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Global Economy

International organizations are improving their forecasts of contraction in global economic activity for 2020. OECD has revised its 2020 contraction forecast from 6% to 4.5%, and Fitch from 4.6% to 4.4%.

On the other hand, the increase in the number of coronavirus cases continues worldwide. While the negative course of the pandemic in South American countries and India draws attention, developments pointing to the beginning of the second wave in many countries lead restrictive measures to come back on the agenda.

Central banks of advanced countries did not change their interest rates and asset purchase programs in their September meetings and they signaled that supportive policies will be maintained.

Presidential election to be held in the USA in November is coming to the forefront on the agenda. In addition, developments regarding the coronavirus stimulus package are closely monitored.

Gradual recovery in the third quarter drew attention in the US economy, which completed the second quarter with a record contraction. Despite the positive production data, the weakness in the employment market continues.

Before the Brexit, which will take place at the end of the year, the EU and the UK have not yet reached a compromise regarding trade relations and Northern Ireland. This situation leads no-deal Brexit possibility to rise again.

Recovery in the Euro Area is weaker compared to the rest of the world. Due to this weakness in economic activity, annual deflation in the Area became -0.3% in September.

While gold prices declined in September due to the strengthening of the US dollar, oil prices were also under pressure because of the weakness in global macroeconomic outlook and countries' failure to comply with production cuts.

Turkish Economy

Although decreasing by 1.5 points to 52.8 mom in September, manufacturing PMI pointed out that the growth in the sector has been continuing for four consecutive months.

According to the calendar adjusted data, industrial production increased by 4.4% yoy in July. The monthly rise in the industrial production became 8.4% according to the seasonal and calendar adjusted data.

Due to the decline in transportation and tourism revenues, the current account balance posted a deficit of 1.8 billion USD in July. According to the 12-month cumulative data, the current account deficit became 14.9 billion USD reaching its highest level since December 2018.

Thanks to the recovery in economic activity led by the realization of delayed demand and the collection of taxes postponed during the pandemic, the central government budget posted a surplus (28.2 billion TRY) in August for the first time since January.

In September, CPI increased by 0.97% mom, while annual CPI inflation continued its flat course since July and was realized at 11.75%. In this period, domestic PPI rose by 2.65% mom and 14.33% yoy, reaching the highest level since July 2019.

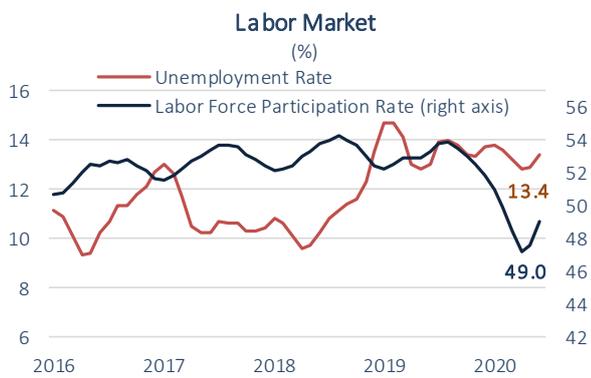
The CBRT increased the policy rate by 200 basis points from 8.25% to 10.25%. BRSA took steps within the scope of normalization steps.

The New Economy Program covering the period 2021-2023 was announced.

Leading Indicators

Unemployment rate became 13.4% in June.

Unemployment rate in Turkey increased by 0.4 points yoy to 13.4% in June. During this period, falling by 4.3 points yoy labor force participation rate became 49%. Total employment decreased by 2 million people on an annual basis. The decline in employment of 1.3 million people in the services sector was determinant in this development. In the same period, employment decreased by 319K people in the industry sector, 274K people in the agricultural sector and 91K people in the construction sector. "Broad unemployment rate", which is calculated by the inclusion of seasonal workers and people who are ready to work but have not applied for a job for the last 4 weeks, came in at 24.9% in this period. The youth unemployment rate between aged 15-24 years rose by 1.3 pts yoy and became 26.1%, while the youth employment rate fell by 6.0 pts to 28.2%.

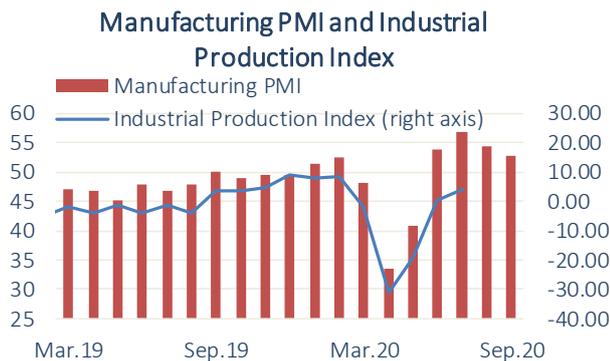


Industrial production increased 4.4% yoy in July.

According to the calendar adjusted data, industrial production expanded by 4.4% yoy in July. During this period, the production of mining and quarrying sector decreased by 4.9%, while the indices of manufacturing industry sector and electricity, gas, steam and air conditioning production and distribution sector increased by 5.1% and 1.4%, respectively. In July, thanks to the realization of delayed demand there was a rapid annual rise (19.2%) in the production of durable goods. Losing some pace when compared to May and June, industrial production index increased by 8.4% mom according to the seasonally and calendar adjusted data.

Manufacturing PMI became 52.8 in September.

Turkey's manufacturing PMI decreased by 1.5 points to 52.8 in September, but indicated that growth in the sector has been continuing for four consecutive months. When the sub-items of the index were analyzed, thanks to the rise in production and new orders, the rise in new hiring was found



to be the highest since February 2018. On the other hand, due to the depreciation of TRY, input cost inflation reached its highest level since October 2018, while final product prices posted the fastest rise in two years.

Confidence indices...

TURKSTAT announced a revision in the calculation method of the Consumer Confidence Index. In line with the recommendations of the European Commission's Directorate General of Economic and Financial Affairs, according to the amendment made to ensure the international comparability of the index, as of September, the "expectation for the number of unemployed" and the "possibility of saving" subindices for the 12-month period were removed from the consumer confidence index calculations. "Financial situation of the household in the current period compared to the previous 12-month period" and "the thought of spending on durable consumption goods in the next 12 months" sub-indices were added to the index. Seasonally adjusted Consumer Confidence Index, determined with the revised method, increased by 3.2% mom in September and reached the value of 82.

Although falling by 0.9 pts mom to 105.3 in September, the real sector confidence index continued its course above the threshold level of 100 for three consecutive months. The capacity utilization rate of the manufacturing sector, which has displayed an upward trend since May, went up by 1.3 points mom to 74.6% in September. In this period, confidence increased by 6.4% mom in the services sector and decreased by 1.5% mom and 2.0% mom in the retail and construction sectors, respectively.

House sales rose by 54.2% yoy in August.

The rise in house sales, which reached all-time high levels in July thanks to the low interest rates and the realization of delayed demand, lost some momentum in August. In this period, house sales surged by 54.2% yoy to 170K units, while the share of mortgaged sales in total house sales became 44.6%. In the first 8 months of this year, house sales rose by 42.6% yoy to 1.02 million units. In the same period, mortgaged house sales went up by 263.7% yoy to 473K units, while other types of sales declined by 6.3% to 551K units. In July, residential property price index (RPPI) increased by 1.4% mom, while posting an annual increase of 25.8%. The annual rise in RPPI became 12.6% in real terms.

Automotive production increased by 44.3% mom.

