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Turkish Economy .....	2
Financial Markets .....	9
Banking Sector.....	10
Concluding Remarks.....	11
Graphs.....	12
Tables.....	14

## Global Economy

The number of coronavirus cases worldwide exceeded 25 million and the number of deaths has approached 900K. While the pandemic is heavily affecting India, Brazil and Mexico recently, the developments signal the beginning of the second wave in many other countries. The said developments lead restrictive measures to come to the fore again.

Fed set a new framework for its monetary policy. Stating that the Fed will target a 2% inflation rate on average over time, President Powell announced that economic growth and employment market will be pursued. Markets interpreted Fed's new monetary policy framework as the bank will continue its low interest policy for a long time and this supported the global risk perception.

In the US economy, which contracted by 31.7% on an annual basis in the second quarter of the year, the data released for the third quarter indicated a gradual recovery.

The recent increase in tension between the US and China accelerated the concerns regarding the future of trade relations. These concerns eased following the phone call between senior officials of the two countries, and the expression of their commitment to the first phase of the trade agreement in the second half of August.

While the data for the third quarter in China show that the recovery continues, the data announced in the Euro Area point to a more limited improvement.

Japanese Prime Minister Shinzo Abe announced that he will leave office due to health problems. Abe's extreme expansionist policies are expected to continue to be implemented, though.

The World Trade Organization announced that global trade, which shrank sharply in the second quarter, increased partially in the third quarter, but the recovery was slow.

After rising to historic highs in early August, gold prices lost some value for the remainder of the month.

## Turkish Economy

In the 2nd quarter of 2020, Turkish economy contracted by 9.9% yoy, the lowest level since the first quarter of 2009, due to the sharp loss in economic activity led by taken restrictive measures against Covid-19 pandemic.

Industrial production, which contracted rapidly in April and May due to the outbreak, increased by 0.1% yoy in June. According to the seasonal and calendar adjusted data, the rise in industrial production came in at 17.6% mom in June.

Manufacturing PMI, which rose to 56.9 in July, declined to 54.3 in August. Remaining above the threshold level of 50, it indicated continued growth in the sector.

House sales went up by 124.3% yoy in July, reaching the highest monthly sales figure of all time with 230K units. In this period, mortgaged sales, which constituted 57% of housing sales, increased by 901% yoy.

In June, current account balance became 2.9 billion USD due to the contraction in net tourism and transportation revenues. According to the 12-month cumulative data, the current account deficit rose to 11.1 billion USD in June, the highest level since January 2019.

Expanding by 103% yoy and reaching 139.1 billion TRY in January-July period, budget deficit exceeded the 2020 year-end target.

In August, CPI increased by 0.86% mom, while annual CPI inflation was realized as 11.77%. In this period, domestic PPI inflation came in at 2.35% mom and reached the highest level since August 2019 with 11.53% yoy.

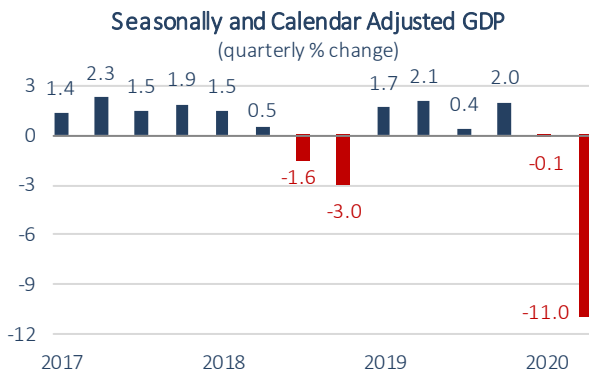
Keeping the policy interest rate unchanged in its August meeting as well, the CBRT took steps towards tightening the monetary policy with the changes it made in the funding composition .

## GDP Growth

### Turkish economy contracted by 9.9% yoy in the 2<sup>nd</sup> quarter of 2020.

In the 2<sup>nd</sup> quarter of 2020, Turkish economy contracted by 9.9% yoy, the lowest level since the first quarter of 2009, due to the sharp loss in economic activity led by taken restrictive measures against Covid-19 pandemic. Markets were expecting Turkish economy to shrink by double digits during this period. According to the statement made by TURKSTAT, the growth figures for the previous periods were revised parallel to the updates made in the statistics regarding foreign trade, international service trade and balance of payments. In line with that, the growth figures in 2019 Q4 and 2020 Q1 were revised from 6% to 6.4% and from 4.5% to 4.4%, respectively. Turkish economy contracted by 3.1% in the first half of 2020 compared to the same period of last year.

Turkish economy, which had contracted by 0.1% qoq in the first quarter of 2020 according to the seasonal and calendar adjusted data, shrank by 11% qoq in the 2<sup>nd</sup> quarter and entered technical recession.



### Turkey's GDP came in at 742.9 billion USD.

Turkey's annual GDP as of the 2<sup>nd</sup> quarter of 2020 was realized as 742.9 billion USD. The said amount was 760.8 billion USD at the end of 2019. In addition to the

contraction in the economy, the depreciation of the TRY was also effective in the decline in annual GDP in USD terms.

### Decline in main expenditure groups...

According to the expenditures approach, all groups except stock changes, which include statistical errors as well, contracted annually on real terms in the 2<sup>nd</sup> quarter of the year. The widespread measures taken against the virus pandemic during this period, especially in April and in the first half of May, led a rapid decline in private consumption expenditures. While the said item lowered the GDP by 5.1 points, the decrease in public consumption expenditures limited the growth by 0.1 points.

The strong pressure on the export volume due to the global contraction in economic activity led exports to limit GDP by 9 points in the 2<sup>nd</sup> quarter of the year. On the other hand, with the effect of the decrease in import volume, net exports limited the growth by 7.8 points in total.

### Investment expenditures continued to decline.

Investment expenditures, which gave signs of recovery in the last quarter of 2019, resumed to decline again this year with the effect of the pandemic. Thus, according to the chain-linked volume index, investment expenditures limited GDP by 1.5 points in the 2<sup>nd</sup> quarter. Analyzing sub-categories of investment expenditures reveals that construction investments, which have been decreasing continuously since the 3<sup>rd</sup> quarter of 2018, contracted by 16.4% in this period. On the other hand, machinery and equipment investments continued to increase on an annual basis (4.7%), albeit losing momentum.

### Rapid decline in the services sector...

Due to the measures taken against the virus pandemic, the services sector dragged the growth down by 6.7 points

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

	2018					2019					2020		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	6M
<b>Consumption</b>	4.5	3.2	1.6	-3.6	1.2	-1.4	0.2	2.0	4.9	1.5	3.2	-5.2	-1.2
Private	3.8	1.9	0.8	-4.4	0.3	-2.4	-0.3	1.2	4.7	0.9	2.7	-5.1	-1.4
Public	0.7	1.3	0.8	0.8	0.9	1.0	0.5	0.8	0.3	0.6	0.5	-0.1	0.2
<b>Investment</b>	3.2	2.3	-1.2	-3.8	-0.1	-4.2	-6.5	-3.8	0.2	-3.5	-0.1	-1.5	-0.8
<b>Change in Stock</b>	3.6	-0.5	-4.9	-4.2	-1.8	-6.7	-1.2	2.4	6.8	0.6	5.3	4.6	4.9
<b>Net Export</b>	-3.8	0.8	6.9	8.8	3.6	9.8	5.8	0.5	-5.5	2.4	-4.0	-7.8	-6.0
Exports	-0.2	1.4	3.9	2.7	2.1	2.1	1.5	1.2	0.2	1.2	0.1	-9.0	-4.7
Imports	-3.6	-0.6	3.0	6.1	1.6	7.7	4.4	-0.7	-5.7	1.2	-4.1	1.2	-1.3
<b>GDP</b>	<b>7.5</b>	<b>5.8</b>	<b>2.5</b>	<b>-2.7</b>	<b>3.0</b>	<b>-2.6</b>	<b>-1.7</b>	<b>1.0</b>	<b>6.4</b>	<b>0.9</b>	<b>4.4</b>	<b>-9.9</b>	<b>-3.1</b>

Numbers may not add to total due to rounding.

