



UNITED KINGDOM ECONOMY

03.09.2020

Growth

- tb UK economic output shrank by 20.4% in the second quarter of 2020, the worst quarterly slump on record, pushing the country into the deepest recession of any major global economy.
- tb This crash in GDP in the April-June period, compared with the first quarter, is the worst since quarterly records began in 1955. Industries most exposed to government lockdown measures to contain the coronavirus pandemic — services, production and construction — saw record drops.
- tb Compared with the end of 2019, UK economic output fell by a cumulative 22.1% in the first six months of 2020, a worse outcome than Germany, France and Italy, and double the 10.6% fall recorded in the United States, the Office for National Statistics said.
- tb The Bank of England projects the worst UK economic slump since 1706. The Bank said it expects UK gross domestic product to fall by 14% over 2020

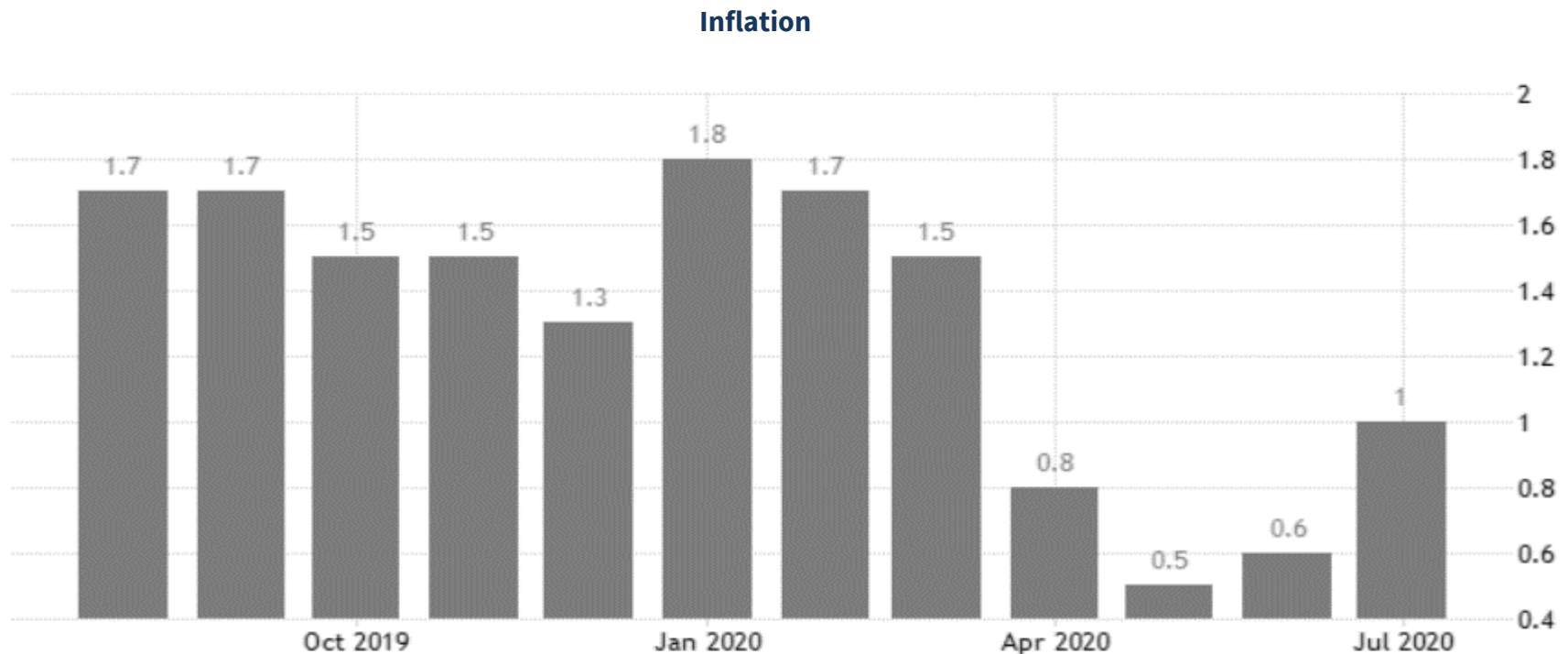
