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Global Economy

In November, the global risk appetite was depressed by the impact of the omicron variant of the coronavirus, which is predicted to be vaccine resistant. The gradual re-implementation of measures against the coronavirus in many countries negatively affected the expectations for the upcoming course of global economic activity.

In the US, preliminary indicators for the fourth quarter drew a positive picture regarding economic activity. Industrial production and retail sales in October and PMI in November indicated that the economy maintained its brisk pace of activity.

In the Euro Area, according to the preliminary data annual CPI inflation reached its historical high level of 4.9% in November. Annual PPI inflation in the region also rose to 21.9%, above the expectations.

China's economy performed well in November, despite the restrictive measures implemented in this period. October PPI inflation reached 13.5%, the highest level of the last 26 years.

Inflation concerns remained high on a global scale, while major central banks are about to start to take tightening steps in their monetary policies.

In November, oil prices were under pressure with the effects of the announcement of the US that it will make its strategic petroleum reserves available, and the omicron variant negatively impacting expectations for global demand. The decline in oil prices continued at the beginning of December due to the OPEC+ countries' declaration that they adhered to the existing gradual production increase agreement.

According to the data of the United Nations Food and Agriculture Organization, food price index increased by 1.6 points on a monthly basis and reached 134.4 in November.

Turkish Economy

According to the chain linked volume index, Turkish economy grew by 7.4% yoy in the third quarter of 2021, in line with market forecasts. In this period, seasonally and calendar adjusted GDP, which had lost some momentum in the second quarter of the year, increased by 2.7% qoq.

In September, seasonally adjusted unemployment rate decreased by 0.3 mom to 11.5%, while the employment rate increased by 0.6 points to 45.8%. In this period, the labor underutilization rate increased by 0.2 points mom to 21.9%.

Manufacturing PMI was realized as 52 in November, indicating that the expansion in the sector continues, while ex-factory costs increased at a historical high level due to the exchange rate developments and the increase in raw material costs.

The current account balance gave a surplus of 1.7 billion USD thanks to the contribution of the increase in exports and services revenues in September. Thus, the 12-month cumulative current account deficit continued its downward trend and declined to 18.4 billion USD, the lowest level in more than a year.

The central government budget deficit reached 17.4 billion TRY in October, due to the 256% annual increase of budget expenditures. In the first ten months of the year, budget deficit was realized as 78.5 billion TRY.

The rise in inflation indicators accelerated in November. In this period, annual CPI inflation rose to 21.31%, while the annual D-PPI inflation reached 54.62%, the highest level since April 2002.

CBRT cut the policy rate by 100 bps to 15% at its meeting on November 18.

In November, the Turkish lira depreciated rapidly against other currencies.

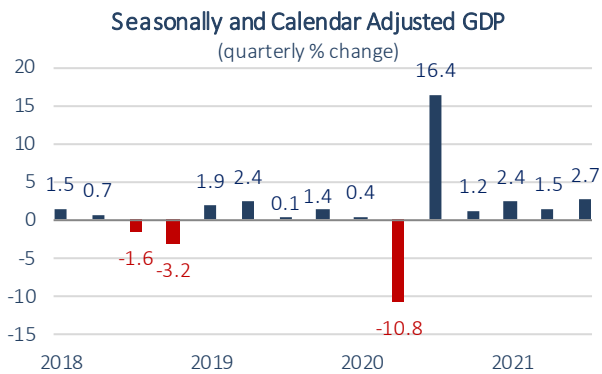
GDP Growth

Turkish economy grew by 7.4% yoy in the third quarter.

According to the chained volume index, Turkish economy grew by 7.4% yoy in the third quarter of 2021, in line with market forecasts. Annual growth rates for the first two quarters of the year were revised upwards and were announced as 7.4% and 22%, respectively. Thus, annual GDP growth in the first nine months of the year was realized as 11.7%.

	Contributions to GDP Growth (% points)				
	2020		2021		
	Annual	Q1	Q2	Q3	9M
Consumption	2.2	4.2	14.5	6.6	8.2
Private	1.9	4.2	14.0	5.4	7.6
Public	0.3	0.0	0.5	1.2	0.6
Investment	1.8	3.1	5.4	-0.6	2.3
Change in Stock	3.1	-1.1	-4.9	-5.4	-3.9
Net Export	-5.3	1.2	6.9	6.8	5.1
Exports	-3.8	0.9	11.0	5.0	5.5
Imports	-1.6	0.2	-4.1	1.8	-0.4
GDP	1.8	7.4	22.0	7.4	11.7

Seasonally and calendar adjusted GDP, which had lost some momentum in the second quarter of the year and increased by 1.5% qoq, recorded a 2.7% growth in the third quarter of the year.



As of the third quarter of 2021, Turkey's annual GDP became 6.4 trillion TRY and 795.2 billion USD in USD terms.

The strong contribution of private consumption and exports continued.

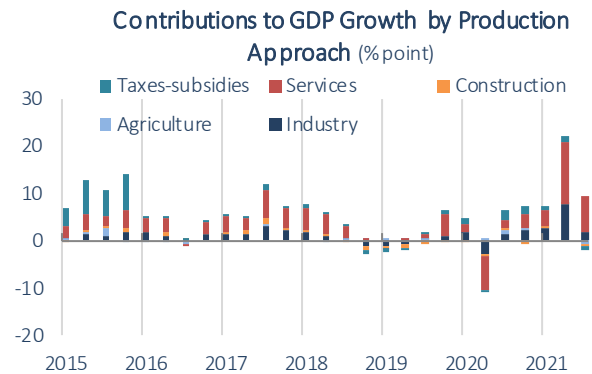
Private consumption and exports, which supported the growth figures in the second quarter of the year thanks to the low base effect, played important role in the growth performance in the third quarter. According to the chained volume index, the contribution of private consumption expenditures to growth was 5.4 pts in this period. In this period, public expenditures made the highest contribution to GDP growth in more than 3 years with 1.2 pts. The positive contribution of the exports to growth continued in the third quarter, albeit at a slower pace. While net exports

contributed 6.8 pts to growth in the third quarter, it was noteworthy that 1.8 pts of the said contribution came from imports.

Investment expenditures, which had positive contribution on growth since the second half of 2020, limited the growth by 0.6 pts in the third quarter of this year, due to the decrease in construction investments. Despite the decline in construction investments, the increase in machinery-equipment investments continued, albeit losing momentum. Change in stocks, which has been suppressing the growth figures since the last quarter of 2020, limited the growth by 5.4 pts.

Agriculture and construction sectors contracted.

While all the main sub-sectors have contributed positively to GDP growth in the first half of the year, the said picture ended as the agriculture and construction sectors contracted in the third quarter of the year. The decrease in the agricultural sector, which contracted annually for the first time in more than 3 years, limited the GDP growth by 0.7 pts in this period. The decline in the construction sector suppressed the growth down by 0.4 pts in the same period. The services sector was decisive in the growth performance of Turkish economy with 7.6 pts contribution to GDP growth in the third quarter of 2021. In the same period, the contribution of the industrial sector decreased to 1.8 pts, the lowest level of the last four quarters.



Expectations...

Turkish economy, which recorded a rapid growth in the first nine months of the year, is expected to lose some momentum due to the fluctuations in the financial markets in the last quarter. However, domestic economic activity is expected to display the strongest growth performance of the last 10 years in the whole year. In the upcoming period, the contribution of the CBRT's monetary policy to growth through investments and net exports will continue to be monitored. In addition, the monetary policies of the major central banks and the new variants of the virus are expected to continue to have impact on economic activity in 2022.

