GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

MARKETS ECONOMY POLITICS

MONTHLY BULLETIN ON TÜRKİYE

FEBRUARAY 2024

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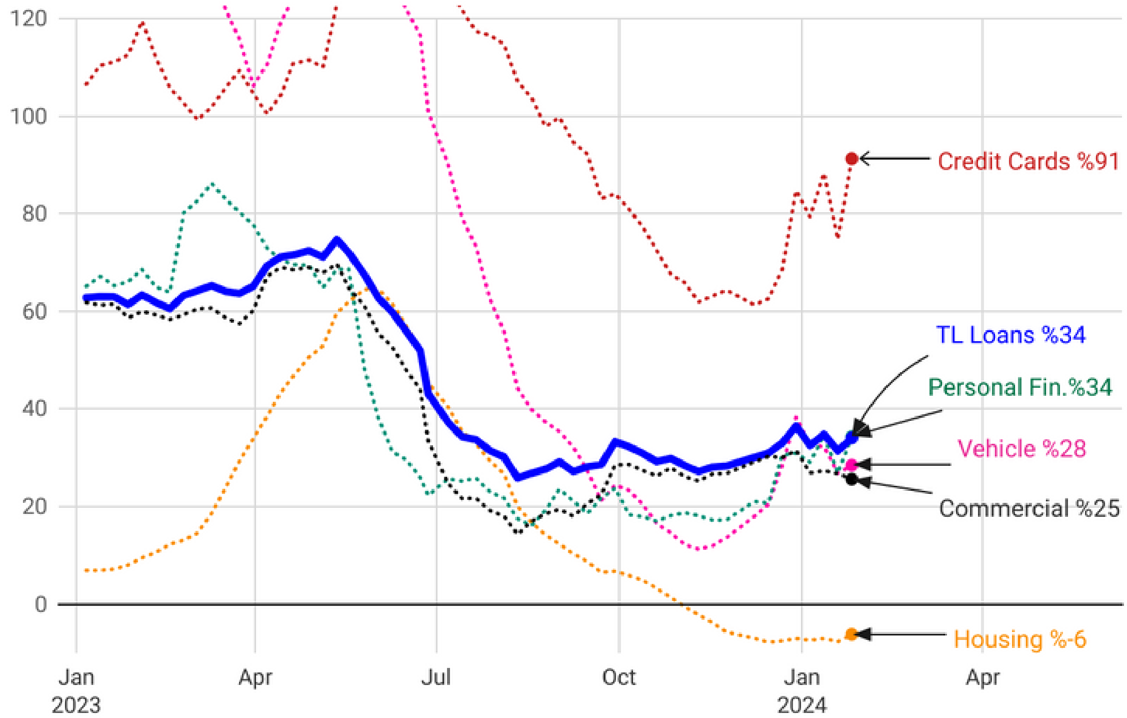
2. EVALUATION OF THE ECONOMY AND MARKET SITUATION FROM A POLITICAL PERSPECTIVE

CBRT Gross Reserves (Bio USD, as of Feb 6)

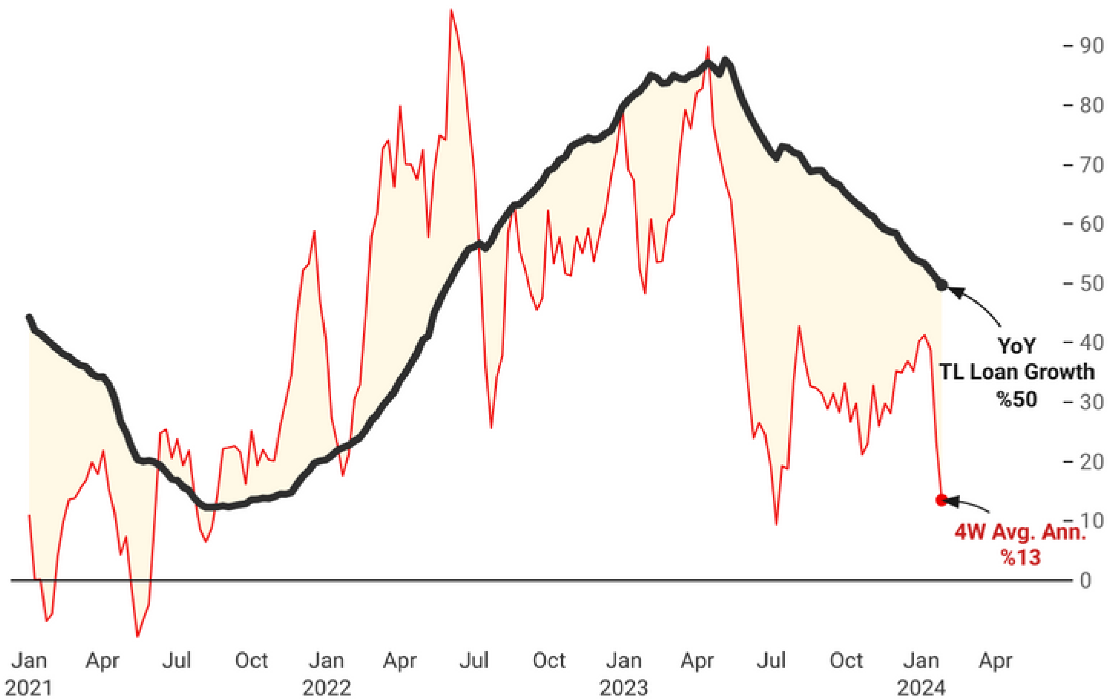
Assets (Bio USD)	29/12/23	28/1/24	YTD
Gold	47.68	47.91	+0.23
FX Banknotes	3.56	3.62	+0.06
Securities + Deposits	5.90	12.01	+6.11
Other FX Balance	87.43	73.20	-14.23
TOTAL	144,57	136.74	-7.83

Liabilities (Bio USD)	29/12/23	28/1/24	YTD
To Turkish Banks	74.92	76.31	+1.39
To IMF & International Insti.	29.89	29.97	+0.08
To Turkish Treasury	9.41	8.78	-0.63
To Turkish Banks in Swap Contract	48.75	51.10	+2.35
To Foreign Central Banks	23.35	23.35	-
TOTAL	183.62	189.51	+5.89

