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Global Economy

In February, developments regarding the coronavirus pandemic and vaccination practices continued to stand out on the global agenda.

The rise in inflation expectations in the US and the concerns that the Fed may raise the policy rate sooner than expected caused the US 10-year Treasury bond yields to reach the highest level in the last 1 year. The deterioration in risk perception increased volatility in global stock markets.

The data released in the US pointed to a strong trend in economic activity.

In his presentation to the Senate, Fed Chair Powell stated that the increase in inflation is not expected to be long-term and permanent. Powell added that expansionary monetary policies will be maintained until the employment and inflation targets are achieved.

In the Euro Area, where the released data drew a positive picture of the manufacturing sector, the weak course in services sector continued in February.

According to the IIF's Global Debt Monitor report, the global debt stock increased by 24 trillion USD to 281 trillion USD in 2020 and reached 355% of global GDP.

As adverse weather conditions in the US negatively affected oil production, oil prices reached their highest level in more than a year on February 24th. The decline in gold prices accelerated due to the appreciation of the US dollar.

Turkish Economy

Turkish economy expanded by 5.9% yoy in the fourth quarter of last year. In 2020 as a whole, the economy grew by 1.8%. Consumption and investment expenditures boosted the growth while net exports dragged it down.

Manufacturing PMI decreased by 2.7 points mom and became 51.7 in February. The index, which continued to stay above the threshold value for the ninth consecutive month, pointed that the improvement in business conditions continues, albeit losing momentum.

The current account balance posted a deficit of 3.2 billion USD in December, while the current account deficit reached 36.7 billion USD in the whole 2020. Weak tourism revenues due to the pandemic and high gold imports were effective on the current account balance.

In January, budget revenues decreased by 26.7% yoy, while budget expenditures expanded by 13% yoy. Thus, the budget deficit was realized as 24.2 billion TRY in the first month of 2021.

CPI increased by 0.91% mom in February, while the annual CPI inflation became 15.61%. In this period, the monthly and annual increases in domestic PPI were realized as 1.22% and 27.09%, respectively.

At its meeting held on February, the CBRT kept the policy rate at 17% in line with the expectations. The CBRT raised the TRY reserve requirement ratios by 200 basis points for all maturities, while increasing the interest rate for required reserves in TRY to 13.5%.

GDP Growth

Turkish economy grew by 5.9% yoy in the last quarter.

In the last quarter of 2020, economic growth in Turkey was 5.9% yoy, according to the chain linked volume index. Third quarter growth is revised to 6.3% from 6.7% and the contraction in the second quarter, which was previously announced at 9.9%, is revised to 10.3%.

Contributions to Growth		(% point)				
	2019	2020				
	Annual	Q1	Q2	Q3	Q4	Annual
Consumption	1.5	3.3	-6.0	5.1	5.7	2.2
Private	0.9	2.8	-5.6	5.0	4.7	1.9
Public	0.6	0.5	-0.3	0.1	1.0	0.3
Investment	-3.5	-0.1	-1.7	5.0	2.6	1.6
Stock Change	0.6	5.7	5.2	5.3	-1.9	3.4
Net Exports	2.4	-4.5	-7.9	-9.1	-0.6	-5.5
Exports	1.2	-0.5	-9.4	-5.9	0.0	-3.9
Imports	1.2	-4.0	1.5	-3.3	-0.6	-1.5
GDP (yoy, %)	0.9	4.5	-10.3	6.3	5.9	1.8

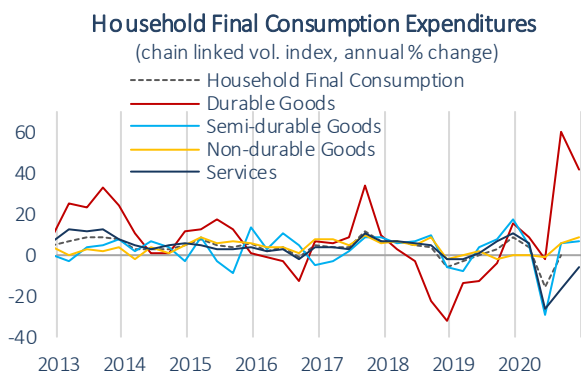
According to seasonally and calendar adjusted figures, in the fourth quarter, the growth in economic activity lost some steam on a quarterly basis. After growing by 15.9% qoq in the third quarter, the economy expanded by 1.7% qoq in the last quarter.

In 2020 as a whole, expanding by 1.8%, Turkish economy has been one of the few economies that have registered a positive growth rate. During this period, global economy, remaining under heavy pressure due to the pandemic, has recorded a contraction of 3.5%, according to IMF forecasts. In 2009, the year of global financial crisis, Turkish economy had shrunk by 4.8% while the global economy had contracted by 0.1%.

Turkey's annual GDP at current prices rose by 16.8% to 5.0 trillion TRY in 2020. Annual GDP in USD terms declined by 43.7 billion USD to 717 billion USD. GDP per capita fell to 8.599 USD.

Consumption and investment expenditures boosted growth.

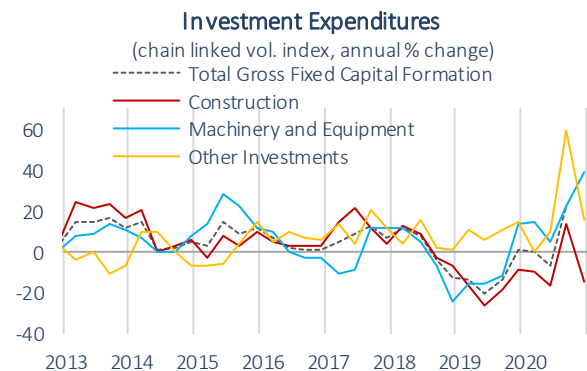
The contribution of consumption expenditures to growth was 5.7 pp in the last quarter. 4.7 pp of the said contribution came from private consumption while public consumption



Numbers may not add to total due to rounding.

expenditures added 1.0 pp to growth. During this period, household's durable goods expenditures, which had a share of almost 13% in the total household final consumption expenditures, recorded a strong annual rise as it was also the case in the third quarter. Household consumption expenditures for services declined on an annual basis in real terms for the third quarter in a row. In this period, change in stocks item, which also includes the statistical discrepancies, made a negative contribution to GDP growth for the first time since the second quarter of 2019.

According to chain linked volume index figures, investment expenditures, despite losing some momentum, recorded a fast increase by 10.3% yoy in the last quarter and added 2.6 pp to the GDP growth. Machinery and equipment investments, rising at the highest pace in more than nine years with 38.7% yoy, pushed the growth up by 3.7 pp. During this period, construction investments fell by 14.7% yoy and dragged the GDP growth down by 1.8 pp.



Along with the increase in import volume and the weak performance in exports, net exports continued to dampen growth, albeit to a lesser extent. In this period, net exports lowered the growth by 0.6 pp.

GDP by production approach...

All the main sub-sectors except construction propped up GDP growth in the last quarter. Services sector made the highest contribution to growth with 2.9 pp. Industrial sector made its highest contribution since the third quarter of 2017 with 2.0 pp. Agricultural sector added 0.2 pp to growth while construction sector pulled the GDP down by 0.8 pp.

Expectations...

