



KUVEYTÜRK

MONTHLY ECONOMIC BULLETIN

January 2020

Strategic Planning and Corporate Performance Management

SUMMARY INDICATORS

Markets

December-19



USD/TRY

5.95

EUR/TRY

6.67

BIST - 100

114,425

Gold (USD)

1,515

Oil (Brent)

66.0

Benchmark Rate

11.7

Growth

0.95%

3rd Quarter 2019

Industrial Production

3.8%

October-19

Inflation

11.8%

December-19

Unemployment

13.8%

September-19

Foreign Trade Deficit
(12 months, Billion USD)

29.5

November-19

Current Account Balance
(12 months, Billion USD)

4.3

October-19

Budget Balance
(Monthly, Billion TL)

7.8

November-19

CBRT Interest Rate*

12.00%

December-19

* One-Week Repo Rate (Simple)



GLOBAL ECONOMY HIGHLIGHTS

1

The FED did not change interest rates at its meeting in December, and thus the policy rate was kept as 1.50-1.75 percent. In this way, the FED has stopped cutting interest rates after the last three meetings. On the other hand, the FED maintained its forecast about US economic growth as 2 percent for 2020 and 1.9 percent for 2021.

2

The economy of UK did not see any GDP growth in the three-month period covering August, September and October. The increasing uncertainties regarding the future of the trade relationship with the European Union stemming from the Brexit process has been the main factor triggering this situation.

3

The European Central Bank (ECB) did not change interest rates at its December meeting. In this respect, the policy rate was kept constant at 0 percent, deposit rate minus 0.50 percent and marginal funding rate at 0.25 percent. In addition, it was stated that the monthly bond purchases of € 20 billion will continue.

4

First stage trade agreement between USA and China was completed. The agreement envisages that China will increase product purchase in agricultural, finished goods and energy products from the US over the next two years, and the US will reduce tariffs on China.

5

Composite Purchasing Managers Index (PMI) of the Euro Region stood at 50.6 in December, slightly above 50. This index indicates the weakest course since the second half of 2013. According to the leading indicators of December, manufacturing industry PMI index decreased to 45.9 while services index increased to 52.4.



TURKISH ECONOMY HIGHLIGHTS

1

At the last meeting of 2019, the CBRT cut the policy rate by 200 basis points from 14 percent to 12 percent. Together with the aforesaid discount, the total discount after the July, September and October meetings reached 1200 basis points.

2

In October, Current Account surplus decreased by USD 1,077 million compared to the same month of the previous year and realized as USD 1,549 million. As a result, the twelve-month current account surplus reached \$ 4,336 million.

3

According to the data released by Turkish Statistical Institute, unemployment rate increased by 2.4 percent to 13.8 percent in September; and the seasonally adjusted unemployment rate realized as 13.9 percent while non-agricultural unemployment rate was 16.4 percent.

4

Central Government Budget had a surplus of 7.8 billion TL in November, and non-interest budget surplus realized as 15.2 billion TL. In January-November period, budget deficit was 92.9 billion TL. In the same period, non-interest budget surplus was 2.8 billion TL.

5

Consumer Price Index (CPI) increased by 0.74 percent in December compared to the previous month and by 11.84 percent compared to the same month of the previous year. On the other hand, CPI increased by 15.18 percent according to the twelve-month averages.

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GLOBAL ECONOMY



Positive signals from the trade war...

First stage trade agreement between USA and China was completed. The agreement envisages that China will increase product purchase in agricultural, finished goods and energy products from the US over the next two years, and the US will reduce tariffs on China. Also, China has announced that the additional custom duties planned to be applied at the rate of 5 and 10 percent to goods imported from the USA are temporarily suspended. As a consequence of the announcement of the US-China first stage trade agreement, increases in global markets have been observed. The developing countries' currencies were positively affected by the increase in global risk appetite.

EUR/USD Parity



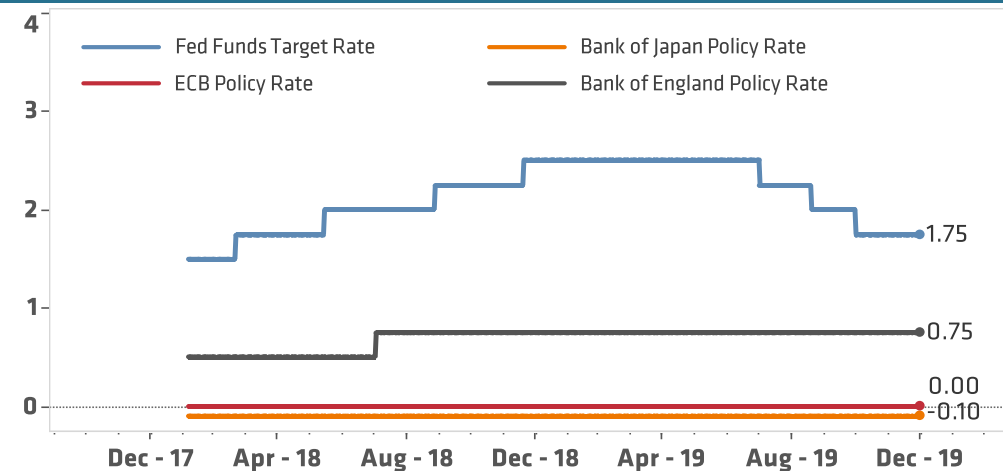
Source: Federal Reserve

Selected Countries - Stock Exchanges

Stock Market	December-19	Monthly %	Year-to-date %
BIST - 100 Index	114,425	7.0%	25.4%
Germany (DAX)	13,249	0.1%	25.5%
Japan (NIKKEI 225)	23,657	1.6%	18.2%
USA (DOW)	28,538	1.7%	22.3%
USA (Nasdaq)	8,973	3.5%	35.2%
USA (SGP 500)	3,231	2.9%	28.9%
Brazil (Bovespa)	115,121	6.6%	31.0%
China (SSE)	3,005	4.6%	20.5%

Source: Yahoo Finance, Investing

Selected Advanced Countries - Policy Rates

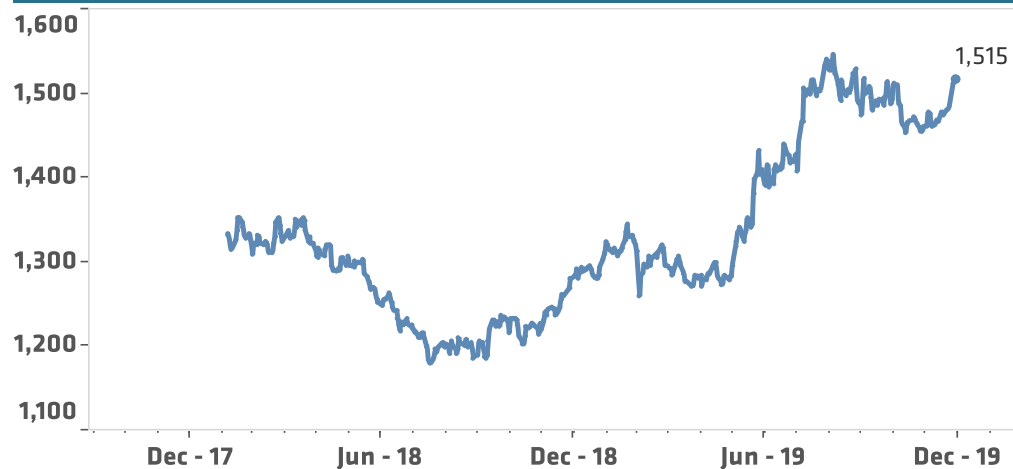


Source: Country Central Banks

Fluctuation in oil prices...

