

MACROECONOMIC OUTLOOK AND MONETARY POLICY IN TURKEY

December 2, 2021

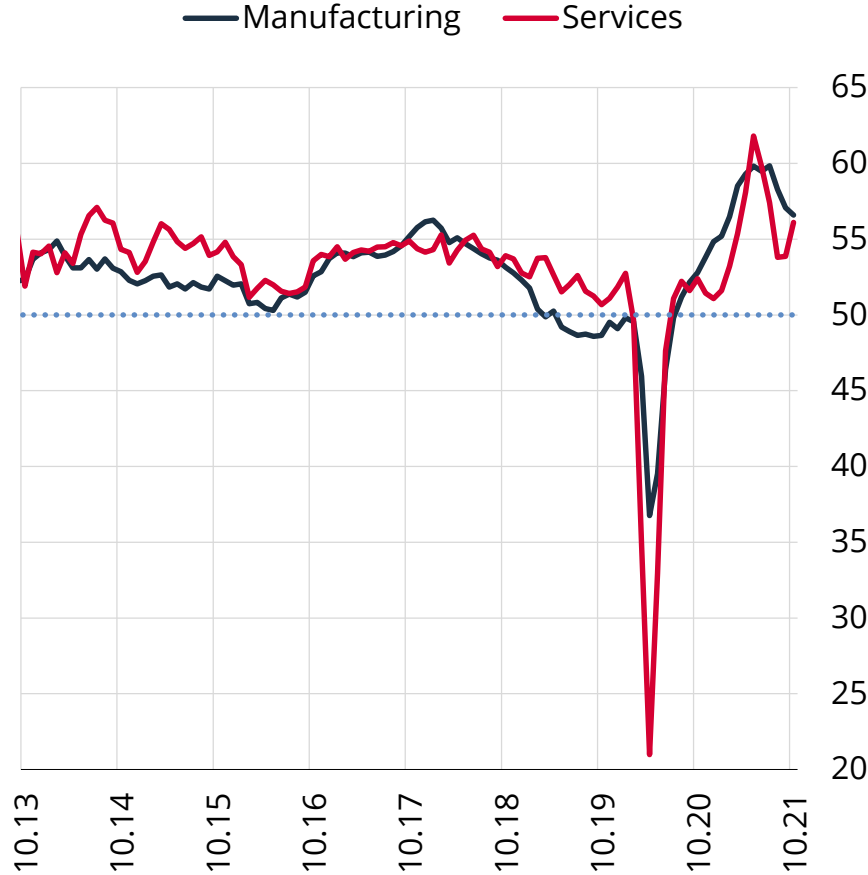


Global PMI

Recovery in the global economy continues.

Services PMI indices strengthened in both developed and developing economies.

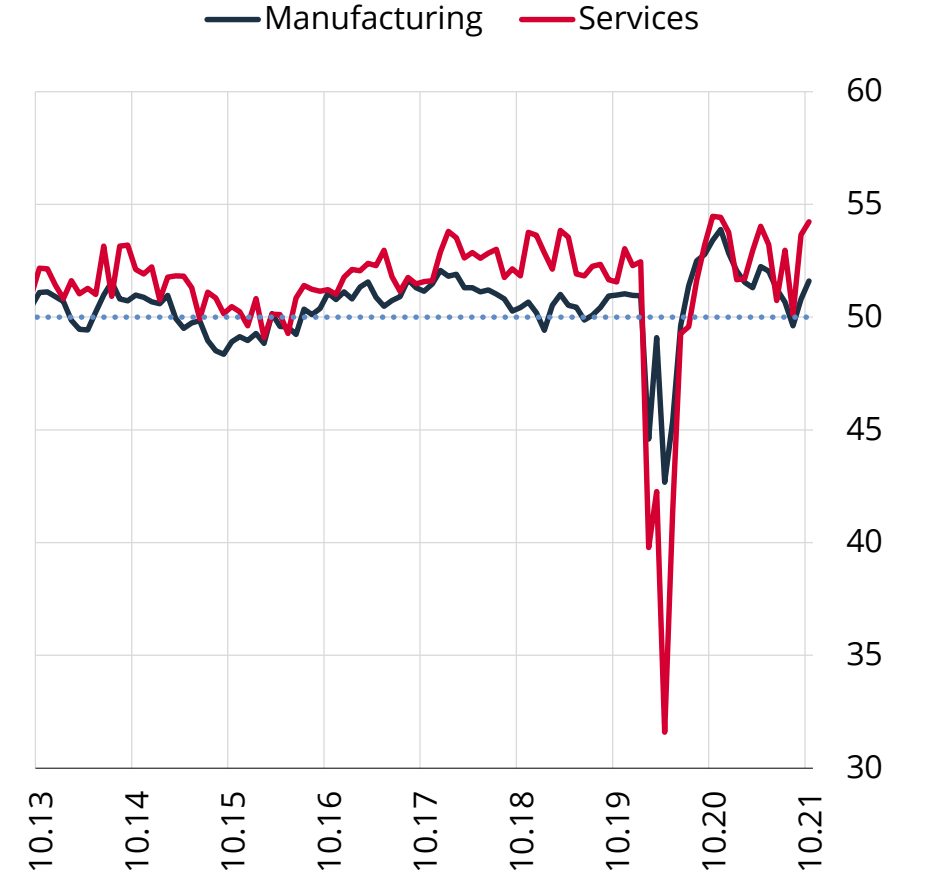
Developed Countries PMI (Level)



Source: Markit

Last Observation: October 2021

Developing Countries PMI (Level)



Source: Markit

Last Observation: October 2021

Vaccination and Economic Normalization

The worldwide acceleration in vaccination rollout supports the global economic recovery.

Ratio of First-Dose and Second-Dose Vaccines to the Total Population (%)

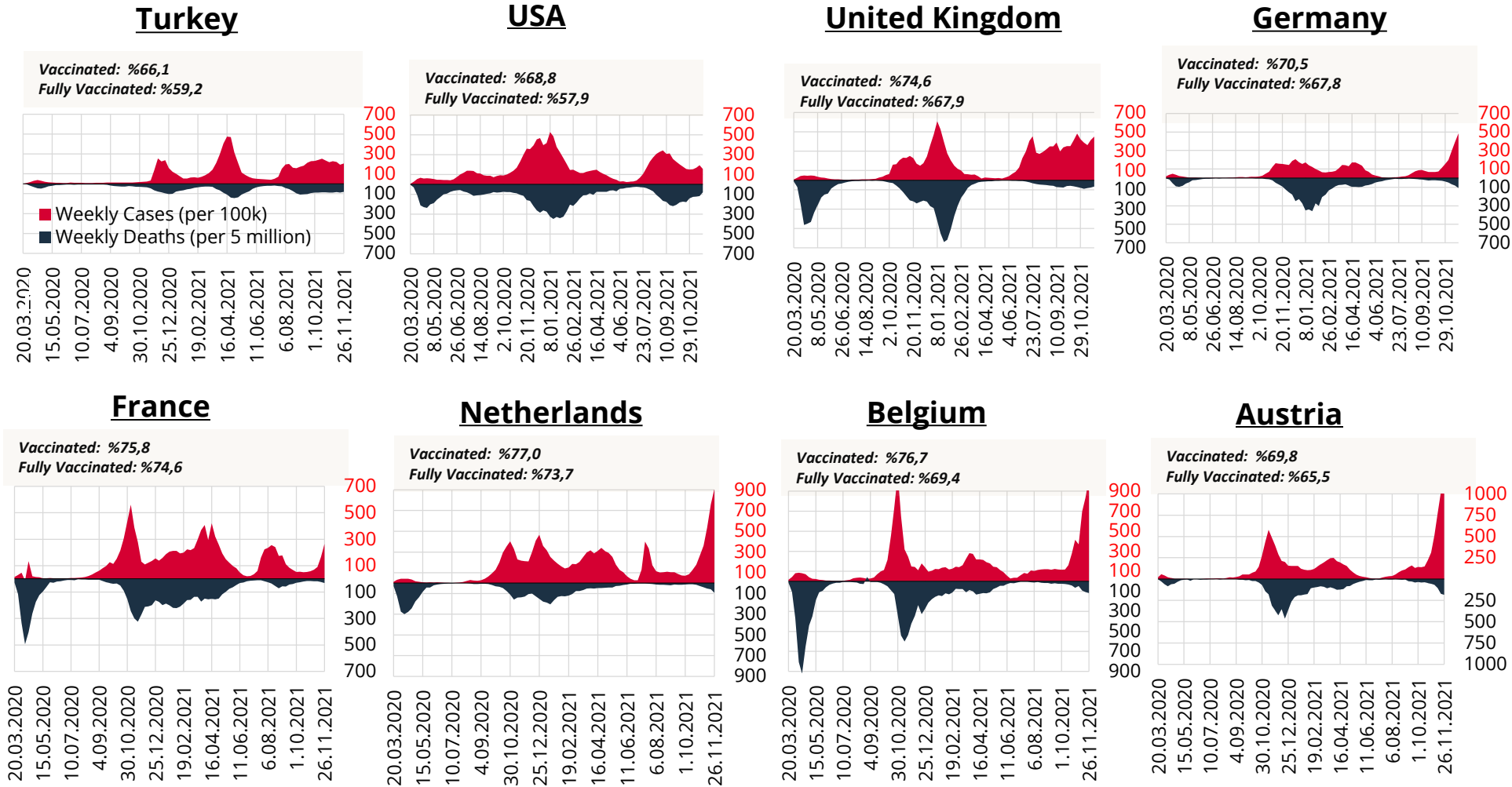
	First Dose (As of June 1)	First Dose (Recent)	Second Dose
Spain	39.4	82.0	80.5
Japan	10.6	79.2	77.3
Italy	40.0	78.2	73.0
France	39.4	76.9	69.7
United Kingdom	58.0	74.7	68.0
Germany	43.6	70.8	68.0
Brazil	21.5	76.6	62.6
Israel	62.0	68.2	62.2
Turkey	19.7	66.2	59.3
USA	50.1	69.3	58.1
Poland	36.8	55.1	54.0
Mexico	17.0	59.0	49.9
Russia	11.5	45.7	38.9
Romania	22.7	39.5	38.1
Indonesia	6.0	50.1	34.1
India	12.2	56.6	32.2
South Africa	2.0	28.8	24.1

Source: Our World in Data

Last Observation: November 30, 2021

Course of the Pandemic

In some countries in Europe, a new wave is seen in the pandemic.



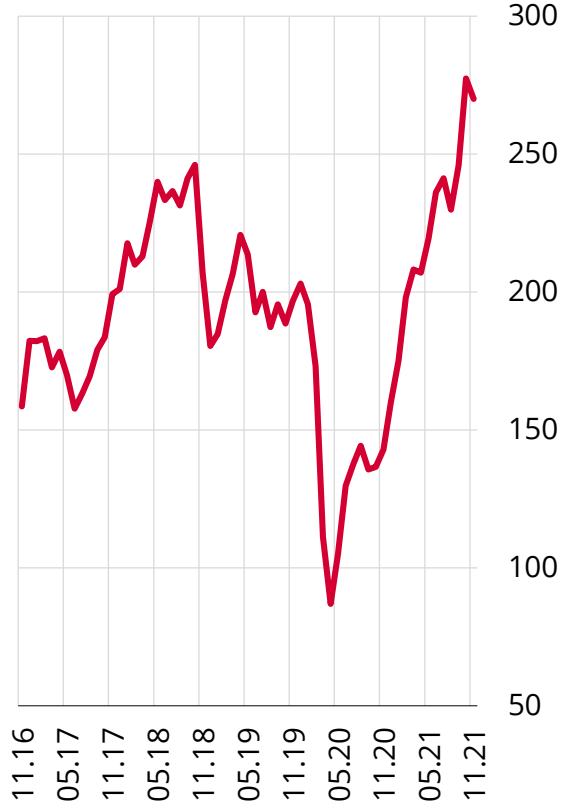
Source: Our World in Data

Last Observation: November 26, 2021

Commodity Price Index

Recently, energy and industrial metals commodity prices declined while agriculture commodity price index rose.

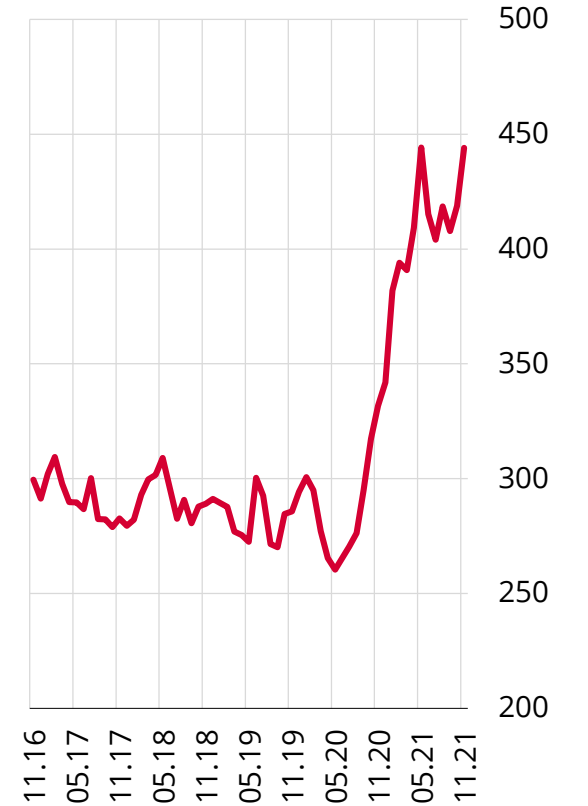
Energy



Industrial Metals



Agriculture



Source: Bloomberg

Last Observation: 26 November 2021

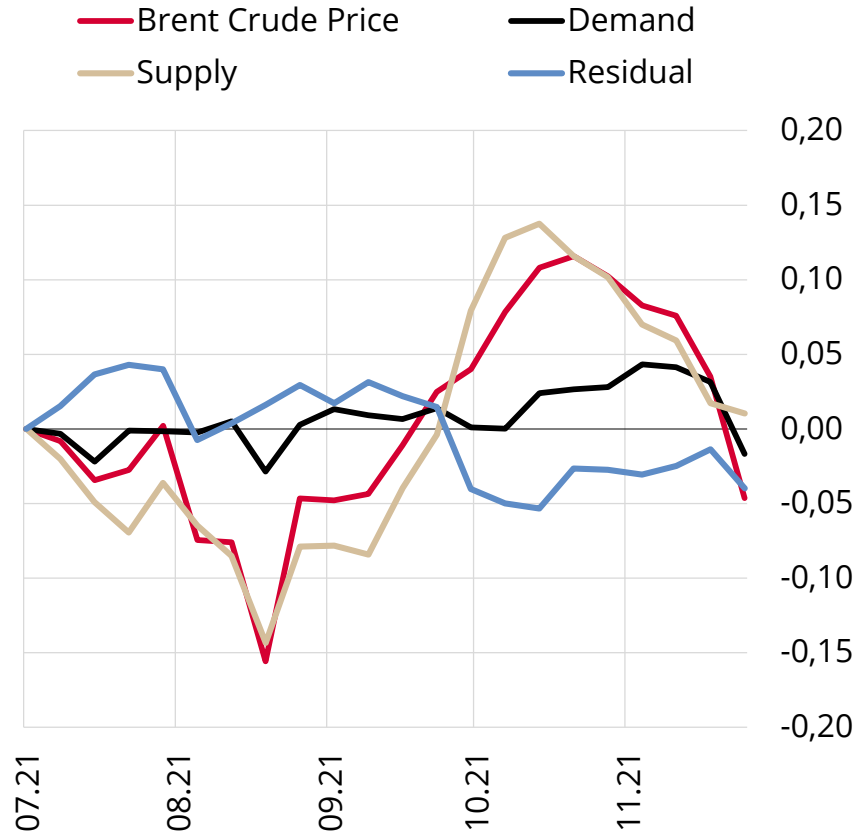
Oil Prices

There has been a decrease in oil prices due to the movements in supply and more recently due to demand expectations after emergence of new covid variant.

Iron prices converge to pre-pandemic levels.

