

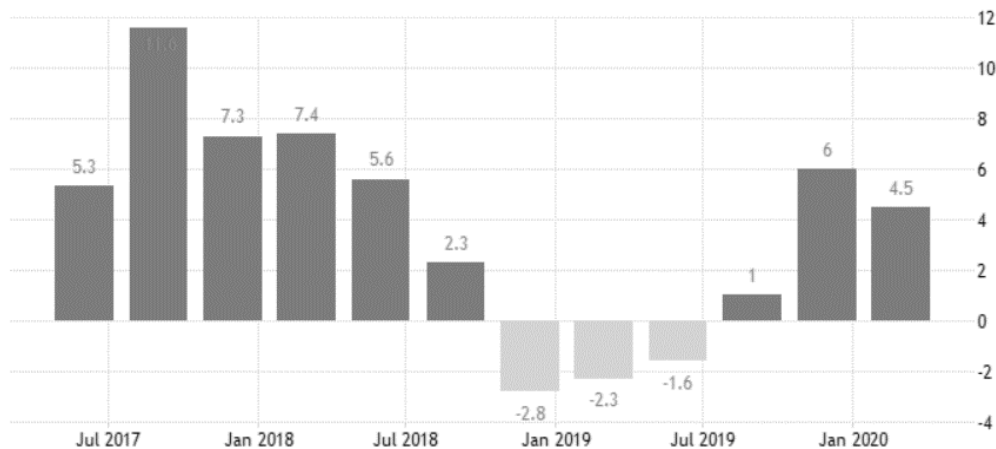
TURKISH ECONOMY

05.08.2020

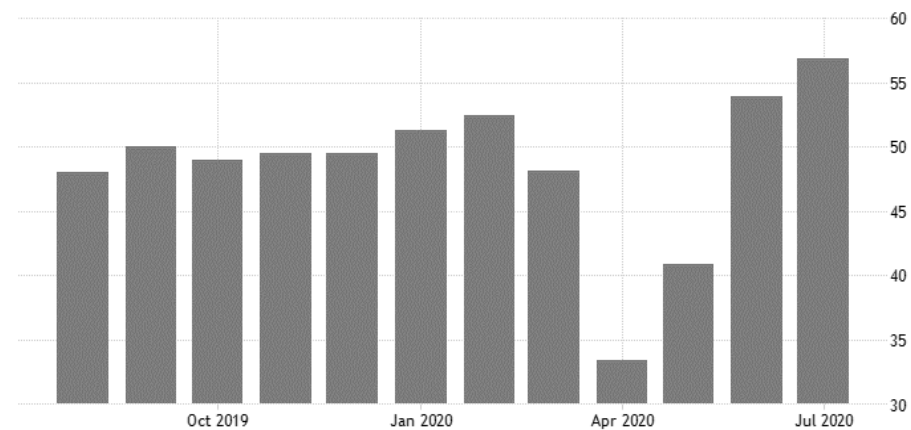
Growth

- 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.
- Istanbul Chamber of Industry Turkey Manufacturing PMI (Purchasing Managers Index), the fastest and most reliable reference for the manufacturing industry's performance that is the leading indicator of economic growth increased to 53,9 in June realized over 50,0, the threshold value for the first time since February.
- Removing the restrictions against Covid-19 pandemic and adopting to the ordinary life style enabled the production volumes of manufacturers increase significantly during June and ended the three-month-slowdown period. New orders entered into growth area.

