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Global Economy

In the January update of the World Economic Outlook report, the IMF stated that the global economy started 2022 with a weak outlook and decreased its growth forecast for 2022 by 0.5 point to 4.4%. The Organization forecasts that the Turkish economy completed 2021 with a growth rate of 11% and will grow 3.3% in 2022.

According to the preliminary data, the US economy expanded by 5.7% in 2021, recording the highest growth rate of the last 37 years. Annual CPI inflation in the US rose to 7%, the highest level of the last 40 years.

In the first meeting of 2022, the Fed did not change the policy rate in line with market expectations. The Fed is expected to raise policy rates in March.

The Euro Area economy, which lost momentum in the last quarter of 2021, grew by 5.2% in 2021. While the preliminary indicators point out that the measures against the Omicron variant put pressure on the services sector, the positive trend in the manufacturing sector continues.

In its February meeting, the ECB did not change the policy rate in line with market expectations while the BoE increased the policy rate by 25 basis points to 0.5%.

In the first month of the year, oil prices rose rapidly due to the increasing geopolitical tension between Russia and Ukraine, and reached its highest level of the last 7 years.

Turkish Economy

Employment rose in all main sectors in November 2021. Due to the increase in the labor force participation rate in this period, seasonally adjusted unemployment rate remained flat at 11.2%, while the labor underutilization rate decreased to 22.1%.

Industrial production continued to expand in November, mostly driven by the increases in consumption and intermediate goods production. In this period, the calendar adjusted industrial production index increased by 11.4% yoy.

In January, manufacturing PMI came in at 50.5, the lowest level of the last eight months. High level of input costs and output prices put pressure on production through new orders' channel.

In 2021 foreign trade deficit contracted by 7.5% and became 46.1 billion USD. According to leading foreign trade data, the export volume increased by 17.3% yoy, while the import volume expanded by 55.2% yoy in the first month of 2022.

In December, central government budget expenditures more than doubled due to the bulk transfers to public enterprises. In 2021, the central government budget deficit expanded by 9.7% yoy and became 192.2 billion TRY.

Annual CPI inflation reached the highest level of the last 20 years with 48.69% in January. D-PPI rose by 93.53% on an annual basis. Price increases were widespread across the sectors.

The CBRT did not make any amendment in its monetary policy at its January meeting. The Bank announced its inflation forecast for the end of 2022 as 23.2% in the first Inflation Report of the year.

The scope of the "FX-linked TRY deposit instrument", which was firstly introduced in December, was expanded in January to include corporations, and citizens living abroad.

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Employment increased in all main sectors in November.

According to the data announced by TURKSTAT, employment increased by 96K in the services sector, 73K in the manufacturing, 49K in the agriculture and 10K in the construction sector, by a total of 228K persons on a monthly basis in November 2021. In this period, seasonally adjusted labor force participation rate increased by 0.4 points to 52.5%, while the employment rate rose by 0.3 points, reaching its highest level since November 2019 with 46.6%. Despite the increase in employment in all sectors, the seasonally adjusted unemployment rate remained unchanged at 11.2% in November compared to the previous month, as the labor force participation rate also increased. In November, the labor underutilization rate consisting of time-related underemployment, potential labor force, and unemployment decreased by 0.7 points on a monthly basis to 22.1%.

Industrial production continued to expand in November.

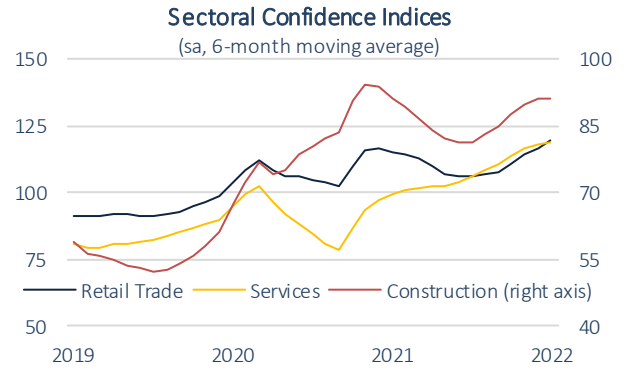
The positive outlook prevailing in industrial production throughout 2021 continued in November with the support of the strong course in consumption and intermediate goods production. In this period, the calendar adjusted industrial production index increased by 11.4% on an annual basis, while the manufacturing sector, where production expanded by 12.5% yoy, made the biggest contribution (with 11 points) to this increase. According to the seasonally and calendar adjusted data, industrial production gained momentum with 3.3% monthly increase in November backed by monthly recovery in capital goods production, which declined in September and October. In the first 11 months of 2021, industrial production increased by 16.8% compared to the same period of 2020.

Manufacturing industry started 2022 by losing momentum.

In January, manufacturing PMI decreased by 1.6 points compared to the previous month and was realized as 50.5, pointing to a limited expansion of production in the manufacturing industry and to the lowest level of last 8 months. Analyzing sub-figures of the data reveals that the input costs still remained high despite a slight decrease compared to December, causing new orders and production to slow down. Thus, total new orders slowed down for the fourth consecutive month, while new export orders moderated after a seven-month growth period. On the other hand, despite the current slowdown, the increase in employment in the manufacturing industry in the first month of the year was recorded as a positive development.

Confidence indices started 2022 with an increase.

Confidence indices, which had a weak performance in the last quarter of last year, started 2022 with an improvement. In January, consumer confidence index increased by 6.2% compared to the previous month and was realized as 73.2, which is the highest level of the last 3 months. On the supply side of economy, confidence increased in the services and retail trade sectors, while it continued to decrease in the construction sector. Sectors' wide deterioration regarding the expectations for the next three-month period stood out. In January, the seasonally adjusted real sector confidence index went up by 1.8 points on a



monthly basis to 111.9. Thus, the economic confidence index, which declined continuously in the last quarter of 2020, changed this trend in the first month of 2022 and became 100.8 with a rise of 1.6 points.

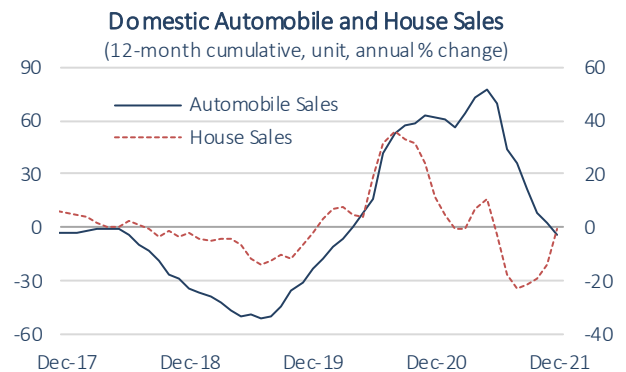
Housing sales declined slightly in 2021.

House sales in Turkey increased rapidly by 113.7% on an annual basis in December 2021. Rising house demand as an investment purpose due to the high level of inflation, and the expected increases in taxes and fees on housing sale transactions with the start of 2022 were behind this development. Approximately 1.5 million houses, which is 0.5% lower compared to the previous year, were sold in the whole year of 2021. Due to the high interest rates compared to 2020, the mortgaged sales diminished by 48.6% yoy and the share of mortgaged sales decreased by 18 points to 20% in 2021. Even though the house sales to foreigners increased annually by 43.5% and reached a historically high level with 58K units in 2021, the share of the said sales in the total sales continued to be at low levels with 4%.

