

MACROECONOMIC OUTLOOK AND MONETARY POLICY IN TURKEY

March 24, 2022

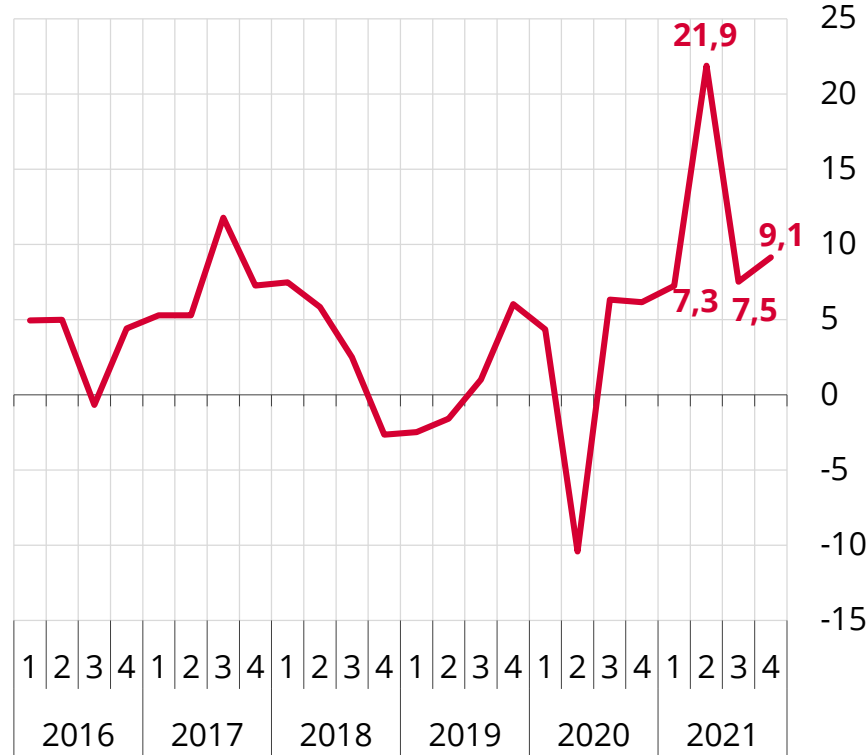


Economic Activity

Economic activity remained strong in the last quarter of 2021 and GDP grew by 11 percent in 2021.

Thus, the Turkish economy maintained its strong growth trend after the pandemic.

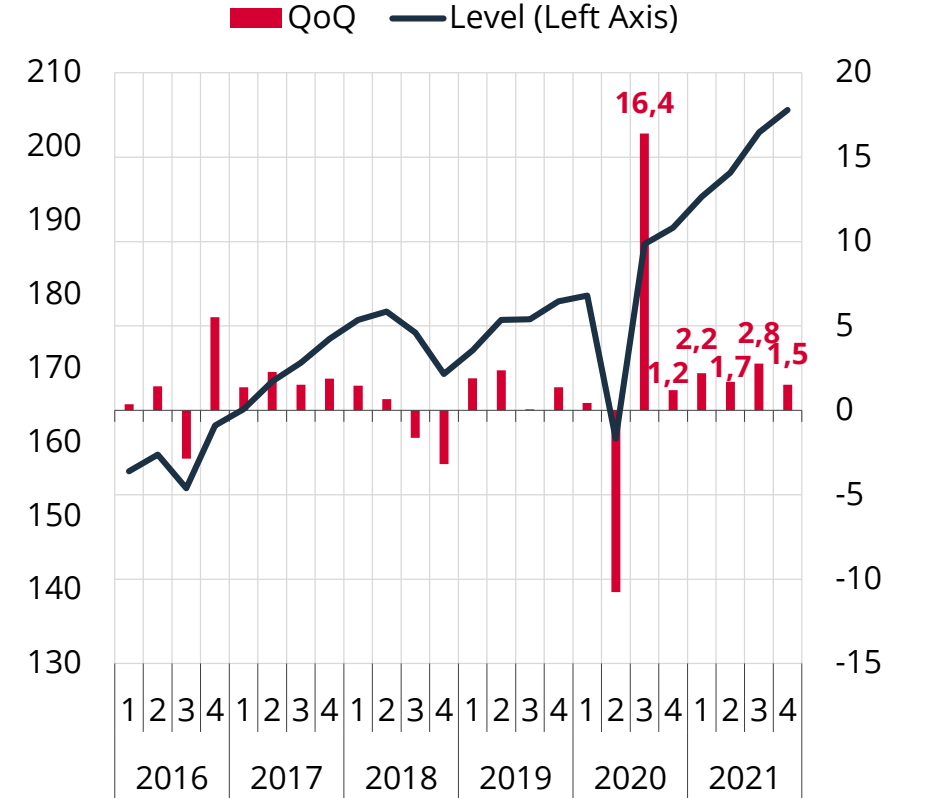
Gross Domestic Product (Y-o-Y Growth Rate, %)



Source: TURKSTAT

Last Observation: 2021Q4

Gross Domestic Product (Seasonally and Calendar Adjusted, Chain-Linked Volume Index, 2009 = 100)



Source: TURKSTAT

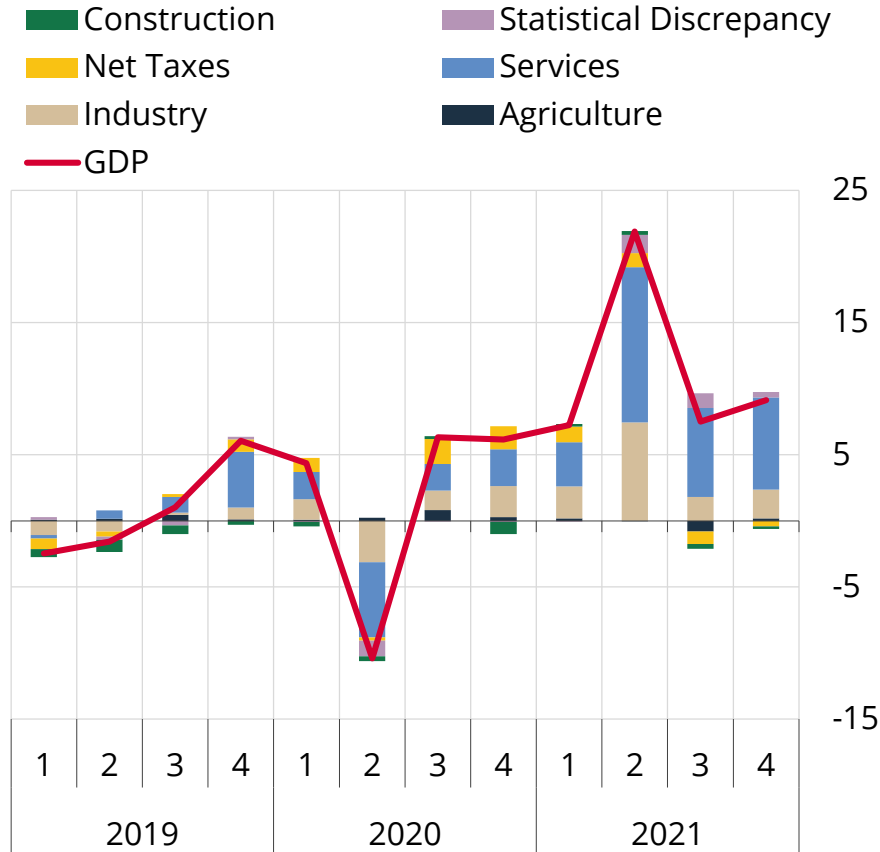
Last Observation: 2021Q4

Economic Activity

Services were the main driver of the growth, on the production side, thanks to the post-pandemic normalization process and the positive course in tourism.

On the expenditure side, the contribution of net exports to growth increased significantly in 2021 compared to previous years.

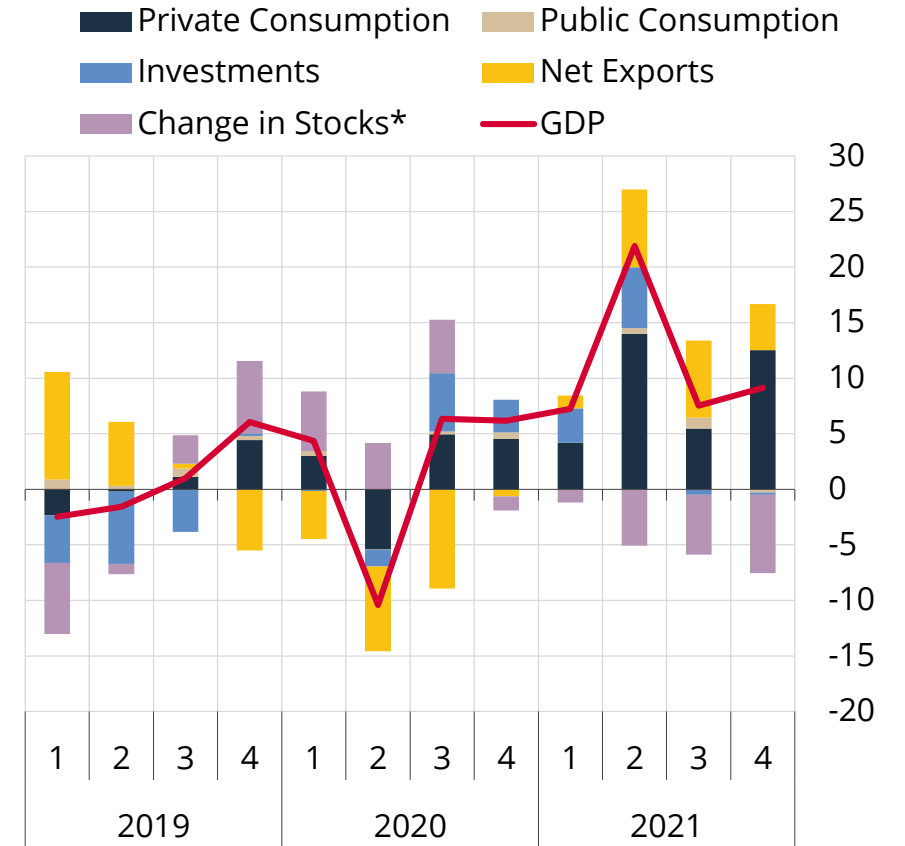
Contribution to Annual GDP Growth from Production Side (% Point)



Source: CBRT, TURKSTAT

Last Observation: 2021Q4

Contribution to Annual GDP Growth from Expenditure Side (% Point)



Source: CBRT, TURKSTAT

Last Observation: 2021Q4

* Includes statistical discrepancy due to chain linking.

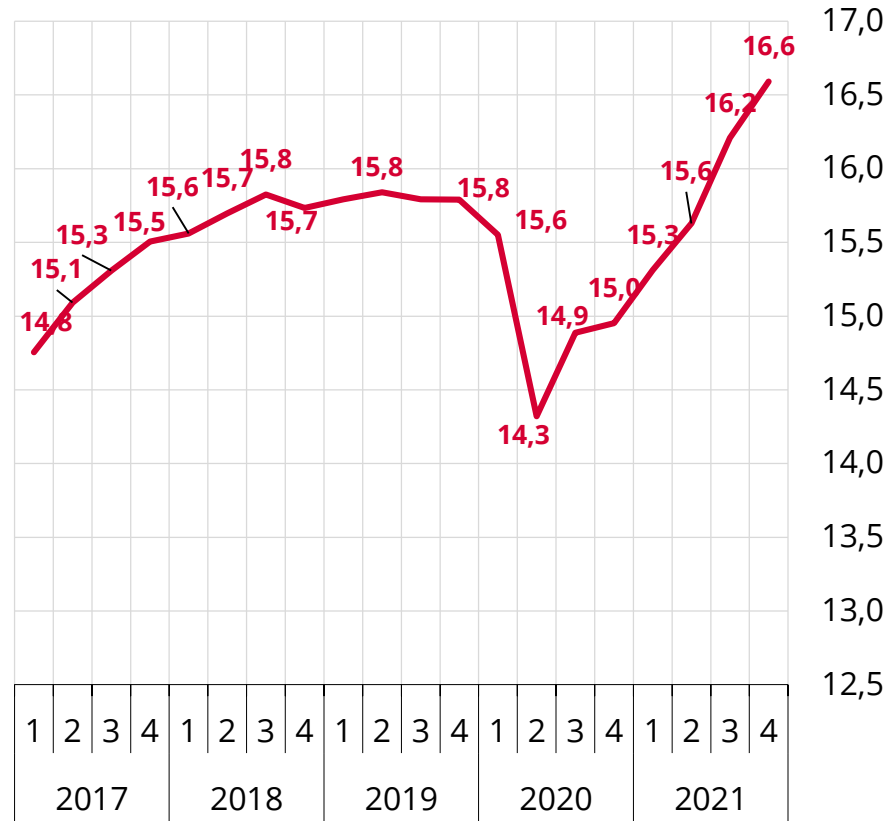
Employment

Services employment showed a strong increase with the contribution of the post-pandemic normalization process and the positive course in tourism, while industry employment showed a strong increase with the support of the positive course of exports.

Construction employment, on the other hand, followed a more moderate course.

Non-farm employment continues to increase.

