TURKISH ECONOMY

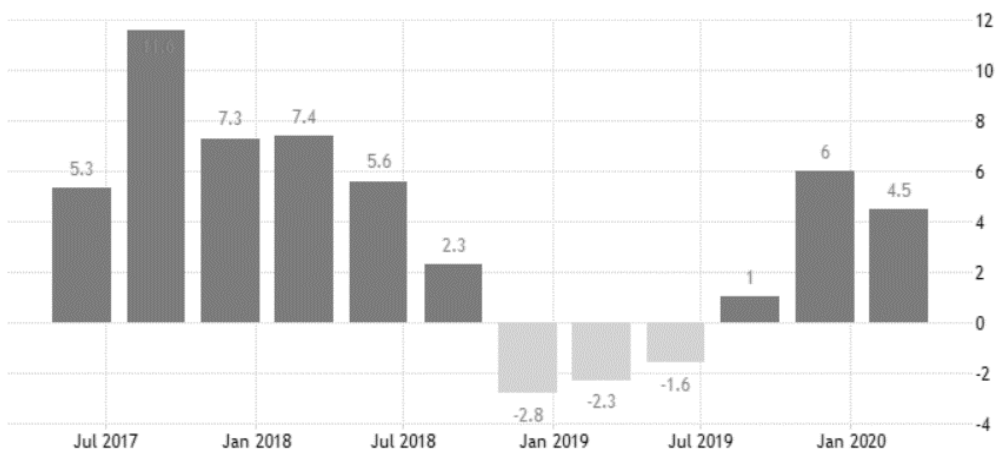
06.07.2020

TurkishBank

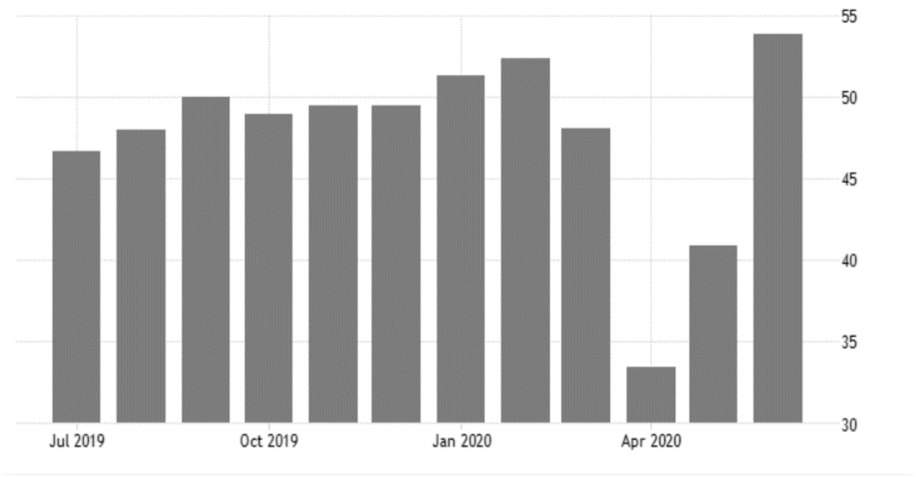
Growth

- The Turkish Economy grew by 4.5% yoy in 1Q20, lower than expectations (4.9% Bloomberg). Seasonally and cal. adj. quarterly growth also decelerated to 0.6% from the previous 1.9% in 4Q19.
- The world economy is expected to shrink this year due to the rapid spread of the coronavirus. While also downgrading its economic growth forecast for Turkey, the IMF predicts Turkey's economy will contract by 5% in 2020.
- Turkey Manufacturing PMI rose back above the 50.0 no change mark for the first time since February during June, posting 53.9 up from 40.9 in May. A return to near-normality amid the lifting of COVID-19 restrictions enabled manufacturers to expand their production volumes at a marked pace during June, thereby ending a three-month period of moderation.

