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Global Economy

At a meeting in the G20 summit in Argentina, Trump and Xi agreed to halt new trade tariffs for 90 days and decided to continue talks during this period.

Fed, which is expected to increase interest rates in December, is anticipated to reduce pace of rate hikes in 2019.

EU and UK agreed upon the Brexit agreement. The agreement, being adopted by the British Government and the leaders of EU member countries, will be voted in the UK Parliament on December, 11.

Budget tensions between Italy and the EU, which remained on the agenda during November, showed signs of ease by the end of the month. Statements made by Italian authorities on budget deficit/GDP ratio target are closely monitored by the markets.

Statements of the ECB officials regarding the region's economic performance attract attention.

OECD joined the organizations that expect a momentum loss in the global economy in next year. OECD cut the 2019 growth forecasts for many countries.

In November, oil prices continued to decline rapidly. On the other hand, statements to ease trade war tensions, expectations of an oil production cut and Qatar's announcement on its withdrawal from OPEC caused oil prices to start December with an increase.

Turkish Economy

In August, unemployment rate was realized as 11.1%. Seasonally adjusted unemployment rate kept rising and reached 11.2%.

Calendar adjusted industrial production decreased by 2.7% on an annual basis and pointed the contraction in the sector. Industrial production, on the other hand, expanded by 1.5% yoy in the third quarter.

Although manufacturing PMI increased to 44.7 in November, it remained below the threshold for the eighth consecutive month, indicating that the sector continued to slow down.

In October, exports increased by 13% while import volume decreased by 23.8% yoy. Thus, foreign trade deficit contracted by 93.8% in October to 456 million USD. According to provisional foreign trade data of the Ministry of Trade, foreign trade deficit contracted by 90.5% in November compared to the same month of the previous year.

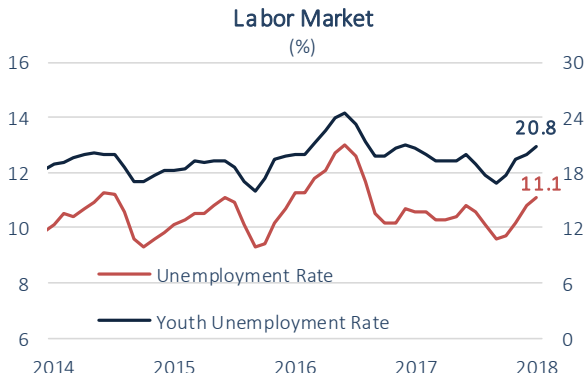
Current account balance posted a surplus of 1.8 billion USD in September. The contraction in the foreign trade deficit and the recovery in tourism revenues were effective in this development. Official reserves played an important role in financing the current account deficit.

Central government budget gave 5.4 billion TRY deficit in October. Deterioration in budget performance in January-October period was noteworthy.

In November, CPI and domestic PPI decreased by 1.44% and 2.53%, respectively. Thus, the annual increase was 21.62% in the CPI and 38.54% in the D-PPI.

Unemployment rate was 11.1% in August.

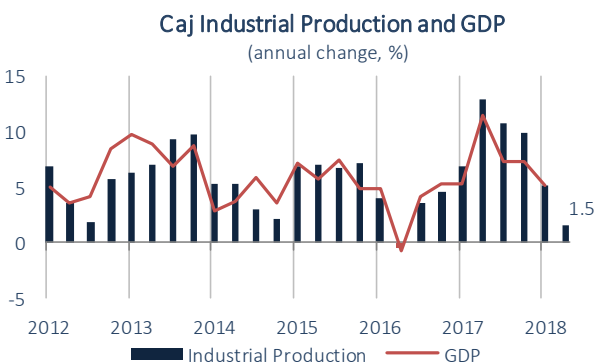
Having risen since May, unemployment rate increased by 0.5 points compared to the same period of the previous year to 11.1%. Unemployment rate among the young population covering 15-24 years of age rose to 20.8%. Seasonally adjusted unemployment figures have also continued to deteriorate. In this period, seasonally adjusted unemployment rate came in at 11.2%. On the other hand, labor force participation rate was 53.5%.



Industrial production declined by 2.7% yoy in September.

According to calendar adjusted figures, industrial production declined by 2.7% compared to the same month of the previous year in September. While production fell in 15 sub-sectors out of 24 in the manufacturing industry, furniture production, which has been declining since February, contracted by 34%. According to main expenditure groups, fall in intermediate goods production gained momentum. In addition, seasonally and calendar adjusted industrial production continued to decline on a monthly basis, confirming the deceleration in economic activity.

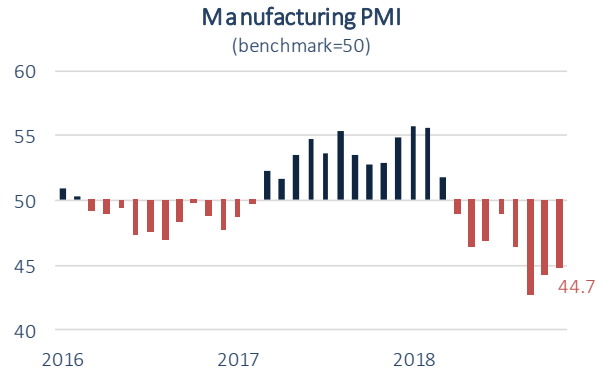
With the September realizations, industrial production increased by 1.5% yoy in the third quarter, indicating that annual GDP growth was around 1.5-2.0% in the same period.



Slight increase in manufacturing PMI...

