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Global Economy

The recent revisions in growth forecasts of international organizations suggested that the growth in global economic activity in 2021 may be more moderate than previously expected. OECD and Fitch reduced their growth forecasts for 2021 to 5.7% and 6%, respectively.

In the US, data for the third quarter indicated that the economic activity in the country maintained its strong outlook despite losing momentum.

In the Euro Area, the GDP growth data for the second quarter of 2021 was revised from 13.6% to 14.3%.

In China, the retail sales and industrial production data for August pointed to a loss of momentum in the economy. NBS manufacturing PMI came in below the 50 threshold level for the first time since February 2020 drawing a pessimistic picture for the upcoming period.

Central banks of advanced countries did not change their policy interest rates in their September meetings. However, the ECB stated that asset purchases will slow down compared to the previous two quarters, while the Fed announced that they may reduce asset purchases depending on the course of economic activity.

Chinese real estate company Evergrande's failure to make interest payments on two bonds as well as the negative impact of the energy crisis in China on expectations regarding global economic activity put the global risk perception under pressure.

In September, oil prices rose to the highest level of the last 3 years due to the impact of the Hurricane Ida, which interrupted the oil and gas production of the US in the Gulf of Mexico, as well as the decrease in oil stocks. After the decision taken at the OPEC+ meeting, oil prices increased rapidly at the beginning of October.

Turkish Economy

Industrial production, which rose by 25.7% in the first half of 2021 compared to the same period of last year, increased below the expectations by 8.7% yoy in July.

In September, although declining to 52.5 manufacturing PMI remained above the 50 threshold level and indicated that the growth in the manufacturing sector continued.

In July, current account gave a deficit of 683 million USD. In this period, the 12-month cumulative current account deficit continued its downward trend and declined to 27.8 billion USD, the lowest level in a year.

The central government budget posted a surplus of 40.8 billion TRY in August. The budget deficit, which was 110.9 billion TRY in the January-August 2020 period, stood at 37.5 billion TL in the same period of this year.

In September, while monthly CPI inflation was realized as 1.25%, annual CPI inflation reached 19.58%. In the same period, D-PPI rose by 1.55% mom and 43.96% yoy.

The CBRT lowered the policy rate by 100 basis points to 18% at its meeting on September 23. In September, the CBRT increased the FX reserve requirement ratios and adjusted the rediscount credit limits as well.

The BRSA has changed some temporary regulations that have been implemented in the obligations of the banks due to the pandemic.

Confidence indices increased in September.

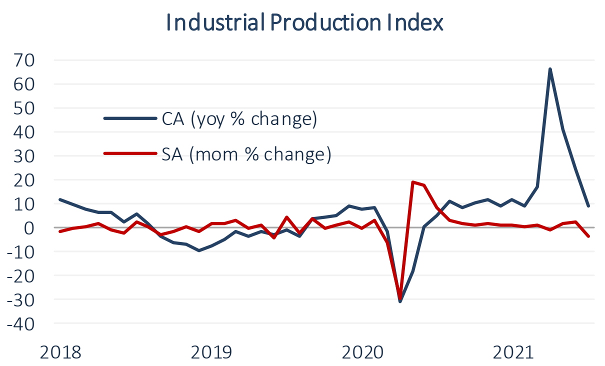
The seasonally adjusted real sector confidence index in Turkey increased by 1.1 points compared to the previous month and rose to 113.3 in September. The details of the index show that all sub-indices improved in this period, except for the general business situation and the evaluations regarding the export orders for the next three months. In September, the seasonally adjusted Consumer Confidence Index rose by 1.8% mom to 79.7. There was an improvement in 17 of the 18 sub-indices, and the recovery in the general economic situation and expectations for the number of people unemployed over next 12-month period, which deteriorated significantly in the previous two months, drew attention. Thanks to the improvement in real sector and consumer confidence, the economic confidence index rose to 102.4 in September. In the same period, the seasonally adjusted capacity utilization rate in the manufacturing sector increased by 1 point mom and reached its highest level since June 2018 with 77.8%.

Manufacturing PMI became 52.5 in September.

Manufacturing PMI, which was 54.1 in August, declined to 52.5 in September. Despite this slight decline, the operating conditions of the sector have continued to improve in September. Output and new orders have each now risen in four successive months, with the latest improvements in demand supporting further expansions in employment and purchasing activity. There were some signs that supply-chain delays moderated at the end of the third quarter. On the other side, input costs continued to rise sharply in this period.

Industrial production increased by 8.7% yoy in July.

In July, calendar adjusted industrial production increased by 8.7% yoy, below the expectations. In this period, production in the mining and quarrying sector went up by 15.2% yoy, while it expanded by 7.9% yoy in the manufacturing sector and 11.7% yoy in the electricity, gas, steam and air conditioning supply. According to the seasonally and calendar adjusted data, industrial production decreased by 4.2% in July compared to the previous month due to the 5% mom decrease recorded in the manufacturing sector. In this period, a significant decline in the production of durable consumer goods and capital goods drew attention.



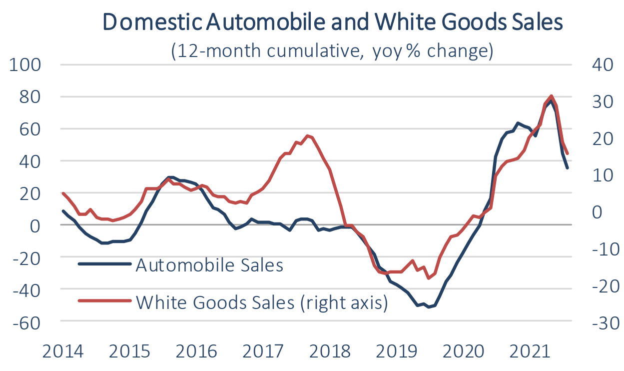
Unemployment rate became 12% in July.

According to the data announced by TURKSTAT, seasonally adjusted unemployment rate increased by 1.4 points compared to the previous month and became 12% in July. In this period, seasonally adjusted employment rate rose by 0.2 points mom and was realized as 45.1%. The increase in employment in the services sector, with the impact of the continuation of the normalization process in July and the increasing activity in the tourism sector, were the determining factors in the rise of employment rate in this term. Despite the rise in employment, the relatively rapid increase in labor force participation resulted in a higher unemployment rate compared to the previous month. In this period, the labor underutilization rate consisting of time-related underemployment, potential labor force and unemployment went up by 1.2 points on a monthly basis to 23.6%.

The global chip crisis may affect the white goods and automotive sectors negatively.

According to the data of the Turkish White Goods Manufacturers Association, domestic sales in six main white goods product groups decreased by 8% yoy in August due to the rising prices. The problems in the supply of semiconductor chips used in the production of white goods which led to supply shortages, as well as the realization of delayed demand due to pandemic measures, continued to be effective in the rise of white goods prices. On the other hand, exports of white goods went up by 16% yoy in August.

According to the data released by the Automotive Manufacturers Association (OSD), total automotive production on unit basis increased by 42% yoy in August due to the low base effect. According to the data released by the Automotive Distributors Association (ODD), the total automotive market on unit basis shrank by 36.9% yoy in September. In the first 9 months of the year, total domestic sales increased by 13.1% compared to the same period of the last year. On the other hand, the prolongation of the microchip orders delivery may affect the production of the industry negatively in the coming period.



House sales continued to decrease in August.

