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## Global Economy

In August, vaccination practices continued swiftly on a global scale, but the rise in the number of coronavirus cases with the spread of the delta variant increased the concerns that the pandemic could not be taken under control in near future.

In his speech at the Jackson Hole meeting, Fed Chairman Jerome Powell stated that it will be possible to start reducing asset purchases this year if the improvement in the labour market continues. Powell signaled that they would be more cautious against raising interest rates.

In July, consumer price inflation in the US remained high at 5.4%, while annual PPI inflation reached its highest level in over a decade. CPI inflation in the Euro Area hit its highest level in the last 10 years in August, while producer prices, which reached historically high levels in the Area, indicated that inflationary pressures will continue.

In the US and Euro Area, PMI data for August showed that the growth in the manufacturing and services sectors continued, albeit at losing some momentum due to the effect of the delta variant. In China the decline of the Caixin manufacturing PMI and the services PMI below the 50 threshold level, raised concerns regarding the activity in these sectors.

According to the data of the United Nations Food and Agriculture Organization (FAO), food prices which decreased on a monthly basis in June-July period, increased by 3.1% mom in August.

## Turkish Economy

Turkish economy grew by 21.7% yoy in the second quarter of 2021 due to the low base effect. According to seasonally and calendar adjusted figures, growth in economic activity lost some momentum in the second quarter compared to the previous quarter. Turkish economy, which expanded by 2.2% qoq in the first quarter of the year, grew by 0.9% qoq in the second quarter.

Calendar adjusted industrial production increased by 23.9% yoy in June. Thus, the 12.5% annual expansion in the first quarter of the year rose to 41.1% in the second quarter, thanks to the low base effect.

Seasonally adjusted unemployment rate decreased by 2.5 points mom and became 10.6%, while employment rate increased by 0.9 points mom to 44.9% in June. In this period, the labor underutilization rate decreased by 4.7 points to 22.4%.

In August, the manufacturing PMI rose to 54.1, indicating that the brisk pace of activity in the manufacturing sector continued.

In June, current account deficit came in at 1.13 billion USD, parallel to expectations. The 12-month cumulative deficit continued to decline and became 29.7 billion USD.

In July, the central government budget deficit increased by 54.2% yoy and was realized as 45.8 billion TRY. As of the January-July period, the budget deficit stood at 78.3 billion TRY, 39.2% of the 2021 year-end forecast.

In August, annual CPI inflation rose to 19.25%. Annual D-PPI inflation continued to move upwards, reaching its highest level since September 2018 with 45.52%.

## GDP Growth

### Turkish economy grew by 21.7% yoy in the second quarter.

In the second quarter of 2021, economic growth in Turkey came in at 21.7% yoy, in line with the market expectations. Low base effect was a significant factor in this performance. In the second quarter of 2020, when the impact of the pandemic on the economic activity was severe, Turkish economy had contracted by 10.4% yoy. With this data announcement, first quarter growth is revised to 7.2% from 7.0% and the growth in the last quarter of 2020, which was previously announced at 5.9%, is revised to 6.2%.

Contributions to Growth		(% point)						
	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	6 M	
<b>Consumption</b>	3.4	-5.5	5.2	5.1	4.3	14.4	9.2	
Private	3.0	-5.4	5.0	4.5	4.2	13.8	8.9	
Public	0.4	0.0	0.3	0.6	0.1	0.7	0.4	
<b>Investment</b>	-0.1	-1.5	5.2	2.9	3.1	5.4	4.2	
<b>Stock Change</b>	5.4	4.2	4.8	-1.3	-1.3	-5.0	-3.1	
<b>Net Exports</b>	-4.3	-7.7	-8.9	-0.6	1.1	6.9	3.9	
Exports	-0.3	-9.2	-5.7	0.1	0.7	10.8	5.6	
Imports	-4.0	1.6	-3.3	-0.7	0.4	-3.8	0.2	
<b>GDP (yoy, %)</b>	<b>4.4</b>	<b>-10.4</b>	<b>6.3</b>	<b>6.2</b>	<b>7.2</b>	<b>21.7</b>	<b>14.3</b>	

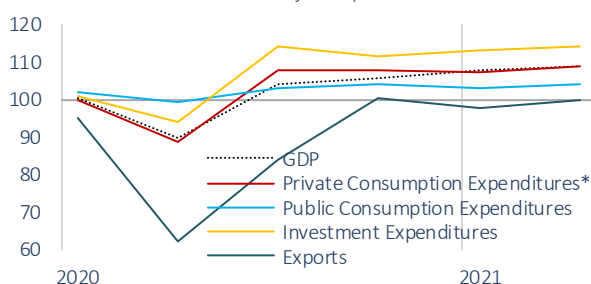
According to seasonally and calendar adjusted figures, the growth in economic activity lost some steam on a quarterly basis. After growing by 2.2% qoq in the first quarter, the economy expanded by 0.9% qoq in the second quarter.

Turkey's annual GDP as of the second quarter of 2021 became 5.9 trillion TRY and 765.1 billion USD in US dollar terms. The said amount was 716.9 billion USD at the end of 2020.

### The contribution of private consumption and exports stood out.

According to chain linked volume index figures, the contribution of consumption expenditures to growth was 14.4 pp in the second quarter. 13.8 pp of the said contribution came from private consumption while public consumption expenditures added 0.7 pp to

**GDP by Expenditure Approach**  
(index, Q4-2019=100, seasonally and calendar adjusted)



(\*) Final consumption expenditures of non-profit institutions serving households are not included.  
Numbers may not add to total due to rounding.

growth. In the second quarter, investment expenditures added 5.4 pp to growth. Machinery and equipment investments pushed the growth up by 3.7 pp while construction investments made a contribution of 1.5 pp.

Exports, showing a strong performance in the second quarter, made a high contribution with 10.8 pp to the 21.7% GDP growth. Imports, on the other hand, dragged the growth down by 3.8 pp. As a result, net exports pushed the growth up by 6.9 pp.

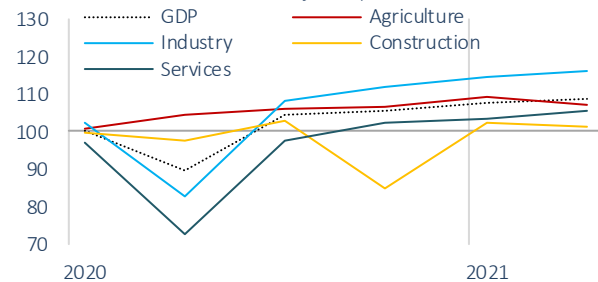
In this period, change in stocks item, which also includes the statistical discrepancies, dragged the GDP down by 5 pp. The contribution of this item was negative also in the previous two quarters.

### The share of industrial sector in GDP increased to 26.5%, the highest in 23 years.

All the main sub-sectors propped up annual GDP growth in the second quarter. Services sector made the highest contribution to growth with 12.9 pp while industrial sector added 7.5 pp. It was noteworthy that the share of industrial sector in GDP rose to the highest level in 23 years and became 26.5% during this period. Agricultural and construction sectors added 0.1 pp and 0.2 pp to growth, respectively.

The quarter-over-quarter performances of the sub-sectors revealed that manufacturing industry contracted by 0.8% while information technology recorded its largest quarterly expansion in history surging by 6.9%.

**GDP by Production Approach**  
(index, Q4-2019=100, seasonally and calendar adjusted)



### Expectations...

After having a solid growth of 14.3% yoy in the first half, Turkish economy is expected to register a modest expansion in the second half of the year due partly to the high base effect. CBRT's tight monetary policy stance and the adoption of macroprudential measures in the recent period could limit the growth performance. Also, monetary policy decisions of the major central banks and the course of the pandemic will continue to be the most significant global factors that would drive the pace of the economic activity in the coming period.