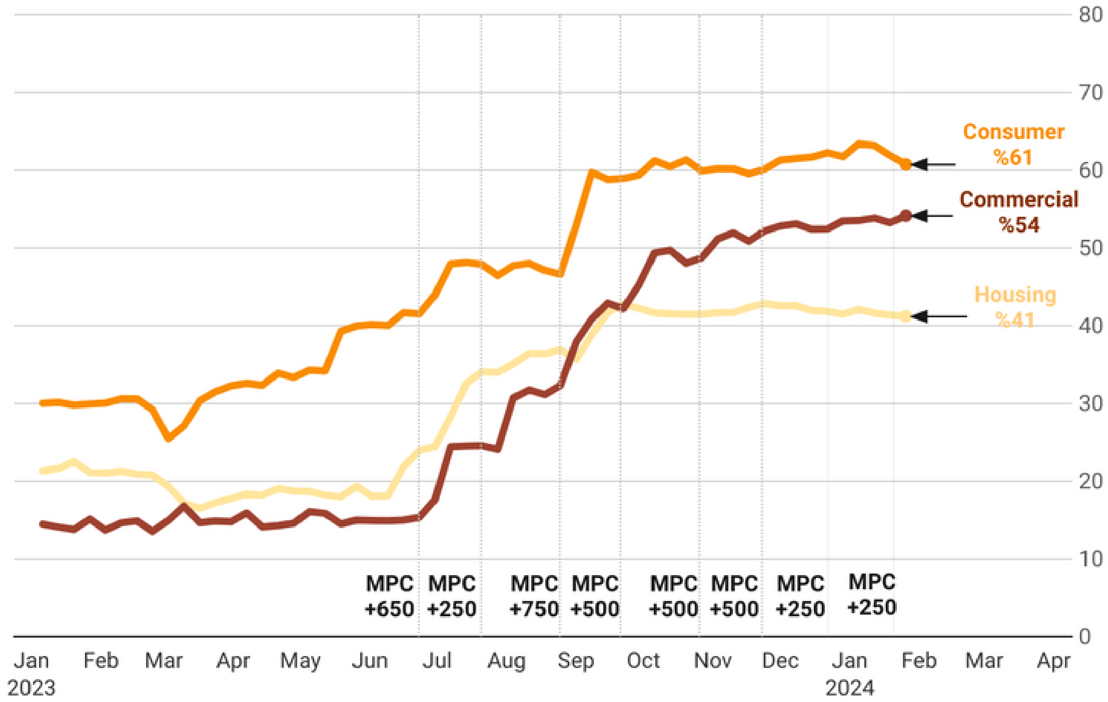
TL Loan Growth Momentum(Jan 26, 13 Week. Ann., %)



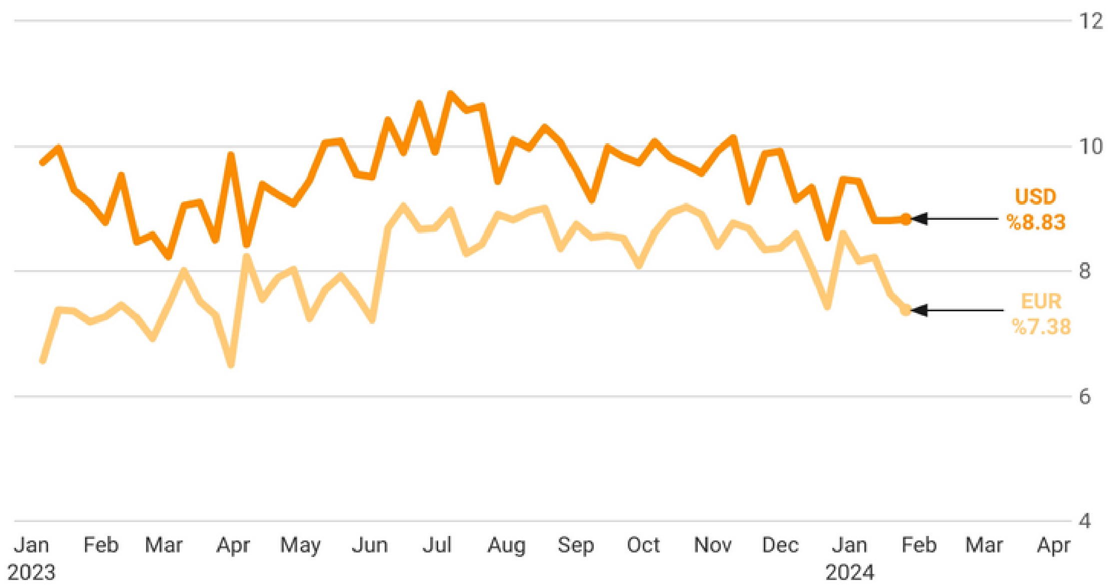
TL Loan Growth (Jan 26, YoY)



TL Loan Interest Rates (Jan 26)

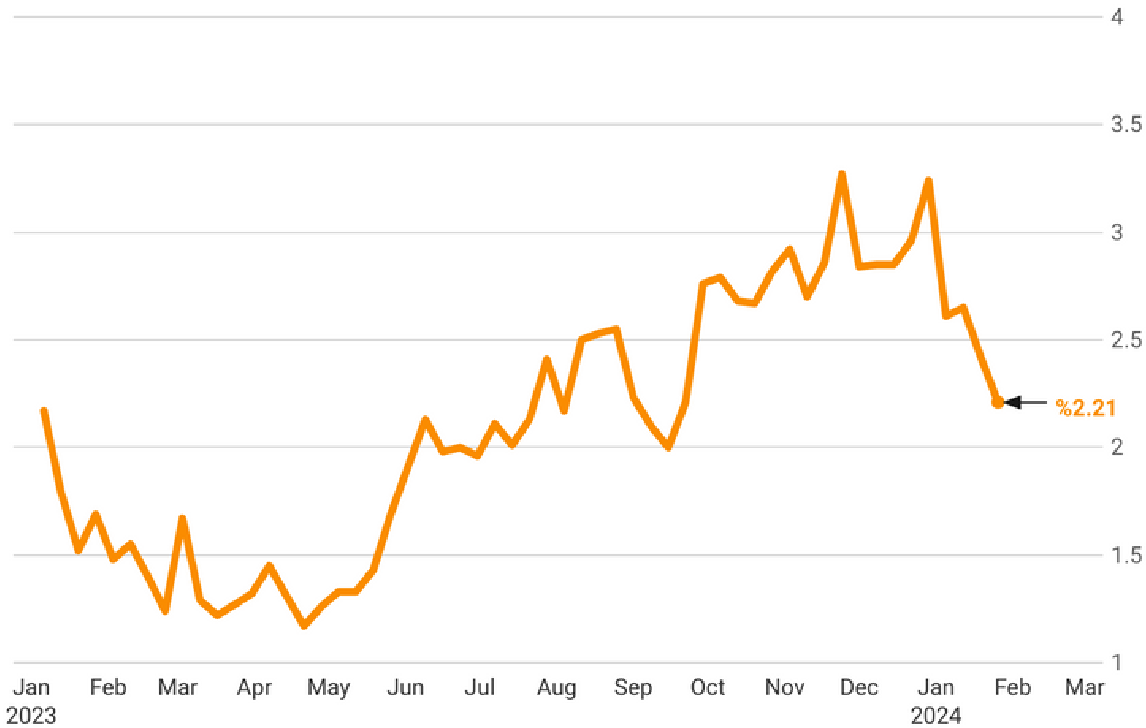


FX Loan Interest Rates (Jan 26)



