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## Global Economy

While the vaccination continues around the world, the rapid spread of the delta variant of the Covid-19 in many countries has brought up the fourth wave concerns in the pandemic.

At its meeting ended on June 16, Fed kept the policy rate in the range of 0-0.25%, in line with the expectations. The macroeconomic projections released after the meeting revealed that the Fed members' interest rate projections for 2022 and 2023 have increased.

The US economy preserves its positive outlook. Manufacturing PMI in the country was realized as 62.1 in June. Although the preliminary services PMI decreased from 70.4 to 64.8, it stayed at a high level.

The recovery trend of economic activity continues in the Euro Area. Manufacturing PMI in the region remained strong in June with 63.4 and services PMI rose to 58.3.

The World Bank raised its global economic growth forecast from 4.1% to 5.6% for 2021, and from 3.8% to 4.3% for 2022.

According to the data of the Institute of International Finance, portfolio investments towards emerging economies became 28.1 billion USD in June.

In addition to the improvement of global oil demand in the world, the failure of OPEC+ countries to reach an agreement at the talks held in the first days of July led the price of Brent crude oil per barrel to hit the highest level in nearly 3 years with 77.2 USD on July 5.

## Turkish Economy

According to the calendar adjusted data, industrial production rose by 66% in April compared to the same month last year, when the effects of the pandemic were felt most intensely.

In Turkey, manufacturing PMI, which was 49.3 by falling below the 50 threshold level in May due to the restrictive measures implemented in order to mitigate the effects of the pandemic, rose to 51.3 in June with the easing of the restrictions.

Confidence indices, which showed a weak outlook in May, increased in June thanks to the acceleration of the vaccination rates and normalization steps.

Current account balance posted a deficit of 1.7 billion USD in April. The 12-month cumulative current account deficit, which has continued to decline since February, became 32.7 billion USD as of April.

Central government budget posted a deficit of 13.4 billion TRY in May and 7.5 billion TRY in January-May period. In the first five months of the year, the central government budget performance has improved compared to the same period of last year, when tax deferrals were at the forefront in the fight against the pandemic.

In June, CPI increased by 1.94% mom and annual CPI inflation rose to 17.53%. In this period, D-PPI increased by 4.01% mom while annual D-PPI inflation reached 42.89%.

CBRT increased the foreign currency reserve requirement ratios by 200 basis points for all maturities, effective from the liability period of 19 July 2021. CBRT also decided to terminate the facility of maintaining TRY required reserves in foreign currency by October 1, 2021.

The BRSA, increased the risk weights of individual credit cards and consumer loans, while rearranging the maturity limits of some consumer loans and the number of credit card installments as of July 1.

## Leading Indicators

### Confidence indices have risen in June.

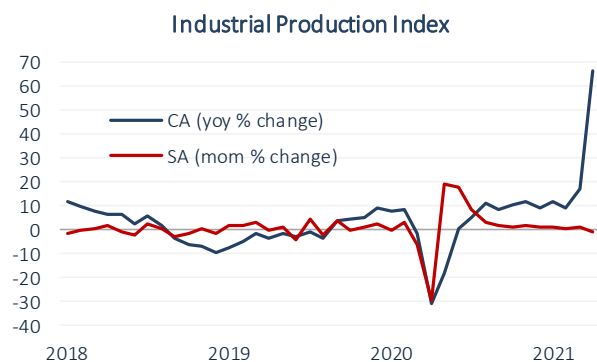
Confidence indices, which presented a weak outlook in May, started to rise in June with the acceleration of the vaccination and normalization steps. The seasonally adjusted real sector confidence index rose by 2.7 points mom to 109.8 in June. In this period, sectoral confidence indices increased by 6.2% in the service sector, 4.8% in the retail trade sector and 3.6% in the construction sector compared to the previous month. The seasonally adjusted Consumer Confidence Index, which decreased to 77.3 in May, the lowest level in the last 2 years, went up by 5.8% mom in June to 81.7.

### Manufacturing PMI rose above threshold level again in June.

The manufacturing PMI, which had been 49.3 in May by falling below the 50 threshold level due to the quarantine measures, rose to 51.3 in June thanks to the loosening of the restrictions. In this period, both output and new orders increased and the strongest hike was recorded in new orders from abroad since January. In addition, it was noteworthy that some panellists reported there are difficulties in sourcing raw materials, with firms struggling to build input inventories and having to dip into stocks of finished goods to help fulfil new orders. On the other hand, rates of inflation of both input costs and output prices accelerated in June, with charges increasing at the fastest pace since September 2018 in June.

### Industrial production rose by 66% yoy in April with the effect of low base.

Calendar adjusted industrial production increased by 66% yoy in April, exceeding expectations with the effect of the low base in April 2020. In this period, the production of consumer durable goods and capital goods went up by more than 100% yoy. Seasonally and calendar adjusted industrial production decreased mom for the first time in the last 1 year by 0.9% in April. In the January-April period, the annual rise in the calendar adjusted index became 22.6%, indicating that the recovery continues rapidly despite the Covid-19 restrictions. Calendar adjusted retail sales volume at constant prices, recorded the highest annual increase by 41.7% in April due to the low base effect. On the other hand, retail sales contracted by 6.3% mom for the first time in 2021.



### Unemployment rate became 13.9% in April.

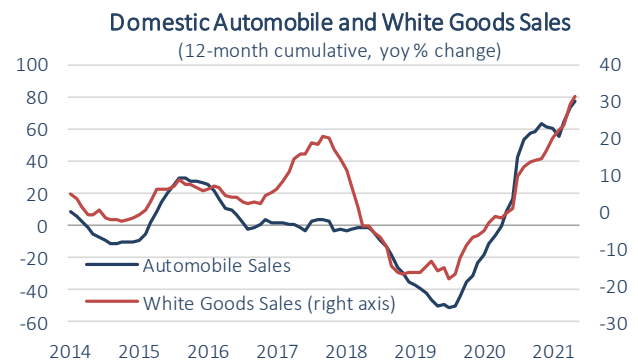
In April, when domestic production gained momentum, the labor market presented a weak outlook due to the fact that people who left the job market during the pandemic started looking for a job again. Seasonally adjusted unemployment rate increased by 0.9 points compared to the previous month and became 13.9% in

April. In this period, seasonally adjusted unemployment rate among the young population remained high at 25.6%. The number of employed people decreased by 193K on a monthly basis and the employment rate decreased to 44.2% in April. 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 increased by 1.7 points mom to 27.4%. In April, non-agricultural unemployment rate rose to 16.2%, the highest level since July 2020. The regulation regarding the short-term employment allowance and the termination of the employment contract implemented to limit the negative effects of the pandemic on the employment market came to an end on 30th of June.

### Exports continue to increase in the white goods and automotive sectors.

According to data released by White Goods Manufacturers' Association of Turkey, despite losing momentum compared to previous months due to the effect of quarantine measures, domestic sales in six main white goods products increased by 11% yoy in May. In this period, the export volume expanded by 66% yoy due to the low base in May 2020 and the deferred demand in European countries, which is the biggest export market of the white goods sector in Turkey. In addition, domestic sales rose by 36% and exports went up by 51% yoy in the January-May period.

According to the Automotive Manufacturers Association's data, automotive production increased by 31.2% yoy on unit basis and automotive exports rose by 16.8% yoy in May. Although the total domestic sales in the automotive sector became 57,449 units increasing by 72.5% yoy with the effect of the low base created by May 2020, the rise in automotive prices caused the sales to remain below the average of the last 10 years. In the first 5 months of the year, total domestic sales went up by 74% and exports increased by 18% compared to the same period of last year.