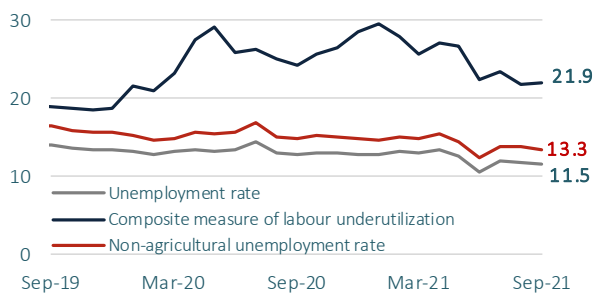
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Leading Indicators

Unemployment rate became 11.5% in September.

According to the data announced by TURKSTAT, seasonally adjusted unemployment rate fell by 0.3 points mom to 11.5% in September. In this period, labour force increased by 356K mom, while seasonally adjusted labour force participation rate increased by 0.5 points to 51.7% and reached the highest level since December 2019. In September, the employment rate increased by 0.6 points to 45.8%. Number of employed persons increased by 218K in industry, 175K in services, 21K in agriculture and 13K in construction sector compared to the previous month. On the other hand, the labour underutilization rate consisting of time related underemployment, potential labour force and unemployment increased by 0.2 points mom to 21.9% in September.

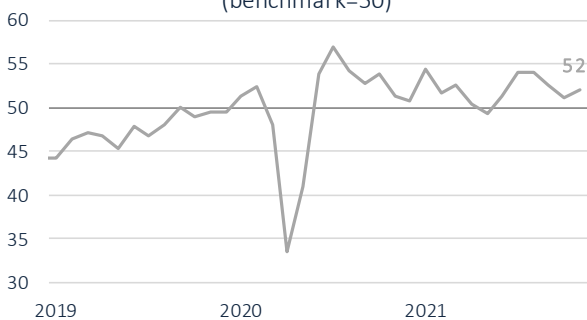
Complementary Labor Force Indicators



Manufacturing PMI rose to 52 in November.

In November, manufacturing PMI was realized above the 50 threshold level for the sixth month in a row and rose to 52. Analyzing the sub-items of the index, it was noted that factory output prices recorded the fastest increase in the index's history due to rising input costs in parallel with the depreciation of the Turkish lira in November. While production and employment increased in this period, signs of weakness increased in total new orders as the rise in final product prices adversely affected demand despite the continued growth in export orders. In this period, the two sectors with the highest input cost increases were textile products and land and sea vehicles, respectively, while the fastest rise in sales prices was in the machinery and metal products sector.

Manufacturing PMI (benchmark=50)

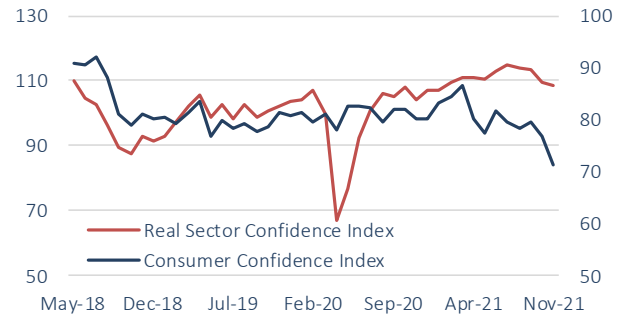


Confidence indices presented mixed outlook.

Real sector confidence index decreased by 1.2 points compared to the previous month and became 108.4 in November. In this period, according to seasonally adjusted data the index increased by 0.7 points mom to 112. In terms of sub-indices, evaluations regarding the general trend and fixed capital investment expenditures affected the index downwards. During the same period, the service sector confidence index fell, while

confidence in the retail trade and construction sectors increased.

Leading Indicators



The consumer confidence index decreased by 7.3% mom and became 71.1 in November, its lowest level since the data was first published in 2004. As a result of the deterioration in economic actors' expectations, the economic confidence index decreased by 2% mom to 99.3 in November. The index's fall below the 100 threshold indicated pessimism about the overall economic situation.

Housing sales increased by 14.9% yoy in October.

Housing sales increased by 14.9% yoy and became 137,401 units in October. In this period, sales of first-hand and second-hand houses expanded by 13.4% and 15.6% yoy, respectively, displaying a relatively balanced outlook. Mortgaged house sales increased by 9.7% yoy in October. In the January-October period, due to the base effect as well as the course of interest rates, mortgaged sales declined by 60.7% yoy, while total sales fell by 15.2% compared to the same period of last year. On the other hand, the upward trend in housing prices continued in September. In this period, housing prices increased by 3.2% mom, while the annual real rise in the index became 13.3%. With the recent decline in mortgage interest rates supporting the housing demand, rapid increases in housing prices are notable.

According to the data of the Turkish White Goods Manufacturers Association, domestic sales in six main white goods product groups narrowed by 13.3% yoy in October, in line with the rise in product prices and the decline in consumption appetite, while export volume displayed a flat outlook. In this period, total white goods production expanded by 10.5% yoy. In the first ten months of the year, domestic sales increased by 9.5% yoy and exports widened by 23.8% yoy, while the rise in production became 21.4% yoy.

The contraction in the automotive market continued in November.

The annual contraction in the automotive market since July continued in November due to the supply constraints caused by the ongoing global semiconductor material crisis, as well as the high volatility in foreign exchange rates in domestic markets. According to the data released by the Automotive Distributors Association (ODD), the total automotive market shrank by 24.9% yoy in November. In this period, automobile sales decreased by 33.2% yoy, while light commercial vehicle sales expanded by 9.2% yoy. In the January-November period, total domestic sales increased by 1% compared to the same period of last year.

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

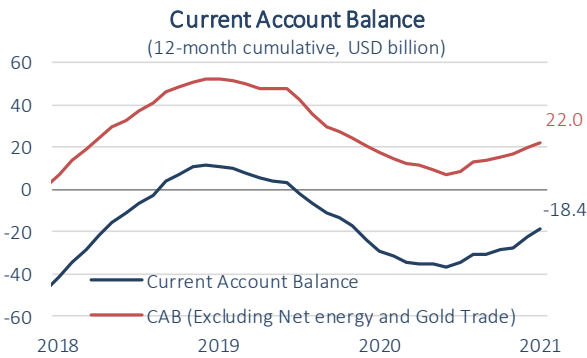
Foreign Trade and Balance of Payments

The decline in the foreign trade deficit continued in October.

According to TURKSTAT data, in October, exports expanded by 20.1% yoy and reached 20.8 billion USD in parallel with September, while imports increased by 12.8% yoy to 22.2 billion USD. Thus, the foreign trade deficit continued to narrow in October and decreased by 47.5% yoy to 1.4 billion USD. In the first 10 months of the year, the foreign trade deficit decreased by 15.9% compared to the same period of last year and declined to 33.9 billion USD. The ratio of exports to imports, which was 77.1% in the January-October 2020 period, rose to 84.3% in the same period of this year.

In September, current account posted a surplus of 1.7 billion USD.

Current account, which had a deficit of 2.3 billion USD in September 2020, posted a surplus of 1.7 billion USD in the same month of this year. The narrowing in the foreign trade deficit thanks to the positive performance in exports and the 1.9 billion USD yoy increase in net services revenues due to the rise in transportation and tourism revenues were behind this development. Net travel revenues, which were approximately 3 billion USD in September, widened by 120% yoy and reached 13.3 billion USD in the January-September period.



