

TURKEY MARKET REPORT

Asia Securities Forum Annual General Meeting, Bali October 2018

MACRO-ECONOMIC OVERVIEW

Following a strong recovery in 2017, the Turkish economy faced significant challenges in 2018 with early general elections in June contributing to geopolitical adversities. The Turkish lira depreciated significantly, inflation went up and the Central Bank raised policy rates to curb inflationary pressures.

Key Economic Indicators-Turkey	2014	2015	2016	2017	2018 (p)	2019 (p)	2020 (p)	2021 (p)
Population and Employment								
Population (mn.)	77.7	78.7	79.8	80.3	81.3	82.4	83.4	84.4
Unemployment (ave. %)	9.9	10.3	10.9	10.9	11.3	12.1	11.9	10.8
National Accounts								
GDP (bn. \$)	935	862	863	851	763	795	858	926
GDP per capita (\$)	12,112	11,019	10,883	10,597	9,385	9,647	10,292	10,973
GDP, real growth (%)	5.2	6.1	3.2	7.4	3.8	2.3	3.5	5.0
External Balance								
Exports (FOB, bn. \$)	157.6	143.8	142.5	157.0	170.0	182.0	191.0	204.4
Imports (CIF, bn. \$)	242.2	207.2	198.6	233.8	236.0	244.0	252.0	267.0
For. Trade Balance (bn. \$)	-84.6	-63.4	-56.1	-76.8	-66.0	-62.0	-61.0	-62.6
Current Account (bn. \$)	-43.6	-32.1	-32.6	-47.4	-36.0	-26.0	-23.5	-24.1
Current Account/GDP (%)	-4.7	-3.7	-3.8	-5.6	-4.7	-3.3	-2.7	-2.6
Prices								
CPI (y-o-y, %)	8.2	8.8	8.5	11.9	20.8	15.9	9.8	6.0
Fiscal Balance								
Primary Balance/GDP (%)	1.3	1.3	0.8	0.3	0.1	0.8	1.0	1.3
Budget Balance/GDP (%)	-1.1	-1.0	-1.1	-1.5	-1.9	-1.8	-1.9	-1.7
Gov. Debt/GDP (%)	28.8	27.6	28.3	28.3	31.1	28.5	28.2	27.2

Source: CBRT, Treasury, TurkStat, Medium-Term Program

The government announced in September the new medium-term program, covering the three-year period from 2019 to 2021. The new program emphasizes fiscal discipline, sustainability and incentives to export-oriented industries. Consequently, inflation is expected to retract to single digit figures in 2020 from an expected 21% in 2018, while GDP growth is projected to recover to 5% in 2021, from 2.3% in 2019.

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CAPITAL MARKET DEVELOPMENTS

BIST-100 Index, Borsa Istanbul's main index, fell by 16% in the first six months of 2018. The steep plunge of roughly 60% in the value of Turkish Lira vis-à-vis the USD along with the significant rise in the interest rates put downside pressure on the Turkish equity market.

Since 2015, IPOs have been relatively few and far in between in the Turkish Capital Markets. In 2018, 9 companies successfully launched IPOs, raising TRY 5.5 billion. The primary reason behind the companies' tendency to raise capital through the public market is the record levels the Turkish equity market reached in the first few months of 2018.

Turkish companies have historically relied on bank loans for financing needs however since 2012, companies started to turn to capital markets to diversify their funding portfolio. The number and volume of corporate bond issues continue to climb although a few Turkish issuers have recently defaulted on their debt obligations.

In the first half of 2018, the brokerage firms' aggregate profits increased by 80% year-on-year to TL 695 million. Brokerage revenues, constituting the bulk of the revenue for brokerage firms, rose by 18% to TRY 853 million with rising trading volumes. TRY 601 million of these comprised of commissions on stock trading, while the industry generated TRY 136 million from leveraged transactions in 1H2018, a significant decrease from last year's figure of TL 195 million following Capital Market Board's strict regulatory changes.