GDP Annual Growth



Source : TRADINGECONOMICS.COM

Inflation

- The consumer prices index rose 1% year on year from a 0.6% rise in June, Economists polled by Bloomberg had expected a rise of 0.7%
- The acceleration in the inflation rate between June and July was due to a slowing in the rate of decline in the prices of clothing, footwear and petrol.
- Bank of England policymakers have cut interest rates to historic lows in an attempt to bolster the economy. The central bank targets an inflation rate of 2%



Source : TRADINGECONOMICS.COM

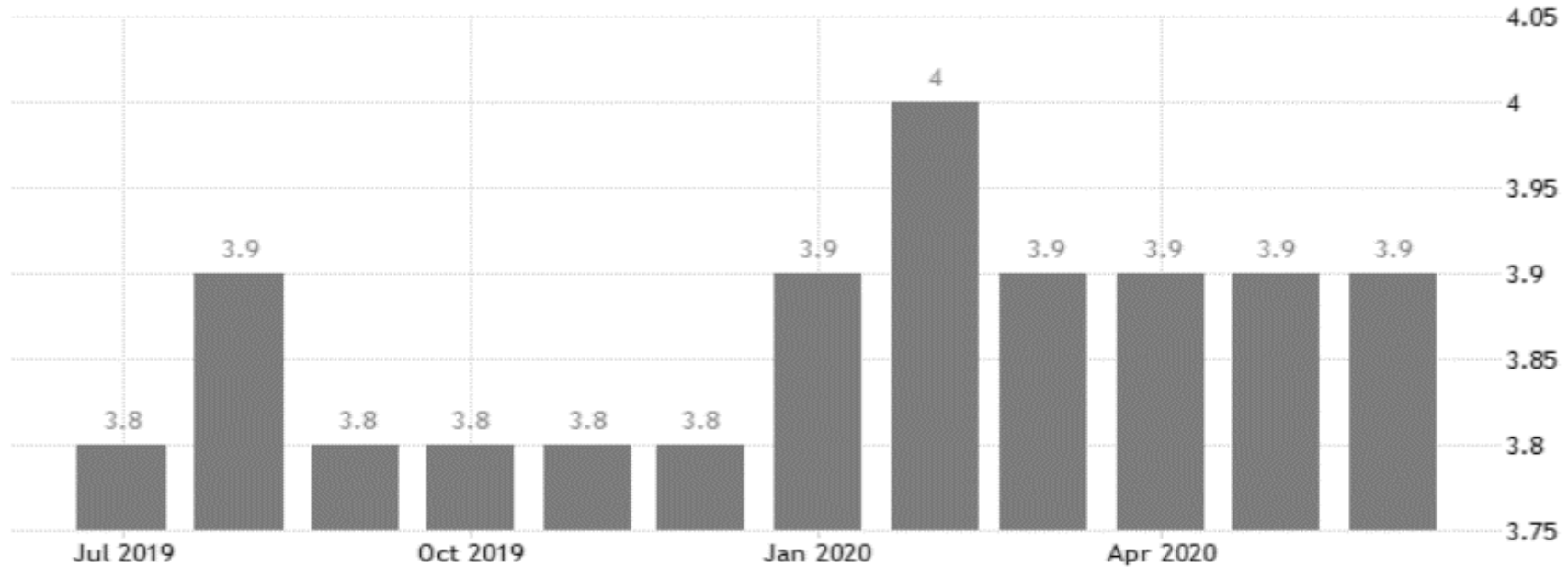
Unemployment Rate

The 3-month unemployment rate remained near record lows at 3.9% in June. The single-month rate fell from 4.1% in May to 3.8% in June.

Employment declined by 220,000 between April and June, the biggest quarterly decline since mid-2009. The decrease was driven by a fall in work rates for the over-65s, the self-employed, and part-time workers.

