



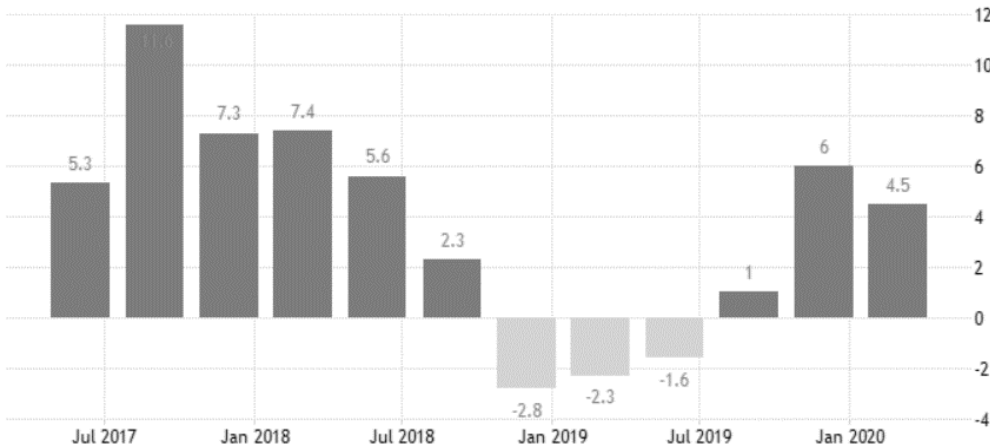
TURKISH ECONOMY

01.06.2020

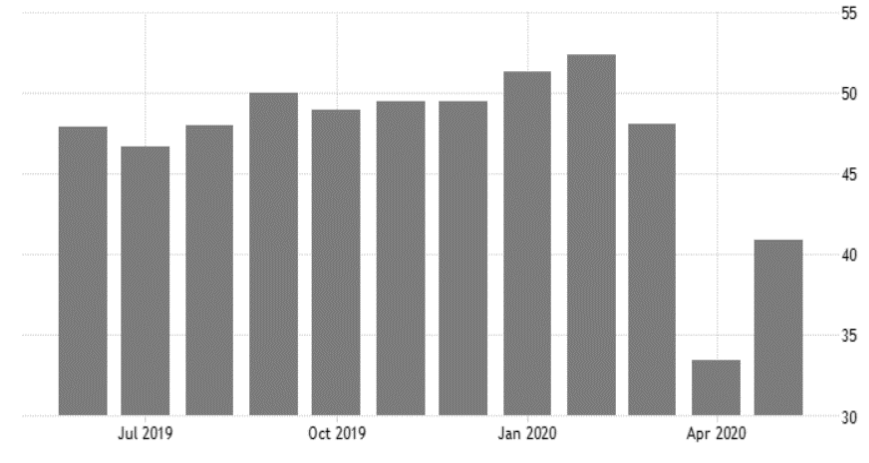
Growth

- 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 to 40.9 in May but continued to remain below the threshold 50. PMI data showed that the operating conditions in the sector continued to slow down due to the Covid-19 outbreak. The index had dropped to its lowest level since 2008 at 33.4 in April, due to the coronavirus pandemic.

