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Global Economy

On May 16, Moody's downgraded the United States credit rating from Aaa to Aa1, citing the country's rising debt.

Preliminary data for the second quarter in the US pointed to a moderate improvement in economic activity.

At its May meeting, Fed kept the policy rate unchanged at 4.25%-4.50% in line with market expectations. Inflation data indicated that inflationary pressures in the US eased slightly in April.

In the Euro Area, quarterly growth data for the first quarter of the year was revised downwards by 0.1 points to 0.3%. In the same period, annual growth came in at 1.2%, confirming the preliminary data.

The People's Bank of China cut interest rates for the first time since the October 2024 meeting. Thus, 1 and 5-year loan prime rates were cut by 10 basis points to 3.00% and 3.50%, respectively.

In Japan, whose economy contracted more than expected in the first quarter of the year, the policy rate was kept unchanged at 0.50% in line with expectations.

Gold prices declined in May as trade agreements supported risk appetite. On the other hand, these agreements boosted optimism regarding economic activity and caused oil prices to rise.

Turkish Economy

Turkish economy grew by 1% qoq and 2% yoy in the first quarter of the year.

Unemployment rate rose to 8.6% in April, while the labor underutilization rate, the broadest unemployment indicator, was realized as 32.2%, the highest level in the data set.

ICI Türkiye manufacturing PMI came in at 47.2 in May, indicating that the contraction trend in the sector continued for the 14th month.

Ministry of Treasury and Finance announced that a support package with a guarantee limit of 25 billion TRY will be created.

In March, current account posted a deficit for the fifth consecutive month with 4.1 billion USD, while 12-month cumulative current account deficit became 12.6 billion USD.

In April, central government budget deficit was realized as 174.7 billion TRY. Thus, in January-April period, approximately 46% of the Medium Term Program (MTP) target for 2025 was realized.

In May, CPI increased by 1.53% mom, below market expectations, while annual CPI inflation declined to 35.41%. Domestic PPI increased by 2.48% mom in May, above CPI for the first time since April 2024. Annual D-PPI inflation was realized as 23.13%.

In the second Inflation Report of the year, CBRT kept its annual inflation forecasts for 2025 and 2026 unchanged at 24% and 12%, respectively.

BIST-100 index ended May with a limited decline. USD/TRY exchange rate rose by 1.9% in this period.

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GDP Growth

The Turkish economy grew by 2% year-on-year in the first quarter.

GDP with a chain linked volume index increased by 2.0% in the first quarter of 2025, compared to the same period the previous year. According to the Reuters survey, the expected growth rate for this period is 2.3%. As a result, the Turkish economy recorded its slowest annual growth rate since the second quarter of 2020, when the pandemic measures went into effect.

The calendar-adjusted annual growth rate of 2.7% suggests that the calendar effect, particularly in the industry sector, played a significant role in the loss of momentum in headline growth. Furthermore, in the first quarter of the year, seasonally and calendar-adjusted GDP with chain linked volume index increased by 1.0% compared to the previous quarter, indicating that the outlook remains relatively positive.

Contributions to Growth						(% points)
	2024					2025
	Q1	Q2	Q3	Q4	Annual	Q1
Consumption	5.9	0.9	1.9	3.2	2.9	1.7
Private	5.5	0.9	1.9	3.0	2.8	1.6
Public	0.4	0.0	0.0	0.2	0.2	0.2
Investment	2.3	0.2	0.0	1.5	1.0	0.5
Stock Change	-4.6	-0.2	-1.9	-0.9	-1.8	0.3
Net Exports	1.9	1.5	2.2	-0.8	1.1	-0.6
Exports	1.2	0.2	0.2	-0.5	0.2	0.0
Imports	0.7	1.3	2.0	-0.4	0.9	-0.6
GDP (yoy, %)	5.4	2.4	2.2	3.0	3.2	2.0

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

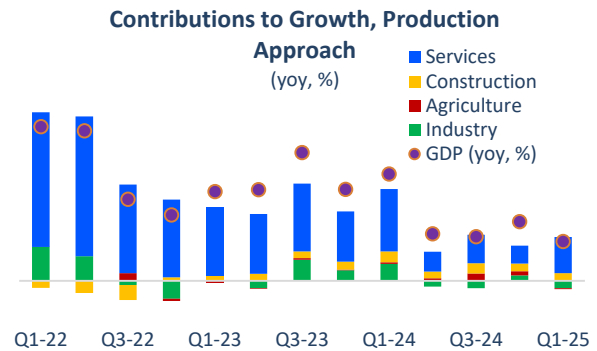
Consumption weakened in the first quarter, stock change contributed positively to growth.

Private consumption expenditures grew at a relatively modest rate of 2.0% year-on-year in the first quarter of 2025, contributing 1.6 percentage points to annual growth, while the 1.2% increase in public consumption contributed 0.2 percentage points to growth. Thus, total consumption contributed 1.7 points to growth in the first quarter, compared to 2.9 points overall in 2024. During this period, the contribution of investments to annual growth declined to 0.5 points. Despite the decline in machinery and equipment and other investment expenditures, construction investments alone contributed 0.7 points to growth. Net exports, which contributed negatively to growth in the last quarter of 2024, also limited growth by 0.6 points in the first quarter of 2025. Imports increased by 3% during this time period, which slowed growth, while exports remained flat. Another notable development in the first quarter was that stock changes, which had been limiting growth since the last quarter of 2020, contributed 0.3 percentage points to growth on an annual basis.

In the first quarter, construction and services supported growth, while industrial and agricultural production contracted on an annual basis.

According to the numbers with the chain-linked volume index, the construction and services sectors contributed positively to annual growth in the first quarter of 2025. Although the annual increase in construction activity slowed to 7.3%, it contributed 0.4 percentage points to growth. The services sector, which expanded by 3.0% during this period, also contributed 1.8 points to economic growth.

In the first quarter, the industrial and agricultural sectors contracted by 1.8% and 2.0%, respectively, on an annual basis. During this period, industrial production reduced economic growth by 0.4 points, while calendar-adjusted data indicated that the calendar effect had a restrictive impact on industrial production. Indeed, calendar-adjusted industrial output was flat on an annual basis.



Expectations...

Even though the first quarter of 2025 recorded lower-than-expected annual growth, the economy remained robust as evidenced by the 1% quarterly growth in seasonally adjusted GDP. On the other hand, the decline in consumption expenditures' contribution to growth during this period, as well as the positive change in stocks after a long negative run, highlight the effects of disinflationary policies. We estimate that the CBRT's recent monetary policy tightening measures may result in a noticeable slowdown in consumption and investment expenditures in the second quarter of the year. We believe that net exports, which have been limiting growth since the fourth quarter of 2024, will be critical to growth performance for the rest of the year.

Leading Indicators

Retail sales contracted by 1.4% in March.

In the first quarter of the year, the contribution of private consumption expenditures to GDP growth diminished and the retail sales data indicated that the weakening in demand became more apparent in March as well. During this period, retail sales volume shrank by 1.4% on a monthly basis, and all major indices -except automotive fuel- declined despite the month of Ramadan. The retail sales volume index excluding watches and jewelry, published for the first time by TURKSTAT, also fell by 0.7% in the same period, signaling that the weak demand conditions were widespread.

Broad unemployment rate hit the highest level of the dataset in April.

According to seasonally adjusted data, the unemployment rate rose to 8.6% in April, marking the highest level in the last 5 months. During this period, employment decreased by 316K and the labor force shrank by 114K, while the number of unemployed people increased by 203K. Accordingly, the labor underutilization rate -known as the broadly defined unemployment- reached 32.2%, the highest level since the beginning of the dataset (2014). In addition, the youth unemployment rate also climbed to 15.7% in April, the highest level of the year.