According to the data revealed by the Turkish White Goods Manufacturers Association, white goods sales in domestic markets expanded by 9% in 2021, while the rise in export volume was 18% as of units. In 2021, white goods production increased by 17% on a unit basis.

Automotive production contracted by 1.7% in 2021.

In 2021, automotive sales in Turkey decreased by 4.6% due to supply chain disruptions, the impacts of exchange rate developments on prices and the increase in financing costs, while automotive exports increased by 2.2%. In this period, the share of imported vehicles in domestic sales was 55.1%, and the share of exported vehicles in domestic production was 73.4%. Domestic automotive production declined by 1.7% in 2021.



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

Foreign Trade and Balance of Payments

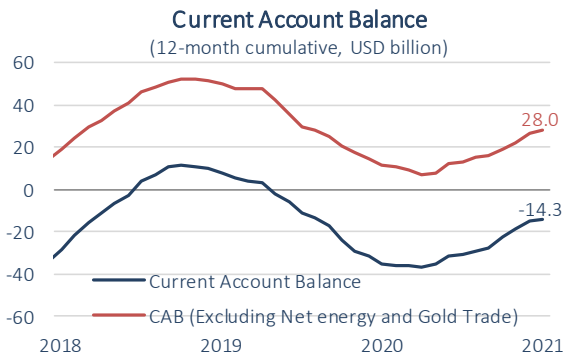
In 2021, the export volume expanded by 32.8%.

According to TURKSTAT data, in the last month of 2021, export volume increased by 24.9% yoy to 22.3 billion USD, while imports rose by 29.9% yoy to 29.1 billion USD. In 2021, the export volume expanded by 32.8% to 225.3 billion USD, while the import volume increased by 23.6% to 271.4 billion USD. Thus, the foreign trade deficit narrowed by 7.5% compared to the previous year and became 46.1 billion USD in 2021. In addition, the import coverage ratio which was 77.3% in 2020, rose to 83.0% in 2021.

Current account deficit was 2.7 billion USD in November.

Current account, which gave a deficit of 3.5 billion USD in November 2020, posted a deficit of 2.7 billion USD in the same month of 2021. The rise in net service revenues by 70.8% yoy, thanks to the increase in transportation and tourism revenues, played a key role in this development. It is noteworthy that in November 2021, net travel revenues reached 1.5 billion USD, the level of November 2019 before the pandemic. The annual decline of 96.2% in gold imports in November also supported the improvement in the current account balance. On the other hand, the current account balance, which posted a surplus in the August-October 2021 period, turned to a deficit again in November.

According to the 12-month cumulative data, the current account deficit continued its downward trend in November and fell to 14.3 billion USD, the lowest level since June 2020. Excluding net gold and energy trade, the 12-month current account balance gave a surplus of 28 billion USD at the end of November.

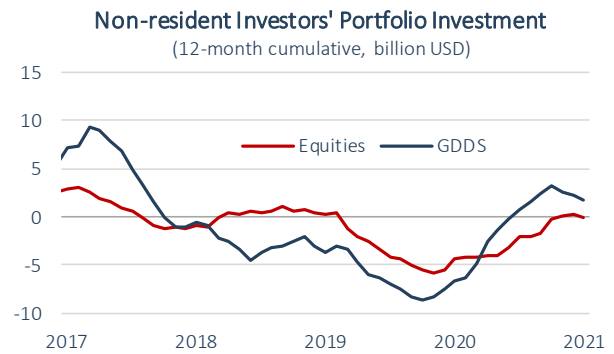


A net inflow of 359 million USD was recorded in direct investments.

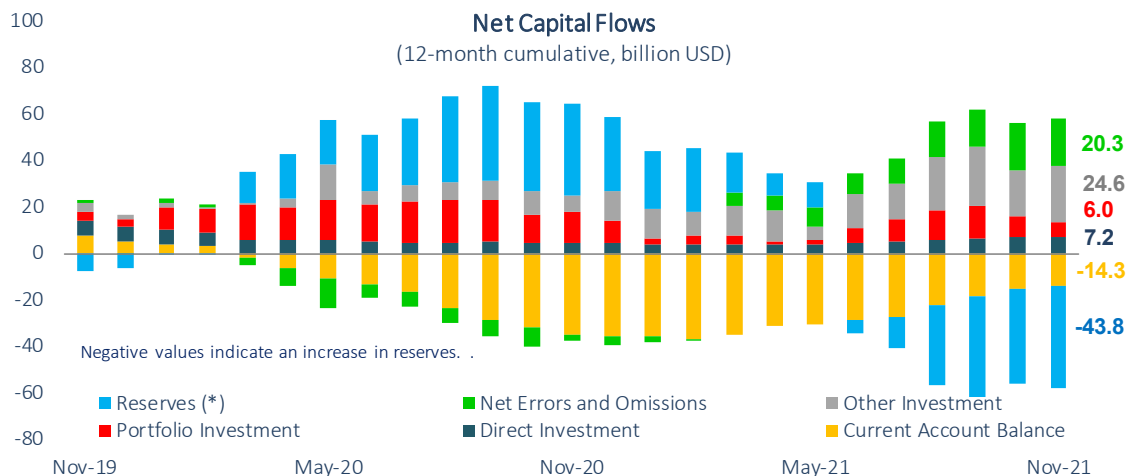
Adding only a limited contribution to the financing of current account deficit (359 million USD) in November, net foreign direct investments have presented a stronger performance in January-November 2021. Net foreign direct investments, which were 3.5 billion USD in January-November 2020, reached 6.3 billion USD in the same period of 2021. During this period, 5.2 billion USD of foreign residents' direct investments were in the form of real estate investments..

Portfolio investment recorded a net outflow in November.

Following an outflow of 2.2 billion USD in October, net portfolio investments recorded an outflow of 1.4 billion USD in November. The said outflow was mainly due to the redemption of the government bonds issued abroad. On the other hand, in November 2021, non-residents made a net purchase of 938 million USD in the stock market. In the January-November 2021 period, net portfolio inflows remained at 2.8 billion USD.



In November, other investments item recorded a net inflow of 2.2 billion USD. In this period, Turkish banks' currency and deposits within their foreign correspondent bank accounts decreased by 1.2 million USD, while non-resident banks' deposit accounts held within domestic banks increased by 885 million USD. Regarding the loans provided from abroad, banks and general government made net repayments, while other sectors made net borrowing of 273 million USD in November. According to the 12-month cumulative data, the long-term debt rollover ratio was 91% in the banking sector and 127% in the non-banking sectors.

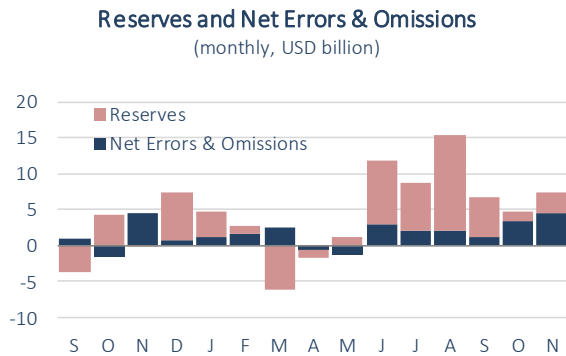


Source: CBRT, Datastream

Foreign Trade and Balance of Payments

Reserve assets increased by 2.8 billion USD.

