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## Global Economy

The US economic growth data for the second quarter of 2023 was revised down from 2.4% to 2.1%.

PMI figures in advanced economies signalled that the weak outlook in the manufacturing sector continues. In August, Euro Area services PMI declined to 48.3, falling below the threshold for the first time since the beginning of the year.

In the US annual CPI inflation continued to fall, realizing at 3.2% in July. According to the preliminary data, annual CPI inflation in the Euro Area remained unchanged at 5.3% in August, despite the market expectations for a decline.

The statements made at the Jackson Hole Symposium strengthened the expectations that interest rates will be kept at high levels until inflation is taken under control.

While the data released in China showed that the stagnation in economic activity continued in line with the weak outlook in domestic and foreign demand, the People's Bank of China announced a series of decisions.

At the BRICS summit which was held in South Africa, it was agreed that Saudi Arabia, Iran, Egypt, United Arab Emirates, Argentina and Ethiopia will become the new members of the union from early 2024.

Following a volatile course in August, Brent crude oil prices rose by 1.5% mom to 86.9 USD/barrel.

## Turkish Economy

According to the chain linked volume index, Turkish economy grew by 3.8% yoy in the second quarter of 2023, above market expectations. In this period, private consumption expenditures continued to be the largest contributor to growth.

In June, seasonally adjusted unemployment rate was realized as 9.6% while the labor underutilization rate rose to 24.2%, the highest level since May 2021.

Istanbul Chamber of Industry Türkiye PMI® Manufacturing Index fell to 49.0 in August, the lowest level since December 2022. In this period, slowdown in new orders due to the price increases as well as cost pressures led to a rapid contraction in production.

In August, seasonally adjusted consumer confidence index fell to 68.0, corresponding to the fastest monthly decline in the data set.

In June, current account posted a surplus for the first time since October 2021 and 12-month cumulative current account deficit narrowed to 56.5 billion USD.

In July, the central government budget posted a surplus of 48.6 billion TRY thanks to the rapid rise in tax revenues. In January-July period, budget deficit was 434.7 billion TRY.

In August, CPI increased by 9.09%, above market expectations, while annual CPI inflation rose to 58.94%. D-PPI was realized as 5.89% mom and 49.41% yoy.

CBRT raised the policy rate to 25% in August, exceeding market expectations.

BIST-100 index closed August with an increase of 9.7%, while Türkiye's CDS premium was realized as 377 basis points at the end of the month.

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## GDP Growth

### Turkish economy grew by 3.8% yoy in the second quarter of 2023.

GDP with chain linked volume index increased by 3.8% yoy in the second quarter of 2023, slightly above market expectations. TURKSTAT revised the annual growth data for 2022 from 5.6% to 5.5%, and the first quarter growth data of 2023 from 4% to 3.9%. Thus, Turkish economy grew by 3.9% yoy in the first half of the year. As the number of working days was lower in the second quarter compared to the same period of the previous year, calendar adjusted annual growth realized as 5%.

According to seasonally and calendar adjusted figures, GDP recorded a strong quarterly growth of 3.5% offsetting the contraction in the first quarter due to the earthquake disasters.

Turkish economy expanded by 60.7% yoy at current prices in the second quarter of 2023, and the annualized GDP exceeded 1 trillion USD.

### Consumption expenditures continue to be the engine of economic growth.

Private consumption expenditures continued to be the largest contributor to growth in the second quarter, albeit with a slight deceleration. Investment expenditures grew by 5.1% yoy in the second quarter and recorded the fastest growth in the last eight quarters, due to the growing need after the earthquake disaster. Construction and machinery-equipment investments gained momentum in this period. Thus, consumption and investment expenditures contributed a total of 12.7 percentage points to growth in the second quarter. On the other hand, net exports reduced growth by 6.3 percentage points in this period. This development was mainly driven by the rapid rise in imports as well as the sharpest decline in exports recorded since the pandemic.

#### Contributions to Growth

	2021	2022	2023		
	Annual	Annual	Q1	Q2	H1
<b>Consumption</b>	<b>9.6</b>	<b>12.2</b>	<b>12.4</b>	<b>11.4</b>	<b>11.9</b>
Private	9.2	11.7	11.6	10.7	11.2
Public	0.4	0.6	0.8	0.7	0.7
<b>Investment</b>	<b>1.9</b>	<b>0.3</b>	<b>0.9</b>	<b>1.3</b>	<b>1.1</b>
<b>Stock Change</b>	<b>-5.1</b>	<b>-7.7</b>	<b>-6.1</b>	<b>-2.6</b>	<b>-4.2</b>
<b>Net Exports</b>	<b>5.0</b>	<b>0.7</b>	<b>-3.4</b>	<b>-6.3</b>	<b>-4.9</b>
Exports	5.4	2.4	-0.7	-2.4	-1.5
Imports	-0.4	-1.7	-2.7	-3.9	-3.3
<b>GDP (yoy, %)</b>	<b>11.4</b>	<b>5.5</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>

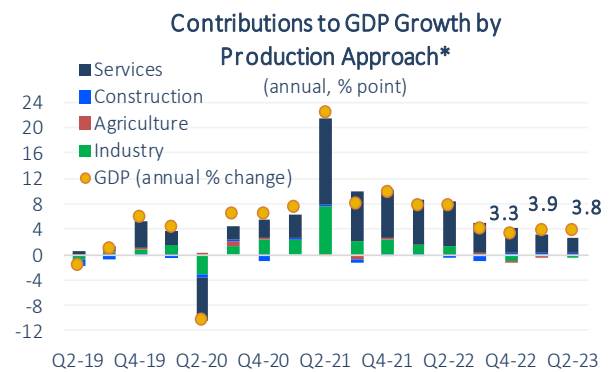
Numbers may not add to total due to rounding.  
(\* ) Taxes and subsidies excluded.

Change in stocks, which has been dragging down growth since the last quarter of 2020, also lowered growth rate by 2.6 percentage points in the second quarter of the year.

### The decline in industrial production limited the growth by 0.5 points.

The contraction trend in industrial production, which started in the third quarter of 2022, continued in the second quarter of this year. Industrial production, which declined by 2.6% yoy in this period, limited the growth by 0.5 points. Construction sector, supported by the accelerated construction activities following the earthquake disaster, recorded the fastest increase of the last 21 quarters with 6.2% yoy contributing 0.3 points to economic growth on an annual basis. Agricultural sector also recorded a limited growth of 1.2% yoy in the second quarter of the year.

In the second quarter of the year economic activity slowed down broadly in the services sector. In this period, the contribution of the services sector to the growth was realized as 2.2 points, the lowest level since the pandemic.



### Expectations...

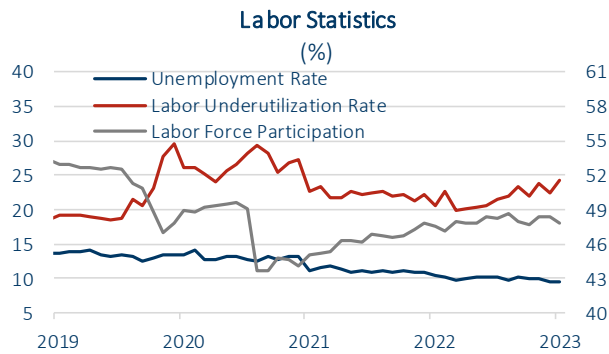
In the second quarter of the year, consumption expenditures continued to be the main driver of the growth despite losing momentum, while the recovery in investment expenditures supported the growth. In this period, net exports limited growth to a large extent, especially due to the sharp decline in exports, while the contraction in the industrial sector and the loss of momentum in services were the notable developments. In the second half of the year, with the implementation of economic policies that prioritize the fight against inflation, we expect that the contribution of consumption expenditures to growth may decline slightly and the contribution of net exports may remain under pressure in line with the slowdown in our main export markets.