ICI manufacturing PMI stood at 47.2 in May.

Manufacturing PMI published by the Istanbul Chamber of Industry (ICI) came in at 47.2 in May. Thus, the weak operating conditions in the sector persisted for the 14th consecutive month. According to sub-components of the index; companies reduced their production, employment, and purchasing activities in May, while stagnant demand limited final product inflation. Sectoral PMI data showed that, for the first time in a year, clothing and leather products exceeded the threshold value and became the only industry with improved operating conditions during the period, while the negative outlook in the textile sector continued. Notably, the food sector -which had previously shown positive divergence- fell below the threshold in May.

New Credit Guarantee Fund regulation was announced.

To mitigate the impacts of tight monetary policy on production, a new Credit Guarantee Fund (CGF) package was announced. Treasury and Finance Minister Mehmet Şimşek stated that a total guarantee-backed support package of 25 billion TRY would be launched through the CGF, of which 17.5 billion TRY would be allocated to operational expenses and 7.5 billion TRY to investment expenditures. Minister noted that the guarantee ratio of the package would be 85%, with beneficiary limits set at 15 million TRY for operational spending and 30 million TRY for investment.

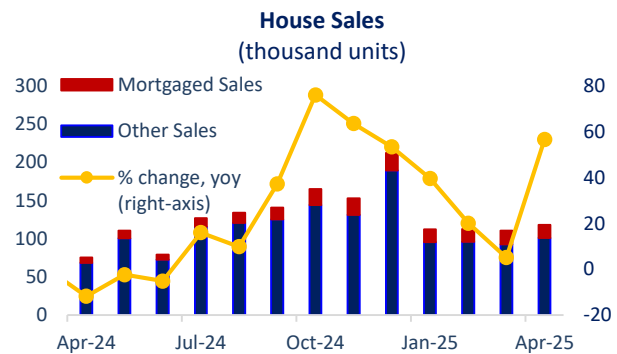
Confidence indices presented a mixed outlook in May.

According to seasonally adjusted data, the consumer confidence index rose by 1.1% in May compared to the previous month, reaching 84.8. However, the components of consumer confidence did not provide a net picture. While expectations for household financial situation over the next 12 months, intention to purchase durable goods, and the probability of buying or building a house improved; assessments of the general economic situation at present and expectations for the next 12 months continued to worsen.

In May, the real sector confidence index dropped to 98.6, marking the lowest level in the last 9 months. All sub-indices constituting the real sector confidence, except those related to employment and overall outlook for the next 3 months, declined. On the other hand, confidence indices for the services, retail trade, and construction sectors increased. As a result, the economic confidence index that includes all confidence indicators remained nearly flat in May at 96.7.

House sales rose by 56.6% yoy in April.

House sales showed a sharp increase in April, partly due to the low base effect; while house prices displayed a more moderate trend. During this period, house sales increased by 56.6% yoy to 118,359 units. Mortgage sales surged by 147% yoy, and other sales rose by 47.3% yoy. However, the share of mortgage sales in total sales stood at 14.8%, remaining below the historical average of around 30%. The monthly increase in the housing price index in April was 1.5%, falling below the CPI inflation rate and marking the lowest level in the last 7 months. As a result, although housing prices rose by 32.9% nominally on an annual basis, they declined by 3.6% yoy in real terms.



Automotive market recovered in April.

According to data from the Automotive Distributors and Mobility Association (ODMD), the passenger car and light commercial vehicle market -which had contracted year-on-year in the first quarter- expanded by 38.8% yoy in April. Due to the weak performance in Q1, the total market grew by 2.2% yoy in the January-April period. Automotive production rose by 22.8% in April compared to the same month of last year, although it fell by 2.2% yoy in the first four months of the year.

Source: CBRT, Datastream, ICI, TURKSTAT

Foreign Trade and Balance of Payments

Foreign trade deficit narrowed to 7.2 billion USD in March.

According to Turkstat data, exports increased by 3.4% yoy to 23.4 billion USD in March, while imports rose by 2.2% yoy to 30.6 billion USD. Thus, foreign trade deficit narrowed by 1.5% yoy to 7.2 billion USD, the lowest level of the last 5 months. In this period, the import coverage ratio rose to 76.5%.

In March, imports of consumption goods recorded a rapid increase (12.4% yoy) led by the rise in imports of automobiles (36.5%). Thus, the share of consumption goods in total imports increased from 15.5% in March 2024 to 17% in the same month of this year.

Current account posted 4.1 billion USD deficit in March.

In March, current account deficit came in at 4.1 billion USD, close to market expectations. Thus, current account posted a deficit for the fifth consecutive month. As of March, 12-month cumulative current account deficit became 12.6 billion USD.

In March, balance of payments-defined foreign trade deficit narrowed slightly on an annual basis, while the main items in the services balance presented a weak outlook. In this period, net revenues on passenger transportation and travel declined by 5.1% yoy and 1.1% yoy, respectively. In the same period,

net non-monetary gold imports (1.1 billion USD) declined by 24.5%, while net energy imports (4.4 billion USD) increased by 16.9% yoy. Thus, current account excluding energy and gold continued to post a surplus, with 1.5 billion USD in March.

Foreign direct investments recorded a net capital inflow of 338 million USD in March.

Foreign direct investments account, which posted a net capital outflow in February, recorded a net capital inflow of 338 million USD in March. In this period, net incurrence of liabilities reached 1 billion USD, led by other capital investments. On the other hand, the rise in residents' equity capital and real estate investments abroad limited the positive outlook in direct investments in this period.

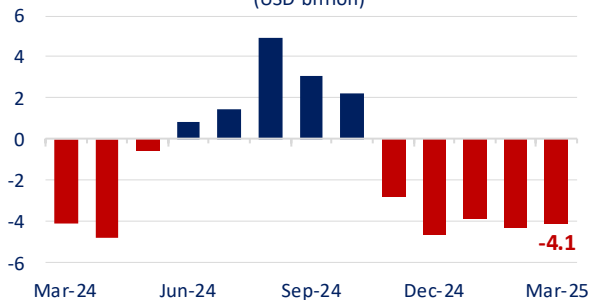
Portfolio investments recorded the fastest net capital outflow since May 2022.

In March, net portfolio investments recorded the fastest monthly capital outflow in almost 3 years with 3.6 billion USD. In this period, net capital outflow in the equity market reached 399 million USD, the highest level of the last 5 months. In the debt securities market, where total net capital outflows amounted to 2.3 billion USD, securities issued by the general government posted the fastest net capital outflow since March 2021 with 2.7 billion USD (1.5 billion USD GDDS, 1.2 billion USD Eurobond). Moreover, debt securities issued abroad by other sectors recorded a net capital outflow (428 million USD), the highest level of the last 17 months.

Net capital outflow in other investments was 3.9 billion USD.