Source: Datastream, Turkstat

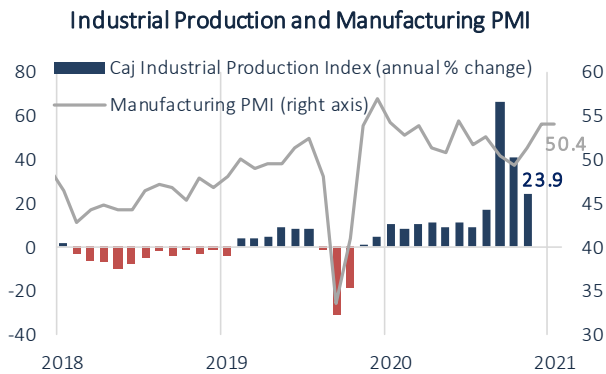
## Leading Indicators

### Unemployment rate became 10.6% in June.

Seasonally adjusted unemployment rate decreased by 2.5 points mom to 10.6% in June, while employment rate went up by 0.9 points to 44.9%. The surge in the employment by 602K persons was decisive in the decline in the unemployment rate. In this period, employment increased in all sectors, while employment growth of 296K persons in the industrial sector stood out. The labor underutilization rate, which consists of time-related underemployment, unemployment and potential labour force decreased by 4.7 points mom to 22.4% in June.

### Industrial production widened by 41.1% in the second quarter.

Calendar adjusted industrial production increased by 23.9% yoy in June. Thus, the 12.5% annual increase recorded in the index in Q1 rose to 41.1% in the second quarter thanks to the low base effect. According to the seasonally and calendar adjusted data, industrial production increased by 2.3% compared to the previous month, the fastest in 10 months. Seasonal and calendar adjusted industrial production expanded by 1.6% qoq in the second quarter of the year.



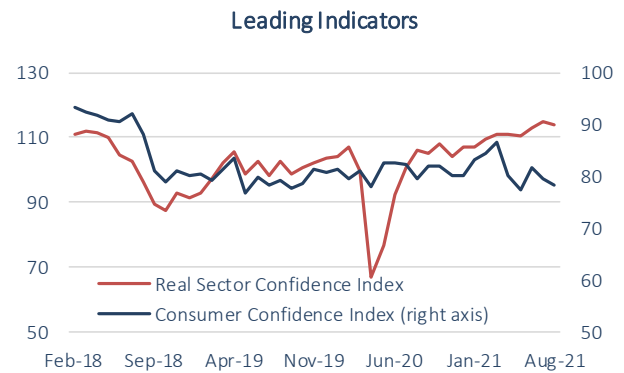
### Manufacturing PMI rose to 54.1 in August.

Manufacturing PMI, which rose to 54.0 in July, increased to 54.1 in August, indicating that the activity in the manufacturing sector continued its strong course. The sub-items of the index showed that the improved demand conditions following the loosening of the restrictions imposed on the pandemic and the strong growth in exports supported new orders and production. On the other hand, ongoing delays in supply chains continued to cause increases in input costs and final product prices in August.

### Confidence indices displayed a mixed outlook.

Seasonally adjusted real sector confidence index increased by 0.1 points mom to 112.2 in August. In terms of sub-indices, expectations for the overall trend and export orders for the next 3 months limited the rise in real sector confidence. Sectoral confidence indices also rose in August, while consumer confidence index fell by

1.6% compared to the previous month to 78.2. Thanks to supply-side improvements, economic confidence index increased by 0.7% mom in August to 100.8, reaching its highest level since May 2018.



### The contraction in house sales accelerated.

House sales, which contracted by 29.1% yoy in June, decreased by 53% yoy in July. Mortgaged sales, which had a share of 19.1% in total sales in July, fell by 84.3% yoy due to the rising interest rates compared to the previous year. In July, first sales declined by 51.9% yoy to 33K units, while second-hand house sales narrowed by 53.5% yoy to 75K units in the same period. Thus, the decrease in total sales in the first 7 months of this year became 22.7% compared to the same period of 2020. On the other hand, the upward trend in house prices continued in June. In this period, housing prices rose by 2.7% mom, while the annual real increase in house prices was 9.9%.

### White goods sales declined yoy in July due to high base effect.

According to the Turkish White Goods Manufacturers' Association, domestic white goods sales fell by 31% yoy in July due to the high base of the same period last year. In this period, export volume contracted by 16%. In the January-July period, domestic sales expanded by 15% and exports increased by 35% yoy.

According to the Automotive Distributors' Association, the automobile and light commercial vehicle market contracted by 5% yoy to 58,454 units in August. In this period, the automobile market widened by 0.9%, while the light commercial vehicle market contracted by 20.2%. In the first 8 months of the year, the automotive market expanded by 24.3% yoy. On the other hand, the change made on August 13th in the SCT base limits of passenger cars, is expected to have a positive impact on sales, as the said car prices will decrease slightly.

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

## Foreign Trade and Balance of Payments

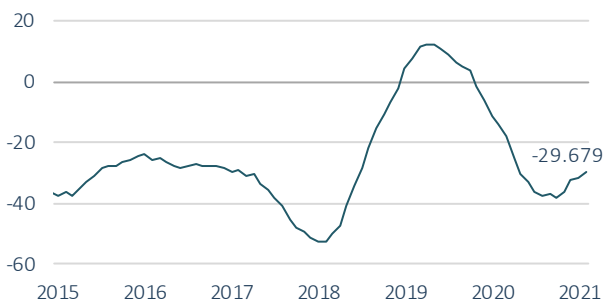
### Foreign trade deficit expanded rapidly in July.

According to Turkstat data, exports increased by 10.2% yoy to 16.4 billion USD in July, and imports expanded by 16.8% yoy to 20.7 billion USD. Thus, in this period, the foreign trade deficit reached 4.3 billion USD, recording the highest increase in the last 8 months with 51.3% yoy. In the first seven months of the year, the foreign trade deficit decreased by 4.7% compared to the same period of last year and became 25.5 billion USD. The import coverage ratio which was 77.1% in January-July 2020 rose to 82.6% in the same period of this year.

### Current account deficit is at 1.13 billion USD in June.

In June, current account deficit realized in line with expectations and came in at 1.13 billion USD. It also decreased by 1.95 billion USD compared to June 2020. The decrease in the foreign trade deficit by 462 million USD in parallel with the fall in net gold imports, and increase in services balance by 1.9 billion USD due to the rise in net transportation and net travel revenues were effective in 1.95 billion USD decline of current account deficit compared to June 2020. While the current account deficit was realized as 13.6 billion USD in the first half of the year, the 12-month cumulative deficit continued to decrease and became 29.7 billion USD.

**Current Account Balance**  
(12-month cumulative, USD billion)



### Direct investments reached the highest level of this year.

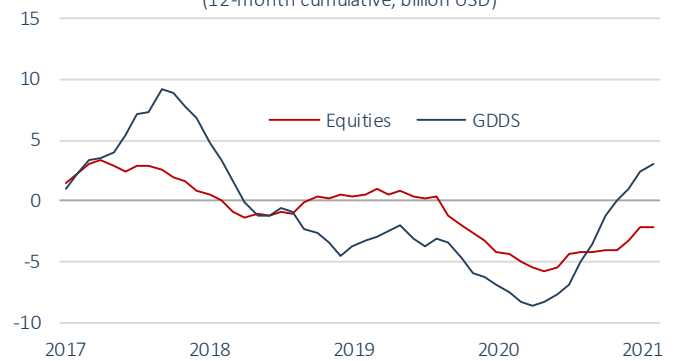
Net direct investments rose to the highest level of 2021

with 796 million USD in June. In this period, capital investments amounted to 460 million USD and real estate investments to 454 million USD. According to the distribution of direct investments by sectors, investments in the information and communication sector came to the fore in June. In the first half of 2021, net direct investments reached to 2.5 billion USD. 12-month cumulative net direct investments became 4.9 billion USD as of June.

