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Global Economy

In December, developments regarding the vaccination process and the new variant of Covid-19 virus, which was first spotted in the UK, came to the forefront. Although the global economic activity lost momentum during this period, it followed a moderate course.

The new stimulus package signed in the US and cautious optimism about 2021 brought about higher levels in equity indices in the last month of the year. Following the rapid rise recorded in November, oil prices increased by 8.8% in December.

The UK and the EU reached a post-Brexit trade deal.

The Fed did not change its monetary policy at its December meeting. While the Central Bank revised its growth forecasts for the 2020-2022 period upwards, it left the interest rate estimates at the current levels. Recently, the data announced in the US indicate that the economic activity in the country continues at a modest pace.

Despite the restrictive measures taken due to the pandemic in the Euro Area, manufacturing PMI data increased slightly compared to the previous month and became 55.5 in December. Services PMI continued to remain below the 50 threshold level, rising on a monthly basis to 46.4.

ECB expanded the Pandemic Emergency Asset Purchase Program by 500 billion euro to 1,850 billion euro, while the asset purchases were extended to end-March 2022 at the earliest.

Economic activity in China continues to present a positive outlook. Manufacturing PMI in December was 51.9, while services PMI became 55.7.

While China announced that the tariff exemption on 6 chemicals and petroleum products imported from the US will be extended for 1 year, the US announced that it increased tariffs on some European Union products due to the Boeing-Airbus dispute with the European Union.

Turkish Economy

Although the manufacturing PMI decreased by 0.6 points on a monthly basis to 50.8 in December, it continued its course above the threshold level for seven consecutive months.

Calendar adjusted industrial production increased above the expectations by 10.2% yoy in October. According to the seasonal and calendar adjusted data, the monthly rise in industrial production was realized as 1.1% in this period.

In October, the current account deficit decreased by 89.3% on a monthly basis, and became 273 million USD, the lowest level since December 2019. According to 12-month cumulative data, the current account deficit reached 33.8 billion USD in October.

In the January-November period, budget expenditures went up by 18.8% yoy, while budget revenues increased by 16.1% yoy. Thus, the budget deficit increased by 42.1% compared to the same period of the previous year and reached 132.1 billion TL.

In December, CPI rose by 1.25% mom, above market expectations, while the annual CPI inflation reached 14.60% at the end of 2020. During this period, the domestic PPI increased by 2.36% mom, while the annual rise in D-PPI became 25.15%.

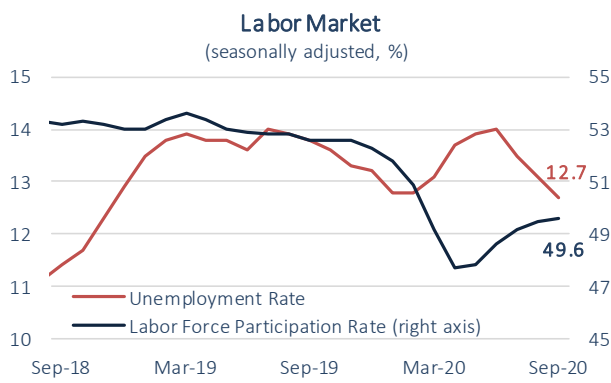
The CBRT raised the policy rate by 200 basis points from 15% to 17% at its December meeting. Emphasis on price stability, simplification and transparency were at the forefront in the Monetary and Exchange Rate Policy for 2021.

The BRSA extended the duration of the measures taken to ease the financing conditions during the pandemic. BRSA also changed the installment periods for credit cards and the maturity limits for consumer loans.

Leading Indicators

Unemployment rate became 12.7%.

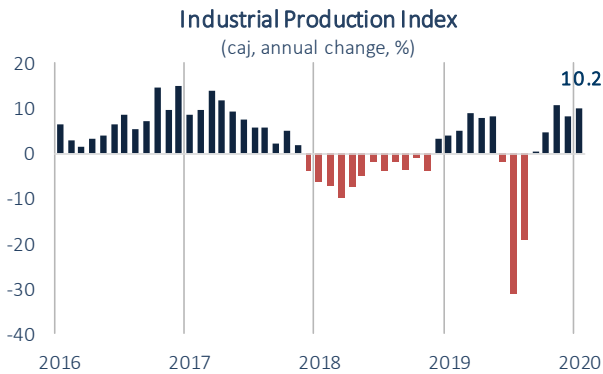
The unemployment rate fell by 1.1 points yoy to 12.7%, while non-agricultural unemployment rate decreased by 1.5 point yoy to 14.9% in the September period. The decrease in the labor force participation rate by 3 points yoy to 50.5% played an important role in this development. Total employment decreased by 733K people on an annual basis in September period. The number of employed persons decreased by 520K in the services sector, 350K in the agricultural sector, 29K in industrial sector, while it increased by 166K in the construction sector. The broad unemployment rate, 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 22.9% in September. The practice of short work allowances and layoff bans mitigating the negative impact of the pandemic on the labour market has been extended until March 2021.



Industrial production rose by 10.2% yoy in October.

The rise in industrial production since June continued also in October. According to the calendar adjusted data, industrial production increased above the expectations, by 10.2% yoy in October. In this period, seasonal and calendar adjusted industrial production also rose by 1.1% on a monthly basis.

Calendar adjusted retail sales at fixed prices increased by 12% yoy and 4.4% mom in October. In this period, the annual rises in food, drinks and tobacco sales, non-food sales and automotive fuel sales gained momentum, and reached 14.8%, 12.8% and 6.5%, respectively. The annual increase of 98.3% in mail orders and internet sales in October, drew attention.



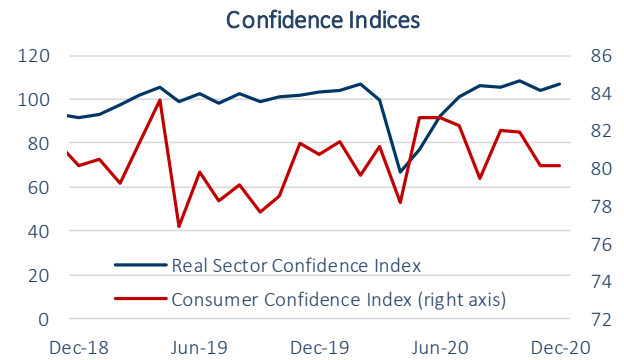
Manufacturing PMI became 50.8 in December.

Although the manufacturing PMI decreased by 0.6 points mom to 50.8 in December, the index continued its course above the threshold level for seven consecutive months. In December the

production and new orders sub indices lost momentum due to the pandemic and the restrictions, while new export orders index decreased because of the second wave in the pandemic in many export markets. On the other hand, the rise in employment index and purchasing activities continued in December. The disruptions in supply strengthened inflationary pressures in this period.

Confidence indices...

The seasonally adjusted real sector confidence index increased by 3 points on a monthly basis and became 110.4 in December. Sub-indices regarding the fixed investment expenditures and production expectation for the next 3 months posted a positive outlook. In the same period, seasonally adjusted consumer confidence index remained flat at 80.1 compared to the previous month. On the other hand, sectoral confidence indices declined in this period. Seasonally adjusted service sector confidence index declined by 9.2% mom to 70.4. The decline in the sub-indices of business situation in the last 3 months and the demand outlook for services, were behind this development. In the same period, retail trade confidence index went down by 7.8% to 87.6, while construction sector confidence index decreased by 7.2% to 73.3.



