



FEBRUARY'22

PANORAMATR

TURKEY'S AGENDA AND RISK ANALYSIS



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Dear...

We're pleased to present PANORAMATR's February report of 2022.

In last month's report, we stated that President Erdoğan's "new economic model" presented in December 2021 would be the new economic roadmap of the government that will last until elections.

January saw the initial implementation of this strategy accompanied by a powerful communication strategy leading to the politicization of the economy. Furthermore, the government continued to exploit ethnic and religious sensitivities for political gain.

In response, the opposition were passive and, contrary to 2021 where the AK Party and President Erdoğan were continuously losing support, in January we observe an uptick of 3 points of support for President Erdoğan and the AK Party.

In the Politics-Risk Analysis section of this report, we evaluate the direction and limits of this support for the government and examine the performances of the government and opposition throughout January. We finish with projections for the near future.

In the Economic Risk Analysis section, while evaluating upcoming global developments, we also discussed their impact on Turkey. In addition to the ongoing uncertainties in the Turkish economy, we analyzed the developments that may result from financial tightening and the possible consequences of rising inflation.

In our foreign policy analysis, we discuss, in detail, the Russia-Ukraine crisis and include a risk analysis of the impact of the crisis on Turkey.

The Turkey's Agenda section of our report is based on the findings of an opinion poll we conducted with 2.019 participants between 12-18 January 2022.

In this poll (as in every monthly poll we conduct) we tried to get a snapshot of the mood of the country and understand any changes or shifting trends in key contemporary political and social issues, voting intentions, whether or not Turkey is on the right track, and the economy.

Results of our opinion poll show that the government was finally able to buck the trend of losing support and see a slight increase in its support. This appears to be in response to the new economic model and how it has been framed by the government. We believe this increase in support is due to the return of some undecided voters to Erdoğan and the AK Party. This increase is enough for the People's Alliance to regain the lead over the Nation Alliance, however, the gap between the government and all of the opposition (including those parties not part of the Nation Alliance) is still 15 points in favor of the opposition.

As with every month, this month you will find important data in the Presidential Election Strategies' section. In this month's report, we include four scenarios for the second round of the election for the Presidency. In these scenarios, while Yavaş, İmamoğlu and Akşener beat Erdoğan, Kılıçdaroğlu loses to Erdoğan.

In our report this month, we measured perceptions of the opposition's capacity to govern. The data show that less than 40% of respondents have confidence in the opposition despite the general pessimism about the course of Turkey and the economy, and discomfort with the government. We believe opposition parties need to take note of this finding and engage with the public to develop trust.

In this month's report, the economic data show in spite of the new economic model and actions of December 20 to protect the Turkish Lira, most respondents still consider the government to be responsible for the economic crisis and do not believe it can solve the crisis.

2021 ended with the balance of power between the government and the opposition tilting in favor of the opposition. 2022 witnessed a slight recovery by the government. Even though this recovery is not enough to get back all the losses of 2021 it is still a warning shot across the bows of the opposition.

The upcoming period will be a period when all eyes on Turkey are on the upcoming elections and the government and opposition will be developing tactics and strategies for these elections.

Here at PANORAMATR, we will continue to follow and evaluate developments and ponder possible projections.

We wish you all the success in your work and hope that the PANORAMATR January 2022 report will contribute positively to your decision processes.

And we wish you all the best for the upcoming year.



ABBREVIATIONS

People's Alliance	: (Cumhur İttifakı - AK Party/MHP)
Nation Alliance	: (Millet İttifakı - CHP/İYİ Party)
AK Party	: AK Parti - Justice and Development Party - Adalet ve Kalkınma Partisi (Recep Tayyip Erdoğan)
MHP	: Nationalist Movement Party - Milliyetçi Hareket Partisi - MHP (Devlet Bahçeli)
CHP	: Republican People's Party - Cumhuriyet Halk Partisi (Kemal Kılıçdaroğlu)
İYİ Party	: İYİ Parti - Good Party (Meral Akşener)
HDP	: People's Democratic Party - Halkların Demokrasi Partisi (Mithat Sancar - Pervin Buldan)
Saadet Party	: Saadet Partisi - Felicity Party (Temel Karamollaoğlu)
Gelecek Party	: Gelecek Partisi - Future Party (Ahmet Davutoğlu)
DEVA Party	: DEVA Partisi - Democracy and Progress Party - Demokrasi ve Atılım Partisi (Ali Babacan)
DP	: Democratic Party - Demokrat Parti (Gültekin Uysal)



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Executive Summary

TURKEY'S AGENDA

- This opinion poll was conducted from 12-18 January 2022 with 2,019 adults in Turkey. The margin of error is 2.5%.

IF THERE'S AN ELECTION TOMORROW?

Presidential elections

SUPPORT FOR ERDOĞAN

(Will you vote for Erdoğan?, Valid votes, %)

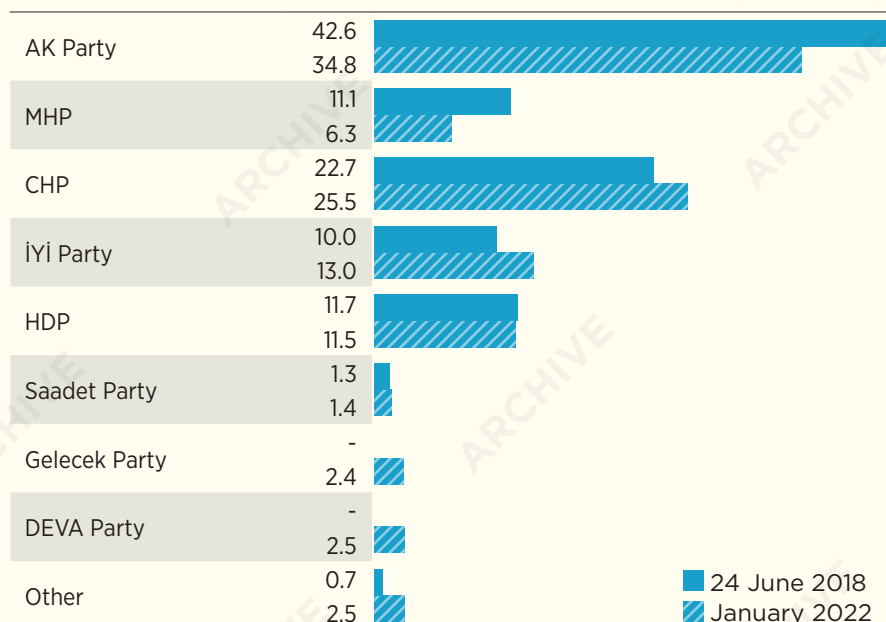


- If a presidential election were held tomorrow 31.6% of respondents would vote for President Erdoğan while 51.7% would not. After the distribution of undecided voters, support for Erdoğan rises to 37.9% and for the opposition to 62.1%.

General Elections

GENERAL ELECTIONS

(Valid vote, %)



■ 24 June 2018
■ January 2022



- As of January 2022, after the distribution of undecided voters, the AK Party received support from 34.8% of respondents; CHP 25.5%; İYİ Party 13%; HDP 11.5%; MHP 6.3%; DEVA Party 2.5%; Gelecek Party 2.4%; and Saadet Party 1.2%.
- If the General Elections for the Parliament were to be held tomorrow, before distributing undecided voters, AK Party support is 27.9%; CHP 20.5%; İYİ Party 10.4%; HDP 9.3%; MHP 5.1%; DEVA Party 2%; Gelecek Party 2%; Saadet Party 1.2%.
- If we consider political blocks, the ruling block (AK Party and MHP) has support of 41.1% of respondents while the opposition block (CHP, İYİ Party, HDP, Saadet Party, Gelecek Party, DEVA Party) has support of 56.4%.
- 19.7% of respondents are undecided with 6.9% of these non-voters. Thus, 12.9% is the 'real' level of undecided voters and of these 5.7% are AK Party voters. In January we observe a decrease in undecided voters, both overall and in AK Party undecided voters.
- 36% of the respondents thought President Erdoğan was doing a successful job while 54% found him to be unsuccessful.
- Within a month there was a 5% increase in the number of people who thought Erdoğan was doing a successful job.
- 71% of the respondents thought that Turkey was moving in the wrong direction while only 20% thought it was moving in the right direction.
- 49% of respondents believe there should be early elections while 41% believe they should be held in 2023 on time.
- Only 39% of respondents thought that opposition parties are capable of solving Turkey's economic problems.
- Most respondents do not believe the opposition capable of solving Turkey's security problems.
- 37% of the participants think a leader from the opposition will govern Turkey better, while 33% think a leader from the opposition will govern Turkey worse.
- 59% of respondents believe an opposition victory in elections will not lead to the oppression of religious conservatives while 27% believe it will.
- 36% of respondents believe President Erdoğan will win the election while 45% believe his opponent will.
- In a second round run off against any of the 4 candidates - Kılıçdaroğlu, Akşener, Yavaş, or İmamoğlu - Erdoğan receives between 30-37% support. All candidates except Kılıçdaroğlu receive more support than Erdoğan. However, between 24 and 32% of respondents are undecided across the four scenarios.

POLITICAL AGENDA

WHAT DO RESPONDENTS THINK ABOUT THE OPPOSITION?

PRESIDENTIAL ELECTION STRATEGIES



- Most opposition supporters believe that the opposition should announce their candidate closer to the election.
- More than 50% of respondents believe that the Saadet Party, Gelecek Party, DEVA Party and Demokrat Party should, either now or close to the election, join the Nation Alliance (CHP and İYİ Party).

THE ECONOMY

- 74% of respondents believe the economy is going badly while 18% believe it is going well.
- More than 50% of respondents believe Turkey's economic problems are caused by the policies of the government.
- More than 50% of respondents believe the present government cannot solve the economic problems.
- 67% of respondents believe inflation will continue to rise in the near future.
- 53% of respondents do not agree with the government's assertion that hundreds of terrorist work in the CHP-controlled Istanbul Municipality.
- 45% of respondents do not believe the Istanbul Mayor İmamoğlu should be removed from office if these allegations are true, while 39% believe he should be.

RISK ANALYSIS

POLITICS

The First Lesson of 2022: Anything is Possible

- PANORAMATR's January 2022 data suggests a halt in the decline of support for the governing party that was observed throughout 2021. In January we observe a small 3 point rise in support for the governing party (from 32% to 35%) and President Erdoğan (from 29% to 32%).
- This seems to suggest voters rewarding the actions taken by the AK Party and President Erdoğan to halt the slide of the Turkish Lira and mildly punishing the opposition for its passiveness in the face of these moves by the AK Party.
- It seems the government has been capable of overshadowing many of the economic problems by giving pay rises to those on minimum wage and the announcement of savings accounts protected against any loss of value of the Turkish Lira. In addition, the government has continued to use religion and nationalism cards against the opposition.
- Opposition parties run the risk of being punished for their complacency and it seems an opportunity may open for the government to win back some of its disillusioned ex-voters or at the very least create doubt in the mind of the voters that the opposition are a viable alternative government.
- We seemed to have reached an impasse where Erdoğan's support is not falling under 30% but cannot get above 35% and the opposition block cannot get



above 45% support. While voters have soured on the AK Party and President Erdoğan they still haven't embraced the opposition.

- So while it seems unlikely that Erdoğan can win the next election, it seems possible that the opposition could still lose it. As such, the ball is squarely in the opposition's court.

ECONOMY

The Planless Economy Trapped Between the Deadlocks

- 2022 will be a year full of uncertainties both at home and abroad. In developed countries, it is slowly being accepted that inflation is not as temporary as was expected and is not only caused by supply side factors. Developing countries have already begun preparing for the upcoming period where widespread tightening of monetary policies will also lead to a contraction in global liquidity.
- The contractionary effects of Covid-19 on economic activity have largely disappeared. Economic recovery was stronger and quicker than expected and 2022 will be a year of normalization. We expect moderate growth this year and the effect of high inflation, risks in asset prices and concerns about the sustainability of fiscal policies cause us to be concerned about uncertainty in 2023.
- The Turkish economy has been managed through short-term ad-hoc decision-making since last September. It appears that the decision to engage in export-based growth was abandoned in December in response to the extreme volatility in foreign currency exchange rates versus the Turkish Lira. The Central Bank's most recent decision not to change the policy rate suggests the government has taken its foot off the gas, however, economic policy decision-making is still haphazard and ad-hoc.
- The government hopes to appease its voters with high economic growth and high employment growth. While the policy of lowering interest rates has a religious dimension, the real reason to pursue such a policy is growth. While lowering interest rates will lead to lira depreciation and inflation, the hope is that at the same time it will lead to strong exports and high tourism revenues. If the current account deficit is negligible then foreign exchange demand from locals seems manageable.
- The second problem, inflation is probably more serious and directly impacts voters. The government has made attempts to preserve the purchasing power of voters in an attempt to buy time until the summer when they hope to see the economy turn around in such a way that allows for reelection in 2023.
- The policy implemented has two main challenges. While individual FX demand and the exchange rate stabilized, the continuous reduction in

the Central Bank's policy rate led to an increase in Treasury borrowing costs due to the deteriorating risk perception and inflation expectations. The gap between the deposit and lending rates of the banks and the policy rate of the Central Bank widened. While banks shortened the maturity of commercial loans, they also increased their interest rates to levels reflecting short-term inflation expectations. Moreover, banks began rationing credit.

- Rising labor costs and rising energy and input prices increase unit production costs, and thus the working capital requirements of businesses. Producers are experiencing difficulties in production despite strong domestic and foreign demand due to financing problems. When we add the supply chain disruptions felt in many areas of the global economy, the outlook deteriorates even more. The solution to the problem is obvious; easing financing conditions and increasing credit supply. However, in this case, financial sustainability may be under serious risk due to the increase in import and foreign exchange demand due to production input purchases on the one hand, and the inflation-accelerating effect of credit expansion on the other. The first challenge stems from the contradiction between these two options.
- The second challenge is regarding export performance and the real exchange rate. The initial policy to have a competitive rate was abandoned when the loss of value of the TL got out of control. And subsequently the government tried to fix the exchange rate at a particular level. At the same time, production costs increased due to increased labour costs and input prices, especially energy. Exports, which had grown on the back of a weak TL, began to slow down. Turkey cannot have growing exports and financial stability at the same time.
- 3 potential scenarios come to mind:
- The first potential scenario is where economic policy tries to provide financial sustainability with low production and income. This may lead to a decline in production and exports and therefore a contraction in the economy. The latest statements of the Minister of Treasury and Finance regarding bank loans and the fact that the capital of public banks is planned to be increased by 51.5 billion TL in order to support credit expansion has reduced the likelihood of this scenario.
- The second scenario, on the other hand, contains a fiction that credit expansion is accelerated in order to support economic activity, and as a result, exchange rate increases and inflation accelerates again. This is the scenario

that seems most likely at the moment. In this case, in an environment of high nominal but low real positive growth, an environment similar to the 1990s in which financial risks are sustained may be realised.

- In 2021, the USD/TRY exchange rate, was around 8.89 on average. Assuming that the exchange rate remains constant at its current level for the rest of the year this year, the annual rate of increase would be around 50%. The annual average exchange rate for foreign currency assets is used in the calculation of the capital adequacy ratio (CAR), which is critical for banks. Currently, the core capital adequacy ratio of the banking sector is 13%. Studies show that a 10% increase in the exchange rate pulls the core CAR ratio down by around 0.35 points. In this case, a sharp increase in the exchange rate is critical not only in terms of inflation but also in terms of the possible negative effects it may have on the capital adequacy of the banking sector. This may lead to more direct restrictions on the capital regime.
- The third scenario is based on the assumption that the plans of the Government will be ineffective due to potential major financial turmoil in April-May, leading to elections taking place in the fall of 2022. In this case, even if political uncertainty increases, a possible change in government may be priced in. In addition, considering the possibility of an increase in interest rates, it is possible for the exchange rate to remain relatively stable in this scenario.
- In light of all of the above, we suggest:
 - Economic activity will lose momentum in January and February, then recover somewhat due to credit expansion and inflation provoking consumption demand.
 - Annual inflation will increase by 15 to 25 points in the January-May period and will rise to 50-60% by the middle of the year.
 - USD/TRY will test 15-15.50 again in the same period.
 - Tension in the financial markets will increase in the April-May period due to the tightening of the monetary policy by the US Federal Reserve, the stagnation in production and the current account balance which will be adversely affected by the annual increase in commodity prices, the deteriorating public finance outlook, and rising inflation.
 - Risk may arise on the core capital adequacy ratio of the banking sector. It may be necessary to take precautions against systemic financial risks.
 - As a result of the negative developments listed above, a deterioration in public finances may be observed.



FOREIGN POLICY

The First Geopolitical Crisis of 2022

- Since the spring of 2021, the military build-up that Moscow started on the border with Ukraine and the new military assets that NATO started to deploy in the Baltic states were signs of increasing tensions.
- The Russian-Ukrainian tension will have direct ramifications for Europe, NATO, the USA and Turkey.
- Turkey has faced both opportunities and threats in the current crisis in terms of the political, economic and military relations it has developed with Russia in recent years. If the crisis worsens Turkey will be limited as to what role it can play. Turkey wants to mediate, however, Moscow has not looked upon this favorably as of yet. If Turkey should prove to be a successful mediator it not only aids in solving the problem but also has the potential to improve its relations with the USA and its position within NATO.
- Another area of risk is the potential of Turkey's military trade relations with Ukraine to negatively affect any process. Despite Moscow's insistence that Turkey's arms sales violated the Minsk Agreement, Ankara's sales to Kiev continued. While Moscow has been muted in its response so far, that may change if armed conflict occurs.
- It is clear that there are opportunities created by the crisis for Turkey. The crisis potentially provides an opportunity to balance relations with Russia and get relations with Washington and the EU back on track. Washington's refusal to support a pipeline project that will carry natural gas from Israel to Europe through Cyprus is also a positive for Turkey. Although these steps are insufficient to open a new page in Turkey-US relations, it may allow for some short-term relief.



TURKEY'S AGENDA

IF ELECTIONS WERE HELD TOMORROW?

POLITICAL AGENDA

WHAT DO RESPONDENTS THINK ABOUT THE OPPOSITION?

PRESIDENTIAL ELECTION STRATEGIES

THE ECONOMY

IF ELECTIONS WERE HELD TOMORROW?

Presidential Election

If elections were held tomorrow 31.6% of respondents would vote for President Erdoğan while 51.7% would not. 16.8% of respondents were undecided. After the distribution of undecided voters, Erdoğan's numbers rise to 37.9% while those against are 62.1%.

FIGURE 1. WILL YOU VOTE FOR ERDOĞAN?

