



TÜRKİYE CUMHURİYET  
MERKEZ BANKASI

# BRIEFING ON 2023-II INFLATION REPORT

Prof. Dr. Şahap Kavcıoğlu  
Governor

4 MAY 2023

ANKARA



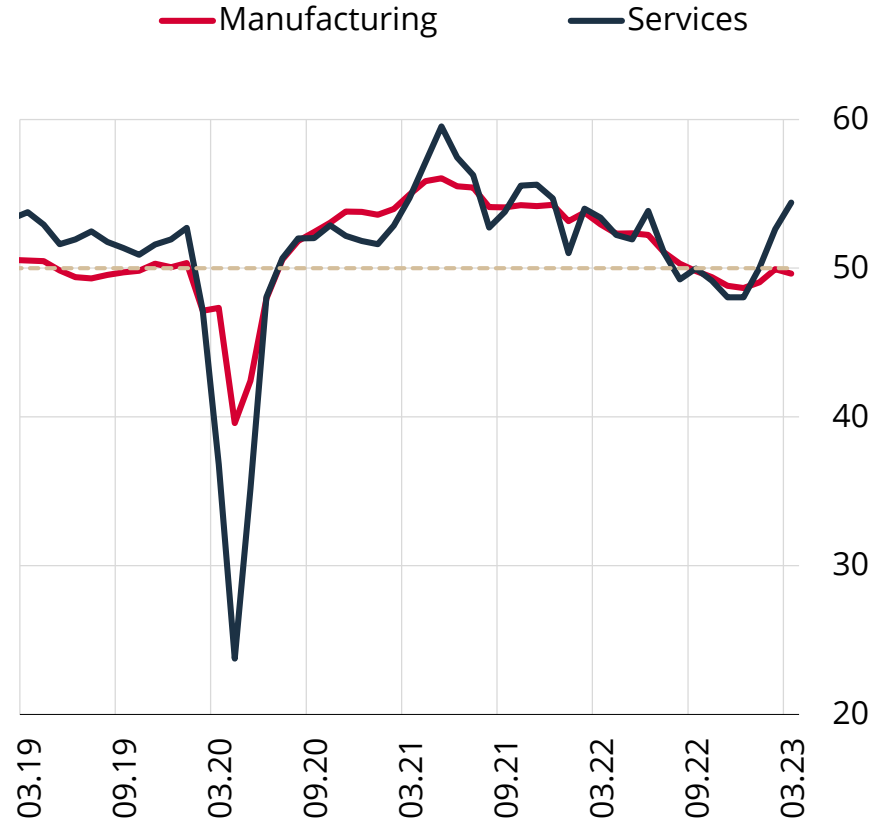
# Outline

- **Global Developments**
- **Turkish Economy**
- **Inflation**
- **Monetary Policy**
- **Medium-Term Projections**
- **Overview**

# GLOBAL DEVELOPMENTS

# Global Growth

## Global PMI Indicators\*



Source: S&P Global

Last Observation: March 2023

\* Dashed line shows the threshold value.

## Growth Forecasts in Advanced and Emerging Economies\* (%)

	2022	2023 Forecast	
	Realization	IR 2023-I	IR 2023-II
<b>Eurozone</b>	3.5	0.0	<b>0.7</b>
<b>Germany</b>	1.8	-0.5	<b>0.1</b>
<b>USA</b>	2.1	0.3	<b>1.1</b>
<b>UK</b>	4.0	-1.0	<b>-0.2</b>
<b>Italy</b>	3.8	0.0	<b>0.6</b>
<b>Iraq</b>	8.8	4.5	4.5
<b>Spain</b>	5.5	0.9	<b>1.4</b>
<b>France</b>	2.6	0.2	<b>0.5</b>
<b>Holland</b>	4.5	0.2	<b>1.3</b>
<b>Israel</b>	6.4	3.1	<b>3.0</b>
<b>Russia</b>	-2.1	-2.6	<b>-0.9</b>
<b>UAE</b>	7.2	2.7	<b>4.3</b>
<b>Romania</b>	4.8	2.5	<b>2.6</b>
<b>Belgium</b>	3.1	0.0	<b>0.5</b>
<b>Poland</b>	4.9	0.8	<b>0.6</b>
<b>Egypt</b>	6.6	3.7	3.7
<b>Bulgaria</b>	3.4	1.1	<b>1.4</b>
<b>China</b>	3.0	4.6	<b>5.5</b>

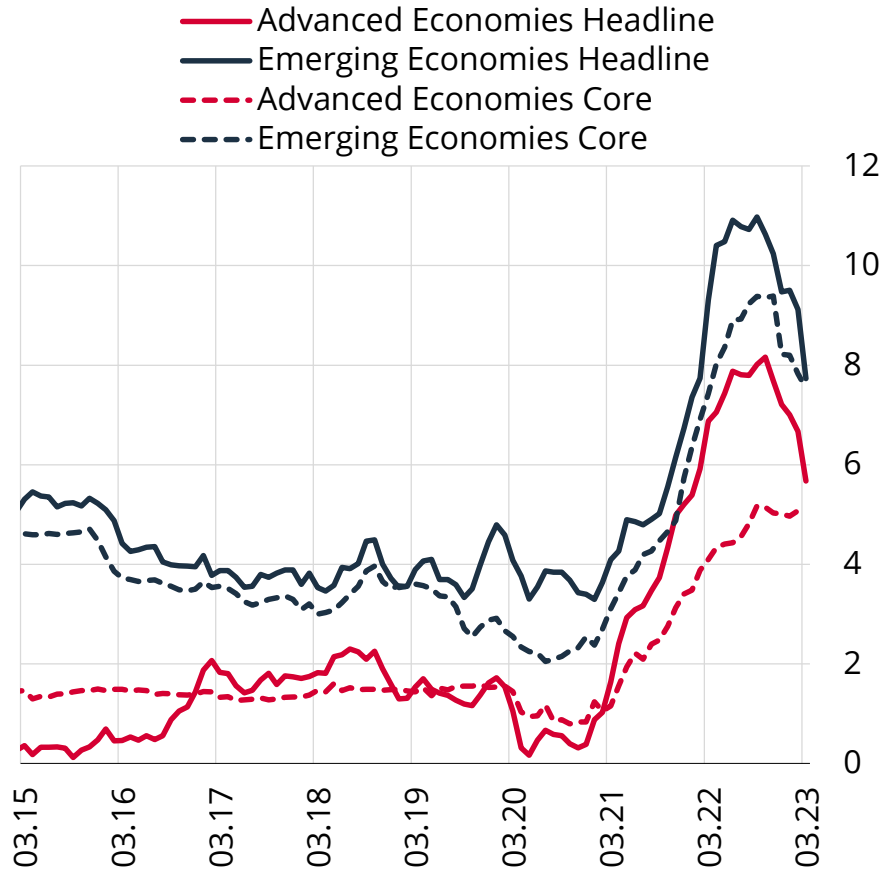
Source: Consensus Economics

Last Observation: April 2023

\* Countries are listed according to Türkiye's export share. Forecasts shown in red indicate a downward revision, and forecasts shown in green indicate an upward revision compared to the previous reporting period.

# Global Inflation

## Inflation Rates in Advanced and Emerging Economies\* (Annual % Change)

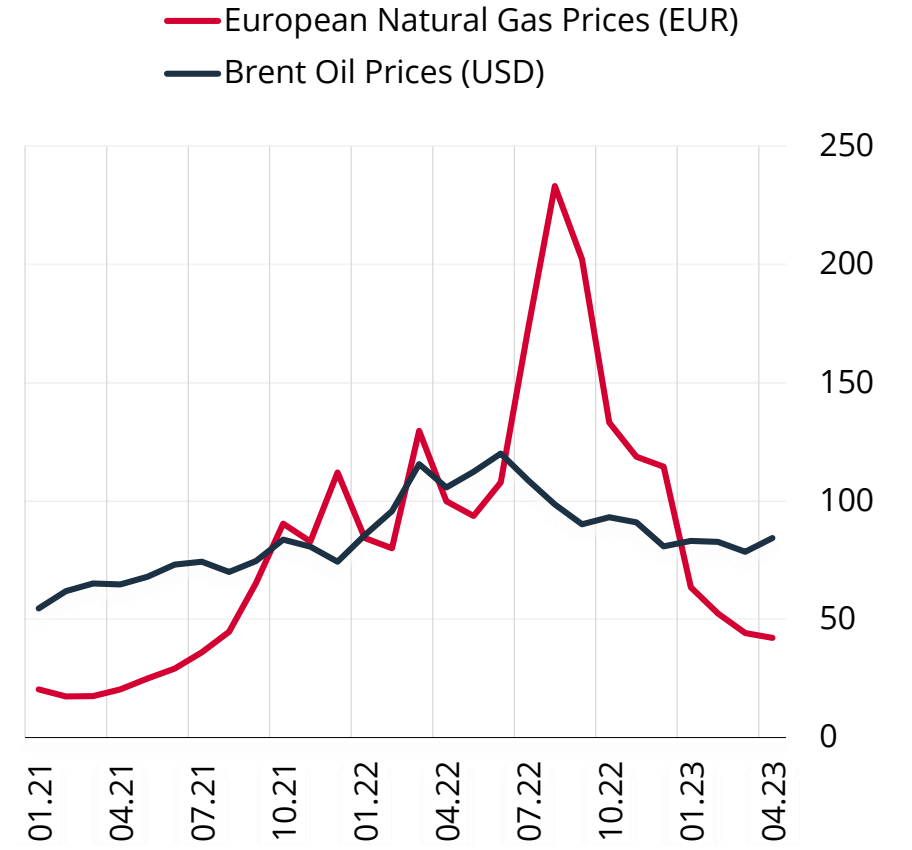


Source: Bloomberg

Last Observation: March 2023

\* Advanced Economies: USA, Eurozone, South Korea, UK, Israel, Sweden, Switzerland, Japan, Canada and Norway. Emerging Economies: Brazil, Czechia, Indonesia, Philippines, South Africa, Colombia, Hungary, Mexico, Poland, Romania and Thailand.