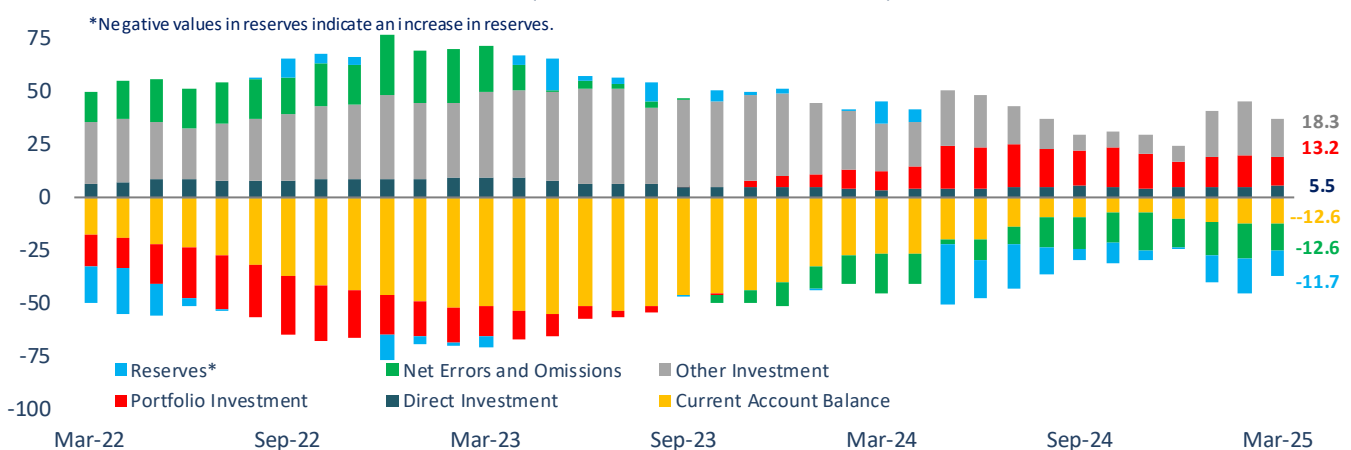
In March, net capital outflow in other investments was realized as 3.9 billion USD, the highest level since January 2024. In this period, net capital outflow in the currency and deposits item was 6.7 billion USD, the highest level since August 2018. The rapid increase in foreign exchange currency and deposits

Monthly Current Account Balance
(USD billion)



Net Capital Flows

(12-month cumulative, billion USD)

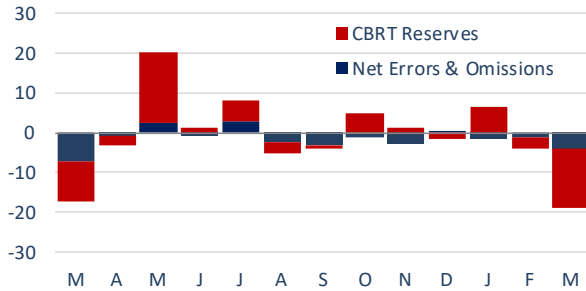


Source: Datastream, Turkstat, CBRT

Foreign Trade and Balance of Payments

of resident banks abroad was the main reason behind the outflow in this item. On the other hand, net capital inflows in loans (2.1 billion USD) and trade credits & advances (745 million USD) somewhat limited the negative outlook in other investments in March. In this period, banks' and other sectors' long-term drawings from abroad were recorded at the highest levels of this year with 4.3 billion USD and 2.2 billion USD, respectively. Thus, according to 12-month cumulative figures, long-term debt rollover ratio rose to 160.1% in the banking sector and 130.4% in other sectors.

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



Reserve assets declined by 15.1 billion USD in March.

In March, reserve assets recorded the fastest decline since May 2023 with 15.1 billion USD. In this period, the outflow in net errors and omissions item reached 3.9 billion USD.

Expectations...

According to preliminary data released by the Ministry of Trade, foreign trade deficit widened by 21.7% yoy in April (12 billion USD) in line with the rapid increase in imports, indicating that the pressures on the current account balance continued in this period. Although the easing of trade war concerns due to the recent negotiations between the US and China has somewhat postponed the risk of uncertainty regarding the course of foreign trade, developments regarding global trade will continue to be closely monitored in the upcoming period. Moreover, with the start of the season, tourism revenues are expected to support the current account balance outlook.

Balance of Payments (USD million)

	Mar. 2025	2024	Jan. - Mar. 2025	% Change	12-month Cumulative
Current Account Balance	-4,087	-9,731	-12,279	26.2	-12,610
Foreign Trade Balance	-4,840	-14,090	-15,865	12.6	-58,141
Services Balance	2,672	8,231	8,022	-2.5	61,783
Travel (net)	2,177	6,479	6,435	-0.7	48,909
Primary Income	-1,900	-3,386	-4,276	26.3	-16,650
Secondary Income	-19	-486	-160	-67.1	398
Capital Account	5	1	20	1,900.0	-107
Financial Account	-8,019	-17,470	-18,947	8.5	-25,335
Direct Investment (net)	-338	-379	-829	118.7	-5,545
Portfolio Investment (net)	3,551	-215	-1,446	572.6	-13,208
Net Acquisition of Financial Assets	829	2,905	1,212	-58.3	7,839
Net Incurrence of Liabilities	-2,722	3,120	2,658	-14.8	21,047
Equity Securities	-399	286	-362	-	-3,129
Debt Securities	-2,323	2,834	3,020	6.6	24,176
Other Investment (net)	3,894	5,842	-5,077	-	-18,263
Currency and Deposits	6,728	2,647	10,187	284.9	21,441
Net Acquisition of Financial Assets	7,934	7,247	9,396	29.7	14,519
Net Incurrence of Liabilities	1,206	4,600	-791	-	-6,922
Central Bank	-1,643	63	-5,103	-	-17,032
Banks	2,849	4,537	4,312	-5.0	10,110
Foreign Banks	2,668	3,041	4,124	35.6	7,808
Foreign Exchange	1,829	1,152	2,533	119.9	3,946
Turkish Lira	839	1,889	1,591	-15.8	3,862
Non-residents	181	1,496	188	-87.4	2,302
Loans	-2,082	-1,628	-13,132	706.6	-37,916
Net Acquisition of Financial Assets	1,271	147	634	331.3	2,748
Net Incurrence of Liabilities	3,353	1,775	13,766	675.5	40,664
Banking Sector	2,830	2,424	11,618	379.3	34,243
Non-bank Sectors	581	-555	2,179	-	5,679
Trade Credit and Advances	-745	4,827	-2,119	-	-1,713
Other Assets and Liabilities	-7	-4	-13	225.0	-75
Reserve Assets (net)	-15,126	-22,718	-11,595	-49.0	11,681
Net Errors and Omissions	-3,937	-7,740	-6,688	-13.6	-12,618

Source: CBRT, Ministry of Trade, Datastream, TURKSTAT

Budget Balance

Central government budget posted a deficit of 174.7 billion TRY in April.

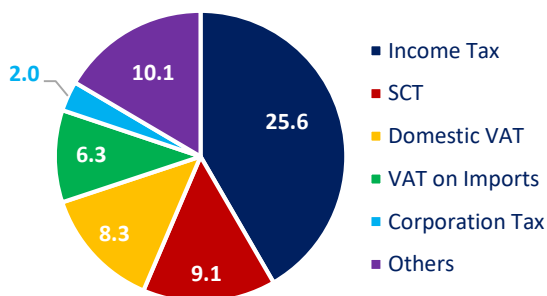
In April, central government budget revenues increased by 60.7% yoy to 957.4 billion TRY, while expenditures rose by 46.3% yoy to 1.1 trillion TRY. Thus, budget deficit narrowed slightly (by 1.8% yoy) to 174.7 billion TRY. Primary budget balance, which posted a deficit of 63.8 billion TRY in April 2024, posted a surplus of 85.9 billion TRY in the same month of this year. In the first 4 months of the year, budget deficit widened by 28.1% yoy to 885.5 billion TRY.

The increase in tax revenues accelerated.

