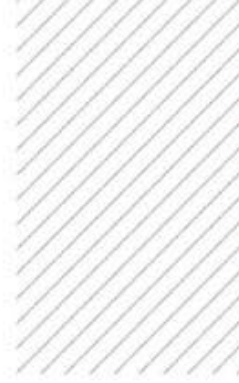


MACROECONOMIC OUTLOOK AND MONETARY POLICY IN TURKEY

September 8, 2021

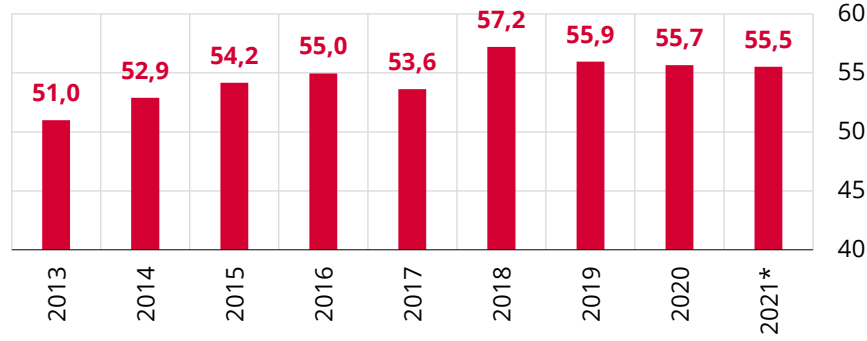
Ankara



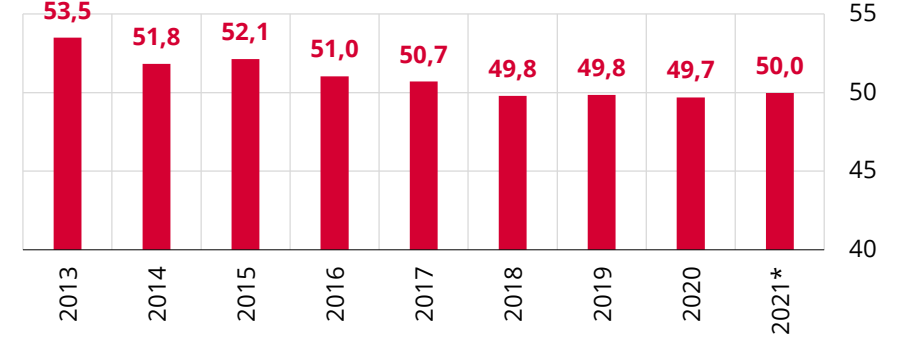
Economic Relationship with Europe

The European Union is one of Turkey's most important trade and investment partners.

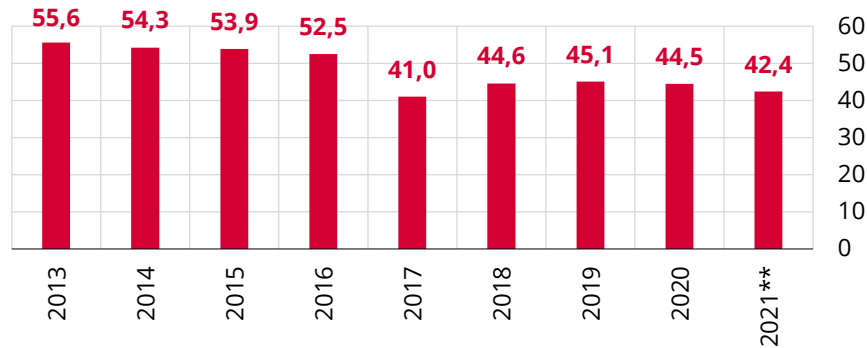
The Share of Europe in Exports (%)



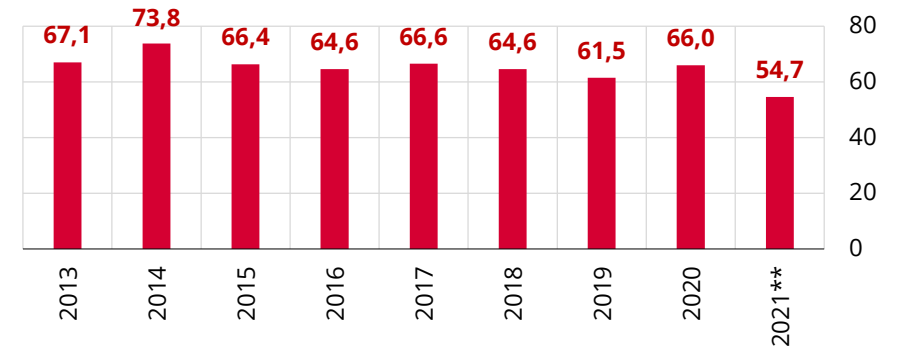
The Share of Europe in Imports (%)



The Share of Europe in Foreign Visitors (%)



The Share of Europe in FDI (%)



Source: TURKSTAT, CBRT

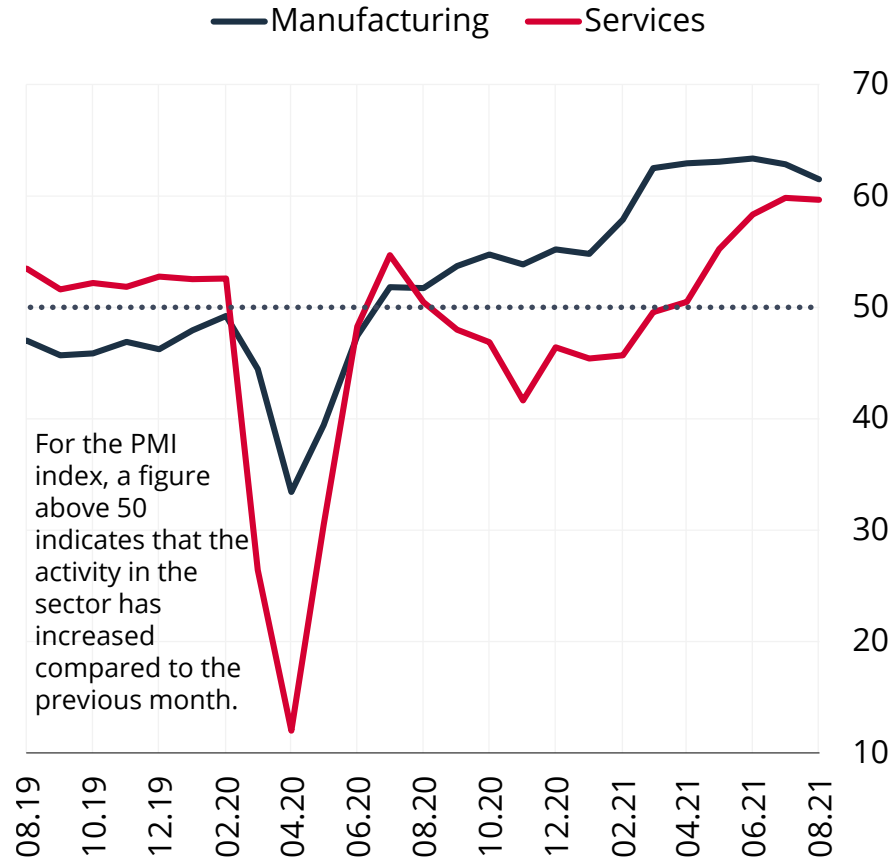
* As of July.

**12-month cumulative as of June.

Global Growth

The European economy continues to recover with the support of monetary and fiscal policies as well as vaccination activities.

Euro PMI Indices



Source: IHS Markit

Last Observation: August 2021

Turkey's Main Trading Partners' 2021 Growth Forecasts* (%)

	2020	2021Q2 (YoY, Realization)	Forecast for 2021 in April	Forecast for 2021 in August
Euro Area	-6.3	14.3	4.2	4.8
Germany	-4.6	9.4	3.3	3.3
UK	-9.8	22.2	5.4	6.8
USA	-3.5	12.2	6.2	6.2
Iraq	-	-	1.9	2.0
Italy	-8.9	17.3	3.9	5.3
France	-7.9	18.7	5.3	5.9
Spain	-10.8	19.8	5.5	6.0
Netherlands	-3.8	9.7	2.6	3.0
Israel	-2.4	15.0	5.1	5.0
Russia	-3.0	10.3	2.9	3.8
Romania	-3.9	13.6	5.0	7.2
Belgium	-6.3	14.9	3.8	4.8
Poland	-2.7	11.0	4.1	4.9
China	2.3	7.9	8.7	8.6
UAE	-6.1	-	1.0	1.2

Source: Consensus Economics, World Bank

Last Observation: August 2021

* Countries are ranked according to the sizes of their shares in Turkey's exports. World Bank estimates for Iraq and UAE were used. Comparison was made for January-June.

Covid-19 Pandemic Support in Selected Countries

During the pandemic, countries supported their economies with direct public expenditures, other subsidies, grants and awards.

Public Sector Support in Advanced Economies (% of GDP)

	Additional Spending and Foregone Revenues	Capital, Credit and Liquidity Support*
Denmark	3.5	15.7
Sweden	4.2	5.3
Finland	4.3	7.5
S. Korea	4.5	10.1
Norway	7.4	4.5
Spain	7.6	14.4
Switzerland	7.8	6.2
Belgium	8.2	11.9
France	9.6	15.2
Czech Republic	9.6	15.5
Netherlands	10.3	8.1
Italy	10.9	35.3
Germany	13.6	27.8
Canada	15.9	4
United Kingdom	16.2	16.7
Japan	16.5	28.3
Australia	18.4	1.8
Singapore	18.4	4.7
New Zealand	19.3	1.6
USA	25.4	2.4
Average	17.3	11.4

Source: IMF

Last Observation: July 2021

Public Sector Support in Emerging Market Economies (% of GDP)

	Additional Spending and Foregone Revenues	Capital, Credit and Liquidity Support*
Mexico	0.7	1.2
Egypt	1.6	0.1
Pakistan	2.0	0.0
Saudi Arabia	2.2	0.8
Albania	2.3	1.6
UAE	2.5	0.0
Tunisia	2.7	0.8
Turkey	2.7	9.5
Philippines	2.7	0.9
Romania	3.2	4.2
India	3.5	5.2
Indonesia	4.5	0.9
Russia	4.5	1.5
Colombia	4.7	5.7
China	4.8	1.3
South Africa	5.9	4.1
Poland	6.5	4.8
Peru	7.8	11.8
Brazil	9.2	6.2
Thailand	11.4	4.2
Chile	14.1	2.5
Average	4.1	2.6

Source : IMF

Last Observation: July 2021

* Includes support such as capital injections and asset purchases including out of budget funds.

Economic and Financial Indicators: Developing Economies

Recently, the current account balance in Turkey has been improving and reserves have started to increase. A downward trend is expected in inflation in the last quarter.

	CPI (YoY, %)	Policy Rate (%)	CDS	Current Account Balance* (% GDP)	Reserve** (Includes Gold, Billion USD)	Reserve/GDP** (%)	Budget Balance* (% GDP)	External Debt/GDP* (%)
Argentina	51.80	38.00	963.07	0.69	42.00	11.04	-4.72	70.36
Turkey	19.25	19.00	366.26	-4.99	118.40	16.50	-2.25	62.27(~55)***
Brazil	8.99	5.25	175.63	-1.26	352.00	24.40	-9.14	44.07
Russia	6.46	6.50	77.14	2.45	591.00	39.84	-3.91	31.75
India	5.59	4.00	68.08	0.92	615.00	23.46	-9.22	21.73
Mexico	5.81	4.50	83.89	2.57	199.00	18.54	-1.41	42.79
Hungary	4.60	1.50	51.09	0.16	111.00	23.63	-8.10	160.23
S.Africa	4.60	3.50	183.53	2.88	54.00	18.04	-11.25	54.56
Poland	5.40	0.10	48.50	2.29	159.00	26.83	-7.00	60.84
Philippines	4.00	2.00	42.77	3.29	106.00	29.46	-9.01	27.25
Romania	4.95	1.25	88.92	-6.16	49.00	19.97	-9.20	53.61
Chile	4.50	1.50	62.83	0.73	42.00	16.84	-0.33	85.47
Colombia	4.44	1.75	129.72	-3.77	58.00	21.51	-5.77	57.92
Malaysia	2.20	1.75	47.28	4.55	111.00	33.00	-3.41	73.47
Indonesia	1.59	3.50	71.82	-0.18	137.00	12.95	-2.20	39.27
Thailand	0.45	0.50	39.98	0.89	250.00	49.95	-5.84	37.15
China	1.00	3.85	32.73	2.35	3353.00	22.78	-6.17	17.06

Source: Bloomberg, Trading Economics, IMF, Worldbank

Last Observation: 3 September 2021

* GDP data of Turkey represent 2020, other data of Turkey represent 2021Q1; data of other countries represent 2020.

