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Global Economy

In the July update of its World Economic Outlook report, IMF raised its global growth forecast for 2023 from 2.8% to 3%, while keeping its 2024 forecast unchanged at 3%.

At its July meeting, Fed raised its policy rate by 25 basis points to 5.50%-5.75% in line with market expectations.

US economy grew by 2.4% yoy in the second quarter of 2023, above market expectations. Annual CPI inflation was realized as 3% in July, the lowest level since March 2021, while annual core inflation continued its downward trend by falling to 4.8%.

Euro Area economy grew by 0.3% qoq in the second quarter of 2023, above the market expectations. Annual CPI inflation, which was 5.5% in June, fell to 5.3% in July, the lowest level in the last 18 months.

Having kept its policy rate at -0.1% at its July meeting, Bank of Japan increased flexibility in its yield curve control policy.

Oil prices rose sharply in July due to both supply and demand conditions. The announcements by Saudi Arabia and Russia for further cuts in oil production as well as growth data in leading economies that exceeded expectations put upward pressure on oil prices.

Turkish Economy

Istanbul Chamber of Industry Türkiye PMI® Manufacturing Index, which was 51.5 in June, decreased to 49.9 in July, indicating a limited decline in manufacturing activity. Confidence indices also pointed a gloomy economic outlook in general.

The widening in the current account deficit continued in May. Thus, in January-May period, current account deficit increased by 44.2% yoy to 37.7 billion USD.

In June, the central government budget gave a historically high deficit of 219.6 billion TRY. Thus, the budget deficit reached 483.2 billion TRY in the first half of the year. In July, an additional budget of 1.1 trillion TRY was approved.

In July, the monthly increase in CPI was realized as 9.49%, the highest level in the last 1.5 years. The historically high increase in July marked the end of the favorable base effect, which was in place in the first six months.

CBRT raised the policy rate from 15% to 17.5%. In the third Inflation Report of the year, CBRT increased its year-end inflation forecast from 22.3% to 58% for 2023 and from 8.8% to 33% for 2024.

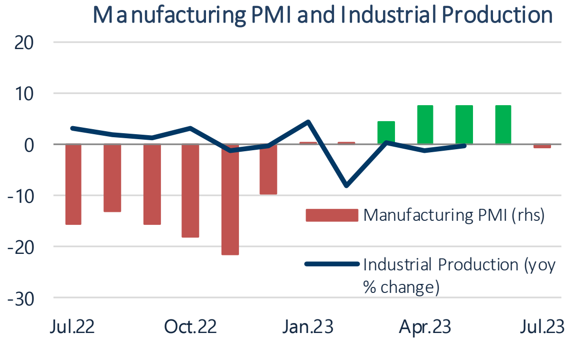
BIST-100 rose by 25.3% mom and closed July at a historic high level of 7,217. 5-year CDS premium, which displayed a downward trend after the elections, fell below 400 basis points for the first time since September 2021.

Unemployment rate declined to 9.5% in May.

Due to the relatively favorable outlook in economic activity, the recovery in the labor market continued in May. Seasonally adjusted unemployment rate decreased by 0.5 points compared to April to 9.5%, the lowest level since February 2014. This development was mainly driven by the decline in the labor force participation rate and the employment rate remained flat at 48.5%. In this period, labour underutilization rate, consisting the sum of time-related underemployment, potential labor force and unemployed, decreased by 1.2 percentage points to 22.5%. In this period, it was noteworthy that the youth unemployment rate among women decreased by 2.5 points to 22.3%.

Industrial production index rose by 1.1% mom in May.

According to seasonally and calendar adjusted figures, industrial production index rose by 1.1% in May, offsetting the decline in April. In this period, manufacturing industry increased by 0.9%, while production in mining and energy sectors expanded by 2.4%. In May, it was noteworthy that durable goods production increased by 4.6%, while non-durable goods production contracted by 0.5%. According to calendar adjusted figures, the annual downward trend in industrial production index continued in May. Thus, the index contracted by 0.7% yoy in April-May period, supporting the view that economic activity lost momentum in the second quarter of the year.

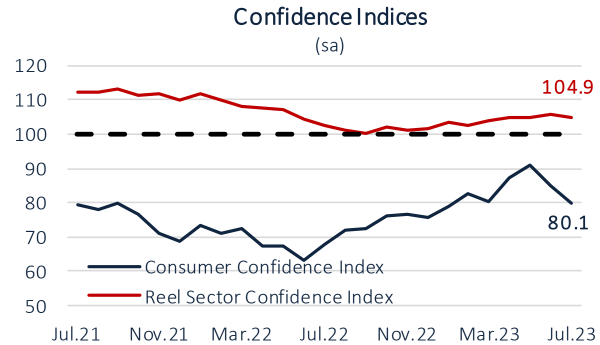


Manufacturing PMI fell to 49.9 in July.

Istanbul Chamber of Industry Türkiye PMI® Manufacturing Index, which was 51.5 in June, declined to 49.9 in July, indicating a limited decline in manufacturing activity. The PMI had been above the threshold level during the first half of the year. The production sub-index remained almost unchanged at the start of the third quarter after four consecutive months of growth, while strong inflationary pressures led to a slowdown in new orders. In this period, the upward trend in employment continued for third month in a row due to the need for new personnel to increase production capacity. On the other hand, input cost inflation in July was at its highest level since March 2022, mainly due to the depreciation in Turkish lira.

Confidence indices presented a negative outlook in July.

According to seasonally adjusted figures, consumer confidence index decreased by 5 points mom to 80.1 in July, the lowest level since January. Expectations for the 12-month period continued to deteriorate in all sub-items of the index. In the same period, seasonally and calendar adjusted real sector confidence index declined to 104.9. Negative assessments regarding total employment, export orders, production volume and fixed capital investment expenditures for the next three months and general outlook were effective in this development. On a sectoral basis, confidence indices deteriorated in services, retail trade and construction sectors. Thus, the economic confidence index, which is a weighted aggregation of consumer, real sector and sectoral confidence indices, decreased by 1.8% mom to 99.3 in July. On the other hand, seasonally adjusted capacity utilization rate increased by 0.3 points mom to 76.9%.



House sales decreased by 44.4% yoy in June.

Having declined since February on annual basis, house sales decreased by 44.4% yoy to 83,636 in June. In this period, first sales decreased by 42.1%, while second-hand sales, which account for 69% of total house sales, declined by 45.4%. In June, house sales to foreigners decreased by 69.6% yoy and amounted for 3.1% of total house sales. Thus, as of the first half of the year, total house sales decreased by 22.1% yoy to 565,779 units.

