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Global Economy

Uncertainties about the course of the coronavirus pandemic remains on the agenda due to the concerns caused by the high number of coronavirus cases, especially in India, and the continuing mutation of the virus.

US economy grew by 6.4% on an annualized basis in the first quarter of the year. Leading indicators showed that the strong course of economic activity persisted in April.

In the first quarter of 2021, Euro Area economy contracted by 1.8% yoy and 0.6% on a quarterly basis. On the other hand, in April, services PMI surpassed the threshold level for the first time after 7 months and signaled a recovery in the sector.

The Fed reiterated that interest rates would remain unchanged and asset purchases would continue until substantial progress towards inflation and unemployment goals was achieved. In its April meeting, the ECB kept its policy rate unchanged.

In the World Economic Outlook report published in April, the IMF revised up the global growth forecast for 2021.

Portfolio inflows towards emerging markets, which have lost momentum since November, rose to 45.5 billion USD in April, as the acceleration of vaccination practices supported the global risk appetite.

In March, food prices continued to rise globally. OPEC+ countries stated that they will start gradual increase in oil production as of May.

Turkish Economy

In Turkey, in order to limit the increase of the coronavirus cases full-time lockdown measures were introduced for the period of April 29 – May 17.

According to the calendar adjusted data, industrial production rose by 8.8% yoy in February, indicating that the recovery in economic activity continued. Although manufacturing PMI fell to 50.4 in April, index remained above the threshold level for 11 months, showing that the growth in manufacturing industry persisted.

Seasonally adjusted unemployment rate increased by 0.7 points mom to 13.4%, while the employment rate was realized as 43.4% in February.

The decline in net transportation and tourism revenues continued to be effective on current account balance in February. The 12-month cumulative current account deficit reached 37.8 billion USD as of February.

The budget balance posted a surplus of 23.8 billion TRY in March, thanks to rapid increase in revenues, and 22.8 billion TRY in the January-March period.

In April, CPI increased by 1.68% mom, while the annual CPI inflation became 17.14%. Domestic PPI (D-PPI) continued to rise rapidly by 4.34% mom and by 35.17% yoy.

CBRT kept its policy interest rate unchanged at the meetings in April and May. In the second Inflation Report of the year, the CBRT increased its year-end inflation forecast from 9.4% to 12.2% for 2021 and from 7% to 7.5% for 2022.

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Leading Indicators

The unemployment rate came in at 13.4% in February.

According to the data announced by TURKSTAT, seasonally adjusted unemployment rate increased by 0.7 points mom and became 13.4%, while the employment rate came in at 43.4% in February. Despite the increase in workforce of 226K people in February, the increase in unemployed people by 250K was effective in the rise of the unemployment rate. In this period, the labor underutilization rate, which expresses the ratio of the sum of time-related underemployment, unemployed and potential workforce to the total workforce and potential workforce decreased by 1.2 points mom and became 28.3%.

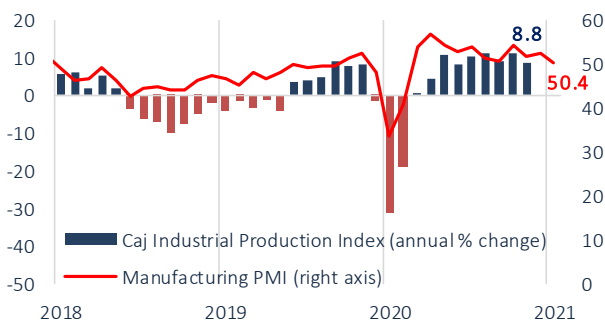
Industrial production rose by 8.8% yoy in February.

The strong rise in industrial production in the first two months of the year along with other leading indicators pointed that the recovery in economic activity continued in the first quarter of 2021. Calendar adjusted industrial production rose by 8.8% yoy in February. Thus, the annual increase in the index was 10% in the January-February period. On the basis of product groups, the production of durable consumption goods and intermediate goods increased by 19.5% yoy and 13.7% yoy, respectively. Total turnover index including industry, construction, trade, and services sectors went up by 30.4% yoy in February. The fastest rise in turnover indices was recorded in the industrial sector, while the weakest increase was in the services sector. Calendar adjusted retail sales volume with constant prices rose by 4.6% yoy in February. In this period, the annual rise in computers, books and communication devices sales gained momentum and reached 12.6%, while textile, clothing-footwear sales and medical goods-cosmetic sales decreased by 14.8% yoy and 2.4% yoy, respectively. According to the seasonally and calendar adjusted data, retail sales rose by 3.4% mom in February.

In April, manufacturing PMI pointed to limited growth in the sector.

Manufacturing PMI, which fell to the historical low level due to the negative impact of the pandemic on the manufacturing sector in April 2020, decreased to 50.4 as the pandemic reaccelerated in April 2021. Thus, despite falling to its lowest level in 11 months, the PMI remained above the threshold level of 50, indicating to limited growth in the sector. Among the sub-indices, new orders and production indices declined due to the increase in COVID-19 cases and the increase in employment and new export orders continued in April.

Industrial Production and Manufacturing PMI



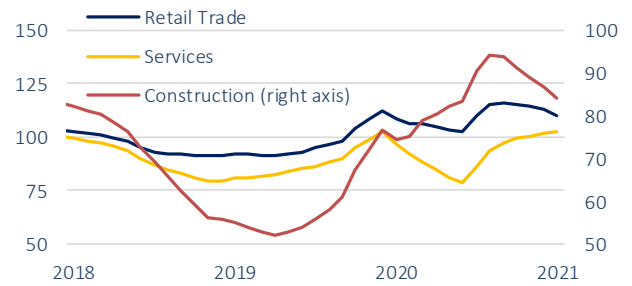
Confidence indices declined in April.

Due to concerns about the course of the pandemic and the deterioration in expectations for the coming period confidence

indices decreased in April. In this period, the seasonally adjusted real sector confidence index decreased by 2.8 points compared to the previous month and became 107.4. In April, all of the sectoral confidence indices declined, mainly due to the deterioration in expectations for the next 3 months. During this period, the seasonally adjusted confidence in the services, retail and construction sectors fell by 2.0% mom, 5.6% mom and 3.1% mom, respectively. The seasonally adjusted consumer confidence index decreased by 7.5% mom and became 80.2 in April. In this period, the general economic situation expectation over the next 12 months decreased rapidly. In April, the seasonally adjusted capacity utilization rate in manufacturing industry rose by 0.6 point to 76.2%.

Sectoral Confidence Indices

(sa, 6-month moving average)



House sales decreased by 22.9% yoy in the first quarter of the year.

The weak course in housing sales since September 2020, due to the rise in interest rates, has also continued in the first quarter of 2021. House sales increased slightly by 2.4% yoy in March, while the annual decline in sales became 22.9% in January-March period. The mortgaged house sales, which dropped by 49.7% yoy, had a share of 19.6% in total sales in March. During this period, other house sales went up by 36.9% yoy and pushed total sales up.

The strong course in domestic white goods sales continues.

According to the figures of White Goods Manufacturers' Association of Turkey, domestic white goods sales expanded by 26% yoy in March. In the same period, export volume rose by 42% yoy. In January-March period, domestic sales went up by 40% yoy, while exports increased by 26% yoy. On the other hand, rising costs in the sector may be reflected in product prices in the coming period.