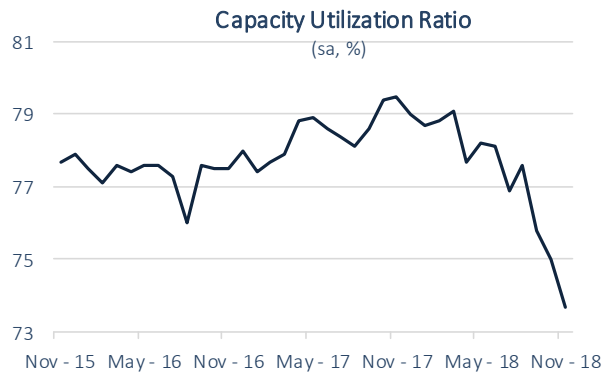
Manufacturing PMI posted a slight increase in November and reached 44.7. Having remained below the threshold for eight consecutive months, the data showed that the weak activity in the sector continued. During this period,

while cost pressures on manufacturing industry eased, production and new orders continued to fall due to ongoing challenging conditions.



Capacity utilization continued to fall.

Capacity utilization rate (CUR) in the manufacturing industry decreased by 5.8 points yoy to 74.1% in November. Seasonally adjusted CUR also declined to 73.7%. CUR posted a decline on annual basis in 18 out of 24 sectors. The sharp fall in the manufacture of chemical products and mineral products was noteworthy. Real sector confidence index, which declined since April, increased by 5.2 points mom to 92.8.



Downward trend in white goods sales continued.

In October, contraction in domestic white goods sales continued. According to the figures announced by White Goods Manufacturer's Association of Turkey, domestic white goods sales declined by 29% yoy in October. The surge in exports by 11% was recorded as a positive development. In January-October period, while domestic white goods sales decreased by 16.5% to 6.3 million units, exports increased by 6.6% to 18.1 million units. The impacts of tax cuts introduced in the first day of November will be followed in the upcoming period.

Budget deficit was realized as 5.4 billion TRY in October.

Central government budget deficit increased by 60.8% yoy to 5.4 billion TRY in October. Budget expenditures expanded by 20.2% yoy while rise in revenues was realized as 17.6%. In October, primary deficit was 1.2

Source: Datastream, Markit, Turkstat

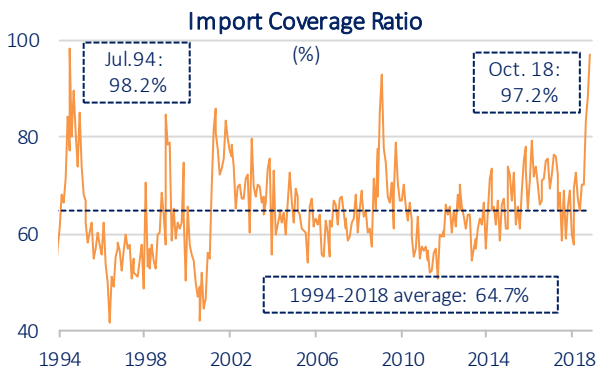
billion TRY. In the first ten months of the year, budget performance weakened compared to the same period of the previous year. In this period, budget expenditures surged up above the rise in revenues (19.5%) by 23.3%. Thus, in January-October period, central government budget deficit was recorded as 62.1 billion TRY.

Central Government Budget

	January-October		% Change
	2017	2018	
Expenditures	544.4	671.1	23.3
Interest Expenditures	50.1	64.6	29.0
Non-Interest Expenditures	494.3	606.4	22.7
Revenues	509.4	609.0	19.5
Tax Revenues	430.9	507.9	17.9
Other Revenues	78.5	101.1	28.7
Budget Balance	-35.0	-62.1	77.7
Primary Balance	15.2	2.5	-83.3

Contraction in foreign trade deficit accelerated.

In October, exports increased by 13% yoy to 15.7 billion USD, while imports decreased by 23.8% to 16.2 billion USD during the same period. [Foreign trade](#) deficit, which came in at 456 million USD, contracted by 93.8% yoy in October. Import coverage ratio reached 97.2% the highest level since July 1994.



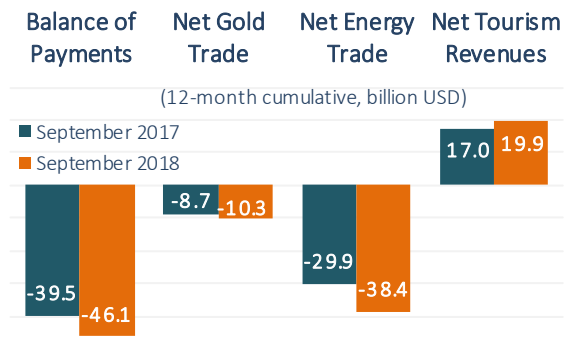
12-month cumulative export volume rose to historical high at 166.7 billion USD in October. In this period, import volume became 234 billion USD. Thus, 12-month foreign trade deficit decreased by 6.8 billion USD compared to September and declined to 67.2 billion USD.

According to the provisional foreign trade data released by the Ministry of Trade, contraction in foreign trade deficit continued in November. In this period, while exports increased by 9.5% yoy, imports contracted by 21.5%. Thus, foreign trade deficit declined by 92.8% yoy.

In September, current account balance posted a surplus .