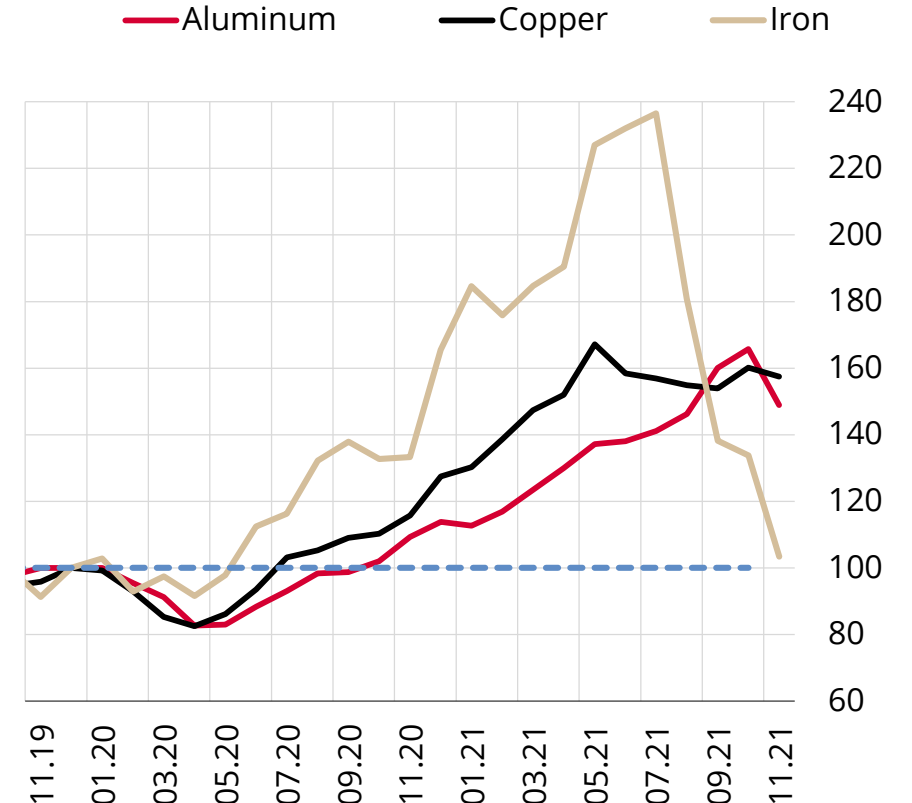
While copper prices have remained almost flat, aluminum prices, decreased slightly.

Brent Crude Price Decomposition (2 July 2021 = 0)



Source: Bloomberg, New York FED Last Observation: November 26, 2021

Industrial Metal Prices (2019 December = 100)

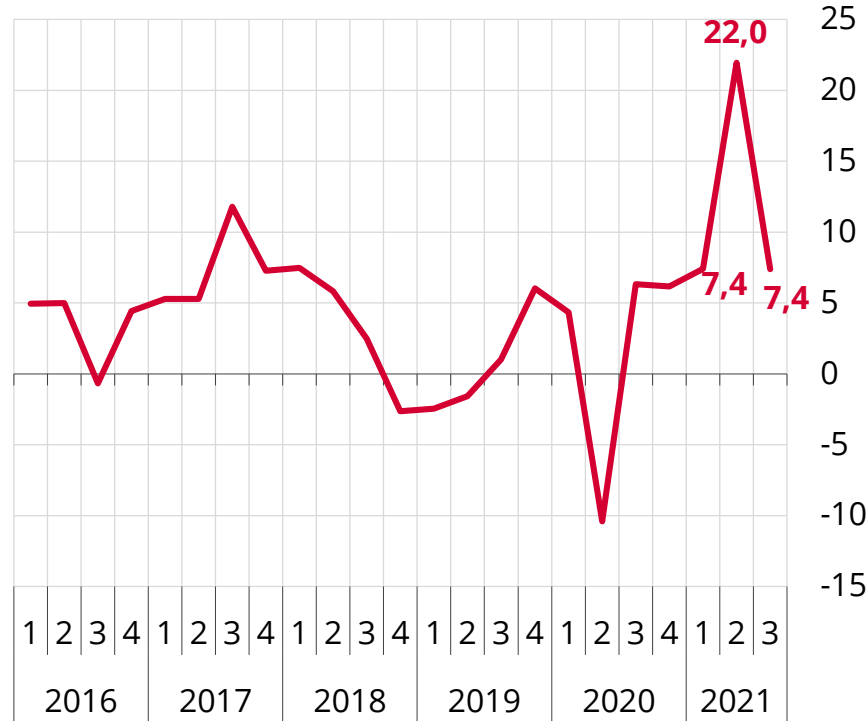


Source: Bloomberg Last Observation: November 30, 2021

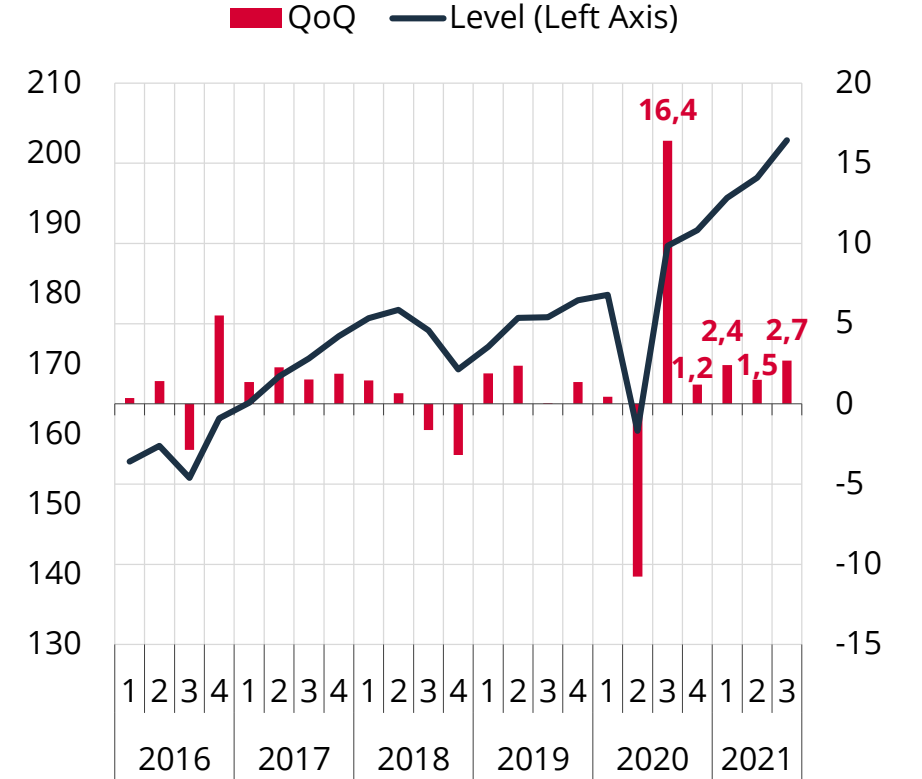
Economic Activity

Economic activity remained strong in the third quarter of 2021.

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



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



Source: TURKSTAT

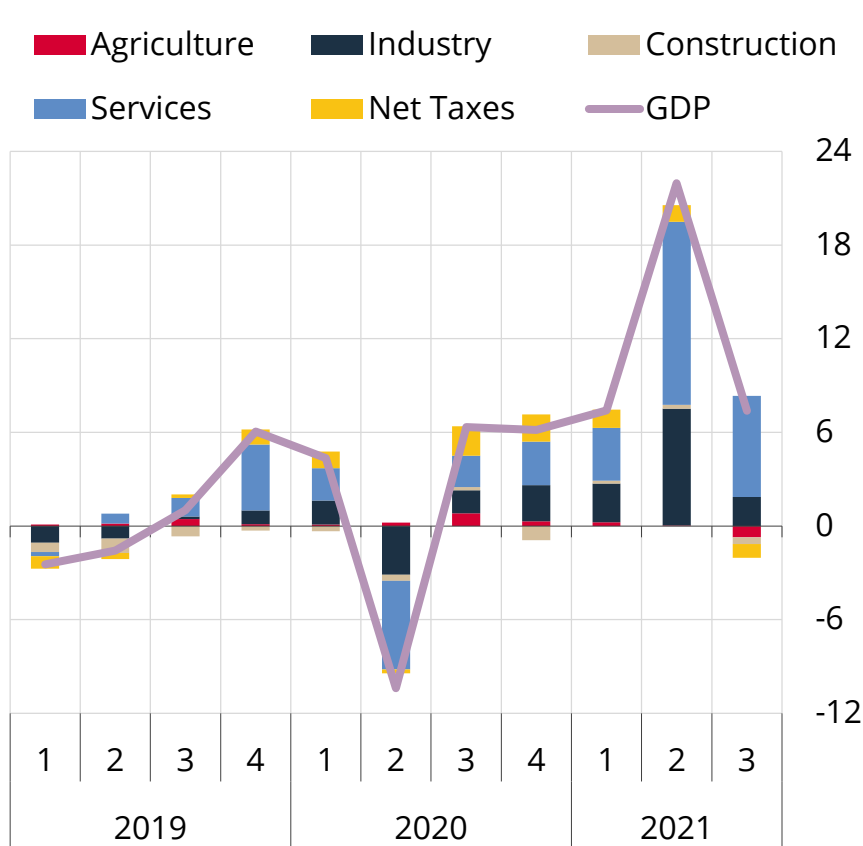
Last Observation: 2021 Q3

Economic Activity

Services were the main driver of the growth thanks to the opening up and the positive course in tourism.

On the expenditure side, consumption and net exports were the main drivers of growth.

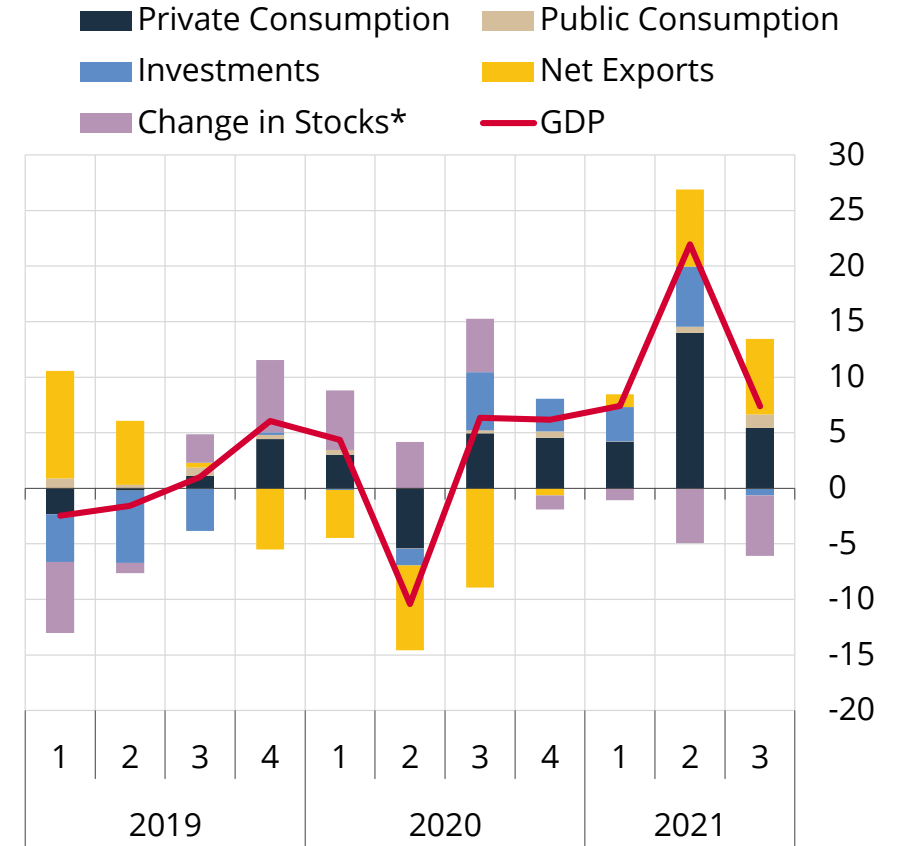
Contribution to Annual GDP Growth from Production Side (% Point)



Source: CBRT, TURKSTAT

Last Observation: 2021 Q3

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



Source: CBRT, TURKSTAT

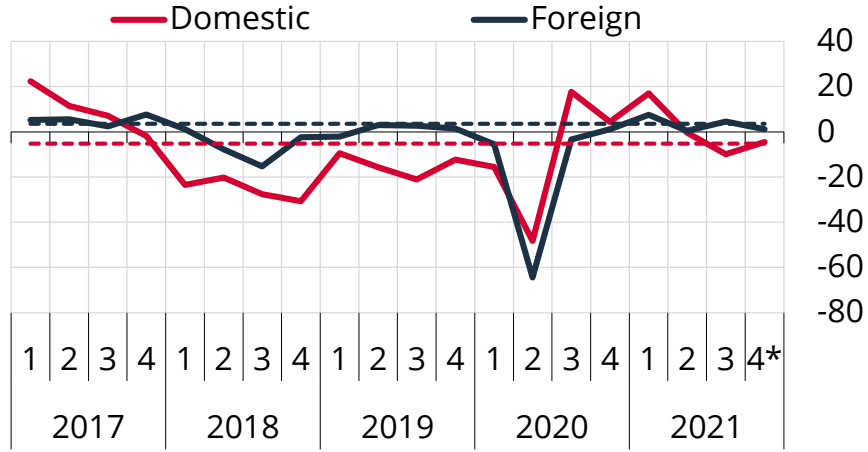
Last Observation: 2021 Q3

* Includes statistical discrepancy due to chain linking.

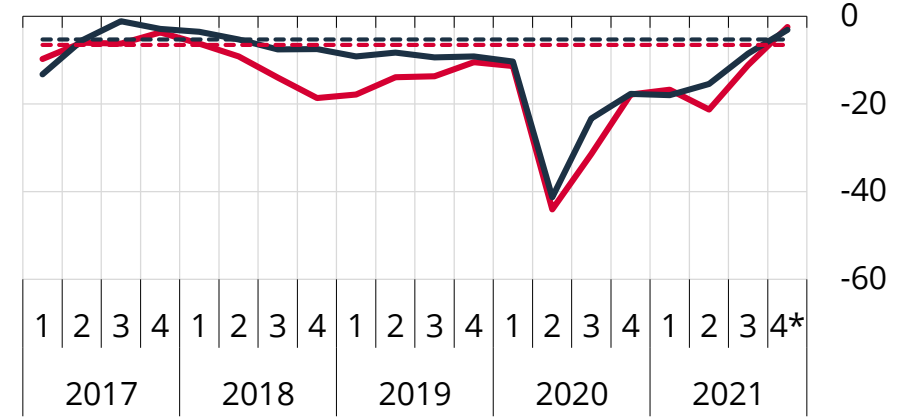
Demand Composition: 2021 Q4

Manufacturing Industry Current Orders (Seasonally Adjusted, Above Normal - Below Normal)**

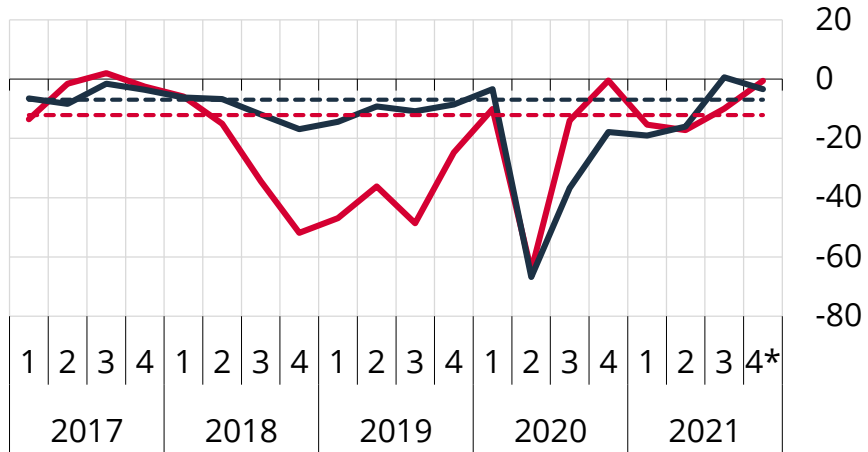
Durable Goods



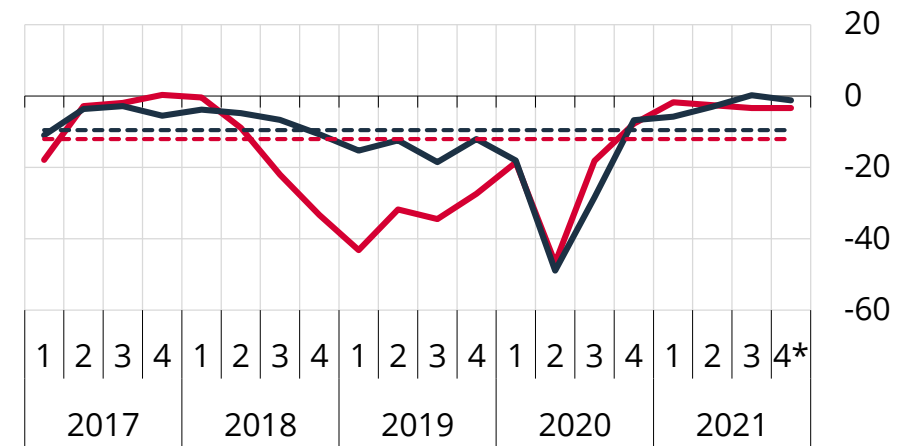
Non-Durable Goods



Investment Goods



Intermediate Goods



Recovery continues in non-durable consumer goods.

