GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

MONTHLY BULLETIN ON TÜRKİYE

MARCH 2024

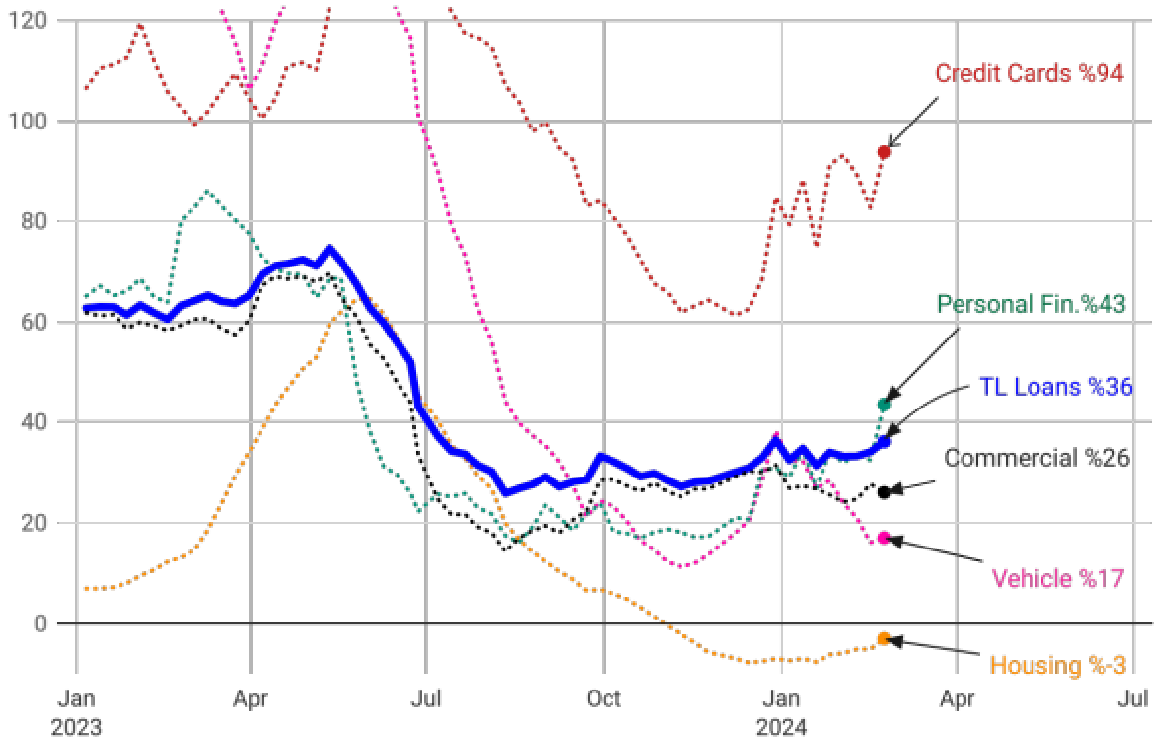
CONTENTS

CBRT Gross Reserves (Bio USD, as of Feb 29)

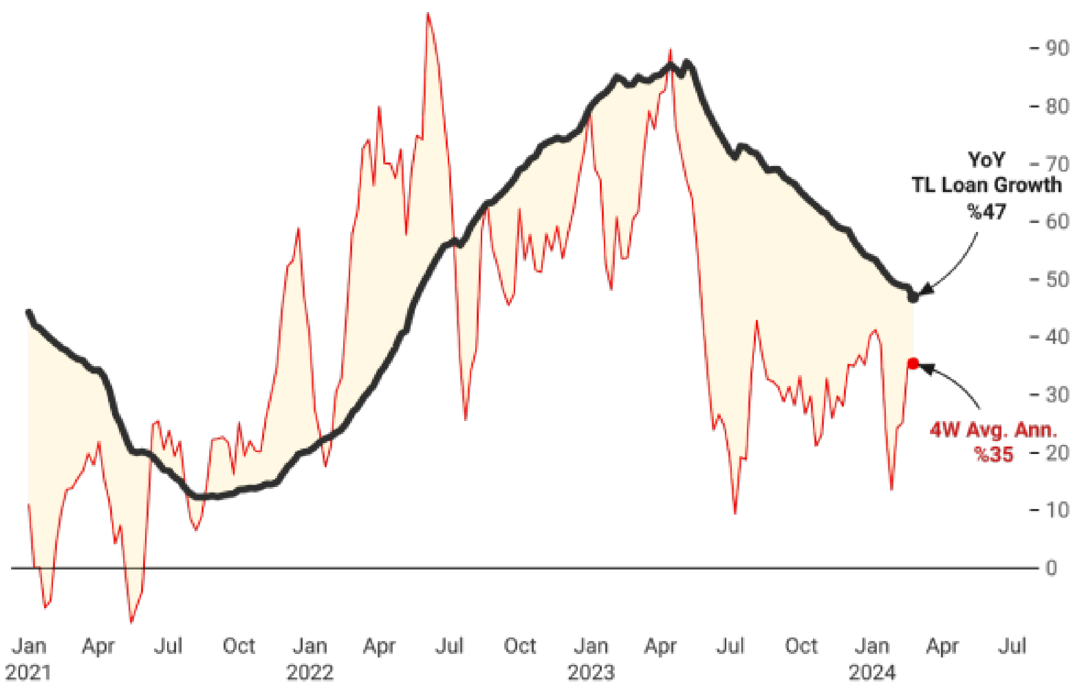
Assets (Bio USD)	29/12/23	25/2/24	YTD
Gold	47.68	49.33	+1.65
FX Banknotes	3.56	3.37	-0.19
Securities + Deposits	5.90	14.54	+8.64
Other FX Balance	87.43	64.51	-22.92
TOTAL	**144.57**	**131.75**	**-12.82**