The decline in house sales continues.

House sales in Turkey, which posted an annual decrease since September due to the increase in interest rates, declined by 18.7% yoy to 112,483 units in November. In this period, the mortgaged house sales, which had a share of 21.7% in total sales, decreased by 44.3% yoy to 24,450 units. In January-November period, total house sales rose by 21.5% to 1.4 million units, and mortgaged house sales went up by 98% to 559K units. In October, residential property price index (RPPI) increased by 2.2% mom and 29.2% yoy. The annual rise in RPPI became 15.5% in real terms.

White goods sales rose by 16% yoy in November.

According to the figures of White Goods Manufacturers' Association of Turkey, domestic sales of the six main product groups consisting of refrigerators, washing machines, dishwashers, freezers, dryers and ovens increased by 16% yoy in November. In the same period, exports volume of the sector expanded by 14%. In January-November period, domestic sales rose by 12% yoy, while exports contracted by 6% yoy due to the impact of the pandemic.

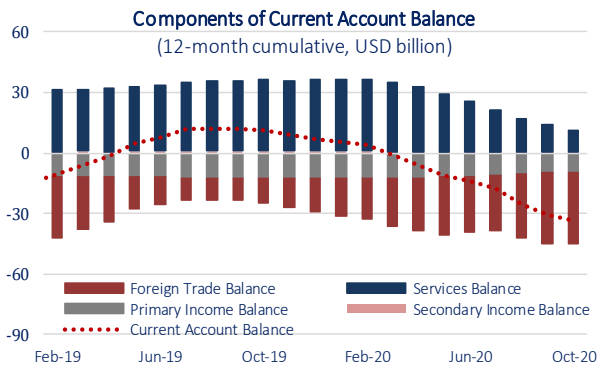
Foreign Trade and Balance of Payments

Foreign trade deficit continued to expand in November.

According to TURKSTAT, exports decreased by 0.9% yoy to 16.1 billion USD in November, while imports rose by 15.9% yoy to 21.1 billion USD. Thus, foreign trade deficit expanded rapidly by 153.5% yoy and increased to 5 billion USD in this period. During January-November 2020 exports declined by 8.3% yoy, while imports rose by 3.5% yoy. Import coverage ratio, which was 86.9% in January-November 2019, fell to 77% in the same period of this year.

The current account gave 273 million USD deficit in October.

Current account, which posted a surplus of 2.7 billion USD in October 2019, gave a deficit of 273 million USD in October 2020. As well as the widening in foreign trade deficit annual decrease (2.9 billion USD) in net inflows in services balance was effective in this development. On the other hand, in October 2020, the current account deficit fell by 89.3% mom and was realized at the lowest level since December 2019. In October, 12-month cumulative current account deficit became 33.8 billion USD.

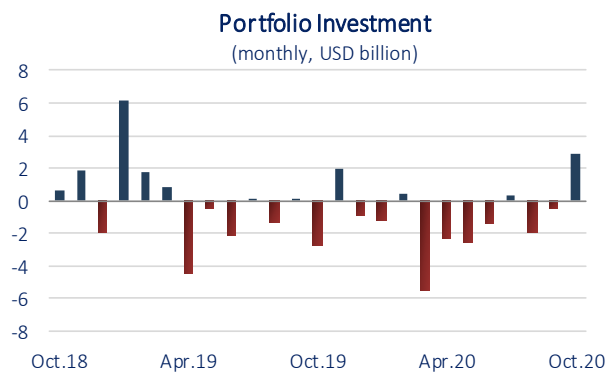


Strong inflow in portfolio investments...

In October, nonresidents' net direct investments were realized as 303 million USD in Turkey. In this period,

among direct investments real estate investments were the only item which recorded capital inflows. The capital outflow in capital investments item for the first time since 2017 also drew attention.

There was a rise in portfolio investments in October. Portfolio investments, which had a capital outflow of 2.8 billion USD in October 2019, recorded a capital inflow of 2.9 billion USD in the same month of this year. In this period, non-residents continued to make net sales in equity market, while they became buyers in debt securities market. The Ministry of Treasury and Finance's bond issuance abroad (2.5 billion USD) for the first time since February 2020 was effective in this development. Banks and other sectors also borrowed 50 million USD and 650 million USD, respectively, in October.



Other investments recorded a limited capital outflow of 70 million USD in October. In this period, the banks were net debt repayers in both short and long terms, while their commercial loans have increased. On the other hand, in October, deposits of domestic banks at their foreign correspondents decreased by 3.1 billion USD, while foreign banks' deposits at domestic banks increased by 432 million USD. According to 12-month cumulative figures, the long-term debt rollover ratio of the banking sector became 84.6% as of October, while the said ratio became 67.4% in other sectors.

Net Capital Flows

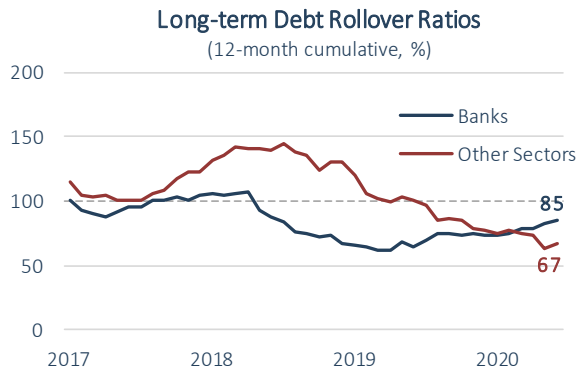
	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2019	Oct. 2020	Dec. 2019	Oct. 2020
Current Account Balance	6,909	-33,795	51.6	-
Total Net Foreign Capital Flows	5,228	2,714	-	-
-Direct Investment	6,128	4,214	45.7	8.1
-Portfolio Investment	-1,260	-10,876	-	-
-Other Investment	326	9,408	2.4	18.1
-Other	34	-32	0.3	-
Net Errors and Omissions	-5,813	-7,166	-	-
Reserves(1)	-6,324	38,247	-	73.7

Note: The numbers may not addup total due to rounding.

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

Source: CBRT, Datastream

Foreign Trade and Balance of Payments



Reserve assets increased by 4.2 billion USD in October.

The reserve assets which has been decreasing since June increased by 4.2 billion USD in October. Thus, the decline in reserve assets which had been 42.6 billion USD as of January-September 2020, fell to 38.5 billion USD in January -October period. In October, there was a net capital inflow of 1.6 billion USD in net errors and omissions item.

Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports increased by 16% yoy and became 17.8 billion USD in the last month of 2020, while imports rose by 11.8% to 22.4 billion USD. The export volume, which was under pressure due to the virus pandemic throughout 2020, completed the year at 169.5 billion USD with an annual loss of 6.3%, while the import volume, supported by gold import which remained high throughout the year, reached 219.4 billion USD with an expansion of 4.3%. Thus, in 2020, the foreign trade deficit widened by 20.4 billion USD to 49.9 billion USD. Although the vaccines developed against the coronavirus limit the uncertainty regarding the recovery in the global economy to some extent, uncertainty about the process of vaccination continues. The downward revision of the growth expectations for 2021 for the European Union, our largest export market, also indicates that the effects of the pandemic will continue to put pressure on foreign trade in the coming period. On the other hand, considering the improvement in risk perception towards Turkey, depending on the course of relations with the US and the EU, there would be a more positive outlook in the financing side of the current account deficit.

