



July 2023

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## Global Economy

OECD and World Bank raised their global growth forecasts for 2023.

US economy grew above the market expectations by 2% yoy in the first quarter of 2023, according to the final revision to the figure.

In the same period, Euro Area economy shrank by 0.1% compared to the previous quarter and entered a technical recession by contracting two consecutive quarters.

PMI data in advanced economies signalled that the negative outlook in the manufacturing sector continues. In June, manufacturing PMI remained below the threshold with 46.3 in the US, while it dropped to the lowest level since May 2020 with 43.6 in the Euro Area.

In the US and Euro Area, annual CPI inflation fell to 4% and 5.5% respectively in June, but continued to stay far from the medium-term targets of the Fed and the ECB.

In June, Fed paused rate hike cycle by keeping policy interest rate between 5%-5.25%, while ECB raised the key interest rates by 25 basis points. Meanwhile, the People's Bank of China lowered the 1-year and 5-year lending rates by 10 basis points each.

Brent crude oil prices followed a fluctuating course in June and completed the month at 74.9 USD/barrel with an increase of 3.1% mom.

## Turkish Economy

According to seasonally and calendar adjusted figures, industrial production in Türkiye decreased by 0.9% mom in April.

Seasonally adjusted unemployment rate rose to 10.2% in April, while female labour force participation rate reached its historic high level with 36.4%.

Manufacturing PMI came in at 51.5 in June, the same level with the previous two months. In this period, the increase in production reached its highest level since July 2021 due to the ongoing recovery after the earthquake and the revival in economic activity following the election period.

In April, current account deficit expanded by 112.4% yoy and became 5.4 billion USD. 12-month cumulative current account deficit was 57.8 billion USD.

Central government budget posted a surplus of 118.9 billion TRY in May thanks to the rapid rise in corporate tax revenues. The budget deficit became 263.6 billion TRY in January-May period.

In June, CPI increased by 3.92% mom and annual CPI inflation decreased to 38.21%. In this period, D-PPI rose by 6.5% mom, recording the fastest monthly increase since October 2022.

CBRT raised the policy rate from 8.5% to 15% in June when the new economic management signalled gradual normalisation.

In June, BIST-100 index rose by 17.9%, while Turkish Lira depreciated sharply against USD and EUR.

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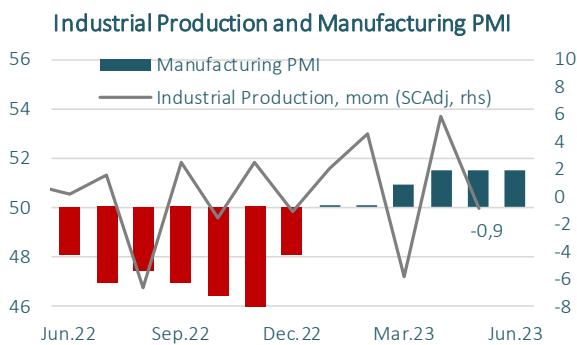
## Leading Indicators

### Female labour force participation rate is at a historic high level...

According to seasonally adjusted figures, employment increased by 521 K people in April compared to the previous month. Despite the strong rise in employment, unemployment rate rose to 10.2% in this period due to a faster increase in labour force. The significant increase in female labour force participation was noteworthy in April. While total labour force rose by 594 K people in this period, 448 K of this rise was in female labour force. Thus, female labour force participation rate reached its historical high level with 36.4%. In April, labour underutilization rate increased by 1.7 points compared to the previous month and became 23.8%. In this period, youth unemployment rate, which covers the 15-24 age group, decreased by 1.2 points to 19.1%.

### Industrial production index decreased by 0.9% mom in April.

Industrial production, which recovered in March after the earthquake disaster in February, decreased by 0.9% mom in April according to seasonally and calendar adjusted figures. In this period, production in mining and quarrying sector and manufacturing industry contracted by 0.9% and 1%, respectively, while electricity, gas, steam production and distribution sector recorded an increase of 0.5%. Among the goods groups, the fastest contraction was recorded in durable consumer goods with 4.5%. In April, production decreased in 17 out of 24 sub-sectors of the manufacturing industry. Production in computers, electronic and optical products and wood products contracted by 8.5% and 5.2%, respectively. According to calendar adjusted figures, industrial production declined by 1.2% yoy in April.



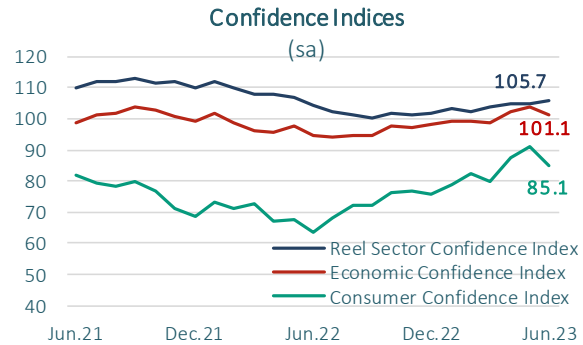
### Manufacturing PMI remained flat in June.

Remaining at 51.5 in June, the same level with the previous two months, manufacturing PMI signalled that moderate improvement in the sector continued. With the effect of ongoing recovery after the earthquake and the revival in economic activity following the election period, production sub-index pointed to the fastest growth since July 2021. In

parallel with the rise in production, employment sub-index increased in June. On the other hand, the depreciation in Turkish lira partly limited the increase in new orders in June, while increases in input costs and final product prices gained momentum compared to previous months. In this period, input prices recorded the fastest rise in almost a year. Despite inflationary pressures, manufacturers continued to expand their employment levels and purchasing activities, pointing to an optimism for the second half of the year.

### Confidence indices presented a mixed outlook in June.

According to seasonally adjusted figures, consumer confidence index, which reached its highest level since July 2018 before the elections in May, decreased by 6.5% mom to 85.1 in June. While expectations for the next 12 months deteriorated in all sub-indices of the index, the sub-index for the current financial situation of the household decreased by 2.2% compared to the previous month. The sub-indices for the probability of purchasing automobiles and houses in the next 12 months also decreased by 13.6% and 8.1%, respectively. In June, seasonally and calendar adjusted real sector confidence index increased by 0.6 points mom to 105.7. In the same period, sectoral confidence indices rose by 0.6% and 0.9% mom in services and retail trade sectors, respectively, whereas decreased by 3.5% in construction sector. Thus, economic confidence index fell by 2.5% mom to 101.1 in June with the effect of the rapid decline in consumer confidence.



### House sales declined by 7.7% yoy in May.

Housing sales, which have been declining on an annual basis since February, decreased by 7.7% yoy in May and became 113,276 units. In this period, first-hand sales increased by 4.7% yoy, while second-hand sales contracted by 12.3% and accounted for 69.6% of total sales. In May, house sales to foreigners fell by 47% yoy and had a share of 2.8% in total house sales. In April, house prices rose by 4.7% mom and 121.3% yoy. Thus, the annual real increase in house prices was 53%.

Source: CBRT, Datastream, ISO, Turkstat

## Foreign Trade and Balance of Payments

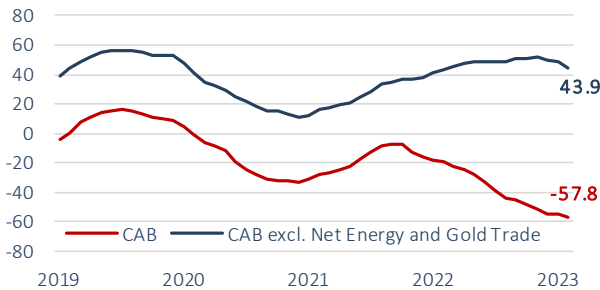
### Foreign trade deficit became 8.7 billion USD in April.