GDP Annual Growth



Manufacturing PMI

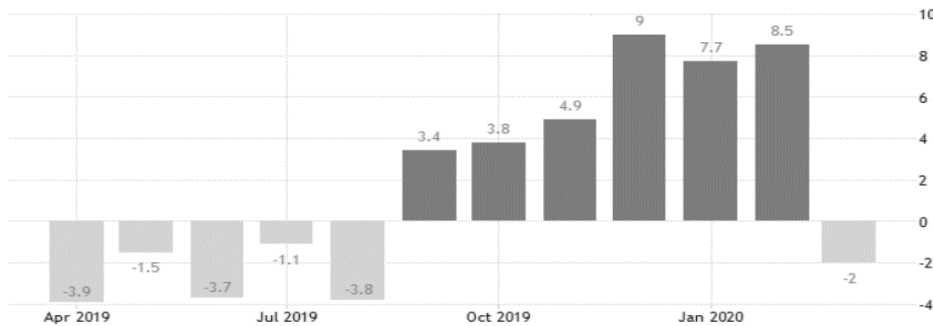


Source : TRADINGECONOMICS.COM

Leading Indicators

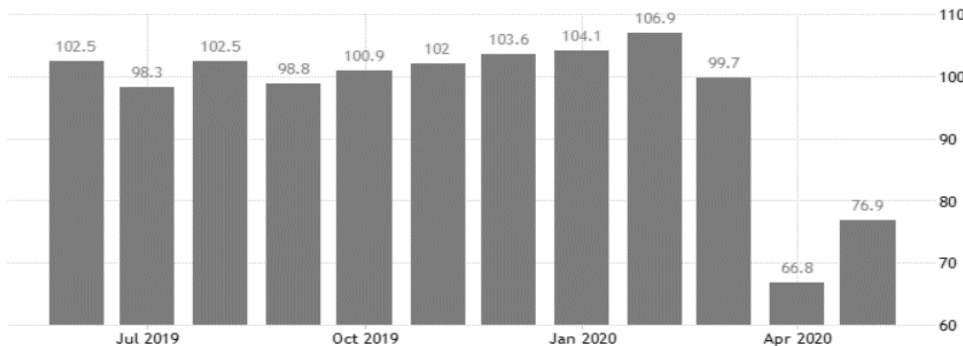
Industrial Production

Industrial production decreased 2.0% year-on-year in March 2020. March's result marked the worst reading since August 2019.



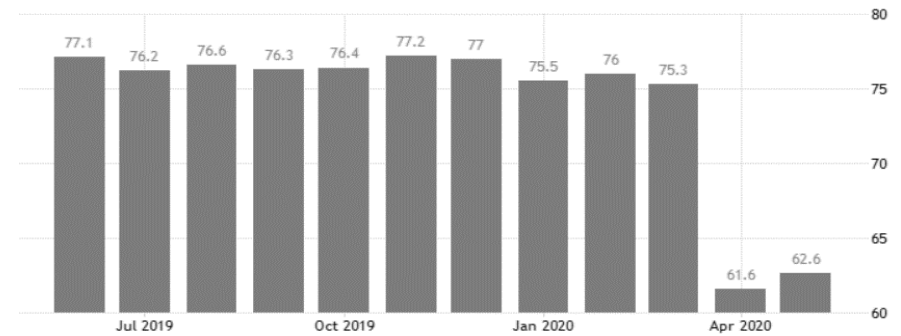
Business Confidence

The manufacturing confidence index rose to 76.9 in May of 2020 from an over 11-year low of 66.8 in the previous month.



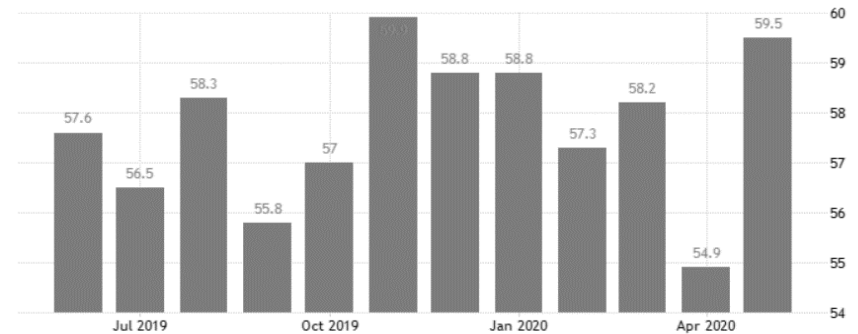
Capacity Utilization

Capacity Utilization in Turkey increased to 62.60 % in May from 61.60 % in April of 2020.



Consumer Confidence

The consumer confidence in Turkey increased to 59.5 in May of 2020 after reaching a record low of 54.9 in April due to the coronavirus pandemic.