Tax revenues, whose annual growth rate accelerated to 61.4% in April, accounted for 82.2% of budget revenues with 787.4 billion TRY. In this period, income tax revenues rose by 112.9% yoy to 235.2 billion TRY. Corporate tax, whose contribution to revenues was limited in the first quarter of the year, increased by 50.4% yoy in April, above the CPI inflation. Domestic and import value added taxes went up by 56% yoy and 27.5% yoy to 112.7 billion TRY and 142.2 billion TRY, respectively. Moreover, taxes on motor vehicles, which increased by 84.6% yoy in April thanks to the improving automotive market, contributed to the acceleration (45.3%) in special consumption tax (SCT) revenues to reach 141.8 billion TRY. In line with the rapid rise in Treasury Portfolio and Subsidiary Revenues in April, revenues from enterprises and property revenues surged nearly 8-times yoy and contributed 58.7 billion TRY to the budget balance. On the other hand, the support from interest, shares and fines item decreased compared to the same period of last year due to the decline in interest revenues (72%) in the same period.

Contributions to Total Tax Revenues

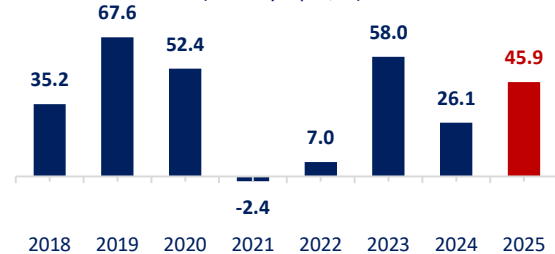
(April, yoy, percentage points)



Interest expenditures accelerated as well.

Interest expenditures, which accelerated in April, surged by 128.6% yoy to 260.7 billion TRY and composed 23% of total budget expenditures. On the other hand, personnel expenditures and current transfers, which constitute almost 80% of non-interest expenditures in total, increased by 31% and 32.3% yoy in the same period, respectively, below the annual inflation rate. Premiums paid to social security institutions (28.6%) and capital expenditures (33.2%) also posted moderate annual increases. In April, the duty expenditures expanded by 17.6% yoy, with 29.7 billion TRY payments to Electricity Generation Co. and 10 billion TRY payments to Pipelines and Petroleum Transportation Co. Thus, non-interest budget expenditures rose by 32.1% yoy, relatively slower than interest expenditures.

Ratio of Cumulative Budget Deficit to Annual MTP Projection (January-April, %)



Expectations...

In the first four months of the year, total budget deficit was realized as 45.9% of the annual target set for 2025 in the Medium-Term Program, presenting a more negative outlook compared to last year. Following the CBRT's policy rate and funding cost hikes, the pressure on economic activity is expected to increase and this is expected to determine the course of tax revenues in the upcoming period. Moreover, the rise in interest expenditures stands out as a risk factor that may put pressure on budget balance. In this period of monetary policy tightening, the support of fiscal policy remains highly important in the fight against inflation.

Central Government Budget

	March			January-March			MTP Target	(billion TRY) Real./ MTP Target (%)
	2024	2025	% Change	2024	2025	% Change		
Expenditures	773.6	1,132.1	46.3	2,924.3	4,249.7	45.3	14,731.0	28.8
Interest Expenditures	114.0	260.7	128.6	364.5	724.6	98.8	1,950.0	37.2
Non-Interest Expenditures	659.6	871.5	32.1	2,559.8	3,525.1	37.7	12,781.0	27.6
Revenues	595.8	957.4	60.7	2,233.0	3,364.2	50.7	12,800.3	26.3
Tax Revenues	487.9	787.4	61.4	1,831.8	2,810.1	53.4	11,138.8	25.2
Other Revenues	108.0	170.0	57.5	401.2	554.1	38.1	1,661.6	33.3
Budget Balance	-177.8	-174.7	-1.8	-691.3	-885.5	28.1	-1,930.7	45.9
Primary Balance	-63.8	85.9	-	-326.8	-160.9	-50.8	19.3	-

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

Source: Datastream , Ministry of Treasury and Finance

Inflation

CPI inflation declined sharply in May.

In May, the monthly increase in the Consumer Price Index (CPI) was 1.53%, below market expectations (2.0%) and marked the lowest level of the calendar year. As a result, annual CPI inflation cooled to 35.41%, its lowest level since November 2021. Additionally, year-to-date CPI inflation for the first five months of 2025 stood at 15.09%, the lowest level of the past four years.

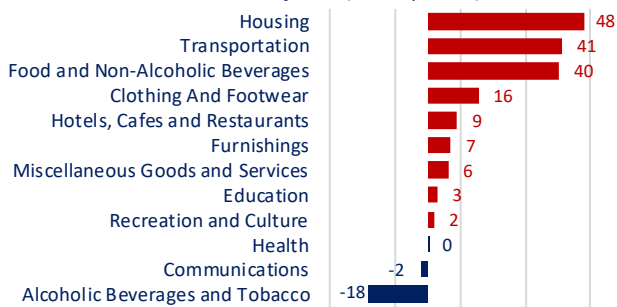
May	CPI		D-PPI	
(change %)	2024	2025	2024	2025
Monthly	3.37	1.53	1.96	2.48
Year-to-Date	22.72	15.09	17.87	12.92
Annual	75.45	35.41	57.68	23.13
Annual Average	62.51	45.80	47.24	30.17

Although domestic producer price index (PPI) inflation lost some momentum compared to the previous month, it still was relatively high with 2.48% on a monthly basis. Thus, for the first time since April 2024, producer inflation exceeded consumer inflation. As of May, year-on-year PPI inflation stood at 23.13%.

The decline in food prices stood out.

In May, prices declined in 2 of the 12 main expenditure groups that make up the CPI. The 0.71% decline in prices of food and non-alcoholic beverages -which carry the highest weight in the consumer basket- pulled the monthly CPI down by 0.18 percentage points. Prices in six main expenditure groups increased above the headline monthly CPI; clothing and footwear recorded the fastest increase, rising by 6.97%. The housing group, where prices rose by 2.99%, had the largest upward impact (0.48 points) on the monthly CPI due to its high weight.

Contributions of Main Expenditure Groups to Monthly CPI (basis points)



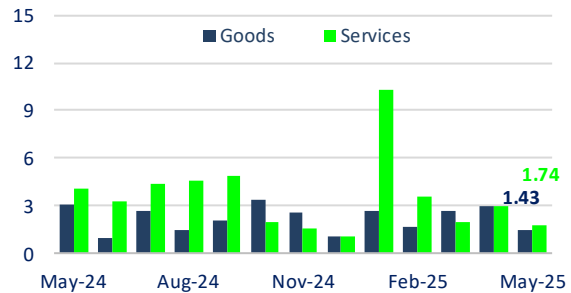
Among basic items, new gasoline and electric motor cars contributed the most to the monthly CPI in May, with an impact of 0.31 percentage points. In this period, as well as prices of clothing and footwear items rentals paid by tenants recorded a rapid rise. These items combined contributed roughly 1 point to the monthly CPI. On the other hand, some food and non-alcoholic beverage items diverged. Sharp declines in prices of fresh or chilled fish, chicken, eggs and fresh vegetables other than potatoes, pulled the monthly CPI down by a total of 0.75

points. Meanwhile, fresh fruit prices continued to increase sharply, and -due to their high weight- pushed inflation up by 0.16 points.

B and C indices rose more than the headline CPI.

In May, the A index -which excludes seasonal products- increased by 1.53% mom, in line with the headline CPI. However, the B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco, and gold) and the C index (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco, and gold) rose by 2.25% and 2.43%, respectively, indicating continued risks regarding the underlying trend in inflation.