Due to the effect of low base caused by the pandemic in March 2020, automotive production widened by 19.4% yoy and reached 123K units in March, according to the Automotive Manufacturers Association. In the same period, automotive exports expanded by 14.2% yoy, reaching 95,633 units. In the January-March period, automotive production increased by 1.3% yoy to 346K units, while exports decreased by 5.5% yoy and became 261K units. On the other hand, some companies in the automotive sector have cut production due to the global chip shortage recently. The automotive market, which widened by 60% in the first quarter of 2021, had a rapid annual increase of 132.4% thanks to the low base in April but remained below its 10-year average.

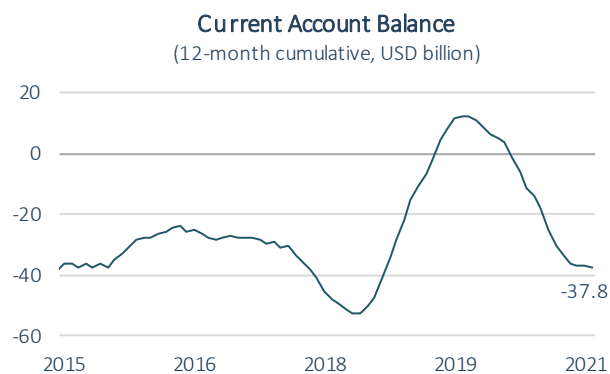
Foreign Trade and Balance of Payments

Foreign trade deficit narrowed by 14.9% yoy in March.

According to TURKSTAT data, the export volume increased by 42.2% yoy and became 19 billion USD in March, while the import volume rose by 25.6% yoy to 23.6 billion USD. Hence, in this period, the foreign trade deficit decreased by 14.9% yoy and became 4.7 billion USD. The ratio of exports to imports increased from 70.9% in March 2020 to 80.3% in March 2021. In the first quarter of 2021, foreign trade deficit narrowed by 15.2% compared to the same period of 2020 and became 11 billion USD.

The current account balance gave a deficit of 2.6 billion USD in February.

The current account balance, which had a deficit of 1.4 billion USD in February 2020, gave a deficit of 2.6 billion USD in the same period of 2021. Thus, the deficit in the current account balance became 4.4 billion USD in the first two months of this year. In February, the balance of payments defined foreign trade deficit increased by 122 million USD compared to the same month of last year and became 2.1 billion USD. While inflows from services balance decreased by 984 million USD (66.6%) to 494 million USD, the total loss of 1.1 billion USD in net transportation and net travel revenues due to the pandemic was decisive in this development. The 12-month cumulative current account deficit stood at 37.8 billion USD as of February.



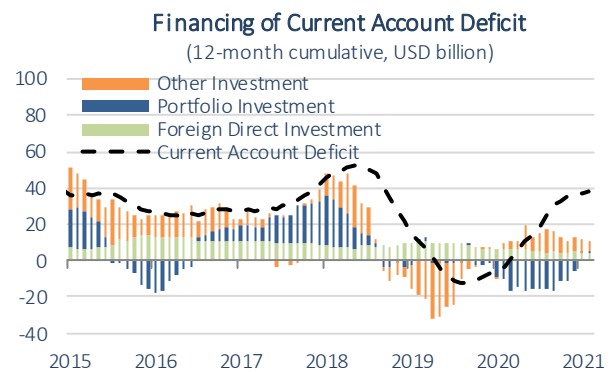
Increase in direct investments in February...

The capital inflow in net direct investments item, which was 218 million USD in January, became 714 million USD in February. During this period, capital investments increased by 257 million USD compared to the previous month and

reached 482 million USD, while real estate investments increased to 466 million USD with a rise of 158 million USD. According to the distribution of nonresidents' direct investment by sector in Turkey, the investments in the manufacture of transport equipment and information and communication sectors stood out in February. South Korea and the Netherlands took the lead in direct investments. On the other hand, net direct investments, which were 1.2 billion USD in the January-February period of 2020, declined to 932 million USD in the same period of 2021.

Portfolio investments lost momentum in February.

Net capital inflows in portfolio investments, which were 4.8 billion USD due to the massive eurobond issuance made by the Government in January, decreased significantly in February to 273 million USD. In terms of sub-items, non-residents made net sales of 486 million USD in the stock market and 546 million USD in the government securities market in this period. In February, banks made a net repayment of 439 million USD for the bonds they issued abroad.



In February, a net capital inflow of 666 million USD was recorded in the other investments item. During this period, domestic banks' currency and deposit assets at their foreign correspondents decreased by 1.4 billion USD, while a net increase of 70 million USD was realized in the domestic deposits of foreign banks. Banks and the Government made a net repayment of 534 million USD and 141 million USD, respectively, and other sectors made a net use of 179 million USD in their loans from abroad. As of February, the long-term debt rollover ratio was 81.4% in the banking sector and 80.9% in other sectors.

Net Capital Inflows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2020	Feb. 2021	Dec. 2020	Feb. 2021
Current Account Balance	-36,770	-37,786	-	-
Total Net Foreign Capital Inflows	7,851	10,536	-	-
-Direct Investment	4,640	4,367	10.3	11.5
-Portfolio Inflows	-5,485	516	-	1.4
-Other Investments	8,735	5,701	19.3	15.0
-Other	-39	-48	-	-
Net Errors and Omissions	-2,943	-183	-	-
Reserves(1)	31,862	27,433	70.4	72.2

Note: The numbers may not add up total due to rounding.

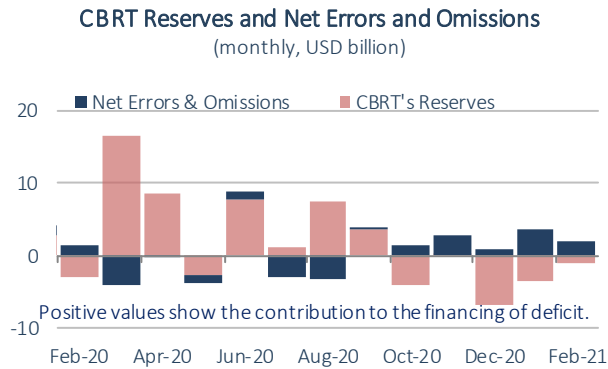
(1) (-) sign indicates an increase in reserves, while (+) sign indicates decrease.

Source: CBRT, Datastream

Foreign Trade and Balance of Payments

Reserve assets increased by 925 million USD in February.

Reserve assets, which rose rapidly by 3.6 billion USD in January, increased by 925 million USD in February as well. Thus, according to 12-month cumulative data, the decrease in reserve assets became 27.4 billion USD. The capital inflow in the net errors and omissions item was realized as 1.9 billion USD in February, and it exceeded 5.4 billion USD in the first two months of the year.



Expectations...

According to leading foreign trade data released by the Ministry of Commerce, export volume expanded by 109% yoy to 18.8 billion USD in April, while import volume rose 61.4% to 21.9 billion USD. Hence, in this period, foreign trade deficit decreased by 31.9% to 3.1 billion USD. In addition to the brisk course in the manufacturing sectors of Turkey's export markets, the strong performance in exports continues due to the annual rise in the EUR/USD parity. On the other hand, increasing logistics costs and the ongoing rise in commodity prices are expected to continue to put pressure on the current account deficit. In addition, considering the impact of the recent rapid increase in the number of coronavirus cases in Turkey, travel decisions taken by countries that send visitors to Turkey, put pressure on tourism activities. On the other hand, the full lockdown measures taken for the period between 29 April-17 May are expected to support the outlook in the tourism sector.