Parallel to house sales white good sales also increased in August. In this period, domestic white good sales rose by 20.9% yoy. While the exports of the sector contracted by 9.3% yoy in unit terms, production expanded by 11.0% yoy.

According to the data announced by the Automotive Manufacturers Association, automotive production increased by 44.3% yoy thanks to the vivid domestic demand in August. In this period, exports fell by 21.5% yoy to 42.865 units. In January-August period, automotive production shrank by 22.7% yoy to 712,098 units, while exports declined by 35.1% yoy to 523,288 units.

Source: Turkstat, CBRT, Datastream, Ministry of Treasury and Finance

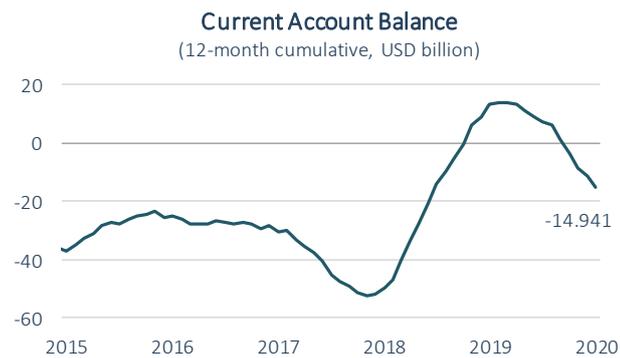
Foreign Trade and Balance of Payments

Foreign trade deficit widened rapidly in August.

According to TURKSTAT, exports declined by 5.7% yoy to 12,5 billion USD in August, while imports rose by 20.4% yoy to 18.7 billion USD. Thus, foreign trade deficit widened rapidly by 168% yoy and became 6.3 billion USD, the highest level since May 2018. During January-August 2020 exports and imports declined by 12.9% yoy and 1.2% yoy, respectively. The foreign trade deficit rose by 70% yoy in this period. Import coverage ratio, which was 85.9% in January-August 2019, fell to 75.6% in the same period of this year.

In July current account gave 1.8 billion USD deficit.

Current account, which posted a surplus of 2 billion USD in July 2019, gave a deficit of 1.8 billion USD in the same month of this year. The decline in net services revenues by 4.6 billion USD compared to the same month of last year due to the decrease in transportation and tourism revenues played role in the widening of the current account deficit. In July, 12-month cumulative current account deficit reached 14.9 billion USD, the highest level since December 2018.



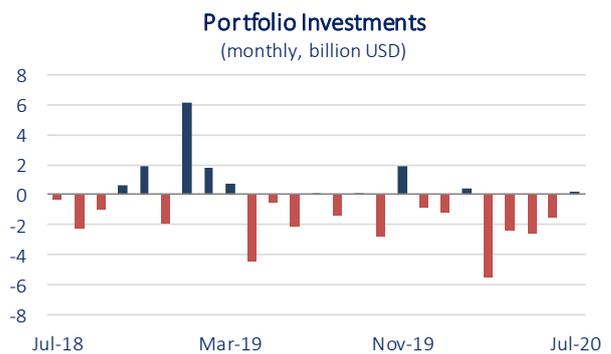
Direct Investments...

Foreign direct investments item, which had a limited capital outflow (1 billion USD) in June, recorded a net capital inflow of 226 million USD in July. In this period, the net inflow in equity capital became 831 million USD,

the highest inflow since December 2018. The capital inflow of 631 million USD in the information and communication services sector was effective in this development.

Net inflows in portfolio investments...

After having recorded outflows since March, portfolio investments had an inflow of 254 million USD in July. In this period, nonresidents made net sales of 467 million USD in the stock market and 390 million USD in debt securities market. In this period, non-residents' purchases of bank bonds worth of 579 million USD supported the inflows under the portfolio investments.



Following a total outflow of 5.3 billion USD in June, other investments recorded a net capital inflow of 3.2 billion USD in July. In this period, deposits of domestic banks at their foreign correspondents decreased by 1.2 billion USD, while foreign banks' deposits at domestic banks rose by 1.2 billion USD. In July, banks, which borrowed short term loans, were paying back their long-term loans and they realized net borrowings of 73 million USD in total. In this period, other sectors made net loan repayments of 508 million USD repaying both short and long term foreign loans. Thus, according to 12-month cumulative figures, the long-term debt roll-over ratios became 78% in the banking sector and 74% in other sectors as of July.

Net Capital Inflows

| | 12-month Cumulative (million USD) | | Breakdown of Net Capital Inflows (%) | |
|--|--------------------------------------|----------------|---|-------------|
| | Dec. 2019 | Jul. 2020 | Dec. 2019 | Jul. 2020 |
| Current Account Balance | 8,830 | -14,941 | 58.7 | - |
| Total Net Foreign Capital Inflows | 4,970 | -1,671 | - | - |
| -Direct Investment | 5,863 | 4,306 | 39.0 | 10.1 |
| -Portfolio Inflows | -1,246 | -15,397 | - | - |
| -Other Investments | 319 | 9,439 | 2.1 | 22.1 |
| -Other | 34 | -19 | 0.2 | - |
| Net Errors and Omissions | -7,476 | -12,431 | - | - |
| Reserves(1) | -6,324 | 29,043 | - | 67.9 |

Note: The numbers may not add up total due to rounding.

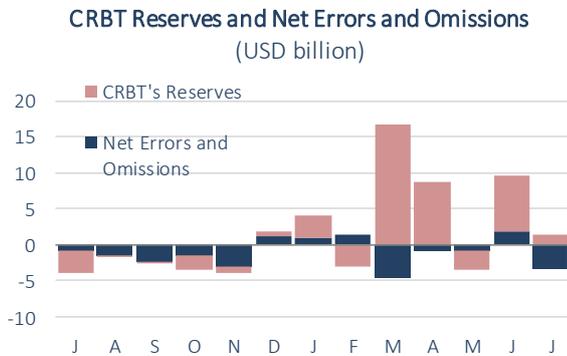
(1) (-) sign indicates an increase in reserves, while (+) sign indicates decrease.

Source: CBRT, Datastream

Foreign Trade and Balance of Payments

Reserves decreased by 1.3 billion USD in July.

Reserve assets, which decreased by 7.7 billion USD in June, declined by 1.3 billion USD in July. Thus, the fall in reserve assets in the first 7 months of the year reached 31.4 billion USD. In this period, net errors and omissions posted a capital outflow of 3.2 billion USD.



Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports increased by 4.8% yoy and became 16.1 billion USD in September, while imports rose by 23.3% to 20.9 billion USD. Thus, the foreign trade deficit widened rapidly by 193% yoy in this period. While the negative effects of the pandemic continues both on exports and tourism, the rise in gold imports increases total imports. According to the New Economy Program announced at the end of September, the current account deficit is expected to be 24.4 billion USD by the end of this year. Thus, the ratio of current account deficit to GDP, which was 1.2% at the end of 2019, is expected to be -3.5% by the end 2020.