## Natural Gas and Oil Prices\*



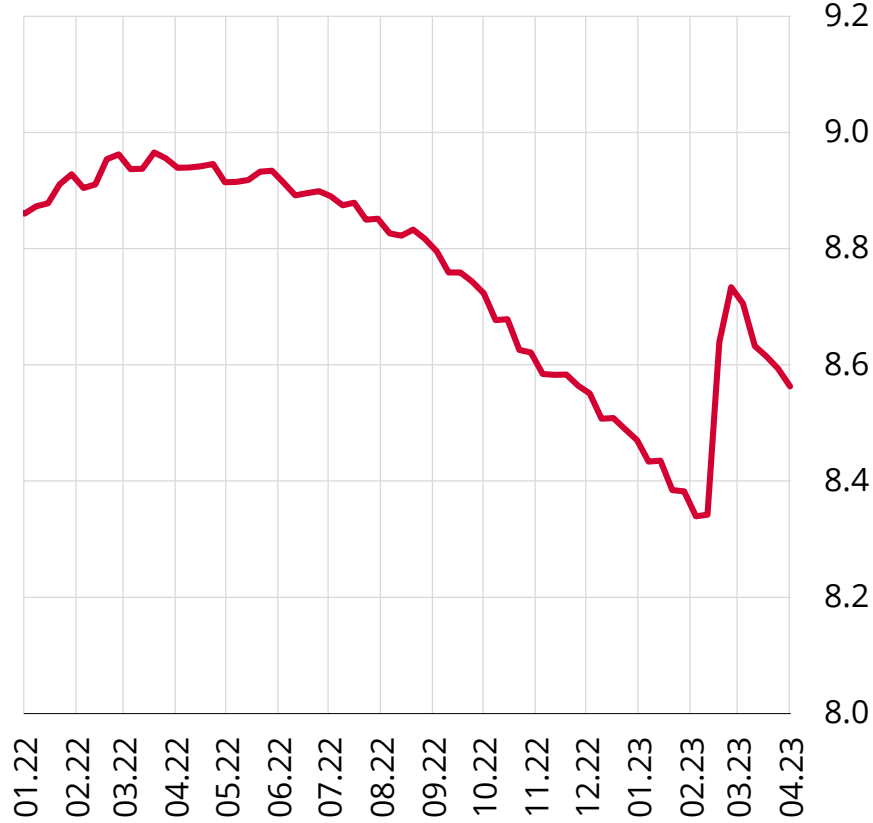
Source: Bloomberg

Last Observation: 27 April 2023

\* European natural gas prices are megawatt/hour and Brent oil prices are per barrel.

# Steps to Support Financial Stability in Advanced Economies

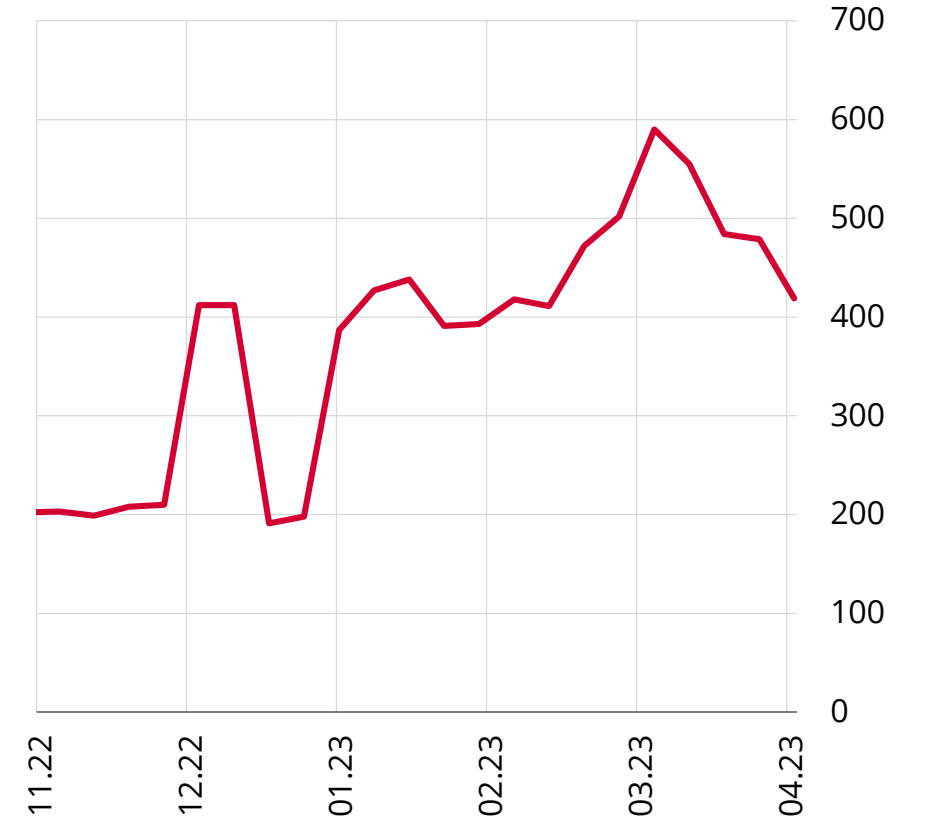
### Fed's Balance Sheet Size (Trillion USD)



Source: FRED

Last Observation: 26 April 2023

### Total Size of Fed's Swap Agreements (Billion USD)



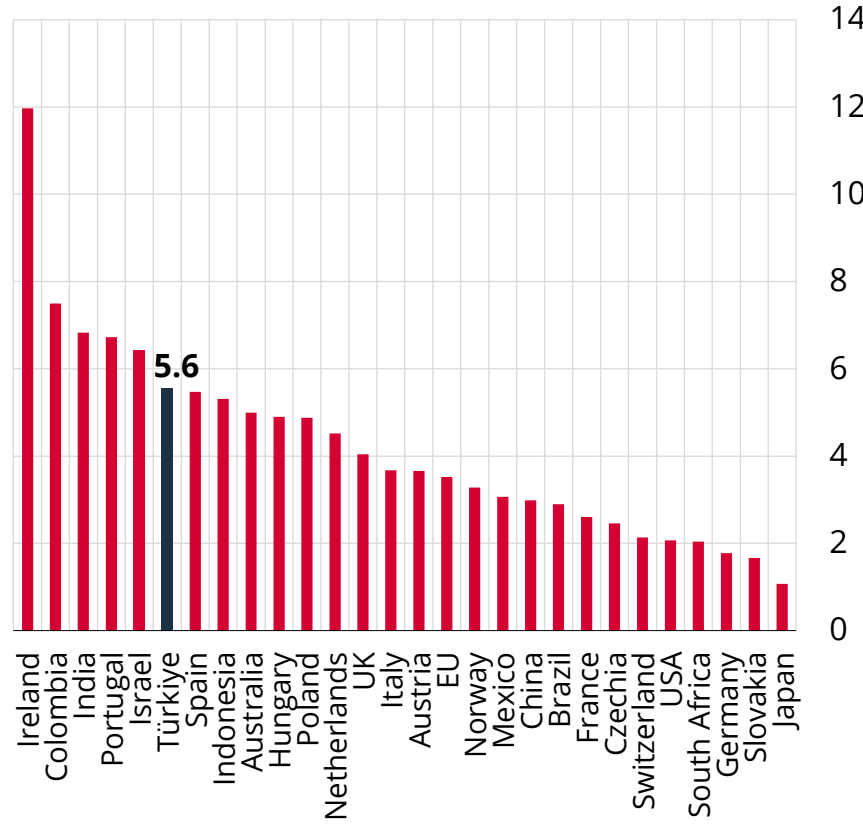
Source: FRED

Last Observation: 26 April 2023

# TURKISH ECONOMY

# Growth

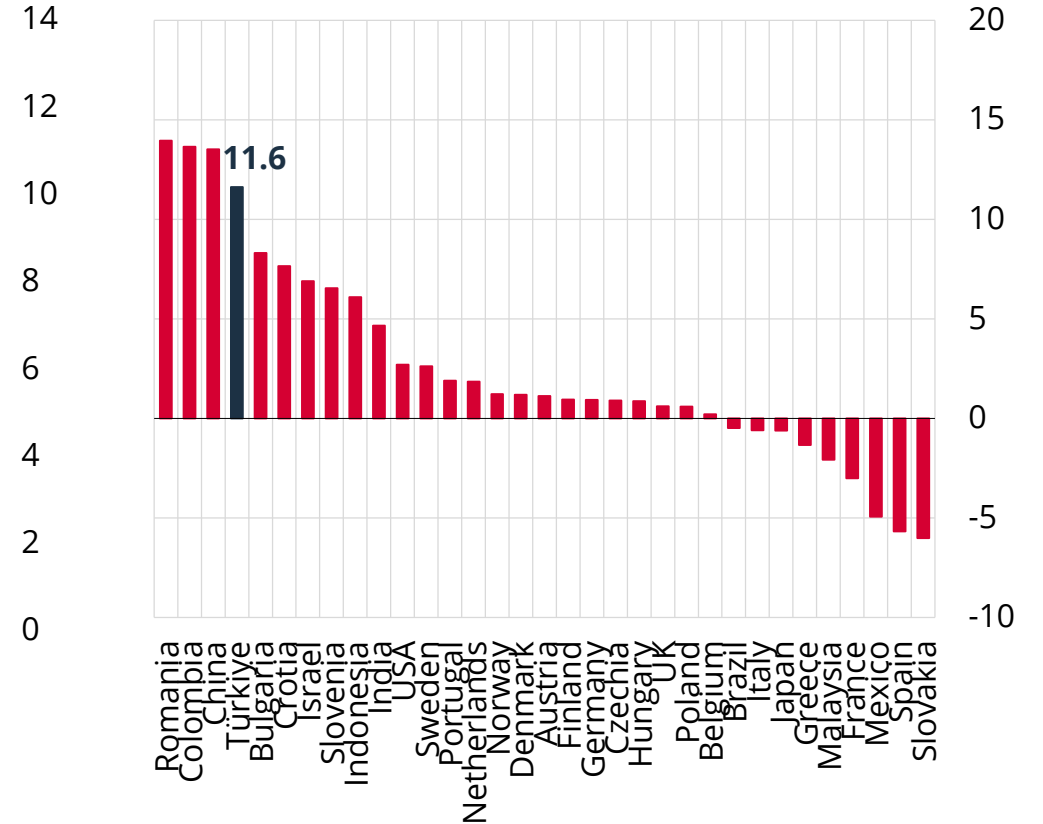
## Growth Rates in 2022 (%)