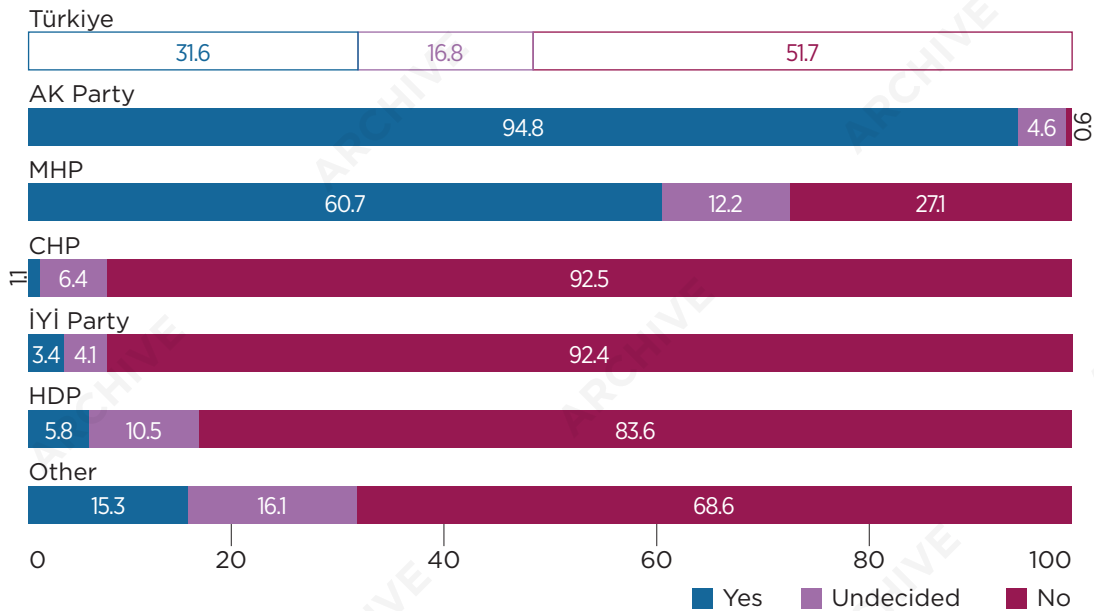


The fact that before distribution of undecided voters, more than 50% of respondents would not vote for Erdoğan is important in a system where the candidate with 50% plus one vote emerges victorious. This tells us that the chances of Erdoğan winning in the first round of the presidential election are almost non-existent, while his chances in the second round are also slim. The main deciding factor is likely to be the performance of the opposition candidate opposing Erdoğan.

It should be remembered though that at this stage we are not in election mode and it is not clear who the opposition candidate is, so these results are merely a reflection of Erdoğan's (lack of) popularity.



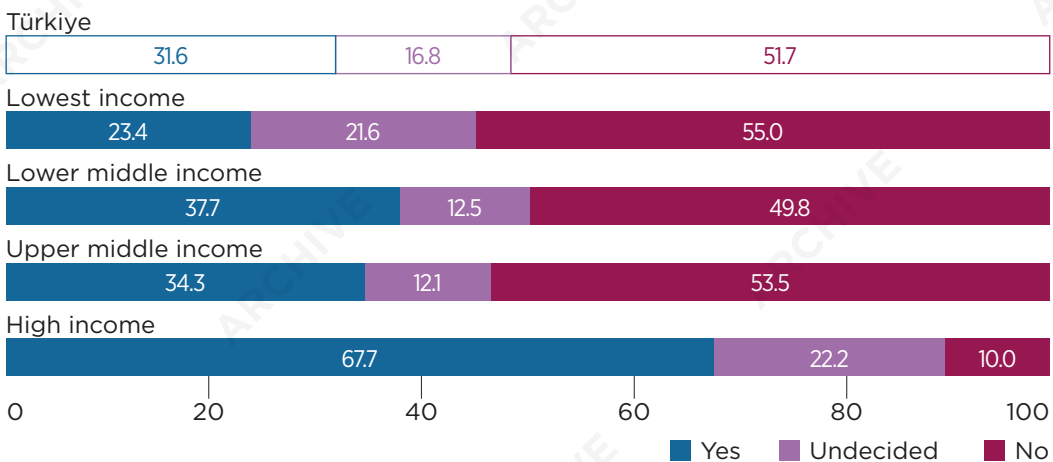
FIGURE 2. WILL YOU VOTE FOR ERDOĞAN? (PARTY AFFILIATION)



When we examine breakdown by party, 94% of AK Party voters will vote for Erdoğan but only 60.7% of MHP supporters.

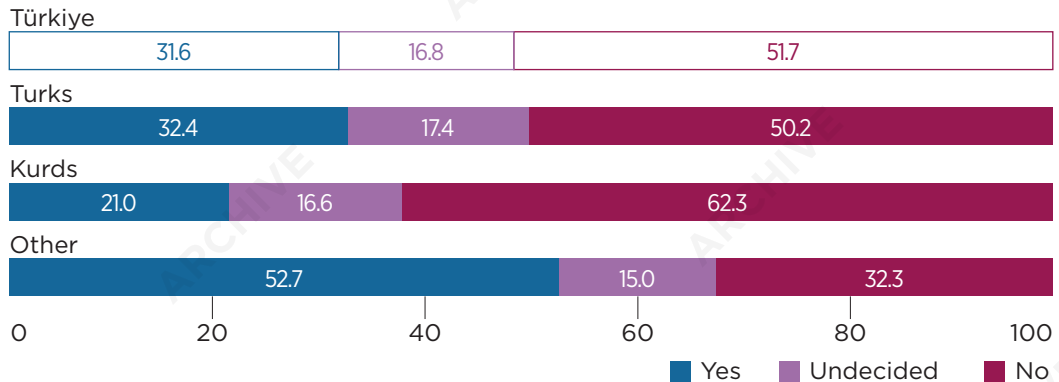
Among opposition supporters, 92% of CHP and İYİ Party voters won't vote for Erdoğan and 84% of HDP voters won't vote for him.

FIGURE 3. WILL YOU VOTE FOR ERDOĞAN? (INCOME LEVEL)



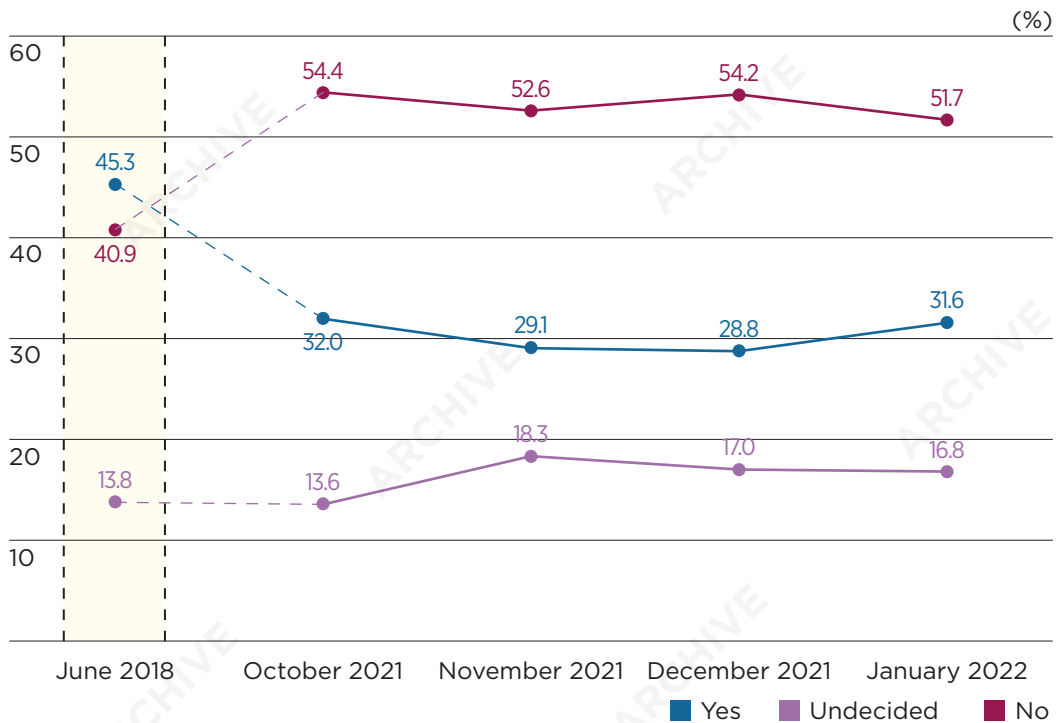
For those voters in the lowest income bracket, the number of those who will not vote for him is 55% while those who will is 23.4%.

FIGURE 4. WILL YOU VOTE FOR ERDOĞAN? (ETHNIC IDENTITY)



32.4% of ethnic Turks will vote for Erdoğan, while 21% of ethnic Kurds will. For both ethnic Turks and Kurds, the majority will not vote for him.

FIGURE 5. WILL YOU VOTE FOR ERDOĞAN? (TREND)



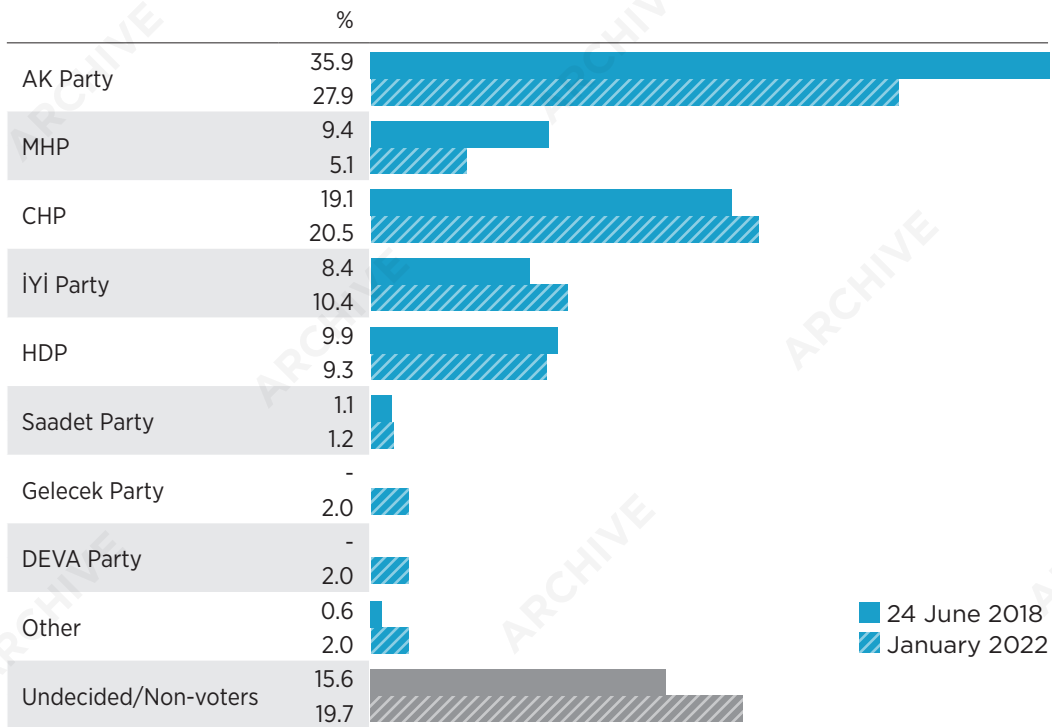
In the 2018 Presidential election, 40.9% of voters didn't vote for Erdoğan. Consistently since August 2021, more than 50% of voters have said they won't vote for Erdoğan.

Even allowing for all the bad economic news of the past 6 months we still observe that Erdoğan's support remains between 29-32%.

General Elections

As of January 2022, after the distribution of undecided voters, support for the AK Party was 34.8%; CHP 25.5%; İYİ Party 13%; HDP 11.5%; MHP 6.3%; DEVA Party 2.5%; Gelecek Party 2.4%; Saadet Party 1.4%.

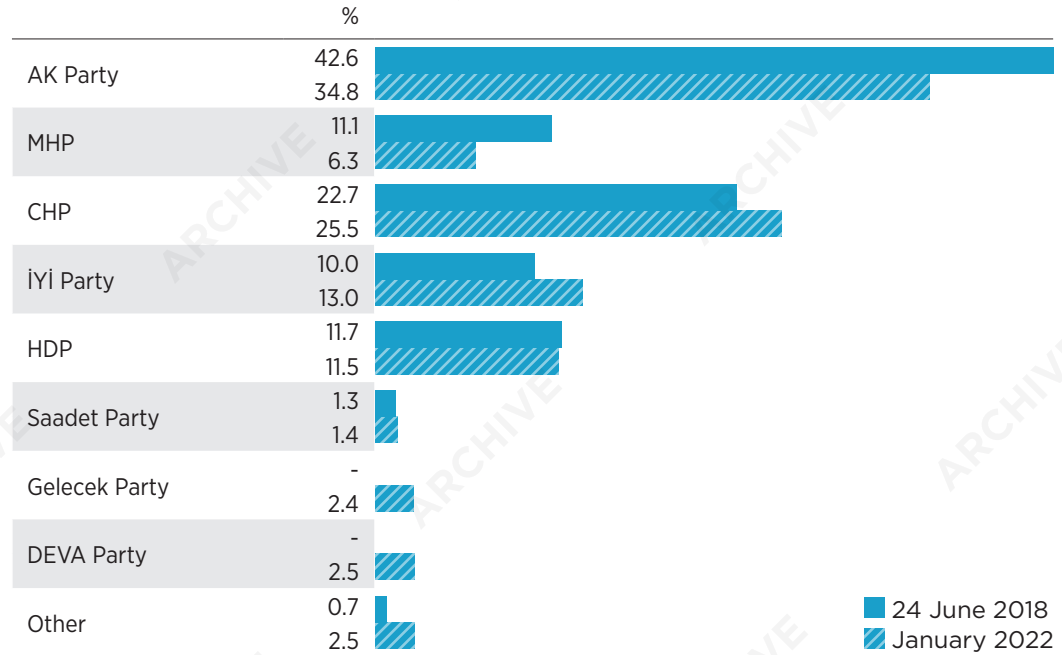
FIGURE 6. GENERAL ELECTIONS, ALL VOTERS



According to the research carried out by PANORAMATR on 12-18 January 2022, if the General Elections were held tomorrow, the AK Party would receive 27.9% of votes; CHP 20.5%; İYİ Party 10.4; HDP 9.3%; MHP 5.1%; DEVA Party 2%; Gelecek Party 2%; Saadet Party 1.2%; others 2%; undecided 19.7%.



FIGURE 7. GENERAL ELECTIONS, VALID VOTES



After the distribution of undecided voters, the AK Party would have 34.8%; CHP 25.5%; İYİ Party 13%; HDP 11.5%; MHP 6.3%; DEVA Party 2.5%; Gelecek Party 2.4%; Saadet Party 1.4%.



FIGURE 8. GENERAL ELECTIONS, ALL VOTERS (TREND)

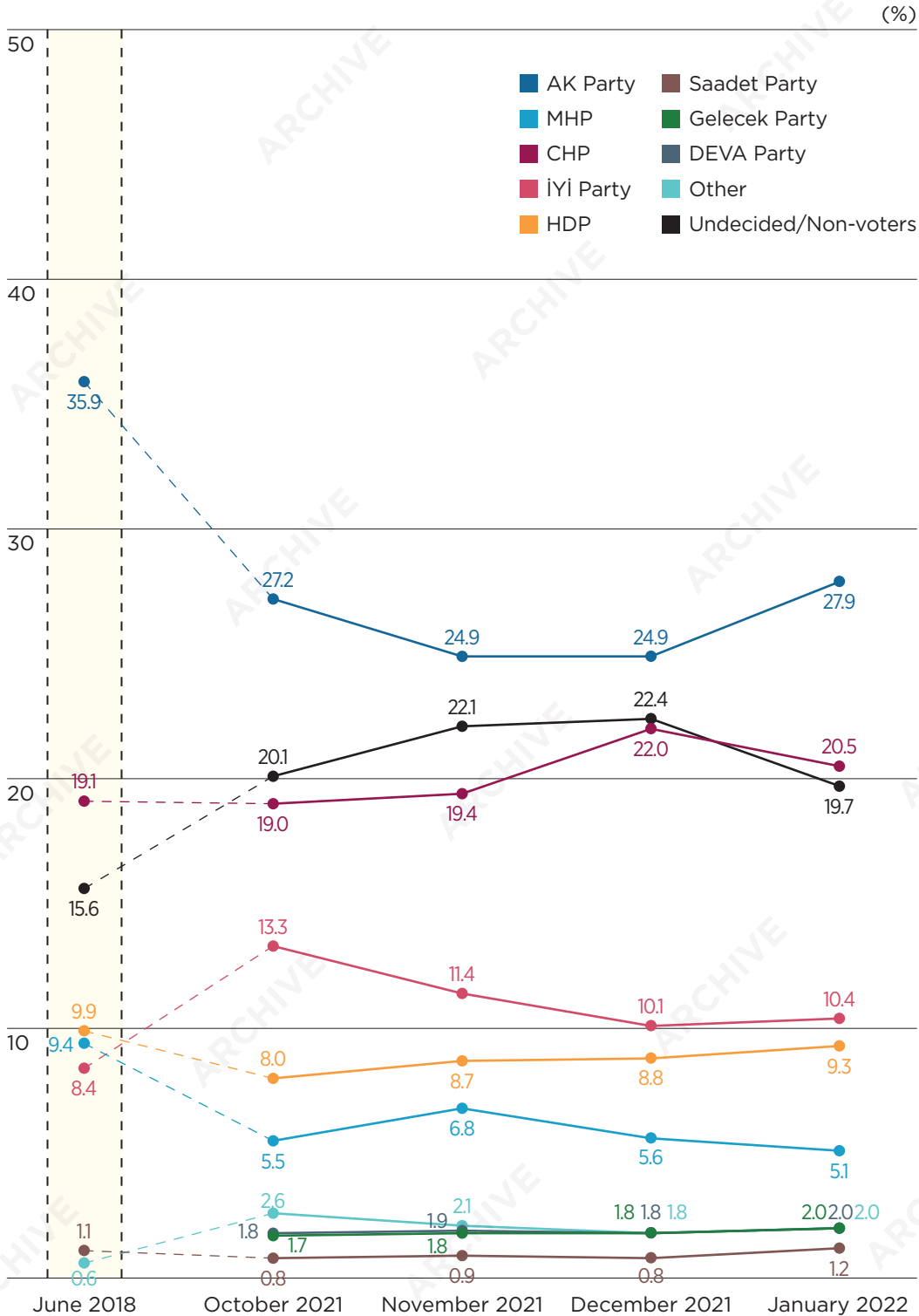
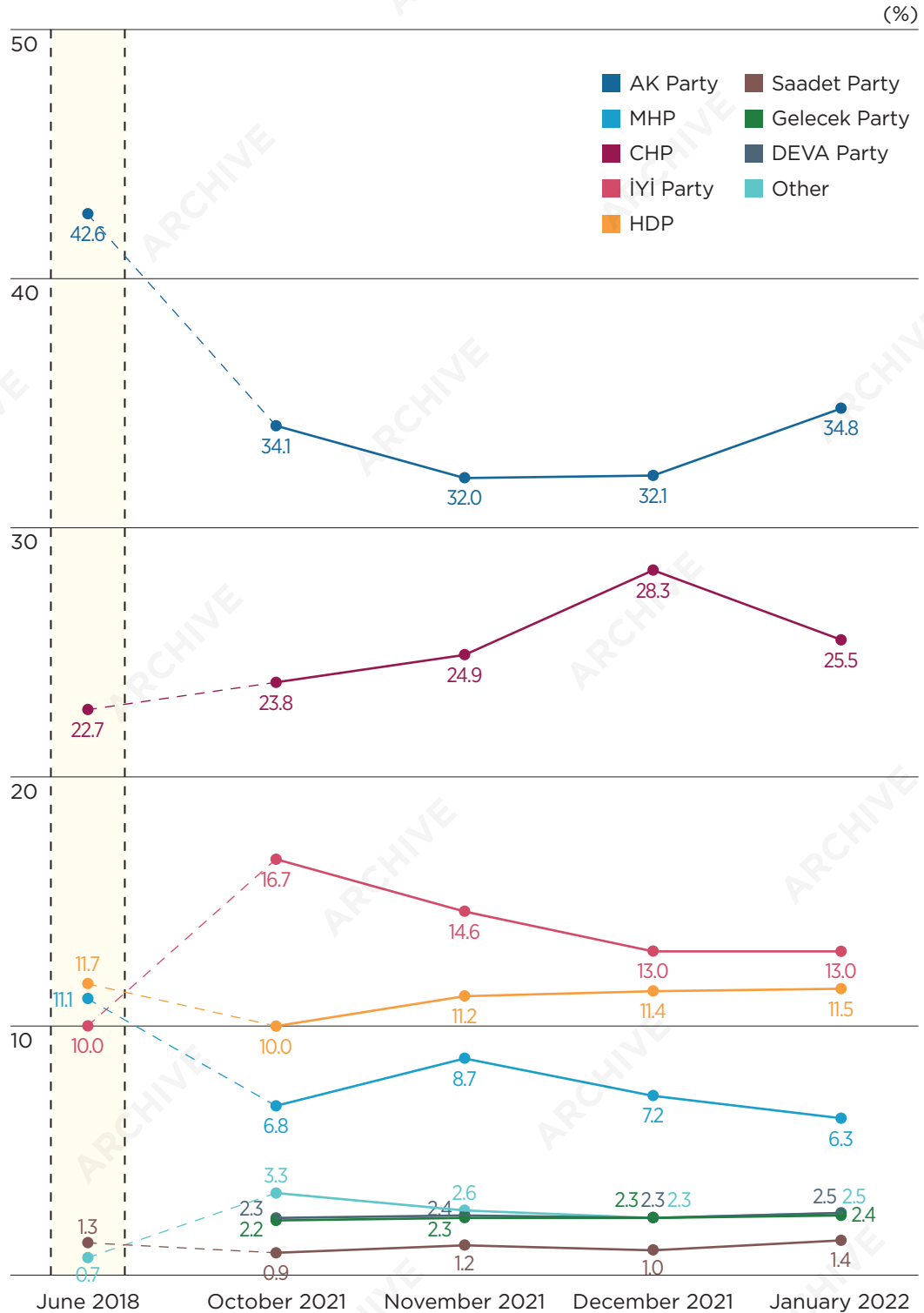




