



KUVEYTÜRK

MONTHLY ECONOMIC BULLETIN

October 2019

Strategic Planning and Corporate Performance Management

SUMMARY INDICATORS

Markets

September-19



USD/TRY

5.65

EUR/TRY

6.17

BIST - 100

105,033

Gold (USD)

1,485

Oil (Brent)

61.0

Benchmark Rate

14.1

Growth

-1.52%

2nd Quarter 2019

Industrial Production

-0.4%

July-19

Inflation

9.3%

September-19

Unemployment

13.0%

June-19

Foreign Trade Deficit
(12 months, Billion USD)

26.4

August-19

Current Account Balance
(12 months, Billion USD)

4.4

July-19

Budget Balance
(Monthly, Billion TL)

0.6

August-19

CBRT Interest Rate*

16.50%

September-19

* One-Week Repo Rate (Simple)



GLOBAL ECONOMY HIGHLIGHTS

1

Following the attacks on Saudi Arabia's largest oil plants, the country reduced its oil supply to 5.7 million barrels per day, and oil prices reached its highest level since 1991. However, production process and prices have returned to normal sooner than expected.

2

OECD emphasized the increase in global uncertainty and fragility in its "Interim Economic Outlook Report", commenting that global growth will decline to 2.9 percent in 2019, and 3 percent in 2020.

3

Purchasing Manager Index (PMI) based on manufacturing and services in Euro Region remained below market expectation. The composite PMI index remained below 50 in September for the first time after about 6 years.

4

The FED cut the policy rate (CBPR) by 25 basis points to 1.75-2.00. In this regard, the FED cut interest rates for two consecutive months for the first time in 11 years with the interest rate cut decision at the July meeting.

5

OECD in its report relating to members, made an upward prediction for Turkish economy. Turkey GDP growth forecast for 2020 has been maintained as 1.6 percent. OECD revised Turkey's growth expectation for end of the 2019 from -2.9 percent to -0.3 percent.



TURKISH ECONOMY HIGHLIGHTS

1

Central Bank Monetary Policy Committee of Republic of Turkey reduced interest rates at meeting held in September, and Central Bank Policy Rate (CBPR) was decreased by 3.25 points from 19.75 percent to 16.50 percent. Accordingly, Central Bank cut the total interest rates by 750 basis points within two months.

2

Central Administration Budget Balance had a surplus of 576.3 million TL in August, and in January-August period, the budget deficit was 68.1 billion TL. Non-interest budget surplus announced as 11.44 billion TL for August realized as 1.2 billion TL in January-August period.

3

In line with market expectations, foreign trade deficit realized as 2.5 billion dollars in August. Compared to the same month of previous year, exports increased by 1.5 percent to 12.5 billion USD ; imports increased by 1.5 percent to 15.2 billion USD.

4

In the New Economy Plan, where the economic roadmap for the next 3 years was announced, the inflation target was set as 12 percent for the end of 2019; for the years 2020, 2021, and 2022, inflation target was determined as 8.5 percent, 6 percent and 4.9 percent respectively.

5

Consumer Price Index (CPI) increased by 0.99 percent in September on monthly basis, also CPI increased by 9.26 percent compared to the same period of the previous year, and it dropped to single digit. Thus, annual inflation decreased to single digit for the first time since July 2017.

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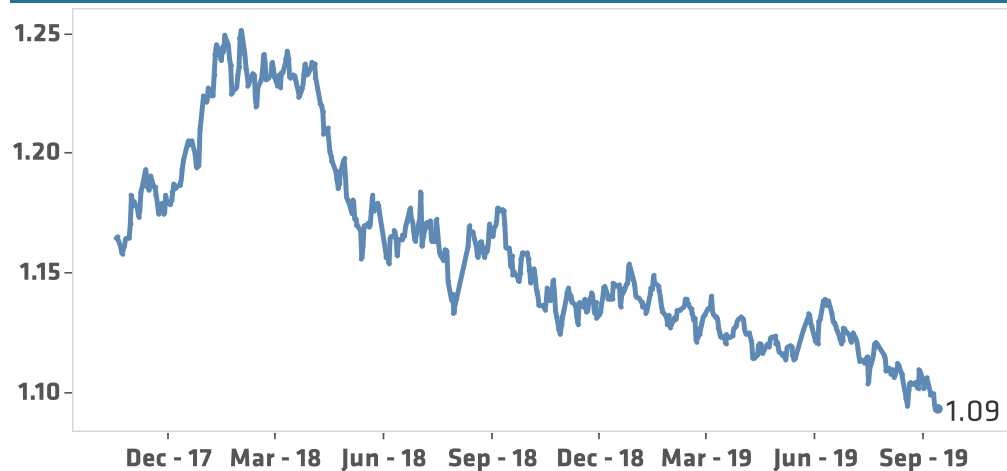
GLOBAL ECONOMY



The statements from the USA and China had a positive impact on the markets...

While trade war concerns continues, actions taken by both countries to ease tension revive global risk appetite. China postponed the additional customs duties on 16 different US origin products for one year. Subsequently, the USA extended the date to 15 October on which additional customs duties to China were planned to increase to 30% from 25%. The postponement of the implementation of the decisions on additional customs duties and the announcement that the authorities would sit at the negotiating table in October were effective in compensating for some of the losses in the global markets.

EUR/USD Parity



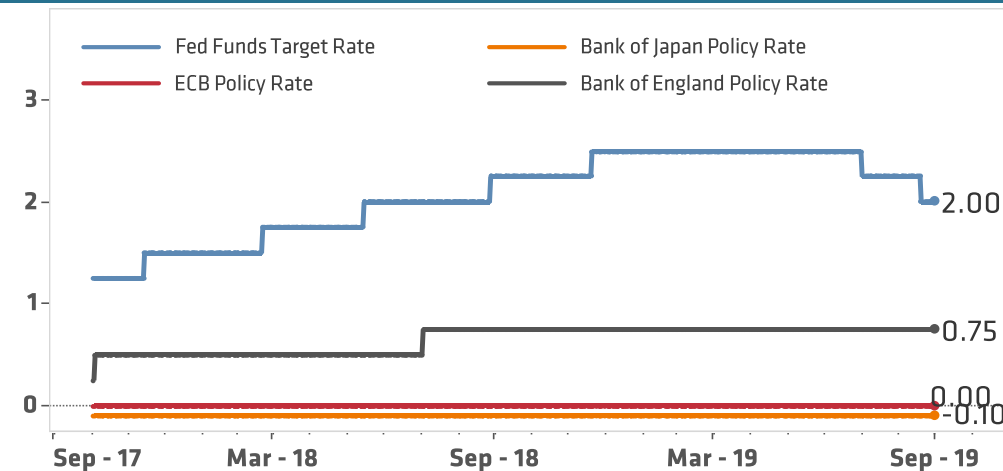
Source: Federal Reserve

Selected Countries - Stock Exchanges

Stock Market	September-19	Monthly %	Year-to-date %
BIST - 100 Index	105,033	8.6%	15.1%
Germany (DAX)	12,428	4.1%	17.7%
Japan (NIKKEI 225)	21,756	5.1%	8.7%
USA (DOW)	26,917	2.0%	15.4%
USA (Nasdaq)	7,999	0.5%	20.6%
USA (SGP 500)	2,977	1.7%	18.7%
Brazil (Bovespa)	105,078	3.9%	19.6%
China (SSE)	2,932	1.6%	17.6%

Source: Yahoo Finance, Investing

Selected Advanced Countries - Policy Rates

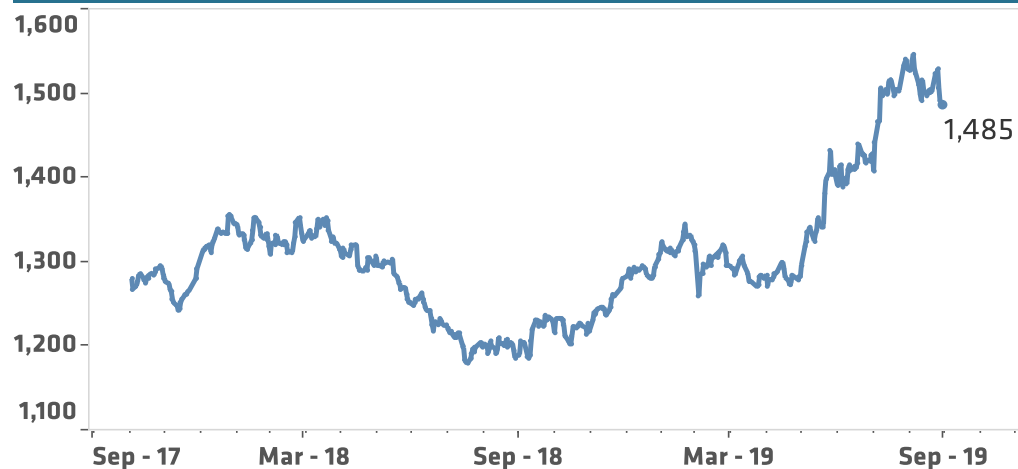


Source: Country Central Banks

Oil prices fluctuated in September...

