



August 2021

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Global Economy

While the fourth wave concerns in the pandemic have been strengthened as the number of new cases around the world reached their highest levels in more than two months in July, introduction of new restrictions in many countries has put pressure on global markets.

At its World Economic Outlook Update published in July, IMF underlined the deepening divergence between developed and developing countries due to asymmetric vaccine applications and maintained its global growth forecast for 2021 at 6%.

According to the leading growth data, the US economy grew annually by 6.5% in the second quarter and the Euro Area economy grew by 13.7% yoy, as the negative effects of the pandemic decreased due to widespread vaccination practices.

The Fed continued to debate when to reduce its asset purchase program at its July meeting and reiterated its commitment to maintaining supportive monetary policy.

The ECB, which announced its medium-term inflation target as 2%, kept the monetary policy unchanged at its July meeting.

Oil prices, which rose sharply in early July due to a dispute between OPEC+ countries over production quotas, declined slightly in the following days in line with the decision to increase oil production by 400K barrels per day starting from August.

Turkish Economy

Calendar adjusted industrial production increased by 40.7% yoy in May. Thus, industrial production increased by 52.2% in the April-May period compared to the same period of the previous year, pointing to a strong growth performance in the second quarter of the year despite the Covid-19 restrictions.

Seasonally adjusted unemployment rate decreased by 0.6 points compared to the previous month and became 13.2% in May. In the same period, labor force participation rate decreased by 0.8 points to 50.5%, while the number of employed persons decreased by 216K.

Manufacturing PMI rose to 54 in July, reaching its highest level since January 2021, as the easing measures taken against the epidemic positively affected demand and production.

In May, the current account deficit decreased by 23% yoy and came in at 3.1 billion USD. The 12-month cumulative current account deficit also continued its downward trend and declined to 31.9 billion USD as of May.

Central government budget deficit rose by 29.2% yoy and was realized as 25 billion TRY in June.

Annual CPI inflation became 18.95% in July, the highest level in 27 months. Annual D-PPI inflation continued to move upwards in July, reaching its highest level since October 2018 with 44.92%.

In the third Inflation Report of 2021, which was published on July 29, the CBRT raised its inflation forecast for the end of this year from 12.2% to 14.1%, while increasing it from 7.5% to 7.8% for the end of 2022.

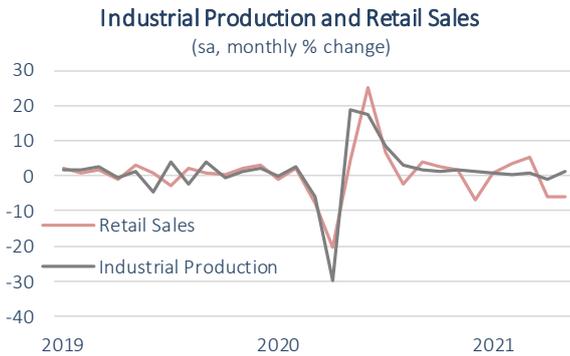
Leading Indicators

Unemployment rate became 13.2% in May.

Seasonally adjusted unemployment rate decreased by 0.6 points compared to the previous month and became 13.2% in May. In the same period, labor force participation rate decreased by 0.8 points to 50.5%, while the number of employed persons decreased by 216K. It was observed that employment increased in the services sector thanks to easing measures taken against the epidemic, while decreasing in the agriculture and industry sectors. The labor underutilization rate, which consists of time-related underemployment, unemployment and potential labour force decreased by 0.2 points mom to 27.2% in May.

Industrial production increased by 40.7% yoy in May.

Calendar adjusted industrial production, which increased by 66% in April due to the low base effect, increased by 40.7% yoy in May. Thus, industrial production increased by 52.2% in the April-May period compared to the same period of the previous year, pointing to a strong growth performance in the second quarter of the year despite the Covid-19 restrictions. On the basis of product groups, production of durable consumer goods and intermediate goods increased by 66% and 48.9% yoy, respectively. According to seasonally and calendar adjusted data, industrial production rose by 1.3% in May compared to the previous month. After contracting for the first time in the last 1-year period in April.



The annual rise in retail sales volume became 27% in May.

Calendar adjusted retail sales volume with constant prices expanded by 27% yoy in May. In this period, non-food sales increased by 39% where food sales rose by 10.6%. Seasonally and calendar adjusted retail sales volume decreased by 6.1% mom in May. Retail sales volume had decreased by 5.8% mom in April due to the restrictive measures taken against the epidemic.

Loss of momentum in white goods and automotive sales...

According to data released by White Goods Manufacturers' Association of Turkey, domestic sales in six main product groups fell by 5% yoy in June. In the same period, exports increased by 29%. Thus, in the first half of the year, domestic sales expanded by 27% and exports volume rose by 47% yoy.

According to the Automotive Distributors' Association's data, passenger car and light commercial vehicle market shrank by 45.3% in July. Contracting for the first time in

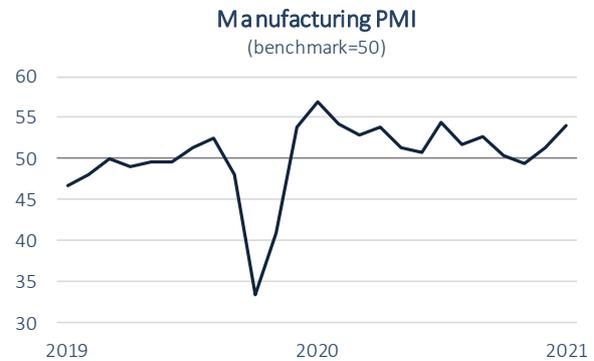
2021, automotive market remained 25.2% below the 10-year July average. In this period, passenger car sales decreased by 47.7% while light commercial vehicle sales contracted by 35.8%. In the first 7 months of the year, the automotive market expanded by 29.6% yoy, however the growth rate has lost momentum.

House sales contracted by 11.5% in the first half of the year.

House sales fell by 29.1% yoy in June due to the high base effect. The share of mortgaged sales in total house sales, which decreased by 71.5% yoy in June, was realized as 21.4%. The share of mortgaged sales in total sales had increased to 57%, the highest level in history, in July 2020. Other house sales, which rose 19.6% in the same period, limited the decrease in total sales. House sales in the first half of the year, decreased by 11.5% compared to the same period of the previous year.

Manufacturing PMI rose to 54 in July.