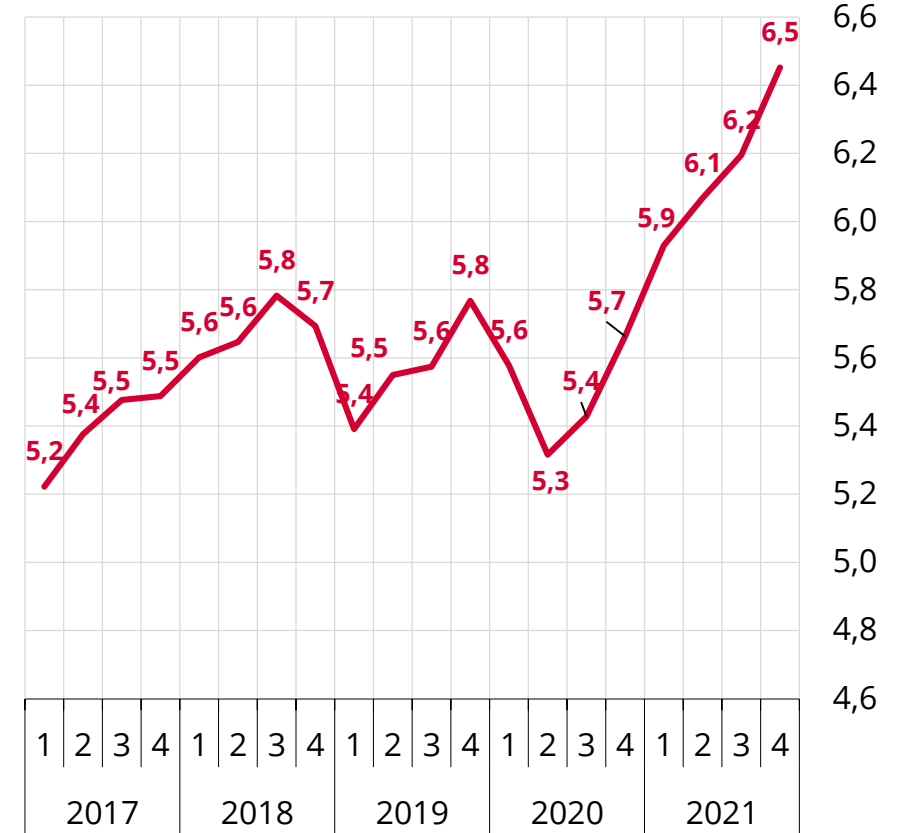
Services Employment (Seasonally Adjusted, Million People)



Source: TURKSTAT

Last Observation: December 2021

Industry Employment (Seasonally Adjusted, Million People)



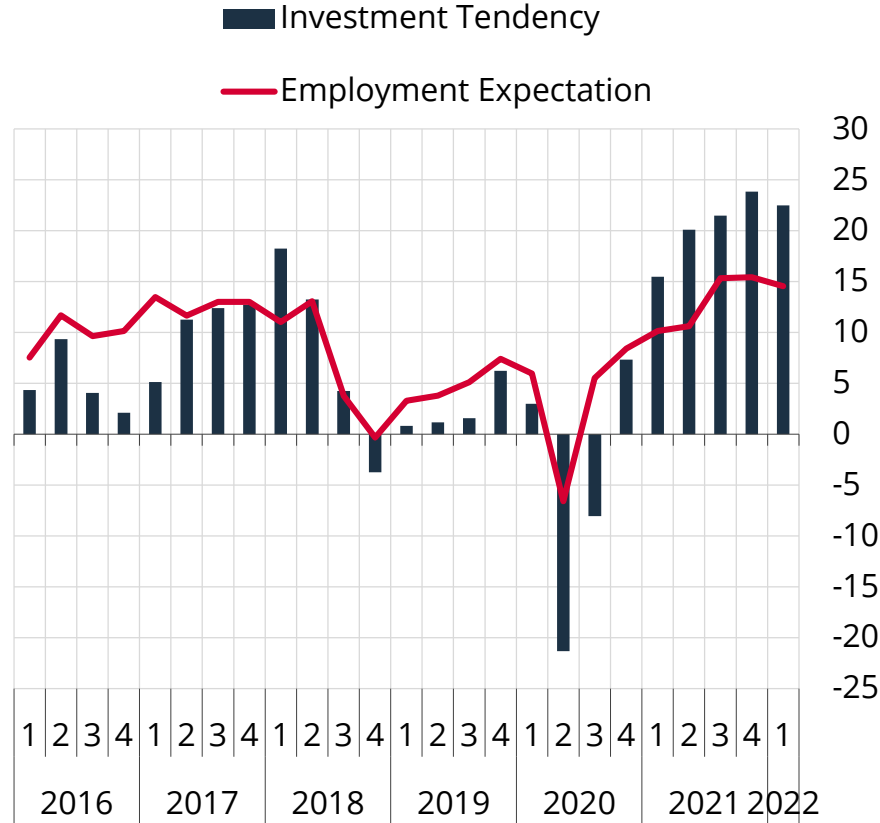
Source: TURKSTAT

Last Observation: December 2021

Employment and Investment Tendencies

Investment tendency and employment expectation remain strong.

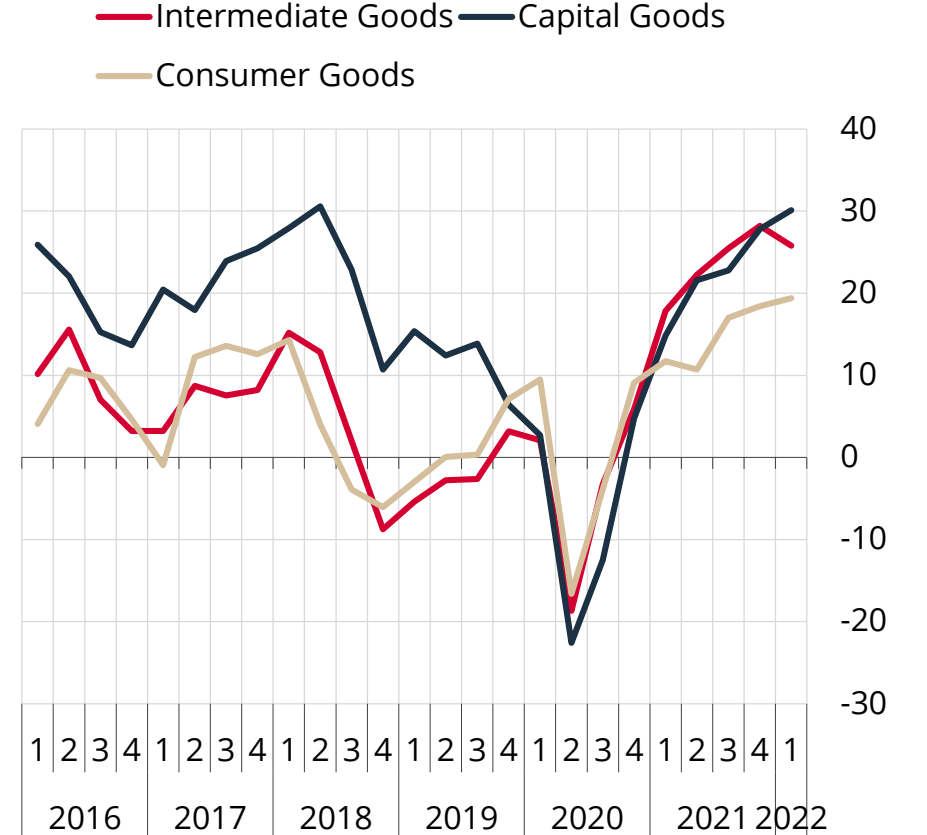
Investment Tendency and Employment Expectation in Manufacturing (Seasonally Adjusted)



Source: CBRT

Last Observation: February 2022

Investment Tendency (Seasonally Adjusted)



Source: CBRT

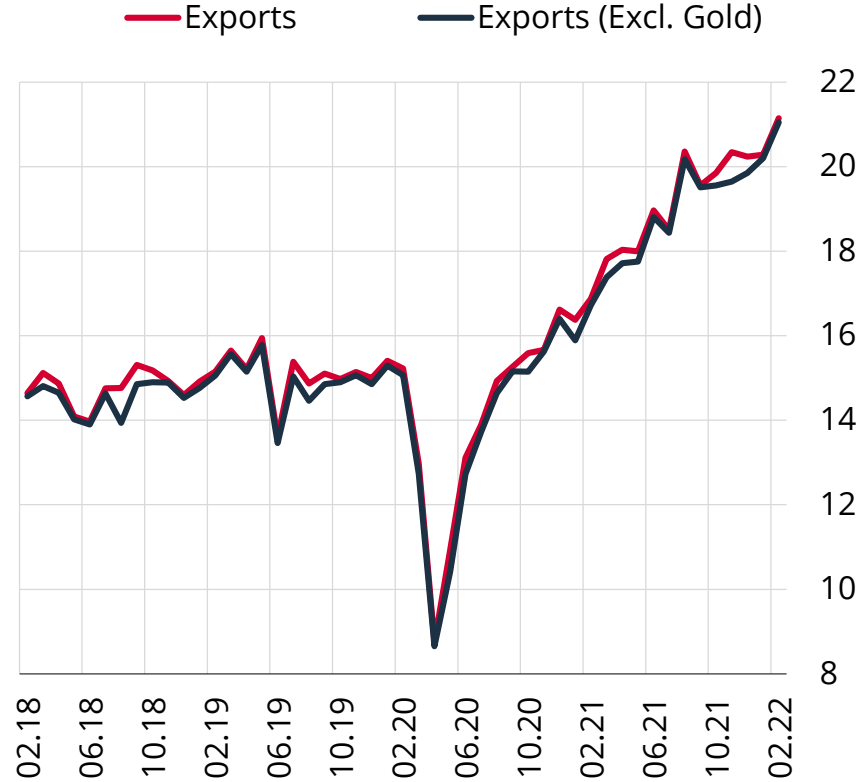
Last Observation: February 2022

External Trade

In 2021 exports maintained a strong growth momentum amounting to USD 225 billion while imports followed an upward trend due to increasing commodity prices, reaching USD 271 billion.

As of February, exports remains strong, while commodity prices continue to adversely affect imports.

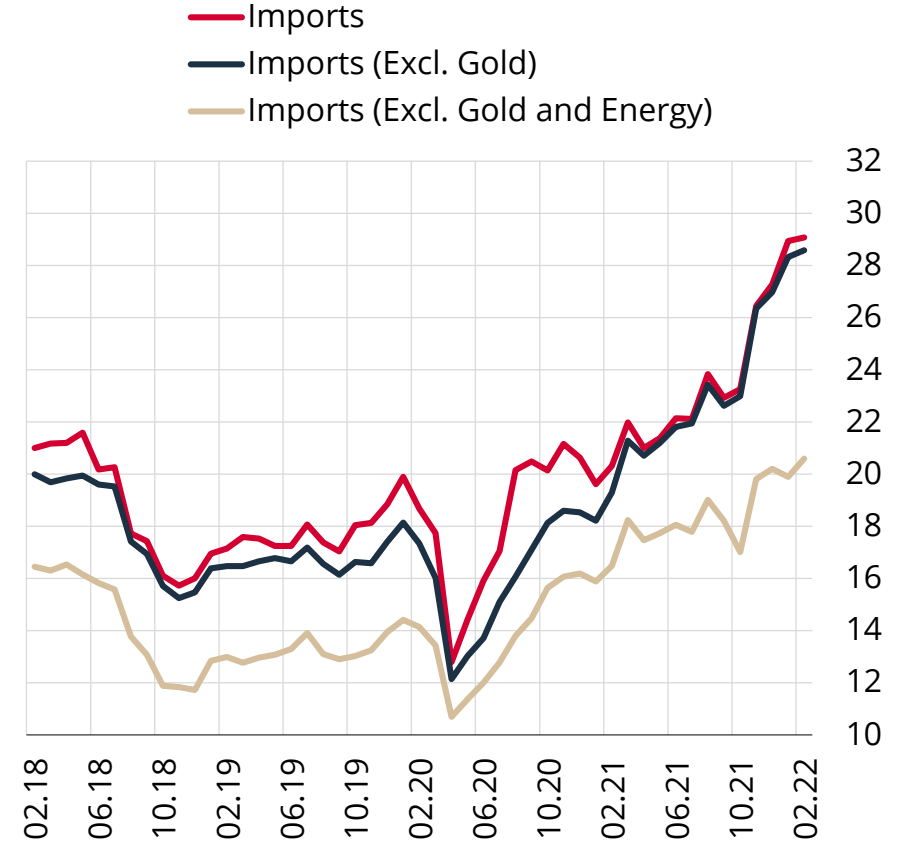
Exports (Billion USD, Seasonally and Calendar Adjusted)



Source: CBRT, Ministry of Trade, TURKSTAT

Last Observation: February 2022

Imports (Billion USD, Seasonal and Calendar Adjusted)



Source: CBRT, Ministry of Trade, TURKSTAT

Last Observation: February 2022

Foreign Trade Balance

In 2021 Turkey's trade with Europe turned to a surplus, while trade surplus with the MENA region considerably increased.

Foreign trade deficit with the Asian and the CIS regions increased.

