



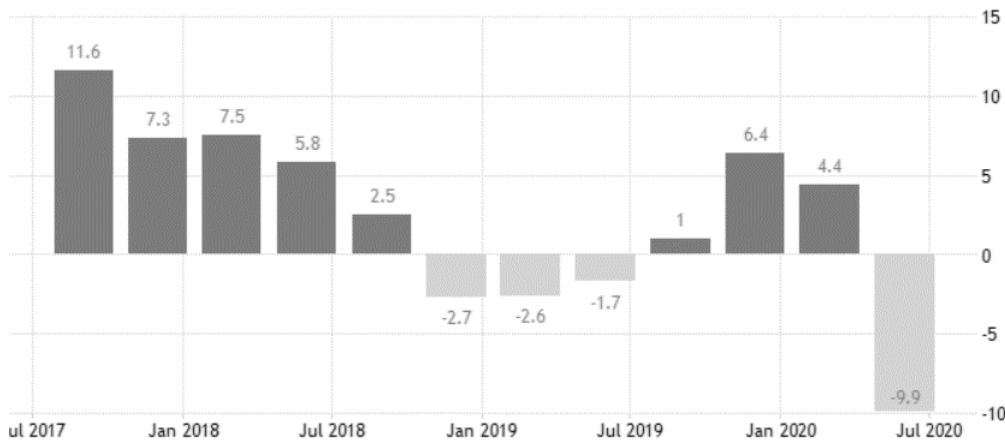
TURKISH ECONOMY

03.09.2020

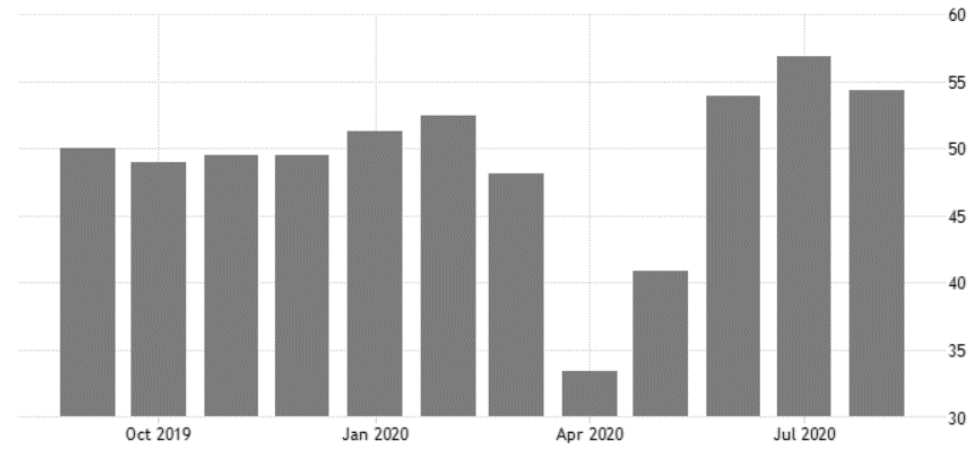
Growth

- Turkey's economy contracted by 9.9% in the second quarter as a coronavirus lockdown brought activity to a near standstill. Many larger economies, however, fared worse than Turkey in the second quarter and it also outpaced some peers including Mexico, whose economy shrank more than 17% on a quarterly basis.
- 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 fell to 54.3 in August of 2020 from 56.9 in July which was the highest reading since February of 2011. Still, the reading points to the third consecutive month of rising manufacturing, suggesting that the recovery in the factory sector was sustained.

