June 2020

Global Economy

As the spread of Covid-19 pandemic declines in many countries, normalization measures have started to be taken around the world. Despite a second wave risk, normalization steps support optimistic expectations over the economic recovery.

The European Commission announced a recovery package worth of 750 billion EUR aiming to support post-pandemic economic activity while Japan introduced a new stimulus package worth of 1.1 trillion USD.

In the May economic outlook report, Fitch revised its global GDP contraction forecast for 2020 from 3.9% to 4.6%.

PMI data indicated that the momentum loss in global economic activity slowed in May. In this period, manufacturing and services PMI figures in China exceeded 50 threshold levels.

Oil prices followed an upward trend due to the expectations that global demand will recover and production cuts will be extended.

According to the revised data, the US economy contracted by 5% qoq on an annualized basis in the first quarter of 2020. Total jobless claims recorded in the last 10 weeks exceeded 40 million people.

Although the rising US-China tension and the protests in the US have put some pressure on the risk perception in recent weeks, global markets continue to recover.

According to the data of the International Institute of Finance, portfolio inflows to emerging markets stood at 4.1 billion USD in May.

Turkish Economy

Parallel to other countries, Turkey also began to ease the quarantine measures in May as the spread of outbreak has started to slow down.

In Turkey, economic activity expanded by 4.5% in the first quarter of the year compared to the same period of last year. In this period, consumption expenditures supported growth, while net exports limited.

Industrial production contracted by 2% yoy in March. Thanks to the increases in January and February, industrial production expanded by 4.4% yoy in the first quarter of the year, and had a parallel performance to GDP growth. Manufacturing PMI, which decreased to 33.4 in April, became 40.9 in May.

Along with the expansion in foreign trade deficit, 12-month cumulative current account surplus decreased to 1.5 billion USD in March.

Virus outbreak continued to effect central government budget in April. In this period, budget deficit expanded by 136% on an annual basis and reached 43.2 billion TRY.

In May, CPI increased by 1.36% mom, while annual CPI inflation became 11.39%. In this period, domestic PPI increased by 1.54% mom and 5.53% yoy.

CBRT cut the policy rate by 50 bps in its May meeting and announced that the amount of the swap agreement with Qatar Central Bank was increased from 5 billion USD to 15 billion USD.

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First quarter GDP growth came in below expectations.

Following the recovery trend in the second half of last year, Turkish economy continued to expand in the first quarter of 2020 albeit losing some speed. The sharply lower performance in economic activity during the last two weeks of March, when restrictive measures were started to be introduced due to coronavirus pandemic, was behind a lower-than-expected growth figure. According to the chain volume index, in the first quarter of 2020, Turkish economy expanded by 4.5% yoy. Market expectations were around 5.5% for this period. Seasonally and calendar adjusted figures also showed that Turkish economy decelerated in the first quarter and grew by 0.6% qoq.

As of the first quarter, annualized GDP in Turkey rose to 4.4 trillion TRY at current prices. In this period, annualized GDP in USD terms became 758 billion USD.

GDP (chain linked volume index, 2009=100)

	Calendar adj. (yoy, %)	Seasonally and calendar adj. (qoq, %)
2018 Q1	7.3	1.3
2018 Q2	5.9	0.0
2018 Q3	2.7	-1.3
2018 Q4	-3.0	-2.9
2019 Q1	-2.0	2.1
2019 Q2	-1.5	1.1
2019 Q3	0.6	0.7
2019 Q4	6.0	1.9
2020 Q1	4.2	0.6

Consumption expenditures boosted growth.

Consumption expenditures added 4 pps to the annual GDP growth in 2020-Q1. 3 pps of this contribution came from private consumption expenditures while 0.9 pps came from public spending. The breakdown of household consumption expenditures showed that services expenditures made the largest contribution to growth in this period while this was followed by durable goods consumption expenditures. In the first quarter, change in stocks also played an important role in growth performance by contributing 5.3 pps to annual growth figure.

Net export dragged down the growth.

In line with the rise in imports due to the recovery in economic activity since the second half of 2019, net exports continued to lower the growth in the first quarter. Import volume, which limited the growth by 5.8 pps in the last quarter of 2019, dragged down the growth by 4.1 pps in the first quarter of 2020. In this period, export volume too made a negative contribution to growth for the first time since the third quarter of 2016. In this period, the fall in exports in real terms was limited with 1% reducing growth by 0.2 pp.

Downward trend in investment expenditures continued.

Investment expenditures fell for the seventh quarter in a row in the first quarter of 2020. Having fallen by 0.6% yoy in the previous quarter, investment expenditures contracted by 1.4% yoy in the first quarter this year. In this period, investment expenditures dragged down the growth by 0.4 pp. Construction investments continued to be the main factor pushing down overall investment expenditures. Construction investments, which have a share of 50% in total investment expenditures at current prices, fell by 10.2% yoy in real terms. On the other hand, machinery and equipment investments, which have a share of 40% in total investment expenditures at current prices, rose by 8.4% yoy in real terms. Machinery and equipment investments had also recorded a strong increase in 2019 Q4.

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

	2017	2018					2019					2020
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1
Consumption	4.5	4.4	2.9	1.2	-3.9	0.9	-2.2	-0.1	1.8	4.3	1.1	4.0
Private	3.8	3.7	1.6	0.4	-4.7	0.0	-3.1	-0.6	1.1	3.9	0.4	3.0
Public	0.7	0.7	1.3	0.8	0.8	0.9	0.9	0.5	0.7	0.4	0.6	0.9
Investment	2.4	3.0	1.9	-1.3	-3.5	-0.2	-3.7	-7.1	-3.5	-0.2	-3.6	-0.4
Change in Stock	0.4	3.4	-0.1	-4.4	-3.9	-1.5	-5.8	-0.1	2.9	6.5	1.1	5.3
Net Export	0.1	-3.4	1.0	6.8	8.4	3.6	9.4	5.7	-0.2	-4.7	2.3	-4.3
Exports	2.5	0.2	1.0	3.1	2.2	1.7	1.9	1.8	1.2	1.0	1.5	-0.2
Imports	-2.4	-3.6	0.0	3.7	6.2	1.9	7.5	3.9	-1.5	-5.8	0.8	-4.1
GDP	7.5	7.4	5.6	2.3	-2.8	2.8	-2.3	-1.6	1.0	6.0	0.9	4.5

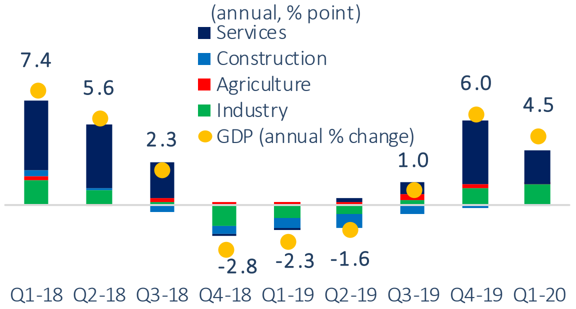
Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

GDP figures by production approach...

As data by production approach revealed, all the main sub -sectors except construction provided a boost to the GDP growth in the first quarter of 2020. In this period, services sector accounted for the largest contribution to growth by 2.2 pps. Industrial sector made its highest contribution since the first quarter of 2018 with 1.3 pps. The construction sector, however, pushed the growth down for the seventh consecutive quarter by limiting it by 0.1 pp.

Contributions to GDP Growth by Production Approach*
(annual, % point)



Expectations...