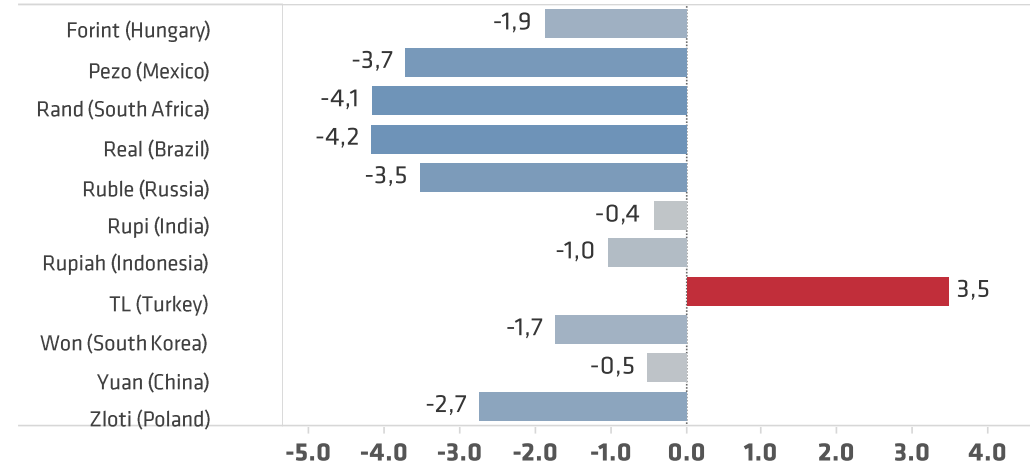
After more than four years, Saudi Arabia and Kuwait have agreed to resume oil production in the neutral zone of their common border. By this development has limited the increase in oil prices due to news flow to the US and China. In this respect, Brent Oil increased by 2.42 percent and realized as 66 USD. On the other hand, gold prices realized as 1.515 USD/Ons in December. When the currencies of the selected countries were analyzed, the currency that gained the most value against USD with 4.2 percent was Real; and the most depreciated currency against USD with 3.5 percent was Turkish Lira.

Gold Prices (USD)



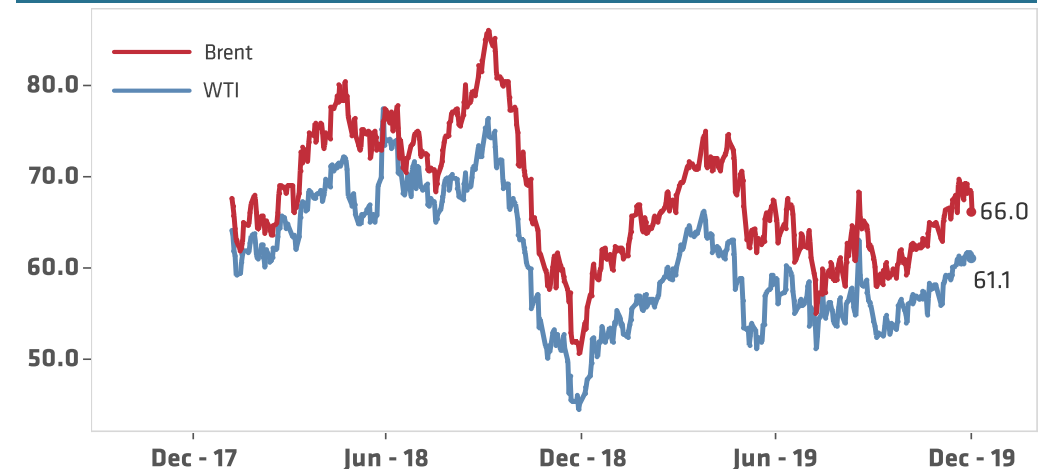
Source: Reuters

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



Source: Country Central Banks

Oil Prices

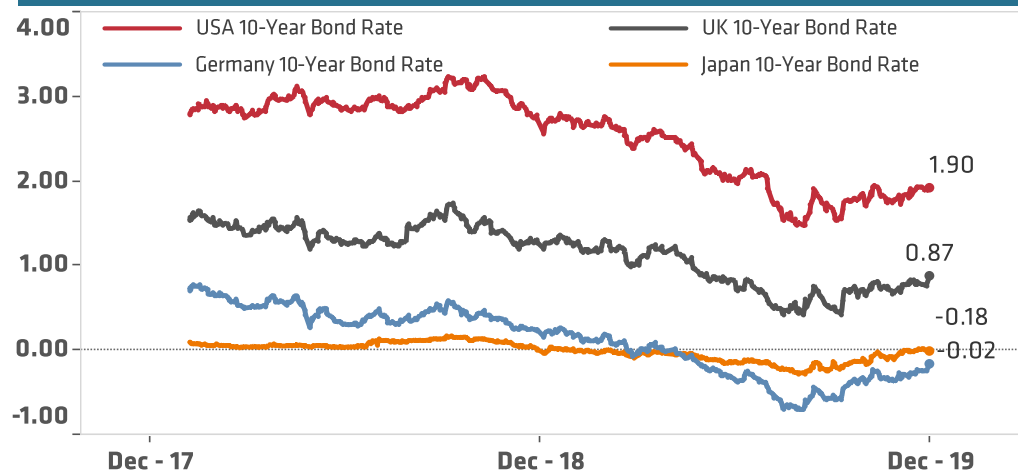


Source: Reuters

The FED did not change interest rates...

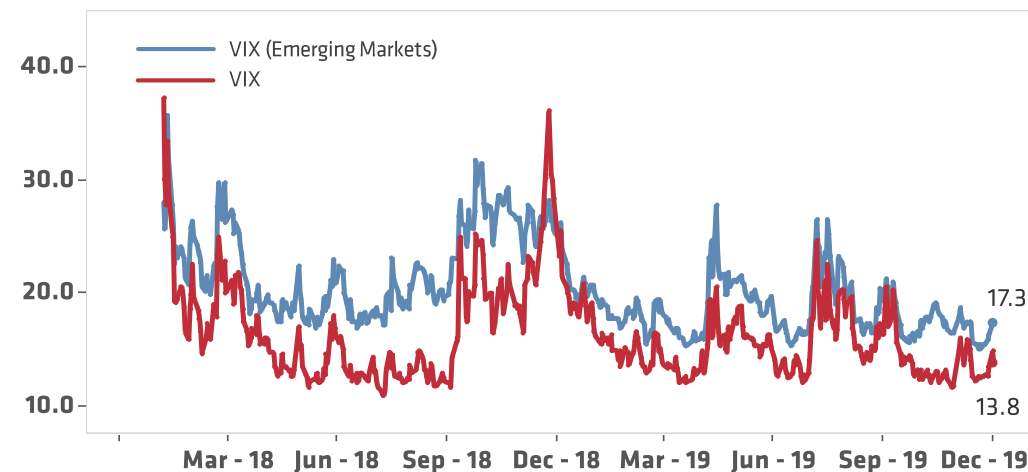
FED did not change interest rates in line with market expectations and kept the policy rate constant at 1.50-1.75 percent. Thus, the FED has stopped cutting interest rates after the last three meetings. In the decision text, it was emphasized that interest rates are currently at a level to support growth, and labor market continues remaining strong. The European Central Bank (ECB) did not change interest rates in December. In this respect, while policy rate was kept constant at 0, deposit rate minus remained as 0.50 percent and marginal funding rate 0.25 percent. The ECB reported that they envisage policy rates to remain at current or lower levels until the inflation outlook is firmly approaching 2 percent.

Selected Advanced Countries - 10-Year Bond Rates



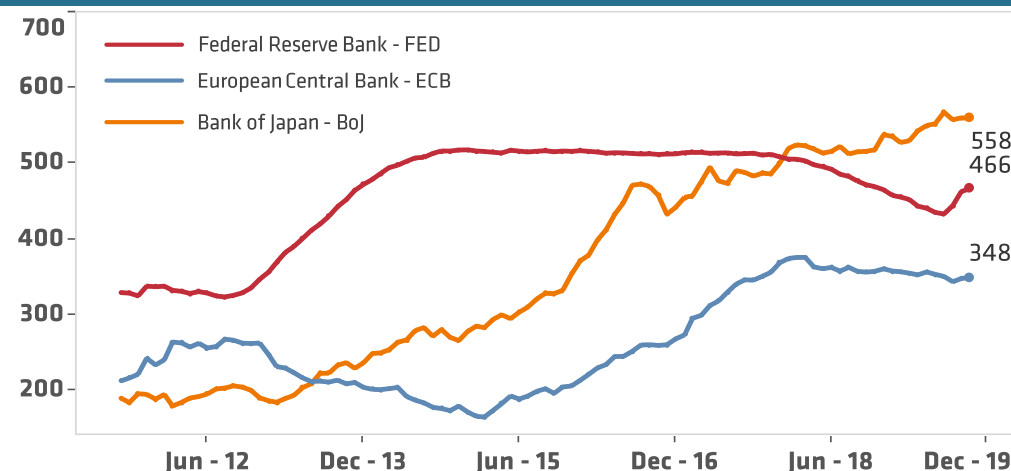
Source: FED and miscellaneous financial web sites

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

BIST 100 reached to the highest level of the year...