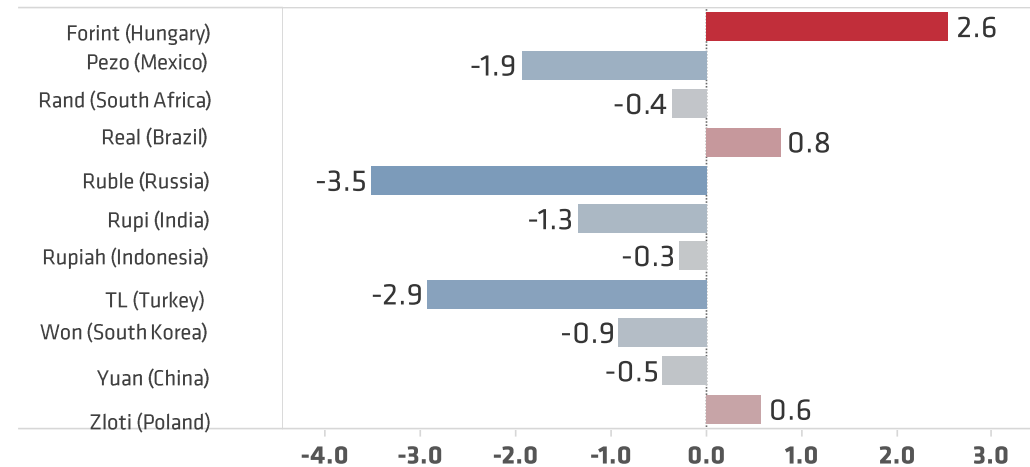
Following the September 14 attacks on Saudi Arabia's largest oil production facilities, the country has reduced its oil supply to 5.7 barrels and the global markets encountered with the sharpest increase in oil prices since the 1991 Gulf War. Brent oil prices increased by 18%, and were priced at 71 dollars within this period. Following the announcement that production has returned to its previous level, prices have been pushed down. Gold prices declined slightly in September as a result of the relative improvement in global risk appetite.

Gold Prices (USD)



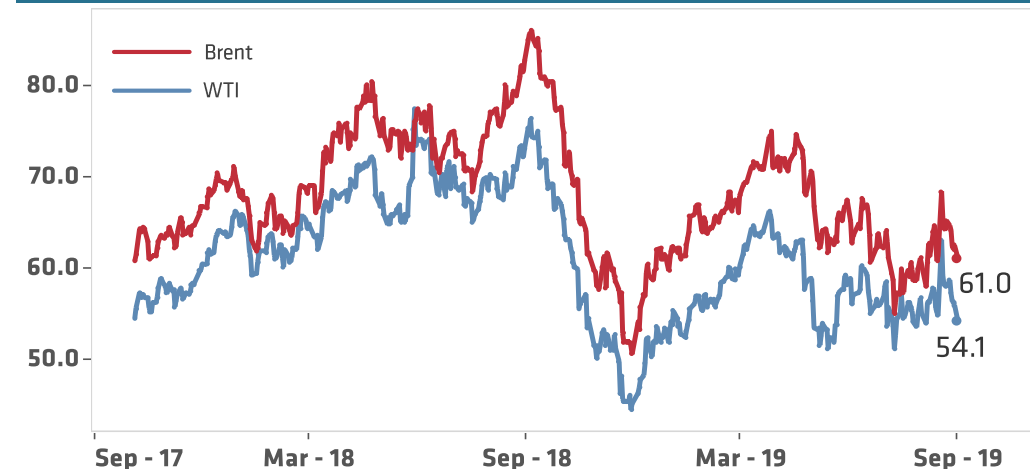
Source: Reuters

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



Source: Country Central Banks

Oil Prices



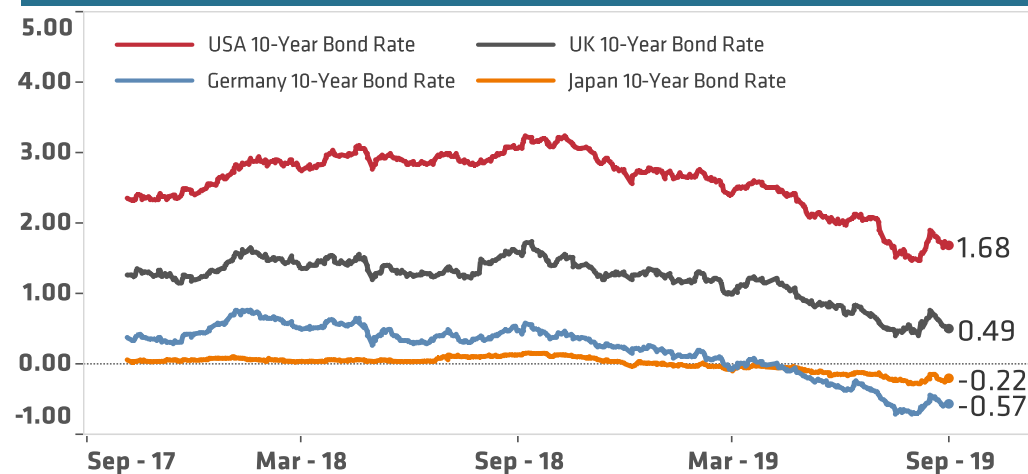
Source: Reuters

US economic data exceeded the expectations...

In the second quarter, the US economy grew by 2%. In addition, retail sales and industrial production grew above expectations.

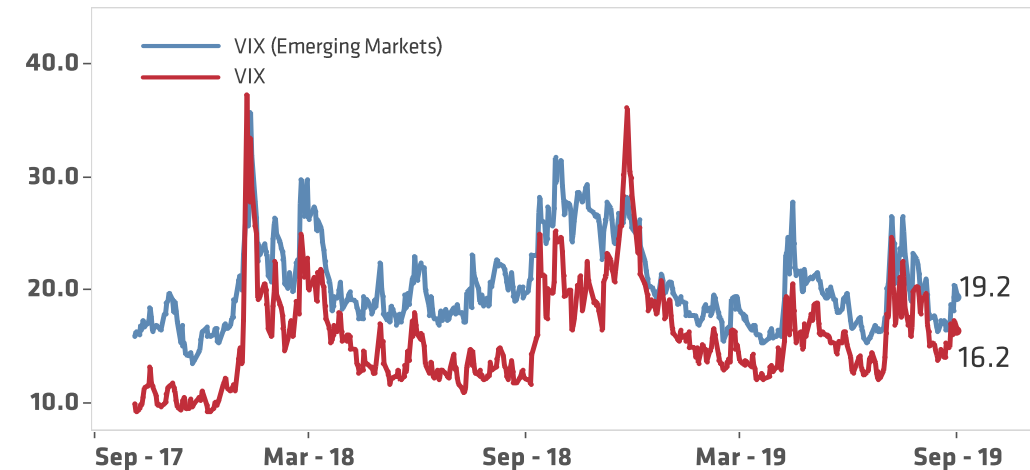
Euro Region, manufacturing and services PMI values remained below forecasts. In Germany, the composite PMI index was below the threshold value 50 in September for the first time since 2013 as manufacturing industry demonstrated its weakest performance in the last decade and slowdown in manufacturing spread to the service sector.

