



KUVEYTÜRK

MONTHLY ECONOMIC BULLETIN

October 2020

Strategic Planning and Corporate Performance Management

SUMMARY INDICATORS

Markets

September-20



USD/TRY

7.76

EUR/TRY

9.09

BIST - 100

114,524

Gold (USD)

1,887

Oil (Brent)

41.0

Benchmark Rate

13.2

Growth

-9.91%

2nd Quarter 2020

Industrial Production

-0.9%

July-20

Inflation

11.7%

September-20

Unemployment

13.4%

June-20

Foreign Trade Deficit
(12 months, Billion USD)

43.1

August-20

Current Account Balance
(12 months, Billion USD)

-14.9

July-20

Budget Balance
(Monthly, Billion TL)

28.2

August-20

CBRT Interest Rate*

10.25%

September-20

* One-Week Repo Rate (Simple)

GLOBAL ECONOMY HIGHLIGHTS



1

In its September meeting, the FED announced that it would continue its asset purchase programs while keeping the policy rate unchanged between 0-0.25 percent. Powell reiterated in his statement that interest rates will remain at current levels until the average inflation reaches a moderate level of 2 percent.

2

While the European Central Bank did not change the interest rates, it revised its 2020 contraction forecast for the Euro Area from 8.7 percent to 8 percent.

3

The international rating agency Fitch revised its global growth forecast for 2020 from minus 4.6 percent to minus 4.4 percent in its Global Economic Outlook report. In the report it was stated that economic activity, deeply affected by the coronavirus epidemic, has recovered stronger than expected.

4

The manufacturing industry PMI index of the Euro Area in September rose from 51.7 to 53.7 points. With the increase of 2 points in the index, the biggest improvement of the last two years was recorded for the Euro Area economy.

5

While the producer price index increased 0.1 percent on a monthly basis in the Euro Area, it increased 2.3 percent on an annual basis.



TURKISH ECONOMY HIGHLIGHTS

1

BRSA announced that the Asset Ratio has been reduced from 95 percent to 90 percent for deposit banks and from 75 percent to 70 percent for participation banks as of October 1.

2

The CBRT raised the policy rate by 200 basis points to 10.25 percent in its September meeting. The Committee assessed that the tightening steps taken since August should be reinforced in order to contain inflation expectations and risks to the inflation outlook.

3

The current account, which had a surplus of 1.99 billion USD in the same period of the previous year, posted a deficit of 1.81 billion USD in July.

4

While the calendar adjusted industrial production increased by 4.4 percent on annual basis, it increased by 8.4 percent monthly.

5

According to the announced New Economy Program, the growth forecast for 2020 remained positive at 0.3 percent. The inflation was projected for 2020 as 10.5 percent and for 2021 as 8 percent.

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GLOBAL ECONOMY



The FED kept the policy interest rate unchanged...

In its September meeting, the FED announced that it would continue its asset purchase programs while keeping the policy rate unchanged between 0-0.25 percent. Powell reiterated in his statement that interest rates will remain at current levels until the average inflation reaches a moderate level of 2 percent. While the European Central Bank did not change the interest rates, it revised its 2020 contraction forecast for the Euro Area from 8.7 percent to 8 percent. The ECB has increased its inflation forecast for 2021 to 1 percent, while maintaining its 2020 inflation forecast at 0.3 percent.

EUR/USD Parity



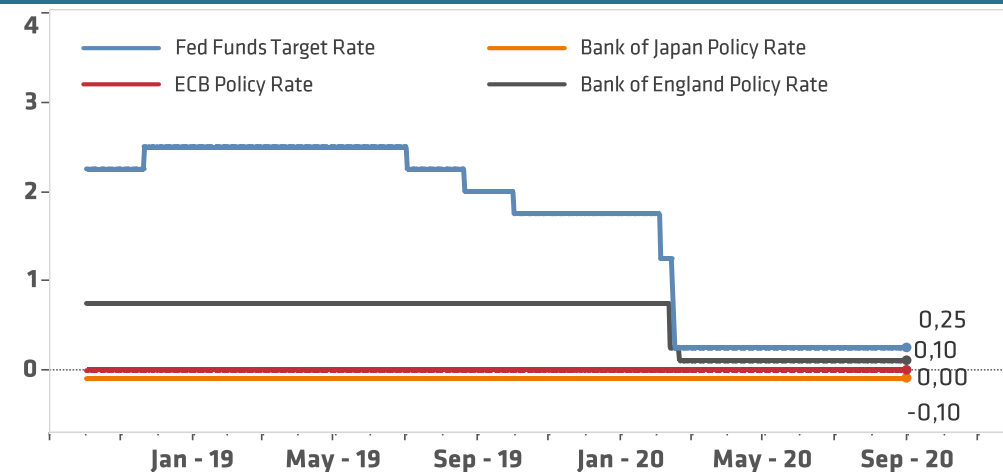
Source: Federal Reserve

Selected Countries - Stock Exchanges

Stock Market	September-20	Monthly %	Year-to-date %
BIST - 100 Index	114,524	6.2%	0.1%
Germany (DAX)	12,761	-1.4%	-3.7%
Japan (NIKKEI 225)	23,185	0.2%	-2.0%
USA (DOW)	27,782	-2.3%	-2.7%
USA (Nasdaq)	11,168	-5.2%	24.5%
USA (S&P 500)	3,363	-3.9%	4.1%
Brazil (Bovespa)	96,999	-2.4%	-16.4%
China (SSE)	3,219	-5.2%	5.6%

Source: Yahoo Finance, Investing

Selected Advanced Countries - Policy Rates

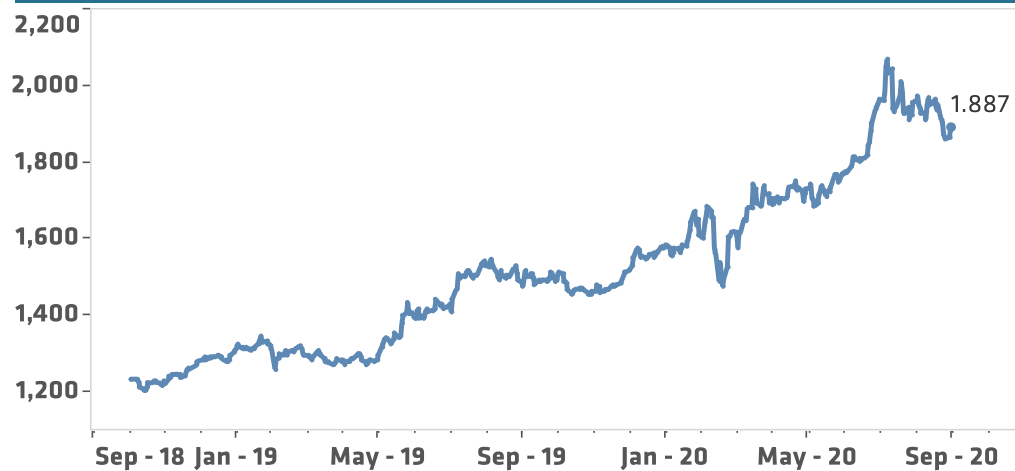


Source: Country Central Banks

Fitch has released the Global Economic Outlook report...

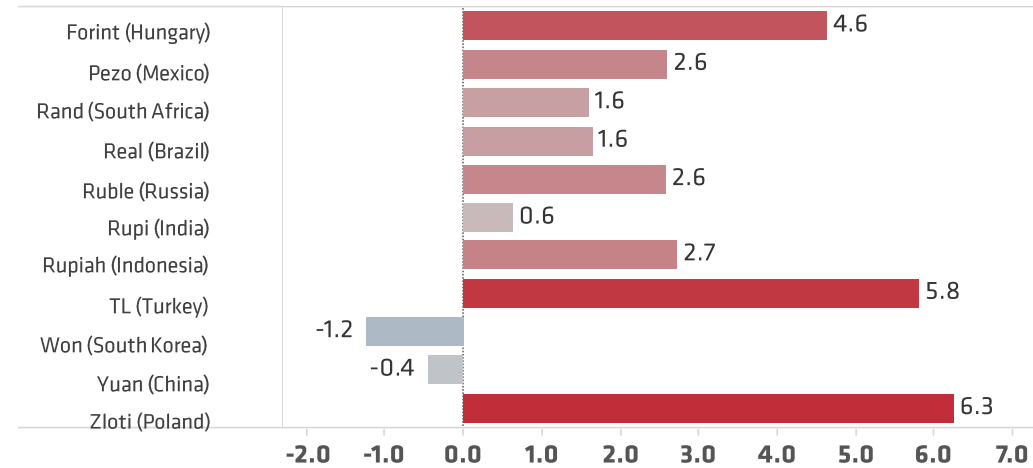
The international rating agency Fitch revised its global growth forecast for 2020 from minus 4.6 percent to minus 4.4 percent in its Global Economic Outlook report. In the report it was stated that economic activity, deeply affected by the coronavirus epidemic, has recovered stronger than expected. In addition, in the report, it was stated that the growth forecast of the Euro Area for 2020 was revised from minus 8 percent to minus 9 percent, and the growth forecast of emerging markets excluding China was revised from minus 4.7 percent to minus 5.7 percent. the growth forecast of UK for this year was updated from minus 9 percent to minus 11.5 percent.

