September 2022

Global Economy

August PMI prints signaled that global economic activity recorded a faster-than-expected slowdown.

Annual CPI inflation in the US has come off its peak in July. While labor market sustained its strong outlook in August, annual wage increase came in at 5.2%, parallel to July.

In Euro Area, CPI in August increased by 0.5% mom and 9.1% yoy, according to preliminary data.

Messages given at the Jackson Hole Symposium indicated that tightening in the monetary policies would continue. While Fed Chair Powell underlined that a failure to restore price stability could bring more pain than rate hikes, ECB officials stated that the current policies will be maintained despite the rising risk of recession.

Policymakers in China took additional measures against the slowdown in the economic activity. Following the recent rate cuts, a new economic stimulus plan has been introduced.

Expectations for a global economic slowdown and geopolitical developments continue to drive the course of commodity prices. Natural gas prices reached record levels in Europe due to the concerns about energy supply security.

Turkish Economy

According to the chain linked volume index, the Turkish economy grew by 7.6% on an annual basis in the second quarter of the year. While the increase in consumption expenditures contributed to the growth, the stock change dragged it down as in the previous six quarters.

Medium Term Programme covering 2023-2025 period was published in the Official Gazette on September 4, 2022. According to the Programme, the growth forecasts for the Turkish economy are 5% for 2022 and 2023, and 5.5% for 2024 and 2025.

The seasonally adjusted unemployment rate decreased by 0.3 points in June compared to the previous month and fell to 10.3%, the lowest level since April 2018.

Despite increasing on a monthly basis in August, the manufacturing PMI came in at 47.4, indicating that the contraction in the sector continued.

In June, the current account deficit became 3.5 billion USD. Having continued its upward trend, the 12-month cumulative current account deficit reached 32.7 billion USD, the highest level since March 2021.

Central government budget posted a deficit of 64 billion TRY in July and a surplus of 29.5 billion TRY in the January-July period.

The downward trend in global oil prices limited the increases in CPI and D-PPI in August. In this period, monthly inflation was 1.46% in CPI and 2.41% in D-PPI.

CBRT cut the policy rate to 13% at its August meeting and announced new macroprudential measures.

Economic Research Division

Alper Gürler
Division Head
alper.gurler@isbank.com.tr

H. Erhan Gül
Unit Manager
erhan.gul@isbank.com.tr

Dilek Sarsın Kaya
Asst. Manager
dilek.kaya@isbank.com.tr

Gamze Can
Economist
gamze.can@isbank.com.tr

Ahmet Berat Ocak
Asst. Economist
berat.ocak@isbank.com.tr

Turkish Economy 2
Financial Markets 8
Banking Sector 9
Concluding Remarks 10
Graphs 11
Tables 13

Turkish economy grew by 7.6% in the second quarter.

Turkish economy grew by 7.6% yoy in the second quarter of 2022, in line with market expectations. The first quarter GDP growth was revised up to 7.5% from 7.3%. 2021's annual GDP growth was also revised up to 11.4% from 11.0%.

According to the seasonally and calendar adjusted figures, after expanding by 0.7% qoq in the first quarter of the year, Turkish economy grew by 2.1% qoq in the second quarter of 2022.

Due to elevated inflation levels, Turkish economy expanded by 114.6% yoy at current prices in the second quarter. Thus, at current prices, the cumulative size of the Turkish economy for the last four quarters exceeded 10 trillion TRY as of the second quarter. In this period, GDP in USD terms became 828 billion USD. The figure was 807 billion USD in 2021.

Contributions to Growth (% point)

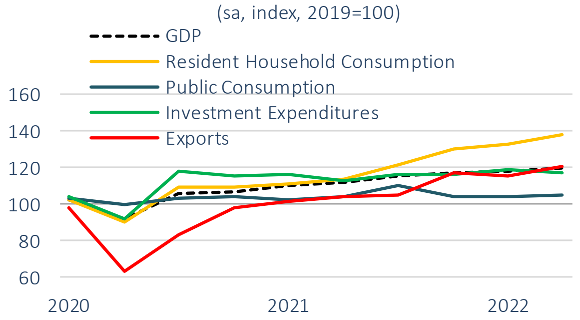
	2021	2022		
	Annual	Q1	Q2	H1
Consumption	9.5	13.3	13.9	13.6
Private	9.1	12.9	13.6	13.2
Public	0.4	0.4	0.3	0.4
Invetment	1.9	1.1	1.2	1.2
Stock Change	-4.9	-9.9	-10.3	-10.1
Net Exports	4.8	3.0	2.7	2.9
Exports	5.3	3.4	3.9	3.7
Imports	-0.5	-0.4	-1.1	-0.8
GDP	11.4	7.5	7.6	7.5

Numbers may not add to total due to rounding.

Private consumption contributed 13.6 points to the growth.

Private consumption expenditures was the main driver of the strong economic performance adding 13.6 points to the GDP growth recorded in the second quarter of 2022. Household services consumption expenditures recorded a historical high annual increase of 36.9% in real terms. Other household consumption expenditures also recorded rapid increases around 20% levels on an annual basis. Public consumption expenditures added 0.3 point to the growth, parallel to its contributions in the last couple of quarters. The stock change figure, also reflecting the statistical errors, dragged down the growth rate as it was the case for the previous six quarters.

Real GDP by Expenditure Approach
(sa, index, 2019=100)



Strong export performance continued to support the GDP growth for the seventh consecutive month. According to chain-linked volume index, net exports, rising by 16.4% yoy in the second quarter, contributed 3.9 points to the growth. On the other hand, the rise in imports dragged down the growth by 1.1 points. Thus, the contribution of net exports became 2.7 points during this period.

Machinery and equipment investments remained solid.

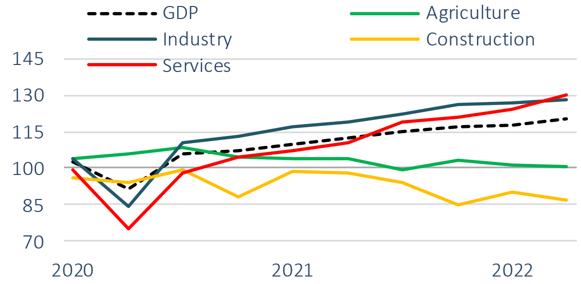
Investment expenditures added 1.2 points to the second quarter GDP growth. The contribution of investments was 1.1 points in the first quarter. Looking at the composition of investment expenditures, the solid performance in machinery -equipment investments stood out while the downward trend in construction investments gained pace.

Services and industry sectors showed a strong performance.

Analyzing the contributions by production method, in the second quarter of the year, services and industry sectors contributed to the growth by 6.9 points and 1.7 points, respectively. The construction sector, which has limited the growth since the second half of last year, reduced GDP growth by 0.7 point. In this period, agricultural sector also pushed down the growth by 0.1 point.

Looking at the sub-sectors classified under the services sector, the annual rise of 26.6% in finance and insurance activities stood out. The sector had recorded a strong performance also in the last two previous quarters.

Real GDP by Production Approach
(sa, index, 2019=100)



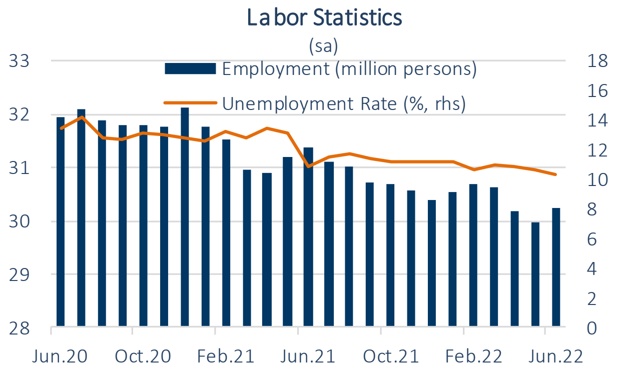
Expectations...

