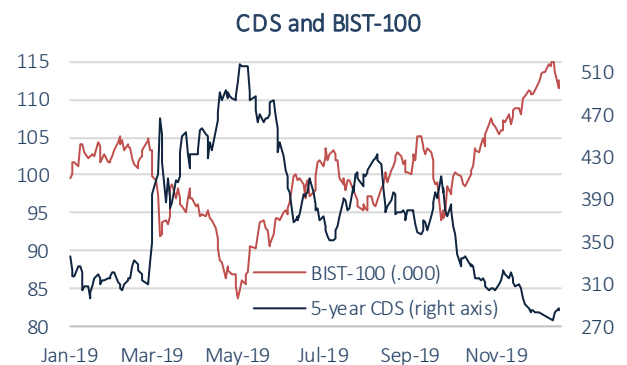
In December, the downward trend in interest rates persisted. 2-year benchmark bond yield declined 36 bps and 795 bps compared to November-end and 2018-end,



respectively. The bond yield ended the year at 11.78%.

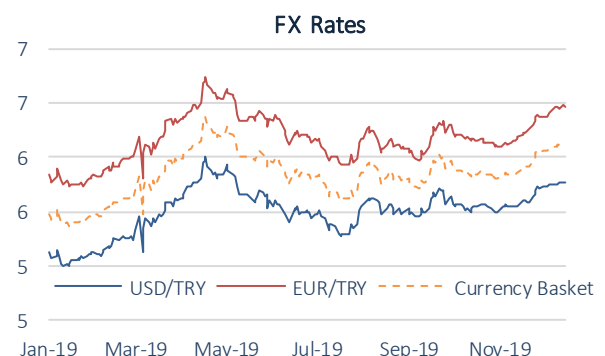
Improvement in risk sentiment towards Turkey...

Turkey's 5-year CDS premium continued to decline in December and ended the year at 277 bps, the lowest level in one and a half year. Therefore, CDS premium, which followed a volatile course throughout the year, ended the year with a fall of 82 bps compared to 2018-end. The fall compared to the peak level of the year, which was recorded in May, was 238 bps. Improvement in risk sentiment towards Turkey brought about a strong equity market performance. BIST-100 index, which increased by 7% in December, rose by 25.4% in 2019 as a whole.



Depreciation in Turkish lira...

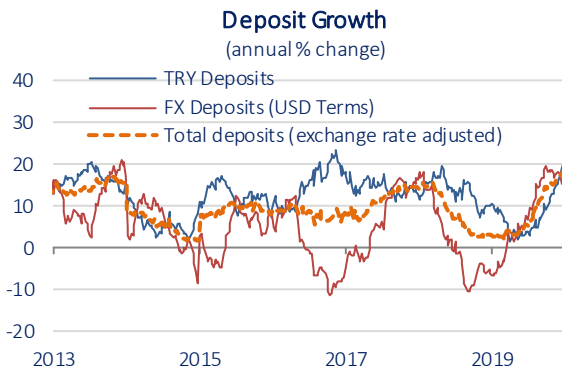
Due to geopolitical developments, Turkish lira depreciated in December. USD/TRY, which rose 3.6% mom in December, surged by 11.9% in 2019 compared to 2018-end and became 5.951 on December 31. EUR/TRY increased by 5.5% mom and 9.8% yoy and closed the year at 6.68.



Source: CBRT, Datastream, Reuters, BIST

The fastest increase in TRY deposit volume in the last 3 years...

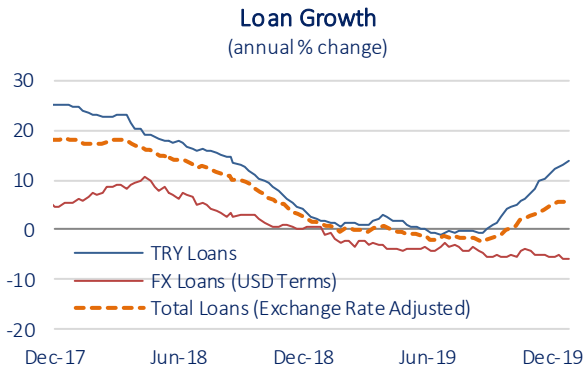
According to BRSA Weekly Bulletin, deposit volume increase gained momentum in the second half of December. As of December 27, deposit volume increased by 25.7% yoy and was realized as 2,570 billion TRY. The increase in TRY deposit volume, which has recently expanded rapidly, played an important role in this development. As of December 27, TRY deposits recorded the fastest increase in more than 3 years with 20.3% on an annual basis. In the same period, FX deposits in USD terms expanded by 16.3%. Thus, the total deposit volume of the banking sector reached the highest annual growth of more than a year.



