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## Global Economy

In May, global risk appetite remained under pressure due to uncertainties over the debt ceiling in the US. The approval of the bill in House of Representatives at the beginning of June supported markets.

US economy grew by 1.3% yoy in the first quarter of the year thanks to the favorable course of investment and consumption expenditures. PMI data indicated that contraction in manufacturing sector continued in May, while the services sector extended its expansion trend for the fourth month.

The minutes of the Fed's meeting held on May 2-3 highlighted disagreements on the path of monetary tightening.

Euro Area growth data for the first quarter of 2023 was confirmed as 1.3% yoy. Having contracted by 0.5% in the last quarter of 2022, Germany contracted by 0.3% in the first quarter of the year and entered recession.

In May, annual CPI inflation in the Euro Area was realized as 6.1%, the lowest level since February 2022.

In the first quarter of 2023, global debt stock was 305 trillion USD. The ratio of debt stock to GDP was realized as 333.2%.

## Turkish Economy

Turkish economy grew by 4% yoy in the first quarter of 2023 thanks to the high contribution of private consumption expenditures. According to seasonally and calendar adjusted figures, quarterly growth was realized as 0.3%.

Manufacturing PMI came in at 51.5 in May, indicating that the favorable course in sector's activities continued. Employment increased for the first time in the last three months.

Current account deficit, which was realized as 4.5 billion USD in March, decreased for the first time since December 2021 to 54.2 billion USD according to 12-month cumulative figures.

Central government budget deficit was realized as 382.5 billion TRY in the first four months of the year, reaching 58% of the year-end target.

In May, CPI increased by 0.04% mom, while annual CPI inflation fell to 39.59%. Annual D-PPI inflation was realized as 40.76%, the lowest level of the last 2 years.

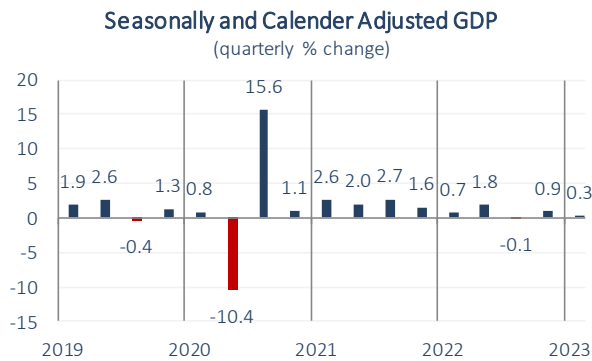
CBRT kept the policy rate unchanged at 8.5% at its May meeting in line with market expectations and published the first Financial Stability Report of the year.

BIST-100 index, which displayed a volatile outlook throughout May, recorded an increase of 5.8% compared to the end of April. In this period, USD/TRY and EUR/TRY rose by 6.9% and 3.8%, respectively.

## GDP Growth

### Turkish economy grew by 4% in the first quarter of 2023.

According to chain linked volume index, Turkish economy grew by 4% yoy in the first quarter of 2023 in line with market expectations. According to Reuters poll, GDP was expected to grow by 3.9% in this period. According to the seasonally and calendar adjusted figures, Turkish economy, which grew by 0.9% qoq in the last quarter of 2022, expanded by 0.3% qoq in the first quarter of 2023.



As of the first quarter of 2023, the size of the Turkish economy increased to 17.1 trillion TRY and the USD-denominated GDP to 970 billion USD at current prices on an annualized basis.

### Consumption expenditures displayed a strong outlook.

According to chain linked volume index, private consumption expenditures contributed 10.9 points to growth in the first quarter of the year, while the contribution of public consumption expenditures was 0.7 points. Consumption expenditures for services lost momentum in this period, while demand for durable and semi-durable goods displayed a strong performance. The downward pressure on economic activity caused by the earthquake disaster in this period was largely offset by the additional consumption demand driven by the earthquake as well as the election. This was also

Contributions to GDP Growth	2022					2023
	Q1	Q2	Q3	Q4	Annual	Q1
<b>Consumption</b>	<b>13.1</b>	<b>13.8</b>	<b>12.9</b>	<b>11.6</b>	<b>12.8</b>	<b>11.6</b>
Private	12.5	13.5	12.3	10.4	12.1	10.9
Public	0.6	0.2	0.6	1.2	0.7	0.7
<b>Investment</b>	<b>1.2</b>	<b>1.4</b>	<b>-0.2</b>	<b>0.6</b>	<b>0.7</b>	<b>1.2</b>
<b>Change in Stock</b>	<b>-9.5</b>	<b>-10.1</b>	<b>-9.3</b>	<b>-5.6</b>	<b>-8.5</b>	<b>-6.0</b>
<b>Net Export</b>	<b>2.9</b>	<b>2.7</b>	<b>0.6</b>	<b>-3.1</b>	<b>0.6</b>	<b>-2.8</b>
Exports	3.4	3.9	2.8	-0.8	2.2	-0.1
Imports	-0.4	-1.1	-2.2	-2.3	-1.6	-2.7
<b>GDP</b>	<b>7.6</b>	<b>7.8</b>	<b>4.0</b>	<b>3.5</b>	<b>5.6</b>	<b>4.0</b>

influential in the rise in machinery and equipment investments and total investment added 1.2 points to growth in the first quarter of the year.

Despite the favourable outlook in consumption and investment expenditures, net exports pulled the growth down by 2.8 points in the first quarter. This was mainly driven both by the increase in imports and the weak performance of exports. Since the last quarter of 2020, the change in inventories, which dragged the growth down since the last quarter of 2020, lowered the growth by 6 points in the first quarter of the year.

### Agriculture and industry sectors slightly limited the growth.

Analyzing contributions to growth figures by production approach reveals that agriculture and industry sectors weighed on GDP growth by 0.1 points each in the first quarter of the year. Construction sector, on the other hand, recorded the highest annual increase of the last 20 quarters with 5.1% yoy, contributing 0.2 points to growth. In this period, services sector also maintained its strong performance and contributed 3.1 points to growth.

In the first quarter of 2023, share of compensation of employees in the Gross Value Added (GVA) at current prices rose by 6.9 points yoy to 38%, while the share of net operating surplus/mixed income declined by 9.4 points to 38.2%. On the other hand, Turkstat announced that the increase in the share of compensation of employees was driven by the severance payments made due to the early retirement eligibility (EYT) regulation. Excluding the impact of the EYT, the share of compensation of employees in GVA is approximately estimated as 33.5%.

### Expectations...

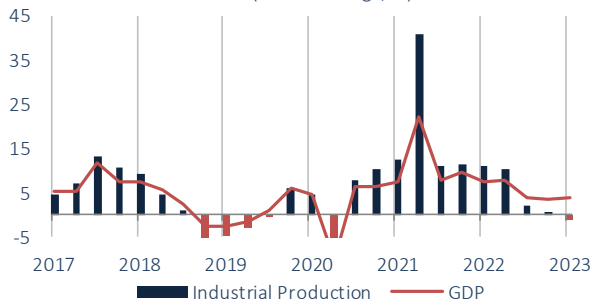
Despite losing some momentum due to the earthquake disaster in the first quarter of 2023, Turkish economy posted an economic growth performance approaching its long-term average with the support of consumption expenditures. Although leading indicators pointed that economic activity gained some momentum in the second quarter, we expect that recession concerns in main export markets may put some pressure on growth via net exports in the next period.

## Leading Indicators

### Unemployment rate remained unchanged in March.

According to seasonally adjusted data, labour force and employment increased slightly by 41K and 37K people, respectively. Thus, labour force participation, employment and unemployment rates remained unchanged compared to the previous month at 53.6%, 48.2% and 10.0%, appropriately. On the other hand, youth unemployment rate, which covers the 15-24 age group, increased by 0.7 points mom to 20.1%. The broad unemployment rate, on the other hand, decreased by 1.6 points mom to 21.8% in March after a six-month upward trend. TURKSTAT stated that the survey could not be conducted in 4 provinces affected by the earthquake disaster and that the results were calculated by weighting the provinces that could be surveyed to give an estimate on Türkiye basis.

