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MARKETS ECONOMY POLITICS

BI WEEKLY BULLETIN ON TÜRKİYE

SEPTEMBER 4 – SEPTEMBER 18 2023

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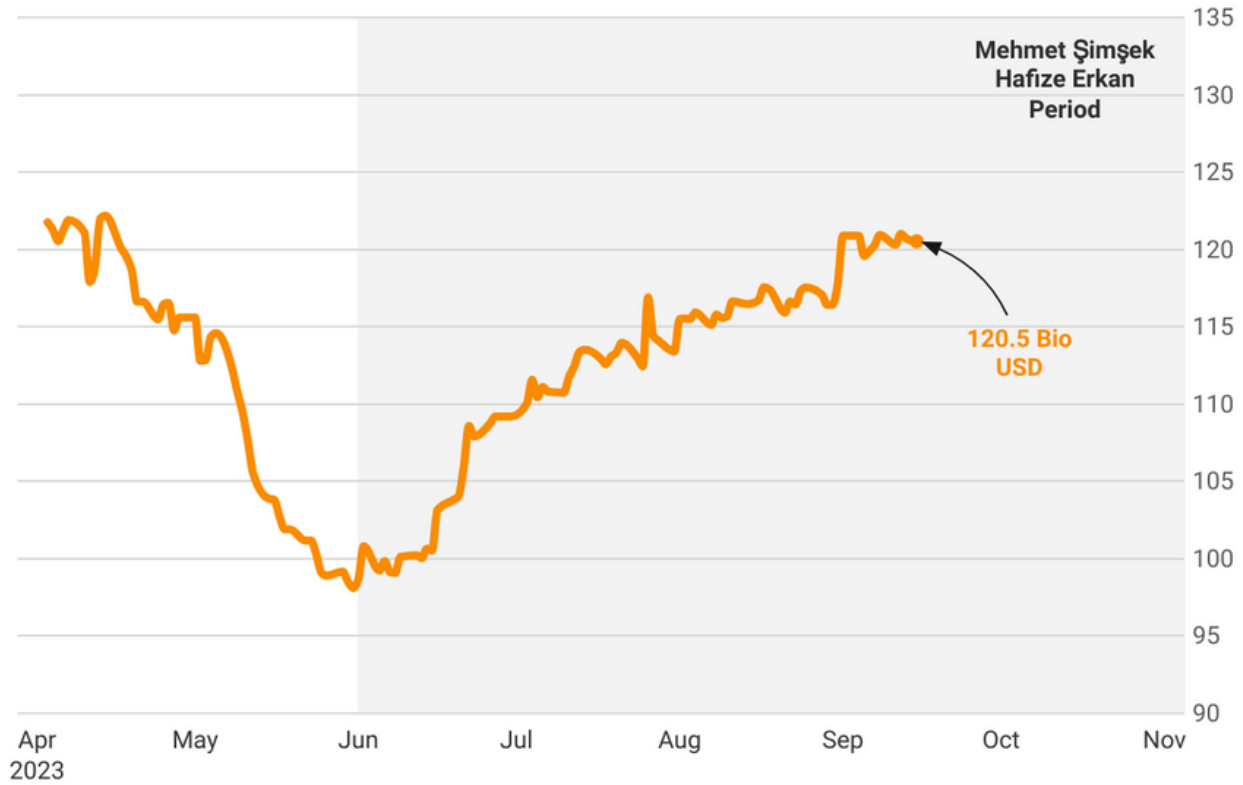
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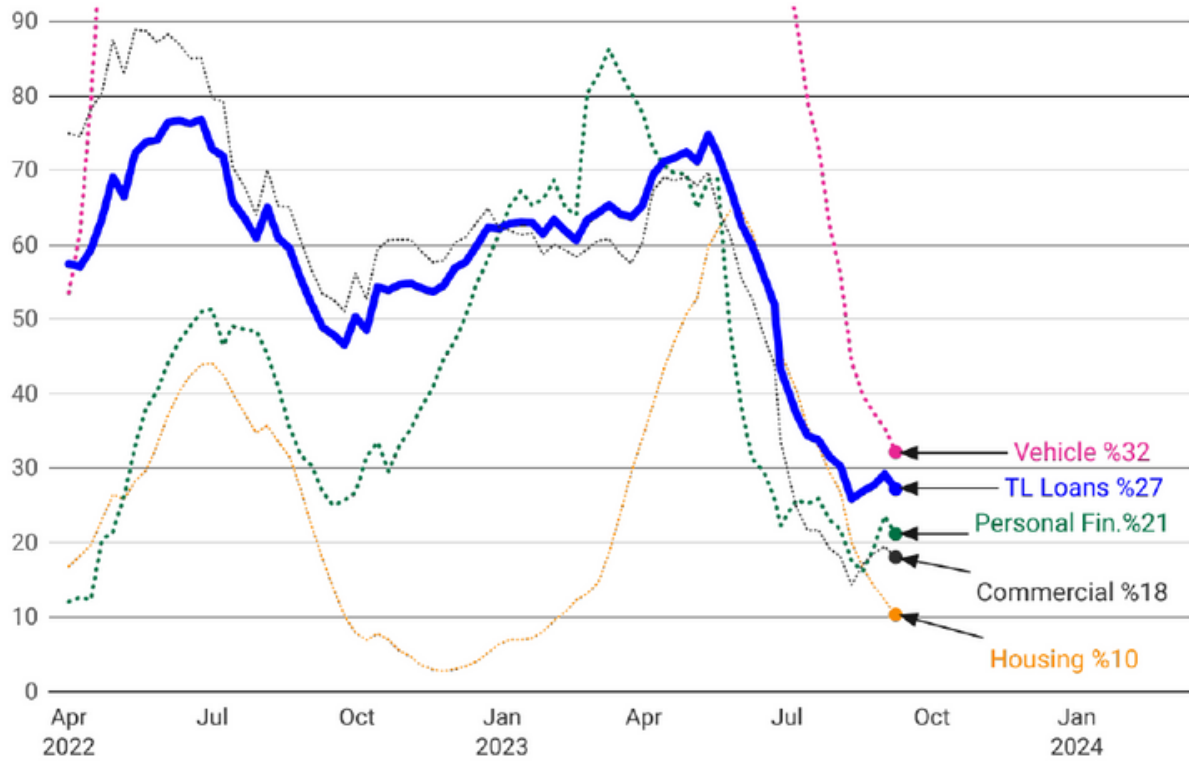
CBRT Gross Reserves (September 15)



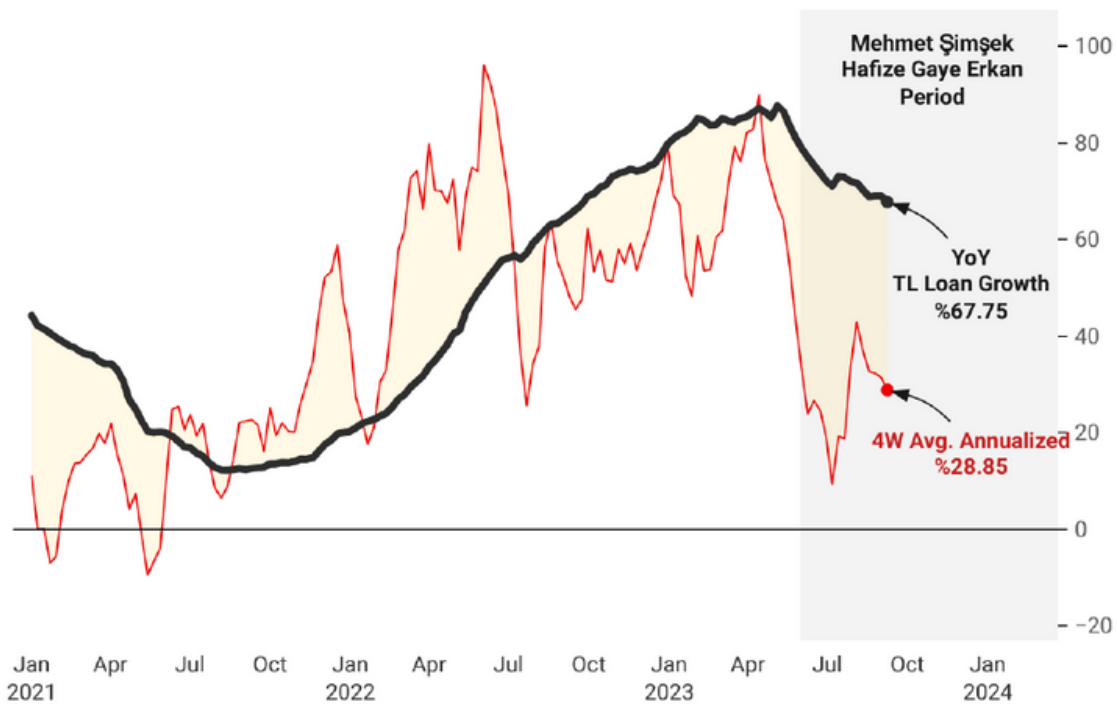
Assets (Bio USD)	30/12/22	10/09/23	YTD
Gold	45.89	41.30	-4.59
FX Banknotes	9.60	3.40	-6.20
Securities + Deposits	10.29	5.22	-5.07
Other FX Balance	62.94	70.37	+7.43
TOTAL	128.72	120.29	-8.43

Liabilities (Bio USD)	30/12/22	10/09/23	YTD
To Turkish Banks	85.04	74.49	-10.55
To IMF & International Insti.	16.25	29.70	+13.45
To Turkish Treasury	11.85	10.48	-1.37
To Turkish Banks in Swap Contract	47.41	51.10	+3.69
To Foreign Central Banks	23.35	23.35	-
TOTAL	183.90	189.12	+5.22

