



February 2021

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Global Economy

In January, the rapidly ongoing vaccination practices on a global scale affected the expectations for the upcoming period positively. However, concerns about vaccine supply and additional restrictive measures taken by many countries in order to prevent the spread of the new type of coronavirus limited the optimistic expectations.

The IMF revised its global growth forecast for 2020 upwards based on a more positive revival in global economic activity than expected in the second half of the year, but stated that the economic recovery and vaccination process varies from country to country.

In January, runoff elections and the events that took place after it in the US were followed, while Joe Biden officially took over as President on January 20th.

The US economy contracted by 3.5% in 2020 due to the coronavirus pandemic. In January, weakness in the labor market continued, while recovery in the leading indicators gained momentum.

The Fed did not change its monetary policy at its first meeting of the year, and stated that the supportive policy will continue until the targets in the labor market and inflation are achieved.

The Euro Area economy contracted by 6.8% in 2020. The introduction of additional restrictions to prevent the spread of the new type of coronavirus creates uncertainty in the Region, where the leading indicators showed a mixed outlook of economic activity.

China's economy grew by 2.3% in 2020 with the support of increasing exports as well as financial and monetary benefits that accelerated infrastructure and construction spending.

In January, oil prices tested their highest level since February 2020, due to the finalization of the election results in the US, as well as Saudi Arabia's decision to cut production voluntarily. On the other hand, gold prices declined slightly following a fluctuating course in January.

Turkish Economy

In January, manufacturing PMI rose to 54.4 and signaled the strongest improvement in business conditions since July 2020.

In November, calendar adjusted industrial production increased by 11% yoy recording the fastest annual rise since January 2018. According to the seasonally and calendar adjusted data, the monthly increase in industrial production was realized as 1.3%.

In November, the current account balance posted a deficit of 4.1 billion USD due to the rapid expansion in the foreign trade deficit along with the rise in gold imports, as well as the decrease in net service revenues. The current account deficit reached 35.2 billion USD in January-November 2020 period.

In 2020, budget expenditures expanded by 20.2% compared to 2019, while budget revenues increased by 17.6%. Thus, the budget deficit increased by 38.5% to 172.7 billion TRY in 2020.

In January, CPI increased by 1.68% mom, above market expectations, while annual CPI inflation reached 14.97%. In this period, the domestic PPI increased by 2.66% mom and 26.16% yoy.

At its January meeting, the CBRT kept the policy rate unchanged at 17%, in line with market expectations. In the first inflation report of 2021, the CBRT emphasized that it will continue its tight monetary policy stance in order to reach the 5% inflation target.

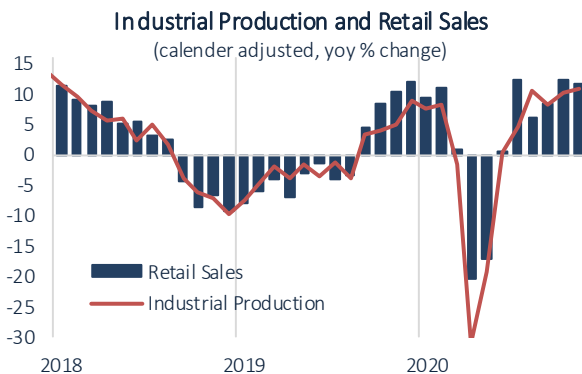
Leading Indicators

Broad unemployment rate became 23.5% in October...

According to the data announced by TURKSTAT, the unemployment rate decreased by 0.7 points yoy and became 12.7% in October 2020. Non-agricultural unemployment rate fell to 14.8% in this period with a 0.9 point annual decrease. In October, employment rate declined by 2.3 points yoy and became 43.6% while the labor force participation rate was realized as 50%. In this period, the highest decrease in employment (684K) occurred in the services sector, which is one of the most adversely affected sectors by the pandemic. The second highest decrease in employment was seen in the agricultural sector with 242K people. 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, rose by 0.6 points and became 23.5% in October.

Industrial production increased by 11% yoy in November.

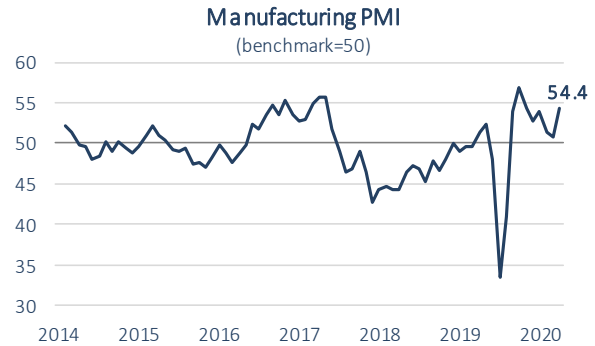
According to the calendar adjusted data, industrial production rose by 11% yoy in November, recording the fastest annual rise since January 2018. In this period, the manufacturing sector index that rose by 11.6% yoy made the highest contribution to the increase in the industrial production index with 10.4 points. In addition, the acceleration of the annual increase in intermediate goods production was noteworthy in this period. According to seasonal and calendar adjusted data, industrial production rose by 1.3% mom in November. Thus, the momentum loss in the increase of industrial production since June came to an end in November. In this period, the monthly expansion in industrial production was driven by the increase in intermediate goods and capital goods production. Calendar adjusted retail sales volume with constant prices went up by 11.9% yoy in November, while it increased by 2.2% mom according to seasonal and calendar adjusted data. The highest rise in this period was realized in non-food sales except automotive fuel.



Manufacturing PMI soared in January.

In January, manufacturing PMI rose to 54.4 and signaled the strongest improvement in business conditions since July 2020. Among the sub-items of the index, new orders increased for the first time in the last three months while the fastest rise in the employment has been recorded for

more than three years in this period. Relatively stable exchange rates limited the sharp increase in raw material and ex-factory prices in January. On the other hand, the disruption in the supply chain continued due to the COVID-19 restrictions.



Mixed outlook in confidence indices...

The seasonally adjusted real sector confidence index decreased by 1.4 points compared to the previous month and became 109 in January. In this period, seasonally and calendar adjusted construction and retail trade confidence indices decreased on a monthly basis and became 84.2 and 108.5, respectively. On the other hand, service sector confidence index increased by 2.9 points mom to 101.9. Seasonally adjusted consumer confidence index rose by 4% mom to 83.3 in January. The “current financial situation of household index”, which decreased by 3.6% mom in January, was the only sub-index which declined in this period.

House sales fell sharply in December.

