

	6-Aug	13-Aug	Change		6-Aug	13-Aug	Change
BIST-100 Index	1,435	1,448	0.9 % ▲	EUR/USD	1.1760	1.1791	0.3 % ▲
TRY 2 Year Benchmark Rate	18.59 %	18.97 %	38 bp ▲	USD/TRY	8.6160	8.5171	-1.1 % ▼
Turkey 5-Year CDS Premium	391	381	-9 bp ▼	EUR/TRY	10.1456	10.0539	-0.9 % ▼
MSCI EM Equity Index	1,293	1,281	-0.9 % ▼	Gold (USD/ounce)	1,763	1,779	0.9 % ▲
US 10-Year Bond Rate	1.31 %	1.28 %	-2 bp ▼	Brent Oil (USD/barrel)	70.7	70.6	-0.2 % ▼

bp: basis point

Last week, CBRT did not change the policy rate while data releases for June such as unemployment, industrial production and balance of payments were followed. In international markets, July inflation data in the US and industrial production data in the Euro Area were closely monitored. Fitch did not change Turkey's credit rating and outlook on Friday.

### US inflation data was monitored last week.

While CPI inflation slowed down in the US in July, the rise in producer prices continued. In this period, the CPI increased by 0.5% mom and by 5.4% yoy, in line with the expectations. The monthly increase in core CPI, excluding energy and food, was 0.3%, below expectations. Despite the moderate course in consumer prices, producer prices rose by 1% mom and by 7.8% yoy, above the expectations. Thus, the rise in annual PPI reached the highest level in more than ten years. In addition, University of Michigan consumer confidence index in the US was announced as 70.2, below the expectations, and fell to the lowest level since December 2011.

### Industrial production in the Euro Area came in below the expectations.

Calendar adjusted industrial production index in the Euro Area rose by 9.7% yoy in June. Seasonally adjusted industrial production decreased by 0.3% compared to the previous month. GDP growth revision for the second quarter will be released on August 17.

According to the data announced in China, industrial production expanded by 6.4% yoy in July, despite the market expectations of 7.8%, while retail sales increased by 8.5%, below the market projections of 11.5%. Worse than expected data increased the concerns regarding the economic activity in China.

### Industrial production in Turkey increased by 41.1% in 2021Q2.

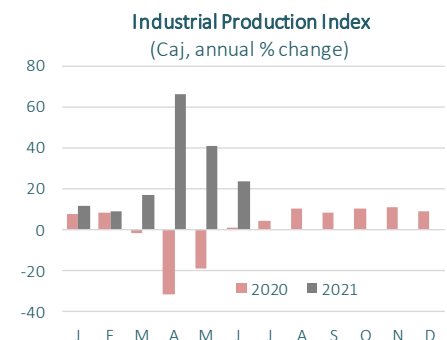
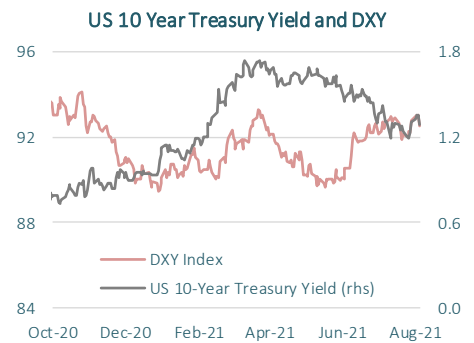
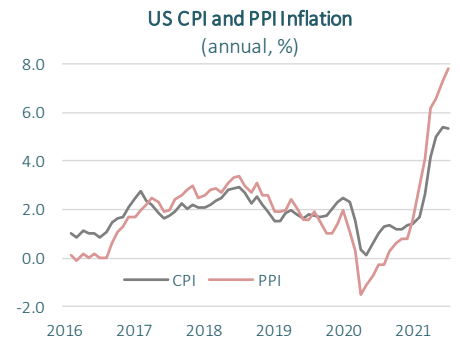
Calendar adjusted industrial production increased by 23.9% yoy in June. Thus, in the second quarter of the year, industrial production increased by 41.1% compared to the same period of the previous year, pointing out that despite the Covid-19 restrictions strong growth performance was displayed in the second quarter of the year also thanks to the low base effect. In the first quarter of the year, when the annual increase in industrial production was 12.5%, GDP grew by 7% in real terms. According to the seasonally and calendar adjusted data, industrial production increased by 2.3% compared to the previous month, the fastest since August 2020.