The tension between USA and Turkey because of Operation Peace Spring and Turkey's purchase of S-400 created negative pressure on Turkish assets in December. As a result, in December, TL depreciated by 3.5 percent against USD and realized as 5.945 On the other hand, the BIST 100 index increased by 7.03 percent in December. Also, by exceeding 110 thousand points, BIST 100 reached to the highest level of the year. On the other hand, the 2-year benchmark bond yield closed the end of December at 11.7 percent.

BIST - 100



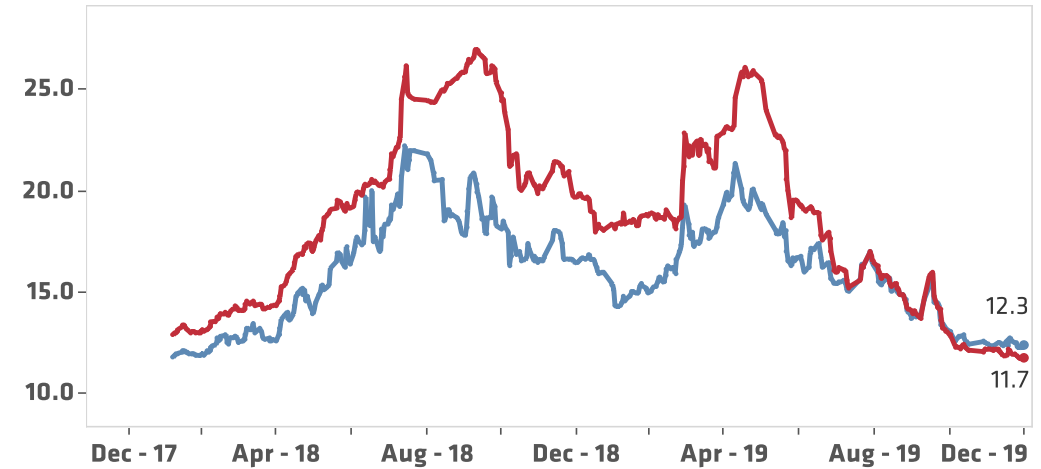
Source: BIST

Exchange Rates



Source: CBRT

Compound Yield of Benchmark Bond (%)

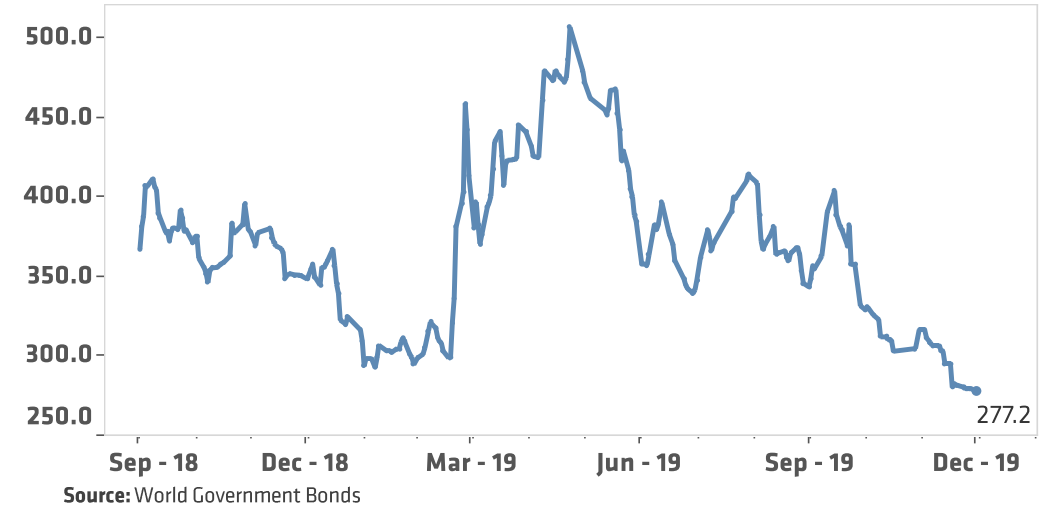


Source: CBRT

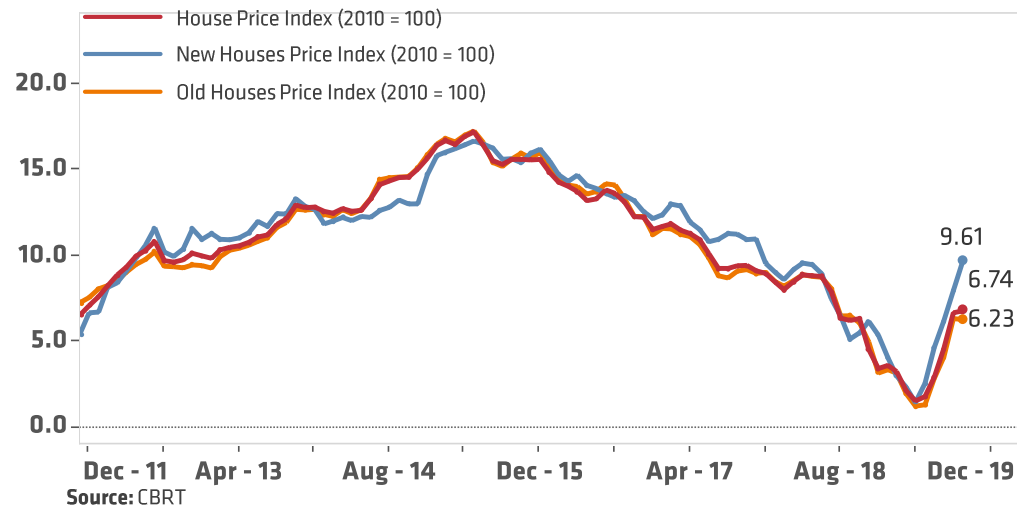
The 5-year CDS has dropped below 300 points...

According to the data released by Turkish Statistical Institute, housing sales in Turkey increased by 54.4 percent on an annual basis in November. The Housing Price Index calculated by the CBRT was 0.77 percent on a monthly basis in October; and increased by 6.74 percent year-on-year. According to the CBRT Weekly Money and Bank Statistics, the CBRT's gross reserves as of the last week of December was realized as 106 billion 319 million dollars. On the other hand, Turkey's 5-year CDS Premium has dropped below 300 points and reached the 277.2 for the first time since 2019 in December.

