



# TURKEY

OUTLOOK 2023

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# **1.0 Executive Summary**

In 2022, Turkey continued to collapse in all fields. The year ended with an ill omen, namely bloodbaths on Istanbul's main shopping thoroughfare, when a bomb left on a bench exploded, and in the conflict with adversaries gathered in locations around the Turkish-Syrian border. None of this came as a surprise.

*bne IntelliNews'* Outlook 2022: Turkey [read](#): "If Turkey cannot manage to somehow smoothly get rid of the [President Recep Tayyip] Erdogan reign, nothing would be a surprise amid the turmoil engulfing the country. Erdogan could at any time engage in wars, fuel violence at home, create more economic dilemmas, announce he is moving against another attempt at a 'coup', or conspire in and engender many other things that we can scarcely imagine at the moment."

The coming year, 2023, requires Erdogan to call presidential and parliamentary elections. They must be held by June at the latest. Thus, in store are 12 months that could bring markedly more dramatic and tragic events that will stain modern-day Turkey's history. Prepare for a possible boom in terror and violence.

As 2022 progressed, there were some predictions that Erdogan would go for snap polls, perhaps before the end of the year. Some current rumours anticipate elections slightly earlier than in June, perhaps in April or May.

Erdogan has lately been rearranging his foreign policy in order to secure a free hand at home. The major players of the United Nations as a whole, ranging from the US to China, appear to be part of a consensus supporting a continuation of the Erdogan regime.

Court cases abroad that pose some threat to Turkey's autocrat are advancing only very slowly (in terms of the US, for example, look up the latest on the Halkbank case, the "SBK" case, the assaults by Erdogan's security detail on protesters in Washington and the sanctions move against Sitki Ayan).

The only exception so far to this relative foreign policy comfort for Erdogan has been Syria's Bashar al-Assad. Media reports have suggested that Assad is refusing to smooth relations in a way that would benefit Erdogan's election campaign. Erdogan is, however, still pushing for a meeting with Assad. He would use it to portray himself as sending a great number of Turkey's Syrian migrants back home.

The tragic grip of today's authoritarianism held over so many Turks is, note, not only maintained thanks to inaction from foreign partners. The state of the so-called opposition within Turkey is more heart-wrenching.

Nevertheless, in a fair contest, Erdogan would have no chance at the polls. In an unfair contest he will, of course, declare another “victory” during the early evening hours of election day while the votes are still being counted.

Heads of foreign states will queue to congratulate the despot on his victory on the phone. Their congratulations will translate as: “We recognise you as the political authority in Turkey. Feel free to do what you would like to do.”

The opposition will play its role by turning tail and disappearing.

It’s all been seen before, such as in the general election of 2018 and the constitutional referendum on forming an executive presidency, held in 2017. Once more, observers will watch to see whether, post-election, it is possible to keep Turkey stable.

In the most positive scenario, Erdogan would leave his post in a somehow-contrived peaceful transition. The scenario could, in a certain sense, be seen as mirroring what was seen in 2002.

In such an eventuality, Turkish assets, led by the lira, would see a sharp rally. It would begin as soon as the market became convinced that Erdogan was set to peacefully hand over the reins of power.

Turkey would then fall into another “hot money” trap. The value of the lira would boom, the current account deficit would leap and domestic production would collapse. And, Turkey would become ready for the next portfolio outflow shock.

An actual recovery, which could be described as at least returning to the 2015 settings, would require, at a minimum, five years of uninterrupted healing, with programmes covering each and every corner of life.

It should be noted that, in the post-Erdogan period, any government, democratic or undemocratic, would have to politically and economically surrender to an International Monetary Fund (IMF) programme. And past experience with IMF programmes shows that political ructions would be in store.

Turkey still has access to borrowing on the global markets—though each instance of borrowing at the required high costs brings the country closer to the ultimate end, namely the IMF programme.

A new version of the ruling Justice and Development Party (AKP), working under an IMF programme, is the likeliest potential major political change you might see on the road ahead.

The opposition bloc, which would be in line to take over the government, would suffer from the turbulence caused by the IMF's impositions. There would be a shake-up period and after a while a powerful government would take over to apply the IMF programme.

Istanbul Mayor Ekrem Imamoglu could be a good candidate for implementing an IMF programme. He is flexible and populist. Deva Party chair Ali Babacan, a former Erdogan ally who was among those who implemented the 2001 programme, anticipates a place at the top table for himself.

In the worst case, Syria and Iraq scenarios are on the cards.

## **2.0 Political outlook**

While the law decrees that elections for Turkey's presidency and legislature must take place by June 2023, the country has in fact been in an election "mood" since 2014.

### **Snap polls?**

The two-year-long pandemic and the unstoppable economic collapse experienced by Turkey mean Erdogan and his officials have never found a window for calling early elections that would get the job of securing another term in office done.

A call for snap polls from Erdogan's junior ruling coalition ally, Nationalist Movement Party (MHP) chair Devlet Bahceli, would, however, be no surprise.

In Turkey, there is never any scarcity of political scenarios under discussion. Since the local elections showdown in 2019, all manner of snap national poll predictions have been advanced by all and sundry. The suggested dates pass by, the forecasts are simply thrown to the side and the pundits come up with their updated assessments.

Currently, there are rumours about March and April. For good measure, why not throw in May?

The constitution, as it happens, says a president is limited to two terms in office. Erdogan, of course, effortlessly steers a course around any

law that proves a hindrance to him, but there is a readymade loophole to this particular obstacle – if parliament calls for early elections, Erdogan can legally run for president again.

### **The opposition**

In any case, Turkey's so-called opposition certainly has no track record of strictly obeying the laws. As things stand, their line is that they will "not let Erdogan benefit from his legal constraint", whatever that means.

Main opposition Republican People's Party (CHP) leader Kemal Kilicdaroglu is, by the way, a politician who infamously [stated](#) in 2016: "It is against the constitution, but we will say 'yes'."

His words related to the issue of lifting the immunities of MPs. It is said that Kilicdaroglu wanted pro-Kurdish People's Democratic Party (HDP) MPs to be jailed to prevent the HDP from snaffling 'his' votes.

Eventually, a CHP MP, Enis Berberoglu, was also jailed and Kilicdaroglu duly took a rather long protest walk from Ankara to Istanbul.

Such is the level of stupidity of the Turkish opposition that conspiracy theories are triggered. Puzzled observers question whether Erdogan might be directly controlling the main parties supposedly ranged against him.

Right now, a process to amend the constitution on permitting headscarves is once more back in the headlines. It is another issue that has arisen because of the ineptitude of the opposition. It could produce a referendum that would be held in parallel with the elections.

However, the headscarves debate will not impact the election results. Cultural or similar affairs are only sauce to cover the all-important pragmatism behind it. It is better to reply to the question of "Why are we supporting this thief?" by saying "He prays five times a day" rather than "He pays me social welfare each month."

### **Erdogan's options**

Staying in power is a vital necessity for Erdogan. He will stay in power or he will end up in prison together with members of his family.

That being the case, Erdogan has three options:

1-) Delay the elections.

A war would be one legal path to securing a postponement. Turkey is

already at war in northern Iraq and Syria. So, triggering this option would not be a big deal.

However, dealing with the consequences of the delay might not be so easy. Erdogan would be exposed to coups, uprisings and such threats.

2-) Declare an election “victory” beyond any possible objective verification.

So far, moves made point to this option. In the months prior to the elections, Erdogan will pull out all the stops to increase his genuine vote and keep opponents at bay. And, his latest poll “victory”, with a crude lack of transparency making it unchallengeable, will be declared on the evening of the elections.

External recognition is vital for this option. Erdogan has prepared his foreign policy to secure it.

Local neoliberals, referred to as “the liboshes” in Turkey, have lately bemoaned how the personnel at the key foreign embassies as well as the IR crowd across major Western capitals appear certain another Erdogan term is on the way.

The problem is that the smartest kids do not study politics or IR. They prefer the hard sciences. Also, the best embassy staff are not allocated to Turkey. There are more important countries to prioritise such as China, the US and so on. So, there’s a pretty poor outcome when it comes to the quality of personnel manning the Turkey desks.

Once upon a time, such as during the Cold War era or the time of the Broader Middle East and North Africa [Initiative](#), there were really talented Turkey experts such as [Ruzi Nazar](#) or [Graham E. Fuller](#), among many others. However, the focus right now is on China. The Western countries’ present non-policies on Turkey, meanwhile, even fall short of convincing the liboshes.

The libosh is an interesting prototype but they are not our concern right now. However, note that being in touch with the personnel of the Western governments is among the main characteristics of a libosh.

Under normal conditions, the information flow goes from a source such as a military or governmental source through the personnel of a foreign government. In the case of the liboshes, these personnel push their perspectives and the liboshes spread them around Turkey.

For instance, during the 2000s, all the liboshes were talking about how the Islamists would democratise Turkey in parallel with open support from Western governments for Erdogan’s Justice and Development Party (AKP).



Thus, the liboshes are currently in a state of revolt as Turkey will become an even more uninhabitable place under one more Erdogan term.

In the bigger picture, the consequences of imprudent decision-makers have become a global problem.

For instance, Angela Merkel was a real visionary. She consigned Europe's energy security to Vladimir Putin. It worked really well for Berlin for a while. Germany boosted its exports thanks to cheap Russian gas.

Merkel also consigned Europe's border security to Erdogan. The idea is to rely upon Erdogan to not allow great numbers of migrants who have reached Turkey to flee into Europe.

Turkey's dictatorship is testing the limits of the country as a 'pressure cooker'. Who will have some questions for the politicians in Europe when Turkey, currently hosting more than 90mn people at the door of Europe, explodes?

Merkel, a citizen of the former East Germany, currently warns that Europe should take Putin's nuclear threats seriously. If asked, she would also warn that Europe should take Erdogan's threats seriously.

3-) Flee abroad.

Erdogan, as we know, faces many unresolved lawsuits in the US. If he fled, he would likely not be able to stay out of jail. The new Turkish government would also be on his tail.

### **Media punditry and surveys**

Ahead of the elections, the media will be flooded by pundits holding forth. A good trick for eliminating trash is looking out for commentaries hinged on surveys. It is a litmus test for identifying ignorance.

The survey amounts to a [trashy](#) method. It is inadequate in many ways when it comes to identifying an actual situation. Nasa, observe, does not use the survey method while designing its spacecraft.

Moreover, statistics compiled using trashy 'non-data' can make for a real mockery. Statistical methodologies have their own inadequacies.

