September 2024

Economic Research Division

Alper Gürler
Division Head
alper.gurler@isbank.com.tr

H. Erhan Gül
Unit Manager
erhan.gul@isbank.com.tr

Mustafa Kemal Gündoğdu, PhD
Asst. Manager
kemal.gundogdu@isbank.com.tr

Utkan İnam
Asst. Economist
utkan.inam@isbank.com.tr

Oktay Erkan Temizkan
Asst. Economist
erkan.temizkan@isbank.com.tr

Global Economy

In the US, although the higher-than-expected increase in retail sales in July curbed recession concerns, industrial production contracted more than expected in the same period.

The statements in the minutes of the last Fed meeting and Fed Chairman Powell's remarks at the Jackson Hole Symposium made an interest rate cut in September the main scenario in the markets.

The downward revision in the US non-farm payrolls data for the April 2023-March 2024 period and the inflation data for July, which were generally in line with expectations, also supported market expectations for an interest rate cut.

According to preliminary data, annual CPI inflation in the Euro Area fell to 2.2% in August, the lowest level in more than three years. PMI data showed that the divergence between manufacturing and services sectors in the region continued in August.

Japan's economy grew faster than expectations in the second quarter. Bank of Japan (BoJ) Governor Ueda's statements to the press during the month signaled that the BoJ may continue to raise interest rates.

Commodity markets followed a volatile course in August. The Brent crude oil price ended the month at 78.8 USD/barrel, down 2.4% compared to the end of July.

Turkish Economy

According to chain linked volume index, Turkish economy grew by 2.5% yoy in the second quarter of 2024, below market expectations. In this period, the contribution of private consumption expenditures to growth continued to decline, while that of investment expenditures remained limited.

Seasonally adjusted unemployment rate rose sharply by 0.7 points mom to 9.2% in June, while the labour underutilization rate increased to 29.2%.

Although rising compared to July, ICI Türkiye Manufacturing PMIcame in at 47.8 in August and pointed out that challenging operating conditions persisted in the sector.

In June, current account balance posted a surplus of 407 million USD, while 12-month cumulative current account deficit increased slightly compared to May and became 24.8 billion USD.

Central government budget deficit was realized as 96.8 billion TRY in July and 844 billion TRY in January-July period.

In August, CPI increased by 2.47% mom, in line with market expectations, while annual CPI inflation fell to 51.97% due to the high base effect. In the same period, D-PPI rose by 1.68% mom and 37.57% yoy.

At its meeting on August 20, CBRT kept the policy interest rate unchanged at 50% in line with expectations.

BIST-100 index fell by 7.6% in August, while the rise in USD/TRY gained momentum compared to previous months and became 2.8% on a monthly basis.

The Medium Term Program (MTP) is scheduled to be announced in the first week of September and Fitch's assessment of Türkiye’s credit rating will be closely monitored.

The Turkish economy grew by 2.5% in the second quarter of 2024.

According to the chained volume index, the Turkish economy grew by 2.5% yoy in the second quarter of 2024, below market expectations and the weakest performance since the second quarter of 2020, a period of pandemic. In the Reuters poll, GDP was estimated to grow by 3.2% in this period. Turkstat revised the annual growth for 2023 from 4.5% to 5.1% and for the first quarter of 2024 from 5.7% to 5.3%. Thus, the Turkish economy grew by 3.8% yoy in the first half of the year.

In the second quarter of the year, calendar-adjusted annual growth was realized as 2.8% with the impact of the religious holidays more than in the same period of the previous year. Seasonally and calendar-adjusted figures show that the Turkish economy grew by 0.1% in the second quarter of the year. On the other hand, GDP growth revised down from 2.4% to 1.4% in the first quarter of the year as a result of the upward revision to last year's figures.

As of the second quarter of 2024, the annualized GDP of Türkiye reached 35.1 trillion TRY at current prices and approximately 1.2 trillion in USD terms.

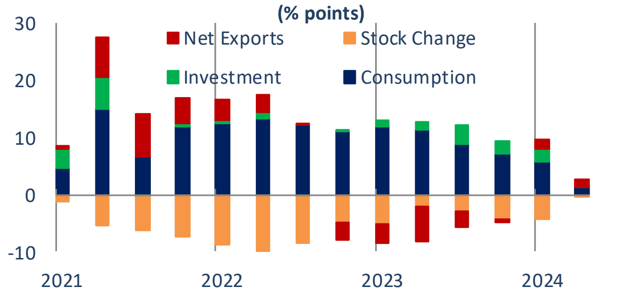
Contributions to Growth					(% points)
	2022	2023	2024		2024
	Annual	Annual	Q1	Q2	H1
Consumption	**12.2**	**9.8**	**5.8**	**1.3**	**3.5**
Private	11.7	9.5	5.1	1.2	3.1
Public	0.6	0.3	0.7	0.1	0.4
Investment	**0.3**	**2.0**	**2.3**	**0.1**	**1.2**
Stock Change	**-7.7**	**-3.6**	**-4.4**	**-0.2**	**-2.2**
Net Exports	**0.7**	**-3.1**	**1.6**	**1.3**	**1.4**
Exports	2.4	0.7	1.0	0.0	0.5
Imports	-1.7	-2.4	0.6	1.2	0.9
GDP (yoy, %)	**5.5**	**5.1**	**5.3**	**2.5**	**3.8**

Note: Numbers may not add to total due to rounding.

The contribution of consumption expenditures is at its lowest level since the pandemic.

According to the chained volume index, the contribution of private consumption expenditures to annual growth continued to decline in the second quarter of the year and was realized as 1.2 points, the lowest level of the last 4 years. During this period, public expenditures contributed 0.1 points to growth, the lowest since the last quarter of last year. Investment expenditures, which were strong in the first quarter of the year, made the lowest contribution to growth since the third quarter of 2022, with 0.1 points in the second quarter of 2024, due to the contraction in machinery and equipment investments (-5.6%). Thus, as of the second quarter of the year, consumption and investment expenditures contributed 1.4 points to overall growth. In the same period, net exports made a positive contribution to growth by 1.3 points in the second quarter. This was mainly driven by the decline in imports while exports remained flat.

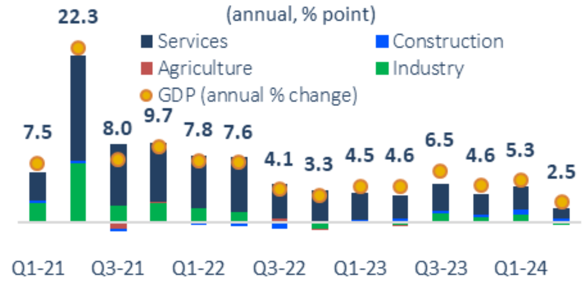
Contributions to GDP by Expenditure Approach
(% points)



The industrial sector contracted on an annual basis.

According to production approach, industrial sector contracted by 1.8% yoy, limiting growth by 0.4 points in the second quarter of the year. Thus, industrial production reduced annual growth for the first time since the second quarter of 2023. In this period, services sector expanded by 2.1% yoy, contributing 1.3 pp points to growth. On the other hand, the lowest contribution of the services sector to growth since the pandemic period signaled that the pressure of monetary tightening on demand became more evident. In the second quarter, the contribution of taxes and subsidies to growth rose to 1.1 points. Agriculture and construction sectors contributed 0.1 and 0.3 points to annual growth, respectively.

Contributions to GDP Growth by Production Approach*
(annual, % point)



(*) Taxes and subsidies excluded

Expectations...

The loss of momentum in domestic demand became more apparent in the second quarter as a result of the lagged effects of the tightening in economic policy. In the upcoming period, we anticipate that the contribution of private consumption expenditures to growth will continue to decline, while the rebalancing in the economy will be maintained with the support of the positive contribution of net exports to growth.

Source: Datastream, TURKSTAT

Unemployment rate rose sharply in June.