**Caj Industrial Production and GDP**  
(annual change, %)



### Industrial production index increased by 5.5% mom in March.

Seasonally and calendar adjusted industrial production index, which contracted rapidly in February due to the earthquake disaster, recovered by 5.5% mom in March. In this period, manufacturing industry production increased by 6.1%, while the 51.6% rise in the production of other transport vehicles stood out among the sub-sectors. Textile, fabricated metal, motor vehicles and basic metal industry production were the other sub-sectors that contributed to the increase in manufacturing industry. Analysed by goods groups, production rose by 10% in capital goods, 7.7% in durable consumer goods and 5% in intermediate goods. On the other hand, calendar adjusted industrial production declined by 0.1% yoy in March.

### Manufacturing PMI was unchanged at 51.5 in May.

In May, manufacturing PMI remained unchanged compared to the previous month and was realized as 51.5. Thus, the index, which remained above the threshold for the fifth consecutive month, pointed out that the operating conditions in the sector remained buoyant. In May, new orders and production increased thanks to the improvement in consumer demand, which enabled manufacturers to increase employment levels for the first time in three months. Although input costs continued to rise largely due to the depreciation in the Turkish lira, the rate of increase in selling prices was the slowest since

April 2020. Sectoral PMI data for May revealed that almost all sectors were in the growth zone three months after the earthquake. The only sector that displayed a weak outlook in this period was the wood and paper products sector, where firms continued to face difficulties in receiving new orders.

### Confidence indices presented a generally optimistic outlook in May.

According to seasonally adjusted figures, consumer confidence index increased by 3.5 points mom to 91.1 in May, the highest level since July 2018. Expectations for the 12-month period continued to improve in most of the sub-indices. In the same period, seasonally and calendar adjusted real sector confidence index maintained its level of 105.1 in April, indicating that optimism in the real sector continued, while positive expectations for production volume and exports in the next three months had a positive impact on the index. On a sectoral basis, confidence in services sector decreased by 0.6%, while retail trade and construction sectors increased by 0.4% and 4.3%, respectively. Thus, the economic confidence index, which is a weighted composite of consumer, real sector and sectoral confidence indices, rose by 1.4% in May compared to the previous month and became 103.7.

### House sales decreased by 35.6% yoy in April.

House sales which have continued to contract on an annual basis since February, declined by 35.6% yoy to 85,652 units in April. In this period, first-hand sales decreased by 26%, while second-hand sales, which declined by 39.3%, accounted for 68.5% of total house sales. In April, house sales to foreigners contracted by 60.3% yoy and accounted for 3% of total house sales.

According to the data released by the White Goods Manufacturers' Association of Turkey, white goods sales in Türkiye increased by 27% yoy in April thanks to the demand brought forward due to high inflation, while exports, which have a share of 75% in total sales of the sector, declined by 54% yoy in the same period. Total production of the sector decreased by 13% in April.

### Automotive market remained buoyant in May.

According to Automotive Distributors and Mobility Association (ODMD) data, automobile and light commercial vehicle sales rose by 68.5% yoy in May, 69.1% above the 10-year May average. In January-May period, the market grew by 60.5% compared to the same period of the previous year and reached 445,006 units. In the first five months of the year, domestic sales of electric cars increased almost six times compared to the same period of the previous year thanks to the rise in special consumption tax and tax base limit.

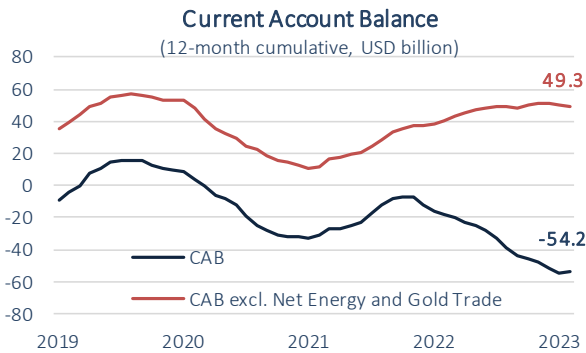
## Foreign Trade and Balance of Payments

### Foreign trade deficit became 8.3 billion USD in March.

According to TURKSTAT figures, exports increased by 4.4% yoy to 23.6 billion USD in March, reaching a historical high level. In this period, imports rose by 3.4% yoy to 31.9 billion USD. Thus, foreign trade deficit expanded by 0.9% yoy and maintained its high course at 8.3 billion USD in March. The ratio of exports to imports remained relatively flat at 73.9%, up from 73.2% in March 2022.

### Current account deficit was below market expectations in March.

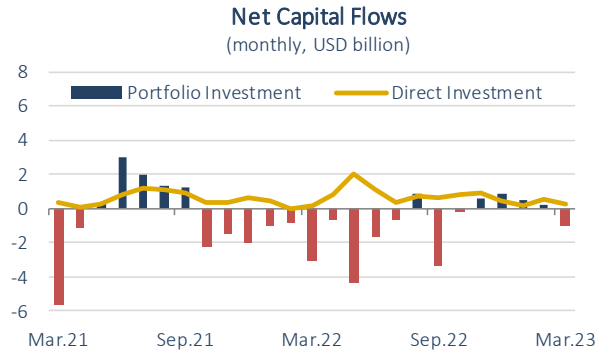
In March, the current account deficit decreased by 19.6% yoy to 4.5 billion USD. Markets were expecting current account deficit to be 5.2 billion USD in this period. The annual decline in the current account deficit was mainly driven by the contraction of foreign trade deficit thanks to the fall in global energy prices. Net energy imports, which were 7.1 billion USD in March 2022, were realized as 4.6 billion USD in the same month of this year, the lowest level of the last 10 months. In addition, net services revenues increased by 29% yoy to 3.1 billion USD due to the rapid rise in transportation and travel revenues and supported the improvement in the current account deficit. Thus, the current account deficit rose by 32.8% yoy to 23.6 billion USD in the first quarter of 2023. According to 12-month cumulative figures, current



account deficit displayed the first decline since December 2021 narrowing to 54.2 billion USD as of March.

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

In March, net foreign direct investment to Türkiye continued to be weak at 238 million USD. In this period, non-residents' net direct investments amounted to 741 million USD, 60% of which was composed of real estate investments. Thus, non-residents' real estate purchases in Türkiye reached 1.4 billion USD in the first quarter of the year. In March, direct capital investments were realized as 225 million USD, the lowest level since August 2022.

