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## Global Economy

Even though the pace of vaccination has accelerated worldwide in March, the continued increase in the number of Covid-19 cases raises concerns.

Macroeconomic data announced in the US pointed out that strong economic activity continued in March.

After signing the 1.9 trillion USD incentive package in March, US President Biden announced a 2.25 trillion USD infrastructure investment plan.

Fed members' economic growth projections for 2021 increased by 2.3 points to 6.5%, while the unemployment rate expectation decreased by 0.5 points to 4.5%. The members kept their policy rate estimates at 0.1%.

Due to the rise in inflation expectations in the US, the increase in 10-year Treasury bond interest rates continued.

In the Euro Area, the manufacturing PMI for March displayed a positive outlook, while the weak course in the services sector continued with the impact of the pandemic. ECB announced its plan to speed up the pace of its bond buying in the second quarter.

The OECD revised its global economic growth forecasts upwards in its March 2021 Economic Outlook Report.

Oil prices rose in early March as OPEC+ countries extended their production cut. The cargo ship stranded in the Suez Canal caused fluctuation in oil prices.

## Turkish Economy

According to the calendar adjusted data, in January, industrial production rose by 11.4% yoy recording its highest increase since January 2018. Manufacturing PMI increased to 52.6 in March, indicating accelerated recovery in the sector.

TURKSTAT revised the labor force statistics using a methodology in line with international standards. According to the revised data, seasonally adjusted unemployment rate was realized as 12.2% while the employment rate was 43.8% in January.

Despite the decline in the foreign trade deficit, the current account balance posted a deficit of 1.9 billion USD in January, slightly above market expectations due to the loss in tourism and transportation revenues.

The central government budget posted a surplus of 23.2 billion TRY in February. In this period, budget revenues went up by 38.8% yoy, while budget expenditures slightly increased by 3.1% yoy.

In March, monthly rise in CPI was realized as 1.08%, while annual CPI inflation became 16.19%. In this period, domestic PPI (D-PPI) increased by 4.13% mom and annual D-PPI inflation rose to 31.20%.

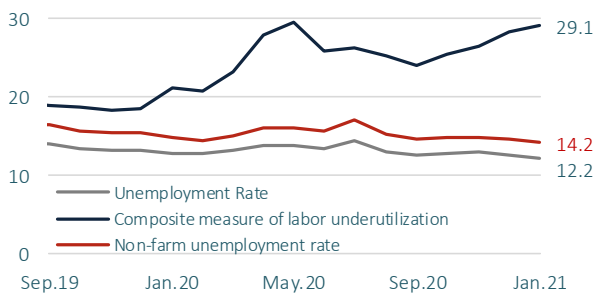
At its meeting on March 18, CBRT raised the policy interest rate from 17% to 19%, above market expectations. On March 20th, CBRT Governor Naci Ağbal was replaced by Prof. Şahap Kavcıoğlu. After the change in the CBRT management, the domestic markets followed a volatile course, while TRY depreciated rapidly in March.

## Leading Indicators

### Labor underutilization rate became 29.1% in January.

TURKSTAT revised its labor force statistics using a methodology in line with international standards. The new labor force data provided a broad definition of the concept of "work", while the scope and criteria of employment were redefined. People in labor force were classified as those at work and those who are not. In addition, it was announced that the labor force indicators will be declared on a monthly basis, while complementary indicators were defined such as the labor underutilization rate. According to the revised data, seasonally adjusted unemployment rate was realized as 12.2% while the employment rate was 43.8% in January. The labor underutilization rate, which expresses the ratio of the sum of time-related underemployment, unemployed and potential workforce to the total workforce and potential workforce became 29.1%. According to the unadjusted data, the number of unemployed decreased by 226K people yoy in January, while the labor force participation rate, which was 50.6% in January 2020, decreased to 49.6%.

#### Complementary Labor Force Indicators



### Industrial production rose rapidly in January.

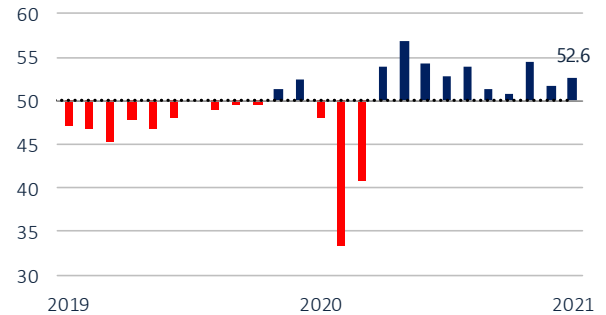
The increase in industrial production since the second half of 2020 continued in January. According to the calendar adjusted data, industrial production rose by 11.4% yoy in the first month of 2021 and recorded its highest increase since January 2018. The monthly increase in industrial production adjusted for seasonal and calendar effects came in at 1.0% in January. Total turnover index including industry, construction, trade, and services sectors went up by 30.2% yoy in January. 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 rose by 2% yoy in January. In this period, the annual rise in food, drinks and tobacco sales gained momentum and reached 12.3%, while non-food sales and automotive fuel sales decreased by 0.6% and 5.8%, respectively. According to the seasonally and calendar adjusted data, retail sales slightly increased by 0.3% mom in January.

### In March, the manufacturing PMI rose to 52.6.

Manufacturing PMI, which was 51.7 in February, rose to 52.6 in March, indicating an acceleration in sectors activity. In this period, employment sub-index continued to rise at a solid pace. Thanks to the rise in new orders, especially in export orders, the output sub-index also increased for the

third consecutive month. In March, global freight cargo issues exacerbated supply shortages of raw materials, while input stocks recorded the fastest decline in the last 3 months. In addition, the depreciation of the TRY contributed inflationary pressures on input costs.

#### Manufacturing PMI (benchmark=50)



### The weak course in house sales continued in February.

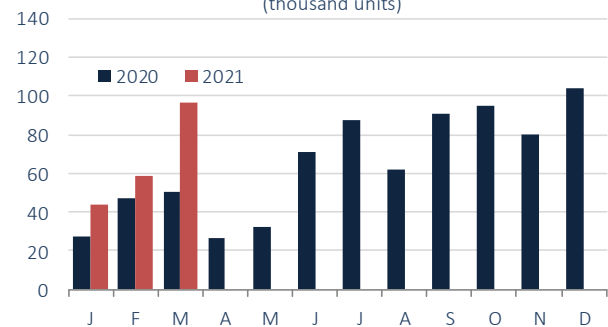
House sales decreased by 31.6% yoy to 81K units in February. In this period, the mortgaged house sales, which decreased by 66.5% yoy, had a share of 18.1% in total sales. In the first two months of the year, house sales declined by 34.7% compared to the same period of last year. On the other hand, residential property price index (RPPI) increased by 30.4% yoy in January and became 157,7 recording its highest level since 2010. The annual rise in RPPI became 13.5% in real terms.

### White goods exports increased, while automotive exports declined in February.

According to the White Goods Manufacturers' Association of Turkey, domestic sales of white goods went up by 42% yoy in February. In this period, the export volume rose by 19% yoy, while production volume expanded by 29% yoy thanks to the strong domestic demand and the acceleration in exports.

According to the Automotive Manufacturers Association, in February, automotive production fell by 9.3% yoy, while automotive exports declined by 14.3% yoy. On the other hand, the strong trend in the automotive market, which widened by 25.2% yoy in February, continued in March. In this period, also with the effect of low base, the passenger car and light commercial vehicle market expanded by 92.8% yoy.

