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### Global Economy

While the number of coronavirus cases reaches 20 million worldwide, concerns over a second wave of the pandemic are rising. Especially in the US, which has the highest number of cases, the increase in the number of daily cases has accelerated. In some Asian countries, new restrictive measures are being introduced gradually to prevent a second wave.

According to flash figures, economic activity contracted at an unprecedented level in the major developed economies in the second quarter, when the effects of the pandemic were felt the most. In the second quarter, the US economy shrank by 32.9% qoq on an annualized basis, and the Euro Area economy shrank by 15% compared to the same period of last year.

Chinese economy, which was hit hard by the pandemic at the end of 2019 and early 2020, grew by 3.2% yoy in the second quarter.

July PMI data regarding major economies exceeded the threshold level, pointing to growth in the manufacturing and services sectors.

While preparations for a new 1 trillion USD stimulus package continue in the US, Euro Area leaders reached a consensus on a rescue package of 750 billion EUR.

Fed, which did not change its monetary policy at its July meeting, reiterated its commitment to sustain its support for the economic activity.

ECB also did not change interest rates at its July meeting. ECB President Lagarde stated that uncertainties regarding economic activity in the Euro Area has continued and that the supportive monetary policy would be maintained.

Gold prices continued to rise in July, on the back of concerns regarding a second wave of pandemic and global liquidity conditions. Oil prices, which rose rapidly in May and June, followed a flatter course in July due to the increase in supply as well as uncertainties regarding demand.

### Turkish Economy

Industrial production, which shrank by 31.4% yoy in April, when the outbreak was felt the most in domestic economic activity, decreased by 19.9% yoy in May. According to seasonally and calendar adjusted data, industrial production went up by 17.4% mom in this period. On the other hand, manufacturing PMI, which exceeded the threshold level of 50 in June, rose by 3 points to 56.9 in July. Thus, the PMI, which indicates that the activity in the manufacturing industry has accelerated, gained its highest value since February 2011

House sales rose by 209.7% yoy in June and reached the highest June level since the data began to be published, 190,012 units. Automotive sales in July became 87,401 units, with an increase of 387.5% yoy.

The current account balance, which posted a surplus of 1.1 billion USD in May last year, gave a deficit of 3.8 billion USD in the same month of this year due to the deficit in the services balance and the rapid increase in the foreign trade deficit since the lack of travel income due to the outbreak.

The central government budget deficit increased by 60.7% yoy and became 19.4 billion TRY in June. It has expanded by 39.3% yoy in January-June period, reaching 109.5 billion TRY.

In July, CPI increased by 0.58% mom and 11.76% yoy. In this period, domestic PPI increased by 1.02% mom, while reaching its highest level since March with 8.33% yoy.

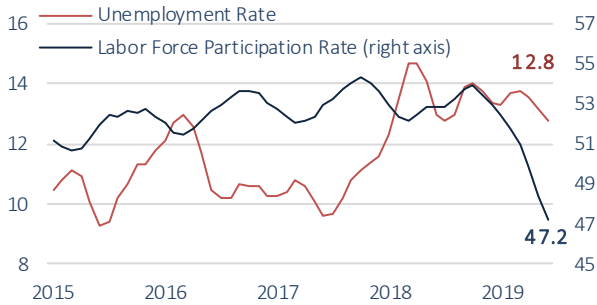
Leaving the policy rate unchanged in its July meeting, CBRT stated that the annual core inflation decreased in July while its tendencies increased, energy prices continued to rise due to the recovery in international oil prices, and the annual food inflation showed a limited decline.

## Leading Indicators

### Labor force participation rate declined rapidly in April.

According to the data announced by TURKSTAT, the unemployment rate decreased by 0.2 points yoy to 12.8% in the April period. On the other hand, while the labor force participation rate dropped to its lowest level since February 2013 with 47.2%, the employment rate came in at 41.1%. The number of people who are not in the labor force rose by more than 4 million people annually. The unemployment rate among the young population covering the 15-24 age group increased by 1.2 points yoy to 24.4%, and the non-agricultural unemployment rate became 14.9%. The annual decrease of 1.5 million people recorded in the services sector employment stood out. In the April period, when the negative effects of the pandemic on the economy were felt the most, seasonally adjusted unemployment rate increased by 0.7 points compared to March period and became 13.8%. Broad unemployment rate, calculated by the inclusion of seasonal workers and those who have not made a job application for the last 4 weeks although they are ready to work to the labor force, increased to 24.6% in this period.

**Labor Market**  
(%)



### Industrial production decreased by 19.9% yoy in May.

According to the calendar adjusted data, industrial production, which shrank by 31.3% yoy in April, decreased by 19.9% yoy in May. In this period, the decline in manufacturing industry was 20.6%, while an increase was observed only in the manufacture of paper and paper products, as well as in the manufacture of computers, electronic and optical products. According to the seasonally and calendar adjusted data, industrial production increased by 17.4% in May compared to the previous month.

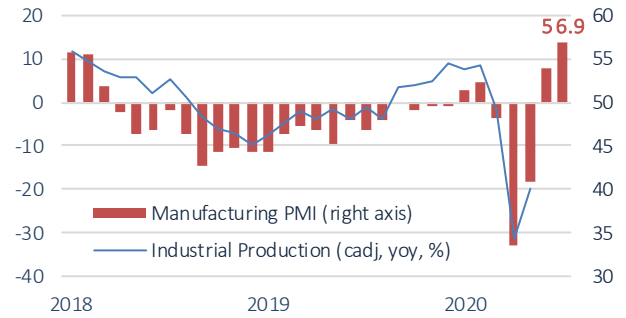
With the submission of VAT returns, TURKSTAT announced that an update could be made in the industrial production data in the following months for May data as well.

### Manufacturing PMI rose to 56.9 in July.

The manufacturing PMI, which was below the threshold level in the March-May period and increased to 53.9

along with normalization steps in June, rose by 3 points to 56.9 in July. Thus, the PMI, which indicates that the activity in the manufacturing industry has accelerated, gained its highest value since February 2011. When the sub-items of the index were analyzed, output and new orders increased rapidly in July, while the increase in input costs continued to decelerate.

**Economic Activity in Turkey**



### Confidence indices displayed a positive picture overall.

Increasing by 8.1 points mom to 100.7 in July, real sector confidence index exceeded the threshold level of 100 for the first time in 4 months and gave optimistic signals about the economic activity. The manufacturing industry capacity utilization ratio, which saw its lowest level since the 2009 crisis with 61.6% in April, increased by 4.7 points mom to 70.7% in July. Confidence increased by 20.2% in the services sector, 9.6% in the retail trade sector and 11.6% in the construction sector in the same period.

Consumer confidence index decreased by 2.7% mom to 60.9 in July. The possibility of buying houses and/or cars in the next 12 months, which increased in May and June, declined in July. The sub-index for the possibility of saving in the next 12 months was the index that contracted most rapidly with 14% in this period.