Balance of Payments

| | Jul. | Jan. - Jul. | | (USD million) |
|-------------------------------------|---------------|--------------|----------------|---------------------------------|
| | 2020 | 2019 | 2020 | % 12-month Change Cumulative |
| Current Account Balance | -1,817 | 2,142 | -21,629 | - |
| Foreign Trade Balance | -1,853 | -9,250 | -20,116 | 117.5 |
| Services Balance | 288 | 18,054 | 3,963 | -78.0 |
| Travel (net) | 328 | 12,175 | 3,051 | -74.9 |
| Primary Income | -332 | -6,943 | -5,293 | -23.8 |
| Secondary Income | 80 | 281 | -183 | - |
| Capital Account | 2 | 35 | -18 | - |
| Financial Account | -4,996 | 2,022 | -26,757 | - |
| Direct Investment (net) | -226 | -3,711 | -2,154 | -42.0 |
| Portfolio Investment (net) | -254 | -1,698 | 12,453 | - |
| Net Acquisition of Financial Assets | -606 | 3,212 | -1,693 | - |
| Net Incurrence of Liabilities | -352 | 4,910 | -14,146 | - |
| Equity Securities | -467 | 946 | -4,437 | - |
| Debt Securities | 115 | 3,964 | -9,709 | - |
| Other Investment (net) | -3,233 | 3,465 | -5,655 | - |
| Currency and Deposits | -3,115 | 3,207 | -13,154 | - |
| Net Acquisition of Financial Assets | -1,165 | 9,577 | 1,428 | -85.1 |
| Net Incurrence of Liabilities | 1,950 | 6,370 | 14,582 | 128.9 |
| Central Bank | 560 | 544 | 11,773 | 2,064.2 |
| Banks | 1,390 | 5,826 | 2,809 | -51.8 |
| Foreign Banks | 1,168 | 3,357 | 1,605 | -52.2 |
| Foreign Exchange | 430 | 2,973 | -1,585 | - |
| Turkish Lira | 738 | 384 | 3,190 | 730.7 |
| Non-residents | 222 | 2,469 | 1,204 | -51.2 |
| Loans | 356 | 8,580 | 7,624 | -11.1 |
| Net Acquisition of Financial Assets | -42 | -54 | -202 | 274.1 |
| Net Incurrence of Liabilities | -398 | -8,634 | -7,826 | -9.4 |
| Banking Sector | 73 | -6,481 | -3,704 | -42.8 |
| Non-bank Sectors | -508 | -1,595 | -3,760 | 135.7 |
| Trade Credit and Advances | -472 | -8,286 | -115 | -98.6 |
| Other Assets and Liabilities | -2 | -36 | -10 | -72.2 |
| Reserve Assets (net) | -1,283 | 3,966 | -31,401 | - |
| Net Errors and Omissions | -3,181 | -155 | -5,110 | 3,196.8 |

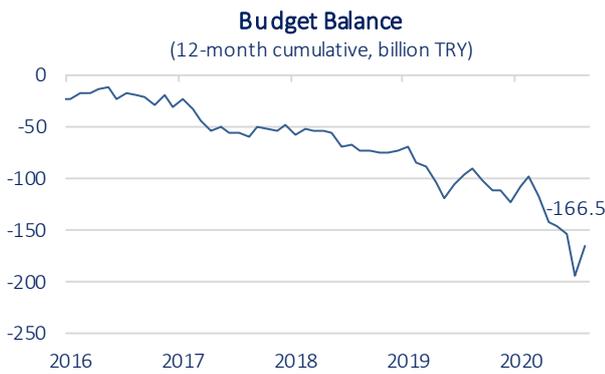
Source: CBRT, Datastream

Budget Balance

The central government budget posted a surplus of 28.2 billion TRY in August.

The central government budget, which had a surplus of 576 million TRY in August 2019, posted a surplus of 28.2 billion TRY in the same period of this year. Thus, in August 2020, the budget posted a surplus for the first time since January. In August, budget revenues increased by 15.1% yoy to 108.6 billion TRY, while budget expenditures decreased by 14.3% yoy to 80.3 billion TRY. The primary surplus, which was 11.4 billion TRY in August 2019, became 40.1 billion TRY in August 2020.

In January-August period, budget expenditures expanded by 15.6% yoy, while revenues increased by 10.1%. Thus, the budget deficit, which was 68.1 billion TRY in the first 8 months of last year, rose by 62.9% in the same period of this year and reached 110.9 billion TRY. The primary balance, which posted a surplus of 1.2 billion TRY in January-August 2019, gave a deficit of 19.3 billion TRY in the same period of this year. According to 12-month cumulative data, the central government budget deficit, which reached a historically high level of 194.2 billion TRY in July, became 166.5 billion TRY as of August 2020.

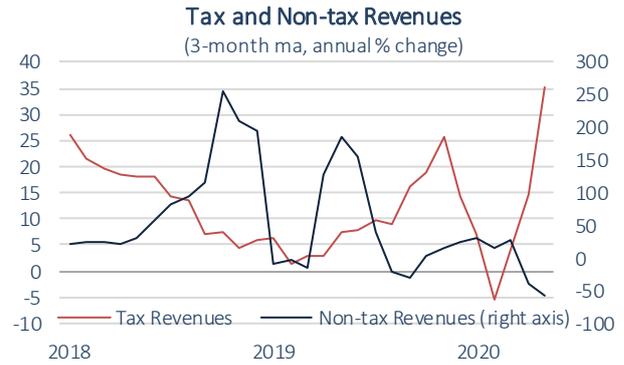


Tax revenues rose rapidly in August.

In August, tax revenues increased by 47.8% yoy and became 98.5 billion TRY. The rapid rises in corporate tax and special consumption tax revenues stood out in August. Corporate tax revenues increased by 10.9 billion TRY on an annual basis thanks to the realization of postponed collections, while SCT revenues rose by 9.3 billion TRY and supported the budget revenues. The rise

in SCT revenues realized from motor vehicles and durable goods was significant as in these sectors high sales figures were achieved, in August. In addition, VAT on imports and domestic VAT revenues went up by 38.2% yoy and 56.6% yoy in August, respectively. In this period, non-tax revenues decreased by 63.5% yoy. The high base effect from the last year was effective in this development.

In January-August 2020, tax revenues increased by 18% yoy to 510.4 billion TRY, while non-tax revenues decreased by 11.3% and became 140.1 billion TRY.



Current transfers declined in August.

Among the budget expenditures, the rapid decreases in current transfers and capital expenditures stood out in August. In this period, a 50% decrease in real estate capital and production expenditures under capital expenditures was noteworthy. The interest expenditures increased by 9.5% yoy and became 11.9 billion TRY in August.

Expectations...

In addition to the recovery in economic activity led by the realization of delayed demand, the collection of taxes, which were postponed during the pandemic, increased tax revenues in August and supported the budget outlook. The course of the pandemic and its reflections on economic activity will continue to be effective on budget indicators in the upcoming period.

Central Government Budget

(billion TRY)

| | August | | | January-August | | | 2020 Budget | |
|---------------------------|-------------|--------------|----------------|----------------|---------------|-------------|----------------|------------------|
| | 2019 | 2020 | % Change | 2019 | 2020 | % Change | Target | Real./Target (%) |
| Expenditures | 93.7 | 80.3 | -14.3 | 658.8 | 761.4 | 15.6 | 1,095.5 | 69.5 |
| Interest Expenditures | 10.9 | 11.9 | 9.5 | 69.3 | 91.6 | 32.1 | 138.9 | 65.9 |
| Non-Interest Expenditures | 82.8 | 68.4 | -17.4 | 589.5 | 669.8 | 13.6 | 956.5 | 70.0 |
| Revenues | 94.3 | 108.6 | 15.1 | 590.7 | 650.5 | 10.1 | 956.6 | 68.0 |
| Tax Revenues | 66.6 | 98.5 | 47.8 | 432.7 | 510.4 | 18.0 | 784.6 | 65.1 |
| Other Revenues | 27.7 | 10.1 | -63.5 | 158.0 | 140.1 | -11.3 | 172.0 | 81.5 |
| Budget Balance | 0.6 | 28.2 | 4,797.1 | -68.1 | -110.9 | 62.9 | -138.9 | 79.9 |
| Primary Balance | 11.4 | 40.1 | 250.7 | 1.2 | -19.3 | - | 0.1 | - |

Numbers may not add up to total value due to rounding.