Foreign Trade Balance by Region (Billion USD)

	2017	2018	2019	2020	2021	2022*	FTV*
EU 27	-14.7	0.0	8.3	-3.7	7.2	8.6	179.3
Other Europe	-0.4	5.7	6.5	1.7	10.8	10.5	32.7
CIS	-15.6	-17.2	-15.6	-9.2	-19.7	-17.3	56.0
Asia	-45.7	-40.6	-33.9	-36.3	-51.0	-49.2	83.9
Middle East and Africa	23.4	21.7	30.5	19.8	35.1	35.8	84.9
North America	-4.2	-4.6	-3.5	-1.4	2.2	3.1	30.3

Source: TURKSTAT

Last Observation: January 2022

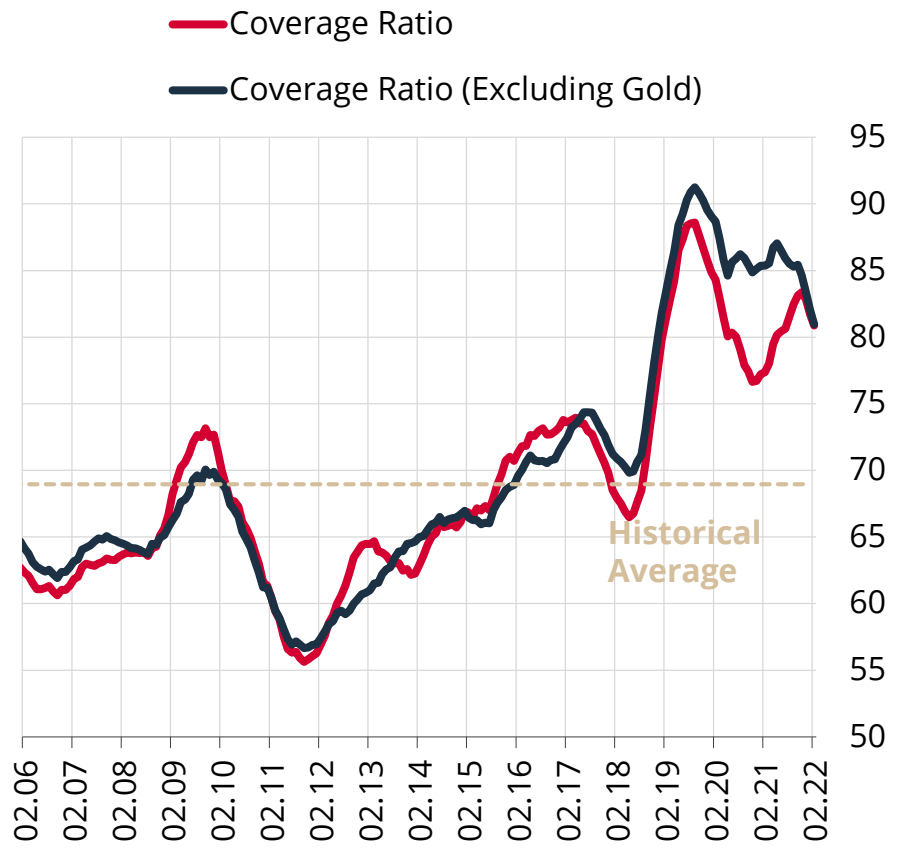
* 12-month cumulative Trade balance and Foreign Trade Volume as of January 2022.

External Balance

The coverage ratio of exports to imports has been relatively high in recent years.

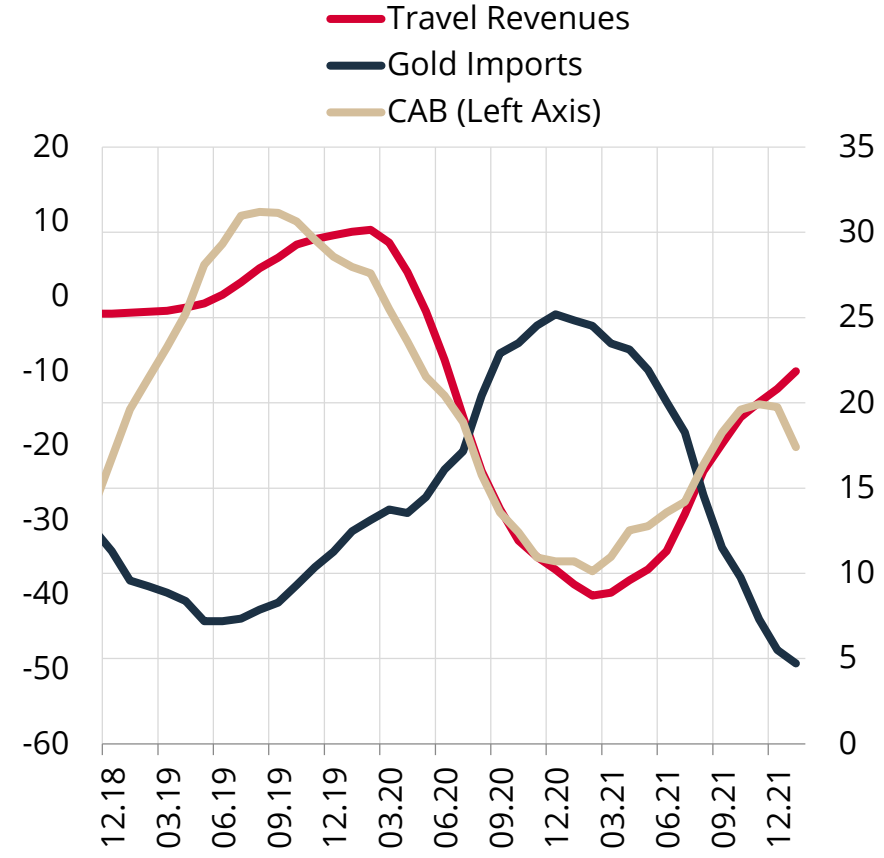
The recovery in tourism and other service exports continue to support the current account balance.

Coverage Ratio
(%, Seasonally Adjusted,
12-Month Moving Average)



Source: CBRT, TURKSTAT, Ministry of Trade Last Observation: February 2022

Current Account Balance, Gold Imports, Travel Revenues
(Billion USD, 12-Month Cumulative)



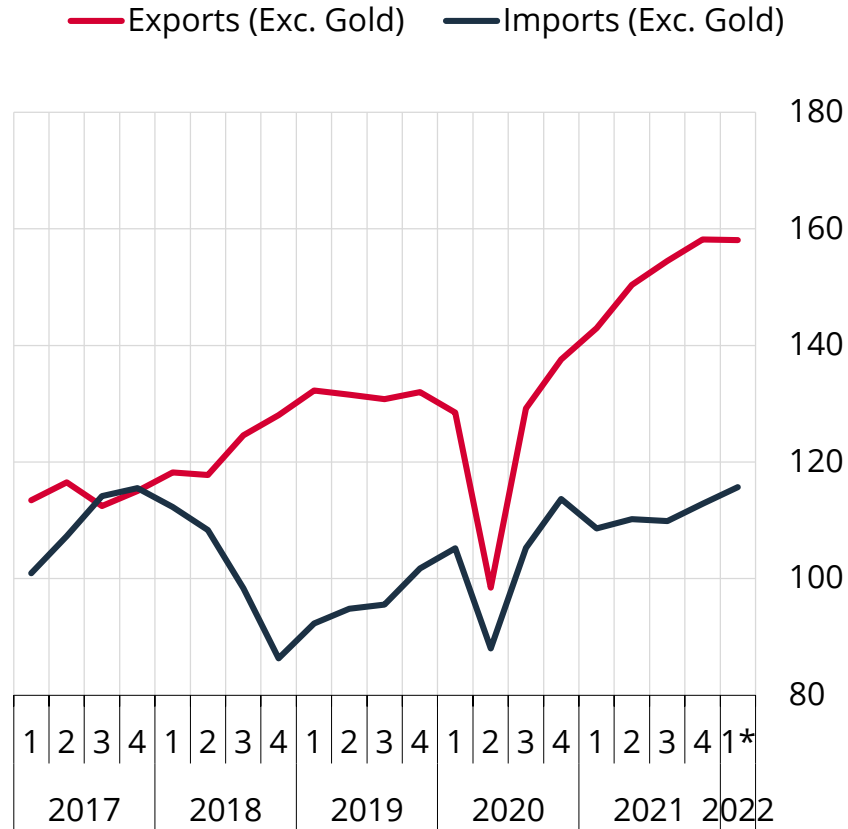
Source: CBRT

Last Observation: January 2022

External Balance

The rebalancing in foreign trade is more clearly observed in real terms.

Foreign Trade Volume Indices (Seasonally Adjusted, 2015 = 100)

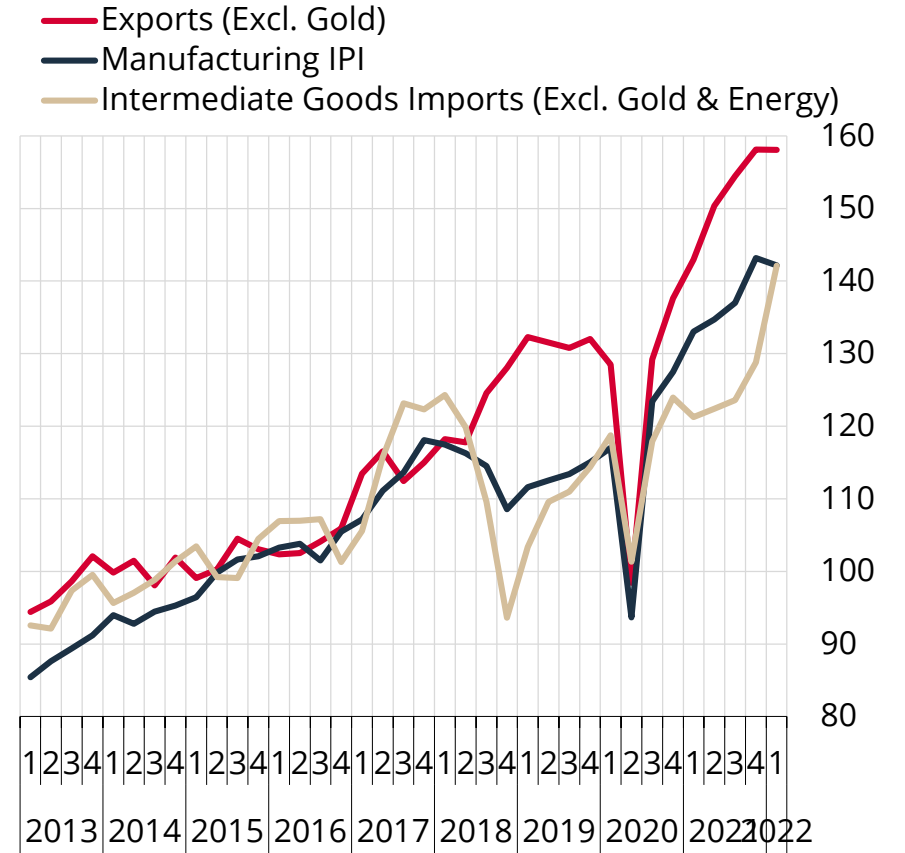


Source: CBRT, TURKSTAT

Last Observation: January 2022

* As of January.

Manufacturing Industrial Production Index and Foreign Trade Volume Indices (Seasonally and Calendar Adjusted, 2015 = 100)



Source: CBRT, TURKSTAT

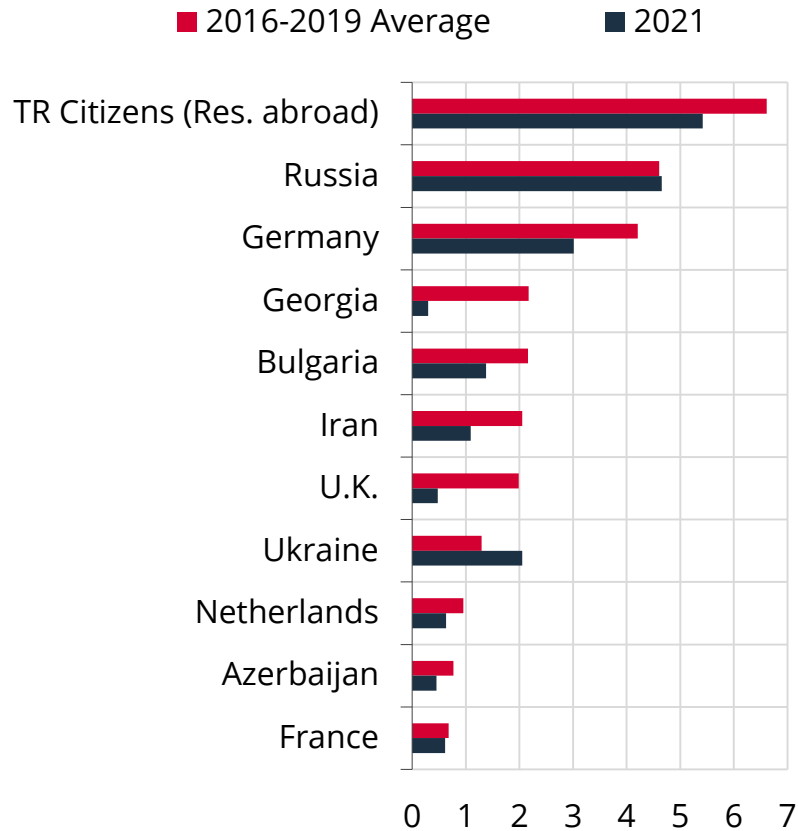
Last Observation: January 2022

Tourism

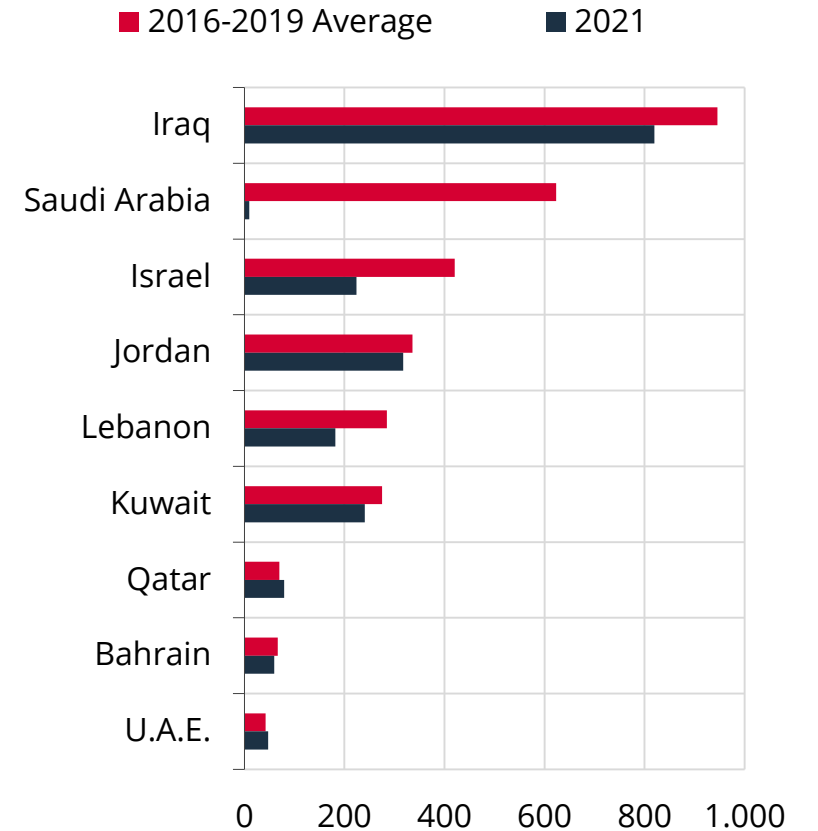
The conflict environment creates uncertainty around the expectations of the number of tourists in 2022.