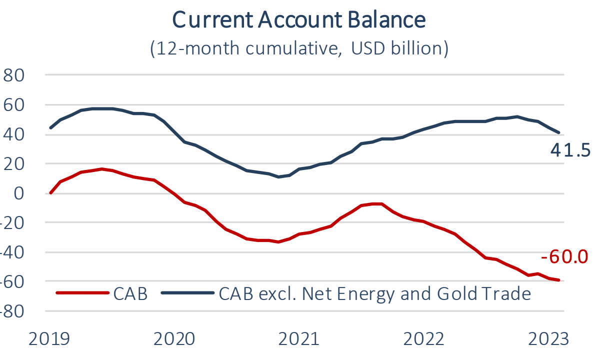
Source: CBRT, Datastream, ISO, Turkstat

Foreign trade deficit became 12.5 billion USD in May.

According to Turkstat figures, exports increased by 14.4% yoy to 21.7 billion USD in May, while imports rose by 15.5% yoy to 34.2 billion USD. Thus, foreign trade deficit expanded by 17.6% yoy and remained high at 12.5 billion USD in this period. In May, import coverage ratio was realized as 63.4%.

Current account deficit became 7.9 billion USD in May.

In May, current account deficit increased by 36% compared to the same month of the previous year and became 7.9 billion USD. While the widening foreign trade deficit was the main driver of the rapid rise in the current account deficit, the deficit excluding energy reached a historic high of 3.9 billion USD. Current account balance excluding gold and energy, which posted a surplus of 998 million USD in May 2022, gave the highest deficit of the last 3 years with 1.3 billion USD in the same month of this year. On the other hand, despite recording the first contraction of the last 2 years by 2.2% yoy due to the high base effect, services revenues continued to limit the deterioration in the current account balance. Thus, current account deficit surged by 44.2% yoy to 37.7 billion USD in January-May period of 2023, and became 60 billion USD as of May according to 12-month cumulative figures.

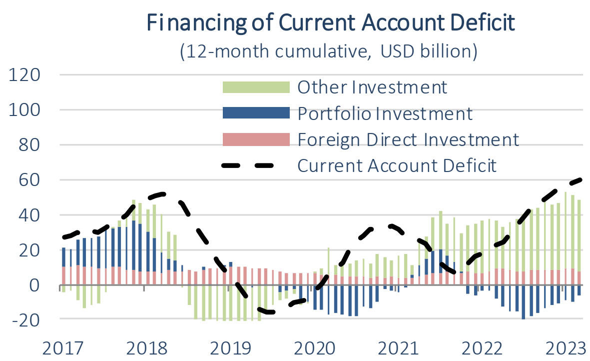


Foreign direct investments recorded the lowest capital inflow since February 2022.

In May, net foreign direct investment inflows were realized as 89 million USD, the lowest level since February 2022. In this period, non-residents' net direct capital investments decreased significantly compared to April and were realized as 305 million USD. Real estate investments, which amounted to 356 million USD in May, were 40% below their level in May 2022. Thus, in the first five months of the year, net direct investment inflows declined by 41.8% yoy to 2 billion USD.

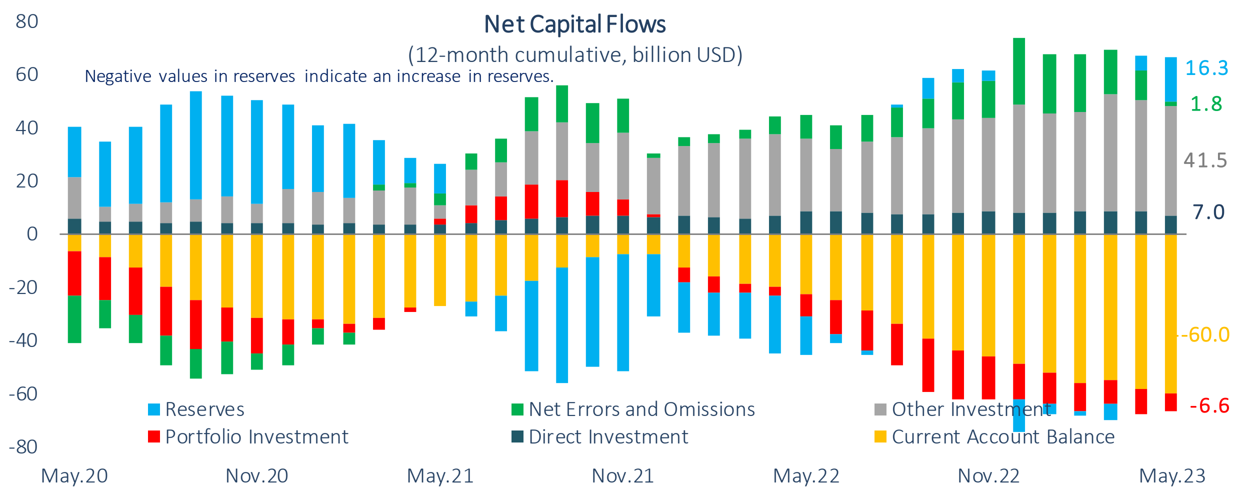
Portfolio investments continued to outflow.

Capital outflow from portfolio investments continued in May and was realized as 1.4 billion USD, the highest level of the last 8 months. In this period, banks realized a net borrowing of 52 million USD through bond issues abroad, while other sectors repaid 102 million USD worth of debt securities abroad. In January-May period, total outflow from portfolio investments was 2.9 billion USD.



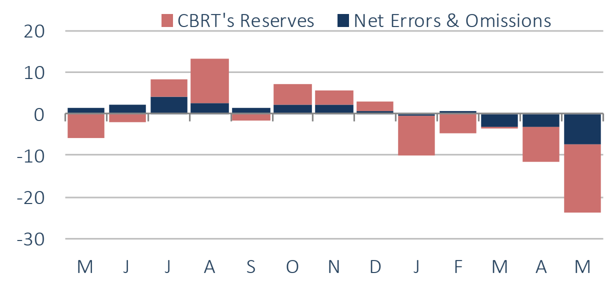
Capital inflows slowed down in other investments.

In May, net capital inflow in other investments was realized as 99 million USD, the lowest level since June 2022. In this period, deposits of foreign banks in Türkiye decreased by 4



million USD, recording a net decrease for the first time since December 2022. In May, the banking sector and other sectors borrowed 725 million USD and 37 million USD net loans from abroad, while General Government repaid 49 million USD net loans. According to 12-month cumulative figures, long-term debt rollover ratios in the banking sector and other sectors were 85% and 142%, respectively.

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



Reserve assets decreased by 16.6 billion USD in May.

In May, reserve assets contributed 16.6 billion USD to the financing of the current account deficit. Thus, the total decline in reserve assets became 39 billion USD in the first 5 months of the year. Net errors and omissions item, which recorded a capital outflow of 3.2 billion USD in April, had an outflow of 7.4 billion USD in May. Thus, the related item recorded a total capital outflow of 13.7 billion USD in the January-May 2023 period.

Expectations...