Source: Datastream , Ministry of Treasury and Finance

Inflation

Monthly CPI came in at 0.97% in September.

In September, CPI increased by 0.97% compared to previous month, and remained below the expectations. The market's CPI expectation for this period was 1.35%. The monthly rise in domestic PPI (D-PPI) reached its highest level since May 2019, with 2.65%.

Annual D-PPI inflation increased to 14.33%.

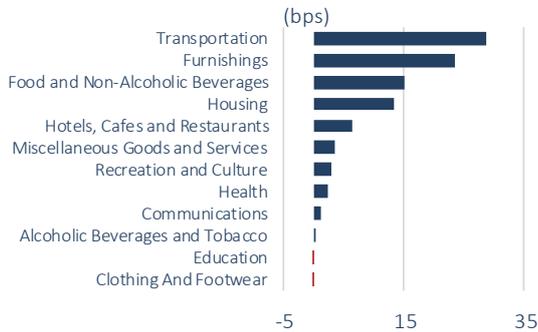
Annual CPI inflation continued its flat course since July and was realized at 11.75% in September. PPI inflation, which is accelerating since June, reached the highest level (14.33%) since July 2019.

| September (change %) | CPI | | D-PPI | |
|-------------------------|-------|-------|-------|-------|
| | 2019 | 2020 | 2019 | 2020 |
| Monthly | 0,99 | 0,97 | 0,13 | 2,65 |
| Year-to-Date | 8,42 | 8,33 | 6,53 | 13,44 |
| Annual | 9,26 | 11,75 | 2,45 | 14,33 |
| Annual Average | 18,27 | 11,47 | 26,44 | 7,71 |

Prices in education and clothing-footwear group decreased slightly on a monthly basis.

In September, prices in 10 out of the 12 main spending groups rose compared to the previous month, while a limited decrease was observed in education and clothing&footwear prices. In this period the transportation group, where prices rose by 1.84% mom due to the increase in the prices of motor cars, pulled inflation up by 29 basis points. The prices in furnishing group also increased rapidly by 3.02% mom, pulling inflation up by 23 basis points. The prices of food and non-alcoholic beverages, which increased by 0.66% in this period, contributed 15 basis points to monthly CPI inflation, while housing prices rose by 0.93% and contributed 13 basis points. Because of the extension of the tourism season, the rise in hotels, cafes and restaurants prices also made an upward contribution to the inflation by 6 basis points.

Contributions to the Monthly CPI Inflation

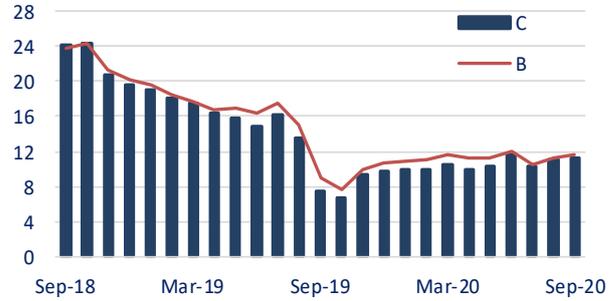


Increase in core inflation indicators...

Monthly CPI inflation, excluding seasonal products, was 1% in September, close to headline inflation. In September, CBRT's favorite core inflation indicators, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold), and C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic

beverages, tobacco and gold) rose faster than the headline inflation by 1.35% mom and 1.33% mom, respectively. In September, annual rises in B and C indices came in higher than the previous month, 11.57% and 11.32%, respectively.

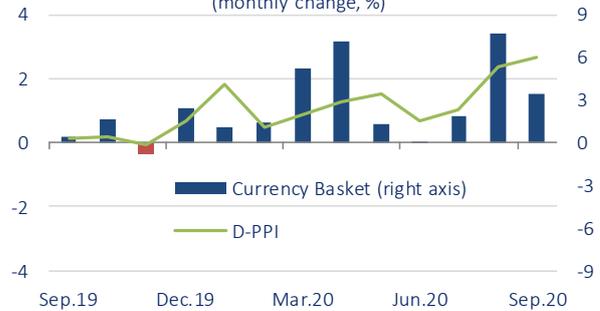
Special CPI Aggregates (annual % change)



Basic metals and food prices made a high contribution to D-PPI inflation.

Analysis of sub-sectors revealed that basic metals group made the highest contribution to the monthly D-PPI inflation with 58 basis points, while the second highest contribution came from the food products sector with 40 basis points. On the other hand, coke and refined petroleum products sector, where prices decreased by 1.66%, was the only sub-sector that limited the monthly D-PPI inflation. Among the main industrial groups, intermediate and capital goods prices increased by 3.6% mom and 2.9% mom, respectively, while prices of durable goods rose by 2.6%.

Currency Basket and D-PPI (monthly change, %)



Expectations...

The rise in FX rates since August and its reflection on producer prices may increase the risks on consumer inflation in the coming months. On the other hand, CBRT's recent steps to tighten monetary policy may be a factor that balances these risks. The year-end inflation forecast is 10.5% in the New Economy Program announced in late September. Furthermore, the forecasts of the last Inflation Report of the year to be released by the CBRT at the end of this month will be significant in providing insights regarding the policies to be pursued in the coming period.

| | 31-Aug | 30-Sep | Change |
|------------------------|--------|--------|----------|
| 5-Y CDS (basis points) | 523 | 530 | 7 bps ▲ |
| TR 2-Y Benchmark Yield | 13.21% | 13.31% | 10 bps ▲ |
| BIST-100 | 1,079 | 1,145 | 6.2% ▲ |
| USD/TRY | 7.3466 | 7.7157 | 5.0% ▲ |
| EUR/TRY | 8.7718 | 9.0485 | 3.2% ▲ |
| Currency Basket* | 8.0592 | 8.3821 | 4.0% ▲ |

(*) (0.5 USD/TL + 0.5 EUR/TL)

Downward trend in global stock markets in September.

Due to the concerns regarding the course of the pandemic and the mixed signals from the global data releases on economic activity, global stock markets followed a downward trend in September. The Fed's warning of uncertain economic recovery led to a deterioration on global risk appetite.

BIST-100 and Emerging Market Index
(12/31/18=100)



BIST-100 rose by 6.2% in September.

Following an upward trend BIST-100 diverged positively from global markets in September. The index closed the month at 1,145 points with an increase of 6.2% mom. The compound interest rate of the 2-year benchmark bond went up by 10 basis points throughout the month and became 13.31% as of 30 September. Turkey's 5-year CDS Premium rose by 7 basis points and became 530 at the end of September.

Securities portfolio of non-residents...