After the strong recovery recorded in the third quarter, Turkish economy showed a solid performance also in the last quarter as domestic demand remained robust despite the tightening in monetary policy and restrictive measures taken against the spread of the pandemic. Expectations for the coming period paint a modestly optimistic picture. That being said, the pace of the economic activity will largely continue to depend on the course of the pandemic and the speed of vaccination. Also, the expectations that the decisive stance in the fight against inflation will be maintained and a prudent fiscal policy will be preserved pose downward risk to growth.

Source: Datastream, Turkstat

Leading Indicators

Broad unemployment rate became 24.8% in November.

According to the data announced by TURKSTAT, the unemployment rate decreased by 0.4 points yoy and became 12.9% in November 2020. In this period, the employment rate decreased by 2.7 points yoy and became 42.9%, while labor force participation rate declined by 3.2 points to 49.3%. 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 to 24.8% in November. On February 8, TURKSTAT announced that the "Labor Market Advisory Board" was established to evaluate the labor market in Turkey as a whole by taking the national needs and international developments into account. Moreover, on February 22, TURKSTAT announced that independent monthly estimates will be published instead of producing monthly labour statistics based on the quarterly moving average results. TURKSTAT stated that the results for December 2020 period will be published on March 10 according to the old system. TURKSTAT added that due to persistence of the pandemic conditions and the need for additional time to calculate comparable series according to the new definitions, the results for January 2021 via statistical tables and the results for February 2021 via press release will be shared with the public on April 12, 2021.

Industrial production increased on average by 1.6% in 2020.

According to the calendar adjusted data, industrial production rose by 9% yoy in December. The increase in industrial production became 10.1% yoy in the fourth quarter of 2020, while the average annual increase was realized as 1.6% in 2020. Total turnover index including industry, construction, trade, and services sectors increased by 28.6% yoy in December. The fastest rise in turnover indices was recorded in the industrial sector, while the weakest increase was in the construction sector. Calendar adjusted retail sales volume with constant prices went up by 0.6% yoy in December, while it increased on average by 3.3% in 2020. In December, food, drinks and tobacco sales rose by 8.8% yoy, while non-food sales, excluding automotive fuel, declined by 3.3%. According to the seasonal and calendar adjusted data, decreasing by 4.2% mom retail sales fell for the first time since April 2020.

Manufacturing PMI signaled a moderate recovery in February.

Manufacturing PMI decreased by 2.7 points compared to January and became 51.7 in February. However, the index, which continued to stay above the threshold for the ninth consecutive month, pointed that the improvement in business

conditions of the manufacturing sector continues, albeit losing momentum. According to the sub-items of the index, despite the slowdown in the growth of new orders in February, firms continued to increase production and employment. Problems in supply chains also continued in February and the lengthening of suppliers' delivery terms as well as the modest slowdown in purchasing activity led to a decrease in input stocks. In addition, inflationary pressures on input costs and final product prices eased somewhat with the appreciation of TRY in February.

Mixed outlook continues in confidence indices.

Seasonally adjusted real sector confidence index decreased by 0.3 points compared to the previous month and became 108.7 in February. There was an improvement in export orders and total employment for the next three months while production was expected to contract for the same period. In this period, seasonally and calendar adjusted services and construction sectors confidence indices also declined on a monthly basis to 100.4 and 83.1, respectively. On the other hand, retail trade confidence index increased by 0.4 points mom and became 108.9. Seasonally adjusted consumer confidence index also rose by 1.5% mom to 84.5 in February.

House sales fell by 37.9% in January.

The annual declining trend in housing sales since September 2020 has also continued in the first month of 2021. House sales decreased by 37.9% yoy in January and became 70,587 units. In this period, mortgaged sales decreased by 74.6% yoy and were realized as the lowest level since June 2019 with approximately 11K units. In January, the number of houses sold for the first time fell by 38.2% compared to the same month of last year, while second-hand house sales decreased by 37.7% yoy.

The contraction in automotive production and exports continues.

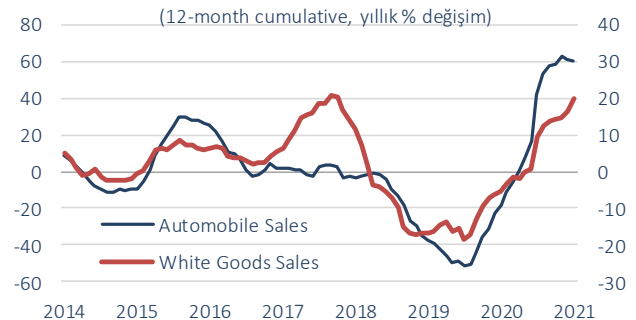
According to data released by White Goods Manufacturers' Association of Turkey (TURKBESD), white goods sales in the domestic market increased by 59.4% yoy. In the same period, exports and production rose by 17.4% and 38.1% yoy, respectively.

In January, the total production in the automotive sector decreased by 3.3% yoy while the automobile production fell by 8.8%. In the same period total automotive exports on unit basis declined by 13.8% yoy. On the other hand, the domestic automotive market expanded by 60.3% yoy in January.

Manufacturing PMI
(benchmark=50)



Domestic Automobile and White Goods Sales
(12-month cumulative, yıllık % değişim)



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

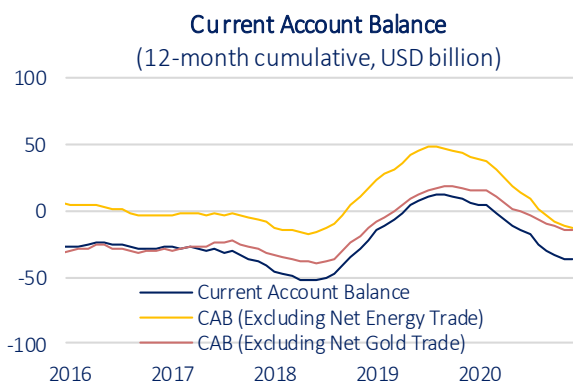
Foreign Trade and Balance of Payments

Foreign trade deficit narrowed by 32.8% in January.

According to TURKSTAT, exports increased by 2.3% yoy to 15.1 billion USD in January, while imports decreased by 5.9% yoy to 18.1 billion USD. Thus, foreign trade deficit contracted by 32.8% yoy and became 3 billion USD in January. Import coverage ratio, which was 76.5% in 2020 January, rose to 83.2% in the same period of 2021.

In 2020 current account gave 36.7 billion USD deficit.

The current account balance, which had a deficit of 2.7 billion USD in December 2019, gave a deficit of 3.2 billion USD in the same period of 2020. Thus, the current account balance which posted a surplus of 6.8 billion USD in 2019, gave a deficit of 36.7 billion USD in 2020. Gold imports reached 25.2 billion USD in 2020 and tourism revenues, which remained weak due to the pandemic, were decisive in this development. Net tourism revenues, which were 25.7 billion USD in 2019, decreased to 9.2 billion USD in 2020. The current account surplus, excluding gold and energy became 9.9 billion USD in 2020.



