

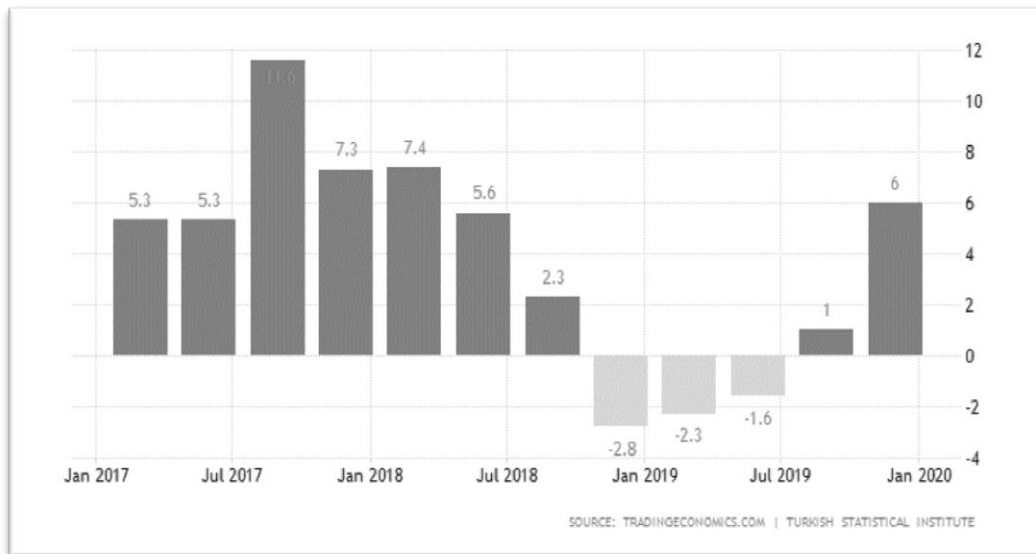
TURKISH ECONOMY

09.03.2020

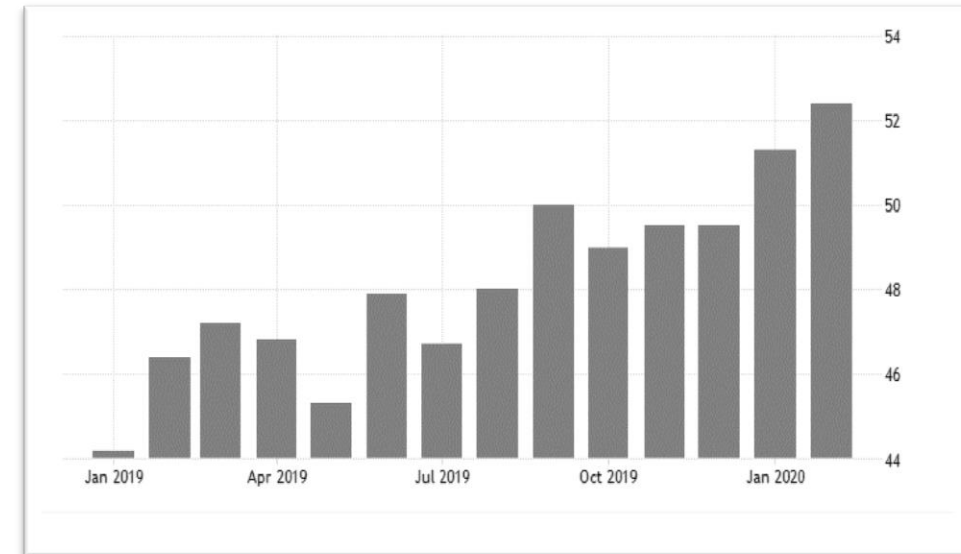
Growth

- tb Turkey's economy grew by 6% year-on-year in the fourth quarter of 2019, accelerating from an upwardly revised 1.0% expansion in the previous three-month period and beating market expectations of 5%.
- tb It was a strong rebound from a recession following the 2018 currency crisis as household consumption (6.8% vs 1.9%) and government spending (2.7% vs 5.7%) grew strongly, and fixed investment declined less (-0.6% vs -12.8%). In the meantime, net external demand contributed negatively to the GDP as exports increased 4.4% while imports jumped 29.3%.
- tb The Istanbul Chamber of Industry Turkey PMI Manufacturing Index increased to 52.4 in February 2020, from 51.3 in the previous month, pointing to the second straight month of expansion in the sector and the fastest since February 2018. Output growth was the fastest in almost two years and new orders increased further.