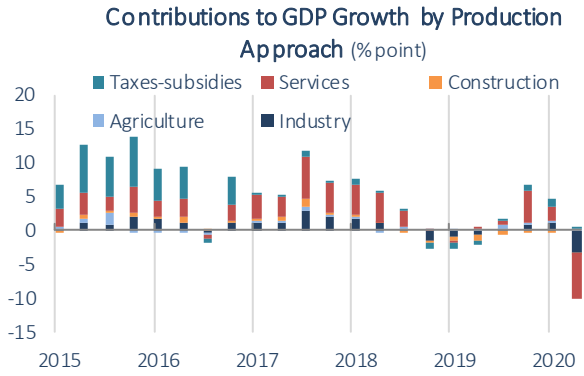
Source: Datastream, Turkstat

## GDP Growth

in the 2<sup>nd</sup> quarter of the year. During this period, disruptions in production caused the industrial sector to push down growth by 3.3 points. The agricultural sector, on the other hand, contributed 0.2 points to growth in the 2<sup>nd</sup> quarter of 2020. In addition, the 27.8% annual increase in financial and insurance activities confirmed that the economy was supported by the credit channel against the pandemic in the 2<sup>nd</sup> quarter of the year.

### Expectations...

The limiting effect of the coronavirus pandemic on economic activity was clearly felt in the 2<sup>nd</sup> quarter of the year. Despite the accelerated normalization steps in June, economic activity recorded the fastest decline since the global crisis, especially with losses recorded in April and May. During this period measures such as curfews, travel restrictions and social distance put pressure on the services sector, especially on tourism. Along with the normalization steps, the leading indicators for the 3<sup>rd</sup> quarter point to a recovery trend in economic activity, but the continuing increase in the number of cases worldwide creates uncertainty for the upcoming period.



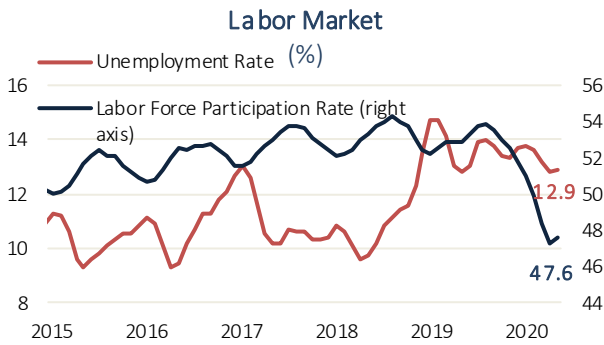
(\*) Taxes and subsidies are not included.

Source: Datastream, Turkstat

## Leading Indicators

### Unemployment rate became 12.9% in May.

According to the data released by TURKSTAT, the unemployment rate increased by 0.1 point yoy to 12.9% in May 2020. In this period, the labor force participation rate dropped by 5.3 points to 47.6%, while total employment decreased by 2.4 million people annually. This development was mainly driven by the 1.6 million employment fall in the services sector. In the same period, employment decreased by 274K persons in the industrial sector, 308K persons in the agricultural sector and 206K persons in the construction sector. According to the seasonally adjusted data, the unemployment rate rose by 0.2 point compared to the previous period and became 14%. 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, has continued to increase and reached 25.1% in this period.



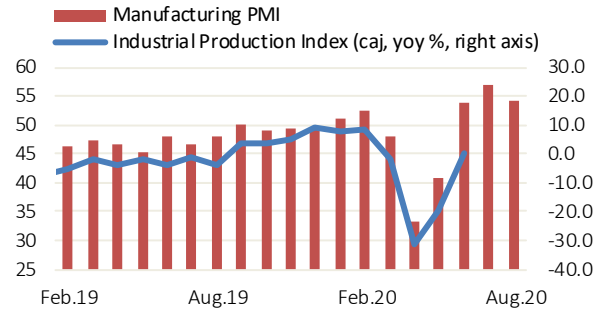
### Industrial production shrank by 16.9% yoy in Q2.

According to the calendar adjusted data, industrial production, which contracted rapidly in April and May on a yearly basis, rose by 0.1% yoy in June. According to the seasonally and calendar adjusted data, industrial production increased by 17.6% mom in June. Thus, in the second quarter of the year, industrial production shrank by 16.9% compared to the same period of last year. According to the seasonally and calendar adjusted data industrial production decreased by %20.1 qoq compared to the first quarter of this year.

### Manufacturing PMI dropped to 54.3 in August.

The manufacturing PMI, which rose to 56.9 in July, fell to 54.3 in August, but remained above the 50 threshold, indicating that growth in the sector has been continuing for three months. The production of the manufacturing industry increased thanks to the improving demand conditions driven by easing of coronavirus measurements. While there were rises in new domestic and export orders, these developments have supported companies' job creation and purchasing activities. On the other hand, in August, TRY rapidly depreciated against USD, which is followed by fastest increase in input costs and product prices in nearly two years.

### Manufacturing PMI and Industrial Production Index



### Real sector confidence reached its highest level since February.

The real sector confidence index rose by 5.5 points mom to 106.2 in August to its second consecutive month above the threshold level of 100. Increase in total orders in the current period and in the next three months was decisive in the positive performance of the index, which reached its highest level since February. Continuing its increasing trend since May, manufacturing industry capacity utilization rate went up by 2.6 points mom to 73.3% in August. Looking at the sectoral confidence indices, confidence increased in the services and retail trade sectors by 5.7% and 0.2%, respectively, and decreased by 2.3% in the construction sector. According to seasonally adjusted data, consumer confidence index declined by 2.2% mom to 59.6 in August and maintained its course at low levels.

### Mortgaged house sales increased 10 times in July.

In Turkey, house sales increased by 124.3% yoy in July. In this period, sector reached the highest monthly sales of all time with approximately 230K while approximately 57% of these sales were mortgaged house sales. In July, mortgaged house sales rose by 901% yoy to 131K units. In this period, the sales of new houses increased by 75% yoy to 68K units and existing houses went up by 155% yoy to 161K units. According to data released by CBRT, residential property price index (RPPI) increased by 2.6% mom in June. RPPI rose by 25.7% yoy in nominal and by 11.6% yoy in real terms.

### White good sales rose rapidly.

White good sales, which increased by 14.5% yoy in June, rose by 58.4% yoy to 900K units in July. In this period, while exports went up by 18% yoy, production expanded by 22.1% yoy.

According to the data announced by the Automotive Distributors Association (ODD), automotive production declined by 11.8% yoy, while exports fell by 33.3% yoy to 78,242 units in July. In January-July period, automotive production shrank by 26.7% to 636.757 units, while exports declined by 36.1% to 480.425 units compared to the same period last year. At the end of August, SCT rates for certain car purchases were increased.

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

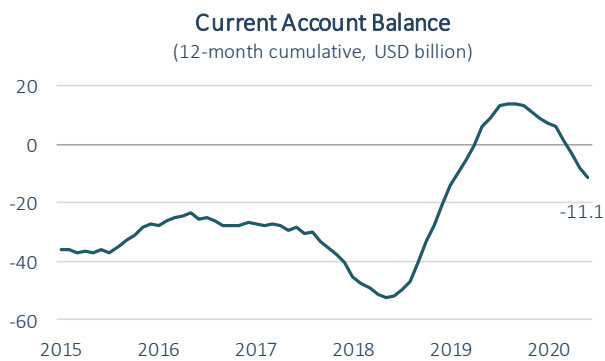
## Foreign Trade and Balance of Payments

### Foreign trade deficit decreased by 18.2% yoy in July.

According to TURKSTAT data, exports decreased by 5.8% yoy to 15 billion USD in July, while imports fell by 7.9% yoy to 17.7 billion USD. Thus, foreign trade deficit contracted by 18.2% yoy and became 2.7 billion USD. During January-July 2020, the deficit rose by 55.6% yoy. Import coverage ratio, which was 85.9% in January-July 2019, fell to 77.2% in the same period of this year.