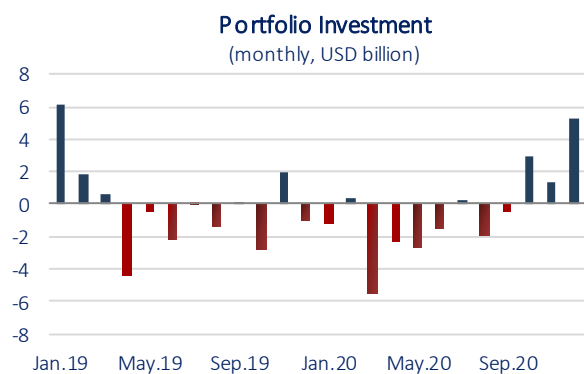
Direct Investments...

In December, 836 million USD capital inflow was recorded in net direct investments item. In this period, direct investments made by non-residents in Turkey reached the highest level since November 2018 with 1.3 billion USD. 38.4% of that amount stemmed from net real estate investments. In 2020, net direct investments decreased by

26.8% compared to the previous year and reached 4.6 billion USD. When looking at the distribution of nonresidents' direct investment by sector in Turkey, in 2020 insurance and financial activities and information and communication sectors stood out.

Strong capital inflow in portfolio investments in December...

In December, a net capital inflow of 5.2 billion USD was realized in portfolio investments. Thus, the strongest capital inflow has been recorded in portfolio investments since January 2019. On the other hand, non-residents made net sales of 4.3 billion USD and 4.9 billion USD, respectively, in the equity and government securities markets throughout the year. Thus, the total net capital outflow in portfolio investments in 2020 was 5.5 billion USD.



Other investments ...

In December, a net capital inflow of 3.2 billion USD was recorded in other investments. During this period, foreign banks' currency and deposit assets in their foreign correspondents decreased by 3.2 billion USD, while a net increase of 425 million USD was experienced in the domestic deposits of foreign banks. Banks and other sectors borrowed a total of 1.2 billion USD from abroad in December. According to 12-month cumulative data, the long-term debt rollover ratio was 79.8% in the banking sector and 75.7% in other sectors in December. In the whole of 2020, a total of 9 billion USD net capital inflow was realized in other investments.

Net Capital Flows

	12-month Cumulative (million USD)		Breakdown of Net Capital Inflows (%)	
	Dec. 2019	Dec. 2020	Dec. 2019	Dec. 2020
Current Account Balance	6,759	-36,724	51.0	-
Total Net Foreign Capital Flows	-435	4,862	-	-
-Direct Investment	6,323	4,631	47.7	10.2
-Portfolio Investment	-1,447	-5,493	-	-
-Other Investment	140	9,039	1.1	19.9
-Net Errors and Omissions	-5,485	-3,276	-	-
-Other	34	-39	0.3	-
Reserves(1)	-6,324	31,862	-	70.0

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

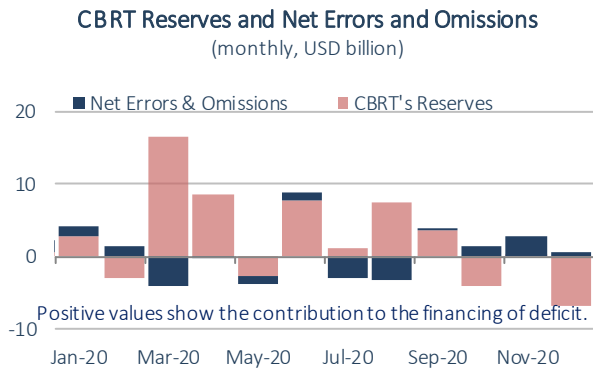
(1) (-) sign indicates an increase in reserves, while (+) sign indicates decrease.

Source: CBRT, Turkstat, Datastream

Foreign Trade and Balance of Payments

Reserves increased by 6.7 billion USD in December.

Reserve assets decreased by 145 million USD in November and increased by 6.7 billion USD in December. Thus, the decrease in reserve assets in 2020 fell to USD 31.9 billion. In 2020, capital outflow of in the net errors and omissions item was 3.3 billion USD.



Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports rose by 9.6% yoy and became 16 billion USD in February, while imports increased by 9.8% yoy to 19.4 billion USD. Import coverage ratio was realized as 82.7 in this period. Despite the strong export performance in the first two months of the year that was supported by the increase in the EUR/USD parity, rising oil and other commodity prices signal that the pressure on the current account deficit will continue. We expect the impact of vaccination practices and the decisions regarding travel arrangements in Europe, which is Turkey's main export market with a high share of foreign visitors to Turkey, will be effective on the outlook of the current account balance in the coming months.

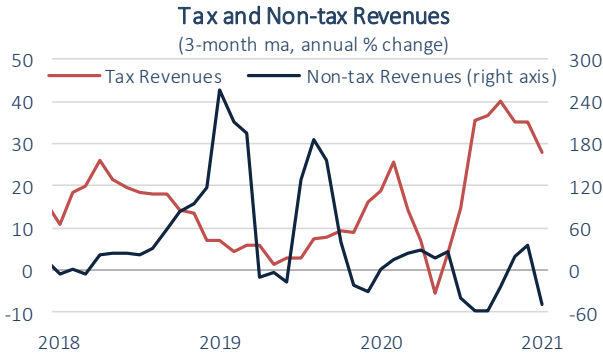
Balance of Payments	(USD million)			
	2019	December 2020	% Change	12-month Cumulative
Current Account Balance	-2,737	-3,210	17.3	-36,724
Foreign Trade Balance	-3,673	-3,344	-9.0	-37,878
Services Balance	1,807	644	-64.4	9,640
Travel (net)	1,112	617	-44.5	9,180
Primary Income	-1,119	-590	-47.3	-8,769
Secondary Income	248	80	-67.7	283
Capital Account	-2	-7	250.0	-39
Financial Account	-988	-2,483	151.3	-40,039
Direct Investments (net)	-704	-836	18.8	-4,631
Portfolio Investments (net)	888	-5,209	-	5,493
Net Acquisition of Financial Assets	1,234	23	-98.1	220
Net Incurrence of Liabilities	346	5,232	1,412.1	-5,273
Equity Securities	89	269	202.2	-4,255
Debt Securities	257	4,963	1,831.1	-1,018
Other Investments (net)	-633	-3,172	401.1	-9,039
Currency and Deposits	-2,202	-3,105	41.0	-19,779
Net Acquisition of Financial Assets	375	-3,188	-	-1,932
Net Incurrence of Liabilities	2,577	-83	-	17,847
Central Bank	1,995	-2	-	12,661
Banks	582	-81	-	5,186
Foreign Banks	333	425	27.6	6,028
Foreign Exchange	227	613	170.0	1,865
Turkish Lira	106	-188	-	4,163
Non-residents	249	-506	-	-842
Loans	3,673	-981	-	8,199
Net Acquisition of Financial Assets	143	311	117.5	-1,281
Net Incurrence of Liabilities	-3,530	1,292	-	-9,480
Banking Sector	-79	559	-	-5,050
Non-bank Sectors	-3,517	604	-	-4,007
Trade Credit and Advances	-2,205	915	-	2,546
Other Assets and Liabilities	101	-1	-	-5
Reserve Assets (net)	-539	6,734	-	-31,862
Net Errors and Omissions	1,751	734	-58.1	-3,276

Source: CBRT, Ministry of Trade, Datastream

Budget Balance

The central government budget gave a deficit of 24.2 billion TRY in January.