According to seasonally adjusted figures, unemployment rate surged by 0.7 points mom to 9.2% in June. Thus, the downward trend in the unemployment rate since the beginning of the year came to an end and the highest level since July 2023 was recorded. This development was driven by the 234K increase in the number of unemployed persons, despite the contraction of the labor force by 107K persons. Thus, labor force participation and employment rates declined to 54.4% and 49.3%, respectively. In this period, the labor underutilization rate, which is considered as the broadest defined unemployment rate, reached its highest level since May 2020 with 29.2%.

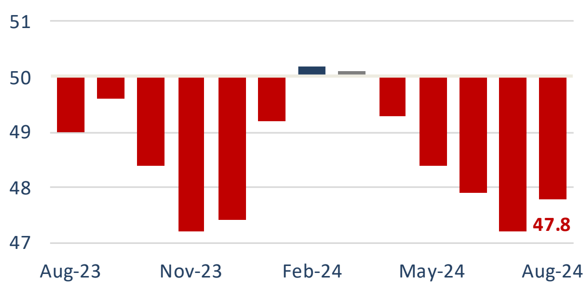
Industrial production index presented a negative outlook.

In June, recording the fastest annual decline (4.7%) since February 2023 industrial production index fell by 2.1% mom according to seasonally and calendar adjusted figures. The days between Eid and weekend holidays, when the production remained weak, were also effective in the decline of the index. While production in 17 out of 24 subsectors of the manufacturing industry decreased on a monthly basis, the sector that affected the index downwards the most in this period was the manufacture of food products, where production contracted by 6% mom. In June, services production index also declined by 1.1% mom.

Manufacturing PMI rose to 47.8 in August.

Türkiye's manufacturing PMI, published by the Istanbul Chamber of Industry (ICI), rose to 47.8 in August but pointed to a contraction in the sector for the fifth consecutive month. In August, challenging market conditions caused new orders to slow for the 14th consecutive month, while new export orders pointed to a relatively more favorable outlook in external demand conditions. In this period, the stagnation in general demand conditions pushed firms to reduce their production, employment and purchasing activities. Production lost the sharpest momentum since November 2022 due to price pressures. On sectoral basis, PMI data remained below the threshold value in all 10 sectors in August, while textile sector had the weakest operating conditions.

ICI Türkiye Manufacturing PMI



In June, retail trade volume recorded its first increase in four months.

Seasonally and calendar adjusted trade sales volume rose by 1% mom in June after two months of decline. In this period, wholesale and retail trade volume indices increased by 0.8% mom and 1.7% mom, respectively. The increase in retail trade volume in June after three months of decline, and the 5.1% rise of real credit card expenditures in July calculated from the data released by CBRT supported the view that the projected slowdown in domestic demand is not yet at the desired level. Analyzing the details of retail trade, all sub-indices except other household goods and retail trade of culture and entertainment goods, recorded monthly increases. In this period, the fastest rise was recorded in the retail trade of information and communication technology equipment.

Economic confidence index continued to decline.

In August, consumer confidence index rose to 76.4. In this period, the expectation to spend on durable goods was the only sub-index registering a decline. According to seasonally adjusted data, real sector confidence index decreased by 0.7 points mom to 98.0 in this period. Despite the improvement in assessments regarding the current stock of finished goods and the total amount of orders in the last three months, the decline in the real sector confidence index was mainly driven by the deterioration in expectations in the remaining six indices compared to the previous period. According to seasonally adjusted data, sectoral confidence indices presented a mixed outlook in August. In this period, services confidence index recorded a monthly decline of 2%, while retail trade confidence index and construction confidence index rose by 0.8% mom and 1.1% mom, respectively. Thus, the economic confidence index fell by 1.3 points mom to 93.1 in August, the lowest level since May 2021. In this period, seasonally adjusted manufacturing industry capacity utilization rate decreased for the fifth consecutive month by 0.2 points mom to 75.7%.

The real decline in house prices continued in July.

House sales increased by 16% in July compared to the same month of the previous year. In this period, mortgaged house sales contracted by 20.9% yoy, while other sales increased by 21.7% yoy. Despite the annual increase in house sales, house prices continue to lose momentum. The annual increase in house price index declined to 38.7% in July. Istanbul was the region with the lowest annual house price increase with 26.8%, while this rate was recorded as 39.4% and 37% for Ankara and Izmir, respectively. The decline in house prices in real terms, which has been observed in recent months, continued with 14.3% in July.

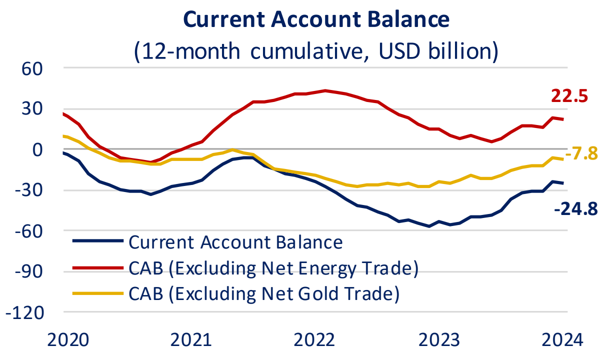
Source: CBRT, Datastream, ICI, TURKSTAT, MoTF

Foreign trade deficit widened by 10.8% yoy in June.

According to foreign trade statistics released by TURKSTAT, exports decreased by 8.3% yoy to 19 billion USD in June, while imports declined by 4.4% yoy to 24.9 billion USD. Thus, foreign trade deficit, which widened by 10.8% yoy to 5.9 billion USD in this period, was realized as 42.6 billion USD in the first half of the year.

Current account balance posted a surplus of 407 million USD.

In June, current account balance recorded the first surplus since September 2023 with 407 million USD, in line with market expectations. In this period, the 7.8% annual increase in the balance of payments-defined foreign trade deficit limited the current account surplus. On the other hand, the rise in services inflows led by net travel revenues, which increased by 11.4% yoy, was the main factor supporting the current account balance outlook. In June, non-monetary net gold imports and net energy imports declined to 928 million USD and 3.2 billion USD, respectively, while the current account surplus excluding gold and energy rose to 4.5 billion USD, the highest level since October 2023. Current account deficit, came in at 16.5 billion USD in the first half of the year. According to 12-month cumulative figures, the deficit recorded a limited increase compared to May and became 24.8 billion USD as of June.



Moderate course in foreign direct investments continued.

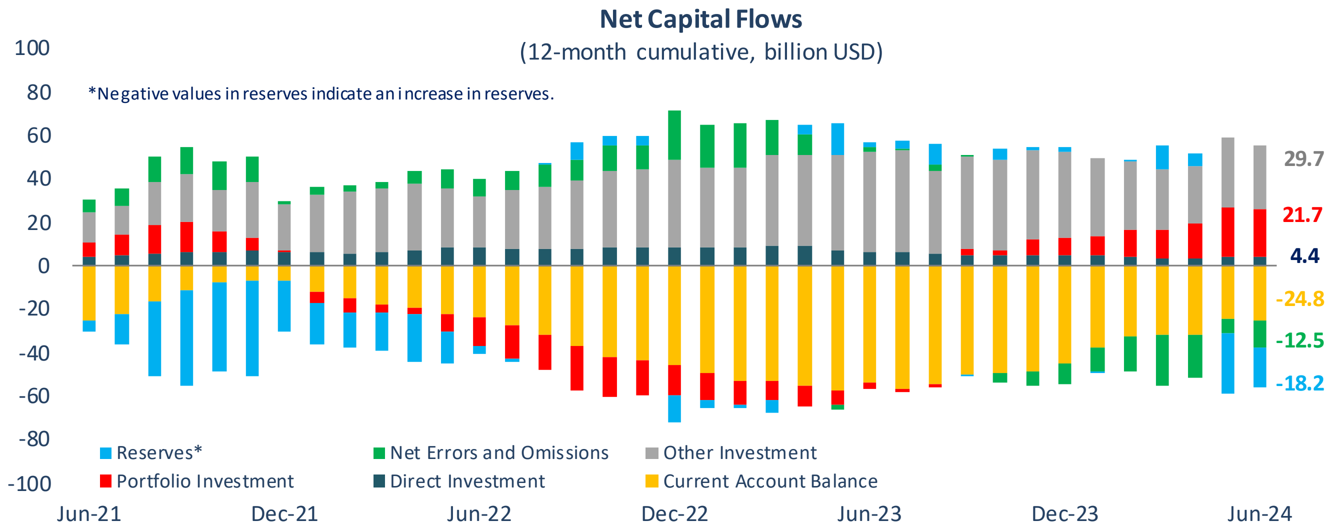
In June, foreign direct investments recorded a net capital inflow of 447 million USD. In this period, non-residents' direct investments in Türkiye were realized as 842 million USD, the lowest level of the last 3 months. The decline in residents' direct investments abroad to 395 million USD was the main factor supporting the net capital inflow. In June, real estate investments decreased to 98 million USD, the lowest level of the last 4 years. In the first 6 months of the year, net capital inflow in direct investments declined by 12.6% yoy to 2 billion USD.