### In June current account gave 2.9 billion USD deficit.

Current account deficit widened 2.8 billion USD yoy and became 2.9 billion USD in June. The decline in net tourism revenues by 2.5 billion USD due to the pandemic as well as 1.2 billion USD decrease in transport revenues played role in the expansion of the current account deficit. In June, 12-month cumulative current account deficit reached 11.1 billion USD, the highest level since January 2019.

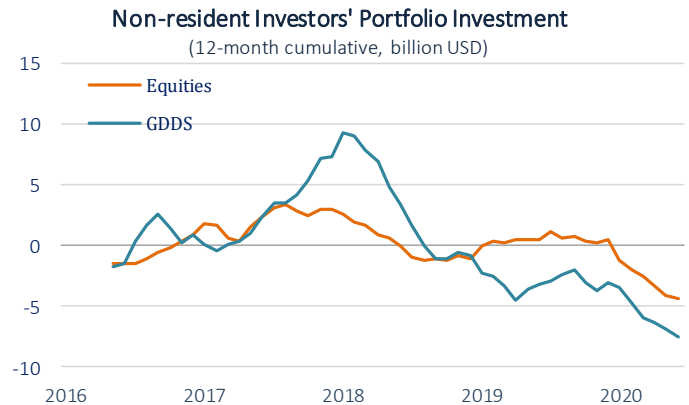


### Direct Investments...

Foreign direct investments remained weak in June. While direct investments contracted by 77% yoy to 226 million USD in this period, there was a limited capital inflow of 3 million USD in the net direct investments. In June, 183 million capital inflow was realized in real estate investments.

### Capital outflows continued in portfolio investments...

There was a net capital outflow of 1.5 billion USD from the portfolio investments in June. In this period, nonresidents made net sales of 31 million USD in the stock market and 427 million USD in debt securities market. Net repayment of 2 billion USD made by the general government for issued bonds abroad was also effective in the capital outflow of portfolio investments.



Following an inflow of 9.7 billion USD in May, other investments recorded a net capital outflow of 5.3 billion USD in June. The 2.3 billion USD increase in the deposits of domestic banks at their foreign correspondents and 1.5 billion USD decline in foreign banks' deposits at domestic banks was effective in this development. In June banks, general government and other sectors made net loan repayments. According to 12-month cumulative figures, the long-term debt roll-over ratios became 74% in the banking sector and 77% in other sectors as of June.

### Reserves decreased by 7.7 billion USD in June.

Reserve assets, which rose by 2.7 billion USD in May, declined by 7.7 billion USD in June. In this period, net errors and omissions posted a capital inflow of 2 billion USD.

### Net Capital Inflows

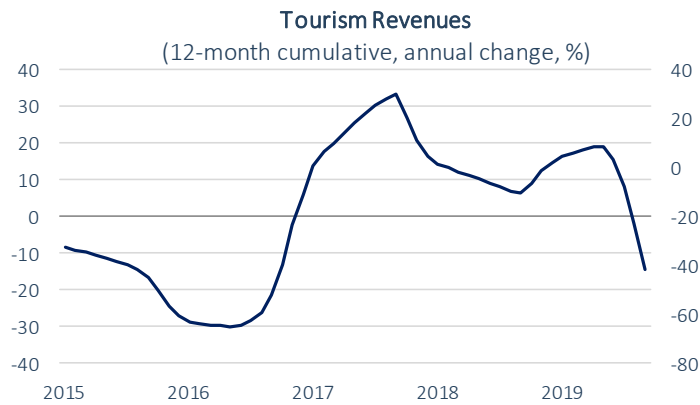
	12-month Cumulative (million USD)		Breakdown of Net Capital Inflows (%)	
	Dec. 2019	Jun. 2020	Dec. 2019	Jun. 2020
<b>Current Account Balance</b>	8,895	-11,094	56.5	-
<b>Total Net Foreign Capital Inflows</b>	5,615	-3,467	-	-
-Direct Investment	5,860	4,636	37.2	12.6
-Portfolio Inflows	-1,246	-15,612	-	-
-Other Investments	967	7,513	6.1	20.4
-Other	34	-4	0.2	-
<b>Net Errors and Omissions</b>	-8,186	-10,043	-	-
<b>Reserves(1)</b>	-6,324	24,604	-	66.9

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

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

Source: CBRT, Datastream

## Foreign Trade and Balance of Payments



### Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports decreased by 5.74% yoy in August due to the contraction in demand in the European Union, our main export market, while imports increased by 20.64%. Thus, during this period, the foreign trade deficit widened rapidly by 169.7% yoy. Continuing Covid-19 concerns around the world are putting pressure on exports, while the exchange rate, which is testing historical high levels, is putting pressure on imports. Although the gradual start of international flights as of July is expected to support tourism revenues to a certain extent, the slow course of the process and the unabated increase in the number of cases around the world indicate that the tourism-related pressures on the current account deficit will continue.

### Balance of Payments

(USD million)

	Jun. 2020	Jan. - Jun. 2019	2020	% Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-2,934</b>	<b>185</b>	<b>-19,804</b>	<b>-</b>	<b>-11,094</b>
Foreign Trade Balance	-2,047	-6,972	-18,241	161.6	-27,916
Services Balance	-294	13,182	3,667	-72.2	27,598
Travel (net)	29	8,805	2,723	-69.1	19,637
Primary Income	-570	-6,171	-4,970	-19.5	-11,344
Secondary Income	-23	146	-260	-	568
<b>Capital Account</b>	<b>0</b>	<b>18</b>	<b>-20</b>	<b>-</b>	<b>-4</b>
<b>Financial Account</b>	<b>-956</b>	<b>142</b>	<b>-21,742</b>	<b>-</b>	<b>-21,141</b>
Direct Investment (net)	-3	-3,161	-1,937	-38.7	-4,636
Portfolio Investment (net)	1,499	-1,601	12,765	-	15,612
Net Acquisition of Financial Assets	-1,036	2,016	-1,029	-	1,609
Net Incurrence of Liabilities	-2,535	3,617	-13,794	-	-14,003
Equity Securities	-31	858	-3,970	-	-4,422
Debt Securities	-2,504	2,759	-9,824	-	-9,581
Other Investment (net)	5,255	4,094	-2,452	-	-7,513
Currency and Deposits	3,595	4,021	-10,044	-	-18,569
Net Acquisition of Financial Assets	2,605	8,044	2,591	-67.8	2,371
Net Incurrence of Liabilities	-990	4,023	12,635	214.1	20,940
Central Bank	255	552	11,213	1,931.3	13,156
Banks	-1,245	3,471	1,422	-59.0	7,784
Foreign Banks	-1,511	1,738	437	-74.9	4,934
Foreign Exchange	-900	1,323	-2,015	-	2,463
Turkish Lira	-611	415	2,452	490.8	2,471
Non-residents	266	1,733	985	-43.2	2,850
Loans	1,616	7,196	7,233	0.5	16,947
Net Acquisition of Financial Assets	149	-70	-160	128.6	278
Net Incurrence of Liabilities	-1,467	-7,266	-7,393	1.7	-16,669
Banking Sector	-373	-5,782	-3,850	-33.4	-9,407
Non-bank Sectors	-902	-1,028	-3,131	204.6	-6,380
Trade Credit and Advances	46	-7,097	367	-	-5,949
Other Assets and Liabilities	-2	-26	-8	-69.2	58
Reserve Assets (net)	-7,707	810	-30,118	-	-24,604
<b>Net Errors and Omissions</b>	<b>1,978</b>	<b>-61</b>	<b>-1,918</b>	<b>3,044.3</b>	<b>-10,043</b>

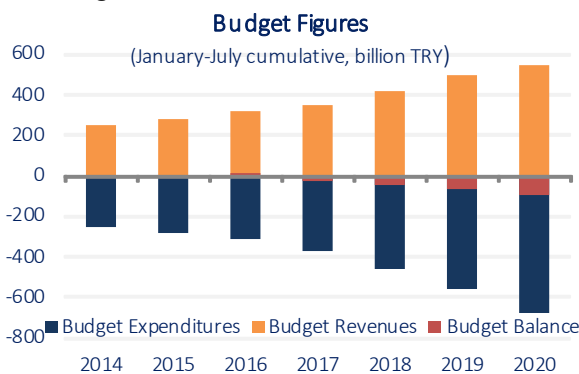
Source: CBRT, Datastream

## Budget Balance

### Deterioration in central government budget prevails.

The negative impacts of the measures taken within the scope of pandemic on the central government budget continued in July. In this period, budget revenues decreased by 7.4% yoy to 86.5 billion TRY due to the decline in property incomes. Budget expenditures, on the other hand, increased by 39.1% yoy and reached 116.2 billion TRY in the same period. Thus, the central government budget, which gave a surplus of 9.9 billion TRY in July last year, posted 29.7 billion TRY deficit in the same month of this year. Similarly, the primary balance, which gave a surplus of 17.6 billion TRY in July 2019, posted a deficit of 21.2 billion TRY in July this year.