The share of FX deposits, which increased rapidly and reached the peak of the last 16 years with 55.5% in May due to the surge in FX demand of households, followed a downward trend in the rest of the year. As of December 27, the share of FX deposits in total deposits was 50.8%. On the other hand, the decline in the share of FX deposits is expected to slow down due to the increase in exchange rates recently.

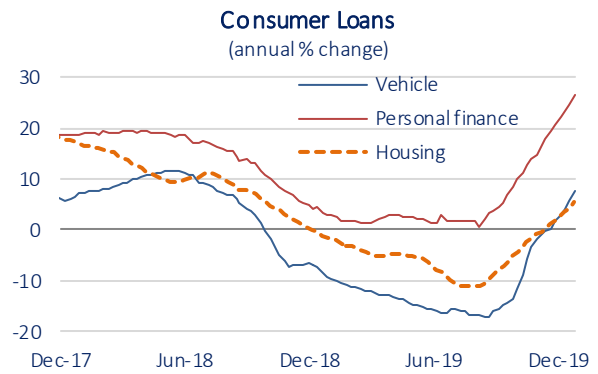
Loan volume continues to recover.

Thanks to CBRT's interest rate cuts and re-balancing of economic activity, loan growth rate is accelerating gradually. As of December 27, TRY loan volume increased by 13.9% yoy and displayed the most positive performance since August 2018. Meanwhile, FX loan volume in USD terms continues to decline. As of December 27, FX loan volume in USD terms contracted by 6% yoy. Thus, total loan volume expanded by 10.8% in this period.



Rapid increase in consumer loans...

Consumer loans, analysed excluding consumer credit cards, continue to recover recently. Consumer loans volume increased by 14.2 billion TRY in the last month of 2019, while 10 billion TRY (70.3%) of this increase stemmed from the rise in demand for personal finance loans. Analyzing annual increases also reveals that demand for personal finance loans is stronger than the demand for other types of consumer loans. As of December 27, consumer loans volume expanded by 16.3% yoy, while personal finance loans increased by 26.5%. In this period, vehicle and housing loans rose by 7.6% and 5.4%, respectively.



Non-performing loan ratio is at 5.3%.

Due to the deterioration in commercial loan portfolio, as of 27 December non-performing loan ratio reached 5.3%, the highest level for last 10 years. NPL ratio was at 3.3% in consumer loans, while the said ratio was 5.85% in commercial loans.

Net foreign currency position...

As of December 27, banks' on-balance sheet FX position was (-)43,956 million USD, while off-balance sheet FX position was (+)44,690 million USD. Hence, banking sector's net FX position was realized as (+)734 million USD.

Source: BRSA Weekly Bulletin

Concluding Remarks

US President Trump announced that they will sign the first phase of the trade agreement with China on January 15, and the recent measures taken by the PBoC helped global markets make a good start to 2020. On the other hand, ongoing uncertainties regarding the remaining phases of the trade agreement and US-Iran tension put downward pressure on the risk appetite. In the first week of the year, gold and oil prices increased rapidly due to geopolitical developments.

Data on global economic activity present a mixed outlook. While the US economy showed a moderate performance, economic activity in the Euro Area, China and Japan continues to display a fragile outlook. Against this backdrop, we believe that the central banks of the leading economies will maintain their accommodative stances also in 2020.