A lower-than-expected growth in the first quarter supported pessimistic expectations about the impact of Covid-19 for the second quarter. Against this backdrop, the annual drop in GDP in the second quarter is expected to reach double digit rates. In the second half of the year, on the other hand, we anticipate that economic activity will recover along with the measures taken to support the economy and the recent normalization steps. Despite adverse external demand conditions, the decline in commodity prices, particularly oil, signals that the risks on net export performance may be relatively balanced. Gradual easing of restrictive measures around the world and the uncertainty regarding the course of the pandemic will continue to be important factors that may affect economic activity in Turkey in the period ahead.

(*) Taxes and subsidies are not included.

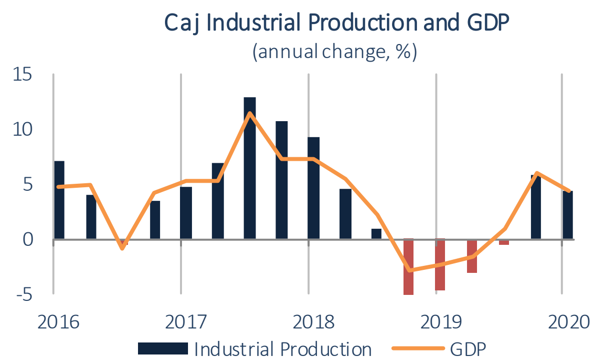
Source: Datastream, Turkstat

Unemployment rate became 13.6% in February.

According to TURKSTAT, unemployment rate decreased by 1.1 pts compared to the same period of last year and was realized as 13.6%. In this period, despite the number of employed people decreased by 602K, the decline in workforce by 1.1 million people led the unemployment rate diminish. Depending on the said development, the labor force participation rate fell to 49.9% in February, reaching its lowest level since March 2014. The seasonally adjusted unemployment rate remained unchanged compared to the previous month at the level 12.7%.

Industrial production expanded by 4.4% in the first quarter.

The effect of the virus outbreak on industrial production began to be felt in March. Calendar adjusted industrial production fell by 2% in March compared to the same month of last year. In this period, 16.6% annual decline in the production of durable consumer goods was significant. The fastest contraction in the manufacturing industry was recorded in motor vehicles with 20.3%, followed by clothing with 16.5% and by other transport equipment with 15.3%. In the same period, thanks to increasing demand, the production of food, paper and chemical products increased by more than 5%. Industrial production expanded by 4.4% in the first quarter of the year compared to the same period of last year thanks to the high rate of expansion recorded in the first two months.

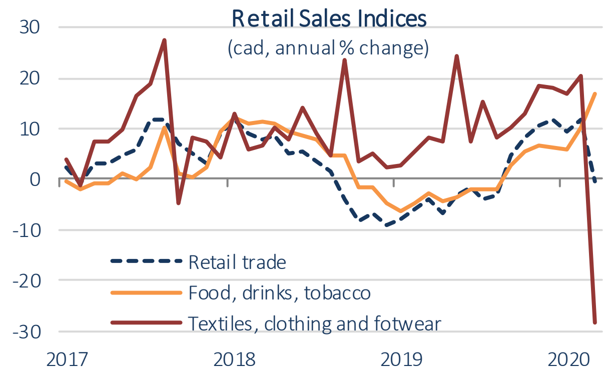


Manufacturing PMI increased to 40.9 in May.

Manufacturing PMI, which fell to 33.4 in April along with the severe measures taken, rose to 40.9 in May. The index indicated that the contraction in the sector continued, whereas sub-indexes of PMI pointed to a gradual improvement. As some businesses resumed production, production sub-index rose from 16.9 in April to 32.4 in May. In this month, the new orders sub-index also recovered slightly, albeit continued to contract. On the other hand, input costs recorded the fastest increase of the last 12-months due to exchange rate developments.

Non-food retail sales contracted sharply in March.

The weak consumption demand due to the virus outbreak led a rapid decline in non-food retail sales in March. According to calendar adjusted figures, retail sales fell by 0.2% on an annual basis while non-food retail sales (except automotive fuel) decreased by 8.7% in the same period. Retail sales in textile, clothing and footwear group, among the main expenditure groups, fell sharply by 28.5% yoy. On the other hand, due to the quarantine measures, food expenditures increased by 17% yoy in March, while pharmaceutical product expenditures expanded by 7.4% yoy.

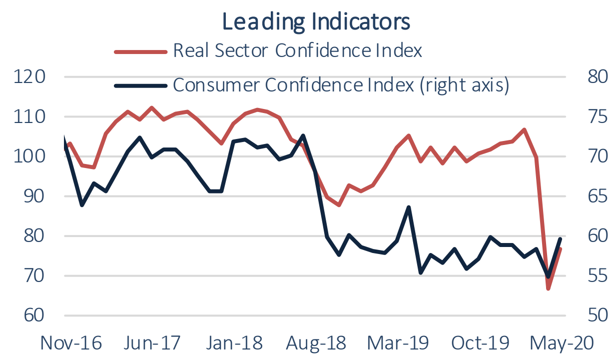


House sales fell sharply in April.

House sales in Turkey dropped by 55.5% yoy and became 42,783 units in April because of virus outbreak. Despite the fall in interest rates, mortgaged sales decreased by 23.9% yoy, while other sales fell by 65.1%. In the first four months of the year, mortgaged sales rose by 141.4% yoy, while total sales increased by 8.9%.

Confidence indices recovered slightly in May.

Normalization steps in May reflected positively on confidence indices. In this period, real sector confidence index increased by 10.1 pts compared to the previous month and reached 76.9. Despite the negativity in the total orders in the last three months, expectations regarding the export orders and production volume for the next three months pushed the index upwardly. Following the sharp fall in April, the consumer confidence index also rose by 4.6 points mom to 59.5 in May. In April, the index was 54.9, the lowest level of the data set which started to be collected in 2004.



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

Foreign trade deficit expanded by 67% in April.

According to TURKSTAT data, exports declined by 41.4% yoy to 9 billion USD in April, while imports shrank by 25% yoy to 13.6 billion USD. Thus, foreign trade deficit widened by 67% yoy and reached 4.6 billion USD. During January-April 2020, the deficit rose by 102.3% yoy. The import coverage ratio, which was 87.4% in January-April 2019, declined to 74.7% in the same period of this year.

Current account deficit became 4.92 billion USD in March.

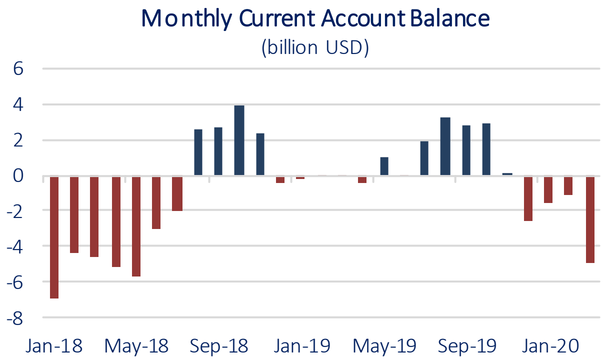
In March, current account deficit was realized as 4.92 billion USD, beating market expectations which were around 4 billion USD. The current account deficit was 120 million USD in March 2019. The rapid increase in foreign trade deficit (approximately 6 times yoy) as well as the decrease in service revenues due to the virus outbreak played role in the expansion of the current account deficit. In this period, decrease in net tourism revenues by 529 million USD (50.7% yoy) came to the fore in the loss of service revenues.

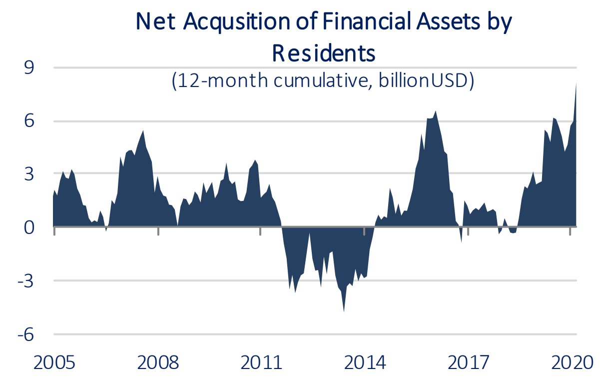
current account surplus decreased to 1.5 billion USD as of March 2020.

