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### Global Economy

In February, developments regarding coronavirus climbed to the top of global markets agenda. As the virus started spreading outside of China, the concerns that the effect of the virus on economic activity will become a global issue were influential in the course of the markets.

The deterioration in risk perception led to strong sales pressure in stock markets. The demand for safe investment instruments rose rapidly. While the yields of US bonds fell to historically low levels, gold prices reached the highest levels since 2013.

The Fed, which had an extraordinary meeting on March 3, cut the policy rate by 50 bps against the possible effects of the coronavirus. The Bank may implement more supportive monetary policy in the following period.

The macroeconomic data of the US indicate that the moderate course in economic activity continues.

China cut tax tariffs on some US goods in accordance with the first stage of the trade agreement between the US and China. China's steps supported the views that China would comply with the agreement and removed trade war based risks from the top of the agenda.

February PMI data in China indicated that there has been a significant loss in economic activity.

The data announced in the Euro Area draws a moderate picture for the course of the regions' economy in the first two months of the year. On the other hand, the increase in virus-driven deaths in the region raises the uncertainties for the upcoming period.

Expectations that demand will remain under pressure due to the loss in economic activity led oil prices to decline rapidly.

### Turkish Economy

Having grown by 0.9% in 2019, Turkish economy recorded the lowest annual growth since 2009 when the economy contracted by 4.7%.

In November 2019, unemployment rate increased by 1.0 point compared to the same period of the previous year and became 13.3%.

Manufacturing PMI, which exceeded the threshold value after 22 months in January, came in at 52.4 in February.

In 2019 the current account balance posted a surplus of 1.7 billion USD, for the first time since 2001. While the foreign trade deficit narrowed due to the decline in economic activity especially in the first half of the year, the low course of oil prices compared to 2018 also played a role in the positive trend of current account balance.

The central government budget surplus quadrupled compared to a year ago and became 21.5 billion TRY in January. In this period, budget revenues increased by 26% yoy, while budget expenditures rose by 9.6% yoy.

In February, CPI rose below the expectations by 0.35% mom; while annual CPI inflation became 12.37%. Domestic PPI increase came in at 0.48% mom and 9.26% yoy in this period.

CBRT lowered the policy rate by 50 basis points to 10.75% at its February meeting.

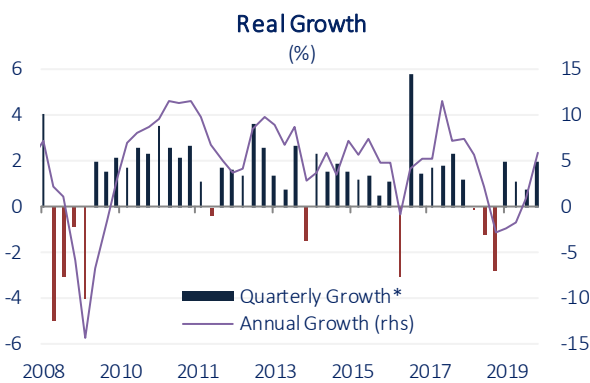
## GDP Growth

### Turkish economy grew by 6.0% in the last quarter of 2019.

According to the chain volume index, in the last quarter of 2019, Turkish economy expanded by 6.0% yoy, beating expectations. Market growth expectation was around 5% for this period. The annual growth rate for the third quarter of 2019 was revised from 0.9% to 1%.

According to seasonally and calendar adjusted figures, Turkish economy accelerated in the last quarter and grew by 1.9% qoq.

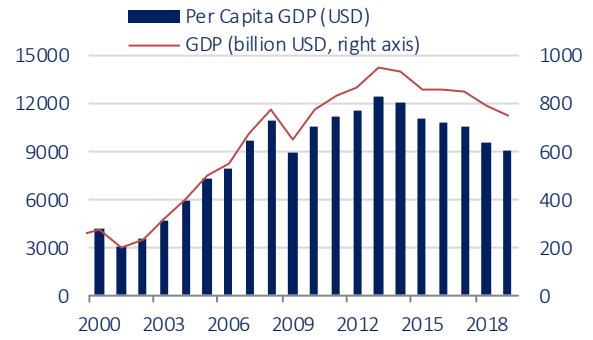
Having grown by 0.9% in the whole year of 2019, Turkish economy recorded the lowest annual growth since 2009, when the economy contracted by 4.7%. On the other hand, the growth rate of 2019 came above the 0.5% NEP estimate, which was announced in September.



### GDP per capita became 9,127 USD.

GDP in Turkey was realized as 4.3 trillion TRY in 2019 at current prices. In this period, due to exchange rate developments, GDP in USD terms decreased by 4.5% yoy and fell to 754 billion USD. Per capita GDP also declined by around 6% and was realized as 9,127 USD.

### GDP Indicators of USD Terms



### Strong contribution of consumption expenditures...

According to expenditure approach, contribution of consumption expenditures to growth increased in the last quarter of the year. In this period, while consumption expenditures contributed to the growth 4.3 pts, 3.9 pts of the said contribution came from private consumption and 0.4 pts from public ones. In the last quarter of the year, change in stocks also played an important role in growth performance by contributing 6.5 pts to GDP growth.

### Net export lowered the growth in the last quarter.

Increase in import volume, due to the recovery in economic activity, caused net exports to drag growth down in the last quarter. Import volume, which limited growth by 1.5 pts in the third quarter, lowered growth by 5.8 pts in the last quarter. In this period, the expansion in export volume contributed 1 point to GDP growth. Thus, net exports diminished the growth by 4.7 pts in the last quarter. In 2019, net exports contributed to the GDP growth by 2.3 pts thanks to their positive performances in the first two quarters.

### Expenditure Approach - Contributions to GDP Growth (chain linked volume index 2009=100) % points)

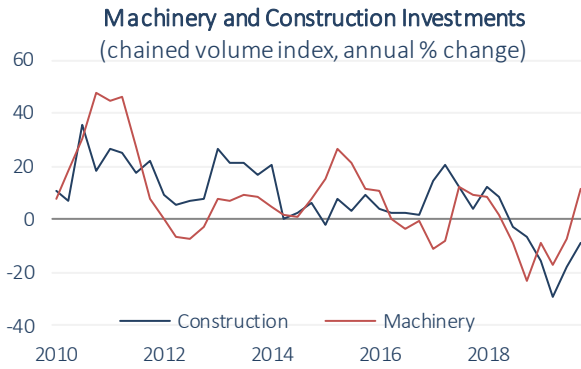
	2017	2018					2019				
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual
<b>Consumption</b>	<b>4.5</b>	<b>4.4</b>	<b>2.9</b>	<b>1.2</b>	<b>-3.9</b>	<b>0.9</b>	<b>-2.2</b>	<b>-0.1</b>	<b>1.8</b>	<b>4.3</b>	<b>1.1</b>
Private	3.8	3.7	1.6	0.4	-4.7	0.0	-3.1	-0.6	1.1	3.9	0.4
Public	0.7	0.7	1.3	0.8	0.8	0.9	0.9	0.5	0.7	0.4	0.6
<b>Investment</b>	<b>2.4</b>	<b>3.0</b>	<b>1.9</b>	<b>-1.3</b>	<b>-3.5</b>	<b>-0.2</b>	<b>-3.7</b>	<b>-7.1</b>	<b>-3.5</b>	<b>-0.2</b>	<b>-3.6</b>
<b>Change in Stock</b>	<b>0.4</b>	<b>3.4</b>	<b>-0.1</b>	<b>-4.4</b>	<b>-3.9</b>	<b>-1.5</b>	<b>-5.8</b>	<b>-0.1</b>	<b>2.9</b>	<b>6.5</b>	<b>1.1</b>
<b>Net Export</b>	<b>0.1</b>	<b>-3.4</b>	<b>1.0</b>	<b>6.8</b>	<b>8.4</b>	<b>3.6</b>	<b>9.4</b>	<b>5.7</b>	<b>-0.2</b>	<b>-4.7</b>	<b>2.3</b>
Exports	2.5	0.2	1.0	3.1	2.2	1.7	1.9	1.8	1.2	1.0	1.5
Imports	-2.4	-3.6	0.0	3.7	6.2	1.9	7.5	3.9	-1.5	-5.8	0.8
<b>GDP</b>	<b>7.5</b>	<b>7.4</b>	<b>5.6</b>	<b>2.3</b>	<b>-2.8</b>	<b>2.8</b>	<b>-2.3</b>	<b>-1.6</b>	<b>1.0</b>	<b>6.0</b>	<b>0.9</b>

Numbers may not add to total due to rounding.  
(\* ) Seasonally and calendar adjusted figures.