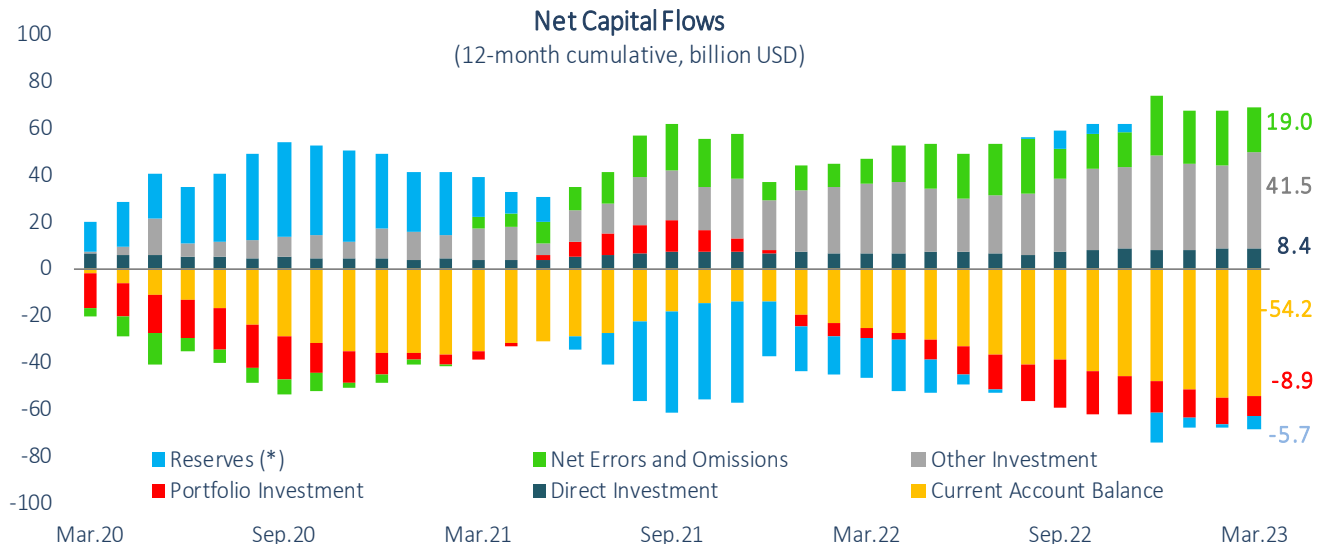


### 1 billion USD net outflow from portfolio investments...

In March, portfolio investments posted a net outflow of 1 billion USD for the first time in 4 months. 256 million USD of this outflow, stemmed from equity securities and 774 million USD from debt securities. While the General Government realized net borrowing of 750 million USD through bond issues abroad, banks and other sectors made net repayments of 805 million USD and 745 million USD, respectively.

### The highest capital inflow in other investments in the last 7 months...

Other investments posted a net capital inflow of 7.5 billion USD in March, the highest capital inflow since August 2022. The deposits transferred to the CBRT by the Saudi Arabia

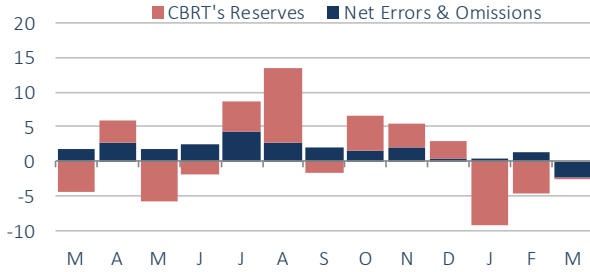


Source: Datastream, Turkstat, CBRT

## Foreign Trade and Balance of Payments

Development Fund were behind this development. In this period, domestic banks' currency and deposits in foreign correspondent banks decreased by 1.4 billion USD, while foreign banks' deposits in Türkiye increased by 757 million USD.

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



### Net errors and omissions posted an outflow of 2.4 billion USD.

Reserve assets, which decreased by 264 million USD in March, recorded a total decline of 14.3 billion USD in the first quarter of the year. Net errors and omissions posted the first outflow since December 2021 with 2.4 billion USD in March.

### Expectations...

According to preliminary data, exports increased by 14.4% yoy to 21.7 billion USD in May, while imports rose by 16% yoy to 34.3 billion USD. Thus, the foreign trade deficit continued its high course with 12.7 billion USD in May. In the coming months, economic activity in Türkiye's main export markets, as well as the course of global commodity prices and the value of TRY will continue to be decisive on current account outlook. The pressures on the current account deficit are expected to ease somewhat with the start of the tourism season.

### Balance of Payments

	Mar. 2023	Jan. - Mar. 2022	Mar. 2023	% Change	12-month Cumulative
<b>Current Account Balance</b>	<b>-4,484</b>	<b>-17,765</b>	<b>-23,591</b>	<b>32.8</b>	<b>-54,221</b>
Foreign Trade Balance	-6,298	-21,312	-29,315	37.6	-97,506
Services Balance	3,088	6,265	8,381	33.8	52,182
Travel (net)	2,067	5,270	6,222	18.1	38,269
Primary Income	-1,354	-2,328	-2,567	10.3	-8,823
Secondary Income	80	-390	-90	-76.9	-74
<b>Capital Account</b>	<b>-10</b>	<b>-3</b>	<b>-50</b>	<b>1,566.7</b>	<b>-82</b>
<b>Financial Account</b>	<b>-6,938</b>	<b>-12,026</b>	<b>-24,441</b>	<b>103.2</b>	<b>-35,300</b>
Direct Investment (net)	-238	-653	-889	36.1	-8,405
Portfolio Investment (net)	1,033	4,896	303	-93.8	8,935
Net Acquisition of Financial Assets	3	2,694	1,378	-48.8	3,179
Net Incurrence of Liabilities	-1,030	-2,202	1,075	-	-5,756
Equity Securities	-256	-1,324	-927	-30.0	-3,641
Debt Securities	-774	-878	2,002	-	-2,115
Other Investment (net)	-7,469	-8,603	-9,573	11.3	-41,525
Currency and Deposits	-7,858	-5,930	-7,651	29.0	-36,376
Net Acquisition of Financial Assets	-1,439	3,517	2,793	-20.6	-7,301
Net Incurrence of Liabilities	6,419	9,447	10,444	10.6	29,075
Central Bank	5,292	3,852	6,376	65.5	9,841
Banks	1,127	5,595	4,068	-27.3	19,234
Foreign Banks	610	2,067	499	-75.9	6,061
Foreign Exchange	147	2,771	2,165	-21.9	3,517
Turkish Lira	370	757	1,404	85.5	9,656
Non-residents	757	4,838	2,664	-44.9	9,578
Loans	270	-1,417	-578	-59.2	-2,967
Net Acquisition of Financial Assets	-179	-554	-186	-66.4	80
Net Incurrence of Liabilities	-449	863	392	-54.6	3,047
Banking Sector	7	-1,230	280	-	-4,144
Non-bank Sectors	-464	1,597	380	-76.2	6,912
Trade Credit and Advances	127	-1,245	-1,328	6.7	-2,124
Other Assets and Liabilities	-8	-11	-16	45.5	-58
Reserve Assets (net)	-264	-7,666	-14,282	86.3	5,695
<b>Net Errors and Omissions</b>	<b>-2,444</b>	<b>5,742</b>	<b>-800</b>	<b>-</b>	<b>19,003</b>

Source: CBRT, Datastream

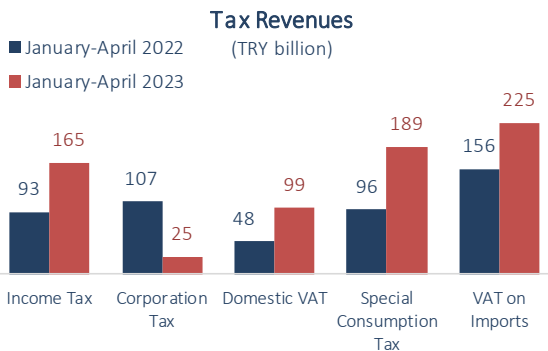
## Budget Balance

Central government budget gave a deficit of 132.5 billion TRY in April.

In April, budget revenues rose by 63.3% yoy to 268 billion TRY, while budget expenditures went up by 86.9% yoy to 400.4 billion TRY due to the rapid increases in current transfers and personnel expenditures. Thus, central government budget deficit widened by 164.1% yoy to 132.5 billion TRY in April. In this period, interest expenditures increased by 80.3% yoy to 34.5 billion TRY, while primary budget deficit more than doubled on an annual basis to 98 billion TRY. In January-April period, budget deficit and primary deficit were realized as 382.5 billion TRY and 247.3 billion TRY, respectively.