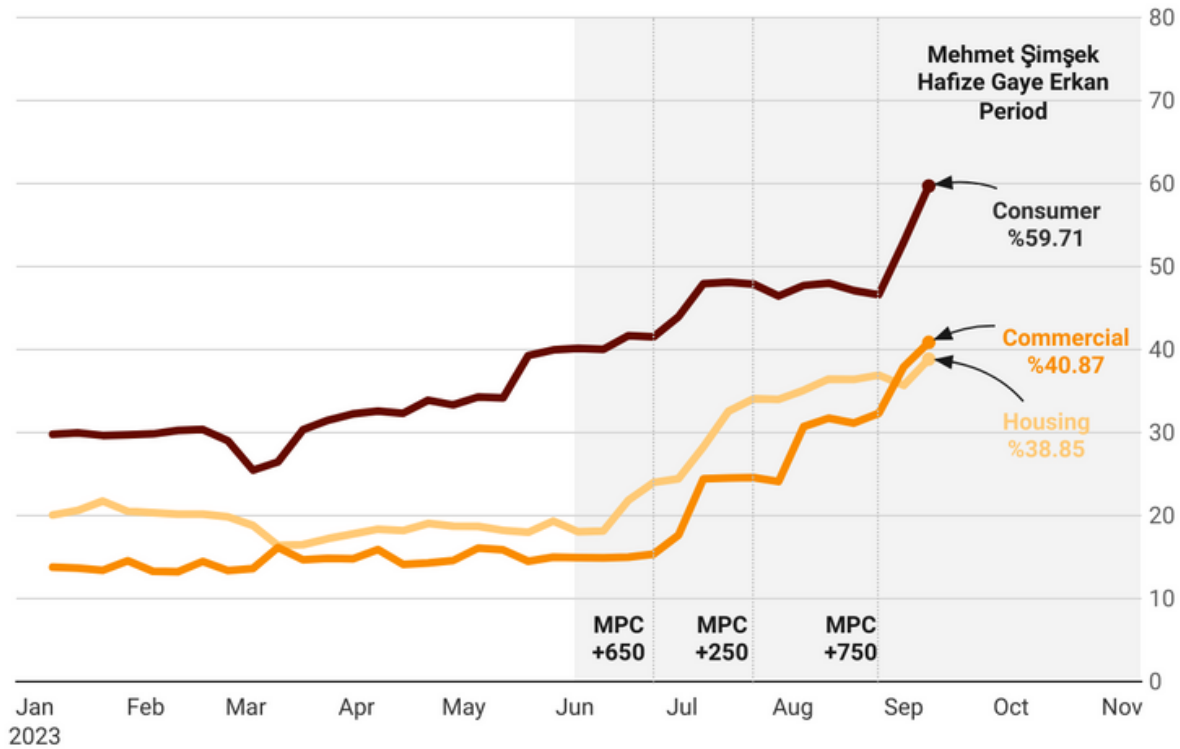
TL Loan Growth Momentum(September 8, 13 Week. Ann., %)



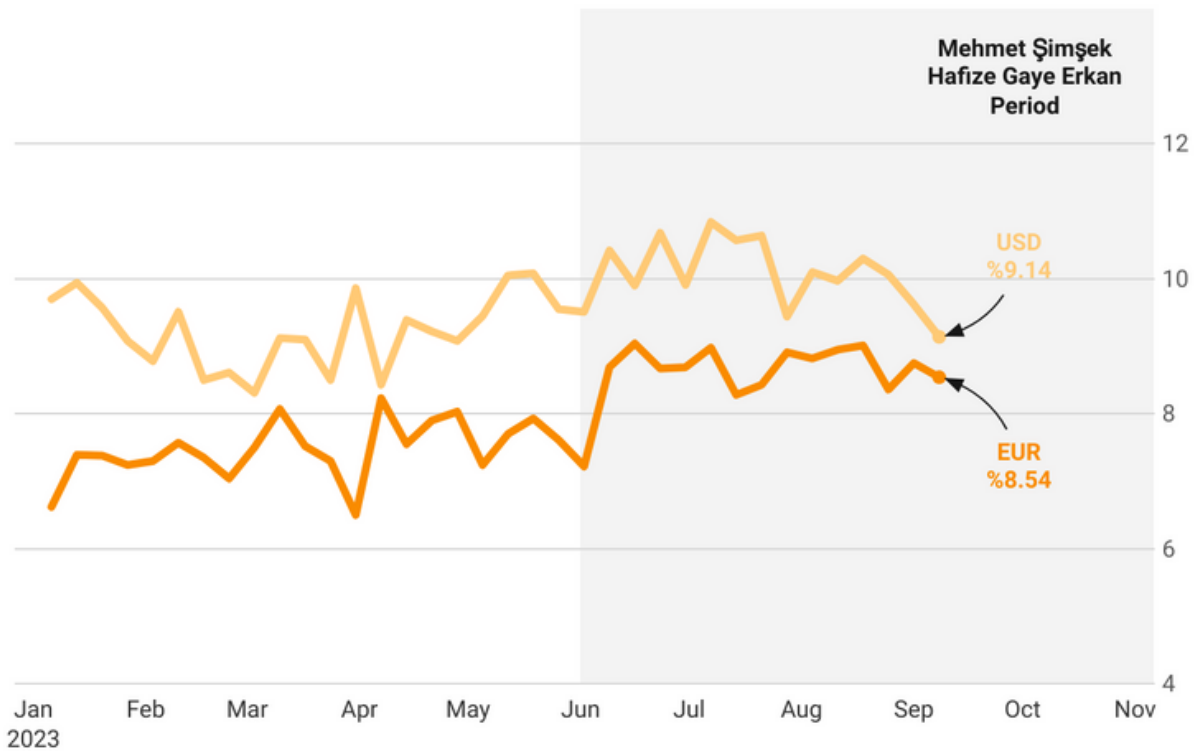
TL Loan Growth (September 14, YoY)



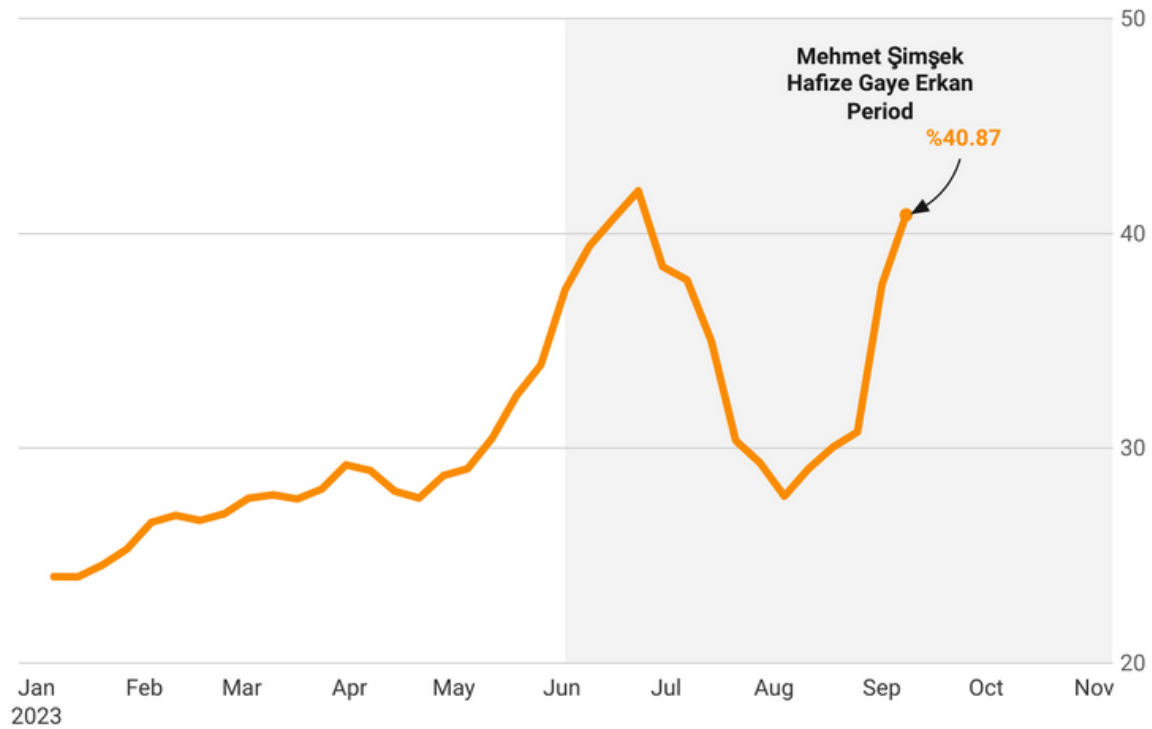
TL Loan Interest Rates (% , September 8)



