October 2023

Global Economy

OECD raised its global economic growth forecast for 2023 from 2.7% to 3%. The organization stated that the weaker-than-expected recovery in China will put pressure on global growth, as well as evident effects of tight monetary policy, and lowered its growth forecast for 2024 from 2.9% to 2.7%.

In the US, where economic activity continued its moderate course, annual CPI inflation rose to 3.7% in August.

In the Euro Area, PMI data remained below the threshold in September, indicating that the weak outlook in economic activity continued.

Meetings of major central banks were closely monitored in September. Fed and BoE kept their policy rates unchanged, while the ECB raised its key interest rates by 25 basis points each. In this period, statements by the officials of major central banks indicated that tight monetary policy stance will continue for a while.

While leading indicators in China signaled some recovery in economic activity, the People's Bank of China (PBoC) kept interest rates unchanged in September to prevent a possible depreciation in yuan.

Oil prices, which rose by 8.7% in September to their highest level since November 2022 due to supply disruptions, caused concerns about global inflation to rise.

Turkish Economy

The Medium Term Program (MTP), covering the period 2024-2026, was published in the Official Gazette dated September 6, 2023. According to the Program, the growth forecast for Turkish economy was set as 4.4% and 4.0% for 2023 and 2024, respectively.

In July, seasonally adjusted unemployment rate was realized as 9.4%, the lowest level since January 2014.

According to calendar adjusted figures, industrial production index rose by 7.4% yoy in July, the fastest increase in 13 months.

Although ISO Türkiye Manufacturing PMI rose to 49.6 in September, it remained below the threshold value throughout the third quarter, indicating that operating conditions in manufacturing industry followed a weak course.

In August, house sales declined by 1.1% yoy but remained at 122K units, the highest level since the beginning of the year.

Current account deficit increased by 58.1% yoy to 5.5 billion USD in July and reached 58.5 billion USD according to 12-month cumulative figures.

In August, central government budget posted a surplus of 51.3 billion TRY thanks to the support of tax revenues that doubled on an annual basis. Thus, the budget deficit in January-August period was realized as 383.4 billion TRY, 23.5% of the deficit projected for 2023 in the MTP.

In September, CPI increased by 4.75% mom and 61.53% yoy, respectively. Domestic PPI also rose by 3.40% mom and 47,44 yoy in this period.

At its September meeting, CBRT raised the policy rate by 500 basis points to 30% in line with market expectations. In the text of the meeting, CBRT stated that the increase in domestic and foreign demand for Turkish lira assets would contribute to price stability.

International credit rating agencies Fitch and S&P affirmed Türkiye's credit rating at "B" and revised the rating outlook from "negative" to "stable".

Economic Research Division

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

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

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

Berkay Arık
Asst. Economist
berkay.arik@isbank.com.tr

Utkan İnam
Asst. Economist
utkan.inam@isbank.com.tr

Unemployment rate fell to its lowest level in 9 years in July.

In July, seasonally adjusted unemployment rate decreased by 0.2 points compared to June and was realized as 9.4%, the lowest level since January 2014. This development was driven by an increase in employment by 318K persons against a rise in labor force participation of 280K persons. Thus, the employment rate rose to 48.4% and the labour underutilization rate, the broadest defined unemployment rate, decreased by 1.5 points compared to June and was realized as 22.7%. In this period, youth unemployment rate became 18%.

Industrial production index rose by 7.4% yoy in July.

According to calendar adjusted figures, industrial production index rose by 7.4% yoy in July, the fastest increase in the last 13 months. On the other hand, according to seasonally and calendar adjusted figures, the index fell by 0.4% mom in July. In this period, the 10.5% monthly increase of production in the mining and quarrying sector stood out. The sector has been performing weak since May 2022. In July, production in electricity, gas and steam sector increased by 3.7% mom while it decreased by 1.4% mom in manufacturing industry. While production declined in half of the 24 sub-sectors of the manufacturing industry, the contractions in manufacture of other transportation vehicles sector (-17.9%) and in computers, electronic and optical products sector (-10.7%) were noteworthy. On the other hand, production of basic pharmaceutical products rose sharply by 14.8% mom.

Istanbul Chamber of Industry Türkiye Manufacturing PMI rose to 49.6 in September.

Türkiye Manufacturing sector PMI, published by Istanbul Chamber of Industry, recorded an increase for the first time since April and became 49.6 in September. Thus, the index remained below the threshold value throughout the third quarter, and signaled that operating conditions in manufacturing industry followed a weak course. In September, manufacturing activity signaled an improvement with a lower contraction compared to August, while the employment index posted a limited increase, extending its expansionary trend to its fifth month. The common view of surveyed firms was that the increases in input costs and final product prices slowed down significantly compared to August. Analyzing the sectoral PMI data for September, it was observed that the index remained below the threshold value in all sectors except food products, while the most negative assessment regarding production activities was recorded in textile products sector.

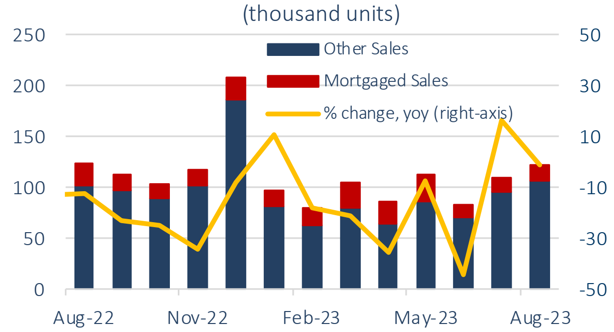
Demand indicators follow a volatile course.

Following a flat course in June, retail sales volume at constant prices increased by 2.7% mom in July. On the other hand, according to the data released by CBRT, CPI-adjusted monthly average debit and credit card expenditures decreased by 3.1% mom in August, indicating a loss of momentum in domestic demand. According to 4-week averages, real expenditures on airline transportation decreased by 24.8% in August, and expenditures on grocery stores, shopping malls and fuel expenditures also followed a downward trend. In this period, expenditures on clothing and accessories, electrical-electronic goods and computers continued to increase.

House sales in August were at the highest level of the year.

House sales, which increased by 16.7% yoy in July thanks to the low base effect, decreased by 1.1% yoy in August. However, 122K units were sold in this period, the highest sales figure since the beginning of the year. In August, mortgaged sales decreased by 26.1% yoy, while other sales, which increased by 4.3% yoy, accounted for 86.6% of total sales. Analyzing the data by sales status, new house sales decreased by 9.5% in the said period, while second-hand sales, which account for approximately 70% of total sales, recorded a limited rise of 2.7%. The 42% annual decline in sales to foreigners in August was noteworthy. Thus, total house sales in January-August period decreased by 15.5% compared to the same period of 2022.

According to the data released by CBRT, the house price index increased by 7.3% mom in July, below the monthly CPI inflation for the first time since December 2021. Annual nominal increase in house prices was realized as 94.7%, the lowest level of the last 18 months, while the real increase in prices was 31.2%.