[Current account](#) posted a surplus of 1.8 billion USD in September due to the slowdown in economic activity. The market expectation for the current account surplus was 2 billion USD. In this period, a low level of foreign

trade deficit and increasing net tourism revenues were effective in the improvement of the current account balance. 12-month cumulative current account deficit was realized as 46.1 billion USD in September, the lowest level in 2018. Excluding energy trade, 12-month cumulative current account deficit declined to the lowest level of the last 15 months with 7.7 billion USD.



In September, the reserve assets which decreased by 3.5 billion USD came to the forefront on the financing side of the balance of payments. A limited capital outflow of 416 million USD was observed in the net errors and omissions item. In January-September period, the sum of the said two items was 34.2 billion USD above the current account deficit which was 30 billion USD in this period.

Inflation fell more than expected last month.

[CPI](#) declined by 1.44% mom in November, beating expectations and recording the steepest monthly fall of the 2003 based series. Having followed an upward trend since April, annual CPI inflation fell to 21.62% in November. Annual PPI inflation became 38.54% in this period, falling from 45.01% in October.

November (change %)	CPI		D-PPI	
	2017	2018	2017	2018
Monthly	1.49	-1.44	2.02	-2.53
Year-to-Date	11.16	20.79	13.91	36.68
Annual	12.98	21.62	17.30	38.54
Annual Average	10.87	15.63	15.38	25.52

Prices in transportation group declined for the second month in a row in November and supported the monthly fall in CPI. Price developments in transportation group pushed the monthly inflation down by 117 bps. Fall in motor cars and passenger transportation fees were behind this performance.

In line with the fall in consumer prices, core inflation indicators recovered in November. B and C indices, which are closely monitored by the CBRT, recorded annual increases of 21.2% and %20,7, respectively. The annual rises in these indices were 24.4% and 24.3% in October.

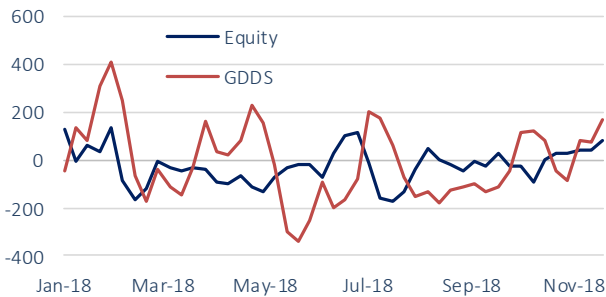
	31/Oct	30/Nov	Change
5-Y CDS (basis points)	385	390	5 bps ▲
TR 2-Y Benchmark Yield	24.42%	20.26%	-416 bps ▼
BIST-100	90,201	95,416	5.8% ▲
USD/TRY	5.6033	5.2494	-6.3% ▼
EUR/TRY	6.3488	5.9436	-6.4% ▼
Currency Basket*	5.9761	5.5965	-6.4% ▼

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

Domestic markets...

Global markets followed a volatile course in November. Fall in oil prices and trade war developments raising concerns about global growth put pressure on markets. On the other hand, strong balance sheets in the US, Fed President Powell's statements at the end of the month and positive expectations regarding Trump-Xi meeting in G20 summit supported the markets. Turkey's temporary exemption from US sanctions on Iranian oil, improvement in the diplomatic relations with the US and rise in global risk appetite for developing countries supported the domestic markets. During the first three weeks of the month, non-residents' portfolios of government domestic debt securities and equities recorded net purchases of 502 million USD and 247 million USD, respectively.

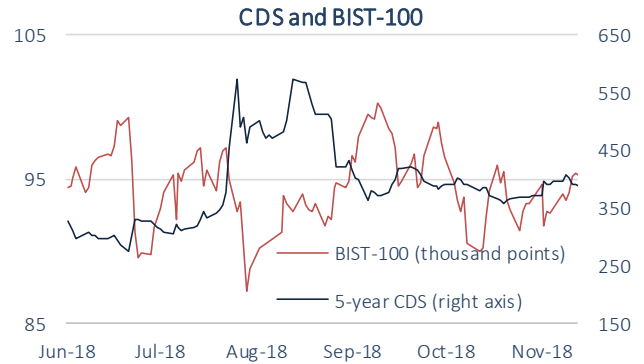
Non-residents' Portfolio Movements
(3 week moving average, million USD)



BIST-100 index...

During the first days of November, BIST-100 index rose thanks to the favorable outlook in domestic markets. In the following days, the index followed a fluctuating course parallel to the developments in global equity markets. The index, which rose by 5.8% compared to the end of October, completed November at 95.416.

Having displayed a calm outlook in the first half of the month, Turkey's 5-year CDS premiums posted a rapid increase parallel to deterioration in global risk perception. In November, CDS premiums rose by 5 basis points to 390.



Treasury borrowed less than planned.

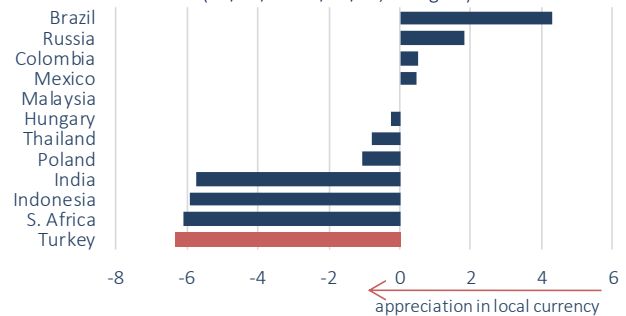
According to the borrowing program, Treasury planned to borrow 22.4 billion TRY against 21.8 billion TRY debt redemption in March. However, Treasury cancelled 3 out of 6 planned auctions, hence borrowing a total amount of 6.3 billion TRY in November. As a part of Treasury's November borrowing program, average compound interest rate of on the re-issuance of the 2020 redemption bond was realized below the expectations at 18.79%. 2-year benchmark bond compound yield decreased by 416 bps compared to the previous month and was realized as 20.26% on November, 30.