GDP Annual Growth



Manufacturing PMI

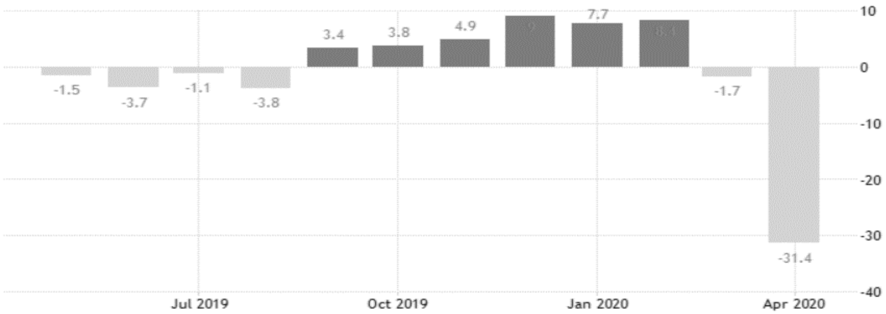


Source : TRADINGECONOMICS.COM

Leading Indicators

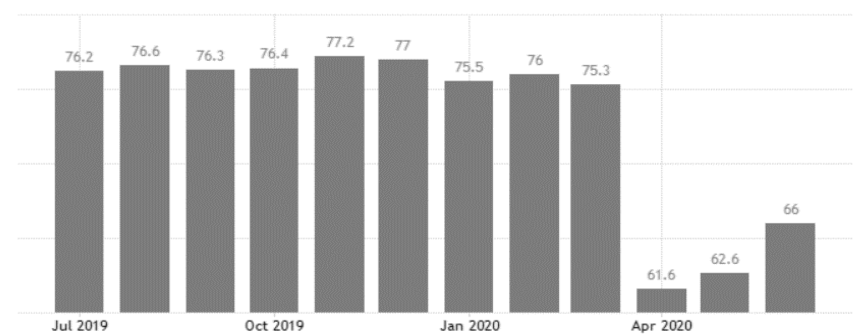
Industrial Production

- Turkey's industrial production fell 31.4% in April 2020 compared to the previous year. It was the worst downturn in industrial activity since available records began in January of 1986, as many factories halted operations due to the Covid-19 crisis



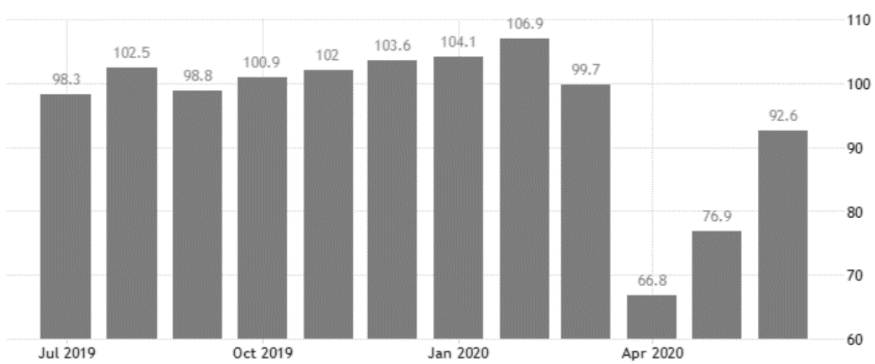
Capacity Utilization

- Capacity Utilization in Turkey increased to 66.00% in May from 62.60% in April of 2020.



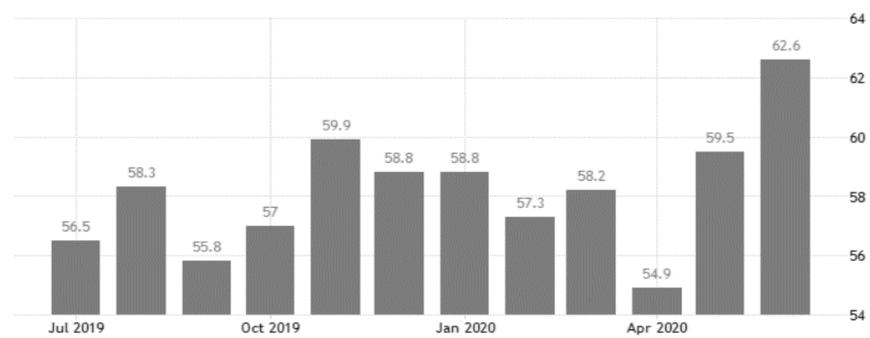
Business Confidence

- The manufacturing confidence index rose to 92.6 in June of 2020 from an over 11-year low of 66.8 in April 2020