Balance of Payments

	Feb. 2021	Jan. - Feb. 2021	Jan. - Feb. 2020	% Change	12-month Cumulative
Current Account Balance	-2,610	-3,409	-4,425	29.8	-37,786
Foreign Trade Balance	-2,065	-5,260	-3,995	-24.0	-36,584
Services Balance	494	3,051	1,006	-67.0	7,460
Travel (net)	393	2,180	880	-59.6	7,880
Primary Income	-1,171	-1,164	-1,643	41.2	-9,164
Secondary Income	132	-36	207	-	502
Capital Account	-1	-10	-19	90.0	-48
Financial Account	-728	-763	972	-	-38,017
Direct Investment (net)	-714	-1,205	-932	-22.7	-4,367
Portfolio Investment (net)	-273	898	-5,103	-	-516
Net Acquisition of Financial Assets	-623	1,214	-451	-	-1,416
Net Incurrence of Liabilities	-350	316	4,652	1,372.2	-900
Equity Securities	-486	-1,020	-779	-23.6	-4,014
Debt Securities	136	1,336	5,431	306.5	3,114
Other Investment (net)	-666	-522	2,512	-	-5,701
Currency and Deposits	-1,745	-4,105	-190	-95.4	-15,848
Net Acquisition of Financial Assets	-1,429	-352	4,419	-	2,855
Net Incurrence of Liabilities	316	3,753	4,609	22.8	18,703
Central Bank	0	-3	1,377	-	14,041
Banks	316	3,756	3,232	-14.0	4,662
Foreign Banks	70	3,179	3,080	-3.1	5,929
Foreign Exchange	-31	1,069	1,447	35.4	2,243
Turkish Lira	101	2,110	1,633	-22.6	3,686
Non-residents	246	577	152	-73.7	-1,267
Loans	805	2,531	723	-71.4	6,444
Net Acquisition of Financial Assets	309	-118	375	-	-788
Net Incurrence of Liabilities	-496	-2,649	-348	-86.9	-7,232
Banking Sector	-534	-1,800	-606	-66.3	-3,879
Non-bank Sectors	179	-887	435	-	-2,725
Trade Credit and Advances	272	1,055	1,978	87.5	3,704
Other Assets and Liabilities	2	-3	1	-	-1
Reserve Assets (net)	925	66	4,495	6,710.6	-27,433
Net Errors and Omissions	1,883	2,656	5,416	103.9	-183

Source: CBRT, Datastream

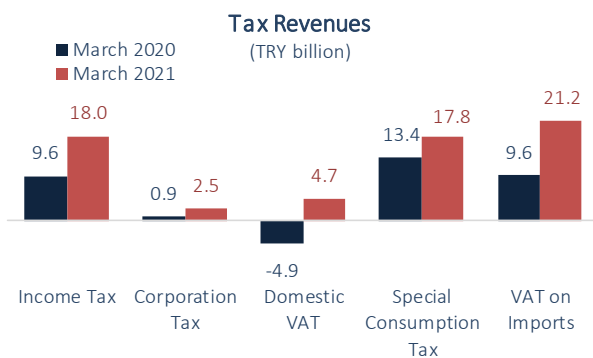
Budget Balance

The central government budget posted a surplus of 23.8 billion TRY in March.

The budget balance, which gave a deficit of 43.7 billion TRY in March 2020 due to the impact of pandemic, posted a surplus of 23.8 billion TRY in the same period of 2021. In this period, budget revenues expanded by 184.4% yoy to 134.9 billion TRY, while budget expenditures increased by 21.9% yoy to 111.2 billion TRY. Primary balance, which gave a deficit of 32.4 billion TRY in March 2020, posted a surplus of 38 billion TRY in the same period of 2021. In the January-March period, the budget balance gave a surplus of 22.8 billion TRY, and the primary surplus was realized as 71.7 billion TRY.

Budget revenues displayed a positive outlook.

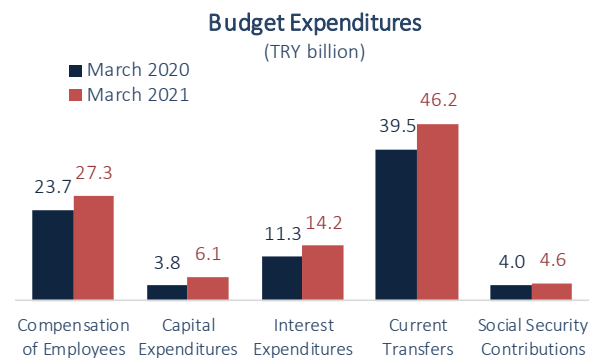
Tax revenues showed a rapid increase of 109.5% yoy in March and reached 77.4 billion TRY. As part of the restructuring of tax and administrative fines, the rapid rise of payments that began in February may have also supported tax revenues in March thanks to the time extension and benefits offered in advance payments. In this period, the increases in income tax and value added tax revenues on imports came to the fore. Income tax reached 18 billion TRY by an increase of 88% yoy, while the value added tax on imports went up by 120,7% with the effect of the annual rise in foreign exchange rates and became 21.2 billion TRY. Corporate tax increased by 166.6% yoy to 2.5 billion TRY. Within the scope of measures taken against the pandemic, the domestic value added tax, which was -4.9 billion TRY in March 2020 due to the effect of tax collection deferrals and refund mechanism, was realized as 4.7 billion TRY in this period.



Enterprise and ownership revenues, which were realized as 1 billion TRY in March 2020, increased to 37 billion TRY in March 2021, thanks to the transfer of CBRT's profit of 30.2 billion TRY to central government budget. Last year the CBRT's profit was transferred to the central government budget in January.

The rise in current transfers continued in March.

In March, interest expenditures went up by 25.5% yoy to 14.2 billion TRY, while non-interest expenditures increased by 21.4% to 96.9 billion TRY. During this period, interest payments on domestic debt rose by 13.8% yoy to 7.7 billion TRY and interest payments on foreign debt increased by 31.5% to 5.3 billion TRY. While the current transfers, which account for 48% of primary expenses, went up by 17.1% yoy, capital expenditures rose by 57.8% yoy in March. In this period, personnel expenses increased by 15.5% yoy.



Expectations...

Along with the rapid rise in tax revenues and the allocation of CBRT's operating revenue to the central government budget, the budget outlook displayed a positive outlook in March. The budget also had a good performance in the first quarter of the year. On the other hand, the rising number of coronavirus cases indicates that the pandemic isn't slowing down, and the potential impact of the restrictive measures taken against pandemic on economic activity will continue to be a concern for the budget outlook.