A record increase in full-time workers helped to offset the impact. The employment rate declined by 0.2 percentage points to 76.4%.

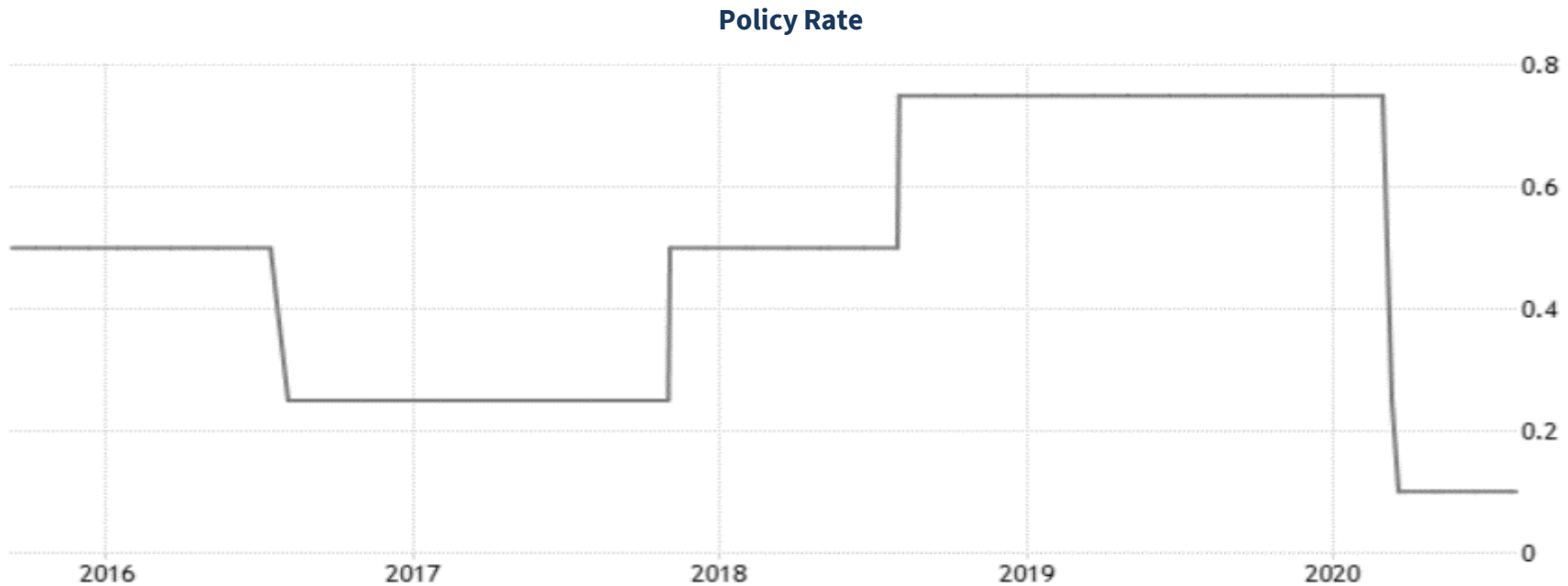
Unemployment Rate



Source : TRADINGECONOMICS.COM

Policy Rate

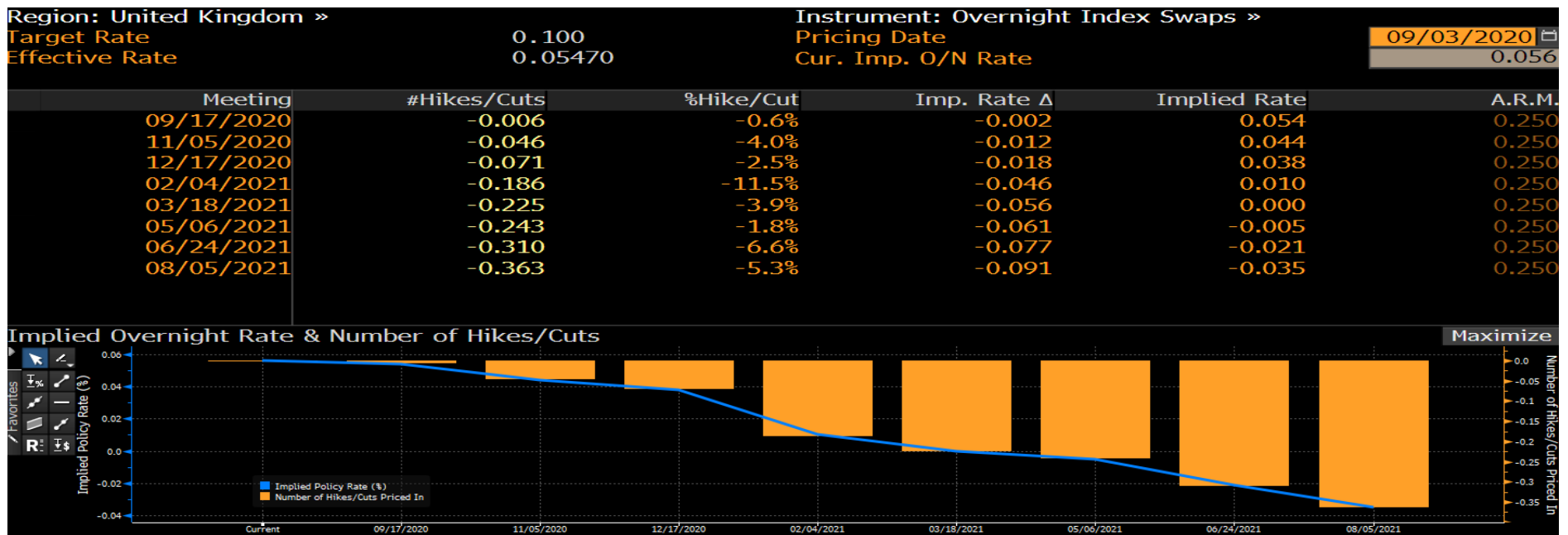
- The Bank of England (BoE) kept the interest rate unchanged at 0.1%, saying its challenge at present is to respond to the economic and financial impact of the COVID-19 pandemic.
- The BoE held the existing programs of British government and corporate bonds with a target of 745 billion pounds (977.8 billion U.S. dollars)
- Meanwhile, the BoE predicted that the unemployment rate will "rise materially" in the near term, reaching around 7.5% by the end of the year and declining gradually from the beginning of 2021 onwards. In terms of economic growth, the BoE stated that the gross domestic product (GDP) "is not projected to exceed its level in 2019 Q4 until the end of 2021."