According to Turkstat, exports recorded the fastest annual decline since the pandemic with 17.1% yoy and became 19.3 billion USD in April, while imports decreased by 4.8% to 28.1 billion USD. Thus, foreign trade deficit expanded by 42.1% yoy to 8.7 billion USD in this period. Import coverage ratio, which was 79.1% in April 2022, declined to 68.9% in the same month of 2023.

### Current account deficit was above market expectations.

In April, current account deficit widened by 112.4% yoy and became 5.4 billion USD. Market expectation was 4.5 billion USD. Net gold imports, which was 428 million USD in April 2022, reached 1.1 billion USD in the same period of this year and played a decisive role in the deterioration of the current account outlook. However, in line with the downward course in global energy prices, net energy imports were 3.8 billion USD in April, the lowest level of the last 19 months. Thus, current account excluding gold and energy posted a deficit (481 million USD) for the first time since May 2021. The continued favorable course in transportation and travel revenues also limited the deterioration in the current account deficit. Widening by 46.4% yoy to 29.7 billion USD in January-April 2023 period, current account deficit became 57.8 billion USD as of April according to 12-month cumulative figures.

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



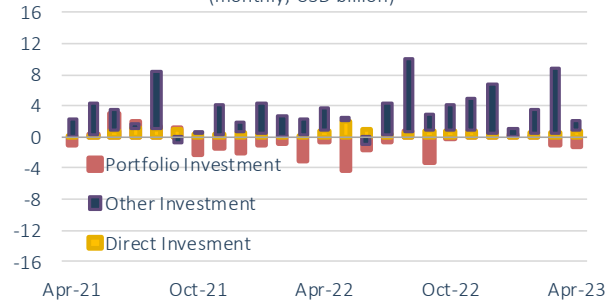
### Foreign direct investments recorded the highest capital inflow since November 2022.

In April, net foreign direct investment inflows were realized as 784 million USD, the highest level since November 2022. In this period, non-residents' net direct capital investments displayed a positive performance with 933 million USD, while real estate investments were realized as 232 million USD, the lowest level since May 2021. In the first four months of the year, foreign direct investments was 1.9 billion USD.

### Portfolio investment outflows accelerated in April.

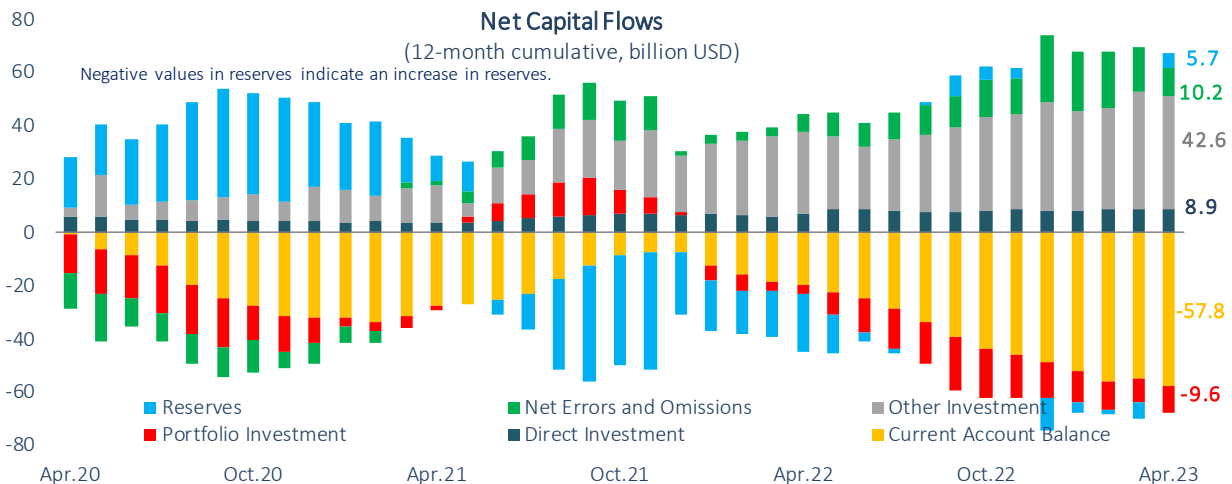
In April, portfolio investments recorded the highest capital outflow since September 2022 with 1.2 billion USD. In this period, the General Government realized net borrowing of 159 million USD through bond issues abroad, while banks and other sectors realized net repayments of 190 million USD and 800 million USD, respectively.

**Net Capital Flows**  
(monthly, USD billion)



### Moderate course in other investments...

In April, other investments recorded a net capital inflow of 1.4 billion USD. In this period, foreign banks' deposits in Türkiye recorded a net increase of 142 million USD. The banking sector raised 289 million USD of net borrowings from abroad, while the General Government and other sectors repaid 22 million USD and 107 million USD net loans abroad, respectively. According to 12-month cumulative figures, long-term debt rollover ratio was 81% in the banking sector and 142% in other sectors.



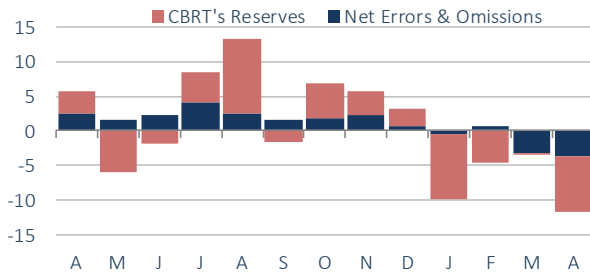
Source: Datastream, Turkstat, CBRT

## Foreign Trade and Balance of Payments

### Capital outflows continued in net errors and omissions.

Net errors and omissions, which recorded a capital outflow of 3.2 billion USD in March, posted an outflow of 3.7 billion USD in April. Thus, net errors and omissions recorded a capital outflow of 6.7 billion USD in the first 4 months of the year. Reserve assets, which decreased by 8.2 billion USD in April, posted a total decline of 22.4 billion USD in January-April period.

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



### Expectations...

According to preliminary figures, exports decreased by 10.5% yoy to 20.9 billion USD and imports declined by 16.8% yoy to 26.3 billion USD in June. Thus, foreign trade deficit narrowed by 34.5% yoy to 5.4 billion USD in June and reached 61.4 billion USD in the first half of the year. Although the expected increase in tourism revenues with the summer season is anticipated to support the current account balance, the continued weak course of the manufacturing sector in Türkiye's main export markets, especially in the Euro Area, which has entered a technical recession, keeps the risks on the current account balance alive.