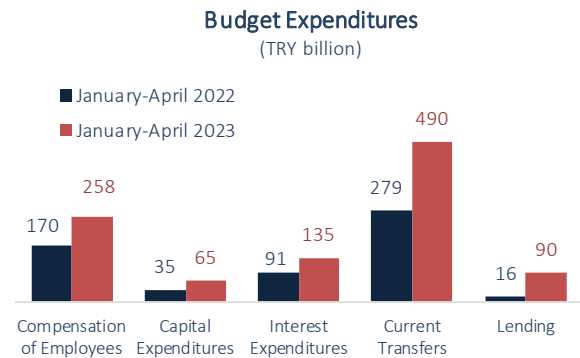
**The rise in tax revenues continued to support the budget.**

In April, tax revenues, which constituted 86% of budget revenues, rose by 70.8% yoy to 232.7 billion TRY. The rise in tax revenues was mainly driven by the special consumption tax revenues, which increased due to high inflation as well as the favorable course of the automotive market, and domestic VAT revenues, which increased to its 2.5 fold in line with the favorable outlook in domestic demand. Nevertheless, the decline in interest and capital revenues limited the expansion in budget revenues in April. In this period, interest revenues contracted by 57% yoy, while capital revenues fell by 49.8% yoy.



Current transfers were the main driver of budget expenditures in April.

The rise in budget expenditures gained momentum in April. In this period, current transfers expanded by 84% yoy due to the rapid rises in treasury aids (110% yoy) and assignment expenditures (167% yoy). Personnel expenditures continued to increase rapidly by 95% yoy and goods & services expenditures nearly doubled in April. In this period, the rise in capital transfers by 16.8 billion TRY was led by the 13.5 billion TRY increase in other items. Interest expenditures rose by 80.3% due to the repayments of government securities. On the other hand, 43% yoy decline in domestic debt transfers to PEs limited the expansion of the budget expenditures. In this period, parallel to the relatively flat course of exchange rates, expenditures on FX-protected deposits accounts were realized as 650 million TRY.



**Expectations...**

While tax revenues supported the central government budget in April, the rapid increase in budget expenditures led to deterioration in budget indicators. The fact that the budget deficit reached 58% of the year-end target in the first four months of the year, indicates that additional budget may be needed in the following months.

### Central Government Budget

	April		%	January-April		%	2023 Budget Target	Real./ Budget Target (%)
	2022	2023		Change	2022			
<b>Expenditures</b>	<b>214.3</b>	<b>400.4</b>	<b>86.9</b>	<b>786.0</b>	<b>1,445.2</b>	<b>83.9</b>	<b>4,469.6</b>	<b>32.3</b>
Interest Expenditures	19.1	34.5	80.3	104.0	135.2	30.0	565.6	23.9
Non-Interest Expenditures	195.1	365.9	87.5	682.0	1,310.0	92.1	3,904.0	33.6
<b>Revenues</b>	<b>164.1</b>	<b>268.0</b>	<b>63.3</b>	<b>766.6</b>	<b>1,062.7</b>	<b>38.6</b>	<b>3,810.1</b>	<b>27.9</b>
Tax Revenues	136.3	232.7	70.8	591.4	863.7	46.0	3,199.5	27.0
Other Revenues	27.8	35.3	26.7	175.2	199.0	13.6	610.6	32.6
<b>Budget Balance</b>	<b>-50.2</b>	<b>-132.5</b>	<b>164.1</b>	<b>-19.4</b>	<b>-382.5</b>	<b>1,875.9</b>	<b>-659.4</b>	<b>58.0</b>
<b>Primary Balance</b>	<b>-31.0</b>	<b>-98.0</b>	<b>215.7</b>	<b>84.6</b>	<b>-247.3</b>	<b>-</b>	<b>-93.8</b>	<b>-</b>

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

Source: Datastream , Ministry of Treasury and Finance



## Inflation

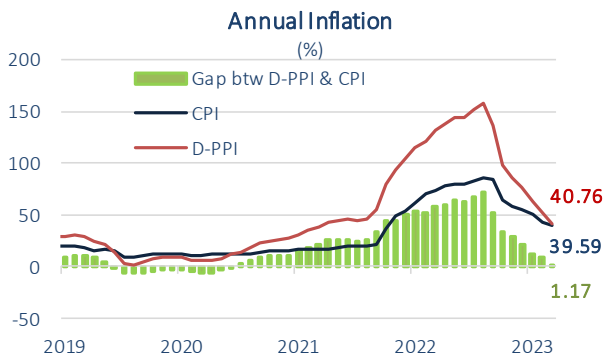
### In May, CPI rose by 0.04% mom.

In May, CPI rose by 0.04% mom, slowest increase since June 2019. Consumer prices were expected to decline by 0.2% mom, according to the market projections. In this period, domestic producer price index (D-PPI) went up by 0.65%.

May (change %)	CPI		D-PPI	
	2022	2023	2022	2023
Monthly	2.98	0.04	8.76	0.65
Year-to-Date	35.64	15.26	51.43	7.81
Annual	73.50	39.59	132.16	40.76
Annual Average	39.33	63.72	80.38	95.80

### Annual inflation indicators continued to decline.

Annual inflation indicators continued to improve in May, thanks to the high base effect and the decline in energy prices. In this period, annual CPI inflation was realized as 39.59%, the lowest level of the last 17 months. D-PPI also recorded its slowest annual increase since May 2021 with 40.76% yoy owing to the downward trend in energy prices.



### CPI increase was limited by the housing sector.

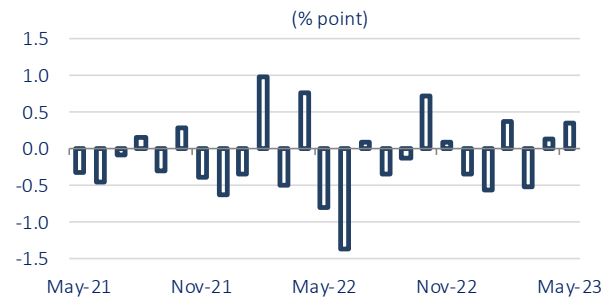
In May, prices increased in 11 out of 12 main expenditure groups. In this period, due to the free natural gas to households for one month and the implementation of the "zero price" method by TURKSTAT, the housing group reduced monthly CPI inflation by 209 basis points. Furthermore, the food and non-alcoholic beverages group, which has the highest weight in the index, contributed only 19 basis points to monthly inflation thanks to the decline in vegetable and fish prices. On the other hand, restaurants and hotels group pushed monthly inflation up the most by 61 basis points. In the same period, clothing and footwear

group, where prices rose by 9.9% mom due to the new season, also pushed monthly inflation up by 54 bps. In May, despite the 1.80% decline in goods prices in line with the decrease in energy prices, prices of services rose by 4.60%, pointing to the ongoing rigidity in inflation.

### Core inflation indicators...

In May, monthly CPI inflation excluding seasonal products was realized as -0.28%, below the headline inflation. On the other hand, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) and C index (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) increased by 3.60% and 4.25%, respectively. Annual increases in B and C indices were 47.70% and 46.62%, respectively.

### Contribution of Seasonal Factors to Monthly CPI Inflation



### In May, the energy sector continued to limit the rise in D-PPI.

Prices in the electricity gas production and distribution group decreased by 7.36% mom in May, pulling D-PPI inflation down the most by 53 basis points. Furthermore, the coke and refined petroleum products group limited the increase in producer prices by 42 basis points. On the other hand food prices rose by 3.2% mom and continued to be the group that pushed monthly D-PPI inflation up the most by 59 basis points. This group was followed by fabricated metal products, which increased D-PPI inflation by 16 basis points.

### Expectations...

Despite the rigidity of service prices, inflation indicators improved in May as a result of the "zero price" implementation for natural gas. The public subsidies for households' natural gas consumption of 25 cubic meters is expected to continue to limit the rise in inflation, albeit at a lower level, in the coming period.

