Monthly Economic Review

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Global Economy

Developments in the Middle East remained at the top of the agenda in August, while escalating tensions between Russia and Ukraine pushed wheat prices higher.

In the minutes of the Fed's July meeting, some members noted that further monetary policy tightening could be required if inflation failed to decline.

Expectations for a rate hike strengthened following Fed Chair Kevin Warsh's hawkish messages at Jackson Hole.

In the US, personal consumption expenditures (PCE) inflation exceeded expectations in July, rising by 0.2% mom and 3.7% yoy, confirming the persistent inflationary outlook.

In the Euro Area, annual CPI inflation rose to 3.3% in August, while the probability of a 25-basis-point rate hike by the ECB in September climbed above 98%.

The Japanese economy grew less than expected in the second quarter, while inflation, which rose to 1.9% in July, strengthened expectations that the BoJ would raise interest rates.

In China, benchmark lending rates were left unchanged despite the continued weakness in domestic demand.

After following a volatile course in August, the price of Brent crude oil turned upward in the final days of the month amid escalating tensions in the Middle East.

Turkish Economy

Turkish economy grew by 1.1% qoq and 2.3% yoy in the second quarter of 2026, according to the chain-linked volume index.

In July, the unemployment rate rose to 8.1%, while the labor underutilization rate increased to 30.6%.

Although the Istanbul Chamber of Industry Türkiye Manufacturing PMI rose from 47.7 in July to 48.1 in August, it remained below the threshold level for the 29th consecutive month.

The current account deficit was 4.2 billion USD in June. The deficit totaled 34.5 billion USD in the first half of the year and reached 38.9 billion USD on a 12-month cumulative basis.

In July, the central government budget posted a deficit of 378.1 billion TRY, while the primary balance recorded a deficit of 51.3 billion TRY.

In August, CPI rose by 1.84% mom, while annual CPI inflation declined to 31.51%. Annual domestic PPI inflation stood at 27.95%.

In its Inflation Report, CBRT held its intermediate target for 2026 at 24%, while raising its inflation forecast from 26% to 28%.

On August 24, the CBRT resumed its one-week repo auctions, which had been suspended on March 1.

BIST-100 index outperformed emerging market equities in August, ending the month at 14,334 with a monthly increase of 6.5%.

Turkish economy grew by 2.3% yoy in Q2.

In the second quarter of 2026, Turkish economy grew by 2.3% yoy, according to the chain linked volume index, falling below market expectations. While this 2.3% yoy growth marks the weakest performance since the second quarter of 2020, seasonally and calendar-adjusted data shows that economic activity gained momentum in the second quarter compared to the previous quarter. During this period, Turkish economy recorded its fastest quarterly growth since the second quarter of last year, at 1.1%. As of the second quarter, the annualized GDP of the Turkish economy, which grew by 2.5% yoy in the first half of the year, reached 73.0 trillion TRY at current prices and 1.7 trillion USD. TurkStat revised its growth figures for 2024 and 2025 to 3.5% (previous: 3.3%) and 3.7% (previous: 3.6%) respectively, while revising the annual growth figure for the first quarter of 2026 to 2.6% (previous: 2.5%), and the seasonally and calendar adjusted quarterly growth to 0.3% (previous: 0.1%).

Loss of momentum in consumption & investment...

By the expenditure approach, it is seen that the weakening in consumption and investments drove the loss of momentum in growth. In the second quarter of the year, private consumption expenditures expanded by 3.5% yoy (previous: 5.1% yoy), contributing 2.3 points to growth. Government consumption expenditures, on the other hand, declined by 1.8% yoy, pulling the GDP growth down by 0.2 points. Investment expenditures, which showed the weakest performance since the third quarter of 2024, increased by 0.6% yoy and made a limited contribution to the growth 0.2 points. Looking at the details of investment expenditures, we see that construction investments recorded an annual decline for the first time since the second quarter of 2023, while the upward trend in machinery and equipment expenditures continued, albeit losing momentum.

Contributions to Growth					(% points)
	2024	2025		2026	
	Annual	Annual	Q1	Q2	H1
Consumption	**3.1**	**3.0**	**3.7**	**2.1**	**2.9**
Private	3.2	2.9	3.6	2.3	3.0
Public	-0.1	0.1	0.1	-0.2	-0.1
Invetment	**0.7**	**1.9**	**0.8**	**0.2**	**0.5**
Stock Change	**-1.3**	**0.0**	**0.6**	**-0.5**	**0.0**
Net Exports	**1.0**	**-1.1**	**-2.5**	**0.6**	**-0.9**
Exports	0.1	-0.1	-2.9	-0.8	-1.8
Imports	0.9	-0.9	0.4	1.3	0.9
GDP (yoy, %)	**3.5**	**3.7**	**2.6**	**2.3**	**2.5**

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

Net exports made a positive contribution to the growth after six quarters of negative contribution.

Having made a negative contribution to the annual growth for six consecutive quarters starting from the final quarter of 2024, net exports became a key driver of growth in the second quarter of this year. During this period, net exports contributed 0.6 points to the annual growth, while exports and imports declined by 3.4% and 6.4% yoy, respectively. The contribution of net exports was more pronounced in seasonally and calendar-adjusted terms. Compared with the previous quarter, private consumption expenditure contracted by 1.3% and investment expenditure remained flat, while exports rose by 6.2% and imports fell by 1.8%.

All major sectors except construction contributed positively to growth.

According to the GDP data by production approach, the industrial sector, which contracted by 0.5% yoy in the first quarter, expanded by 2.4% in the second quarter and added 0.5 points to GDP growth. Supported by last year’s low base as well as improving production conditions, the agricultural sector grew by 13.3% yoy and made its largest contribution to GDP growth since the third quarter of 2020, at 0.5 points. During this period, services made the largest sectoral contribution to growth, at 1.2 points. The construction sector, meanwhile, contracted for the first time since the third quarter of 2022 and dragged the growth rate down by 0.1 point.

According to seasonally and calendar-adjusted data, the agricultural sector, which grew by 5.3% quarterly in Q1, maintained its strong performance with recording a growth rate of 4.0% in the second quarter. The construction sector, meanwhile, extended its contraction to a third consecutive quarter. Trade and tourism related activities, which account for 40% of services-sector value added, recorded a weak performance, whereas the information and communication sector, with a share of around 4%, displayed a favourable performance.

Expectations...

Second-quarter GDP data indicated a noticeable slowdown in domestic demand along with the tight financial conditions. Leading indicators suggest that the slowdown in domestic demand will continue in the third quarter of the year. In this context, geopolitical developments, the trend in energy prices and CBRT’s monetary policy actions will be decisive in the growth performance in the coming period.

Source: CBRT, Datastream, ICI, TURKSTAT

Unemployment rate rose to 8.1% in July.

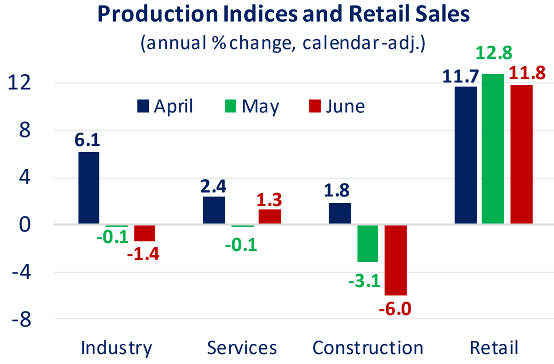
According to seasonally adjusted data, the number of employed persons decreased by 388k in July, while the number of unemployed persons increased by 150k. The employment rate fell by 0.6 pp to 48.3%, and the labour force participation rate dropped by 0.4 pp to 52.5%. Consequently, the unemployment rate increased from 7.6% to 8.1% in July. During this period, the youth unemployment rate (aged 15–24) rose by 1.5 pp to 14.5%, while the labour underutilisation rate—the broadest measure of unemployment—climbed by 1.8 pp to 30.6%, pointing to a softening in the labour market.