House sales, which started to decrease in September 2020 due to the increase in interest rates, contracted by 47.6% yoy in December. In this period, mortgage sales decreased by 70.9% yoy and became 14,631 units. The number of houses sold for the first time declined by 51.1% yoy while second-hand house sales also decreased by 45.4% yoy. On the other hand, with the impact of the 72.4% annual rise in mortgage sales throughout 2020, total house sales increased by 11.2% compared to 2019, reaching approximately 1.5 million units.

White goods exports remained flat in 2020, while automotive exports declined.

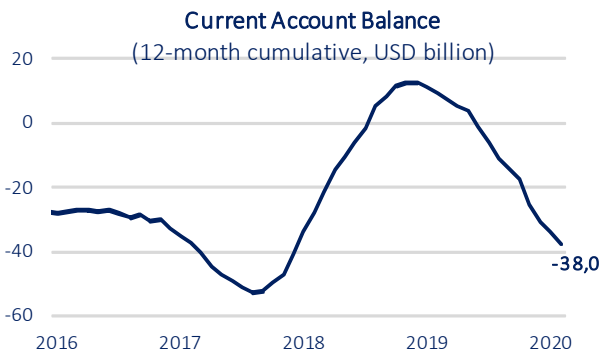
According to data released by White Goods Manufacturers' Association of Turkey (TURKBESD), white goods sales in the domestic market increased by 30% yoy while exports rose by 37% yoy in December. In 2020, exports expanded by 4% yoy, while domestic sales and production increased by 16% yoy and 3% yoy, respectively. The total production in the automotive sector decreased by 11% yoy in 2020, while total automotive exports declined by 27% yoy on unit basis. On the other hand, the domestic automotive market expanded by 61% yoy to 773K units sales in 2020.

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

Foreign Trade and Balance of Payments

Foreign trade deficit narrowed by 3% in December.

According to TURKSTAT, exports increased by 16% yoy to 17.9 billion USD in December, while imports rose by 11.6% yoy to 22.4 billion USD. Thus, foreign trade deficit contracted by 3% yoy and became 4.5 billion USD. In the whole year of 2020 exports declined by 6.3% yoy, while imports rose by 4.3% yoy. Import coverage ratio, which was 86% in 2019, fell to 77.2% 2020.



The current account gave 4.1 billion deficit in November.

Current account, which posted a deficit of 15 million USD in November 2019, gave a deficit of 4.1 billion USD in November 2020. This development was driven by the rapid expansion in the foreign trade deficit due to the rise in gold imports and the 1.5 billion USD yoy decline in net services revenues because of the decrease in transportation and tourism revenues. The current account deficit increased more than 10 times on a monthly basis due to the re-introduction of the restrictive measures taken against the pandemic in November. In January-November period, the current account deficit reached 35.2 billion USD.

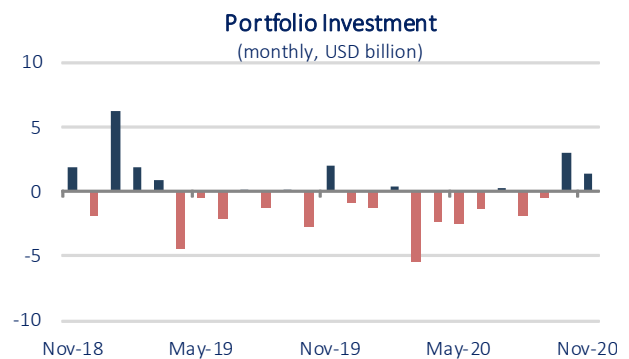
Foreign direct investments...

Foreign direct investments item recorded a net capital inflow of 299 million USD in November. The amount of 68 million USD inflow out of the 139 million USD foreign direct investment inflows into the manufacturing sector,

was realized into the chemical products and basic pharmaceutical products and materials sector. In the first 11 months of the year, foreign direct investment inflows declined by 36% yoy to 3.5 billion USD.

Portfolio investments...

The portfolio investments, which recorded an inflow of 2.9 billion USD in October, had an inflow of 1.3 billion USD in November as well. In this period, nonresidents made net buyings of 1.3 billion USD in the stock market and net investment of 607 million USD in debt securities market. Following a total outflow of 27 million USD in October, other investments recorded a net capital outflow of 692 million USD in November. In this period, deposits of domestic banks at their foreign correspondents increased by 1.1 billion USD, while foreign banks' deposits at domestic banks rose by 2.2 billion USD. In November, the banking sector made a net loan repayment of 629 million USD for the loans from abroad. In this period, other sectors made a net loan repayment of 191 million USD. According to 12-month cumulative figures, the long-term debt rollover ratios became 80% in the banking sector and 65% in other sectors as of November.



Reserve assets declined by 145 million USD in November.

Reserve assets decreased by 145 million USD in November, while the decline in reserves became 38.6 billion USD in the January-November period. On the other hand, a capital inflow of 3 billion USD was realized in the net errors and omissions in November. Thus, the

Net Capital Flows

	12-month Cumulative (million USD)		Share in Financing %	
	Dec. 2019	Nov. 2020	Dec. 2019	Nov. 2020
Current Account Balance	6,877	-37,974	51.3	-
Total Net Foreign Capital Flows	-553	-1,161	-	-
-Direct Investment	6,125	4,166	45.7	8.2
-Portfolio Investment	-1,260	-11,506	-	-
-Other Investment	374	7,333	2.8	14.5
-Net Errors and Omissions	-5,826	-1,120	-	-
-Other	34	-34	0.3	-
Reserves(1)	-6,324	39,135	-	77.3

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

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

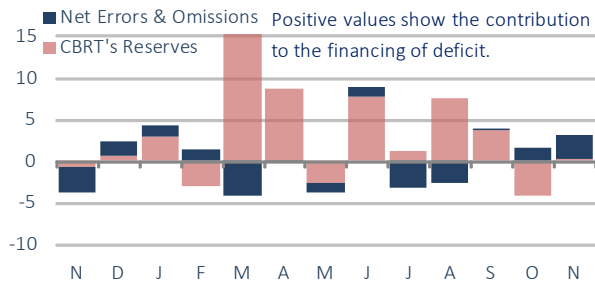
Source: CBRT, Datastream

Foreign Trade and Balance of Payments

net error and omission outflow in the first 11 months of the year became 2.9 billion USD.

CBRT Reserves and Net Errors and Omissions

(monthly, USD billion)



Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports increased by 2.5% yoy and became 15 billion USD in the first month of 2021, while imports decreased by 5.6% to 18.1 billion USD. The monthly foreign trade deficit in the amount of 3 billion USD in spite of the strong export performance indicates that the current account deficit will continue to expand where tourism revenues remain weak. In the first quarter of 2021, we think that the ongoing quarantine practices in Europe, our main export market, and the developments regarding the mutated coronavirus will continue to put pressure on foreign trade and tourism revenues. On the other hand, we expect this pressure to ease in the coming months along with the impact of the ongoing vaccination practices.