	28-Apr	31-May	Change
5-Y CDS (basis points)	532	597	65 bps ▲
TR 2-Y Benchmark Yield	17.14%	11.95%	-519 bps ▼
BIST-100	4,618	4,887	5.8% ▲
USD/TRY	19.4478	20.7973	6.9% ▲
EUR/TRY	21.4250	22.2334	3.8% ▲
Currency Basket*	20.4364	21.5154	5.3% ▲

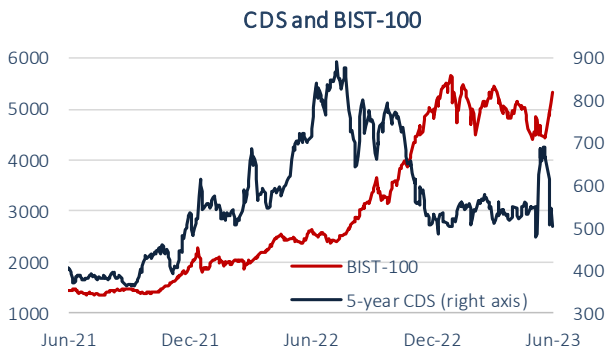
(\*) (0.5 USD/TL + 0.5 EUR/TL)

### Global markets displayed a mixed outlook in May.

Global risk appetite, which started May under pressure due to the Fed and ECB's continued interest rate hikes, followed a volatile course throughout the month amid diverging messages from central bank officials regarding the continuation of monetary tightening and developments regarding the debt ceiling in the US. MSCI global stock index ended May at 2,801, down by 1.25%. MSCI emerging markets index also declined by 1.90% to 959. DXY index rose by 2.62% mom to 104.3 in the last days of the month as the debt ceiling crisis was resolved and EUR/USD parity ended May at 1.07. In line with the strengthening dollar index, gold prices fell by 1.4% to 1,962 USD/ounce in May.



In Türkiye, election agenda was decisive on the course of financial markets in May. BIST-100 index, which struggled to find direction throughout the month, ended May at 4,887, up 5.8%. The 5-year CDS premium, which fell below 500 basis points for the first time since December 2022 on May 11, fluctuated in the following days and reached 597 basis points at the end of the month. In May, USD/TRY increased by 6.9% mom, while EUR/TRY rose by 3.8%. In this period, the 2-year



bond interest rate decreased by 519 basis points to 11.95%. In the first days of June, BIST-100 index proceeded to rise while the Turkish lira continued to depreciate.

### CBRT kept the policy rate at 8.5%.

At its May Monetary Policy Committee meeting, CBRT kept the one-week repo rate unchanged at 8.5% in line with market expectations. In the text released after the meeting, CBRT stated that recent data showed economic activity in the earthquake zone recovered faster than expected, and it became clear that the earthquake would not have a lasting impact on the performance of Turkish economy in the medium term. Emphasizing the improvement in inflation outlook, CBRT also stated that the high course of energy prices, weak economic activity in main export markets and the ongoing increase in domestic consumption demand keep the risks to the current account balance alive.

In the first Financial Stability Report of the year published on May 27, CBRT stated that the steps taken under the liraization strategy started to yield results as of early 2022 and that the strategy will continue to be implemented with all its elements in order to institutionalize price stability in a permanent and sustainable manner. The report also pointed out that household indebtedness in Türkiye, which is below the averages of other countries, continued to decline, while liquidity, profitability and debt repayment indicators of real sector firms continued to follow a positive course.

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

According to the securities statistics released by CBRT, non-residents' equity portfolio adjusted for price and exchange rate movements decreased by 585 million USD as of May 26 compared to the end of April, while price and exchange rate adjusted GDDS portfolio declined by 94 million USD. Thus, since the beginning of the year, price and exchange rate adjusted foreign capital outflows from the equity market amounted to 1,549 million USD, while foreign capital inflows to the government securities market were 515 million USD. As of May 26, CBRT's gross and net international reserves decreased to 98.5 billion USD and -4.4 billion USD, respectively.

### Treasury announced its domestic borrowing strategy.

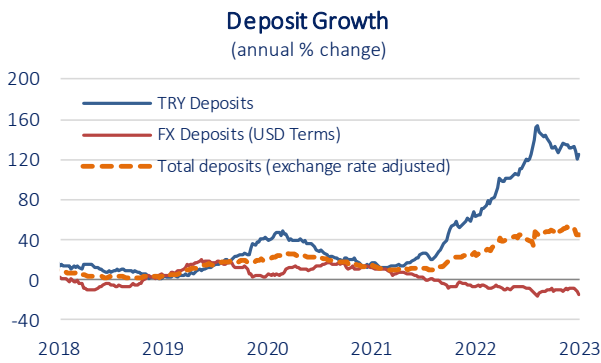
According to the domestic borrowing strategy announced by the Ministry of Treasury and Finance, domestic debt redemptions for June-August 2023 period stand at 311.2 billion TRY. For this period, the Treasury announced that domestic borrowing of 215 billion TRY is planned in the financing program.

Source: CBRT, Datastream, Reuters,



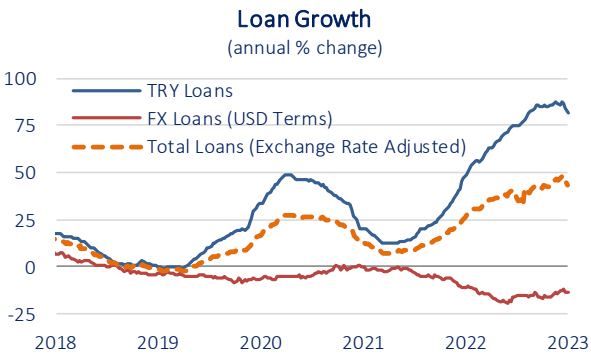
### Currency-protected deposit volume reached 2.5 trillion TRY.

According to BRSA's weekly banking data, as of May 26, total deposit volume increased by 55.9% yoy to 10.3 trillion TRY. In this period, TL deposits rose by 125.8% yoy to 6.2 trillion TRY, while FX deposits in USD terms decreased by 14.1% yoy to 203.4 billion USD, the lowest level since March 2019. Thus, the exchange rate-adjusted annual increase in total deposit volume was 44.4%. The volume of currency-protected deposits reached 2.5 trillion TRY as of May 26. Since 2022 year-end, TRY deposits grew by 30.6%, while FX deposits denominated in USD decreased by 7.0%.



### Total loan volume stands at 9.1 trillion TRY...

Total loan volume of the banking sector increased by 51.3% yoy and reached 9.1 trillion TRY as of May 26. In this period, TL loan volume rose by 81.8% yoy to 6.6 trillion TRY, while the share of TL loans in total loans was 71.8%. FX loan volume in USD terms contracted by 13.9% yoy to 129.1 billion USD. Thus, the exchange rate-adjusted annual growth in total loan volume was 43.3%. While the year-to-date increase in TRY loans was 28.5%, FX loans in USD terms declined by 17.6% in the same period.

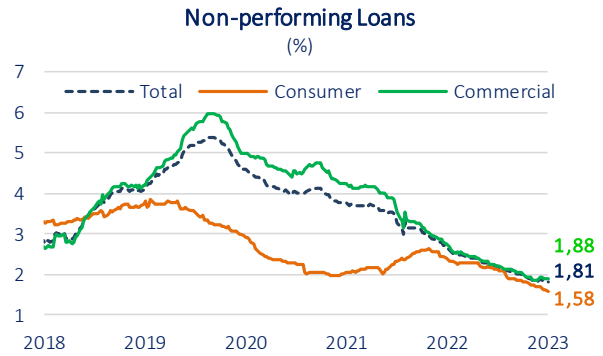


### The increase in consumer loans lost momentum.

As of May 26, annual growth in consumer loans lost momentum and decelerated to 57.8%, while consumer credit card balances rose by 170.1%. In this period, the annual rate of increase in vehicle loans continued to remain high at 285.5%, even though at a slightly slower pace. The annual rate of increase in housing loans remained below the inflation rate at 30.7%.