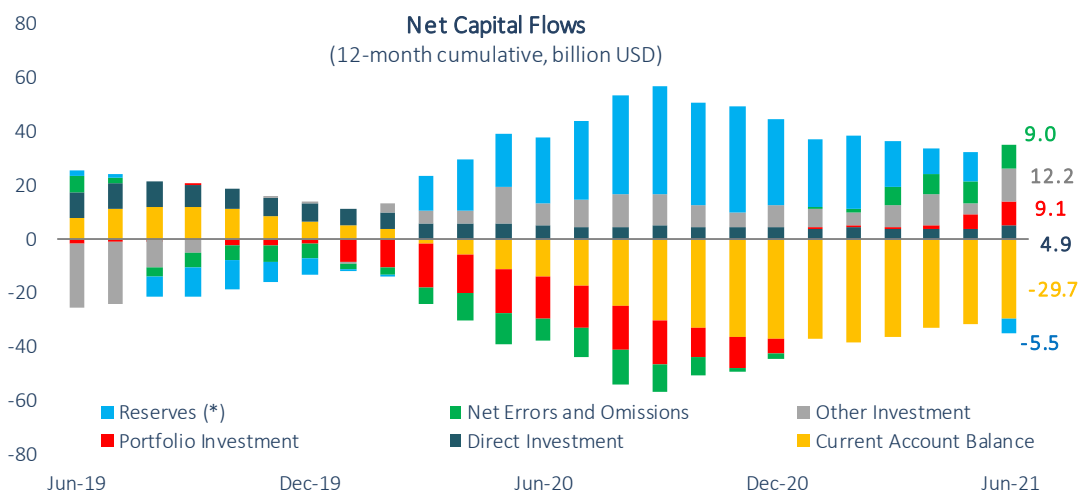
### A rapid inflow was recorded in portfolio investments.

Portfolio investments, which recorded a net capital inflow of 2.8 billion USD in June, posted the fastest monthly inflow since January. During this period, non-residents made a net purchase of 28 million USD in the stock market and 237 million USD in the GDDS market. In June, banks, general government and other sectors net issued bonds abroad of 620 million USD, 1.5 billion USD and 790 million USD, respectively.

**Non-resident Investors' Portfolio Investment**  
(12-month cumulative, billion USD)



In June, net capital inflows in other investments remained strong with 3.4 billion USD. In this period, the effective and deposit assets of domestic banks in their foreign correspondents decreased by 1.25 billion USD. While banks and other sectors made net loan payments of 400 million USD and 393 million USD, respectively, the long-term debt rollover ratio was realized as 90.4% in the banking sector and 111.3% in other sectors. In addition,



Source: CBRT, Datastream

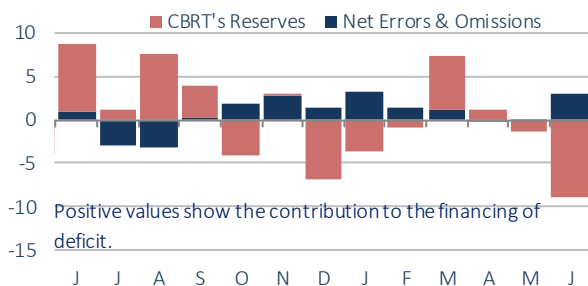
## Foreign Trade and Balance of Payments

the 3.5 billion USD increase in short-term effective and deposit assets held at the CBRT was remarkable. The increase in the short-term debt of the CBRT, which is thought to be due to the swap transactions, was effective in this development

### Reserve assets increased by 8.8 billion USD in June.

Reserve assets increased rapidly by 8.8 billion USD in June. Thus, according to 12-month cumulative data, reserve assets increased by 5.5 billion USD for the first time since February 2020. Net errors and omissions, which recorded a rapid capital inflow of approximately 3 billion USD, capital inflow in the first half of the year reached 8.7 billion USD.

**CBRT Reserves and Net Errors and Omissions**  
(monthly, USD billion)



### Expectations...

According to the provisional foreign trade data released by the Ministry of Commerce, the export volume which increased by 51.8% yoy to 18.9 billion USD in August, reached the highest August figure of all times. In the same period, the import volume rose by 23.8% to 23.2 billion USD. Thus, the foreign trade deficit narrowed by 31.7% yoy to 4.3 billion USD in August. Despite the increase in the number of Covid-19 cases on a global scale due to the delta variant, continuation of the strong upward trend in exports, the course of net gold imports below the historical average and the revival in tourism activities support the expectation that the positive outlook in the current account balance will continue in the coming period.

### Balance of Payments

	Jun. 2021	Jan. - Jun. 2020	Jan. - Jun. 2021	% 12-month Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-1,127</b>	<b>-21,226</b>	<b>-13,601</b>	<b>-35.9</b>	<b>-29,679</b>
Foreign Trade Balance	-1,599	-18,266	-13,366	-26.8	-32,981
Services Balance	1,511	2,603	5,628	116.2	12,179
Travel (net)	1,026	2,723	4,087	50.1	10,544
Primary Income	-1,021	-5,172	-6,475	25.2	-9,999
Secondary Income	-18	-391	612	-	1,122
<b>Capital Account</b>	<b>-1</b>	<b>-20</b>	<b>-19</b>	<b>-5.0</b>	<b>-38</b>
<b>Financial Account</b>	<b>1,820</b>	<b>-23,124</b>	<b>-4,904</b>	<b>-78.8</b>	<b>-20,732</b>
Direct Investment (net)	-796	-2,240	-2,522	12.6	-4,872
Portfolio Investment (net)	-2,823	12,701	-1,919	-	-9,135
Net Acquisition of Financial Assets	327	-1,117	-139	-87.6	1,227
Net Incurrence of Liabilities	3,150	-13,818	1,780	-	10,362
Equity Securities	28	-3,970	-1,808	-54.5	-2,093
Debt Securities	3,122	-9,848	3,588	-	12,455
Other Investment (net)	-3,401	-3,467	-7,727	122.9	-12,245
Currency and Deposits	-4,533	-10,924	-6,292	-42.4	-14,251
Net Acquisition of Financial Assets	-1,320	1,708	4,634	171.3	1,890
Net Incurrence of Liabilities	3,213	12,632	10,926	-13.5	16,141
Central Bank	3,473	11,213	4,788	-57.3	6,236
Banks	-260	1,419	6,138	332.6	9,905
Foreign Banks	-125	437	4,758	988.8	10,349
Foreign Exchange	214	-2,015	3,705	-	7,585
Turkish Lira	-339	2,452	1,053	-57.1	2,764
Non-residents	-135	982	1,380	40.5	-444
Loans	756	7,165	-1,505	-	-503
Net Acquisition of Financial Assets	47	-160	604	-	-517
Net Incurrence of Liabilities	-709	-7,325	2,109	-	-14
Banking Sector	-400	-3,805	-1,627	-57.2	-2,895
Non-bank Sectors	-393	-3,114	3,999	-	3,151
Trade Credit and Advances	380	299	75	-74.9	2,509
Other Assets and Liabilities	-4	-7	-5	-28.6	0
Reserve Assets (net)	8,840	-30,118	7,264	-	5,520
<b>Net Errors and Omissions</b>	<b>2,948</b>	<b>-1,878</b>	<b>8,716</b>	<b>-</b>	<b>8,985</b>

Source: CBRT, Datastream

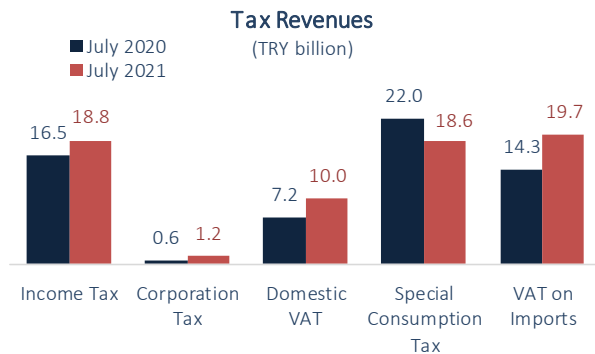


## Budget Balance

The central government budget posted a deficit of 45.8 billion TRY in July.

In July, the central government budget deficit increased by 54.2% yoy and was realized as 45.8 billion TRY. Interest expenditures had an important role in the rapid expansion of the budget deficit. Interest expenditures tripled on an annual basis and reached 23.6 billion TRY, due to the busy domestic debt payment schedule in July. In this period, budget revenues performed weaker compared to the first half of the year. In July, budget revenues increased by 10.1% yoy to 95.3 billion TRY, while non-interest budget expenditures rose by 9% yoy to 117.4 billion TRY. The primary budget deficit, which was 21.2 billion TRY in July 2020, did not record a significant change and became 22.2 billion TRY in the same month of this year.

In the first 7 months of the year, the central government budget deficit narrowed by 43.7% yoy to 78.3 billion TRY due to the strong increase in tax revenues and the relatively cautious stance on the budget expenditures. In line with the aforementioned outlook, the primary balance, which gave a deficit of 59.4 billion TRY in the January-July period of 2020, posted a surplus of 36.2 billion TRY in the same period of this year.



