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Global Economy

In its World Economic Outlook Update published in July, IMF lowered its global growth forecast for 2022 to 3.2% due to the tightening of financial conditions, uncertainties regarding the pandemic and geopolitical developments.

According to the advance estimate, US economy contracted at an annualized rate of 0.9% in the second quarter despite the growth expectations, due to the rapid decline in investment expenditures and stocks.

In the second quarter of 2022, the Euro Area economy grew by 4%, above the market expectation of 3.4%.

The Fed increased its policy rate by 75 basis points at its July meeting. Jerome Powell stated that unusually large interest rate rise might be needed in September but would depend on upcoming economic data, while he added that it will also likely be appropriate to slow increases at some point.

At its July meeting, the ECB hiked the policy rate by 50 basis points for the first time since 2011.

Despite the global recession risk, oil prices followed a fluctuating course due to concerns about energy supply. In this period, the barrel price of Brent crude oil decreased by 6.9% on a monthly basis.

Turkish Economy

In May, seasonally adjusted unemployment rate declined by 0.3 points compared to the previous month and became 10.9%.

Calendar adjusted industrial production rose by 9.1% yoy in May.

In July, the manufacturing PMI came in at 46.9, indicating that the contraction in the sector has widened. During this period, new orders and production sub-indices declined rapidly due to the decrease in demand.

The central government budget, which gave a deficit of 31.1 billion TRY in June, posted a surplus of 93.6 billion TRY in the first half of the year thanks to the support of the rapid increase in tax revenues.

In May, the current account deficit became 6.5 billion USD due to the rapid expansion in the foreign trade deficit. The 12-month cumulative current account deficit rose to 29.4 billion USD.

The rise in inflation indicators continued in July. In this period, annual CPI and D-PPI went up by 79.60% and 144.61%, respectively.

At its meeting in July, the CBRT did not change its monetary policy rate.

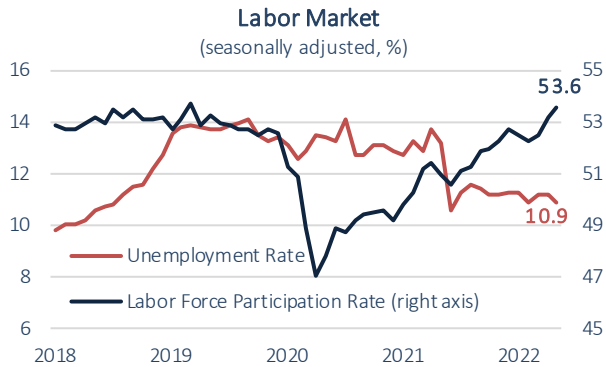
In its third Inflation Report of the year, the CBRT raised its year-end inflation forecasts for 2022 and 2023 to 60.4% and 19.2%, respectively.

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Leading Indicators

In May, the labor force participation rate was 53.6%.

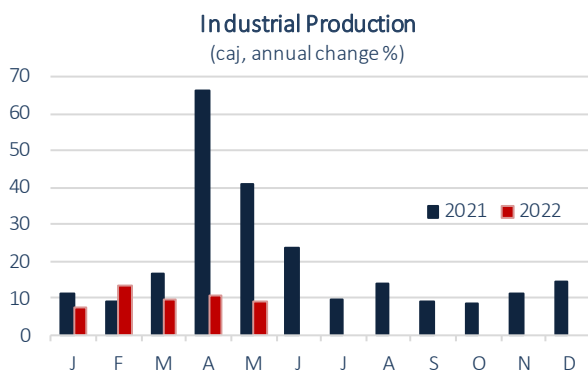
In May, the seasonally adjusted unemployment rate decreased by 0.3 pts compared to April and became 10.9%, while the employment rate reached its highest level since 2005 with 47.8%. In this period, the labor force participation rate was 53.6%, close to its historical high level. On the other hand, labor underutilization rate, which expresses the ratio of time-related underemployment, unemployed and potential labor force to the sum of labor force and potential labor force, increased by 0.8 pts to 22.4% in May compared to the previous month.



According to seasonally adjusted figures, the number of paid employees increased by 146K people in May compared to the previous month and became 14.2 million people. While the rise of employment in tourism sector by 30K people stood out, new employments in manufacturing industry with 26.5K people and construction sector with 26.3K people also played role in the increase of paid employment.

Industrial production increased by 9.1% yoy in May.

According to the seasonally and calendar adjusted figures, industrial production expanded by 0.5% in May compared to the previous month. While the monthly declines in the production of durable and non-durable goods by 1.4% and 0.7%, respectively, confirmed the pressure on demand in May, the increase in the production of capital goods continued. On an annual basis, calendar adjusted industrial production expanded by 9.1%. Thus, the annual rise in industrial production, which was 10.2% in the first quarter of the year, remained at a high level of 9.9% in the April-May period.



Manufacturing industry PMI pointed out that the weak outlook continued.

The manufacturing industry PMI dropped to 46.9 in July, pointing to the worst performance in the industry since May 2020. The most significant shrinkage in new orders and production sub-indices since the beginning of the pandemic, due to the acceleration in the decay of domestic demand, played an important role in this development. The production sub-index decreased from 45.7 to 43.3 in July, and the new orders sub-index decreased from 44.9 to 43.6. Accordingly, the rise in employment remained limited in July compared to the previous months. In addition, increases in raw material and ex-factory prices fell to the lowest level of the last 1.5 years in July.

Confidence indices presented a mixed outlook in July.

The consumer confidence index, which fell to a historical low in June, increased by 7.4% to 68 in July. The general economic situation for the next 12-month period and the rapid increases in the financial situation expectations of the households were behind the improvement in consumer confidence. Confidence in the construction sector rose by 2.4% mom in July, with the expectation of an increase in employment in the sector for the next period. On the other hand, the expectations regarding both the current and upcoming periods in the retail trade and services sectors worsened compared to June. The seasonally adjusted real sector confidence index, which decreased by 2% on a monthly basis to 102.5 in July, continued to worsen for the eighth month.

House sales increased by 11.7% yoy in June.

In June, house sales in Turkey recorded the slowest increase (11%yoy) in the last 9 months, and was realized as 150,509 units. Mortgage sales went up by 40.6% in this period, while other sales, which account for 75% of total house sales, lost momentum and expanded only by 3.8% on an annual basis. Due to recent increase of Russian citizens' demand, house sales to foreigners in June enlarged by 81.8% yoy and became 8,630 units. In the first half of the year, total house sales increased by 31.4% to 726,398 units, while house sales to foreigners rose by 72.7% to 35,383 units.

Decrease in demand for durable consumer goods...

Domestic white goods sales, which expanded in May annually for the first time in 2022, decreased by 2.1% in June compared to the same month of last year. In this period, the annual shrinkage in export volume gained momentum and became 6.2%. Thus, total white goods production contracted by 7.8% yoy in June. In the first half of the year, domestic white goods sales decreased by 8.2% compared to the same period of 2021, while export volume increased by 0.7%. Accordingly, domestic white goods production decreased by 5.6% on an annual basis.

Foreign Trade and Balance of Payments

Foreign trade deficit widened by 184.5% yoy in June.