### Balance of Payments

|                                     | Apr. 2023     | Jan. - Apr. 2022 | Jan. - Apr. 2023 | % Change     | (USD million) 12-month Cumulative |
|-------------------------------------|---------------|------------------|------------------|--------------|-----------------------------------|
| <b>Current Account Balance</b>      | <b>-5,404</b> | <b>-20,309</b>   | <b>-29,726</b>   | <b>46.4</b>  | <b>-57,804</b>                    |
| Foreign Trade Balance               | -7,016        | -25,651          | -36,341          | 41.7         | -100,191                          |
| Services Balance                    | 2,915         | 9,059            | 10,563           | 16.6         | 51,573                            |
| Travel (net)                        | 2,198         | 7,310            | 8,420            | 15.2         | 38,427                            |
| Primary Income                      | -1,292        | -3,223           | -3,859           | 19.7         | -9,220                            |
| Secondary Income                    | -11           | -494             | -89              | -82.0        | 34                                |
| <b>Capital Account</b>              | <b>-8</b>     | <b>-6</b>        | <b>-58</b>       | <b>866.7</b> | <b>-87</b>                        |
| <b>Financial Account</b>            | <b>-9,096</b> | <b>-12,107</b>   | <b>-36,478</b>   | <b>201.3</b> | <b>-47,651</b>                    |
| Direct Investment (net)             | -784          | -1,436           | -1,905           | 32.7         | -8,881                            |
| Portfolio Investment (net)          | 1,204         | 5,502            | 1,535            | -72.1        | 9,561                             |
| Net Acquisition of Financial Assets | 335           | 2,972            | 1,741            | -41.4        | 3,264                             |
| Net Incurrence of Liabilities       | -869          | -2,530           | 206              | -            | -6,297                            |
| Equity Securities                   | -37           | -1,185           | -964             | -18.6        | -3,817                            |
| Debt Securities                     | -832          | -1,345           | 1,170            | -            | -2,480                            |
| Other Investment (net)              | -1,353        | -11,724          | -13,663          | 16.5         | -42,646                           |
| Currency and Deposits               | -914          | -8,915           | -8,862           | -0.6         | -35,926                           |
| Net Acquisition of Financial Assets | -76           | 2,225            | 2,670            | 20.0         | -6,132                            |
| Net Incurrence of Liabilities       | 838           | 11,140           | 11,532           | 3.5          | 29,794                            |
| Central Bank                        | 942           | 3,848            | 7,318            | 90.2         | 10,787                            |
| Banks                               | -104          | 7,292            | 4,214            | -42.2        | 19,007                            |
| Foreign Banks                       | 302           | 3,026            | 791              | -73.9        | 5,394                             |
| Foreign Exchange                    | -160          | 2,938            | 2,005            | -31.8        | 3,190                             |
| Turkish Lira                        | -246          | 1,328            | 1,418            | 6.8          | 10,423                            |
| Non-residents                       | 142           | 5,964            | 2,796            | -53.1        | 8,584                             |
| Loans                               | -85           | -1,989           | -853             | -57.1        | -2,635                            |
| Net Acquisition of Financial Assets | 75            | -540             | -112             | -79.3        | 140                               |
| Net Incurrence of Liabilities       | 160           | 1,449            | 741              | -48.9        | 2,775                             |
| Banking Sector                      | 289           | -811             | 593              | -            | -4,252                            |
| Non-bank Sectors                    | -107          | 1,730            | 438              | -74.7        | 6,804                             |
| Trade Credit and Advances           | -373          | -803             | -3,951           | 392.0        | -4,052                            |
| Other Assets and Liabilities        | 19            | -17              | 3                | -            | -33                               |
| Reserve Assets (net)                | -8,163        | -4,449           | -22,445          | 404.5        | -5,685                            |
| <b>Net Errors and Omissions</b>     | <b>-3,684</b> | <b>8,208</b>     | <b>-6,694</b>    | <b>-</b>     | <b>10,240</b>                     |

Source: CBRT, Datastream

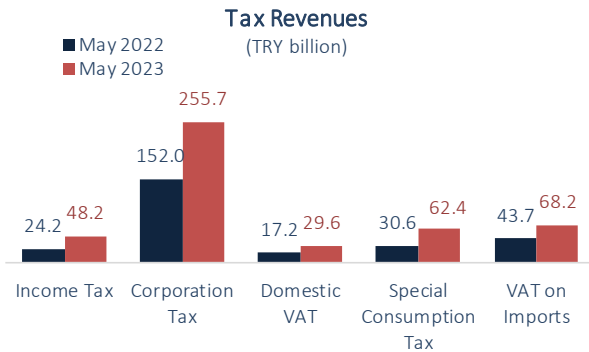
## Budget Balance

Central government budget posted a surplus of 118.9 billion TRY in May.

In May, central government budget revenues rose by 72.9% yoy to 549.4 billion TRY thanks to the rapid rise in corporate tax revenues. In this period, budget expenditures went up by 147.7% yoy to 430.5 billion TRY due to the increase in interest expenditures and current transfers. Thus, the central government budget posted a surplus for the first time since November 2022. In May, primary surplus was realized as 221.6 billion TRY. In January-May period, budget revenues and expenditures increased by 48.7% and 95.4% yoy, respectively. Thus, in the first five months of the year budget deficit became 263.6 billion TRY.

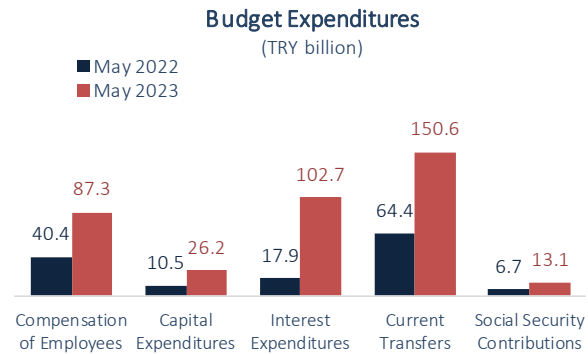
### The rise in corporate tax supported budget revenues.

In May, tax revenues rose by 75.1% yoy to 507.4 billion TRY. In this period, corporate tax revenues increased by 86.3% yoy to 255.7 billion TRY. Due to the favorable course of the automotive sales, special consumption tax revenues doubled on an annual basis to 62.4 billion TRY in May. In this period, value added tax (VAT) on imports and domestic VAT contributed to annual increase in budget revenues by 36.8 billion TRY in total.



### Interest expenditures rose sharply in May.

In May, interest expenditures expanded by 473.4% yoy to 102.7 billion TRY. Current transfers rose by 133.8% yoy and accounted for 35% of budget expenditures, driven by the transfers to Elektrik Üretim A.Ş. (12.2 billion TRY). In this period, no payment was made to BOTAŞ, while expenditures related to FX protected deposit accounts were realized as 1.6 billion TRY.



### Expectations...

In May, central government budget posted a surplus thanks to the rapid rise in corporate tax revenues. Thus, the budget deficit, which reached 58% of the year-end target in the January-April period, declined to 40% of the target in the first five months of the year. In the upcoming period, exchange rate developments as well as the course of global energy prices will continue to be determinant on the budget outlook. Besides, the policies of the new economic administration will be closely monitored.

### Central Government Budget

|                           | May          |              | %            | January-May    |                | %           | 2023 Budget    | Real./ Budget |
|---------------------------|--------------|--------------|--------------|----------------|----------------|-------------|----------------|---------------|
|                           | 2022         | 2023         | Change       | 2022           | 2023           | Change      | Target         | Target (%)    |
| <b>Expenditures</b>       | <b>173.8</b> | <b>430.5</b> | <b>147.7</b> | <b>959.8</b>   | <b>1,875.7</b> | <b>95.4</b> | <b>4,469.6</b> | <b>42.0</b>   |
| Interest Expenditures     | 17.9         | 102.7        | 473.4        | 121.9          | 237.9          | 95.2        | 565.6          | 42.1          |
| Non-Interest Expenditures | 155.9        | 327.8        | 110.3        | 837.9          | 1,637.8        | 95.5        | 3,904.0        | 42.0          |
| <b>Revenues</b>           | <b>317.8</b> | <b>549.4</b> | <b>72.9</b>  | <b>1,084.4</b> | <b>1,612.1</b> | <b>48.7</b> | <b>3,810.1</b> | <b>42.3</b>   |
| Tax Revenues              | 289.7        | 507.4        | 75.1         | 881.2          | 1,371.2        | 55.6        | 3,199.5        | 42.9          |
| Other Revenues            | 28.0         | 42.0         | 49.8         | 203.2          | 241.0          | 18.6        | 610.6          | 39.5          |
| <b>Budget Balance</b>     | <b>144.0</b> | <b>118.9</b> | <b>-17.4</b> | <b>124.6</b>   | <b>-263.6</b>  | <b>-</b>    | <b>-659.4</b>  | <b>40.0</b>   |
| <b>Primary Balance</b>    | <b>161.9</b> | <b>221.6</b> | <b>36.9</b>  | <b>246.5</b>   | <b>-25.7</b>   | <b>-</b>    | <b>-93.8</b>   | <b>-</b>      |

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

Source: Datastream , Ministry of Treasury and Finance

## Inflation

### In June, CPI rose by 3.92% mom.

In June, monthly CPI inflation came in at 3.92%, which was lower than market expectations of 4.84% yet higher than the previous five months. In this period, domestic producer price index (D-PPI) also increased by 6.5% mom, the fastest rise since October 2022.

