KUZU
TOPLU KONUT İNŞAAT A.Ş.

3. DEVELOPMENTS AND PROSPECTS RELATED TO THE WORLD AND TURKISH ECONOMY

SECOND PART

3. DEVELOPMENTS AND EXPECTATIONS REGARDING THE WORLD AND TURKISH ECONOMY

3.1. Developments in the World Economy

The global economy has spent the year 2020 under the pressure of the corona virus, which continued in the last quarter. As of the last quarter of 2020, 1.8 million people have died due to Covid-19, and the number of people infected with the disease has reached 84 million. In the said quarter, despite the detection of Covid-19 variants, the reintroduction of restrictive measures and the acceleration of the recovery in economic activity, the recovery was above expectations. On the other hand, the slow progress of the vaccination process due to access to already administered vaccines and logistical problems has delayed the abolition of restrictive measures and limited the pace of economic recovery. In this process, China has positively diverged from other countries in terms of growth performance due to the measures taken. The measures reintroduced in Europe have negatively affected the service sectors of developed EU member states and the Balkan countries, whose economy is based on tourism.

In the United States, on the other hand, despite the election uncertainty, the increase in support for households and businesses over the past quarter has somewhat limited the negative outlook for growth performance. However, ongoing supportive measures in developed economies are expected to provide support for the global economic recovery.

Under these conditions, global growth rates have been revised upwards. In its latest forecast, the IMF forecast the global economy to contract by 3.5 percent in 2020, an increase of 0.9 percentage points compared to its previous forecast. Similarly, the OECD and the World Bank revised their forecasts upward with the IMF, predicting that the global economy will shrink by -4.2 percent and -4.3 percent, respectively, in 2020. Thanks to new vaccine approvals and treatment opportunities, the IMF, OECD and World Bank have estimated that the global growth rate for 2021 will be 5.5 percent, 4.2 percent and 4 percent, respectively.

When examined regionally, the upward revision of the 2020 downsizing forecasts due to the continued monetary and financial support in developed countries and the differentiation of growth performances in developing countries stand out. During this period, China is expected to diverge positively from other emerging economies, while the negative outlook is expected to continue in oil-exporting and tourism-based economies.

In the last quarter of 2020, the main agenda of global trade was the epidemic, the trade wars between the USA and China, the Brexit process, vaccine studies and the US Presidential elections. However, it is understood that the trade volume, which decreased in the first two quarters of 2020, is emerging from the impact of the epidemic in the second half of the year. According to UNCTAD data, it expects an annual decrease in trade in goods of about 3.2 percent in the fourth quarter of 2020. The World Trade Organization expects a 9.2 percent decrease in global trade in goods in 2020, while it has forecast a 7.2 percent increase for 2021, and the IMF has estimated that global trade in goods will increase by about 8 percent in 2021.

Although a "Phase One Trade Agreement" was signed at the beginning of the 2020 between the United States and China, the main axes of trade wars, no strong efforts were made in the last quarter of the year to reach a "Phase Two" agreement. The global commercial and political developments that marked the last quarter of the year, on the other hand, are the conclusion of the Brexit Agreement between the European Union and the United Kingdom, with the signing of the world's largest free trade agreement, which includes China, Japan, South Korea, New Zealand and Australia and 10 ASEAN member countries, in November 2020.

According to an International Labor Organization (ILO) report, global unemployment is estimated to have increased by 33 million people in all of 2020 to reach a total of 220 million people, and the unemployment rate rose by 1.1 percentage points to 6.5 percent. It is expected that the recovery of the labor markets that collapsed due to the epidemic will take time.

Commodity prices, which have been negatively affected by global demand that has declined due to the epidemic, have moved upwards compared to the epidemic period thanks to the moderate global recovery in the last quarter of the year. In the last quarter of the year, both energy commodities and food prices increased.

However, although crude oil prices decreased in the fourth quarter of 2020 compared to the same period last year, crude oil prices increased to an average of $ 50 per barrel in December 2020 due to the recovery in demand, the vaccine effect and partial supply disruptions.

As of the last period of 2020, the risks have decreased significantly compared to the previous quarters in the global outlook, but there are uncertainties. Real interest rates are at negative levels at the global level, and this leads to tensions in risky assets with the expectation of additional incentives.

