November 2022

## Global Economy

In its "World Economic Outlook" report, the IMF drew attention to the risks on global economic activity, referring to the tightening steps in monetary policies as well as inflation and geopolitical developments.

Major central banks, especially the Fed and ECB, continue to tighten their monetary policies. While both banks raised the interest rates by 75 basis points in their last meetings, they signaled that the tightening steps would continue depending on the price developments.

After contracting in the first two quarters, the US economy completed the third quarter of 2022 with growth on an annualized basis and came out of technical recession. On the other hand, leading indicators for October signaled that the economic activity in the country is weakening.

The growth data for the third quarter of 2022 in the Euro Area showed that the deceleration in economic activity became more evident.

OPEC and the International Energy Agency revised their expectations for the increase in oil demand downwards due to the weakening of global economic activity. The World Bank predicts that energy prices will decline next year.

## Turkish Economy

The annual increase in the calendar adjusted industrial production index fell to 1% in August, the lowest level of the last 26 months. Manufacturing PMI dropped to 46.4 in October, pointing to the deepening of the sector's deceleration.

In August, the seasonally adjusted unemployment rate fell to the lowest level since March 2014 with 9.6%. In this period, the number of paid employees increased by 181K people compared to the previous month and became 14.6 million people.

TURKSTAT revised the tourism revenues data for 2012-June 2022 period. Total tourism revenues were revised upwards by 21 billion USD for this period.

The current account deficit became 3.1 billion USD in August in line with the widening in the foreign trade deficit. The 12-month cumulative current account deficit reached 40.9 billion USD, the highest level of the last four years.

The central government budget posted a deficit of 78.6 billion TRY in September due to the rise in budget expenditures, led by current transfers. The budget deficit was realized as 45.5 billion TRY in January-September period.

In October, CPI increased by 3.54% on a monthly basis, while annual CPI inflation rose to 85.51%. Annual D-PPI inflation climbed to 157.69% in this period.

The CBRT, which lowered the policy rate by 150 basis points to 10.5% at its meeting held on October 20, raised its current year-end inflation forecast from 60.4% to 65.2% in the fourth Inflation Report of the year.

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### Unemployment rate declined to 9.6% in August.

According to seasonally adjusted data, the labor force increased by 266K persons and the employment rose by 366K persons in August. Thus, with the effect of the decrease in the number of unemployed by 100K persons, the unemployment rate declined to 9.6%, the lowest level since March 2014. Labor underutilization rate, which expresses the ratio of time related underemployment, unemployed and potential labor force to the sum of labor force and potential labor force, decreased by 2.6 pts compared to the previous month to 19.8% in August.

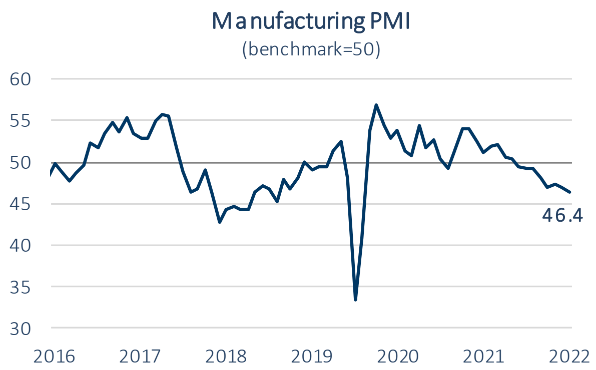
According to seasonally adjusted figures, the number of paid employees rose by 181K persons in August compared to the previous month and became 14.6 million people. In this period, the number of paid employees in the services, construction and industry sectors increased by 62K, 27K and 53K persons, respectively.

### Industrial production increased by 2.4% mom in August.

The seasonal and calendar adjusted industrial production, which contracted by 6.1% mom in July, expanded by 2.4% mom in August. In this period, the rise in the production of durable (6.1%) and non-durable (4.1%) consumer goods came to the fore. According to the calendar adjusted data, the annual increase in industrial production declined to 1%, the lowest level of the last 26 months. This development was driven by the 12.4% contraction in mining and quarrying production on an annual basis. Retail sales volume at constant prices increased by 3.7% mom and by 9% yoy in August, indicating that domestic demand improved compared to July.

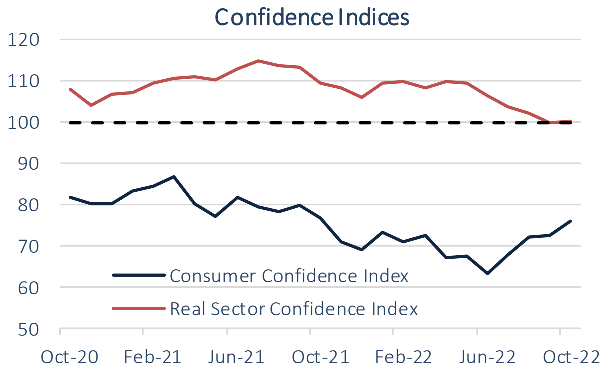
### Manufacturing PMI continued its downward trend in October.

Manufacturing PMI declined by 0.5 points mom in October to 46.4, the lowest level since May 2020. Thus, the index, which carried its course below the 50 threshold to the 8th month, pointed out that the deceleration in the sectors activity deepened. According to the sub-indices, employment also recorded the most significant decrease since May 2020, in line with the slowdown in production, new orders and purchasing activities in this period. New orders slowed down in all sectors excluding land and sea vehicles, declining to the lowest levels in textile, non-metallic mineral products, and clothing and leather products.




### Confidence indices improved in October.

Seasonally adjusted real sector confidence index increased by 1.8 points compared to the previous month to 102 in October, in line with the rise in sub-items of the production volume for the next three months and the fixed capital expenditures in the current period. In this period, confidence indices for services, retail trade and construction increased by 0.9%, 3.0% and 2.8%, respectively, on a monthly basis. In October, the consumer confidence index rose by 5.3% compared to the previous month and became 76.2, the highest level of the last year. The economic confidence index, which is the combination of consumer, real sector and sectoral confidence indices, rose by 3% mom to 97.1 in October.




### House sales contracted by 22.9% yoy in September.

House sales contracted by 22.9% yoy in September to 113K units. In this period, mortgaged sales declined by 43% yoy to 17K units, while other sales decreased by 17.8% yoy to 96K units. Thus, as of the third quarter of 2022, total house sales dropped by 16.5% compared to the same period of the previous year and became 331K. In this period, house sales to foreigners, which contracted by 16.1% on an annual basis, took a 4.3% share in total house sales. The residential property price index announced by the CBRT rose by 8% mom and by 184.6% yoy in August. The real increase of the index was 57.2% on an annual basis.

### TURKSTAT revised the tourism data.

TURKSTAT revised the tourism revenue data, stating that due to recent developments in the fields of education and health tourism, as well as the difficulties encountered in responding to the Departing Visitors Survey, particularly during the pandemic, additional data sources were required. The total tourism revenues obtained between 2012 and June 2022 were updated upwards by 21 billion USD as part of the revision. According to TURKSTAT data, tourism revenues went up by 67.9% in the first nine months of 2022 compared to the same period the previous year, reaching 35 billion USD. On the other hand, tourism revenues rose by 16.4% compared to the same period of 2019, the year before the pandemic.

Source: Turkstat, Datastream, HMB, ODD

### The widening in the foreign trade deficit continued in August.

According to TURKSTAT data, exports increased by 13.1% yoy and became 21.3 billion USD in August, while imports went up by 40.4% yoy to 32.5 billion USD. In this period, in parallel with the high course of energy and commodity prices, the foreign trade deficit widened by 160% on an annual basis. In the first eight months of the year, the foreign trade deficit widened by 146.3% yoy and reached 73.4 billion USD. The import coverage ratio, which was 82.5% in January-August 2021, decreased to 69.3% in the same period of 2022.

