


# **Turkey: Recent Developments and Future Prospects**

**ISBANK  
Economic Research Division  
September 2018**

# **Macroeconomic Outlook**

# Strong Economic Growth Cycle

A vertical chain of five white circles with dark blue outlines, connected by a dark blue line. The circles are positioned on the left side of the slide, with each circle corresponding to a text block on the right.

GDP of 851 bn USD (2017), 10.6k USD (2017) per capita

Average GDP growth rate of 5.5% between 2005-2017

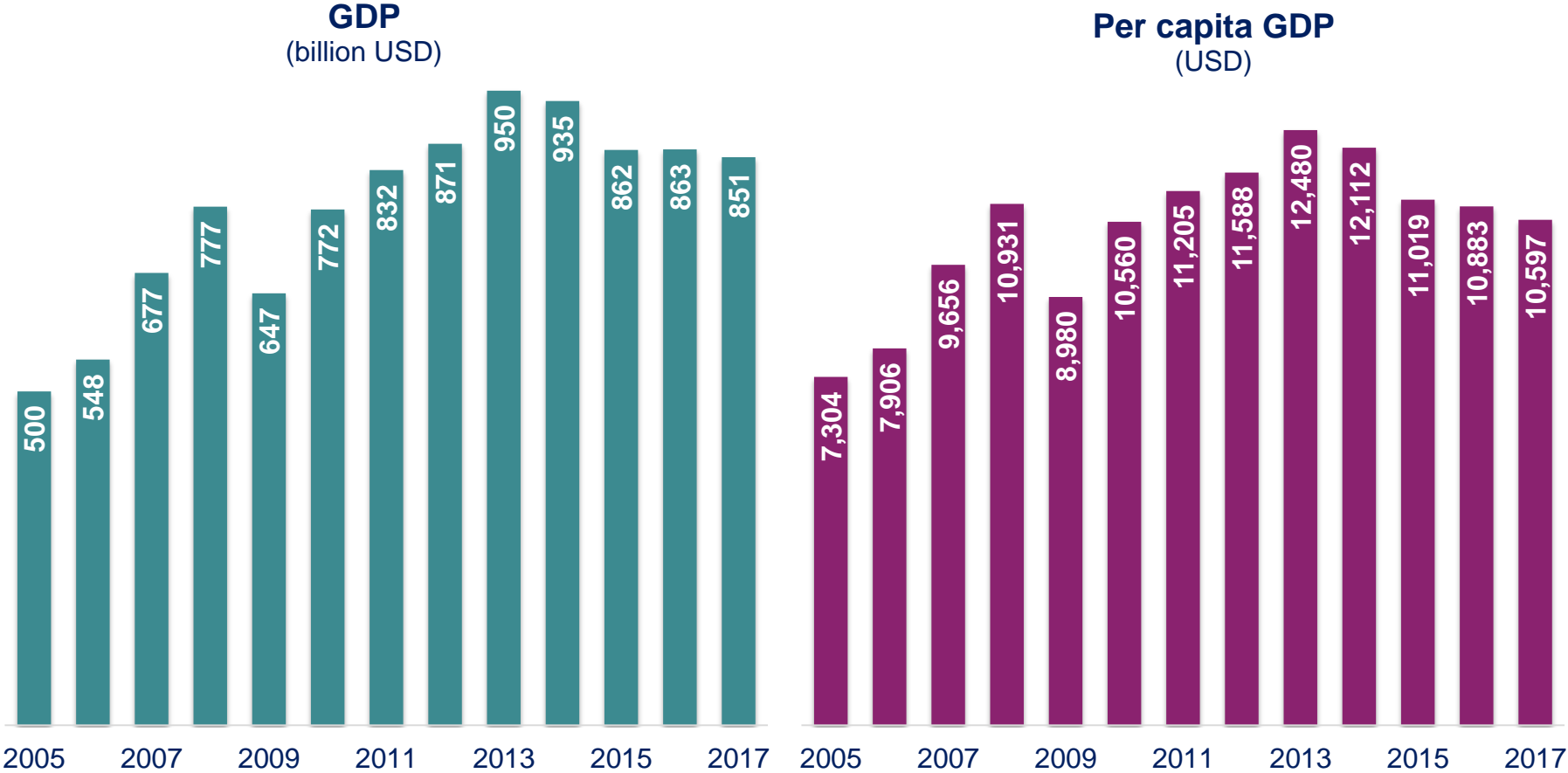
17<sup>th</sup> largest economy in the world & 6<sup>th</sup> largest economy amongst the EU countries

More than 9 mn job creation since 2005

Prudent fiscal policy since 2002



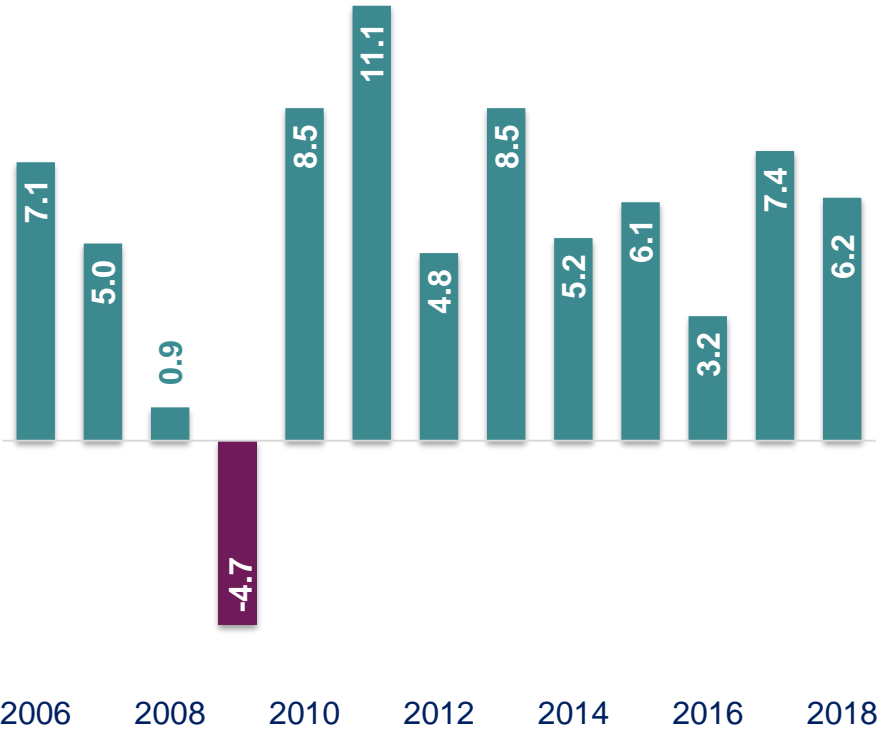
○ Turkey's GDP came in at 851 billion USD in 2017.





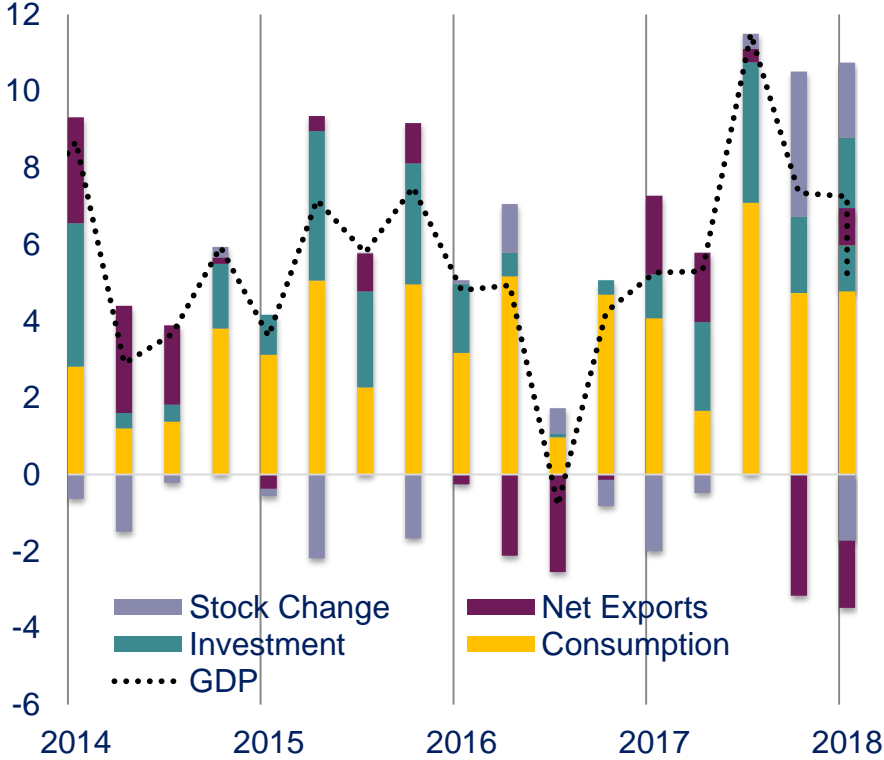
○ Growth was largely driven by private consumption and investments in Q2.

**Real GDP Growth\***  
(%)



(\*) Latest figure as of 2018 H1  
 (\*\*) Latest figure as of 2018 Q2

**Contributions to Growth\*\***  
(2009=100 chain linked volume index % points)

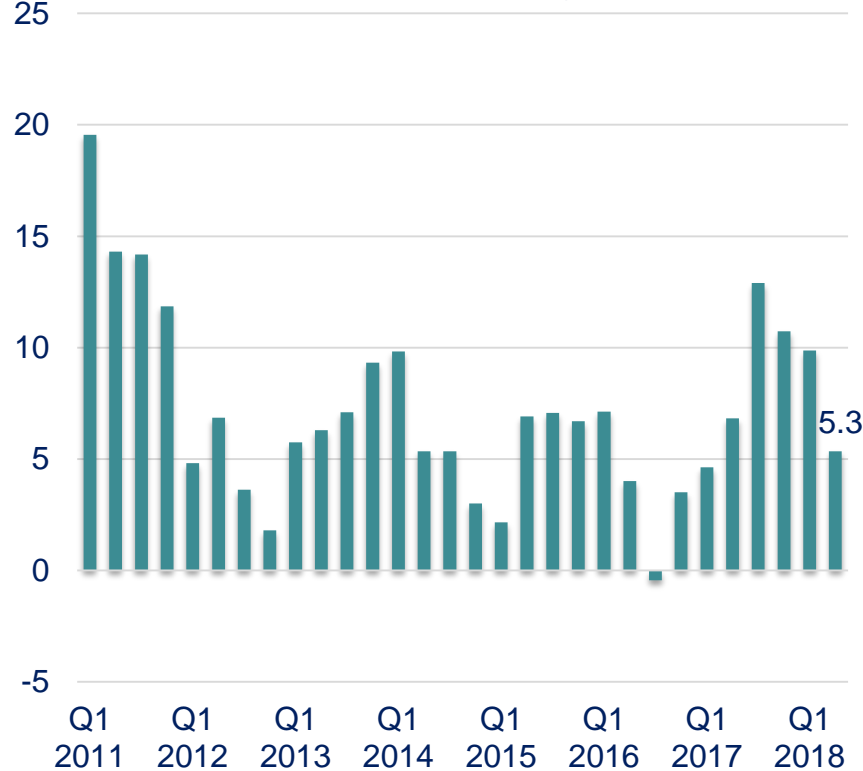


Source: Datastream, Turkstat

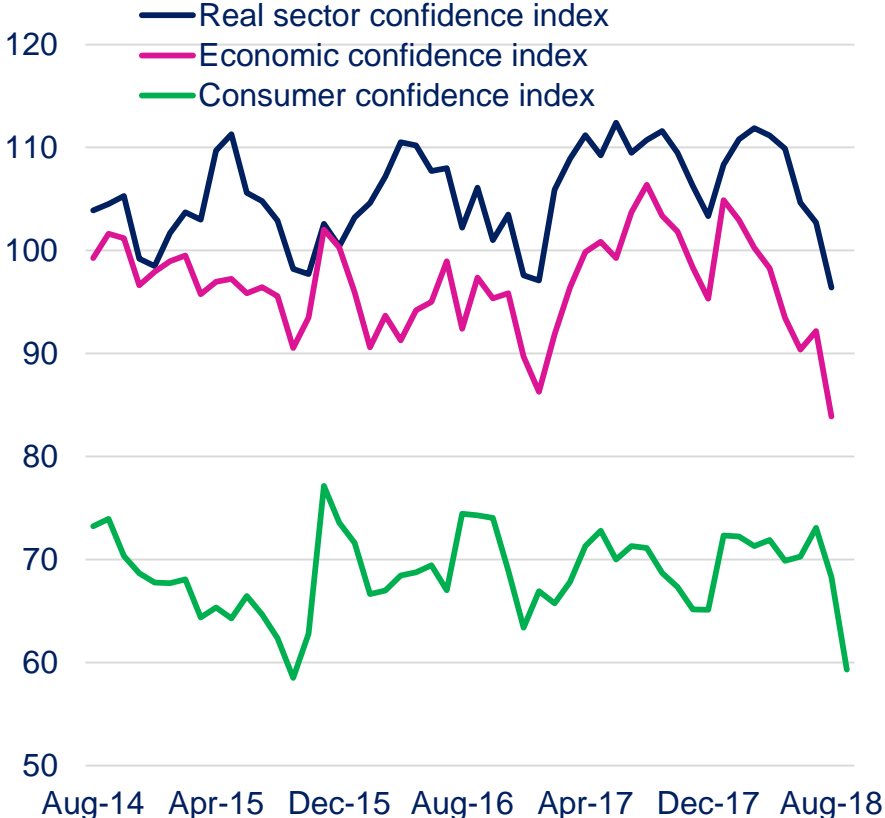


## ○ The slowdown in economic activity...

### Calendar Adjusted Industrial Production (yoy, % change)



### Confidence Indices

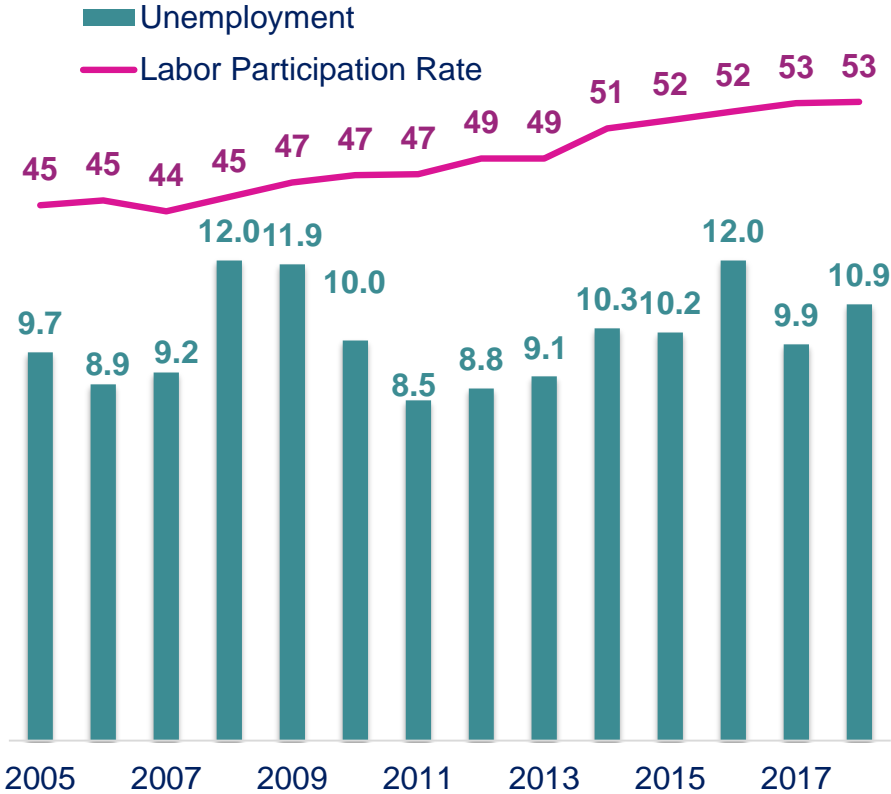




○ More than 9 million new jobs were created since 2005.

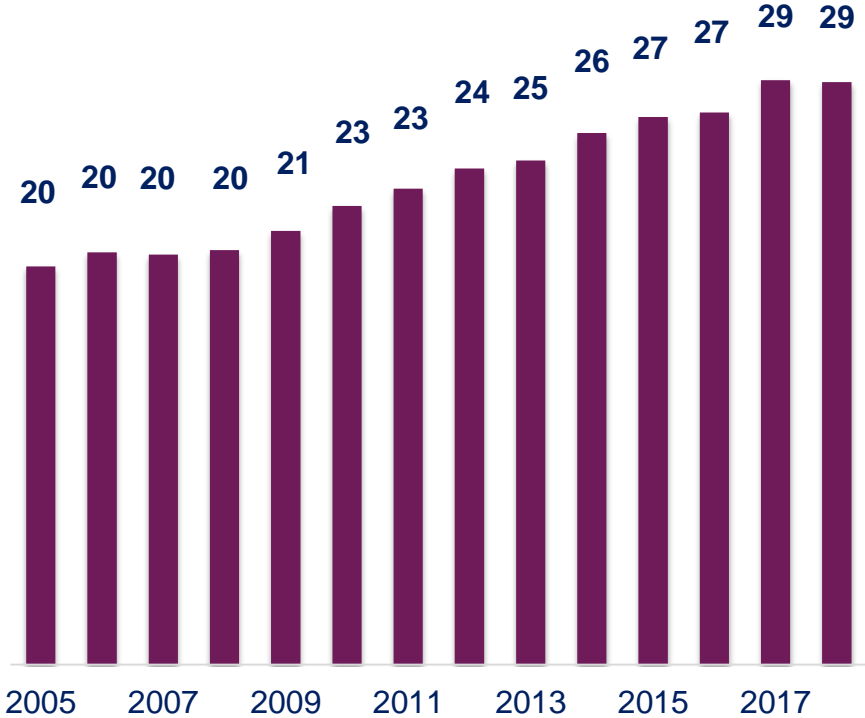
**Labor Market Indicators\***

(%)



**Employment\***

(millions)



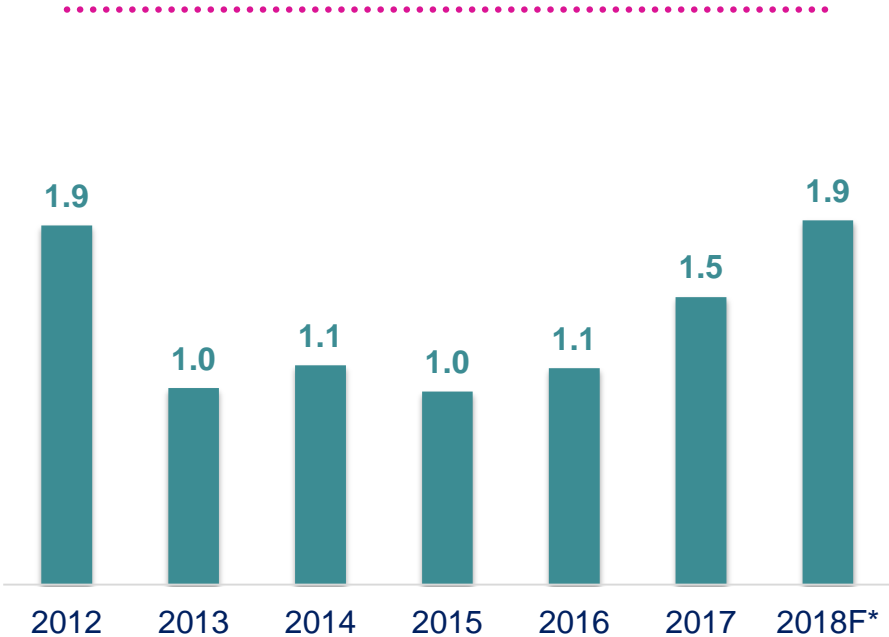
(\*) Seasonally adjusted figures. Latest figure as of June 2018.