Consumer Confidence

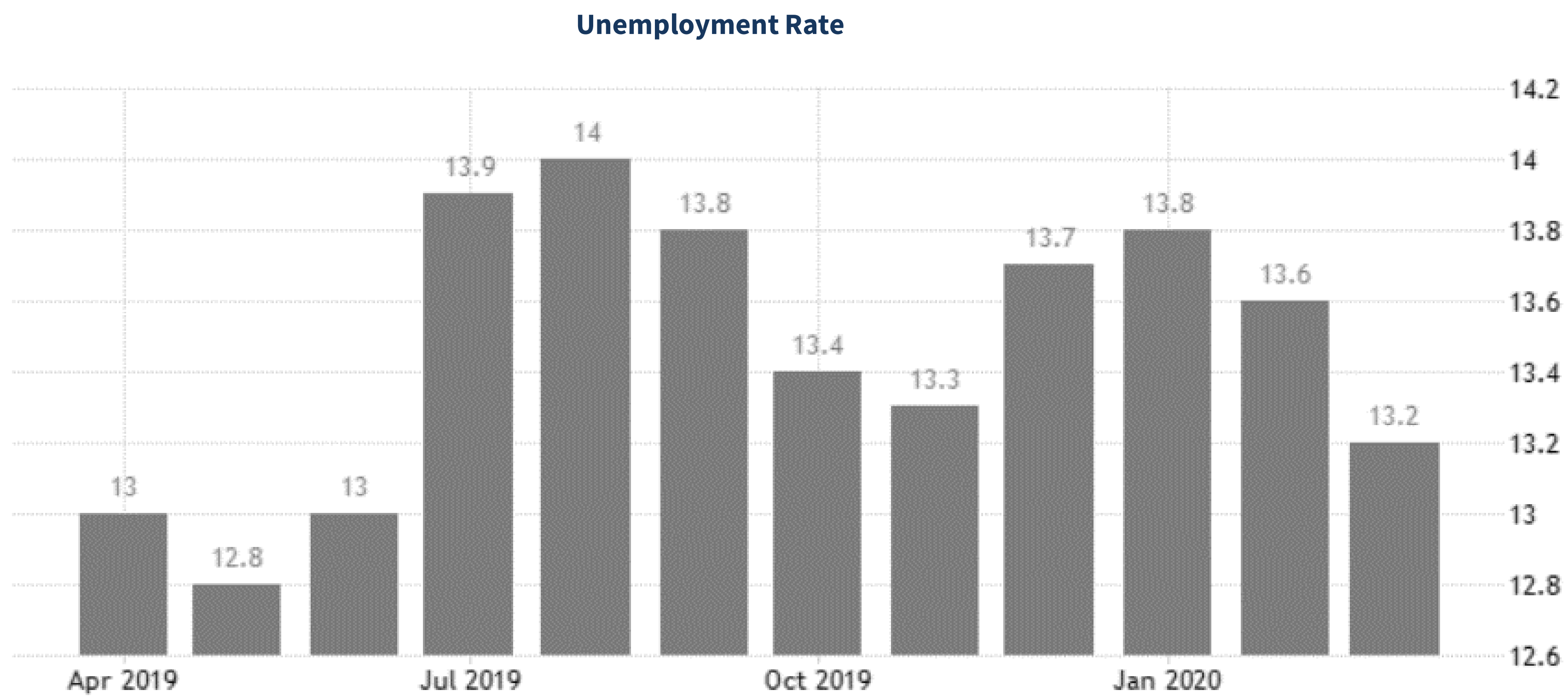
- Consumer confidence in Turkey increased to 62.6 in June of 2020 after reaching a record low of 54.9 in April due to the coronavirus pandemic.



Source : TRADINGECONOMICS.COM

Unemployment Rate

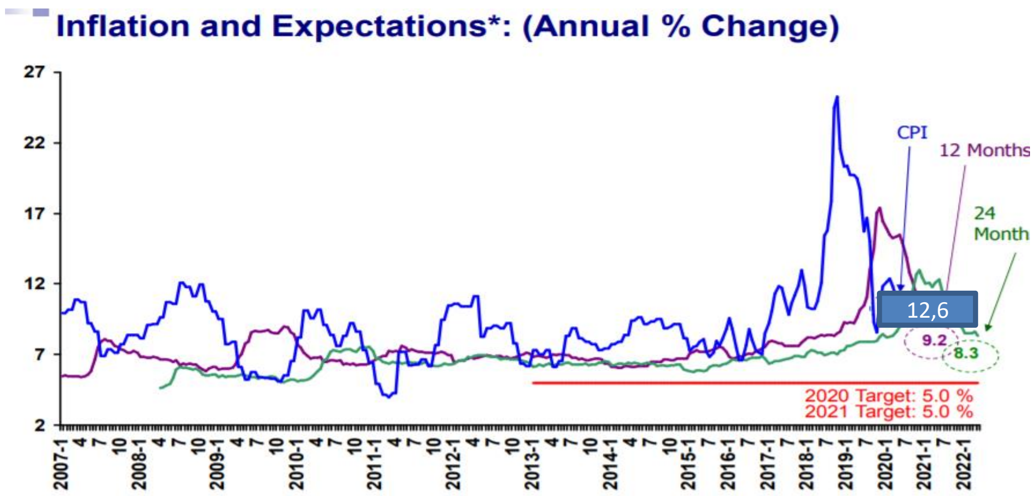
- Unemployment in Turkey dropped to 13.2% in March, down 0.9% compared to the same month last year
- The number of unemployed persons age 15 and over slipped 573,000 year-on-year to 3.97 million in the month.
- The youth unemployment rate, including people age 15-24, was 24.6%, down 0.6% on a yearly basis in March.