In addition to the high base effect created by the same period of last year, the continuation of the increase in house prices due to the deterioration in the supply-demand balance caused the decline in house sales to continue in August. On the other hand, although decreasing by 17% yoy in this period, house sales were realized above the average August sales with 141,400 units. The share of mortgage sales in total house sales, which contracted by 64% yoy in August due to the annual rise in interest rates, became 19.4%, while other sales increased by 20.8% yoy. In the January-August period, total house sales fell by 21.7% yoy while mortgage sales decreased by 67.9% yoy.

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

Foreign trade deficit narrowed by 32% in August.

According to TURKSTAT, the export volume expanded rapidly by 51.9% yoy and became 18.9 billion USD, while the import volume rose by 23.6% yoy to 23.2 billion USD in August. Hence, the foreign trade deficit narrowed by 32.4% yoy and became 4.3 billion USD. In the first eight months of the year foreign trade deficit declined by 9.8% yoy to 29.8 billion USD. The import coverage ratio which was 75.6% in January-August 2020 rose to 82.5% in the same period of this year.

Revision of the Balance of Payments data...

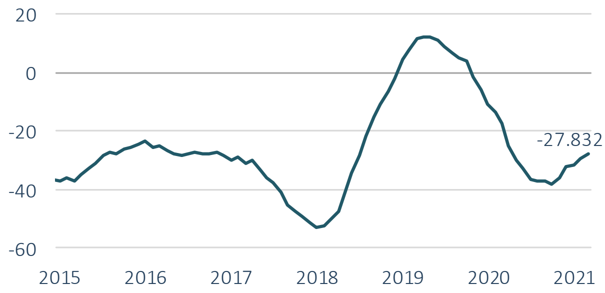
The effect of TURKSTAT's revisions in "Export Receivables" and "Import Payables" data and the transition from legal ownership to economic ownership in the ownership definition of securities within the framework of compliance with the international methodology was reflected in the balance of payments figures with the announcement of the July data. The relevant revisions have been mainly reflected in the financial account of the balance of payments since January. In the January-June period, net asset acquisition of commercial loans, which had significant updates, recorded a decrease of 1.7 billion USD.

Current account balance gave a deficit of 683 million USD in July.

In July, the current account deficit was realized as 683 million USD, the lowest level since October 2020. In July 2020, the current account balance had a deficit of 2 billion USD. The rise in net transportation and net travel revenues were effective in the improvement of the current account balance. On the other hand, despite the 1.7 billion USD decrease in net gold imports on an annual basis, the balance of payments defined foreign trade deficit widened by 1 billion yoy and reached 3 billion USD and limited this improvement.

In the first seven months of the year, the current account deficit narrowed by 40.8% yoy and became 13.7 billion USD. In this period, foreign trade deficit decreased by 18.8%, while tourism revenues rose by 73.3% to 6.9 billion USD. The 12-month cumulative current account deficit also continued to decline and became 27.8 billion USD in July, the lowest level of the last year.

Current Account Balance
(12-month cumulative, USD billion)



Direct investments drew a positive display in July.

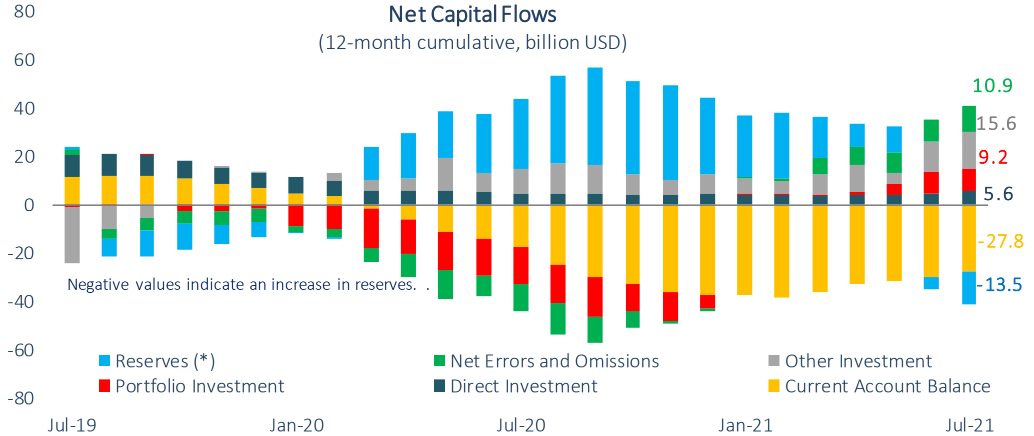
Net direct investments rose to 1 billion USD in July, the highest level since November 2018. In this period, capital investments amounted to 1 billion USD and real estate investments became 453 million USD. According to the distribution of direct investments by sectors, investments in wholesale and retail trade, finance and insurance sectors stood out in July. Net direct investments stood at 3.6 billion USD In the January-July period, and 5.6 billion USD according to 12-month cumulative figures as of July.

Portfolio investments recorded an inflow of 1.9 billion USD.

Portfolio investments, which recorded a net capital inflow of 3 billion USD in June, posted an inflow of 1.9 billion USD in July. During this period, through bond issues in international capital markets, general government and other sectors borrowed a net amount of 1.8 billion USD and 195 million USD, respectively. Non-residents made net sales of 93 million USD in the equity market and net purchases of 439 million USD in the GDDS market.

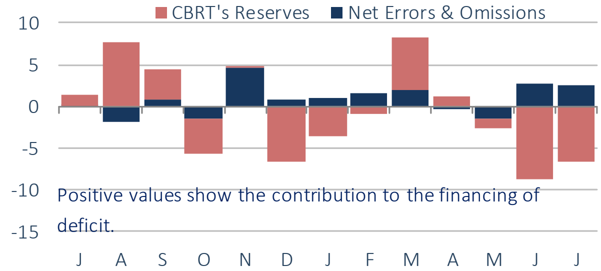
In July, net capital inflows in other investments were realized as 1.9 billion USD. In this period, deposits of domestic banks held within their foreign correspondents decreased by 467 million USD, while the domestic deposits of foreign banks increased by 301 million USD. During this period, banks and other sectors used long-term loans of 1.4 billion USD and 755 million USD, respectively. According to 12- month cumulative data, the long-term debt rollover ratio was realized as 91.9% in the banking sector and 111.8% in other sectors. With the revision made, the recording of foreign resources and funds obtained through repo as bank loan liabilities increased the short-term loan

Net Capital Flows
(12-month cumulative, billion USD)



Source: CBRT, Datastream

item of banks. According to the 12-month cumulative data, while banks were 384 million USD net loan payers in June before the revision, they were 2.4 billion USD net loan users after the revision.



Reserve assets increased by 6.7 billion USD in July.

Reserve assets, which increased by 8.8 billion USD in June, expanded by 6.7 billion USD in July. In the January-July period, the increase in reserve assets were realized as 14 billion USD. Net errors and omissions item recorded a capital inflow of 2.5 billion USD in July and the capital inflow in this item reached 8 billion USD as of the first seven months of the year.

Expectations…

According to the provisional foreign trade data released by the Ministry of Commerce, the export volume, which increased by 30% yoy in September, exceeded the 20 billion USD threshold for the first time on a monthly basis, reaching 20.8 billion USD. In this period, import volume increased by 12% to 23.4 billion USD. Thus, the foreign trade deficit was realized as 2.6 billion USD in September. The current account balance displayed a positive performance in August and September thanks to the increasing trend in exports as well as the continuation of the tourism season. The current account deficit, which was 13.7 billion USD in the first seven months of the year, is estimated to become 21 billion USD at the end of the year according to the Medium Term Program published on 5 September 2021. As the current outlook suggests, this figure seems possible.