Source : TRADINGECONOMICS.COM

BOE Interest Rate Forecasts

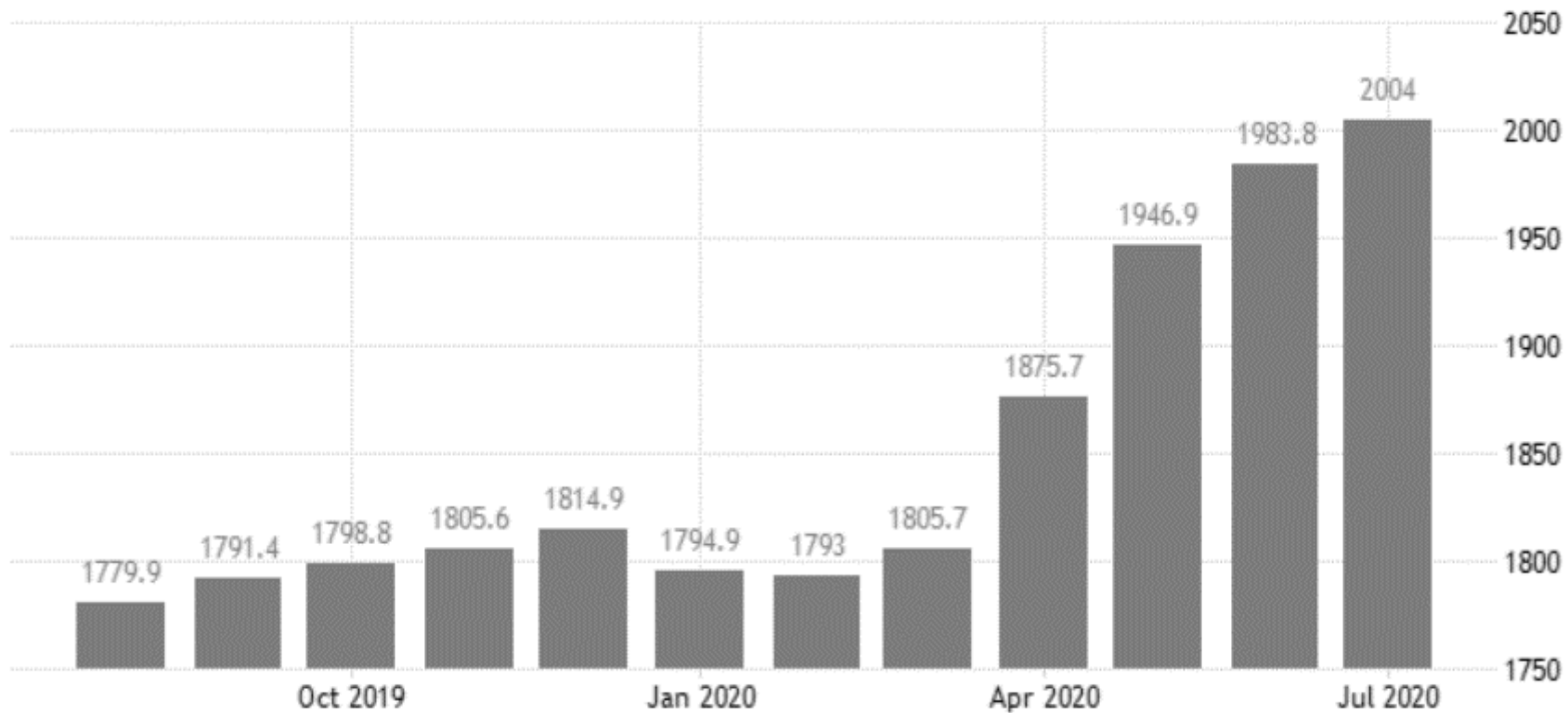
- BoE had estimated the level of Britain’s economic output would permanently be about 1.5 percentage points lower than it would have been without the pandemic.
- The BoE said in August it expected Britain’s economy to recover its pre-COVID-19 size by the end of next year.
- BoE Governor Andrew Bailey said inflation might not turn negative as forecasted by the BoE last month, citing evidence that many businesses had not passed a value-added tax cut on to customers as much as had been expected. “So that will tend to cause short-run inflation to be higher than we thought it would be, and it probably won’t now go negative.”



Source : Bloomberg Terminal

Public Sector Debt

- Public sector net debt, excluding public sector banks, crossed the GBP 2.0 trillion mark for the first time in July 2020, as the government stepped up efforts to support the economy hit by the pandemic.
- Gilts made up the largest component of debt. At the end of July there were GBP 1.68 trillion of central government gilts in circulation (including those held by the Bank of England Asset Purchase Facility Fund).