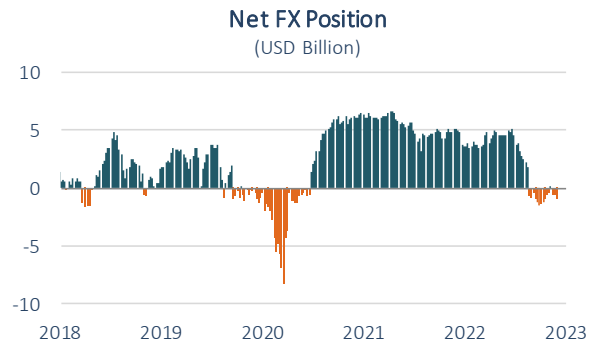
### NPL ratio was 1.81%.

Non-performing loans ratio, which fell to a historic low of 1.80% in the week of April 20 due to the rapid expansion in loan volume, was 1.81% as of May 26. In this period, the non-performing loans ratio was realized as 1.58% for retail loans and 1.88% for commercial loans.



### Foreign currency net general position...

As of May 26, on-balance sheet FX position was (-) 27,018 million USD, while off-balance sheet FX position was (+) 27,163 million USD. Thus, banking sector's net foreign currency position became (-) 145.1 million USD in the said week.



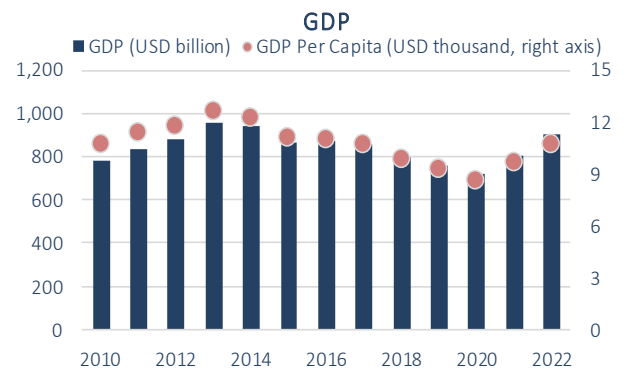
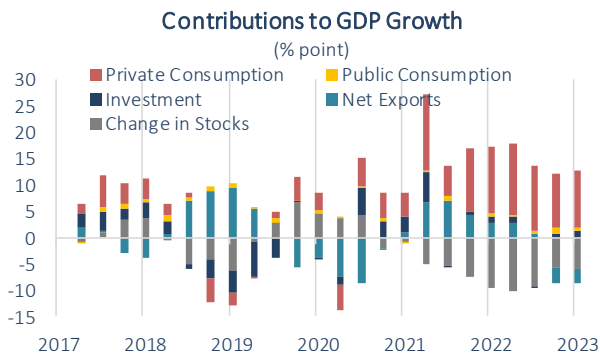
## Concluding Remarks

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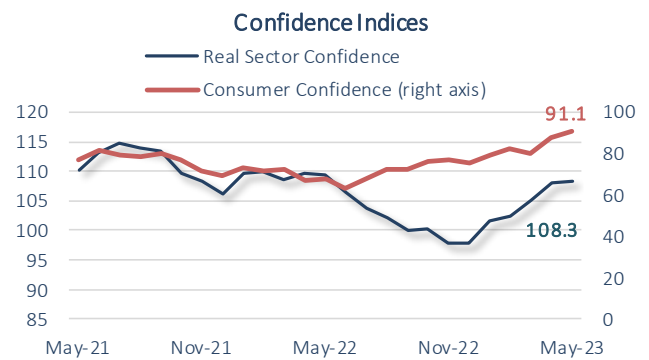
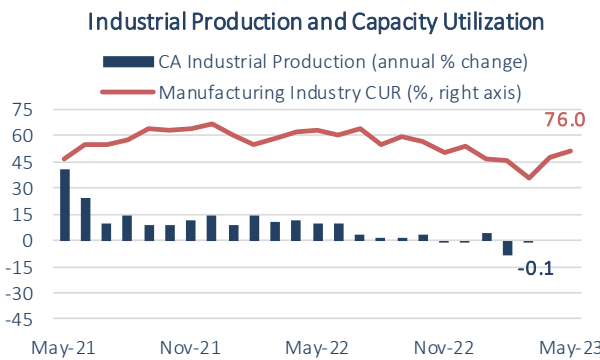
In May, developments regarding the debt ceiling limit in the US were the main agenda item for global markets. While global risk appetite remained under pressure due to the negotiations throughout the month, the approval of the bill on raising the debt ceiling in early June helped risk appetite to start the new month on a higher note. On the other hand, concerns over the course of global economic activity have increased in line with the ongoing divergence between sectors in leading economies. PMI data pointed to a continued contraction in the manufacturing industry in the US, Euro Area and China in May, while the services sector kept economic activity alive by remaining in the growth zone, despite losing some momentum. In line with the loss of pace in global economic activity, the downward course of commodity prices, particularly energy prices, dampened inflationary pressures, while inflation indicators in the US and the Euro Area improved significantly due to high base effect. This suggests that major central banks may pause their monetary policy tightening, but disagreements and uncertainties about the interest rate path remain. In addition, the ongoing rise in the global debt stock also contributes to investors' cautious stance.

Despite the weak export performance in the first quarter of 2023, Turkish economy displayed a moderate growth performance of 4% in the first quarter of 2023, supported by the strong course of consumption expenditures. Leading indicators for the second quarter suggest that economic activity in Türkiye gained momentum compared to the first quarter, while recession concerns in the main export markets may weigh on growth through net exports. The widening foreign trade deficit in line with the continued rapid increase in imports led to a deterioration of expectations regarding the current account balance outlook. Following the formation of the new Cabinet, the policies to be announced by the new economic administration will be closely monitored in the upcoming period.

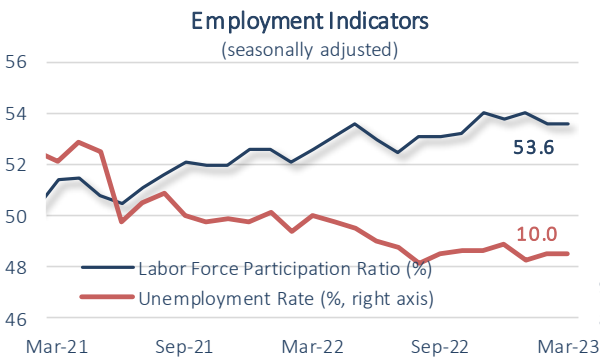
Growth



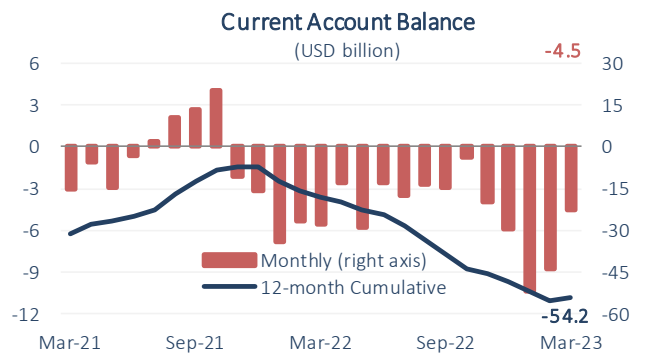
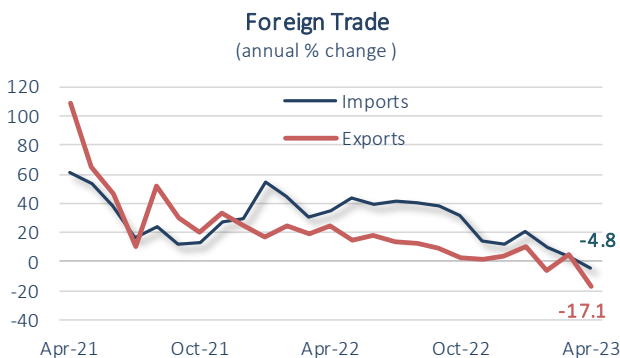
Leading Indicators