Consumer confidence index rose by 5.1% mom in September.

In September, consumer confidence index recorded a monthly increase for the first time since May. According to seasonally adjusted figures, the index, which fell to 68.1 in August, the lowest level of the last 15 months, rose by 5.1% mom to 71.5 in September. Analyzing the sub-indices, expectations for the next 12 months generally improved. In this period, seasonally adjusted real sector confidence index rose by 0.5 points mom to 105.1 in line with the improvement in assessments regarding the general outlook and total employment in the next 3 months. On the other hand, sectoral confidence indices increased by 3% and 1% respectively in retail trade and construction sectors, and decreased by 2% in services sector. Hence, economic confidence index rose to 95.4 in September.

Source: CBRT, Datastream, ISO, Turkstat

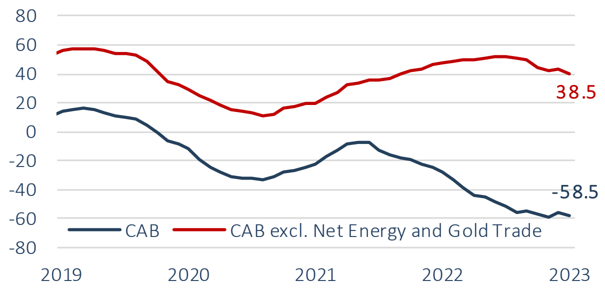
Foreign trade deficit was 12.2 billion USD in July.

According to the released by TURKSTAT, Türkiye's exports increased by 8.3% yoy to 20.1 billion USD in July, while imports rose by 10.5% yoy to 32.3 billion USD. Thereby, foreign trade deficit widened by 14.2% yoy to 12.2 billion USD. In July, the import coverage ratio continued to remain at low levels with 62.2%.

Current account deficit was realized as 5.5 billion USD.

In July, current account deficit increased by 58.1% yoy to 5.5 billion USD. According to the Reuters poll, current account deficit was estimated to be 4.5 billion USD in this period. The rapid rise in the current account deficit was mainly driven by expanding foreign trade deficit due to the 45.8% yoy increase in net gold imports. In July, current account excluding gold and energy posted a surplus of 717 million USD. On the other hand, the favorable course in passenger transportation and tourism revenues limited the widening in the current account deficit as they were in June. In July, net 7 billion USD revenues were recorded from these two items. In the first 7 months of the year, current account deficit increased by 31.4% yoy to 42.3 billion USD, and it reached 58.5 billion USD according to 12-month cumulative figures.

Current Account Balance
(12-month cumulative, USD billion)



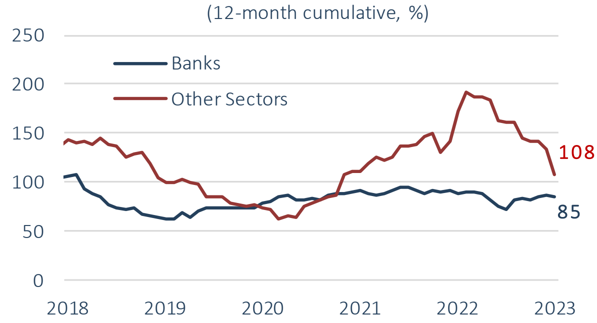
The moderate course in foreign direct investments continued.

In July, net foreign direct investments in Türkiye were realized as 392 million USD, the highest level of the last 3 months. In this period, non-residents' net capital investments in Türkiye increased rapidly compared to June and became 510 million USD, while real estate investments were realized as 206 million USD, the lowest level since May 2021. In January-July period, net foreign direct investments decreased by 47.3% yoy to 2.5 billion USD.

Capital inflows continued in portfolio investments.

Portfolio investments posted a net capital inflow of 1.2 billion USD in July, following the strong capital inflow of 1.8 billion USD in June. In this period, non-residents' net purchases in the equity market continued to increase and became 734 million USD, while debt securities market recorded the highest capital inflow since February with 368 million USD. Thus, portfolio investments recorded a net capital inflow of 49 million USD in the first 7 months of the year. In the same period of the previous year, portfolio investments had posted a net capital outflow of 12.2 billion USD.

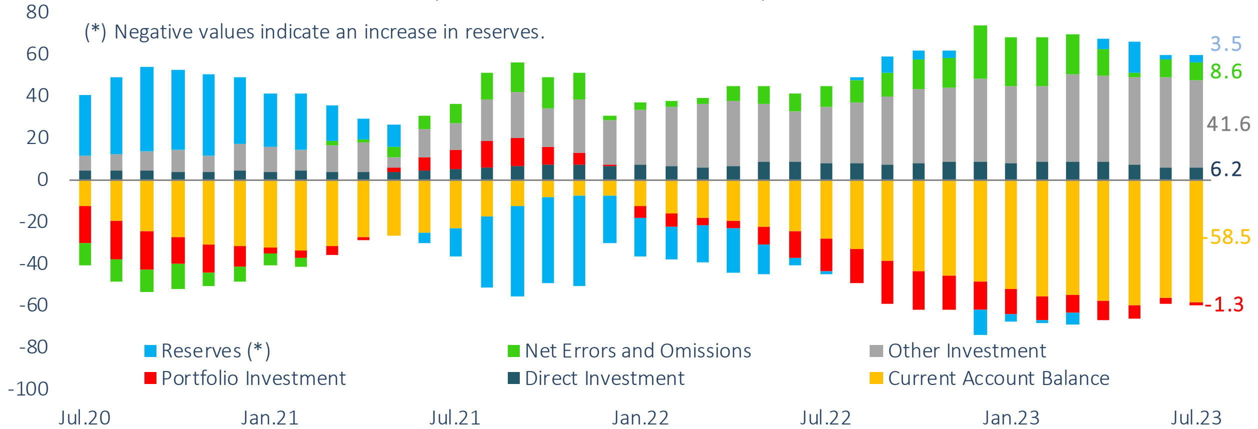
Long-term Debt Rollover Ratios
(12-month cumulative, %)



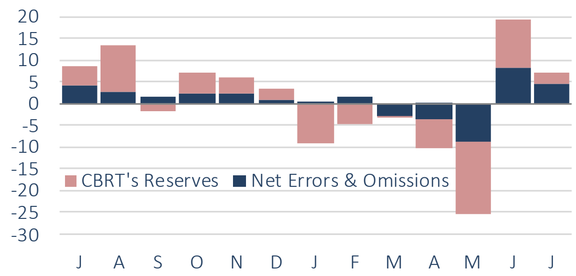
Other investments recorded a capital inflow of 2.3 billion USD.