Gold Prices (USD)



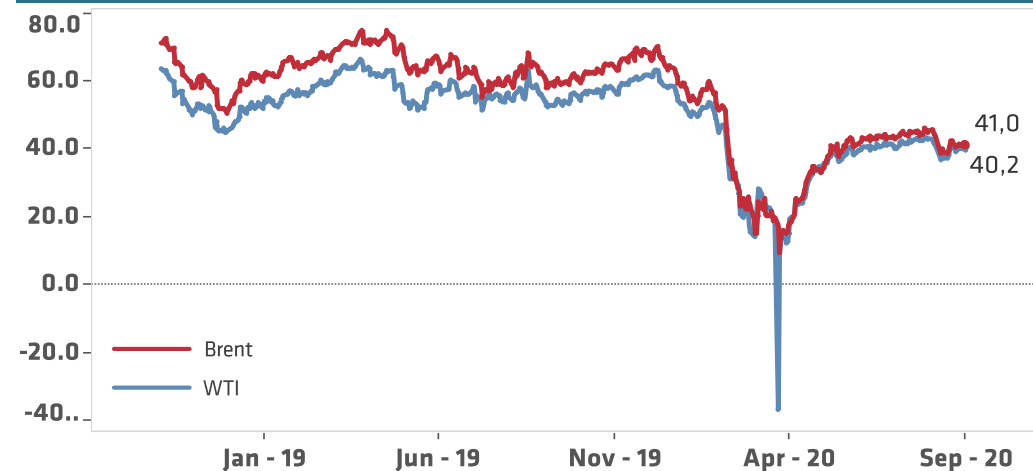
Source: Reuters

Selected Emerging Markets - Exchange Rates (Monthly Change, %)



Source: Country Central Banks

Oil Prices

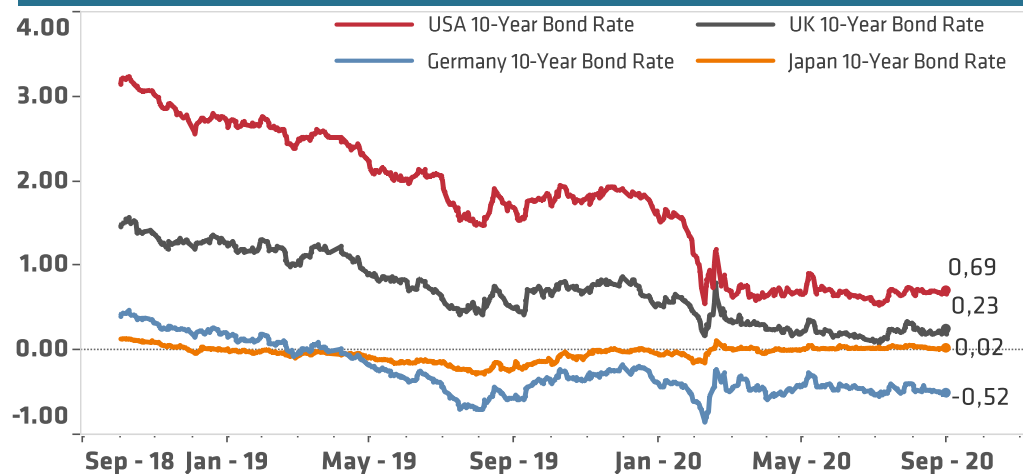


Source: Reuters

Signal of recovery in global economies...

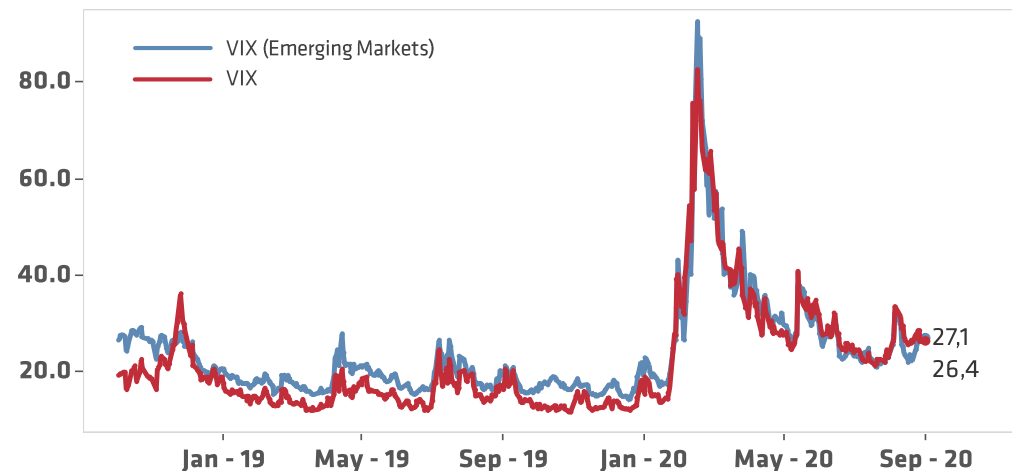
Manufacturing Industry Purchasing Managers Index (PMI) in the USA rose to 53.5 with an increase of 0.4 points in September, reaching the highest level of 20 months. During the same period, the manufacturing industry PMI index in the Euro Area rose from 51.7 to 53.7 points. With the increase of 2 points in the index, the biggest improvement of the last two years was recorded for the Euro Area economy. Germany, which reached the highest value of the last 26 months in the index, has been an important supporter of the recovery in the region. On the other hand, while the producer price index increased 0.1 percent on a monthly basis in the Euro Area, it increased 2.3 percent on an annual basis.

Selected Advanced Countries - 10-Year Bond Rates



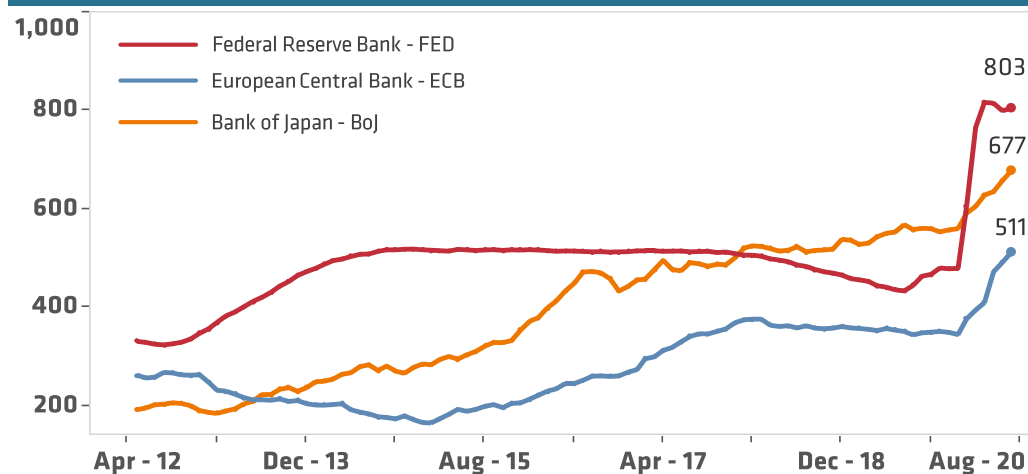
Source: FED and miscellaneous financial web sites

CBOE Volatility (VIX) Indices



Source: Chicago Board Options Exchange

Selected Advanced Countries - CB Balance Sheet Size (2007 = 100)



Source: Federal Reserve Bank; St. Louis Fed database; Central Bank of Europe and Japan

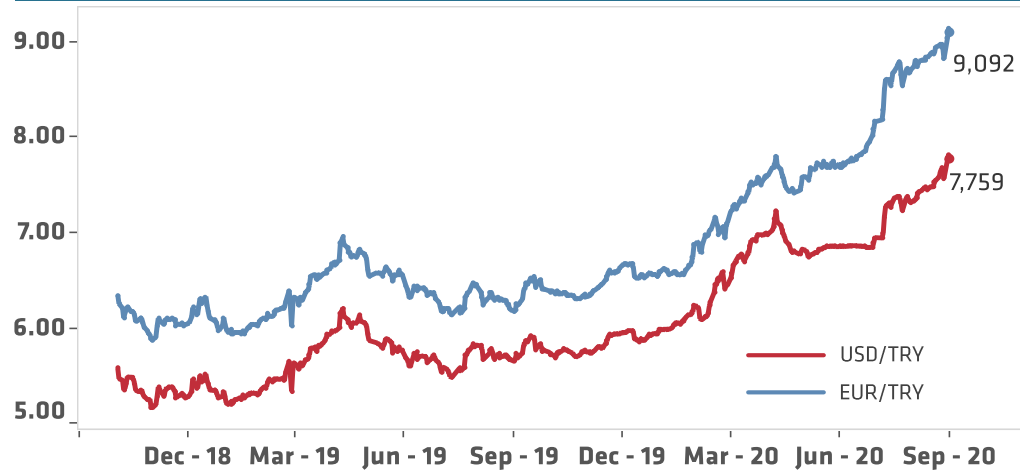


TURKISH ECONOMY

New Economic Program was announced...