Manufacturing PMI rose to 54 in July, reaching its highest level since January 2021, as the easing measures taken against the epidemic positively affected demand and production. In this period, new orders recorded its fastest increase since August 2020, while the rise in production volume pointed to the best(?) performance of the last 9 months. In the same period, the employment sub-index continued to give positive signals. Input costs have increased in the last 3 months due to the cumulative effect of the depreciation in the Turkish lira and the increase in raw material costs. On the other hand, the seasonally adjusted capacity utilization rate in manufacturing industry rose by 0.1 points mom in July reaching 76.4%, which is the highest level since February 2020.



Confidence indices pointed a positive outlook in July.

Seasonally adjusted real sector confidence index increased by 2.3 points mom to 112.1 in July. In terms of sub-indices, all evaluations except the current stocks of finished goods and the production volume for the next three months had an upward effect on the index. In July, sectoral confidence indices also pointed to an improvement across sectors on a monthly basis. On the other hand, seasonally adjusted consumer confidence index, which increased by 5.8% in June compared to the previous month, decreased by 2.7% in July to 79.5. The average level recorded in the first 7 months of the year in the consumer confidence index was 81.9.

Source: Turkstat, CBRT, Datastream, Ministry of Treasury and Finance

Foreign Trade and Balance of Payments

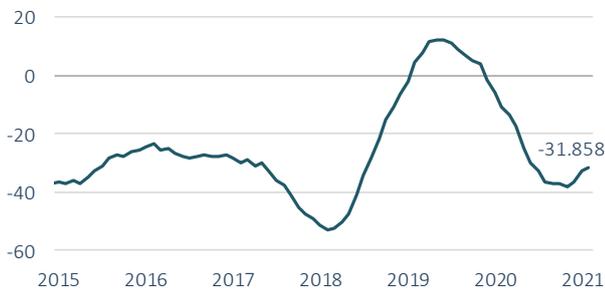
Foreign trade deficit became 2.9 billion USD in June.

According to TURKSTAT, the export volume expanded by 46.9% yoy and became 19.8 billion USD, while the import volume rose by 38.7% yoy to 22.6 billion USD in June. Hence, the foreign trade deficit narrowed by 0.2% yoy and became 2.9 billion USD. In the first half of the year export volume rose by 39.8% yoy, import volume expanded by 27.4%. In this period, the foreign trade deficit decreased by 11.4% to 21.2 billion USD.

Current account balance posted a deficit of 3.1 billion USD in May.

In May, the current account deficit decreased by 23% yoy and came in at 3.1 billion USD, close to market expectations. In this period the improvement in balance of services on an annual basis was behind the decline in the current account deficit. Because of the low base effect, transportation and tourism revenues increased rapidly in May like in April. In May, a net income of 546 million USD was recorded in transportation revenues. Tourism revenues, which recorded no income in May 2020, contributed 665 million USD to the current account balance in May even though the restrictive measures against the pandemic were in place and pointed out that the recovery in the sector continued. Thus, in the January-May period, the current account deficit decreased by 30% yoy and became 12.7 billion USD. The 12-month cumulative current account deficit also continued its downward trend and declined to 31.9 billion USD as of May.

Current Account Balance
(12-month cumulative, USD billion)

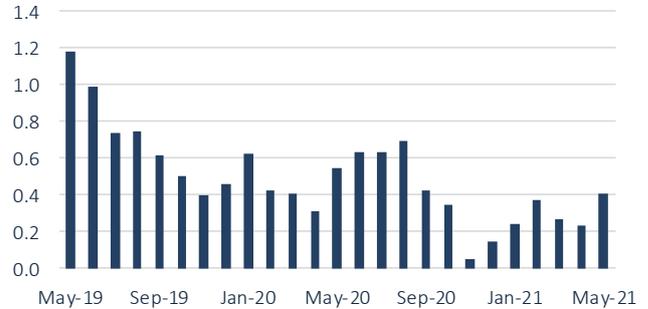


In May, capital investments increased on an annual basis.

Nonresidents' net direct investments to Turkey became 304 million USD in May. In this period, nonresidents' direct investments were realized as 619 million USD and 222

million USD of that amount were real estate investments. However, rising by 50.6% yoy with the contribution of low base, the share of capital investments increased in nonresidents' direct investments. 12-month cumulative net direct investments were realized as 4.1 billion USD as of May.

Net Foreign Direct Investment
(3-month moving average, USD billion)



In May, there was a net capital inflow of 836 million USD in portfolio investments.

Following the rapid capital outflows in March-April period, a net capital inflow of 836 million USD was recorded in portfolio investments in May. There had been a capital outflow of 2.6 billion USD in portfolio investments in May 2020, when the effects of the pandemic were felt intensely and uncertainty concerns were high in the markets. While the inflow of 316 million USD in May resulted from the reduction of foreign assets of domestic residents, mainly banks, non-residents made a net purchase of 99 million USD in the stock market and 349 million USD in the GDDS markets. With the inflows recorded in May, the capital outflow in portfolio investments decreased to 904 million USD in the January-May period, and the net capital inflow in portfolio investments increased to 4.9 billion USD in the last 12-month period.

Capital inflows in other investments increased rapidly in May.

Net capital inflow in the other investments item increased by 89% in May compared to the previous month and reached to 3.4 billion USD, the highest level of this year. In this period, nonresident banks' deposit accounts held within domestic banks increased rapidly (933 million USD) compared to the previous month. On the other hand, domestic banks' currency and deposits within their foreign correspondent banks, which decreased by 2.5 billion USD in

Net Capital Flows
(12-month cumulative, billion USD)

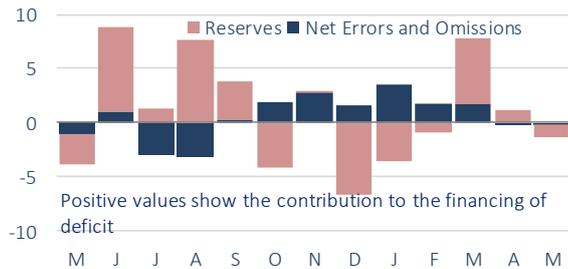


Source: CBRT, Datastream

Foreign Trade and Balance of Payments

April, increased by 837 million USD in May and limited the inflows originating from other investments. In May, banks made a net repayment of 674 million USD and the General Government made a net repayment of 19 million USD for loans provided abroad. On the other hand, other sectors made 3.6 billion USD net borrowing in May. According to the 12-month cumulative data, as of May, the long-term debt rollover ratio became 87.8% in the banking sector and 107.7% in other sectors.