### The increase in tax revenues lost momentum in July.

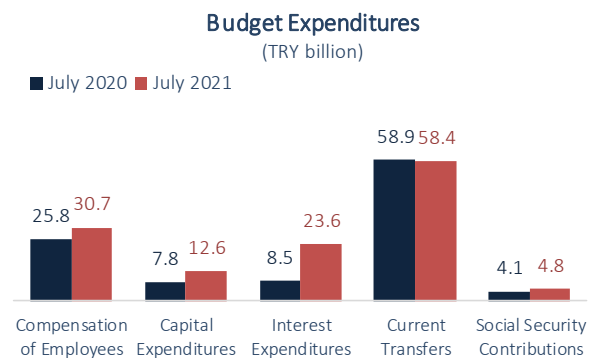
The tax revenues, which rose by 50% in the first half of the year on an annual basis, increased by 11.5% yoy in July. Special consumption tax (SCT) revenues, which accounted for one-fifth of tax revenues in July, decreased by 15.4% compared to July 2020 and led the rise in tax revenues to lose momentum. In this period, SCT revenues from petroleum and natural gas products decreased by 3.7 billion TRY yoy. On the other hand, due to the strong course of domestic demand and the depreciation of TRY, the rapid increase in value-added tax (VAT) revenues on imports by 37.5% yoy continued to support

tax revenues. Domestic VAT revenues also went up by nearly 40% yoy in July.

In the January-July period, tax revenues rose by 34% yoy and became 726 billion TRY. Non-tax revenues, which did not record a significant change on a monthly basis in July, expanded by 11.1% yoy to 144.4 billion TRY in the January-July period.

### Personnel and capital expenditures came to the fore in the increase of non-interest expenditures.

Personnel and capital expenditures had an upward impact on primary budget expenditures in July. In this period, personnel expenditures increased by 19% yoy, while capital expenditures expanded by 60.7% yoy due to the rapid increase in real estate capital and production expenses. The current transfers item, which accounted for around 40% of budget expenditures in July, decreased by approximately 1% yoy to 58.4 billion TRY.



In July, interest expenditures nearly tripled on an annual basis due to the domestic debt interest payment of 18.7 billion TRY. In this period, foreign debt interest payments were realized as 2.8 billion TRY. In the first 7 months of the year, primary expenditures increased by 14.7% yoy, below the inflation rate, while the annual rise in interest expenditures was 43.6%.

### Expectations...

Despite the historically high deficit in the central government budget in July due to the rapid rise in interest expenditures, budget indicators continue to draw a relatively positive picture since the beginning of the year. As of the January-July period, the budget deficit stands at 39.2% of the 2021 year-end forecast which was revised in May. We think that the risks on the budget outlook may increase in the rest of the year depending on the course of the pandemic and domestic demand.

## Central Government Budget

	July		%	January-July		%	2021 Budget Target	2021 Target*	Real./2021 Target* (%)
	2020	2021		Change	2020				
<b>Expenditures</b>	<b>116.2</b>	<b>141.1</b>	<b>21.4</b>	<b>681.1</b>	<b>804.4</b>	<b>18.1</b>	<b>1,346.1</b>	<b>1,454.5</b>	<b>55.3</b>
Interest Expenditures	8.5	23.6	179.5	79.7	114.5	43.7	179.5	179.6	63.8
Non-Interest Expenditures	107.8	117.4	9.0	601.4	689.9	14.7	1,166.6	1,274.9	54.1
<b>Revenues</b>	<b>86.5</b>	<b>95.3</b>	<b>10.1</b>	<b>541.9</b>	<b>726.1</b>	<b>34.0</b>	<b>1,101.1</b>	<b>1,254.6</b>	<b>57.9</b>
Tax Revenues	76.0	84.7	11.5	412.0	581.7	41.2	922.7	1,051.1	55.3
Other Revenues	10.5	10.5	0.1	130.0	144.4	11.1	178.4	203.6	70.9
<b>Budget Balance</b>	<b>-29.7</b>	<b>-45.8</b>	<b>54.2</b>	<b>-139.1</b>	<b>-78.3</b>	<b>-43.7</b>	<b>-245.0</b>	<b>-199.9</b>	<b>39.2</b>
<b>Primary Balance</b>	<b>-21.2</b>	<b>-22.2</b>	<b>4.4</b>	<b>-59.4</b>	<b>36.2</b>	<b>-</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 came in above expectations in August.

In August, CPI increased by 1.12% compared to the previous month, above market expectations. The market expectation was that the monthly increase in CPI would be 0.6%. In the same period, D-PPI rose by 2.77% mom and continued its rapid upward trend.

### Annual CPI inflation rose to 19.25% in August.

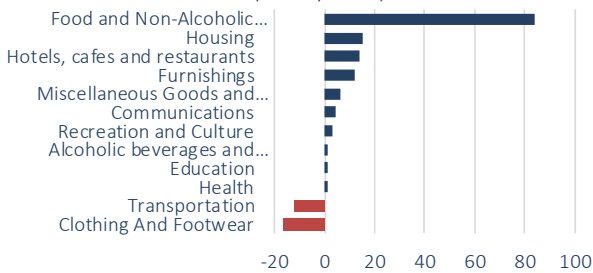
In August, annual CPI inflation became 19.25%, the highest level in 28 months. Annual D-PPI inflation continued to move upwards, reaching its highest level since September 2018 with 45.52%.

August (change %)	CPI		D-PPI	
	2020	2021	2020	2021
Monthly	0.86	1.12	2.35	2.77
Year-to-Date	7.29	11.65	10.52	28.51
Annual	11.77	19.25	11.53	45.52
Annual Average	11.27	15.78	6.71	31.34

### The rise in food prices was decisive in CPI inflation.

In August, prices in 10 out of 12 main spending groups increased compared to the previous month. Due to the rise in international food prices and the droughts taken place, the food and non-alcoholic beverages group prices surged fast by 3.18% mom and pushed the monthly CPI inflation up by 84 bps. In this period, the housing group, which has one of the highest share in expenditure groups, made the second highest contribution to monthly CPI inflation with 15 bps. The prices of hotels and restaurants group rose by 2.27% mom and affected monthly CPI inflation by 14 bps. Due to seasonal factors, declining prices in clothing, footwear along with transportation groups limited the rise in CPI inflation by 29 bps in August.

**Contributions to the Monthly CPI Inflation**  
(basis points)



In terms of the contribution of the main expenditure groups to annual CPI inflation, the food group, where prices increased the fastest by 29% yoy, had also the highest impact on CPI inflation with 705 bps. The transportation group prices went up by 21.8% yoy and had a 334 bps impact on inflation, while housing group, where prices rose by 19.3% yoy, increased inflation by 294 bps in the same period.

### Core inflation indicators...

In August, when seasonality is expected to have a

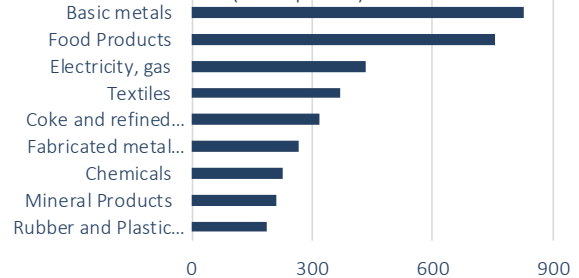
downward impact on inflation, the monthly increase in CPI excluding seasonal products was 0.95%. Thus, the CPI excluding seasonal products fell below the headline inflation after having been above it for three months. In August, monthly increases in core inflation indicators B (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C (CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold), which are closely monitored by the CBRT, were also below the headline inflation with 0.74% and 0.38%, respectively. In this period, annual increases in B and C indices decreased compared to previous month and became 18.46% and 16.76%, respectively.

### Increases in electricity and basic metal prices were determinant in D-PPI inflation.

In August, the highest monthly price increases were realized in the electricity-gas production and distribution along with wood products manufacturing sectors with 19.53% and 6.61%, respectively. In this period, the sectors that had the most upward impact on D-PPI inflation were electricity-gas production with 158 bps and basic metals with 29 bps. Price increases in the food group also pushed the monthly D-PPI up by 21 bps in August.