TL Deposit Interest Rates - 3M Maturity (Jan 26)

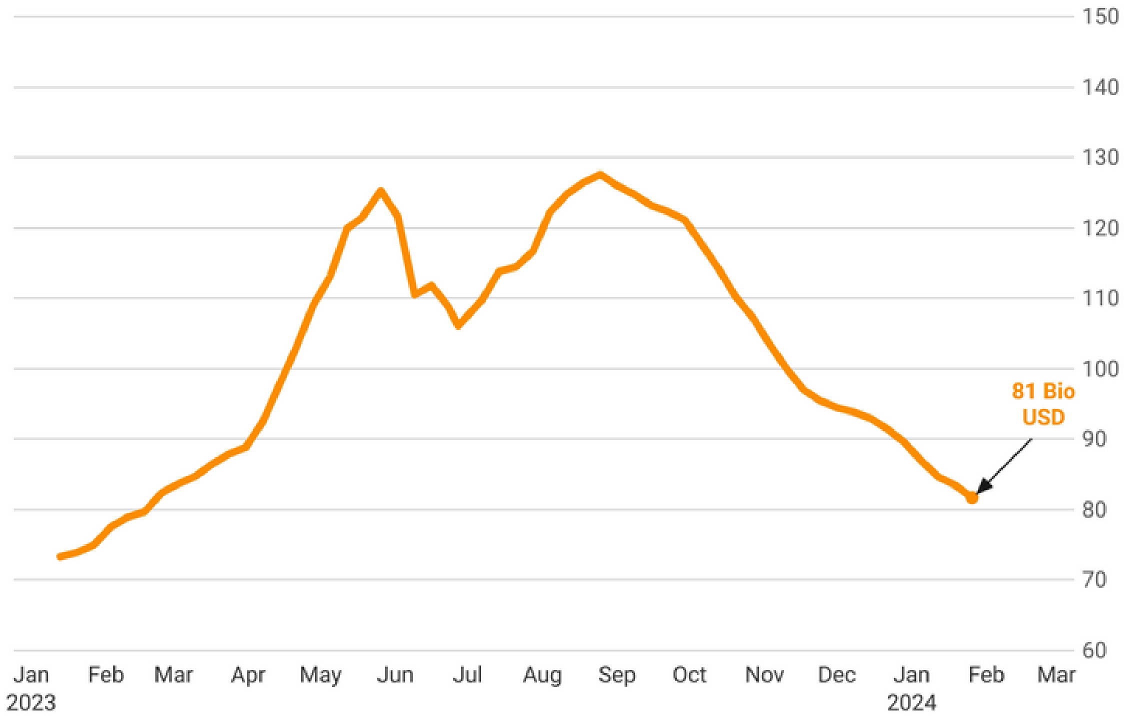
USD Deposit Interest Rates - 3M Maturity (Jan 26)



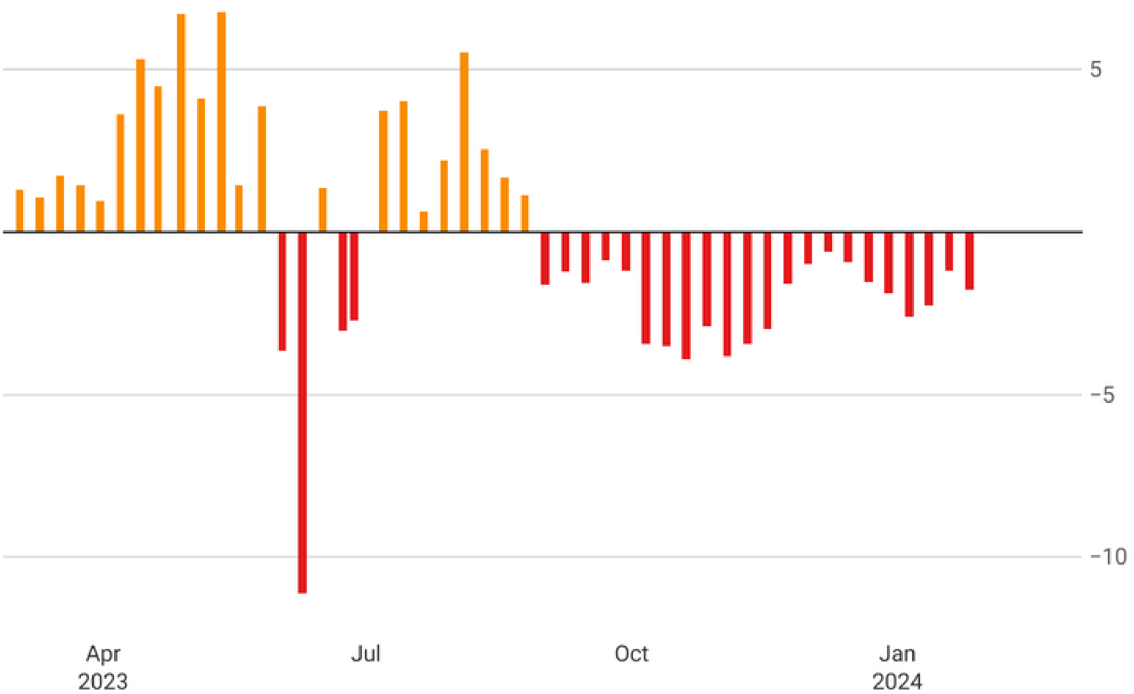
Retail FX Deposits (Jan 26)

Commercial FX Deposits (Jan 26)