Source: Datastream, Turkstat

## Leading Indicators

### Unemployment rate was 9.6% in June.

Seasonally adjusted unemployment rate which fell to 9.5% in May, lowest level for the last 9 years, increased by 0.1 points to 9.6% in June. In this period, the unemployment rate remained relatively flat as the labour force contracted by 359 thousand people despite the 363 thousand decrease in employment. On the other hand, the employment rate declined to 47.8% in June, and the composite measure of labour underutilization rate, the broadest defined unemployment rate, reached its highest level since May 2021 with 24.2%. According to seasonally adjusted data, youth unemployment rate which covers the 15-24 age group, increased by 1.2 points compared to May and realized as 18.6%.



### Industrial production index rose by 1.6% mom in June.

Seasonally and calendar adjusted industrial production index continued to recover in June by performing a 1.6% increase mom. In this period, production contracted in mining and quarrying and electricity, gas, steam sectors, while it increased by 2.3% in manufacturing industry. Production increased in 16 out of 24 sub-sectors of the manufacturing industry. In this period, rapid rise of 20.4% in the manufacture of computers, electronic and optical products was remarkable. In June, calendar adjusted industrial production also rose by 0.6% yoy. On the other hand, mining and quarrying sector, which contracted by 11.6% in this period, continued its downward trend for the 14<sup>th</sup> month.

In June, retail sales volume at constant prices decreased by 0.1% mom and presented a flat outlook. In this period, food, beverage and tobacco sales increased by 2.3%, while non-food sales contracted by 1.3%, indicating some loss of momentum in domestic demand.

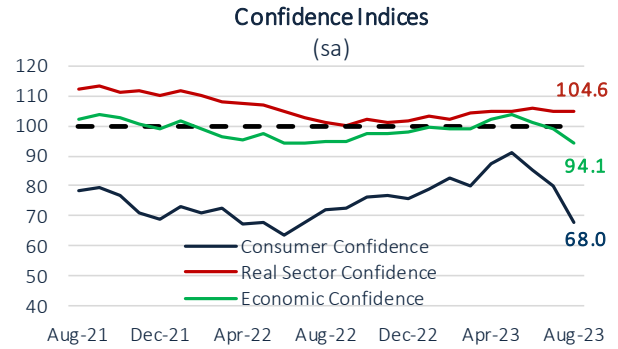
### Istanbul Chamber of Industry Türkiye Manufacturing PMI fell to 49.0.

Manufacturing PMI data published by Istanbul Chamber of Industry fell to 49.0 in August, the lowest level since December 2022. The index realized below the threshold value for two consecutive months, showing that the weak

course in the manufacturing industry continued. In this period, the index recorded the fastest contraction since February in line with the slowdown in new orders caused by stagnant manufacturing activity, cost pressures and price increases. The rise in employment volume, which started in May, continued in August albeit at a slower pace. In this period, production volume contracted in six out of ten sectors monitored, while clothing and leather products and the textiles displayed the weakest outlook with PMI values of 42.3 and 43.5, respectively.

### Confidence indices fell sharply in August.

According to seasonally adjusted data, consumer confidence index which was 80.1 in July, recorded the fastest monthly decline in the data set in August, falling by 15.1% and becoming 68.0. Thus, consumer confidence has declined by 25.3% since May. In August, seasonally adjusted real sector confidence index decreased by 0.3 points compared to July and realized as 104.6. According to the survey, evaluations regarding the general outlook, current stock of finished goods, the amount of export orders and production volume in the next three months affected the index downwards. In August, sectoral confidence indices decreased by 1.7% in services, 0.4% in retail trade and 0.7% in construction. Thus, economic confidence index fell to 94.1 in August, the lowest level for the last 13 months.



### In July, house sales increased by 16.7% yoy.

Having displayed a downward trend on an annual basis for the last one year, house sales increased by 16.7% yoy to 109.5 thousand units in July. In this period, mortgaged sales decreased by 24.1% while other house sales, which increased by 27.1%, accounted for 86.7% of total sales. In July, 71.1% of house sales were second-hand sales. In this period, the decline in house sales to foreigners continued in line with the loss in demand from Russian citizens. On the other hand, annual rise in the house price index continued to lose momentum, becoming 95.9% in June, down from the triple-digit levels recorded since March 2022. Thus, the annual real increase in house prices was realized as 38%.

Source: CBRT, Datastream, ISO, Turkstat

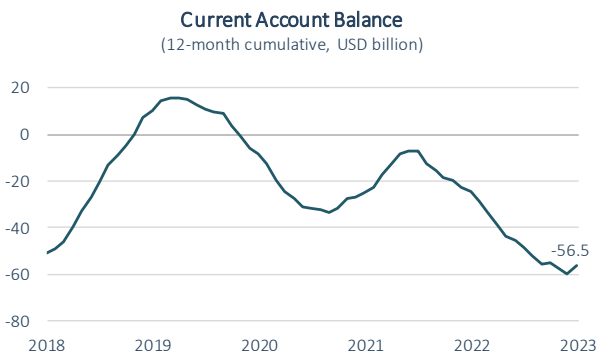
## Foreign Trade and Balance of Payments

### Foreign trade deficit was 5.2 billion USD in June.

According to the data announced by TURKSTAT, exports declined by 10.5% yoy to 20.9 billion USD in June, while imports decreased by 17.5% yoy to 26.1 billion USD due to the annual decline in global energy prices. Thus, the foreign trade deficit narrowed by 37.3% yoy to 5.2 billion USD. In June, import coverage ratio was realized as 80.2%.

### In June, the current account posted a surplus of 674 million USD.

In June, the current account posted a surplus (674 million USD) for the first time since October 2021. Annual decrease of balance of payments defined foreign trade deficit by 42.5% yoy to 3.7 billion USD was behind this development. In June, tourism revenues continued their positive course rising by 14.4% on an annual basis. Thus, in the first half of 2023, the current account deficit widened by 28.1% yoy and became 36.8 billion USD. 12-month cumulative current account deficit declined from 59.7 billion USD in May to 56.5 billion USD as of June.



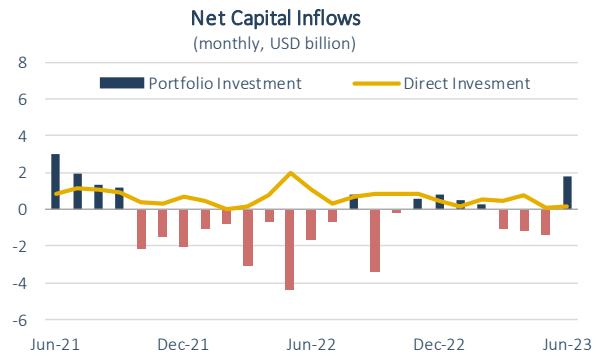
### The weak course in direct investments continues.

In June, net direct investments to Türkiye continued to be weak, and was realized as 135 million USD. In this period, non-residents' net direct capital investments were realized

as 166 million USD, the lowest level since April 2021. Moreover, the decline in non-residents real estate investments in Türkiye by 31.7% on a monthly and 79.6% on an annual basis drew attention. Thus, in the first half of the year, net foreign direct investment inflows decreased by 52.1% yoy to 2.1 billion USD.

