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Global Economy

As the number of new coronavirus cases has climbed during the autumn months, many countries have announced new quarantine measures. This situation raises questions about the course of the economic activity.

Based on the better-than-expected performance of developed countries, IMF revised its global growth forecast for 2020 upward. The Institution drew attention to the rise in public debt on a global scale.

In October, global markets were focused on the US presidential election held on November 3.

The US economy, which completed the second quarter with a record contraction, expanded by 33.1% in the third quarter according to the annualized figures. However, the contraction in the economy continued compared to the same quarter of last year, albeit at a slower pace.

Although the Euro Area economy grew rapidly in the third quarter of the year with 12.7% on a quarterly basis, it continued to shrink on an annual basis. The announced data indicate that the gradual recovery continues in the Region. However, the introduction of new quarantine measures due to rising spread of the pandemic creates uncertainty. ECB President Lagarde stated that the Central Bank is ready to intervene with a large toolkit against this uncertainty.

In China, which has overcome the impact of the pandemic faster than the rest of the world, economic activity grew by 4.9% yoy in the third quarter thanks to the strong support of private consumption.

As well as the heightened demand concerns on a global scale, the resumption of oil production in Libya led oil prices to fall to the lowest level since May. Gold prices, which followed a steady course compared to the previous months, decreased slightly in October.

Turkish Economy

Having risen to 53.9 in October, manufacturing PMI continued its course above the threshold level for five consecutive months.

According to the calendar adjusted data, industrial production increased by 10.4% yoy in August. The monthly rise in the industrial production became 3.4% according to the seasonally and calendar adjusted data.

Due to the rapid widening in foreign trade deficit and the decline in transportation and tourism revenues, the current account balance posted a deficit of 4.6 billion USD in August. According to the 12-month cumulative data, the current account deficit became 23.2 billion USD.

In January-September period, budget expenditures rose by 17.6% yoy, while budget revenues expanded by 11.6% yoy. Thus, the budget deficit rose by 63.8% yoy and became 140.6 billion TRY in this period.

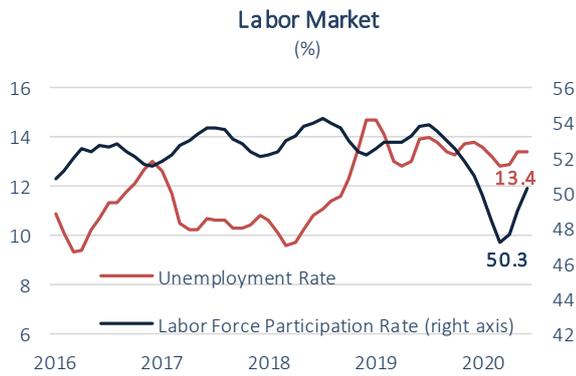
In October, CPI increased by 2.13% mom, while annual CPI inflation, which remained flat through July-September period, rose to 11.89%, the highest level since February. In this period, domestic-PPI increased by 3.55% mom and 18.20% yoy, reaching the highest level of 15 months.

At the meeting held in October, the CBRT kept its policy rate unchanged at 10.25%, but increased the late liquidity window lending rate by 150 basis points to 14.75%. CBRT continued its tightening monetary policy steps through October.

Leading Indicators

Unemployment rate became 13.4% in July.

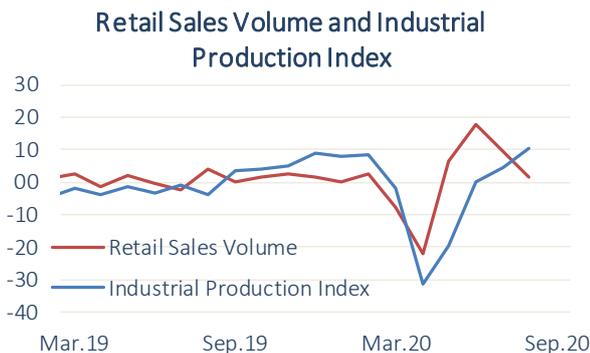
In Turkey, unemployment rate decreased by 0.5 points yoy to 13.4% in July. During this period, total employment declined by 1.3 million people on an annual basis. The employment decreased by 761K people in the services sector, 361K people in the agricultural sector and 246K people in the industry sector, while it increased by 114K people in the construction sector. In July, the labor force participation rate dropped by 3.5 points compared to the same month of last year and became 50.3%. Labor force participation rate was down to 47.2% in April, driven by restrictive measures against the epidemic. Broad unemployment rate, which is calculated by the inclusion of seasonal workers and people who are ready to work but have not applied for a job for the last 4 weeks, came in at 23.8% in July.



Industrial production increased by 10.4% yoy in August.

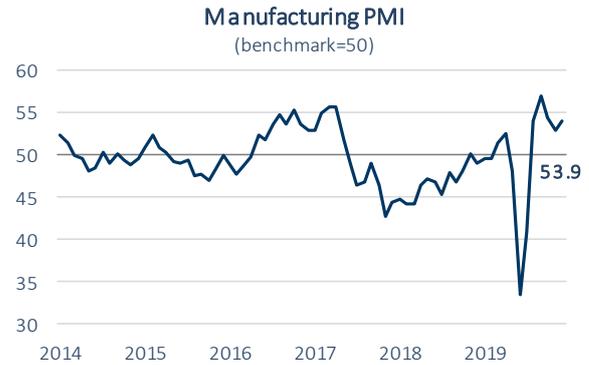
According to the calendar adjusted data, industrial production expanded by 10.4% yoy in August. During this period, the production of the manufacturing industry rose by 11.4%, while the output of mining and quarrying sector and electricity production and distribution sector went up by 5.2% and 2.3%, respectively. While the production in 21 out of 24 sub-sectors of manufacturing industry increased, the contribution of fabricated metal products, other non-metallic mineral products and textiles stood out. According to the seasonally and calendar adjusted data, the monthly growth in industrial production lost momentum in August and became 3.4%.

Retail sales volume, which rose by 12.5% yoy in July, expanded by 5.8% yoy in August. According to the seasonally and calendar adjusted data, the monthly rise in retail sales volume slowed down and became 1.4% in this period.



Manufacturing PMI gained momentum in October.

In October, manufacturing PMI increased by 1.1 points mom and reached the level of 53.9. Thus, the index continued its course above the threshold level for five consecutive months indicating a sustained growth in the sector. In October, the increase in domestic and export orders pointed to the recovery in demand, while the employment index reached its highest value since February 2018. On the other hand, sub-indices of the input and final product prices, due to the depreciation of TRY, recorded the fastest rises in almost two years.



Confidence indices...

The seasonally adjusted consumer confidence index remained relatively flat compared to the previous month and became 81.9 in October. In the same period, the real sector confidence index increased by 4 points mom to 109.7, its highest level since February 2018. The capacity utilization rate, which follows an upward trend since May, rose by 0.6 points mom to 74.9% in October. Sectoral confidence indices also rose in this period. On a monthly basis, the confidence in the services sector, retail trade and construction industry went up by 6.4%, 1.7% and 0.6%, respectively.