According to TURKSTAT data, exports increased by 18.7% yoy to 23.4 billion USD in June, while imports went up by 39.7% to 31.6 billion USD. In this period, the foreign trade deficit widened by 184.5% and became 8.2 billion USD. Energy and commodity prices, which kept increasing due to geopolitical developments, continued to play a role in the widening of the foreign trade deficit. The import coverage ratio, which was 87.3% in June 2021, decreased to 74.1% in the same month of 2022.

Current account balance posted a deficit of 6.5 billion USD in May.

According to the figures revealed by the CBRT, the current account deficit increased by 3.2 billion USD (95%) in May compared to the same month of the previous year and became 6.5 billion USD. The rise in net energy imports, which played a significant role in the expansion of the current account deficit since March 2021, continued in May as well. Rapid increase in net non-monetary gold imports on an annual basis also came to the fore in this period. In this context, net energy and gold imports amounted to 6.9 billion USD in May. On the other hand, ongoing recovery in transportation and travel revenues continued to limit the deterioration in the current account balance. Tourism revenues re-

mained strong in May as well. In the first 5 months of the year, total tourism revenues of 8.8 billion USD, remained above in comparison to the same period of 2019 (7.9 billion USD).

The 12-month cumulative current account deficit continued to increase in May, reaching the highest level of the last one year with 29.4 billion USD. On the other hand, the 12-month cumulative current account surplus excluding net energy and gold imports also continued to rise and reached its highest level since March 2020 with 38.3 billion USD.

Direct investments increased rapidly on an annual basis.

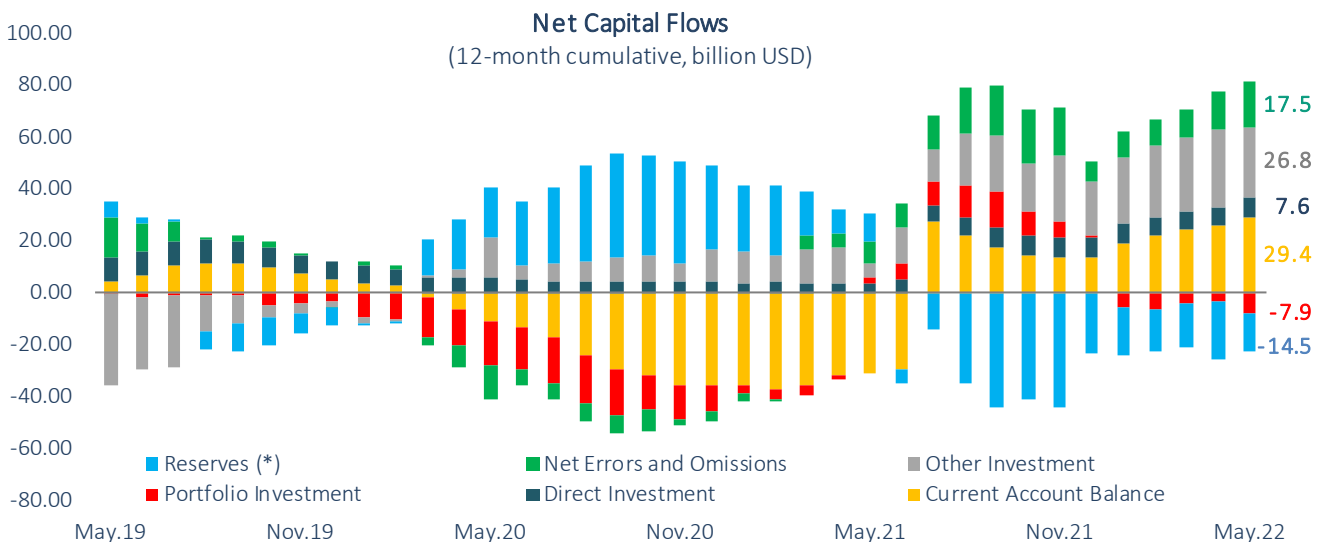
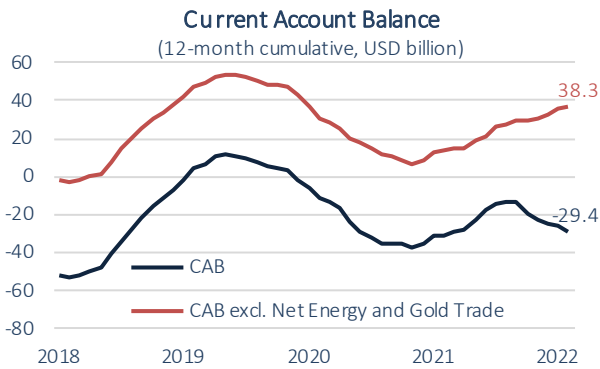
Net direct investments nearly tripled yoy in May, reaching 959 million USD. In this period, real estate investments of non-residents surged by 234% yoy to 657 million USD. In the direct capital investments made by non-residents, the services sector, especially wholesale and retail trade, came to the fore.

The fastest capital outflow in portfolio investments in the last 14 months...

Portfolio investments displayed the fastest capital outflow of the last 14 months with 4.3 billion USD in May. During this period, non-residents sold 1.7 billion USD in the stock market and 495 million USD in the GDDS market. The 1.9 billion USD repayment made by banks for bonds issued abroad was the determining factor in the outflow of portfolio investments.

In May, capital inflows through other investments decreased by 74% yoy to 1 billion USD. In this period, the effective and deposits held by domestic banks at their correspondents abroad rose by 1.3 billion USD, while the effective and deposits held by foreign banks at their domestic correspondents increased by 1.1 billion USD in total.

Net repayments of long-term loans used by banks and other sectors from abroad were 614 million USD and 238 million USD, respectively. Thus, as of May, the long-term debt roll-



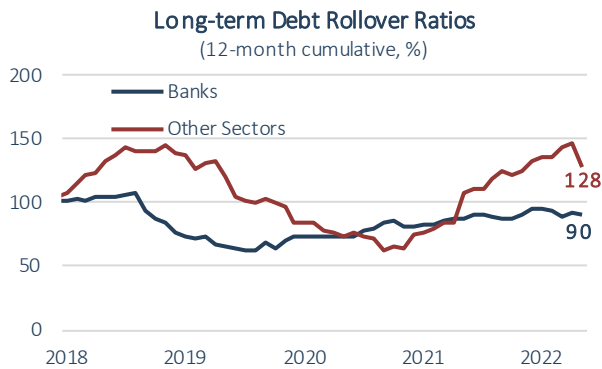
Source: Datastream, Turkstat, CBRT

Foreign Trade and Balance of Payments

over ratio on a 12-month cumulative basis decreased to 90% in the banking sector and 128% in other sectors.

Reserve assets decreased by USD 5.9 billion in May.

Reserve assets contributed 5.9 billion USD to the financing of the current account deficit in May. Thus, the total decrease in reserve assets in the first 5 months of the year became 10.4 billion USD. In May, net errors and omissions also played an important role in financing the current account deficit with a capital inflow of 2.9 billion USD. In this item, a total capital inflow of 13.3 billion USD was recorded in the January-May 2022 period.



Expectations...

According to the preliminary foreign trade figures released by the Ministry of Commerce, the export volume expanded by 13.4% yoy to 18.6 billion USD, while the import volume increased by 40.8% to 29.1 billion USD in July. In this period, the foreign trade deficit widened by 144.5% on an annual basis to 10.6 billion USD. Thus, the foreign trade deficit in the January-July period rose by 143% compared to the same period of the last year and reached 62 billion USD.