### In August, the current account deficit was 3.1 billion USD.

The widening trend in the current account deficit due to the expansion in the foreign trade deficit continued in August as well. The current account, which posted a surplus of 1.1 billion USD in August 2021, gave a deficit of 3.1 billion USD in the same month of this year. Net non-monetary gold and energy imports continued to be the leading factors in the widening of the current account deficit. In August, net gold imports was recorded as 2.2 billion USD and net energy imports as 7.1 billion USD. Excluding these two figures, the current account posted a surplus of 6.3 billion USD in August. On the other hand, ongoing improvement in transportation and tourism revenues continued to limit the rise in the current account deficit. In August, net tourism revenues were at a historically high level with 5.1 billion USD.

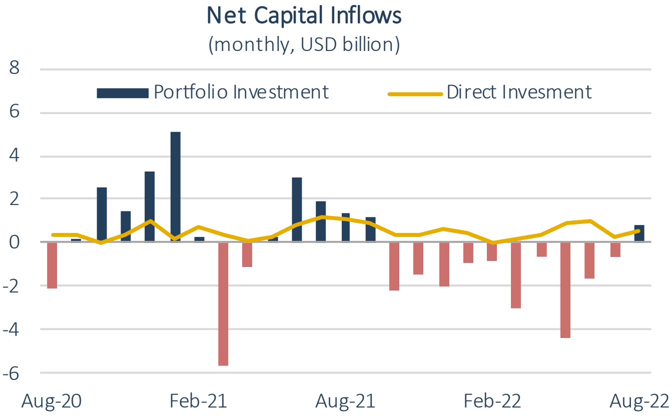
According to the 12-month cumulative data, the current account deficit reached 40.9 billion USD in August, the highest level of the last 4 years. Excluding net energy and gold imports, the 12-month cumulative current account surplus, on the other hand, reached the highest level since March 2020 with 41.2 billion USD in August.

### Weakness in direct investments persists.

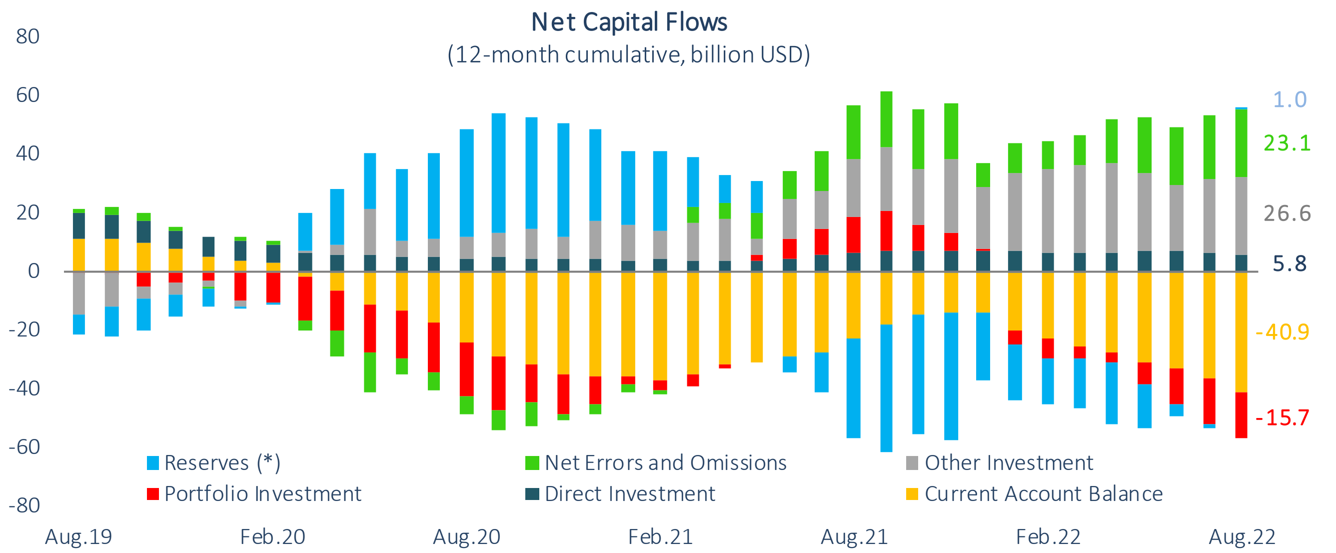
Capital inflow in net foreign direct investments decreased by 45.9% yoy to 573 million USD in August. This decline was mainly driven by the annual contraction of capital investments with 87.3% (1.4 billion USD). While non-residents' net capital investments were 209 million USD in August, real estate investments drew a moderate picture with 550 million USD.

### Portfolio investments posted capital inflows after one year.

In portfolio investments, which posted uninterrupted capital outflows since October 2021, a capital inflow of 812 million USD was recorded in August. In this period, non-residents made a net purchase of 761 million USD in the stock market, and the lowest sale in the GDDS markets for a year with 6 million USD.




In August, the biggest contribution to the financing of the current account deficit came from other investments with 8.5 billion USD. The decrease in the effective and deposits held by residents abroad by 1.7 billion USD, as well as the expansion of 4 billion USD in the effective and deposits held by non-residents in Turkey played the decisive role in

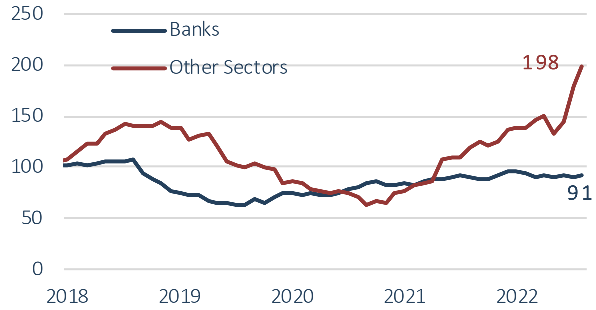



Source: Datastream, Turkstat, CBRT

this development. 2.1 billion USD of the said amount was held by the CBRT.

Banks continued to be net loan re-payers in August, as they have been since May. In August banks made a net repayment of 260 million USD in loans that they had taken from abroad. Other sectors, whose long-term loan demand from abroad remained strong, used 2.4 billion USD worth of loans in this period. In the first eight months of the year, banks made a net loan repayment of 3 billion USD, while other sectors borrowed 8.5 billion USD. Thus, according to the 12-month cumulative figures, the long-term debt rollover ratio was 91% in the banking sector and 198% in other sectors.

Long-term Debt Rollover Ratios
(12-month cumulative, %)




**Reserve assets increased by 10.8 billion USD in August.**

The rise of net reserves with 10.8 billion USD in August pointed to the fastest monthly increase in reserves in the last one year. With the inflow of 4 billion USD in the net errors and omissions figure recorded in August, the inflow since the beginning of the year reached 28.3 billion USD.

**Expectations...**

According to preliminary figures, the foreign trade deficit remained high at 10.4 billion USD in September, by nearly quadrupling compared to the same month of the previous year. Although it has been fluctuating recently due to global recession concerns, the high level of energy prices continues to put pressure on the current account deficit. In addition, despite strong tourism and transportation revenues, the slowdown of the economic activity in EU countries, which is expected to deepen, and the low levels of EUR/USD parity stand out as additional risk factors on the current account deficit.