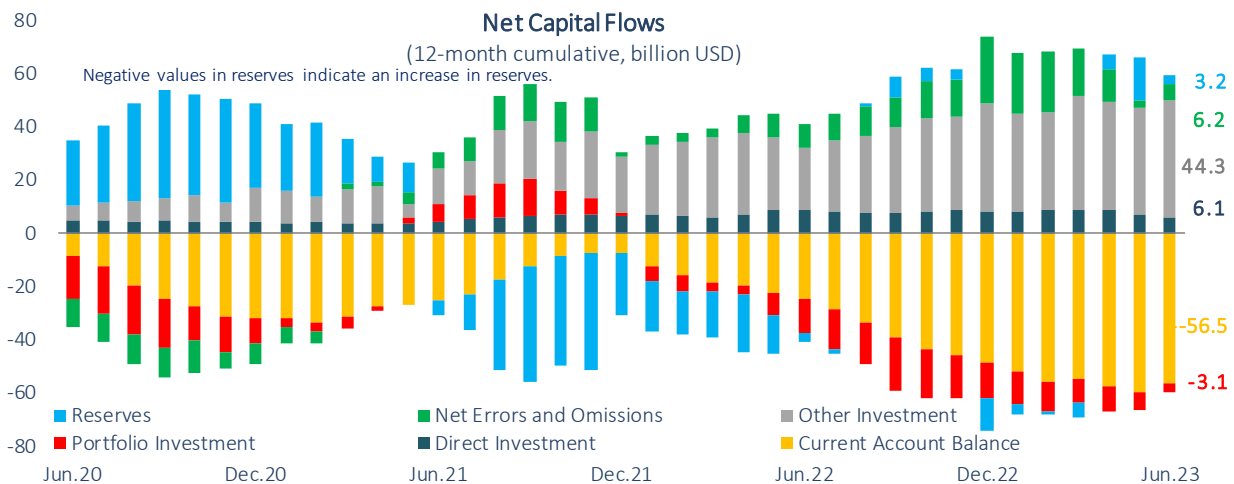
### Portfolio investments recorded a net capital inflow of 1.8 billion USD.

In June, portfolio investments recorded a net capital inflow of 1.8 billion USD. Thus, portfolio investments recorded the first net capital inflow since February and reached its peak level since July 2021. In this period, non-residents made net purchases of 1.1 billion USD in equity market and of 46 million USD in domestic government debt securities markets. Despite the inflow recorded in June, portfolio investments posted a net capital outflow of 1.2 billion USD in the first half of the year.



### Positive trend in other investments...

In June, net capital inflows in other investments recorded a significant improvement compared to May and were realized as 3.1 billion USD. In this period, total deposits of foreign banks in Türkiye increased by 2.4 billion USD, recording the fastest monthly rise since February 2022. In June, the bank-

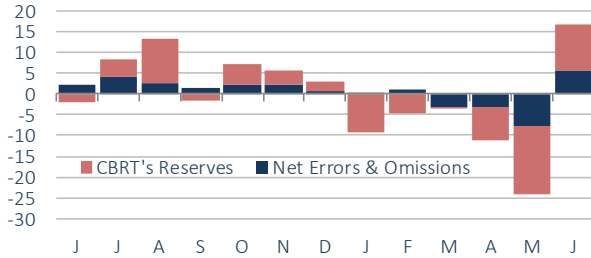


Source: Datastream, Turkstat, CBRT

## Foreign Trade and Balance of Payments

ing sector and the General Government made net loan repayments of 458 million USD and 97 million USD, respectively, while other sectors borrowed a net amount of 17 million USD from abroad. According to 12-month cumulative figures, long-term debt rollover ratios of the banking sector and other sectors were realized as 86% and 134%, respectively.

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



### Reserve assets and net errors and omissions...

In June, reserve assets increased (by 11.2 billion USD) for the first time since the beginning of the year. Thus, the decline in reserve assets came down to 27.8 billion USD in the January-

June period. Net errors and omissions item, which recorded an inflow of 5.5 billion USD in June, recorded a total decrease of 7.2 billion USD in the first half of the year.

### Expectations...

Foreign trade deficit, which was 12.4 billion USD in July, came down to 8.9 billion USD according to preliminary figures but remained high in August. The economic outlook in Türkiye's main export market Europe, as well as recent increases in energy prices due to supply concerns, will continue to impact the foreign trade balance. However, the continuation of the relative recovery recorded in the financing side in June, as a result of the improvement in risk perception towards Türkiye thanks to recent economic policy steps, will be essential in the coming period.

### Balance of Payments

	Jun. 2023	Jan. - Jun. 2022	Jan. - Jun. 2023	% Change	(USD million) 12-month Cumulative
<b>Current Account Balance</b>	<b>674</b>	<b>-28,721</b>	<b>-36,803</b>	<b>28.1</b>	<b>-56,491</b>
Foreign Trade Balance	-3,697	-40,907	-50,675	23.9	-99,289
Services Balance	5,019	17,881	19,731	10.3	51,919
Travel (net)	4,203	13,947	15,965	14.5	39,335
Primary Income	-799	-4,992	-5,989	20.0	-9,583
Secondary Income	151	-703	130	-	462
<b>Capital Account</b>	<b>-13</b>	<b>-14</b>	<b>-86</b>	<b>514.3</b>	<b>-107</b>
<b>Financial Account</b>	<b>6,184</b>	<b>-16,714</b>	<b>-44,041</b>	<b>163.5</b>	<b>-50,389</b>
Direct Investment (net)	-135	-4,478	-2,146	-52.1	-6,105
Portfolio Investment (net)	-1,797	11,538	1,150	-90.0	3,140
Net Acquisition of Financial Assets	-580	4,214	1,809	-57.1	2,090
Net Incurrence of Liabilities	1,217	-7,324	659	-	-1,050
Equity Securities	1,089	-3,358	-505	-85.0	-1,185
Debt Securities	128	-3,966	1,164	-	135
Other Investment (net)	-3,084	-11,426	-15,222	33.2	-44,260
Currency and Deposits	-1,622	-10,271	-9,740	-5.2	-35,367
Net Acquisition of Financial Assets	923	4,265	9,021	111.5	-1,740
Net Incurrence of Liabilities	2,545	14,536	18,761	29.1	33,627
Central Bank	-62	3,977	12,344	210.4	15,684
Banks	2,607	10,559	6,417	-39.2	17,943
Foreign Banks	1,653	4,695	2,503	-46.7	5,437
Foreign Exchange	757	3,025	2,699	-10.8	3,797
Turkish Lira	197	2,839	1,215	-57.2	8,709
Non-residents	2,410	7,720	5,202	-32.6	9,234
Loans	-211	33	-1,021	-	-4,976
Net Acquisition of Financial Assets	-749	663	-143	-	-1,094
Net Incurrence of Liabilities	-538	630	878	39.4	3,882
Banking Sector	-458	-2,014	789	-	-2,853
Non-bank Sectors	17	2,267	500	-77.9	6,353
Trade Credit and Advances	-1,238	-1,155	-4,440	284.4	-3,876
Other Assets and Liabilities	-13	-33	-21	-36.4	-41
Reserve Assets (net)	11,200	-12,348	-27,823	125.3	-3,164
<b>Net Errors and Omissions</b>	<b>5,523</b>	<b>12,021</b>	<b>-7,152</b>	<b>-</b>	<b>6,209</b>

Source: CBRT, Datastream

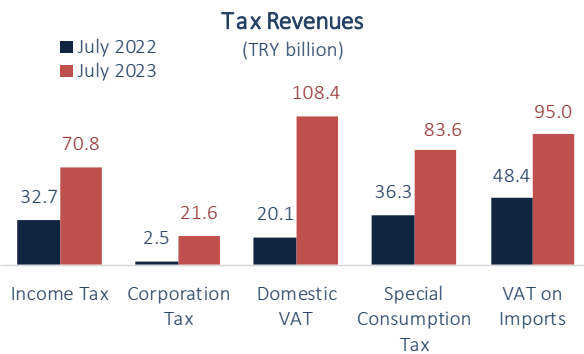
## Budget Balance

Central government budget posted a surplus of 48.6 billion TRY in July.