Goods and Services Prices (monthly % change)



In May, goods inflation posted its slowest monthly increase of the calendar year by 1.43%, while services inflation declined to 1.74% as well. However, the rise in energy prices (2.15%) exceeded the headline CPI and thus limited the slowdown in inflation. Although the pace of increase in rent item decelerated in May, it remained still high at 3.10%.

Electricity and food prices were key drivers of producer inflation.

In May, the sectors with the fastest monthly increases in producer prices were electricity & gas (12.4%), and water treatment & supply services (5.9%). The electricity sector alone pushed PPI up by 0.9 percentage points. Meanwhile, the 1.74% increase in food prices lifted PPI by 0.36 points due to the item's high weight in the basket. On the other hand, a 4.40% decline in prices of other transport equipment partially limited the overall PPI increase.

Expectations...

The main factor suppressing inflation in May was the sharp decline in food and non-alcoholic beverage prices -except fresh fruits. Thus, core indicators pointed to higher inflation. Although this development suggests that the underlying trend of inflation remains high, the slowdown in sticky services inflation and the concentration of sharp price increases only in the clothing group offer a relatively optimistic outlook for the continuation of disinflation.

Financial Markets

	30-Apr	30-May	Change
5-Y CDS (basis points)	361	320	-41 bp ▼
TR 2-Y Benchmark Yield	%49.90	%45.38	-452 bp ▼
BIST-100	9,078	9,020	-%0.6 ▼
USD/TRY	38.4730	39.2048	%1.9 ▲
EUR/TRY	43.6177	44.4827	%2.0 ▲
Currency Basket*	41.0454	41.8438	%1.9 ▲

(*) (0,5 USD/TRY + 0,5 EUR/TRY)

BIST-100 index performed a volatile course in May.

After declining by 6% in April, BIST-100 index followed a trend in line with global developments during the first half of May. In this period, as concerns about a trade war eased, the MSCI Emerging Markets Index recorded a sharp rise, and the BIST-100 reached its highest closing level in two months at 9,747. However, in the following days, a decline in global risk appetite created selling pressure on the index. As a result, BIST-100 fell by 0.6% compared to the end of April and closed May at 9,020. With the USD/TRY rate rising by 1.9% mom in May, BIST-100 index denominated in USD dropped to 229.9 USD -its lowest closing level since June 2023. In May, the yield on the 2-year benchmark government bond declined to 45.38%.

CBRT did not change its inflation forecasts.

In its second Inflation Report of the year, published on May 22, the Central Bank of the Republic of Türkiye (CBRT) maintained its year-end CPI inflation forecasts for 2025, 2026, and 2027 at 24%, 12%, and 8%, respectively. However, due to increasing uncertainties, the CBRT kept the forecast range for end-2025 unchanged at 19%–29%, even though it could have been narrowed technically.

CBRT Inflation Projections	2025	2026
2025-I Forecast	24	12
2025-II Forecast	24	12
Forecast Revision	0	0
Sources of Forecast Revisions		
Food prices	+0.5	-
Output Gap (Demand Conditions)	+0.3	-
TRY Denominated Import Prices	+0.1	-
Underlying Trend of Inflation	+0.1	-
Administered Prices	-1.0	-

The decision not to revise the forecasts was caused by balancing upside and downside risks. CBRT noted that the slowdown in domestic demand and the decline in inflation expectations were more limited than anticipated in the previous report; that the underlying trend of inflation rose slightly in April due to exchange rate movements; and that assumptions regarding food inflation were raised following a surge in unprocessed food prices caused by the recent frost.

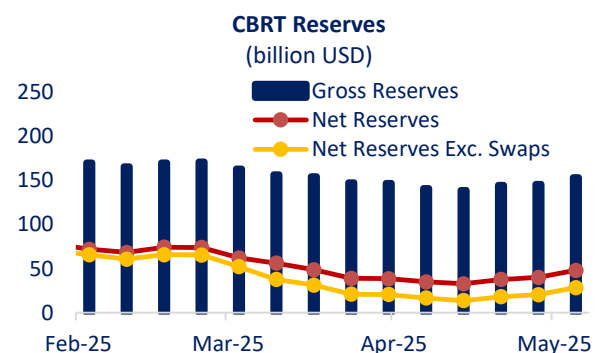
On the other hand, assumptions for oil and import prices were lowered due to global developments. The assumptions for administered prices were also lowered due to the adjustment in healthcare service fees made in February. CBRT Governor Karahan emphasized during the presentation of the report that tight monetary policy would be maintained decisively, and that all available tools would be used to support the disinflation process.

Households' inflation expectations increased in May.

Sectoral inflation expectations compiled by the CBRT showed that household expectations diverged negatively from other sectors in May. The 12-month ahead annual inflation expectation declined by 0.7 percentage points to 41% in the real sector -the lowest level of the year- and fell by 0.5 points to 25.1% among market participants. However, household's expectations for the same period rose by 0.6 points to 59.9%, the highest level of the year. Despite this development, the proportion of households expecting inflation to fall rose slightly in May to 27.8%. According to the results of Market Participants Survey, expectations of inflation and USD/TRY for end-2025 increased slightly to 30.4% and 43.70 TRY, respectively.

CBRT reserves increased in May.

After sharp outflows in March and April, non-residents realized net purchases of 534 million USD in equities and 5.4 billion USD in government bonds as of May 23, compared to end-April. Gross reserves of the CBRT increased by 12.1 billion USD since the end of April, reaching 153.1 billion USD as of the week ending May 23. During the same period, net international reserves rose by 13 billion USD and became 48 billion USD.

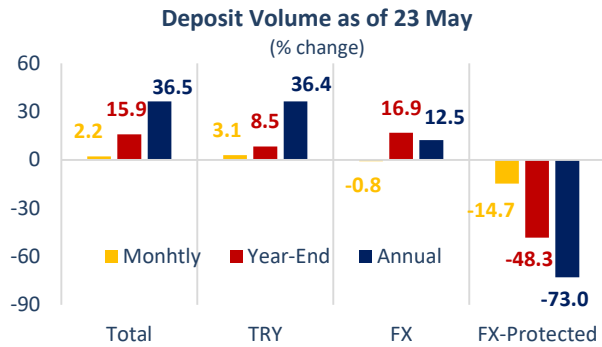


Source: CBRT, Datastream, Reuters

Banking Sector

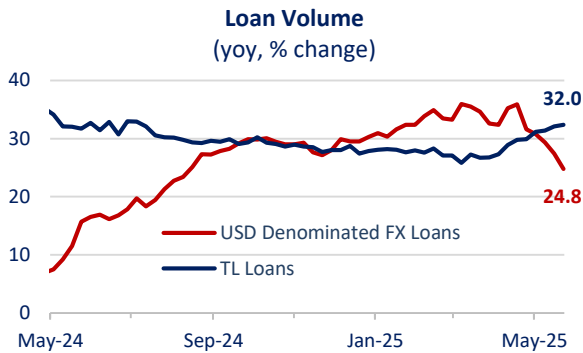
FX deposit volume decreased in May.

According to BRSA's weekly data, TL deposits increased by 3.1% mom and 8.5% yoy to 13.5 trillion TRY as of May 23. As of the same date, FX-protected deposits declined to 584.7 billion TRY and the share of these deposits in total TL deposits decreased to 4.3%. On the other hand, the expansion in FX deposit volume, which had been observed since the end of the year and accelerated in March, came to a halt in May. FX deposit volume in USD terms decreased by 0.8% mom and was realized as 220.5 billion USD as of May 23. Thus, total deposit volume in the banking sector expanded by 2.2% mom and 15.9% yoy to reach 22 trillion TRY.