In the first 9 months of the year, current account deficit narrowed by 58.5% yoy to 11.7 billion USD. 12-month

cumulative current account deficit fell to 18.4 billion USD in September, and reached the lowest level in more than a year. Excluding net energy and gold imports, the 12-month current account balance gave a surplus of 22 billion USD as of September.

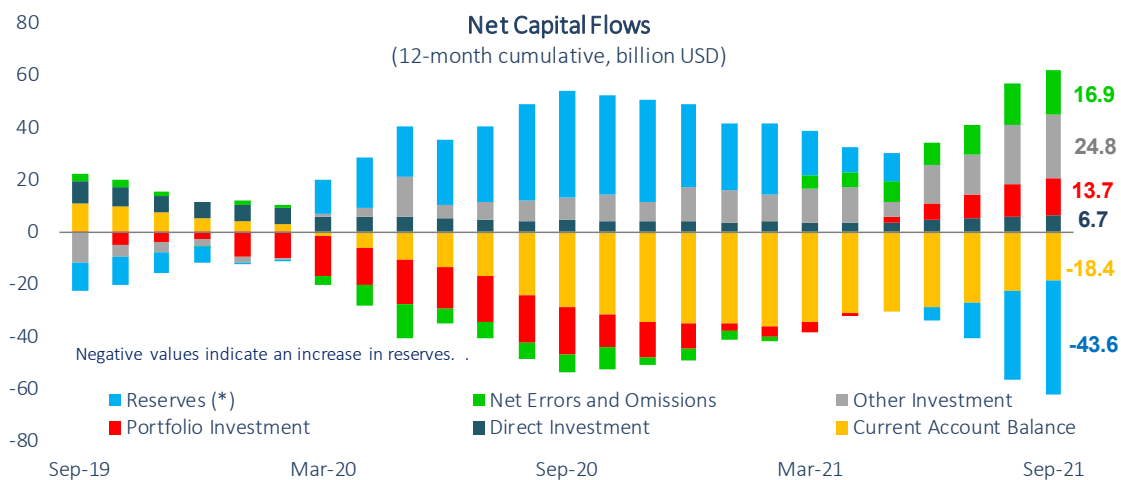
Direct investments posted a net capital inflow of 1.1 billion USD.

Direct investments item recorded a net capital inflow of 1.1 billion USD in September. In addition, the data pointing to a net capital outflow of 319 million USD in August in the previous data release in the net direct investments item was revised as a capital inflow of 1.1 billion USD. Similar to the previous months, the real estate investments were highlighted in the foreign direct investments in September. In January-September period, real estate investments accounted for 4.1 billion USD (72.4%) of the total 5.6 billion USD foreign direct investments. Accordingly, 12-month cumulative net direct investments continued to display an upward trend and became 6.7 billion USD.

Other investments posted a capital outflow.

Portfolio investments which recorded a net inflow of 1.3 billion USD in August, posted a net inflow of 1.2 billion USD in September. In this period, non-residents made net purchases of 62 million USD in equity market and net sales of 189 million USD in GDDS market. The rise in portfolio investments was mainly driven by the General Government's net borrowing of 2.25 billion USD from international capital markets.

Other investments item, which recorded a net inflow of 7.4 billion USD in August with the effect of the IMF's SDR payments to member countries, posted a net outflow of 122 million USD in September, for the first time since January. In this period, currency and deposits of domestic banks at their foreign correspondents declined by 760 million USD, while foreign banks' deposits at domestic banks decreased by 373 million USD. In September, banks and the general government made net loan repayments of 745 million USD and 131 million USD, respectively. In the same period, other

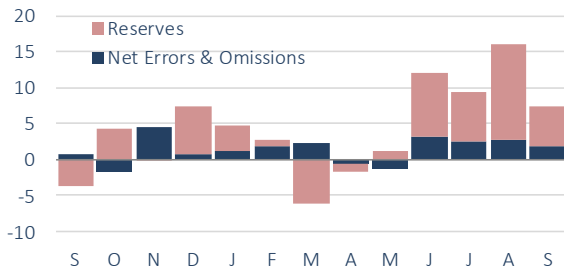


Source: CBRT, Datastream

Foreign Trade and Balance of Payments

sectors used net loans of 540 million USD. Thus, according to 12-month cumulative figures, long-term debt roll-over ratios decreased to 87% in banking sector, but became 127% in other sectors reaching the highest level since April 2019.

Reserves and Net Errors & Omissions
(monthly, USD billion)



Reserve assets increased by 5.6 billion USD.

While reserve assets increased by 5.6 billion USD in September, the rise in reserves reached 32.8 billion USD in the January-September period. Net errors and omissions item recorded a capital inflow of 1.8 billion USD in September. Thus, net errors and omissions posted a capital inflow of 13.5 billion USD in the first 9 months of 2021. In the same period of 2020, there was a capital outflow of 7.8 billion USD in the said item.

Expectations...

According to the preliminary foreign trade data released by the Ministry of Commerce, the export volume, which increased by 33.4% yoy in November, reached the historical high level at 21.5 billion USD. In this period, import volume rose by 26.7% yoy to 26.8 billion USD. Following the high level of gold imports last year, we see that the total import volume is increasing more moderately this year with the effect of the regulation made in the first months of the year, and this leads the foreign trade deficit to narrow. In addition to this development, we anticipate that the positive impact of the recovery in tourism and transportation revenues will have a positive impact on the balance of payments, while the rise in global commodity prices will continue to pose an upside risk to the current account deficit in the coming period. In this context, we estimate that the current account deficit to GDP ratio, which was 4.9% at the end of 2020, will converge to the 2.6% projection in the Medium-Term Program for the year-end of 2021.

Balance of Payments

	Sep. 2021	Jan. - Sep. 2020	Jan. - Sep. 2021	% Change	12-month Cumulative
Current Account Balance	1,652	-28,313	-11,738	-58.5	-18,444
Foreign Trade Balance	-1,023	-29,350	-20,312	-30.8	-28,825
Services Balance	3,674	7,808	16,918	116.7	20,648
Travel (net)	2,983	6,037	13,282	120.0	16,425
Primary Income	-1,037	-6,793	-9,140	34.6	-11,160
Secondary Income	38	22	796	3,518.2	893
Capital Account	-2	-25	-62	148.0	-73
Financial Account	3,406	-36,164	1,716	-	-1,657
Direct Investment (net)	-1,086	-3,187	-5,600	75.7	-6,730
Portfolio Investment (net)	-1,219	16,795	-6,443	-	-13,673
Net Acquisition of Financial Assets	535	1,669	455	-72.7	1,688
Net Incurrence of Liabilities	1,754	-15,126	6,898	-	15,361
Equity Securities	62	-5,657	-1,316	-76.7	86
Debt Securities	1,692	-9,469	8,214	-	15,275
Other Investment (net)	122	-7,138	-19,041	166.8	-24,826
Currency and Deposits	-714	-13,079	-9,936	-24.0	-15,739
Net Acquisition of Financial Assets	-794	3,576	2,614	-26.9	-1,997
Net Incurrence of Liabilities	-80	16,655	12,550	-24.6	13,742
Central Bank	-8	12,496	4,761	-61.9	4,926
Banks	-72	4,159	7,789	87.3	8,816
Foreign Banks	-373	2,941	6,186	110.3	9,273
Foreign Exchange	392	-1,208	5,112	-	8,185
Turkish Lira	-765	4,149	1,074	-74.1	1,088
Non-residents	301	1,218	1,603	31.6	-457
Loans	415	6,159	-258	-	-2,523
Net Acquisition of Financial Assets	79	-771	2,109	-	499
Net Incurrence of Liabilities	-336	-6,930	2,367	-	3,022
Banking Sector	-745	-1,515	-2,457	62.2	-2,734
Non-bank Sectors	540	-4,944	4,995	-	5,869
Trade Credit and Advances	404	-220	-2,511	1,041.4	-224
Other Assets and Liabilities	17	2	2	0.0	-2
Reserve Assets (net)	5,589	-42,634	32,800	-	43,572
Net Errors and Omissions	1,756	-7,826	13,516	-	16,860