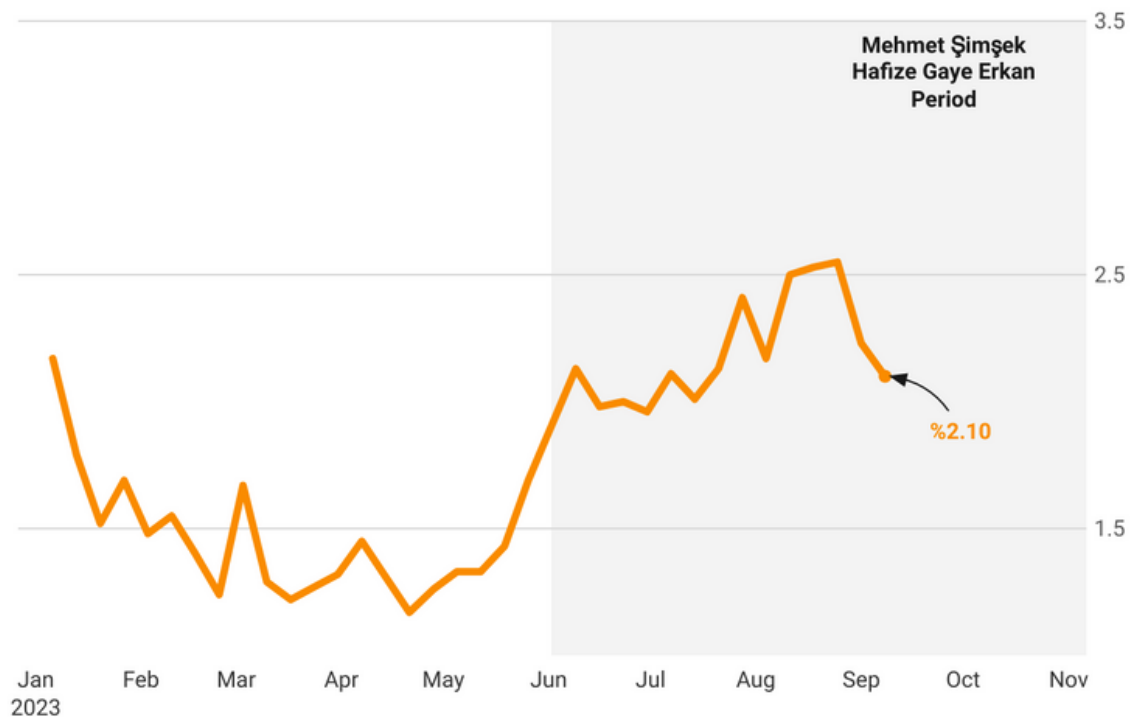
FX Loan Interest Rates (% , September 8)



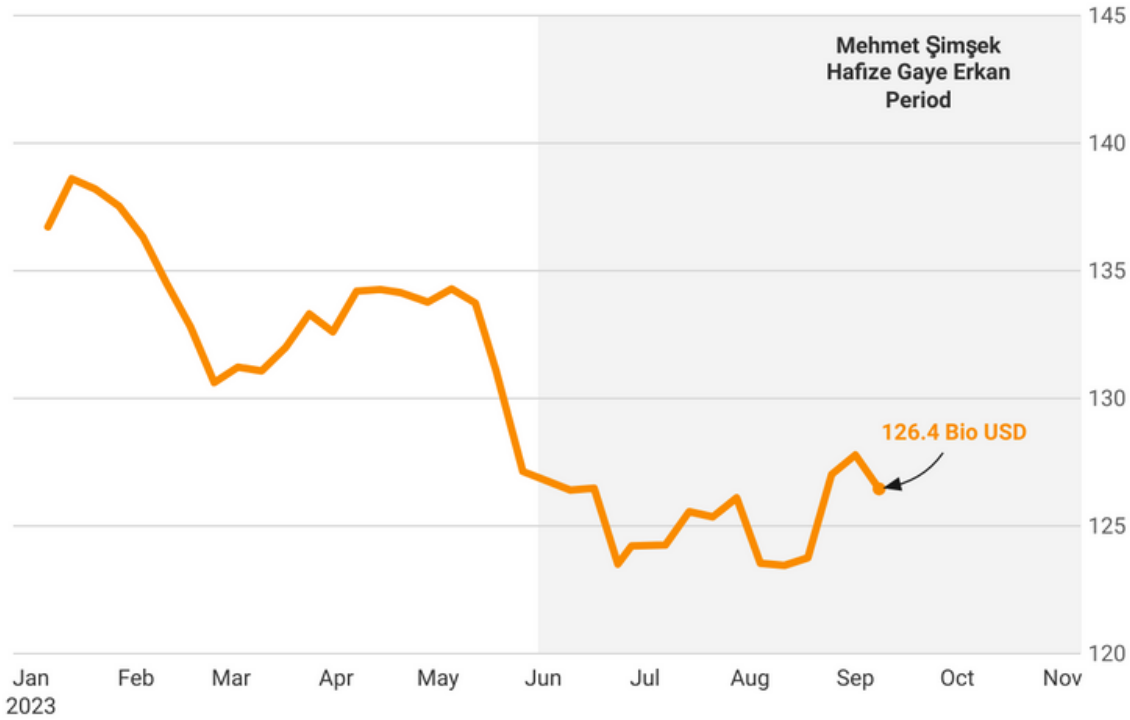
TL Deposit Interest Rates - 3M Maturity (September 8)



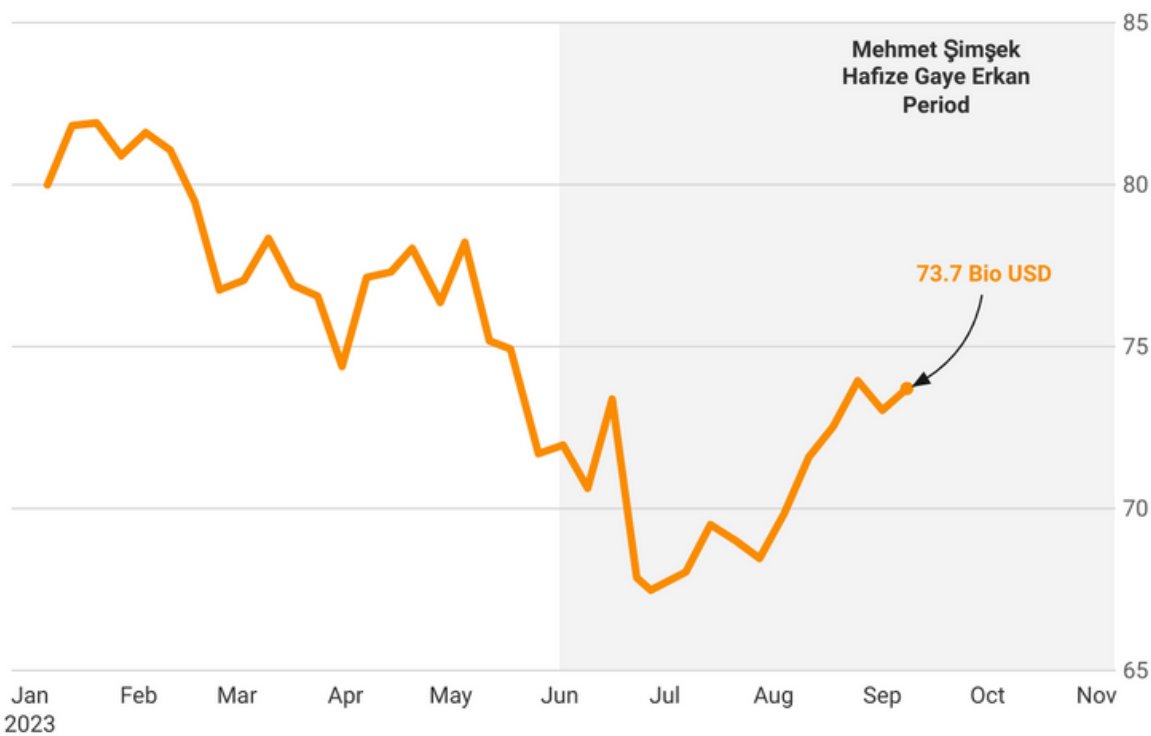
USD Deposit Interest Rates - 3M Maturity (September 8)



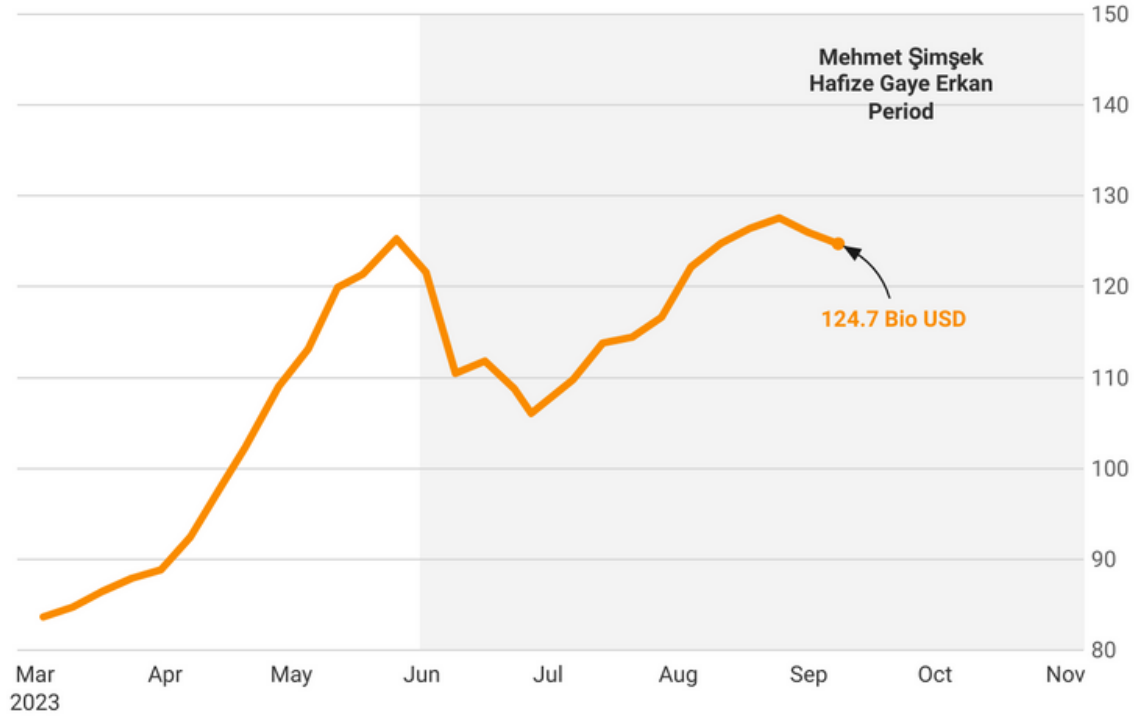
Retail FX Deposits (September 8)



