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Global Economy

The signing of the first phase of the trade agreement between the US and China supported global markets in the first half of January. On the other hand, the concerns regarding a new type of coronavirus emerged in China climbed to the top of global economic agenda from the mid-month and led strong sales pressure in the markets.

IMF revised global economic growth expectations down in its January 2020 World Economic Outlook Report.

US economy grew in 2019 by 2.3%, pointing the weakest growth performance of the last 3 years.

The Fed did not change its monetary policy at its January meeting. In his speech after the meeting, Fed Chairman Powell stated that uncertainties regarding the trade wars decreased while he pointed out that uncertainties about coronavirus emerged.

Having had a weakening course in 2019, Euro Area economy recorded the lowest growth of the last 6 years, with the rate of 1.2%.

Brexit realized as of January 31st. However, the UK will maintain its status within the EU Customs Union and the single market until the end of 2020.

Bank of England and Bank of Japan maintained their current monetary policies at their January meetings.

Gold and oil prices had volatile courses in January. In addition to geopolitical developments, rising questions regarding the effects of coronavirus on economic activity played an important role on the course of commodity prices.

Turkish Economy

In October 2019, unemployment rate increased by 1.8 points compared to the same period of the previous year and became 13.4%.

Calendar adjusted industrial production index increased by 5.1% in November 2019 thanks to the favorable base impact. This was the best performance since mid-2018.

In January, manufacturing PMI rose above the threshold level for the first time in 23 months and became 51.3, pointing to a mild expansion in sectoral activity.

The monthly current account balance, which has been posting surplus since July 2019, gave 518 million USD deficit in November 2019 due to the expansion in foreign trade deficit. The 12-month cumulative current account surplus declined in November 2019 and became 2.7 billion USD.

Budget deficit, which was 72.8 billion TRY in 2018, surged to 123.7 billion TRY in 2019. During this period, budget revenues and expenditures rose by 15.5% and 20.3%, respectively. Primary balance, which posted a surplus of 1.1 billion TRY in 2018, gave a deficit of 23.8 billion TRY in 2019.

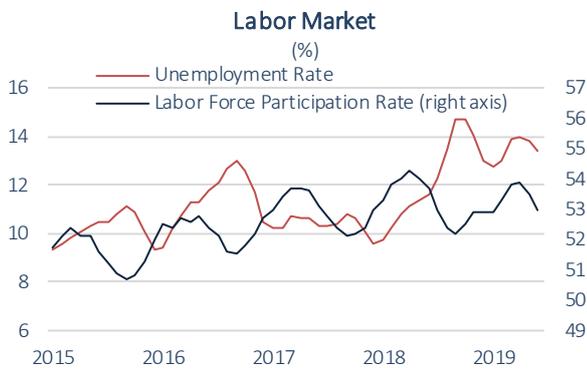
Annual CPI inflation, which ended 2019 at 11.84%, became 12.15% in the first month of 2020. Annual rise in D-PPI, which was 7.36% in December 2019, stood at 8.84% in January.

CBRT lowered its policy interest rate 75 bps to 11.25% in January meeting.

Leading Indicators

Unemployment rate became 13.4% in October.

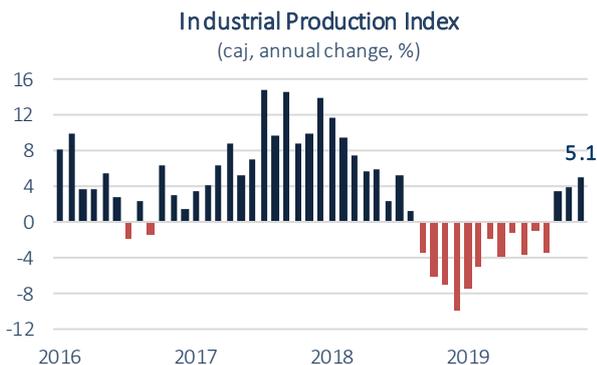
In October 2019, unemployment rate increased by 1.8 points compared to the same period of the previous year and became 13.4%. In this period, the increase in youth unemployment rate covering the ages of 15-24 continued, albeit at a slower pace. The said rate increased by 3 points yoy and became 25.3%. While the number of employed people decreased by 527K annually in October, the number of unemployed ones increased by 608K. Compared with the same period of 2018; employment declined by 305K in construction, 270K in agriculture and 30K in industrial sector. Employment in the services sector, on the other hand, increased by 78K people. In October 2019, the seasonally adjusted unemployment rate fell by 0.3 points on a monthly basis to 13.6%.



Industrial production recorded a rapid rise in November.

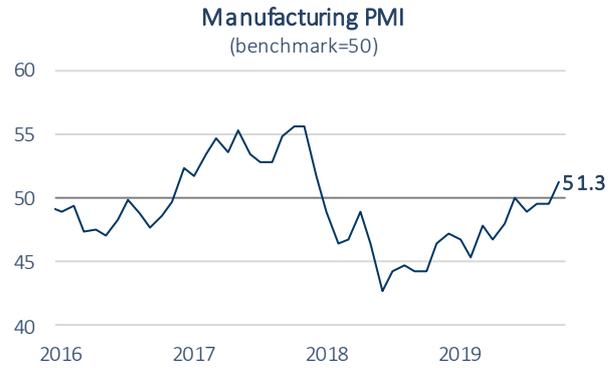
Calendar adjusted industrial production index increased by 5.1% in November 2019 thanks to the favorable base impact. This was the best performance since mid-2018. Seasonally and calendar adjusted industrial production, which declined on a monthly basis in October, rose by 0.7% mom in November.

In this period intermediate and capital goods production recorded the strongest annual rises of 2019, pointing to the recovery in economic activity. However, it was also noteworthy that durable goods production declined by 13.1% yoy. As another positive signal, production in 17 out of 24 sub-sectors under the manufacturing industry increased.



Manufacturing PMI rose above the threshold level.

In January, manufacturing PMI rose above the threshold level for the first time in 23 months and became 51.3, pointing to a mild expansion in sectoral activity. New export orders sub-index, which followed a downward trend for the previous five months, increased in January while the surge in employment and input prices were also remarkable.



Consumer confidence remained weak.

Consumer confidence remained almost flat on a monthly basis and became 58.8 in January. Seasonally adjusted data showed that real sector confidence index declined by 2.3 points to 106.4 while manufacturing industry capacity utilization ratio fell by 1.1 points to 75.8%.

House sales declined 1.9% in 2019.

House sales continued to recover also in the last month of 2019. In this period, house sales increased by 47.7% yoy and became 202,074 units. With the support of interest rate cuts, the rapid rise in mortgage sales played an important role in this strong performance. In December 2019, mortgage sales went up sevenfold compared to the same period of 2018 and became 50,278 units while other sales rose by 17% during this period. In 2019 as a whole, house sales contracted by 1.9% yoy to 1.35 million units. Mortgage sales, which recovered in the second half of the year, ended the year with an annual rise of 20.1% while other sales declined by 7.5% throughout the year.