BIST-100 index, which followed a positive trend in the general framework in September, gained 6.17 percent volume compared to the previous month and completed the month at 114.524 level. While the USD/TL parity reached the level of 7.76 due to the pressure on the TL, in the following days the pressure on the parity eased slightly with the actions of the CBRT and the BRSA. On the other hand, according to the announced New Economy Program, the growth forecast for 2020 remained positive at 0.3 percent. The inflation was projected for 2020 as 10.5 percent and for 2021 as 8 percent. Apart from these, unemployment forecast was predicted 13.8 percent for 2020 and 12.9 percent for 2021.

Exchange Rates



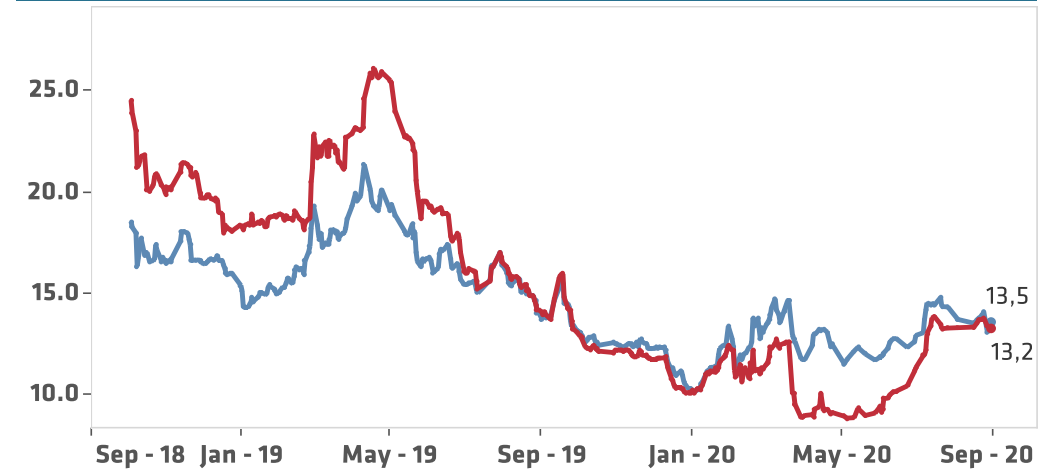
Source: CBRT

BIST - 100



Source: BIST

Compound Yield of Benchmark Bond (%)

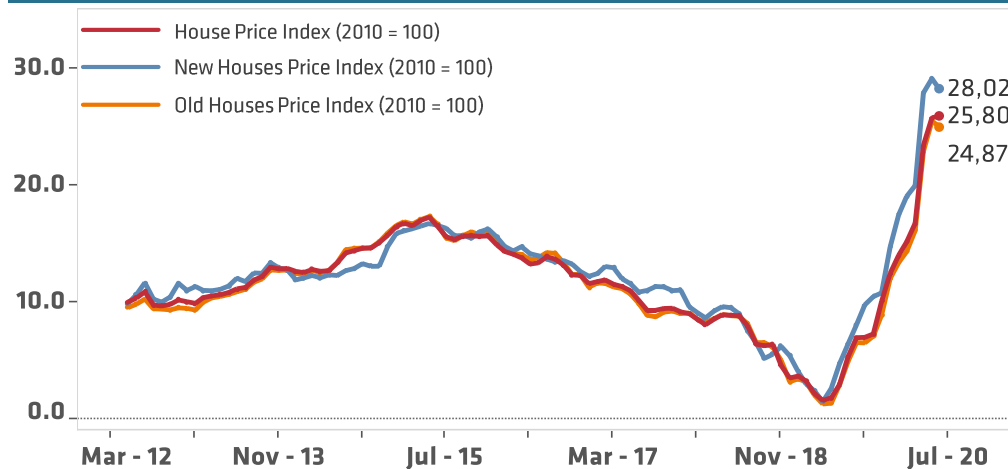


Source: CBRT

The CBRT's gross foreign exchange reserves decreased by 738 million dollars weekly...

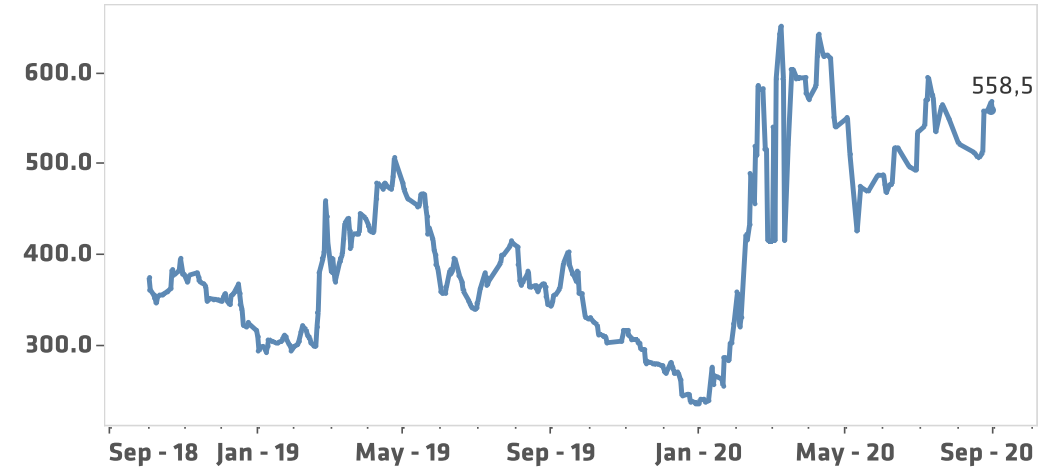
According to the information obtained from monetary and banking statistics released by the Central Bank of the Republic of Turkey, foreign exchange reserves decreased by 738 million USD and realized as 42.2 million USD as the week of September 25. During this period, gold reserves decreased by 2 billion USD to 41.1 billion USD. Thus, the total reserves of the CBRT declined by 2.8 billion compared to the previous week to 83.5 billion. On the other hand, while house price index increased annually by 25.8 percent in nominal terms, it increased by 12.6 in real terms. The increased compared to the previous week was 1.4 percent.