Credit growth slowed in May.

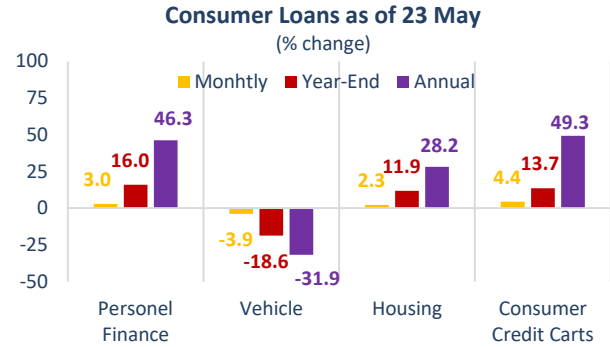
As of May 23, TL loan volume increased by 2.8% mom and 13.8% yoy to 11.4 trillion TRY. Having posted a limited rise of 0.6% in May, FX loan volume in USD terms expanded by 11.1% yoy to 186.3 billion USD. Thus, total loan volume in the banking sector expanded by 2.5% mom and 17.3% yoy to 18.7 trillion TRY.



Retail credit card volume and housing loans gained some momentum in May.

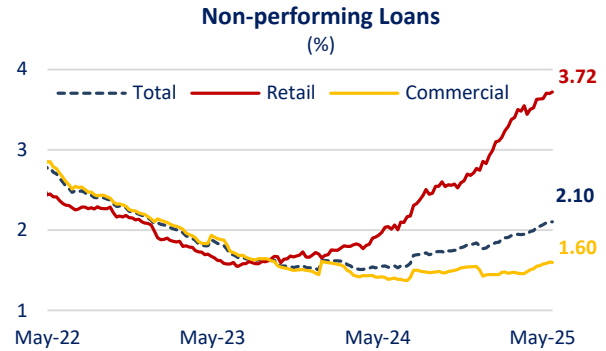
In May, the increases in retail credit card volume and housing loans gained momentum and were realized as 4.4% mom and 2.3% mom as of May 23, respectively. Thus, these loans increased by 17.3% yoy and 11.9% yoy, respectively. As of May 23, personal finance loans

increased by 3.0% mom, while the decline in vehicle loans continued with 3.9% mom. Thus, compared to the year-end, personal finance loans expanded by 16.0%, while vehicle loans contracted by 18.6%.



NPL ratio rose sharply in retail loans.

Non-performing loans ratio of the banking sector continued to rise and was realized as 2.10% as of May 23. NPL ratio became 3.72% for retail loans and 1.60% for commercial loans.



Foreign currency net general position...

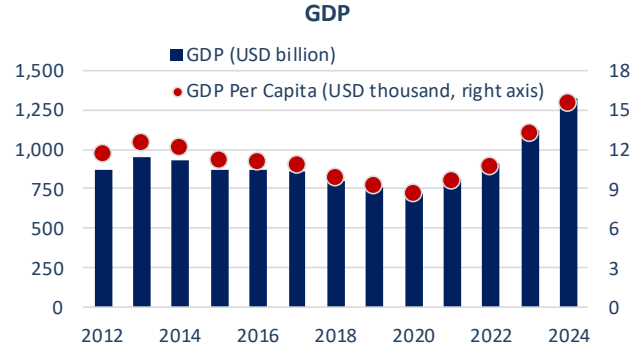
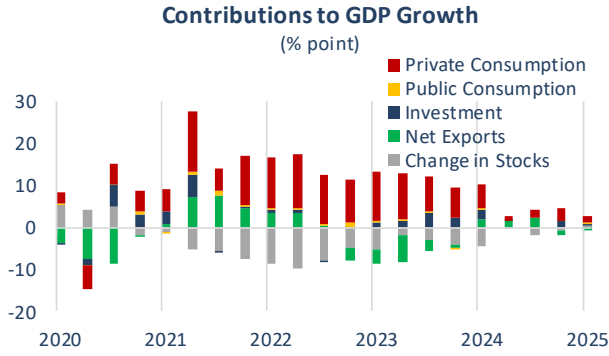
As of May 23, on-balance sheet FX position of the banking sector was (-)29,131 million USD while off-balance sheet FX position was (+)30,239 million USD. Thus, the sector's net foreign currency position was realized as (+)1,107 million USD.

Concluding Remarks

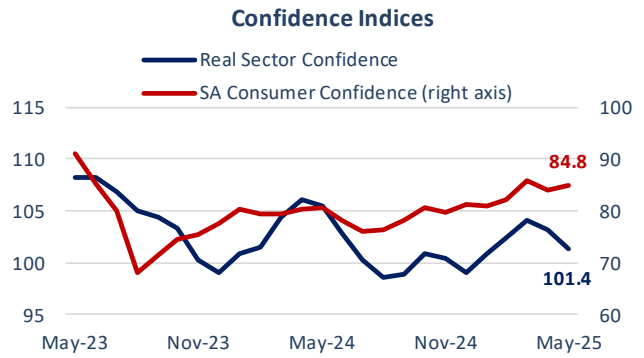
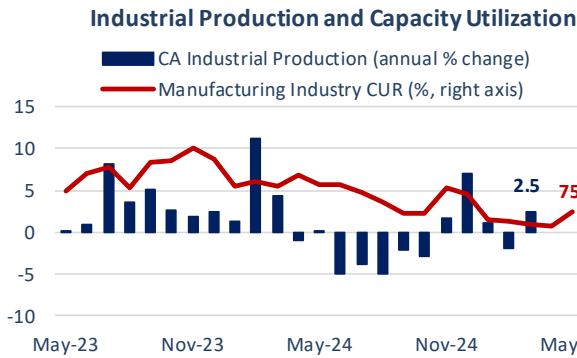
In May, the mutual agreements and tariff deferral decisions reached as a result of the U.S. administration's negotiations with various countries, particularly China, eased concerns over trade war and supported risk appetite. Although the recent steps taken have somewhat reduced tensions related to global trade, uncertainties remain at high levels. In particular, President Trump's statements accusing China of violating the trade agreement, his proposal for a 50% tariff on EU imports, and the decision to raise tariffs on steel and aluminum to 50% for all countries indicate that uncertainties will persist. This situation continues to exert upward pressure on inflation expectations and downward pressure on global growth. In addition to these uncertainties, issues related to the high public debt levels of developed countries and geopolitical developments are also high on the agenda.

In Türkiye, although the annual growth data announced for the first quarter indicated a loss of momentum, the 1% quarterly growth suggests that economic activity performed close to its potential. On the other hand, we estimate that the tightening measures implemented since March will start to weigh on growth from the second quarter onwards. Leading indicators released so far for this period also suggest that economic activity may come under pressure. Meanwhile, following the increase in foreign exchange demand in March, net purchases of stocks and bonds by non-residents increased in May, while foreign currency deposit volumes declined, indicating that these developments provide a supportive backdrop for the continuation of the disinflation process.