○ Fiscal discipline has been the main pillar of economic policy.

### Budget Deficit (% GDP)

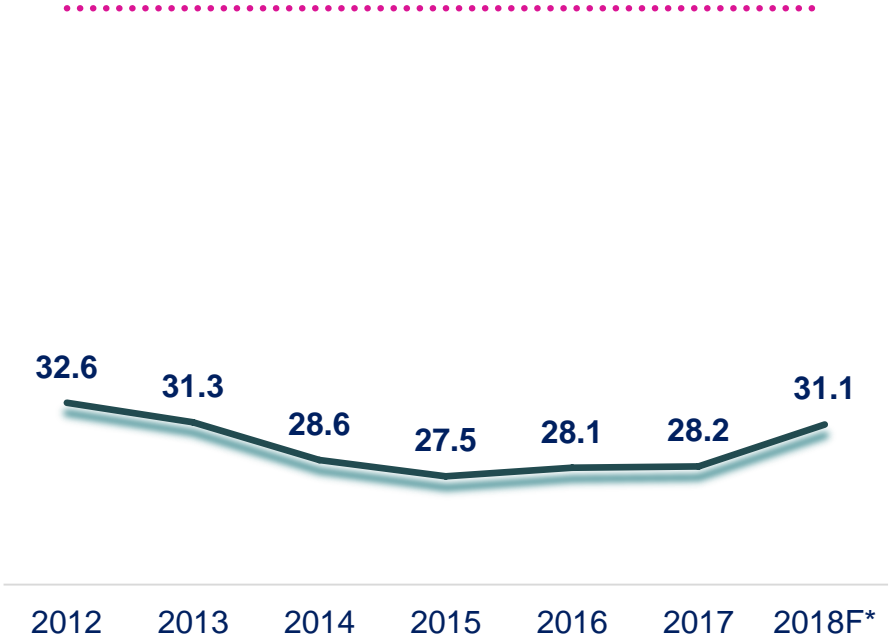
Maastricht criterion: 3%



(\*) New Economic Program forecasts

### General Government Debt Stock (% GDP)

Maastricht criterion: 60%

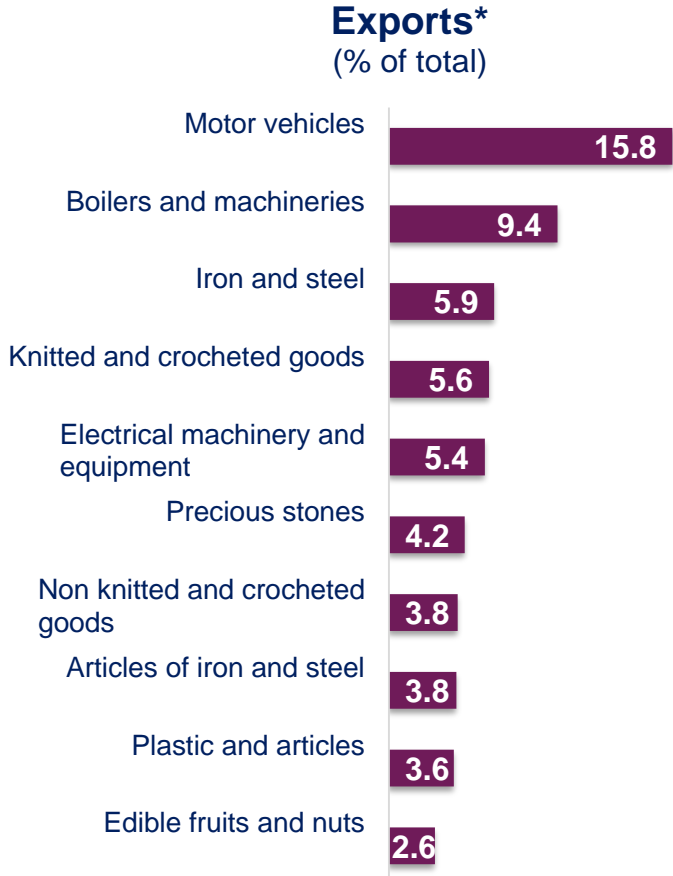
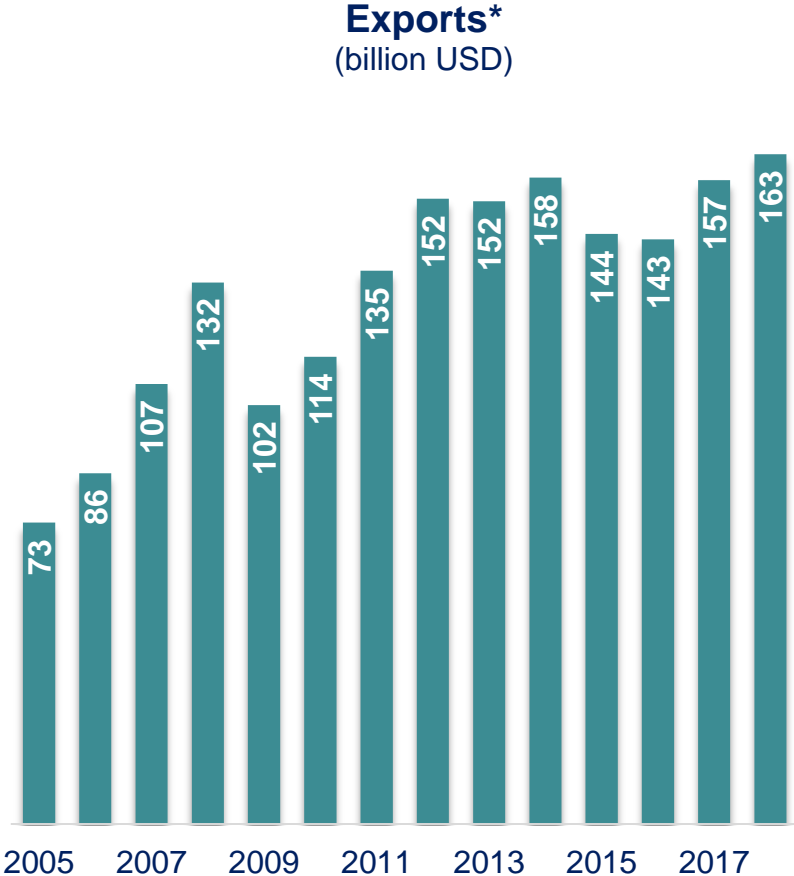


Source: Turkstat, Ministry of Treasury and Finance





○ Export volume reached all-time highs.



(\*) 12-month cumulative figures as of July 2018

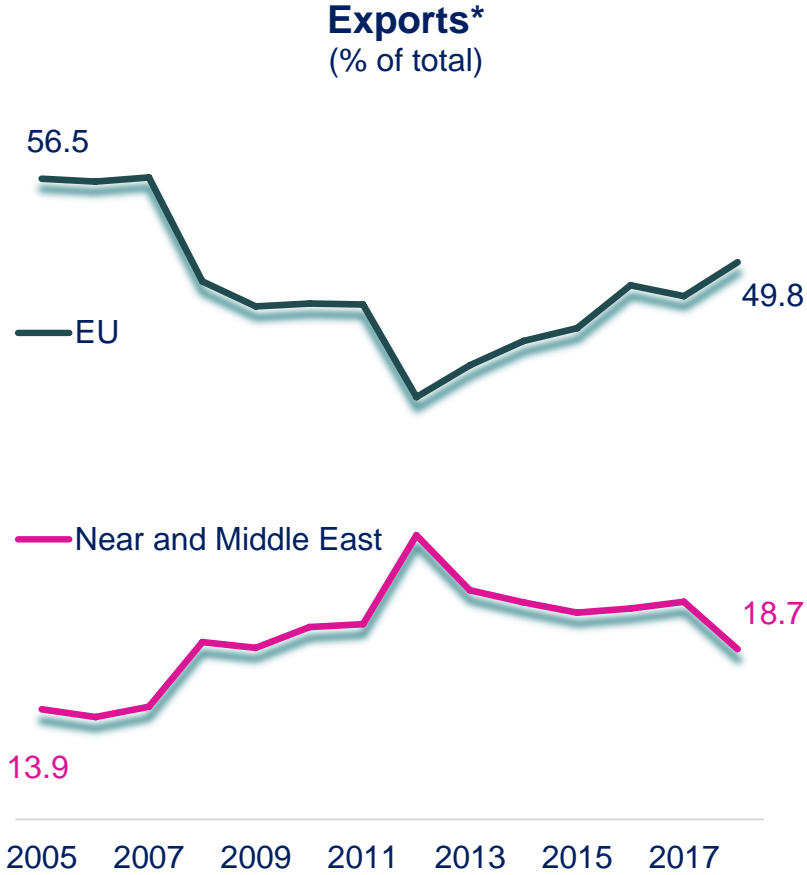
Source: Turkstat, Datastream



○ Turkey has been successful in diversifying export markets.

### Top 10 Export Markets

2005	% of total	2018*	% of total
1. Germany	12.9	1. Germany	9.9
2. UK	8.1	2. UK	6.4
3. Italy	7.6	3. Italy	5.7
4. US	6.7	4. USA	5.1
5. France	5.2	5. Iraq	5.1
6. Spain	4.1	6. France	4.5
7. Iraq	3.7	7. Spain	4.4
8. Netherlands	3.4	8. Netherlands	2.8
9. Russia	3.2	9. UAE	2.6
10. Romania	2.4	10. Israel	2.3
<b>The share of first 10</b>		<b>57.3</b>	
<b>The share of first 10</b>		<b>48.8</b>	

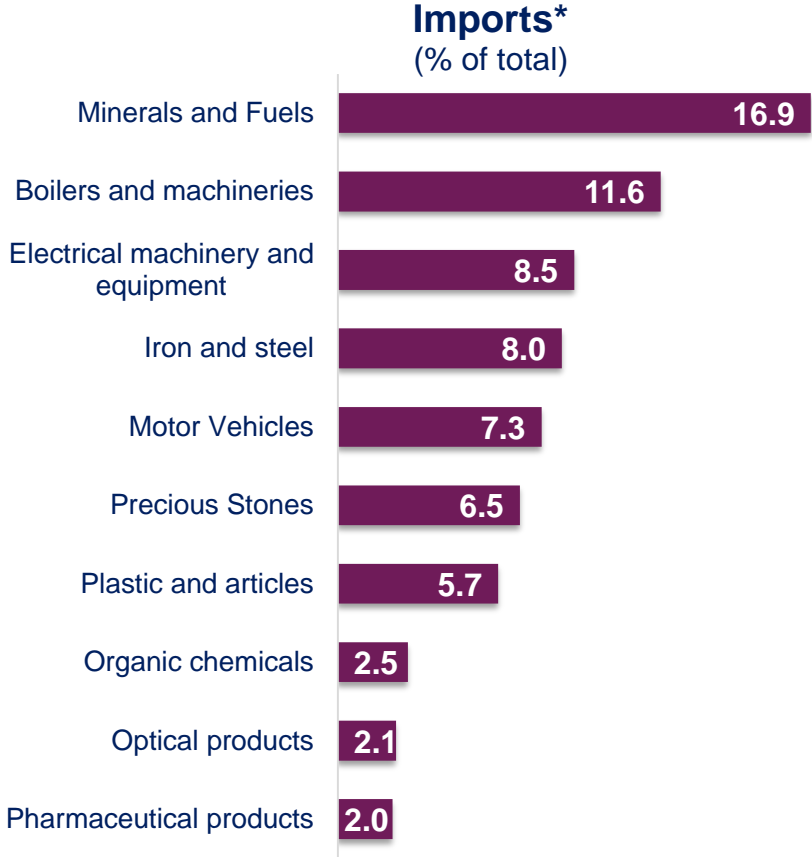
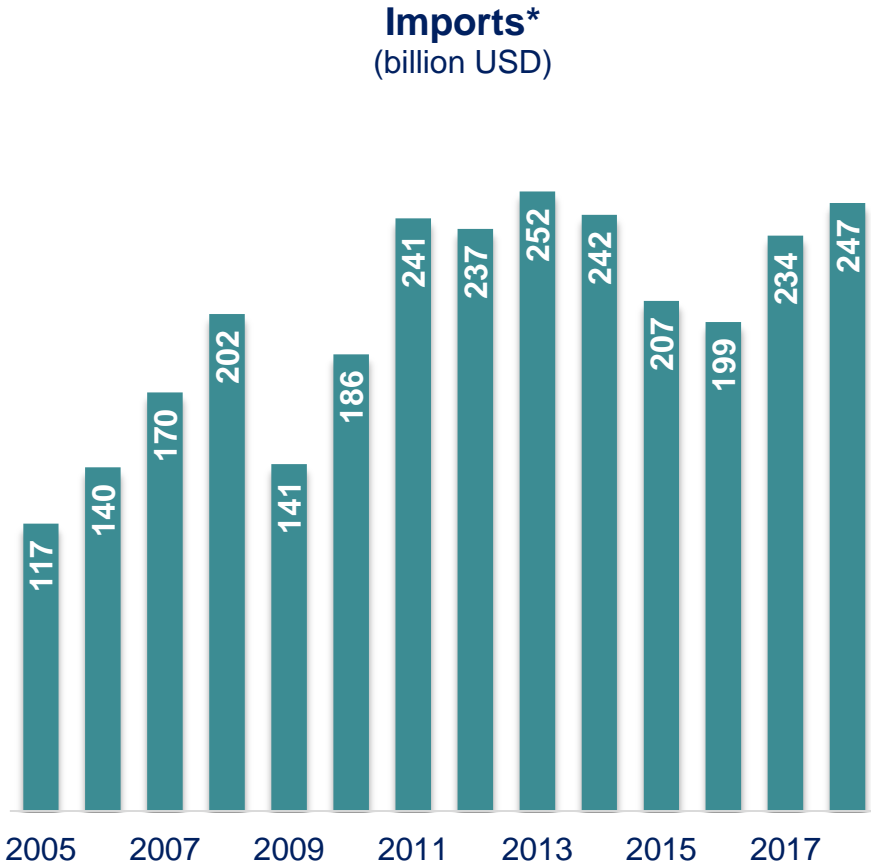


(\* 12-month cumulative figures as of July 2018)

Source: Datastream, Turkstat



○ Import volume reached 247 billion USD.



(\*) 12-month cumulative figures as of July 2018

Source: Datastream, Turkstat

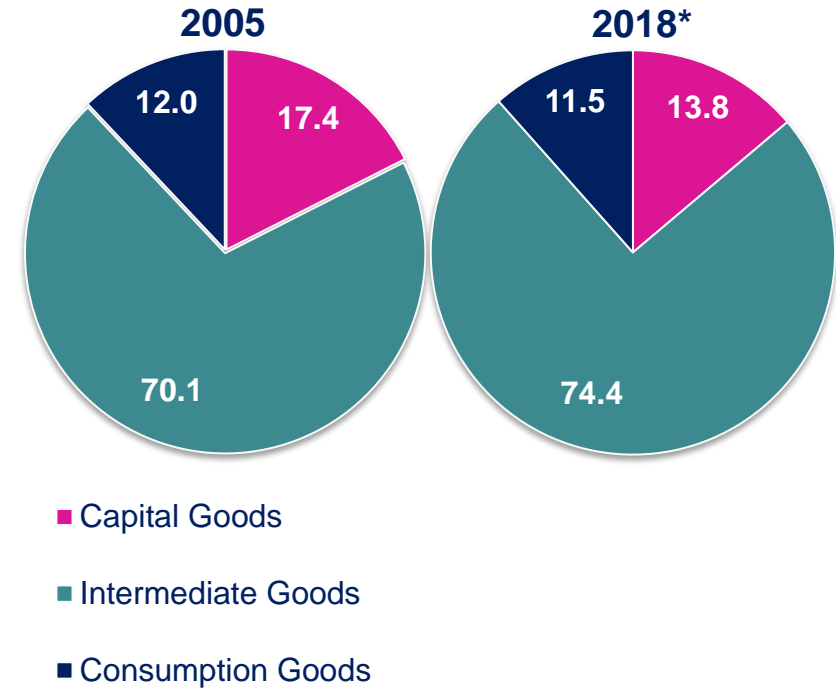
○ 28% of imports are from China, Germany and Russia.

## Top 10 Import Markets

2005	% of total	2018*	% of total
1. Germany	11.7	1. China	9.8
2. Russia	11.1	2. Germany	9.2
3. Italy	6.5	3. Russia	9.0
4. China	5.9	4. USA	5.0
5. France	5.0	5. Italy	4.7
6. USA	4.6	6. France	3.5
7. UK	4.0	7. UK	3.4
8. Switzerland	3.5	8. Iran	3.0
9. Spain	3.0	9. India	3.0
10. South Korea	3.0	10. South Korea	2.9
<b>The share of first 10</b>	<b>58.3</b>	<b>The share of first 10</b>	<b>53.8</b>

## Composition of Imports

(%)

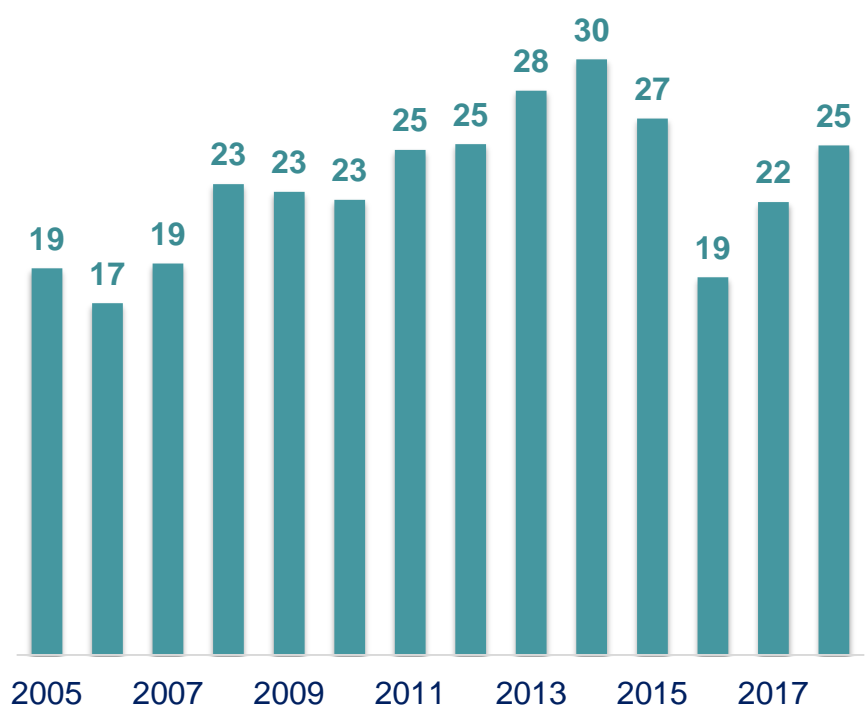


(\*) 12-month cumulative figures as of July 2018



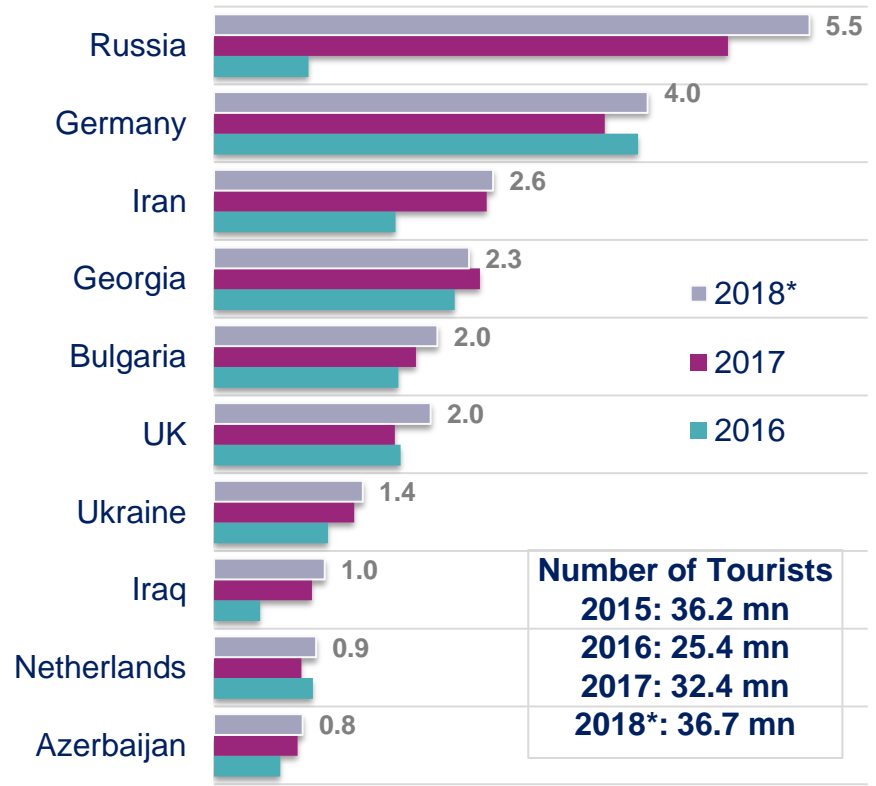
○ Tourism sector has recovered considerably.

