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Global Economy

Daily reported Covid-19 cases are decreasing around the world in the recent period and restrictive measures have been relaxed in some countries with the support of high vaccination rates.

The OECD revised its global economic growth projections for 2021 and 2022 upwardly. The organization expects that the world economy will grow by 5.8% in 2021 and 4.4% in 2022.

Leading indicators for the US economy pointed that economic activity has preserved its strong outlook in May. In this period, manufacturing and services PMI in the country reached new historical high levels with 62.1 and 70.4, respectively.

The Fed did not change its monetary policy at its meeting on May and reiterated its prediction that the rise in inflation arises from temporary price increases. On the other hand, some members stated that the discussion of reducing the asset purchases could be put on the agenda in the coming months.

Manufacturing PMI in the Euro Area remained strong at 63.1 in May and the services PMI in the area rose to 55.2, reaching the highest level of the last 3 years.

According to the report published by the Institute of International Finance, the global debt stock became 289 trillion USD as of the first quarter of 2021, while debt to GDP ratio was realized as 360% on a global scale.

Oil prices rose in May due to the expectations that the global economic recovery, especially in the US and European economies, would increase oil demand. At the beginning of June, the barrel price of Brent crude oil reached the highest level of the last 2 years.

Turkish Economy

According to the chain linked volume index Turkish economy grew by 7% yoy in the first quarter of 2021. Consumption expenditures made a strong contribution to growth with 4.7 pp while the contributions of investment expenditures and net exports were 2.9 pp and 1.1 pp, respectively.

In Turkey, manufacturing PMI declined to 49.3 due to the full lockdown measures implemented in May, and indicated the first contraction in the sector since May 2020.

In March, the current account deficit decreased on an annual basis thanks to the contraction in the foreign trade deficit and the rise in services revenues. According to the 12-month cumulative data, the current account deficit was realized as 36.2 billion USD as of March.

Tax revenues rose rapidly on an annual basis in April due to the low base effect caused by the pandemic, while budget expenditures recorded a limited increase. In this period, the central government budget deficit was realized as 16.9 billion TRY. In January-April period, the budget gave a surplus of 5.9 billion TRY.

While monthly CPI increase remained below the market expectations with 0.89% in May, the annual CPI inflation declined to 16.59%. The rise in commodity prices and the depreciation of Turkish lira caused annual D-PPI inflation to continue to increase in May. Annual D-PPI inflation became 38.33% in this period.

CBRT published the first Financial Stability Report of the year.

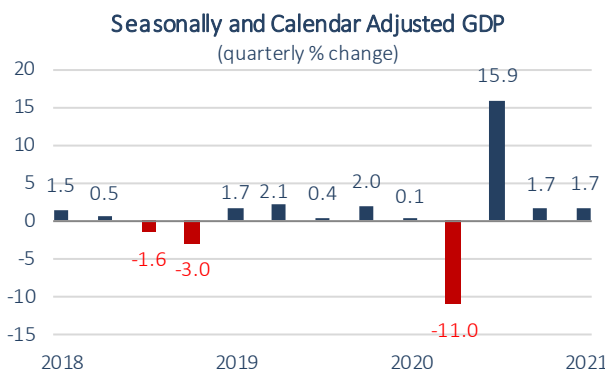
GDP Growth

Turkish economy grew by 7.0% yoy in the first quarter of 2021.

According to the chain linked volume index, in the first quarter of 2021 the Turkish economy grew by 7% yoy, above market expectations. According to Reuters survey, GDP was expected to have expanded by 6.7% during this period.

Seasonally and calendar adjusted figures revealed that the domestic economic activity, which grew by 1.7% on a quarterly basis in the last quarter of 2020, expanded at the same pace in the first quarter of 2021, maintaining its growth rate.

As of the first quarter of 2021, the size of Turkish economy increased to 5.36 trillion TRY at current prices on an annualized basis, while annual GDP in USD terms became 729 billion USD in this period.



Consumption expenditures remained strong.

Consumption expenditures, which showed a rapid growth trend since the second half of 2020, continued this course in the first quarter of 2021 as well. In this period, consumption expenditures contributed 4.7 pp to overall GDP growth, 4.5 pp of which stemmed from private consumption and 0.2 pp from public consumption expenditures. While the strong demand for durable goods among private consumption expenditures weakened

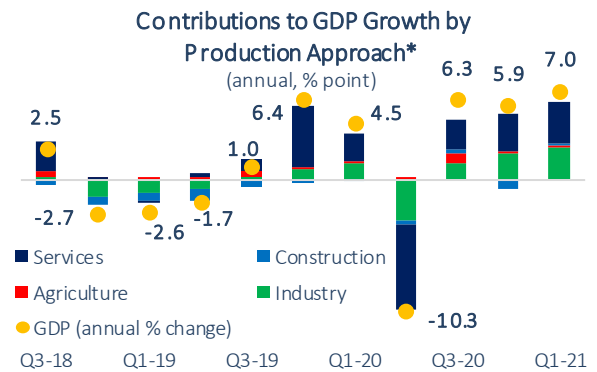
somewhat in the first quarter, household demand for semi-durable and non-durable goods accelerated.

Investment expenditures, which had a weak course in previous years, maintained its growth performance which started in the middle of 2020. According to the chain linked volume index, investment expenditures increased by 11.4% yoy in the first quarter and contributed 2.9 pp to growth. In this period, machinery and equipment investments continued to expand on a yearly basis. On the other hand, construction investments, having shown a weak performance since mid-2018, narrowed by 4.7% mom in the first quarter of 2021 and limited the GDP growth.

Net exports, which had limited growth since the last quarter of 2019, contributed 1.1 pp to GDP growth in the first quarter of this year. The recovery in global economic activity supported Turkey's export and played an important role in this development.

GDP by production approach...

All main sectors had positive contribution to GDP growth in the first quarter of the year. In this period, the services sector made the highest contribution to growth with 3.3 pp, while the industrial sector contributed 2.5 pp to growth. In the first quarter of the year, each of agriculture and construction sectors contributed to growth 0.2 pps.



Expenditure Approach - Contributions to GDP Growth (chain linked volume index 2009=100)

(% points)

	2018					2019					2020					2021	
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Annual	Q1
Consumption	1.2	-1.4	0.2	2.0	4.9	1.5	3.3	-6.0	5.1	5.7	2.2	4.7					
Private	0.3	-2.4	-0.3	1.2	4.7	0.9	2.8	-5.6	5.0	4.7	1.9	4.5					
Public	0.9	1.0	0.5	0.8	0.3	0.6	0.5	-0.3	0.1	1.0	0.3	0.2					
Investment	-0.1	-4.2	-6.5	-3.8	0.2	-3.5	-0.1	-1.7	5.0	2.6	1.6	2.9					
Change in Stock	-1.8	-6.7	-1.2	2.4	6.8	0.6	5.7	5.2	5.3	-1.9	3.4	-1.5					
Net Export	3.6	9.8	5.8	0.5	-5.5	2.4	-4.5	-7.9	-9.1	-0.6	-5.5	1.1					
Exports	2.1	2.1	1.5	1.2	0.2	1.2	-0.5	-9.4	-5.9	0.0	-3.9	0.8					
Imports	1.6	7.7	4.4	-0.7	-5.7	1.2	-4.0	1.5	-3.3	-0.6	-1.5	0.2					
GDP	3.0	-2.6	-1.7	1.0	6.4	0.9	4.5	-10.3	6.3	5.9	1.8	7.0					

Numbers may not add to total due to rounding.
(*) Taxes and subsidies excluded.