Balance of Payments

(USD million)

	Nov. 2020	January - November 2019	November 2020	12-month Cumulative
Current Account Balance	-4,063	9,602	-35,249	-37,974
Foreign Trade Balance	-3,844	-13,078	-34,506	-38,179
Services Balance	555	33,721	7,064	8,871
Travel (net)	583	24,607	7,955	9,067
Primary Income	-835	-11,724	-8,124	-9,246
Secondary Income	61	683	317	580
Capital Account	-3	36	-32	-34
Financial Account	-1,050	2,074	-38,139	-39,128
Direct Investments (net)	-299	-5,423	-3,464	-4,166
Portfolio Investments (net)	-1,298	372	10,618	11,506
Net Acquisition of Financial Assets	592	3,424	158	1,388
Net Incurrence of Liabilities	1,890	3,052	-10,460	-10,118
Equity Securities	1,276	317	-4,527	-4,438
Debt Securities	614	2,735	-5,933	-5,680
Other Investments (net)	692	262	-6,697	-7,333
Currency and Deposits	-120	-2,303	-17,106	-19,308
Net Acquisition of Financial Assets	1,037	7,447	824	1,199
Net Incurrence of Liabilities	1,157	9,750	17,930	20,507
Central Bank	114	500	12,663	14,658
Banks	1,043	9,250	5,267	5,849
Foreign Banks	2,230	5,902	5,603	5,936
Foreign Exchange	1,603	5,574	1,252	1,479
Turkish Lira	627	328	4,351	4,457
Non-residents	-1,187	3,348	-336	-87
Loans	1,100	13,836	8,772	12,442
Net Acquisition of Financial Assets	245	225	-1,592	-1,449
Net Incurrence of Liabilities	-855	-13,611	-10,364	-13,891
Banking Sector	-629	-11,255	-5,622	-5,701
Non-bank Sectors	-191	-1,370	-4,182	-7,696
Trade Credit and Advances	-286	-11,210	1,639	-566
Other Assets and Liabilities	-2	-61	-2	99
Reserve Assets (net)	-145	6,863	-38,596	-39,135
Net Errors and Omissions	3,016	-7,564	-2,858	-1,120

Source: CBRT, Datastream

Budget Balance

The central government budget gave a deficit of 40.7 billion TRY in December.

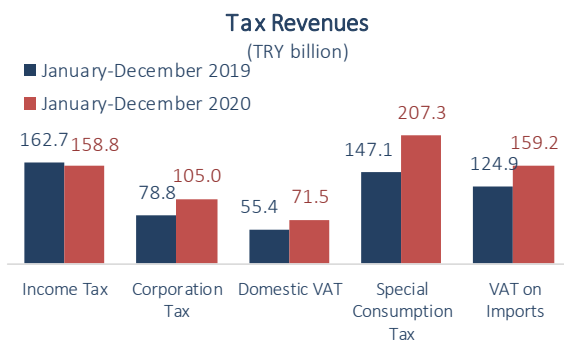
Budget balance which gave a deficit of 31.8 billion TRY in December 2019, gave a deficit of 40.7 billion TRY in the same period of 2020. During this period, while budget revenues increased by 34% yoy to 97.6 billion TRY, budget expenditures expanded by 32.2% to 138.3 billion TRY. The primary deficit, which was 27.6 billion TRY in December 2019, became 35.8 billion TRY in the same period of 2020 with a 29.5% yoy increase.

The budget deficit increased to 172.7 billion TRY in 2020.

The budget deficit, which was 124.7 billion TRY in 2019, increased by 38.5% in 2020 and reached 172.7 billion TRY. During this period, budget revenues increased by 17.6% and budget expenditures rose by 20.2%. The primary balance, which gave a deficit of 24.8 billion TRY in 2019, also posted a deficit of 38.8 billion TRY in 2020.

The annual increase in tax revenues was 29.4% in December.

Tax revenues increased rapidly by 29.4% in December. In this period, the rises in value added tax on imports and special consumption tax (SCT) stood out. With the effect of the domestic automobile sales increasing on an annual basis in December and the new SCT rates implemented since September, SCT received from motor vehicles recorded a rapid increase by 171% yoy. On the other hand, the 115% decrease in donations and aids received and special income item during this period drew attention. In 2020, tax revenues rose by 23.6% compared to 2019. On the other hand, with the effect of the developments related to the pandemic, enterprise and property revenues decreased by 36.6% and collection from receivables declined by 23.4%, limiting the rise in budget revenues.

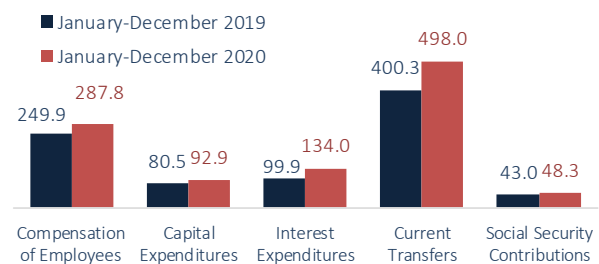


Rapid rise in interest expenditures...

In December 2020, the current transfers item drove the rise in budget expenditures due to the Treasury supports and transfers to households. In this period, annual increases of 100.2% and 48.2% in capital transfers and capital expenses, respectively, drew attention. Lending expenditures was another item that recorded a high annual rise in December.

In 2020, as a whole, interest expenditures rose by 34% and reached 139 billion TRY. Domestic and foreign debt interest expenditures accounted for 71% and 19,8% of this amount, respectively. In this period, rises in current transfers and the purchase of goods and services item were also noteworthy.

Budget Expenditures
(TRY billion)



Expectations

The central government budget balance was under the effects of the coronavirus pandemic throughout 2020. While the budget deficit surpassed the target set at the beginning of the year by 24.4%, it was realized at 72.2% of the New Economy Program (NEP) estimate published in September 2020. The government announced that the ratio of budget deficit to GDP is estimated to have realized at 3.6% in 2020 and the target for the end of 2021 has been revised as 3.5%. In the first half of 2021, the extension of the tax delays as well as possible measures to limit the effects of the pandemic on the economic activity will continue to be effective on the budget balance. Tax revenues and savings policies will be determinant on the budget discipline in 2021, when the possibility of one-off income is also limited.