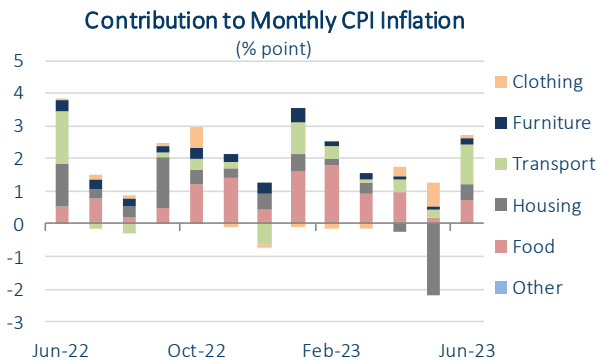
| June<br>(change %) | CPI   |       | D-PPI  |       |
|--------------------|-------|-------|--------|-------|
|                    | 2022  | 2023  | 2022   | 2023  |
| Monthly            | 4.95  | 3.92  | 6.77   | 6.50  |
| Year-to-Date       | 42.35 | 19.77 | 61.68  | 14.82 |
| Annual             | 78.62 | 38.21 | 138.31 | 40.42 |
| Annual Average     | 44.54 | 59.95 | 88.77  | 86.59 |

### The improvement in annual inflation indicators lost momentum.

In June, the improvement in annual inflation indicators since November 2022 continued, albeit at a slower pace. In this period, annual CPI inflation was realized as 38.21%, the lowest level in the last 1.5 years, while D-PPI increased by 40.42% yoy, the most moderate increase since May 2021.

### Food and transportation groups stood out in monthly CPI inflation.

In June, prices rose in all 12 main expenditure groups. In this period, the main contributors to monthly inflation were the food group, where prices rose by 3.02% mom, and the transportation group, where prices went up by 7.96% mom. Aforementioned groups accounted for 2.02 points of the monthly CPI inflation. Prices in restaurants and hotels group rose by 4.32% mom in June, contributing 40 basis points to CPI inflation. In this period, prices in alcoholic beverages and tobacco group rose the fastest by 11.13% and increased monthly CPI inflation by 38 bps. Due to the depreciation of the TRY, prices of goods increased by 4.03% in June, while prices of services rose by 3.66%, indicating that the rigidity persisted.

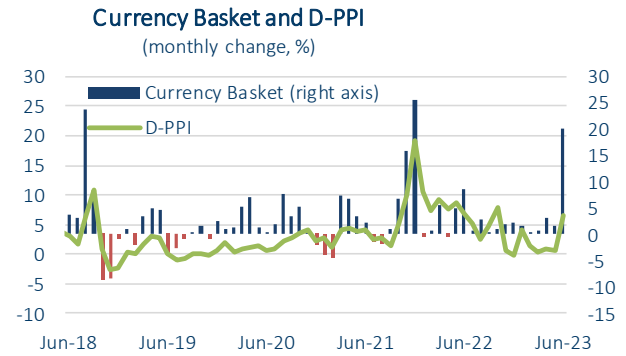


### Core inflation indicators...

In June, monthly CPI inflation excluding seasonal products was realized as 3.91%, in line with the headline inflation. In this period, prices of fresh fruits and vegetables recorded the fastest increase in the last four months with 7.68% mom. On the other hand, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C index (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) rose by 3.45% and 3.84%, respectively, in the same period. Annual increases in B and C indices remained above the headline inflation with 46.63% and 47.33%, respectively.

### Basic metals and energy groups were the main drivers of the monthly D-PPI increase.

In June, exchange rate developments were influential on the course of D-PPI inflation. In this period, base metal group contributed to D-PPI inflation the most by 87 bps. Electricity, gas production and distribution prices rose by 12.54% mom and pushed monthly D-PPI inflation up by 84 bps. On the other hand, due to the monthly decline in average oil prices in June, prices in crude oil and natural gas group decreased by 6.68% mom, limiting D-PPI inflation by 3 basis points.



### Expectations...

Following the rapid rise in foreign exchange rates, inflation indicators drew a negative picture in June. We anticipate that the upward pressure on inflation will continue in the coming period as a result of the minimum wage increase and other wage adjustments in July. Furthermore, due to exchange rate pass-through, the TRY depreciation will continue to be a determining factor in inflation in the coming period.



## Financial Markets

|                        | 28-Apr  | 31-May  | Change     |
|------------------------|---------|---------|------------|
| 5-Y CDS (basis points) | 532     | 597     | 65 bps ▲   |
| TR 2-Y Benchmark Yield | 17.14%  | 11.95%  | -519 bps ▼ |
| BIST-100               | 4,618   | 4,887   | 5.8% ▲     |
| USD/TRY                | 19.4478 | 20.7973 | 6.9% ▲     |
| EUR/TRY                | 21.4250 | 22.2334 | 3.8% ▲     |
| Currency Basket*       | 20.4364 | 21.5154 | 5.3% ▲     |

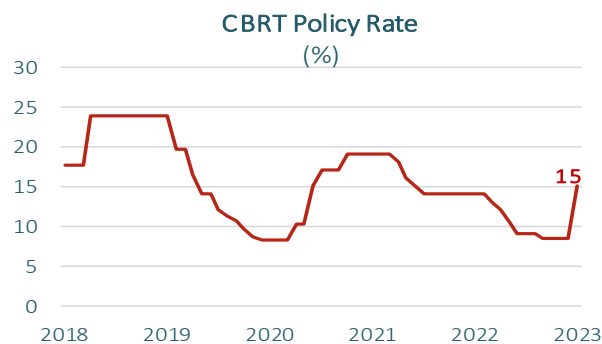
(\*) (0.5 USD/TL + 0.5 EUR/TL)

## Global markets followed a volatile course in June.

Global financial markets presented a volatile outlook in June. Global risk appetite increased in the first week of the month on the back of optimism over the US debt ceiling deal and positive developments regarding financial stability, but remained under pressure in the following weeks due to the hawkish messages given after the meetings of major central banks. In June, MSCI global stock index and MSCI emerging markets index rose by 5.9% and 3.2%, respectively, while the US dollar depreciated slightly in global markets. DXY closed the month at 102.9 and EUR/USD parity at 1.0910. Despite the depreciation in the US dollar, gold prices fell to 1,920 USD/ounce, the lowest level since March.

## Changes in economy management in Türkiye...

The new cabinet and the new economy management were announced in early June. Mehmet Şimşek was appointed as the Minister of Treasury and Finance and Cevdet Yılmaz, the former Minister of Development, was assigned as Vice President. Hafize Gaye Erkan was appointed as the Governor of the CBRT, while Şahap Kavcıoğlu, the previous Governor of the CBRT, became the President of the BRSA. Following the appointments, the new economy management has given messages of gradual normalization.