Strong outflow in portfolio investments...

In March, nonresidents' net direct investments were realized as 974 million USD in Turkey. While real estate investments maintained their share in direct investments, equity capital investments decreased compared to last year.

Due to decreasing risk appetite on global scale, portfolio investments posted historically high capital outflow in March with 5.5 billion USD. In this period, non-residents made net sales in equity market and government domestic debt securities market by 1.1 billion USD and by 2.1 billion USD, respectively. In the same period, capital outflows stemming from net acquisition of financial assets abroad by domestic residents were realized as 2.2 billion USD. Thus, 12-month cumulative capital outflow increased to the historical level of 8.2 billion USD in March.





The current account deficit, which remained low because of the weakness in economic activity in the first quarter of 2019, became 7.6 billion USD in the same period of this year. In addition to the pressure on export volume, the increase in import volume in January-February period also played a role in this development. 12-month

Other investments also posted net capital outflow of 3 billion USD in March. This development was mainly driven by a decrease of 2.6 billion USD in nonresident banks' deposits held within domestic banks. In March, General Government, banks and other sectors were net loan repayers. According to 12-month cumulative

Net Capital Flows

	(million USD)		Share in Financing (%)	
	Dec. 2019	Mar. 2020	Dec. 2019	Mar. 2020
Current Account Balance	8,691	1,463	61.1	7.2
Total Net Foreign Capital Flows	2,789	-16,539	-	-
-Direct Investment	5,507	5,547	38.7	27.3
-Portfolio Investment	-1,246	-16,286	-	-
-Other Investment	-1,506	-5,797	-	-
-Other	34	-3	0.2	-
Net Errors and Omissions	-8,168	-9,798	-	-
Reserves(1)	-6,324	13,282	-	65.5

Note: The numbers may not add up total due to rounding.
(1) (-) sign indicates an increase in reserves, while (+) sign indicates decrease.

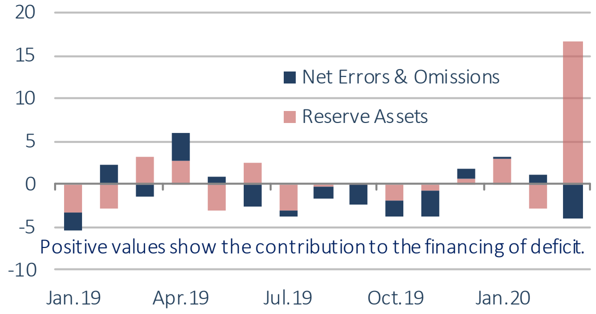
Source: CBRT, Datastream

figures, the long-term debt roll-over ratio of the banking sector was 74% as of March, while this ratio decreased to 84% in other sectors.

Reserves decreased by 16.6 billion USD in March.

The strong capital outflow recorded in March led the use of reserve assets in financing the current account deficit. In this period, reserve assets declined by historically high level with 16.6 billion USD. Net errors and omissions also posted a capital outflow of 4 billion USD.

Reserve Assets and Net Errors and Omissions
(monthly, USD billion)



Expectations...

The decline in exports, which started in March due to the negative effects of the coronavirus pandemic, continued to become more evident in April and May. According to preliminary data released by the Ministry of Trade exports shrank by 40.9% yoy in May, while foreign trade deficit expanded by 104.2% in this period. Although the normalization steps taken to ease measures against the outbreak are on the agenda, we think that foreign trade and tourism revenues will continue to put pressure on the current account balance in the short term. In particular, we consider that it may take time for the tourism sector to fully achieve its pre-outbreak performance.

Balance of Payments (USD million)

	Mar. 2020	Jan. - Mar. 2019	Jan. - Mar. 2020	% Change	12-month Cumulative
Current Account Balance	-4,923	-416	-7,644	1,737.5	1,463
Foreign Trade Balance	-4,289	-2,718	-9,492	249.2	-23,416
Services Balance	735	4,436	4,256	-4.1	36,701
Travel (net)	514	2,845	2,694	-5.3	25,568
Primary Income	-1,172	-2,307	-2,234	-3.2	-12,449
Secondary Income	-197	173	-174	-	627
Capital Account	-3	26	-13	-	-5
Financial Account	-8,913	-1,633	-10,530	544.8	-8,340
Direct Investment (net)	-796	-1,997	-2,037	2.0	-5,547
Portfolio Investment (net)	5,498	-8,702	6,338	-	16,286
Net Acquisition of Financial Assets	2,192	-138	3,386	-	8,178
Net Incurrence of Liabilities	-3,306	8,564	-2,952	-	-8,108
Equity Securities	-1,063	882	-2,083	-	-2,559
Debt Securities	-2,243	7,682	-869	-	-5,549
Other Investment (net)	2,974	5,983	1,692	-71.7	-5,797
Currency and Deposits	2,846	6,720	-1,733	-	-12,955
Net Acquisition of Financial Assets	281	9,561	-545	-	-2,281
Net Incurrence of Liabilities	-2,565	2,841	1,188	-58.2	10,674
Central Bank	-5	-32	-8	-75.0	2,519
Banks	-2,560	2,873	1,196	-58.4	8,155
Foreign Banks	-2,565	1,807	614	-66.0	5,041
Foreign Exchange	-2,354	528	-1,285	-	3,988
Turkish Lira	-211	1,279	1,899	48.5	1,053
Non-residents	5	1,066	582	-45.4	3,114
Loans	715	3,475	2,907	-16.3	15,793
Net Acquisition of Financial Assets	143	139	25	-82.0	254
Net Incurrence of Liabilities	-572	-3,336	-2,882	-13.6	-15,539
Banking Sector	-460	-3,121	-2,261	-27.6	-10,470
Non-bank Sectors	-3	-92	-554	502.2	-4,149
Trade Credit and Advances	-586	-4,204	512	-	-8,689
Other Assets and Liabilities	-1	-8	6	-	54
Reserve Assets (net)	-16,589	3,083	-16,523	-	-13,282
Net Errors and Omissions	-3,987	-1,243	-2,873	116.9	-9,798

Source: CBRT, Datastream

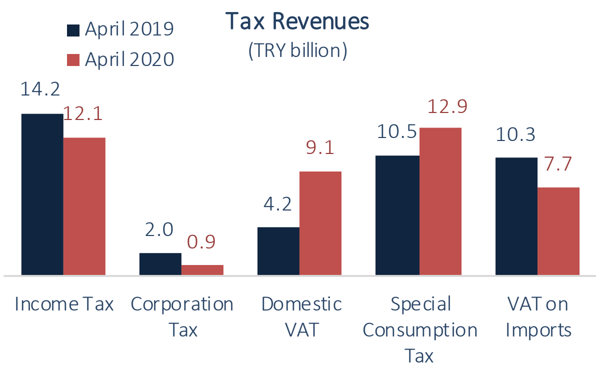
Central government budget posted a deficit of 43.2 billion TRY.

The recent measures against the economic impacts of the coronavirus pandemic weighed on budget performance in April as it was the case in March. The central government budget deficit increased by 136% yoy to 43.2 billion TRY in April. In March, the deficit was 43.7 billion TRY. Primary balance posted a deficit of 26.2 billion TRY doubling the figure recorded in April last year.

In April, budget revenues increased by 13.1% yoy to 65.2 billion TRY, while budget expenditures rose by 42.7% yoy to 108.4 billion TRY. In the first four months of the year, budget revenues and expenditures grew by 16.3% yoy and 19.2% yoy, respectively. In this period, budget deficit became 72.8 billion TRY, more than the half of the year-end target level announced at the beginning of 2020.