Source: Datastream, Turkstat

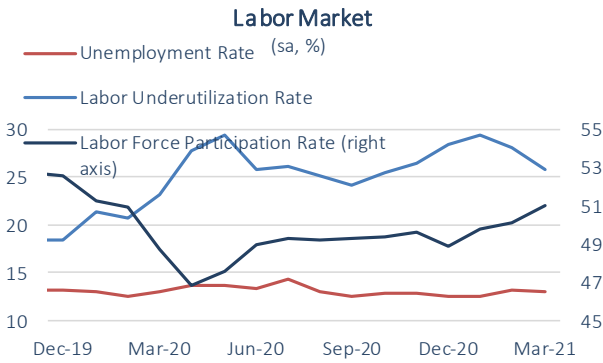
Expectations..

In the first quarter of 2021, the Turkish economy revealed a high growth performance led by the strong domestic demand as well as the recovery in foreign demand thanks to the ongoing recovery in global economic activity. Despite the full lockdown measures, a high growth figure is expected also in the second quarter of the year, because of the low base in the same period of last year. In the following period, the course of the pandemic and vaccination studies and their reflections on the services sector will be effective on economic activity. Inflation and exchange rate developments will also be closely monitored in terms of growth performance.

Leading Indicators

The unemployment rate came in at 13.1% in March.

According to the data announced by TURKSTAT, seasonally adjusted unemployment rate decreased by 0.1 points mom and became 13.1% in March. The number of people employed increased by 550K mom. In this period, the employment in the industrial and construction sectors increased while it decreased in the services sector. In March, the labor force participation rate also rose by 0.9 points to 51%, the highest level since February 2020. 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 2.3 points mom to 25.8%. This ratio had risen to 29.4% in January 2021.



Industrial production rose by 12.3% yoy in the first quarter.

Due to the low base effect, calendar adjusted industrial production increased above the expectations by 16.6% yoy in March. In this period, seasonal and calendar adjusted industrial production rose by 0.7% mom. Thus, the annual rise in the calendar adjusted index in the first quarter of 2021 was 12.3%, while industrial production expanded by 2.6% compared to the previous quarter, according to seasonally adjusted data. The highest contributions to the annual increase in manufacturing industry production were made by the manufacture of textile products and by the manufacture of motor vehicles with 2.7 points and 1.7 points, respectively. The seasonally adjusted capacity utilization rate in manufacturing industry, which reached its highest level since the beginning of the pandemic at 76.2% in April, dedined by 1 point mom to 75.2% in May.

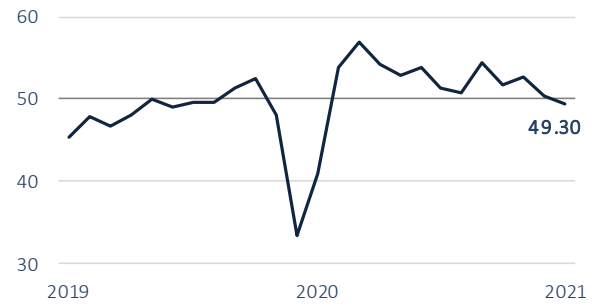
Manufacturing PMI fell below the threshold in May.

Manufacturing PMI, which was 50.4 in April, fell below the threshold value due to the restriction measures implemented in May and became 49.3. Thus, the index marked the first contraction in the manufacturing sector since May 2020. Among the sub-indices, new orders and production decreased due to the restriction measures implemented in May, and new export orders, which had expanded for the last 4 months, started to contract again in this month. The increase in employment continued in May, albeit at the lowest rate of the last 12 months.

Retail sales volume increased by 5.1% mom in March.

Calendar adjusted retail sales volume with constant prices went up by 19.2% yoy in March. In this period, non-food sales rose by 36.9% yoy, while food, beverage and tobacco sales decreased by 0.8% yoy. According to seasonally and calendar adjusted data, retail sales volume increased by 5.1% mom in March.

Manufacturing PMI (benchmark=50)



Housing sales rose sharply in April due to the low base.

Due to the low base in April 2020, when the effects of the pandemic were felt intensely, house sales rose by 124.1% yoy in April 2021. In this period, mortgaged house sales increased by 2.5% yoy and their share in total house sales became 18.3%. The 204.9% rise in other house sales was the main factor supporting the total sales. In the first four months of the year, house sales declined by 6.5% yoy. On the other hand, residential property price index (RPPI) went up by 32% yoy in March, continuing the upward trend since the beginning of 2020. The annual increase in RPPI became 13.6% in real terms.

The strong trend in domestic white goods sales continues.

According to the figures of White Goods Manufacturers' Association of Turkey, domestic sales in six main white goods products rose by 54% yoy in April. In this period, the export volume expanded by 176% due to the low base in April 2020. Thus, in the January-April period, domestic sales and exports went up by 43% and 48% yoy, respectively. The acceleration of vaccination and the relaxation of restrictive measures in Europe, which is the biggest export market of the sector, support white goods sales.

In April, the low base effect was also clearly felt in the domestic automotive sector. According to the Automotive Manufacturers Association's data, automotive production expanded by more than 8 times yoy in April. In the same period, automotive exports on unit basis increased more than 6 times. In the first 4 months of the year, total automotive production and exports on unit basis went up by 28.1% and 18.2%, respectively. In this period, the rapid expansion in the production and unit based exports in the commercial vehicle group by 51.7% and 36.2%, respectively, drew attention.

Consumer confidence at two-year lows...

Although the seasonally adjusted real sector confidence index decreased by 0.3 points mom to 107.1 in May, it remained above the 100 threshold for the 10th consecutive month. In terms of sub-indices, the expectation for export orders for the next three months improved in May compared to April, while the expectations for employment for the next three months deteriorated slightly. On the other hand, sectoral confidence indices presented a mixed outlook in May. According to seasonally adjusted data, confidence indices for services and retail trade sectors decreased by 1.1% mom and 2.1% mom, respectively, while confidence index for construction sector increased by 3% mom.

In May, seasonally adjusted consumer confidence index dedined by 3.6% mom and became 77.3. Thus, the index fell by 10.8% in the last two months to its lowest level since May 2019.

Source: Turstat, CBRT, Datastream, Ministry of Treasury and Finance

Foreign Trade and Balance of Payments

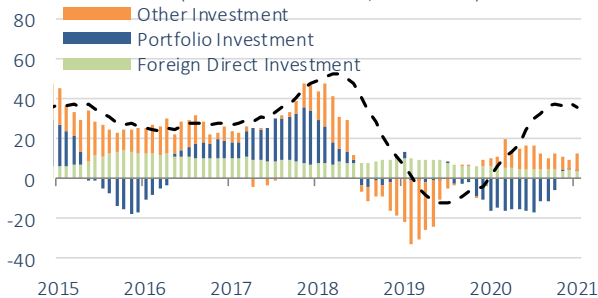
Foreign trade deficit narrowed by 33.2% yoy in April.

According to TURKSTAT data, in April 2021 the export volume expanded by 109.2% yoy due to the low base effect and became 18.8 billion USD, while the import volume rose by 61.1% yoy to 21.8 billion USD. Hence, in this period, the foreign trade deficit narrowed by 33.2% yoy and became 3.1 billion USD. The ratio of exports to imports increased from 66.2% in April 2020 to 86% in April 2021. In the January-April period, foreign trade deficit narrowed by 19.7% yoy and became 14.1 billion USD.