Net capital inflows in portfolio investments slowed down.

In June, net capital inflow in portfolio investments was realized as 591 million USD, the lowest level of the last 3 months. In this period, non-residents' sales in the equity market (1.4 billion USD) accelerated and reached the highest level since May 2022. In the same period, foreign purchases in debt securities market slowed down to 925 million USD. The capital inflows recorded in the debt securities market were mainly driven by the debt securities issued by banks abroad and the general government in Türkiye. In the first six months of the year, portfolio investments recorded a net capital inflow of 12.2 billion USD.

Other investments recorded net capital outflows for the first time since February.

In June, other investments posted a net capital outflow of 972 million USD, recording the first net capital outflow since February. In this period, the main factor that deteriorated the positive outlook in other investments was the highest net capital outflow (5.6 billion USD) since August 2018. While foreign banks' currency and deposits with domestic correspondents decreased by 1.5 billion USD, domestic banks' currency and deposits with foreign correspondents increased by 4.4 billion USD.



Source: Datastream, Turkstat, CBRT

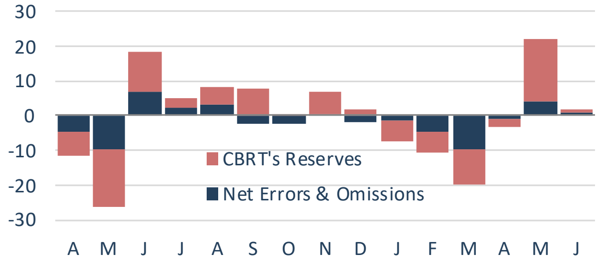
Foreign Trade and Balance of Payments

In June, net capital inflow in loans item was recorded as 4.2 billion USD, the highest level since 2011. In this period, domestic banks borrowed net 4.6 billion USD from abroad, while other sectors realized net 226 million USD loan repayments. General government's net borrowing from abroad was limited to 234 million USD. According to 12-month cumulative figures, long-term debt rollover ratio was realized as 141.3% in the banking sector and 101% in other sectors, as of June. In the first half of 2024, net capital inflow recorded in other investments decreased by 56.6% yoy to 7.5 billion USD.

Moderate increase in reserves...

Having posted a historically high increase of 17.6 billion USD in May, reserve assets rose by 1.2 billion USD in June. Although capital inflows in the net errors and omissions item continued with 775 million USD in June, outflows of 11.5 billion USD were recorded in January-June period due to the high outflows in the first quarter of the year.

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



Expectations...

In June, current account balance posted a surplus thanks to the favorable course of net travel revenues due to the tourism season and the continued downward trend in gold and energy imports. The continued contraction in foreign trade deficit in July and August supported the expectations that the improvement in the current account balance would continue. In the upcoming period, the possible effects of geopolitical developments on commodity prices, particularly energy prices, continue to pose risks to the current account balance outlook.

Balance of Payments (USD million)

	Jun. 2024	Jan. - Jun. 2023	Jan. - Jun. 2024	% Change	12-month Cumulative
Current Account Balance	**407**	**-36,670**	**-16,494**	**-55.0**	**-24,833**
Foreign Trade Balance	-4,139	-50,982	-30,485	-40.2	-66,388
Services Balance	5,603	20,021	21,401	6.9	53,939
Travel (net)	4,790	15,920	18,207	14.4	43,881
Primary Income	-1,055	-5,986	-7,368	23.1	-12,622
Secondary Income	-2	277	-42	-	238
Capital Account	**-6**	**-85**	**-28**	**-67.1**	**-148**
Financial Account	**1,176**	**-45,045**	**-27,994**	**-37.9**	**-37,526**
Direct Investment (net)	-447	-2,253	-1,968	-12.6	-4,394
Portfolio Investment (net)	-591	1,111	-12,208	-	-21,661
Net Acquisition of Financial Assets	-1,033	1,770	6,514	268.0	7,613
Net Incurrence of Liabilities	-442	659	18,722	2,741.0	29,274
Equity Securities	-1,367	-505	-1,250	147.5	642
Debt Securities	925	1,164	19,972	1,615.8	28,632
Other Investment (net)	972	-17,370	-7,543	-56.6	-29,702
Currency and Deposits	5,609	-12,041	5,740	-	-5,648
Net Acquisition of Financial Assets	4,577	8,062	10,968	36.0	7,136
Net Incurrence of Liabilities	-1,032	20,103	5,228	-74.0	12,784
Central Bank	-169	13,635	-1,587	-	-1,710
Banks	-863	6,468	6,815	5.4	14,494
Foreign Banks	-1,519	5,223	3,865	-26.0	8,834
Foreign Exchange	-459	2,503	683	-72.7	5,323
Turkish Lira	-1,060	2,720	3,182	17.0	3,511
Non-residents	656	1,245	2,950	136.9	5,660
Loans	-4,189	-991	-11,589	1,069.4	-21,799
Net Acquisition of Financial Assets	448	-146	303	-	-1,211
Net Incurrence of Liabilities	4,637	845	11,892	1,307.3	20,588
Banking Sector	4,629	940	11,632	1,137.4	18,299
Non-bank Sectors	-226	242	94	-61.2	1,125
Trade Credit and Advances	-439	-4,316	-1,679	-61.1	-2,315
Other Assets and Liabilities	-9	-22	-15	-31.8	60
Reserve Assets (net)	1,242	-26,533	-6,275	-76.4	18,231
Net Errors and Omissions	**775**	**-8,290**	**-11,472**	**38.4**	**-12,545**

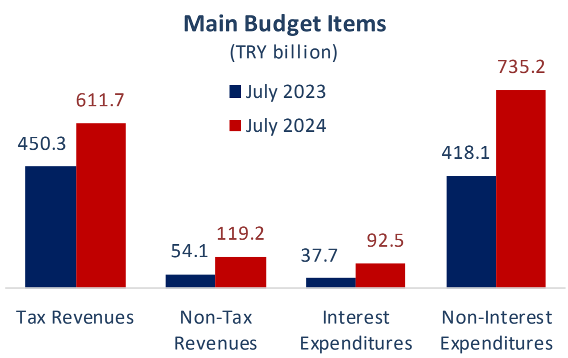
Source: CBRT, Ministry of Trade, Datastream, TURKSTAT

Central government budget posted a deficit of 96.8 billion TRY in July.

Central government budget expenditures increased by 81.6% yoy to 827.8 billion TRY in July, while budget revenues recorded a relatively limited annual rise of 44.9% and became 730.9 billion TRY. Thus, central government budget posted a deficit of 96.8 billion TRY in this period. In July, primary budget deficit was realized as 4.2 billion TRY. In January-July period, central government budget deficit increased by 94.2% yoy and was realized as 844 billion TRY.