CBRT Reserves and Net Errors and Omissions
(monthly, USD billion)



Reserve assets increased by 1.3 billion USD in May.

Reserve assets increased by 1.3 billion USD in May. According to the 12-month cumulative data, the decline in reserve assets became 11 billion USD as of May. In May, there was a limited capital outflow of 154 million USD in the net errors

and omissions item. In the first 5 months of the year, a capital inflow of 6.7 billion USD was recorded in the net errors and omissions item.

Expectations...

According to the preliminary foreign trade data released by the Ministry of Commerce, export volume increased by 10.2% yoy to 16.4 billion USD in July, while import volume expanded by 17% yoy to 20.7 billion USD. Thus, the foreign trade deficit widened by 52.4% and became 4.3 billion USD. While the rapid spread of the delta variant, which creates 4th wave concerns in the pandemic, is closely monitored on a global scale, the news that most of the current vaccines are also effective against the delta variant alleviates concerns together with rising vaccination rates around the world. With the lifting of travel bans from Russia to Turkey in June after Germany and the US, cautious optimism regarding the upcoming performance of the tourism sector continues. On the other hand, rising oil prices continue to be risk factors on the balance of payments.

Balance of Payments	(USD million)			
	2020	May 2021	% Change	12-month Cumulative
Current Account Balance	-4,000	-3,081	-23.0	-31,858
Foreign Trade Balance	-2,744	-2,869	4.6	-33,049
Services Balance	-170	939	-	9,753
Travel (net)	0	665	-	9,590
Primary Income	-1,048	-1,302	24.2	-9,599
Secondary Income	-38	151	-	1,037
Capital Account	-4	-1	-75.0	-42
Financial Account	-5,141	-3,236	-37.1	-23,876
Direct Investments (net)	-140	-304	117.1	-4,069
Portfolio Investments (net)	2,592	-836	-	-4,909
Net Acquisition of Financial Assets	-2,070	-316	-84.7	-238
Net Incurrence of Liabilities	-4,662	520	-	4,671
Equity Securities	-1,009	99	-	-2,152
Debt Securities	-3,653	421	-	6,823
Other Investments (net)	-10,310	-3,377	-67.2	-3,871
Currency and Deposits	-11,726	-660	-94.4	-6,474
Net Acquisition of Financial Assets	-1,123	927	-	5,458
Net Incurrence of Liabilities	10,603	1,587	-85.0	11,932
Central Bank	9,969	-62	-	3,018
Banks	634	1,649	160.1	8,914
Foreign Banks	619	933	50.7	8,963
Foreign Exchange	-54	840	-	6,471
Turkish Lira	673	93	-86.2	2,492
Non-residents	15	716	4,673.3	-49
Loans	1,086	-2,787	-	428
Net Acquisition of Financial Assets	-295	94	-	-415
Net Incurrence of Liabilities	-1,381	2,881	-	-843
Banking Sector	-385	-674	75.1	-2,834
Non-bank Sectors	-879	3,574	-	2,575
Trade Credit and Advances	330	72	-78.2	2,172
Other Assets and Liabilities	0	-2	-	3
Reserve Assets (net)	2,717	1,281	-52.9	-11,027
Net Errors and Omissions	-1,137	-154	-86.5	8,024

Source: CBRT, Datastream

Budget Balance

Central government budget posted a deficit of 25 billion TRY in June.

In June, budget revenues increased by 33.3% yoy to 88.3 billion TRY. In this period, budget expenditures expanded by 32.4% yoy and became 113.4 billion TRY. Thus, the central government budget deficit, which was 19.4 billion TRY in June 2020, rose by 29.2% yoy and was realized as 25 billion TRY in June 2021. During this period, the primary deficit became 15.6 billion TRY.

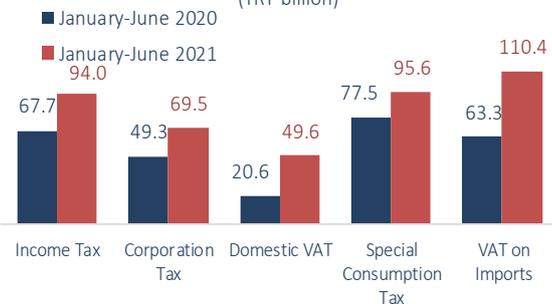
In the first half of the year, the central government budget performance has improved compared to the same period of last year, thanks to the rapid increase in tax revenues. In this period, budget revenues expanded by 38.5% yoy, while budget expenditures increased by 17.4% yoy. Thus, the budget deficit decreased by 70.3% yoy to 32.5 billion TRY in the first half of the year. The primary balance, which gave a deficit of 38.2 billion TRY in the first half of 2020, posted a surplus of 58.3 billion TRY in January-June period of this year.

The rise in tax revenues continued in June.

The rapid increase in tax revenues in recent months continued in June, albeit losing some momentum. In this period, tax revenues went up by 32.1% yoy and became 73.2 billion TRY. In June, on a monthly basis the rise in special consumption tax (SCT) and value added tax (VAT) on imports with the effect of the loosening of the measures taken against the pandemic and the exchange rate developments drew attention, while the increase in income tax and domestic VAT revenues on an annual basis provided significant support to the tax revenues.

Tax Revenues

(TRY billion)



In the first half of the year, tax revenues rose by nearly 50% and reached to 497 billion TRY. In this period, VAT tax revenues on imports, which account for 22% of total tax

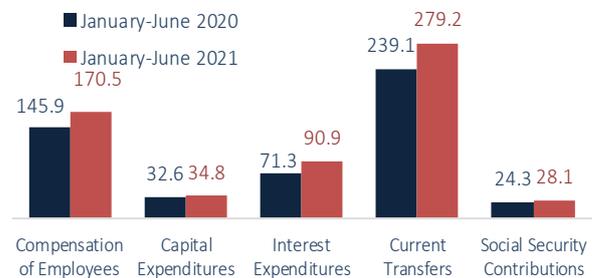
revenues, went up rapidly by 74.6%, while domestic VAT revenues, which account for 10% of total tax revenues, increased 1.5 times. While non-tax revenues rose by 39.5% yoy and became 15.1 billion TRY in June, in January-June period revenues expanded by 12.1% yoy to 133.9 billion TRY.

Current transfers increased by 38.2% yoy in June.

In June, interest expenditures expanded by 49.5% yoy to 9.4 billion TRY, while non-interest expenditures increased by 31% yoy to 104 billion TRY. The current transfers, which account for nearly half of primary expenses, went up by 38.2% yoy in June. This increase was driven by the annual rise of 5.4 billion TRY in other treasury aids as well as the 422.8% annual rise in the other transfers to households item. In this period, capital expenditures contracted by 15.2% yoy due to the decline in real estate capital and production expenditures.