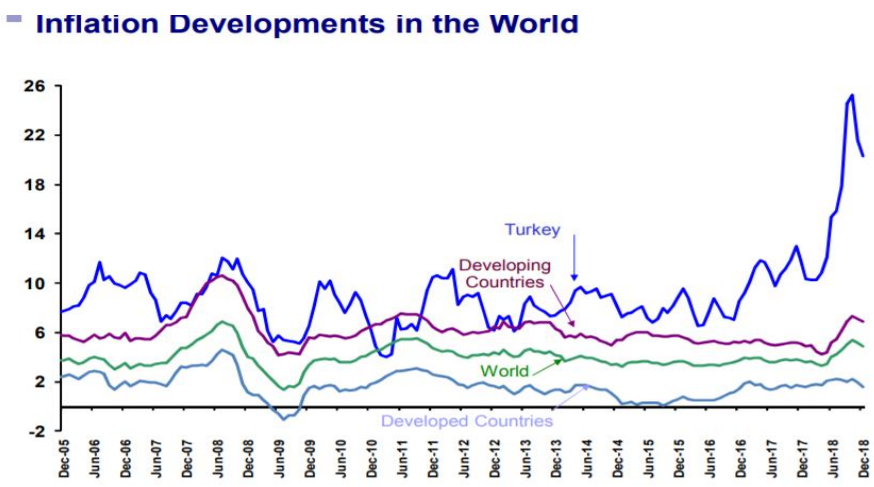


Source : TRADINGECONOMICS.COM

Inflation and Expectations

- Consumer prices in Turkey went up in June versus the same month last year, June's annual inflation rate was at 12.62% from 11.39% in May.
- By sector, June's lowest annual increase in inflation was 4.84% in communications, while the highest rise was in alcoholic beverages and tobacco with 22.41%.
- On a monthly basis, while food and beverages prices were down by 1.6%, the largest increase was seen in the transportation sector with 4.49%.
- Turkey's Central Bank revised its year-end inflation forecast to 7.4% for 2020, down from 8.2%. The government's year-end inflation target is 8.5% for 2020 as laid out in the government's new economic program announced last September.