In January 2021, budget revenues decreased by 26.7% yoy to 89.6 billion TRY, while budget expenditures expanded by 13% to 113.8 billion TRY. Thus budget balance, which posted a surplus of 21.5 billion TRY in January 2020, gave a deficit of 24.2 billion TRY in the same period of 2021. The primary balance, which posted a surplus of 34.2 billion TRY in January 2020, gave a deficit of 2.2 billion TRY in the same period of 2021.

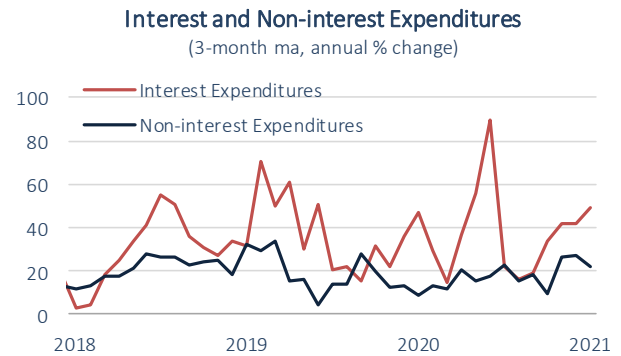


Sharp decline in enterprise and ownership revenues...

Enterprise and ownership revenues, which were 42.5 billion TRY due to the transfer of the CBRT profit to the budget in January 2020, decreased to 1.6 billion TRY in the same period of 2021 and this development was decisive in the decline of budget revenues. In January, tax revenues increased by 17.5% yoy and reached 79.2 billion TRY. Special Consumption Tax (SCT) received from motor vehicles rose by 285% yoy in the first month of the year thanks to the 60% annual increase in the automotive sales in January, as well as the increase in SCT rate on motor vehicles in 2020, and positively affected the budget revenues. In the first month of the year due to the annual rise in exchange rates value-added tax (VAT) revenues on imports went up by 43.1% compared to the same month of 2020. The 35.6% increase in domestic VAT revenues also supported the budget balance.

Interest expenditures rose by 72.2% yoy in January.

In January, interest expenditures and non-interest expenditures increased by 72.2% and 4.4% yoy, respectively. In this period, domestic debt interest payments nearly doubled annually and reached 19.7 billion TRY, while foreign debt interest payments declined by 38.8% to 1.5 billion TRY. Steps taken against the pandemic have risen the treasury aids item of current transfers and thus, the current transfers stood out in the increase of non-interest expenditures. On the other hand, 71.8% annual decrease in real property capital and production expenses limited the deterioration in the budget outlook.



Expectations...

The limiting effects of the measures taken against pandemic on budget indicators continued in the first month of 2021. The ongoing measures against the pandemic and the prolonged tax delays until the middle of the year indicate that the budget outlook may remain under pressure throughout the first half of the year.

	Central Government Budget			(billion TRY)	
	January 2020	January 2021	% Change	2021 Budget Target	Real./ Budget Target (%)
Expenditures	100.7	113.8	13.0	1,346.1	8.5
Interest Expenditures	12.7	21.9	72.2	179.5	12.2
Non-Interest Expenditures	87.9	91.8	4.4	1,166.6	7.9
Revenues	122.2	89.6	-26.7	1,101.1	8.1
Tax Revenues	67.4	79.2	17.5	922.7	8.6
Other Revenues	54.8	10.4	-81.0	178.4	5.8
Budget Balance	21.5	-24.2	-	-245.0	9.9
Primary Balance	34.2	-2.2	-	-65.5	3.4

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

Source: Ministry of Treasury and Finance, Datastream

Inflation

Monthly CPI came in at 0.91% in February.

Inflation came in above the market expectations in February. The monthly rise in CPI was realized as 0.91%, well above the average of last 5 years February figures. The market's monthly CPI expectation for this period was 0.70%. In this period, domestic PPI (D-PPI) increased by 1.22%, which was the lowest rise in the last 7 months.

February (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	0,35	0,91	0,48	1,22
Year-to-Date	1,71	2,60	2,33	3,92
Annual	12,37	15,61	9,26	27,09
Annual Average	13,94	12,81	14,18	15,14

Annual CPI rose to 15.61%.

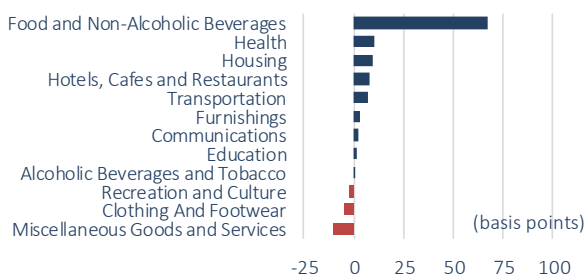
Annual CPI inflation gained momentum in February and was realized as 15.61%, reaching the highest level since July 2019. Annual D-PPI inflation, which displays an increasing trend since June, reached the highest level of the last 21 months with 27.09%.

In February, increases in health and food prices stood out.

In February, prices rose in 9 out of the 12 main expenditure groups on a monthly basis. In this period, the health prices increased by 3% due to the rise in medicine prices. Thus, health prices increased the monthly CPI inflation by 10 bps. The rise in fresh fruit and vegetable prices were noteworthy in the food group, which made the highest contribution to CPI inflation by 67 bps. The miscellaneous goods and services group had the sharpest monthly decline in prices with 2.3% mom. In February, prices of recreation and culture, clothing and footwear groups also declined.

On an annual basis, the fastest rises were seen in furnishing and in transportation groups with 23.7% yoy and 22.5% yoy, respectively. The lowest annual price increase was in the alcoholic beverages and tobacco with 2.9%.

Contributions to the Monthly CPI Inflation

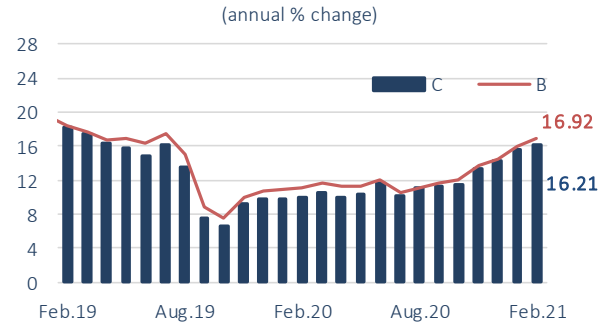


Core inflation indicators...

Monthly increases in 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, came in below the headline inflation and were realized as 0.79% and 0.44%, respectively. The

upward trend in annual core inflation figures since August continued also in February. B and C indices increased by 16.92% yoy and 16.21% yoy, respectively.

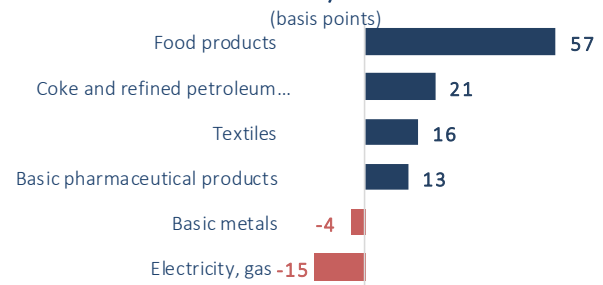
Special CPI Aggregates



Food and pharmaceutical products came to the fore in D-PPI inflation.