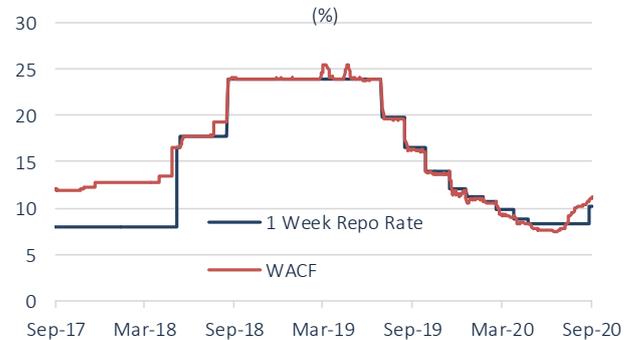
According to the securities statistics published by the CBRT, as of September 25, the equity portfolio of non-residents fell by a net 221 million USD, while the government domestic debt securities (GDDS) portfolio of non-residents increased by a net 20.2 million USD compared to end-August as price and exchange rate adjusted data suggested. Compared to the end-2019, non-residents equity and GDDS portfolios declined by 5.7 billion USD and 7.7 billion USD, respectively.

CBRT increased the policy rate by 200 basis points.

At its meeting on September 24th, CBRT decided to increase the policy rate by 200 basis points to 10.25% from 8.25%, contrary to the market expectations that no

changes would be made. CBRT stated that they were expecting pandemic-related supply-side inflationary factors to gradually phase out during the normalization period and demand-driven disinflationary effects to become more prevalent. Yet, as a result of fast economic recovery with strong credit momentum and financial market developments, inflation followed a higher-than- envisaged path. CBRT emphasized the importance of the tightening steps in order to contain inflation expectations and risks regarding the inflation outlook. The CBRT provided a total of 175 billion TRY funding through traditional method repo auctions in September. The CBRT, which resumed its weekly repo auctions between August 6 and September 24, funded the market with 5 billion TRY at the policy rate of 10.25% after the interest rate hike. The weighted average cost of the CBRT funding increased by 97 basis points throughout September to 11.12% at the end of the month.

Policy Interest Rate and CBRT WACF

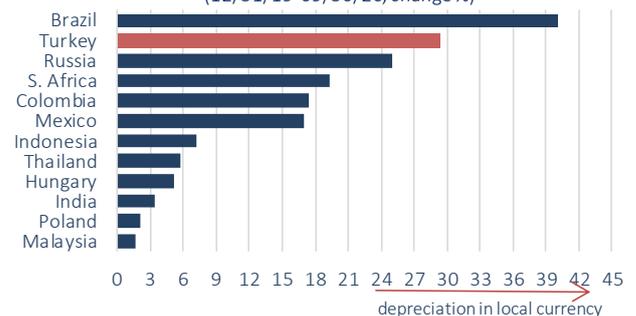


Depreciation in TRY...

In September, the strengthening of the US dollar caused a depreciation in most emerging currencies, while the Turkish Lira was one of the currencies where the depreciation was felt the most due to geopolitical factors. The USD/TRY, which saw its historical high of 7.8572 during the day on September 29, rose by 5% mom, while the EUR/TRY rose by 3.2% mom in September. The Turkish lira, which depreciated around 30% against the US dollar compared to the end of 2019, diverged negatively from its emerging market peers except the Brazilian real.

USD / Local Currency

(12/31/19-09/30/20, change %)



Source: CBRT, Datastream, Reuters, BIST

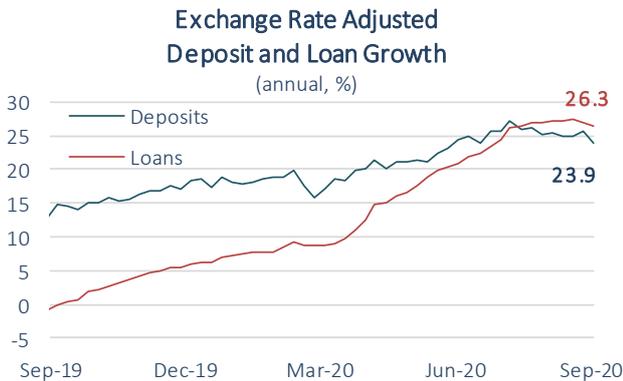
Banking Sector

New regulations on financial transactions...

The Banking Regulation and Supervision Agency (BRSA) loosened the restrictions on TRY swaps and other derivative transactions of banks with non-residents. Accordingly, the limit of the total amount of transactions (where banks receive TRY at the maturity) to the banks regulatory capital is risen to 10% again. The limits for the transactions (where banks pay TRY at the maturity) are determined as 2%, %5 and %20 for the transactions with the remaining maturity of 7 days, 30 days, 1 year, respectively. On September 28th, BRSA issued a decision to implement the active ratio of 95% for deposit banks and 75% for participation banks as 90% and 70%, respectively. With the decision published in the Official Gazette on September 30, the withholding tax rates on deposit accounts were reduced until the end of the year, while the bank and insurance transactions tax on FX and gold transactions were reduced from 1% to 0.2%.

The increase in deposit volume became 44% yoy.

According to the BRSA's Weekly Bulletin, as of September 25, the deposit volume expanded by 44% yoy, 33.4% ytd and reached 3,428 billion TL. Annual rise in FX rate adjusted deposit volume was realized as 23.9%. TRY deposit volume increased by 38.3% yoy and became 1,583 billion TRY. FX deposits in USD terms rose by 10.6% and reached 242 billion USD during this period.



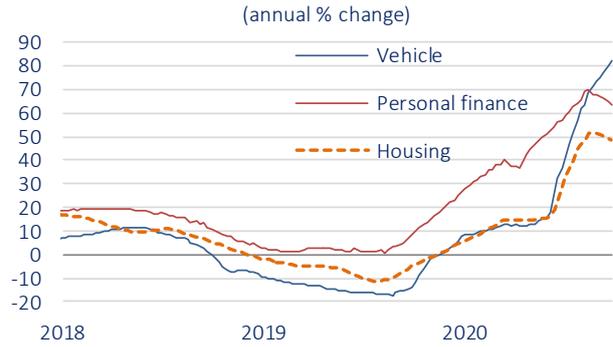
TRY loan volume expanded by 46.4% yoy.

As of September 25, the total loan volume of the banking sector increased by 39.1% yoy and by 32.8% ytd, and reached 3,522 billion TRY. The increase in FX rate adjusted loan volume became 26.3% yoy in this period. While the annual TRY loan growth was 46.4%, FX loans in USD terms decreased by 5.4% and became 164.6 billion USD.

The rise in housing and consumer loans lost momentum.

As of September 25, consumer loan volume increased by 57.2% yoy and 42.7% ytd. Annual rises in housing and consumer loans, which have been slowing down since mid-August, became 48.5% and 63.6%, respectively. In this period, the annual increase in vehicle loan volume reached 82.2%.

Consumer Loans



Non-performing loan ratio became 4.1%.

As of September 25, the amount of gross non-performing loans increased by 18.2% yoy and became 150.6 billion TRY. With the impact of the expansion in loan volume, NPL ratio continued to fall and became 4.1% in this period. While the said ratio was 2.5% in public banks, it became 5.5% in private banks. In terms of loan types, NPL ratios for commercial and consumer loans were realized as 4.6% and 2.3%, respectively.

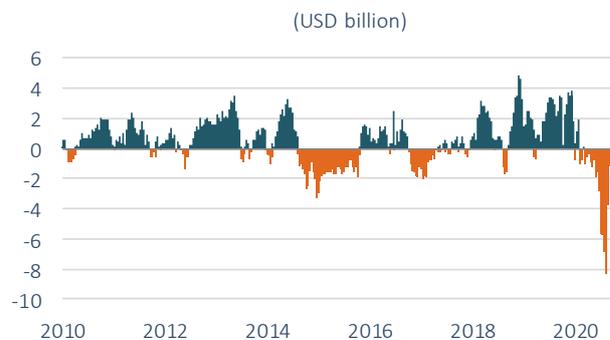
Non-performing Loans



Net foreign currency position...