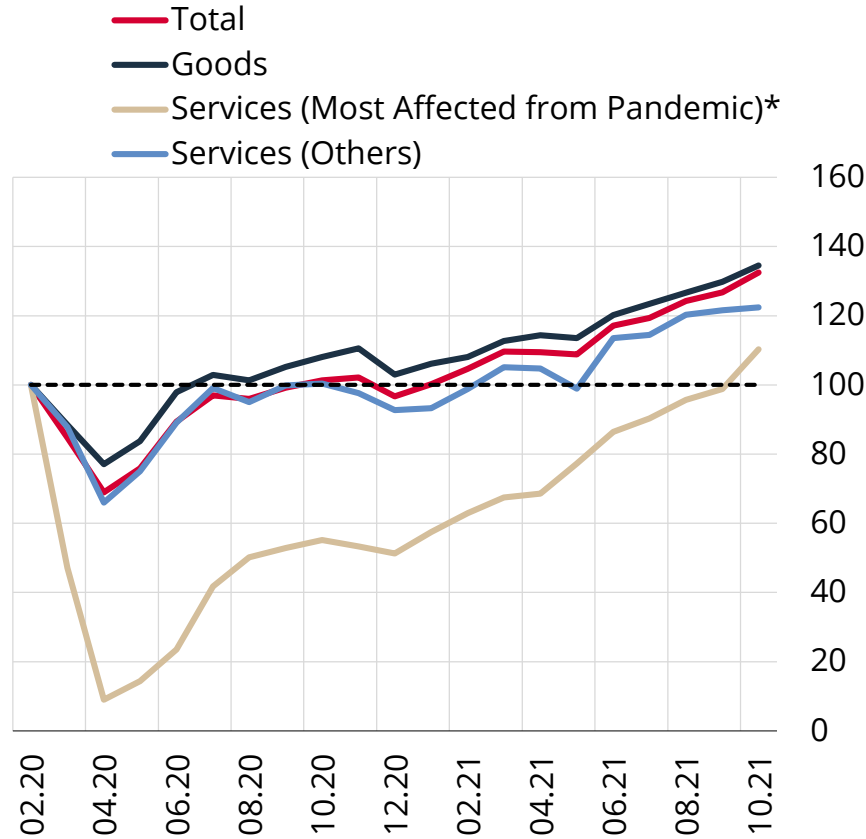
Export orders are relatively stronger in the durable and intermediate goods.

Domestic demand strengthens in the investment goods.

Opening-Up and Economic Normalization

The spread of domestic vaccination throughout the society facilitates the recovery in services and tourism sectors, which have been adversely affected by the pandemic, and leads to a more balanced composition in economic activity.

Card Expenditures
(Seasonally and Calendar Adjusted, Real, February 2020 = 100)

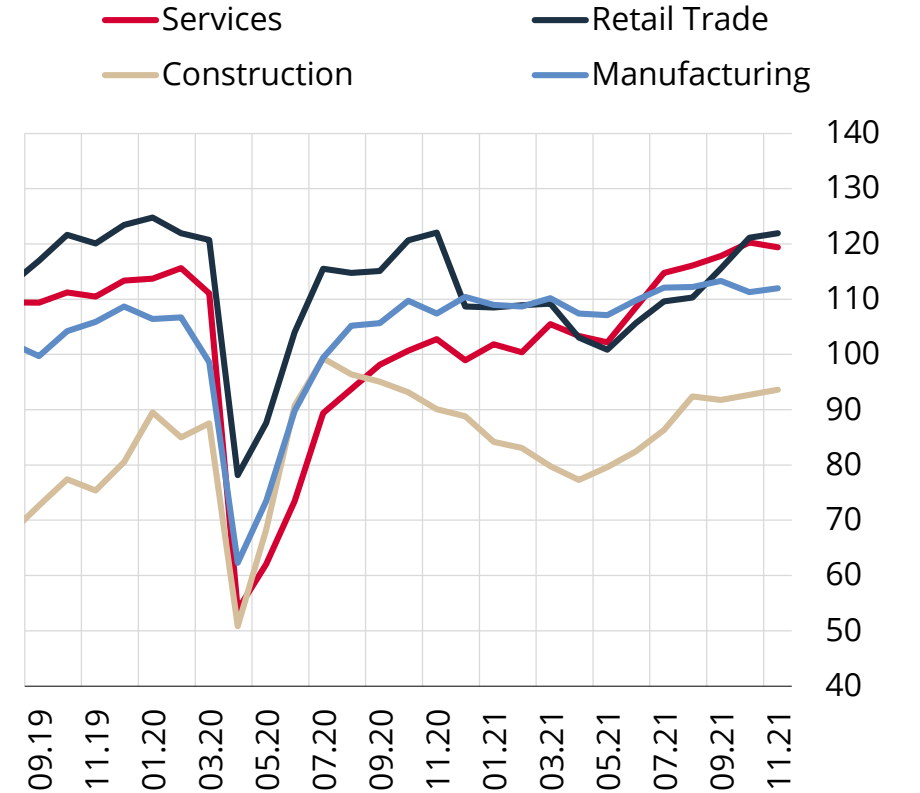


Source: CBRT

Last Observation: October 2021

* Includes car rental, airlines, accommodation and travel agency expenditures.

Sectoral Confidence Indices
(Seasonally Adjusted)



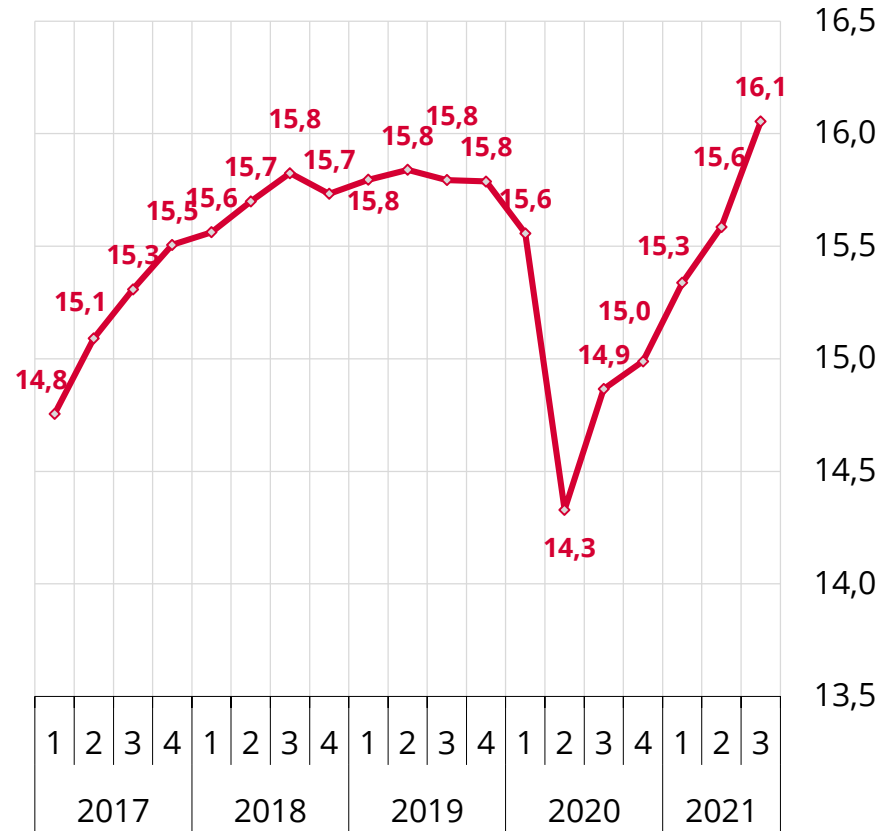
Source: CBRT, TURKSTAT

Last Observation: November 2021

Employment

Services employment showed a strong increase with the contribution of opening-up and the positive course in tourism, while industry employment showed a strong increase with the support of the positive course of exports.

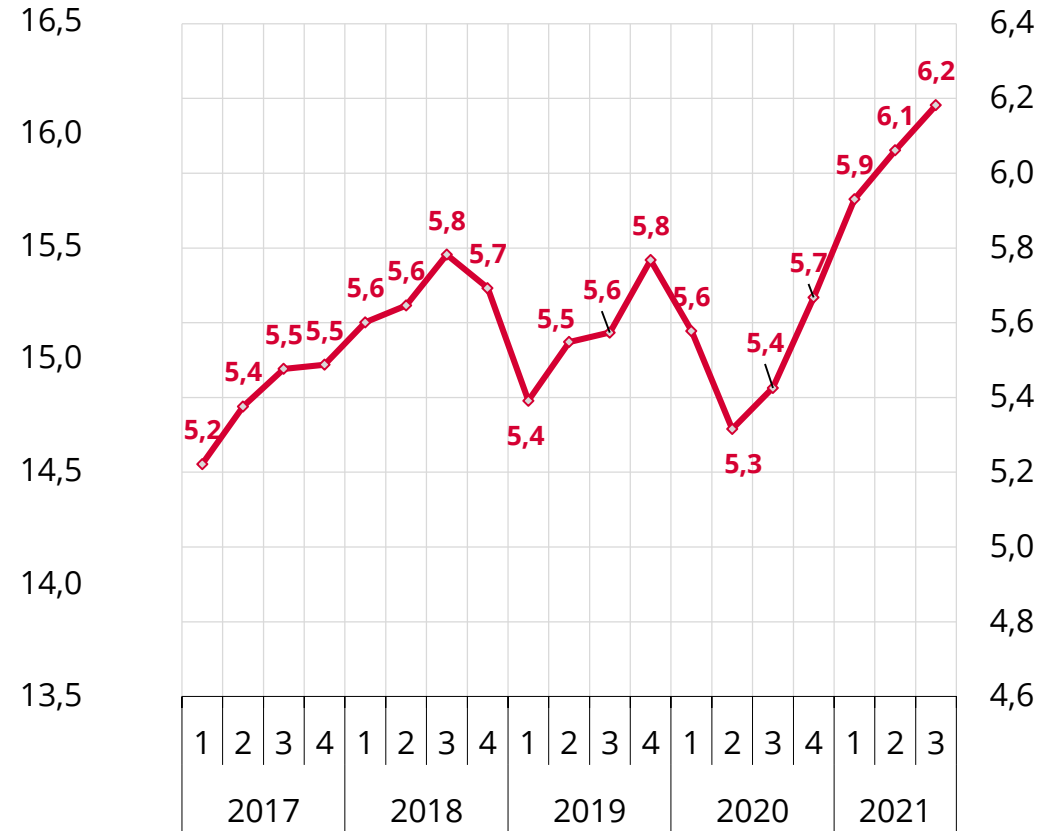
**Services Employment
(Seasonally Adjusted, Million People)**



Source: TURKSTAT

Last Observation: September 2021

**Industry Employment
(Seasonally Adjusted, Million People)**



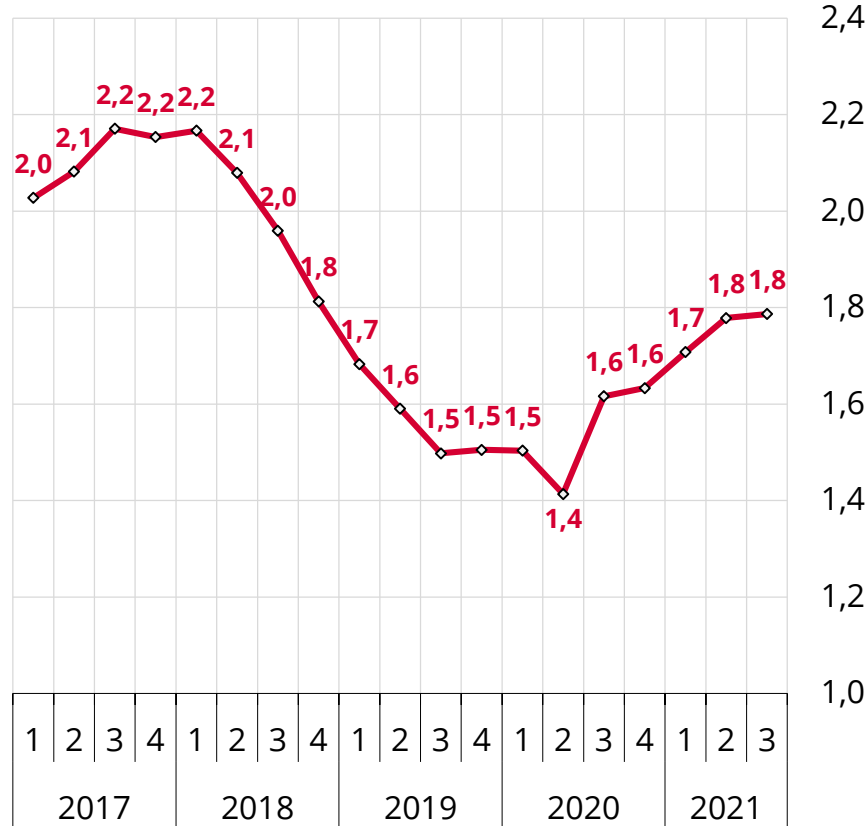
Source: TURKSTAT

Last Observation: September 2021

Employment

Construction employment, on the other hand, followed a more moderate course. Non-farm employment continues to increase.

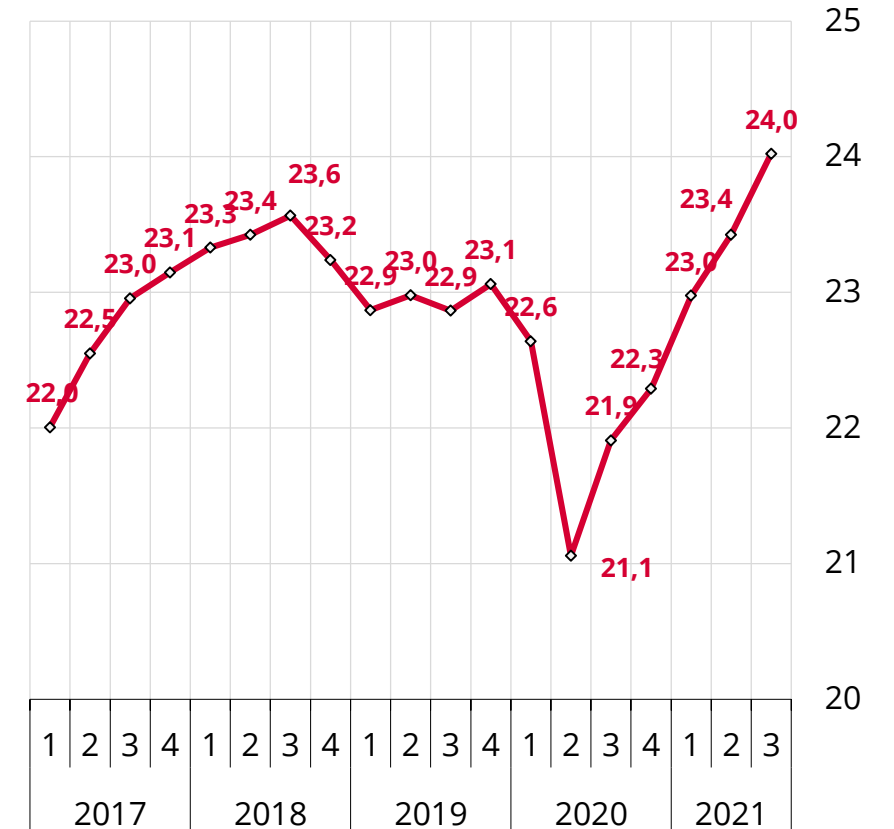
**Construction Employment
(Seasonally Adjusted, Million People)**



Source: TURKSTAT

Last Observation: September 2021

**Non-farm Employment
(Seasonally Adjusted, Million People)**



Source: TURKSTAT

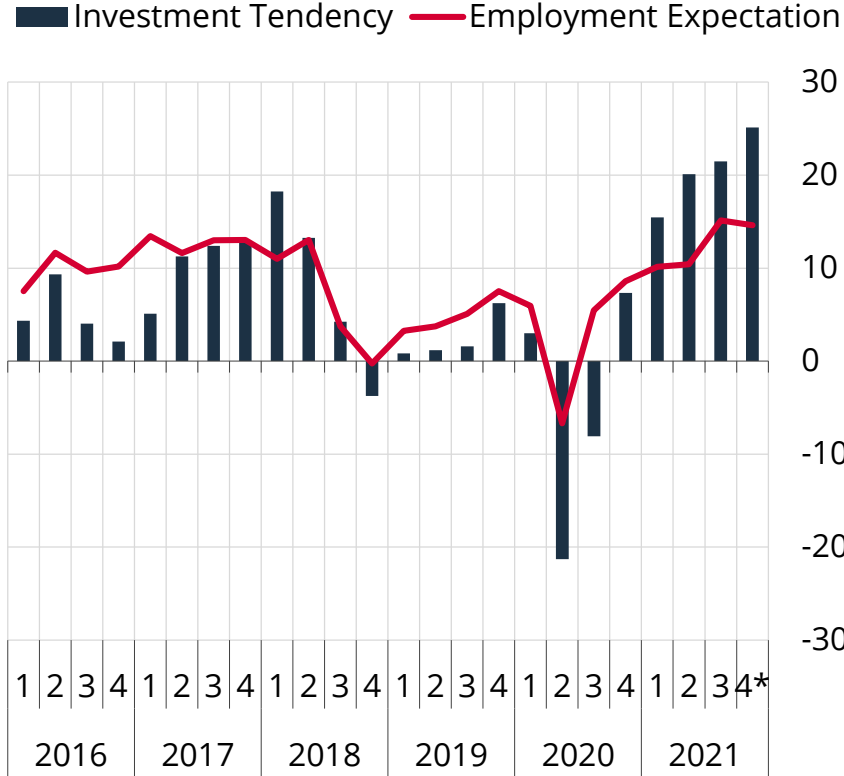
Last Observation: September 2021

Employment and Investment Tendencies

Investment tendency continues to improve while employment expectation remains strong.