Balance of Payments (USD million)

	Jul.	Jan. - Jul.		%	12-month
	2021	2020	2021	Change	Cumulative
Current Account Balance	-683	-23,215	-13,744	-40.8	-27,832
Foreign Trade Balance	-2,984	-20,228	-16,418	-18.8	-34,071
Services Balance	2,948	2,898	9,184	216.9	15,440
Travel (net)	2,118	3,151	6,205	96.9	12,234
Primary Income	-702	-5,568	-7,177	28.9	-10,304
Secondary Income	55	-317	667	-	1,103
Capital Account	-19	-18	-38	111.1	-59
Financial Account	1,816	-28,468	-5,758	-79.8	-16,928
Direct Investment (net)	-1,030	-2,526	-3,579	41.7	-5,637
Portfolio Investment (net)	-1,933	14,889	-3,885	-	-9,209
Net Acquisition of Financial /	-129	721	-365	-	1,816
Net Incurrence of Liabilities	1,804	-14,168	3,520	-	11,025
Equity Securities	-93	-4,437	-1,901	-57.2	-1,719
Debt Securities	1,897	-9,731	5,421	-	12,744
Other Investment (net)	-1,921	-9,430	-12,258	30.0	-15,585
Currency and Deposits	-824	-13,892	-7,490	-46.1	-12,480
Net Acquisition of Financia	-461	690	3,797	450.3	2,072
Net Incurrence of Liabilitie	363	14,582	11,287	-22.6	14,552
Central Bank	-89	11,773	4,699	-60.1	5,587
Banks	452	2,809	6,588	134.5	8,965
Foreign Banks	301	1,605	5,059	215.2	9,482
Foreign Exchange	217	-1,585	3,922	-	7,372
Turkish Lira	84	3,190	1,137	-64.4	2,110
Non-residents	151	1,204	1,529	27.0	-517
Loans	31	5,124	-1,328	-	-2,380
Net Acquisition of Financia	129	-900	1,884	-	403
Net Incurrence of Liabilitie	98	-6,024	3,212	-	2,783
Banking Sector	43	-1,971	-593	-69.9	-2,130
Non-bank Sectors	-176	-3,691	3,821	-	3,485
Trade Credit and Advances	-1,120	-654	-3,427	424.0	-718
Other Assets and Liabilities	-8	-8	-13	62.5	-7
Reserve Assets (net)	6,700	-31,401	13,964	-	13,503
Net Errors and Omissions	2,518	-5,235	8,024	-	10,963

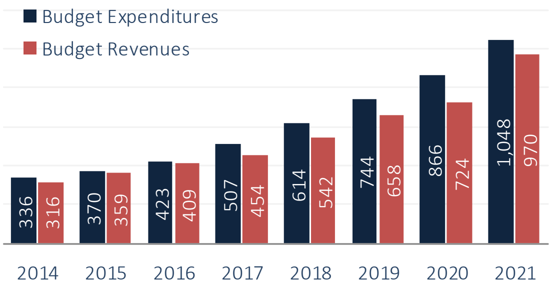
Source: CBRT, Datastream

Central government budget gave a surplus of 40.8 billion TRY in August.

In August, budget revenues increased by 35% yoy to 146.5 billion TRY, while budget expenditures expanded by 31.6% yoy to 105.7 billion TRY. Thus, the central government budget surplus, which was 28.2 billion TRY in August 2020, became 40.8 billion TRY in the same month of this year. In August, interest expenditures went up by 14.8% compared to the same period last year, while the primary surplus increased by 14.4 billion TRY yoy to 54.5 billion TRY. Despite the 19.5% increase in budget expenditures in the January?August period, budget revenues expanded by 34.1% with the significant contribution of the low base created by the same period of last year. Thus, the budget deficit, which was 110.9 billion TRY in the January-August period of 2020, became 37.5 billion TRY in the same period of this year. The primary balance, which gave a deficit of 19.3 billion TRY in the first 8 months of 2020, posted a surplus of 90.6 billion TRY in the same period 2021.

Budget Figures

(January-June, TRY billion)



Tax revenues rose rapidly in August.

Tax revenues increased by 33.2% yoy and reached 131.1 billion TRY in August. In this period, rapid rises in corporate tax and VAT revenues on imports reflected positively on budget performance. Rising by 64.2% yoy corporate tax revenues contributed 16.2 points to the increase in budget revenues , while VAT on imports went up by 8.8 billion TRY yoy as a result of exchange rate and foreign trade developments. The decrease in SCT revenues in July continued in August as well. Due to the 'échelle mobile' system implemented to compensate the rise in fuel oil prices, the decrease in SCT revenues from oil and gas products reached 5.1 billion TRY in August compared to the same month last year and limited the increase in budget revenues by 4.7 percentage points.

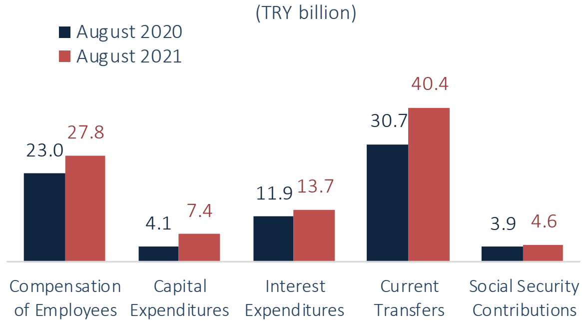
In the January-August period, budget revenues rose by 222.1 billion TRY (34.1%) compared to the same period of last year, thanks to the increase in tax revenues. In this period, domestic VAT and VAT on imports contributed to the rise in budget revenues by 14.7 points. On the other hand, the 17.6 billion TRY (40.3%) decrease in the SCT on oil products in the first 8 months of this year limited the rise in budget revenues by 2.7 points.

The increase in current transfers among budget expenditures stood out.

In August, budget expenditures rose by 25.4 billion TRY yoy, led by the increase in current transfers and capital expenditures. Due to the rapid increase in health, retirement and social aid expenditures, current transfers made the highest contribution to the rise in budget expenditures in August with 12.1 points. Having increased by 3.3 billion TRY (81.9%) yoy, capital expenditures pushed the budget expenditures up by 4.1 points. This increase was driven by the rise of 2.6 billion TRY in contracting expenditures. In this period, it was noteworthy that the lending item went up by 2.6 billion TRY (278%) on an annual basis. In January-August period, the increases in current transfers and personnel expenses were decisive in the rise in budget expenditures.

Budget Expenditures

(TRY billion)



Expectations...

The Medium-Term Programme, announced on September 5th, set the ratio of budget balance to GDP at 3.5% for 2021, indicating that fiscal policy will continue to support the economy in the coming months. The fact that the budget deficit forecast for 2021 in the MTP, led by the increase in primary expenditures, is higher than the forecasts of the Public Finance Report published at the end of May also supports this view. While a rise in budget revenues is also predicted in the MTP, it is estimated that a significant part of the said increase will stem from the rise in other revenues.