House sales declined by 6.9% yoy in September.

House sales in Turkey, which posted an annual increase in the May-August period thanks to the low interest rates and the realization of delayed demand, decreased by 6.9% yoy to 137K units in September. During this period, mortgaged house sales, which made up 26% of total sales, declined by 38.5% yoy, while other sales expanded by 13.6% yoy. In the January-September period, house sales rose by 34.2% yoy to 1.16 million units. During this period, mortgaged house sales went up by 170.7% yoy, while other sales declined by 3.7% yoy. In September, residential property price index (RPPI) increased by 2.1% mom and 26.2% yoy. The annual rise in RPPI became 12.9% in real terms.

White goods sales rose by 21% yoy in September.

According to the figures of White Goods Manufacturers' Association of Turkey, domestic sales of the six main product groups consisting of refrigerators, washing machines, dishwashers, freezers, dryers and ovens increased by 21% yoy in September. In the same period, exports volume of the sector expanded by 2%. In January-September period, domestic sales rose by 14% yoy, while exports contracted by 6% yoy due to the impact of the pandemic on European countries, the main export market for the white goods sector.

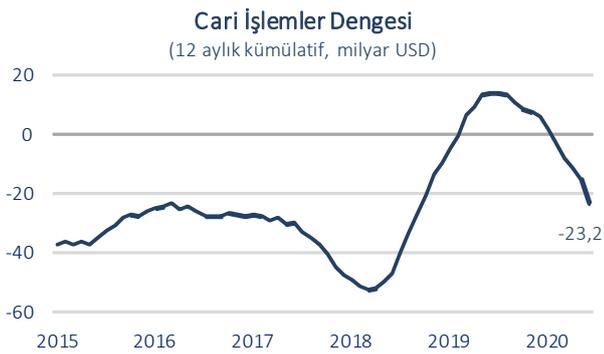
Foreign Trade and Balance of Payments

Foreign trade deficit widened rapidly in September.

According to TURKSTAT, exports increased by 4.8% yoy to 16 billion USD in September, while imports rose by 23% yoy to 20.8 billion USD. Thus, foreign trade deficit widened by 189.6% yoy and became 4.8 billion USD. During January-September 2020 exports decreased by 10.9% compared to the same period of last year, while imports increased by 1.5% yoy. The foreign trade deficit rose by 79.5% yoy in this period. Import coverage ratio, which was 86.3% in January-September 2019, fell to 75.8% in the same period of this year.

In August current account gave 4.6 billion USD deficit.

Current account, which posted a surplus of 3.3 billion USD in August 2019, gave a deficit of 4.6 billion USD in the same month of this year. The rapid widening in the foreign trade deficit and the decline in net services revenues by 4.6 billion USD yoy due to the decrease in transportation and tourism revenues played role in the expansion of the current account deficit. In August, 12-month cumulative current account deficit reached 23.2 billion USD.



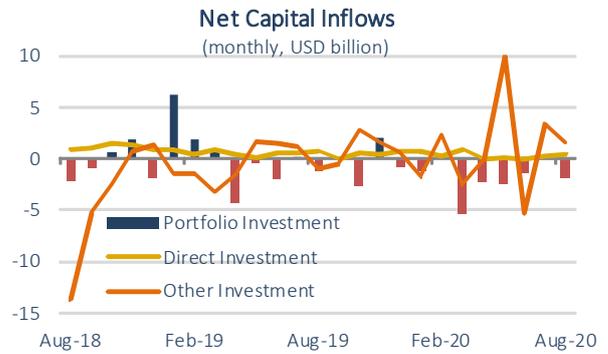
Direct Investments...

Foreign direct investments item recorded a net capital inflow of 374 million USD in August. In this period, 97 million USD out of the total 232 million USD inflow in capital investments was realized in the wholesale and retail trade sector.

Net outflows in portfolio investments...

The portfolio investments, which recorded inflow of 254 million USD in July, had an outflow of 2 billion USD in August. In this period, nonresidents made net sales of 1 billion USD in the stock market and 502 million USD in debt securities market.

Following a total inflow of 3.4 billion USD in July, other investments recorded a net capital inflow of 1.5 billion USD in August. In this period, deposits of domestic banks at their foreign correspondents increased by 2 billion USD, while foreign banks' deposits at domestic banks rose by 2.3 billion USD. In August, regarding the loans provided from abroad, banks made net loan repayments of 100 million USD. In this period, the general government and other sectors made long term net repayments of 62 million USD and 774 million USD, respectively. According to 12-month cumulative figures, the long-term debt roll-over ratios became 79% in the banking sector and 70% in other sectors as of August.



Reserves decreased by 7.6 billion USD in August.

Reserve assets, which decreased by 1.3 billion USD in July, declined by 7.6 billion USD in August. Thus, the decrease in reserve assets in the first 8 months of the year rose to 39 billion USD. In this period, net errors and omissions posted a capital outflow of 2.8 billion USD.

Net Capital Inflows

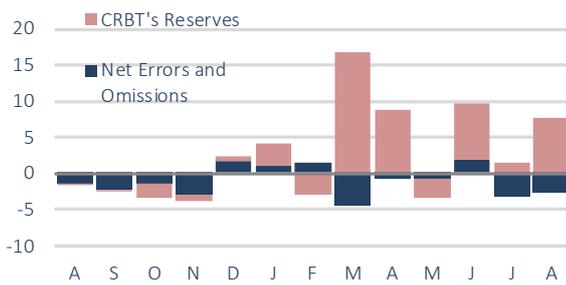
	12-month Cumulative (million USD)		Breakdown of Net Capital Inflows (%)	
	Dec. 2019	Aug. 2020	Dec. 2019	Aug. 2020
Current Account Balance	8,561	-23,203	58.6	-
Total Net Foreign Capital Inflows	-2.237	-13.696		
-Direct Investment	6,130	4,296	42.0	8.2
-Portfolio Inflows	-1,260	-15,953	-	-
-Other Investments	-127	11,469	-	21.8
-Other	34	-37	0.2	-
Net Errors and Omissions	-7,014	-13,471	-	-
Reserves(1)	-6,324	36,899	-	70.1

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

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

Foreign Trade and Balance of Payments

CRBT Reserves and Net Errors and Omissions
(USD billion)



Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports increased by 5.6% yoy and became 17.3 billion USD in October, while imports rose by 8.5% to 19.7 billion USD. Thus, the foreign trade deficit widened by 35.7% yoy and became 2.4 billion USD in this period. The expansion trend in the foreign trade deficit and the impact of the pandemic on tourism revenues continue to put pressure on the current account balance.