**Tourism Revenues\***  
(USD bn)



(\*) 12-month cumulative figures as of July 2018

**The Number of Tourists**  
(million persons)



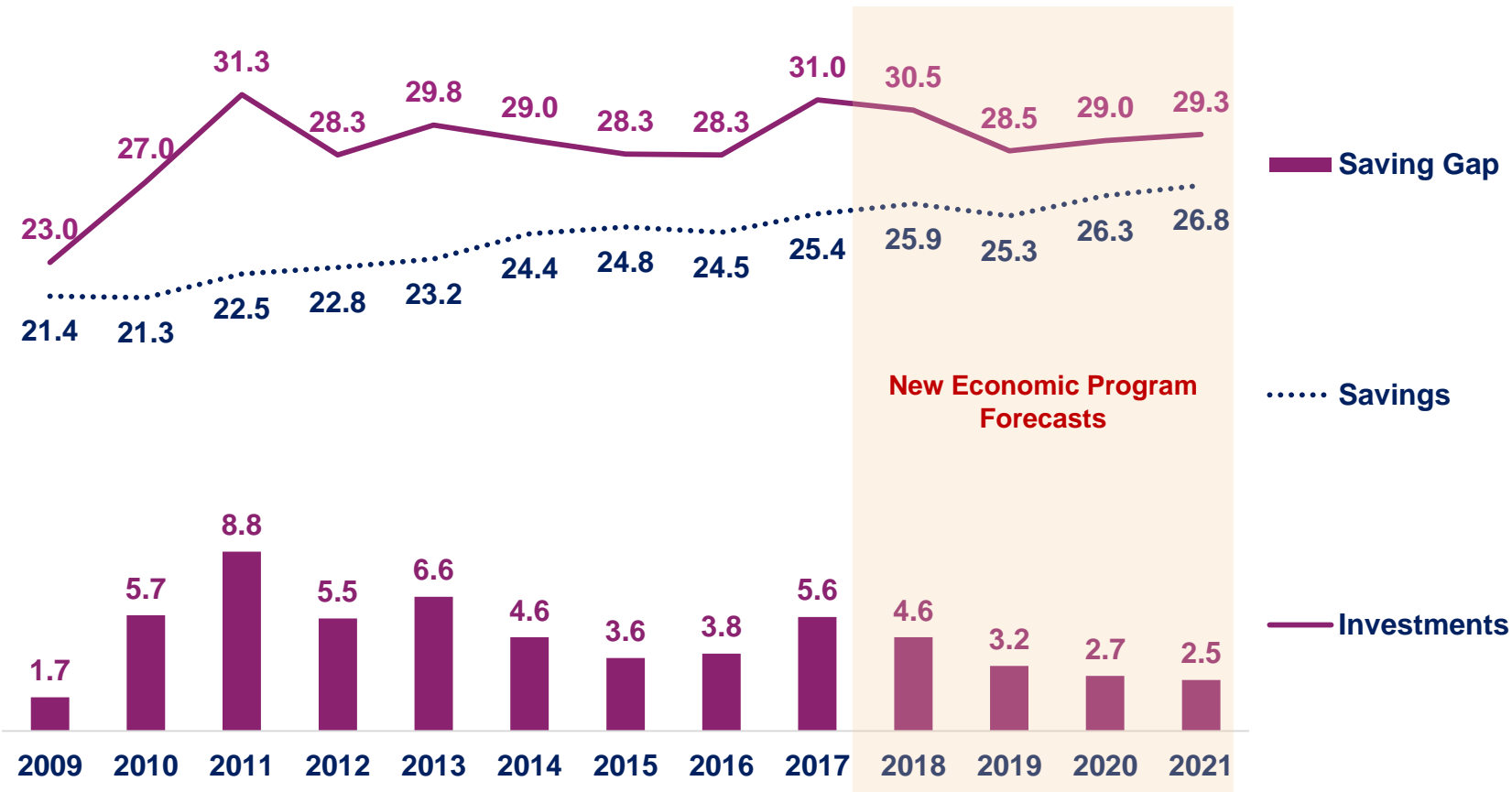
**Number of Tourists**  
 2015: 36.2 mn  
 2016: 25.4 mn  
 2017: 32.4 mn  
 2018\*: 36.7 mn

Source: CBRT, Ministry of Culture and Tourism



○ Saving-investment gap of Turkey...

Investments and Savings (% of GDP)

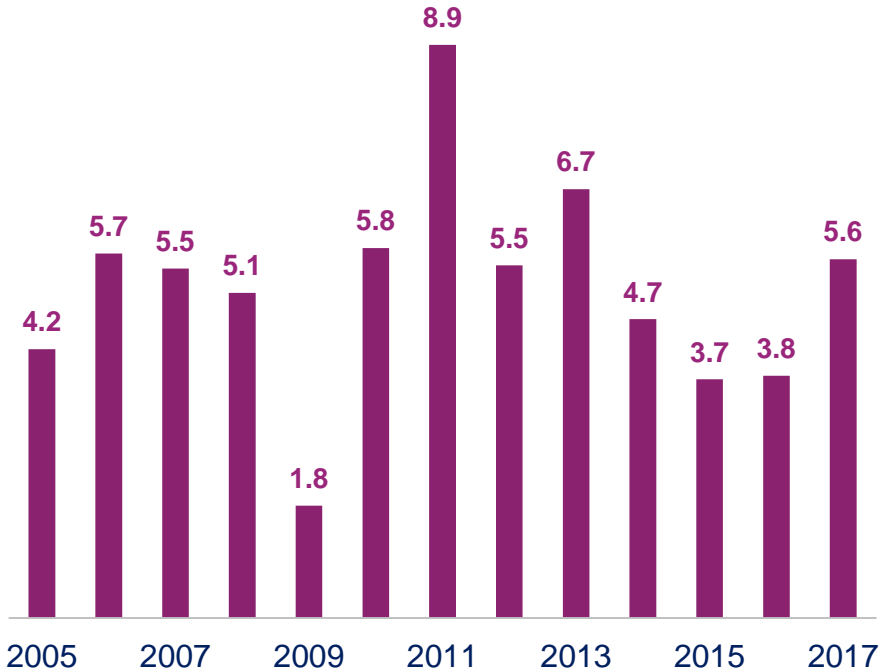


Source: Turkstat, New Economic Program (2019-2021)

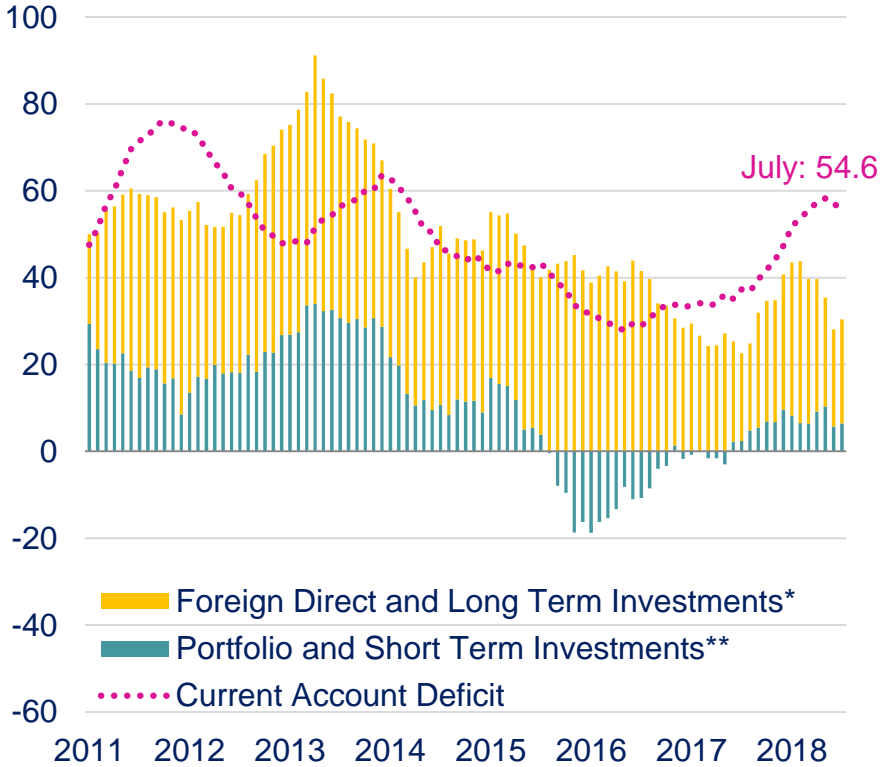


○ Current account deficit started to decline.

**Current Account Deficit**  
(% of GDP)



**Financing of CAD**  
(12-month cumulative, billion USD)



(\*) Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury

(\*\*) Short-term capital movements are sum of banking and real sectors' short term net credits and deposits in banks.

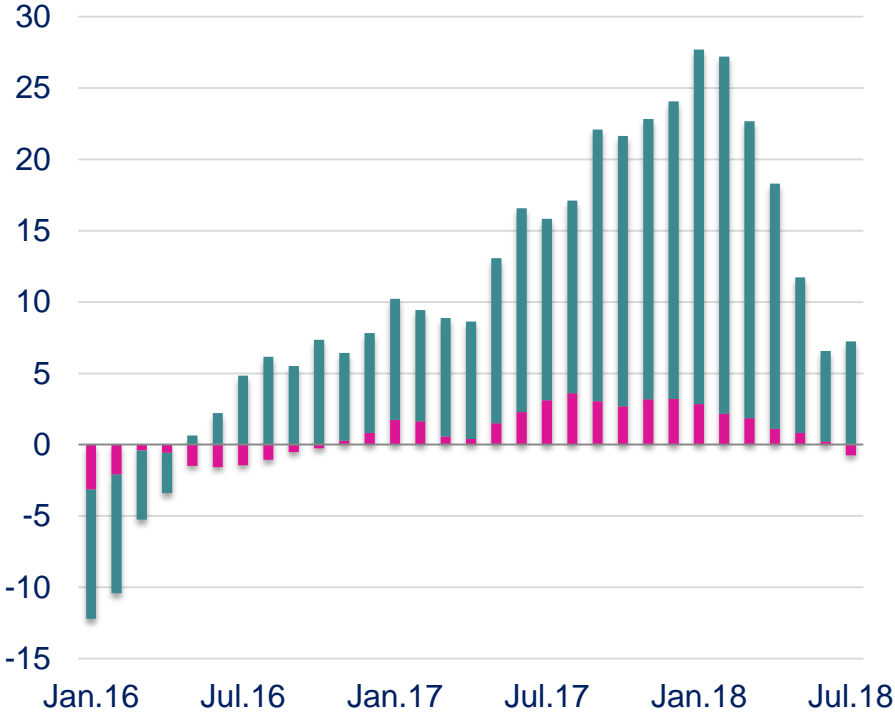


○ Volatile capital inflows....

### Portfolio Inflows

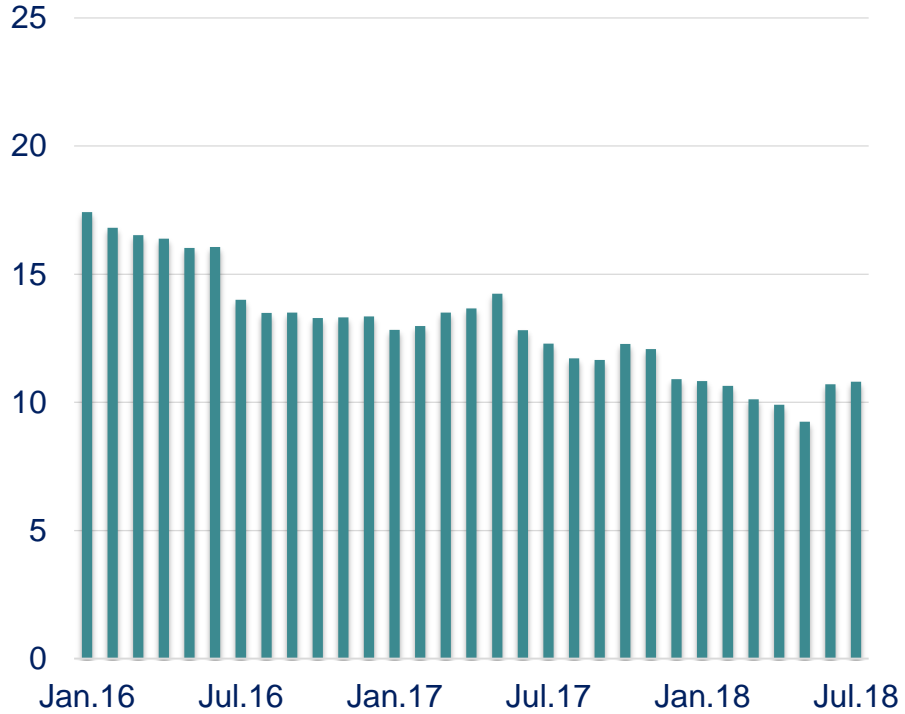
(12-month cumulative, billion USD)

- Debt Securities
- Equity Securities



### Foreign Direct Investment Inflows

(12-month cumulative, billion USD)

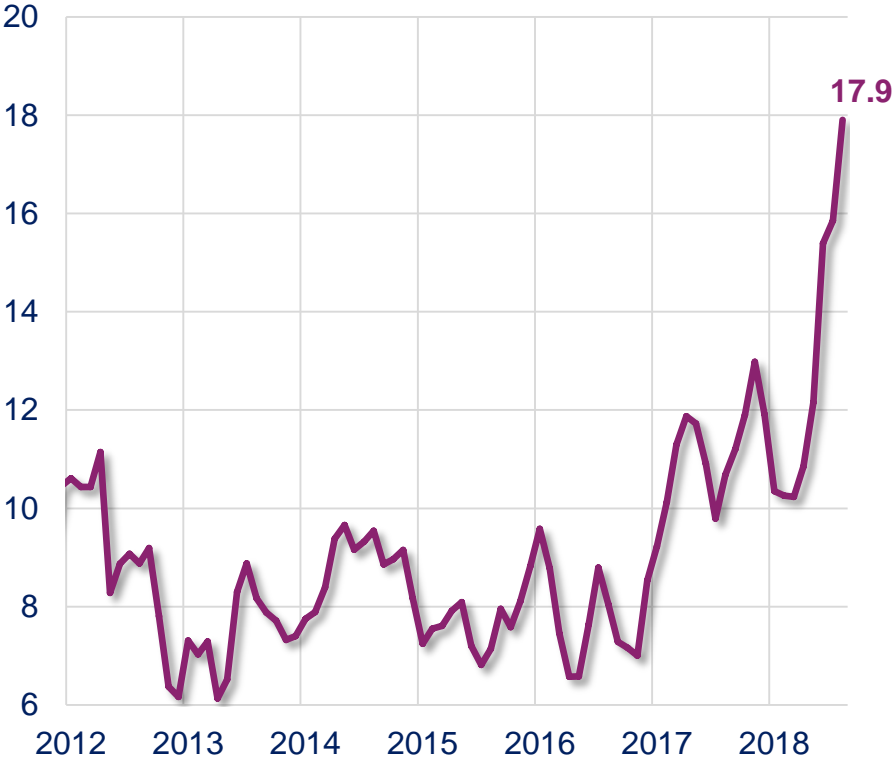






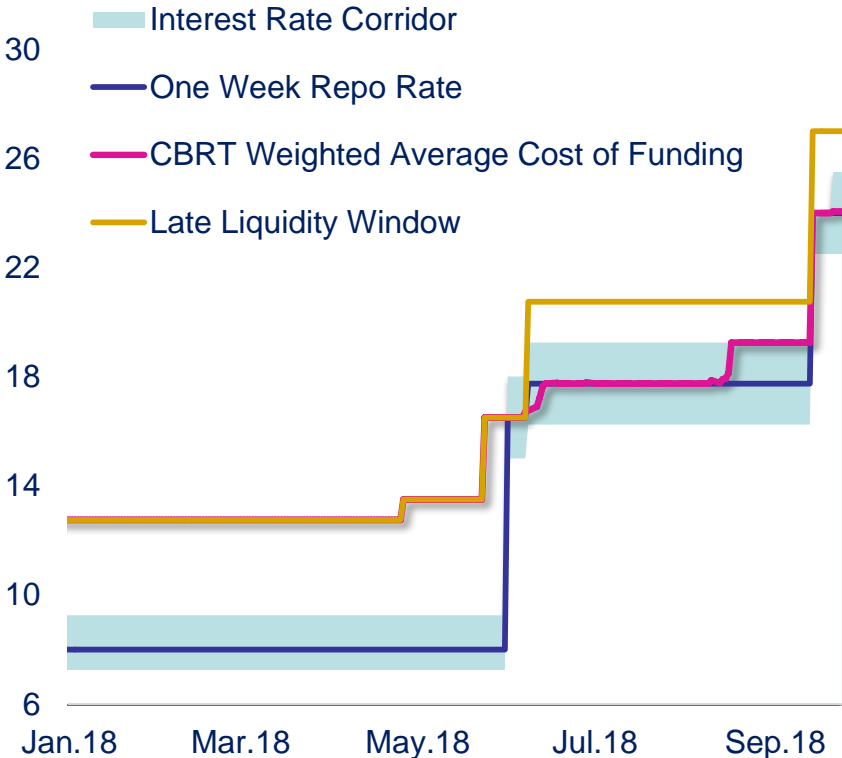
○ Central Bank has implemented tight liquidity policy.