Central Government Budget (billion TRY)

	August		%	January-August		%	2021 Budget	MTP	Real./ MTP
	2020	2021	Change	2020	2021	Change	Target	Target	Target (%)
Expenditures	80.3	105.7	31.6	761.4	910.1	19.5	1,095.5	1,506.3	60.4
Interest Expenditures	11.9	13.7	14.8	91.6	128.2	39.9	138.9	175.9	71.4
Non-Interest Expenditures	68.4	92.0	34.5	669.8	782.0	16.7	956.5	1,326.7	58.9
Revenues	108.6	146.5	35.0	650.5	872.6	34.1	956.6	1,276.3	68.4
Tax Revenues	98.5	131.1	33.2	510.4	712.8	39.7	784.6	1,057.9	67.4
Other Revenues	10.1	15.4	52.5	140.1	159.8	14.1	172.0	218.4	73.2
Budget Balance	28.2	40.8	44.7	-110.9	-37.5	-66.2	-138.9	-230.0	16.3
Primary Balance	40.1	54.5	35.8	-19.3	90.7	-	0.1	-50.5	-

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

Source: Datastream , Ministry of Treasury and Finance

CPI inflation came in below the expectations in September.

According to the data released by TURKSTAT, CPI increased by 1.25% mom in September, below market expectations. The market expectation was that the monthly increase in CPI would be 1.35%. In the same period, D-PPI rose by 1.55% mom, lowest increase since February 2021.

Annual CPI rose to 19.58% in September.

Continuing its upward trend, annual CPI inflation reached 19.58% in September, the highest level in the last 2.5 years. On the other hand, annual D-PPI inflation declined from 45.52% in August to 43.96% in September.

September	CPI		D-PPI	
(change %)	2020	2021	2020	2021
Monthly	0.97	1.25	2.65	1.55
Year-to-Date	8.33	13.04	13.44	30.50
Annual	11.75	19.58	14.33	43.96
Annual Average	11.47	16.42	7.71	33.83

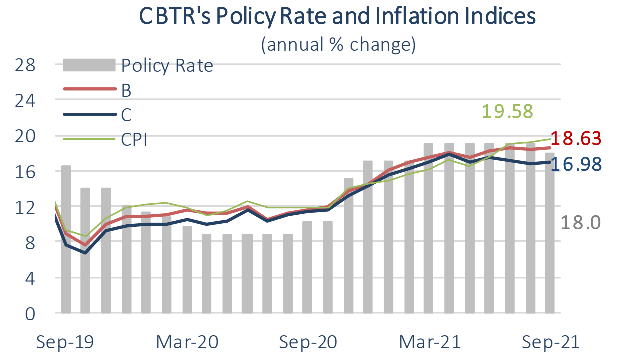
Prices in 11 main spending groups increased.

In September, prices in 11 of the 12 main spending groups increased compared to the previous month, pointing out that the rise in consumer prices spread to the whole. With the opening of schools in September, education group prices went up the fastest by 5.15% mom and pushed the monthly CPI inflation up by 12 basis points. In this period, the housing group, which has a high share in expenditure groups, made the highest contribution to monthly CPI inflation with 37 bps due to the increase in natural gas and electricity prices. The furnishings group, where prices rose by 3.33% mom, increased monthly CPI inflation by 28 basis points. The clothing and footwear group was the only group where prices fell in September and had a limited impact on monthly CPI inflation.

In terms of the contribution of the main expenditure groups to annual CPI inflation, the food group prices increased the fastest by 28.8% yoy and had the highest impact on CPI inflation with 699 bps. The housing group prices went up by 21% yoy and had a 322 bps impact on inflation. In the same period, the prices of transportation group rose by 20.2% yoy and pushed the inflation up by 312 bps.

Core inflation indicators...

In September, while the monthly increase in CPI excluding seasonal products was 1.56%, above the headline inflation, the annual increase reached its highest level since December 2018 with 19.82%. 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, went up by 1.50% mom and 1.51% mom, respectively. In this period, while the annual increase of the B index reached its highest level of the last 32 months with 18.63%, the annual rise of C index was realized as 16.98%. Increases in core inflation indicators point to a rise in the underlying trend of inflation.



Basic metals and food products stood out in annual D-PPI inflation.

In September, the rises in producer prices were relatively moderate on a monthly basis due to the high base effect. In this period, the highest monthly price increases were realized in other transportation vehicles, coal and lignite sectors with 4.5% and 4%, respectively. In this period, the sector that increased the D-PPI inflation the most was food products with 22 basis points, followed by coke and refined petroleum products with 16 basis points. Prices in the crude oil and natural gas group, which have been experiencing high-rate increases for a long time, fell by 4.8% mom in September, and limited the increase in the D-PPI to 3 basis points.

On an annual basis, the highest price increases were in the coke and refined petroleum products sectors, crude oil and natural gas, with 102% and 92%, respectively. In this period, basic metal products made the highest contribution (762 bps) to the annual D-PPI inflation, which was realized as 43.96%, while the contribution of the food group, which rose by 38% yoy, was 732 bps.

Expectations...

The recent increases in price tariffs of electricity and natural gas for producers, tobacco products and telecommunication services as well as the termination of VAT reductions as of October 1, which have been implemented for the last 14 months in services such as accommodation and restaurants, are factors that will increase the upward pressure on inflation indicators in the upcoming period. In addition, the rises in fluctuations of foreign exchange rates and in the forecasts for global oil prices pose additional risks to consumer and producer prices in the upcoming period. Although we expect the high base effect to come into the effect gradually in the coming months and have a somewhat limiting effect on the annual inflation rate, we expect year-end inflation to exceed the 16.2% target announced in the Medium Term Program published in early September.

Source: Datastream, Turkstat

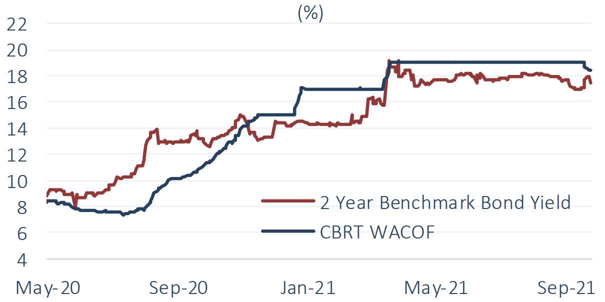
	31-Aug	30-Sep	Change
5-Y CDS (basis points)	365	429	64 bps ▲
TR 2-Y Benchmark Yield	18.64%	18.17%	-47 bps ▼
BIST-100	1,472	1,406	-4.5% ▼
USD/TRY	8.3045	8.8862	7.0% ▲
EUR/TRY	9.8199	10.2899	4.8% ▲
Currency Basket*	9.0622	9.5881	5.8% ▲

(*) (0,5 USD/TRY + 0,5 EUR/TRY)

The CBRT cut the policy rate by 100 basis points.

The CBRT cut the policy rate by 100 basis points to 18% at its meeting held on September 23. The markets were expecting that the policy rate would remain unchanged. In the statement released after the meeting, CBRT stated that the recent rise in inflation was due to the increase in food and import prices, supply-side problems stemming from supply chains, as well as the rise in administered/directed prices and the increase in demand due to normalization in pandemic measures. CBRT also stated that the said effects were due to transitory factors. On the other hand, it was declared that the monetary policy stance was updated in the direction of lowering policy rate, as the tightness in the monetary stance had a contractionary effect on commercial loans beyond the anticipated. In addition, while the statement in the previous text which was saying “the policy rate to be formed over the inflation rate, to the extent that it will maintain the strong disinflationary effect” is not included in the last text; it was underlined that all instruments will continue to be used decisively until the medium-term 5% target is achieved.