In July, other investments presented the most favorable outlook of the last 3 months with a net capital inflow of 2.3 billion USD. In this period, foreign banks' effectives and deposits in Türkiye

Net Capital Flows
(12-month cumulative, billion USD)



increased by 980 million USD, while domestic banks' effective and deposits at their correspondents abroad decreased by 942 million USD. In July; banking sector, General Government and other sectors made net loan payments abroad amounting to 483 million USD, 35 million USD and 181 million USD, respectively. According to 12-month cumulative figures, long-term debt rollover ratios in banking and other sectors declined to 85% and 108%, respectively.



Reserve assets and net errors and omissions...

In July, reserve assets increased by 2.8 billion USD, while the total decline in reserve assets in the first 7 months of the year was 23.8 billion USD. Net errors and omissions item, which recorded a capital inflow of 8.2 billion USD in June, continued in July with an increase of 4.4 billion USD. In January-July 2023 period, capital outflows from this item amounted to 711 million USD.

Expectations...

According to preliminary data released by the Ministry of Trade, foreign trade deficit remained high with 8.9 billion USD in August. In addition to relatively high oil prices due to the decisions taken for the continuation of production cuts, the fact that the export climate index, which shows the course of economic activity in Türkiye's export markets, fell below the threshold value in August indicates that risks on the foreign trade balance will continue. On the other hand, we consider that the positive outlook in financing side of the current account deficit may continue thanks to the recent evaluations made by international credit rating agencies regarding the Turkish economy.

Balance of Payments (USD million)

	Jul. 2023	Jan. - Jul. 2022	Jan. - Jul. 2023	% Change	12-month Cumulative
Current Account Balance	**-5,466**	**-32,178**	**-42,286**	**31.4**	**-58,517**
Foreign Trade Balance	-10,477	-50,165	-61,261	22.1	-100,617
Services Balance	5,999	24,132	25,730	6.6	51,667
Travel (net)	4,795	18,523	20,760	12.1	39,554
Primary Income	-903	-5,498	-6,881	25.2	-9,969
Secondary Income	-85	-647	126	-	402
Capital Account	**-25**	**-30**	**-110**	**266.7**	**-115**
Financial Account	**-1,078**	**-16,030**	**-43,107**	**168.9**	**-50,033**
Direct Investment (net)	-392	-4,771	-2,514	-47.3	-6,180
Portfolio Investment (net)	-1,160	12,169	-49	-	1,310
Net Acquisition of Financial Assets	-58	4,421	1,712	-61.3	1,786
Net Incurrence of Liabilities	1,102	-7,748	1,761	-	476
Equity Securities	734	-3,580	229	-	-229
Debt Securities	368	-4,168	1,532	-	705
Other Investment (net)	-2,304	-15,503	-16,789	8.3	-41,644
Currency and Deposits	-2,699	-11,571	-12,895	11.4	-37,222
Net Acquisition of Financial Assets	-879	5,249	9,007	71.6	-2,738
Net Incurrence of Liabilities	1,820	16,820	21,902	30.2	34,484
Central Bank	32	4,434	13,667	208.2	16,550
Banks	1,788	12,386	8,235	-33.5	17,934
Foreign Banks	980	8,418	6,182	-26.6	9,516
Foreign Exchange	1,186	5,106	3,689	-27.8	6,212
Turkish Lira	-206	3,312	2,493	-24.7	3,304
Non-residents	808	3,968	2,053	-48.3	8,418
Loans	931	-2,348	141	-	-1,329
Net Acquisition of Financial Assets	232	958	89	-90.7	-1,157
Net Incurrence of Liabilities	-699	3,306	-52	-	172
Banking Sector	-483	-2,845	307	-	-2,601
Non-bank Sectors	-181	5,744	87	-98.5	2,456
Trade Credit and Advances	-520	-1,543	-3,998	159.1	-3,044
Other Assets and Liabilities	-16	-41	-37	-9.8	-49
Reserve Assets (net)	2,778	-7,925	-23,755	199.7	-3,519
Net Errors and Omissions	**4,413**	**16,178**	**-711**	**-**	**8,599**

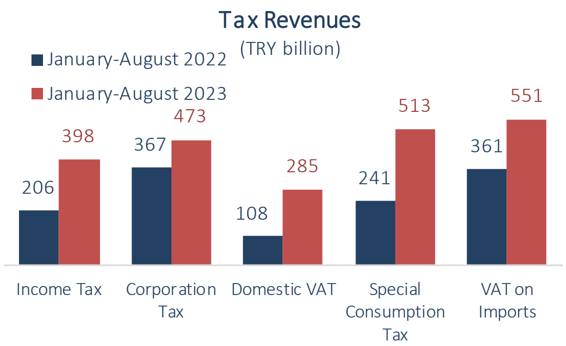
Source: CBRT, Datastream

Central government budget posted a surplus of 51.3 billion TRY in August.

Following July, the central government budget posted a surplus of 51.3 billion TRY in August. Budget revenues more than doubled compared to the same period of the previous year, reaching 614 billion TRY, while expenditures increased by 86.1% yoy to 562.7 billion TRY. Thus, in January-August period the central government budget deficit declined to 383.4 billion TRY. In this period, primary balance posted a surplus of 16.7 billion TRY.

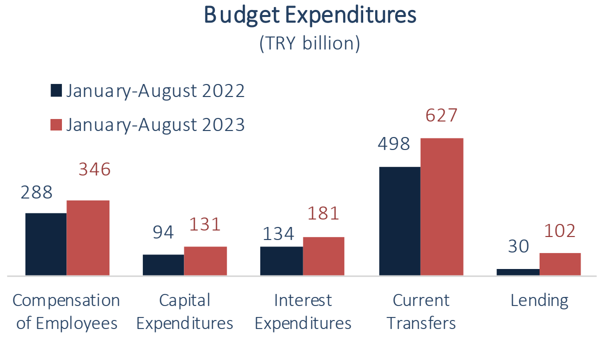
In August, tax revenues almost doubled on an annual basis.

Tax revenues, which nearly doubled yoy to 543.2 billion TRY in August, accounted for 88% of total budget revenues. In addition to the hikes in tax rates, the rise in tax revenues was also driven by the 76.9 billion TRY increase on an annual basis in import and domestic value added tax due to high inflation and rising exchange rates. Moreover, special consumption tax revenues rose by 164.5% yoy to 104.1 billion TRY in line with the rising sales in the automobile market while income tax revenues went up by 101.5% yoy to 68.2 billion TRY. Corporate tax also supported the rise in tax revenues by recording an increase which is close to the annual CPI inflation, becoming 161.1 billion TRY. In August, interest, shares and fines increased by 140% yoy and accounted for 9% of the budget revenues.



The rise in current transfers was effective in budget expenditures.

In August, budget expenditures excluding interest expenditures went up by 70% yoy. This was mainly driven by the 89.7% yoy rise in current transfers due to the rapid rise in Treasury aids as well as the 125.5% yoy rise in personnel expenditures. In August, capital transfers increased by 241.3% yoy while lending expenditures contracted by 38% yoy due to the high base effect despite the 24 billion TRY payment to the Turkish Grain Board. In August, interest expenditures almost quadrupled on an annual basis due to the rise in interest payments on government domestic borrowing bonds to 58.1 billion TRY.