### House and automotive sales rose rapidly.

House sales in Turkey increased by 209.7% yoy and became 190,012 units in June. Thus, house sales reached the highest June level since 2013 when data began to be published. In addition, the share of mortgaged sales in total housing sales in June reached a record level of 53.4%. Low interest rates and housing campaigns were behind the record sales in June.

In July, passenger car and light commercial vehicle market increased by 387.5% yoy to 87,401 units. The automotive market increased by 60.3% in the January-July period, reaching 341,469 units. Following the high sales figures hit by automotive sector in July, the Automotive Distributors Association revised its market forecast for the end of the year by 50K units upwards to 650K-700K.

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

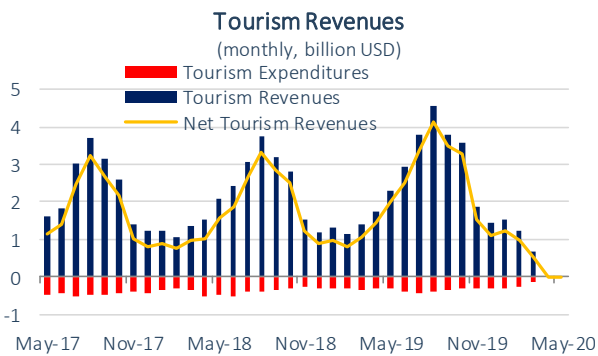
## Foreign Trade and Balance of Payments

### Foreign trade deficit contracted by 17% in June.

According to TURKSTAT data, exports increased by 15.7% yoy to 13.5 billion USD in June, while imports expanded by 8.3% yoy to 16.3 billion USD. Thus, foreign trade deficit narrowed by 17% yoy and declined to 2.8 billion USD. During January-June 2020, the deficit rose by 73.2% yoy. Import coverage ratio, which was 86.5% in first half of 2019, fell to 75.9% in the same period of this year.

### Current account deficit became 3.8 billion USD in May.

Current account balance, which posted a surplus of 1.1 billion USD in May 2019, gave a deficit of 3.8 billion USD in the same month of this year. The net outflow in services item due to the absence of tourism revenues as well as the rapid increase in foreign trade deficit were behind the deterioration of the current account balance. In May, 12-month cumulative current account deficit reached 8.2 billion USD, the highest level since February 2019.



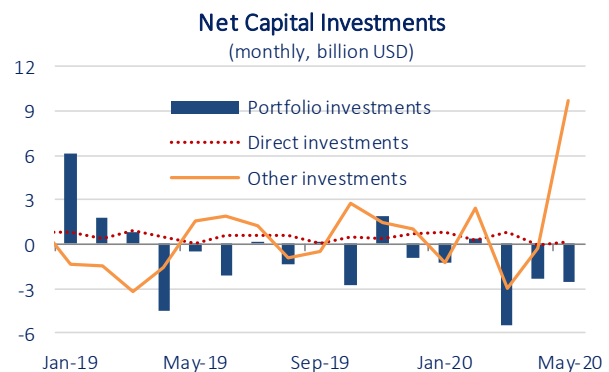
### Direct Investments...

Foreign direct investments item, which had capital outflows in April, recorded a net capital inflow of 118 million USD in May. In this period, the outflow in other capital investments became 126 million USD, while real estate investment inflows were 229 million USD.

### Capital outflows in portfolio investments...

There was a net capital outflow of 2.5 billion USD from the portfolio investments item in May. In this period, nonresidents made net sales of 1 billion USD in the stock market and 986 million USD in debt securities market. Net repayment of 2.2 billion USD made by the general government was also effective in the capital outflow of portfolio investments. On the other hand, the decrease of approximately 2 billion USD in banks' foreign investments limited the decline in portfolio investments. The related item had decreased by 1.2 billion USD in April.

Following a total outflow of 3.2 billion USD in March and April, other investments recorded a net capital inflow of 9.7 billion USD in May. The increase in the short-term debt of the CBRT, which is thought to be due to the swap transactions, was effective in this development. In this period, deposits of domestic banks at their foreign correspondents decreased by 488 million USD, while foreign banks' deposits at domestic banks increased by 619 million USD. According to 12-month cumulative figures, the long-term debt roll-over ratios became 73% in the banking sector and 76% in other sectors as of May.



### Net Capital Inflows

	12-month Cumulative (million USD)		Breakdown of Net Capital Inflows (%)	
	Dec. 2019	May. 2020	Dec. 2019	May. 2020
<b>Current Account Balance</b>	<b>8,663</b>	<b>-8,244</b>	<b>55.8</b>	<b>-</b>
<b>Total Net Foreign Capital Inflows</b>	<b>5,604</b>	<b>3,736</b>	<b>-</b>	<b>-</b>
-Direct Investment	5,905	5,268	38.1	13.4
-Portfolio Inflows	-1,246	-16,199	-	-
-Other Investments	911	14,672	5.9	37.3
-Other	34	-5	0.2	-
<b>Net Errors and Omissions</b>	<b>-7,943</b>	<b>-14,865</b>	<b>-</b>	<b>-</b>
<b>Reserves(1)</b>	<b>-6,324</b>	<b>19,373</b>	<b>-</b>	<b>49.3</b>

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

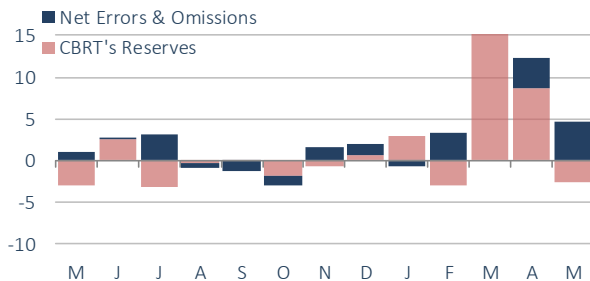
## Foreign Trade and Balance of Payments

### Reserves increased by 2,7 billion USD in May.

Reserve assets, which declined by 25.2 billion USD in March and April, increased by 2.7 billion USD in May. In this period, net errors and omissions posted a capital outflow of 829 million USD.

#### CBRT Reserves and Net Errors and Omissions

(monthly, USD billion)



### Expectations...

According to preliminary foreign trade data published by the Ministry of Trade, in July, exports declined by 5.8% yoy while imports decreased by 7.7% yoy due to the high basis, less working days and pandemic. Thus, the foreign trade deficit narrowed by 16.8% yoy in July. Lower oil prices compared to last year and additional customs duties imposed on various products to support domestic production may support the foreign trade balance also in the coming months. However, given the worldwide increase in the number of covid-19 cases, the pandemic could still not be taken under control. This situation may put pressure on export revenues and the recovery of tourism revenues may take much longer than expected.