### House sales are at their lowest level in a year...

The impact of the restrictive measures implemented in May were reflected in the house sales data. While house prices has continued to rise rapidly in May, house sales were at the lowest level of the last 12 months with 59,166 units. On the other hand, house sales in May increased by 16.2% yoy because of the low base in the same month of last year, when the effects of the pandemic were felt intensely. In this period, mortgaged house sales decreased by 43% yoy, while other house sales increased by 50% yoy. Total sales decreased by 4% yoy in the period of January -May 2021.

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

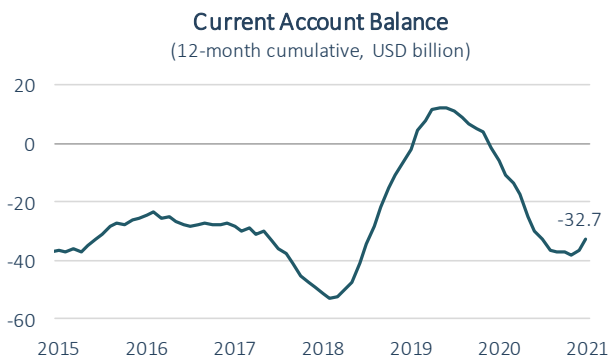
## Foreign Trade and Balance of Payments

### Foreign trade deficit expanded by 20.2% yoy in May.

According to TURKSTAT data, the export volume expanded by 65.7% yoy and became 16.5 billion USD, while the import volume rose by 54% yoy to 20.6 billion USD in May 2021. Hence, in this period, the foreign trade deficit expanded by 20.2% yoy and became 4.1 billion USD. The ratio of exports to imports rose from 74.3% in May 2020 to 80% in May 2021. In the January-May period, foreign trade deficit narrowed by 13.1% yoy and became 18.3 billion USD.

### Current account balance posted a deficit of 1.7 billion USD in April.

In April, the current account deficit decreased by 67.7% yoy and came in at 1.7 billion USD, below market expectations. The market expectation was that the current account deficit would be 2.2 billion USD in this period. The decline in the foreign trade deficit and the improvement in balance of services had a positive impact on the current account balance. Transportation revenues, one of the sub-items of the balance of services, increased by almost 4 times compared to April 2020, when the effects of the pandemic were intensely felt, and amounted to 551 million USD in April 2021. Tourism revenues, which was absent in April 2020, also made contribution to the current account balance by 596 million USD in April 2021. Thus, the 12-month cumulative current account deficit, which has continued to decline since February, became 32.7 billion USD as of April.



### The weak course of foreign direct investments continues.

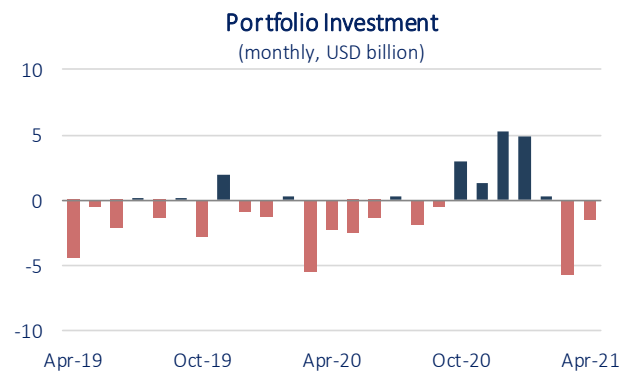
Nonresidents' net direct investments in Turkey were realized as 56 million USD in April. Nonresidents' direct investments in Turkey, amounting to 597 million USD, were mostly in the form of real

estate investments (501 million USD). Capital investments decreased by 54% compared to the previous month and became 177 million USD. Thus, 12-month cumulative net direct investments were realized as 3.9 billion USD.

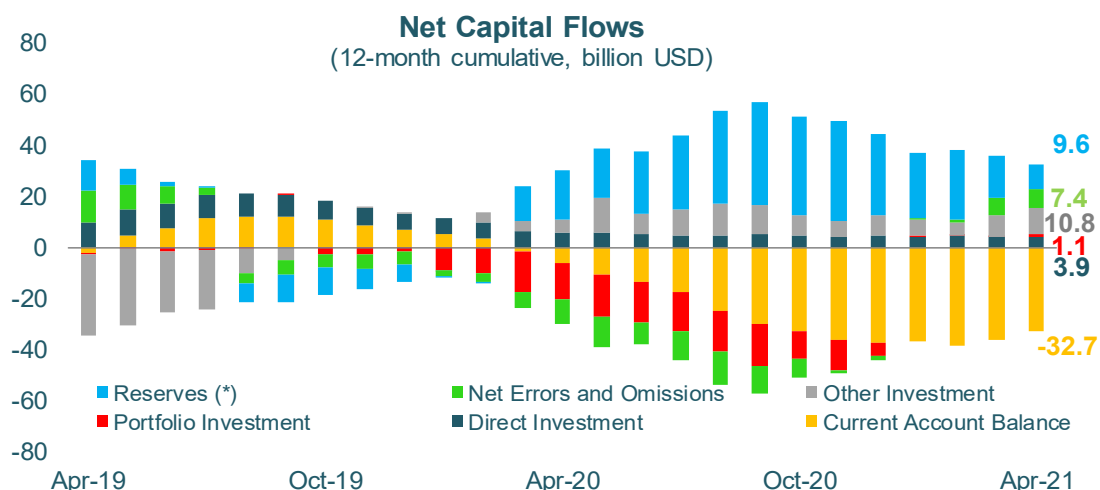
### In April, there was a net capital outflow of 1.5 billion USD in portfolio investments.

The capital outflow in portfolio investments has also continued in April, albeit at a slight slowdown compared to March. Portfolio investments, in which there was a capital outflow of 2.3 billion USD in April 2020 due to the impact of the pandemic, recorded a net capital outflow of 1.5 billion USD in the same month of this year. In this period, banks' repayment of eurobonds exceeding 1 billion USD was effective in the capital outflow in portfolio investments. On the other hand, nonresidents' made 123 million USD net sales in the stock market in April, while they made 44 million USD net purchases in the GDDS market. Thus, due to the total capital outflow of 7.2 billion USD in the last two months, the capital inflow in portfolio investments decreased to 1.1 billion USD in the last 12 months.

### Capital inflows in other investments were at the highest level of this year.



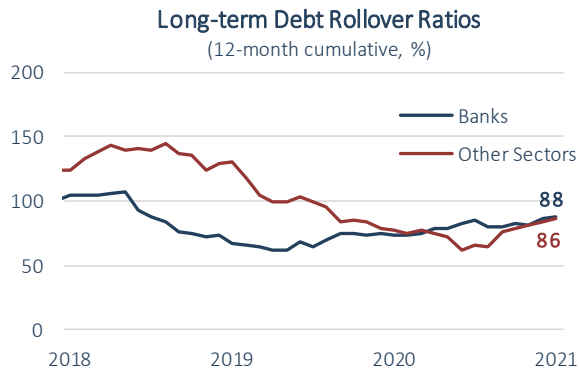
In April, net capital inflow in the other investments item became 1.8 billion USD, the highest level of this year. In this period, domestic deposits of foreign banks increased by a limited amount of 61 million USD. On the other hand, domestic banks' currency and deposit assets at their foreign correspondents decreased by 2.5 billion USD in April, playing an important role in the rise of other investments.



Source: CBRT, Datastream

## Foreign Trade and Balance of Payments

In April, banks and the General Government made net repayments in their loans from abroad in the amounts of 336 million USD and 79 million USD, respectively. Other sectors made a net loan use of 39 million USD in the same period. According to the 12-month cumulative data, as of April, the long-term debt rollover ratio became 87.8% in the banking sector and 85.9% in other sectors.