ICI Manufacturing PMI increased to 48.1 in August.

The headline Türkiye Manufacturing PMI, published by the Istanbul Chamber of Industry (ICI), edged up from 47.7 in July to 48.1 in August, marking its highest reading in three months. Amid persisting uncertainties driven by tensions in the Middle East that continued to weigh on demand, total new orders and export orders contracted at a slower pace compared to July, while output contracted for the third consecutive month. In August, PMI readings across all 10 monitored sectors remained below the 50.0 threshold for the first time since July 2025, with input costs rising sharply across the board in tandem with elevated energy and raw material prices.

Loss of momentum in production became more pronounced in Q2.

During the second quarter of the year, indices related to industrial production and trade sales generally pointed to a loss of momentum on a monthly basis. The calendar-adjusted industrial production index contracted by 1.4% yoy in June as supportive demand conditions weakened. Although output expanded on an annual basis in 16 of the 24 manufacturing sub-sectors in Q2, growth was led by other transport equipment (which includes defense industry products) at 15.3% yoy and basic pharmaceutical products at 10.0% yoy. Conversely, the manufacture of wearing apparel (-13.2% yoy) and the repair and installation of machinery and equipment (-8.5% yoy) registered the steepest annual contractions. In Q2, the services production index grew at a relatively moderate pace, whereas the contraction in the construction production index became more pronounced across months, driven primarily by the downturn in building construction. Trade sales volume contracted by 0.4% qoq in Q2, with wholesale trade sales volume declining by 0.8% qoq. Meanwhile, annual growth in retail trade sales volume hovered around 12% yoy throughout the quarter.



The weak trend in house sales continues.

Housing sales declined by 17.0% yoy in July to 123,603 units, indicating that the downward pressure exerted by tight financial conditions and subdued domestic demand during the first half of the year carried over into July. The decline was largely concentrated in existing home and non-mortgaged sales. In contrast, mortgaged sales diverged positively from the broader trend, posting a 24.0% yoy increase despite tight credit conditions. While the annual decline in real housing prices decelerated in July, the downward trajectory remained intact. In the broader domestic market, automotive sales dropped by 20.3% yoy in August, corroborating the ongoing weakness in domestic demand, whereas domestic white goods sales—which had contracted in 1H—rebounded by 6.2% yoy in July.

Economic confidence index reached its highest level since February…

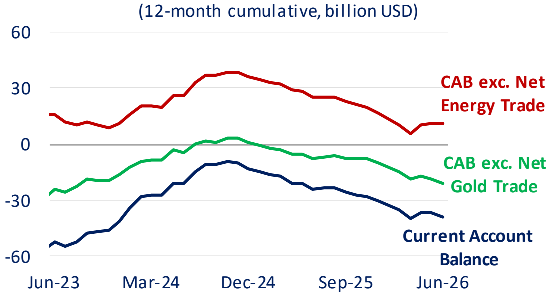
The Consumer Confidence Index rose by 1.0% mom to 90.8 in August, extending its upward trend into a fifth consecutive month and reaching its highest level since May 2023. A breakdown of the sub-indices shows that expectations regarding households' future financial situation and general economic outlook improved, while consumer price expectations deteriorated.

During the same period, the seasonally adjusted Real Sector Confidence Index rose by 1.2 points mom to 102.4. Despite a deterioration in assessments of the general business situation, expectations regarding output and order books over the next three months strengthened. Meanwhile, confidence indices for services, retail trade, and construction registered modest declines in August. Consequently, the Economic Confidence Index increased by 0.8% mom to 100.6 in August, printing its highest level since February.

Source: CBRT, Datastream, ICI, TURKSTAT

Current account deficit stood at 4.2 billion USD in June.

The widening in the foreign trade deficit as defined by the balance of payments led the current account deficit to increase by 85% yoy in June. Nevertheless, supported by the favorable performance of services revenues, the current account posted a deficit of 4.2 billion USD, below the market expectations of 5.0 billion USD. In the January–June period, the current account deficit rose by 33% yoy to 34.5 billion USD, while the 12-month cumulative deficit stood at 38.9 billion USD.



The foreign trade deficit increased by 18.0% in the first half of the year.

In June, the current account-defined trade deficit widened by 31% yoy to 8.5 billion USD. During this period, net non-monetary gold imports amounted to 1.2 billion USD, and net energy imports to 4.5 billion USD. The current account balance, excluding net gold and energy trade, posted a surplus of 1.5 billion USD. In parallel with the rapid rise in imports, the annual increase in the foreign trade deficit in January-June period was 18.0%. During this period, in line with price developments, net non-monetary gold imports decreased by 21%, while net energy imports increased by 10.3%.

Net services revenues rose by 12.5% yoy in June.

In June, net services revenues supported the current account balance, rising by 12.5% yoy to 6.9 billion USD. During this period, services revenues increased by 7.2%, while services expenditures recorded a limited rise of 1.1%. This was mainly driven by the 15.7% increase in transportation revenues, which accounted for 35% of total services revenues, as well as the marked decline in other business services expenditures. On the other hand, tourism revenues, which made up 48% of services revenues, declined by 2.6% yoy to 5.8 billion USD, while tourism expenditures remained broadly flat at 942 million USD. Thus, net tourism revenues fell by 3.2% to 4.9 billion USD. In the first half of the year, net tourism revenues and total net services revenues increased by 1.7% and 1.0% yoy, respectively.

CBRT revised the financial account and net errors & omissions data.

Following the revisions made by the CBRT to the financial account, the cumulative outflow recorded under net errors and omissions for the January 2023–May 2026 period was revised down from 57.8 billion USD to 23.5 billion USD. Net errors and omissions posted a limited surplus of 39 million USD in June, while recording a cumulative deficit of 14.7 billion USD in the first half of the year.

With these revisions, the CBRT began reporting financial derivative transactions, which had not previously been included in the statistics, as a separate item under the financial account. Under this item, assets and liabilities declined by 1.6 billion USD and 2.1 billion USD, respectively, in June, resulting in a net capital outflow of 467 million USD.

Effects of the CBRT Revisions on Net Errors and Omissions Item (NEO)

(billion USD)	2014-2024	2025	2026*	Total
Pre-Revision NEO	**-26.6**	**-18.8**	**-18.5**	**-34.3**
External Deposit Movements	-13.0	-4.9	-1.1	-13.3
Financial Derivatives	0.0	-4.8	-2.3	-6.5
Domestic Foreign Banknote Mov.	-29.0	-3.0	-0.9	0.0
Post-Revision NEO	**0.0**	**-6.1**	**-14.2**	**-14.5**

**January-May*

Net capital outflows from direct investment continued.

In June, non-residents' direct investments in Türkiye stood at 210 million USD, the lowest level in eight months, while residents' direct investments abroad amounted to 1.1 billion USD. Consequently, direct investment continued to post a net capital outflow, amounting to 899 million USD during the month. In the first half of this year, the direct investment item recorded a net capital outflow of 1.1 billion USD, compared with a net inflow of 1.7 billion USD in the same period last year.