Housing prices continue to fall in real terms.

The Housing Price Index, published by the CBRT, increased by 1.1% mom in November 2019. On an annual basis, housing prices recorded an increase of 7.2%. Accordingly, the real decline in prices stood at 3.1% yoy. The weakest price increase was registered in Istanbul with 1.3% yoy. In Ankara and İzmir, prices rose by 6.5% yoy and 7.5% yoy, respectively.

White goods sales declined by 6.4% in 2019.

Domestic white goods sales declined by 6.4% and became 6.7 million units in 2019. Sector's exports fell by 1% yoy to 21.9 million units. The decline in white goods imports was 37.7% during this period.

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

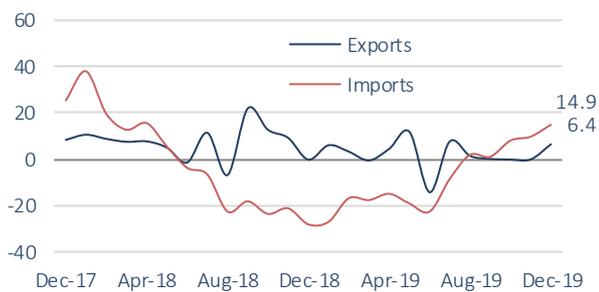
Foreign Trade and Balance of Payments

Foreign trade deficit continued to expand.

According to TURKSTAT data, exports increased by 6.4% yoy and reached 14.7 billion USD in December 2019, while imports increased by 14.9% yoy to 19 billion USD. Thus, the foreign trade deficit continued to expand rapidly and reached 4.3 billion USD in this period.

In the whole year of 2019, exports increased by 2.1% compared to the previous year and became 171.5 billion USD, while imports decreased by 9.1% due to the weak course in domestic production and demand conditions and were realized at 202.7 billion USD. Thus, the foreign trade deficit decreased by 43.5% compared to 2018 and became 31.2 billion USD. The exports coverage imports ratio, which was 75.3% in 2018, rose to 84.6% in 2019.

Foreign Trade Figures
(annual % change)



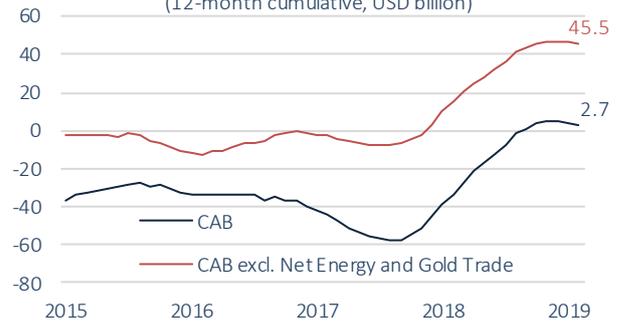
Current account balance gave deficit in November.

The monthly current account balance, which has been posting surplus since July 2019, gave 518 million USD deficits in November 2019 due to the expansion in foreign trade deficit. The current account balance gave 1 billion USD surplus in November 2018.

The 12-month cumulative current account surplus declined in November 2019 and became 2.7 billion USD. Excluding net energy and gold trade, current account surplus also declined and was realized at 45.5 billion USD in the same period.

Current Account Balance

(12-month cumulative, USD billion)



Strong inflow in portfolio investments...

In November 2019, capital inflow in net direct investments decreased by 81.4% yoy and was realized at 236 million USD. In this period, portfolio investments recorded a capital inflow of 2.1 billion USD. Non-residents made a net purchase of 255 million USD in the equity securities market and net sales of 151 million USD in the government domestic debt securities market. The strong portfolio inflow in November was driven by the net borrowing of the General Government and non-bank sectors via bond issues abroad at the amount of 1 billion USD and 600 million USD, respectively.

Net Capital Inflows

(monthly, USD billion)



Net Capital Flows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2018	Nov. 2019	Dec. 2018	Nov. 2019
Current Account Balance	-27,156	2,725	-	22.7
Total Net Foreign Capital Flows	-2,491	1,623	-	-
-Direct Investment	9,412	5,893	24.1	49.1
-Portfolio Investment	-3,115	-2,186	-	-
-Other Investment	-8,850	-2,104	-	-
-Other	62	20	0.2	0.2
Net Errors and Omissions	19,270	3,375	49.3	28.1
Reserves(1)	10,377	-7,723	26.5	-

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

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

Source: CBRT, Datastream

Foreign Trade and Balance of Payments

In November, other investments recorded net capital inflow of 829 million USD. In this period, domestic banks' currency and deposits within their foreign correspondent banks decreased by 214 million USD, while other sectors' deposits increased by 246 million USD. Besides, in the same period, nonresident banks' deposits held within domestic banks surged by 616 million USD.

Analyzing loans obtained from abroad reveals that the General Government made a net use of 25 million USD in November, while banks and other sectors made a net repayment of 26 million USD and 22 million USD, respectively. Thus, according to 12-month cumulative figures, long-term debt roll-over ratios became 71% in banking sector and 98% for other sectors.

In November, CBRT reserves increased by 743 million USD, while net errors and omissions posted an outflow of 1.9 billion USD.

Expectations...

The gradual recovery in economic activity remains decisive in the course of the current account balance. The increase in domestic demand and the partial recovery in industrial production lead foreign trade deficit to widen on an annual basis. While foreign trade deficit continued to widen also in December 2019, monthly current account balance is expected to post a deficit in this period as well. On the other hand, we expect the current account balance to give surplus in the whole year of 2019, albeit at a limited level.

Balance of Payments	(USD million)				
	Nov. 2019	Jan. - Nov. 2018	Nov. 2019	% Change	12-month Cumulative
Current Account Balance	-518	-25,632	4,249	-	2,725
Foreign Trade Balance	-1,111	-40,146	-15,137	-62.3	-16,907
Services Balance	1,601	24,717	29,889	20.9	31,003
Travel (net)	1,414	19,727	23,967	21.5	24,865
Primary Income	-1,137	-10,931	-11,403	4.3	-12,397
Secondary Income	129	728	900	23.6	1,026
Capital Account	-1	63	21	-66.7	20
Financial Account	-2,372	-8,987	4,957	-	6,120
Direct Investment (net)	-236	-8,541	-5,022	-41.2	-5,893
Portfolio Investment (net)	-2,050	1,170	241	-79.4	2,186
Net Acquisition of Financial Assets	-373	2,312	3,307	43.0	4,142
Net Incurrence of Liabilities	1,677	1,142	3,066	168.5	1,956
Equity Securities	255	-1,051	317	-	237
Debt Securities	1,422	2,193	2,749	25.4	1,719
Other Investment (net)	-829	9,621	2,875	-70.1	2,104
Currency and Deposits	-724	2,448	-181	-	-2,130
Net Acquisition of Financial Assets	32	10,223	9,563	-6.5	6,625
Net Incurrence of Liabilities	756	7,775	9,744	25.3	8,755
Central Bank	-6	4,778	500	-89.5	-3
Banks	762	2,997	9,244	208.4	8,758
Foreign Banks	616	2,726	5,895	116.3	4,904
Foreign Exchange	591	-1,977	5,568	-	5,041
Turkish Lira	25	4,703	327	-93.0	-137
Non-residents	146	271	3,349	1,135.8	3,854
Loans	69	6,806	13,684	101.1	16,305
Net Acquisition of Financial Assets	46	-316	225	-	662
Net Incurrence of Liabilities	-23	-7,122	-13,459	89.0	-15,643
Banking Sector	-26	-13,083	-11,251	-14.0	-13,250
Non-bank Sectors	-22	6,734	-1,170	-	-1,307
Trade Credit and Advances	-164	438	-10,526	-	-12,066
Other Assets and Liabilities	-10	-71	-102	43.7	-5
Reserve Assets (net)	743	-11,237	6,863	-	7,723
Net Errors and Omissions	-1,853	16,582	687	-95.9	3,375

