



December 2020

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Global Economy

Coronavirus pandemic gained momentum on a global scale in November. On the other hand, thanks to the progress in vaccine studies, the views that the pandemic could be taken under control in near future strengthened.

In its Economic Outlook Report, the OECD pointed the improvement in global economic outlook despite the second wave of the pandemic. The organization predicts the global economy to contract by 4.2% this year and to grow at the same rate in 2021.

As the presidential election is left behind in the US, developments regarding the incentive package are closely monitored.

In the US, macroeconomic indicators point that the economic activity accelerated in the last quarter of the year. In the Euro Area, the services sector continued to deteriorate in November due to the implementation of restrictive measures.

No agreement has yet been reached in the Brexit negotiations between the EU and the UK. If the dispute between the parties continues, the UK will leave the EU without an agreement at the end of the year.

The world's largest trading bloc, Regional Comprehensive Economic Partnership (RCEP), was established among the countries of the Asia-Pacific region.

Positive developments regarding the vaccine studies caused gold prices to decline, but pushed the prices of industrial metals and oil upwardly in November.

Turkish Economy

In the third quarter of 2020, economic growth in Turkey was above expectations at 6.7% yoy, according to the chain linked volume index. Consumption and investment expenditures boosted growth while net exports dragged it down.

Although manufacturing PMI dropped to 51.4 in November, it remained above the threshold for the sixth consecutive month. Sub-indices reflected the effects of the outbreak both in domestic and global markets.

Current account balance, which posted a surplus of 2.8 billion USD in September 2019, gave a deficit of 2.4 billion USD in the same month of this year due to the widening in foreign trade balance and the decline in net services revenues. In September, 12- month cumulative current account deficit reached 27.5 billion USD, highest since November 2018.

In January-October period, budget expenditures expanded by 18% yoy, while revenues increased by 14.3%. Thus, the budget deficit rose by 44.5% yoy and reached 145.5 billion TRY.

In November, CPI increased by 2.3% mom, while annual CPI inflation rose to 14.03%, the highest level since August 2019. In this period, domestic-PPI increased by 4.08% mom and 23.11% yoy, reaching the highest level of 17 months.

The CBRT increased the policy rate by 475 basis points to 15% and announced that all funding will be provided through the one-week repo rate, which is the main policy tool.

The changes in the economy management and the normalization/simplification measures taken by BRSA and CBRT during November, affected domestic markets positively, while TRY gained value.

GDP Growth

Turkish economy grew by 6.7% yoy in the third quarter.

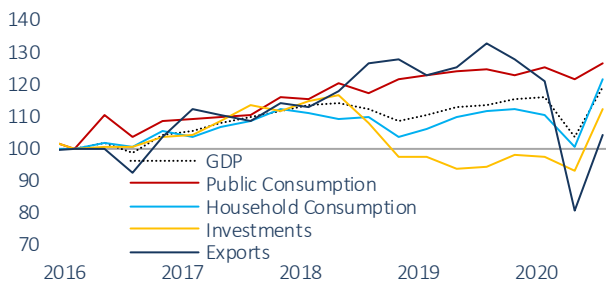
In the third quarter of 2020, economic growth in Turkey was above expectations at 6.7% yoy, according to the chain linked volume index. Market expectation was around 5% for this period. Turkish economy had contracted by 9.9% yoy in the second quarter, when the sharpest economic impact of the pandemic was felt.

	Contributions to Growth (% point)				
	2019	2020			
	Q4	Q1	Q2	Q3	9-M
Consumption	4.9	3.2	-5.5	5.5	1.1
Private	4.7	2.7	-5.2	5.4	1.1
Public	0.3	0.5	-0.3	0.1	0.1
Investment	0.2	-0.1	-1.6	5.2	1.4
Stock Change	6.8	5.3	5.0	5.1	5.1
Net Exports	-5.5	-4.0	-7.7	-9.1	-7.1
Exports	0.2	0.1	-9.2	-6.0	-5.2
Imports	-5.7	-4.1	1.5	-3.1	-1.9
GDP (yoy, %)	6.4	4.5	-9.9	6.7	0.5

Calendar adjusted GDP grew by 6.5% yoy in the third quarter. According to seasonally and calendar adjusted figures, Turkish economy, after shrinking by 10.8% qoq in the second quarter, expanded by 15.6% qoq in the third quarter.

Turkey's annual GDP at current prices became 4.7 trillion TRY as of the third quarter of 2020. In this period, annual GDP in USD terms was 736 billion USD.

GDP by Expenditure Approach
(index, Q1-2016=100, seasonally and calendar adjusted)



Consumption and investment expenditures boosted growth while net exports dragged it down.

According to expenditure approach, the contribution of consumption expenditures to growth was 5.5 pp in the third quarter. 5.4 pp of the said contribution came from private consumption while public consumption expenditures added only 0.1 pp to growth. In this period, change in stocks item, which also includes the statistical discrepancies, played an important role in growth performance by contributing 5.1 pp to the GDP growth.

According to chain linked volume figures, investment expenditures recorded its fastest increase since 2011 surging by 22.5% yoy and added 5.2 pp to the GDP growth. The

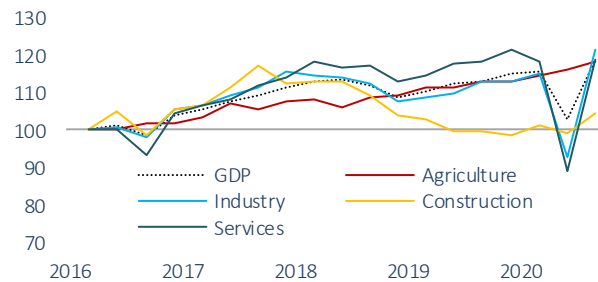
annual rise in machinery and equipment investments was 23.5%, the highest rate in more than five years. During this period, the annual change in construction investments turned positive for the first time after eight consecutive quarters of decline.

The increase in import volume parallel to the recovery in domestic economic activity and the weak performance in exports due to lower foreign demand caused net exports to be a big drag on the third quarter GDP growth. Import and export volumes limited growth by 6 pp and 3.1 pp, respectively. Therefore, net exports lowered the growth by 9.1 pp in this period.

GDP by production approach...

According to the production approach, all the main sub-sectors supported GDP growth in the third quarter. Thanks to the normalization of lockdown restrictions, services sector made the highest contribution to growth with 2.5 pp. As a large loan growth was recorded in the banking sector in this period, the above 40% real rise in financial services sub-sector was particularly noteworthy. Industrial sector made its highest contribution since the first quarter of 2018 with 1.5 pp. Agricultural and construction sectors added 0.8 pp and 0.4 pp to growth, respectively. This contribution of the agricultural sector was the highest in the last five years.

GDP by Production Approach
(index, Q1-2016=100, seasonally and calendar adjusted)



Expectations...

Thanks to the supportive measures taken by the policy makers and the loosening of the restrictions against the pandemic, Turkish economy showed a quicker-than-expected recovery in the third quarter. On the other hand, as of the last quarter of the year, due to a tighter stance in economic policies and the reintroduction of restrictive measures in fight with the pandemic in Turkey and around the world, growth expectations remain under pressure. Against this backdrop, we estimate that Turkish economy will end the year with a similar annual growth rate to that recorded as 0.5% in the first nine months of 2020. As of the last month of the year, decisions regarding the restrictive measures and the potential success of Covid-19 vaccines and the distribution process will be of key importance for the course of the economic activity in the period ahead.

Numbers may not add to total due to rounding.

Source: Datastream, Turkstat

Leading Indicators

Turkey's broad unemployment rate is at 23.3%.