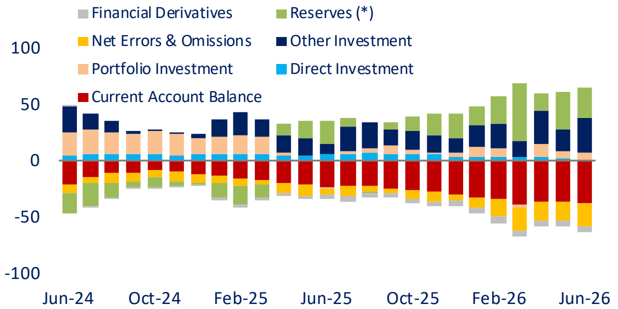
Net capital inflow of 2.5 billion USD into portfolio investments…

Portfolio investments, which have displayed a volatile course since the beginning of the year due to geopolitical developments, recorded a net capital inflow of 2.5 billion USD in June. The 3.3 billion USD increase in investment fund shares held by non-residents was the main driver of this inflow. During the same period, non-residents' purchases of debt securities accelerated to 1.7 billion USD. In the first six months of the year, net capital inflows through portfolio investments declined by 72% yoy to 1.1 billion USD.

Source: Datastream, Turkstat, CBRT

Net Capital Flows

(12-month cumulative, billion USD)



*Negative values in reserves indicate an increase in reserves.

Capital inflows accelerated in other investments.

Net capital inflows under other investments accelerated to 4.0 billion USD in June. During this period, net capital inflows under loans reached 6.8 billion USD, the highest level in the past six months, making it the main factor supporting the other investments item. Banks utilized 3.5 billion USD net loans from abroad, while the non-banking sectors utilized 1.8 billion USD. According to 12-month cumulative data, long-term debt rollover ratios remained at high levels as of June, standing at 151.3% in the banking sector and 231.4% in other sectors. On the other hand, a 3.6 billion USD decline in foreign banks' foreign exchange and deposit holdings with domestic correspondent banks limited capital inflows under other investments.

In the first six months of the year, net capital inflows under other investments amounted to 22.1 billion USD, compared to 3.6 billion USD in the same period of last year.

Expectations...

The foreign trade deficit continued to widen on an annual basis in July, rising by 13.6% in parallel with higher energy prices. In this context, the impact of ongoing geopolitical uncertainties in the Middle East on commodity prices, particularly energy prices, will remain closely monitored in terms of the current account outlook. Economic activity in Türkiye's main export markets, particularly in European countries, and the course of tourism revenues as the summer season continues will also be key determinants of the current account outlook.

Balance of Payments (million USD)

	Jun. 2026	Jan. - Jun. 2025	Jan. - Jun. 2026	% Change	12-month Cumulative
Current Account Balance	**-4,194**	**-25,998**	**-34,548**	**32.9**	**-38,888**
Foreign Trade Balance	-8,533	-37,063	-43,720	18.0	-76,515
Services Balance	6,851	23,563	23,807	1.0	63,747
Travel (net)	4,857	18,848	19,164	1.7	51,344
Primary Income	-1,785	-12,132	-12,849	5.9	-24,156
Secondary Income	-727	-366	-1,786	388.0	-1,964
Capital Account	**-13**	**-5**	**-103**	**1,960.0**	**-239**
Financial Account	**-4,168**	**-26,238**	**-49,386**	**88.2**	**-59,563**
Direct Investment (net)	899	-1,709	1,118	-	-312
Portfolio Investment (net)	-2,537	4,016	1,128	-71.9	-6,368
Net Acquisition of Financial Assets	2,115	4,223	12,098	186.5	21,923
Net Incurrence of Liabilities	4,652	207	10,970	5,199.5	28,291
Equity Securities	2,920	2,399	3,603	50.2	8,504
Debt Securities	1,732	-2,192	7,367	-	19,787
Other Investment (net)	-4,036	-3,565	-22,052	518.6	-31,048
Currency and Deposits	3,078	9,631	9,316	-3.3	21,846
Net Acquisition of Financial Assets	-570	9,989	10,716	7.3	20,444
Net Incurrence of Liabilities	-3,648	358	1,400	291.1	-1,402
Central Bank	-8	-6,375	-1,642	-74.2	-7,075
Banks	-3,640	6,733	3,042	-54.8	5,673
Foreign Banks	-3,889	6,323	946	-85.0	3,809
Foreign Exchange	-1,721	2,935	-1,274	-	-813
Turkish Lira	-2,168	3,388	2,220	-34.5	4,622
Non-residents	249	410	2,096	411.2	1,864
Loans	-6,759	-12,098	-27,904	130.6	-52,938
Net Acquisition of Financial Assets	-1,461	3,152	-6,946	-	-7,375
Net Incurrence of Liabilities	5,298	15,250	20,958	37.4	45,563
Banking Sector	3,495	7,711	10,300	33.6	17,191
Non-bank Sectors	1,800	7,601	10,459	37.6	26,096
Trade Credit and Advances	-350	-1,092	-3,446	215.6	88
Other Assets and Liabilities	-5	-6	-18	-	-44
Reserve Assets (net)	1,039	-27,167	-32,308	18.9	-27,168
Net Errors and Omissions	**39**	**-235**	**-14,735**	**-**	**-20,436**

Source: CBRT, Ministry of Trade, Datastream, Turkstat

Budget Balance

Budget deficit was 378.1 billion TRY in July.

In July, central government budget expenditures rose sharply by 60% yoy to 1.8 trillion TRY, while budget revenues increased at a more moderate pace of 29%, below the annual inflation rate, to 1.4 trillion TRY. Consequently, the central government budget deficit widened nearly sixteenfold from a year earlier to 378.1 billion TRY. In the same period, Treasury cash deficit was 395.7 billion TRY. Meanwhile, the primary budget balance, which posted a surplus of 110.7 billion TRY in July 2025, recorded a deficit of 51.3 billion TRY in the same month of this year.

In the January–July period, the budget deficit increased by 31.5% yoy to 1.3 trillion TRY. The primary budget surplus rose from 241.7 billion TRY in the first seven months of 2025 to 470.1 billion TRY in the same period of this year.

Tax revenues rose by 30% yoy in July.

Tax revenues, which accounted for 87.4% of central government budget revenues in July, increased by 30.0% yoy to 1.2 trillion TRY. Income tax revenues rose by 47.9% yoy to 432.0 billion TRY, while corporate tax revenues fell by nearly 70% to 3.6 billion TRY. Consequently, revenues from taxes on income and profits increased by 43.3% yoy in July.

Among consumption based taxes, domestic value added tax revenues rose by 46.2% yoy, while VAT revenues on imports increased by 16.4%. Meanwhile, the continued impact of the sliding scale system introduced in March led special consumption tax (SCT) revenues from petroleum and natural gas products to fall by 36.1% yoy in July, weighing on tax revenues. Nevertheless, as part of the gradual phase-out of the system, the share of fuel price increases offset by SCT cuts was reduced to 50%, making the sliding scale system’s drag on tax revenues less pronounced than in previous months. SCT revenues from motor vehicles also declined by 2.6% amid the weak outlook in the automotive sector, constituting another item that constrained SCT revenues. Consequently, SCT revenues posted a limited annual increase of 5.1%, while consumption based tax revenues rose by 23.6% yoy.

Interest expenses rose sharply in July.