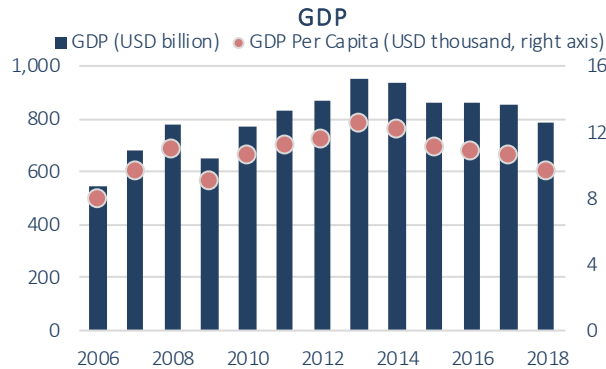
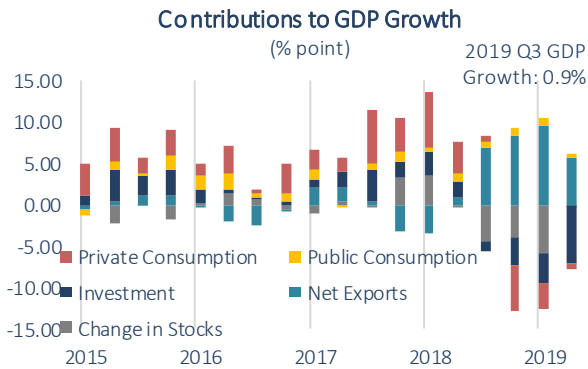
In Turkey, a mild recovery is expected for the last quarter of 2019 as the acceleration in loan volume growth has indicated. However, optimistic expectations have remained under pressure by the ongoing weak performance of the industry sector. Seasonally and calendar adjusted industrial production declined on a monthly basis in October, while manufacturing industry PMI figures were below the 50 threshold level during the last quarter. On the other hand, it was noteworthy that confidence indicators excluding consumer confidence recovered in December.

In December, risk sentiment towards Turkey improved considerably. Therefore, stock market had a strong performance. Annual CPI inflation became 11.84% in December, slightly below the CBRT's latest forecast of 12%. In 2020, we believe that monetary and fiscal policy will continue to support the economy in a cautious manner.

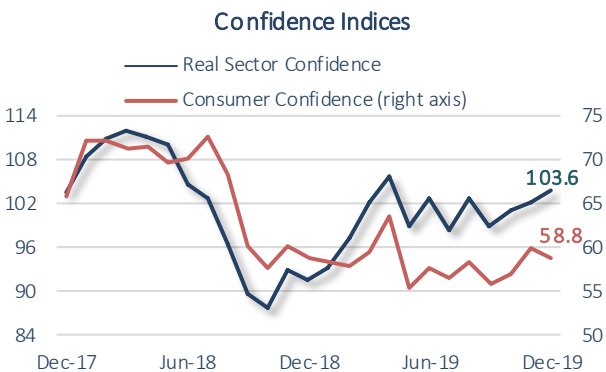
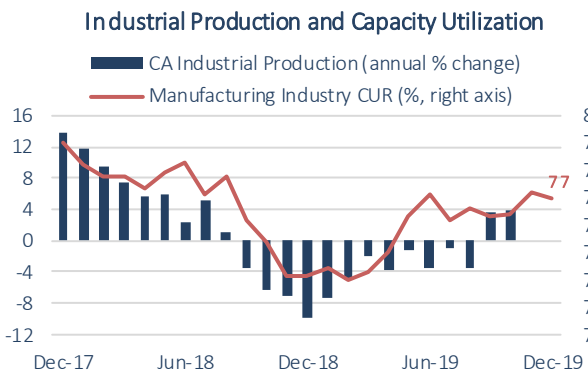
Forecasts (%)	2018 (A)	2019
Growth	2.8	0.5
Current Account Balance/GDP	-3.4	0.1
Inflation (year-end)	20.3	11.8 (A)