In Turkey, unemployment rate decreased by 0.8 points yoy to 13.2%, and non-agricultural unemployment rate decreased by 1 point yoy to 15.7% in August period. The decrease in the labor force participation rate by 3.3 points to 50.6% played an important role in this development. In the August period, the number of employed decreased by 975K persons on an annual basis. According to the seasonally adjusted data, the unemployment rate decreased by 0.3 compared to the previous period to 13.2%. 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, became 23.3% in August.

Industrial production rose by 8.1% yoy in September.

The rise in industrial production, which was 10.6% yoy in August, continued in September, albeit losing some momentum. In this period, industrial production increased by 8.1% yoy according to calendar adjusted data. Thus, industrial production rose by 7.7% yoy in the third quarter. Seasonal and calendar adjusted industrial production increased by 30.3% in the third quarter compared to the second quarter, when the effects of the outbreak were felt intensely.

Calendar adjusted retail sales at fixed prices increased by 7.8% yoy and 2.8% mom in September. The monthly increase of 13.4% in the sales volume of textiles, clothing and shoes, which contracted by 7.5% on an annual basis in September, drew attention. Although the annual rise in mail and internet trade volume lost momentum compared to the previous months, it remained high with 88.4%.

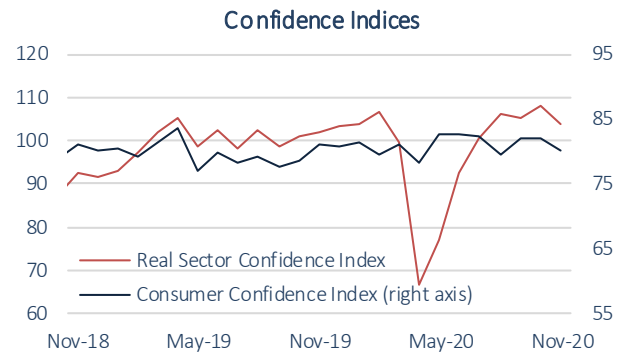
Manufacturing PMI fell to 51.4 in November.

Although manufacturing PMI data fell to 51.4 in November, it remained above the threshold level (50) for the sixth consecutive month. The index was at 53.9 in October. Sub-indices reflected the effects of the outbreak both in domestic and global markets. New orders sub-index decreased from October's 52.7 to 47.4 in November, new export orders sub-index from 51.7 to 49.5, and production sub-index from 54.7 to 49.1, indicating a contraction.

Decline in confidence indices...

According to seasonally adjusted data, the capacity utilization rate (CUR) across the manufacturing industry rose by 0.4 points mom to 75.3% in November. The upward trend in CUR has continued for 7 months, though losing momentum. In the same period, real sector confidence index decreased by 2.3 points to 107.4. Thus, the index declined for the first time since April. In November, compared to the previous month, sectoral confidence indices decreased by 2.8% in the service sector, 5.7% in the construction sector, and remained at the same level in the retail trade sector. Seasonally adjusted consumer confidence index also decreased by 2.2% mom in November and became 80.1. In this period, the households financial situation index in the last 12-month period decreased by 4.1% mom to 66.6, while the general economic

situation expectation index for the next 12 months decreased by 3.3% mom to 78.7.



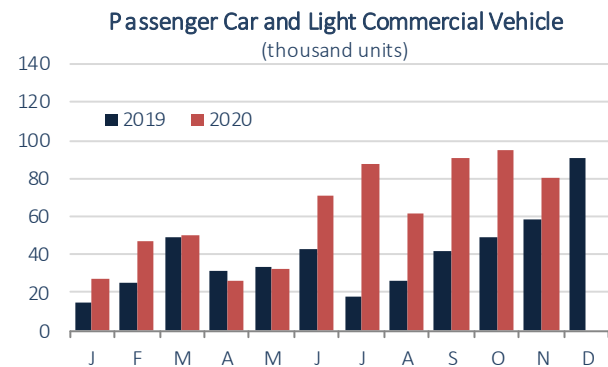
House sales decreased by 16.3% yoy in October.

In Turkey, house sales decreased by 16.3% yoy in October and became 119,574 units. In this period, mortgaged house sales, which accounted for 21.4% of total house sales, declined by 49.3% to 25,566 units. In the January-October period, total house sales increased by 27% to 1.3 million units, and mortgaged house sales rose by 124% to 534K units. House sales, which revived in summer in line with the loan support packages and the decrease in housing loan interest rates, have been showing a downward trend on a monthly basis since August along with the rise in interest rates.

According to the data published by the White Goods Manufacturers' Association of Turkey, domestic white goods sales expanded by 30% yoy in October. In the same period, export volume rose by 9% yoy. While domestic sales increased by 15% yoy in the January-October period, the negative effects of the pandemic on European countries, the main export market of the white goods industry, caused exports to shrink by 4%.

Automotive market continues to grow rapidly.

Although the automobile and light commercial vehicle market lost some momentum in November compared to previous months, it increased by 38% yoy and reached 80,141 units, according to the data announced by the Automotive Distributors Association (ODD). Sales increased by 72% in the January-November period, reaching 668,495 units. After high sales figures in automotive sales in recent months, ODD had increased its year-end market forecast by 25K to 725-775K in October.



Source: Turkstat, CBRT, Datastream, Ministry of Treasury and Finance

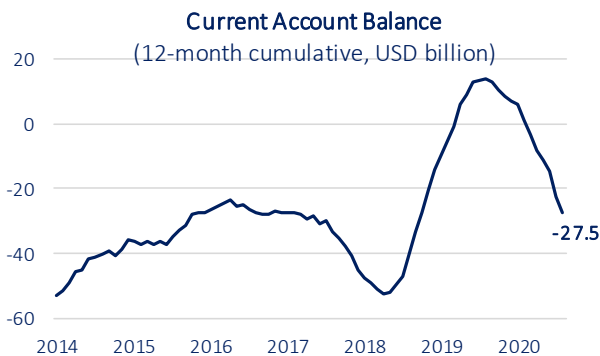
Foreign Trade and Balance of Payments

Foreign trade deficit became 2.4 billion USD in October.

According to TURKSTAT, exports increased by 5.6% yoy to 17.3 billion USD in October, while imports rose by 8.4% yoy to 19.7 billion USD. Thus, foreign trade deficit increased by 34.4% yoy and became 2.4 billion USD. During January-October 2020 exports declined by 9.1% yoy, while imports rose by 2.2% yoy. The foreign trade deficit rose by 76.2% yoy in this period. Import coverage ratio, which was 86.7% in January-October 2019, fell to 77.1% in the same period of this year.

In September current account gave a deficit of 2.4 billion USD.

Current account, which posted a surplus of 2.8 billion USD in September 2019, gave a deficit of 2.4 billion USD in the same month of this year. The rapid widening in the foreign trade deficit because of the rise in gold imports and the 2.9 billion USD yoy decline in net services revenues due to the decrease in transportation and tourism revenues played role in the expansion of the current account deficit. In September, 12-month cumulative current account deficit reached 27.5 billion USD, highest since November 2018.

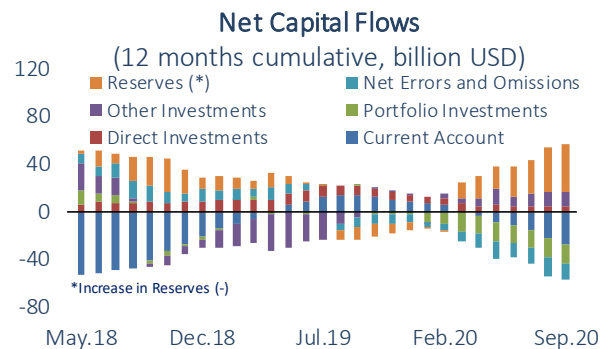


Foreign direct investments...