### Annual CPI Inflation\* (%)



(\*) Latest figure as of August 2018

### Interest Rates (%)



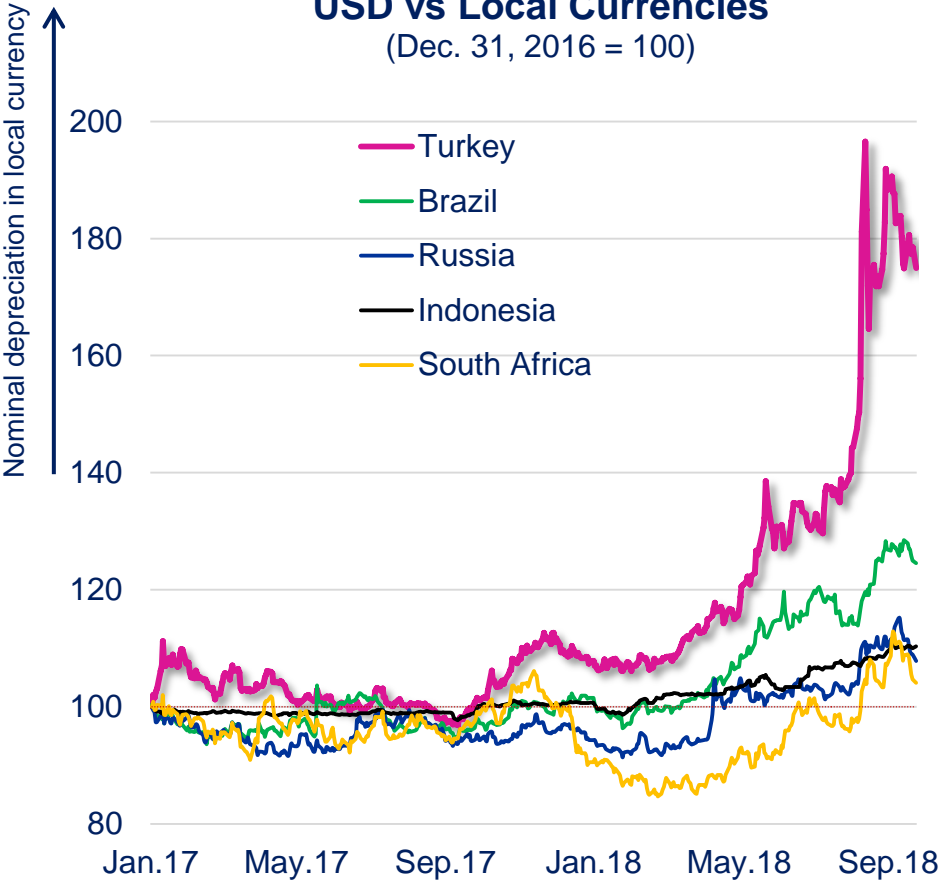
Source: CBRT, Turkstat, Datastream



○ Emerging market currencies have fluctuated so far this year.

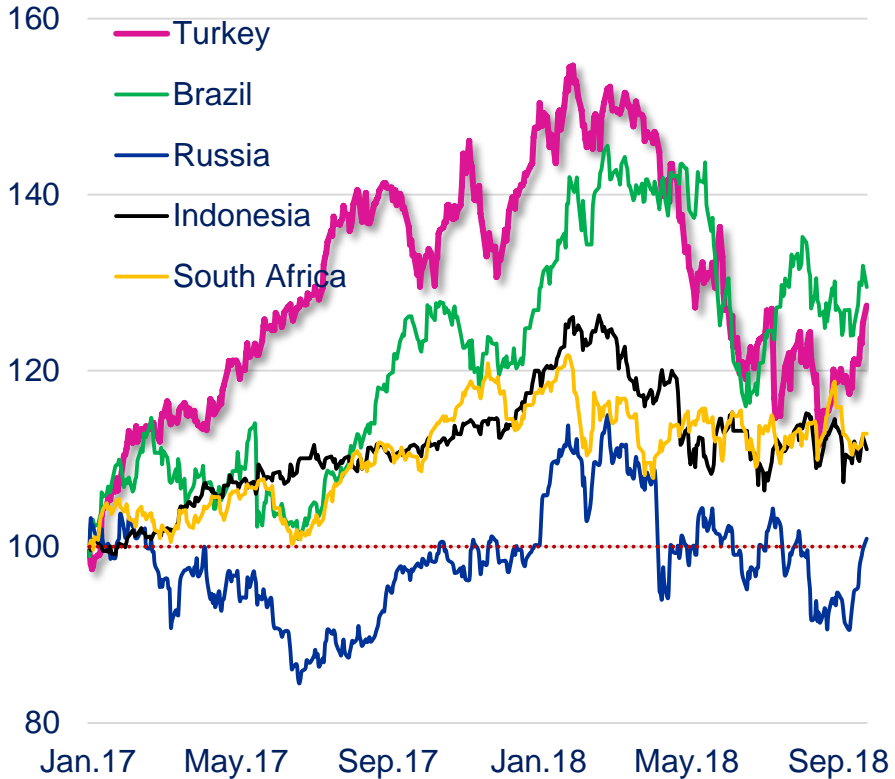
### USD vs Local Currencies

(Dec. 31, 2016 = 100)



### Equity Indices

(Dec. 31, 2016 = 100)



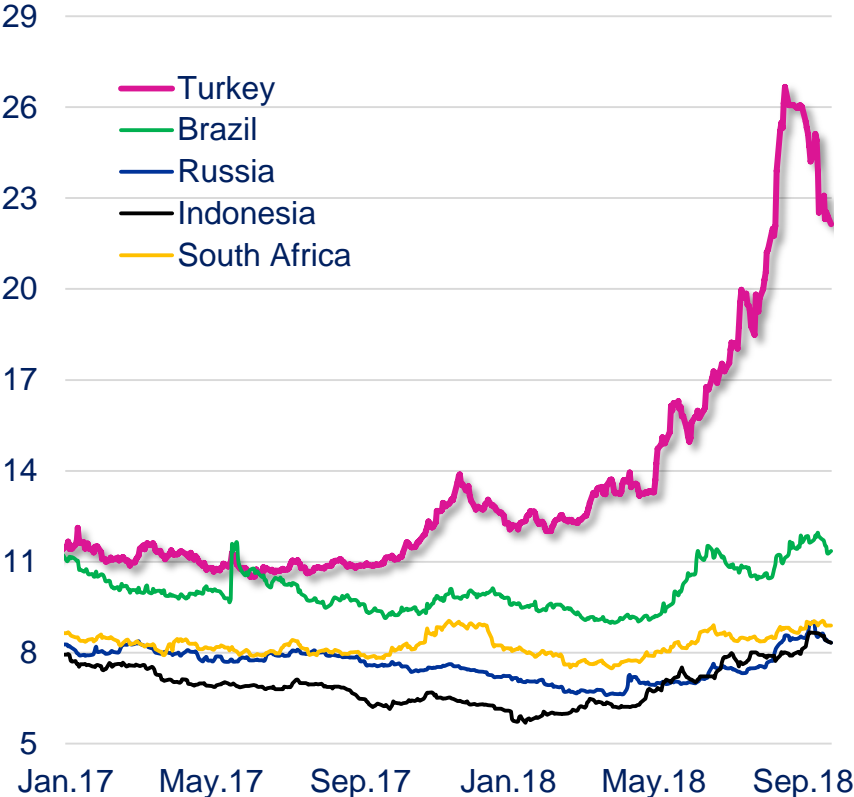
Latest figure as of September 24, 2018

Source: Datastream

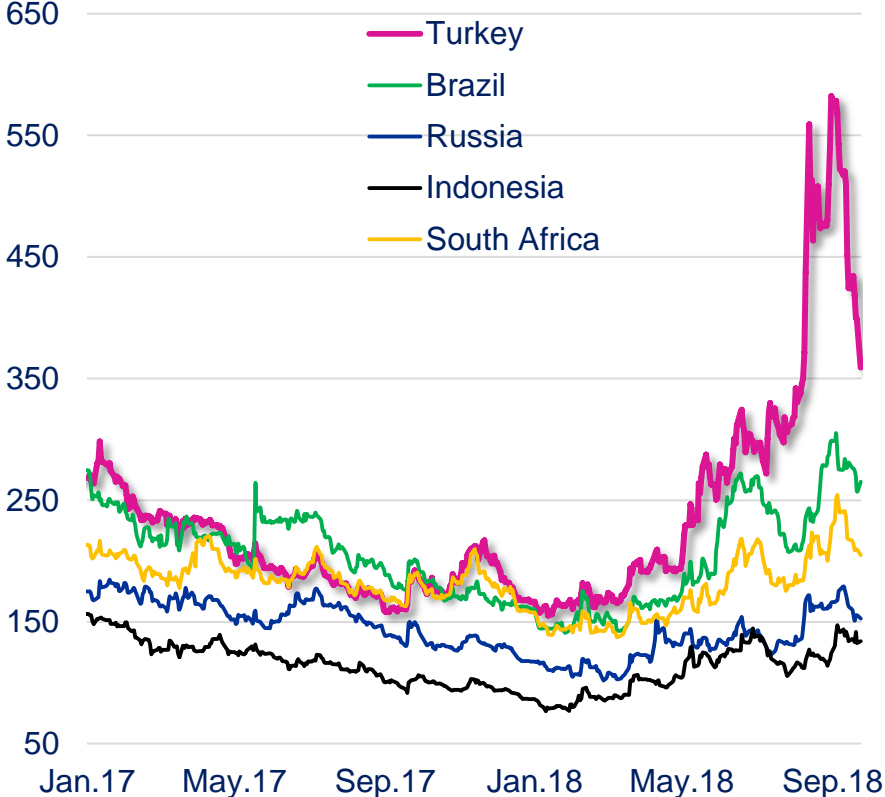


## ○ Risk premiums of emerging markets...

### 5Y Government Bond Yields (%)

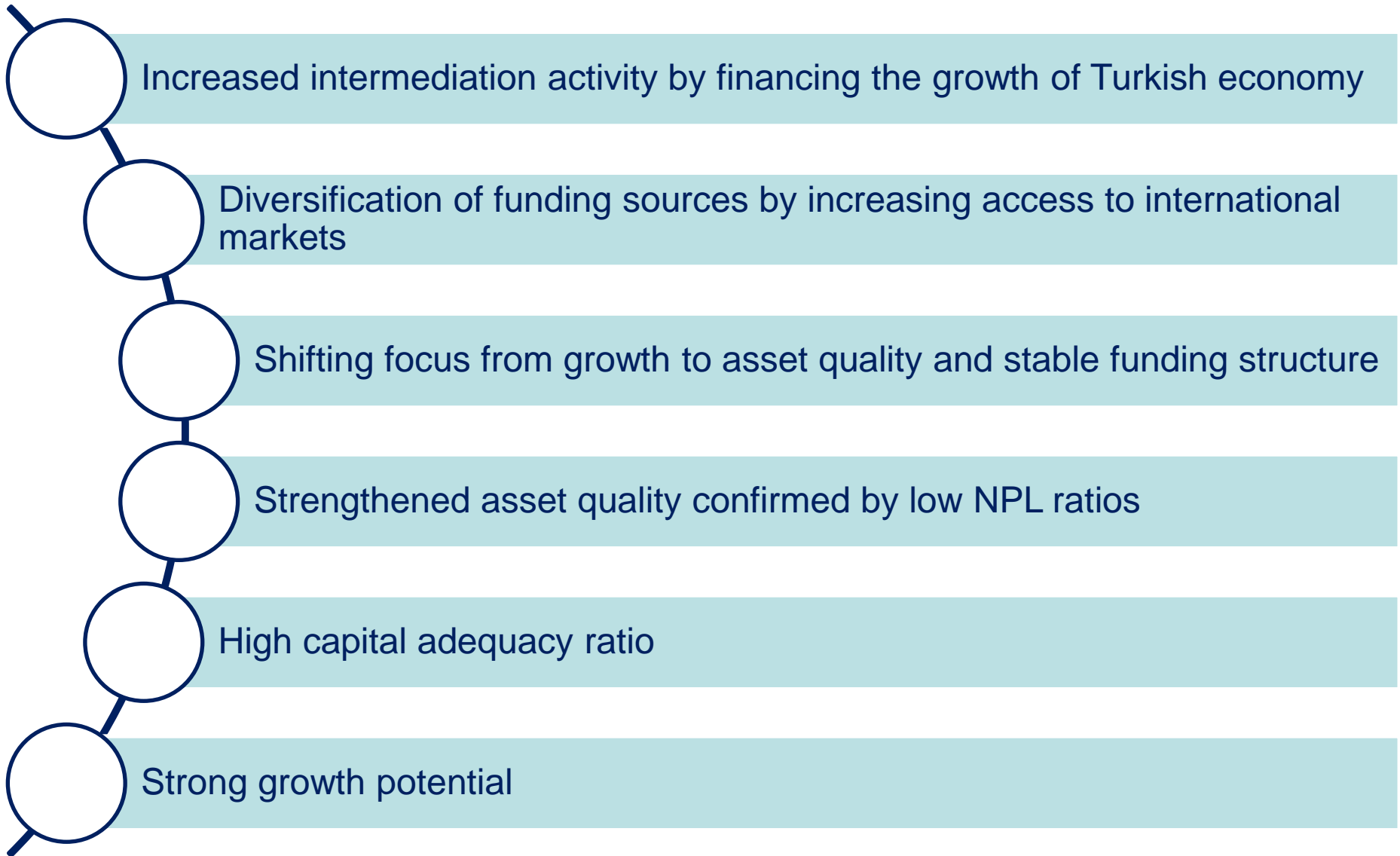


### 5Y CDS Spreads (bps)



Latest figure as of September 24, 2018

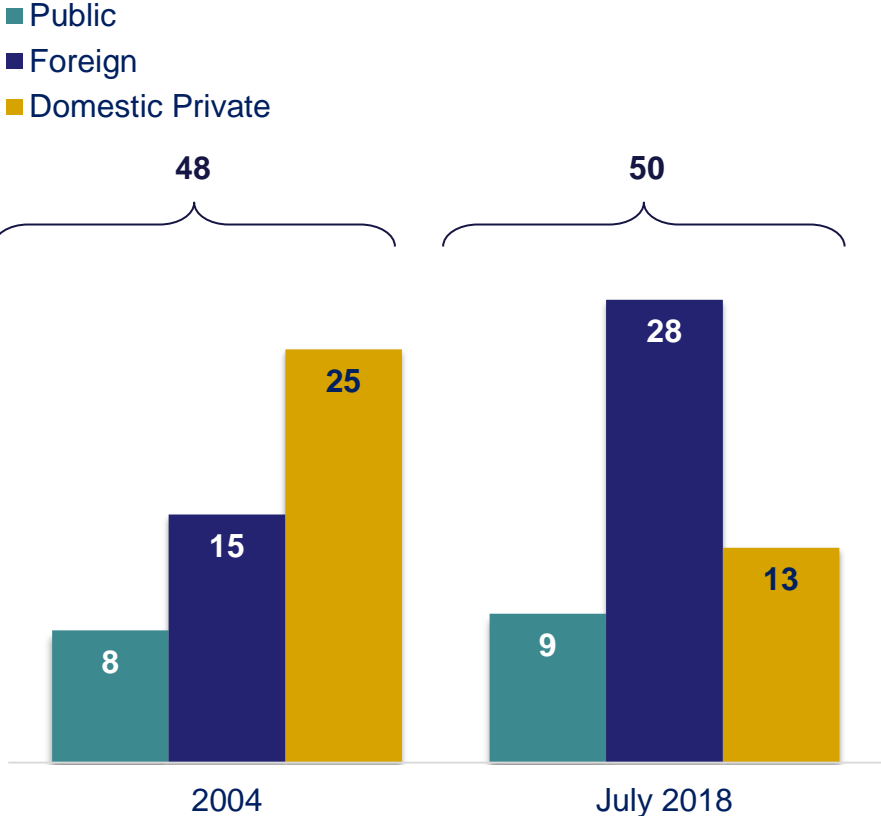
# **Banking Sector Dynamics**



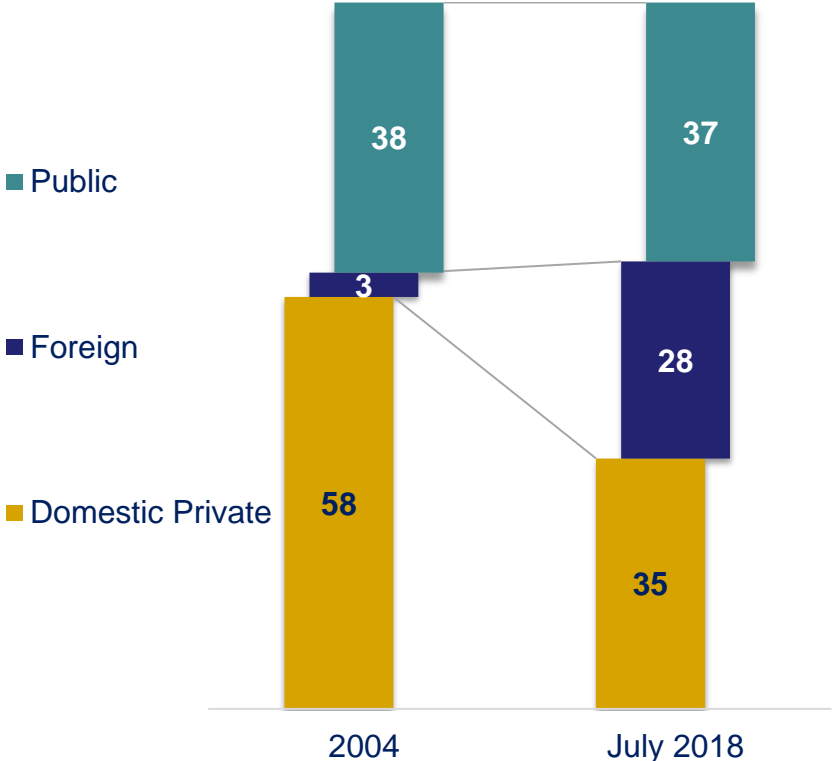


○ Increase in foreign bank presence...

