



EXECUTIVE SUMMARY

- As per daily BRSA data, foreign investors' sales of GDDS reached approximately \$1.4B as of March 25. In the relevant period, outflow of foreigners from stocks reached around \$800M-\$1B.
- The withholding tax advantage on TL deposits to encourage raise savings in TL will expire today. Although the tax reduction had a significant negative effect on budget revenues, the desired result was not achieved.
- Valid overnight repo interest average slipped to 18.88% compared to yesterday
- Constitutional Court rejected an indictment calling for the closure of the Peoples' Democratic Party (HDP), citing procedural error.
- Today Foreign Trade figures for February and Economic Confidence Index for March will be released by TurkStat.

What's really happened this week?

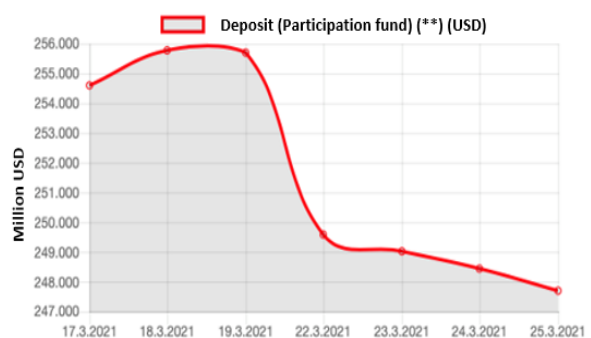
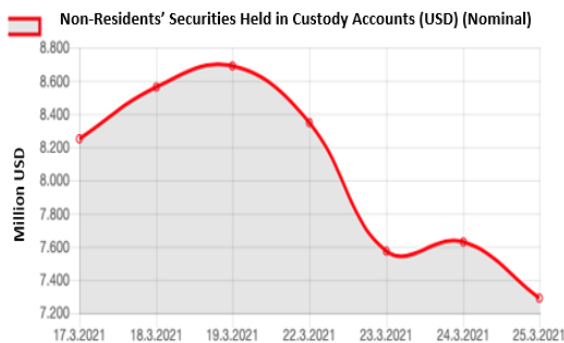
After the Turkey's surprise decision to fire the CBRT governor, we mentioned the difficulty of making a meaningful evaluation on technical analysis, since the dollar / TL and currency basket exceeded the 100-day average. As a fundamental analysis, we mentioned that it would be important how fast foreign investor portfolio inflows since November 6 which totaled \$5.2B, Eurobond inflows of \$5.1B and swap inflows of \$14B, will reverse.

The data for the relevant week (portfolio and swap) are expected to announce on Thursday. However, as per daily BRSA data, foreign investors' sales of GDDS reached approximately \$1.4B as of March 25. In the relevant period, from the Matrix terminal, we can calculate that the outflow of foreigners from stocks reached around \$800M-\$1B. On the other hand, residents' reduction in FX deposits was effective in slowing down the movement in the first phase. However, this reduction also slowed down. As a matter of fact, FX deposits, which fell by \$6.1B on March 22, declined by \$1.9B more in the next three days, but the reduce in parity and ounce also had a partial effect on this.

It will also be revealed on Thursday whether public banks have been selling foreign currency to the market in the relevant week. Public banks FX Net Overall Position rose by \$45M on the week of March 19, but as is known banks's short position is hereby limited by 20% of their legal shareholders' equity. For this reason, this situation allows them to expand their position up to \$6B. On the other hand, we saw that the CBRT did not allow foreign exchange sales by using its own foreign exchange reserves in this process, while evaluating the analytical balance sheet dated March 26.

Therefore, in terms of the course of the TL in the "oversold" zone, the next situation will depend on the signals and decisions of the new CBRT administration.

Although the newly appointed Central Bank Governor Kavcioglu said yesterday that the policy rate will be determined above the CPI, it is difficult to say that the policy rate, which is at 19%, will not be lowered, considering the expectation that the annual CPI will slightly exceed 16% in March.