In February, among the sub-sectors of D-PPI, prices in basic pharmaceutical products recorded the highest increase with 9.4% mom and contributed the monthly inflation by 13 bps. Food group, where prices rose by 2.8%, made the highest contribution to monthly D-PPI inflation with 57 bps in this period. The prices of metal ores fell rapidly by 2.7% in February and limited the D-PPI by 3 bps.

Contributions of Featured Sub-Sectors to Monthly D-PPI



Food products, basic metals and textiles were the sub-sectors that made the highest contribution to the annual D-PPI increase. During this period, crude petroleum and natural gas, tobacco products and electricity, gas generation and distribution sub-sectors made the lowest contribution to the annual increase in D-PPI.

Expectations

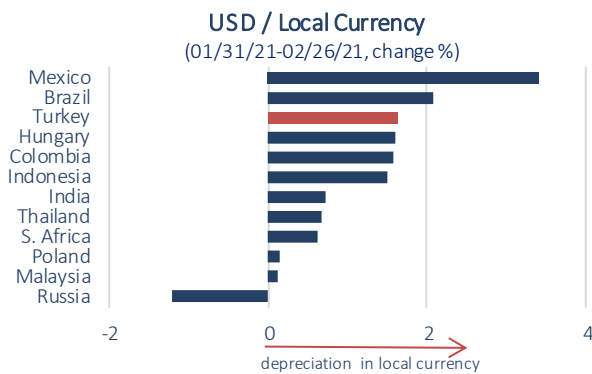
February inflation came in above market expectations due to the high increase in medicine and food prices along with the rise in commodity prices and the lagging effect of exchange rate changes. Recent volatility in exchange rates and high inflation expectations suggest that inflationary pressures will continue in the coming period. In addition, with the easing of the restrictive measures taken against the pandemic at the beginning of March, the expected rise in demand in the service sectors poses a risk factor that could lead to deferred price increases in these sectors.

	29-Jan	26-Feb	Change
5-Y CDS (basis points)	307	318	11 bps ▲
TR 2-Y Benchmark Yield	14.69%	15.08%	39 bps ▲
BIST-100	1,473	1,471	-0.1% ▼
USD/TRY	7.3099	7.4226	1.5% ▲
EUR/TRY	8.8773	8.9622	1.0% ▲
Currency Basket*	8.0936	8.1924	1.2% ▲

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

Turkish financial markets displayed a volatile outlook in February.

The decline in the global risk appetite in parallel with the increase in US Treasury bond yields put downward pressure on the currencies of developing countries in the last days of February. These developments led to a volatile course in Turkish financial markets as well. The Turkish lira, which appreciated until the last week of February thanks to CBRT's emphasis on the tight stance decision in monetary policy, was negatively affected by the appreciation of the USD in global markets in the last week of the month. While TRY displayed a weaker outlook compared to most of the currencies of other developing countries, the USD/TRY exchange rate soared to 7.42 at the end of the month. EUR/ TRY, which was at the level of 8.88 at the beginning of February, also rose to 8.96 at the end of February.



Turkey's 5-year CDS risk premium exceeded 300 bps at the end of February.

Remaining under 300 bps until the last week of February, Turkey's 5-year CDS premium increased again, along with the rapid rise in exchange rates in the last week and reached 318 bps at the end of the month. The BIST-100



index, which showed an upward trend throughout the month, decreased slightly at closing compared to the previous month, due to the rapid decline in the last week.

CBRT kept the policy rate at 17%.

At its meeting held on February 18, the CBRT kept the policy rate at 17% in line with the market expectations. CBRT stated that domestic demand conditions, cumulative cost effects, in particular the exchange rate developments, the rise in international food and other commodity prices, and high levels of inflation expectations continued to affect the pricing behavior and inflation outlook negatively. Accordingly, the CBRT maintained its stance that the tight monetary policy stance will be maintained for a long time resolutely, until strong indicators point to a permanent decline in inflation and price stability, and additional monetary tightening will be made if deemed necessary.

CBRT increased the TRY reserve requirement ratios.

The CBRT raised the TRY required reserve ratios by 200 basis points for all maturities, while also increasing the interest rate for required reserves in TRY from 12% to 13.5%. The CBRT also decided to reduce the maximum rate of holding TRY required reserves in foreign currency from 30% to 20%, and the maximum rate of holding TRY required reserves in standard gold from 20% to 15%. CBRT stated that, with the respective alterations, in case the reserve option usage ratios for the remaining tranches remain at the same level, TRY-denominated reserve requirements are expected to increase by approximately 25 billion TRY, whereas total required reserve facilities in foreign currency and gold will decrease by 0.5 billion USD.

Fitch raised Turkey's credit outlook to "stable".

International credit rating agency Fitch affirmed Turkey's credit rating as BB-, while raising the outlook from "negative" to "stable". Fitch noted that the consistent policies followed in the last period reduced external fragilities, which were decisive in the decision taken. The organization stated that the change in investor sentiment and the economic policies contributed to a significant appreciation of the Turkish Lira, a decrease in the risk premium and net capital inflows. At the beginning of March, Moody's stated that the rating outlook may be revised from negative to stable if the transition to consistent fiscal and monetary policies becomes permanent in the upcoming period and reflects a decrease in inflation, strengthening in the Turkish Lira and a decrease in dollarization.

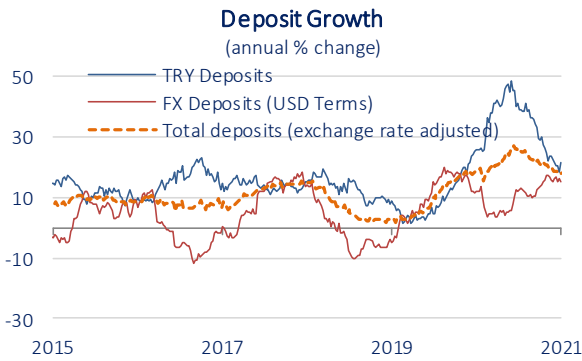
Credit Rating Agency	Note	Outlook	Last Update Date
Fitch	BB-	Stable	February-2021
Moody's	B2	Negative	September-2020
Standard and Poor's	B+	Stable	August-2018

Source: Datastream, Reuters, CBRT

Banking Sector

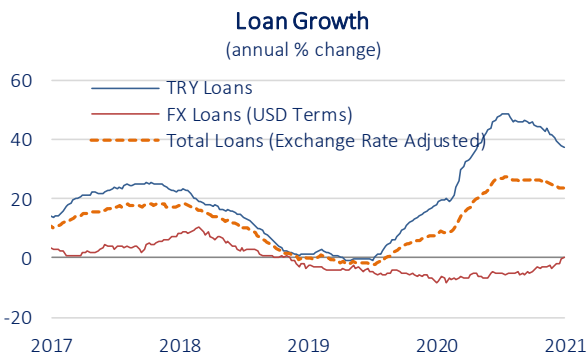
Deposit volume rose by 26.6% yoy.