### Current account deficit became 13.6 billion USD in the first half of the year.

Current account deficit, which was 3.1 billion USD in June 2020, came in at 1.1 billion USD, in parallel to expectations. This development was driven by the annual decline in foreign trade deficit and increase in service revenues thanks to the rise in transportation and travel revenues. Thus, the current account deficit contracted by 35.9% yoy and became 13.6 billion USD in the first half of 2021. 12-month cumulative current account deficit became 29.7 billion USD as of June ([Our Balance of Payments Report](#)).

### CBRT kept the policy rate unchanged.

In the meeting held on August 12th, the CBRT kept the policy rate unchanged at 19%,



Source: Datastream

in line with the market expectations. In the press release published after the meeting, it was emphasized that in addition to the high course of international commodity and food prices, the increase in inflation in July was driven by the rise in food inflation due to supply-side effects in some products led by climate conditions, the high levels of international agricultural commodity and food prices, as well as the effects of the reopening. In the announcement, it was stated that the domestic economic activity remained strong in the third quarter of the year with the help of robust external demand, while the improvement in the current account balance was important for the price stability objective. Stating that the policy rate will continue to be determined at a level above inflation to maintain a strong disinflationary effect until strong indicators point to a permanent fall in inflation and the medium-term 5% target is reached, the Committee stated that taking into account the high levels of inflation and inflation expectations, the current tight monetary policy stance will be maintained decisively until the significant fall in the Inflation Report's forecast path is achieved.

With the decision taken last week, the base limits for the Special Consumption Tax (SCT) applied in the sales of vehicles with an engine capacity of up to 1,600 cc and hybrid vehicles with an electric engine of up to 50 kW and an engine volume of up to 1,800 cc were increased. It is stated that the said decision will provide discounts for cars with a price of up to 320K TRY and will have a slightly lowering effect on inflation.

#### Fitch raised its growth forecast for Turkey to 7.9% in 2021.

Fitch affirmed Turkey's foreign currency credit rating as "BB-" and its credit rating outlook as "stable". The institution stated that the current rating level reflects the weakness in the credibility of the monetary policy, high inflation, low external liquidity despite the high external financing requirement and geopolitical risks. The organization revised its 2021 growth forecast for the Turkish economy from 6.3% to 7.9%, citing strong economic activity. Fitch forecasts that inflation will fall to 16.9% by the end-2021 as tighter financial conditions suppress domestic demand.

#### Unemployment rate was 10.6% in June.

Seasonally adjusted unemployment rate decreased by 2.5 points compared to the previous month to 10.6% in June. The surge in the employment by 602 thousand persons on a monthly basis has an important role in this development. In June, the employment rate increased by 0.9 points to 44.9%, while the labor force participation rate declined by 0.5 points to 50.2%. The rate of composite measure of labour underutilization consisting of time-related underemployment, potential labour force and unemployment decreased by 4.7 points on a monthly basis to 22.4% in June.