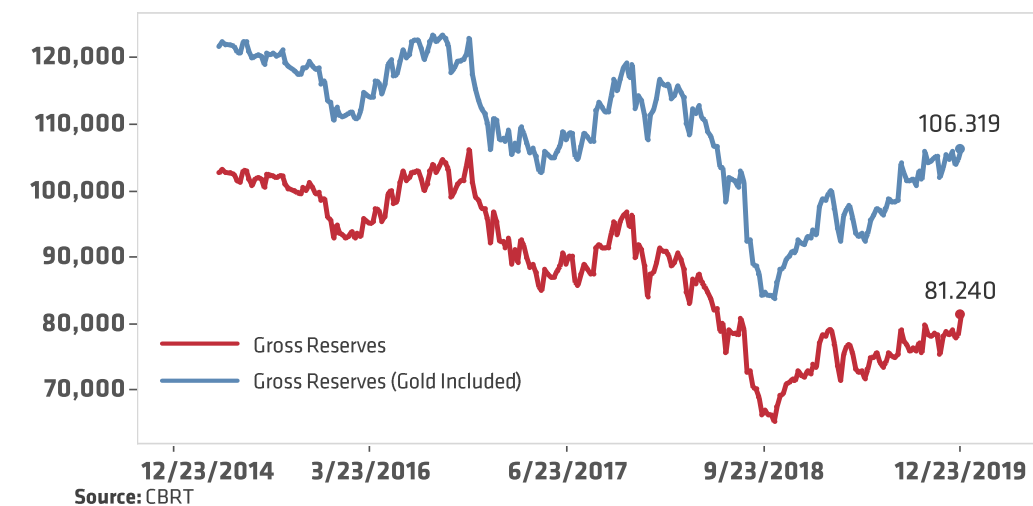
5-Year CDS Premium



CBRT House Price Index (Annual % Change)

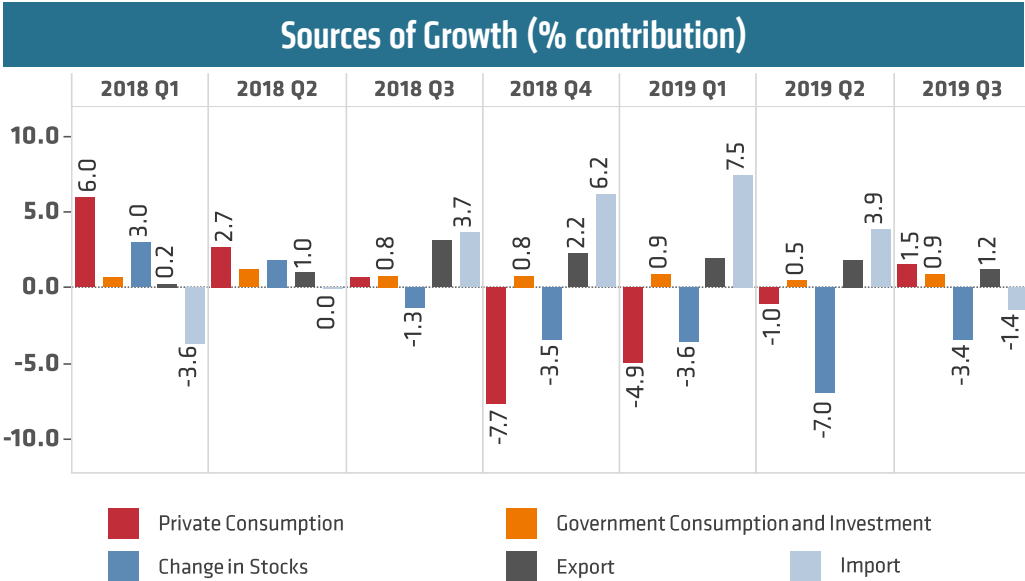
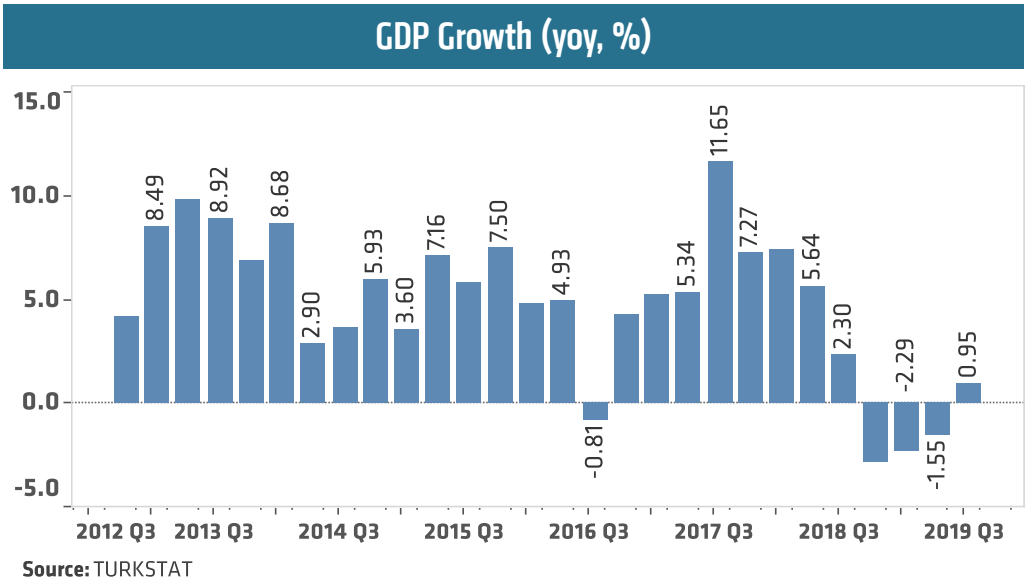
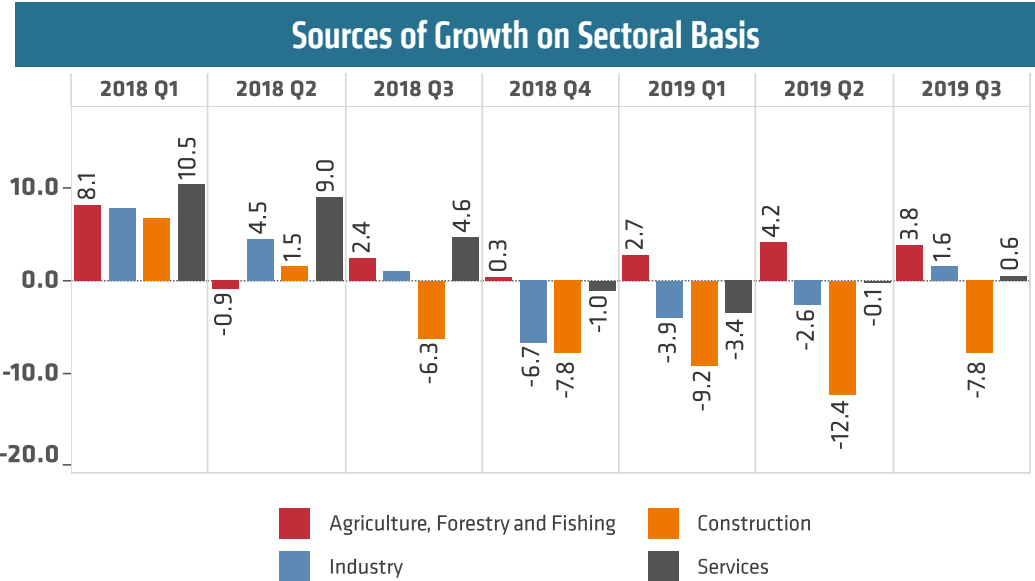


CBRT Gross Reserves (USD Million)



Turkey's economy grew by 0.9 percent in the third quarter of 2019...

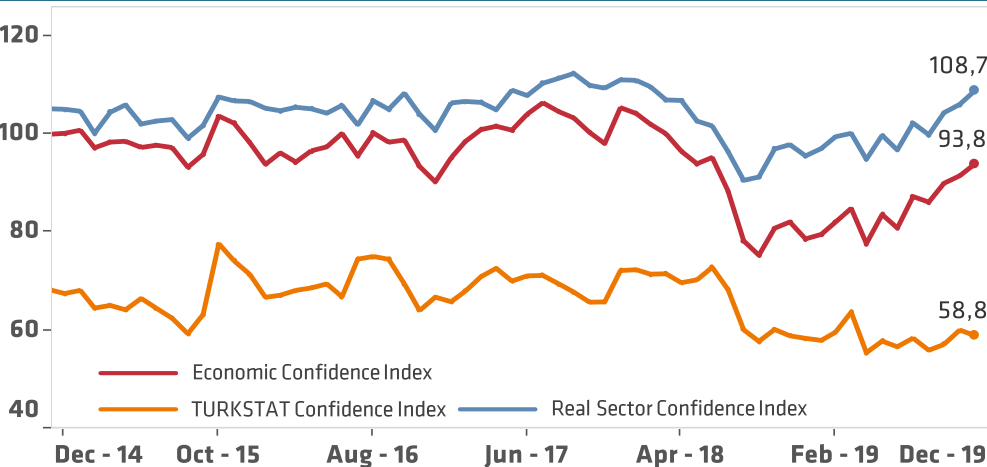
GDP increased by 0.9 percent in the third quarter compared to the same quarter of the previous year. Thus, Turkish economy contracting in the last three quarters passed to positive growth. GDP adjusted for seasonal and calendar effects grew by 0.4 percent on a quarterly basis. Based on the same quarter of last year, the value added of the agricultural sector as a chained volume measure increased 3.8 percent, and industrial sector by 1.6 percent. The value added of the construction industry decreased by 7.8 percent. Household consumption expenditures and government expenditures contributed positively to economic growth with the increase by 1.5 percent and 7 percent respectively.