Central Government Budget

	December		%	January-December		%	2020 Budget Target	NEP Target	Real./ NEP Target (%)
	2019	2020		Change	2019				
Expenditures	104.6	138.2	32.2	1,000.0	1,202.2	20.2	1,095.5	1,212.3	99.2
Interest Expenditures	4.2	4.9	17.4	99.9	134.0	34.0	138.9	137.4	97.5
Non-Interest Expenditures	100.4	133.4	32.8	900.1	1,068.3	18.7	956.5	1,074.9	99.4
Revenues	72.8	97.6	34.0	875.3	1,029.5	17.6	956.6	973.1	105.8
Tax Revenues	60.6	78.5	29.5	673.9	833.1	23.6	784.6	790.7	105.4
Other Revenues	12.2	19.1	56.5	201.4	196.4	-2.5	172.0	182.4	107.7
Budget Balance	-31.8	-40.7	27.9	-124.7	-172.7	38.5	-138.9	-239.2	72.2
Primary Balance	-27.6	-35.8	29.5	-24.8	-38.8	56.3	0.1	-101.8	38.1

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

Source: Datastream , Ministry of Treasury and Finance

Inflation

Monthly CPI came in at 1.68% in January.

In January, CPI increased by 1.68% mom, exceeding market expectations. The market's CPI expectation for this period was 1.4%. Domestic PPI (D-PPI) recorded a monthly increase of 2.66% in January.

Annual CPI inflation rose to 14.97% in January.

Annual CPI inflation, which was 14.60% in December, rose to 14.97% in January. In this period, the CPI increase on the 12-month moving averages basis became 12.53%. Annual D-PPI inflation continued to rise in January, reaching the highest level since May 2019 with 26.16%.

January (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	1.35	1.68	1.84	2.66
Annual	12.15	14.97	8.84	26.16
Annual Average	14.52	12.53	15.71	13.64

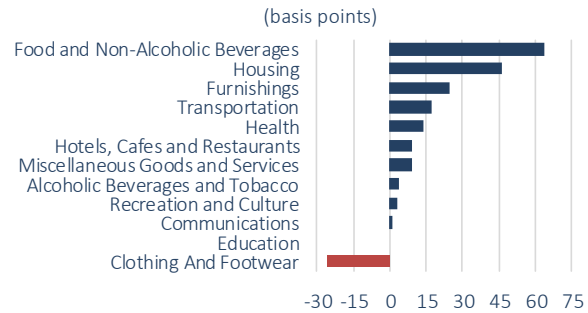
Rapid rise in food prices continued.

In January, prices in 10 out of the 12 main spending groups increased compared to the previous month. Health, which became the group with the fastest monthly rise in prices by 4.25%, pulled monthly CPI inflation up by 14 basis points. The prices in food and non-alcoholic beverages group rose by 2.48% on a monthly basis and pushed up CPI inflation the most with 64 basis points. The recent increases in housing and household goods prices also caused monthly CPI inflation to rise by 46 basis points and 25 basis points, respectively, in January. In this period, the transportation group has increased CPI inflation by 17 basis points and the rise in automobile prices as well as bridge tolls drew attention in this group. In January, the prices in the clothing&footwear group and education group declined. The clothing and footwear group limited the monthly rise in CPI inflation by 26 basis points in this period.

Turkstat has revised the weights of the expenditure groups in inflation basket. The weight of food group came up from 22.77% to 25.94% while the weights of hotels, cafes and restaurants decreased from 8.67% to 5.91%.

Weights of expenditure groups (%)			Δ (% point)
	2021	2020	
Food and non-alcoholic beverages	25.94	22.77	3.17
Transport	15.49	15.62	-0.13
Housing, water, electricity, gas	15.36	14.34	1.02
Furnishings and household equipment	8.64	7.77	0.87
Hotels, cafes and restaurants	5.91	8.67	-2.76
Clothing and footwear	5.87	6.96	-1.09
Alcoholic beverages and tobacco	4.88	6.06	-1.18
Miscellaneous goods and services	4.73	5.37	-0.64
Communications	4.64	3.80	0.84
Health	3.25	2.80	0.45
Recreation and culture	3.01	3.26	-0.25
Education	2.28	2.58	-0.30
Total	100	100	-

Contributions to the Monthly CPI Inflation



Core inflation indicators ...

In January, inflation indicators B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold), and C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold), which are closely monitored by the CBRT, increased less than the headline inflation on a monthly basis and became 1.64 and 1.14%, respectively. B and C indices, which had an upward trend in the recent period, continued to rise and became 16% and 15.5%, respectively.

Food prices were also determinant in D-PPI inflation.

The rise in food prices were also determinant in the course of the monthly D-PPI in January. In this period, the 3.7% monthly price increase in food products pulled the D-PPI up by 74 basis points. The highest monthly price increase among the sub-sectors was realized in the water supply and tobacco products sectors with 15.6% and 15.4%, respectively. The price increases in the manufacture of basic metals and other non-metallic mineral products caused a total of 47 basis points rise in D-PPI in January. It was also noteworthy that the prices of durable goods, one of the main industrial groups, went up by 4.3% on a monthly basis in this period.

Expectations...

With the notice published on February 2, TURKSTAT announced that the Price Statistics Advisory Board was established in January 2021. In the announcement, it was stated that the Covid-19 pandemic has caused changes in the households consumption behaviour and habits significantly in 2020 and that TURKSTAT's work on the planned changes in the CPI was discussed in the Board's meetings held in January.

We expect that the increases in Special Communication Tax, sugar and natural gas prices in the past days may have a negative impact on the inflation outlook for the coming months. In addition, the recent rises in international food and commodity prices and the high level of inflation expectations also generate an upside risk on the inflation outlook. On the other hand, we expect that the moderate course of the financial markets following the CBRT's announcements in the first inflation report of the year stating that the tight monetary policy stance will be maintained may alleviate the upside risks on inflation outlook.

Source: Datastream, Turkstat

	31-Dec	29-Jan	Change
5-Y CDS (basis points)	306	307	2 bps ▲
TR 2-Y Benchmark Yield	14.96%	14.69%	-27 bps ▼
BIST-100	1,477	1,473	-0.2% ▼
USD/TRY	7.4320	7.3099	-1.6% ▼
EUR/TRY	9.0833	8.8773	-2.3% ▼
Currency Basket*	8.2577	8.0936	-2.0% ▼

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

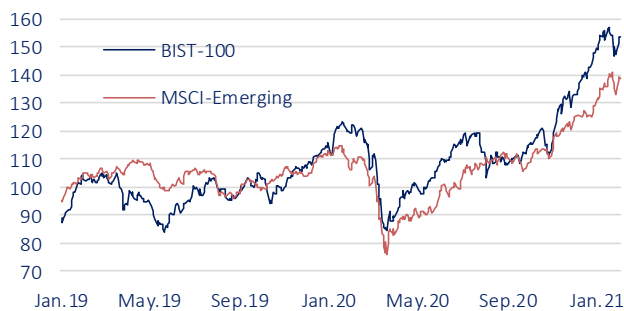
Global stock markets...