Economic activity in Turkey maintained its strong momentum in the second quarter of the year thanks to the continuation of supportive economic policies. While the leading indicators for the third quarter signal a slowdown in economic activity, the impact of the recent macroprudential measures on exports and investments will be closely followed. As Turkey's important trading partners face the risk of recession due to the energy supply security problems in the European economies and the tightening trend in global monetary policies, Turkey's exports may lose pace in the coming period. The ongoing inflationary environment, due to both local and global developments, continues to pose a risk to the quality and sustainability of growth in the medium and long term.

Source: Datastream, Turkstat

Unemployment rate was 10.3% in June.

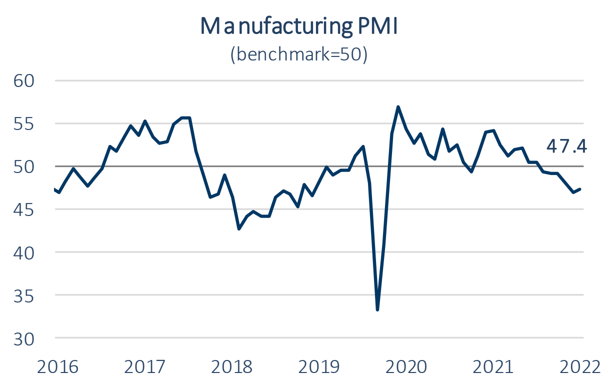
In June, the seasonally adjusted unemployment rate decreased by 0.3 points mom to 10.3%, the lowest level since April 2018. During this period, the labor force participation rate declined by 0.4 points to 53.2%. Labor underutilization rate, which expresses the ratio of time-related underemployment, unemployed and potential labor force to the sum of labor force and potential labor force, decreased by 1.7 pts compared to the previous month to 20.4% in June.



According to the seasonally adjusted figures, the number of paid employees rose by 154K people in June compared to the previous month and reached 14.4 million people. In this period, the number of paid employees in the services, construction and industry sectors increased by 49K, 42K and 34K, respectively.

In August, the manufacturing PMI indicated that the contraction in the sector continued.

The manufacturing PMI increased by 0.5 points mom to 47.4 in August. It remained below the 50 threshold level for the sixth consecutive month, which denotes a contraction in the sector. According to the sub-indices, the slowdown in production in August was more moderate compared to the previous month, while the increase in employment continued. On the other hand, new orders contracted the fastest since May 2020 due to the weakening in demand.



Confidence indices revealed a mixed outlook in August.

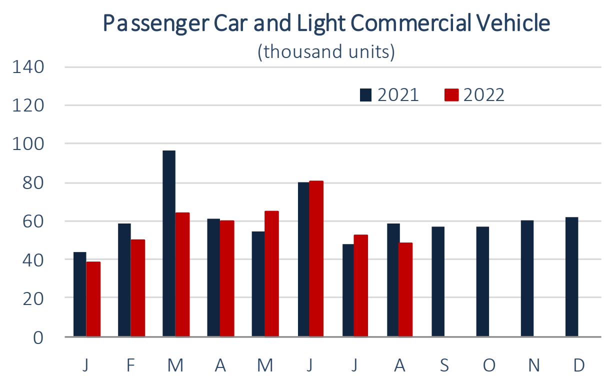
Seasonally adjusted real sector confidence index declined by 1.1 points mom to 101.4 in August. In this period, confidence indices in the services and retail trade sectors decreased by 1.3% mom and 0.4% mom, respectively, while construction sector confidence rose by 1.5% on a monthly basis. In addition, the consumer confidence index increased by 6.1% mom to 72.2 in August. The economic confidence index, which consists by weighting of the consumer confidence indices and the sub-indices of the real sector and sectoral confidence indices, went up by 1% mom to 94.3 in August.

House sales declined by 12.9% yoy in July.

In July, house sales declined by 12.9% yoy to 94K, the lowest level of the last 6 months. In this period, mortgage sales contracted by 6.8% yoy, while the other sales, which accounted for 80% of total house sales, decreased by 14.3% yoy. As of the first 7 months of the year, total house sales went up by 24.2% compared to the same period of the last year and reached 820K. In this period, house sales to foreigners increased by 57.4% yoy and took a share of 4.8% in the total sales.

The downward trend in white goods sales continued in July.

In July, white goods sales and production contracted by 2% and 4%, respectively, on an annual basis. In this period, exports decreased by 7% in parallel with the slowdown in economic activity in European countries, Turkey’s main export markets. In the January-July period, domestic sales contracted by 7% yoy, while exports remained flat.



According to the Automotive Distributors Association (ODD) data, the automobile and light commercial vehicle market decreased by 17.3% yoy in August and became 48,336. In this period, while the automobile market contracted by 21.3% yoy, light commercial vehicle sales declined by 4.3% yoy. Thus, sales of automobiles and light commercial vehicles contracted by 8.5% yoy in the January-August period.

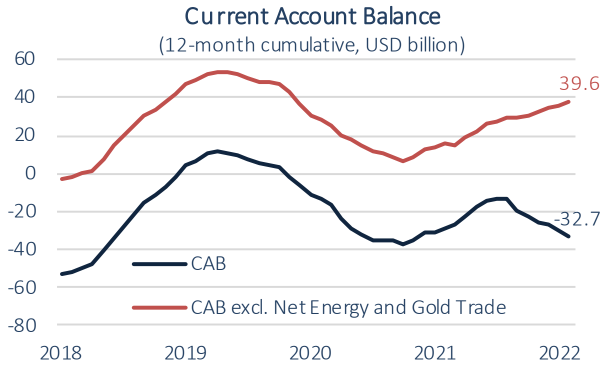
Source: Turkstat, Datastream, HMB, ODD

Foreign trade deficit widened by 147% yoy in July.

According to TURKSTAT data, exports increased by 13.4% yoy to 18.6 billion USD in July, while imports went up by 41.4% to 29.2 billion USD. In this period, due to the high course of energy and commodity prices because of geopolitical risks, the foreign trade deficit widened by 147% and became 10.7 billion USD. The import coverage ratio, which was 79.1% in July 2021, decreased to 63.4% in the same month of 2022.

In June, the current account deficit was 3.5 billion USD.

In June, the current account deficit increased by 2.3 billion USD compared to the same month of the previous year and became 3.5 billion USD. The increase in net energy and non-monetary gold imports was effective in widening of the current account deficit. The deficit in these two figures amounted to 7.8 billion USD in this period. On the other hand, the recovery in transportation and tourism revenues continues to limit the expansion in the current account balance. These two figures limited the widening in current account balance deficit by 3.4 billion USD in June



The 12-month cumulative current account deficit, by keeping its upward trend, reached 32.7 billion USD in June, the highest level since March 2021. On the other hand, 12-month cumulative current account surplus excluding net energy and gold imports continued to increase and came in at 39.6 billion USD.