Source: Turkstat, Datastream

### Investment expenditures continued to decline.

Investment expenditures lowered GDP growth by 0.2 pts in the last quarter of 2019. After declining for 5 consecutive quarters, increase in machinery and equipment investments by 11.7% noted as a positive development. On the other hand, construction investments continued to contract on an annual basis with 8.9%. In 2019, investment expenditures were the only figure which limited growth.



### Construction sector continued to limit growth.

According to the production approach, all the main sub-sectors except construction supported growth in the last quarter of 2019. In this period, while the highest contribution to growth came from the services sector with 4.2 pts, industrial sector made its highest contribution since the first quarter of 2018 with 1.2 pts.

The construction sector, on the other hand, continued its negative contribution to growth for the 6th consecutive quarter and limited the growth by 0.3 pts.

In 2019, the services sector played a crucial role in GDP performance with a 1.3 pts contribution. While the industrial sector completed the year with no change, the construction sector lowered growth by 0.6 pts. In 2019, the contribution of the agricultural sector to GDP growth was 0.2 pts.

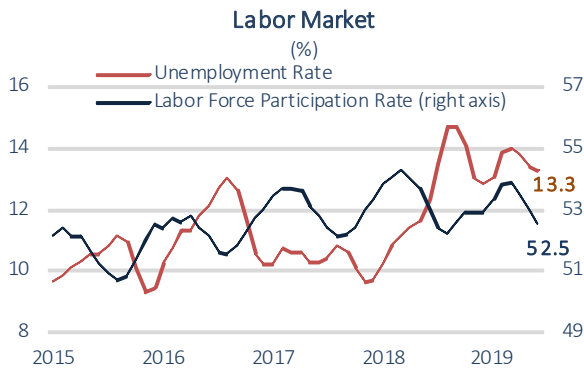
### Expectations...

Turkish economy, which had contracted for 3 quarters since the last quarter of 2018, followed an upward trend in the second half of 2019 thanks to the low base effect and gradual recovery in economic activity and closed the year with 0.9% growth. In the first quarter of 2020 we think that the low base effect continues and growth gains pace with help of deferred consumption. We estimate that Turkish economy will grow around 4% throughout 2020. On the other hand, we evaluate that geopolitical developments may affect growth performance negatively. Moreover, the net effect of the coronavirus to Turkey's economic activity remains uncertain.

## Leading Indicators

### Labor force participation rate declined in November.

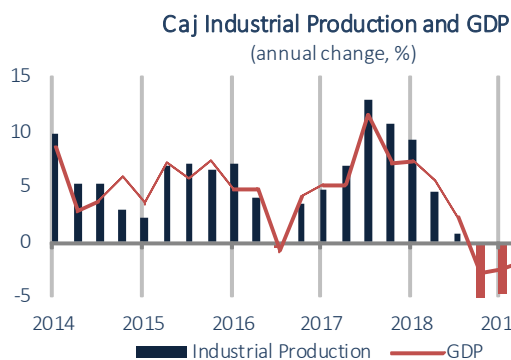
According to the data announced by TURKSTAT, unemployment rate increased by 1.0 point yoy in November 2019 and reached 13.3%. In the same period, the labor force participation rate fell by 0.5 points to 52.5%. While the number of employed people decreased by 145K yoy in November, the number of unemployed ones increased by 327K. Compared with the same period of 2018; employment decreased by 253K in construction sector and by 147K in agriculture. On the other hand, employment increased by 152K in services and by 102K in industrial sector on an annual basis. In November 2019, the seasonally adjusted unemployment rate fell by 0.3 points on a monthly basis to 13.2%.



### Industrial production increased above expectations in December.

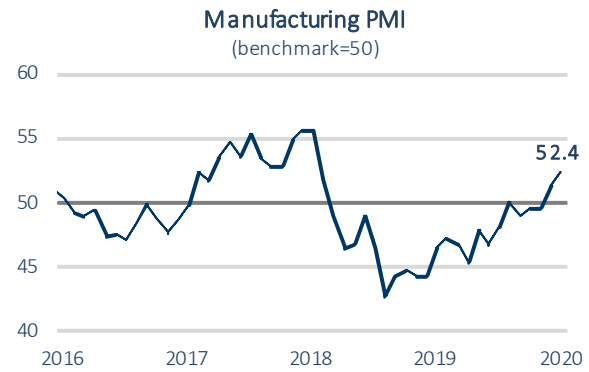
According to the calendar adjusted data, industrial production grew by 8.6% yoy in December 2019 due to the low base. In terms of main product groups, the strongest production increases of 2019 in intermediate, capital and durable goods were recorded as a positive development regarding the course of economic activity. In this period, the production increase in 20 out of 24 sectors operating under the manufacturing industry was another positive development.

The industrial production index, which shrank on an annual basis in the first three quarters of 2019, increased by 5.8% in the last quarter of the year thanks to the recovery in economic activity. Industrial production fell by 0.6% in the whole year of 2019 despite the recovery in the last quarter.



### Manufacturing PMI is at the highest level of two years...

Manufacturing PMI, which was 51.3 in January, reached 52.4 in February, the highest level in two years. When the sub-items of the index were analyzed, a recovery was observed in production activities thanks to the new orders that increased rapidly with the revival in domestic demand. The fact that employment signaled an increase in the second consecutive month was also a positive development. On the other hand, the upward trend in input prices continued.



### Mixed outlook in confidence indices...

In February, seasonally adjusted consumer confidence index decreased by 2.7% mom to 57.3, while the real sector confidence index increased by 0.3 points mom to 106.7. In the same period, sectoral confidence increased by 3.4% in services sector and decreased by 2.0% and 5.7% in retail trade and construction sectors, respectively. In February, the capacity utilization rate in manufacturing industry increased by 0.5 pts on a monthly basis to 76%.

### House sales increased rapidly in January.

In January, house sales in Turkey increased by 55.8% yoy and reached 113.615. Mortgaged house sales, which were displaying upward trend thanks to significantly declining interest rates recently, rose by 546% in January. With the effect of delayed demand, the January 2020 realizations were the highest January figures since 2013, when house sales data began to be announced.

In December 2019, housing price index rose 1.4% mom and 9.9% yoy. Taking the annual inflation into account, house prices dropped by 1.7% in real terms in 2019.

### Automotive and white goods sales increased.

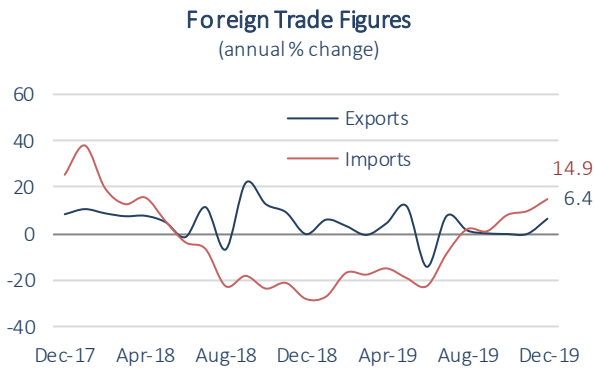
White goods sales in Turkey increased by 6.2% yoy in January. While the exports of the sector increased by 18.1%, total production expanded by 7.1% in this period. Due to low base and decreasing loan rates, sales in the passenger car and light commercial vehicle market rose by 90% in the first two months of 2020 compared to the same period of last year and reached 74,395.