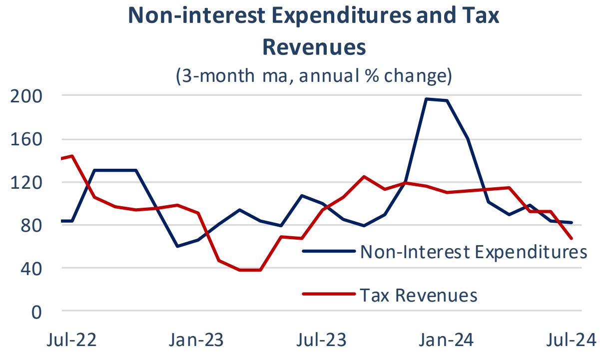
Tax revenues increased by 35.8% yoy in July.

In July, tax revenues increased moderately by 35.8% yoy to 611.7 billion TRY. In this period, income tax revenues increased by 114.9% yoy, while banking and insurance transactions tax revenues continued its annual rapid rise by 104.9%. In July, Special Consumption Tax (SCT) revenues rose by 61.3% yoy, led by SCT on petroleum and natural gas products, which more than tripled. In this period, corporation tax revenues decreased by 33.6% yoy due to the differences in the collection period, while domestic Value-Added Tax (VAT) revenues declined by 27.4%, limiting the increase in total tax revenues. In July, non-tax revenues surged by 120.3% yoy to 119.2 billion TRY. This was mainly driven by the 312% increase in grants-aids and special revenues and the 97% rise in interest, shares and fines.



In July, capital expenditures rose by 195.6% yoy.

In July, interest expenditures reached 92.5 billion TRY continuing its rapid rise by 145.4% yoy. In this period, capital expenditures went up by 195.6% yoy due to the rapid rise in real estate capital production expenditures. In July, when personnel expenditures rose by 75.8% yoy, current transfers continued to increase below the CPI inflation by 54.9% yoy. While 32.2 billion TRY was paid to Electricity Generation Corporation and 52.1 billion TRY to Social Security Institutions from the assignment item in this period, a total of 31.6 billion TRY was paid to TCDD and Turkish Grain Board from the lending item.



Expectations…

In July, the widening in budget deficit accelerated due to differences in collection periods and the weakening in economic activity. Nevertheless, the budget deficit in the first seven months of the year constituted only 31.8% of the 2,652 billion TRY target set for the whole year, indicating that the budget outlook is still favorable. In the coming months, the austerity measures regarding public expenditures and the tax package to be introduced gradually will be influential on the performance of the budget balance.

Central Government Budget (billion TRY)

	July		%	January-July		%	MTP	Real./ MTP
	2023	2024	Change	2023	2024	Change	Target	Target (%)
Expenditures	**455.8**	**827.7**	**81.6**	**2,819.4**	**5,406.3**	**91.8**	**11,089.0**	**48.8**
Interest Expenditures	37.7	92.5	145.4	313.0	667.0	113.1	1,254.0	53.2
Non-Interest Expenditures	418.1	735.2	75.8	2,506.5	4,739.3	89.1	9,835.0	48.2
Revenues	**504.4**	**730.9**	**44.9**	**2,384.8**	**4,562.3**	**91.3**	**8,437.1**	**54.1**
Tax Revenues	450.3	611.7	35.8	2,052.6	3,825.1	86.4	7,407.7	51.6
Other Revenues	54.1	119.2	120.3	332.1	737.2	122.0	1,029.4	71.6
Budget Balance	**48.6**	**-96.8**	**-**	**-434.7**	**-844.0**	**94.2**	**-2,651.9**	**31.8**
Primary Balance	**86.3**	**-4.2**	**-**	**-121.7**	**-177.0**	**45.4**	**-1,397.9**	**12.7**

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

Source: Datastream , Ministry of Treasury and Finance

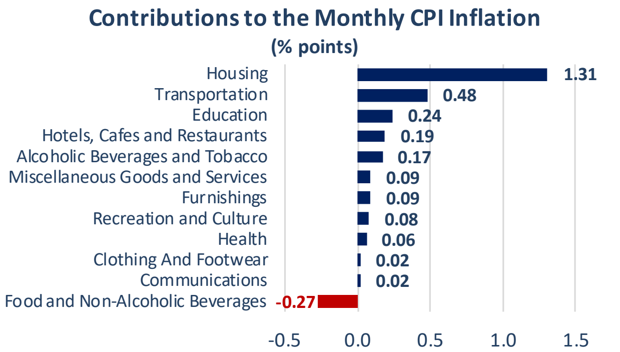
CPI increased by 2.47% mom in August.

In August, CPI increased by 2.47% mom, in line with market expectations. The CBRT Market Participants and Reuters surveys predicted a 2.6% mom increase in consumer prices. As a result, annual CPI inflation, which reached its peak in May (75.45%), continued to decline for the third consecutive month with the support of the base effect, falling to 51.97%, the lowest level since July 2023. In the same period, domestic producer price index (D-PPI) increased by 1.68% mom, while annual D-PPI inflation fell to 35.75%, the lowest level since April 2021.

August	CPI		D-PPI	
(change %)	2023	2024	2023	2024
Monthly	9.09	2.47	5.89	1.68
Year-to-Date	43.06	31.94	31.59	23.86
Annual	58.94	51.97	49.41	35.75
Annual Average	56.28	64.91	71.97	46.23

Housing prices remained the driving factor in CPI inflation.

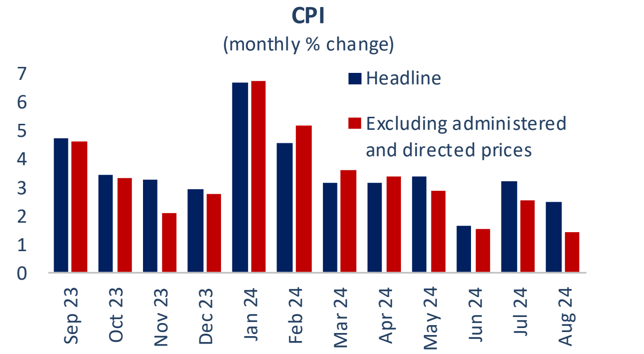
In August, all expenditure groups except food and non-alcoholic beverages posted a monthly price increase. Housing group, where prices have been rising rapidly since June, was the expenditure group that pushed the monthly CPI inflation up the most (by 1.31 points), with a monthly increase of 8.51% in August due to the rise in natural gas prices. In this period, prices in the education group increased by 11.34% mom, well above the headline CPI, while the transportation group, where a hike in bridge and highway prices was recorded, pushed the monthly inflation up by 0.48 points. In August, alcoholic beverages and tobacco prices rose by 4.46%, while price increases in clothing and footwear (0.35%), communication (0.62%), and furnishing and household equipment (1.10%) were relatively moderate. Prices in the food and non-alcoholic beverages group, which has the highest weight in the index, decreased by 1.10%, somewhat limiting monthly inflation.



Regarding annual figures, the 120.81% increase in the education group stood out, while price increases in the housing, food, and non-alcoholic beverages groups pushed annual CPI inflation up by 24 points in total. During the same time period, price increases in the clothing and footwear (29.38%) and transportation (28.96%) groups were relatively limited.

In August, the decline in fresh fruit and vegetable prices limited CPI inflation.

Fresh fruit and vegetable prices fell by 10% in August, which limited the monthly CPI increase. In this context, CPI excluding seasonal products recorded a higher monthly increase than the headline CPI by 3.25%, albeit losing some momentum in August. In this period, B (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco, and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco, and gold) indices increased faster than July with 2.88% and 2.99% mom, respectively. It was noteworthy that the increase in CPI excluding administered and directed prices decreased to 1.44% in August.



The divergence between goods and services inflation deepened in August. In this period, monthly price increases were realized as 1.51% in goods and 4.60% in services. While energy prices, which rose by 6.84% mom, were the main driver of goods inflation in August, prices of transportation services rose by 9.20% mom in the services group. On the services side, rents rose by 7.38% mom, the fastest increase since January, while communication services recorded the lowest increase of the last 32 months with 0.61%.