FIGURE 9. GENERAL ELECTIONS, VALID VOTES (TREND)



Compared to the results of the June 24 (2018) General Elections, as of January, there is a decrease of 8 points in support for the AK Party and 4.3 points in support for the MHP (before including undecided voters). While the AK Party has been experiencing a gradual loss of votes since the 18 June elections, it seems that this month there is an increase and the AK Party has returned to October 2021 levels of support. However, the MHP, has not been a beneficiary of this.

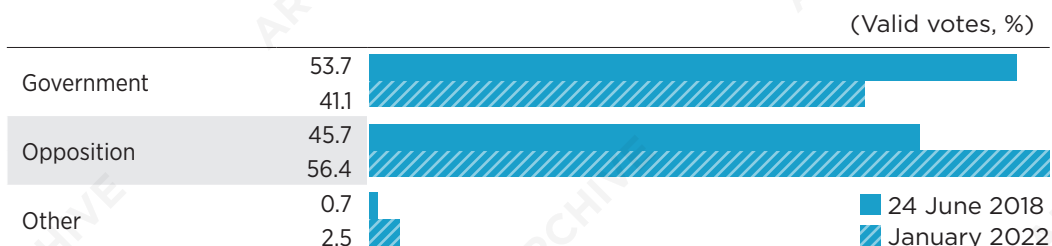
Since June 24 elections, the AK Party and MHP have lost around 12.6 points in support, or around one in five voters.

In the same time period, the CHP has increased its votes by 2.8 points to 25.5%.

There has been a 3 point increase in support for the İYİ Party. Last October the İYİ Party had the support of nearly 17% of voters but that level has proven unsustainable and today it has around 13% support.

Whether or not this month's increase for the AK Party is a blip or something permanent will become clearer in future months.

FIGURE 10. GOVERNMENT - OPPOSITION BALANCE



Both the People's Alliance and Nation Alliance continue and seem likely to be sustained until any elections are held. One question is as to whether or not other opposition parties will join the Nation Alliance.

Both alliances seem incapable of garnering more than 50% support. In the June 2018 elections the People's Alliance (AK Party & MHP) led the Nation Alliance (CHP & İYİ Party) by 21 points but that gap is now down to 2.6 points.

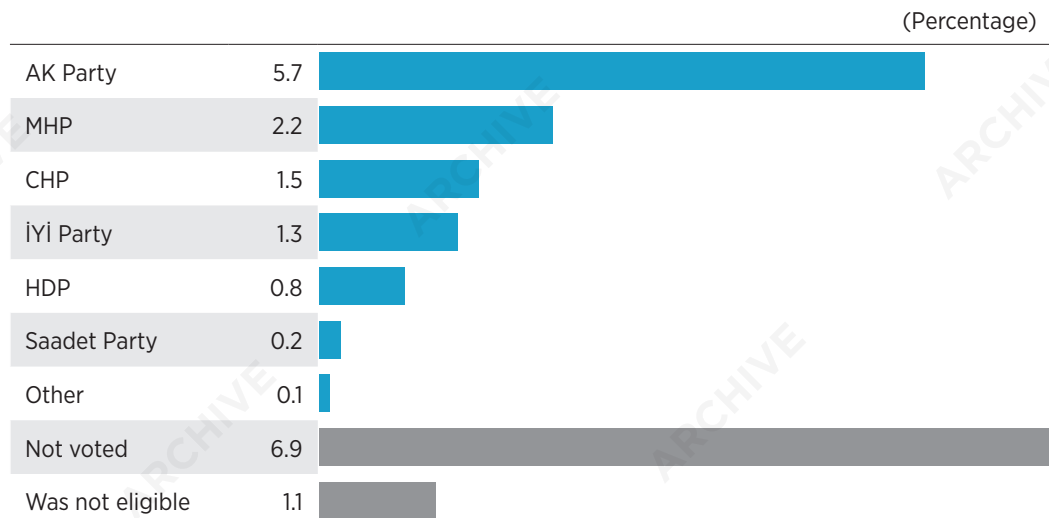
When we include other opposition parties we observe that the ruling AK Party-MHP block has 41.1% support while the opposition (CHP, İYİ Party, HDP, Saadet Party, Gelecek Party, DEVA Party) has 56% support. This has been the case for some time now.

Another area we see some movement is in the "others" where we observe some slight growth.

Distribution of Undecided Voters

The undecided voter rate is 19.7%. Those who did not vote constitute 6.9% of undecided voters. Among the remaining 12.9% of the "real undecideds", the AK Party voters constitute the largest group with 5.71%.

FIGURE 11. DISTRIBUTION OF UNDECIDED VOTERS

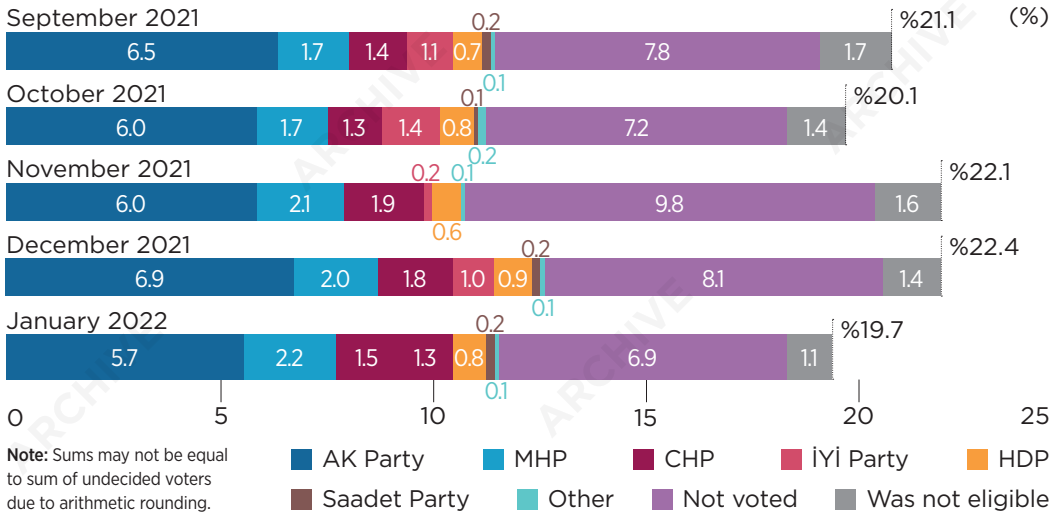


According to our January polling, if the General Elections were held tomorrow, the rate of "undecided" voters would be 19.7%.

6.9% of these voters state that they did not vote in the previous election so we can assume that the "real" undecided voter rate is around 12-13%.

Approximately half of those (12.9%) who voted in the June 24 elections but remained undecided in these elections were AK Party voters (5.7%). Adding 2.1 percentage points of undecided MHP voters to this, the rate of undecided within the ruling bloc approaches 8%.

The high rate of undecided voters who previously voted for the governing parties gives some hints to how these voters may respond in future months.

FIGURE 12. DISTRIBUTION OF UNDECIDED VOTERS (TREND)

Those who did not vote in the June 24 elections (6.9% points) continue to constitute the largest single part of the undecided.

Since the second half of 2021, the majority of the undecided voters are ex-government voters. However, in January, both the total undecided and the weight of ex-AK Party voters among the undecided decreased suggesting some undecided voters “went back home”.



Performance of President Erdoğan

36% of respondents answered that they believed President Erdoğan was performing his role successfully while 54% said he wasn't.

ŞEKİL 13. PRESIDENT ERDOĞAN'S PERFORMANCE



36% of the respondents think that President Erdoğan is performing successfully while 54% think that he is unsuccessful. 10% of respondents stated they had don't know.

This closely mirrors the numbers of voters who will vote for him or against him in a Presidential election and it is difficult to see how Erdoğan increases his vote.

Perceptions of performance are highly correlated with likelihood of voting and as such it has seen a slight uptick in January (around 5 points).



POLITICAL AGENDA

Where is Turkey Going?

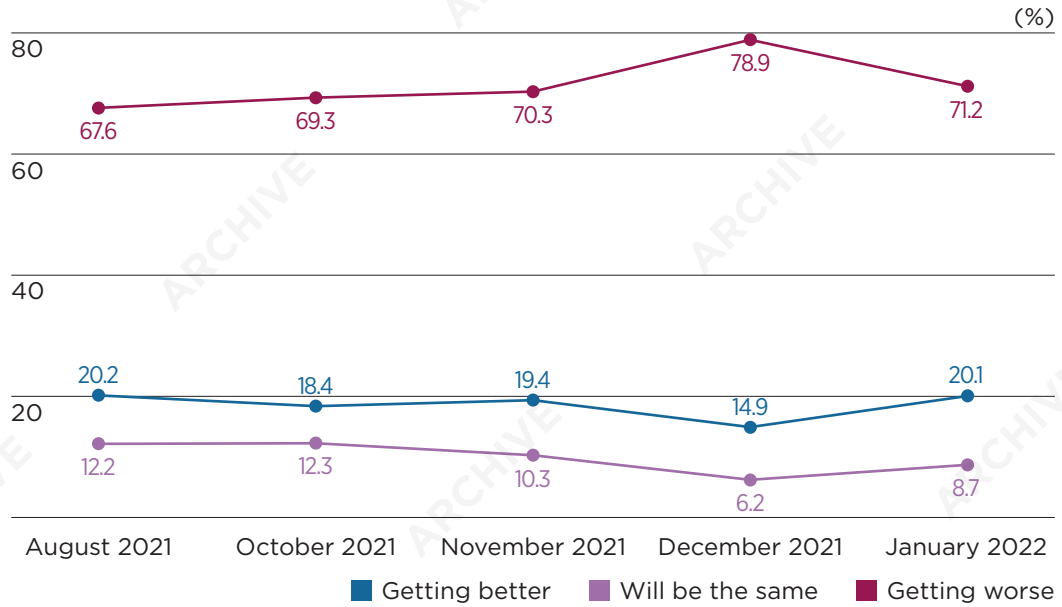
While 71% of the respondents state that Turkey is going in a negative direction, only 20% are of the opinion that it is getting better.

FIGURE 14. WHERE IS TURKEY GOING?



While only 20% of the respondents think that Turkey is going in the right direction, 71% think that Turkey is getting worse. The rate of those who say that Turkey is neither going in the wrong direction or the right direction is 9%.

FIGURE 15. WHERE IS TURKEY GOING? (TREND)



These numbers move with support for the government and belief in the success of President Erdoğan. As such, there was an 8-point decrease in the rate of those who thought that Turkey was getting worse, while those who thought that Turkey was getting better increased by 5 points.



Timing of Elections

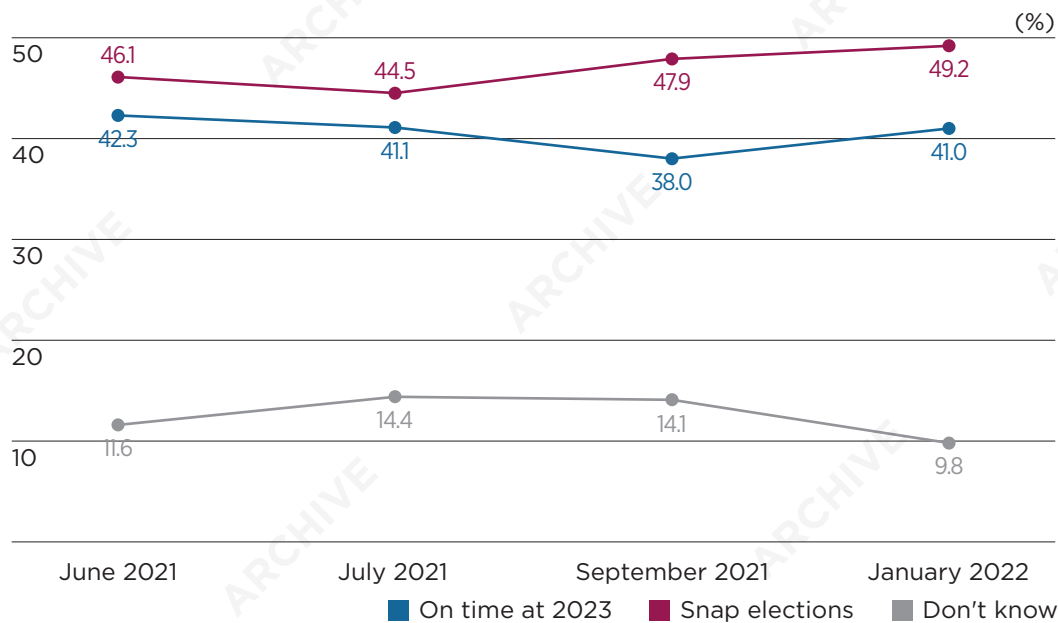
49% of participants think there should be early elections while 41% don't.

FIGURE 16. TIMING OF ELECTIONS



49% of participants think there should be early elections while 41% don't. 10% didn't express an opinion.

FIGURE 17. TIMING OF ELECTIONS (TERND)

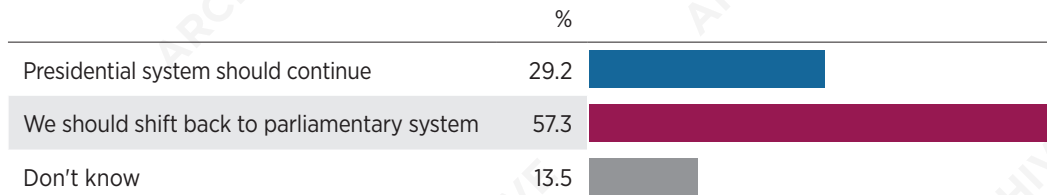


In these numbers nothing much has changed over the past 7 months.

Government System Preference

57% of the participants state that if a referendum were to be held, they would prefer to go back to the parliamentary system.

FIGURE 18. GOVERNMENT SYSTEM PREFERENCE

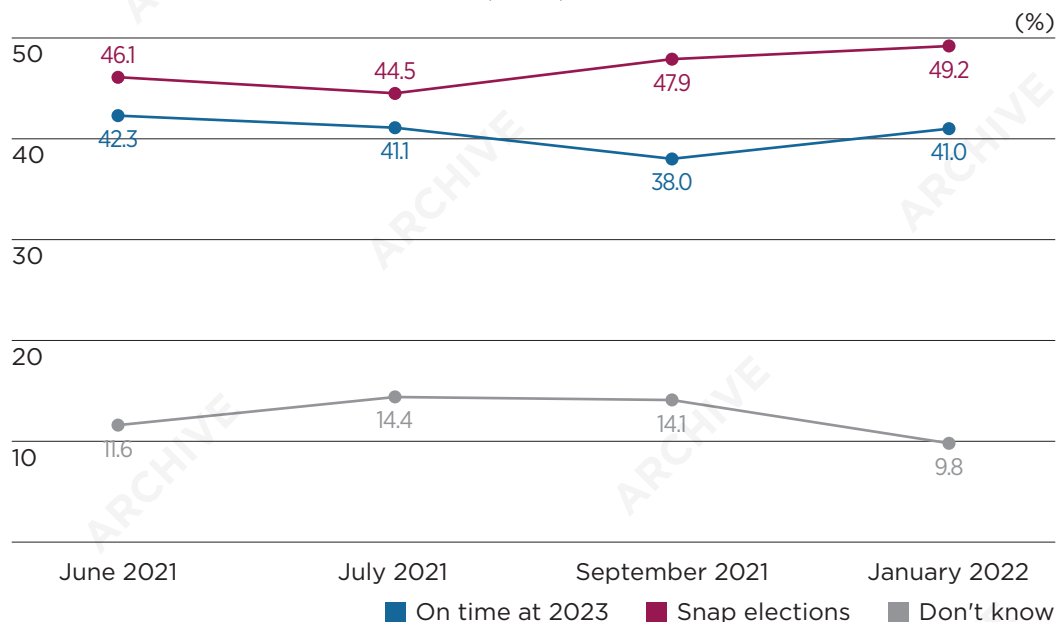


More than half of the respondents (57%) state that they would support the return to the parliamentary system if a referendum on the government system was held tomorrow.