According to the BRSA's Weekly Bulletin, the deceleration trend in the deposit volume expansion since the last week of November 2020 persisted in February. Thus, the rise in deposit volume became 26.6% yoy and the deposit volume was realized as 3,560 billion TRY as of February 19. Annual rise in FX rate adjusted deposit volume became 18.3%. While TRY deposit volume increased by 21.8% yoy to 1,573, FX deposits in USD terms rose by 15.1% yoy and became 258 billion USD during this period. The share of FX deposits in total deposits declined to 53.2% as of February 19.



TRY loan volume expanded by 29% yoy.

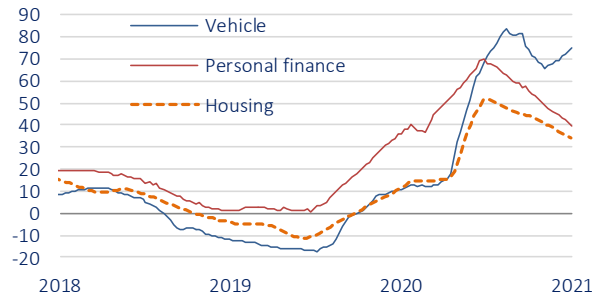
As of February 19, the total loan volume of the banking sector increased by 29% yoy and became 3,509 billion TRY. The annual rise in FX rate adjusted loan volume was 23.8% in this period. While the annual TRY loan growth was 37.5%, FX loans in USD terms had a limited increase after a long period. As of February 19, FX loans in USD terms increased by 0.4% yoy and reached 166 billion USD.



Consumer loans went up by 38.1% yoy.

As of February 19, consumer loan volume went up by 38.1% yoy. In this period the annual rise in housing and consumer loans continued to lose momentum and became 34.3% and 39.9%, respectively. Acceleration trend in vehicle loan increase since the last week of December 2020 continued. As of February 19, vehicle loans rose by 74.7% yoy, while the annual increase in the consumer credit cards volume became 26.3%.

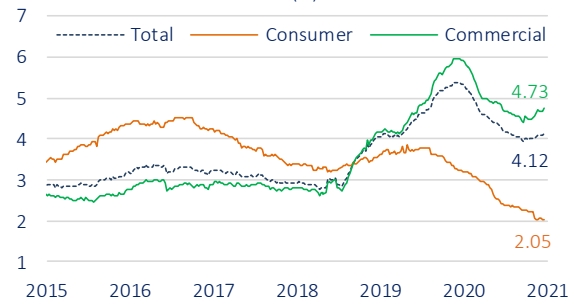
Consumer Loans (annual % change)



Non-performing loan ratio is 4.12%.

As of February 19, the amount of gross nonperforming loans declined by 1.1% with the effects of the BRSA regulations against the pandemic, and was realized as 150.7 billion TRY. NPL ratio became 4.12% in this period. While the said ratio was 2.63% in public banks, it became 5.43% in private banks. In terms of loan types, NPL ratios for commercial and consumer loans were realized as 4.73% and 2.05%, respectively.

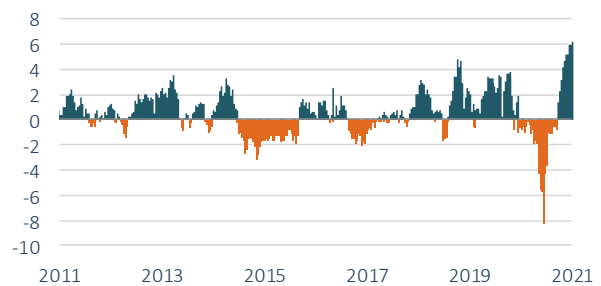
Non-performing Loans (%)



Net foreign currency position...

As of February 19, banks' on-balance sheet FX position was (-) 58,003 million USD, while off-balance sheet FX position was (+) 64,173 million USD. Hence, banking sector's net foreign currency position became (+) 6,169 million USD.

Net FX Position (USD billion)



Source: BRSA Weekly Bulletin

Concluding Remarks

Although the spread of coronavirus pandemic on global scale has exceeded one year, it continues to be high on global economic agenda with its effects and taken measures to deal with the outcomes. The divergence between the countries in vaccination practices and the different mutations of the virus raise questions about the effectiveness of vaccination.

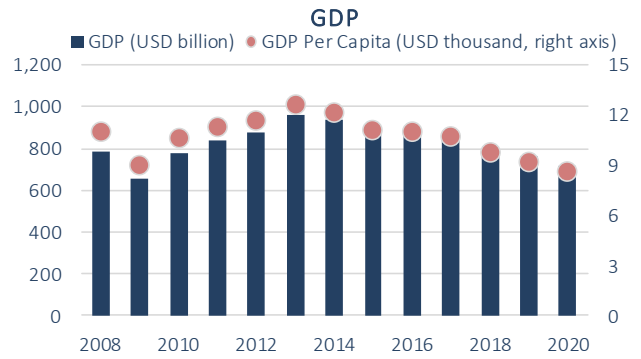
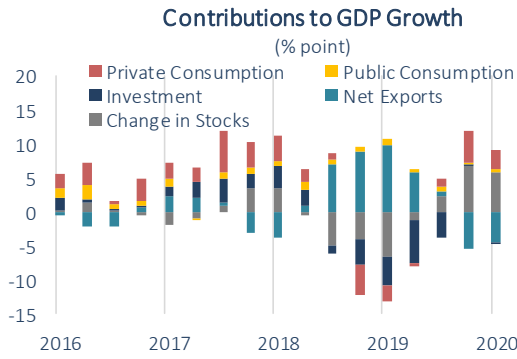
Macroeconomic data for February point to continuation of positive course in the manufacturing industry in developed economies. The course of economic activity in the services sector diverges from country to country, depending on the differences between countries in the level of measures taken to prevent the spread of the pandemic.

Increasing inflation expectations in the USA, where developments regarding the stimulus package were closely monitored, led Treasury bond yields to climb in February. Despite contrary statements from Fed officials, this situation raised the concerns that supportive monetary policies would be reduced gradually and caused volatility in the markets to increase significantly.

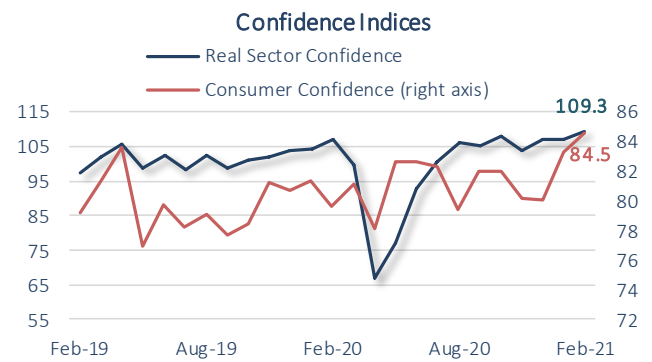
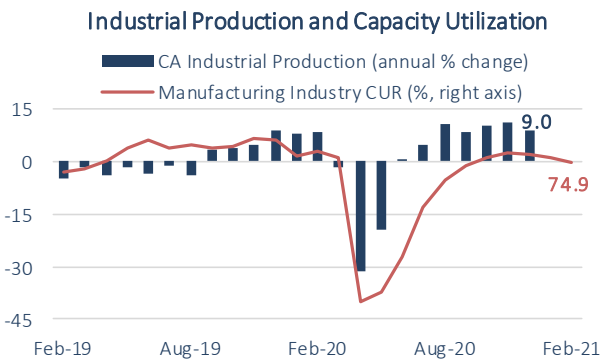
Turkish financial markets, which were supported by the CBRT's emphasis on the tight monetary policy stance at its February meeting, followed a volatile course in parallel with the global markets towards the end of the month.