The current account balance gave a deficit of 3.3 billion USD in March.

In March, current account deficit was realized as 3.3 billion USD, below market expectations which were 3.8 billion USD. The current account deficit was 5.5 billion USD in March 2020 due to the negative effects of the pandemic. The balance of payments defined foreign trade deficit decreased by 32.1% yoy to 3 billion USD in March 2021, thanks to decline in non-monetary gold imports, as well as the rise in export volume, with the contribution of the low base effect in the same month of 2020. Furthermore, service revenues went up by 95.2% yoy along with the rise in transportation and travel revenues, also thanks to the low base effect. Thus, the current account deficit contracted by 12.1% yoy and became 7.8 billion USD in the first quarter of 2021. 12-month cumulative current account deficit was realized as 36.2 billion USD as of March 2021.

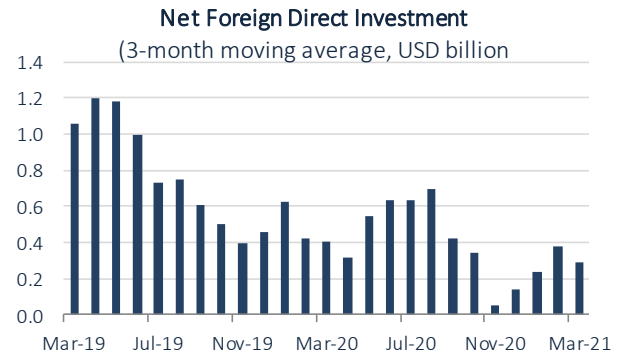
Financing of Current Account Deficit (12-month cumulative, USD billion)



Direct investments declined in March.

The capital inflow in net direct investments item, which was

763 million USD in February, declined to 363 million USD in March. During this period, capital investments decreased by 94 million USD compared to the previous month and were realized as 388 million USD, while the limited increase in real estate investments continued. According to the distribution of nonresidents' direct investment by sectors in Turkey, transportation vehicles and the production of computers, electrical-electronic and optical products from the manufacturing sectors, and the information and communication sector from the services sectors stood out in March. In the first quarter of the year, net direct investments declined by 35% yoy to 1.4 billion USD.



Portfolio investments...

In March, a net capital outflow of 5.7 billion USD was recorded in portfolio investments. During this period, the repayments of 3.6 billion USD for the eurobonds issued by the general government abroad played an important role in the portfolio outflows. In addition, non-residents made net sales of 1 billion USD and 915 million USD, respectively, in the equity and government securities markets in March due to the decline in the risk appetite along with the expectations that a change in monetary policy would be possible. With the contribution of entries realized at the beginning of 2021, the net outflow in portfolio investments item in the first quarter of the year became 596 million USD.

Other investments...

In March, a net capital inflow of 941 million USD was recorded in other investments item. During this period, a

Net Capital Inflows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2020	Mar. 2021	Dec. 2020	Mar. 2021
Current Account Balance	-37,264	-36,192	-	-
Total Net Foreign Capital Inflows	7,059	12,414	-	-
-Direct Investment	4,637	3,916	10.4	10.8
-Portfolio Inflows	-5,485	294	-	0.8
-Other Investments	7,946	8,251	17.9	22.8
-Other	-39	-47	-	-
Net Errors and Omissions	-1,657	6,765	-	18.7
Reserves(1)	31,862	17,013	71.7	46.9

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

net increase of 1.1 billion USD was realized in the domestic deposits of foreign banks, while the rise of 838 million USD in foreign resident's currency and deposit assets in Turkey drew attention. On the other hand, in March, a net increase of 3.6 billion USD in domestic banks' currency and deposit assets at their foreign correspondents caused investment outflow and limited the rise in other investments item.

Banks and other sectors made a total of 374 million USD and 202 million USD net loans from abroad, respectively. As of March, the long-term debt rollover ratio became 86% in the banking sector and 84% in other sectors. In addition, commercial loans from abroad reached 2.2 billion USD, the highest level in more than a year.

Reserve assets decreased by 6.2 billion USD.

Reserve assets decreased by 6.2 billion USD in March, while the decline in reserves became 1.7 billion USD in the January-March period. On the other hand, a capital inflow of 1.6 billion USD was realized in the net errors and omissions item in March. Thus, the net capital inflow in the errors and omissions item reached 6.9 billion USD in the

first quarter of this year.

Expectations...

According to leading foreign trade data released by the Ministry of Commerce, export volume expanded by 65.5% yoy to 16.5 billion USD in May, while import volume rose by 54% to 20.6 billion USD. Hence, in this period, foreign trade deficit expanded by 20.7% and became 4.1 billion USD. The brisk pace of economic activities in Turkey's export markets supports the current account balance. In Turkey, the number of coronavirus cases fell as a result of the full lockdown measures taken in the period 29 April-17 May. This development is expected to have a positive impact on the tourism sector in the coming period and the sector is expected to perform better in 2021 compared to last year. On the other hand, Russia's decision to extend the flight ban to Turkey until June 21 will to put pressure on tourism revenues.

Budget Balance

Central government budget posted a deficit of 16.9 billion TRY.

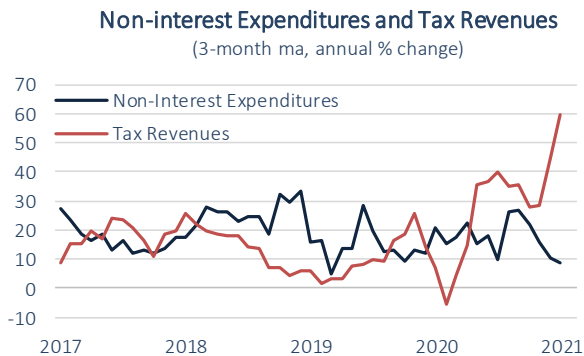
The central government budget balance, which gave a surplus of 23.8 billion TRY in March, posted a deficit of 16.9 billion TRY in April. In this period, budget revenues rose by 43.8% yoy, while budget expenditures recorded a limited increase of 2.1%. In April 2020, when the impact of the pandemic was heavily felt, the central government budget deficit had become 43.2 billion TRY. The primary balance, which gave a deficit of 26.2 billion TRY in April 2020, gave a surplus of 1.7 billion TRY in the same period of this year.

As of the first four months of 2021, budget revenues and expenditures increased by 36.4% and 9.7%, respectively. During this period, budget surplus became 5.9 billion TRY and primary surplus reached 73.4 billion TRY.

Tax revenues increased by 55.4% yoy in April.

Tax revenues rose by 55.4% yoy to 76.3 billion TRY in April. In this period, the increases in value added tax (VAT) revenues on imports and income tax revenues stood out. Along with the depreciation of TRY, VAT revenues on imports increased by 11.4 billion TRY on an annual basis and became 19 billion TRY in April. Special consumption tax (SCT) revenues also surged by 25.4% yoy, making a significant contribution to the rise in budget revenues. In this period, SCT revenues from motor vehicles, which constitute 30% of total SCT revenues, rose by 275% yoy. Corporate tax revenues remained strong in April as well, increasing by more than 200% yoy. Thus, total tax revenues collected in the first four months of the year reached 36% of the target level for this year.

Non-tax revenues increased by 8.4% to 17.5 billion TRY in April, while it increased by 11.2% in the January-April period compared to the same period of the previous year and became 106.5 billion TRY.