The 'survey pundits' are mainly former kids who studied some social non-sciences. They were not quite there with the numbers. They see no problem in treating survey 'non-results' as if they are as reliable as the mathematical constant Pi. Why not weigh nanomaterials with a



steelyard.

Also important is the question of who has conducted the survey. If you've no idea that the owner of the survey company was arrested due to charges for unlawful Gulenism, prior to, interestingly, being released, you should not be relaying the results and apparent conclusions drawn from the survey.

Ignorance is also seen in the painting of scenarios simply based on presidential and parliamentary election results. Here we have a perfect example of the pitifulness of the mainstream perspective.

The mainstream is compelled to treat Turkey as if it is holding normal elections, despite all the evidence to the contrary. And it's telling that the hypotheses already being advanced all around us do not include scenarios in which Erdogan loses the presidential poll. What do we have here? The paving of the way for Erdogan to announce another victory that will be lamented as "fake" by those who pause to take a real look? Another unverifiable "win" for Erdogan. Thanks to the unearned respect shown by the mainstream media, it will be more or less waved away as just another expected chapter, nothing to get too enraged about.

A quick aside on the parliamentary polls: there's no need to spend too much time with these. In Turkey, there's an absolute lack of division of powers. The legislature has been reduced to an absolute nonsense, it's just about a non-entity.

"Erdogan will use Putin's money to win" is another litmus test of empty-headed punditry. At this juncture, Erdogan has no chance of convincing anyone who has spent the last few years with hunger issues of his merits.

All in all, beware. Ignorance is full of courage. Developing a self-defence against the bombardment of ignorance is a must.

## **Results**

To briefly sum up the numbers, it can be said that the vast majority of Turks are set on voting against Erdogan regardless of the challenger.

If no candidate achieves 50%+one vote in the first round of voting, the two top-placed candidates head into a winner-takes-all run-off in pursuit of that 50%+one.

That's why Erdogan in a fair contest has already lost, even though he is still able to feed around 10-20mn 'winners', which provides him with support comfortably above 20% of the electorate. There are around 50-60mn voters in Turkey.

## **The challenger**

The name of the opposition challenger is not yet available. But it won't be so important anyway. In that dreamt-of fair fight, Erdogan would have no chance even against an empty water bottle.

For anyone hoping to unseat Erdogan, it will be important to manage election night shrewdly and open a breach in the external consensus that supports the incumbent.

Istanbul's opposition mayor Ekrem Imamoglu proved himself capable of grappling with the Erdogan camp and winning in the local elections held in 2019. Since then, Erdogan has sidelined him. Imamoglu in December received a jail sentence for uttering the word "fools" about some officials (yes, seriously. It goes without saying, the conviction was not secured on a well-founded case in law). If the jail sentence is approved by the higher courts during the election campaign months ahead, any Imamoglu candidacy would have to be dropped.

Erdogan wants to instead take on his favourite whipping boy, namely Kemal Kilicdaroglu, head of the main opposition Republican People's Party (CHP) for many years. However, it is questionable whether Kilicdaroglu will be able to show any calmness or restraint if he is faced by Erdogan once again declaring what opponents perceive as a brass-faced fake victory.

Most Turks think Kilicdaroglu is a fool. But his long career as a public servant and then 'politician' imply that he is only playing the fool. Turks say "nod your head, take your salary" about public servants.

In person, Kilicdaroglu is a real gentleman who commands respect. The sentiment is that he would never steal a single lira. But the phenomenon of the "CHP's general manager Mr Kemal" is simply that in Turkish politics he's followed his predecessor's path in serving as Erdogan's punch bag for longer than a decade.

During Kilicdaroglu's tenure, Turkey has collapsed. He, as the main opposition leader, has mutely awaited the day when he will make it into government.

At the time of writing, Kilicdaroglu is overtly pushing to become the opposition bloc's challenger to Erdogan. As things stand, he will get the nomination. But don't bet the farm on it. This is Turkey. Everything can change in a single second.

A third alternative for challenger is Ankara opposition mayor Mansur Yavas. In 2014, Yavas won the Ankara election. His supporters left the vote count to celebrate his victory. During the morning, the AKP

candidate declared that the victory was actually his. Kilicdaroglu did nothing for Yavas. They could hardly muster a reaction. So, even if Yavas did win at the ballot box against Erdogan, there's the rather important snag that he, like Kilicdaroglu, but unlike Imamoglu, would not show the required smarts to manage the course taken by election night.

A fourth alternative? Nominating a surprise candidate would be rather difficult at this point.

### **Kurds, the so-called kingmakers**

The Kurds of Turkey show the highest political awareness found the world over. They have lived in the face of low-intensity warfare for around half a century. For them, staying aware of what is occurring on the political scene is a matter of life and death.

Blind media pundits, who rely on the 'non-information' found in the mainstream media frame nonsensical arguments. They should try spending some time in Diyarbakir if they wish to learn a little about how to read politics.

Erdogan has murdered too many Kurds. He has earned the distinction of the biggest murderer of Kurds in history. He has also insulted Kurds far too much, literally and via his policies.

The Kurds will do what is required. They showed that in the last local elections. Yes, a small minority of 'looters', who still benefit directly from the regime, will vote for Erdogan, but the majority will vote against him.

At this point, the Kurdish politicians are opposing a Yavas candidacy. And he's never been in a position to win in Ankara without Kurdish votes.

There will be a small flood of media punditries on the Kurds in the run-up to the elections. Erdogan will of course make some moves. It will all be good for those for whom the Kurds are all Greek, they can kill some time. But it is not possible to manipulate Kurds with the kind of tactical moves that excite the mainstream media crew.

### **Terror and violence**

On November 13, a bomb attack in Istiklal Avenue, the main pedestrian zone in central Istanbul, [killed six](#) people and wounded 81. Turkey's government is yet to [come](#) up with a logical explanation for the attack. So far, no one has claimed responsibility and everyone is pointing the finger at their enemy.

Nevertheless, Turkey has again been turned into a land bordering on a big upsurge in bloody violence by the bomb attack.

The Turks are afraid of a repeat of the period of terror and violence that began with the June 2015 elections and ended with the introduction of the currently prevailing “Turkish-type executive presidential system” in 2017.

The government has been blaming the pro-Kurdish PKK for the attack. It has also [launched](#) some air bombardment campaigns in northern Syria and Iraq, but mainly for [public relations purposes](#).

The air space across that region is controlled by the US and Russia. The US-Russia duo open the air space occasionally and Turkey is allowed to use ground forces in limited areas.

Some rockets have, meanwhile, been [hitting](#) Turkish border crossings and towns on the Syria frontier. On December 16, a bomb attack [targeted](#) Turkish police forces in Diyarbakir province. Kurdish organisations have not claimed responsibility.

The risk of a further escalation in the exchanges is clear. Turkey’s government continues to seek permission from the US and Russia for a ground operation in Syria.

### **What’s next?**

Some ground battles in Syria, political assassinations, bigger terror attacks, some other bloody moves (as seen in the June-November 2015 period), closure of the pro-Kurdish Democratic Peoples’ Party (HDP) (the HDP has reserve parties, this move would not make sense), the seizure of the Istanbul Municipality, the [jailing](#)/banning from politics of popular Istanbul CHP mayor Ekrem Imamoglu – these are among expectations for possible moves in the pre-election period ahead.

### **Erdogan’s health**

Erdogan (who will turn 69 at the end of February) has lately shown relatively good health as far as can be ascertained from his appearances in public. Nevertheless, his physical and mental performances certainly remain somewhat volatile. He can at any time go missing from public view for a few days. He shows some physical difficulties in front of the cameras.

Since 2011, Erdogan has gradually lost his cognition of reality. It rained money in Turkey up until 2013 due to global conditions. And up until 2019, Erdogan continued to distribute wealth from domestic accumulation.

Since then, he has shown no acceptance of the cold reality that the sultan is [overthrown](#) when his money runs out. Even the Ottoman reign of Suleiman the Magnificent came to an end.

### **‘Erdogan will be smashed between Washington and Moscow’**

The perennial story suggesting that Erdogan will be smashed between Washington and Moscow was a favourite when Vladimir Putin first attacked Ukraine in February last year. Not long after, it was displaced by ‘Putin will help Erdogan win the elections’.

Stories on ‘Turkey is becoming a proxy of Russia/China’ have been missing lately. ‘The West keeps silent on Erdogan’s misdeeds due to the Ukraine war’ has recently become popular.

Let’s remember an important piece of advice: Those who take the EU seriously are incurable. Leave them to themselves.

### **Never forget**

“Scientists are [sounding](#) the alarm over how much damage could be inflicted by a big earthquake that strikes Istanbul, a city of 15mn full of unregulated construction and old building stock.”

### **Black swan?**

What black swan? In 2023, nothing will be a surprise in Turkey.

### **Longer term**

Turkey never solves its problems and steadily becomes more and more gangrenous. Indicators on Turkey’s overall turmoil exceed those of the historic financial tumult suffered in 2001.

The indicators are now comparable with what was seen at the end of the 1970s, when a-several-years-long great depression in Turkey ended with the military coup in 1980 that led to a junta ruling for three years.

Across the post-World War II era, Turkey’s economic and political cycles have gone through good decade, bad decade, good decade, and so on. Across a decade there is an inflow of dollars. The Turks object that the country is developing too far, too quickly. Then, across the next decade, the dollars disappear and Turkey returns to a point behind where it began (for instance, Turkey more or less had food security in 2002, but it has been lost since a period of so-called rapid development). And, it repeats.

Since 2013, Turkey has been enduring a bad decade. The next one will

be a good one if normal conditions apply.

Ekrem Imamoglu could be a good candidate for implementing an IMF programme. He is flexible and populist. Deva Party chair Ali Babacan, a former employee of Erdogan who was among those who implemented the 2001 IMF programme, anticipates a place at the top table for himself.

However, an interim government would be required to sign an IMF deal and do the dirty work (some laws and so forth that will hit masses of people and create discontent among the everyday toilers). This would mean some shake-ups among the coalition partners and then a powerful government that would implement the IMF programme will form.

For an interim regime, Kilicdaroglu would be the candidate to become president and lead the planned shift back to the parliamentary system, dispensing with Erdogan's presidential system. Neo-cons, meanwhile, have been encouraging Erdogan's defence minister Hulusi Akar to plot a coup.