Ongoing appreciation trend in TRY...

Having recovered since end of August, TRY continued this trend in November. Good diplomatic relations with the US, decline in interest rates in Treasury auctions, reflection of falling oil prices on energy importer countries' currencies were effective on this trend. Declining to 5.12 on November 29 thanks to the depreciation in USD in global markets, USD/TRY decreased by 6.3% mom and completed the month at 5.25.

USD / Local Currency

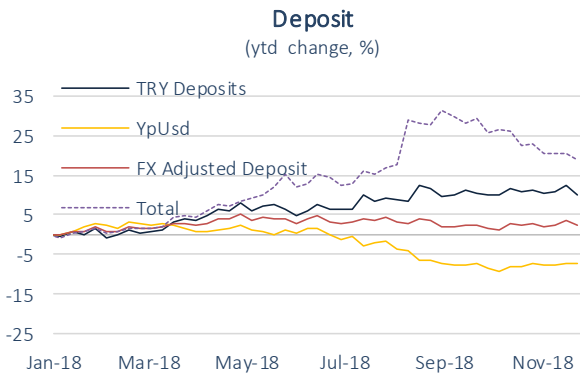
(10/31/18-11/30/18, change%)



Source: CBRT, Datastream, Reuters, BIST

Deposit volume rose by 18.8% compared to the year-end.

According to the Weekly Bulletin published by the BRSA, as of November 23, deposit volume increased by 17.5% yoy, expanded by 18.8% compared to the end of 2017 to 2,140 billion TRY. TRY deposits rose by 10.2% ytd to 1,077 billion TRY, while FX deposits in USD terms declined by 7.2%. As of November 23, rise in FX adjusted deposits was realized as 2.7% yoy and 2.2% compared to the end of 2017.

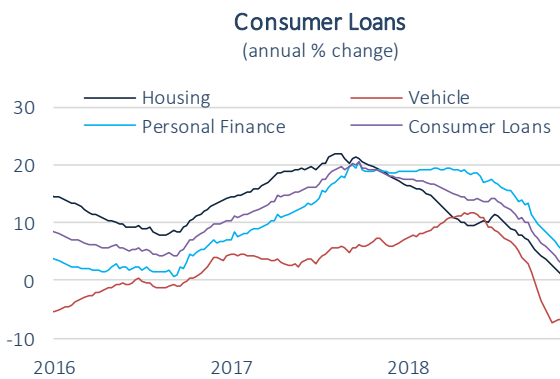


Increase in annual credit volume continued to decelerate.

As of November 23, total credit volume recorded its slowest annual growth since December 2016 with 15.7% and was realized as 2,465 billion TRY. Credit volume surged up by 15.5% compared to year-end. During this period, while TRY credits rose by 3.3% to 1,479 billion TRY and FX loans in USD terms became 188 billion USD by increasing 0.8%. Rise in FX adjusted credit volume was 4% on an annual basis and 2.5% compared to the year-end.

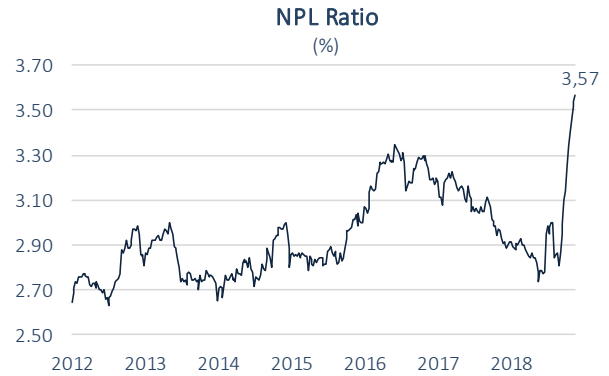
Consumer loans...

Deceleration in consumer loans growth continued. As of November 23, consumer credits increased by 3% yoy. While vehicle loans declined by 6.8% yoy parallel to the contraction in the automotive market, growth in housing and personal finance loans continued to slow down. In this period, housing and personal finance loans expanded by 0.9% and 5.3%, respectively.



Rapid rise in NPL ratio...

Having followed an upward course since August, NPL ratio reached its highest level since January 2011 with 3.57% as of November 23. In the same period, the said ratio was 3.62% for consumer loans and 3.56% for commercial loans.



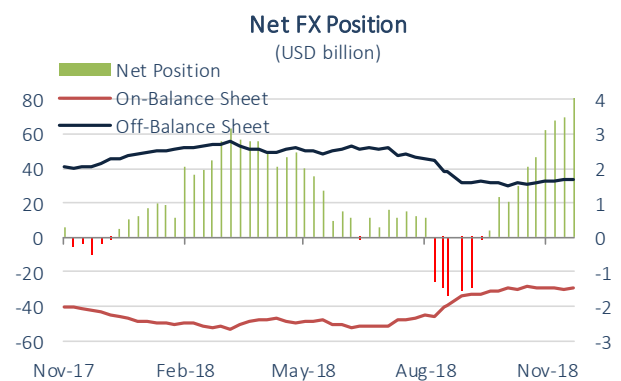
Securities portfolio...

As of November 23, securities portfolio of the banking sector expanded by 17.1% ytd to 470 billion TRY. During this period, rapid rise in held to maturity portfolio stood out.