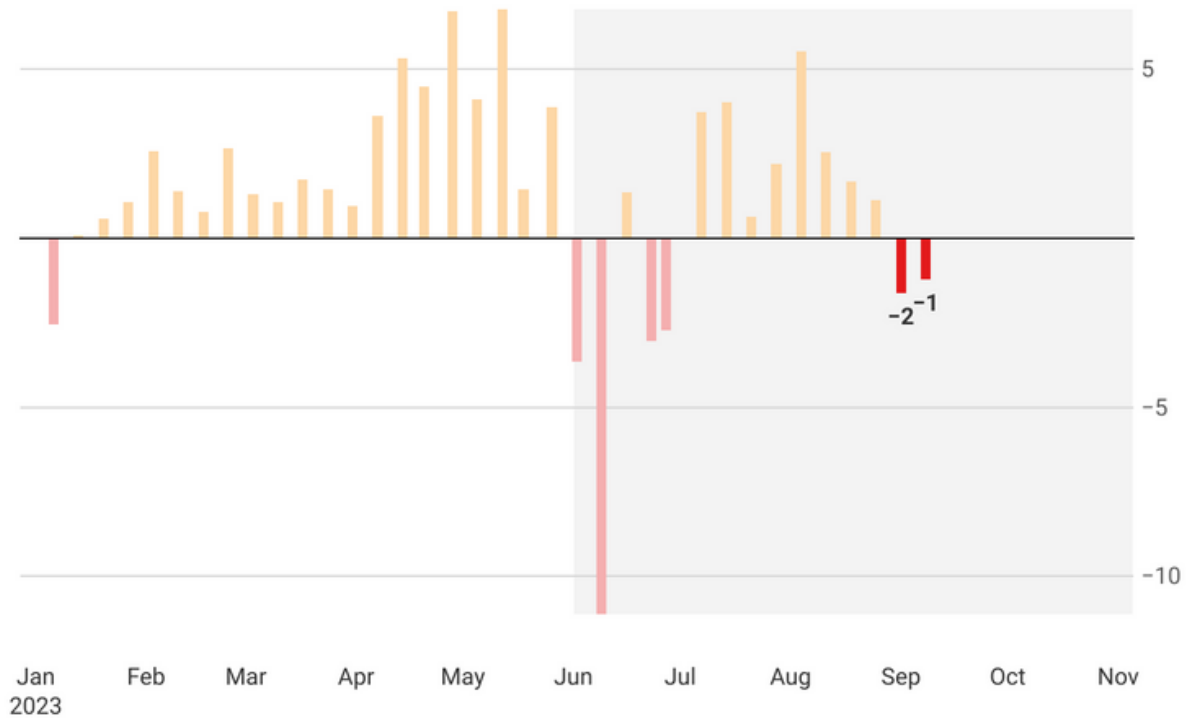
Commercial FX Deposits (September 8)



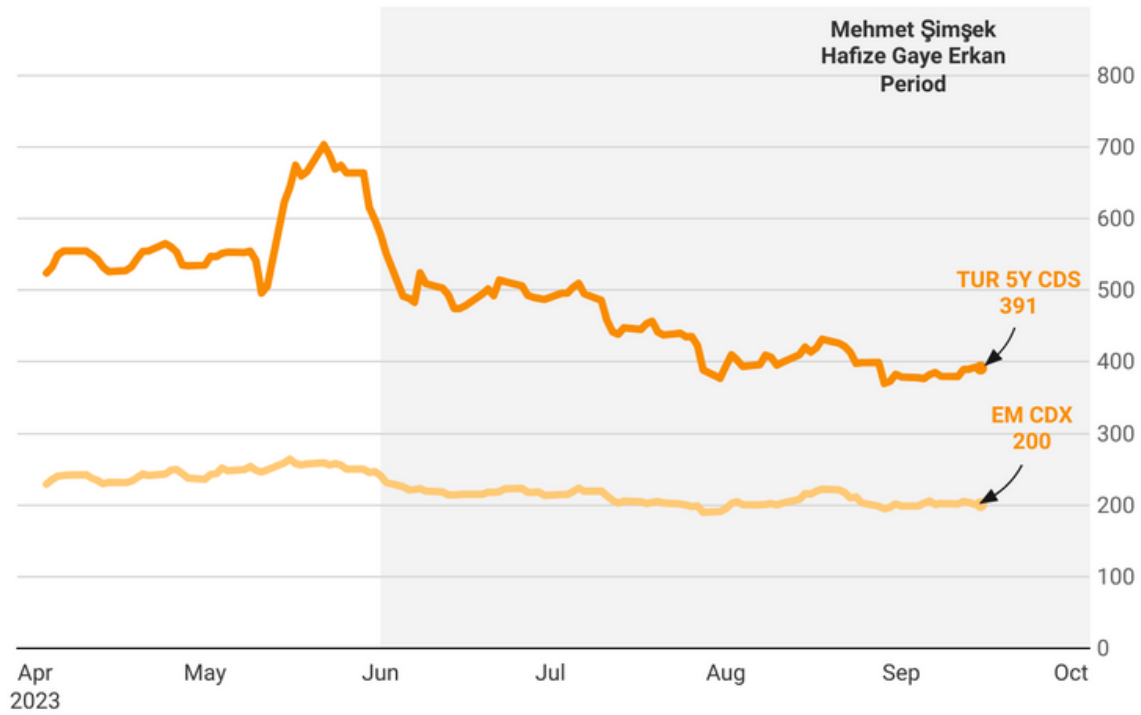
FX Protected TL Deposits (USD - as of September 8)



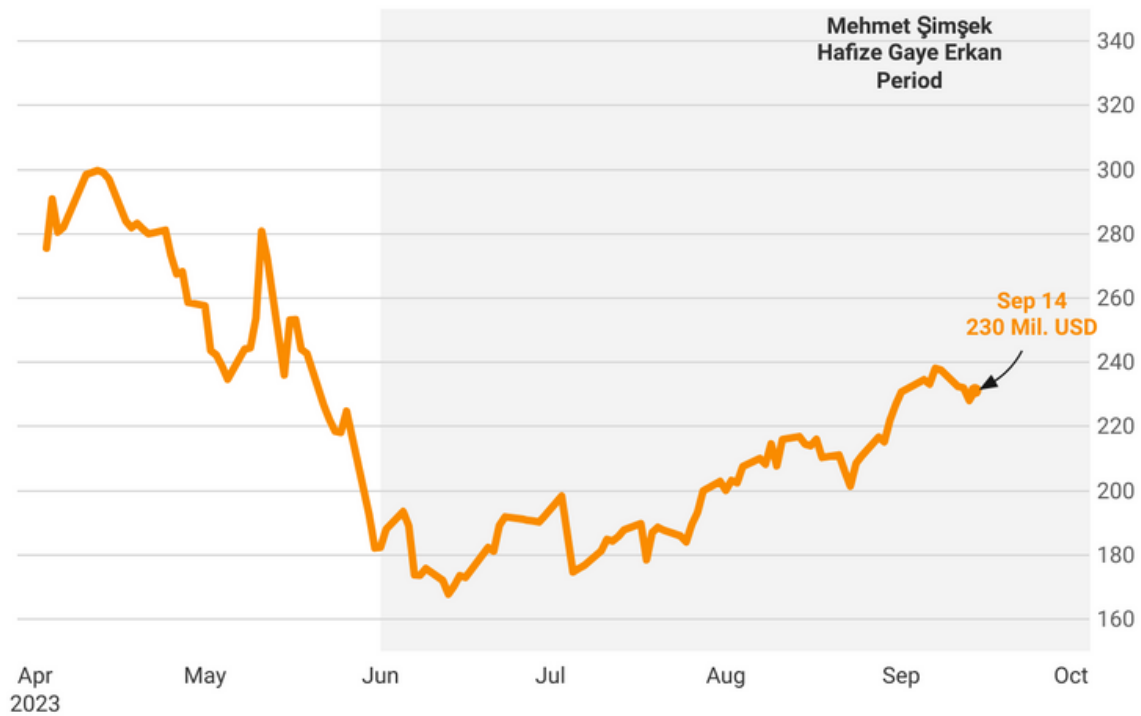
WoW Change (Bio USD)



Sovereign Credit Risk (September 14)