In July, non-interest expenditures increased by 48.4% yoy to 1.5 trillion TRY, while interest expenses more than doubled to 326.8 billion TRY. Thus, the share of interest expenses in total budget expenditures increased from 12% in July 2025 to 18.2% in the same month of this year. In the first seven months of the year, this ratio stood at 17%, close to its level of 16.2% in the same period of the last year. Current transfers and personnel expenses, which accounted for the largest shares of non-interest budget expenditures in July at 42% and 32%, respectively, increased above the annual inflation rate by 57% and 43% yoy, putting pressure on budget expenditures. Capital expenditures, with a 10% share in non-interest expenditures, rose at a more moderate pace of 29% over the same period. Meanwhile, the annual increase in purchases of goods and services, which accounted for 8% of non interest expenditures, lost momentum from the previous month but remained above inflation at 42%. Furthermore, although capital transfers accounted for a limited share of 2% in non-interest expenditures, they continued to post triple-digit annual growth for the fifth consecutive month.

Expectations…

In July, budget revenues increased below the annual inflation rate due to the impact of the sliding scale system and the loss of momentum in overall economic activity. Budget expenditures, meanwhile, rose above inflation, driven particularly by the sharp increase in interest expenses. Nevertheless, the budget deficit recorded in the first seven months of the year accounted for 48.7% of the full-year target of 2.7 trillion TRY, indicating that the budget outlook remained consistent with the target. Under the decision dated August 13, SCT amounts applicable to certain types of diesel fuel were reduced to zero until the end of August. These amounts are scheduled to be gradually raised in monthly increments of 3 TRY/liter from September onwards, reaching 13.90 TRY/liter at the beginning of 2027. The course of oil prices, the effect of the aforementioned regulation and the outlook for economic activity will continue to influence budget performance through the tax revenue channel.

Central Government Budget (billion TRY)

	July		%	January-July		%	2026 Budget	Real/ Budget
	2025	2026	Change	2025	2026	Change	Target	Target (%)
Expenditures	**1,120.8**	**1,790.5**	**59.8**	**7,699.8**	**10,520.7**	**36.6**	**18,978.8**	**55.4**
Interest Expenditures	134.6	326.8	142.8	1,246.0	1,791.0	43.7	2,741.7	65.3
Non-Interest Expenditures	986.2	1,463.7	48.4	6,453.8	8,729.7	35.3	16,237.2	53.8
Revenues	**1,096.9**	**1,412.4**	**28.8**	**6,695.5**	**9,199.7**	**37.4**	**16,266.1**	**56.6**
Tax Revenues	949.8	1,234.8	30.0	5,721.3	7,854.6	37.3	13,833.1	56.8
Other Revenues	147.1	177.6	20.7	974.2	1,345.2	38.1	2,433.0	55.3
Budget Balance	**-23.9**	**-378.1**	**1,484.6**	**-1,004.3**	**-1,320.9**	**31.5**	**-2,712.7**	**48.7**
Primary Balance	**110.7**	**-51.3**	**-**	**241.7**	**470.1**	**94.5**	**29.0**	**-**

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

Source: Datastream , Ministry of Treasury and Finance

Monthly CPI inflation was 1.84% in August.

Monthly CPI inflation came in at 1.84% in August, slightly below market expectations. Annual CPI inflation declined from 31.75% to 31.51%. CPI increase was recorded at 22.07% ytd.

The monthly increase in the Domestic Producer Price Index (D-PPI) rose from 1.52% in July to 2.57% in August. Accordingly, after declining in the last two months, annual D-PPI inflation increased to 27.95% in August.

August	CPI		D-PPI	
(change %)	2025	2026	2025	2026
Monthly	2.04	1.84	2.48	2.57
Year-to-Date	21.50	22.07	20.62	20.88
Annual	32.95	31.51	25.16	27.95
Annual Average	39.62	31.79	26.28	27.76

Alcoholic beverages and tobacco, transportation and education groups stood out in August.

In August, prices increased among all 13 main expenditure groups, except clothing and footwear. Transportation group prices rose by 4.82% mom, making the largest contribution (0.82 pp) to monthly inflation. Having increased by 2.26% on a monthly basis, housing group prices contributed by 0.27 percentage points to monthly inflation. Driven by cigarette price hikes introduced in early August, prices in the alcoholic beverages and tobacco group rose by 6.89% (0.18 pp contribution). Education prices increased by 8.62% mom due to seasonal fee adjustments ahead of the new academic year, contributing 0.17 percentage points to monthly inflation. Meanwhile, prices in the food and non-alcoholic beverages group, which has the highest weight in the CPI basket, recorded a moderate monthly increase of 0.22%.

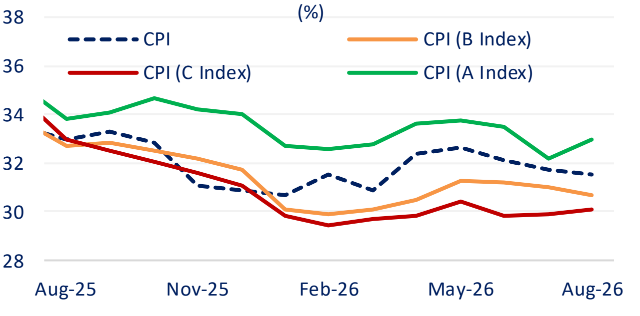
CPI by COICOP 2018 subclasses data shows that actual rents, which rose by 3.04% mom, made the largest contribution to the CPI at 0.21 percentage points. This was followed by tertiary education fees and diesel prices, each contributing 0.20 percentage points, and international passenger transportation by air, which added 0.16 percentage points.

Services inflation remained above 3% in August.

Energy prices recorded their fastest monthly increase since April, rising by 5.46% in August. Meanwhile, unprocessed food prices declined by 2.03%, in line with the 8.18% fall in fresh fruit and vegetable prices. Accordingly, goods inflation rose by 0.2 percentage points to 1.02% in August. Services inflation declined from 3.18% to 3.08%, as the acceleration in rent, communications and transport prices was offset by the loss of momentum in restaurants and hotels and other services.

In August, the A index, which excludes seasonal products, rose by 2.80%, exceeding headline inflation and confirming the downward impact of seasonal products on inflation. During this period, the monthly increases in the B and the C indices were 1.84% and 1.81%, respectively.

Annual Inflation Indicators



The downward trend in D-PPI ended in August.

Coke and refined petroleum products, whose prices rose by 16.41%, contributed 0.56 pps to monthly D-PPI inflation, which stood at 2.57% in August. Electricity and gas production and distribution, where prices increased by 6.03%, added 0.53 pps. Food products also contributed 0.32 pps due to their high weight in the index, despite recording a relatively limited price increase of 1.65%. Meanwhile, crude petroleum and natural gas, one of the two groups in which producer prices declined, limited the monthly increase in the D-PPI by 0.10 pps, with prices falling by 8.14%.

Expectations…

Price adjustments in alcoholic beverages and tobacco and education, together with the rapid increase in energy prices, were the main drivers of consumer inflation in August. On the other hand, the moderate increase in food and non-alcoholic beverage prices, which have a high weight in the CPI basket, helped inflation remain below expectations, supported by the decline in fresh fruit and vegetable prices. In September, we expect monthly inflation to rise compared to August, mainly due to increases in services inflation and food prices, while the disinflation trend is expected to continue on an annual basis. Meanwhile, geopolitical developments and the course of global commodity prices remain risk factors for the domestic inflation outlook.

Source: Datastream, Turkstat

	31-Jul	31-Aug	Change
5-Y CDS (basis point)	238	217	-21 bp ▼
2-Y Benchmark Bond Yield (	%42.11	%39.94	-217 bp ▼
BIST-100	13,458	14,334	%6.5 ▲
USD/TRY	47.5078	48.1600	%1.4 ▲
EUR/TRY	54.7713	56.0080	%2.3 ▼
Currency Basket*	51.1396	52.0840	%1.8 ▲

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

CBRT raised its year-end inflation forecast for 2026.