Tax revenues were flat on an annual basis.

Tax revenues, which were 48.8 billion TRY in April 2019, became 49.1 billion TRY in the same period this year. Domestic value added tax revenues, which fell to negative territory in March due to deferral and the refund mechanism, expanded by more than 100% yoy in April and reached 9.1 billion TRY. In this period, special consumption tax (SCT) revenues increased by 22.7% to 12.9 billion TRY. Tobacco products, which have the highest share in SCT revenues with 41% in April, recorded a rapid rise of 63.9% yoy. SCT from motor vehicles, which have a share of 10% in SCT revenues, were one and a half times higher than the level registered in April 2019 when tax cuts were in place in the sector. SCT on durable goods & others surged fast during this period with the help of the low base effect.



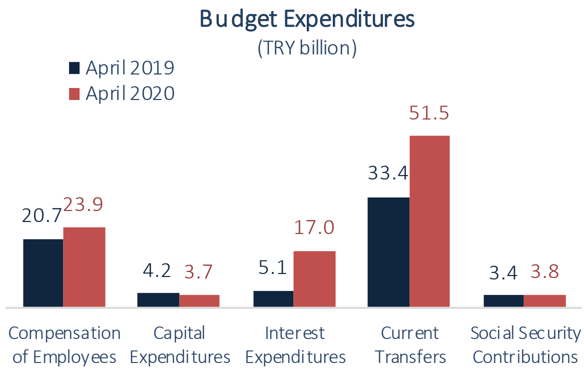
In April, value added tax (VAT) on imports, income tax and corporation tax revenues contracted on an annual basis driving the weakness in the overall figure.

Treasury aid was 36.5 billion TRY in April.

The increase in current transfers pushed up the budget expenditures in April. The Treasury aid item under the current transfers rose by 18.3 billion TRY compared to a year ago and became 36.5 billion TRY. In this period, expenditures on health, retirement & social aid accounted for 90% of this amount.

A rapid increase in interest expenditures...

Despite the downward trend in interest rates since the second half of last year, the rise in borrowing led to an increase in interest expenditures. The said item expanded by 235% yoy to 17 billion TRY in April. Domestic and foreign debt interest expenditures accounted for 80% and 16% of this amount, respectively.



Expectations...

The deterioration in supply and demand conditions due to the pandemic, as well as the public policy measures taken against it including tax deferrals, caused tax revenues to weaken in March and April. In addition to this, the steep rise in public expenditures also had a negative impact on budget balance. With the assumption that the impact of the pandemic will fade in the second half of the year, we anticipate that the budget outlook will recover somewhat, but the budget deficit target will be exceeded by the end of the year.

Central Government Budget (billion TRY)

	April		%	January-April		%	2020 Budget	Real./
	2019	2020	change	2019	2020	change	Target	Target (%)
Expenditures	**76.0**	**108.4**	**42.7**	**330.4**	**393.8**	**19.2**	**1,095.5**	**35.9**
Interest Expenditures	5.1	17.0	235.4	38.4	55.3	43.8	138.9	39.8
Non-Interest Expenditures	70.9	91.4	28.9	292.0	338.5	15.9	956.5	35.4
Revenues	**57.7**	**65.2**	**13.1**	**276.0**	**321.0**	**16.3**	**956.6**	**33.6**
Tax Revenues	48.8	49.1	0.7	203.0	225.2	10.9	784.6	28.7
Other Revenues	8.9	16.1	81.2	72.9	95.8	31.3	172.0	55.7
Budget Balance	**-18.3**	**-43.2**	**135.8**	**-54.5**	**-72.8**	**33.6**	**-138.9**	**52.4**
Primary Balance	**-13.2**	**-26.2**	**97.6**	**-16.0**	**-17.5**	**9.1**	**0.1**	**-**

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

Source: Datastream , Ministry of Treasury and Finance

In May, annual CPI increased by 11.39%.

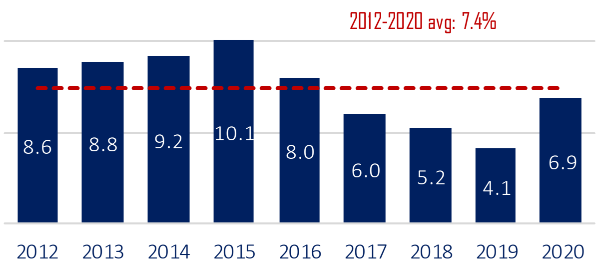
In May, CPI increased by 1.36% compared to the previous month, exceeding market expectations. According to the Reuters survey, CPI was expected to increase by 0.95% in May. In this period, increase in domestic PPI (D-PPI) was realized at 1.54%. Annual consumer inflation, which declined in March and April, rose to 11.39% in May. On the other hand, annual D-PPI inflation continued its downward trend in May and became 5.53%.

May	CPI		D-PPI	
(change %)	2019	2020	2019	2020
Monthly	0.95	1.36	2.67	1.54
Year-to-Date	4.99	4.57	7.99	6.15
Annual	18.71	11.39	28.71	5.53
Annual Average	19.91	12.10	32.85	9.14

Prices increased rapidly in clothing and footwear group.

In May, consumer prices rose in all 12 main expenditure groups. Prices in clothing and footwear group posted the highest monthly rise of 6.85%. Seasonal price increases in children's clothing played an important role in this development. Clothing and footwear group pushed monthly CPI inflation 43 bps up in May. The transportation group, which limited inflation in the previous months due to the pressures on oil prices, pushed monthly CPI inflation upwardly along with the rise in oil prices in May. The transportation group prices increased by 3.3% on a monthly basis due to the rise in fuel prices led by normalization steps. This group made the highest contribution to the monthly CPI increase with 48 bps.

Monthly Change in Clothing and Footwear Prices
(%)

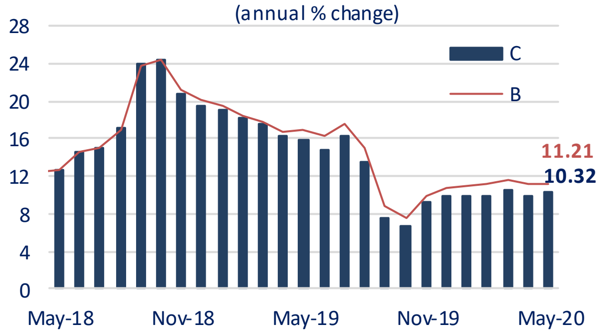


As of May, among the expenditures group alcoholic beverages and tobacco posted the highest annual price increase of 21.4%, while the said item pushed annual CPI inflation up by 101 bps. On the other hand, food group prices, having the highest weight in the expenditure groups) rose by 12.9% and contributed 311 bps to annual CPI.

Core inflation indicators...

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) posted annual increases by 11.21% and 10.32%, respectively.

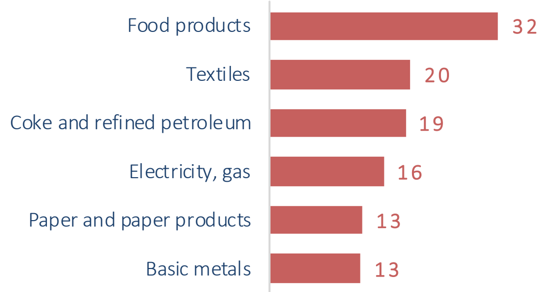
Special CPI Aggregates
(annual % change)



Food group pushed D-PPI upwardly.