CBRT House Price Index (Annual % Change)



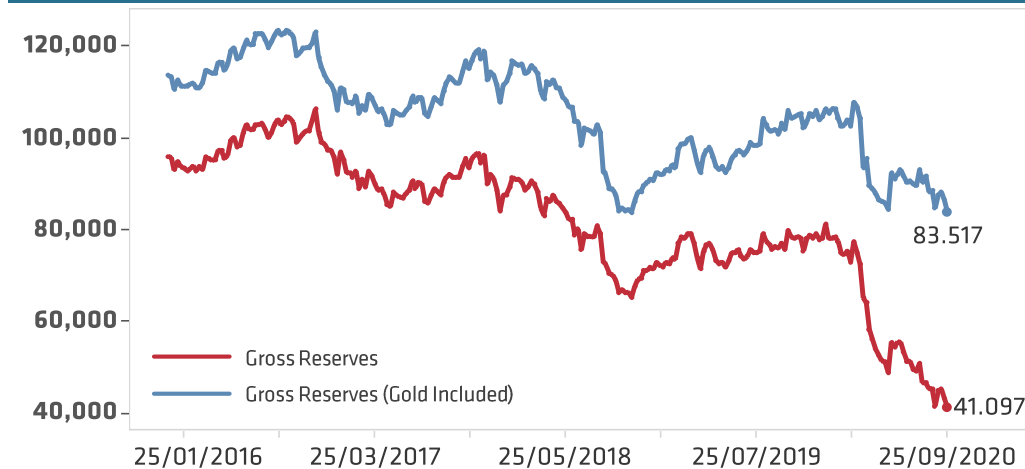
Source: CBRT

5-Year CDS Premium



Source: World Government Bonds

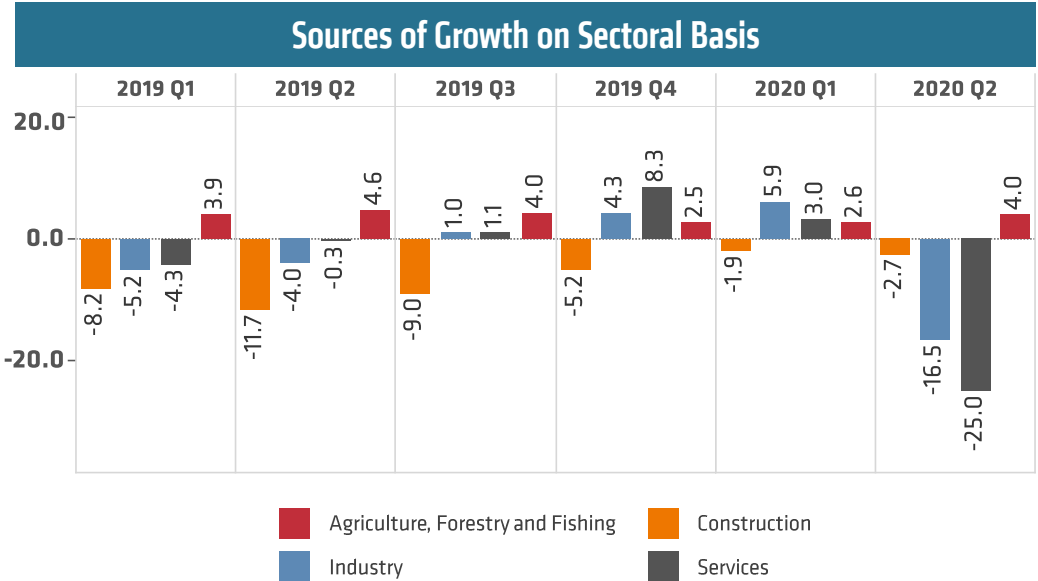
CBRT Gross Reserves (USD Million)



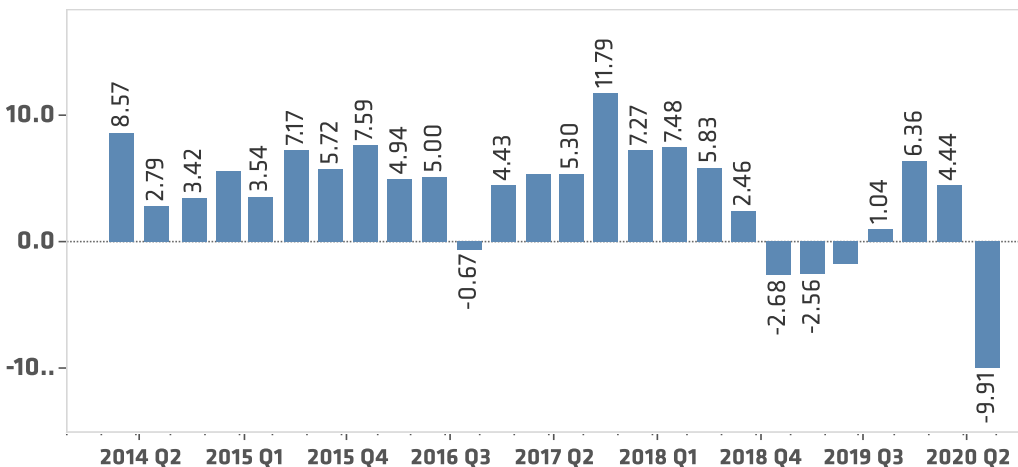
Source: CBRT

Turkey's economy grew by 4.5 percent in the first quarter of 2020...

GDP, as a chained volume index, increased by 4.5 percent in the first quarter of 2020 compared to the same quarter of the previous year. When the branches of activities forming GDP were analyzed, the increase of the value added by 12.1 percent in the other service activities, 10.7 percent in information and communication, 6.2 percent in industry made an important contribution to GDP growth. On the other hand, construction sector decreased by 1.5 percent. While imports of goods and services increased by 22.1 percent; exports of goods and services decreased by 1 percent in the first quarter of 2020.

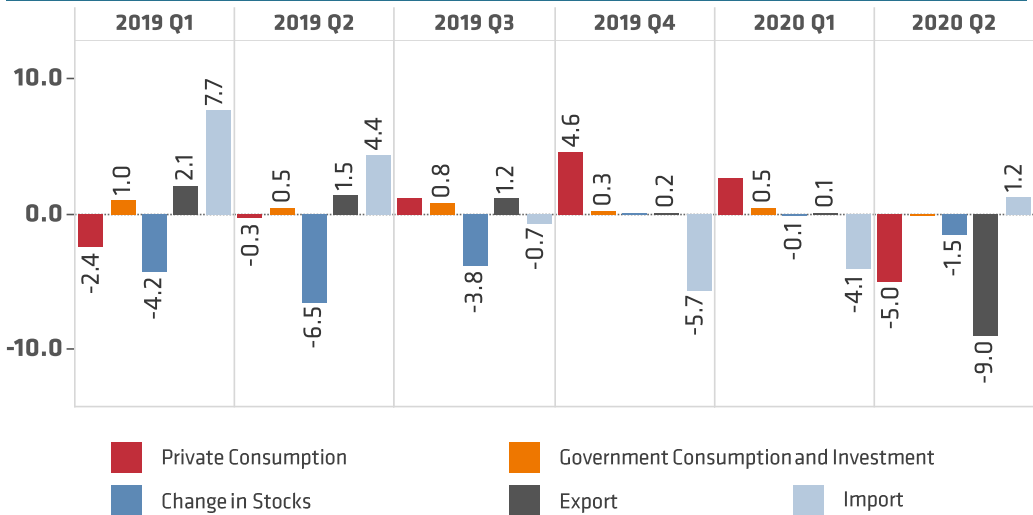


GDP Growth (yoy, %)



Source: TURKSTAT

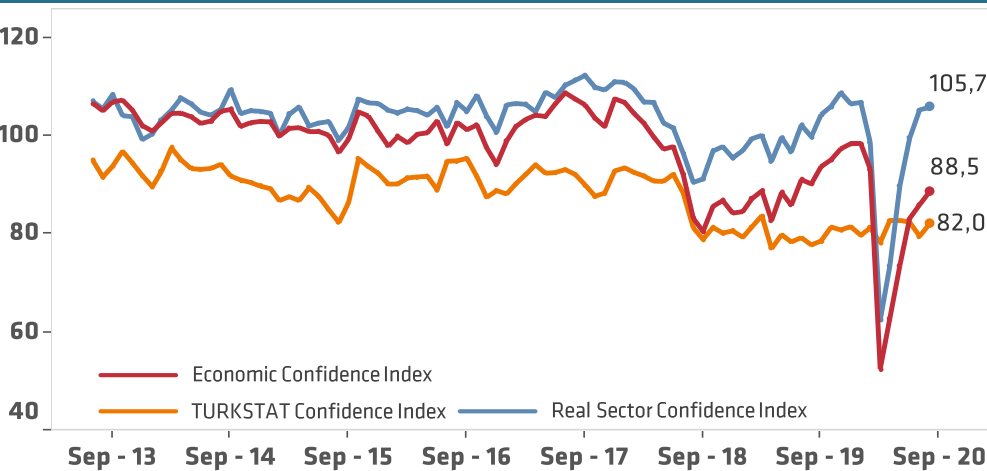
Sources of Growth (% contribution)



Recovery in industrial production has continued...