Expectations...

Supported by the rapid increases in tax revenues, central government budget displayed a positive performance in August as in July. Thus, the budget deficit in January-August period constituted 23.5% of the budget deficit target of TRY 1,633 billion set for 2023 in the Medium Term Program published on September 6th.

Central Government Budget (billion TRY)

	August 2022	August 2023	% Change	January-August 2022	January-August 2023	% Change	MTP Target	Real./ MTP Target (%)
Expenditures	302.3	562.7	86.1	1,735.2	3,382.1	94.9	6,562.6	51.5
Interest Expenditures	22.6	87.1	284.8	174.0	400.1	130.0	646.1	61.9
Non-Interest Expenditures	279.7	475.5	70.0	1,561.2	2,982.0	91.0	5,916.5	50.4
Revenues	305.9	614.0	100.7	1,768.3	2,998.7	69.6	4,929.7	60.8
Tax Revenues	271.9	543.2	99.8	1,474.5	2,595.8	76.0	4,270.7	60.8
Other Revenues	34.1	70.8	107.7	293.8	402.9	37.1	659.0	61.1
Budget Balance	3.6	51.3	1,329.6	33.1	-383.4	-	-1,633.0	23.5
Primary Balance	26.2	138.4	427.6	207.1	16.7	-91.9	-986.8	-

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

Source: Datastream , Ministry of Treasury and Finance

Monthly CPI inflation was 4.75% in September.

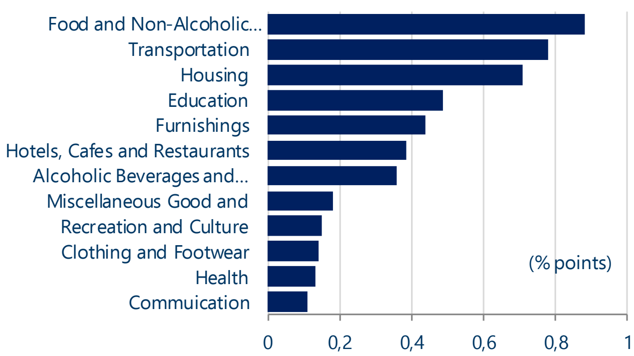
According to data released by Turkstat, consumer prices rose by 4.75% mom in September, close to the market expectations of 4.88%. Thus, annual CPI inflation rose to 61.53% while the increase in the first nine months of the year was realized as 49.9%. D-PPI also recorded the lowest rise for the last four months with 3.4% in September. In this period, D-PPI increased by 47.4% yoy and 36.1% ytd.

September	CPI		D-PPI	
(change %)	2022	2023	2022	2023
Monthly	3.08	4.75	4.78	3.40
Year-to-Date	52.40	49.86	82.45	36.06
Annual	83.45	61.53	151.50	47.44
Annual Average	59.91	55.30	114.02	65.55

Prices in the education group rose by 30.27% mom.

In September, prices increased in all main expenditure groups on a monthly basis. In this period, the highest price increases were realized in the education group with 30.27% due to the opening of schools. The contribution of this item to monthly CPI inflation was 0.49 points. In September, prices of alcoholic beverages and tobacco products rose by 10.03% mom due to the price hikes in tobacco products. In this period, the monthly increase in housing prices continued to hover above the headline inflation by 5.76% mom. On the other hand, food and non-alcoholic beverages group, which posted a moderate price increase of 3.32% in September, was the group that pushed CPI inflation up the most due to its weight in the index. Transportation group also pushed the monthly CPI inflation up by 0.78 points due to the high increases in passenger transportation fares.

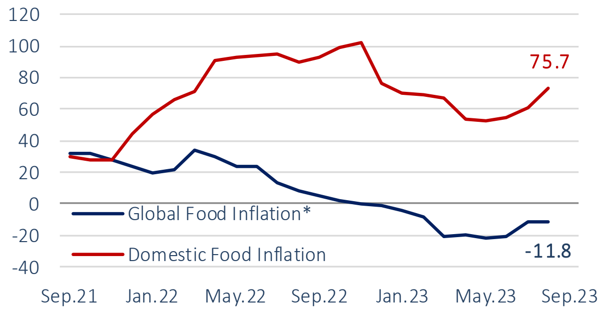
Contributions to the Monhtly CPI Inflation



Core inflation indicators...

In September, CPI excluding seasonal products rose by 5.13% mom, above the headline inflation. In this period, 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 5.06% and 5.28%, respectively. Annual increases in these indices were realized as 67.22% and 68.93%, above the headline inflation, indicating that inflationary pressures will continue in the upcoming period. Moreover, the rise in services prices (7.88%) more than twice as fast as the increase in goods prices (3.42%) in September showed that the rigidity in services inflation continued.

Food Inflation
(annual, %)



(*) Latest figure as of August 2023

Food products were the main driver of the increase in domestic PPI inflation.

Food products group, where prices increased by 4.92% in September, was the main driver of the monthly PPI inflation by 0.87 points. In this period, coke and refined petroleum products (6.01%) and electricity, gas production and distribution (5.47%) also increased monthly PPI inflation by 0.37 and 0.35 points, respectively. On an annual basis, it was noteworthy that prices in electricity, gas and steam sector decreased by 17.08%.

Expectations...

In September, when monthly inflation slowed down significantly compared to July and August, rapid increases in education and alcoholic beverages and tobacco prices stood out. We think that the recent rise in global oil prices due to supply concerns and the increases in natural gas and electricity prices for industrial use in the beginning of October will continue to put pressure on inflation along with seasonal factors. The recent strengthening of the US dollar on a global scale also stands out as an important factor that may trigger cost-side inflation. In the upcoming period, the effects of tightening monetary policy decisions on demand will continue to be the main factor that may limit inflationary pressures.

Source: Datastream, Turkstat

	31-Aug	29-Sep	Change	
5-Y CDS (basis points)	377	397	19 bps	▲
TR 2-Y Benchmark Yield*	19.36%	29.74%	1,038 bps	▲
BIST-100*	7,918	8,335	5.3%	▲
USD/TRY	26.6502	27.3712	2.7%	▲
EUR/TRY	28.8899	28.9453	0.2%	▲
Currency Basket**	27.7701	28.1583	1.4%	▲

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

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

Global risk appetite remained under pressure in September.

Although Fed kept the policy rate unchanged in September, Fed members' forecasts pointing to another rate hike by the end of the year put financial markets under pressure. The rapid increase in oil prices due to production and export restrictions was another factor that reduced global risk appetite by raising concerns that inflationary pressures would strengthen. Accordingly, MSCI global and emerging market indices fell by 4.4% and 2.8% in September, respectively. In the last week of the month, uncertainties over the temporary budget bill raised concerns of a government shutdown, and stock indices in the US ended the month with losses. In September, the US 10-year Treasury bond yield hit a 16-year high of 4.63%. DXY reached 106.2 at the end of September, while EUR/USD parity tested its lowest level since the beginning of the year at 1.05 during the month. Ounce gold price fell by 4.7% on a monthly basis to 1,848 USD as of September 29, its lowest level since March.