In its third Inflation Report of the year released on August 13, the CBRT maintained its 2026 year-end interim target at 24%, while raising its inflation forecast from 26% to 28%. The year-end forecasts for 2027 and 2028 were kept unchanged at 15% and 9%, respectively. The CBRT noted that the 2.0 pp upward revision to its 2026 forecast was driven by the outlook for energy and commodity prices, adjustments to administered/regulated prices and the sliding-scale tax system, as well as an upward revision in the food inflation assumption. In the report, the 2026 year-end food inflation assumption was revised up from 26.3% to 28.5% and the annual import price inflation projection was raised from 6.3% to 6.9%, while the average crude oil price assumption was lowered from USD 89.4 to USD 87.8 per barrel. During the press briefing, CBRT Governor Karahan pointed out that the disinflation process had slowed due to supply-side shocks stemming from geopolitical developments, emphasizing that the ongoing tight monetary policy stance, combined with the slowdown in credit growth, made the softening in domestic demand more pronounced.

CBRT resumed its one-week repo auctions.

In a press release on August 23, the CBRT announced its decision to restart one-week repo auctions, which had been suspended since March 1. Following this move, the weighted average cost of funding (WACF), which had been hovering around 40% since early March, converged down to the policy rate of 37%.

Households' inflation expectations for 12 months ahead rose after a three-month decline.

According to data released by the CBRT, households' 12-month-ahead inflation expectations rose by 0.64 pp to 45.58% in August, following a three-month downward trend. In addition, the proportion of households expecting inflation to decline over the next 12 months dropped by 0.8 pp to 16.9%. Over the same horizon, inflation expectations in the real sector recorded a moderate increase to 32.8%, whereas expectations among market participants edged down to 23.69%. Meanwhile, market participants' current year-end inflation expectation climbed for the seventh consecutive month, reaching 29.43%.

CBRT's gross reserves…

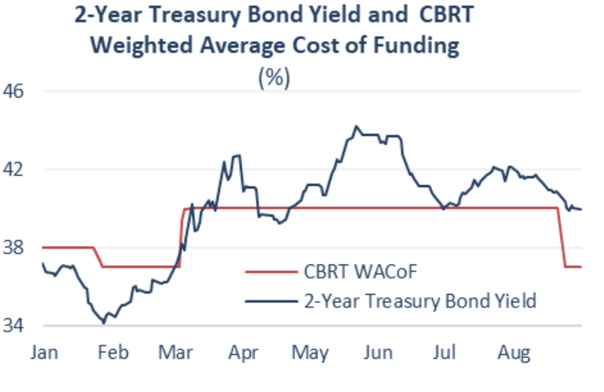
As of August 28, the CBRT's total gross reserves—supported by the rally in gold prices—increased by USD 23.8 bn compared to end-July to reach USD 188.2 bn (comprising USD 117.1 bn in gold and USD 71.1 bn in FX reserves). Net international reserves also rose by USD 12.4 bn to USD 66.6 bn.

According to data adjusted for price and exchange rate movements, non-residents' equity portfolio recorded a net inflow of USD 657 mn relative to end-July as of August 28, while their Government Domestic Debt Securities (GDDS) portfolio (based on the total of outright purchases, reverse repos, collateral, and securities lending) expanded by a net USD 228 mn.

BIST-100 index rose by 6.5% in August

A lower-than-expected July CPI inflation figures and optimism surrounding the easing of geopolitical tensions provided strong tailwinds for the BIST-100 index in August. Further supported by the CBRT's resumption of one-week repo auctions, the index rallied to an intra-month high of 14,642. Although regulatory changes regarding hedge funds and renewed geopolitical risks triggered selling pressure on the final trading day of the month, the BIST-100 index decoupled positively from emerging market peers, closing August up 6.5% at 14,334.

During the month, Türkiye's 5-year CDS spread tightened by 21 bps from the previous month-end to 217 bps. In the FX market, the USD/TRY and EUR/TRY pairs depreciated by 1.4% and 2.3%, respectively. The 2-year benchmark bond yield plunged by 217 bps to 39.94%, while the 10-year benchmark bond yield declined by 56 bps to 34.37%.



Source: CBRT, Datastream, Reuters

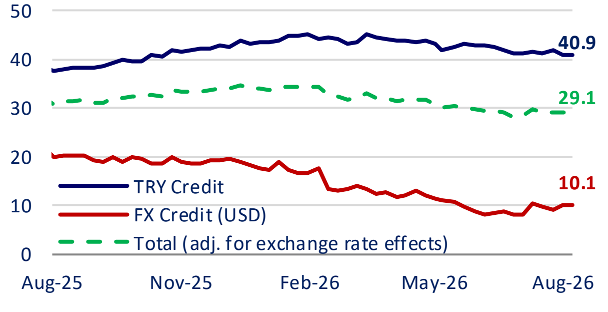
TL deposit volume increased by 33.6% yoy.

According to the BRSA's Weekly Bulletin data, as of August 28, TL deposits increased by 4.2% mom and 33.6% yoy to 20.0 trillion TRY. Supported by the rise in gold prices, FX deposits in USD terms rose by 4.7% mom and 17.9% yoy to 260.4 billion USD. During this period, FX deposits held by individuals increased by 6.7% mom (21.3% yoy), while those held in commercial accounts declined by 0.1% (7.6% increase yoy). Accordingly, total deposit volume reached 32.4 trillion TRY as of August 28, increasing by 5.0% mom and 35.4% yoy. Adjusted for exchange rate movements, the annual increase in total deposit volume was 27.7%, while the share of TL deposits in total deposits stood at 61.5% (July 31: 62.0%).

Annual growth in TL loans stood at 40.9%.

As of August 28, growth in TL loans lost momentum compared to the previous month (previously: 3.4%), increasing by 1.8% mom and 40.9% yoy. Thus, the volume of TL loans reached 17.8 trillion TRY as of August 28. FX loans in USD terms also increased by 1.3% mom and 10.1% yoy to 212.3 billion USD during this period. Accordingly, total loan volume expanded by 2.2% mom and 36.4% yoy, reaching 28.0 trillion TRY. FX rate adjusted total loan volume increased by 29.1% yoy.

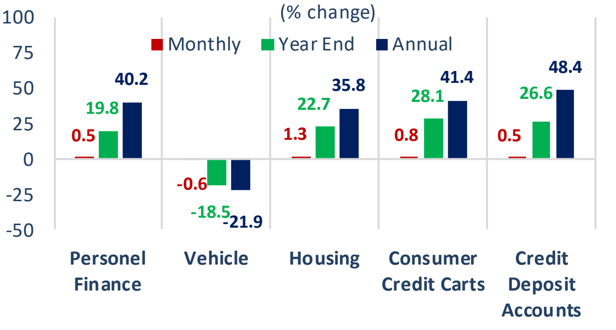
Loan Growth
(annual % change)



Retail loans…

Retail loan volume, which increased by 4.0% mom in July, rose by 0.8% in August. Consumer credit cards, which accounts for almost half of the retail loans, also increased by 0.8%. The annual growth rates in these items were 39.6% and 41.4%, respectively. Overdraft accounts, which expanded by 3.2% in July, lost momentum and increased by 0.5% mom as of August 28. The annual increase in overdraft accounts became 48.4%. During the same period, housing and personel finance loans expanded by 1.3% and 0.5% mom, respectively, while vehicle loans contracted by 0.6%. On an annual basis, housing and personel finance loans increased by 35.8% and 40.2%, respectively, while vehicle loans declined by 21.9%.