#### Passenger Car and Light Commercial Vehicle (thousand units)



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

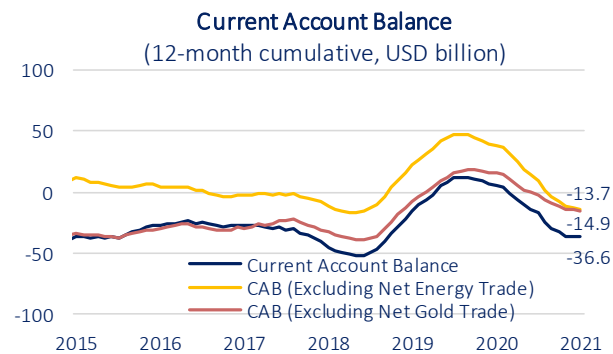
## Foreign Trade and Balance of Payments

### Foreign trade deficit widened by 8.7% yoy in February.

According to TURKSTAT, exports increased by 9.6% yoy and became 16 billion USD in February, while imports rose by 9.4% yoy to 19.3 billion USD. Foreign trade deficit widened by 8.7% yoy and became 3.3 billion USD in February 2021. In this period, import coverage ratio was realized as 82.9%. In January-February period foreign trade deficit contracted by 15.9% yoy to 6.4 billion USD.

### The current account balance posted a deficit of 1.9 billion USD in January.

In January, the current account balance posted a deficit of 1.9 billion USD, slightly above market expectations. The market expectation was that the current account deficit would be 1.6 billion USD. Despite the decline in the foreign trade deficit, the annual decrease of 1.1 billion USD in the balance of services due to the loss in tourism and transportation revenues had an effect on the current account deficit. Completing the year 2020 at the level of 36.8 billion USD, the 12-month cumulative current account deficit became 36.6 billion USD in the first month of 2021.

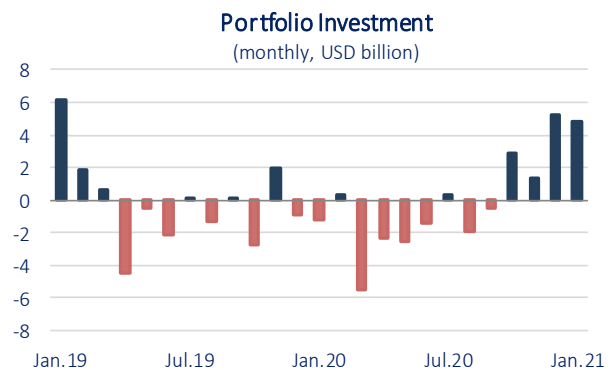


### Capital inflows in portfolio investments continued in January.

Nonresidents' direct investments in Turkey were realized

as 500 billion USD in January. In this period, real estate investments were at the lowest level of the last six months with 294 million USD, while capital investments became 228 million USD. Real estate and information&communication sectors stood out in the distribution of direct investments by sectors.

Portfolio investments in Turkey presented a strong outlook in January. Portfolio investments, which had a capital outflow of 1.2 billion USD in January 2020, recorded a capital inflow of 4.8 billion USD in the same month of this year. During this period, non-residents made net sales of 293 million USD in equity market, while they made 924 million USD net purchases in debt securities markets. In January, through bond issues abroad, the Treasury and banks borrowed 3.5 billion USD and 857 million USD, respectively.



In January, a net capital outflow of 3.4 billion USD was realized in the other investments item. In this period, a net increase of 3 billion USD was recorded in the foreign banks' deposits at domestic banks. On the other hand, the deposits of the domestic banks at their foreign correspondents increased by 5.9 billion USD in January and were effective in the net capital outflow. In this period, banks made a net repayment of 291 million USD in loans from abroad, while other sectors made a net loan use of 256 million USD. According to 12-month

### Net Capital Flows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2020	Jan. 2021	Dec. 2020	Jan. 2021
<b>Current Account Balance</b>	<b>-36,765</b>	<b>-36,599</b>	-	-
<b>Total Net Foreign Capital Flows</b>	<b>7,958</b>	<b>11,720</b>	-	-
-Direct Investment	4,731	4,096	10.4	11.0
-Portfolio Investment	-5,485	567	-	1.5
-Other Investment	8,751	7,106	19.3	19.1
-Other	-39	-49	-	-
<b>Net Errors and Omissions</b>	<b>-3,055</b>	<b>-479</b>	-	-
<b>Reserves(1)</b>	<b>31,862</b>	<b>25,358</b>	<b>70.3</b>	<b>68.3</b>

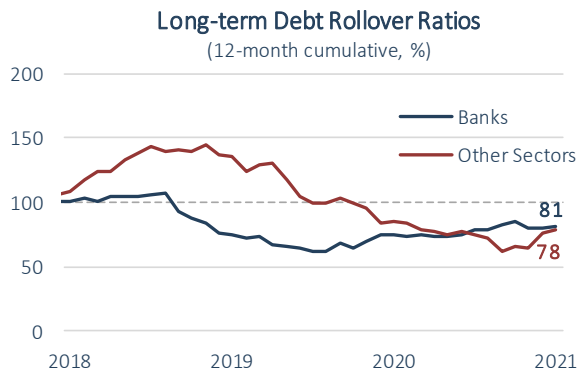
Note: The numbers may not add up total due to rounding.

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

Source: CBRT, Datastream

## Foreign Trade and Balance of Payments

cumulative figures, as of January, the long-term debt rollover ratio became 81.1% in the banking sector and 77.7% in other sectors.



### Reserves increased by 3.6 billion USD in January.

Reserve assets increased by 3.6 billion USD in January. Thus, the rise in reserve assets in last two months exceeded 10 billion USD, while the decrease in 12-month cumulative reserve assets became 25.4 billion USD as of January. In January, there was a capital inflow of 3.8 billion USD in the net errors and omissions item. The rise in net errors and omissions item for the last five months reached 8.8 billion USD.

### Expectations...

According to the preliminary foreign trade data released by the Ministry of Trade, exports rose by 42.2% yoy in March, reaching an all-time high monthly value of 19 billion USD. In this period, imports increased by 25.8% yoy to 23.7 billion USD. In March, foreign trade deficit decreased by 14.2% to 4.7 billion USD. Despite the strong export performance that was supported by the annual increase in the EUR/USD parity, rising oil and other commodity prices are expected to put pressure on the current account deficit.