Industrial production increased by 3.8 percent year-on-year...

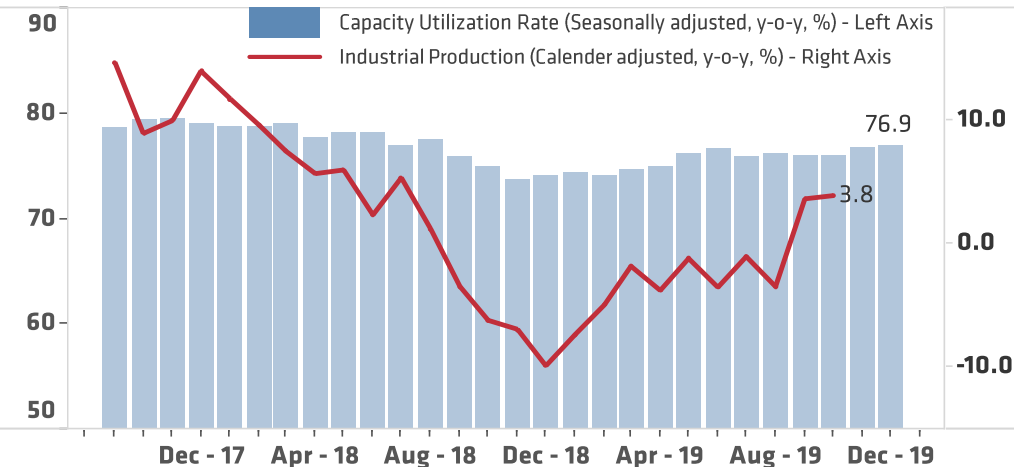
In October, industrial production decreased by 0.9 percent monthly and increased by 3.8 percent compared to the same month of the previous year. Mining and quarrying sector index increased by 6.5 percent compared to the same period of the last year; manufacturing industry index increased by 3.7 percent; and electricity, gas, steam and conditioning production and distribution index increased by 1.2 percent annually. Industrial production started annually for the first time since September 2018, gained a positive trend. Unemployment rate increased by 2.4 points in September to 13.8 percent; seasonally adjusted unemployment rate was 13.9 percent and non-agricultural unemployment rate was 16.4 percent.

Confidence Indices



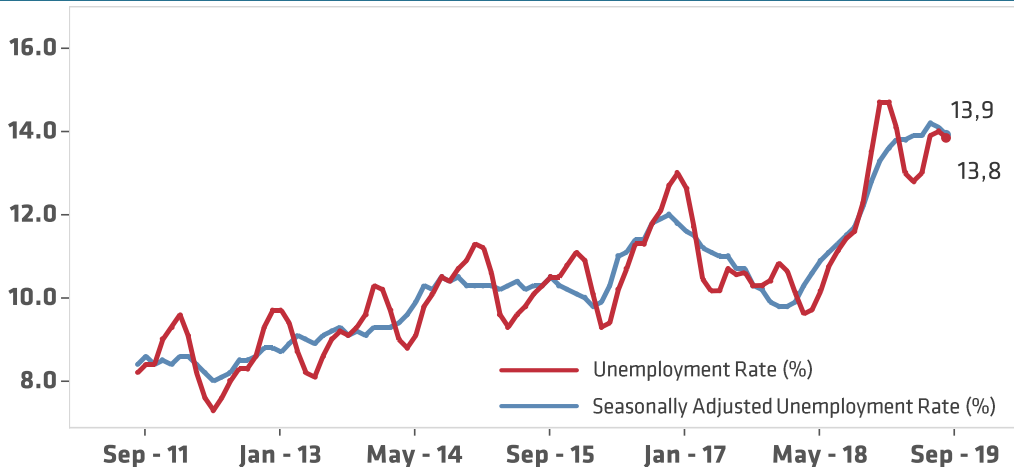
Source: TURKSTAT, CBRT

Industrial Production & Capacity Utilization Rate



Source: TURKSTAT, CBRT

Unemployment Rate

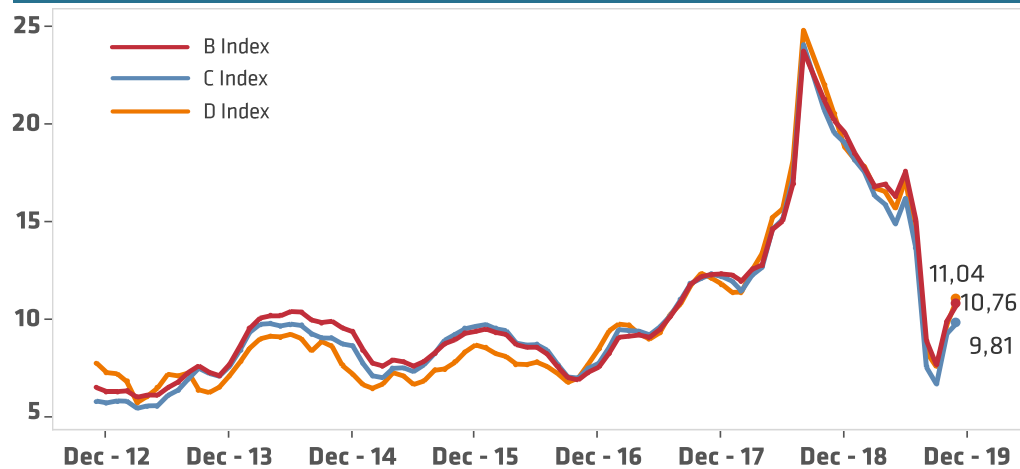


Source: TURKSTAT

Consumer Price Index realized as 11.84 percent in December...

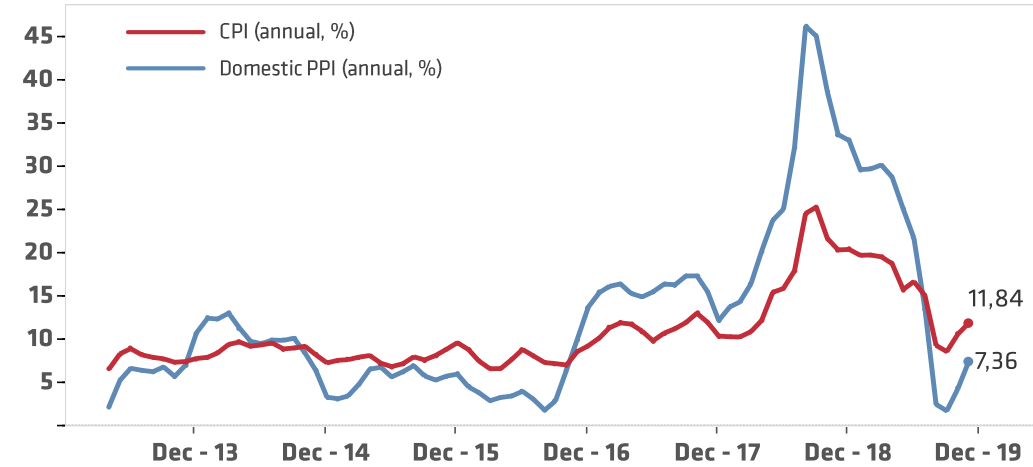
According to the data released by Turkish Statistical Institute, Consumer Price Index (CPI) realized as 0.74 percent in December compared to the previous month; and 11.84 percent compared to the same month of the previous year. Compared to the twelve-month averages, there was a 15.18 percent increase in CPI. Among the groups in the index, there was an increase by 2.93 percent in food and non-alcoholic beverages; and by 0.57 percent in transportation. The CPI Indicator (B), which examines the product groups excluding unprocessed food products, energy, alcoholic beverages, tobacco and gold, increased by 0.41 percent monthly; and by 14.36 percent compared to the same month of the previous year.