## 3.0 Macro Economy

| Main Macro Indicators                  | 2019  | 2020  | Q1-21 | Q2    | Q3                   | Q4                   | 2021                  | Q1-22 | Q2    | Q3     | Q4   | 2022 |
|--|-------|-------|-------|-------|----------------------|----------------------|-----------------------|-------|-------|--------|------|------|
| GDP Growth (y/y, %)                    | 0.9   | 1.8   | 7.3   | 21.9  | 7.5                  | 9.1                  | 11.0                  | 7.3   | 7.6   | 3.9    | -    | -    |
| Electricity Consumption (y/y)          | -0.6  | 0.1   | 5.7   | 25.8  | 11.6                 | 8.9                  | <a href="#">12.4</a>  | 4.6   | 1.2   | -3.1   | -5.6 | -0.9 |
| Employed (active, mn)                  | 26.7  | 24.1  | 25.8  | 26.6  | <a href="#">27.1</a> | <a href="#">28.6</a> | 27.0                  | 27.9  | 29.7  | 28.5   | -    | -    |
| <a href="#">Population (mn)</a>        | 83.2  | 83.6  | -     | -     | -                    | -                    | <a href="#">84.7</a>  | -     | -     | -      | -    | -    |
| GDP (per capita, \$)                   | 9,127 | 8,599 | -     | -     | -                    | -                    | 9,539                 | -     | -     | -      | -    | -    |
| GDP (current, TRYbn)                   | 4,318 | 5,047 | 1,393 | 1,586 | 1,915                | 2,314                | 7,209                 | 2,496 | 3,419 | 4,258  | -    | -    |
| GDP (current prices, \$bn)             | 760   | 717   | 189   | 189   | 225                  | 199                  | 803                   | 180   | 219   | 242    | -    | -    |
| Inflation (y/y, %, eop)                | 11.8  | 14.6  | 16.2  | 17.5  | 19.6                 | 36.1                 | 36.1                  | 61.1  | 78.6  | 83.5   | 64.3 | 64.3 |
| Lira-loans (% y/y, Dec 23)             | 13.9  | 43.3  | 34.4  | 17.5  | 13.7                 | 20.4                 | 20.4                  | 33.2  | 55.7  | 68.6   | 78.0 | -    |
| Policy Rate (% active, eop)            | 11.4  | 17.0  | 19.0  | 19.0  | 18.0                 | 14.0                 | 14.0                  | 14.0  | 14.0  | 12.0   | 9.0  | 9.0  |
| <a href="#">CA Balance (\$bn, Oct)</a> | 1.67  | -35.5 | -7.5  | -5.9  | 2.2                  | -3.7                 | <a href="#">-14.9</a> | -19.2 | -13.3 | -9.3   | -0.4 | -    |
| CA Balance/GDP (%)                     | 0.2   | -5.0  | -4.0  | -3.1  | 1.0                  | -1.8                 | -1.9                  | -10.7 | -6.1  | -3.8   | -    | -    |
| <a href="#">Budget (TRYbn, Nov)</a>    | -124  | -173  | 23    | -55   | -29                  | -131                 | <a href="#">-192</a>  | 30.8  | 62.8  | -139.1 | 25.1 | -    |
| Budget Balance/GDP (%)                 | -2.9  | -3.4  | 1.6   | -3.5  | -1.5                 | -5.7                 | -2.7                  | 1.2   | 1.8   | -3.3   | -    | -    |
| USD/TRY (eop)                          | 5.95  | 7.44  | 8.24  | 8.70  | 8.89                 | 13.3                 | 13.3                  | 14.7  | 16.7  | 18.5   | 18.7 | 18.7 |

**WARNING: It is not advisable to plan, price or make inferences based on Turkish Statistical Institute (TUIK) data.**

Macro data is like religion. The less you know, the more you believe. However, despite all weaknesses in such data, when identical data methodologies are incorruptly applied across each term, an opinion can be formed as to the direction. In Turkey, there is no such application.

### 3.1 GDP growth

Turkey's gross domestic product (GDP) grew by 3.9% y/y in Q3, the Turkish Statistical Institute (TUIK or TurkStat) [said](#) on November 30.

TUIK also said that there was a 0.1% q/q contraction on a seasonally and calendar-adjusted basis for the quarter. This figure could be updated with the Q4 release. If not, pundits will argue that Turkey entered into a technical recession in Q4.

Nevertheless, 5-6% of annual growth is expected for 2022. For 2023, a minimum 5% will again be released, provided Erdogan remains on the throne.

If he does not, how the transition from the current data series to more logical figures would be executed will be an unknown.

Turkey has so far led the global inflationary period. Now, it is leading the stagflation/slumpflation period.



“Erdogan chooses growth” is a fallacy. There is no growth in Turkey.

## 3.2 External environment

Tightening via both monetary and fiscal policies marked out 2022. How long this approach can possibly last is under observation. The finance industry has already stepped forward with media campaigns for reversing the tightening.

The anticipated November 2022 shake-up of global markets, prior to the start of the new year rally, did not take place. As a result, the new year rally could lack verve this year.

Under normal conditions, the new year rally continues up to February. Then a reverse comes, followed by a recovery.

May is the month that usually runs according to the principle of “Sell in May, go holiday.” Following a recovery, the summer liquidity dry-up then creates a shake-up in August. It is followed by a recovery that takes place by November.

### Federal Reserve (Fed)

The Federal Reserve ([Fed](#)) launched the global tightening cycle in March. As a result, the upper limit of its federal funds target [rate](#) (main policy rate) rose to 4.50% in December from 0.25%.

The US state central bank governors currently [expect](#) the rate to reach 5.25% in 2023, up from 4.75% in [September](#) and 4% in June.

As things stand, the market [expects](#) a 25bp increase at the next open market committee meeting to be held on February 1.

[CPI inflation in](#) the US saw 9.1% in June and gradually declined to 7.1% in November. As of December 29, the average gasoline [price](#) in the US was down 4% y/y to \$3.16 per gallon (Record: \$5.02 on June 14).

Since mid-November, when the October inflation data was released, showing a few basis points better than expected, the mood in financial markets has suggested that the tightening has ended.

It should be noted that we are going through a bear market that will last until rate cuts are seen on the horizon. The prices of financial papers and assets (equities, bonds, real estate, commodities and so on) are caught in a declining trend despite some recovery bounces, while the USD index and interest rates are pulled by a rising trend.

It is obvious that a few basis points better-than-expected in the inflation readings do not mean anything when it comes to shelving the inflation problem. However, volatility is a must in financial markets. Prices

cannot simply continuously rise or decline. Some turnarounds one way or the other are a must.

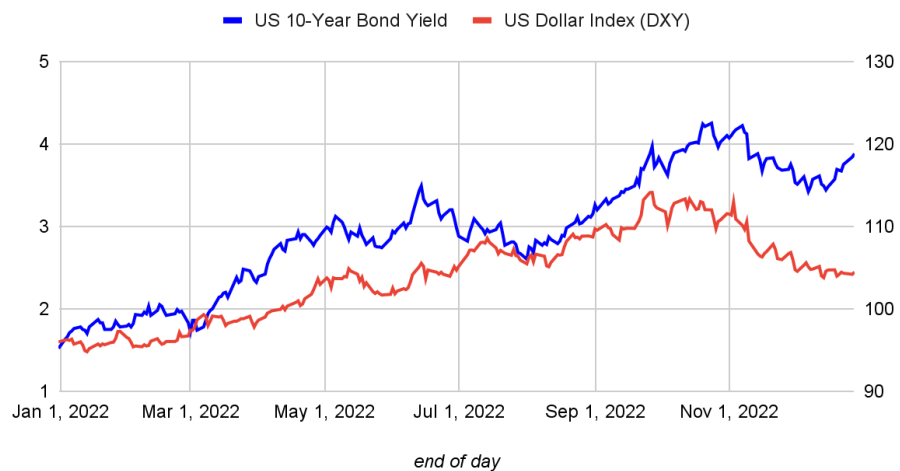
The Fed's balance [sheet](#) has ceased breaking records. However, a sharp contraction is not visible. There are still too many dollars around.

A record \$8.97 trillion was registered as of April 12. As of December 20, the balance stood at \$8.56 trillion.

The Reverse Repo ([RRP](#)) account (money supply that is parked back at the Fed by banks) stood at \$2.29 trillion as of December 28. A record \$2.43 trillion was registered on September 30.

The Treasury General Account ([TGA](#)) (money supply that is parked back at the Fed by the government) stood at \$460bn as of December 21.

### US 10-Year Bond Yield vs US Dollar Index (DXY)



The yield on 10-year US Treasury [papers](#) tested the 4.0% in October while the USD index ([DXY](#)) tested the 115s in September.

Thirty-year [mortgage rates](#) in the US tested the 7% in November.

The US yield [curve](#), meanwhile, remains inverted. The US switched to positive [GDP](#) growth of 2.6% y/y in Q3.

On November 8, the midterm [elections](#) in the US were held. The Democrats were expected to lose their majority in Congress.

However, the Republicans did not deliver; they failed to win over enough of the electorate.

Currently, the Democrats have 51 seats in the 100-seat [Senate](#) versus 49 seats held by the Republicans (though one Democrat is set on sitting as an independent). The Democrats also have the casting vote of vice president Kamala Harris, who also heads the Senate.

Such a tiny majority, as shown during the previous Senate term, is not

comfortable for the Biden administration.

In the 435-seat House of [Representatives](#), the Republicans secured a majority with 222 seats. The Democrats are on 213 seats.

Leading up to the mid-term polls, the expectations were that the US was starting to face the prospect of having a more powerful populist president (not Trump, but a Trump Mark II) in 2024.

However, in the theatre of representative democracy, the polarised masses were given the choice of two rotten options. Those wanting to keep the populist Republicans out (and it turned out that more of these voters were prepared to make the effort to vote than was expected) would have voted for a paper bag if it served the purpose.

As things stand, it is not possible to be certain what the outcome of the November 2024 presidential election will be.

In any case, amid multiple interlocking crises, social tensions and wars across much of the globe are ahead.

The Fed is, meanwhile, in a position to reverse its tightening cycle at some point in 2023 to produce a more comfortable economy before the presidential elections.

### **European Central Bank (ECB)**

The European [Central Bank](#) (ECB) was late to respond to booming inflation as it awaited the end of elections in France.

Since July, the authority has taken its deposit facility rate from minus 0.50% to 2%. More rate hikes will definitely be delivered in the first half of 2023.

As the ECB was late, the EUR/[USD](#) saw the 0.95s in September. In December, the pair hovered around 1.05.

The EUR recovery is mainly due to strong messages from ECB officials on upcoming rate hikes. Recent USD weakness is also supporting the EUR recovery.

The [spread](#) between the Italy 10-year and Germany 10-year papers remains above the 200bp-level. The ECB is in a position to avoid another crisis with the usual suspects.

Inflation in the Euro Area ended a 12-month long record-breaking series in November as it was released at 10.1%, down from a record high of 10.7% y/y in October.