### Reserve assets decreased by 1.2 billion USD in April.

Reserve assets decreased by 1.2 billion USD in April, while the decline in reserves became 2.9 billion USD in the January-April period. According to 12-month cumulative data, the decrease in reserve assets became 9.6 billion USD as of April. There was a capital inflow of 198 million USD in the net errors and omissions

item. Thus, the capital inflow recorded in the last four months in the net errors and omissions item reached 7.2 billion USD.

### Expectations...

According to the preliminary foreign trade data released by the Ministry of Commerce, export volume expanded by 46.9% yoy, thanks to the brisk pace of activity in Turkey's major export markets and low base effect, and became 19.8 billion USD in June. In the same period, import volume increased by 38.9% to 22.7 billion USD. Thus, the foreign trade deficit widened by 1% yoy and became 2.9 billion USD in May. We expect that the strong performance in exports will continue in the coming months with the normalization steps that support the economic activity around the world. We anticipate that the decline in the number of new Covid-19 cases along with the vaccinations in Turkey as of June may have a positive impact on the tourism sector in the coming months. On the other hand, the increase in the number of cases due to the spread of the delta variant in many countries creates uncertainty on the recovery expectations in the tourism sector.

Balance of Payments	(USD million)			
	2020	April 2021	% Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-5,296</b>	<b>-1,712</b>	<b>-67.7</b>	<b>-32,737</b>
Foreign Trade Balance	-3,845	-1,513	-60.7	-32,902
Services Balance	-339	811	-	8,655
Travel (net)	0	596	-	8,925
Primary Income	-1,148	-1,258	9.6	-9,345
Secondary Income	36	248	588.9	855
<b>Capital Account</b>	<b>-3</b>	<b>-1</b>	<b>-66.7</b>	<b>-45</b>
<b>Financial Account</b>	<b>-5,593</b>	<b>-1,515</b>	<b>-72.9</b>	<b>-25,382</b>
Direct Investments (net)	-28	-56	100.0	-3,897
Portfolio Investments (net)	2,331	1,534	-34.2	-1,106
Net Acquisition of Financial Assets	-1,317	456	-	-1,992
Net Incurrence of Liabilities	-3,648	-1,078	-70.4	-886
Equity Securities	-847	-123	-85.5	-3,260
Debt Securities	-2,801	-955	-65.9	2,374
Other Investments (net)	709	-1,810	-	-10,788
Currency and Deposits	-131	-2,119	1,517.6	-17,540
Net Acquisition of Financial Assets	1,706	-2,183	-	3,408
Net Incurrence of Liabilities	1,837	-64	-	20,948
Central Bank	997	-1	-	13,049
Banks	840	-63	-	7,899
Foreign Banks	715	61	-91.5	8,649
Foreign Exchange	224	-325	-	5,577
Turkish Lira	491	386	-21.4	3,072
Non-residents	125	-124	-	-750
Loans	1,305	460	-64.8	4,326
Net Acquisition of Financial Assets	-39	84	-	-804
Net Incurrence of Liabilities	-1,344	-376	-72.0	-5,130
Banking Sector	-823	-336	-59.2	-2,545
Non-bank Sectors	-478	39	-	-1,906
Trade Credit and Advances	-466	-149	-68.0	2,421
Other Assets and Liabilities	1	-2	-	5
Reserve Assets (net)	-8,605	-1,183	-86.3	-9,591
<b>Net Errors and Omissions</b>	<b>-294</b>	<b>198</b>	<b>-</b>	<b>7,400</b>

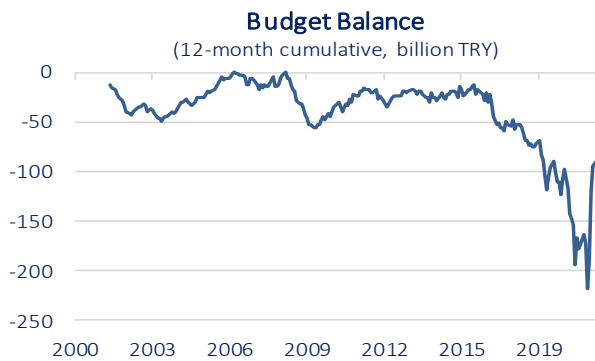
Source: CBRT, Datastream

## Budget Balance

### Central government budget posted a deficit of 13.4 billion TRY in May.

In May, budget revenues increased by 53.5% yoy to 104.6 billion TRY. In this period, budget expenditures expanded by 38% yoy and became 117.9 billion TRY. Thus, the central government budget deficit, which was 17.3 billion TRY in May 2020, decreased by 22.7% yoy and was realized as 13.4 billion TRY in May 2021. During this period, the primary surplus became 575 million TRY.

In the first five months of the year, the central government budget performance has improved compared to the same period of last year, when tax deferrals were at the forefront in the fight against the pandemic. In January-May 2021 budget revenues expanded by 39.4% yoy, while budget expenditures increased by 14.8% yoy. Thus, the budget deficit narrowed by 82.6 billion TRY (91.7%) compared to the first five months of 2020 and became 7.5 billion TRY in January-May 2021. The primary budget balance, which gave a deficit of over 25 billion TRY in the first 5 months of last year, posted a surplus of 73.9 billion TRY in the same period of this year.



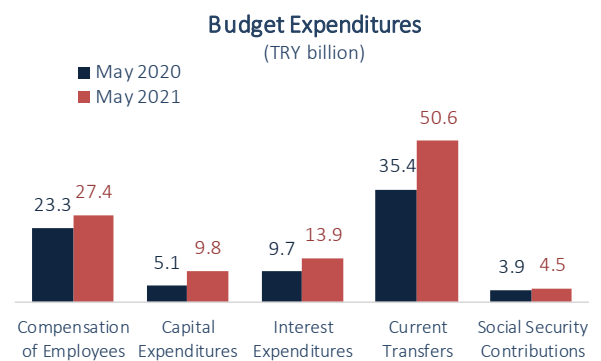
### Tax revenues rose rapidly in May.

Following the recent months, the increase in tax revenues gained momentum in May. In this period, tax revenues expanded at an annual pace of 67% thanks to the pickup in income tax and VAT on imports. Income tax climbed by 69.2% yoy and reached 15.3 billion TRY, while VAT on imports rose by 122.5% yoy with the effect of the annual rise in foreign exchange rates and became 18.2 billion TRY. Corporate tax also went up by 29.3% yoy to 25.1 billion TRY. In May, special consumption tax (SCT) revenues increased by 17.6% yoy, driven by the rapid rise (197.3%) in the motor vehicle tax. During this period, domestic VAT rose by 633.2%

yoy thanks to strong trend in domestic demand as well as the low base effect.

### Current transfers expanded by 42.7% yoy in May.

In May, interest expenditures went up by 44.3% yoy to 13.9 billion TRY, while non-interest expenditures increased by 37.2% yoy to 104 billion TRY. The current transfers, which account for 48.6% of primary expenses, went up by 42.7% yoy in May. This increase was driven by the rapid rise in unemployment fund aids, which is monitored under the Treasury aids item, and the invoiced payments which climbed by 11 times and became 13.5 billion TRY. During this period, the annual increase in capital expenditures came in at 92.6%, while capital transfers also rose rapidly.



### Expectations...

In January-May period, the budget revenues increased faster than the expenditures thanks to low base effect and the restructuring of tax and administrative fines, thus the central government budget showed a relatively positive outlook. In the second half of the year, we expect the budget revenues to be positively affected by the general recovery in economic activity, in parallel with the slowdown in the pandemic thanks to the increase in vaccination access, while the pandemic-related expenditures will tend to decrease.

Within the framework of the targets in the Economic Reform Package, the Ministry of Treasury and Finance published the first Public Finance Report on May 31. According to the report, the budget deficit, which was forecasted as 245 billion TRY in the Central Government Budget Law for 2021, is estimated to be 199.9 billion TRY along with the changes in the pandemic conditions, macroeconomic developments and the measures implemented or to be implemented.