Budget Expenditures

(TRY billion)



In the January-June period, primary expenditures increased by 16% yoy, close to the inflation rate, while interest expenditures expanded by 27.5% yoy.

Expectations...

Despite the widening in the budget deficit in June, budget indicators presented a positive outlook in the first half of the year compared to the same period of 2020. In addition to the low base effect of the same period of last year, when the effects of the pandemic on the budget were felt most intensely, the rapidly increasing revenue items, thanks to the expansion of the economic activity with the acceleration of vaccinations against Covid-19 and the restructuring of taxes and administrative fines, were behind this development. We anticipate that fiscal policy will continue to be cautiously supportive of economic activity in the current environment, where concerns about new variants of Covid-19 point to increased risks in the second half of the year.

Central Government Budget

(billion TRY)

	June			January-June			2021 Budget Target	2021 Target*	Real./2021 Target* (%)
	2020	2021	% Change	2020	2021	% Change			
Expenditures	104.6	113.4	8.4	1,000.0	663.4	-33.7	1,346.1	1,454.5	45.6
Interest Expenditures	6.3	9.4	49.5	71.3	90.9	27.5	179.5	179.6	50.6
Non-Interest Expenditures	100.4	104.0	3.5	900.1	572.5	-36.4	1,166.6	1,274.9	44.9
Revenues	72.8	88.3	21.4	875.3	630.8	-27.9	1,101.1	1,254.6	50.3
Tax Revenues	60.6	73.2	20.9	673.9	496.9	-26.3	922.7	1,051.1	47.3
Other Revenues	12.2	15.1	23.8	201.4	133.9	-33.5	178.4	203.6	65.8
Budget Balance	-31.8	-25.0	27.9	-124.7	-32.5	-73.9	-245.0	-199.9	16.3
Primary Balance	-27.6	-15.6	29.5	-24.8	58.3	56.3	-65.5	-20.3	-

Numbers may not add up to total value due to rounding.

(*) The estimates included in the Public Finance Report published by the Ministry of Treasury and Finance in May.

Source: Datastream, Ministry of Treasury and Finance

Inflation

Monthly CPI inflation came in at 1.8% in July.

In July, CPI increased by 1.8% compared to the previous month, exceeding market expectations. Market expectation for this period was around 1.5%. 1.8% monthly rise in CPI corresponds to the highest monthly inflation recorded in July since 2001. In this period, the rise in domestic PPI (D-PPI) became 2.46%, pointing to the highest D-PPI inflation for July since 2002.

Annual CPI inflation rose to 18.95% in July.

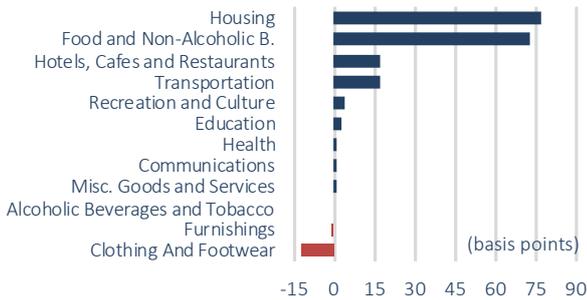
Annual CPI inflation became 18.95% in July, the highest level in 27 months. Annual D-PPI inflation continued to move upwards in July, reaching its highest level since October 2018 with 44.92%.

July (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	0.58	1.80	1.02	2.46
Year-to-Date	6.37	10.41	7.98	25.05
Annual	11.76	18.95	8.33	44.92
Annual Average	11.51	15.15	6.81	28.47

The monthly rise in the housing group prices stood out.

In July, prices in 10 out of 12 main spending groups increased compared to the previous month. The housing group prices surged at the fastest rate by 5.07% on a monthly basis with the impact of the rises in electricity and natural gas prices and pushed monthly inflation up by 77 bps. The food and non-alcoholic beverages prices increased by 2.77% mom and made the second highest contribution to the monthly CPI inflation by 73 bps. The increases in transportation and hotel and restaurant prices contributed a total of 33 bps to the monthly CPI inflation in this period. On the other hand, prices in the clothing, footwear and household equipments group declined on a monthly basis.

Contributions to the Monthly CPI Inflation

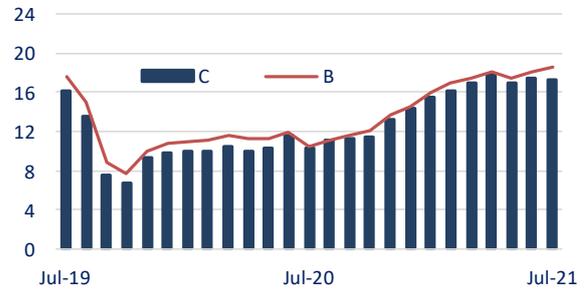


In terms of the contribution of the main expenditure groups to annual CPI inflation, the food and non-alcoholic beverages group has the highest impact on inflation with 609 bps and it is followed by the transportation group with 376 bps and then the housing group with 293 bps.

Core inflation indicators...

In July, when seasonality is expected to have a downward impact on inflation, the monthly increase in CPI excluding seasonal products stood at 1.88%, close to the headline inflation. The monthly rise of 5.59% in fresh fruit and vegetable prices played an important role in this development. Inflation indicators B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold), and C index (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold), which are closely monitored by the CBRT, increased less than the headline inflation on a monthly basis and became 1.00% and 0.62%, respectively. In this period, annual rise in B and C indices became 18.51% and 17.22%, respectively.

Special CPI Aggregates (annual % change)



Basic metals and food products prices made the highest contributions to the D-PPI inflation.

In July, the highest monthly price increases were recorded in crude oil and natural gas products by 9.33% and wood products by 6.58%. In this period, the sectors that made the highest contribution to the D-PPI inflation were the basic metals and food sectors.

Expectations...

Inflation indicators presented an overall worse-than-expected picture in July. Annual CPI inflation approached the CBRT's policy rate of 19% while the gap between D-PPI and CPI widened. In the current environment where inflationary pressures continue to be felt on a global scale and the usual downward impact of seasonal factors on inflation is limited, risks on the expected mild outlook for inflation for the last quarter of the year have been piling up. On the other hand, the relatively stable course of the Turkish lira in the recent period alleviates these risks to some extent. In its Inflation Report published on July 29, the CBRT raised its year-end CPI inflation forecast from 12.2% to 14.1% and reiterated its expectation that there will be a fall in the inflation path in the last quarter.