The improvement in the investment tendency of firms continues across sectors in the fourth quarter.

Investment Tendency and Employment Expectation in Manufacturing (Seasonally Adjusted)

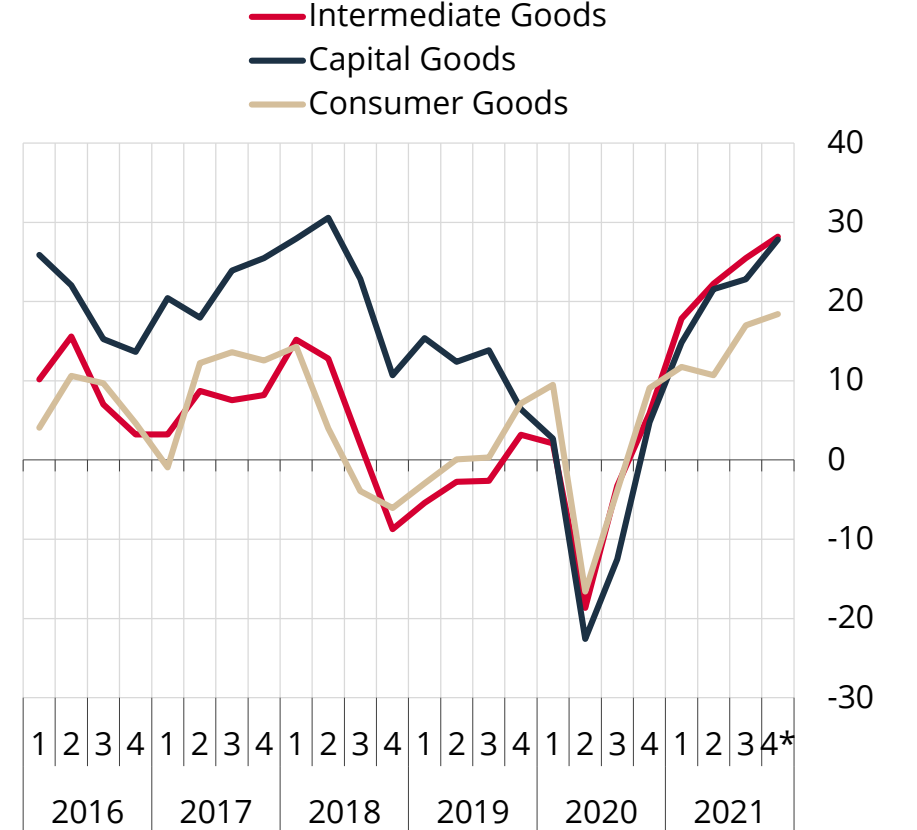


Source: CBRT

Last Observation: November 2021

* Average of October and November.

Investment Tendency (Seasonally Adjusted)



Source: CBRT

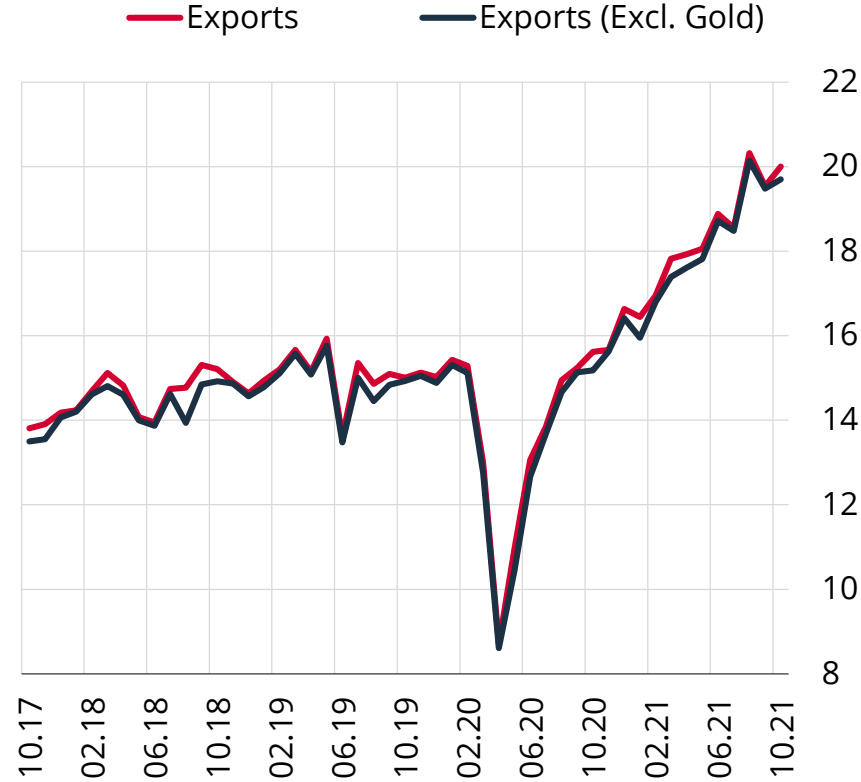
Last Observation: November 2021

External Trade

Exports follow a strong upward trend, while imports grow at a relatively moderate pace.

Imports increased moderately in October.

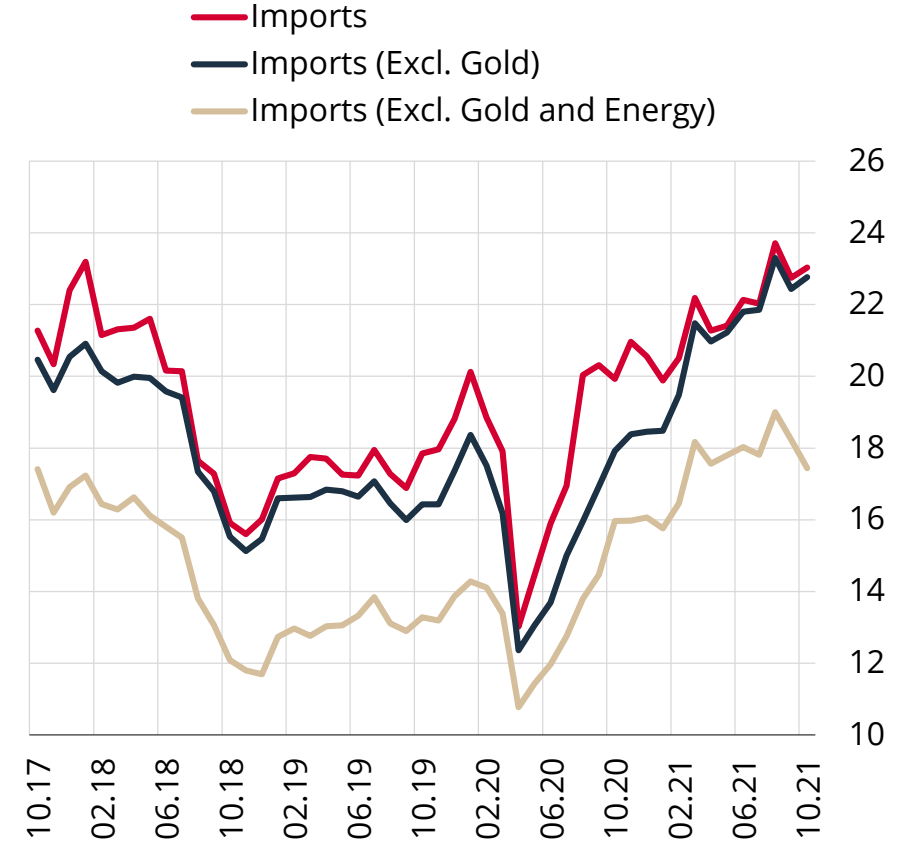
Exports (Billion USD, Seasonally and Calendar Adjusted)



Source: CBRT, Ministry of Trade, TURKSTAT

Last Observation: October 2021

Imports (Billion USD, Seasonal and Calendar Adjusted)



Source: CBRT, Ministry of Trade, TURKSTAT

Last Observation: October 2021

Foreign Trade Balance

Turkey has started to have a surplus in its trade with Europe, but has a foreign trade deficit with the Asian region.

Foreign Trade Balance by Region (Billion US Dollars)

	2017	2018	2019	2020	2021*	FTV*
EU 27	-14.7	0.0	8.3	-3.7	2.2	172.8
Other Europe	-0.4	5.7	6.5	1.7	7.6	32.7
CIS	-15.6	-17.2	-15.6	-9.2	-16.7	53.2
Asia	-45.7	-40.6	-33.9	-36.3	-47.9	81.3
Middle East and Africa	23.4	21.7	30.5	19.8	32.4	80.7
North America	-4.2	-4.6	-3.5	-1.4	2.2	28.7

Source: TURKSTAT

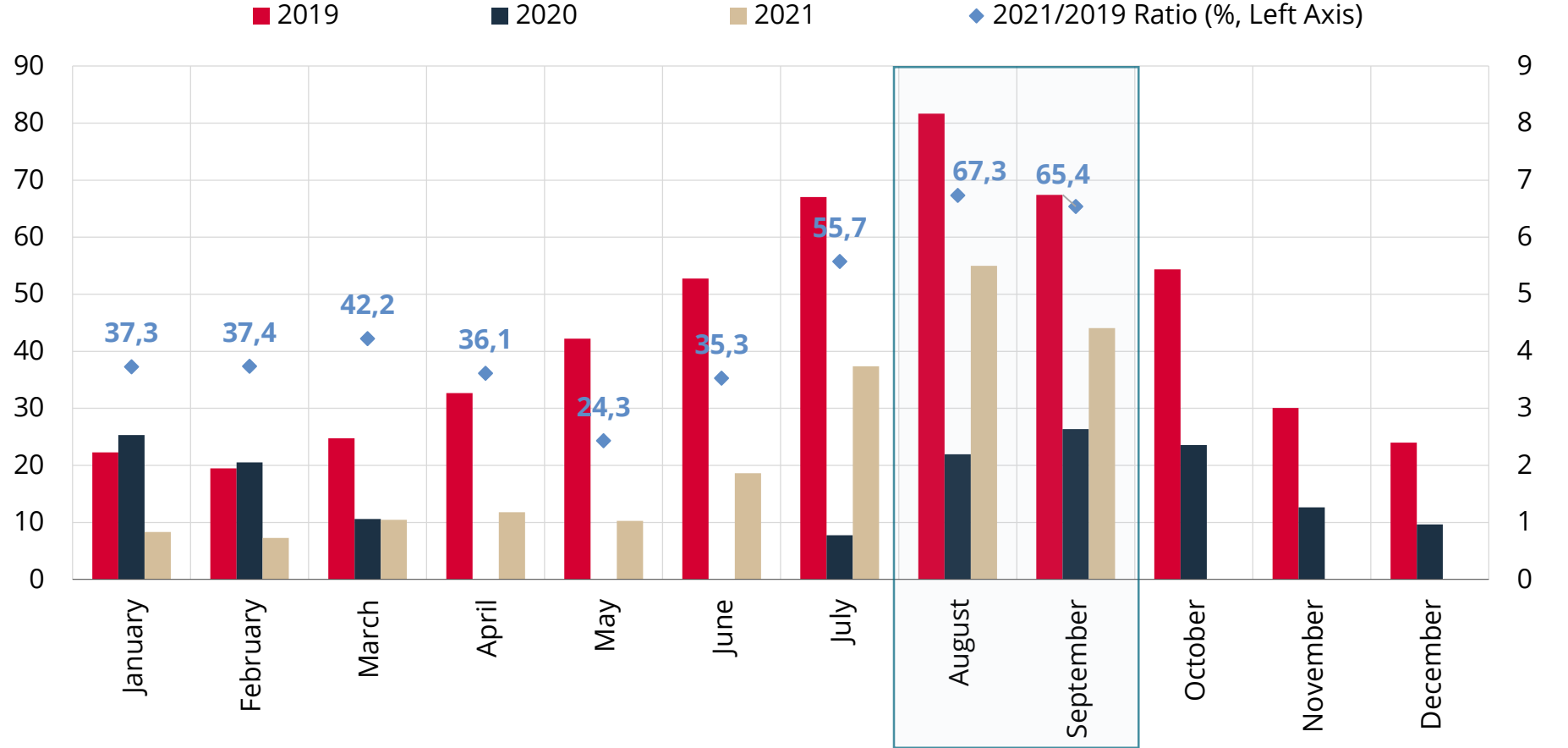
Last Observation: October 2021

* 12-month cumulative values as of October 2021. FTV refers to Foreign Trade Volume.

Number of Tourists

As of the third quarter, the number of tourists reached to around 65 percent of the level in 2019.

Number of Tourists by Month* (Million)



Source: CBRT

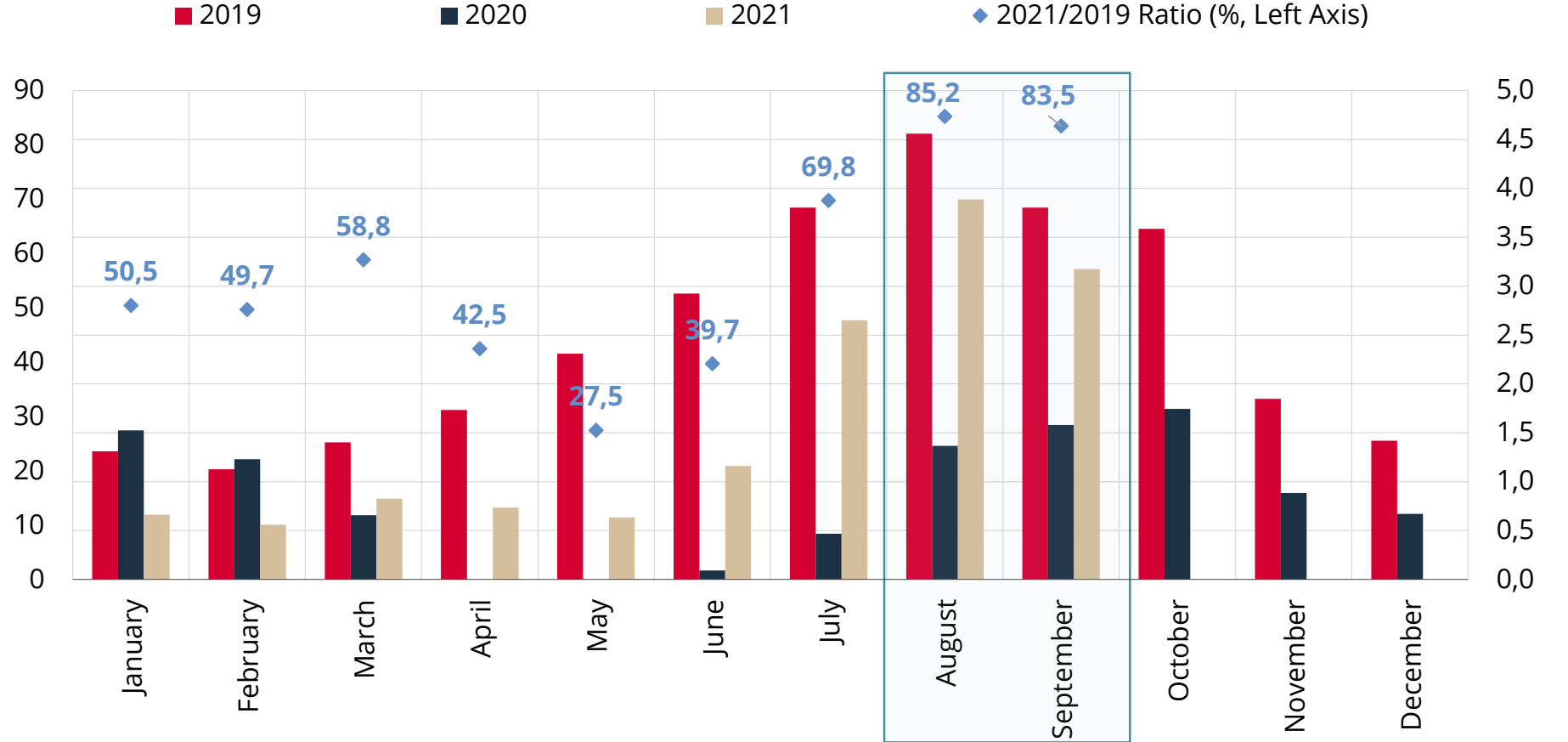
Last Observation: September 2021

* Values of the last quarter of 2021 are forecast.

Travel Revenues

As of the third quarter, travel revenues reached 85 percent of the level in 2019.