29% of the respondents stated that they would support the continuation of the presidential system, 14% did not express an opinion on this issue.

While 51% supported the transition to the presidential system in the 16 April 2017 referendum, 47% voted against it.

FIGURE 19. GOVERNMENT SYSTEM PREFERENCE (TREND)



That said, support for the return to the parliamentary system is at the highest it has been for the past year.

Allegations of PKK Employees in Istanbul Metropolitan Municipality

The Ministry of Interior made a statement on social media on December 26, alleging that some personnel recruited to work in IMM were terrorists. Specifically 44 affiliated with the PKK/KCK, 80 of them affiliated with the DHKP-C, 20 with the MKLP, and 2 with the MKP. And that it was instigating investigations into these individuals and an indictment had been prepared.

In response IMM mayor Ekrem İmamoğlu stated that he welcomed any investigation but questioned what the Ministry of Interior was waiting for regarding these individuals as it had had 2 weeks to investigate.

MHP Head Devlet Bahçeli in a speech to his party stated that İmamoğlu should be dismissed if the allegations were true.

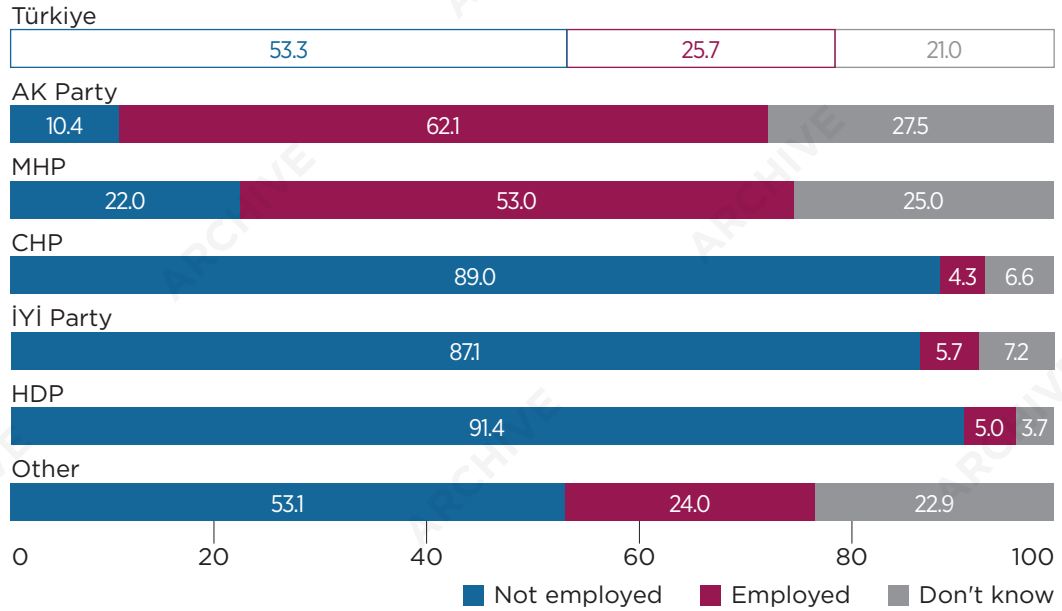
We wanted to find out what the public thought.

FIGURE 20. VIEW ON ALLEGATIONS OF PKK EMPLOYEES IN IMM



53% of the respondents do not agree with the allegations that there are hundreds of terrorists working in IMM. While one out of every five people think that the allegations are true, 21% state that they do not have an opinion on this issue.

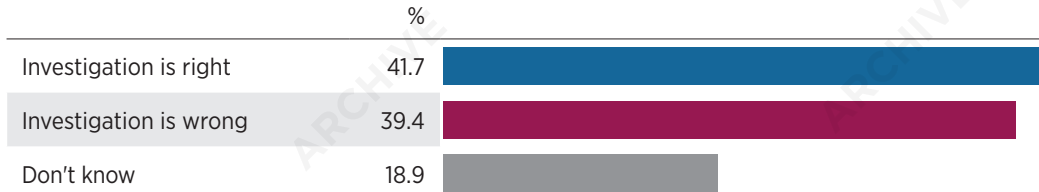
FIGURE 21. VIEW ON ALLEGATIONS OF PKK EMPLOYEES IN IMM (PARTY AFFILIATION)



Partisanship seems to drive these opinions with 62% of AK Party respondents and 53% of MHP respondents believing the allegations while 90% of CHP respondents don't believe the allegations.

The opposition parties, on the other hand, think that the claim about the Istanbul Metropolitan Municipality is not true is around 90%.

FIGURE 22. MINISTRY OF INTERIOR'S INVESTIGATION ON IMM



42% of respondents agree with the decision to open an investigation while 39% disagree and 19% have no opinion.

FIGURE 23. POSSIBILITY OF DISMISSAL OF İMAMOĞLU



39% agree with MHP leader Bahçeli that if terrorists are found in the IMM, Ekrem İmamoğlu should be dismissed, while 45% disagree.



WHAT DO RESPONDENTS THINK ABOUT THE OPPOSITION?

A perception has been developing that the opposition may win any future election and as such we have started to ask our respondents to evaluate this possibility and what it will look like.

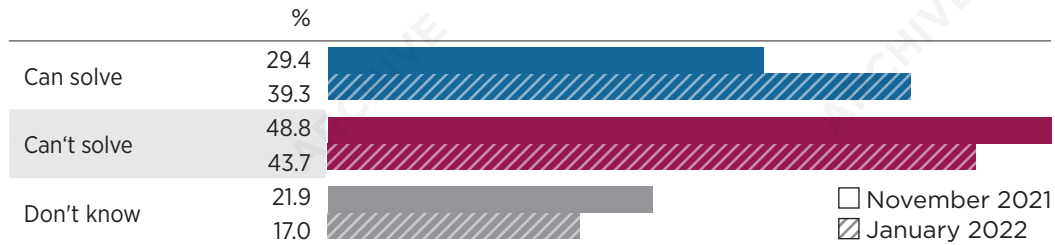
Opposition's Capacity to Solve Economic Problems

Opposition parties have not been successful in persuading people that they can solve Turkey's economic problems.

FIGURE 24. OPPOSITION'S CAPACITY TO SOLVE ECONOMIC PROBLEMS



44% of the respondents think that opposition parties cannot solve Turkey's economic problems, while 39% think that opposition parties can. 17% don't know. It is striking that even though 74% of respondents think the Turkish economy is getting worse they are not convinced the opposition can steady the ship.

FIGURE 25. OPPOSITION'S CAPACITY TO SOLVE ECONOMIC PROBLEMS (TREND)

That said, there was a 10 point increase in those who said they could solve and a 5 point decrease in those that said they couldn't.

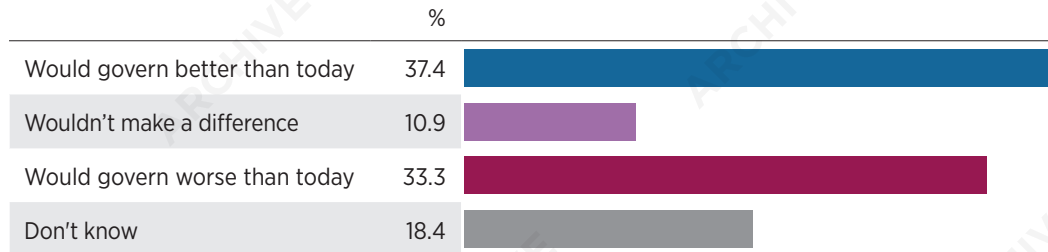
Opposition's Capacity to Solve Security Issues

No opinion dominates here and similar to the economy, 39% of the respondents think that the opposition parties can solve Turkey's security problems when they come to power (up 8 points), while 42% think they cannot (down 2 points). 19% expressed no opinion.

FIGURE 26. OPPOSITION'S CAPACITY TO SOLVE SECURITY ISSUES

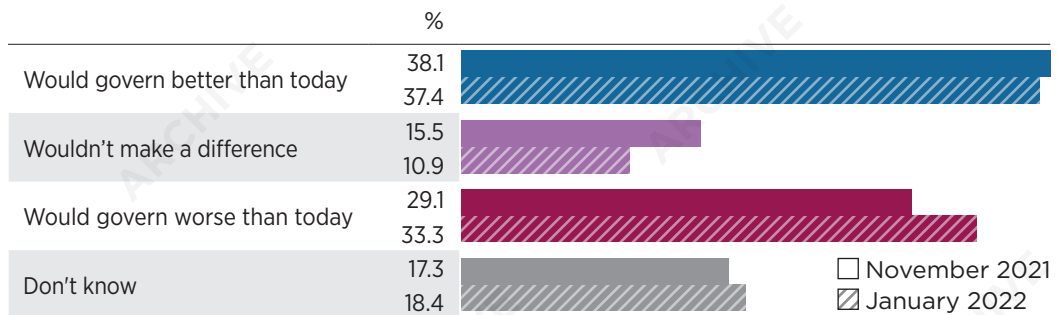
Capacity of President Supported by the Opposition to Govern Turkey

FIGURE 27. CAPACITY OF TO GOVERN TURKEY



37% of the respondents believe that a leader from the opposition parties will govern the country better than the current situation.

FIGURE 28. CAPACITY OF TO GOVERN TURKEY (TREND)



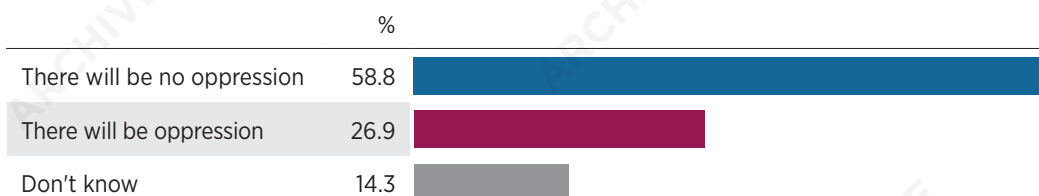
No significant changes are observed in the data between November 2021 and January 2022. There is a 4% increase in those who believe that a leader to be elected only from the opposition will govern the country worse than today, but the general view does not change.

Since the expectation that the opposition will solve the problems of the economy and security is low, it seems that it is not a belief in the opposition driving support for the opposition but a clear belief that the AK Party and President Erdoğan have demonstrated their incompetence.

The Likelihood of Oppression on Religious Conservatives if the Opposition Wins the Election

While the prevailing opinion (59%) in the society is that religious people will not be oppressed under a possible Nation Alliance, 27% of the respondents think that religious people might be oppressed.

FIGURE 29. LIKELYHODD OF OPPRESSION ON CONSERVATIVES UNDER CHP-İYİ PARTY RULE



27% of the respondents think that religious conservatives will be oppressed by a CHP-İYİ Party government while 59% think they won't and 14% expressed no opinion. For the most part those that believe there will be oppression identify as Islamist and Conservative.

PRESIDENTIAL ELECTION STRATEGIES

Some time in the next 16 months, 60 million voters will go to the polls in Turkey. Although Turkey is not in full on election mode, it is now beginning to be the number one political issue in Turkey. Here we look at alternative scenarios of different candidates facing President Erdoğan in the second round of the election trying to gauge the opinions of the public as to who the candidates are likely to be and how successful they will be.

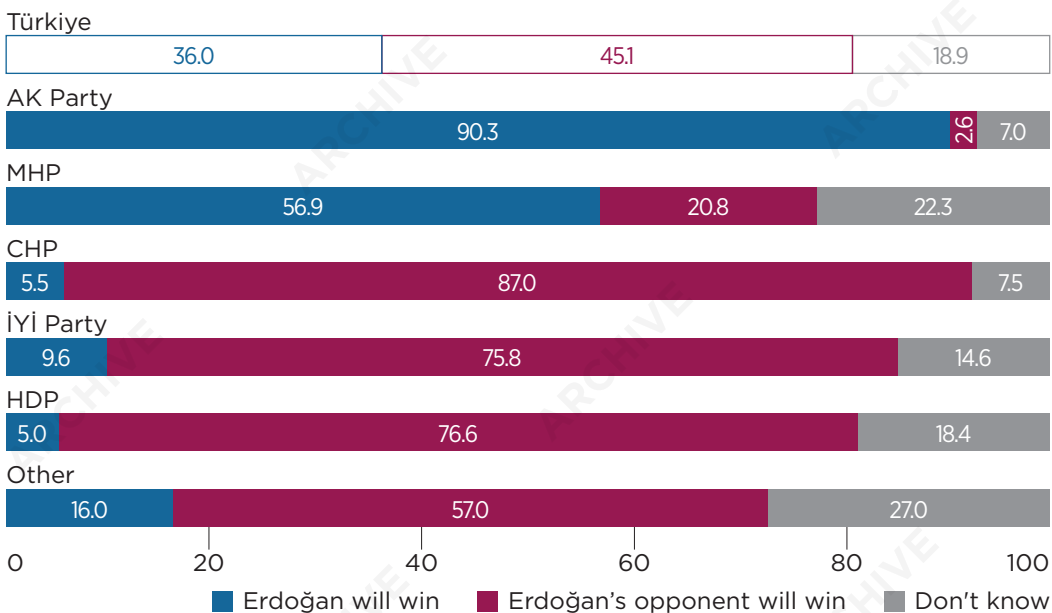
Who Will Win?

36% of respondents believe President Erdoğan will win while 45% believe his opponent will.

FIGURE 30. WHO WILL WIN?



36% of respondents believe President Erdoğan will win while 45% believe his opponent will. This is in spite of the fact that over 50% of respondents stating they won't vote for Erdoğan. 19% of respondents still weren't sure who they would vote for.

FIGURE 31. WHO WILL WIN THE PRESIDENTIAL ELECTIONS (PARTY AFFILIATION)

Party preferences play an important role in the perception of who will win the elections. As expected, the party with the strongest perception that Erdoğan will win the elections is the AK Party. 90% of those who stated that they would vote for the AK Party think that Erdoğan will win the elections. Within the AK Party, this rate is slightly lower than the number who will vote for Erdoğan (95%).

Among supporters of the other partner of the governing alliance, the MHP, 57% of respondents think that Erdoğan will win the elections. 21% of MHP voters think Erdoğan's opponent will win while 22% don't know.

Among opposition party supporters, 80% believe the opposition candidate will win. Compare this the 90% plus CHP and İYİ Party voters who state they will not vote for Erdoğan.

Second Round Scenarios for the Presidential Election

When Kemal Kılıçdaroğlu, Meral Akşener, Ekrem İmamoğlu or Mansur Yavaş reach the second round, President Erdoğan gets between 30 and 37% of the vote. Three of the four candidates, (the exception being Kılıçdaroğlu), receive more votes than Erdoğan. In these scenarios, the number of undecided voters is between 24 and 32%.

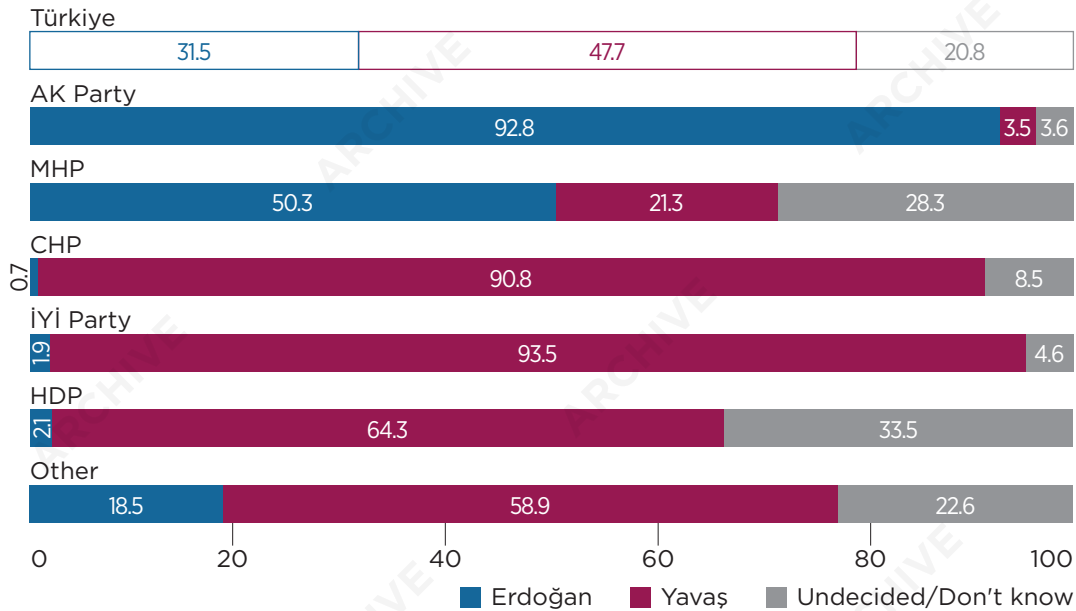
FIGURE 32. ERDOĞAN-YAVAŞ SECOND ROUND SCENARIO



Mansur Yavaş, who was elected as the Mayor of Ankara Metropolitan Municipality in the 31 March 2019 local elections, has been mentioned for a long time as a possible presidential candidate for the opposition.

In a head to head with Erdoğan, Yavaş gets 48% while Erdoğan gets 32%.