As of September 25, banks' on-balance sheet FX position was (-) 55,646 million USD, while off-balance sheet FX position was (+) 54,439 million USD. Hence, banking sector's FX short position became 1,207 million USD.

Net FX Position



Source: BRSA Weekly Bulletin

Concluding Remarks

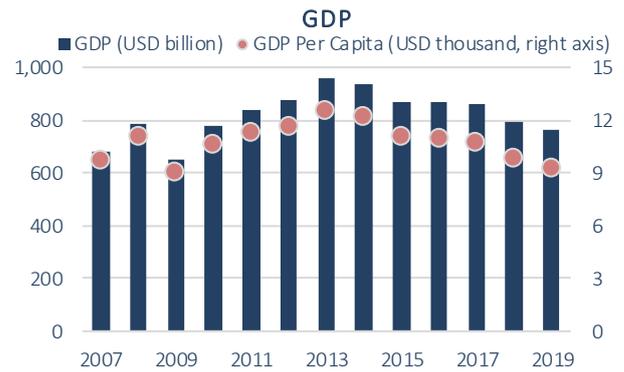
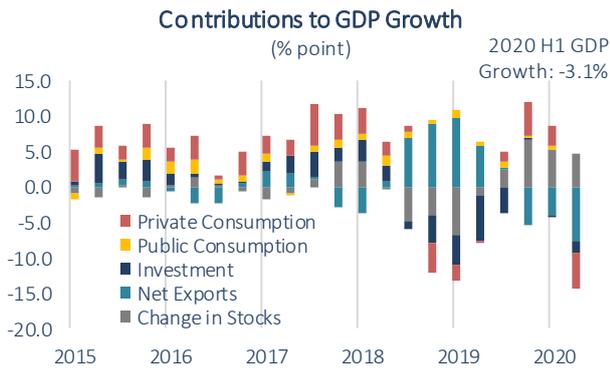
While the rise in the number of coronavirus cases continues worldwide, the number of deaths exceeded 1 million. Although the developments that signal a second wave in many countries have brought social life-restrictive measures back to the agenda, it seems that these measures will be less restrictive than the previous ones. In September, the global economic activity continued to recover, albeit at a slower pace. The central banks, which played an important role in this recovery with the expansionary monetary policies, reiterated their commitments to continue taking steps to support the economy if needed.

In the USA, developments regarding the presidential election started to climb on the agenda as November approached. The new coronavirus stimulus package is expected to be implemented in the near future. On the EU side, the continuing uncertainty regarding Brexit negotiations with the UK leads the possibility of no-deal Brexit to rise again.

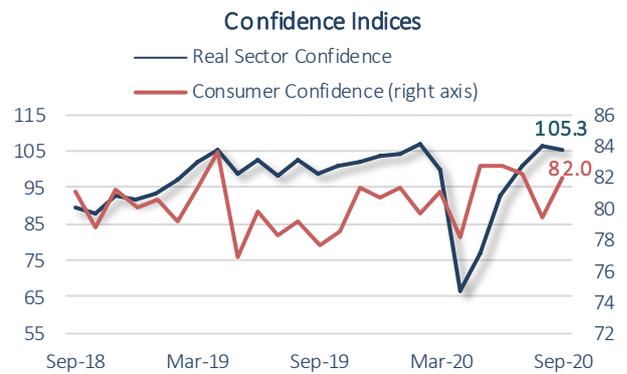
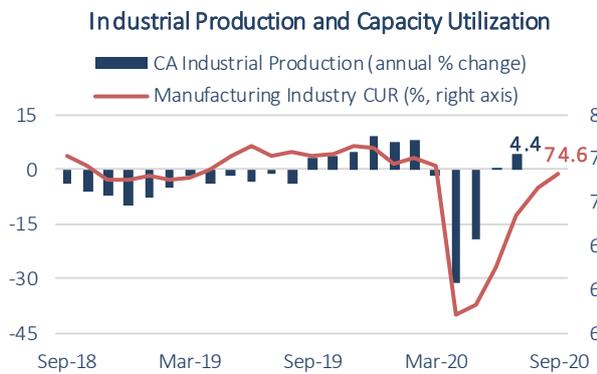
In Turkey, the recovery in economic activity continued in September, albeit losing momentum. CBRT, which has gradually increased the cost of funding since August due to the upward trend in inflation along with the exchange

rate developments, increased the policy interest rate by 200 bps to 10.25% at its September meeting. The announcement of the New Economy Program (NEP) for the 2021-2023 period was high on domestic agenda in September. The Program estimates that the GDP will expand by 0.3% in 2020 according to the baseline scenario, assuming that there will not be a significant second wave in the pandemic; while it predicts that the GDP will shrink by 1.5% according to the pessimistic scenario, announced for the first time due to the current uncertainties. According to the baseline scenario, Turkish economy is expected to grow by 5.8% in 2021 (pessimistic scenario forecast: 3.7%) and is estimated to grow at 5% in the following two years. The annual CPI increase is expected to be 10.5% at the end of 2020 and to decline to single digit levels in 2021. While it is predicted that the budget deficit to GDP ratio will remain above 3% during 2020-2023 and the budget will not give primary surplus; it is estimated that the current account deficit/GDP ratio will be 3.5% in 2020. After displaying a declining trend in 2021-22 period (CAD/GDP forecasts are 1.9% for 2021 and 0.7% for 2022), the current account balance is expected to post a surplus in 2023.