While reserve assets increased by 2.8 billion USD in November, the rise in reserves reached 37.1 billion USD in the first 11 months of 2021. In November, a capital inflow of 4.5 billion USD in the net errors and omissions item drew attention. Thus, in the January-November period, the said item contributed 19.7 billion USD to the financing of the current account deficit.



Expectations...

With the spread of Omicron variant, the effects of the pandemic on economic activity and social life in domestic and export markets will continue to be important in terms of current account balance in the coming period. The statements of major central banks regarding the possibility of normalizing their monetary policies earlier than expected, point to increasing risks on the financing side of the balance of payments in the upcoming period. Backing by available data, we estimate that CAD/GDP ratio will be around 2% in 2021. According to the preliminary foreign trade figures released by the Ministry of Commerce, the rapid expansion of export volume since August lost some momentum in January, while the increase in import volume accelerated mostly driven by the rise in energy prices. In this period, the export volume expanded by 17.3% yoy and became 17.6 billion USD, while the import volume increased by 55.2% yoy and reached 28 billion USD. Thus, in the first month of the year, the foreign trade deficit more than tripled on an annual basis and reached 10.4 billion USD. Preliminary foreign trade figures also negatively affected the expectations regarding the current account balance in January.

Balance of Payments

	Nov. 2021	Jan. - Nov. 2020	2021	% Change	12-month Cumulative
Current Account Balance	-2,681	-32,096	-10,816	-66.3	-14,256
Foreign Trade Balance	-3,475	-34,499	-23,976	-30.5	-27,340
Services Balance	1,916	10,950	23,439	114.1	24,027
Travel (net)	1,549	8,563	17,856	108.5	18,473
Primary Income	-986	-8,762	-11,109	26.8	-11,738
Secondary Income	-136	215	830	286.0	795
Capital Account	-2	-29	-65	124.1	-72
Financial Account	1,779	-36,734	8,813	-	6,016
Direct Investment (net)	-359	-3,475	-6,282	80.8	-7,168
Portfolio Investment (net)	1,446	12,827	-2,771	-	-6,042
Net Acquisition of Financial Assets	465	2,568	1,436	-44.1	1,762
Net Incurrence of Liabilities	-981	-10,259	4,207	-	7,804
Equity Securities	938	-4,524	-433	-90.4	-164
Debt Securities	-1,919	-5,735	4,640	-	7,968
Other Investment (net)	-2,139	-7,490	-19,245	156.9	-24,619
Currency and Deposits	-2,150	-15,979	-12,423	-22.3	-15,321
Net Acquisition of Financial Assets	-884	1,949	1,550	-20.5	-1,430
Net Incurrence of Liabilities	1,266	17,928	13,973	-22.1	13,891
Central Bank	-4	12,663	4,751	-62.5	4,749
Banks	1,270	5,265	9,222	75.2	9,142
Foreign Banks	885	5,603	8,470	51.2	8,895
Foreign Exchange	635	1,252	6,455	415.6	7,068
Turkish Lira	250	4,351	2,015	-53.7	1,827
Non-residents	385	-338	752	-	247
Loans	-317	6,732	607	-91.0	-2,177
Net Acquisition of Financial Assets	-474	-2,448	1,658	-	1,725
Net Incurrence of Liabilities	-157	-9,180	1,051	-	3,902
Banking Sector	-301	-3,983	-3,550	-10.9	-1,359
Non-bank Sectors	273	-4,650	4,972	-	5,498
Trade Credit and Advances	333	1,758	-1,085	-	-776
Other Assets and Liabilities	-5	-1	-6	500.0	-7
Reserve Assets (net)	2,831	-38,596	37,111	-	43,845
Net Errors and Omissions	4,462	-4,609	19,694	-	20,344

Source: CBRT, Datastream

Budget Balance

The central government budget deficit rose rapidly to 145.7 billion TRY in December.

In December 2021, the central government budget deficit expanded by 237.1% yoy and reached 145.7 billion TRY. In this period, budget revenues increased by 40% yoy to 135.1 billion TRY, while budget expenditures went up by 100.9% to 280.8 billion TRY, the highest level since 2000. The primary deficit, which was 38.3 billion TRY in December 2020, increased nearly 2.5 times to 136.8 billion TRY.

In 2021, the budget deficit amounted to 192.2 billion TRY.

Although the central government budget deficit increased from 175.3 billion TRY in 2020 to 192.2 billion TRY in 2021, it remained below the forecast of 230 billion TRY announced in the Medium Term Programme in September 2021. In this period, budget revenues rose by 36.8% yoy and budget expenditures by 32.9% yoy. The primary deficit, which was 41.3 billion TRY in 2020, narrowed by 72.4% yoy in 2021 and became 11.4 billion TRY.

Tax revenues increased by 41.6% yoy in December.

Tax revenues increased by 41.6% yoy in December 2021. In this period, the increase in value added tax on imports (102.7%) stood out with the impact of the depreciation in Turkish Lira, while the decreases in special consumption tax (SCT) (-8.6%) and domestic value-added tax (-28.1%) were noted. Due to the sliding scale (echelle mobile) system in place since May 2018, the SCT taken from petroleum and natural gas products decreased by 5.3 billion TRY (95.5%) yoy, putting pressure on tax revenues in December, while the SCT from durable consumer goods went up by 107.7%. In addition, thanks to the positive course in foreign trade, taxes on international trade and transactions rose by 101.2% yoy in December and made the highest contribution to the increase in central government budget revenues by 22.1 points.

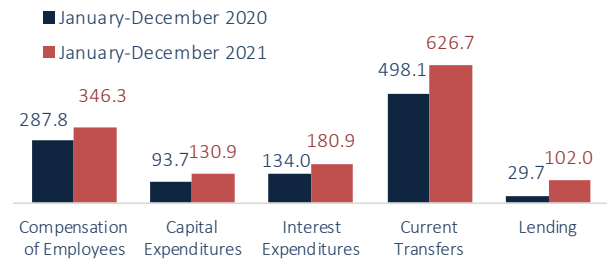
In 2021, tax revenues increased by 39.8% compared to 2020. Special consumption tax decreased by 0.9% yoy, while corporate tax and taxes on international trade and transactions increased by 69.4% and 60.4% yoy, respectively, supporting the budget outlook.

Current transfers nearly doubled in 2021.

In December 2021, the central government expenditures doubled compared to the same month of 2020 due to high transfers from the budget to public enterprises (PE). Domestic debt transfers and assignment transfers to PEs in December 2021 increased budget expenditures significantly. In this context, 59 billion TRY (40 billion TRY lending, 19 billion TRY assignment expenses) to BOTAŞ came to the fore. In December, current transfers increased by 92.8% yoy, while rapid rises were recorded in health, retirement and social aid expenditures (46.3%) and other treasury aids (180%).

Following a broad-based and relatively modest expansion in January-November period, the share of the lending item in budget expenditures increased to 6.4% in the whole 2021 (2.5% in 2020), because of the transfers made to PEs in December. In 2021, interest expenditures increased by 35% yoy and reached 180.9 billion TRY. In this period, capital transfers and capital expenditures rose by 68% yoy and by 39.7% yoy, respectively.