Balance of Payments

	Oct. 2020	Jan. - Oct. 2019	2020	% Change	12-month Cumulative
Current Account Balance	-273	9,649	-31,055	-	-33,795
Foreign Trade Balance	-1,267	-12,134	-30,626	152.4	-35,243
Services Balance	1,576	31,715	6,586	-79.2	10,399
Travel (net)	1,335	23,060	7,372	-68.0	10,031
Primary Income	-613	-10,519	-7,257	-31.0	-9,552
Secondary Income	31	587	242	-58.8	601
Capital Account	-1	37	-29	-	-32
Financial Account	1,331	5,209	-36,914	-	-40,993
Direct Investment (net)	-27	-5,076	-3,162	-37.7	-4,214
Portfolio Investment (net)	-2,895	2,300	11,916	418.1	10,876
Net Acquisition of Financial Assets	-139	3,675	-434	-	545
Net Incurrence of Liabilities	2,756	1,375	-12,350	-	-10,331
Equity Securities	-146	62	-5,803	-	-5,459
Debt Securities	2,902	1,313	-6,547	-	-4,872
Other Investment (net)	70	1,865	-7,217	-	-9,408
Currency and Deposits	-3,419	-1,114	-16,992	1,425.3	-20,383
Net Acquisition of Financial Assets	-3,301	7,880	-219	-	-277
Net Incurrence of Liabilities	118	8,994	16,773	86.5	20,106
Central Bank	53	506	12,549	2,380.0	14,538
Banks	65	8,488	4,224	-50.2	5,568
Foreign Banks	432	5,286	3,373	-36.2	4,322
Foreign Exchange	857	4,983	-351	-	467
Turkish Lira	-425	303	3,724	1,129.0	3,855
Non-residents	-367	3,202	851	-73.4	1,246
Loans	-189	13,960	7,834	-43.9	11,428
Net Acquisition of Financial Assets	-1,702	179	-1,837	-	-1,648
Net Incurrence of Liabilities	-1,513	-13,781	-9,671	-29.8	-13,076
Banking Sector	-1,995	-11,229	-4,993	-55.5	-5,098
Non-bank Sectors	534	-1,526	-4,148	171.8	-7,554
Trade Credit and Advances	3,679	-10,925	1,941	-	-549
Other Assets and Liabilities	-1	-56	0	-100.0	96
Reserve Assets (net)	4,183	6,120	-38,451	-	-38,247
Net Errors and Omissions	1,605	-4,477	-5,830	30.2	-7,166

Source: CBRT, Datastream

Budget Balance

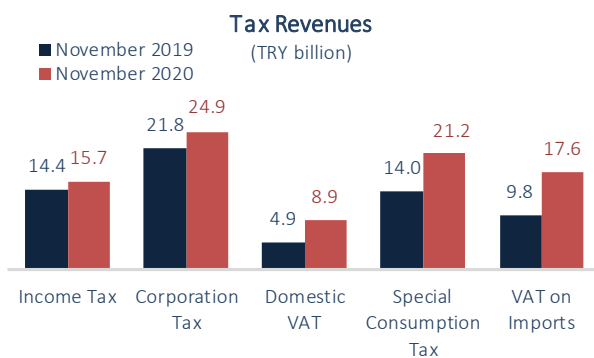
The central government budget posted a surplus of 13.4 billion TRY in November.

The central government budget, which gave a deficit of 4.9 billion TRY in October, posted a surplus of 13.4 billion TRY in November. The budget had a surplus of 7.8 billion TRY in November 2019. The primary balance rose by 50.4% yoy posting a surplus of 22.9 billion TRY in November 2020.

In November, budget revenues increased by 31.8% yoy to 109.7 billion TRY, while budget expenditures grew by 27.5% to 96.3 billion TRY. In January-November period, annual increases in budget revenues and budget expenditures were realized as 16.1% and 18.8%, respectively. In this period, the budget deficit expanded by 42.1% on an annual basis to 132.1 billion TRY. The primary balance, which gave a surplus of 2.8 billion TRY in January-November 2019, posted a deficit of 3 billion TRY in the same period of this year.

Tax revenues increased by 35.3% yoy in November.

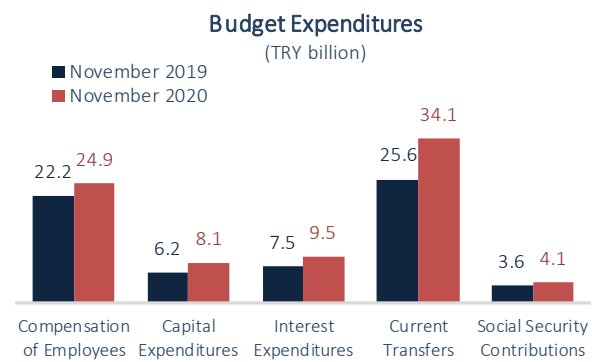
Tax revenues, which were 73.4 billion TRY in November 2019, rose by 35.3% yoy and reached 99.3 billion TRY in November 2020. Positive outlook in domestic demand was behind the rise in tax revenues. Special consumption tax (SCT) revenues increased by 51.3% yoy to 21.2 billion TRY in November 2020. SCT from motor vehicles item, that has a prominent share in SCT revenues, increased by 3.5 times compared to last year and was realized as 6.6 billion TRY, while SCT from petroleum and natural gas products rose by 15.3% yoy. With the impact of the rapid annual rise in imports as well as the increase in foreign exchange rates, the value added tax (VAT) on imports



went up by 80.4% yoy to 7.9 billion TRY in November 2020. The 81.6% increase in domestic VAT revenues also supported tax revenues.

Interest expenditures rose by 27.2% yoy in November.

The 8.5 billion TRY rise in the current transfers which stemmed from Treasury supports aiming to limit the effects of the pandemic on the economic activity drove the rise in budget expenditures in November. In this period, the annual increase of 52.3% in the purchase of goods and services item had also an upward pressure on expenditures. Real estate capital and production expenditures was another item that recorded a high annual rise in November. Interest expenditures went up by 27.2% yoy and reached 9.5 billion TRY in November 2020. Domestic and foreign debt interest expenditures accounted for 53% and 29% of this amount, respectively.



Expectations...

The budget, which deteriorated during the majority of the year because of the measures taken against the coronavirus outbreak and had a moderate outlook in October, displayed a positive performance in November thanks to the strong rise in tax revenues. In December, a new support package worth of 5 billion TRY was announced while the period for tax deductions was extended until 1 June. Taken the recently tightened restrictive measures against the pandemic and the new supportive measures into account, the budget performance is expected to continue to remain under the impact of the pandemic for a while longer.