Source: CBRT, Datastream

Budget Balance

Central government budget deficit was 30.8 billion TRY in December.

The central government budget deficit increased by 68.3% yoy to 30.8 billion TRY in December 2019. During this period, budget revenues expanded by 9.1% yoy to 73.3 billion TRY, while budget expenditures increased by 21.8% to 104.1 billion TRY. Primary deficit, which was 16.2 billion TRY in December 2018, became 26.6 billion TRY in December 2019.

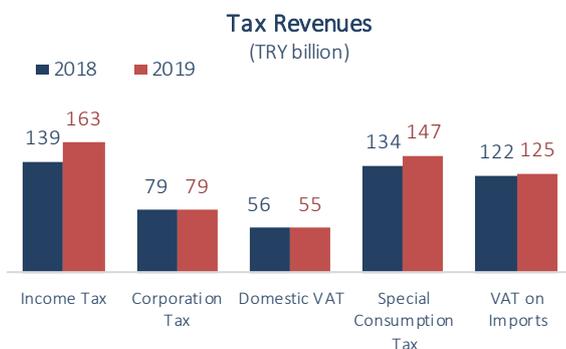
In 2019 as a whole, budget deficit became 123.7 billion TRY.

Budget deficit, which was 72.8 billion TRY in 2018, surged to 123.7 billion TRY in 2019. During this period, budget revenues and expenditures rose by 15.5% and 20.3%, respectively. Primary balance, which posted a surplus of 1.1 billion TRY in 2018, gave a deficit of 23.8 billion TRY in 2019.

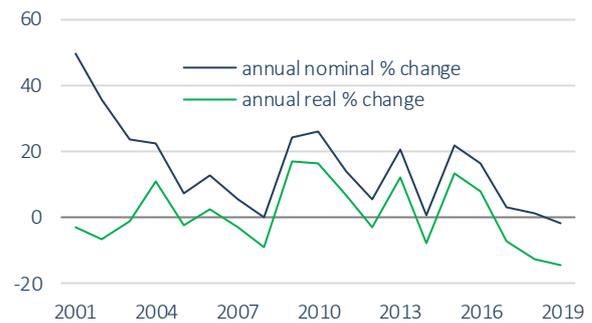
Tax revenues rose by 31.3% yoy in December.

Tax revenues expanded by 31.3% yoy in the last month of the year. The rise in domestic value added tax (VAT) revenues stood out during this period. The increases in special consumption tax (SCT) and VAT on imports were also noteworthy. Due to the recovery in domestic demand conditions and the low base effect stemming from the previous year's SCT cuts, SCT from motor vehicles and durable goods&others surged up rapidly by 53.1% and 85.9%, respectively.

In 2019 as a whole, tax revenues recorded a quite weak increase of 8.3%. Domestic VAT revenues declined on an annual basis in nominal terms for the first time in near history. The real annual fall in this item was 14.6%.



Domestic Value Added Tax Revenues



Rapid rise in interest expenditures...

Compensation of employees continued to drive the rise in budget expenditures by increasing 18.3% yoy in December. During this period, interest expenditures doubled while capital expenditures declined.

In 2019 as a whole, interest expenditures surged at the fastest rate since 2001 with 35.1%. During this period, the rises in current transfers and compensation of employees were also noteworthy.

Expectations...

In 2019, budget realizations were in line with the estimates of the New Economy Program (NEP) released in September. Deterioration in budget outlook was partly contained by the support of one-off revenues. In the first half of 2019, tax cuts in certain sectors and weak domestic demand had a negative impact on budget revenues. The rise in interest expenditures also weighed on budget performance. In the period ahead, the expected recovery in economic activity and the fall in interest rates will be positive for budget outlook. Budget deficit to GDP ratio, which is expected to have neared 3% in 2019, is anticipated to remain flat around 2.9% in 2020 as September NEP forecasts suggested.

Central Government Budget

(billion TRY)

	December			January-December			2019 Budget		
	2018	2019	% Change	2018	2019	% Change	Target	Target	Real/NEP Target (%)
Expenditures	85.4	104.1	21.9	830.8	999.5	20.3	961.0	992.4	100.7
Interest Expenditures	2.1	4.2	100.1	74.0	99.9	35.1	117.3	103.1	96.9
Non-Interest Expenditures	83.4	99.9	19.8	756.8	899.5	18.9	843.7	899.3	100.0
Revenues	67.2	73.3	9.1	758.0	875.8	15.5	880.4	867.4	101.0
Tax Revenues	45.8	60.1	31.2	621.5	673.3	8.3	756.5	667.6	100.9
Other Revenues	21.4	13.2	-38.1	136.5	202.5	48.3	123.9	199.8	101.3
Budget Balance	-18.3	-30.8	68.1	-72.8	-123.7	69.9	-80.6	-125.0	99.0
Primary Balance	-16.2	-26.6	64.1	1.1	-23.8	-	36.7	-21.9	108.5

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

Source: Datastream, Ministry of Treasury and Finance

Inflation

CPI inflation came in above expectations in January.

CPI increased by 1.35% mom in January. According to the Reuters survey, markets expected a rise of 1.1%. Domestic PPI (D-PPI) recorded an increase of 1.84% during this period.

January (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	1.06	1.35	0.45	1.84
Annual	20.35	12.15	32.93	8.84
Annual Average	17.16	14.52	28.70	15.71

Annual CPI inflation is at 12.15%.

Annual CPI inflation, which ended 2019 at 11.84%, became 12.15% in the first month of 2020. Annual rise in D-PPI, which was 7.36% in December 2019, stood at 8.84% in January.

The rise in food prices led to a larger than expected CPI inflation.