GDP Annual Growth



Manufacturing PMI

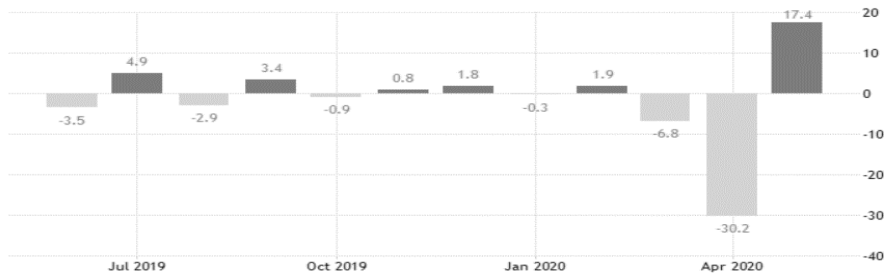


Source : TRADINGECONOMICS.COM

Leading Indicators

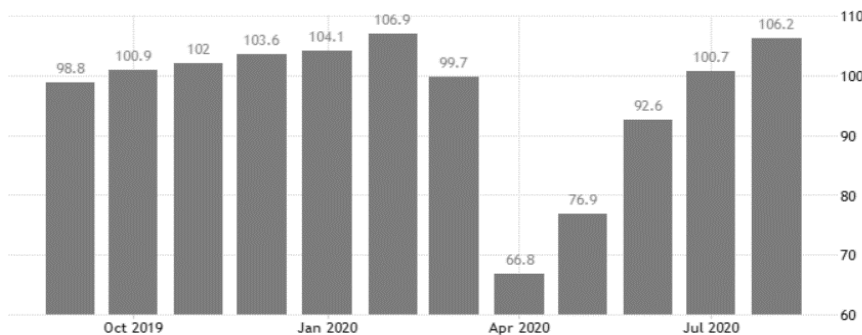
Industrial Production

Turkey's industrial production increased by 17.6% in June, when compared to May 2020. It increased by 0.1% annually. 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



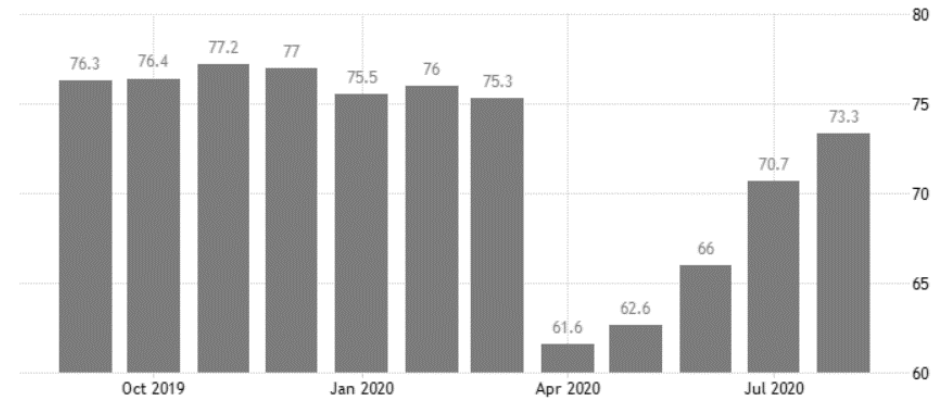
Business Confidence

The manufacturing confidence index in Turkey increased to a six-month high of 106.2 in August 2020, returning to levels not seen since before the pandemic effects started to be felt



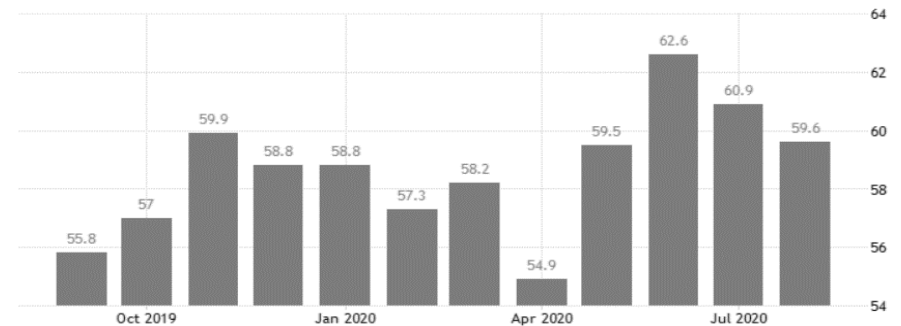
Capacity Utilization

Capacity Utilization in Turkey increased to 73.30% in August, from 70.70% in July of 2020.



Consumer Confidence

The consumer confidence in Turkey worsened for the second straight month to 59.6 in August of 2020, reaching the lowest level since May.