2 Year Benchmark Bond Yield and CBRT WACOF
(%)



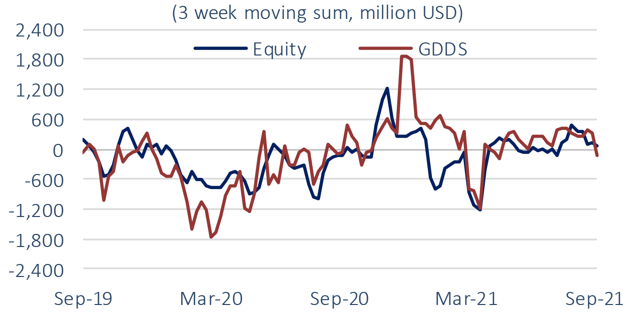
The CBRT increased the reserve requirement ratios and changed the rediscount credit conditions.

According to the decision published in the Official Gazette dated 15 September 2021, the CBRT increased the reserve requirement ratios applied to FX deposits/participation funds and precious metal deposit accounts by 200 basis points. Thus, the reserve requirement ratio for deposits/ participation funds with a maturity of up to 1 year was increased to 23%, while the reserve requirement ratio for deposits/participation funds with a maturity of 1 year or more was increased to 17%. In addition to that, on September 17, the CBRT announced that changes were made in the conditions for utilization and repayment of rediscount credits. Accordingly, the total rediscount credit limit was increased to 30 billion USD. 20 billion USD of the said limit was allocated to loans to be used through Export Credit Bank of Turkey (Turk Eximbank) and 10 billion USD to other banks. According to the statement, the relevant rediscount credits will be made available to net exporter firms with an export amount that is at least 10% more than their import amount in the last three years or the last year as of October 1st. Credit repayments will only be made with export earnings.

Securities portfolio of non-residents...

According to the securities statistics published by the CBRT, as of September 24, the equity portfolio of non-residents, adjusted for price and exchange rate movements, decreased by net 171 million USD and the government domestic debt securities (GDDS) fell by net 121 million USD compared to the end of August. Thus, since the end of 2020, capital outflow in non-residents equity reached approximately 1.2 billion USD while capital inflow in GDDS portfolio became 2 billion USD.

Non-residents' Portfolio Movements
(3 week moving sum, million USD)



Domestic markets presented a negative outlook in September.

Last month, inflation concerns and Fed officials' statements together with the latest developments regarding the Chinese real estate company Evergrande have been effective on financial markets. The statement after the Fed meeting ended on September 22, saying that a moderation in the pace of asset purchases might soon be warranted if progress in the US economy continues broadly as expected, put pressure on financial markets causing global stock market indices to complete September with a decline. During the month in which the increases in energy prices were followed, the concerns that the rise in inflation might last longer also put pressure on the stock markets. In addition, economic indicators pointing to the slowdown in China’s economic activity and the failure of the Chinese real estate company Evergrande to make coupon payments on time adversely affected global markets, especially Asian markets, in September.

The developments in the global markets have also been effective on domestic markets. In September, when the news flow that the Fed could reduce asset purchases was followed, the appreciation of the US dollar in global markets as well as the CBRT's decision to cut the policy rate increased the pressure on the Turkish lira. The USD/TRY parity went up by 7% mom to 8.89 in September, while EUR/TRY rose by 4.8% to 10.29 at the end of the month. Turkey's 5-year CDS premium increased by 64 basis points to 429 basis points. BIST-100 index declined by 4.5% throughout the month, and closed September at 1,406 points.

New regulations from BRSA...

BRSA changed some of the temporary regulations implemented in the obligations that must be fulfilled by the banks, which had been applied to support the real sector, bank customers and banks during the pandemic period. Accordingly, the extension of the minimum deferral duration for banks' non -performing loans from 90 to 180 days was terminated as of 30.09.2021. On the other hand, as of 01.10.2021, it has been decided to continue the aforementioned practice in the same way for the loans with a delay period of more than 91 days and not exceeding 180 days. The practice that allows banks to define grace periods by not demanding their receivables from cardholders, including the minimum amount, during the period when they postpone their credit card debts, was terminated as of 30.09.2021.

The BRSA also decided to reduce the general maturity limit from 36 months to 24 months for consumer loans with a loan amount over 50K TRY. On the other hand, it will be possible to restructure the debt balances of consumer loans extended before the date of September 16 for a maximum of 36 months, in case it has been requested by the debtor even though the loan amount is over 50K TRY.

TRY deposit volume rose by 16.5% yoy.

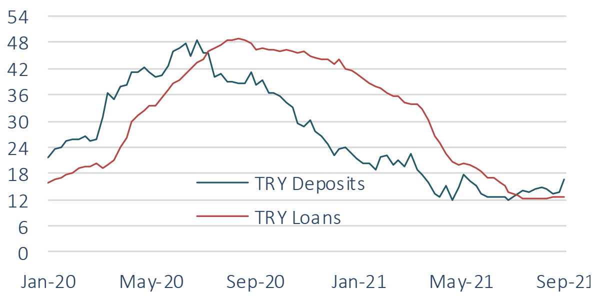
According to the BRSA's Weekly Bulletin, as of September 24, the deposit volume expanded by 20% yoy and 19% ytd and reached 4,112 billion TRY. In this period, TRY deposit volume increased by 16.5% yoy and became 1,844 billion TRY. FX deposits in USD terms also rose by 6.4% yoy and reached 258 billion USD as of September 24. Annual rise in FX rate adjusted deposit volume was realized as 11.1%. With the decision published in the Official Gazette dated October 1, it was announced that the withholding tax rate reductions on Turkish Lira deposits, which was planned to be terminated on September 30, was extended until December 31, 2021.

TRY loan volume expanded by 12.8% yoy.

As of September 24, the total loan volume of the banking sector increased by 13.8% yoy and reached 4.009 billion TRY. In the same period, annual TRY loan growth was 12.8%, while FX loans in USD terms increased by 0.1% yoy reaching 165 billion USD. As of September 24, FX rate adjusted loan growth became 8.3% yoy while the total loan volume increased by 12.1% compared to the end of 2020.

Deposits and Loans

(annual % change)

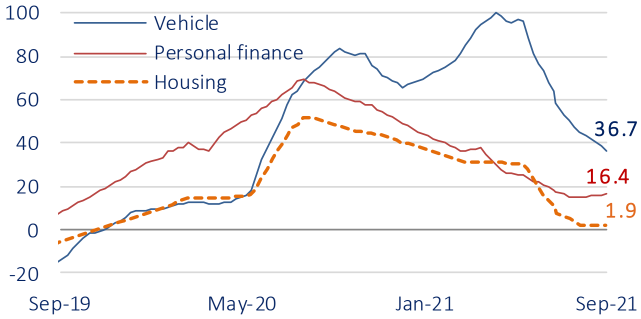


The rise in consumer loans continues to weaken.

The growth rate of consumer loans continues to slow down due to the macroprudential measures taken. As of September 24, consumer loans increased by 10.6% yoy and 8.5% ytd. In this period, the annual rise in housing and consumer loans became 1.9% and 16.4%, respectively. The annual increase in vehicle loans, which has been strong since last year, declined to 36.7% as of September 24.