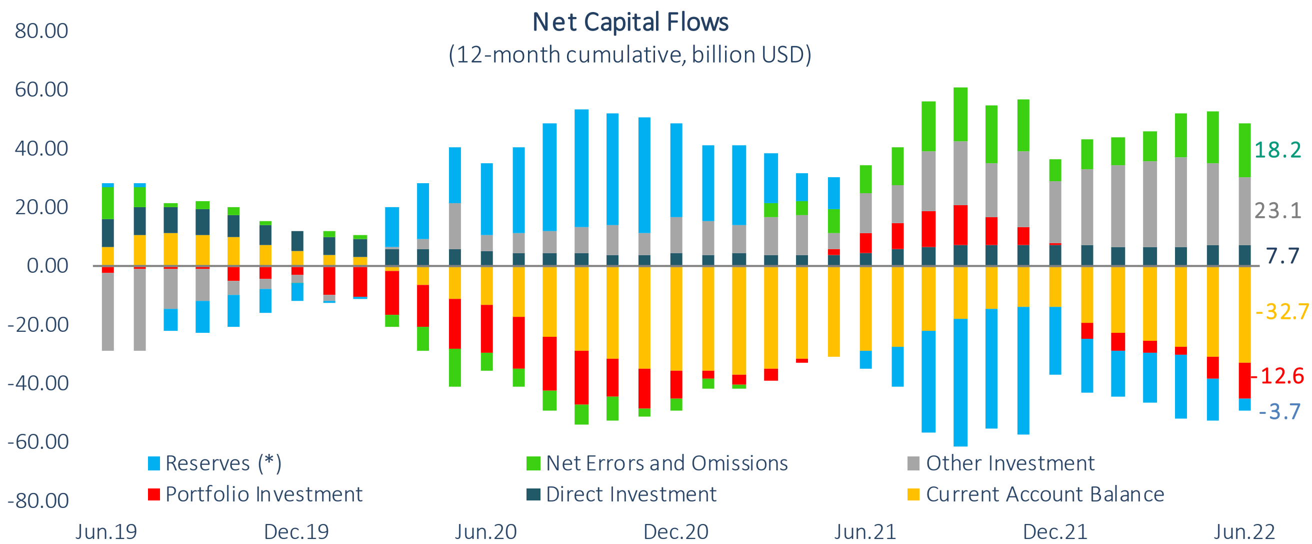
In June, net real estate investments reached a historical high level.

Direct investments posted a net inflow of 950 million USD in June. In this period, non-residents' net capital investments became 501 million USD, while net real estate investments reached a historical high level with 1.1 billion USD. In the January-June period, net direct investments expanded by 11% yoy and reached 2.9 billion USD. In this period, annual rise of non-residents' capital investments in the food and wholesale & retail trade sectors by 454% and 285%, respectively, stood out.

Portfolio investments posted an outflow of 1.6 billion USD.

In June, portfolio investments posted a net capital outflow of 1.6 billion USD. Thus, the outflow trend in portfolio investments continued for nine month in a row. During this period, non-residents' transactions on equity securities and government domestic debt securities recorded net sales of USD 509 million and USD 218 million, respectively. As of the first six months of the year, the portfolio investments recorded a capital outflow of 11.4 billion USD.

Other investments, in which had been recorded capital inflows since September 2021, a net capital outflow of 1.9 billion USD was recorded in June. In this development, bank's loans to abroad in the amount of 1.1 billion USD were effective. In addition, banks and other sectors made net loan repayments of 1 billion USD and 264 million USD, respectively. According to the 12-month cumulative data, as of June, the long-term debt rollover ratio was 92% in the banking sector and 132% in other sectors.

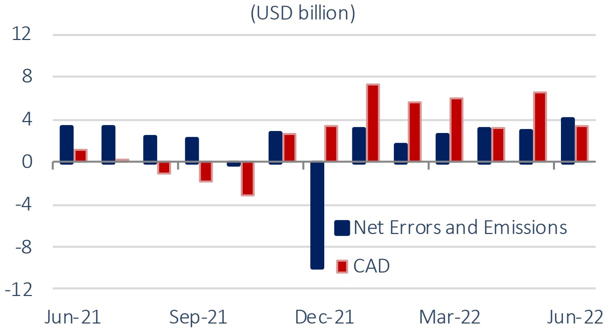


Source: Datastream, Turkstat, CBRT

Reserve assets declined by 2 billion USD in June.

Reserve assets declined by 2.0 billion USD in June. Thus, the decrease in reserve assets in the January-June period reached 12.3 billion USD. Net errors and omissions, which recorded a capital inflow of 4 billion USD in June, posted a historical high capital inflow with 17.5 billion USD as of the first six months of the year.

Net Errors & Omissions and CAD
(USD billion)



Expectations...

According to the preliminary foreign trade figures released by the Ministry of Commerce, the export volume expanded by 13.2% yoy to 21.3 billion USD, while the import volume increased by 40.8% to 32.6 billion USD in August. In this period, the foreign trade deficit widened by 161.8% on an annual basis to 11.3 billion USD. Thus, the foreign trade deficit in the January-August period rose by 146.4% compared to the same period of the last year and reached 73.5 billion USD.

The high level of energy prices continued to suppress the current account balance through the foreign trade channel. Indeed, the half-year current account deficit reached its highest level since 2011 in the first half of the year. The deceleration of economic activity in EU countries, which are Turkey's main export markets, and the low level of EUR/USD parity stand out as other factors that posed additional risks on the current account deficit. On the other hand, the better-than-expected performance of tourism revenues, despite geopolitical risks, limited the upward pressures on the current account deficit.

Balance of Payments (USD million)

	Jun. 2022	Jan. - Jun. 2021	Jan. - Jun. 2022	% Change	12-month Cumulative
Current Account Balance	**-3,458**	**-13,364**	**-32,444**	**142.8**	**-32,667**
Foreign Trade Balance	-6,426	-13,419	-40,962	205.3	-56,830
Services Balance	4,024	6,024	14,477	140.3	35,125
Travel (net)	2,728	4,087	10,310	152.3	25,400
Primary Income	-946	-6,688	-5,423	-18.9	-10,764
Secondary Income	-110	719	-536	-	-198
Capital Account	**0**	**-19**	**-14**	**-26.3**	**-59**
Financial Account	**526**	**-6,550**	**-14,950**	**128.2**	**-14,483**
Direct Investment (net)	-950	-2,661	-2,945	10.7	-7,679
Portfolio Investment (net)	1,578	-1,952	11,403	-	12,559
Net Acquisition of Financial Assets	870	-236	4,214	-	6,710
Net Incurrence of Liabilities	-708	1,716	-7,189	-	-5,849
Equity Securities	-509	-1,808	-3,358	85.7	-2,984
Debt Securities	-199	3,524	-3,831	-	-2,865
Other Investment (net)	1,858	-9,201	-11,060	20.2	-23,081
Currency and Deposits	-795	-6,639	-10,160	53.0	-12,965
Net Acquisition of Financial Assets	819	4,285	3,871	-9.7	4,809
Net Incurrence of Liabilities	1,614	10,924	14,031	28.4	17,774
Central Bank	127	4,788	3,977	-16.9	3,937
Banks	1,487	6,136	10,054	63.9	13,837
Foreign Banks	643	4,758	7,745	62.8	12,293
Foreign Exchange	638	3,705	4,720	27.4	8,832
Turkish Lira	5	1,053	3,025	187.3	3,461
Non-residents	844	1,378	2,309	67.6	1,544
Loans	2,489	-889	838	-	1,588
Net Acquisition of Financial Assets	1,119	1,755	663	-62.2	1,169
Net Incurrence of Liabilities	-1,370	2,644	-175	-	-419
Banking Sector	-1,039	-782	-1,918	145.3	-4,668
Non-bank Sectors	-264	3,677	1,434	-61.0	3,911
Trade Credit and Advances	171	-1,669	-1,704	2.1	-5,328
Other Assets and Liabilities	-7	-4	-34	750.0	-38
Reserve Assets (net)	-1,960	7,264	-12,348	-	3,718
Net Errors and Omissions	**3,984**	**6,833**	**17,508**	**156.2**	**18,243**

Source: CBRT, Datastream

Budget Balance

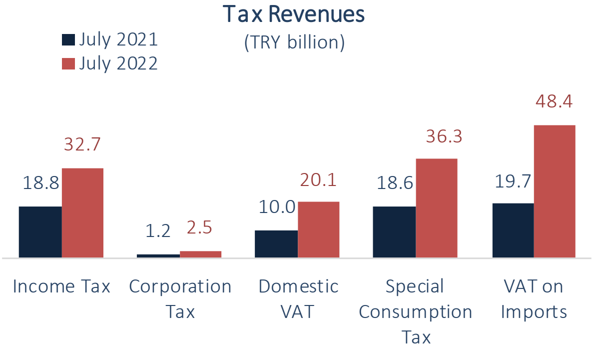
The central government budget posted a deficit of 64 billion TRY in July.