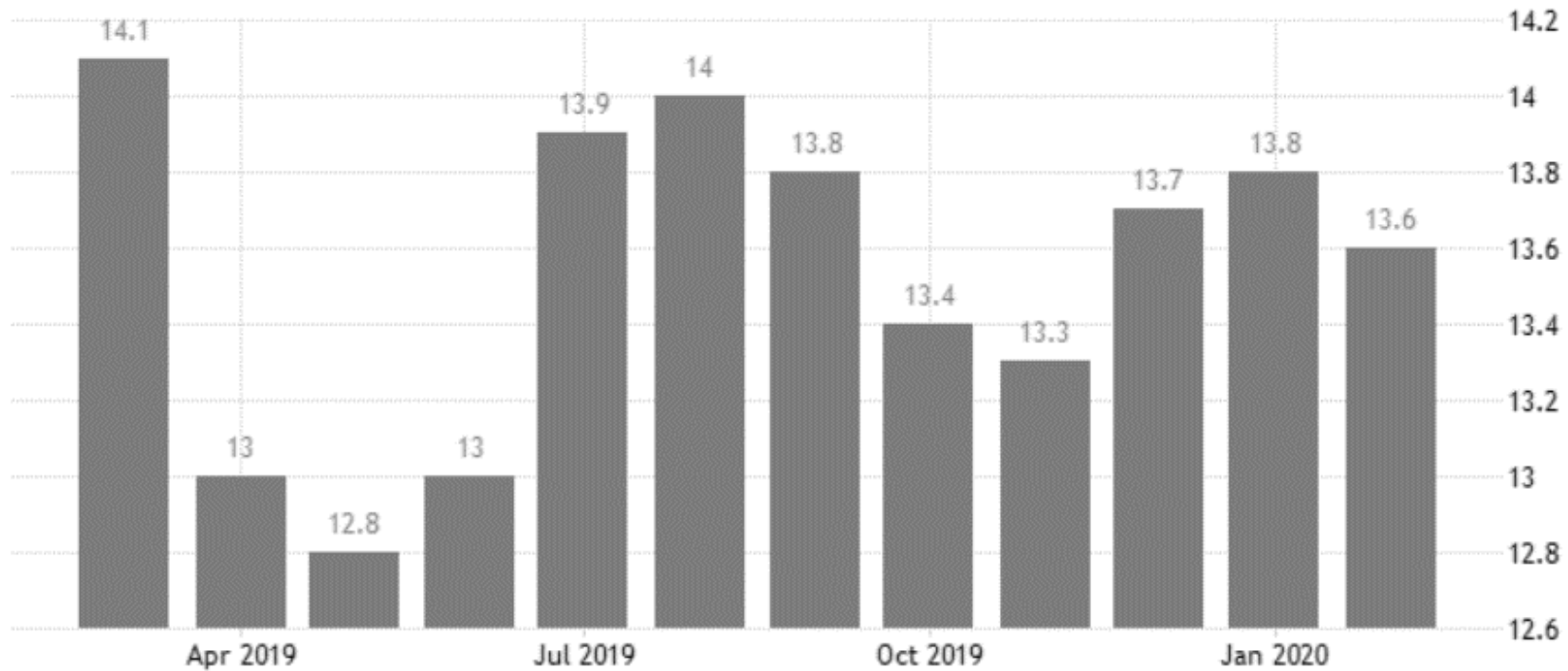


Source : TRADINGECONOMICS.COM

Unemployment Rate

- Unemployment in Turkey dropped to 13.6% this February, down 1.1 percentage points from the same month last year
- The number of unemployed persons age 15+ slipped by 502,000 year-on-year to 4.23 million by the end of February.
- The youth unemployment rate, including people age 15-24, was 24.4% in February, down 1.7 percentage points on a yearly basis.