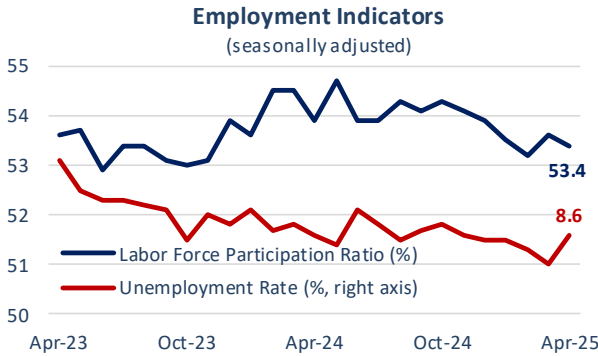
Growth



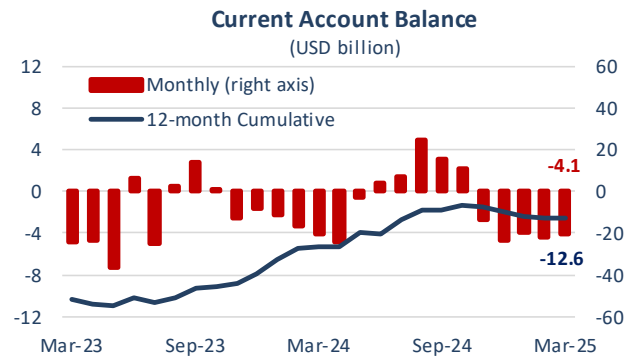
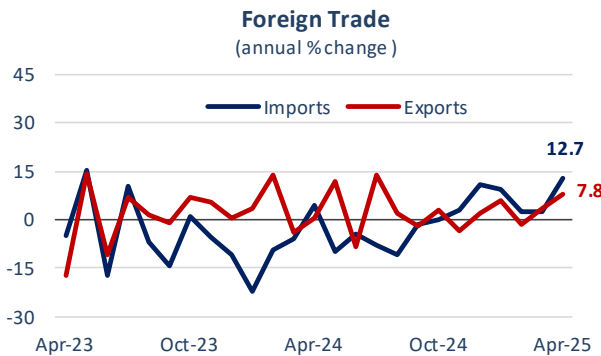
Leading Indicators



Labor Market



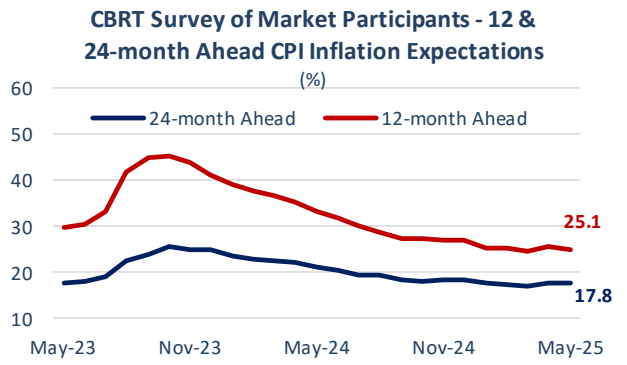
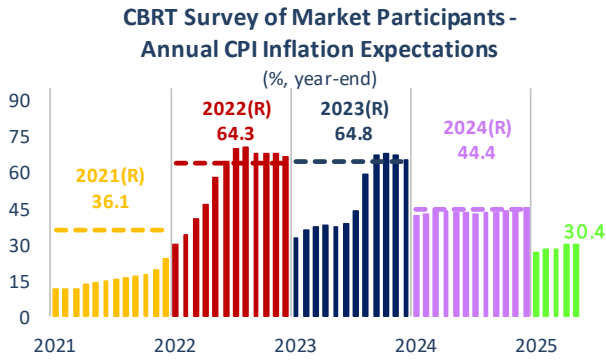
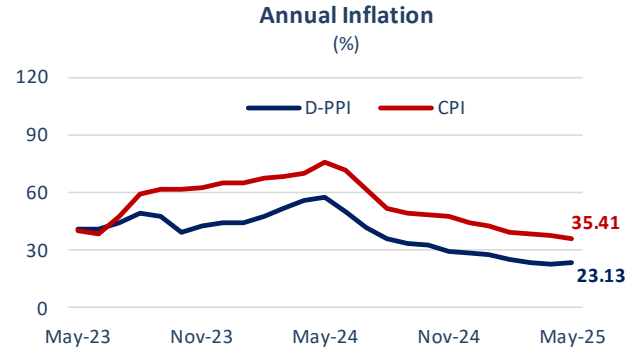
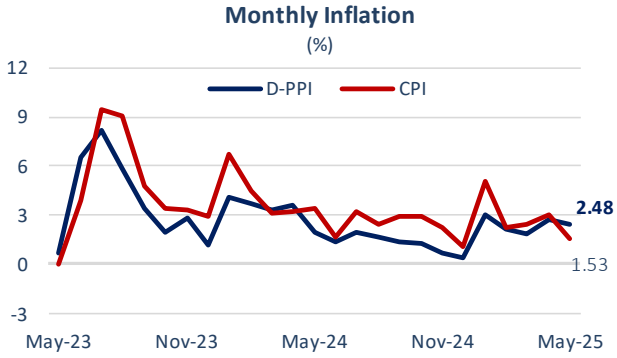
Foreign Trade and Current Account Balance



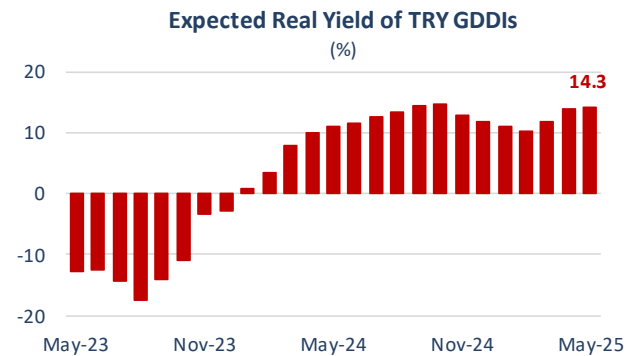
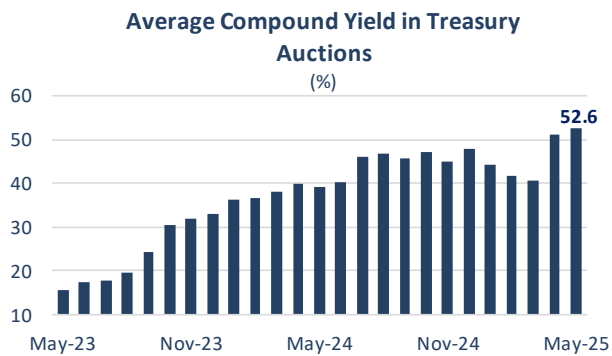
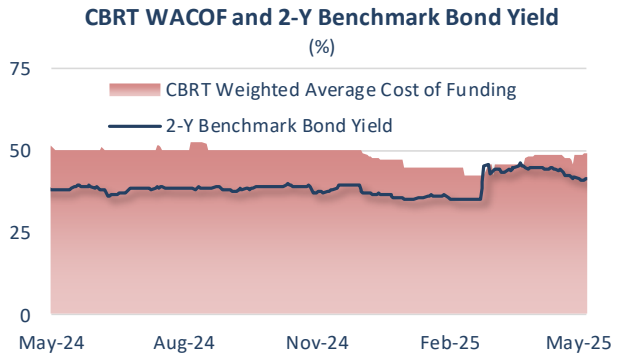
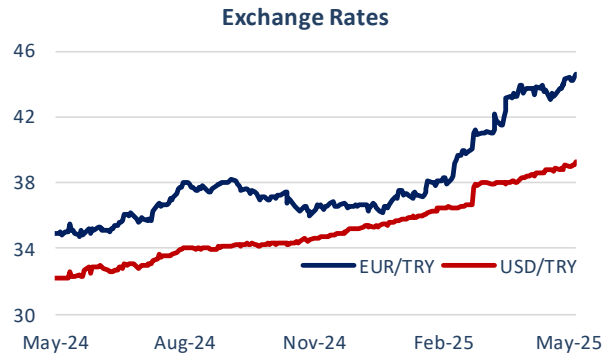
(CA): Calendar adjusted, (SA): Seasonally adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