### Central Government Budget

	May		% Change	January-May		% Change	(billion TRY)		
	2020	2021		2020	2021		2021 Budget Target	2021 Target*	Real./2021 Target* (%)
<b>Expenditures</b>	<b>104.6</b>	<b>117.9</b>	<b>12.8</b>	<b>1,000.0</b>	<b>550.0</b>	<b>-45.0</b>	<b>1,346.1</b>	<b>1,454.5</b>	<b>37.8</b>
Interest Expenditures	9.7	13.9	44.3	65.0	81.5	25.4	179.5	179.6	45.4
Non-Interest Expenditures	100.4	104.0	3.6	900.1	468.5	-47.9	1,166.6	1,274.9	36.8
<b>Revenues</b>	<b>72.8</b>	<b>104.6</b>	<b>43.6</b>	<b>875.3</b>	<b>542.5</b>	<b>-38.0</b>	<b>1,101.1</b>	<b>1,254.6</b>	<b>43.2</b>
Tax Revenues	60.6	92.3	52.3	673.9	423.7	-37.1	922.7	1,051.1	40.3
Other Revenues	12.2	12.3	0.7	201.4	118.8	-41.0	178.4	203.6	58.3
<b>Budget Balance</b>	<b>-31.8</b>	<b>-13.4</b>	<b>27.9</b>	<b>-124.7</b>	<b>-7.5</b>	<b>-94.0</b>	<b>-245.0</b>	<b>-199.9</b>	<b>3.8</b>
<b>Primary Balance</b>	<b>-27.6</b>	<b>0.6</b>	<b>29.5</b>	<b>-24.8</b>	<b>73.9</b>	<b>56.3</b>	<b>-65.5</b>	<b>-20.3</b>	<b>-</b>

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

(\*) The estimates included in the Public Finance Report published by the Ministry of Treasury and Finance in May.

Source: Datastream, Ministry of Treasury and Finance

## Inflation

### CPI inflation came in above the expectations in June.

Consumer prices increased by 1.94% mom in June, above market expectations. The market expectation was that the monthly increase in CPI would be 1.5%. In the same period, D-PPI increased by 4.01% mom and continued its rapid upward trend.

### Annual CPI inflation was 17.53%.

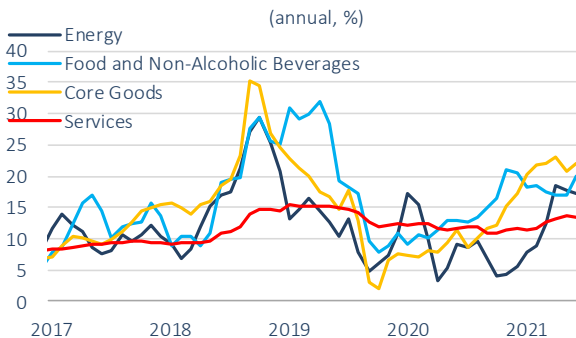
Annual CPI inflation, which fell to 16.59% in May, rose again in June. Annual CPI inflation reached its highest level in nearly two years with 17.53%. In this period, annual D-PPI inflation continued to rise and reached its highest level since October 2018 with 42.89%.

June (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	1.13	1.94	0.70	4.01
Year-to-Date	5.75	8.45	6.89	22.04
Annual	12.62	17.53	6.17	42.89
Annual Average	11.88	14.55	7.74	25.38

### The rise in transportation and household equipment prices was decisive in monthly CPI inflation.

In June, prices in all main expenditure groups, excluding alcoholic beverages and tobacco, increased on a monthly basis. Along with the rise in oil prices and the loosening of restrictive pandemic measures, the increase in the transportation group pushed up the monthly CPI inflation by 43 bps. In the same period, the household equipment group made the second largest contribution to the monthly CPI by 38 bps. The food and non-alcoholic beverages group also went up by 0.88% mom, contributing 23 bps to inflation. While the rise in processed food prices was 2% in this period, unprocessed food prices decreased slightly due to the 7.5% decline in fresh fruit and vegetable prices. With the effect of the loosening of the measures restricting social life in June, there were rapid increases in the prices of recreation and culture as well as restaurants and hotels. The monthly price rises in these two expenditure groups, which have a total share of 8.92% in the CPI basket, were 4.5% and 3.8%, respectively, in June.

### Goods and Services Inflation



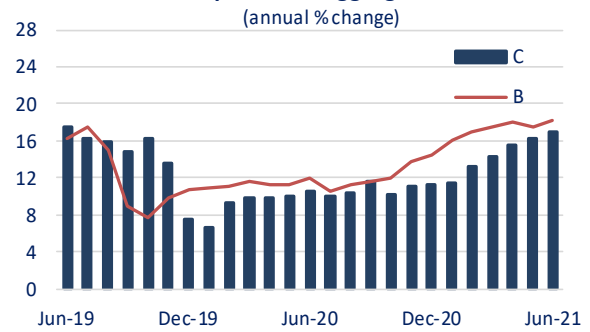
The transportation group continued to be the main expenditure group with the fastest increase in prices on an annual basis. The prices in transportation group rose by 26.29% yoy in June and pushed the annual CPI inflation up by 396 bps. The expenditure group that made the highest contribution to annual inflation was the food and non-

alcoholic beverages group with 496 bps. The annual price increase in this group was 20%. Annual inflation in goods and services prices in June was 19.3% and 13.5%, respectively.

### Core inflation indicators...

In June, the monthly increase in CPI excluding seasonal products came in at 2.39%, above the headline inflation and was realized at the highest level since September 2018. The monthly increases in core inflation indicators B (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold), which are closely monitored by the CBRT, became 2.44% and 2.54%, respectively. In this period, B and C indices went up by 18.16% and 17.47% yoy. The upward trend in core inflation indicators points to a rise in the underlying trend of inflation.

### Special CPI Aggregates



### The rapid increase in D-PPI continues.

In June, when the impact of the depreciation in TRY on inflation became evident, the food products and basic metals groups made the highest contributions to the monthly increase of 4.01% in D-PPI by 73 bps and 68 bps, respectively. In this period, coke and refined petroleum products became the sub-sector in which the prices recorded the fastest rise on a monthly basis with 8.84%. Looking at the course of producer prices by main industry groups, the monthly increase of 7.3% in the energy group stood out, while the monthly inflation in the intermediate goods and capital goods were 4.26% and 2.51%, respectively.

On an annual basis, the highest price increases were in the crude oil and natural gas, coke and refined petroleum products sectors, with 181% and 124%, respectively. In this period, basic metal products made the highest contribution to the annual D-PPI inflation with 824 bps, while the contribution of the food group was 694 bps.

### Expectations...

We estimate that the rises in electricity and natural gas prices as of July may increase CPI inflation by close to 1 percentage point, taking also the indirect effects into account. Considering the depreciation of TRY, the exchange rate pass-through, primarily through energy prices, will also be a determining factor on inflation in the upcoming period. In addition, the increase in inflationary pressures on a global scale creates an upward pressure on domestic inflation. The year-end forecast in the Inflation Report to be published by the CBRT at the end of July and the steps to be taken by the CBRT in the coming period will be closely monitored.