GDP Annual Growth



Manufacturing PMI

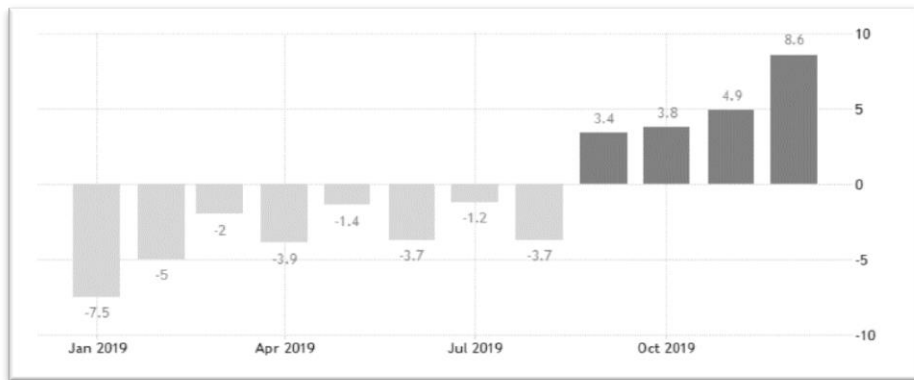


Source : TRADINGECONOMICS.COM

Leading Indicators

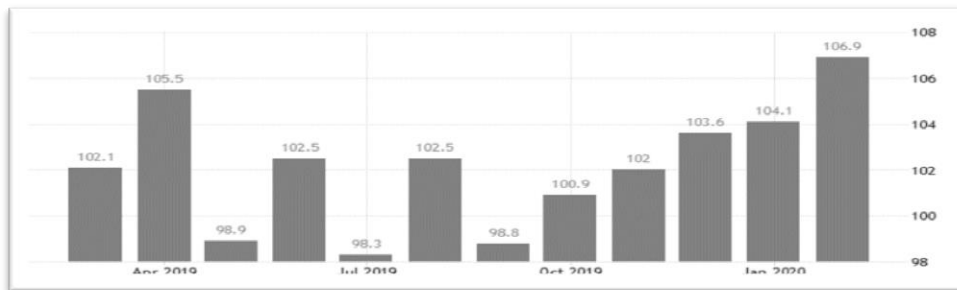
Industrial Production

- Turkey's industrial production increased 8.6% from a year earlier in December 2019, accelerating from a downwardly revised 4.9% growth in the previous month and beating market expectations of 7%.



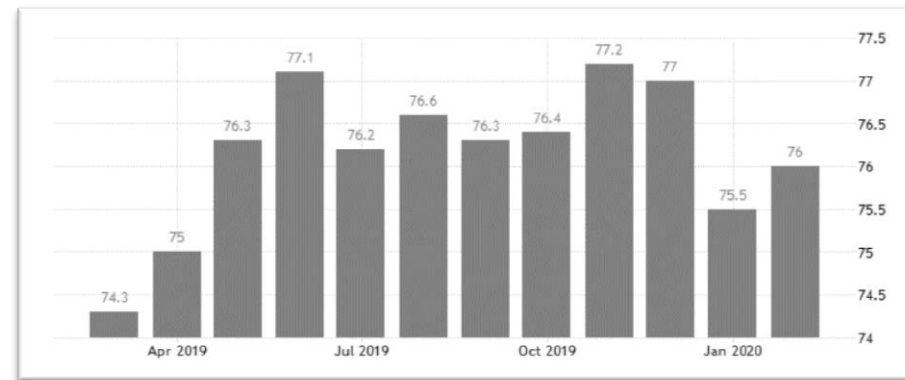
Business Confidence

- Business Confidence in Turkey remained unchanged at 106.90 points in February from 106.90 points in February of 2020