Balance of Payments	(USD million)			
	2020	January 2021	% Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-2,033</b>	<b>-1,867</b>	<b>-8.2</b>	<b>-36,599</b>
Foreign Trade Balance	-3,317	-1,913	-42.3	-36,430
Services Balance	1,573	455	-71.1	8,384
Travel (net)	1,226	487	-60.3	8,441
Primary Income	-383	-472	23.2	-8,773
Secondary Income	94	63	-33.0	220
<b>Capital Account</b>	<b>-8</b>	<b>-18</b>	<b>125.0</b>	<b>-49</b>
<b>Financial Account</b>	<b>-794</b>	<b>1,938</b>	<b>-</b>	<b>-37,127</b>
Direct Investments (net)	-829	-194	-76.6	-4,096
Portfolio Investments (net)	1,222	-4,830	-	-567
Net Acquisition of Financial Assets	580	172	-70.3	-159
Net Incurrence of Liabilities	-642	5,002	-	408
Equity Securities	-333	-293	-12.0	-4,215
Debt Securities	-309	5,295	-	4,623
Other Investments (net)	1,747	3,392	94.2	-7,106
Currency and Deposits	-47	1,554	-	-18,162
Net Acquisition of Financial Assets	2,493	5,848	134.6	1,439
Net Incurrence of Liabilities	2,540	4,294	69.1	19,601
Central Bank	1	1,377	137,600.0	14,037
Banks	2,539	2,917	14.9	5,564
Foreign Banks	2,193	3,010	37.3	6,845
Foreign Exchange	644	1,478	129.5	2,699
Turkish Lira	1,549	1,532	-1.1	4,146
Non-residents	346	-93	-	-1,281
Loans	1,869	137	-92.7	6,462
Net Acquisition of Financial Assets	6	66	1,000.0	-1,221
Net Incurrence of Liabilities	-1,863	-71	-96.2	-7,683
Banking Sector	-1,502	-291	-80.6	-3,839
Non-bank Sectors	-365	256	-	-3,389
Trade Credit and Advances	-80	1,702	-	4,605
Other Assets and Liabilities	5	-1	-	-11
Reserve Assets (net)	-2,934	3,570	-	-25,358
<b>Net Errors and Omissions</b>	<b>1,247</b>	<b>3,823</b>	<b>206.6</b>	<b>-479</b>

Source: CBRT, Datastream

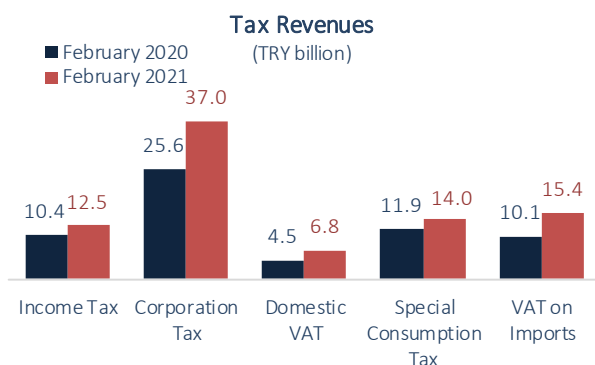
## Budget Balance

The central government budget posted a surplus of 23.2 billion TRY in February.

The budget balance, which gave a deficit of 24.2 billion TRY in January, posted a surplus of 23.2 billion TRY in February. In this period, budget revenues expanded by 38.8% yoy to 119.6 billion TRY, while budget expenditures had a limited increase by 3.1% to 96.4 billion TRY. Primary surplus, which was 6.8 billion TRY in February 2020, rose to 35.9 billion TRY in the same period of 2021. The budget balance gave a deficit of 1 billion TRY in the January-February period, and the primary surplus became 33.7 billion TRY in this period.

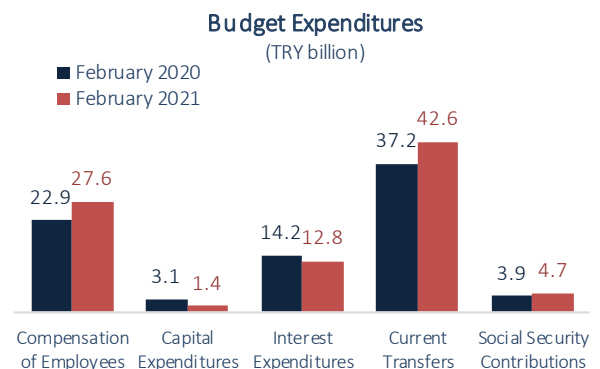
The annual increase in tax revenues was 37% in February.

Tax revenues, which constitute 82% of the total budget revenues, showed a rapid increase of 37.2% yoy in February, reaching 98.4 billion TRY. In this period the restructuring of tax debts may have also supported tax revenues while the increases in corporate tax and value added tax revenues on imports came to the fore. Corporate tax reached 37 billion TRY by an increase of 43.1% yoy. In this period, the value added tax on imports went up by 52.6% with the effect of the annual rise in foreign exchange rates and reached 15.4 billion TRY. Almost 100% annual increases in special consumption tax revenues from motor vehicles and durable consumer goods supported SCT revenues to increase by 18.4% to 14 billion TRY. The domestic value added tax also went up rapidly by 51.6% to 6.8 billion TRY.



Interest expenses contracted on an annual basis in February.

In February, interest expenditures decreased by 9.9% yoy to 12.8 billion TRY, while non-interest expenditures increased by 5.4% to 83.7 billion TRY. During this period, domestic debt interest payments decreased by 41.9% to 6.4 billion TRY. Foreign debt interest payments increased by 114.4% yoy to 4.1 billion TRY, limiting the decline in interest expenditures. On the non-interest expenditures side, the current transfers item rose by 14.6% with the continuing effect of the measures taken due to the pandemic. Personnel expenses also increased by 20.5% during this period. On the other hand, the rapid declines in the purchase of goods and services, capital expenditures and domestic lending limited the increase in primary expenditures.



Expectations...

While tax revenues rose rapidly in February, the limited increase in expenditures supported the budget outlook. Within the Economic Reforms package announced last week, it was stated that a strong public finance structure will be created against risks, spending discipline will be ensured and tax regulations will be simplified. It was also noted that the budget deficit target, which was revised from 4.3% to 3.5% for this year, is aimed to be achieved without compromising fiscal discipline. Tax revenues and savings policies will continue to be the determining factor for the budget discipline throughout 2021, where the possibility of one-off income is also limited. In addition, the course of the pandemic will continue to have an impact on the budget outlook.

### Central Government Budget

(billion TRY)

	February		%	January-February		%	2021 Budget Act./Budget Target	
	2020	2021		Change	2020		2021	Change
<b>Expenditures</b>	<b>93.5</b>	<b>96.4</b>	<b>3.1</b>	<b>194.2</b>	<b>210.2</b>	<b>8.2</b>	<b>1,346.1</b>	<b>15.6</b>
Interest Expenditures	14.2	12.8	-9.9	26.9	34.7	29.0	179.5	19.3
Non-Interest Expenditures	79.3	83.7	5.4	167.3	175.5	4.9	1,166.6	15.0
<b>Revenues</b>	<b>86.1</b>	<b>119.6</b>	<b>38.8</b>	<b>208.3</b>	<b>209.2</b>	<b>0.4</b>	<b>1,101.1</b>	<b>19.0</b>
Tax Revenues	71.7	98.4	37.2	139.1	177.7	27.7	922.7	19.3
Other Revenues	14.4	21.1	46.7	69.2	31.5	-54.4	178.4	17.7
<b>Budget Balance</b>	<b>-7.4</b>	<b>23.2</b>	<b>-</b>	<b>14.1</b>	<b>-1.0</b>	<b>-</b>	<b>-245.0</b>	<b>0.4</b>
<b>Primary Balance</b>	<b>6.8</b>	<b>35.9</b>	<b>428.4</b>	<b>41.0</b>	<b>33.7</b>	<b>-17.9</b>	<b>-65.5</b>	<b>-</b>

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

Source: Datastream, Ministry of Treasury and Finance

## Inflation

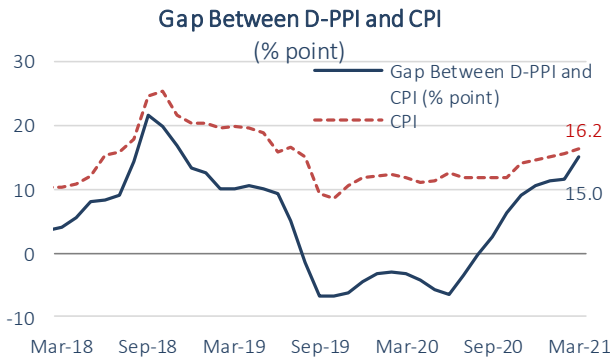
### Monthly CPI came in at 1.08% in March.