Consumer Loans

(annual % change)

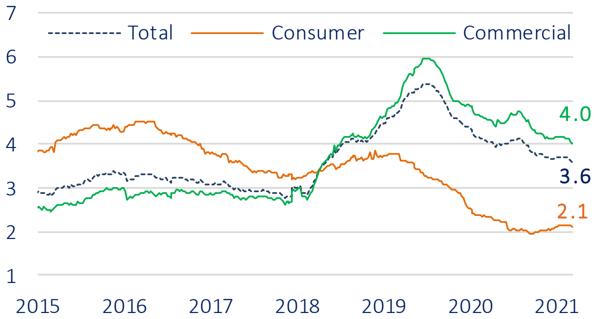


Non-performing loan ratio is at the level of 3.6%...

As of the week of September 24, the amount of gross nonperforming loans decreased by 0.9% yoy to 149.2 billion TRY, with the impact of the BRSA's regulations regarding the pandemic. In this period, NPL ratio was realized as 3.6%. While the said ratio was 2.4% in public banks, it became 4.6% in private banks. In terms of loan types, NPL ratio became 4% in commercial loans and 2.1% in consumer loans.

Non-performing Loans

(%)

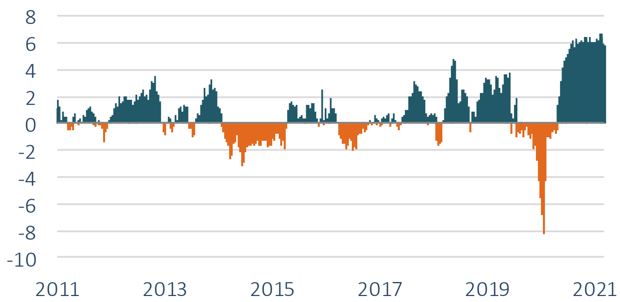


Net foreign currency position...

As of September 24, banks' on-balance sheet FX position was (-) 51,497 million USD, while off-balance sheet FX position was (+) 57,292 million USD. Hence, banking sector's FX long position became 5.794 million USD.

Net FX Position

(USD billion)



Source: BRSA Weekly Bulletin

Concluding Remarks

In September, the global economic activity continued to show a strong performance albeit losing some momentum. In this momentum loss, the deterioration in supply chains and disruptions in energy markets were effective. The power cuts in China, where the signs of slowdown in economic activity became evident, affect the expectations for the coming period negatively and pose additional concerns about global supply chains.

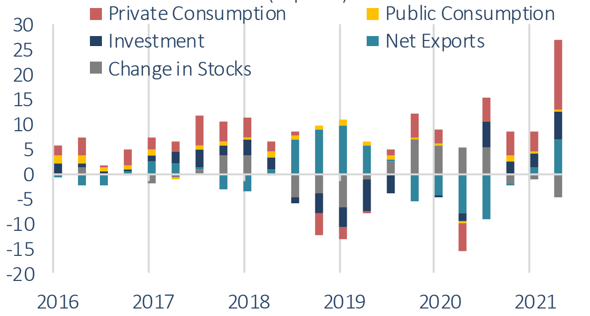
While global inflation concerns rose due to production cuts and supply shortages, the statements of major central banks were followed closely in September. The Fed stated that if the recovery in economic activity continues, asset purchases may begin to be reduced, and the ECB announced that the pace of asset purchases will be reduced moderately compared to the previous two quarters. Within the framework of the mentioned statements, the volatility in global markets increased, while the US dollar appreciated. The failure of the Chinese real estate company Evergrande to make its bond interest payments was among the important developments that put the global risk appetite under pressure.

In Turkey, data for the third quarter indicated that despite losing momentum economic activity continued to present a positive outlook. The manufacturing industry PMI was realized above 50 threshold level, indicating the growth in the sector continued, albeit declining on a monthly basis in September. In this period, according to provisionary data exports exceeded the threshold of 20 billion USD for the first time on a monthly basis. After the CBRT Governor made emphasis on core inflation instead of headline inflation in his statements at the beginning of September, the CBRT cut the policy rate by 100 basis points in September meeting. The change in statements and the decision to cut interest rates strengthened the expectations for additional interest rate cuts for the upcoming period. These developments increased the volatility in domestic markets in September. As the risk perception towards Turkey deteriorated rapidly, the Turkish lira saw new record lows in the last days of September. In the last quarter of the year, we expect the growth to slow down due to the high base effect in the same period of last year. We expect that the macro-prudential measures taken and the ending of some supportive measures will limit domestic demand somehow, while the positive contribution of foreign demand will continue in this period.

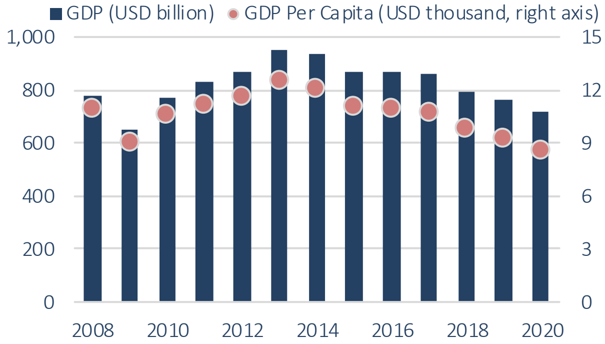
Turkish Economy- Macroeconomic Indicators

Growth

Contributions to GDP Growth
(% point)

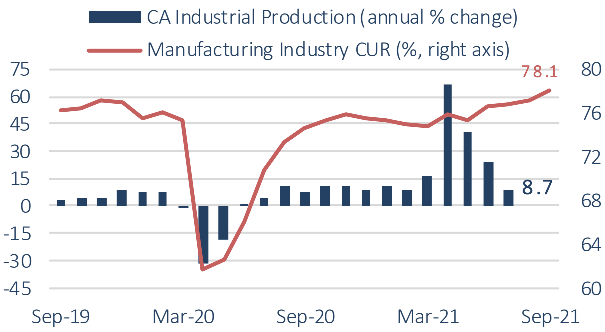


GDP

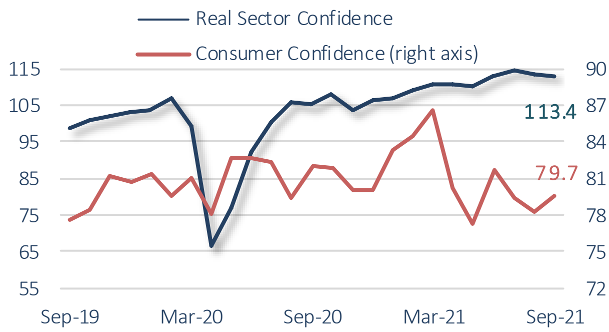


Leading Indicators

Industrial Production and Capacity Utilization

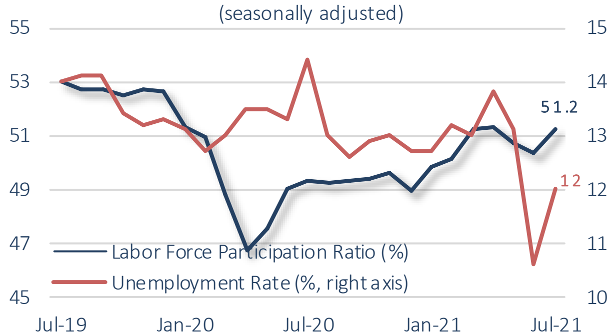


Confidence Indices

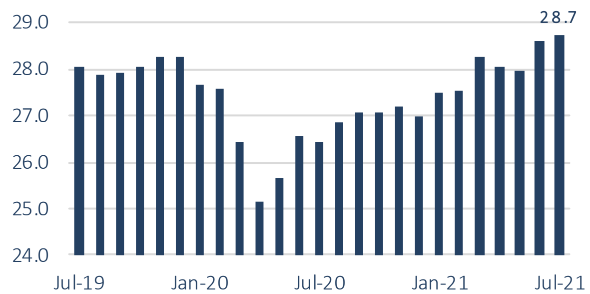


Labor Market

Employment Indicators
(seasonally adjusted)