Liabilities (Bio USD)	29/12/23	25/2/24	YTD
To Turkish Banks	74.92	79.37	+4.45
To IMF & International Insti.	29.89	30.08	+0.19
To Turkish Treasury	9.41	11.83	+2.42
To Turkish Banks in Swap Contract	48.75	43.97	-4.78
To Foreign Central Banks	23.35	23.35	-
TOTAL	**183.62**	**189.51**	**+4.98**

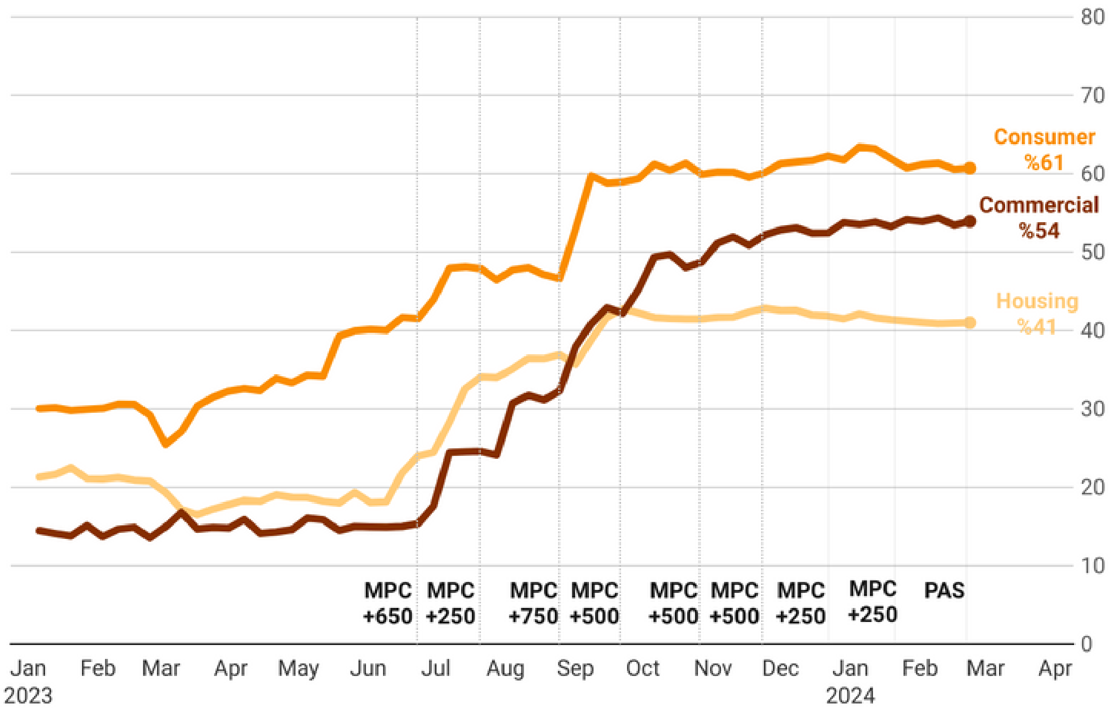
TL Loan Growth Momentum(Feb 23, 13 Week. Ann., %)



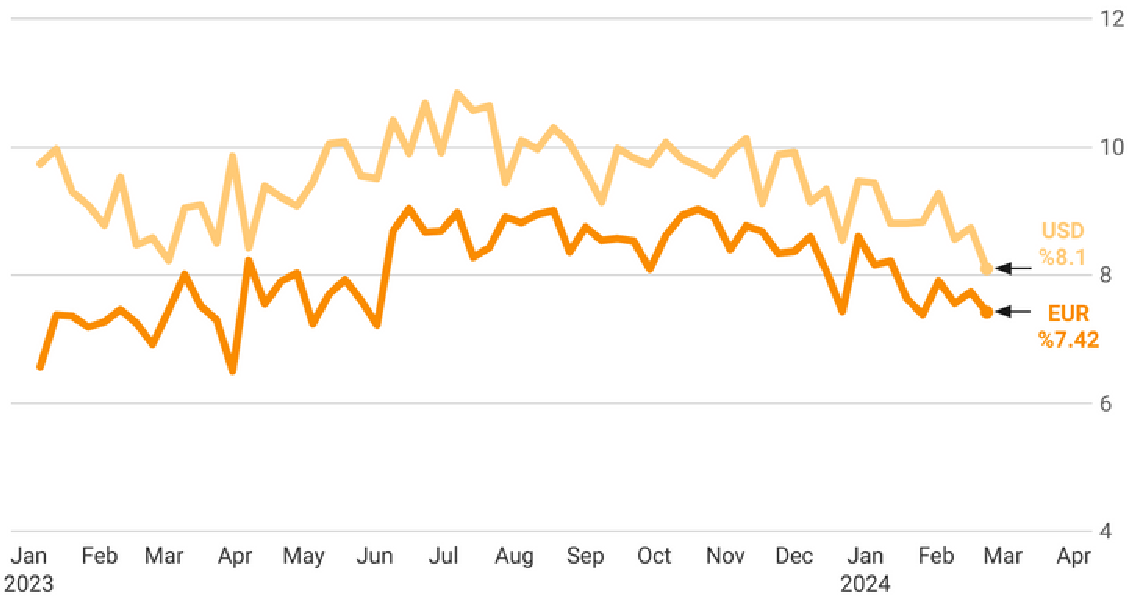
TL Loan Growth (Feb 23, YoY)



TL Loan Interest Rates (Feb 24)