Central Government Budget

	November		%	January-November		%	2020 Budget Target	(billion TRY)	
	2019	2020		2019	2020			NEP Target	Real./ NEP Target (%)
Expenditures	75.5	96.3	27.5	895.4	1,064.0	18.8	1,095.5	1,212.3	87.8
Interest Expenditures	7.5	9.5	27.2	95.8	129.1	34.8	138.9	137.4	93.9
Non-Interest Expenditures	68.0	86.8	27.6	799.6	934.9	16.9	956.5	1,074.9	87.0
Revenues	83.3	109.7	31.8	802.5	931.9	16.1	956.6	973.1	95.8
Tax Revenues	73.4	99.2	35.3	613.2	754.6	23.0	784.6	790.7	95.4
Other Revenues	9.9	10.5	5.8	189.2	177.3	-6.3	172.0	182.4	97.2
Budget Balance	7.8	13.4	72.7	-92.9	-132.1	42.1	-138.9	-239.2	55.2
Primary Balance	15.2	22.9	50.4	2.8	-3.0	-	0.1	-101.8	2.9

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

Source: Datastream , Ministry of Treasury and Finance

Inflation

In December, CPI inflation came in above expectations.

CPI increased by 1.25% mom in December. Markets were expecting a rise of 0.9% on a monthly basis. Domestic PPI (D-PPI) recorded an increase of 2.36% during this period.

Annual CPI inflation rose to 14.60% in 2020.

Annual CPI inflation, which was 11.84% at the end of 2019, reached 14.60% in December 2020. CBRT's inflation expectation for the year-end was 12.1% in its Inflation Report published in late October. Annual rise in D-PPI, which was 7.36% in December 2019, stood at 25.15% at 2020 year-end.

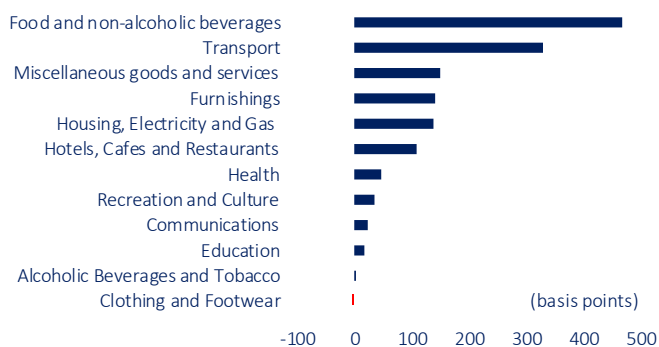
December (change %)	CPI		D-PPI	
	2019	2020	2019	2020
Monthly	0.74	1.25	0.69	2.36
Annual	11.84	14.60	7.36	25.15
Annual Average	15.18	12.28	17.56	12.18

Food and transportation prices drove CPI inflation up.

In December, prices rose in 8 out of the 12 main spending groups on a monthly basis. Food prices increased by 2.3% mom and made the highest contribution to CPI inflation by 60 bps in December. Among food group, the rises of fresh fruit and vegetable prices drew attention. Transportation group followed food group with a contribution of 43 bps to CPI. Prices in clothing and footwear group decreased by 3.1% mom in December and pulled the monthly CPI inflation down by 13 bps. Prices declined slightly in the alcoholic beverages and tobacco, as well as in education and miscellaneous goods and services groups in this period.

Looking at the annual CPI inflation, the highest contributions came from food and transportation groups with 469 and 330 bps, respectively. Thus, 8 points of annual CPI inflation, which was realized at 14.6%, came from these two main spending groups. In addition, the prices of miscellaneous goods and services surged more rapidly (28.1%) compared to other main expenditure groups and added 151 bps to the annual consumer inflation.

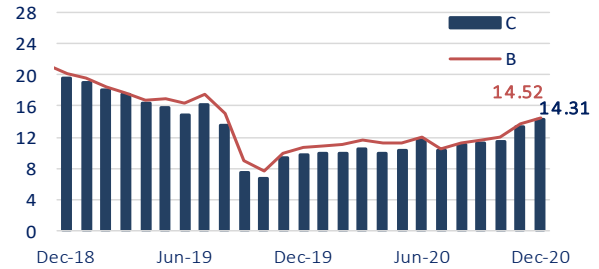
Contributions to the Annual CPI Inflation



Core inflation indicators...

CPI excluding seasonal products increased slightly above the headline inflation with 1.40% mom. CBRT's favorite core inflation indicators, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) increased by 1.11% mom and C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold) rose by 0.99% in December. Annual increases in B and C indices were realized as 14.52% and 14.31%, respectively.

Special CPI Aggregates (annual % change)



Basic metals and food prices pushed up annual D-PPI inflation.

The prices in 23 out of 29 subsectors increased in December. In this period, the rise in D-PPI was mainly driven by basic metals and coke and refined petroleum products sub-sectors. The said groups pushed monthly D-PPI inflation up by 64 bps and 43 bps, respectively. During this period, prices in electricity&gas sector fell by 1.21% mom and dragged monthly D-PPI inflation down by 8 bps.

The highest contributions to the annual D-PPI inflation came from basic metals and food products by 551 bps and 464 bps, respectively. During this period, tobacco products sector was the only sector that pulled down the annual D-PPI slightly by 7 bps.

Expectations...

Due to the rapid increases in November and December, annual CPI inflation came in above expectations and reached 14.6% at the end of 2020. In the coming months, the inflation outlook will continue to be driven by domestic demand and exchange rate developments. The recent cancellation of automatic price hikes in tobacco products for the first half of 2021 and the extension of the value-added tax cuts for some services until May are expected to have positive impact on inflation outlook. On the other hand, the 21.6% rise in the minimum wage for 2021 and adjustments in the natural gas and electricity prices as well as highway and bridge tolls are among the upside risks to inflation. We predict that inflation will continue to hover at high levels in the first half of 2021. Under the assumption that the CBRT will maintain its tight monetary policy stance, we expect inflation to follow a downward course in the second half of the year thanks to the weakening effect of exchange rate pass-through.

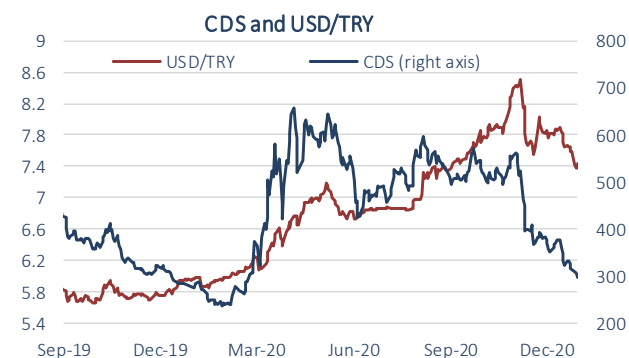
Source: Datastream, Turkstat

	30-Nov	31-Dec	Change
5-Y CDS (basis points)	381	299	-82 bps ▼
TR 2-Y Benchmark Yield	13.80%	14.96%	116 bps ▲
BIST-100	1,284	1,477	15.0% ▲
USD/TRY	7.8284	7.4320	-5.1% ▼
EUR/TRY	9.3398	9.0833	-2.7% ▼
Currency Basket*	8.5841	8.2577	-3.8% ▼

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

Domestic markets performed well in December.