** Reserve data of Turkey is dated August 2021 and for other countries July data are used . For all countries GDP data is for 2020.

*** Estimated value after external debt statistics revision.

Economic and Financial Indicators: Developed Economies and Turkey

In developed economies, policy interest rates remain at low levels.

Budget deficits increased in many countries.

	CPI (YoY, %)	Policy Rate (%)	CDS	Current Account Balance* (% GDP)	Reserve** (Includes Gold, Billion USD)	Reserve/GDP** (%)	Budget Balance* (% GDP)	External Debt/GDP* (%)
Turkey	19.25	19.00	366.26	-4.99	118.40	16.50	-2.25	62.27(~55)***
USA	5.40	0.25	9.96	-3.16	589.00	2.80	-11.90	102.10
Australia	3.80	0.10	14.53	3.13	48.00	3.70	0.21	129.60
Canada	3.70	0.25	18.67	-0.98	89.00	5.40	-1.70	142.80
New Zealand	3.30	0.25	14.93	-1.40	14.00	6.60	-10.56	83.70
Norway	3.00	0.00	9.76	3.36	81.00	22.40	-2.39	180.10
United Kingdom	2.00	0.10	10.59	-3.22	167.00	6.20	-14.22	345.04
Euro Area	3.00	0.00	-	2.51	1040.00	5.50	-7.20	130.40
Sweden	1.40	0.00	8.32	5.70	57.00	10.60	-8.83	164.20
Japan	-0.30	-0.10	17.81	3.40	1373.00	27.10	-10.06	92.80

Source: Bloomberg, Trading Economics, IMF, Worldbank

Last Observation: 3 September 2021

* GDP data of Turkey represent 2020, other data of Turkey represent 2021Q1; data of other countries represent 2020.

** Reserve data of Turkey is dated August 2021 and for other countries July data are used . For all countries GDP data is for 2020.

*** Estimated value after external debt statistics revision.

Debt Statistics by Sector: Developed Economies and Turkey

In developed economies, debt levels are high across different sectors.

	Total Debt (GDP %)				
	Government	Non-Financial Corporates	Financial Corporates	Household	Total
Turkey	43.60	71.54	30.50	17.76	163.41
New Zeland	45.88	77.03	56.30	98.75	277.96
Australia	60.97	69.74	46.27	123.54	300.53
USA	128.95	83.53	83.64	78.77	374.89
Eurozone	122.58	115.82	121.57	62.99	422.96
Sweden	43.57	177.45	112.67	96.10	429.79
Norway	53.09	156.62	113.37	114.28	437.36
Canada	118.24	131.37	142.38	110.56	502.54
England	133.35	81.24	200.63	91.92	507.15
Japan	251.36	114.39	189.95	63.22	618.92

Source: IIF

Last Observation: 2021 Q1

Debt Statistics by Sector: Developing Economies

Compared to developing economies, Turkey stands out favourably in public and household indebtedness.

	Total Debt (GDP %)				
	Government	Non-Financial Corporates	Financial Corporates	Household	Total
Indonesia	41.01	22.51	8.25	17.74	89.52
Mexico	39.31	26.14	15.57	16.54	97.56
Argentina	73.82	15.77	6.80	4.32	100.71
Russia	21.84	89.39	10.69	21.91	143.82
Colombia	69.43	34.63	7.02	33.15	144.23
Czech Republic	43.35	34.63	45.18	34.35	157.52
Turkey	43.60	71.54	30.50	17.76	163.41
Poland	60.64	44.59	26.43	34.92	166.58
South Africa	81.10	39.66	25.40	36.35	182.51
India	84.21	56.65	3.62	38.98	183.47
Hungary	85.75	70.41	9.46	21.10	186.72
Thailand	47.16	53.57	41.59	78.72	221.03
Brazil	92.70	53.90	48.77	36.80	232.17
Malaysia	62.87	73.87	29.57	77.12	243.43
Chile	33.87	117.19	51.14	45.32	247.52

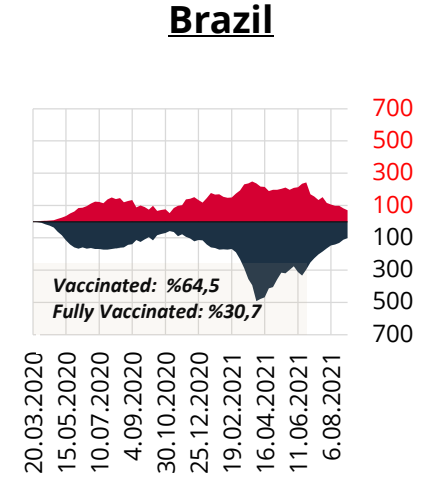
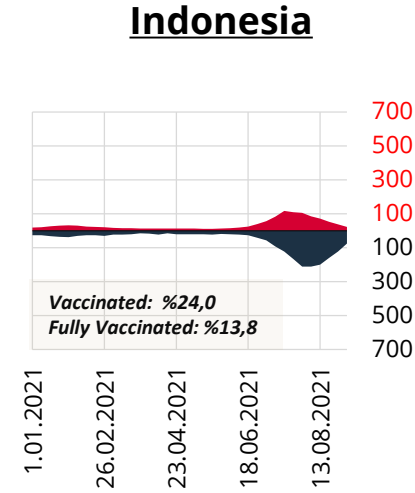
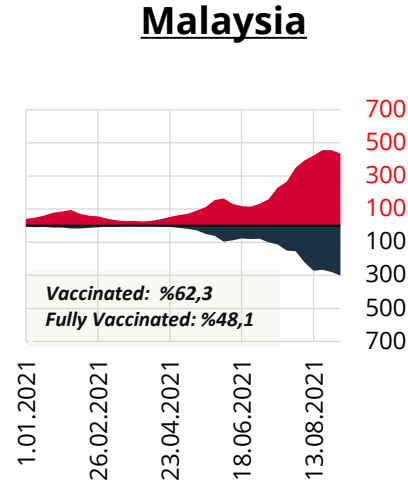
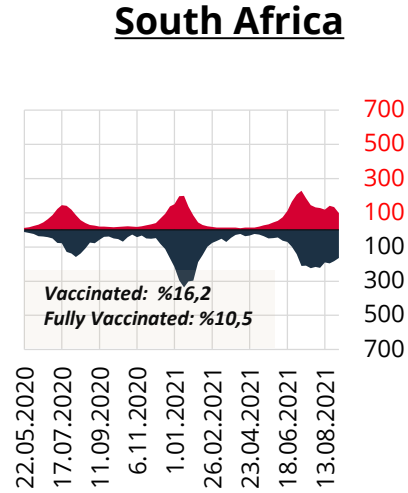
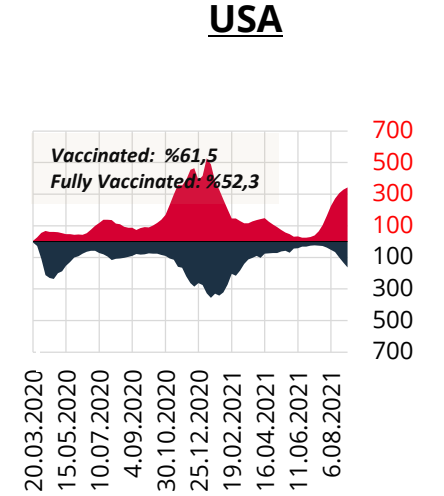
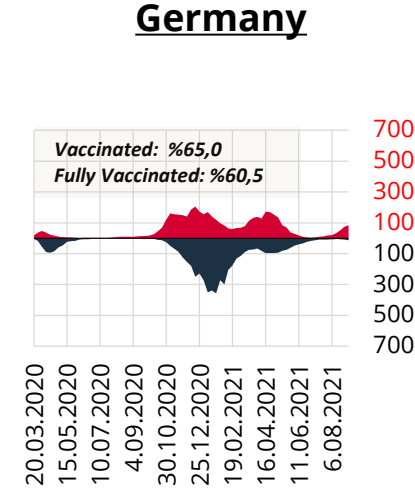
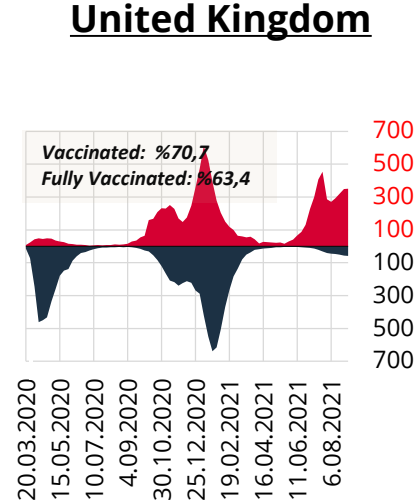
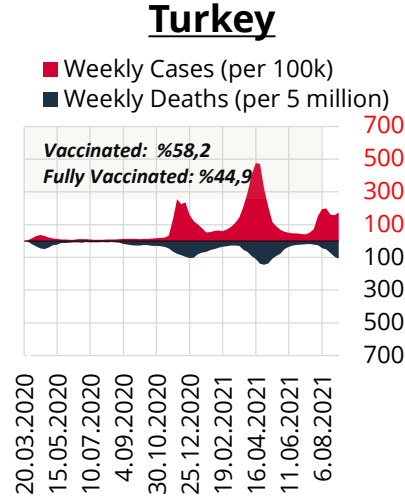
Source: IIF

Last Observation: 2021 Q1

Course of the Pandemic

New virus variants lead to an increase in number of cases, resulting in ongoing uncertainty regarding the course of the pandemic.

There is a decrease in mortality in countries that have made progress in vaccination.



Source: Our Worldindata

Last Observation: September 3, 2021

Vaccination and Economic Normalization

The gradual removal of pandemic measures with the spread of vaccination throughout the society and the decline in the number of cases supports economic activity.

Ratio of First-Dose and Second-Dose Vaccines to the Total Population (%)

	First Dose	Second Dose
Spain	78.8	73.3
United Kingdom	70.8	63.7
Israel	68.5	62.7
Italy	71.7	62.3
Germany	65.3	60.9
France	72.2	60.6
USA	61.6	52.3
Poland	51.3	50.1
Japan	59.6	48.1
Turkey	58.7	45.4
Brazil	64.9	31.2
Mexico	45.3	27.5
Romania	27.6	27
Russia	30.5	26.3
Indonesia	24.6	14
India	37.9	11.5
South Africa	17	10.8