Global stock markets are negatively pricing the spread of the virus and news of mutations, while being positively affected by leading indicators and incentives that are good for growth. The price of an ounce of gold is trending downward and fluctuating. Oil prices, supported by rising inventories and statements by OPEC+ countries that they will reduce the global supply surplus and harsh conditions last winter, reached their highest level seen after the outbreak. Drastic changes in retail and institutional investor behavior lead to sharp volatility in stocks and crypto currencies. The observation of selling pressures in the US long-term bond markets raises expectations of a short-term interest rate increase. This situation has a negative impact on the markets of developing countries.

There is a general upward trend in commodity prices and inflation expectations are deteriorating. New vaccine approvals, as well as existing vaccines, are a risk-reducing factor and support the recovery. However, the disruptions seen in vaccine production and distribution, vaccine nationalism, vaccine anxiety and vaccine access inequality raise the fact that uncertainties at the global level will continue for some time to come.

The revised part of the IMF report for May:

The IMF's revised reports predict a contraction in the World Economy of around 3.5%. The world economy will contract by 3.5% in 2020, and the growth forecast is 6% in 2021 and 4.4% in 2022.

With additional financial support in some major economies, such as the United States, it creates the expectation of a vaccine-supported recovery for the second half of the year.

Thanks to unprecedented intervention in politics Covid-19th of the epidemic that is the cause of the recession is likely to leave smaller scars from the 2008 global financial crisis mentioned in the report, emerging economies and low-income developing countries are more affected and significant medium-term it is probable that losses experienced.

"Income inequality may increase significantly due to the epidemic”

It is estimated that production losses will be larger, especially for countries whose economies rely on tourism and commodity exports, as well as countries with limited policy space for intervention. It is estimated that income inequality may increase significantly due to the epidemic, and close to 95 million people will fall below the more extreme poverty threshold in 2020 compared to pre-epidemic estimates.

Since future developments depend on the course of the health crisis, given the great uncertainty surrounding the outlook, policymakers need to prioritize prudent policies and be prepared to flexibly adjust policy support.

- The growth forecast for 2021 is projected to be 6.4 percent for the United States and 4.4 percent for the Eurozone.

The growth forecast of the US economy for 2021 was raised from 5.1 percent to 6.4 percent. The growth forecast of the country's economy for 2022 was also increased from 2.5 percent to 3.5 percent.

The growth forecast for the Eurozone was also increased from 4.2 percent to 4.4 percent for 2021, while it was increased from 3.6 percent to 3.8 percent for 2022. The region's economy was estimated to have shrunk by 6.6 percent last year.

One of Europe's leading economies, Germany's growth forecast for 2021 was increased from 3.5 percent to 3.6 percent, France's from 5.5 percent to 5.8 percent and Spain's from 5.9 percent to 6.4 percent.

While Germany's 2022 growth forecast was revised from 3.1 percent to 3.4 percent, France's economic growth forecast for the next year was increased from 4.1 percent to 4.2 percent. Italy and Spain's growth forecasts for 2022 were left unchanged at 3.6 percent and 4.7 percent, respectively.

The growth forecast for 2021 for the UK was increased from 4.5 percent to 5.3 percent, and the forecast for 2022 from 5 percent to 5.1 percent.

The growth forecast of the Japanese economy for this year was raised from 3.1 percent to 3.3 percent, while that of the Canadian economy was raised from 3.6 percent to 5 percent.

The economies of Japan and Canada were projected to grow by 2.5 percent and 4.7 percent, respectively, in 2022. The economies of Japan and Canada had previously been forecast to grow by 2.4 percent and 4.1 percent, respectively, in 2022.
With these revisions, the growth expectation for the group of developed countries was increased from 4.3 percent to 5.1 percent for 2021, while it was increased from 3.1 percent to 3.6 percent for 2022.

The growth forecast of developing country economies for 2021 was also increased from 6.3 percent to 6.7 percent, while the forecast for 2022 was left unchanged at 5 percent.

Despite being the country where the Covid-19 pandemic originated, China's economic growth expectation for this year was increased from 8.1 percent to 8.4 percent, while its growth expectation for 2022 was left at 5.6 percent.

Despite the epidemic, the Turkish economy, which grew by 1.8 percent last year, was also projected to grow by 6 percent in 2021 and 3.5 percent in 2022.

The IMF, in its preliminary findings of the audit under the Article 4 consultation on the Turkish economy announced in January, said that the country's economy is expected to grow by 6 percent this year. The inflation forecast for Turkey was set at 13.6 percent for this year and 11.8 percent for next year.