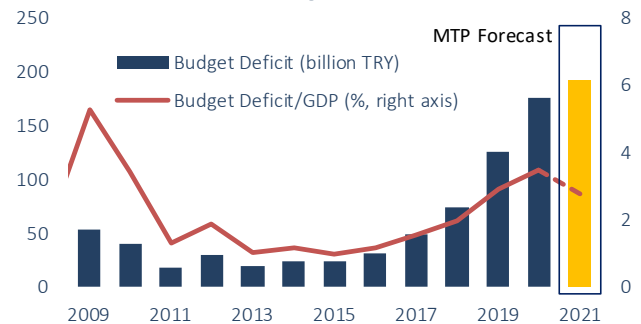
Budget Expenditures (TRY billion)



Expectations...

The weak performance of SCT revenues due to the “echelle mobile” system limited the budget revenues in 2021, while the high level of expenditures on infrastructure investments from the central government budget led to a deterioration in the budget outlook. The depreciation of TRY and the negative effects of inflation on budget expenditures became evident. On the other hand, the budget balance, which displayed a positive outlook in the first 11 months of 2021, closed the year with a deficit below the Medium Term Program expectations despite the rapid increase in expenditures in December. Considering the budget realizations and growth projections, the ratio of budget deficit to GDP is estimated to be around 3% in 2021. In addition to the expected weakening in domestic demand due to inflationary pressures, the effects of FX-linked financial products that aim to encourage TRY savings on budget expenditures will shape the central government budget balance in 2022.

Budget Deficit



Central Government Budget

	December		%	January-December		%	2021 Budget Target	MTP Forecast	
	2020	2021		Change	2020			2021	Change
Expenditures	139.8	280.8	100.9	1,203.7	1,599.6	32.9	1,346.1	1,506.3	106.2
Interest Expenditures	4.9	9.0	83.2	134.0	180.9	35.0	179.5	179.5	100.8
Non-Interest Expenditures	134.9	271.9	101.6	1,069.8	1,418.8	32.6	1,166.6	1,326.7	106.9
Revenues	96.5	135.1	40.0	1,028.4	1,407.4	36.8	1,101.1	1,276.3	110.3
Tax Revenues	78.7	111.4	41.6	833.3	1,164.8	39.8	922.7	1,057.9	110.1
Other Revenues	17.9	23.7	32.6	195.2	242.6	24.3	178.4	218.4	111.1
Budget Balance	-43.2	-145.7	237.1	-175.3	-192.2	9.7	-245.0	-230.0	83.6
Primary Balance	-38.3	-136.8	256.7	-41.3	-11.4	-72.4	-65.5	-50.5	-

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

Source: Datastream, Ministry of Treasury and Finance

Inflation

Annual CPI inflation rose to 48.7%.

According to the data announced by TURKSTAT, inflation indicators continued to rise in the first month of 2022. Accordingly, monthly CPI inflation came in at 11.10%, while D-PPI inflation was 10.45% in January.

Thus, in the first month of 2022, annual CPI inflation reached the peak of almost last 20 years with 48.69%, while the annual D-PPI inflation, which completed 2021 at the level of 79.89%, was realized as 93.53% in January.

January (change %)	CPI		D-PPI	
	2021	2022	2021	2022
Monthly	1.68	11.10	2.66	10.45
Annual	14.97	48.69	26.16	93.53
Annual Average	12.53	22.58	13.64	49.93

Food, housing and transportation groups came to the fore in the monthly CPI increase.

In January, prices in all main expenditure groups, except clothing and footwear, increased on a monthly basis. The alcoholic beverages and tobacco group ranked first among the spending groups with a monthly price increase of 21.9%. In the housing group, which contains electricity and natural gas prices, monthly inflation was realized as 18.9%. According to the figures revealed by TURKSTAT, electricity prices surged by 69.97% in January. Among the main spending groups, monthly double-digit increases in transportation, food and health came to the fore. The price increases in these three groups pushed monthly inflation up by 7.30 points in January.

Considering the annual price changes, the transportation group posted the highest price increase with 68.89%, followed by the food and non-alcoholic beverages group with 55.61%. These two groups accounted for more than half of the increase in consumer prices, with total contribution of 24.75 points to annual CPI inflation.

TURKSTAT, which updated the weights of the main expenditure groups in the inflation basket in January, increased the shares of transportation and

Weights of expenditure groups (%)	Δ		
	2022	2021	(% point)
Food and non-alcoholic beverages	25.32	25.94	-0.63
Transport	16.80	15.49	1.30
Housing, water, electricity, gas	14.12	15.36	-1.24
Furnishings and household equipment	8.86	8.64	0.21
Hotels, cafes and restaurants	7.11	5.91	1.20
Clothing and footwear	6.42	5.87	0.55
Miscellaneous goods and services	4.96	4.73	0.24
Alcoholic beverages and tobacco	4.31	4.88	-0.57
Communications	3.78	4.64	-0.86
Health	3.24	3.25	-0.01
Recreation and culture	3.06	3.01	0.05
Education	2.03	2.28	-0.24
Total	100	100	-

restaurants&hotels in the basket by more than 1 point for each. On the other hand, the decreases in the shares of housing, communication and food in the basket were remarkable.

Core inflation indicators...

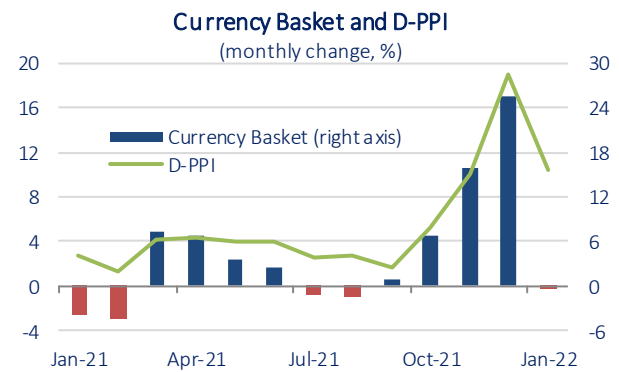
In January, the monthly rise in CPI excluding seasonal products was 11.46%, while the annual increase in said group exceeded 50%. Monthly increases in core inflation indicators B (CPI excluding unprocessed food products, energy, alcoholic beverages and tobacco and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) were realized as 7.49% and 6.94%, respectively. Thus, annual rises in the B and C indices came in to 42.66% and 39.45%, respectively, reaching new peak levels for the 2003-based series.

Prices rose in all sub-sectors in D-PPI.

In January, prices escalated in all 29 sub-sectors, 16 of which posted double-digit increases. With the impact of the rise in commodity and energy costs on global scale, monthly price escalations in the coal, crude oil, mining and mineral products sectors exceeded 20%. While the food group, where prices rose by 10.67%, pushed monthly D-PPI by 2.13 points up, monthly contributions in other sectors were close to each other.

On an annual basis, the price increases in sectors that use high commodity inputs such as coke and refined petroleum products, basic metal, paper and textile were at 3-digit levels as of January.

TURKSTAT also updated the weights of the sectors in the D-PPI. In the said update, the increase in the share of motor vehicles and the decrease in the share of coke and refined petroleum products came to the fore.



Expectations...