In December, coronavirus vaccination that has started in many countries, as well as the approval of the economic relief package debated in the US for a while had positive impact on the global markets. The news flow about Turkey's relations with the US and the EU, were watched closely in the first half of the month, but had very limited effect on the domestic markets. Moreover, domestic markets followed a positive trend throughout the month, with the impact of the CBRT's emphasis on price stability in its monetary and exchange rate policy in 2021 together with the policy interest rate hike to 17% at the last meeting of the year held on December 24. BIST-100 index increased by 15% in December, ending 2020 at the level of 1,477. Following a fluctuating course in the first half of December, the TRY gained value rapidly towards the end of the month thanks to the CBRT's interest rate decision and the expectations regarding this decision. USD/TRY and EUR/TRY decreased by 5.1% and 2.7% throughout the month, respectively. Thus, the TRY diverged positively from other emerging market currencies in December, recovering some of the depreciation in previous months. Turkey's 5-year CDS risk premium declined fast in December by 82 basis points to 299 bps falling below the 300 level for the first time since February. The compound yield of the 2-year benchmark bond increased by 116 basis points compared to the end of November and reached 14.96% at the end of December.

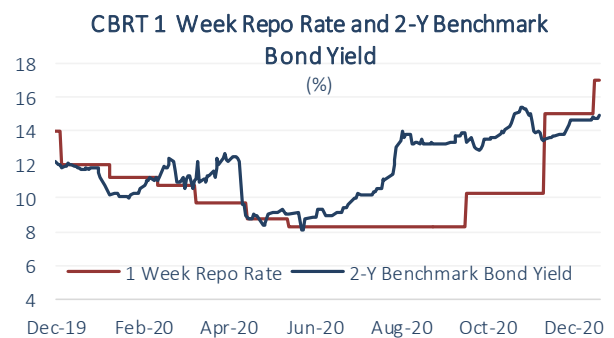


CBRT raised the policy rate by 200 basis points to 17%.

At the Monetary Policy Committee meeting held on 24 December, CBRT increased the policy rate by 200 bps above the market expectations of 150 bps and raised the rate from 15% to 17%. In the statement released after the meeting, the CBRT declared that domestic demand conditions, cumulative cost effects, in particular the exchange rate effects, increasing international food and other commodity prices and deterioration in inflation expectations continue to affect the pricing behavior and inflation outlook adversely. It was also stated that the MPC taking into account the end-2021 forecast

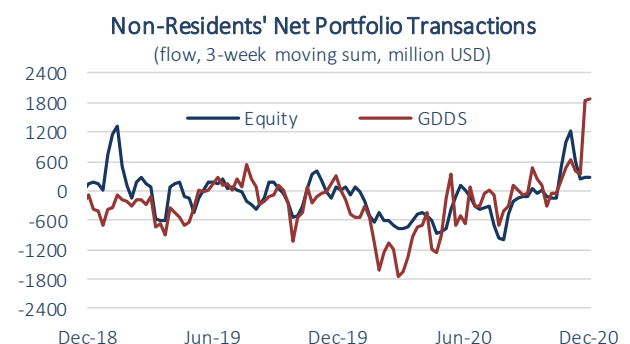
target, has decided to implement a strong monetary tightening in order to eliminate risks to the inflation outlook, contain inflation expectations and restore the disinflation process as soon as possible.

CBRT Governor Naci Ağbal emphasised that CBRT will take price stability conditions into consideration in taking monetary policy decisions in his presentation at the briefing on "Monetary and Exchange Rate Policy for 2021". Ağbal also noted that the CBRT's main policy instrument will continue to be the one-week repo auction rate and the interest rate corridor and the late liquidity window will not be utilized as monetary policy instruments except for their functions. Ağbal underlined that the CBRT's foreign exchange reserves will be strengthened and relevant tools will be used under appropriate conditions in a transparent way and within a specific framework, while noting that strong capital inflows as well as the return of rediscount credits and reverse-dollarization will have positive effects. CBRT started to publish daily flow and stock data regarding swap transactions with banks in domestic markets and TRY cash-settled foreign exchange futures transactions conducted on the BIST Derivatives Market as of January 4, 2021.



Securities portfolio of non-residents ...

According to the securities statistics published by the CBRT, as of December 25, the equity portfolio of nonresidents, adjusted for price and exchange rate movements, expanded by 243 million USD while government domestic debt securities (GDSS) increased by 2 billion USD compared to the November 27th. Compared to the end-2019, non-residents equity and GDSS portfolios declined by 4.4 billion USD and 5 billion USD, respectively. As of December 25th CBRT's gross FX reserves became 51.6 billion USD, while CBRT's net FX reserves were realized as 15.5 billion USD increasing by 1.8 billion USD compared to end-November.



Source: CBRT, Datastream, Reuters, BIST

BRSA extended the duration of the temporary regulations.

On December 8th, the BRSA announced that the duration of the previous measures taken to support the real sector and households during the pandemic were extended. In this framework, it was decided to extend the temporary regulations until June 30, 2021, including the calculation of the capital adequacy, net foreign currency position and the classification of loans. In addition, the enforcement regarding 1-day settlement delay on purchases of foreign exchange and gold was abolished. Also, the BRSA changed the installment periods of credit cards and maturity limits of loans. Accordingly, BRSA decided to reduce the installment periods for credit cards from 8 months to 6 months for jewelry-related expenditures, from 6 months to 4 months for electronic goods purchases, and from 18 months to 12 months for furniture and electrical goods purchases, and a reduction was made on the maturity limits of vehicle loans. On the other hand, the number of installments will continue to be applied as 18 for domestic expenditures related to airlines, travel agencies and accommodation.

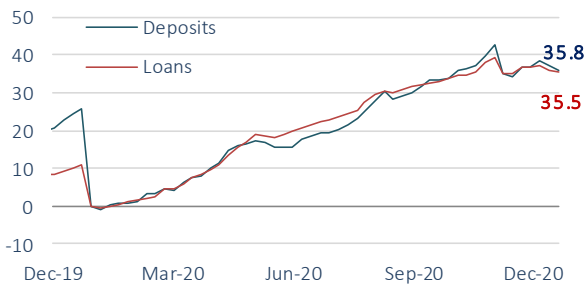
Deposit volume rose by 35.8% yoy.

According to the BRSA's Weekly Bulletin, deposit volume growth lost some momentum in the second half of December. Accordingly, as of December 25, deposit volume expanded by 35.8% yoy and reached 3,490 billion TRY. Annual rise in FX rate adjusted deposit volume was realized as 19.6%. TRY deposit volume increased by 22.1% yoy and became 1,543 billion TRY. FX deposits in USD terms rose by 17.2% yoy and reached 258 billion USD during this period. The share of FX deposits in total deposits, which rose rapidly due to the increase in foreign exchange demand of households and reached the highest level of the last 17 years with 57.5% in November, became 55.8% as of December 25.

TRY loan volume expanded by 43.1% yoy.