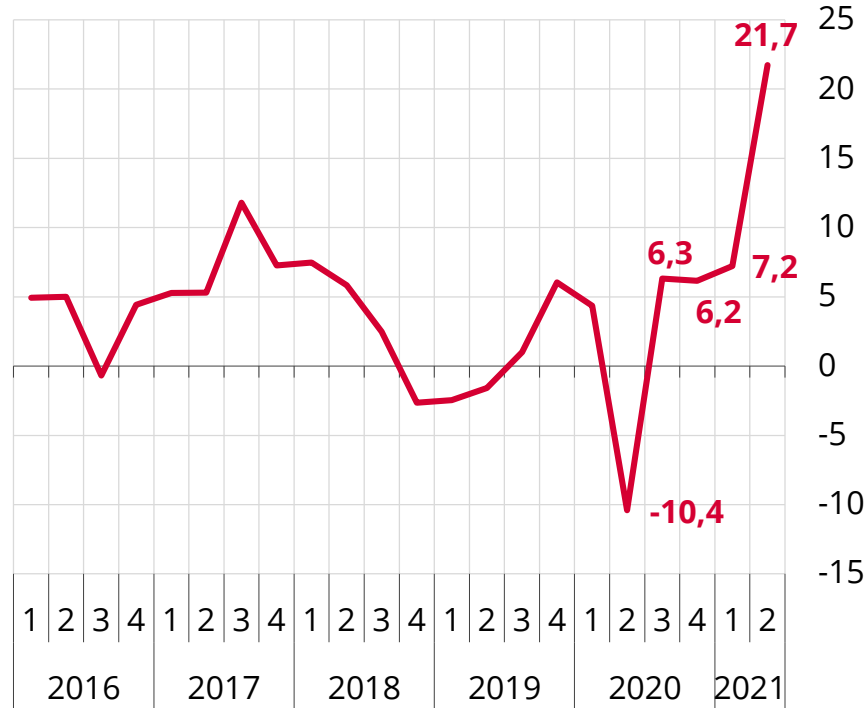
Source: Our World in Data

Last Observation: September 6, 2021

Economic Activity

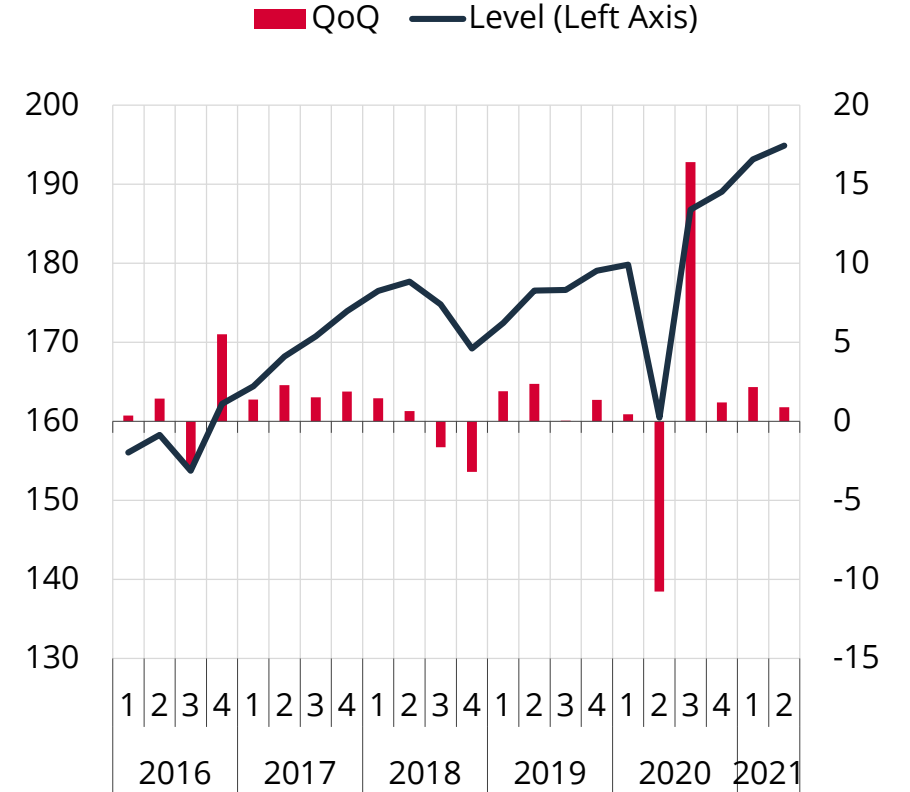
Economic activity remained strong in the second quarter of 2021.

Gross Domestic Product (Y-o-Y Growth Rate, %)



Source: TURKSTAT

Gross Domestic Product (Seasonally and Calendar Adjusted, Chain-Linked Volume Index, 2009=100)

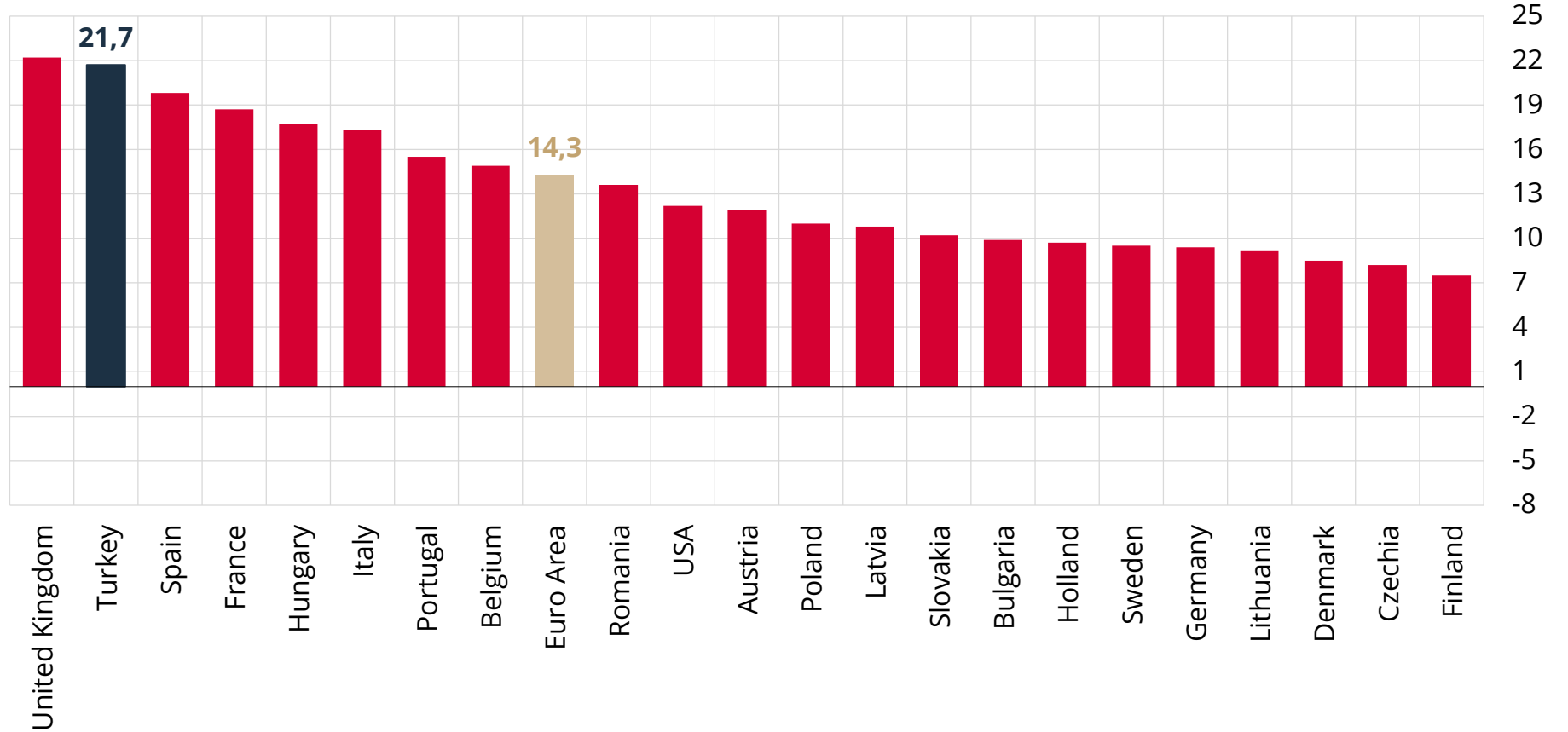


Last Observation: 2021 Q2

Growth Rates - Second Quarter of 2021

In the second quarter of 2021, Turkey's growth performance surpassed many other countries.

2021 Second Quarter Annual GDP Growth Rates (%)



Source: Eurostat, ONS

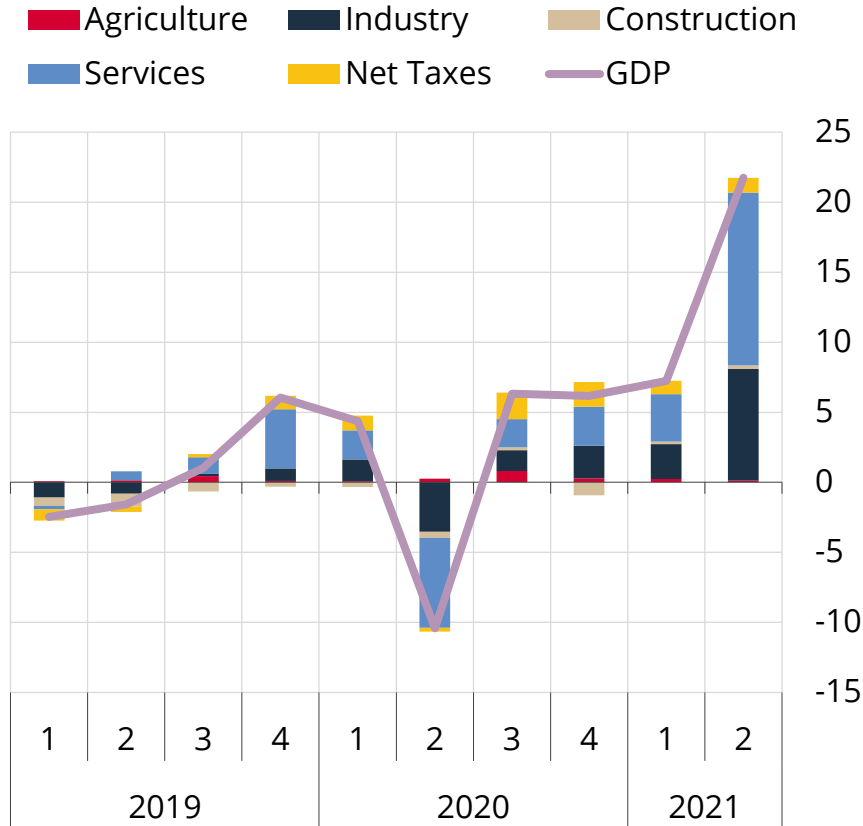
Last Observation: 2021 Q2

Economic Activity

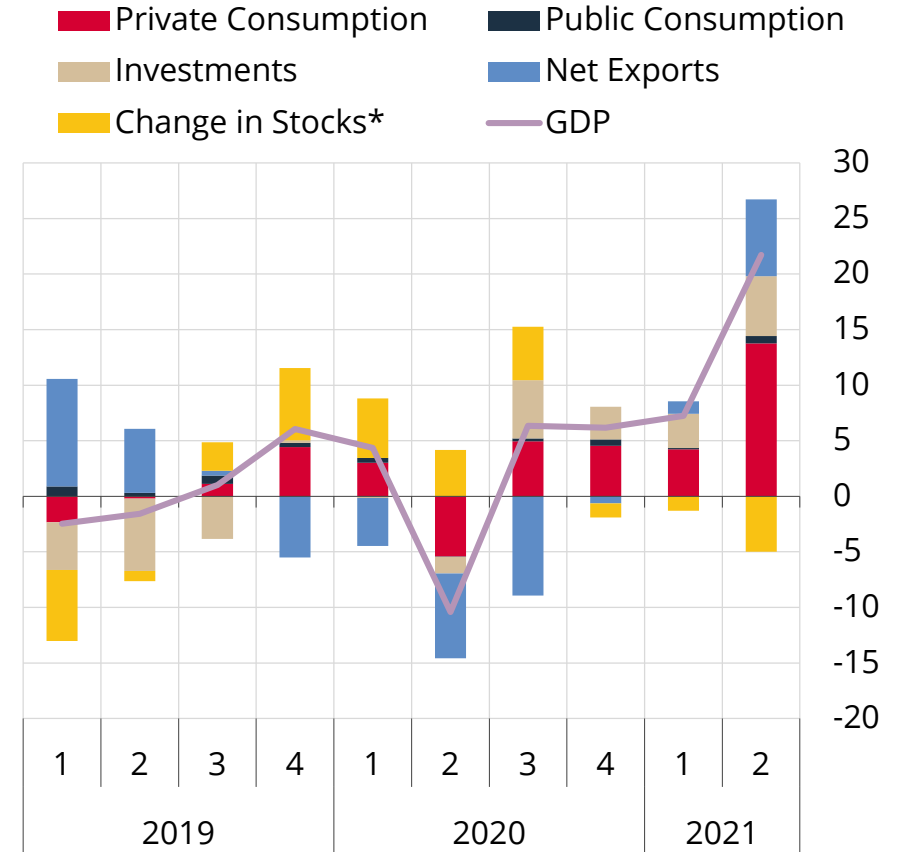
Consumption and machinery-equipment investments were the main drivers of domestic demand.

There was also a marked improvement in the contribution of net exports.

Contribution to Annual GDP Growth from Production Side (% Point)



Contribution to Annual GDP Growth from Expenditure Side (% Point)



Source: CBRT, TURKSTAT

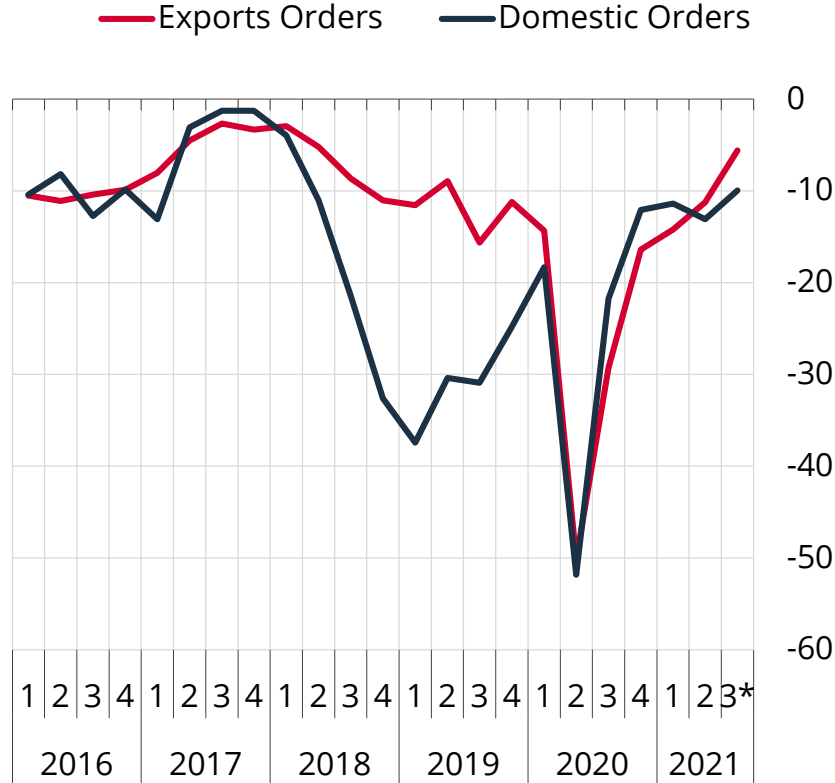
Last Observation: 2021 Q2

* Includes statistical discrepancy due to chain linking.