The food products sub-sector made the highest contribution to the monthly increase in D-PPI in May with 32 bps. Textiles and coke&refined petroleum products have also pushed monthly D-PPI inflation up by 39 bps in total. On the other hand, the crude petroleum and natural gas sub-sector continued to limit the increase of the D-PPI in May.

Contributions to the Monthly D-PPI Inflation
(basis points)



Expectations...

The spread of coronavirus pandemic has started to slow down enabling normalization steps to be taken on a global scale. The effects of normalization steps are reflected on commodity prices. Accordingly, an upward pressure on inflation is expected through the cost channel. Foreign exchange developments will also be effective on the course of prices.

Source: Datastream, Turkstat

	30-Apr	29-May	Change	
5-Y CDS (basis points)	571	550	-20 bps	▼
TR 2-Y Benchmark Yield	8.91%	9.17%	26 bps	▲
BIST-100	101,110	105,520	4.4%	▲
USD/TRY	6.9895	6.8215	-2.4%	▼
EUR/TRY	7.6556	7.5879	-0.9%	▼
Currency Basket*	7.3226	7.2047	-1.6%	▼

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

The recovery in global markets reflected on domestic markets in May.

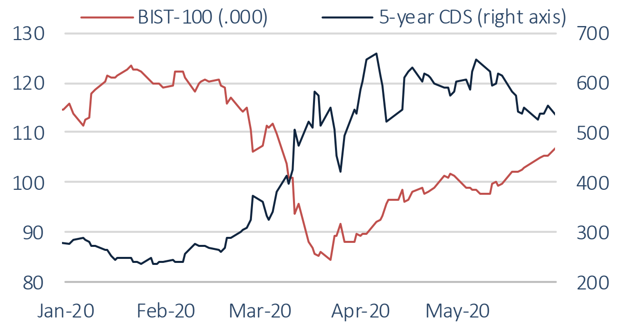
The gradual removal of measures taken against the coronavirus outbreak in May supported the global markets throughout the month. On the other hand, concerns regarding the second wave of outbreak, as well as negative news regarding the global economic outlook, limited the rise in the markets. In addition, the tension between the US and China suppressed the increase in risk appetite.

In line with the recovery in global markets, risk perception towards Turkey also improved. Turkey's 5 year CDS premiums decreased by 20 bps in May and were realized as 550 bps at the end of the month.

BIST-100 maintained its upward trend.

In May, equity indices were supported by the economic recovery expectations on a global scale. Thanks to this positive global trend, BIST-100 index completed May with an increase of 4.4%.

CDS and BIST-100

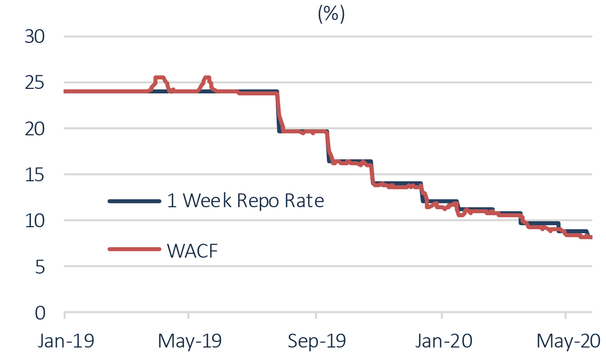


CBRT cut the policy rate and amended swap agreement with QCB.

In May, CBRT cut the policy rate by 50 basis points from 8.75% to 8.25% in line with market expectations. Thus, the total of interest rate cuts since the beginning of 2020 became 375 basis points.

Besides, on 20th May, CBRT announced that the amount of the swap agreement between the Qatar Central Bank (QCB) and CBRT has been increased from 5 billion USD to 15 billion USD. Ministry of Treasury and Finance officials also stated that Turkey’s swap negotiations with other countries continue and that the agreements will be announced as they are signed.

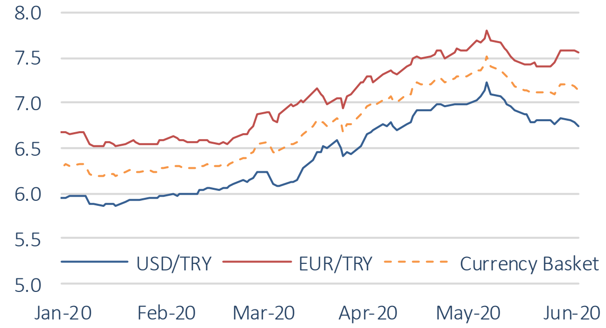
Policy Interest Rate and CBRT WACF
(%)



Swap agreement expectations supported TRY in May

Turkish lira, which decoupled negatively from other emerging market currencies in April due to rising concerns over the CBRT reserves, continued to depreciate in the first days of May. USD/TRY, which climbed to historically high level of 7.2685 on May 7th, followed a downward trend in the rest of the month thanks to the amendment of swap agreement with QCB, as well as the announcements pointing that new deals with other countries could be made. USD/TRY, which completed May with a 2.4% monthly decrease, became 6.8215 as of May 29th. EUR/TRY, on the other hand, declined slightly due to the appreciation of the euro in international markets.

FX Rates



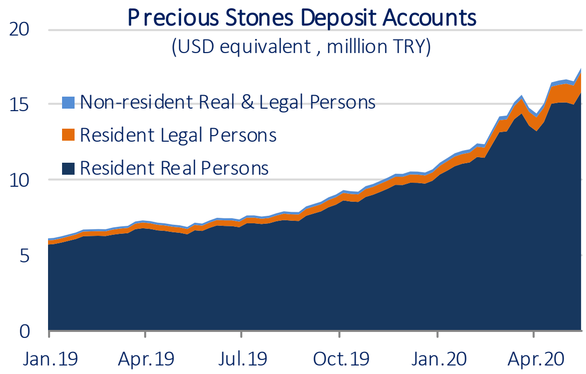
Expected real yield of TRY bonds became negative.

As of May 29th, compound yield of 2-year benchmark bond increased by 26 bps compared to the end of April and reached 9.17%. Despite CBRT's interest rate cut, the downward trend in non-residents' government securities portfolio in May as well as bond issues of the Treasury played role in the rise of the market interest rates. The return of 12-month TRY government bonds in May fell to negative levels for the first time since 2013 in real terms considering the expected inflation for the same period according to the CBRT Survey of Expectations.

Source: CBRT, Datastream, Reuters, BIST

New regulations for financial transactions…

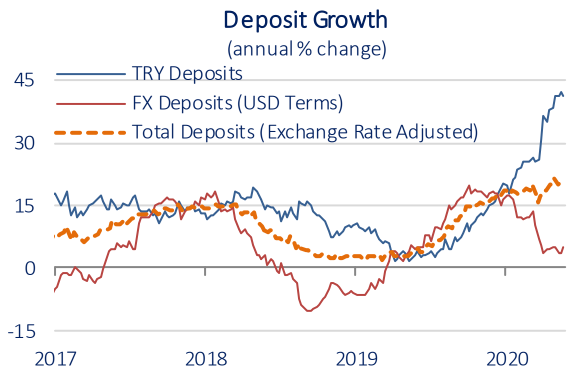
On May 5th, BRSA announced that the total amount of domestic banks' TRY placement, TRY deposit, TRY repo and TRY loan transactions with financial entities abroad are limited to 0.5% of the banks' legal equity until the extraordinary conditions caused by the coronavirus outbreak disappear. In May, new regulations regarding financial transactions were announced. Purchases of 100+ grams of gold became subject to a one-day settlement delay as of May 22nd. In addition, purchases of gold and other precious metals without physical delivery from banks started to be classified within the scope of FX transactions and became subject to Banking and Insurance Transaction Tax (BITT). BITT rate for FX transactions was increased from 0.2% to 1%. Besides, the withholding tax on income from financing bonds has been increased from 10% to 15%.