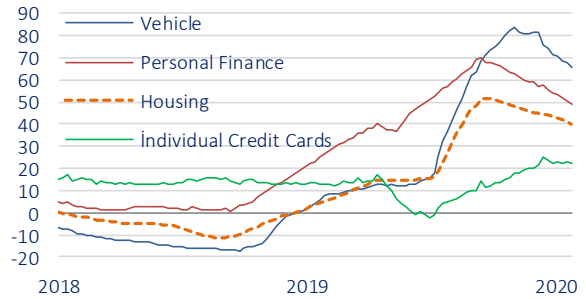
As of December 25, the total loan volume of the banking sector increased by 35.5% yoy and reached 3,594 billion TRY. The annual rise in FX rate adjusted loan volume became 25.4% in this period. While the annual TRY loan growth was 43.1%, FX loans in USD terms fell by 3.2% and became 166 billion USD.

Deposit and Credit Growth
(compared to year-end, %)

**Consumer loans went up by 45.3% yoy.**

In 2020, the fluctuation in interest rates and the reflections of the pandemic on demand were effective in the developments of the credit volume. Consumer loans expanded rapidly in the first half of the year thanks to the decline in interest rates, while owing to deferred demand, consumer loan expansion accelerated especially in the summer months. Credit expansion lost momentum in parallel with the increase in interest rates since September. As of December 25, consumer loan volume went up by 45.3% yoy. In this period the annual rise in housing and consumer loans became 40.1% and 48.7%, respectively. As of December 25, vehicle loans rose by 65.3% yoy, while the annual increase in the consumer credit cards volume became 22.5%.

Consumer Loans
(annual % change)

**Non-performing loan ratio is 4%.**

As of December 25, the amount of gross nonperforming loans, which increased gradually by 1.2% yoy reaching 150.3 billion TRY, revealed its most positive performance since March 2012 because of the effect of BRSA regulations. 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 2.6% 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 4.6% and 2%, respectively.

Net foreign currency position...

As of December 25, banks' on-balance sheet FX position was (-) 62,173 million USD, while off-balance sheet FX position was (+) 66,852 million USD. Hence, banking sector's net foreign currency position became (+) 4,679 million USD.

Source: BRSA Weekly Bulletin

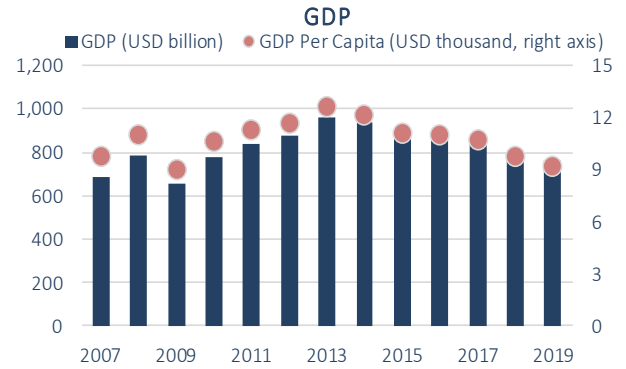
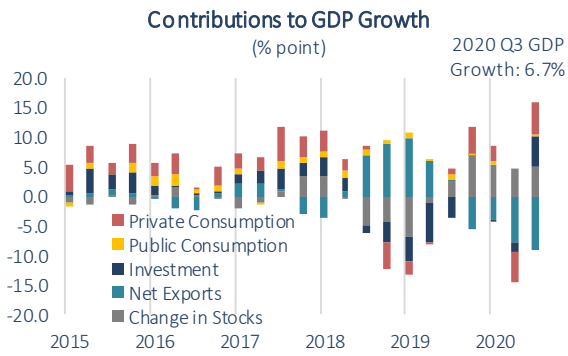
Concluding Remarks

Global economic activity maintained its modest performance albeit losing some momentum in the last month of the year. As the vaccination process against the coronavirus pandemic has started as of the last weeks of 2020 on a global scale, the outlook has supported cautious optimism towards 2021. This boosts also the positive performance in financial markets. Due to the favorable liquidity conditions created by the monetary and fiscal measures taken across the world throughout 2020, many stock market indices led by the US reached record levels. It is estimated that the current low levels of interest rates in developed countries will be maintained over the foreseeable future.

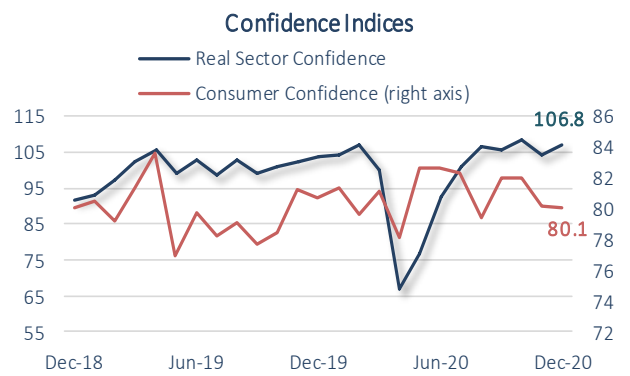
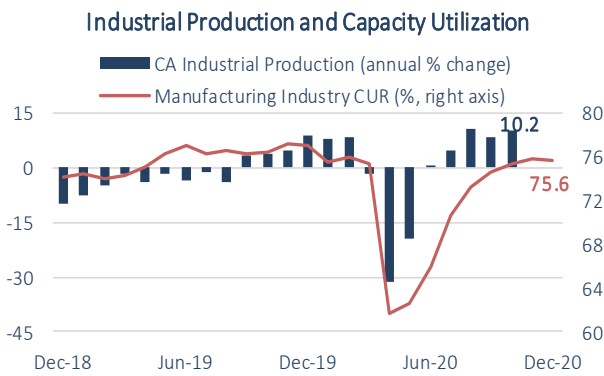
An intense agenda regarding international trade and investment relations has been also followed. While uncertainty prevails regarding the trade policies to be followed under the presidency of Biden in the US, it is widely expected that, parallel to the recent signals, China will prefer to move towards more integration into global trade and investment networks through strengthening relations with particularly Asian countries and the EU.

Leading indicators for the last quarter of 2020 have indicated that the economic recovery in Turkey continued albeit at a slower pace. The improvement in the risk perception towards the country has accelerated since November. CBRT's higher-than-expected rate hike at its December meeting contributed to this improvement. While annual CPI inflation reached its highest level since August 2019 with 14.6% at the end of 2020, it is expected that inflation will follow a downward trend in the second half of 2021 under the assumption that CBRT will preserve its tight monetary policy stance and financial markets will show a relatively stable performance. In the upcoming period, the vaccination process and the course of the measures taken against the pandemic will be the main determinant of the economic activity both domestically and globally.