In the January-July period, while budget revenues increased by 9.2% compared to the same month of the previous year, budget expenditures expanded by 20.5% owing to the rapid increase in current transfers. Thus, the central government budget deficit, which was 68.7 billion TRY in the first 7 months of last year, reached 139.1 billion TRY and exceeded the full-year budget deficit target.



### Property incomes declined sharply.

23.3 billion TRY had been recorded as property incomes in July 2019 thanks to the transfer of the CBRT reserve funds to the budget. Declining by 22.1 billion TRY (94.8%) in July this year, the said item limited the increase in budget revenues by 23.6 pp and played a decisive role in the budget performance of July. During this period,

having been posted nearly 3 billion TRY revenue fall in other miscellaneous revenues under interest, shares and fines limited budget revenues.

On the other hand, strong performance in automotive sales positively affected budget revenues. The SCT revenues from motor vehicles in July rose 8 times compared to the same period of the previous year and contributed 4.7 pp to the budget revenues. SCT collected from tobacco products, VAT on imports and domestic VAT were the other items that limited the deterioration in budget revenues.

In the first 7 months of the year, besides the SCT revenues; increases in interest revenues and corporate tax stood out as items supporting the budget revenues. On the other hand, the decline in enterprise and portfolio revenues of Treasury limited the rise in budget revenues.

### Current transfers remained high.

Current transfers from the central government budget, particularly to the social security institution and households, remained at high levels in July. Indeed, the increase recorded in the said item made up 34.4 pp of the 39.1% annual increase in budget expenditures. On the other hand, as a sign of the savings measures implemented in public spending, goods and services procurements decreased on an annual basis in July, and limited the increase in budget expenditures.

In the first 7 months, while current transfers stand out as a leading expenditure figure, interest expenditures also put upward pressure on budget expenditures.

### Expectations...

Despite the gradual recovery trend in economic activity, ongoing public supports to the economy put pressure on the central government budget indicators. Against this backdrop, the 2020 year-end budget deficit target has already been exceeded as early as 7th month of the year. The prevailing uncertainty about the second wave of the pandemic is expected to continue to weigh on budget performance in the upcoming period.

### Central Government Budget

(billion TRY)

	July			January-July			2020 Budget	
	2019	2020	% Change	2019	2020	% Change	Target	Real./ Target (%)
<b>Expenditures</b>	<b>83.5</b>	<b>116.2</b>	<b>39.1</b>	<b>565.1</b>	<b>681.1</b>	<b>20.5</b>	<b>1,095.5</b>	<b>62.2</b>
Interest Expenditures	7.7	8.5	9.5	58.5	79.7	36.3	138.9	57.4
Non-Interest Expenditures	75.8	107.8	42.2	506.6	601.4	18.7	956.5	62.9
<b>Revenues</b>	<b>93.4</b>	<b>86.5</b>	<b>-7.4</b>	<b>496.4</b>	<b>541.9</b>	<b>9.2</b>	<b>956.6</b>	<b>56.7</b>
Tax Revenues	58.3	76.0	30.3	366.1	412.0	12.5	784.6	52.5
Other Revenues	35.1	10.5	-70.1	130.4	130.0	-0.3	172.0	75.6
<b>Budget Balance</b>	<b>9.9</b>	<b>-29.7</b>	<b>-</b>	<b>-68.7</b>	<b>-139.1</b>	<b>102.6</b>	<b>-138.9</b>	<b>100.2</b>
<b>Primary Balance</b>	<b>17.6</b>	<b>-21.2</b>	<b>-</b>	<b>-10.2</b>	<b>-59.4</b>	<b>481.6</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 0.86% in August.

In August, CPI increased by 0.86% compared to previous month, and remained below the expectations. The market's CPI expectation for this period was 1%. The increase in domestic PPI (D-PPI) was realized as 2.35% mom in August.

### Annual D-PPI inflation increased to 11.53%.

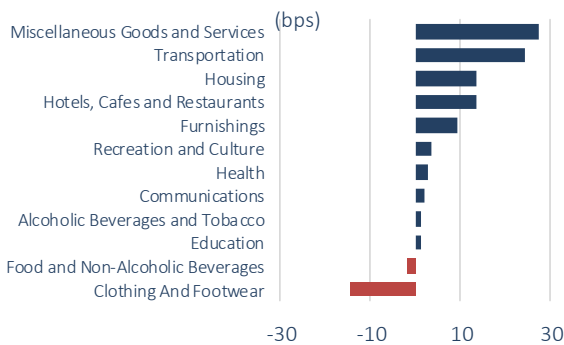
Annual CPI inflation remained flat compared to July and was realized as 11.77% in August. D-PPI inflation, which is accelerating since June, reached the highest level (11.53%) of the last 12 months in this period.

August (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	0.86	0.86	-0.59	2.35
Annual	15.01	11.77	13.45	11.53
Annual Average	19.62	11.27	30.51	6.71

### Widespread increase in the expenditure groups.

In August, prices in 10 out of the 12 main spending groups rose compared to the previous month. In this period, while miscellaneous goods and services group made the highest contribution to monthly CPI inflation with 30 basis points, the transportation group pulled inflation up by 24 basis points due to the increase in automobile and fuel prices. The rise in housing and furnishings prices in August caused a total of 23 basis points increase in monthly CPI inflation. The rise in hotels, cafes and restaurants prices also made an upward contribution to the inflation by 14 basis points. On the other hand, prices in the food and non-alcoholic beverages group dropped slightly, while clothing and footwear prices decreased by 2.1% mom due to seasonal factors, pulling the monthly CPI inflation down by 13 basis points.

### Contributions to the Monthly CPI Inflation

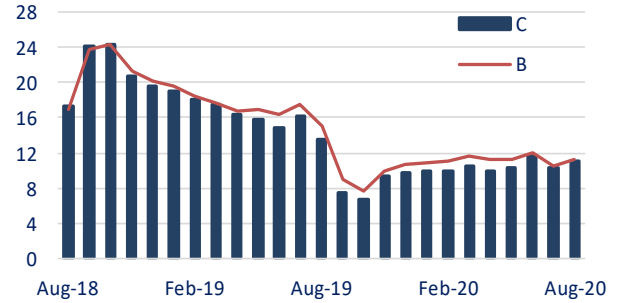


### Core inflation indicators...

In August, 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) increased slower than the headline inflation by 0.78% mom and 0.77% mom, respectively. Annual rises in B and C indices came in higher than the previous month, though. In August, B and C indices increased by 11.18% yoy and 11.03% yoy, respectively.