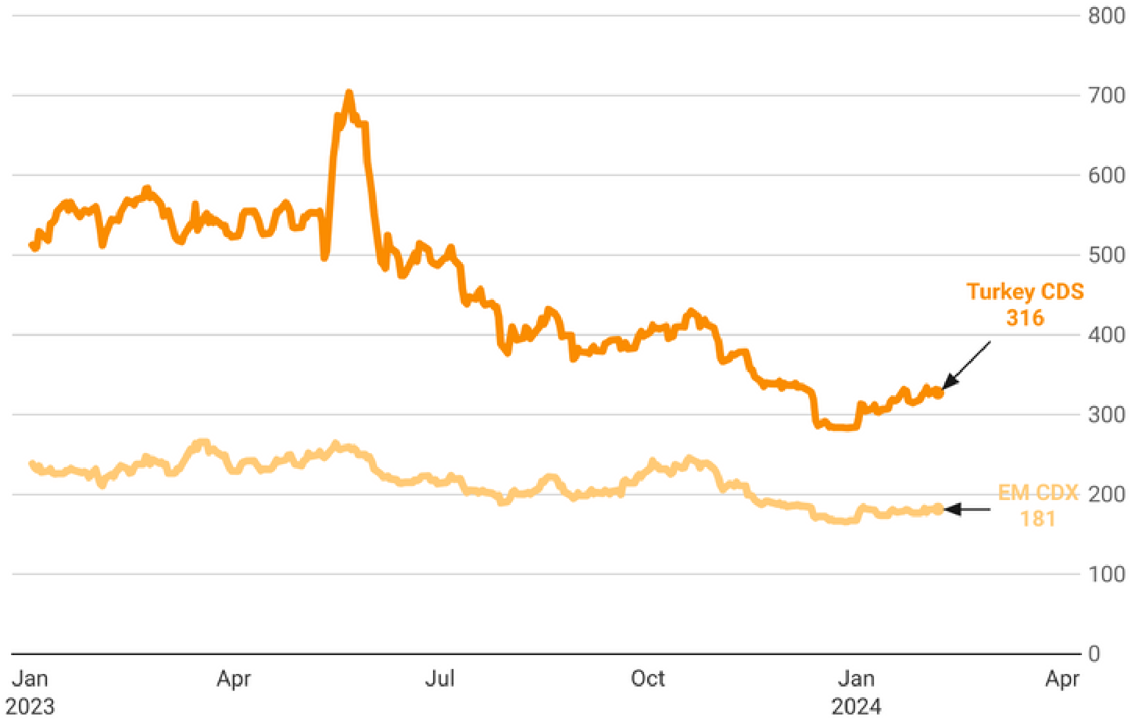
FX Protected TL Deposits (Jan 26)



WoW Change (Bio USD)

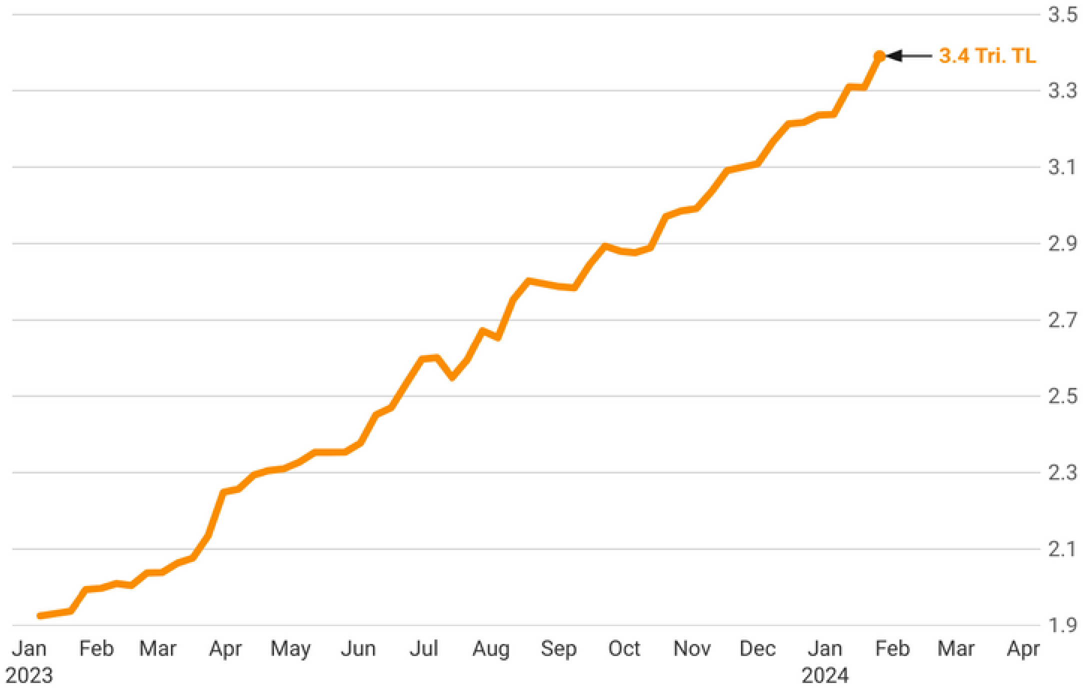


Sovereign Credit Risk (Feb 6)

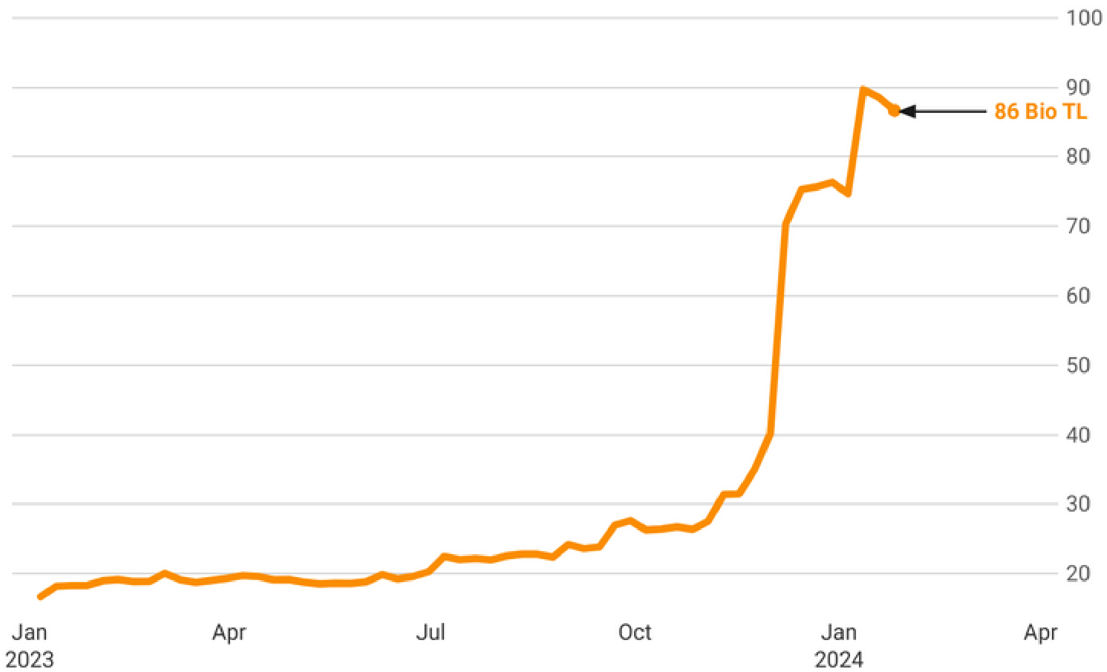


Ishares TUR ETF (AUM, Feb 6)