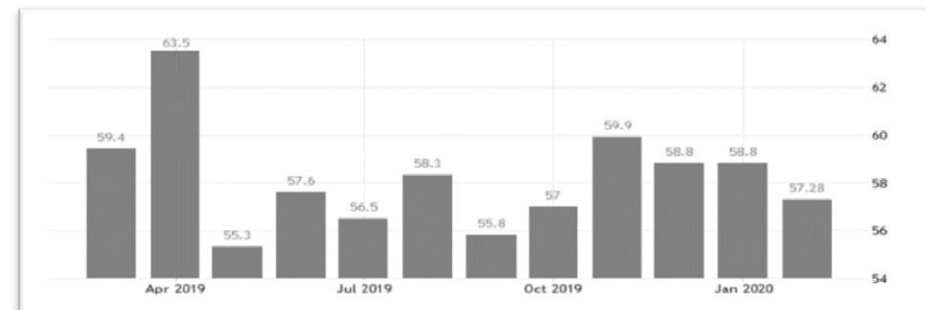
Capacity Utilization

- Capacity Utilization in Turkey remained unchanged at 76% in February from 76 percent in February of 2020.



Consumer Confidence

- Consumer Confidence in Turkey decreased to 57.26 points in February from 57.30 points in February of 2020.

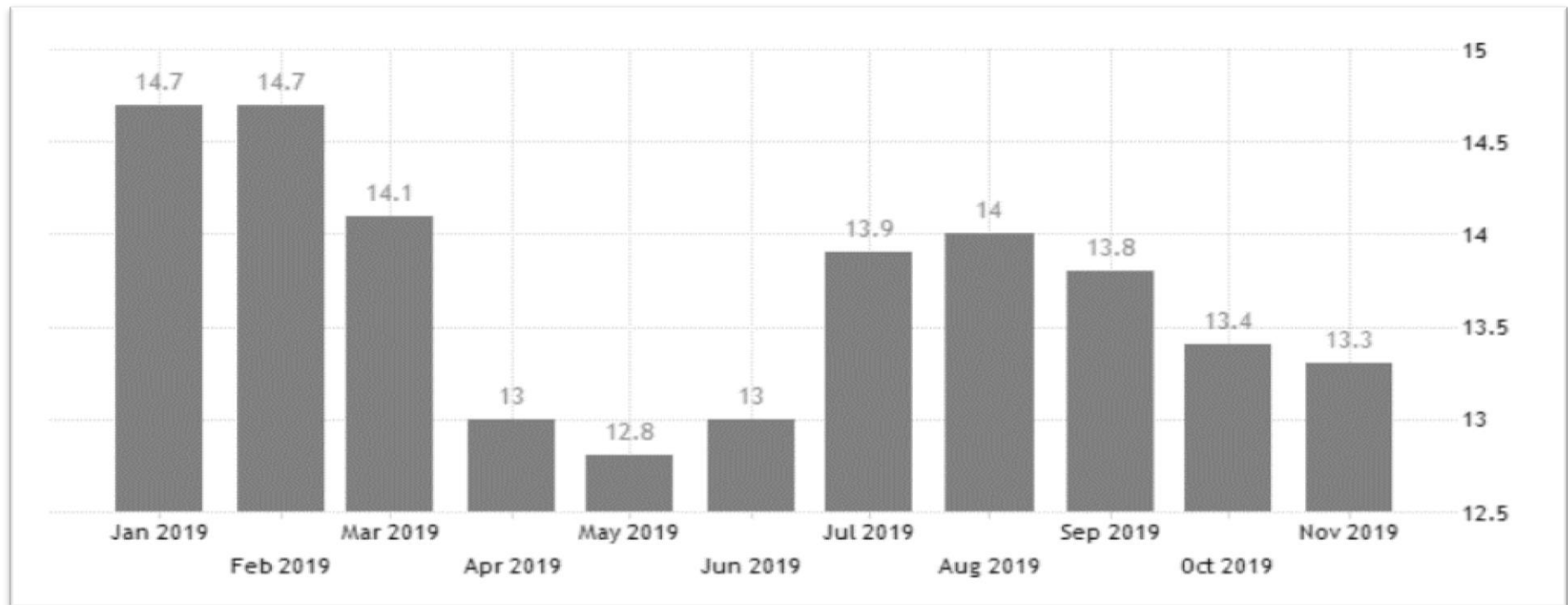


Source : TRADINGECONOMICS.COM

Unemployment Rate

- The unemployment rate in Turkey increased to 13.3% in November 2019 from 12.3% in the same month of the previous year.
- As the number of unemployed rose by 327 thousand to 4.308 million, employment dropped by 145 thousand to 28.169 million, with job losses recorded in construction and agriculture sectors.
- The Youth Unemployment Rate in Turkey decreased to 24.50% in November from 25.30% in October of 2019.