## CBRT raised the policy rate to 15%.

CBRT raised the policy rate from 8.5% to 15% at its meeting held on June 22nd. Although CBRT increased interest rates by the highest rate in recent years, the increase was below the average market expectations. In the text published

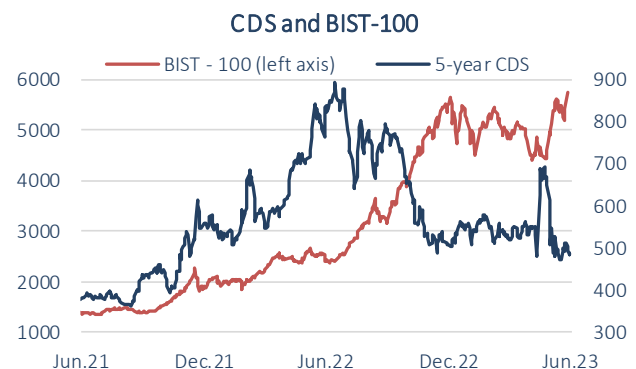
after the meeting, CBRT stated that the Board decided to start the monetary tightening process in order to establish disinflation as soon as possible, to anchor inflation expectations and to contain the deterioration in the pricing behaviours. CBRT also stated that monetary tightening will be strengthened gradually until a significant improvement in inflation outlook is achieved, and strategic investments that will improve the current account balance will continue to be supported. Moreover, CBRT highlighted that the current micro and macro prudential framework will be simplified in a way to enhance the functionality of market mechanisms and strengthen financial stability, and that this process will be gradual by conducting impact analyses

## BIST-100 rose by 17.8% in June.

Following the announcement of the new economy management, BIST-100 index rose rapidly due to the expectations that normalization steps would be taken in economic policies, and continued to rise with the effect of the reaction purchases that took place after the CBRT increased the policy rate below the market expectations. Thus, BIST-100 index closed June with an increase of 17.8% at 5,759. 5-year CDS premium, which followed a volatile course during the month, decreased by 110 basis points compared to the end of May and ended June at 487, while the Turkish lira depreciated rapidly against the USD and EUR. USD/TRY increased by 25.2% mom to 26.05 and EUR/TRY rose by 27.9% to 28.43. In this period, the 2-year Treasury bond yield rose by 160 basis points to 13.55%.

## Securities portfolio of non-residents...

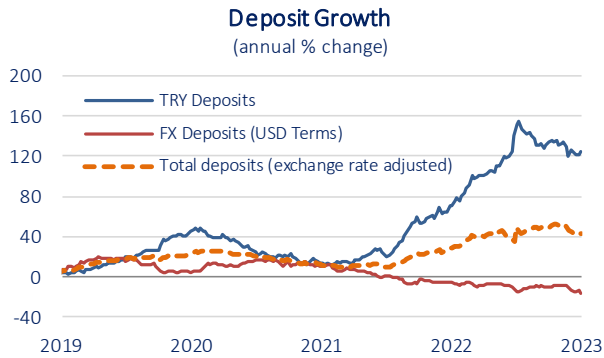
According to the securities statistics released by CBRT, non-residents' equity portfolio adjusted for price and exchange rate movements increased by 1,045 million USD as of June 27 compared to the end of May, while price and exchange rate adjusted GDDS portfolio rose by 39 million USD. Thus, since the beginning of the year, price and exchange rate adjusted foreign capital outflows from the equity market amounted to 503 million USD, while foreign capital inflows to the government securities market were 554 million USD.



Source: CBRT, Datastream, Reuters,

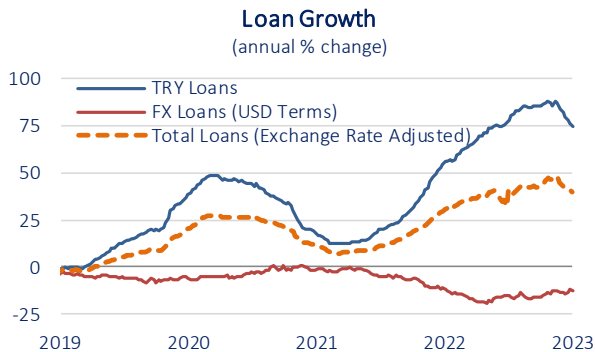
### Currency-protected deposits exceeded 2.7 trillion TRY.

According to BRSA's weekly banking data, as of June 27, total deposit volume increased by 69% yoy to 11.6 trillion TRY. In this period, TL deposits rose by 118.4% yoy to 6.6 trillion TRY, while FX deposits in USD terms decreased by 15.8% yoy to 196 billion USD. Thus, the exchange rate-adjusted annual increase in total deposit volume was 42.9%. Compared to the year-end, TL deposits increased by 37.6%, while FX deposits denominated in USD declined by 10.4%. As of June 27, the volume of currency-protected deposits exceeded 2.7 trillion TRY.



### FX loan volume declined to 128.5 billion USD.

As of June 27, total loan volume of the banking sector rose by 59.4% yoy to 10 trillion TRY. In this period, TL loan volume increased by 73% yoy to 6.7 trillion TRY, while FX loan volume in USD terms contracted by 11.3% yoy to 128.5 billion USD. Thus, the exchange rate-adjusted annual growth in total loan volume was 40.6%. While the year-to-date increase in TL loans was 30.8%, FX loans in USD terms fell by 2.8% in the same period.



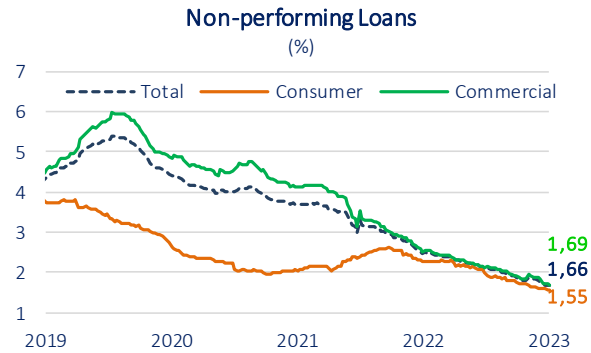
### Annual increase in vehicle loans was 247.4% in June.

As of June 27, consumer loans increased by 51.6% yoy to 1.4 trillion TRY. The annual expansion in consumer

credit cards remained high at 176.6%. In this period, vehicle loans continued to increase rapidly by 247.4% yoy despite losing momentum, while the annual growth in housing loans remained below the inflation rate at 26.2%.

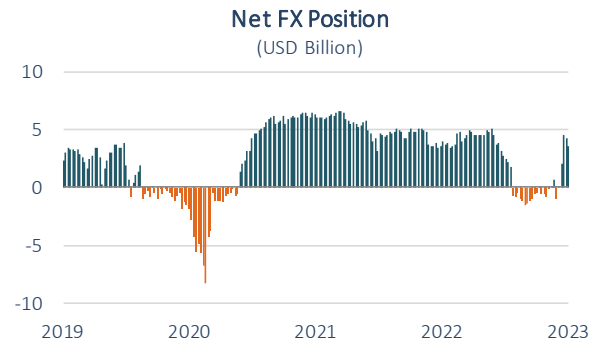
### NPL ratio decreased to 1.66%.

As of June 27, non-performing loans ratio in the banking sector continued to decline in line with the expansion in loan volume and reached a historic low of 1.66%. This ratio decreased to 1.55% for retail loans and 1.69% for commercial loans.



### Foreign currency net general position...

As of June 27, on-balance sheet FX position was (-) 28,449 million USD, while off-balance sheet FX position was (+) 32,333 million USD. Thus, banking sector's net foreign currency position became (+) 3,885 million USD in the said week.