Natural gas prices were the main driver of D-PPI inflation.

In August, tobacco products had the highest monthly increase in D-PPI, at 12.8%. The electricity, gas, steam, and air conditioning group increased by 6.1% compared to the previous month, which pushed the monthly D-PPI inflation up the most with 0.53 points. In this period, other items with an upward impact on monthly D-PPI inflation were machinery and equipment (0.13 points), food products (0.13 points), and other non-metallic mineral products (0.11 points). In August, producer prices of basic pharmaceutical products and pharmaceutic preparations (-0.07%), textiles (-0.64%), and coke and refined petroleum products (-4.47%) decreased on a monthly basis.

Expectations...

Despite the rapid decline in unprocessed food prices in August, the fall in monthly inflation remained limited due to the rise in administered and directed prices. On the other hand, annual CPI inflation continued to decline due to the high base effect. In the remaining months of the year, we think that the support of the base effect will diminish, and the projected improvement in the underlying trend of monthly inflation will be decisive for the disinflation process. We consider that the recent decrease in global energy prices is likely to contribute positively to the disinflation process by alleviating cost pressures.

Source: Datastream, Turkstat

	31-Jul	30-Aug	Change
5-Y CDS (basis points)	264	275	11 bp ▲
2-Y Benchmark Yield*	42.42%	42.10%	-32 bp ▼
BIST-100*	10,639	9,833	-7.6% ▼
USD/TRY	33.1401	34.0711	2.8% ▲
EUR/TRY	35.8774	37.4873	4.5% ▲
Currency Basket**	34.5088	35.7792	3.7% ▲

(*) (Last Data: August 29) (**) (0.5 USD/TRY + 0.5 EUR/TRY)

Global risk appetite followed a volatile course in August.

Following the Bank of Japan's policy rate hike at its meeting on July 31, data releases in the first days of August raised recession concerns over the US economy, leading to selling pressure in global markets. In the following days, however, both the recovery in Japanese markets and the data releases in the US that reduced recession concerns eased global markets to a large extent. US stock markets closed August with a premium, thanks to the dovish statements made by Fed officials towards the end of the month, while the Dow Jones index reached a historic high on the last trading day. MSCI World and Emerging Markets indices also posted gains of 2.5% and 1.4% in August, respectively. DXY index and the interest rate of US 10-year bond also declined amid expectations of a rate cut in the US.

In August, BIST-100 declined by 7.6% to 9,833, with all sub-indices, except the sports and transportation indices, recording declines. Having declined sharply in early August in line with the selling pressure in global markets, the index struggled to recover its losses in the following period. In August, 2-year benchmark bond yield declined to 42.1% while CDS risk premium ended the month at 275 basis points.

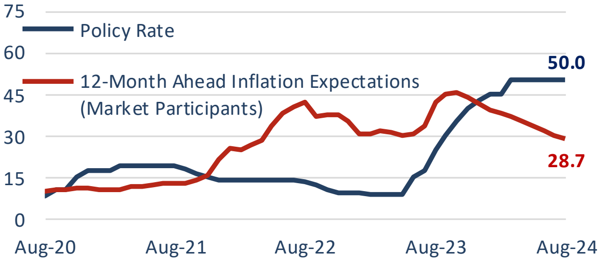
Non-residents' securities portfolio...

As of August 23, non-residents' price and FX rate adjusted equity portfolio decreased by 724 million USD compared to the end of July, while GDDS portfolio increased by 83 million USD. Thus, since the end of 2023, foreign capital outflow from the stock market was 1.9 billion USD, while foreign capital inflow to the bond market was 13.8 billion USD. As of August 23, CBRT's gross reserves and net reserves were recorded as 150.4 billion USD and 43.7 billion USD, respectively.

Households' 12-month-ahead inflation expectations continued to increase in August.

Sectoral Inflation Expectations report published by CBRT pointed out that the divergence between the inflation expectations of market participants, real sector and households continued in August. According to the report, 12-month-ahead inflation expectations of market participants and the real sector decreased to 28.7% and 53.8%, respectively. On the other hand, households' inflation expectations rose to 73.1% in this period, following the increase in July.

TCMB Policy Rate and 12-Month Ahead Inflation Expectations
(%)



CBRT kept the policy rate unchanged.

CBRT kept the policy rate unchanged at 50% in line with expectations at its meeting held on August 20. In the press release, CBRT stated that although the underlying trend of monthly inflation increased slightly in July compared to the previous month, it remained below the second quarter average. CBRT also stated that leading economic indicators pointing to a slowdown in domestic demand in the third quarter reduced demand-side inflationary effects. The Bank added that while goods inflation declined, the improvement in services inflation will be lagged, and underlined the importance of keeping inflation expectations and pricing behavior in line with projections. CBRT also reiterated that the tight monetary policy stance will be maintained until the underlying trend of monthly inflation displays a significant and sustained decline and inflation expectations converge to the projected forecast range, and that additional tightening will be implemented in case of a significant and persistent deterioration in inflation. In the text, it was also stated that liquidity conditions were closely monitored taking into account possible developments and sterilization tools would continue to be used effectively. On August 29, CBRT made some changes in the reserve requirement practice in order to support the monetary transmission mechanism.

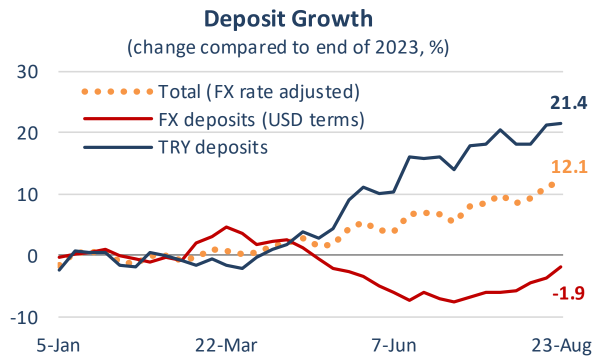
The Medium Term Program is expected to be announced on September 5.

The Medium Term Program, which is to be announced on September 5, is important in terms of providing clues about the economic policy to be exercised in the upcoming period. Fitch is expected to publish its credit rating assessment for Türkiye on September 6. In its report published on March 8, Fitch had raised Türkiye's credit rating by one notch to "B+" and changed its credit outlook from "stable" to "positive". Moreover, in the IMF's preliminary assessment of Türkiye under Article 4, referring to the transformation in economic policies, it was stated that the implementation of tight economic policies have significantly reduced risks and increased confidence. The assessment also emphasized that the current account deficit to GDP ratio has declined, reserves have recovered and market conditions have improved.

Source: CBRT, Datastream, Reuters

FX deposit volume was 199.3 billion USD.

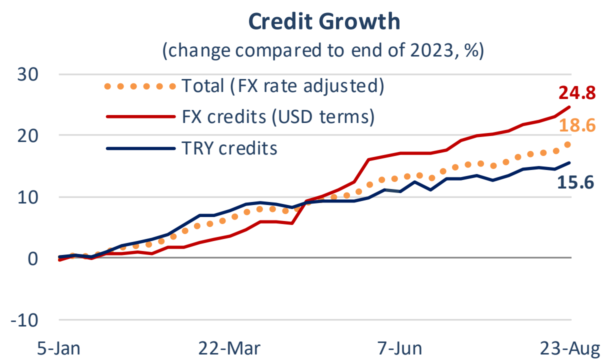
According to the weekly data released by BRSA, as of August 23, TL deposits in the banking sector expanded by 21.4% compared to the end of 2023 and reached 10.8 trillion TRY. FX deposit volume in USD terms, which has been on an upward trend recently, was realized as 199.3 billion USD as of August 23. Thus, total deposits in the sector increased by 17.9% ytd and reached 17.5 trillion TRY. The share of TL deposits (including FX-protected deposits) in total deposits was 61.6% as of August 23, up from 59.8% at the end of 2023.