	31-May	30-Jun	Change
5-Y CDS (basis points)	406	379	-27 bps ▼
TR 2-Y Benchmark Yield	18.78%	18.35%	-43 bps ▼
BIST-100	1,420	1,356	-4.5% ▼
USD/TRY	8.4808	8.7037	%2.6 ▲
EUR/TRY	10.3788	10.3226	-%0.5 ▼
Currency Basket*	9.4298	9.5132	%0.9 ▲

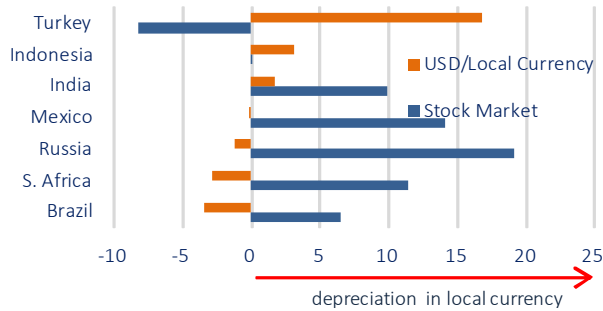
(\*) (0.5 USD/TL + 0.5 EUR/TL)

### Domestic markets displayed a negative outlook in June.

In June, news about the delta variant of the coronavirus, as well as inflation developments and statements by Fed officials, caused a volatile trend in global markets. After the Fed's meeting, which ended on June 16, the Fed's predictions pointing to an earlier-than-expected interest rate hike and the Fed officials' statements on interest rate hikes which gave mixed signals, suppressed the global risk appetite. Domestic markets also displayed a mixed outlook over June due to developments in global markets. The BIST-100 index, which had a positive course in the first half of June, declined rapidly in the second half of the month. Thus, the index fell by 4.5% mom in June, recording its worst monthly performance since March. Compared to other emerging-country stock markets, the BIST-100 index diverged negatively as of the first half of the year.

### Financial Indicators in Emerging Countries

(12/31/20-06/30/21, difference %)



### The depreciation of TRY reached 17% since the end of 2020.

In June, most of the developing countries currencies depreciated due to the appreciation of the US dollar, while USD/TRY tested its historical high of 8.7992 during the day on 25 June. USD/TRY parity rose by 2.6% compared to the end of May and completed the month at 8.70. The Turkish lira, which depreciated by approximately 17% against the US dollar compared to the end of 2020, was the currency with the worst performance among its peers in this period.

### CBRT kept the policy rate unchanged at 19%.

In line with the expectations, CBRT kept the interest rates on hold at its meeting on June 15. In the note released after the meeting, it was stated that inflation will follow a volatile course in the short term due to various factors on the supply and demand side including the changes in commodity prices. Taking into account the high levels of

inflation and inflation expectations, the CBRT stated that the current tight monetary policy stance will be maintained decisively until the significant fall in the April Inflation Report's forecast path is achieved.

### CBRT revised the reserve requirement regulation.

The CBRT increased the required reserve ratios applied to foreign currency deposits/participation funds by 200 bps for all maturities to be effective from the calculation date of 19 July 2021. The CBRT also announced that the maximum rate of the facility to maintain Turkish lira required reserves in foreign currency was reduced from 20% to 10%, and this facility will be terminated on October 1, 2021. As a result of this decision, it was stated that Turkish lira and FX denominated required reserves are expected to increase initially by approximately TRY 13.2 billion and USD 2.7 billion, respectively. In addition to these, the CBRT announced that FX deposits and participation funds available as of 25 June 2021 and converted to Turkish lira deposits and participation funds after this date will be exempt from reserve requirement liabilities while additional remuneration rate will be applied to Turkish Lira denominated required reserves to increase the share of Turkish lira deposits in the total deposit and participation funds in the banking system.

### Securities portfolio of non-residents...

According to the securities statistics published by the CBRT, as of June 25, the equity portfolio of non-residents, adjusted for price and exchange rate movements, decreased by 66 million USD while government domestic debt securities (GDSS) expanded by 185 million USD compared to end-May. Compared to the end-2020, non-residents equity portfolio declined by 1.8 billion USD, while their GDSS portfolio expanded by 1.2 billion USD.

### Developments regarding the Economic Reform Package...

According to the decree published in the Official Gazette on June 30, it was announced that Economic Coordination Board, which will monitor and evaluate the developments related to economic stability, and the Price Stability Committee, which will serve to contribute to the permanent establishment and maintenance of price stability, have been established. In addition, the Turkish Statistical Institute, which was previously a subsidiary of the Ministry of Treasury and Finance, was transformed into an associated institution.

Treasury and Finance Minister Lütfi Elvan announced that two new KGF-backed mechanisms will be implemented in July. Accordingly, Elvan stated that long-term credit support will be provided with KGF guarantee for investments that prioritize exports and in order to increase the contribution of SME's to employment and reduce liquidity shortages access to credit with KGF guarantee will be provided for each person they employ.

## Banking Sector

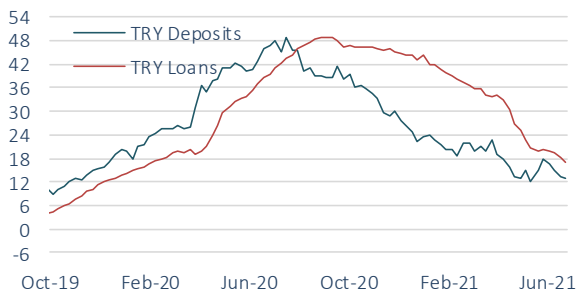
**The deceleration in TRY deposits growth continues.**

According to the Weekly Bulletin published by the BRSA, as of June 25, total deposit volume expanded by 26.8% yoy and reached 3,893 billion TRY. In this period, the increase in FX deposits in USD terms became 10.6% yoy. Thus, according to the exchange rate adjusted figures, annual growth in deposit volume was 11.7% in the same period. As of June 25, TL deposits expanded by 11.5% ytd, while FX deposits in USD terms decreased by 3.3% ytd. The share of FX deposits in the total deposit volume became 55.7% as of June 25.

**Loan volume expanded by 20.1% yoy.**

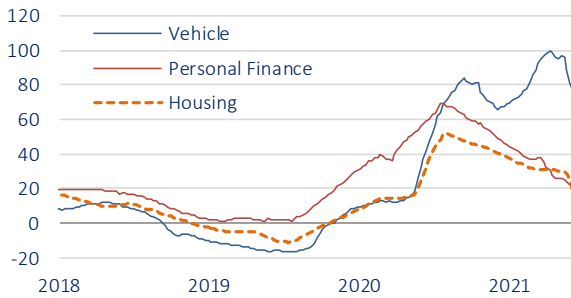
The deceleration in the total loans growth continues since the last months of 2020, due to the rise in interest rates. The total loan volume of the banking sector expanded by 20.1% yoy as of June 25 and reached 3.901 billion TRY. Compared to the year-end, total loan volume rose by 9.1%. In this period, TRY loan volume went up by 4.4%, while FX loans in USD terms expanded by 0.5%.

**Deposits and Loans**  
(annual % change)

**Consumer loans rose by 21.9% yoy.**

The annual increase in consumer loans, which was 62% in August 2020, stood at 21.9% as of June 25. In this period, the annual growth rates in housing and personal finance loans continued to lose momentum, becoming 20% and 21.8% respectively. Having followed a strong course since the second half of 2020, vehicle loans growth was realized as 76.8% in this period. As of June 25, the annual increase in the balance of individual credit cards was 44.5%.

**Consumer Loans**  
(annual % change)



Analyzing the consumer loan volume according to the ownership of banks, public banks performed relatively

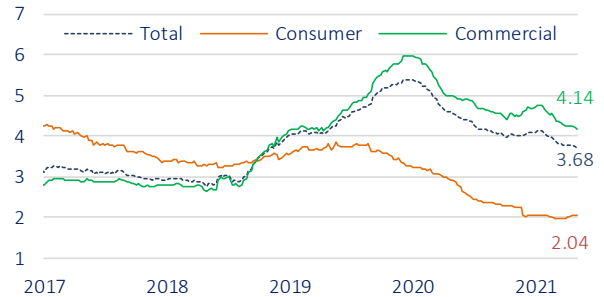
weaker compared to domestic and foreign private banks. As of June 25, consumer loan volume held by public banks contracted by 3.5% ytd, while domestic and foreign private banks' consumer loan volumes surged by 13.1% ytd and 10.7% ytd, respectively. In this period, when economic activity was strong and therefore demand was vivid, rapid increases in the vehicle and personal finance loans volume of domestic and foreign private banks came to the fore.