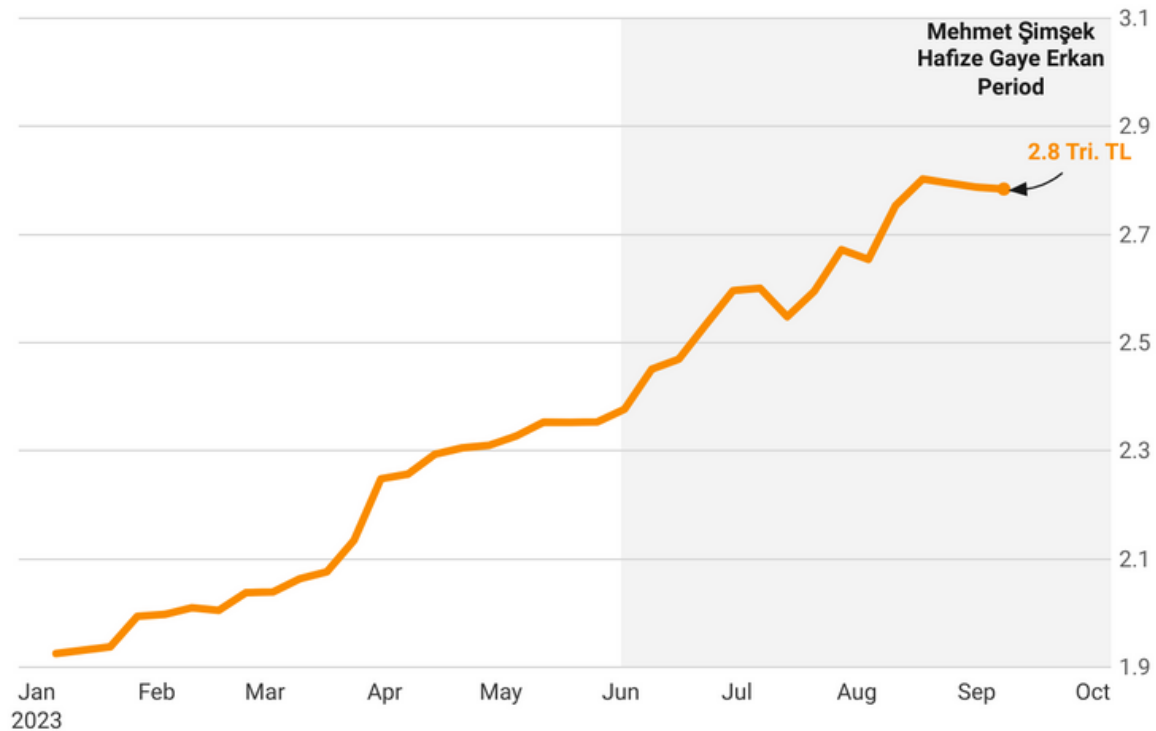
Ishares TUR ETF (AUM, Mil USD)



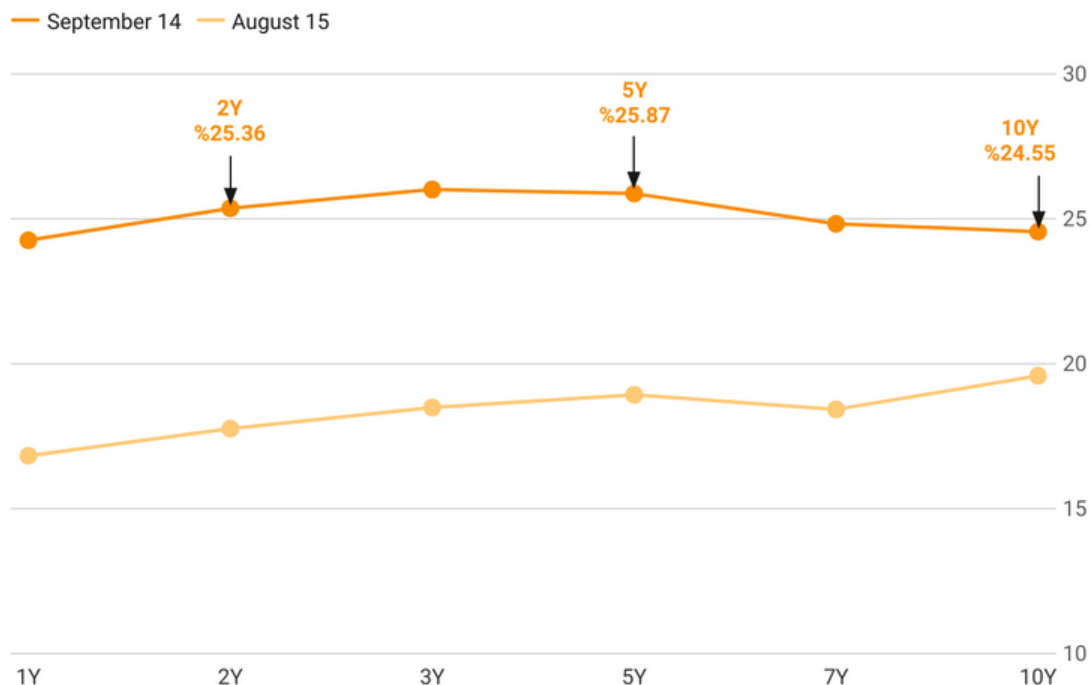
TL Treasury Bonds - Foreign Ownership (Nom, September 8)



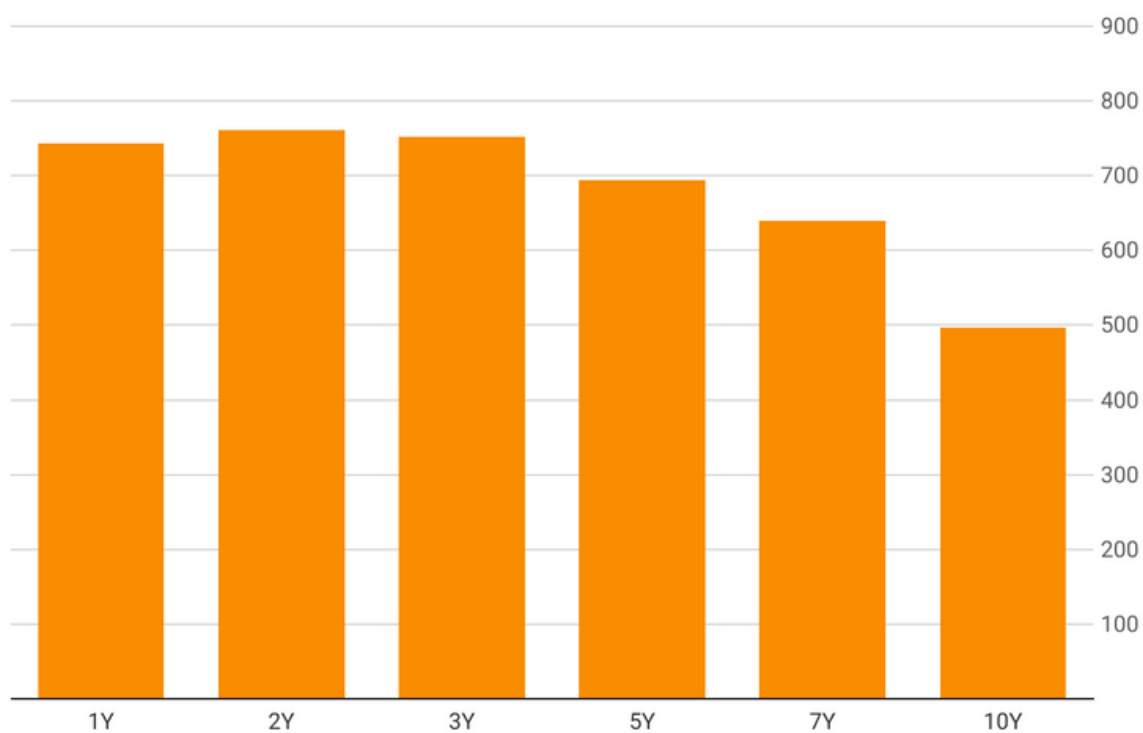
TL Treasury Bonds - Outstanding (Nom., September 8)



TL Sovereign Yield Curve (September 14)