BIST-100 index followed a volatile course in September. The index had declined to 7,680 during the month in line with increased expectations for CBRT's interest rate decision, the impact of profit sales and negative outlook in global stock indices, increased by 5.3% compared to the end of August and ended September at 8,335. In this period, 5-year CDS premium increased by 19 bps mom to 397 bps, while USD/TRY rose by 2.7%. The yield on 2-year benchmark bond reached 29.74% at the end of the month.

CBRT raised the policy rate to 30%.

At its meeting held on September 21, CBRT raised the policy rate by 500 basis points to 30% in line with market expectations. Hence, CBRT raised the policy rate by a total of 21.5 points in the last four meetings. In the text published after the meeting, CBRT stated that inflation was above projections in July and August, and inflationary pressures persisted in line with the strong course of domestic demand, the rigidity in service prices, ongoing deterioration in inflation expectations and the rise in oil prices. On the other hand, it was assessed that the underlying trend of monthly inflation would start to decline as the negative impacts of exchange rate and cost pressures as well as tax adjustments would have been terminated partially. In the decision text, 2024 is pointed for the establishment of disinflation, and it was reiterated that monetary tightening will continue on a gradual path, with necessary rate hikes when needed, until a significant improvement in inflation outlook is achieved. It was noteworthy that the statement included a new phrase expressing the increase in domestic and foreign demand for Turkish lira assets will contribute to price stability.

The Medium Term Programme was announced.

The Medium Term Program covering the 2024-2026 period, which includes targets and policies regarding the main aggregates of Turkish economy, was announced in September. According to the program, which emphasized price stability and financial stability, the growth forecast was set at 4.4% for 2023 and 4.0% for 2024. CPI inflation forecasts for 2024-2026 period were 33.0%, 15.2% and 8.5% respectively, and it is expected to realize at 65.0% by the end of 2023. According to the program, the current account deficit to GDP ratio is projected to be 4.0% in 2023. The budget deficit to GDP ratio is also expected to decline after an initial rise to 6.4% in both 2023 and 2024 due to earthquake-related expenditures.

MTP Projections

	2023(RE)	2024(P)	2025(P)	2026(P)
GDP Growth (%)	4.4	4.0	4.5	5.0
Annual CPI Inflation (%)	65.0	33.0	15.2	8.5
Current Account/GDP (%)	-4.0	-3.1	-2.6	-2.3
Budget Balance/GDP (%)	-6.4	-6.4	-3.4	-2.9
Unemployment Rate (%)	10.1	10.3	9.9	9.3

Note: RE: Realisation Estimate, P: Programme

Credit rating agencies' assessments on Türkiye were monitored.

In September, credit rating agencies' statements on Türkiye were monitored. On September 8, Fitch affirmed Türkiye's credit rating as "B" and changed its outlook from "negative" to "stable". Similarly, on September 29, S&P kept its "B" credit rating unchanged, while upgrading its rating outlook from "negative" to "stable". The agencies assessed that an improvement in Türkiye's credit rating outlook is possible if country’s balance of payments position strengthens and CBRT's foreign exchange reserves increase.

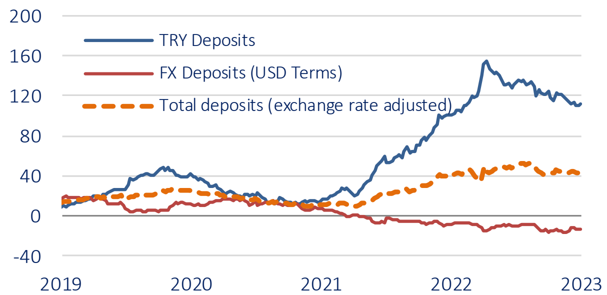
Source: CBRT, Datastream, Reuters,

FX-protected deposit volume continued to contract.

According to BRSA's weekly data, as of September 22, total deposit volume in the banking sector increased by 112.1% yoy to 13.3 trillion TRY. The foreign exchange rate adjusted annual increase in total deposit volume was realized as 44.8%. As of the said date, TL deposits reached 7.8 trillion TRY, while FX deposits in USD terms declined to 203 billion USD. Thus, the share of TL deposits in total deposits was realized as 58.9%.

The volume of FX-protected deposit accounts continued its downward trend that started in the week of August 21 and declined to 3.3 trillion TRY as of September 22. Thus, FX-protected deposit volume decreased by 103.5 billion TRY since August 21.

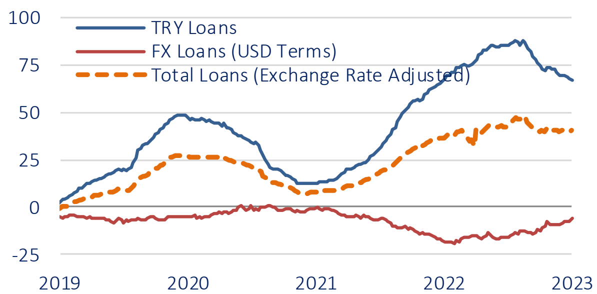
Deposit Growth
(annual % change)



Total loan volume reached 10.6 trillion TRY.

As of September 22, total loan volume of the banking sector expanded by 57% yoy to 10.6 trillion TRY. The foreign exchange rate adjusted annual rise in total loan volume was 40.6%. During this period, TL loans expanded by 67% yoy to 7.2 trillion TRY and accounted for 67.8% of total loan volume. On the other hand, FX loan volume, which contracted by 5.6% yoy, recorded a limited increase compared to the end of August and became 126.3 billion USD.

Loan Growth
(annual % change)



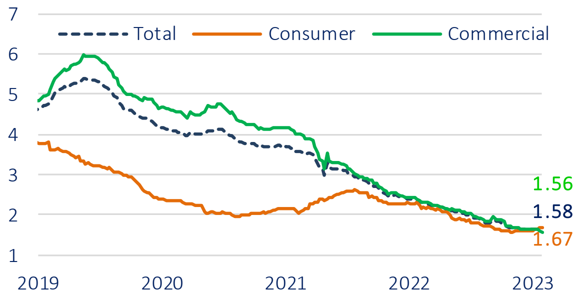
Retail loans continued to remain flat.

As of September 22, the annual increase in consumer loans was realized as 50.5%. In this period, retail credit card expenditures expanded by 177.8% yoy, continuing to rise above the CPI inflation.

NPL ratio became 1.58%.

Non-performing loans ratio in the banking sector dropped to 1.58% as of September 22, reaching a historic low level because of the increase in loan volume. In this period, NPL ratios for commercial and retail loans were 1.56% and 1.67%, respectively.