Demand Composition

Leading indicators show that domestic economic activity remains strong in the third quarter, with the help of robust external demand.

Business Tendency Survey Current Orders (Seasonally Adjusted)

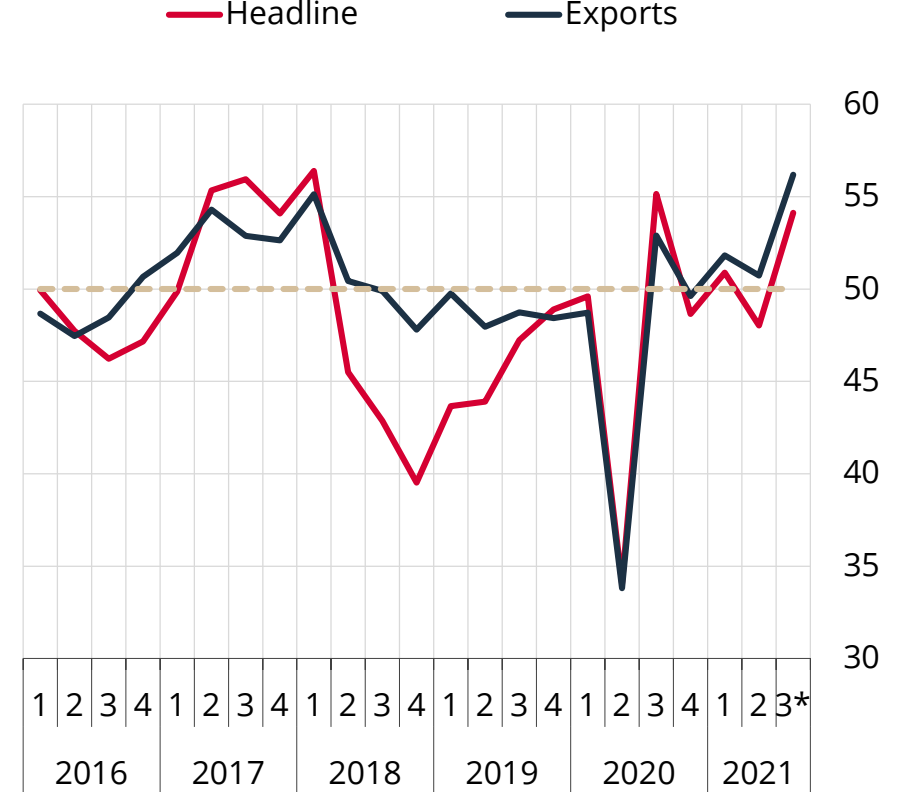


Source: CBRT

Last Observation: August 2021

* Average of July and August.

PMI Orders Index (Seasonally Adjusted)



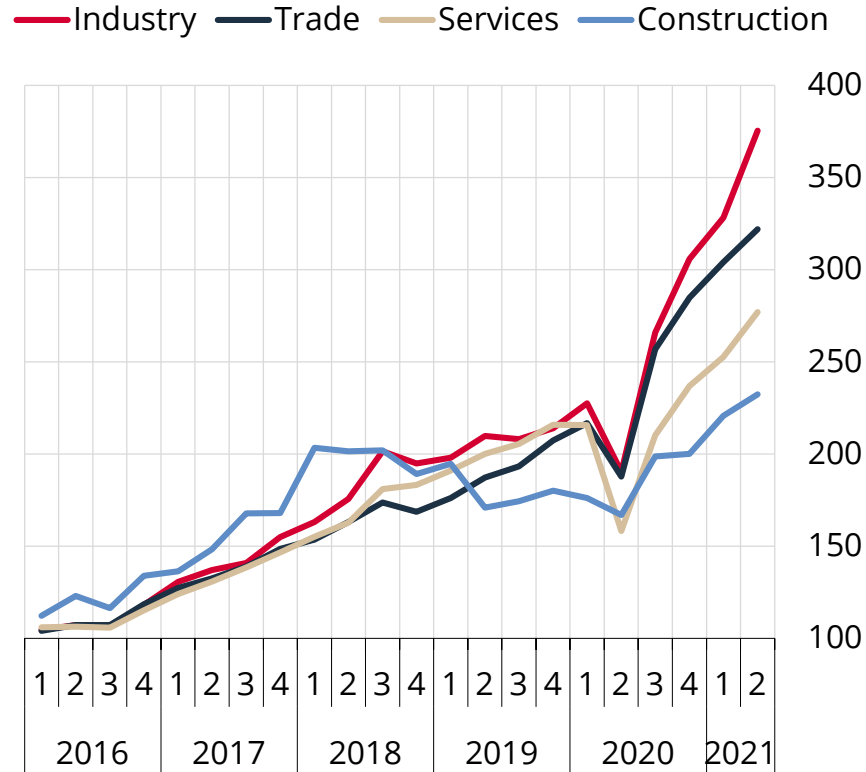
Source: IHS Markit

Last Observation: August 2021

Opening-Up and Economic Normalization

The acceleration of domestic vaccination rollout facilitates the recovery in services and tourism sectors, which have been adversely affected by the pandemic, and leads to a more balanced composition in economic activity.

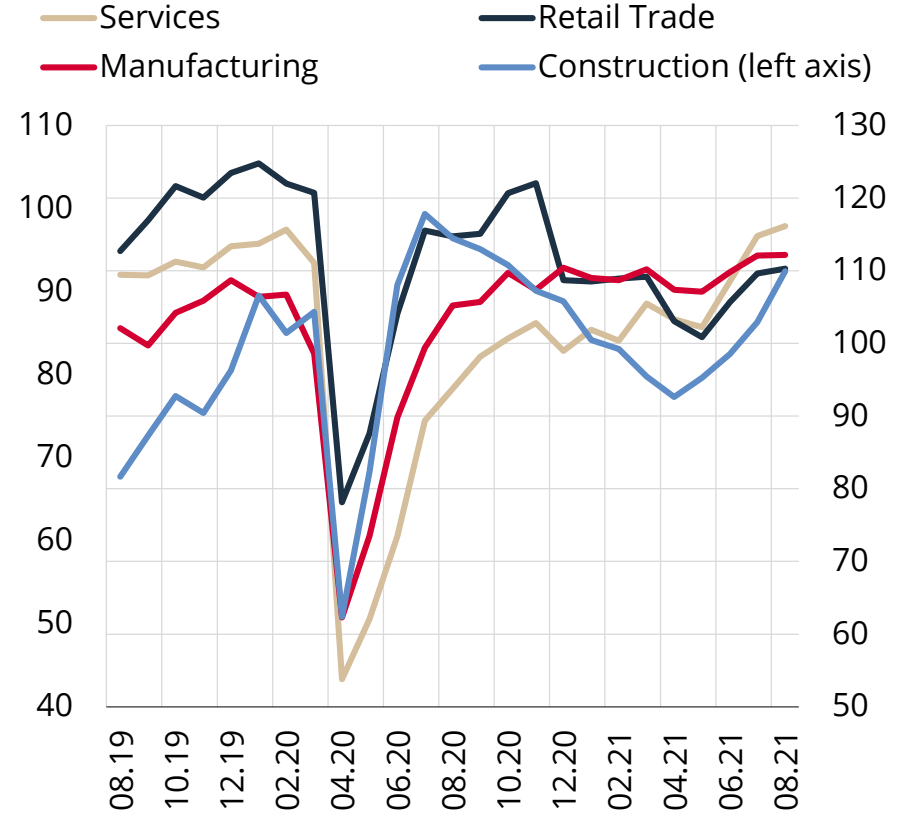
Sectoral Turnover Indices (Nominal, Seasonally Adjusted, 2015=100)



Source: TURKSTAT

Last Observation: June 2021

Sectoral Confidence Indices (Seasonally Adjusted)



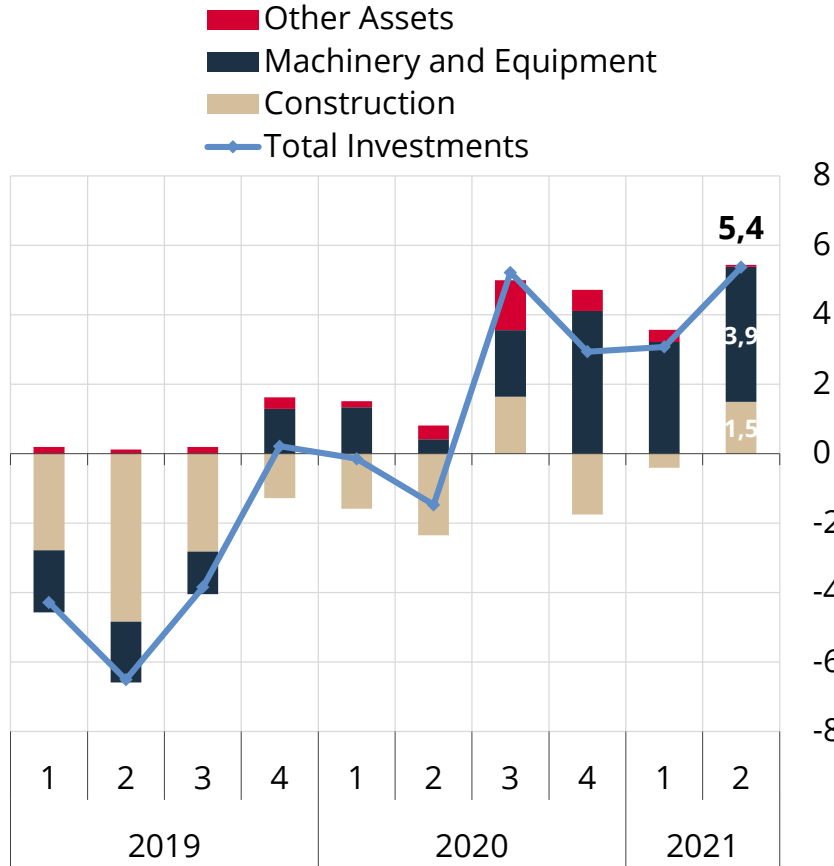
Source: CBRT, TURKSTAT

Last Observation: August 2021

Investment

Contribution of investments to growth increases on the back of machinery and equipment.

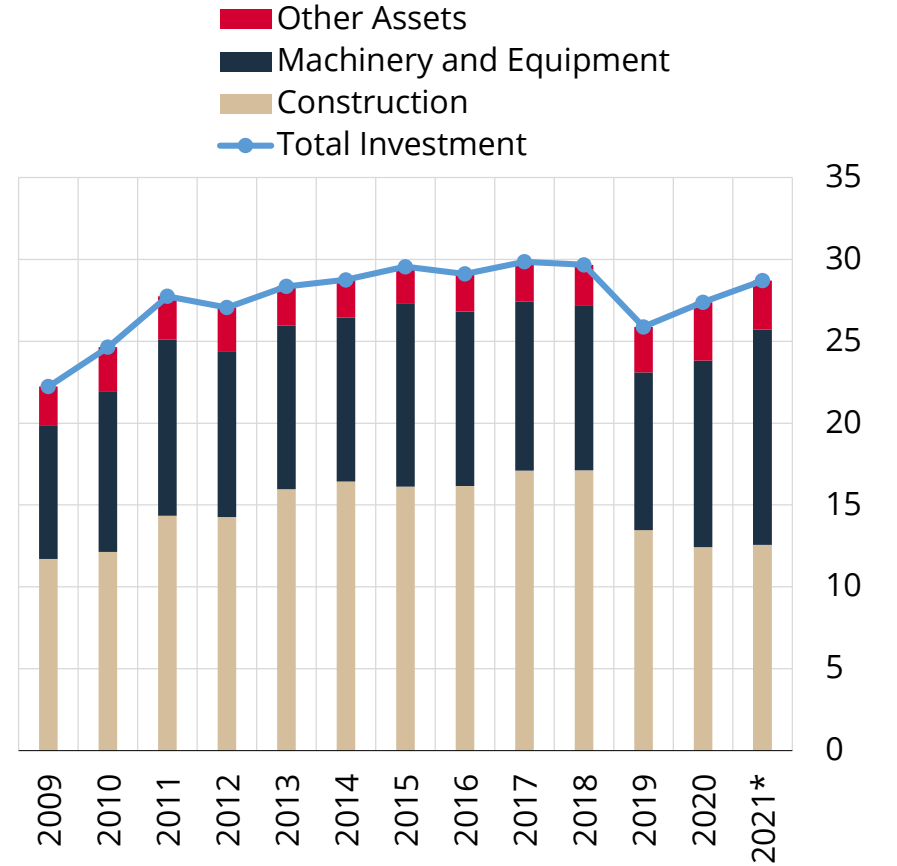
Contribution to Annual GDP Growth (% Point)



Source: TURKSTAT, CBRT

* The distribution of seasonally adjusted levels as of 2021 H1.