On an annual basis, the highest price increases were in the basic metals, coke and refined petroleum products sectors with 100.3% and 92.2%, respectively. In this period, basic metal products and food group made the highest impact on the annual D-PPI inflation with 826 bps and 757 bps, respectively.

**Contributions to Annual D-PPI Inflation**  
(basis points)



### Expectations...

In August, the rise in inflation continued and annual CPI inflation exceeded the CBRT's policy rate of 19%. We calculate that the increases in the natural gas tariff for industry and electricity generation at the beginning of September may increase the CPI inflation by 0.2 points, taking also the indirect effects into account. The recent high course in food prices poses upside risks to the CBRT's food inflation forecast, which is 15% for the end of the year. In addition, upwardly revised growth forecasts for the whole year following the announcement of GDP growth data indicate that the demand-driven upward pressure on inflation may continue.

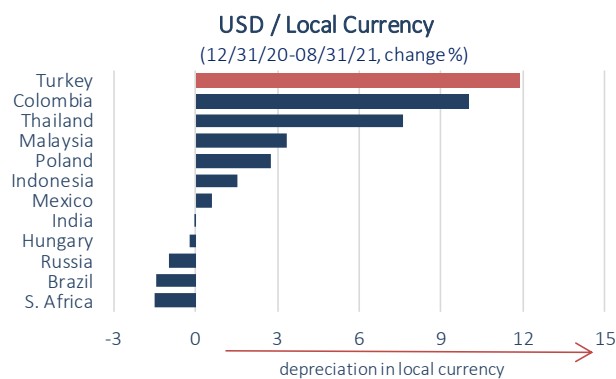
	30-Jul	31-Aug	Change
5-Y CDS (basis points)	378	361	-17 bps ▼
TR 2-Y Benchmark Yield	18.73%	18.64%	-9 bps ▼
BIST-100	1,393	1,472	5.7% ▲
USD/TRY	8.4220	8.3145	-1.3% ▼
EUR/TRY	9.9868	9.8149	-1.7% ▼
Currency Basket*	9.2044	9.0647	-1.5% ▼

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

### Turkish lira appreciated in August.

Data released worldwide in August presented a mixed outlook on economic activity, while the uncertainty created by the fast-spreading delta variant on the course of global economic activity limited the global risk appetite. Various statements made by Fed officials during the month regarding the monetary policy to be implemented in the upcoming period caused volatility in the stock markets. Fed Chairman Powell's moderate messages in his speech at the Jackson Hole meeting on August 27 supported global markets.

Domestic markets also fluctuated over the past month parallel to developments in global markets. In line with the positive trend across other developing country stock markets, the BIST-100 index ended August with an increase of 5.7%. At the end of the month, Turkey's 5-year CDS risk premium became 361 basis points, lowest level in nearly 5 months. USD/TRY rate, which rose in the first half of August due to the course of the US dollar in global markets, fell in the second half of the month and became 8.31 on August 31, reaching its lowest level since May.



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

At its meeting on August 12th, the CBRT kept the policy rate at 19%, in line with market expectations. CBRT stated that economic activity remained strong in the third quarter of the year with the support of foreign demand, while the improvement in the current account balance was important for the price stability target. At an investor meeting in early September, CBRT President Kavcioglu stated that they maintain their expectations that inflation will fall in the last quarter of the year.

The CBRT revised some of its data to comply with international standards.

The CBRT revised the short-term external debt statistics, international investment position, foreign exchange assets and liabilities of non-financial companies, and securities statistics in order to comply with international standards. Short-term external debt stock, which was 144.9 billion USD as of end of May before the revision, decreased to 119.2 billion USD after the revision, mainly due to the 25.1 billion USD decrease in import payables. According to the revised data, the short-term external debt stock increased by 6.5% as of end of June compared to the end of 2020 and reached 121.7 billion USD.

The CBRT and the Bank of Korea entered into a swap agreement, effective from August 12th. The swap agreement allows for the exchange of local currencies between the two central banks up to 17.5 billion TRY or 2.3 trillion KRW. Within the framework of the SDR allocation by the IMF to support member countries due to the pandemic in proportion to their quotas, SDR allocation of 6.3 billion USD to Turkey took place on August 23, 2021.

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

According to the securities statistics published by the CBRT, as of August 27, the equity portfolio of non-residents, adjusted for price and exchange rate movements, increased by 515 million USD while government domestic debt securities (GDSD) expanded by 375 million USD compared to end-July. Compared to the end-2020, non-residents equity portfolio declined by 1.4 billion USD, while their GDSD portfolio expanded by 2.2 billion USD.

### The Medium Term Programme covering the 2022-2024 period has been published.

The Medium Term Programme covering the 2022-2024 period, which includes the targets and policies regarding the Turkish economy, was published in the Official Gazette on September 5, 2021. According to the program, while the Turkish economy, which is expected to grow by 9% in 2021, is forecasted to grow by 5% in 2022, and the growth rates for 2023 and 2024 are predicted as 5.5%. CPI inflation for the end of 2021, which was predicted as 8% in the previous program, is expected to be 16.2% in the current program. CPI, which is expected to decrease to single digits with 9.8% at the end of 2022, is estimated to be 8% and 7.6% in 2023 and 2024, respectively. On the other hand, the current account deficit to GDP ratio is expected to realize as 2.2% in 2022, and to decline to 1.5% in 2023 and to 1% in 2024.

### Medium Term Programme Projections (%)

	2021 (RE)	2022 (P)
GDP Growth	9.0	5.0
Unemployment Rate	12.6	12.0
Current Account Balance/GDP	-2.6	-2.2
CPI (year end)	16.2	9.8

(RE) Realization Estimate, (P) Programme

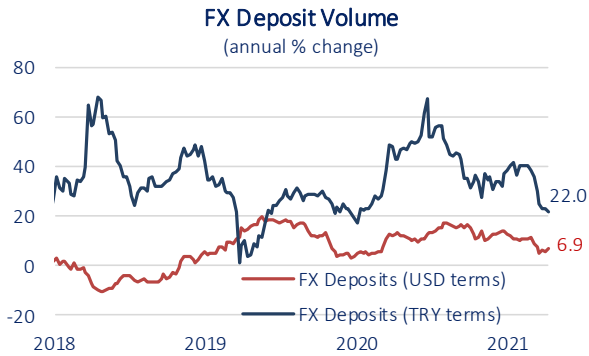
Source: CBRT, Datastream, Reuters, BIST



## Banking Sector

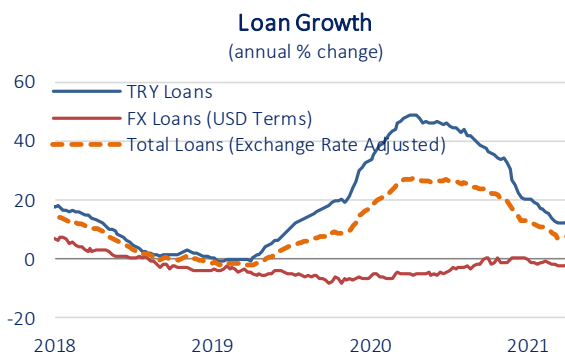
### Deposit volume became 3.938 billion TRY.

According to the Weekly Bulletin published by the BRSA, as of the week of August 27, the total deposit volume expanded by 18.7% compared to the same period of last year and by 14% compared to the end of 2020, reaching 3,938 billion TRY. Annual growth in total deposit volume declined with the effect of the deceleration in FX deposits growth due to exchange rate developments. In this period, FX deposits in USD terms rose by 6.9% yoy. According to the exchange rate adjusted figures, annual growth in deposit volume was 10.7% in the same period.