Unemployment Rate

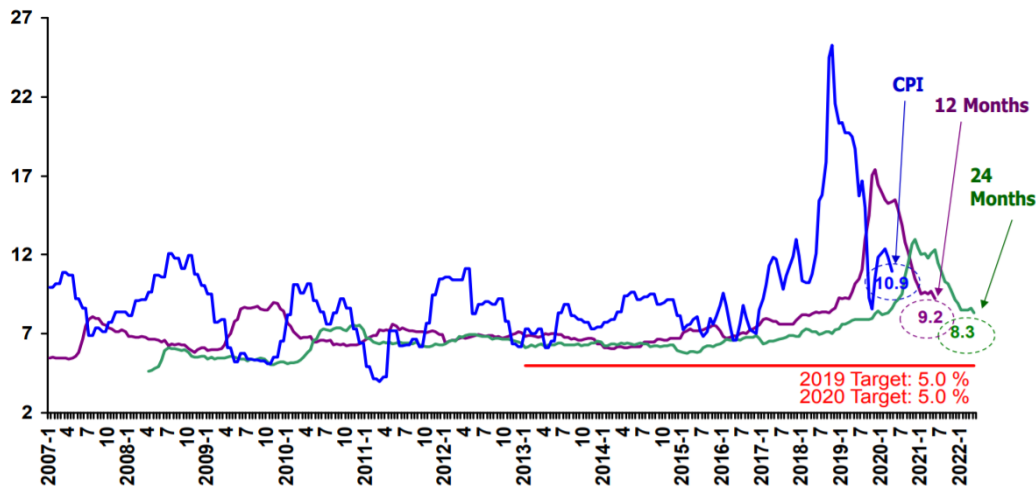


Source : TRADINGECONOMICS.COM

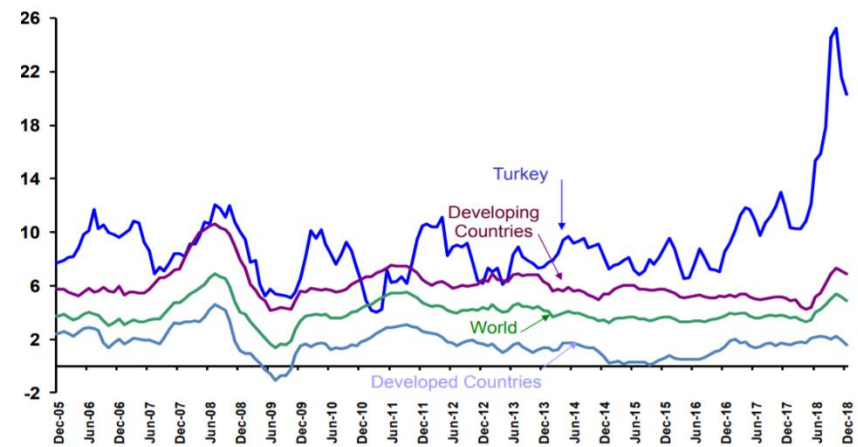
Inflation and Expectations

- Turkey's inflation rate dropped in April amid COVID-19. Annual inflation in April was at 10.94%, down from 11.86% in previous month
- The lowest annual price increase was registered in communication with 1.55% in April, while the highest rise was in alcoholic beverages and tobacco with 31.32%.
- The miscellaneous goods and services with 4.66% and clothing and footwear with 4.08% posted the highest monthly price increases.
- The data showed that the highest monthly decrease was 1.83% in the transportation sector.
- Turkey's Central Bank revised its year-end inflation forecast to 7.4% for 2020, down from 8.2%, thanks to a cut in projections of the output gap and food inflation. The government's year-end inflation target is 8.5% for 2020.