Precious Stones Deposit Accounts
(USD equivalent , milllion TRY)

TRY deposits continued to increase rapidly.

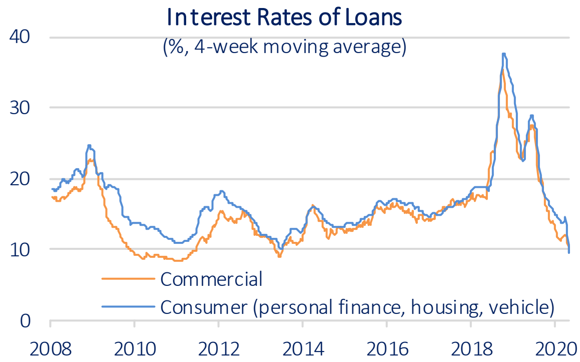
According to BRSA weekly data, the increase in TRY deposits is accelerating. As of May 22, TRY deposit volume rose by 41.3%, which is one of the fastest annual increases since 2006, and reached 1,459 billion TRY. On the other hand, FX deposit volume in USD terms, which reached historically high level at the beginning of March with 228.7 billion USD, decreased by 5.3 billion USD in the last 2 months and came in to 223.4 billion USD as of May 22. Thus, as of May 22, total deposit volume expanded by 28% yoy and reached 2.97 trillion TRY. FX rate adjusted deposit volume increased by 21.1% yoy.



Deposit Growth
(annual % change)

Interest rates are at the lowest level of more than 10 years.

According to the data released by the CBRT, on the week of April 24, annual consumer loan interest rates covering the personal finance, housing and vehicle loans have decreased to 8.45%, the lowest level since 2002. As of May 15, the said interest rate decreased by 16.9 pts yoy and became 10.9%. In this period, the interest rate of commercial loans decreased by 15.7 pts yoy to 9.7%.

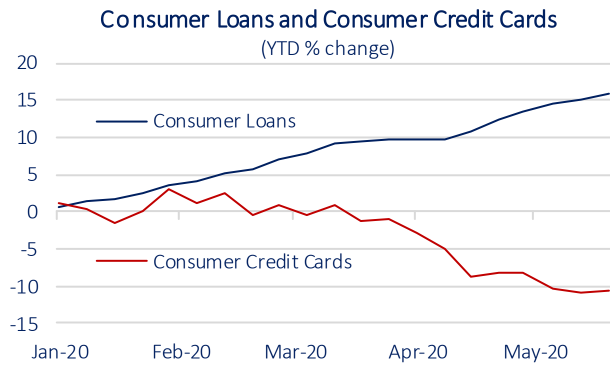


Interest Rates of Loans
(%, 4-week moving average)

TRY loan volume expanded by 33.4% yoy.

TRY loan volume, which recorded its fastest annual increase since 2011 with 33.4% as of May 22, reached 2 trillion TRY. FX loan volume in USD terms, which has been shrinking on an annual basis since the beginning of 2019, maintained this course. As of May 22, the FX loan volume was realized as 167.2 billion USD. Annual increase in FX rate adjusted total loan volume was 16.6% in this period.

Due to the quarantine measures, the use of personal credit cards has been decreasing since March. As of May 22, consumer loan volume expanded by 15.8% ytd, while consumer credit cards volume decreased by 10.5% in the same period.



Consumer Loans and Consumer Credit Cards
(YTD % change)

Non-performing loan ratio became 4.59%.

As of May 22, the non-performing loan (NPL) ratio was realized as 4.59%. In this period, NPL ratio became 5% in commercial loans and 2.92% in consumer loans.

Source: BRSA Weekly Bulletin

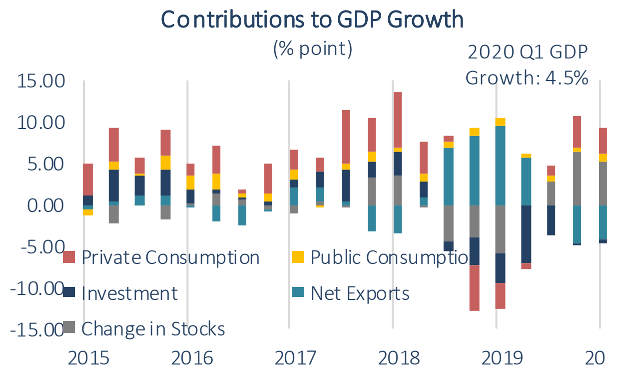
Concluding Remarks

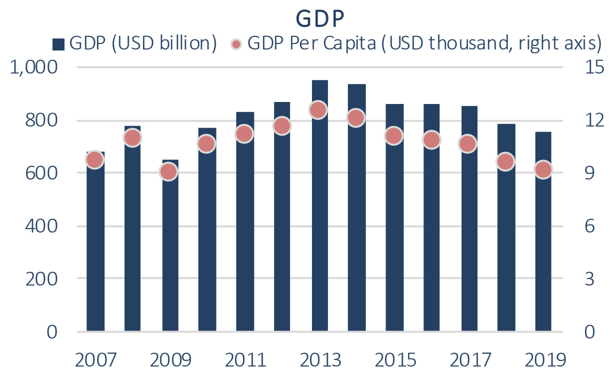
While the world economy is entering its sixth month in the fight against the Covid-19 outbreak, normalization steps covering many areas of social and economic life are being taken. The spread of the pandemic has slowed down in many countries, encouraging policy makers to ease the restrictions. That being said, the risk of experiencing new waves in pandemic causes caution about the normalization process. Although the economic data flow signals that the worst might be over, it may take longer than expected for global trade and tourism to reach the pre-crisis performance.

While gradual normalization steps take stage, new supportive measures are also on the global agenda. It was a promising development that European countries provided a deal on a package to be implemented next year aiming to ensure post-pandemic recovery. While the Fed continues to increase the size of its balance sheet to record levels with its unlimited asset purchase program, Bank of Japan and ECB announced new expansionary measures to support the economy.

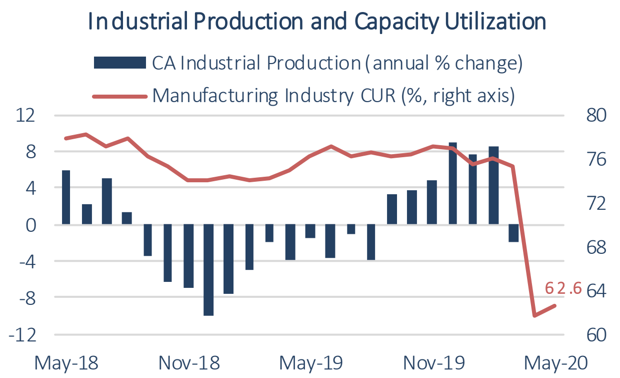
Turkey's first quarter growth announced at the end of May signaled that the economic impact of the pandemic could exceed expectations. Although confidence indicators have inched up as of May, production and trade data show that the decline in economic activity has continued. While the manufacturing PMI indicated that the contraction in the sector continued albeit at a slower pace in May, exports fell more than 40% yoy in the same period according to the data of the Ministry of Trade. As monetary policy will remain accommodative should the downward trend in inflation continue in the upcoming period, we anticipate that the economy will recover in the second half of the year along with an enlivened domestic demand.