GDP Annual Growth



Manufacturing PMI

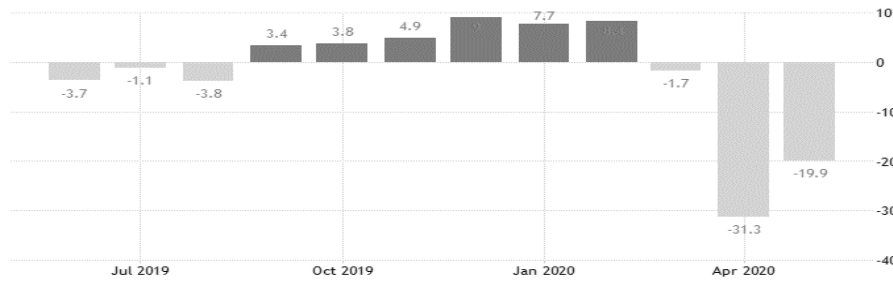


Source : TRADINGECONOMICS.COM

Leading Indicators

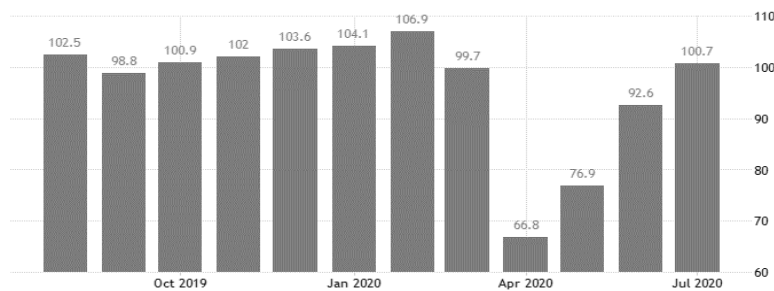
Industrial Production

ib In year-on-year terms, Turkey's industrial production (calendar adjusted) was down 19.9%. But industrial production in Turkey rose 17.4% in May month-on-month. All the subsectors of the industry saw decreases in May 2020 compared to the same month of last year.



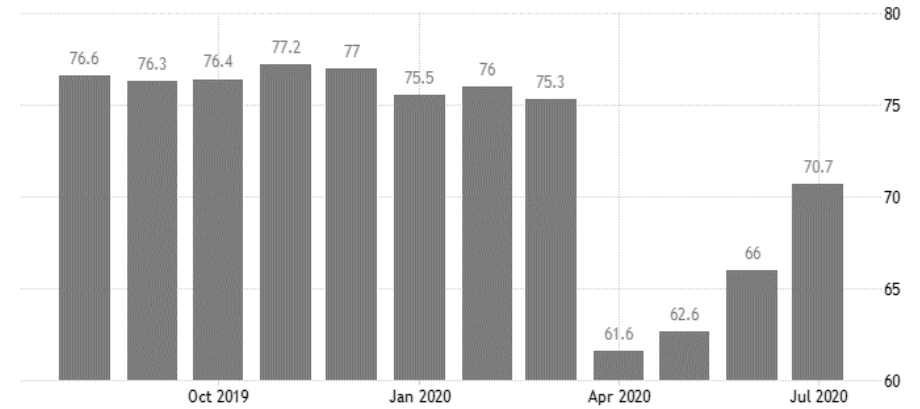
Business Confidence

ib The manufacturing confidence index in Turkey rose to 100.7 in July 2020 from 92.6 in the previous month. It was the highest reading in five months amid the easing of coronavirus lockdown restrictions.



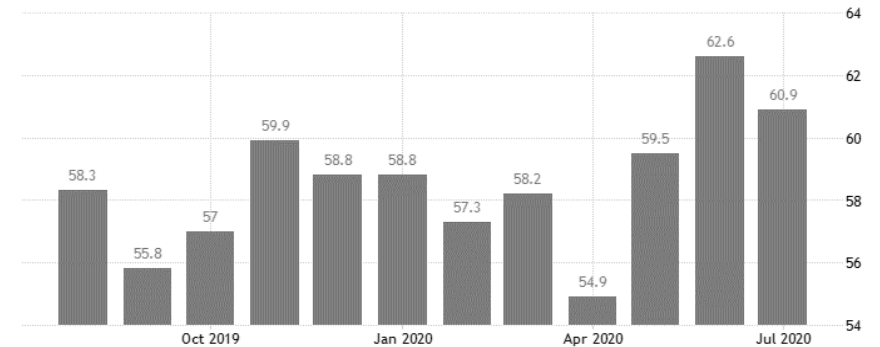
Capacity Utilization

ib Capacity Utilization in Turkey increased to 70.7 % in July from 66% in June of 2020.