Central Government Budget

(billion TRY)

	April		%	January-April		%	2021 Budget Act./Budget Target	
	2020	2021		Change	2020		2021	Change
Expenditures	108.4	110.7	2.1	393.8	432.0	9.7	1,346.1	32.1
Interest Expenditures	17.0	18.6	9.0	55.3	67.5	22.1	179.5	37.6
Non-Interest Expenditures	91.4	92.1	0.8	338.5	364.5	7.7	1,166.6	31.2
Revenues	65.2	93.8	43.8	321.0	437.9	36.4	1,101.1	39.8
Tax Revenues	49.1	76.3	55.4	225.2	331.4	47.2	922.7	35.9
Other Revenues	16.1	17.5	8.4	95.8	106.5	11.2	178.4	59.7
Budget Balance	-43.2	-16.9	-60.8	-72.8	5.9	-	-245.0	-
Primary Balance	-26.2	1.7	-	-17.5	73.4	-	-65.5	-

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

Current transfers dedined in April.

In April, capital expenditures and the compensation of employees had pushed up the budget expenditures. In this period, capital expenditures rose by 128% yoy due largely to the rapid increase in immovable capital produce expenses, while compensation of employees rose by 19.2% yoy.

Current transfers item decreased in April both on a monthly and an annual basis. Current transfers decreased by 49.1% compared to the same period of the previous year due to the decrease in health, retirement and social aid expenditures. On the other hand, agricultural subsidies and transfers to households, two of the other sub-items of current transfers, increased yoy reaching a total amount of 4.3 billion TRY.

In April, the annual increase in interest expenditures was 9%. In this period, interest payments on domestic debt decreased on an annual basis, while interest payments on external debt increased by 46.1% yoy.

Expectations ...

The budget balance, which posted a deficit in April, has maintained a relatively benign outlook for the first four months of the year. According to 12-month cumulative data, the budget deficit fell to 94.1 billion TRY in April, the lowest level since August 2019. The central government budget deficit target for the end of 2021 stands at 245 billion TRY. In addition to the downward pressure on economic activity by the recent restrictive measures against the pandemic, we believe that the course of the pandemic together with the domestic demand conditions will continue to be the main determinant of the budget outlook also during the rest of the year.

Public Finance Report...

The Ministry of Treasury and Finance published the first Public Finance Report on May 31, which is among the targets of the Economy Reform Package announced on March 12 and will be published quarterly. The ratio of budget deficit to GDP is expected to be 3.5% at the end of the year, according to the baseline scenario in the report, which includes the results of budget implementation, fiscal policy developments, and targets. It was predicted that this ratio would be 2.7% under the optimistic scenario assumption in which the effect of the pandemic weakened, and 4.6% in the pessimistic scenario with the opposite assumption.

Source: Datastream , Ministry of Treasury and Finance

CPI inflation came in below the expectations in May.

In May, CPI increased by 0.89% on a monthly basis and was realized below market expectations. In May, CPI was expected to increase by 1.46% according to the Reuters survey and by 1.27% according to the CBRT's Survey of Expectations. D-PPI continued its rapid upward trend in May and increased by 3.92% mom in this period.

Annual CPI inflation was 16.59%.

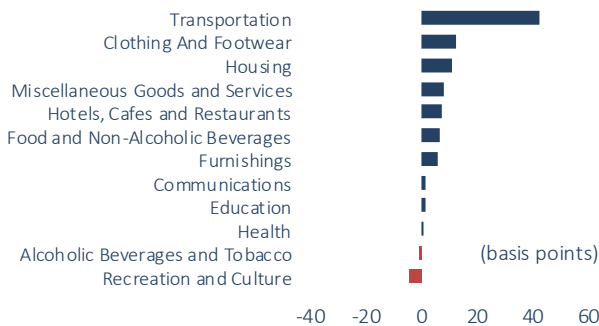
Annual CPI inflation, which has risen for 7 months continuously, decreased to 16.59% in May, in line with the CBRT's expectation that annual inflation peaked in April. On the other hand, annual D-PPI inflation continued to rise and reached 38.33%, the highest level of the last 2.5 years.

May	CPI		D-PPI	
(change %)	2020	2021	2020	2021
Monthly	1.36	0.89	1.54	3.92
Year-to-Date	4.57	6.39	6.15	17.34
Annual	11.39	16.59	5.53	38.33
Annual Average	12.10	14.13	9.14	22.24

Rapid increase in transportation prices..

In May, prices in 10 out of 12 main expenditure groups increased on a monthly basis. The transportation group pushed the monthly CPI inflation by 39 bps up due to the rise in global oil prices, as well as the increase in domestic transportation fees following the loosening of quarantine measures. The effect of food prices, which had risen inflation figures significantly in previous months, on inflation decreased in May thanks to seasonal factors. Price decreases in entertainment and culture, alcoholic beverages and tobacco groups had a downward impact on monthly CPI inflation, albeit at a limited level.

Contributions to the Monthly CPI Inflation



According to the annual figures the transportation group continued to be the main expenditure group with the fastest increase in prices. The price level in transportation group went up by 28.39% in May compared to the same month of last year and pushed the annual CPI inflation by 417 bps. The expenditure group that increased the annual inflation the most by 436 bps was the food and non-alcoholic beverages group, whose prices rose rapidly in previous months.

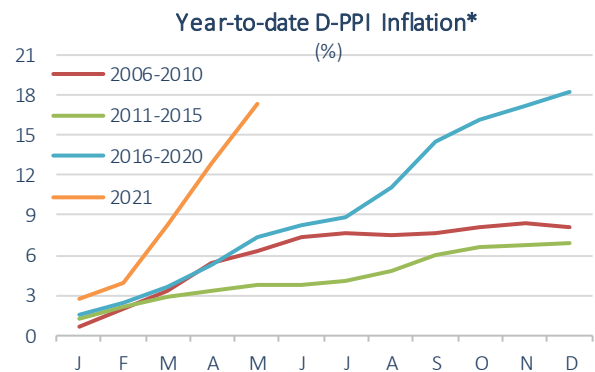
Core inflation indicators..

In May, annual rise in core inflation indicators B and C, which are closely monitored by the CBRT continued to stand 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 17.49% and 16.99%, respectively. Upward trend in core indicators signals that inflation would remain high in the following period.

The increase in D-PPI inflation continues.

In addition to the depreciation of TRY, increase in commodity prices parallel to the recovery in global economic activity continued to be influential on D-PPI inflation in May as well. In this period, the monthly rises in intermediate goods and energy prices exceeding 5% led producer costs to increase and to spread inflation throughout the sectors. Driven by this development, prices in all sectors except pharmaceutical products rose on a monthly basis. Moreover monthly price increases in basic metals, coke and refined petroleum products reached almost double digits.

Annual price increases in commodity intensive sectors have reached significant levels. In May, annual price rises in crude oil and natural gas, coke and refined petroleum products sectors reached 218% and 167%, respectively, while the said increase in basic metals was 85%. On the other hand, 13.2 points of the 38.33% annual D-PPI increase stemmed from the price increases in the basic metals and food sectors.



Expectations..

Although the realization of monthly CPI inflation below the expectations in May was noted as a positive development, the uncertainties regarding the inflation outlook in the coming period continue. Backed by high levels of global commodity prices and the possibility of early monetary tightening of the leading central banks, the volatility in the financial markets continue to pose risks on inflation. Moreover, following the normalization steps in the precautionary measures taken against the pandemic price increases may come to the fore in the sectors whose prices are under pressure.