Selected Advanced Countries - 10-Year Bond Rates



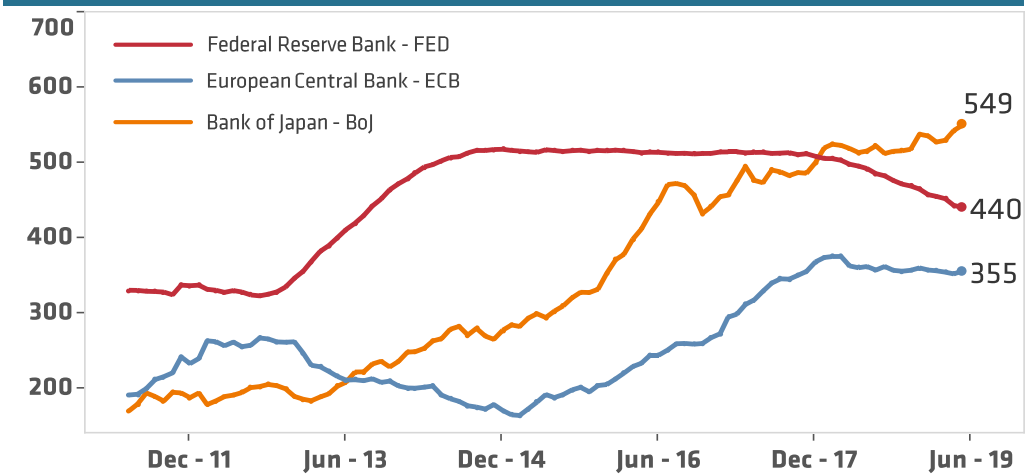
Source: FED and miscellaneous financial web sites

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

Recent developments in domestic markets...

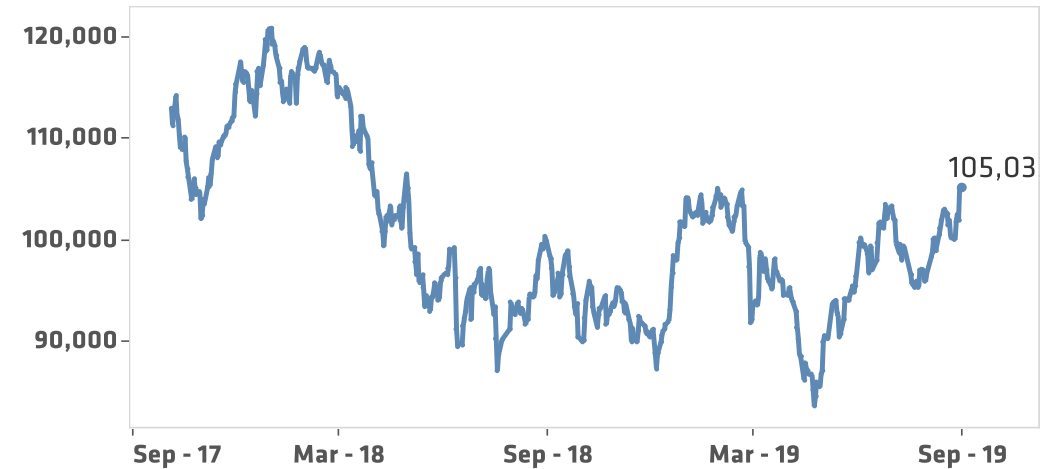
The relative recovery in global risk appetite supported the emerging markets. A positive trend was observed in TL assets in September; the losses in August were compensated. Economic data that exceeded the expectations in domestic markets, Central Bank's interest rate cut, and the signals of improvement in macro economy were among the development that supported Turkish Lira. The Bist 100 index stood at 105.03 in September, and 2-year and 10-year indicative interest rates dropped. At this point, benchmark bond yields with a maturity of 2 years were realized as 14.1.

Exchange Rates



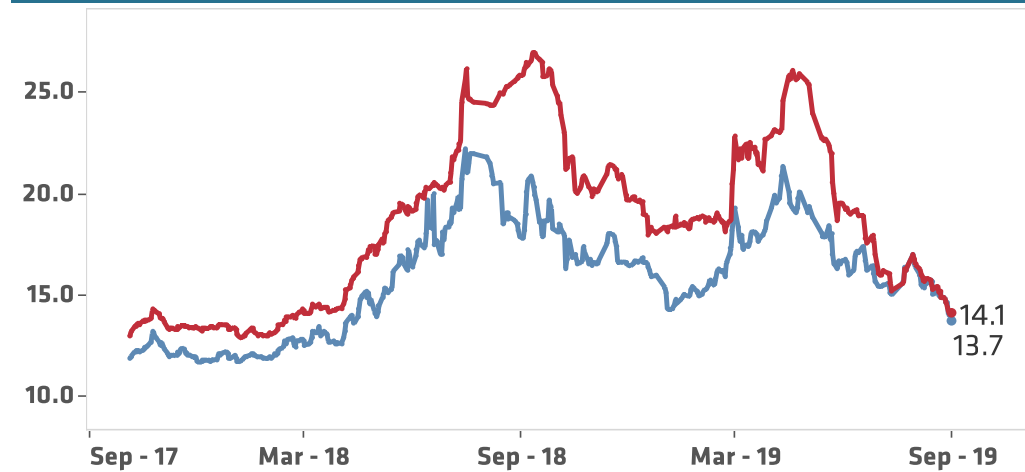
Source: CBRT

BIST - 100



Source: BIST

Compound Yield of Benchmark Bond (%)



Source: CBRT

Turkey's 5-Year CDS Premium significantly declined...

Housing sales, which have declined on an annual basis since the beginning of the year, increased in August. The reduction in housing loan interest rates triggered the increase in housing sales; sales increased by 5% in August compared to previous term in last year. Housing prices recovered slightly in July.

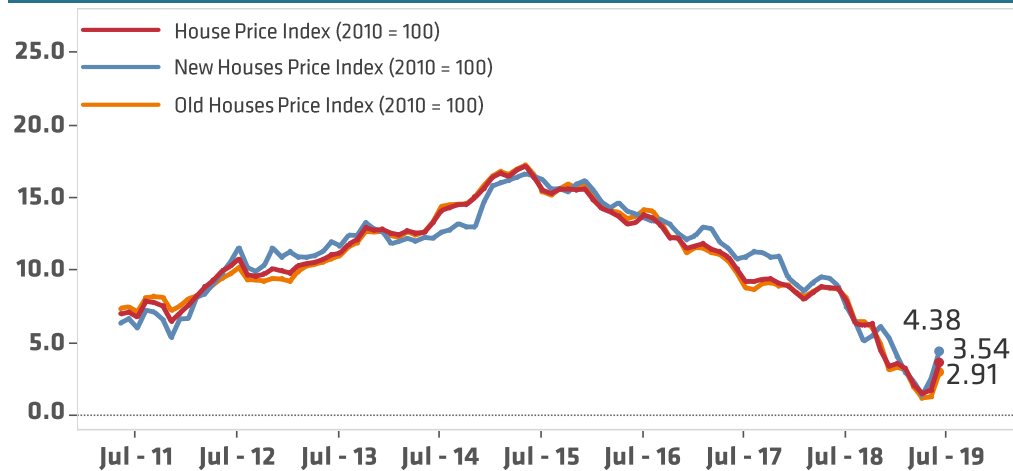
By the help of the support of positive data from domestic markets, the 5-year CDS insurance premium declined significantly to 343.1.