#### Balance of Payments

(USD million)

	May. 2020	Jan. - 2019	May. 2020	% Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-3,764</b>	<b>187</b>	<b>-16,720</b>	<b>-</b>	<b>-8,244</b>
Foreign Trade Balance	-2,734	-4,594	-16,169	252.0	-28,222
Services Balance	-33	9,676	4,043	-58.2	31,248
Travel (net)	0	6,278	2,694	-57.1	22,135
Primary Income	-969	-4,991	-4,399	-11.9	-11,953
Secondary Income	-28	96	-195	-	683
<b>Capital Account</b>	<b>-4</b>	<b>19</b>	<b>-20</b>	<b>-</b>	<b>-5</b>
<b>Financial Account</b>	<b>-4,597</b>	<b>2,997</b>	<b>-20,871</b>	<b>-</b>	<b>-23,114</b>
Direct Investment (net)	-118	-2,596	-1,959	-24.5	-5,268
Portfolio Investment (net)	2,539	-3,732	11,221	-	16,199
Net Acquisition of Financial Assets	-2,107	2,115	-38	-	2,501
Net Incurrence of Liabilities	-4,646	5,847	-11,259	-	-13,698
Equity Securities	-1,009	666	-3,939	-	-4,199
Debt Securities	-3,637	5,181	-7,320	-	-9,499
Other Investment (net)	-9,735	6,039	-7,722	-	-14,672
Currency and Deposits	-11,174	6,745	-13,593	-	-24,841
Net Acquisition of Financial Assets	-574	9,271	32	-99.7	-1,414
Net Incurrence of Liabilities	10,600	2,526	13,625	439.4	23,427
Central Bank	9,969	-505	10,958	-	13,958
Banks	631	3,031	2,667	-12.0	9,469
Foreign Banks	619	1,502	1,948	29.7	6,681
Foreign Exchange	-54	1,107	-1,115	-	3,579
Turkish Lira	673	395	3,063	675.4	3,102
Non-residents	12	1,529	719	-53.0	2,788
Loans	1,102	4,971	5,542	11.5	17,536
Net Acquisition of Financial Assets	-295	139	-309	-	-80
Net Incurrence of Liabilities	-1,397	-4,832	-5,851	21.1	-17,616
Banking Sector	-402	-4,558	-3,478	-23.7	-10,259
Non-bank Sectors	-878	47	-2,153	-	-6,495
Trade Credit and Advances	338	-5,654	337	-	-7,422
Other Assets and Liabilities	-1	-23	-8	-65.2	55
Reserve Assets (net)	2,717	3,286	-22,411	-	-19,373
<b>Net Errors and Omissions</b>	<b>-829</b>	<b>2,791</b>	<b>-4,131</b>	<b>-</b>	<b>-14,865</b>

Source: CBRT, Datastream

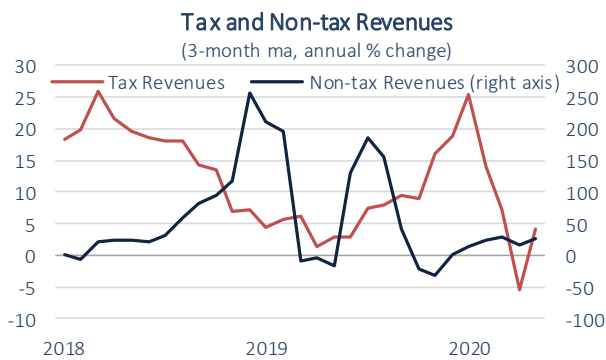
## Budget Balance

### Central government budget posted a deficit of 19.4 billion TRY in June.

In June, central government budget deficit increased by 60.7% on an annual basis and reached 19.4 billion TRY. In this period, budget revenues went up by 19.5% yoy and became 66.3 billion TRY, while budget expenditures rose by 26.8% to 85.6 billion TRY. In this period, primary balance gave a deficit of 13.1 billion TRY. In January-June period, budget expenditures increased by 17.3% yoy, while budget revenues expanded by 13.0% yoy. Thus, the budget deficit, which was 78.6 billion TRY in the first half of last year, rose by 39.3% yoy and became 109.5 billion TRY in the same period of this year.

### Tax revenues became 55.4 billion TRY in June.

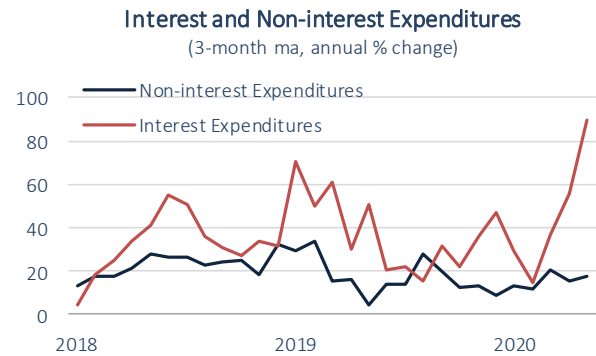
In June, tax revenues increased by 23.5% yoy and was realized as 55.4 billion TRY. In this period, corporate tax revenues rose rapidly thanks to the postponement of the collection date to June. Value added tax on imports also went up swiftly in this period due to the rise in imports volume, the additional taxes introduced and the rise in FX rates. In addition, the special consumption tax received from motor vehicles and durable goods increased by 265% yoy and 385% yoy in June, respectively. The low base effect stemming from the tax cuts last year as well as the recent recovery in demand were effective in this development. In January-June, tax revenues rose by 9.2% yoy and became 336 billion TRY.



### Interest expenses rose rapidly.

Among the budget expenditures the rapid increases in current transfers and capital expenditures stood out in June. In this period, the social security deficit finance, which is monitored under the Treasury aids item of current transfers, increased by approximately 8 times and became 11.2 billion TRY. This item constituted 14.4 points of 26.8% increase in budget expenditures. On the other hand, the 4.1 billion TRY rise in real estate capital and production expenditures was noteworthy in June. This item contributed 6.1 points to the rise of budget expenditures. Interest expenditures increased by 44.4% on an annual basis to 6.3 billion TRY in June. Domestic debt interest payments went up by 20.7% to 4.2 billion TRY, while foreign debt interest payments nearly doubled to 1.5 billion TRY.

In January-June period, budget expenditures rose by 17.3% compared to the same period of last year and reached 564.9 billion TRY. In this period, the annual increase in interest expenditures was 40.4%.



### Expectations...

Along with the easing of the restrictive measures taken against the virus pandemic economic activity started to recover in June and this development brought up the views that the rapid expansion of the budget deficit might lose momentum in the second half of the year. On the other hand, uncertainties regarding the course of the pandemic still continue to put pressure on the budget balance.

### Central Government Budget

	June			%	January-June			2020 Budget	
	2019	2020	Change		2019	2020	Change	Target	Real./ Target (%)
<b>Expenditures</b>	<b>67.5</b>	<b>85.6</b>	<b>26.8</b>		<b>481.6</b>	<b>564.9</b>	<b>17.3</b>	<b>1,095.5</b>	<b>51.6</b>
Interest Expenditures	4.4	6.3	44.4		50.7	71.3	40.4	138.9	51.3
Non-Interest Expenditures	63.2	79.3	25.6		430.8	493.6	14.6	956.5	51.6
<b>Revenues</b>	<b>55.5</b>	<b>66.3</b>	<b>19.5</b>		<b>403.0</b>	<b>455.4</b>	<b>13.0</b>	<b>956.6</b>	<b>47.6</b>
Tax Revenues	44.9	55.4	23.5		307.7	335.9	9.2	784.6	42.8
Other Revenues	10.6	10.8	2.1		95.2	119.5	25.4	172.0	69.5
<b>Budget Balance</b>	<b>-12.1</b>	<b>-19.4</b>	<b>60.7</b>		<b>-78.6</b>	<b>-109.5</b>	<b>39.3</b>	<b>-138.9</b>	<b>78.8</b>
<b>Primary Balance</b>	<b>-7.7</b>	<b>-13.1</b>	<b>69.9</b>		<b>-27.8</b>	<b>-38.2</b>	<b>37.2</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 0.58% in July.