Food and non-alcoholic beverages group, in which prices increased by 4.7% on a monthly basis in January, made the highest contribution to inflation by 106 bps. This was largely due to the rises in fruits and vegetables prices. Food prices were followed by miscellaneous goods and services group with a positive contribution of 26 bps. Monthly inflation was dragged down most by clothing and footwear group, in which seasonal factors were in place, and by furnishings and household equipment group, in which value-added tax cuts were implemented. Clothing and footwear prices were down by 6.7% making a negative contribution of 46 bps. Furnishings and household equipment prices pushed monthly inflation down by 11 bps.

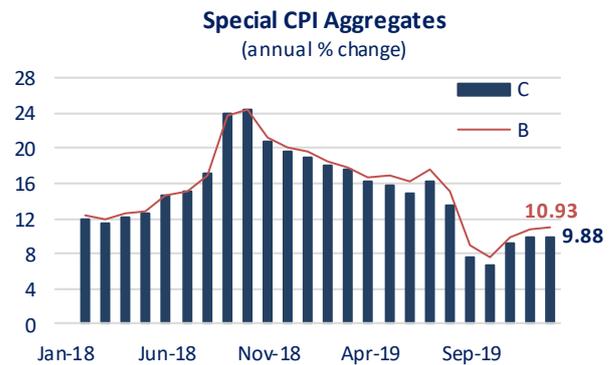
Turkstat has revised the weights of the expenditure groups in inflation basket. The weight of food group came down from 23.29% to 22.77%. The weights of transportation, housing, furnishings as well as clothing and footwear groups were also revised down. The

Weights of expenditure groups (%)	2020		2019		Δ (% point)
	2020	2019	2020	2019	
Food and non-alcoholic beverages	22.77	23.29	22.77	23.29	-0.52
Alcoholic beverages and tobacco	6.06	4.23	6.06	4.23	1.83
Clothing and footwear	6.96	7.24	6.96	7.24	-0.28
Housing, water, electricity, gas	14.34	15.16	14.34	15.16	-0.82
Furnishings and household equipment	7.77	8.33	7.77	8.33	-0.56
Health	2.80	2.58	2.80	2.58	0.22
Transport	15.62	16.78	15.62	16.78	-1.16
Communications	3.80	3.69	3.80	3.69	0.11
Recreation and culture	3.26	3.29	3.26	3.29	-0.03
Education	2.58	2.40	2.58	2.40	0.18
Hotels, cafes and restaurants	8.67	7.86	8.67	7.86	0.81
Miscellaneous goods and services	5.37	5.15	5.37	5.15	0.22
Total	100	100	100	100	-

weights of alcohol and tobacco group, on the other hand, increased to 6.06% from 4.23%.

Core inflation indicators...

CPI excluding seasonal products rose at a slower pace compared to headline inflation with 1.18% mom. One of the CBRT's favorite core inflation indicators, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold), increased 0.34% mom. C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold) rose by 0.1% mom during this period. Annual increases in B and C indices accelerated slightly and became 10.93% and 9.88%, respectively.



Food and basic metals pushed up monthly D-PPI inflation.

In January, the rise in D-PPI was mainly driven by food products and basic metals sub-sectors. The said groups pushed monthly D-PPI inflation up by 43 bps and 26 bps, respectively. During this period, prices declined only in three groups, namely tobacco products, paper products and wearing apparel. The said groups made a total negative contribution of 7 bps.

Expectations...

While the rise in the currency basket in the last two months may have an adverse impact on inflation in the coming period, the recent cancellation of automatic price hikes in tobacco and alcohol products for the first half of the year and the still absence of domestic demand driven inflationary pressures support the inflation outlook. As the downside and upside risks on inflation look broadly balanced, the CBRT left its inflation forecast for the 2020-end at 8.2% in its Inflation Report published on January 30. The exchange rate developments and the size of interest rate cuts will be significant in terms of achieving this level.

Source: Datastream, Turkstat

	31-Dec	31-Jan	Change
5-Y CDS (basis points)	277	240	-37 bps ▼
TR 2-Y Benchmark Yield	11.78%	10.20%	-158 bps ▼
BIST-100	114,425	119,140	4.1% ▲
USD/TRY	5.9510	5.9850	0.6% ▲
EUR/TRY	6.6800	6.6326	-0.7% ▼
Currency Basket*	6.3155	6.3088	-0.1% ▼

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

Concerns over coronavirus weighed on risk sentiment.

Having found support from the US-China trade agreement in the first half of the month, global risk sentiment remained under pressure due to the concerns regarding coronavirus epidemic in the following days. While equity indices and oil prices fell, demand for safe haven assets increased. Domestic markets displayed a similar trend to global markets. In addition to busy global agenda, CBRT's actions were followed closely.

CBRT cut the policy rate by 75 basis points.

In its Monetary Policy Committee meeting held on January 16, CBRT cut the policy rate by 75 bps to 11.25% as markets expected. Consequently, the Bank reduced the policy rate by 1,275 bps, from 24% to 11.25%, in the last 5 meetings. CBRT stated that the inflation outlook is considered to be broadly in line with the Bank's year-end inflation projection. This statement supports the expectations that the rate-cuts would continue in a moderate pace.

Reserve requirement regulations...

By a new regulation published on January 18, CBRT decreased the upper limit of the facility of holding standard gold for Turkish lira reserve requirements from 30% to 20%. The Bank increased the upper limit of the facility of holding standard gold converted from wrought or scrap gold collected from residents from 10% to 15% of Turkish lira reserve requirements.

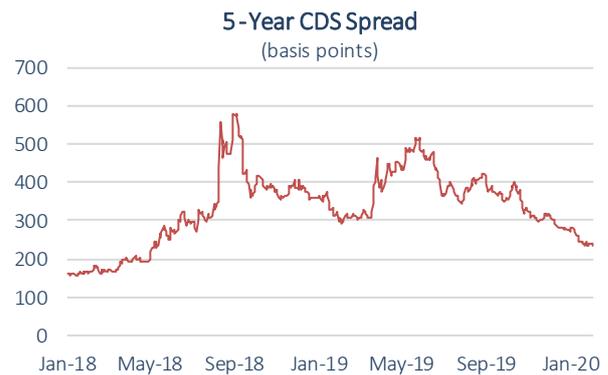
CBRT did not change its inflation forecasts.

CBRT published the first Inflation Report of this year. Central Bank did not make any changes to its inflation forecasts. Accordingly, inflation forecasts for 2020 and 2021 were kept at 8.2% and 5.4% respectively. CBRT President Uysal emphasized that the aggregate demand conditions did not build up inflationary pressures despite the recent recovery in the economic activity. Uysal pointed out that the latest adjustments in taxes are expected to put a downside pressure on inflation and the projected rise in oil prices is expected to have a limited impact. In this regard, Uysal stated that they expect inflation to decline moderately towards the year-end target starting from Q2 and it would stabilize at 5% in the medium term, thanks to tight monetary policy stance.

2-year benchmark bond yield declined to single-digit levels.