FX Protected Deposits (FXPD) volume declined to 1.6 trillion TRY (48.1 billion USD) as of August 23. Thus, the share of FXPD in TRY deposits declined to 15%. According to the data released by CBRT, as of July, FX-/gold-converted deposit/participation accounts amounted to 57.2 billion USD (41.3 billion USD for real persons and 15.9 billion USD for legal entities) while TRY deposit/ participation accounts amounted to 7.9 billion TRY.

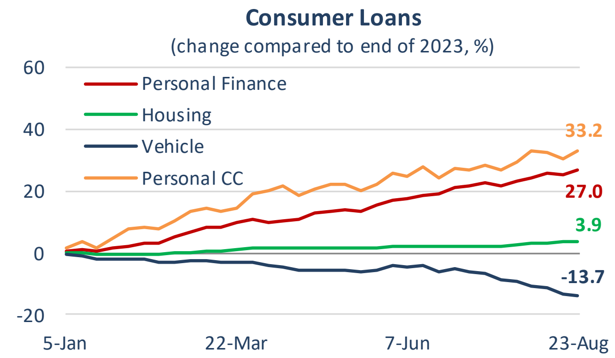
Credit volume growth...

As of August 23, TL loan volume increased by 15.6% ytd to 9.1 trillion TRY, while FX loans in USD terms rose by 24.8% ytd to 160.6 billion USD. Accordingly, the sector's total loan volume increased by 24.6% ytd and reached 14.5 trillion TRY.



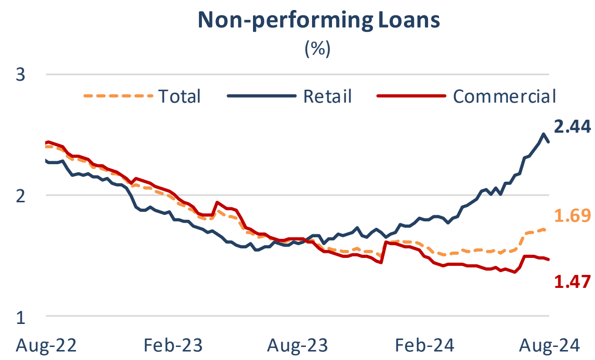
Contraction in vehicle loans continued in August.

As of August 23, vehicle loans contracted by 4.7% compared to end-July, while housing and general purpose loans increased by 1.3% and 2.9%, respectively. Thus, as of the same date, vehicle loans contracted by 13.7% ytd, while housing and general purpose loans went up by 3.9% and 27%, respectively. As of August 23, retail credit card expenditures, which increased by 2.8% mom, rose by 33.2% ytd.



Non-performing loans ratio was 1.69%.

As of August 23, non-performing loans ratio was recorded as 2.44% in retail loans, while it continued its downward trend in commercial loans in recent weeks and declined to 1.47%. Thus, the banking sector's non-performing loans ratio was realized as 1.69%.



Foreign currency net general position...

As of August 23, on-balance sheet FX position of the banking sector was (-)16,379 million USD while off-balance sheet FX position was (+)18,762 million USD. Thus, net foreign currency position was realized as (+)2,384 million USD.

Source: BRSA Weekly Bulletin

Concluding Remarks

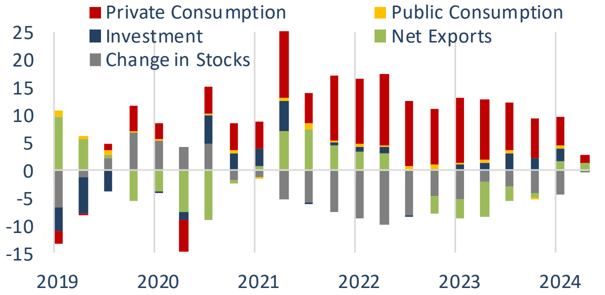
Although August started with recession concerns over the US economy in global markets, demand indicators released in the country weakened these concerns. In addition to Fed Chairman Powell's Jackson Hole speech, which opened the door to interest rate cuts, the evaluations in the Fed minutes also pointed out that the dovish attitude spread across the Fed members. In this context, we think that the first rate cut will most likely be made at the September meeting and that the Fed will adopt a cautious stance and opt for a 25 basis points cut in light of current developments. Although the recent expectations for global markets have taken an optimistic tone in line with these developments, the ongoing weak domestic demand in China continues to put pressure on global growth.

In Türkiye, the deceleration in economic growth in the second quarter of the year compared to previous periods was a positive development in terms of establishing the targeted rebalancing in the economy. Moreover, leading indicators signaled that economic activity continued to lose momentum in the third quarter. As the effects of the tight monetary policy stance on domestic demand will become more evident, we expect a balanced but relatively weak growth performance in the second half of the year, with domestic demand contributing less to growth. In August, the underlying trend of monthly inflation improved slightly compared to July, while the rise in administered prices continued to be influential on inflation.

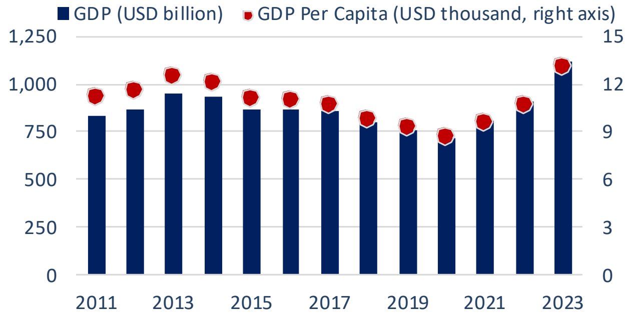
Growth

Contributions to GDP Growth

(% point)

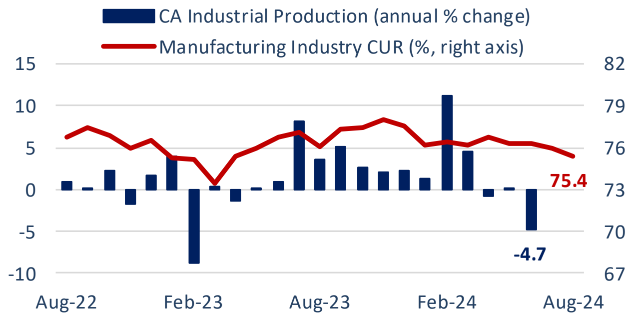


GDP

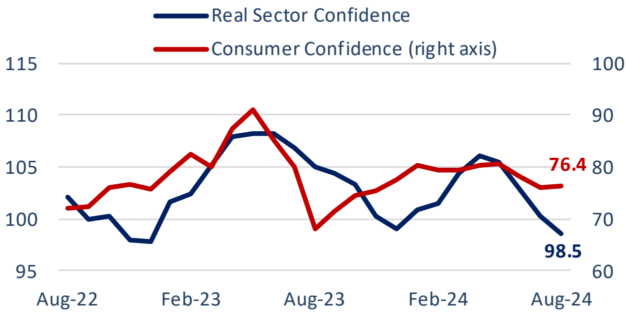


Leading Indicators

Industrial Production and Capacity Utilization



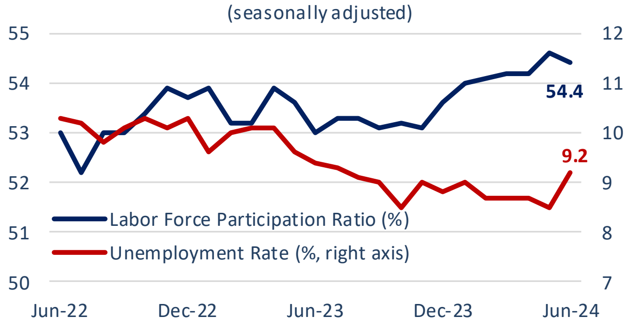
Confidence Indices



Labor Market

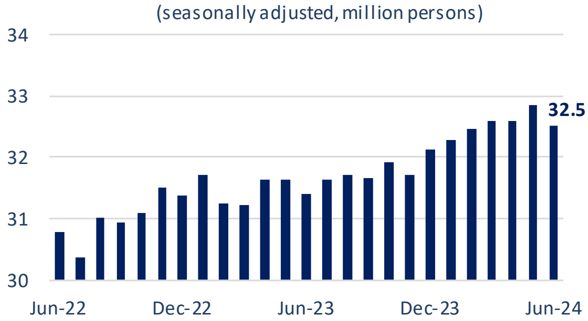
Employment Indicators

(seasonally adjusted)