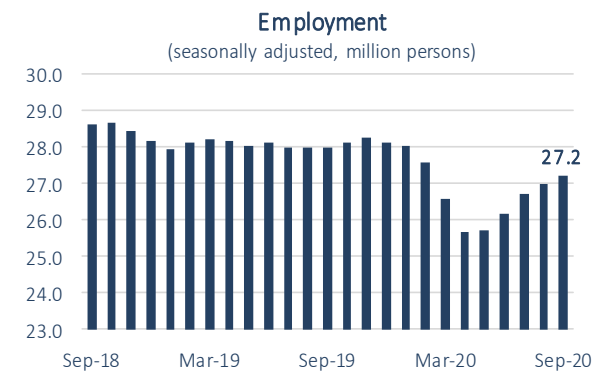
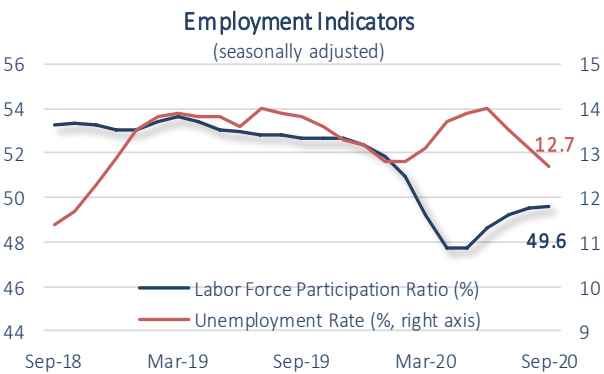
Growth



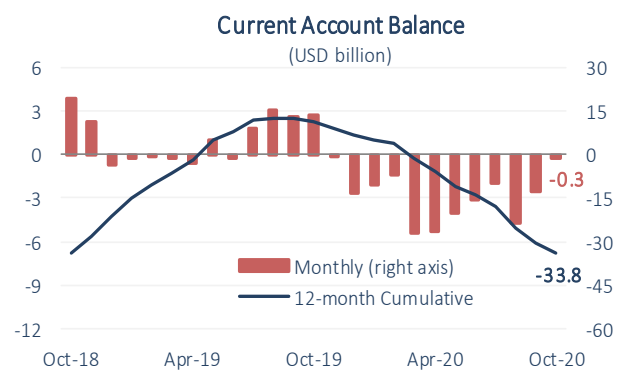
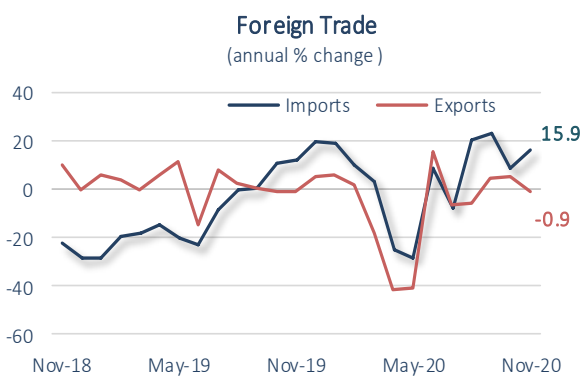
Leading Indicators



Labor Market



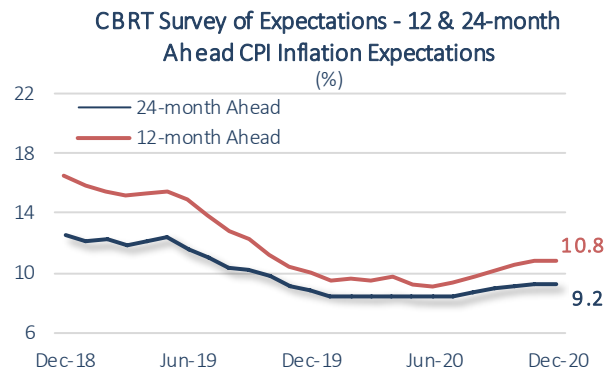
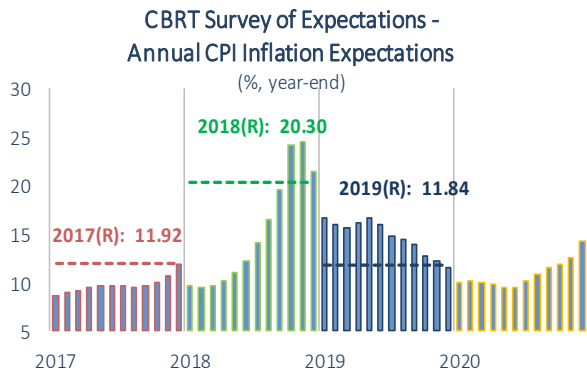
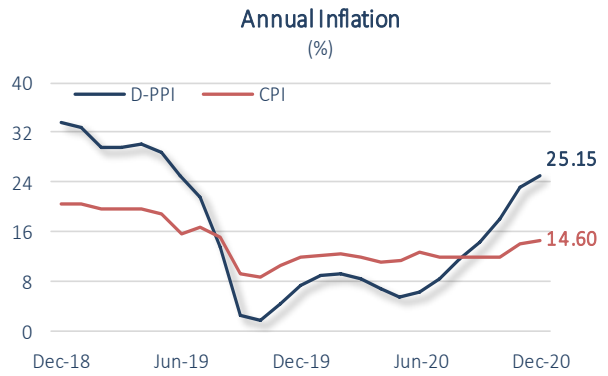
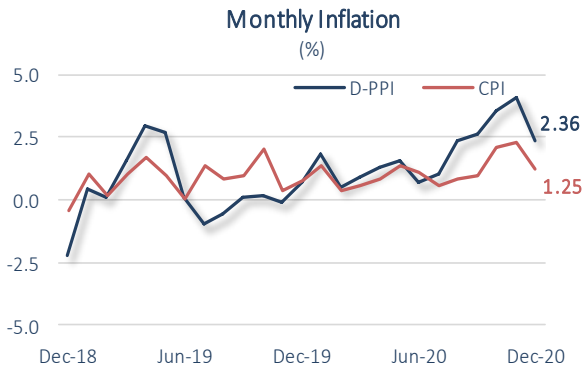
Foreign Trade and Current Account Balance



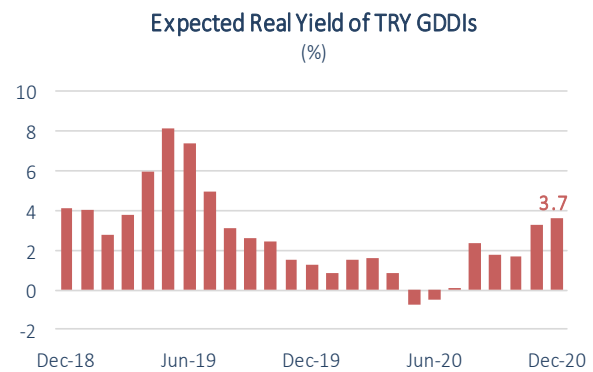
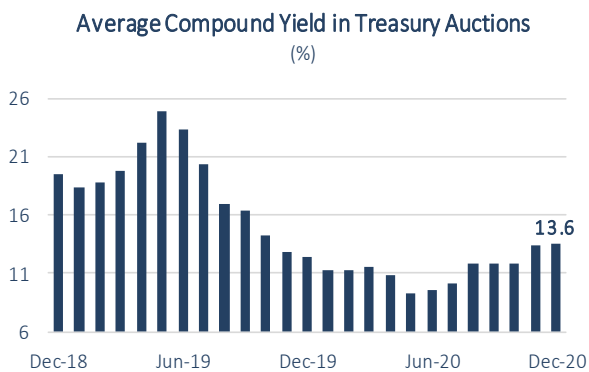
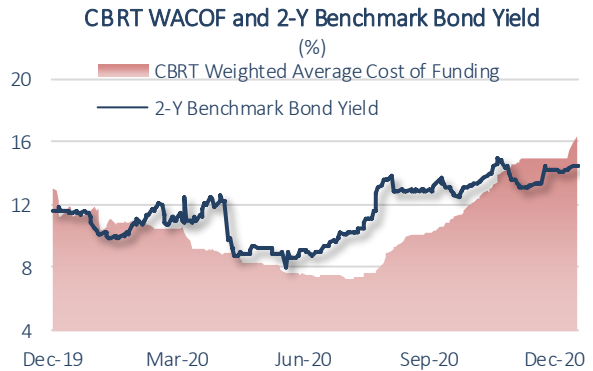
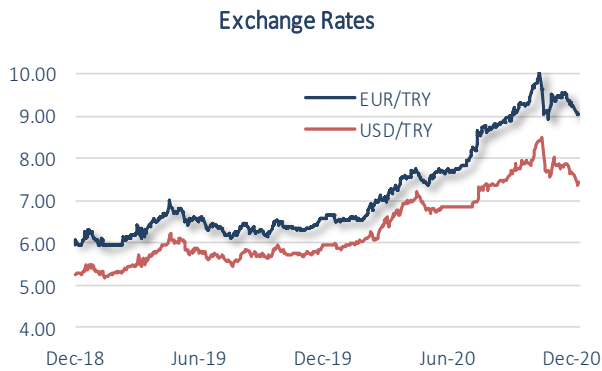
(CA) Calendar adjusted