The widening in foreign trade deficit due to the increasing energy imports continues to put pressure on the current account balance. We foresee that the pressure on commodity prices, especially energy, due to the expected slowdown in global economic activity in the coming months may slow down the increase in imports. On the other hand, considering its high share in our total exports, the slowdown in economic activity of the EU countries and the continuation of the decline in EUR/USD parity may adversely affect export performance. Despite the recent increase in coronavirus cases worldwide, the positive course of tourism revenues in the summer months will continue to limit the pressures on the current account deficit.

Balance of Payments

	May. 2022	Jan. - May. 2021	2022	% Change	12-month Cumulative
Current Account Balance	-6,468	-12,376	-28,122	127.2	-29,444
Foreign Trade Balance	-8,753	-11,787	-34,304	191.0	-51,801
Services Balance	3,222	4,376	10,918	149.5	33,093
Travel (net)	2,097	3,061	7,581	147.7	23,697
Primary Income	-913	-5,639	-4,476	-20.6	-10,868
Secondary Income	-24	674	-260	-	132
Capital Account	-8	-18	-14	-22.2	-60
Financial Account	-3,610	-8,743	-14,798	69.3	-12,008
Direct Investment (net)	-959	-1,803	-1,978	9.7	-7,589
Portfolio Investment (net)	4,325	1,080	9,770	804.6	7,894
Net Acquisition of Financial Assets	317	-501	3,289	-	6,050
Net Incurrence of Liabilities	-4,008	-1,581	-6,481	309.9	-1,844
Equity Securities	-1,664	-1,836	-2,849	55.2	-2,447
Debt Securities	-2,344	255	-3,632	-	603
Other Investment (net)	-1,037	-6,444	-12,202	89.4	-26,831
Currency and Deposits	-163	-2,183	-8,703	298.7	-15,955
Net Acquisition of Financial Assets	1,378	5,530	3,714	-32.8	3,416
Net Incurrence of Liabilities	1,541	7,713	12,417	61.0	19,371
Central Bank	2	1,315	3,850	192.8	7,283
Banks	1,539	6,398	8,567	33.9	12,088
Foreign Banks	1,138	4,883	7,102	45.4	11,525
Foreign Exchange	1,056	3,491	4,082	16.9	8,408
Turkish Lira	82	1,392	3,020	117.0	3,117
Non-residents	401	1,515	1,465	-3.3	563
Loans	504	-1,953	-1,597	-18.2	356
Net Acquisition of Financial Assets	84	1,209	-456	-	596
Net Incurrence of Liabilities	-420	3,162	1,141	-63.9	240
Banking Sector	-172	-617	-888	43.9	-3,803
Non-bank Sectors	-94	4,126	1,653	-59.9	3,540
Trade Credit and Advances	-1,369	-2,309	-1,876	-18.8	-4,859
Other Assets and Liabilities	-9	1	-26	-	-35
Reserve Assets (net)	-5,939	-1,576	-10,388	559.1	14,518
Net Errors and Omissions	2,866	3,651	13,338	265.3	17,496

Source: CBRT, Datastream

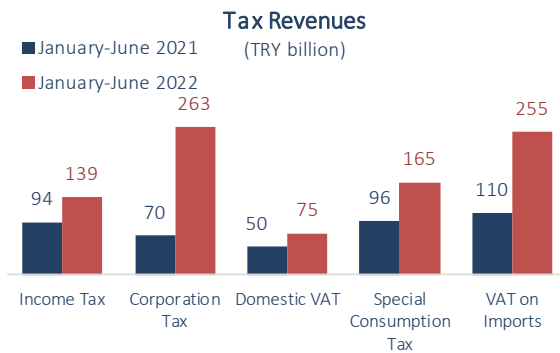
Budget Balance

In June, the central government budget gave a deficit of 31.1 billion TRY.

Central government budget gave a deficit of 31.1 billion TRY in June. In this period, budget revenues increased by 104.9% yoy to 181 billion TRY, while budget expenditures rose by 87.1% yoy and reached 212.1 billion TRY. In June, the primary budget deficit expanded by 17.1% yoy and amounted to 18.3 billion TRY. In the January-June period, budget revenues went up by 100.6% yoy, while budget expenditures increased by 76.7%. Thus, the central government budget posted a surplus of 93.6 billion TRY in the first half of the year thanks to the rapid increase in tax revenues.

The increase in tax revenues continued in June.

Tax revenues increased by 108.4% yoy in June and became 152.6 billion TRY. In this period, value added tax revenues on imports, which constituted 36% of tax revenues, increased 2.5 times on an annual basis with the effect of exchange rate developments, while the rise in SCT revenues, which constituted 25% of tax revenues, was 113.4%. Domestic value added tax revenues increased by 94.3% and reached TRY 8.9 billion in June. In this period, non-tax revenues also performed a strong increase.

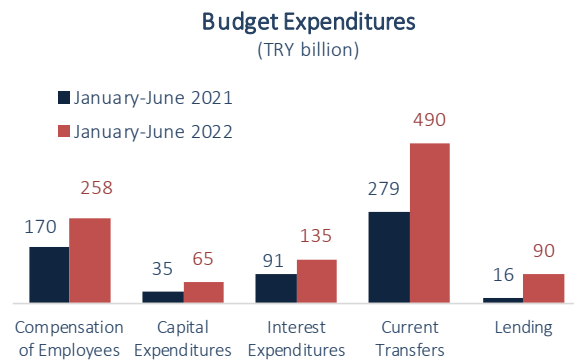


Current transfers doubled on an annual basis.

In June, the annual increase in non-interest expenditures became 91.7%, above the inflation rate, but slightly below the rise in revenues. In this period, current transfers, which accounted for 54% of primary expenditures, surged by 100.7% yoy and reached 106.8 billion TRY. Other transfers to households, under current transfers, increased 3.5 times on

an annual basis, while there was also a rapid rise in the shares of local administrations and funds. Expenditures on the purchase of goods and services rose by 97.8% yoy to 17.3 billion TRY in June, while capital expenditures nearly tripled to 18.6 billion TRY due to the rise in immovable capital produce expenses. In this period, interest expenses increased by 35.6% and became 12.8 billion TRY.

Payments made within the scope of domestic debt transfers to PEs in June was realized as 1.8 billion TRY, the lowest level since January. Thus, in the first six months of the year, domestic debt transfers to PEs reached 79.5 billion TRY. In addition, expenses related to FX-indexed Turkish Lira deposit accounts were recorded as 16.1 billion TRY in June. In the March-June period, aforementioned expenditure amount reached 37.2 billion TRY.



Expectations...

The Turkish Grand National Assembly approved the additional budget, which projects an increase of 1,080 billion TRY in budget revenues and expenses. In this context, an additional budget of 120.5 billion TRY was allocated for capital transfers to PEs and an appropriation of 40 billion TRY was allocated for the expenses related to FX-indexed Turkish Lira deposit accounts. The central government budget, which showed a positive performance with the support of the rapid increase in corporate tax revenues in the first half of the year, presents an outlook in line with the targets set with the additional budget. In the coming months, the effects of the course of global energy prices on the budget balance, as well as the outlook in domestic demand and exchange rates, will continue to be monitored.