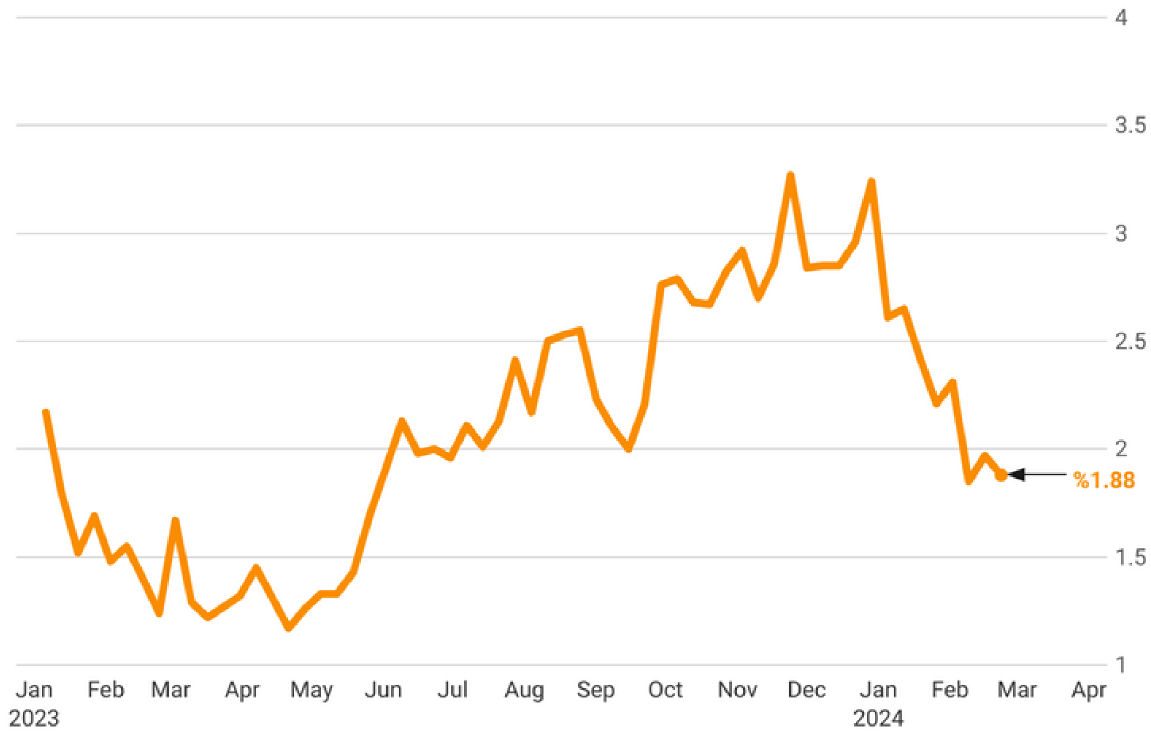


FX Loan Interest Rates (Feb 24)



TL Deposit Interest Rates - 3M Maturity (Feb 23)

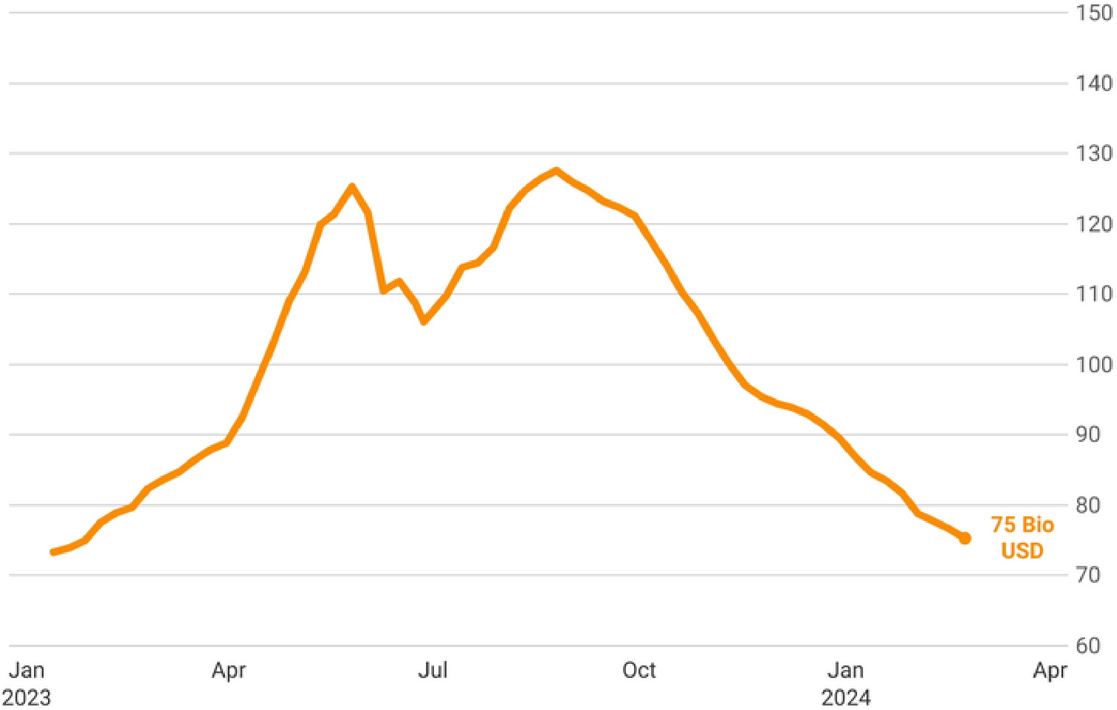
USD Deposit Interest Rates - 3M Maturity (Feb 23)