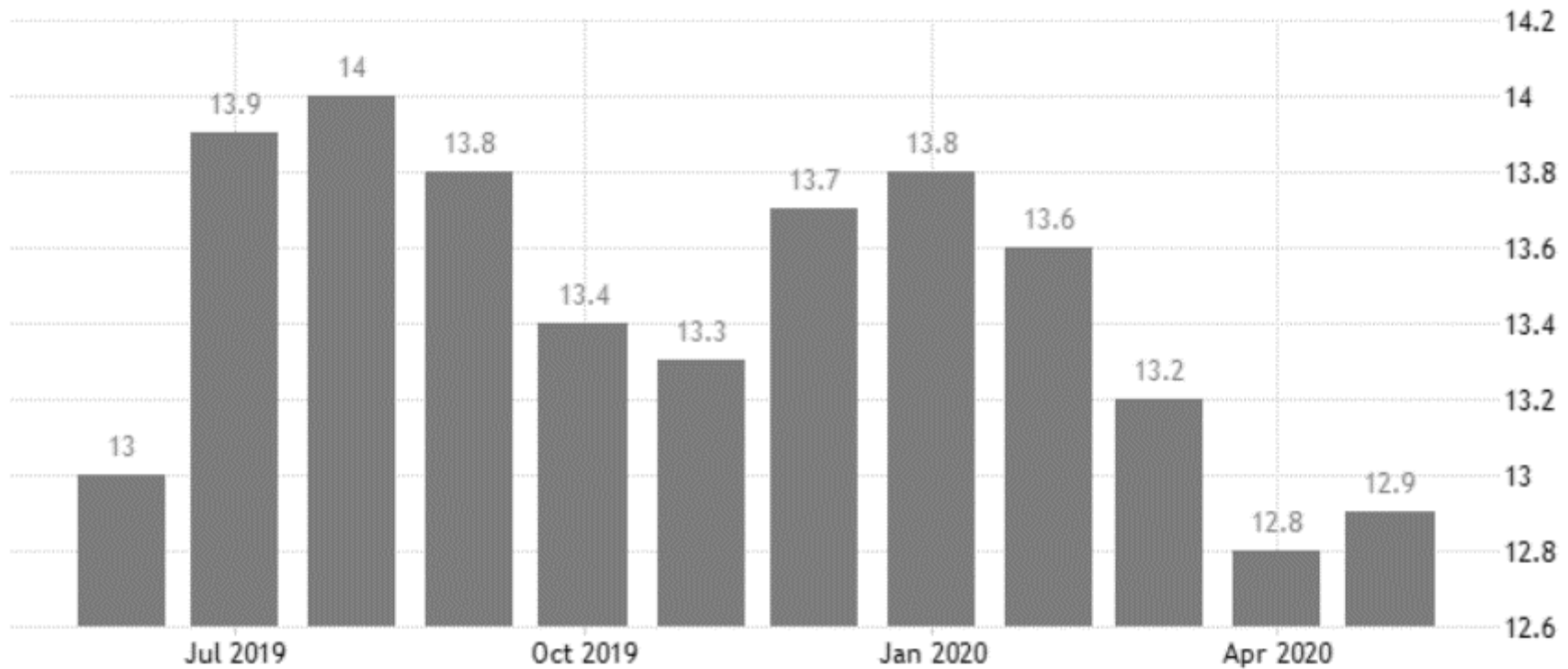


Source : TRADINGECONOMICS.COM

Unemployment Rate

- Unemployment in Turkey stood at 12.9% in May. The figure was up 0.1 percentage points from the same month last year
- The number of employed people dropped by 2.4 million to 25.6 million in May on an annual basis.
- The rate of young people who were neither employed nor in education reached 29.1%, up 5.1 percentage points from last year's May rate of 24%.