Source : TRADINGECONOMICS.COM

GBP/USD & EUR/GBP

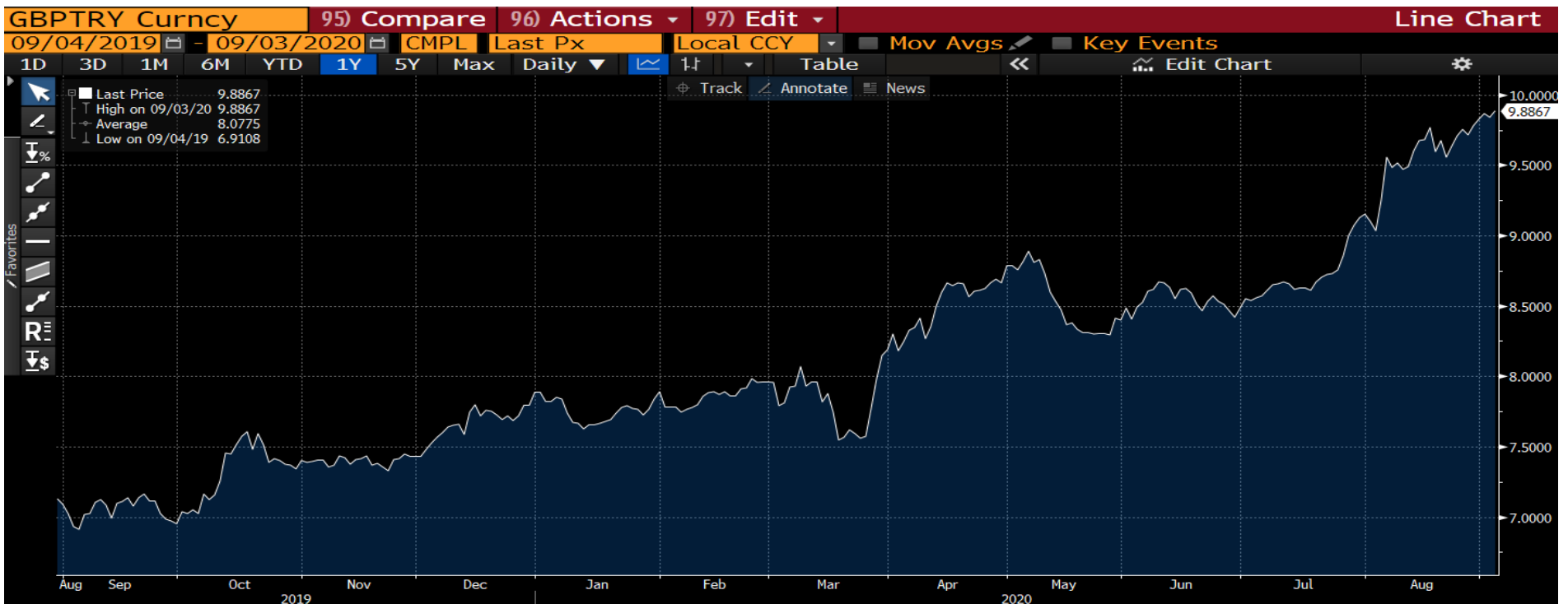
- In the GBP/USD parity, the Brexit process and trade wars have increased volatility in recent years. GBP/USD started 2020 at 1.32 levels, but due to the coronavirus, regressed sharply after the demand for the safe port dollar. The GBP/USD declined below the 1.15 level as the BOE cut interest rates and the epidemic started isolation practices in the British economy. The fall in the Dollar index in August continued with Powell's speech and the parity rose to the level of 1.32.
- The EUR/GBP rate started 2020 at 0.8450 levels. With the spread of the coronavirus in Europe and the fear that it will affect the macro indicators of the European region, the parity fell to 0.83 levels. The parity, which rose to 0.93 in March after the depreciation of the pound, decreased to 0.90 levels after the depreciation of the EUR because of the problems in the European Union.



Source : Bloomberg Terminal



GBP/TRY

- The GBP/TRY rate started the new year at 7.89 levels. The currency fell to 7.60 levels in the middle of January with the impact of the growth data of the UK economy being worse than expected and the deterioration in macro indicators.
- Due to the increase in the risks of developing countries with the effect of the epidemic, the parity increased to 8.81 levels at the beginning of April. With Turkey's external financing positive news flow and the decrease in Turkey's risk premium, the GBP/TRY fell to 8.45 levels. Finally, increasing pressure on TL caused TL to weaken and currency rose sharply to 9.85 level.



Source : Bloomberg Terminal

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