Balance of Payments (USD million)

| | Aug. 2022 | Jan. - Aug. 2021 | Jan. - Aug. 2022 | % Change | 12-month Cumulative |
|---|---|---|---|---|---|
| **Current Account Balance** | **-3,112** | **-12,760** | **-39,717** | **211.3** | **-40,889** |
| Foreign Trade Balance | -9,700 | -19,463 | -59,764 | 207.1 | -69,614 |
| Services Balance | 7,236 | 13,925 | 27,190 | 95.3 | 39,270 |
| Travel (net) | 5,132 | 10,299 | 19,532 | 89.6 | 28,410 |
| Primary Income | -685 | -7,980 | -6,515 | -18.4 | -10,073 |
| Secondary Income | 37 | 758 | -628 | - | -472 |
| **Capital Account** | **9** | **-60** | **-21** | **-65.0** | **-25** |
| **Financial Account** | **855** | **372** | **-11,431** | **-** | **-17,772** |
| Direct Investment (net) | -573 | -4,655 | -3,605 | -22.6 | -5,848 |
| Portfolio Investment (net) | -812 | -5,180 | 11,254 | - | 15,683 |
| Net Acquisition of Financial Assets | -26 | -80 | 4,395 | - | 6,735 |
| Net Incurrence of Liabilities | 786 | 5,100 | -6,859 | - | -8,948 |
| Equity Securities | 761 | -1,378 | -2,819 | 104.6 | -2,875 |
| Debt Securities | 25 | 6,478 | -4,040 | - | -6,073 |
| Other Investment (net) | -8,546 | -17,004 | -21,941 | 29.0 | -26,587 |
| Currency and Deposits | -5,656 | -9,553 | -16,982 | 77.8 | -16,873 |
| Net Acquisition of Financial Assets | -1,703 | 3,077 | 3,154 | 2.5 | 5,300 |
| Net Incurrence of Liabilities | 3,953 | 12,630 | 20,136 | 59.4 | 22,173 |
| Central Bank | 2,060 | 4,769 | 6,494 | 36.2 | 6,473 |
| Banks | 1,893 | 7,861 | 13,642 | 73.5 | 15,700 |
| Foreign Banks | 894 | 6,559 | 9,337 | 42.4 | 12,084 |
| Foreign Exchange | 972 | 4,720 | 6,103 | 29.3 | 9,200 |
| Turkish Lira | -78 | 1,839 | 3,234 | 75.9 | 2,884 |
| Non-residents | 999 | 1,302 | 4,305 | 230.6 | 3,616 |
| Loans | -2,363 | -29 | -5,044 | 17,293.1 | -5,584 |
| Net Acquisition of Financial Assets | -165 | 2,030 | 793 | -60.9 | 1,024 |
| Net Incurrence of Liabilities | 2,198 | 2,059 | 5,837 | 183.5 | 6,608 |
| Banking Sector | -260 | -1,718 | -2,970 | 72.9 | -4,784 |
| Non-bank Sectors | 2,441 | 3,836 | 8,454 | 120.4 | 11,217 |
| Trade Credit and Advances | -518 | -1,070 | 124 | - | -4,097 |
| Other Assets and Liabilities | -9 | -14 | -39 | 178.6 | -33 |
| Reserve Assets (net) | 10,786 | 27,211 | 2,861 | -89.5 | -1,020 |
| **Net Errors and Omissions** | **3,958** | **13,192** | **28,307** | **114.6** | **23,142** |

Source: CBRT, Datastream

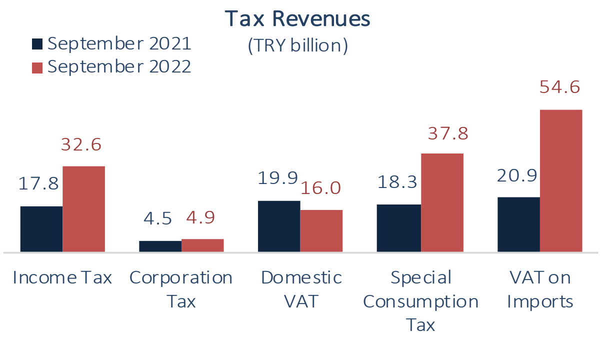
### Central government budget posted a deficit of 78.6 billion TRY.

In September, central government budget deficit increased by 233% yoy and reached 78.6 billion TRY Budget revenues increased by 75.5% yoy to 206.9 billion TRY, while budget expenditures increased by 101.8% to 285.6 billion TRY. In this period, primary deficit was realized as 45.5 billion TRY.

In the first nine months of the year, budget expenditures and revenues increased by 92.2% and by 99.4% yoy, respectively. In this period, the budget deficit became 45.5 billion TRY and the primary surplus reached 161.6 billion TRY.

### SCT and VAT on imports came to the fore in tax revenues.

Tax revenues increased by 81.4% yoy in September, close to the annual CPI inflation, reaching 173.5 billion TRY. While VAT on imports continued to be strong in September, the increase in SCT revenues also stood out. SCT collected from motor vehicles tripled year-on-year and led the rise in total SCT revenues. On the other hand, domestic VAT limited the annual increase in budget revenues by 3.3 points, with an annual loss of 26.5% recorded in domestic VAT based on declaration.

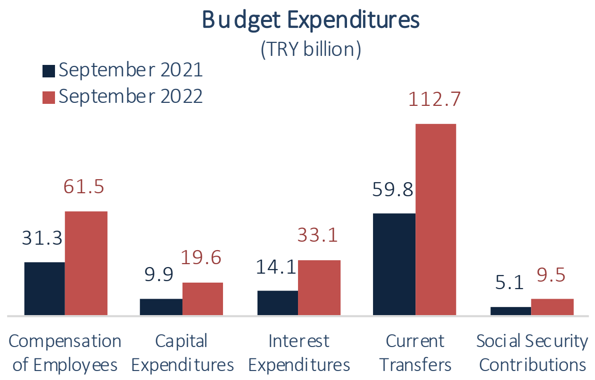



In the first nine months of the year, tax revenues increased by 103.8% yoy to 1.65 trillion TRY, while non-tax revenues expanded by 179.7% to 327.3 billion TRY.

### In September, current transfers increased by 88% yoy.

In September, the annual increase in primary expenditures was 98.2%, above the annual CPI inflation. Current transfers, which make up 45% of non-interest expenditures, increased by 88.4% on an annual basis and became the leading factor in the expansion in budget expenditures with 112.7 billion TRY.

Other transfers to households, which are recorded under current transfers, increased six times compared to the same month of previous year, while shares of local administrations and funds increased by 107.3% yoy. In this period, capital expenditures more than doubled to 19.6 billion TRY due to the rise in real estate capital production expenses. In September, interest expenses increased by 134.7% yoy to 33.1 billion TRY.




In September, payments made under domestic debt transfers to PE's, which increased approximately five times compared to same month of 2021 and realized as 22.5 billion TRY, continued to push budget expenditures up. In the said transfer, 18 billion TRY payment made to BOTAŞ because of the increase in natural gas prices came to the fore. Thus, domestic debt transfers to PE's in the first nine months of the year reached 150.3 billion TRY. In addition, expenses related to FX protected deposit accounts were recorded as 9.3 billion TRY in September. The said expense reached at amount of 84.9 billion TRY in the March-September period.

### Expectations...

Central government budget ran a deficit in September due to the rapid increase in budget expenditures, especially current transfers. Increases in expenditures related to transfers to PE's and FX protected deposit accounts continued to put pressure on the budget balance. While the anticipated momentum loss in domestic and foreign demand in the upcoming period is expected to limit the rise in tax revenues, course of exchange rates as well as global energy prices will continue to be influential on the budget balance.