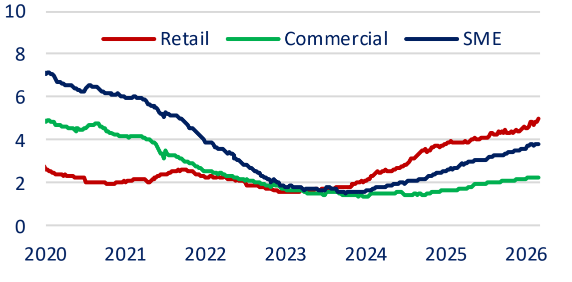
Consumer Loans as of August 28
(% change)



NPL ratio rose to 2.93%.

With the balance of non-performing loans increasing by 26.4 billion TRY mom, the NPL ratio rose to 2.93% as of August 28. The ratio stood at 2.26% for commercial loans and 3.77% for SME loans. The NPL ratio for retail loans, which increased by 0.18 percentage point from the previous month, reached 4.90%, its highest level since 2010.

NPL Ratio
(%)



Net foreign currency position…

As of August 28, the banking sector's on-balance-sheet foreign currency position stood at (-) 56.694 billion USD, while its off-balance-sheet foreign currency position was (+) 57.427 billion USD. Accordingly, the sector's net foreign currency position was recorded at (+) 733 million USD.

Source: BRSA Weekly Bulletin

Concluding Remarks

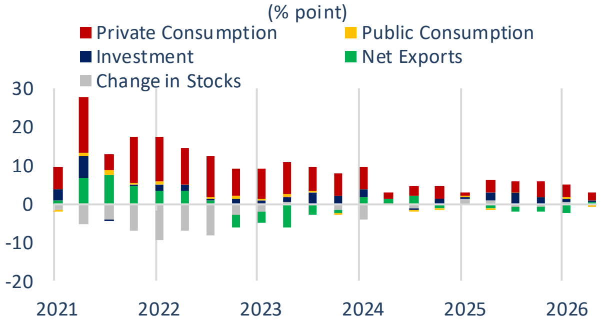
Amid persistently high global uncertainty in August, geopolitical tensions in the Middle East remained relatively subdued for most of the month before escalating again in its final days. Tensions also rose on the Russia-Ukraine front, triggering a sharp increase in wheat prices. These developments added to already elevated global inflationary pressures, while Fed Chair Kevin Warsh's remarks at Jackson Hole that inflation remained above target strengthened expectations that the Fed would raise interest rates in September. In addition to inflationary risks, concerns over rising public debt and high budget deficits caused the upward trend in long-term bond yields that began in July to continued in August, adding to the pressure on financial conditions. Following the rise in Euro Area inflation to its highest level in nearly three years in August, an interest rate hike by the ECB at its September meeting came to be viewed as almost certain. BoJ is also expected to raise its policy rate at its September meeting. In September, geopolitical developments and the meetings of major central banks will be closely monitored, along with the Trump-Xi meeting scheduled to take place in Washington on September 24.

In Türkiye, second-quarter growth data indicated that economic activity lost momentum on an annual basis, while the decline in private consumption's contribution to growth confirmed the slowdown in domestic demand. Among the leading indicators for August, the improvement in consumer and real sector confidence contrasted with the continued weakness in demand conditions in the manufacturing sector, suggesting that the recovery in expectations has yet to be reflected clearly in current economic activity. Although the decline in annual inflation continued in August, the renewed escalation in geopolitical tensions toward the end of the month is keeping uncertainty surrounding the inflation outlook elevated through its potential impact on energy prices. CBRT's resumption of one-week repo auctions in August, which brought the CBRT's weighted average cost of funding in line with the 37% policy rate, marked an important step toward normalization in the operational framework of monetary policy. The messages from the CBRT's September 10 meeting, following its decision to raise its year-end inflation forecast to 28% in the latest Inflation Report, as well as developments regarding the Medium-Term Program expected to be announced on September 6, will be closely monitored.

Growth

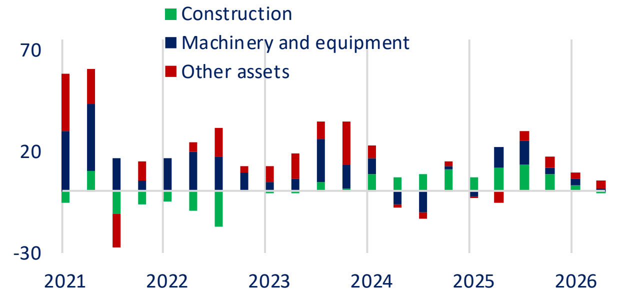
Contributions to GDP Growth

(% point)



Gross Fixed Capital Formation

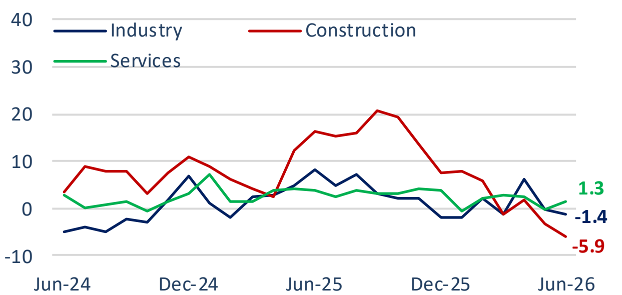
(annual % change)



Leading Indicators

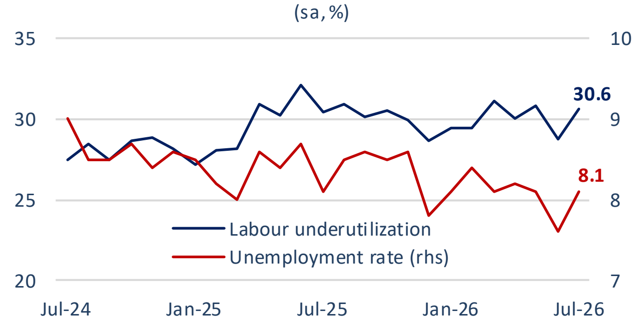
Production Indices

(ca, annual % change)



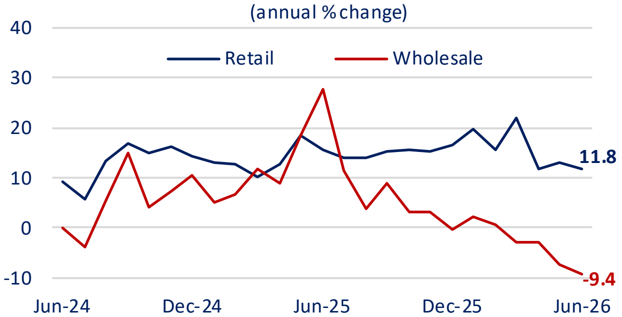
Labour Force Statistics

(sa, %)



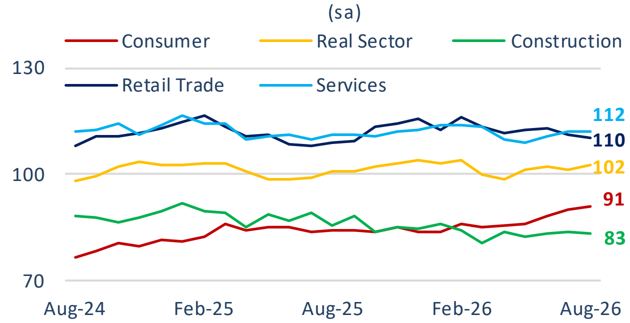
Sales Volume Indices

(annual % change)