Source: IMF, OECD, TURKSTAT

Last Observation: 2022

## Change in Labor Productivity\* (2022-2019, %)



Source: ILOSTAT

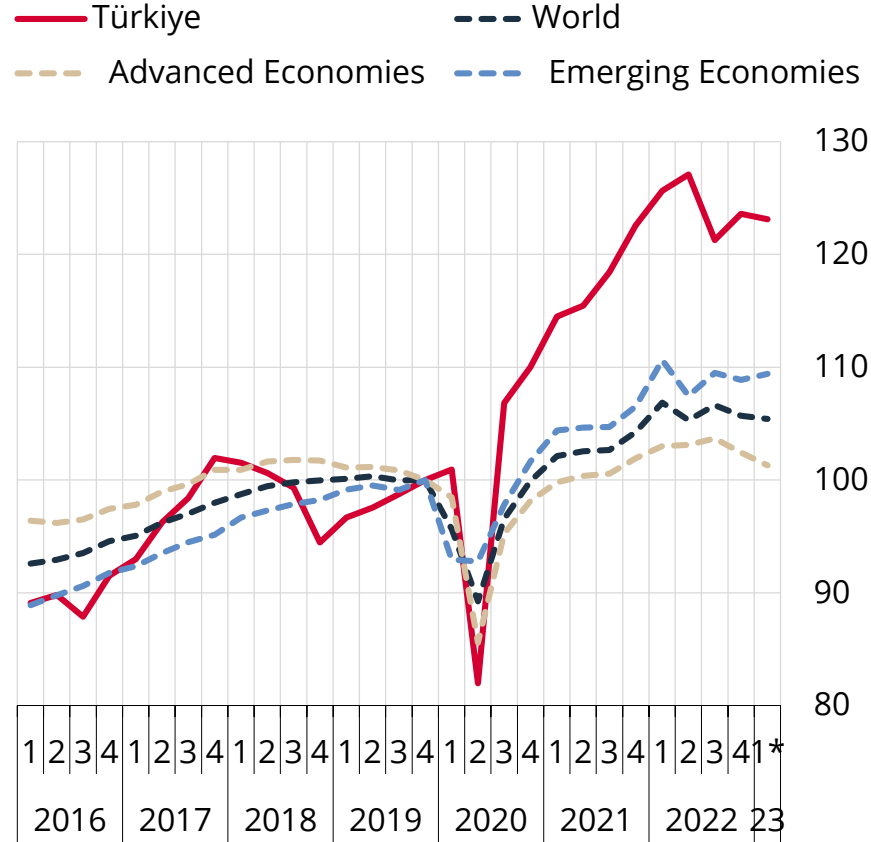
Last Observation: November 2022

\* Labor productivity is measured according to purchasing power parity in USD by ILO model.



# Industrial Production

**Industrial Production**  
(Seasonally Adjusted, 2019Q4=100)

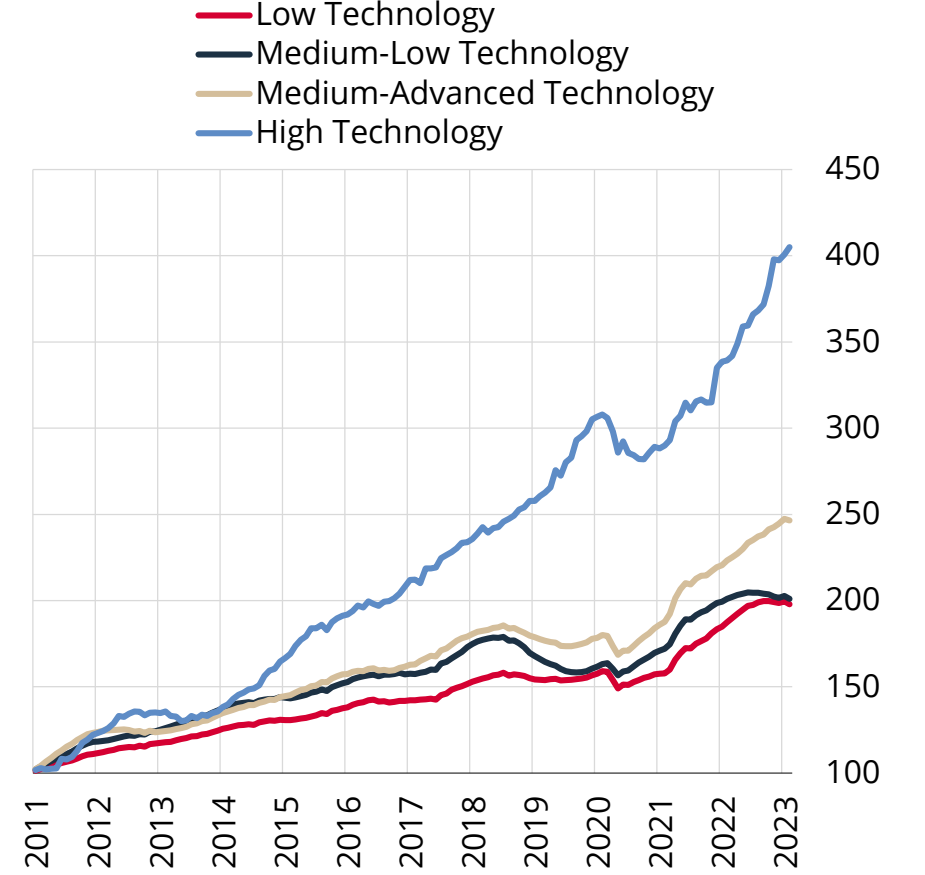


Source: CPB, TURKSTAT

Last Observation: February 2023

\* January-February average.

**Industrial Production by Technology**  
(Index, 12-Month Moving Average, 2010=100)

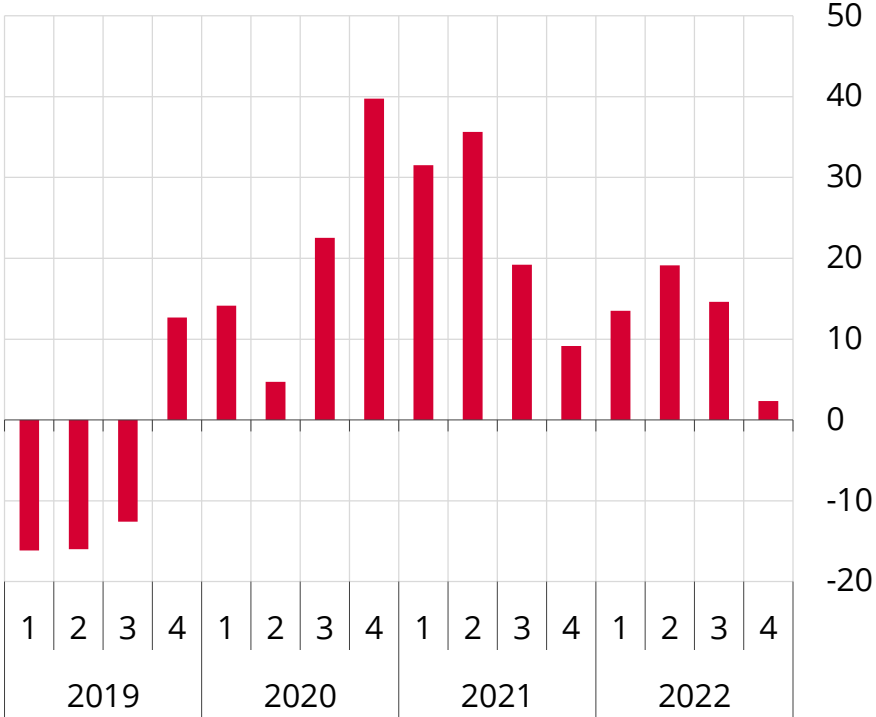


Source: TURKSTAT

Last Observation: February 2023

# Machinery-Equipment Investments and Net Exports

### Machinery-Equipment Investments (Annual % Change)

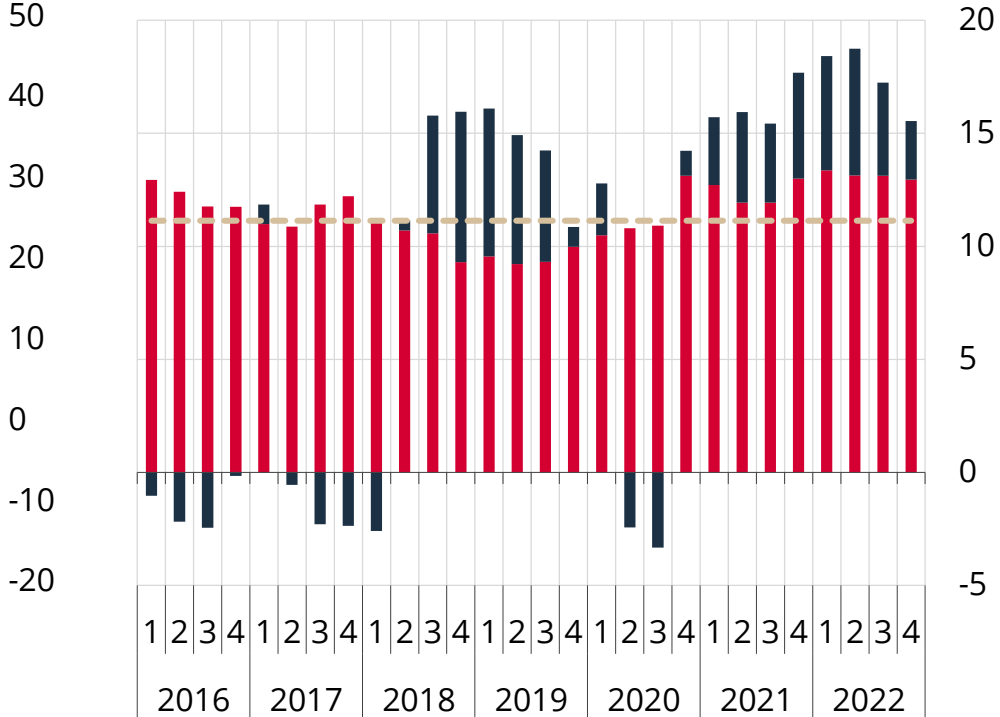


Source: TURKSTAT

Last Observation: 2022Q4

### Share of Machinery-Equipment Investments and Net Exports in GDP\* (%)

■ Machinery-Equipment Investments ■ Net Exports



Source: CBRT, TURKSTAT

Last Observation: 2022Q4

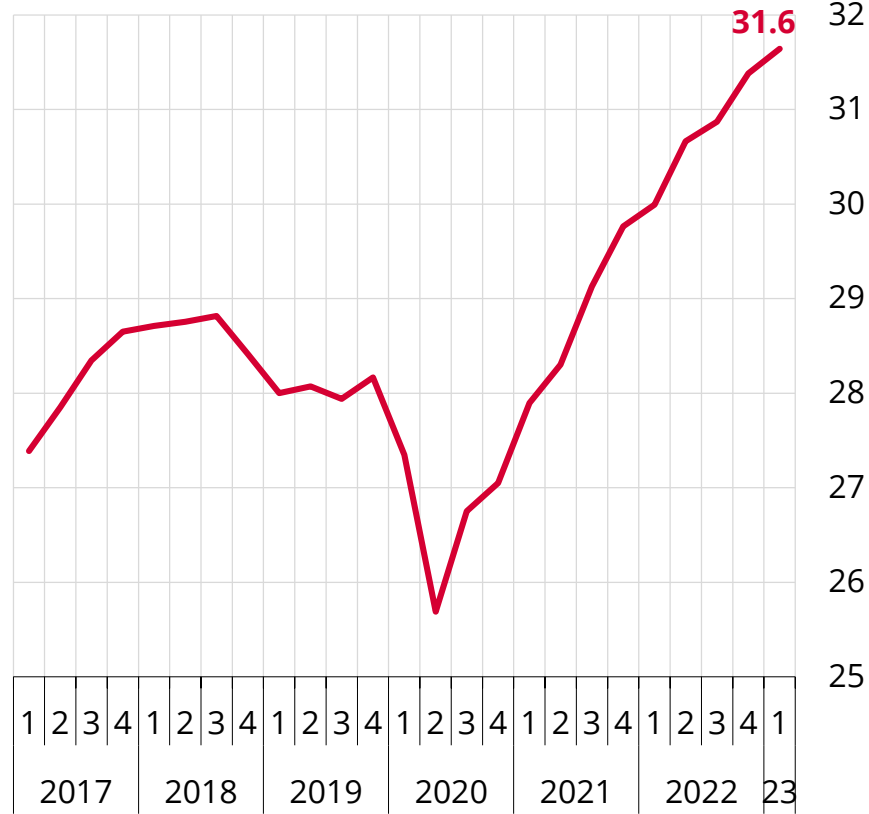
\* Dashed line shows the average share of machinery-equipment investments and net exports in GDP during 2009Q1-2022Q4.