**Central Government Budget** (billion TRY)

| | September | | % | January-September | | % | MTP | Real./ MTP |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | Change | 2021 | 2022 | Change | Target | Target (%) |
| **Expenditures** | 141.5 | 285.6 | 101.8 | 1,051.6 | 2,020.8 | 92.2 | 3,133.7 | 64.5 |
| Interest Expenditures | 14.1 | 33.1 | 134.7 | 142.3 | 207.1 | 45.6 | 329.8 | 62.8 |
| Non-Interest Expenditures | 127.4 | 252.5 | 98.2 | 909.4 | 1,813.6 | 99.4 | 2,803.9 | 64.7 |
| **Revenues** | 117.9 | 206.9 | 75.5 | 990.6 | 1,975.3 | 99.4 | 2,672.5 | 73.9 |
| Tax Revenues | 95.6 | 173.5 | 81.4 | 808.4 | 1,648.0 | 103.8 | 2,269.6 | 72.6 |
| Other Revenues | 22.3 | 33.5 | 50.1 | 182.1 | 327.3 | 79.7 | 402.9 | 81.2 |
| **Budget Balance** | -23.6 | -78.6 | 233.4 | -61.1 | -45.5 | -25.5 | -461.2 | 9.9 |
| **Primary Balance** | -9.5 | -45.5 | 380.2 | 81.2 | 161.6 | 99.1 | -131.4 | - |

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

Source: Datastream , Ministry of Treasury and Finance

### In October, monthly CPI inflation was 3.54%.

In October, CPI increased by 3.54% on a monthly basis, close to the market expectations of 3.6%. In this period, domestic PPI (D-PPI) rose by 7.83% compared to the previous month.

| October | CPI | | D-PPI | |
|---|---|---|---|---|
| (change %) | 2021 | 2022 | 2021 | 2022 |
| Monthly | 2.39 | 3.54 | 5.24 | 7.83 |
| Year-to-Date | 15.75 | 57.80 | 37.34 | 96.74 |
| Annual | 19.89 | 85.51 | 46.31 | 157.69 |
| Annual Average | 17.09 | 65.26 | 36.20 | 122.93 |

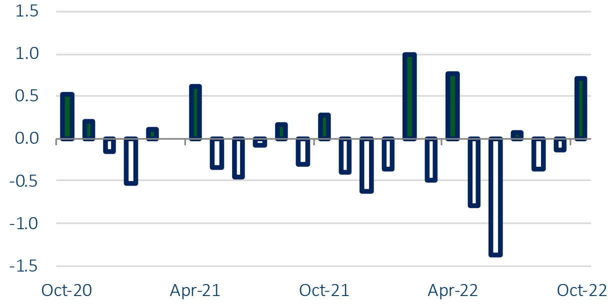
### Annual D-PPI inflation is at historically high level...

Annual CPI inflation continued its upward trend in October and reached 85.51%. Supported by the rise in energy costs, annual D-PPI inflation reached its highest level since 1981 with 157.69%.

### Widespread rise in consumer prices...

In October, prices in all 12 main expenditure groups increased compared to the previous month. The clothing and footwear group as well as food group prices went up by 8.34% and by 5.09%, respectively, and played important role in monthly CPI increase in this period. These two groups, being affected by seasonal factors, made up 1.75 points of the monthly CPI inflation. Among the main expenditure groups, housing, household equipment and transportation were other groups that stood out in the rise of CPI.

Contribution of Seasonal Factors to Monthly Inflation
(% points)



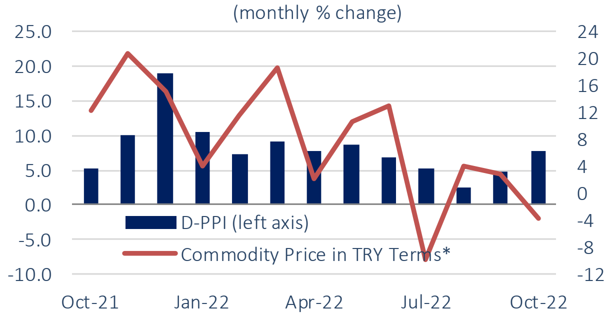

### Core inflation indicators...

Monthly CPI inflation, excluding seasonal products, was 2.84% in October and remained below the headline inflation. The monthly increases in core inflation indicators B (CPI excluding unprocessed food products, energy, alcoholic beverages, tobacco and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) were also below the headline inflation in October, with 3.24% and 3.22%, respectively. Annual increases in B and C indices came in at 77.01% and 70.45%, respectively.

### The rise in natural gas costs was the determining factor in D-PPI inflation.

The pressure on producer prices in energy-intensive sectors increased at the beginning of October, due to the regulation regarding indexation of natural gas sales prices to daily reference price. Prices in the electricity and gas production and distribution sector surged by 32.55% on a monthly basis, pushing monthly PPI inflation up by 5.14 points. The food group, where prices rose by 4.57%, also contributed 92 basis points to producer inflation on a monthly basis. In line with moderate course in global commodity prices in recent months, upward trend in durable goods lost momentum.

Commodity Prices and D-PPI
(monthly % change)




The fastest annual rise in D-PPI was recorded in the electricity, gas, steam and air conditioning subgroup with 554.56%. In this period, electricity, gas production and distribution and food sectors had a total of 72.89 points impact on annual D-PPI inflation. While prices in the textile sector went up by 124.43% yoy, pointing out that cost pressures continued, the said increase pushed the annual D-PPI inflation up by 11.67 points.

### Expectations...

In its Inflation Report published on October 27, the CBRT raised its year-end inflation forecast from 60.4% to 65.2%. Continuing expansion in the gap between consumer and producer prices pointed out that cost pressure on consumer prices remained limited in October as well. Although global recession concerns are putting downward pressure on commodity prices, the continued tightening of monetary policies of developed countries' central banks keep the exchange rate risk alive on inflation. However, we anticipate that the year-end inflation may converge to CBRT's forecast due to the high base effect and the slowdown in demand.

Source: Datastream, Turkstat

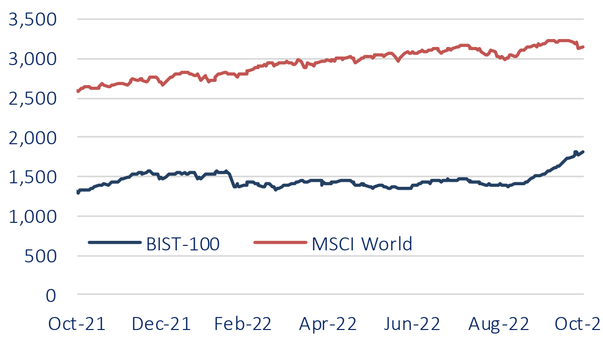
| | 30-Sep | 31-Oct | Change |
|---|---|---|---|
| 5-Y CDS (basis points) | 774 | 656 | -118 bps ▼ |
| TR 2-Y Benchmark Yield | 15.06% | 15.11% | 5 bps ▲ |
| BIST-100 | 3,180 | 3,979 | 25.1% ▲ |
| USD/TRY | 18.5000 | 18.5920 | 0.5% ▲ |
| EUR/TRY | 18.1329 | 18.3973 | 1.5% ▲ |
| Currency Basket* | 18.3165 | 18.4947 | 1.0% ▲ |

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

## Global stock markets closed October with gains.

In October, global stock markets followed a fluctuating course due to the macro economic data releases and statements made by central bank officials. Statements by officials of the major central banks, particularly the Fed, that tightening steps in monetary policies will continue in order to fight inflation suppressed risk appetite, while PMI data released in the US and the Euro Area pointed to a contraction in economic activity, strengthening expectations that monetary policy tightening will slow down. Thus, after falling to its lowest level since November 2020 with 2,368 in the month, the MSCI World Stock Exchange index closed the month with a 7.1% rise due to reaction buying in the market.