In July, central government budget revenues rose by 156.1% yoy to 504.4 billion TRY thanks to the rapid rise in tax revenues. On the other hand, budget expenditures increased by 74.7% yoy to 455.8 billion TRY in line with the rise in compensation of employees and current transfers. Thus, the central government budget posted a surplus of 48.6 billion TRY in July. In this period, primary budget balance also displayed a favorable performance with a surplus of 86.2 billion TRY. In January-July period, budget revenues and expenditures went up by 63.1% and 96.8% yoy, respectively. Thus, in the first seven months of the year budget deficit became 434.7 billion TRY.

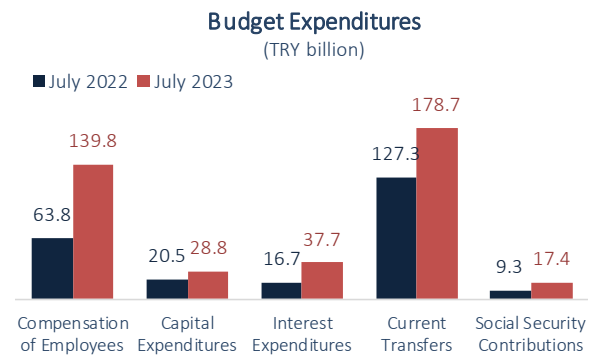
**The increase in value-added tax stood out in budget revenues.**

In July, rising by 166.7% yoy above the annual inflation rate tax revenues were realized as 450.3 billion TRY. In this period, domestic VAT and VAT on imports revenues rose by 134.8 billion TRY on an annual basis due to the depreciation in TRY as well as the adjustment in value added tax rates. Thanks to the continued positive trend in the automotive market, SCT revenues increased by 130.3% in July compared to the same period of the previous year and amounted to 83.6 billion TRY. In this period, corporate tax revenues surged by 758% yoy to 21.6 billion TRY, contributing to the rise in tax revenues. The interest, shares and fees item supported the positive outlook in budget revenues with an annual increase of 102.4% yoy.



Budget expenditures declined on a monthly basis in July.

Central government budget expenditures, which were realized as 455.8 billion TRY in July, decreased by 6.6% mom. In this period, current transfers contracted by 30.2% mom and was the main driver of the decline in budget expenditures. On the other hand, personnel expenditures, which increased by 29.9% mom due to wage hikes' booster effect on salaries and compensation item, accounted for 30.7% of total budget expenditures. In July, interest expenditures amounted to 37.7 billion TRY and expenditures related to the FX-protected deposit accounts amounted to 34.5 billion TRY due to the rise in foreign exchange rates. Hence, the total cost of the FX-protected deposit accounts to the central government budget amounted to 59.5 billion TRY in January-July period.



**Expectations...**

After posting a historical high deficit in June, the central government budget posted a surplus in July thanks to the rise in tax revenues. Thus, in January-July period budget deficit declined to 65.9% of the year-end target. We anticipate that the improvement in budget revenues will continue in the upcoming period, while the pressure on budget expenditures will ease with the transfer of FX-protected deposit account expenditures to CBRT. The Medium Term Program, which is planned to be announced in September, will be closely monitored in terms of the signals it will convey regarding the policies to be pursued by the new economic administration.

## Central Government Budget

	July			January-July			(billion TRY)	
	2022	2023	% Change	2022	2023	% Change	2023 Budget Target	Real./ Budget Target (%)
<b>Expenditures</b>	<b>261.0</b>	<b>455.8</b>	<b>74.7</b>	<b>1,432.8</b>	<b>2,819.4</b>	<b>96.8</b>	<b>4,469.6</b>	<b>63.1</b>
Interest Expenditures	16.7	37.7	125.9	151.3	313.0	106.8	565.6	55.3
Non-Interest Expenditures	244.3	418.1	71.2	1,281.5	2,506.5	95.6	3,904.0	64.2
<b>Revenues</b>	<b>197.0</b>	<b>504.4</b>	<b>156.1</b>	<b>1,462.4</b>	<b>2,384.8</b>	<b>63.1</b>	<b>3,810.1</b>	<b>62.6</b>
Tax Revenues	168.8	450.3	166.7	1,202.6	2,052.6	70.7	3,199.5	64.2
Other Revenues	28.1	54.1	92.3	259.8	332.1	27.9	610.6	54.4
<b>Budget Balance</b>	<b>-64.0</b>	<b>48.6</b>	<b>-</b>	<b>29.5</b>	<b>-434.7</b>	<b>-</b>	<b>-659.4</b>	<b>65.9</b>
<b>Primary Balance</b>	<b>-47.3</b>	<b>86.3</b>	<b>-</b>	<b>180.9</b>	<b>-121.7</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 August, CPI rose by 9.09% mom.

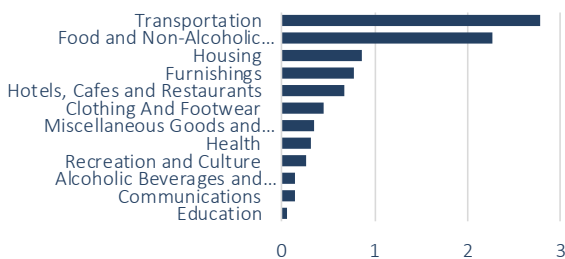
In August, monthly CPI inflation came in at 9.09%, well above the market expectations. Markets were expecting the monthly rise in CPI would be 7% in this period. Thus, annual CPI inflation rose to 58.94%, while the increase in the first eight months of the year was 43.1%. In August, D-PPI rose by 5.89%. In this period, annual increase in D-PPI was 49.41%, while the rise since December was 31.59%.

August (change%)	CPI		D-PPI	
	2022	2023	2022	2023
Monthly	1.46	9.09	2.41	5.89
Year-to-Date	47.85	43.06	74.13	31.59
Annual	80.21	58.94	143.75	49.41
Annual Average	54.69	56.28	105.39	71.97

### Transportation and food groups continued to be the main drivers of CPI inflation.

In August, prices increased in all 12 main expenditure groups. In this period, transportation group, where prices went up by 16.6% mom due to the rise in fuel prices, made the highest contribution to monthly inflation by 2.78 points. In August, food prices rose by 8.48% mom, pushing monthly inflation up by 2.27 points as well. Prices of services remained rigid in August, while tax hikes and the depreciation in TRY pushed prices of goods up significantly.

Contributions to the Monthly CPI Inflation  
(basis points)

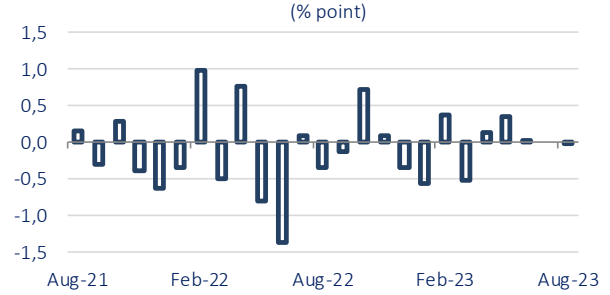


### Core inflation indicators...

In August, monthly CPI inflation excluding seasonal products was realized as 9.12%, in line with the headline inflation, indicating that seasonal factors were not influential on inflation. In this period, prices in transportation services recorded the fastest monthly increase of all times with 27.62%. In the same period, B index (CPI excluding unprocessed food, energy, alcoholic beverages, tobacco and gold) rose by 9.32% mom, slightly above the headline inflation, while C index (CPI excluding

energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) rose by 8.89%. Thus, annual increases in B and C indices remained above the headline inflation at 63.52% and 64.85%, respectively. This situation indicates that the upward trend in CPI inflation may continue in the upcoming period.