FIGURE 33. ERDOĞAN-YAVAŞ SECOND ROUND SCENARIO (PARTY AFFILIATION)



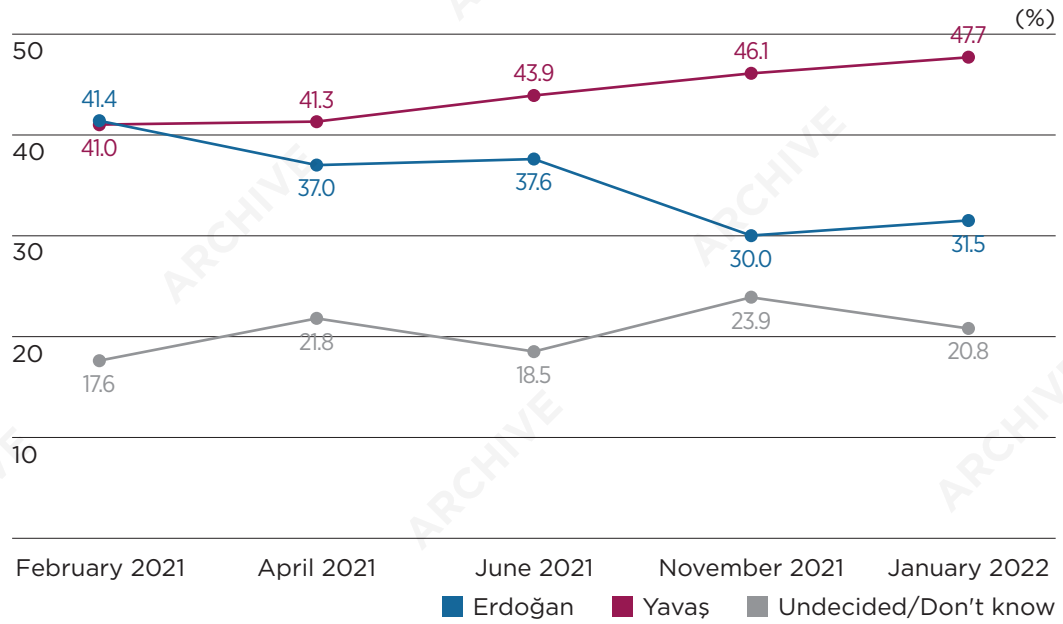
Erdoğan receives support from 93% of AK Party respondents, 50% of MHP respondents and almost none from any of the opposition parties.

Yavaş receives almost full support from the CHP-İYİ Party alliance and 64% of HDP supporters. In addition 21% of MHP supporters will support Yavaş.

The two parties with the highest undecided rate are HDP and MHP.



FIGURE 34. ERDOĞAN-YAVAŞ SECOND ROUND SCENARIO (TREND)



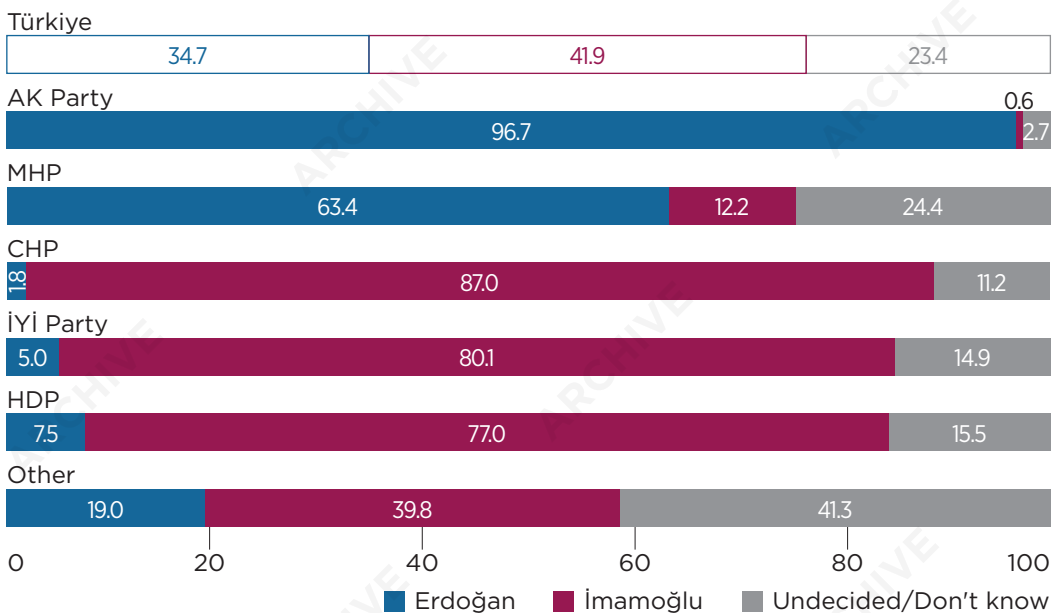
For the past year in this head to head scenario Yavaş has gained 7 points while Erdoğan has lost 10 points.

FIGURE 35. ERDOĞAN-İMAMOĞLU SECOND ROUND SCENARIO



Another potential opposition candidate is the Mayor of Istanbul, Ekrem İmamoğlu.

In a head to head with Erdoğan, İmamoğlu gets 42% while Erdoğan gets 35%.

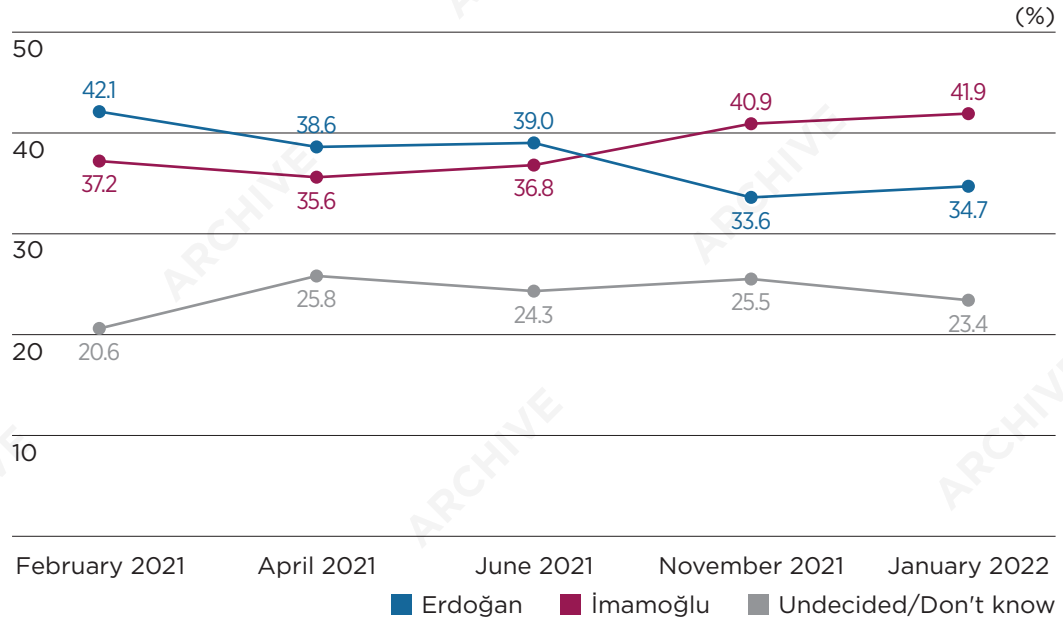
FIGURE 36. ERDOĞAN-İMAMOĞLU SECOND ROUND SCENARIO (PARTY AFFILIATION)

Erdoğan receives almost full support from AK Party respondents, 63% of MHP respondents and almost none from any of the opposition parties.

İmamoğlu receives 87% support from the CHP and 80% from the İYİ Party and 77% of HDP supporters.



FIGURE 37. ERDOĞAN-İMAMOĞLU SECOND ROUND SCENARIO (TREND)



For the past year in this head to head scenario İmamoğlu has gained 5 points while Erdoğan has lost 7 points.

1 in 4 voters remain undecided.

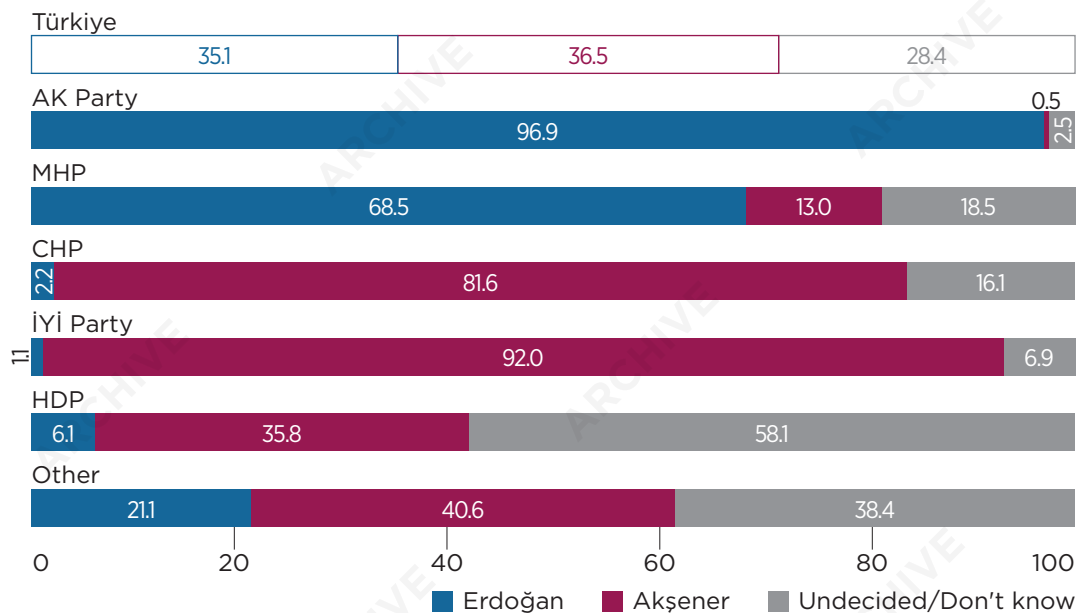
FIGURE 38. ERDOĞAN-AKŞENER SECOND ROUND SCENARIO



Another potential opposition candidate is the leader of the İYİ Party, Meral Akşener.

In a head to head with Erdoğan, Akşener gets 37% while Erdoğan gets 35%.

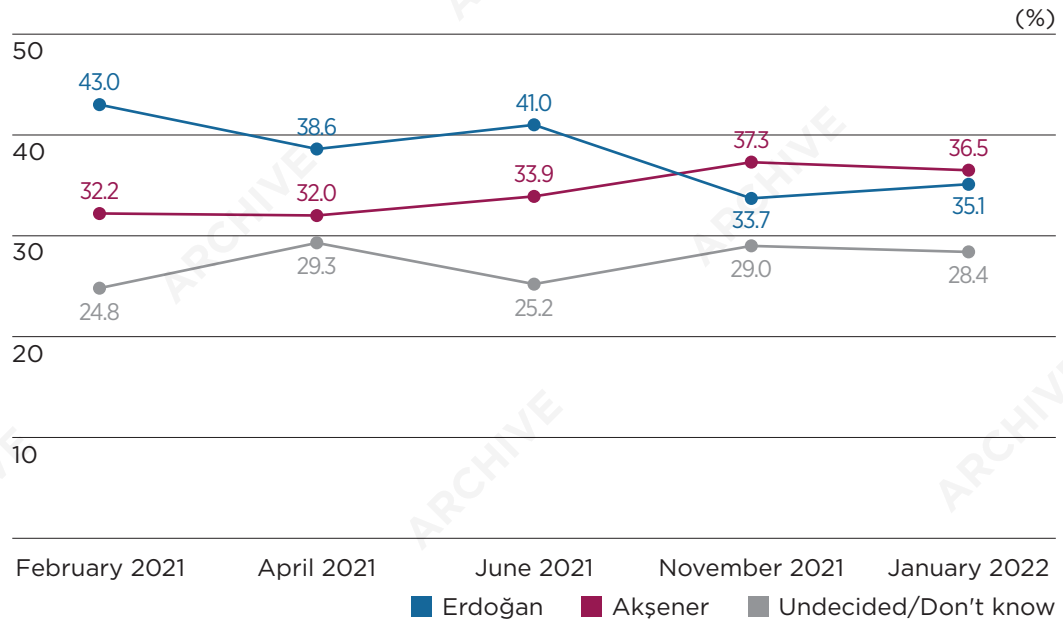
FIGURE 39. ERDOĞAN-AKŞENER SECOND ROUND SCENARIO (PARTY AFFILIATION)



Erdoğan receives almost full support from AK Party respondents, 69% of MHP respondents and almost none from any of the opposition parties.

Akşener receives 82% support from the CHP and 92% from the İYİ Party but only 36% of HDP supporters.

FIGURE 40. ERDOĞAN-AKŞENER SECOND ROUND SCENARIO (TREND)



For the past year in this head to head scenario Akşener has gained 4 points while Erdoğan has lost 8 points.

FIGURE 41. ERDOĞAN-KILIÇDAROĞLU SECOND ROUND SCENARIO

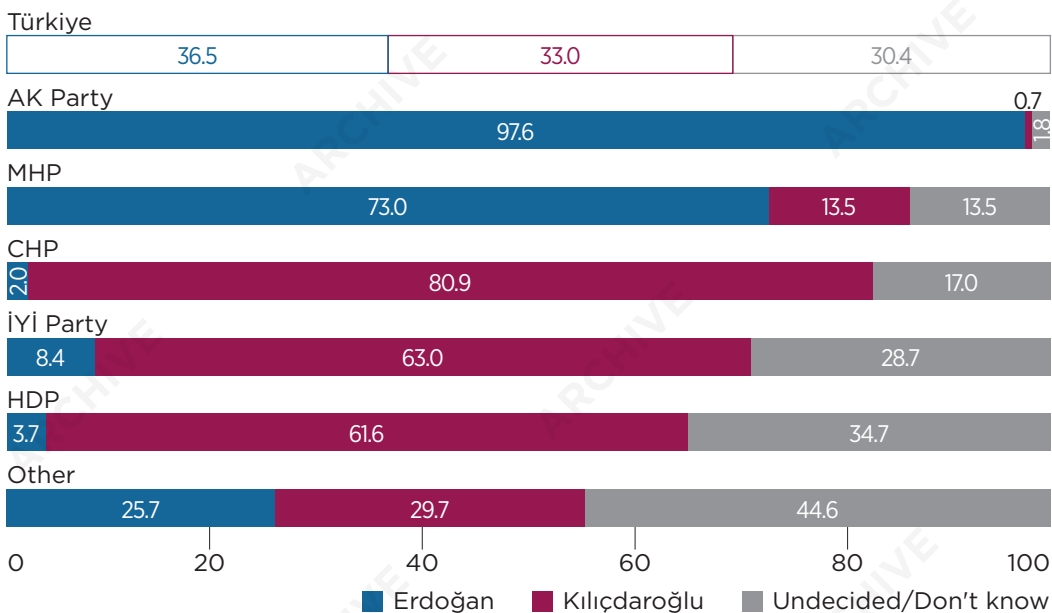


The final scenario involves CHP head, Kemal Kılıçdaroğlu, who will play the most important role in deciding the opposition's candidate.

In a head to head with Erdoğan, Kılıçdaroğlu gets 33% while Erdoğan gets 37%.



FIGURE 42. ERDOĞAN-KILIÇDAROĞLU SECOND ROUND SCENARIO (PARTY AFFILIATION)



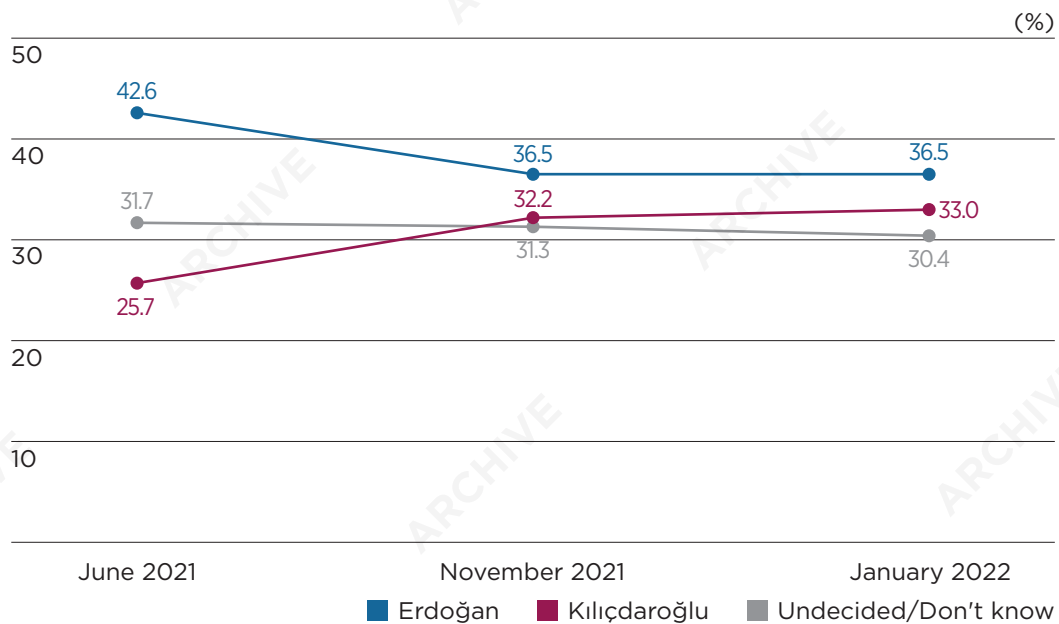
Erdoğan receives almost full support from AK Party respondents, 73% of MHP respondents and 8% of İYİ Party respondents.

Kılıçdaroğlu receives 81% support from the CHP, 63% from the İYİ Party and 62% of HDP supporters.

In this scenario 30% of respondents are undecided.



FIGURE 43. ERDOĞAN-KILIÇDAROĞLU SECOND ROUND SCENARIO (TREND)

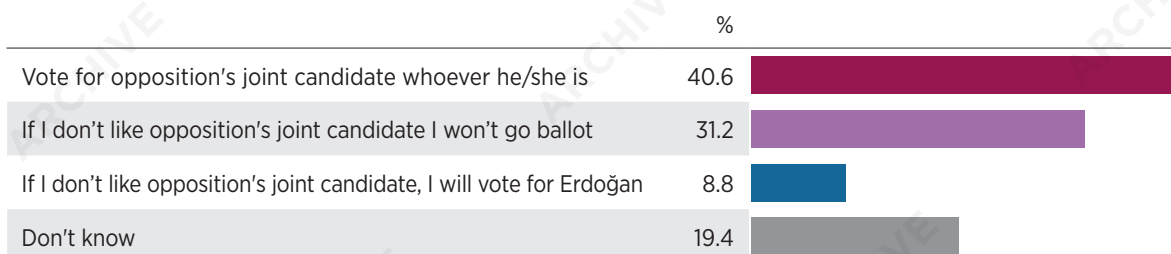


For the past year in this head to head scenario Kılıçdaroğlu has gained 7 points while Erdoğan has lost 6 points.

Attitude of Opposition Supporters to Joint Opposition Candidate

41% of respondents will vote for whoever the opposition candidate is, 31% will not vote if they don't like the candidate and 9% will vote for Erdoğan if they don't like the Opposition candidate.