Travel Revenues by Month* (Billion USD)



Source: CBRT

Last Observation: September 2021

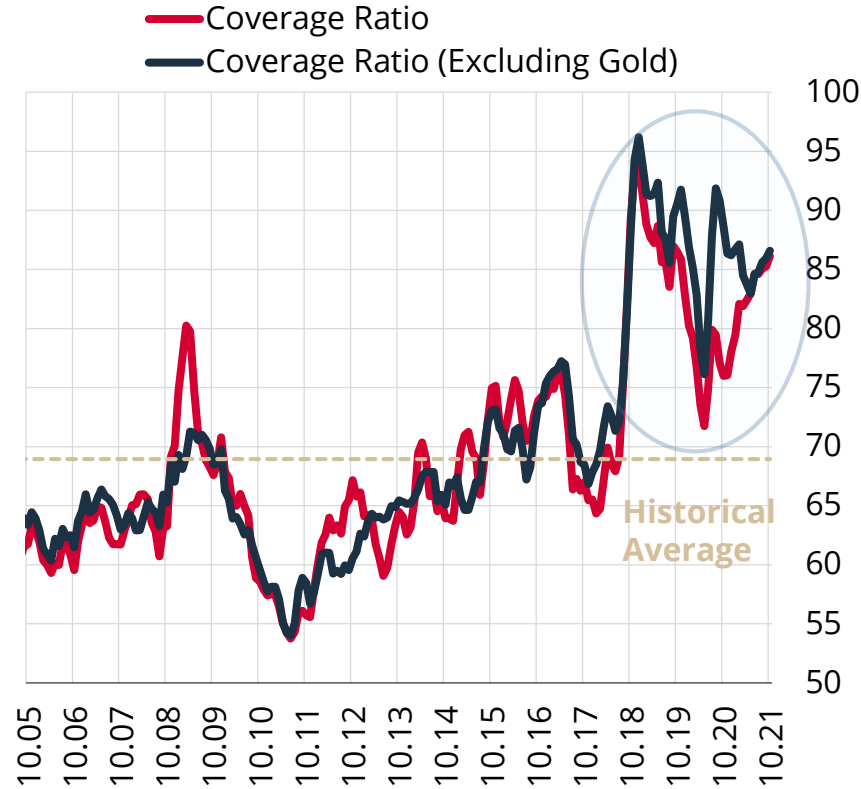
* Values of the last quarter of 2021 are forecast.

External Balance

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

As the negative impact of the pandemic on tourism and other service exports decreases, the improvement trend in the current account balance becomes more evident.

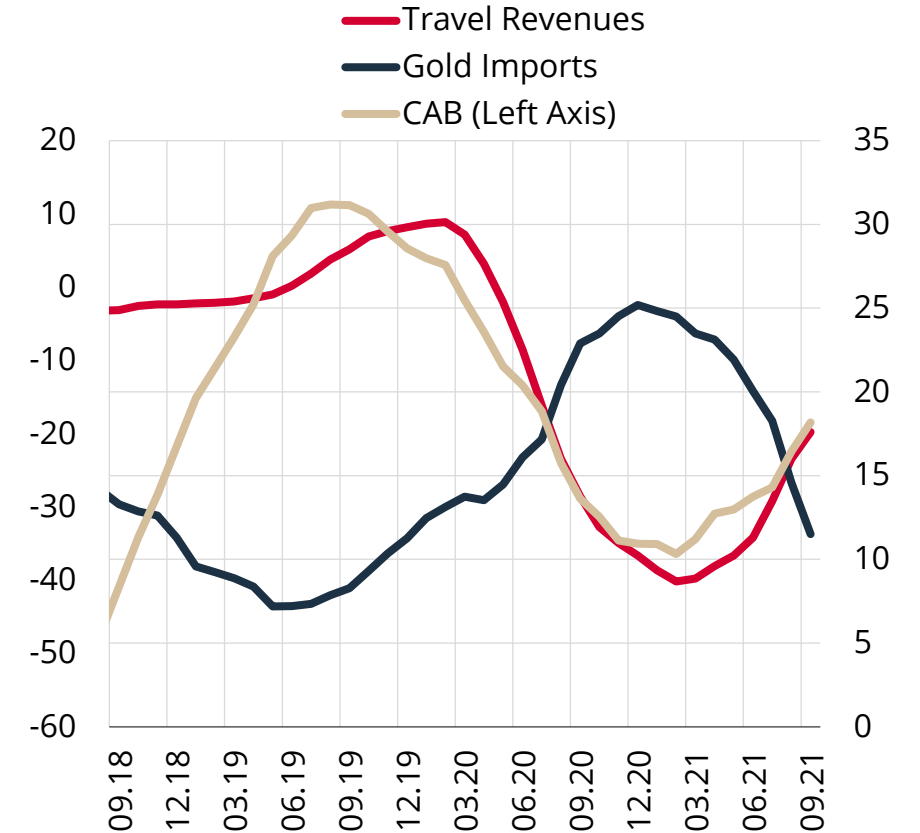
Coverage Ratio
(%, Seasonally Adjusted, 3-Month Moving Average)



Source: CBRT, TURKSTAT

Last Observation: October 2021

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



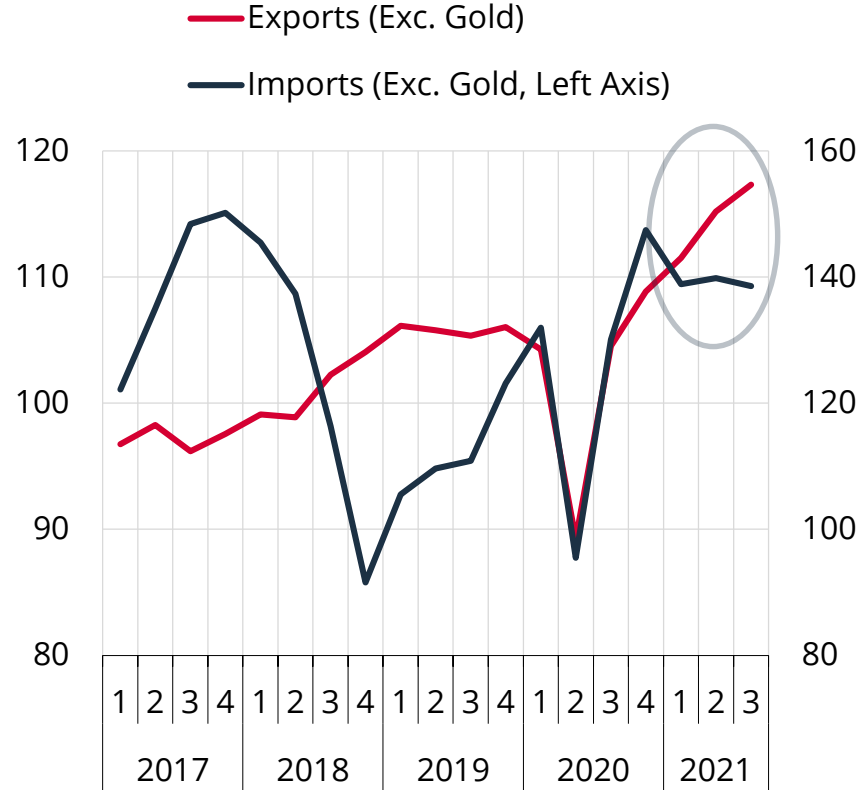
Source: CBRT

Last Observation: September 2021

External Balance

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

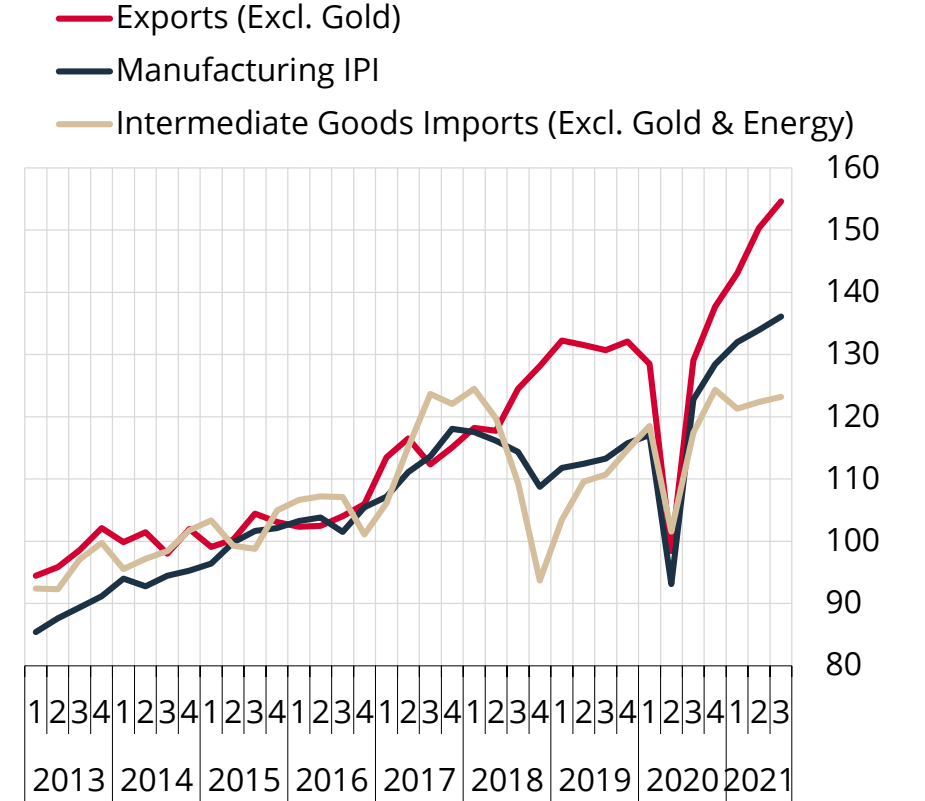
**Foreign Trade Volume Indices
(Seasonally Adjusted, 2015 = 100)**



Source: CBRT, TURKSTAT

Last Observation: September 2021

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



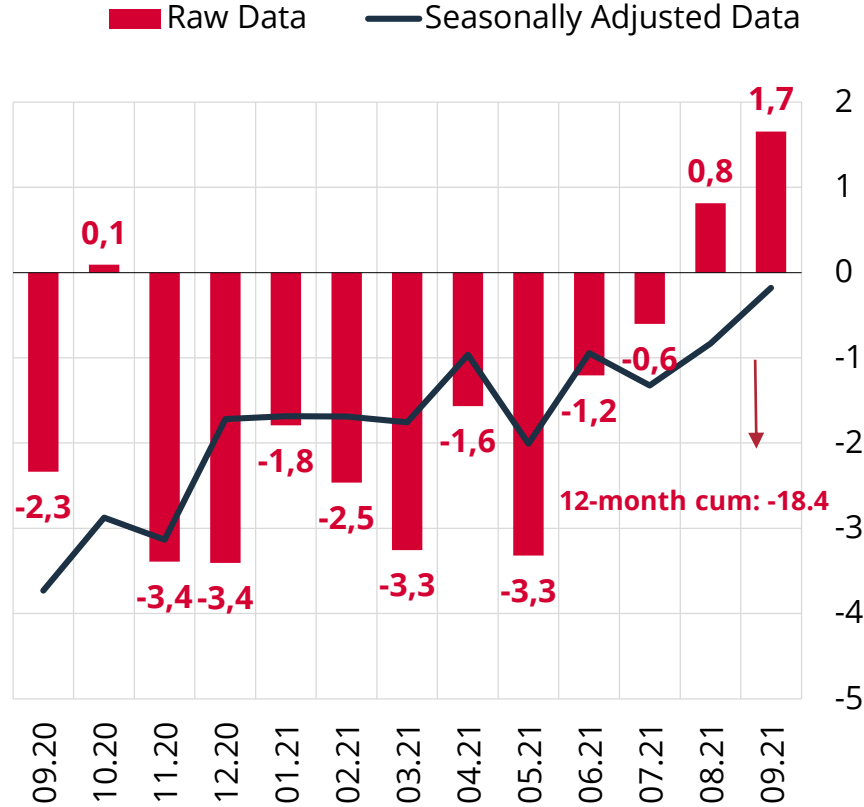
Source: CBRT, TURKSTAT

Last Observation: September 2021

External Balance

Thanks to favorable external demand conditions and the improvement in the balance of services, current account has been positive in August-September and improved in seasonally adjusted terms.

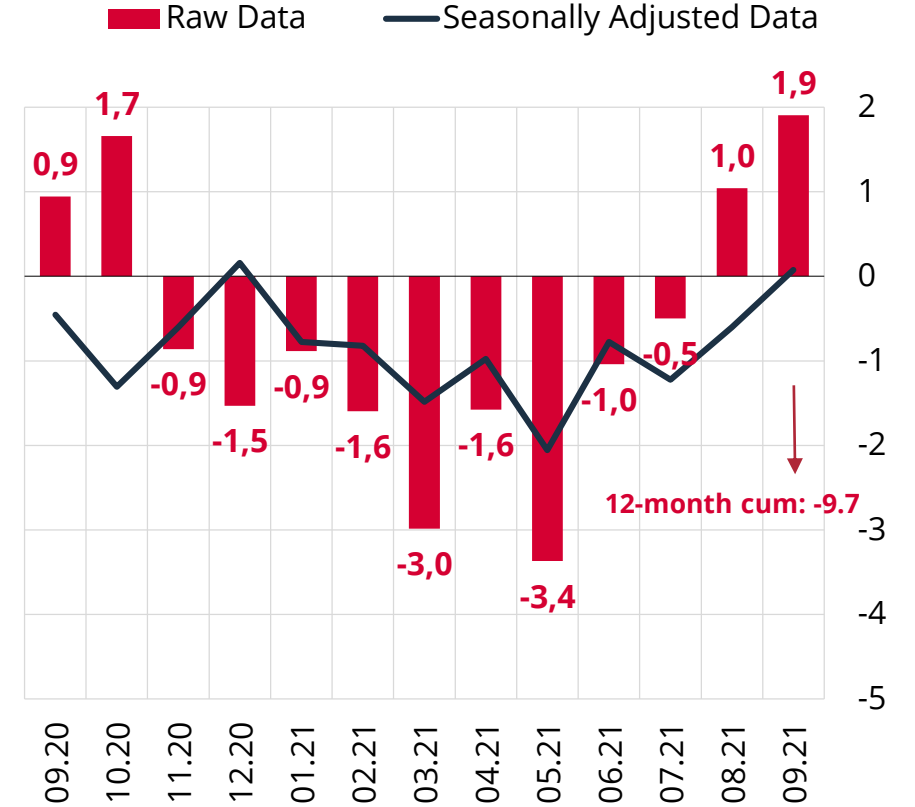
Current Account Balance (Billion USD)



Source: CBRT

Last Observation: September 2021

Current Account Balance (Excluding Gold, Billion USD)



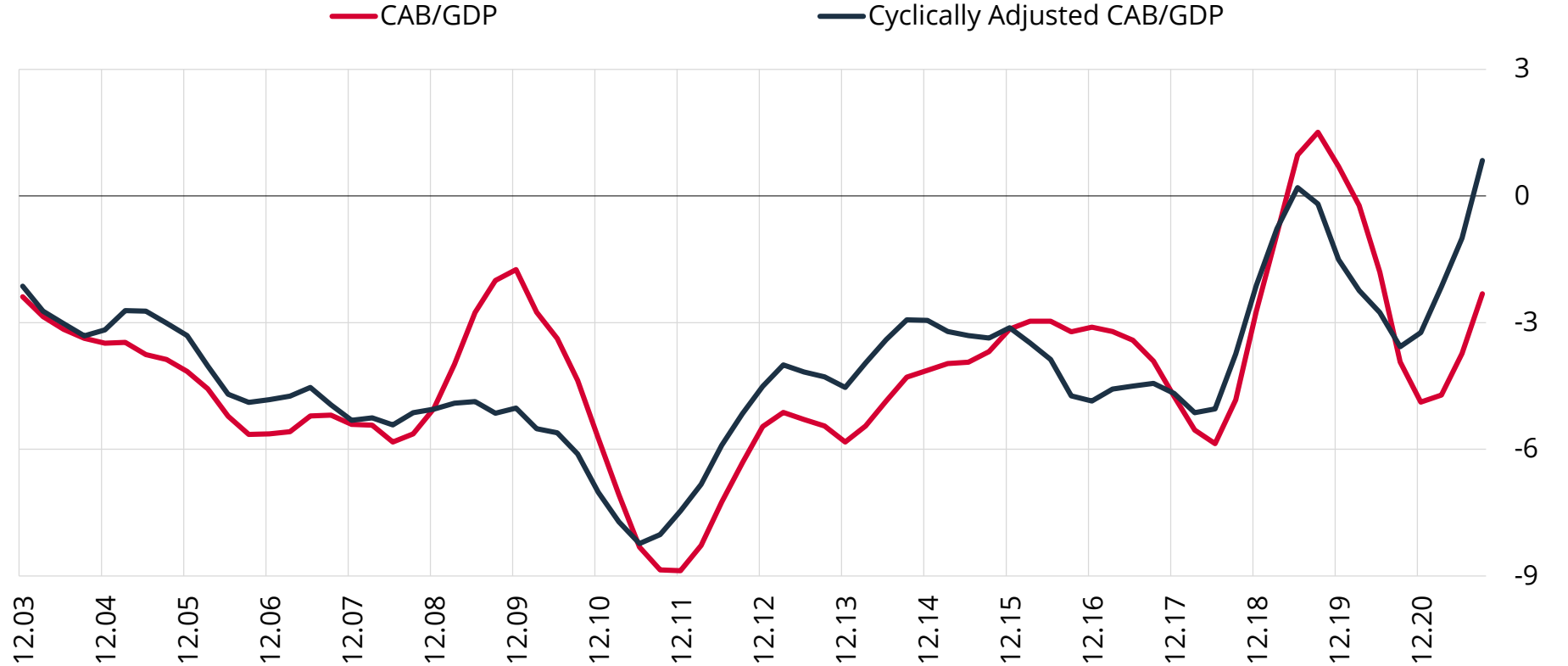
Source: CBRT

Last Observation: September 2021

External Balance

When the cyclical effects, which are mainly due to the pandemic, are taken into account, the annualized current account balance is estimated to become positive in the third quarter.