**Number of Banks\***



**Share in Total Assets (%)**

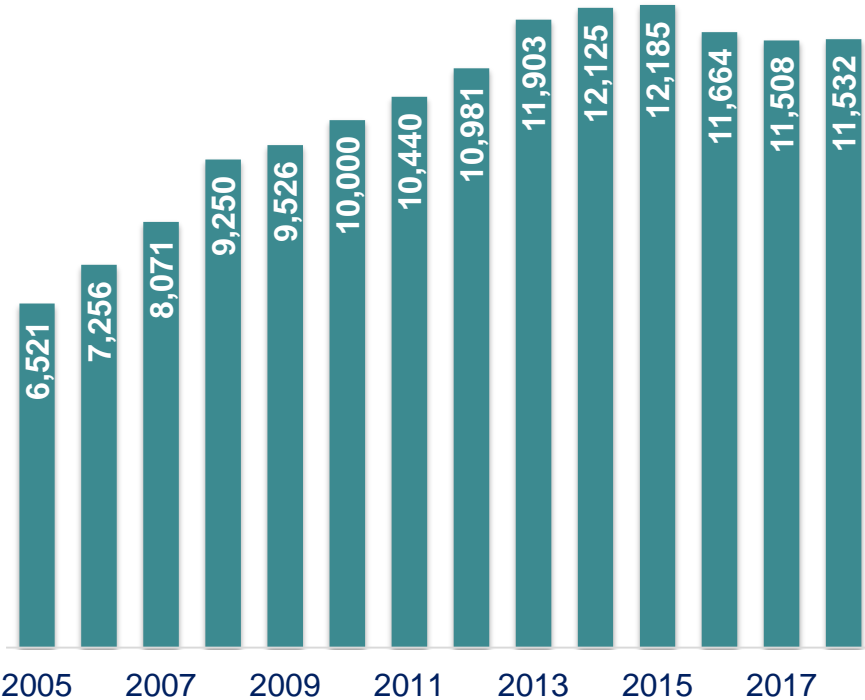


(\* Excluding the banks under the administration of the SDIF)



## ○ Branch network and banking sector employment...

### Number of Domestic Branches



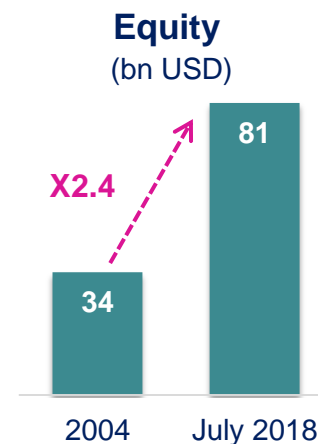
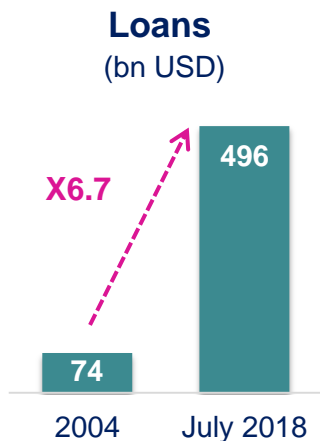
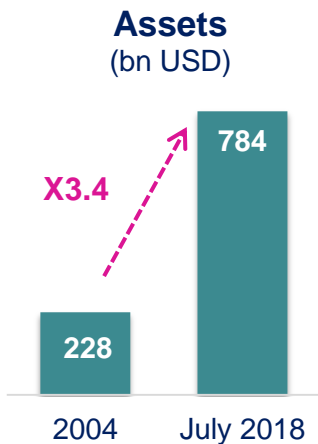
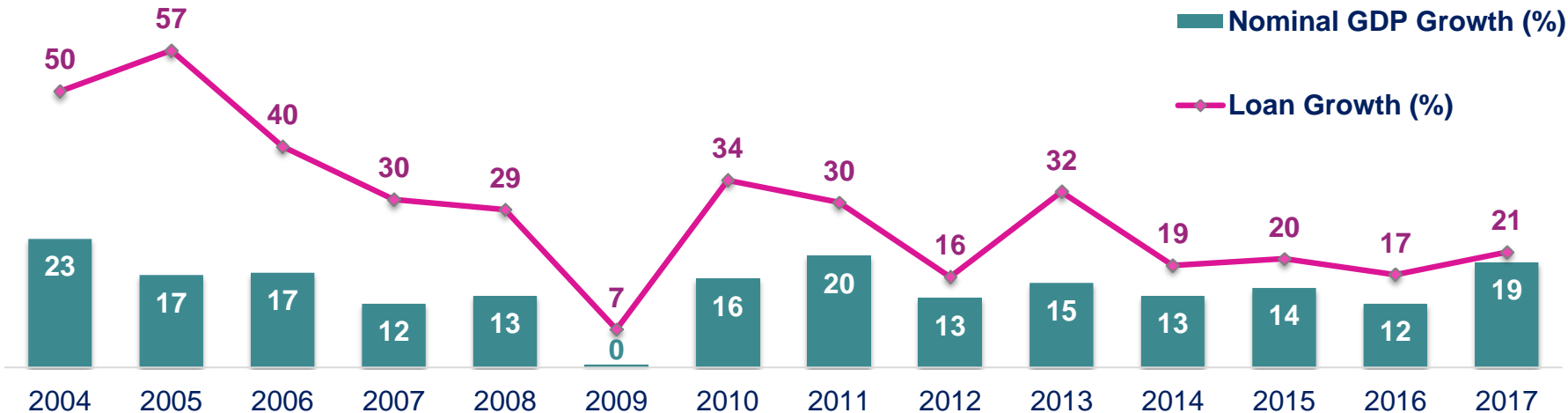
### Number of Domestic Staff



Latest figure as of July 2018



○ Strong growth performance in the banking sector...



Source: BRSA, Turkstat

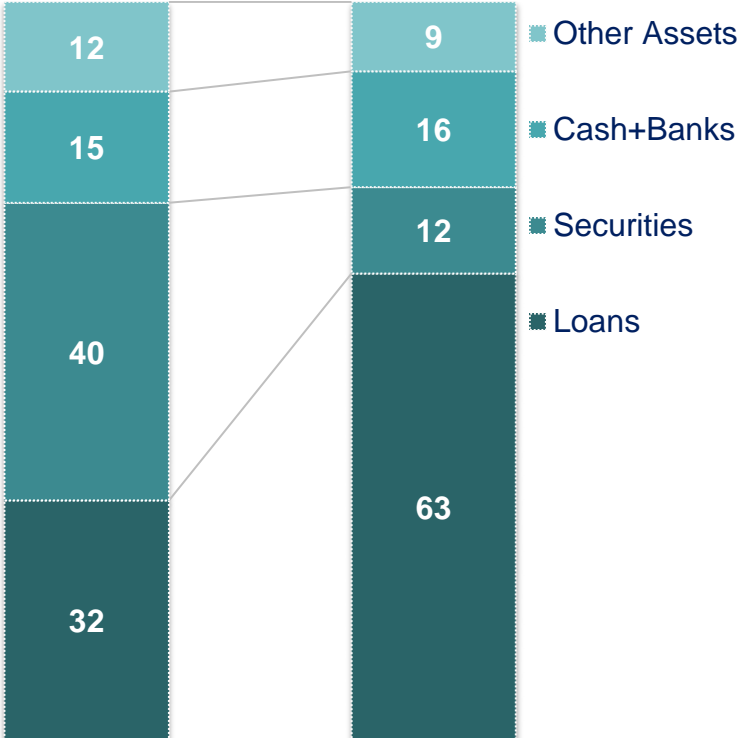




○ Increasing financial intermediation role of banks...

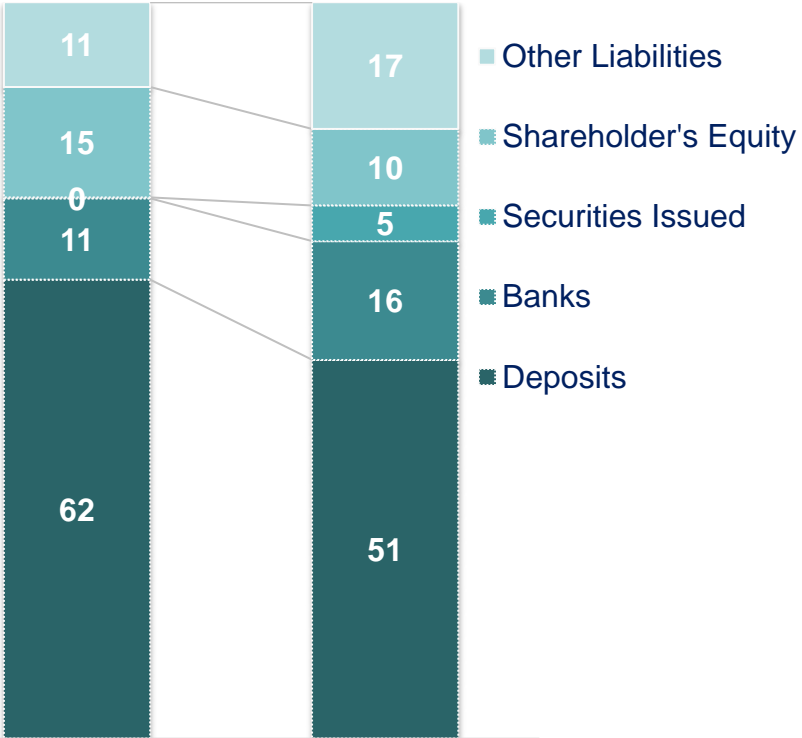
### Asset Composition

(%)



### Liability Composition

(%)



2004

July 2018

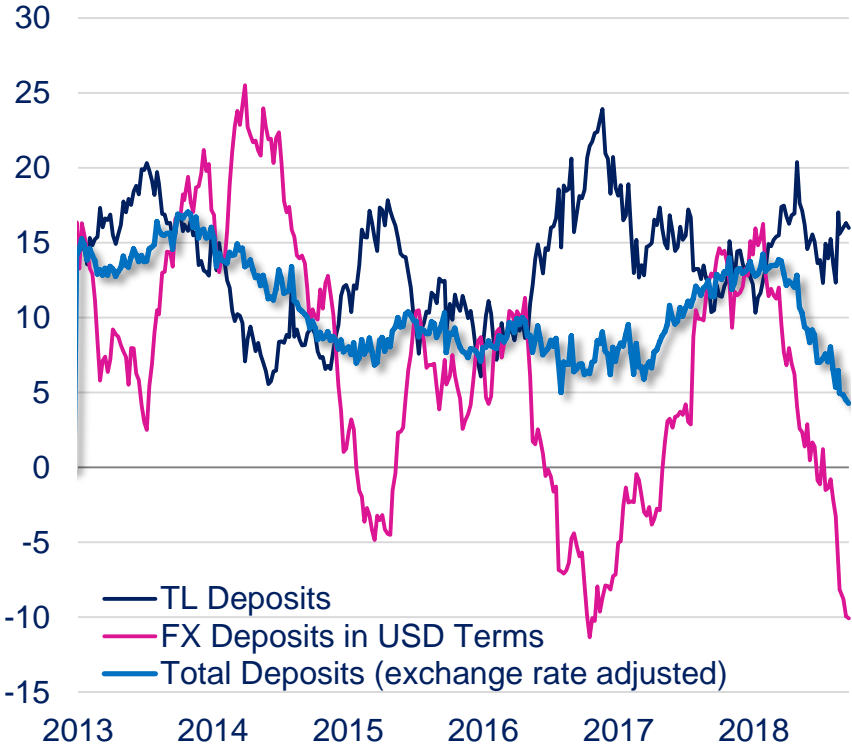
2004

July 2018



○ Deposits have been the main funding source of the banking sector.

### Deposit Volume (annual % change)



### Share of TL Deposits in Total (%)



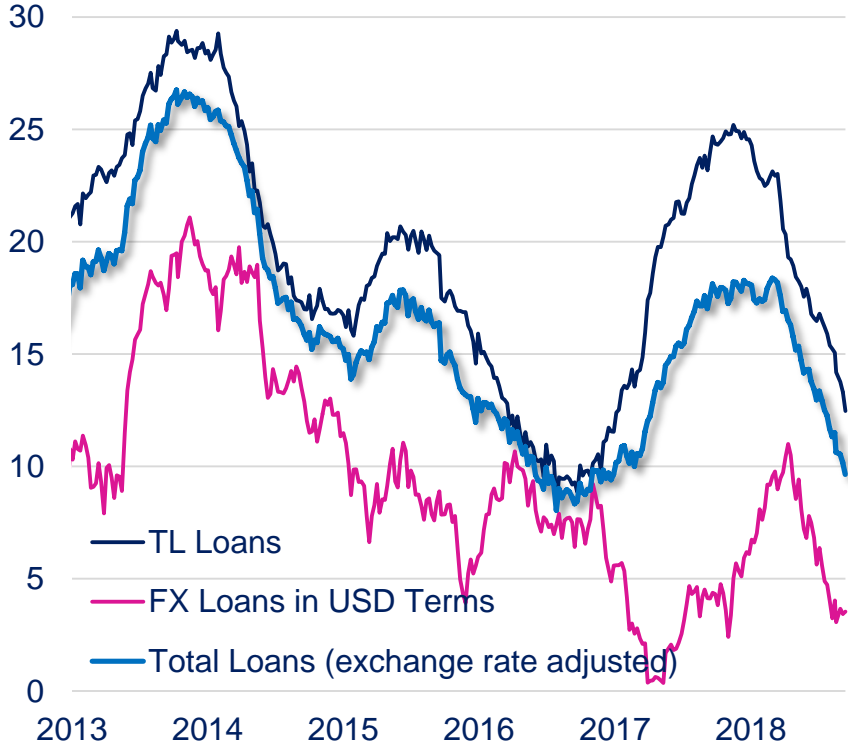
Latest figure as of September 14, 2018

Source: BRSA

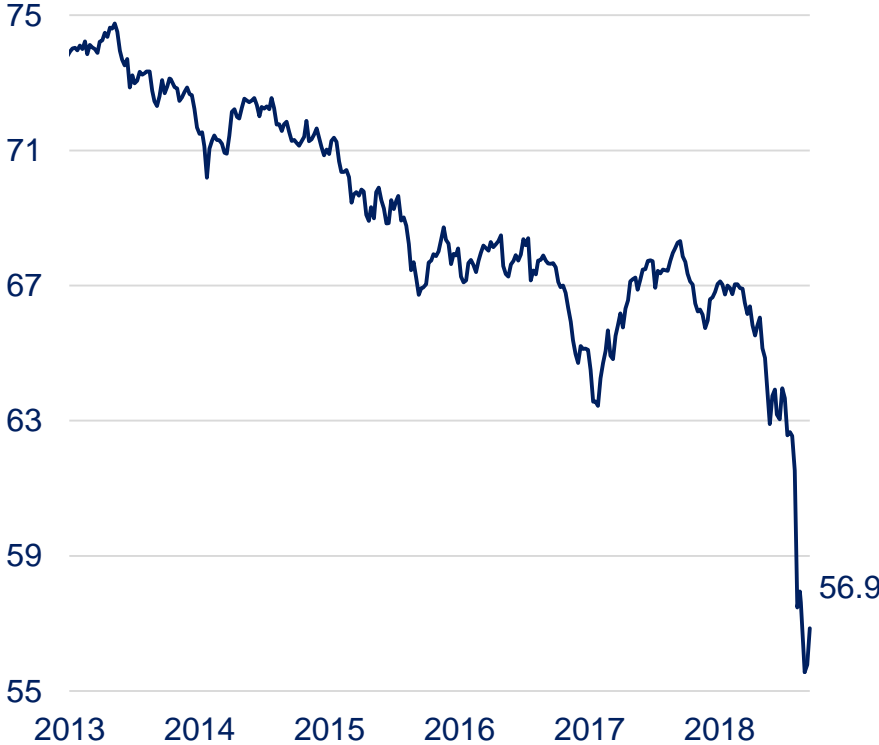


○ Loan growth has lost momentum since the last quarter of 2017.

### Loan Volume (annual % change)



### Share of TL Loans in Total (%)



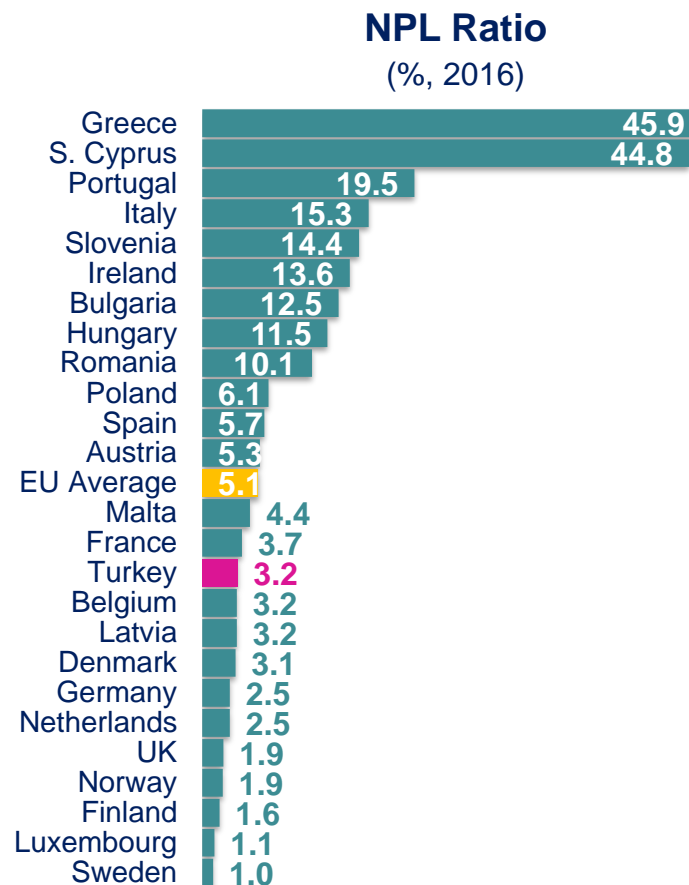
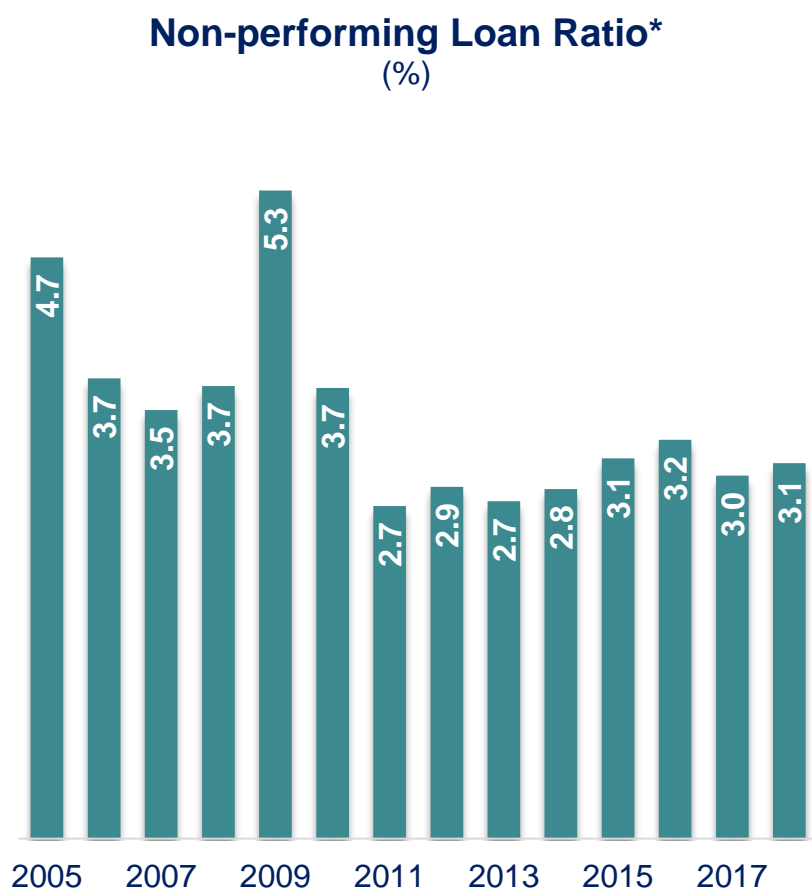
Latest figure as of September 14, 2018

Source: BRSA



# Non-Performing Loans

○ NPL ratio has remained at low level.