FIGURE 44. VIEW ON OPPOSITION'S JOINT CANDIDATE



A joint opposition candidate by itself is not enough, the identity of the common candidate also matters.

41% of respondents will vote for whoever the opposition candidate is, 31% will not vote if they don't like the candidate and 9% will vote for Erdoğan if they don't like the Opposition candidate.

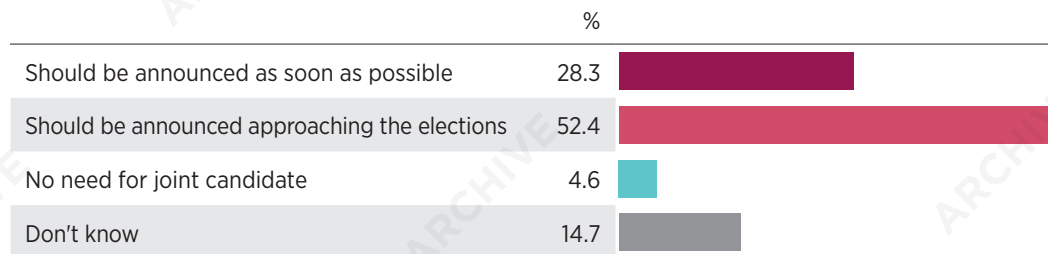
19% stated they had don't know.

When we analysed Erdoğan's chances we stated that it was very difficult for him to get the votes required to win, here we see the importance of the opposition choosing the right candidate as a mistake could be fatal.

Timing of Announcement of Opposition Candidate for Presidency

Most opposition supporters believe the opposition should announce their candidate close to the election.

FIGURE 45. TIMING OF OPPOSITION'S JOINT CANDIDATE



One out of every two respondents (52%) who would not vote for President Erdoğan or are undecided, believe the opposition parties should announce their joint candidates as they approach the elections. 28% say that it should be disclosed as soon as possible, 15% say they have don't know, and 5% say there shouldn't be a joint candidate.

Nation Alliance Enlargement Timing

Greater than 50% of respondents want the Saadet, Gelecek, DEVA Party and Democrat Party to join the Nation Alliance as soon as possible or as we near the election.

FIGURE 46. NATION ALLIANCE ENLARGEMENT TIMING



33% think this should happen immediately while 17% are prepared to wait and 26% have no opinion.

It is noteworthy that among the respondents who stated that they would not vote for Erdoğan or were undecided, 17% were sharply opposed to these parties joining the alliance.



THE ECONOMY

Turkey's Economic Trajectory

74% of the respondents state that the economic trajectory of Turkey is deteriorating, while only 18% are of the opinion that it is getting better.

FIGURE 47. TURKEY'S ECONOMIC TRAJECTORY

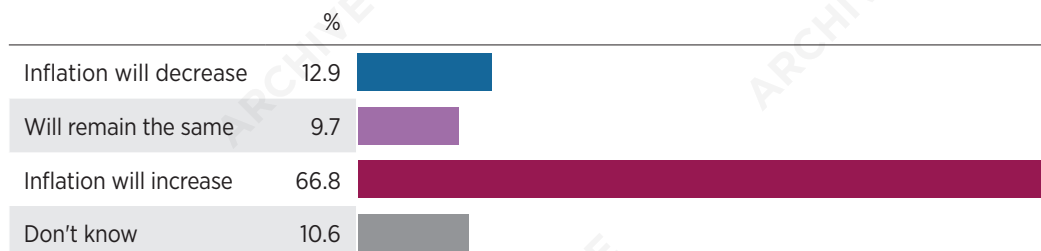


74% of the respondents think that Turkey is getting worse economically. 8% think that the economic trend will remain the same, while only 18% think it is getting better.

Inflation Expectations

The prevailing opinion among respondents (67%) is that inflation will continue to rise in the upcoming period.

FIGURE 48. INFLATION EXPECTATIONS

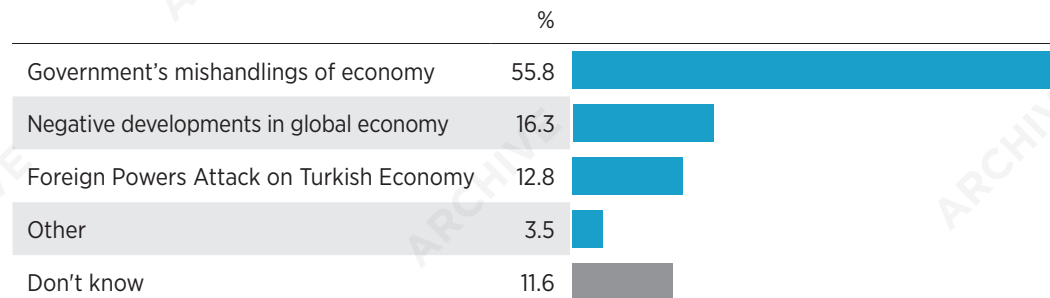


67% of the participants think that inflation will increase, 13% that it will decrease and 10% that it will stay the same.

Cause of Economic Problems

More than half of the participants think that the reason for the economic problems is the mistakes made by the government in the economic policies.

FIGURE 49. CAUSE OF ECONOMIC PROBLEMS



56% of the participants believe that the cause of economic problems is the mistakes made by the government in economic policies.

16% of respondents think that the cause of economic problems are the negative economic developments in the world while 13% believe in some devious scheme by foreign countries to keep the Turkish economy down.

Trust in the Government to Manage the Economy

More than half of the respondents (60%) do not believe that the government can solve the economic problems.

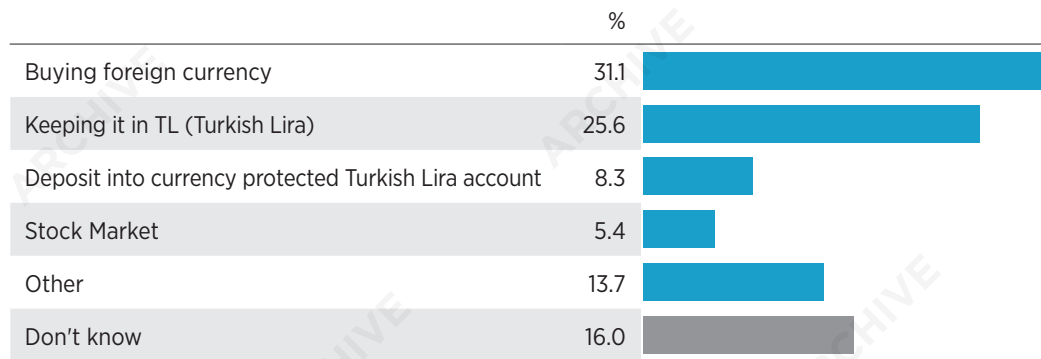
FIGURE 50. TRUST IN THE GOVERNMENT TO MANAGE THE ECONOMY



Savings Preferences

31% of the respondents stated that they would buy foreign currency if they had money that they did not need to spend immediately.

FIGURE 51. SAVINGS PREFERENCES



31% of the respondents stated that they would buy foreign currency if they had money that they did not need to spend immediately.

26% say they will keep it in Turkish Lira, while 8% will deposit it in a currency protected deposit account.

The currency-protected deposit account created to much fanfare by the government does not seem to have garnered much support.



RISK ANALYSIS



POLITICS

ECONOMY

FOREIGN POLICY

The First Lesson Of 2022: Anything is Possible

From January 2021 to December 2021 our monthly opinion polls demonstrated a drop in support for President Erdoğan from 39% to 29%. Likewise, support for the People's Alliance (AK Party and MHP) dropped from 38 to 31% before the distribution of undecided voters and from 47 (AK Party 39%, MHP 8%) to 39% after (AK Party 32%, MHP 7%).

In January's data we see that the gradual erosion of support for the government has stopped at least for January.

Parallel to the AK Party and MHP losing votes in 2021, the opposition parties were gaining votes. The Nation Alliance (CHP plus İYİ Party) increased support from 34% in January 2021 to 41% in December 2021 with total opposition votes going from 51% to 58%.

The loss of support for the governing alliance and gains for the opposition have led to a belief that the opposition parties have a good chance of winning upcoming elections.

The January data shows that for the governing parties the decline appears to have stopped, at least temporarily, and President Erdoğan has gone from 32% to 35% in support since December while his party has likewise gone from 32% to 35%. The Nation Alliance, which jumped ahead of the People's Alliance in total support for the first time in December 2021, is 3 points behind in January.

Of course, this data from January should not be interpreted to mean the government is back on track or the opposition cannot win. The opposition still leads by 15 points and support for Erdoğan and the People's Alliance is nowhere near good enough to win an election. Also, we cannot say if this is a temporary blip or the beginning of something more permanent. However, these findings along with other opinion polls showing similar and the Consumer Confidence Index also turning positive again should make everyone sit up and pay attention.

This change in January was something we predicted in December's report when we stated that everything else having failed, Erdoğan would likely heavily politicize the economy in an attempt to boost his chances of staying in power. We believe that Erdoğan and his government will prioritize the economy moving forward while at the same time try to make people forget their economic woes. This is a difficult balancing act to achieve, however, we predict various instruments such as wage increases and heavy spending will be used to improve some economic indicators. Essentially an attempt to manage the perceptions of the eco-

conomic crisis rather than address the crisis itself. In addition, Erdoğan will turn to arguments around security, terror, foreign interference etc. in an attempt to shore up his base and chip away at the support for the opposition.

January Agenda: How 2022 will play out

Since 20 December 2021 Erdoğan has been relaying the message that he will not allow citizens to be crushed by inflation and has focused on bringing stability to the TL-dollar exchange rate. The focus on the exchange rate is key as it is used by many citizens as a barometer of the health of the economy. Through this and increases to the minimum wage, he attempted to regain the political initiative and set the political agenda once more.

As part of this, government figures once again accused opposition politicians of being involved with terrorists. This line of rhetoric had not been pursued for 2-3 years but reappeared in January. First, in the last week of December, Interior Minister Süleyman Soyulu announced that an investigation had begun into the allegation that hundreds of people associated with various terrorist organizations had been recruited by the CHP-controlled Istanbul Metropolitan Municipality (IMM). This claim soon dominated the political agenda, with MHP Chairman Devlet Bahçeli stating that if the allegations were confirmed, Istanbul Mayor Ekrem İmamoğlu should be removed from office.

Then, in the first half of January, photos of HDP Diyarbakır Deputy Semra Güzel with Volkan Bora (a PKK member killed in 2017) were released culminating in an investigation carried out by the Adıyaman Chief Public Prosecutor's Office and a report prepared to be sent to Parliament requesting the lifting of Güzel's immunity. The government used this incident to accuse the CHP and İYİ Party of cooperating with terrorists in the context of cooperation between the HDP and the Nation Alliance. The CHP and İYİ Party announced that they will vote to strip the deputy of her immunity.

Finally, the head of the Directorate of Religious Affairs criticized the words of a song by Turkish pop singer Sezen Aksu where she sang about ignorant Adam and Eve. President Erdoğan entered into the debate threatening anyone who dared criticize Adam.

At the same time as the government was dominating the agenda with these issues, a Medical Faculty student, Enes Kara, committed suicide by jumping from the 7th floor of a dormitory he had been staying in. The dormitory was run by a religious sect and before his suicide Enes recorded a video saying that even though he was no longer a believer, he had been forced to stay in the dormitory by his family. The opposition parties and media spent a lot of time highlighting this case and a campaign was begun to close down the dormitories run by religious sects. Once again debates around secularism and religion came to the fore with the government calling the opposition anti-religious.

The Government's Performance in January

These four issues discussed and how three of them came to be on Turkey's agenda give us some clues as to how the rest of 2022 will shape up.

The government will attempt to paint the opposition as being anti-religious and enemies of the state. Whether through attacking the words of songs (a pop star song claimed to insulting the religious values) or accusing the opposition of collaborating with terrorists, it is clear how the government will tackle 2022. The HDP has supported the Opposition in local elections and the government will attempt to use this to tell its supporters that the Opposition are collaborating with terrorists. Also, the allegation of IMM recruiting terrorists and Guzel having photographs with a PKK member serve this fiction that the government is trying to sell. This strategy puts the opposition on the defensive and risks damaging the relationship between Kurdish voters and the Nation Alliance.

Second, discussions around these issues allow the government to pursue identity politics that it has used so successfully in the past. And with the opposition parties quickly jumping to accuse sects after the tragic suicide of Enes Kara, conservative voters, many of whom are not happy with the government become warier of the Opposition. In addition, we observed senior CHP politician Ozgur Ozel talk of a mediaval mentality (perceived as attacking Islam) which again puts conservative voters on guard.

Third, these discussions mean that people are not talking about the economic crisis. Issues like high unemployment, high inflation, and the exchange rate being out of control are all forgotten if the culture war is dominating the agenda.

To conclude, there are obvious short-term benefits to the government of engaging in such politics and it is likely that the government will continue while at the same time tinkering with the economy to make cosmetic changes that appear substantial to the electorate. As we predicted last month, the government can increase its support with this political strategy, but probably not by enough to stay in power. In the past 6 months we've seen Erdoğan's support fluctuate in the 30-35% range and it seems unlikely that such moves are enough to get Erdoğan over 35% and as such winning the election is exceptionally difficult for him.

So, rather than the movements in January signaling some return to form for Erdoğan and the AK Party, we believe it is more to be interpreted as a warning shot across the bow of the opposition, a slap on the wrist as it were in response to the Opposition's complacency and passiveness.

The Opposition's Performance in January

The Opposition had a bad month in January. After a strong 2021, where the Opposition was often setting the political agenda and putting Erdoğan and the AK Party on the back foot, Erdoğan and the AK Party struck back in January.

This month's PANORAMATR findings provide important clues regarding how much the public trust the opposition. Over and over again we see signs that full trust is not there. 70-75% of respondents think that things are going in the wrong direction in Turkey, 60% have no faith in the government to solve the problems and yet only around 40% believe the opposition can solve Turkey's economic or can govern better than Erdoğan.

The public have lost faith in Erdoğan but as yet have not put their faith in someone else. This may be part of the reason we saw some increase in Erdoğan's support in January as voters look for reasons to go back to supporting Erdoğan and see no hope in the opposition.

There are many reasons as to why the opposition has failed to project confidence to the public. It has failed to keep the economy as the number one item for everyone to worry about. There is a chronic economic crisis in Turkey that the government is struggling to manage with unemployment and inflation rising and the government failing to stop them. And yet, the opposition failed to keep this as the number one item on the political agenda. Also, the solutions offered by the government, such as the currency protected deposit scheme are poorly thought as can be seen in the number of changes made to them after they have been announced. However, the Opposition have failed to draw attention to these failings. So, while the government is performing poorly the opposition is not keeping its eye on the ball and instead being dragged into debates about religion and secularism or terrorism.

And developments in January suggest that these types of issues are still a weak spot for the opposition and perhaps even worse, the Opposition hasn't developed a clear strategy to manage these issues. Somewhat urgently the opposition needs to find a way to balance the sensibilities of Kurdish voters, secular voters, and religious conservative voters. This is not an easy task.

Conclusion

January saw some improvements in the performance of the Erdoğan government coupled with a drop in performance of the Opposition. For the first time in a year we observe some voter movement in favor of the government although likely not enough for Erdoğan to win a fresh mandate from the electorate. While this will be greeted with enthusiasm by the government it is not enough to eliminate the election anxiety they suffer from. We seemed to have reached some sort of impasse whereby Erdoğan's support is not going below 30% or above 35% while the Nation Alliance cannot get above 45% support. We still observe that voters who are disillusioned with the government are not always turning to the opposition and instead remain "undecided". For these voters, the opposition is not yet a viable alternative.

That said, even though the AK Party may have temporarily halted the decline in their support, it is becoming less and less likely that they can win the election. The best they can hope for is the Opposition loses, as it is the Opposition that will decide the result of the election.

The Planless Economy Trapped Between the Deadlocks

2022 will be a year of uncertainty both domestically and internationally. This makes forecasting complicated. As we have pointed out in our PanoramaTR reports for a long time, monetary policymakers of developed countries finally had to accept that inflation was not only caused by supply-side factors, and it might not be as transitory as expected. Emerging market economies have already started to be prepared for the difficulties of the forthcoming period. Extensive implementation of tight monetary policies will lead to contraction of global liquidity conditions. The global pandemic with its new variants promised to remain on the agenda for a longer time. On the other hand, the contractionary effects of Covid-19 on economic activity have substantially disappeared. Post pandemic economic recovery of the countries took short time and was stronger than expected. It is clear that the support packages provided by governments, in particular by the governments of developed economies, had a great impact on this. 2022 will be the normalization period. Therefore, it is normal for the strong economic outlook we witnessed last year to be replaced by more moderate growth. The slowdown in the rate of increase in economic activity both increases the uncertainties and causes the risks for 2023 to grow further while the expansionary policy measures were taken back with the effect of high inflation, risks in asset prices and concerns about the sustainability of fiscal policies.

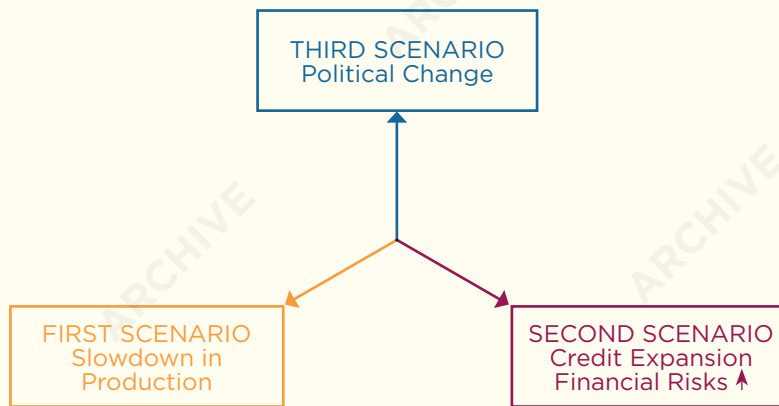
Despite the challenges of the global economy, it is still possible to make prediction on possible scenarios. However, when it comes to the Turkish economy, it is seen that uncertainty dominates instead of the risks that can be calculated by attributing certain probabilities. The Turkish economy has been trying to be managed with snap decisions since September. Until the end of December, expectation of export-led development was dominant but due to destructive volatility in exchange rates, this policy seems to be suspended. As confirmed by the Central Bank's latest interest rate decision, the Government took its foot off the gas. The Currency Protected Deposit (CPD) announced by President Erdoğan on the night of 20 December -moreover, its expansion with constant revisions and new additions- is an indication that the "competitive exchange rate" preference, which has been presented as an explanation of what has been done for several months, has been abandoned. Dramatical changes in decisions, uncertainties about newly announced measures, clarification of the implementation details in the course of time, realized inconsistencies which are tried to be corrected later, raise concerns about the economic policy decision method. Instead of offering a deliberative

and comprehensive package of measures to the public, making policies without planning and impact analysis in order to save the day, increases the uncertainties in the economy.