Source: CBRT, Datastream

Budget Balance

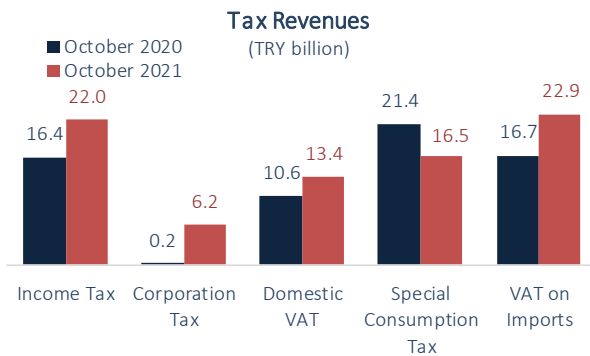
The central government budget posted a deficit of 17.4 billion TRY in October.

In October, the central government budget deficit increased by 256% yoy to 17.4 billion TRY. The rise in primary budget expenditures due to the pandemic was effective in the rapid expansion in the budget deficit. In October, budget revenues expanded by 22.9% yoy and budget expenditures increased by 34.6% yoy. The primary balance, which gave a surplus of 6.9 billion TRY in October last year, posted a deficit of 3.1 billion TRY in this period.

In the first 10 months of the year, budget revenues increased faster than budget expenditures due to the strong recovery in economic activity. While revenues expanded by 34.3% yoy, the annual increase in budget expenditures was recorded as 22.3%. Thus, the budget deficit, which was 145.5 billion TRY in the first 10 months of the last year, decreased by 46% yoy to 78.5 billion TRY in the same period of this year. The primary budget balance, which had a deficit of 25.9 billion TRY in the January-October period of last year, gave a surplus of 78 billion TRY.

In October, corporation tax revenues rose rapidly.

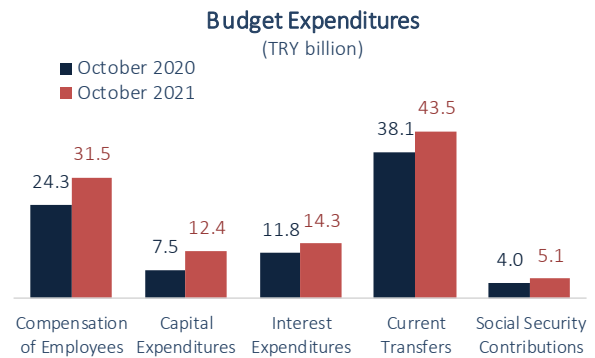
Tax revenues increased by 25.5% yoy to 96.1 billion TRY in October. Last year, due to the low base effect as a result of the postponement of tax collections and the strong recovery in the economic activity, corporate tax revenues increased by approximately 27 times compared to the same month of the last year and amounted to 6.2 billion TRY. VAT on imports increased by 37.4% yoy due to the developments regarding exchange rate and foreign trade developments, while income tax revenues increased by 34.8% yoy. In this period, SCT revenues decreased by 22.8% yoy basis due to the 80% decline in SCT on petroleum and natural gas products due to the "échelle mobile" system.



Purchases of goods and services nearly doubled in October.

In October, interest expenditures increased by 21.6% yoy, while non-interest expenditures increased by 36.3% yoy. In this period, expenditures on the purchase of goods and services rose rapidly due to the annual increase of 4.8 billion TRY in medical equipment and pharmaceutical expenditures within the scope of the pandemic. Current transfers, which had 37% of share in non-interest expenditures, expanded by 14.2% yoy and reached 44 billion TRY, due to the increase in other transfers to households and the shares from revenues. In the same period, the annual increase in personnel expenses was realized as 29.5%, while capital expenses expanded by 64.1% yoy due to the continuing high course in real estate capital and production expenses.

In the January-October period, current transfers increased by 17% yoy and made the highest contribution to the 22.3 point increase in budget expenditures with 7.2 points. In this period, rapid annual increases in capital transfers (60.9%) and lending (49.6%) expenditures were also noteworthy. In addition, interest expenditures increased by 30.9% yoy and reached 156.6 billion TRY.



Expectations...

Budget indicators continued to display a positive outlook in October compared to the year-end budget targets in the Medium Term Program. Considering the practices in the previous years, it is evaluated that the difference between the program target and the budget deficit in the first ten months of the year, which was approximately 150 billion TRY, can be used in the last two months of the year. In addition, the increase in spending due to the measures taken against the coronavirus and the decrease in SCT revenues due to the échelle mobile system are expected to put pressure on budget indicators in the coming period.

Central Government Budget

	October			January-October			(billion TRY)		
	2020	2021	% Change	2020	2021	% Change	2021 Budget Target	MTP Target	Real./MTP Target (%)
Expenditures	97.7	131.4	34.6	967.7	1,183.1	22.3	1,095.5	1,506.3	87.9
Interest Expenditures	11.8	14.3	21.6	119.6	156.6	30.9	138.9	175.9	87.2
Non-Interest Expenditures	85.9	117.1	36.3	848.1	1,026.5	21.0	956.5	1,326.7	88.0
Revenues	92.8	114.0	22.9	822.2	1,104.6	34.3	956.6	1,276.3	100.3
Tax Revenues	76.6	96.1	25.5	655.3	904.5	38.0	784.6	1,057.9	98.0
Other Revenues	16.2	17.9	10.8	166.8	200.0	19.9	172.0	218.4	112.1
Budget Balance	-4.9	-17.4	255.8	-145.5	-78.5	-46.0	-138.9	-230.0	32.0
Primary Balance	6.9	-3.1	-	-25.9	78.1	-	0.1	-50.5	-

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

Source: Datastream, Ministry of Treasury and Finance

Inflation

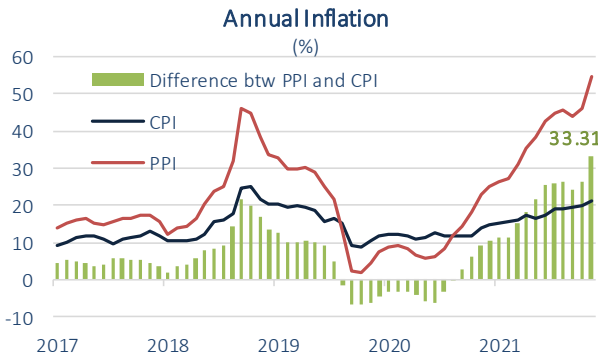
In November, the rise in inflation indicators gained momentum.

According to the data announced by TURKSTAT, consumer prices recorded its highest increase since September 2018 rising by 3.51% mom in November. In the same period, D-PPI also recorded the fastest increase in more than 3 years, increasing by 9.99% mom.

November (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	2.30	3.51	4.08	9.99
Year-to-Date	13.19	19.82	22.26	51.06
Annual	14.03	21.31	23.11	54.62
Annual Average	12.04	17.71	10.69	38.94

Annual CPI rose to 21.31% in November.

The annual CPI inflation, which continued its upward trend, rose to 21.31% in November and reached the highest level of the last 3 years. The annual D-PPI inflation increased from 46.31% in October to 54.62% in November, recording the highest level since April 2002.



Prices in all main spending groups increased.