Unemployment Rate

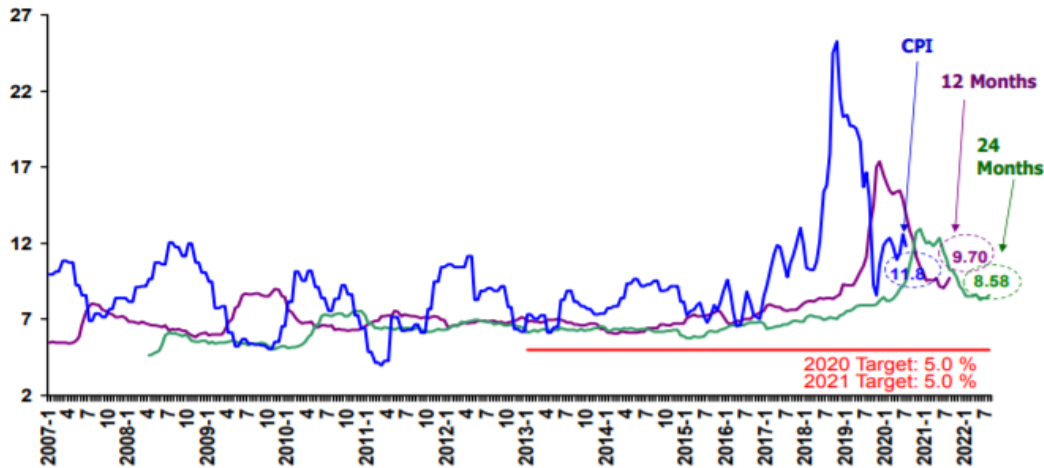


Source : TRADINGECONOMICS.COM

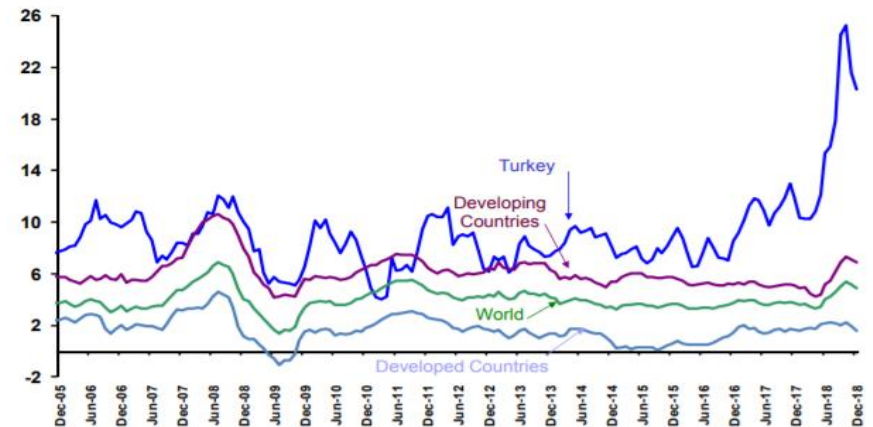
Inflation and Expectations

- tb Turkey saw an annual hike of 11.77% in consumer prices in August. Last month, annual inflation went up 0.01 percentage points from 11.76% in July.
- tb The highest price increase on a yearly basis was recorded in miscellaneous goods and services with 26.99% in August
- tb It was followed by health at 14.68% and food and non-alcoholic beverages at 13.51%.
- tb Turkey's Central Bank revised its year-end inflation forecast to 8.9% for 2020, down 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)