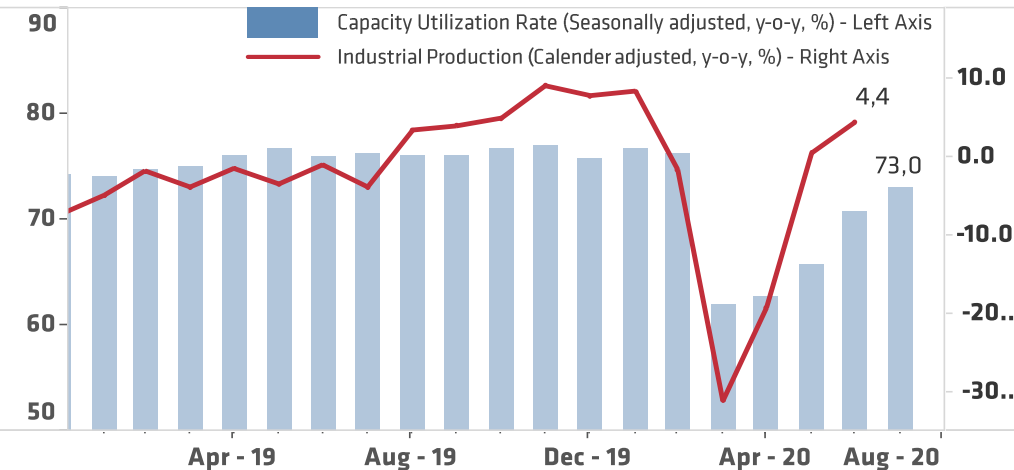
While the calendar adjusted industrial production increased by 4.4 percent on annual basis, it increased by 8.4 percent monthly. When the subsectors of industry were analyzed, mining and quarrying index decreased by 4.9 percent, manufacturing index increased by 5.1 percent and electricity, gas, steam and air conditioning supply index increased by 1.4 percent in July 2020, compared with same month of previous year. On the other hand, unemployment rate was realized as 13.4 percent with a increase of 0.4 points yearly. Non-agricultural unemployment rate occurred as 15.9% with 0.6 percentage point increase in the same period.

Confidence Indices



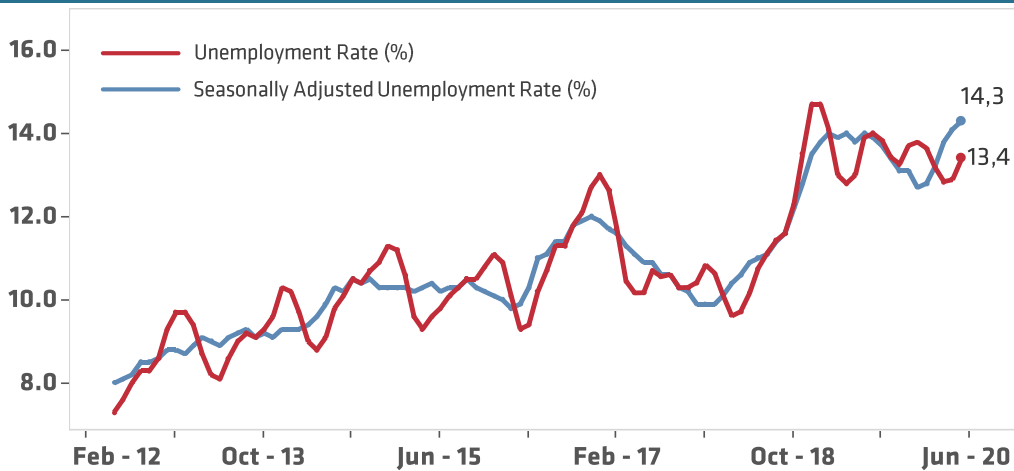
Source: TURKSTAT, CBRT

Industrial Production & Capacity Utilization Rate



Source: TURKSTAT, CBRT

Unemployment Rate

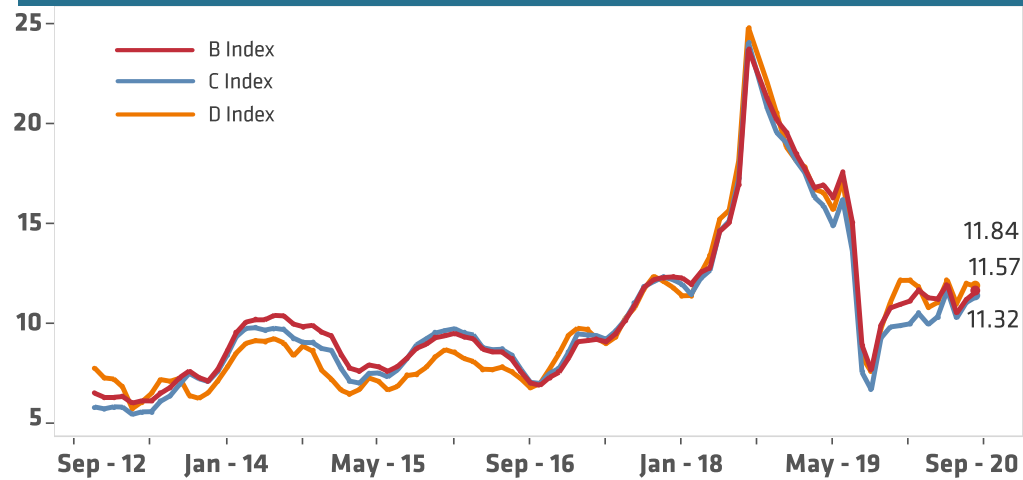


Source: TURKSTAT

CPI was realized as 11.75 percent in September...

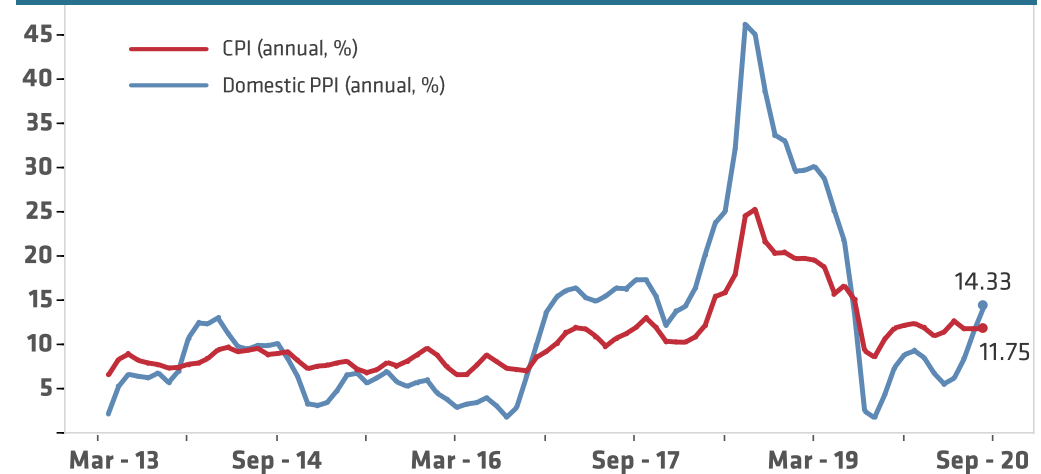
Consumer Price Index (CPI) increased by 0.97 percent monthly in September and 11.75 percent on a yearly basis. The main groups with the lowest annual increase were alcoholic beverages and tobacco with 0.68 percent; communication with 6.74, clothing and footwear with 6.91 percent. On the other hand, miscellaneous goods and services with 25.17 percent were the main groups where high annual increases realized. While CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco and gold increased by 1.35 percent monthly, it increased by 11.57 percent yearly.

Special CPI Aggregates (Annual, %)



Source: TURKSTAT

Annual Inflation (%)



Source: TURKSTAT

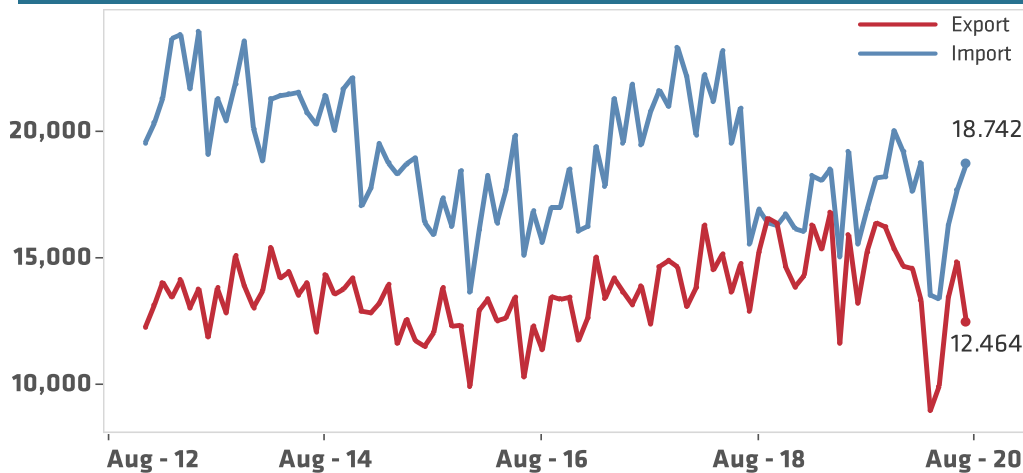
CPI & D - PPI Percentage Changes

Change (%)	CPI		D-PPI	
	September-19	September-20	September-19	September-20
Monthly	0.99%	0.97%	0.13%	2.65%
Year-to-Date	8.42%	8.33%	6.53%	13.44%
Annual	9.26%	11.75%	2.45%	14.33%