Central Government Budget

	June		%	January-June		%	(billion TRY)	
	2021	2022		2021	2022		2022 Budget Target	Real./ Budget Target (%)
Expenditures	113.4	212.1	87.1	663.4	1,171.9	76.7	2,831.5	41.4
Interest Expenditures	9.4	12.8	35.6	90.9	134.7	48.2	329.8	40.8
Non-Interest Expenditures	104.0	199.3	91.7	572.5	1,037.2	81.2	2,501.7	41.5
Revenues	88.3	181.0	104.9	630.8	1,265.4	100.6	2,553.1	49.6
Tax Revenues	73.2	152.6	108.4	496.9	1,033.8	108.0	2,186.0	47.3
Other Revenues	15.1	28.4	87.9	133.9	231.6	73.0	367.1	63.1
Budget Balance	-25.0	-31.1	24.1	-32.5	93.6	-	-278.4	-
Primary Balance	-15.6	-18.3	17.1	58.3	228.2	291.2	51.4	443.8

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

Source: Datastream, Ministry of Treasury and Finance

Inflation

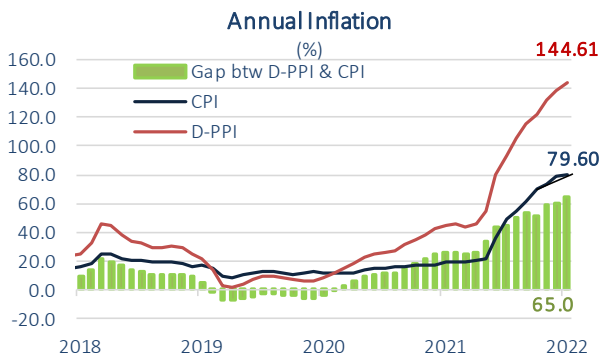
In July, the monthly CPI increase was 2.37%.

According to the figures revealed by TURKSTAT, in July, monthly CPI inflation came in at 2.37%, below the market expectations of 2.9%. Domestic PPI increased by 5.17% in July, posting the lowest monthly increase since September 2021.

July (change %)	CPI		D-PPI	
	2021	2022	2021	2022
Monthly	1.80	2.37	2.46	5.17
Year-to-Date	10.41	45.72	25.05	70.04
Annual	18.95	79.60	44.92	144.61
Annual Average	15.15	49.65	28.47	97.30

Annual CPI inflation rose to 79.6%.

In July, albeit losing momentum, annual CPI inflation continued to increase and reached the highest level of the last 24 years with 79.6%. D-PPI inflation also maintained its upward trend, reaching 144.61% on an annual basis in the same period. Thus, the gap between CPI and D-PPI exceeded 65 points, indicating that the cost pressure on CPI continues to increase.



The transportation group limited the CPI increase.

In July, prices increased on a monthly basis in all main expenditure groups except transportation. In this period, the highest increase was recorded in the health group, where prices went up by 6.98% mom due to the update in pharmaceutical prices. The group that had the highest impact (0.83 pts) on monthly inflation was the food and non-alcoholic beverages group, where prices rose by 3.15%. As the fall in oil prices was reflected to domestic fuel prices, the transportation group prices decreased by 0.85% mom in July. Thus, transportation was the only expenditure group which had a downward impact on monthly CPI inflation by 0.16 pts.

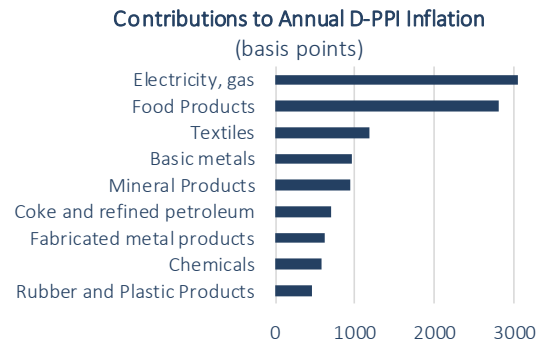
Despite the monthly decrease of transportation group prices, annual figures revealed that the highest rise was recorded in this group with 119.11% yoy. Food and non-alcoholic beverages group followed the transportation, with an annual price increase by 94.65%. As of July, these two groups pushed annual CPI inflation by 41.64 pts in total.

Core inflation indicators...

In July, core inflation indicators B (CPI excluding unprocessed food products, energy, alcoholic beverages and tobacco and gold) and C (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) rose by 68.46% yoy and 61.69% yoy, respectively. Although these figures remained below headline inflation, they kept having upward trend.

Energy and food groups continue to make a high contribution to D-PPI inflation.

In July, monthly price increases continued in all sub-sectors of D-PPI, excluding base metals and coke & refined petroleum products. In this context, electricity, gas production and distribution prices surged by 18.96% mom, making the highest contribution to monthly D-PPI inflation with 2.46 points. In July, due to the downward trend in global commodity markets, prices of base metals and coke & refined petroleum products declined by 2.72% mom and 8.97% mom, respectively.



Food and main electricity, gas production and distribution sub-sectors continued to stand out in the annual PPI inflation in July. The prices in these two groups rose by 441.75% yoy and 136.75% yoy, respectively, bringing the annual PPI up by a total of 58.5 points. Due to the impact of rising labor costs and the 34% annual increase in cotton prices in USD terms on a global scale, textile products' prices went up by 123.12% yoy, adding 11.76 points to the annual D-PPI.

Expectations...

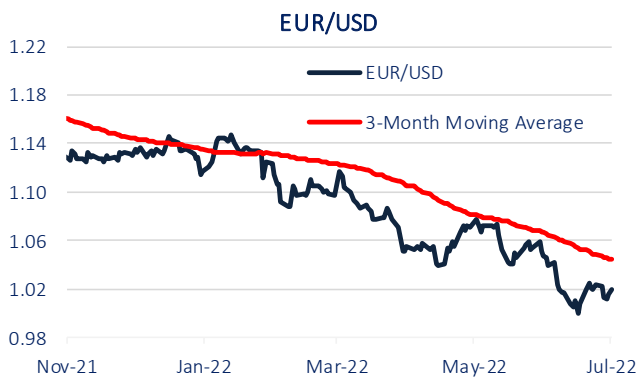
While the global recession concerns have eased the upward pressures on commodity prices, especially energy, in the recent period, the grain corridor may also affect food prices positively by reducing supply-side constraints. However, ongoing geopolitical risks cause uncertainty regarding the course of inflation to persist. Considering the widening gap between producer and consumer inflation, the high course of core inflation figures and the upward trend in exchange rates, we think that annual inflation will maintain its high course in the upcoming period.

	30-Jun	29-Jul	Change
5-Y CDS (basis points)	839	812	-27 bps ▼
TR 2-Y Benchmark Yield	24.48%	22.86%	-162 bps ▼
BIST-100	2,405	2,592	7.8% ▲
USD/TRY	16.6933	17.9114	7.3% ▲
EUR/TRY	17.5054	18.3186	4.6% ▲
Currency Basket*	17.0994	18.1150	5.9% ▲

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

Global markets...