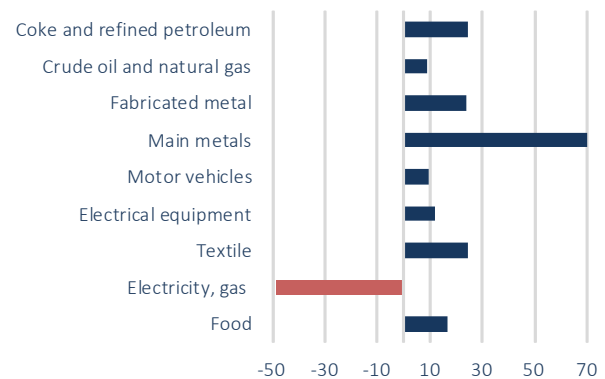
### Special CPI Aggregates (annual % change)



### Producer prices rose almost in all sectors.

In August, intermediate goods and capital goods prices increased by 3.8% and 3.5% mom, respectively, while the durable consumer goods prices went up by 3%. Among the sub sectors, main metal group had an upward contribution on monthly D-PPI inflation with 70 basis points. The second highest contribution on D-PPI inflation came from coke and refined petroleum products sector with 25 basis points. On the other hand, electricity, gas production and distribution group became the only sub-sector that limited monthly D-PPI inflation with a decrease of 7.3%.

### Contributions of Featured Sub-Sectors to Monthly D-PPI (bps)



### Expectations...

Despite the recent tightening steps taken by the CBRT, the upward trend in global commodity prices and the lagged effects of the depreciation in TRY may put upward pressure on inflation in the upcoming months. Within this scope, we expect that the annual CPI inflation will remain at double digit levels for a while.



	31-Jul	31-Aug	Change
5-Y CDS (basis points)	554	523	-31 bps ▼
TR 2-Y Benchmark Yield	11.08%**	13.21%	213 bps ▲
BIST-100	1,127***	1,079	-4.3% ▼
USD/TRY	6.9702	7.3466	5.4% ▲
EUR/TRY	8.2345	8.7718	6.5% ▲
Currency Basket*	7.6024	8.0592	6.0% ▲

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

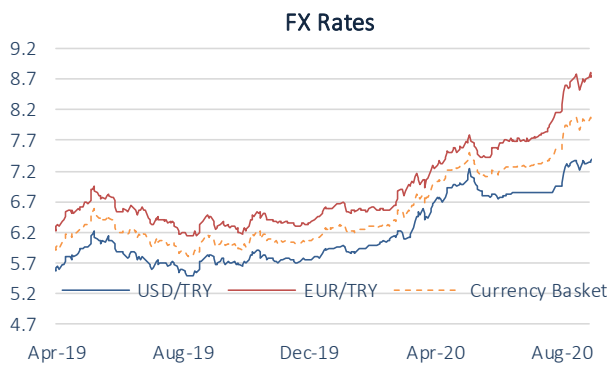
(\*\*) 29 July (\*\*\*) 30 July

### Upward trend in global stock markets in August...

The developments in vaccine studies in recent weeks and the moderate statements made by the US and China regarding the trade agreement supported the global risk appetite. In August, an upward trend was followed in global stock markets, especially in the US stock markets, despite the second wave concerns and the mixed outlook of the data released around the world.

### BIST-100 index declined by 4.3% in August.

BIST-100 index, which displayed a volatile outlook in August, declined by 4.3% mom and completed the month at 1,079 points. The compound interest rate of the 2-year benchmark bond, which reached the highest level since October 2019 with 14.01% on August 11, rose by 213 basis points throughout the month and became 13.21% as of 31 August. The USD/TRY, which saw its historical high with 7.4161 during the day on August 26, closed the month with an increase of 5.4% at 7.34, while the EUR/TRY went up by 6.5% mom and became 8.77 at the end of August. Turkey's 5-year CDS Premium decreased by 31 bps and became 523 at the end of August.



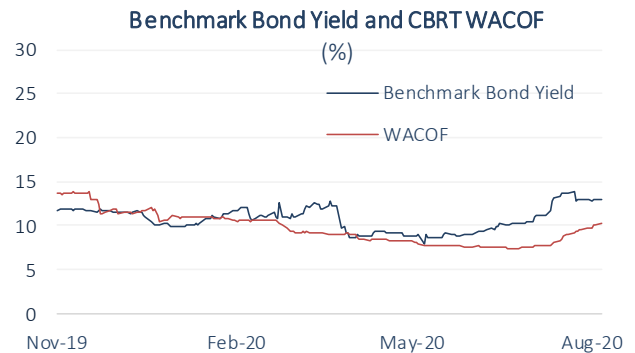
### Securities portfolio of non-residents...

According to the securities statistics published by the CBRT, as of August 28, the equity portfolio of non-residents fell by 1 billion USD compared to end-July as price and exchange rate adjusted data suggested. Government domestic debt securities (GDDS) portfolio of nonresidents decreased by a net 458.2 million USD in this period. Compared to the end-2019, non-residents

equity and GDDS portfolios declined by 5.5 billion USD and 7.7 billion USD, respectively.

### Liquidity measures from the CBRT that kept the policy rate unchanged...

At the Monetary Policy Committee meeting held on August 20, the CBRT kept the policy rate at 8.25%. In the statement published after the meeting, it was stated that along with the pandemic-related rise in unit costs, exchange rate and credit developments restrain the demand-side disinflationary effects, and the trends of core inflation indicators have increased. CBRT added that the gradual normalization of pandemic-specific financial measures and the recent tightening steps taken in liquidity management are expected to support macrofinancial stability. The CBRT announced that the liquidity offered to Primary Dealers in the framework of OMO were halved on August 10 and reduced to zero as of August 12. In addition, banks' borrowing limits at the CBRT Interbank Money Market for O/N transactions were reduced to half of their current limits effective from 19 August. In the framework of liquidity management, repo auction of TRY 60 billion has been conducted via the traditional auction method in August. After the liquidity measures taken by the CBRT, the weighted average funding cost increased by 239 bps in August to 10.15%.



### CBRT increased the reserve requirement ratios.

On August 20, CBRT announced that it has decided to raise FX reserve requirement ratios for banks fulfilling real credit growth conditions by 700 basis points for precious metal deposit accounts and by 200 basis points for all other FX liabilities for all maturity brackets. Moreover, for banks fulfilling the real credit growth conditions, TL reserve requirement ratios have been increased by 200 basis points for all deposits/participation funds liabilities with a maturity up to 6 months and other liabilities with a maturity up to 1 year, and by 150 basis points for other liabilities with a maturity up to 3 years.

## Banking Sector

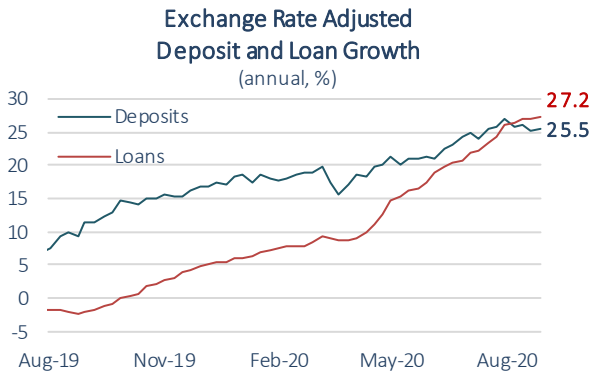
### New regulations from the BRSA...

The Banking Regulation and Supervision Agency extended the exemption of international development banks for foreign currency swap transactions in the direction of TRY purchases to include all banks residing abroad, on the condition that they provide a written declaration to use this TRY liquidity to buy TRY securities and to deposit excess TRY liquidity to domestic banks.

Within the scope of normalization steps, the BRSA also revised the method of calculating the asset ratio on 10.08.2020, while reducing the asset ratio target from 100% to 95% for deposit banks and from 80% to 75% for participation banks.

### Deposit volume increased by 41.1% yoy.

According to the Weekly Bulletin published by the BRSA, as of August 28, the deposit volume expanded by 41.1% yoy, and by 29% ytd and reached 3,316 billion TRY. Annual FX rate adjusted increase was realized as 25.5%. TRY deposit volume rose by 39.2% compared to the same period of last year and reached 1.544 billion TRY. In this period, FX deposits in USD terms increased by 13.3% yoy to 243 billion USD, near to historic highs.