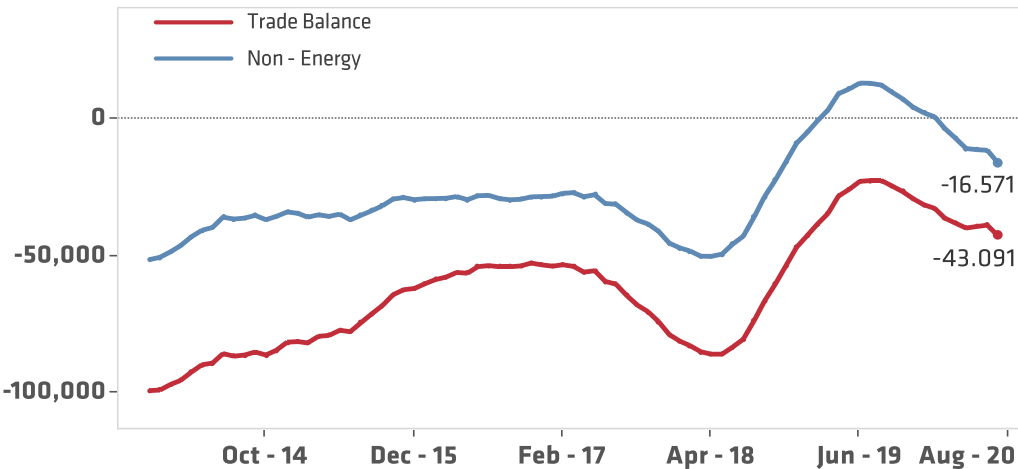
Foreing trade deficit was realized as 2.7 billion dollars in August...

In August, exports decreased by 5.7 percent to 12.5 billion dollars while imports increased by 20.4 percent to 18.7 billion dollars. In January-August period, exports increased by 12.9 percent to 102.3 billion dollars; imports, on the other hand, contracted by 1.2 percent to 135.3 billion dollars. Thus, the foreign trade deficit was realized as 6.2 billion dollars in August and 33 billion dollars in January-August period. While export/import coverage ratio was 85 in 2019 August, it was realized as 66.5 in this period. Germany was the country which Turkey exported most with 1.2 billion dollars and the country with the highest import was China with 1.9 billion dollars.

Export - Import (USD Million)



Trade Balance: Energy/Non-Energy (USD Million, 12-months rolling)



Source: TURKSTAT

Export - Import & Percentage Changes

USD Million	August-19	August-20	Change (%)
Total Exports	13,223	12,464	-5.7%
Total Imports	15,564	18,742	20.4%
Foreign Trade Balance	2,341	6,278	168.2%
Import Coverage Ratio (%)	85.0%	66.5%	-

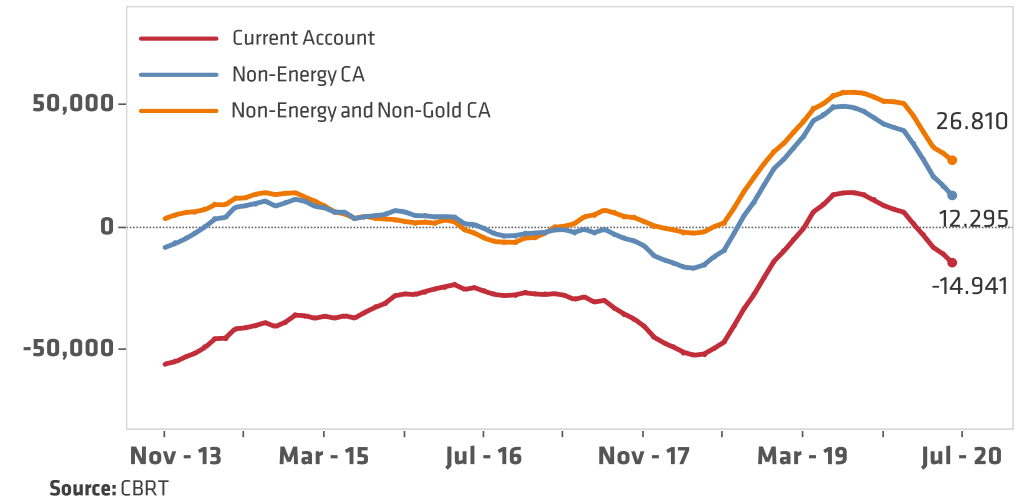
The current account deficit was realized as 1.82 billion dollars in July...

The current account, which had a surplus of 1.99 billion USD in the same period of the previous year, posted a deficit of 1.82 billion USD in July. This development is mainly driven by the net inflow of 288 million USD in services item decreasing by 4.6 billion USD compared to the same month of the previous year, as well as the net inflow 80 million USD in the secondary income decreasing by 55 million USD. On the other hand, the good deficit recorded net outflow of 1.8 billion USD decreasing by 425 million USD. Gold and energy excluded current account indicated 2,09 billion USD surplus, in comparison to 5,35 billion USD surplus observed in the same month of the previous year

Balance of Payments (USD Million)

USD Million	July-20	Jan - Jul 2019	Jan - Jul 2020	Change (%)	12-Months Rolling (Temmuz 20)
Current Account Balance	-1,817	2,142	-21,629	-1109.8%	-14,941
Financial Account	-4,996	2,022	-26,757	-1423.3%	-27,391
Direct Investments	-226	-3,711	-2,154	-42.0%	-4,306
Portfolio Investments	-254	-1,698	12,453	-833.4%	15,397
Other Investments	-3,233	3,465	-5,655	-263.2%	-9,439
Reserve Assets	-1,283	3,966	-31,401	-891.8%	-29,043
Net Errors and Omissions	-3,181	-155	-5,110	3196.8%	-12,431

Current Account Balance (12-months rolling, USD Million)



Breakdown of Net Capital Inflows (12-months rolling, USD Million)

USD Million	July-19	July-20	Jul 19 % Distribution	Jul 20 % Distribution
Current Account Balance	13,178	-14,941	-	-
Total Net Foreign Capital Inflows	-14,311	-14,083	100.0%	100.0%
Direct Investments	9,127	4,306	-63.8%	-30.6%
Portfolio Investments	-992	-15,397	6.9%	109.3%
Other Investments	-22,964	9,439	160.5%	-67.0%
Net Errors and Omissions	518	-12,431	-3.6%	88.3%
Reserves	1,076	29,043	-	-

Central Government Budget posted a deficit of 28.2 billion TL in July...

Central Government Budget, which had a surplus of 28.2 billion TL in August, had a deficit of 110.9 billion TL in January-August period. In this regard, budget revenues increased by 15.1 percent annually and realized as 108.6 billion TL, while budget expenditures decreased by 14.3 percent to 80.3 billion TL. In January-August period, budget revenues increased by 10.1 percent to 650.5 billion TL and budget expenditures increased by 15.6 percent to 761.4 billion TL. By excluding interest expenditures, budget had a surplus of 40.2 billion TL in August and deficit of 19.3 billion TL in January-August period.

Budget Balance (12-months rolling, TL Million)



Source: Ministry of Treasury And Finance

Central Government Budget (TL Million)

TL Million	August-19	August-20	Change (%)	Jan - Aug 2019	Jan - Aug 2020	Change (%)	Budget Target (2020)	Realization/ Target (%)
Expenditures	93,712	80,345	-14.3%	658,812	761,432	15.6%	1,095,461	69.5%
Interest Expenditures	10,866	11,901	9.5%	69,329	91,614	32.1%	138,940	65.9%
Non-Interest Expenditures	82,847	68,444	-17.4%	589,483	669,818	13.6%	956,521	70.0%
Revenues	94,288	108,566	15.1%	590,706	650,506	10.1%	956,588	68.0%
Tax Revenues	66,620	98,456	47.8%	432,685	510,418	18.0%	784,602	65.1%
Other Revenues	27,668	10,109	-63.5%	158,020	140,088	-11.3%	171,986	81.5%
Budget Balance	576	28,220	4799.3%	-68,106	-110,926	62.9%	-138,873	79.9%
Primary Balance	11,442	40,122	250.7%	1,223	-19,312	-1679.1%	67	-28823.9%

The CBRT revised up policy rate 8.25 percent to 10.25.