Balance of Payments

	Aug. 2020	Jan. - Aug. 2019	Aug. 2020	% Change	12-month Cumulative
Current Account Balance	-4,631	5,299	-26,465	-	-23,203
Foreign Trade Balance	-5,347	-10,649	-25,599	140.4	-31,597
Services Balance	1,179	23,835	5,144	-78.4	18,357
Travel (net)	1,095	16,323	4,146	-74.6	13,542
Primary Income	-570	-8,259	-5,948	-28.0	-10,503
Secondary Income	107	372	-62	-	540
Capital Account	-9	44	-27	-	-37
Financial Account	-7,485	3,780	-34,512	-	-36,711
Direct Investment (net)	-374	-4,528	-2,694	-40.5	-4,296
Portfolio Investment (net)	1,973	-347	14,346	-	15,953
Net Acquisition of Financial Assets	717	3,948	-1,056	-	-350
Net Incurrence of Liabilities	-1,256	4,295	-15,402	-	-16,303
Equity Securities	-1,007	434	-5,444	-	-5,472
Debt Securities	-249	3,861	-9,958	-	-10,831
Other Investment (net)	-1,482	4,435	-7,161	-	-11,469
Currency and Deposits	-784	3,011	-14,012	-	-21,529
Net Acquisition of Financial Assets	1,994	10,168	3,348	-67.1	1,002
Net Incurrence of Liabilities	2,778	7,157	17,360	142.6	22,531
Central Bank	381	526	12,154	2,210.6	14,123
Banks	2,397	6,631	5,206	-21.5	8,408
Foreign Banks	2,288	3,797	3,893	2.5	6,331
Foreign Exchange	893	3,506	-692	-	1,603
Turkish Lira	1,395	291	4,585	1,475.6	4,728
Non-residents	109	2,834	1,313	-53.7	2,077
Loans	775	10,815	8,511	-21.3	15,703
Net Acquisition of Financial Assets	-161	-75	-363	384.0	80
Net Incurrence of Liabilities	-936	-10,890	-8,874	-18.5	-15,623
Banking Sector	-100	-8,214	-3,805	-53.7	-6,925
Non-bank Sectors	-774	-1,815	-4,638	155.5	-8,208
Trade Credit and Advances	-1,464	-9,349	-1,641	-82.4	-5,706
Other Assets and Liabilities	-9	-42	-19	-54.8	63
Reserve Assets (net)	-7,602	4,220	-39,003	-	-36,899
Net Errors and Omissions	-2,845	-1,563	-8,020	413.1	-13,471

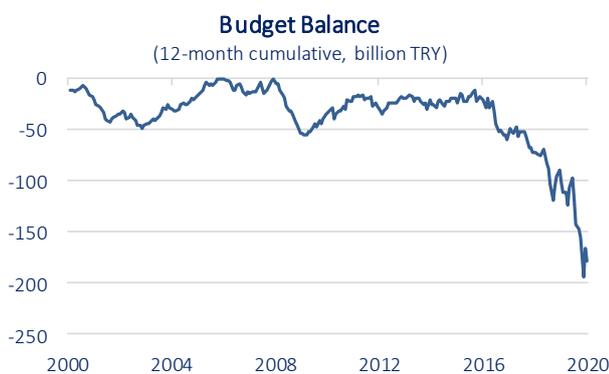
Source: CBRT, Datastream

Budget Balance

Central government budget posted a deficit of 29.7 billion TRY in September.

In September, central government budget deficit increased by 67.5% on an annual basis and reached 29.7 billion TRY. In this period, budget revenues went up by 25.1% yoy and became 78.9 billion TRY, while budget expenditures rose by 34.4% to 108.6 billion TRY. Primary balance gave a deficit of 13.5 billion TRY in this period.

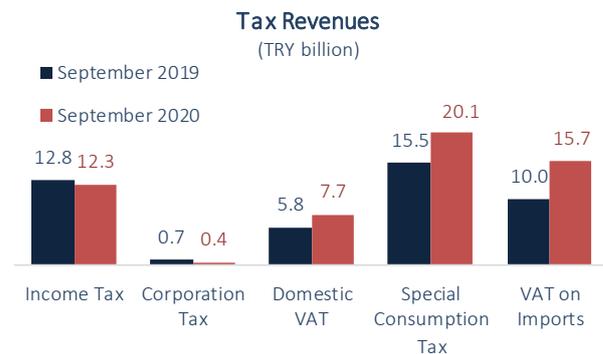
In January-September period, budget expenditures increased by 17.6% yoy, while budget revenues expanded by 11.6% yoy. Thus, the budget deficit, which was 85.8 billion TRY in the first 9 months of 2019, rose by 63.8% and became 140.6 billion TRY in the same period of this year. In this period, primary balance gave a deficit of 32.8 billion TRY.



Tax revenues was realized as 68.3 billion TRY in September.

In September, tax revenues increased by 29.9% yoy and was realized as 68.3 billion TRY. In this period, the rises in VAT on imports, domestic VAT and SCT revenues supported the budget revenues. The rise in SCT revenues was derived from the increase in SCT rates on motor vehicles and the high sales figures in durable goods and motor vehicles in September. Value added tax on imports also went up by 57.1% in this period due to the rise in imports volume and the increase in FX rates, while domestic VAT revenues expanded by 33.6% yoy. In September, banking and insurance transactions tax revenues rose by 103.7% yoy parallel to the changes in rates. Corporate tax revenues decreased by 41.7% in this period.

In January-September, tax revenues increased by 19.3% yoy and reached 578.7 billion TRY, while non-tax revenues decreased by 10.6% and became 150.7 billion TRY.



Current transfers expanded in September.

Among the budget expenditures the rapid increases in current transfers and capital expenditures stood out in September. In this period, there were rapid rises in the social security deficit finance and social security contributions, which is monitored under the Treasury aids item of current transfers. In September, interest expenses rose by 33.3% yoy to 16.2 billion TRY. Domestic debt interest payments increased by 15.3% yoy to 9.7 billion TRY, while foreign debt interest payments were up by 52.9% to 5.1 billion TRY.

Expectations...

Uncertainties regarding the course of the pandemic continue to put pressure on the budget outlook. The budget deficit/GDP ratio is expected to be 4.9% at the end of 2020, according to New Economy Programme (NEP) forecasts released at the end of September. The expectations that the budget deficit to GDP will be above 3% over the period 2021-2023 and that the budget will not give a primary surplus, indicates that the fiscal policy will be prudently supportive of economic activity in the coming period.