5-Year CDS Premium



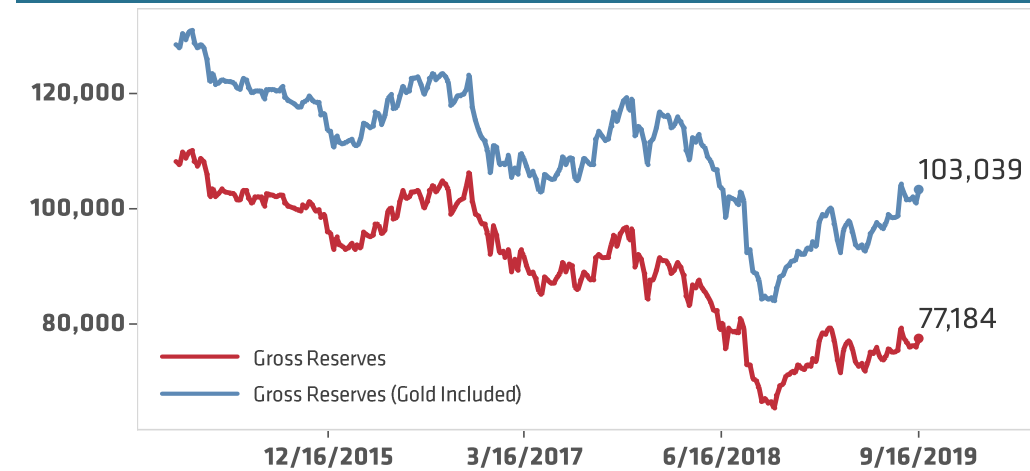
Source: World Government Bonds

CBRT House Price Index (Annual % Change)



Source: CBRT

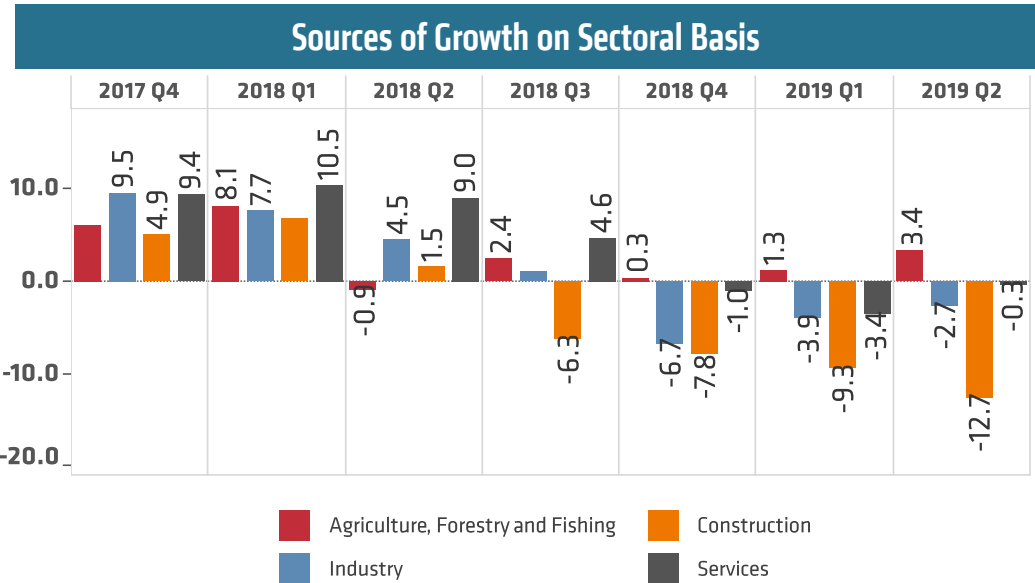
CBRT Gross Reserves (USD Million)



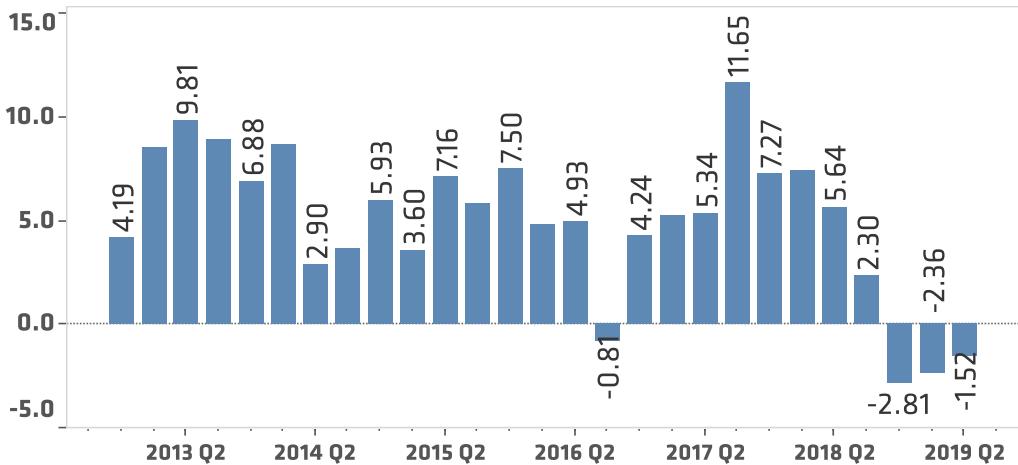
Source: CBRT

GDP contracted by 1.5%, y/y, in 2019Q2...

After a 2.4%, y/y, shrinkage in the first quarter of this year, the Turkish economy contracted further by 1.5% in the second quarter, which was less than the market expectations of around 2%. GDP grew by 1.2%, q/q, however, in working-day and seasonally adjusted terms, after growing by a 1.6% in the first quarter. On the expenditure side, the contraction in household consumption cut pace compared to the previous quarter, falling by 1.1%, y/y (versus 4.8% in Q1), shaving off some 0.6 percentage points (pps) from overall GDP growth. In contrast to weak private demand, net foreign demand and government consumption expenditures limited the contraction in the second quarter.

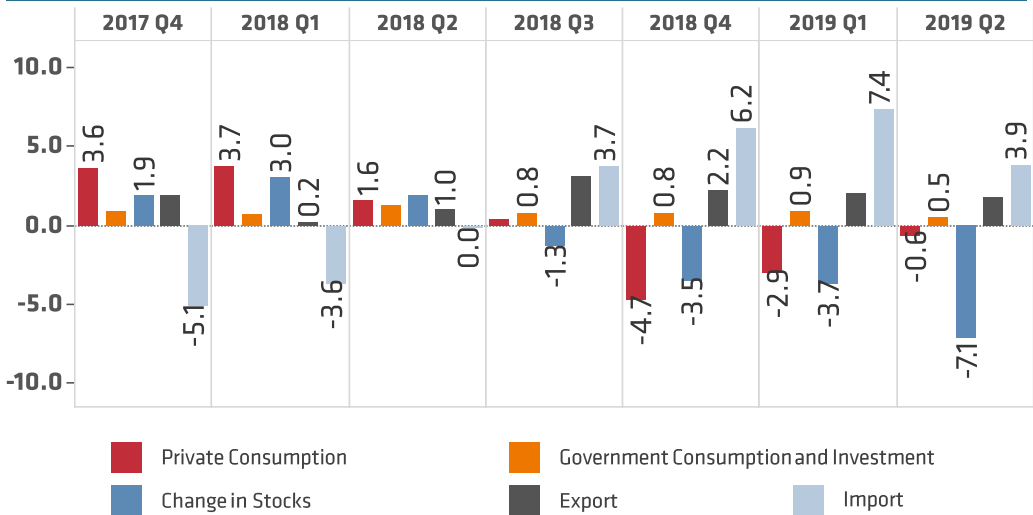


GDP Growth (yoy, %)



Source: TURKSTAT

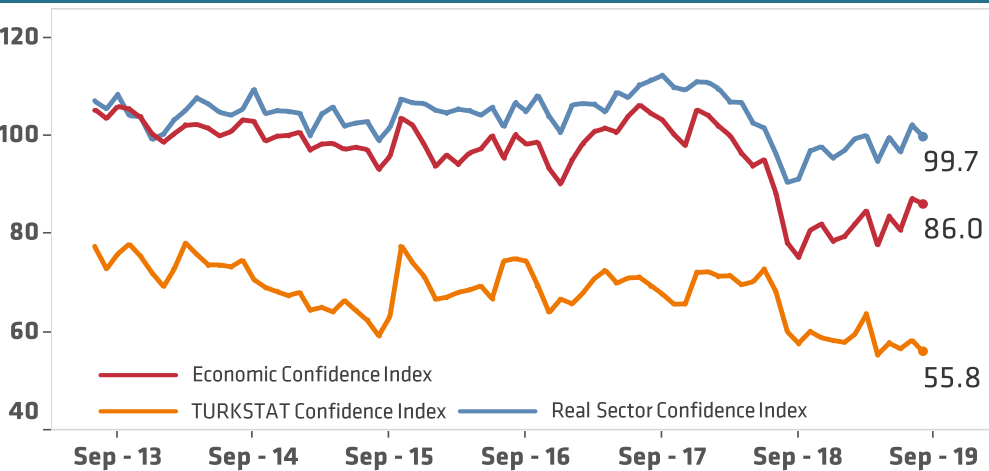
Sources of Growth (% contribution)



Unemployment rate realized as 13%...