Central Government Budget

(billion TRY)

	March			January-March			2021 Budget Act./Budget	
	2020	2021	% Change	2020	2021	% Change	Target	Target (%)
Expenditures	91.2	111.2	21.9	285.3	321.3	12.6	1,346.1	23.9
Interest Expenditures	11.3	14.2	25.5	38.2	48.9	27.9	179.5	27.3
Non-Interest Expenditures	79.8	96.9	21.4	247.1	272.4	10.3	1,166.6	23.4
Revenues	47.4	134.9	184.4	255.7	344.1	34.6	1,101.1	31.3
Tax Revenues	37.0	77.4	109.5	176.1	255.1	44.9	922.7	27.6
Other Revenues	10.5	57.5	448.2	79.6	89.0	11.8	178.4	49.9
Budget Balance	-43.7	23.8	-	-29.6	22.8	-	-245.0	-
Primary Balance	-32.4	38.0	-	8.7	71.7	727.3	-65.5	-

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

Source: Datastream , Ministry of Treasury and Finance

Inflation

In April, CPI inflation came in slightly below the expectations.

CPI increased by 1.68% mom in April, a bit below the expectations. Market's CPI inflation expectation for this period was around 1.8%. Domestic PPI (D-PPI) increased by 4.34% in this period and reached its highest level since September 2018.

April (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	0.85	1.68	1.28	4.34
Year-to-Date	3.16	5.45	4.54	12.91
Annual	10.94	17.14	6.71	35.17
Annual Average	12.66	13.70	10.87	19.44

Annual CPI inflation rose to 17.14%.

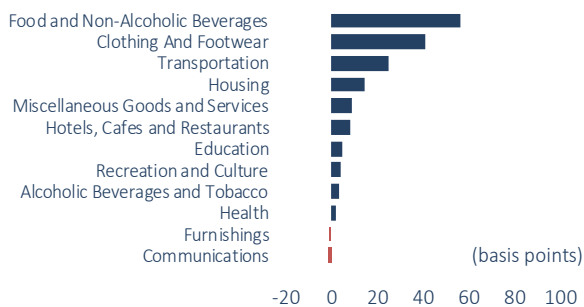
Annual CPI inflation, which has an upward trend since October 2020, was realized as 17.14% and reached the highest level of the last 23 months. Annual D-PPI inflation continued to rise in April and reached 35.17%.

Increases in food and clothing prices were determinant in monthly CPI inflation.

In April, prices in all main expenditure groups excluding communication and furnishing, increased on a monthly basis. In this period, while food and non-alcoholic beverages group made the highest contribution to the monthly CPI inflation with 57 bps, clothing and footwear also played a role in the CPI rise. Clothing and footwear prices rose by 7.6% mom due to seasonal factors and contributed to CPI inflation by 41 bps. Price increases in transportation group increased the monthly CPI inflation by 25 bps.

On an annual basis, the highest price increases were seen in the transportation and furnishing groups, with 29.3% and 22.3%, respectively. In addition to exchange rate developments, the rapid rise in oil prices led transportation subgroup to push annual inflation up by 426 bps. The lowest annual price increase was in the alcoholic beverages and tobacco with 3.6%.

Contributions to the Monthly CPI Inflation



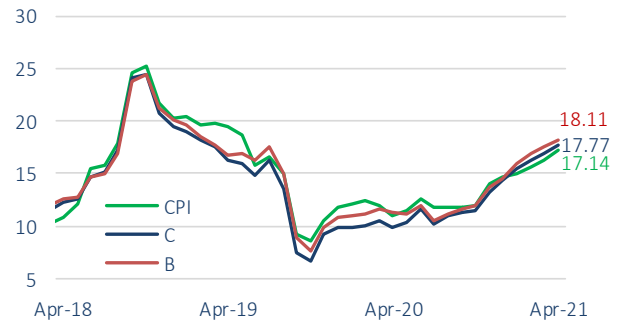
Core inflation indicators ...

In April, annual rise in core inflation indicators B and C, which are closely monitored by the CBRT came in above the headline inflation. In this period, annual increases in index B (CPI excluding unprocessed food products, energy, alcoholic beverages and tobacco and gold) and index C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco, and gold), were realized as 18.11% and 17.77%, respectively. Upward trend in

core indicators signals that inflation would remain high in the following period.

CPI and Special CPI Aggregates

(annual % change)



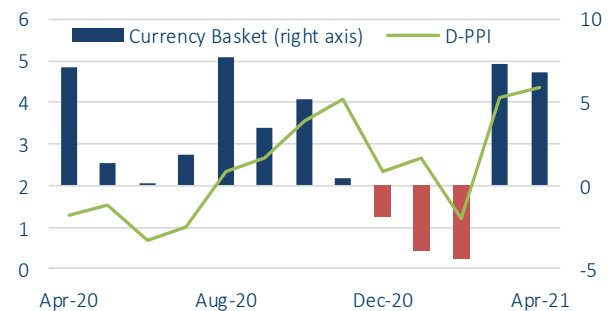
Increase in D-PPI continues.

In April, when the impact of the depreciation of TRY on costs continued, basic metals and textile products made the highest contributions to the monthly D-PPI inflation of 4.34% with 89 bps and 61 bps, respectively. During this period, 15.25% rise in crude petroleum and natural gas prices was noteworthy. Analysis of main industrial groups revealed that prices in all main groups increased, while prices in intermediate goods recorded the highest rise with 6.6% in this period.

On an annual basis, the rise in prices of coke and refined petroleum products and crude oil and natural gas sectors has reached 160% and 109%, respectively. Coke and refined petroleum products made the highest contribution to the annual rise in D-PPI with 580 bps, while food products made the second highest contribution with 571 bps.

Currency Basket and D-PPI

(monthly % change)



Expectations...

CBRT revised its year-end inflation forecast upwards by 2.8 bps to 12.2% in the second Inflation Report of 2021 published on 29th April. In addition to exchange rate developments, the upward revision in inflation forecast mainly stemmed from the rise in import prices due to the ongoing disruptions in supply chains and high increases in international commodity prices. Considering the widening gap between D-PPI and CPI inflation, we expect that upward pressure on CPI inflation will continue for a while in the following period. We anticipate that, after the 17-day full lock down measures taken against the pandemic, the rise in demand in the services sector may also push the prices up in these sectors in the coming months.

Source: Datastream, Turkstat

	31-Mar	30-Apr	Change
5-Y CDS (basis points)	472	416	-56 bps ▼
TR 2-Y Benchmark Yield	19.15%	18.08%	-107 bps ▼
BIST-100	1,392	1,398	0.4% ▲
USD/TRY	8.2439	8.2735	0.4% ▲
EUR/TRY	9.6745	9.9607	3.0% ▲
Currency Basket*	8.9592	9.1171	1.8% ▲

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

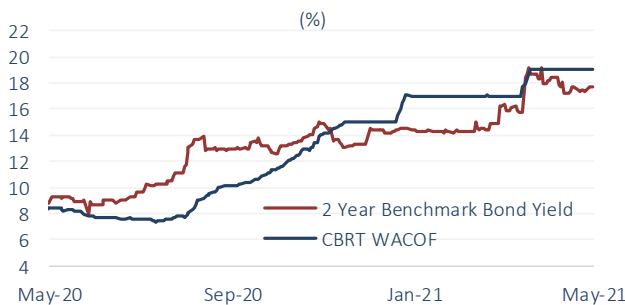
CBRT published the second Inflation Report of the year.