## Concluding Remarks

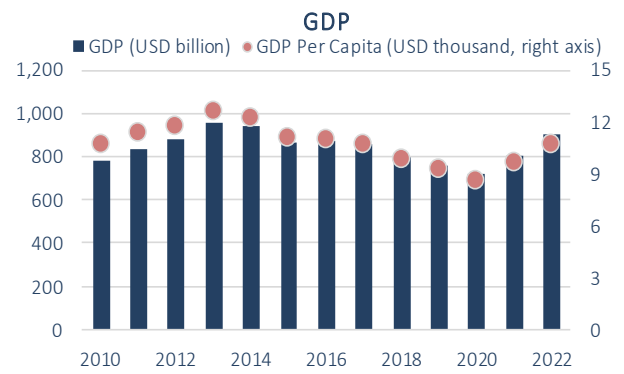
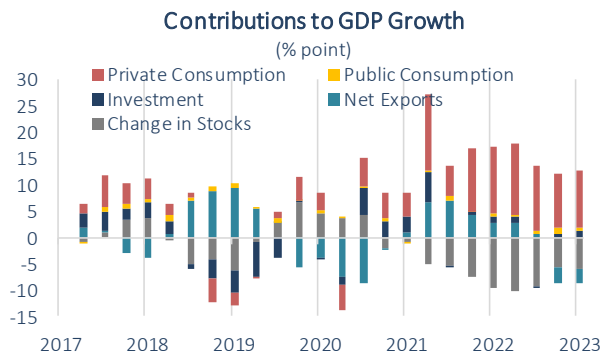
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In June, annual inflation in advanced economies continued to decline due to the high base effect as well as the flat course of energy prices. While the Fed kept the policy rate unchanged in line with market expectations, the messages given after the meeting and the forecasts of Fed members underlined that monetary tightening will continue until the end of the year. Although global stock indices started June with a positive outlook following the resolution of the debt ceiling crisis in the US, hawkish messages from major central banks regarding the continuation of interest rate hike process kept global risk appetite under pressure throughout the month. As Euro Area has entered a technical recession according to the final growth data for the first quarter of the year and indicators regarding the manufacturing sector in advanced economies present a negative outlook, the concerns about the course of the global economy remain alive. The fact that the recovery in domestic demand in China has not yet realized at the expected level also feeds these concerns.

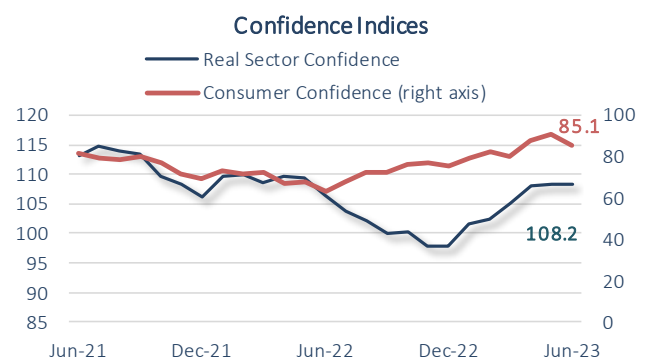
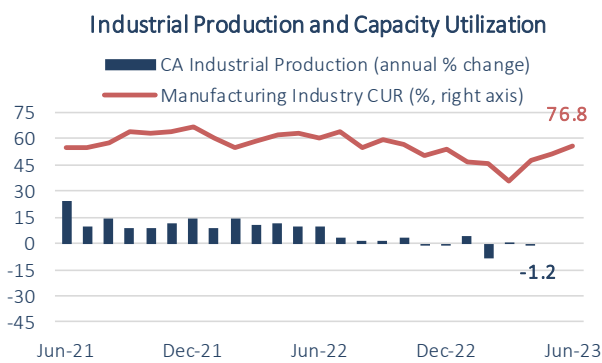
In Türkiye, PMI data for June showed that the business conditions in the manufacturing industry continued to improve moderately. In this period, demand conditions improved with the election uncertainty over, while the rapid depreciation of the Turkish lira led to an increase in costs. According to leading figures, foreign trade deficit narrowed by 34.5% on an annual basis due to the effect of the long holiday in June, while confidence indices presented a mixed outlook. Although we expect an improvement in the current account deficit in the upcoming period with the start of the tourism season, recession in Türkiye's main export markets stands out as an important risk factor for export revenues and the current account balance outlook. The normalization process in economic policies that started with the new economy management will be closely followed in domestic markets in the coming period.

## Turkish Economy - Macroeconomic Indicators

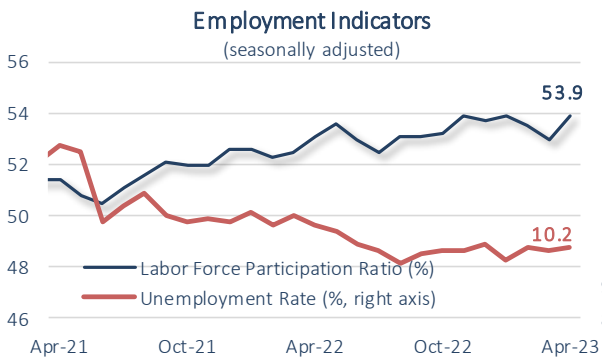
### Growth



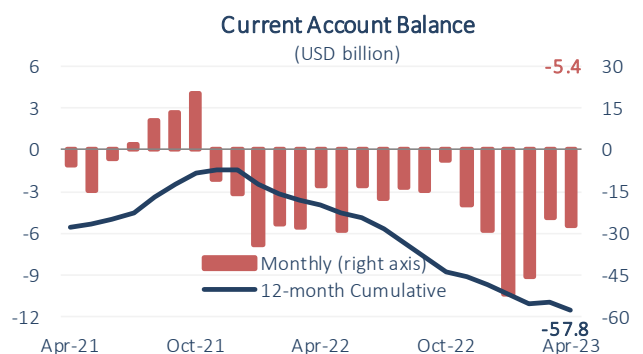
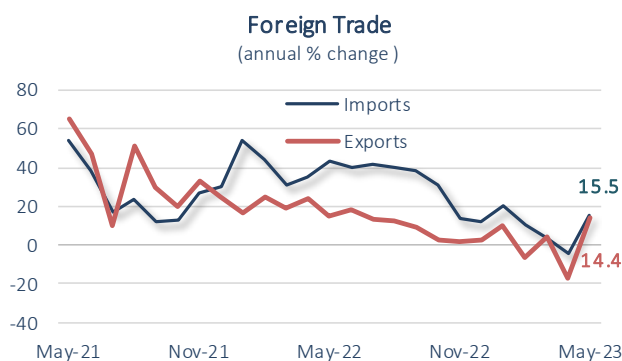
### Leading Indicators



### Labor Market



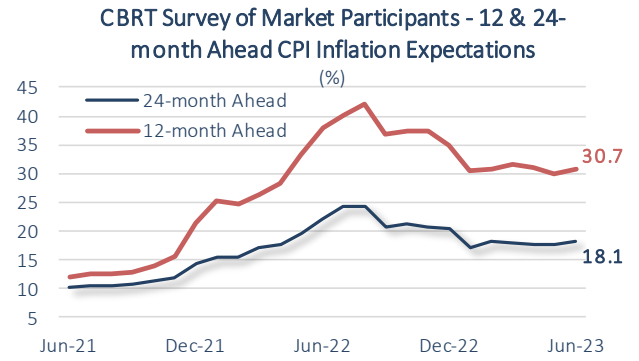
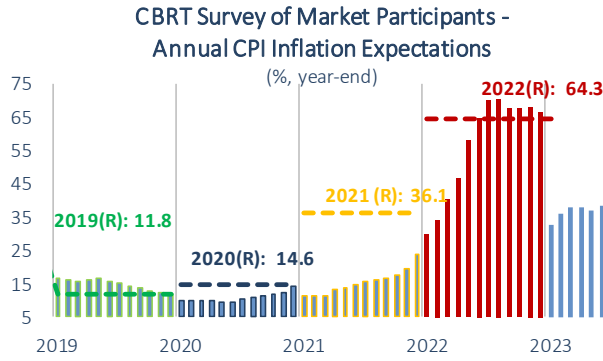
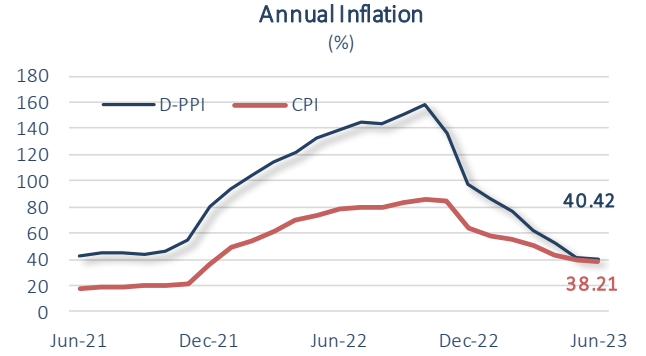
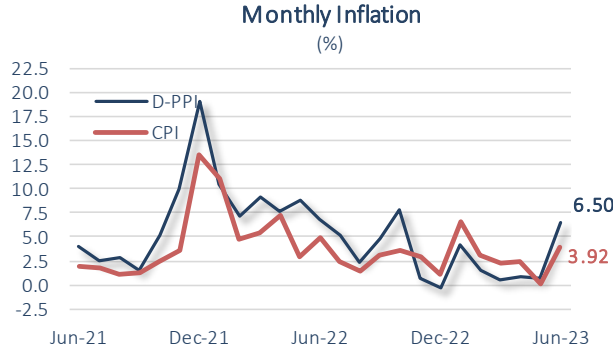
### Foreign Trade and Current Account Balance