However, there can be an additional demand-driven contribution to tourism receipts from Europe, where the average per capita expenditure is high, and from the Middle East countries, which will experience potential income growth in parallel with the increase in oil prices.

Tourists by Nationalities* (Million People)



Tourists from Middle East Countries (Thousand People)



Source: TURKSTAT

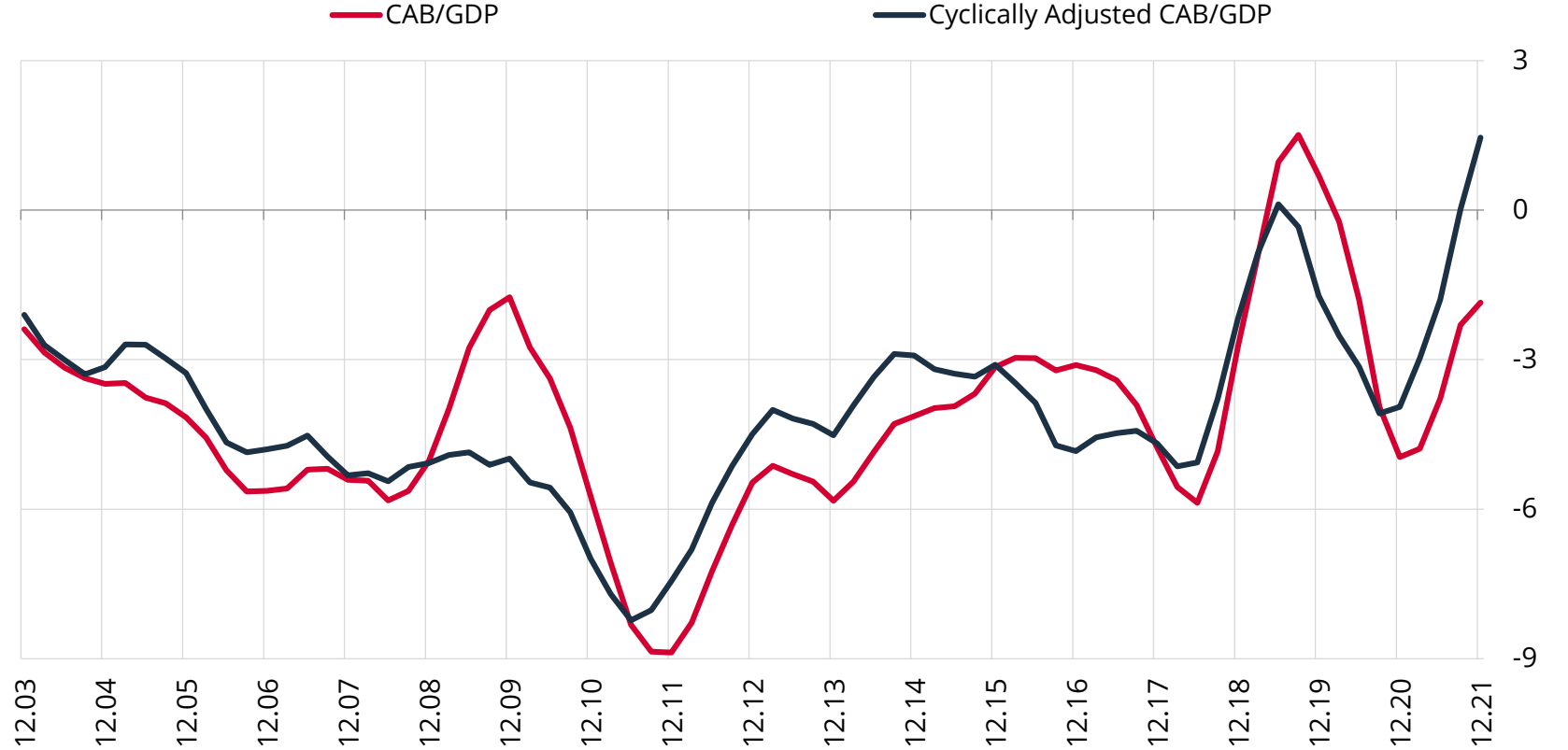
Last Observation: 2021

* The top 10 countries with the highest number of visitors according to the 2016-2019 average are taken.

External Balance

When the cyclical effects are excluded the annualized current account balance is estimated to become positive in the fourth quarter.

Cyclically Adjusted Current Account Deficit* (12-Month Cumulative, % of GDP)



Source: CBRT

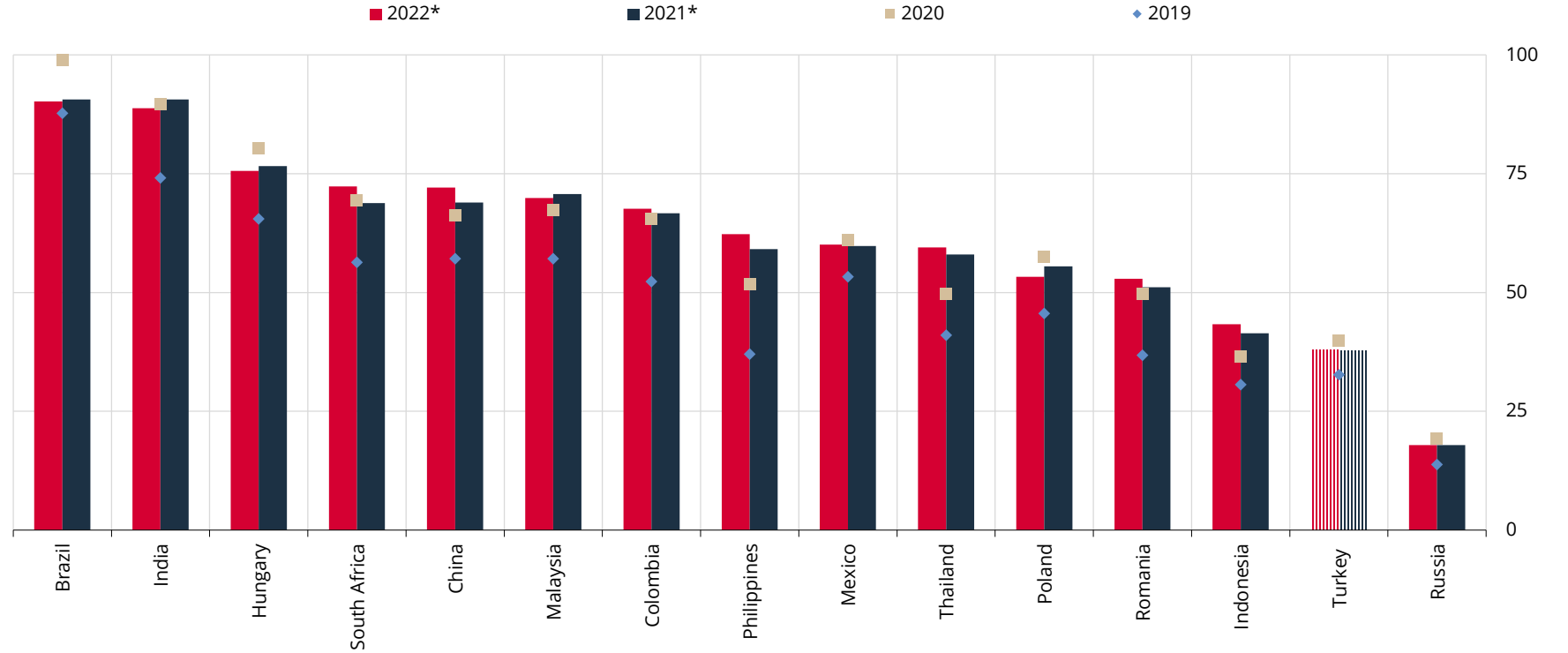
Last Observation: 2021Q4

* Adjusted for both price and business cycle effects.

Fiscal Discipline

In terms of fiscal discipline, Turkey displays a favorable outlook compared to peer countries.

General Government Gross Debt (% of GDP)



Source: IMF Fiscal Monitor October 2021

Last Observation: 2020

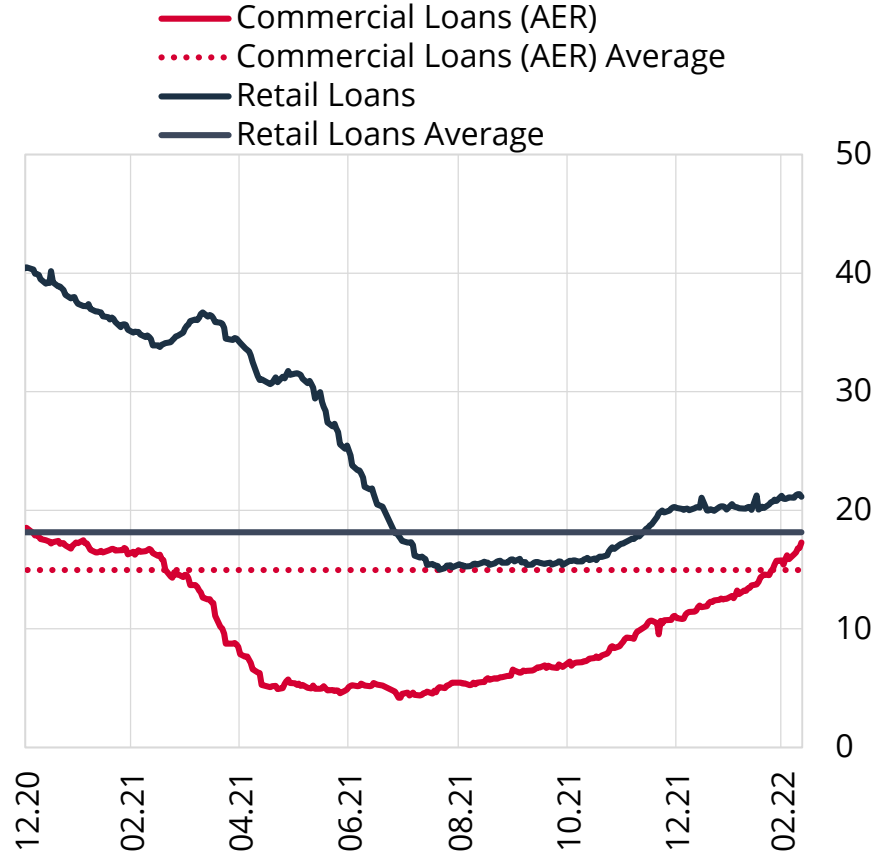
* IMF forecast.

Credit Developments

Recently, TL commercial loan growth has accelerated.

High-frequency indicators point to a deceleration in retail loans.

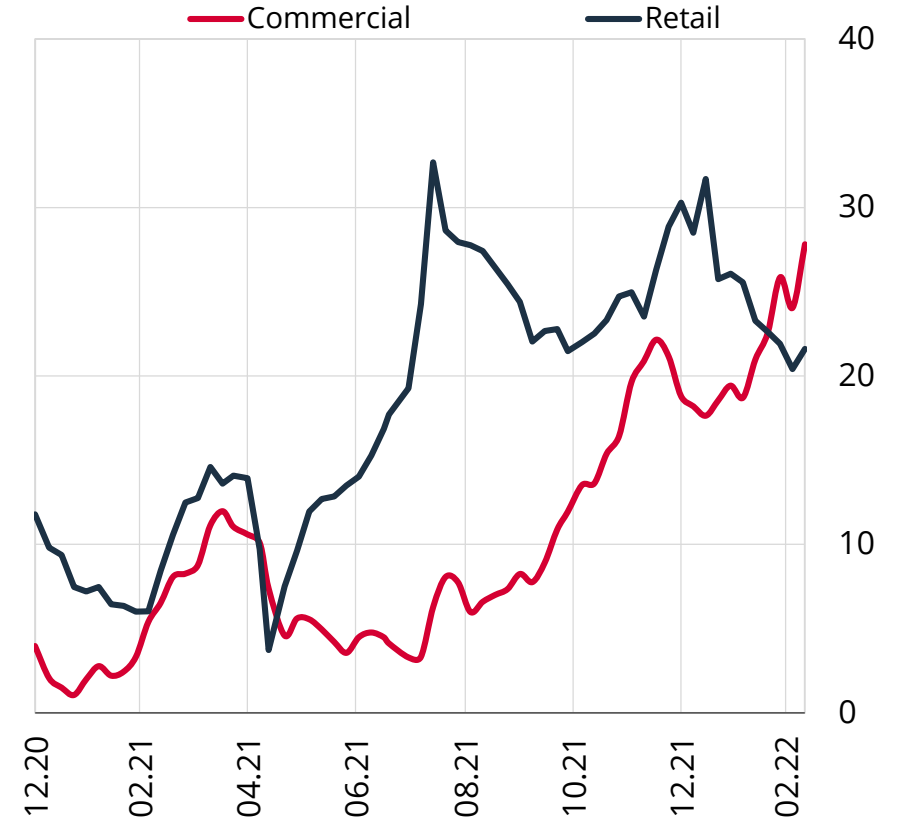
Loan Growth
(Annual Growth, Adjusted for Exchange Rate, %)



Source: CBRT

Last Observation: March 11, 2022

Loan Growth by Types of Loans
(Annualized 13-Week Moving Average, Adjusted for Exchange Rate, %)



Source: CBRT

Last Observation: March 11, 2022

(1) Commercial loan and retail loan growth averages are calculated over the realizations in the 2011-2021 period.