Confidence Indices

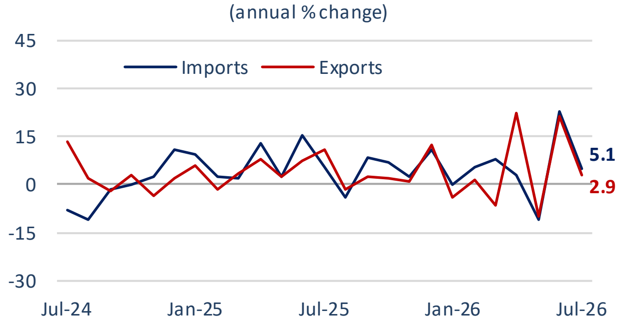
(sa)



Foreign Trade and Current Account Balance

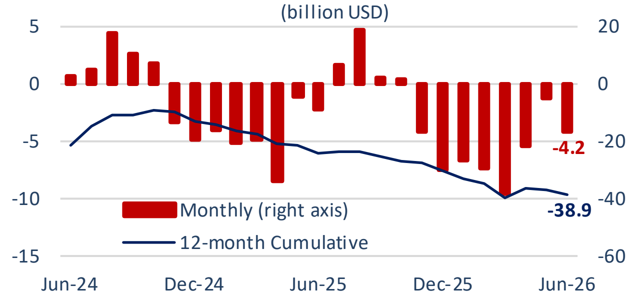
Foreign Trade

(annual % change)



Current Account Balance

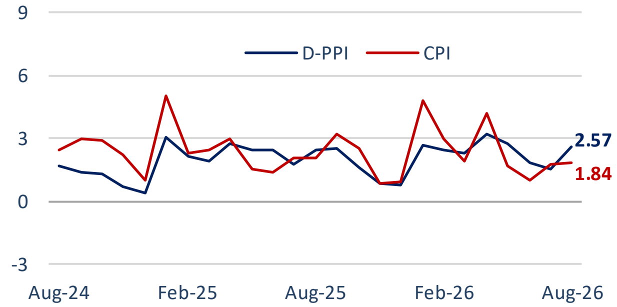
(billion USD)



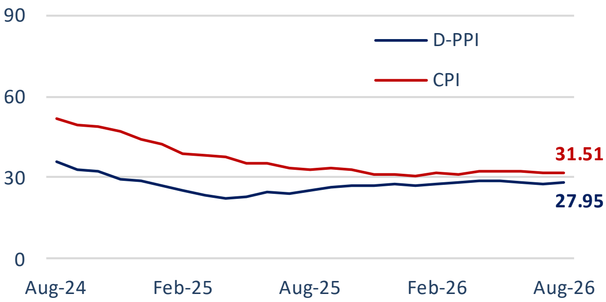
Source: Datastream, CBRT, Turkstat

Inflation

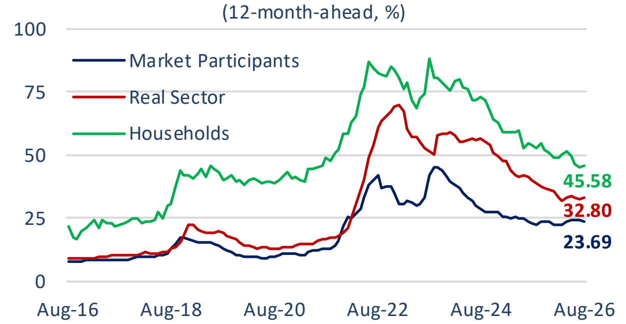
Monthly Inflation
(%)



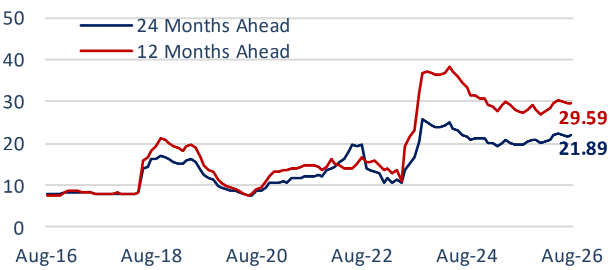
Annual Inflation
(%)



Sectoral Inflation Expectations
(12-month-ahead, %)

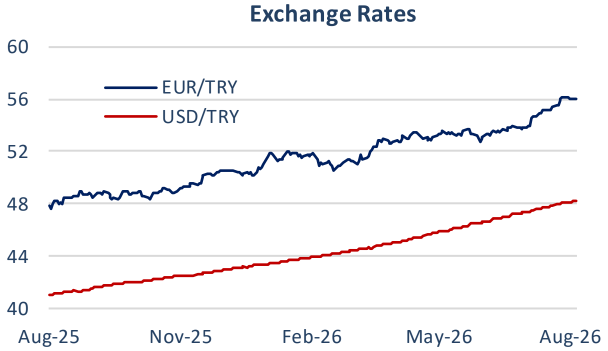


CBRT Survey of Market Participants - 12 and 24 Months Ahead Policy Rate Expectation
(%)

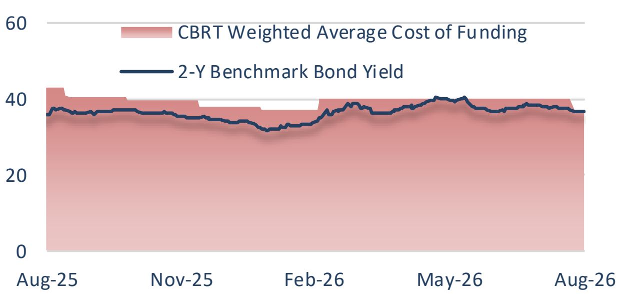


Foreign Exchange and Bond Market

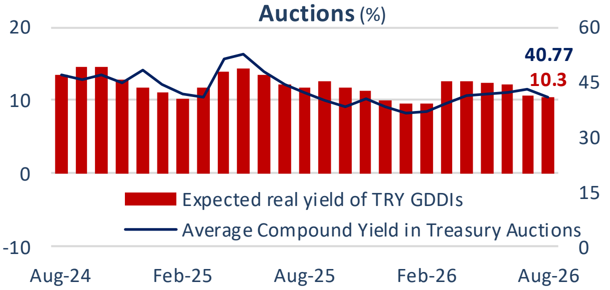
Exchange Rates



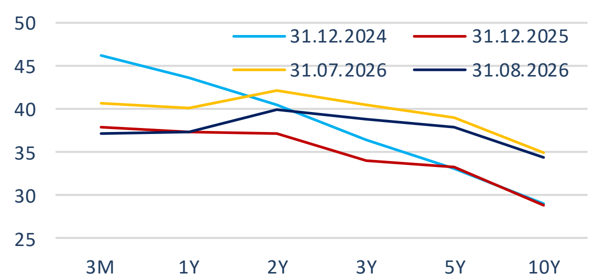
CBRT WACOF and 2-Y Benchmark Bond Yield
(%)



Expected Real Yield of TRY GDDIs and Average Compound Yield in Treasury Auctions (%)



Yield Curves
(%)