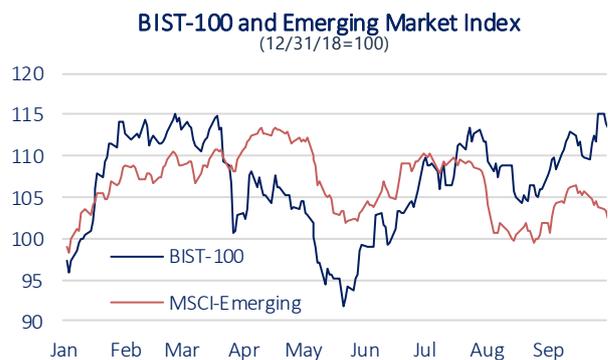
Having declined to 9.96% on January 30, the lowest level since November 2016, 2-year benchmark bond yield fell by 158 bps compared to the year-end and closed the month at 10.2%. Following the CBRT's interest rate cut, long-term yields also continued to move downwards. 10-year benchmark bond yield came down by an almost 200 bps to 10.23% as of January 31.

Improvement in risk sentiment towards Turkey continued.



Having fallen to the lowest level since May 2018 with 235 bps on January 28, Turkey's 5 year CDS Premium ended the month at 240 bps.

Improvement in risk sentiment towards Turkey reflected positively on the equity market. BIST-100 index hit its new record high level with 124.537 points. In the following days, the index retreated slightly due to the negative mood in global markets, ending the month with a monthly rise of 4.1%.



Turkish lira displayed a volatile course in January.

Turkish lira, which appreciated in the first half of January, weakened in the second half. Starting the year at 5.94, USD/TRY closed the first month of the year at 5.98. Due to the decline in EUR/USD parity, EUR/TRY fell from 6.68 to 6.63 during this period.

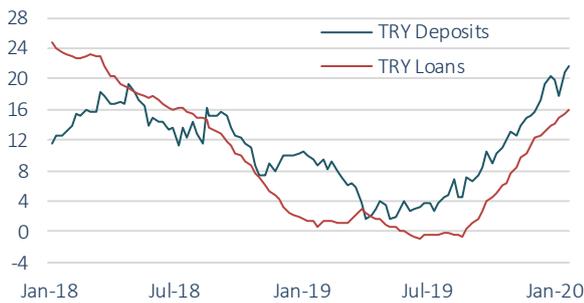
Source: CBRT, Datastream, Reuters, BIST

Banking Sector

FX deposit volume hovers close to its historically high levels.

According to BRSA Weekly Bulletin, deposit volume increased by 25.1% yoy as of January 24 and became 2,590 billion TRY. In this period, TRY deposit volume surged by 21.6% yoy. FX deposits in USD terms expanded by 14.3%, hovering close to its historically high levels. FX deposits in USD terms, which ended 2019 with a rise of 31 billion USD, expanded by 2.5 billion USD since the year-end and became 222.9 billion USD as of January 24.

Deposits and Loans
(annual % change)



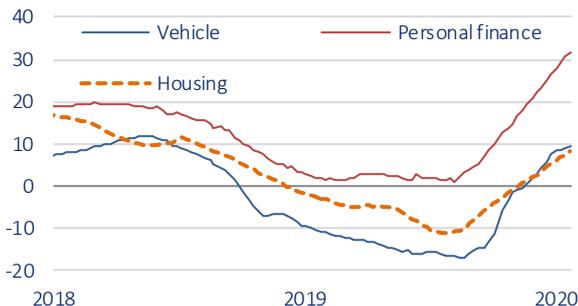
Annual TRY loan volume growth surpassed 15%.

Thanks to CBRT's interest rate cuts and the recovery in domestic demand, TRY loan growth continued to gain speed. As of January 24, TRY loan volume increased by 15.8% yoy, the highest increase since July 2018. Meanwhile, FX loan volume in USD terms continued to contract. FX loan volume, which declined by around 11 billion USD in 2019, fell by 1.9 billion USD compared to the year-end as of January 24. Thus, total loan volume expanded by 12% yoy and became 2.658 billion TRY as of January 24. During this period, total loan growth in state banks and private banks became 18.5% yoy and 7.2% yoy, respectively.

Acceleration in consumer loans growth...

The expansion in consumer loans continued to gain momentum. Consumer loans volume increased by 11.4 billion TRY year-to-date as of January 24. Out of this increase 8.6 billion TRY stemmed from the rise in demand for personal finance loans. Housing loans grew by 2.8 billion TRY during this period. Personal finance loans, which account for 56% of consumer loans, rose

Consumer Loans
(annual % change)

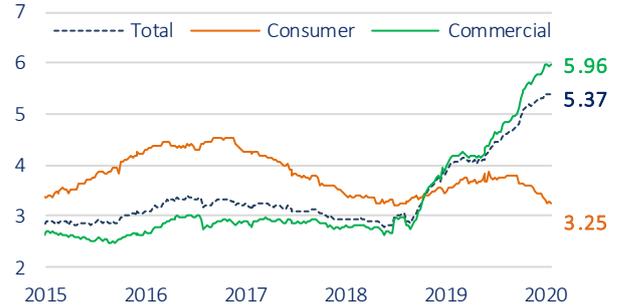


more than 30% yoy as of January 24 also due to the impact of the low base. During this period, housing and vehicle loans increased by 8.3% and 9.3%, respectively.

Non-performing loan ratio is at 5.37%.

Non-performing loan ratio, which ended 2019 at 5.3% with an annual rise of 1.5 points, became 5.37% as of January 24. The said ratio was realized at 3.57% in state banks, while it became 7.1% and 6.6% in domestic private banks and foreign banks, respectively. NPL ratio was 3.25% in consumer loans, while it was 5.96% in commercial loans.

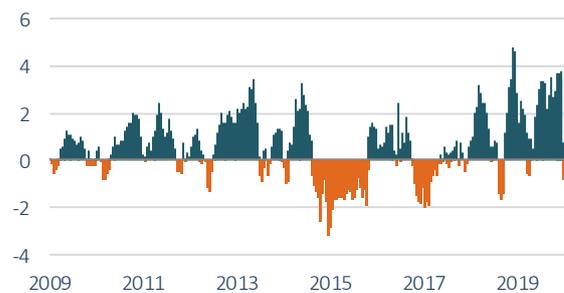
Non-performing Loans
(%)



Net foreign currency position...

As of January 24, banks' on-balance sheet FX position was (-)44,827 million USD, while off-balance sheet FX position was (+)46,249 million USD. Hence, banking sector's net FX position was realized at (+)1.377 million USD.

Net FX Position
(USD billion)



Source: BRSA Weekly Bulletin

Concluding Remarks

Signing the first phase of the US-China trade agreement in mid-January allowed global markets to make a positive start to 2020. On the other hand, global risk perception has deteriorated significantly due to increasing number of coronavirus-driven deaths and taken measures. Global stock markets remained under sales pressure due to the concerns about the effects of the virus on the Chinese economy.