With the growth of pension funds, assets managed by asset management firms increased by TRY 28 billion in 1H2018 reaching TRY 168 billion. In addition to the existing voluntary private pension system, an auto-enrolment retirement scheme was introduced by the Turkish government to gradually include every wage earner in Turkey under the age of 45 with the intent to boost domestic savings and provide additional income to participants upon retirement. Since its inception in January 2017, the system added +5 million participants and generated an additional AUM of TL 3.7 billion for the asset management firms.

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Capital Markets Factsheet					
	2014	2015	2016	2017	2018/06
Breakdown of Financial Assets (Mn TL)	1,856,130	1,994,474	2,327,230	2,800,196	2,967,605
Residents	1,510,353	1,665,504	1,976,695	2,313,343	2,502,678
Non-Residents	345,778	328,970	350,536	486,853	464,928
Market Capitalisation (Million TL)	609,493	554,884	614,069	873,246	786,463
No. of Securities on the Borsa İstanbul	413	430	414	411	416
National Mkt, REITs and Venture Capital IT	254	-	-	-	-
2nd National, Watchlist, ECM and Free TP	159	-	-	-	-
BIST Star	-	117	120	130	145
BIST Main	-	184	169	159	153
Other	-	129	125	122	118
Trading Volume (Billion TL, Cumulative)					
Stock Market	864	1,022	1,012	1,468	972
Fixed Income Market (market + OTC)	673	523	661	619	348
Repo-Reverse Repo Market (market + OTC)	8,021	10,611	11,553	4,733	1,159
Takasbank Money Market*	-	257	428	609	423
Futures Market	435	566	580	829	672
Options Market	1.1	7.6	27.1	38.6	18.2
Precious Metals Market	-	26.4	30.4	67.6	28.9
Forex Trading (Billion TL, Cumulative)	7,693	17,005	21,850	8,578	3,921
Customer	4,353	9,546	12,245	4,667	2,152
Liquidity Provider	3,340	7,459	9,604	3,912	1,769
Initial Public Offerings (Cumulative)					
No. of Companies (inc. ECM)	12	4	1	3	7
IPO Size - Companies (Mn. TL)	695	44	37	1,254	5,419
No. of Inv. Trusts (inc. REITs and Vent.Cap.)	1	2	1	0	2
IPO Size - Inv. Trusts (Mn. TL)	19	75	306	0	64
No. of ETFs	0	0	0	0	0
IPO Size - ETFs (Mn. TL)	0	0	0	0	0
No. of Private Bonds/Bills	508	622	760	1,212	727
IPO Size - Private Bonds/Bills (Mn. TL)	66,358	79,618	90,148	129,455	81,553
Institutional Investors (Million TL)	94,359	108,170	129,635	168,706	168,930
Mutual Funds	33,315	37,186	43,755	59,283	61,435
Pension Funds	37,771	47,918	58,439	79,543	83,197
Investment Trusts	283	269	341	360	288
Real Estate Investment Trusts	21,538	21,465	25,878	26,924	22,494
Venture Capital Companies	1,452	1,331	1,222	2,595	1,515
Equity Index					
BIST-100	85,721	71,727	78,139	115,333	96,952
BIST-100 (Period High)	86,234	91,260	86,344	115,333	120,845
BIST-100 (Period Low)	61,189	69,309	68,568	76,144	89,571
Foreign Investors in Equity Market					
Equity Trading Volume (Cumulative, mn. \$)	160,810	167,426	169,346	198,737	131,770
Share in Total Equity Trading Volume	20%	22%	25%	25%	28%

Source: BRSA, Borsa İstanbul, CBRT, CRA, TCMA

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Investment funds made up TL 63 billion of the total assets under management while TL 84 billion belonged to pension funds. Asset management firms' profits rose by 71% year-on-year to TL 106 million.