In July, central government budget revenues expanded by 106.7% yoy and reached 197 billion TRY, while budget expenditures increased by 85% to 261 billion TRY. Thus, the central government budget gave a deficit of 64 billion TRY in July, and primary budget deficit became 47.3 billion TRY with an annual expansion of 113.5%.

In the January-July period, budget revenues doubled compared to the same period of the previous year, while the increase in budget expenditures was 78.1%. Thus, the central government budget, which posted a deficit of 78.3 billion TRY in January-July 2021, gave a surplus of 29.5 billion TRY in the same period of this year. In this period, primary surplus was realized as 180.9 billion TRY.

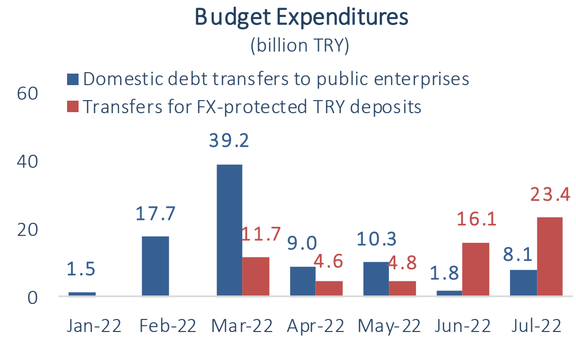
Revenues from interests, shares and fines supported the budget.

In July, tax revenues increased faster than annual inflation by 99.2% to 168.9 billion TRY. VAT on imports, which expanded by 146.2% on an annual basis due to rapid increase in foreign trade volume as well as rise in exchange rates, contributed 30.2 pts to the annual growth in budget revenues. In this period, SCT revenues, which doubled on an annual basis due to price developments, also contributed 18.6 pts to the increase in budget revenues. It was observed that interest incomes, which were followed under the interest, shares and fines figure, increased 9.3 times in July, making a significant contribution to the surge in budget revenues with 7.3 pts.



In July, expenses related to FX-protected Turkish Lira deposit accounts continued to rise.

In July, current transfers rose by %118 yoy to 127.3 billion TRY. The treasury aid, which went up by 91% yoy due to the rapid increase in health, retirement and social aid expenditures, played an important role in this expansion. In this period other, more than 9 times increase in the transfers to households drew attention as well. In July, primary expenditures surged by 108% yoy and remained above the annual CPI inflation. In July, sharp decline in interest expenditures was mainly due to the base effect of high domestic debt payments in July 2021.



In July, payments made within the scope of domestic debt transfers to PEs increased nearly 6 times and amounted to 8.1 billion TRY. The resources transferred only to BOTAŞ in this period were 4.5 billion TRY, while the total resources transferred to aforementioned institution reached 75.9 billion TRY as of the first 7 months of the year. Thus, the total domestic debt transferred to PEs reached 87.6 billion TRY in the January-July period. In addition, expenses related to FX protected deposits accounts were recorded as 23.4 billion TRY in July. Thus, the aforesaid expenditure amount reached 60.6 billion TRY in the March-July period.

Expectations...

Despite the deterioration in budget indicators in June and July, the central government budget figures continued to keep its positive outlook as of the first 7 months of the year. Considering that the leading indicators point to a moderate slowdown in economic activity, we anticipate that tax revenues may lose momentum in the rest of the year. In addition, we foresee that interest expenditures, resource transfers to PEs and expenses related to FX protected deposits accounts will remain to be influential on the budget performance in the upcoming period. On the other hand, budget figures in the January-July period indicate that the year-end budget deficit forecast of 278.4 billion TRY is within reach. In this context, the budget is expected to give a deficit of at least 307.9 billion TRY in the rest of the year.

Central Government Budget (billion TRY)

	July 2021	July 2022	% Change	January-July 2021	January-July 2022	% Change	2022 Budget Target	Real./ Budget Target (%)
Expenditures	141.1	261.0	85.0	804.4	1,432.8	78.1	2,831.5	50.6
Interest Expenditures	23.6	16.7	-29.4	114.5	151.3	32.2	329.8	45.9
Non-Interest Expenditures	117.4	244.3	108.0	689.9	1,281.5	85.7	2,501.7	51.2
Revenues	95.3	197.0	106.7	726.1	1,462.4	101.4	2,553.1	57.3
Tax Revenues	84.7	168.8	99.2	581.7	1,202.6	106.8	2,186.0	55.0
Other Revenues	10.5	28.1	167.2	144.4	259.8	79.9	367.1	70.7
Budget Balance	-45.8	-64.0	39.8	-78.3	29.5	-	-278.4	-
Primary Balance	-22.2	-47.3	113.5	36.2	180.9	400.2	51.4	351.7

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

Source: Datastream , Ministry of Treasury and Finance

In August, CPI increased by 1.46% on a monthly basis.

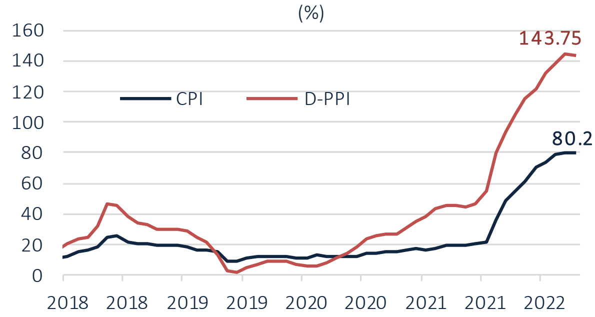
In August, CPI rose by 1.46% compared to the previous month, recording the slowest rise in the last 11 months. The market expectation was that the CPI would increase by 2% mom. Monthly domestic PPI inflation came in at 2.41%, the lowest level since September 2021.

August	CPI		D-PPI	
(change %)	2021	2022	2021	2022
Monthly	1.12	1.46	2.77	2.41
Year-to-Date	11.65	47.85	28.51	74.13
Annual	19.25	80.21	45.52	143.75
Annual Average	15.78	54.69	31.34	105.39

Annual CPI inflation reached 80.21%.

In August, annual CPI inflation reached 80.21%, the highest level since September 1998. Annual D-PPI inflation, which rose to 144.61% in July, lost some momentum in August and became 143.75%.

Annual Inflation
(%)

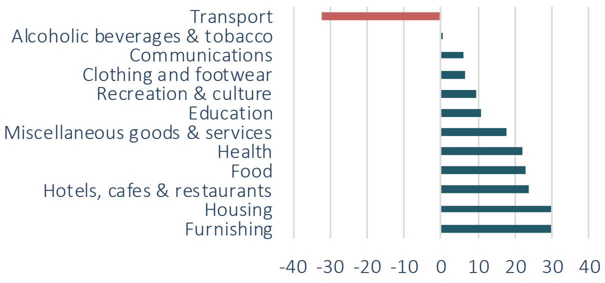


Housing and furnishing groups came to the fore in monthly CPI inflation.