Producer price [inflation](#), meanwhile, declined from 42% in September to 31% in October. (Record: 43.4% y/y in August.)

### **Commodities**

The FAO food price index [declined](#) for the eighth consecutive month

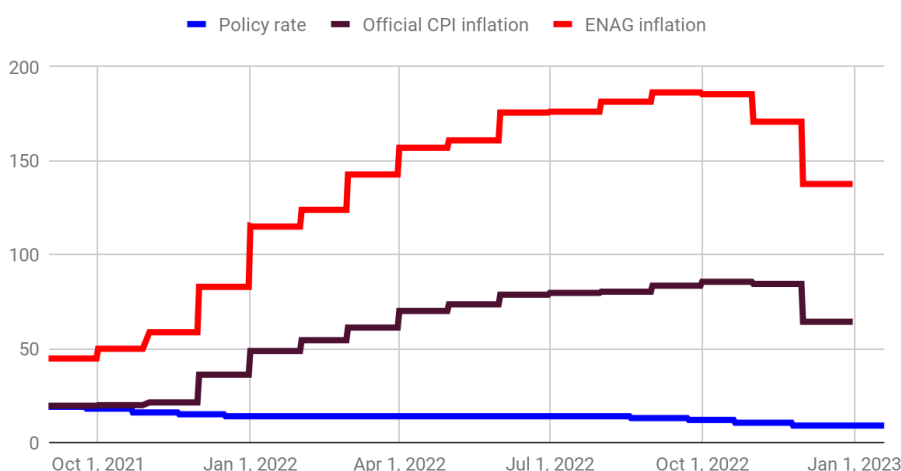
from 135.9 points in October to 135.7 in November, up 0.3% y/y (Record high: 159.7 in March).

As of December 29, [Brent](#) was up 6% y/y to \$83 (it tested the \$140-level in March) while the Dutch TTF 1-month [Natural Gas Futures](#) contract was down by 21% y/y to €84/MWh (\$951 per 1,000 m3) (it tested \$4,000 in March).

The Bloomberg [Commodity Index \(BCOM\)](#) was higher by 13% y/y at 112. The USD/Turkish lira ([TRY](#)) pair was up 59% y/y to 18.7.

### 3.3 Inflation and monetary policy

Turkish Central Bank Policy Rate vs Inflation



Turkey's official consumer price index ([CPI](#)) inflation ended 2022 at 64% y/y, the Turkish Statistical Institute ([TUIK](#), or TurkStat) [said](#) on December 3.

The official rate peaked in October at 86%, the highest headline rate [recorded](#) by Turkey since the 91% posted in June 1998.

With the advent of December, the base effect from a year ago came into effect, pulling inflation down.

At 64%, Turkey remains in seventh place in the world inflation [league](#).

The Istanbul-based [ENAG](#) inflation research group, meanwhile, released an end-2022 inflation figure of 138% y/y.

TUIK also [gave](#) an official figure of 98% y/y for producer price index ([PPI](#)) inflation at end-2022.

On October 27, the central bank [hiked](#) its expectation for end-2022 official inflation to 65% (upper boundary: 68%) from the previous figure of 60% (upper boundary: 64%) [given](#) in the July inflation report.

The authority forecast end-2023 official inflation at 22% (upper boundary: 27%).

The guidance was based on the assumption that the Turkish lira (TRY) will not experience another crash. As of December 30, the USD/[TRY](#) was up 0.6% to 18.72 from 18.6 on October 27.

**If the USD/TRY remains stable, Turkey's official inflation figures will decline to the 30-40% across 2023.**

On January 26, a new quarterly [inflation report](#) and updated inflation forecasts will be released.

[On November 24](#), the central bank's monetary policy committee (MPC) cut its policy rate by another 150 bp to 9%.

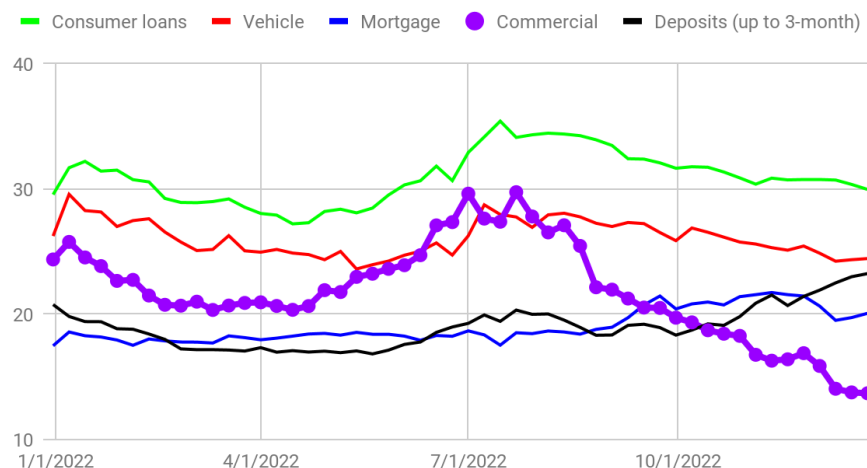
The policy rate was now adequate and **the rate-cutting cycle that started in August, bringing 500 bp of cuts in all, was at an end**, the authority also said.

On December 22, the authority kept its policy rate constant at 9%.

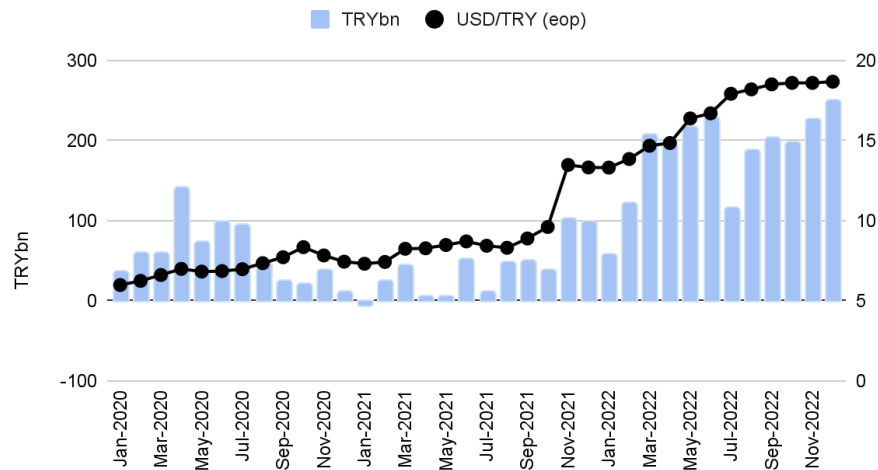
The MPC holds rate-setting [meetings](#) each month between the 14th and 26th days of the month.

Turkey's policy rate essentially remains idle on the sidelines. The government conducts its monetary policy via macroprudential [measures](#) and [non-capital controls](#). It does not need to cut the policy rate further. President Erdogan demanded a single digit policy rate and, at 9%, he got what he wanted.

Turkish Banking Industry: Weighted Average Lira Rates



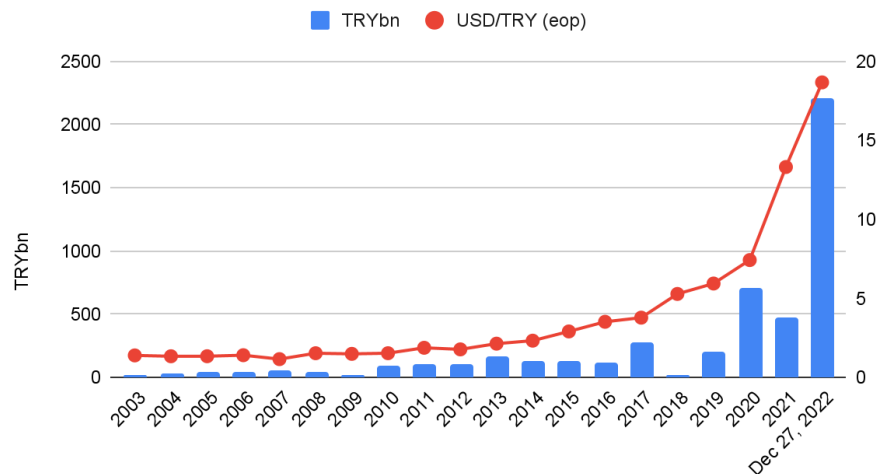
### Turkish Lira Loans Monthly Flow



In June, net lira creation via [loans](#) broke a fresh record with Turkish lira (TRY) 229bn (\$13bn). In July, a sharp decline was seen. In September, it surpassed TRY200bn again. In October, it stood at just below the TRY200bn-level. In October, the figure tested the record level with TRY 228bn, while a fresh record was on the way in December.

As of December 27, net lira creation via loans extended its record on an annual basis to TRY 2.2 trillion . The previous all-time high stood at TRY711bn. That figure was recorded in 2020.

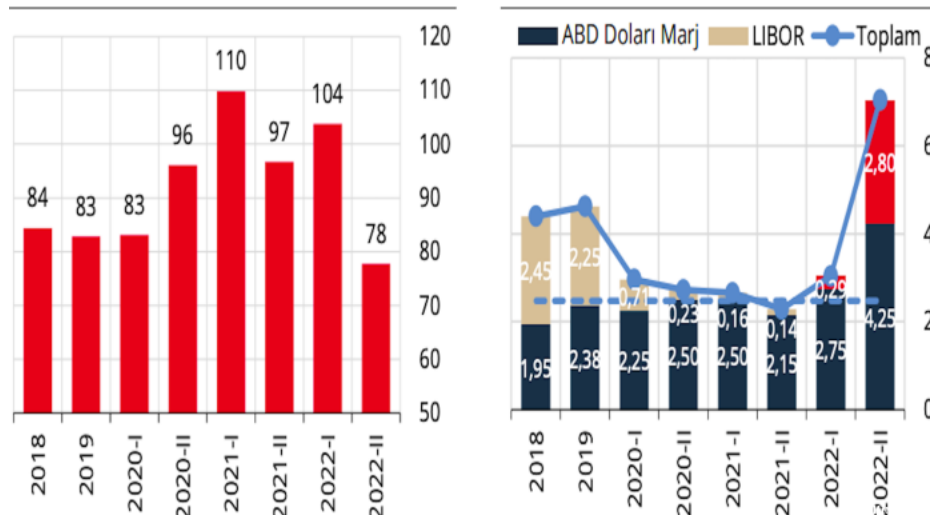
### Turkish Banking Industry: Lira Loans Annual Flow



During the beginning of 2023, ahead of the elections, new loan growth waves will be set in place.