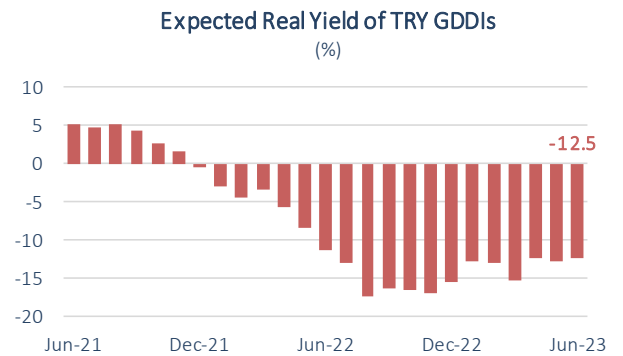
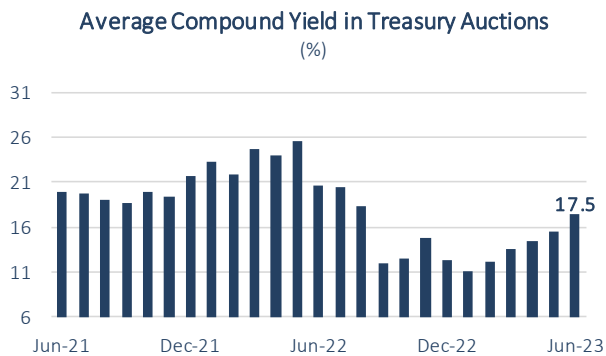
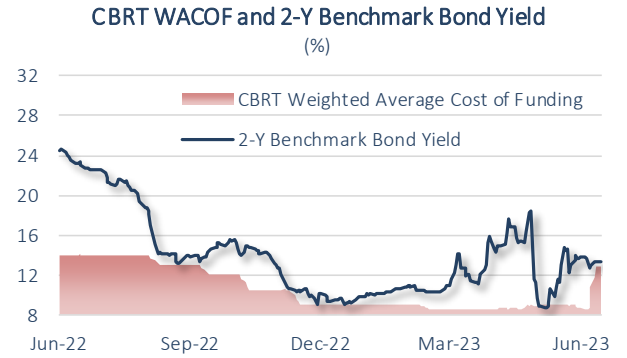
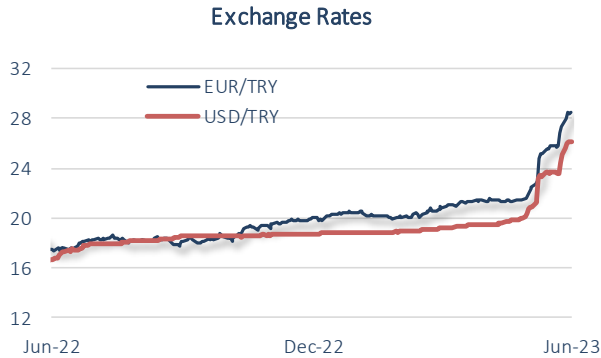
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

## Inflation



## Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

| Growth   | 2018    | 2019    | 2020    | 2021    | 2022    | Ç1-22   | Ç2-22   | Ç1-23   |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP (USD billion)                                  | 797     | 760     | 717     | 807     | 906     |         |         | 245     |
| GDP (TRY billion)                                  | 3,759   | 4,312   | 5,048   | 7,249   | 15,007  |         |         | 4,632   |
| GDP Growth Rate (%)                                | 3.0     | 0.8     | 1.9     | 11.4    | 5.6     |         |         | 4.0     |
| Inflation (%)                                      |         |         |         |         |         | Apr-23  | May-23  | Jun-23  |
| CPI (annual)                                       | 20.30   | 11.84   | 14.60   | 36.08   | 64.27   | 43.68   | 39.59   | 38.21   |
| Domestic PPI (annual)                              | 33.64   | 7.36    | 25.15   | 79.89   | 97.72   | 52.11   | 40.76   | 40.42   |
| Seasonally Adjusted Labor Market Figures           |         |         |         |         |         | 2023    | Mar-23  | Apr-23  |
| Unemployment Rate (%)                              | 12.7    | 13.4    | 12.6    | 11.0    | 10.3    |         | 10.1    | 10.2    |
| Labor Force Participation Rate (%)                 | 53.2    | 52.6    | 49.1    | 52.6    | 53.7    |         | 53.0    | 53.9    |
| FX Rates   |         |         |         |         |         | Apr-23  | May-23  | Jun-23  |
| CPI Based Real Effective Exchange Rate             | 76.3    | 76.0    | 61.9    | 47.7    | 55.0    | 59.0    | 57.9    |         |
| USD/TRY  | 5.32    | 5.95    | 7.43    | 13.28   | 18.72   | 19.45   | 20.70   | 26.07   |
| EUR/TRY  | 6.08    | 6.68    | 9.09    | 15.10   | 19.98   | 21.47   | 22.07   | 28.44   |
| Currency Basket (0.5*EUR+0.5*USD)                  | 5.70    | 6.32    | 8.26    | 14.19   | 19.35   | 20.46   | 21.38   | 27.26   |
| Foreign Trade Balance <sup>(1)</sup> (USD billion) |         |         |         |         |         | Mar-23  | Apr-23  | May-23  |
| Exports  | 177.2   | 180.8   | 169.6   | 225.2   | 254.2   | 255.6   | 251.6   | 254.3   |
| Imports  | 231.2   | 210.3   | 219.5   | 271.4   | 363.7   | 373.3   | 371.9   | 376.5   |
| Foreign Trade Balance                              | -54.0   | -29.5   | -49.9   | -46.2   | -109.5  | -117.7  | -120.3  | -122.2  |
| Import Coverage Ratio (%)                          | 76.6    | 86.0    | 77.3    | 83.0    | 69.9    | 68.5    | 67.6    | 67.5    |
| Balance of Payments <sup>(1)</sup> (USD billion)   |         |         |         |         |         | Feb-23  | Mar-23  | Apr-23  |
| Current Account Balance                            | -20.2   | 10.8    | -31.9   | -7.2    | -48.4   | -55.6   | -54.9   | -57.8   |
| Capital and Financial Accounts                     | 1.1     | 5.1     | -39.5   | -6.0    | -24.6   | -34.2   | -38.5   | -47.7   |
| Direct Investments (net)                           | -8.9    | -6.6    | -4.6    | -6.9    | -8.1    | -8.6    | -8.9    | -8.9    |
| Portfolio Investments (net)                        | 0.9     | 2.8     | 9.6     | -0.8    | 13.4    | 11.0    | 9.0     | 9.6     |
| Other Investments (net)                            | 19.4    | 2.6     | -12.6   | -21.7   | -42.3   | -38.1   | -44.3   | -42.6   |
| Reserve Assets (net)                               | -10.4   | 6.3     | -31.9   | 23.3    | 12.3    | 1.5     | 5.7     | -5.7    |
| Net Errors and Omissions                           | 21.1    | -5.8    | -7.6    | 1.4     | 24.2    | 21.4    | 16.5    | 10.2    |
| Current Account Balance/GDP (%)                    | -2.5    | 1.4     | -4.4    | -0.9    | -5.3    | -       | -       | -       |
| Budget <sup>(2)(3)</sup> (TRY billion)             |         |         |         |         |         | Mar-23  | Apr-23  | May-23  |
| Expenditures                                       | 830.8   | 1,000.0 | 1,203.7 | 1,603.5 | 2,941.4 | 1,044.8 | 1,445.2 | 1,875.7 |
| Interest Expenditures                              | 74.0    | 99.9    | 134.0   | 180.9   | 310.9   | 100.7   | 135.2   | 237.9   |
| Non-interest Expenditures                          | 756.8   | 900.1   | 1,069.8 | 1,422.7 | 2,630.5 | 944.1   | 1,310.0 | 1,637.8 |
| Revenues   | 758.0   | 875.3   | 1,028.4 | 1,402.0 | 2,802.4 | 794.7   | 1,062.7 | 1,612.1 |
| Tax Revenues                                       | 621.5   | 673.9   | 833.3   | 1,165.0 | 2,353.3 | 631.0   | 863.7   | 1,371.2 |
| Budget Balance                                     | -72.8   | -124.7  | -175.3  | -201.5  | -139.1  | -250.0  | -382.5  | -263.6  |
| Primary Balance                                    | 1.1     | -24.8   | -41.3   | -20.7   | 171.8   | -149.4  | -247.3  | -25.7   |
| Budget Balance/GDP (%)                             | -1.9    | -2.9    | -3.5    | -2.8    | -0.9    | -       | -       | -       |
| Central Government Debt Stock (TRY billion)        |         |         |         |         |         | Mar-23  | Apr-23  | May-23  |
| Domestic Debt Stock                                | 586.1   | 755.1   | 1,064.3 | 1,354.8 | 1,905.3 | 2,233.4 | 2,292.9 | 2,348.1 |
| External Debt Stock                                | 481.0   | 574.0   | 773.4   | 1,490.0 | 2,127.9 | 2,253.5 | 2,295.2 | 2,386.3 |
| Total Debt Stock                                   | 1,067.1 | 1,329.1 | 1,837.6 | 2,844.9 | 4,033.2 | 4,487.0 | 4,588.1 | 4,734.4 |