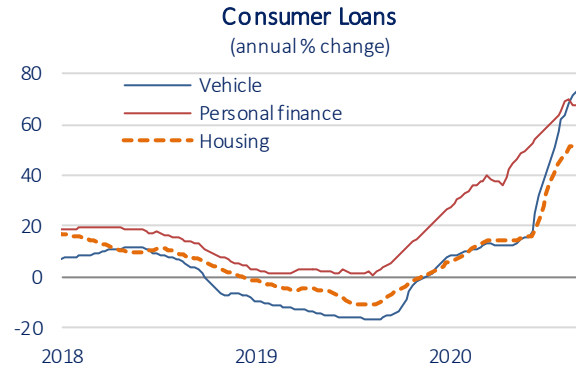
### Annual loan growth was 37.1%...

As of August 28, the total loan volume of the banking sector rose by 37.1% yoy, 31% ytd and reached 3,473 billion TRY. FX rate adjusted increase in loan volume was 27.2% on an annual basis in this period. While the annual TRY loan growth was 48.7%, FX loans in USD terms decreased by 4.9% in the same period and became 167 billion USD.

### Consumer loans expanded by 60.5% yoy.

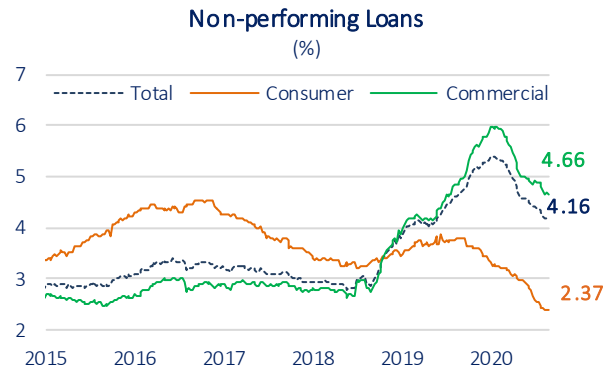
As of August 28, consumer loan volume increased by 60.5% yoy and by 41.3% ytd. The liveliness in automotive and housing sales continued to carry up the related loan amounts in the first half of August. Personal finance loan volume also increased fast in this period. As of August 28, vehicle loan volume expanded by 73.5% yoy, while the rise in housing loans became 51.5% yoy. In this period, the annual growth in personal finance loans

reached 67.5% while the increase from the end of 2019 became 43.7%.



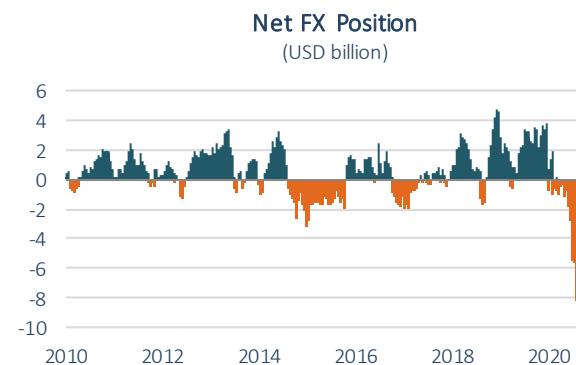
### Non-performing loan ratio became 4.2%.

As of August 28, the amount of gross non-performing loans increased by 21.8% yoy and became 150.6 billion TRY. Having continued to fall with the impact of the expansion in loan volume, NPL ratio became 4.2%. While the said ratio was 2.5% in public banks, it became 5.6% in private banks. Analyzing NPL in terms of loan types, NPL ratios for commercial and consumer loans were 4.7% and 2.4%, respectively.



### Net foreign currency position...

As of August 28, banks' on-balance sheet FX position was (-) 56,221 million USD, while off-balance sheet FX position was (+) 55,843 million USD. Hence, banking sector's FX short position declined to the lowest level since the week of April 17 and became 378 million USD.



Source: BRSA Weekly Bulletin

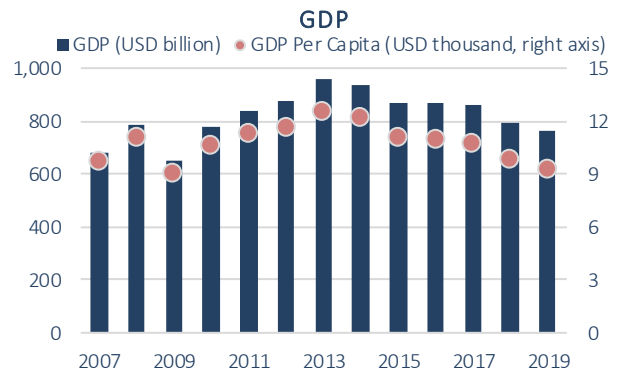
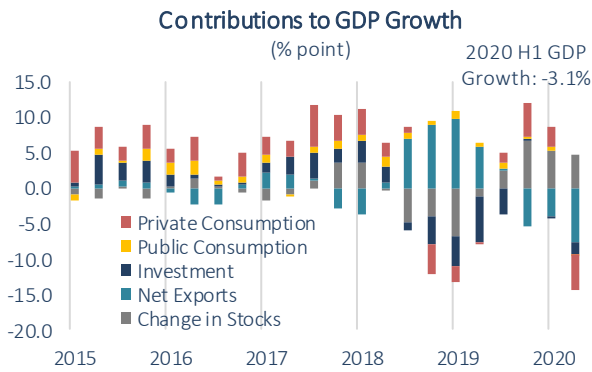
## Concluding Remarks

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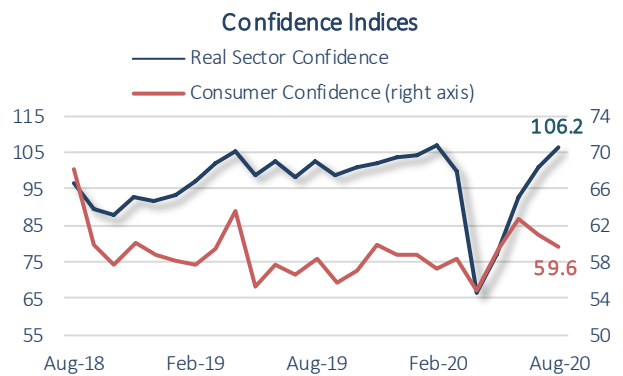
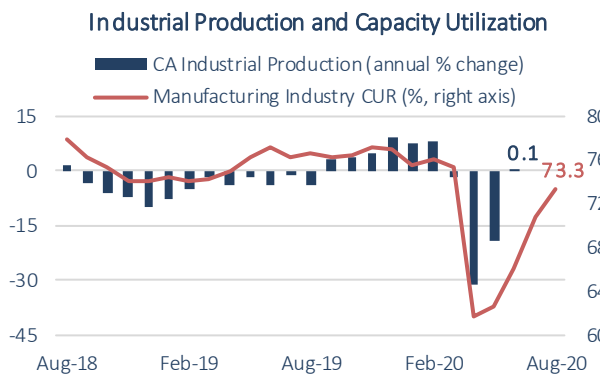
Global economic activity, which contracted sharply in the second quarter due to widely implemented quarantine measures, followed a moderate course in August after the rapid recovery in July. However, the worldwide increase in the number of coronavirus cases raises concerns about the course of the pandemic and new restrictive measures may be taken to prevent the spread of the virus. This situation raises questions regarding the continuity of the improvement in macroeconomic indicators. The Fed's change in the monetary policy framework on the grounds that normalization of economic activity in the US will take a long time, signals that interest rates in developed countries will remain at the current low levels for a long time.

Turkish economy, which contracted by 9.9% yoy in the second quarter, continued to recover in the third quarter according to the announced leading indicators. In an environment where exports and international tourism were under pressure due to the pandemic, the said recovery is driven mainly by mainly domestic demand. The recent negative trend in financial markets leads policy makers to take steps to support financial stability in this period. The course of the pandemic throughout the world and in Turkey will continue to be effective on all macroeconomic indicators in the coming period.