Global markets, which had a volatile outlook in the first half of July, followed an upward trend in the second half of the month. In addition to the macroeconomic data from the US, statements made following the Fed meeting, implying that the interest rate hike may be slower than anticipated, had a positive impact on risk appetite during this period. As a result, global stock markets recorded gains, especially in emerging markets. With the effect of the Fed's monetary tightening steps, as well as the USD's appreciation in global markets, the EUR/USD parity declined to the lowest level in nearly 20 years with 0.995 in mid-July. EUR/USD parity recovered in the second half of the month and closed the month at 1.02.



In July, the pressure on TRY remained high.

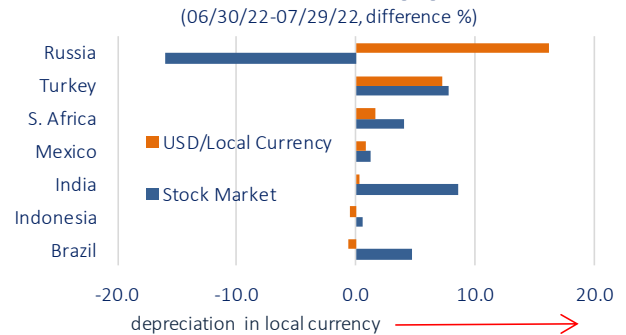
Credit rating agency Fitch downgraded Turkey's credit rating from B+ to B in its assessment on July 8, while affirming the rating outlook as "negative". On the other hand, Turkey's 5-year CDS premium, which reached historically high levels with 900 basis points during the month, declined rapidly with the contribution of the recovery in risk appetite in the last week of the month. Thus, CDS premium decreased by 27 basis points on a monthly basis to 812 basis points at the end of July.

Financial markets in Turkey performed in line with the global markets in July. The stock market, which had a fluctuating outlook with the expectations regarding global liquidity conditions in the first half of the month, followed a rapid upward trend as of July 18. Thus, the

BIST-100 index went up by 7.8% mom, and reached 2.592 at the end of the month. While the positive course in the stock market continued in early August, the index is hovering close to its historical highs.

The positive course from mid-July allowed interest rates to decline. The 2-year benchmark bond yield decreased by 162 basis points to 22.86% in July. On the other hand, the pressure on the Turkish lira continued throughout July, and the TRY continued to decouple negatively from the currencies of emerging markets. In July, USD/TRY rose by 7.3% to 17.9114, while EUR/TL went up by 4.6% to 18.3186.

Financial Indicators in Emerging Countries



The CBRT kept the policy rate at 14%.

At its meeting held in July, the CBRT kept its policy rate unchanged at 14% in line with expectations. In the text published after the meeting, CBRT stated that the high course of energy prices and the likelihood of a recession in main trade partners keep the risks on current account balance alive. The addition of "credits" to the statement saying "collateral and liquidity policy actions will continue to be implemented to strengthen the effectiveness of the monetary policy transmission mechanism" was interpreted as the Central Bank may announce new macroprudential measures for credits in the coming period.

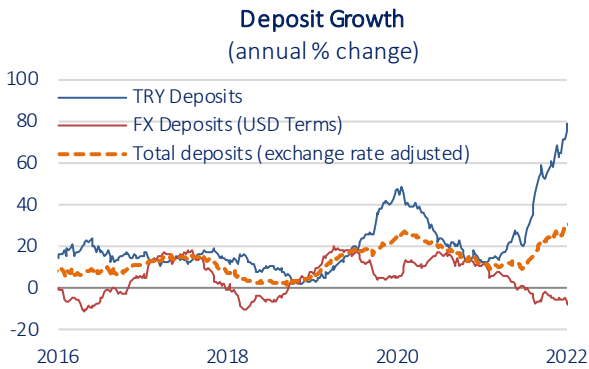
CBRT published the third Inflation Report of the year.

In the third Inflation Report of 2022, the CBRT raised its year-end inflation forecast from 42.8% to 60.4%, while increasing its 2023 year-end inflation forecast from 12.9% to 19.2%. Upward revisions in TRY-denominated import prices, food inflation assumptions and unit labor costs were influential on the hike in the inflation forecasts. CBRT Chairman Kavcıoğlu stated that the rapid increases in global commodity prices in the second quarter, as well as supply constraints caused by supply chain disruptions and the increase in exchange rates, were effective in the rise in inflation. According to the results of the CBRT's Market Participants Survey for July, the market's year-end inflation expectation stood at 69.94%.

Source: CBRT, Datastream, Reuters,

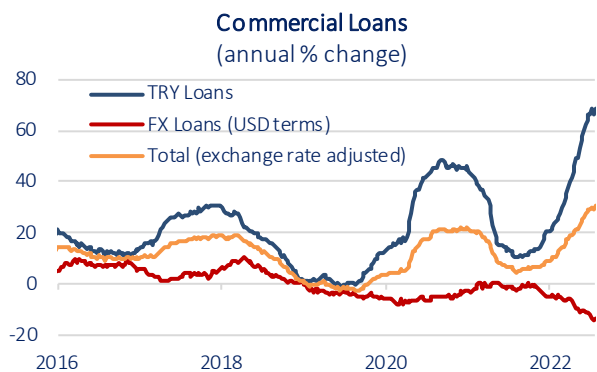
Deposit volume rose to 7.3 trillion TRY

According to BRSA Weekly Bulletin figures, as of July 22, TRY deposit volume expanded annually at a historically high level by 80.4% and reached to 3.2 trillion TRY. FX deposit volume in USD terms, which contracted by 8% in the same period due to the usage of currency-protected deposit, became 233.4 billion USD in this period. Thus, due to the rise in foreign exchange rates, the total deposit volume surged by 86.1% on an annual basis as of July 22, reaching 7.3 trillion TRY. FX rate adjusted deposit volume also expanded annually by 31.7%, the fastest rise since July 2006.



TRY loan volume approached 4 trillion TRY.

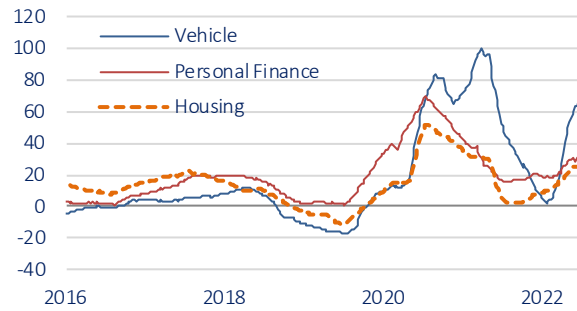
As of July 22, TRY loan volume, which expanded 57.3% on an annual basis, approached to 4 trillion TRY. FX loan volume in USD terms, which decreased by 13.5% yoy in the same period, was realized as 142.2 billion USD. Thus, the total loan volume of the banking sector enlarged by 65.2% on an annual basis and exceeded 6.4 trillion TRY. In this period, annual rise in FX rate adjusted loan volume posted the fastest increase in nearly 11 years with 31.8%. While consumer loans expanded by 30% yoy, commercial loans recorded the highest increase since 2007 with 73.4% yoy.



The annual increase in vehicle loans rose to 68%.

The annual increase in vehicle loans, which accelerated due to the rise in vehicle prices as well as the regulation made by the BRSA in April, stood at 68.1% as of July 22. In this period, housing loans increased by 25.5% and personal finance loans expanded by 31.6% on an annual basis. The annual rise in the personal credit card balance slowed down a bit due to the deceleration in consumption demand in recent weeks, and was realized as 66.9% as of July 22.