(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)                       | 2018         | 2019         | 2020         | 2021         | 2022          | Apr.23        | May.23        | Change <sup>(1)</sup> |
|-------------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|-----------------------|
| <b>TOTAL ASSETS</b>                 | <b>3,867</b> | <b>4,491</b> | <b>6,106</b> | <b>9,215</b> | <b>14,344</b> | <b>16,385</b> | <b>16,846</b> | <b>17.4</b>           |
| <b>Loans</b>                        | <b>2,394</b> | <b>2,656</b> | <b>3,576</b> | <b>4,901</b> | <b>7,581</b>  | <b>8,911</b>  | <b>9,237</b>  | <b>21.9</b>           |
| TRY Loans                           | 1,439        | 1,642        | 2,353        | 2,832        | 5,110         | 6,353         | 6,580         | 28.8                  |
| Share (%)                           | 60.1         | 61.8         | 65.8         | 57.8         | 67.4          | 71            | 71.2          | 5.7                   |
| FX Loans                            | 956          | 1,015        | 1,224        | 2,069        | 2,471         | 2,559         | 2,657         | 7.5                   |
| Share (%)                           | 39.9         | 38.2         | 34.2         | 42.2         | 32.6          | 29            | 28.8          | -11.7                 |
| Non-performing Loans                | 96.6         | 150.8        | 152.6        | 160.1        | 163.4         | 170           | 166.5         | 1.9                   |
| Non-performing Loan Rate (%)        | 3.9          | 5.3          | 4.1          | 3.2          | 2.1           | 2             | 1.8           | -16.1                 |
| <b>Securities</b>                   | <b>477</b>   | <b>660</b>   | <b>1,022</b> | <b>1,476</b> | <b>2,370</b>  | <b>2,779</b>  | <b>2,855</b>  | <b>20.5</b>           |
| <b>TOTAL LIABILITIES</b>            | <b>3,867</b> | <b>4,491</b> | <b>6,106</b> | <b>9,215</b> | <b>14,344</b> | <b>16,385</b> | <b>16,846</b> | <b>17.4</b>           |
| <b>Deposits</b>                     | <b>2,036</b> | <b>2,567</b> | <b>3,455</b> | <b>5,303</b> | <b>8,862</b>  | <b>10,350</b> | <b>10,356</b> | <b>16.9</b>           |
| TRY Deposits                        | 1,042        | 1,259        | 1,546        | 1,880        | 4,779         | 6,177         | 6,173         | 29.2                  |
| Share (%)                           | 51.2         | 49.0         | 44.7         | 35.5         | 53.9          | 60            | 59.6          | 10.5                  |
| FX Deposits                         | 994          | 1,308        | 1,909        | 3,423        | 4,083         | 4,173         | 4,183         | 2.4                   |
| Share (%)                           | 48.8         | 51.0         | 55.3         | 64.5         | 46.1          | 40            | 40.4          | -12.3                 |
| <b>Securities Issued</b>            | <b>174</b>   | <b>194</b>   | <b>224</b>   | <b>310</b>   | <b>325</b>    | <b>331</b>    | <b>344</b>    | <b>5.8</b>            |
| <b>Payables to Banks</b>            | <b>563</b>   | <b>533</b>   | <b>658</b>   | <b>1,048</b> | <b>1,432</b>  | <b>1,505</b>  | <b>1,578</b>  | <b>10.2</b>           |
| <b>Funds from Repo Transactions</b> | <b>97</b>    | <b>154</b>   | <b>255</b>   | <b>587</b>   | <b>540</b>    | <b>566</b>    | <b>778</b>    | <b>44.1</b>           |
| <b>SHAREHOLDERS' EQUITY</b>         | <b>421</b>   | <b>492</b>   | <b>600</b>   | <b>714</b>   | <b>1,407</b>  | <b>1,565</b>  | <b>1,607</b>  | <b>14.2</b>           |
| Profit (Loss) of the Period         | 54.1         | 49.0         | 58.5         | 93.0         | 431.6         | 144.7         | 190.3         | -55.9                 |
| <b>RATIOS (%)</b>                   |              |              |              |              |               |               |               |                       |
| Loans/GDP                           | 63.7         | 61.5         | 70.9         | 68.0         | 50.5          |               |               |                       |
| Loans/Assets                        | 61.9         | 59.1         | 58.6         | 53.2         | 52.8          | 54.4          | 54.8          | -                     |
| Securities/Assets                   | 12.3         | 14.7         | 16.7         | 16.0         | 16.5          | 17.0          | 16.9          | -                     |
| Deposits/Liabilities                | 52.7         | 57.2         | 56.6         | 57.5         | 61.8          | 63.2          | 61.5          | -                     |
| Loans/Deposits                      | 117.6        | 103.5        | 103.5        | 92.4         | 85.5          | 86.1          | 89.2          | -                     |
| Capital Adequacy (%)                | 17.3         | 18.4         | 18.7         | 18.4         | 19.5          | 17.0          | 17.1          | -                     |

(1) Year-to-date % change

Source: BRSA, Turkstat

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