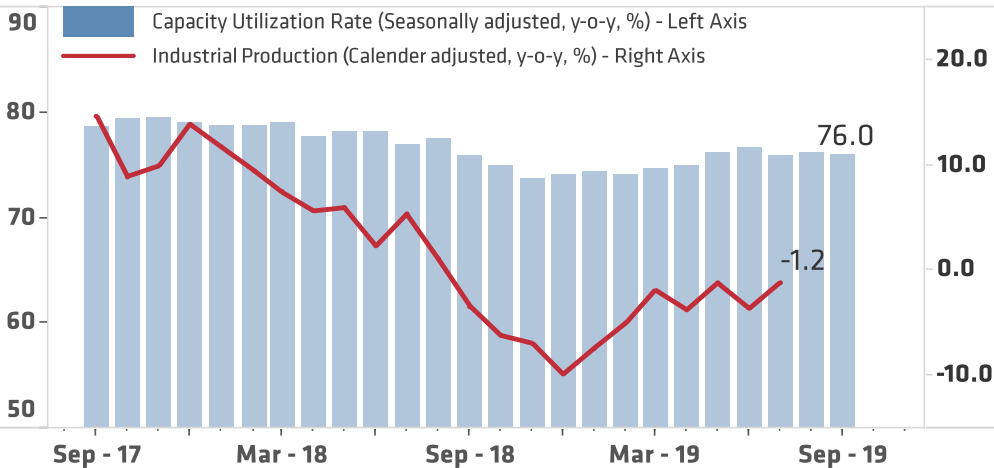
Although the calendar adjusted industrial production index contracted by 1.2% in July compared to the same period of the previous year, it realized its strongest performance in the 11-month period. Declining in acceleration of loss in the manufacturing industry production gave positive signals. Nevertheless, the unfavorable course on the employment front of the economy continued. Unemployment rate increased by 2.8 points to 13% compared to same period of the previous year.

Confidence Indices



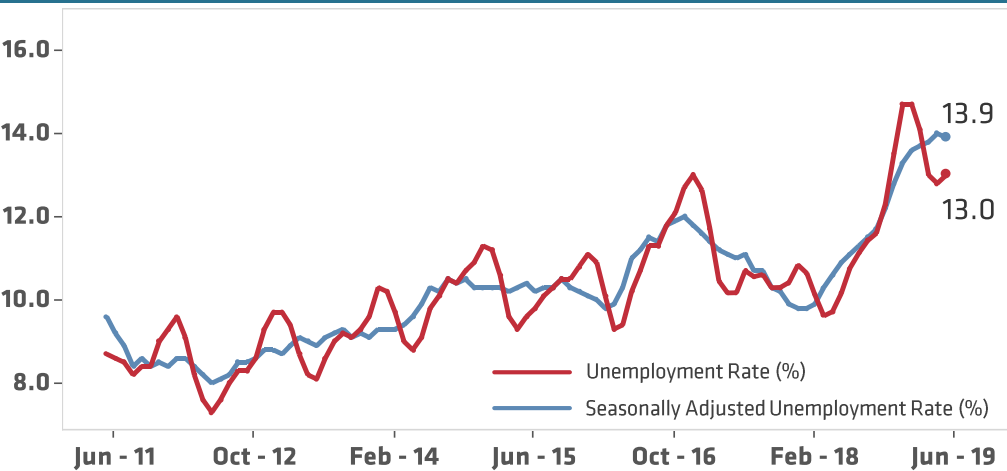
Source: TURKSTAT, CBRT

Industrial Production & Capacity Utilization Rate



Source: TURKSTAT, CBRT

Unemployment Rate

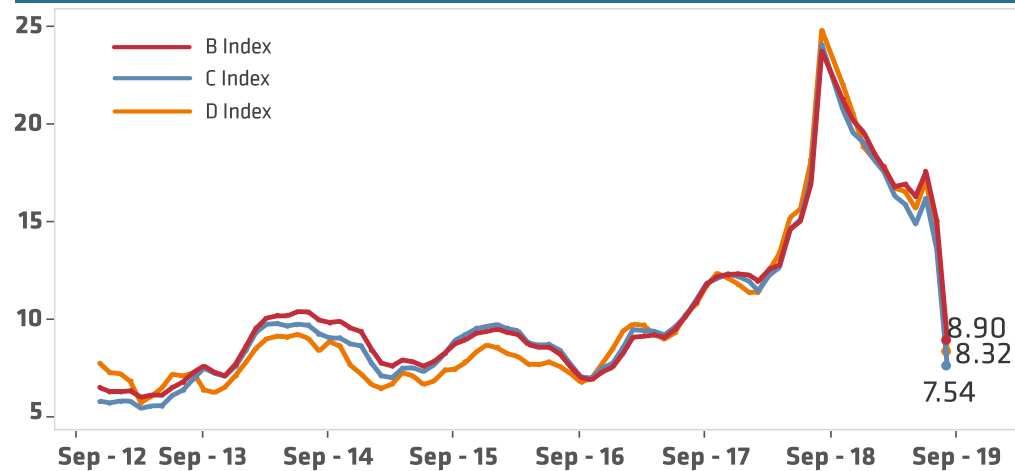


Source: TURKSTAT

Positive developments in inflation have been observed...

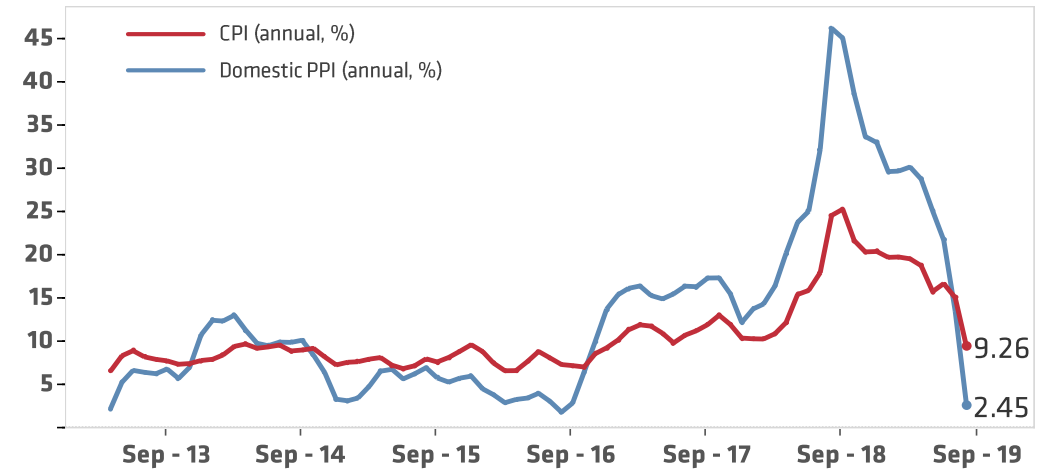
The Consumer Price Index (CPI) increased by 0.99 percent month-on-month in September, and increased by 9.26 percent year-on-year to single digits. Thus, annual inflation decreased to single digits for the first time since July 2017 and reached the lowest level since January 2017of. In this respect, annual inflation in the goods group decreased from 15.3% to 8.0% with a fall in general prices due to the base effect. Also, inflation in services declined; the rate 14.2% decreased to 12.5%. Producer price index, on the other hand, increased by 0.1% MoM on the back of the decline in food prices and the favorable course of TL.