Central Government Budget

	September		%	January-September		%	2020 Budget		(billion TRY)	
	2019	2020		Change	2019		2020	Change	Target	NEP Target
Expenditures	80.8	108.6	34.4	739.6	870.0	17.6	1,095.5	1,212.3	71.8	
Interest Expenditures	12.2	16.2	33.3	81.5	107.8	32.3	138.9	137.4	78.5	
Non-Interest Expenditures	68.7	92.4	34.5	658.1	762.2	15.8	956.5	1,074.9	70.9	
Revenues	63.1	78.9	25.1	653.8	729.4	11.6	956.6	973.1	75.0	
Tax Revenues	52.6	68.3	29.9	485.3	578.7	19.3	784.6	790.7	73.2	
Other Revenues	10.5	10.6	1.0	168.5	150.7	-10.6	172.0	182.4	82.6	
Budget Balance	-17.7	-29.7	67.5	-85.8	-140.6	63.8	-138.9	-239.2	58.8	
Primary Balance	-5.6	-13.5	142.3	-4.3	-32.8	656.6	0.1	-101.8	32.2	

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

Source: Datastream, Ministry of Treasury and Finance

Inflation

Monthly CPI came in at 2.13% in October.

In October, CPI increased by 2.13% mom, in line with the expectations. Domestic PPI (D-PPI) posted an increase of 3.55% in this period.

Annual D-PPI inflation increased to 18.20%.

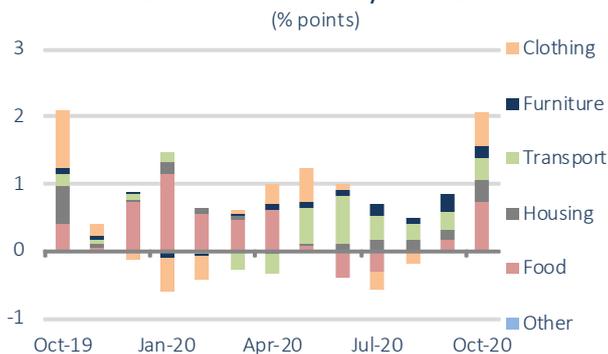
Annual CPI, which followed a flat course in July-September period, reached its highest level since February with 11.89% in October. Gaining momentum since June, D-PPI inflation hit 15-month high with 18.20% in this period.

October (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	2.00	2.13	0.17	3.55
Year-to-Date	10.59	10.64	6.71	17.48
Annual	8.55	11.89	1.70	18.20
Annual Average	16.81	11.74	22.58	9.11

Rapid increase in clothing and footwear prices in October...

In October, prices rose in 10 out of the 12 main spending groups on a monthly basis. In this period, the clothing and footwear group, where prices increased most rapidly by 6.8%, pulled the monthly CPI inflation up by 42 bps. In the food group, which made the highest contribution to CPI inflation with 70 bps mom, the increase in prices of fresh fruit and vegetables drew attention. Prices decreased slightly in the alcoholic beverages and tobacco group, as well as in the entertainment and culture group in October.

Contribution to Monthly CPI Inflation

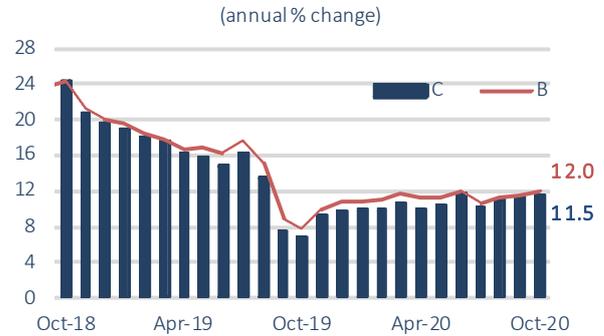


The rise in core inflation indicators continued in October.

The monthly increase in CPI excluding seasonal products was 1.6% in October, below the headline inflation. The annual upward trend since August in the core inflation indicators B (CPI excluding unprocessed food products, energy, alcoholic beverages and tobacco and gold) and C (CPI excluding energy, food and non-alcoholic beverages,

alcoholic beverages and tobacco, and gold), which were closely monitored by the CBRT, continued in October. Annual increases in B and C indices were 12% and 11.5%, respectively.

Special CPI Aggregates

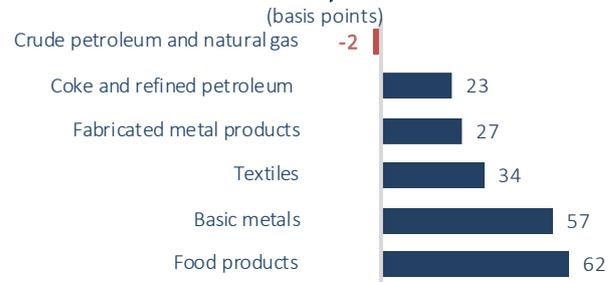


Food products and basic metals stood out in D-PPI inflation.

In October, among the sub-sectors of D-PPI, prices of coke and refined petroleum products recorded the highest increase with 5.9% mom. Food group made the highest contribution to monthly D-PPI inflation with 62 bps in this period, followed by basic metals group with 57 bps. The crude petroleum and natural gas sector, where prices fell rapidly by 6.1% in October, pulled the D-PPI down by 2 bps. Prices in the basic pharmaceutical products sector also declined slightly by 0.2% mom.

Contributions of Featured Sub-Sectors to

Monthly D-PPI



Expectations...

In the last Inflation Report of the year, CBRT increased its inflation forecast for 2020 from 8.9% to 12.1%. Considering the recent depreciation of the TRY and the exchange rate pass-through effect, which is still at high levels, upward pressures on inflation are expected to continue.

	30-Sep	30-Oct	Change
5-Y CDS (basis points)	528	552	24 bps ▲
TR 2-Y Benchmark Yield	13,31%	14,99%	168 bps ▲
BIST-100	1.145	1.112	-2,9% ▼
USD/TRY	7,7157	8,3448	8,2% ▲
EUR/TRY	9,0485	9,7207	7,4% ▲
Currency Basket*	8,3821	9,0328	7,8% ▲

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

Negative outlook in domestic markets...

Starting October with a pessimistic outlook, global stock markets followed a fluctuating course due to the forthcoming presidential elections and new stimulus package developments in the US, as well as the spike in coronavirus cases worldwide. There was also a negative atmosphere in domestic markets during October.

Having tested its highest level in nearly 8 months on October 22, the BIST-100 index followed a downward trajectory due to CBRT's decision to keep the policy rate unchanged contrary to market expectations and the geopolitical developments. The index fell by 2.9% mom to 1,112 points at the end of October. The compound interest rate of the 2-year benchmark bond went up by 168 bps throughout the month and became 14.99% on October 30. Turkey's 5-year CDS premium, which tested below 500 bps on October 21, rose by 24 bps and became 552 bps at the end of October.

BIST-100 and Emerging Market Index
(12/31/18=100)



Securities portfolio of non-residents...