On April 29, CBRT published the second Inflation Report of the year. According to the report, year-end inflation projections have been revised from 9.4% to 12.2% for 2021 and from 7.0% to 7.5% for 2022. In the report, increases in crude oil, import and food prices came to the fore as the reasons for the said revisions. In addition, it was stated that the impact of the changes made in the household spending basket due to the pandemic at the beginning of the year on inflation, would gradually decrease and disappear by the end of the year. Stating that the pass-through effect of the exchange rate increases on inflation rose a bit above 20% over the last period, CBRT Chairman Kavcıoğlu declared that in the baseline scenario, they expect a decrease in inflation after reaching the peak level in April.

CBRT kept the policy rate at unchanged.

At its meetings on April 15th and May 6th, the CBRT kept the policy rate unchanged at 19%, in line with the market expectations. In the text released after the meeting in May, CBRT stated that commodity prices have increased again in the recent period and the effects of the rising global inflation expectations on international financial markets remain significant. CBRT also mentioned that demand and cost factors, supply constraints in some sectors, and high levels of inflation expectations continue to pose risks to the pricing behavior and inflation outlook. CBRT stated that taking into account the high levels of inflation and inflation expectations, the current monetary policy stance will be maintained until the significant fall in the April Inflation Report's forecast path is achieved. In addition, CBRT repeated its previous statement 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.

2 Year Benchmark Bond Yield and CBRT WACOF



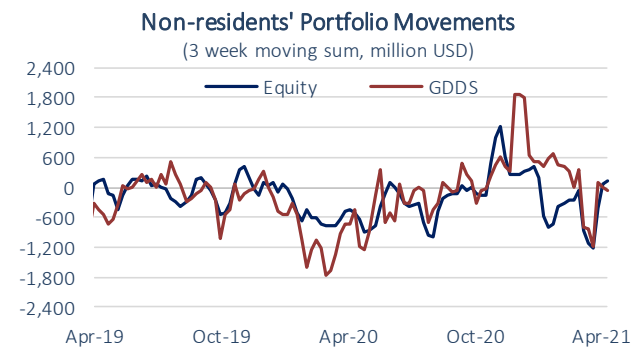
CBRT has introduced "Regulation on the Disuse of Crypto Assets in Payments".

CBRT described the risks of crypto assets claiming that they are neither subject to any regulation and supervision mechanisms nor a central regulatory authority. CBRT also stated that their market values can be excessively volatile and they may be used in illegal actions due to their anonymous structures. In addition to them,

wallets can be stolen or used unlawfully without the authorization of their holders, and transactions are irrevocable. CBRT stated that the use of crypto assets in payments might cause non-recoverable losses for the parties of the transactions due to the above-listed factors. In consequence, CBRT has introduced a regulation on the disuse of crypto assets in payments.

Securities portfolio of non-residents ...

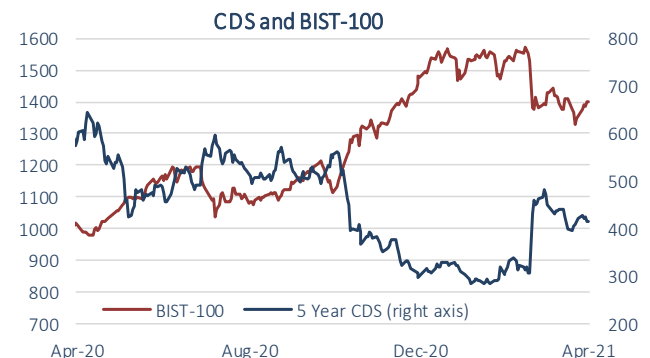
According to the securities statistics published by the CBRT, capital outflow in the equity and bond markets, which was recorded high in March has also continued in April. As of April 30, the equity portfolio of non-residents, adjusted for price and exchange rate movements, decreased by a net 274 million USD while government domestic debt securities (GDDS) fell by a net 117 million USD compared to the end of March. Since the end of 2020, capital outflow in non-residents equity reached approximately 2 billion USD while capital inflow in GDDS portfolios fell to 601 million USD.



Domestic markets displayed mixed outlook in April.

The positive economic data and the acceleration of vaccination supported the global risk appetite in the first half of April. In the following days, markets had a fluctuating course with the effect of profit sales in the global stock markets, which reached record high levels in the middle of the month. 10-year US treasury bond yields fell and the DXY index declined due to the Fed's decision to continue its current monetary policy and the widespread spending plans in the country.

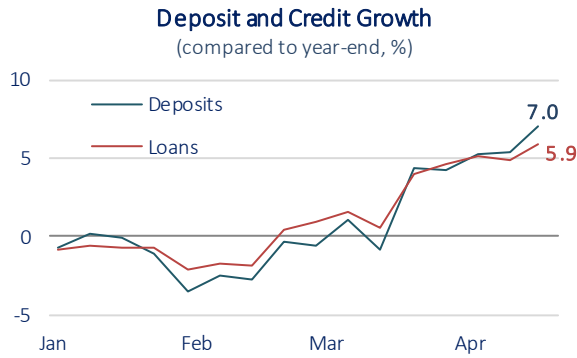
In April, domestic markets also displayed a volatile course with the impact of geopolitical developments. The USD/TRY exchange rate completed April at 8.27 with an increase of 0.4% mom, while the EUR/TRY rose by 3% mom to 9.96. The movements of the US dollar in the global markets were also effective in the value of TRY. Turkey's 5-year CDS premium, which rose rapidly in March, decreased by 56 basis points in April and became 416 basis points. BIST-100 index increased by 0.4% throughout the month, ending April at 1,398 points.



Banking Sector

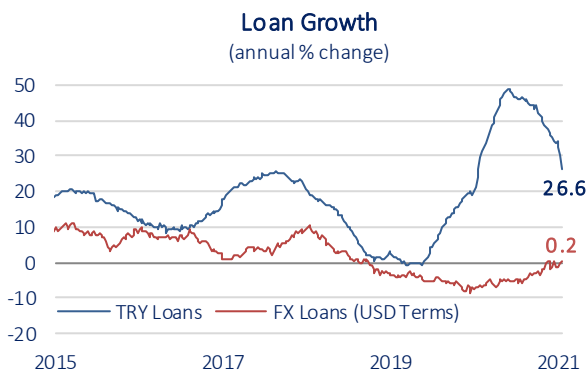
The deposit volume surged in April.

According to the BRSA's Weekly Bulletin, as of April 22, the deposit volume expanded by 23.9% compared to the same period of last year and 7.0% compared to the end of 2020, reaching 3.696 billion TRY. The annual increase in deposit volume adjusted for the exchange rate effect was 13.2%. As of April 22, TRY deposit volume expanded by 7% compared to the end of 2020, while FX deposit volume in USD terms decreased by 4.1% in the same period.



Loan volume expanded by 23.7% yoy.