In November, prices in all 12 main expenditure groups increased compared to the previous month, pointing out that the rise in consumer prices spread to the whole. Due to the increase in fuel prices in November, transportation group prices rose fastest by 6.31% mom and pushed the monthly CPI inflation up by 95 basis points. In this period, the food group, which has the highest share in expenditure groups, made the highest contribution to monthly CPI inflation with 105 bps. Housing group, where prices went up by 3.12% mom, also increased monthly CPI inflation by 49 basis points. Thus, the total effect of the 3 main expenditure groups on monthly CPI inflation was 2.5 points.

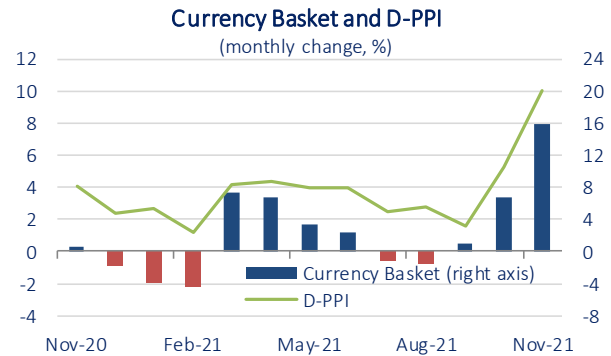
In terms of the contribution of the main expenditure groups to annual CPI inflation, the restaurant and hotels group, where prices rose the fastest by 28.9% yoy, added to CPI inflation by 173 basis points. The food group prices surged by 27.11% yoy and had the highest impact on annual consumer inflation with 690 basis points. The housing group, where prices rose by 23.78% yoy, increased the annual CPI inflation by 366 basis points.

Core inflation indicators...

In November, while the monthly increase in CPI excluding seasonal products was 3.90%, above the headline inflation, the annual rise reached its highest level since October 2018 with 22.57%. 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 3.22% mom and 2.81% mom, respectively. In this period, while the annual increase of the B index reached its highest level of the last 35 months with 19.75%, the annual rise of C index was realized as 17.62%. Increases in core inflation indicators point to a rise in the underlying trend of inflation.

The annual price increases in textiles and food products stood out in D-PPI.

Monthly price increases in D-PPI accelerated significantly in November due to the exchange rate developments and the rise in global commodity prices. In this period, the 20.67% monthly rise in crude petroleum and natural gas prices and the 16.72% monthly rise in coal and lignite sectors were noteworthy. In this period, the largest contributions to the monthly D-PPI inflation came from food products with 144 bps and textile products with 141 bps.



Coke and refined petroleum product prices recorded a rapid annual increase by 145.9% in November. Crude petroleum and natural gas prices also rose rapidly by 116.5%. In this period, the prices in food group, which surged by 54.62% yoy, made the highest contribution to the annual D-PPI inflation by 797 bps. The contribution of basic metals, which recorded an annual rise of 97%, was 790 bps.

Expectations...

The strong upward impact of exchange rate developments on particularly producer prices causes deterioration in inflation expectations. Also, the elevated levels of global commodity prices and that the recent tendency towards abandoning the rhetoric that inflation will transitory indicate that inflationary pressures would continue in the coming period.

	29-Oct	30-Nov	Change
5-Y CDS (basis points)	444	507	-63 bps ▼
TR 2-Y Benchmark Yield	18.37%	20.82%	245 bps ▲
BIST-100	1,522**	1,810	%18,9 ▲
USD/TRY	9.6030	13.4732	%40.3 ▲
EUR/TRY	11.1060	15.2809	%37.6 ▲
Currency Basket*	10.3545	14.3771	%38.8 ▲

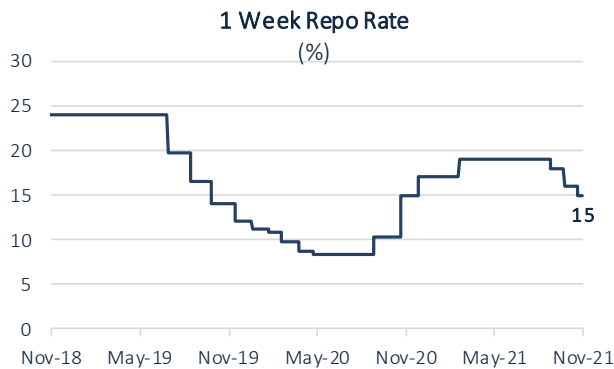
(*) (0.5 USD/TL + 0.5 EUR/TL)

(**) 29 October

CBRT cut the policy rate to 15%.

At its meeting held on November 18, CBRT lowered the policy rate by 100 bps to 15%. Thus, the CBRT reduced interest rates by 400 bps in total at its last three meetings. In the press release published after the meeting, CBRT stated that the transitory effects of supply-side factors and other factors beyond monetary policy's control on price increases will persist through the first half of 2022. CBRT also announced that it will consider completing the use of the limited space implied by these effects in December.

Following the meetings held in November, the CBRT announced that a memorandum of understanding was signed with the Central Bank of the United Arab Emirates and the Central Bank of Turkmenistan.



The CBRT made changes in reserve requirements.

The CBRT announced on November 9 that it increased the reserve requirement ratios for FX deposits/participation funds by 200 basis points for all maturity brackets. In addition to that, the upper limit of the facility for holding standard gold for Turkish lira reserve requirements has been cut from 15% to 10%. The CBRT has also announced that the said facility would be gradually decreased and terminated.

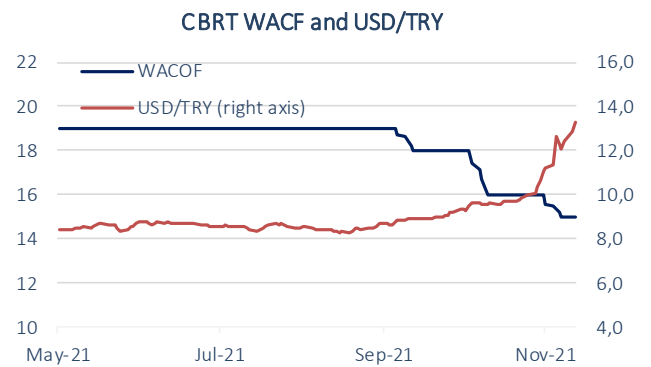
The CBRT released the Financial Stability Report.

In the Financial Stability Report published by the CBRT on November 26th, it was stated that the strong recovery trend in economic activity has continued since the last report in May, thanks to the acceleration of vaccination and the support of foreign demand. In this period, the

lively course of exports and the recovery in the tourism sector also supported the improvement in the current account balance. Also, attention was drawn to the improvement in the FX position of the real sector and the recovery in commercial loans after the interest rate cuts.

TRY depreciated rapidly in November.

In November, data released worldwide presented a mixed outlook on economic activity, while uncertainty caused by the new variant of the coronavirus, thought to be resistant to vaccines, limited global risk appetite. Furthermore, developments indicating that major central banks could tighten monetary policies sooner than anticipated due to inflation concerns also caused volatility in global markets.