In July, CPI increased by 0.58% compared to previous month, and remained below the expectations. The market's CPI expectation for this period was 0.9%. The increase in domestic PPI (D-PPI) is realized as 1.02% mom in July.

### Annual CPI inflation decreased to 11.76%.

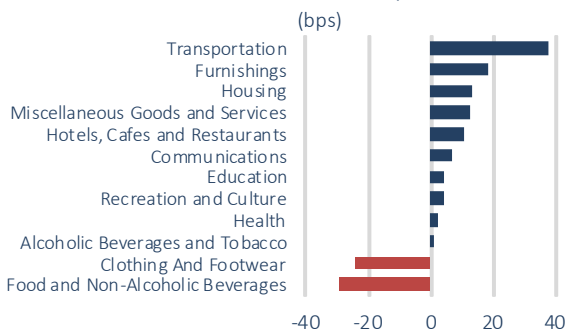
The upward trend in annual consumer inflation seen in May and June ended in July. In this period, annual CPI increase came down to 11.76%. Annual D-PPI inflation, on the other hand, continued to increase and became 8.33%, which is the highest level since March.

July (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	1.36	0.58	-0.99	1.02
Annual	16.65	11.76	21.66	8.33
Annual Average	19.91	11.51	32.34	6.81

### Food prices limited CPI inflation.

In July, prices in 10 out of the 12 main spending groups increased compared to the previous month, while prices in food and clothing and footwear groups decreased. In this period, transportation group, which posted the highest price increase with 2.44% mom, pulled monthly CPI inflation up by 37 bps. The recent increases in housing, furnishings and household equipment prices led monthly CPI inflation to increase by 31 bps. On the other hand, the decline in fresh fruit and vegetable prices in July due to seasonal factors led the food group to limit monthly CPI inflation by 30 bps. Similarly, the 3.48% mom decrease recorded in the clothing and footwear group thanks to seasonal developments limited the CPI increase by 23 bps in this period.

### Contributions to the Monthly CPI Inflation



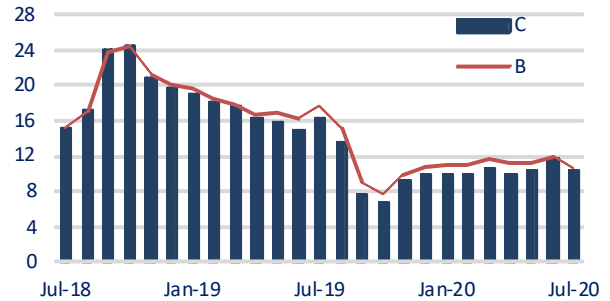
### Core inflation indicators...

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) rose faster than the headline inflation by 0.71% mom and 0.83% mom, respectively. Annual increases in B and C indices, which had upward trends recently, slowed down in July and became 10.49% and 10.25%, respectively.

### Special CPI Aggregates

(annual % change)

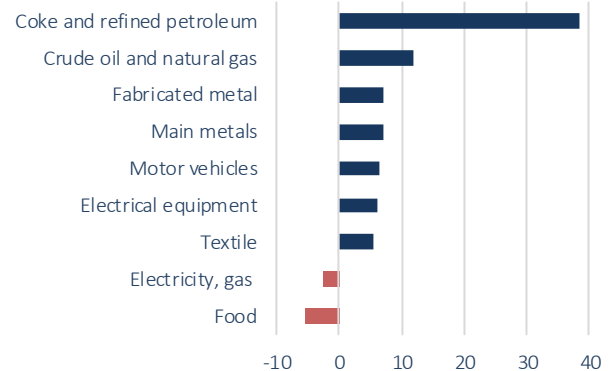


### Rise in energy prices...

Developments in the energy market in July were decisive in the course of monthly D-PPI. It is noteworthy that the prices in energy group, among main industry groups, increased by 3.6% on a monthly basis. As for the sub-sectors, prices in the coke and refined petroleum products sector rose by 11.71% mom in July. The said increase pushed monthly PPI inflation up by 38 bps.

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

(bps)



### Expectations...

Strong demand in automotive and housing sectors due to low interest rates, is leading the prices in the related groups, especially durable consumer goods, to rise. On the other hand, seasonal factors limit the increase in inflation indicators. Moreover, the low oil prices compared to the previous year also lead to a positive outlook regarding annual inflation indicators. In this context, we think that the annual CPI inflation will remain at double digit levels for a while.

	30-Jun	31-Jul	Change
5-Y CDS (basis points)	487	554	66 bps ▲
TR 2-Y Benchmark Yield	9.38%	11.08%**	170 bps ▲
BIST-100	1,165	1,127***	-3.3% ▼
USD/TRY	6.8500	6.9702	1.8% ▲
EUR/TRY	7.6959	8.2345	7.0% ▲
Currency Basket*	7.2730	7.6024	4.5% ▲

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

(\*\*) 29 July (\*\*\*) 30 July

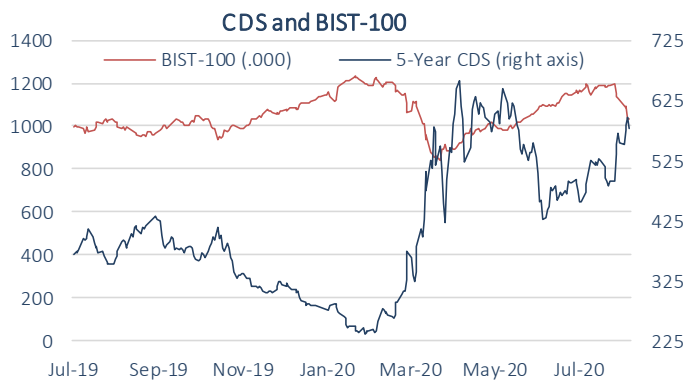
### Mixed outlook in global markets in July...

Positive data announcements worldwide, the new recovery package approved in the European Union, news flow regarding vaccine studies and the new economic plan in the US supported global markets in July. On the other hand, the increase in the number of cases, second wave concerns and rising tensions between the US and China put pressure on the global risk appetite.

### BIST-100 index declined by 3.3% in July.

BIST-100 index, decoupled negatively from global stock indices in July, decreased by 3.3% mom and completed the month at 1,127 points. The compound interest rate of the 2-year benchmark bond increased by 174 basis points in July, reached its highest level since April and became 11.08% as of July 29.