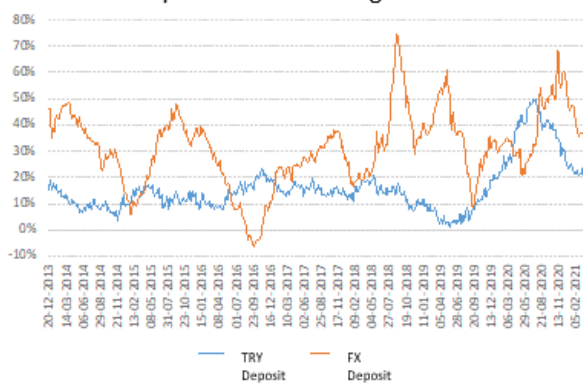
Advantages and costs of withholding tax deduction in deposits

Turkey lowered the level of withholding tax on TL deposits to encourage raise savings in TL in October 2020 and extended it until March 31. The withholding tax advantage provided to TL deposits will expire today. According to the regulation, the withholding tax on deposits of up to one year was cut to 3% from 12% , the tax on deposits of up to six months was cut to 5% from 15% and the tax on deposits of more than one year was cut to 0 from 10%. Despite the withholding advantage, the desired growth could not be achieved in TL deposits. According to the weekly data of the CBRT, in the period from end of October to 19th of March, the size of TL deposits declined by 0.1% to TRY1.5T.

On the other hand, TL deposits of real persons surged by 4.5% to TRY857B compared to the end of October, while TL equivalent of real persons' FX deposits contracted by 2% with the contribution of the decline in exchange rates. No significant recovery was achieved in the annual growth rate of TL deposits.

Although the tax reduction had a significant negative effect on budget revenues, the desired result was not achieved. Considering that the average interest of deposits with 1-3 months maturity, which constitutes the predominant part of the deposit, is 16.5% annually, the 6-month effect of the 10-point withholding tax reduction is approximately TRY7B only for real persons.

Deposit Annual Change Rates



Funding and overnight repo rates declined

The Central Bank's total OMO funding fell to TRY330B, TRY70B was provided by one week repo (19%) tender. Therefore, the average funding cost closed by 19%. Meanwhile, upon CBRT's withdrawn liquidity amount through 17.5% quotation slumped to TRY6B, whereas net funding amount dropped to TRY324B. Valid overnight repo interest average slipped to 18.88% compared to yesterday and occurred under the CBRT's policy rate.

On the other side, no transaction was made in CBRT Turkish Lira Currency Swap Market one-week maturity. However, with the one-month swap auction, \$1B equivalent TL liquidity was provided at 18.3% interest rate. Thus, FX swap stock reached \$29.7B.

Total transaction amount in CBRT's Turkish Lira-Gold swap was closed with a transaction of 2600kg. The short position amounted to \$5.1B. Istanbul Stock Exchange (ISE) transactions amounted to \$200M yesterday while the swap stock fell to \$8.1B, the CBRT data showed. The total short position surged to \$42.8B at the end of the day.

Reporter expressed the opinion that the indictment should be returned so that the procedural deficiencies can be rectified.

The Constitutional Court's reporter commented on the closure case filed against the HDP to remedy the procedural deficiencies. In the report distributed to the members of the Constitutional Court, some procedural deficiencies in the indictment were stated and the return of the indictment was requested in order to remedy the deficiencies. The report also included the statement "If the indictment is accepted, the request for action should be discussed with priority". After the deficiencies are eliminated, the report will be examined by the Constitutional Court. If the decision of admission is made, the indictment will be sent to the HDP and a written defense will be requested. There are three options in front of the Constitutional Court in the closure case. According to Article 69 of the Constitution, a permanent dissolution of HDP; Depending on the severity of the acts, a decision to be deprived of state aid partially or completely, the case may also be rejected on the merits. The decision of the Constitutional Court with a total of 15 members to dissolve the HDP or to be deprived of treasury aid has to be made only by two-thirds of the members. The HDP administration, on the other hand, has determined the strategy to be followed for the closure case, will try to create public opinion against closure in the first place, and options such as "establishing a new party, transition to one of the existing parties or independent candidacy" will be evaluated according to the developments. According to the news of the BBC Turkish, party administrators noted that the termination option is not very favorable. It was also stated that the option of transferring deputies to another party or establishing a new party to provide eligibility for the election was also discussed. All kinds of methods can be tried, including transition to the Party of Democratic Regions or independent participation.

Today 10:00 AM – GMT+3

- Foreign trade figures for February will be announced by the country's statistical authority. According to Ministry of Trade's the preliminary estimates of February foreign trade, exports rose by 9.6% year-on-year to \$16B, while imports increased by 9.8%, reaching \$19.4B. Meanwhile, the trade deficit equaled \$3.3B, rising 10.7% annually.
- Economic Confidence Index for March will be released by TurkStat. Turkey's economic confidence index fell to 95.8 points in February, down by 0.4% from 96.2 the month before.

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