Consumer Confidence

ib Consumer confidence in Turkey decreased to 60.9 in July of 2020 from 62.6 in the previous month.

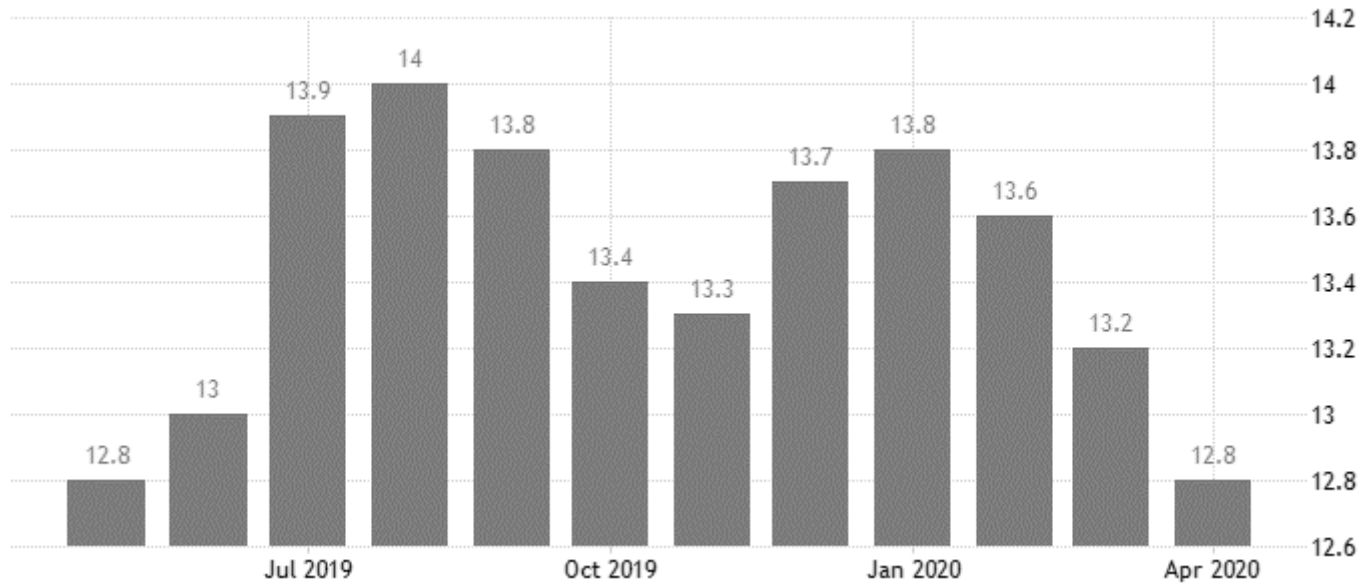


Source : TRADINGECONOMICS.COM

Unemployment Rate

- The unemployment rate in Turkey slipped to 12.8% in April. The figure was down 0.2 percentage points from the same month last year
- Non-agricultural unemployment declined by 0.1 percentage points to 14.9% in the same period.
- The youth unemployment rate, including people aged 15 to 24, rose 1.2 percentage points year-on-year, hitting 24.4% in April.