## Economic Activity after the Earthquake

- The effects of the earthquake disaster on the Turkish economy are evaluated comprehensively.
- High-frequency data show that the recovery takes place rapidly both throughout the country and in the disaster zone.
- Although the leading indicators regarding consumption expenditures in the disaster area declined after the earthquake, they recently exceeded their pre-earthquake levels. This indicates a quite strong trend of recovery in the earthquake zone.
- Survey indicators regarding the strength of post-earthquake recovery also give positive signals. While the demand expectations for the next three months are increasing, the production and demand expectations of the disaster zone's centers with high economic weight are increasing.
- Exports from the earthquake zone fell in the initial weeks following the earthquake. However, as of April, it converged to the level of the same period of the previous year. On the back of strong exports from other provinces, total exports bounced back to their pre-earthquake level.

# Labor Market

**Employment\***  
(Seasonally Adjusted, Million People)

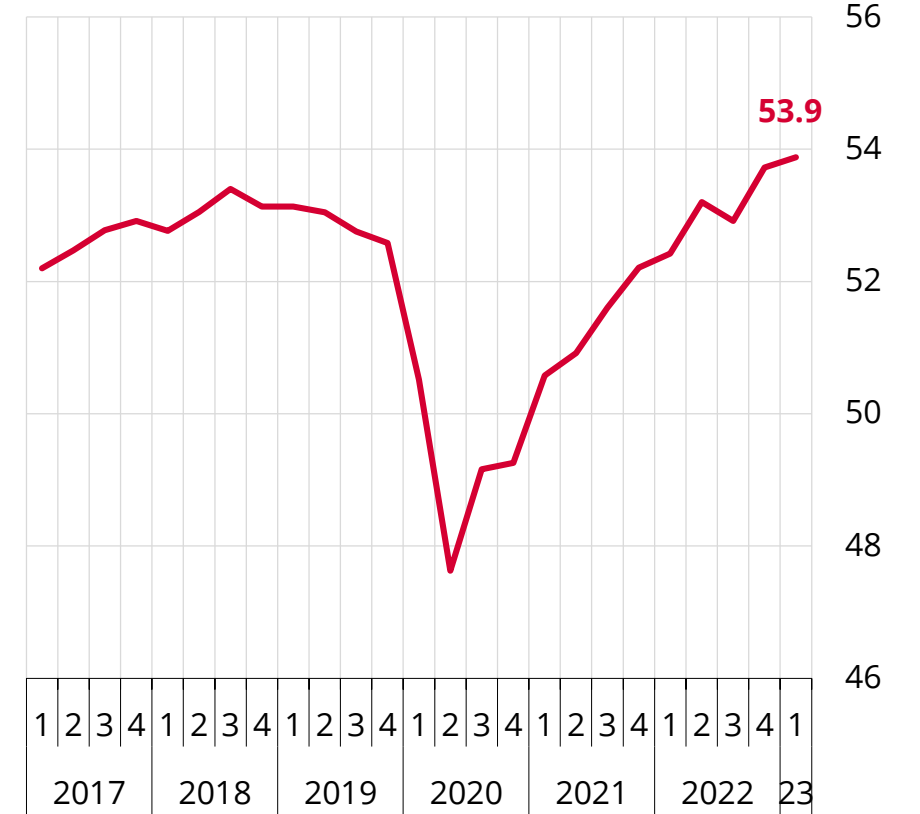


Source: TURKSTAT

Last Observation: February 2023

\* Average of January-February.

**Participation Rate\***  
(Seasonally Adjusted, %)



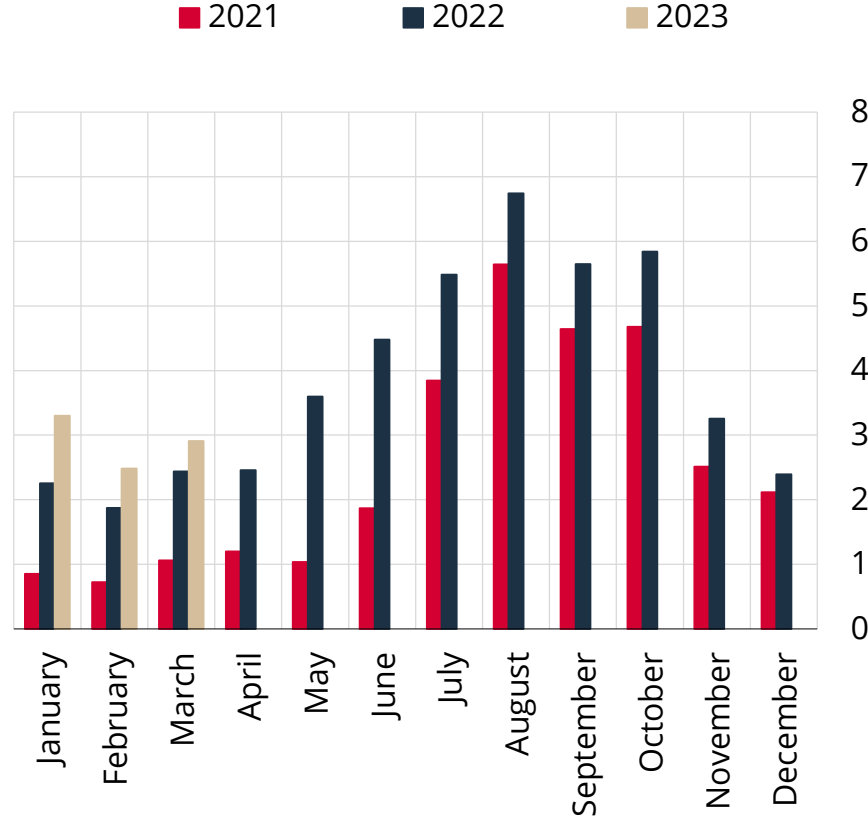
Source: TURKSTAT

Last Observation: February 2023

\* Average of January-February.

# Tourism

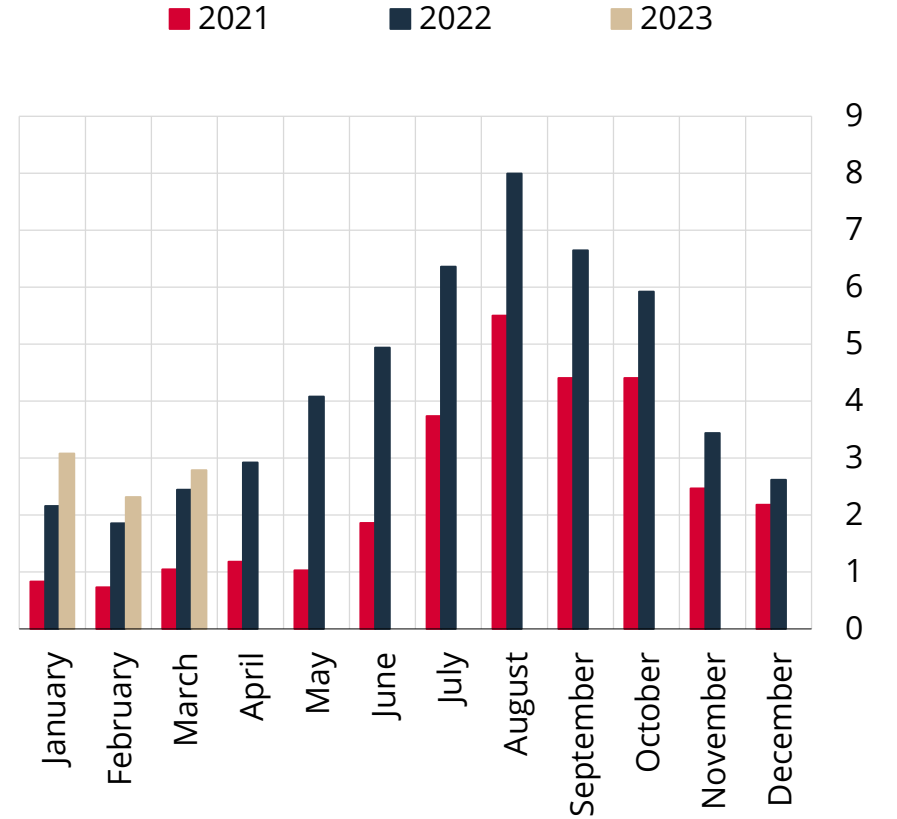
## Tourism Revenues (Billion USD)