Leading indicators in the US and Euro Area confirm the slowing down in the economic activity. Accordingly, in 2019 the US economy posted the weakest growth performance in last 3 years with 2.3%, while Euro Area grew by 1.2%, the lowest level since 2013. On the other hand, major central banks, which took supportive positions recently, did not make any changes in their monetary policies at their January meetings.

In Turkey, CBRT continued to cut interest rates at its January meeting, pulling the policy rate to 11.25%. Thus, the total interest rate cut has reached 1,275 basis points since July 2019. Announcing the first Inflation Report of 2020 at the end of January, the Bank hasn't changed its inflation expectations for the end of the year and stated that inflation expectations would be important to determine the monetary policy. In this context, we think that the interest rate cuts will continue, albeit more gradually.

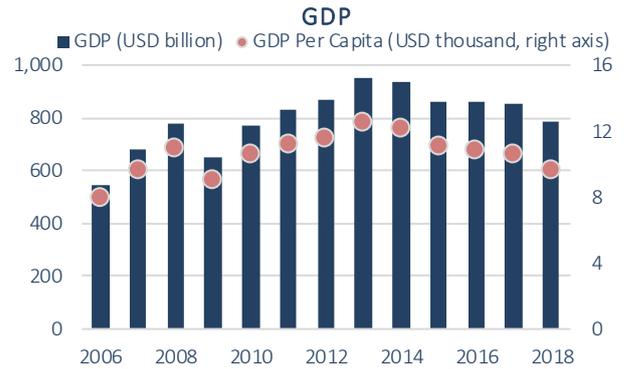
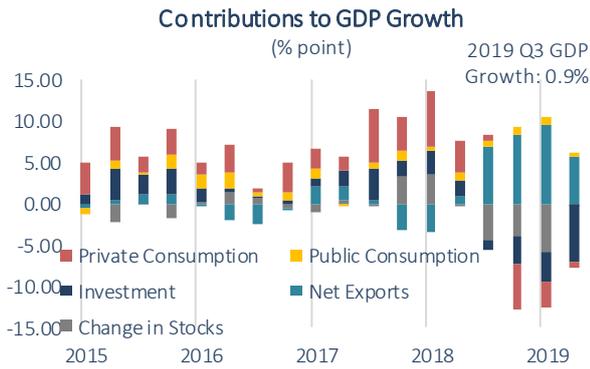
Domestic economic activity signals recovery. The foreign trade deficit continues to widen with the acceleration in imports volume. Thus, the current account balance is deteriorating gradually.

Risk perception towards Turkey continued to improve in January. BIST-100 index reached its historic highs, thanks to the decrease of 5-year CDS premiums of the country to the lowest level of the last 20 months.

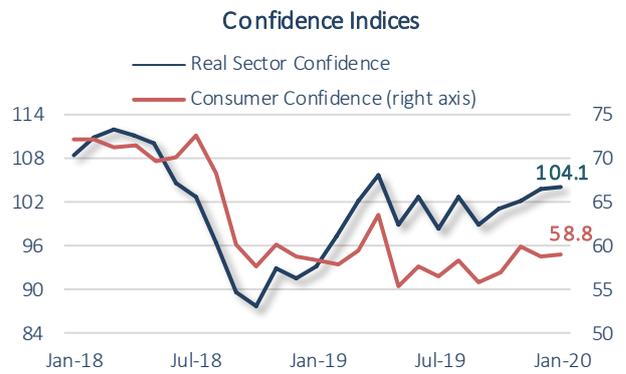
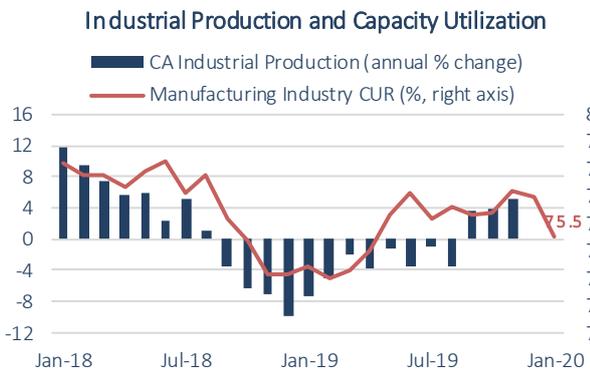
Forecasts (%)	2019	2020
Growth	0.5	4.0
Current Account Balance/GDP	0.1	-1.4
Inflation (year-end)	11.8 (A)	9.8

(A) Actual

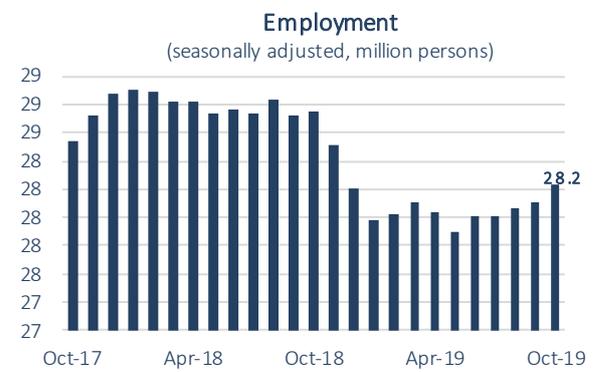
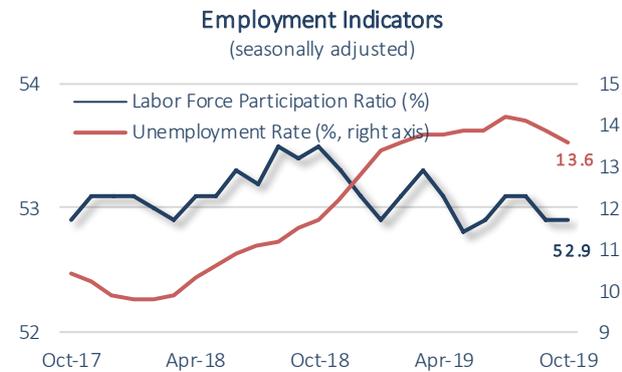
Growth



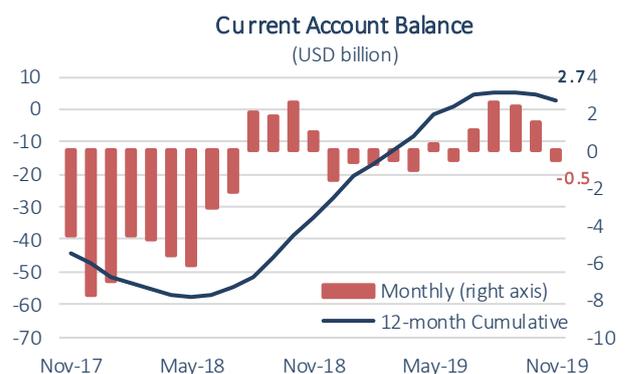
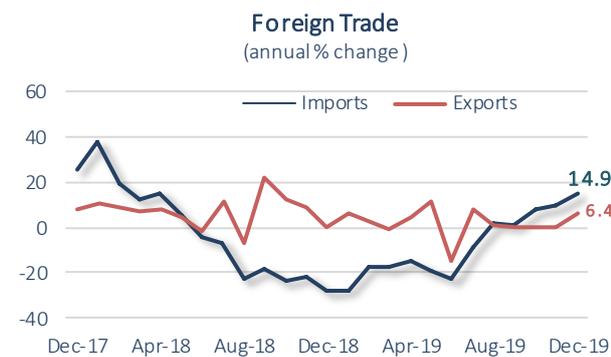
Leading Indicators