Unemployment Rate

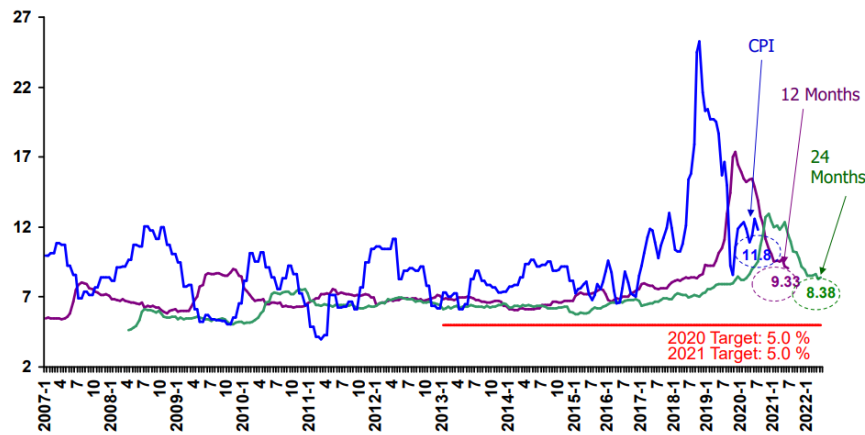


Source : TRADINGECONOMICS.COM

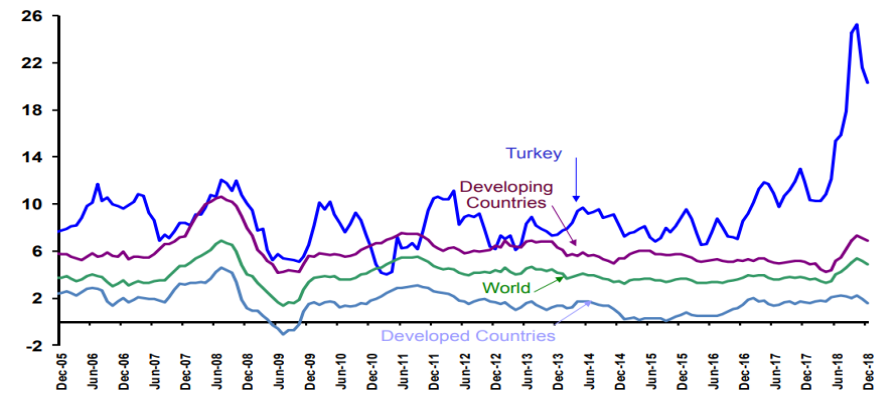
Inflation and Expectations

- July's annual inflation rate was at 11.76% down from 12.62% in June. Last month, the consumer price index saw a 0.58% rise on a monthly basis.
- On a monthly basis, while food and beverages prices were down 1.28%, the largest increase was seen in the transportation sector with 2.44%.
- 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%. The highest monthly decrease, on the other hand, was 3.48% in clothing and footwear.
- Turkey's Central Bank revised its year-end inflation forecast to 8.9% for 2020, up from 7.4%. 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.

Inflation and Expectations*: (Annual % Change)