Source: CBRT, TURKSTAT

Last Observation: March 2023

## Number of Visitors (Million People)

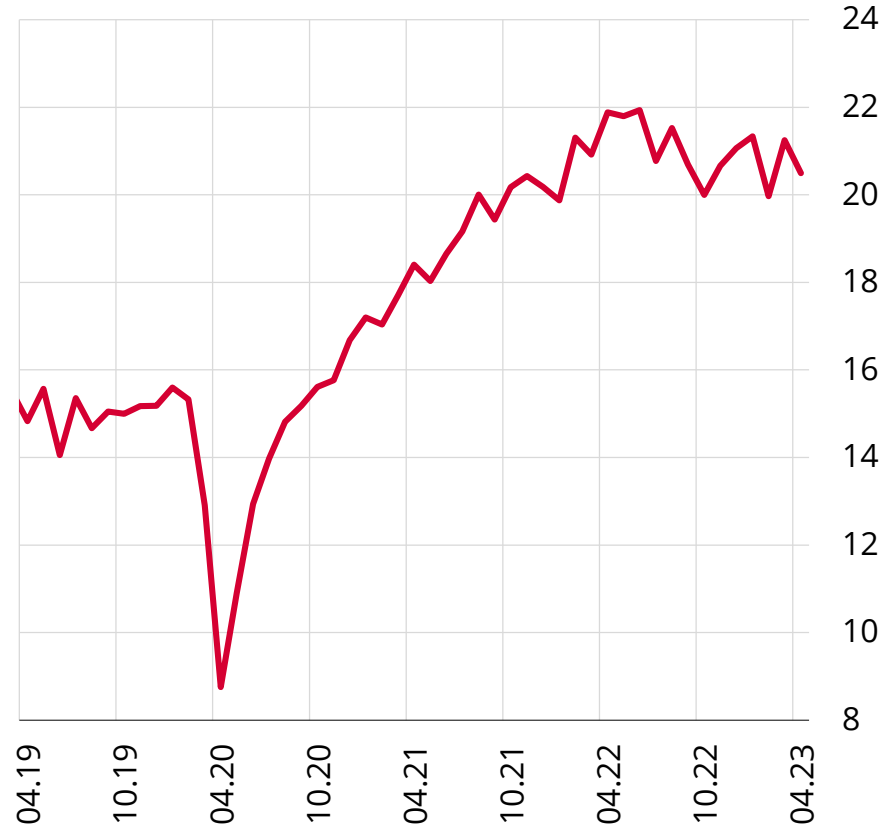


Source: CBRT, TURKSTAT

Last Observation: March 2023

# Foreign Trade

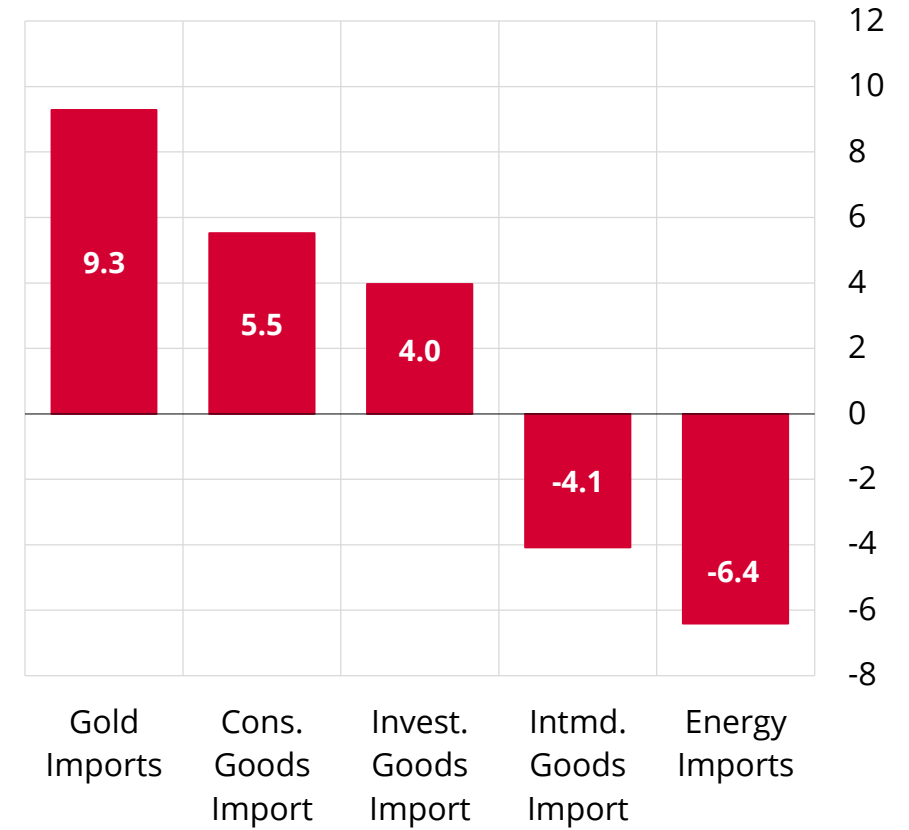
## Exports\* (Seasonally and Calendar Adjusted, Billion USD)



Source: CBRT, Ministry of Trade, TURKSTAT Last Observation: April 2023

\* Provisional data for April.

## Change in Imports by Sub-Items (Billion USD)



Source: CBRT, Ministry of Trade, TURKSTAT Last Observation : April 2023

\* Denotes the change between imports in January-April 2023 and imports in January-April 2022. Intermediate goods exclude gold and energy.

# Projected Increase in Current Account Surplus Capacity

## Expected Contribution of Current Account Surplus Capacity-Boosting Investments and Subsidies in the Medium Term (Billion USD)

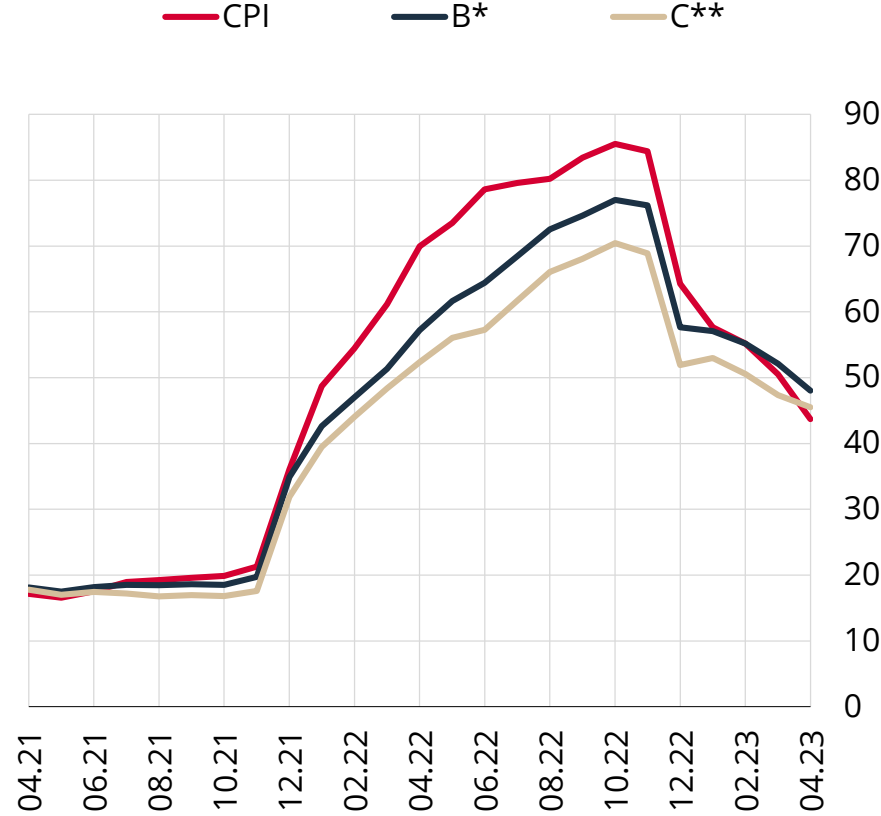
	2023-2030 Period (Cumulative)
Bringing Underground Reserves into the Economy (Black Sea Natural Gas, Increasing Domestic Oil Production, Boron Carbide Plant, Advancing the Exploration and Production of Rare Earth Elements, etc.)	81
Increasing the Domestic Energy Production Capacity (Nuclear Energy, Solar and Wind Energy Investments, etc.)	44
Boosting High-Tech Production Capacity and Investments to Decrease Imports (Electric Vehicle and Battery Systems Production, Defense Industry Investments, Import Substitution Investments, etc.)	102
Increase in Tourism Revenues	62
<b>Total</b>	<b>289</b>

# INFLATION



# Inflation

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



Source: CBRT, TURKSTAT

Last Observation: April 2023

\* CPI excluding unprocessed food, energy, alcohol-tobacco and gold.  
 \*\* CPI excluding unprocessed food, non-alcoholic beverages, energy, alcohol-tobacco and gold.

**Contributions to Annual Inflation  
(% Points)**

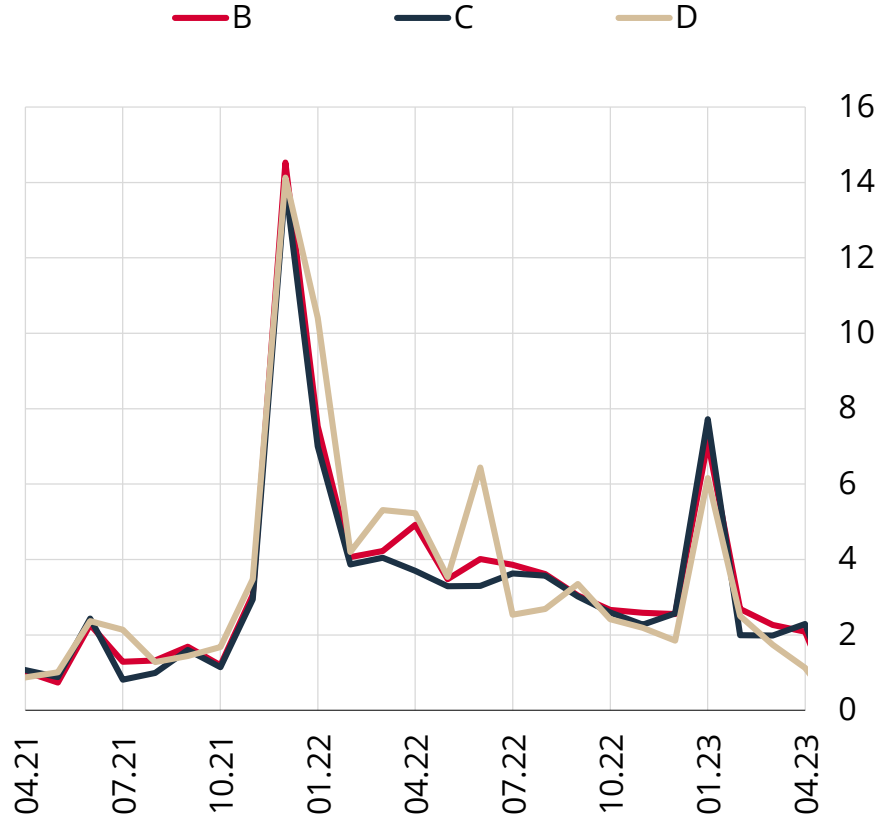
	Contributions to Annual Inflation	Shares of Contributions in Annual Inflation
<b>Groups Sensitive to Exogenous Shocks</b>		
(I) Food-Alcohol-Tobacco	15.8	36.1
(II) Energy	3.2	7.4
(III) Core Goods and Gold	10.1	23.0
<b>I+II+III</b>	<b>29.1</b>	<b>66.5</b>
(IV) Services	14.6	33.5
<b>Total (I+II+III+IV)</b>	<b>43.7</b>	<b>100</b>