Inflation and Expectations*: (Annual % Change)



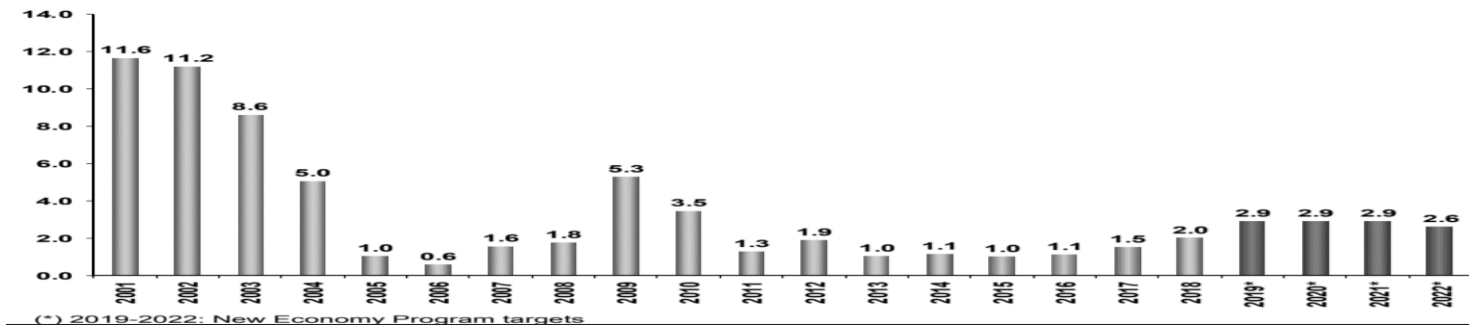
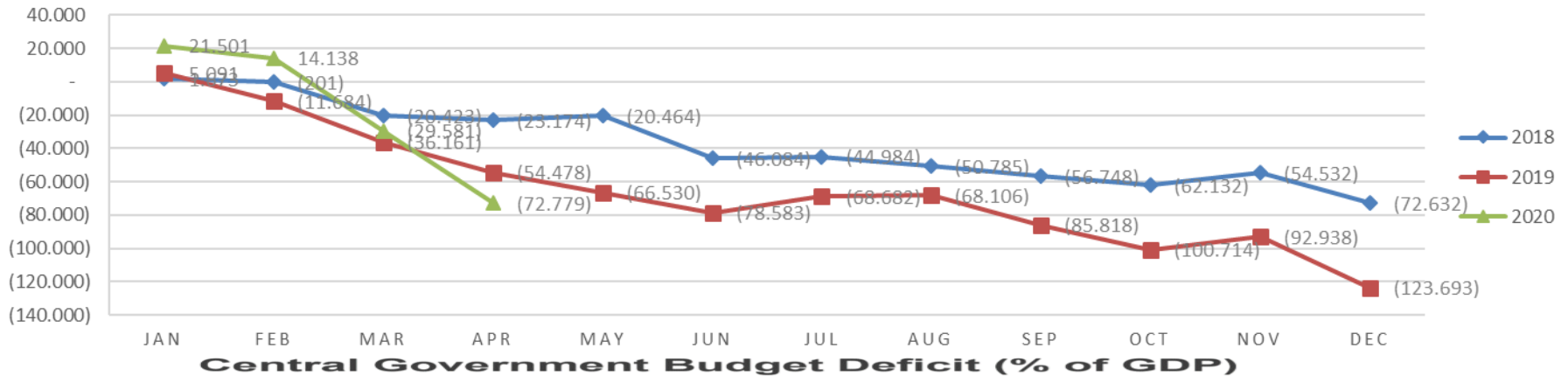
Inflation Developments in the World