MSCI World and BIST-100 Index




Turkish markets displayed a positive outlook over the past month. BIST-100 index rose by 25.1% compared to the end of September and closed the month at 3,979. Türkiye's 5-year CDS risk premium declined by 118 basis points on a monthly basis to 656 basis points. The USD/TRY rose by only 0.5% compared to the end of September.

## CBRT lowered the policy rate to 10.5%.

At its meeting held on October 20, CBRT lowered the policy rate by 150 basis points from 12% to 10.5%. In the text released after the meeting, CBRT stated that the Board is considering to end the interest rate cut cycle after taking a similar step at the next meeting. Mentioning that the leading indicators for the second half of the year indicated that the slowdown in growth continued, CBRT added that the effects of external demand-based pressures on domestic demand and supply capacity, which are limited for the moment, will be closely monitored. CBRT also stated that the high course of energy prices and the possibility of a recession in the main export markets keep the risks on the current account balance alive. On October 18, the CBRT announced that the TRY-denominated securities facility rate applied to banks for their FX liabilities was increased from 3% to 5% within the scope of its liraization strategy. From the beginning of 2023, the securities establishment will be implemented according to the targets based on the share of TRY deposits in total deposits.

## CBRT raised its year-end inflation forecast for 2022 to 65.2%.

In the last Inflation Report of the year, the CBRT raised its inflation forecast from 60.4% to 65.2% for this year, and from 19.2% to 22.3% for 2023. The CBRT cited supply-side shocks and rising commodity prices as the causes of the revision. The average crude oil price forecast for 2022 was raised from 99.6 USD/barrel to 100.5 USD/barrel, while the food inflation forecast was increased from 71.3% to 75%. According to the results of the CBRT's Market Participants Survey, the year-end inflation expectation of the market stood at 67.8% in October.

| CBRT Inflation Forecasts | 2022 | 2023 |
|---|---|---|
| 2022-III (July 2022) Forecast (%) | 60.4 | 19.2 |
| 2022-IIII (October 2022) Forecast (%) | 65.2 | 22.3 |
| Forecast Revision as Compared to the 2022-III Period | +4.8 | +3.1 |
| **Sources of Forecast Revisions (% Points)** | | |
| Turkish Lira-Denominated Import Prices (Including the Exchange Rate, Oil and Import Prices) | +2.2 | +1.1 |
| Food Prices | +0.9 | -0.9 |
| Administered Prices | +0.6 | - |
| Output Gap | +0.2 | - |
| Deviation from the Inflation Forecast / the Underlying Trend of Inflation | +0.9 | +2.9 |

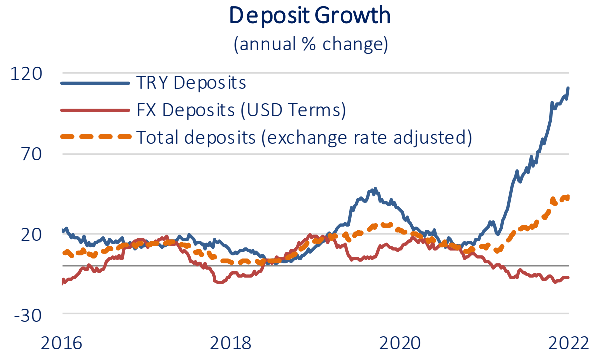
## Securities portfolio of non-residents...

According to the securities statistics announced by the CBRT, as of October 28, non-residents' adjusted for price and exchange rate movements stock and GDDS portfolio declined by net 380 million USD and 141 million USD respectively, since the end of September. Since the beginning of the year, net outflows have been recorded by 2.4 billion USD from the stock market and by 3.7 billion USD from the bond market.

Source: CBRT, Datastream, Reuters,

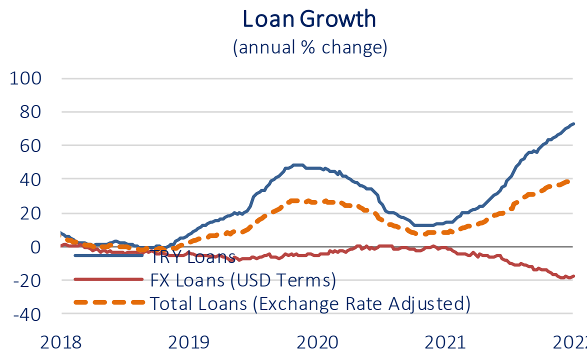
## BRSA made a regulation regarding TRY loans.

The BRSA changed the FX asset limit applied to companies that demand to use TRY loans. In this context, the amount of foreign currency asset limit applied to TRY denominated loan usage of companies subject to independent audit, was reduced to 10 million TRY from 15 million TRY. Accordingly, if the TRY equivalent of the FX cash assets of the company is over 10 million TRY as of the date of loan application and these FX assets exceed 5% of the company's total assets or the net sales revenue of the last one year (the bigger one will be picked), the company is not permitted to use a new TRY loan.




## Total deposit volume reached 8.4 trillion TRY.

According to the BRSA Weekly Bulletin figures, as of October 28, the TRY deposit volume expanded by 111.0% yoy and reached 4.015 billion TRY. In this period, FX deposit volume in USD terms decreased by 6.8% yoy and became 238.0 billion USD. Thus, the total deposit volume increased by 94.6% on an annual basis and reached 8,430 billion TRY. The annual rise in FX rate adjusted deposit volume was realized as 45.0%. According to the figures revealed by the BRSA, the total currency protected deposit volume continued to rise and reached 1.5 trillion TRY as of October 28.

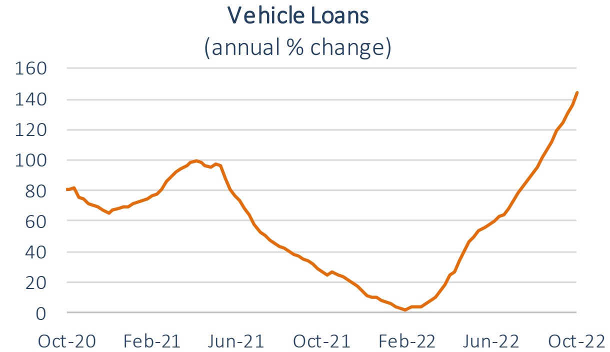



## The downward trend in FX loan volume continues.

As of October 28, the total loan volume of the banking sector increased by 68.2% yoy and exceeded 7 trillion TRY. In this period, the rise in FX rate adjusted loan volume was 39.4% yoy. As of October 28, annual growth of TRY loan volume was 73.2%. FX loan volume in USD terms, on the other hand, contracted by 18% on an annual basis and remained close to the lowest level of the last 19 years with 133.4 billion USD.

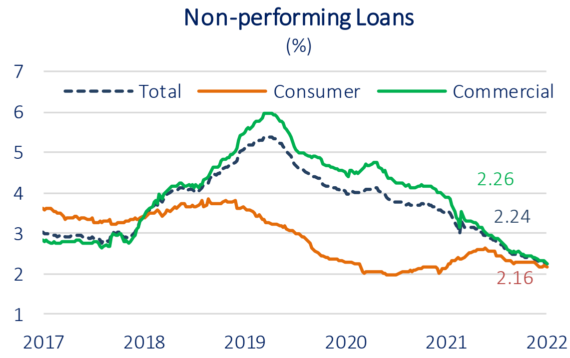
## Vehicle loans recorded the fastest increase in the last 18 years.