Unemployment Rate

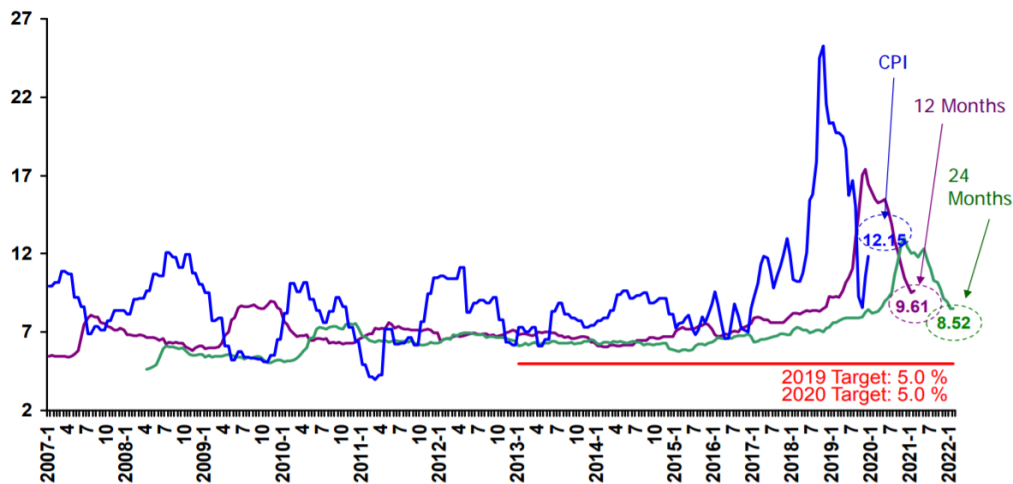


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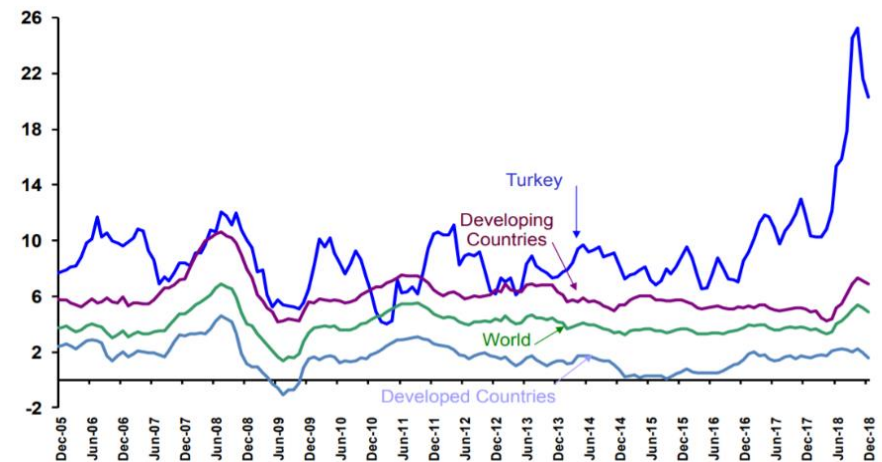
Inflation and Expectations

- tb Turkey's annual inflation rate increased to 12.37% in February 2020, the highest since last August, but below market expectations of 12.70%.
- tb Inflation accelerated for: housing, water, electricity, gas & other fuels (15.31% vs 14.76% in January); food & non-alcoholic beverages (10.58% vs 9.04%); and miscellaneous goods & services (16.44% vs 15.01%).
- tb Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, also rose to a six-month high of 9.97%.
- tb Under Turkey's new economic program announced by the government at the end of September, the country's inflation rate target is 8.5% in this year and 6.0% in 2021.