It was predicted that the unemployment rate in the country will be 12.4 percent this year and 11 percent next year.
In the light of the above data, commodity and oil prices are projected to rise significantly due to the growth and production prospects of 2021.

However, the fact that the global indebtedness rate continues to increase with the impact of the pandemic is still considered an important problem.

The debt problem, which is shown as one of the most important increasing risks in the report of the World Economic Forum, limits the growth potential in many regions, especially in China, making it difficult to get out of the crisis.

The global risk report also mentions 10 different futuristic shocks that may be encountered in the coming years in the"Future Shocks" section. An important one of them is monetary populism. It is noted that with the influence of global waves of populism and Covid-19, the risk of Central Banks losing their independence is gradually increasing, which is being used by politicians. In such a scenario, the fight against inflation at the global level will become increasingly difficult. In the study examining the processes of disinflation in developing countries published by the World Bank, it is worth noting that it is becoming increasingly difficult to maintain low inflation in these countries. (IMF Reports, last quarter report of the Ministry of Health 2020)

3.2. General View of the Turkish Economy

According to the 2020 Economic Outlook Reports published by the Presidency of Strategy and Budget, the general view of the Turkish economy is summarized under the following headings.

3.2.1. Growth

The stagnation process in the economy, which started with speculative currency attacks in the second half of 2018, continued in the first half of 2019 as well, and in the second half of the year, interest rates began to decline and the recovery process became more evident thanks to the decrease in exchange rate volatility and the decline in inflation. Thus, in 2019, the Turkish economy grew by 0.9 percent. However, the Turkish economy was also significantly affected by the Covid-19 pandemic, which affected the whole world in a short time in 2020, especially in the second quarter of the year. The Turkish economy contracted by 3.1 percent in the first half of 2020 due to both the need to slow down the activities of economic units and the impact of measures taken to protect public health. With the easing of the measures taken against the epidemic in early June, the Turkish economy has entered a rapid recovery process. Indicators such as industrial production, capacity utilization rates, and PMI began to show a very positive outlook as of June, and a strong V-type recovery trend was observed in the economy in the third quarter of the year. On the other hand, the tourism sector, which was most affected by the epidemic, started to revive again in the third quarter of the year with the opening of border crossings. According to the 2021-2023 New Economy Program, economic growth is expected to be 0.3 percent in 2020 and 5.8 percent in 2021.

GDP In the first half of 2020, the contraction in domestic and foreign demand caused by the Covid-19 pandemic negatively affected the Turkish economy. The economy contracted by 9.9 percent in the second quarter and by 3.1 percent in the first half of 2020 due to the decrease in demand due to the measures taken both at the national and global levels against the epidemic. In the first half of the year, total consumption affected growth by -1.2 percentage points. -1.4 points of the said effect was obtained from private consumption and 0.2 points from public consumption. Private consumption increased by 4.5 percent in the first quarter and declined by 8.5 percent in the second quarter. The contraction in the second quarter was relatively controlled with the help of the Economic Stability Shield Package implemented to compensate for the negative effects of the epidemic, and the impact of private consumption, which is the largest item on the spending side, on the reduction observed across the economy, was limited to 5.1 percentage points.

On the other hand, public consumption increased by 3.2 percent in the first quarter on an annual basis and decreased by 0.8 percent in the second quarter. Public consumption, which contributed 0.5 percentage points to first-quarter growth, contributed 0.1 percentage points to the second-quarter contraction.

In the first half of 2020, in particular, the contraction in construction investments negatively affected fixed capital investments. Construction investments, which account for about half of fixed capital investments, decreased by 9.7 percent and 16.4 percent, respectively, on an annual basis in the first and second quarters. Machinery and equipment investment expenditures, which have a relatively smaller share in fixed capital investments, increased by 14.7 percent and 4.7 percent, respectively, in the first and second quarters of the year. Thus, fixed capital investments contracted by 0.3 percent and 6.1 percent, respectively, in the first and second quarters of the year. Fixed capital investments, which contracted by 3.3 percent in the first half of the year, dragged down the economy's growth in the first half by 0.8 percentage points. Epidemic-induced uncertainties have come to the fore in the decline in fixed capital investments, while reasons such as geopolitical risks and a deterioration in expectations have also been effective in this development. Net exports of goods and services limited growth by 4 percentage points in the first quarter of 2020 and by 7.8