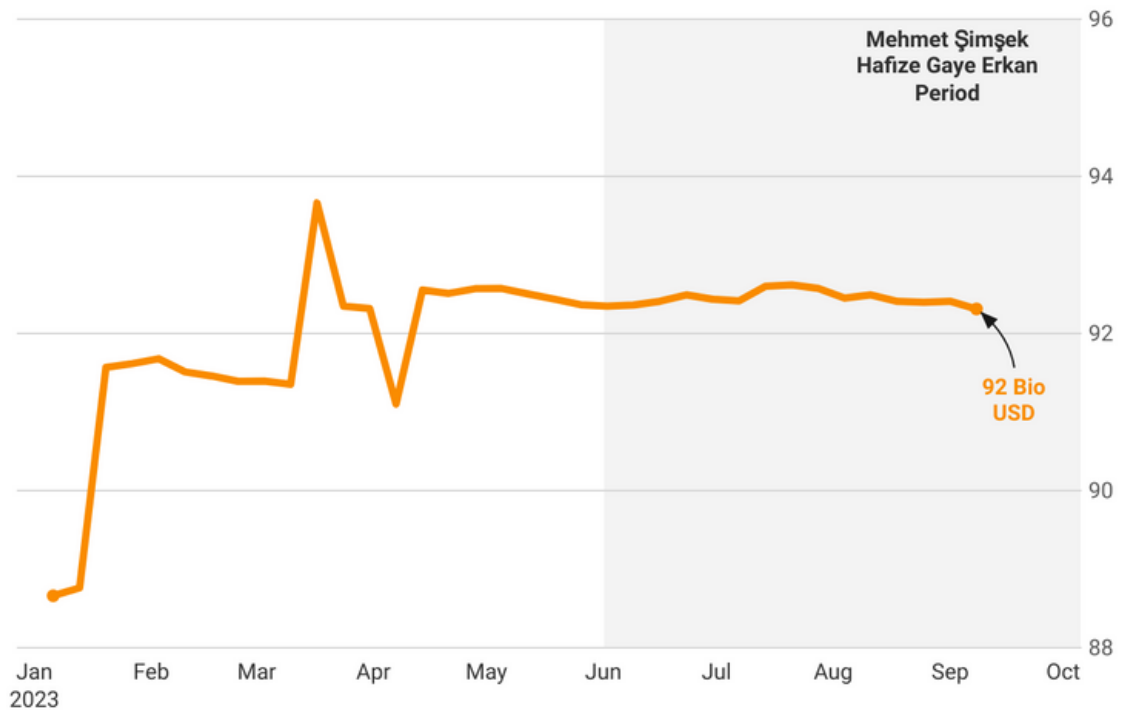
MoM Chg- basis points



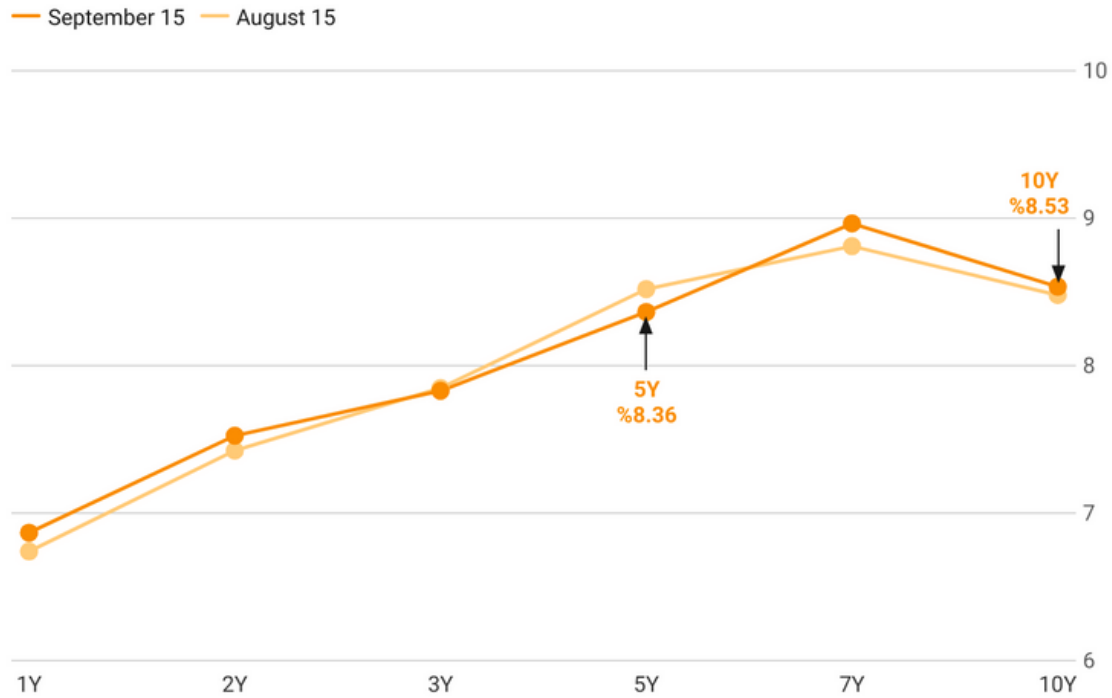
Eurobond- Foreign Ownership (Nom., September 8)



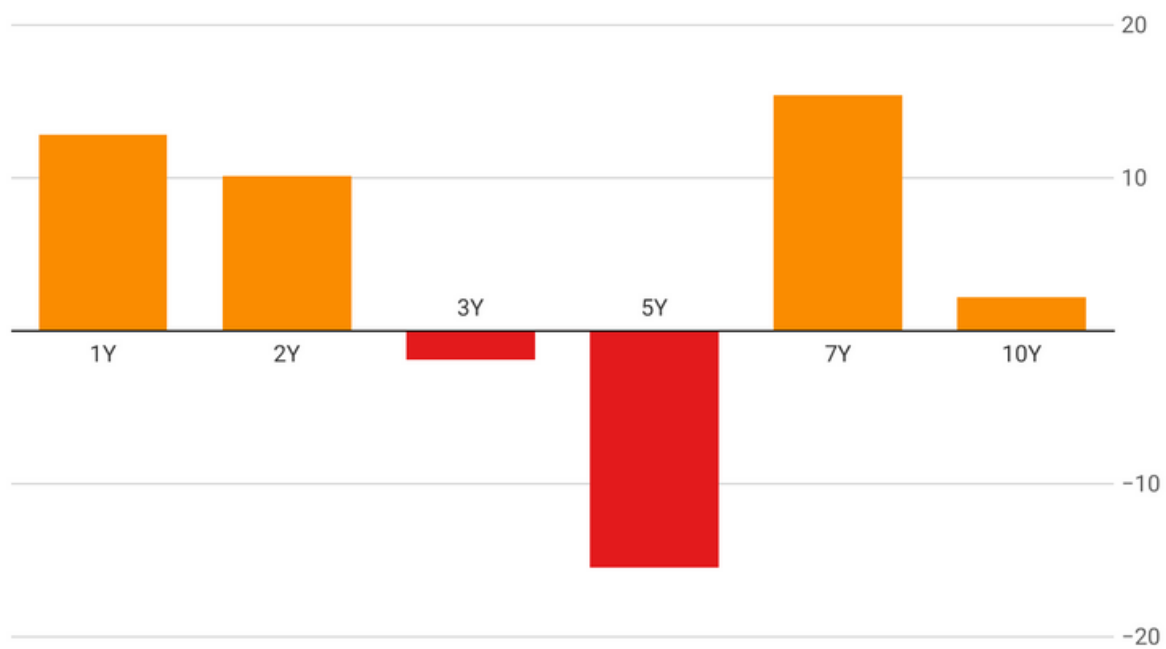
Eurobond- Outstanding (Nom., September 8)



USD Sovereign Yield Curve (September 15)



MoM Chg- basis points



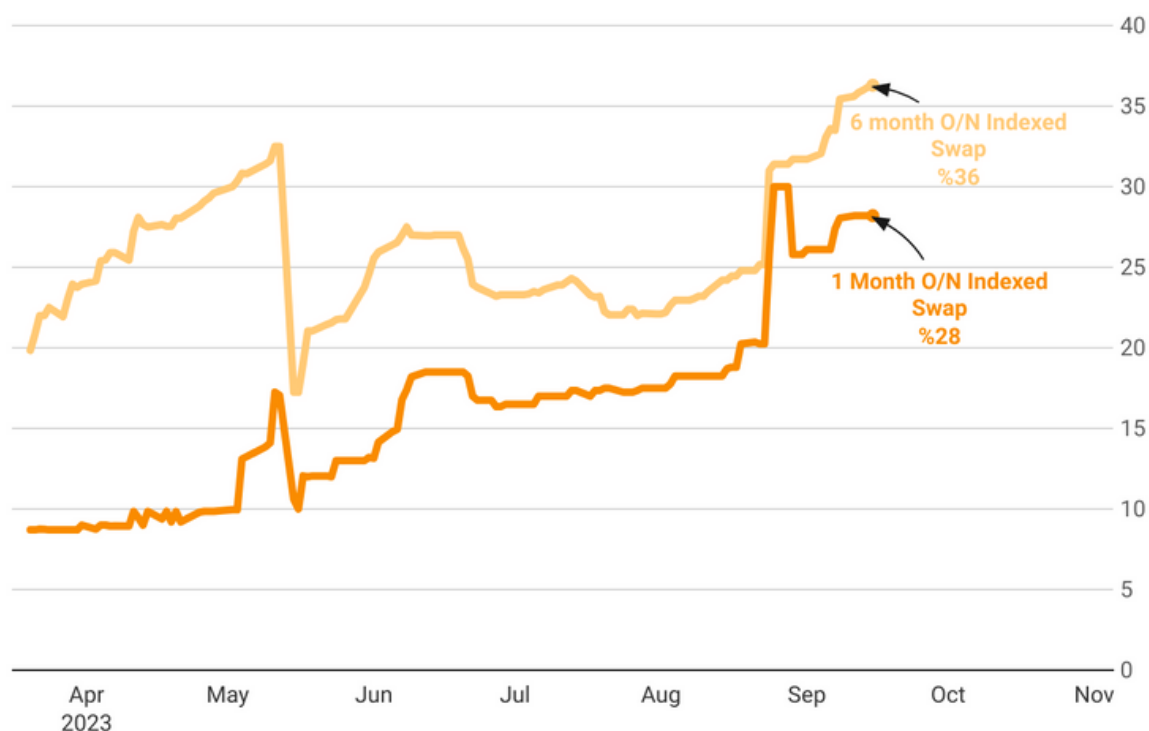
Central Bank of Turkiye to hike policy rate to %30