As of October 28, the annual surge in consumer loans was 32.9%, while the annual rise in consumer credit card balances continued to gain momentum and reached 92.7%. In this period, the annual expansion of housing loans continued to remain below the rise in housing prices with 24.3%. Vehicle loans, on the other hand, recorded the fastest annual increase since December 2004, with 144.2%, due to the relative improvement in demand in recent months, as well as the rise in vehicle prices.




## NPL ratio was 2.24%.

With the effect of the rapid increase in loan volume, NPL ratio maintained its low level with 2.24% as of October 28. The said ratio was 2.16% in retail loans and 2.26% in commercial loans. NPL ratio was 1.54% in public banks and 2.83% in private banks.




## Foreign currency net general position...

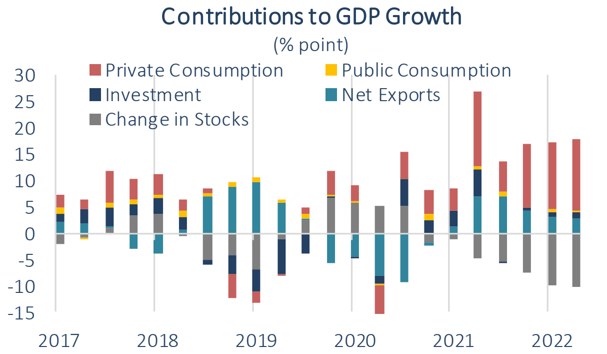
As of October 28, the FX net general position was (-) 33,734 million USD in on-balance sheet items and (+) 38.728 million USD in off-balance sheet items. Thus, the banking sector's FX net general position was realized as (+) 4.993 million USD.

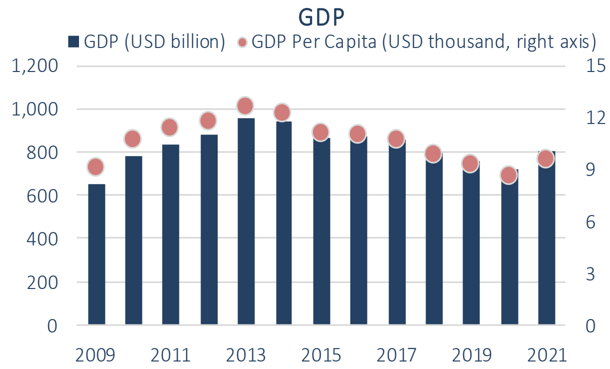
Source: BRSA Weekly Bulletin

Concerns regarding a possible recession in developed countries in the coming period continue to take more place on the agenda of global economy. The recent leading indicators in these countries also reinforces these concerns. Despite the loss of momentum in economic activity, the expected decline in inflation has not been observed, leading the major central banks to continue raising the interest rates. The said interest rate hike cycle, which is not expected to end in the short term, and the ongoing geopolitical risks continue to put pressure on economic activity.

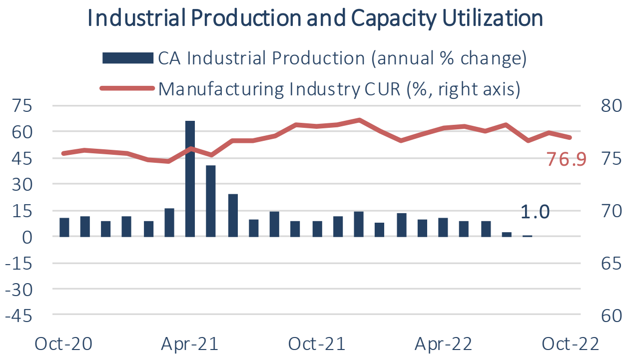
Having continued to cut the policy rate in October, the CBRT is expected to consider ending the interest rate cut cycle after taking a similar step in November. Alongside the high inflation, the loss of momentum in major export markets are putting pressure on domestic economic activity. While the industrial production index displayed the weakest performance in more than two years in August, the manufacturing PMI, which has been in the contraction zone for eight consecutive months, indicates that the loss of momentum became more evident in October.