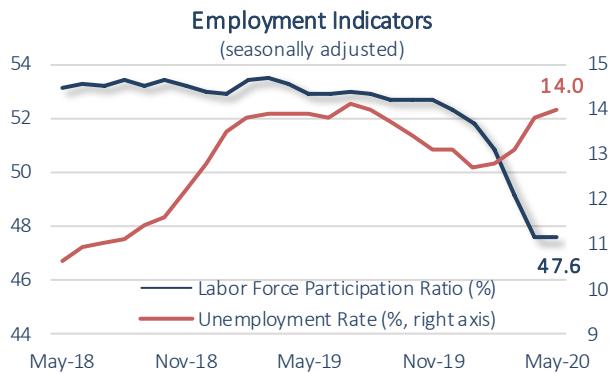
Growth



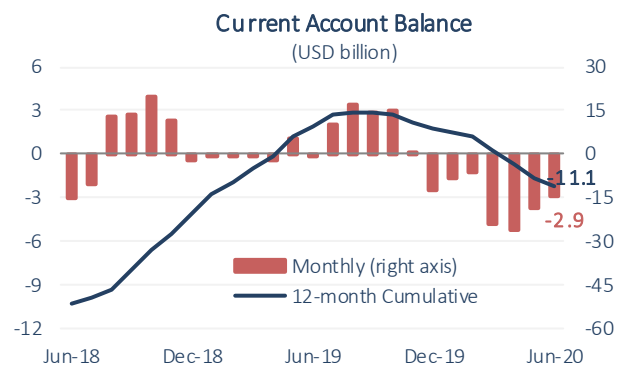
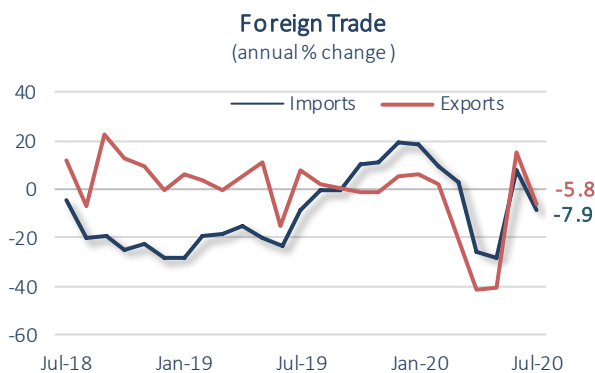
Leading Indicators



Labor Market



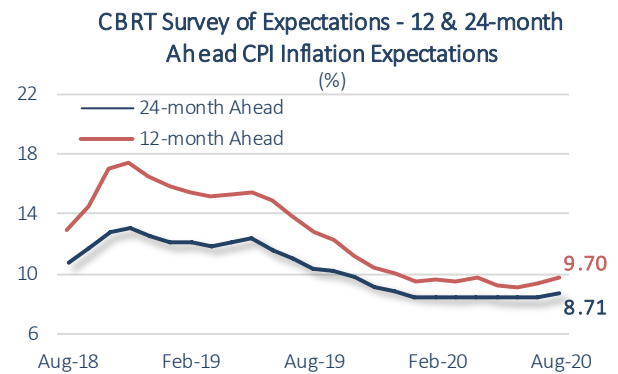
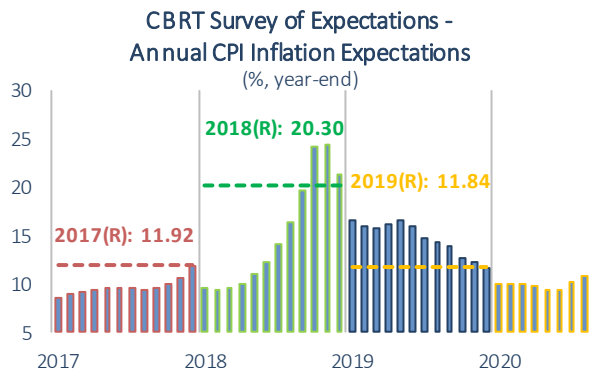
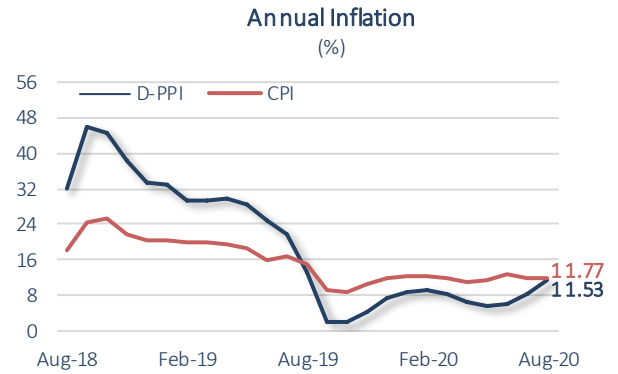
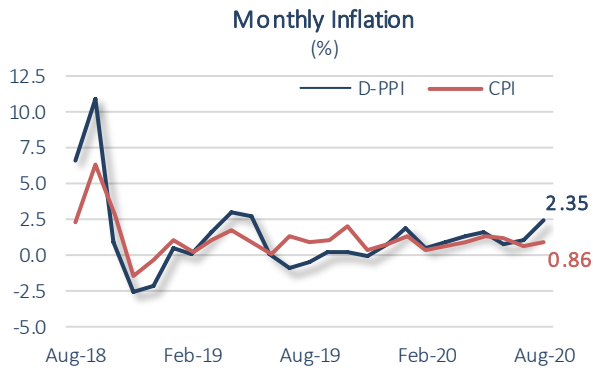
Foreign Trade and Current Account Balance



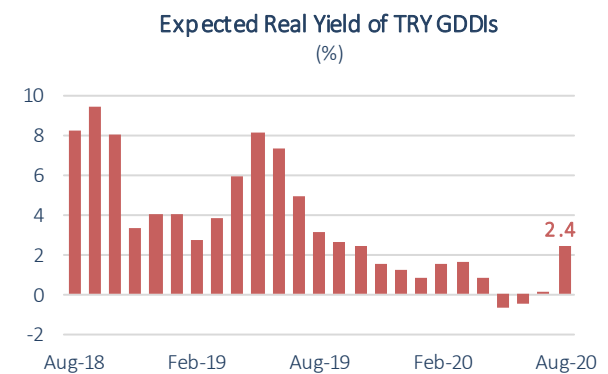
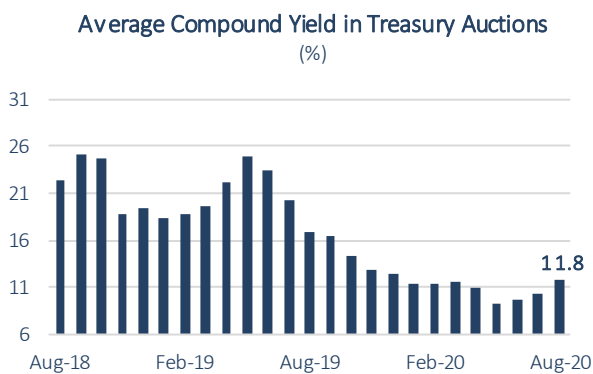
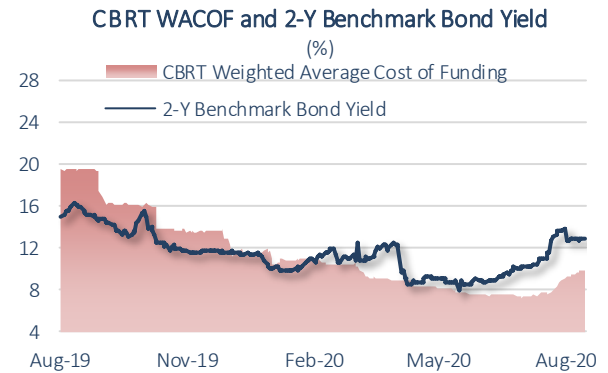
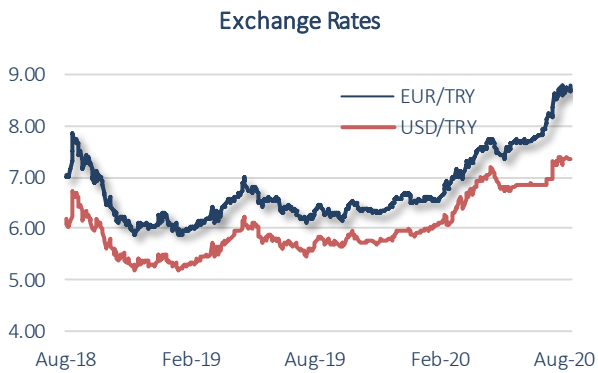
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