Source: CBRT, TURKSTAT

Last Observation: April 2023

# Underlying Inflation Trend

**Core Indicators\***  
(Seasonally Adjusted, Monthly % Change)

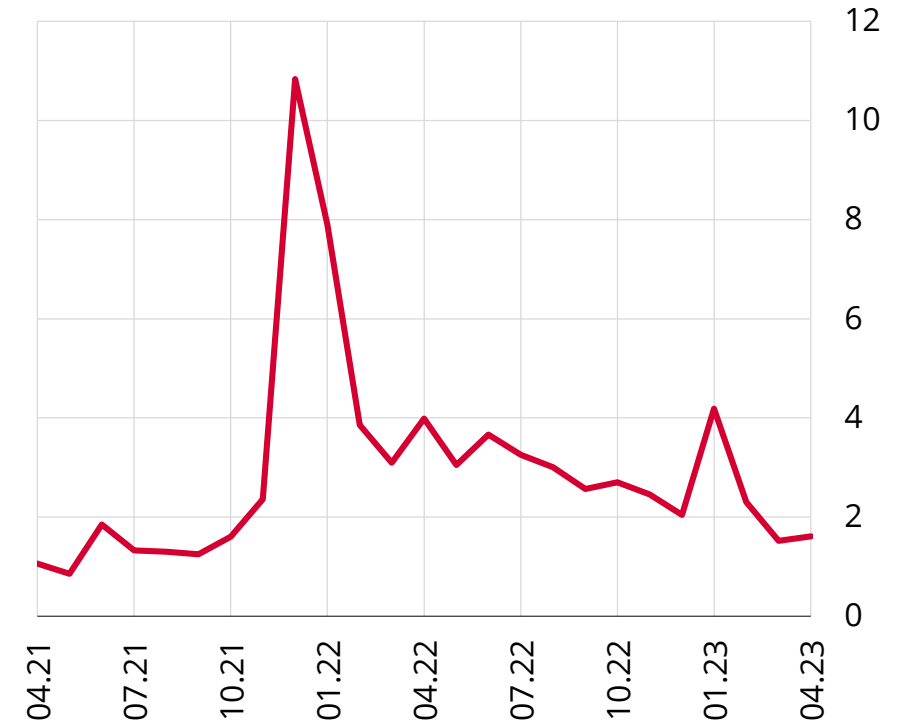


Source: CBRT, TURKSTAT

Last Observation: April 2023

\* B Index: CPI excluding unprocessed food, energy, alcohol-tobacco and gold. C Index: CPI excluding food and non-alcoholic beverages, energy, alcohol-tobacco and gold. D Index: CPI excluding unprocessed food, alcoholic beverages and tobacco products.

**Median Inflation\***  
(Seasonally Adjusted, Monthly % Change)



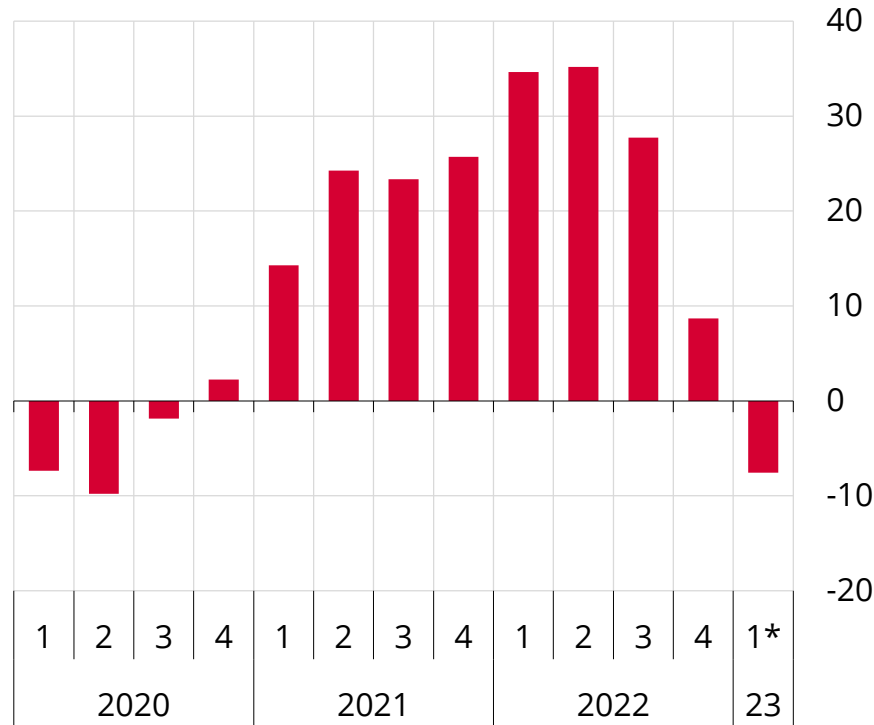
Source: CBRT

Last Observation: April 2023

\* Median monthly inflation of seasonally adjusted 5-digit sub-price indices.

# Import Costs

## Import Unit Value Index (Annual % Change)



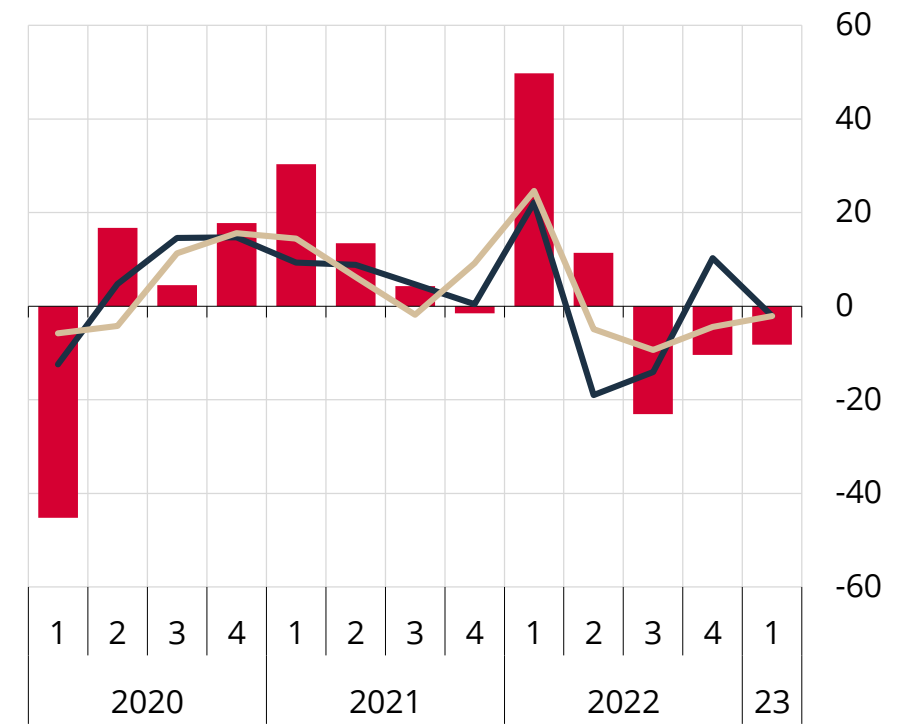
Source: TURKSTAT

Last Observation: February 2023

\* As of February.

## Commodity Price Indices (Quarterly % Change)

Energy Industrial Metals Agriculture

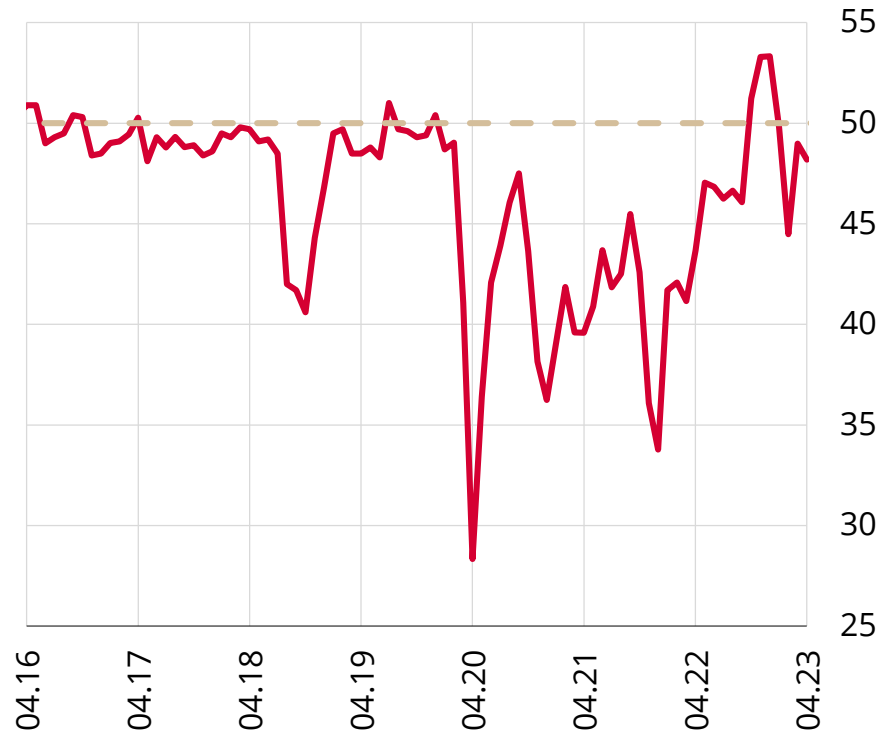


Source: Goldman Sachs

Last Observation: March 2023

# Supply Constraints

PMI Suppliers' Delivery Times\*  
(Seasonally Adjusted)