Cyclically Adjusted Current Account Deficit* (12 Month Cumulative, As a Percentage of GDP)



Source: CBRT

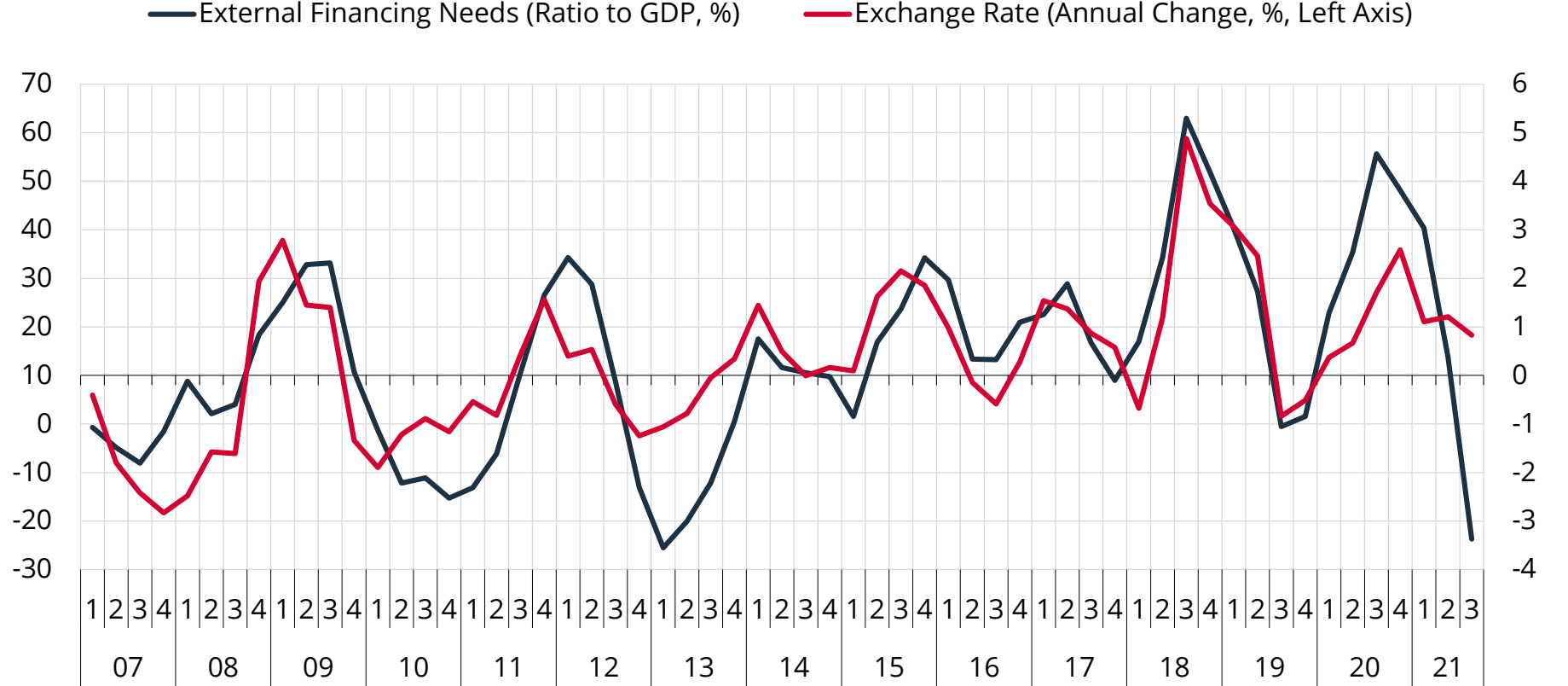
Last Observation: September 2021 for CAB, 2021 Q3 for GDP

* Adjusted for both price and business cycle effects.

External Financing Needs

Expected improvement in the current account balance will reduce the external financing needs.

External Financing Needs* (Annualized) and Exchange Rate (TL/USD)



Source: CBRT

Last Observation: 2021 Q3

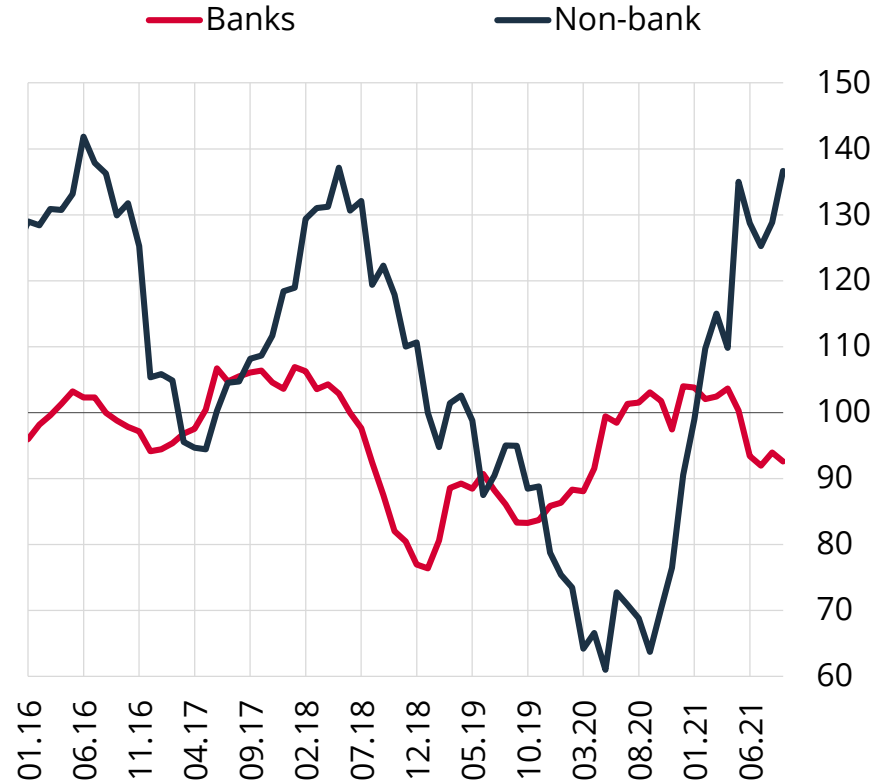
* The difference between the current account balance and the total of direct investment, portfolio and other investment flows.

External Finance

External debt rollover ratio for banking sector slightly decreased to around 93%, Non-bank rollover stands at 137% as of September 2021.

The volatility in external financial conditions poses risks to the portfolio flows to emerging markets.

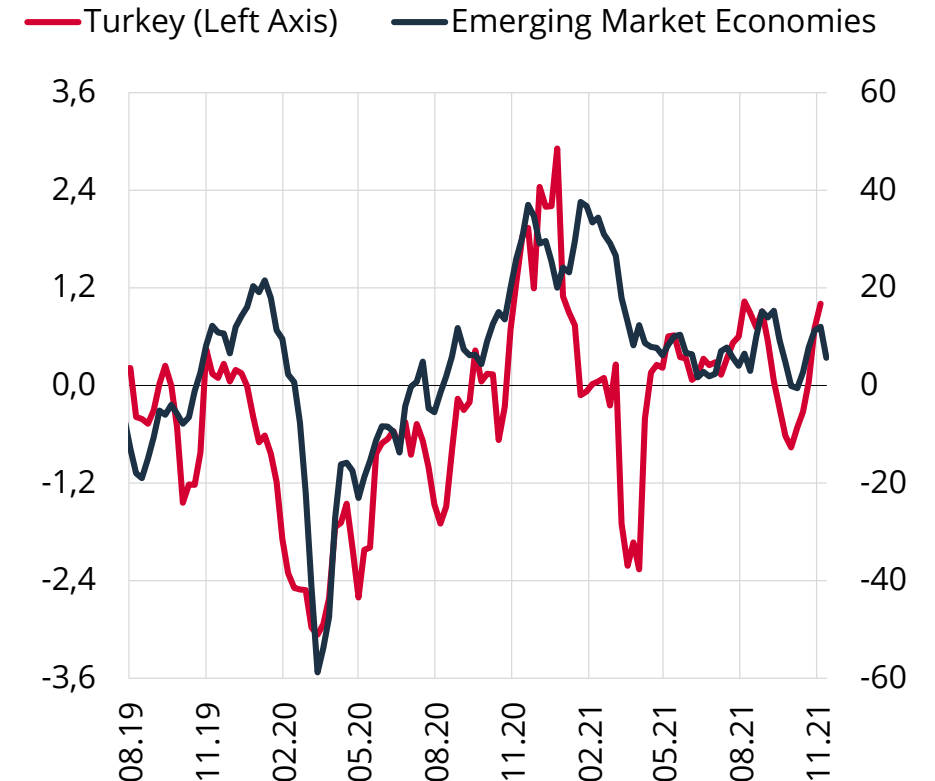
External Debt Rollover Ratios (6 Months, %)



Source: CBRT

Last Observation: September 2021

Portfolio Flows in Turkey and Emerging Economies* (4-Week Cumulative, Billion USD)



Source: CBRT, EPFR

Last Observation: November 19, 2021 for Turkey; November 26, 2021 for Emerging Markets

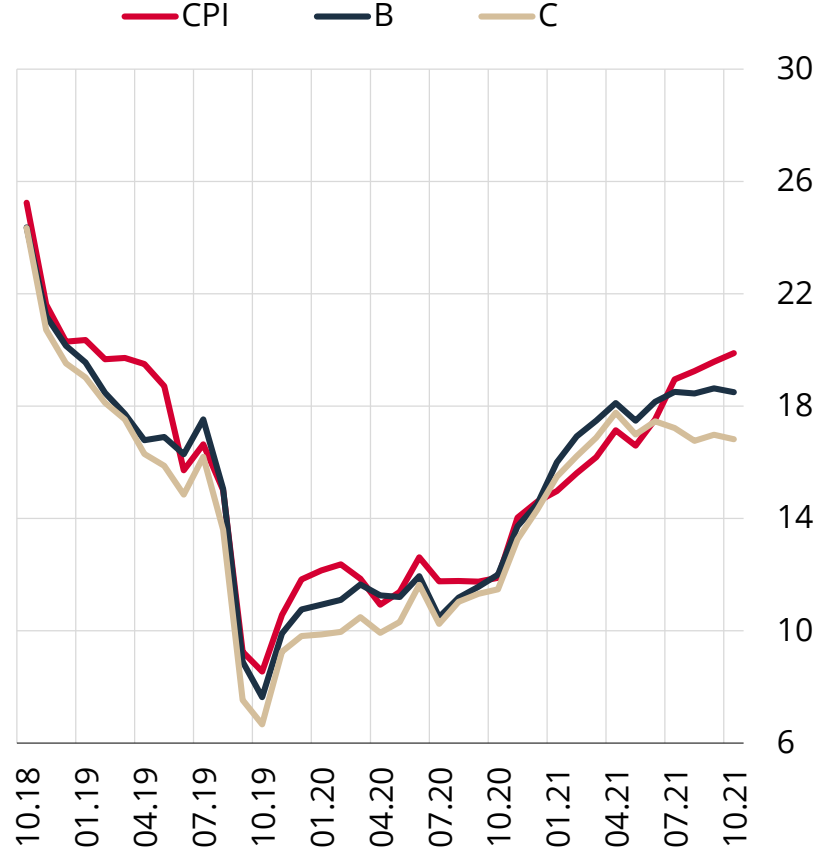
* Turkey data includes portfolio inflows to stocks and GDDS market. Repo is included in the GDDS data. Emerging Markets data is from the EPFR database and includes all the database-covered funds' weekly net investments in equity and GDDS markets in emerging economies.

Inflation

In October, annual headline inflation increased by 0.31 points to 19.89%, mainly on the back of energy and tobacco products.

In this period, the core indicators B and C recorded annual inflations of 18.50% and 16.82%, respectively.

CPI and Core Inflation (Annual % Change)



Source: TURKSTAT

Last Observation: October 2021

Contributions to Annual CPI (% Points)

	Jan. 21	Feb. 21	Mar. 21	Apr. 21	May. 21	Jun. 21	Jul. 21	Aug. 21	Sep. 21	Oct. 21
CPI	14.97	15.61	16.19	17.14	16.59	17.53	18.95	19.25	19.58	19.89
Core Goods (Including Gold)	6.2	6.3	6.5	6.7	6.2	6.6	6.3	5.7	5.5	5.3
Food and Non-Alcoholic Beverages	4.3	4.5	4.4	4.4	4.4	5	6.1	7.1	7.0	6.8
Alcoholic Beverages and Tobacco	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.4
Energy	1.0	1.1	1.5	2.1	2	2	2.6	2.5	2.8	3.1
Services	3.4	3.5	3.7	3.8	3.9	3.9	3.9	3.9	4.2	4.3

Source: CBRT, TURKSTAT

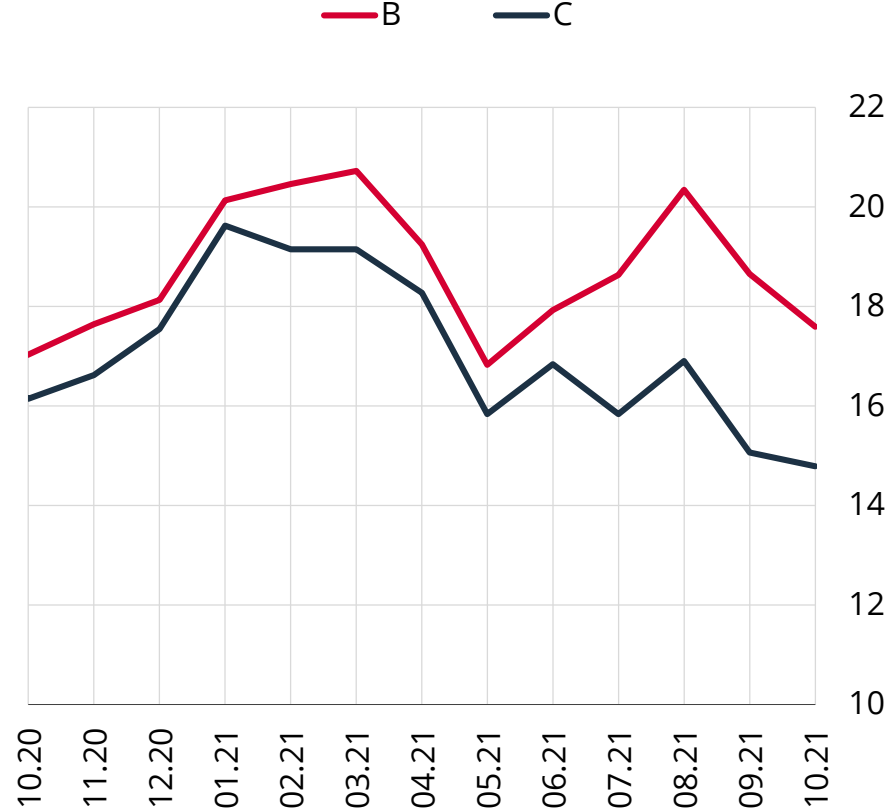
Last Observation: October 2021

Underlying Inflation

Underlying trend indicators B and C decreased in this period while maintaining high levels.

Underlying trend of services increased slightly while that of processed food and core goods decreased.