Financial Markets

	30-Jun	30-Jul	Change
5-Y CDS (basis points)	379	378	-2 bps ▼
TR 2-Y Benchmark Yield	18.35%	18.73%	38 bps ▲
BIST-100	1,356	1,393	2.7% ▲
USD/TRY	8.7037	8.4333	-3.1% ▼
EUR/TRY	10.3226	10.0306	-2.8% ▼
Currency Basket*	9.5133	9.2325	-3.0% ▼

(*) (0.5 USD/TRY + 0.5 EUR/TRY)

New variants of coronavirus and the course of vaccination affect markets.

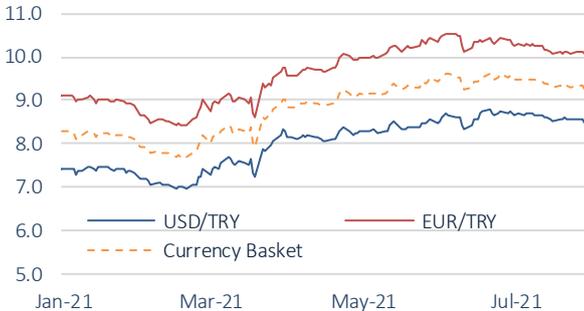
While the uncertainty on global economic growth created by the new variants of the coronavirus causes downside risks on the markets to increase, the course of inflation data on a global scale, especially in the US, is being closely monitored.

BIST-100 and Emerging Market Index
(31.12.20=100)



Domestic markets, which were under pressure in the second week of July, recorded an increase throughout the month. After the rapid decline in June, BIST-100 index differed positively from other developing countries in July and rose to 1,393 points at the end of the month increasing by 2.7%. In this period, the monthly appreciation of TRY against USD and EUR affected the risk appetite positively. USD/TRY closed the month at 8.43, declining by 3.1% compared to the end of June, while EUR/TRY decreased by 2.8% to 10.03.

FX Rates



The CBRT revised its inflation forecasts upwards.

In the third Inflation Report of 2021, which was published on July 29, the CBRT raised its inflation forecast for the end of this year from 12.2% to 14.1%, while increasing it from

7.5% to 7.8% for the end of 2022. The upward revision of the assumptions regarding the international oil price, import prices in USD terms and food inflation had an impact on the revision in the inflation forecasts. The CBRT raised its annual average Brent crude oil price forecast for the end of 2021 from 64.4 USD/barrel to 69.6 USD/barrel, and its food inflation forecast from 13% to 15%. CBRT Chairman Kavcıoğlu stated that they anticipate a decline in inflation starting from the 4th quarter, yet gave the message that the tight monetary stance will be maintained until strong indicators came out ensuring that a the decline in inflation is permanent.. Kavcıoğlu also stated that the economy will have a current account surplus in the remainder of this year, which will ease the pressure on the exchange rates and have a positive effect on inflation.

CBRT Projections Update*

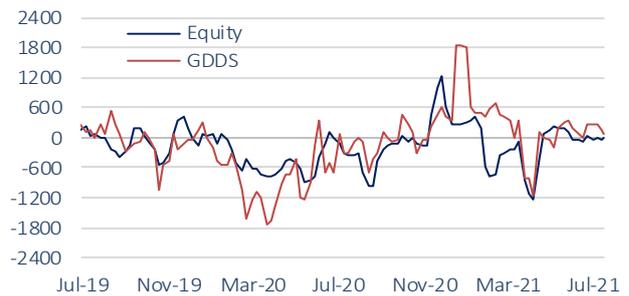
	2021	2022
Export Weighted Global Production Index (annual average % change)	4.8 (4.4)	4.5 (4.4)
Brent Oil Price (annual average, USD)	69.6 (64.4)	69.4 (61.9)
Import Prices (USD, annual average % change)	16.3 (13.3)	0.2 (-0.5)
Food Price Inflation (year-end % change)	15.0 (13.0)	10.1 (9.8)

*The numbers in parentheses show the values in the April Inflation Report.

Securities portfolio of non-residents...

According to the securities statistics published by the CBRT, adjusted for exchange rate and price movements revealed that as of July 19, non-residents have made net sales of 45.9 million USD in the stock market, while they made net purchases of 161.5 million USD in the GDDS market since the end of June. As a result, total foreign capital outflow in the stock market was realized as 1.8 billion USD since the end of 2020, while total foreign capital inflow in the GDDS market has become 1.3 billion USD.

Non-residents' Portfolio Movements
(3 week moving sum, million USD)



TRY deposit volume rose by 12.1% yoy.

According to the BRSA's Weekly Bulletin, as of July 19, the total deposit volume expanded by 25.4% compared to the same period of the previous year and by 13.7% compared to the end of 2020, reaching 3,920 billion TRY. Annual rise in FX rate adjusted deposit volume was realized as 11.7%. TRY deposit volume, which has lost momentum since May, when the annual growth rate had reached 17.6%, increased by 12.1% yoy becoming 1,761 billion TRY. FX deposits in USD terms, which decreased to 244 billion USD in the week of April 2, increased by 11.3% yoy in this period and reached 254 billion USD. The volume of FX deposits in USD terms had been 259 billion USD at the end of last year.

TRY loan volume expanded by 15.1% yoy.

As of July 19, the total loan volume of the banking sector increased by 17.8% yoy and became 3,881 billion TRY. While the downward trend in the pace of the annual loan growth has continued, the increase in total loan volume became 8.5% compared to the end of the previous year. The annual rise in FX rate adjusted loan volume became 8.4% in this period. While the annual TRY loan growth was realized as 15.1%, pointing out the slowest pace since January 2020, FX loans in USD terms decreased by 1.5% yoy to 164 billion USD.

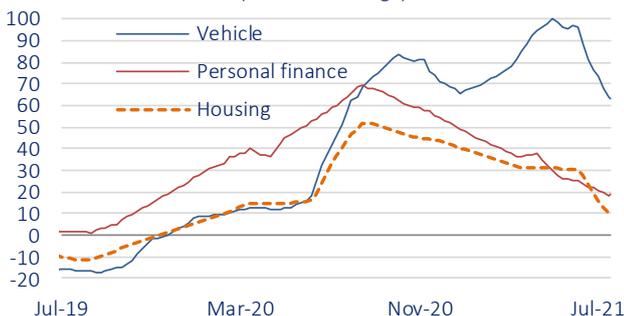
Deposits and Loans
(annual % change)



Rise in consumer loans is losing momentum.