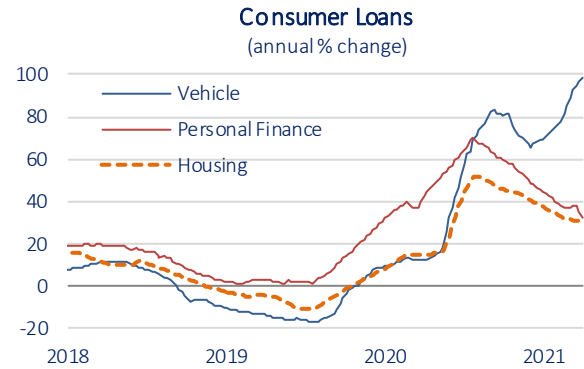
As of April 22, the total loan volume of the banking sector expanded by 23.7% yoy and by 5.9% compared to the end of 2020, reaching 3.786 billion TRY. The annual increase in loan volume adjusted for the exchange rate effect was 16.6% in this period. While TRY loans rose by 26.6% yoy to 2,410 billion TRY, it increased by 56.2 billion TRY compared to the end of 2020. FX loans in USD terms rose only by 0.2% yoy but expanded by 0.9% compared to the end of 2020 and became 167.1 billion USD as of April 22nd.



The upward trend in vehicle loans continued.

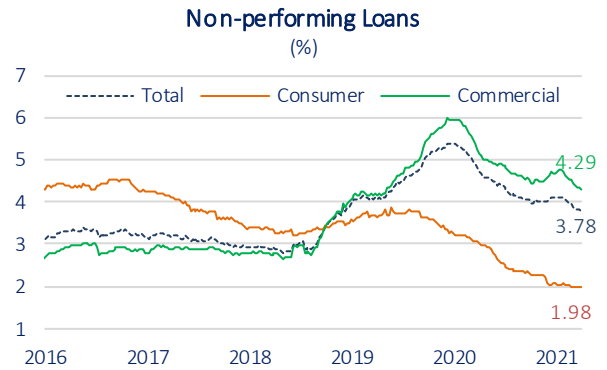
Along with the rise in interest rates, the deceleration in consumer loans growth continued in April. As of April 22, the annual increase in consumer loans was 32.7%. According to the breakdown of consumer loans, the amount of housing loans has remained flat in recent weeks and the increase in personal finance loans has lost some momentum. On the other hand, vehicle loans

continued to expand, gaining momentum. As of April 22, the annual rise in vehicle loans reached 98.2%, while the increase compared to the end of 2020 was 17.6%.



NPL ratio is at 3.78%.

In the week of April 22, the amount of gross non-performing loans decreased by 1.7% yoy and became 148.9 billion TRY. Hence, the ratio of non-performing loans decreased to 3.78% as of April 22, thanks to legal regulations as well. According to loan types, the NPL ratio of the sector in commercial loans decreased to 4.29%, while it remained flat in retail loans at 1.98%.



Net foreign currency position ...

As of April 22, FX net general position was (-) 52,176 million USD in on-balance sheet items and (+) 58,230 million USD in off-balance sheet items. Thus, the banking sector's net FX position on the week of April 22 was realized as (+) 6.053 million USD.

Concluding Remarks

Under the continued impact of the pandemic, the divergence of the economic performances among countries has increased due to the different-paced improvement in vaccination rates. The positive economic outlook persists in the US thanks to rapid vaccination. The recovery in the UK is also gaining momentum. In China, which has managed to control the pandemic since the earliest months, economic activity continues to be strong albeit losing some momentum in April. In line with the positive outlook in leading economies, optimism regarding global growth affects commodity prices and inflation expectations upwardly.

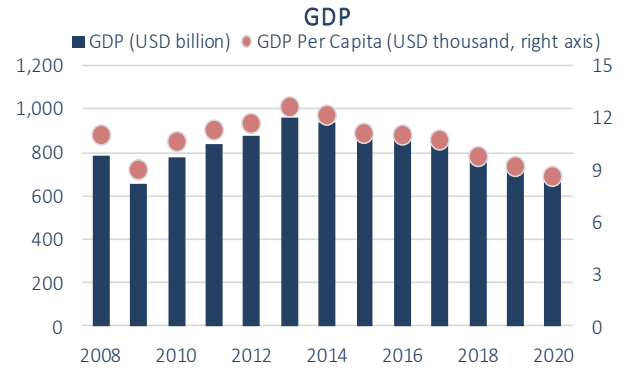
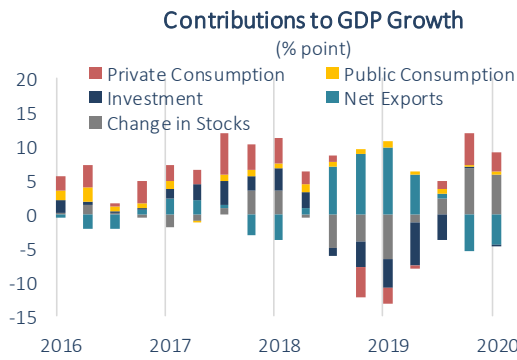
Advanced economies continue to implement expansionary monetary and fiscal policies. After the April meeting, Fed Chair Powell reaffirmed that it is too early to discuss about reducing bond purchases. Powell stated that under current circumstances, Fed will focus more on the real data rather than acting on expectations. The recent pause in the upward trend of US long-term Treasury bond yields provides a more balanced outlook for the risk sentiment in global markets compared to March. Capital flows to developing countries, on the other hand, remained volatile.

Leading indicators show that the recovery trend in the Turkish economy continued in the first four months of the year. In April, manufacturing PMI signaled that the growth in the sector continued albeit losing momentum. Based on preliminary foreign trade figures, exports in

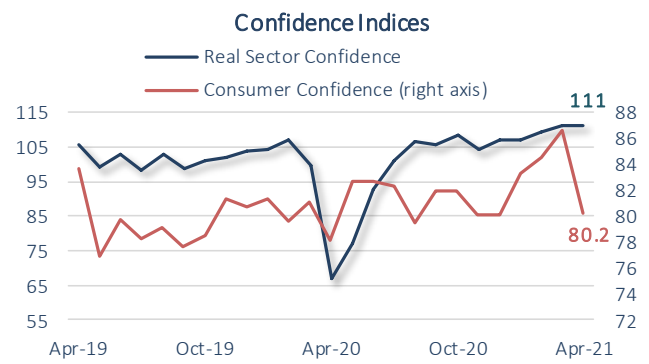
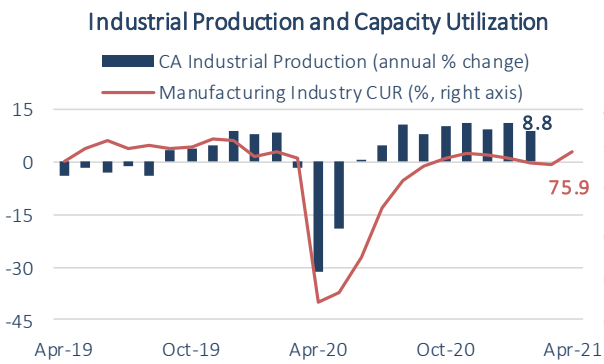
April were close to the historic high level reported in March. On the other hand, despite the full-lockdown measures to be lifted on May 17, uncertainty regarding the course of the pandemic continues due to the new variants of the virus and the disruption in the vaccine supplies.

In addition to the uncertainties caused by the pandemic and international developments, expectations for the CBRT's monetary policy were closely followed in April. While the CBRT increased its year-end inflation forecast to 12.2% in its Inflation Report published on April 29, Governor Kavcıoğlu emphasized that the policy interest rate will continue to be kept above the actual and expected inflation until a significant improvement in inflation is achieved. Although the annual CPI inflation, which rose to 17.14% in April, is expected to move downward in the second half of the year with the support of the high base effect, exchange rate developments and the course of the global commodity prices will be determinant factors for the relevancy of these expectations.