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

## Foreign Trade and Balance of Payments

### Foreign trade deficit continued to expand in January.

According to TURKSTAT data, exports increased by 6.4% yoy and reached 14.8 billion USD in January, while imports increased by 18.8% yoy to 19,2 billion USD. Thus, the foreign trade deficit expanded rapidly by 94.3% and reached 4.4 billion USD. The exports coverage imports ratio, which was 85.8% in January 2019, declined to 76.8% in this period.

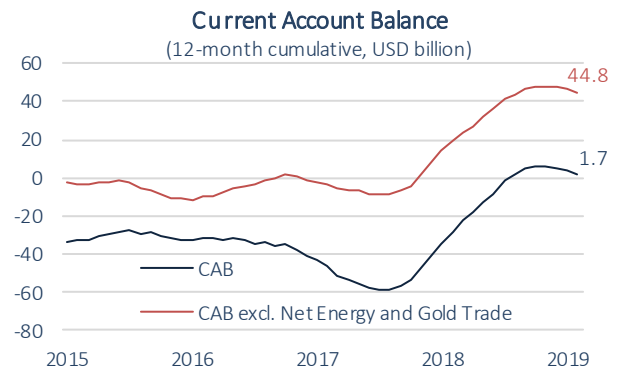


### In 2019 current account posted 1.7 billion USD surplus.

The current account balance gave a deficit of 2.8 billion USD in the last month of 2019. In this period, current account deficit expanded by 162.2% yoy due to the rise in foreign trade deficit. The annual increase in tourism revenues limited the expansion in the current account deficit.

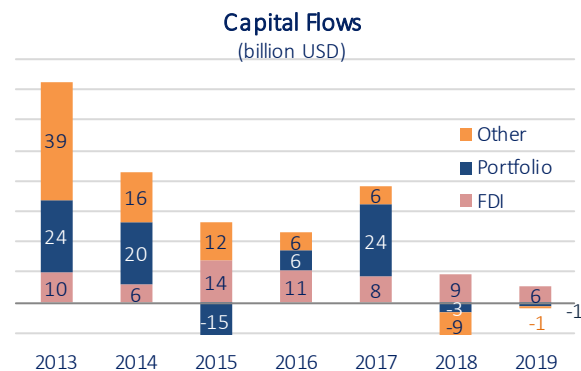
In 2019 the current account balance posted a surplus of 1.7 billion USD, for the first time since 2001. While the foreign trade deficit narrowed due to the decline in economic activity, especially in the first half of the year, the low course of oil prices compared to 2018 also played a role in the positive trend of current account balance. The annual rise in net tourism revenues by 24.7% (5.1 billion USD) throughout the year was another factor that led current account balance to improve.

Excluding net energy imports, the current account balance posted a surplus of 35.5 billion USD in 2019. Excluding gold trade, this figure became 44.8 billion USD.



### Net foreign direct investments recorded 5.5 billion USD capital inflow.

In December, net foreign direct investments recorded a limited capital inflow with 281 million USD. In 2019, net direct investments decreased by 41.3% yoy and became 5.5 billion USD. Out of this amount 57.3% came from net real estate investments.



### Capital outflow in portfolio investments...

In December, portfolio investments recorded 871 million USD capital outflow. Despite non-residents' net

### Net Capital Flows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2018	Dec. 2019	Dec. 2018	Dec. 2019
<b>Current Account Balance</b>	-28,261	1,674	-	19.8
<b>Total Net Foreign Capital Flows</b>	-2,510	3,411	-	-
-Direct Investment	9,374	5,506	23.3	65.3
-Portfolio Investment	-3,115	-1,112	-	-
-Other Investment	-8,831	-1,002	-	-
-Other	62	19	0.2	0.2
<b>Net Errors and Omissions</b>	20,394	1,239	50.7	14.7
<b>Reserves(1)</b>	10,377	-6,324	25.8	-

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

purchases of 406 million USD in equity securities and 3.1 billion USD in government domestic debt securities, there was a net outflow of 1.1 billion USD in portfolio investments in the whole year of 2019.

### Other investments...

Whereas other investments recorded a net capital inflow of 370 million USD in December, 1 billion USD capital outflow was realized throughout 2019. Net loan repayments of general government, banks and other sectors throughout 2019 were the main reason of this development.

In 2019, long-term debt roll-over ratios became 74% in banking sector and 89%, the lowest level for 9 years, for other sectors.

### Reserves and net errors and omissions...

In December, CBRT reserves decreased by 539 million USD, while net errors and omissions recorded a capital inflow of 2.5 billion USD. CBRT reserves increased by 6.3 billion USD in 2019. Due to CBRT's revisions on various figures of the balance of payments statistics, net error

and omissions figure was also revised accordingly. In this context, although the net error and omissions decreased by 1.9 billion USD for the first 11 months of 2019, the said item closed the year with an inflow of 1.2 billion USD.

### Expectations...

In line with the weak course of economic activity in 2019, the contraction in the foreign trade deficit led the current account balance to give a surplus. On the other hand, the foreign trade deficit, which started to widen in the fourth quarter of the year with the recovery in economic activity, continued this trend in the first two months of 2020 as well. According to preliminary data released by the Ministry of Commerce, the foreign trade deficit widened by 85% yoy in January-February 2020. Based on the continuation of this trend in the coming months, we expect the current account balance to post a deficit in 2020.

Balance of Payments	(USD million)			
	2018	December 2019	% Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-1,067</b>	<b>-2,798</b>	<b>162.2</b>	<b>1,674</b>
Foreign Trade Balance	-1,313	-3,402	159.1	-18,676
Services Balance	1,114	1,400	25.7	31,537
Travel (net)	898	1,112	23.8	25,719
Primary Income	-994	-1,087	9.4	-12,513
Secondary Income	126	291	131.0	1,326
<b>Capital Account</b>	<b>-1</b>	<b>-2</b>	<b>-</b>	<b>19</b>
<b>Financial Account</b>	<b>1,170</b>	<b>-319</b>	<b>-</b>	<b>2,932</b>
Direct Investments (net)	-863	-281	-67.4	-5,506
Portfolio Investments (net)	1,945	871	-55.2	1,112
Net Acquisition of Financial Assets	835	1,213	45.3	4,520
Net Incurrence of Liabilities	-1,110	342	-	3,408
Equity Securities	-80	89	-	406
Debt Securities	-1,030	253	-	3,002
Other Investments (net)	-772	-370	-52.1	1,002
Currency and Deposits	-1,943	-2,049	5.5	-3,283
Net Acquisition of Financial Assets	-2,932	528	-	9,038
Net Incurrence of Liabilities	-989	2,577	-	12,321
Central Bank	-503	1,995	-	2,495
Banks	-486	582	-	9,826
Foreign Banks	-991	333	-	6,228
Foreign Exchange	-527	227	-	5,795
Turkish Lira	-464	106	-	433
Non-residents	505	249	-50.7	3,598
Loans	2,614	3,138	20.0	16,399
Net Acquisition of Financial Assets	437	143	-67.3	368
Net Incurrence of Liabilities	-2,177	-2,995	37.6	-16,031
Banking Sector	-1,999	-13	-99.3	-11,264
Non-bank Sectors	-130	-3,027	2,228.5	-3,771
Trade Credit and Advances	-1,540	-1,553	0.8	-12,101
Other Assets and Liabilities	97	94	-3.1	-13
Reserve Assets (net)	860	-539	-	6,324
<b>Net Errors and Omissions</b>	<b>2,238</b>	<b>2,481</b>	<b>10.9</b>	<b>1,239</b>

Source: CBRT, Datastream



## Budget Balance

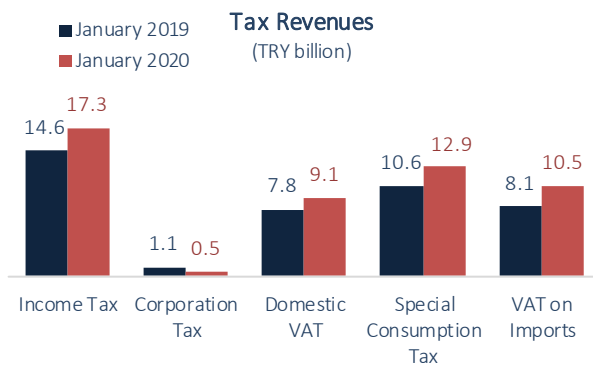
### Central government budget posted a surplus of 21.5 billion TRY in January.