## 3.4 Debt

Let's remember the pat phrase: "External financing needs for 202[3] remain high ... it can be assumed that external debts will be rolled over in 202[3] as well."



**The 10 largest Turkish banks' combined syndicated loan rollover rate fell to 78% in H2 2022 while the cost jumped to 7%.**

Given the situation in regard to the widely doubted reliability of Turkey's official macro data releases, syndicated loan renewals are a good [indicator](#) for following developments in the sustainability of Turkey's external debt burden.

The autumn syndicated loan renewals season did not provide an encouraging signal, though a systemic default is still not seen as on the cards.

In the spring season of 2023, 11 banks are to renew a combined sum of \$7bn. And, in the autumn season, nine banks are to roll over a combined sum of \$4bn.

The share of syndicated loans in Turkey's and Turkish banks' external funding composition has declined in recent years. Turkey rolls over a combined sum of around \$150-200bn each year.

Prior to each syndicated loan refinancing season, it is a tradition for the finance industry to froth over whether Turkish banks will be able to renew their loans. Critics say it's a ruse in the pursuit of securing higher returns.

At the end of the day, let's remember: "If you owe the bank \$100, that's your problem. If you owe the bank \$100mn, that's the bank's problem."

Dealing with a Turkey default would be the finance industry's problem. Turkey knows that pretty well.

Turkish banks conduct 367-day—a 'trick' maturity for registering loans as long-term by using two extra days—syndicated loan renewal seasons twice a year, with one season in spring (April-July) and the other in the autumn (October-November).



Across recent years, Akbank ([AKBNK](#)) has set the Turkey [benchmark](#) for the interest rates each season. [In April 2022](#), government-run Ziraat [Bank](#) launched the spring season.

Turkish banks release identical costs in syndicated loan renewals while some of the lenders, particularly smaller ones, pay higher fees.

In the autumn refinancing season of 2022, nine Turkish banks renewed an exchange rate-adjusted combined sum of \$5.6bn, obtaining \$4.3bn worth of fresh loans. The rollover rate stood at 77%.

The private banks' renewal rates were very low in the 60-70%s, while the spreads were at record high levels. QNB Finansbank ([QNBFB](#)), a [unit](#) of Qatar National Bank ([QNB](#)), registered the highest rollover rate. Government-run banks registered 90-100% rates.

In August 2022, rumours in Turkey suggested that local banks did not want to roll over their FX debt at the prevailing high costs while the government was pressuring them to at least secure an 80% renewal rate.

The all-in costs were in line with the [benchmarks set](#) by Akbank ([AKBNK](#)), the big-[cap](#) unit of Turkish conglomerate Sabanci Holding ([SAHOL](#)), namely the guaranteed overnight financing [rate](#) ([SOFR](#)) plus 425bp for the USD tranche and the euro interbank offered [rate](#) ([Euribor](#)) plus 400bp for the EUR tranche (see full list below).

In the autumn season of 2021, the costs were in line with Akbank's [benchmarks](#) at Libor+2.15% and Euribor+1.75%.

In the spring season of 2022, 11 banks renewed \$8bn worth of loans at a combined renewal rate of 92% with borrowing at \$7bn in total. The [costs](#) of the USD-tranches stood at the guaranteed overnight financing rate (SOFR) plus 275bp. The costs of the EUR-tranche were Euribor+210bp. In spring 2021, the costs stood at Libor + 2.50% and Euribor + 2.25%.

Benchmarks are achingly high at the moment as SOFR has surpassed the 4%-level, compared to the 0.05% seen in October 2021, while 12-month [Euribor](#) has surpassed the 3%-level, compared to the minus 0.5% recorded in October 2021.

In June 2023, SOFR is to replace the current USD-benchmark London Interbank Offered Rate ([Libor](#)). One-[year](#) Libor currently stands at over 5%.

Recently, all the benchmarks have been on the rise in parallel with the global monetary tightening trend.

|        |  | Total   | Renewal | Maturity                | Tranche | Cost       | Tranche | Cost               |
|--------|--|---------|---------|-------------------------|---------|------------|---------|--------------------|
|        |  | (mn)    | Rate    | (days)                  | 1       | 1          | 2       | 2                  |
| Nov-22 | <a href="#">Garanti BBVA (GARAN)</a>     | \$401   | 65%     | 367-day                 | \$155   | SOFR+4.25% | €239    | Euribor+4.00%      |
| Nov-22 | <a href="#">QNB Finansbank (QNBFB)</a>   | \$545   | 104%    | 367-day                 | \$185   | SOFR+4.25% | €253    | Euribor+4.00%      |
| Nov-22 | <a href="#">Vakifbank (VAKBN)</a>        | \$560   | 91%     | 367-day                 | \$223   | SOFR+4.25% | €328    | Euribor+4.00%      |
| Nov-22 | <a href="#">Isbank (ISCTR)</a>           | \$535   | 69%     | 367-day                 | \$191   | SOFR+4.25% | €331    | Euribor+4.00%      |
| Nov-22 | <a href="#">Turk Eximbank</a>            | \$588   | 101%    | 1-year                  | €404    |            | €136    | Chinese yuan 350mn |
| Nov-22 | <a href="#">Denizbank</a>                | \$606   | 78%     | 367-day                 | \$277   | SOFR+4.25% | €330    | Euribor+4.00%      |
| Nov-22 | <a href="#">Yapi Kredi Bank (YKBANK)</a> | \$458   | 61%     | 367-day                 | \$210   | SOFR+4.25% | €249    | Euribor+4.00%      |
| Oct-22 | <a href="#">TEB</a>                      | \$262   | 77%     | 367-day                 | \$64    | SOFR+4.25% | €200    | Euribor+4.00%      |
| Oct-22 | <a href="#">Akbank (AKBNK)</a>           | \$403   | 60%     | 367-day                 | \$225   | SOFR+4.25% | €178    | Euribor+4.00%      |
| Jul-22 | <a href="#">TSKB (TSKB)</a>              | \$109   | 63%     | 367-day                 | \$18    |            | €90     |                    |
| Jun-22 | <a href="#">ING Turkey</a>               | €300    | 100%    | 367-day                 |         | SOFR+2.75% |         | Euribor+2.10%      |
| Jun-22 | <a href="#">Isbank (ISCTR)</a>           | \$774   | 88%     | <a href="#">367-day</a> | \$257   | SOFR+2.75% | €483    | Euribor+2.10%      |
| Jun-22 | <a href="#">Denizbank</a>                | \$453   | 120%    | 367-day                 | \$196   | €204       | 364-day | Chinese yuan 255mn |
| May-22 | <a href="#">Garanti BBVA (GARAN)</a>     | \$594   | 100%    | 367-day                 | \$284   | SOFR+2.75% | €291    | Euribor+2.10%      |
| May-22 | <a href="#">Yapi Kredi (YKBANK)</a>      | \$811   | 91%     | 367-day                 | \$350   | SOFR+2.75% | €432    | Euribor+2.10%      |
| May-22 | <a href="#">Turk Eximbank</a>            | \$745   | 104%    | 1-year                  | \$206   |            | €504    |                    |
| May-22 | <a href="#">QNB Finansbank (QNBFB)</a>   | \$364   | 118%    | 367-day                 | \$137   | SOFR+2.75% | €212    | Euribor+2.10%      |
| May-22 | <a href="#">Vakifbank (VAKBN)</a>        | \$983   | 101%    | 367-day                 | \$200   | SOFR+2.75% | €739    | Euribor+2.10%      |
| Apr-22 | <a href="#">Akbank (AKBNK)</a>           | \$701   | 108%    | 367-day                 | \$343   | SOFR+2.75% | €329    | Euribor+2.10%      |
| Apr-22 | <a href="#">Ziraat Bank</a>              | \$1,240 | 100%    | 367-day                 | \$353   | SOFR+2.75% | €814    | Euribor+2.10%      |

Fitch [Ratings rates](#) Turkey at B/Negative, five notches [below](#) investment grade. Moody's Rating Services rates Turkey at B3/Stable, six notches below investment grade, while Standard & Poor's has Turkey at B/Stable, five notches below investment grade.

As usual, the rating agencies see Turkish banks as at one notch below the sovereign rating.

More downgrades are on the way.

| TURKEY  | Jul-19         | Nov-19  | Aug-20  | Sep-20        | Feb-21  | Dec-21  | Feb-22        | Jul-22       | Aug-22        | Sep-22       |
|---------|----------------|---------|---------|---------------|---------|---------|---------------|--------------|---------------|--------------|
| Moody's | B1 (N)         | B1 (N)  | B1 (N)  | <b>B2</b> (N) | B2 (N)  | B2 (N)  | B2 (N)        | B2 (N)       | <b>B3</b> (S) | B3 (S)       |
| Fitch   | <b>BB-</b> (N) | BB- (S) | BB- (N) | BB- (N)       | BB- (S) | BB- (N) | <b>B+</b> (N) | <b>B</b> (N) | B (N)         | B (N)        |
| S&P     | B+ (S)         | B+ (S)  | B+ (S)  | B+ (S)        | B+ (S)  | B+ (N)  | B+ (N)        | B+ (N)       | B+ (N)        | <b>B</b> (S) |

|                                | Moody's |          |                        | S&P  |          |                  | Fitch |          |          |
|--------------------------------|---------|----------|------------------------|------|----------|------------------|-------|----------|----------|
| Seven notches above investment | Aa3     | Positive |                        | AA-  | Positive |                  | AA-   | Positive |          |
|                                |         | Stable   |                        |      | Stable   | Slovenia         |       | Stable   |          |
|                                |         | Negative |                        |      | Negative |                  |       | Negative |          |
| Six notches above investment   | A1      | Positive |                        | A+   | Positive |                  | A+    | Positive |          |
|                                |         | Stable   |                        |      | Stable   |                  |       | Stable   |          |
|                                |         | Negative |                        |      | Negative |                  |       | Negative |          |
| Five notches above investment  | A2      | Positive |                        | A    | Positive |                  | A     | Positive |          |
|                                |         | Stable   |                        |      | Stable   |                  |       | Stable   | Slovenia |
|                                |         | Negative |                        |      | Negative |                  |       | Negative |          |
| Four notches above investment  | A3      | Positive |                        | A-   | Positive |                  | A-    | Positive |          |
|                                |         | Stable   | Slovenia               |      | Stable   |                  |       | Stable   |          |
|                                |         | Negative |                        |      | Negative |                  |       | Negative |          |
| Three notches above investment | Baa1    | Positive |                        | BBB+ | Positive |                  | BBB+  | Positive |          |
|                                |         | Stable   | Hyundai Assan, Croatia |      | Stable   |                  |       | Stable   | Croatia  |
|                                |         | Negative |                        |      | Negative |                  |       | Negative |          |
| Two notches above investment   | Baa2    | Positive |                        | BBB  | Positive |                  | BBB   | Positive |          |
|                                |         | Stable   |                        |      | Stable   |                  |       | Stable   |          |
|                                |         | Negative |                        |      | Negative |                  |       | Negative |          |
| Lowest investment grade        | Baa3    | Positive |                        | BBB- | Positive |                  | BBB-  | Positive | CCOLA    |
|                                |         | Stable   | Romania                |      | Stable   | Romania, Croatia |       | Stable   |          |
|                                |         | Negative |                        |      | Negative | AEFES, CCOLA     |       | Negative | Romania  |