Starting January with a positive outlook, global stock markets followed a fluctuating course due to the concerns over vaccine supply and inoculation process. In the last week of the month, volatility increased in the US stock markets where small investors were investing heavily in low-value stocks. There was also a volatile atmosphere in domestic markets due to the accelerated sales trend in the global stock markets during this period.

Volatile outlook in domestic markets...

Following an upward trend, particularly in the first half of January thanks to the purchases by non-residents, BIST-100 followed a fluctuating trend in the second half of the month. After rising to a historical high of 1,582 on 21 January, BIST-100 index followed a downward pace parallel to the global stock markets in the following days. As a result, the index closed the month at 1,473 points with a slight decrease of 0.2% mom. The compound interest rate of the 2-year benchmark bond decreased by 27 basis points throughout the month and became 14.69% as of January 29. Turkey's 5-year CDS Premium increased by 2 basis points and became 307 at the end of January. In the first days of February, 5-year CDS Premium fell below 300 basis points.

BIST-100 and Emerging Market Index
(12.31.2018=100)



CBRT kept the policy interest rate at 17%.

The CBRT, which increased the policy rate by a total of 675 basis points at November and December meetings, kept the policy rate unchanged at 17% at its meeting held on January 21, in line with market expectations. In the statement published after the meeting, it was stated that the developments in international commodity prices, supply constraints in some sectors and the adjustments in wage and administered prices maintain their importance for the medium term inflation outlook. Accordingly, it was stressed that the MPC has decided to maintain decisively the tight monetary policy stance for an extended period. It was also declared that additional monetary tightening would be delivered if needed. In the statement, it was addressed that travel, catering and recreation were the sectors hardest hit by

the pandemic, as was the case in earlier phases of the pandemic, and the inflationary effects of the sectoral divergences that emerged due to pandemic dynamics and the macro policy mix, along with the risks they imply for the period ahead should be monitored.

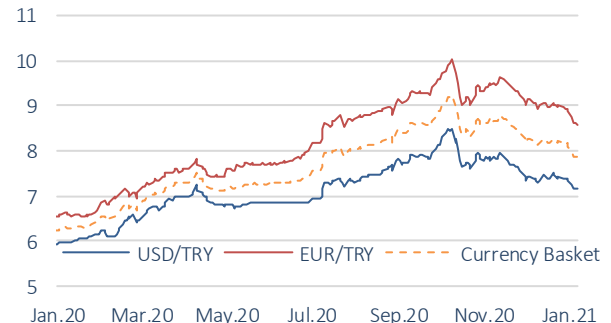
CBRT kept year-end inflation forecasts unchanged.

In the first Inflation Report of this year, the CBRT kept its year-end inflation forecasts for 2021 and 2022 unchanged as 9.4% and 7% respectively, and kept the year-end inflation target for 2023 at 5%. In his presentation, CBRT Governor Naci Ağbal stated that the CBRT would continue to use all its tools to achieve the 5% inflation target and stressed that further tightening action will be taken immediately in the event of a divergence in the medium-term inflation target. With regard to the expectations of interest rate cuts, Ağbal claimed that it was too early to address this topic and pointed out the importance of pricing behavior and inflation expectations in achieving the inflation target. Turkey's most important business organizations; TOBB, TESK, TÜSİAD and MÜSİAD, stated that they closely follow the economic reform agenda and support the fight against inflation as Turkey's priority goal, in a joint statement they published on January 26.

Turkish Lira appreciated in January.

Following a fluctuating path in a narrow band throughout January, the Turkish lira started to gain value after the CBRT stressed its decision on a tight monetary policy. USD/TRY decreased by 1.6% mom and closed the month at 7.31. EUR/TRY also decreased by 2.3% compared to the end of 2020 and closed January at 8.98. In the first days of February, the appreciation trend in TRY accelerated.

FX Rates



USD/TRY expectation for 2021 year-end is at 8.09...

According to the results of the Survey of Expectations released by the CBRT in January, the market expectation for economic growth for 2021 was revised from 3.8% to 3.9%, while the year-end CPI inflation expectation became 11.15%. Survey participants, who expect year-end USD/TRY exchange rate as 8.09, expect CBRT to lower interest rates this year. 1-week CBRT repo auction interest rate expectation for the next 12 months stood at 13.28%.

Securities portfolio of non-residents ...

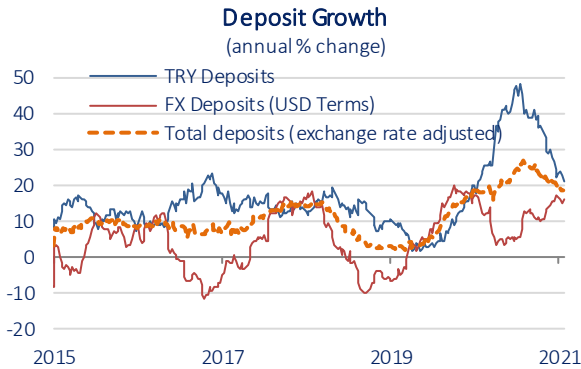
As of January 22, the equity portfolio of nonresidents, adjusted for price and exchange rate movements, expanded by a net 201.4 billion USD while government domestic debt securities (GDSS) increased by a net 506.8 million USD compared to the end-2020, according to the securities statistics published by the CBRT.

Source: CBRT, Datastream, Reuters, BIST

Banking Sector

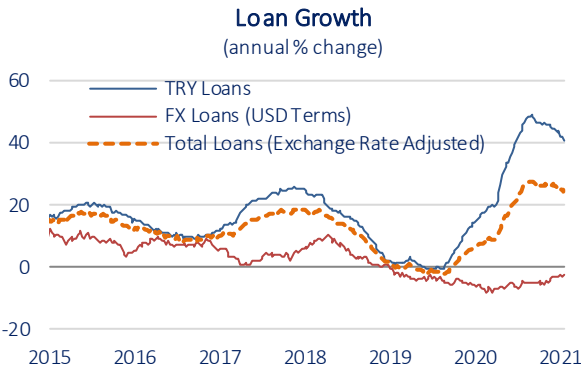
Deposit volume rose by 33.3% yoy.