In August, prices increased in all main expenditure groups, except for the transportation group. The housing group and the furnishing goods group, where prices increased by 2.05% mom, and by 3.35% mom, respectively, contributed 60 basis points to the monthly CPI inflation. The food group prices recorded a limited rise of 0.85% mom due to the decline in fresh fruit and vegetable prices, and pushed -up the CPI inflation by 23 basis points. In this period, university tuition fees (24.2%) and pharmaceutical prices (16.7%) were the basic headings that recorded the fastest monthly increases. The transportation group prices declined by 1.78% mom due to the decrease in fuel and oil prices (-7.8%) and limited monthly CPI inflation by 32 basis points.

Annual inflation figures of main expenditure groups reveals that the food group, where the prices went up by 90.25%, contributed the most to CPI inflation with 23 points. With the effect of geopolitical developments, the average fuel prices tripled on an annual basis, and the transportation group, where costs increased rapidly pushed the annual CPI inflation up by 17.3 points.

Contributions of main expenditure groups to monthly CPI (basis points)



Core inflation indicators...

In August, annual increases in 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) were realized as 72.5% and 66.1%, respectively, and continued their upward trend.

The decrease in the energy group prices limited monthly D-PPI inflation.

Energy prices, decreased by 1.7% mom in August. According to the sub-sectors, prices in the electricity and gas production and distribution sector declined by 1.1% mom in August, pulling the monthly D-PPI inflation down by 16 basis points. In parallel with the decline in global commodity prices, the prices in basic metal sector declined by 2.54% mom limiting the monthly D-PPI inflation the most with 18 basis points.

The food group prices rose by 141.5% yoy and made the highest contribution to the annual D-PPI with 28.6 points. The electricity and gas production and distribution group, with the highest price increase by 348% on an annual basis, pushed D-PPI up by 27.7 points. Prices rose by 127.8% yoy in the intermediate goods group, and by 124.1% yoy in non-durable consumer goods.

Expectations...

The decline in oil prices due to the negative expectations for global demand in August, affected domestic inflation to be below expectations. On the other hand, the increases in electricity and natural gas price tariffs at the beginning of September will put upward pressure on inflation indicators in the upcoming period. In addition, the possible pressure on domestic energy prices due to the energy crisis on a global basis, and the effects of exchange rate pass-through will determine the course of inflation.

Source: Datastream, Turkstat

	29-Jul	31-Aug	Change
5-Y CDS (basis points)	812	772	-41 bps ▼
TR 2-Y Benchmark Yield	22.86%	14.58%	-828 bps ▼
BIST-100	2,592	3,171	22.3% ▲
USD/TRY	17.9114	18.1868	1.5% ▲
EUR/TRY	18.3186	18.2946	-0.1% ▼
Currency Basket*	18.1150	18.2407	0.7% ▲

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

The CBRT lowered the policy rate to 13%.

At its meeting held on August 18, the CBRT lowered the policy rate from 14% to 13%. The market anticipated that the policy rate would remain unchanged. In the press release published after the meeting, CBRT stated that leading indicators for the third quarter point to some loss of momentum in the economic activity. Highlighting the importance of the financial conditions remaining as supportive to preserve the growth momentum in industrial production and the positive trend in employment, the CBRT assessed that the updated level of policy rate is adequate under the current outlook. In addition, it was emphasized that the spread between policy rate and loan interest rate, which had been significantly expanded recently, reduced the effectiveness of the monetary transmission. Within this framework, the CBRT decided to strengthen its macroprudential policy set further with tools to support the effectiveness of the monetary transmission mechanism.

Medium Term Programme...

The Medium Term Programme covering the 2023-2025 period was published in the Official Gazette on September 4, 2022. According to the Programme, growth forecasts for the Turkish economy, which is expected to grow by 5% in 2022, were determined as 5% for 2023 and 5.5% for both 2024 and 2025. The forecasts for the CPI inflation, which is expected to close the year 2022 at 65%, are 24.9%, 13.8% and 9.9% for the years 2023, 2024 and 2025, respectively. After realizing at 5.9% in 2022, the current account deficit to GDP ratio is expected to decline to 2.5% in 2023 and to 1.4% in 2024.

Medium Term Programme Projections (%)

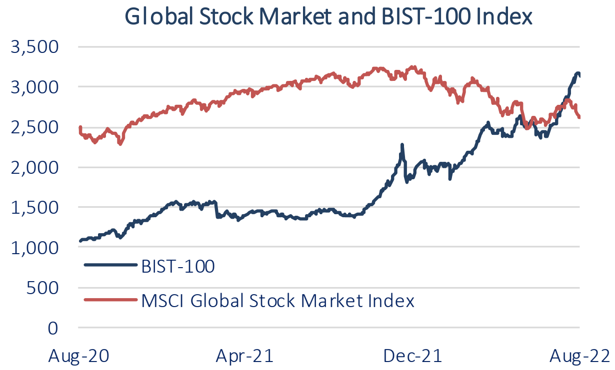
	2022 (RE)	2023 (P)
GDP Growth	5.0	5.0
Unemployment Rate	10.8	10.4
Current Account Balance/GDP	-5.9	-2.5
CPI (year end)	65.0	24.9

Securities portfolio of non-residents...

According to the securities statistics announced by the CBRT, as of August 26, non-residents' adjusted for price and exchange rate movements stock portfolio increased by net 692 million USD and GDDS portfolio declined by net 15 million USD since the end of July. Since the beginning of the year, net outflows have been recorded by 2.9 billion USD from the stock market and by 2.2 billion USD from the bond market.

Domestic markets followed a positive course in August.

In August, the global macroeconomic figures pointed to a loss of momentum in economic activity, while rising energy prices created inflationary pressures that dampened risk appetite. Various statements made by Fed officials during the month about the monetary policy to be implemented in the coming period caused volatility in the stock markets.



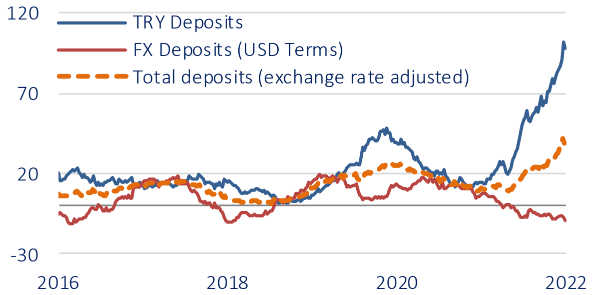
Domestic markets showed a favorable outlook by diverging positively from the global markets in August. BIST-100 index rose by 22.3% compared to the end of July and closed the month with a historical high level of 3,171. Although Turkey's 5-year CDS risk premium declined by 40 basis points mom, it remained high at 772 basis points at the end of August. CBRT's decision to replace the banks' reserve requirement facility with securities facility increased the demand for bonds and the interest rate of the 2-year benchmark bond decreased by 828 basis points to 14.58%. While the depreciation of TRY continued in August, the USD/TRY parity increased by 1.5% compared to the end of July and closed the month at 18.19.

Source: CBRT, Datastream, Reuters,

Currency protected deposit volume reached 1.3 trillion TRY.

According to the BRSA Weekly Bulletin figures, as of August 26, TRY deposit volume expanded by 97.6% yoy and exceeded 3.5 trillion TRY, while FX deposit volume in USD terms declined by 8.9% yoy to 236 billion USD. Thus, the total deposit volume increased by 97.6% on an annual basis and reached 7,782 billion TRY. In this period, the annual increase in deposit volume, adjusted for exchange rate effects, was 39.1%. According to the figures revealed by the BRSA, the total currency protected deposit volume continued to rise and reached 1.3 trillion TRY as of August 26.