USD/TRY closed July with an increase of 1.8% at 6.97. Due to the rise in EUR/USD parity, EUR/TRY went up by 7.0% on a monthly basis and became 8.23 at the end of July. TRY shortage experienced in London swap market in the first days of August created selling pressure in domestic markets. Having increased by 66 bps to 554 bps in July, Turkey's 5-year CDS premium continued to increase in the first days of August.



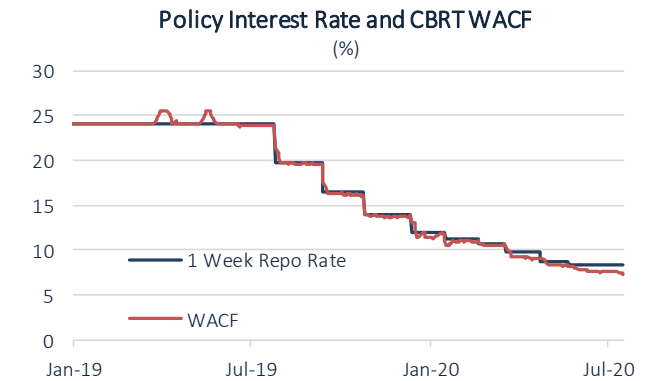
### Securities portfolio of non-residents...

According to the securities statistics published by the CBRT, as of July 17, the equity portfolio of non-residents fell by 370.2 million USD compared to end-June as price

and exchange rate adjusted data suggested. Government domestic debt securities (GDSS) portfolio of non-residents decreased by a net 324 million USD in this period. Compared to the end-2019, non-residents equity and GDSS portfolios declined by 4.3 billion USD and 7.3 billion USD, respectively.

### CBRT kept the policy rate at 8.25%.

At the Monetary Policy Committee meeting held on July 23, the CBRT kept the policy rate at 8.25%, in line with market expectations. In the statement published after the meeting, it was stated that the economic recovery, which started in May following the gradual steps towards normalization, is gaining pace and that easing travel restrictions are expected to contribute to a partial improvement in tourism revenues. CBRT pointed out the significance of maintaining the cautious stance in monetary policy, stating that a continued disinflation process is important in terms of achieving lower sovereign risk, lower long-term interest rates and having stronger economic recovery. CBRT also increased its year-end CPI inflation forecast from 7.4% to 8.9% in its third Inflation Report of the year published in July.



### CBRT revised the reserve requirement regulation.

CBRT announced on July 18 that it has decided to increase the FX required reserve ratios for all banks by 300 basis points in all liability types and maturity brackets. The decision has been implemented as of July 24, 2020.

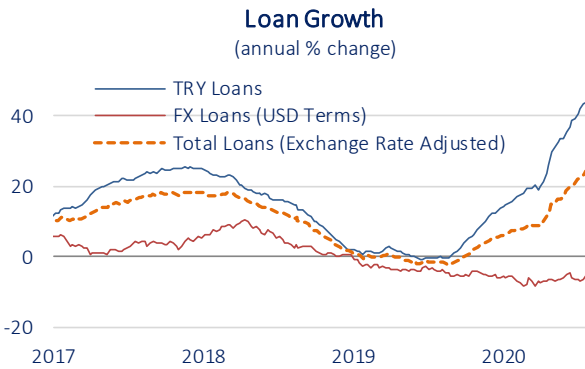
## Banking Sector

### TRY deposit volume increased by 45.6% yoy.

According to the Weekly Bulletin published by the BRSA, as of July 24, total deposit volume expanded by 37.7% yoy and by 23.0% compared to the end of 2019 reaching 3,160 billion TRY. Exchange rate adjusted figures showed that deposit volume grew by 25.7% yoy. TRY deposit volume increased by 45.6% yoy and became 1,575 billion TRY. FX deposits in USD terms expanded by 7.9% in this period to 233 billion USD, the new historical high level.

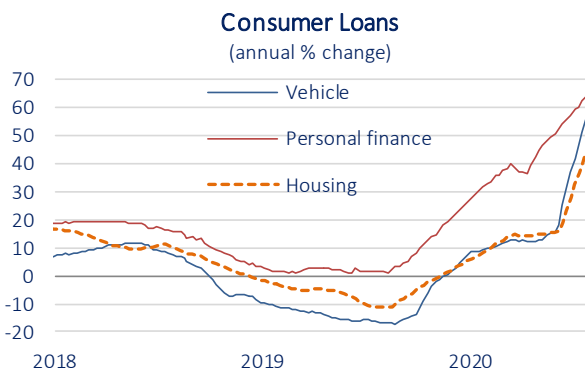
### Acceleration in TRY loan growth continues...

As of July 24, total loan volume in the banking sector expanded by 32.3% yoy and by 25.3% ytd to 3,324 billion TRY. The annual growth in FX rate adjusted loan volume became 24.4%. TRY loan volume continued to grow fast by 44.1% yoy and reached 2,180 billion TRY, while FX loans in USD terms fell by 5.3% yoy to 168 billion USD.



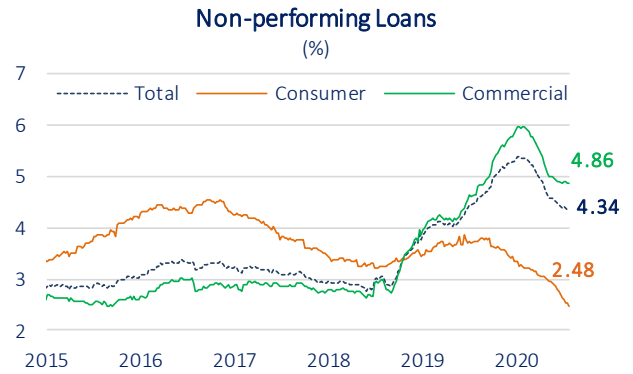
### Personal finance loans rose by 64% yoy.

As of July 24, consumer loan volume increased by 55.0% on an annual basis and by 33.9% ytd. Recent fall in interest rates, which led to an increase in automotive and house sales, was behind the rise of related consumer loans. Personal finance loan volume also increased fast in this period. As of July 24, vehicle loan volume expanded by 57.3% yoy, while the rise in housing loans became 44.1% yoy. In this period, the annual growth in personal finance loans reached 64.0% while the increase from the beginning of the year became 37.1%.



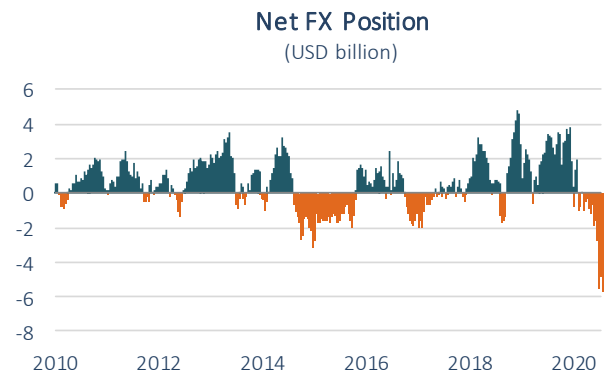
### Non-performing loan ratio became 4.3%.