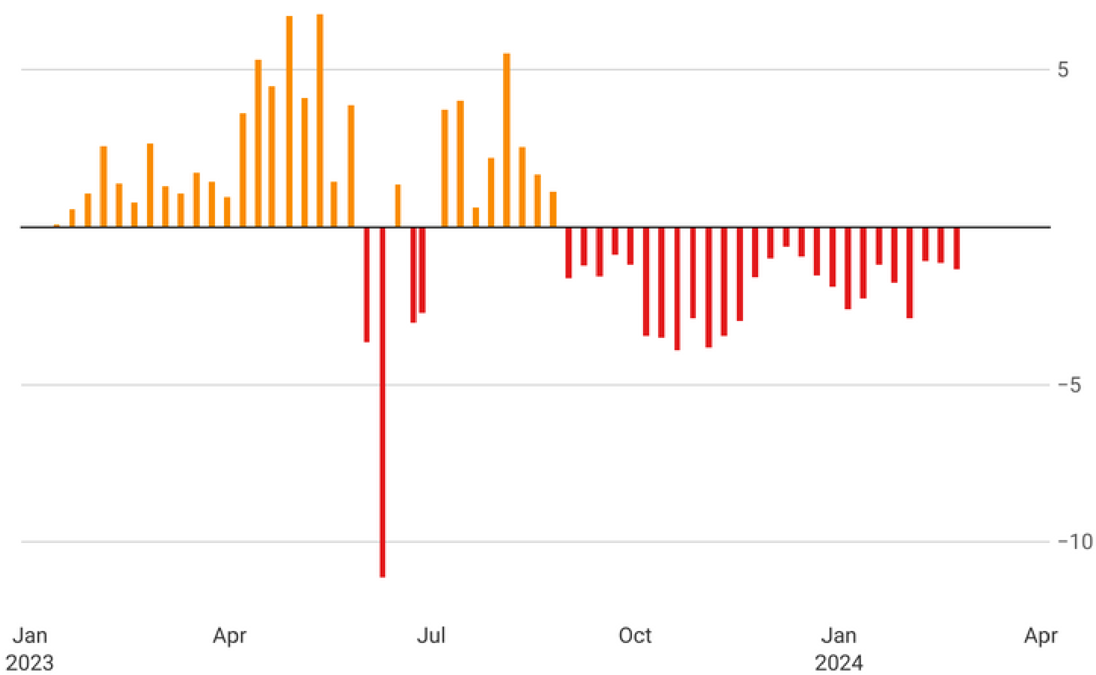
Retail FX Deposits (Feb 23)

Commercial FX Deposits (Feb 23)

FX Protected TL Deposits (Feb 23)



WoW Change (Bio USD)

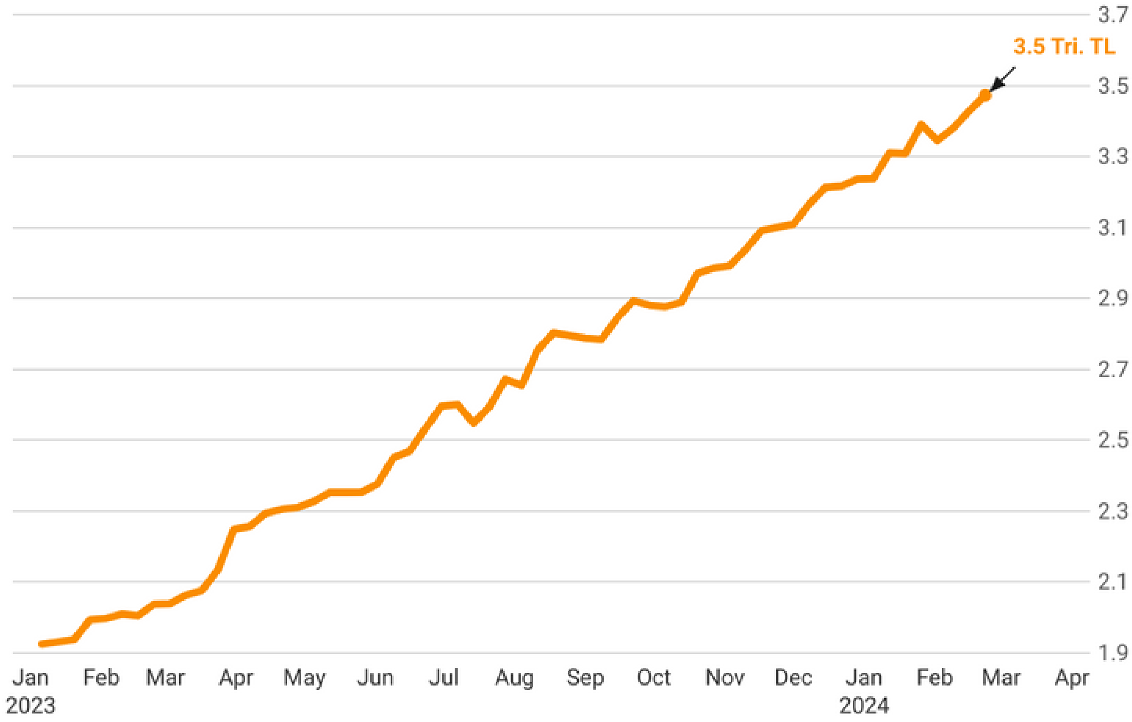


Sovereign Credit Risk (Feb 29)