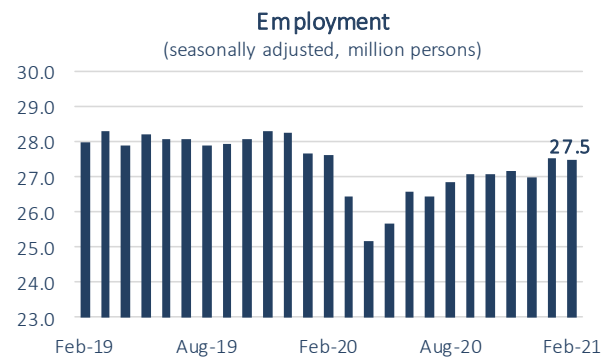
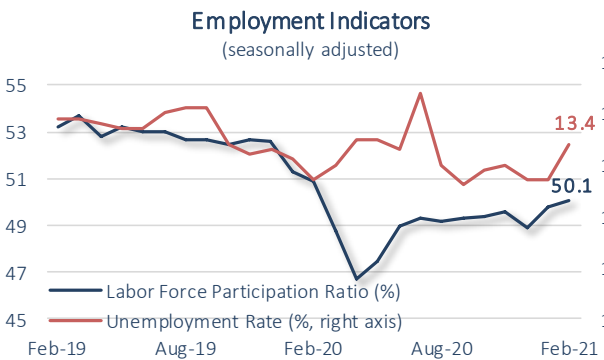
Growth



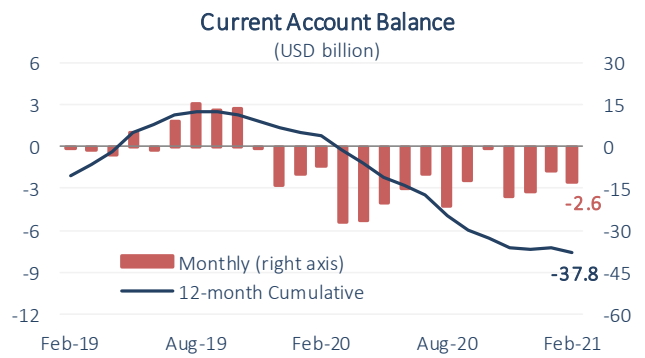
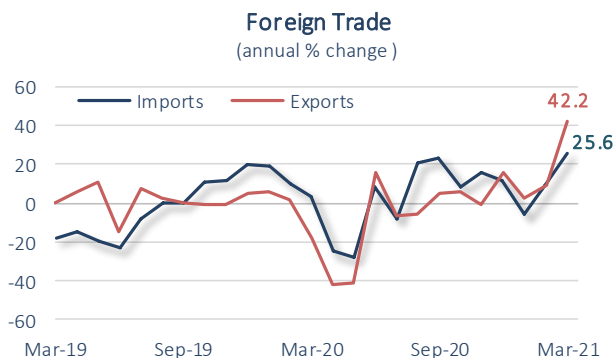
Leading Indicators



Labor Market



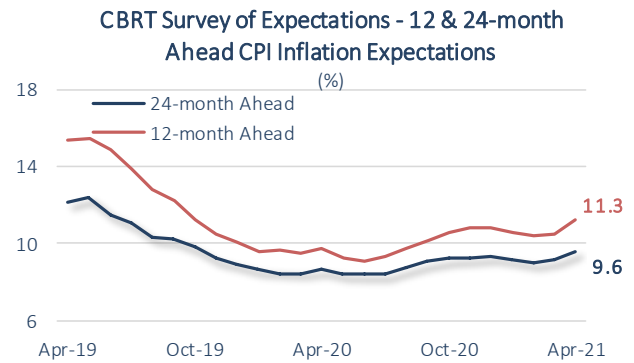
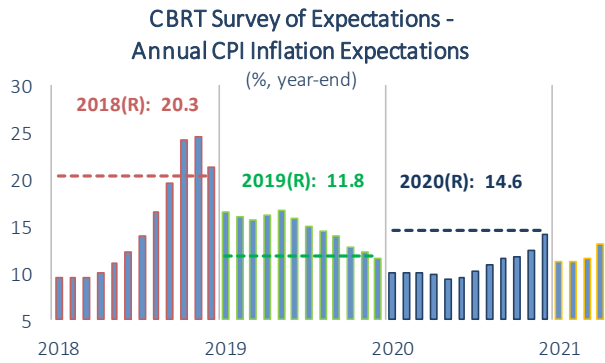
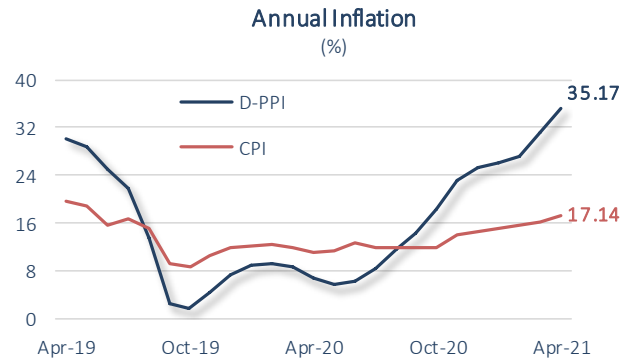
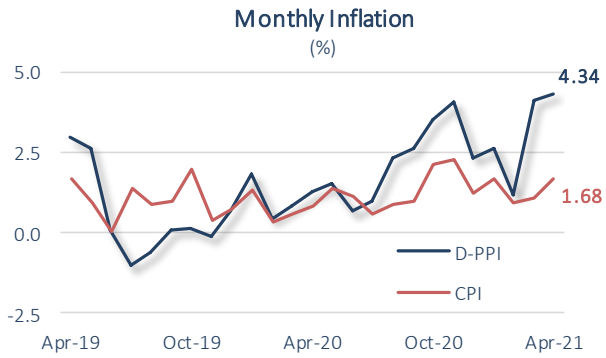
Foreign Trade and Current Account Balance