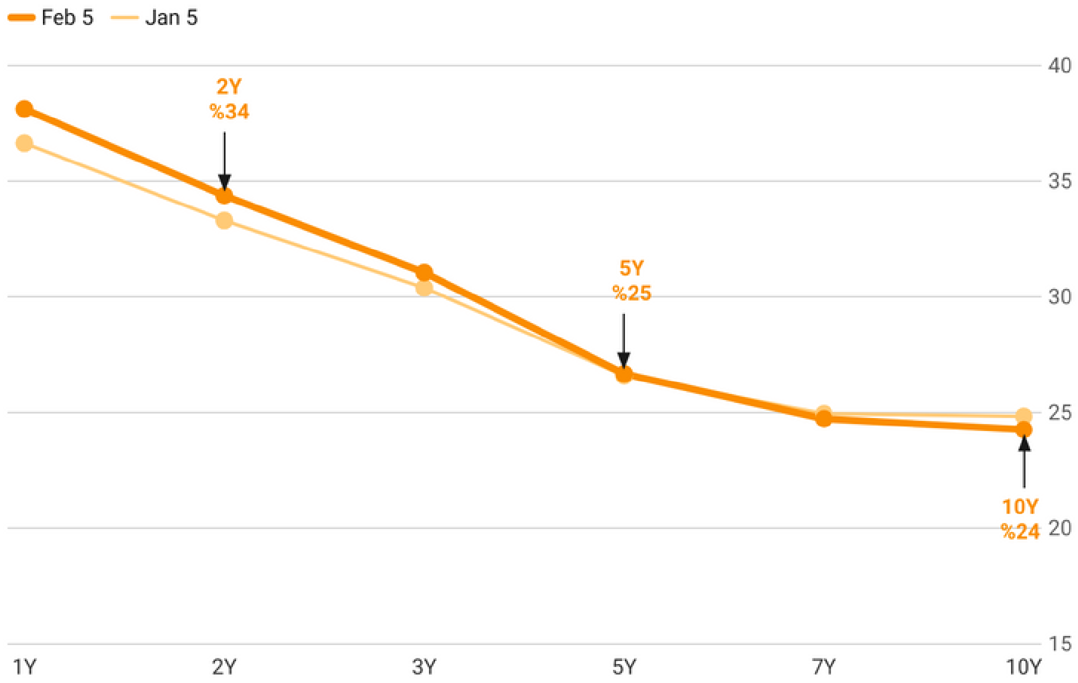
TL Treasury Bonds - Outstanding (Jan 26, Nom.)



TL Treasury Bonds - For. Ownership (Jan 26, Nom.)



TL Sovereign Yield Curve (Feb 5)

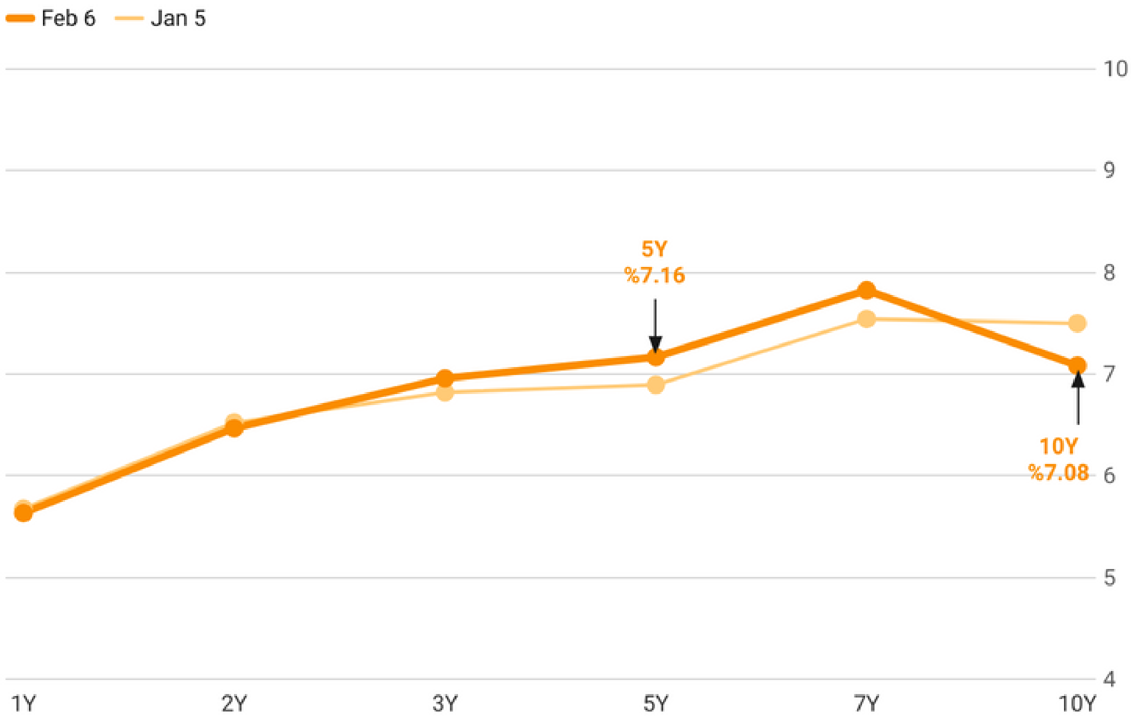


Turkish Lira Sovereign Bonds

Eurobond- Outstanding (Jan 26, Nom.)

Eurobond- Foreign Ownership (Jan 26, Nom.)

