

CBRT kept the policy rate at 8.25%

CBRT kept 1-week repo rate at 8.25%.

Important points in the statement are as follows:

Inflation and Monetary Policy:

- **Inflation:** Despite the restrictive effects of aggregate demand conditions, pandemic-related rise in unit costs have led to some increase core in inflation. Commodity prices have continued to restrict consumer inflation, food inflation has risen due to seasonal and pandemic-related effects. CBRT expected that supply-side factors related to the outbreak will phase out with normalization process and demand-driven disinflationary effects will become more prevalent in the second half of the year.
- **Monetary Policy:** CBRT states that considering all factors affecting the inflation outlook, the policy rate was kept unchanged. Cautious monetary stance will continue. CBRT removed following explanation «the Committee decided to make a measured cut in the policy rate. Under the current monetary policy stance, inflation outlook is considered to be in line with the year-end inflation projection» from the text.

In the last Inflation Report of the CBRT, 2020 year-end inflation forecast is 7.4%. According to the CBRT Survey of Expectations, year-end inflation expectation rose from 9.38% to 9.54%. 12-months forward inflation expectation decreased from 9.20% to 9.03%; 24-months forward inflation expectation rose from 8.30% to 8.38%

Global Economic Activity:

- CBRT states that normalization steps taken by several countries have contributed to a partial recovery. Uncertainties remain high and central banks continue to take expansionary measures. The pandemic is closely monitored for its global impact on capital flows, financial conditions, international trade and commodity prices.

Manufacturing industry and service PMI indices in the Euro Area and the USA have been recovering for the last two months compared to their bottom levels in April.

Turkey Economic Activity:

- CBRT states that economic recovery has started as of May following gradual steps towards normalization. In order to restrain negative effects of the pandemic, it is important to ensure the healthy functioning of financial markets, the credit channels and firms' cash flows. CBRT emphasized that, recent monetary and fiscal measures contribute to economic recovery. Exports and tourism revenues declined due to the pandemic. However, the recovery in exports of goods with the ongoing normalization and low levels of commodity prices will support the current account balance.

The manufacturing industry PMI index rose from 33.4 to 40.9 in May. Recovery in confidence indices was observed in May and June. Exports and imports, on the other hand, remained weak in the latest May data. The number of foreign tourists also decreased by 99% yoy in both April and May due to travel restrictions

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Dr. Fatma Melek – Chief Economist

Fatma.Melek@akbank.com

Dr. Eralp Denktas, CFA

Eralp.Denktaş@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Meryem Çetinkaya

Meryem.Cetinkaya@akbank.com

LEGAL NOTICE: The text, information and graphs in this report and comments has been prepared from the primary accessible systemic sources on a bona fide basis, and without consideration to establishing any guarantee and assurance for establishing a basis for any informed decision under any name or form, in terms of their accuracy, validity and effectiveness, and thus it has only been gathered for information purposes. Akbank TAŞ, Ak Yatırım AŞ and their employees will not be held responsible for any damages resulting from the comments included in this report such as lack of information and/or updates. Akbank TAŞ and Ak Yatırım AŞ may modify and/or remove the above information and recommendations at any time, without having to serve any prior notice and/or warning in any way, manner or form. Since this report and comments, the comprehensive information and recommendations which have been prepared in the form of general investment suggestions for the purpose of providing general information do not include any commitment by Akbank TAŞ and Ak Yatırım AŞ, the consequences of any decisions taken, conclusions reached, transactions made and any risks caused by any private and/or legal person based on such information will therefore rest with such persons. For this reason, Akbank AT.A.Ş., Ak Yatırım A.Ş. and their employees shall not by any means or in any manner be liable for any material and moral damages, loss of profits, or any direct and/or indirect damages, whatsoever, incurred by the persons concerned or 3rd parties, as a result of the decisions taken, conclusions reached, or transactions performed by private and/or legal persons due to reliance on the information contained in this report, the comments and recommendations herein, and the persons concerned understand and accept that they are not entitled to claim any indemnity, whatsoever, from Akbank TAŞ, Ak Yatırım AŞ and their employees for any damages suffered/to be suffered. The information given in this report, and the comments and recommendations contained herein do not constitute an "investment consultancy" service and/or activity, but fall within the scope of a general investment consultancy activity, and individuals and entities willing to receive an investment consultancy service must contact entities and institutions that are authorized to provide such service and obtain such service under a service agreement pursuant to the legislations of CMB. Investment consultancy services are offered under an investment consultancy agreement to be signed between brokerage houses, portfolio management companies, banks that do not admit deposits and the clients. The comments and recommendations contained herein depend upon the personal opinions of the persons who make the comments and recommendations. Since such opinions have been arranged in the scope of a general investment consultancy activity they do not contain reports, comments and recommendations specific to a person, and may therefore not suit your financial status, risk and return preferences. Thus, making investment decisions solely based on the information contained herein might not bring an outcome that meets your expectations.