### Loan volume expanded by 12.4% yoy.

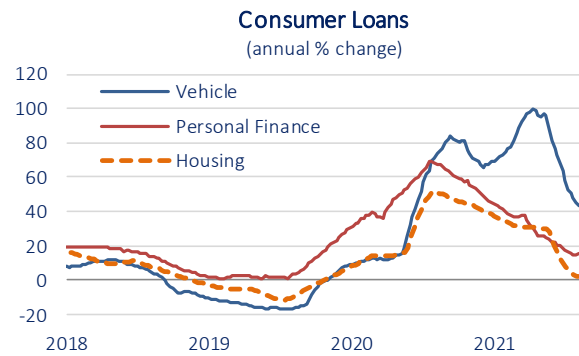
Annual loan growth, which was 35.1% at the end of 2020, decreased to 12.4% as of the week of August 27, while the loan volume became 3,903 billion TRY. As of August 27, TRY loan volume increased by 12.4% yoy, while FX loans in USD terms fell by 1.6% yoy to 164 billion USD. The decrease in FX loan volume in the last two months was realized approximately 4 billion USD. According to the exchange rate adjusted figures, annual increase in the total loan volume lost momentum and became 7.5% as of August 27. Compared to the year-end, the increase in total loan volume stood at 9.2%.



### Annual increase in consumer loans fell to 10.3%.

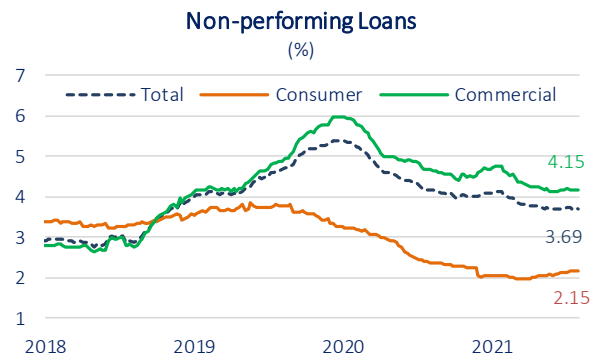
Annual increase in consumer loans decreased to 10.3% as of August 27th, due to the high level of interest rates as well as the macroprudential measures announced at the beginning of July. During this period, annual growth rates slowed down in all types of loans. Annual growth rate of housing loans fell to its lowest level since November 2019 at 2.1%, while personal finance loans expanded by 15.3% yoy. The increase in vehicle loans also lost momentum, falling to

its levels in mid-2020 with 43.6%. As of August 27th, the annual increase in the balance of individual credit cards stood at 40.6%, due to the rapid increase in the share of online expenditures in consumption expenditures.



### NPL ratio is at 3.69%.

The non-performing loans ratio, which has not changed significantly since May, stood at 3.69% as of August 27. While the said ratio was 2.53% in public banks, it became 4.75% in private banks. Analyzing NPL in terms of loan types, NPL ratios for commercial and consumer loans came in at 4.15% and 2.15%, respectively.



### Net foreign currency position...

As of August 27, FX net general position was (-) 52,778 million USD in on-balance sheet items and (+) 59,436 million USD in off-balance sheet items. Thus, the banking sector's net FX position on the week of August 27 was realized as (+) 6.657 million USD.

## Concluding Remarks

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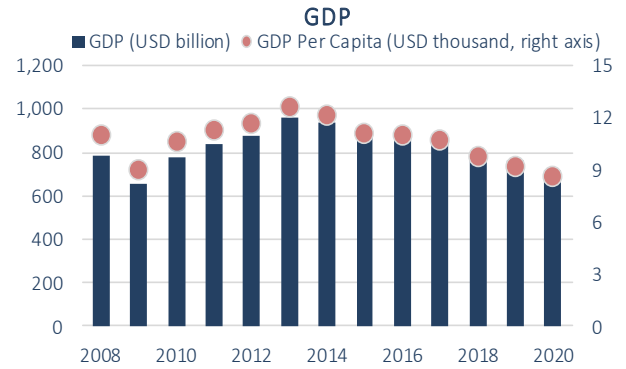
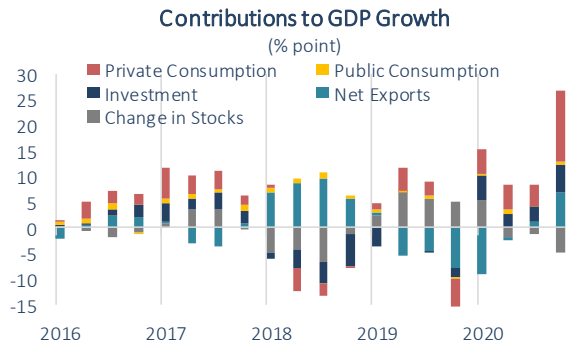
Despite the rapid rise in vaccination rates around the world, the increase in the number of cases with the effect of the delta variant creates uncertainties regarding the course of global economic activity. Preliminary figures show that the recovery in the US and the Euro Area, where a significant part of the population is vaccinated, continues albeit losing momentum. In China, where the pandemic has been under control compared to the rest of the world since the beginning of the pandemic, the economic activity was adversely affected with the appearance of new cases in August.

In this environment, the supply problems caused by the pandemic lead to a rise in commodity prices and inflation expectations, and the statements of the leading central banks regarding the upcoming period policies are closely followed. In this context, the message of Fed Chairman Jerome Powell in his speech at the Jackson Hole meeting that there would be no rush to raise interest rates was welcomed by the markets.

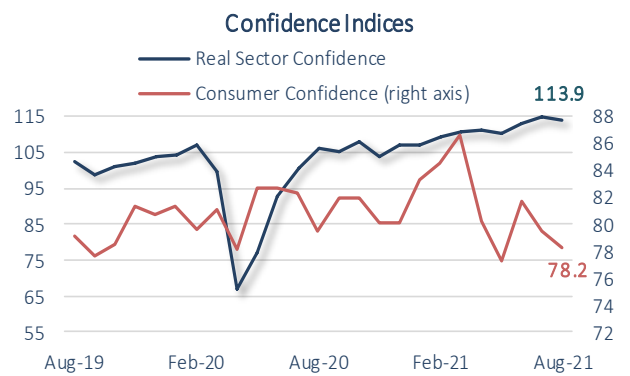
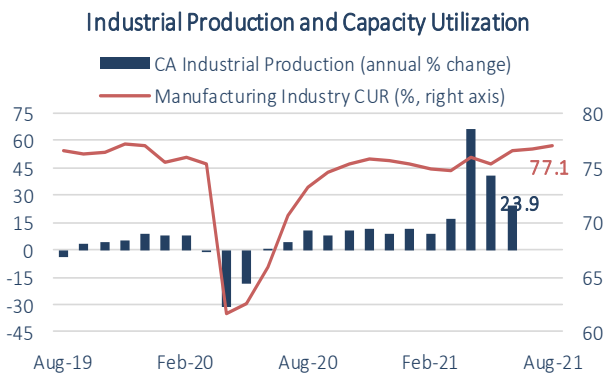
In the second quarter of the year, the Turkish economy grew by 21.7% yoy, in line with the expectations, thanks to the low base effect. In addition to consumption expenditures, investment expenditures and net export items made high contributions to growth. Leading indicators for the third quarter signaled that the brisk pace of economic activity continued in this period as well. In August, manufacturing industry PMI showed that the recovery in the sector continued, while the highest August value was reached in export volume. In this period, the annual rise of CPI inflation to 19.25%, above the CBRT's policy rate, and the widening gap between PPI and CPI inflation continued to keep inflationary concerns on the agenda. On the other hand, a moderate course prevailed in the domestic markets in parallel with the global markets, and the TRY appreciated slightly against the USD in August.

Medium Term Program, which covers the period 2022-2024 and includes the targets and policies regarding the major figures of the Turkish economy, was announced at the beginning of September. According to the program, Turkish economy is expected to grow by 9% in 2021 and 5% in 2022. The year-end CPI inflation is predicted to become 16.2% at the end of 2021, and fall to 9.8% in 2022.