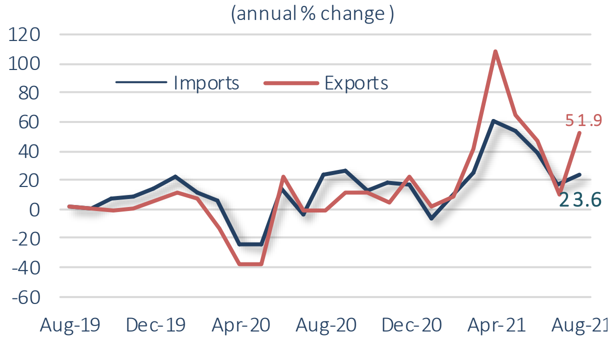


Employment
(seasonally adjusted, million persons)

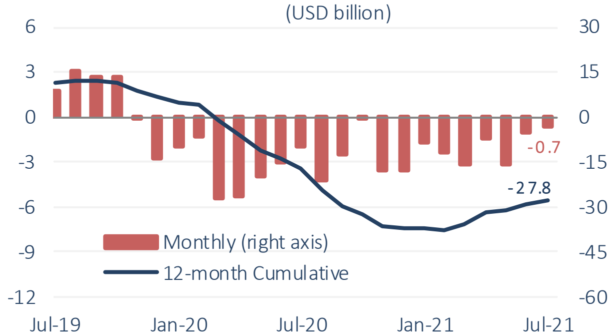


Foreign Trade and Current Account Balance

Foreign Trade
(annual % change)



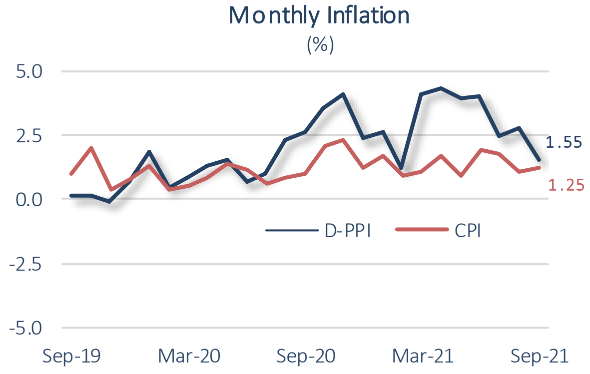
Current Account Balance
(USD billion)