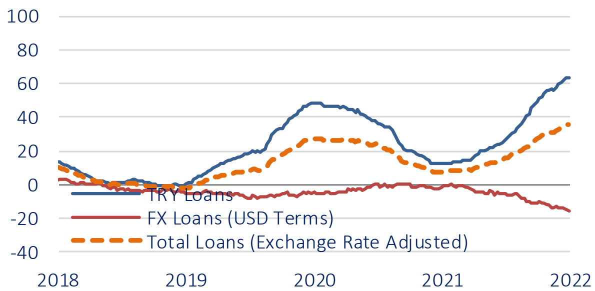
Deposit Growth
(annual % change)



FX loan volume in USD terms declined to the lowest level since November 2013.

As of August 26, the total loan volume of the banking sector increased by 69.8% yoy to 6,628 billion TRY. In this period, the rise in loan volume adjusted from the exchange rate effect was 35.4%. In this period, annual TRY loan growth was 63.4%. On the other hand, FX loan volume in USD terms contracted by 16.3% yoy and declined to 138 billion USD, the lowest level since November 2013.

Loan Growth
(annual % change)



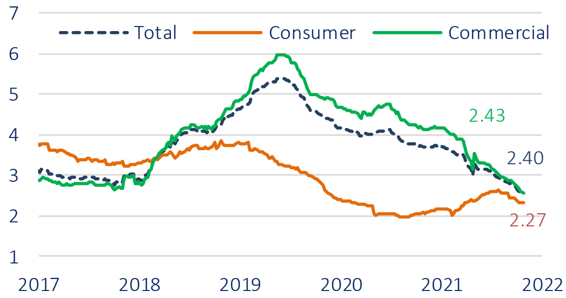
The rise in vehicle loans continued to gain momentum.

As of August 26, the annual increase in consumer loans became 29.9%, while the annual rise in consumer credit cards remained high with 76.2%. In this period, the annual increase in housing loans was 26.1%, while consumer loans, which have the largest share in consumer loans, went up by 30.3%. Rising by 91.4% yoy, vehicle loans showed the fastest increase since June 2021.

NPL ratio is at the level of 2.40%...

With the effect of the rapid growth in loan volume, NPL ratio maintained its low level with 2.40% as of August 26. The said ratio was 2.27% in retail loans and 2.43% in commercial loans. The NPL ratio was 1.64% in public banks and 3.05% in private banks.

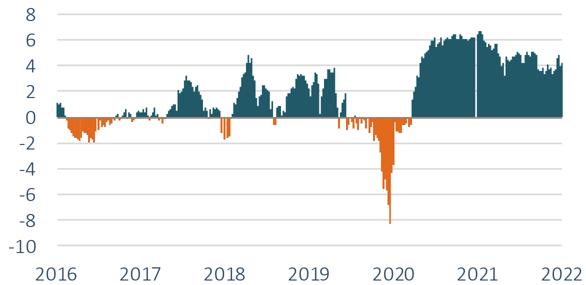
Non-performing Loans
(%)



Foreign currency net general position...

As of August 26 , banks' on-balance sheet FX position was (-) 31.991 million USD, while off-balance sheet FX position was (+) 36.224 million USD. Thus, the net FX position of the banking sector was realized as (+) 4,233 million USD.

Net FX Position
(USD Billion)



Source: BRSA Weekly Bulletin

Global PMI data signal that the slowdown in economic activity was more pronounced than expected in August. Despite this economic slowdown, inflationary conditions have broadly persisted. As the European countries move to reduce dependency on Russian energy supplies along with the Russia's cuts in gas deliveries, the upside risks on inflation may increase in the coming period.

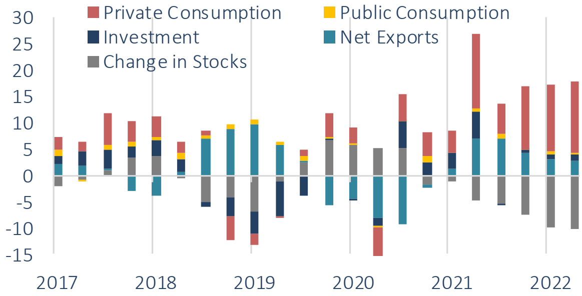
Despite the recession concerns prevailing in most of the advanced economies, by prioritizing the fight against inflation, leading central banks are strengthening their emphasis on the need for additional tightening. Fed and the ECB are highly expected to take another strong tightening step in their September meetings. Against this backdrop, the US dollar is on an upward trend, while the deterioration in the global risk perception weighs on the global markets, especially on the equities.

Growth data released in Turkey showed that the strong course of economic activity continued in the second quarter as well. In this period, domestic demand was the main driver of growth and net exports and investments continued to make positive contributions. Leading indicators for the third quarter, on the other hand, signal that economic activity has slowed down. Manufacturing PMI data remained below the threshold level for the sixth consecutive month in August pointing to a continued contraction in the sector. Electricity consumption decreased on an annual basis in both July and August. The energy supply problem of European countries and the tightening trend in global monetary policies also paint a negative picture in terms of global demand. The effectiveness of the supportive policies, further fostered by the August rate cut of the CBRT and the following macroprudential measures, in eliminating the risks on economic activity will be closely monitored in the coming period. The targets of the Medium-Term Programme for 2023-2025 period, present a picture where the growth will continue to be strong in the coming years, the current account balance will show an improvement following the deterioration in 2022, and the inflation will fall to single digits in 2025.

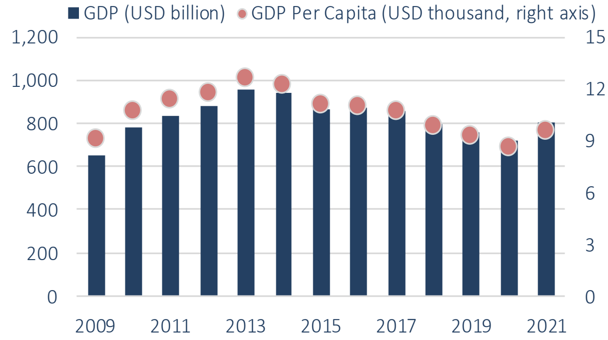
Growth

Contributions to GDP Growth

(% point)

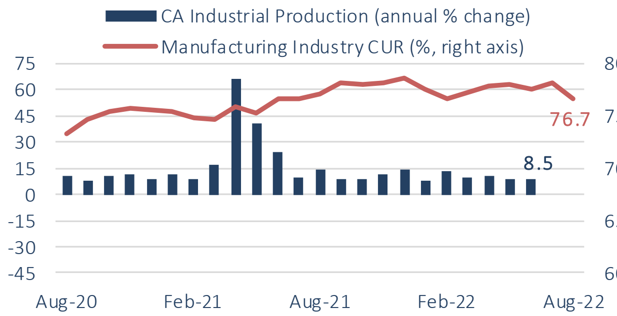


GDP

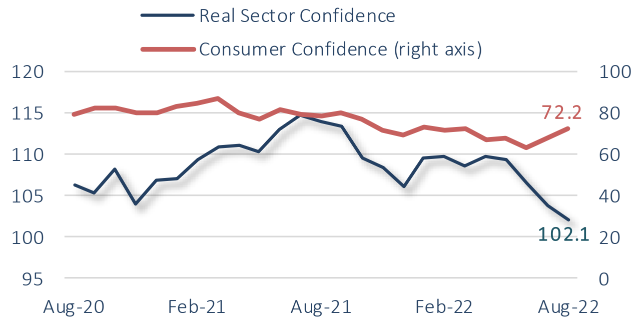


Leading Indicators

Industrial Production and Capacity Utilization



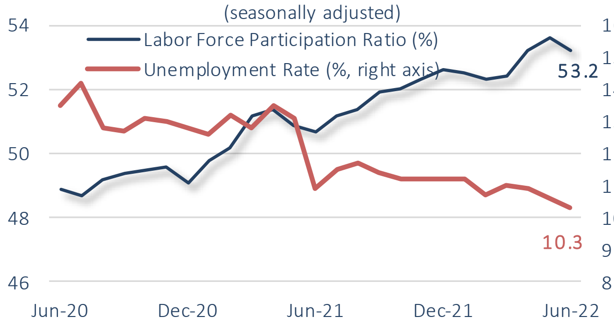
Confidence Indices



Labor Market

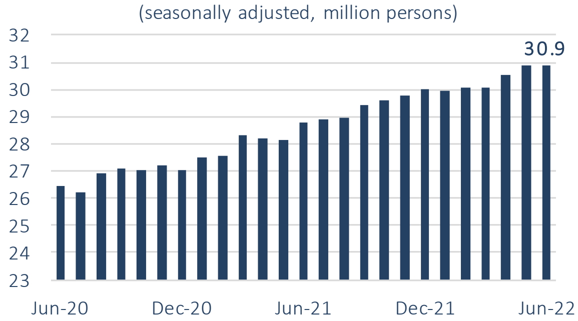
Employment Indicators

(seasonally adjusted)