Source: Turkstat, Datastream

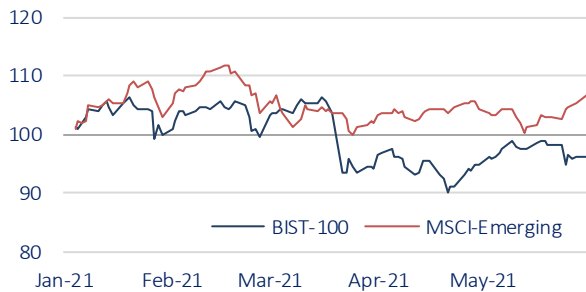
	30-Apr	31-May	Change
5-Y CDS (basis points)	414	407	-7 bps ▼
TR 2-Y Benchmark Yield	18.08%	18.78%	70 bps ▲
BIST-100	1,398	1,420	1.6% ▲
USD/TRY	8.2920	8.4768	2.2% ▲
EUR/TRY	9.9820	10.3641	3.8% ▲
Currency Basket*	9.1370	9.4204	3.1% ▲

(*) (0.5 USD/TRY + 0.5 EUR/TRY)

Global and geopolitical developments were effective in the course of domestic markets.

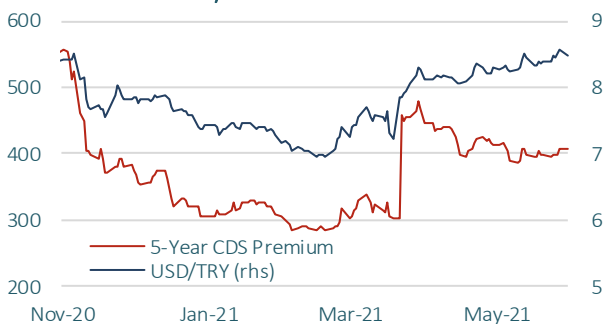
In the second week of May, the inflation rate, which came in above the expectations in the US, affected the global markets negatively by increasing the concerns that the Fed may raise interest rates earlier than anticipated. The fact that some Fed members pointed to the upcoming meetings to start discussing the slowdown in asset purchases also put pressure on the global risk perception, while the Fed's decisive statements to continue its expansionary monetary policy supported the markets. MSCI developing countries stock market index increased by 2.1% mom in May.

BIST-100 and Emerging Market Index
(31.12.20=100)



In May, domestic markets displayed a mixed outlook due to global developments as well as geopolitical developments. BIST-100 index, which followed a fluctuating course throughout the month, closed May at 1,420 points with an increase of 1.6% compared to the previous month. Turkey's 5-year CDS risk premium, which showed a decreasing trend in April after its rapid rise in March, fluctuated throughout May parallel to the increasing volatility in financial markets and became 407 bps at the end of the month. The USD/TRY rate, which rose by 2.2% mom in May, tested new historical highs at the beginning of June due to the concerns that the CBRT might cut interest rates in the coming months.

USD/TRY and CDS Premium



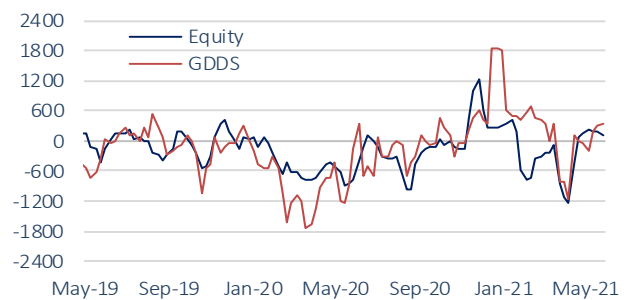
The CBRT published the first Financial Stability Report of the year.

The CBRT released the first Financial Stability Report of the year on May 28. In the report, it was stated that the credit growth, which was strong thanks to the measures and incentives specific to the pandemic period, started to weaken due to the tightening of financial conditions in the recent period, and it is important to maintain the current moderate trends in retail credit developments, which are closely monitored in terms of inflation and macroeconomic stability. In addition, the report highlights that the improvement in the current account balance is expected to continue in the coming period thanks to the improvement in foreign demand, the decline in gold imports and the slowdown in loans. The report reiterated the importance of tight monetary stance against external and temporary volatility in terms of inflation expectations, pricing behavior and financial market developments. The next meeting of the CBRT, which kept the policy rate unchanged at 19% in April and May, will be held on 17 June.

Securities portfolio of non-residents...

According to the securities statistics released by the CBRT, following the outflow of foreign capital in the stock and bond markets in March and April, moderate capital inflows were recorded in May. As of May 28, non-residents made a net purchase of 197 million USD in the stock market and 386 million USD in the government securities market, adjusted for exchange rate and price movements. With the developments in this period, the foreign capital outflow in the stock market decreased to 1.7 billion USD since the end of 2020, and the total capital inflow in the GDSS market increased to 988 million USD as of May 28.

Non-residents' Portfolio Movements
(3 week moving sum, million USD)



"Nefes Credit Package"

In cooperation with TOBB and the Credit Guarantee Fund (KGF), the loan package "Nefes", which will provide financing to SMEs, started to be implemented as of June 1st. With the loan package, working capital financing will be provided to companies with an annual turnover of less than 10 million TRY and a 25% loss in 2020 turnover compared to the previous year. Accordingly, SMEs with a turnover not exceeding 1 million TRY in 2020 can use a maximum loan of 50K TRY, and SMEs with a turnover between 1 and 10 million TRY, a maximum of 200K TRY. The Ministry of Treasury and Finance announced that the annual interest rate on the KGF loan will be at 17.5%.

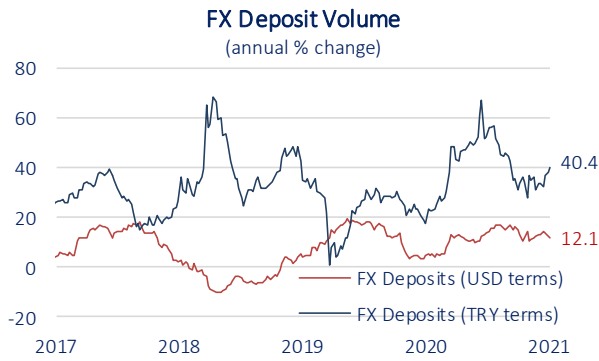
At the General Assembly meeting of the Banks Association of Turkey, Treasury and Finance Minister Lütfi Elvan stated that a support amounting to 79 billion TRY was given from the central government budget since the beginning of the pandemic, and this support is expected to reach 109 billion TRY by the end of the year.

Source: CBRT, Datastream, Reuters, BIST

Banking Sector

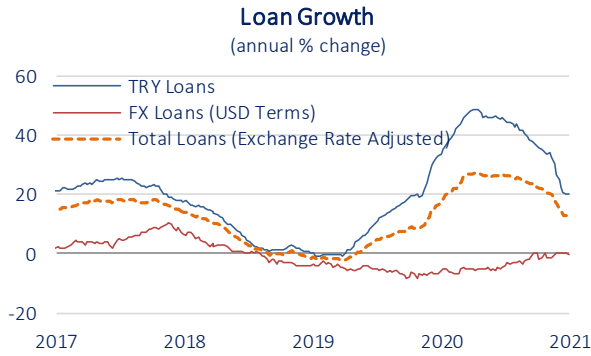
Deposit volume rose by 29.3% yoy.