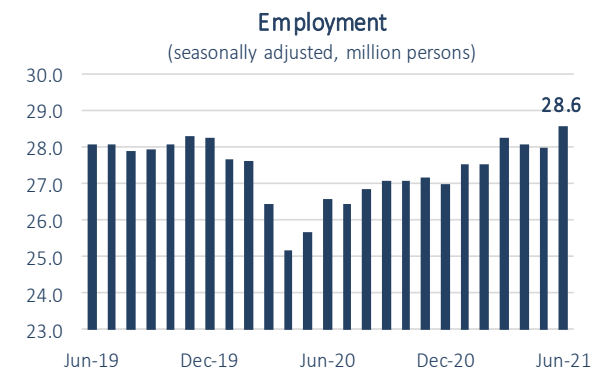
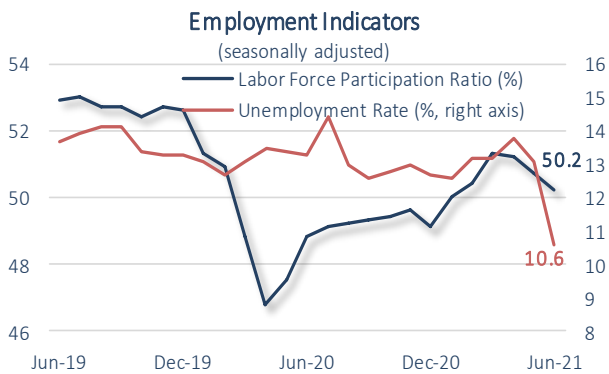
Growth



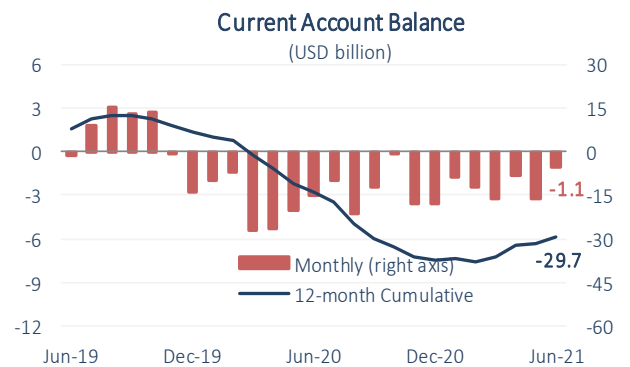
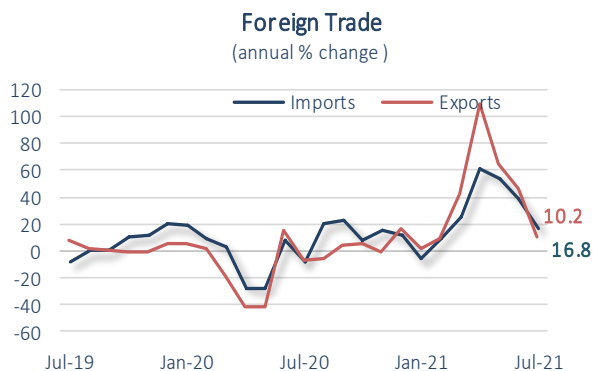
Leading Indicators



Labor Market



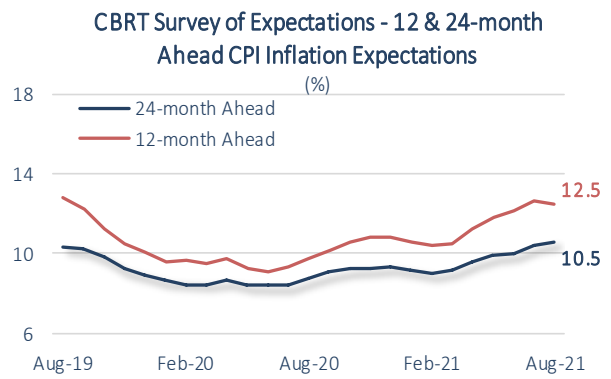
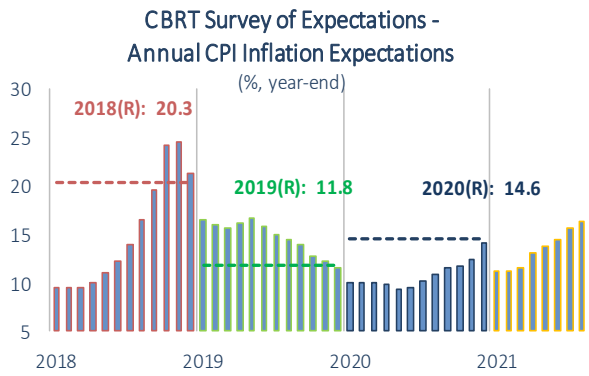
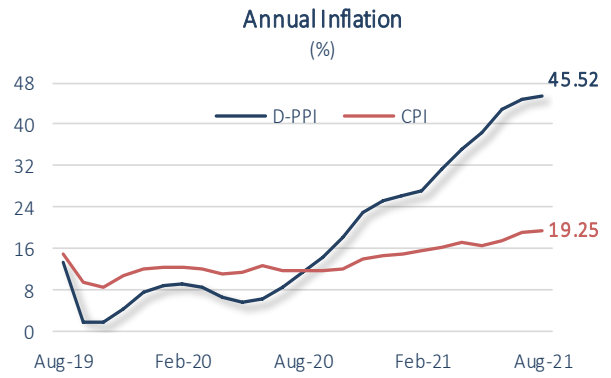
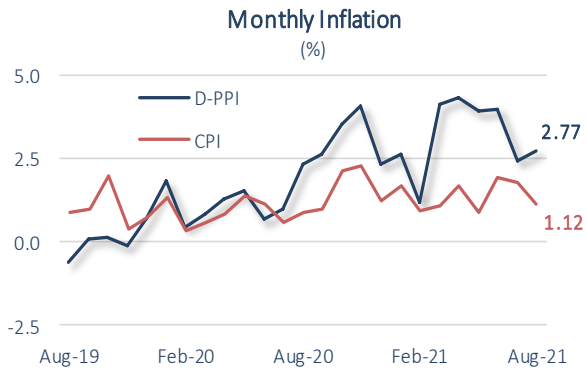
Foreign Trade and Current Account Balance



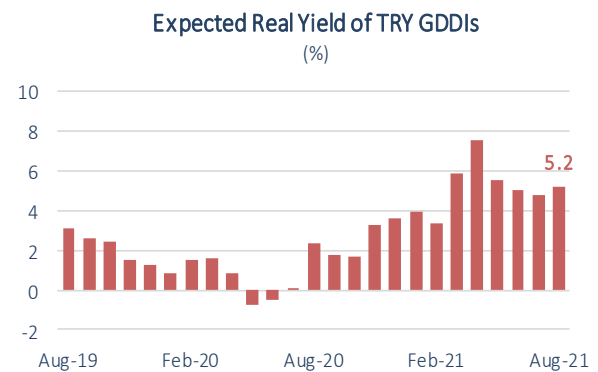
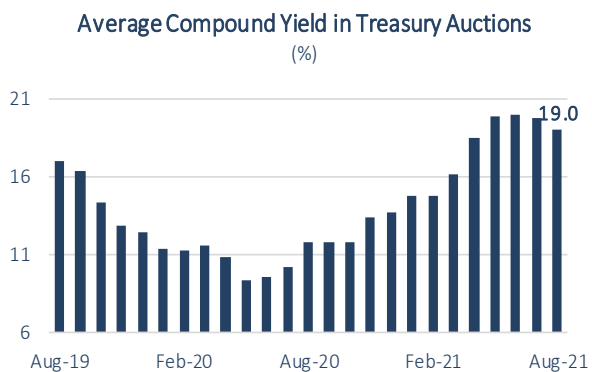
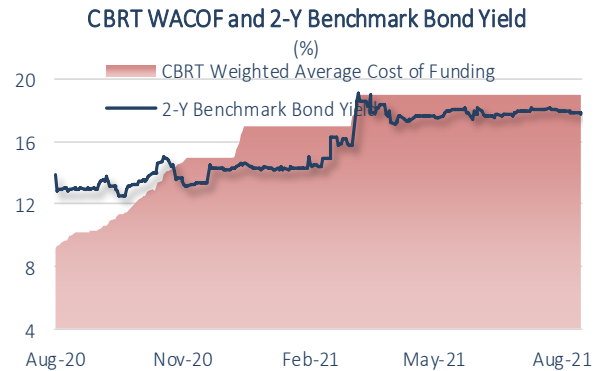
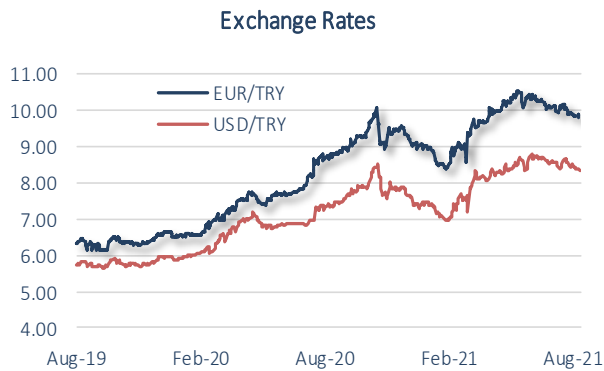
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