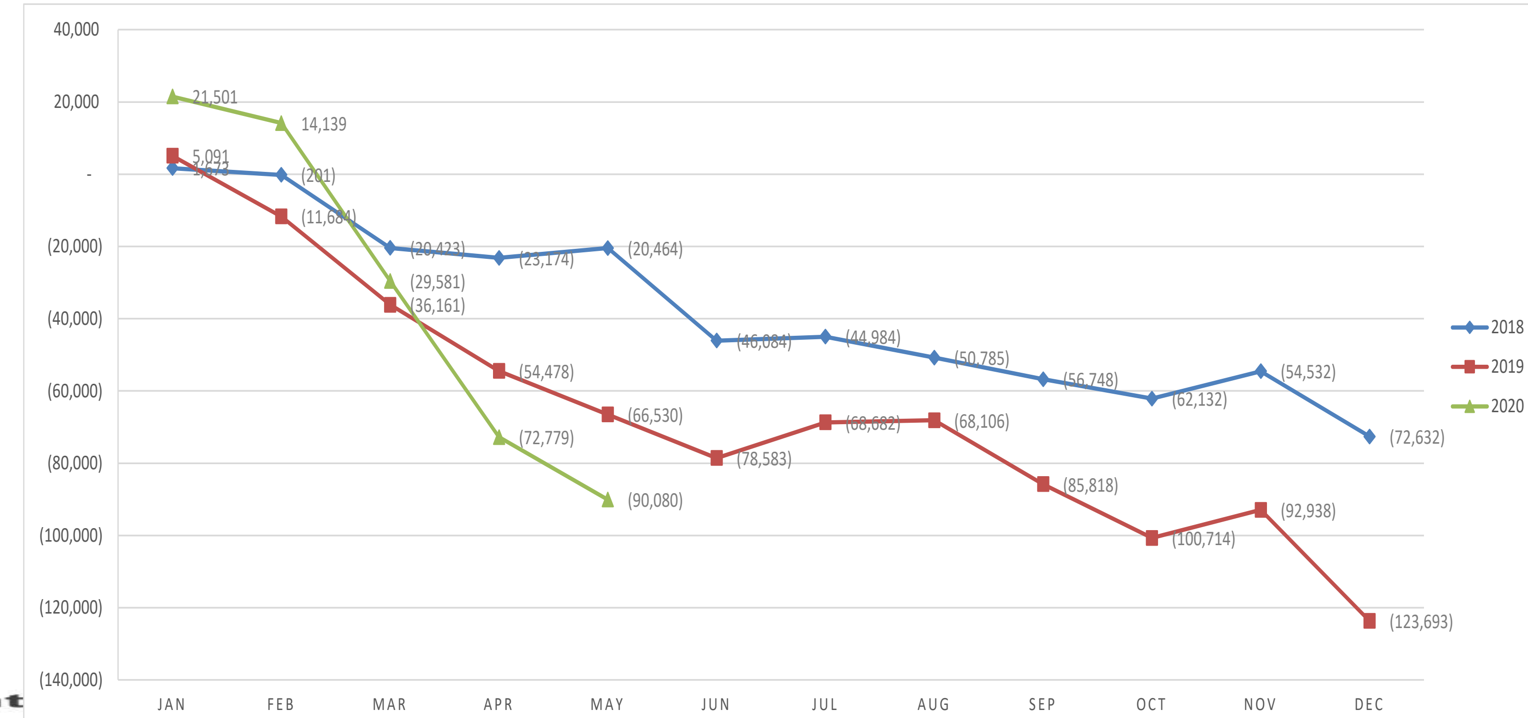


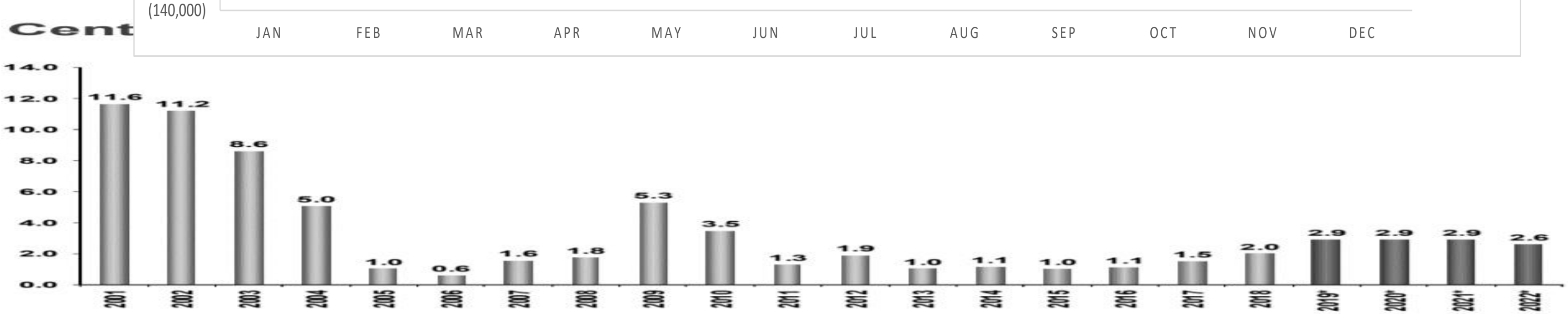


Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

Budget

- The Turkish central government registered a 90.1 billion Turkish Lira (some $13,2 billion) budget deficit in the January-May period.
- At the end of 2019, the budget deficit to GDP ratio was at 2.9%.
- It is expected to be around 5% for this year with the announcement of a 240 billion TRY fiscal package .

