

EXECUTIVE SUMMARY

- Average monthly foreign debt payment of the banks and non-bank financial institutions reached \$ 2.5B in the next 12 months whereas average monthly foreign debt repayment of public sector and companies reached \$1.1B.
- The CBRT's swap transaction liability, which was around \$ 500M before 2018, rose by \$ 1.37B in January to \$ 22.8B.
- Seasonally adjusted Consumer Confidence Index (CCI) jointly calculated by TurkStat and CBRT stood at 86.7 in March, up 2.5% MoM
- Justice and Development Party's (AK Party) seventh ordinary congress was held in Ankara today. Erdogan reshuffled the Central Decision and Executive Board, which is the highest decision-making body of the party. The number of members was increased from 50 to 75, 22 members from the previous term including Lütfi Elvan-Minister of Treasury and Finance & Cevdet Yılmaz, the chairman of the Turkish Grand National Assembly Plan and Budget Commission were not included in the new list.

The outlook of external financing need of Turkey

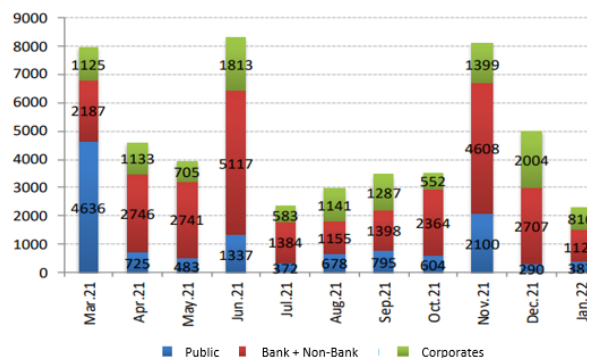
We have analyzed in detail the foreign debt repayment situation of the upcoming months by using the CBRT's Outstanding Short Term Loans Received from Abroad by Private Sector and External Debt Stock Maturing Within One Year or Less Regarding of the Original Maturity data for January and the public external debt projection announced by the Treasury in its February Public Finance report.

-The average monthly foreign debt payment of the banks 'and non-bank financial institutions' is at \$ 2.5B in the next 12 months whereas public sector and companies' average monthly foreign debt repayment reached \$1.1B in the same period, recent data showed. March, June and November'21 will be the critical time period in terms of foreign debt payment intensity.

-The total external debt of private banks due in 1 year is \$51.8B, while public banks are at the level of \$ 36.9B. However, approximately \$14.6B of banks' total foreign liabilities of \$ 88.7B are deposits of foreign branches and affiliates. Short term external debt of private sector recorded \$72.8B of which \$54.3B belongs to trade credits loans, which are composed of foreign trade transactions.

In addition, the companies' debt of \$ 4.8B belongs to their branches and affiliates abroad. During the period between H2-2018 & H1-2019, Turkey's foreign liabilities decreased due to the decrease in foreign credit of banks and the shrink in foreign trade volume.

However, in the second half of 2019, the improvement in the current account balance ended and foreign liabilities also entered an upward trend. Moreover, the swap transactions of the CBRT are an effective factor in the increase in the short-term debt liabilities. The CBRT's swap transaction liability, which was around \$ 500M before 2018, rose by \$ 1.37B in January to \$ 22.8B. However, it is still unknown which swap deal caused this increase. Indeed, the foreign debt service, which has been around in that level for a long time, is far above the total reserves of the CBRT, which is at the level of \$ 91.7B, even without adding the current account deficit expectation for 2021 (\$ 24B) that needs to be financed. However, the fact that a significant size of \$54.3B, which is formed due to the commercial relations of the real sector (import or cash export), will follow an automatic course depending on the growth trend of the economy, should not be seen as a magnitude that has roll-over risk.



In addition, the roll-over risk of some deposit liabilities (excluding bank deposits) to non-residents in the banks section is low. In the past, the CBRT was recalculating its external debt service, excluding some factors (foreign exchange deposit account, TL-denominated deposits and commercial loans of other sectors). With the old account of the CBRT, the total external debt is around \$99B instead of \$190.3B. Of course, such exclusions make the situation look better than it really is.

However, we cannot assume that the obligations given above will be fully repaid. Because, even when looking at the historical course of external loan renewals by banks and companies, it is observed that the external debt rollover ratio did not fall to zero, while it was 77.7% in the last 12 months in the companies sector.

From banks perspective, even without these exclusions, banks' liquid FX assets declined slightly in early March compared to the previous month, but with \$107.7B, it is already sufficient to cover payments in a year (\$88.7B).

Foreign exchange held by banks within the scope of FX Reserve Requirements and Reserve Option mechanism at the CBRT, correspondent account holdings, effective deposits and eurobond portfolios in the CBRT have recovered significantly in recent months after declining to around \$80B in the July-August 2020 period, with banks carrying out more swap transactions with the CBRT.