In March, CPI rose by 1.08% mom, slightly above market expectations. According to the Reuters' survey, the monthly CPI inflation was expected to be 1.04%. Domestic PPI (D-PPI) recorded a rapid monthly increase by 4.13% in this period.

March (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	0.57	1.08	0.87	4.13
Year-to-Date	2.29	3.71	3.22	8.21
Annual	11.86	16.19	8.50	31.20
Annual Average	13.33	13.18	12.61	17.04

### Annual CPI inflation became 16.19%.

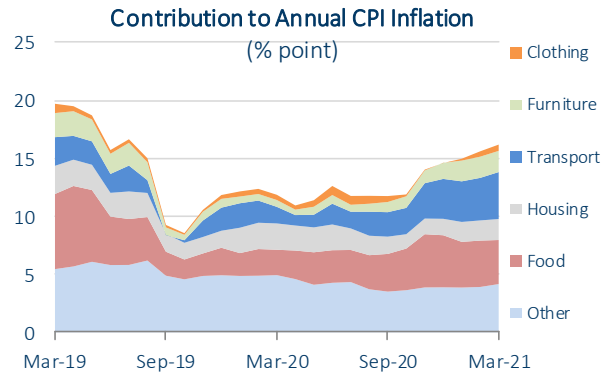
Upward trend in annual CPI inflation since September 2020 continued also in March. Annual CPI inflation was realized as 16.19% and reached the highest level of the last 20 months. The annual D-PPI inflation increased by 31.2% in March and reached its highest level since January 2019.



### Food group made the highest contribution to monthly CPI.

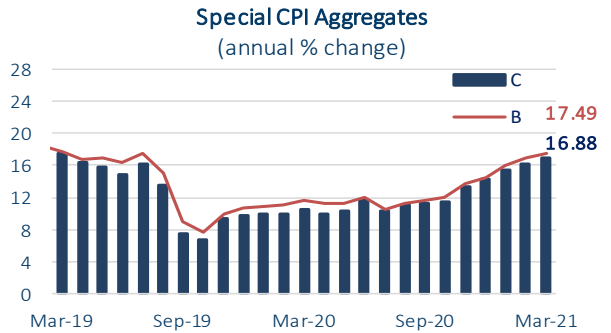
In March, the prices in transportation group remained unchanged while the prices in all other main expenditure groups increased on a monthly basis. In this period, the highest price increase (3.7%) was in health group due to the rise in pharmaceutical and healthcare products prices. The mentioned group increased the monthly CPI inflation by 13 bps. Food prices, which rose by 1.13% mom, made the highest contribution to the monthly CPI increase by 30 bps. Price increases in hotels and restaurants group contributed the monthly CPI inflation by 15 bps.

On an annual basis, the highest price increase was seen in the transportation group with 24.85% due to the rapid rises in oil and vehicle prices. The said group increased the annual CPI by 372 basis points. Food group prices went up by 17.44% yoy and made the highest contribution to the annual CPI increase by 438 bps. Thus, price increases in the food and transportation group constituted half of the annual CPI inflation of 16.19%. Prices rose in all main expenditure groups on an annual basis, while the lowest annual price increase was in the alcoholic beverages and tobacco with 2.87%.



### The increase in core inflation indicators continues.

The rise in core inflation indicators B and C, which are closely monitored by the CBRT, were realized as 1.26% and 1.33%, respectively. The annual increases in index B (CPI excluding unprocessed food products, energy, alcoholic beverages and tobacco and gold) and index C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco, and gold), came in above the headline inflation and were realized as 17.49% and 16.88%, respectively.



### Rapid rise in D-PPI...

In March, prices in coke and refined petroleum products recorded the highest increase with 14.03% mom and contributed the monthly D-PPI inflation by 53 bps. In this period, the basic metals sub-sector, where prices rose by 9.05% due to exchange rate developments as well as the rise in global metal prices, made the highest contribution (74 basis points) to the monthly D-PPI increase.

The upward trend in the annual D-PPI inflation gained momentum in March. Thus, due to the increases in commodity prices, the price increases in basic metal, coke and refined petroleum products and food sub-sectors played a significant role in the annual D-PPI increase with a total of 13.98%.

### Expectations...

In addition to the rise in global commodity prices, the fluctuation in exchange rates since the last weeks of March results in an increase of inflation expectations. These developments will be closely monitored in the coming period in terms of their impact on pricing behavior and the course of monetary policy. Moreover, in the current environment, where demand conditions are still active, the high levels in D-PPI and core inflation indicators indicate that upward pressure on CPI inflation will continue for a while in the coming period.

	26-Feb	31-Mar	Change
5-Y CDS (basis points)	316	468	152 bps ▲
TR 2-Y Benchmark Yield	15.08%	19.15%	407 bps ▲
BIST-100	1,471	1,392	-5.4% ▼
USD/TRY	7.4226	8.2439	11.1% ▲
EUR/TRY	8.9622	9.6745	7.9% ▲
Currency Basket*	8.1924	8.9592	9.4% ▲

(\*) (0.5 USD/TRY + 0.5 EUR/TRY)

### CBRT raised the policy rate by 200 basis points to 19%.

At its meeting on March 18, CBRT increased the policy interest rate from 17% to 19%, above market expectations. The statement released after the meeting included the developments in international markets pointing out the fluctuations in global markets along with the increasing commodity prices and rising inflation expectations. Furthermore, it was stated that credit growth, which has slowed down amid tighter financial conditions since November, has recently trended upwards. The Committee has decided to implement a front-loaded and strong additional monetary tightening considering the upside risks on inflation expectations. CBRT also stated that the tight monetary policy stance will be maintained decisively for an extended period until strong indicators point to a permanent fall in inflation and price stability.

### Changes in CBRT Management...

CBRT Governor Naci Ağbal was removed from his post by Presidential Decree published in the Official Gazette on March 20, and Prof. Şahap Kavcıoğlu was appointed in his place. CBRT Vice President Murat Çetinkaya was removed from his position on March 30, and Mustafa Duman was appointed in his place.

### Statements by the new CBRT Governor...

Following his appointment, CBRT Governor Şahap Kavcıoğlu stated in a written press release that monetary policy instruments will be used effectively in line with the main objective of achieving a sustainable decrease in inflation, and Monetary Policy Committee meetings will be held in accordance with the calendar. At the CBRT's general assembly meeting, Kavcıoğlu claimed that the one-week repo auction interest rate will remain the main policy tool in the coming period and that they will continue to enforce monetary policy within a simplified operational framework.

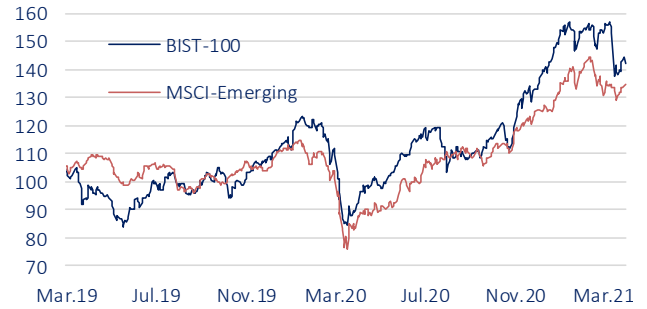
### Domestic markets displayed a volatile outlook.