The central government budget surplus quadrupled compared to a year ago and became 21.5 billion TRY in January. In this period, budget revenues increased by 26% yoy to 122.2 billion TRY, while budget expenditures rose by 9.6% yoy to 100.7 billion TRY. Primary surplus tripled compared to a year ago and stood at 34.2 billion TRY.

### Tax revenues rose by 21.1% yoy.

Tax revenues expanded by 21.1% yoy in January. Revenues from special consumption tax (SCT), value added tax (VAT) on imports and VAT on domestic products recorded solid rises during this period. Due to the recovery in domestic demand and the low base effect stemming from the last year's SCT cuts, SCT from motor vehicles increased by 126.8% yoy. SCT on durable goods&others surged up by a similar rate during this period. Income tax revenues, which had a share of 26% in total tax revenues, rose by 18.4% yoy while corporation tax revenues fell by more than 50% yoy.

Looking at the 2020 budget targets, a mild rise of 4.2% in domestic VAT revenues is noteworthy. Targets for tax revenues on other consumption related items seem consistent with the January realizations.

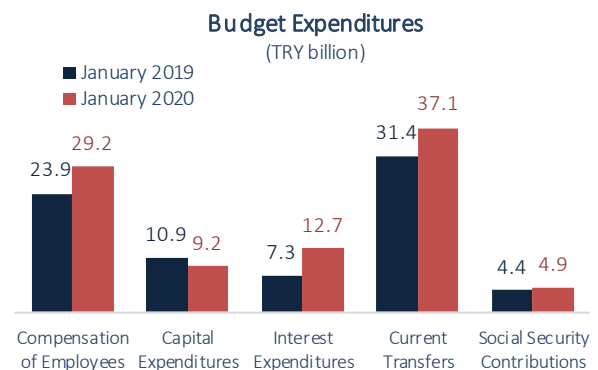


### Strong increase in portfolio revenues of Treasury...

Portfolio revenues of Treasury was 40.7 billion TRY in January due to the transfer of the CBRT's profit to the budget. In January 2019, the said item was 33.9 billion TRY. Portfolio revenues of Treasury, which was 81 billion TRY in 2019 as a whole, is expected to be 50.2 billion TRY in 2020.

### A limited increase in non-interest expenditures...

Among the non-interest expenditures, current transfers (42% of non-interest expenditures) rose by 18.1% yoy, while compensation of employees (33% of non-interest expenditures) expanded by 22.4% yoy. Nevertheless, non-interest expenditures recorded a limited annual rise of 4% as other non-interest expenditures registered rapid falls. Having doubled in December 2019, interest expenditures increased fast by 75% in January.



### Expectations...

Along with the early transfer of CBRT's profit to central government budget, as it was the case in 2019, fiscal outlook made a positive start to the year. In the upcoming period, we believe that the budget performance will be in harmony with the targets due to the recovery in economic activity thanks to the recent interest rate cuts as well as the slowdown envisaged in non-interest expenditures.

	January		% Change	2020 Budget Target	Real./Budget Target (%)
	2019	2020			
<b>Expenditures</b>	<b>91.9</b>	<b>100.7</b>	<b>9.6</b>	<b>1,095.5</b>	<b>9.2</b>
Interest Expenditures	7.3	12.7	75.1	138.9	9.2
Non-Interest Expenditures	84.6	87.9	4.0	956.5	9.2
<b>Revenues</b>	<b>97.0</b>	<b>122.2</b>	<b>26.0</b>	<b>956.6</b>	<b>12.8</b>
Tax Revenues	55.7	67.4	21.1	784.6	8.6
Other Revenues	41.3	54.8	32.7	172.0	31.8
<b>Budget Balance</b>	<b>5.1</b>	<b>21.5</b>	<b>322.4</b>	<b>-138.9</b>	<b>-</b>
<b>Primary Balance</b>	<b>12.4</b>	<b>34.2</b>	<b>176.9</b>	<b>0.1</b>	<b>-</b>

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

Source: Datastream , Ministry of Treasury and Finance

## Inflation

### Monthly CPI came in at 0.35% in February.

In February, CPI increased by 0.35% mom, below the expectations. The market's CPI expectation for this period was 0.65%. Domestic PPI (D-PPI) posted an increase of 0.48% in February.

### Annual CPI inflation increased to 12.37%.

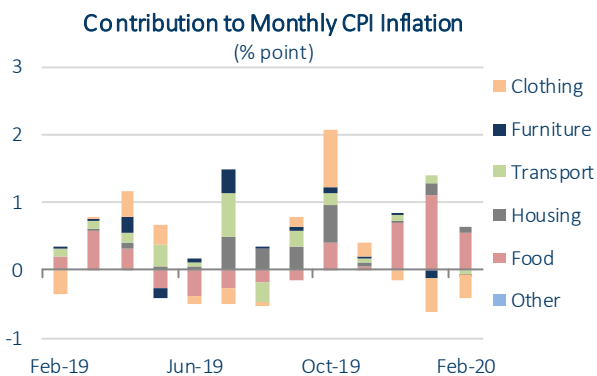
The upward trend in annual consumer inflation since November 2019 continued also in February. In this period, annual CPI increase reached its highest level since August 2019 and became 12.37%. Likewise, D-PPI inflation rose to 9.26%, the highest level in the last 6 months.

February (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	0.16	0.35	0.09	0.48
Annual	19.67	12.37	29.59	9.26
Annual Average	17.93	13.94	29.97	14.18

### Food prices are influential in the course of CPI.

In February, prices in 6 out of 12 main expenditure groups increased compared to the previous month, while prices decreased in the other 6 groups. In this period, the food and non-alcoholic beverages group, where prices increased by 2.33% mom, made the highest contribution to monthly CPI inflation with 54 bps. Increases in unprocessed food prices, especially in fresh fruits and vegetables, were influential in this development. Out of the top 10 selected items, which posted the highest increases on a monthly basis, 9 products were from food group.

Clothing and footwear group prices fell by 4.83% in February due to seasonal factors and limited the monthly CPI increase by 31 bps. Downward trend in oil prices due to coronavirus concerns, put pressure on prices of transportation group in Turkey. The transportation group pulled monthly inflation down by 6 bps, due to decline in gasoline and diesel prices, albeit at a limited level.



### Core inflation indicators...

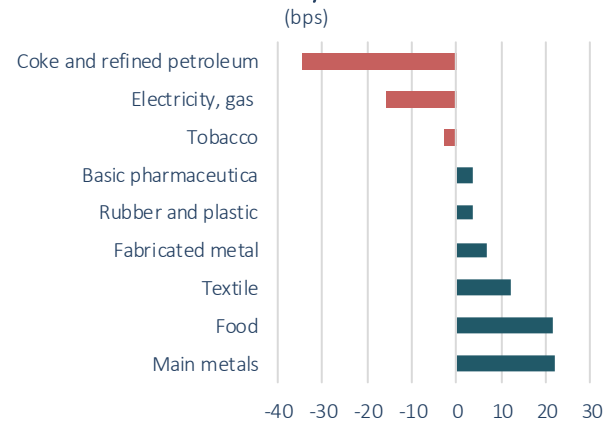
The gradual rise in core inflation indicators B and C, which are closely monitored by the CBRT, continued in February. The annual increases in the B and C indices were realized as 11.1% and 9.97%, respectively.