Deposit volume growth in the banking sector continues, albeit losing some momentum. The rise in deposit volume, which reached 50% yoy in November, became 33.3% yoy and the deposit volume was realized as 3,543 billion TRY as of January 22. Annual rise in FX rate adjusted deposit volume was realized as 18.7%. While TRY deposit volume increased by 21.4% yoy, FX deposits in USD terms rose by 16.2% yoy and reached 259 billion USD during this period. The share of FX deposits in total deposits, which rose rapidly and reached the highest level of the last 17 years with 57.5% in November, became 57.5% as of January 22.



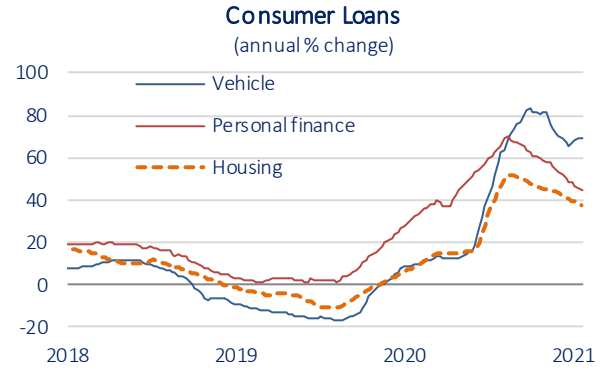
TRY loan volume expanded by 33.5% yoy.

According to the BRSA's Weekly Bulletin, the deceleration trend in the credit expansion since the last months of 2020 persisted in January. As of January 22, the total loan volume of the banking sector increased by 33.5% yoy and reached 3,550 billion TRY. The annual rise in FX rate adjusted loan volume became 24.4% in this period. While the annual TRY loan growth was 40.8%, FX loans in USD terms fell by 2.6% and became 165 billion USD.



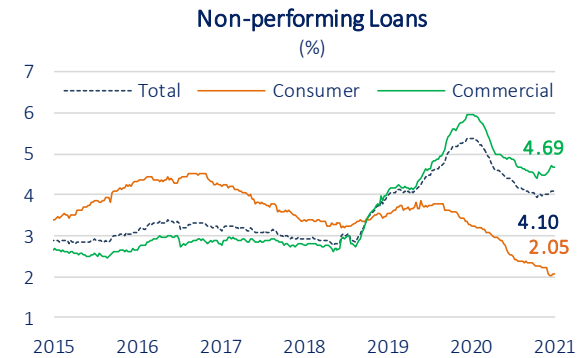
Consumer loans went up by 41.8% yoy.

As of January 22, consumer loan volume grew by 41.8% yoy. In this period the annual rise in housing and consumer loans continued to lose momentum and became 37.4% and 44.5%, respectively. Annual increase in vehicle loans accelerated somehow in recent weeks. As of January 22, vehicle loans rose by 69.5% yoy, while the annual increase in the consumer credit cards volume became 23%.



Non-performing loan ratio is 4.1%.

As of January 22, the amount of gross nonperforming loans, which did not show a significant change on an annual basis due to the BRSA regulations against the pandemic, was realized as 151.6 billion TRY. NPL ratio became 4.1% in this period. While the said ratio was 2.6% in public banks, it became 5.4% in private banks. In terms of loan types, NPL ratios for commercial and consumer loans were realized as 4.7% and 2.1%, respectively.



Net foreign currency position...

As of January 22, banks' on-balance sheet FX position was (-) 60,243 million USD, while off-balance sheet FX position was (+) 65,453 million USD. Hence, banking sector's net foreign currency position became (+) 5,209 million USD.

Concluding Remarks

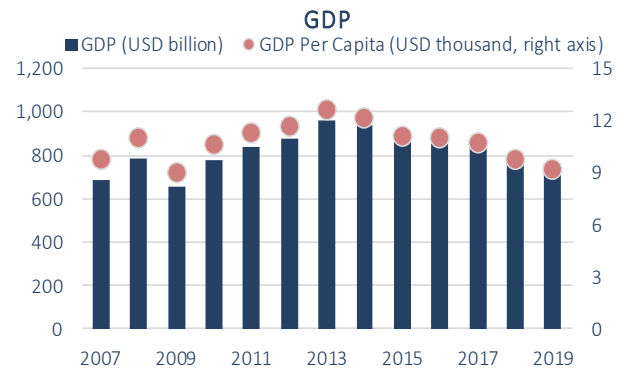
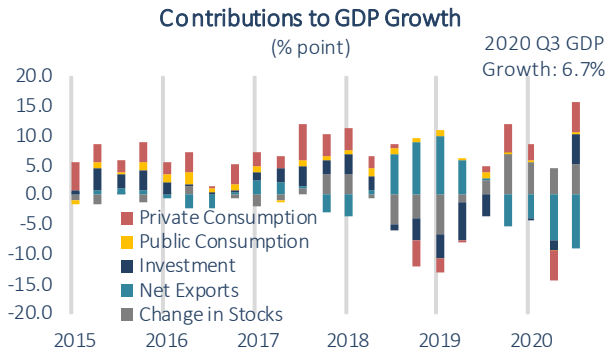
The rise in coronavirus cases has slowed down in recent weeks but maintained its high levels on a global scale, while the news flow of vaccine supply and new virus mutations are closely monitored. In the first month of the year, the global agenda included pandemic-related developments, as well as the 1.9 trillion USD stimulus package that Biden, who took over the presidency in the US, continued to defend against the opposition of the Republicans, and the severe volatility caused by small investors in the markets.

Growth data of leading economies for the last quarter of 2020 showed that Covid-19 caused a less severe damage on the economies compared to previous forecasts, despite the second wave in this period of the year. In line with this outlook, the IMF positively revised its global GDP forecasts for 2020 and 2021. While regional differences were seen in the service sectors, the manufacturing PMI data of developed countries indicate that the recovery in the sector exceeded expectations as of the first month of the year. On the other hand, the effects of the pandemic on the labor market are expected to continue in the medium and long term, and it may take years for many countries to return to pre-2020 levels in the labor market.