In addition to the rise in 10-year Treasury bond interest rates due to increasing inflation expectations in the United States, concerns about the third wave of the coronavirus pandemic suppressed the global risk appetite in March. While the yield of 10-year US Treasury bond rose to 1.75% at the end of the month, the US dollar appreciated in global markets.

A negative outlook prevailed in domestic financial markets due to the concerns that there might be a change in the monetary policy after the changes in the CBRT management. Turkey's 5-year CDS premium, which remained under 300 bps until the last week of February, rose rapidly and became 468 bps at the end of March. The rapid losses in the stock market due to the deterioration in

risk perception caused the transactions to be suspended with circuit breakers on March 22nd and 23rd. BIST-100, which declined by 9.6% w/w in the week of March 22, continued its downward trend in the following days despite the reaction purchases in the industrial sector stocks. Thus, the index recorded the fastest monthly decline since March 2020 with 5.4% mom. The volatility in the financial markets slightly decreased as of the first days of April.

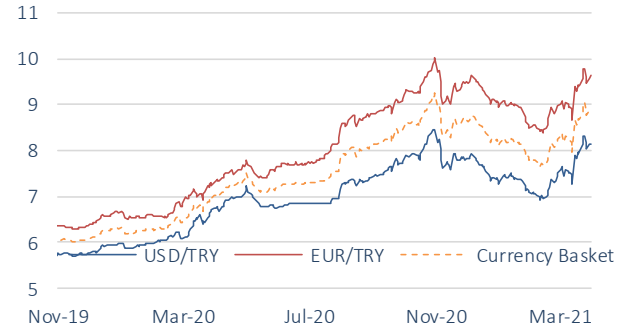
BIST-100 and Emerging Market Index  
(12.31.2018=100)



### Turkish Lira depreciated rapidly in March.

Turkish lira, which had gained some value after the CBRT's interest rate hike, rapidly depreciated following the changes in CBRT Management. USD/TRY, which peaked at 8.48 on March 19, declined in the following days, but closed the month at 8.24 increasing by 11.1% mom. The strengthening of the US dollar in global markets was also behind this development. The EUR/TRY rate rose by 7.9% mom and closed March at 9.67.

FX Rates



### Securities portfolio of non-residents...

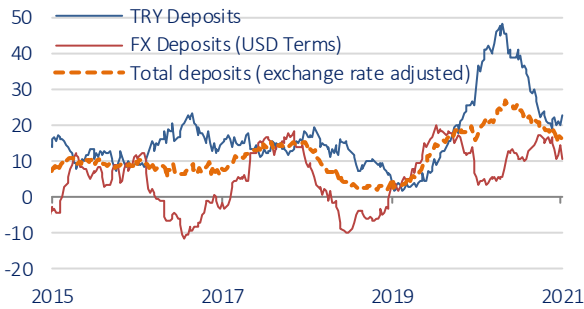
According to the securities statistics published by the CBRT, as of March 26, the equity portfolio of non-residents, adjusted for price and exchange rate movements, decreased by 881 million USD while government domestic debt securities (GDDS) declined by 754 million USD compared to February 26th. During the week of March 19-26, non-residents' net sales of 814 million USD in equity market and 1.1 billion USD in the GDDS were effective in this development. Thus, in terms of weekly portfolio movements, net sales by non-residents in this week indicated record high weekly sales in equity market and the highest weekly sales in the GDDS market for the last 6 years. Compared to the end-2020, non-residents equity portfolio decreased by 1.6 billion USD, while their GDDS portfolio expanded by 752 million USD thanks to net inflows in the first two months of the year.

Source: CBRT, Datastream, Reuters, BIST

### Rapid weekly changes in deposit volume...

According to the BRSA's Weekly Bulletin, the fluctuation in the financial markets in the second half of March brought about a change in the banking sectors deposit composition. On the week of March 26, TRY deposit volume increased by 70.3 billion TRY compared to the previous week and reached 1.639 billion TRY, while the volume of FX deposits decreased by 9.1 billion USD to 246.6 billion USD. Due to the increase in foreign exchange rates, the total deposit volume expanded by 30.1% yoy and 4.3% compared to the end of 2020, and became 3.604 billion TRY. The annual increase in deposit volume adjusted for the exchange rate effect was 16.4%. Thus, the share of TRY deposits in total deposits, which was 44.7% at the end of 2020, became 45.5% as of March 26. On the other hand, the Official Gazette announced that the period of the withholding tax reduction applied to TRY deposits and expected to be ended on March 31 was extended until the end of May.

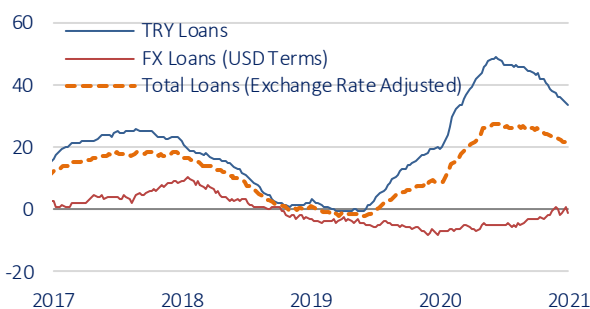
**Deposit Growth**  
(annual % change)



### Loan volume increased by 4% ytd.

The total loan volume of the banking sector increased by 29.5% yoy as of March 26, and by 4% compared to the end of 2020, reaching 3.717 billion TRY. The annual increase in credit volume adjusted for the exchange rate effect was 20.6% in this period. While TRY loans rose by 33.8% yoy to 2.402 billion TRY, it increased by 48.6 billion TRY compared to the end of 2020. FX loans in USD terms decreased by 1.4% yoy to 165.2 billion USD as of March 26.

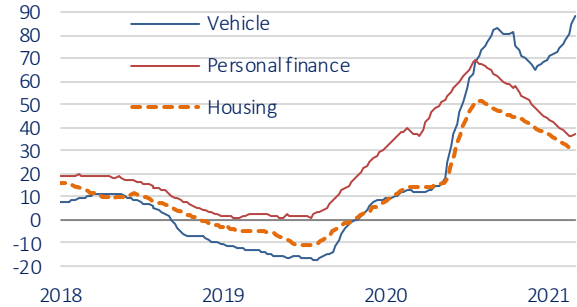
**Loan Growth**  
(annual % change)



### Vehicle loans rose by 88.7% yoy.

With the rise in interest rates, the deceleration in consumer loans continued in March. As of March 26, consumer loans expanded by 35.3% yoy, while housing and consumer loans rose by 31.2% and 37%, respectively. In this period, the rapid increase trend in vehicle loans continued with 88.7% thanks to the brisk course of the domestic automotive market. In the same period, annual increase in the personal credit cards volume became 32.1%.

**Consumer Loans**  
(annual % change)



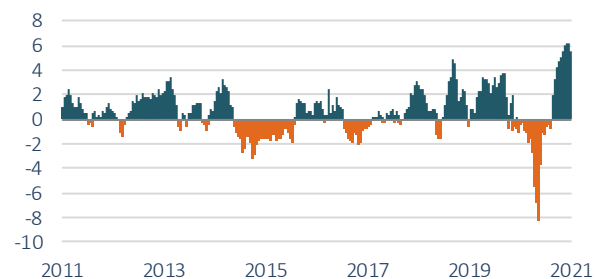
### Non-performing loan ratio became 3.88%.