■ Inflation and Expectations*: (Annual % Change)



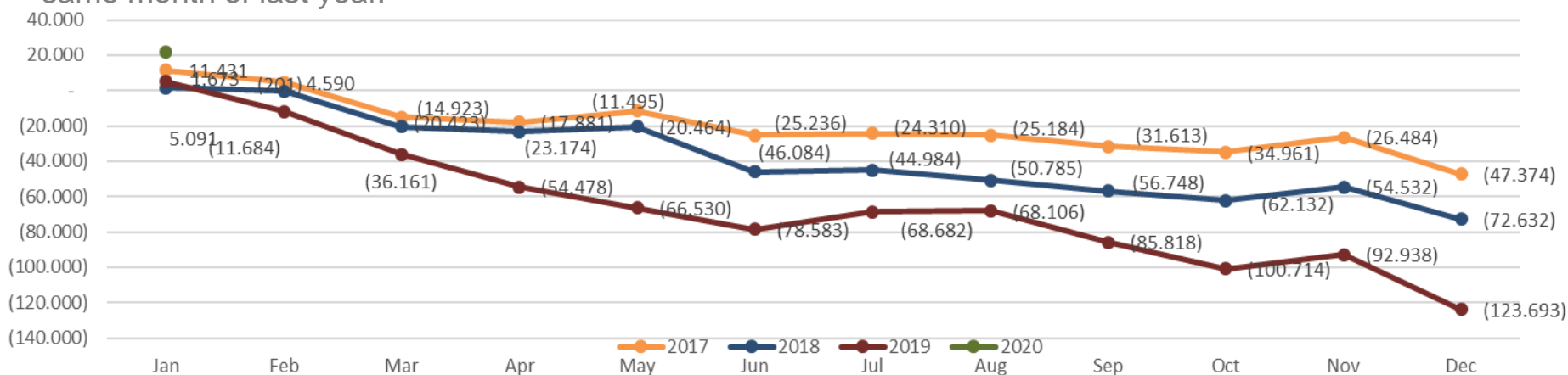
■ Inflation Developments in the World



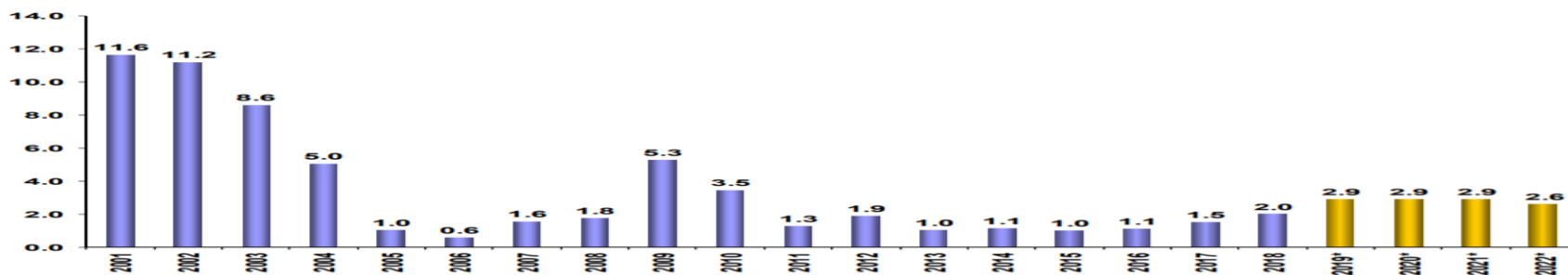
Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

Budget

- tb The shortfall represented about a quarter of the annual deficit of 123.7 billion liras, which grew by 70% from 2018. The government had originally targeted a deficit of 80.6 billion liras for 2019 but revised it in October after spending surged.
- tb Turkish central government budget balance saw a surplus of 21.5 billion Turkish liras (\$3.6 billion) in January.
- tb Turkey's budget revenues rose 26% to hit 122.17 billion Turkish liras (\$20.6 billion) year-on-year in January
- tb The country's budget expenditure was 100.67 billion Turkish liras (\$17 billion) in the month, up 9.6% from the same month of last year.