With the decision published on 1 July, as part of macro prudential measures, BRSA increased the risk weight of personal credit cards and personal finance loans, while adjusting the maturity limits and loan to value ratios of consumer loans and credit card installment limits. According to the decision, the number of credit card installments was reduced in jewelry, furniture, electrical goods and TV expenditures. In addition, the number of installments for vehicles purchased with financial leasing and bank loans was reduced.

**NPL ratio decreased to 3.68%.**

The non-performing loans ratio, which started 2021 at 4.1%, followed a downward trend in the following period and became 3.68% as of June 25, reaching the lowest level of the last 2.5 years. While the said ratio was 2.4% in public banks, it became 4.8% in private banks. Analyzing NPL in terms of loan types, NPL ratios for commercial and consumer loans declined to 4.14% and 2.04%, respectively.

**Non-performing Loans**  
(%)



The BRSA extended the implementation periods of some pandemic supports, which were scheduled to end on June 30th until the end of September. Accordingly, flexibility was given to delays in loan payments, while the regulation which extends the default period for the classification of non-performing loans from 90 days to 180 days was extended until the end of September.

**Net foreign currency position...**

As of June 25, FX net general position was (-) 51.129 million USD in on-balance sheet items and (+) 57.181 million USD in off-balance sheet items. Thus, the banking sector's net FX position on the week of June 25 was realized as (+) 6.052 million USD.

Source: BRSA Weekly Bulletin



## Concluding Remarks

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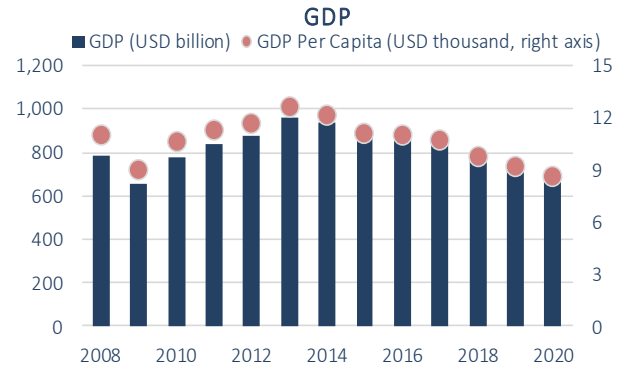
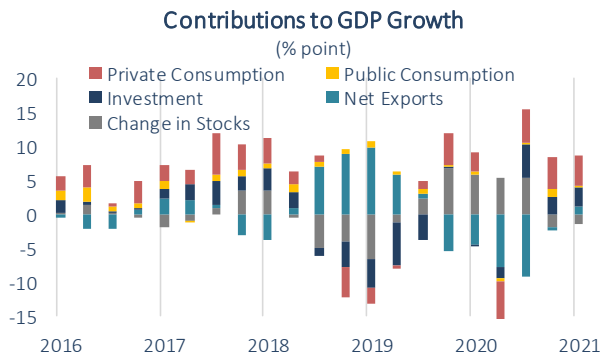
The downward trend in the number of daily Covid-19 cases worldwide, which started in May, has paused somewhat in recent weeks due to the rise of the spread of new Covid-19 variants. Some countries reintroduced restrictive measures on international travels. On the other hand, the news that most of the current vaccines are also effective against the delta variant alleviates the concerns together with rising vaccination rates around the world.

While the fight against the pandemic continues, the strong course in global economic activity persists. Accordingly, the debates on whether the inflationary pressures along with the rapid economic recovery are temporary remain on the agenda. The marked increase in Fed members' interest rate projections for the next two years at the Fed's June meeting supported the expectations that central banks of advanced countries might tighten their monetary policies earlier than expected. On the other hand, capital flows towards emerging countries continue to display a positive outlook in general, even though they diverge from country to country. According to the data released by IIF, portfolio inflows towards emerging countries became 215.5 billion USD in the first half of the year. They were at the level of 238.2 billion USD in the same period of 2019.

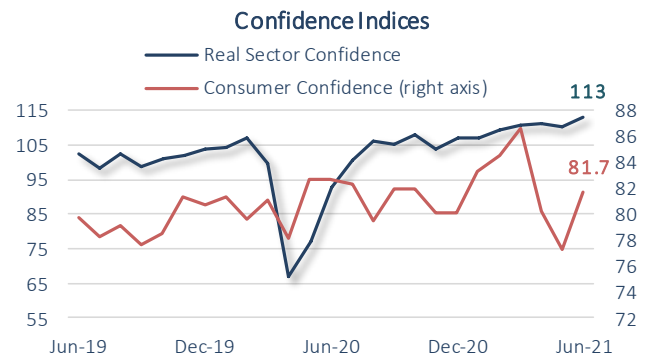
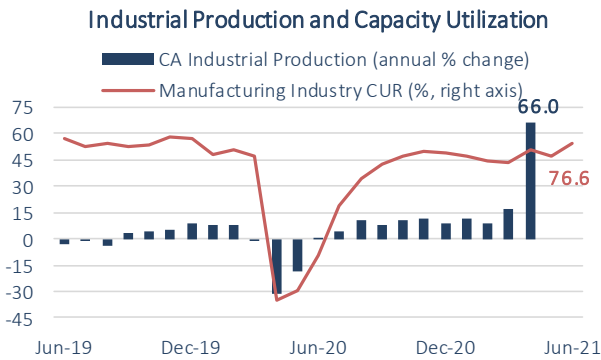
Economic activity continues to present a positive outlook in Turkey as well. Manufacturing PMI, which fell below the 50 threshold level in May due to the restrictive

measures taken against the pandemic, rose to 51.3 in June, pointing to growth in the sector again. In this period, the monthly export volume reached a historically high level of 19.8 billion USD. The moderate course in the number of daily Covid-19 cases, the acceleration of vaccination and the cautious optimism regarding the tourism sector support positive expectations regarding economic activity. While the risks on the inflation outlook remain to be on the upside, the CBRT has emphasized that the tight monetary policy stance will be maintained decisively. CBRT has also revised the reserve requirement regulation on July 1 to increase the effectiveness of the monetary transmission mechanism. On the same date, the BRSA took macro-prudential measures to reduce domestic demand-side pressures on inflation. While the moderate course of economic activity is expected to continue with the support of foreign demand in the second half of the year, the course of global inflation and exchange rate developments will continue to be closely monitored.