Foreign direct investments item recorded a net capital inflow of 437 million USD in September. In this period, 165 million capital inflow in transportation and warehousing sector came to the fore.

Portfolio investments...

The portfolio investments, which recorded an outflow of 2 billion USD in August, had an outflow of 607 million USD in September. In this period, nonresidents made net sales of 322 million USD in the stock market and net investment of 509 million USD in debt securities market. Following a total inflow of 1.4 billion USD in August, other investments recorded a net capital outflow of 1 billion USD in September. In this period, deposits of domestic banks at their foreign correspondents increased by 512 million USD, while foreign banks' deposits at domestic banks declined by 952 million USD. In this period, the general government and other sectors made net loan repayments of 48 million USD and 396 million USD, respectively. According to 12-month cumulative figures, the long-term debt rollover ratios became 83% in the banking sector and 63.5% in other sectors as of September.



Net Capital Flows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2019	Sep. 2020	Dec. 2019	Sep. 2020
Current Account Balance	8,561	-27,539	56.9	-
Total Net Foreign Capital Flows	5,225	352	-	-
-Direct Investment	6,128	4,711	40.7	8.2
-Portfolio Investment	-1,260	-16,673	-	-
-Other Investment	323	12,346	2.1	21.4
-Other	34	-32	0.2	-
Net Errors and Omissions	-7,462	-13,372	-	-
Reserves(1)	-6,324	40,559	-	70.4

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

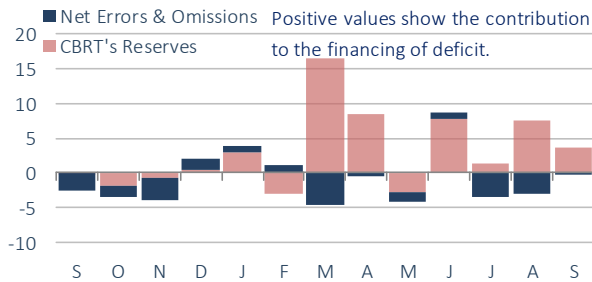
(1) (-) sign indicates an increase in reserves, while (+) sign indicates decrease.

Source: CBRT, Datastream

Foreign Trade and Balance of Payments

CBRT Reserves and Net Errors and Omissions

(monthly, USD billion)



Reserve assets decreased by 3.6 billion USD.

While the reserve assets decreased by 3.6 billion USD in September, the decline in reserve assets reached 42.6 billion USD in January-September period. In September there was capital outflow of 67 million USD in net errors and omissions item. Thus, net errors and omissions posted a capital outflow of 10.2 billion USD in the first 9 months of 2020.

Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports decreased by 0.95% yoy and became 16.1 billion USD in November, while imports rose by 16.07% to 21.2 billion USD. Thus the 155.4% growth in the foreign trade deficit during this period indicated that the pressure on the current account deficit continued. The rise in coronavirus cases worldwide and the widespread restrictive measures in European countries, Turkey's biggest export market, are expected to put pressure on the external balance for the rest of the year. On the other hand, optimistic news regarding vaccination studies indicate that these pressures may ease somewhat as of 2021.

Balance of Payments	(USD million)			
	2019	September 2020	% Change	12-month Cumulative
Current Account Balance	2,828	-2,364	-	-27,539
Foreign Trade Balance	-665	-3,709	457.7	-34,636
Services Balance	4,561	1,692	-69.2	16,400
Travel (net)	3,471	1,555	-55.2	11,962
Primary Income	-1,159	-544	-53.1	-10,039
Secondary Income	91	197	116.5	736
Capital Account	-6	-1	-83.3	-32
Financial Account	376	-2,432	-	-40,943
Direct Investments (net)	-7	-437	6,142.9	-4,711
Portfolio Investments (net)	-113	607	-	16,673
Net Acquisition of Financial Assets	143	794	455.2	301
Net Incurrence of Liabilities	256	187	-27.0	-16,372
Equity Securities	120	-322	-	-5,914
Debt Securities	136	509	274.3	-10,458
Other Investments (net)	467	1,029	120.3	-12,346
Currency and Deposits	1,289	1,219	-5.4	-22,378
Net Acquisition of Financial Assets	2,064	513	-75.1	-1,328
Net Incurrence of Liabilities	775	-706	-	21,050
Central Bank	-18	342	-	14,483
Banks	793	-1,048	-	6,567
Foreign Banks	510	-952	-	4,869
Foreign Exchange	764	-516	-	323
Turkish Lira	-254	-436	71.7	4,546
Non-residents	283	-96	-	1,698
Loans	339	-143	-	14,573
Net Acquisition of Financial Assets	111	218	96.4	193
Net Incurrence of Liabilities	-228	361	-	-14,380
Banking Sector	-807	805	-	-5,311
Non-bank Sectors	717	-396	-	-8,670
Trade Credit and Advances	-1,152	-64	-94.4	-4,633
Other Assets and Liabilities	-9	17	-	92
Reserve Assets (net)	29	-3,631	-	-40,559
Net Errors and Omissions	-2,446	-67	-97.3	-13,372

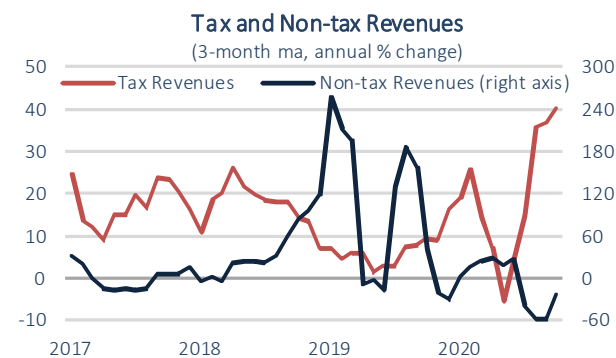
Source: CBRT, Datastream

Budget Balance

Central government budget posted a deficit of 4.9 billion TRY in October.

The central government budget deficit, which was 14.9 billion TRY in October 2019, became 4.9 billion TRY in the same period of this year. In October, budget revenues increased by 41.9% yoy to 92.8 billion TRY, while budget expenditures expanded by 21.6% yoy to 97.7 billion TRY. The primary balance, which gave a deficit of 8.1 billion TRY in October 2019, posted a surplus of 6.9 billion TRY in October 2020.

In January-October period, budget expenditures expanded faster than budget revenues. Budget expenditures increased by 18% yoy, while revenues expanded by 14.3%. Thus, the budget deficit, which was 100.7 billion TRY in the first 10 months of last year, rose by 44.5% yoy and reached 145.5 billion TRY in January-October 2020. In this period, primary balance gave a deficit of 25.9 billion TRY, nearly twofold of last year's level.



Rapid increase in tax revenues...