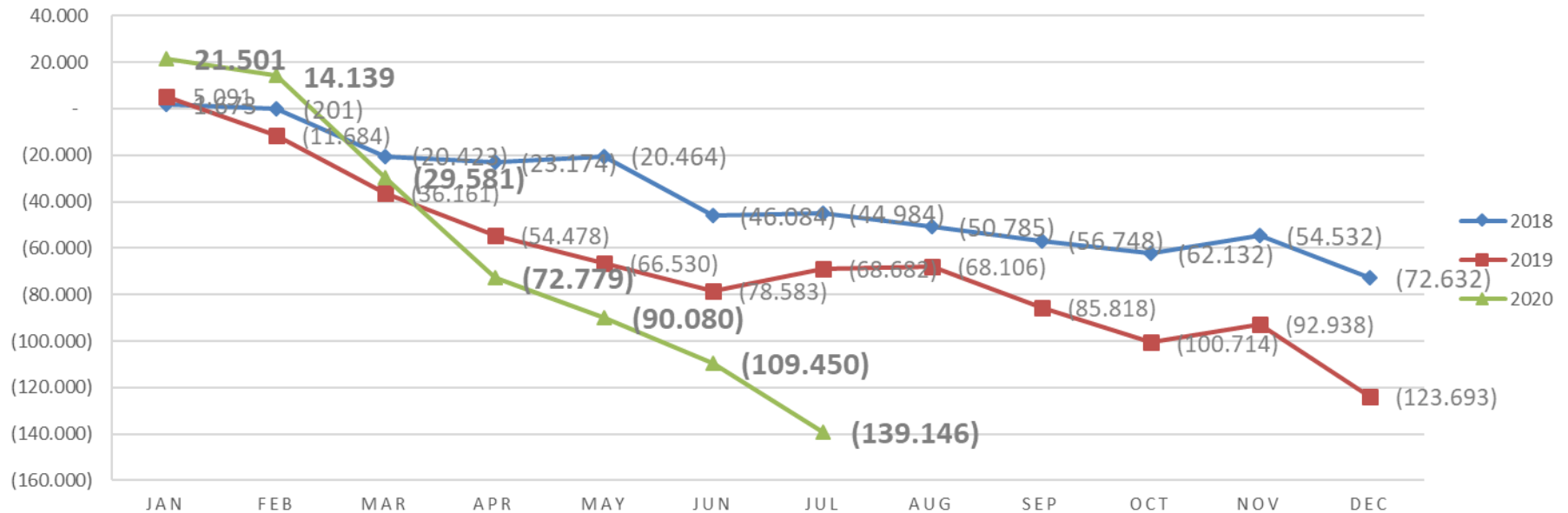
■ Inflation Developments in the World



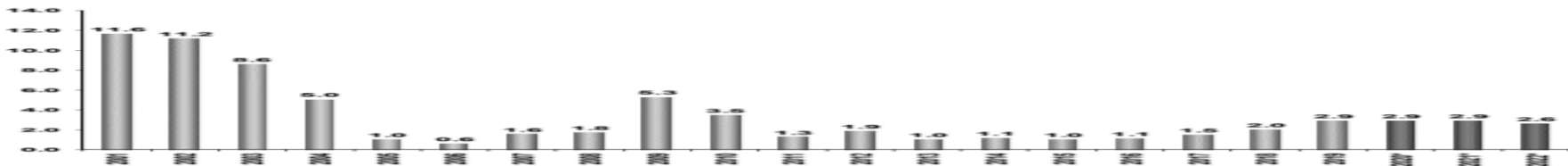
Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

Budget

- The Turkish central government posted a 139.1-billion-Turkish lira (\$21.3-billion) budget deficit in January-July.
- Budget revenues of the country rose 9% year-on-year, reaching 541.9 billion Turkish liras (\$82.8 billion) in the first seven months of this year.
- 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 .



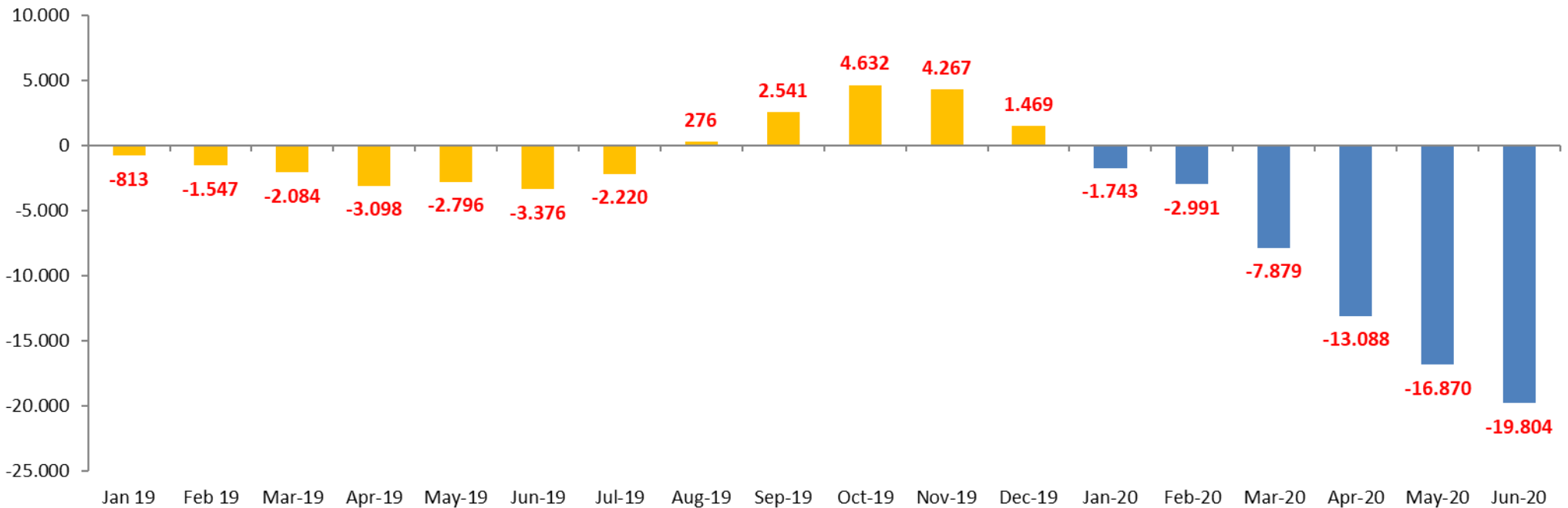
Central Government Budget Deficit (% of GDP)



Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

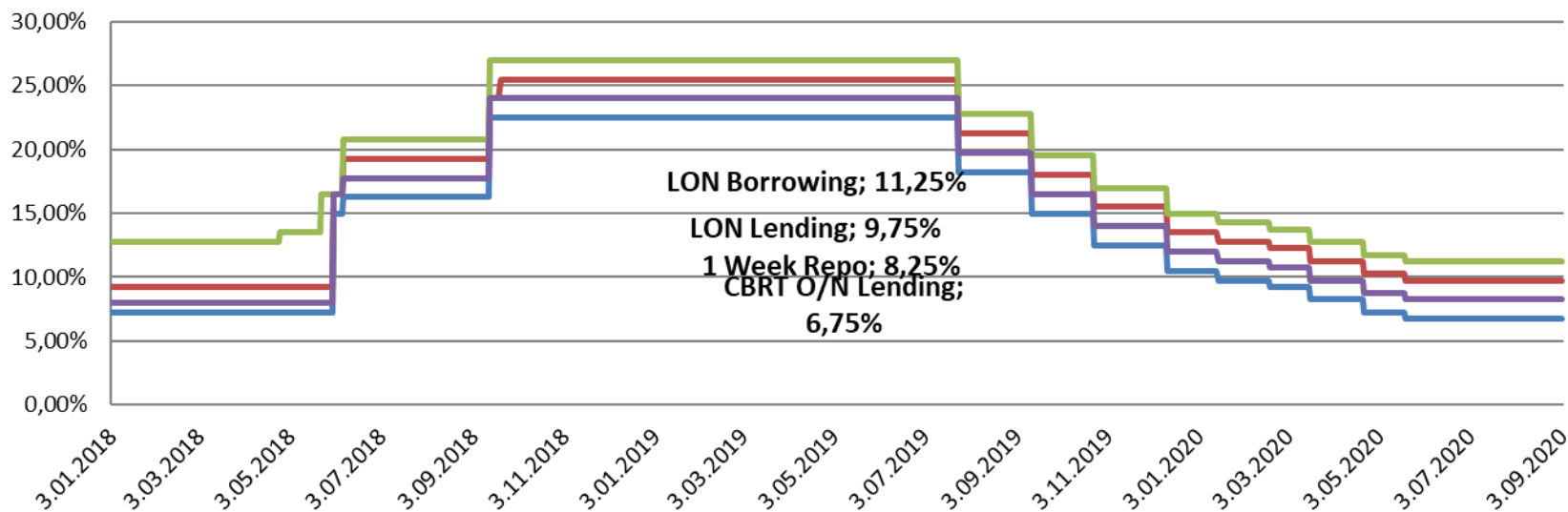
Current Account

- The current account posted a USD 2,934 million deficit, increasing by USD 2,839 million compared to the same month of the previous year, bringing the 12-month rolling deficit to USD 11,094 million.
- This development is mainly driven by the net outflow of USD 294 million in services item against a net inflow of USD 3,413 million observed in the same month of the previous year, as well as the net outflow of USD 23 million in the secondary income account against a net inflow of USD 50 million observed in the same month of the previous year.
- Gold and energy excluded, the current account indicated a USD 181 million surplus, in comparison to USD 2,647 million surplus observed in the same month of the previous year.



Policy Rate

Turkey's central bank kept its key interest rate unchanged for the third straight meeting in line with the market expectations.



The MPC said it will continue with its “liquidity measures,” according to a statement following the Monetary Policy Committee (MPC) meeting.