### Decline in energy prices...

In February, the main metals and food sub-sectors continued to play important roles in the increase of D-PPI. The said two groups contributed to the monthly D-PPI inflation by 22 and 21 bps, respectively.

Despite the rise in foreign exchange rates, around 13% drop in oil prices in global markets was the main factor limiting the increase in D-PPI in February. The coke and refined petroleum products sub-sector, where prices decreased by 8.96% mom, limited the monthly increase in the D-PPI by 35 bps, while the 2.4% decline in electricity and gas prices lowered monthly D-PPI by 15 bps.

### Contributions of Featured Sub-Sectors to Monthly D-PPI



### Expectations...

Although the weak course in oil prices is a positive factor for domestic inflation indicators; the increasing volatility in financial markets due to geopolitical developments, and possible supply shortage in raw materials and consumer goods imported from China stand out as risk factors that may put upward pressure on inflation. In this context, we maintain our forecast that the annual CPI increase will be at two digit levels in the first half of the year.



	31-Jan	28-Feb	Change
5-Y CDS (basis points)	240	373	134 bps ▲
TR 2-Y Benchmark Yield	10.20%	12.41%	221 bps ▲
BIST-100	119,140	105,994	-11.0% ▼
USD/TRY	5.9850	6.2493	4.4% ▲
EUR/TRY	6.6326	6.8645	3.5% ▲
Currency Basket*	6.3088	6.5569	3.9% ▲

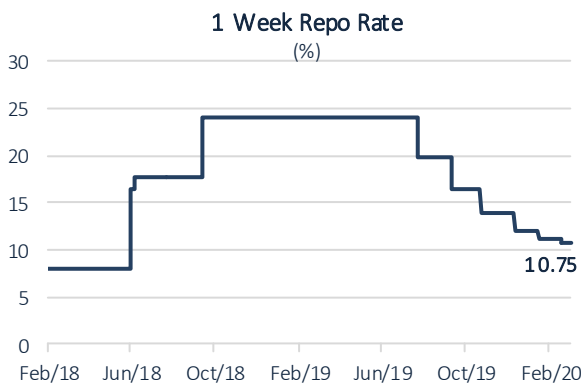
(\*) (0.5 USD/TRY + 0.5 EUR/TRY)

### Along with coronavirus concerns, geopolitical developments were effective in the domestic markets.

The spread of the coronavirus epidemic to countries outside China affected the global risk appetite negatively. Increasing virus-related concerns led to stronger demand for safe haven assets. In addition to the deterioration in the global risk perception, geopolitical developments and the CBRT's interest rate decision were monitored in Turkey.

### CBRT cut policy rate by 50 basis points.

At the Monetary Policy Committee meeting in February, the CBRT lowered the policy interest rate by 50 basis points to 10.75%. Stating that inflation indicators followed a mild course, the Central Bank expressed that the current outlook is considered to be broadly in line with the year-end projections. In this context, CBRT emphasized that the latest rate cut was more measured than the previous ones while predicting that the recovery in economic activity would continue. The Bank also stated that the impact of protectionist trade policies and global factors such as coronavirus outbreak on Turkish economy would be closely followed.



### BRSA revised banks' swap limits.

BRSA announced that the total notional amount of banks' currency swaps, forwards, options and other similar derivative transactions with non-residents, where banks receive TRY at the maturity date, would be limited not to exceed 10% of the bank's most recently calculated capital. Above-mentioned ratio was applied as 25% before this announcement. The fees that banks can charge their commercial clients and financial consumers were revised downwards during February.

### Fitch affirmed Turkey's credit rating and outlook.

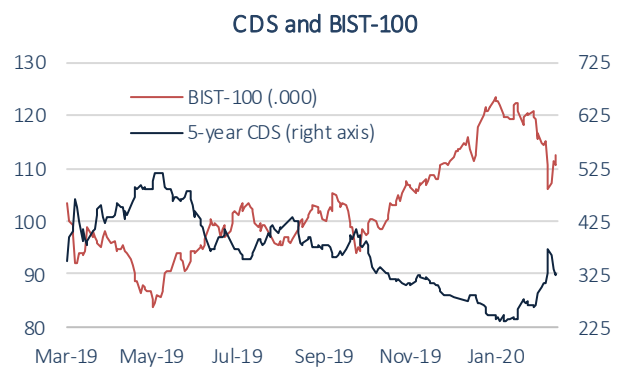
Fitch affirmed Turkey's "BB-" credit rating and kept rating outlook as "stable". Pointing out that economic growth accelerated due to the improvement in financing conditions, the Agency increased the economic growth forecast for 2020 from 3.1% to 3.9%. Fitch predicted that inflation will be 10.5% at the end of this year and 10% at the end of 2021. OECD, on the other hand, reduced growth forecast for Turkey from 3% to 2.7% for 2020 and raised from 3.2% to 3.3% for 2021.

### The Treasury's February borrowing program remained below the projection.

Turkish Treasury borrowed a total of 19 billion TRY from the market despite a planned amount of 21 billion TRY in February. In this period, domestic debt service was 25.5 billion TRY. The compound interest rate of the 2-year benchmark bond increased by 221 basis points compared to the previous month and reached 12.41% at the end of February.

### TRY depreciated in February.

Turkish lira assets remained under pressure in February due to geopolitical developments. Turkey's 5-year CDS premium increased by 134 bps from the last trading day of January and closed February at the level of 373. BIST-100 index, which had a fluctuating course throughout the month, fell by 11% in February and closed the month at 105.994. USD/TRY, which started February around 5.99, rose to 6.25 at the end of the month. In the same period, EUR/TRY increased from 6.63 to 6.86.

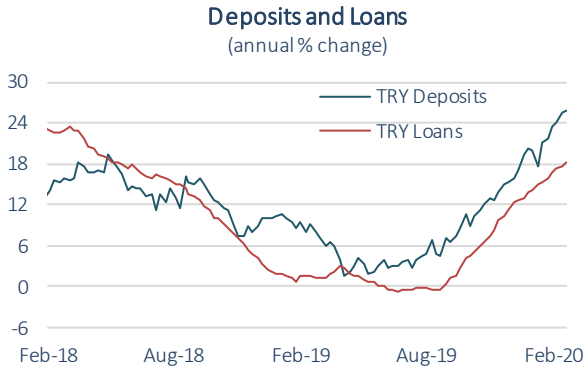


Source: CBRT, Datastream, Reuters, BIST

## Banking Sector

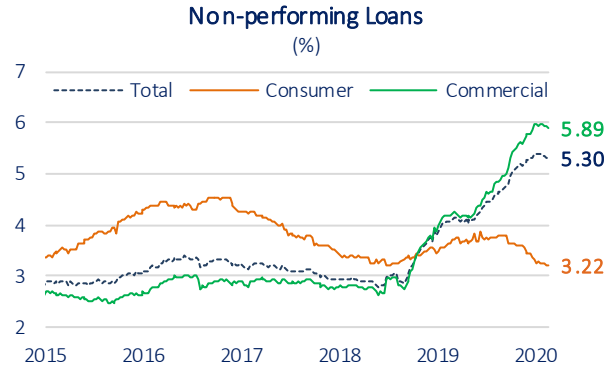
### FX deposit volume continued to rise.

The deposit volume, expanding by 27.3% yoy and by 3.3% ytd, reached 2,653 billion TRY as of February 21. Annual increase of FX rate adjusted deposit volume was realized as 18.8%. TRY deposit volume increased by 25.2% compared to the same period of last year and reached 1.292 billion TRY. FX deposits in USD terms increased by 12.2% in this period. After climbing to historic high levels in mid-January and then decreasing slightly, FX deposit volume in USD terms expanded by 2.7 billion USD compared to the end of January.