The Share of Investment in GDP (Nominal Prices, %)

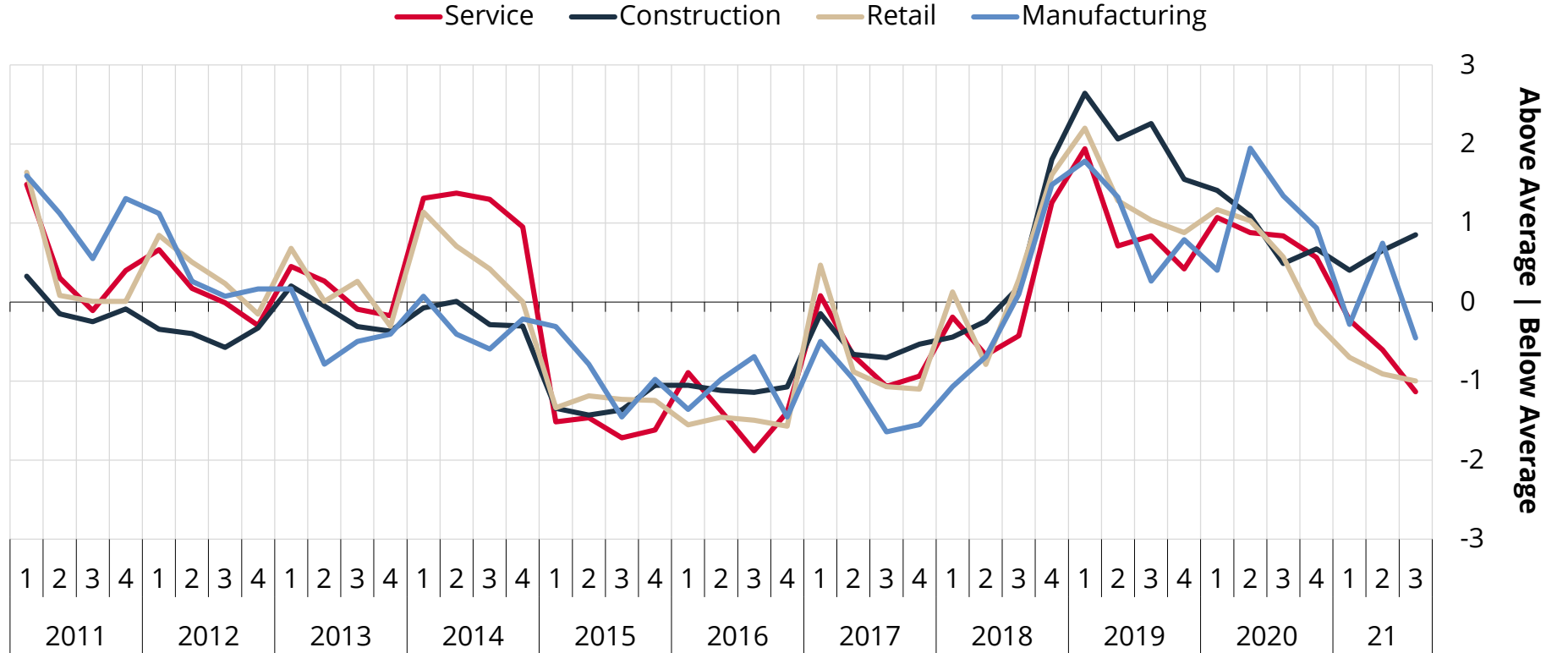


Last Observation: 2021 Q2

Financial Constraints by Sectors

Firms operating in all sectors excluding construction, reported that weight of financial constraints among factors limiting activity / production has declined and has been moving close to the historical averages.

Factors Limiting Activity – Financial Constraints*



Source: CBRT, TURKSTAT

Last Observation: July 2021, Construction: August 2021

* Source of the series for manufacturing is CBRT 's Business Tendency Survey and of the series for service, construction and retail is TURKSTAT's Sectoral Confidence Index. Share of financial constraints in factors limiting activity/ production is standardized by sector. The frequency of series for service, retail and manufacturing is quarterly in respective surveys; reported in January, April, July, October.

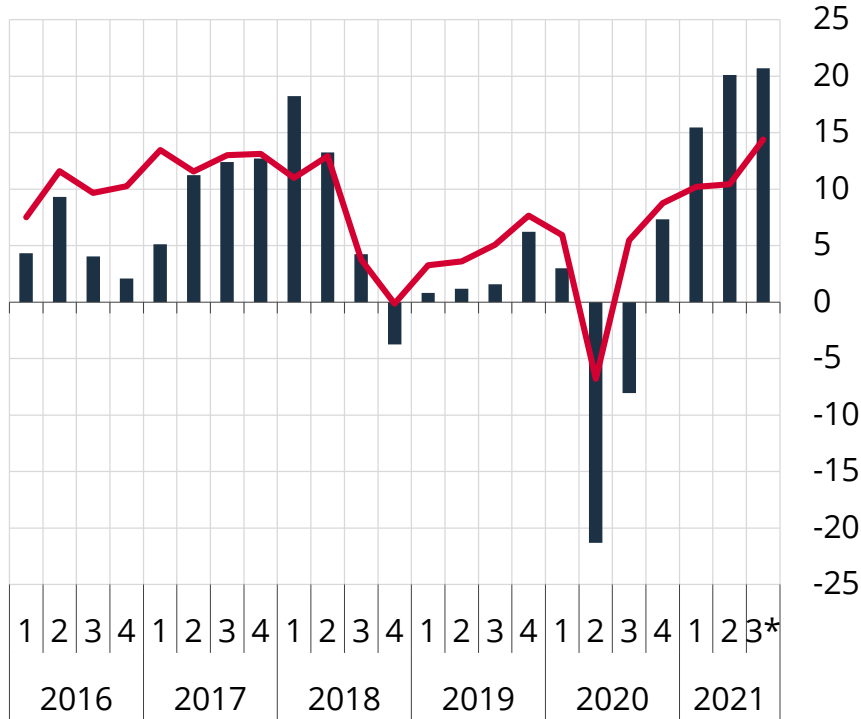
Business Tendency Survey

Firms increased their plans for employment and investment.

The improvement in the investment tendency of firms continues across sectors in the third quarter.

Investment Tendency and Employment Expectation in Manufacturing (Seasonally Adjusted)

■ Investment Tendency — Employment Expectation

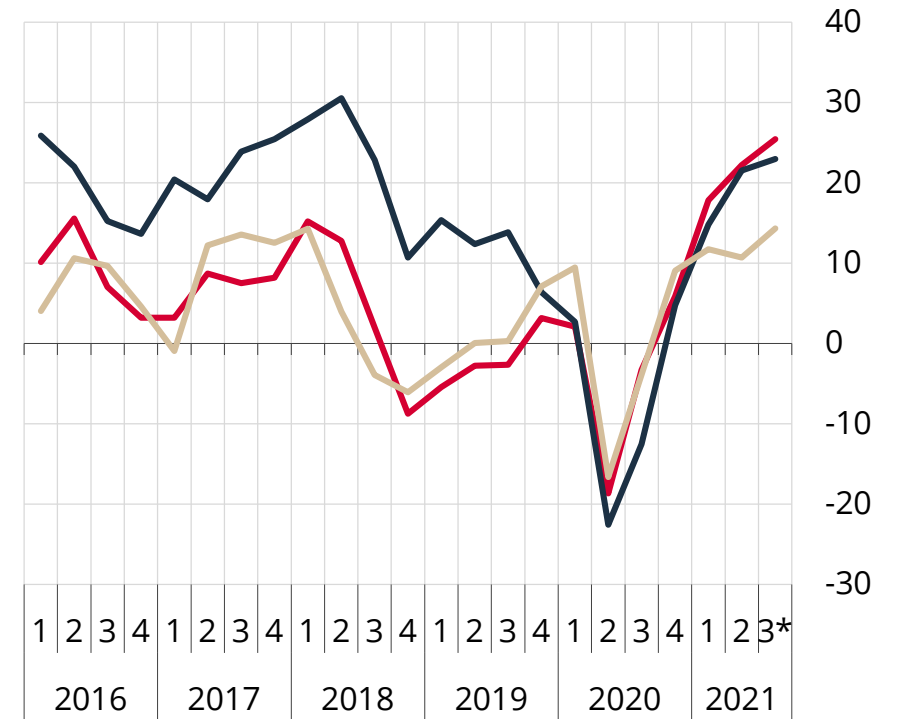


Kaynak: CBRT

* The average of July-August.

Investment Tendency (Seasonally Adjusted)

— Intermediate Goods
— Capital Goods
— Consumer Goods

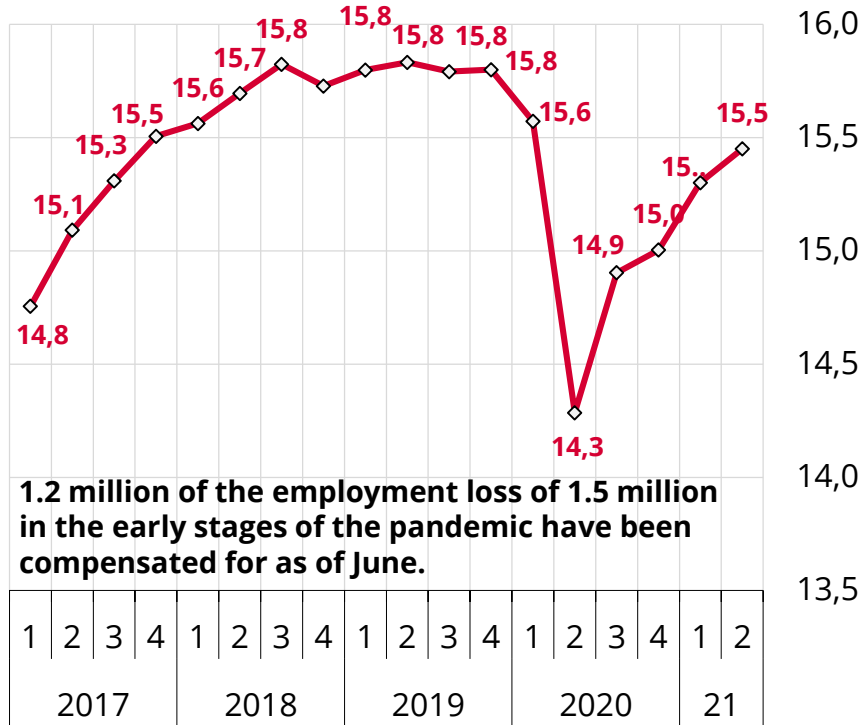


Last Observation: August 2021

Employment

While the effects of the pandemic are more evident in the services sector employment, industrial employment remains strong with the effect of the positive foreign demand outlook.