Special CPI Aggregates (Annual, %)



Source: TURKSTAT

Annual Inflation (%)



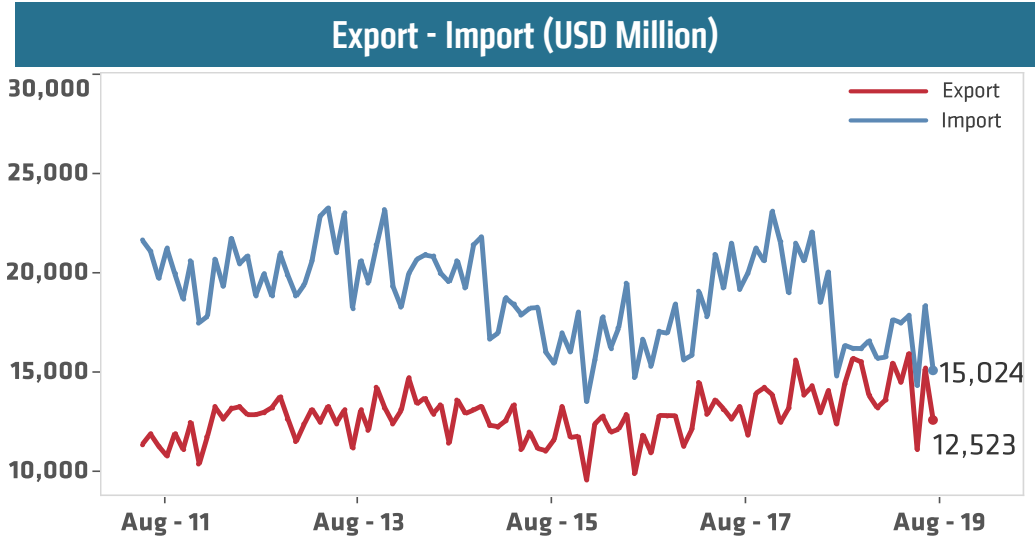
Source: TURKSTAT

CPI & D - PPI Percentage Changes

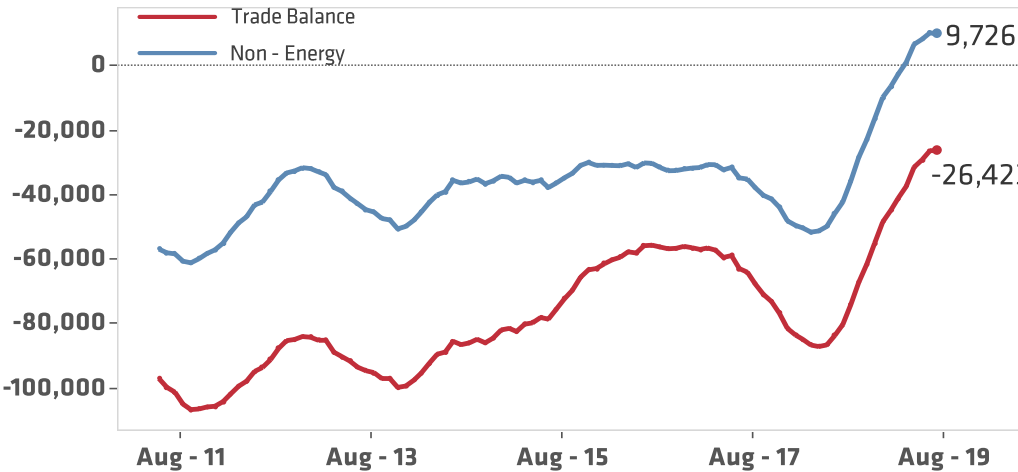
Change (%)	CPI		D-PPI	
	September-18	September-19	September-18	September-19
Monthly	6.30%	0.99%	10.88%	0.13%
Year-to-Date	19.37%	8.42%	38.96%	6.53%
Annual	24.52%	9.26%	46.15%	2.45%

Improvement in foreign trade balance continued...

As a result of the rebalancing in the economy and the calm course, improvement in foreign trade balance was observed. In line with market expectations, foreign trade deficit decreased by 1.5% yoy and was realized as 2.5 billion dollars in August. Compared to the same month last year, exports increased by 1.5 percent to \$ 12.5 billion; imports increased by 1.5 percent to USD 15.2 billion. However, the 12-month cumulative foreign trade deficit remained stable at USD 26.4 billion. The recovery in the economy signaled an increase in import demand and an increase again in the cumulative foreign trade deficit.



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



Source: TURKSTAT

Export - Import & Percentage Changes			
USD Million	August-18	August-19	Change (%)
Total Exports	12,332	12,523	1.5%
Total Imports	14,804	15,024	1.5%
Foreign Trade Balance	-2,472	-2,500	1.1%
Import Coverage Ratio (%)	83.3%	83.4%	-

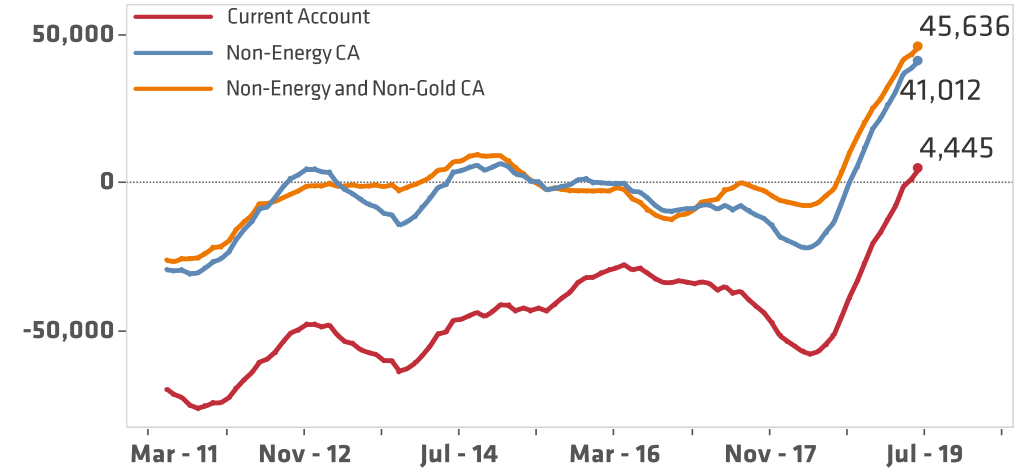
Current account balance had a surplus of \$ 1.2 billion in July...

Current account deficit, which recorded a deficit of 2.2 billion dollars in July last year, recorded a surplus of 1.2 billion dollars in the same period of this year. The acceleration in foreign trade and the favorable course of tourism revenues affected the current account balance significantly. At this point, the foreign trade deficit decreased by 49% yoy. 12-month cumulative current account balance continued to be positive in July. The 12-month current account surplus excluding energy reached 41 billion dollars and the current account surplus excluding energy and gold reached 45.6 billion dollars.

Balance of Payments (USD Million)

USD Million	July-19	Jan - Jul 2018	Jan - Jul 2019	Change (%)	12-Months Rolling (July 19)
Current Account Balance	1,158	-33,160	-1,695	-94.9%	4,445
Financial Account	1,768	-19,813	1,317	-106.6%	13,195
Direct Investments	-657	-3,931	-3,737	-4.9%	-9,160
Portfolio Investments	-97	425	-1,640	-485.9%	1,050
Other Investments	-634	-10,972	2,728	-124.9%	22,381
Reserve Assets	3,156	-5,335	3,966	-174.3%	-1,076
Net Errors and Omissions	603	13,307	2,992	-77.5%	8,708

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



Source: CBRT

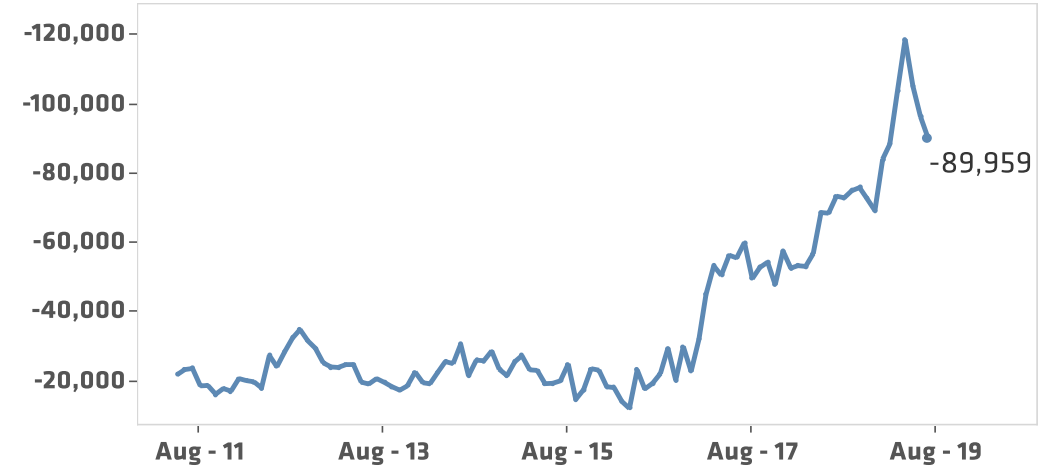
Breakdown of Net Capital Inflows (12-months rolling, USD Million)

USD Million	July-18	July-19	July 18 % Distribution	July 19 % Distribution
Current Account Balance	-54,564	4,445	-	-
Total Net Foreign Capital Inflows	45,777	-5,563	100.0%	100.0%
Direct Investments	8,131	9,160	17.8%	-164.7%
Portfolio Investments	6,052	-1,050	13.2%	18.9%
Other Investments	12,603	-22,381	27.5%	402.3%
Net Errors and Omissions	18,991	8,708	41.5%	-156.5%
Reserves	8,743	1,076	-	-

Budget had a surplus of TL 576.3 million in August...