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

Macroeconomic Indicators

GROWTH	2021	2022	2023	2024	2025	Q4-25	Q1-26	Q2-26
GDP (USD billion)	828	925	1,153	1,361	1,602	440	392	438
GDP (TRY billion)	7,434	15,326	27,091	44,676	63,241	18,527	17,098	19,870
GDP Growth Rate (%)	11.8	5.4	5.0	3.5	3.7	3.5	2.6	2.3
INFLATION (%)						**Jun-26**	**Jul-26**	**Aug-26**
CPI (annual)	36.08	64.27	64.77	44.38	30.89	32.11	31.75	31.51
Domestic PPI (annual)	79.89	97.72	44.22	28.52	27.67	28.09	27.83	27.95
SEASONALLY ADJUSTED LABOR MARKET FIGURES						**May-26**	**Jun-26**	**Jul-26**
Unemployment Rate (%)	11.0	10.4	8.9	8.6	7.8	8.1	7.6	8.1
Labor Force Participation Rate (%)	52.6	54.0	54.0	54.1	53.0	52.9	52.9	52.5
FX RATES						**Jun-26**	**Jul-26**	**Aug-26**
CPI Based Real Effective Exchange Rate	70.0	81.5	82.8	100.8	98.9	105.70	104.90	-
USD/TRY	13.28	18.72	29.53	35.36	42.96	46.66	47.52	48.25
EUR/TRY	15.10	19.98	32.62	36.62	50.46	53.34	54.68	56.05
Currency Basket (0.5*EUR+0.5*USD)	14.19	19.35	31.08	35.99	46.71	50.00	51.10	52.15
FOREIGN TRADE BALANCE[1] (USD billion)						**May-26**	**Jun-26**	**Jul-26**
Exports	225.2	254.2	255.6	261.8	273.2	273.4	277.8	278.5
Imports	271.4	363.7	362.0	344.0	365.4	367.1	373.7	375.3
Foreign Trade Balance	**-46.2**	**-109.5**	**-106.3**	**-82.2**	**-92.2**	**-93.7**	**-95.9**	**-96.8**
Import Coverage Ratio (%)	83.0	69.9	70.6	76.1	74.8	74.5	74.3	74.2
BALANCE OF PAYMENTS[1] (USD billion)						**Apr-26**	**May-26**	**Jun-26**
Current Account Balance	**-7.1**	**-46.7**	**-41.8**	**-13.0**	**-30.3**	**-36.8**	**-37.0**	**-38.9**
Financial Account	**-5.6**	**-23.4**	**-37.4**	**-20.9**	**-36.4**	**-54.7**	**-54.5**	**-59.6**
Direct Investments (net)	-6.5	-9.8	-4.5	-5.1	-3.1	-3.0	-1.8	-0.3
Portfolio Investments (net)	7.6	17.9	-6.5	-13.9	-3.5	-11.7	-5.3	-6.4
Other Investments (net)	-27.8	-44.1	-24.8	-4.3	-12.6	-29.7	-20.5	-31.0
Reserve Assets (net)	23.3	12.3	-2.0	0.6	-22.0	-15.5	-32.3	-27.2
Net Errors and Omissions	**1.5**	**23.3**	**4.6**	**-7.7**	**-5.9**	**-17.6**	**-17.3**	**-20.4**
Current Account Balance/GDP (%)	**-0.9**	**-5.0**	**-3.6**	**-1.0**	**-1.9**	-	-	-
BUDGET[2][3] (TRY billion)						**May-26**	**Jun-26**	**Jul-26**
Expenditures	**1,603.5**	**2,942.7**	**6,588.0**	**10,780.6**	**14,634.6**	**7,334.7**	**8,730.2**	**10,520.7**
Interest Expenditures	180.9	310.9	674.6	1,270.5	2,054.4	1,262.6	1,464.2	1,791.0
Non-interest Expenditures	1,422.7	2,631.8	5,913.4	9,510.2	12,580.2	6,072.1	7,265.9	8,729.7
Revenues	**1,402.0**	**2,800.1**	**5,207.6**	**8,672.8**	**12,835.5**	**6,277.7**	**7,787.3**	**9,199.7**
Tax Revenues	1,165.0	2,353.4	4,501.1	7,305.3	11,049.5	5,304.1	6,619.7	7,854.6
Budget Balance	**-201.5**	**-142.7**	**-1,380.4**	**-2,107.8**	**-1,799.1**	**-1,057.0**	**-942.8**	**-1,320.9**
Primary Balance	**-20.7**	**168.2**	**-705.8**	**-837.3**	**255.3**	**205.6**	**521.4**	**470.1**
Budget Balance/GDP (%)	**-2.7**	**-0.9**	**-5.1**	**-4.7**	**-2.8**	-	-	-
CENTRAL GOVERNMENT DEBT STOCK (TRY billion)						**May-26**	**Jun-26**	**Jul-26**
Domestic Debt Stock	1,321.2	1,905.3	3,209.3	4,959.9	8,152.8	8,991.1	9,013.9	9,244.1
External Debt Stock	1,426.6	2,130.1	3,527.4	4,297.5	5,509.3	6,006.3	5,983.6	6,219.1
Total Debt Stock	**2,747.8**	**4,035.5**	**6,736.6**	**9,257.4**	**13,662.1**	**14,997.4**	**14,997.5**	**15,463.3**

(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)	2021	2022	2023	2024	2025	Jun-26	Jul-26	Change [1]
TOTAL ASSETS	**9,215**	**14,347**	**23,553**	**32,668**	**46,947**	**52,727**	**53,817**	**14.6**
Loans	**4,901**	**7,581**	**11,677**	**16,052**	**23,128**	**26,790**	**27,448**	**18.7**
TRY Loans	2,832	5,110	7,894	10,145	14,560	17,163	17,535	20.4
Share (%)	57.8	67.4	67.6	63.2	63.0	64.1	63.9	-
FX Loans	2,069	2,471	3,783	5,907	8,568	9,627	9,913	15.7
Share (%)	42.2	32.6	32.4	36.8	37.0	35.9	36.1	-
Non-performing Loans	160.1	163.4	191.9	293.6	593.6	775.6	818.6	37.9
Non-performing Loan Rate (%)	3.2	2.1	1.6	1.8	2.5	2.8	2.9	-
Securities	**1,477**	**2,371**	**3,970**	**5,226**	**7,013**	**7,695**	**7,790**	**11.1**
TOTAL LIABILITIES	**9,215**	**14,347**	**23,553**	**32,668**	**46,947**	**52,727**	**53,817**	**14.6**
Deposits	**5,303**	**8,862**	**14,852**	**18,903**	**27,226**	**30,109**	**30,924**	**13.6**
TRY Deposits	1,880	4,779	8,897	12,307	16,587	18,695	19,170	15.6
Share (%)	35.5	53.9	59.9	65.1	60.9	62.1	62.0	-
FX Deposits	3,423	4,083	5,955	6,596	10,639	11,415	11,754	10.5
Share (%)	64.5	46.1	40.1	34.9	39.1	37.9	38.0	-
Securities Issued	**310**	**325**	**584**	**1,045**	**1,890**	**2,007**	**2,106**	**11.4**
Payables to Banks	**1,048**	**1,432**	**2,384**	**3,535**	**5,177**	**6,079**	**6,266**	**21.0**
Funds from Repo Transactions	**587**	**540**	**723**	**2,244**	**2,575**	**2,854**	**2,715**	**5.4**
SHAREHOLDERS' EQUITY	**714**	**1,406**	**2,153**	**2,908**	**4,156**	**4,614**	**4,650**	**11.9**
Profit (Loss) of the Period	93.0	431.6	620.8	660.3	940.2	528.4	596.4	-
RATIOS (%)								
Loans/GDP	65.9	49.5	43.1	35.9	36.6	36.7	-	-
Loans/Assets	53.2	52.8	49.6	49.1	49.3	50.8	51.0	-
Securities/Assets	16.0	16.5	16.9	16.0	14.9	14.6	14.5	-
Deposits/Liabilities	57.5	61.8	63.1	57.9	58.0	57.1	57.5	-
Loans/Deposits	92.4	85.5	78.6	84.9	84.9	89.0	88.8	-
Capital Adequacy (%)	18.4	19.5	19.1	19.7	19.7	16.6	16.6	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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