Securities portfolio held under custody posted a rise of 6.1% compared to end of 2017. In this period, the securities portfolio of residents expanded by 15.1%, while the non-residents' portfolio contracted by 5.7%.

Net foreign currency position...

As of November 23, banks' on-balance sheet FX position was (-) 29,722 million USD, while off-balance sheet FX position was (+) 33,966 million USD. Hence, banking sector's net FX position was realized as (+) 4,245 million USD.



Source: BRSA Weekly Bulletin

Concluding Remarks

During November, trade wars concerns, which were on the global agenda due to statements from US and China, eased somewhat thanks to the deal reached by Trump and Xi at the end of the month. While this development was welcomed by the global markets, trade negotiations between the two countries will continue during the 90-day trade war truce.

Expectation of a momentum loss in global economy continued to be reflected on the growth forecasts of various international institutions. In this environment, the normalization steps of major central banks began to be discussed. While the Fed is expected to hike interest rates in December, Trump's criticism on Fed's interest rate policy continued. On the other hand, the expectation of a deceleration in Fed's rate hikes in 2019 is gaining more ground. It is understood that the ECB, which is expected to end its asset purchase program this month, closely follows the strength of the economic activity in the Euro Area.

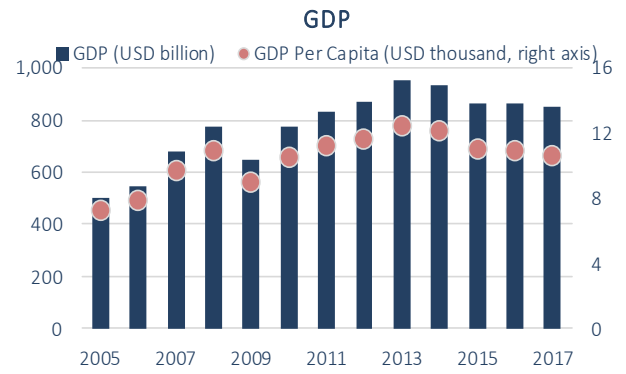
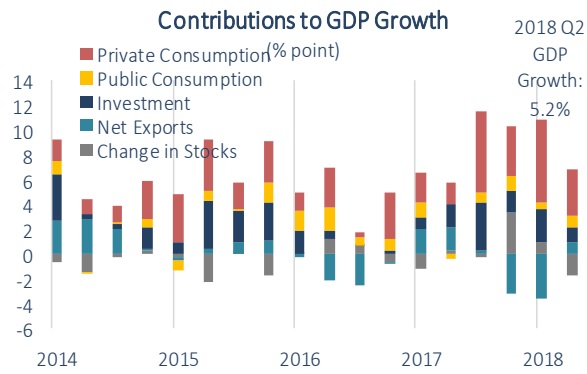
The Brexit agreement reached between EU and UK was one of the prominent topics in November. Although the agreement is approved by the UK Cabinet and the EU leaders, approval of UK Parliament seems to be difficult, causing the uncertainty regarding Brexit to continue. On the other hand, while the budget tensions between the EU Commission and Italy continues, the Italian authorities' statements on lowering the budget deficit/GDP target eased the tension to some extent.

Domestic data confirmed the slowdown in the economic activity. Due to the weakening domestic demand, current account balance gave surpluses in August and September. Besides industrial production decreased on an annual basis in September and the decline in capacity utilization ratio was remarkable. Manufacturing PMI remained below 50 in November, indicating that the weak course in the sector continued for the eighth consecutive month.

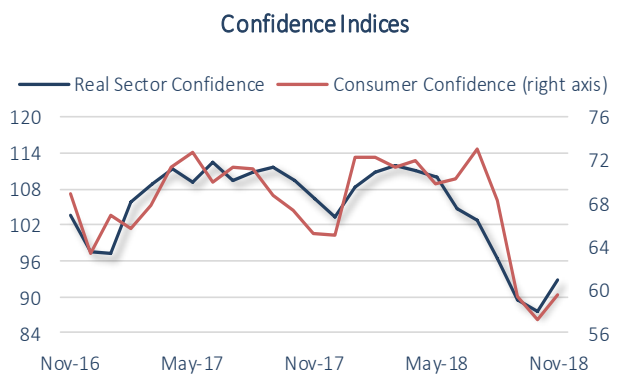
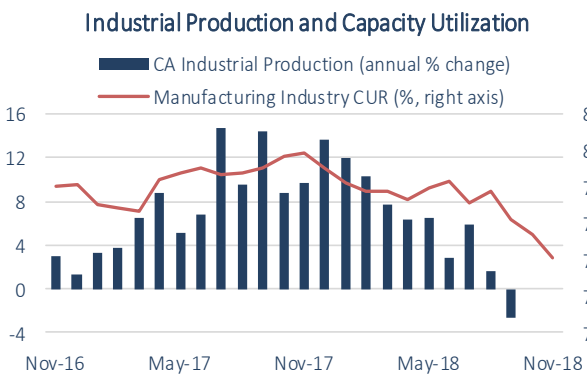
Inflation declined in November thanks to the tax cuts in automotive, housing and white goods sales as well as the appreciation in TRY. In this period, the end of the deterioration in core inflation indicators was noted as a positive development. To what extent the recovery in the inflation figures will be reflected in inflation expectations is among the issues to be followed in the upcoming period.