Central government budget balance posted a surplus of TL 576.3 million in August. In this period, budget revenues increased by 34.1% compared to the same period of the previous year and reached at 94.3 billion TL. The transfer of the Central Bank's reserve fund to budget revenues in August played an active role in the increase in budget revenues. Budget expenditures increased by 23.2%. In the January-August period, the budget deficit realized as 68.1 billion TL. Non-interest budget surplus announced as 11.44 billion TL for August, realized as 1.2 billion TL in the January-August period.

Budget Balance (12-months rolling, TL Million)



Source: Ministry of Treasury And Finance

Central Government Budget (TL Million)

TL Million	August-18	August-19	Change (%)	Jan - Aug 2018	Jan - Aug 2019	Change (%)	Budget Target (2019)	Realization/ Target (%)
Expenditures	76,094	93,712	23.2%	536,498	658,812	22.8%	960,976	68.6%
Interest Expenditures	8,253	10,866	31.7%	50,203	69,329	38.1%	117,317	59.1%
Non-Interest Expenditures	67,841	82,847	22.1%	486,295	589,483	21.2%	843,659	69.9%
Revenues	70,293	94,288	34.1%	485,736	590,706	21.6%	880,359	67.1%
Tax Revenues	60,934	66,620	9.3%	410,115	432,685	5.5%	756,495	57.2%
Other Revenues	9,359	27,668	195.6%	75,621	158,020	109.0%	123,865	127.6%
Budget Balance	-5,801	576	109.9%	-50,763	-68,106	34.2%	-80,616	84.5%
Primary Balance	2,452	11,442	366.6%	-559	1,223	-318.8%	36,701	3.3%

CBRT reduced interest rate by 325 basis points...

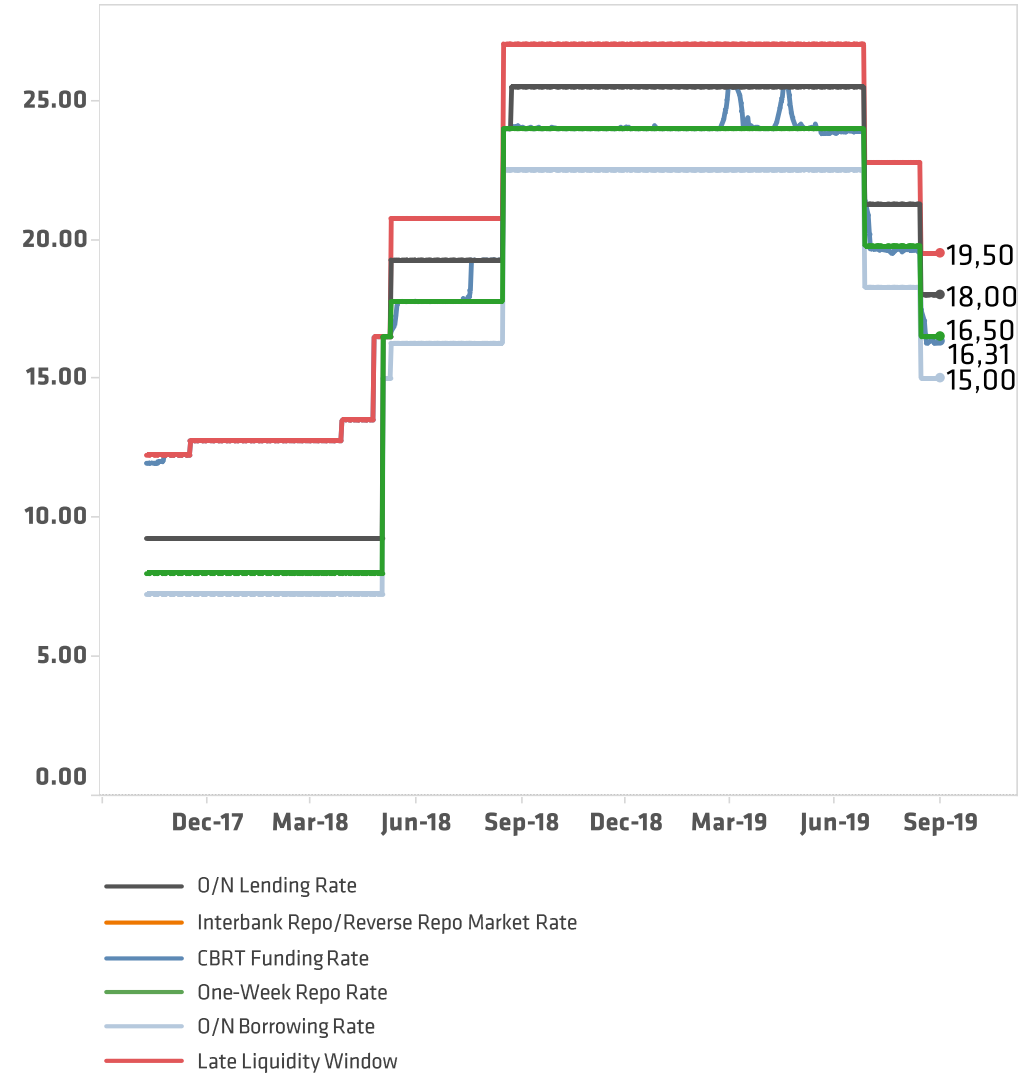
The Monetary Policy Committee of the Central Bank of Republic of Turkey cut interest rates at the September meeting and reduced the policy rate by 3.25 points from 19.75 percent to 16.50. As a result of this development, the CBRT cut interest rates by 750 basis points within two months. The trend of the global financial outlook to turn to positive atmosphere, improvement inflation expectations, and the strong course of Turkish Lira were effective in the CBT's interest rate cut.

CBRT CPI Based Effective Exchange Rate (2003=100)



Source: CBRT

CBRT Policy Rates (%)

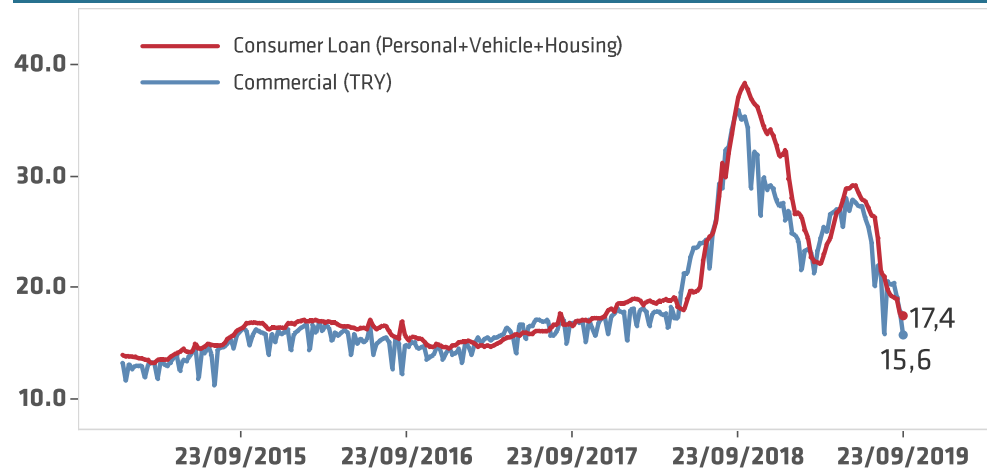


Source: CBRT

Notification from BRSA to Turkish Banks...