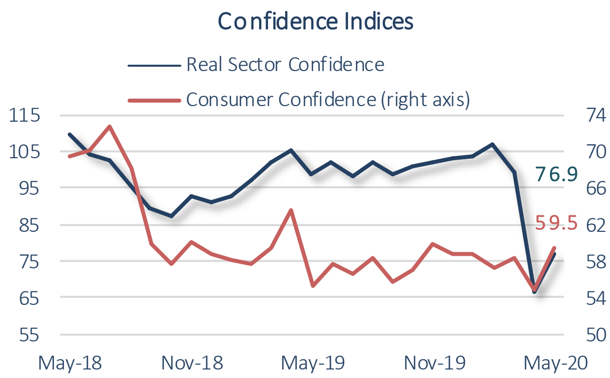
Growth



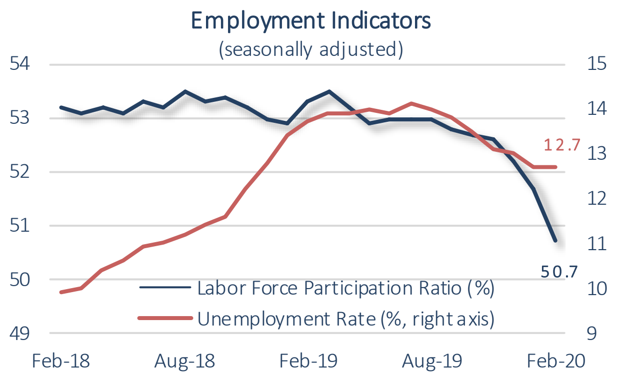


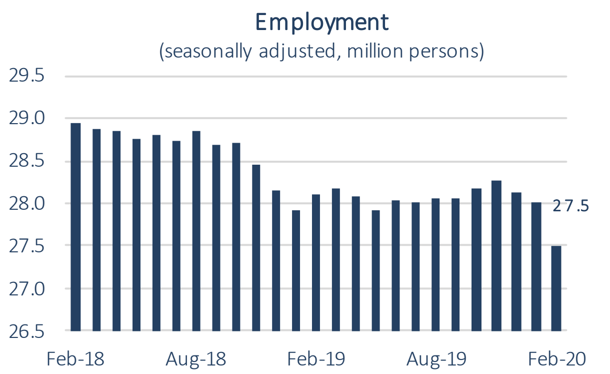
Leading Indicators



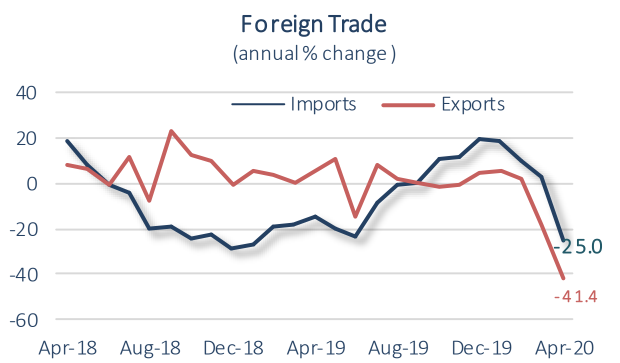


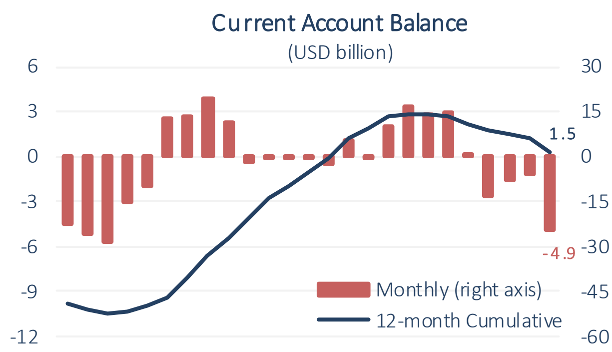
Labor Market





Foreign Trade and Current Account Balance



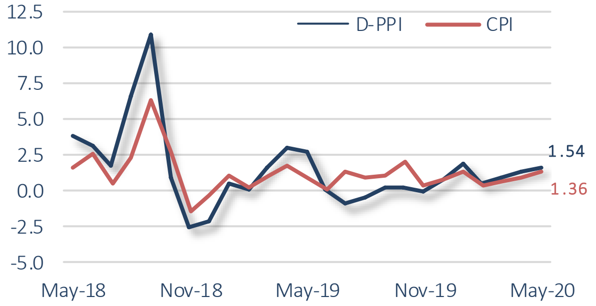


(CA) Calendar adjusted

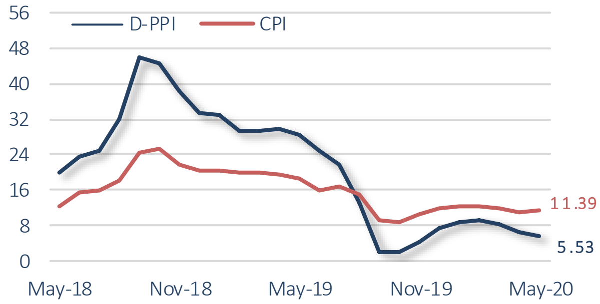
Source: Datastream, CBRT, Turkstat

Inflation

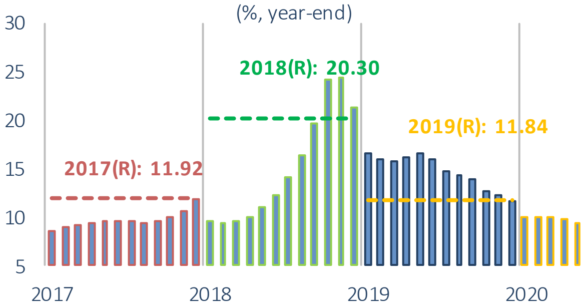
Monthly Inflation
(%)



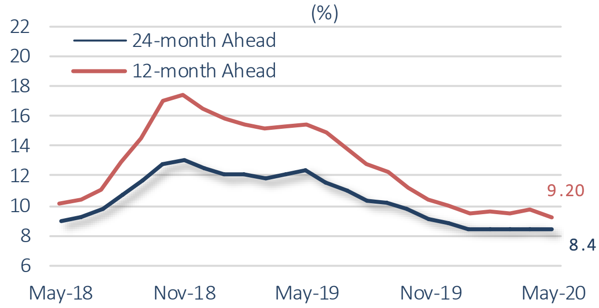
Annual Inflation
(%)



CBRT Survey of Expectations - Annual CPI Inflation Expectations
(%, year-end)

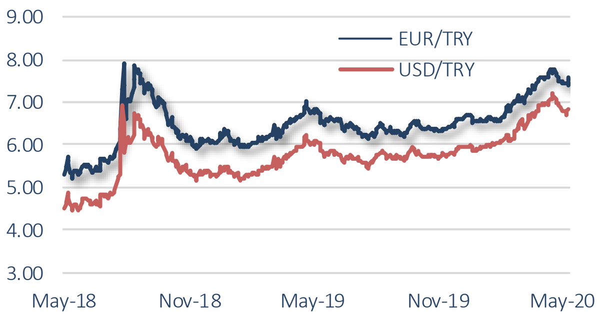


CBRT Survey of Expectations - 12 & 24-month Ahead CPI Inflation Expectations
(%)