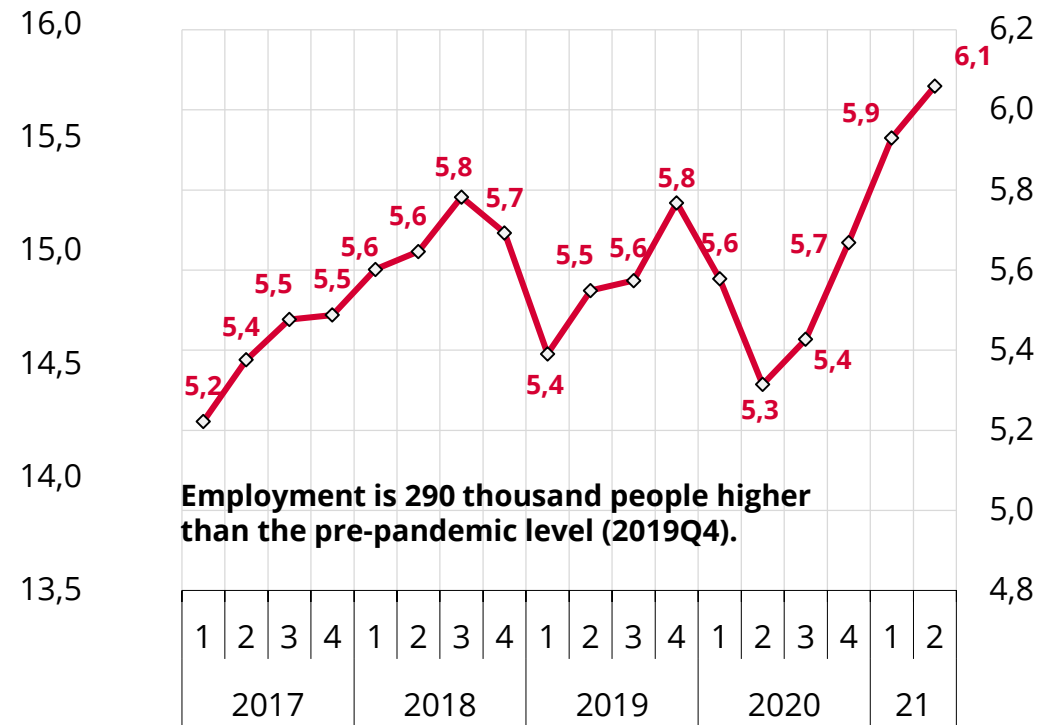
Services Employment (Seasonally Adjusted, Million People)



Source: TURKSTAT

Last Observation: June 2021

Industrial Employment (Seasonally Adjusted, Million People)



Source: TURKSTAT

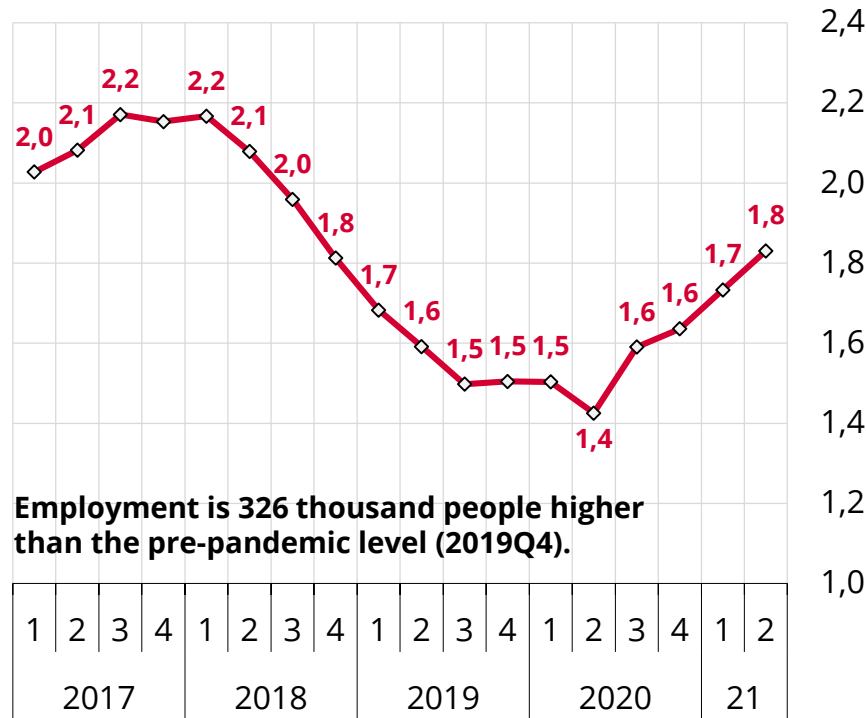
Last Observation: June 2021

Employment

Total non-farm employment exceeded pre-pandemic levels.

It is assessed that services employment will also exceed its pre-pandemic levels in the upcoming period.

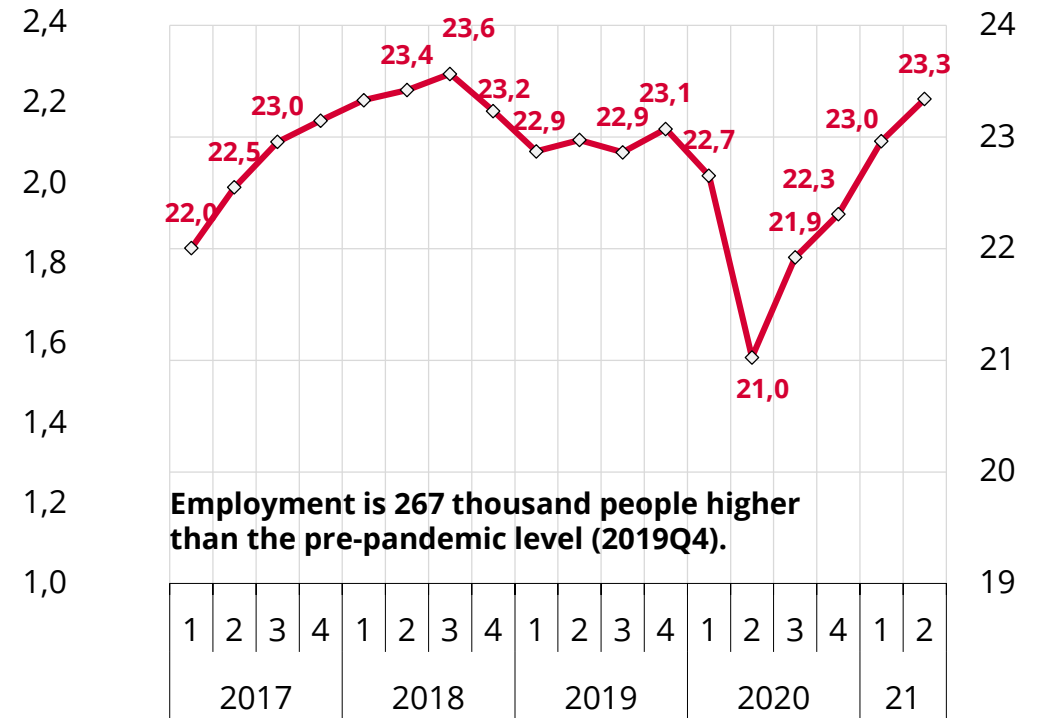
Construction Employment (Seasonally Adjusted, Million People)



Source: TURKSTAT

Last Observation: June 2021

Nonfarm Employment (Seasonally Adjusted, Million People)



Source: TURKSTAT

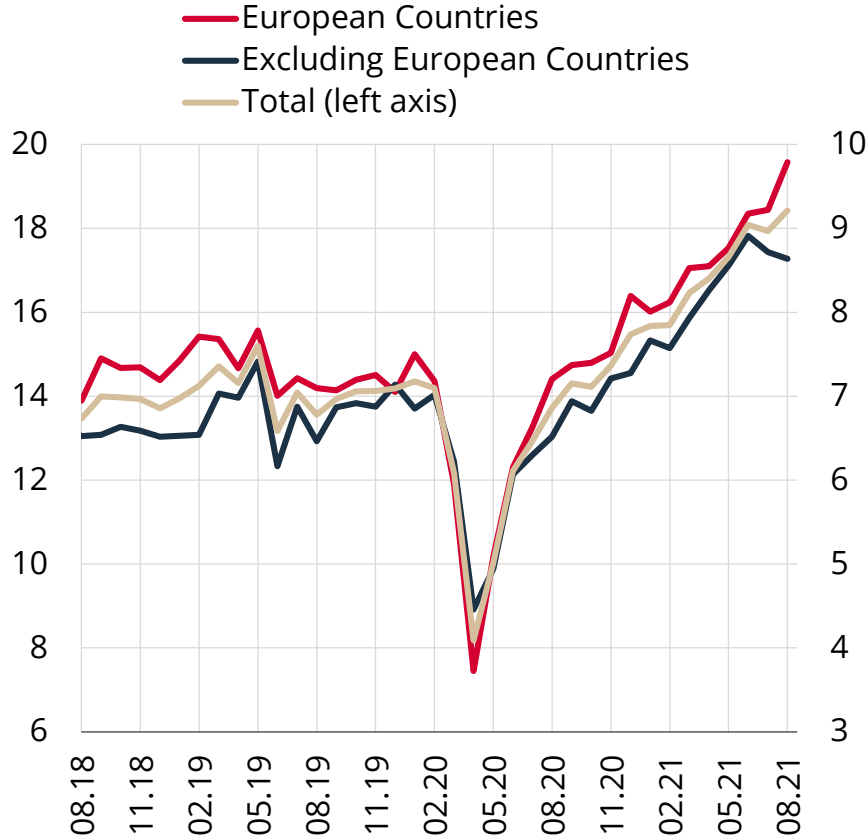
Last Observation: June 2021

External Balance

Due to the acceleration in exports to Europe, the strong course of exports was maintained in August.

Imports increased on a monthly basis.

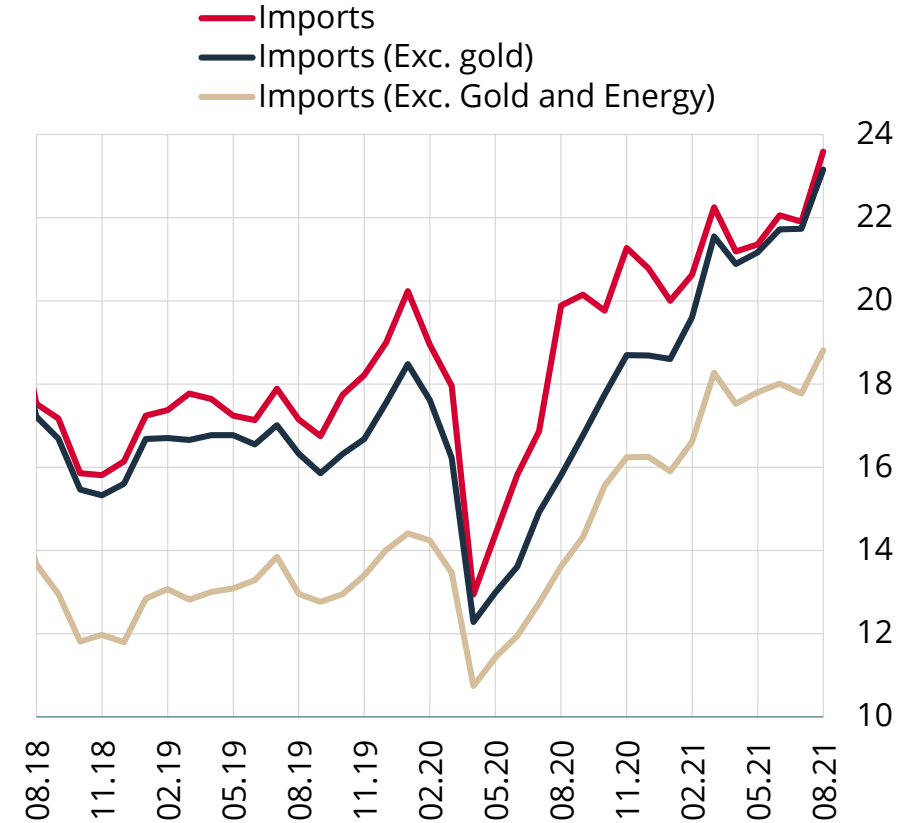
Exports* (Billion USD, Seasonally and Calendar Adjusted)



Source: TURKSTAT, Ministry of Trade, CBRT Last Observation: July 2021

* August data is provisional.

Imports* (Billion USD, Seasonal and Calendar Adjusted)



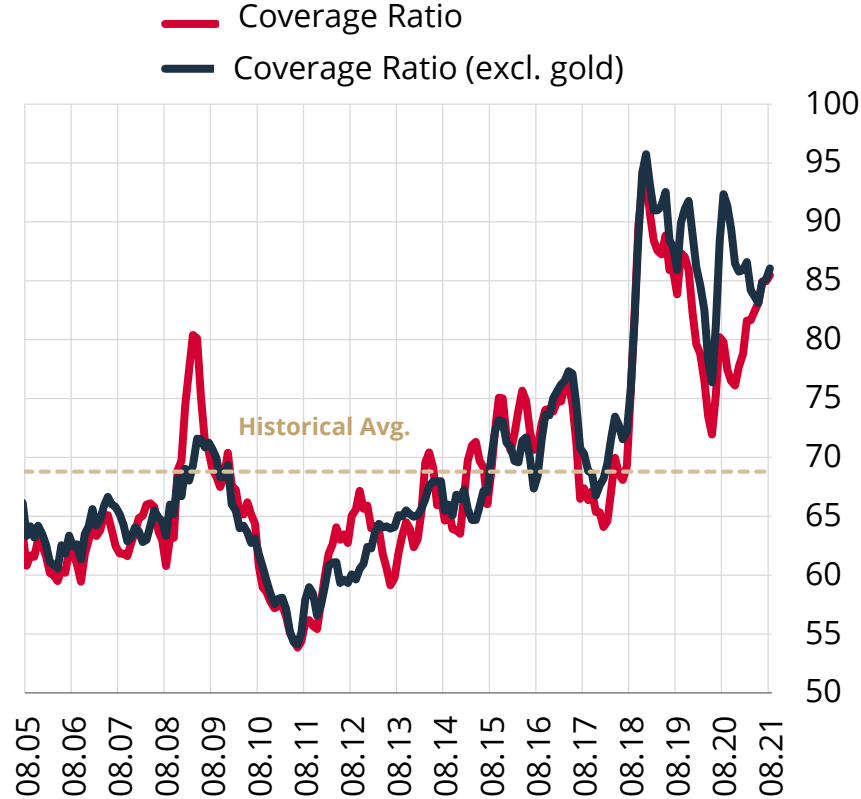
Source: TURKSTAT, Ministry of Trade, CBRT Last Observation: July 2021

External Balance

The ratio of exports to imports has been relatively high in recent years.