As of July 24, the amount of gross non-performing loans increased by 28.3% yoy and became 150.9 billion TRY. Having continued to fall with the impact of the expansion in loan volume, NPL ratio became 4.3%. While the said ratio was 2.7% in public banks, it became 5.8% in private banks. Analyzing NPL in terms of loan types, NPL ratios for commercial and consumer loans were 4.9% and 2.5%, respectively.



### Net foreign currency position...

As of July 24, banks' on-balance sheet FX position was (-) 55,686 million USD, while off-balance sheet FX position was (+) 49,986 million USD. Hence, banking sector's net FX position was realized as (-) 5,699 million USD.



Source: BRSA Weekly Bulletin



## Concluding Remarks

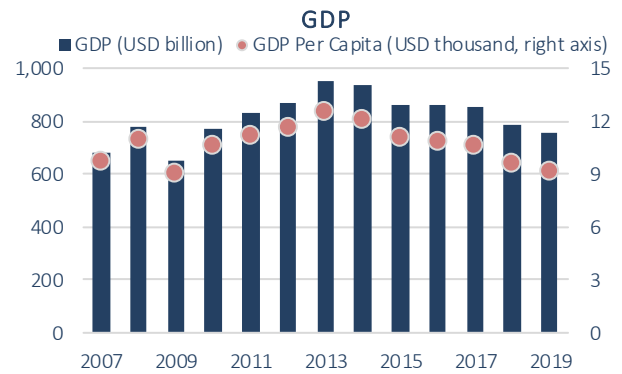
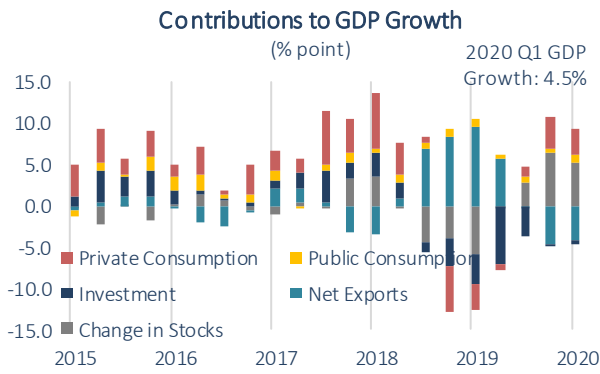
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With the easing of restrictive measures taken against the global coronavirus pandemic, the recovery in economic activity, which became evident as of June, gained momentum in July. While PMI data for major economies indicated a pickup in both the manufacturing and services sectors, the decisions regarding new stimulus measures in the US and Europe have positive impacts on the expectations for the upcoming period. On the monetary policy side, news flow diminished around the world compared to the first months of the pandemic. Although developments in vaccine studies occasionally support the markets, ongoing uncertainty regarding the course of the pandemic and second-wave concerns continue to put pressure on global risk perception.

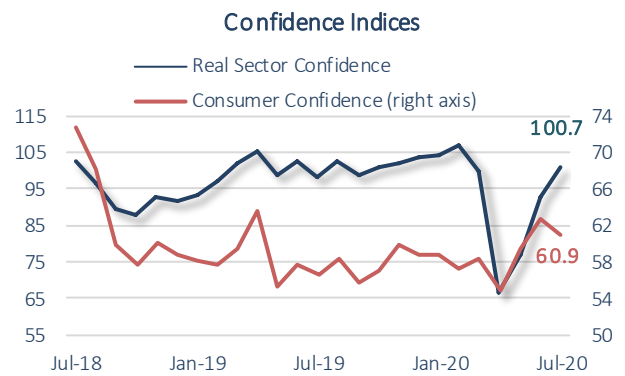
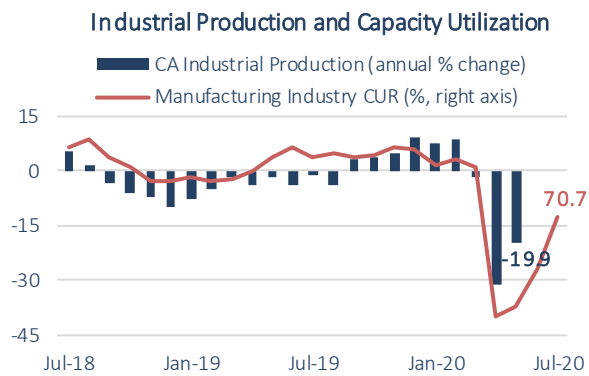
While Turkish economy is expected to contract at double-digit levels in the second quarter of the year, when the impact of the pandemic was deeply felt, optimistic expectations for the rest of the year were supported by positive released data in July. Confidence indicators improved and manufacturing PMI climbed to its highest level in 9 years. Developments in the automotive and

housing sectors also confirmed the recovery in domestic demand during this period. Although there was a year-on-year decline in July export data, the increase compared to June was noted as a positive development. On the other hand, the upside risks on inflation indicators are increasing recently due to the fluctuations in exchange rates. Keeping its stance in monetary policy by not changing the policy interest rate in June and July, the CBRT increased its year-end inflation forecast to 8.9%. Low levels of oil prices in comparison to the previous year and the expectation that improvement in external demand conditions would prevail unless an increase in the severity of the pandemic are the factors that can balance the upside risks on inflation and current account deficit.

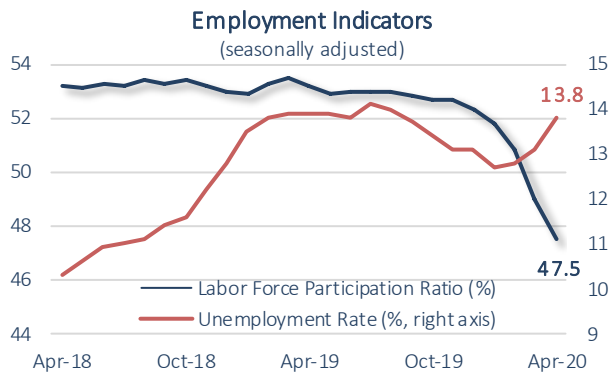
Growth



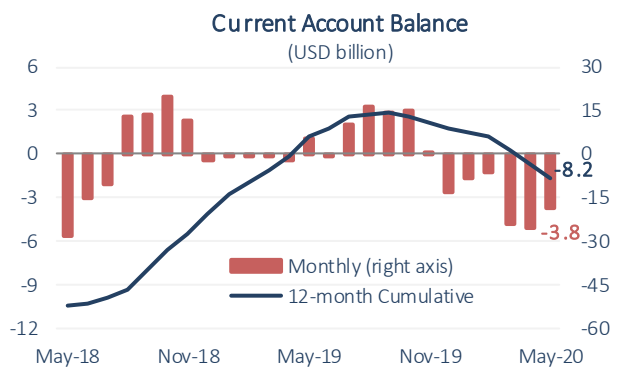
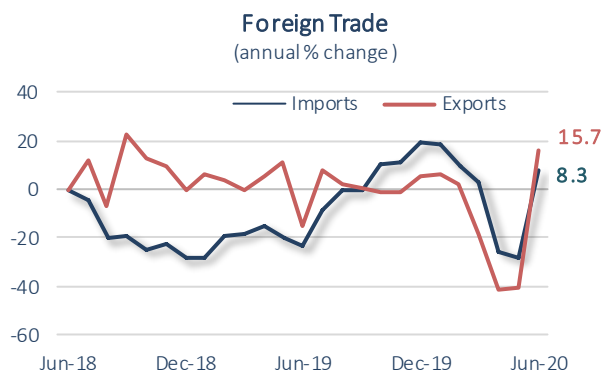
Leading Indicators