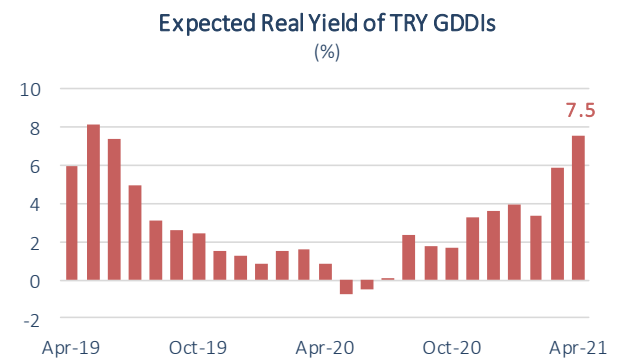
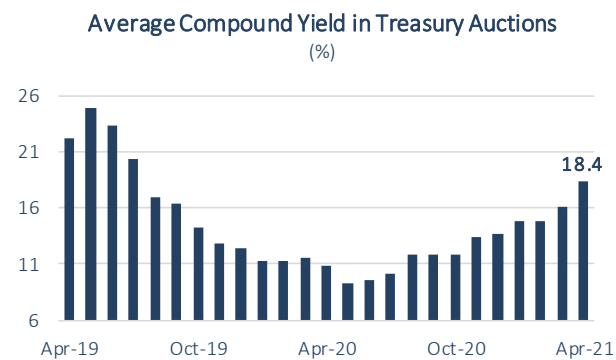
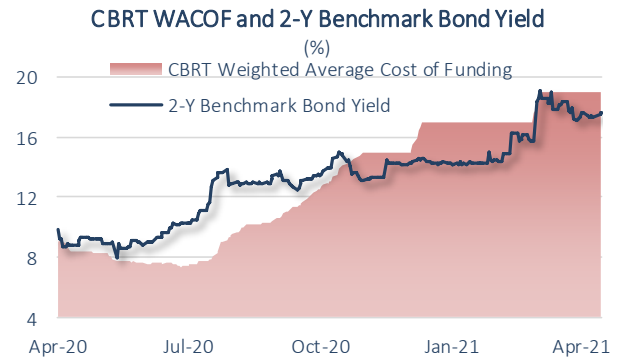
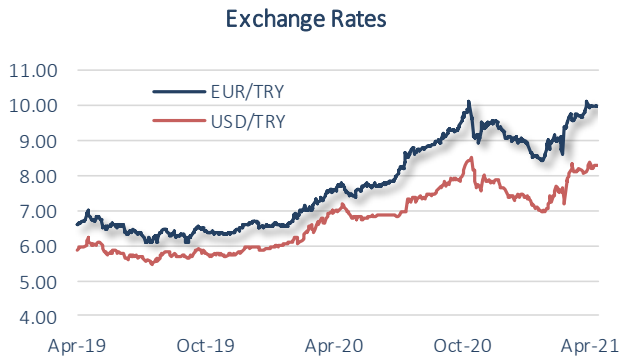
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020			
GDP (USD billion)	869	859	797	761	717			
GDP (TRY billion)	2,627	3,134	3,758	4,320	5,048			
GDP Growth Rate (%)	3.3	7.5	3.0	0.9	1.8			
Inflation (%)						Feb-21	Mar-21	Apr-21
CPI (annual)	8.53	11.92	20.30	11.84	14.60	15.61	16.19	17.14
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	27.09	31.20	35.17
Seasonally Adjusted Labor Market Figures						Jan-21	Feb-21	
Unemployment Rate (%)	12.0	9.9	12.9	13.1	13.2	12.70	13.40	
Labor Force Participation Rate (%)	52.4	53.1	53.0	52.3	49.3	49.80	50.10	
FX Rates						Feb-21	Mar-21	Apr-21
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.3	69.6	66.3	62.3
USD/TRY	3.5176	3.7916	5.3199	5.9510	7.4325	7.4	8.28	8.29
EUR/TRY	3.7102	4.5530	6.0815	6.6800	9.0941	9.0	9.73	9.98
Currency Basket (0.5*EUR+0.5*USD)	3.6139	4.1723	5.7007	6.3155	8.2633	8.21	9.00	9.14
Foreign Trade Balance ⁽¹⁾ (USD billion)						Jan-21	Feb-21	Mar-21
Exports	149.2	164.5	177.2	180.8	169.7	170.0	171.3	177.0
Imports	202.2	238.7	231.2	210.3	219.5	218.4	220.0	224.9
Foreign Trade Balance	-52.9	-74.2	-54.0	-29.5	-49.9	-48.4	-48.7	-47.9
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.0	77.8	77.9	78.7
Balance of Payments ⁽¹⁾ (USD billion)						Jan-21	Feb-21	
Current Account Balance	-27.0	-40.8	-21.7	6.8	-36.7	-36.6	-37.8	
Capital and Financial Accounts	-21.7	-47.0	-10.9	1.3	-40.0	-37.3	-38.0	
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6	-4.0	-4.4	
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5	-0.6	-0.5	
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0	-7.3	-5.7	
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	-25.4	-27.4	
Net Errors and Omissions	5.3	-6.2	10.8	-5.5	-3.3	-0.7	-0.2	
Current Account Balance/GDP (%)	-3.1	-4.8	-2.7	0.9	-5.1	-	-	
Budget ⁽²⁾⁽³⁾ (TRY billion)						Jan-21	Feb-21	Mar-21
Expenditures	584.1	678.3	830.8	1000.0	1202.2	113.8	210.2	321.3
Interest Expenditures	50.2	56.7	74.0	99.9	134.0	21.9	34.7	48.9
Non-interest Expenditures	533.8	621.6	756.8	900.1	1068.3	91.8	175.5	272.4
Revenues	554.1	630.5	758.0	875.3	1029.5	89.6	209.2	344.1
Tax Revenues	459.0	536.6	621.5	673.9	833.1	79.2	177.7	255.1
Budget Balance	-29.9	-47.8	-72.8	-124.7	-172.7	-24.2	-1.0	22.8
Primary Balance	20.3	8.9	1.1	-24.8	-38.8	-2.2	33.7	71.7
Budget Balance/GDP (%)	-1.1	-1.5	-1.9	-2.9	-3.4	-	-	-
Central Government Debt Stock (TRY billion)						Jan-21	Feb-21	Mar-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4	1,064.3	1,082.6	1,111.2
External Debt Stock	291.3	341.0	481.0	574.0	752.5	773.4	777.3	838.8
Total Debt Stock	760.0	876.5	1067.1	1,329.1	1,812.8	1,837.6	1,859.8	1,950.0

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

Turkish Economy - Banking Sector Outlook

Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2016	2017	2018	2019	2020	Feb.21	Mar.21	Change ⁽¹⁾
TOTAL ASSETS	2,731	3,258	3,867	4,492	6,106	6,109	6,488	6.3
Loans	1,734	2,098	2,395	2,657	3,576	3,599	3,777	5.6
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,373	2,418	2.8
Share (%)	65.2	67.4	60.1	61.8	65.8	66	64.0	-
FX Loans	603	684	956	1,015	1,224	1,226	1,359	11.1
Share (%)	34.8	32.6	39.9	38.2	34.2	34	36.0	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	151	149.5	-2.0
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	4	3.8	-
Securities	352	402	478	661	1,023	1,039	1,078	5.4
TOTAL LIABILITIES	2,731	3,258	3,867	4,492	6,106	6,109	6,488	6.3
Deposits	1,454	1,711	2,036	2,567	3,455	3,452	3,643	5.4
TRY Deposits	845	955	1,042	1,259	1,546	1,571	1,636	5.8
Share (%)	58.1	55.8	51.2	49.0	44.7	46	44.9	-
FX Deposits	609	756	994	1,308	1,909	1,881	2,007	5.1
Share (%)	41.9	44.2	48.8	51.0	55.3	54	55.1	-
Securities Issued	116	145	174	194	224	223	240	7.0
Payables to Banks	418	475	563	533	658	660	715	8.7
Funds from Repo Transactions	138	99	97	154	255	310	328	28.5
SHAREHOLDERS' EQUITY	300	359	421	492	600	613	604	0.7
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	9.2	16.0	-
RATIOS (%)								
Loans/GDP	66.5	67.6	64.7	61.5	70.8			
Loans/Assets	63.5	64.4	61.9	59.1	58.6	58.9	58.2	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	17.0	16.6	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	56.5	56.1	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	104.3	103.7	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	18.2	18.0	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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