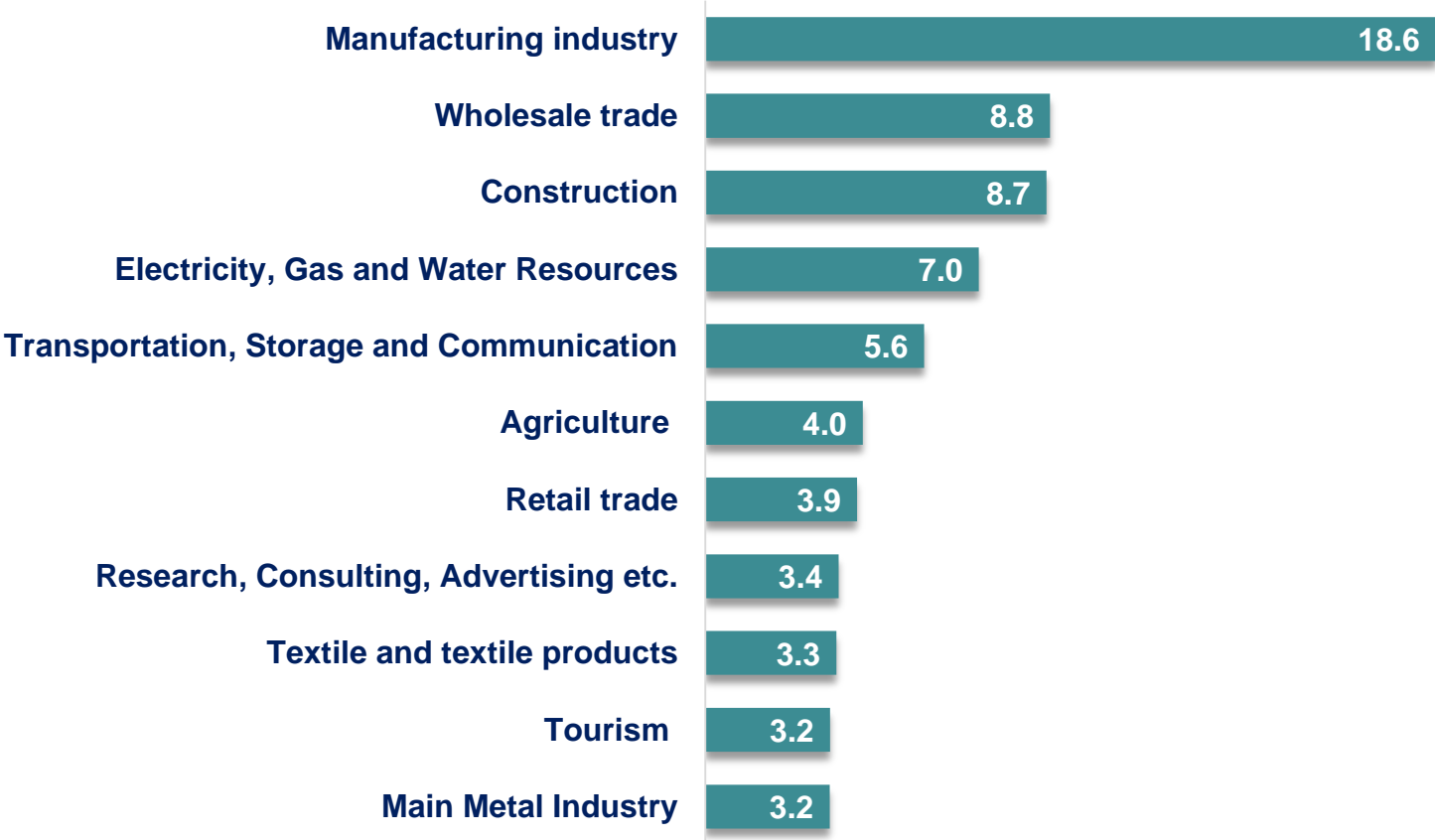


(\* ) Latest figure as of July 2018



○ Manufacturing industry has the highest share in total loans.

**Loans by Sectors**  
(% share, July 2018)

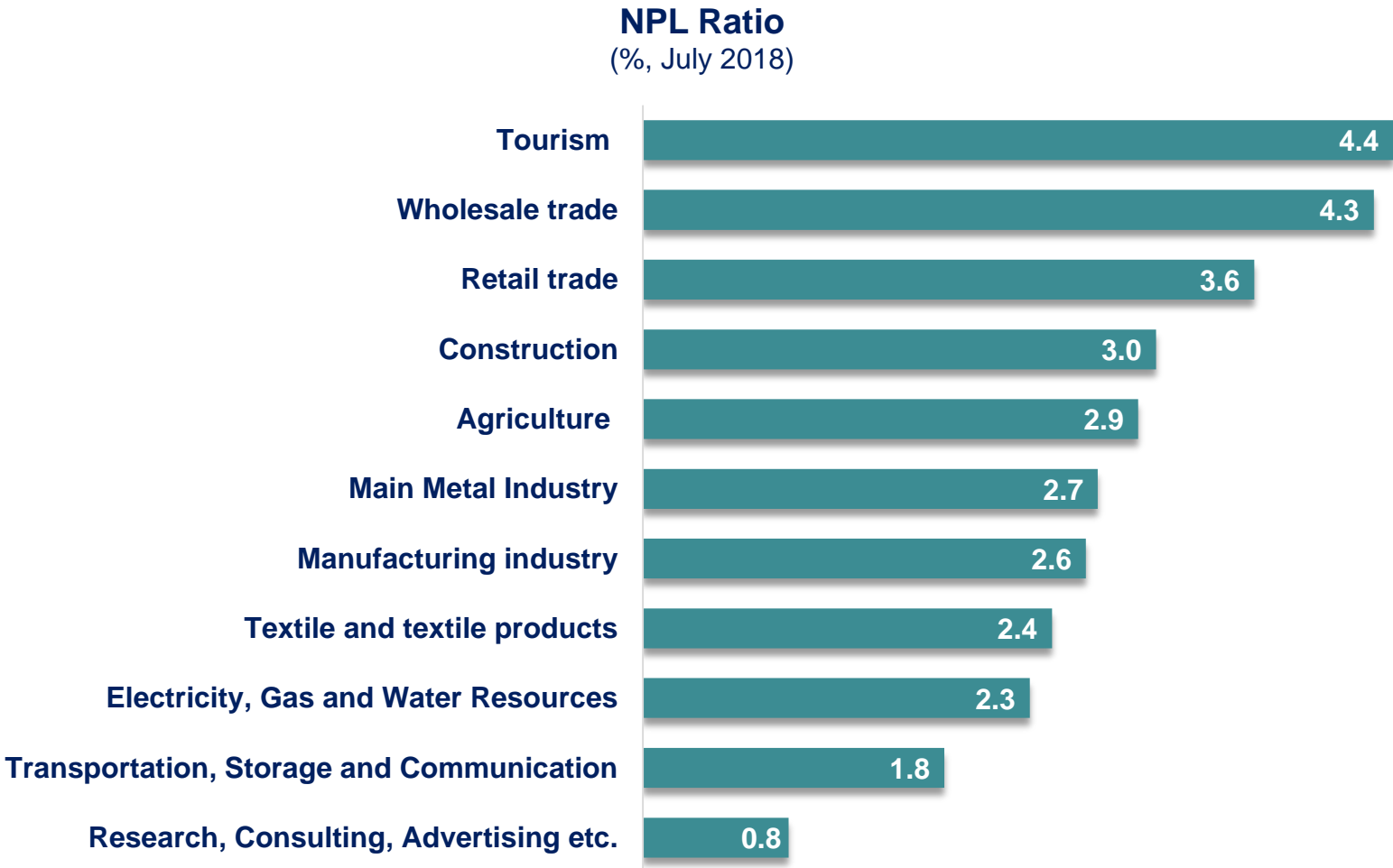


Source: BRSA

# Non-Performing Loans by Sectors

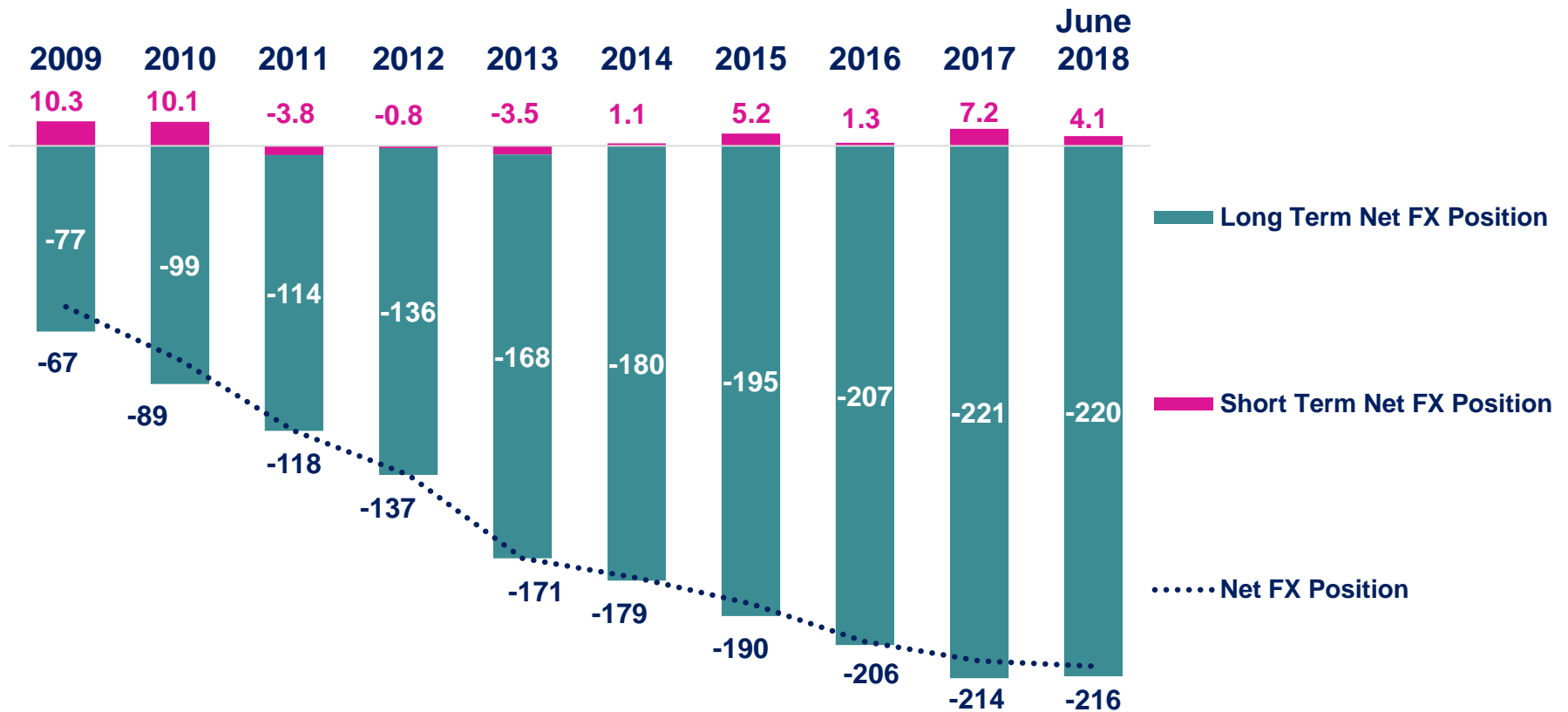


○ Non-performing loans ratio by sectors...



○ Short-term FX risks have been managed carefully by the non-financial sector.

**Net FX Position of the Non-Financial Sector**  
(bn USD)

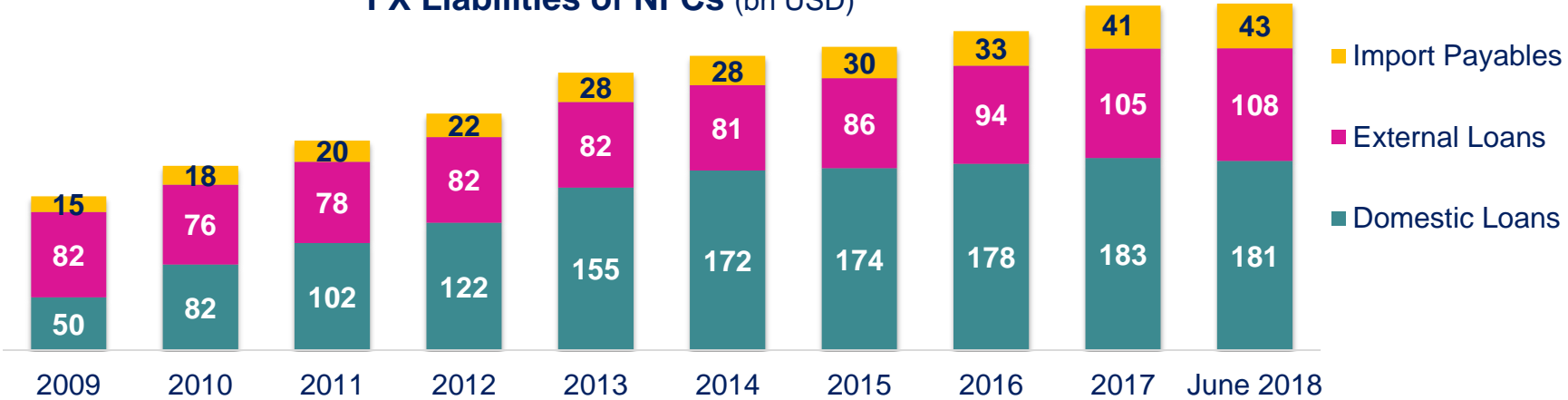


# FX Assets & Liabilities of NFCs

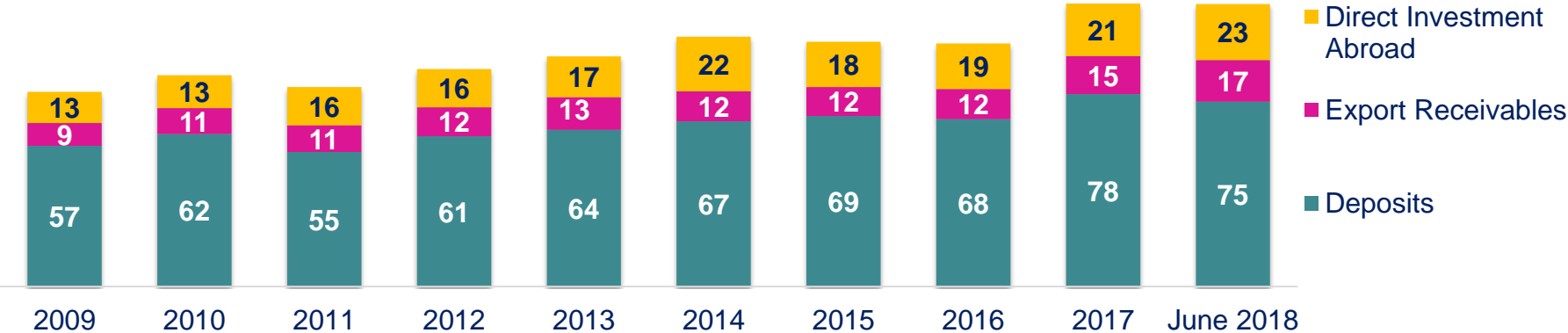


○ Majority of FX loans of non-financial companies were raised from domestic banks.

**FX Liabilities of NFCs (bn USD)**



**FX Assets of NFCs (bn USD)**



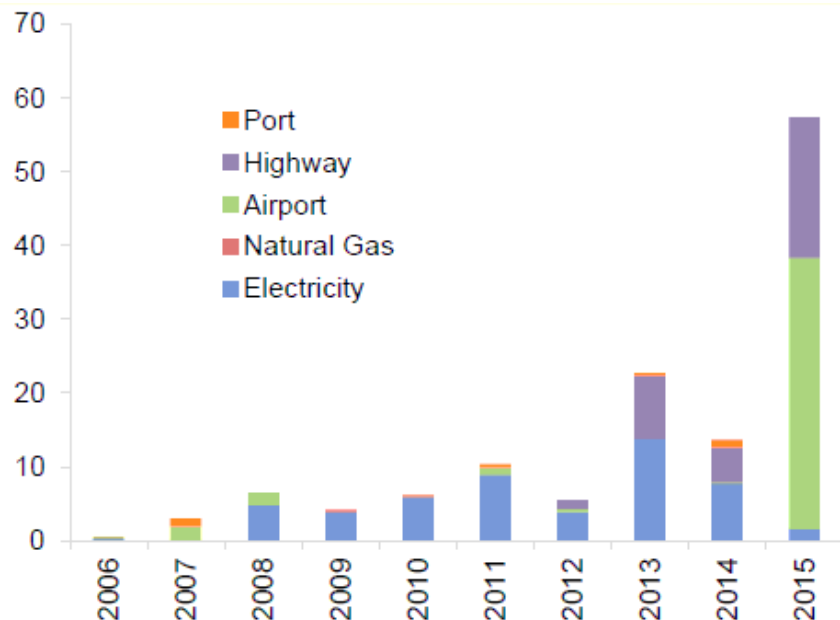




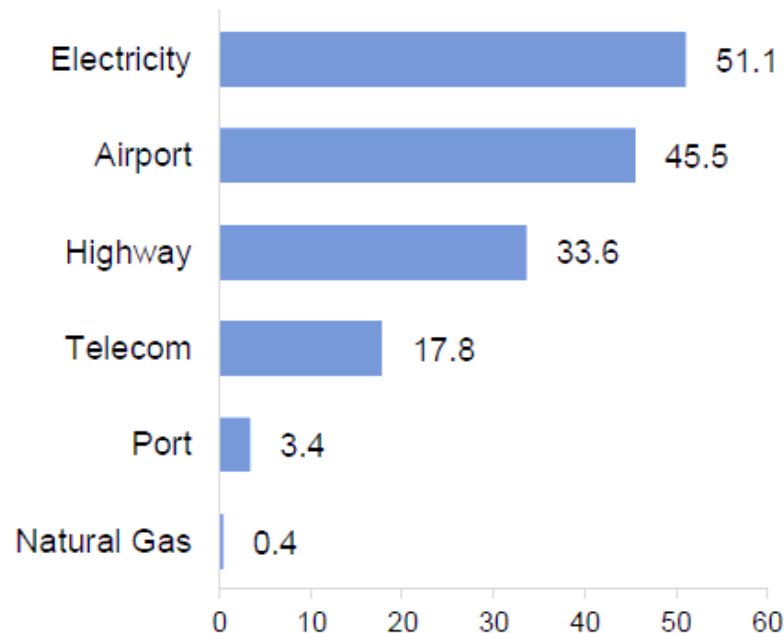
# Public - Private Partnership Projects

○ A total of 197 PPI projects, worth of 130.4 billion USD, have been completed / under construction since 2006.

### Annual Infrastructure Investment Amounts and Sectoral Distribution of Projects Contracted since 2006 (bn USD)

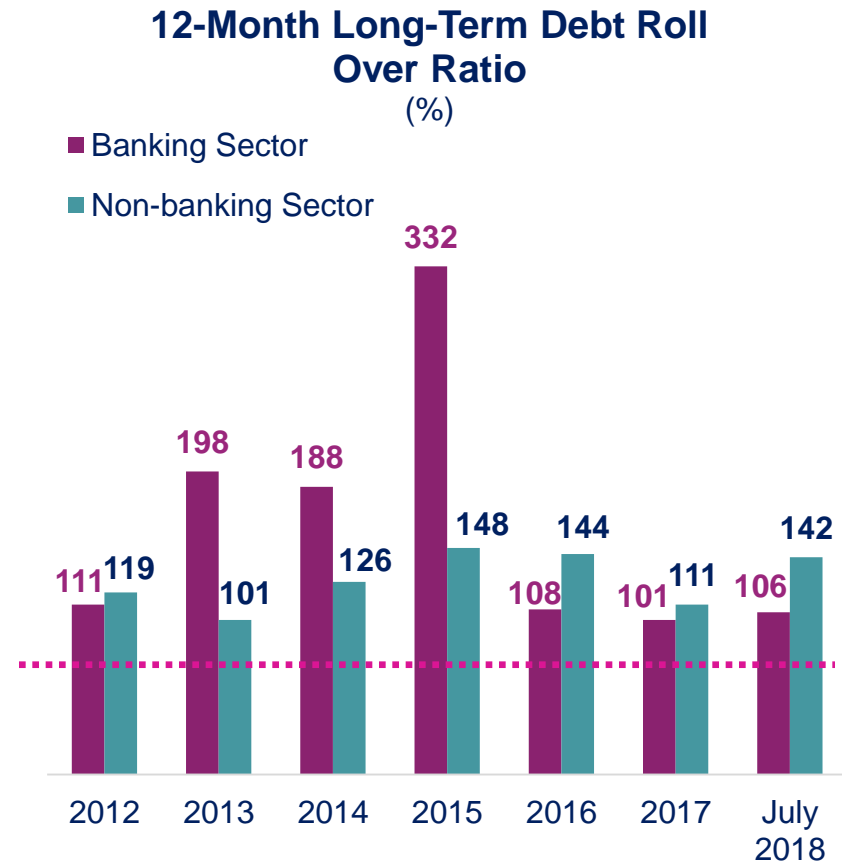


### Sectoral Distribution of Total Infrastructure Investment Amount (2006-15, bn USD)



○ Turkey's external financing needs in the coming 12 months...