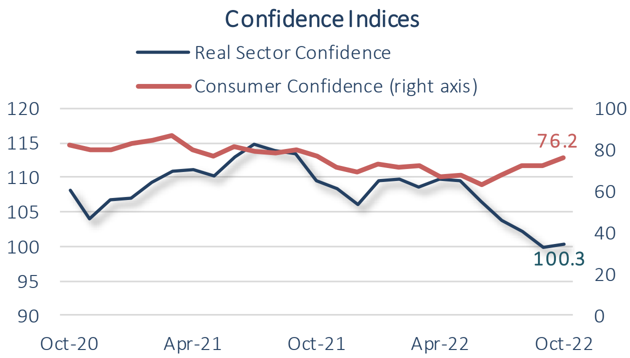
## Growth



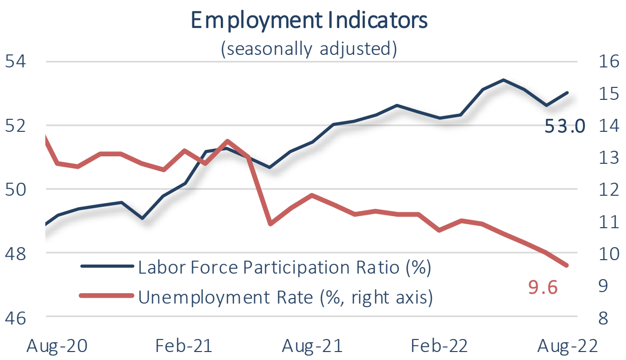



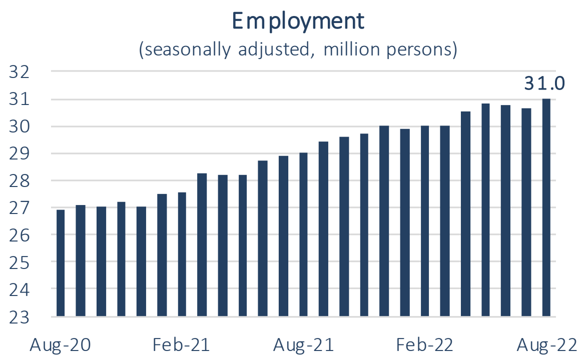

## Leading Indicators



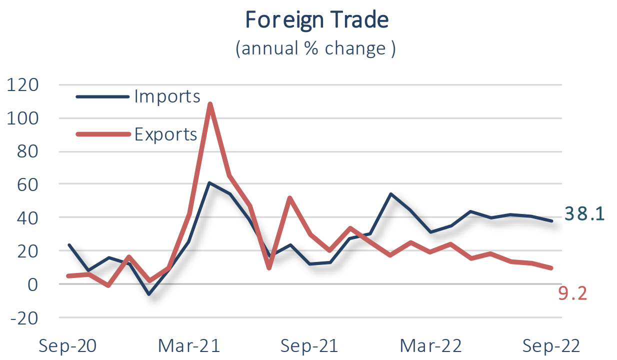



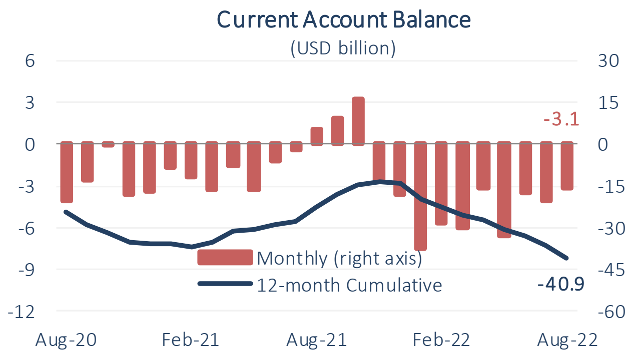

## Labor Market




## Foreign Trade and Current Account Balance



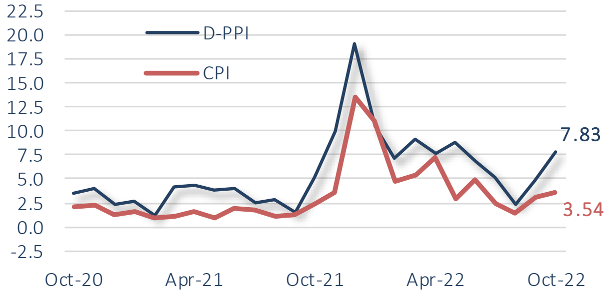




(CA) Calendar adjusted

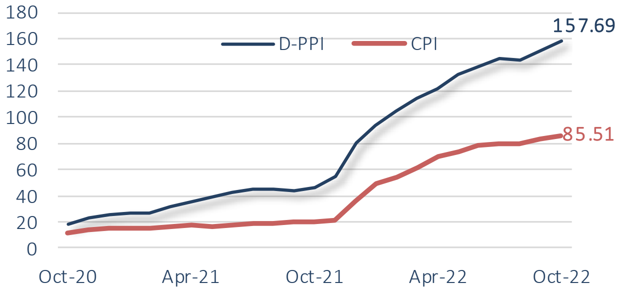
Source: Datastream, CBRT, Turkstat

## Inflation

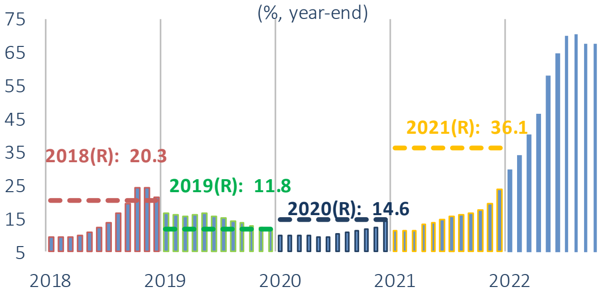
### Monthly Inflation
(%)