|                                |     |          |                                     |     |          |                 |     |          |  |
|--------------------------------|-----|----------|-------------------------------------|-----|----------|-----------------|-----|----------|--|
| One notch below investment     | Ba1 | Positive |                                     | BB+ | Positive |                 | BB+ | Positive |  |
|                                |     | Stable   |                                     |     | Stable   |                 |     | Stable   |  |
|                                |     | Negative |                                     |     | Negative | Arcelik (ARCLK) |     | Negative | AEFES  |
| Two notches below investment   | Ba2 | Positive |                                     | BB  | Positive |                 | BB  | Positive |  |
|                                |     | Stable   | Georgia                             |     | Stable   |                 |     | Stable   | Georgia  |
|                                |     | Negative |                                     |     | Negative | Georgia         |     | Negative |  |
| Three notches below investment | Ba3 | Positive |                                     | BB- | Positive |                 | BB- | Positive |  |
|                                |     | Stable   |                                     |     | Stable   | Uzbekistan      |     | Stable   | Uzbekistan   |
|                                |     | Negative |                                     |     | Negative |                 |     | Negative | ARCLK  |
| Four notches below investment  | B1  | Positive | Uzbekistan                          | B+  | Positive |                 | B+  | Positive |  |
|                                |     | Stable   |                                     |     | Stable   | ULKER           |     | Stable   |  |
|                                |     | Negative |                                     |     | Negative |                 |     | Negative | PGSUS  |
| Five notches below investment  | B2  | Positive |                                     | B   | Positive |                 | B   | Positive |  |
|                                |     | Stable   |                                     |     | Stable   | Turkey, Aydem   |     | Stable   |  |
|                                |     | Negative | EXIMB, VAKBN, Istanbul Municipality |     | Negative | ISCTR           |     | Negative | ULKER, Turkey, Mersin Port, Limak Port, Istanbul Municipality, SISE, TTKOM, TCELL, AYDEM |

|                                       |      |          |                      |      |          |                       |     |          |  |
|---------------------------------------|------|----------|----------------------|------|----------|-----------------------|-----|----------|--|
| Six<br>notches<br>below<br>investment | B3   | Positive |                      | B-   | Positive |                       | B-  | Positive |  |
|                                       |      | Stable   | Turkey, <b>AKBNK</b> |      | Stable   |                       |     | Stable   | Zorlu  |
|                                       |      | Negative | ISCTR, TSKB          |      | Negative | <b>Ukraine, ALBRK</b> |     | Negative | <b>AKBNK, VAKBN, GARAN, ISCTR, YKBNK, EXIMB, QNBFB, TSKB, ALBRK, Kuveyt Turk</b> |
| Almost<br>default                     | Caa1 |          | <b>Ronesans REIT</b> | CCC+ |          |                       | CCC |          | <b>Ukraine</b>   |
|                                       | Caa2 |          | <b>Ukraine</b>       | CCC  |          |                       |     |          |  |
|                                       | Caa3 |          |                      | CCC- |          |                       |     |          |  |

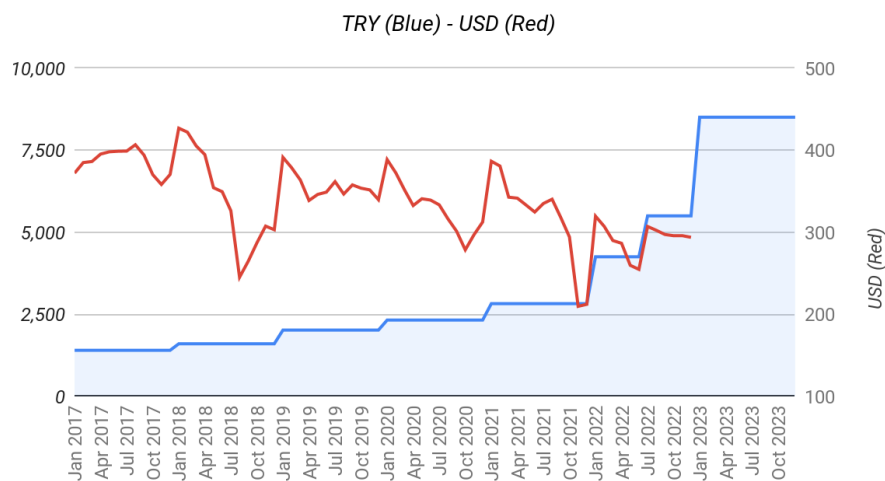
## 4.0 Real Economy

### 4.1 Retail

#### Deepening hunger

In Turkey, it is particularly child hunger that is building up as a huge problem for the upcoming decades. Children are [dying](#) due to a lack of sufficient nutrition.

Net Minimum Wage in Turkey



The hunger threshold, representing the required minimum monthly food expenditure for a four-person family, in Turkey stood at TRY 8,131 (\$434), up 98% y/y, in December, a monthly survey by the yellow labour union Turk-Is [showed](#) on December 30.

The poverty threshold for a four-person household, meanwhile, stood at TRY 26,484 per month as of December, up 98% y/y.

The minimum cost of living for a single person was TRY 10,613.

Effective as of January, the minimum wage will be [hiked](#) by 55% to TRY 8,506.8 (\$456). A range of between TRY 8,000 and TRY 12,000 was under discussion.

Effective as of July, Turkey's government hiked the country's monthly net minimum wage by 30% to TRY5,500 (\$295). In January 2022, the government hiked the net minimum wage by 50% to TRY4,250.

Around half of Turkey's labour force earns the minimum wage.

Due to the hyperinflationary environment, the wage hikes had to be delivered twice in 2022. Another hike for the second half of 2023 is already expected.

Turkey is in a price-wage [spiral](#) although wage hikes remain below both the official and actual inflation figures.

Turkey's inflation is always cost-side, generally due to currency depreciation. Wage increases follow price increases.

| Turkey: Consumption indicators                       |                      |            |            |            |       |       |       |       |       |
|--|----------------------|------------|------------|------------|-------|-------|-------|-------|-------|
| % , y/y  | 2021                 | Q1         | Q2         | Q3         | Oct   | Nov   | Dec   | Q4    | 2022  |
| <b>Official GDP Growth (real, y/y)</b>               | <b>11.0</b>          | <b>7.3</b> | <b>7.6</b> | <b>3.9</b> | -     | -     | -     | -     | -     |
| Electricity Consumption (watt, y/y)                  | <a href="#">12.4</a> | 4.6        | 1.2        | -3.1       | -3.7  | -6.4  | -6.6  | -5.6  | -0.9  |
| Private Consumption (≈ 60% of GDP)                   | 15.1                 | 19.5       | 22.5       | 19.9       | -     | -     | -     | -     | -     |
| <a href="#">Retail Sales Index (unadjusted, y/y)</a> | 16.1                 | 5.7        | 13.6       | 7.7        | 9.8   | -     | -     | -     | -     |
| Card payments (nominal lira, y/y)                    | 62.4                 | 69.5       | 122.9      | 123.3      | 81.0  | 121.1 | -     | -     | -     |
| <a href="#">ENAG Inflation (y/y, %)</a>              | 82.8                 | 142.6      | 175.6      | 186.3      | 185.3 | 170.7 | 137.6 | 137.6 | 137.6 |
| <a href="#">Gasoline sales (m3, y/y)</a>             | 30.8                 | 28.1       | 23.9       | -0.7       | 1.6   | -4.9  | -     | -     | -     |
| Diesel fuel sales (m3, y/y)                          | 10.8                 | 4.1        | -4.0       | -5.7       | -5.3  | -5.9  | -     | -     | -     |
| Autogas (LPG) sales (tonne, y/y)                     | 7.3                  | 1.0        | 4.7        | -7.1       | 8.0   | 19.7  | -     | -     | -     |
| <a href="#">Vehicle Sales (unit, y/y)</a>            | <a href="#">-4.6</a> | -23.5      | 5.0        | -0.5       | 14.9  | 36.7  | -     | -     | -     |
| <a href="#">Home Sales (unit, y/y)</a>               | <a href="#">-0.5</a> | 21.7       | 40.2       | -16.5      | -25.3 | -34.1 | -     | -     | -     |
| <a href="#">White goods sales (unit, y/y)</a>        | 9.2                  | -9.4       | -7.0       | 0.9        | 9.1   | 18.8  | -     | -     | -     |
| <a href="#">Air passengers (person, y/y)</a>         | 57.4                 | 67.6       | 102.1      | 22.7       | 14.5  | 18.9  | -     | -     | -     |
| <a href="#">Foreign Tourist (person, y/y)</a>        | <a href="#">94.1</a> | 151.0      | 203.7      | 55.6       | 38.4  | 44.6  | -     | -     | -     |

## 4.2 Banks

The bankers are again [weeping](#) over financial repression. They will have to hang on at least until after the elections.

The government pushed the banks to buy too many government papers. As a result, the banks are currently carrying expensive papers on their balance sheets. If policy rate hikes are carried out in the post-election period, they will write big losses.

### Cryptoisation added to goldollarisation

When the FX-protected deposit scheme (KKM) is added (as it is also linked to FX but the risk is carried by the central bank and the Treasury rather than the banks), the share of FX-linked deposits in total deposits placed with Turkish banks remains at record high levels.



As of December 9, the share of FX deposits in the Turkish banking system stood at 46.9%. When the KKM is added, it is 65.2%. Chart source: [BloombergHT](#).

## NPLs

Since 2016, many essentially bankrupt companies in Turkey have been kept afloat with cheap loans. Ongoing regulatory forbearance and the restructuring of loans hide the real picture, but the banks' balance sheets, weighed down by non-performing loans (NPLs), are in fact among Turkey's most serious headaches.

## Cough it up

Turkish banking industry: Total Equity / Total Assets



Banks only bankrupt when governments want them to bankrupt. No such demand exists in Turkey. Officials will [add](#) something to the banks' capital.