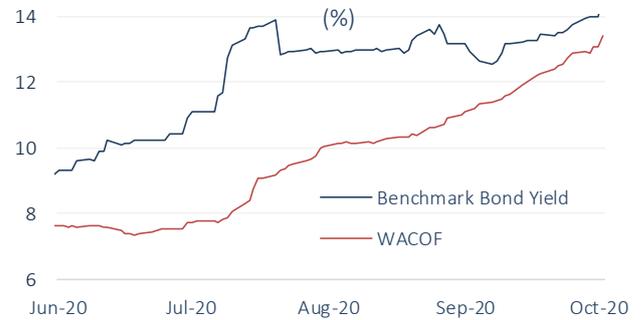
According to the securities statistics published by the CBRT, as of October 16, the equity portfolio of nonresidents increased by 11.3 million USD compared to end-September as price and exchange rate adjusted data suggested. Government domestic debt securities (GDDS) portfolio of nonresidents expanded by a net 122.8 million USD in this period. Compared to the end-2019, non-residents equity and GDDS portfolios declined by 5.7 billion USD and 7.6 billion USD, respectively.

CBRT kept the policy rate unchanged at 10.25%

At the meeting held on October 22, the CBRT kept the

policy rate unchanged at 10.25% but announced that the margin between the CBRT's late liquidity window lending rate and overnight lending rate has been increased to 300 bps from 150 bps. Thus, the CBRT has raised the late liquidity window lending rate to 14.75% with this decision. In the press release published after the meeting, CBRT stated that the Committee has decided to enhance flexibility in liquidity management and to continue with liquidity measures until the inflation outlook displays a significant improvement. In addition, the Bank added that the cautious stance in monetary policy should be maintained in order to keep the disinflation process on track with the targeted path. The deceleration in loan growth and the sustained uptrend in the weighted average funding cost in the upcoming period are also stated to have a positive effect on the inflation outlook. Weighted average cost of funding of CBRT, which was 11.20% on October 1, rose to 13.40% at the end of October. The CBRT, which raised the TRY interest rate from 10.25% to 11.75% in the TRY swap market against FX on October 9 and did not provide overnight funding in the BIST Repo-Reverse Repo market on October 30, continued its tightening steps by reducing banks' borrowing limits at the CBRT Interbank Money Market to zero at the beginning of November. CBRT also increased the TRY interest rate in the gold and FX swap market to 13.25% as of November 3.

Benchmark Bond Yield and CBRT WACOF



CBRT revised its inflation forecasts upwards.

In the last Inflation Report of this year, the CBRT raised its year-end inflation forecast from 8.9% to 12.1% for 2020 and from 6.2% to 9.4% for 2021. The persistence of pandemic-led supply-side inflationary effects in the second half of the year and high price hikes in certain sectors due to the strong credit impulse were behind this revision. Compared to the previous Report, the revision in TRY denominated import prices has driven up the consumer inflation forecast by 1.6 points, while the revision in the output gap has increased the inflation forecast by 0.9 points. The rise in food inflation forecast has pushed the inflation forecast up by 0.7 points. Thus, the CBRT's inflation forecast for 2020 exceeded the 10.5% forecast of the New Economy Program.

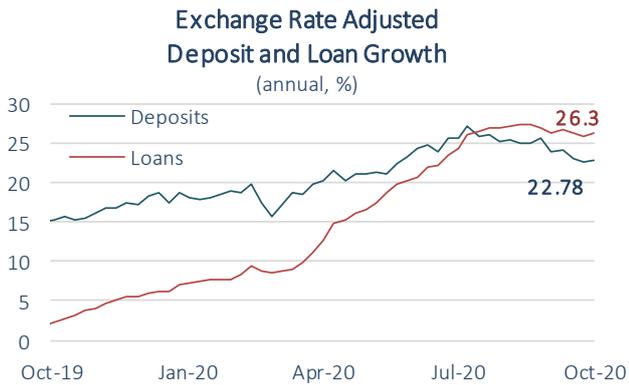
Source: CBRT, Datastream, Reuters, BIST

BRSA amended the AR calculation.

On October 26, the Banking Regulation and Supervision Agency (BRSA) announced that FX loans with a maturity of more than 1 year and syndicated loans have been included to the banks' asset ratio (AR) calculations. Accordingly, as of November 1, domestic interbank foreign currency loans with a maturity of more than 1 year (in proportion of the loan amount provided) and syndicated loans (in proportion of the share of the bank in the granted syndicated loan) are decided to be included in the "loans" item in the numerator of the AR. For these credits, the coefficient is decided to be "1" and the original maturities at the time of use will be taken into account.

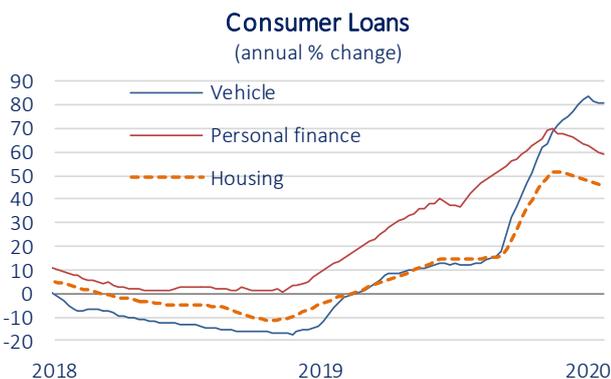
Deposit volume rose by 44.5% yoy.

According to the BRSA's Weekly Bulletin, as of October 23, the deposit volume expanded by 44.5% yoy and 37.2% ytd and has reached 3,525 billion TRY. Annual rise in FX rate adjusted deposit volume was realized as 22.8%. TRY deposit volume increased by 35.8% compared to the same month of last year and became 1,593 billion TRY. FX deposits in USD terms rose by 10.7% and reached 245 billion USD during this period.



TRY loan volume expanded by 46.1% yoy.

As of October 23, the total loan volume of the banking sector increased by 40.2% yoy and by 35.5% ytd, reaching 3,593 billion TRY. The rise in FX rate adjusted loan volume became 26.3% yoy in this period. While the annual TRY loan growth was 46.1%, FX loans in USD terms fell by 5% and became 165 billion USD.

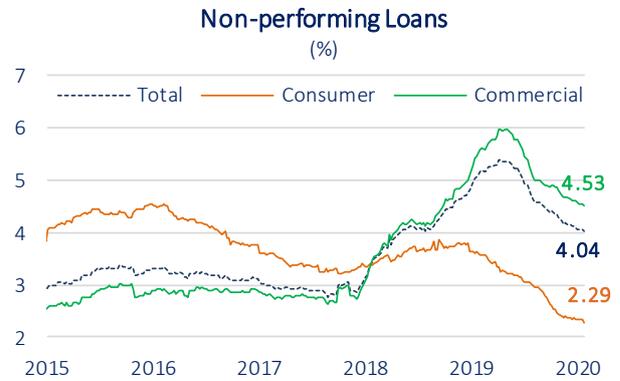


The rise in consumer loans loses momentum.