Policy Rate Forecasts for Next MPC

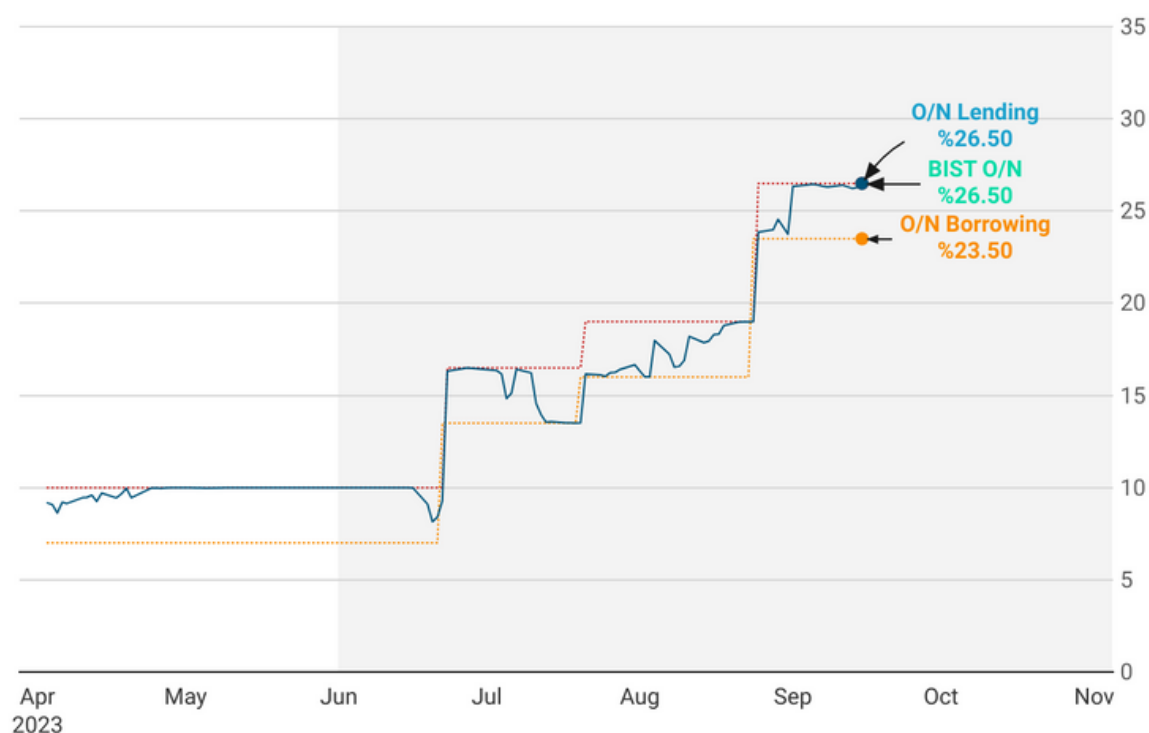


Firm	▼ Estimate
Mufg Bank Ltd	31.00
Societe Generale London Branch	31.00
Yatirim Finansman Menkul Degerler AS	30.00
Standard Chartered Bank	30.00
Gcm Yatirim Menkul Degerler AS	30.00
Citibank AS	30.00
Morgan Stanley & Co Intl PLC	30.00
JPMorgan Chase Bank, N.A.	30.00
UniCredit SpA	30.00
HSBC Bank Plc	30.00
Dekabank Deutsche Girozentrale	30.00
ING Groep NV	30.00
HSBC Portfoy Yonetimi AS	30.00
Capital Economics Ltd	30.00
Invest AZ Menkul Degerler AS	27.50
Barclays Bank PLC	27.50
Oxford Economics Ltd	27.50
Trive Investment	27.50

Market Expectations for O/N Rates (September 15)



Short Term O/N Market Rates (September 15)



Erdogan Says Turkey, EU May ‘Part Ways’ After Critical Report

2023-09-16

By Inci Ozbek and **Beril Akman**

(Bloomberg) -- President Recep Tayyip Erdogan said Turkey could “part ways” with the European Union over its membership bid in the wake of a report published by the bloc last week that criticized the country for democratic shortcomings including censorship laws.

“During this period when the European Union is making moves to break away from Turkey, we will make our assessment against these developments and after these evaluations, we may part ways with the European Union if necessary,” he told reporters in Istanbul before traveling to New York to attend the UN General Assembly.

The 2022 European Parliament report adopted this month said “the accession process cannot resume under the current circumstances.” The report cited concerns regarding censorship laws, a crackdown on critical voices, a lack of independence of the judiciary, a deterioration of women’s rights and more.

The parliament called on the EU to explore “a parallel and realistic framework” for EU-Turkey relations. Turkey’s Foreign Ministry slammed the report saying, “This report, filled with unjust accusations and prejudices based on the disinformation of anti-Turkey circles, is a reflection of the European Parliament’s usual shallow and non-visionary approach, both in its relations with our country and the future of the EU.”

The EU and Turkey started accession negotiations in 2005. Though the process stalled, Turkey has remained a key economic and defense partner for the bloc. In July, Turkey’s Finance Minister Mehmet Simsek said that the country looks up to the EU as source of inspiration for change, in an attempt to revive shelved talks. “That is the best alternative out there,” he said.

Barclays Dissents With Big Banks, Calls Smaller Turkey Rate Hike

2023-09-15

By Beril Akman

(Bloomberg) -- Economists at Barclays Plc have emerged as an outlier among major banks, resisting an upgrade to their forecast of Turkey's next interest-rate hike following President Recep Tayyip Erdogan's seeming endorsement of more conventional policies.

Ahead of the central bank's policy meeting next week, the British bank said it expects an increase of 250 basis points, or half the size projected by the likes of JPMorgan Chase & Co. and Morgan Stanley.

Although not ruling out a far sharper move, Barclays analysts said they anticipate "gradual hikes," following a bigger-than-expected increase in August that brought the benchmark one-week repo rate to 25% from 17.5%.

"The Turkish central bank would prefer to continue its tightening cycle in a more gradual fashion to limit its effect on banks, corporates and households," they said. "Additionally, macro prudential tightening continues at a full speed and the central bank probably thinks that it reduces the need to deliver a bigger hike."

Doubting Erdogan

Before August, Governor Hafize Gaye Erkan was underwhelming the market with a monetary tightening cycle she'd initially described as "gradual" despite price growth that's now running at nearly 60%. The government sees year-end inflation at 65%.

Expectations among traders and analysts have begun to shift, however, after the supersized hike and Erdogan's remarks last week in support of monetary tightening. Most analysts surveyed by Bloomberg now see the central bank raising the key rate to 30% on Sept. 21.

Barclays continues to forecast Turkey's benchmark at 35% by the end of this year and at 40% at end-2024. After Erdogan's reelection in May, the president installed Erkan, a former Wall Street banker, alongside a line-up of other market-friendly decision makers to run Turkey's \$900 billion economy. Before the pivot, years of ultra-loose monetary policy contributed to an inflation crisis and prompted an exodus of foreign investors.

Turkey Alters Key Lira Savings Program in Latest Tightening

2023-09-14

By Beril Akman

(Bloomberg) -- Turkey is making it costlier for banks to offer short-term deposits that make up the bulk of a \$124 billion government-backed lira savings program, a tightening of policy that will soak up billions in liquidity and attempts to discourage people from shifting into dollars.

Lenders now need to set aside more money as reserves for accounts of up to six months, which protect lira deposits from depreciation against hard currencies, according to a new central bank regulation published in the Official Gazette at midnight.

In another change to the program, known by its Turkish acronym KKM, the central bank is lowering the reserve requirement ratio for deposits maturing in over half a year. The new rules are in effect as of Sept. 1.

Details of new KKM rules

- The reserve requirement ratio for FX-protected deposits maturing in up to 6 months raised to 25% from 15%
- The mandatory ratio for FX-linked accounts that mature in more than 6 months lowered to 5%
- In July, the central bank set at 15% the reserve requirement ratio for FX-linked accounts of all maturities

Istanbul-based economist Haluk Burumcekci estimates KKM deposits maturing in up to six months make up almost 80% of the total. The hike in reserve requirements will absorb about 200 billion liras (\$7.4 billion) in liquidity, he said.

The emergency backstop used by Turkey to stave off a currency crisis has emerged as a major drain on state finances and now accounts for slightly more than a quarter of all deposits. As part of a shift toward more conventional policies since President Recep Tayyip Erdogan was reelected in May, officials started to take steps last month that push banks to discourage clients from renewing their KKM deposits.

But authorities run the risk of savers increasingly opting to move their money into dollar accounts, with the program seeing weeks of outflows for the first time since early this year. Higher KKM reserve requirements will likely force banks to offer more generous deposit rates on regular lira deposits.

The impact of the earlier measures has meanwhile become more evident, with total KKM deposits declining for the third consecutive week. Net outflows amounted to 15.7 billion liras in the seven days ending Sept. 8, bringing total withdrawals during the period to 75.3 billion liras.

Upcoming Central Bank Rate Decision

2023-09-15

By Selva Bahar Baziki

We expect the CBRT to go big yet again, lifting its one- week repo rate by 500 bps to 30% in its September meeting. We see the policy rate reaching 35% by year-end and likely staying there through 1Q24.

- Our initial call was for a 250-bp hike this month, but we now see double that increase after the CBRT's recent rediscount credit move. We saw that measure as a pre-emptive step to partially alleviate the pressure on credit conditions for exporting firms – and as a signal that large rate hikes were due.
- September's likely jumbo lift will follow the 750-bp hike in its last meeting in August and add to the cumulative 1650-bp increase in the key rate since May. Still, we think the large- scale policy flip is unlikely to prevent inflation from surging further, reaching 65.5% by year-end and printing a peak of 70% in 2Q24.
- We also expect the central bank to support its policy rate moves by tightening its other tools, such as reserve requirements and securities maintenance regulation. The CBRT delivered changes to its credit policy favoring growth in corporate (especially exporting firm) loans - in line with our earlier prediction. We expect this stance to continue going forward.