2022 Scenarios and Risks

For the Turkish economy in 2022, three different scenarios, each of which has angles of 120 degrees between them, can be discussed. The first arrow points to the southwest, the second to the southeast, while the third scenario points to the north (Graph 1). This situation symbolizes the dilemmas of the implemented policy as well.

GRAPH 1. TURKISH ECONOMY 2022 SCENARIOS



The government's economic strategy is shaped around the tendency to eliminate discontent in the society by accelerating economic activity with high growth and an increase in employment rates. Even if it takes on religious disguises from time to time, universal preference of politics about the trade-off between growth and stability lies on the bottom of low interest obsession. It is clear that low interest rates will have two side effects: increasing exchange rate and high inflation. The rationale for the first side-effect seems to be strong export and desired tourism revenues. In case of no current account deficit - assuming that the effect of foreign investors is negligible - the foreign exchange demand arising from the portfolio preferences of the residents seems manageable. The second side-effect is more serious since it has high potential to have an impact on voter behavior. The intended solution to the inflation problem is to protect the purchasing power of the voter base with real wage increases and government supports. Besides, there are signs to consider that measures involving more direct government intervention (such as the Central Bank's open and back-door foreign exchange sales, restrictions on foreign exchange purchases, price controls, prohibitions and penalties) are kept as a backup for both problems. The government assumes that the economic outlook, which is expected to turn positive in the summer will allow the People's Alliance to maintain its power in the 2023 elections.

The implemented policy has two main dilemmas. Self-tightening in financial conditions had as much of an impact on the exchange rate stabilization, as the currency sales and Currency Protected Deposits on individual foreign currency demand which has a risk of an accelerated increase. While the Central Bank's policy rate was reduced successively, Treasury borrowing costs increased thanks to the disrupted risk perception and inflation expectations (!). The gap between the deposit rates and lending rates of the banks and the policy rate of the Central Bank has widened. While banks shortened the maturity of commercial loans, they also increased their interest rates to levels reflecting short-term inflation expectations. Moreover, a limitation has been imposed on the offered credit amounts. Increasing labor costs, rising energy and input prices increase unit production costs, and thus, the working capital requirements of enterprises also increase. In despite of strong course of domestic and foreign demand, producers are facing difficulties in production due to the contraction in financial conditions. Global supply chain disruptions make the situation even worse. The solution is obvious: easing the financial conditions and credit supply expansion. Under the circumstances, financial sustainability will be at serious risk due to the increase in import and currency demand which are the results of manufacturing input purchases on the one hand and the accelerating effect of credit expansions on inflation on the other hand. The first dilemma of the policy arises from the contradiction between these two options.

Second dilemma of the policy is related to the export performance, which is vital for the sustainability of financial risks, and the real exchange rate. The policy stance that initially affirmed the competitive rate was replaced by concern when the increase in the exchange rate got out of control. The exchange rate was almost stabilized by taking a series of precautions. However, there were great increases in production costs in Turkish lira (TL) due to rising wages and input prices (energy sector in particular). Problems began to arise in exports, which had shown a strong upward trend so far due to the real depreciation of the TL. The second dilemma of the policy arises from the contradiction between exchange rate stability, which is vital for financial sustainability, and the undervaluation requirement of real TL value, which is required for the sustainability of external balance.

First scenario reflects the situation that economic policy tries to ensure the financial sustainability by low production and low income. In other words, it reflects the situation that financial sustainability is preferred in the first dilemma. There may be an outlook in which production and exports decline and a contraction in the economy may become prominent under an inflation that can still be considered high. The latest statements of the Minister of Treasury and Finance regarding bank loans and the plans to increase the capital of public banks by 51.5 billion TL in order to support credit expansion, reduced the likelihood of this scenario. The second scenario is about a fiction that credit expansion is increased to support economic activity, and as a result, increase in exchange rate and inflation accelerate again. This is the most probable scenario yet. In the circumstances of high nominal but low real growth, an economic

environment in which financial risks become permanent may occur, as in 1990s. Last year, the exchange rate (USD/TRY), which reflects the value of the US dollar (USD) against the Turkish lira (TL), was around 8.89 on average. Annual rate of increase would be around 50% this year if the exchange rate remains constant at its current level for the rest of the year. The annual average exchange rate is used for foreign currency assets in the calculation of the capital adequacy ratio (CAR), which is of the essence for banks. Currently, the Common Equity Tier 1 (CET1) ratio of the banking sector is 13%. Studies show that a 10% increase in the exchange rate decreases the CET1 ratio around 0.35 points. In this case, a sharp increase in the exchange rate is critical not only in terms of inflation but also in terms of the possible negative effects it may have on the capital adequacy of the banking sector. Thereafter, a course in which more direct restrictions may become notable in the capital regime (which will be a full “southeast” orientation in terms of its results) should be evaluated. The third scenario assumes that the Government will realize that the prepared game plan will not work due to a major financial turmoil that may occur in April-May, and the election will be on the agenda in the autumn of 2022. In this case, even if political uncertainty increases, a possible government changeover may be priced in. Moreover, it is possible for the exchange rate to remain relatively stable in this scenario taking the possibility of an increase in interest rates into account.

Considering that even one year will be a long term in the view of those information, and by utilizing the outcomes of scenario analyzes above, an estimate for the first half of 2022 with a narrower uncertainty range can be constructed as follows:

- Economic activity will lose momentum in January and February, then recover to a degree due to credit expansion and consumption demand provoked by inflation.
- Annual inflation, showing an increase by 15 to 25 points in the January-May period, will rise to 50-60% in the middle of the year.
- USD/TRY will force the level of 15-15.50 again in the same period.
- Tension in financial markets will increase in the April-May period due to the tightening of the monetary policy by the US Federal Reserve, the current account balance that will be affected negatively by the stagnation in production and the annual increase in commodity prices, the deteriorating public finance outlook and the inflation that continues to rise.
- Risk may occur on the CET1 of the banking sector. It may be necessary to take precautions against systemic financial risks.
- A deterioration in public finance may be observed as a result of the adverse events listed above.
- The further course of the economic outlook may differ depending on the developments in that period.



Global Economy

The most prominent factors in 2022 regarding global economy, are high inflation, the tight monetary policy stances of both developed and emerging market economies, and the possible adverse effects that this may cause on financial asset prices.

Monthly Consumer Price Index (CPI) in the USA increased by 0.5% in December, exceeding the expectations, and recorded the highest increase in the last 40 years with an increase of 7% on annual basis. The increase in housing prices was 4.1%, the price increase in non-energy services was 3.7%, and the core inflation, which excludes energy and food, was 5.5%, well above the 2% inflation target of the US Federal Reserve (FED). The increase of 29.3% in energy prices annually and the supply-side negativities caused by the global chip crisis in the automotive sector are considered as the reasons for the increase in headline inflation. In the declarations after the meeting of the Federal Open Market Committee (FOMC) -the monetary policy decision-making body of the US Federal Reserve-, and in the speeches made during the approval process of Jerome Powell, who was re-proposed to the FED chair by US President Biden, it was stated that there would be a significant tightening in the FED's monetary policy stance. In this framework, the FED will end its asset purchases sooner than anticipated, start raising interest rates as of March, and take steps to shrink its balance sheet in 2021. The FED sterilizes excess liquidity in the market by daily reverse repo transactions. The amount of money withdrawn from the market was 1 trillion 445 billion USD in November, 1 trillion 585 billion USD in December and 1 trillion 569 billion USD in the first 20 days of January, and increased to 1 trillion 706 billion USD on 21 January. This picture supports the FED's decision to make an earlier and stronger monetary tightening.

Annual consumer inflation is at high with 5.4% in the UK, 5.3% in Germany and 5% across the Eurozone. While the UK was the first developed economy to tighten its monetary policy, it is observed that policymakers in the Eurozone showed a different approach. The President of the European Central Bank (ECB) Christine Lagarde stated that the total demand in the USA is 30% above the pre-pandemic level, while there is no excess demand situation in the Eurozone. Therefore, higher-than-expected, and longer-term inflation risk faced by the USA is not seen as a risk for the Eurozone. Like the FED, the ECB also announced that it would terminate the large-scale asset purchase program at the end of March, which it started as a precaution against the global pandemic. Although it is priced in the markets that the ECB will increase the policy rate by 20 basis points until the end of 2022, ECB President Lagarde emphasizes that the higher financing cost does not match with his own policy projections. This causes the USD to present a stronger outlook against the EUR.

Global commodity prices in USD are 30% higher on average than its level in the first quarter of the previous year. Price increases is over 50% in natural gas and over 30% in Brent oil. Copper prices are 15% and aluminum prices are 40% higher, while iron prices are 20% below

its level in the first quarter of the previous year. The annual rate of increase in the food prices index, announced by the Food and Agriculture Organization of the United Nations (FAO), is calculated as 27% in the last quarter of 2021 (Graph 2).

GRAPH 2. GLOBAL COMMODITY PRICE INDEX



The hard winter conditions, the postponement of investments due to falling demand during the global pandemic, and some permanent output losses, and the supply shortages in response to the demand which recovered faster than anticipated after the pandemic, cause energy prices to remain high. The situation is getting even worse since the cartel formed by the oil producing countries prevents the prices' decline and because of the geopolitical risks based in Russia in the recent period. The tension between the Western bloc (USA in particular) and China leads to the chip crisis, the effects of which are most evident in the electronics, communication, and automotive sectors. The effects of supply-side factors and disruptions in supply chains are expected to cast a long shadow on the global economy. Due to the increase in interest rates in the USA and the concerns about the global growth outlook for 2023, commodity prices are expected to ease in the second half of the year and this situation is expected to become more evident at the end of the year.

According to The World Container Index (WCI), prepared by the UK-based maritime research and consultancy firm Drewry, shipping cost of 40-foot container reached its highest level with 10.377 USD on September 23, after recording an increase for 22 consecutive weeks. After this peak, the index started to fall and drew back to 9.051 USD in the first week of December. WCI then started to increase again and reached to 9.551 USD as of January 20. This number is 82% higher than its course in the same period of the previous year.

Turkish Economy

After the recovery that started in the third quarter of 2020, for four consecutive quarters, economic activity surged above Turkey's potential average quarterly growth rate. Consequently, the Turkish economy reached an average annual growth rate of 8%, when compared with the first quarter of 2019 (the last period before the global pandemic). It is expected that the growth will reach 7% in the last quarter of 2021, therefore a double-digit growth will be recorded throughout 2021. Yet, leading indicators concerning production indicate a loss of momentum in economic activity starting from December.

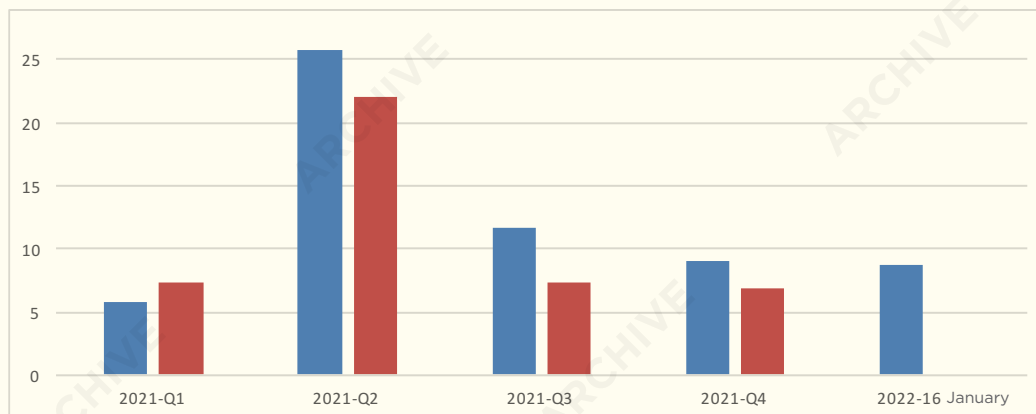
The latest Purchasing Managers' Index (PMI) data retrieved from the Istanbul Chamber of Industry and IHS Markit, revealed the negative effects of inflationary pressures on the manufacturing sector in December. The headline PMI for the Turkish manufacturing industry, which has risen from 51.2 in October to 52 in November, realized as 52.1 in December. Hence, while staying above the neutral threshold of 50, PMI indicates a slight loss of momentum in production due to intense price increases. According to the Central Bank of the Republic of Turkey (CBRT) data, the Real Sector Confidence Index (RSCI) dropped by 2.3 points to 106.1 in December. The lowest index level has been recorded since November 2020. The seasonally adjusted RSCI, on the other hand, decreased by 1.9 points compared to the previous month and realized as 110.1 in December. According to the diffusion indices of the survey questions constructing the index, the factors causing the deterioration in the RSCI were observed as the assessments of general course of the economy, the total value of orders received in the last three months, fixed capital investment expenditures and the current value of orders received.

In parallel with the growth, the annual rate of increase in electricity consumption decreased to 11.6% in the third quarter and to 9.1% in the last quarter of 2021, after recording an annual increase of 25.8% in the second quarter of the year (which was the quarter with the highest growth rate). Compared to the same period of 2021 when there was partial closure due to the global pandemic, the data for the first half of January indicates a slight decrease in the annual increase in electricity consumption (Graph 3). Furthermore, due to the problems arising in the natural gas supply, BOTAŞ cut the natural gas supply provided to Organized Industrial Zones (OIZs) and TEİAŞ declared that there would be a two-day electricity restriction in industrial facilities in order to maintain the electricity supply-demand balance. It is clear that these cuts in natural gas supply and (as a consequence) cuts in electricity will lead to loss of production at the end of January.

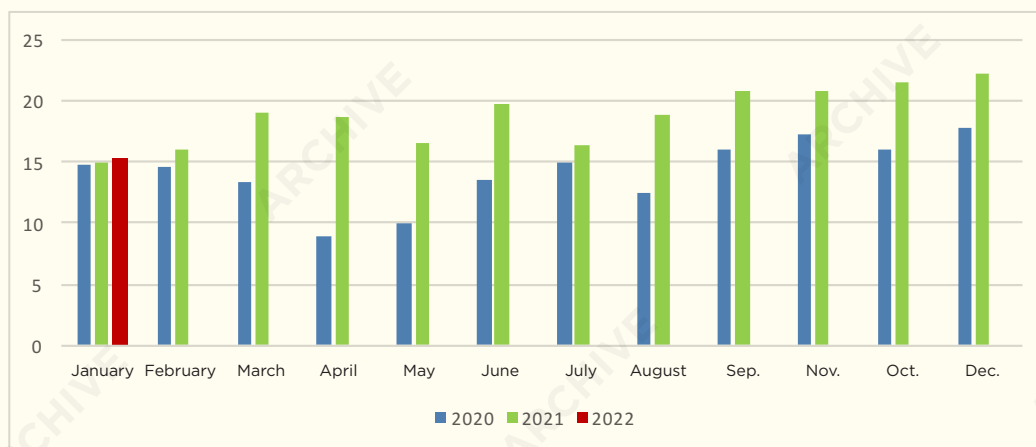
According to the weekly data released by the Turkish Exporters' Assembly, the exports amounted as 7.3 billion USD in the first half of January. In the last quarter of 2021, exports increased by 26% compared to the same period of the previous year, and by 24.9% annually in December. The rate of increase is expected to become stable in January 2022. Consequently, the rate of increase in 12-month exports will have decreased from 2% in December to 0.1% in January (Graph 4-A and 4-B)



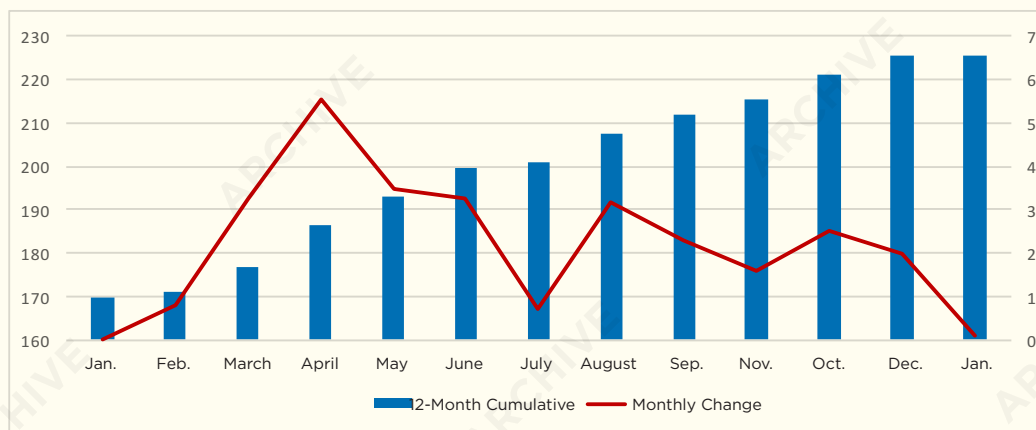
GRAPH 3. ANNUAL CHANGE IN ELECTRIC CONSUMPTION (PERCENT)



GRAPH 4-A. MONTHLY EXPORT (BILLION USD)



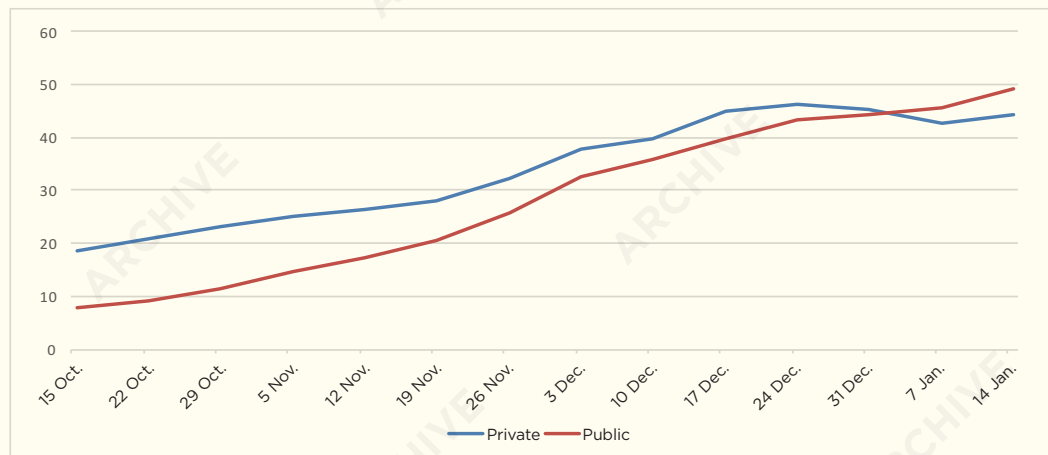
GRAPH 4-B. 12-MONTH CUMULATIVE EXPORT TREND (LEFT AXIS BILLION USD, RIGHT AXIS PERCENT)



The Energy Market Regulatory Authority (EMRA) has increased the industrial electricity tariffs by 150% applicable from 1st of January and BOTAŞ has increased the industrial natural gas tariffs by 50% as of January 1, 2022. In addition, the cost of the minimum wage to the employer has increased by 40% as known. Besides, the practice of reducing the special consumption tax (SCT) on fuel was ended which caused fuel and transportation costs to increase since the beginning of the year. In addition to the increases in production costs in TL, the S&P GSCI index, which reflects global commodity prices, has increased by nearly 7% since the beginning of this year and 13% in the last month. Thus, export prices in TL continued to rise despite stable exchange rates. Within this framework, significant increases were recorded in the production costs of exporters in TL, while product prices remained stable due to the flat course of exchange rates. This situation increases downside risks especially on exports. The fact that the exchange rate increase is below the cost increases i.e., the appreciation of TL, creates a deadlock in the economic policymaking when it is evaluated with the loss of momentum in exports since the middle of 2021. If this situation continues, external balance will be adversely affected, and it will be impossible for the Government to realize high production and current account surplus targets. It is understood that the risk is not limited to economic activity alone, considering how important export performance is in preventing the pressure that may occur in exchange rates. On the other hand, allowing an exchange rate increase that will weaken the TL in real terms with an attempt to help exports to recover and maintain its current high performance, will trigger the inflationary cycle again and may lead to an exchange rate increase-inflation spiral.