Increases in administered prices as well as the rises in wages and service prices led the inflation to remain in double digits in January. Rising trend in global commodity and energy prices also played a role in domestic price developments in this period. We expect the recent rise in oil prices and the natural gas and electricity cuts encountered in manufacturing sector in the last few weeks to continue to put upward pressure on inflation in the first months of the year.

Source: Datastream, Turkstat

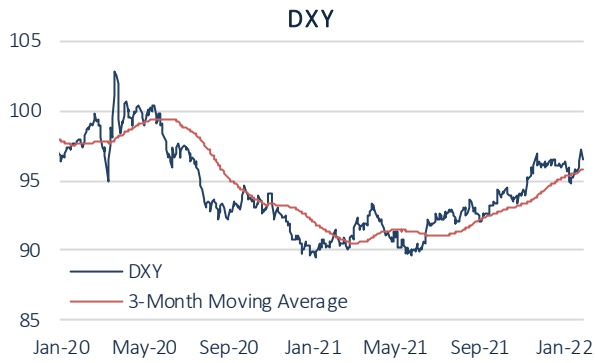
Financial Markets

	31-Dec	31-Jan	Change
5-Y CDS (basis points)	558	530	-28 bps ▼
TR 2-Y Benchmark Yield	22.74%	21.84%	-90 bps ▼
BIST-100	1,858	2,003	7.8% ▲
USD/TRY	13.3161	13.3074	-0.1% ▼
EUR/TRY	15.1402	14.9340	-1.4% ▼
Currency Basket*	14.2282	14.1207	-0.8% ▼

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

Global markets followed a volatile course in January.

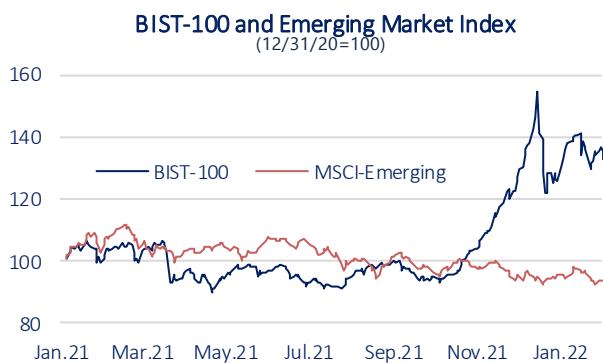
In January, the course of the pandemic and the expectations regarding the monetary policy steps to be taken by the major central banks came to the fore on the agenda of global markets. The strengthening of the views that the Fed may raise the policy rate more than anticipated caused the US Treasury bond yields to increase, while the DXY index reached its highest level since July 2020 with 97.27.



On the other hand, the increase in geopolitical tension between Russia and NATO about Ukraine led deterioration in risk perception. The VIX index, for which the threshold level stands at 20, hit the highest level in more than a year rising close to 40 during the month.

Improvement in risk indicators in domestic markets...

Despite the volatile outlook in global markets, domestic markets diverged relatively positive in January. While Turkey's 5-year CDS premium ended the first month of the year with 29 basis points decrease to 530 basis points, the 2-year benchmark bond yield declined by 90



basis points to 21.84%. BIST-100 index closed January at 2.003 with an increase of 7.8% mom. On the other hand, foreign investors' interest to domestic financial markets was weak in January as well. According to the securities statistics announced by the CBRT, as of January 28 non-residents' stock portfolio, adjusted for price and exchange rate movements, decreased by net 370 million USD and GDDS portfolio decreased by net 143 million USD compared to the end of 2021.

The USD/TRY parity, which followed a relatively flat course throughout the month, closed the month at 13.3074, while EUR/TRY parity decreased by 1.4% on a monthly basis to 14.9340.

The CBRT raised its inflation forecast.

In the Monetary Policy Committee meeting on January 20, the CBRT kept the policy interest rate unchanged at 14%, in line with the expectations. Saying that the cumulative effects of monetary policy are closely monitored, the Committee stated that the Central Bank carries out a comprehensive policy framework review process that prioritizes the TRY in all policy instruments in order to reshape price stability on a sustainable basis.

In the first Inflation Report of the year, the CBRT raised its year-end inflation forecasts for 2022 and 2023 to 23.2% and 8.2%, respectively. The CBRT explained the reasons of the revision as the increase in exchange rates, import prices and administered prices, as well as strong supply-side factors such as supply constraints in some sectors and disruptions in supply processes, keeping upside risks on inflation alive. At the presentation of the Inflation Report, CBRT Chairman Şahap Kavcıoğlu stated that they expect the disinflation process to begin in the coming months, with the gradual reduction in supply-demand mismatches and in supply disruptions, as well as taken steps to establish price stability and financial stability. Kavcıoğlu also announced the "Liraization Strategy", which aims to increase the use of the Turkish lira in the system through new financial products, collateral diversification and liquidity management practices.

A swap agreement was signed between the CBRT and the UAE Central Bank.

The CBRT announced that a Bilateral Currency Swap agreement was signed with the Central Bank of the United Arab Emirates for the UAE dirham and Turkish lira currencies. In this context, the nominal size of the swap agreement was stated as 18 billion dirhams and 64 billion Turkish liras reciprocal. According to the announcement, the agreement, which aims to further strengthen financial cooperation between the two countries through the development of trade, will be valid for 3 years and can be extended by mutual agreement. In addition, Azerbaijan state oil fund SOFAZ announced to have a deposit account with 6-month maturity for 1 billion EUR within the CBRT.

Banking Sector

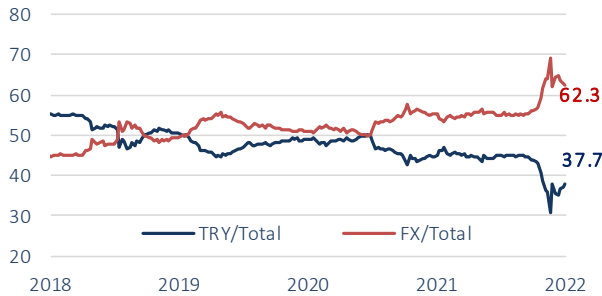
The scope of the CPD has been expanded.

In January CBRT announced a regulation to include legal entities in currency protected deposit (CPD) program, which was introduced to encourage the demand for Turkish lira assets in December. In addition, with the Law published in the Official Gazette in January 29, it was announced that corporate tax exemption was introduced for companies that convert foreign currency and gold accounts in their balance sheets as of December 31, 2021 into currency-protected TL deposit and participation accounts. On February 1, the CBRT announced the Deposit and Participation Scheme for Non-Resident Turkish Citizens (YUVAM) in order to include Turkish citizens living abroad into the CPD application.

TRY deposit volume exceeded 2 trillion.

According to the BRSA Weekly Bulletin figures, the total deposit volume increased by 59% on an annual basis and reached 5,429 billion TRY as of 28 January. In this period, TRY deposit volume expanded by 33.5% yoy, exceeding 2 trillion TRY. The possible effects of currency protected products on the deposit market are also closely monitored. As of January 28, FX deposit volume in USD terms decreased by 9.9 billion USD compared to 17 December and became 250.1 billion USD, while TRY deposit volume increased by 162 billion TRY in the same period. The Minister of Treasury and Finance announced that as of January 25, the amount converted from foreign currency accounts to TRY within the scope of CPD was 58.3 billion TRY (approximately 4.4 billion USD).

