

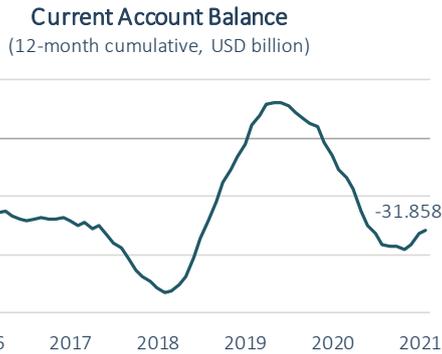


Foreign trade deficit expanded by 20.2% yoy in May.

According to TURKSTAT data, the export volume expanded by 65.7% yoy and became 16.5 billion USD, while the import volume rose by 54% yoy to 20.6 billion USD in May 2021. Hence, in this period, the foreign trade deficit expanded by 20.2% yoy and became 4.1 billion USD. The ratio of exports to imports rose from 74.3% in May 2020 to 80% in May 2021. In the January-May period, foreign trade deficit narrowed by 13.1% yoy and became 18.3 billion USD.

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

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



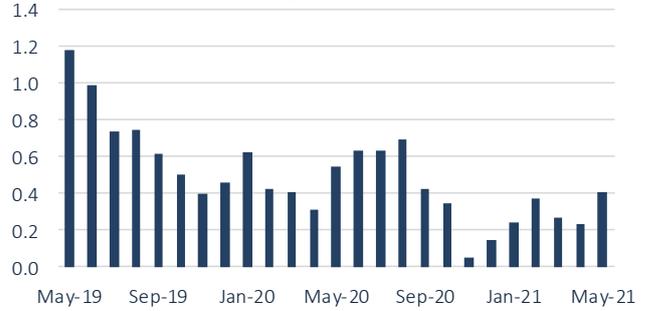
In May, capital investments increased on an annual basis.

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

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

Net Foreign Direct Investment

(3-month moving average, USD billion)

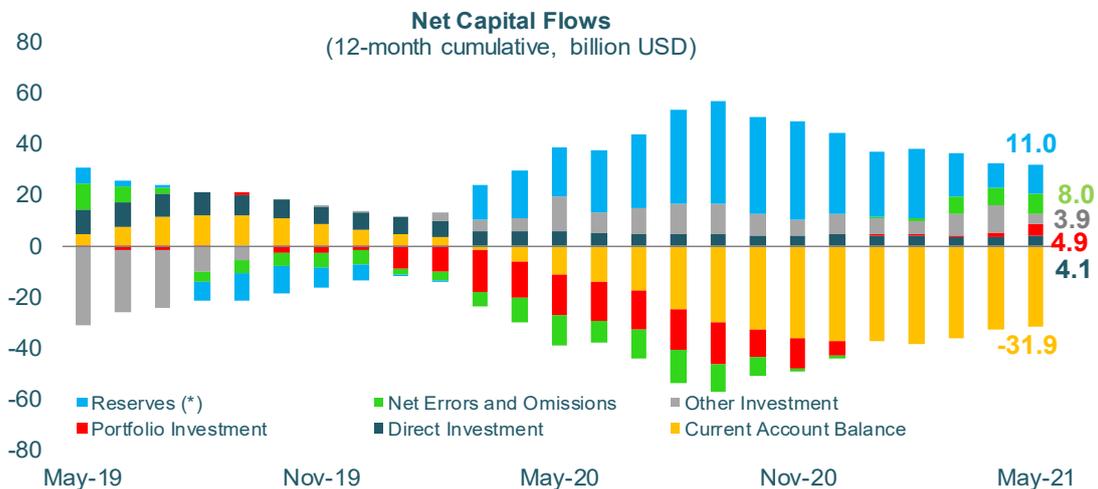


In May, there was a net capital inflow of 836 million USD in portfolio investments.

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

Capital inflows in other investments increased rapidly in May.

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



Source: Datastream, Turkstat, CBRT

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

Reserve assets increased by 1.3 billion USD in May.

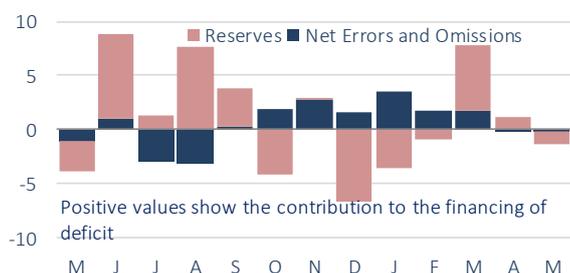
Reserve assets increased by 1.3 billion USD in May. According to the 12-month cumulative data, the decline in reserve assets became 11 billion USD as of May. In May, there was a limited capital outflow of

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

Expectations...

According to the preliminary foreign trade data released by the Ministry of Commerce, export volume increased by 46.9% yoy to 19.8 billion USD in June as foreign demand has maintained its strong course. In the same period, import volume increased by 38.9% to 22.7 billion USD. The foreign trade deficit widened by 1% and became 2.9 billion USD. Provisional data pointed out that the development in foreign trade has also affected the current account balance positively in June. While the rapid spread of the delta variant, which creates 4th wave concerns in the pandemic, is closely monitored on a global scale, the news that most of the current vaccines are also effective against the delta variant alleviates concerns together with rising vaccination rates around the world. With the lifting of travel bans from Russia to Turkey in June after Germany and the US, cautious optimism regarding the upcoming performance of the tourism sector continues. On the other hand, rising oil prices continue to be risk factors on the balance of payments.

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



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

Source: Datastream, Ministry of Trade, CBRT

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

İlker Şahin
Economist
ilker.sahin@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

İrem Turan Taş
Asst.Economist
irem.turan@isbank.com.tr

Dilek Sarsın Kaya
Asst.Manager
dilek.kaya@isbank.com.tr

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

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