GROWTH	2020	2021	2022	2023	2024	Ç3-24	Ç4-24	Ç1-25
GDP (USD billion)	717	808	906	1,130	1,322	359	369	336
GDP (TRY billion)	5,049	7,256	15,012	26,546	43,411	11,916	12,704	12,125
GDP Growth Rate (%)	1.9	11.4	5.5	5.1	3.2	2.2	3.0	2.0
INFLATION (%)						Mar-25	Apr-25	May-25
CPI (annual)	14.60	36.08	64.27	64.77	44.38	38.10	37.86	35.41
Domestic PPI (annual)	25.15	79.89	97.72	44.22	28.52	23.50	22.50	23.13
SEASONALLY ADJUSTED LABOR MARKET FIGURES						Feb-25	Mar-25	Apr-25
Unemployment Rate (%)	12.6	11.0	10.3	8.8	8.5	8.3	8.0	8.6
Labor Force Participation Rate (%)	49.1	52.6	53.9	53.9	53.9	53.2	53.6	53.4
FX RATES						Mar-25	Apr-25	May-25
CPI Based Real Effective Exchange Rate	65.0	50.3	58.6	59.5	72.5	73.67	72.12	
USD/TRY	7.72	13.53	18.64	29.02	34.90	37.93	38.37	39.02
EUR/TRY	9.38	15.29	19.70	31.66	36.58	40.87	43.69	44.00
Currency Basket (0.5*EUR+0.5*USD)	8.55	14.41	19.17	30.34	35.74	39.40	41.03	41.51
FOREIGN TRADE BALANCE ⁽¹⁾ (USD billion)						Feb-25	Mar-25	Apr-25
Exports	169.6	225.2	254.2	255.6	261.8	262.6	263.4	264.9
Imports	219.5	271.4	363.7	362.0	344.0	347.2	347.8	351.5
Foreign Trade Balance	-49.9	-46.2	-109.5	-106.3	-82.2	-84.6	-84.5	-86.7
Import Coverage Ratio (%)	77.3	83.0	69.9	70.6	76.1	75.6	75.7	75.3
BALANCE OF PAYMENTS ⁽¹⁾ (USD billion)						Jan-25	Feb-25	Mar-25
Current Account Balance	-31.0	-6.2	-46.3	-39.9	-10.0	-11.7	-12.6	-12.6
Financial Account	-38.7	3.4	-17.5	-51.4	-23.2	-27.4	-28.6	-25.3
Direct Investments (net)	-4.3	-6.2	-8.9	-4.7	-4.7	-5.0	-5.0	-5.5
Portfolio Investments (net)	9.8	7.6	18.5	-5.7	-12.0	-14.2	-15.2	-13.2
Other Investments (net)	-12.4	-21.3	-39.4	-39.0	-7.1	-21.4	-24.9	-18.3
Reserve Assets (net)	-31.9	23.3	12.3	-2.0	0.6	13.2	16.5	11.7
Net Errors and Omissions	-7.7	9.7	28.8	-11.3	-13.0	-15.6	-15.9	-12.6
Current Account Balance/GDP (%)	-4.3	-0.8	-5.1	-3.5	-0.8	-	-	-
BUDGET ⁽²⁾⁽³⁾ (TRY billion)						Feb-25	Mar-25	Apr-25
Expenditures	1,203.7	1,603.5	2,942.7	6,588.0	10,777.0	2,089.9	3,117.6	4,249.7
Interest Expenditures	134.0	180.9	310.9	674.6	1,270.5	302.7	463.9	724.6
Non-interest Expenditures	1,069.8	1,422.7	2,631.8	5,913.4	9,506.6	1,787.2	2,653.6	3,525.1
Revenues	1,028.4	1,402.0	2,800.1	5,207.6	8,670.9	1,640.5	2,406.8	3,364.2
Tax Revenues	833.3	1,165.0	2,353.4	4,501.1	7,304.9	1,377.6	2,022.7	2,810.1
Budget Balance	-175.3	-201.5	-142.7	-1,380.4	-2,106.1	-449.4	-710.8	-885.5
Primary Balance	-41.3	-20.7	168.2	-705.8	-835.7	-146.6	-246.9	-160.9
Budget Balance/GDP (%)	-3.5	-2.8	-1.0	-5.2	-4.9	-	-	-
CENTRAL GOVERNMENT DEBT STOCK (TRY billion)						Feb-25	Mar-25	Apr-25
Domestic Debt Stock	1,060.4	1,321.2	1,905.3	3,209.3	4,959.9	5,471.7	5,750.6	6,096.3
External Debt Stock	752.5	1,426.6	2,130.1	3,527.3	4,290.9	4,439.0	4,520.2	4,654.1
Total Debt Stock	1,812.8	2,747.8	4,035.4	6,736.6	9,250.8	9,910.7	10,270.9	10,750.5

(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)	2020	2021	2022	2023	2024	Mar.25	Apr.25	Change ⁽¹⁾
TOTAL ASSETS	6,106	9,215	14,347	23,550	32,657	36,132	37,288	14.2
Loans	3,576	4,901	7,581	11,677	16,052	17,633	18,394	14.6
TRY Loans	2,353	2,832	5,110	7,894	10,145	10,890	11,283	11.2
Share (%)	65.8	57.8	67.4	67.6	63.2	61.8	61.3	-
FX Loans	1,224	2,069	2,471	3,783	5,907	6,743	7,111	20.4
Share (%)	34.2	42.2	32.6	32.4	36.8	38.2	38.7	-
Non-performing Loans	152.6	160.1	163.4	191.9	293.6	351.2	384.8	31.0
Non-performing Loan Rate (%)	4.1	3.2	2.1	1.6	1.8	2.0	2.0	-
Securities	1,022	1,476	2,370	3,970	5,226	5,766	5,992	14.7
TOTAL LIABILITIES	6,106	9,215	14,344	23,550	32,657	36,132	37,288	14.2
Deposits	3,455	5,303	8,862	14,852	18,903	21,145	21,527	13.9
TRY Deposits	1,546	1,880	4,779	8,897	12,307	13,193	13,064	6.2
Share (%)	44.7	35.5	53.9	59.9	65.1	62.4	60.7	-
FX Deposits	1,909	3,423	4,083	5,955	6,596	7,953	8,462	28.3
Share (%)	55.3	64.5	46.1	40.1	34.9	37.6	39.3	-
Securities Issued	224	310	325	584	1,045	1,197	1,249	19.5
Payables to Banks	658	1,048	1,432	2,384	3,535	4,017	4,062	14.9
Funds from Repo Transactions	255	587	540	723	2,244	2,322	2,757	22.9
SHAREHOLDERS' EQUITY	600	714	1,406	2,153	2,898	3,087	3,104	7.1
Profit (Loss) of the Period	58.5	93.0	431.6	620.5	659.0	216.1	264.2	-59.9
RATIOS (%)								
Loans/GDP	70.9	68.0	28.6	26.9	37.0			
Loans/Assets	58.6	53.2	52.8	49.6	49.2	48.8	49.3	-
Securities/Assets	16.7	16.0	16.5	16.9	16.0	16.0	16.1	-
Deposits/Liabilities	56.6	57.5	61.8	63.1	57.9	58.5	57.7	-
Loans/Deposits	103.5	92.4	85.5	78.6	84.9	83.4	85.4	-
Capital Adequacy (%)	18.7	18.4	19.5	19.1	19.7	17.6	17.4	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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