Consumer Loans
(annual % change)



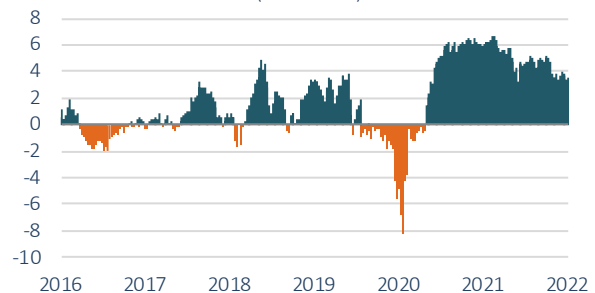
NPL ratio decreased to 2.46%.

NPL ratio, which continued to decline due to the rapid increase in loan volume, dropped to 2.46% as of July 22, the lowest level in more than 20 years. NPL ratio for consumer loans, which has displayed a relatively flat outlook since the beginning of June, was 2.29% in the week of July 22, while the said ratio was recorded as 2.51% for commercial loans.

Foreign currency net general position...

As of July 22, banks' on-balance sheet FX position was (-) 31,024 million USD, while off-balance sheet FX position was (+) 34,629 million USD. Thus, the net FX position of the banking sector was realized as (+) 3,605 million USD.

Net FX Position
(USD Billion)



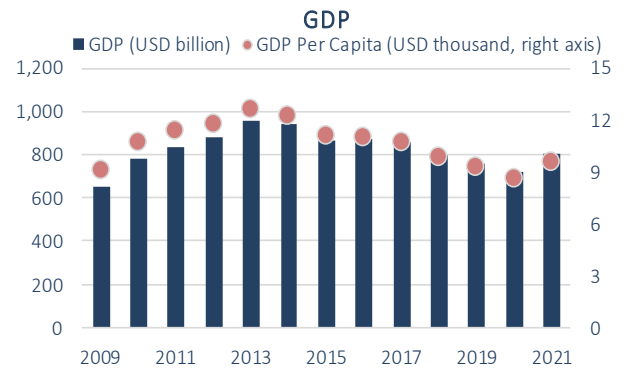
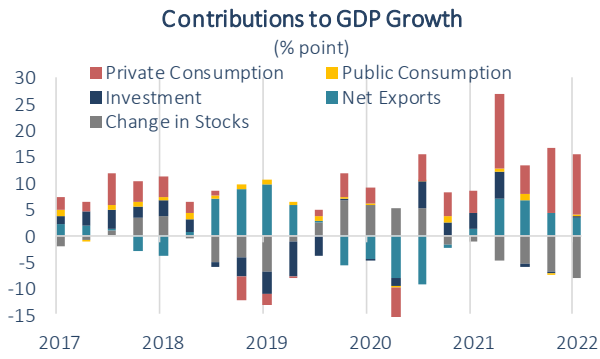
Source: BRSA Weekly Bulletin

Concluding Remarks

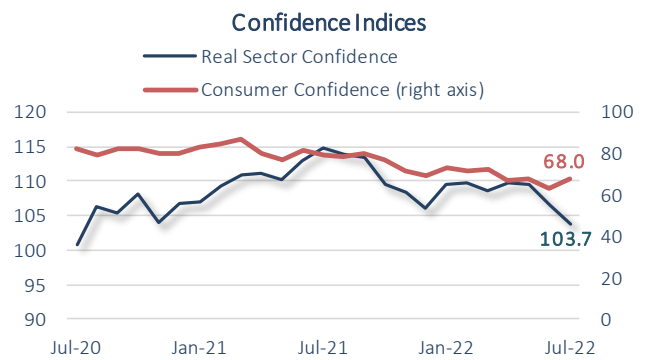
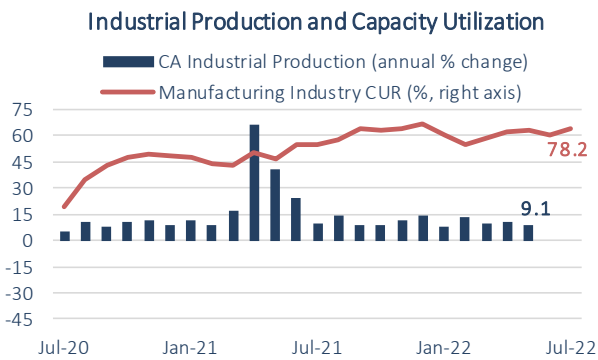
In July, monetary tightening steps of major central banks to combat global inflationary pressures were closely followed. While the Fed continued to hike the policy rate with 75 basis points in July, the ECB also joined to the monetary tightening by raising interest rates for the first time since 2011. Statements from central banks indicate that interest rate hikes will be shaped according to inflation figures, but tightening steps will continue to be taken decisively until inflation falls to the targeted levels. On the other hand, recession fears about global economic activity are growing. Although policymakers' assessments may be at a different viewpoint, the US economy's technical recession by contracting in the first two quarters of 2022 supports these expectations. Taking into account the tightening of monetary policies, the uncertainties surrounding the pandemic and geopolitical concerns, the IMF revised its global growth forecast downwardly in its July report, stating that the pressure on global economic activity will become more apparent if geopolitical risks increase and inflation expectations are not controlled. PMI data of the leading economies also show that the economic slowdown became more evident in July.

The manufacturing PMI, which fell to the lowest level of the last 26 months in July, as well as the confidence indices, which present a mixed outlook, point out that the economic activity in Turkey started the third quarter of the year under pressure. While domestic demand is weakening due to inflationary pressures, and foreign demand is slowing because of the momentum loss in global economic activity, the course of the EUR/USD parity is also closely monitored due to the high share of European countries in export markets. It is understood that the macroprudential policies will continue to be implemented from the statements of the CBRT, which raised its year-end inflation forecast to 60.4% in the third Inflation Report of the year published on July 28. The path of inflation, growth developments, and geopolitical risks will continue to be closely monitored by global and domestic markets in the coming period.

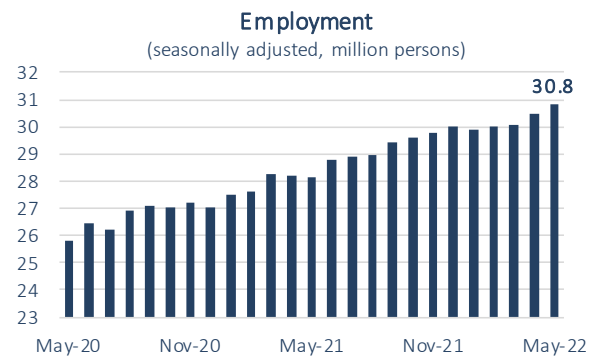
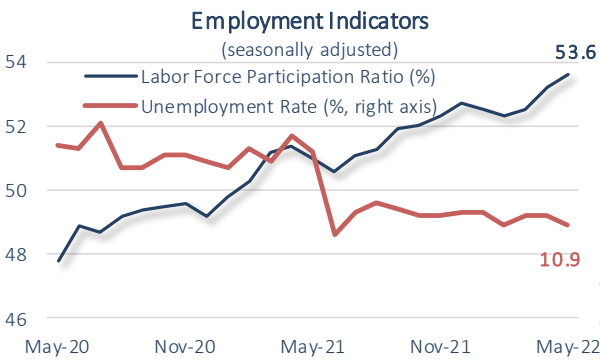
Growth