Turkey Sovereign Yield Curve (USD) (Feb 6)



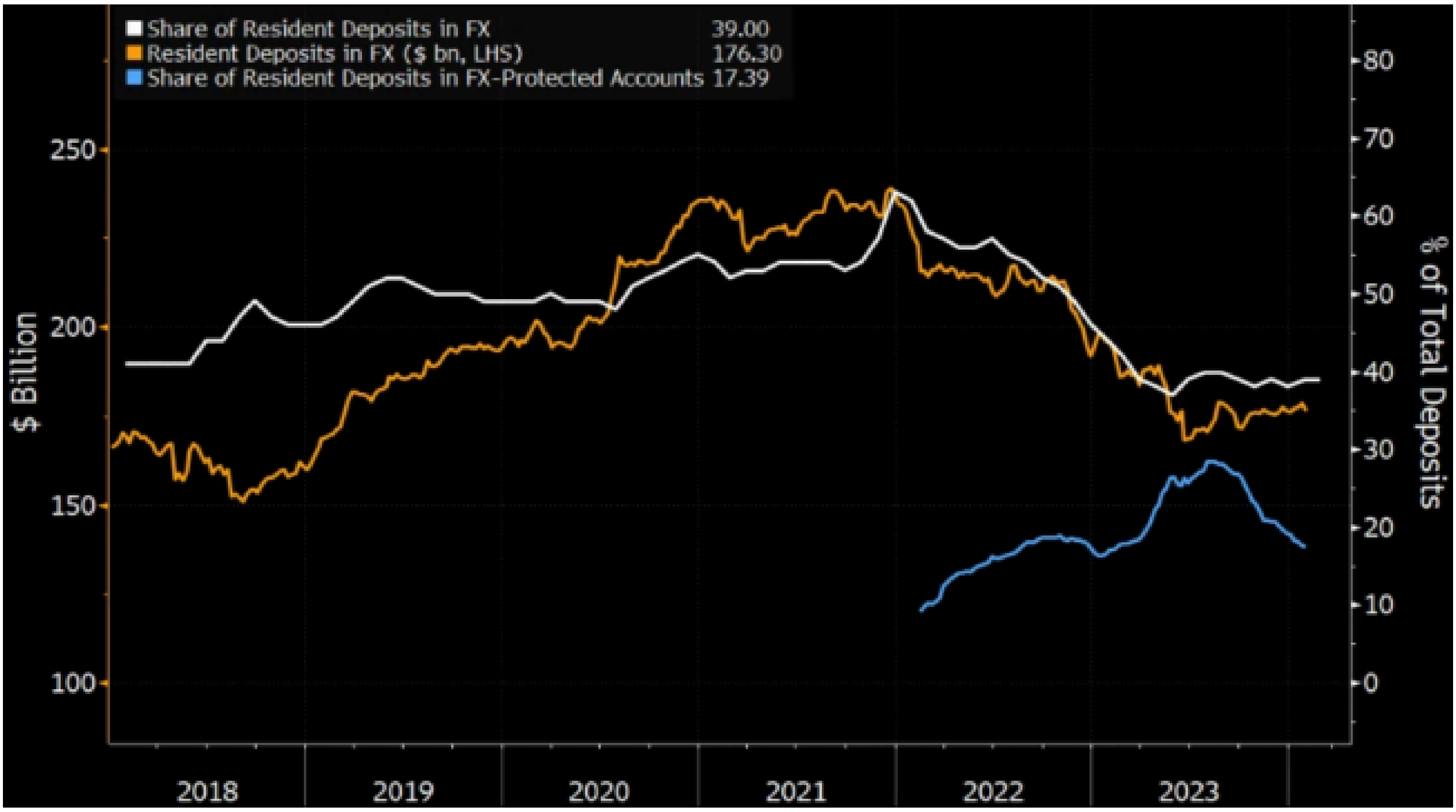
Turkey USD Sovereign Bonds

Turkey's FX-Protected Deposit Accounts Received a New Lifeline

Selva Baziki

The CBRT's recent regulatory changes aim to discourage deposit holders from holding foreign currency - but not necessarily by promoting the lira. In a move announced in the Official Gazette dated Feb. 5, the CBRT extended the cutoff date for non-lira deposit holders to convert into the FX-protected deposit scheme. The CBRT's other action on Feb. 5 offers remuneration to a portion of reserve requirement holdings for banks that meet targets regarding renewals in and conversions to lira from FX-protected deposits.

We think these steps run counter to policymakers' earlier policies that aimed to draw down the costly program. Still, the move will help curb demand for FX, thereby lifting some of the pressure on the ailing currency, and will help the central bank build up its FX reserves.



TURKEY REACT: Inflation Forecast on Hold, Rates May Not Be-1

Selva Baziki (Bloomberg Economics)

OUR TAKE: Turkey's new central bank governor is unlikely to deliver interest-rate cuts before the fourth quarter of this year. That's in contrast with the consensus view, which sees easing beginning in 3Q. If anything, in the interim there's a higher chance of a rate hike than a cut if the inflation outlook deteriorates.

For the moment, Turkey's central bank sees no change in the inflation outlook, but stands ready to use its interest rates tool if it does.

Newly appointed Governor Fatih Karahan, meanwhile, stuck a hawkish tone at the presentation of the new outlook, suggesting that even if the central bank does not deliver further rate hikes, it's likely to maintain its tight stance for some time.

The Central Bank of the Republic of Turkey forecast inflation to end the year at 36%, unchanged from its November 2023 outlook. The end-2025 forecast was also unchanged at 14%.

We read Karahan's comments – made at the press conference to release the report – as suggesting the repo rate won't be cut before 4Q24. That's compatible with our out-of-consensus view for the central bank to remain on hold at 45% in the next two quarters. The governor's comments also suggest the rate path may be revised up if the outlook worsens, which is in line with our earlier reading.

We attribute the central bank's decision to keep its forecasts unchanged as an effort to signal policy continuity after Hafize Gaye Erkan's abrupt departure. This is not a surprising outcome – Karahan was deputy governor when the November forecasts were made. Local elections scheduled for March were probably another factor behind the decision – the CBRT also kept its outlook on hold ahead of May 2023's presidential and parliamentary elections.