(A) Actual

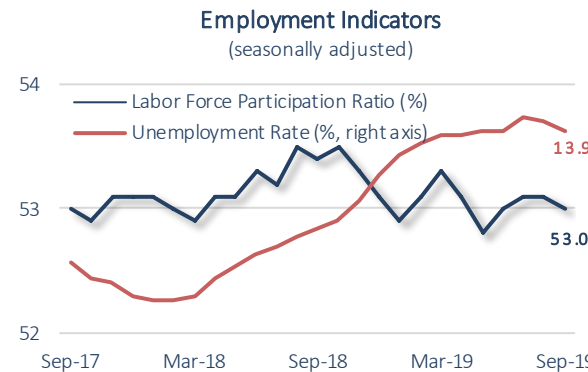
Growth



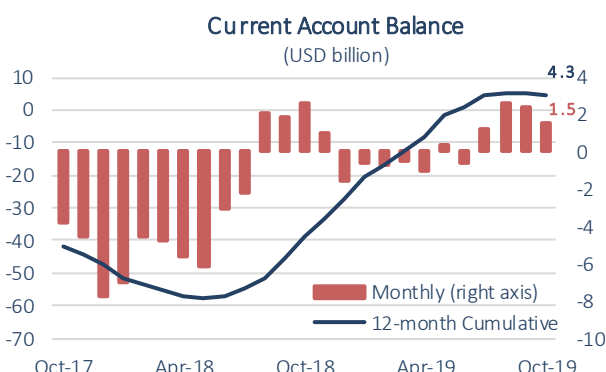
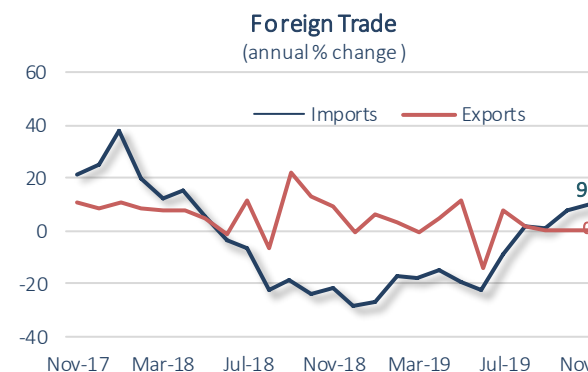
Leading Indicators



Labor Market



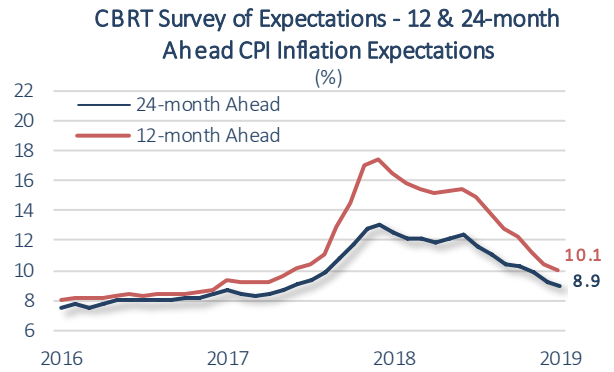
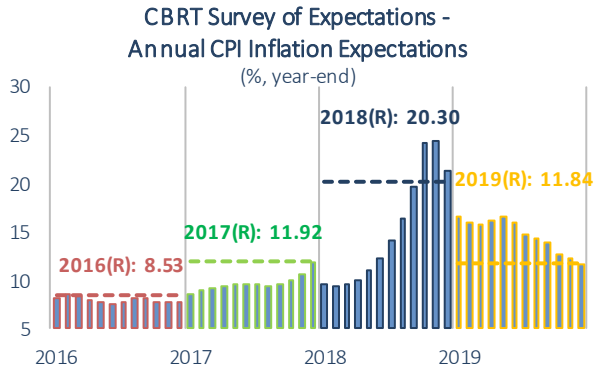
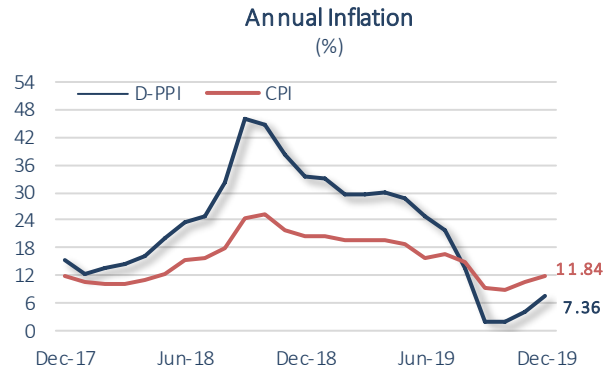
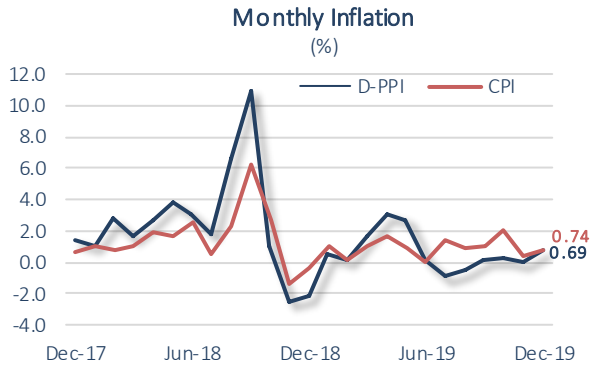
Foreign Trade and Current Account Balance