### Non-performing loan ratio became 5.3%.

As of February 21, the amount of gross non-performing loan increased by 50% on an annual basis to 152.3 billion TRY. NPL ratio, which completed 2019 with 1.7 points increase at 5.3%, maintained this level as of February 21. While the said ratio was realized as 3.6% in public banks, it became 7.5% in foreign banks and 7% in domestic private banks. Analyzing NPL in terms of loan types, NPL ratio of the banking sector was realized as 6.26% and 2.78%, for commercial loans and consumer loans, respectively.

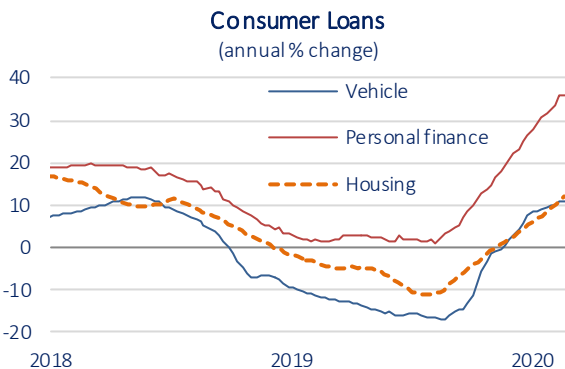


### Loan volume increased by 2.5% ytd.

As of February 21, total loan volume of the banking sector increased by 13.1% yoy and by 2.5% ytd reaching 2,719 billion TRY. Due to the depreciation in TRY, FX rate adjusted increase in loan volume was realized as 7.5% yoy. While TRY loans increased by 18.2% on an annual basis to 1,714 billion TRY, FX loans in USD terms decreased by 8.3% in the same period and came in at 165 billion USD.

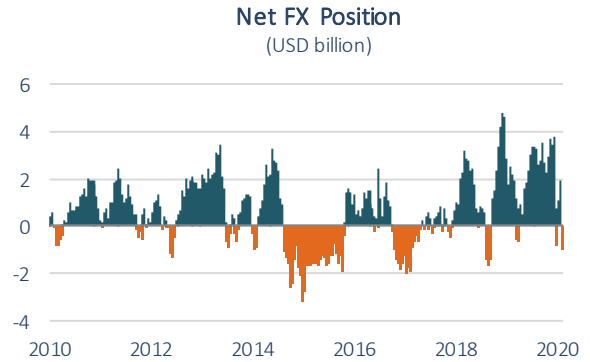
### Personal finance loans increased by 36% yoy.

Thanks to CBRT's interest rate cuts, upward trend in consumer loans (excluding personal credit cards) since August 2019 continued. As of February 21, consumer loans increased by 22.2% on an annual basis. In line with the recovery of the automotive market, vehicle loan volume also expanded by 10.8% yoy, while the rise in housing loans was 11.8% yoy. The annual increase in total consumer loans was 36.1% as of February 21.



### Net foreign currency position...

As of February 21, banks' on-balance sheet FX position was (-)42,429 million USD, while off-balance sheet FX position was (+)42,115 million USD. Hence, banking sector's net FX position was realized as (-)314 million USD.



Source: BRSA Weekly Bulletin

## Concluding Remarks

The coronavirus outbreak remained at the top of global economic agenda. The spread of the virus outside China raises concerns that the loss in economic activity will not be limited to China and that the virus will significantly limit global economic growth. With these concerns, the Fed cut the federal fund rates by 50 bps at its extraordinary meeting held on March 3<sup>rd</sup>.

Demand for safe haven assets rose significantly in February, while US treasury bond yields fell to historically low levels. Gold prices saw the peak of 7 years in February. Meanwhile, oil prices fell sharply due to concerns regarding economic activity.

Macroeconomic data for the first two months of 2020 point out that the loss in economic activity surpasses the expectations in China. Economic activity in the US and the Euro Area, where the suppressing effect of the virus has not been observed yet, drew a moderate picture in this period. On the other hand, the expectation that central banks, especially the Fed, will follow a more supportive monetary policy in the upcoming period is strengthening.

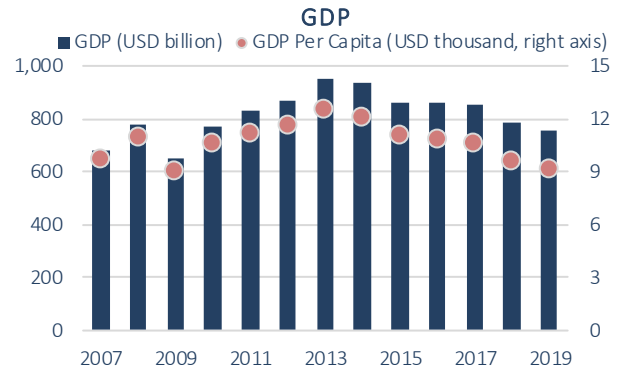
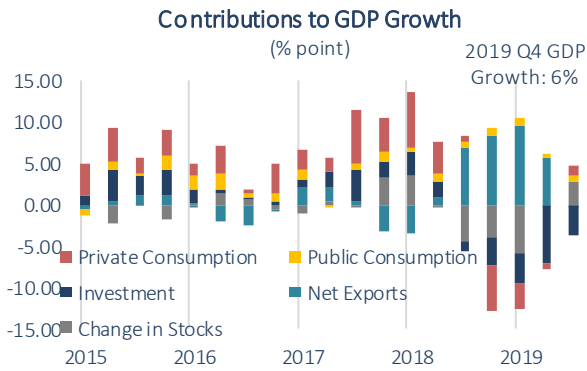
Geopolitical developments was the main agenda in Turkey and caused risk appetite towards Turkey to deteriorate. TRY assets remained under considerable selling pressure, while 5-year CDS premiums of Turkey, which completed January at 240, climbed to 373 at the end of February.

Turkish economy grew by 6% yoy in the last quarter of 2019, and by 0.9% in the whole year. Data regarding the first months of 2020 revealed that the recovery in economic activity continued. It seems that growth will accelerate in the first half of the year thanks to low base effect and delayed demand.

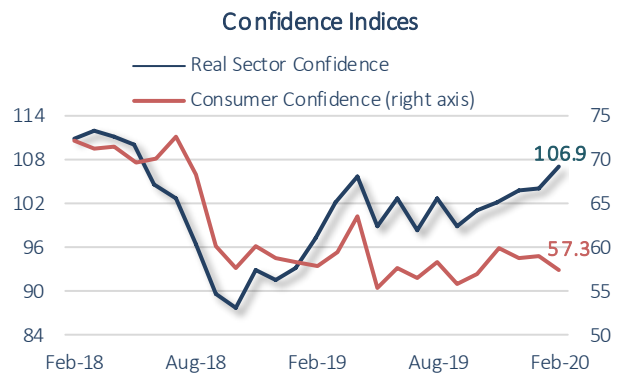
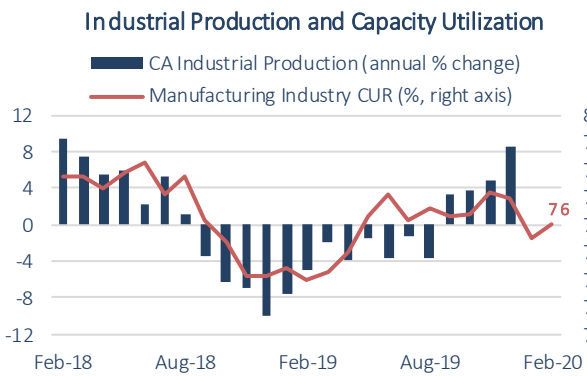
Forecasts (%)	2019 (A)	2020
Growth	0.9	4.0
Current Account Balance/GDP	0.2	-1.4
Inflation (year-end)	11.8	9.8