Contribution of Seasonal Factors to Monthly  
CPI Inflation



### Energy and food prices were the main drivers of D-PPI inflation.

In August, increases in energy and food prices were the main drivers of D-PPI inflation. In this period, coke, refined and petroleum products surged rapidly by 18.9% mom and pushed D-PPI inflation up by 103 bps, while electricity, gas production and distribution group contributed to the rise in D-PPI by 63 bps. Food prices also rose by 5.26% mom, pushing D-PPI up by 93 bps. The rise in all sub-items of D-PPI in August reinforced the concerns about the course of inflation.

### Expectations...

In August, the main drivers of the deterioration in inflation indicators were rapid increases in energy, transportation, and food prices. We anticipate that the high rate of inflation will continue in the coming period due to seasonal factors and the increase in tobacco product prices as of September. However, the effects of CBRT's interest rate hikes and tightening decisions on demand as well as the course of foreign exchange rates, global energy and food prices will continue to be influential on inflation figures.

	31-Jul	31-Aug	Change
5-Y CDS (basis points)	373	377	4 bps ▲
TR 2-Y Benchmark Yield*	15.37%	22.20%	683 bps ▲
BIST-100*	7,169	8,141	13.6% ▲
USD/TRY	26.8955	26.6502	-0.9% ▼
EUR/TRY	29.5341	28.8899	-2.2% ▼
Currency Basket**	28.2148	27.7701	-1.6% ▼

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

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

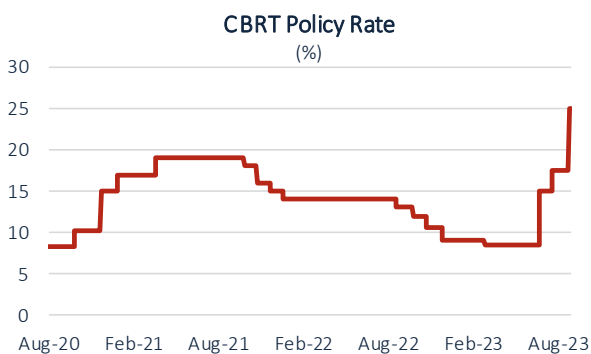
### Global markets remained under pressure in August.

The expectations that interest rates in advanced economies would be kept at high levels for a long time and the performance of the Chinese economy which could not display the expected recovery caused global markets to remain under pressure in August. In this period, MSCI global and emerging market stock indices fell by 2.6% and 6.4%, respectively. In August, DXY index rose by 1.7% mom and US bond yields reached their highest levels since the 2008 crisis. The gold price ended August at 1,940 ounce/USD after hitting its lowest level since March at 1,888 USD.

Having diverged positively from global stock market indices in August, the BIST-100 index tested the 8,000 level towards the end of the month. The index rose by 9.7% mom and closed August at 7,918. Turkey's 5-year CDS premium, which fluctuated throughout August, was realized as 377 basis points at the end of the month as the CBRT's interest rate decision was welcomed by the markets. In August, when Turkish lira appreciated slightly against USD and EUR, 2-year benchmark bond yield increased by 466 bps to 19.36%.

### CBRT raised its policy rate to 25%.

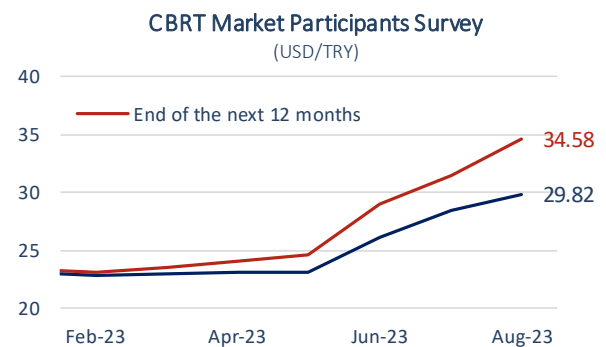
At its meeting held on August 24<sup>th</sup>, CBRT raised the policy rate by 750 basis points to 25%, above market expectations. Thus, the policy rate reached its highest level for the last 19 years. According to minutes published after the meeting, it was predicted that year-



end CPI inflation would be close to 62%, the upper bound of the forecast range in the last Inflation Report, due to the strong course of domestic demand, exchange rate pressures on the cost side, tax adjustments and the recent increase in oil prices. The CBRT pointed to 2024 for the disinflation period. In the minutes, it was reiterated that the gradual monetary tightening process will continue in order to anchor inflation expectations and contain the deterioration in pricing behavior. Moreover, it was stated that regulations to increase the share of Turkish lira deposits would strengthen the monetary transmission mechanism, and selective credit and quantitative tightening decisions would continue.

### Exchange rate expectations rose in the CBRT survey.

According to the results of CBRT's Survey of Market Participants, USD/TRY expectations rose in August. In this period, year-end and 12-month ahead expectations for USD/TRY exchange rate reached 29.82 TRY and 34.58 TRY, respectively. In the previous survey period, these expectations were realized as 28.46 TRY and 31.42 TRY, respectively. In the survey, growth expectation for 2023 remained unchanged at 3.7%, while it slightly deteriorated from 4.3% to 4% for 2024.



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

According to the securities statistics released by CBRT, non-residents' equity portfolio adjusted for price changes and exchange rate movements decreased by 378 million USD as of August 25, compared to the end of July. In the same period, GDDS portfolio, which is adjusted for price changes and exchange rate movements, increased by 408 million USD. Thus, while foreign capital outflows in the equity market totalled 190 million USD since the year-end, non-residents' net purchases in the government securities market reached 975 million USD.

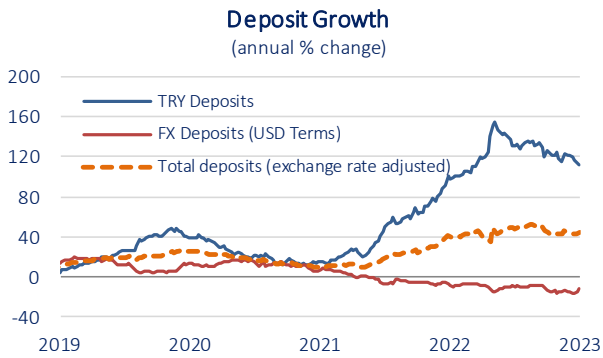
Source: CBRT, Datastream, Reuters,



### The volume of FX-protected deposit accounts declined to TRY 3.4 trillion.

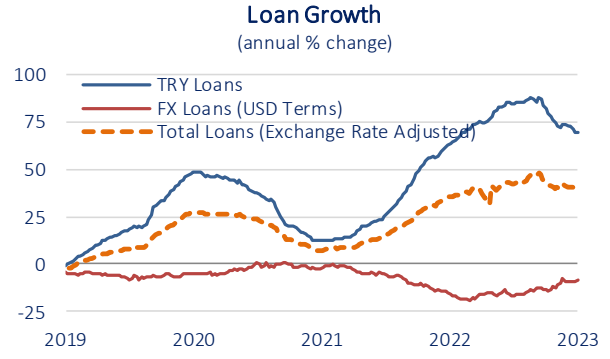
According to BRSA's weekly data, as of August 25, total deposit volume increased by 65.7% yoy to 12.9 trillion TRY. In this period, the exchange rate adjusted annual rate of increase in total deposits was realized as 43.6%. TRY deposits increased by 112.3% yoy, while FX deposits in USD terms declined by 12.8% yoy. Thus, the share of TL deposits in total deposits became 57.8%. As of August 25, the volume of FX-protected deposit accounts declined on a weekly basis for the first time since December and stood at 3.4 trillion TRY.