According to preliminary figures, exports increased by 8.4% yoy to 20.1 billion USD in July, while imports expanded by 11.1% yoy to 32.5 billion USD. Thus, foreign trade deficit, which was realized as 12.4 billion USD in July, reached 73.6 billion USD in the first seven months of the year. We anticipate that the recent rise in exchange rates and the increase in tourism revenues in the summer season will support the current account balance in the following months. Despite the mild course of energy prices, we think that the weak course in our main export markets will continue to keep the risks to the current account balance alive.

Balance of Payments (USD million)

	May.	Jan. - May.		%	12-month
	2023	2022	2023	Change	Cumulative
Current Account Balance	**-7,933**	**-26,140**	**-37,696**	**44.2**	**-59,961**
Foreign Trade Balance	-10,480	-34,476	-46,874	36.0	-101,917
Services Balance	3,858	13,003	14,445	11.1	51,511
Travel (net)	3,050	10,273	11,470	11.7	38,514
Primary Income	-1,320	-4,084	-5,190	27.1	-9,690
Secondary Income	9	-583	-77	-86.8	135
Capital Account	**-16**	**-14**	**-74**	**428.6**	**-95**
Financial Account	**-15,354**	**-16,325**	**-51,460**	**215.2**	**-58,222**
Direct Investment (net)	-89	-3,442	-2,003	-41.8	-6,973
Portfolio Investment (net)	1,412	9,882	2,947	-70.2	6,593
Net Acquisition of Financial Assets	648	3,344	2,389	-28.6	3,540
Net Incurrence of Liabilities	-764	-6,538	-558	-91.5	-3,053
Equity Securities	-630	-2,849	-1,594	-44.1	-2,783
Debt Securities	-134	-3,689	1,036	-	-270
Other Investment (net)	-99	-12,377	-13,381	8.1	-41,518
Currency and Deposits	-511	-9,139	-9,288	1.6	-36,128
Net Acquisition of Financial Assets	4,158	3,674	6,928	88.6	-3,323
Net Incurrence of Liabilities	4,669	12,813	16,216	26.6	32,805
Central Bank	5,088	3,850	12,406	222.2	15,873
Banks	-419	8,963	3,810	-57.5	16,932
Foreign Banks	59	4,082	850	-79.2	4,397
Foreign Exchange	-63	3,020	1,942	-35.7	3,045
Turkish Lira	-415	1,861	1,018	-45.3	9,490
Non-residents	-4	7,102	2,792	-60.7	7,442
Loans	5	-1,471	-897	-39.0	-3,319
Net Acquisition of Financial Assets	718	-456	606	-	774
Net Incurrence of Liabilities	713	1,015	1,503	48.1	4,093
Banking Sector	725	-982	1,359	-	-3,315
Non-bank Sectors	37	1,571	492	-68.7	7,027
Trade Credit and Advances	417	-1,741	-3,189	83.2	-2,037
Other Assets and Liabilities	-10	-26	-7	-73.1	-34
Reserve Assets (net)	-16,578	-10,388	-39,023	275.7	-16,324
Net Errors and Omissions	**-7,405**	**9,829**	**-13,690**	**-**	**1,834**

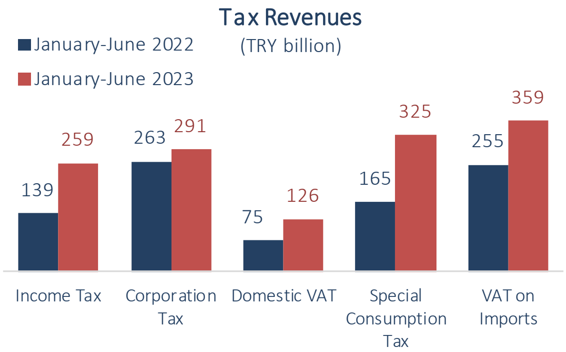
Source: CBRT, Datastream

Central government budget gave a deficit of 219.6 billion TRY in June.

In June, the central government budget gave a historically high deficit of 219.6 billion TRY. In this period, budget revenues rose by 48.2% yoy to 268.2 billion TRY, while budget expenditures went up by 130% yoy to 487.9 billion TRY. In June, primary budget deficit increased almost 10 fold compared to the same period of the previous year and was realized as 182.3 billion TRY. In the first half of the year, central government budget gave a deficit of 483.2 billion TRY due to the rapid rise in personnel expenditures and current transfers.

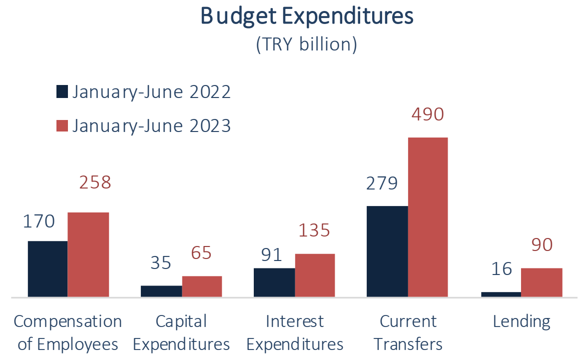
Tax revenues increased by 51.4% yoy in June.

Tax revenues rose by 51.4% yoy to 231.2 billion TRY in June and accounted for 86% of total budget revenues. The rise in tax revenues was mainly driven by income tax revenues, which increased by 106.9% yoy, and special consumption tax revenues, which rose by 89.5% yoy thanks to the favorable course of the automotive market. Value added tax (VAT) on imports posted a moderate increase of 20% yoy despite the rise in foreign exchange rates in June. On the other hand, domestic VAT revenues reduced tax revenues by 2.8 billion TRY due to tax collection deferrals and the refund mechanism. In June, non-tax revenues recorded a moderate increase of 30.6% yoy.



Current transfers rose rapidly in June.

In June, expenditures for social security institutions under current transfers, rose by 5.5 times yoy to 67 billion TRY due to the Eid bonus payments. Thus, current transfers went up by 140% yoy and accounted for 50.3% of central government budget expenditures. In this period, SSI state premium expenditures also increased by 145.2% yoy, while the rapid rise of 192.7% in interest expenditures was noteworthy. Expenses related to FX-indexed deposit accounts, which were recorded as 4.4 billion TRY in the first five months of the year, were realized as 20.6 billion TRY in June because of the rapid rise in foreign exchange rates. Thus, in the first 6 months of the year, the total cost of FX-indexed deposit accounts to the budget amounted to 25 billion TRY.



Expectations...

In June, central government budget deficit reached a historically high level due to the rapid increase in expenditures. In the 1.1 trillion TRY supplementary budget accepted in July, increases in tax revenues came to the fore. Moreover, the transfer of the expenses related to the FX-protected deposit accounts to the CBRT was an important change that may ease some of the pressure on budget expenditures in the second half of the year.