Although the rise in consumer loans has slowed down, it still remains at a high level. As of October 23, consumer loan volume increased by 53.6% yoy and 34% ytd. In this period the annual rise in housing and consumer loans became 45.7% and 59.4%, respectively, while the annual increase in vehicle loan volume remained high with 80.8%.

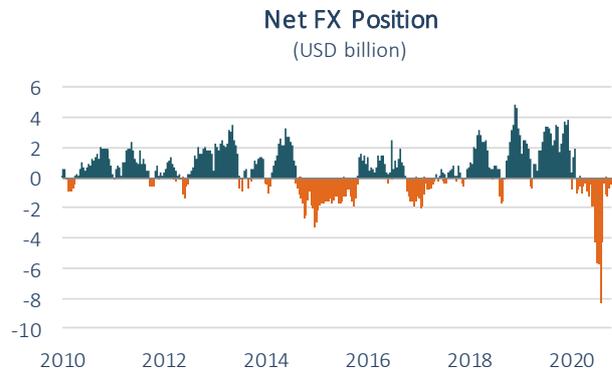
Non-performing loan ratio is 4%.

As of October 23, the amount of gross nonperforming loans increased by 9.5% yoy and became 151.2 billion TRY. With the impact of the expansion in loan volume, NPL ratio continued to fall and became 4% in this period. While the said ratio was 2.8% in public banks, it became 5.6% in private banks. In terms of loan types, NPL ratios for commercial and consumer loans were realized as 4.5% and 2.3%, respectively.



Net foreign currency position...

As of October 23, banks' on-balance sheet FX position was (-) 57,811 million USD, while off-balance sheet FX position was (+) 57,647 million USD. Hence, banking sector's FX short position became 163 million USD.



Source: BRSA Weekly Bulletin

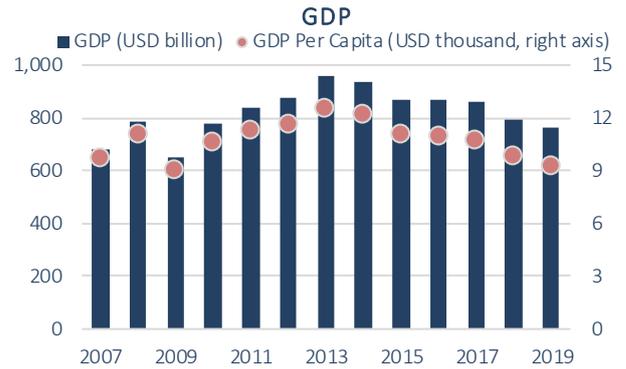
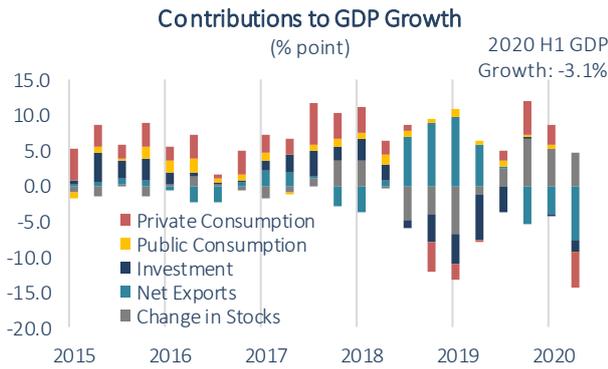
Concluding Remarks

As the spread of the virus is rising in almost every part of the world, many countries are announcing new measures to restrict social life. Although the newly taken measures are less restrictive compared to the ones in spring months, they stand out as the main uncertainty regarding economic activity. Following the US presidential elections, which was another hot topic creating uncertainty over global economy, developments regarding the new stimulus package in the country will be closely monitored in the coming period.

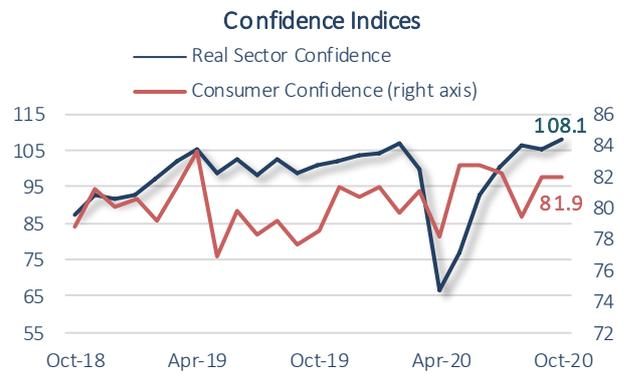
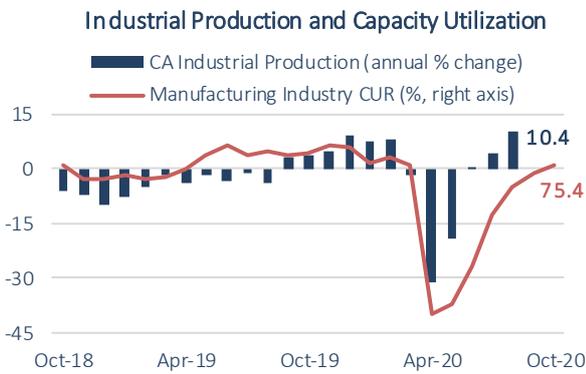
After the record contractions seen in the second quarter, developed countries grew at historic high rates in the third quarter on quarterly basis. However, economic activity on a global scale is still below last year's level. In such an environment, major central banks signal to continue expansionary monetary policies in the coming period.

While macroeconomic indicators point to the continuation of gradual recovery in Turkey, the risks posed by the recent increase in exchange rates on financial and price stability stand out. In addition to the increase in import volume, the pressure on tourism revenues due to the pandemic deepens the deterioration in the current account balance. The high volatility in financial markets and its repercussions on economic activity will be closely monitored in the upcoming period.