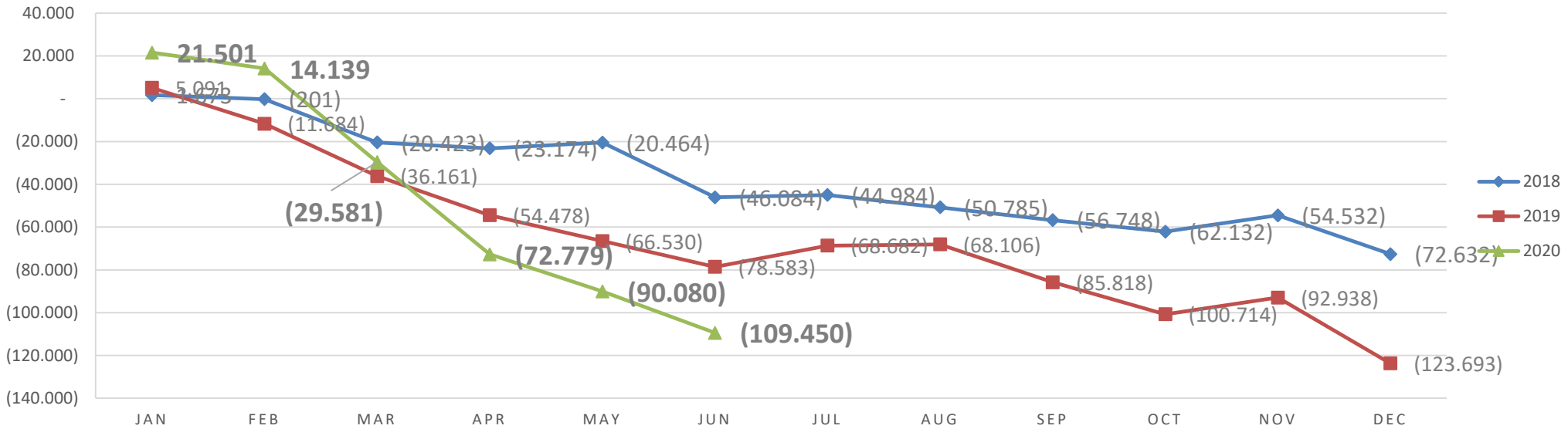
Inflation Developments in the World



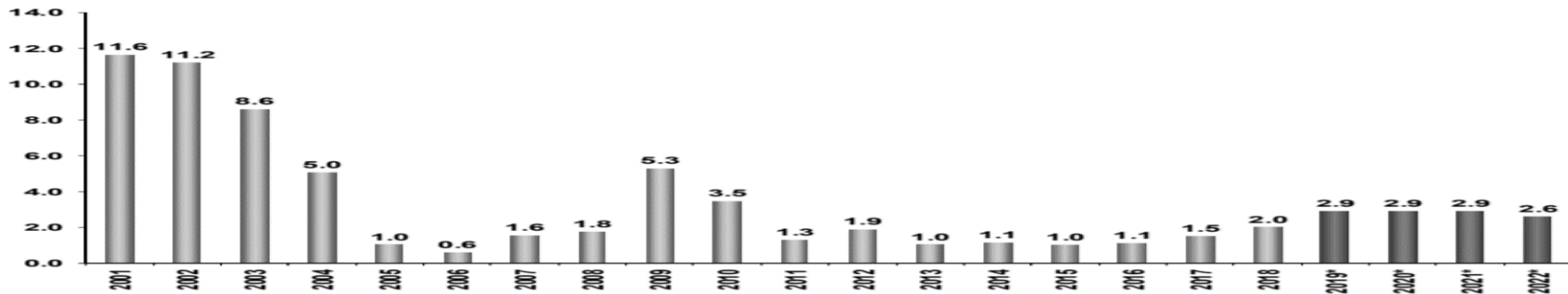
Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

Budget

- Turkey's government budget registered a deficit of TL 109.5 billion (some \$16 billion) during January-June 2020.
- The country's budget revenue reached TL 455.4 billion in the first half of the year, up 13% year-on-year. Budget expenditures rose 17.3% on an annual basis to hit TL 564.9 billion from January to June.
- At the end of 2019, the budget deficit to GDP ratio was at 2.9%.



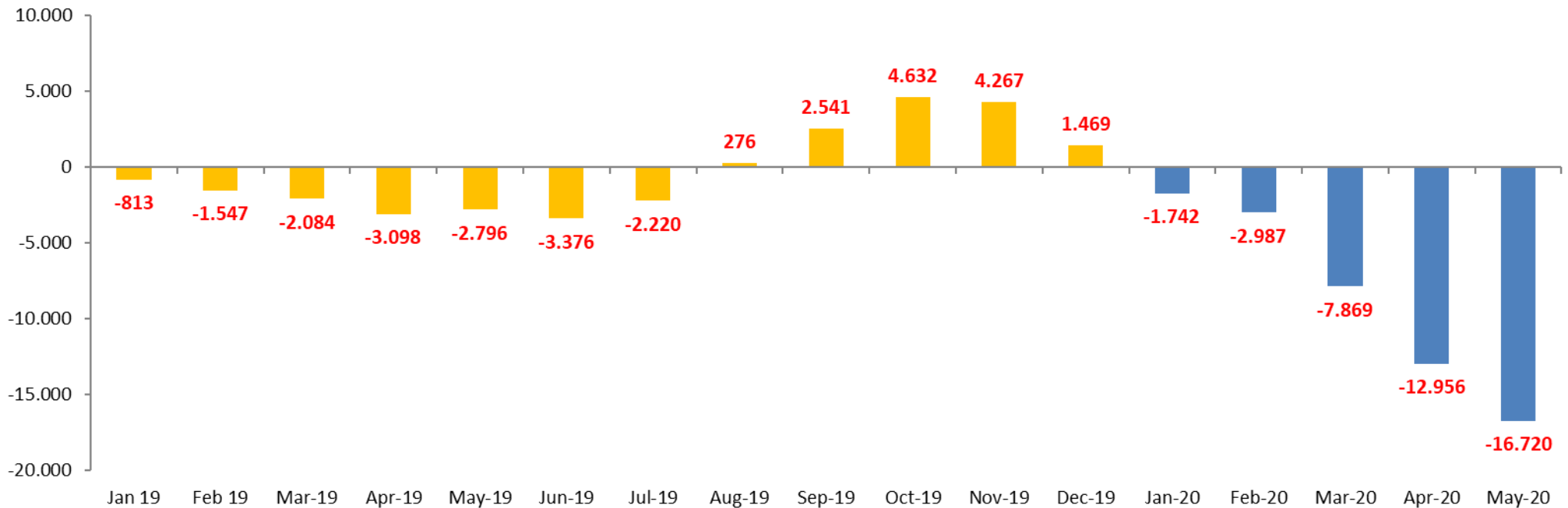
Central Government Budget Deficit (% of GDP)



Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

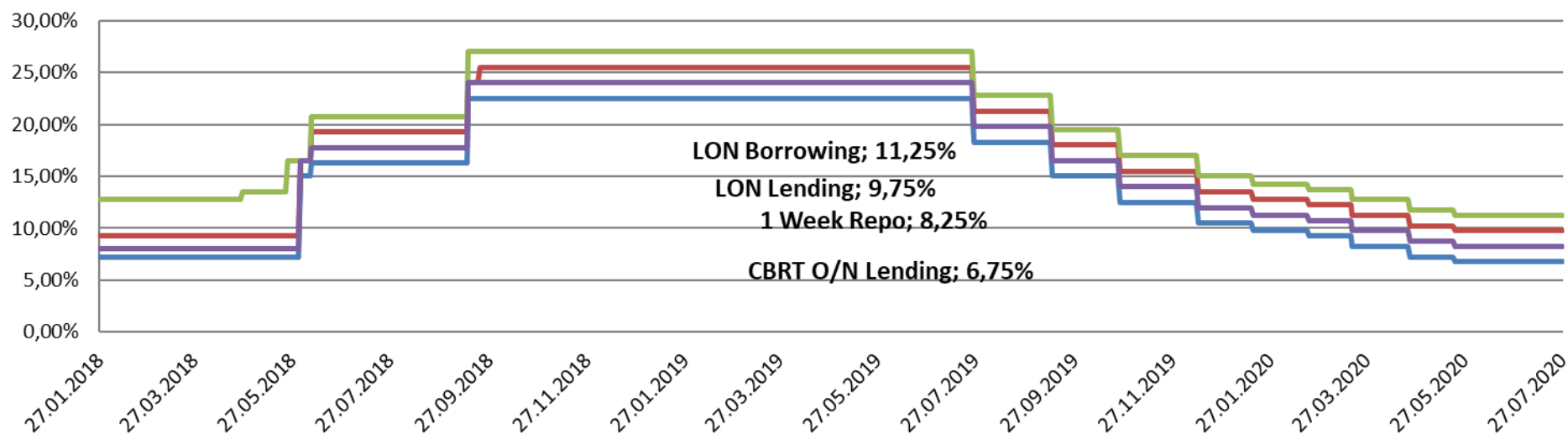
Current Account

- The current account posted a USD 3,764 million deficit compared to the USD 1,071 million surplus observed in the same month of 2019, bringing the 12-month rolling deficit to USD 8,244 million.
- This development is mainly driven by the USD 2,389 million increase in the goods deficit, recording a net outflow of USD 2,734 million, as well as a net outflow of USD 33 million in the services item against a net inflow of USD 2,907 million observed in the same month of the previous year.
- Gold and energy excluded, the current account indicated a USD 1,847 million deficit, in comparison to a USD 4,345 million surplus observed in the same month of the previous year.