Labor Market



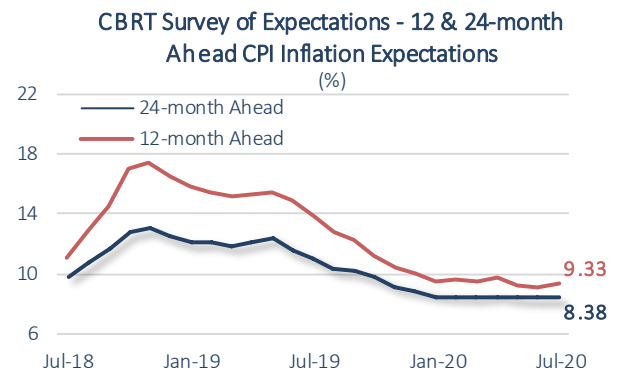
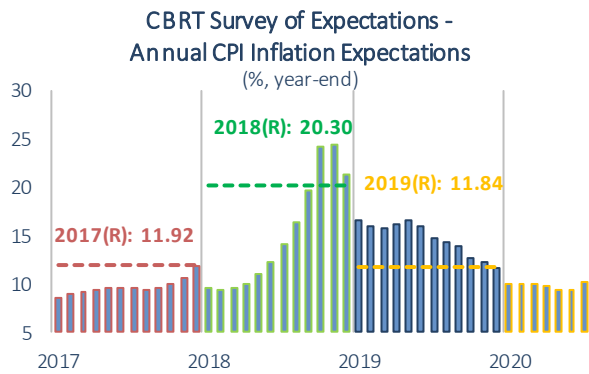
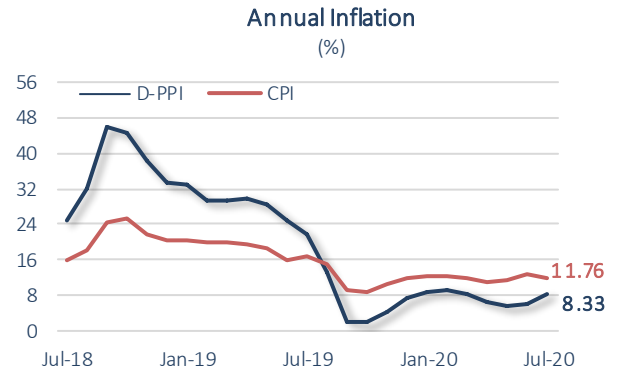
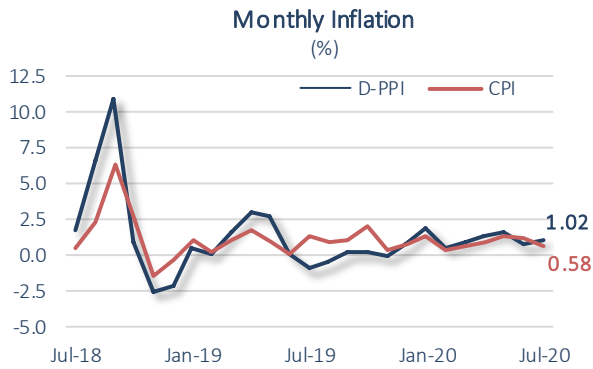
Foreign Trade and Current Account Balance



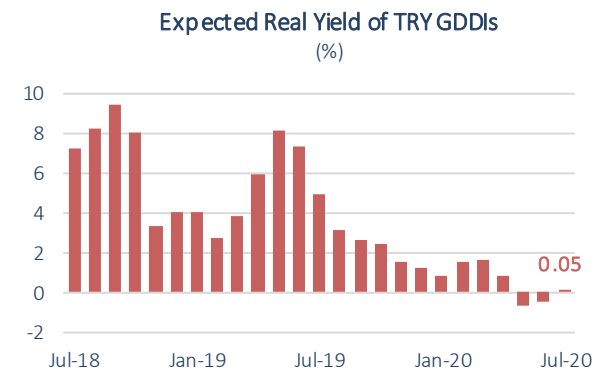
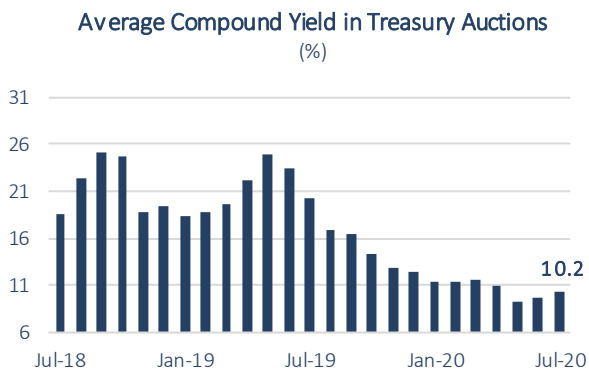
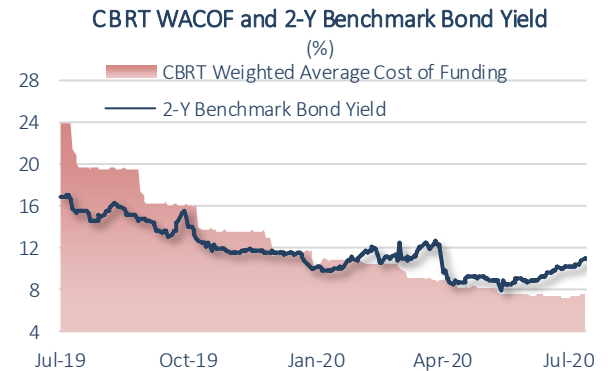
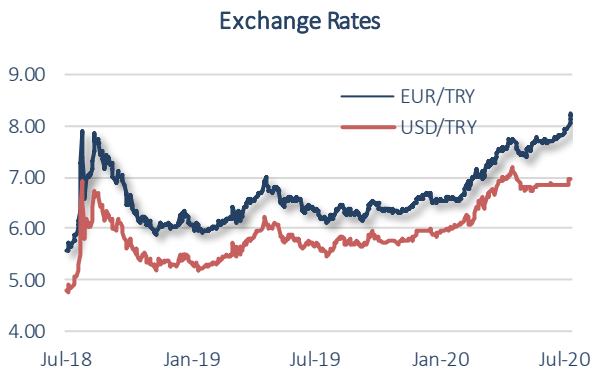
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