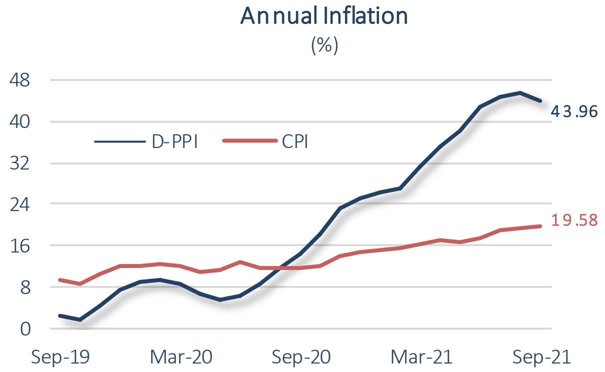


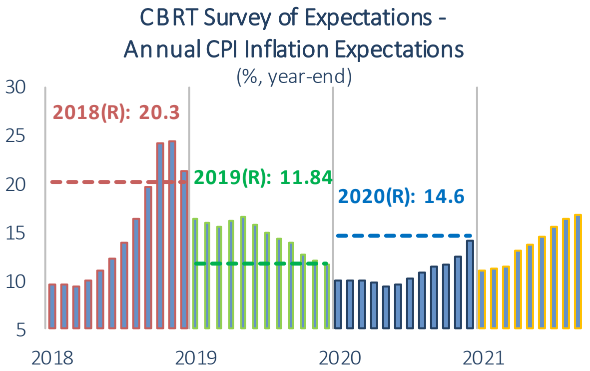
(CA) Calendar adjusted

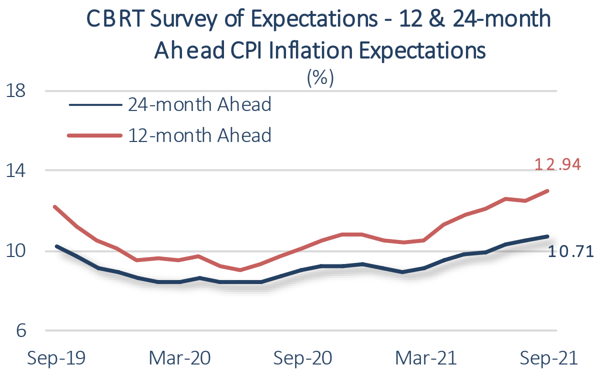
Source: Datastream, CBRT, Turkstat

Inflation

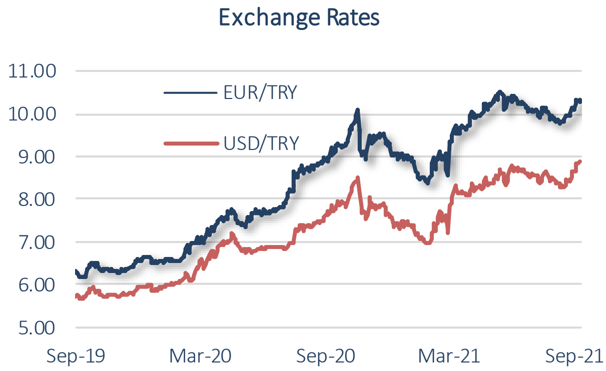


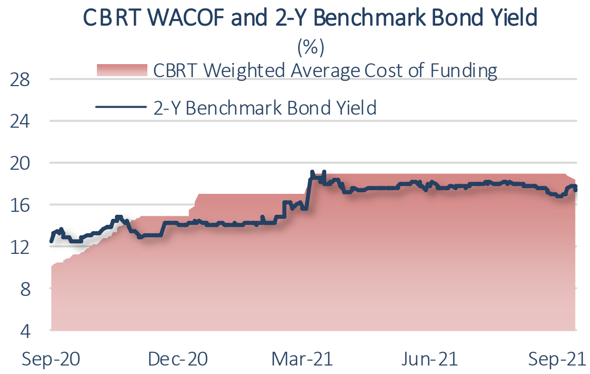


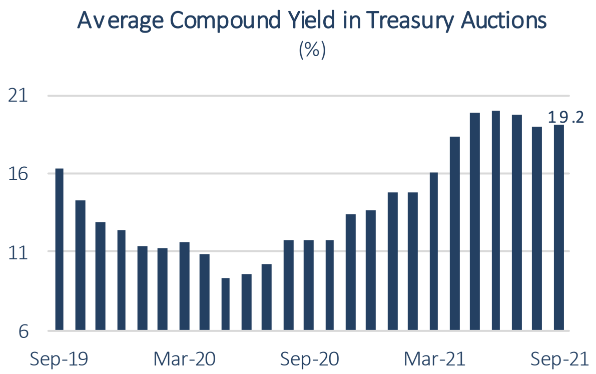


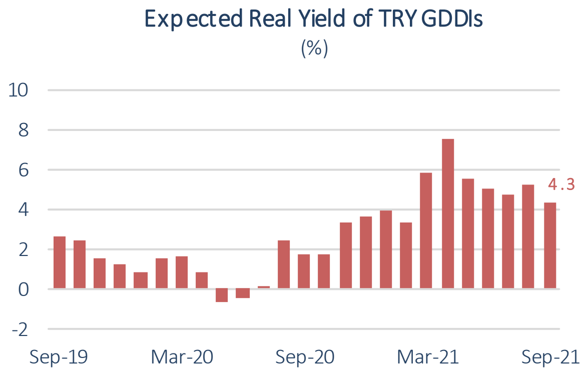


Foreign Exchange and Bond Market









(R) Realization

Source: BİST, Datastream, Reuters, CBRT, Turkstat, Treasury

Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020			Ç1-21
GDP (USD billion)	869	859	797	761	717			188
GDP (TRY billion)	2,627	3,134	3,758	4,320	5,048			1,386
GDP Growth Rate (%)	3.3	7.5	3.0	0.9	1.8			7.0
Inflation (%)						**May-21**	**Jun-21**	**Jul-21**
CPI (annual)	8.53	11.92	20.30	11.84	14.60	16.59	17.53	18.95
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	38.33	42.89	44.92
Seasonally Adjusted Labor Market Figures						**Mar-21**	**Apr-21**	**May-21**
Unemployment Rate (%)	12.1	9.9	12.8	13.3	12.7	13.20	13.80	13.20
Labor Force Participation Rate (%)	52.4	52.8	53.1	52.6	49.1	51.30	51.30	50.50
FX Rates						**May-21**	**Jun-21**	**Jul-21**
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.3	60.6	59.8	
USD/TRY	3.52	3.79	5.32	5.95	7.43	8.5	8.69	8.42
EUR/TRY	3.71	4.55	6.08	6.68	9.09	10.4	10.30	9.99
Currency Basket (0.5*EUR+0.5*USD)	3.61	4.17	5.70	6.32	8.26	9.42	9.50	9.20
Foreign Trade Balance[1] (USD billion)						**Apr-21**	**May-21**	**Jun-21**
Exports	149.2	164.5	177.2	180.8	169.6	186.7	193.2	199.5
Imports	202.2	238.7	231.2	210.3	219.5	233.1	240.4	246.7
Foreign Trade Balance	**-52.9**	**-74.2**	**-54.0**	**-29.5**	**-49.9**	**-46.4**	**-47.2**	**-47.2**
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3	80.1	80.4	80.9
Balance of Payments[1] (USD billion)						**Mar-21**	**Apr-21**	**May-21**
Current Account Balance	**-27.0**	**-40.8**	**-21.7**	**6.8**	**-36.7**	**-36.3**	**-32.8**	**-31.9**
Capital and Financial Accounts	**-21.7**	**-47.0**	**-10.9**	**1.3**	**-40.0**	**-29.5**	**-25.8**	**-23.9**
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6	-3.9	-3.9	-4.1
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5	-0.3	-1.5	-4.9
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0	-8.3	-10.8	-3.9
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	-17.0	-9.6	-11.0
Net Errors and Omissions	**5.3**	**-6.2**	**10.8**	**-5.5**	**-3.3**	**6.9**	**7.0**	**8.0**
Current Account Balance/GDP (%)	**-3.1**	**-4.8**	**-2.7**	**0.9**	**-5.2**	-	-	-
Budget[2][3] (TRY billion)						**Apr-21**	**May-21**	**Jun-21**
Expenditures	**584.1**	**678.3**	**830.8**	**1000.0**	**1202.2**	**432.0**	**550.0**	**663.4**
Interest Expenditures	50.2	56.7	74.0	99.9	134.0	67.5	81.5	90.9
Non-interest Expenditures	533.8	621.6	756.8	900.1	1068.3	364.5	468.5	572.5
Revenues	**554.1**	**630.5**	**758.0**	**875.3**	**1029.5**	**437.9**	**542.5**	**630.8**
Tax Revenues	459.0	536.6	621.5	673.9	833.1	331.4	423.7	496.9
Budget Balance	**-29.9**	**-47.8**	**-72.8**	**-124.7**	**-172.7**	**5.9**	**-7.5**	**-32.5**
Primary Balance	**20.3**	**8.9**	**1.1**	**-24.8**	**-38.8**	**73.4**	**73.9**	**58.3**
Budget Balance/GDP (%)	**-1.1**	**-1.5**	**-1.9**	**-2.9**	**-3.4**	-	-	-
Central Government Debt Stock (TRY billion)						**Apr-21**	**May-21**	**Jun-21**
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4	1,120.0	1,133.3	1,135.4
External Debt Stock	291.3	341.0	481.0	574.0	752.5	829.5	868.1	891.4
Total Debt Stock	**760.0**	**876.5**	**1067.1**	**1,329.1**	**1,812.8**	**1,949.5**	**2,001.4**	**2,026.8**

(1) 12-month cumulative
(2) Year-to-date cumulative
(3) According to Central Government Budget

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

Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2016	2017	2018	2019	2020	May.21	Jun.21	Change[1]
TOTAL ASSETS	2,731	3,258	3,867	4,492	6,106	6,671	6,730	10.2
Loans	1,734	2,098	2,395	2,657	3,576	3,857	3,917	9.5
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,430	2,482	5.5
Share (%)	65.2	67.4	60.1	61.8	65.8	63	63.4	-
FX Loans	603	684	956	1,015	1,224	1,428	1,435	17.3
Share (%)	34.8	32.6	39.9	38.2	34.2	37	36.6	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	149	149.4	-2.1
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	4	3.7	-
Securities	352	402	478	661	1,023	1,124	1,138	11.3
TOTAL LIABILITIES	2,731	3,258	3,867	4,492	6,106	6,671	6,730	10.2
Deposits	1,454	1,711	2,036	2,567	3,455	3,805	3,870	12.0
TRY Deposits	845	955	1,042	1,259	1,546	1,679	1,722	11.3
Share (%)	58.1	55.8	51.2	49.0	44.7	44	44.5	-
FX Deposits	609	756	994	1,308	1,909	2,126	2,148	12.5
Share (%)	41.9	44.2	48.8	51.0	55.3	56	55.5	-
Securities Issued	116	145	174	194	224	232	239	6.5
Payables to Banks	418	475	563	533	658	732	725	10.3
Funds from Repo Transactions	138	99	97	154	255	386	382	49.8
SHAREHOLDERS' EQUITY	300	359	421	492	600	620	631	5.3
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	24.7	33.8	-
RATIOS (%)								
Loans/GDP	66.5	67.6	64.7	61.5				
Loans/Assets	63.5	64.4	61.9	59.1	58.6	57.8	58.2	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.8	16.9	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	57.0	57.5	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	101.4	101.2	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	17.9	17.8	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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