Core Inflation*
(Seasonally Adjusted, Annualized, 3-Month Moving Average % Change)

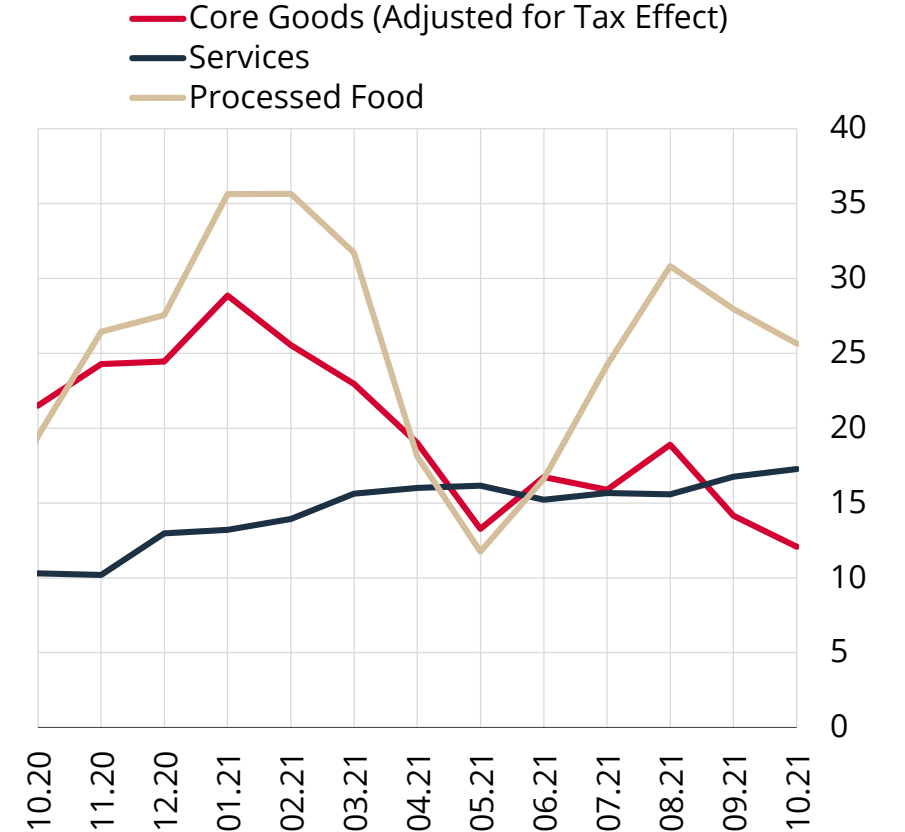


Source: CBRT, TURKSTAT

Last Observation: October 2021

* B and C indices adjusted for tax effect.

Subgroups of B Index
(Seasonally Adjusted, Annualized, 3-Month Moving Average % Change)



Source: CBRT, TURKSTAT

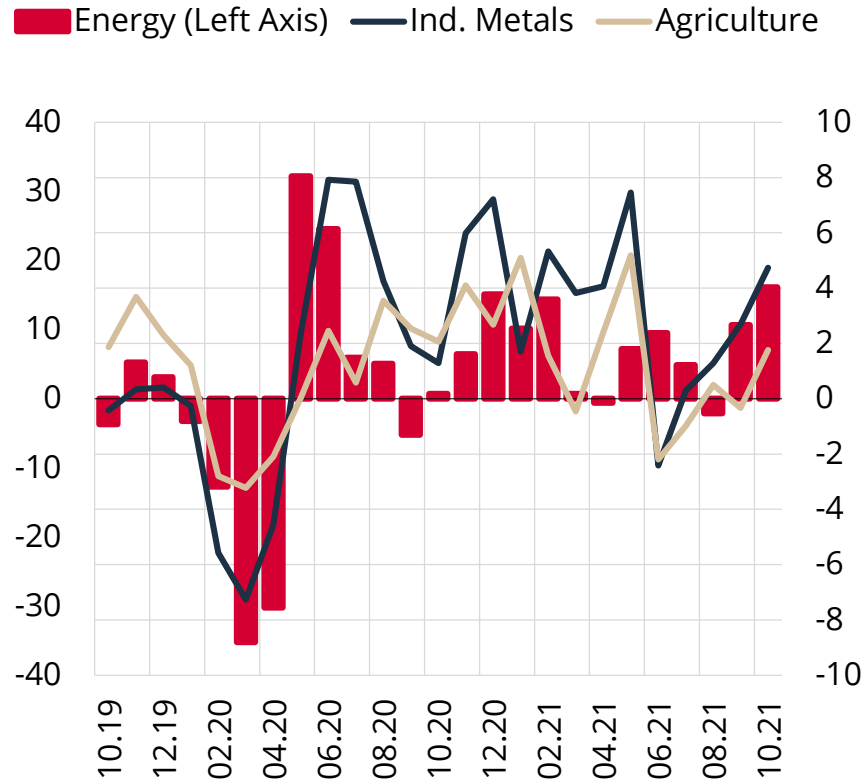
Last Observation: October 2021

Determinants of Inflation: Import Costs

Developments in international commodity prices and ongoing problems in supply chains continue to affect producer prices.

Effect of commodity prices on annual PPI is estimated to decline slightly in September.

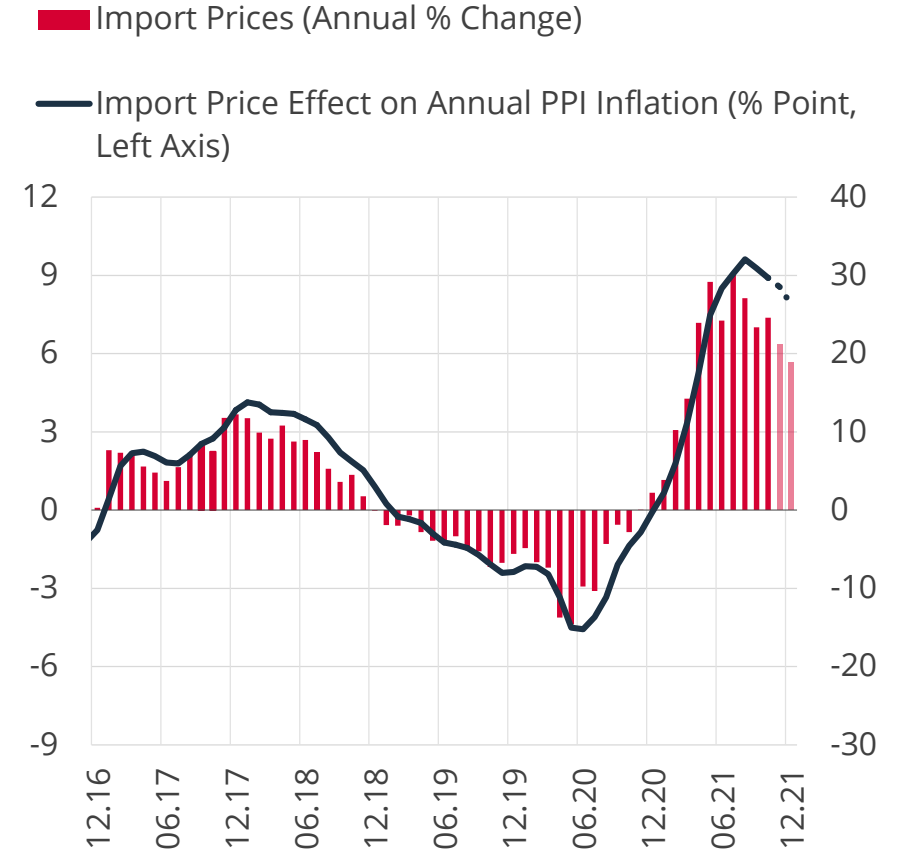
Commodity Price Indices (Monthly % Change)



Source: World Bank

Last Observation: October 2021

Contribution of Import Prices to PPI* (% Point)



Source: CBRT

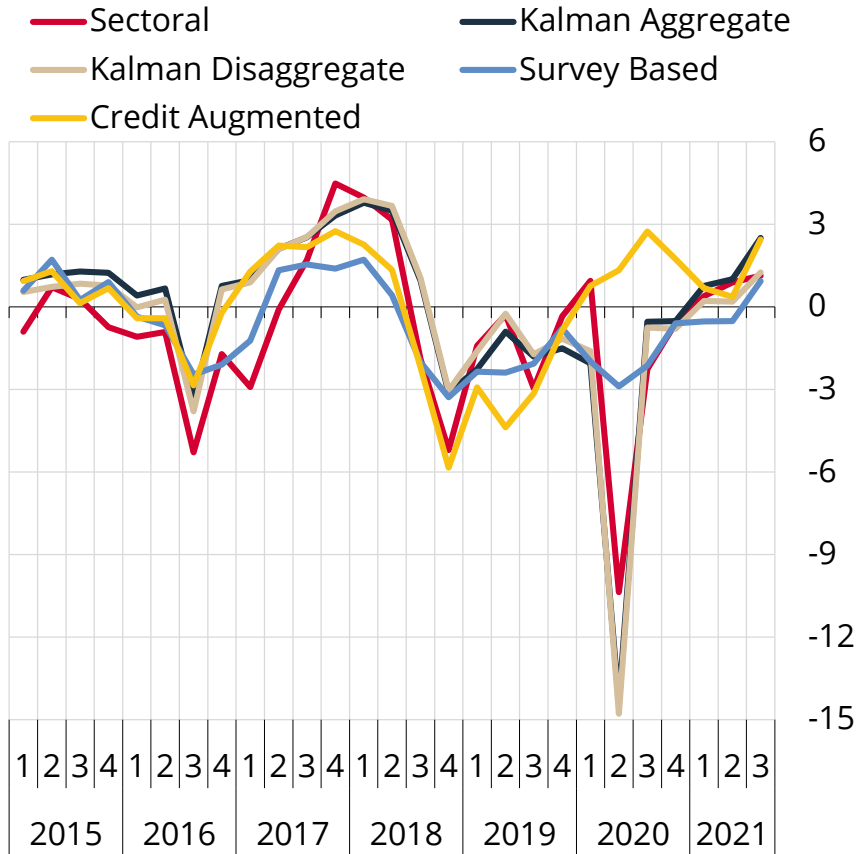
Last Observation: September 2021

* Import Unit Value Index is assumed to remain constant at 119.09 as of September 2021.

Determinants of Inflation: Output Gap Indicators

With the effect of opening-up and strong export performance economic activity remains strong.

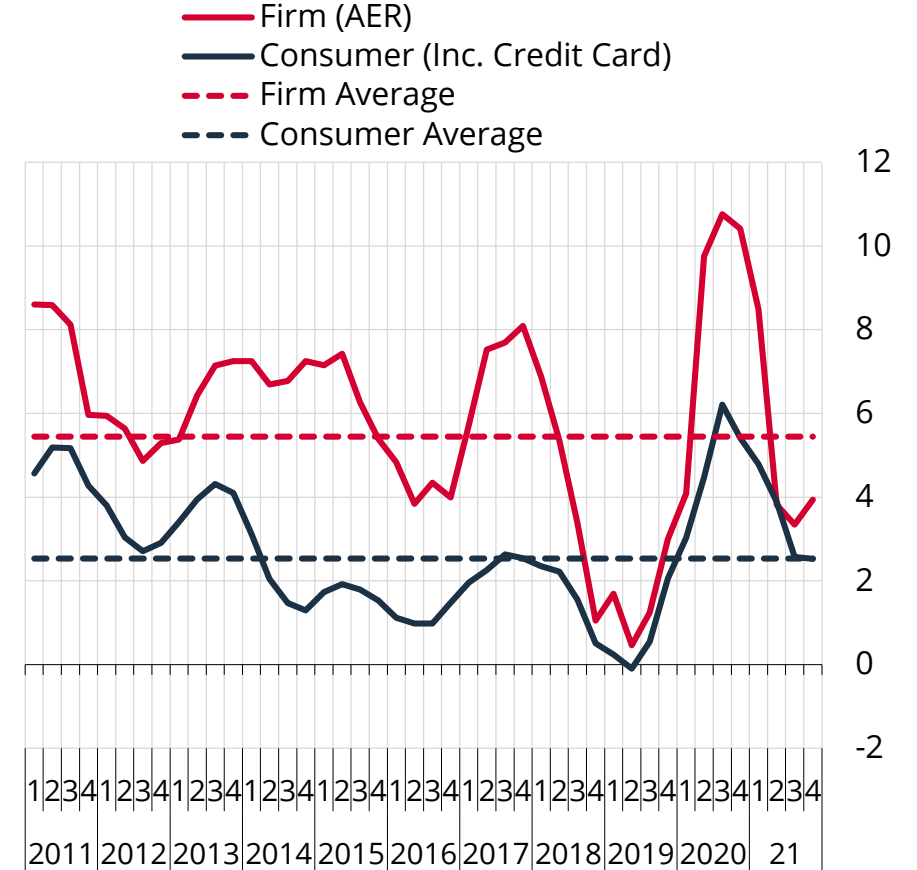
Output Gap Estimates (%)



Source: CBRT

Last Observation: 2021 Q3

Net Loan Utilization* (%)



Source: CBRT

Last Observation: November 2021

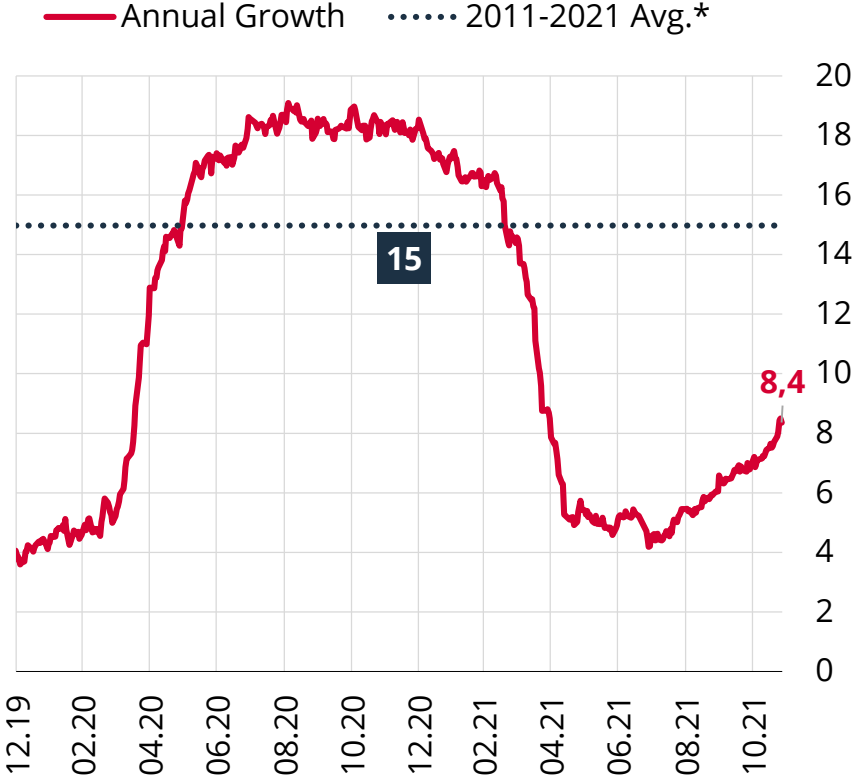
* Net loan utilization is calculated as the ratio of the annual change in the nominal loan stock to the annual GDP of 4 quarters before. The historical average covers the period 2006–2019.

Credit Developments: Credit Growth

FX adjusted commercial and consumer loan growths are below historical averages, being more evident in commercial loans.

The recent revisions in the monetary policy stance since September 2021 have started a recovery in the commercial loan growth.