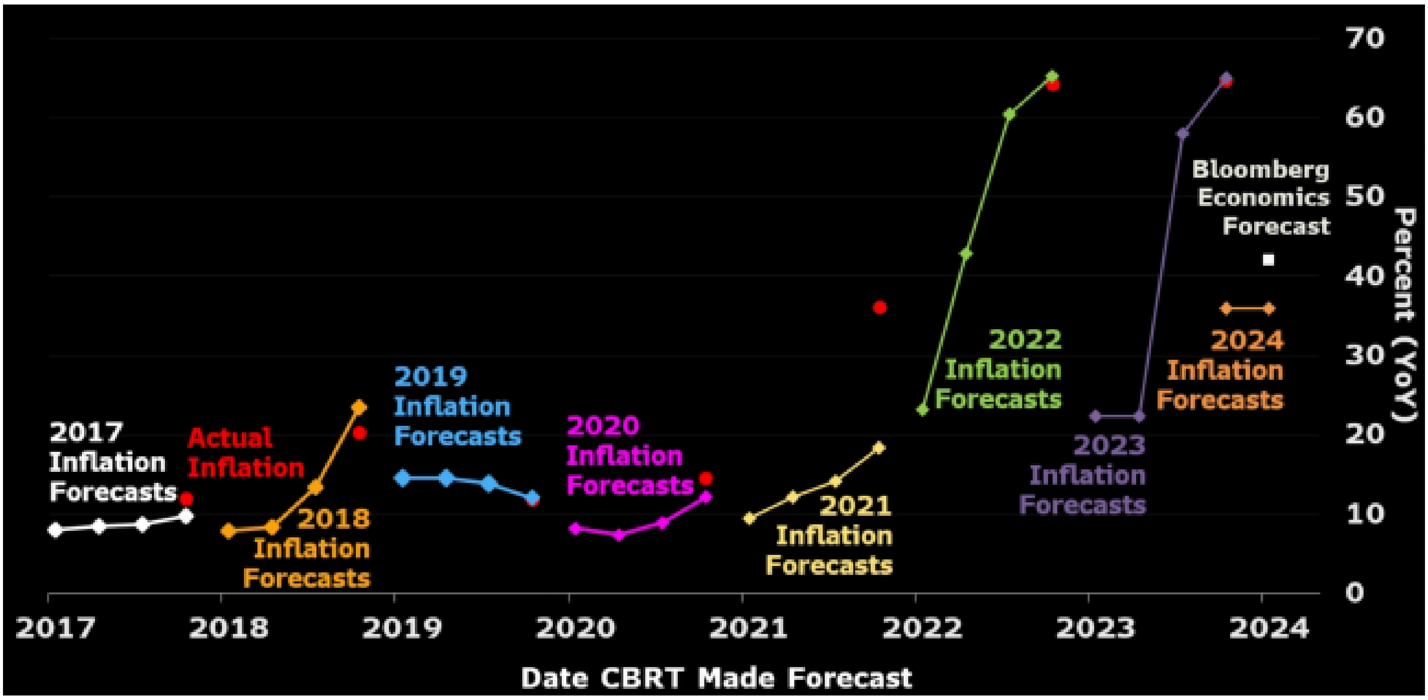
The inflation data since November has been broadly in line with the central bank's expectations. The outlook, though, still points to higher price pressures from government policies, such as a likely uptick in fiscal stimulus ahead of the March vote, an update to the government's tax and fee schedule after the elections, and the outsized 2024 wage and pension increases already in place.

TURKEY REACT: Inflation Forecast on Hold, Rates May Not Be - 2

Selva Baziki (Bloomberg Economics)

That, in our view, warranted an upward revision to the CBRT's forecasts. Our year end call is for a higher inflation rate of 42% – the upper bound of the CBRT's forecast band. Market expectations are closer to our estimate, matched by the 42.1% median expectation in the CBRT's January survey.

Our end-2025 call of 23% is also higher than the central bank's forecast. The implied year-end estimate from the CBRT's survey points to an even higher 25.3% (that's assuming a linear trend between the one- and two-year out inflation expectations).



TURKEY INSIGHT: Karahan’s Policy Steps Signal Rate Hike Risk

By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- The Central Bank of the Republic of Turkey’s recent regulatory changes aim to discourage deposit holders from holding foreign currency. That’s in line with our earlier call for the central bank to prioritize pro-lira policy. The move, though, also carries signal value – by revamping recent alternative tool actions, the CBRT may be flagging a change to its rates outlook.

Policymakers are increasingly worried about deposit dollarization. A week ago, the central bank amended its reserve requirements regulation to incentivize a transition of foreign currency into FX-protected deposits. Earlier this week, the CBRT added to the incentives by introducing interest payments to a portion of reserve requirement holdings for banks that meet targets regarding renewals in and conversions to lira from FX-protected deposits.

We expected the CBRT to revamp its focus on alternative tools. The central bank re-visiting the same tool within a week, however, is worth noting. In our view, that could flag a risk of the leadership change seen over the weekend resulting in other recent moves being put up for revision. That includes January's one-week repo rate hike to 45% being communicated at the time as the peak for the current cycle.

Governor Fatih Karahan's statement following his appointment reinforces that view. His hawkish slant and forward guidance suggests that under his leadership the central bank is more likely to hike rates if the inflation outlook worsens.

The CBRT's earlier policy steps pointed to a preference for ending the FX protected deposit scheme. The central bank's recent steps in favor of the program, though, signal it's still preferred to the alternative of raising FX demand. For a full switch to the lira as the preferred medium for savings, a further tightening in borrowing costs may prove to be a faster solution.

TURKEY REACT: Erkan Out, Karahan In, Orthodox Policy to Stay

By Selva Bahar Baziki (Economist)

(Bloomberg Economics) -- Hafize Gaye Erkan's departure from the Central Bank of the Republic of Turkey has a familiar feel – her four predecessors' terms were all cut short over the past five years. But unlike previous episodes, we don't expect a significant policy reversal to follow.

We expect Fatih Karahan, whom President Recep Tayyip Erdogan appointed as Erkan's replacement, to maintain the central bank's tight policy stance. Karahan's statement over the weekend underlining the CBRT's commitment to achieving price stability – which matched our earlier call – supports this view.

Karahan had served as a deputy governor since July 2023 and previously worked at the Federal Reserve Bank of New York.

In his first move as governor, Karahan gave hawkish forward guidance in a release dated Feb. 4, asserting price stability is “the main objective and priority” for the central bank. This is in line with our expectation that the central bank is now more likely to hike rates if the inflation outlook worsens.

In the immediate aftermath of the shakeup, we also stated the CBRT was likely to continue tightening policy under Karahan via alternative tools and banking regulation, prioritizing moves to support the currency as well as liquidity steps aimed at draining market lira oversupply. A Feb. 5 release from the central bank shows the CBRT has already taken one such step in reserve requirements, which will, in effect, nudge lira deposit (and likely lending) rates higher.

This Time Is Actually Different

We previously highlighted that an unexpected personnel change in top economic management was a risk to the policy, lira and sentiment outlooks. That view stemmed from past experience – Turkey’s central bank governors lately haven’t finished out their terms under Erdogan.

Some of those moves were due to policy differences, and resulted in a hard shift in stance. Naci Agbal’s unexpected exit in March 2021 followed a rate hike. His sudden departure saw Turkey’s risk premium shoot up.

This time, however, with Minister of Finance Mehmet Simsek still in office, and releasing several messages in support of the new governor, we expect the central bank’s commitment to orthodox policies to stick. As such, the hit to the lira following Erkan’s exit could be relatively short-lived.