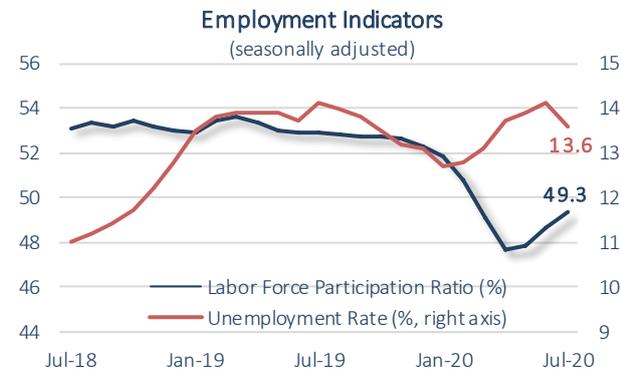
Growth



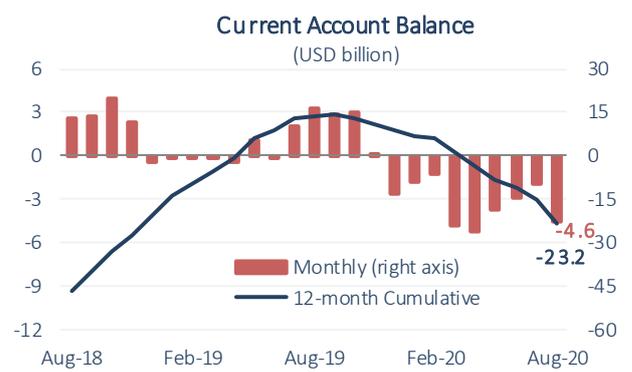
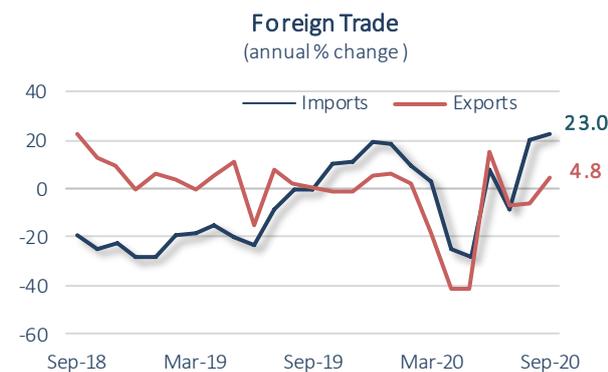
Leading Indicators



Labor Market



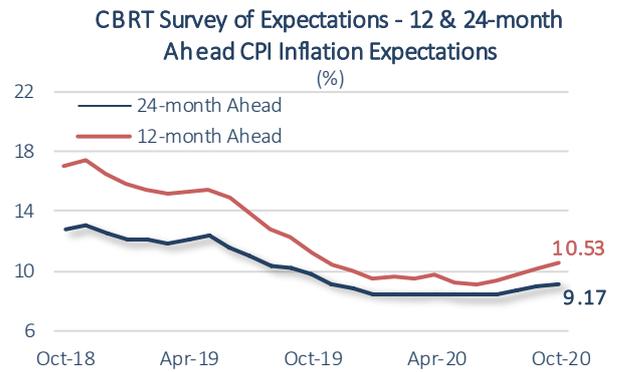
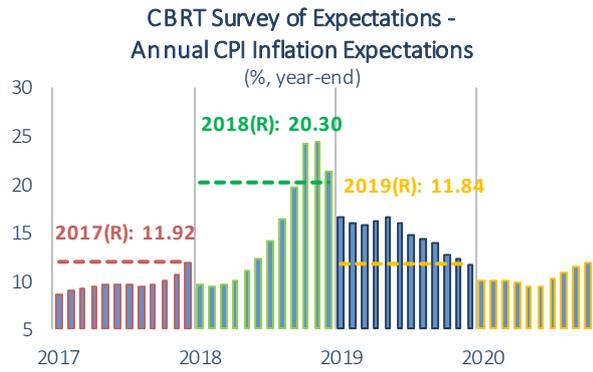
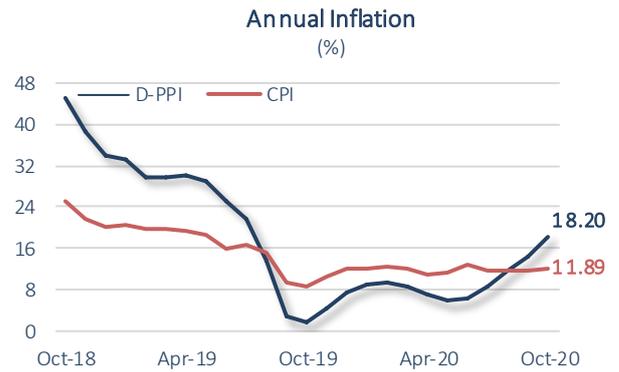
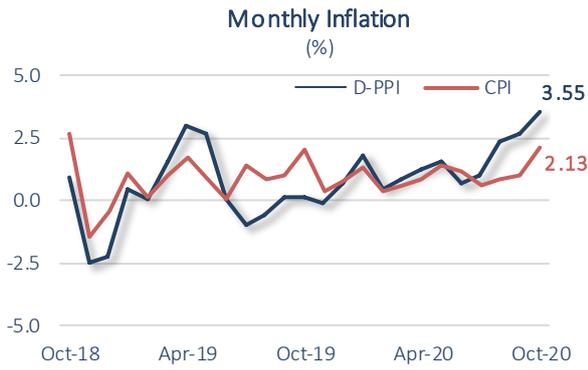
Foreign Trade and Current Account Balance