July 2018 (*)		
	(bn USD)	Share (%)
Central Bank	0.6	0.3
General Government	4.3	2.4
<b>Banks</b>	<b>103.1</b>	<b>56.8</b>
Credits	53.0	29.2
FX Deposits	19.4	10.7
Bank Accounts	18.2	10.0
Branches and Affiliates Abroad	8.8	4.8
TRY Deposits	12.5	6.9
Branches and Affiliates Abroad	4.7	2.6
<b>Other Sectors</b>	<b>73.4</b>	<b>40.5</b>
Trade Credits	47.8	26.3
Other Credits	25.7	14.2
Public	0.1	0.0
Private	25.6	14.1
<b>Total</b>	<b>181.3</b>	<b>100.0</b>



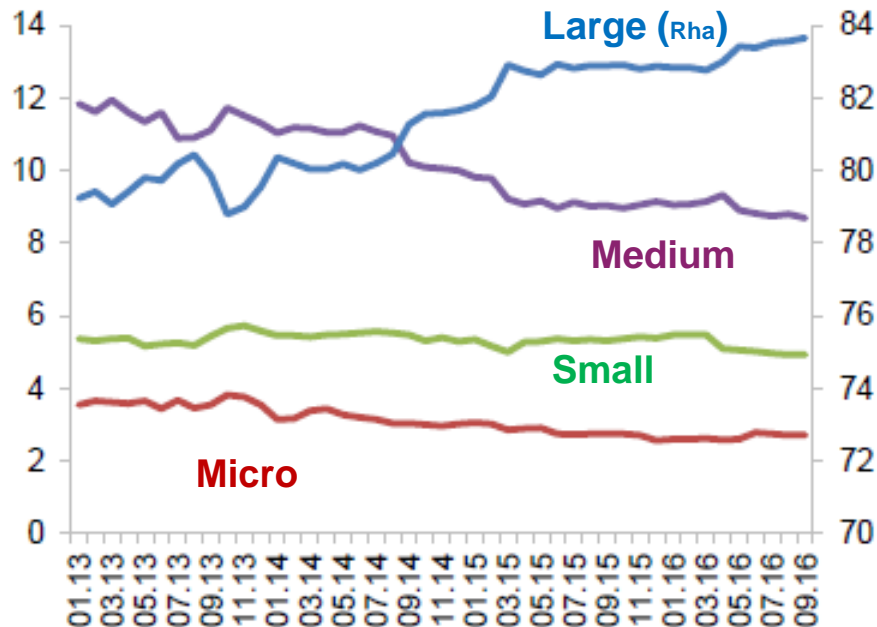
(\*) External debt maturing within 1 year or less regardless of the original maturity.



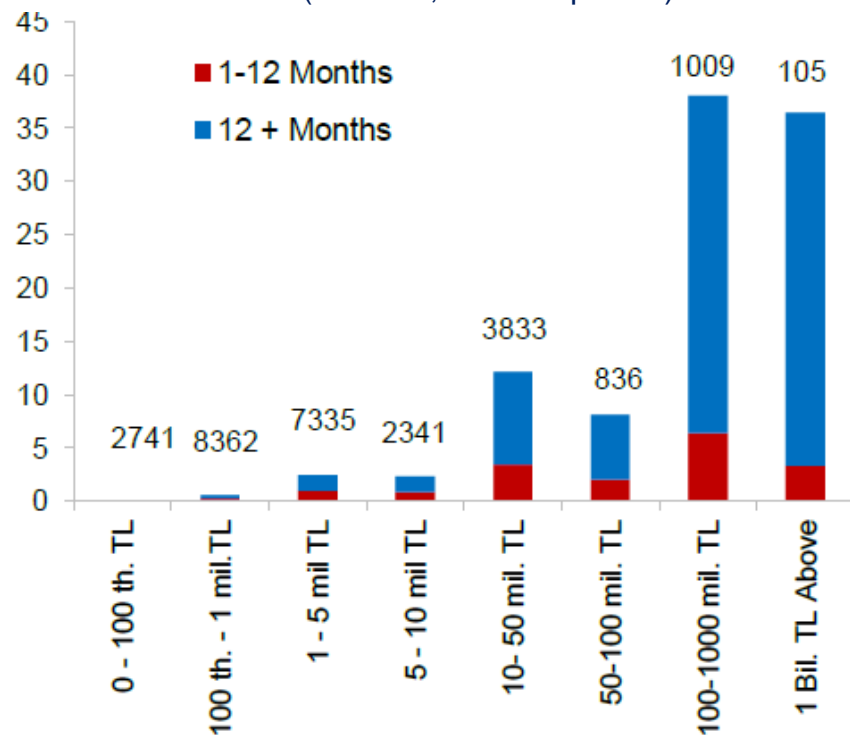
# Breakdown of FX Loans

○ In line with strict regulations, FX liabilities belong mostly to large-scale corporates that generate or have potential to generate FX revenues.

### Firm Size Breakdown of Domestic FX Corporate Loans (% share)



### Breakdown of Corporate FX Loans by Amounts (% share, # of companies)



Not: Loans extended abroad and used via the intermediacy of domestic banks are included.

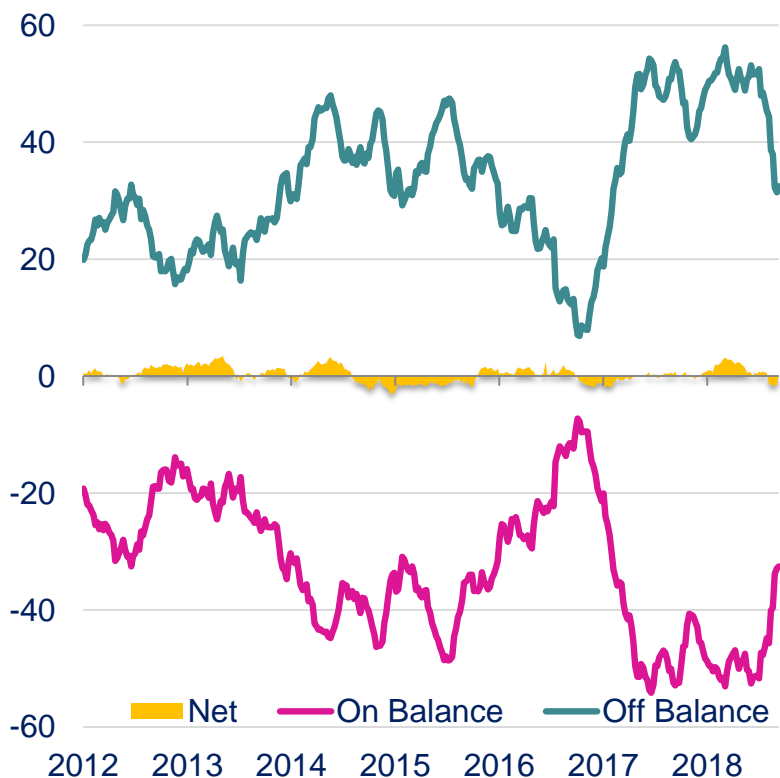
Source: CBRT



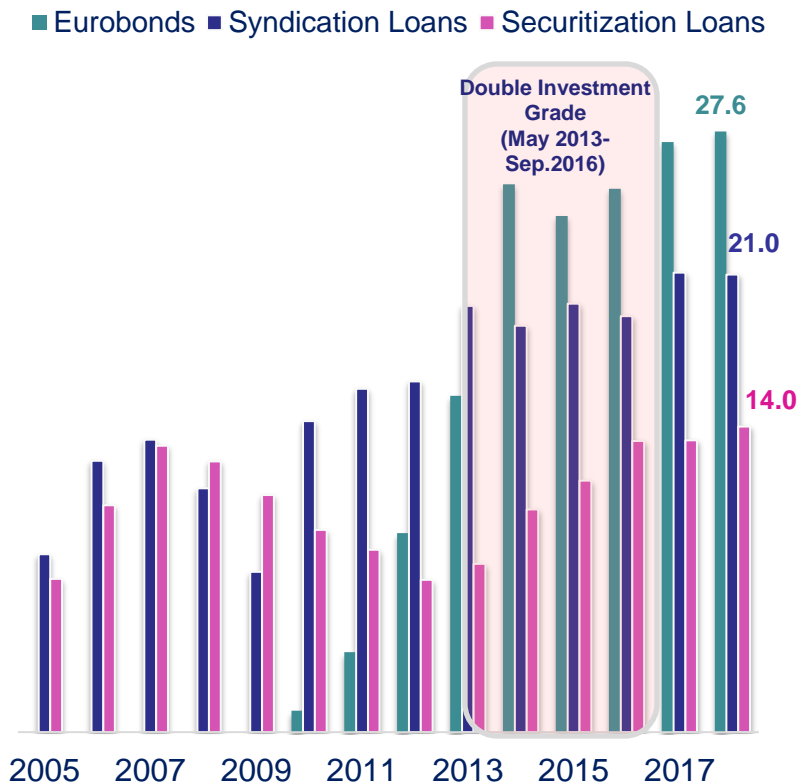
# Non-Deposit Sources

○ Banks have diversified their funding sources.

### Net FX Position\* (billion USD)



### External Borrowings of the Banks\*\* (outstanding amount, billion USD)



(\*) Latest figure as of September 14, 2018

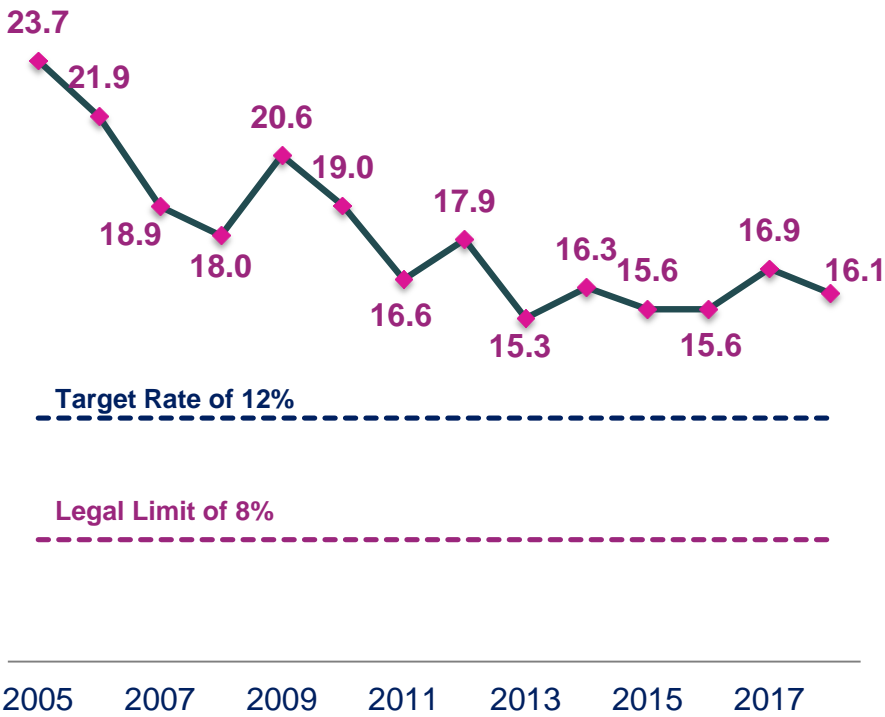
(\*\*) Latest figure as of July 2018



# Capital Adequacy Ratio

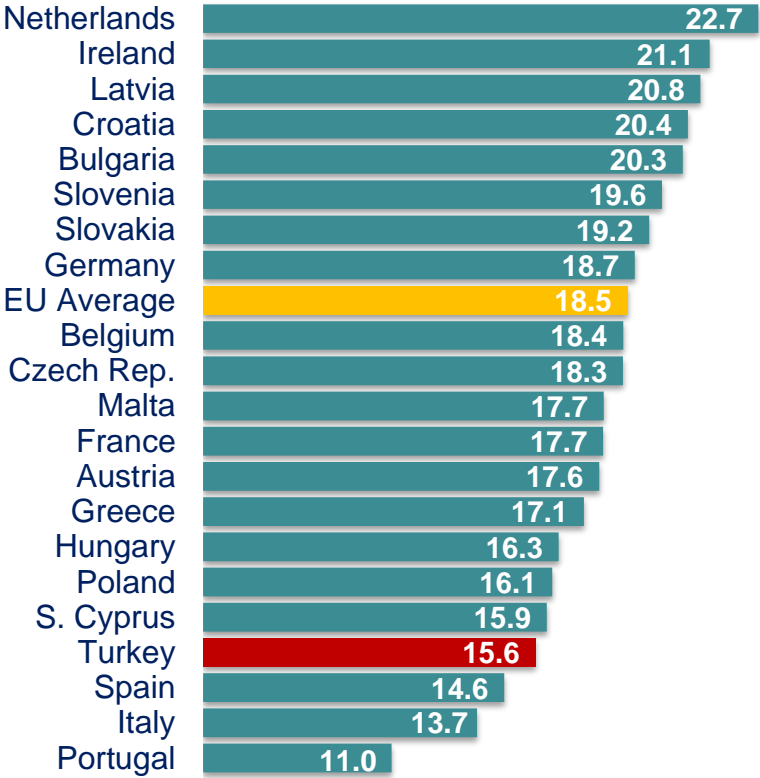
○ Turkish banks continued to be very well capitalized.

### Capital Adequacy Ratio\* (%)



(\* Latest figure as of July 2018)

### Capital Adequacy Ratio (%, 2016)



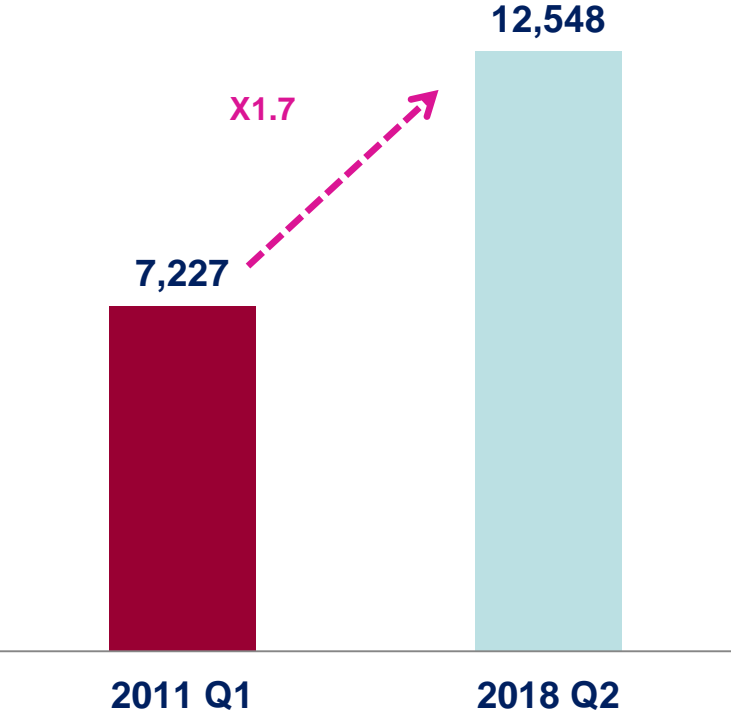
Source: BRSA, EBA



○ A promising innovative future for mobile banking in Turkey...

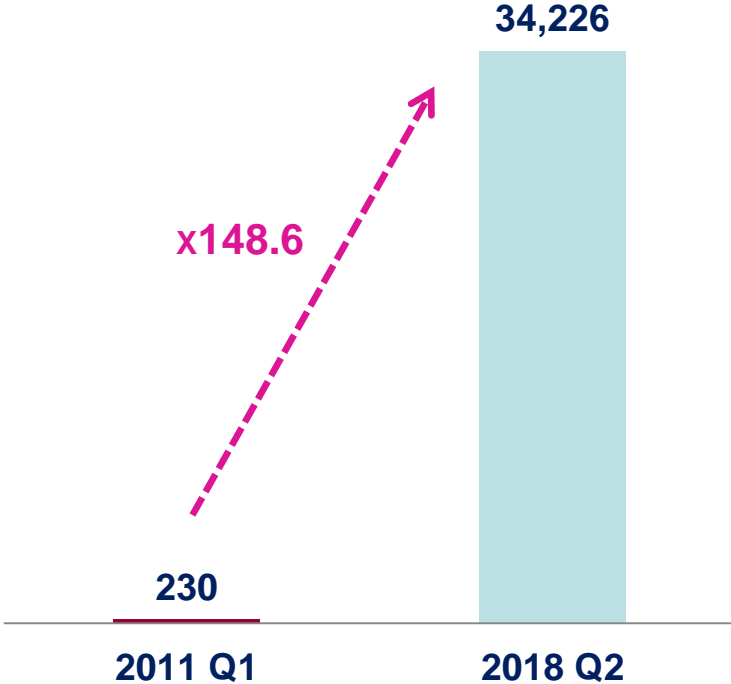
### Internet Banking

(number of active customers, thousand persons)



### Mobile Banking

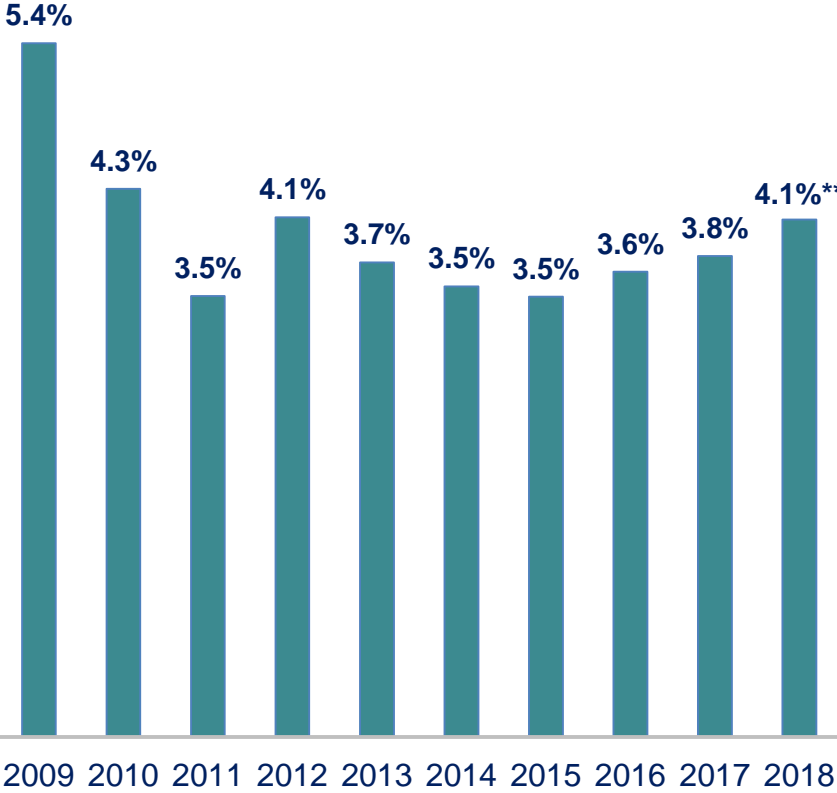
(number of active customers, thousand persons)



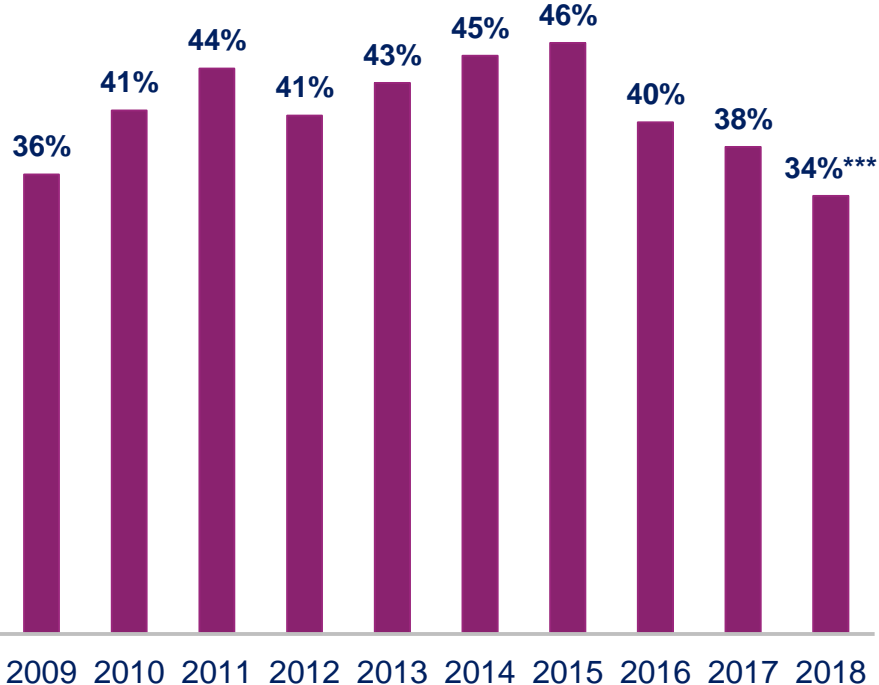


○ Net interest margin is above 4%.