Growth rate in consumer loans has continued to fall in July. As of July 19, consumer loans expanded by 16.1% yoy and 4.9% ytd. In this period, the annual growth in housing and consumer loans became 10.6% and 18.9%, respectively, while the annual increase in vehicle loans decreased to 63.4%.

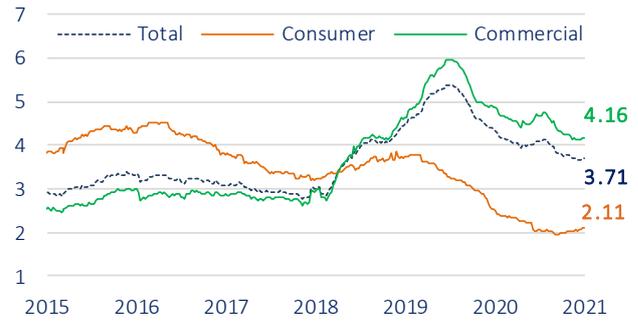
Consumer Loans
(annual % change)



Non-performing loan ratio stands as 3.7%.

As of July 19, the amount of gross nonperforming loans decreased by 0.7% yoy and became 149.3 billion TRY and NPL ratio was realized as 3.7%. While the said ratio was 2.5% in public banks, it became 4.8% in private banks. In terms of loan types, NPL ratios for commercial and consumer loans were realized as 4.2% and 2.1%, respectively.

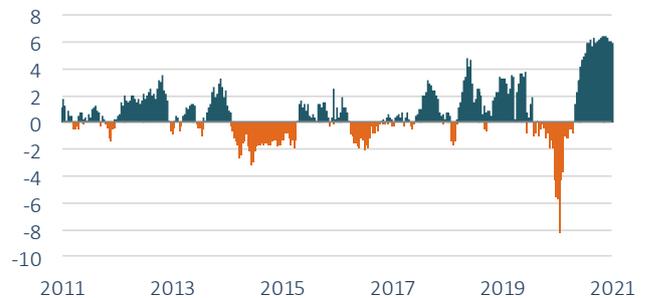
Non-performing Loans
(%)



Net foreign currency position...

As of July 19, banks' on-balance sheet FX position was (-) 51,020 million USD, while off-balance sheet FX position was (+) 57,050 million USD. Hence, banking sector's net foreign currency position became (+) 6,030 million USD.

Net FX Position
(USD billion)



Source: BRSA Weekly Bulletin

Concluding Remarks

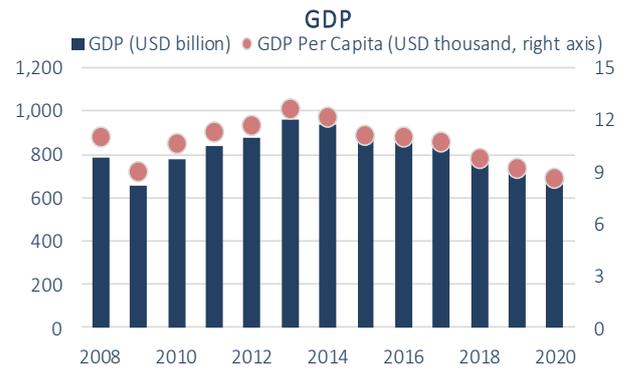
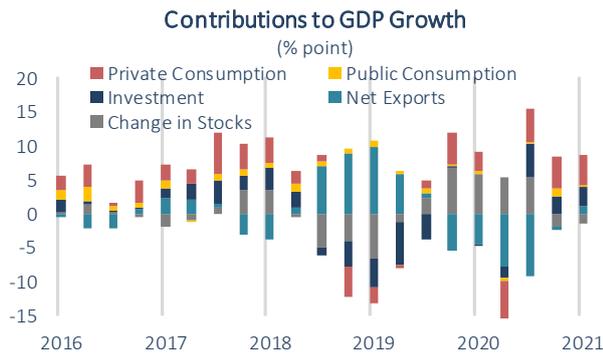
Despite the widespread use of vaccines globally, the recent rise in the number of new cases raises concerns about restrictions. In addition, the deepening divergence between advanced and emerging countries due to vaccine applications creates uncertainty regarding the course of the global economic recovery.

Economic activity in developed countries, especially in the US and the Euro Area, displays a strong outlook. On the other hand, the possible effects of the high inflation environment in developed countries on monetary policies stand out on the agenda of global markets. While the Fed's assessments at its July meeting regarding its asset purchase program were closely followed, Chairman Powell's statements that the supportive monetary policy would be maintained alleviated the expected early tightening concerns in the markets.

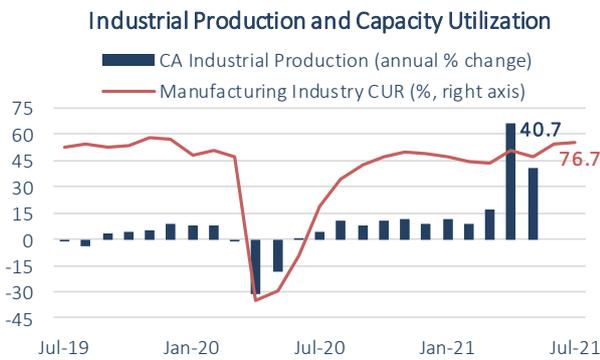
July releases of the economic data in Turkey displayed a positive outlook and supported optimistic expectations for the coming period. In this period, manufacturing PMI data pointed to the continued strong course in the sector while confidence indices posted a noticeable recovery. The turnover of the accommodation and food sectors increased rapidly thanks to the increasing demand for the services sector as the restrictions in the country were lifted. On the other hand, in addition to the rise in commodity prices on a global scale, the increase in the exchange rate pass-through and the rise in administered prices continued to pose risks to the inflation outlook. Maintaining its current stance in monetary policy by not

changing the policy rate at its meeting in July, the CBRT raised its year-end inflation forecast to 14.1% in the Inflation Report published on 29th of July. The course of inflation, which is already close to the policy rate, and the steps to be taken in monetary policy will be followed closely in the rest of the year. In addition, the possible repercussions of the recent increase in the number of new cases in the country on economic activity will continue to have an impact on the markets.