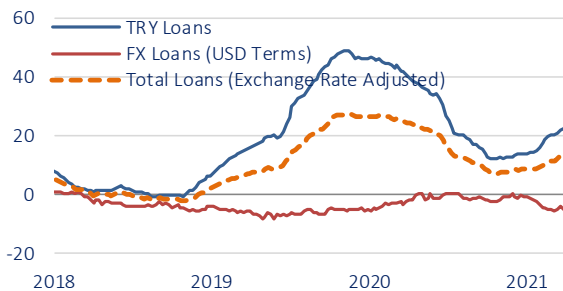
Composition of Deposits (%)



The decrease in FX loan volume accelerated.

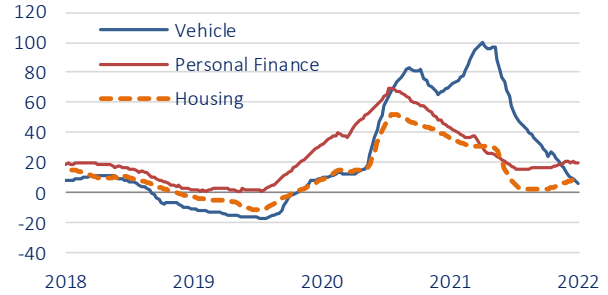
As of January 28, the total loan volume of the banking sector increased by 40% on an annual basis and became

Loan Growth (annual % change)



4,972 billion TRY. In this period, FX rate adjusted increase in the loan volume was realized as 12.8%. While the annual TRY loan growth was 22.6% as of January 28, the decline in FX loan volume in USD terms gained momentum due to the developments in the financial markets. In this period, FX loan volume in USD terms decreased by 6.1% yoy and became 155.2 billion USD.

Consumer Loans (annual % change)



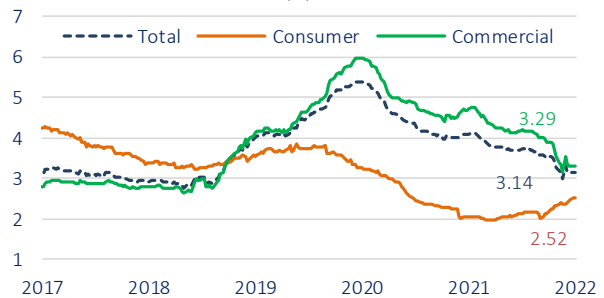
The rise in the share of personal finance loans...

As of January 28, the annual increase in consumer loans was 14.8%. In this period, housing loan volume expanded by 8.6% yoy, while the volume of vehicle loans recorded the weakest increase since the end of 2019 with 6.5% yearly rise, due to the contraction in the automotive market. Weak course of housing and vehicle loans, led the share of personal finance loans in consumer loans to rise to historical levels with 60%. Moreover, as of January 28, the annual rate of increase in the balance of individual credit cards was at a high level with 44.8%.

NPL ratio is 3.14%...

NPL ratio, which has displayed a flat outlook since the beginning of the year, stood at 3.14% as of January 28. NPL ratio for consumer loans increased slightly compared to the end of 2021 and became 2.52%. The said ratio was recorded as 3.29% in commercial loans.

Non-performing Loans (%)



Net foreign currency position...

As of January 28, banks' on-balance sheet FX position was (-) 40,259 million USD, while off-balance sheet FX position was (+) 44,967 million USD. Thus, the net FX position of the banking sector was realized as (+) 4,708 million USD.

Source: BRSA Weekly Bulletin

Concluding Remarks

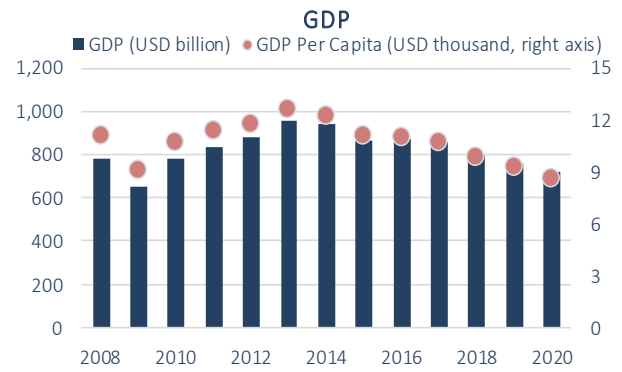
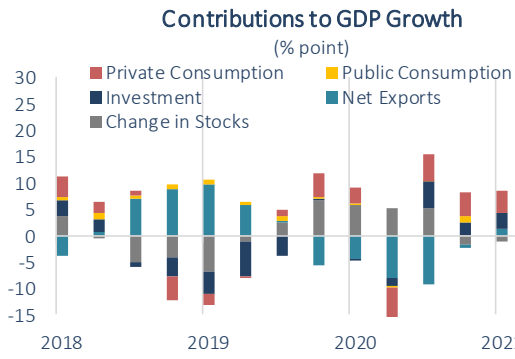
In 2021, the second year of the pandemic, the US economy grew by 5.7% according to the preliminary data, performing the highest growth in the last 37 years thanks to the low base effect. Losing some momentum in the last quarter, the Euro Area grew by 5.2% in 2021. On the other hand, despite the limited energy supply and the concerns caused by the problems in the real estate sector, the Chinese economy grew above the market expectations by 8.1% last year.

Preliminary indicators for January point out that the global economic activity started the year 2022 under pressure due to the effect of the measures taken against the Omicron variant. The fact that the Omicron variant causes fluctuations in the global risk perception shows that despite vaccinations the uncertainties related to the pandemic will continue to weigh on the economic activity in the coming period. As well as the pandemic, the course of supply-side constraints and inflation developments stand out as the main factors that will shape the economic outlook in 2022. In the January update of the World Economic Outlook report, IMF revised down its global growth forecast for 2022, especially taking the effect of increasing inflationary pressures due to rising energy prices and the deterioration in supply chains into account.

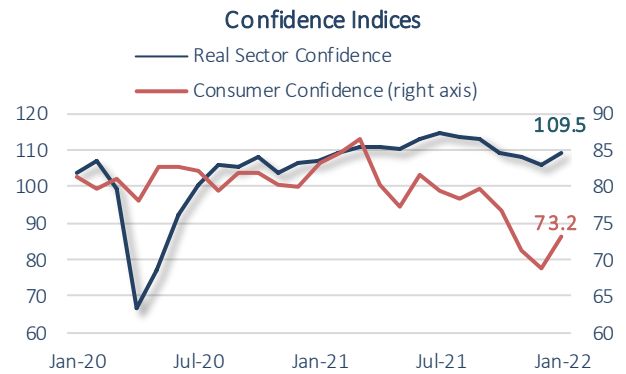
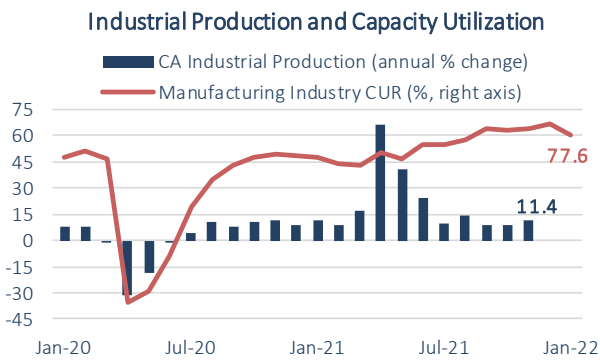
Inflation continues to be the hot topic in the Turkey, where the leading indicators point out that the economic activity has lost momentum and started 2022 with a moderate course. Declining to an eight-month low of 50.5 in January, manufacturing PMI signals that high production costs cause new orders and production to slow down. After the first Monetary Policy Committee meeting, CBRT stated that a comprehensive review process prioritizing TRY in all policy instruments was carried out, and that the disinflationary process is expected to begin with the elimination of the base effects in inflation. In the first Inflation Report of the year published at the end of January, CBRT's year-end inflation forecast for the 2022 was announced as 23.2%.