Labor Market



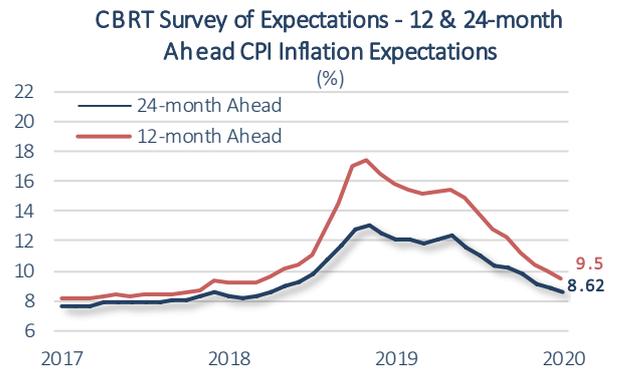
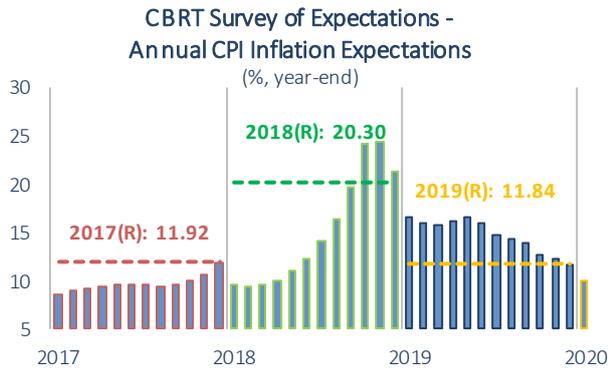
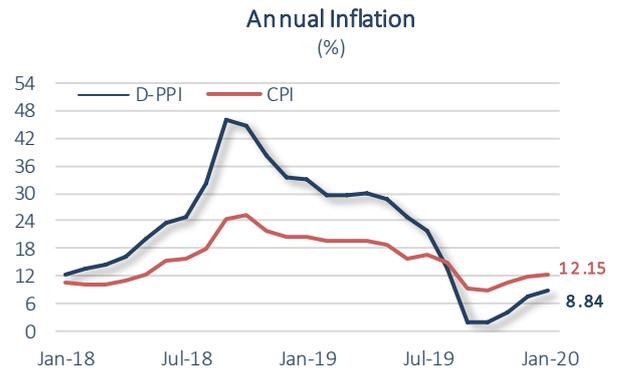
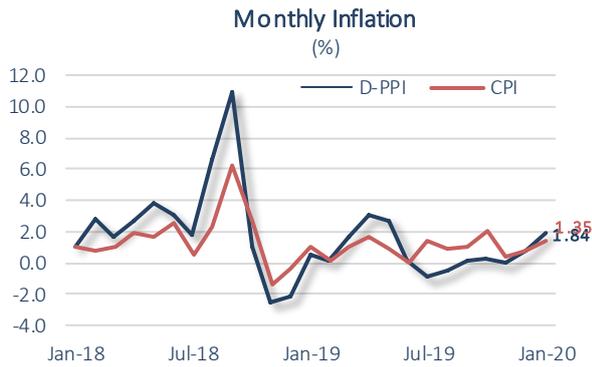
Foreign Trade and Current Account Balance