Deposit Developments: Deposit Amounts

With the new currency protected deposit scheme, there has been a significant conversion towards TL deposits.

TL deposits have increased by TL 581.4 billion, while FX deposits have declined by USD 22.6 billion since December 20, 2021.

Deposit Developments

Deposits*

	Deposit Amounts			Change		
	Billion TL USD	20 Dec 21	31 Dec 21	11 Mar	20 Dec - 31 Dec	31 Dec - 11 Mar
TL Deposits		1,854	1,880	2,462	26.6	581.4
Savings		1,063	1,074	1,255	11.3	181.1
Commercial		595	585	856	-10.2	271.4
Official and Other		195	221	350	25.5	128.9
FX Deposits*		260	259	238	-0.6	-22.6
Savings		163	164	158	0.6	-7.9
Commercial		90	89	74	-1.1	-14.4
Official and Other		5.8	5.9	5.4	0.0	-0.4

Source: CBRT

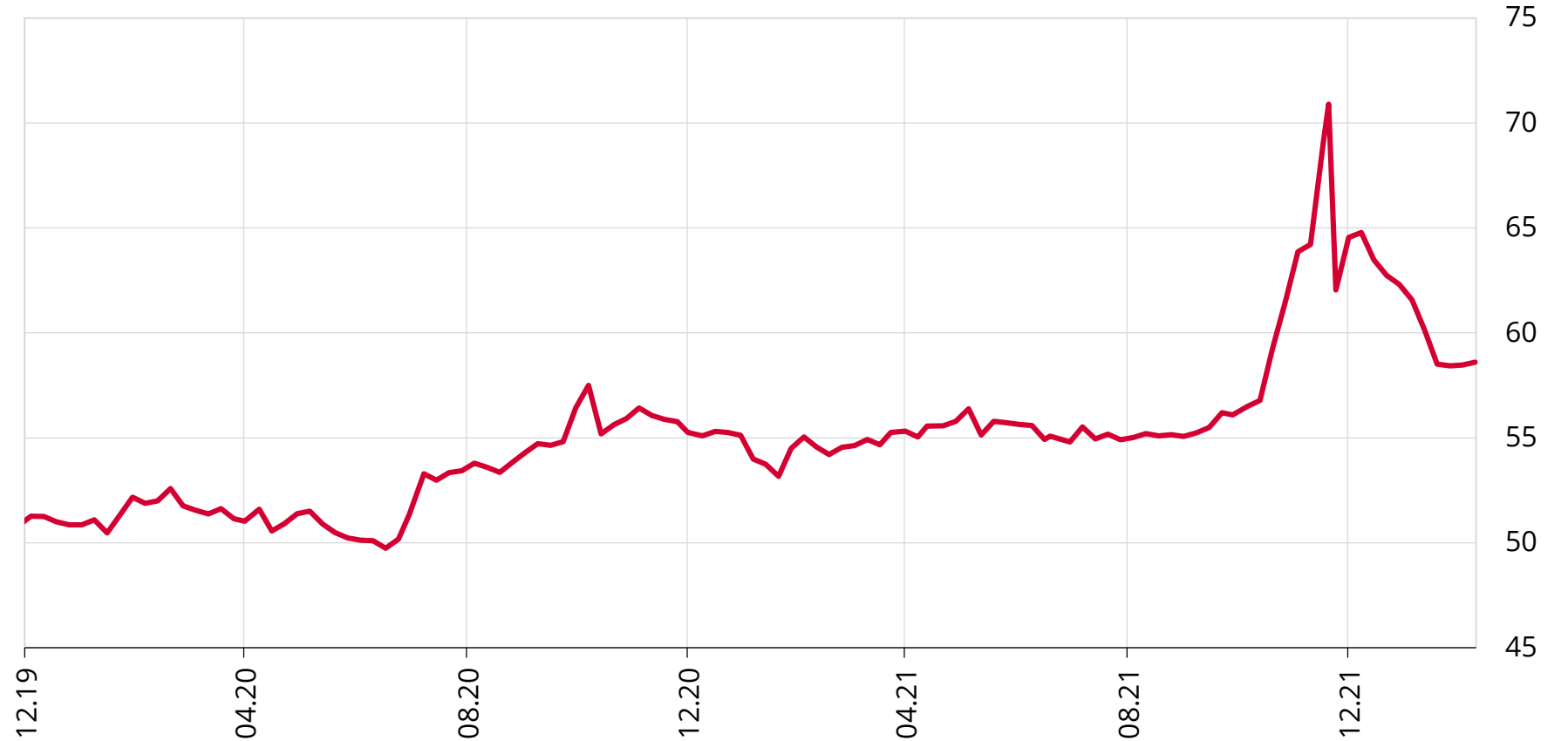
Last Observation: March 11, 2022

* FX deposit amounts are nominal values. Their changes are adjusted for parity and gold price effects.

Deposit Developments: Dollarization

Total dollarization rate started to decline thanks to the contribution of FX-protected deposit products and decreased to 58.6% as of March 11th.

Total Dollarization (Percentage)



Source: CBRT

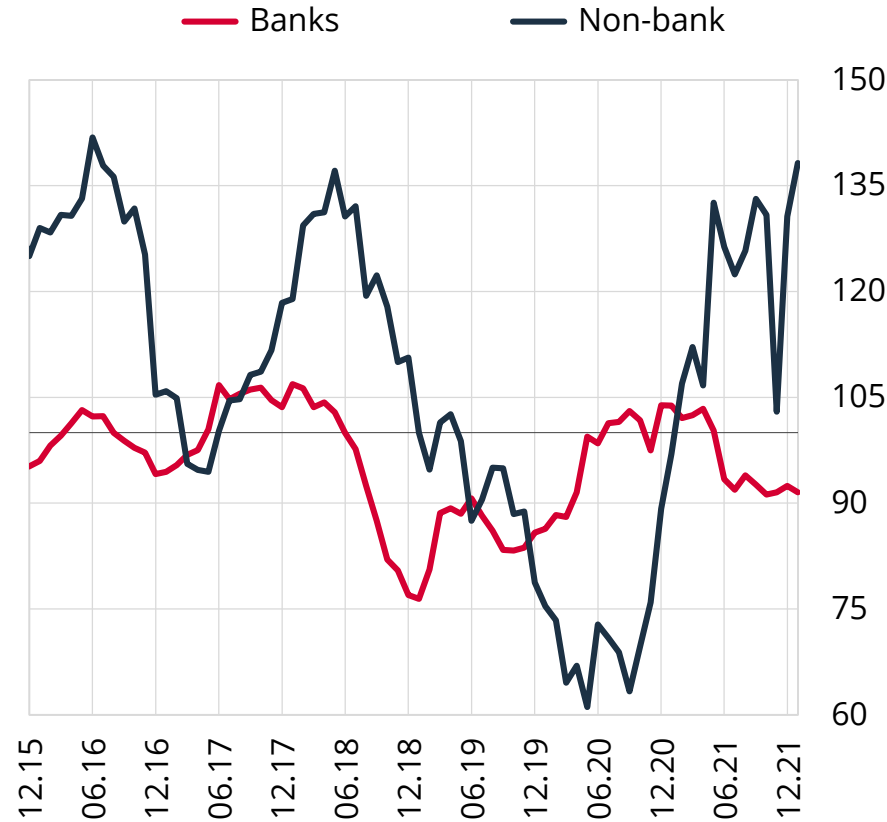
Last Observation: March 11, 2022

External Finance

External debt rollover of banking sector is flat at 92%. Non-bank external debt rollover is significantly higher than 100%.

External debt has been following a declining path since the end of 2017.

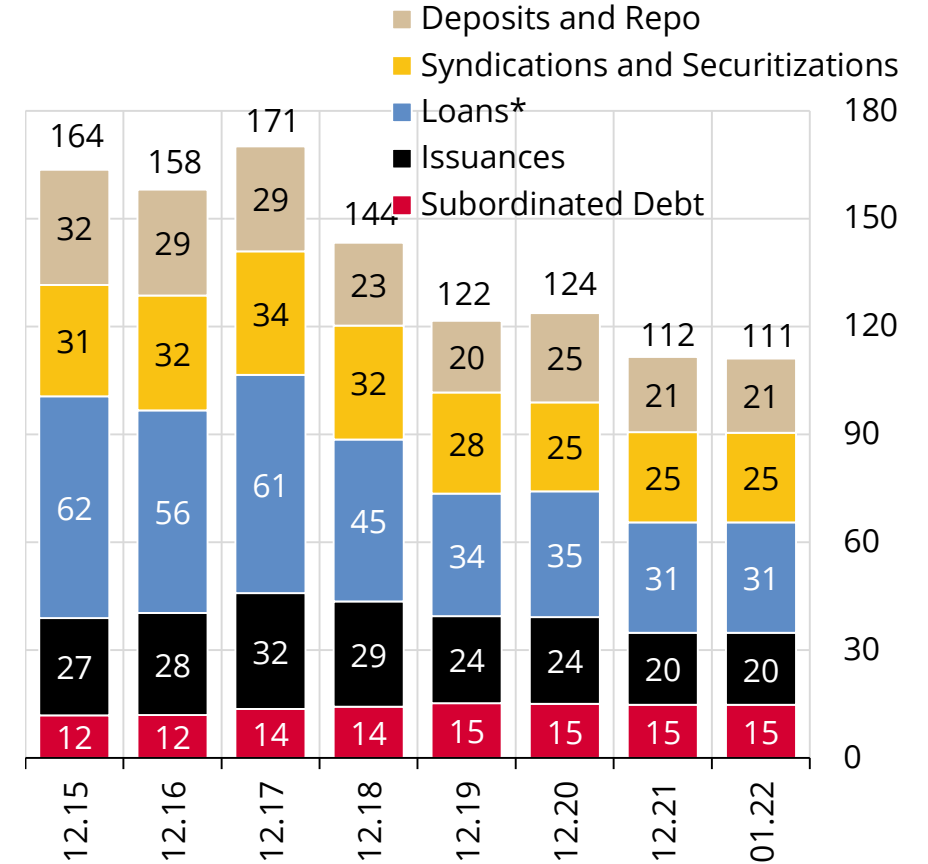
External Debt Rollover Ratios
(6 Months, %)



Source: CBRT

Last Observation: January 2022

Outstanding External Debt of Banking Sector
(Billion USD)



Source: CBRT

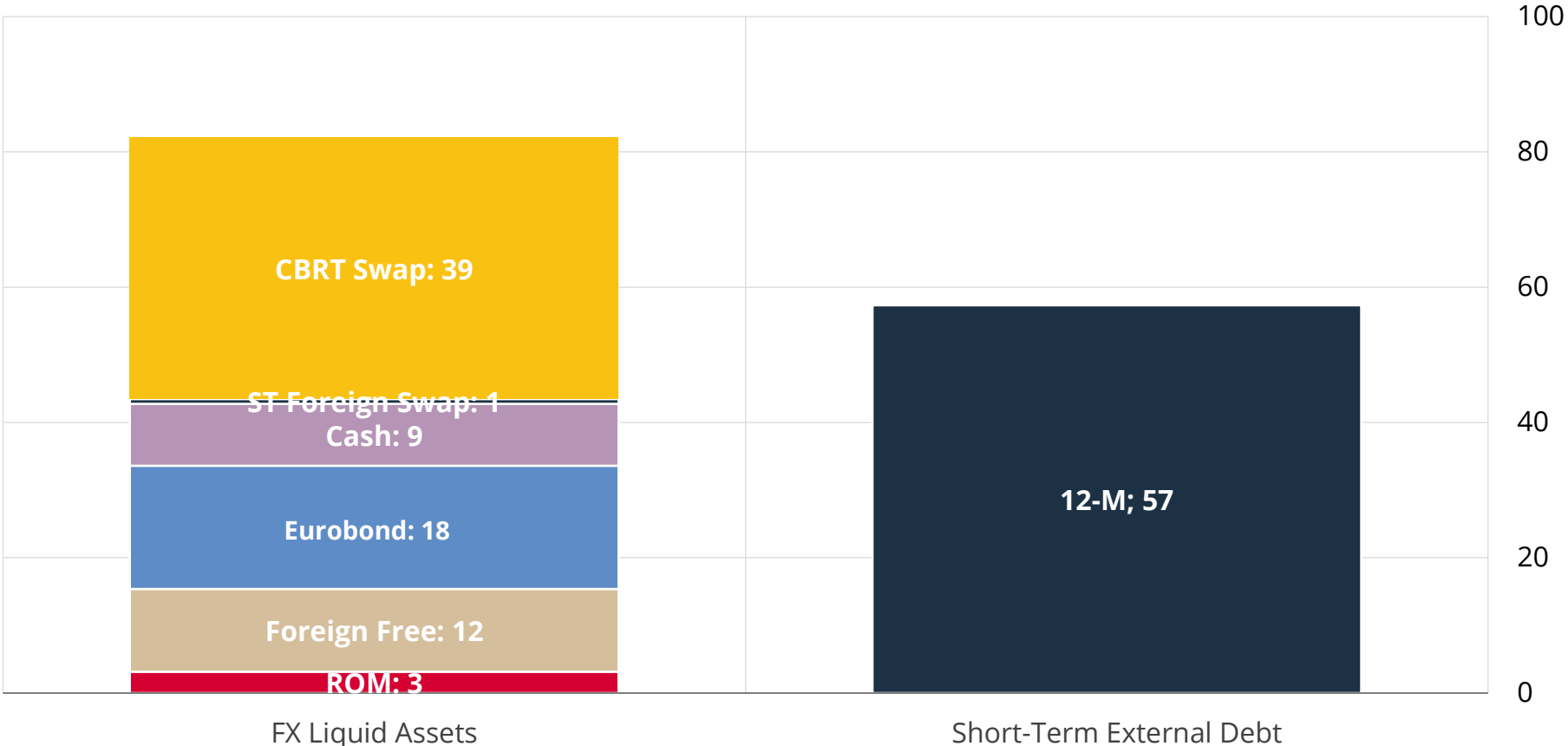
Last Observation: January 2022

* Loans = Commercial Bank Loans + Development and Investment Loans + Foreign Trade Finance Loans

FX Liquidity

Short-Term External Debt* and FX Liquid Assets** of Banks (Remaining Maturity, Billion USD)

Banks maintain adequate FX liquidity buffers to cover short-term external debt.