Deterioration in the inflation expectations of the markets continues, while the rapid increases in administered prices, the lagged effects of the depreciation of the Turkish lira as well as the recent natural gas and power cuts in the industry put upward pressure on inflation in the first months of the year.

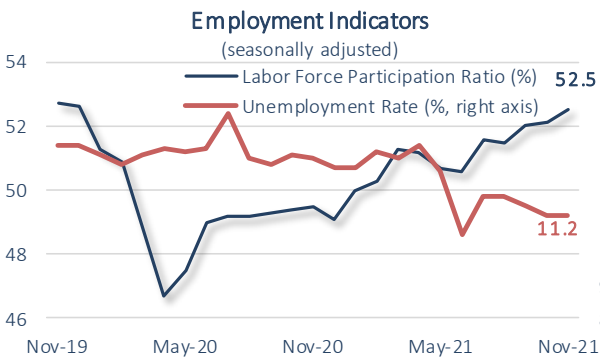
Growth



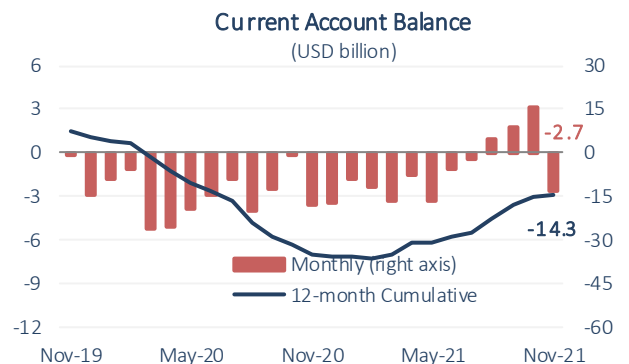
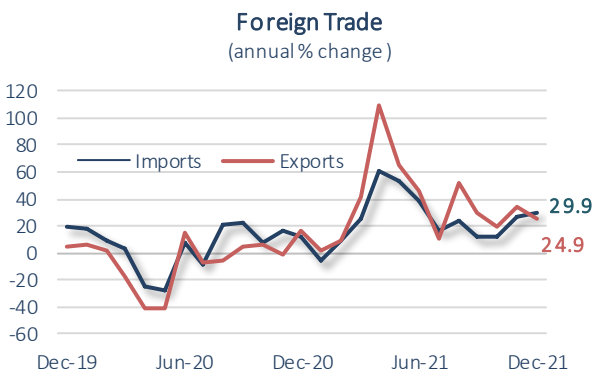
Leading Indicators



Labor Market



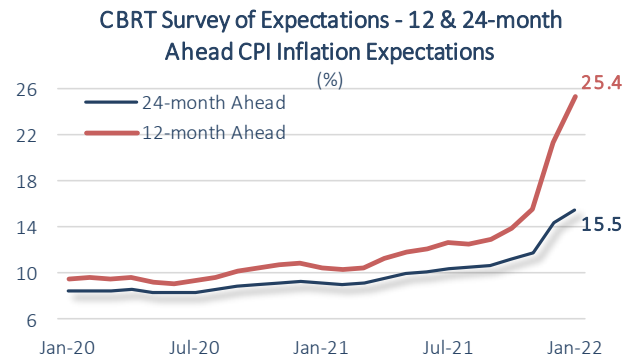
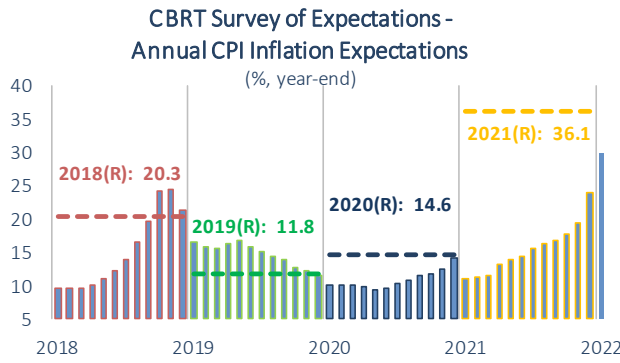
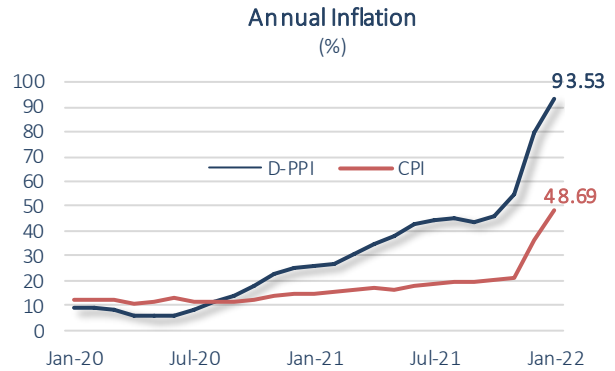
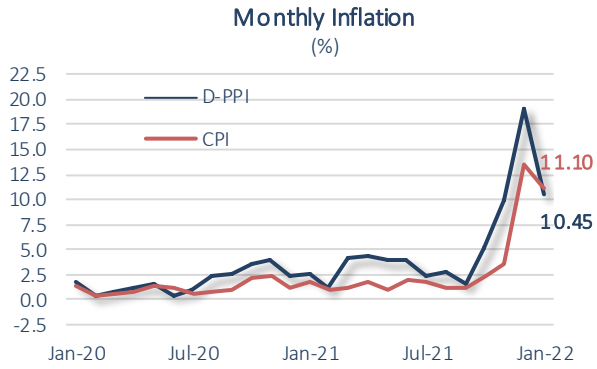
Foreign Trade and Current Account Balance