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 (%)						Oct-20	Nov-20	Dec-20
CPI (annual)	8.81	8.53	11.92	20.30	11.84	11.89	14.03	14.60
Domestic PPI (annual)	5.71	9.94	15.47	33.64	7.36	18.20	23.11	25.15
Seasonally Adjusted Labor Market Figures						Jul-20	Aug-20	Sep-20
Unemployment Rate (%)	10.2	12.0	9.9	12.9	13.2	13.50	13.10	12.70
Labor Force Participation Rate (%)	51.7	52.4	53.1	53.0	52.3	49.20	49.50	49.60
FX Rates						Oct-20	Nov-20	Dec-20
CPI Based Real Effective Exchange Rate	99.1	93.5	86.3	76.4	76.2	60.6	60.5	62.3
USD/TRY	2.9189	3.5176	3.7916	5.3199	5.9510	8.38	7.82	7.43
EUR/TRY	3.1708	3.7102	4.5530	6.0815	6.6800	9.76	9.36	9.09
Currency Basket (0.5*EUR+0.5*USD)	3.0448	3.6139	4.1723	5.7007	6.3155	9.07	8.59	8.26
Foreign Trade Balance ⁽¹⁾ (USD billion)						Sep-20	Oct-20	Nov-20
Exports	151.0	149.2	164.5	177.2	180.8	166.3	167.2	167.1
Imports	213.6	202.2	238.7	231.2	210.3	212.6	214.2	217.1
Foreign Trade Balance	-62.6	-52.9	-74.2	-54.0	-29.5	-46.3	-47.0	-50.0
Import Coverage Ratio (%)	70.7	73.8	68.9	76.6	86.0	76.7	87.8	76.2
Balance of Payments ⁽¹⁾ (USD billion)						Aug-20	Sep-20	Oct-20
Current Account Balance	-27.3	-26.8	-40.6	-21.6	6.9	-25.6	-30.8	-33.8
Capital and Financial Accounts	-21.2	-21.7	-46.8	-10.9	1.1	-38.2	-41.0	-41.0
Direct Investments (net)	-14.2	-10.8	-8.4	-9.4	-6.1	-4.3	-4.7	-4.2
Portfolio Investments (net)	15.3	-6.4	-24.1	3.1	1.3	15.9	16.5	10.9
Other Investments (net)	-10.6	-5.3	-6.2	5.7	-0.3	-12.9	-12.3	-9.4
Reserve Assets (net)	-11.8	0.8	-8.2	-10.4	6.3	-36.9	-40.6	-38.2
Net Errors and Omissions	6.1	5.1	-6.3	10.7	-5.8	-12.5	-10.2	-7.2
Current Account Balance/GDP (%)	-3.2	-3.1	-4.7	-2.7	0.9	-	-	-
Budget ⁽²⁾⁽³⁾ (TRY billion)						Sep-20	Oct-20	Nov-20
Expenditures	506.3	584.1	678.3	830.5	999.5	870.0	967.7	1064.0
Interest Expenditures	53.0	50.2	56.7	74.0	99.9	107.8	119.6	129.1
Non-interest Expenditures	453.3	533.8	621.6	756.5	899.5	762.2	848.1	934.9
Revenues	482.8	554.1	630.5	757.8	875.8	729.4	822.2	931.9
Tax Revenues	407.8	459.0	536.6	621.3	673.3	578.7	655.3	754.6
Budget Balance	-23.5	-29.9	-47.8	-72.8	-123.7	-140.6	-145.5	-132.1
Primary Balance	29.5	20.3	8.9	1.3	-23.8	-32.8	-25.9	-3.0
Budget Balance/GDP (%)	-1.0	-1.1	-1.5	-1.9	-2.9	-	-	-
Central Government Debt Stock (TRY billion)						Sep-20	Oct-20	Nov-20
Domestic Debt Stock	440.1	468.6	535.4	586.1	755.1	1105.7	1,108.4	1,075.0
External Debt Stock	238.1	291.3	341.0	481.0	574.0	757.1	826.3	797.1
Total Debt Stock	678.2	760.0	876.5	1,067.1	1,329.1	1,862.9	1,934.7	1,872.1

(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

Turkish Economy - Banking Sector Outlook

Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2015	2016	2017	2018	2019	Oct.20	Nov.20	Change ⁽¹⁾
TOTAL ASSETS	2,357	2,731	3,258	3,867	4,492	6,236	6,123	36.3
Loans	1,485	1,734	2,098	2,395	2,657	3,662	3,626	36.5
TRY Loans	1,013	1,131	1,414	1,439	1,642	2,302	2,341	42.6
Share (%)	68.2	65.2	67.4	60.1	61.8	62.9	64.6	-
FX Loans	472	603	684	956	1,015	1,359	1,285	26.6
Share (%)	31.8	34.8	32.6	39.9	38.2	37.1	35.4	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	151.9	150.4	0.2
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	4.0	4.0	-
Securities	330	352	402	478	661	1,068	1,044	58.0
TOTAL LIABILITIES	2,357	2,731	3,258	3,867	4,492	6,236	6,123	36.3
Deposits	1,245	1,454	1,711	2,036	2,567	3,595	3,479	35.5
TRY Deposits	715	845	955	1,042	1,259	1,566	1,527	21.3
Share (%)	57.4	58.1	55.8	51.2	49.0	43.6	43.9	-
FX Deposits	530	609	756	994	1,308	2,029	1,952	49.3
Share (%)	42.6	41.9	44.2	48.8	51.0	56.4	56.1	-
Securities Issued	98	116	145	174	194	244	232	19.7
Payables to Banks	361	418	475	563	533	691	665	24.7
Funds from Repo Transactions	157	138	99	97	154	235	296	92.9
SHAREHOLDERS' EQUITY	262	300	359	421	492	573	588	19.4
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	50.0	57.3	-
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	58.7	59.2	-
Securities/Assets	14.0	12.9	12.3	12.4	14.7	17.1	17.1	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.1	57.7	56.8	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.5	101.8	104.2	-
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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