TCMA Member Information			
TCMA Members	2016	2017	2018/06
No. of Brokerage Firms	88	80	80
No. of Banks	43	44	44
No. of Asset Management Companies	52	50	52
No. of Investment Trusts	9	9	9
No. of Real Estate Investment Trusts	31	31	33
No. of Venture Capital Companies	8	8	7
Total	231	222	225
Investment Companies' Employees	2016	2017	2018/06
Brokerage Firms	6,478	4,751	4,828
Asset Management Companies	720	735	767
Banks	210,910	208,280	208,878
Brokerage Firms' Financials (Mn TL)	2016	2017	2018/06
Total Assets	21,178	23,057	24,301
Current Assets	20,109	21,863	23,034
Non-Current Assets	1,069	1,194	1,268
Total Liabilities and Equities	21,178	23,057	24,301
Short-Term Liabilities	16,703	18,185	19,009
Long-Term Liabilities	139	146	154
Equity	4,336	4,726	5,139
Total Revenues	2,124	2,510	1,604
Operating Expenses (Net)	-1,787	-1,736	-910
Operating Profit/Loss	338	774	694
Net Profit/Loss	483	799	695
Asset Management Firms' Financials (Mn TL)	2016	2017	2018/06
Total Assets	609	740	743
Current Assets	571	698	681
Non-Current Assets	38	41	62
Total Liabilities and Equities	609	740	743
Short-Term Liabilities	49	66	57
Long-Term Liabilities	8	10	15
Equity	552	664	671
Total Revenues	347	439	249
Operating Expenses (Net)	-255	-274	-158
Operating Profit/Loss	105	165	91
Net Profit/Loss	111	165	106

Source: BRSA, Borsa Istanbul, CBRT, CRA, TCMA

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RECENT HIGHLIGHTS

TCMA organizes 3rd Capital Markets Summit in Istanbul

TCMA organizes numerous events throughout the year to enhance and expand the awareness of the financial markets among both its member institutions and the investing community. Turkish Capital Markets Summit, considered to be the most important and influential event in the industry thanks to its growing audience in Turkey, will be organized for the 3rd time on Nov 13th-14th, 2018 with the theme "Future" in Istanbul.

Disruptive technologies transform business models and create new services as well as products in finance industry. In order to get ahead of these challenges, companies need to reshape their strategies and radically innovate for the future. During the summit, there will be concurrent sessions that cover topics ranging from AI, machine learning, the internet of things, algorithmic trading, robo-advisors. Panel participants will be high-level executives from both the private and the public sector.

Based on last year's numbers, +6,000 visitors including international and domestic investors, regulators, self-regulators, exchanges, market professionals and academics will be attend the summit. Panels and networking sessions provide exceptional opportunities for attendees to connect with peers and the summit is a great opportunity to hear and engage with the people who are shaping the industry.

Detailed information on the summit can be reached here:

<http://www.sermayepiyasalarikongresi.org.tr/>

TCMA Launches Journal of Capital Markets Studies

In an effort to enhance ties with the academia, TCMA published the very first issue of peer-reviewed, international Journal of Capital Markets Studies in November 2017. The journal aims at publishing top quality research in the realm of economics and finance with specific emphasis on capital markets.

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The first issue includes papers ranging from sustainability for socially responsible investing and reporting to the performance of US-based EM mutual funds to statistical studies of financial reports and stock markets. The second issue includes papers ranging from due diligence in capital markets to combating corporate tax avoidance to housing price spillovers in the UK and US markets to efficient markets research and its regulatory implications.

JSMC is available free of charge at <https://emeraldinsight.com/loi/jcms>

Auto-enrollment expands in 2018

The Turkish government introduced the auto-enrolment scheme within the context of private pension system in 2017. The system covers both private and public sector employees and is intended to boost domestic savings and provide additional income to participants upon retirement. The system went live on Jan 1st, 2017 and covered gradually private sector companies with 100+ employees and most public sector employees. Currently there are more than 5 million enrolees in the auto-enrolment scheme with AUM totalling TRY 3.7 billion in addition to the 6.9 million enrolees in the voluntary private pension system with AUM of TRY 86 billion.

The auto-enrolment scheme expanded in 2018 to cover all private sector companies with more than 10 employees, and all public sector employees.

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