According to the BRSA's Weekly Bulletin, as of May 28, the deposit volume expanded by 29.3% compared to the same period of last year and 11.2% compared to the end of 2020, and became 3.841 billion TRY. The annual increase in deposit volume adjusted for the exchange rate effect was 14.8%. As of 28 May, FX deposit volume expanded rapidly by 40.4% yoy due to the rise in exchange rates, while the annual increase in FX deposit volume in USD terms became 12.1%. As of May 28, TRY deposit volume rose by 9.9% compared to the end of 2020, while FX deposits in USD terms contracted by 2.6% in the same period. According to the decree published in the Official Gazette on June 1, the tax reductions, which were implemented in October 2020 in the withholding from TRY deposit accounts and differ according to the maturity period, were extended until the end of July.



The deceleration in TRY loans growth continues.

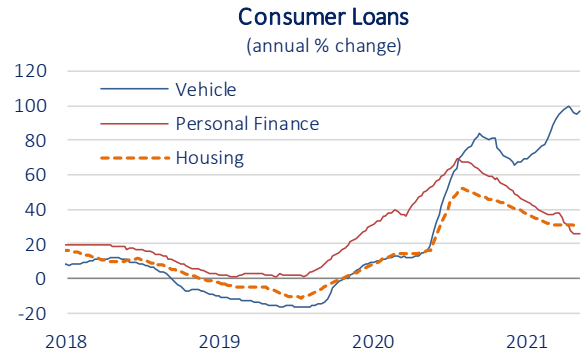
The total loan volume of the banking sector expanded by 21.9% yoy as of May 28 and reached 3.850 billion TRY. The annual increase in credit volume adjusted for the exchange rate effect was 12.8%. Annual TRY loan growth, which has a downward trend since the beginning of the year, was 20.3% as of May 28, while FX loan volume expanded by 24.9% due to the rise in exchange rates. TRY loan volume went up by 2.8% compared to the end of 2020, while FX loans in USD terms rose by 1.5% in the same period.



Consumer loans expanded by 28.4% yoy.

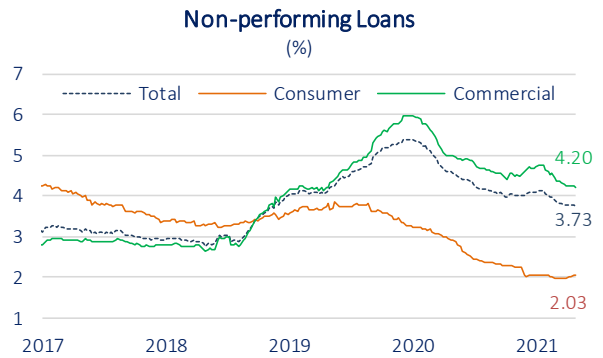
The deceleration in consumer loans growth continues

since the last quarter of 2020, due to the tightening in financial conditions. As of May 28, the annual increase in consumer loans was 28.4%. In this period, the annual rise in housing and consumer loans lost momentum and became 30.3% and 25.6%, respectively. On the other hand, the rapid increase in vehicle loans continued in May thanks to the brisk course in the automotive market. As of May 28, vehicle loans went up by 97% yoy. In the same period, the annual increase in the personal credit cards volume rose to 47.3%.



NPL ratio is at 3.73%.

In the week of May 28, the amount of gross nonperforming loans decreased by 1% yoy and became 149.1 billion TRY, thanks to the legal regulations. In this period, the ratio of non-performing loans ratio was 3.73%. According to loan types, the NPL ratio of the sector became 4.20% in commercial loans and 2.03% in retail loans. On the other hand, BRSA Chairman Mehmet Ali Akben announced on May 28th that the period for regulation, which extends the default period for the classification of non-performing loans to 180 days, may be extended from June 30th until the end of September.



Net foreign currency position...

As of May 28, FX net general position was (-) 49,632 million USD in on-balance sheet items and (+) 55,775 million USD in off-balance sheet items. Thus, the banking sector's net FX position on the week of May 28 was realized as (+) 6.143 million USD.

Concluding Remarks

Concluding Remarks

The loosening of restrictive measures against the pandemic in line with rising vaccination rates supports the improvement in the global economic outlook. Along with the low base effect and the strong pace of economic activity inflation rates in the US and the Euro Area have reached high levels. Against this backdrop, the concerns over an earlier-than-expected tightening by the central banks of developed countries remains alive.

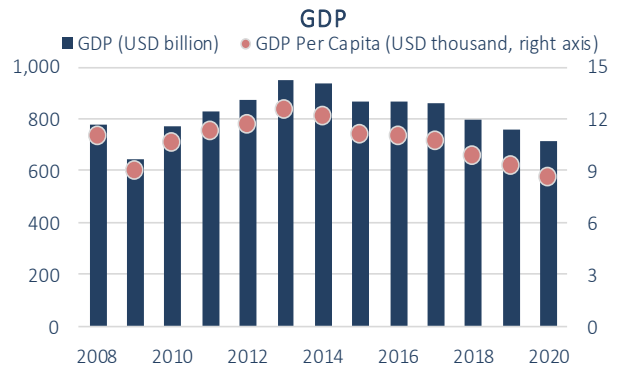
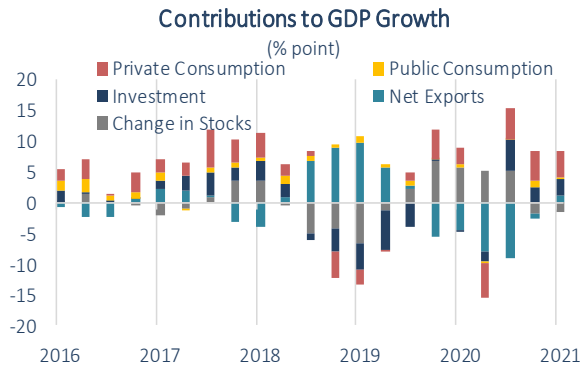
In an environment where global commodity prices are rising and the possibility of early tightening in monetary policy started to be discussed, inflation indicators continue to be closely monitored in Turkey, along with the volatility in financial markets. The annual CPI inflation was 16.59% in May, while the upward trend in D-PPI inflation continued in this period. At the meeting held on May, the CBRT reiterated its commitment to maintain its tight monetary policy stance until strong indicators point to a permanent decline in inflation. CBRT Governor Kavcıoğlu also stated that the expectations of a premature easing in monetary policy need to disappear. In the upcoming period, the course of global inflationary pressures and exchange rate

developments will continue to drive the course of inflation.

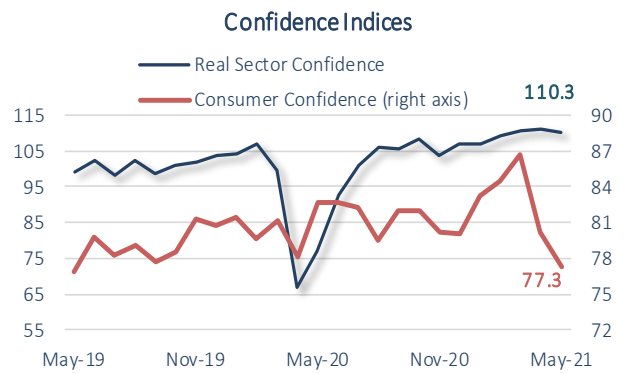
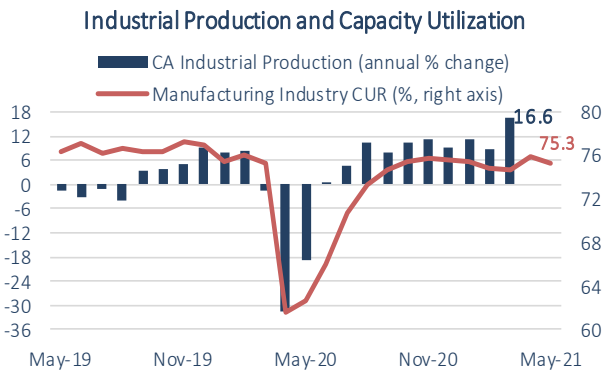
The Turkish economy grew above the market expectations by 7% on an annual basis in the first quarter of 2021. On a quarterly basis, the growth momentum in the last quarter of 2020 was preserved also in this period. In addition to investment expenditures, net export item has also made a positive contribution to growth after a long time. On the other hand, leading indicators for the second quarter point to a slight slowdown in the Turkish economy when compared with the first quarter. In May, manufacturing PMI data fell below the 50 threshold level for the first time after 12 months. While the “full lockdown” measures taken against pandemic have started to be gradually eased as of May 17, ensuring a permanent decrease in the number of cases and reaching higher vaccination rates will have an important role on the course of the economic activity.