Employment

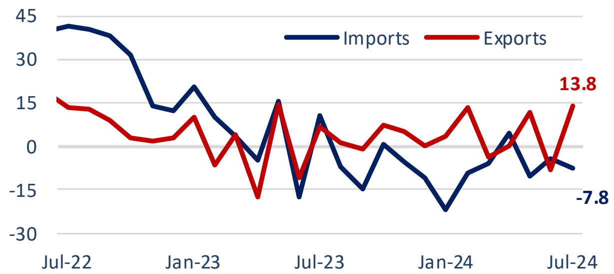
(seasonally adjusted, million persons)



Foreign Trade and Current Account Balance

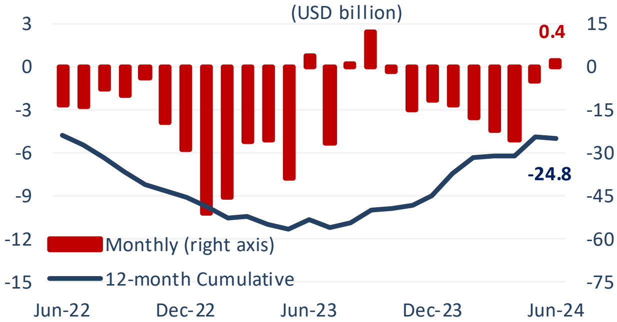
Foreign Trade

(annual % change)



Current Account Balance

(USD billion)

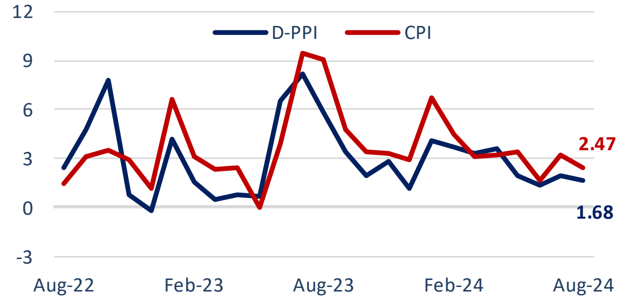


(CA) Calendar adjusted

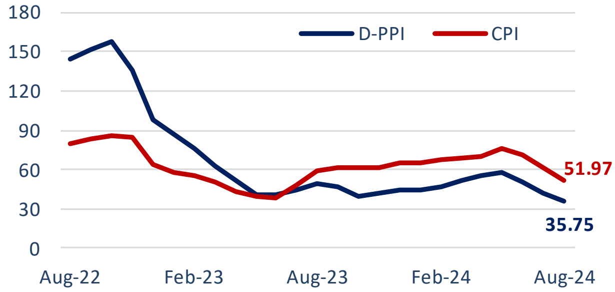
Source: Datastream, CBRT, Turkstat

Inflation

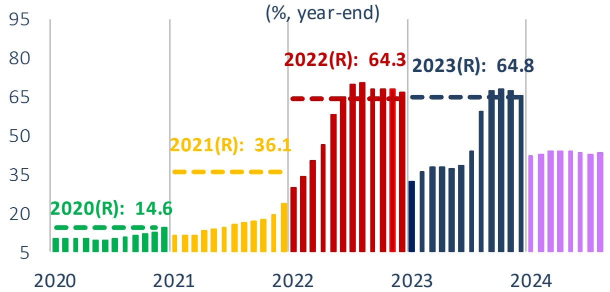
Monthly Inflation
(%)



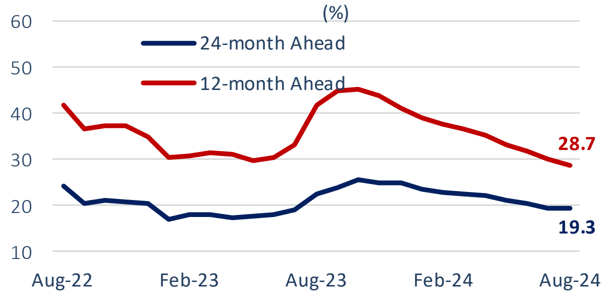
Annual Inflation
(%)



CBRT Survey of Expectations - Annual CPI Inflation Expectations
(%, year-end)

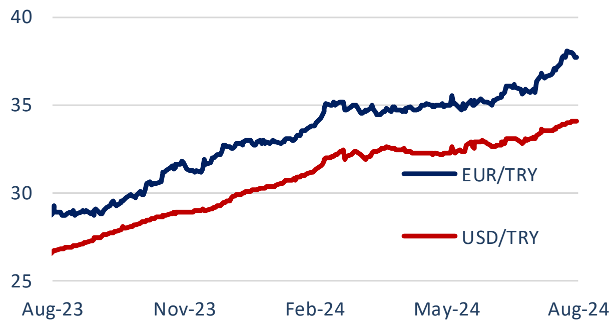


CBRT Survey of Expectations - 12 & 24-month Ahead CPI Inflation Expectations
(%)

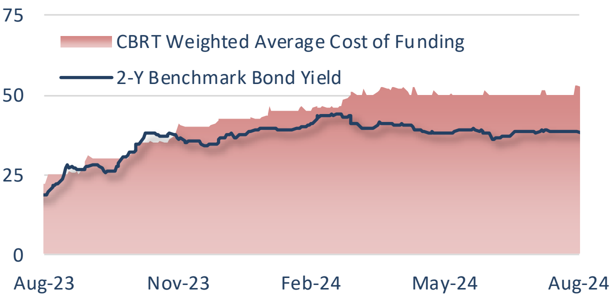


Foreign Exchange and Bond Market

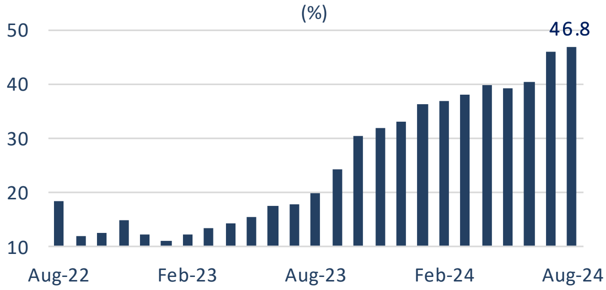
Exchange Rates



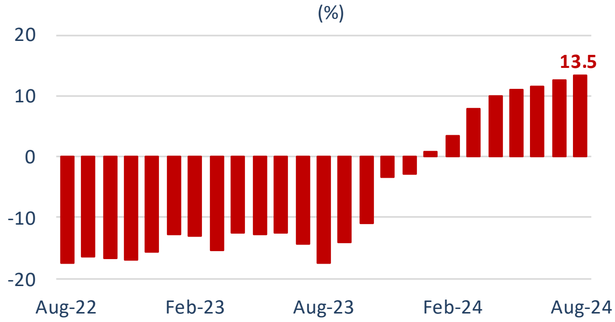
CBRT WACOF and 2-Y Benchmark Bond Yield
(%)



Average Compound Yield in Treasury Auctions
(%)



Expected Real Yield of TRY GDDIs
(%)