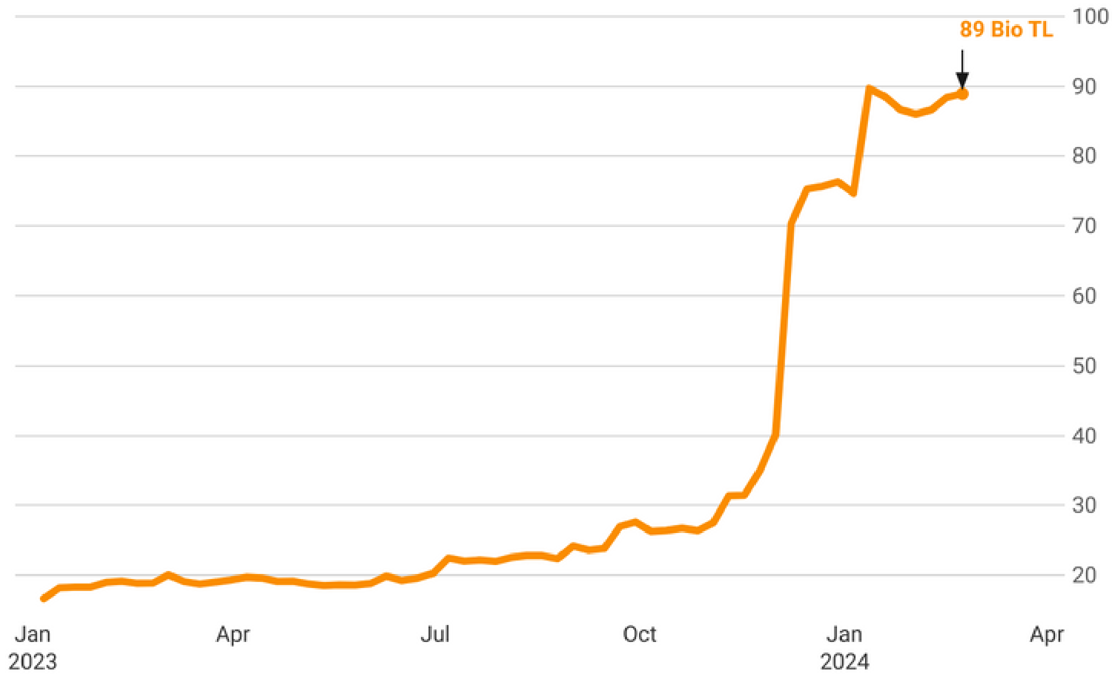
Ishares TUR ETF (AUM, Feb 29)

Created with Datawrapper

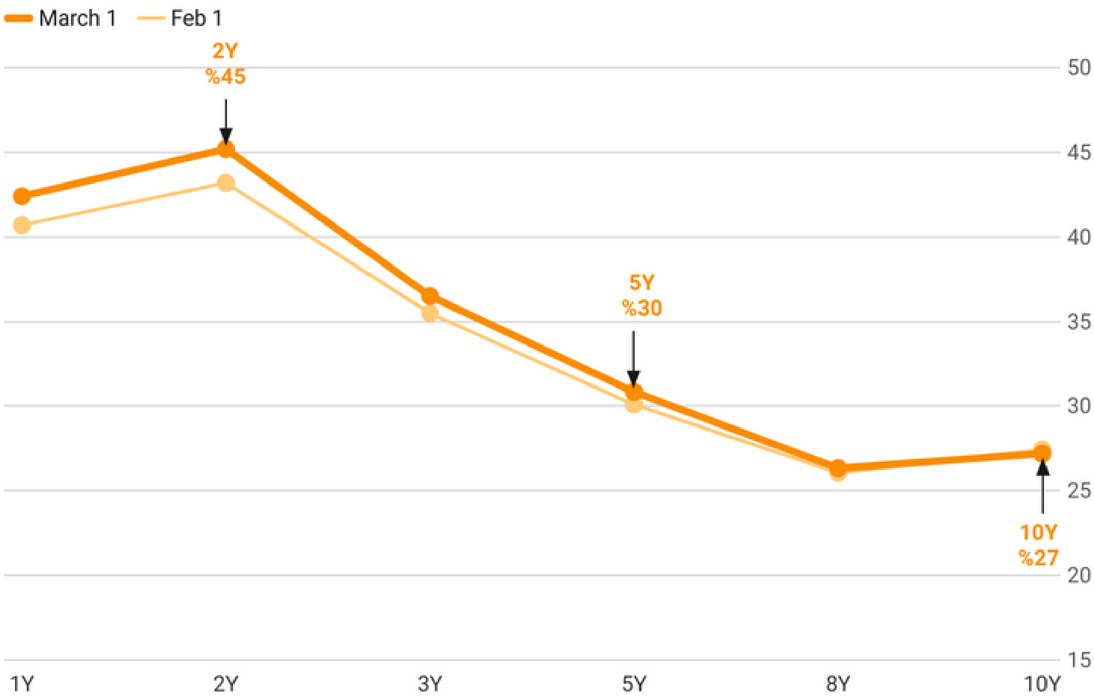
TL Treasury Bonds - Outstanding (Feb 23, Nom.)



TL Treasury Bonds - For. Ownership (Feb 23, Nom.)