<b>Growth</b>	2015	2016	2017	2018	2019	<b>Q1-20</b>		
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		
<b>Inflation (%)</b>						May-20	Jun-20	Jul-20
CPI (annual)	8.81	8.53	11.92	20.30	11.84	11.39	12.62	11.76
Domestic PPI (annual)	5.71	9.94	15.47	33.64	7.36	5.53	6.17	8.33
<b>Seasonally Adjusted Labor Market Figures</b>						Feb-20	Mar-20	Apr-20
Unemployment Rate (%)	10.2	12.0	9.9	12.8	13.1	12.80	13.10	13.80
Labor Force Participation Rate (%)	51.7	52.4	53.1	53.0	52.3	50.80	49.00	47.50
<b>FX Rates</b>						May-20	Jun-20	Jul-20
CPI Based Real Effective Exchange Rate	99.2	93.6	86.3	76.4	76.2	68.7	69.2	
USD/TRY	2.9189	3.5176	3.7916	5.3199	5.9510	6.82	6.85	6.98
EUR/TRY	3.1708	3.7102	4.5530	6.0815	6.6800	7.59	7.70	8.23
Currency Basket (0.5*EUR+0.5*USD)	3.0448	3.6139	4.1723	5.7007	6.3155	7.20	7.28	7.60
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						Apr-20	May-20	Jun-20
Exports	151.0	149.2	164.5	177.2	180.8	172.6	165.7	167.5
Imports	213.6	202.2	238.7	231.2	210.3	211.0	205.8	207.1
<b>Foreign Trade Balance</b>	<b>-62.6</b>	<b>-52.9</b>	<b>-74.2</b>	<b>-54.0</b>	<b>-29.5</b>	<b>-38.4</b>	<b>-40.1</b>	<b>-39.6</b>
Import Coverage Ratio (%)	70.7	73.8	68.9	76.6	86.0	81.8	80.5	80.9
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						Mar-20	Apr-20	May-20
<b>Current Account Balance</b>	<b>-27.3</b>	<b>-26.8</b>	<b>-40.6</b>	<b>-20.7</b>	<b>8.7</b>	<b>1.2</b>	<b>-3.4</b>	<b>-8.2</b>
<b>Capital and Financial Accounts</b>	<b>-21.2</b>	<b>-21.7</b>	<b>-46.8</b>	<b>-10.9</b>	<b>0.8</b>	<b>-7.9</b>	<b>-16.7</b>	<b>-23.1</b>
Direct Investments (net)	-14.2	-10.8	-8.4	-9.4	-5.9	-5.7	-5.2	-5.3
Portfolio Investments (net)	15.3	-6.4	-24.1	3.1	1.2	16.3	14.2	16.2
Other Investments (net)	-10.6	-5.3	-6.2	5.7	-0.9	-5.2	-6.5	-14.7
Reserve Assets (net)	-11.8	0.8	-8.2	-10.4	6.3	-13.3	-19.1	-19.4
<b>Net Errors and Omissions</b>	<b>6.1</b>	<b>5.1</b>	<b>-6.3</b>	<b>9.8</b>	<b>-7.9</b>	<b>-9.1</b>	<b>-13.3</b>	<b>-14.9</b>
<b>Current Account Balance/GDP (%)</b>	<b>-3.2</b>	<b>-3.1</b>	<b>-4.8</b>	<b>-2.6</b>	<b>1.1</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						Apr-20	May-20	Jun-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>393.8</b>	<b>479.2</b>	<b>564.9</b>
Interest Expenditures	53.0	50.2	56.7	74.0	99.9	55.3	65.0	71.3
Non-interest Expenditures	453.3	533.8	621.6	756.5	899.5	338.5	414.3	493.6
<b>Revenues</b>	<b>482.8</b>	<b>554.1</b>	<b>630.5</b>	<b>757.8</b>	<b>875.8</b>	<b>321.0</b>	<b>389.1</b>	<b>455.4</b>
Tax Revenues	407.8	459.0	536.6	621.3	673.3	225.2	280.5	335.9
<b>Budget Balance</b>	<b>-23.5</b>	<b>-29.9</b>	<b>-47.8</b>	<b>-72.8</b>	<b>-123.7</b>	<b>-72.8</b>	<b>-90.1</b>	<b>-109.5</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>-17.5</b>	<b>-25.1</b>	<b>-38.2</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-2.0</b>	<b>-2.9</b>	-	-	-
<b>Central Government Debt Stock (TRY billion)</b>						Apr-20	May-20	Jun-20
Domestic Debt Stock	440.1	468.6	535.4	586.1	755.1	879.0	966.0	983.9
External Debt Stock	238.1	291.3	341.0	481.0	574.0	696.8	667.6	657.3
<b>Total Debt Stock</b>	<b>678.2</b>	<b>760.0</b>	<b>876.5</b>	<b>1067.1</b>	<b>1,329.1</b>	<b>1,575.8</b>	<b>1,633.6</b>	<b>1,641.2</b>

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

## Turkish Economy - Banking Sector Outlook

### Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2015	2016	2017	2018	2019	May.20	Jun.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>5,283</b>	<b>5,356</b>	<b>19.2</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>3,162</b>	<b>3,258</b>	<b>22.6</b>
TRY Loans	1,013	1,131	1,414	1,439	1,642	2,014	2,112	28.7
Share (%)	68.2	65.2	67.4	60.1	61.8	63.7	64.8	-
FX Loans	472	603	684	956	1,015	1,148	1,145	12.9
Share (%)	31.8	34.8	32.6	39.9	38.2	36.3	35.2	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	150.7	150.9	0.5
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	4.5	4.4	-
<b>Securities</b>	<b>330</b>	<b>352</b>	<b>402</b>	<b>478</b>	<b>661</b>	<b>911</b>	<b>903</b>	<b>36.6</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>5,283</b>	<b>5,356</b>	<b>19.2</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>2,974</b>	<b>3,060</b>	<b>19.2</b>
TRY Deposits	715	845	955	1,042	1,259	1,447	1,527	21.3
Share (%)	57.4	58.1	55.8	51.2	49.0	48.6	49.9	-
FX Deposits	530	609	756	994	1,308	1,528	1,533	17.2
Share (%)	42.6	41.9	44.2	48.8	51.0	51.4	50.1	-
<b>Securities Issued</b>	<b>98</b>	<b>116</b>	<b>145</b>	<b>174</b>	<b>194</b>	<b>230</b>	<b>225</b>	<b>16.1</b>
<b>Payables to Banks</b>	<b>361</b>	<b>418</b>	<b>475</b>	<b>563</b>	<b>533</b>	<b>586</b>	<b>566</b>	<b>6.1</b>
<b>Funds from Repo Transactions</b>	<b>157</b>	<b>138</b>	<b>99</b>	<b>97</b>	<b>154</b>	<b>263</b>	<b>231</b>	<b>50.0</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>262</b>	<b>300</b>	<b>359</b>	<b>421</b>	<b>492</b>	<b>546</b>	<b>558</b>	<b>13.3</b>
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	27.3	30.9	-
<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	59.1	59.8	60.8	-
Securities/Assets	14.0	12.9	12.3	12.4	14.7	17.2	16.9	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.1	56.3	57.1	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.5	106.3	106.5	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	19.4	19.5	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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