<b>Growth</b>	2015	2016	2017	2018	2019	Q1-20	Q2-20	
GDP (USD billion)	867	869	859	797	761	177	153	
GDP (TRY billion)	2,351	2,627	3,134	3,758	4,320	1,074	1,042	
GDP Growth Rate (%)	6.1	3.3	7.5	3.0	0.9	4.4	-9.9	
<b>Inflation (%)</b>						Jun-20	Jul-20	Aug-20
CPI (annual)	8.81	8.53	11.92	20.30	11.84	12.62	11.76	11.77
Domestic PPI (annual)	5.71	9.94	15.47	33.64	7.36	6.17	8.33	11.53
<b>Seasonally Adjusted Labor Market Figures</b>						Mar-20	Apr-20	May-20
Unemployment Rate (%)	10.2	12.0	9.9	12.8	13.1	13.10	13.80	14.00
Labor Force Participation Rate (%)	51.7	52.4	53.1	53.0	52.3	49.10	47.60	47.60
<b>FX Rates</b>						Jun-20	Jul-20	Aug-20
CPI Based Real Effective Exchange Rate	99.2	93.6	86.3	76.4	76.2	69.2	68.5	
USD/TRY	2.9189	3.5176	3.7916	5.3199	5.9510	6.85	6.98	7.36
EUR/TRY	3.1708	3.7102	4.5530	6.0815	6.6800	7.70	8.25	8.80
Currency Basket (0.5*EUR+0.5*USD)	3.0448	3.6139	4.1723	5.7007	6.3155	7.28	7.62	8.08
<b>Foreign Trade Balance<sup>(1)</sup> (USD billion)</b>						May-20	Jun-20	Jul-20
Exports	151.0	149.2	164.5	177.2	180.8	165.7	167.5	166.6
Imports	213.6	202.2	238.7	231.2	210.3	205.8	207.1	205.6
<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>-40.2</b>	<b>-39.6</b>	<b>-39.0</b>
Import Coverage Ratio (%)	70.7	73.8	68.9	76.6	86.0	80.5	80.9	81.0
<b>Balance of Payments<sup>(1)</sup> (USD billion)</b>						Apr-20	May-20	Jun-20
<b>Current Account Balance</b>	<b>-27.3</b>	<b>-26.8</b>	<b>-40.6</b>	<b>-20.7</b>	<b>8.9</b>	<b>-3.3</b>	<b>-8.3</b>	<b>-11.1</b>
<b>Capital and Financial Accounts</b>	<b>-21.2</b>	<b>-21.7</b>	<b>-46.8</b>	<b>-10.9</b>	<b>0.7</b>	<b>-16.6</b>	<b>-23.0</b>	<b>-21.1</b>
Direct Investments (net)	-14.2	-10.8	-8.4	-9.4	-5.9	-5.2	-5.2	-4.6
Portfolio Investments (net)	15.3	-6.4	-24.1	3.1	1.2	14.2	16.2	15.6
Other Investments (net)	-10.6	-5.3	-6.2	5.7	-1.0	-6.5	-14.7	-7.5
Reserve Assets (net)	-11.8	0.8	-8.2	-10.4	6.3	-19.1	-19.4	-24.6
<b>Net Errors and Omissions</b>	<b>6.1</b>	<b>5.1</b>	<b>-6.3</b>	<b>9.8</b>	<b>-8.2</b>	<b>-13.2</b>	<b>-14.8</b>	<b>-10.0</b>
<b>Current Account Balance/GDP (%)</b>	<b>-3.2</b>	<b>-3.1</b>	<b>-4.7</b>	<b>-2.6</b>	<b>1.2</b>	-	-	-
<b>Budget<sup>(2)(3)</sup> (TRY billion)</b>						May-20	Jun-20	Jul-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>479.2</b>	<b>564.9</b>	<b>681.1</b>
Interest Expenditures	53.0	50.2	56.7	74.0	99.9	65.0	71.3	79.7
Non-interest Expenditures	453.3	533.8	621.6	756.5	899.5	414.3	493.6	601.4
<b>Revenues</b>	<b>482.8</b>	<b>554.1</b>	<b>630.5</b>	<b>757.8</b>	<b>875.8</b>	<b>389.1</b>	<b>455.4</b>	<b>541.9</b>
Tax Revenues	407.8	459.0	536.6	621.3	673.3	280.5	335.9	412.0
<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>-90.1</b>	<b>-109.5</b>	<b>-139.1</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>-25.1</b>	<b>-38.2</b>	<b>-59.4</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>Central Government Debt Stock (TRY billion)</b>						May-20	Jun-20	Jul-20
Domestic Debt Stock	440.1	468.6	535.4	586.1	755.1	966.0	983.9	1046.7
External Debt Stock	238.1	291.3	341.0	481.0	574.0	667.7	657.4	674.2
<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>1,633.7</b>	<b>1,641.3</b>	<b>1,720.9</b>

(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	Jun.20	Jul.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>5,356</b>	<b>5,619</b>	<b>25.1</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>3,258</b>	<b>3,378</b>	<b>27.1</b>
TRY Loans	1,013	1,131	1,414	1,439	1,642	2,112	2,208	34.5
Share (%)	68.2	65.2	67.4	60.1	61.8	64.8	65.4	-
FX Loans	472	603	684	956	1,015	1,145	1,170	15.2
Share (%)	31.8	34.8	32.6	39.9	38.2	35.2	34.6	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	150.9	150.3	0.1
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	4.4	4.3	-
<b>Securities</b>	<b>330</b>	<b>352</b>	<b>402</b>	<b>478</b>	<b>661</b>	<b>903</b>	<b>961</b>	<b>45.4</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>5,356</b>	<b>5,619</b>	<b>25.1</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>3,060</b>	<b>3,209</b>	<b>25.0</b>
TRY Deposits	715	845	955	1,042	1,259	1,527	1,562	24.1
Share (%)	57.4	58.1	55.8	51.2	49.0	49.9	48.7	-
FX Deposits	530	609	756	994	1,308	1,533	1,648	26.0
Share (%)	42.6	41.9	44.2	48.8	51.0	50.1	51.3	-
<b>Securities Issued</b>	<b>98</b>	<b>116</b>	<b>145</b>	<b>174</b>	<b>194</b>	<b>225</b>	<b>225</b>	<b>16.4</b>
<b>Payables to Banks</b>	<b>361</b>	<b>418</b>	<b>475</b>	<b>563</b>	<b>533</b>	<b>566</b>	<b>597</b>	<b>11.9</b>
<b>Funds from Repo Transactions</b>	<b>157</b>	<b>138</b>	<b>99</b>	<b>97</b>	<b>154</b>	<b>231</b>	<b>309</b>	<b>101.4</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>262</b>	<b>300</b>	<b>359</b>	<b>421</b>	<b>492</b>	<b>558</b>	<b>565</b>	<b>14.7</b>
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	30.9	39.0	-
<b>RATIOS (%)</b>								
Loans/GDP	63.5	66.5	67.6	64.7	61.5			
Loans/Assets	63.0	63.5	64.4	61.9	59.1	60.8	60.1	-
Securities/Assets	14.0	12.9	12.3	12.4	14.7	16.9	17.1	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.1	57.1	57.1	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.5	106.5	105.2	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	19.5	19.2	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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