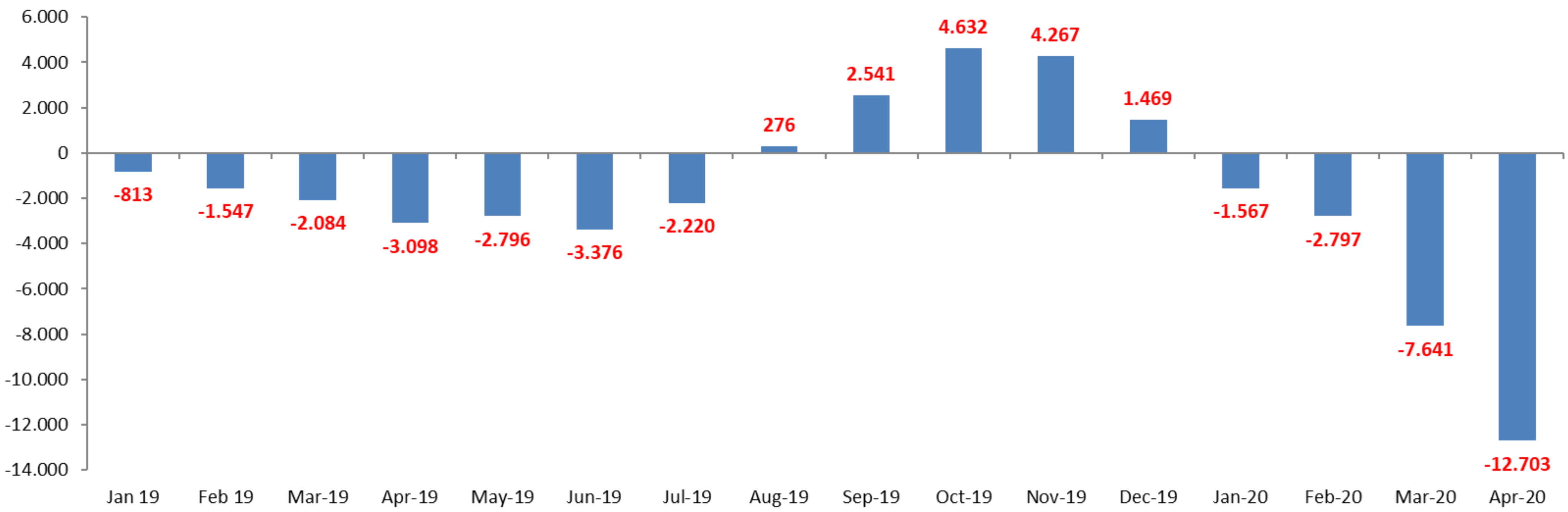




Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

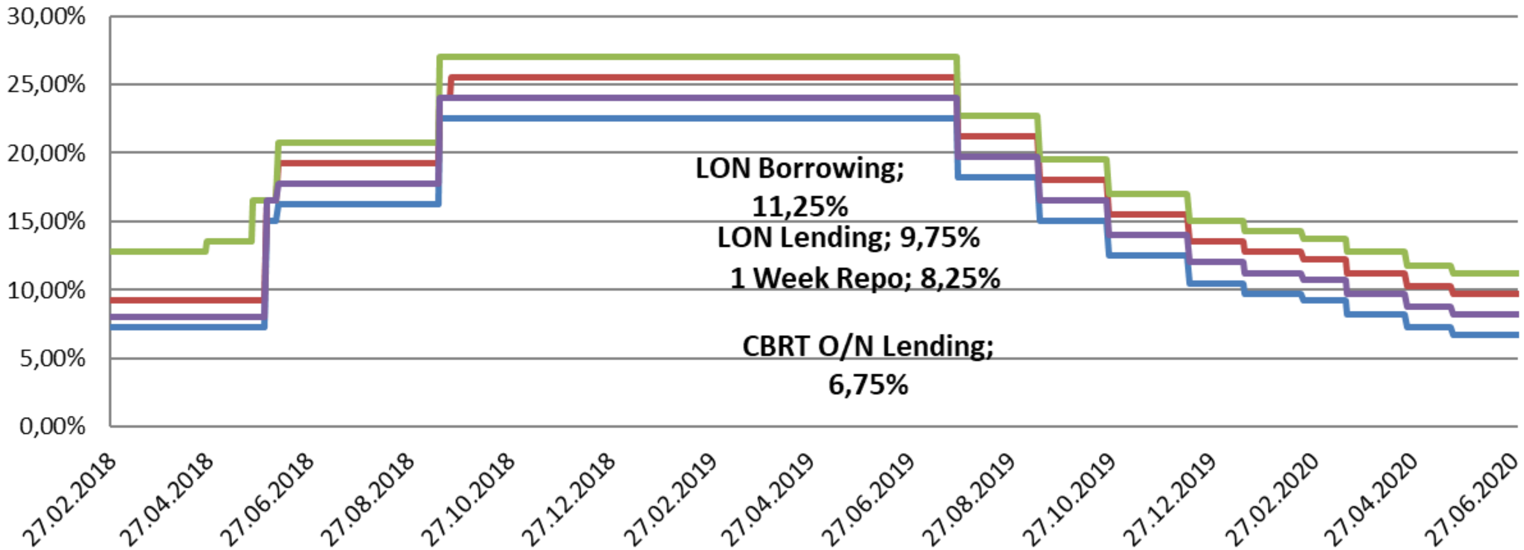
Current Account

- The current account posted a USD 5,062 million deficit compared to the USD 469 million deficit observed in the same month of 2019, bringing the 12-month rolling deficit to USD 3,291 million.
- This development is mainly driven by a USD 2,279 million increase in the goods deficit recording net outflow of USD 3,810 million, as well as a net outflow of USD 240 million in the services item against a net inflow of USD 2,333 million observed in the same month of the previous year.
- Gold and energy excluded, the current account indicated a USD 3,315 million deficit, in comparison to the USD 3,257 million surplus observed in the same month of the previous year.



Policy Rate

- **For the first time in 10 monetary policy committee (MPC) meetings, Turkey's central bank rate-setters on June 25 held off from cutting the benchmark interest rate, surprising the markets.**



Following the interest rate decision, the Central Bank published the following statements in its monetary policy text:

- While the weakening in economic activity became more pronounced in April, economic recovery has started as of May following gradual steps towards normalization. In order to contain negative effects of the pandemic on the Turkish economy, it is of crucial importance to ensure the healthy functioning of financial markets, the credit channel and firms' cash flows.

- Despite the restraining effects of aggregate demand conditions, pandemic-related rise in unit costs have led to some increase in the trends of core inflation indicators. International commodity prices have continued to restrain consumer inflation, while food inflation has risen due to seasonal and pandemic-related effects.

- As the normalization process continues, supply-side factors, which have prevailed recently due to pandemic-related restrictions, will phase out and demand-driven disinflationary effects will become more prevalent in the second half of the year. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to keep the policy rate unchanged.