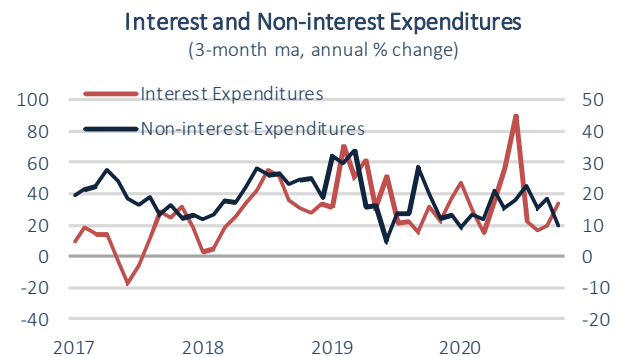
Tax revenues rose rapidly by 40.4% yoy in October and were realized as 76.6 billion TRY. In January-October period, tax revenues increased by 21.4% yoy. In October, the rapid rises recorded in VAT on domestic sales and on imports and SCT revenues came to the fore. In this period annual 69.4% increase in SCT revenues, which accounted for 28% of tax revenues, was derived from the increase in SCT rates on motor vehicles in September as well as tax revenues from petroleum-natural gas products and tobacco products. Value added tax on imports also went up by 40.4% in this period because of the rise in imports and the increase in FX rates. Domestic

VAT revenues expanded by 120.2% thanks to the realization of deferred collections in the spring period, and became an important item supporting the budget outlook.

In October, non-tax revenues, which accounted for 17.4% of budget revenues, rose by 50% yoy. In January-October period, non-tax revenues shrank by 7% compared to the same period last year.

Interest expenditures rose by 72.3% in October.

In October, interest expenditures and non-interest expenditures increased by 72.3% and 16.9% yoy, respectively. In this period, domestic debt interest payments nearly doubled annually and reached 7.7 billion TRY, while foreign debt interest payments rose by 37.7% to 2.9 billion TRY. Increases in current transfers and personnel and capital expenditures stood out among non-interest expenditures. Treasury aids, which are monitored under current transfers, went up by 4.2 billion TRY yoy, while shares to local administrations increased 1.9 billion TRY yoy.



Expectations...

The budget, which deteriorated for the majority of the year because of the measures taken against the coronavirus outbreak, displayed a moderate outlook in October thanks to the sharp rise in tax revenues. As of January-October, the budget deficit surpassed the target set at the beginning of the year, but was realized at 60.8% of the YEP target published in September. Due to the uncertainties caused by the pandemic the budget performance is expected to continue to remain under pressure in the last two months of the year.

Central Government Budget

	October		%	January-October		%	2020 Budget Target	NEP Target	Real./ NEP Target (%)
	2019	2020		2019	2020				
Expenditures	80,3	97,7	21,6	819,9	967,7	18,0	1.095,5	1.212,3	79,8
Interest Expenditures	6,8	11,8	72,3	88,3	119,6	35,4	138,9	137,4	87,0
Non-Interest Expenditures	73,5	85,9	16,9	731,6	848,1	15,9	956,5	1.074,9	78,9
Revenues	65,4	92,8	41,9	719,2	822,2	14,3	956,6	973,1	84,5
Tax Revenues	54,6	76,6	40,4	539,9	655,3	21,4	784,6	790,7	82,9
Other Revenues	10,8	16,2	49,6	179,3	166,8	-7,0	172,0	182,4	91,5
Budget Balance	-14,9	-4,9	-67,2	-100,7	-145,5	44,5	-138,9	-239,2	60,8
Primary Balance	-8,1	6,9	-	-12,4	-25,9	108,8	0,1	-101,8	25,4

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

Source: Datastream , Ministry of Treasury and Finance

Inflation

Monthly CPI came in at 2.30% in November.

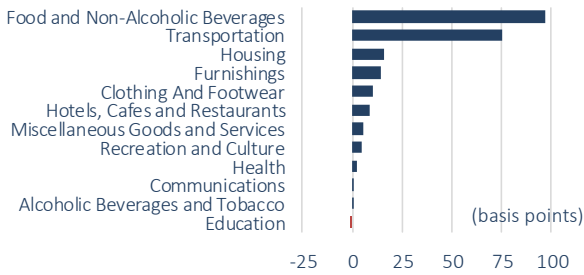
Inflation came in well above the market expectations in November. The monthly rise in CPI was realized as 2.30%, the highest level since October 2018. This figure was also the highest November level since 2002. The market's monthly CPI expectation for this period was around 1%. In November, domestic PPI (D-PPI) increased by 4.08%, the highest level in the last 26 months.

November	CPI		D-PPI	
(change %)	2019	2020	2019	2020
Monthly	0.38	2.30	-0.08	4.08
Year-to-Date	11.01	13.19	6.63	22.26
Annual	10.56	14.03	4.26	23.11
Annual Average	15.87	12.04	19.68	10.69

Annual CPI rose to 14.03%.

Annual CPI inflation gained momentum in November and was realized as 14.03%, the highest level since August 2019. Annual D-PPI inflation, which has been increasing rapidly since June, reached the highest level of the last 17 months with 23.11%.

Contributions to the Monthly CPI Inflation



Rapid increase in transportation and food prices...

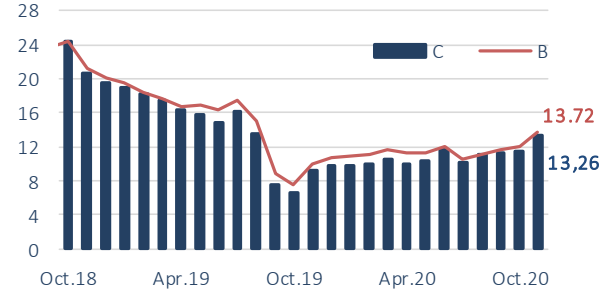
In November, prices rose in 10 out of the 12 main expenditure groups on a monthly basis. In this period, the transportation prices increased by 4.51% due to the rise in automobile prices and recorded the highest monthly increase. Thus, transportation prices increased the monthly CPI inflation by 72 bps. The rise in fresh fruit and vegetables prices were also noteworthy in the food group, which made the highest contribution to CPI inflation by 97 bps. The education group was the only group registering a monthly decrease in prices (-0.19% mom). The lowest annual price increase was in the alcoholic beverages and tobacco (0.67%), while the fastest rises were seen in miscellaneous goods and services (29.42%), in food and non-alcoholic beverages (21.08%), and in transportation (18.67%) groups.

The rise in core inflation indicators continued in November.

In November, the monthly increase in CPI excluding seasonal products came in at 2.09%, below the headline inflation. The upward trend on an annual basis since August continued also in November 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 are closely monitored by the CBRT. B and C indices increased by 13.72% yoy and 13.26% yoy, respectively.

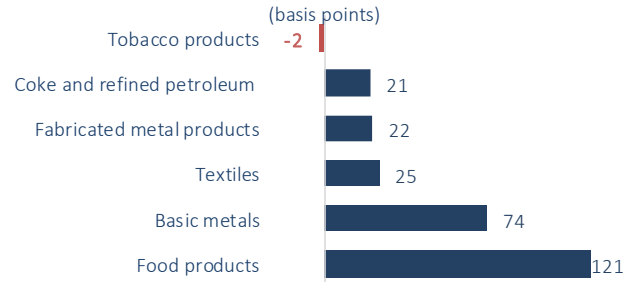
Special CPI Aggregates (annual % change)



Food products and basic metals continue to stand out in D-PPI inflation.

In November, among the sub-sectors of D-PPI, prices in basic metals recorded the highest increase with 7.4% mom and contributed the monthly inflation by 74 bps. Food group, where prices rose by 6.4%, made the highest contribution to monthly D-PPI inflation with 121 bps in this period. Tobacco products sector, where prices fell rapidly by 5.57% in November, limited the D-PPI by 2 bps.

Contributions of Featured Sub-Sectors to Monthly D-PPI



Expectations

November inflation came in well above market expectations due to the high increase in transportation and food prices along with the rise in commodity prices and the lagging effect of exchange rate changes. The acceleration in producer prices indicates that supply-side pressures on consumer inflation will remain high in the coming period. On the other hand, we believe that a possible slowdown in demand conditions due to the tightening steps of the CBRT and the restrictive measures taken against the pandemic, may ease some of the inflationary pressures. Following the higher-than-expected November data, market expectations for the year-end inflation could be revised upwards.