Forecasts (%)	2018	2019
Growth	3.0	1.0
Current Account Deficit/GDP	3.5	1.8
Inflation (year-end)	21.0	16.0

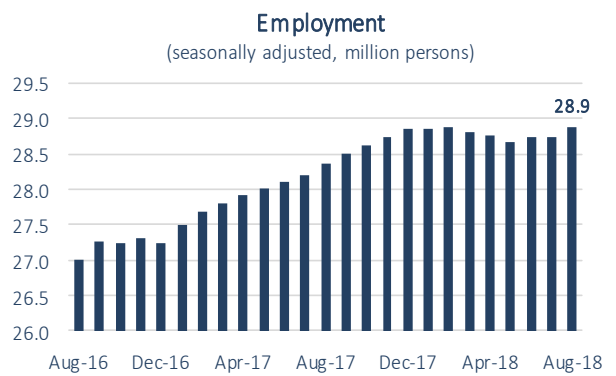
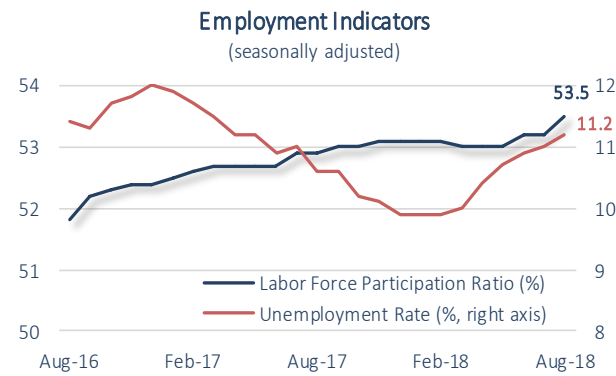
Growth



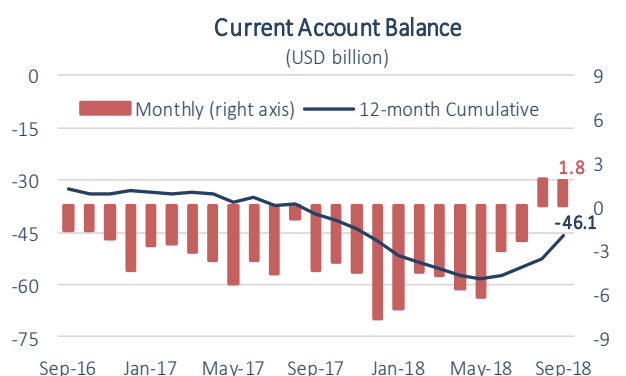
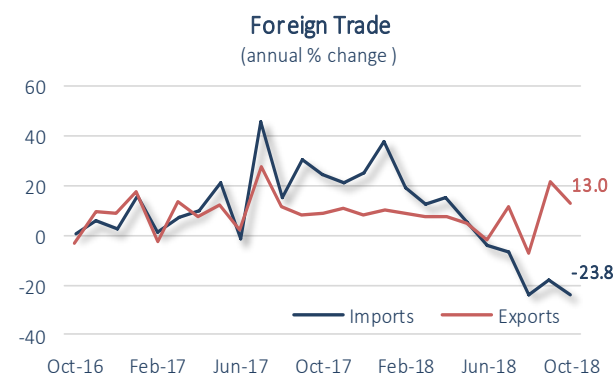
Leading Indicators



Labor Market



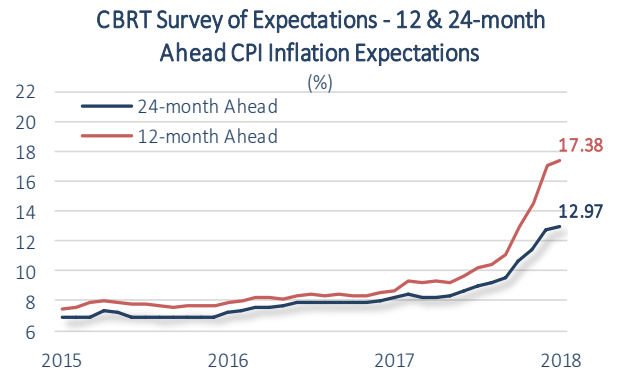
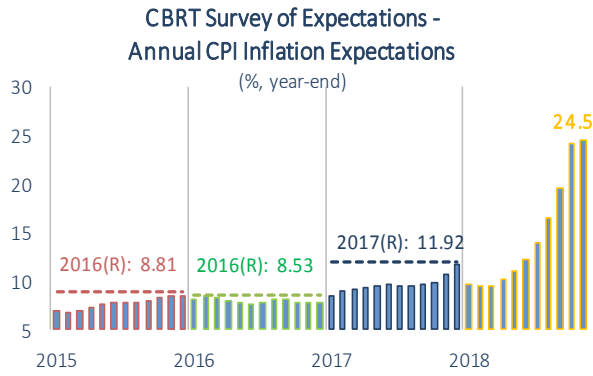
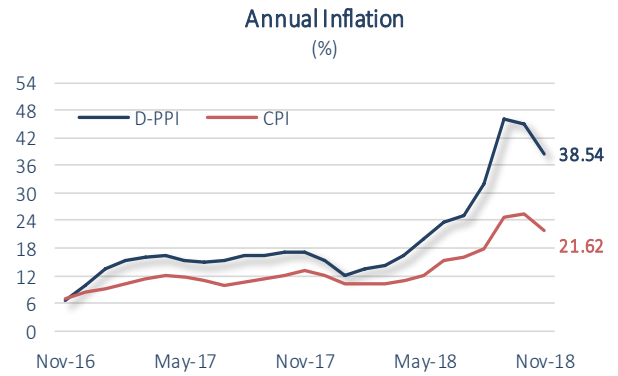
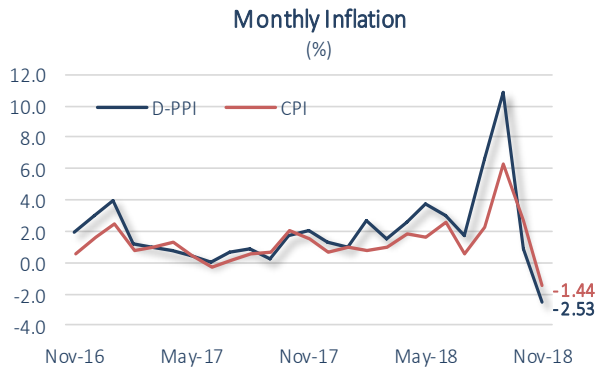
Foreign Trade and Current Account Balance