Central Government Budget (billion TRY)

	June		%	January-June		%	2023 Budget	Real./ Budget
	2022	2023	Change	2022	2023	Change	Target	Target (%)
Expenditures	212.1	487.9	130.0	1,171.9	2,363.6	101.7	4,469.6	52.9
Interest Expenditures	12.8	37.4	192.7	134.7	275.2	104.4	565.6	48.7
Non-Interest Expenditures	199.3	450.5	126.0	1,037.2	2,088.3	101.3	3,904.0	53.5
Revenues	181.0	268.2	48.2	1,265.4	1,880.3	48.6	3,810.1	49.4
Tax Revenues	152.6	231.2	51.4	1,033.8	1,602.3	55.0	3,199.5	50.1
Other Revenues	28.4	37.1	30.6	231.6	278.0	20.0	610.6	45.5
Budget Balance	-31.1	-219.6	607.2	93.6	-483.2	-	-659.4	73.3
Primary Balance	-18.3	-182.3	896.5	228.2	-208.0	-	-93.8	-

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

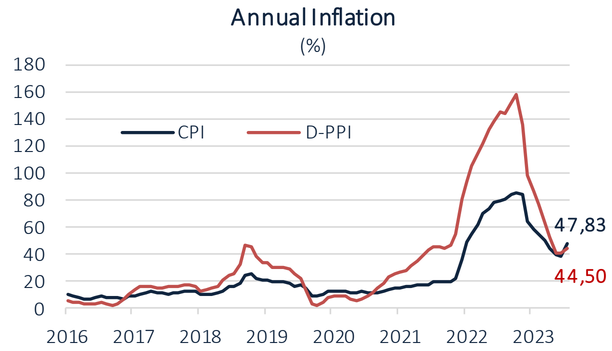
Source: Datastream , Ministry of Treasury and Finance

In July, CPI rose by 9.49% mom.

CPI increased by 9.49% mom in July, in line with market expectations, the highest level in the last 1.5 years. This historically high increase in July marked the end of the favorable base effect which was in place in the first six months of the year. Thus, annual CPI inflation rose to 47.83%, while y-t-d increase in CPI became 31.1%.

July	CPI		D-PPI	
(change %)	2022	2023	2022	2023
Monthly	2.37	9.49	5.17	8.23
Year-to-Date	45.72	31.14	70.04	24.27
Annual	79.60	47.83	144.61	44.50
Annual Average	49.65	57.45	97.30	78.51

D-PPI also recorded a strong monthly surge of 8.23% in July, following the 6.5% rise in June. This pointed out that the cost-driven pressure on inflation will continue in the upcoming period. Annual increase in D-PPI was 44.5% in this period.



Food and transportation groups stood out in monthly inflation.

In July, prices increased in all 12 main expenditure groups. In this period, transportation group, where prices rose by 17.75% mom due to the rapid increase in fuel prices (29%) as well as the increases in railway (31%) and airline (22.8%) passenger transportation prices, made the highest contribution to monthly inflation by 2.77 pp. Food prices went up by 7.71% mom in line with the continued rise in fruit and vegetable prices, pushing monthly inflation up by 2.1 pp. In this period, restaurants and hotels group prices also surged by 11.92% mom due to the rise in food prices and accommodation services, adding 1.1 pp to monthly inflation. In July, the prices of goods and services groups rose by 9.35% and 9.81%, respectively, due to the continued depreciation in TRY.

Core inflation indicators...

Monthly CPI inflation excluding seasonal products was at the same level with headline inflation in July. In this period, prices of fresh fruits and vegetables rose at the fastest pace in the last five months with 17.65% mom. On the other hand, in the same period, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) increased by 8.92% mom, below the headline inflation, while C index (CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) rose by 9.61%. Annual increases in B and C indices remained above the headline inflation with 54.32% and 56.09%, respectively. This supports the view that annual headline inflation will hover above 50% in the upcoming period.

The rise in commodity prices was the main driver of D-PPI inflation.

In July, the rise in commodity prices and the depreciation in TRY were the main drivers of the rise in D-PPI inflation. In this period, the textile group, which is highly sensitive to wage increases, made the highest contribution to the rise in D-PPI by 1.1 pp. Coke refined and petroleum products also rose rapidly by 20.24% mom, pushing D-PPI inflation up by 1.0 pp, while price increases in the base metal group pushed D-PPI up by 0.9 pp. Electricity, gas production and distribution prices fell by 5.06% mom in July, limiting the monthly rise in D-PPI inflation by 0.4 pp.

Expectations...

The deterioration in inflation indicators in July was mainly driven by tax adjustments, the continued depreciation in TRY and the rise in food and commodity prices. We expect monthly CPI inflation will stay above its historical average in August due to the indirect effects of the increase in transportation prices and price hikes in tobacco products as well as the remaining effect of the tax adjustments announced in July. In the upcoming period, we think that global supply concerns will support the rise in food prices and the lagged effects of the depreciation in TRY will continue to have an upward impact on inflation. On the other hand, we expect that the tightening steps taken by the economic management may limit the demand-driven pressures on inflation to some extent. In this context, we believe that the CBRT's year-end inflation forecast for 2023, which was raised from 22.3% to 58% in the Inflation Report published on July 27, is consistent with the general trend of inflation.

Source: Datastream, Turkstat

	30-Jun	31-Jul	Change
5-Y CDS (basis points)	487	373	-114 bps ▼
TR 2-Y Benchmark Yield*	13,55%	14,70%	115 bps ▲
BIST-100*	5.759	7.217	25,3% ▲
USD/TRY	26,0461	26,8955	3,3% ▲
EUR/TRY	28,4255	29,5341	3,9% ▲
Currency Basket**	27,2358	28,2148	3,6% ▲

(*) (The latest data is for June 27th.)

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

Global markets displayed a mixed outlook in July.

Global markets, which followed a volatile course in the first half of July, posted an upward trend in the second half of the month. In this period, the promising macroeconomic data in US, as well as the strengthening of expectations that the Fed's monetary tightening process was coming to an end, supported the global risk appetite. In July, MSCI global stock index and MSCI emerging markets index rose by 3.3% and 5.8%, respectively. DXY index declined by 1% to 101.9, while EUR/USD parity ended July at 1.0993. In line with the depreciation in the US dollar, gold prices rose by 2.4% to 1,965 USD/ounce in July.

BIST-100 increased by 25.3% mom and closed July at a historic high of 7,217. 5-year CDS premium, which followed a downward trend after the elections, fell below 400 basis points for the first time since September 2021 due to the positive response of the markets to the appointments made to the CBRT senior management. In July, USD/TRY and EUR/TRY rose by 3.3% and 3.9% mom, respectively, while the 2-year benchmark bond yield increased by 115 basis points to 14.70%.

CBRT raised the policy rate by 250 basis points to 17.5%.