	30-Oct	30-Nov	Change
5-Y CDS (basis points)	554	381	-173 bps ▼
TR 2-Y Benchmark Yield	14.99%	13.80%	-119 bps ▼
BIST-100	1,112	1,284	15.4% ▲
USD/TRY	8.3448	7.8284	-6.2% ▼
EUR/TRY	9.7207	9.3398	-3.9% ▼
Currency Basket*	9.0328	8.5841	-5.0% ▼

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

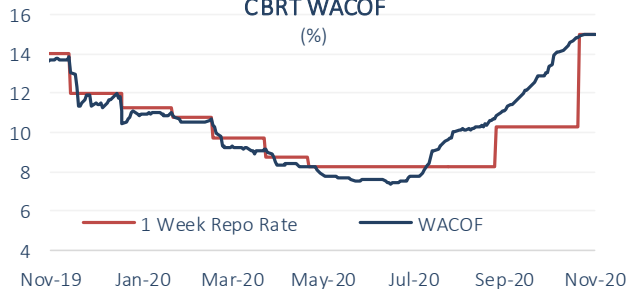
Changes in Economy Management...

In November, Naci Ağbal was appointed as the new CBRT Governor, while Lütfi Elvan was assigned as Minister of Treasury and Finance.

CBRT increased the policy rate to 15%.

In the first Monetary Policy Committee meeting held under the chairmanship of Naci Ağbal on November 19, CBRT increased the policy rate by 475 bps, from 10.25% to 15% in line with the market expectations. In the statement released after the meeting, it was declared that the lagged effects of the depreciation of the Turkish lira, the rise in international food prices and the deterioration in inflation expectations affected the inflation outlook negatively. Accordingly, the CBRT decided to implement a transparent and strong monetary tightening in order to restore the disinflation process as soon as possible. It was pointed out that decreasing country's risk premiums as well as reversing the dollarization trend and increasing foreign exchange reserves have remarkable roles on achieving macroeconomic and financial stability. The CBRT also announced that in addition to tightening, it has been decided to implement a simple operational framework in order to increase transparency and predictability. In light of these principles, it is pronounced that the Central Bank funding will be provided through the one-week repo rate, which will be the main policy tool and the only indicator for the monetary stance, as of 20 November 2020. The CBRT increased the TRY interest rate in the gold and FX swap market by 175 basis points to 15% as of November 20.

CBRT 1 Week Repo Rate and CBRT WACOF



Positive outlook in domestic markets...

At the start of the November global markets presented a negative outlook due to the re-emergence of restrictions around the world along with the rise in the number of coronavirus cases. However the global markets experienced noticeable gains throughout November with the support of the positive news flow regarding the vaccine studies against the pandemic.

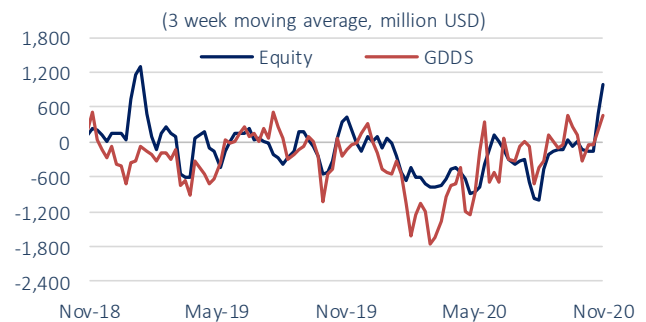
In Turkey, the normalization steps of the BRSB and the CBRT's tightening and simplification steps in the monetary policy by

increasing the policy rate had positive impact on domestic markets. The Turkish lira, which appreciated rapidly in the mid-November, returned some of its gains in the following weeks and the USD/TRY decreased by 6.2% mom while the EUR/TL rate declined by 3.9% mom. Turkey's 5-year CDS Premium decreased by 173 basis points and became 381 bps at the end of November. Thus, the CDS premium fell below the level of 400 basis points after 7 months. The compound interest rate of the 2-year benchmark bond decreased by 119 basis points mom and reached 13.8% on November 30. BIST-100 index increased by 15.4% throughout the month and closed November at 1,284 points. Turkey Wealth Fund and Qatar Investment Authority signed memorandum of understanding for the transfer of 10% share of Borsa Istanbul to the Qatar Investment Authority.

Securities portfolio of non-residents ...

According to the securities statistics published by the CBRT, a rapid capital inflow was recorded in the equity and bond markets in November, after the 10 months long outflow in foreign capital. As of November 27, the equity portfolio of non-residents, adjusted for price and exchange rate movements, expanded by a net 1.2 billion USD while government domestic debt securities (GDDS) increased by a net 612.1 million USD compared to the end of October. Compared to the end-2019, non-residents equity and GDDS portfolios declined by 4.6 billion USD and 7 billion USD, respectively.

Non-residents' Portfolio Movements



The precious metals swap market is opened.

On November 16, Borsa Istanbul launched the Precious Metals Swap Market in order to enable the exchange of precious metals and currencies. It was announced that the Precious Metals Swap Market, which will allow swap transactions of TRY, USD and EUR against gold, will be carried out by banks and intermediary institutions authorized in accordance with the Exchange regulations.

CBRT increased the reserve requirement ratios.

On November 27, the CBRT announced that they will repeal the reserve requirement practice that links the reserve requirement ratios and remuneration rates to real loan growth rates. In addition to that, the CBRT increased the reserve requirement ratios for TRY and foreign currency liabilities, stating that the same remuneration rate of 12% will be applied to the TRY denominated required reserves of all banks and the commission rate will be reduced to 0% from 1.25% for the reserve requirements maintained against USD denominated deposit/participation fund liabilities. As a result of these changes, CBRT predicts that required reserves of the banking system will increase by approximately 12.3 billion TRY and 5.7 billion USD in FX and gold.

Source: CBRT, Datastream, Reuters, BIST

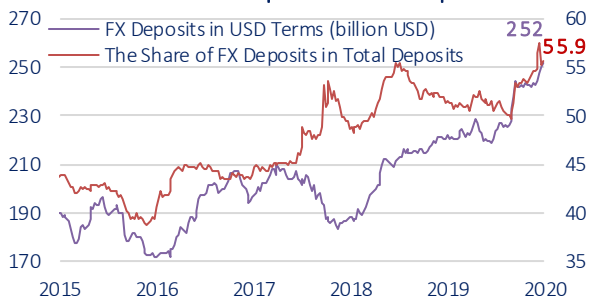
BRSA announced the repeal of the asset ratio regulation.

As a continuation of normalization steps, the BRSA decided to repeal the asset ratio regulation, which started to be implemented in May, and to repeal all the decisions taken regarding the ratio as of December 31, 2020. The BRSA also eased the limitations on the total amount of banks' currency swaps, forwards, options and other similar derivative transactions to be made by banks to non-residents. Accordingly, the total transaction amounts should be applied as 5% for transactions with the remaining maturity of 7 days, 10% for transactions with the remaining maturity of 30 days and 30% for transactions with the remaining maturity of 1 year. On November 30, the BRSA announced that the total amount of TRY placements, TRY deposits, TRY repo and TRY loans transactions to be made by banks to non-resident financial institutions will be applied as 2.5% instead of 0.5% of banks' most recently calculated regulatory capital.

Deposit volume rose by 43.5% yoy.