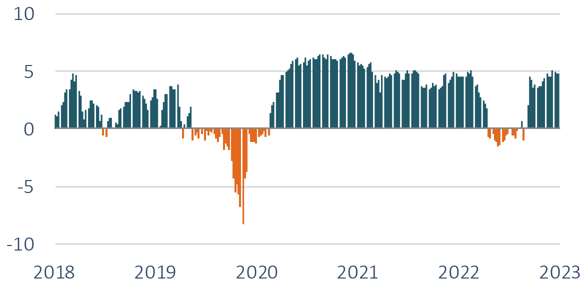
Non-performing Loans
(%)



Foreign currency net general position...

As of September 22, on-balance sheet FX position was (-) 41,974 million USD, while off-balance sheet FX position was (+) 46,798 million USD. Thus, net foreign currency position became (+) 4,825 million USD

Net FX Position
(USD Billion)



Source: BRSA Weekly Bulletin

Concluding Remarks

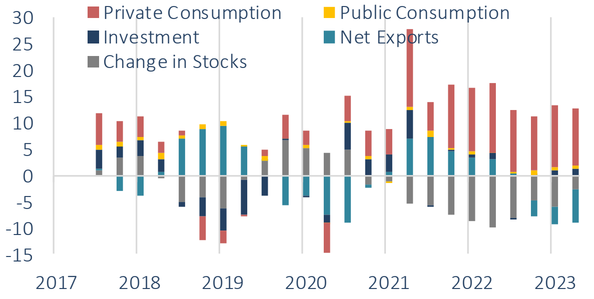
Global risk appetite displayed a weak outlook in September, when monetary policy decisions of major central banks were closely monitored. In this period, the ECB continued its monetary tightening steps by raising key interest rates by 25 basis points, while the Fed and the Bank of England were among the major central banks that preferred to keep their policy rates unchanged. Officials' statements and forecasts signaled that the monetary tightening process may take longer than expected in the face of inflationary pressures that are still high, albeit losing momentum on a global scale. The rapid increase in oil prices due to ongoing supply disruptions also keeps concerns over global inflation on the agenda. On the other hand, global PMI figures indicate that economic activity continues to exhibit a weak outlook due to the tight monetary policies. The global economy is expected to remain under pressure next year due to the weaker-then-expected economic activity in China, albeit the slight recovery recently. In this context, OECD revised its global growth forecast for 2024 downwards in its September midterm update.

In Türkiye, the Medium Term Program for the 2024-2026 period, published in the first week of September, was closely monitored. In the program, the establishment of a tight monetary stance and fiscal discipline, excluding earthquake expenditures, as well as ensuring structural transformations were determined as the primary macroeconomic policy tools. In September, CBRT raised the policy rate by 500 basis points to 30% and continued the steps to increase the share of Turkish Lira deposits. The recent positive evaluations made by international credit rating agencies regarding Turkish economy indicate that the steps taken have improved the risk perception towards Türkiye, and within this framework, financing quality of the current account deficit may increase.

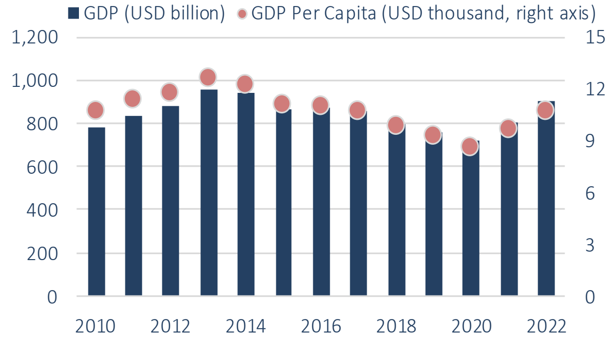
Turkish Economy - Macroeconomic Indicators

Growth

Contributions to GDP Growth
(% point)

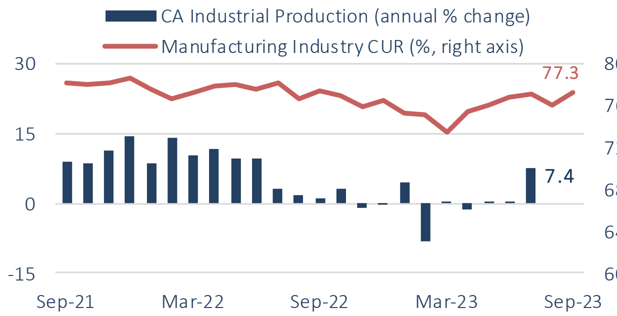


GDP

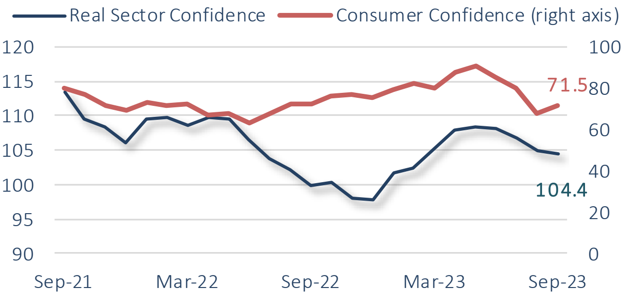


Leading Indicators

Industrial Production and Capacity Utilization

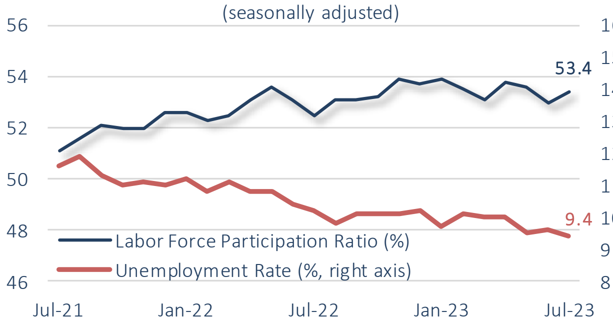


Confidence Indices

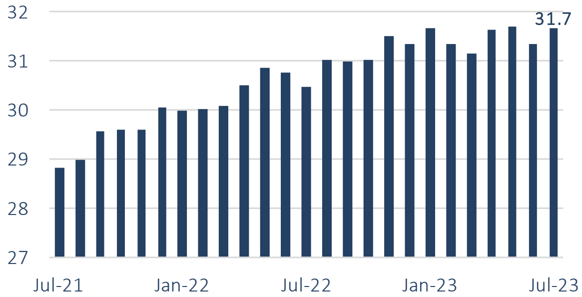


Labor Market

Employment Indicators
(seasonally adjusted)

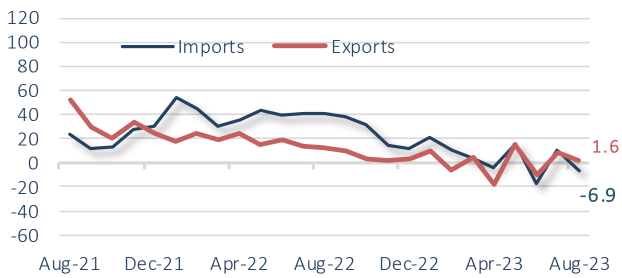


Employment
(seasonally adjusted, million persons)