At the Monetary Policy Committee meeting held on July 20, CBRT raised the policy rate from 15% to 17.5%, below market expectations. In the statement CBRT announced that the monetary tightening will be gradually strengthened when and to the extent necessary until a significant improvement in the inflation outlook is maintained. It was also stated that besides the strong domestic demand, wage and exchange rate increases and the stickiness of services inflation were the main drivers of the high course of inflation, and that the recent tax adjustments would have a negative impact on inflation. Indicating that the simplification in macroprudential measures will continue gradually, the CBRT also announced some selective credit and quantitative tightening decisions to support the monetary tightening process in the following days. In this context, 15% reserve requirement was imposed for all maturities in FX-protected deposit accounts. Monthly growth limits for TL commercial loans and vehicle loans were reduced from 3% to 2.5% and 2%, respectively, while export and investment loans as well as loans for the earthquake zone were exempted from all credit restring measures of the CBRT. In order to stabilize domestic demand, the monthly maximum interest rate applied to credit card cash utilization and overdraft accounts was also raised to 2.89%. Moreover, in order to support exporters' access to finance, the limits of rediscount credits were raised and conditions to access rediscount credits were facilitated.

CBRT published the third Inflation Report of the year.

CBRT emphasized price stability in the third Inflation Report of 2023 and raised its year-end inflation forecast from 22.3% to 58% and from 8.8% to 33% for 2023 and 2024, respectively. The upward revision in TL-denominated import prices, assumptions for food inflation and unit labor costs, as well as the forecast deviations and the change in forecasting approach were influential in raising inflation forecasts. CBRT also revised up its food inflation forecast for end-2023 from 27.9% to 61.5% and its average crude oil price forecast from 78.1 USD/barrel to 79.4 USD/barrel. The report emphasized that the strong outlook in aggregate demand and loan conditions had a negative impact on the inflation outlook by allowing exchange rate and cost pressures to be quickly passed through to final prices. In this context, it was projected that selective credit steps would stabilize domestic demand, which would also contribute to exchange rate stability. In her speech at the introductory meeting of the report, CBRT Governor Erkan stated that inflation will hit its peak in the second quarter of 2024, and the stabilization period in inflation will begin with 2025.

Securities portfolio of non-residents...

In line with the improvement in risk perception towards Türkiye, domestic capital flows have recently gained momentum. According to the securities statistics released by CBRT, non-residents' equity portfolio adjusted for price and exchange rate movements increased by 691 million USD as of July 28 compared to the end of June, while GDDS portfolio rose by 13 million USD. Thus, since the beginning of the year, price and exchange rate adjusted foreign capital inflows to the equity market and GDDS market amounted to 188 million USD and 567 million USD, respectively. As of July 28, CBRT's gross reserves became 113.8 billion USD, while net international reserves declined to 10.9 billion USD.

CBRT Inflation Forecasts	2023
2023-II May 2023) Forecast (%)	22.3
2023-III (July 2023) Forecast (%)	58.0
Forecast Revision as Compared to the 2023 - II	35.7
Sources of Forecast Revisions (% Points)	
TRY Denominated Import Prices	7.5
Food Prices	8.5
Output Gap	1.3
Administered Prices	7.5
Deviation from the Inflation Forecast / the Underlying Trend of Inflation	10.9

Source: CBRT, Datastream, Reuters,

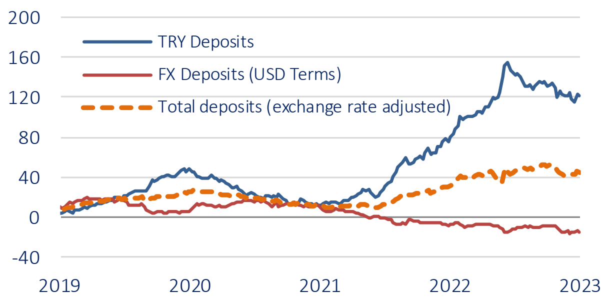
BRSA announced some decisions to strengthen financial stability.

BRSA announced a series of tightening measures on loan. In this context, the risk weights in the calculation of capital adequacy standard ratios for consumer loans, consumer credit cards, consumer vehicle loans and financial leasing transactions with consumers have been increased. In addition, BRSA stopped allowing credit card payments by installments travel agencies, accommodation, and aviation spending abroad.

FX-protected deposit volume amounted to 3.1 trillion TRY.

According to BRSA's weekly data, as of July 28, total deposit volume increased by 68.3% yoy to 12.5 trillion TRY. In this period, TRY deposits rose by 121.6% yoy to TRY 7.2 trillion, while the volume of FX-protected deposits reached 3.1 trillion TRY. FX deposits in USD terms contracted by 15.5% to 199.7 billion USD, while the FX-adjusted annual increase in total deposit volume was 44.1%. Since 2022 year-end, TRY deposits increased by 50.1%, while FX deposits denominated in USD decreased by 8.7%.

Deposit Growth
(annual % change)



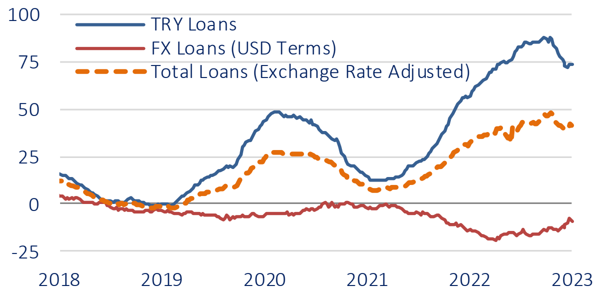
Total loan volume rose to 10.3 trillion TRY.

The total loan volume of the banking sector increased by 58.4% yoy and reached 10.3 trillion TRY as of July 28. In this period, TRY loan volume increased by 72.6% yoy to 6.9 trillion TRY, while the share of TRY loans in total loans declined to 66.6%. FX loan volume in USD terms contracted by 9.6% yoy to 128 billion USD. The FX-adjusted annual increase in total loan volume was 40.6%. Compared to the year-end, TRY loans increased by 34.3% while USD denominated FX loans contracted by 3.2%.

The increase in vehicle loans continued to lose momentum.

As of July 28, consumer loans increased by 52.4% yoy to 1.4 trillion TRY, while consumer credit card balances rose by 185.1% yoy in the same period. In this period, the annual growth in vehicle loans remained high at 233.6%, albeit at a slower pace, while the rate of increase in housing loans remained below the inflation rate at 26.2%.

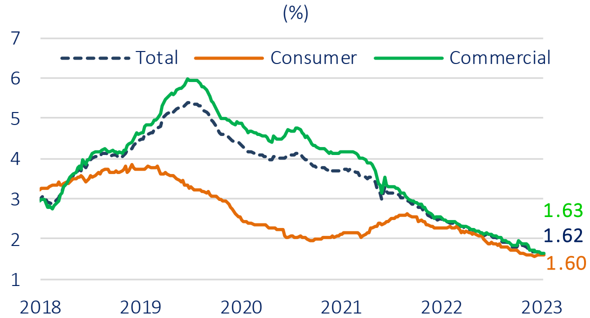
Loan Growth
(annual % change)



NPL ratio declined to 1.62%.