### NIM\*



### Cost / Income Ratio



(\*) Net interest income / average total assets

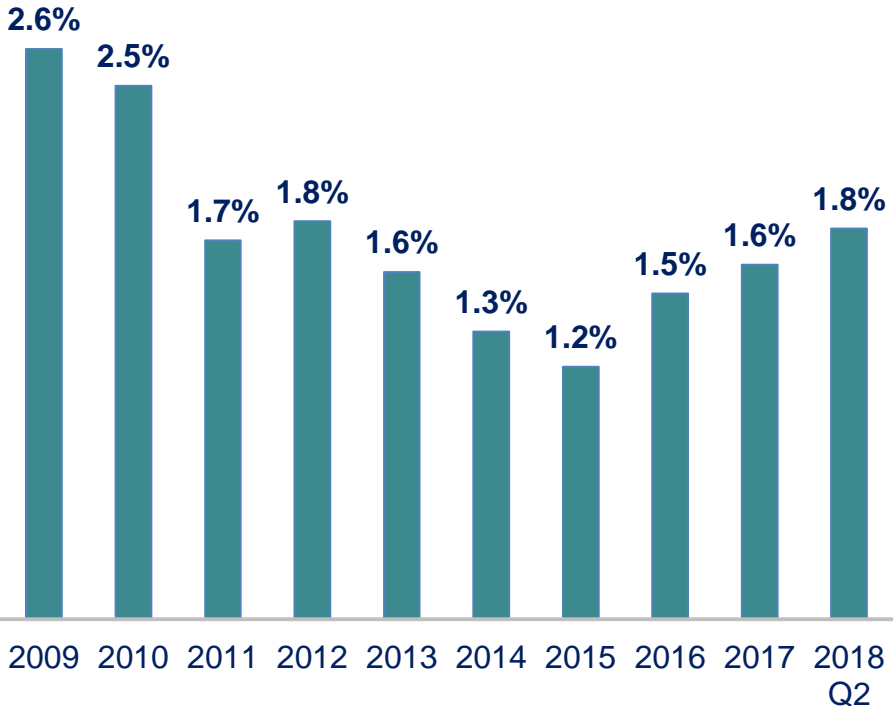
(\*\*) 12-month cumulative as of July 2018

(\*\*\*) As of July 2018

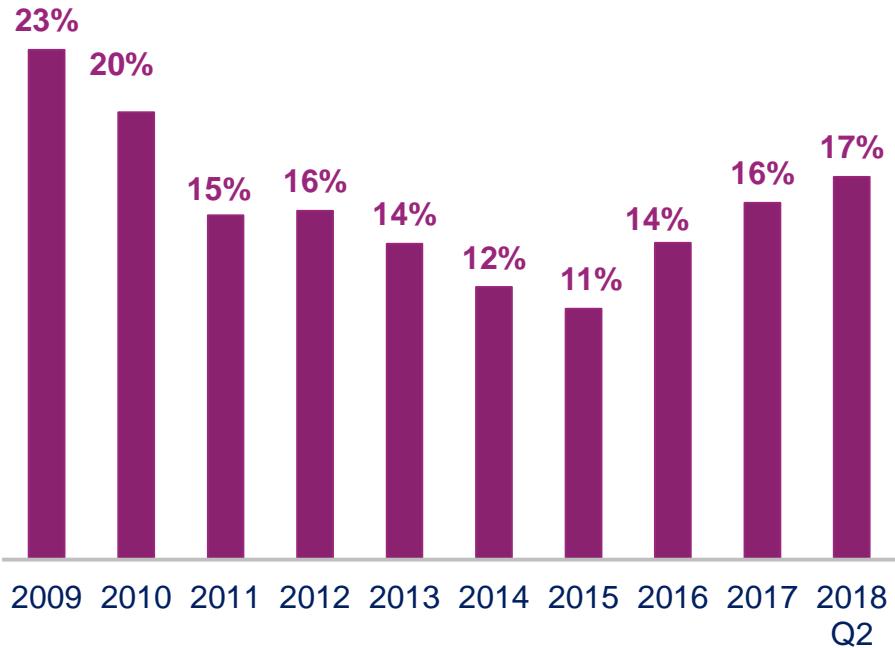


○ Profitable banking sector...

### ROAA



### ROAE

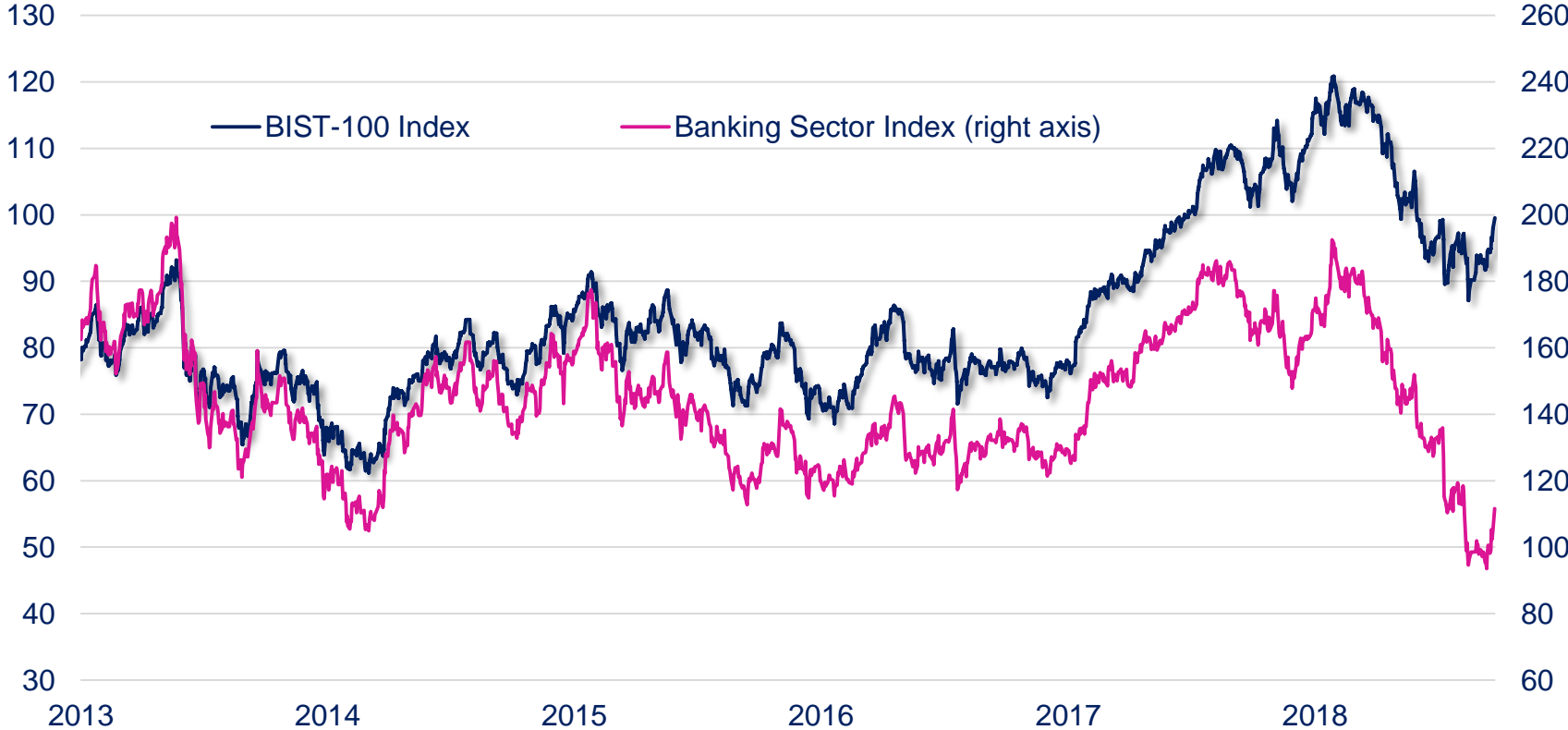






○ Turkish equity market came under pressure in 2018.

### Stock Exchange Performance (thousands)



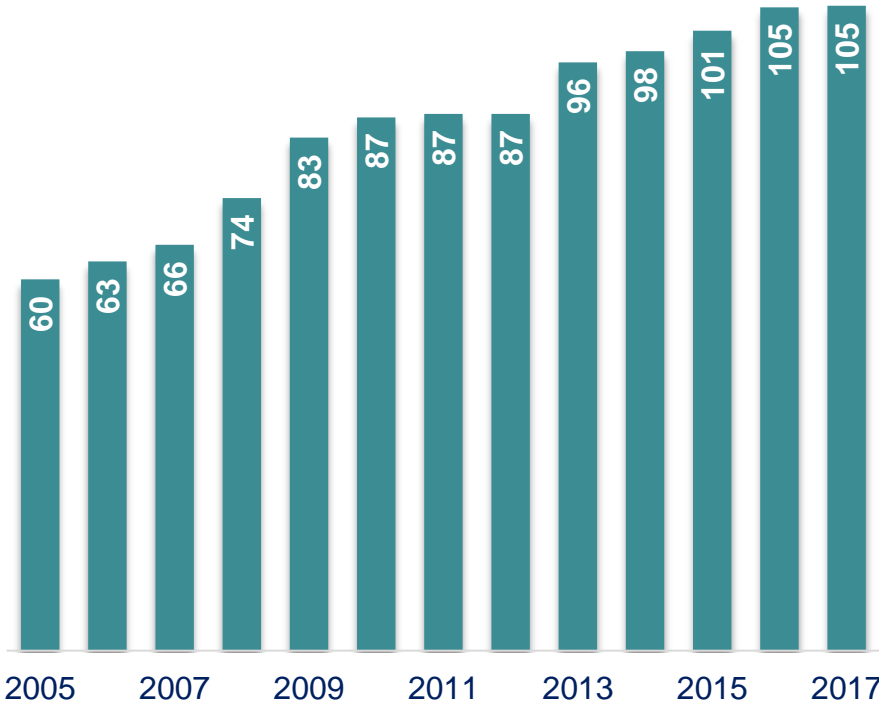
Latest figure as of September 24, 2018

# Banking Sector Comparison

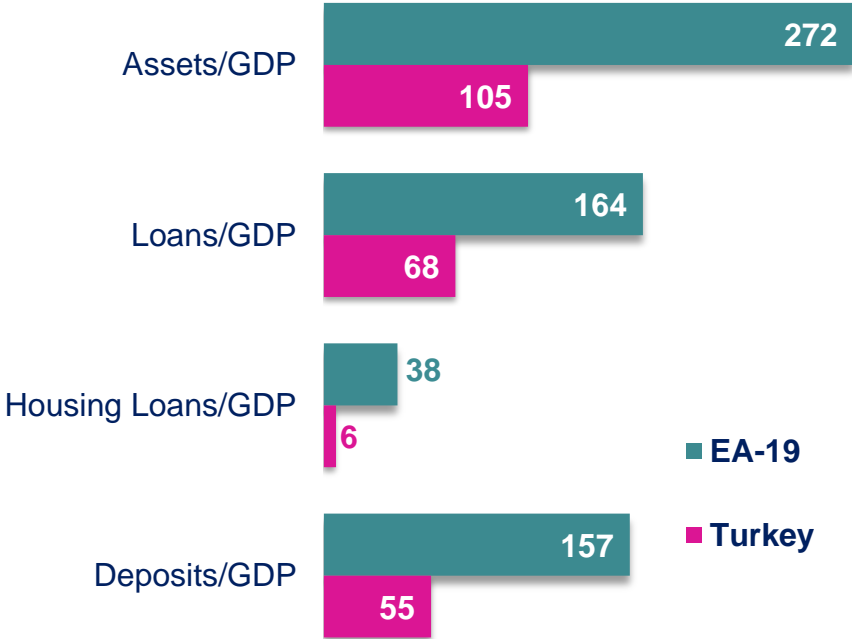


○ Despite the fast growth in the sector, penetration ratios are still low.

### Banking Sector's Assets in Turkey (% GDP)



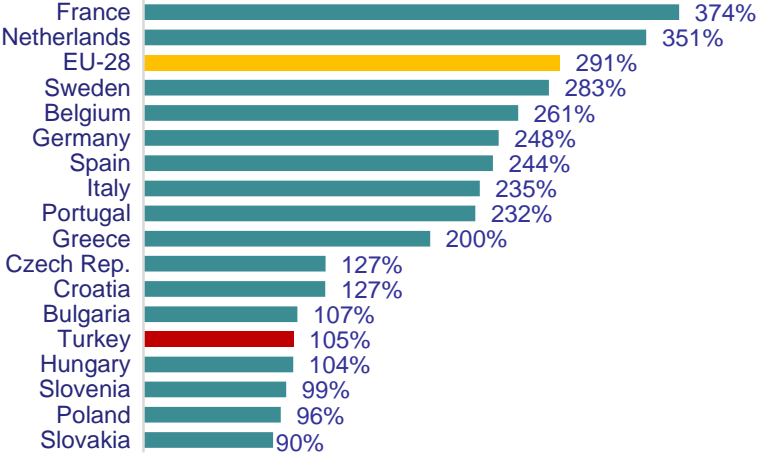
### Banking Sector's Comparison with Euro Area (2017)



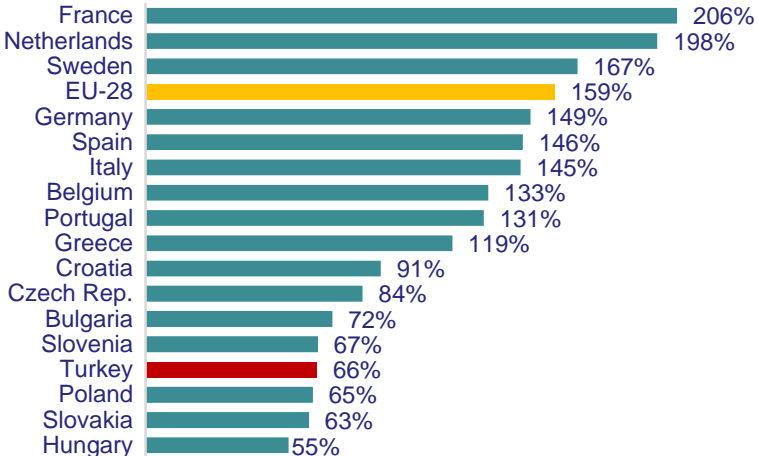


○ Strong and underpenetrated banking market relative to peers

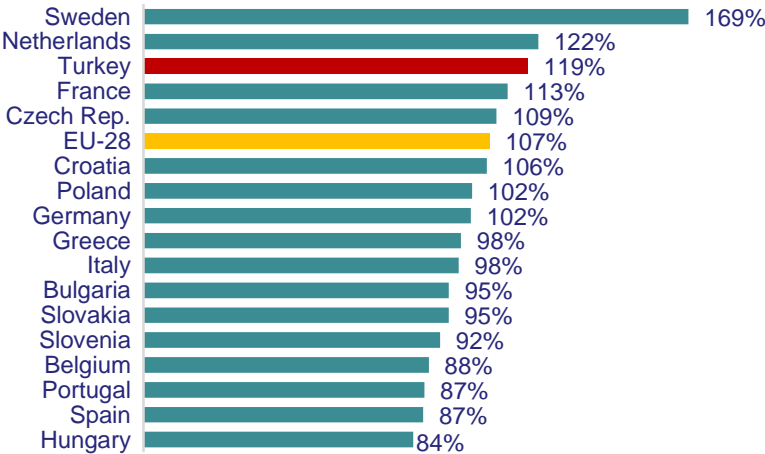
Assets / GDP



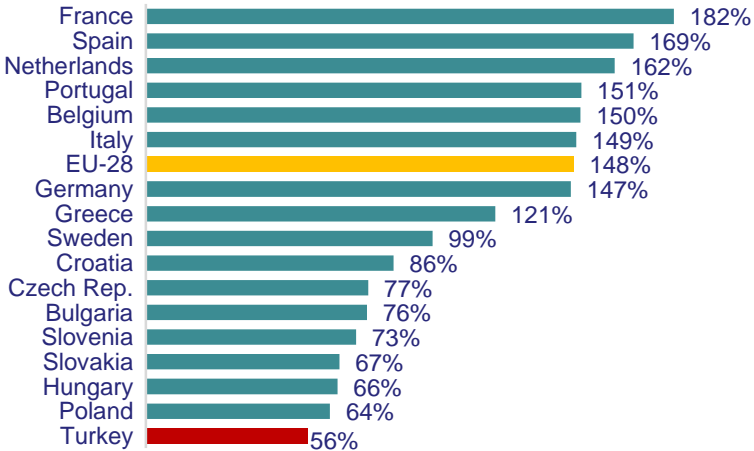
Loans / GDP



Loans / Deposits



Deposits / GDP



# **Future Prospects**

*inherited assets and achievements  
provide sufficient cushion for Turkey*



- geographical location
- young population
- dynamic private sector
- sound fiscal picture
- strong banking sector
- comprehensive structural reform agenda

- high external financing needs
- geopolitical tensions



*main challenges should be  
addressed carefully*

○ The transformation programs should be implemented by reprioritizing them.

1. Productivity growth in production
2. Reducing dependence on imports
3. Increasing domestic savings at the national level and preventing wastefulness
4. Istanbul international financial center
5. Rationalization of public expenditures
6. Raising the quality of public revenue
7. Improving the business and investment climate
8. Improving the effectiveness of the labor market
9. Reducing the informal economy
10. Development of the statistical information infrastructure
11. Commercialization of priority technology areas
12. Technology development and local production through better public procurement
13. Energy generation based on local resources
14. Energy efficiency improvement
15. Effective use of water in agriculture
16. Structural transformation in healthcare industries
17. Improvement in health tourism
18. Transition from transportation to logistics
19. Development of basic and occupational skills
20. Attracting qualified human resources from abroad
21. Healthy life and mobility
22. Preserving the family and dynamic population structure
23. Institutional capacity development at the local level
24. Urban redevelopment program to increase competitiveness and social cohesion
25. Improving international cooperation infrastructure for development

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