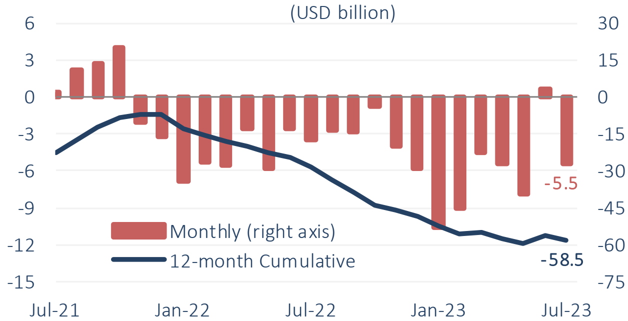


Foreign Trade and Current Account Balance

Foreign Trade
(annual % change)



Current Account Balance
(USD billion)

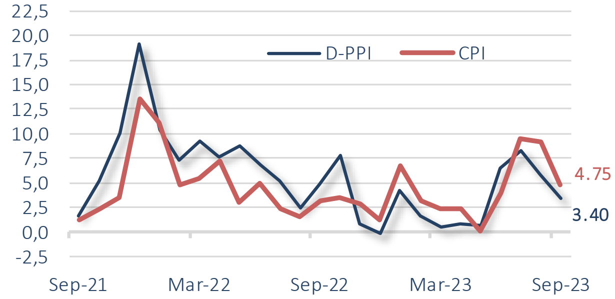


(CA) Calendar adjusted

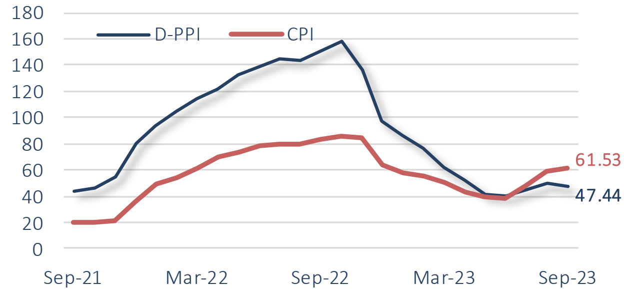
Source: Datastream, CBRT, Turkstat

Inflation

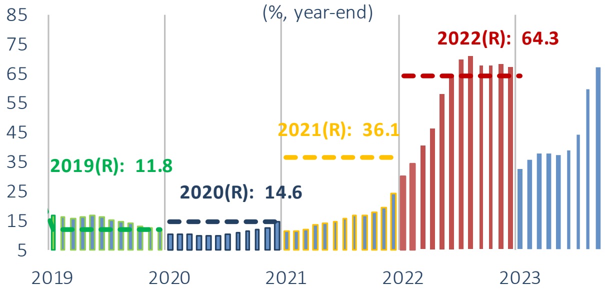
Monthly Inflation
(%)



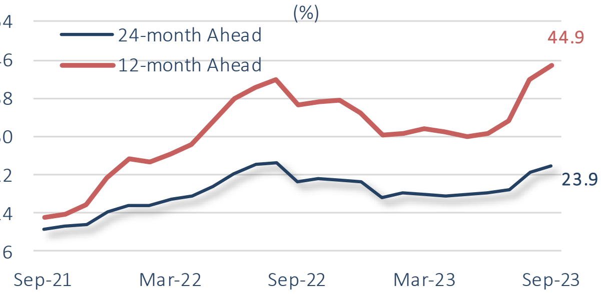
Annual Inflation
(%)



CBRT Survey of Expectations - Annual CPI Inflation Expectations

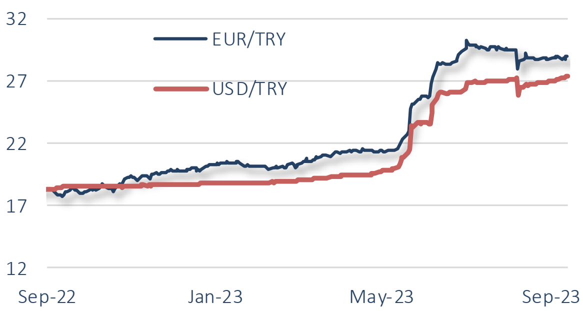


CBRT Survey of Expectations - 12 & 24-month Ahead CPI Inflation Expectations

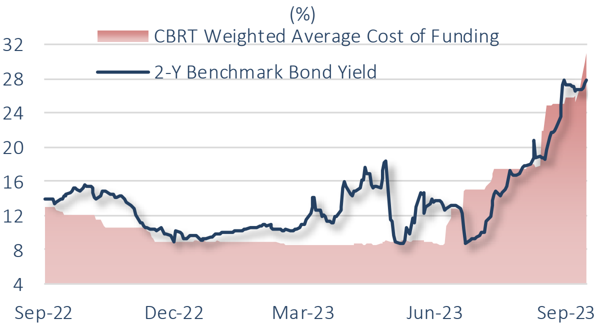


Foreign Exchange and Bond Market

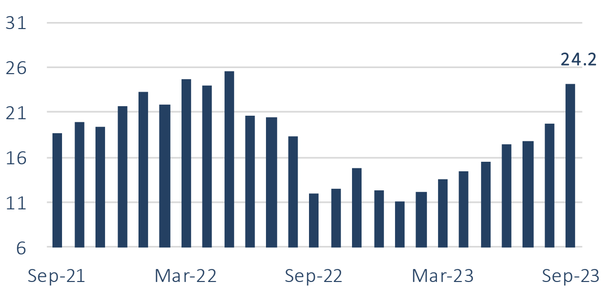
Exchange Rates



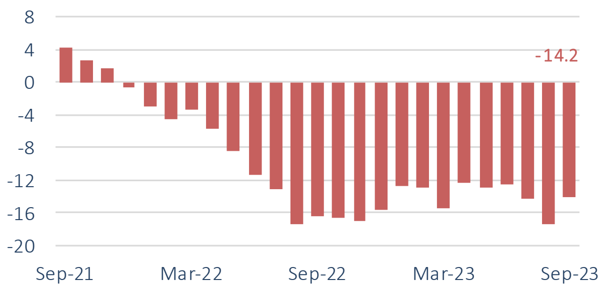
CBRT WACOF and 2-Y Benchmark Bond Yield



Average Compound Yield in Treasury Auctions
(%)



Expected Real Yield of TRY GDDIs
(%)