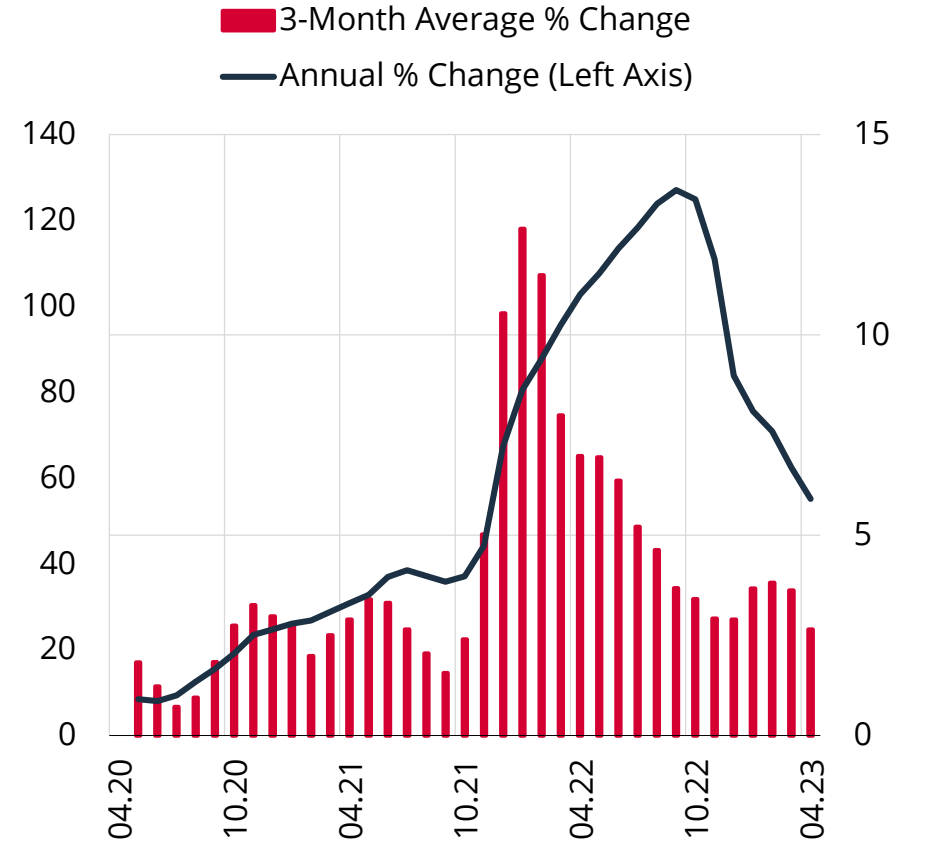


Source: ICI, S&P Global

Last Observation: April 2023

\* A lower value indicates longer delivery times. The dashed line shows the threshold value.

Manufacturing Prices Excluding Petroleum  
and Base Metals (%)



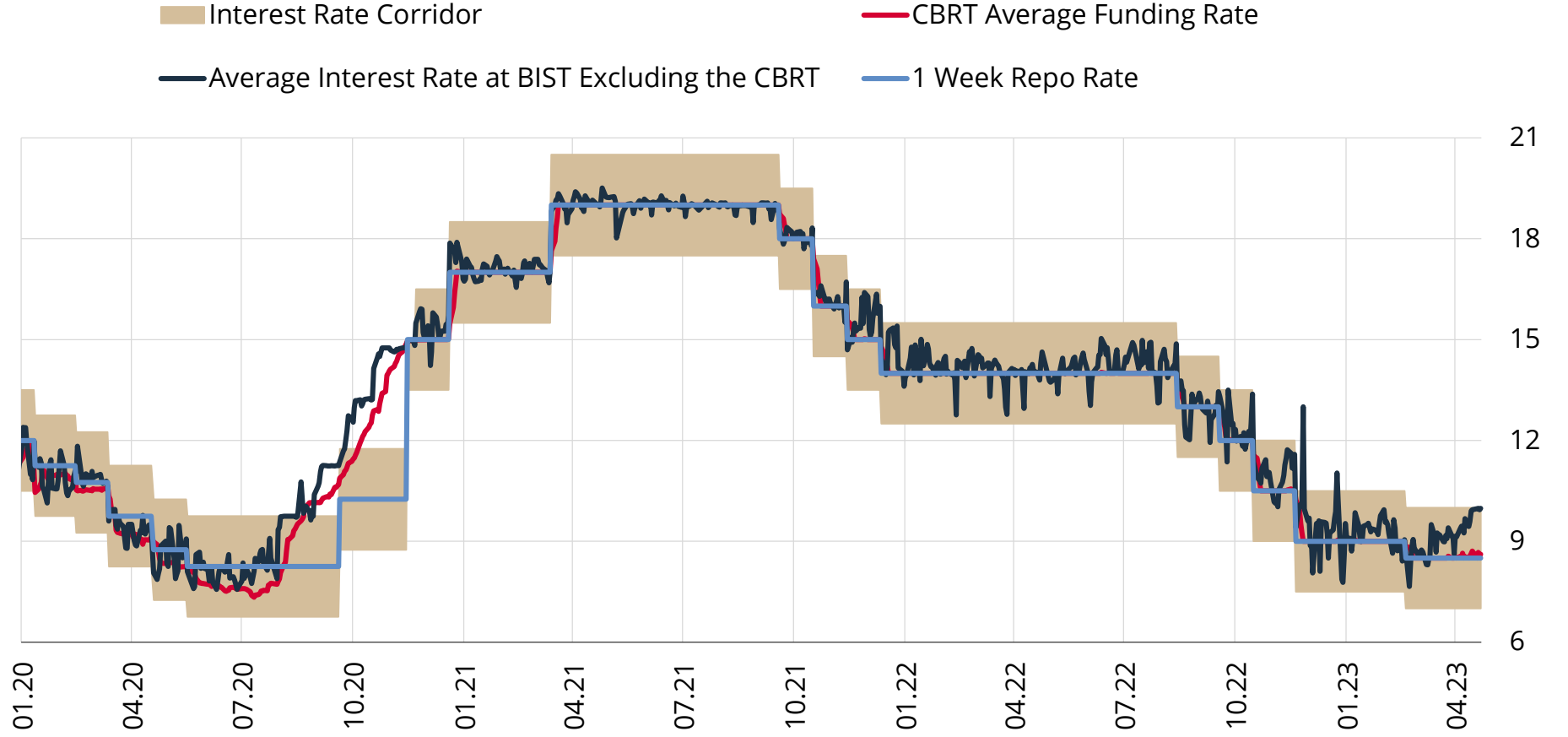
Source: CBRT, TURKSTAT

Last Observation: April 2023

# MONETARY POLICY

# Interest Rates

## CBRT Rates and Short-Term Interest Rate (%)

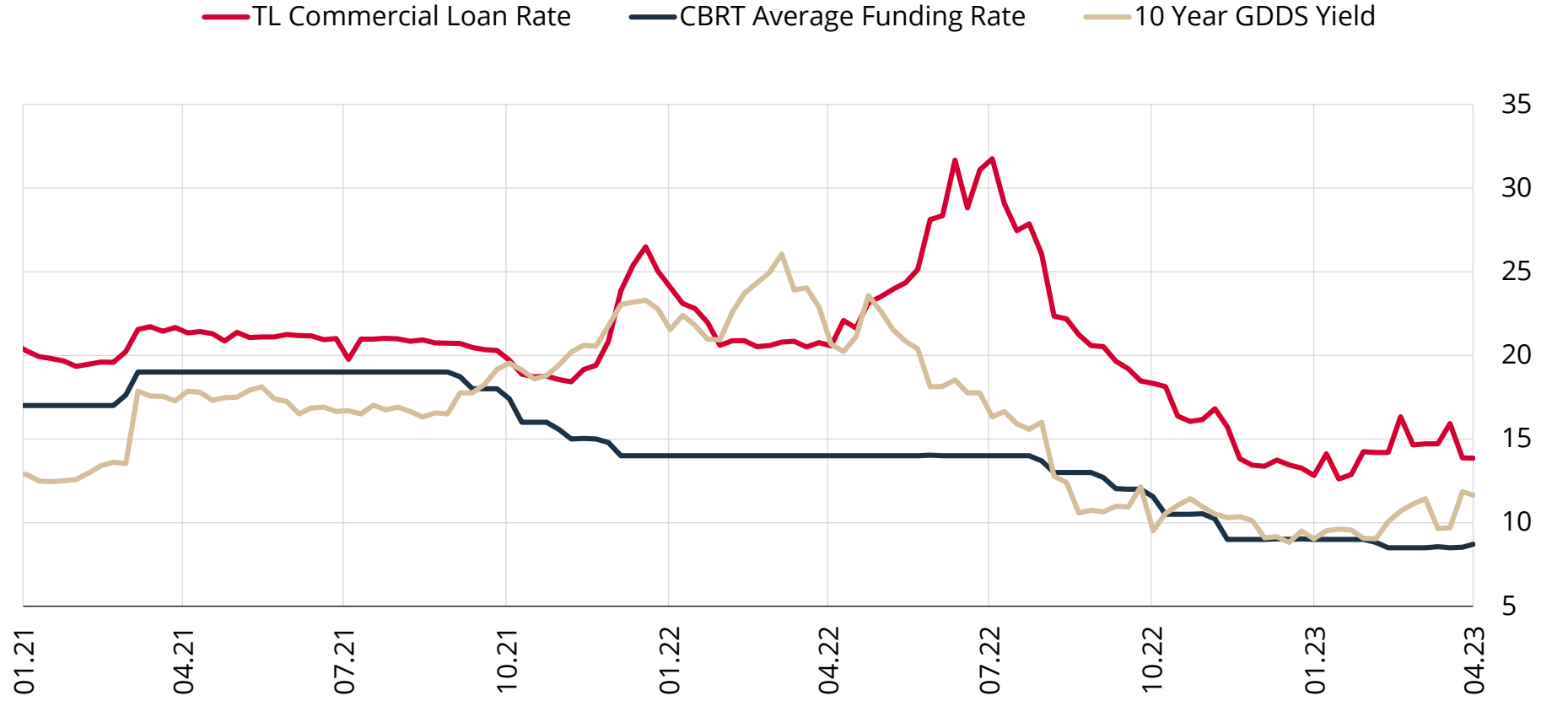


Source: BIST, CBRT

Last Observation: 27 April 2023

# Effectiveness of the Monetary Transmission

## TL Commercial Loan Rates and GDDS Yield (%)



Source: Bloomberg, CBRT

Last Observation: 20 April 2023

# Credit Developments

## Commercial Loans (Net Utilization, Billion TL)

	January	February	March	April*	January-March	January-April*	January-December
TL Firm (2023)	151	160	266	219	577	796	
TL Firm (2022)	53	108	177	161	338	499	1726
TL Firm (2021)	-10	18	31	4	39	43	316
- Large Firm (2023)	61	64	95	32	220	252	
- Large Firm (2022)	43	84	66	74	193	267	839
- Large Firm (2021)	-6	10	20	4	24	28	188
- SMEs (2023)	91	95	172	151	358	509	
- SMEs (2022)	10	25	111	87	146	233	887
- SMEs (2021)	-4	8	11	0	15	15	127