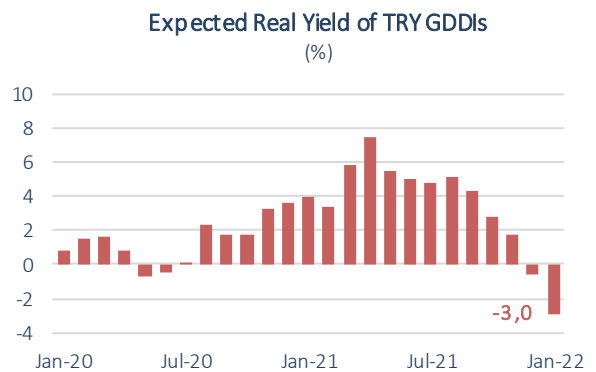
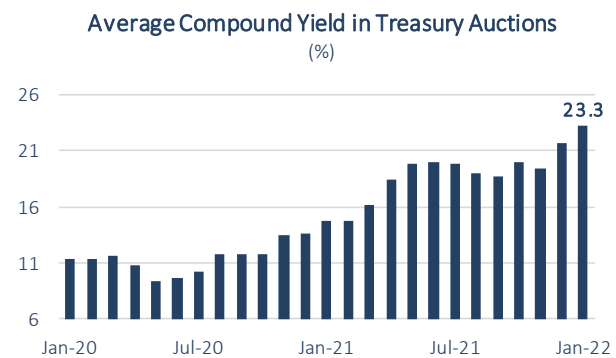
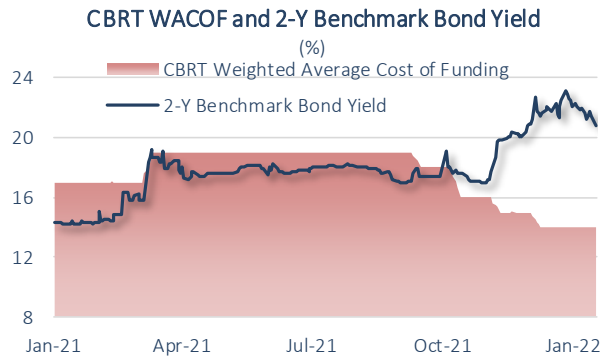
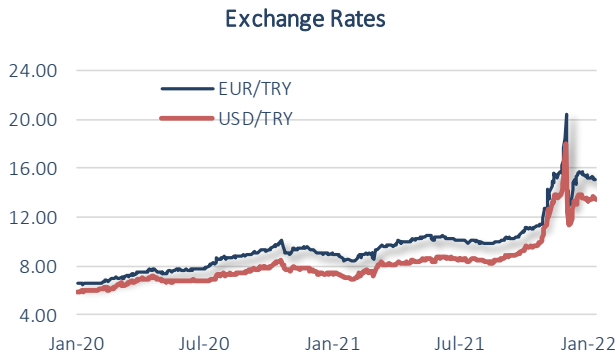
(CA) Calendar adjusted

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 (%)						Nov-21	Dec-21	Jan-22
CPI (annual)	8.53	11.92	20.30	11.84	14.60	21.31	36.08	48.69
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	54.62	79.89	93.53
Seasonally Adjusted Labor Market Figures						Sep-21	Oct-21	Nov-21
Unemployment Rate (%)	12.1	9.9	12.7	13.4	12.7	11.50	11.20	11.20
Labor Force Participation Rate (%)	52.4	52.8	53.2	52.6	49.1	52.00	52.10	52.50
FX Rates						Nov-21	Dec-21	Jan-22
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.2	54.1	47.8	52.9
USD/TRY	3.5176	3.7916	5.3199	5.9510	7.4325	13.3	13.28	13.42
EUR/TRY	3.7102	4.5530	6.0815	6.6800	9.0941	14.9	15.10	15.04
Currency Basket (0.5*EUR+0.5*USD)	3.6139	4.1723	5.7007	6.3155	8.2633	14.11	14.19	14.23
Foreign Trade Balance ⁽¹⁾ (USD billion)						Oct-21	Nov-21	Dec-21
Exports	149.2	164.5	177.2	180.8	169.7	215.5	220.9	225.3
Imports	202.2	238.7	231.2	210.3	219.5	259.0	264.7	271.4
Foreign Trade Balance	-52.9	-74.2	-54.0	-29.5	-49.8	-43.5	-43.9	-46.1
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3	83.2	83.4	83.0
Balance of Payments ⁽¹⁾ (USD billion)						Sep-21	Oct-21	Nov-21
Current Account Balance	-27.0	-40.8	-21.7	6.8	-36.7	-18.3	-15.1	-14.3
Capital and Financial Accounts	-21.7	-47.0	-10.9	1.3	-40.0	-2.7	5.3	6.0
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6	-6.7	-7.1	-7.2
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5	-13.7	-8.9	-6.0
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0	-25.9	-19.6	-24.6
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	43.6	40.9	43.8
Net Errors and Omissions	5.3	-6.2	10.8	-5.5	-3.3	15.7	20.5	20.3
Current Account Balance/GDP (%)	-3.1	-4.8	-2.7	0.7	-5.0	-	-	-
Budget ⁽²⁾⁽³⁾ (TRY billion)						Oct-21	Nov-21	Dec-21
Expenditures	584.1	678.3	830.5	999.5	1202.2	1183.1	1318.8	1599.6
Interest Expenditures	50.2	56.7	74.0	99.9	134.0	156.6	171.9	180.9
Non-interest Expenditures	533.8	621.6	756.5	899.5	1068.3	1026.5	1146.9	1418.8
Revenues	554.1	630.5	757.8	875.8	1029.5	1104.6	1272.3	1407.4
Tax Revenues	459.0	536.6	621.3	673.3	833.1	904.5	1053.4	1164.8
Budget Balance	-29.9	-47.8	-72.8	-123.7	-172.7	-78.5	-46.5	-192.2
Primary Balance	20.3	8.9	1.3	-23.8	-38.8	78.1	125.4	-11.4
Budget Balance/GDP (%)	-1.1	-1.5	-1.9	-2.9	-3.5	-	-	-
Central Government Debt Stock (TRY billion)						Oct-21	Nov-21	Dec-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4	1,205.0	1,316.3	1,321.2
External Debt Stock	291.3	341.0	481.0	574.0	752.5	1063.8	1391.9	1426.5
Total Debt Stock	760.0	876.5	1067.1	1,329.1	1,812.8	2,268.8	2,708.2	2,747.7

(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

Turkish Economy - Banking Sector Outlook

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2016	2017	2018	2019	2020	Nov.21	Dec.21	Change ⁽¹⁾
TOTAL ASSETS	2,731	3,258	3,867	4,492	6,106	8,949	9,213	50.9
Loans	1,734	2,098	2,395	2,657	3,576	4,788	4,901	37.0
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,734	2,832	20.4
Share (%)	65.2	67.4	60.1	61.8	65.8	57.1	57.8	-
FX Loans	603	684	956	1,015	1,224	2,054	2,069	69.0
Share (%)	34.8	32.6	39.9	38.2	34.2	42.9	42.2	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	160.0	160.0	4.9
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	3.2	3.2	-
Securities	352	402	478	661	1,023	1,446	1,477	44.4
TOTAL LIABILITIES	2,731	3,258	3,867	4,492	6,106	8,949	9,213	50.9
Deposits	1,454	1,711	2,036	2,567	3,455	5,204	5,303	53.5
TRY Deposits	845	955	1,042	1,259	1,546	1,924	1,880	21.6
Share (%)	58.1	55.8	51.2	49.0	44.7	37.0	35.5	-
FX Deposits	609	756	994	1,308	1,909	3,280	3,423	79.3
Share (%)	41.9	44.2	48.8	51.0	55.3	63.0	64.5	-
Securities Issued	116	145	174	194	224	310	310	38.4
Payables to Banks	418	475	563	533	658	1,024	1,048	59.4
Funds from Repo Transactions	138	99	97	154	255	520	587	129.9
SHAREHOLDERS' EQUITY	300	359	421	492	600	687	711	18.6
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	75.3	92.1	-
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	53.5	53.2	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.2	16.0	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	58.1	57.6	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	92.0	92.4	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	17.8	18.3	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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