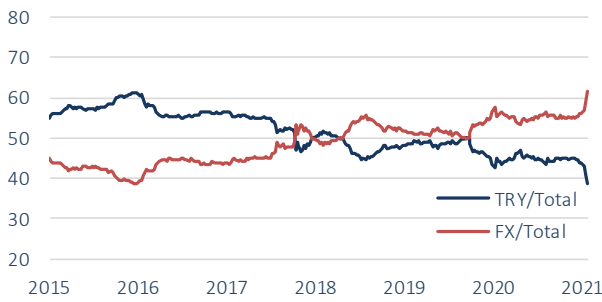
In addition to the CBRT's policy rate cut on November 18, the strengthening of expectations that it could cut interest rates further in December led the TRY to depreciate rapidly, while the intraday volatility in the value of TRY increased. The USD/TRY parity increased by more than 40% mom in November, while the rise in the parity reached 81.3% compared to the end of 2020. Turkey's 5-year CDS premium rose 63 bps in November and reached the highest level in 13 months with 507 basis points as of November 30th. On the other hand, BIST-100 index displayed its most positive monthly performance since April 2009 with an increase of 18.9% mom in November.

On December 1st, the Central Bank announced that it directly intervened in the market via selling transactions and started to conduct transactions at Borsa Istanbul Derivates Market due to unhealthy price formations in exchange rates. The CBRT also directly intervened in the market on December 3rd. The last time when the Central Bank had directly intervened in the market via selling transactions was January 23, 2014.

FX deposit volume decreased by 1.6% compared to the end of 2020.

According to the Weekly Bulletin data published by the BRSA, as of November 26, the total deposit volume expanded by 44.1% yoy and rose by 46.7% compared to the end of 2020, reaching 5,070 billion TRY. As of November 26, the annual increase in TRY deposit volume was 25.9%, while FX deposit volume in USD terms increased gradually by 1.0%. Annual rise in FX rate adjusted deposit volume was realized as 11.9%. As of November 26, TRY deposits grew by 26.3% compared to the end of 2020, while FX deposits in USD terms decreased by 1.6%. The share of FX deposits in the total deposit volume rose to 61.5% for the first time since the data was released in 2002.

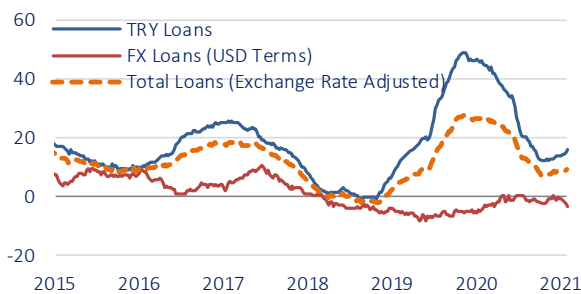
Composition of Deposits
(%)



TRY loan volume expanded by 16% yoy.

The annual increase in loan volume, which has lost momentum since the end of 2020, accelerated as of November. As of November 26, the total loan volume of the banking sector increased by 28.4% yoy and rose by 30.1% compared to year-end and reached 4,653 billion TRY. Adjusted for the foreign exchange rate effect, the increase in loan volume was 9.2% on an annual basis in this period. Annual TRY loan growth was 16%, while FX loans in USD terms decreased by 3.4% to 159 billion USD in the same period.

Loan Growth
(annual % change)



The annual increase in consumer loans was 12.2%.

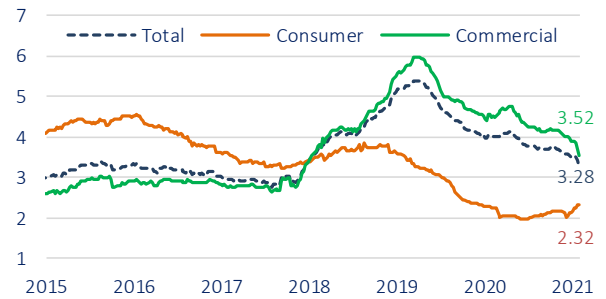
Due to the fall in interest rates, the annual increase in consumer loans gained some momentum in November compared to previous months. As of November 26, consumer loans rose by 12.2% yoy. In this period, annual increases in housing and consumer loans were realized

as 4.0% and 17.9%, respectively. On the other hand, the growth rate of vehicle loans continued to decline, falling to 23.2% yoy due to the contraction in the automotive market. As of November 26, the annual increase in the balance of individual credit cards stood at 38.3%.

NPL ratio decreased to 3.3%.

The NPL ratio, which was 4.1% at the end of 2020, continued its downward trend in November due to the expansion in the loan volume as well as the ongoing effects of the arrangements made by the BRSA during the pandemic period. As of November 26, NPL ratio stood at 3.3%, the lowest level since October 2018. While the relevant rate is 2.2% in public banks, it is 4.3% in private banks. According to loan types, the NPL ratio of the sector in this period is 3.5% in commercial loans and 2.3% in retail loans in this period.

Non-performing Loans
(%)



Foreign currency net general position...

As of November 26, banks' on-balance sheet FX position was (-) 40,114 million USD, while off-balance sheet FX position was (+) 44,848 million USD. Thus, the net FX position of the banking sector was realized as (+) 4,735 million USD.

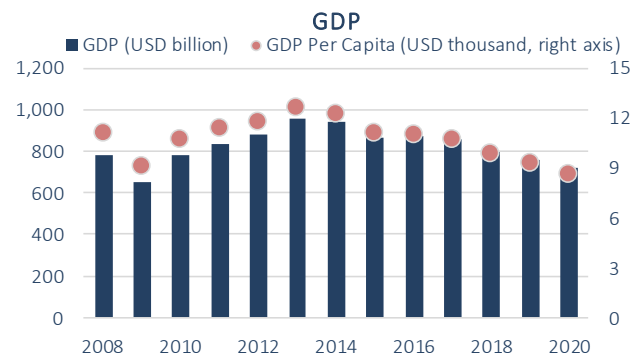
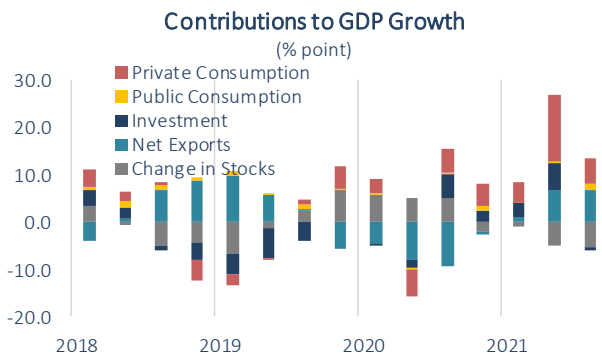
Concluding Remarks

The coronavirus pandemic continues to create uncertainty over global economic activity. In November, the emergence of the omicron variant, which is thought to be more contagious, causes travel restrictions and measures against the coronavirus to come to the fore in many countries. Preliminary data point out that economic activity continued its brisk pace in the US and the Euro Area in November, and recovery continued in China. On the other hand, rapid increases in prices led by rising energy and food prices cause inflation to remain at historically high levels in these countries. In this context, while the evaluations that inflation is "temporary" are starting to be abandoned; expectations that major central banks will tighten their monetary policies sooner than expected are increasing.