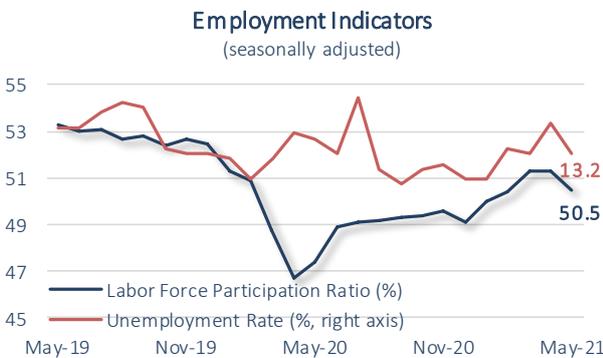
Growth



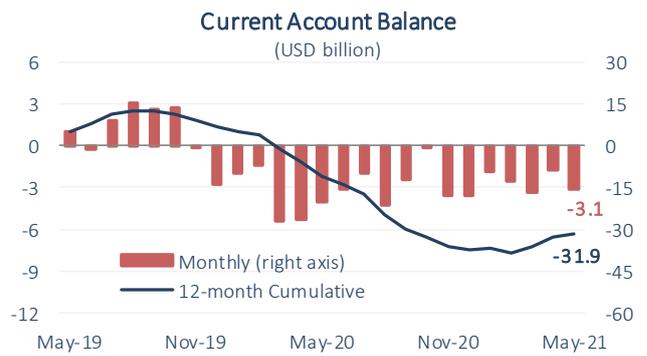
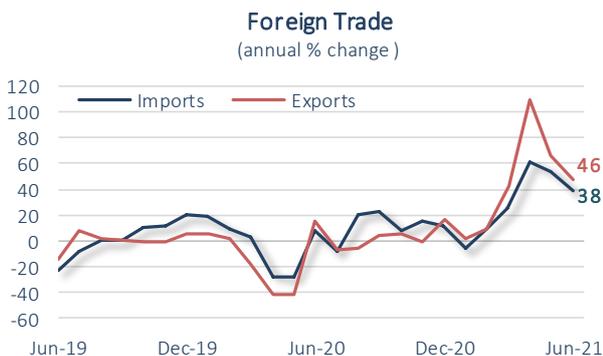
Leading Indicators



Labor Market



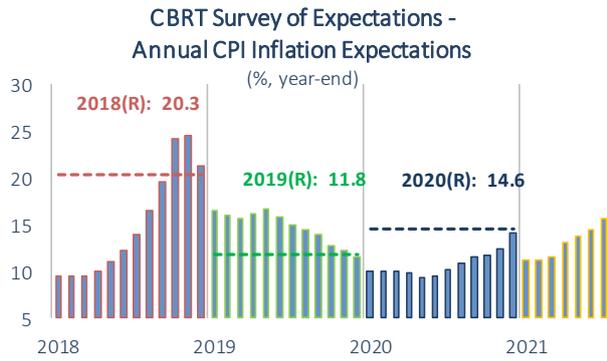
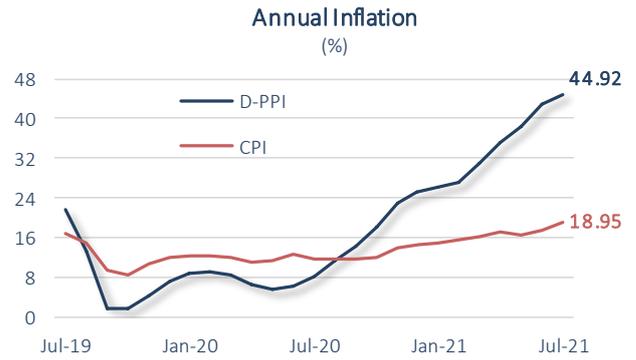
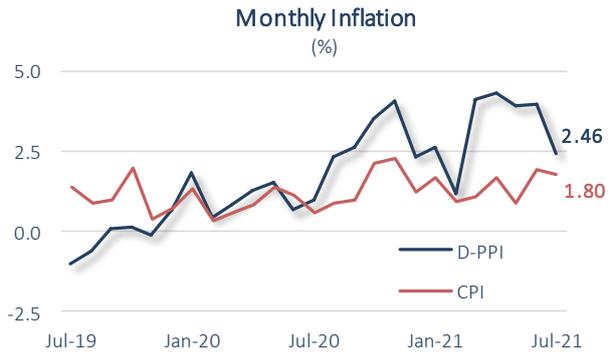
Foreign Trade and Current Account Balance