As of July 28, non-performing loans ratio in the banking sector continued to decline in line with the expansion in loan volume and reached a historic low of 1.62%. In this period, non-performing loans ratio rose to 1.60% in retail loans and decreased to 1.63% in commercial loans.

Non-performing Loans
(%)



Foreign currency net general position…

As of July 28, on-balance sheet FX position was (-) 28,642 million USD, while off-balance sheet FX position was (+) 32,789 million USD. Thus, the banking sector's net FX position became (+) 4,147 million USD in this period.

Source: BRSA Weekly Bulletin

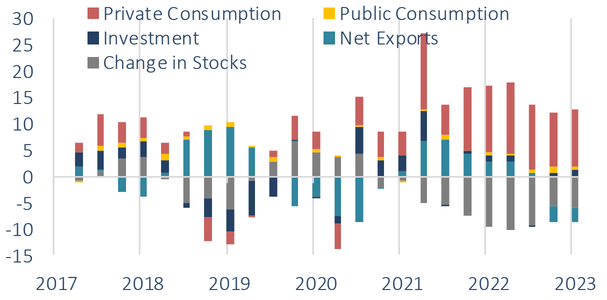
In July, the mild decoupling in economic activity among major economies was noteworthy. In the US, where the labor market remained tight and annual inflation fell to 3%, second quarter growth came in above market expectations. The ongoing weak economic outlook in China was reflected in growth and inflation indicators, according to preliminary growth data Euro Area economy performed stronger than expectations in the second quarter. The favorable data flow in the US in July kept the risk appetite up in the global markets. The rising optimism in line with the weakening global recession concerns for the upcoming period was reflected in the July update of the IMF's World Economic Outlook report, in which growth forecasts for 2023 were revised upwards. On the other hand, we consider geopolitical developments, the possibility of a slower-than-expected recovery in China and the possible inflation inertia in the Euro Area as the main risk factors for the global economy.

In Türkiye, the normalization and simplification steps in economic policies were high on the agenda in July. CBRT raised the policy rate by 250 basis points to 17.50% and announced selective credit and quantitative tightening decisions. In the Inflation Report, year-end inflation forecasts for 2023, 2024 and 2025 were revised upwards in line with market forecasts. The new appointments in the economy administration and the recent measures were welcomed by the markets. In the upcoming period, we expect the high course of inflation to continue due to the lagged effects of the depreciation in TRY as well as the developments in global commodity prices, in line with the economy administration's projections. In addition, we think that the aims of ensuring fiscal discipline as well as the recovery in the current account deficit along with the fight against inflation will have a positive impact on the risk perception towards Türkiye.

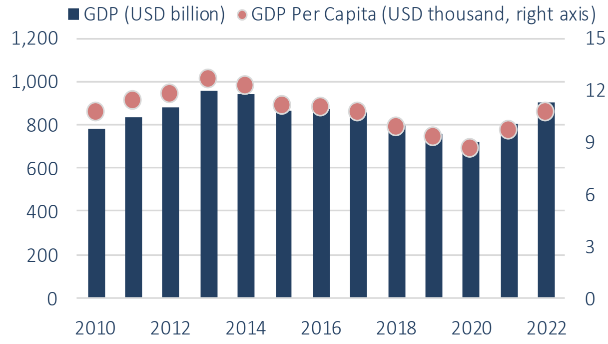
Growth

Contributions to GDP Growth

(% point)

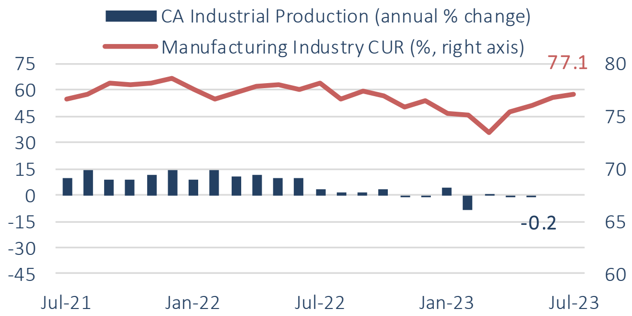


GDP

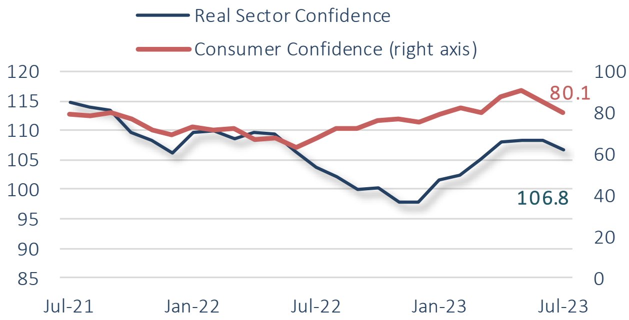


Leading Indicators

Industrial Production and Capacity Utilization



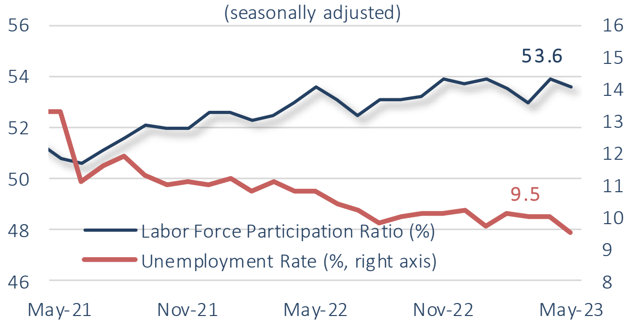
Confidence Indices



Labor Market

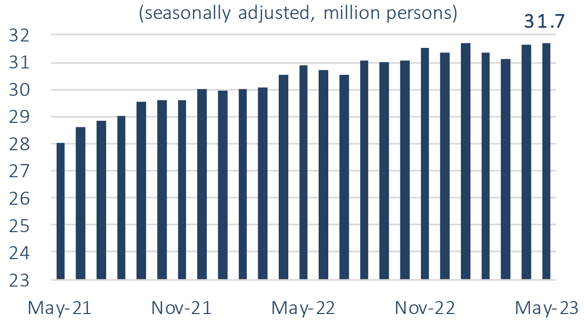
Employment Indicators

(seasonally adjusted)



Employment

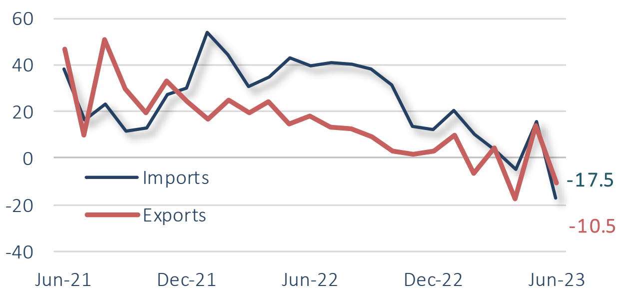
(seasonally adjusted, million persons)