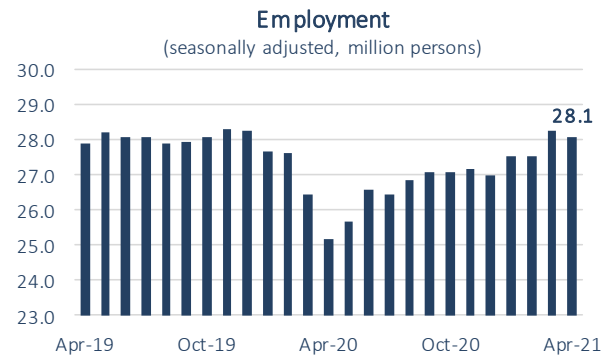
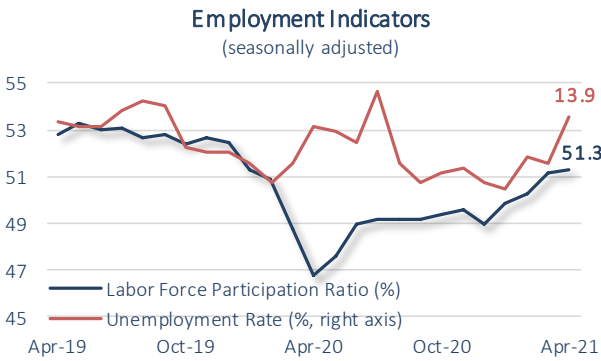
Growth



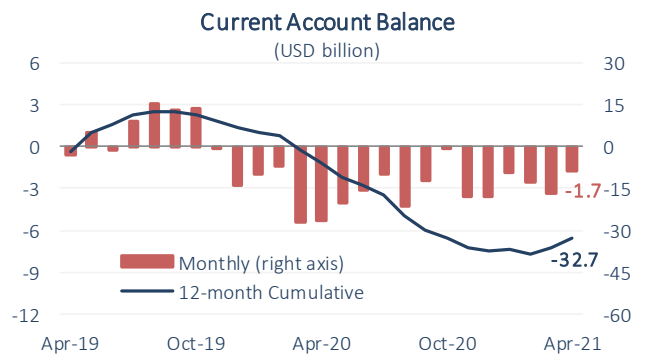
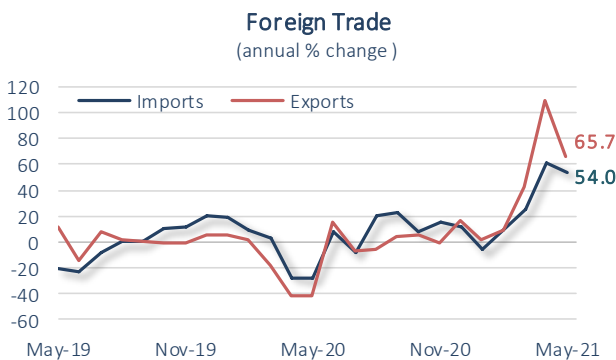
Leading Indicators



Labor Market



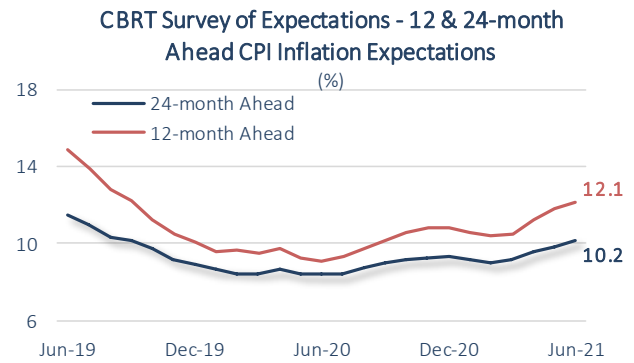
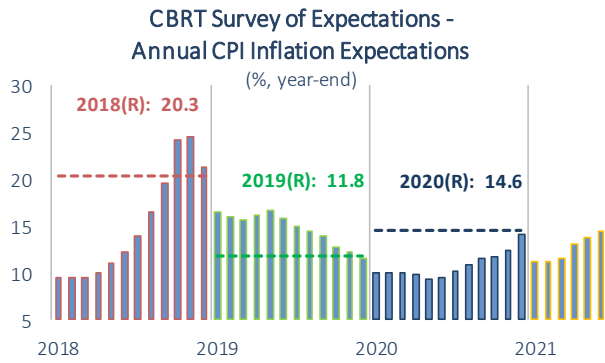
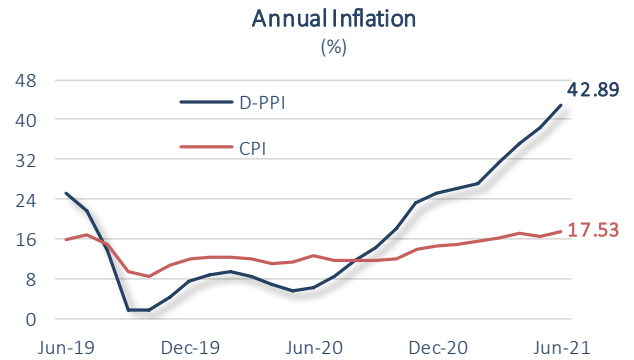
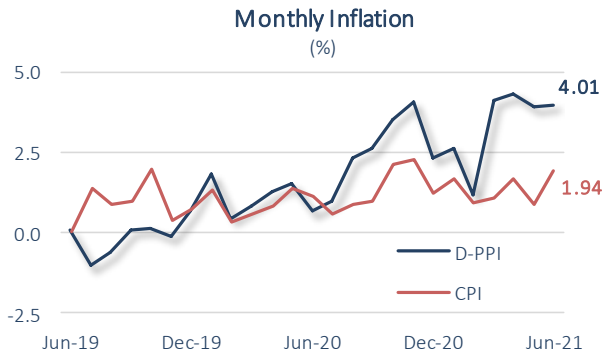
Foreign Trade and Current Account Balance