On the week of March 26, the amount of gross nonperforming loans decreased by 1.6% yoy and became 149.9 billion TRY. The NPL ratio declined to 3.88% as of March 26. Legal regulations were also effective in this development. The relevant ratio was 2.44% in public banks and 5.15% in private banks. According to loan types, NPL ratio was 4.42% for commercial loans and 1.96% for personal loans in this period.

### Net foreign currency position...

As of March 26, banks' on-balance sheet FX position was (-) 54,564 million USD, while off-balance sheet FX position was (+) 60,112 million USD. Hence, the banking sector's net foreign currency position was realized as (+) 5.547 million USD.

**Net FX Position**  
(USD Billion)



Source: BRSA Weekly Bulletin



## Concluding Remarks

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While vaccination rates against the Covid-19 are increasing on a global scale, the rise in the number of cases has also accelerated in recent weeks. The US and the UK have outperformed most other countries on vaccination rollout as the process is progressing slower than expected in many countries in Europe where restrictive measures on social life continue to be implemented. The effectiveness of vaccines against virus mutations and concerns about the supply issues also remain on the agenda.

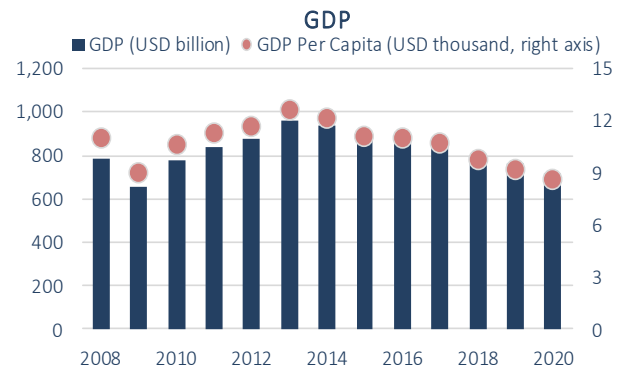
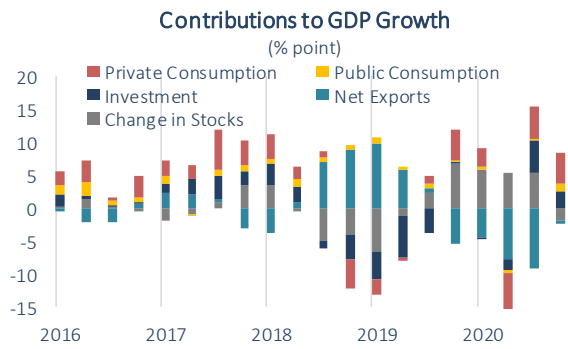
The US economy continues to be the main driver of the recovery in global economic activity. On the other hand, in addition to the current disruptions in supply chains, a one-week blockage of the Suez Canal due to a stranded container ship had a negative impact on already fragile global trade flows in March.

At the recent monetary policy meetings, leading central banks have reiterated their commitment to maintain their support for the economy for a long time. However, the continued rise in inflation expectations in the US and the accompanied increase in the long-term Treasury bond yields which have reached their highest levels in more than a year feed concerns about a potential earlier exit from the expansionary monetary policies. Against this backdrop, the risk perception towards emerging economies has deteriorated. According to data compiled by the IIF, portfolio inflows towards emerging markets in March pointed to the weakest performance since April 2020. In March, the Central Bank of Brazil raised the policy rate for the first time in six years, and the Central Bank of Russia for the first time in more than two years.

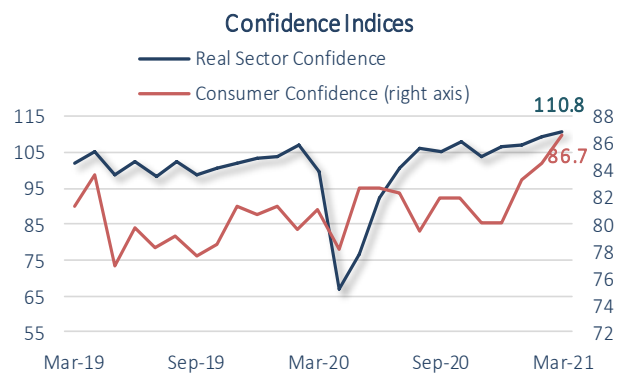
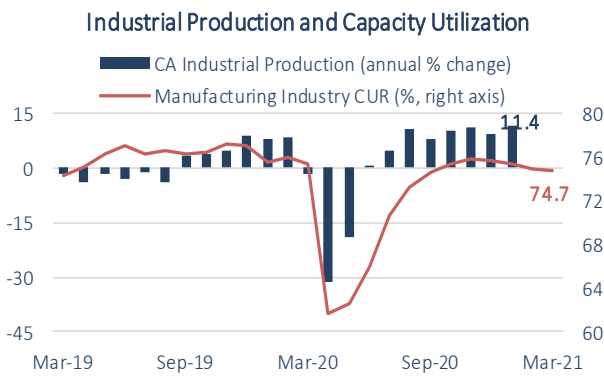
After the appointment of the new CBRT Governor, risk sentiment towards Turkey worsened in the second half of the month. Turkey's 5 year CDS premium surged by around 150 basis points and non-residents' securities portfolio recorded the most rapid weekly decline of 15 years in the week to March 26. While the statements of the new CBRT Governor Kavcıoğlu that the tight monetary policy stance will be preserved have had a positive impact on the sentiment, the effect of the recent volatility in the domestic markets on the inflation outlook will be closely monitored in the upcoming period.

Leading indicators for the first quarter showed that Turkish economy continued to display a solid performance. Manufacturing PMI confirmed the strong outlook in the industry in March. In this period, according to the provisional foreign trade data, exports in the US dollar terms hit the record high level while imports were also close to the historical highs. On the other hand, the tightening of restrictive measures due to the increasing impact of the pandemic, the maintenance of prudent fiscal policy stance and the recent fluctuations in financial markets provide reasons to be cautious in assessing the expectations for the coming period.

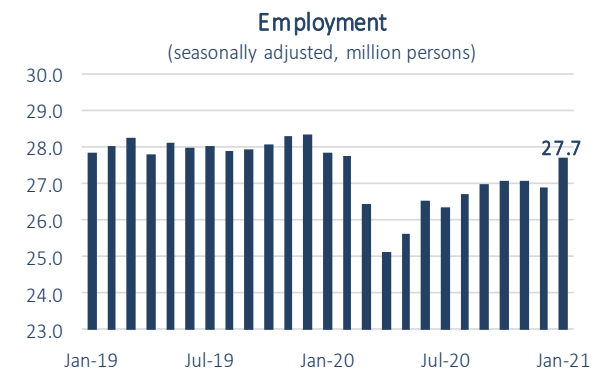
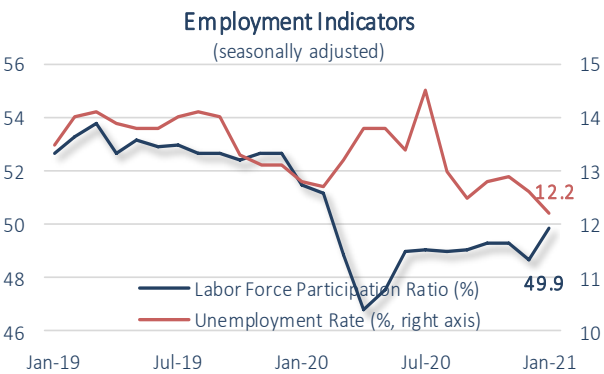
Growth