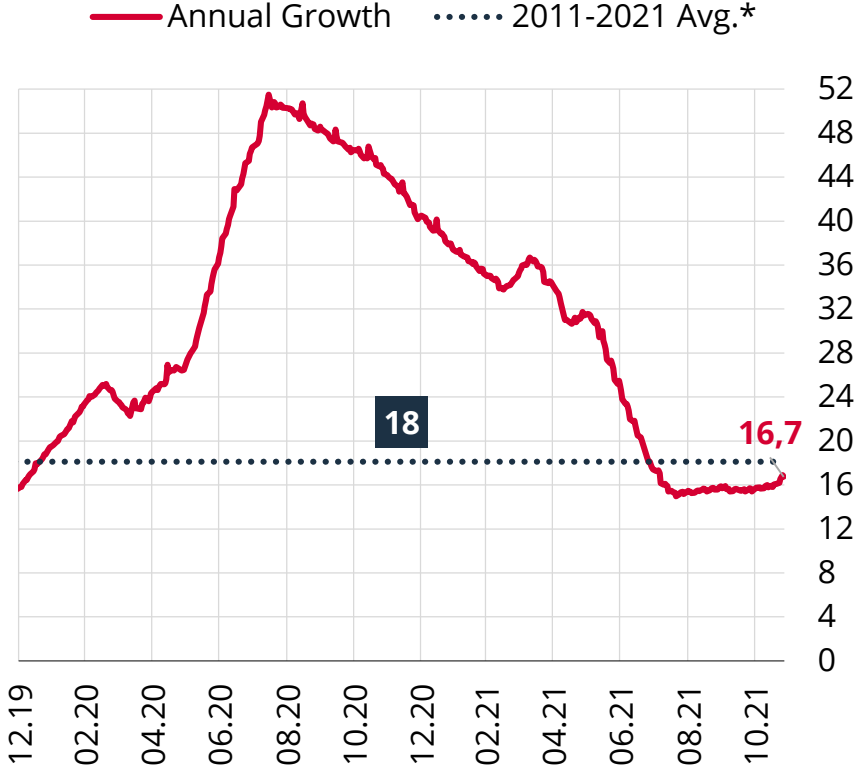
Commercial Loan Growth (Adjusted for Exchange Rate, %)



Source: CBRT

Last Observation: November 26, 2021

Consumer Loan Growth (%)



Source: CBRT

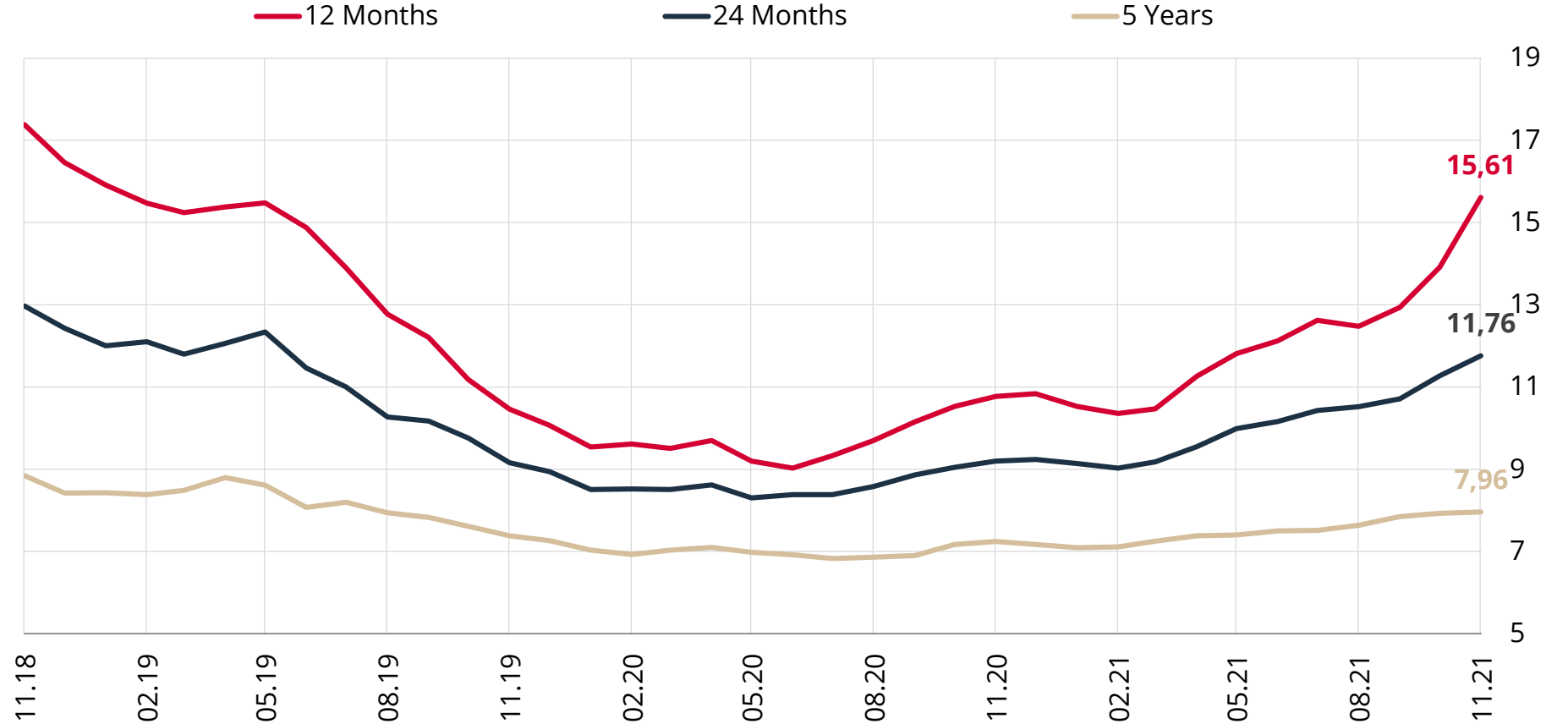
Last Observation: November 26, 2021

* Long term average for loan growth is calculated for the period between January 7, 2011 and November 26, 2021.

Determinants of Inflation: Expectations

Inflation expectations are running above the interim targets.

Inflation Expectations (%)



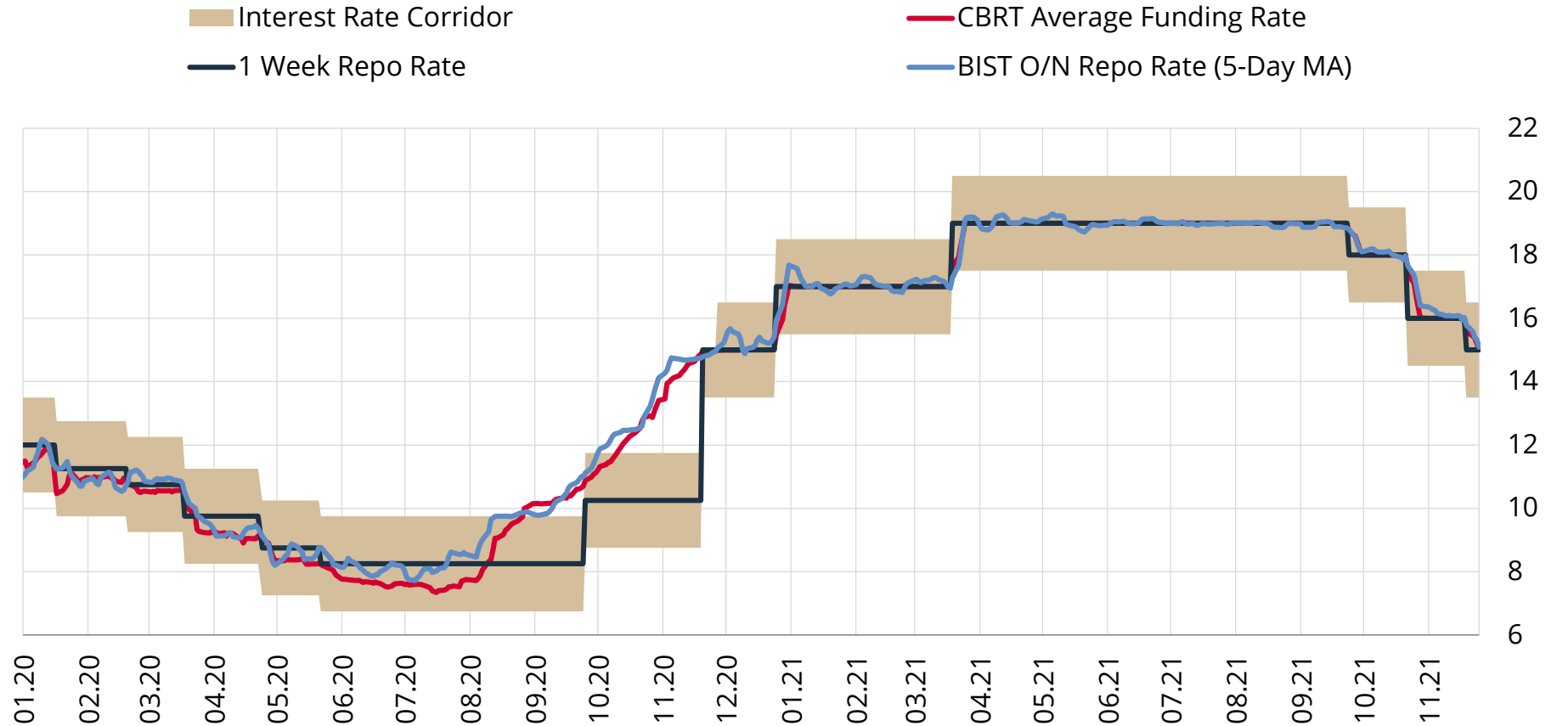
Source: CBRT

Last Observation: November 2021

Monetary Policy

The policy rate has been reduced to 15 percent.

Short Term Interest Rates (%)



Source: BIST, CBRT

Last Observation: November 25, 2021

Deposit Developments: Deposit Amounts

TL deposits have increased 369 billion TL while there have been slight decline in FX saving deposits since the end of 2020.

Deposit Developments

Deposits*

Billion TL USD	Deposit Amounts				Periodic Changes			
	31 Dec (I)	22 Sep (II)	20 Oct (III)	22 Nov (IV)	31 Dec-22 Sep (II-I)	22 Sep-20 Oct (III-II)	20 Oct-22 Nov (IV-III)	31 Dec-22 Nov (IV-I)
TL Deposits	1,546	1,820	1,892	1,915	274.0	72.0	23.1	369,1
Savings	842	1,099	1,147	1,151	256.3	48.1	4.7	309,1
Commercial	485	534	554	566	48.9	21.0	11.3	81,2
Official and Other	219	188	191	198	-31.2	3.0	7.1	-21,2
FX Deposits*	259	260	258	256	7.1	-1.4	0.6	6,2
Savings	168	164	161	161	-0.4	-2.3	0.7	-2,0
Commercial	86	91	92	90	7.3	0.7	-0.5	7,4
Official and Other	4.6	4.8	4.9	5.3	0.3	0.2	0.4	0,9

Source: CBRT

Last Observation: November 22, 2021

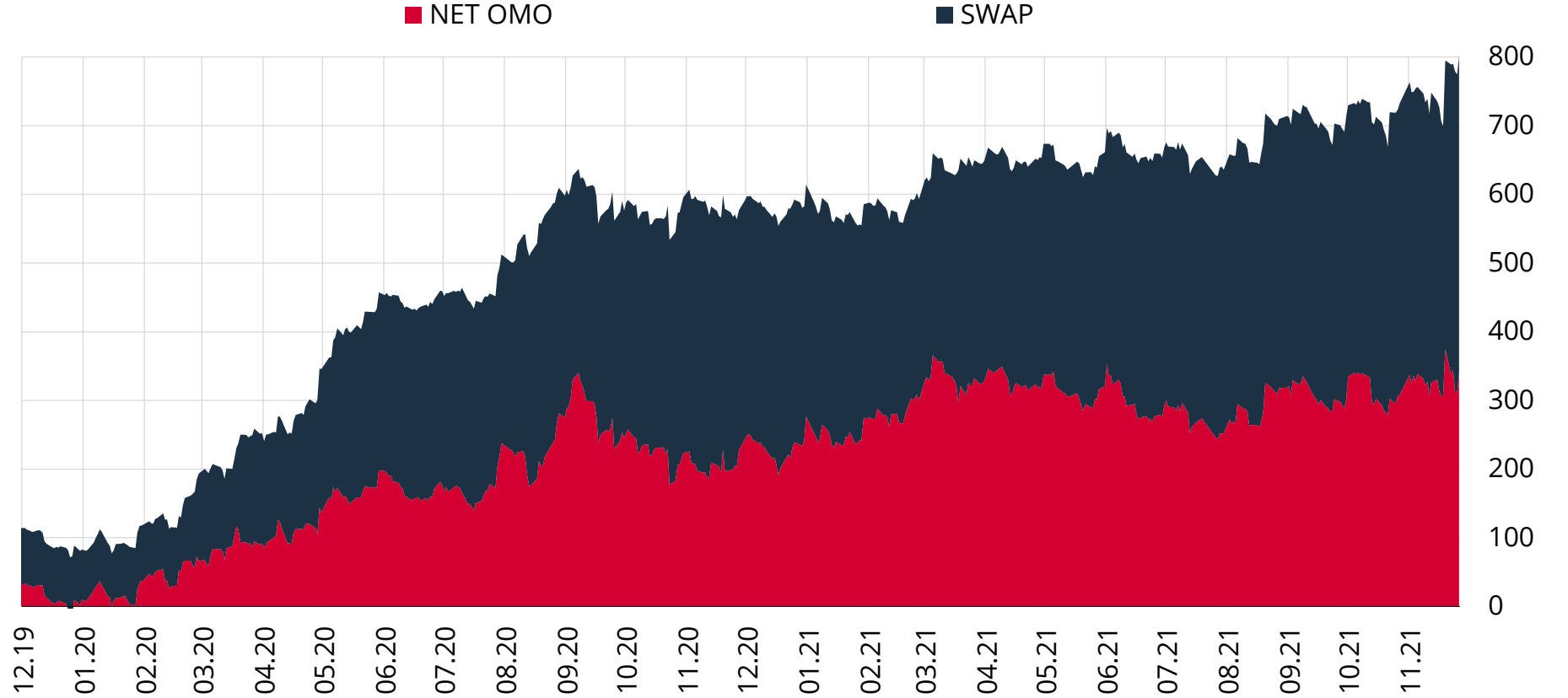
* FX deposit amounts are nominal values, their changes are adjusted for parity and gold price effects.

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

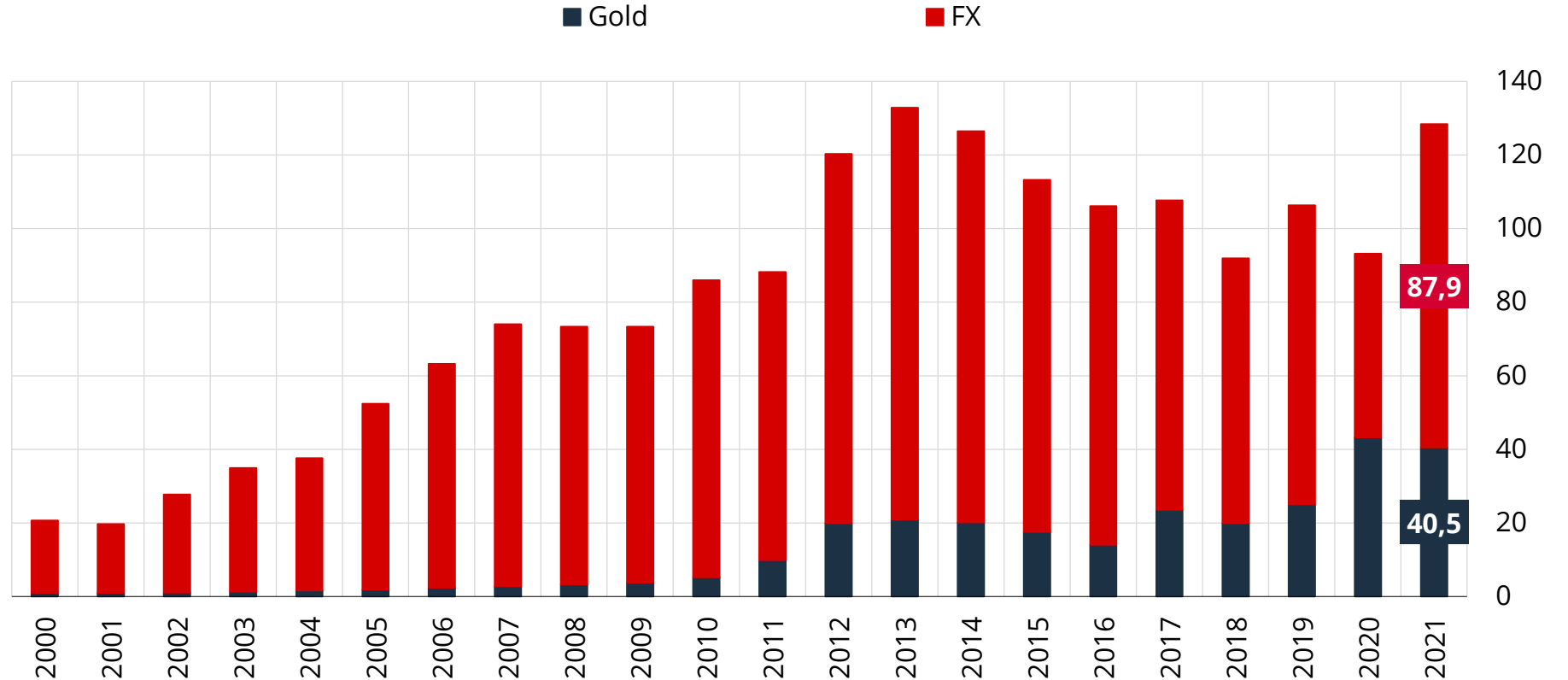
Last Observation: November 26, 2021

Reserves

The CBRT reserves have recently gained stability and display a strong 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: November 19, 2021

Overview

- Leading indicators show that domestic economic activity remains strong, with the help of robust external demand.
- The spread of domestic vaccination throughout the society facilitates the recovery in services, tourism and related sectors, which have been adversely affected by the pandemic, and leads to a more balanced composition in economic activity.
- While the demand for durable consumer goods slows down, recovery continues in non-durable consumer goods.
- The improvement in annualized current account is expected to continue in the rest of the year due to the strong upward trend in exports, and the strengthening of this trend is important for the price stability objective.
- Recent increase in inflation has been driven by supply side factors such as rise in food and import prices, especially in energy, and supply constraints, increase in administered prices and demand developments.
- The revision in the monetary policy stance began to affect commercial loans positively. In addition, developments in consumer loans are closely monitored.
- The MPC evaluated the analyses to decompose the impact of demand factors that monetary policy can have an effect, core inflation developments and supply shocks and decided to reduce the policy rate by 100 basis points to 15 percent in November.
- The MPC expects that the transitory effects of supply-side factors and other factors beyond monetary policy's control on price increases will persist through the first half of 2022.



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