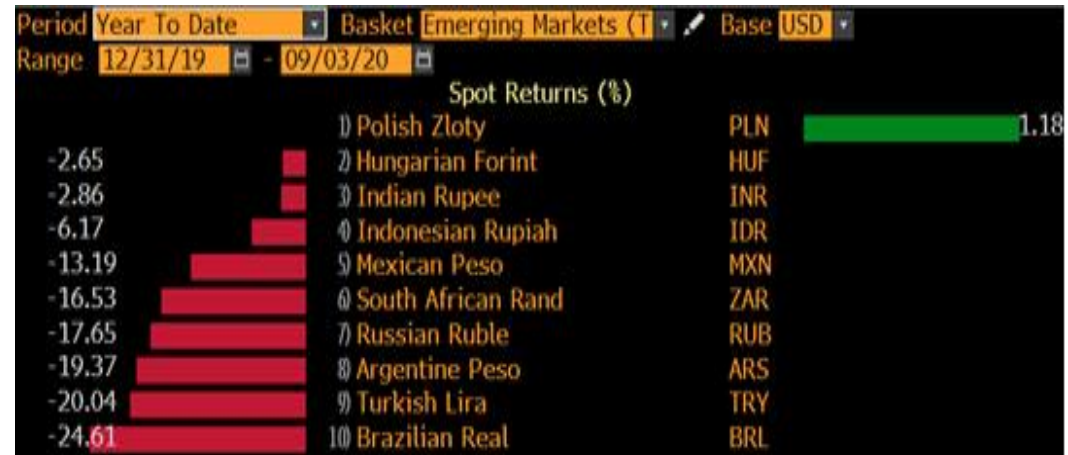
- The bank has recently taken several steps to tighten liquidity conditions to support the Turkish lira such as halving the overnight borrowing limits of lenders and cutting liquidity limits offered to primary dealers to zero.**
- The bank has so far taken backdoor steps to tighten policy, including liquidity measures and directing lenders to borrow at higher rates.**
- The CBRT "decided to raise FX (foreign exchange) reserve requirement ratios for banks fulfilling real credit growth conditions by 700 basis points for precious metal deposit accounts and by 200 basis points for all other FX liabilities for all maturity brackets," it said in a statement.**

Currencies vs. Developing Countries

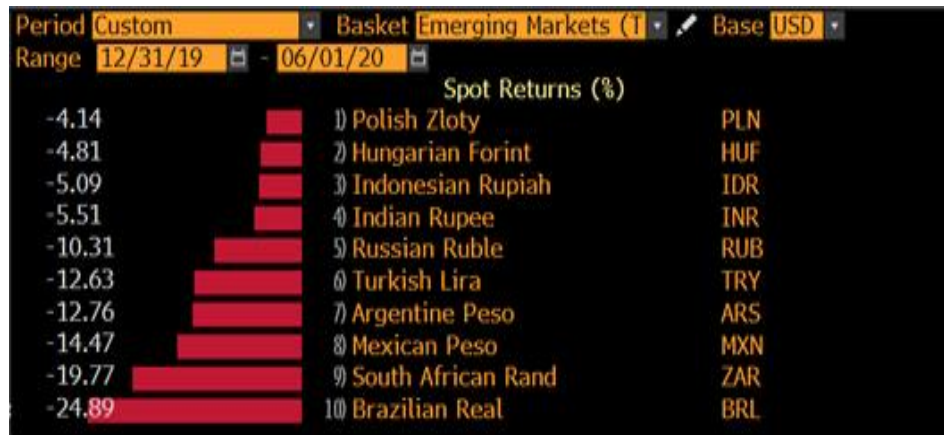
2019



Year to Date



31.12.2019-01.06.2020



01.06.2020-03.09.2020



Source : Bloomberg Terminal

USD / TL



Source : Bloomberg Terminal

- After rising to the level of 7.40 in August, the USD / TL turned slightly sideways after the steps taken by the regulatory authorities.
- Finally, with the increasing geopolitical risks and August inflation data, the parity came above 7.40.

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

- During the pandemic period, investors turned to safe countries and Turkey's risk Premium (CDS) reached over 600 points.
- The risk premium, which declined to 500 points at the beginning of August, approached 600 again with the increase in geopolitical and financial risks.
- Turkey's risk premium along with descriptions of the Fed finally came below the 550 points level

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