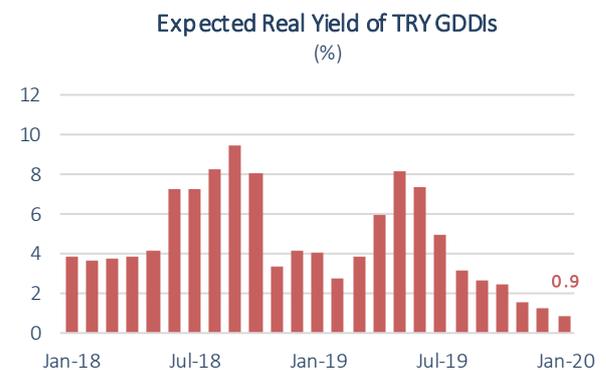
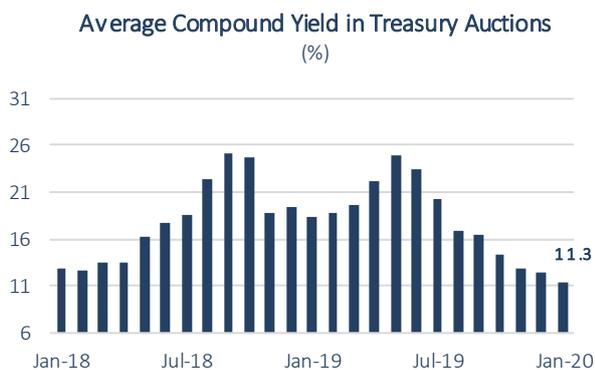
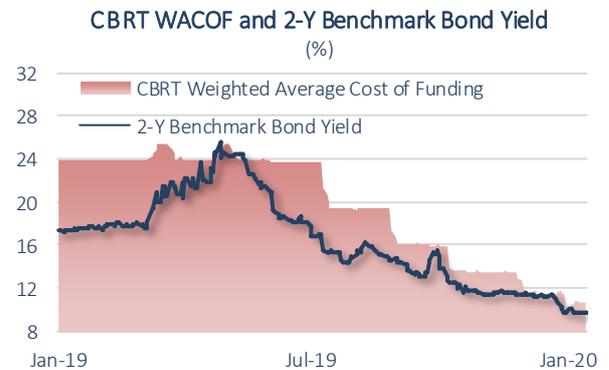
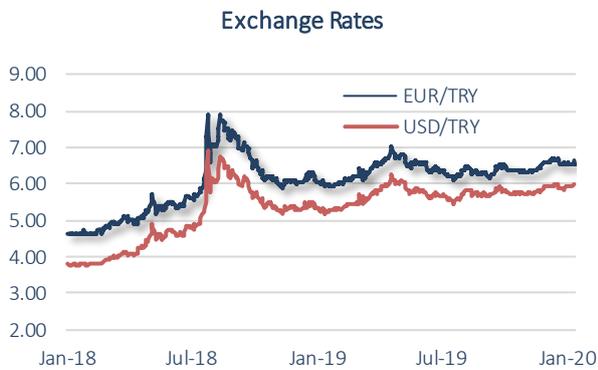
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2014	2015	2016	2017	2018	19-Q1	19-Q2	19-Q3
GDP (USD billion)	935	862	863	853	789	172	175	202
GDP (TRY billion)	2,045	2,339	2,609	3,111	3,724	922	1,024	1,145
GDP Growth Rate (%)	5.2	6.1	3.2	7.5	2.8	-2.3	-1.6	0.9
Inflation (%)						Nov-19	Dec-19	Jan-20
CPI (annual)	8.17	8.81	8.53	11.92	20.30	10.56	11.84	12.15
Domestic PPI (annual)	6.36	5.71	9.94	15.47	33.64	4.26	7.36	8.84
Seasonally Adjusted Labor Market Figures						Aug-19	Sep-19	Oct-19
Unemployment Rate (%)	10.3	10.2	12.0	9.9	12.8	14.10	13.90	13.60
Labor Force Participation Rate (%)	51.0	51.7	52.4	53.1	53.1	53.10	52.90	52.90
FX Rates						Nov-19	Dec-19	Jan-20
CPI Based Real Effective Exchange Rate	105.9	99.2	93.6	86.3	76.4	77.4	76.1	75.7
USD/TRY	2.3378	2.9189	3.5176	3.7916	5.3199	5.7435	5.9510	5.9850
EUR/TRY	2.8288	3.1708	3.7102	4.5530	6.0815	6.3328	6.6800	6.6326
Currency Basket (0.5*EUR+0.5*USD)	2.5833	3.0448	3.6139	4.1723	5.7007	6.0382	6.3155	6.3088
Foreign Trade Balance⁽¹⁾ (USD billion)						Oct-19	Nov-19	Dec-19
Exports	157.6	143.8	142.5	157.0	167.9	170.7	170.6	171.5
Imports	242.2	207.2	198.6	233.8	223.0	198.7	200.2	202.7
Foreign Trade Balance	-84.6	-63.4	-56.1	-76.8	-55.1	-28.0	-29.6	-31.2
Import Coverage Ratio (%)	65.1	69.4	71.8	67.1	75.3	85.9	85.2	84.6
Balance of Payments⁽¹⁾ (USD billion)						Sep-19	Oct-19	Nov-19
Current Account Balance	-43.6	-32.1	-33.1	-47.3	-27.2	5.4	4.3	2.7
Capital and Financial Accounts	-43.2	-22.7	-22.0	-46.7	-7.8	9.0	9.0	6.1
Direct Investments (net)	-6.3	-14.2	-10.8	-8.8	-9.4	-7.9	-6.9	-5.9
Portfolio Investments (net)	-20.2	15.5	-6.3	-24.5	3.1	-1.0	2.4	2.2
Other Investments (net)	-16.2	-12.1	-5.7	-5.2	8.9	7.2	2.6	2.1
Reserve Assets (net)	-0.5	-11.8	0.8	-8.2	-10.4	10.8	10.9	7.7
Net Errors and Omissions	0.5	9.5	11.1	0.6	19.3	3.7	4.7	3.4
Current Account Balance/GDP (%)	-4.7	-3.7	-3.8	-5.6	-3.4	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Oct-19	Nov-19	Dec-19
Expenditures	448.8	506.3	584.1	678.3	830.5	819.9	895.4	999.5
Interest Expenditures	49.9	53.0	50.2	56.7	74.0	88.3	95.8	99.9
Non-interest Expenditures	398.8	453.3	533.8	621.6	756.5	731.6	799.6	899.5
Revenues	425.4	482.8	554.1	630.5	757.8	719.2	802.5	875.8
Tax Revenues	352.5	407.8	459.0	536.6	621.3	539.9	613.2	673.3
Budget Balance	-23.4	-23.5	-29.9	-47.8	-72.6	-100.7	-92.9	-123.7
Primary Balance	26.5	29.5	20.3	8.9	1.3	-12.4	2.8	-23.8
Budget Balance/GDP (%)	-1.1	-1.0	-1.1	-1.5	-1.9	-	-	-
Central Government Debt Stock (TRY billion)						Oct-19	Nov-19	Dec-20
Domestic Debt Stock	414.6	440.1	468.6	535.4	586.1	712.8	722.2	755.1
External Debt Stock	197.9	238.1	291.3	341.0	481.0	547.9	552.0	573.7
Total Debt Stock	612.5	678.2	760.0	876.5	1,067.1	1,260.7	1,274.2	1,328.8

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2014	2015	2016	2017	2018	Nov.19	Dec.19	Change ⁽¹⁾
TOTAL ASSETS	1,994	2,357	2,731	3,258	3,867	4,355	4,492	16.2
Loans	1,241	1,485	1,734	2,098	2,395	2,597	2,657	10.9
TRY Loans	881	1,013	1,131	1,414	1,439	1,615	1,642	14.1
Share (%)	71.0	68.2	65.2	67.4	60.1	62.2	61.8	-
FX Loans	360	472	603	684	956	982	1,015	6.2
Share (%)	29.0	31.8	34.8	32.6	39.9	37.8	38.2	-
Non-performing Loans	36.4	47.5	58.2	64.0	96.6	143.6	150.1	55.4
Non-performing Loan Rate (%)	2.9	3.1	3.2	3.0	3.9	5.2	5.3	-
Securities	302	330	352	402	478	625	661	38.3
TOTAL LIABILITIES	1,994	2,357	2,731	3,258	3,867	4,355	4,492	16.2
Deposits	1,053	1,245	1,454	1,711	2,036	2,454	2,567	26.1
TRY Deposits	661	715	845	955	1,042	1,194	1,259	20.8
Share (%)	62.8	57.4	58.1	55.8	51.2	48.7	49.0	-
FX Deposits	391	530	609	756	994	1,260	1,308	31.6
Share (%)	37.2	42.6	41.9	44.2	48.8	51.3	51.0	-
Securities Issued	89	98	116	145	174	186	194	11.2
Payables to Banks	293	361	418	475	563	522	533	-5.3
Funds from Repo Transactions	137	157	138	99	97	160	154	58.4
SHAREHOLDERS' EQUITY	232	262	300	359	421	482	492	17.0
Profit (Loss) of the Period	24.6	26.1	37.5	49.1	53.5	46.6	49.8	-
RATIOS (%)								
Loans/GDP	60.7	63.5	66.5	67.6	64.7			
Loans/Assets	62.2	63.0	63.5	64.4	61.9	59.6	59.1	-
Securities/Assets	15.2	14.0	12.9	12.3	12.4	14.4	14.7	-
Deposits/Liabilities	52.8	52.8	53.2	52.5	52.6	56.3	57.1	-
Loans/Deposits	117.9	119.2	119.3	122.6	117.6	105.8	103.5	-
Capital Adequacy (%)	16.3	15.6	15.6	16.9	17.3	18.6	18.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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