Turkish economy expanded by 5.9% yoy in the fourth quarter of 2020, and by 1.8% in the whole year. Thus, Turkey was one of the few countries recording positive growth despite the impact of the Covid-19 pandemic. Preliminary data for the first quarter indicate that economic activity displayed a moderate outlook due to the tightening in monetary policy and the restrictive measures taken. With the easing in the pandemic restrictions from the beginning of March, the economic activity in the services sector is expected to accelerate in the coming period.

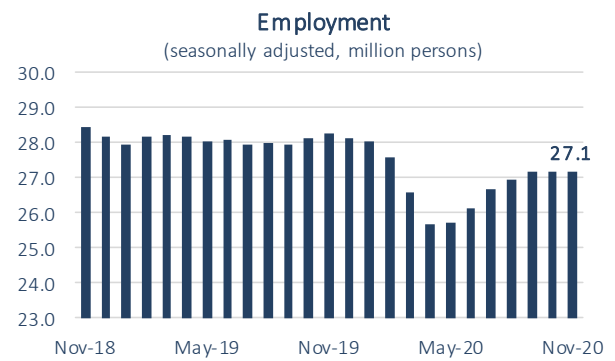
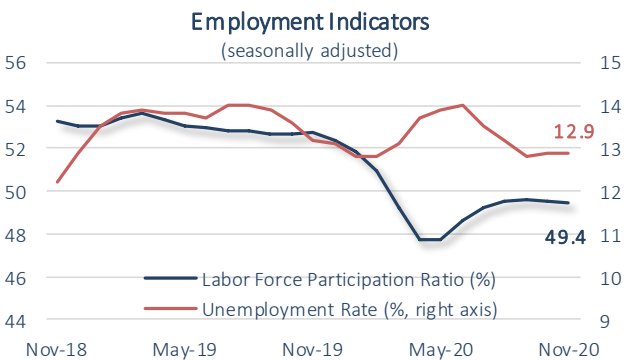
Growth



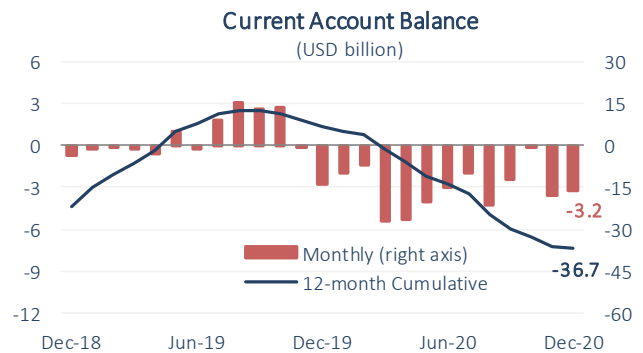
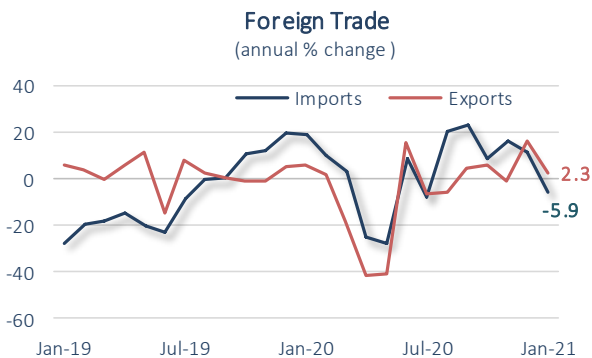
Leading Indicators



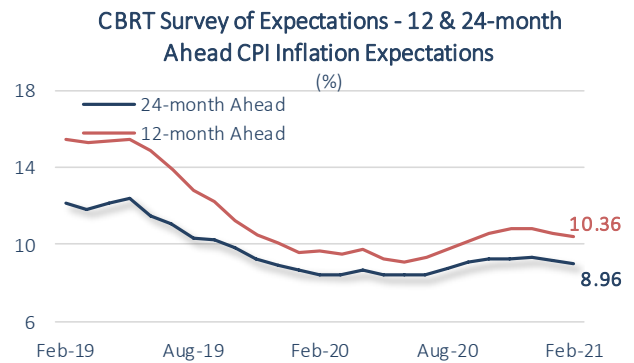
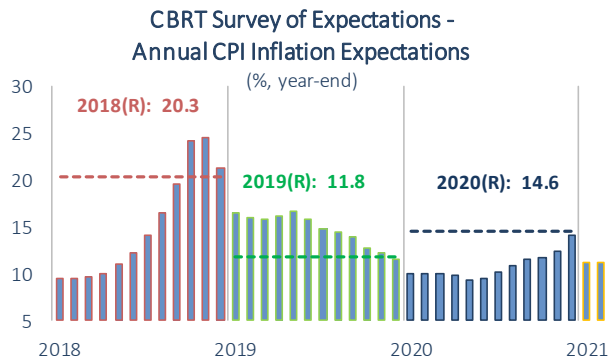
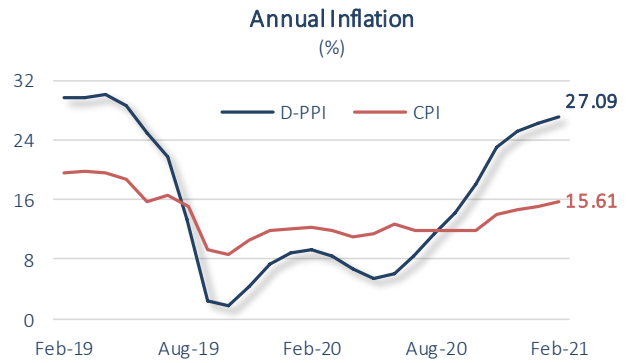
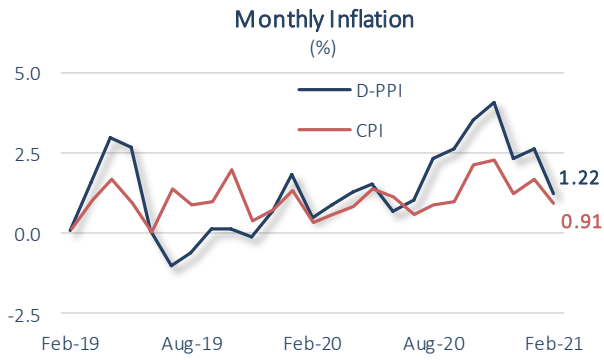
Labor Market