Special CPI Aggregates (Annual, %)



Source: TURKSTAT

Annual Inflation (%)



Source: TURKSTAT

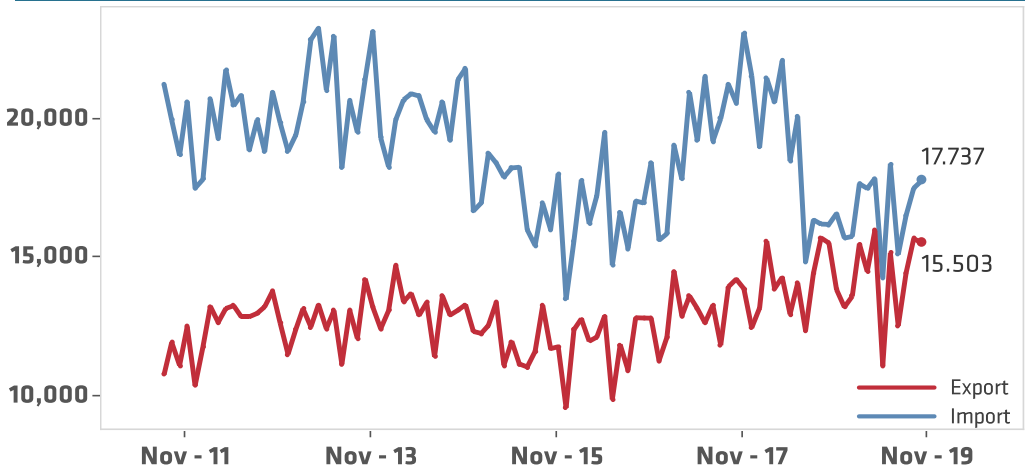
CPI & D - PPI Percentage Changes

Change (%)	CPI		D-PPI	
	December-18	December-19	December-18	December-19
Monthly	-0.40%	0.74%	-2.22%	0.69%
Year-to-Date	20.30%	11.84%	33.64%	7.36%
Annual	20.30%	11.84%	33.64%	7.36%

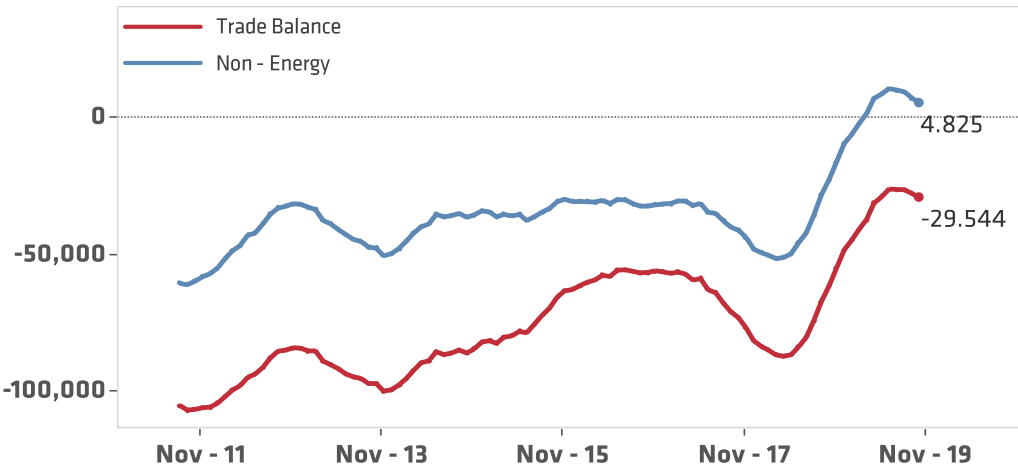
Foreign trade deficit realized as 2.23 billion dollars in November...

In November, exports increased by 0.1 percent compared to the same period of the previous year and realized as 15.5 million USD; and imports increased by 9.7 percent annually to 17.7 million USD. While export/import coverage ratio was 95.8 percent in November 2018, it was 87.4 percent in November 2019. According to the seasonally and calendar adjusted series, exports increased by 1 percent and imports increased by 3.4 percent in November. Germany was the most exported country with 1.39 million USD, followed by Iraq, United Kingdom and Italy respectively. The most importing country was Russia with 1.98 million USD, followed by China, Germany and USA respectively.

Export - Import (USD Million)



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



Source: TURKSTAT

Export - Import & Percentage Changes

USD Million	November-18	November-19	Change (%)
Total Exports	15,492	15,503	0.1%
Total Imports	16,164	17,737	9.7%
Foreign Trade Balance	-672	-2,234	232.4%
Import Coverage Ratio (%)	95.8%	87.4%	-

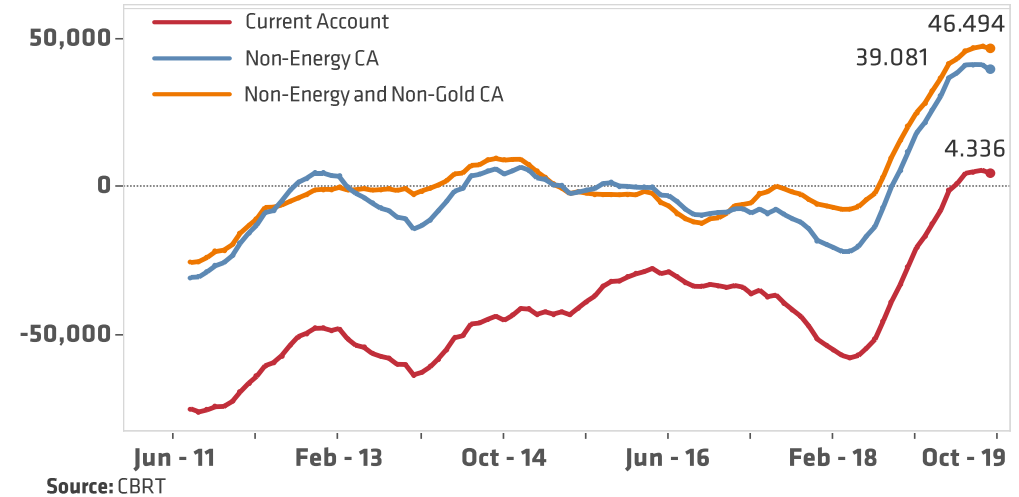
Current Account had USD 1.5 billion surplus in October...

The Current Account Surplus increased by 1.077 million USD in October compared to the same month of the previous year and was realized as 1.549 million USD. As a result, the twelve-month current account surplus reached 4.336 million USD. The foreign trade balance, which gave a surplus of 630 million USD in October of last year and gave a deficit of 924 million USD in October 2019, had an impact on this development. Excluding gold and energy, the current account surplus decreased by 700 million USD in October compared to the same month of the previous year and realized as 5.332 million USD. Net revenues from the travel item under the services balance increased by 238 million USD to 2.759 USD.