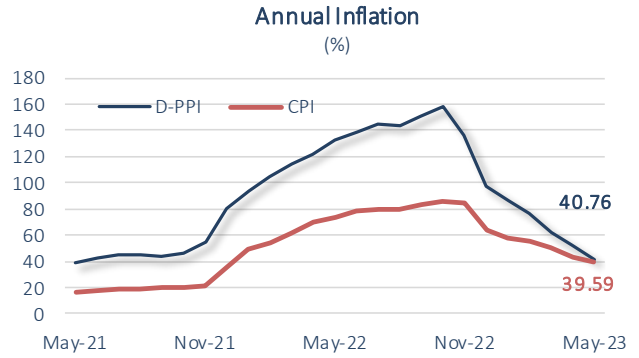
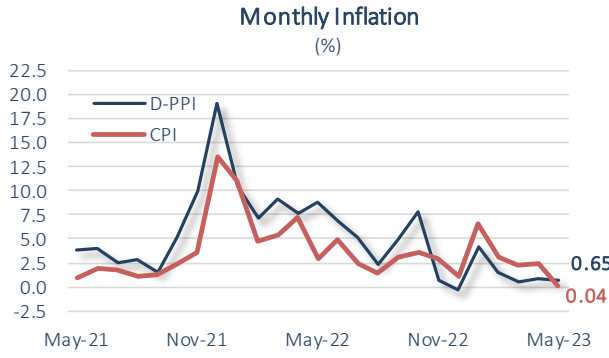
Labor Market



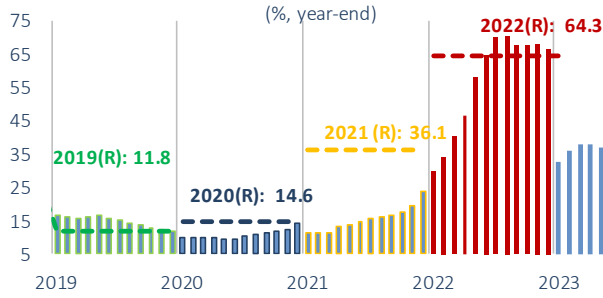
Foreign Trade and Current Account Balance



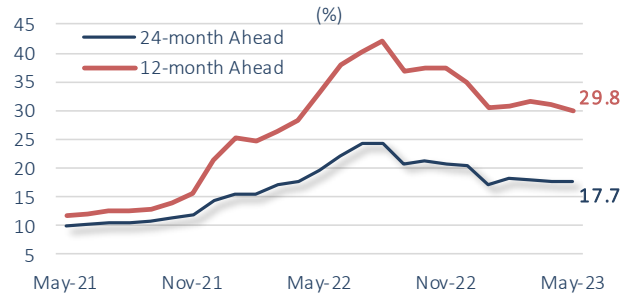
Inflation



CBRT Survey of Market Participants - Annual CPI Inflation Expectations

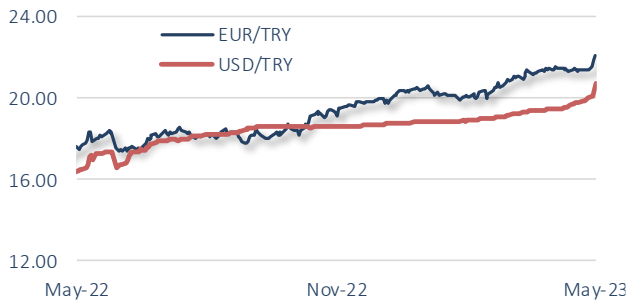


CBRT Survey of Market Participants - 12 & 24-month Ahead CPI Inflation Expectations

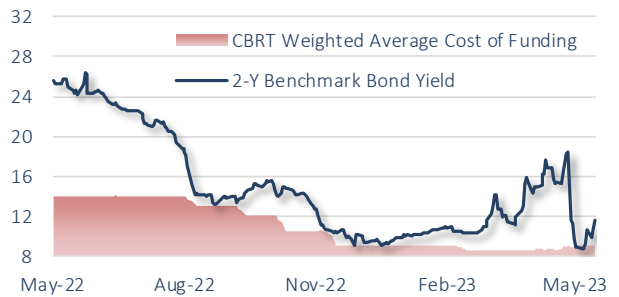


Foreign Exchange and Bond Market

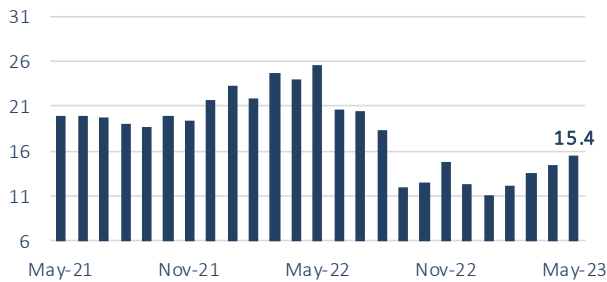
Exchange Rates



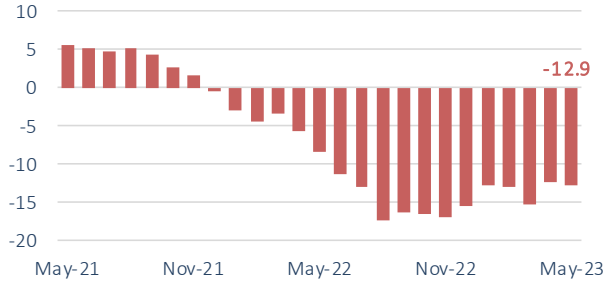
CBRT WACOF and 2-Y Benchmark Bond Yield (%)



Average Compound Yield in Treasury Auctions (%)



Expected Real Yield of TRY GDDIs (%)