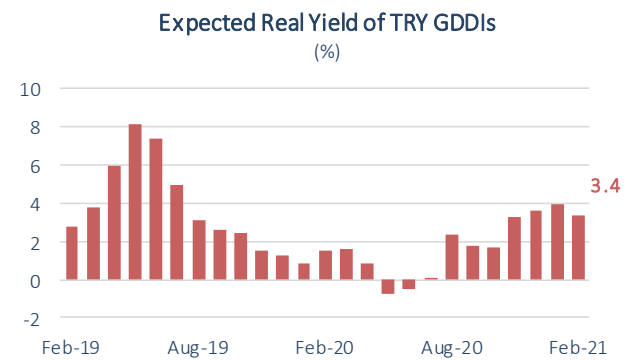
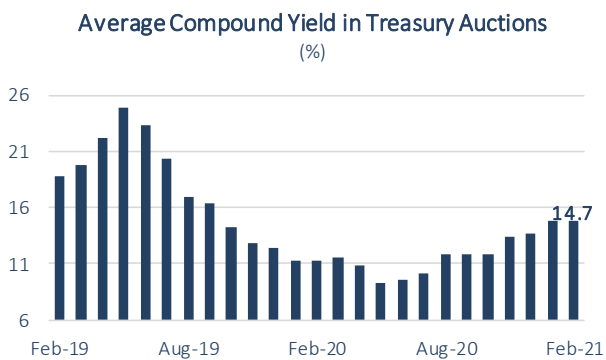
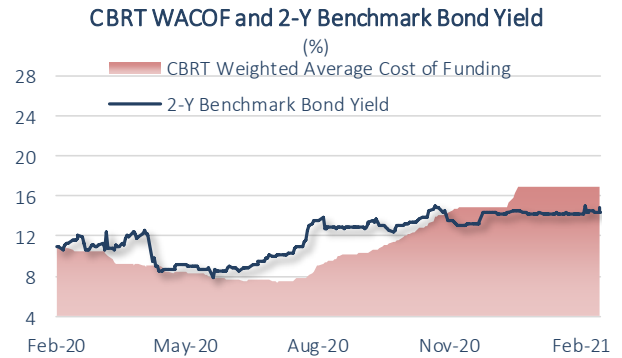
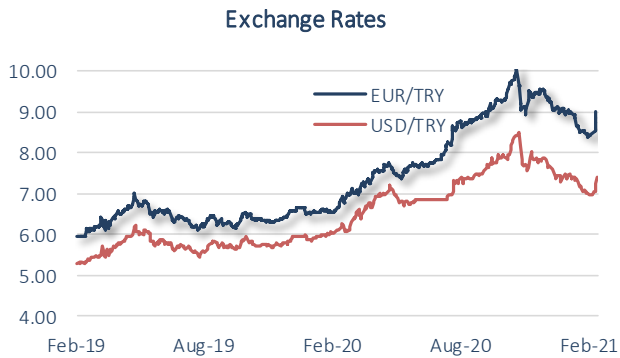
Foreign Trade and Current Account Balance



Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020			
GDP (USD billion)	869	859	797	761	717			
GDP (TRY billion)	2,627	3,134	3,758	4,320	5,048			
GDP Growth Rate (%)	3.3	7.5	3.0	0.9	1.8			
Inflation (%)						Jan-21	Feb-21	
CPI (annual)	8.53	11.92	20.30	11.84	14.60	14.97	15.61	
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	26.16	27.09	
Seasonally Adjusted Labor Market Figures						Sep-20	Oct-20	Nov-20
Unemployment Rate (%)	12.0	9.9	12.9	13.1		12.80	12.90	12.90
Labor Force Participation Rate (%)	52.4	53.1	53.0	52.3		49.60	49.50	49.40
FX Rates						Jan-21	Feb-21	
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.3	66.3		
USD/TRY	3.5176	3.7916	5.3199	5.9510	7.4325	7.30	7.42	
EUR/TRY	3.7102	4.5530	6.0815	6.6800	9.0941	8.87	9.00	
Currency Basket (0.5*EUR+0.5*USD)	3.6139	4.1723	5.7007	6.3155	8.2633	8.08	8.21	
Foreign Trade Balance⁽¹⁾ (USD billion)								Jan-21
Exports	149.2	164.5	177.2	180.8	169.7			170.0
Imports	202.2	238.7	231.2	210.3	219.5			218.4
Foreign Trade Balance	-52.9	-74.2	-54.0	-29.5	-49.8			-48.4
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3			77.9
Balance of Payments⁽¹⁾ (USD billion)								
Current Account Balance	-27.0	-40.8	-21.7	6.8	-36.7			
Capital and Financial Accounts	-21.7	-47.0	-10.9	1.3	-40.0			
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6			
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5			
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0			
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9			
Net Errors and Omissions	5.3	-6.2	10.8	-5.5	-3.3			
Current Account Balance/GDP (%)	-3.1	-4.8	-2.7	0.9	-5.1			
Budget⁽²⁾⁽³⁾ (TRY billion)								Jan-21
Expenditures	584.1	678.3	830.8	1000.0	1202.2			113.8
Interest Expenditures	50.2	56.7	74.0	99.9	134.0			21.9
Non-interest Expenditures	533.8	621.6	756.8	900.1	1068.3			91.8
Revenues	554.1	630.5	758.0	875.3	1029.5			89.6
Tax Revenues	459.0	536.6	621.5	673.9	833.1			79.2
Budget Balance	-29.9	-47.8	-72.8	-124.7	-172.7			-24.2
Primary Balance	20.3	8.9	1.1	-24.8	-38.8			-2.2
Budget Balance/GDP (%)	-1.1	-1.5	-1.9	-2.9	-3.4			-
Central Government Debt Stock (TRY billion)								Jan-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4			1,064.3
External Debt Stock	291.3	341.0	481.0	574.0	752.5			773.4
Total Debt Stock	760.0	876.5	1067.1	1,329.1	1,812.8			1,837.6

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

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

Turkish Economy - Banking Sector Outlook

Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2016	2017	2018	2019	2020	Jan.21	Change ⁽¹⁾
TOTAL ASSETS	2,731	3,258	3,867	4,492	6,106	6,045	-1.0
Loans	1,734	2,098	2,395	2,657	3,576	3,555	-0.6
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,347	-0.2
Share (%)	65.2	67.4	60.1	61.8	65.8	66.0	-
FX Loans	603	684	956	1,015	1,224	1,207	-1.3
Share (%)	34.8	32.6	39.9	38.2	34.2	34.0	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	151.6	-0.6
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	4.1	-
Securities	352	402	478	661	1,023	1,015	-0.8
TOTAL LIABILITIES	2,731	3,258	3,867	4,492	6,106	6,045	-1.0
Deposits	1,454	1,711	2,036	2,567	3,455	3,419	-1.1
TRY Deposits	845	955	1,042	1,259	1,546	1,536	-0.6
Share (%)	58.1	55.8	51.2	49.0	44.7	44.9	-
FX Deposits	609	756	994	1,308	1,909	1,882	-1.4
Share (%)	41.9	44.2	48.8	51.0	55.3	55.1	-
Securities Issued	116	145	174	194	224	224	0.2
Payables to Banks	418	475	563	533	658	661	0.5
Funds from Repo Transactions	138	99	97	154	255	267	4.5
SHAREHOLDERS' EQUITY	300	359	421	492	600	605	0.9
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	4.3	-
RATIOS (%)							
Loans/GDP	66.5	67.6	64.7	61.5			
Loans/Assets	63.5	64.4	61.9	59.1	58.6	58.8	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.8	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	56.6	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	104.0	-
Capital Adequacy (%)	15.6	16.8	17.3	18.4	18.7	18.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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