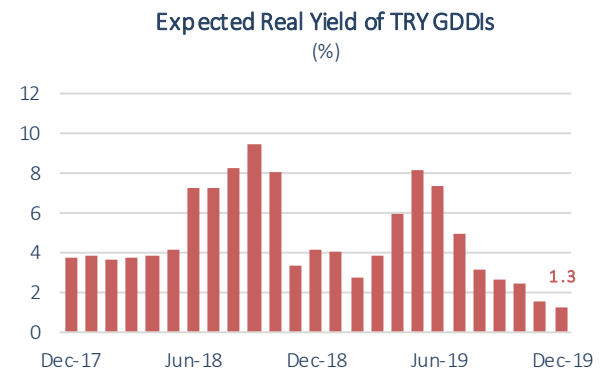
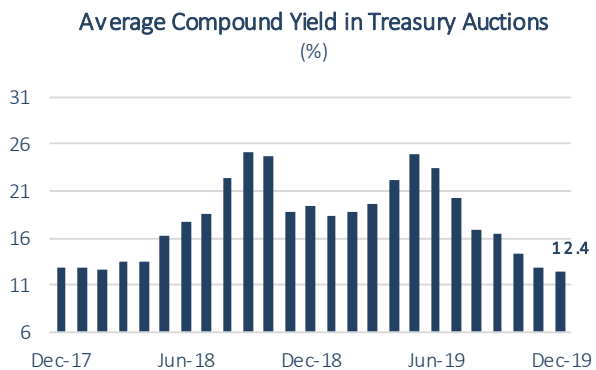
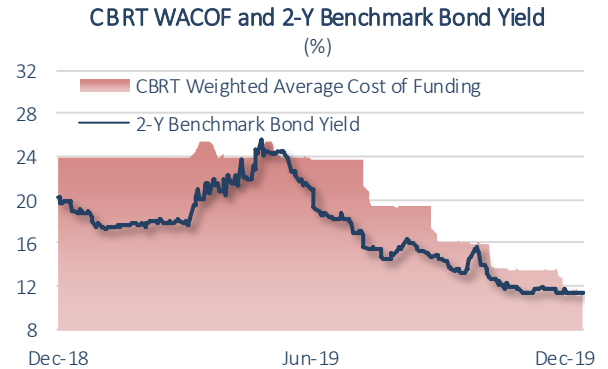
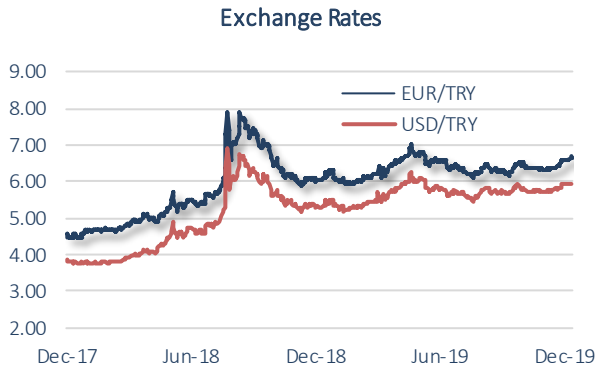
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2014	2015	2016	2017	2018	19-Q1	19-Q2	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 (%)						Oct-19	Nov-19	Dec-19
CPI (annual)	8.17	8.81	8.53	11.92	20.30	8.55	10.56	11.84
Domestic PPI (annual)	6.36	5.71	9.94	15.47	33.64	1.70	4.26	7.36
Seasonally Adjusted Labor Market Figures						Jul-19	Aug-19	Sep-19
Unemployment Rate (%)	10.3	10.2	12.0	9.9	12.8	14.20	14.10	13.90
Labor Force Participation Rate (%)	51.0	51.7	52.4	53.1	53.1	53.10	53.10	53.00
FX Rates						Oct-19	Nov-19	Dec-19
CPI Based Real Effective Exchange Rate	105.9	99.2	93.6	86.3	76.4	77.0	77.4	76.2
USD/TRY	2.3378	2.9189	3.5176	3.7916	5.3199	5.7126	5.7435	5.9510
EUR/TRY	2.8288	3.1708	3.7102	4.5530	6.0815	6.3732	6.3328	6.6800
Currency Basket (0.5*EUR+0.5*USD)	2.5833	3.0448	3.6139	4.1723	5.7007	6.0429	6.0382	6.3155
Foreign Trade Balance⁽¹⁾ (USD billion)						Sep-19	Oct-19	Nov-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	197.4	198.7	200.2
Foreign Trade Balance	-84.6	-63.4	-56.1	-76.8	-55.1	-26.7	-28.0	-29.5
Import Coverage Ratio (%)	65.1	69.4	71.8	67.1	75.3	86.5	85.9	85.2
Balance of Payments⁽¹⁾ (USD billion)						Aug-19	Sep-19	Oct-19
Current Account Balance	-43.6	-32.1	-33.1	-47.3	-27.2	4.9	5.4	4.3
Capital and Financial Accounts	-43.2	-22.7	-22.0	-46.7	-7.9	9.8	8.9	8.9
Direct Investments (net)	-6.3	-14.2	-10.8	-8.8	-9.4	-8.9	-7.9	-6.9
Portfolio Investments (net)	-20.2	15.5	-6.3	-24.5	3.1	0.0	-1.0	2.3
Other Investments (net)	-16.2	-12.1	-5.7	-5.2	8.8	11.4	7.0	2.6
Reserve Assets (net)	-0.5	-11.8	0.8	-8.2	-10.4	7.3	10.8	10.9
Net Errors and Omissions	0.5	9.5	11.1	0.6	19.2	4.9	3.4	4.6
Current Account Balance/GDP (%)	-4.7	-3.7	-3.8	-5.6	-3.4	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Sep-19	Oct-19	Nov-19
Expenditures	448.8	506.3	584.1	678.3	830.5	739.6	819.9	895.4
Interest Expenditures	49.9	53.0	50.2	56.7	74.0	81.5	88.3	95.8
Non-interest Expenditures	398.8	453.3	533.8	621.6	756.5	658.1	731.6	799.6
Revenues	425.4	482.8	554.1	630.5	757.8	653.8	719.2	802.5
Tax Revenues	352.5	407.8	459.0	536.6	621.3	485.3	539.9	613.2
Budget Balance	-23.4	-23.5	-29.9	-47.8	-72.6	-85.8	-100.7	-92.9
Primary Balance	26.5	29.5	20.3	8.9	1.3	-4.3	-12.4	2.8
Budget Balance/GDP (%)	-1.1	-1.0	-1.1	-1.5	-1.9	-	-	-
Central Government Debt Stock (TRY billion)						Sep-19	Oct-19	Nov-19
Domestic Debt Stock	414.6	440.1	468.6	535.4	586.1	701.0	712.8	722.2
External Debt Stock	197.9	238.1	291.3	341.0	481.0	538.9	547.9	552.0
Total Debt Stock	612.5	678.2	760.0	876.5	1,067.1	1,239.9	1,260.7	1,274.2