Mammoth Policy Moves Still Struggle to Tame Inflation



Source: CBRT, TurkStat, Bloomberg Economics

Turkey's Erdogan Backs High Interest Rates in Surprise Move

2023-09-06

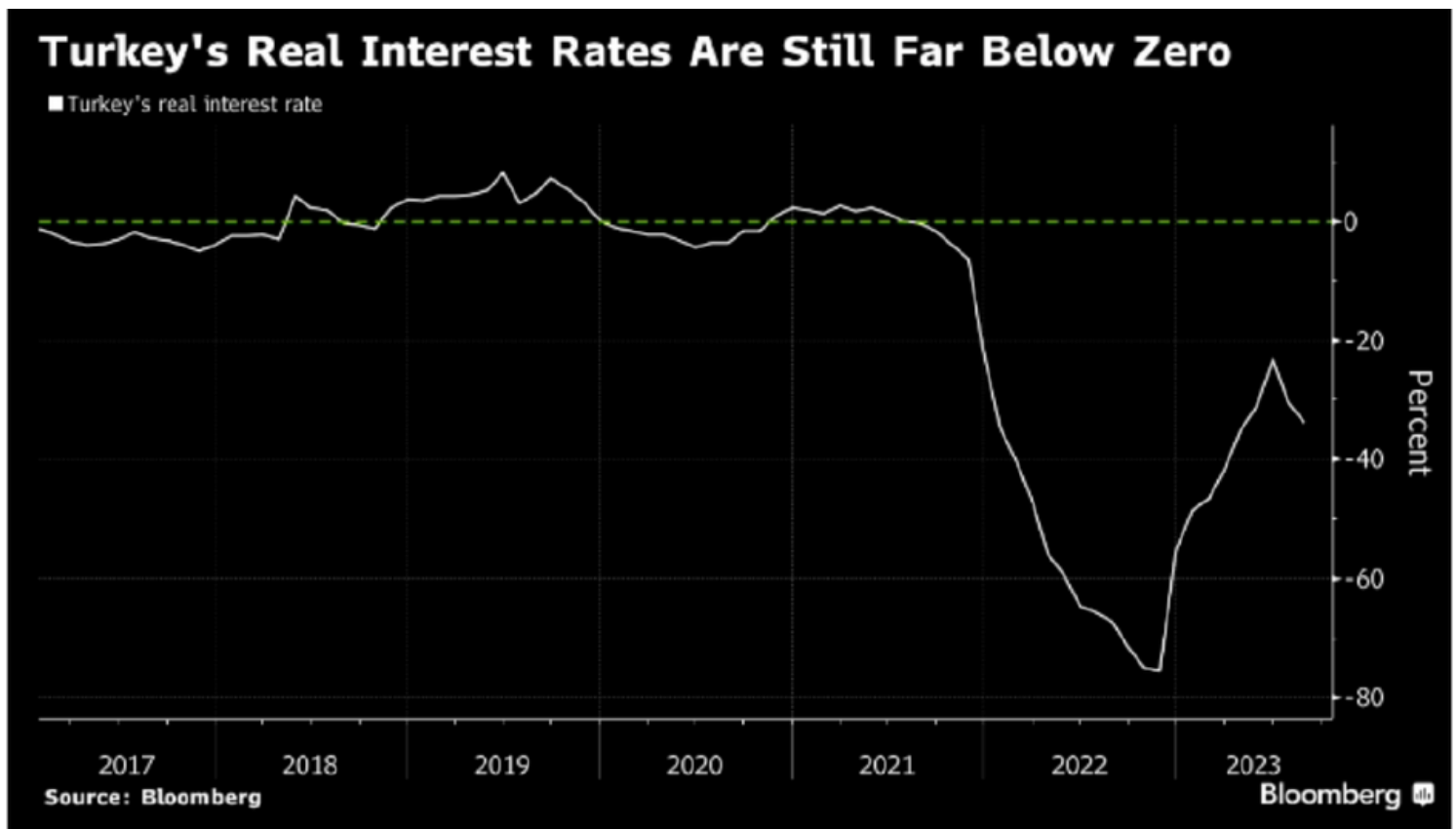
By Beril Akman and Firat Kozok

(Bloomberg) -- Turkey's President Recep Tayyip Erdogan said "tight monetary policy" was needed to slow inflation, in an apparent change in stance for a leader who's long frustrated investors by championing ultra-low borrowing costs. "We will lower inflation to single digits with the support of monetary tightening and improve the current-account balance," he said as his government unveiled economic targets for the next three years. The Turkish president, who won reelection in May to take his rule into a third decade, is known for being a self-proclaimed enemy of high interest rates. He's removed three central bank governors in recent years for not toeing the line.

Erdogan revamped his economic team shortly after his election victory, appointing Mehmet Simsek, a former Merrill Lynch bond strategist, as finance minister and Hafize Gaye Erkan, who used to work at Goldman Sachs Group Inc., as central bank governor.

The duo has overseen a sharp rise in rates and an unraveling of state controls over financial markets since June. But Erdogan had, until now, insisted views on monetary policy were unchanged. "People shouldn't be under the misconception that the president is moving toward a serious change in interest-rate policies," he said on June 14. "I'm the same."

His latest comments are a signal he's "very supportive" of Simsek and Erkan, according to Timothy Ash, an emerging-markets analyst at RBC Bluebay Asset Management. Still, it's possible that "the economic challenges are now just too difficult even from the A team to resolve." Turkey needs "much higher" rates and to quickly get an "external anchor" in the form of funding from the International Monetary Fund or Gulf states, according to Ash.



Erdogan's Fixation

The president's fixation with a growth-at-all costs strategy and push for low rates triggered a surge in inflation and caused investors to flee the country. Price growth has slowed since reaching 86% in October, but it's still almost 60% and quickened again in July and August.

The current benchmark interest-rate is 25% after the central bank raised it by 750 basis points – more than expected – in late August. It's signaled there's more tightening to come.

On Wednesday, Erdogan said his administration would curb consumer demand. But he won't "make concessions on economic growth," he said, as the government revised down its targets in a Medium-Term Program presented around the same time.

Turkey is scheduled to hold local elections in March. The president has for years boosted monetary stimulus ahead of polls. and wants to win back the biggest city of Istanbul, now held by the opposition. Gross domestic product will expand 4.4% this year, down from the forecast of 5% in the previous report, according to a presentation by Vice President Cevdet Yilmaz. And for next year, the government now sees the \$900 billion economy rising 4%, compared to 5.5% before. Those figures are "slightly optimistic," analysts at Turkish Oyak Securities said, without elaborating.

Pessimistic Outlook

The government offered a pessimistic outlook on inflation. It revised up its year-end projection to 65% from 25%. Year-on-year inflation rate rose faster-than-expected in August, to 58.9%, underscoring the central bank and Erdogan's challenge in ending Turkey's cost-of-living crisis.

Turkish Inflation Nears 60%, Piling Pressure on Central Bank

The central bank amended its year-end inflation forecast to 58% in July, more than doubling it from the figure under Governor Erkan's predecessor. **Monetary authorities expect price growth to peak in the second quarter of next year and slow to 33% at the end of 2024.** The 2025 year-end projection is 15%. Those inflation forecasts for the next two years are in line with the government's.

Lira Bears in Retreat After Supersized Rate Hikes

2023-09-12

By Kerim Karakaya

(Bloomberg) -- Turkey's shift to more conventional economic policies, supported by the central bank's jumbo interest-rate hike last month, has sent the cost of hedging against lira depreciation to a two-year low. The extra cost to protect against lira weakness in the coming month – compared with hedging against gains – dropped to 4.05 percentage points on Tuesday, the lowest since October 2021.

Turkish President Recep Tayyip Erdogan overhauled his economy team following an election in May, naming former Wall Street bankers Mehmet Simsek and Hafize Gaye Erkan as head of treasury and central bank governor, respectively.



World Bank in Talks to Double Turkey Exposure to \$35 Billion

2023-09-05

By Kerim Karakaya and Onur Ant

(Bloomberg) -- The World Bank is in advanced talks to potentially double its exposure to Turkey to \$35 billion to help stabilize the Middle East's largest non-oil economy, according to people with direct knowledge of the matter.

The discussions include a World Bank pledge of as much as \$18 billion for projects over the next three years, in addition to more than \$17 billion in programs already in place, the people said, asking not to be named because the talks aren't public. The funding would include direct lending to the government as well as support for the private sector, the people said.

Turkey's Treasury and Finance Ministry declined to comment on the talks. The World Bank also declined to comment. The Turkish lira pared losses and credit-default swaps fell, while the banking index rose as much as 4% on the news. A deal would mark a vote of confidence in the newly- installed economic administration of Treasury and Finance Minister Mehmet Simsek and central bank Governor Hafize Gaye Erkan. Since they were appointed in June, Turkey has begun to undo years of unconventional, growth-at-all-costs economic policies pushed by President Recep Tayyip Erdogan until his re- election in May. Simsek and Erkan are leading efforts to rein in runaway inflation and put the nearly \$1 trillion economy on a more sustainable path.

The World Bank expects two-thirds of the \$18 billion to go to Turkey's private sector through direct investment and guarantees, the people said. Some of the funds would be used to provide short-term guarantees for trade finance and support Turkish exporters, they said.

Quake Reconstruction

The program currently under discussion highlights the World Bank's support for Turkish policymakers' efforts to restore macroeconomic stability, according to excerpts from a draft document viewed by Bloomberg. Simsek and Erkan met with Ajay Banga, the president of the Washington-based lender, in India in July, Turkish state media reported at the time.

Some of the newly dispatched funds will likely be allocated to help in reconstruction of areas devastated by two massive earthquakes that struck Turkey's southeast on Feb. 6, killing more than 50,000 people.

World Bank Estimates \$34 Billion in Damage From Turkish Quakes

The government has pledged to build some 200,000 residential units within a year for survivors, and estimated the cost of reconstruction at about \$100 billion. The World Bank has already extended a €910.5 million (\$980 million) loan to Turkey for rebuilding, part of its existing \$17-billion allocation.

Financing Gap

Following the earthquakes, Turkey's current-account deficit widened to about 6% of gross domestic product, as exporters in the affected areas suffered outages and ultra-low borrowing costs encouraged imports.

Erdogan went on a tour of the Middle East Gulf in July, returning with pledges of tens of billions of dollars in investments from the United Arab Emirates and Saudi Arabia. The arrangement with the World Bank would mark the biggest source of external financing since Erdogan's visit to the Gulf petrostates.

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