Source : REPUBLIC OF TURKEY MINISTRY OF TREASURY AND FINANCE

Budget

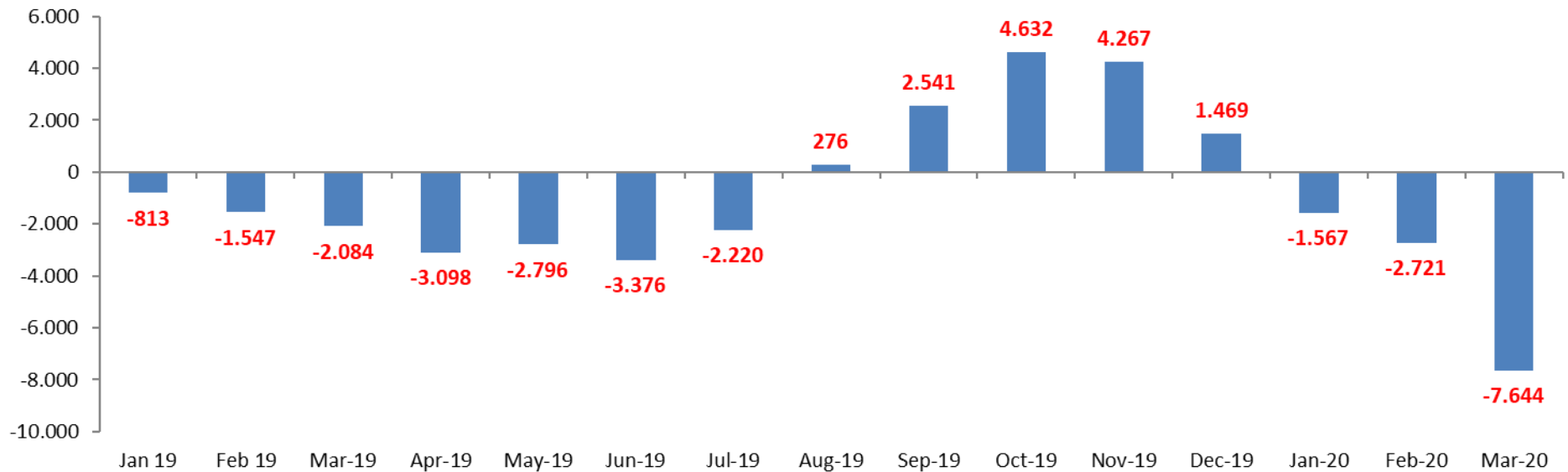
- tb The Turkish central government registered a 72.8 billion Turkish Lira (some \$11.6 billion) budget deficit in the January-April period.
- tb The country's budget revenues reached 321 billion Turkish Liras (\$51 billion) in the first quarter of this year, up 16% year-on-year.
- tb Budget expenditures rose 19% on an annual basis to hit 393.8 billion Turkish Liras (62.5 billion) from January to April – marking a 72.8 billion Turkish Lira (some \$11.6 billion) gap.
- tb Budget deficit to GDP ratio 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