According to the BRSA's Weekly Bulletin, as of November 27, the deposit volume expanded by 43.5% yoy and 36.9% ytd and has reached 3,519 billion TRY. Annual rise in FX rate adjusted deposit volume was realized as 22%. TRY deposit volume increased by 30.1% yoy and became 1,551 billion TRY. FX deposits in USD terms rose by 14.3% yoy and reached 252 billion USD during this period. The share of FX deposits in total deposits became 55.9% as of November 27.

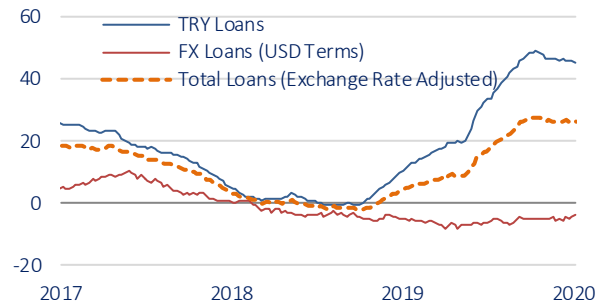
FX Deposit Volume in USD Terms and the Share of FX Deposits in Total Deposits



TRY loan volume expanded by 45% yoy.

As of November 27, the total loan volume of the banking sector increased by 39.7% yoy and by 36.6% ytd, reaching 3,623 billion TRY. The annual rise in FX rate adjusted loan volume became 26.5% in this period. While the annual TRY loan growth was 45%, FX loans in USD terms fell by 4.1% and became 164 billion USD.

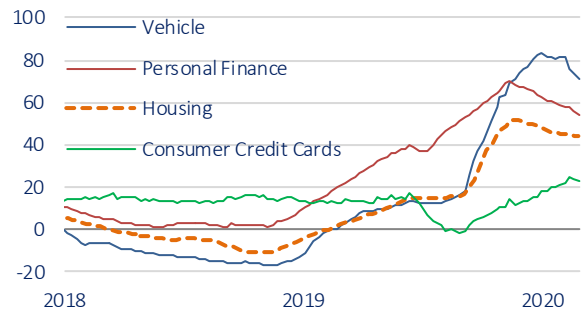
Loan Growth
(annual % change)



Consumer loans went up by 49.8% yoy.

The increase in consumer loans continues to lose momentum due to the rise in interest rates. As of November 27, consumer loan volume increased by 49.8% yoy, and 45.3% ytd. In this period the annual rise in housing and consumer loans became 43.5% and 54.2%, respectively. Although the rise in vehicle loans has slowed down, it still remained high with 71.3% yoy. As of November 27, the annual increase in the consumer credit cards volume became 22.5%.

Consumer Loans
(annual % change)



Non-performing loan ratio is 4%.

As of November 27, the amount of gross nonperforming loans increased by 4.9% yoy and became 150.6 billion TRY. NPL ratio, which has been decreasing since the end of 2019 with the impact of the expansion in loan volume, became 4% in this period. While the said ratio was 2.5% in public banks, it became 5.3% in private banks. In terms of loan types, NPL ratios for commercial and consumer loans were realized as 4.5% and 2.2%, respectively.

Net foreign currency position...

As of November 27, banks' on-balance sheet FX position was (-) 59,937 million USD, while off-balance sheet FX position was (+) 62,252 million USD. Hence, banking sector's net foreign currency position became (+) 2,315 million USD.

Concluding Remarks

In November, the news regarding highly effective Covid-19 vaccines affected the expectations for global economic activity and financial markets positively.

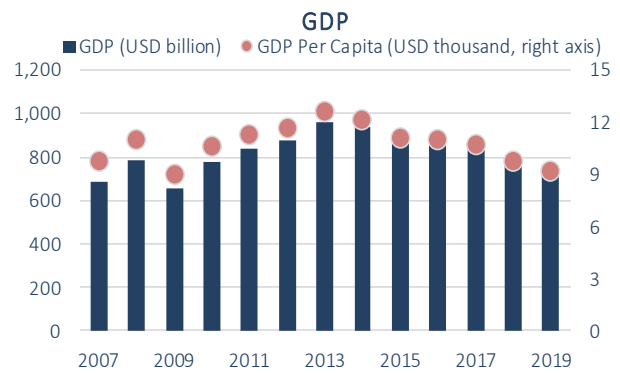
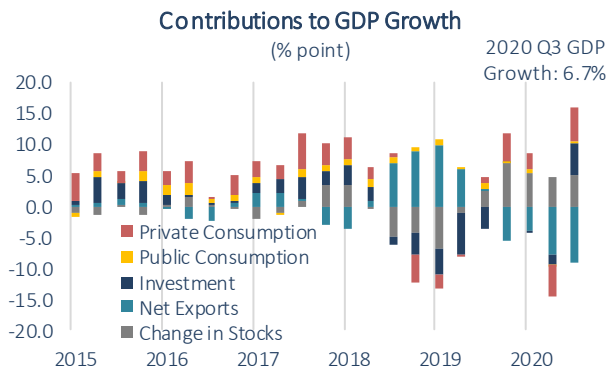
Leading central banks maintained their expansionary monetary policies in November as well. In this period, central bank officials continued to emphasize on the need to increase the effectiveness of fiscal policy, while international organizations draw attention to the increasing public debt on a global scale in their recent reports.

In November Turkish economy had a very heavy agenda. In addition to the statements underlining the importance of the price stability made after the changes in economy

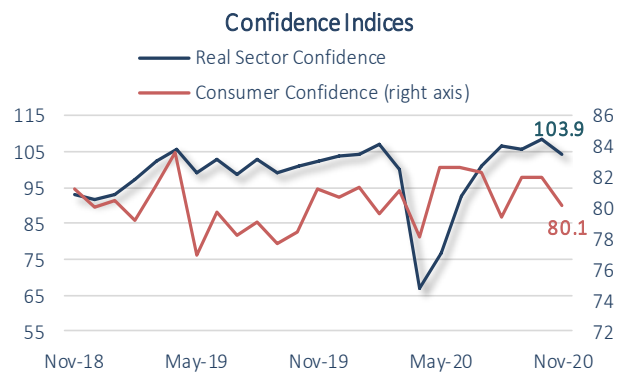
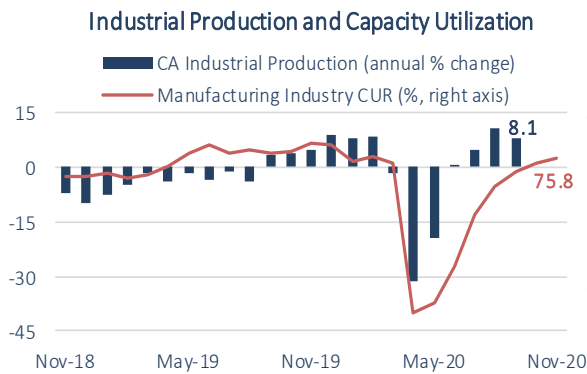
management, the normalization steps of the BRSA, the CBRT's tightening and monetary policy simplification steps affected the financial markets positively. Turkey's risk premium declined significantly, TRY assets gained value.

Turkey's GDP data on the third quarter of 2020 showed that the economy posted a strong recovery during this period thanks to the supportive measures and the loosening of restrictions against the virus outbreak. In addition to the success and distribution process of the vaccines, the recent restrictive measures implemented against pandemic will determine the course of the economic activity in the upcoming period.