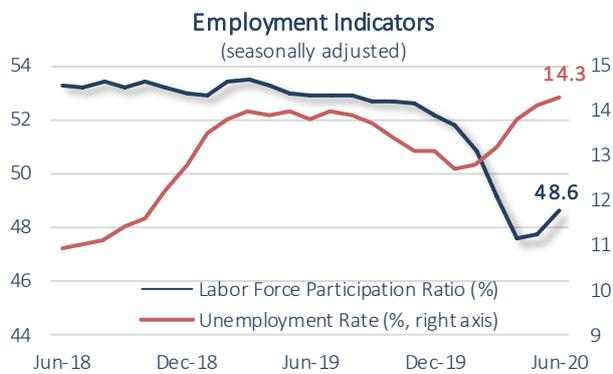
Growth



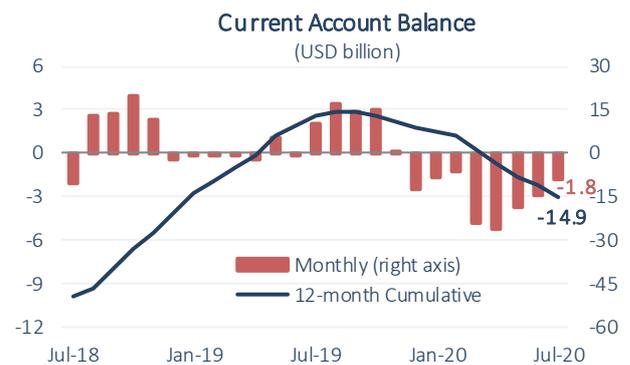
Leading Indicators



Labor Market



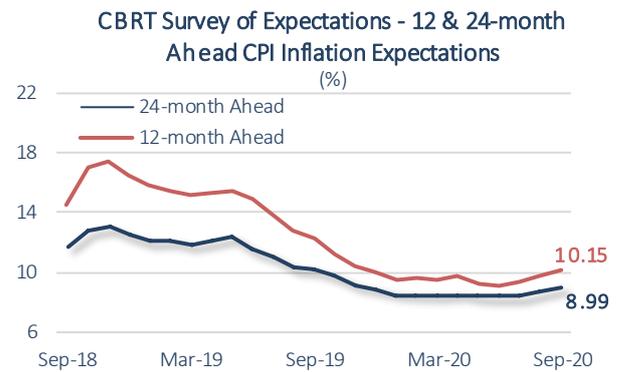
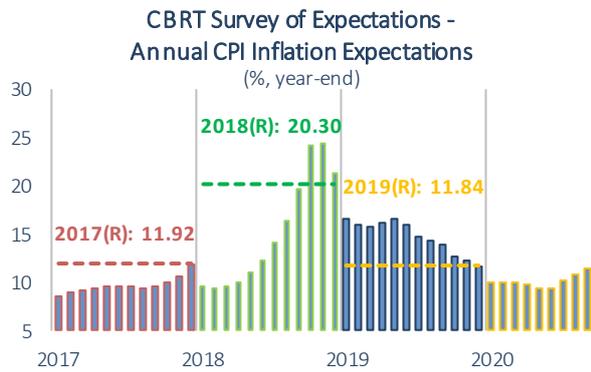
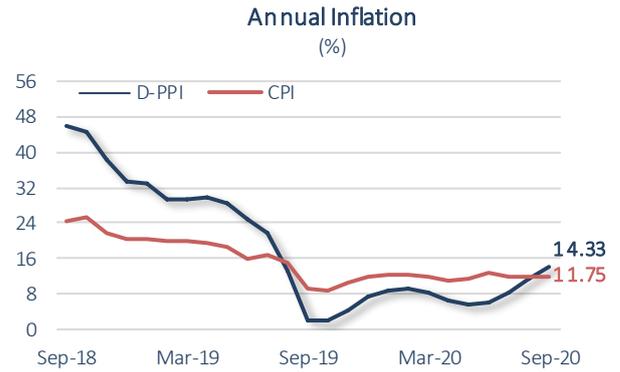
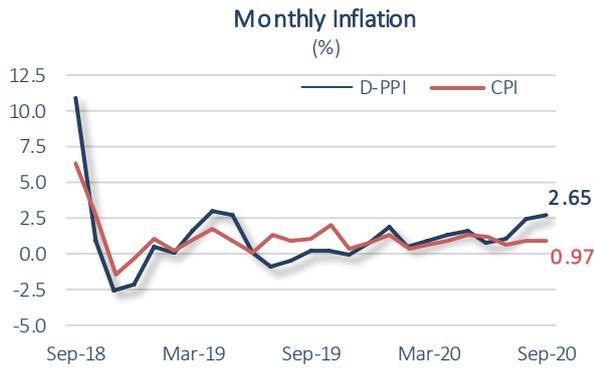
Foreign Trade and Current Account Balance



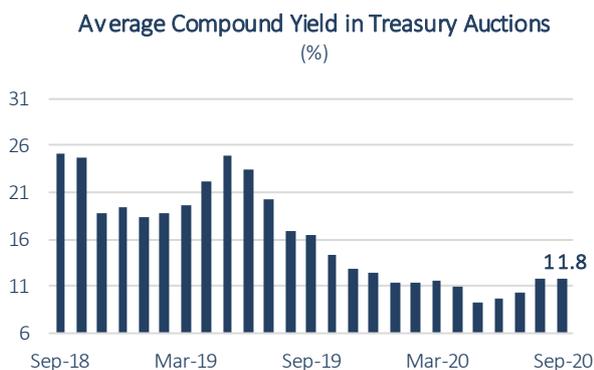
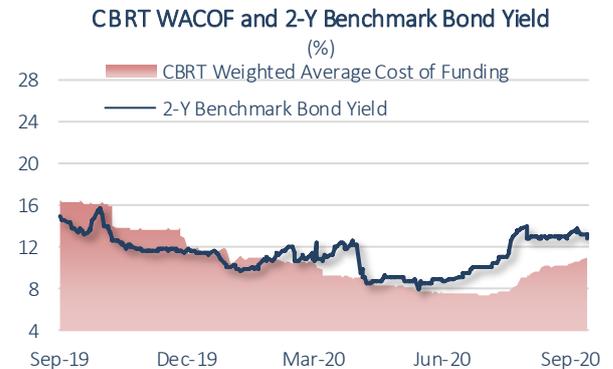
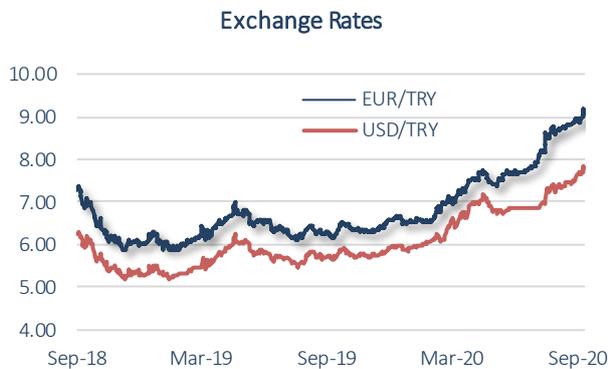
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