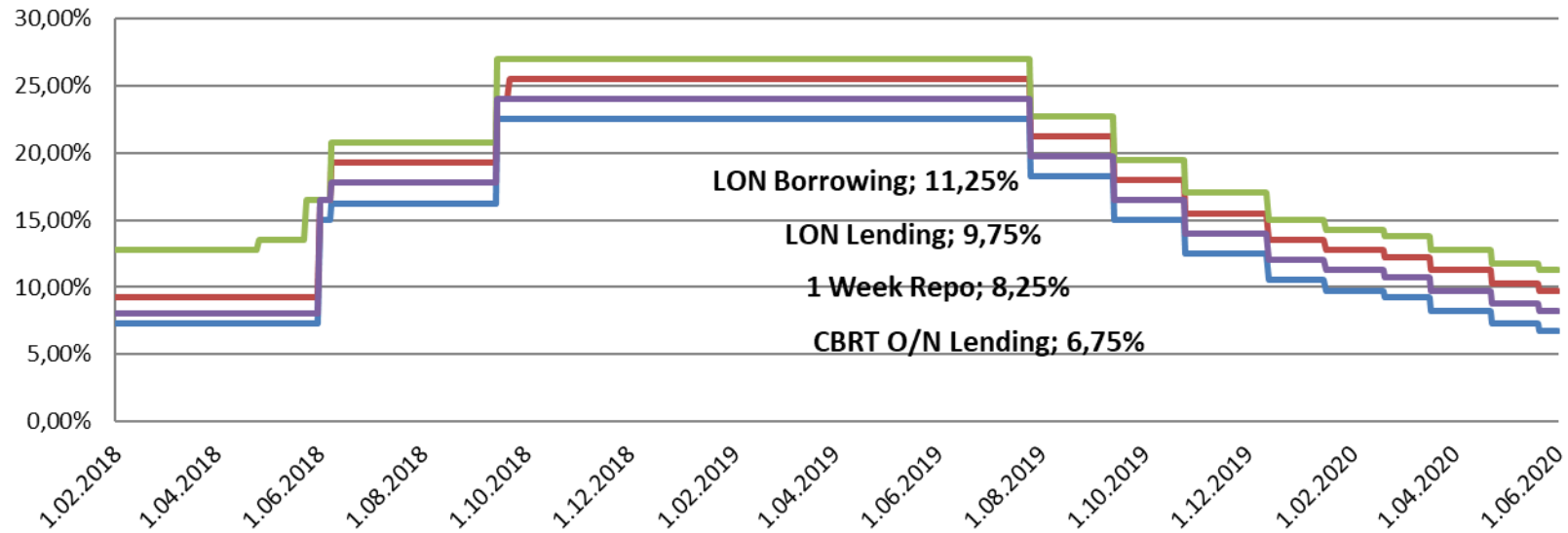
Current Account

- The current account posted a USD 4,923 million deficit in March 2020 in comparison to the USD 120 million deficit observed in the same month of 2019, decreasing the 12-month rolling surplus to USD 1,463 million.
- The goods gap increased to USD 4.29 billion from USD 0.74 billion a year ago, while the services surplus fell to USD 0.74 billion from USD 1.65 billion.
- Gold and energy excluded current account indicated USD 1,160 million deficit, in comparison to USD 3,930 million surplus observed in the same month of the previous year.



Policy Rate

CBRT increased interest rate cuts after the corona and the policy rate has been cut by 250 basis points in the last 3 meetings.



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

- As developments regarding the spread of the coronavirus substantially weaken global growth outlook, central banks in advanced and emerging economies continue to take expansionary measures.**
- Having displayed a strong upward trend in January and February, thanks to the improvement in financial conditions, economic activity has started to weaken in mid-March due to the effects of the coronavirus pandemic on external trade, tourism and domestic demand.**
- Developments in inflation expectations and domestic demand conditions have contributed to a mild trend in core inflation indicators. Despite the recent depreciation in the Turkish Lira due to global developments, international commodity prices, especially crude oil and metal prices, affect inflation outlook favorably.**

Currencies vs. Developing Countries

2019



Year to Date



31.12.2019-07.05.2020



07.05.2020-01.06.2020



Source : Bloomberg Terminal

USD / TL



Source : Reuters Eikon

- tb USDTRY 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 rised at 7.20 levels.
- tb Normalization process after the pandemic, and also to make the swap negotiations with other countries for Turkey's external financing needs led to the appreciation of TL. Finally, USD TL is traded at 6.80 levels.

01 January 2019 between 01 June 2020

High Level – 7,1961 (06 May 2020)
Low Level- 5,1606 (31 January 2019)

TURKEY 5Y CDS



Source : Reuters Eikon

- 📌 Turkey's five-year credit default swap (CDS) premium is 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 indicating the best risk appetite of 20 months, continues between 520-560 points.

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, policy rate decreased to 8.25%. – 21 May 2020
- The CBRT also launched the largest bond buying program in its history. In this context, CBRT determined the nominal size of the Open Market Operations (OMO) portfolio as 5 % of the balance sheet size on December 6, and now increased this rate to 10 %. In addition, the CBRT purchased the bonds in the portfolio of the unemployment fund. – 17 April 2020
- The CBRT is continuing its auctions for dollar equivalent swap auctions, which are held with 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. In 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 was 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 Banks Association of Turkey

- 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
- 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
- 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

Disclaimer:

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