TL Sovereign Yield Curve (Mar 1)



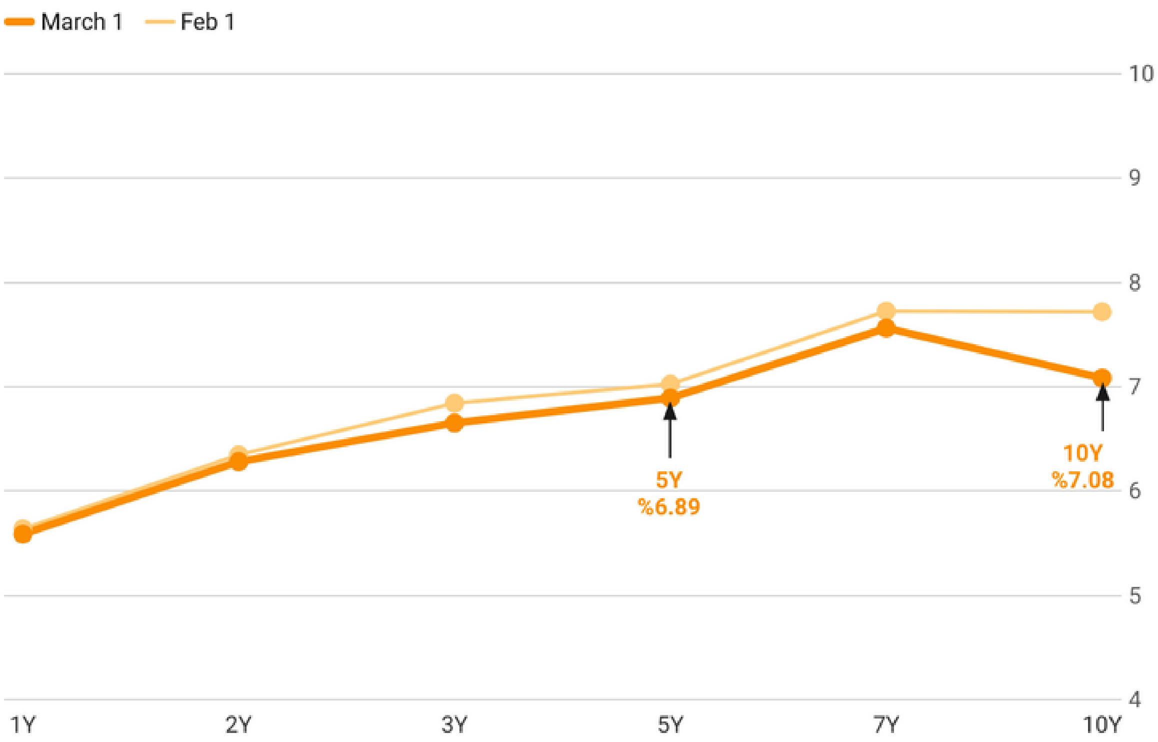
Turkish Lira Sovereign Bonds (Feb 29)

Created with Datawrapper

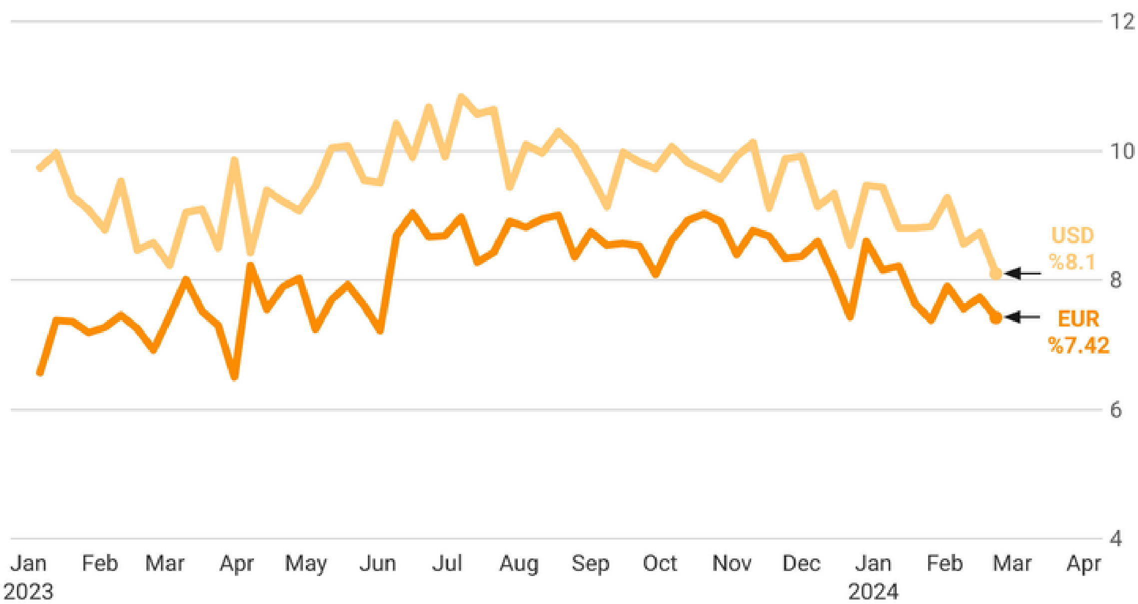
Eurobond- Outstanding (Feb 23, Nom.)

Eurobond- Foreign Ownership (Feb 23, Nom.)

Turkey Sovereign Yield Curve (USD) (Mar 1)



FX Loan Interest Rates (Feb 24)



Turkish Central Bank Sees Real Lira Gain Key for Disinflation

By Tugce Ozsoy

· “The determination in tight monetary stance will continue to contribute to the Turkish lira’s real appreciation process, which is a key element of disinflation,” according to the summary of Turkish central bank’s Feb. 22 rates meeting.