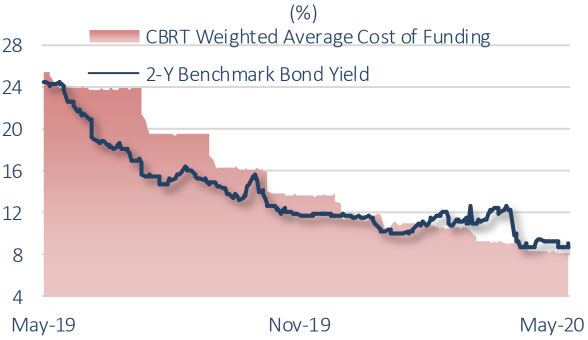


Foreign Exchange and Bond Market

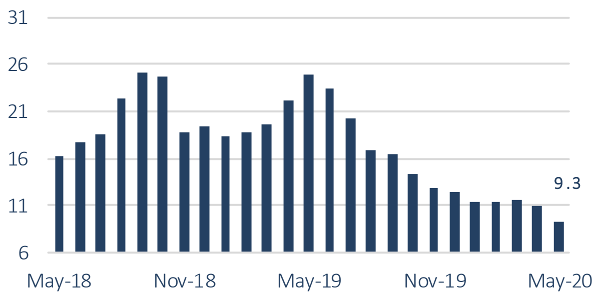
Exchange Rates



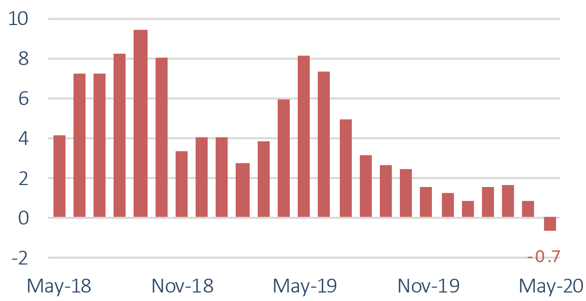
CBRT WACOF and 2-Y Benchmark Bond Yield
(%)



Average Compound Yield in Treasury Auctions
(%)



Expected Real Yield of TRY GDDIs
(%)



(R) Realization

Source: BİST, Datastream, Reuters, CBRT, Turkstat, Treasury

Turkish Economy - Macroeconomic Indicators

Growth	2015	2016	2017	2018	2019			20-Q1
GDP (USD billion)	862	863	853	789	754			176
GDP (TRY billion)	2,339	2,609	3,111	3,724	4,280			1,071
GDP Growth Rate (%)	6.1	3.2	7.5	2.8	0.9			4.5
Inflation (%)						Mar-20	Apr-20	May-20
CPI (annual)	8.81	8.53	11.92	20.30	11.84	11.86	10.94	11.39
Domestic PPI (annual)	5.71	9.94	15.47	33.64	7.36	8.50	6.71	5.53
Seasonally Adjusted Labor Market Figures							Jan-20	Feb-20
Unemployment Rate (%)	10.2	12.0	9.9	12.8	13.0		12.70	12.70
Labor Force Participation Rate (%)	51.7	52.4	53.1	53.0	52.2		51.70	50.70
FX Rates						Mar-20	Apr-20	May-20
CPI Based Real Effective Exchange Rate	99.2	93.6	86.3	76.4	76.2	73.1	69.2	68.6
USD/TRY	2.9189	3.5176	3.7916	5.3199	5.9510	6.5903	6.9895	6.8215
EUR/TRY	3.1708	3.7102	4.5530	6.0815	6.6800	7.2312	7.6556	7.5879
Currency Basket (0.5*EUR+0.5*USD)	3.0448	3.6139	4.1723	5.7007	6.3155	6.9107	7.3226	7.2047
Foreign Trade Balance (1) (USD billion)						Feb-20	Mar-20	Apr-20
Exports	151.0	149.2	164.5	177.2	180.8	181.7	182.0	179.1
Imports	213.6	202.2	238.7	231.2	210.3	213.4	215.0	215.5
Foreign Trade Balance	-62.6	-52.9	-74.2	-54.0	-29.5	-31.7	-33.0	-36.5
Import Coverage Ratio (%)	70.7	73.8	68.9	76.6	86.0	85.1	84.7	83.1
Balance of Payments (1) (USD billion)						Jan-20	Feb-20	Mar-20
Current Account Balance	-27.3	-26.8	-40.6	-20.7	8.7	7.3	6.3	1.5
Capital and Financial Accounts	-21.2	-21.7	-46.8	-10.9	0.6	1.4	-1.0	-8.3
Direct Investments (net)	-14.2	-10.8	-8.4	-9.4	-5.5	-5.6	-5.6	-5.5
Portfolio Investments (net)	15.3	-6.4	-24.1	3.1	1.2	8.6	10.0	16.3
Other Investments (net)	-10.6	-5.3	-6.2	5.7	-1.5	-1.7	-5.6	-5.8
Reserve Assets (net)	-11.8	0.8	-8.2	-10.4	6.3	0.1	0.2	-13.3
Net Errors and Omissions	6.1	5.1	-6.3	9.8	-8.2	-5.9	-7.0	-9.6
Current Account Balance/GDP (%)	-3.2	-3.1	-4.8	-2.6	1.2	-	-	-
Budget (2)(3) (TRY billion)						Feb-20	Mar-20	Apr-20
Expenditures	506.3	584.1	678.3	830.5	999.5	194.2	285.3	393.8
Interest Expenditures	53.0	50.2	56.7	74.0	99.9	26.9	38.2	55.3
Non-interest Expenditures	453.3	533.8	621.6	756.5	899.5	167.3	247.1	338.5
Revenues	482.8	554.1	630.5	757.8	875.8	208.3	255.7	321.0
Tax Revenues	407.8	459.0	536.6	621.3	673.3	139.1	176.1	225.2
Budget Balance	-23.5	-29.9	-47.8	-72.6	-123.7	14.1	-29.6	-72.8
Primary Balance	29.5	20.3	8.9	1.1	-23.8	41.0	8.7	-17.5
Budget Balance/GDP (%)	-1.0	-1.1	-1.5	-1.9	-2.9	-	-	-
Central Government Debt Stock (TRY billion)						Feb-20	Mar-20	Apr-20
Domestic Debt Stock	440.1	468.6	535.4	586.1	755.1	786.0	808.8	879.0
External Debt Stock	238.1	291.3	341.0	481.0	573.7	623.5	653.3	696.6
Total Debt Stock	678.2	760.0	876.5	1067.1	1,328.8	1,409.5	1,462.0	1,575.6

(1) 12-month cumulative
(2) Year-to-date cumulative
(3) According to Central Government Budget

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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2015	2016	2017	2018	2019	Mar.20	Apr.20	Change (1)
TOTAL ASSETS	2,357	2,731	3,258	3,867	4,492	4,873	5,227	16.4
Loans	1,485	1,734	2,098	2,395	2,657	2,897	3,104	16.8
TRY Loans	1,013	1,131	1,414	1,439	1,642	1,799	1,940	18.2
Share (%)	68.2	65.2	67.4	60.1	61.8	62.1	62.5	-
FX Loans	472	603	684	956	1,015	1,098	1,164	14.7
Share (%)	31.8	34.8	32.6	39.9	38.2	37.9	37.5	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	151.5	151.6	1.0
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	5.0	4.7	-
Securities	330	352	402	478	661	748	842	27.4
TOTAL LIABILITIES	2,357	2,731	3,258	3,867	4,492	4,873	5,227	16.4
Deposits	1,245	1,454	1,711	2,036	2,567	2,796	2,987	16.4
TRY Deposits	715	845	955	1,042	1,259	1,351	1,463	16.2
Share (%)	57.4	58.1	55.8	51.2	49.0	48.3	49.0	-
FX Deposits	530	609	756	994	1,308	1,445	1,524	16.5
Share (%)	42.6	41.9	44.2	48.8	51.0	51.7	51.0	-
Securities Issued	98	116	145	174	194	210	221	14.0
Payables to Banks	361	418	475	563	533	561	587	10.0
Funds from Repo Transactions	157	138	99	97	154	194	230	49.9
SHAREHOLDERS' EQUITY	262	300	359	421	492	500	511	3.8
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	15.8	19.7	-
RATIOS (%)								
Loans/GDP	63.5	66.5	67.6	64.7	62.1			
Loans/Assets	63.0	63.5	64.4	61.9	59.2	59.4	59.4	-
Securities/Assets	14.0	12.9	12.3	12.4	14.8	15.4	16.1	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.2	57.4	57.1	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.6	103.6	103.9	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	17.9	18.7	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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