CBRT

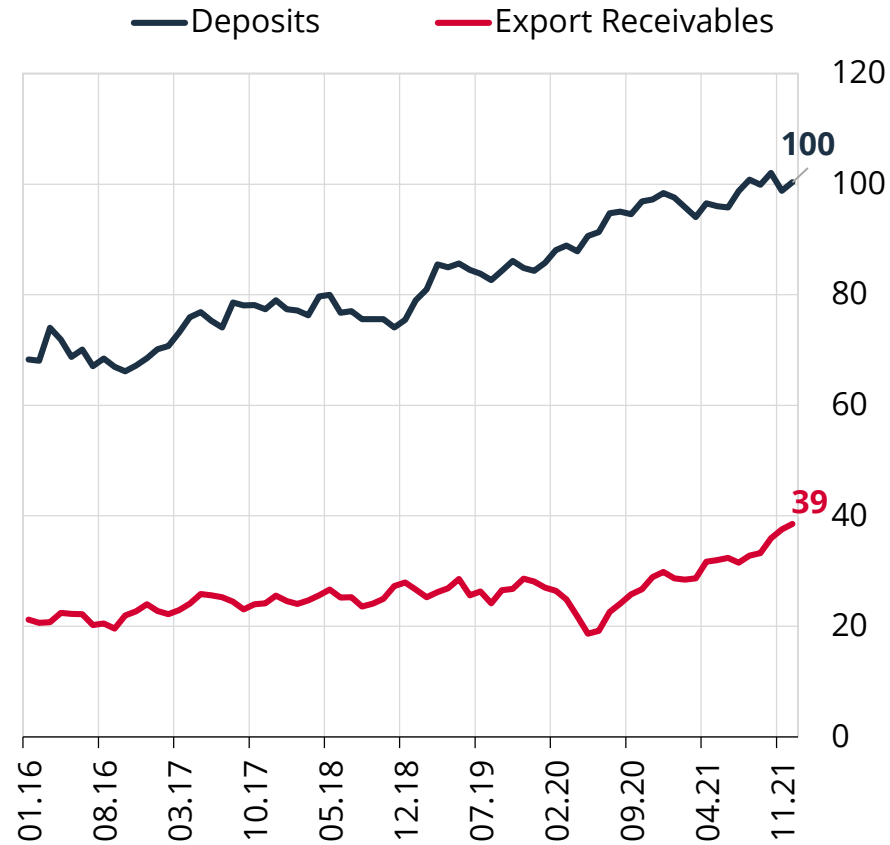
March 15, 2022

(*) Short Term External Debt table is derived from Short Term External Debt Statistics, Table 5 (Short-Term External Debt Stock on a Remaining Maturity Basis). It excludes FX deposits of non-resident real and legal persons and TRY deposits. Latest data is as of January 2022.
 (***) CBRT swap data is as of March 15; cash, Eurobond, foreign free are as of March 11, whereas the data for ROM and FX reserve requirements are as of March 4, 2022. ST Foreign swap is as of March 11, 2022 and includes those swaps that mature within 12 months.

FX Assets and Liabilities of Non-Financial Corporate Sector

Corporates' FX deposits and the downward trend in domestic FX loans positively affect the FX risk outlook of corporate sector since 2018.

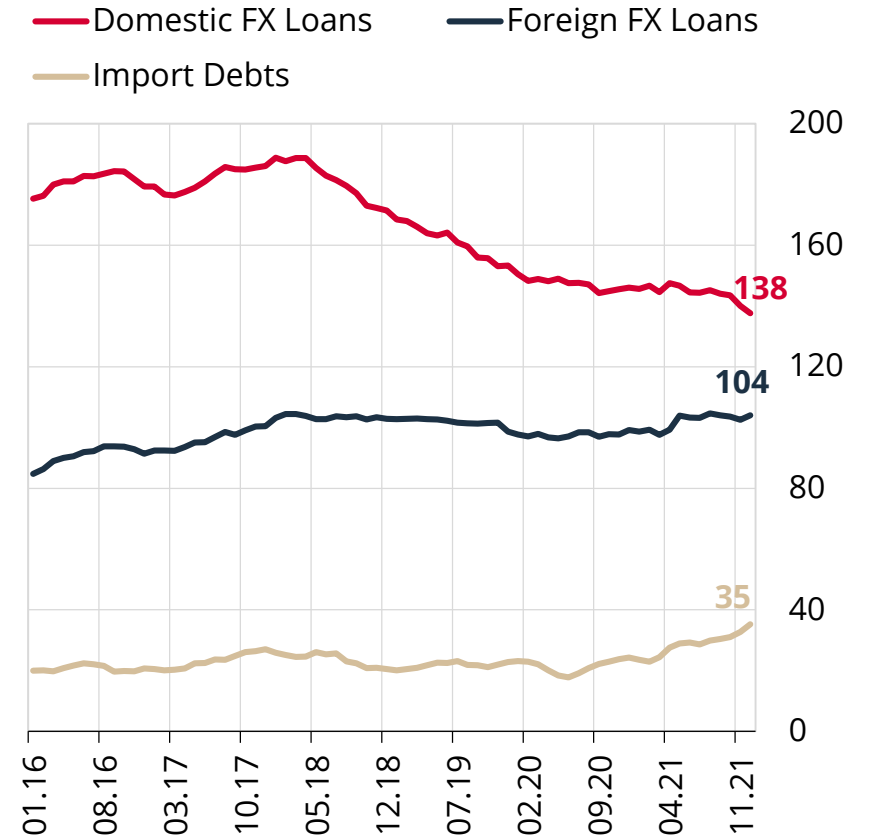
FX Assets of Non-Financial Corporates
(Billion USD)



CBRT

December 2021

FX Liabilities of Non-Financial Corporates
(Billion USD)



CBRT

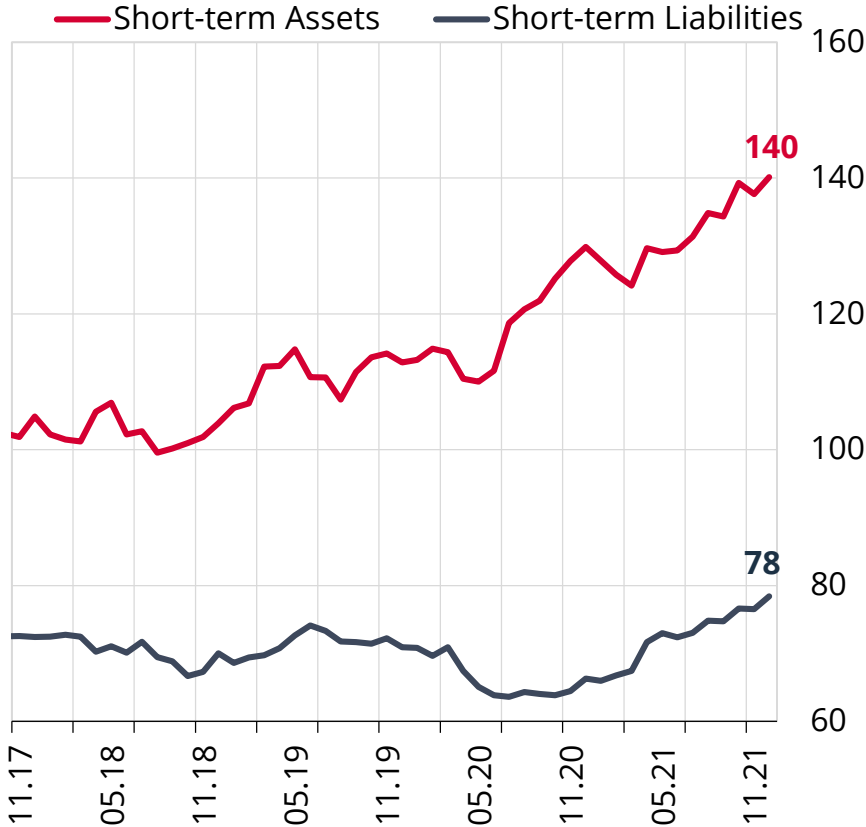
December 2021

FX Assets and Liabilities of Corporate Sector

The improvement in the net FX position of the corporate sector is maintained.

Corporates have long FX position in the short-term. Their short-term assets surpass the short-term liabilities.

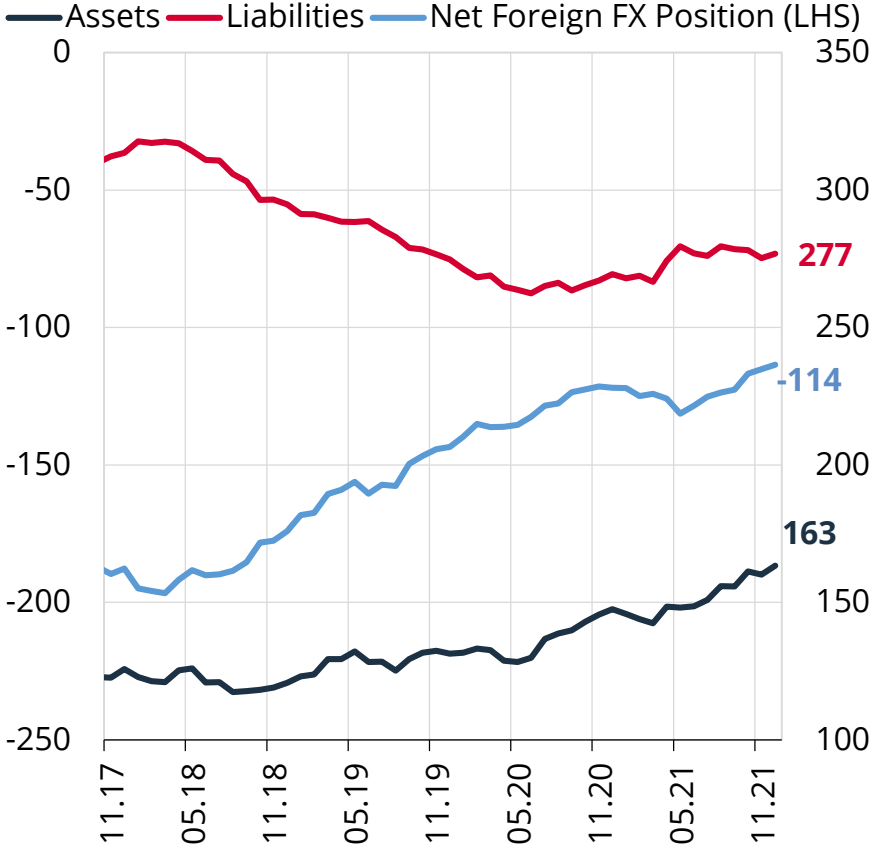
Short-Term FX Assets and Liabilities
(Billion USD Dollar)



Source: CBRT

Last Observation: December 2021

FX Assets, Liabilities and Net FX Position
(Billion USD Dollar)



Source: CBRT

Last Observation: December 2021

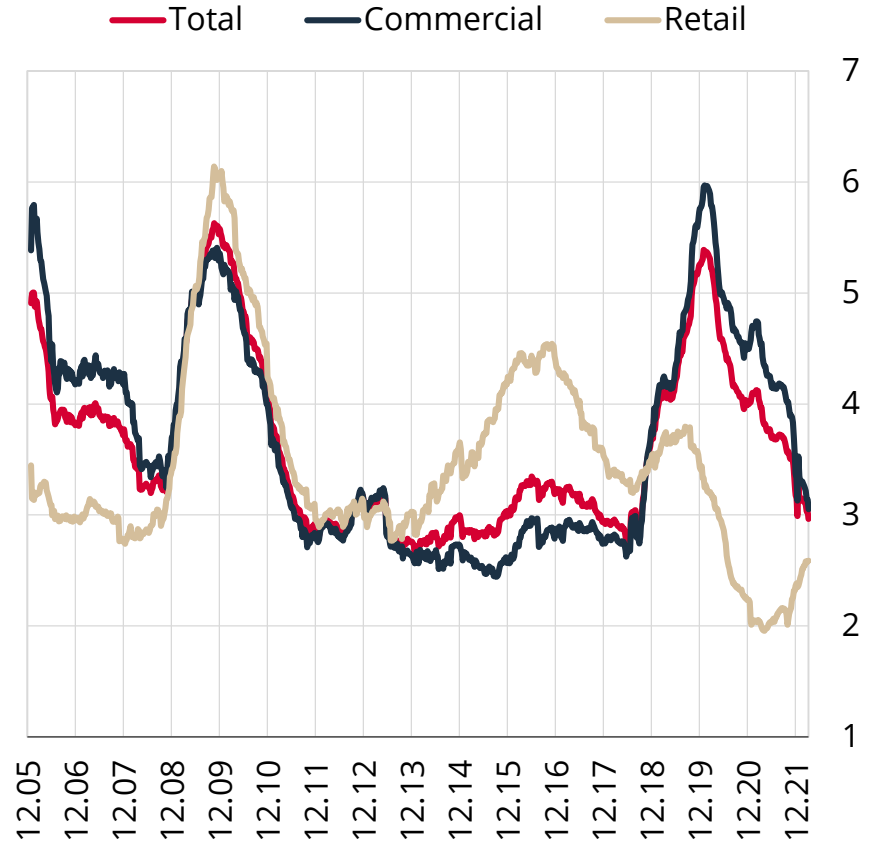
Banking Sector: Asset Quality

NPL ratios have eased on the back of strong course of economic activity and the level of loan growth.