percentage points in the second quarter. As a result of the closure of the borders of the countries contributing to the negative contribution of 7.8 percentage points, the historical contraction observed in the second quarter of 2020 (35.3 percent) in the exports of goods and services, especially tourism, was effective. The contribution of net exports of goods and services to the economic contraction in the first half was -6 percentage points. Epidemic-induced uncertainties have come to the fore in the decline in fixed capital investments, while reasons such as geopolitical risks and a deterioration in expectations have also been effective in this development. Net exports of goods and services limited growth by 4 percentage points in the first quarter of 2020 and by 7.8 percentage points in the second quarter. The historical contraction (35.3 percent) observed in the second quarter of 2020 in exports of goods and services, especially tourism, was effective as a result of the closure of the borders of the countries contributing to the negative contribution of 7.8 percentage points in question. The contribution of net exports of goods and services to the economic contraction in the first half was -6 percentage points.

3.2.2. Labor Market

The labor market, which failed to achieve the expected improvement as a result of the stabilization of the economy in 2019, entered 2020 with the negative effects of the epidemic that affected the whole world. The unemployment rate, which was 13.8 percent in January 2020, decreased to 12.8 percent in April 2020 due to the decrease in labor force participation due to the epidemic. With the normalization decision taken in June 2020, labor force participation recovered somewhat, and the unemployment rate in the July period was realized as 13.4 percent with the increase in participation despite the increase in employment. In July, the employment rate was 43.5 percent. It is expected that labor force participation and employment will improve due to the recovery in economic activities during the rest of the year.

3.2.3. Public Finance

Within the scope of the New Economic Program (2020-2022), it is aimed that fiscal policies will contribute to fighting inflation and growth in 2020, while on the one hand, it is envisaged that a partial tightening will be made by using resources efficiently and saving in the designated areas. However, due to the Covid-19 pandemic, which began to affect our country in March 2020, fiscal policies have come to the fore and have been used effectively in the fight against the social and economic effects of the epidemic in our country, as well as throughout the world. In this context, large-scale tax and cash supports have been implemented. In the first eight months of 2020, budget expenditures increased by 15.6 percent compared to the same period last year and amounted to 761.4 billion TL. Although there are strong and weak performances in budget revenues periodically, a generally consistent course is observed with the targets.

3.2.4. Inflation and Monetary Policy

Annual consumer inflation, which was horizontal in the first quarter of 2020, increased slightly in the second quarter of 2020 as a result of epidemic-related unit cost increases, exchange rate transience, and rising food prices due to unprocessed products, and was 12.62 percent. Annual CPI inflation, which remained flat in July-September largely due to the base effect, stood at 11.75 percent as of September. It is expected that the supply-side elements that are effective in the short term with epidemic-related measures will gradually disappear with the continuation of the normalization process, and inflation will enter a downward trend again in the coming period. With the continuation of stronger coordination of monetary and fiscal policies, structural policies that will improve competition and efficiency in goods and services markets by implementing inflation to be reduced to low single digit levels permanently, is one of the main goals of the new economic program. Reduced predictability of inflation will be increased uncertainty induced risk premiums will be reduced, the efficiency of fixed capital investments in the real sector and the financial intermediary system to upgrade the long-term local currency funding sources to be developed, thus economic and financial stability will be strengthened. At the end of 2020, it is expected that the recovery in economic activity due to the normalization steps of consumer inflation will occur at the level of 10.5 percent with the reduction of moderate domestic demand conditions and epidemic-related unit cost effects and will decrease to 4.9 percent at the end of the program period.

According to the 2020 Economic Outlook Reports published by the Presidency of Strategy and Budget; our macroeconomic expectations for the Turkish economy have been revised as follows and our business plans have been prepared within the framework of these assumptions, due to the very high deficits of the public finances of the determined assumptions, the Covid 19 effect and unavoidable foreign trade deficits, and the failure to fulfill the expectations from the central bank from international financial institutions.

Assumptions about Economic Sizes

YEARS	2021	2022	2023
GDP Growth (%, Real)	6%	5%	5%
CPI Year-end (%)	15,0%	12,5%	10.0%
USD Year-End Rate	8,44	9,49	10,44
EURO Year-End Rate	10,43	11,74	12.91
USD Average Rates	7,91	8,90	9,79
EURO Average Rates	9.79	11.01	12.11
Deposit Interest	16.0%	13.5%	11.0%
Loan Interest	20.0%	15%	12.50%