Currencies vs. Developing Countries

2019

Year to Date

31.12.2019-07.05.2020

07.05.2020-06.07.2020

Source : Bloomberg Terminal

USD / TL

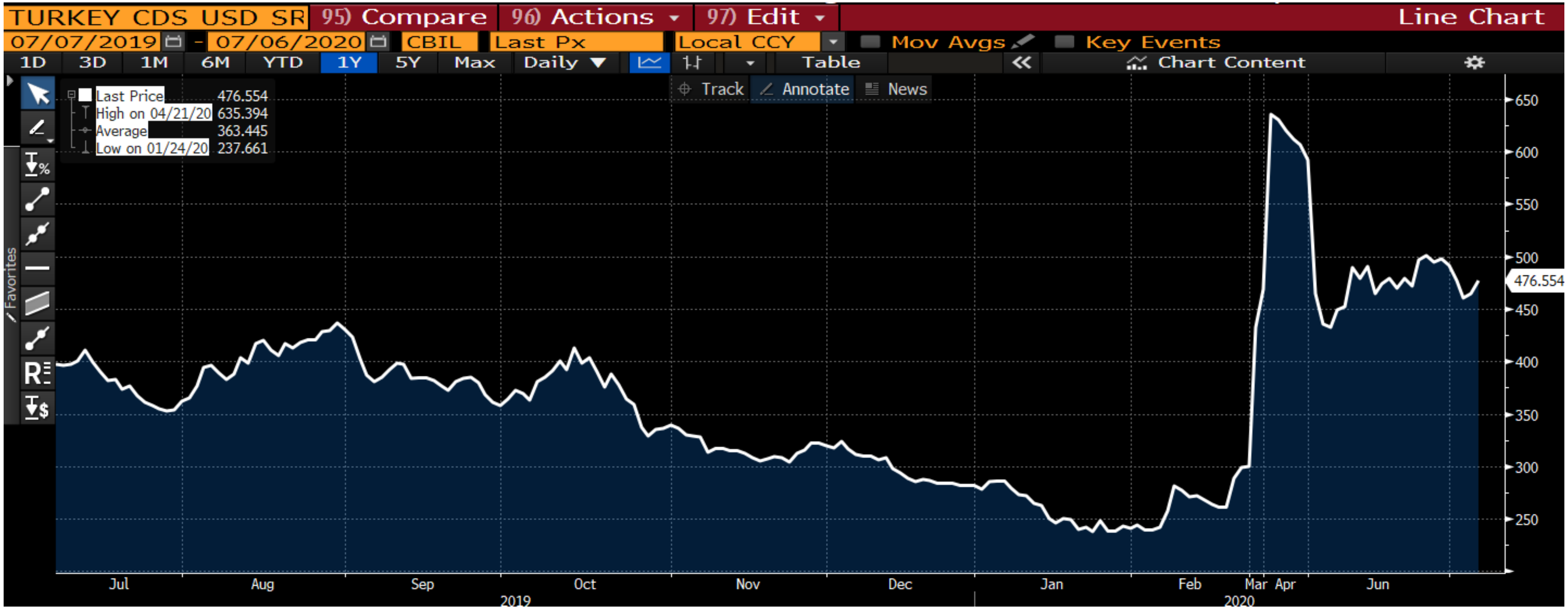
Source : Bloomberg Terminal

- USD/TRY started 2020 at 5.94 levels and dropped to 5.86 levels at the beginning of January. With the coronavirus pandemic effect as of February, the depreciation of TL accelerated with the increase in risks belonging to developing countries. The USD/TL rose to 7.20 levels.

- Normalization process after the pandemic, and also making swap negotiations with other countries for Turkey's external financing needs led to the appreciation of the TL. Finally, USD/TL is traded at 6.85 levels.

01 January 2019 between 01 June 2020
High Level – 7,1932 (06 May 2020) Low Level- 5,45469 (08 August 2019)

TURKEY 5Y CDS



Source : Bloomberg Terminal

- Turkey's five-year credit default swap (CDS) premium is at 650 basis points, surpassing the amount fallen after arriving at the highest level since the 2008 financial crisis. At the beginning of the year, the CDS premium, which has 240 points, indicated the best risk appetite of 20 months.

- Turkey's risk premium of the CDS, after rising with the pandemic, had declined. Finally, there was a slight upward movement with the second wave anxiety that could be seen in the pandemic. CDS traded in the 450-480 range.

Additional Measures Taken against the Economic and Financial Impacts of the Coronavirus

CBRT

- The CBRT has cut interest rates by 250 basis points since March as part of the coronavirus epidemic measures. Thus, the policy rate decreased to 8.25%. – 21 May 2020

- The CBRT also launched the largest bond buying program in its history. In this context, the CBRT determined the nominal size of the Open Market Operations (API) portfolio as 5% of the balance sheet size on December 6 and has now increased this rate to 10%. In addition, the CBRT purchased bonds in the portfolio of the unemployment fund. – 17 April 2020

- The CBRT is continuing its dollar equivalent swap auctions, which are held in a traditional method with a term of 1, 3 and 6 months. On the other hand, tenders were expanded in euro terms. Tender opportunity for gold was also brought. This way, banks were bought 100 dollars under the policy interest rate with swap auctions to provide liquidity in TL, euro and gold equivalent. – 17 March 2020

- The CBRT then added to these tenders in a 6-month term. They announced that the policy rate will be realized under 125 basis points in TL swap auctions with 6-month maturity. – 17 March 2020

- CBRT reduced 5 points in all types of obligations and in all maturity tranches in foreign currency required reserve ratios for banks that fulfill real loan growth conditions in the required reserve application. – 17 March 2020

Additional Measures Taken against the Economic and Financial Impacts of the Coronavirus

- The BRSA announced that it allows flexibility for delays in loan payments to relieve the financing conditions of citizens and tradesmen. In the statement made by the BRSA, it was stated that the delays in credit payments will be given flexibility and 180 days will be waited instead of 90 days before the credits entering the delay will be transferred to follow-up accounts. – 17 March 2020

- The BRSA changed the banks' active ratio calculation on a weekly basis, effective from 1 May 2020. Thus, BRSA encouraged banks to give more loans and buy bonds / Eurobonds according to the new calculation management. – 18 April 2020 / 31 May 2020

- The BRSA recently made a new regulation to counter manipulation attempts in financial markets. With this decision, the BRSA announced that it would impose a TL-based derivative transaction ban on foreign banks if they fail to meet their obligations. – 7 May 2020

- The BRSA announced that the transition to the account will be the next day for real and legal persons to purchase 100 grams of gold per day. – 21 May 2020

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