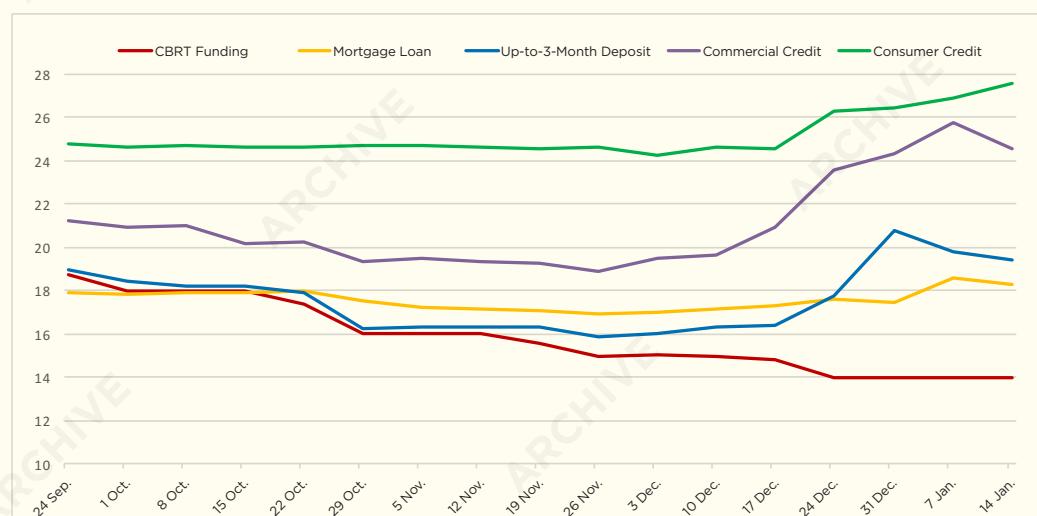
As of second week of January, banking sector's TL loan to deposit ratio was 142.4%, and foreign currency loan to deposit ratio was 61.4%. Three months ago, the same ratios were 134.9% and 63.5%, respectively. The main trend of TL loans which is calculated by annualized 13-week moving averages, shows that the sector-wide credit expansion has flattened in the last month, in contrast with the accelerated credit expansion in public banks (Graph 5).

GRAPH 5. MAIN TREND OF TL CREDITS (PERCENT)



Financial conditions in Turkey have prominently tightened since the beginning of December. This was the result of the expectations that have been negatively affected by the increase in TL loan interest rates on the one hand and the volatility in the exchange rate on the other hand. According to the average interest rates data announced by the CBRT in the beginning of December due to the rising inflation expectations; deposit interest rates up to 3 months increased by 340 basis points and commercial loan rates increased by 500 basis points until mid-January (Graph 6). Maturity of loans has been shortened along with the increase in loan interest rates. On the other hand, CBRT Eximbank loans, whose average balance was 19.5 billion USD in September, decreased to 14.9 billion USD after 10th January. The effect of mentioned tightening on financial conditions should also be taken into account while evaluating the relative stability in exchange rates.

GRAPH 6. INTEREST RATES (PERCENT)



Raises in input costs in consequence of wage increases, energy increases, the prices of raw materials and intermediate products caused TL unit costs of producers to rise, and hence a significant increase in the working capital requirements. The financial tightening which is mentioned above, creates a pressure on the producers. According to the public information, the Government is planning to increase the capital of public banks by 51.5 billion TL in order to support their capital structures and credit capacities which has deteriorated due to the weakened TL. The CBRT General Assembly will hold an Extraordinary Assembly Meeting on 3rd February to decide on the agenda of distributing advance dividends from its profit of the 2021 accounting period and distributing reserve funds from its profit of 2020. It is estimated that the source for the planned capital increase for the public banks will be provided from that. However, the CBRT incurred losses for the swap transactions due to the exchange rate increase in 2021. On the last day of the year, CBRT accounting and reporting method regarding

swap transactions has been changed and some amount from the “Revaluation Account” balance, in which unrealized exchange differences are monitored, was transferred to the “Other Items” account, in which the profit or loss for the period is monitored. By this transaction, CBRT ended the year with a profit of 60 billion TL according to its balance sheet, which was seen a loss of 70 billion TL until the 31st December. When the overall year is taken into account, the CBRT’s profit transfer to the Treasury does not have a net effect on market liquidity if the CBRT makes this profit through realized transactions since it is a net outflow from the market. However, the transfer of unrealized gains means that CBRT creates domestic assets i.e., prints money. On January 22, Treasury and Finance Minister Nurettin Nebati announced that a 3, 6 and 12-month repo window will be worked through via the CBRT and a project finance window will be opened in the bank’s balance sheet via the Credit Guarantee Fund (CGF). All these news suggest that the Government has tended towards a credit expansion supported by the monetary expansion channel as a result of the pressures coming from the manufacturing sector.

As mentioned above, easing the financial conditions through money and credit expansion is considered necessary in terms of production. In such a situation, regardless of the measures taken by the government and regulatory-supervisory institutions, it is clear that imports will increase due to investment demand and the supply of production inputs which will then raise the foreign exchange demand. Besides, it is inevitable that the indirect effects of credit expansion will increase the upside risks of inflation. As emphasized before, it should not be neglected that the tight financial conditions have an impact on the relative stable course of exchange rates. In this context, another dilemma of economic policy emerges. In the scenario where the increase in exchange rates is limited by the contractionary effect of financial conditions and further acceleration of inflation is prevented, a lower production level and a lower growth will be achieved. If it is preferred to support production through money and credit expansion, the demand for foreign currency will increase, there will be an upward pressure on the exchange rate and there will be a risk of further acceleration of the already high inflation. Latest public information indicates that the Government preferred expansion in this deadlock. Therefore, it would be reasonable to expect that the Central Bank will continue to make open and back-door foreign exchange sales, impose an obligation to sell 25% of the export revenues to the CBRT at the rate of the transaction date, and try to prevent the exchange rate increase through more direct interventions. Minister of Treasury and Finance Nurettin Nebati announced that Currency Protected Deposits (CPD) reached 184 billion TL as of 21st January. Banking sector data indicate that only 12-15% of the amount is due to the exchange of foreign currency deposits, while the remainder consists of accounts that were previously TL deposits and converted to CPD in order to be protected from currency volatility. Therefore, the CPD does not seem to achieve the targeted conversion in foreign currency deposits at least in its first month. The fact that individual savers are prevented from converting TL into a foreign currency can be counted as a success. Within the CPD accounts, which were declared

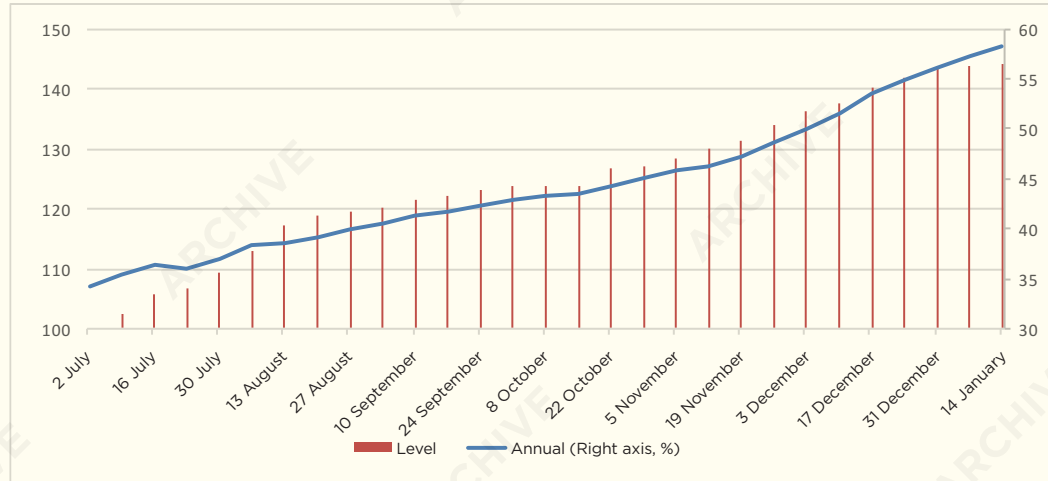
to reach over 180 billion TL, the transfers from foreign exchange remained below 15%. Therefore, the function of indexing TL deposits to foreign currency becomes more prominent than reverse currency substitution in the CPD practice. This situation increases the risks on the Treasury as we stated in our PanoramaTR December 2021 Report. In the light of the available data, it is possible that the Treasury will face an additional burden of around 15 billion TL in the first quarter of 2022 with an optimistic estimation. In addition, there may be an income loss of 10 billion TL because of the exemption of the positive exchange differences that will arise due to the year-end exchange rate valuation from corporate tax.

The most important issue on the economic agenda of 2022 will be inflation. Three main dynamics that will determine the course of inflation in the upcoming period will be exchange rates pass through to inflation, inflation inertia (the transmission of past inflation to the next period) and demand conditions. The value of the currency basket, consisting of 1 US dollar (USD) and 1 euro (EUR), increased by 28.6% in the last quarter of 2021 compared to the previous quarter. Despite the stable course of the exchange rates since the beginning of January, it is seen that there is a 20.8% increase in the foreign exchange basket compared to the last quarter of 2021, when the average rates from the beginning of the year to January 2021 are taken into account. Dollarization, which can be defined as the condition of domestic residents' increasing inclination to foreign currency as a result of losing confidence on the domestic currency, has boosted the effect of exchange rates on the pricing behavior. The level of the foreign exchange basket, which was calculated based on the average exchange rates throughout 2021, was 9.68. Even if the exchange rates remain at their current levels until the end of 2022, the annual average exchange rate increase will be 50%. Considering that this increase was 28.7% last year, the risk faced by the economy can be grasped more clearly.

In times of high inflation, the tendency to index wage or price increases to the previous period's inflation through contracts gains strength. This effect, which is more evident in items such as rent and wage increases, taxes, fees and public receivables, causes the inflation of the previous period to be carried over to the next period. The high levels of consumer price inflation (36.1%) and producer price inflation (79.9%) at the end of 2021 boost the upside risks on 2022 inflation through inflation inertia.

Demand conditions contribute to inflation dynamics as well. In the first half of January, the data for consumption expenditures by credit and debit cards indicate an increase of 75% compared to the same period of the previous year. The main trend of expenditures, calculated on the basis of moving averages and annual rates of change, shows that consumption demand has remained strong in spite of losing some momentum recently (Graph 7). Furthermore, it is evaluated that high inflation will affect consumers to move their spending to earlier dates, and wage increases may strengthen this trend.

GRAPH 7. CONSUMPTION SPENDING PROPENSITY



Lastly, it is observed that public finance has also deteriorated rapidly. The budget deficit, which was 46.5 billion TL in the first eleven months of the year, tripled that amount in December and became 145.7 billion TL. Thus, the budget deficit increased to 192.2 billion TL for the year of 2021. The most important factor affecting this table is the significant increases in current transfers and lending items. In the last month of the year, 40 billion TL was loaned to BOTAŞ and 19 billion TL was transferred under current transfers as part of the duty expense. In addition, 9.5 billion TL was loaned to EÜAŞ, 5.1 billion TL to TCDD and 3 billion TL to Eximbank. In 2021, primary expenditures in the budget increased by 32.6% and interest expenditures by 35%, while the budget revenues increased by 36.8%, and the ratio of tax revenues to primary expenditures was 82.1% (Graph 8). Since the gross domestic product (GDP) is expected to be around 6 trillion 700 billion TL in 2021, the ratio of budget deficit to national income is calculated to be 2.9%. In 2020, when public revenues declined and expenditures increased due to the effects of the global pandemic, the ratio of budget deficit to GDP was 3.6%. Inflation will be the most important factor that may negatively affect public finances in 2022; since the GDP deflator in 2022 is estimated as 12.9% and the rate of increase in Consumer Price Index (CPI) at the end of the year is estimated as 9.8% in the 2022 Budget and Medium-Term Program assumptions. It is certain that there will be a large deviation in the budget expenditure estimations according to these assumptions. On the other hand, the transfer payments in order to balance the price increases or support the low-income people, and CPD based developments which increase the expenditure and reduce the income, will have a negative impact on public finance. In this context, there is a risk of a significant increase in the ratio of tax revenues to interest expenditures and the primary budget expenditures.

The First Geopolitical Crisis of 2022

During the pandemic, geopolitics took a back seat, however in January we once again saw geopolitics come to the fore specifically with the issue of Russia and Ukraine. The first signs of escalation happened in the spring of 2021 with Moscow's military build-up on the Ukrainian border, and NATO deploying new military assets in the Baltic states. As we entered January the rhetoric was heating up with discussion of war, annexation, occupation etc.

This tension will impact Europe, NATO, the USA and Turkey. Putin's previous annexation of Crimea was partially enabled due to the Obama administration's indecisiveness as a consequence of the Arab Spring and it is not clear how Biden or the EU will respond to Putin's most recent act of aggression. That said, channels of communication are still open so we would expect some sort of agreement will be reached without an armed conflict. In addition, we believe that Moscow has a genuine desire to re-establish relations with Europe and the USA on a more equal footing and this is driving some of the sabre rattling.

Russia-Ukraine conflict

The crisis between Russia and Ukraine started in February 2014, when separatist groups attacked pro-government units with heavy weapons in the Donetsk and Lugansk (Donbas) regions, where the population of Russian origin is concentrated. The Kiev government accused the separatists of seizing weapons from the Ukrainian army and of receiving arms from Russia.

The separatists formed two so-called governments, Donetsk People's Republic and Lugansk People's Republic, on 11 May 2014 and, according to OSCE reports but denied by Russia, Russian military vehicles and heavy weapons entered Donbas from the Russia-Ukraine border, where the Kiev administration had lost control.

On December 9 2019, The Normandy Quartet Leaders' Summit was held in Paris, France. At the summit, which was attended by the heads of state of Ukraine, Russia, Germany and France, participants emphasized a full ceasefire and commitment to the Minsk Agreement. Sporadic clashes continued after the summit and then a comprehensive ceasefire was agreed on 27 July 2020 by the Tripartite Contact Group, consisting of Russia, Ukraine and the OSCE. This held until 2021 when the Russian military build-up began again, conflict increased in the Donbas region and eventually in March, Crimea officially declared its independence from Ukraine and requested to join the Russian Federation.

New geopolitics, old 'Russia and the USA'

Russia, much like China, has grown in confidence as a result of the absence of a decisive US and EU presence in much of the world. In December, Russia tried to strike a deal with the US reminiscent of the deals it used to strike in Soviet times. This deal would have forced the US and her allies to commit to stopping all military activity in Eastern Europe and the former Soviet Republics. This is the culmination of Russian nationalism whereby Russia considers certain countries to be part of a greater Russia and for example refers to Ukraine as Little Russia (Malorussiya). This is in line with the notion of 'one nation, one union' in reference to the union of Russia-Belarus-Ukraine in the 19th century.

Russia does not accept that Ukraine is a separate, independent nation and as such sees itself as justified in its aggression. This explains much of Russia's actions and rhetoric and when we add the fact that there is NATO pressure on Moscow we get a clearer understanding of how the Russian leadership is thinking.

Up to the Russia-Ukraine crisis, Russia had been careful to only get involved militarily in situations where there was an asymmetry of power and/or state structures were weak. We saw this in the South Ossetia-Abkhazia crisis in 2008, the annexation of Crimea in 2014, events in Syria since 2014, and events in Libya for the last three years. However, these recent moves against Ukraine are at a different level as Ukraine is a large sophisticated state and in addition the United States is very much focused on the threat from Russia.

If Moscow makes a move on Ukraine, it would not be surprising if Russia encounters a world without allies, where indirect allies are alienated and where the structural, financial, and geopolitical consequences are huge.

What makes the situation particularly problematic is that none of the three powers – Washington, Europe, and Russia – have been able to come up with a genuine and collaborative vision and roadmap for a new geopolitical balance. This is not the Cold War so Cold War solutions are not viable and not only that but regional actors (from EU countries to Turkey, from Iran to the Caucasus) demand that non-war solutions be reached and the existence of some degree of cooperation. As such, we think it is unlikely that there will be a sustained invasion of Ukraine by Russia even if a limited offensive is launched.

Turkey: Risks and Opportunities

Turkey has developed deeper political, economic, and military relations with Russia in recent years and as such may have a role to play in any resolution of the crisis. This however is predicated on Moscow not taking steps to further exacerbate the crisis. If Moscow chooses escalation, then Turkey's potential role is limited and in addition runs the risk of falling foul



of the United States and Europe unless it sides clearly with Ukraine. Turkey needs to engage in such a way to maximize its interests and ensure that it also receives support from the US and Europe. Turkey is willing to play a role in helping to solve the crisis, however, Russia does not seem interested at this juncture.

If Ankara is able to play the role of mediator between Russia and Ukraine it can also improve its relationship with the US and Europe and improve its position in NATO. However, both Moscow and Washington seem to prefer Turkey to be a party to rather than a mediator in the process. Therefore, Turkey finds itself in a potentially risky position that may not allow it to protect its relations with Moscow and Kiev. If the White House and the Kremlin come to some sort of common understanding then it seems likely Turkey will avoid any harm, however, if not then certain geopolitical risk may await Turkey.