Balance of Payments (USD Million)

USD Million	October-19	Oca - Eki 2018	Oca - Eki 2019	Change (%)	12-Months Rolling (Ekim 19)
Current Account Balance	1,549	-26,675	4,819	-118.1%	4,336
Financial Account	2,002	-9,535	7,291	-176.5%	8,949
Direct Investments	-448	-7,269	-4,746	-34.7%	-6,889
Portfolio Investments	2,729	3,022	2,255	-25.4%	2,348
Other Investments	-2,150	9,869	3,662	-62.9%	2,590
Reserve Assets	1,871	-15,157	6,120	-140.4%	10,900
Net Errors and Omissions	454	17,076	2,450	-85.7%	4,593

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



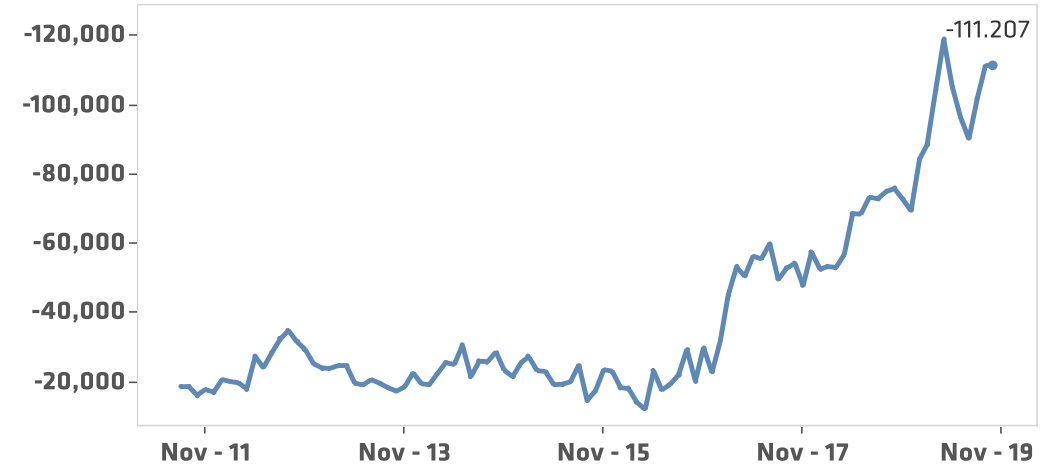
Breakdown of Net Capital Inflows (12-months rolling, USD Million)

USD Million	October-18	October-19	Ekim 18 % Distribution	Ekim 19 % Distribution
Current Account Balance	-38,912	4,336	-	-
Total Net Foreign Capital Inflows	10,970	6,544	100.0%	100.0%
Direct Investments	8,131	6,889	74.1%	105.3%
Portfolio Investments	-3,845	-2,348	-35.1%	-35.9%
Other Investments	-10,631	-2,590	-96.9%	-39.6%
Net Errors and Omissions	17,315	4,593	157.8%	70.2%
Reserves	27,878	-10,900	-	-

Central Government Budget had a surplus of 7.8 billion TL in November...

Central Government Budget Balance posted a surplus of 7.8 billion TL in November. The primary surplus was 15.2 billion TL, while the 11-month budget deficit was 93 billion TL. In January-November period, total revenues increased by 16.2 percent compared to the same period of the previous year. In the said period, budget expenditures increased by 20.1 percent compared to the same period of the previous year. In November, tax revenues increased by 8 percent year-on-year to 73.4 billion TL. When the expenses were analyzed, interest expenses increased by 3.1 percent compared to the previous year to 7.5 billion TL, while non-interest expenses increased by 1.5 percent year-on-year to 68.1 billion TL.

Budget Balance (12-months rolling, TL Million)



Source: Ministry of Treasury And Finance

Central Government Budget (TL Million)

TL Million	November-18	November-19	Change (%)	Oca - Kas 2018	Oca - Kas 2019	Change (%)	Budget Target (2019)	Realization/ Target (%)
Expenditures	74,292	75,513	1.6%	745,361	895,418	20.1%	960,976	93.2%
Interest Expenditures	7,235	7,463	3.2%	71,880	95,775	33.2%	117,317	81.6%
Non-Interest Expenditures	67,056	68,050	1.5%	673,481	799,643	18.7%	843,659	94.8%
Revenues	81,858	83,289	1.7%	690,818	802,479	16.2%	880,359	91.2%
Tax Revenues	67,930	73,363	8.0%	575,785	613,242	6.5%	756,495	81.1%
Other Revenues	13,928	9,926	-28.7%	115,033	189,238	64.5%	123,865	152.8%
Budget Balance	7,566	7,776	2.8%	-54,544	-92,938	70.4%	-80,616	115.3%
Primary Balance	14,802	15,239	3.0%	17,336	2,836	-83.6%	36,701	7.7%

The CBRT cut the policy rate by 200 basis points...

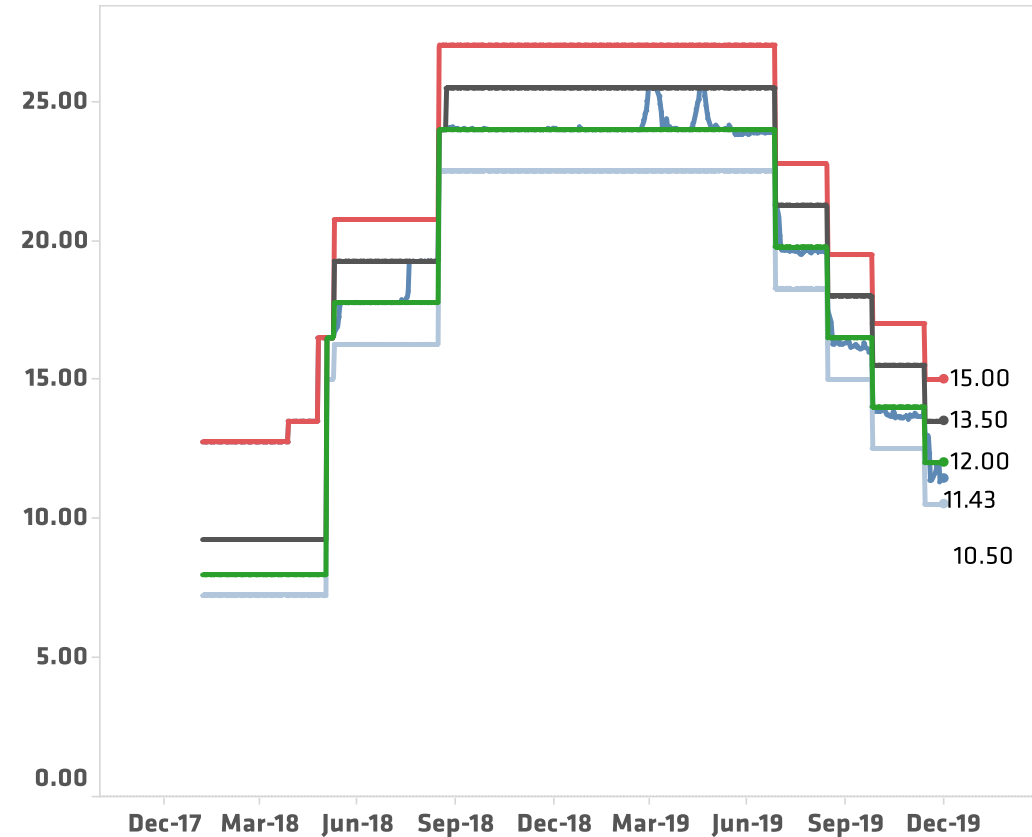
At the last meeting of 2019, the CBRT cut the policy rate by 200 basis points from 14 percent to 12 percent. Together with the aforesaid discount, the total discount after the July, September and October meetings reached 1200 basis points. It is reported that the recovery in economic activity has been observed recently, and the improvement in inflation outlook continues, and the recovery in macroeconomic indicators supports the decline in the country's risk premium. On the other hand, it was underlined that the weak outlook in global growth partially decelerated foreign demand. As a final point, it is stated by the CBRT that the current monetary policy stance is in line with the targeted disinflation path.