Foreign Trade and Current Account Balance

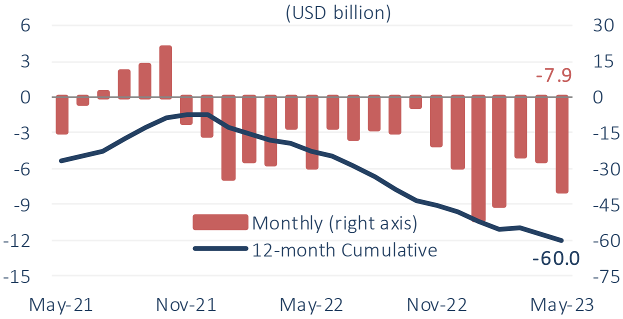
Foreign Trade

(annual % change)



Current Account Balance

(USD billion)

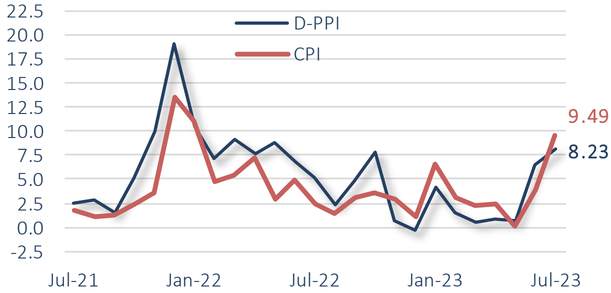


(CA) Calendar adjusted

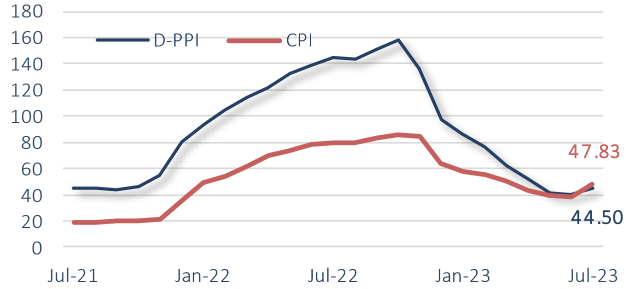
Source: Datastream, CBRT, Turkstat

Inflation

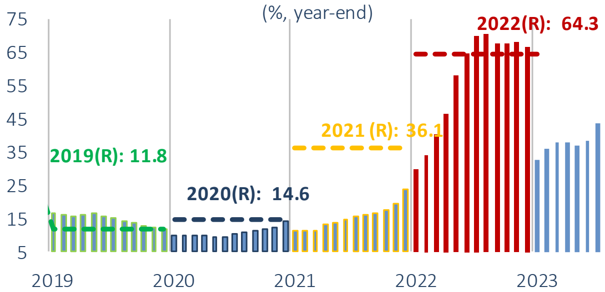
Monthly Inflation
(%)



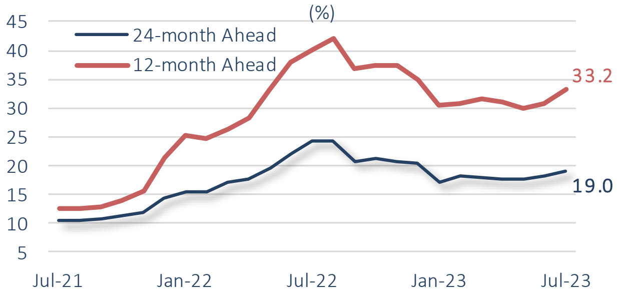
Annual Inflation
(%)



CBRT Survey of Market Participants - Annual CPI Inflation Expectations

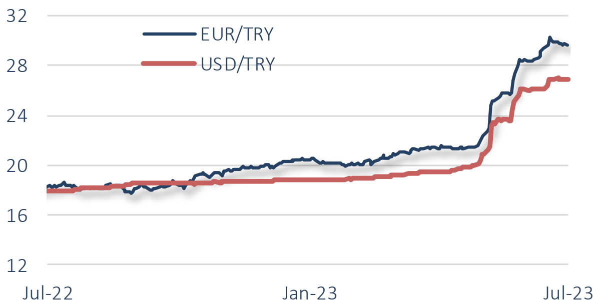


CBRT Survey of Market Participants - 12 & 24-month Ahead CPI Inflation Expectations

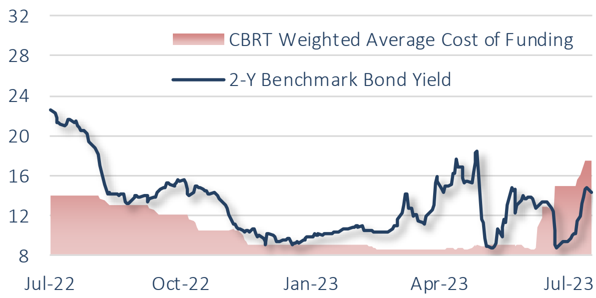


Foreign Exchange and Bond Market

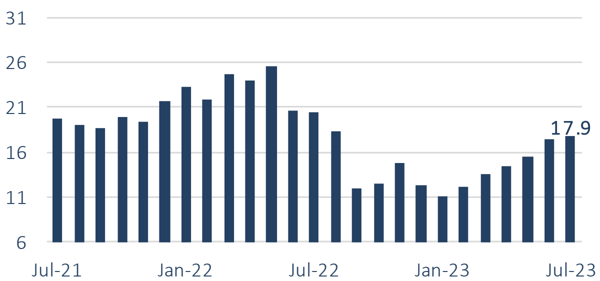
Exchange Rates



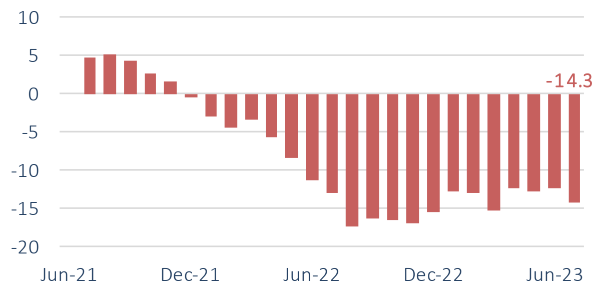
CBRT WACOF and 2-Y Benchmark Bond Yield
(%)



Average Compound Yield in Treasury Auctions
(%)



Expected Real Yield of TRY GDDIs
(%)