Policy Rate

Turkey's central bank held its policy rate steady at 8.25% for a second consecutive month on July 23, meeting the widely-held market expectation. It said that there was a risk of inflation overshooting its year-end projection.



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

While global economic activity has shown signs of a partial recovery in the third quarter following the normalization steps taken by several countries, uncertainties on global economic recovery remain high.

Although tourism revenues declined due to the pandemic, easing travel restrictions are expected to contribute to a partial improvement. The recovery in exports of goods and low levels of commodity prices will support the current account balance in the upcoming periods.

Despite the restraining effects of aggregate demand conditions, pandemic-related rise in unit costs have led to an 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.

Currencies vs. Developing Countries

2019



Year to Date



31.12.2019-07.05.2020

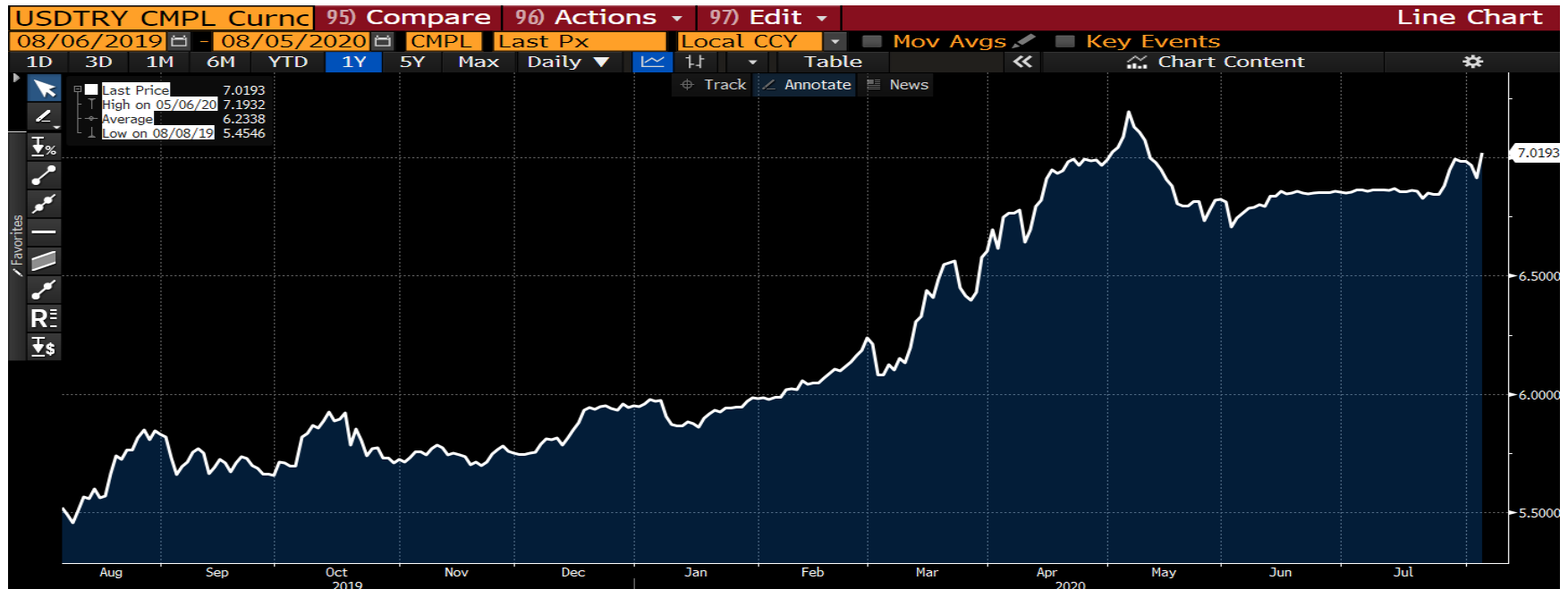


07.05.2020-05.08.2020



Source : Bloomberg Terminal