· Tight policy, coupled with macroprudential policies that support transmission mechanism seen helping both rebalance domestic demand and keep demand for lira assets buoyant, and contributing to improvement in underlying inflation trend

· Bank pledges to maintain tight monetary policy, while saying the stance will be tightened in case a significant and persistent deterioration in inflation outlook is anticipated

· Bank will closely monitor lagged effects of the monetary tightness on financial and economic conditions

· Temporary excess liquidity emerged in the market due to the impact of public expenditures and monetary base developments, bank will use sterilization tools whenever needed

· Food prices seen displaying a “higher than anticipated” course in Feb. due to Ramadan

TURKEY PREVIEW: Inflation to Pick up Pace Toward 73% in May

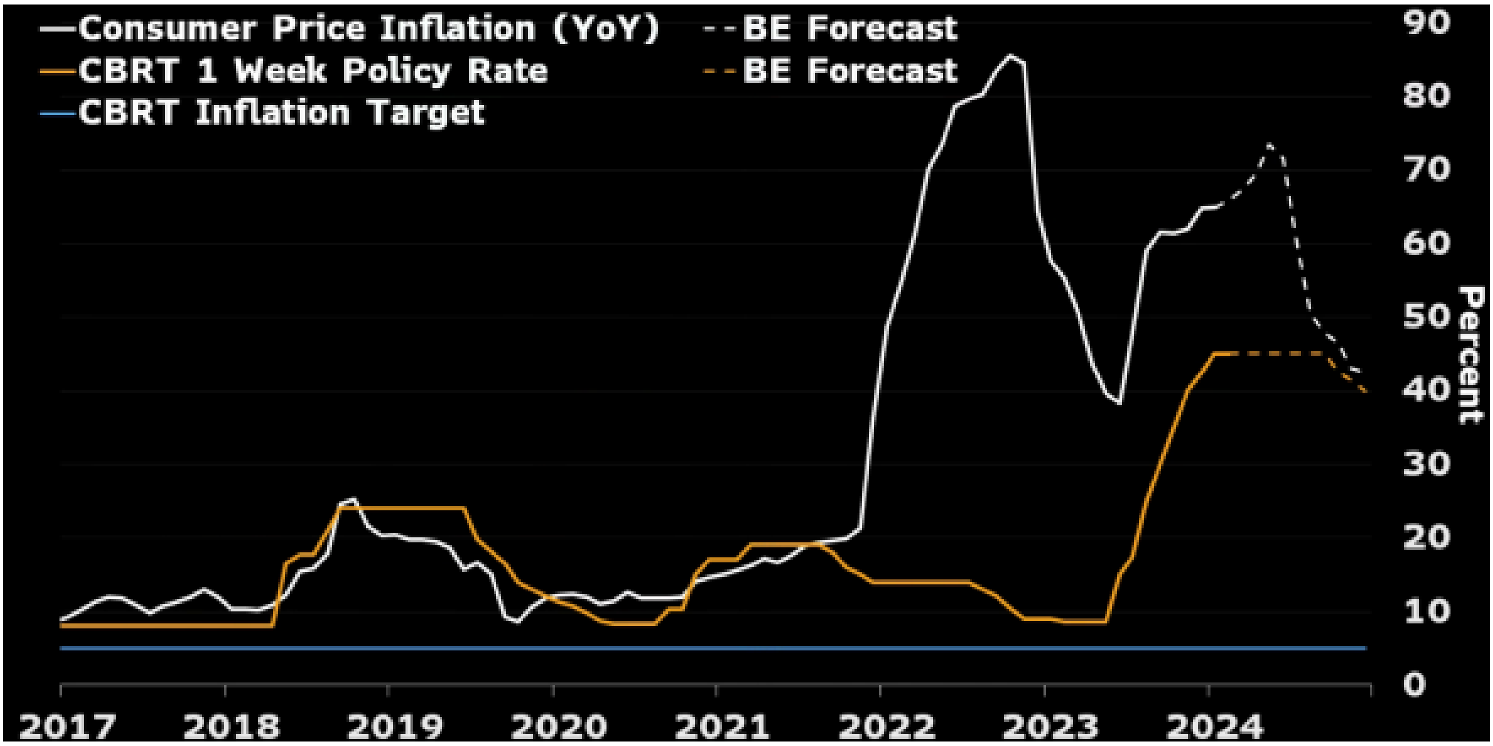
By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- Turkey's inflation problem is getting worse, even as the central bank's aggressive policy tightening has reached its terminal rate. We expect the annual inflation rate to leap over 65% in February and surpass 70% in May. We see the central bank on hold until the last quarter of the year, but upside risks to inflation keep the possibility of additional hikes alive.

We expect year-on-year CPI inflation to pick up pace to 65.9% in February, a whole percentage point higher than January's 64.9%.

Corresponding monthly inflation will be 3.8% – significantly lower than the 6.7% in the month prior but still more than twice as fast as the five-year average of 1.8% for the month of February in our seasonally adjusted series. Energy and services will be sizable contributors to monthly price gains.

Inflation is set to speed up toward 73% in May, followed by large steps down (about 10 percentage points each) in July and August. Further out, we forecast a slow decay in price gains with the year-end rate at 42%. That estimate falls on the upper bound of the Central Bank of the Republic of Turkey's forecast range.



Our baseline call sees the CBRT keeping is key policy rate on hold at 45% through 3Q24 while delivering additional tightening through its alternative tools.

Risks on our inflation forecast are tilted to the upside on a likely fiscal stimulus ahead of the local elections due end of March, as well as government tax and price schedule updates in its immediate aftermath.

A potential escalation in the Middle East could lift up energy prices and the impact on global transit routes would add to cost pressures. Also, the latest GDP data release showed that domestic demand remained as the largest positive contributor to activity in 4Q23 despite high price gains and borrowing costs. That suggests demand pressures on price gains may also be alive in 2024.

If these risks do materialize, the ensuing deterioration in the inflation outlook could strengthen the case for our risk scenario of additional lifts. In such an event, we see the CBRT delivering hikes after the local elections in March.

TURKEY REACT: GDP Slows, But Strong Demand Is a CPI Risk (1)

By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- OUR TAKE: Household consumption defies gravity in Turkey's 4Q23 GDP data – and that is bad news for the central bank. With growth likely to receive a pre-election bump in 1Q24, pressure is mounting on policymakers to deliver further tightening post the vote. Whether this will be through higher rates or restrictive alternative tools will depend on how inflation progresses over the next few months.