(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	Oct.19	Nov.19	Change ⁽¹⁾
TOTAL ASSETS	1,994	2,357	2,731	3,258	3,867	4,322	4,355	12.6
Loans	1,241	1,485	1,734	2,098	2,395	2,563	2,597	8.4
TRY Loans	881	1,013	1,131	1,414	1,439	1,574	1,615	12.2
Share (%)	71.0	68.2	65.2	67.4	60.1	61.4	62.2	-
FX Loans	360	472	603	684	956	989	982	2.7
Share (%)	29.0	31.8	34.8	32.6	39.9	38.6	37.8	-
Non-performing Loans	36.4	47.5	58.2	64.0	96.6	139.5	143.6	48.6
Non-performing Loan Rate (%)	2.9	3.1	3.2	3.0	3.9	5.2	5.2	-
Securities	302	330	352	402	478	622	625	30.8
TOTAL LIABILITIES	1,994	2,357	2,731	3,258	3,867	4,322	4,355	12.6
Deposits	1,053	1,245	1,454	1,711	2,036	2,421	2,454	20.5
TRY Deposits	661	715	845	955	1,042	1,163	1,194	14.6
Share (%)	62.8	57.4	58.1	55.8	51.2	48.0	48.7	-
FX Deposits	391	530	609	756	994	1,258	1,260	26.8
Share (%)	37.2	42.6	41.9	44.2	48.8	52.0	51.3	-
Securities Issued	89	98	116	145	174	184	186	6.8
Payables to Banks	293	361	418	475	563	521	522	-7.2
Funds from Repo Transactions	137	157	138	99	97	149	160	65.2
SHAREHOLDERS' EQUITY	232	262	300	359	421	472	482	14.4
Profit (Loss) of the Period	24.6	26.1	37.5	49.1	53.5	41.3	46.6	-
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	59.6	-
Securities/Assets	15.2	14.0	12.9	12.3	12.4	14.4	14.4	-
Deposits/Liabilities	52.8	52.8	53.2	52.5	52.6	56.0	56.3	-
Loans/Deposits	117.9	119.2	119.3	122.6	117.6	105.9	105.8	-
Capital Adequacy (%)	16.3	15.6	15.6	16.9	17.3	18.5	18.6	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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