(R) Realization

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

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 (%)						**May-23**	**Jun-23**	**Jul-23**
CPI (annual)	20.30	11.84	14.60	36.08	64.27	39.59	38.21	47.83
Domestic PPI (annual)	33.64	7.36	25.15	79.89	97.72	40.76	40.42	44.50
Seasonally Adjusted Labor Market Figures						**Mar-23**	**Apr-23**	**May-23**
Unemployment Rate (%)	12.7	13.4	12.6	11.0	10.2	10.0	10.0	9.5
Labor Force Participation Rate (%)	53.2	52.6	49.1	52.6	53.7	53.0	53.9	53.6
FX Rates						**May-23**	**Jun-23**	**Jul-23**
CPI Based Real Effective Exchange Rate	76.3	76.0	61.9	47.7	55.0	58.1	51.5	
USD/TRY	5.32	5.95	7.43	13.28	18.72	20.70	26.07	26.93
EUR/TRY	6.08	6.68	9.09	15.10	19.98	22.07	28.44	29.69
Currency Basket (0.5*EUR+0.5*USD)	5.70	6.32	8.26	14.19	19.35	21.38	27.26	28.31
Foreign Trade Balance(1) (USD billion)						**Apr-23**	**May-23**	**Jun-23**
Exports	177.2	180.8	169.6	225.2	254.2	251.6	254.3	251.8
Imports	231.2	210.3	219.5	271.4	363.7	371.9	376.6	371.0
Foreign Trade Balance	**-54.0**	**-29.5**	**-49.9**	**-46.2**	**-109.5**	**-120.4**	**-122.3**	**-119.2**
Import Coverage Ratio (%)	76.6	86.0	77.3	83.0	69.9	67.6	67.5	67.9
Balance of Payments(1) (USD billion)						**Mar-23**	**Apr-23**	**May-23**
Current Account Balance	**-20.2**	**10.8**	**-31.9**	**-7.2**	**-48.4**	**-55.0**	**-57.9**	**-60.0**
Capital and Financial Accounts	**1.1**	**5.1**	**-39.5**	**-6.0**	**-24.6**	**-38.4**	**-47.1**	**-58.2**
Direct Investments (net)	-8.9	-6.6	-4.6	-6.9	-8.1	-8.9	-8.9	-7.0
Portfolio Investments (net)	0.9	2.8	9.6	-0.8	13.4	9.0	9.6	6.6
Other Investments (net)	19.4	2.6	-12.6	-21.7	-42.3	-44.2	-42.1	-41.5
Reserve Assets (net)	-10.4	6.3	-31.9	23.3	12.3	5.7	-5.7	-16.3
Net Errors and Omissions	**21.1**	**-5.8**	**-7.6**	**1.4**	**24.2**	**16.7**	**10.9**	**1.8**
Current Account Balance/GDP (%)	**-2.5**	**1.4**	**-4.4**	**-0.9**	**-5.3**	-	-	-
Budget(2)(3) (TRY billion)						**Apr-23**	**May-23**	**Jun-23**
Expenditures	**830.8**	**1,000.0**	**1,203.7**	**1,603.5**	**2,941.4**	**1,445.2**	**1,875.7**	**2,363.6**
Interest Expenditures	74.0	99.9	134.0	180.9	310.9	135.2	237.9	275.2
Non-interest Expenditures	756.8	900.1	1,069.8	1,422.7	2,630.5	1,310.0	1,637.8	2,088.3
Revenues	**758.0**	**875.3**	**1,028.4**	**1,402.0**	**2,802.4**	**1,062.7**	**1,612.1**	**1,880.3**
Tax Revenues	621.5	673.9	833.3	1,165.0	2,353.3	863.7	1,371.2	1,602.3
Budget Balance	**-72.8**	**-124.7**	**-175.3**	**-201.5**	**-139.1**	**-382.5**	**-263.6**	**-483.2**
Primary Balance	**1.1**	**-24.8**	**-41.3**	**-20.7**	**171.8**	**-247.3**	**-25.7**	**-208.0**
Budget Balance/GDP (%)	**-1.9**	**-2.9**	**-3.5**	**-2.8**	**-0.9**	-	-	-
Central Government Debt Stock (TRY billion)						**Apr-23**	**May-23**	**Jun-23**
Domestic Debt Stock	586.1	755.1	1,064.3	1,354.8	1,905.3	2,292.9	2,348.1	2,575.6
External Debt Stock	481.0	574.0	773.4	1,490.0	2,127.9	2,295.2	2,386.3	3,041.8
Total Debt Stock	**1,067.1**	**1,329.1**	**1,837.6**	**2,844.9**	**4,033.2**	**4,588.1**	**4,734.4**	**5,617.4**

(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)	2018	2019	2020	2021	2022	May.23	Jun.23	Change[1]
TOTAL ASSETS	3,867	4,491	6,106	9,215	14,344	16,846	19,102	17.4
Loans	2,394	2,656	3,576	4,901	7,581	9,237	10,010	21.9
TRY Loans	1,439	1,642	2,353	2,832	5,110	6,580	6,690	28.8
Share (%)	60.1	61.8	65.8	57.8	67.4	71	66.8	5.7
FX Loans	956	1,015	1,224	2,069	2,471	2,657	3,320	7.5
Share (%)	39.9	38.2	34.2	42.2	32.6	29	33.2	-11.7
Non-performing Loans	96.6	150.8	152.6	160.1	163.4	166	168.3	1.9
Non-performing Loan Rate (%)	3.9	5.3	4.1	3.2	2.1	2	1.7	-16.1
Securities	477	660	1,022	1,476	2,370	2,855	3,220	20.5
TOTAL LIABILITIES	3,867	4,491	6,106	9,215	14,344	16,846	19,102	17.4
Deposits	2,036	2,567	3,455	5,303	8,862	10,356	11,651	16.9
TRY Deposits	1,042	1,259	1,546	1,880	4,779	6,173	6,586	29.2
Share (%)	51.2	49.0	44.7	35.5	53.9	60	56.5	10.5
FX Deposits	994	1,308	1,909	3,423	4,083	4,183	5,065	2.4
Share (%)	48.8	51.0	55.3	64.5	46.1	40	43.5	-12.3
Securities Issued	174	194	224	310	325	344	426	5.8
Payables to Banks	563	533	658	1,048	1,432	1,578	2,020	10.2
Funds from Repo Transactions	97	154	255	587	540	778	775	44.1
SHAREHOLDERS' EQUITY	421	492	600	714	1,407	1,607	1,688	14.2
Profit (Loss) of the Period	54.1	49.0	58.5	93.0	431.6	190.3	250.1	-55.9
RATIOS (%)								
Loans/GDP	63.7	61.5	70.9	68.0	50.5			
Loans/Assets	61.9	59.1	58.6	53.2	52.8	54.8	52.4	-
Securities/Assets	12.3	14.7	16.7	16.0	16.5	16.9	16.9	-
Deposits/Liabilities	52.7	57.2	56.6	57.5	61.8	61.5	61.0	-
Loans/Deposits	117.6	103.5	103.5	92.4	85.5	89.2	85.9	-
Capital Adequacy (%)	17.3	18.4	18.7	18.4	19.5	17.1	18.0	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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