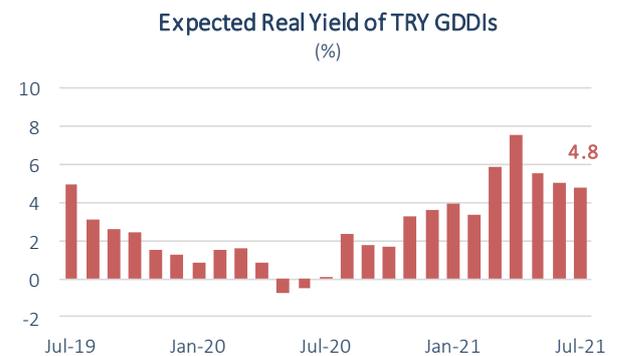
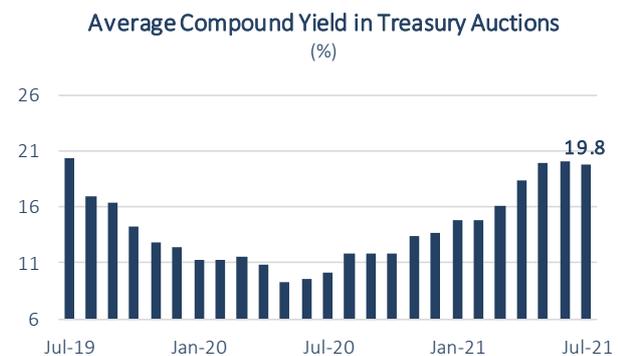
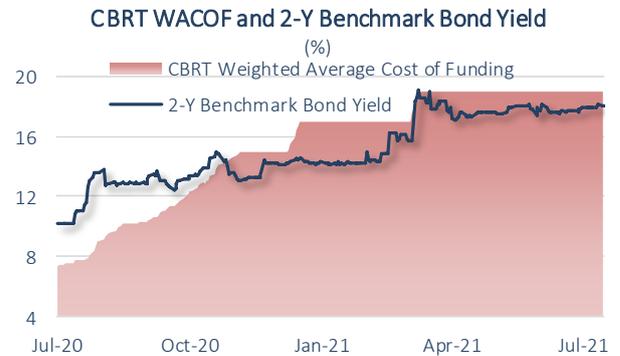
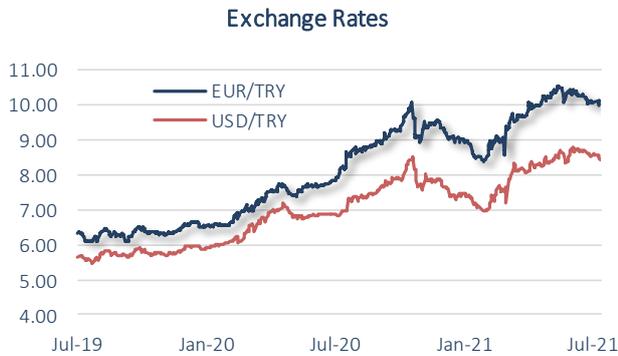
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020	Ç1-21		
GDP (USD billion)	869	859	797	761	717	188		
GDP (TRY billion)	2,627	3,134	3,758	4,320	5,048	1,386		
GDP Growth Rate (%)	3.3	7.5	3.0	0.9	1.8	7.0		
Inflation (%)						May-21	Jun-21	Jul-21
CPI (annual)	8.53	11.92	20.30	11.84	14.60	16.59	17.53	18.95
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	38.33	42.89	44.92
Seasonally Adjusted Labor Market Figures						Mar-21	Apr-21	May-21
Unemployment Rate (%)	12.1	9.9	12.8	13.3	12.7	13.20	13.80	13.20
Labor Force Participation Rate (%)	52.4	52.8	53.1	52.6	49.1	51.30	51.30	50.50
FX Rates						May-21	Jun-21	Jul-21
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.3	60.6	59.8	
USD/TRY	3.52	3.79	5.32	5.95	7.43	8.5	8.69	8.42
EUR/TRY	3.71	4.55	6.08	6.68	9.09	10.4	10.30	9.99
Currency Basket (0.5*EUR+0.5*USD)	3.61	4.17	5.70	6.32	8.26	9.42	9.50	9.20
Foreign Trade Balance ⁽¹⁾ (USD billion)						Apr-21	May-21	Jun-21
Exports	149.2	164.5	177.2	180.8	169.6	186.7	193.2	199.5
Imports	202.2	238.7	231.2	210.3	219.5	233.1	240.4	246.7
Foreign Trade Balance	-52.9	-74.2	-54.0	-29.5	-49.9	-46.4	-47.2	-47.2
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3	80.1	80.4	80.9
Balance of Payments ⁽¹⁾ (USD billion)						Mar-21	Apr-21	May-21
Current Account Balance	-27.0	-40.8	-21.7	6.8	-36.7	-36.3	-32.8	-31.9
Capital and Financial Accounts	-21.7	-47.0	-10.9	1.3	-40.0	-29.5	-25.8	-23.9
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6	-3.9	-3.9	-4.1
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5	-0.3	-1.5	-4.9
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0	-8.3	-10.8	-3.9
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	-17.0	-9.6	-11.0
Net Errors and Omissions	5.3	-6.2	10.8	-5.5	-3.3	6.9	7.0	8.0
Current Account Balance/GDP (%)	-3.1	-4.8	-2.7	0.9	-5.2	-	-	-
Budget ⁽²⁾⁽³⁾ (TRY billion)						Apr-21	May-21	Jun-21
Expenditures	584.1	678.3	830.8	1000.0	1202.2	432.0	550.0	663.4
Interest Expenditures	50.2	56.7	74.0	99.9	134.0	67.5	81.5	90.9
Non-interest Expenditures	533.8	621.6	756.8	900.1	1068.3	364.5	468.5	572.5
Revenues	554.1	630.5	758.0	875.3	1029.5	437.9	542.5	630.8
Tax Revenues	459.0	536.6	621.5	673.9	833.1	331.4	423.7	496.9
Budget Balance	-29.9	-47.8	-72.8	-124.7	-172.7	5.9	-7.5	-32.5
Primary Balance	20.3	8.9	1.1	-24.8	-38.8	73.4	73.9	58.3
Budget Balance/GDP (%)	-1.1	-1.5	-1.9	-2.9	-3.4	-	-	-
Central Government Debt Stock (TRY billion)						Apr-21	May-21	Jun-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4	1,120.0	1,133.3	1,135.4
External Debt Stock	291.3	341.0	481.0	574.0	752.5	829.5	868.1	891.4
Total Debt Stock	760.0	876.5	1067.1	1,329.1	1,812.8	1,949.5	2,001.4	2,026.8

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

Source: CBRT, Datastream, Ministry of Treasury and Finance, Reuters, Turkstat

Turkish Economy - Banking Sector Outlook

Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2016	2017	2018	2019	2020	May.21	Jun.21	Change ⁽¹⁾
TOTAL ASSETS	2,731	3,258	3,867	4,492	6,106	6,671	6,730	10.2
Loans	1,734	2,098	2,395	2,657	3,576	3,857	3,917	9.5
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,430	2,482	5.5
Share (%)	65.2	67.4	60.1	61.8	65.8	63	63.4	-
FX Loans	603	684	956	1,015	1,224	1,428	1,435	17.3
Share (%)	34.8	32.6	39.9	38.2	34.2	37	36.6	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	149	149.4	-2.1
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	4	3.7	-
Securities	352	402	478	661	1,023	1,124	1,138	11.3
TOTAL LIABILITIES	2,731	3,258	3,867	4,492	6,106	6,671	6,730	10.2
Deposits	1,454	1,711	2,036	2,567	3,455	3,805	3,870	12.0
TRY Deposits	845	955	1,042	1,259	1,546	1,679	1,722	11.3
Share (%)	58.1	55.8	51.2	49.0	44.7	44	44.5	-
FX Deposits	609	756	994	1,308	1,909	2,126	2,148	12.5
Share (%)	41.9	44.2	48.8	51.0	55.3	56	55.5	-
Securities Issued	116	145	174	194	224	232	239	6.5
Payables to Banks	418	475	563	533	658	732	725	10.3
Funds from Repo Transactions	138	99	97	154	255	386	382	49.8
SHAREHOLDERS' EQUITY	300	359	421	492	600	620	631	5.3
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	24.7	33.8	-
RATIOS (%)								
Loans/GDP	66.5	67.6	64.7	61.5				
Loans/Assets	63.5	64.4	61.9	59.1	58.6	57.8	58.2	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.8	16.9	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	57.0	57.5	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	101.4	101.2	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	17.9	17.8	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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