## Turkish Economy - Macroeconomic Indicators

Growth	2018	2019	2020	2021	2022	Q1-23		
GDP (USD billion)	797	760	717	807	906	245		
GDP (TRY billion)	3,759	4,312	5,048	7,249	15,007	4,632		
GDP Growth Rate (%)	3.0	0.8	1.9	11.4	5.6	4.0		
Inflation (%)						Mar-23	Apr-23	May-23
CPI (annual)	20.30	11.84	14.60	36.08	64.27	50.51	43.68	39.59
Domestic PPI (annual)	33.64	7.36	25.15	79.89	97.72	62.45	52.11	40.76
Seasonally Adjusted Labor Market Figures						2023	Feb-23	Mar-23
Unemployment Rate (%)	12.7	13.4	12.6	11.0	10.3	10.0		
Labor Force Participation Rate (%)	53.2	52.6	49.1	52.6	53.8	53.6		
FX Rates						Mar-23	Apr-23	May-23
CPI Based Real Effective Exchange Rate	76.3	76.0	61.9	47.7	55.0	59.7	59.0	
USD/TRY	5.32	5.95	7.43	13.28	18.72	19.20	19.45	20.70
EUR/TRY	6.08	6.68	9.09	15.10	19.98	20.85	21.47	22.07
Currency Basket (0.5*EUR+0.5*USD)	5.70	6.32	8.26	14.19	19.35	20.02	20.46	21.38
Foreign Trade Balance <sup>(1)</sup> (USD billion)						Feb-23	Mar-23	Apr-23
Exports	177.2	180.8	169.6	225.2	254.2	254.7	255.7	251.7
Imports	231.2	210.3	219.5	271.4	363.7	372.3	373.3	371.9
<b>Foreign Trade Balance</b>	<b>-54.0</b>	<b>-29.5</b>	<b>-49.9</b>	<b>-46.2</b>	<b>-109.5</b>	<b>-117.6</b>	<b>-117.7</b>	<b>-120.3</b>
Import Coverage Ratio (%)	76.6	86.0	77.3	83.0	69.9	68.4	68.5	67.7
Balance of Payments <sup>(1)</sup> (USD billion)						Jan-23	Feb-23	Mar-23
<b>Current Account Balance</b>	<b>-20.1</b>	<b>10.8</b>	<b>-31.9</b>	<b>-7.3</b>	<b>-48.8</b>	<b>-51.9</b>	<b>-55.3</b>	<b>-54.2</b>
<b>Capital and Financial Accounts</b>	<b>1.1</b>	<b>5.1</b>	<b>-39.5</b>	<b>-6.0</b>	<b>-24.6</b>	<b>-28.7</b>	<b>-32.1</b>	<b>-35.3</b>
Direct Investments (net)	-8.9	-6.6	-4.6	-6.9	-8.1	-7.9	-8.4	-8.4
Portfolio Investments (net)	0.9	2.8	9.6	-0.8	13.4	12.0	11.0	8.9
Other Investments (net)	19.4	2.6	-12.6	-21.7	-42.3	-36.8	-36.1	-41.5
Reserve Assets (net)	-10.4	6.3	-31.9	23.3	12.3	3.9	1.5	5.7
<b>Net Errors and Omissions</b>	<b>21.1</b>	<b>-5.8</b>	<b>-7.6</b>	<b>1.4</b>	<b>24.2</b>	<b>23.2</b>	<b>23.3</b>	<b>19.0</b>
<b>Current Account Balance/GDP (%)</b>	<b>-2.5</b>	<b>1.4</b>	<b>-4.4</b>	<b>-0.9</b>	<b>-5.4</b>	-	-	-
Budget <sup>(2)(3)</sup> (TRY billion)						Feb-23	Mar-23	Apr-23
<b>Expenditures</b>	<b>830.8</b>	<b>1,000.0</b>	<b>1,203.7</b>	<b>1,603.5</b>	<b>2,941.4</b>	<b>710.7</b>	<b>1,044.8</b>	<b>1,445.2</b>
Interest Expenditures	74.0	99.9	134.0	180.9	310.9	55.6	100.7	135.2
Non-interest Expenditures	756.8	900.1	1,069.8	1,422.7	2,630.5	655.1	944.1	1,310.0
<b>Revenues</b>	<b>758.0</b>	<b>875.3</b>	<b>1,028.4</b>	<b>1,402.0</b>	<b>2,802.4</b>	<b>507.9</b>	<b>794.7</b>	<b>1,062.7</b>
Tax Revenues	621.5	673.9	833.3	1,165.0	2,353.3	432.4	631.0	863.7
<b>Budget Balance</b>	<b>-72.8</b>	<b>-124.7</b>	<b>-175.3</b>	<b>-201.5</b>	<b>-139.1</b>	<b>-202.8</b>	<b>-250.0</b>	<b>-382.5</b>
<b>Primary Balance</b>	<b>1.1</b>	<b>-24.8</b>	<b>-41.3</b>	<b>-20.7</b>	<b>171.8</b>	<b>-147.2</b>	<b>-149.4</b>	<b>-247.3</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.7</b>	<b>-2.5</b>	<b>-2.4</b>	<b>-1.3</b>	<b>-0.9</b>	-	-	-
Central Government Debt Stock (TRY billion)						Feb-23	Mar-23	Apr-23
Domestic Debt Stock	586.1	755.1	1,064.3	1,354.8	1,905.3	2,021.1	2,233.4	2,292.9
External Debt Stock	481.0	574.0	773.4	1,490.0	2,127.9	2,190.0	2,253.5	2,295.2
<b>Total Debt Stock</b>	<b>1,067.1</b>	<b>1,329.1</b>	<b>1,837.6</b>	<b>2,844.9</b>	<b>4,033.2</b>	<b>4,211.1</b>	<b>4,487.0</b>	<b>4,588.1</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)	2018	2019	2020	2021	2022	Mar.23	Apr.23	Change <sup>(1)</sup>
<b>TOTAL ASSETS</b>	<b>3,867</b>	<b>4,491</b>	<b>6,106</b>	<b>9,215</b>	<b>14,344</b>	<b>15,844</b>	<b>16,385</b>	<b>14.2</b>
<b>Loans</b>	<b>2,394</b>	<b>2,656</b>	<b>3,576</b>	<b>4,901</b>	<b>7,581</b>	<b>8,517</b>	<b>8,911</b>	<b>17.6</b>
TRY Loans	1,439	1,642	2,353	2,832	5,110	5,995	6,353	24.3
Share (%)	60.1	61.8	65.8	57.8	67.4	70	71.3	5.8
FX Loans	956	1,015	1,224	2,069	2,471	2,522	2,559	3.5
Share (%)	39.9	38.2	34.2	42.2	32.6	30	28.7	-11.9
Non-performing Loans	96.6	150.8	152.6	160.1	163.4	159	170.3	4.2
Non-performing Loan Rate (%)	3.9	5.3	4.1	3.2	2.1	2	1.9	-11.1
<b>Securities</b>	<b>477</b>	<b>660</b>	<b>1,022</b>	<b>1,476</b>	<b>2,370</b>	<b>2,740</b>	<b>2,779</b>	<b>17.3</b>
<b>TOTAL LIABILITIES</b>	<b>3,867</b>	<b>4,491</b>	<b>6,106</b>	<b>9,215</b>	<b>14,344</b>	<b>15,844</b>	<b>16,385</b>	<b>14.2</b>
<b>Deposits</b>	<b>2,036</b>	<b>2,567</b>	<b>3,455</b>	<b>5,303</b>	<b>8,862</b>	<b>9,956</b>	<b>10,350</b>	<b>16.8</b>
TRY Deposits	1,042	1,259	1,546	1,880	4,779	5,900	6,177	29.2
Share (%)	51.2	49.0	44.7	35.5	53.9	59	59.7	10.7
FX Deposits	994	1,308	1,909	3,423	4,083	4,057	4,173	2.2
Share (%)	48.8	51.0	55.3	64.5	46.1	41	40.3	-12.5
<b>Securities Issued</b>	<b>174</b>	<b>194</b>	<b>224</b>	<b>310</b>	<b>325</b>	<b>324</b>	<b>331</b>	<b>1.7</b>
<b>Payables to Banks</b>	<b>563</b>	<b>533</b>	<b>658</b>	<b>1,048</b>	<b>1,432</b>	<b>1,469</b>	<b>1,505</b>	<b>5.1</b>
<b>Funds from Repo Transactions</b>	<b>97</b>	<b>154</b>	<b>255</b>	<b>587</b>	<b>540</b>	<b>539</b>	<b>566</b>	<b>4.7</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>421</b>	<b>492</b>	<b>600</b>	<b>714</b>	<b>1,407</b>	<b>1,596</b>	<b>1,565</b>	<b>11.3</b>
Profit (Loss) of the Period	54.1	49.0	58.5	93.0	431.6	107.2	144.7	-66.5
<b>RATIOS (%)</b>								
Loans/GDP	63.7	61.5	70.9	68.0	50.5			
Loans/Assets	61.9	59.1	58.6	53.2	52.8	53.8	54.4	-
Securities/Assets	12.3	14.7	16.7	16.0	16.5	17.3	17.0	-
Deposits/Liabilities	52.7	57.2	56.6	57.5	61.8	62.8	63.2	-
Loans/Deposits	117.6	103.5	103.5	92.4	85.5	85.5	86.1	-
Capital Adequacy (%)	17.3	18.4	18.7	18.4	19.5	17.7	17.0	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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