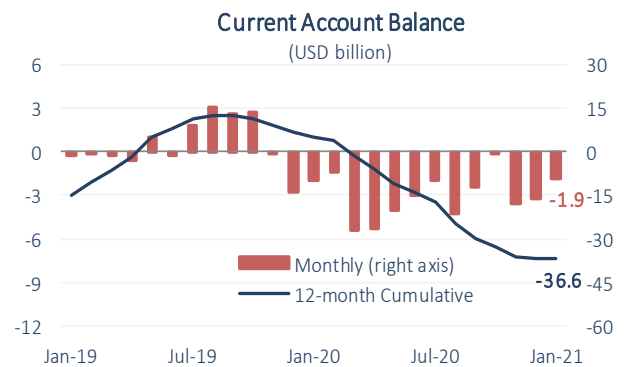
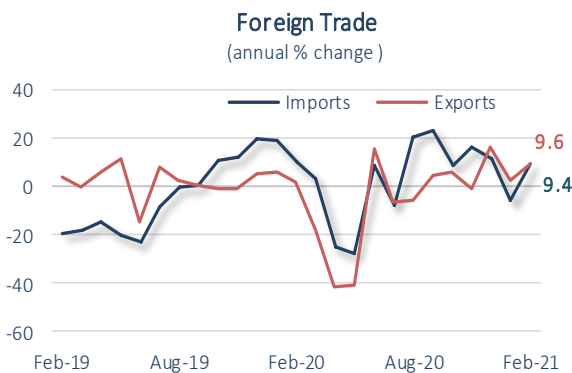
Leading Indicators



Labor Market



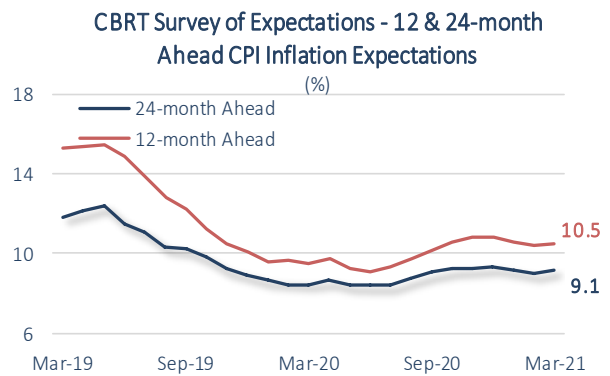
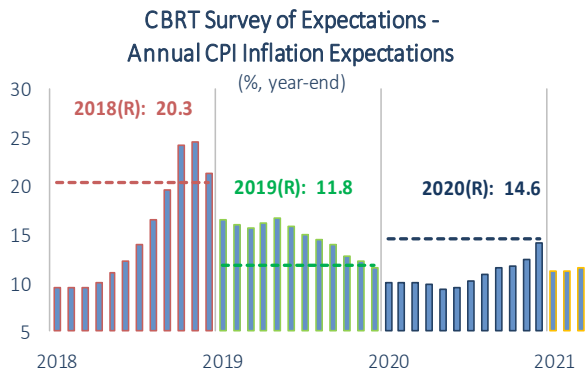
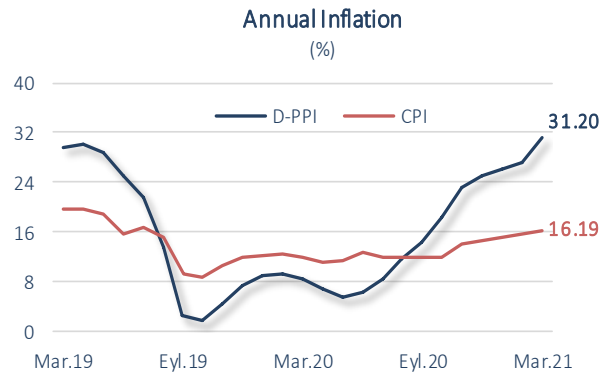
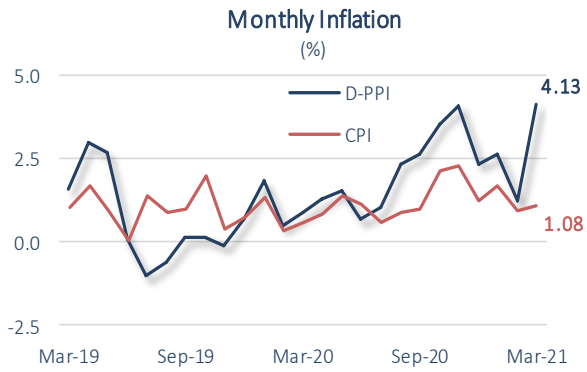
Foreign Trade and Current Account Balance



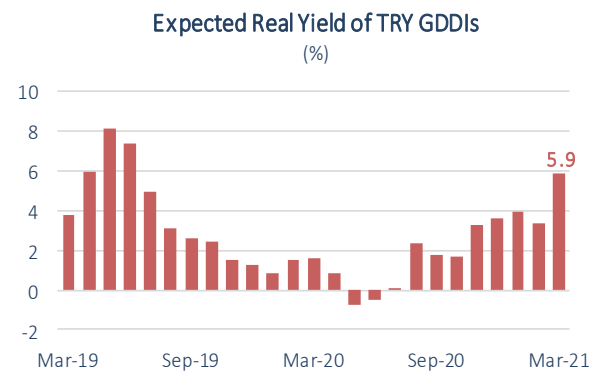
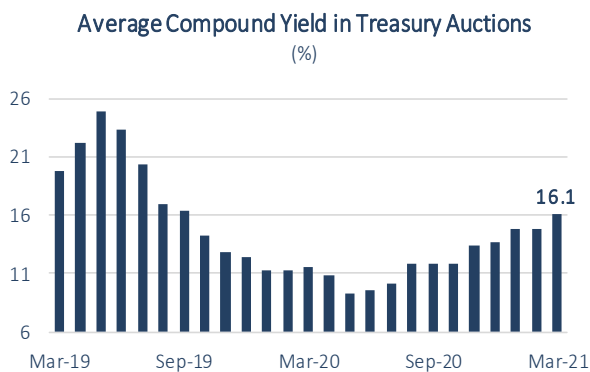
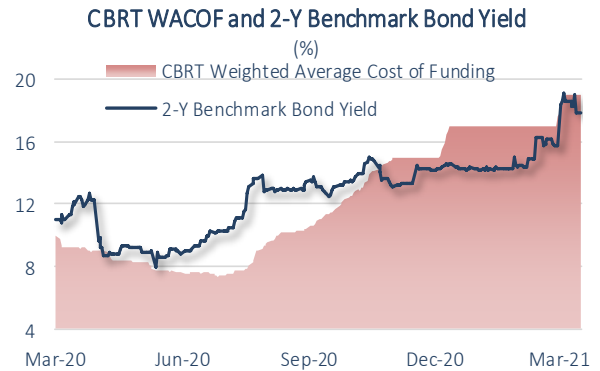
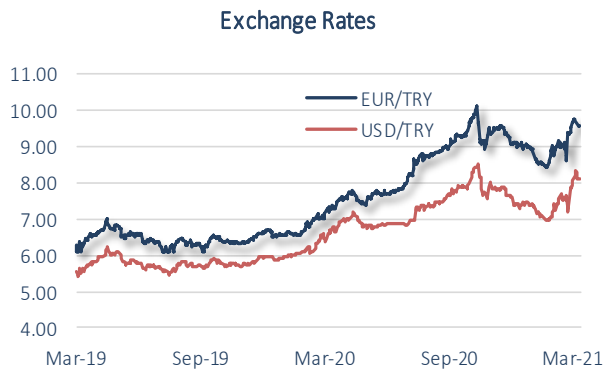
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