#### Budget deficit widened in July.

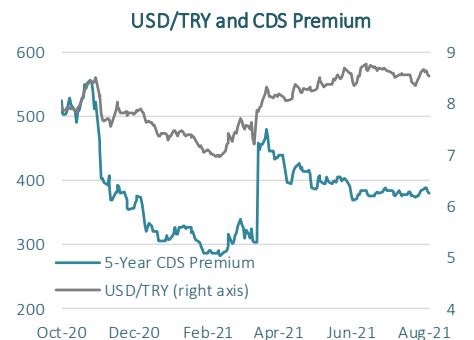
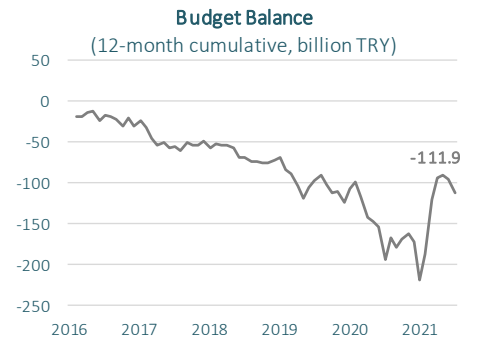
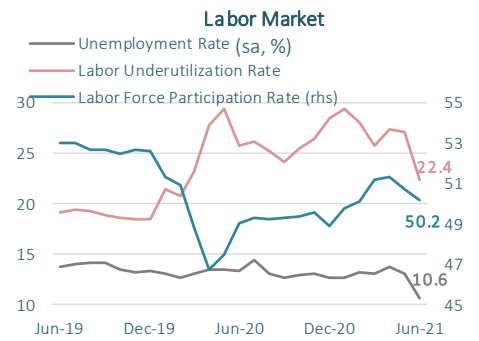
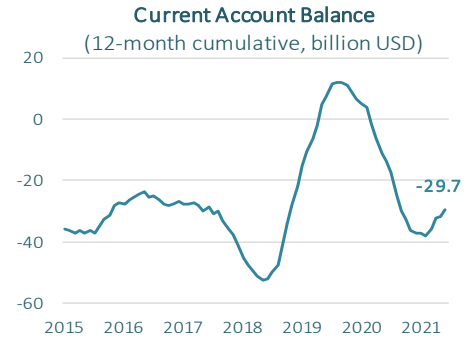
In July, the central government budget deficit expanded by 54.2% compared to the same month of the previous year and became 45.8 billion TL. In this period, budget expenditures and revenues registered annual increases of 21.4% and 10.1%, respectively. Despite the expansion in July, the budget deficit narrowed by 43.7% yoy to 78.3 billion TL in the first seven months of 2021 ([Our Budget Balance report](#)).

#### Financial markets...

The effect of US inflation data on global markets was relatively limited in the last week. Despite the concerns for the delta variant of the Covid-19, OPEC did not update oil demand forecast for 2021 and 2022, while the International Energy Agency lowered its forecasts for the same period. Brent crude oil price recorded a weekly fall of 0.2%.

BIST-100 index increased by 0.9% last week and closed at 1,448 points. During last week, where the policy rate was kept unchanged at 19% by CBRT, the Turkish lira appreciated by 1.1% and 0.9% against the USD and Euro, respectively. Turkey's 5-year CDS risk premium also decreased by 9 basis points to 381.

Despite a relatively quiet data agenda, in addition to geopolitical developments, July industrial production in the US, Fed's minutes and second-quarter GDP growth in the Euro Area will be monitored closely during this week.



Source: Datastream

Data Releases

		Period	Consensus	Prior
<b>16 August</b>	TR Budget Balance	July	-45.8 bln TRY (A)	-25.0 bln TRY
	China Industrial Production, yoy	July	6.4% (A)	8.3%
	China Retail Sales, yoy	July	8.5% (A)	12.1%
	USA NY Fed Manufacturing Index	August	29.0	43.0
<b>17 August</b>	USA Industrial Production, mom	July	0.5%	0.4%
	USA Capacity Utilization Rate	July	75.7%	75.4%
	USA Retail Sales, mom	July	-0.2%	0.6%
	Euro Area GDP Growth, revised	2021 Q2	13.7%	13.7%
<b>18 August</b>	USA Housing Starts, units	July	1.602 million	1.643 million
	Fed Minutes	July	-	-
	Euro Area CPI Inflation, final, yoy	July	2.2%	2.2%
<b>19 August</b>	USA Philadelphia Fed Manufacturing Index	August	25.0	21.9
<b>20 August</b>	TR Central Government Gross Debt Stock	July	-	2,027 billion TRY

(A) Actual

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## Economic Research Division

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

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

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

Salih Zeki Atılgan  
Asst. Economist  
zeki.atilgan@isbank.com.tr

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