(R) Realization

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

Turkish Economy - Macroeconomic Indicators

Growth	2018	2019	2020	2021	2022		23-Q1	23-Q2
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 (%)						Jul.23	Aug.23	Sep.23
CPI (annual)	20.30	11.84	14.60	36.08	64.27	47.83	58.94	61.53
Domestic PPI (annual)	33.64	7.36	25.15	79.89	97.72	44.50	49.41	47.44
Seasonally Adjusted Labor Market Figures						May.23	Jun.23	Jul.23
Unemployment Rate (%)	12.7	13.4	12.6	11.0	10.2	9.5	9.6	9.4
Labor Force Participation Rate (%)	53.2	52.6	49.1	52.6	53.7	53.5	52.9	53.4
FX Rates						Jul.23	Aug.23	Sep.23
CPI Based Real Effective Exchange Rate	76.3	76.0	61.9	47.6	54.9	48.7	52.5	
USD/TRY	5.32	5.95	7.43	13.28	18.72	26.93	26.66	27.42
EUR/TRY	6.08	6.68	9.09	15.10	19.98	29.69	28.93	29.03
Currency Basket (0.5*EUR+0.5*USD)	5.70	6.32	8.26	14.19	19.35	28.31	27.80	28.22
Foreign Trade Balance(1) (USD billion)						Jun.23	Jul.23	Aug.23
Exports	177.2	180.8	169.6	225.2	254.2	252.6	252.3	252.7
Imports	231.2	210.3	219.5	271.4	363.7	371.8	372.5	370.3
Foreign Trade Balance	**-54.0**	**-29.5**	**-49.9**	**-46.2**	**-109.5**	**-119.2**	**-120.2**	**-117.6**
Import Coverage Ratio (%)	76.6	86.0	77.3	83.0	69.9	67.9	67.7	68.2
Balance of Payments(1) (USD billion)						May.23	Jun.23	Jul.23
Current Account Balance	**-20.2**	**10.8**	**-31.9**	**-7.2**	**-48.4**	**-59.7**	**-56.5**	**-58.5**
Capital and Financial Accounts	**1.1**	**5.1**	**-39.5**	**-6.0**	**-24.6**	**-57.5**	**-48.3**	**-50.0**
Direct Investments (net)	-8.9	-6.6	-4.6	-6.9	-8.1	-7.0	-6.1	-6.2
Portfolio Investments (net)	0.9	2.8	9.6	-0.8	13.4	6.6	3.1	1.3
Other Investments (net)	19.4	2.6	-12.6	-21.7	-42.3	-42.0	-43.4	-41.6
Reserve Assets (net)	-10.4	6.3	-31.9	23.3	12.3	-15.0	-1.9	-3.5
Net Errors and Omissions	**21.1**	**-5.8**	**-7.6**	**1.4**	**24.2**	**2.4**	**8.3**	**8.6**
Current Account Balance/GDP (%)	**-2.5**	**1.4**	**-4.4**	**-0.9**	**-5.3**	-	-	-
Budget(2)(3) (TRY billion)						Jun.23	Jul.23	Aug.23
Expenditures	**830.8**	**1,000.0**	**1,203.7**	**1,603.5**	**2,941.4**	**2,363.6**	**2,819.4**	**3,382.1**
Interest Expenditures	74.0	99.9	134.0	180.9	310.9	275.2	313.0	400.1
Non-interest Expenditures	756.8	900.1	1,069.8	1,422.7	2,630.5	2,088.3	2,506.5	2,982.0
Revenues	**758.0**	**875.3**	**1,028.4**	**1,402.0**	**2,802.4**	**1,880.3**	**2,384.8**	**2,998.7**
Tax Revenues	621.5	673.9	833.3	1,165.0	2,353.3	1,602.3	2,052.6	2,595.8
Budget Balance	**-72.8**	**-124.7**	**-175.3**	**-201.5**	**-139.1**	**-483.2**	**-434.7**	**-383.4**
Primary Balance	**1.1**	**-24.8**	**-41.3**	**-20.7**	**171.8**	**-208.0**	**-121.7**	**16.7**
Budget Balance/GDP (%)	**-1.9**	**-2.9**	**-3.5**	**-2.8**	**-0.9**	-	-	-
Central Government Debt Stock (TRY billion)						Jun.23	Jul.23	Aug.23
Domestic Debt Stock	586.1	755.1	1,064.3	1,354.8	1,905.3	2,575.6	2,643.1	2,759.0
External Debt Stock	481.0	574.0	773.4	1,490.0	2,127.9	3,041.8	3,179.9	3,121.0
Total Debt Stock	**1,067.1**	**1,329.1**	**1,837.6**	**2,844.9**	**4,033.2**	**5,617.4**	**5,823.0**	**5,880.0**

(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	Jul.23	Aug.23	Change[1]
TOTAL ASSETS	3,867	4,491	6,106	9,215	14,347	19,966	20,332	41.7
Loans	2,394	2,656	3,576	4,901	7,581	10,323	10,450	37.8
TRY Loans	1,439	1,642	2,353	2,832	5,110	6,886	7,085	38.7
Share (%)	60.1	61.8	65.8	57.8	67.4	66.7	67.8	-
FX Loans	956	1,015	1,224	2,069	2,471	3,437	3,365	36.2
Share (%)	39.9	38.2	34.2	42.2	32.6	33.3	32.2	-
Non-performing Loans	96.6	150.8	152.6	160.1	163.4	169.7	173.0	5.8
Non-performing Loan Rate (%)	3.9	5.3	4.1	3.2	2.1	1.6	1.6	-
Securities	477	660	1,022	1,476	2,370	3,374	3,486	47.1
TOTAL LIABILITIES	3,867	4,491	6,106	9,215	14,344	19,966	20,332	41.7
Deposits	2,036	2,567	3,455	5,303	8,862	12,456	12,932	45.9
TRY Deposits	1,042	1,259	1,546	1,880	4,779	7,113	7,450	55.9
Share (%)	51.2	49.0	44.7	35.5	53.9	57.1	57.6	-
FX Deposits	994	1,308	1,909	3,423	4,083	5,343	5,481	34.2
Share (%)	48.8	51.0	55.3	64.5	46.1	42.9	42.4	-
Securities Issued	174	194	224	310	325	444	441	35.6
Payables to Banks	563	533	658	1,048	1,432	2,082	2,059	43.8
Funds from Repo Transactions	97	154	255	587	540	565	534	-1.2
SHAREHOLDERS' EQUITY	421	492	600	714	1,407	1,799	1,861	32.2
Profit (Loss) of the Period	54.1	49.0	58.5	93.0	431.6	293.4	350.6	-
RATIOS (%)								
Loans/GDP	63.7	61.5	70.9	68.0	#AD?			
Loans/Assets	61.9	59.1	58.6	53.2	52.8	51.7	51.4	-
Securities/Assets	12.3	14.7	16.7	16.0	16.5	16.9	17.1	-
Deposits/Liabilities	52.7	57.2	56.6	57.5	61.8	62.4	63.6	-
Loans/Deposits	117.6	103.5	103.5	92.4	85.5	82.9	80.8	-
Capital Adequacy (%)	17.3	18.4	18.7	18.4	19.5	18.7	18.5	-

(1) Year-to-date % change

Source: BRSA, Turkstat

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