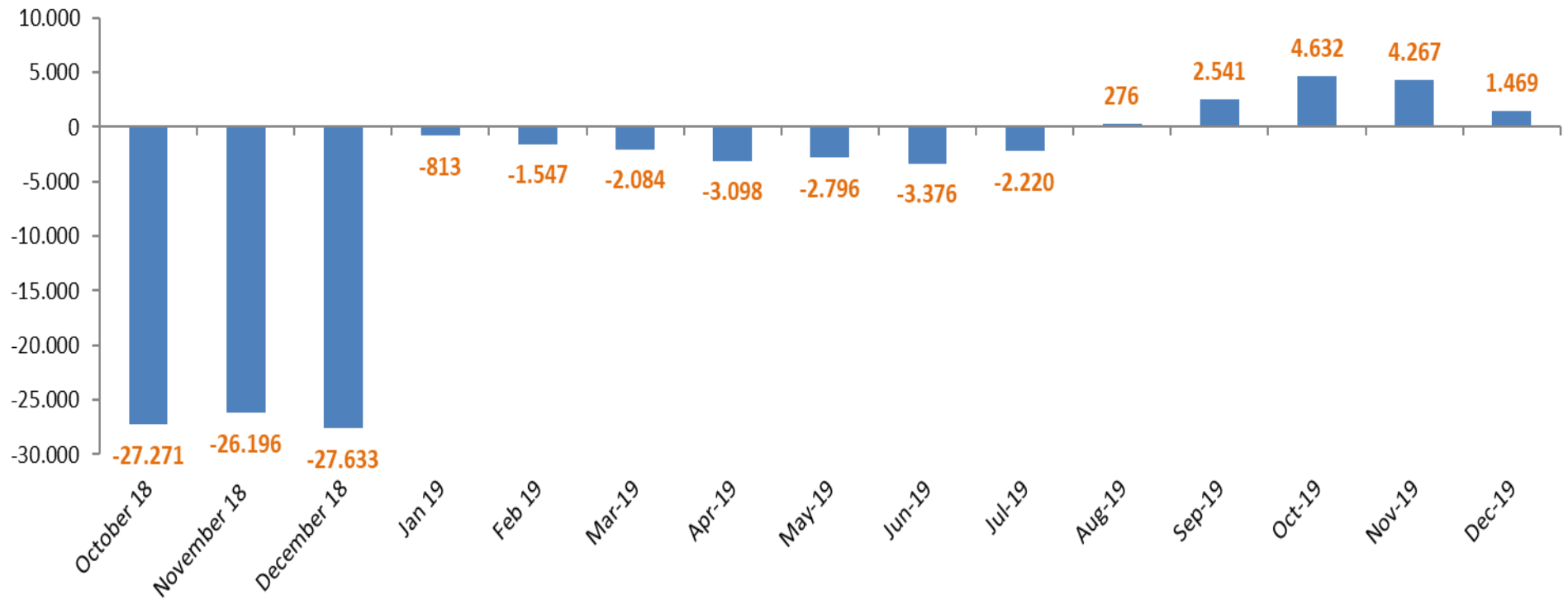
Central Government Budget Deficit (% of GDP)



Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

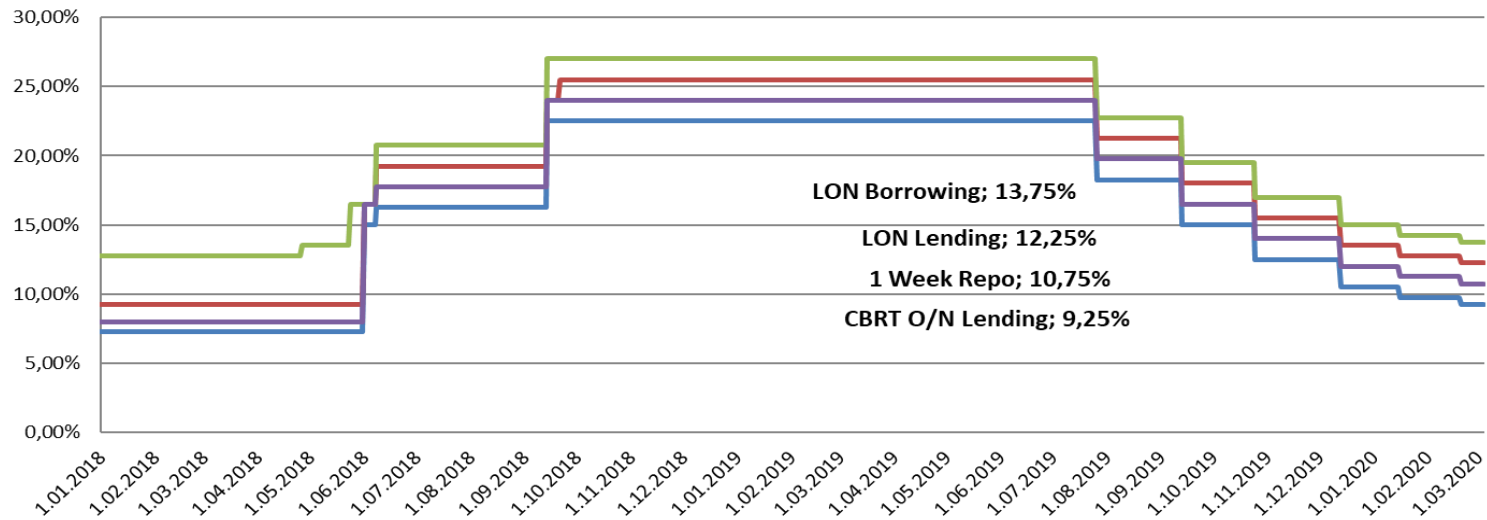
Current Account

- The current account deficit recorded USD 2,798 million indicating an increase of USD 1,731 million compared to December of 2018, bringing the 12-month rolling surplus to USD 1,674 million.
- This development in the current account is mainly attributable to USD 2,089 million increase in the goods deficit recording net outflow of USD 3,402 million, as well as USD 93 million increase in primary income deficit to USD 1,087 million.
- Gold and energy excluded current account surplus recorded USD 1,454 million indicating a decrease of USD 1,429 million compared to December of 2018.



Policy Rate

The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 11.25% to 10.75% on 20.02.2020. Thus, the central bank has decided to cut interest rates 6 times in a row.



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

- Recent data indicates that recovery in economic activity continues. Sectoral diffusion of economic activity continues to improve.
- Weakness in global economic activity and low levels of global inflation strengthen expectations regarding the continuation of expansionary monetary policies in advanced economies.
- Rising protectionism, uncertainty regarding global economic policies, geopolitical developments and the recent outbreak of an epidemic disease are closely monitored for their impact on capital flows, international trade and commodity prices.
- Developments in inflation expectations, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators.

Currencies vs. Developing Countries

2018



2019



Year to Date



Source : Bloomberg Terminal

USD / TL



Source : Bloomberg Terminal

- tb USDTRY started 2020 at 5.94 levels and dropped to 5.86 levels at the beginning of January. First of all, USDTRY, which lost some value with the CBRT interest rate cut, increased to 6.20 levels with the increase of geopolitical risks since the middle of February.
- tb As the corona virus increased the global risk appetite, the increase in the dollar index negatively affected the currencies of developing countries such as the TL. With the 50 basis point discount made by the FED on March 3, the USD TRY rate retreated to 6.10 levels.

09 March 2019 between 09 March 2020

High Level – 6,2469 (28 Feb 2020)
Low Level- 5,3278 (26 March 2019)

TURKEY 5Y CDS



Source : Reuters

- While CDS started 2020 at the level of 270 points, it increased to 380 points with the rising tension in northern Syria starting from the middle of February.
- Finally, the CDS premium reduced to 330 points because of decreasing tension on the last days of February but increased to 380 points again due to the corona virus effect.

Disclaimer:

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