## 4.3 Industry

To reiterate: “Turkey’s export performance depends on demand conditions in the EU, not on the value of Turkish lira.”

| Turkey: Production indicators                            |                      |             |            |            |            |       |      |      |      |      |
|--|----------------------|-------------|------------|------------|------------|-------|------|------|------|------|
|  | y/y, %               | 2021        | Q1         | Q2         | Q3         | Oct   | Nov  | Dec  | Q4   | 2022 |
| <b>Official GDP Growth (y/y, %)</b>                      |                      | <b>11.0</b> | <b>7.3</b> | <b>7.6</b> | <b>3.9</b> | -     | -    | -    | -    | -    |
| Electricity Consumption (watt, y/y, %)                   | <a href="#">12.4</a> | 4.6         | 1.2        | -3.1       | -3.7       | -6.4  | -6.6 | -5.6 | -0.9 |      |
| Employed (active, mn people)                             | 27.0                 | 27.9        | 29.7       | 28.5       | -          | -     | -    | -    | -    |      |
| Industry (≈ 20% of GDP, y/y, %)                          | 16.6                 | 7.4         | 7.8        | 0.3        | -          | -     | -    | -    | -    |      |
| <a href="#">Industrial Production Index (unadjusted)</a> | 16.5                 | 10.3        | 10.7       | 2.5        | 3.0        | -     | -    | -    | -    |      |
| <a href="#">Vehicle Production (unit, y/y, %)</a>        | <a href="#">-0.3</a> | -12.6       | 16.2       | 10.1       | 6.6        | 15.2  | -    | -    | -    |      |
| <a href="#">Crude Steel Production (tonnes, y/y, %)</a>  | <a href="#">12.9</a> | -4.7        | -3.0       | -18.6      | -17.8      | -30.7 | -    | -    | -    |      |
| <a href="#">White Goods Production (unit, y/y, %)</a>    | 16.7                 | -3.5        | -7.8       | 0.1        | 2.5        | -2.5  | -    | -    | -    |      |

## 4.4 Energy and power

In 2022, energy prices in Turkey broke records in parallel with global developments. Through the end of the year, recoveries were observed on the international markets. In 2023, new price shocks are on the cards.

2022 also brought energy shortages. Turkey faced natural gas shortages. Thanks to Erdogan’s personal relations with Putin, Turkey is not expected to face serious problems in receiving gas from Russia.

## 4.5 Construction

Since 2019, Turkey’s construction sector has left the boom period behind. Despite booming real estate prices due to negative interest rates in the country, new real estate projects remain behind rollout rates of recent years.

Prior to the elections, new mortgage loan campaigns will be launched. However, it is not expected that the construction industry will enjoy what it has enjoyed in Turkey in the past.

## **5.0 Fiscal policy outlook**

### **A black hole**

If Turkey were to launch a serious process to reverse what is a decade of institutional collapse, it would require at least five years of earnest and sincere efforts to get somewhere.

Addressing the financial mess and burden created by Turkey's mass of public private partnership (PPP) projects would also take at least 10 years.

The central bank's net FX position remains at about minus \$50bn.

## **6.0 Markets outlook**

### **6.1 FX**

The USD/TRY pair moved up 35% y/y to the 18.60s in 2022, following a 79% rise in 2021.

The government is aiming to exert control over the exchange rate through to the elections. A smooth and limited devaluation is currently on the cards as the exporters are wincing again. So far, the government has rejected the calls from exporters for an even weaker lira.

Turkey's government seizes 40% of export and tourism revenues. Those companies that want to use export rediscount credits from the central bank are obliged to sell 70% of their export revenues and to sign a document declaring that they will not buy FX for the following one month.

Banks are also obliged to inform the central bank when they transfer money abroad. The central bank, meanwhile, closely follows FX transactions on the interbank money market. It limits transaction hours. The authorities also directly call companies to push them to sell some FX or cancel purchase orders.

Turkey's trade and current account balances are always in deficit and the country's external liabilities are heavy. So, intermediary goods importers face difficulties in finding FX. A tightening cycle here is still working through.

FX derived from exporters and tourism companies is burnt to contend with FX demand and keep the USD/TRY stable.

The government is, meanwhile, introducing additional capital controls to prevent companies from buying FX or importing goods with loans.

The capital controls are not proving enough. Some desperate attempts to find some fresh FX are taking place.

In May, a limited recovery in external balances was expected as gas bills were set to decline and the tourism season was to begin. However, a record \$11bn trade deficit was [reported](#) for May.

For 2022, a record trade deficit that would stand above \$100bn was on the way as a \$100bn deficit was [reported](#) for January-November.

The central bankers, meanwhile, worked harder to write bigger tourism revenues.

Nevertheless, the current account deficit ran wild again.

Financial flows stopped; as a result, they are stable. The Turks are relatively calm as the USD/TRY rate has remained more or less fixed for two months.

Debt rollovers continue undeterred, but with no fresh inflows. Net FDI remains around zero.

The unidentified flows channel plays its big role as usual. “Friendly countries,” including Russia, Qatar, the UAE and Saudi Arabia, are providing Turkey’s government with hard currencies.

## 6.2 Stocks

For investors who are not short-term professional 'hit-and-run' types, there is little attraction in attempting steady investment on the Borsa Istanbul.

The biggest “bull trap” (*keriz silkeleme* in Turkish) operations in the history of Borsa Istanbul [continue](#) apace.

## 6.3 Bonds

Turkey’s five-year credit default [swaps](#) (CDS) remain below the 600-level. The [yield](#) on the Turkish government’s 10-year [eurobonds](#) remains below the 10%-level.

Turkey generally [sells](#) eurobonds in January, aiming to take a piece of the market as new year investment plans are rolled out. Subsequent issues from Ankara usually follow in the early months of the year.

[In 2022](#), Turkish borrowers' sold \$12bn worth of [eurobonds](#) across eight tenders. The Treasury was the dominant player, raising \$11bn in five tenders. It redeemed \$8bn on four papers during the year.

(See full list of Turkish sellers' eurobond auctions in 2021 and 2022 below.)

In addition to the Treasury's auctions, Coca-Cola Icecek ([CCOLA](#)) sold \$500mn of a 7-year eurobond with a coupon rate of 4.50% and a yield of 4.75%. Icecek is a distinct case. Its ratings are higher than Turkey's sovereign ratings.

Istanbul [Municipality](#) sold \$305mn of a eurobond due 2027 at a coupon rate of 10.75%. The decision-makers at the Treasury and in the municipalities do not repay the incredible coupons in question from their own pockets. The mayor of Istanbul Municipality is trying to conduct a political campaign founded on the building of some metro lines.

The last Turkish eurobond issuer of the year [was](#) the small-[cap](#) Sekerbank ([SKBNK](#)). It [decided not](#) to call its \$85mn [subordinated](#) (Basel III-compliant Tier [II](#)) eurobond. Instead, it opted to extend the tenor.

In 2021, Turkish borrowers sold a total of \$17bn with 22 papers.

The sharp decline in 2022 is not related to the country-specific conditions of Turkey. Central banks around the world pumped in unprecedented amounts of money during the COVID-19 period. The Turkish small caps came up with debut sales. Global tightening began in 2022.

During the beginning of 2023, the tightening will be in place. When it will be reversed is under discussion.

| Major eurobond issues by Turkish issuers         |                              |                        |                              |                  |                              |                         |      |
|--|------------------------------|------------------------|------------------------------|------------------|------------------------------|-------------------------|------|
| Issuer   | ISIN                         | Coupon                 | Volume (USD mn)              | End of placement | Maturity                     | UST+                    | CDS+ |
| <a href="#">Treasury</a>                         | US900123DF4                  | 9.870%                 | 2,000                        | Dec 1, 2028      | Jan 15, 2028                 | 530                     | 459  |
| <a href="#">Treasury</a>                         | US900123DF4                  | 9.875%                 | 1,500                        | Nov 7, 2022      | Jan 15, 2028                 | 561                     | 427  |
| <a href="#">Treasury (sukuk)</a>                 | XS2523929474                 | 9.758%                 | 2,500                        | Oct 6, 2022      | Nov 13, 2025                 | MS+545.5                | 239  |
| <a href="#">Sekerbank (SKBNK) (subordinated)</a> | -                            | -                      | 85                           | May 4, 2022      | Jun 12, 2032 (2027)          | -                       | -    |
| <a href="#">Istanbul Municipality</a>            | <a href="#">XS2468421248</a> | <a href="#">10.75%</a> | <a href="#">305</a>          | Apr 5, 2022      | Apr 12, 2027                 | 819                     | 528  |
| <a href="#">Treasury</a>                         | <a href="#">USM88269US88</a> | 8.60%                  | 2,000                        | Mar 18, 2022     | Sep 24, 2027                 | 645                     | 294  |
| <a href="#">Treasury (sukuk)</a>                 | XS2441287773                 | 7.25%                  | 3,000                        | Feb 24, 2022     | Feb 24, 2027                 | MS+525                  | 208  |
| <a href="#">Coca-Cola Icecek (COLLA)</a>         | <a href="#">XS2434515313</a> | <a href="#">4.50%</a>  | 500                          | Jan 14, 2022     | Jan 20, 2029                 | 278                     | -92  |
| <a href="#">Treasury</a>                         | US900123CQ19                 | 6.125%                 | 750                          | Sep 20, 2021     | Oct 24, 2028                 | 460                     |      |
| <a href="#">Treasury</a>                         | US900123DD96                 | 6.50%                  | 1,500                        | Sep 13, 2021     | Sep 20, 2033                 | 518                     |      |
| <a href="#">Vakifbank</a>                        | <a href="#">US90015WAL72</a> | 5.50%                  | 500                          | Sep 10, 2021     | Oct 1, 2026                  | 468                     |      |
| <a href="#">Kuveyt Turk (sukuk-subordinated)</a> | <a href="#">XS2384355520</a> | <a href="#">6.125%</a> | 350                          | Sep 10, 2021     | Dec 16, 2031                 | 531                     |      |
| <a href="#">Aydem (AYDEM)</a>                    | XS2368781477                 | <a href="#">7.75%</a>  | <a href="#">750 (704)</a>    | Jul 26, 2021     | Feb 2, 2027                  | 702                     |      |
| <a href="#">Hyundai Assan</a>                    | XS2362559481                 | 1.63%                  | 300                          | Jul 6, 2021      | Jul 12, 2026                 | 82                      |      |
| <a href="#">Treasury</a>                         | <a href="#">XS2361850527</a> | 4.375%                 | EUR1,500                     | Jun 30, 2021     | Jul 8, 2027                  | MS+468                  |      |
| <a href="#">Eximbank</a>                         | XS2332876106                 | 5.75%                  | 750                          | Jun 29, 2021     | Jul 6, 2026                  | 486                     |      |
| <a href="#">Sasa (SASA) (convertible)</a>        | XS2357838601                 | 3.250%                 | <a href="#">EUR200 (103)</a> | Jun 22, 2021     | Jun 30, 2026                 | ECB+379                 |      |
| <a href="#">Anadolu Efes (AEFES)</a>             | <a href="#">XS2355105292</a> | 3.375%                 | <a href="#">500</a>          | Jun 22, 2021     | Jun 29, 2028                 | 215                     |      |
| <a href="#">Akbank (subordinated)</a>            | XS2355183091                 | 6.80%                  | 500                          | Jun 15, 2021     | Jun 22, 2031(/26)            | 529                     |      |
| <a href="#">Treasury (sukuk)</a>                 | <a href="#">XS2351109116</a> | <a href="#">5.125%</a> | 2,500                        | Jun 15, 2021     | Jun 22, 2026                 | MS+427                  |      |
| <a href="#">QNB Finansbank</a>                   | XS2354246220                 | 3.349%                 | \$50                         | Jun 14, 2021     | <a href="#">Jun 17, 2024</a> | <a href="#">EBRD</a>    |      |
| <a href="#">Zorlu Yenilenebilir</a>              | XS2346915890                 | <a href="#">9.00%</a>  | 300                          | May 26, 2021     | Jun 1, 2026                  | 820                     |      |
| <a href="#">Arcelik</a>                          | -                            | 3.00%                  | €350                         | May 20, 2021     | May 27, 2026                 | <a href="#">ECB+322</a> |      |
| <a href="#">LimakPort</a>                        | XS2339789732                 | 9.50%                  | <a href="#">370</a>          | May 11, 2021     | May 1, 2036                  | 786                     |      |
| <a href="#">Pegasus (PGSUS)</a>                  | -                            | <a href="#">9.25%</a>  | 375                          | Apr 30, 2021     | Apr 30, 2026                 | 839                     |      |
| <a href="#">Ziraat Bank</a>                      | XS2274089288                 | 5.375%                 | 600                          | Jan 26, 2021     | Mar 2, 2026                  | 496                     | 212  |
| <a href="#">Treasury</a>                         | US900123DB31                 | 4.75%                  | 1,750                        | Jan 26, 2021     | Jan 26, 2026                 | 445                     | 150  |
| <a href="#">Treasury</a>                         | US900123DC14                 | 5.875%                 | 1,750                        | Jan 26, 2021     | Jun 26, 2031                 | 486                     | 262  |
| <a href="#">Yapi Kredi Bank (subordinated)</a>   | XS2286436451                 | <a href="#">7.875%</a> | 500                          | Jan 15, 2021     | Jan 22, 2031                 | 679                     | 472  |
| <a href="#">TSKB</a>                             | XS2281369301                 | <a href="#">5.875%</a> | 350                          | Jan 8, 2021      | Jan 14, 2026                 | 539                     | 281  |