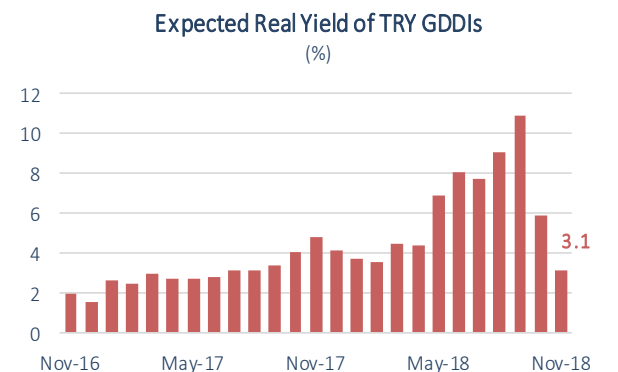
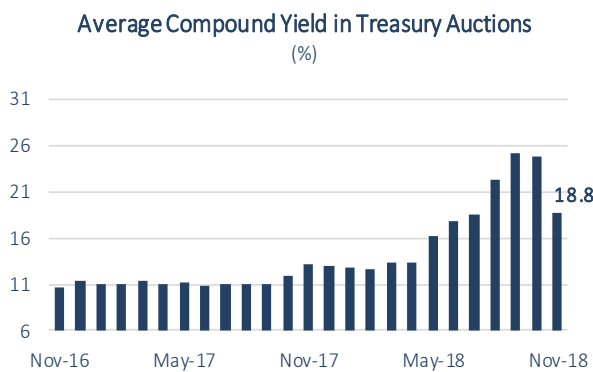
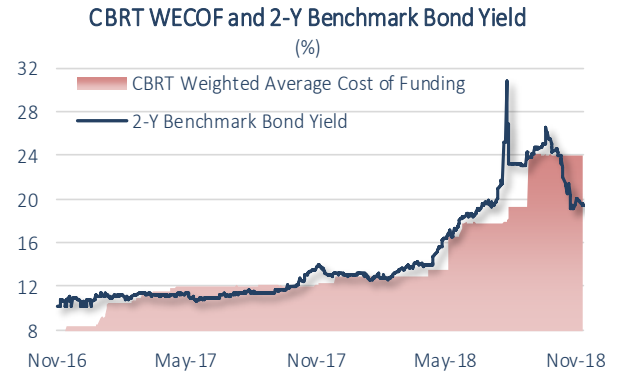
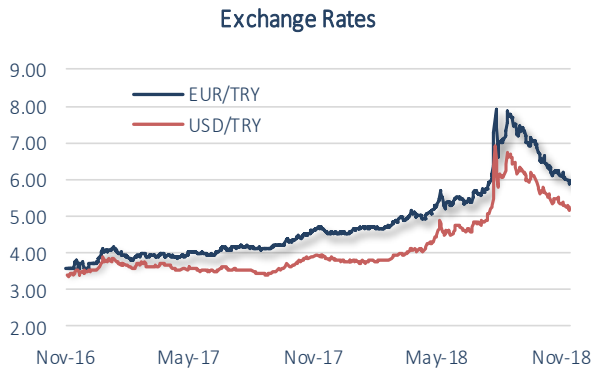
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2013	2014	2015	2016	2017	18-Q1	18-Q2	18-Q3
GDP (USD billion)	950	935	862	863	851	208	204	
GDP (TRY billion)	1,810	2,045	2,339	2,609	3,107	793	884	
GDP Growth Rate (%)	8.5	5.2	6.1	3.2	7.4	7.4	5.2	
Inflation (%)						Sep-18	Oct-18	Nov-18
CPI (annual)	7.40	8.17	8.81	8.53	11.92	24.52	25.24	21.62
Domestic PPI (annual)	6.97	6.36	5.71	9.94	15.47	46.15	45.01	38.54
Seasonally Adjusted Labor Market Figures						Jun-18	Jul-18	Aug-18
Unemployment Rate (%)	9.1	10.3	10.2	12.0	9.9	10.9	11.0	11.2
Labor Force Participation Rate (%)	48.5	51.0	51.6	52.4	53.1	53.2	53.2	53.5
FX Rates						Sep-18	Oct-18	Nov-18
CPI Based Real Effective Exchange Rate	100.7	105.4	98.2	92.4	85.3	61.7	69.1	74.6
USD/TRY	2.1485	2.3378	2.9189	3.5176	3.7916	6.0073	5.6033	5.2494
EUR/TRY	2.9605	2.8288	3.1708	3.7102	4.5530	6.9775	6.3488	5.9436
Currency Basket (0.5*EUR+0.5*USD)	2.5545	2.5833	3.0448	3.6139	4.1723	6.4924	5.9761	5.5965
Foreign Trade Balance⁽¹⁾ (USD billion)						Aug-18	Sep-18	Oct-18
Exports	151.8	157.6	143.8	142.5	157.0	162.3	164.9	166.7
Imports	251.7	242.2	207.2	198.6	233.8	242.7	239.0	234.0
Foreign Trade Balance	-99.9	-84.6	-63.4	-56.1	-76.8	-80.3	-74.1	-67.2
Import Coverage Ratio (%)	60.3	65.1	69.4	71.8	67.1	66.9	69.0	71.3
Balance of Payments⁽¹⁾ (USD billion)						Jul-18	Aug-18	Sep-18
Current Account Balance	-63.6	-43.6	-32.1	-33.1	-47.4	-55.1	-52.3	-46.1
Capital and Financial Accounts	-62.7	-42.6	-22.4	-22.1	-46.6	-35.3	-29.7	-24.8
Direct Investments (net)	-9.9	-6.1	-12.9	-10.2	-8.2	-7.4	-7.4	-7.6
Portfolio Investments (net)	-24.0	-20.2	15.7	-6.3	-24.5	-6.0	-2.0	2.3
Other Investments (net)	-38.7	-15.9	-13.3	-6.5	-5.7	-13.1	0.0	5.1
Reserve Assets (net)	9.9	-0.5	-11.8	0.8	-8.2	-8.7	-20.2	-24.6
Net Errors and Omissions	1.0	1.1	9.8	11.0	0.8	19.8	22.6	21.2
Current Account Balance/GDP (%)	-6.7	-4.7	-3.7	-3.8	-5.6	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Aug-18	Sep-18	Oct-18
Expenditures	408.2	448.8	506.3	584.1	678.3	536.5	603.5	671.1
Interest Expenditures	50.0	49.9	53.0	50.2	56.7	50.2	60.4	64.6
Non-interest Expenditures	358.2	398.8	453.3	533.8	621.6	486.3	543.1	606.4
Revenues	389.7	425.4	482.8	554.1	630.5	485.7	546.8	609.0
Tax Revenues	326.2	352.5	407.8	459.0	536.6	410.1	459.4	507.9
Budget Balance	-18.5	-23.4	-23.5	-29.9	-47.8	-50.8	-56.7	-62.1
Primary Balance	31.4	26.5	29.5	20.3	8.9	-0.6	3.7	2.5
Budget Balance/GDP (%)	-1.0	-1.1	-1.0	-1.1	-1.5	-	-	-
Central Government Debt Stock (TRY billion)						Aug-18	Sep-18	Oct-18
Domestic Debt Stock	403.0	414.6	440.1	468.6	535.4	579.4	587.0	589.8
External Debt Stock	183.2	197.9	238.1	291.3	341.0	574.1	534.2	493.6
Total Debt Stock	586.2	612.5	678.2	760.0	876.5	1153.5	1,121.2	1,083.5