As part of the simplification process, the CBRT terminated the target for conversion of FX deposits into FX-protected deposit accounts and the practice of securities placement and reserve requirements based on the TL share. On the other hand, the CBRT decided to target for conversion from accounts with FX-protection provided by the Central Bank to Turkish lira accounts and for renewal of FX-protected accounts at a certain ratio as well as increment for the share of Turkish lira accounts without FX protection.



### Total loan volume reached 10.3 trillion TRY.

As of August 25, total loan volume of the banking sector expanded by 56.1% yoy to 10.3 trillion TRY. In this period, TRY loans, which increased by 69.7% yoy and exceeded TL 7 trillion, accounted for 67.9% of total loan volume. FX loans in USD terms contracted by 8.4% yoy to 126.1 billion USD, the lowest level for the last ten years. Thus, the exchange rate-adjusted annual rise in total loan volume was realized as 40.4%.

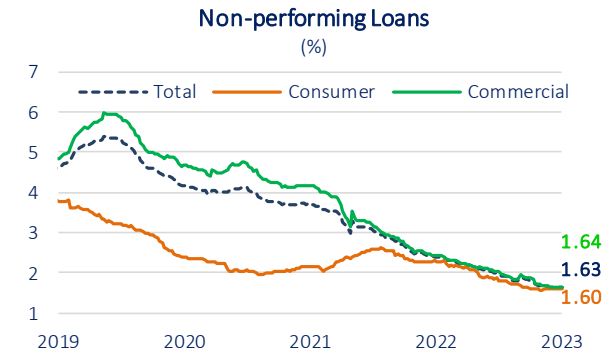


### The increase in consumer loans remained flat.

As of August 25, the annual rise in consumer loans realized as 52.5%, parallel to its level in July. In this period, although the annual rise in consumer credit card expenditures lost some momentum, it continued to remain well above the inflation rate with 182%.

### NPL ratio became 1.63%.

As of August 25, non-performing loans ratio in the banking sector was realized as 1.63%. In this period, non-performing loans ratio was 1.60% and 1.64% for retail and commercial loans, respectively.



### Foreign currency net general position...

As of August 25, on-balance sheet FX position was (-) 37,458 million USD while off-balance sheet FX position was (+) 42,049 million USD. Thus, net foreign currency position became (+) 4,591 million USD.

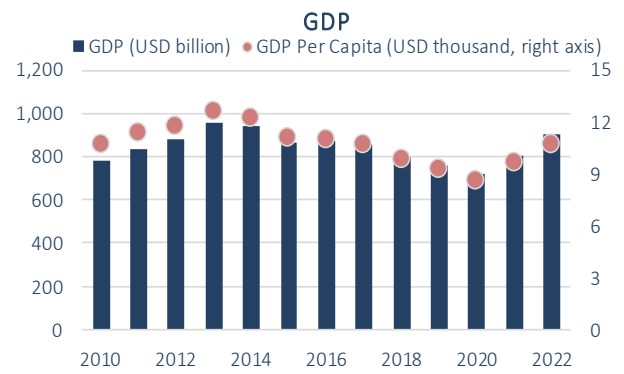
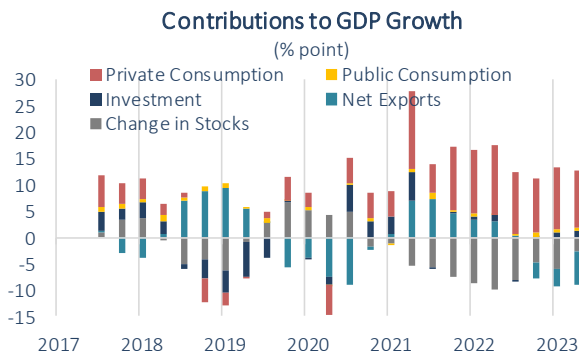
## Concluding Remarks

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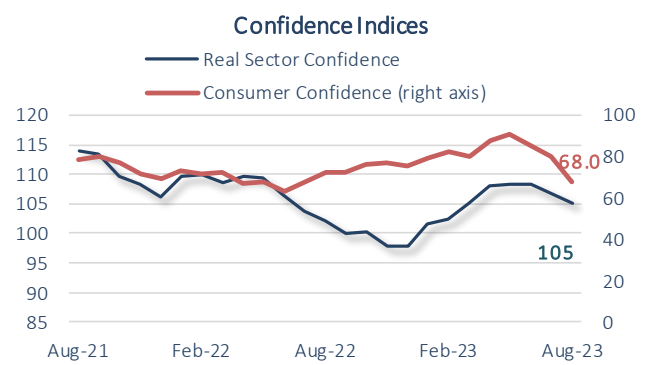
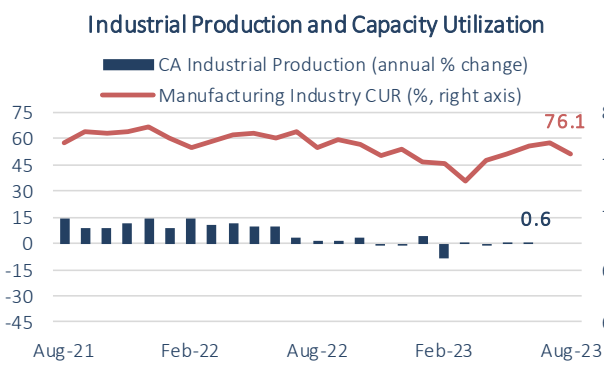
In August, PMI data for advanced economies pointed out that the weak course in the manufacturing sector continued. Moreover, the messages given at the Jackson Hole symposium and the statements of central bank officials in advanced economies were closely monitored. Accordingly, global risk appetite remained under pressure due to expectations that the tight monetary policy stance may last longer than anticipated. On the other hand, in the US, which presents a relatively stronger economic outlook, messages of the Fed members, indicate that there is no clear consensus on the central bank's next steps. The decisions of international organizations on the credit ratings and outlooks of the US and its banks show that concerns about the country's high debt burden persist. The weak economic activity in the Euro Area, where CPI inflation was slightly above expectations, put pressure on expectations that the ECB will continue to raise interest rates. In China, where weak demand conditions have resulted in deflation, the central bank has announced various stimulus packages as well as lowered the one-year loan interest rate to stimulate economic activity.

In the second quarter of 2023, Turkish economy grew by 3.8% yoy thanks to the continued strong course of consumption expenditures and the recovery in investment expenditures. Yet, weak global demand conditions caused net exports to restrain growth. In August, the normalization steps in economic policies and the decisions taken regarding macroprudential measures continued to be high on the agenda in Türkiye. CBRT raised the policy rate by 750 basis points to 25%, well above market expectations, and made regulations to increase the share of TRY deposits as part of the simplification process. While ISO Türkiye Manufacturing PMI data showed that the slowdown in the sector continued in August, the rapid decline in consumer confidence signals that domestic demand may remain under pressure in the upcoming period. The Medium Term Program, which will be published in September, will be closely monitored in terms of the messages it will give regarding the policies to be pursued by the economic administration.