As the negative impact of the pandemic on tourism and other service exports decreases, the improvement trend in the current account balance becomes more evident.

Coverage Ratio*
(%, Seasonally Adjusted, 3-Month Moving Average)

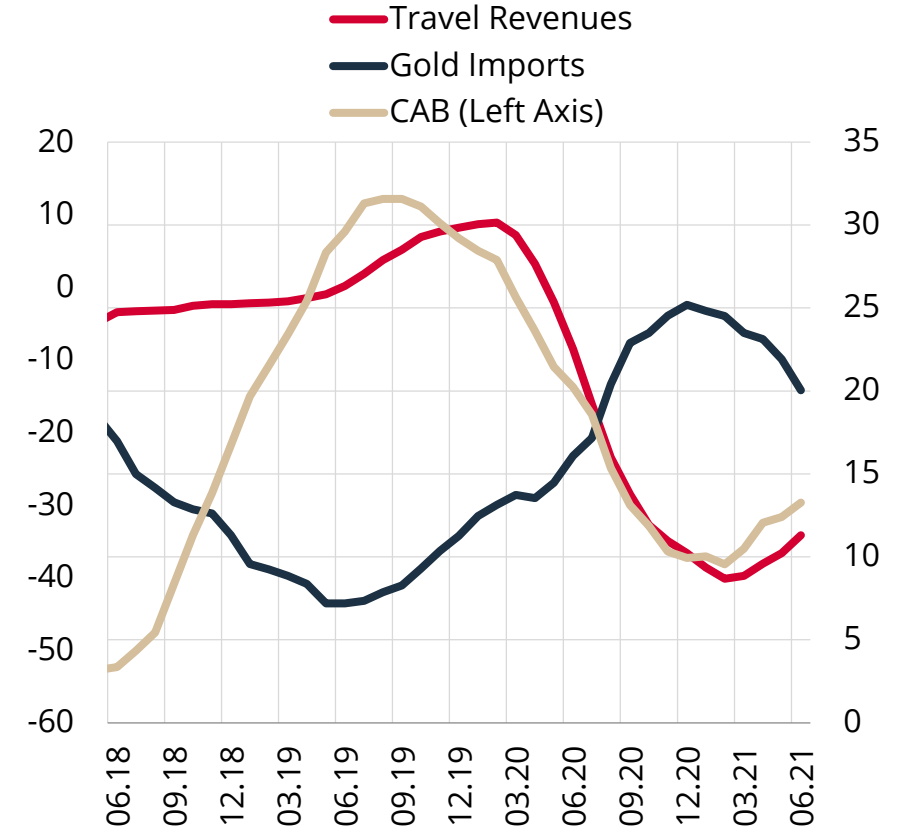


Source: CBRT, TURKSTAT

Last Observation: July 2021

* August data is provisional.

Current Account Balance, Gold Imports, Travel Revenues
(Billion USD, 12 Month Cumulative)



Source: CBRT

Last Observation: June 2021

Foreign Trade Balance

Turkey has started to have a surplus in its foreign trade with Europe, but still has a foreign trade deficit with the Asian region.

Foreign Trade Balance by Region (Billion US Dollars)

	2017	2018	2019	2020	2021*	FTV*
EU 27	-14.7	0.0	8.3	-3.7	-1.5	168.2
Euro Area	-11.9	0.1	7.4	-3.4	-1.8	131.7
Germany	-5.9	-4.2	-2.7	-5.8	-5.4	41.9
Excl. Germany	-6.0	4.3	10.1	2.4	3.6	89.8
Other Europe	-0.4	5.7	6.5	1.7	3.9	35.0
CIS	-15.6	-17.2	-15.6	-9.2	-13.7	47.5
Asia	-45.7	-40.6	-33.9	-36.3	-44.0	75.5
Middle East and Africa	23.4	21.7	30.5	19.8	26.7	78.6
North America	-4.2	-4.6	-3.5	-1.4	1.3	26.1

Source: TURKSTAT

Last Observation: June 2021

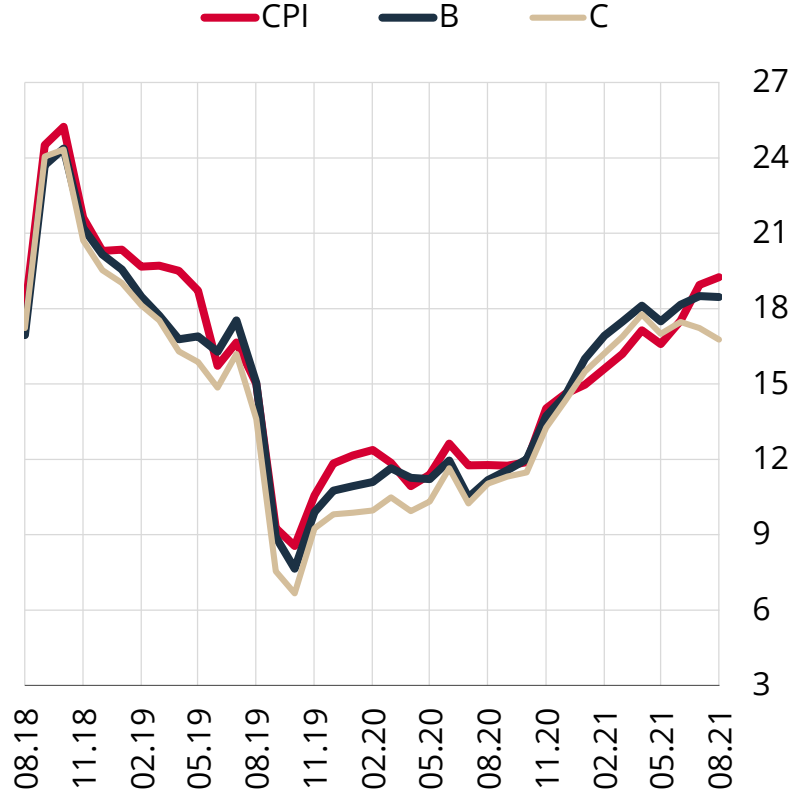
* 12-month cumulative values as of July 2021. FTV refers to Foreign Trade Volume.

Inflation

In August, annual headline inflation increased by 0.30 points to 19.25%, mainly on the back of food prices.

In this period, the core indicators B and C recorded annual inflations of 18,46% and 16,76%, respectively.

**CPI and Core Inflation
(Annual % Change)**



Source: TURKSTAT

Last Observation: August 2021

Contributions to Annual CPI (% Points)

	January 21	February 21	March 21	April 21	May 21	June 21	July 21	August 21
CPI	14.97	15.61	16.19	17.14	16.59	17.53	18.95	19.25
Core Goods	6.15	6.33	6.47	6.68	6.16	6.6	6.3	5.7
Food and Non-alcoholic Beverages	4.31	4.52	4.38	4.38	4.36	4.96	6.1	7.1
Alcoholic Beverages and Tobacco	0.08	0.16	0.16	0.2	0.16	0.11	0.1	0.1
Energy	0.99	1.1	1.48	2.05	2	2	2.6	2.5
Services	3.44	3.49	3.7	3.83	3.92	3.85	3.9	3.9

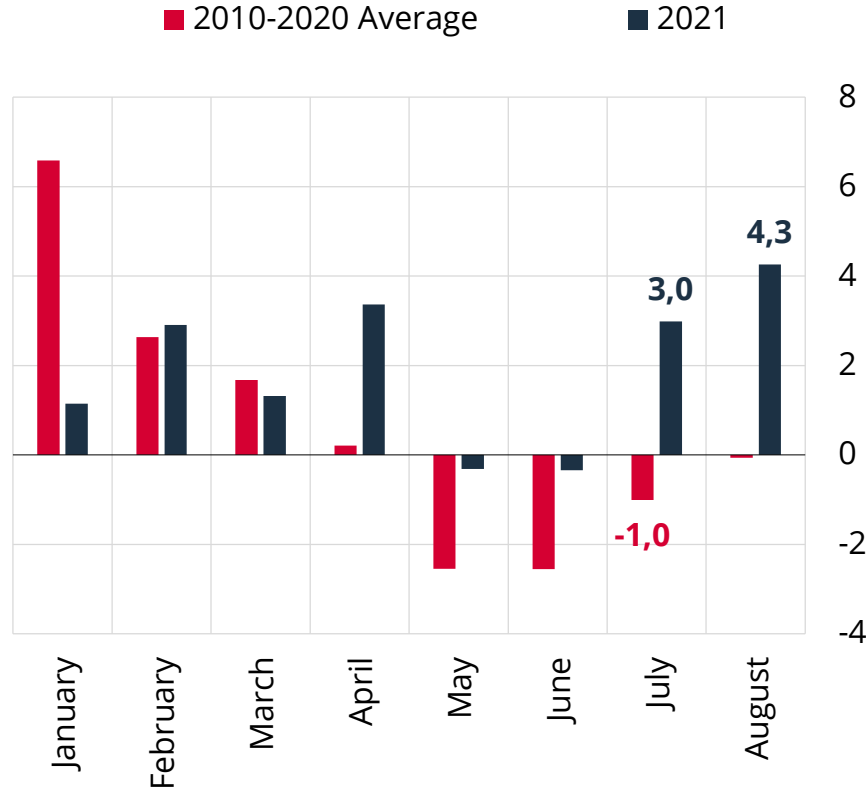
Source: TCMB, TURKSTAT

Last Observation: August 2021

Food Inflation

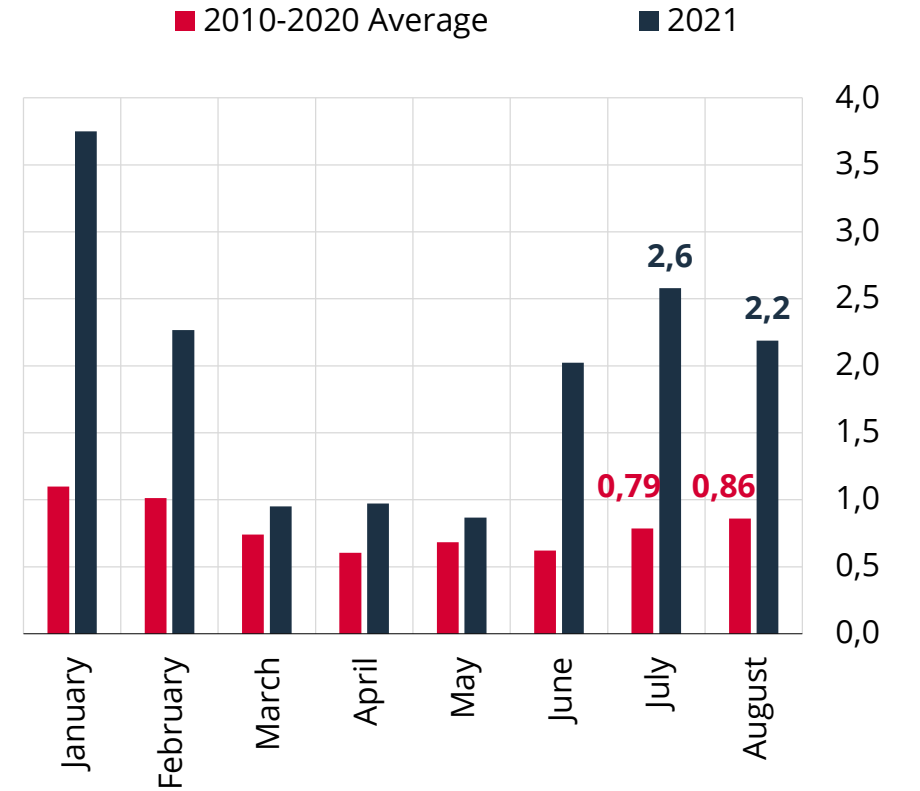
Although the rise in food inflation stemmed from both sub-items, it was more prominent in unprocessed food group.