(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)	2013	2014	2015	2016	2017	Sep.18	Oct.10	Change ⁽¹⁾
TOTAL ASSETS	1,732	1,994	2,357	2,731	3,258	4,210	3,991	22.5
Loans	1,047	1,241	1,485	1,734	2,098	2,588	2,463	17.4
TRY Loans	753	881	1,013	1,131	1,414	1,492	1,465	3.6
Share (%)	71.9	71.0	68.2	65.2	67.4	57.7	59.5	-
FX Loans	295	360	472	603	684	1,096	998	45.9
Share (%)	28.1	29.0	31.8	34.8	32.6	42.3	40.5	-
Non-performing Loans	29.6	36.4	47.5	58.2	64.0	86.2	88.7	38.6
Non-performing Loan Rate (%)	2.8	2.9	3.1	3.2	3.0	3.2	3.5	-
Securities	287	302	330	352	402	490	476	18.4
TOTAL LIABILITIES	1,732	1,994	2,357	2,731	3,258	4,210	3,991	22.5
Deposits	946	1,053	1,245	1,454	1,711	2,137	2,060	20.4
TRY Deposits	594	661	715	845	955	1,035	1,033	8.2
Share (%)	62.8	62.8	57.4	58.1	55.8	48.4	50.1	-
FX Deposits	352	391	530	609	756	1,102	1,027	35.8
Share (%)	37.2	37.2	42.6	41.9	44.2	51.6	49.9	-
Securities Issued	61	89	98	116	145	205	179	23.3
Payables to Banks	254	293	361	418	475	686	625	31.5
Funds from Repo Transactions	119	137	157	138	99	144	127	28.9
SHAREHOLDERS' EQUITY	194	232	262	300	359	408	410	14.2
Profit (Loss) of the Period	24.7	24.6	26.1	37.5	49.1	41.3	45.9	-
RATIOS (%)								
Loans/GDP	57.9	60.7	63.5	66.5	67.6			
Loans/Assets	60.5	62.2	63.0	63.5	64.4	61.5	61.7	-
Securities/Assets	16.6	15.2	14.0	12.9	12.3	11.6	11.9	-
Deposits/Liabilities	54.6	52.8	52.8	53.2	52.5	50.8	51.6	-
Loans/Deposits	110.7	117.9	119.2	119.3	122.6	121.1	119.5	-
Capital Adequacy (%)	15.3	16.3	15.6	15.6	16.9	18.1	18.2	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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