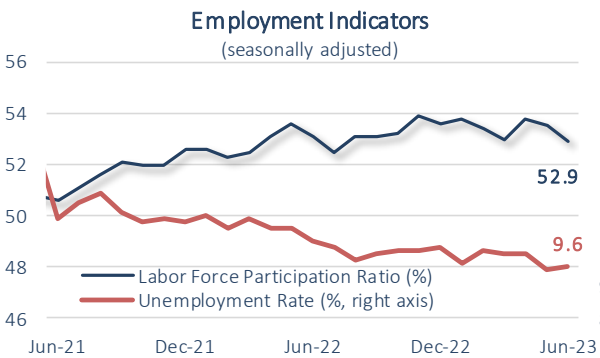
Growth



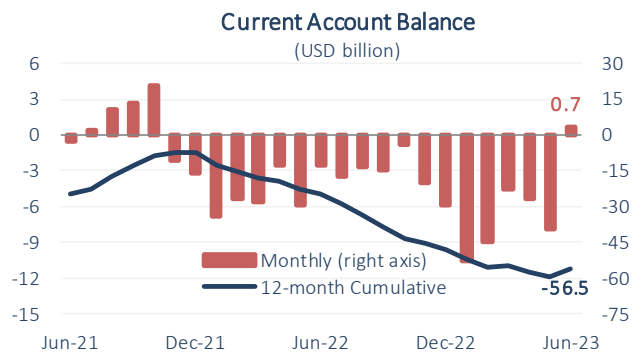
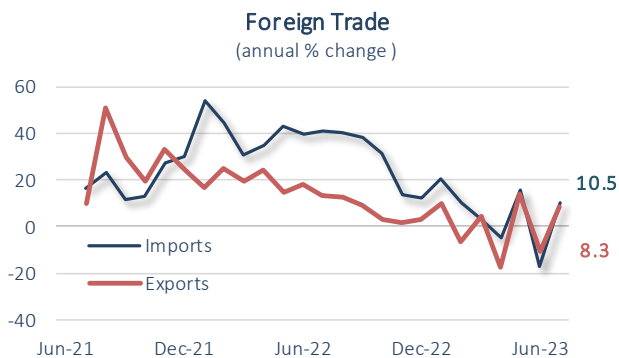
Leading Indicators



Labor Market



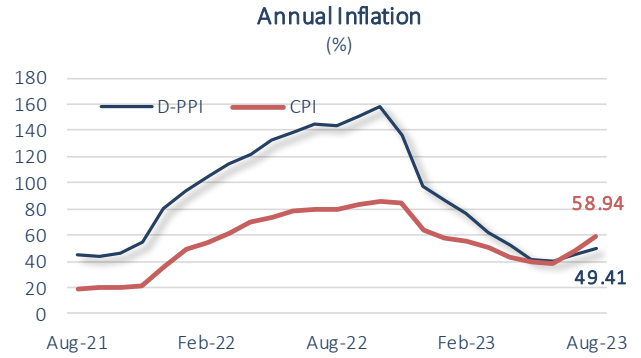
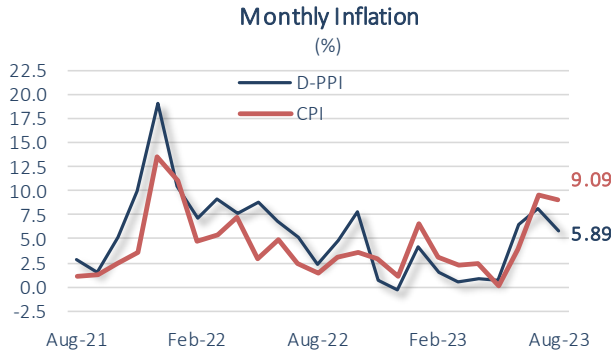
Foreign Trade and Current Account Balance



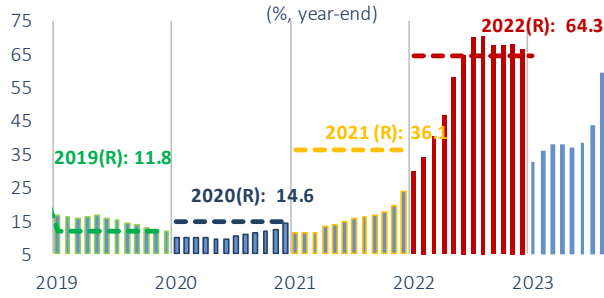
(CA) Calendar adjusted

Source: Datastream, CBRT, Turkstat

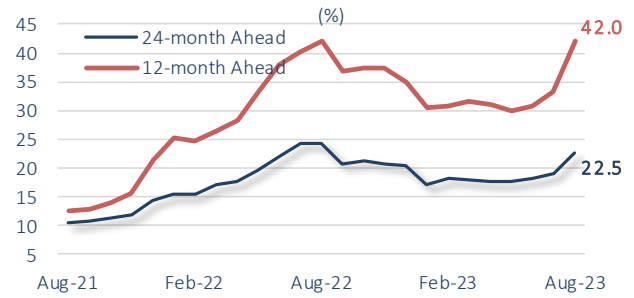
Inflation



CBRT Survey of Market Participants - Annual CPI Inflation Expectations

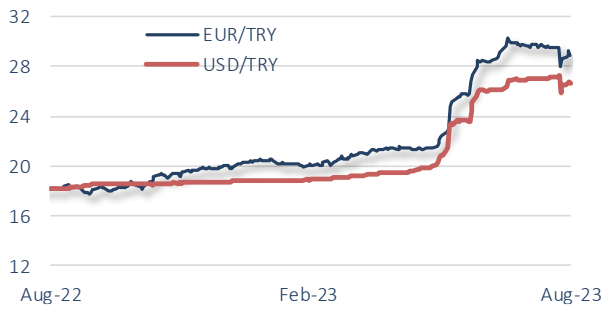


CBRT Survey of Market Participants - 12 & 24-month Ahead CPI Inflation Expectations

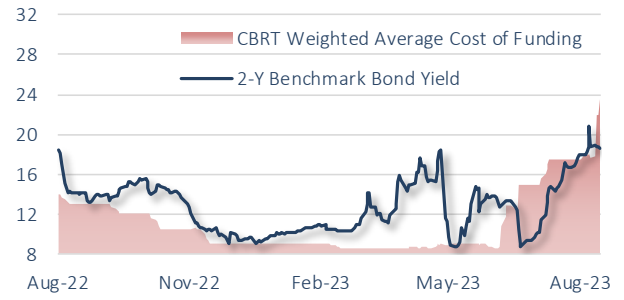


Foreign Exchange and Bond Market

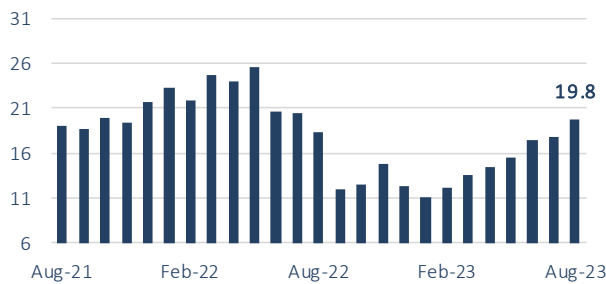
Exchange Rates



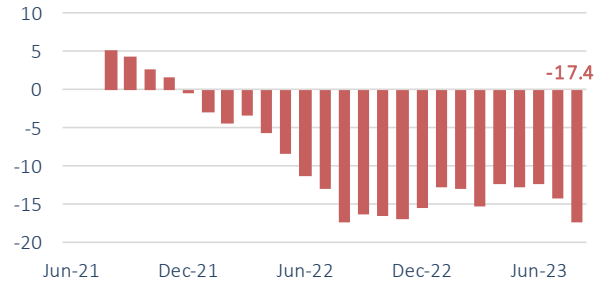
CBRT WACOF and 2-Y Benchmark Bond Yield (%)