| Growth | 2015 | 2016 | 2017 | 2018 | 2019 | Q1-20 | Q2-20 | |
|--|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|
| GDP (USD billion) | 867 | 869 | 859 | 797 | 761 | 177 | 153 | |
| GDP (TRY billion) | 2,351 | 2,627 | 3,134 | 3,758 | 4,320 | 1,074 | 1,042 | |
| GDP Growth Rate (%) | 6.1 | 3.3 | 7.5 | 3.0 | 0.9 | 4.4 | -9.9 | |
| Inflation (%) | | | | | | Jul-20 | Aug-20 | Sep-20 |
| CPI (annual) | 8.81 | 8.53 | 11.92 | 20.30 | 11.84 | 11.76 | 11.77 | 11.75 |
| Domestic PPI (annual) | 5.71 | 9.94 | 15.47 | 33.64 | 7.36 | 8.33 | 11.53 | 14.33 |
| Seasonally Adjusted Labor Market Figures | | | | | | Apr-20 | May-20 | Jun-20 |
| Unemployment Rate (%) | 10.2 | 12.0 | 9.9 | 12.8 | 13.1 | 13.80 | 14.10 | 14.30 |
| Labor Force Participation Rate (%) | 51.7 | 52.4 | 53.1 | 53.0 | 52.2 | 47.60 | 47.70 | 48.60 |
| FX Rates | | | | | | Jul-20 | Aug-20 | Sep-20 |
| CPI Based Real Effective Exchange Rate | 99.1 | 93.6 | 86.4 | 76.5 | 76.3 | 68.3 | 63.7 | |
| USD/TRY | 2.9189 | 3.5176 | 3.7916 | 5.3199 | 5.9510 | 6.98 | 7.36 | 7.70 |
| EUR/TRY | 3.1708 | 3.7102 | 4.5530 | 6.0815 | 6.6800 | 8.25 | 8.80 | 9.03 |
| Currency Basket (0.5*EUR+0.5*USD) | 3.0448 | 3.6139 | 4.1723 | 5.7007 | 6.3155 | 7.62 | 8.08 | 8.37 |
| Foreign Trade Balance⁽¹⁾ (USD billion) | | | | | | Jun-20 | Jul-20 | Aug-20 |
| Exports | 151.0 | 149.2 | 164.5 | 177.2 | 180.8 | 167.5 | 166.4 | 165.7 |
| Imports | 213.6 | 202.2 | 238.7 | 231.2 | 210.3 | 207.1 | 205.6 | 208.7 |
| Foreign Trade Balance | -62.6 | -52.9 | -74.2 | -54.0 | -29.5 | -39.6 | -39.2 | -43.1 |
| Import Coverage Ratio (%) | 70.7 | 73.8 | 68.9 | 76.6 | 86.0 | 80.9 | 81.0 | 79.4 |
| Balance of Payments⁽¹⁾ (USD billion) | | | | | | May-20 | Jun-20 | Jul-20 |
| Current Account Balance | -27.3 | -26.8 | -40.6 | -20.7 | 8.8 | -8.3 | -11.1 | -14.9 |
| Capital and Financial Accounts | -21.2 | -21.7 | -46.8 | -10.9 | 1.4 | -22.5 | -21.1 | -27.4 |
| Direct Investments (net) | -14.2 | -10.8 | -8.4 | -9.4 | -5.9 | -5.2 | -4.6 | -4.3 |
| Portfolio Investments (net) | 15.3 | -6.4 | -24.1 | 3.1 | 1.2 | 16.2 | 15.6 | 15.4 |
| Other Investments (net) | -10.6 | -5.3 | -6.2 | 5.7 | -0.3 | -14.1 | -7.4 | -9.4 |
| Reserve Assets (net) | -11.8 | 0.8 | -8.2 | -10.4 | 6.3 | -19.4 | -24.6 | -29.0 |
| Net Errors and Omissions | 6.1 | 5.1 | -6.3 | 9.8 | -7.5 | -14.2 | -10.0 | -12.4 |
| Current Account Balance/GDP (%) | -3.2 | -3.1 | -4.7 | -2.6 | 1.2 | - | - | - |
| Budget⁽²⁾⁽³⁾ (TRY billion) | | | | | | Jun-20 | Jul-20 | Aug-20 |
| Expenditures | 506.3 | 584.1 | 678.3 | 830.5 | 999.5 | 564.9 | 681.1 | 761.4 |
| Interest Expenditures | 53.0 | 50.2 | 56.7 | 74.0 | 99.9 | 71.3 | 79.7 | 91.6 |
| Non-interest Expenditures | 453.3 | 533.8 | 621.6 | 756.5 | 899.5 | 493.6 | 601.4 | 669.8 |
| Revenues | 482.8 | 554.1 | 630.5 | 757.8 | 875.8 | 455.4 | 541.9 | 650.5 |
| Tax Revenues | 407.8 | 459.0 | 536.6 | 621.3 | 673.3 | 335.9 | 412.0 | 510.4 |
| Budget Balance | -23.5 | -29.9 | -47.8 | -72.8 | -123.7 | -109.5 | -139.1 | -110.9 |
| Primary Balance | 29.5 | 20.3 | 8.9 | 1.3 | -23.8 | -38.2 | -59.4 | -19.3 |
| Budget Balance/GDP (%) | -1.0 | -1.1 | -1.5 | -1.9 | -2.9 | - | - | - |
| Central Government Debt Stock (TRY billion) | | | | | | Jun-20 | Jul-20 | Aug-20 |
| Domestic Debt Stock | 440.1 | 468.6 | 535.4 | 586.1 | 755.1 | 983.9 | 1,046.7 | 1,098.5 |
| External Debt Stock | 238.1 | 291.3 | 341.0 | 481.0 | 574.0 | 657.4 | 674.4 | 711.9 |
| Total Debt Stock | 678.2 | 760.0 | 876.5 | 1,067.1 | 1,329.1 | 1,641.3 | 1,721.1 | 1,810.4 |

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

Banking Sector According to BRSA's Monthly Bulletin Figures

| (TRY billion) | 2015 | 2016 | 2017 | 2018 | 2019 | Jul.20 | Aug.20 | Change ⁽¹⁾ |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------|
| TOTAL ASSETS | 2,357 | 2,731 | 3,258 | 3,867 | 4,492 | 5,619 | 5,846 | 30.1 |
| Loans | 1,485 | 1,734 | 2,098 | 2,395 | 2,657 | 3,378 | 3,482 | 31.1 |
| TRY Loans | 1,013 | 1,131 | 1,414 | 1,439 | 1,642 | 2,208 | 2,256 | 37.4 |
| Share (%) | 68.2 | 65.2 | 67.4 | 60.1 | 61.8 | 65.4 | 64.8 | - |
| FX Loans | 472 | 603 | 684 | 956 | 1,015 | 1,170 | 1,226 | 20.8 |
| Share (%) | 31.8 | 34.8 | 32.6 | 39.9 | 38.2 | 34.6 | 35.2 | - |
| Non-performing Loans | 47.5 | 58.2 | 64.0 | 96.6 | 150.1 | 150.3 | 150.9 | 0.5 |
| Non-performing Loan Rate (%) | 3.1 | 3.2 | 3.0 | 3.9 | 5.3 | 4.3 | 4.2 | - |
| Securities | 330 | 352 | 402 | 478 | 661 | 961 | 1,030 | 55.9 |
| TOTAL LIABILITIES | 2,357 | 2,731 | 3,258 | 3,867 | 4,492 | 5,619 | 5,846 | 30.1 |
| Deposits | 1,245 | 1,454 | 1,711 | 2,036 | 2,567 | 3,209 | 3,318 | 29.2 |
| TRY Deposits | 715 | 845 | 955 | 1,042 | 1,259 | 1,562 | 1,545 | 22.7 |
| Share (%) | 57.4 | 58.1 | 55.8 | 51.2 | 49.0 | 48.7 | 46.6 | - |
| FX Deposits | 530 | 609 | 756 | 994 | 1,308 | 1,648 | 1,773 | 35.5 |
| Share (%) | 42.6 | 41.9 | 44.2 | 48.8 | 51.0 | 51.3 | 53.4 | - |
| Securities Issued | 98 | 116 | 145 | 174 | 194 | 225 | 230 | 18.6 |
| Payables to Banks | 361 | 418 | 475 | 563 | 533 | 597 | 636 | 19.3 |
| Funds from Repo Transactions | 157 | 138 | 99 | 97 | 154 | 309 | 314 | 104.4 |
| SHAREHOLDERS' EQUITY | 262 | 300 | 359 | 421 | 492 | 565 | 567 | 15.2 |
| Profit (Loss) of the Period | 26.1 | 37.5 | 49.1 | 53.5 | 49.8 | 39.0 | 42.9 | - |
| RATIOS (%) | | | | | | | | |
| Loans/GDP | 63.5 | 66.5 | 67.6 | 64.7 | 61.5 | | | |
| Loans/Assets | 63.0 | 63.5 | 64.4 | 61.9 | 59.1 | 60.1 | 59.6 | - |
| Securities/Assets | 14.0 | 12.9 | 12.3 | 12.4 | 14.7 | 17.1 | 17.6 | - |
| Deposits/Liabilities | 52.8 | 53.2 | 52.5 | 52.6 | 57.1 | 57.1 | 56.8 | - |
| Loans/Deposits | 119.2 | 119.3 | 122.6 | 117.6 | 103.5 | 105.2 | 105.0 | - |
| Capital Adequacy (%) | 15.6 | 15.6 | 16.9 | 17.3 | 18.4 | 19.2 | 19.3 | - |

(1) Year-to-date % change

Source: BRSA, Turkstat

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