NPL ratio for retail loans has slightly increased recently.

Conservative provisioning policies will serve as a buffer against deterioration in asset quality.

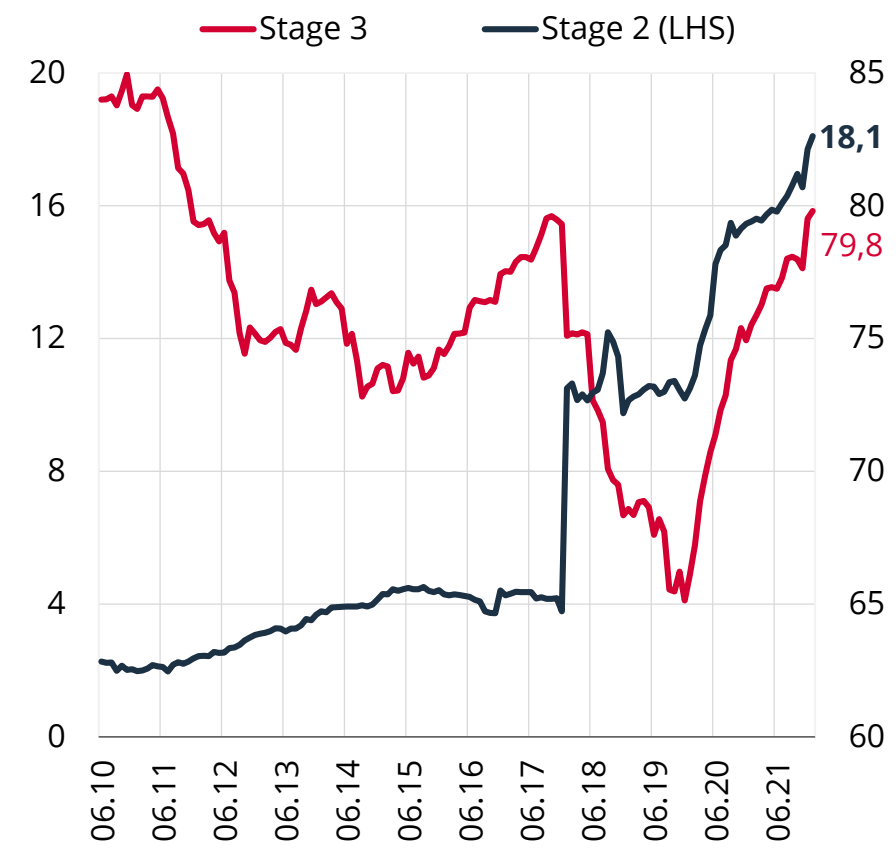
Banking Sector NPL Ratios (%)



Source: CBRT

Last Observation: March 11, 2022

Provision Ratios for Stage 2 and Stage 3 Loans (%)



Source: CBRT

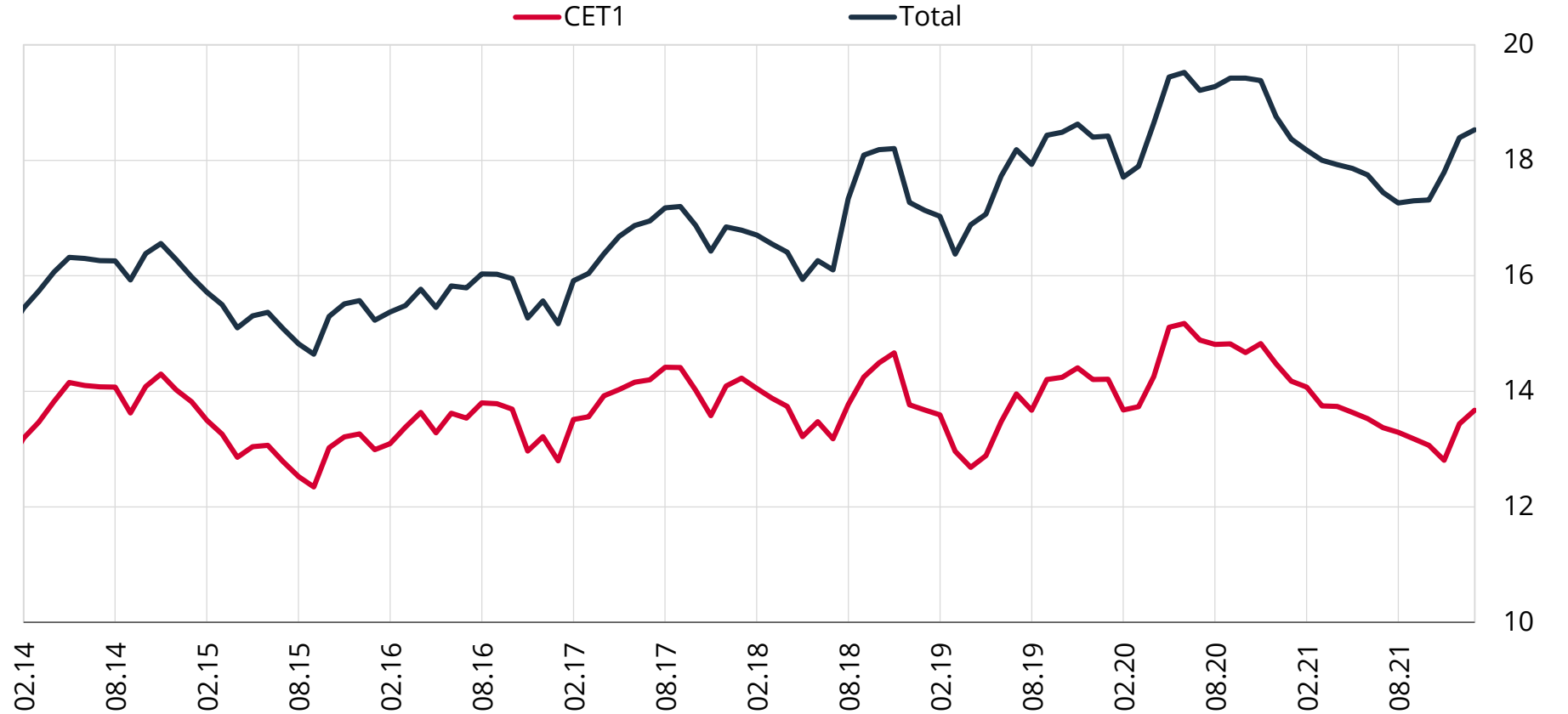
Last Observation: January 2022

Banking Sector: Capital Adequacy

Banking sector has capital ratios above regulatory minimum.

The rise in profitability, the stable course of the exchange rate support the capital adequacy.

Banking Sector Capital Adequacy Ratios (%)



Source: CBRT

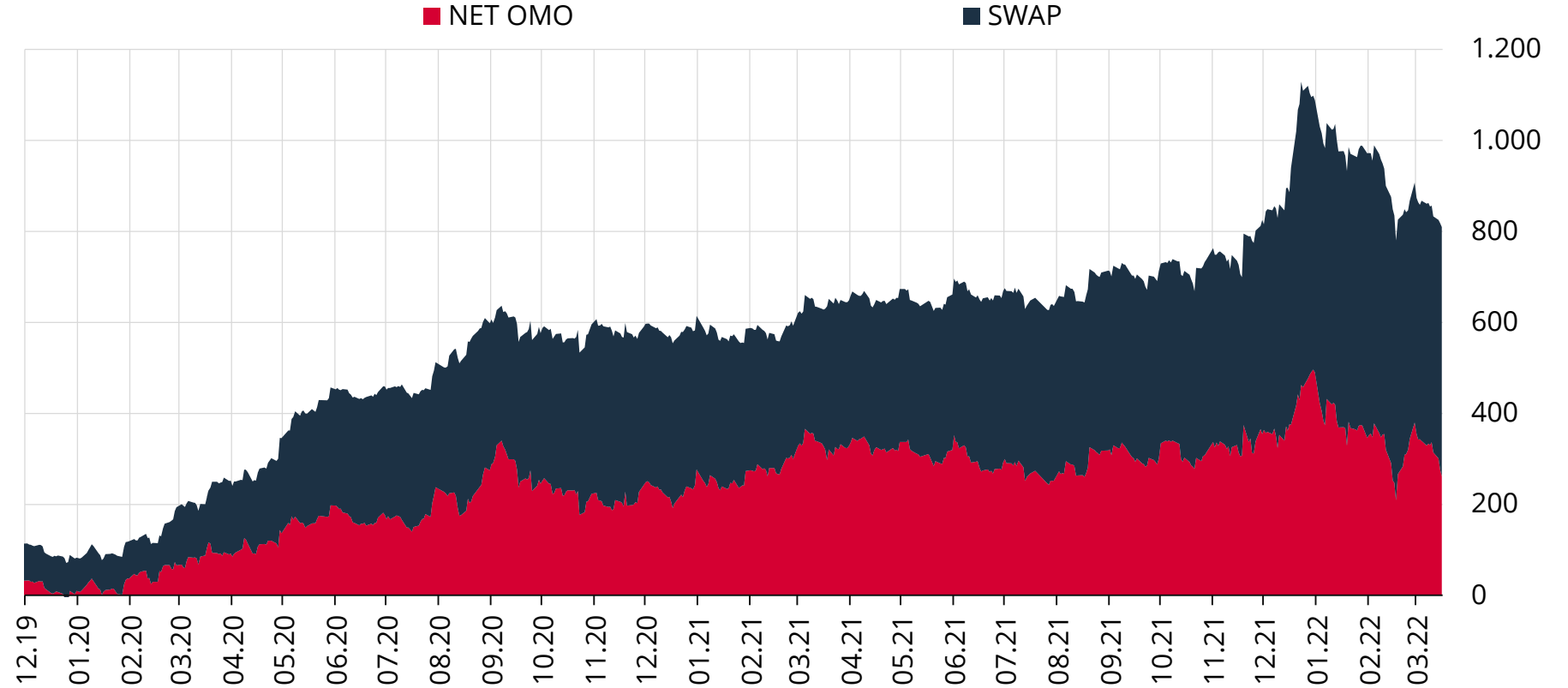
Last Observation: January 2022

Liquidity Management

The funding need of the system is met through net Open Market Operations (OMO) and swap transactions against FX and gold.

The CBRT funding's composition between OMO and swap transactions is closely monitored.

Funding Need of the Banking System (Billion TRY)



Source: CBRT

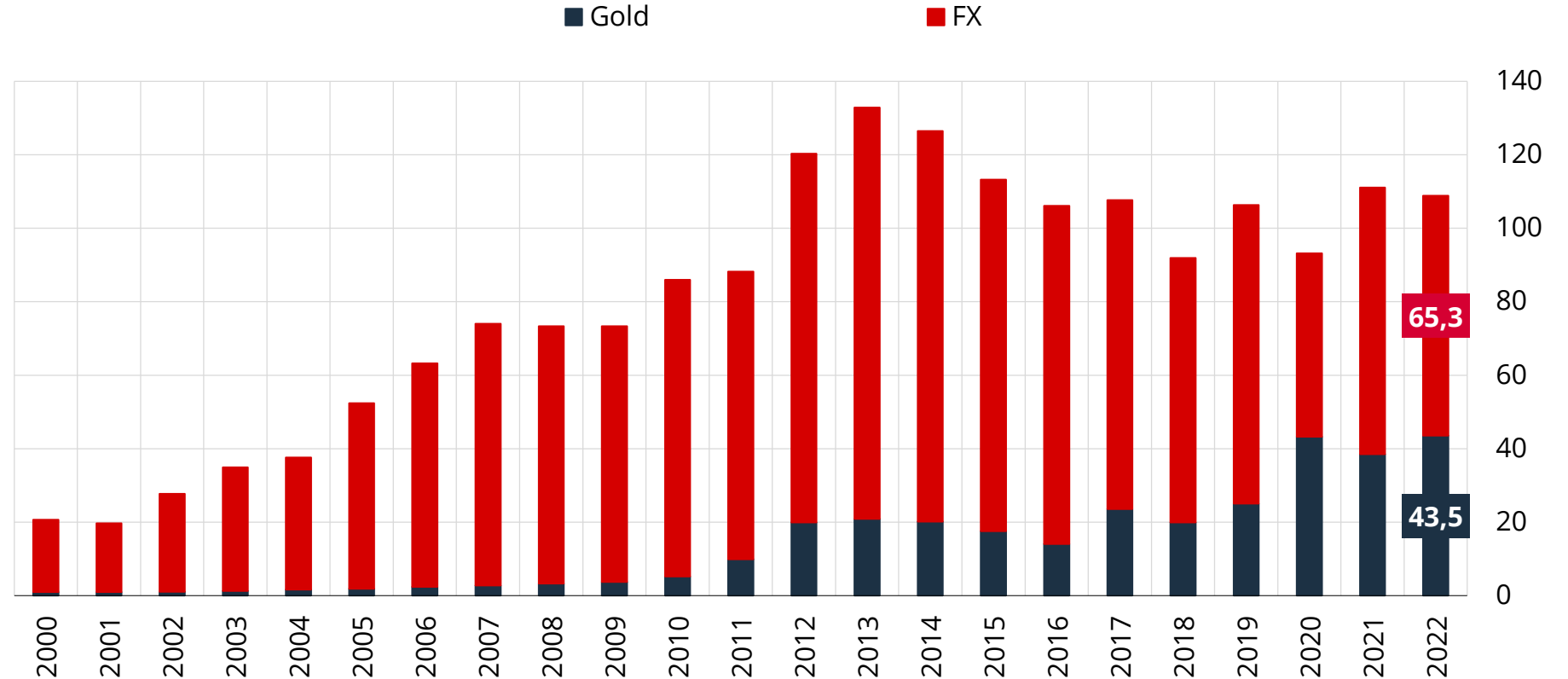
Last Observation: March 16, 2022

Reserves

The CBRT reserves have recently gained stability and display a moderate upward trend.