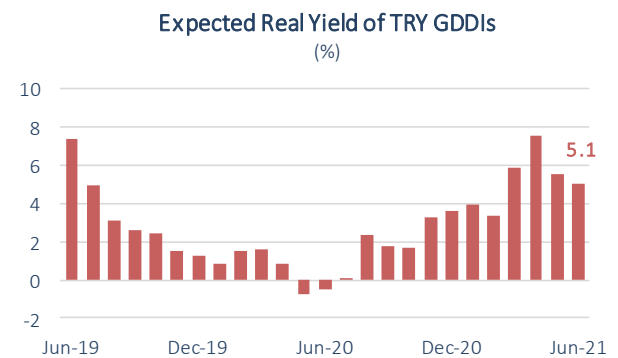
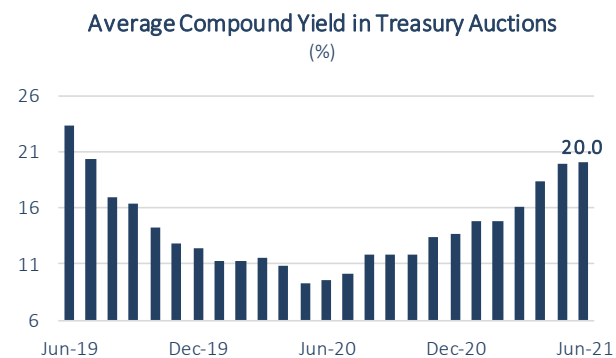
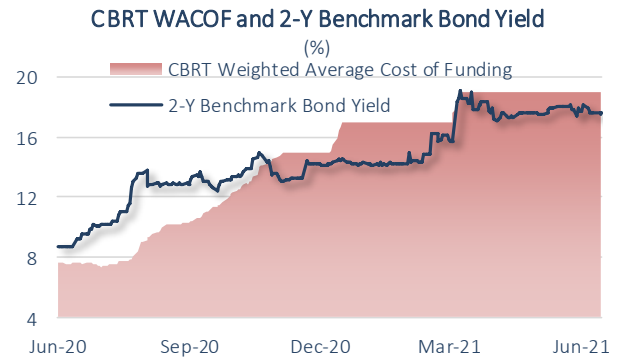
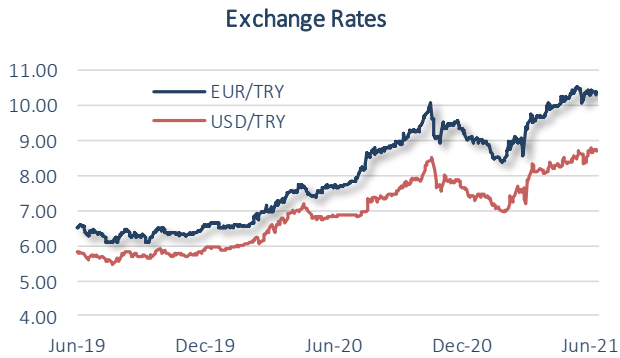
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020	Ç1-21		
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 (%)						Apr-21	May-21	Jun-21
CPI (annual)	8.53	11.92	20.30	11.84	14.60	17.14	16.59	17.53
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	35.17	38.33	42.89
Seasonally Adjusted Labor Market Figures						Feb-21	Mar-21	Apr-21
Unemployment Rate (%)	12.0	9.9	12.9	13.1	12.7	13.10	13.00	13.90
Labor Force Participation Rate (%)	52.4	53.1	53.0	52.3	48.9	50.30	51.20	51.30
FX Rates						Apr-21	May-21	Jun-21
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.3	62.3	60.6	59.8
USD/TRY	3.5176	3.7916	5.3199	5.9510	7.4325	8.3	8.48	8.69
EUR/TRY	3.7102	4.5530	6.0815	6.6800	9.0941	10.0	10.36	10.30
Currency Basket (0.5*EUR+0.5*USD)	3.6139	4.1723	5.7007	6.3155	8.2633	9.14	9.42	9.50
Foreign Trade Balance <sup>(1)</sup> (USD billion)						Mar-21	Apr-21	May-21
Exports	149.2	164.5	177.2	180.8	169.7	176.9	186.7	193.3
Imports	202.2	238.7	231.2	210.3	219.5	224.9	233.1	240.4
<b>Foreign Trade Balance</b>	<b>-52.9</b>	<b>-74.2</b>	<b>-54.0</b>	<b>-29.5</b>	<b>-49.9</b>	<b>-47.9</b>	<b>-46.4</b>	<b>-47.1</b>
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.0	78.7	80.1	80.4
Balance of Payments <sup>(1)</sup> (USD billion)						Feb-21	Mar-21	Apr-21
<b>Current Account Balance</b>	<b>-27.0</b>	<b>-40.8</b>	<b>-21.7</b>	<b>6.8</b>	<b>-36.7</b>	<b>-38.4</b>	<b>-36.3</b>	<b>-32.7</b>
<b>Capital and Financial Accounts</b>	<b>-21.7</b>	<b>-47.0</b>	<b>-10.9</b>	<b>1.3</b>	<b>-40.0</b>	<b>-37.3</b>	<b>-29.5</b>	<b>-25.4</b>
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6	-4.4	-3.9	-3.9
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5	-0.5	-0.3	-1.1
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0	-4.9	-8.3	-10.8
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	-27.4	-17.0	-9.6
<b>Net Errors and Omissions</b>	<b>5.3</b>	<b>-6.2</b>	<b>10.8</b>	<b>-5.5</b>	<b>-3.3</b>	<b>1.1</b>	<b>6.9</b>	<b>7.4</b>
<b>Current Account Balance/GDP (%)</b>	<b>-3.1</b>	<b>-4.8</b>	<b>-2.7</b>	<b>0.9</b>	<b>-5.2</b>	-	-	-
Budget <sup>(2)(3)</sup> (TRY billion)						Mar-21	Apr-21	May-21
<b>Expenditures</b>	<b>584.1</b>	<b>678.3</b>	<b>830.8</b>	<b>1000.0</b>	<b>1202.2</b>	<b>321.3</b>	<b>432.0</b>	<b>550.0</b>
Interest Expenditures	50.2	56.7	74.0	99.9	134.0	48.9	67.5	81.5
Non-interest Expenditures	533.8	621.6	756.8	900.1	1068.3	272.4	364.5	468.5
<b>Revenues</b>	<b>554.1</b>	<b>630.5</b>	<b>758.0</b>	<b>875.3</b>	<b>1029.5</b>	<b>344.1</b>	<b>437.9</b>	<b>542.5</b>
Tax Revenues	459.0	536.6	621.5	673.9	833.1	255.1	331.4	423.7
<b>Budget Balance</b>	<b>-29.9</b>	<b>-47.8</b>	<b>-72.8</b>	<b>-124.7</b>	<b>-172.7</b>	<b>22.8</b>	<b>5.9</b>	<b>-7.5</b>
<b>Primary Balance</b>	<b>20.3</b>	<b>8.9</b>	<b>1.1</b>	<b>-24.8</b>	<b>-38.8</b>	<b>71.7</b>	<b>73.4</b>	<b>73.9</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-1.9</b>	<b>-2.9</b>	<b>-3.4</b>	-	-	-
Central Government Debt Stock (TRY billion)						Mar-21	Apr-21	May-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4	1,111.2	1,120.0	1,133.3
External Debt Stock	291.3	341.0	481.0	574.0	752.5	838.9	829.5	868.1
<b>Total Debt Stock</b>	<b>760.0</b>	<b>876.5</b>	<b>1067.1</b>	<b>1,329.1</b>	<b>1,812.8</b>	<b>1,950.1</b>	<b>1,949.5</b>	<b>2,001.4</b>

(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	Apr.21	May.21	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>2,731</b>	<b>3,258</b>	<b>3,867</b>	<b>4,492</b>	<b>6,106</b>	<b>6,525</b>	<b>6,671</b>	<b>9.3</b>
<b>Loans</b>	<b>1,734</b>	<b>2,098</b>	<b>2,395</b>	<b>2,657</b>	<b>3,576</b>	<b>3,803</b>	<b>3,857</b>	<b>7.9</b>
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,425	2,430	3.3
Share (%)	65.2	67.4	60.1	61.8	65.8	64	63.0	-
FX Loans	603	684	956	1,015	1,224	1,378	1,428	16.7
Share (%)	34.8	32.6	39.9	38.2	34.2	36	37.0	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	148	148.5	-2.6
Non-performing Loan Rate (%)	3.2	3.0	3.9	5.3	4.1	4	3.7	-
<b>Securities</b>	<b>352</b>	<b>402</b>	<b>478</b>	<b>661</b>	<b>1,023</b>	<b>1,096</b>	<b>1,124</b>	<b>9.9</b>
<b>TOTAL LIABILITIES</b>	<b>2,731</b>	<b>3,258</b>	<b>3,867</b>	<b>4,492</b>	<b>6,106</b>	<b>6,525</b>	<b>6,671</b>	<b>9.3</b>
<b>Deposits</b>	<b>1,454</b>	<b>1,711</b>	<b>2,036</b>	<b>2,567</b>	<b>3,455</b>	<b>3,692</b>	<b>3,805</b>	<b>10.1</b>
TRY Deposits	845	955	1,042	1,259	1,546	1,650	1,679	8.6
Share (%)	58.1	55.8	51.2	49.0	44.7	45	44.1	-
FX Deposits	609	756	994	1,308	1,909	2,042	2,126	11.4
Share (%)	41.9	44.2	48.8	51.0	55.3	55	55.9	-
<b>Securities Issued</b>	<b>116</b>	<b>145</b>	<b>174</b>	<b>194</b>	<b>224</b>	<b>232</b>	<b>232</b>	<b>3.6</b>
<b>Payables to Banks</b>	<b>418</b>	<b>475</b>	<b>563</b>	<b>533</b>	<b>658</b>	<b>718</b>	<b>732</b>	<b>11.3</b>
<b>Funds from Repo Transactions</b>	<b>138</b>	<b>99</b>	<b>97</b>	<b>154</b>	<b>255</b>	<b>381</b>	<b>386</b>	<b>51.2</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>300</b>	<b>359</b>	<b>421</b>	<b>492</b>	<b>600</b>	<b>615</b>	<b>620</b>	<b>3.4</b>
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	20.7	24.7	-
<b>RATIOS (%)</b>								
Loans/GDP	66.5	67.6	64.7	61.5	70.8			
Loans/Assets	63.5	64.4	61.9	59.1	58.6	58.3	57.8	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.8	16.8	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	56.6	57.0	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	103.0	101.4	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	17.9	17.9	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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