Employment

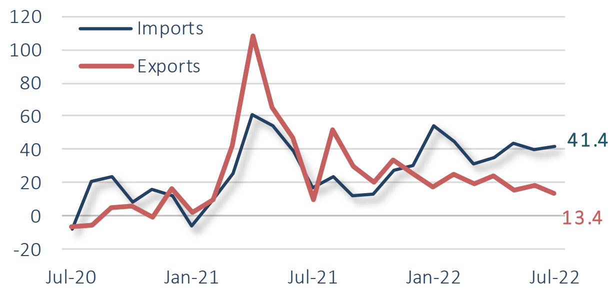
(seasonally adjusted, million persons)



Foreign Trade and Current Account Balance

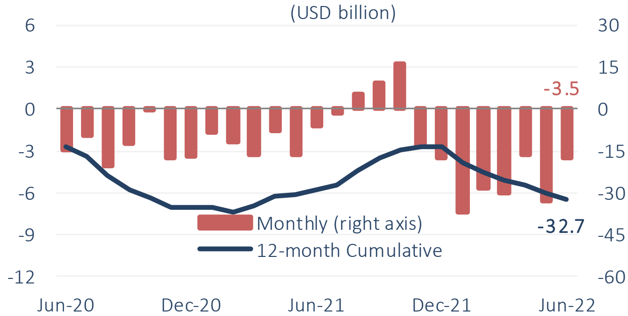
Foreign Trade

(annual % change)



Current Account Balance

(USD billion)

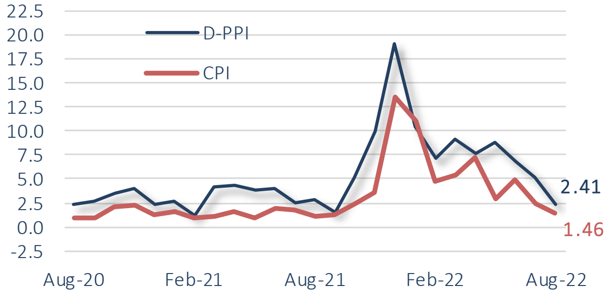


(CA) Calendar adjusted

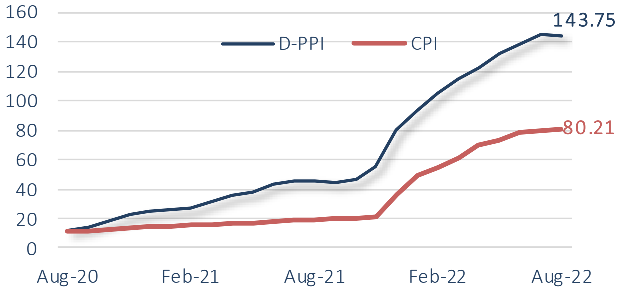
Source: Datastream, CBRT, Turkstat

Inflation

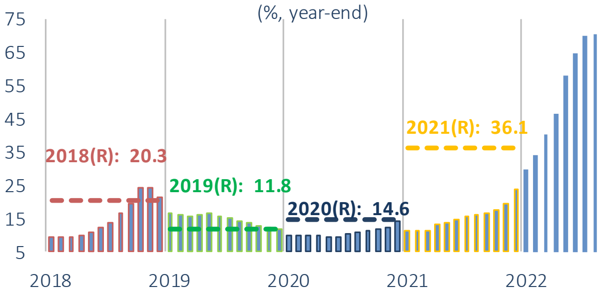
Monthly Inflation
(%)



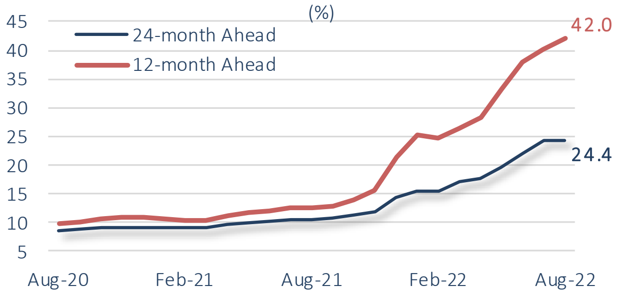
Annual Inflation
(%)



CBRT Survey of Market Participants - Annual CPI Inflation Expectations
(%, year-end)

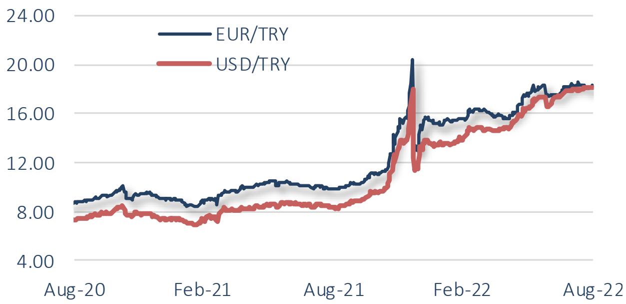


CBRT Survey of Market Participants - 12 & 24-month Ahead CPI Inflation Expectations
(%)

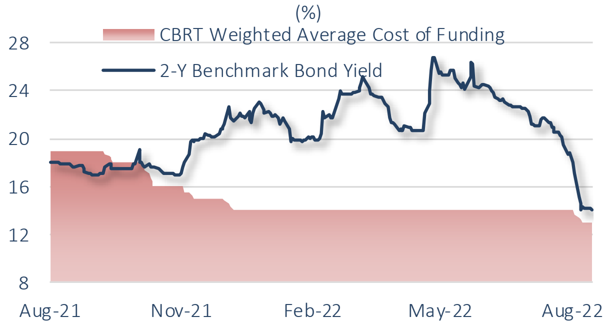


Foreign Exchange and Bond Market

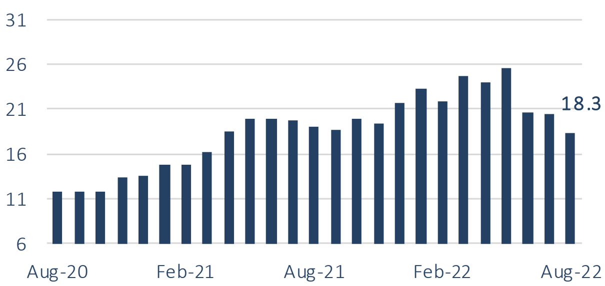
Exchange Rates



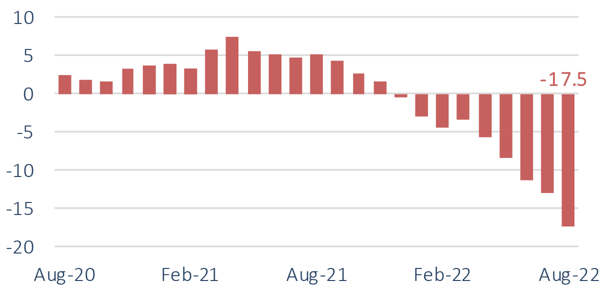
CBRT WACOF and 2-Y Benchmark Bond Yield
(%)