For effective monetary policy and financial stability, FX reserves will be strengthened and relevant tools will be used to this end under appropriate conditions in a transparent way.

CBRT Reserves (Billion USD)



Source: CBRT

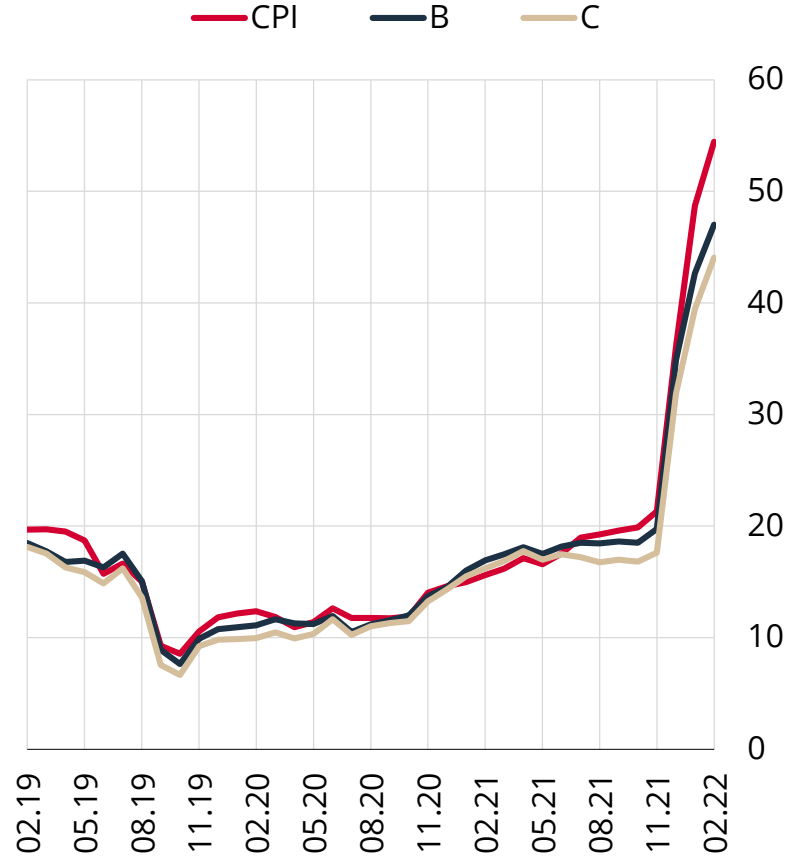
Last Observation: March 11, 2021

Inflation

In February, annual headline inflation increased by 5.75 points to 54.44%. The highest contribution to the rise in inflation came from food and core goods subcategories.

In this period, the core indicators B and C recorded annual inflations of 47.01% and 44.05%, respectively.

CPI and Core Inflation (Annual % Change)



Source: TURKSTAT

Last Observation: February 2022

Contributions to Annual CPI (% Points)

	Feb. 21	Mar. 21	Apr. 21	May. 21	Jun. 21	Jul. 21	Aug. 21	Sep. 21	Oct. 21	Nov. 21	Dec. 21	Jan. 22	Feb. 22
CPI	15.6	16.2	17.1	16.6	17.5	18.9	19.3	19.6	19.9	21.3	36.1	48.7	54.4
Core Goods (Including Gold)	6.3	6.5	6.7	6.2	6.6	6.3	5.7	5.5	5.3	5.6	12.6	14.8	16.5
Food and Non-Alcoholic Beverages	4.5	4.4	4.4	4.4	5.0	6.1	7.1	7.0	6.8	6.9	11.4	14.2	16.6
Alcoholic Beverages and Tobacco	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.4	0.4	1.0	2.2	2.2
Energy	1.1	1.5	2.1	2.0	2.0	2.6	2.5	2.8	3.1	3.9	5.2	9.4	10.1
Services	3.5	3.7	3.8	3.9	3.9	3.9	3.9	4.2	4.3	4.6	6.0	8.1	9.1

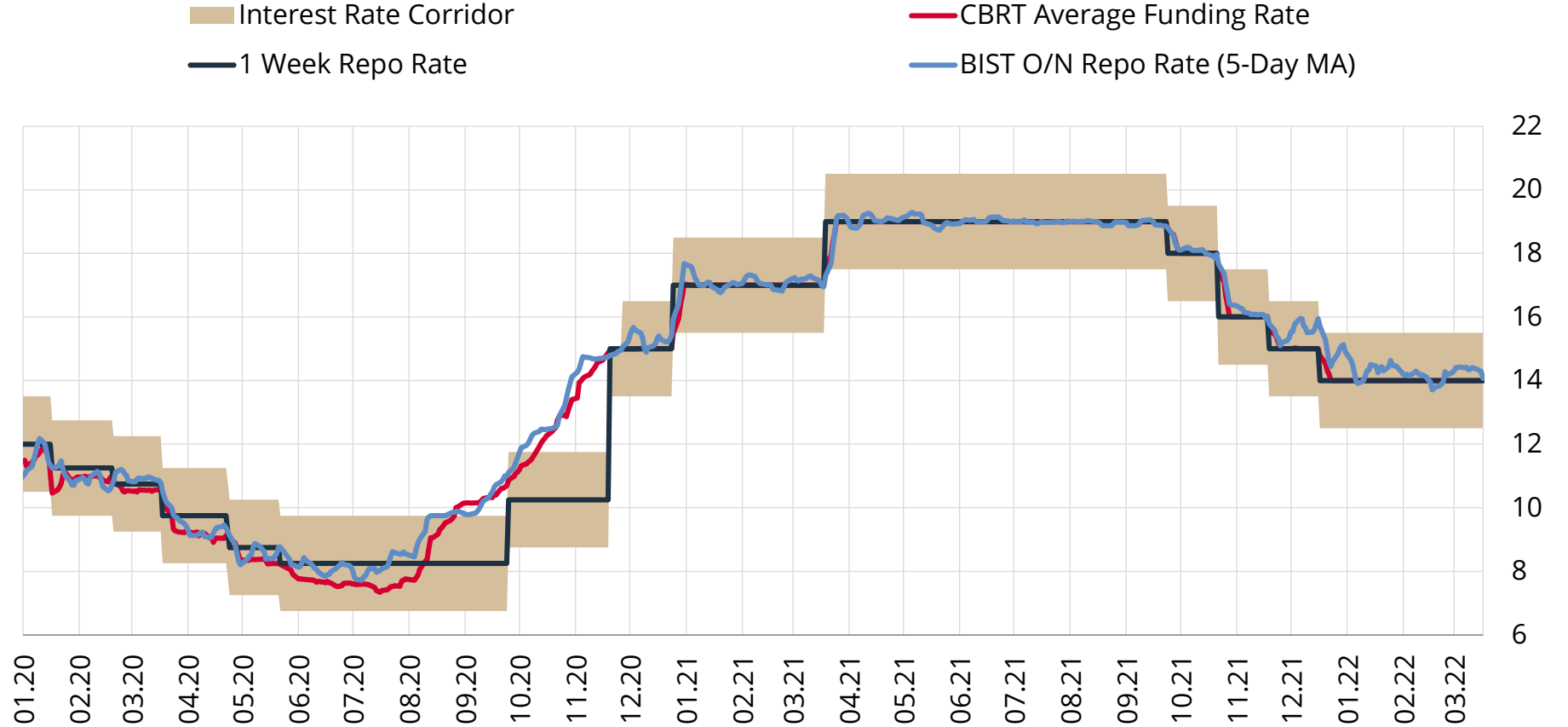
Source: CBRT, TURKSTAT

Last Observation: February 2022

Monetary Policy

While cumulative impact of the recent policy decisions is being monitored, to create an institutional basis for sustainable price stability, the comprehensive review of the policy framework continues with the aim of encouraging permanent and strengthened liraization in all policy tools of the CBRT.

Short Term Interest Rates (%)



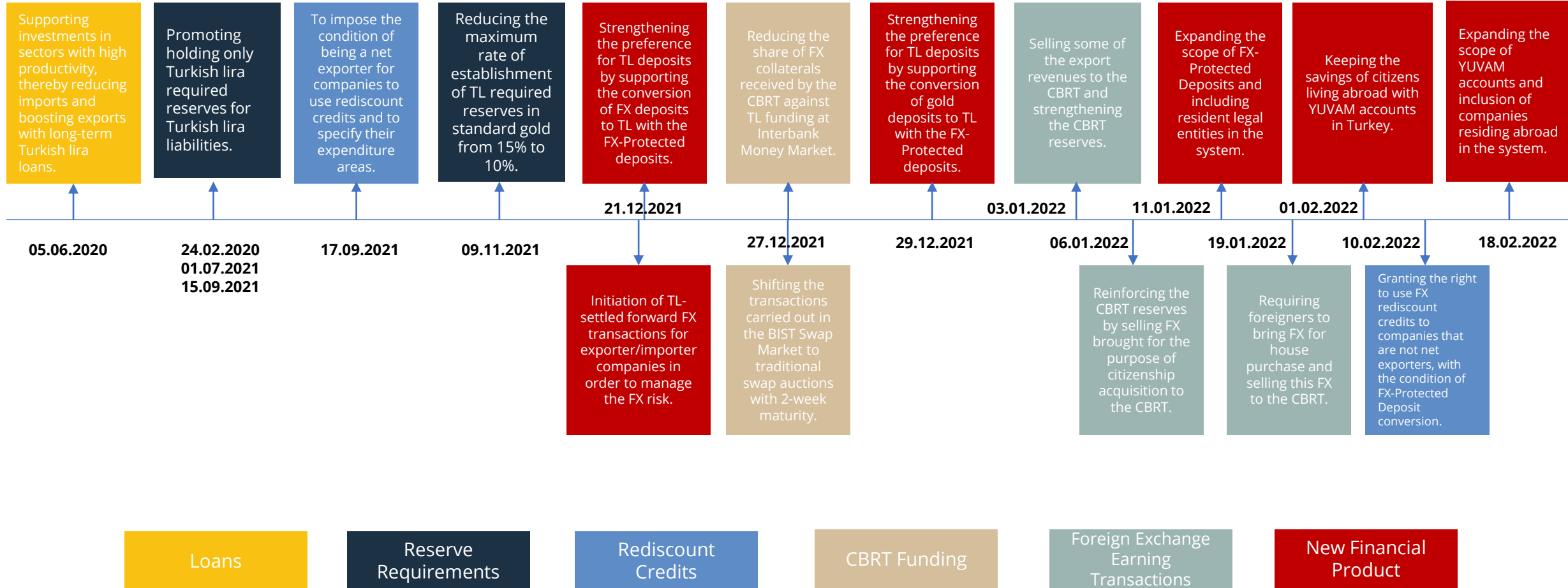
Source: BIST, CBRT

Last Observation: March 17, 2022

Liraization Strategy in the Review of the Policy Framework

- Reshaping price stability on a sustainable basis is possible by making the Turkish lira the essential element of the financial system.
- The focus of all implementations to be implemented in the near, medium and long term will be to ensure the Liraization of the financial system in order to reshape price stability on a sustainable basis.
- The Liraization strategy is created with a holistic approach that focuses on the use of the Turkish lira in the system, through new financial products, collateral diversification and liquidity management practices.
- It is important that loans and monetary aggregates grow at a rate consistent with sustainable price stability and that the weight of the Turkish lira among these aggregates is increased.
- This liraization will support the fight against inflation through three channels:
 - Turkish lira savings will be encouraged through FX-protected accounts and similar tools, and the returns on such accounts will not be allowed to remain lower than their alternatives.
 - The transition to Turkish lira instruments for CBRT liquidity and provisioning operations will be carried out progressively.
 - To secure permanent gains in disinflation by improving production capacity, it is important to meet funding needs of sectors that support the current account balance and engage in foreign exchange earning activities at suitable maturities in Turkish lira terms
- Within the scope of the Liraization strategy, the CBRT has implemented a set of practices.

Timeline of Liraization Strategy





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