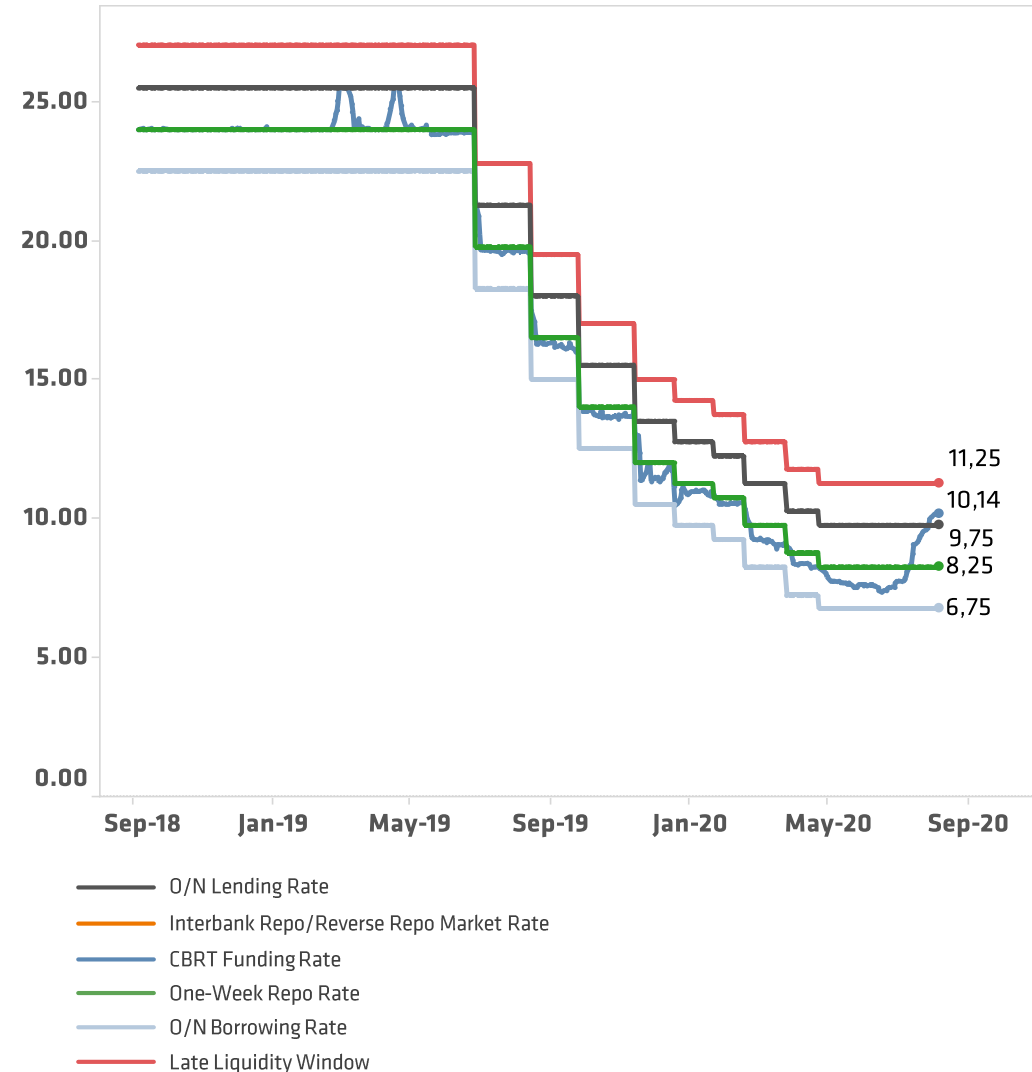
The CBRT raised the policy rate by 200 basis points to 10.25 percent in its September meeting. In the statement made, The CBRT remarked that pandemic-related supply-side inflationary factors were expected to gradually phase out during the normalization process and demand-driven disinflationary effects were expected to become more prevalent. Yet, as a result of fast economic recovery with strong credit momentum, and financial market developments, inflation followed a higher-than-envisaged path. The Committee assessed that the tightening steps taken since August should be reinforced in order to contain inflation expectations and risks to the inflation outlook.

CBRT CPI Based Effective Exchange Rate (2003=100)



Source: CBRT

CBRT Policy Rates (%)

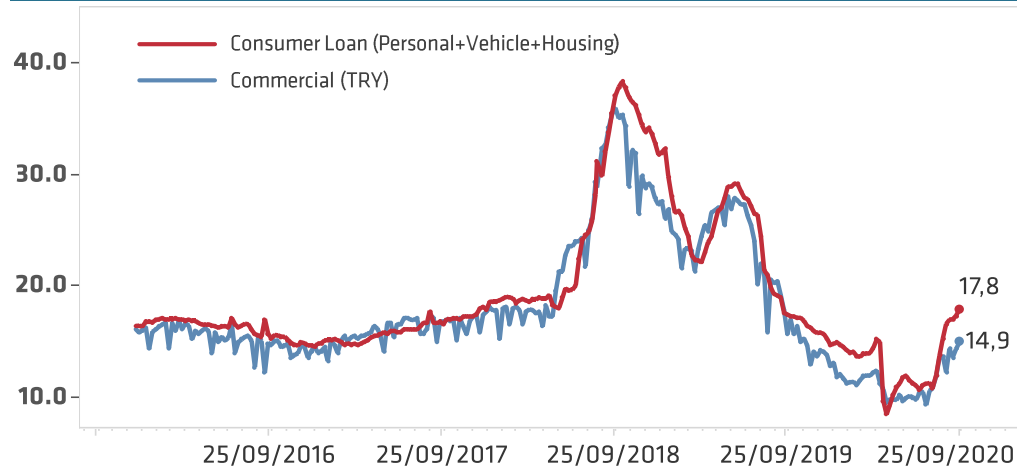


Source: CBRT

The BRSA lowered Asset Ratio as part of normalization...

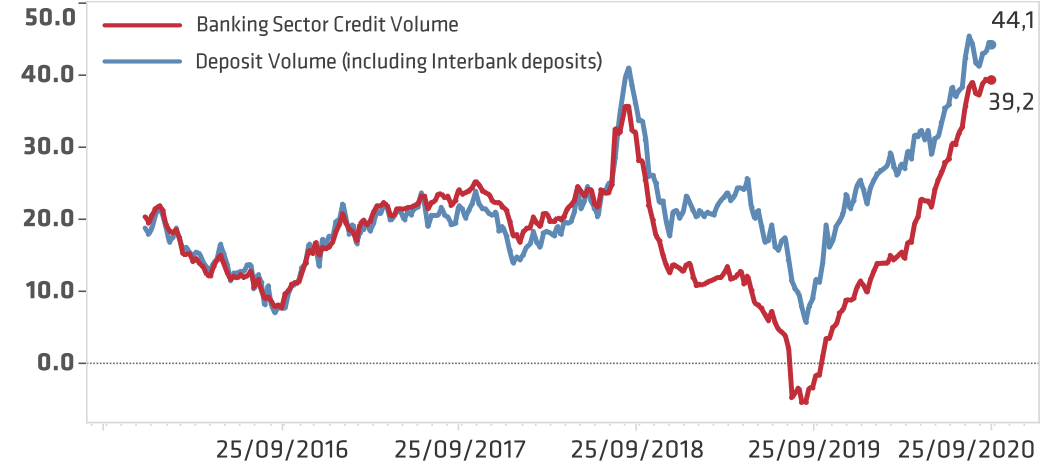
As of the week of September 25, banking sector loan volume increased by 39.2 percent compared to the same period of the previous year, while total deposit volume increased by 44.1 percent in the same period. Non-performing loans decreased by 26 million TL compared to the previous week and realized as 150.6 billion TL. Special provision has been reserved for 110.2 billion TL of the said non-performing receivables. The legal equity of the banking sector increased by 4.8 billion TL in the same period and reached 737.7 billion TL. On the other hand, BRSA announced that the Asset Ratio has been reduced from 95 percent to 90 percent for deposit banks and from 75 percent to 70 percent for participation banks as of October 1.