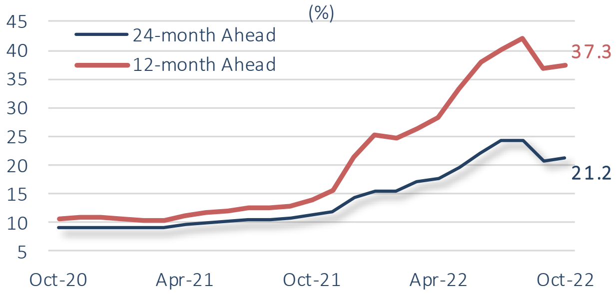

### Annual Inflation
(%)




### CBRT Survey of Market Participants - Annual CPI Inflation Expectations
(%, year-end)

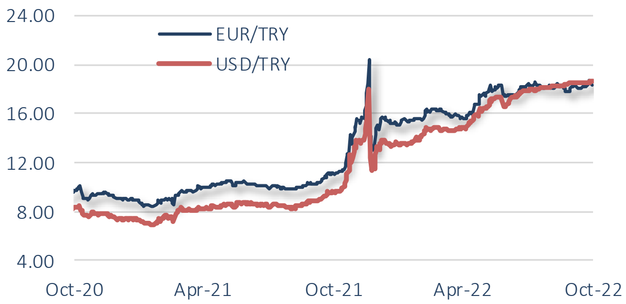



### CBRT Survey of Market Participants - 12 & 24-month Ahead CPI Inflation Expectations
(%)

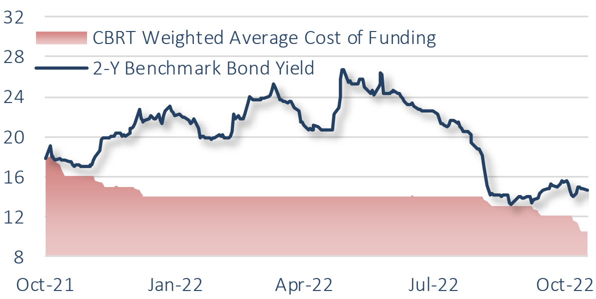



## Foreign Exchange and Bond Market

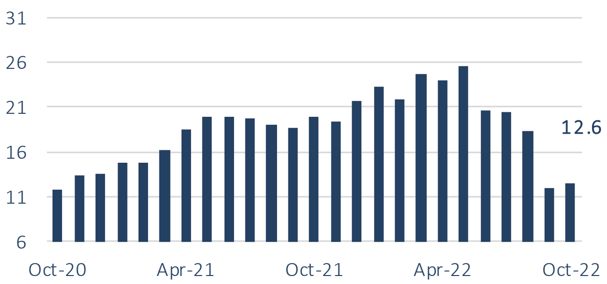
### Exchange Rates



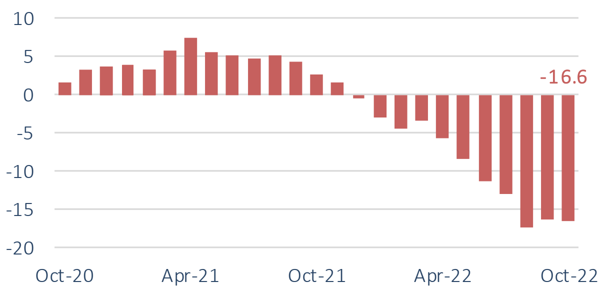

### CBRT WACOF and 2-Y Benchmark Bond Yield
(%)




### Average Compound Yield in Treasury Auctions
(%)




### Expected Real Yield of TRY GDDIs
(%)




(R) Realization

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

| Growth | 2017 | 2018 | 2019 | 2020 | 2021 | | Q1-22 | Q2-22 |
|---|---|---|---|---|---|---|---|---|
| GDP (USD billion) | 859 | 797 | 760 | 717 | 807 | | 181 | 219 |
| GDP (TRY billion) | 3,134 | 3,759 | 4,312 | 5,048 | 7,249 | | 2,508 | 3,419 |
| GDP Growth Rate (%) | 7.5 | 3.0 | 0.8 | 1.9 | 11.4 | | 7.5 | 7.6 |
| **Inflation (%)** | | | | | | Jul-22 | Aug-22 | Sep-22 |
| CPI (annual) | 11.92 | 20.30 | 11.84 | 14.60 | 36.08 | 79.60 | 80.21 | 83.45 |
| Domestic PPI (annual) | 15.47 | 33.64 | 7.36 | 25.15 | 79.89 | 144.61 | 143.75 | 151.50 |
| **Seasonally Adjusted Labor Market Figures** | | | | | | May-22 | Jun-22 | Jul-22 |
| Unemployment Rate (%) | 9.9 | 12.7 | 13.4 | 12.8 | 11.2 | 10.7 | 10.4 | 10.1 |
| Labor Force Participation Rate (%) | 52.8 | 53.2 | 52.6 | 49.1 | 52.6 | 53.4 | 53.1 | 52.6 |
| **FX Rates** | | | | | | Aug-22 | Sep-22 | Oct-22 |
| CPI Based Real Effective Exchange Rate | 86.3 | 76.3 | 76.1 | 62.0 | 47.7 | 52.8 | 54.3 | |
| USD/TRY | 3.79 | 5.32 | 5.95 | 7.43 | 13.28 | 18.19 | 18.54 | 18.60 |
| EUR/TRY | 4.55 | 6.08 | 6.68 | 9.09 | 15.10 | 18.30 | 18.16 | 18.39 |
| Currency Basket (0.5*EUR+0.5*USD) | 4.17 | 5.70 | 6.32 | 8.26 | 14.19 | 18.25 | 18.35 | 18.49 |
| **Foreign Trade Balance(1) (USD billion)** | | | | | | Jul-22 | Aug-22 | Sep-22 |
| Exports | 164.5 | 177.2 | 180.8 | 169.6 | 225.2 | 248.2 | 250.7 | 252.6 |
| Imports | 238.7 | 231.2 | 210.3 | 219.5 | 271.4 | 331.2 | 340.6 | 349.4 |
| Foreign Trade Balance | -74.2 | -54.0 | -29.5 | -49.9 | -46.2 | -83.0 | -89.9 | -96.9 |
| Import Coverage Ratio (%) | 68.9 | 76.6 | 86.0 | 77.3 | 83.0 | 75.0 | 73.6 | 72.3 |
| **Balance of Payments(1) (USD billion)** | | | | | | Jun-22 | Jul-22 | Aug-22 |
| Current Account Balance | -40.9 | -21.7 | 5.3 | -35.5 | -13.6 | -33.0 | -36.7 | -40.9 |
| Capital and Financial Accounts | -49.7 | 1.1 | 5.1 | -39.5 | -6.5 | -13.4 | -15.1 | -17.8 |
| Direct Investments (net) | -8.5 | -8.9 | -6.6 | -4.6 | -7.4 | -7.3 | -6.3 | -5.8 |
| Portfolio Investments (net) | -24.4 | 0.9 | 2.8 | 9.6 | -0.8 | 12.6 | 15.2 | 15.7 |
| Other Investments (net) | -8.5 | 19.4 | 2.6 | -12.6 | -21.7 | -22.5 | -25.4 | -26.6 |
| Reserve Assets (net) | -8.2 | -10.4 | 6.3 | -31.9 | 23.3 | 3.7 | 1.4 | -1.0 |
| Net Errors and Omissions | -8.8 | 22.7 | -0.3 | -3.9 | 7.1 | 19.6 | 21.7 | 23.1 |
| Current Account Balance/GDP (%) | -4.8 | -2.7 | 0.7 | -5.0 | -1.7 | - | - | - |
| **Budget(2)(3) (TRY billion)** | | | | | | Jul-22 | Aug-22 | Sep-22 |
| Expenditures | 678.3 | 830.8 | 1000.0 | 1203.7 | 1599.6 | 1432.9 | 1735.2 | 2020.8 |
| Interest Expenditures | 50.2 | 74.0 | 99.9 | 134.0 | 180.9 | 151.3 | 174.0 | 207.1 |
| Non-interest Expenditures | 628.0 | 756.8 | 900.1 | 1069.8 | 1418.8 | 1281.5 | 1561.2 | 1813.6 |
| Revenues | 630.5 | 758.0 | 875.3 | 1028.4 | 1407.4 | 1462.4 | 1768.3 | 1975.3 |
| Tax Revenues | 536.6 | 621.5 | 673.9 | 833.3 | 1164.8 | 1202.6 | 1474.5 | 1648.0 |
| Budget Balance | -47.8 | -72.8 | -124.7 | -175.3 | -192.2 | 29.5 | 33.1 | -45.5 |
| Primary Balance | 8.9 | 1.1 | -24.8 | -41.3 | -11.4 | 180.9 | 207.1 | 161.6 |
| Budget Balance/GDP (%) | -1.5 | -1.9 | -2.9 | -3.5 | -2.7 | - | - | - |
| **Central Government Debt Stock (TRY billion)** | | | | | | Jul-22 | Aug-22 | Sep-22 |
| Domestic Debt Stock | 535.4 | 586.1 | 755.1 | 1060.4 | 1321.2 | 1,676.2 | 1,689.5 | 1,738.3 |
| External Debt Stock | 341.0 | 481.0 | 574.0 | 752.5 | 1426.5 | 1943.7 | 1961.3 | 1936.5 |
| Total Debt Stock | 876.5 | 1067.1 | 1329.1 | 1,812.8 | 2,747.7 | 3,619.9 | 3,650.8 | 3,674.7 |

(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) | 2017 | 2018 | 2019 | 2020 | 2021 | Aug.22 | Sep.22 | Change[1] |
|---|---|---|---|---|---|---|---|---|
| TOTAL ASSETS | 3,258 | 3,867 | 4,491 | 6,106 | 9,215 | 12,699 | 13,100 | 42.2 |
| Loans | 2,098 | 2,394 | 2,656 | 3,576 | 4,901 | 6,661 | 6,836 | 39.5 |
| TRY Loans | 1,414 | 1,439 | 1,642 | 2,353 | 2,832 | 4,168 | 4,372 | 54.4 |
| Share (%) | 67.4 | 60.1 | 61.8 | 65.8 | 57.8 | 63 | 64.0 | - |
| FX Loans | 684 | 956 | 1,015 | 1,224 | 2,069 | 2,493 | 2,464 | 19.1 |
| Share (%) | 32.6 | 39.9 | 38.2 | 34.2 | 42.2 | 37 | 36.0 | - |
| Non-performing Loans | 64.0 | 96.6 | 150.8 | 152.6 | 160.1 | 163 | 160.4 | 0.2 |
| Non-performing Loan Rate (%) | 3.0 | 3.9 | 5.3 | 4.1 | 3.2 | 2 | 2.3 | - |
| Securities | 401 | 477 | 660 | 1,022 | 1,476 | 2,079 | 2,130 | 44.3 |
| TOTAL LIABILITIES | 3,258 | 3,867 | 4,491 | 6,106 | 9,215 | 12,699 | 13,100 | 42.2 |
| Deposits | 1,711 | 2,036 | 2,567 | 3,455 | 5,303 | 7,739 | 8,053 | 51.8 |
| TRY Deposits | 955 | 1,042 | 1,259 | 1,546 | 1,880 | 3,477 | 3,728 | 98.2 |
| Share (%) | 55.8 | 51.2 | 49.0 | 44.7 | 35.5 | 45 | 46.3 | - |
| FX Deposits | 756 | 994 | 1,308 | 1,909 | 3,423 | 4,262 | 4,325 | 26.3 |
| Share (%) | 44.2 | 48.8 | 51.0 | 55.3 | 64.5 | 55 | 53.7 | - |
| Securities Issued | 145 | 174 | 194 | 224 | 310 | 340 | 323 | 4.0 |
| Payables to Banks | 475 | 563 | 533 | 658 | 1,048 | 1,386 | 1,404 | 33.9 |
| Funds from Repo Transactions | 99 | 97 | 154 | 255 | 587 | 455 | 424 | -27.7 |
| SHAREHOLDERS' EQUITY | 359 | 421 | 492 | 600 | 714 | 1,144 | 1,189 | 66.5 |
| Profit (Loss) of the Period | 48.6 | 54.1 | 49.0 | 58.5 | 93.0 | 252.2 | 286.2 | - |
| RATIOS (%) | | | | | | | | |
| Loans/GDP | 67.0 | 63.7 | 61.5 | 70.9 | 68.0 | | | |
| Loans/Assets | 64.4 | 61.9 | 59.1 | 58.6 | 53.2 | 52.5 | 52.2 | - |
| Securities/Assets | 12.3 | 12.4 | 14.7 | 16.7 | 16.0 | 16.4 | 16.3 | - |
| Deposits/Liabilities | 52.5 | 52.6 | 57.1 | 56.6 | 57.5 | 60.9 | 61.5 | - |
| Loans/Deposits | 122.6 | 117.6 | 103.5 | 103.5 | 92.4 | 86.1 | 84.9 | - |
| Capital Adequacy (%) | 16.9 | 17.3 | 18.4 | 18.7 | 18.4 | 18.7 | 18.8 | - |

(1) Year-to-date % change

Source: BRSA, Turkstat

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