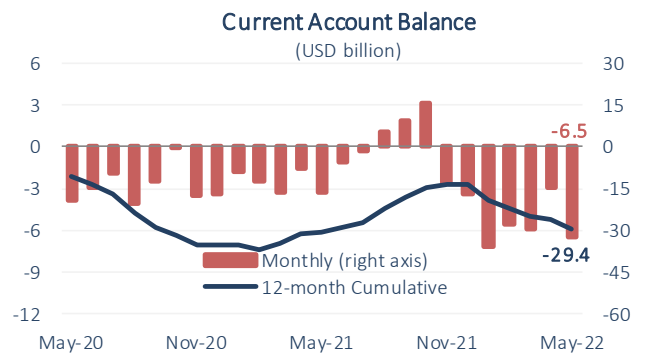
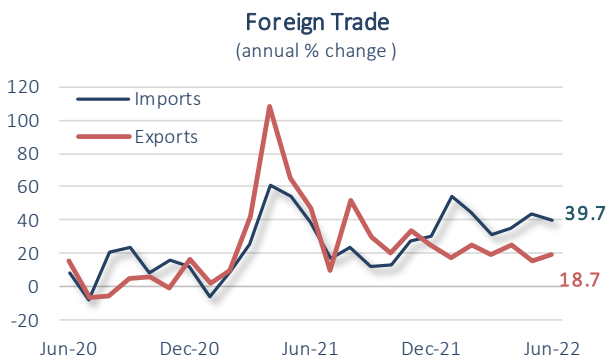
Leading Indicators



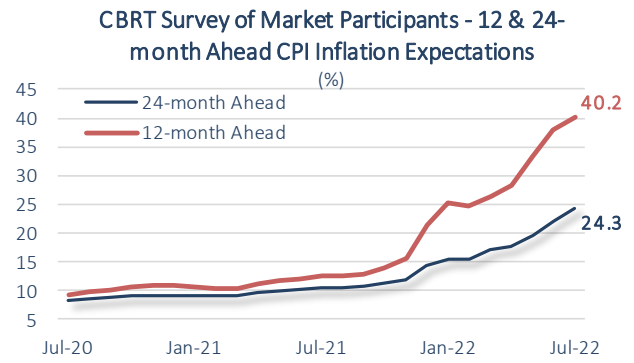
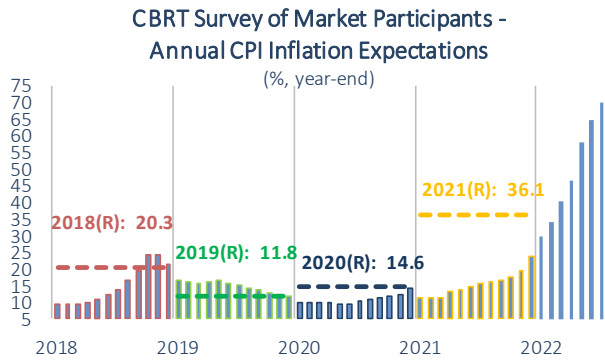
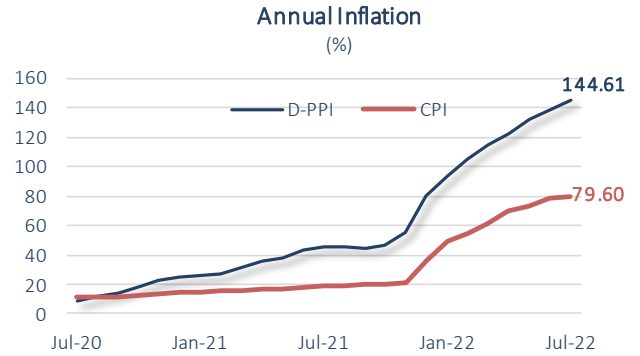
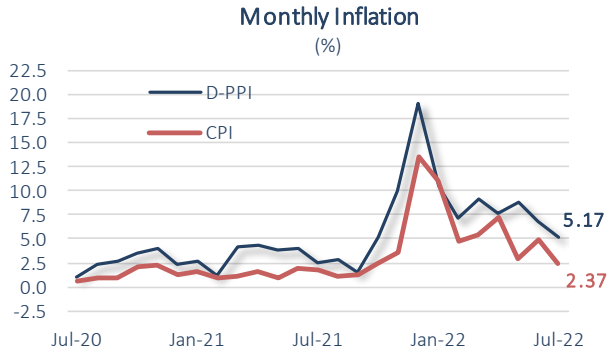
Labor Market



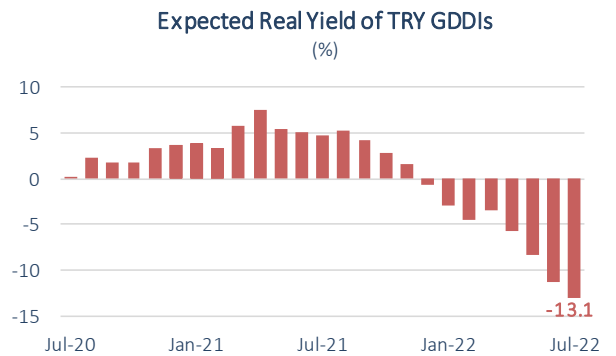
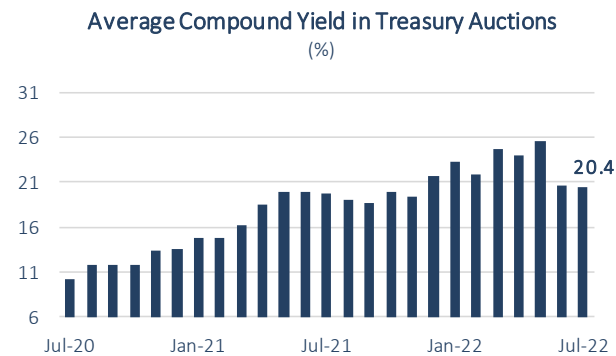
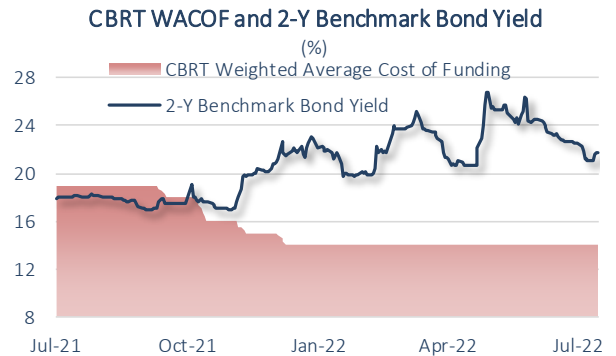
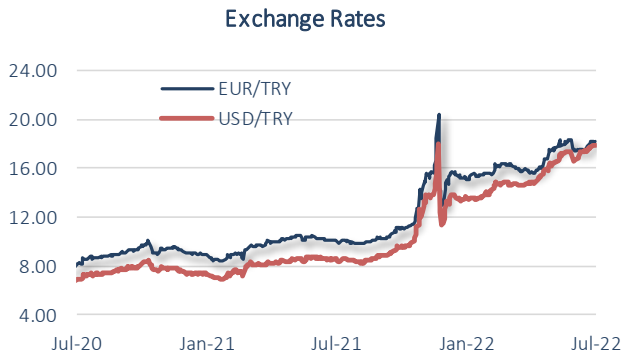
Foreign Trade and Current Account Balance