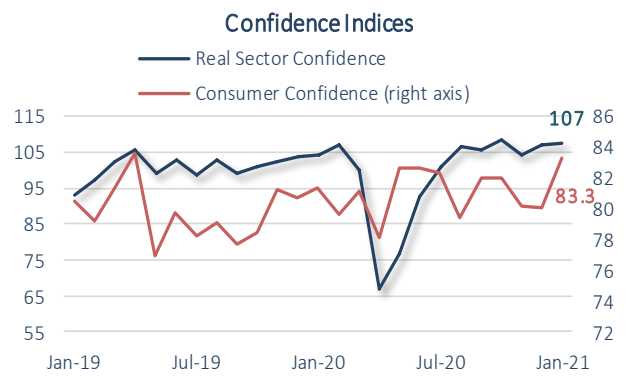
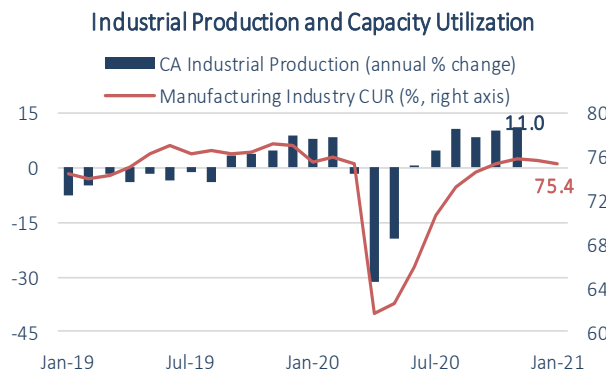
In Turkey, which is expected to be one of the few countries to have ended 2020 with a limited positive growth performance, leading indicators pointed to a continued economic recovery in January. While the employment sub-index of manufacturing PMI for this period rose to its highest level in more than 3 years, the positive outlook of confidence indicators, especially in expectation sub-items, stood out. The decline of the foreign trade deficit by more than 30% yoy in the first month of the year was also a positive development.

Strengthening its emphasis on price stability at the January meeting, the CBRT reinforced its tight stance in the first Inflation Report of the year. President Ağbal's statement that a tight stance on monetary policy should be maintained until reaching the 5% inflation target, which is estimated to be achieved in 2023 under the current circumstances, supported expectations that the recent policy normalization would continue. In such an environment, recovery trend in financial markets continues.

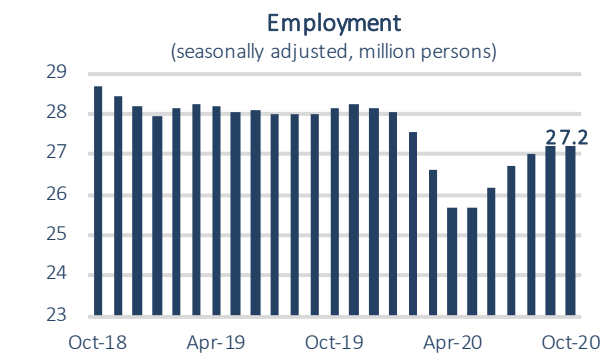
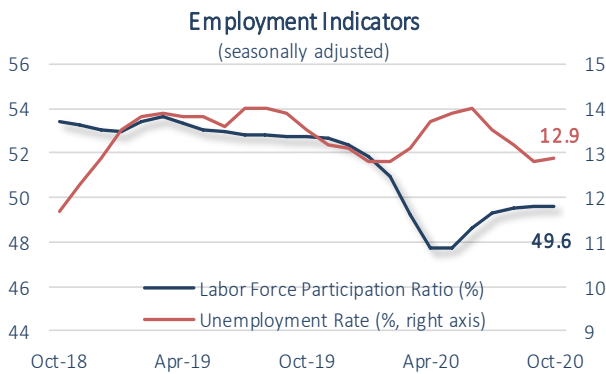
Growth



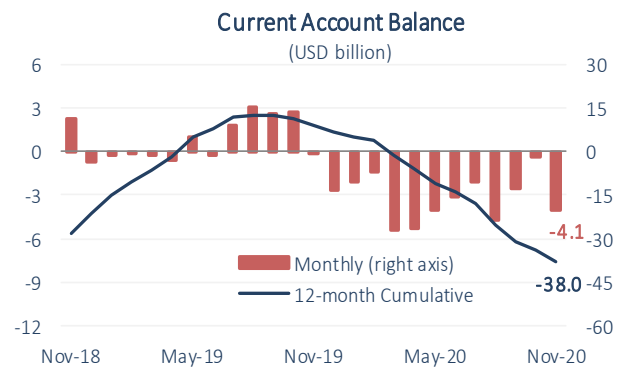
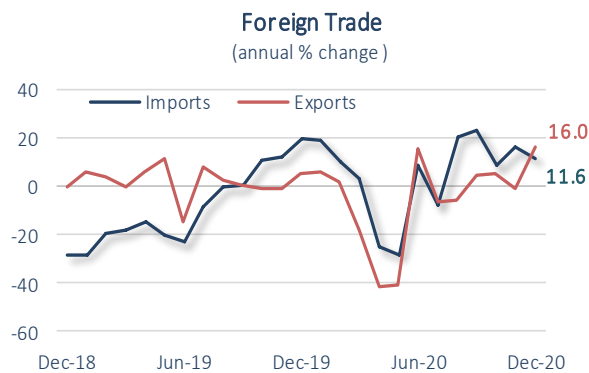
Leading Indicators



Labor Market



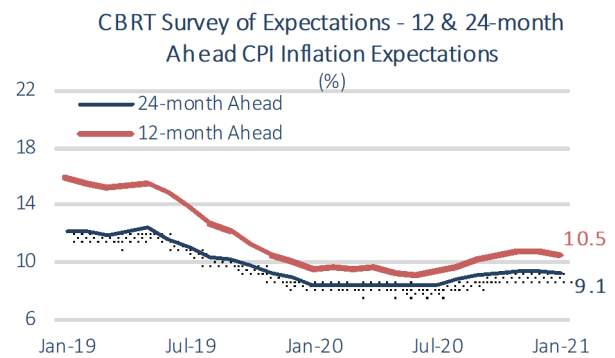
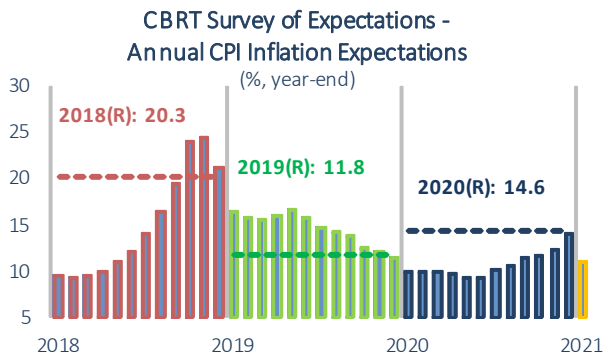
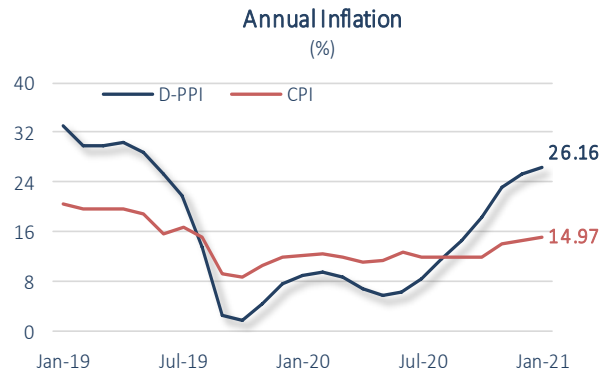
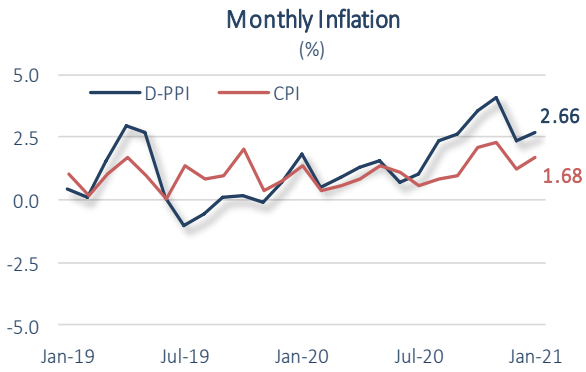
Foreign Trade and Current Account Balance