CBRT CPI Based Effective Exchange Rate (2003=100)



Source: CBRT

CBRT Policy Rates (%)



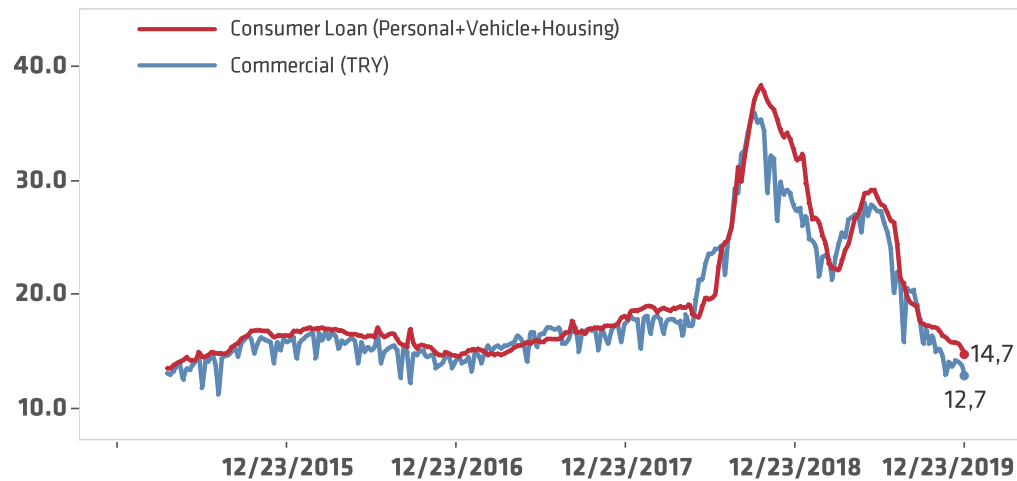
- O/N Lending Rate
- Interbank Repo/Reverse Repo Market Rate
- CBRT Funding Rate
- One-Week Repo Rate
- O/N Borrowing Rate
- Late Liquidity Window

Source: CBRT

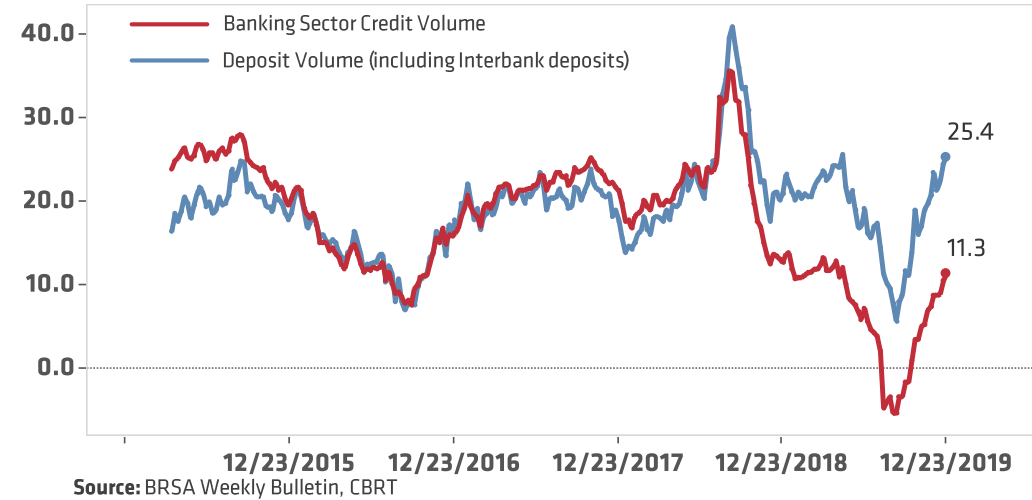
Expansion in credits...

According to BRSA weekly data, the deposits as of December 23th increased by 25.4 percent compared to the same period of the previous year; and credits expanded by 11.3 percent compared to the same period of the previous year. Consumer loan consisting of personal, vehicle and housing loans decreased to the level of 14.7 percent. By the help of the recent incentives and rate decreases, there has been an upward movement in vehicle and housing loan volumes and a relatively improvement in consumer loans.

Lending Rates (%)



Banking Sector Credit and Deposit Volume (YoY % Change)



Deposit Rates (%)



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

BANKING SECTOR GENERAL OUTLOOK

BANKING SECTOR GENERAL OUTLOOK

	2014	2015	2016	2017	2018	Nov-19	Change (%)*
TOTAL ASSETS	1,994	2,357	2,731	3,258	3,867	4,355	12.61
Loans	1,281	1,542	1,805	2,182	2,537	2,788	9.9
TRY Loans	913	1,054	1,181	1,470	1,529	1,742	14.0
Share (%)	71.2	68.4	65.4	67.4	60.3	62.5	3.7
FX Loans	369	488	624	712	1,008	1,047	3.8
Share (%)	28.8	31.6	34.6	32.6	39.7	37.5	-5.6
Non-Performing Loans	36	48	58	64	97	144	48.5
Securities	302	330	352	402	478	625	30.9
TOTAL LIABILITIES	1,994	2,357	2,731	3,258	3,867	4,355	12.6
Deposits	1,124	1,325	1,548	1,805	2,164	2,581	19.3
TRY Deposits	690	741	876	985	1,093	1,251	14.5
Share (%)	61.4	55.9	56.6	54.6	50.5	48.5	-4.1
FX Deposits	434	585	671	820	1,070	1,330	24.3
Share (%)	38.6	44.1	43.4	45.4	49.4	51.5	4.2
Securities Issued	89	98	116	145	174	186	6.8
Payables to Banks	293	361	418	475	563	522	-7.2
Funds from Repo Transactions	137	157	138	99	97	160	66.0
SHAREHOLDERS' EQUITY	232	262	300	359	422	482	14.1
Profit (Loss) of the Period	24.6	26.1	37.5	49.1	53.8	46.6	-8.06
RATIOS (%)							
ROAA	1.64	1.20	1.48	1.64	1.51	1.24	-
ROAE	13.45	10.54	13.34	14.89	13.78	11.20	-
NPL	2.73	2.84	3.08	3.22	2.93	5.15	-
Loans/Assets	62.6	64.2	65.4	66.1	67.0	64.0	-
Securities/Assets	16.6	15.2	14.0	12.9	12.3	14.4	-
Deposits/Liabilities	58.1	56.4	56.2	56.7	55.4	59.3	-
Loans/Deposits	107.7	114.0	116.3	116.6	120.9	108.0	-
Capital Adequacy (%)	15.3	16.3	15.6	15.6	16.9	18.6	-

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



SUMMARY MACRO DATA



SUMMARY MACRO DATA

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

Mar-19	Jun-19	Sep-19
739	714	732
3856	3990	4108
-2.3	-1.6	1.0
Oct-19	Nov-19	Dec-19
8.55	10.56	11.84
1.7	4.26	7.36
Jul-19	Aug-19	Sep-19
13.9	14	13.83
53.8	53.9	53.52
Oct-19	Nov-19	Dec-19
76.9	77.4	
5.7135	5.7455	5.9454
6.3773	6.3232	6.6681
6.0454	6.0344	6.3067
Sep-19	Oct-19	Nov-19
170.7	170.7	170.7
197.4	198.7	200.2
-26.7	-28.0	-29.5
86.5	85.9	85.2

(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
Current Account Balance	-43.6	-32.1	-33	-47.4	-27.2
Financial Account	-42.1	-22.9	-21.5	-46.3	-6.9
Direct Investments	-5.5	-11.7	-9	-8.2	-9.3
Portfolio Investments	-20.1	15.5	-6.4	-24.3	2.9
Other Investments	-16	-14.8	-6.9	-5.5	10.0
Reserve Assets	-0.5	-11.8	0.9	-8.2	-10.4
Net Errors and Omissions	1.6	9.3	11.1	1.1	20.3
BUDGET ⁽³⁾ (TL Billion)					
Expenditures	448.8	506	583.7	677.7	830.5
Interest Expenditures	49.9	53	50.2	56.7	74
Non-Interest Expenditures	398.8	453	553.4	621	756.5
Revenues	425.4	483.4	554.4	630.3	757.8
Tax Revenues	352.5	407.5	458.7	536	621.3
Budget Balance	-23.4	-22.6	-29.3	-47.4	-72.6
Primary Balance	26.5	30.4	21	9.3	1.3
CENTRAL GOVERNMENT DEBT STOCK (TRY Billion)					
Domestic Debt Stock	414.6	440.1	468.6	535.4	578.8
External Debt Stock	197.5	237.5	291	341	470.4
Total Debt Stock	612.1	677.6	759.6	876.4	1049.2

Aug-19	Sep-19	Oct-19
4.9	5.4	4.3
9.8	8.9	8.9
-8.9	-7.9	-6.9
0.0	-1.0	2.3
11.4	7.0	2.6
7.3	10.8	10.9
4.9	3.4	4.6
Sep-19	Oct-19	Nov-19
739.6	819.9	895.4
81.5	88.3	95.8
658.1	731.6	799.6
653.8	719.2	802.5
485.3	539.9	613.2
-85.8	-100.7	-92.9
-4.3	-12.4	2.8
Sep-19	Oct-19	Nov-19
701.0	712.8	722.2
538.9	547.9	552.0
1239.9	1260.7	1274.2

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



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