Inflation



Foreign Exchange and Bond Market



Turkish Economy - Macroeconomic Indicators

Growth	2017	2018	2019	2020	2021	Q1-22		
GDP (USD billion)	859	797	760	717	803			180
GDP (TRY billion)	3,134	3,758	4,318	5,047	7,209			2,496
GDP Growth Rate (%)	7.5	3.0	0.9	1.8	11.0			7.3
Inflation (%)						May-22	Jun-22	Jul-22
CPI (annual)	11.92	20.30	11.84	14.60	36.08	73.50	78.62	79.60
Domestic PPI (annual)	15.47	33.64	7.36	25.15	79.89	132.16	138.31	144.61
Seasonally Adjusted Labor Market Figures						Mar-22	Apr-22	May-22
Unemployment Rate (%)	9.9	12.7	13.4	12.9	11.3	11.2	11.2	10.9
Labor Force Participation Rate (%)	52.8	53.2	52.6	49.2	52.7	52.5	53.2	53.6
FX Rates						May-22	Jun-22	Jul-22
CPI Based Real Effective Exchange Rate	86.3	76.3	76.1	62.0	47.8	55.5	53.1	54.0
USD/TRY	3.79	5.32	5.95	7.43	13.28	16.38	16.70	17.92
EUR/TRY	4.55	6.08	6.68	9.09	15.10	17.55	17.46	18.27
Currency Basket (0.5*EUR+0.5*USD)	4.17	5.70	6.32	8.26	14.19	16.97	17.08	18.09
Foreign Trade Balance ⁽¹⁾ (USD billion)						Apr-22	May-22	Jun-22
Exports	164.5	177.2	180.8	169.6	225.3	240.0	242.5	246.2
Imports	238.7	231.2	210.3	219.5	271.4	304.7	313.6	322.6
Foreign Trade Balance	-74.2	-54.0	-29.5	-49.9	-46.2	-64.7	-71.1	-76.4
Import Coverage Ratio (%)	68.9	76.6	86.0	77.3	83.0	78.8	77.3	76.3
Balance of Payments ⁽¹⁾ (USD billion)						Mar-22	Apr-22	May-22
Current Account Balance	-40.9	-21.7	5.3	-35.5	-14.9	-24.9	-26.3	-29.4
Capital and Financial Accounts	-49.7	1.1	5.1	-39.5	-4.5	-14.2	-11.7	-12.0
Direct Investments (net)	-8.5	-8.9	-6.6	-4.6	-7.7	-6.7	-7.0	-7.6
Portfolio Investments (net)	-24.4	0.9	2.8	9.6	-0.8	3.7	3.3	7.9
Other Investments (net)	-8.5	19.4	2.6	-12.6	-19.4	-28.5	-29.7	-26.8
Reserve Assets (net)	-8.2	-10.4	6.3	-31.9	23.3	17.3	21.7	14.5
Net Errors and Omissions	-8.8	22.7	-0.3	-3.9	10.5	10.7	14.7	17.5
Current Account Balance/GDP (%)	-4.8	-2.7	0.7	-5.0	-1.9	-	-	-
Budget ⁽²⁾⁽³⁾ (TRY billion)						Apr-22	May-22	Jun-22
Expenditures	678.3	830.8	1000.0	1203.7	1599.6	786.0	959.8	1171.9
Interest Expenditures	50.2	74.0	99.9	134.0	180.9	104.0	121.9	134.7
Non-interest Expenditures	628.0	756.8	900.1	1069.8	1418.8	682.0	837.9	1037.2
Revenues	630.5	758.0	875.3	1028.4	1407.4	766.6	1084.4	1265.4
Tax Revenues	536.6	621.5	673.9	833.3	1164.8	591.4	881.2	1033.8
Budget Balance	-47.8	-72.8	-124.7	-175.3	-192.2	-19.4	124.6	93.6
Primary Balance	8.9	1.1	-24.8	-41.3	-11.4	84.6	246.5	228.2
Budget Balance/GDP (%)	-1.5	-1.9	-2.9	-3.5	-2.7	-	-	-
Central Government Debt Stock (TRY billion)						Apr-22	May-22	Jun-22
Domestic Debt Stock	535.4	586.1	755.1	1060.4	1321.2	1,503.8	1,564.8	1,610.8
External Debt Stock	341.0	481.0	574.0	752.5	1426.5	1621.6	1798.8	1820.3
Total Debt Stock	876.5	1067.1	1329.1	1,812.8	2,747.7	3,125.4	3,363.6	3,431.1

(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

BANKING SECTOR ACCORDING TO BRSA's MONTHLY BULLETIN FIGURES

(TRY billion)	2017	2018	2019	2020	2021	May.22	Jun.22	Change ⁽¹⁾
TOTAL ASSETS	3,258	3,867	4,491	6,106	9,215	11,304	11,714	27.1
Loans	2,098	2,394	2,656	3,576	4,901	6,079	6,279	28.1
TRY Loans	1,414	1,439	1,642	2,353	2,832	3,635	3,864	36.4
Share (%)	67.4	60.1	61.8	65.8	57.8	60	61.5	-
FX Loans	684	956	1,015	1,224	2,069	2,445	2,414	16.7
Share (%)	32.6	39.9	38.2	34.2	42.2	40	38.5	-
Non-performing Loans	64.0	96.6	150.8	152.6	160.1	164	161.0	0.5
Non-performing Loan Rate (%)	3.0	3.9	5.3	4.1	3.2	3	2.5	-
Securities	401	477	660	1,022	1,476	1,854	1,904	29.0
TOTAL LIABILITIES	3,258	3,867	4,491	6,106	9,215	11,304	11,714	27.1
Deposits	1,711	2,036	2,567	3,455	5,303	6,581	6,796	28.1
TRY Deposits	955	1,042	1,259	1,546	1,880	2,730	2,928	55.7
Share (%)	55.8	51.2	49.0	44.7	35.5	41	43.1	-
FX Deposits	756	994	1,308	1,909	3,423	3,851	3,868	13.0
Share (%)	44.2	48.8	51.0	55.3	64.5	59	56.9	-
Securities Issued	145	174	194	224	310	311	315	1.5
Payables to Banks	475	563	533	658	1,048	1,260	1,310	25.0
Funds from Repo Transactions	99	97	154	255	587	659	640	9.1
SHAREHOLDERS' EQUITY	359	421	492	600	714	1,012	1,028	43.9
Profit (Loss) of the Period	48.6	54.1	49.0	58.5	93.0	132.1	169.1	-
RATIOS (%)								
Loans/GDP	67.0	63.7	61.5	70.9	68.0			
Loans/Assets	64.4	61.9	59.1	58.6	53.2	53.8	53.6	-
Securities/Assets	12.3	12.4	14.7	16.7	16.0	16.4	16.3	-
Deposits/Liabilities	52.5	52.6	57.1	56.6	57.5	58.2	58.0	-
Loans/Deposits	122.6	117.6	103.5	103.5	92.4	92.4	92.4	-
Capital Adequacy (%)	16.9	17.3	18.4	18.7	18.4	18.1	18.1	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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