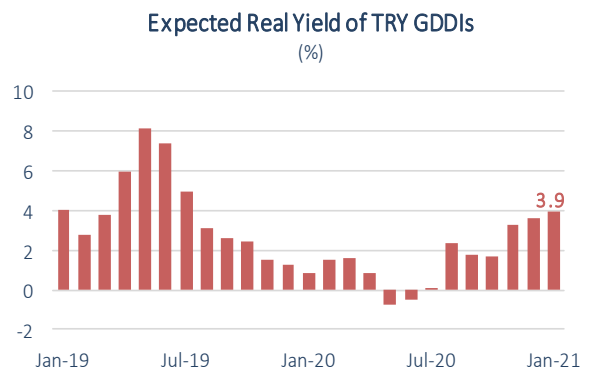
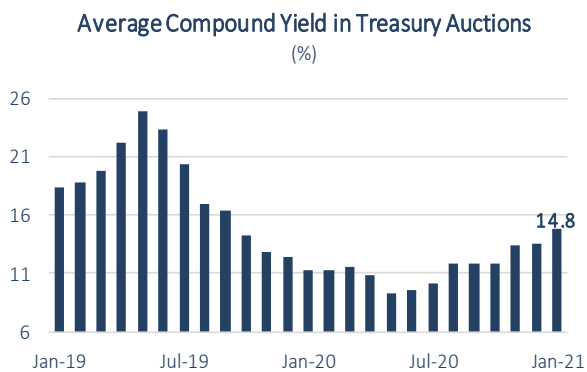
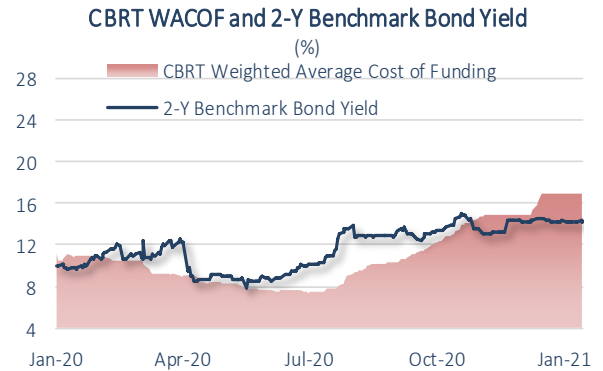
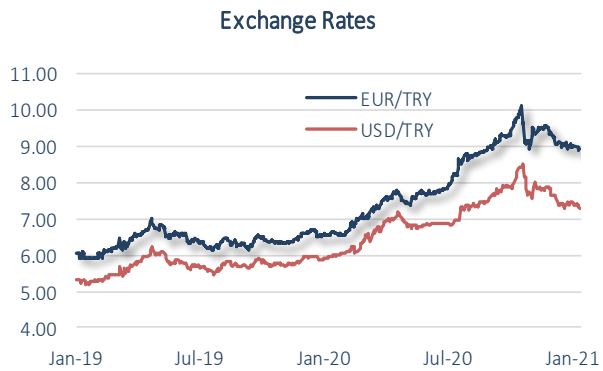
(CA) Calendar adjusted

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	Nov.20	Dec.20	Change ⁽¹⁾
TOTAL ASSETS	2,357	2,731	3,258	3,867	4,492	6,123	6,108	36.0
Loans	1,485	1,734	2,098	2,395	2,657	3,626	3,577	34.6
TRY Loans	1,013	1,131	1,414	1,439	1,642	2,341	2,353	43.3
Share (%)	68.2	65.2	67.4	60.1	61.8	64.6	65.8	-
FX Loans	472	603	684	956	1,015	1,285	1,224	20.6
Share (%)	31.8	34.8	32.6	39.9	38.2	35.4	34.2	-
Non-performing Loans	47.5	58.2	64.0	96.6	150.1	150.4	152.2	1.4
Non-performing Loan Rate (%)	3.1	3.2	3.0	3.9	5.3	4.0	4.1	-
Securities	330	352	402	478	661	1,044	1,023	54.7
TOTAL LIABILITIES	2,357	2,731	3,258	3,867	4,492	6,123	6,108	36.0
Deposits	1,245	1,454	1,711	2,036	2,567	3,479	3,455	34.6
TRY Deposits	715	845	955	1,042	1,259	1,527	1,546	22.8
Share (%)	57.4	58.1	55.8	51.2	49.0	43.9	44.7	-
FX Deposits	530	609	756	994	1,308	1,952	1,909	46.0
Share (%)	42.6	41.9	44.2	48.8	51.0	56.1	55.3	-
Securities Issued	98	116	145	174	194	232	224	15.8
Payables to Banks	361	418	475	563	533	665	658	23.3
Funds from Repo Transactions	157	138	99	97	154	296	255	66.0
SHAREHOLDERS' EQUITY	262	300	359	421	492	588	601	22.0
Profit (Loss) of the Period	26.1	37.5	49.1	53.5	49.8	57.3	60.0	-
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	58.6	-
Securities/Assets	14.0	12.9	12.3	12.4	14.7	17.1	16.7	-
Deposits/Liabilities	52.8	53.2	52.5	52.6	57.1	56.8	56.6	-
Loans/Deposits	119.2	119.3	122.6	117.6	103.5	104.2	103.5	-
Capital Adequacy (%)	15.6	15.6	16.9	17.3	18.4	19.4	18.8	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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