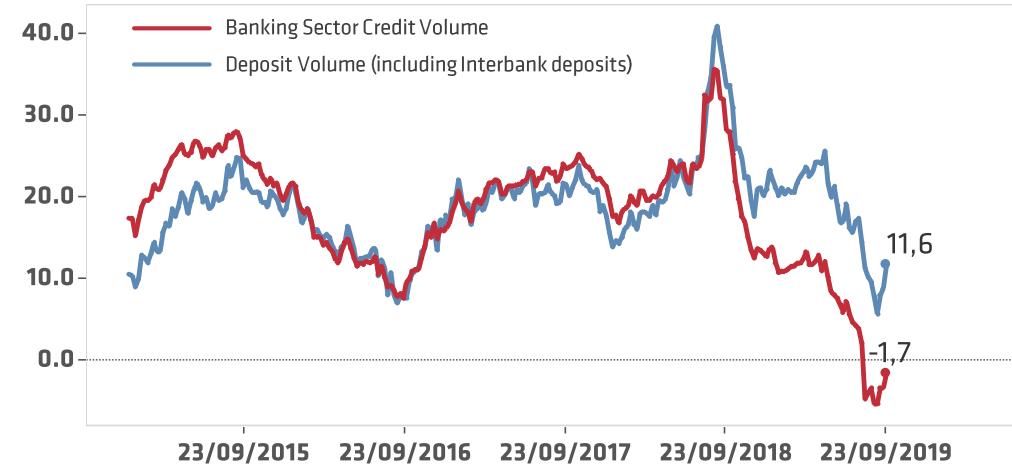
The BRSA notified banks to make provision for loss reserves amounting to TL 46 billion in total to loans extended to construction and energy sectors, which should be transferred to follow-up accounts. It is stated that although according to BASEL 3 criterions, capital adequacy ratio should be equal to 8%, Turkey applies the 12 percent level required to have a cautious approach. In addition, BRSA also announced that the capital adequacy ratio of the banking sector, which was 18.2 percent, would decrease by 50 basis points and the NPL ratio would increase from 4.6 percent to 6.3 percent.

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



BANKING SECTOR GENERAL OUTLOOK

BANKING SECTOR GENERAL OUTLOOK

	2014	2015	2016	2017	2018	Aug-19	Change (%)*
TOTAL ASSETS	1,994	2,357	2,731	3,258	3,867	4,270	10.42
Loans	1,281	1,542	1,805	2,182	2,537	2,722	7.3
TRY Loans	913	1,054	1,181	1,470	1,529	1,634	6.9
Share (%)	71.2	68.4	65.4	67.4	60.3	60.0	-0.4
FX Loans	369	488	624	712	1,008	1,088	7.9
Share (%)	28.8	31.6	34.6	32.6	39.7	40.0	0.6
Non-Performing Loans	36	48	58	64	97	124	28.1
Securities	302	330	352	402	478	607	27.0
TOTAL LIABILITIES	1,994	2,357	2,731	3,258	3,867	4,270	10.4
Deposits	1,124	1,325	1,548	1,805	2,164	2,487	15.0
TRY Deposits	690	741	876	985	1,093	1,169	6.9
Share (%)	61.4	55.9	56.6	54.6	50.5	47.0	-7.0
FX Deposits	434	585	671	820	1,070	1,319	23.2
Share (%)	38.6	44.1	43.4	45.4	49.4	53.0	7.2
Securities Issued	89	98	116	145	174	196	12.6
Payables to Banks	293	361	418	475	563	551	-2.0
Funds from Repo Transactions	137	157	138	99	97	123	27.6
SHAREHOLDERS' EQUITY	232	262	300	359	422	456	8.1
Profit (Loss) of the Period	24.6	26.1	37.5	49.1	53.8	32.8	-13.69
RATIOS (%)							
ROAA	1.64	1.20	1.48	1.64	1.51	1.21	-
ROAE	13.45	10.54	13.34	14.89	13.78	11.01	-
NPL	2.73	2.84	3.08	3.22	2.93	4.55	-
Loans/Assets	62.6	64.2	65.4	66.1	67.0	63.7	-
Securities/Assets	16.6	15.2	14.0	12.9	12.3	14.2	-
Deposits/Liabilities	58.1	56.4	56.2	56.7	55.4	58.2	-
Loans/Deposits	107.7	114.0	116.3	116.6	120.9	109.4	-
Capital Adequacy (%)	15.3	16.3	15.6	15.6	16.9	17.9	-

*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	Dec-18	Mar-19	Jun-19
GDP (USD Billion)	934	859	862	850	767	772	739	713
GDP (TL Billion)	2,044	2,339	2,609	3,105	3,701	3724	3855	3989
GDP Growth Rate (%)	5.2	6.1	3.2	7.3	-3.0	-2.8	-2.4	-1.5
INFLATION (%)						Jul-19	Aug-19	Sep-19
CPI (annual)	8.17	8.81	8.53	11.92	20.30	16.65	15.01	9.26
Domestic PPI (annual)	6.36	5.71	9.94	15.47	33.64	21.66	13.45	2.45
LABOR MARKET FIGURES						Apr-19	May-19	Jun-19
Unemployment Rate (%)	10.9	10.8	12.7	10.4	13.5	13	12.8	13
Labor Force Participation Rate (%)	50.2	50.9	51.6	52.4	52.4	52.9	52.9	53.3
FX RATES ⁽¹⁾						Jul-19	Aug-19	Sep-19
CPI Based Effective Exchange Rate (%)	104.9	97.5	92.13	85.08	76.4	75	76.9	76.7
USD/TRY	2.3290	2.9207	3.5224	3.7753	5.2858	5.5277	5.8193	5.6488
EUR/TRY	2.8297	3.1867	3.7133	4.5196	6.0476	6.1629	6.4465	6.1727
Currency Basket (0.5*USD + (0.5*EUR)	2.5794	3.0537	3.6178	4.1475	5.6667	5.8453	6.1329	5.9108
FOREIGN TRADE BALANCE ⁽²⁾ (USD Billion)						Jun-19	Jul-19	Aug-19
Exports	157.6	143.8	127.8	138.5	168	169.4	170.5	170.7
Imports	242.2	207.2	184.1	230.9	223	198.6	196.9	197.2
Foreign Trade Balance	-84.6	-63.4	-56.3	-92.4	-55.1	-29.2	-26.4	-26.4
Import Coverage Ratio (%)	65.1	69.4	69.4	60.0	75.3	85.3	86.6	86.6

(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-19	Jun-19	Jul-19
Current Account Balance	-43.6	-32.1	-33	-47.4	-27.2	-1.4	1.1	4.4
Financial Account	-42.1	-22.9	-21.5	-46.3	-6.9	14.0	13.0	13.2
Direct Investments	-5.5	-11.7	-9	-8.2	-9.3	-9.7	-9.2	-9.2
Portfolio Investments	-20.1	15.5	-6.4	-24.3	2.9	0.2	1.5	1.1
Other Investments	-16	-14.8	-6.9	-5.5	10.0	29.8	22.6	22.4
Reserve Assets	-0.5	-11.8	0.9	-8.2	-10.4	-6.3	-1.8	-1.1
Net Errors and Omissions	1.6	9.3	11.1	1.1	20.3	15.3	11.9	8.7
BUDGET ⁽³⁾ (TL Billion)						Jun-19	Jul-19	Aug-19
Expenditures	448.8	506	583.7	677.7	830.5	481.6	565.1	658.8
Interest Expenditures	49.9	53	50.2	56.7	74	50.7	58.5	69.3
Non-Interest Expenditures	398.8	453	553.4	621	756.5	430.8	506.6	589.5
Revenues	425.4	483.4	554.4	630.3	757.8	403.0	496.4	590.7
Tax Revenues	352.5	407.5	458.7	536	621.3	307.7	366.1	432.7
Budget Balance	-23.4	-22.6	-29.3	-47.4	-72.6	-78.6	-68.7	-68.1
Primary Balance	26.5	30.4	21	9.3	1.3	-27.8	-10.2	1.2
CENTRAL GOVERNMENT DEBT STOCK (TRY Billion)						Jun-19	Jul-19	Aug-19
Domestic Debt Stock	414.6	440.1	468.6	535.4	578.8	676.2	680.8	692.4
External Debt Stock	197.5	237.5	291	341	470.4	543.6	535.0	555.9
Total Debt Stock	612.1	677.6	759.6	876.4	1049.2	1219.8	1215.8	1248.3

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



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