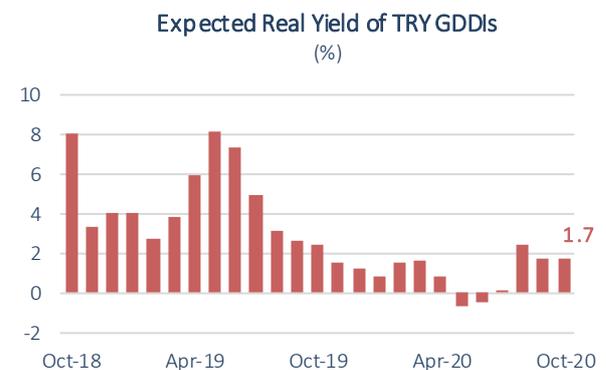
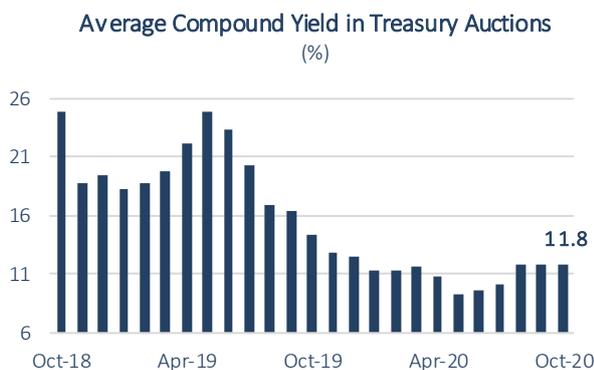
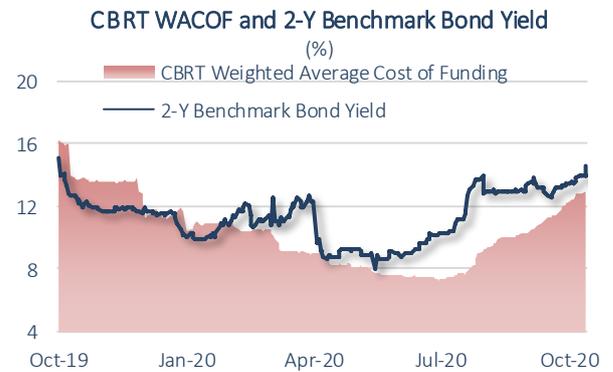
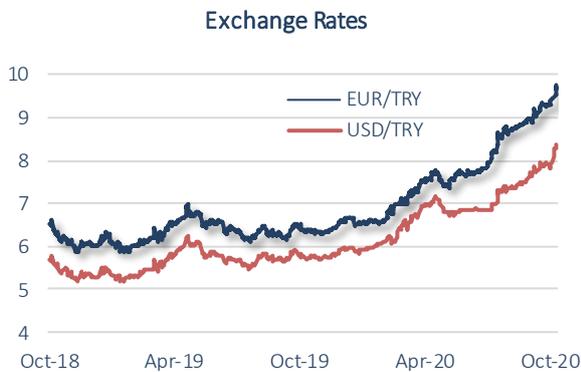
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	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	
Inflation (%)						Jul-20	Aug-20	Sep-20
CPI (annual)	8.81	8.53	11.92	20.30	11.84	11.76	11.77	11.75
Domestic PPI (annual)	5.71	9.94	15.47	33.64	7.36	8.33	11.53	14.33
Seasonally Adjusted Labor Market Figures						Apr-20	May-20	Jun-20
Unemployment Rate (%)	10.2	12.0	9.9	12.8	13.1	13.80	14.10	14.30
Labor Force Participation Rate (%)	51.7	52.4	53.1	53.0	52.2	47.60	47.70	48.60
FX Rates						Jul-20	Aug-20	Sep-20
CPI Based Real Effective Exchange Rate	99.1	93.6	86.4	76.5	76.3	68.3	63.7	
USD/TRY	2.9189	3.5176	3.7916	5.3199	5.9510	6.98	7.36	7.70
EUR/TRY	3.1708	3.7102	4.5530	6.0815	6.6800	8.25	8.80	9.03
Currency Basket (0.5*EUR+0.5*USD)	3.0448	3.6139	4.1723	5.7007	6.3155	7.62	8.08	8.37
Foreign Trade Balance ⁽¹⁾ (USD billion)						Jul-20	Aug-20	Sep-20
Exports	151.0	149.2	164.5	177.2	180.8	166.4	165.7	166.4
Imports	213.6	202.2	238.7	231.2	210.3	205.6	208.7	212.6
Foreign Trade Balance	-62.6	-52.9	-74.2	-54.0	-29.5	-39.2	-43.1	-46.3
Import Coverage Ratio (%)	70.7	73.8	68.9	76.6	86.0	81.0	79.4	78.2
Balance of Payments ⁽¹⁾ (USD billion)						May-20	Jun-20	Jul-20
Current Account Balance	-27.3	-26.8	-40.6	-20.7	8.8	-8.3	-11.1	-14.9
Capital and Financial Accounts	-21.2	-21.7	-46.8	-10.9	1.4	-22.5	-21.1	-27.4
Direct Investments (net)	-14.2	-10.8	-8.4	-9.4	-5.9	-5.2	-4.6	-4.3
Portfolio Investments (net)	15.3	-6.4	-24.1	3.1	1.2	16.2	15.6	15.4
Other Investments (net)	-10.6	-5.3	-6.2	5.7	-0.3	-14.1	-7.4	-9.4
Reserve Assets (net)	-11.8	0.8	-8.2	-10.4	6.3	-19.4	-24.6	-29.0
Net Errors and Omissions	6.1	5.1	-6.3	9.8	-7.5	-14.2	-10.0	-12.4
Current Account Balance/GDP (%)	-3.2	-3.1	-4.7	-2.6	1.2	-	-	-
Budget ⁽²⁾⁽³⁾ (TRY billion)						Jun-20	Jul-20	Aug-20
Expenditures	506.3	584.1	678.3	830.5	999.5	564.9	681.1	761.4
Interest Expenditures	53.0	50.2	56.7	74.0	99.9	71.3	79.7	91.6
Non-interest Expenditures	453.3	533.8	621.6	756.5	899.5	493.6	601.4	669.8
Revenues	482.8	554.1	630.5	757.8	875.8	455.4	541.9	650.5
Tax Revenues	407.8	459.0	536.6	621.3	673.3	335.9	412.0	510.4
Budget Balance	-23.5	-29.9	-47.8	-72.8	-123.7	-109.5	-139.1	-110.9
Primary Balance	29.5	20.3	8.9	1.3	-23.8	-38.2	-59.4	-19.3
Budget Balance/GDP (%)	-1.0	-1.1	-1.5	-1.9	-2.9	-	-	-
Central Government Debt Stock (TRY billion)						Jun-20	Jul-20	Aug-20
Domestic Debt Stock	440.1	468.6	535.4	586.1	755.1	983.9	1,046.7	1,098.5
External Debt Stock	238.1	291.3	341.0	481.0	574.0	657.4	674.4	711.9
Total Debt Stock	678.2	760.0	876.5	1,067.1	1,329.1	1,641.3	1,721.1	1,810.4

(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)	2015	2016	2017	2018	2019	Aug.20	Sep.20	Change ⁽¹⁾
TOTAL ASSETS	2,357	2,731	3,258	3,867	4,492	5,846	6,004	33.7
Loans	1,485	1,734	2,098	2,395	2,657	3,482	3,555	33.8
TRY Loans	1,013	1,131	1,414	1,439	1,642	2,256	2,280	38.9
Share (%)	68.2	65.2	67.4	60.1	61.8	64.8	64.1	-
FX Loans	472	603	684	956	1,015	1,226	1,275	25.6
Share (%)	31.8	34.8	32.6	39.9	38.2	35.2	35.9	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	150.9	151.0	0.6
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	4.2	4.1	-
Securities	330	352	402	478	661	1,030	1,048	58.6
TOTAL LIABILITIES	2,357	2,731	3,258	3,867	4,492	5,846	6,004	33.7
Deposits	1,245	1,454	1,711	2,036	2,567	3,318	3,444	34.2
TRY Deposits	715	845	955	1,042	1,259	1,545	1,575	25.1
Share (%)	57.4	58.1	55.8	51.2	49.0	46.6	45.7	-
FX Deposits	530	609	756	994	1,308	1,773	1,870	42.9
Share (%)	42.6	41.9	44.2	48.8	51.0	53.4	54.3	-
Securities Issued	98	116	145	174	194	230	238	23.1
Payables to Banks	361	418	475	563	533	636	663	24.3
Funds from Repo Transactions	157	138	99	97	154	314	273	77.5
SHAREHOLDERS' EQUITY	262	300	359	421	492	567	569	15.6
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	42.9	46.3	-
RATIOS (%)								
Loans/GDP	63.5	66.5	67.6	64.7	61.5			
Loans/Assets	63.0	63.5	64.4	61.9	59.1	59.6	59.2	-
Securities/Assets	14.0	12.9	12.3	12.4	14.7	17.6	17.5	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.1	56.8	57.4	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.5	105.0	103.2	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	19.3	19.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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