Growth	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	Mar-21
CPI (annual)	8.53	11.92	20.30	11.84	14.60	14.97	15.61	16.19
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	26.16	27.09	31.20
Seasonally Adjusted Labor Market Figures								Jan-21
Unemployment Rate (%)	12.0	9.9	12.9	13.1	12.6			12.20
Labor Force Participation Rate (%)	52.4	53.1	53.0	52.3	48.7			49.40
FX Rates						Jan-21	Feb-21	Mar-21
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.3	66.1	69.7	
USD/TRY	3.5176	3.7916	5.3199	5.9510	7.4325	7.3	7.42	8.28
EUR/TRY	3.7102	4.5530	6.0815	6.6800	9.0941	8.9	9.00	9.73
Currency Basket (0.5*EUR+0.5*USD)	3.6139	4.1723	5.7007	6.3155	8.2633	8.08	8.21	9.00
Foreign Trade Balance <sup>(1)</sup> (USD billion)							Jan-21	Feb-21
Exports	149.2	164.5	177.2	180.8	169.7		170.0	171.4
Imports	202.2	238.7	231.2	210.3	219.5		218.4	220.0
<b>Foreign Trade Balance</b>	<b>-52.9</b>	<b>-74.2</b>	<b>-54.0</b>	<b>-29.5</b>	<b>-49.8</b>		<b>-48.4</b>	<b>-48.7</b>
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3		77.9	77.9
Balance of Payments <sup>(1)</sup> (USD billion)								Jan-21
<b>Current Account Balance</b>	<b>-27.0</b>	<b>-40.8</b>	<b>-21.7</b>	<b>6.8</b>	<b>-36.7</b>			<b>-36.6</b>
<b>Capital and Financial Accounts</b>	<b>-21.7</b>	<b>-47.0</b>	<b>-10.9</b>	<b>1.3</b>	<b>-40.0</b>			<b>-37.1</b>
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6			-4.1
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5			-0.6
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0			-7.1
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9			-25.4
<b>Net Errors and Omissions</b>	<b>5.3</b>	<b>-6.2</b>	<b>10.8</b>	<b>-5.5</b>	<b>-3.3</b>			<b>-0.5</b>
<b>Current Account Balance/GDP (%)</b>	<b>-3.1</b>	<b>-4.8</b>	<b>-2.7</b>	<b>0.9</b>	<b>-5.1</b>			<b>-</b>
Budget <sup>(2)(3)</sup> (TRY billion)							Jan-21	Feb-21
<b>Expenditures</b>	<b>584.1</b>	<b>678.3</b>	<b>830.8</b>	<b>1000.0</b>	<b>1202.2</b>		<b>113.8</b>	<b>210.2</b>
Interest Expenditures	50.2	56.7	74.0	99.9	134.0		21.9	34.7
Non-interest Expenditures	533.8	621.6	756.8	900.1	1068.3		91.8	175.5
<b>Revenues</b>	<b>554.1</b>	<b>630.5</b>	<b>758.0</b>	<b>875.3</b>	<b>1029.5</b>		<b>89.6</b>	<b>209.2</b>
Tax Revenues	459.0	536.6	621.5	673.9	833.1		79.2	177.7
<b>Budget Balance</b>	<b>-29.9</b>	<b>-47.8</b>	<b>-72.8</b>	<b>-124.7</b>	<b>-172.7</b>		<b>-24.2</b>	<b>-1.0</b>
<b>Primary Balance</b>	<b>20.3</b>	<b>8.9</b>	<b>1.1</b>	<b>-24.8</b>	<b>-38.8</b>		<b>-2.2</b>	<b>33.7</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-1.9</b>	<b>-2.9</b>	<b>-3.4</b>		<b>-</b>	<b>-</b>
Central Government Debt Stock (TRY billion)							Jan-21	Feb-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4		1,064.3	1,082.6
External Debt Stock	291.3	341.0	481.0	574.0	752.5		773.4	777.1
<b>Total Debt Stock</b>	<b>760.0</b>	<b>876.5</b>	<b>1067.1</b>	<b>1,329.1</b>	<b>1,812.8</b>		<b>1,837.6</b>	<b>1,859.6</b>

(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)	2016	2017	2018	2019	2020	Jan.21	Feb.21	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>2,731</b>	<b>3,258</b>	<b>3,867</b>	<b>4,492</b>	<b>6,106</b>	<b>6,045</b>	<b>6,109</b>	<b>0.0</b>
<b>Loans</b>	<b>1,734</b>	<b>2,098</b>	<b>2,395</b>	<b>2,657</b>	<b>3,576</b>	<b>3,555</b>	<b>3,599</b>	<b>0.6</b>
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,347	2,373	0.9
Share (%)	65.2	67.4	60.1	61.8	65.8	66	65.9	-
FX Loans	603	684	956	1,015	1,224	1,207	1,226	0.2
Share (%)	34.8	32.6	39.9	38.2	34.2	34	34.1	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	152	151.1	-0.9
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	4	4.0	-
<b>Securities</b>	<b>352</b>	<b>402</b>	<b>478</b>	<b>661</b>	<b>1,023</b>	<b>1,015</b>	<b>1,039</b>	<b>1.6</b>
<b>TOTAL LIABILITIES</b>	<b>2,731</b>	<b>3,258</b>	<b>3,867</b>	<b>4,492</b>	<b>6,106</b>	<b>6,045</b>	<b>6,109</b>	<b>0.0</b>
<b>Deposits</b>	<b>1,454</b>	<b>1,711</b>	<b>2,036</b>	<b>2,567</b>	<b>3,455</b>	<b>3,419</b>	<b>3,452</b>	<b>-0.1</b>
TRY Deposits	845	955	1,042	1,259	1,546	1,536	1,571	1.6
Share (%)	58.1	55.8	51.2	49.0	44.7	45	45.5	-
FX Deposits	609	756	994	1,308	1,909	1,882	1,881	-1.5
Share (%)	41.9	44.2	48.8	51.0	55.3	55	54.5	-
<b>Securities Issued</b>	<b>116</b>	<b>145</b>	<b>174</b>	<b>194</b>	<b>224</b>	<b>224</b>	<b>223</b>	<b>-0.5</b>
<b>Payables to Banks</b>	<b>418</b>	<b>475</b>	<b>563</b>	<b>533</b>	<b>658</b>	<b>661</b>	<b>660</b>	<b>0.4</b>
<b>Funds from Repo Transactions</b>	<b>138</b>	<b>99</b>	<b>97</b>	<b>154</b>	<b>255</b>	<b>267</b>	<b>310</b>	<b>21.4</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>300</b>	<b>359</b>	<b>421</b>	<b>492</b>	<b>600</b>	<b>605</b>	<b>613</b>	<b>2.2</b>
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	4.3	9.2	-
<b>RATIOS (%)</b>								
Loans/GDP	66.5	67.6	64.7	61.5	70.8			
Loans/Assets	63.5	64.4	61.9	59.1	58.6	58.8	58.9	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.8	17.0	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	56.6	56.5	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	104.0	104.3	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	18.4	18.2	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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