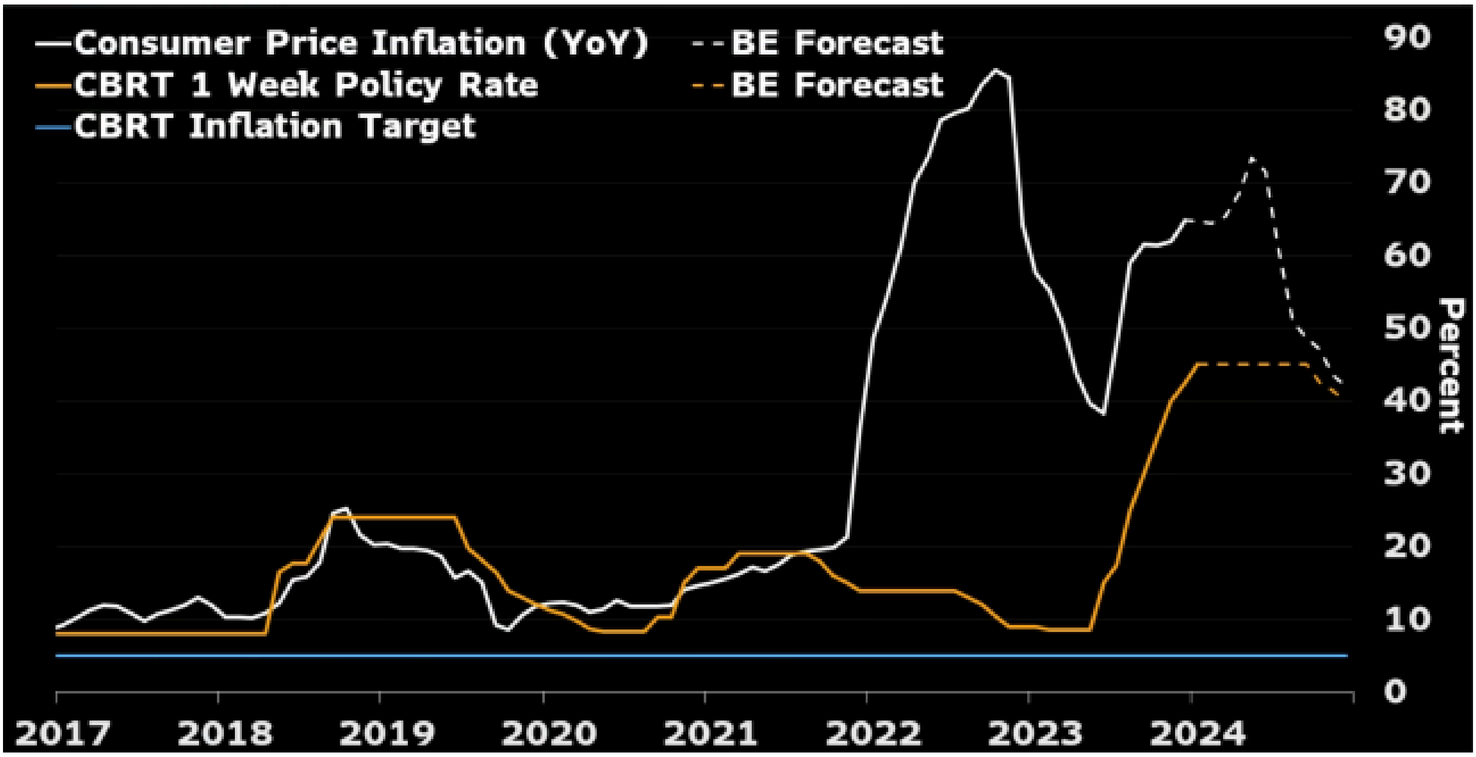
Policy U-Turn Under Erkan

Under Erkan, who took the job in June 2023, the central bank pivoted hard from its accommodative stance, with Erdogan's full backing. The CBRT has lifted the policy rate by a cumulative 3650 basis points since May's elections.

Supported by a revamped Monetary Policy Committee in July – which included Karahan's appointment as deputy governor – Erkan also simplified some of the central bank's complex sets of regulations and practices. The CBRT continued to intervene in currency markets, according to our calculations, totaling $256 billion from December 2021 through November 2023.

Erkan's departure comes after allegations that her father meddled with central bank internal affairs, which she's denied. Still, the sense that Erkan exited for personal rather than policy reasons aligns with our view that the change in leadership will not this time result in a major shift away from orthodoxy.

Karahan – a former deputy governor – replacing Erkan takes the number of empty deputy governorship seats to be filled at the CBRT to two.



Turkey Is Becoming Investible Again:
The country's finance ministry and central bank are regaining economic credibility. By Marcus Ashworth

(Bloomberg Opinion) -- Whisper it quietly, but Turkey is on the verge of becoming investible again for foreign investors. After years of political interference in its monetary policy, a collapse in the Turkish lira's value over the past five years and a soaring inflation rate, there are promising signs that orthodox financial policies are back in place. The central bank is confident enough to welcome foreigners back into lira bonds, and has signaled an end to the monetary tightening cycle that has seen eight consecutive increases in the official interest rate.

Since President Recep Tayyip Erdogan's narrow re-election last May, there's been a change in economic governance away from his unconventional view that higher interest rates cause higher inflation. Fundamental to this new approach was the appointment in June of Finance and Economy Minister Mehmet Simsek for a second tour of duty. A former Wall Street banker, Erdogan fired him in 2018 after nine years in the role, and his return is a a big positive for market stability.

Friday's resignation of central bank Governor Hafize Gaye Erkan, appointed the same month as Simsek with a glittering resume, may have undermined that stability were it not for the caliber of her replacement, Deputy Governor Fatih Karahan. He's been a member of the central bank's rate-setting panel since July, and previously worked at the New York Federal Reserve and as a principal economist at Amazon.com Inc., as well as holding teaching positions at Columbia University and New York University. In a statement, the Turkish finance ministry said Erdogan "has full confidence and support in our economy team and our program."

“While sudden leadership changes bring discomfort for investors, we see the new CBRT Governor as positive for disinflation and lira,” JPMorgan Chase & Co. analyst Fatih Akcelik wrote in a note to clients. “We expect high rates for longer along with tighter macroprudential measures.”

Simsek emphasized on Wednesday to the Istanbul Chamber of Industrialists that monetary policy is aimed at anchoring future inflation and that the lira is “quite competitive.” The new approach is starting to work; foreign holdings of Turkish government bonds doubled in December from an all-time low of just $1 billion. Turkish equity holdings by overseas investors have also plummeted, to less than of 10% of the market.

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