In 2023, Turkish eurobond sellers are supposed to roll over a combined sum of \$11bn. (See full list below.)

| Upcoming eurobond redemptions by major Turkish issuers |                              |        |             |              |              |
|--|------------------------------|--------|-------------|--------------|--------------|
| Issuer   | ISIN                         | Coupon | Volume (mn) | Issuance     | Maturity     |
| Fibabanka  | XS1711581337                 | 6.00%  | \$300       |              | Jan 25, 2023 |
| Petkim   | XS1747548532                 | 5.875% | \$500       |              | Jan 25, 2023 |
| Vakifbank  | <a href="#">XS1760780731</a> | 5.75%  | \$650       |              | Jan 30, 2023 |
| Koc Holding  | XS1379145656                 | 5.25%  | \$750       | Mar, 2016    | Mar 15, 2023 |
| Garanti BBVA   | XS1576037284                 | 5.875% | \$500       |              | Mar 16, 2023 |
| Yapi Kredi Bank  | <a href="#">XS1788516679</a> | 6.10%  | \$500       | Mar, 2018    | Mar 16, 2023 |
| Treasury   | US900123CA66                 | 3.25%  | \$1,500     | Jan 8, 2013  | Mar 23, 2023 |
| Arcelik  | <a href="#">XS0910932788</a> | 5.00%  | \$500       | Apr 3, 2013  | Apr 3, 2023  |
| Treasury (sukuk)                                       | XS1586385178                 | 5.004% | \$1,250     | Mar 30, 2017 | Apr 6, 2023  |
| Treasury   | XS1057340009                 | 4.125% | €1,000      | Apr 8, 2014  | Apr 11, 2023 |
| Ronesans REIT  | XS1807502668                 | 7.25%  | \$300       |              | Apr 26, 2023 |
| <a href="#">Ziraat Bank</a>                            | XS1691349010                 | 5.125% | \$500       |              | Sep 29, 2023 |
| Eximbank   | XS1496463297                 | 5.375% | \$500       | Oct 24, 2016 | Oct 24, 2023 |
| Isbank   | XS1003016018                 | 7.85%  | \$400       |              | Dec 10, 2023 |
| Treasury   | US900123CR91                 | 7.25%  | \$2,000     |              | Dec 23, 2023 |

The market norm for Turkish banks has generally been to call Tier 2 debt after five years.

However, [in May 2022](#), Garanti BBVA ([GARAN](#)), a unit of BBVA ([Madrid/BBVA](#)), opted to not call its \$750mn, 10-year subordinated (Tier II) eurobond ([XS1617531063](#)), [sold on May 23, 2017](#).

Also in May, small-cap Sekerbank ([SKBNK](#)) [decided](#) to [not](#) call its \$85mn, Tier 2 paper, instead opting to extend the tenor.

In August, another small-cap, [Odeabank](#), a unit of [Bank Audi](#) ([Beirut/AUDI](#)), failed to call \$300mn of papers ([XS1655085485](#)).

[In November](#), government-run Vakifbank ([VAKBN](#)) redeemed \$228mn of 10-year subordinated (Basel III-compliant Tier II) eurobonds ([XS1551747733](#)), sold on February 13, 2017, and callable at the end of the fifth year.

[In December](#), small-cap Fibabanka, [Turkish conglomerate Fiba Holding's lending unit](#), attempted to hold an exchange offer for its \$300mn paper ([XS1386178237](#)), [which pays](#) a 7.75% coupon.

Later on, it cancelled the exchange offer and [raised](#) the coupon rate of the paper to 9.797%.

In 2023, two papers will be watched. Akbank ([AKBNK](#)) has a \$400mn

paper (XS1772360803) due April 2028 and callable in April 2023.  
Isbank ([ISCTR](#)) has a \$500mn paper (XS1623796072) callable in June.

Akbank informally told the media that it was planning to recall the paper.

See full list below.

| Turkish banking industry outstanding subordinated (Tier II) eurobonds |                              |                   |             |                          |                           |
|---|------------------------------|-------------------|-------------|--------------------------|---------------------------|
| Issuer  | ISIN                         | Coupon            | Volume (mn) | Issuance                 | Maturity                  |
| <a href="#">Kuveyt Turk (sukuk/subordinated) (RECALLED)</a>           | XS1323608635                 | 7.900%            | \$350       | Feb 17, 2016             | Feb 17, 2026 (/21)        |
| <a href="#">Akbank (subordinated) RECALLED</a>                        | XS1574750292                 | 7.200%            | \$500       | Mar 15, 2017             | Mar 16, 2027(/22)         |
| <a href="#">TSKB (subordinated) RECALLED</a>                          | XS1584113184                 | 7.625%            | \$300       | <a href="#">RECALLED</a> | Mar 29, 2027(/22)         |
| <a href="#">Garanti (subordinated)</a>                                | XS1617531063                 | 6.125%            | \$750       | May 23, 2017             | May 24, 2027(/22)         |
| <a href="#">Odeabank (subordinated)</a>                               | <a href="#">XS1655085485</a> | 7.625%            | \$300       | Aug 1, 2017              | Aug 1, 2027(/22)          |
| <a href="#">Vakifbank (subordinated) RECALLED</a>                     | <a href="#">XS1551747733</a> | 8.00%             | \$228       | Feb 13, 2017             | Nov 1, 2027(/22)          |
| <a href="#">Fibabanka (Credit Europe) (subordinated)</a>              | XS1706923148                 | 7.25%             | \$150       |                          | Nov 9, 2027(/22)          |
| <a href="#">Fibabanka (subordinated) (exchange offer cancelled)</a>   | XS1386178237                 | 9.797%<br>(7.75%) | \$300       | May 10, 2017             | Nov 24, 2027(/22)         |
| <a href="#">Akbank (subordinated)</a>                                 | XS1772360803                 | 6.797%            | \$400       | Feb 27, 2018             | Apr 27, 2028(/23)         |
| <a href="#">Isbank (subordinated)</a>                                 | XS1623796072                 | 7.000%            | \$500       |                          | Jun 29, 2028(/23)         |
| <a href="#">Isbank (subordinated)</a>                                 | XS2106022754                 | 7.750%            | \$750       |                          | Jan 22, 2030(/25)         |
| <a href="#">Yapi Kredi (YKBANK) (subordinated)</a>                    | <a href="#">XS2286436451</a> | 7.875%            | \$500       | Jan 15, 2021             | Jan 22, 2031(/26)         |
| <a href="#">Akbank (subordinated)</a>                                 | XS2355183091                 | 6.80%             | \$500       | Jun 15, 2021             | Jun 22, 2031(/26)         |
| <a href="#">Kuveyt Turk (sukuk/subordinated)</a>                      | <a href="#">XS2384355520</a> | 6.125%            | 350         | Sep 10, 2021             | Dec 16, 2031              |
| <a href="#">Sekerbank (SKBNK) (subordinated)</a>                      | -                            | -                 | 85          | May 4, 2022              | Jun 12, 2032 (2027)       |
| <a href="#">Yapi Kredi (YKBANK) (subordinated)</a>                    | <a href="#">XS1867595750</a> | 13.875%           | \$650       | Jan 15, 2019             | Perpetual(Jan 15, 2024)   |
| <a href="#">Kuveyt Turk (sukuk/subordinated)</a>                      | XS2028862998                 | 9.13%             | \$200       | Jul 16, 2019             | <a href="#">Perpetual</a> |
| <a href="#">Kuveyt Turk (sukuk/subordinated)</a>                      | XS2227803819                 | 9.95%             | \$50        | Sep 28, 2020             | <a href="#">Perpetual</a> |