(A) Actual

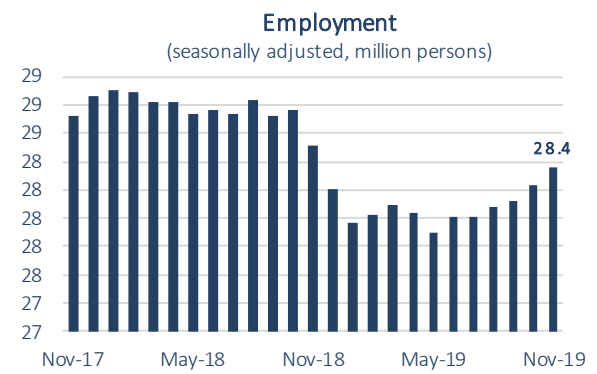
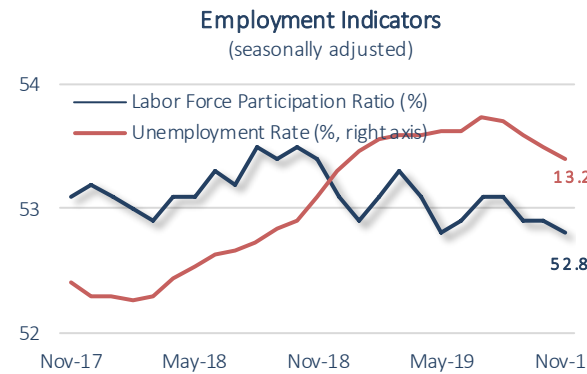
Growth



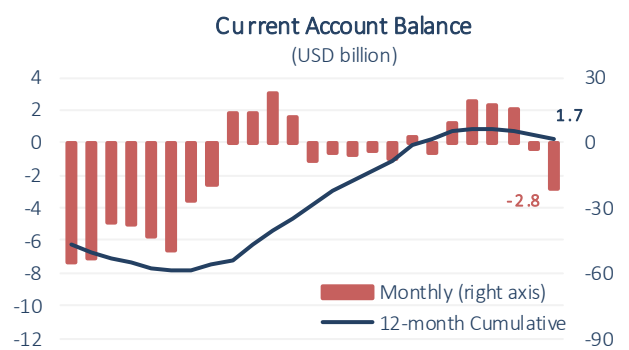
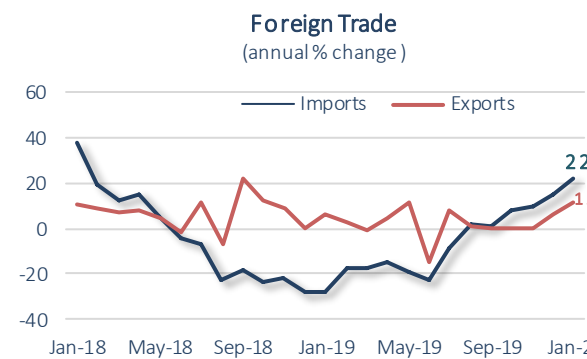
Leading Indicators



Labor Market



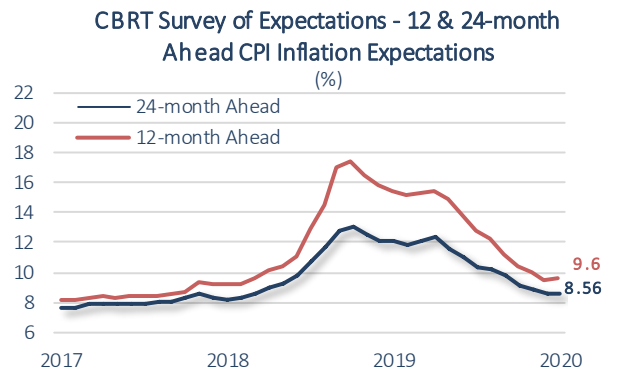
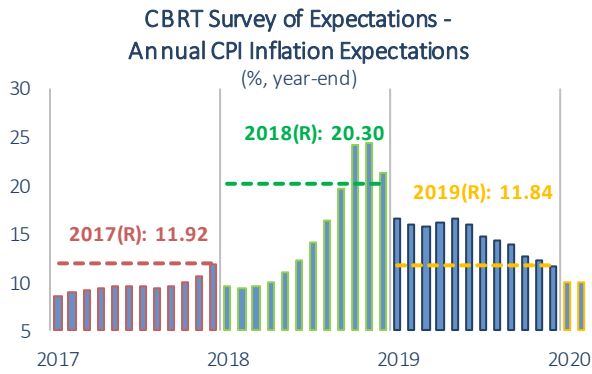
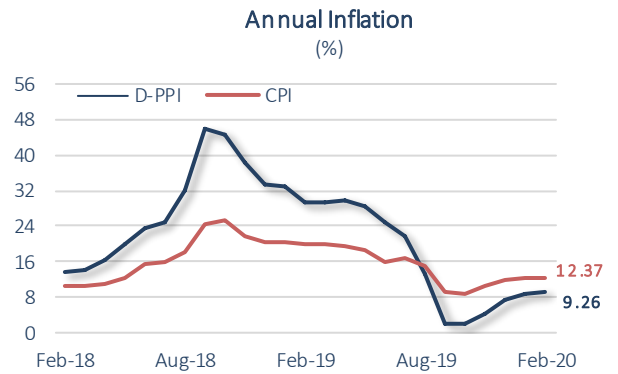
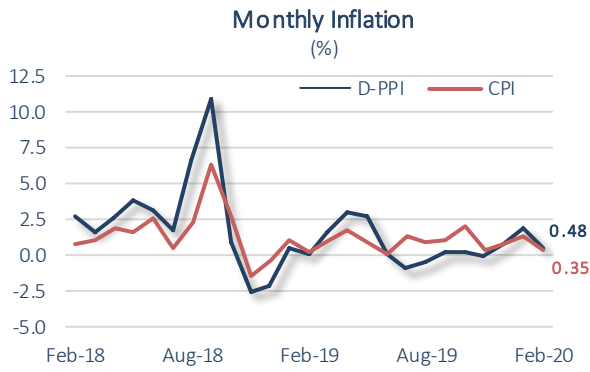
Foreign Trade and Current Account Balance



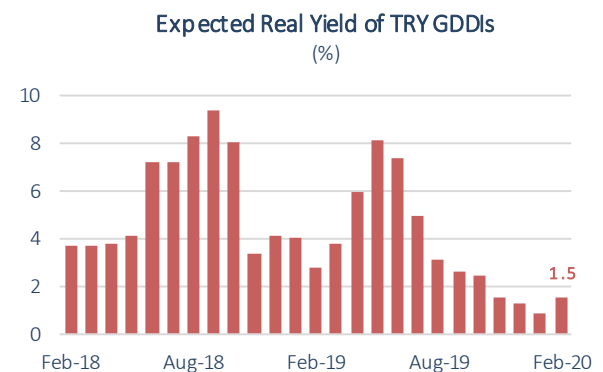
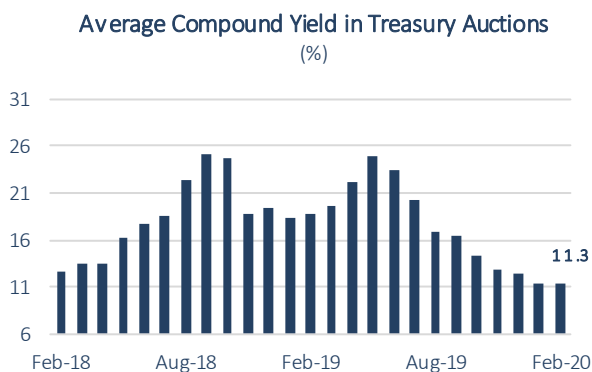
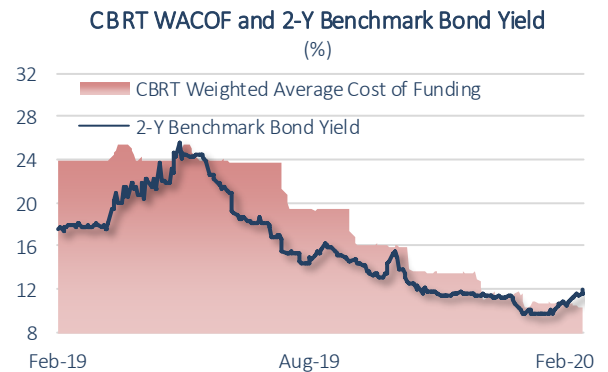
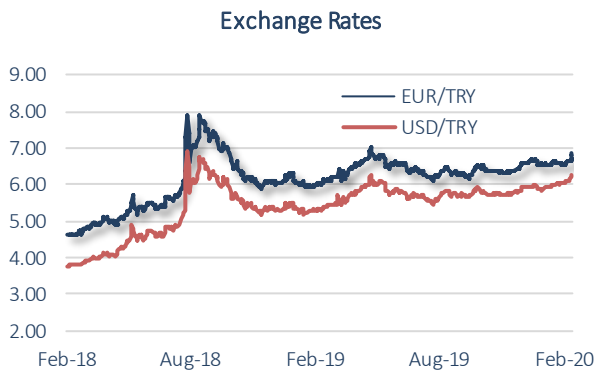
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