(R) Realization

Source: BİST, Datastream, Reuters, CBRT, Turkstat, Treasury

Turkish Economy - Macroeconomic Indicators

Growth	2019	2020	2021	2022	2023	23-Q4	24-Q1	24-Q2
GDP (USD billion)	760	717	808	906	1,130	307	287	308
GDP (TRY billion)	4,318	5,049	7,256	15,012	26,546	8,528	8,858	9,950
GDP Growth Rate (%)	0.8	1.9	11.4	5.5	5.1	4.6	5.3	2.5
Inflation (%)						**Jun.24**	**Jul.24**	**Aug.24**
CPI (annual)	11.84	14.60	36.08	64.27	64.77	71.60	61.78	51.97
Domestic PPI (annual)	7.36	25.15	79.89	97.72	44.22	50.09	41.37	35.75
Seasonally Adjusted Labor Market Figures						**Apr.24**	**May.24**	**Jun.24**
Unemployment Rate (%)	13.4	12.6	11.0	10.3	8.8	8.7	8.5	9.2
Labor Force Participation Rate (%)	52.6	49.1	52.6	53.7	53.6	54.2	54.6	54.4
FX Rates						**Jun.24**	**Jul.24**	**Aug.24**
CPI Based Real Effective Exchange Rate	76.0	61.9	47.6	54.9	55.4	62.09	62.97	62.34
USD/TRY	5.95	7.43	13.28	18.72	29.53	32.78	33.11	34.07
EUR/TRY	6.68	9.09	15.10	19.98	32.62	35.14	35.83	37.71
Currency Basket (0.5*EUR+0.5*USD)	6.32	8.26	14.19	19.35	31.08	33.96	34.47	35.89
Foreign Trade Balance(1) (USD billion)						**May.24**	**Jun.24**	**Jul.24**
Exports	180.8	169.6	225.2	254.2	255.6	260.5	258.7	261.5
Imports	210.3	219.5	271.4	363.7	362.0	347.5	346.4	343.9
Foreign Trade Balance	**-29.5**	**-49.9**	**-46.2**	**-109.5**	**-106.3**	**-87.1**	**-87.7**	**-82.4**
Import Coverage Ratio (%)	86.0	77.3	83.0	69.9	70.6	74.9	74.7	76.0
Balance of Payments(1) (USD billion)						**Apr.24**	**May.24**	**Jun.24**
Current Account Balance	**15.0**	**-31.1**	**-6.4**	**-45.8**	**-45.0**	**-31.2**	**-24.5**	**-24.8**
Capital and Financial Accounts	**-1.0**	**-7.3**	**-28.7**	**-35.2**	**-52.6**	**-51.6**	**-31.0**	**-37.5**
Direct Investments (net)	-6.5	-4.4	-6.4	-8.7	-4.7	-3.8	-4.1	-4.4
Portfolio Investments (net)	2.8	9.6	-0.8	13.7	-8.3	-15.9	-22.9	-21.7
Other Investments (net)	2.7	-12.5	-21.5	-40.2	-39.5	-25.9	-32.2	-29.7
Reserve Assets (net)	6.3	-31.9	23.3	12.3	-2.0	-6.0	28.2	18.2
Net Errors and Omissions	**-9.7**	**-8.1**	**1.1**	**22.9**	**-9.4**	**-20.2**	**-6.4**	**-12.5**
Current Account Balance/GDP (%)	**2.0**	**-4.3**	**-0.8**	**-5.1**	**-4.0**	-	-	-
Budget(2)(3) (TRY billion)						**May.24**	**Jun.24**	**Jul.24**
Expenditures	**1,000.0**	**1,203.7**	**1,603.5**	**2,942.7**	**6,588.0**	**3,712.1**	**4,578.5**	**5,406.3**
Interest Expenditures	99.9	134.0	180.9	310.9	674.6	475.1	574.4	667.0
Non-interest Expenditures	900.1	1,069.8	1,422.7	2,631.8	5,913.4	3,236.9	4,004.1	4,739.3
Revenues	**875.3**	**1,028.4**	**1,402.0**	**2,800.1**	**5,207.6**	**3,240.1**	**3,831.4**	**4,562.3**
Tax Revenues	673.9	833.3	1,165.0	2,353.4	4,501.1	2,730.2	3,213.4	3,825.1
Budget Balance	**-124.7**	**-175.3**	**-201.5**	**-142.7**	**-1,380.4**	**-471.9**	**-747.2**	**-844.0**
Primary Balance	**-24.8**	**-41.3**	**-20.7**	**168.2**	**-705.8**	**3.2**	**-172.8**	**-177.0**
Budget Balance/GDP (%)	**-2.9**	**-3.5**	**-2.8**	**-1.0**	**-5.2**	-	-	-
Central Government Debt Stock (TRY billion)						**May.24**	**Jun.24**	**Jul.24**
Domestic Debt Stock	755.1	1,060.4	1,321.2	1,905.3	3,209.3	3,712.7	3,891.7	4,017.6
External Debt Stock	574.0	752.5	1,426.5	2,127.9	3,513.2	3,929.9	3,992.8	4,088.4
Total Debt Stock	**1,329.1**	**1,812.8**	**2,747.7**	**4,033.2**	**6,722.5**	**7,642.6**	**7,884.5**	**8,106.0**

(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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2019	2020	2021	2022	2023	Jun.24	Jul.24	Change[1]
TOTAL ASSETS	**4,491**	**6,106**	**9,215**	**14,347**	**23,550**	**28,056**	**28,551**	**21.2**
Loans	**2,656**	**3,576**	**4,901**	**7,581**	**11,677**	**13,852**	**14,134**	**21.0**
TRY Loans	1,642	2,353	2,832	5,110	7,894	8,918	9,009	14.1
Share (%)	61.8	65.8	57.8	67.4	67.6	64.4	63.7	-
FX Loans	1,015	1,224	2,069	2,471	3,783	4,934	5,125	35.5
Share (%)	38.2	34.2	42.2	32.6	32.4	35.6	36.3	-
Non-performing Loans	150.8	152.6	160.1	163.4	191.9	216.6	243.8	27.1
Non-performing Loan Rate (%)	5.3	4.1	3.2	2.1	1.6	1.5	1.7	-
Securities	**660**	**1,022**	**1,476**	**2,370**	**3,970**	**4,588**	**4,691**	**18.2**
TOTAL LIABILITIES	**4,491**	**6,106**	**9,215**	**14,344**	**23,550**	**28,056**	**28,551**	**21.2**
Deposits	**2,567**	**3,455**	**5,303**	**8,862**	**14,852**	**16,466**	**16,942**	**14.1**
TRY Deposits	1,259	1,546	1,880	4,779	8,897	10,336	10,694	20.2
Share (%)	49.0	44.7	35.5	53.9	59.9	62.8	63.1	-
FX Deposits	1,308	1,909	3,423	4,083	5,955	6,130	6,248	4.9
Share (%)	51.0	55.3	64.5	46.1	40.1	37.2	36.9	-
Securities Issued	**194**	**224**	**310**	**325**	**584**	**797**	**805**	**37.8**
Payables to Banks	**533**	**658**	**1,048**	**1,432**	**2,384**	**3,042**	**3,095**	**29.8**
Funds from Repo Transactions	**154**	**255**	**587**	**540**	**723**	**1,725**	**1,515**	**109.5**
SHAREHOLDERS' EQUITY	**492**	**600**	**714**	**1,407**	**2,153**	**2,466**	**2,517**	**16.9**
Profit (Loss) of the Period	49.0	58.5	93.0	431.6	620.5	314.0	348.7	-43.8
RATIOS (%)								
Loans/GDP	61.5	70.9	68.0	50.5	44.4			
Loans/Assets	59.1	58.6	53.2	52.8	49.6	49.4	49.5	-
Securities/Assets	14.7	16.7	16.0	16.5	16.9	16.4	16.4	-
Deposits/Liabilities	57.2	56.6	57.5	61.8	63.1	58.7	59.3	-
Loans/Deposits	103.5	103.5	92.4	85.5	78.6	84.1	83.4	-
Capital Adequacy (%)	18.4	18.7	18.4	19.5	19.1	17.1	17.0	-

(1) Year-to-date % change

Source: BRSA, Turkstat

Our reports are available on our website **https://research.isbank.com.tr**