Inflation



Foreign Exchange and Bond Market



## Turkish Economy - Macroeconomic Indicators

Growth	2016	2017	2018	2019	2020	Q1-21	Q2-21	
GDP (USD billion)	869	859	797	761	717	188	189	
GDP (TRY billion)	2,627	3,134	3,758	4,318	5,047	1,389	1,581	
GDP Growth Rate (%)	3.3	7.5	3.0	0.9	1.8	7	22	
Inflation (%)						Jun-21	Jul-21	Aug-21
CPI (annual)	8.53	11.92	20.30	11.84	14.60	17.53	18.95	19.25
Domestic PPI (annual)	9.94	15.47	33.64	7.36	25.15	42.89	44.92	45.52
Seasonally Adjusted Labor Market Figures						Apr-21	May-21	Jun-21
Unemployment Rate (%)	12.1	9.9	12.8	13.3		13.80	13.10	10.60
Labor Force Participation Rate (%)	52.4	53.1	53.0	52.3		51.20	50.70	50.20
FX Rates						Jun-21	Jul-21	Aug-21
CPI Based Real Effective Exchange Rate	93.5	86.3	76.4	76.2	62.2	59.7	61.3	62.9
USD/TRY	3.5176	3.7916	5.3199	5.9510	7.4325	8.7	8.42	8.31
EUR/TRY	3.7102	4.5530	6.0815	6.6800	9.0941	10.3	9.99	9.81
Currency Basket (0.5*EUR+0.5*USD)	3.6139	4.1723	5.7007	6.3155	8.2633	9.50	9.20	9.06
Foreign Trade Balance <sup>(1)</sup> (USD billion)						May-21	Jun-21	Jul-21
Exports	149.2	164.5	177.2	180.8	169.7	193.2	199.5	201.0
Imports	202.2	238.7	231.2	210.3	219.5	240.4	246.7	249.6
<b>Foreign Trade Balance</b>	<b>-52.9</b>	<b>-74.2</b>	<b>-54.0</b>	<b>-29.5</b>	<b>-49.8</b>	<b>-47.2</b>	<b>-47.2</b>	<b>-48.6</b>
Import Coverage Ratio (%)	73.8	68.9	76.6	86.0	77.3	80.4	80.9	80.5
Balance of Payments <sup>(1)</sup> (USD billion)						Apr-21	May-21	Jun-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>-32.4</b>	<b>-31.6</b>	<b>-29.7</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>-26.5</b>	<b>-24.6</b>	<b>-20.7</b>
Direct Investments (net)	-10.7	-8.3	-9.2	-6.3	-4.6	-3.9	-4.1	-4.9
Portfolio Investments (net)	-6.6	-24.3	3.1	1.4	5.5	-1.5	-4.9	-9.1
Other Investments (net)	-5.3	-6.2	5.6	-0.1	-9.0	-11.5	-4.6	-12.2
Reserve Assets (net)	0.8	-8.2	-10.4	6.3	-31.9	-9.6	-11.0	5.5
<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>6.0</b>	<b>7.1</b>	<b>9.0</b>
<b>Current Account Balance/GDP (%)</b>	<b>-3.1</b>	<b>-5.1</b>	<b>-2.9</b>	<b>0.9</b>	<b>-5.1</b>	-	-	-
Budget <sup>(2)(3)</sup> (TRY billion)						May-21	Jun-21	Jul-21
<b>Expenditures</b>	<b>584.1</b>	<b>678.3</b>	<b>830.5</b>	<b>999.5</b>	<b>1202.2</b>	<b>550.0</b>	<b>663.4</b>	<b>804.4</b>
Interest Expenditures	50.2	56.7	74.0	99.9	134.0	81.5	90.9	114.5
Non-interest Expenditures	533.8	621.6	756.5	899.5	1068.3	468.5	572.5	689.9
<b>Revenues</b>	<b>554.1</b>	<b>630.5</b>	<b>757.8</b>	<b>875.8</b>	<b>1029.5</b>	<b>542.5</b>	<b>630.8</b>	<b>726.1</b>
Tax Revenues	459.0	536.6	621.3	673.3	833.1	423.7	496.9	581.7
<b>Budget Balance</b>	<b>-29.9</b>	<b>-47.8</b>	<b>-72.8</b>	<b>-123.7</b>	<b>-172.7</b>	<b>-7.5</b>	<b>-32.5</b>	<b>-78.3</b>
<b>Primary Balance</b>	<b>20.3</b>	<b>8.9</b>	<b>1.3</b>	<b>-23.8</b>	<b>-38.8</b>	<b>73.9</b>	<b>58.3</b>	<b>36.2</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.1</b>	<b>-1.5</b>	<b>-1.9</b>	<b>-2.9</b>	<b>-</b>	-	-	-
Central Government Debt Stock (TRY billion)						May-21	Jun-21	Jul-21
Domestic Debt Stock	468.6	535.4	586.1	755.1	1060.4	1,133.3	1,135.4	1,152.4
External Debt Stock	291.3	341.0	481.0	574.0	752.5	868.1	908.5	879.9
<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>2,001.4</b>	<b>2,043.9</b>	<b>2,032.3</b>

(1) 12-month cumulative

(2) Year-to-date cumulative

(3) According to Central Government Budget

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



## Turkish Economy - Banking Sector Outlook

### Banking Sector According to BRSA's Monthly Bulletin Figures

(TRY billion)	2016	2017	2018	2019	2020	Jun.21	Jul.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>6,730</b>	<b>6,712</b>	<b>9.9</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>3,917</b>	<b>3,883</b>	<b>8.6</b>
TRY Loans	1,131	1,414	1,439	1,642	2,353	2,482	2,493	6.0
Share (%)	65.2	67.4	60.1	61.8	65.8	63	64.2	-
FX Loans	603	684	956	1,015	1,224	1,435	1,390	13.6
Share (%)	34.8	32.6	39.9	38.2	34.2	37	35.8	-
Non-performing Loans	58.2	64.0	96.6	150.1	152.6	149	150.0	-1.7
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>1,138</b>	<b>1,143</b>	<b>11.8</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>6,730</b>	<b>6,712</b>	<b>9.9</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>3,870</b>	<b>3,916</b>	<b>13.3</b>
TRY Deposits	845	955	1,042	1,259	1,546	1,722	1,772	14.6
Share (%)	58.1	55.8	51.2	49.0	44.7	44	45.2	-
FX Deposits	609	756	994	1,308	1,909	2,148	2,144	12.3
Share (%)	41.9	44.2	48.8	51.0	55.3	56	54.8	-
<b>Securities Issued</b>	<b>116</b>	<b>145</b>	<b>174</b>	<b>194</b>	<b>224</b>	<b>239</b>	<b>230</b>	<b>2.8</b>
<b>Payables to Banks</b>	<b>418</b>	<b>475</b>	<b>563</b>	<b>533</b>	<b>658</b>	<b>725</b>	<b>713</b>	<b>8.4</b>
<b>Funds from Repo Transactions</b>	<b>138</b>	<b>99</b>	<b>97</b>	<b>154</b>	<b>255</b>	<b>382</b>	<b>372</b>	<b>45.9</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>300</b>	<b>359</b>	<b>421</b>	<b>492</b>	<b>600</b>	<b>631</b>	<b>637</b>	<b>6.2</b>
Profit (Loss) of the Period	37.5	49.1	53.5	49.8	58.5	33.8	40.2	-
<b>RATIOS (%)</b>								
Loans/GDP	66.5	67.6	64.7	61.5				
Loans/Assets	63.5	64.4	61.9	59.1	58.6	58.2	57.8	-
Securities/Assets	12.9	12.3	12.4	14.7	16.7	16.9	17.0	-
Deposits/Liabilities	53.2	52.5	52.6	57.1	56.6	57.5	58.3	-
Loans/Deposits	119.3	122.6	117.6	103.5	103.5	101.2	99.1	-
Capital Adequacy (%)	15.6	16.9	17.3	18.4	18.7	17.8	17.5	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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