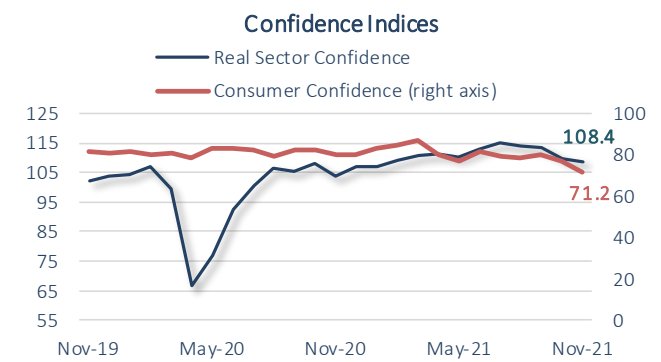
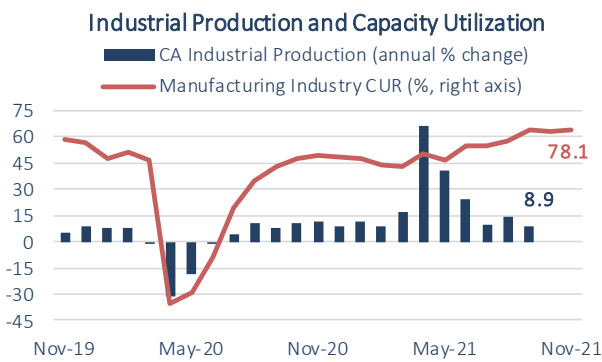
In the third quarter of the year, the Turkish economy grew by 7.4% yoy, in line with the expectations. Consumption expenditures and net export items continued to make high contributions to growth in this period. Preliminary indicators for the last quarter of the year signal that the brisk course of economic activity continued as well. While the manufacturing industry PMI for November showed that the growth in the sector continued, the export volume also maintained its historically high levels in this period. On the other hand, the high course of inflation and the widening gap between PPI and CPI increases causes inflation concerns to remain on the agenda. While the expectations that the CBRT might cut interest rates in December, albeit

limited, TRY depreciated rapidly against other currencies and intraday volatility increased in the markets.

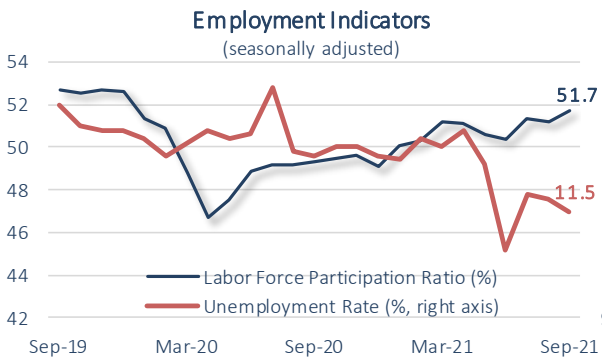
Growth



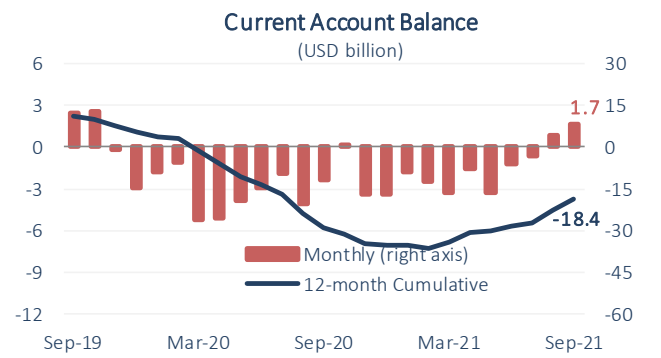
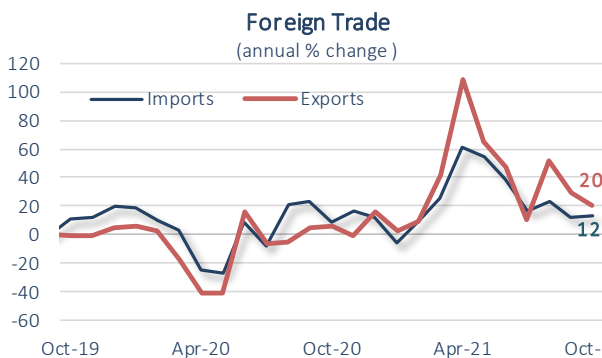
Leading Indicators



Labor Market



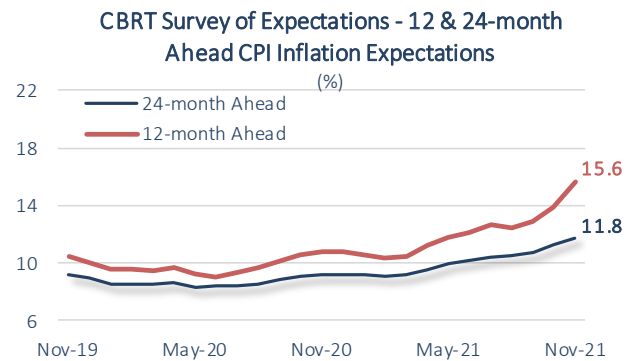
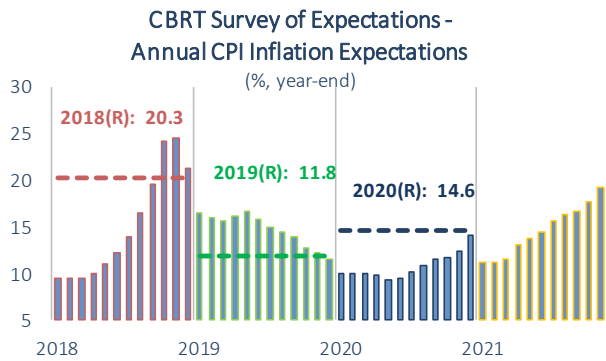
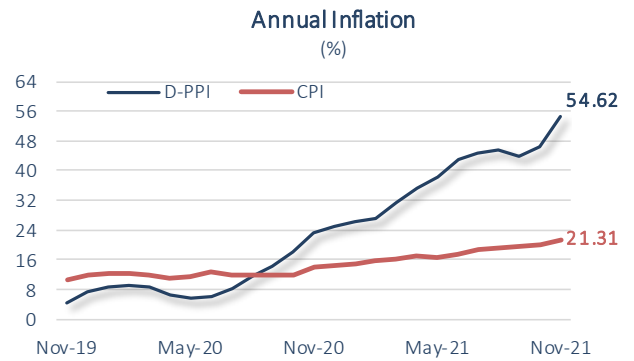
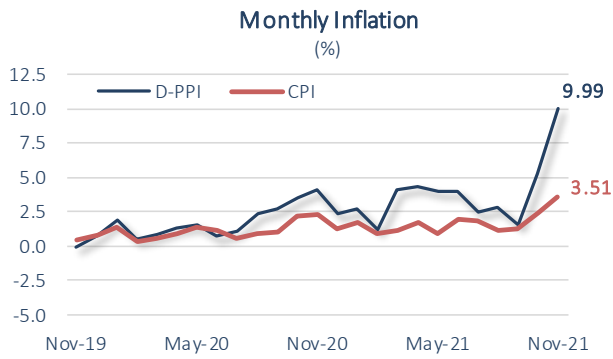
Foreign Trade and Current Account Balance