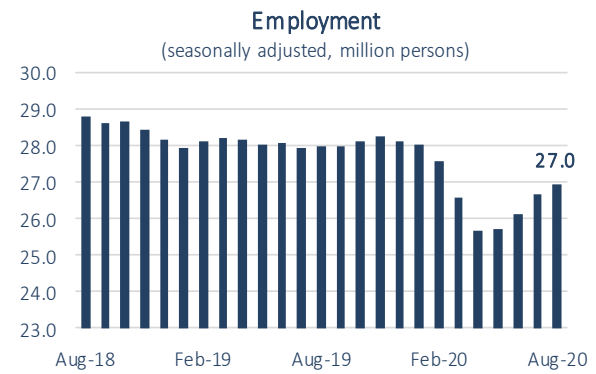
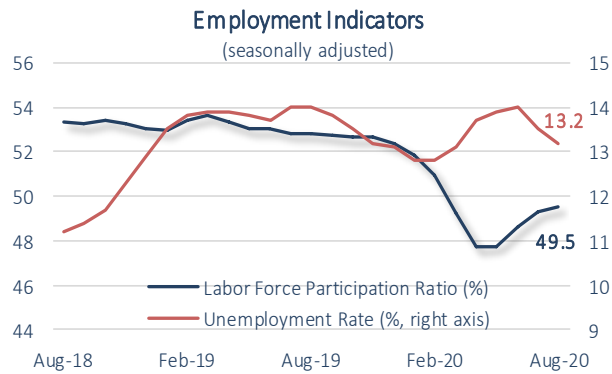
Growth



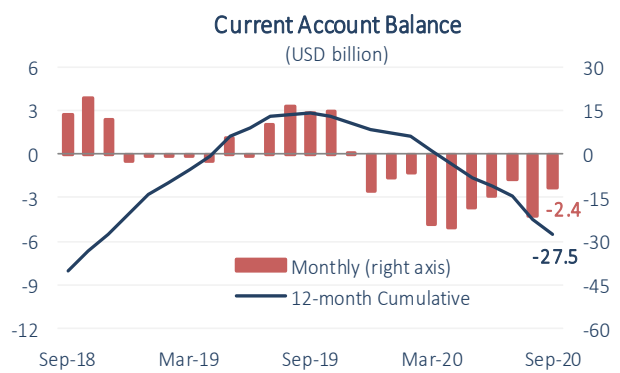
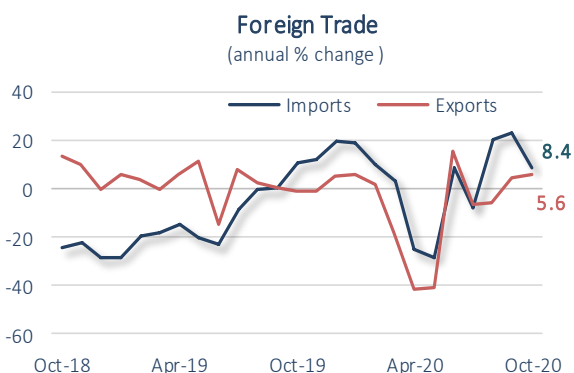
Leading Indicators



Labor Market



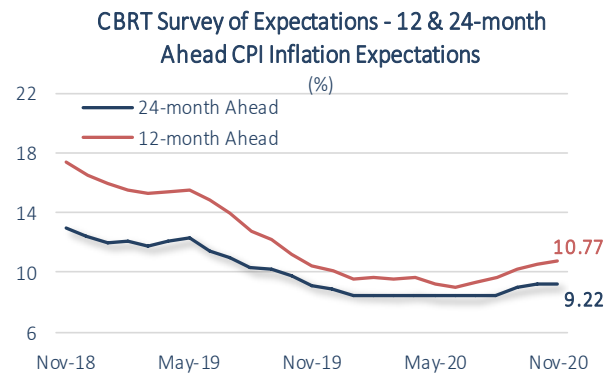
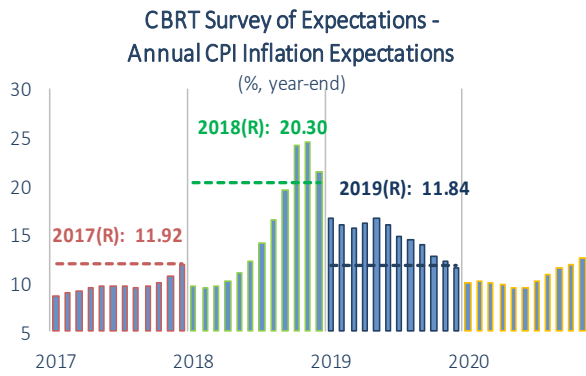
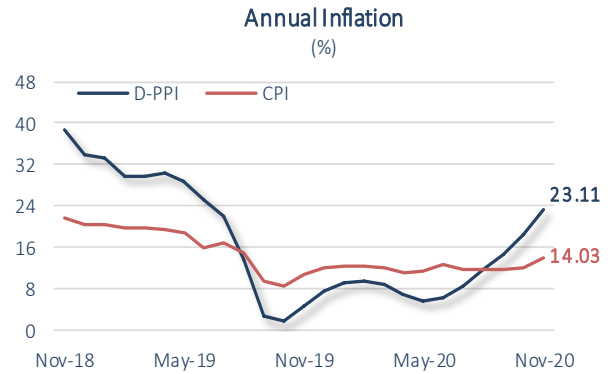
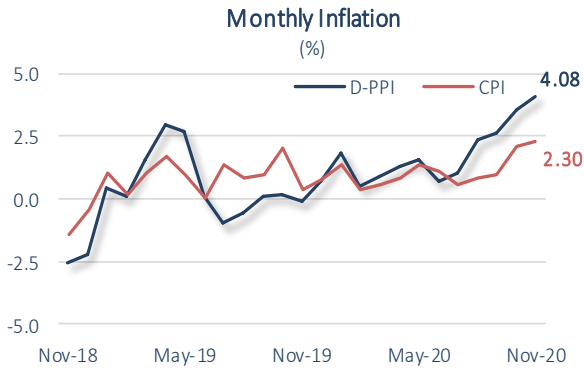
Foreign Trade and Current Account Balance