Source: CBRT

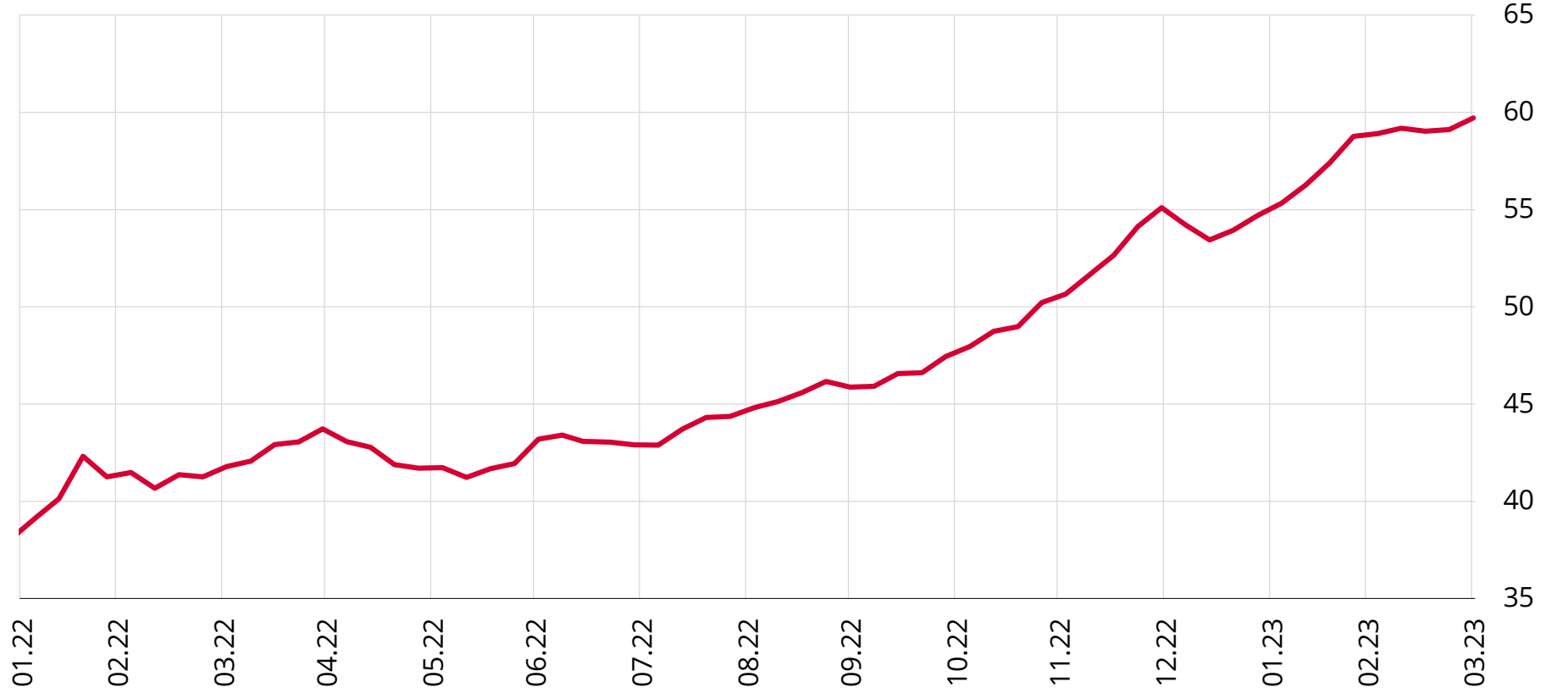
Last Observation: 27 April 2023

\* As of 27 April 2023.



# Liraization of Deposits

TL Deposit Ratio\* (%)



Source: BRSA, CBRT

Last Observation: 31 March 2023

# MEDIUM-TERM PROJECTIONS

# Revisions in Main Assumptions

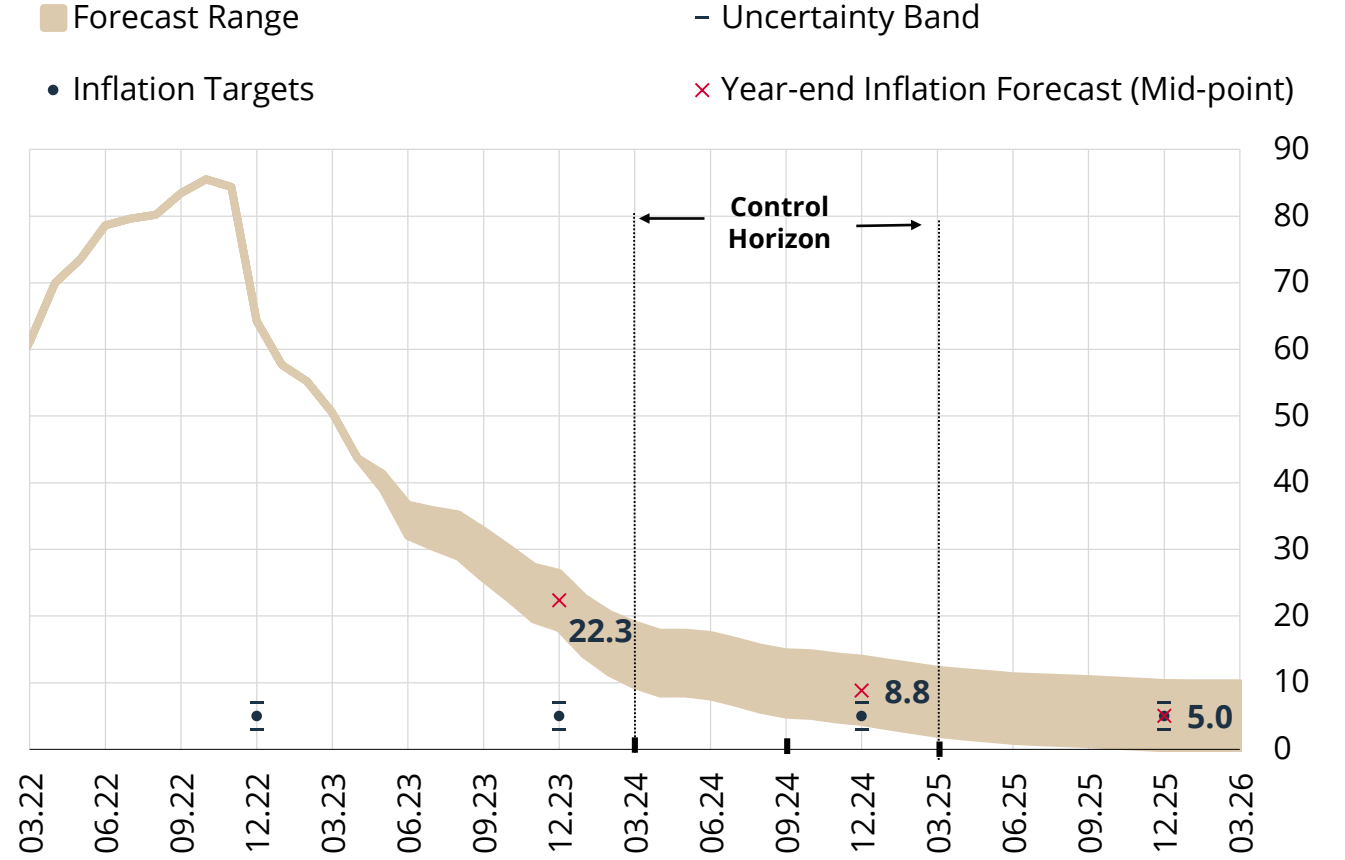
		IR 2023-I	IR 2023-II
Export-Weighted Global Production Index (Average Annual % Change)	2023	1.3	1.6
	2024	2.5	2.4
Oil Prices (USD, Annual Average)	2023	80.8	78.1
	2024	77.3	73.6
Import Prices (USD, Average Annual % Change)	2023	-8.5	-9.8
	2024	2.3	0.4
Food Prices (Year-End % Change)	2023	22.0	27.9
	2024	11.5	11.5

# Inflation Forecasts

## Accordingly, inflation is expected to be

- Between 18.1% and 26.5% with a mid-point of 22.3% at end-2023
- Between 4.0% and 13.6% with a mid-point of 8.8% at end-2024 with 70% probability.

## Inflation Forecasts\* (%)



Source: CBRT, TURKSTAT

\* Shaded region denotes the 70 percent confidence interval for the forecast.

# Revisions in Inflation Forecast

## Revisions in Year-End-Inflation Forecasts for 2023 and Sources of Revisions

IR 2023-I Forecast (%)	22.3
IR 2023-II Forecast (%)	22.3
<b>Forecast Revision as Compared to IR 2023-I Period</b>	0.0
<b>Sources of Forecast Revisions (% Point)</b>	
Import Prices	-2.3
Output Gap	0.2
Food Prices	1.5
Forecast Deviation and Underlying Trend of Inflation	0.6

# OVERVIEW

# Overview

- The Liraization Strategy, our monetary policy framework which we have built with complementary tools and a sustainability perspective, increases the Turkish economy's resilience and capability to realize its potential.
- Over the past two years, while the effects of the pandemic have not yet completely disappeared, our robust policy framework has enabled our economy to strengthen further despite negative shocks caused by the war and high global inflation.
- Our effective policies also contribute to rapid healing of the wounds during the great earthquake disaster.
- In the upcoming period, we will continue to decisively implement the Liraization Strategy developed with a sustainable and permanent price stability perspective.
- We will develop our framework to improve investments, employment, production and exports, while minimizing the demand-side effects of financial sources that hinder these objectives.
- By creating the financial conditions that will increase the supply capacity, we will furnish our current account balance with a structure compatible with permanent price stability.

# Overview

- Our policies have the power to reduce inflation. Despite the geography we live in where global shocks are more severely felt, the fact that our inflation is falling simultaneously with a high economic performance is the biggest indicator of this power.
- We constantly monitor the developments in the Turkish and the world economy through our up-to-date and extensive data set, and we rigorously evaluate these developments.
- We are all witnessing our country's dynamism and resilience as well as the strength of real and banking sector indicators. In this way, we quickly heal the wounds caused by the earthquake disaster.
- For the period ahead, we anticipate that the disinflation process will continue while at the same time our production and current account surplus capacity will improve, financial sources will be used in the most efficient way, and the revival activities for the disaster zone will continue successfully.
- With the tools offered by the policies that we have developed, we will continue to eliminate the factors that could hinder the realization of this projection as well as to decisively maintain the disinflation process.





TÜRKİYE CUMHURİYET  
MERKEZ BANKASI

# BRIEFING ON 2023-II INFLATION REPORT

Prof. Dr. Şahap Kavcıoğlu  
Governor

4 MAY 2023

ANKARA