Turkish Economy- Macroeconomic Indicators

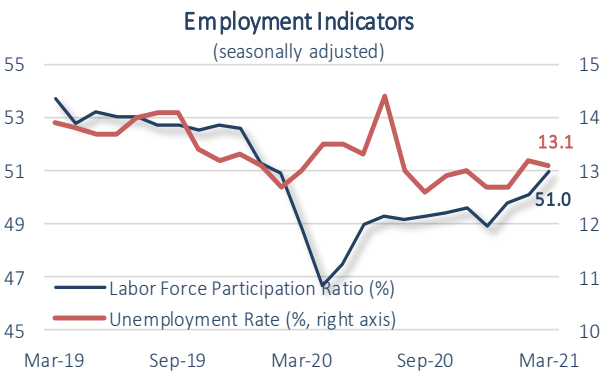
Growth



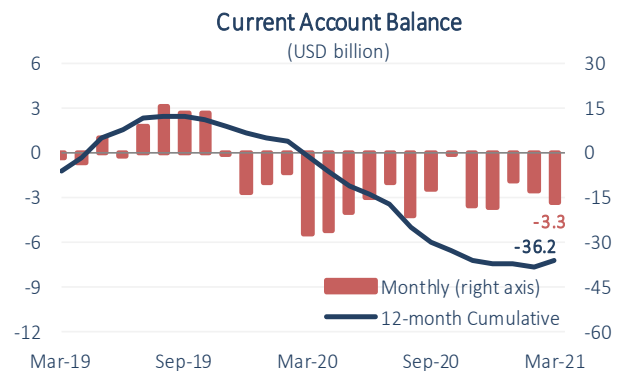
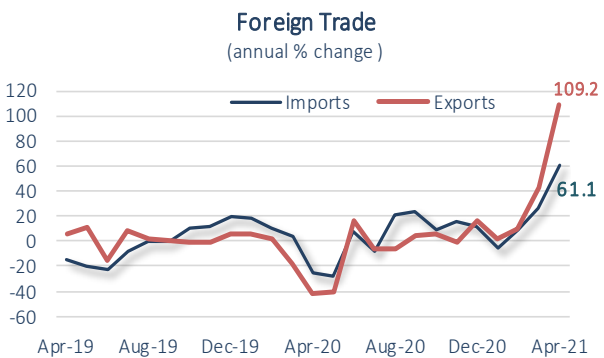
Leading Indicators



Labor Market



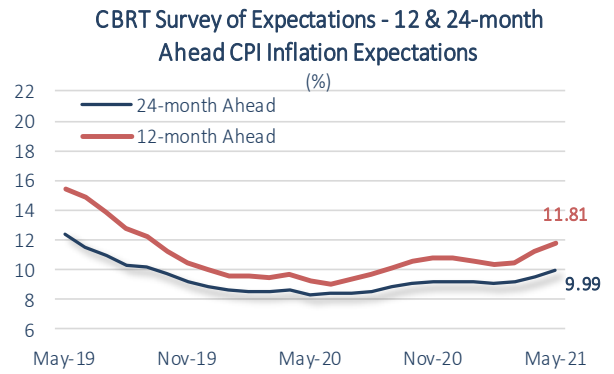
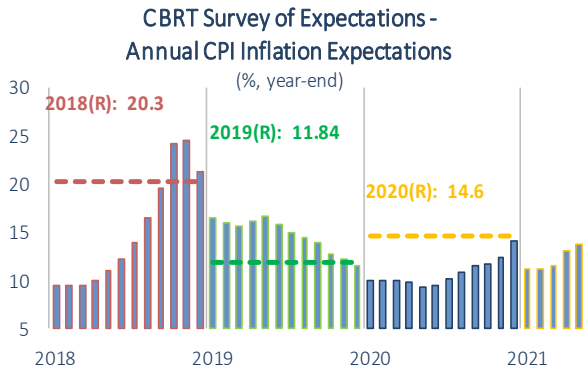
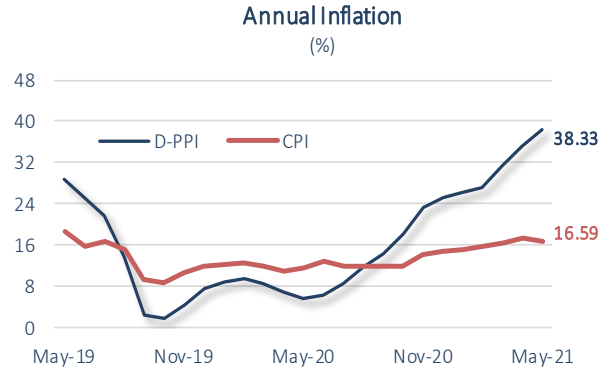
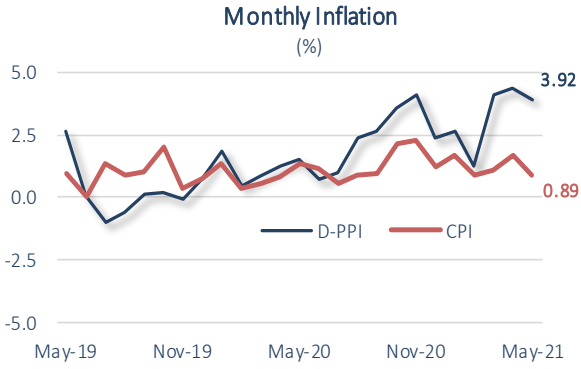
Foreign Trade and Current Account Balance