Unprocessed Food (Monthly % Change)



Source: CBRT, TURKSTAT

Processed Food (Monthly % Change)



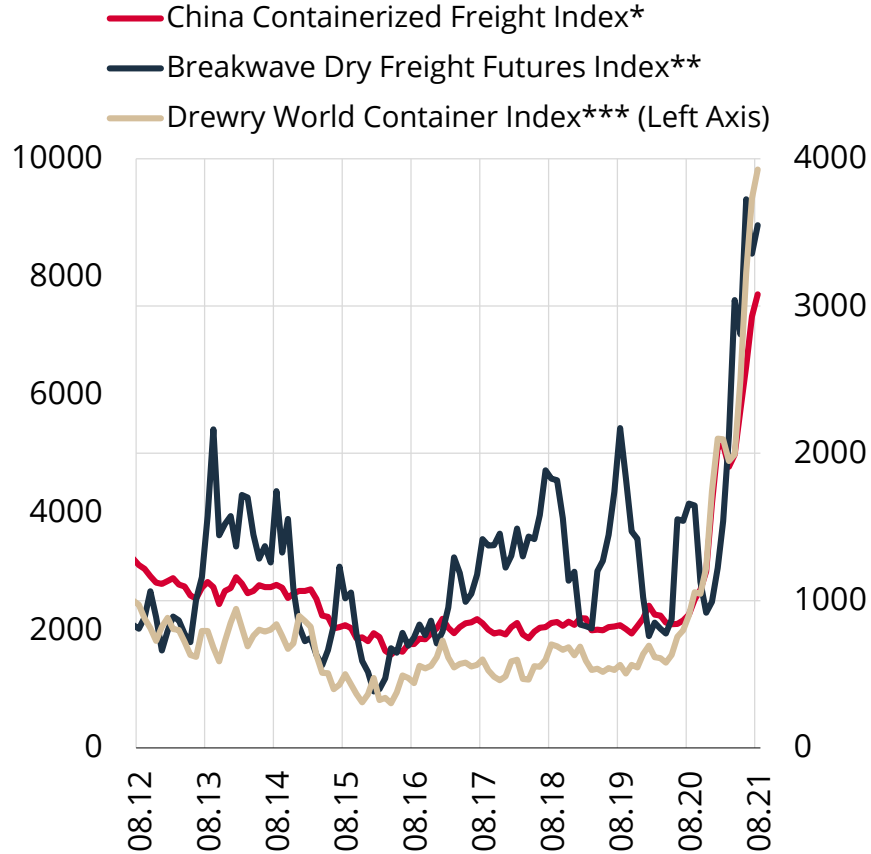
Last Observation: August 2021

Supply Constraints

Historical dynamics, characterized by the exchange rate and international commodity prices, fall short of explaining the recent rise in producer inflation.

The rise in international transportation costs and longer delivery times put producer prices under pressure.

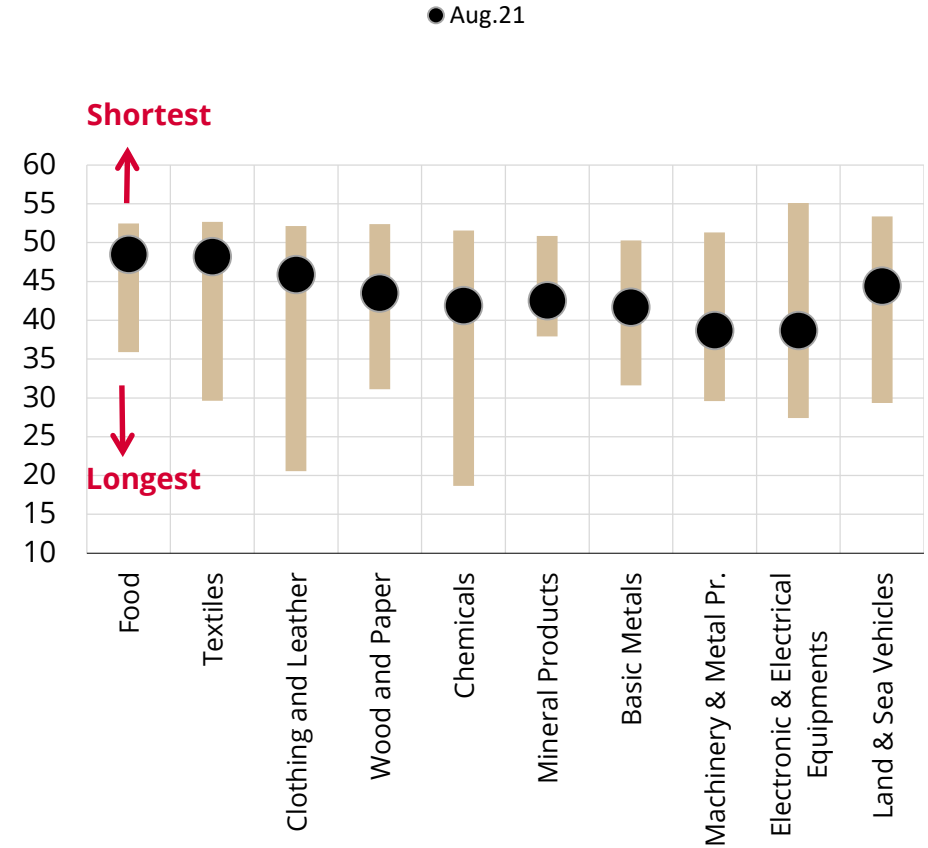
International Transportation Costs (USD)



Source: Bloomberg

Last Observation: August 2021

PMI Suppliers' Delivery Times**** (Seasonally Adjusted)



Source: IHS Markit

Last Observation: August 2021

* It is derived from the weighted averages of spot and contract freight costs by volume for transportation from Chinese container ports.

** It is obtained from the weighted averages of the Capesize, Panamax and Supramax dry cargo freight forward contracts by volume-contract size.

*** Freight cost of 40 ft container weighted by trade volume on 8 shipping routes.

**** A lower value indicates a longer delivery time.

Consumer and Producer Inflation

The gap between producer and consumer inflation has been above their long-term trends in many developed and developing countries recently.

Developed Countries

	CPI (Annual, %)	PPI (Annual, %)
Norway	3	43.4
Canada	3.7	15.4
Sweden	1.4	13.5
Euro Area	2.2	10.2
USA	5.4	7.8
Czechia	3.4	7.8
Japan	-0.3	5.6
United Kingdom	2	4.9
Australia	3.8	2.2
New Zealand	3.3	2.1

Developing Countries

	CPI (Annual, %)	PPI (Annual, %)
Argentina	51.8	69
Turkey (*)	19.25	45.52
Brazil	8.99	36.8
Chile	4.54	30.4
Russia	6.46	28.1
Colombia*	4.44	17.6
Romania	4.95	11.78
Hungary	4.6	11.6
Malaysia	2.2	11.5
India	5.59	11.16
China	1	9
Poland	5.40*	8.2
S. Africa	4.6	7.4
Mexico	5.81	6.43
Thailand	0.45	5.04
Indonesia	1.59*	2.72
Philippines	4	-2.4

Source: Bloomberg

* The relevant inflation data is for August.

Last Observation: 2021 July

Contribution to the Consumer Inflation

It is observed that the price increases in certain products have been above their historical averages recently.

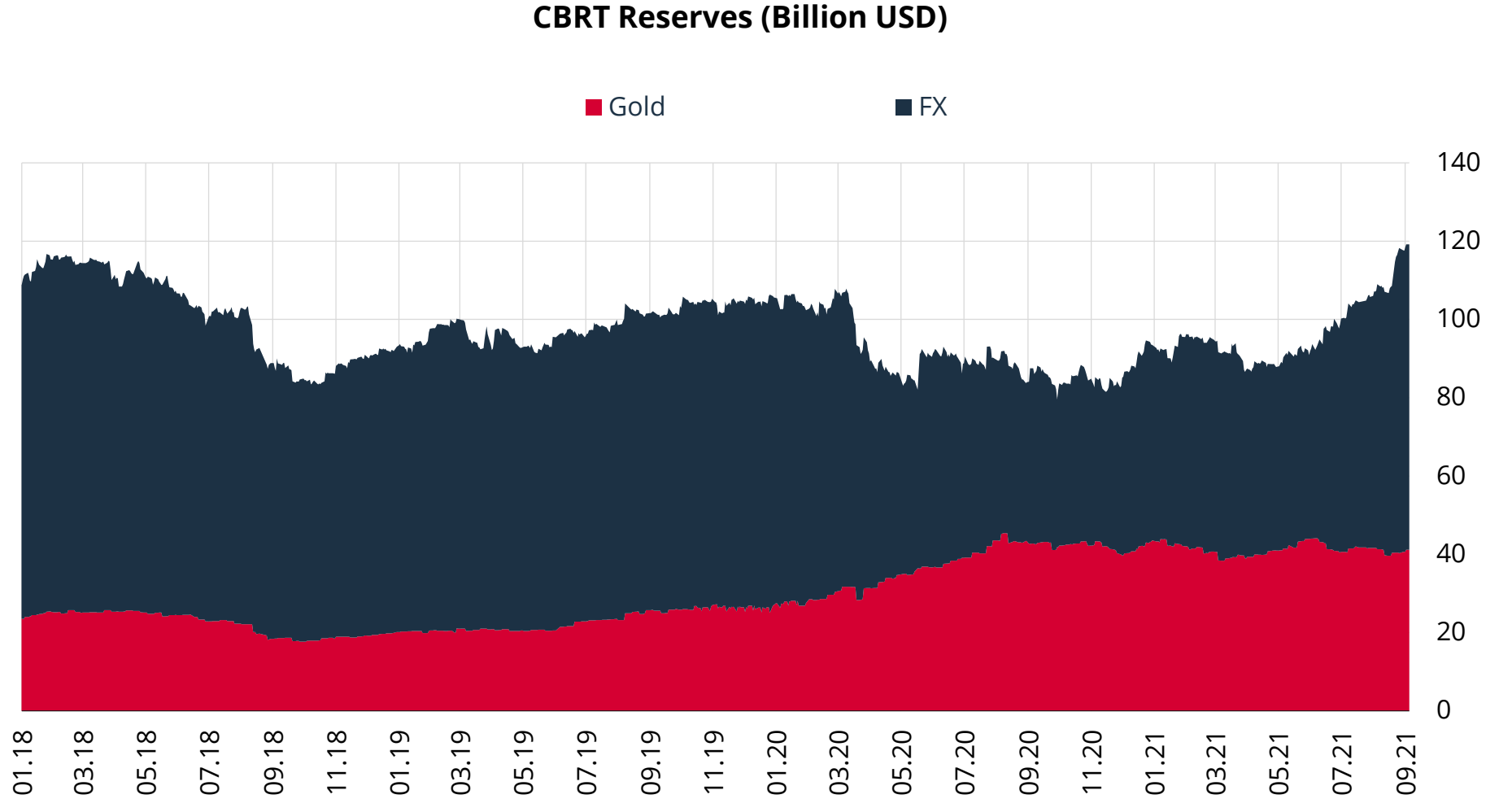
CPI Item Group/Name	August CPI Annual (%)	CPI 10-Year Average (%)	Contribution
Food serving services	23.75	12.49	1.15
Motor cars (Diesel)	27.05	13.89	0.90
Fuels and lubricants for personal transport equipment	21.31	7.23	0.82
Electricity	29.15	10.77	0.79
Motor cars (1200-1699 Cc gasoline-powered)	26.92	14.17	0.78
Vegetables (excluding potatoes and some tubers)	47.50	14.40	0.78
Fresh vegetables	33.47	12.00	0.74
Materials for the maintenance and repair of the dwelling	46.18	12.62	0.70
Bread	26.13	11.88	0.60
Poultry	62.77	7.99	0.59
Actual rentals paid by tenants for main residence	10.22	7.75	0.56
Beef	23.37	9.63	0.52
Other Oils and Fats	55.86	12.64	0.51
Cheese	29.40	12.39	0.44
Other appliances, articles and products for personal care	19.08	11.23	0.35
Natural gas through networks	19.49	10.59	0.35
Water supply through network systems	13.52	8.09	0.33
Maintenance and repair of personal transport equipment	24.59	13.53	0.29
Other bakery products	21.13	11.14	0.28
Fresh Milk	35.68	12.05	0.25
Mobile communication services	6.87	4.40	0.23
Dining Room and Parlor Furniture	23.12	10.92	0.23
Eggs	49.22	17.74	0.23
Household cleaning products	20.98	10.39	0.22

Source: CBRT, TURKSTAT

Last Observation: August 2021

Reserves

The CBRT reserves started to increase.



Source: CBRT

Last Observation: September 6, 2021



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

www.tcmb.gov.tr