Lending Rates (%)



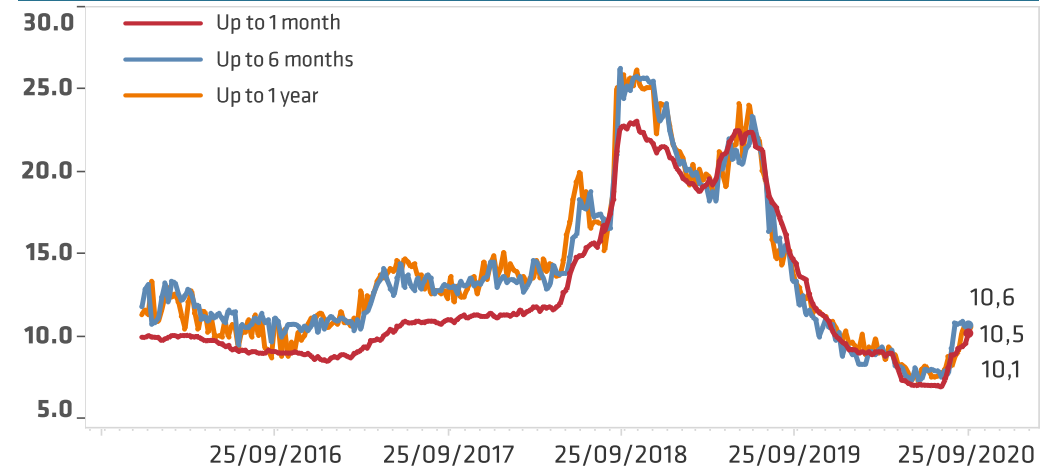
Source: BRSA Weekly Bulletin, CBRT

Banking Sector Credit and Deposit Volume (YoY % Change)



Source: BRSA Weekly Bulletin, CBRT

Deposit Rates (%)



Source: BRSA Weekly Bulletin, CBRT

An aerial night photograph of a city, likely Istanbul, showing a dense urban landscape with numerous illuminated buildings and a multi-lane highway with prominent light trails from traffic. A semi-transparent dark blue circle is overlaid on the left side of the image, containing the title text. In the top right corner, there is a small white icon of a house with a chimney.

BANKING SECTOR GENERAL OUTLOOK

BANKING SECTOR GENERAL OUTLOOK

	2015	2016	2017	2018	2019	Aug-20	Change (%)*
TOTAL ASSETS	2,357	2,731	3,258	3,867	4,491	5,846	30.17
Loans	1,542	1,805	2,182	2,537	2,848	3,629	27.4
TRY Loans	1,054	1,181	1,470	1,529	1,768	2,368	34.0
Share (%)	68	65	67	60	62	65.3	5.1
FX Loans	488	624	712	1,008	1,080	1,261	16.8
Share (%)	32	35	33	40	38	34.7	-8.4
Non-Performing Loans	48	58	64	97	151	151	0.1
Securities	330	352	402	478	661	1,030	55.9
TOTAL LIABILITIES	2,357	2,731	3,258	3,867	4,491	5,846	30.2
Deposits	1,325	1,548	1,805	2,164	2,688	3,464	28.9
TRY Deposits	741	876	985	1,093	1,312	1,619	23.4
Share (%)	56	57	55	51	49	46.7	-4.2
FX Deposits	585	671	820	1,070	1,376	1,845	34.1
Share (%)	44	43	45	50	51	53.3	4.0
Securities Issued	98	116	145	174	194	230	18.6
Payables to Banks	361	418	475	563	533	636	19.3
Funds from Repo Transactions	157	138	99	97	154	314	104.4
SHAREHOLDERS' EQUITY	262	300	359	422	492	567	15.3
Profit (Loss) of the Period	26	38	49	54	49	42.9	30.79
RATIOS (%)							
ROAA	2.64	2.52	2.79	2.58	2.00	1.24	-
ROAE	21.53	21.83	24.23	22.51	17.71	11.92	-
NPL	3.08	3.22	2.93	3.81	5.29	4.16	-
Loans/Assets	65.4	66.1	67.0	65.6	63.4	62.1	-
Securities/Assets	14.0	12.9	12.3	12.4	14.7	17.6	-
Deposits/Liabilities	56.2	56.7	55.4	55.9	59.8	59.3	-
Loans/Deposits	116.3	116.6	120.9	117.2	106.0	104.8	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	19.3	-

*Percentage change of the "Profit (Loss) for the Period" item indicates the change compared to the same period of the previous year.



SUMMARY MACRO DATA



SUMMARY MACRO DATA

GROWTH	2014	2015	2016	2017	2018
GDP (USD Billion)	934	859	862	850	767
GDP (TL Billion)	2,044	2,339	2,609	3,105	3,701
GDP Growth Rate (%)	5.2	6.1	3.2	7.3	-3.0
INFLATION (%)					
CPI (annual)	8.17	8.81	8.53	11.92	20.30
Domestic PPI (annual)	6.36	5.71	9.94	15.47	33.64
LABOR MARKET FIGURES					
Unemployment Rate (%)	10.9	10.8	12.7	10.4	13.5
Labor Force Participation Rate (%)	50.2	50.9	51.6	52.4	52.4
FX RATES ⁽¹⁾					
CPI Based Effective Exchange Rate (%)	104.9	97.5	92.13	85.08	76.4
USD/TRY	2.3290	2.9207	3.5224	3.7753	5.2858
EUR/TRY	2.8297	3.1867	3.7133	4.5196	6.0476
Currency Basket (0.5*USD + (0.5*EUR)	2.5794	3.0537	3.6178	4.1475	5.6667
FOREIGN TRADE BALANCE ⁽²⁾ (USD Billion)					
Exports	157.6	143.8	127.8	138.5	168
Imports	242.2	207.2	184.1	230.9	223
Foreign Trade Balance	-84.6	-63.4	-56.3	-92.4	-55.1
Import Coverage Ratio (%)	65.1	69.4	69.4	60.0	75.3

Dec-19	Mar-20	Jun-20
761	762	733
4320	4468	4482
6.4	4.4	-9.9
Jul-20	Aug-20	Sep-20
11.76	11.77	11.75
8.33	11.53	14.33
Apr-20	May-20	Jun-20
12.84	12.89	13.39
47.16	47.55	48.99
Jul-20	Aug-20	Sep-20
68.3	63.7	
6.9435	7.3327	7.7592
8.1555	8.7363	9.0917
7.5495	8.0345	8.4255
Jun-20	Jul-20	Aug-20
13.5	14.9	12.5
16.3	17.7	18.7
2.9	2.8	6.3
82.5	84.1	66.5

(1) End of Period

(2) 12 months cumulated

(3) Year to date cumulated

SUMMARY MACRO DATA

BALANCE OF PAYMENTS ⁽²⁾ (USD Billion)	2014	2015	2016	2017	2018	May-20	Jun-20	Jul-20
Current Account Balance	-43.6	-32.1	-33	-47.4	-27.2	-8.3	-11.1	-14.9
Financial Account	-42.1	-22.9	-21.5	-46.3	-6.9	-22.5	-21.1	-27.4
Direct Investments	-5.5	-11.7	-9	-8.2	-9.3	-5.2	-4.6	-4.3
Portfolio Investments	-20.1	15.5	-6.4	-24.3	2.9	16.2	15.6	15.4
Other Investments	-16	-14.8	-6.9	-5.5	10.0	-14.1	-7.4	-9.4
Reserve Assets	-0.5	-11.8	0.9	-8.2	-10.4	-19.4	-24.6	-29.0
Net Errors and Omissions	1.6	9.3	11.1	1.1	20.3	-14.2	-10.0	-12.4
BUDGET ⁽³⁾ (TL Billion)						Jun-20	Jul-20	Aug-20
Expenditures	448.8	506	583.7	677.7	830.5	564.9	681.1	761.4
Interest Expenditures	49.9	53	50.2	56.7	74	71.3	79.7	91.6
Non-Interest Expenditures	398.8	453	553.4	621	756.5	493.6	601.4	669.8
Revenues	425.4	483.4	554.4	630.3	757.8	455.4	541.9	650.5
Tax Revenues	352.5	407.5	458.7	536	621.3	335.9	412.0	510.4
Budget Balance	-23.4	-22.6	-29.3	-47.4	-72.6	-109.5	-139.1	-110.9
Primary Balance	26.5	30.4	21	9.3	1.3	-38.2	-59.4	-19.3
CENTRAL GOVERNMENT DEBT STOCK (TRY Billion)						Jun-20	Jul-20	Aug-20
Domestic Debt Stock	414.6	440.1	468.6	535.4	578.8	983.9	1046.7	1098.5
External Debt Stock	197.5	237.5	291	341	470.4	657.4	674.4	711.9
Total Debt Stock	612.1	677.6	759.6	876.4	1049.2	1641.3	1721.1	1810.4

- (1) End of period
 (2) 12-months rolling
 (3) Year-to-date rolling



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