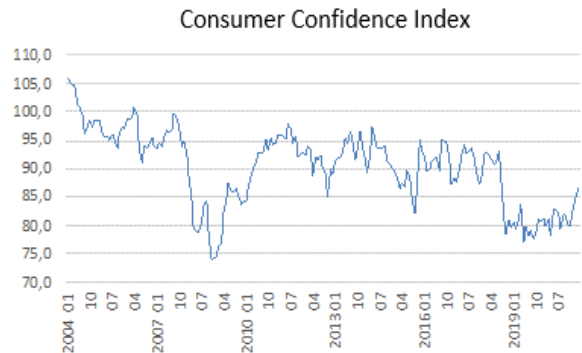
Consumer Confidence Index is at its highest since August 2018

Seasonally adjusted Consumer Confidence Index (CCI) jointly calculated by TurkStat and CBRT stood at 86.7 in March, up 2.5% MoM.

All sub-indices increased in March and the CCI jumped to its highest value since August 2018. The index had declined to 78.1 in April due to uncertainties of the pandemic.

Among sub-indices, the current financial situation of household index compared to the past 12 months period reached 67.3, up 1.4% MoM in March. Sub-indices of the general economic situation expectation index and the financial situation expectation of household index in the next 12 months rose 2.5% and 4% on a monthly basis, respectively. Also, the assessment on spending money on durable goods index over next 12 months compared to the last 12 months period reached 97.4, rising 2% MoM in March. The number of people unemployed expectation index recovered, meaning more people expected a fall in unemployment.

Besides, the probability of saving over next 12 months index, which is at its all-time high with 37.6, indicates that the uncertainty regarding future due to pandemic led to the rise in precautionary savings.



Funding and overnight repo rate increased

The Central Bank's total OMO funding Bank declined to TRY330B, TRY48B was provided by one week repo (19%) tender. Therefore, the average funding cost closed by 18.32%.

Meanwhile, upon CBRT's withdrawn liquidity amount through 17.5% quotation rose to TRY7.9B, whereas net funding amount dropped to TRY322.1B. Valid overnight repo interest average increased to 19.18% compared to yesterday and occurred above the CBRT's policy rate. On the other side, \$5M of transactions were made in CBRT Turkish Lira Currency Swap Market one-week maturity. Thus, FX swap stock reached \$30.8B.

Total transaction amount in CBRT's Turkish Lira-Gold swap was closed with a transaction of 3342kg. The short position amounted to \$5B.

Istanbul Stock Exchange (ISE) transactions amounted to \$619M yesterday, while the swap stock remained unchanged at \$8.3B, the CBRT data showed. The total short position reduced to \$44.1B at the end of the day.

Significant increase in FX deposit volume after the interest rate hike and before the replacement of CBRT Governor

As per the data announced by BRSA, for the banking sector in consolidated base and daily; in the week ended by March 19, the volume of FX deposits rose to \$257.7B, increased by \$2.7B. FX deposit surged by \$925M in real persons, while a rise of \$1.8B was observed in legal entities. In the relevant week, parity remained flat, while ounce rose by 1%. Therefore, in this increase observed herein, it can be envisaged that; significantly more than the price effect. On the other side, the TL-denominated Government Domestic Debt Securities (GDDS) portfolio held by non-residents increased by \$700M last week. Banking loan volume also declined by \$36B in the same period.

Party management has changed and a cabinet change may not be immediately

In the 7th Ordinary Congress of the Justice and Development Party, the Central Decision and Executive Board, which is the highest decision-making body of the party, was reshuffled. The number of members was increased from 50 to 75, 22 names that were on the board of the previous term were not included in the list.

President Erdoğan included 28 members from the previous term in the new list. In addition, 47 new names entered the party administration. It was noteworthy that Lütfi Elvan, who was appointed as the Minister of Treasury and Finance, but who also continued his duty in MKYK, and Cevdet Yılmaz, who was the chairman of the Grand National Assembly of Turkey Plan and Budget Commission, were not included in the list.

Binali Yıldırım, Former Speaker of the Turkish Grand National Assembly, took place as the most powerful name in the MKYK list. Yıldırım also served as the Deputy Chairman of the MYK. The other vice president was Numan Kurtulmuş. Regarding the cabinet change, Party Spokesperson Çelik said, "It is an issue at the discretion of our President. All predictions in such situations will be misleading. When to do and how to do it is at the discretion of our President. "

President Erdogan is expected to change his cabinet by the end of March. There are rumors that some ministries may leave and new names may enter the cabinet. Minister of Interior Süleyman Soylu, Minister of National Education Hulusi Akar and Minister of Justice Abdülhamit Gül are expected to keep their places. There are rumors that a change is being considered in the Ministry of National Education. Some sources state that Berat Albayrak will be appointed as the Vice Presidency, and some sources state that Albayrak will not be in the cabinet.

Summary of the MPC meeting will be released today 14:00 AM-GMT+3

Today, the CBRT will publish the summary of the latest Monetary Policy Committee (MPC). In the last meeting, the policy rate hiked by 200 bps in a "front loaded" manner above the expectations. "Additional monetary tightening will be delivered if needed", Bank also noted in the statement.

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