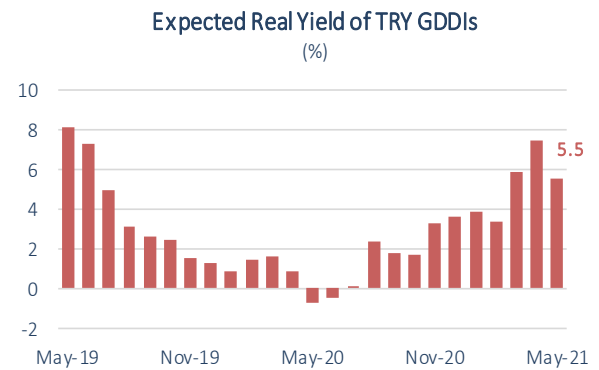
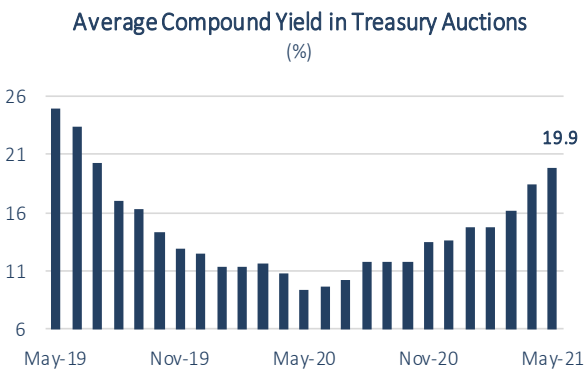
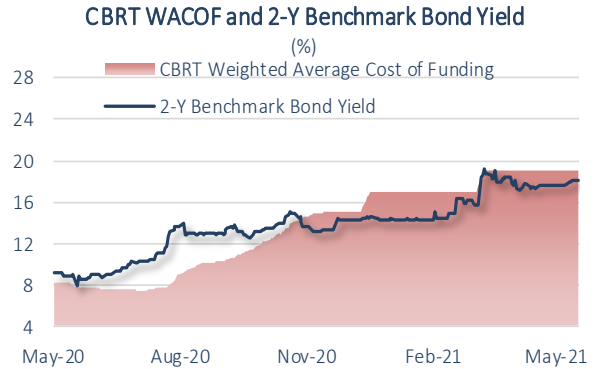
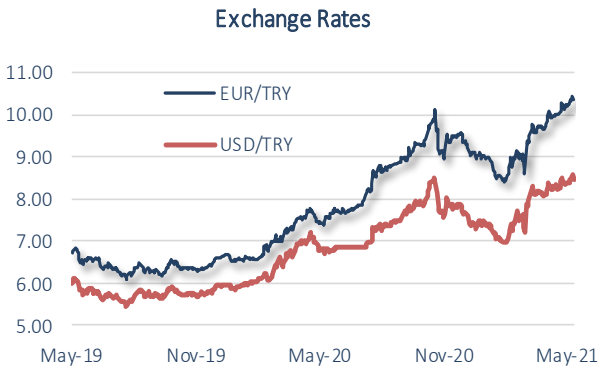
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020	21-Q1		
GDP (USD billion)	869	859	797	761	717			188
GDP (TRY billion)	2,627	3,134	3,758	4,320	5,048			1,386
GDP Growth Rate (%)	3.3	7.5	3.0	0.9	1.8			7.0
Inflation (%)						Mar.21	Apr.21	May.21
CPI (annual)	8.53	11.92	20.30	11.84	14.60	16.19	17.14	16.59
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	31.20	35.17	38.33
Seasonally Adjusted Labor Market Figures						Jan.21	Feb.21	Mar.21
Unemployment Rate (%)	12.1	9.9	12.8	13.3	12.7	12.70	13.20	13.10
Labor Force Participation Rate (%)	52.4	53.1	53.0	52.3	48.9	49.80	50.10	51.00
FX Rates						Mar.21	Apr.21	May.21
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.2	65.7	62.3	60.6
USD/TRY	3.52	3.79	5.32	5.95	7.43	8.2763	8.2920	8.4768
EUR/TRY	3.71	4.55	6.08	6.68	9.09	9.7271	9.9820	10.3641
Currency Basket (0.5*EUR+0.5*USD)	3.61	4.17	5.70	6.32	8.26	9.0017	9.1370	9.4204
Foreign Trade Balance⁽¹⁾ (USD billion)						Feb.21	Mar.21	Apr.21
Exports	149.2	164.5	177.2	180.8	169.7	171.3	176.9	186.7
Imports	202.2	238.7	231.2	210.3	219.5	220.1	224.9	233.1
Foreign Trade Balance	-52.9	-74.2	-54.0	-29.5	-49.8	-48.7	-47.9	-46.4
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3	77.9	78.7	80.1
Balance of Payments⁽¹⁾ (USD billion)						Jan.21	Feb.21	Mar.21
Current Account Balance	-27.0	-40.8	-21.7	6.8	-36.7	-37.1	-38.3	-36.2
Capital and Financial Accounts	-21.7	-47.0	-10.9	1.3	-40.0	-36.5	-37.3	-29.5
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6	-4.0	-4.4	-3.9
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5	-0.6	-0.5	-0.3
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0	-6.5	-4.9	-8.3
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	-25.4	-27.4	-17.0
Net Errors and Omissions	5.3	-6.2	10.8	-5.5	-3.3	0.7	1.1	6.8
Current Account Balance/GDP (%)	-3.1	-4.8	-2.7	0.9	-5.1	-	-	-
Budget⁽²⁾⁽³⁾ (TRY billion)						Feb.21	Mar.21	Apr.21
Expenditures	584.1	678.3	830.5	999.5	1,202.2	210.2	321.3	432.0
Interest Expenditures	50.2	56.7	74.0	99.9	134.0	34.7	48.9	67.5
Non-interest Expenditures	533.8	621.6	756.5	899.5	1,068.3	175.5	272.4	364.5
Revenues	554.1	630.5	757.8	875.8	1,029.5	209.2	344.1	437.9
Tax Revenues	459.0	536.6	621.3	673.3	833.1	177.7	255.1	331.4
Budget Balance	-29.9	-47.8	-72.8	-123.7	-172.7	-1.0	22.8	5.9
Primary Balance	20.3	8.9	1.3	-23.8	-38.8	33.7	71.7	73.4
Budget Balance/GDP (%)	-1.1	-1.5	-1.9	-2.9	-3.4	-	-	-
Central Government Debt Stock (TRY billion)						Feb.21	Mar.21	Apr.21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1,060.4	1,082.6	1,111.2	1,120.0
External Debt Stock	291.3	341.0	481.0	574.0	752.5	777.1	838.9	829.5
Total Debt Stock	760.0	876.5	1,067.1	1,329.1	1,812.8	1,859.6	1,950.1	1,949.5

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2016	2017	2018	2019	2020	Mar.21	Apr.21	Change ⁽¹⁾
TOTAL ASSETS	2,731	3,258	3,867	4,492	6,106	6,489	6,525	6.9
Loans	1,734	2,098	2,395	2,657	3,576	3,777	3,803	6.3
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,418	2,425	3.1
Share (%)	65.2	67.4	60.1	61.8	65.8	64.0	63.8	-
FX Loans	603	684	956	1,015	1,224	1,359	1,378	12.6
Share (%)	34.8	32.6	39.9	38.2	34.2	36.0	36.2	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	149.5	148.3	-2.8
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	3.8	3.8	-
Securities	352	402	478	661	1,023	1,078	1,096	7.1
TOTAL LIABILITIES	2,731	3,258	3,867	4,492	6,106	6,489	6,525	6.9
Deposits	1,454	1,711	2,036	2,567	3,455	3,643	3,692	6.9
TRY Deposits	845	955	1,042	1,259	1,546	1,636	1,650	6.7
Share (%)	58.1	55.8	51.2	49.0	44.7	44.9	44.7	-
FX Deposits	609	756	994	1,308	1,909	2,007	2,042	7.0
Share (%)	41.9	44.2	48.8	51.0	55.3	55.1	55.3	-
Securities Issued	116	145	174	194	224	240	232	3.3
Payables to Banks	418	475	563	533	658	715	718	9.2
Funds from Repo Transactions	138	99	97	154	255	328	381	49.2
SHAREHOLDERS' EQUITY	300	359	421	492	600	604	615	2.6
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	16.4	20.7	-
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	58.2	58.3	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.6	16.8	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	56.1	56.6	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	103.7	103.0	-
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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