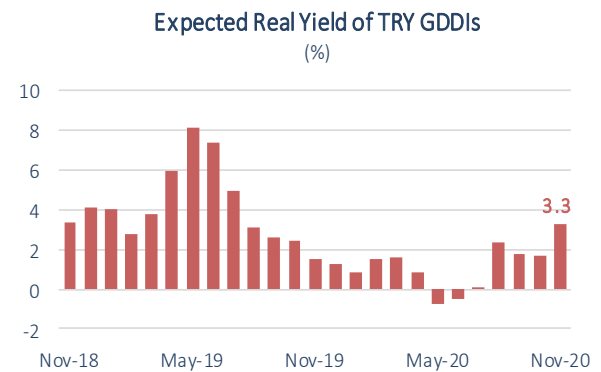
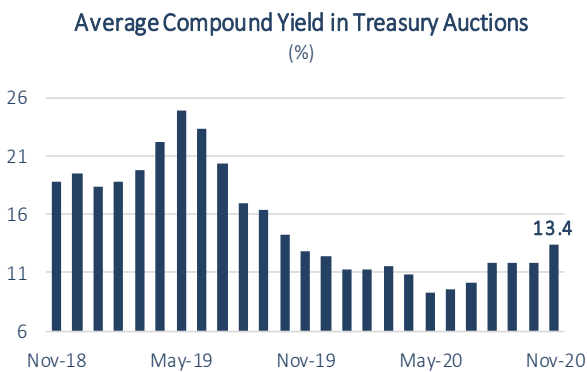
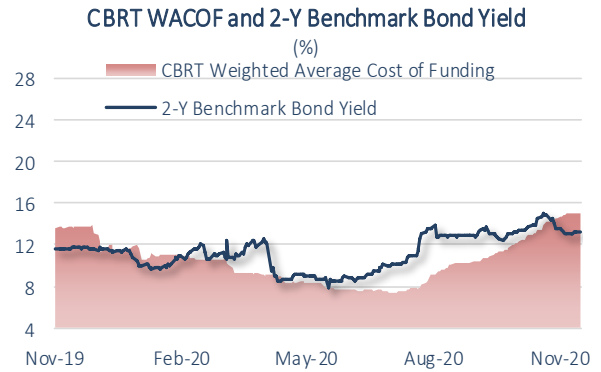
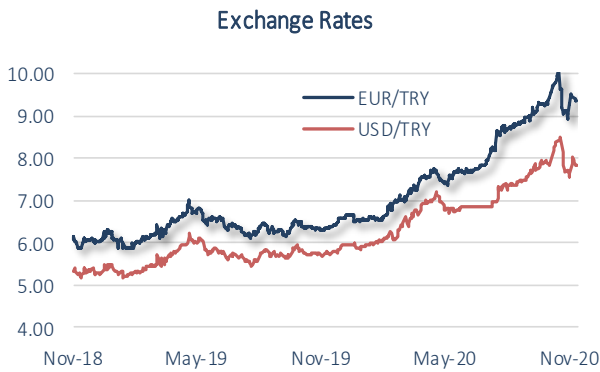
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2015	2016	2017	2018	2019	Q1-20	Q2-20	Q3-20
GDP (USD billion)	867	869	859	797	761	177	153	197
GDP (TRY billion)	2,351	2,627	3,134	3,758	4,320	1,074	1,042	1,420
GDP Growth Rate (%)	6.1	3.3	7.5	3.0	0.9	4.4	-9.9	6.7
Inflation (%)						Sep-20	Oct-20	Nov-20
CPI (annual)	8.81	8.53	11.92	20.30	11.84	11.75	11.89	14.03
Domestic PPI (annual)	5.71	9.94	15.47	33.64	7.36	14.33	18.20	23.11
Seasonally Adjusted Labor Market Figures						Jun-20	Jul-20	Aug-20
Unemployment Rate (%)	10.2	12.0	9.9	12.9	13.1	14.00	13.50	13.20
Labor Force Participation Rate (%)	51.7	52.4	53.1	53.0	52.3	48.60	49.30	49.50
FX Rates						Sep-20	Oct-20	Nov-20
CPI Based Real Effective Exchange Rate	99.1	93.6	86.4	76.5	76.3	62.3	60.7	
USD/TRY	2.9189	3.5176	3.7916	5.3199	5.9510	7.70	8.38	7.82
EUR/TRY	3.1708	3.7102	4.5530	6.0815	6.6800	9.03	9.76	9.36
Currency Basket (0.5*EUR+0.5*USD)	3.0448	3.6139	4.1723	5.7007	6.3155	8.37	9.07	8.59
Foreign Trade Balance⁽¹⁾ (USD billion)						Aug-20	Sep-20	Oct-20
Exports	151.0	149.2	164.5	177.2	180.8	165.7	166.4	167.3
Imports	213.6	202.2	238.7	231.2	210.3	208.7	212.6	214.2
Foreign Trade Balance	-62.6	-52.9	-74.2	-54.0	-29.5	-43.1	-46.3	-46.9
Import Coverage Ratio (%)	70.7	73.8	68.9	76.6	86.0	79.4	78.2	78.1
Balance of Payments⁽¹⁾ (USD billion)						Jul-20	Aug-20	Sep-20
Current Account Balance	-27.3	-26.8	-40.6	-20.7	8.6	-14.7	-22.3	-27.5
Capital and Financial Accounts	-21.2	-21.7	-46.8	-10.9	1.2	-28.9	-38.1	-40.9
Direct Investments (net)	-14.2	-10.8	-8.4	-9.4	-6.1	-4.6	-4.3	-4.7
Portfolio Investments (net)	15.3	-6.4	-24.1	3.1	1.3	15.3	16.0	16.7
Other Investments (net)	-10.6	-5.3	-6.2	5.7	-0.3	-10.6	-12.9	-12.3
Reserve Assets (net)	-11.8	0.8	-8.2	-10.4	6.3	-29.0	-36.9	-40.6
Net Errors and Omissions	6.1	5.1	-6.3	9.8	-7.4	-14.1	-15.8	-13.4
Current Account Balance/GDP (%)	-3.2	-3.1	-4.7	-2.6	1.1	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Aug-20	Sep-20	Oct-20
Expenditures	506.3	584.1	678.3	830.5	999.5	761.4	870.0	967.7
Interest Expenditures	53.0	50.2	56.7	74.0	99.9	91.6	107.8	119.6
Non-interest Expenditures	453.3	533.8	621.6	756.5	899.5	669.8	762.2	848.1
Revenues	482.8	554.1	630.5	757.8	875.8	650.5	729.4	822.2
Tax Revenues	407.8	459.0	536.6	621.3	673.3	510.4	578.7	655.3
Budget Balance	-23.5	-29.9	-47.8	-72.8	-123.7	-110.9	-140.6	-145.5
Primary Balance	29.5	20.3	8.9	1.3	-23.8	-19.3	-32.8	-25.9
Budget Balance/GDP (%)	-1.0	-1.1	-1.5	-1.9	-2.9	-	-	-
Central Government Debt Stock (TRY billion)						Aug-20	Sep-20	Oct-20
Domestic Debt Stock	440.1	468.6	535.4	586.1	755.1	1098.5	1,105.7	1,108.4
External Debt Stock	238.1	291.3	341.0	481.0	574.0	712.0	757.1	826.3
Total Debt Stock	678.2	760.0	876.5	1,067.1	1,329.1	1,810.4	1,862.9	1,934.7

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

Source: CBRT, Datastream, Ministry of Treasury and Finance, Reuters, Turkstat

Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2015	2016	2017	2018	2019	Sep.20	Oct.20	Change ⁽¹⁾
TOTAL ASSETS	2,357	2,731	3,258	3,867	4,492	6,004	6,236	38.8
Loans	1,485	1,734	2,098	2,395	2,657	3,555	3,662	37.8
TRY Loans	1,013	1,131	1,414	1,439	1,642	2,280	2,302	40.2
Share (%)	68.2	65.2	67.4	60.1	61.8	64.1	62.9	-
FX Loans	472	603	684	956	1,015	1,275	1,359	33.9
Share (%)	31.8	34.8	32.6	39.9	38.2	35.9	37.1	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	151.0	151.9	1.2
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	4.1	4.0	-
Securities	330	352	402	478	661	1,048	1,068	61.7
TOTAL LIABILITIES	2,357	2,731	3,258	3,867	4,492	6,004	6,236	38.8
Deposits	1,245	1,454	1,711	2,036	2,567	3,444	3,595	40.1
TRY Deposits	715	845	955	1,042	1,259	1,575	1,566	24.4
Share (%)	57.4	58.1	55.8	51.2	49.0	45.7	43.6	-
FX Deposits	530	609	756	994	1,308	1,870	2,029	55.1
Share (%)	42.6	41.9	44.2	48.8	51.0	54.3	56.4	-
Securities Issued	98	116	145	174	194	238	244	25.8
Payables to Banks	361	418	475	563	533	663	691	29.6
Funds from Repo Transactions	157	138	99	97	154	273	235	52.9
SHAREHOLDERS' EQUITY	262	300	359	421	492	569	573	16.3
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	46.3	50.0	-
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	59.2	58.7	-
Securities/Assets	14.0	12.9	12.3	12.4	14.7	17.5	17.1	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.1	57.4	57.7	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.5	103.2	101.8	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	19.4	19.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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