<b>Growth</b>	2015	2016	2017	2018	2019	
GDP (USD billion)	862	863	853	789	754	
GDP (TRY billion)	2,339	2,609	3,111	3,724	4,280	
GDP Growth Rate (%)	6.1	3.2	7.5	2.8	0.9	
<b>Inflation (%)</b>						Jan-20
CPI (annual)	8.81	8.53	11.92	20.30	11.84	12.15
Domestic PPI (annual)	5.71	9.94	15.47	33.64	7.36	8.84
						9.26
<b>Seasonally Adjusted Labor Market Figures</b>						Sep-19
Unemployment Rate (%)	10.2	12.0	9.9	12.9		13.80
Labor Force Participation Rate (%)	51.7	52.4	53.2	53.1		13.50
						13.20
						52.90
						52.90
						52.80
<b>FX Rates</b>						Jan-20
CPI Based Real Effective Exchange Rate	99.2	93.6	86.3	76.4	76.1	75.7
USD/TRY	2.9189	3.5176	3.7916	5.3199	5.9510	5.9850
EUR/TRY	3.1708	3.7102	4.5530	6.0815	6.6800	6.6326
Currency Basket (0.5*EUR+0.5*USD)	3.0448	3.6139	4.1723	5.7007	6.3155	6.3088
						6.5569
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						Jan-20
Exports	143.8	142.5	157.0	167.9	171.5	173.1
Imports	207.2	198.6	233.8	223.0	202.7	206.2
<b>Foreign Trade Balance</b>	<b>-63.4</b>	<b>-56.1</b>	<b>-76.8</b>	<b>-55.1</b>	<b>-31.2</b>	<b>-33.2</b>
Import Coverage Ratio (%)	69.4	71.8	67.1	75.3	84.6	83.9
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						
<b>Current Account Balance</b>	<b>-32.4</b>	<b>-31.5</b>	<b>-46.6</b>	<b>-28.3</b>	<b>1.7</b>	
<b>Capital and Financial Accounts</b>	<b>-22.9</b>	<b>-22.1</b>	<b>-46.2</b>	<b>-7.8</b>	<b>2.9</b>	
Direct Investments (net)	-14.2	-10.8	-8.4	-9.4	-5.5	
Portfolio Investments (net)	15.3	-6.4	-24.1	3.1	1.1	
Other Investments (net)	-12.3	-5.7	-5.6	8.8	1.0	
Reserve Assets (net)	-11.8	0.8	-8.2	-10.4	6.3	
<b>Net Errors and Omissions</b>	<b>9.5</b>	<b>9.4</b>	<b>0.3</b>	<b>20.4</b>	<b>1.2</b>	
<b>Current Account Balance/GDP (%)</b>	<b>-3.8</b>	<b>-3.7</b>	<b>-5.5</b>	<b>-3.6</b>	<b>0.2</b>	
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						Jan-20
<b>Expenditures</b>	<b>506.3</b>	<b>584.1</b>	<b>678.3</b>	<b>830.5</b>	<b>999.5</b>	<b>100.7</b>
Interest Expenditures	53.0	50.2	56.7	74.0	99.9	12.7
Non-interest Expenditures	453.3	533.8	621.6	756.5	899.5	87.9
<b>Revenues</b>	<b>482.8</b>	<b>554.1</b>	<b>630.5</b>	<b>757.8</b>	<b>875.8</b>	<b>122.2</b>
Tax Revenues	407.8	459.0	536.6	621.3	673.3	67.4
<b>Budget Balance</b>	<b>-23.5</b>	<b>-29.9</b>	<b>-47.8</b>	<b>-72.6</b>	<b>-123.7</b>	<b>21.5</b>
<b>Primary Balance</b>	<b>29.5</b>	<b>20.3</b>	<b>8.9</b>	<b>1.3</b>	<b>-23.8</b>	<b>34.2</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-1.9</b>	<b>-2.9</b>	<b>-</b>
<b>Central Government Debt Stock (TRY billion)</b>						Jan-20
Domestic Debt Stock	440.1	468.6	535.4	586.1	755.1	761.9
External Debt Stock	238.1	291.3	341.0	481.0	573.7	574.3
<b>Total Debt Stock</b>	<b>678.2</b>	<b>760.0</b>	<b>876.5</b>	<b>1067.1</b>	<b>1,328.8</b>	<b>1,336.2</b>

(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	Jan.20	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>2,357</b>	<b>2,731</b>	<b>3,258</b>	<b>3,867</b>	<b>4,492</b>	<b>4,534</b>	<b>0.9</b>
<b>Loans</b>	<b>1,485</b>	<b>1,734</b>	<b>2,098</b>	<b>2,395</b>	<b>2,657</b>	<b>2,683</b>	<b>1.0</b>
TRY Loans	1,013	1,131	1,414	1,439	1,642	1,678	2.2
Share (%)	68.2	65.2	67.4	60.1	61.8	62.5	-
FX Loans	472	603	684	956	1,015	1,006	-0.9
Share (%)	31.8	34.8	32.6	39.9	38.2	37.5	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	151.9	1.2
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	5.4	-
<b>Securities</b>	<b>330</b>	<b>352</b>	<b>402</b>	<b>478</b>	<b>661</b>	<b>672</b>	<b>1.7</b>
<b>TOTAL LIABILITIES</b>	<b>2,357</b>	<b>2,731</b>	<b>3,258</b>	<b>3,867</b>	<b>4,492</b>	<b>4,534</b>	<b>0.9</b>
<b>Deposits</b>	<b>1,245</b>	<b>1,454</b>	<b>1,711</b>	<b>2,036</b>	<b>2,567</b>	<b>2,591</b>	<b>0.9</b>
TRY Deposits	715	845	955	1,042	1,259	1,273	1.2
Share (%)	57.4	58.1	55.8	51.2	49.0	49.2	-
FX Deposits	530	609	756	994	1,308	1,317	0.7
Share (%)	42.6	41.9	44.2	48.8	51.0	50.8	-
<b>Securities Issued</b>	<b>98</b>	<b>116</b>	<b>145</b>	<b>174</b>	<b>194</b>	<b>192</b>	<b>-0.9</b>
<b>Payables to Banks</b>	<b>361</b>	<b>418</b>	<b>475</b>	<b>563</b>	<b>533</b>	<b>529</b>	<b>-0.8</b>
<b>Funds from Repo Transactions</b>	<b>157</b>	<b>138</b>	<b>99</b>	<b>97</b>	<b>154</b>	<b>135</b>	<b>-12.4</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>262</b>	<b>300</b>	<b>359</b>	<b>421</b>	<b>492</b>	<b>505</b>	<b>2.6</b>
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	7.9	-
<b>RATIOS (%)</b>							
Loans/GDP	63.5	66.5	67.6	64.7	62.1		
Loans/Assets	63.0	63.5	64.4	61.9	59.2	59.2	-
Securities/Assets	14.0	12.9	12.3	12.4	14.8	14.8	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.2	57.2	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.6	103.6	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	18.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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