Average Compound Yield in Treasury Auctions
(%)



Expected Real Yield of TRY GDDIs
(%)



(R) Realization

Source: BİST, Datastream, Reuters, CBRT, Turkstat, Treasury

Turkish Economy - Macroeconomic Indicators

Growth	2017	2018	2019	2020	2021		Q1-22	Q2-22
GDP (USD billion)	859	797	760	717	807		181	219
GDP (TRY billion)	3,134	3,759	4,312	5,048	7,249		2,508	3,419
GDP Growth Rate (%)	7.5	3.0	0.8	1.9	11.4		7.5	7.6
Inflation (%)						Jun-22	Jul-22	Aug-22
CPI (annual)	11.92	20.30	11.84	14.60	36.08	78.62	79.60	80.21
Domestic PPI (annual)	15.47	33.64	7.36	25.15	79.89	138.31	144.61	143.75
Seasonally Adjusted Labor Market Figures						Apr-22	May-22	Jun-22
Unemployment Rate (%)	9.9	12.7	13.4	12.8	11.2	10.9	10.6	10.3
Labor Force Participation Rate (%)	52.8	53.2	52.6	49.1	52.6	53.2	53.6	53.2
FX Rates						Jun-22	Jul-22	Aug-22
CPI Based Real Effective Exchange Rate	86.3	76.3	76.1	62.0	47.8	53.0	53.9	52.8
USD/TRY	3.79	5.32	5.95	7.43	13.28	16.70	17.92	18.19
EUR/TRY	4.55	6.08	6.68	9.09	15.10	17.46	18.27	18.30
Currency Basket (0.5*EUR+0.5*USD)	4.17	5.70	6.32	8.26	14.19	17.08	18.09	18.25
Foreign Trade Balance[1] (USD billion)						May-22	Jun-22	Jul-22
Exports	164.5	177.2	180.8	169.6	225.2	242.5	246.1	248.3
Imports	238.7	231.2	210.3	219.5	271.4	313.6	322.6	331.2
Foreign Trade Balance	**-74.2**	**-54.0**	**-29.5**	**-49.9**	**-46.2**	**-71.2**	**-76.5**	**-82.9**
Import Coverage Ratio (%)	68.9	76.6	86.0	77.3	83.0	77.3	76.3	75.0
Balance of Payments[1] (USD billion)						Apr-22	May-22	Jun-22
Current Account Balance	**-40.9**	**-21.7**	**5.3**	**-35.5**	**-13.6**	**-27.1**	**-30.4**	**-32.7**
Capital and Financial Accounts	**-49.7**	**1.1**	**5.1**	**-39.5**	**-6.1**	**-12.6**	**-12.9**	**-14.5**
Direct Investments (net)	-8.5	-8.9	-6.6	-4.6	-7.4	-6.9	-7.6	-7.7
Portfolio Investments (net)	-24.4	0.9	2.8	9.6	-0.8	3.3	7.9	12.6
Other Investments (net)	-8.5	19.4	2.6	-12.6	-21.2	-30.7	-27.7	-23.1
Reserve Assets (net)	-8.2	-10.4	6.3	-31.9	23.3	21.7	14.5	3.7
Net Errors and Omissions	**-8.8**	**22.7**	**-0.3**	**-3.9**	**7.6**	**14.5**	**17.6**	**18.2**
Current Account Balance/GDP (%)	**-4.8**	**-2.7**	**0.7**	**-5.0**	**-1.7**	-	-	-
Budget[2][3] (TRY billion)						May-22	Jun-22	Jul-22
Expenditures	**678.3**	**830.8**	**1000.0**	**1203.7**	**1599.6**	**959.8**	**1171.9**	**1432.9**
Interest Expenditures	50.2	74.0	99.9	134.0	180.9	121.9	134.7	151.3
Non-interest Expenditures	628.0	756.8	900.1	1069.8	1418.8	837.9	1037.2	1281.5
Revenues	**630.5**	**758.0**	**875.3**	**1028.4**	**1407.4**	**1084.4**	**1265.4**	**1462.4**
Tax Revenues	536.6	621.5	673.9	833.3	1164.8	881.2	1033.8	1202.6
Budget Balance	**-47.8**	**-72.8**	**-124.7**	**-175.3**	**-192.2**	**124.6**	**93.6**	**29.5**
Primary Balance	**8.9**	**1.1**	**-24.8**	**-41.3**	**-11.4**	**246.5**	**228.2**	**180.9**
Budget Balance/GDP (%)	**-1.5**	**-1.9**	**-2.9**	**-3.5**	**-2.7**	-	-	-
Central Government Debt Stock (TRY billion)						Apr-22	Jun-22	Jul-22
Domestic Debt Stock	535.4	586.1	755.1	1060.4	1321.2	1,564.8	1,610.8	1,676.2
External Debt Stock	341.0	481.0	574.0	752.5	1426.5	1798.8	1820.3	1944.5
Total Debt Stock	**876.5**	**1067.1**	**1329.1**	**1,812.8**	**2,747.7**	**3,363.6**	**3,431.1**	**3,620.7**

(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	Jun.22	Jul.22	Change[1]
TOTAL ASSETS	3,258	3,867	4,491	6,106	9,215	11,714	12,304	33.5
Loans	2,098	2,394	2,656	3,576	4,901	6,279	6,512	32.9
TRY Loans	1,414	1,439	1,642	2,353	2,832	3,864	3,981	40.5
Share (%)	67.4	60.1	61.8	65.8	57.8	62	61.1	-
FX Loans	684	956	1,015	1,224	2,069	2,414	2,531	22.4
Share (%)	32.6	39.9	38.2	34.2	42.2	38	38.9	-
Non-performing Loans	64.0	96.6	150.8	152.6	160.1	161	162.2	1.3
Non-performing Loan Rate (%)	3.0	3.9	5.3	4.1	3.2	2	2.4	-
Securities	401	477	660	1,022	1,476	1,904	2,037	38.0
TOTAL LIABILITIES	3,258	3,867	4,491	6,106	9,215	11,714	12,304	33.5
Deposits	1,711	2,036	2,567	3,455	5,303	6,796	7,458	40.6
TRY Deposits	955	1,042	1,259	1,546	1,880	2,928	3,248	72.7
Share (%)	55.8	51.2	49.0	44.7	35.5	43	43.6	-
FX Deposits	756	994	1,308	1,909	3,423	3,868	4,210	23.0
Share (%)	44.2	48.8	51.0	55.3	64.5	57	56.4	-
Securities Issued	145	174	194	224	310	315	335	8.0
Payables to Banks	475	563	533	658	1,048	1,310	1,369	30.6
Funds from Repo Transactions	99	97	154	255	587	640	522	-11.0
SHAREHOLDERS' EQUITY	359	421	492	600	714	1,028	1,048	46.8
Profit (Loss) of the Period	48.6	54.1	49.0	58.5	93.0	169.1	207.9	-
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	53.6	52.9	-
Securities/Assets	12.3	12.4	14.7	16.7	16.0	16.3	16.6	-
Deposits/Liabilities	52.5	52.6	57.1	56.6	57.5	58.0	60.6	-
Loans/Deposits	122.6	117.6	103.5	103.5	92.4	92.4	87.3	-
Capital Adequacy (%)	16.9	17.3	18.4	18.7	18.4	18.1	18.0	-

(1) Year-to-date % change

Source: BRSA, Turkstat

Our reports are available on our website https://research.isbank.com.tr