Average Compound Yield in Treasury Auctions (%)



Expected Real Yield of TRY GDDIs (%)



## Turkish Economy - Macroeconomic Indicators

Growth	2018	2019	2020	2021	2022	Q1-23	Q2-23	
GDP (USD billion)	798	760	717	808	906	246	271	
GDP (TRY billion)	3,761	4,318	5,049	7,256	15,012	4,642	5,502	
GDP Growth Rate (%)	3.0	0.8	1.9	11.4	5.5	3.9	3.8	
Inflation (%)						Jun-23	Jul-23	Aug-23
CPI (annual)	20.30	11.84	14.60	36.08	64.27	38.21	47.83	58.94
Domestic PPI (annual)	33.64	7.36	25.15	79.89	97.72	40.42	44.50	49.41
Seasonally Adjusted Labor Market Figures						Apr-23	May-23	Jun-23
Unemployment Rate (%)	12.7	13.4	12.6	11.0	10.2	10.0	9.5	9.6
Labor Force Participation Rate (%)	53.2	52.6	49.1	52.6	53.6	53.8	53.5	52.9
FX Rates						Jun-23	Jul-23	Aug-23
CPI Based Real Effective Exchange Rate	76.3	76.0	61.9	47.6	54.8	51.7	48.8	
USD/TRY	5.32	5.95	7.43	13.28	18.72	26.07	26.93	26.66
EUR/TRY	6.08	6.68	9.09	15.10	19.98	28.44	29.69	28.93
Currency Basket (0.5*EUR+0.5*USD)	5.70	6.32	8.26	14.19	19.35	27.26	28.31	27.80
Foreign Trade Balance <sup>(1)</sup> (USD billion)						May-23	Jun-23	Jul-23
Exports	177.2	180.8	169.6	225.2	254.2	254.2	251.7	253.2
Imports	231.2	210.3	219.5	271.4	363.7	376.5	371.0	374.0
<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>-122.3</b>	<b>-119.3</b>	<b>-120.8</b>
Import Coverage Ratio (%)	76.6	86.0	77.3	83.0	69.9	67.5	67.8	67.7
Balance of Payments <sup>(1)</sup> (USD billion)						Apr-23	May-23	Jun-23
<b>Current Account Balance</b>	<b>-20.2</b>	<b>10.8</b>	<b>-31.9</b>	<b>-7.2</b>	<b>-48.4</b>	<b>-57.7</b>	<b>-59.7</b>	<b>-56.5</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>-45.8</b>	<b>-57.0</b>	<b>-50.4</b>
Direct Investments (net)	-8.9	-6.6	-4.6	-6.9	-8.1	-8.9	-7.0	-6.1
Portfolio Investments (net)	0.9	2.8	9.6	-0.8	13.4	9.6	6.6	3.1
Other Investments (net)	19.4	2.6	-12.6	-21.7	-42.3	-40.7	-40.2	-44.3
Reserve Assets (net)	-10.4	6.3	-31.9	23.3	12.3	-5.7	-16.3	-3.2
<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>12.0</b>	<b>2.9</b>	<b>6.2</b>
<b>Current Account Balance/GDP (%)</b>	<b>-2.5</b>	<b>1.4</b>	<b>-4.4</b>	<b>-0.9</b>	<b>-5.3</b>	-	-	-
Budget <sup>(2)(3)</sup> (TRY billion)						May-23	Jun-23	Jul-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>1,875.7</b>	<b>2,363.6</b>	<b>2,819.4</b>
Interest Expenditures	74.0	99.9	134.0	180.9	310.9	237.9	275.2	313.0
Non-interest Expenditures	756.8	900.1	1,069.8	1,422.7	2,630.5	1,637.8	2,088.3	2,506.5
<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>1,612.1</b>	<b>1,880.3</b>	<b>2,384.8</b>
Tax Revenues	621.5	673.9	833.3	1,165.0	2,353.3	1,371.2	1,602.3	2,052.6
<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>-263.6</b>	<b>-483.2</b>	<b>-434.7</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>-25.7</b>	<b>-208.0</b>	<b>-121.7</b>
<b>Budget Balance/GDP (%)</b>	<b>-1.9</b>	<b>-2.9</b>	<b>-3.5</b>	<b>-2.8</b>	<b>-0.9</b>	-	-	-
Central Government Debt Stock (TRY billion)						May-23	Jun-23	Jul-23
Domestic Debt Stock	586.1	755.1	1,064.3	1,354.8	1,905.3	2,348.1	2,575.6	2,643.1
External Debt Stock	481.0	574.0	773.4	1,490.0	2,127.9	2,386.3	3,041.8	3,179.9
<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>4,734.4</b>	<b>5,617.4</b>	<b>5,823.0</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	Jun.23	Jul.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>19,102</b>	<b>19,966</b>	<b>39.2</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>10,010</b>	<b>10,323</b>	<b>36.2</b>
TRY Loans	1,439	1,642	2,353	2,832	5,110	6,690	6,886	34.8
Share (%)	60.1	61.8	65.8	57.8	67.4	67	66.7	-1.0
FX Loans	956	1,015	1,224	2,069	2,471	3,320	3,437	39.1
Share (%)	39.9	38.2	34.2	42.2	32.6	33	33.3	2.1
Non-performing Loans	96.6	150.8	152.6	160.1	163.4	168	169.7	3.9
Non-performing Loan Rate (%)	3.9	5.3	4.1	3.2	2.1	2	1.6	-23.3
<b>Securities</b>	<b>477</b>	<b>660</b>	<b>1,022</b>	<b>1,476</b>	<b>2,370</b>	<b>3,220</b>	<b>3,374</b>	<b>42.3</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>19,102</b>	<b>19,966</b>	<b>39.2</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>11,651</b>	<b>12,456</b>	<b>40.6</b>
TRY Deposits	1,042	1,259	1,546	1,880	4,779	6,586	7,113	48.8
Share (%)	51.2	49.0	44.7	35.5	53.9	57	57.1	5.9
FX Deposits	994	1,308	1,909	3,423	4,083	5,065	5,343	30.9
Share (%)	48.8	51.0	55.3	64.5	46.1	43	42.9	-6.9
<b>Securities Issued</b>	<b>174</b>	<b>194</b>	<b>224</b>	<b>310</b>	<b>325</b>	<b>426</b>	<b>444</b>	<b>36.4</b>
<b>Payables to Banks</b>	<b>563</b>	<b>533</b>	<b>658</b>	<b>1,048</b>	<b>1,432</b>	<b>2,020</b>	<b>2,082</b>	<b>45.4</b>
<b>Funds from Repo Transactions</b>	<b>97</b>	<b>154</b>	<b>255</b>	<b>587</b>	<b>540</b>	<b>775</b>	<b>565</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>1,688</b>	<b>1,799</b>	<b>27.9</b>
Profit (Loss) of the Period	54.1	49.0	58.5	93.0	431.6	250.1	293.4	-32.0
<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	52.4	51.7	-
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	61.0	62.4	-
Loans/Deposits	117.6	103.5	103.5	92.4	85.5	85.9	82.9	-
Capital Adequacy (%)	17.3	18.4	18.7	18.4	19.5	18.0	18.7	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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