USD / TL



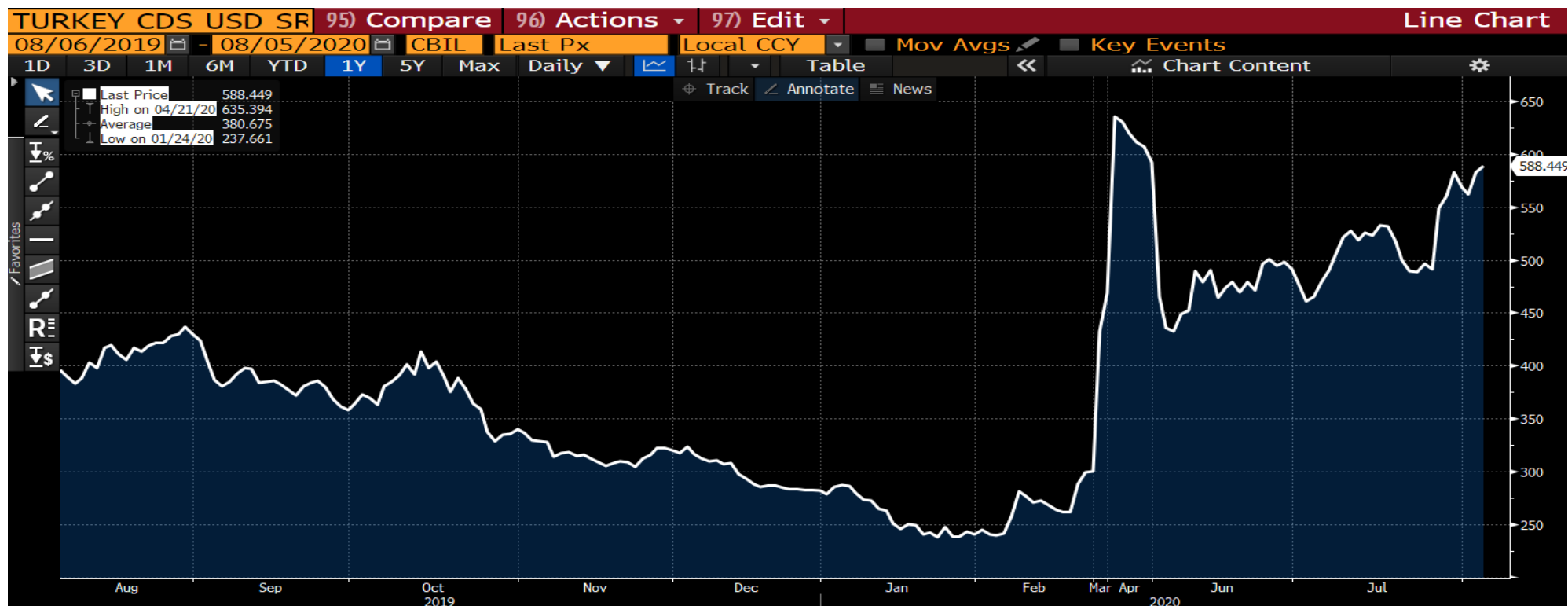
Source : Bloomberg Terminal

- ib 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 the TL accelerated with the increase in risks belonging to developing countries. The USD/TL rose to 7.20 levels.
- ib The 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.
- ib The USD / TL has followed an almost motionless trend, at around 6.85, for more than a month and then the increased economic risks caused the currency to around 7 levels.

01 January 2019 between 01 June 2020

High Level – 7,1932 (06 May 2020)
Low Level- 5,4246 (08 August 2019)

TURKEY 5Y CDS



Source : Bloomberg Terminal

- At the beginning of the year, the CDS premium, which has 240 points, indicated the best risk appetite of 20 months. Mostly the negative effects of pandemic to the financial markets, it has increased to 650bp in April which is the highest level of the this year.
- Although it declined to 430 bp at the beginning of the June, currently the 5-year CDS has been traded around increased to 590 level in the first week of August.

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