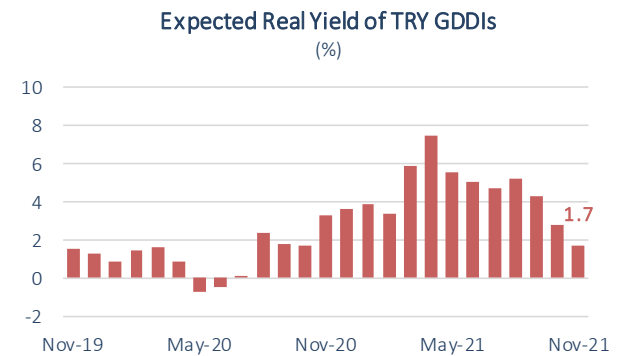
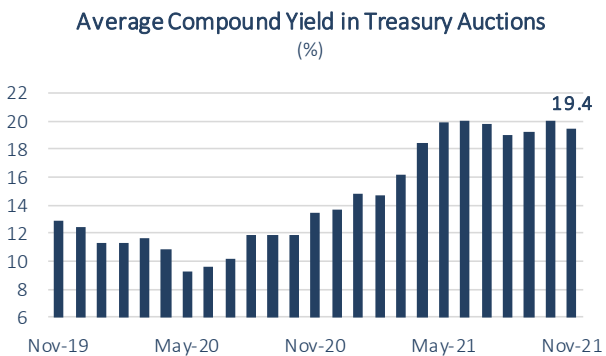
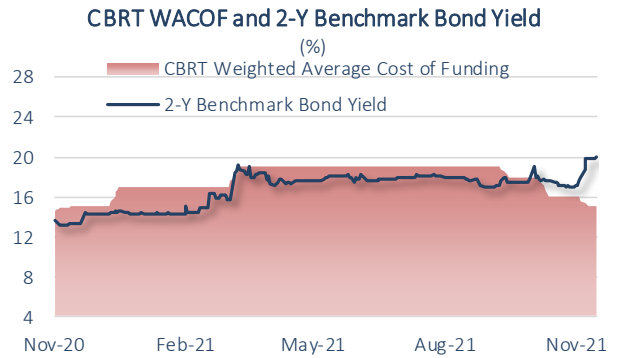
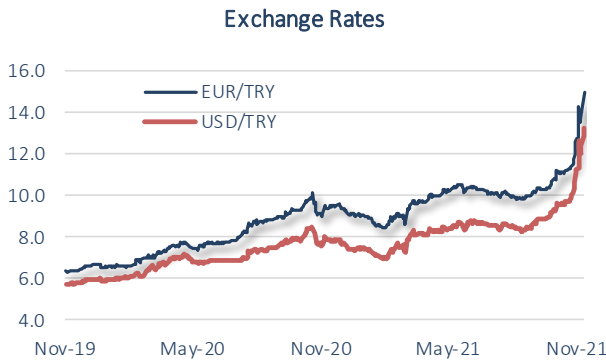
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020	Q1-21	Q2-21	Q3-21
GDP (USD billion)	869	859	797	761	717	189	189	225
GDP (TRY billion)	2,627	3,134	3,758	4,318	5,047	1,393	1,586	1,915
GDP Growth Rate (%)	3.3	7.5	3.0	0.9	1.8	7.4	22.0	7.4
Inflation (%)						Sep-21	Oct-21	Nov-21
CPI (annual)	8.53	11.92	20.30	11.84	14.60	19.58	19.89	21.31
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	43.96	46.31	54.62
Seasonally Adjusted Labor Market Figures						Jul-21	Aug-21	Sep-21
Unemployment Rate (%)	12.1	9.9	12.7	13.4	12.8	11.90	11.80	11.50
Labor Force Participation Rate (%)	52.4	52.8	53.1	52.6	49.1	51.30	51.20	51.70
FX Rates						Sep-21	Oct-21	Nov-21
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.2	62.9	60.4	
USD/TRY	3.52	3.79	5.32	5.95	7.43	8.9	9.62	13.28
EUR/TRY	3.71	4.55	6.08	6.68	9.09	10.3	11.13	14.95
Currency Basket (0.5*EUR+0.5*USD)	3.61	4.17	5.70	6.32	8.26	9.6	10.37	14.11
Foreign Trade Balance⁽¹⁾ (USD billion)						Aug-21	Sep-21	Oct-21
Exports	149.2	164.5	177.2	180.8	169.6	207.4	212.2	215.6
Imports	202.2	238.7	231.2	210.3	219.5	254.1	256.5	259.1
Foreign Trade Balance	-52.9	-74.2	-54.0	-29.5	-49.9	-46.7	-44.4	-43.5
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3	81.6	82.7	83.2
Balance of Payments⁽¹⁾ (USD billion)						Jul-21	Aug-21	Sep-21
Current Account Balance	-27.0	-40.8	-21.7	5.3	-35.0	-27.3	-22.4	-18.4
Capital and Financial Accounts	-17.5	-41.7	11.6	-1.1	-7.7	-16.2	-6.7	-1.7
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.3	-5.4	-6.0	-6.7
Portfolio Investments (net)	-8.4	-24.4	0.9	2.8	9.6	-9.2	-12.6	-13.7
Other Investments (net)	1.6	-8.9	19.9	2.4	-12.9	-15.1	-22.4	-24.8
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	13.5	34.4	43.6
Net Errors and Omissions	10.3	-9.1	22.9	-0.1	-4.5	11.2	15.8	16.9
Current Account Balance/GDP (%)	-3.1	-4.8	-2.7	0.7	-4.9	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Aug-21	Sep-21	Oct-21
Expenditures	584.1	678.3	830.8	1,000.0	1,203.7	910.1	1051.7	1183.1
Interest Expenditures	50.2	56.7	74.0	99.9	37.1	128.2	142.3	156.6
Non-interest Expenditures	533.8	621.6	756.8	900.1	1,166.6	782.0	909.4	1026.5
Revenues	554.1	630.5	758.0	875.3	1,028.4	872.6	990.6	1104.6
Tax Revenues	459.0	536.6	621.5	673.9	833.3	712.8	808.4	904.5
Budget Balance	-29.9	-47.8	-72.9	-124.7	-175.3	-37.5	-61.1	-78.5
Primary Balance	20.3	8.9	1.1	-24.8	-41.3	90.7	81.2	78.1
Budget Balance/GDP (%)	-1.1	-1.5	-1.9	-2.9	-3.5	-	-	-
Central Government Debt Stock (TRY billion)						Aug-21	Sep-21	Oct-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1,060.4	1,169.1	1,186.7	1,205.0
External Debt Stock	291.3	341.0	481.0	574.0	752.5	925.9	994.3	1063.8
Total Debt Stock	760.0	876.5	1,067.1	1,329.1	1,812.8	2,095.0	2,181.1	2,268.7

(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	Sep.21	Oct.21	Change ⁽¹⁾
TOTAL ASSETS	2,731	3,258	3,867	4,492	6,106	7,047	7,374	20.8
Loans	1,734	2,098	2,395	2,657	3,576	4,038	4,182	16.9
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,593	2,631	11.8
Share (%)	65.2	67.4	60.1	61.8	65.8	64.2	62.9	-
FX Loans	603	684	956	1,015	1,224	1,445	1,551	26.7
Share (%)	34.8	32.6	39.9	38.2	34.2	35.8	37.1	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	148.8	152.4	-0.1
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	3.6	3.5	-
Securities	352	402	478	661	1,023	1,191	1,243	21.5
TOTAL LIABILITIES	2,731	3,258	3,867	4,492	6,106	7,047	7,374	20.8
Deposits	1,454	1,711	2,036	2,567	3,455	4,107	4,341	25.6
TRY Deposits	845	955	1,042	1,259	1,546	1,849	1,909	23.5
Share (%)	58.1	55.8	51.2	49.0	44.7	45.0	44.0	-
FX Deposits	609	756	994	1,308	1,909	2,258	2,432	27.4
Share (%)	41.9	44.2	48.8	51.0	55.3	55.0	56.0	-
Securities Issued	116	145	174	194	224	243	247	10.0
Payables to Banks	418	475	563	533	658	735	780	18.5
Funds from Repo Transactions	138	99	97	154	255	413	453	77.7
SHAREHOLDERS' EQUITY	300	359	421	492	600	655	665	10.9
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	56.9	66.1	-
RATIOS (%)								
Loans/GDP	66.5	67.6	64.7	61.5	70.8			
Loans/Assets	63.5	64.4	61.9	59.1	58.6	57.3	56.7	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.9	16.9	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	58.3	58.9	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	98.3	96.3	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	17.3	17.3	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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