Turkish GDP expanded by 4% over the year in 4Q23, down from 3Q23's 6.1% (revised up from 5.9%). Our call was for a lower growth print of 3.4%, with the median expectations from a Bloomberg survey at 3.5%.

The print takes the annual growth rate for the overall year to 4.5%. That is incrementally higher than our earlier call of 4.4% but still reflects easing growth prospects on the back of aggressive tightening from the central bank.

More than the slowdown in growth rates, we think the central bank will be focused on the ongoing strength in household consumption - the largest positive contributor to 4Q23 GDP growth in our calculations with 6.7 percentage points – despite high price gains and borrowing costs.

This is not only bad news for inflation, but could amplify the pressure on the weak lira if it translates to strong growth in imports, hitting the current account balance. We see net exports as a negative growth contributer already in 4Q23 by about 0.6 ppt as the bleak performance in Turkey's main trading partners contributed to a muted performance in exports while demand for imports remained strong.

Elsewhere we see capital formation as having contributed positively to activity - a surprising outcome given high borrowing costs. However, taken together with a change in stocks, investment overall dented GDP growth by about 2.4 ppts in our calculations. That finding is in line with the strength seen in household demand, which likely contributed to a depletion in stocks.

Keep rates on hold at 45% through 3Q24, before starting a long-drawn easing cycle in 4Q24, while delivering additional tightening in its alternative tools. A worsening in inflation prospects, however, would see our risk scenario for a lift in borrowing costs following the March vote gain further ground.

Turkey Eyes Slower Growth Ahead

We expect growth to ease in the medium term as the central bank's rate hikes take a toll on investment appetite and dent household demand. Following today's print, we mechanically lift our annual growth rate forecast for 2024 to 3.1%, from an earlier estimate of 2.8%.

Despite the upward revision, our call is still low compared to the economy's past performance - the average growth rate in the decade before the pandemic exceeded 5%.

A likely lift in fiscal stimulus before the local elections slated for end of March could provide a short term respite to waning growth prospects. But that would probably come at the cost of higher inflation, adding to upside risks to the policy rate outlook.

We currently maintain our baseline call for the Central Bank of the Republic of Turkey to keep rates on hold at 45% through 3Q24, before starting a long-drawn easing cycle in 4Q24, while delivering additional tightening in its alternative tools. A worsening in inflation prospects, however, would see our risk scenario for a lift in borrowing costs following the March vote gain further ground.

Turkish Economy Is Skirting Recession Even as Rates Shoot Up (1)

· Quarterly economic growth probably remained just above zero
· Central bank ended rate hikes but may consider more tightening

By Baris Balci

Turkey's $1.1 trillion economy probably eked out growth again, avoiding a contraction during a two-quarter stretch when the central bank delivered the bulk of its massive interest-rate hikes.

The pivot toward tighter monetary policy since June has put restraints on consumption that accounts for more than half of gross domestic product. With a sharp deceleration in lending and quarterly retail sales growth barely above zero, the goal is to engineer a slowdown in inflation swollen from an era of cheap money.

Officials in charge of the policy revamp are so far pulling off a soft landing, with GDP growth in the fourth quarter forecast at 0.3% when adjusted for working days and seasonal changes, unchanged from the prior three months. A minority of forecasters including Goldman Sachs Group Inc. predicted a slight contraction.

The loss of economic momentum was more apparent on an annual basis, likely resulting in a GDP gain of 3.5% – down from 5.9% in the third quarter – according to the median estimate in another Bloomberg survey of analysts. The Turkish statistics agency will publish the figures around 10 a.m. local time on Thursday.

As the economy hobbles along, consumer spending is still the main driver of growth thanks to strong auto sales and a pickup in credit card borrowing, which will only cool off from the second quarter, according to Okan Ertem, senior economist at Turk Ekonomi Bankasi AS.

A muted outlook doesn't mean the central bank won't consider further rate hikes on top of a cumulative 36.5 percentage points of increases through January. Newly installed Governor Fatih Karahan already signaled more tightening could be warranted should domestic demand take off after wage increases in Turkey.

What Bloomberg Economics Says.. "The impact of the strong policy flip will be slower growth in the medium term, but our new Turkey GDP nowcast model suggests the pass-through from restrictive policy to activity may have already begun at the end of last year."

While the economy is shifting into lower gear, the resilience of consumer spending may present a challenge for Karahan as he looks to bring inflation to 36% by the end of the year, roughly half the peak level it's expected to reach in the coming months.

A model developed by Selva Demiralp together with fellow researchers at Koc University showed the likelihood of recession is now at 10%, compared with a probability close to 20% a quarter earlier.

"Preliminary indicators in the first quarter suggest a re-acceleration in the economy," Demiralp said. "I don't think that additional tightening steps will pose a recession risk in the short term."

Still Strong

Economists at Turkiye Garanti Bankasi A.S. said their big data indicators "signal that consumption is not decelerating much further since November," according to a report this month. "Domestic demand remains stronger than supply, posing risks on both inflation and the current account deficit."

A quarterly contraction in industrial production during the final three months of last year contrasts with a slight expansion in retail sales. It's a pick-up attributed in part to a recent spike in credit card spending, as consumers brought forward their purchases in anticipation of higher wages ahead of local elections in March.

Under Karahan's predecessor, the central bank capped the maximum interest lenders could charge on credit cards, despite lifting the policy rate.

"While we expect activity to recover in the first quarter given the elections at end-March and the wage hikes, we think growth will remain weak overall," Goldman Sachs economists including Clemens Grafe said in a note.

GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT