



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2024-IV INFLATION REPORT

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Governor

NOVEMBER 8, 2024

ANKARA



Outline

- **Global Economy**
- **Macroeconomic Outlook**
- **Monetary Policy**
- **Medium-Term Projections**
- **Overview**

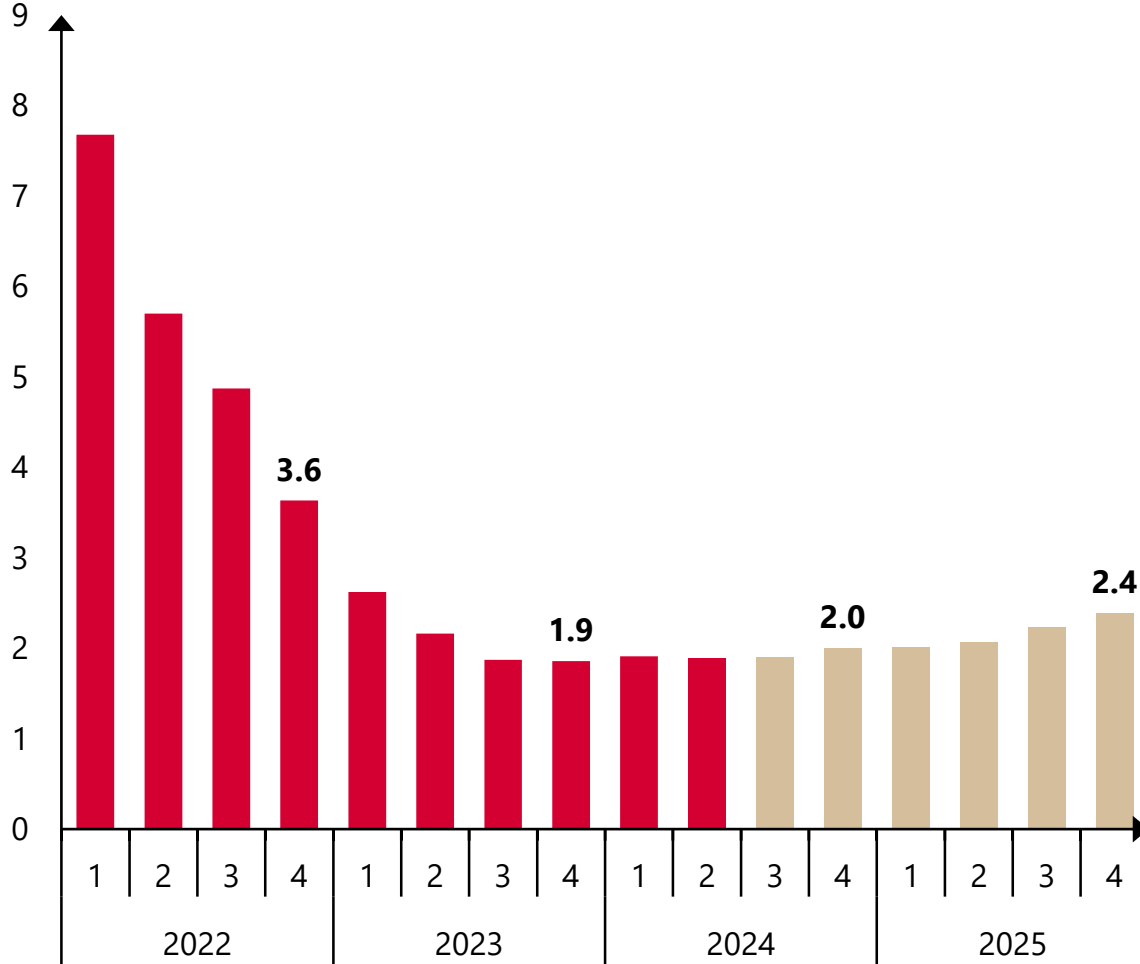
Boxes

- Impact of Fed Rate Cuts on Emerging Markets
- The Relationship Between Retail Loan Utilization and Income
- Findings from Interviews with Firms
- Fiscal Stance in the Medium Term Program
- Evaluation of Underlying Inflation Indicators
- Rent Inflation and RPS Leading Indicator
- Consumers' Perceived and Expected Inflation

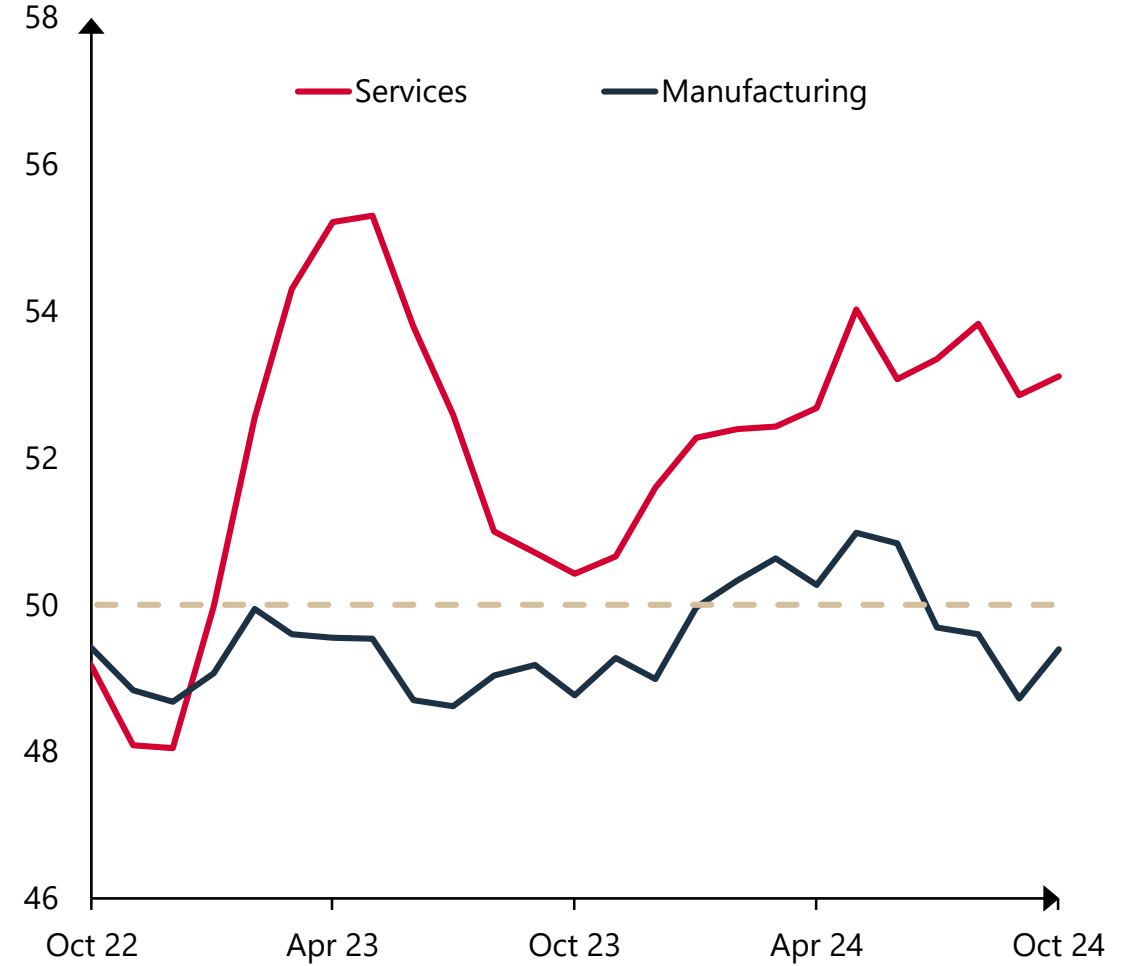
GLOBAL ECONOMY

The forecast for a gradual recovery in global growth remains intact.

Export Weighted Global Growth (%)*

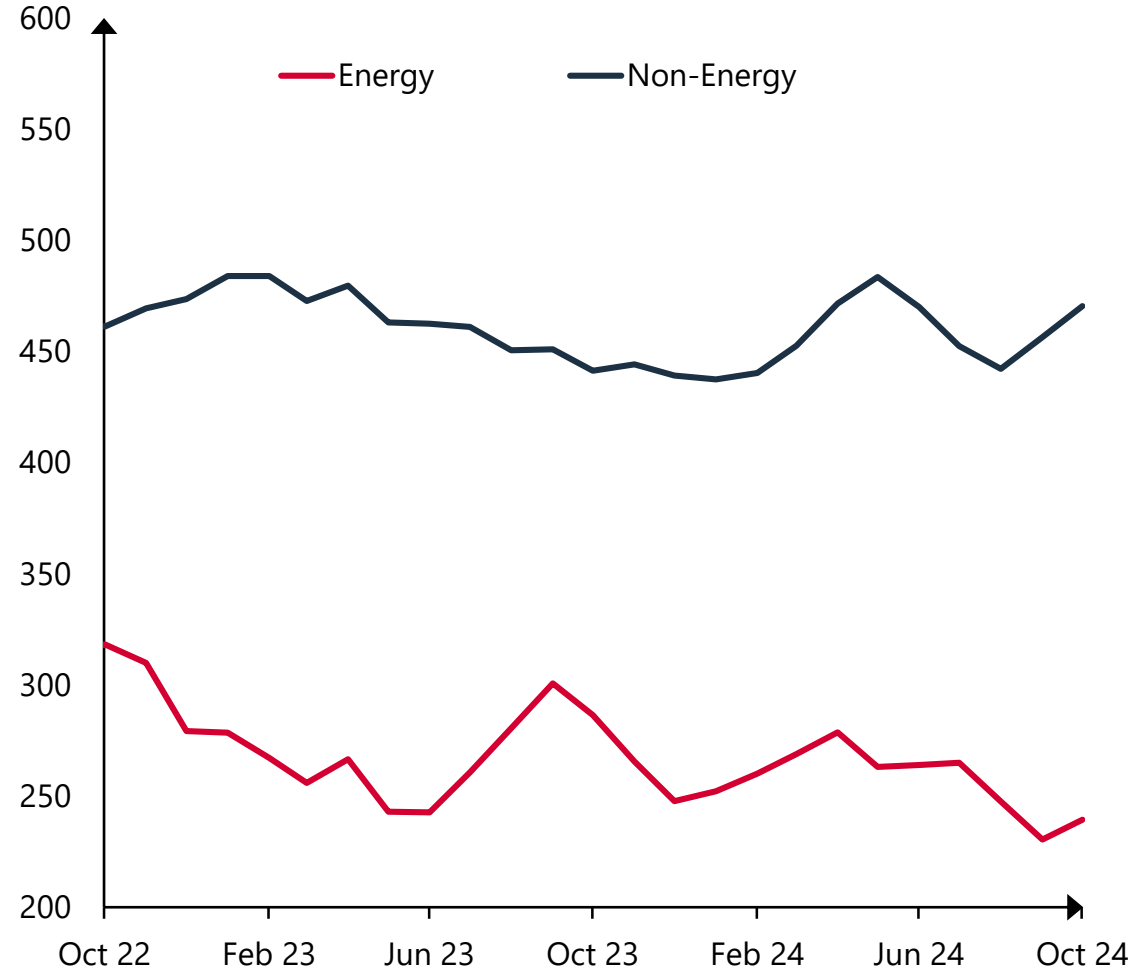


Global PMI (Level)**

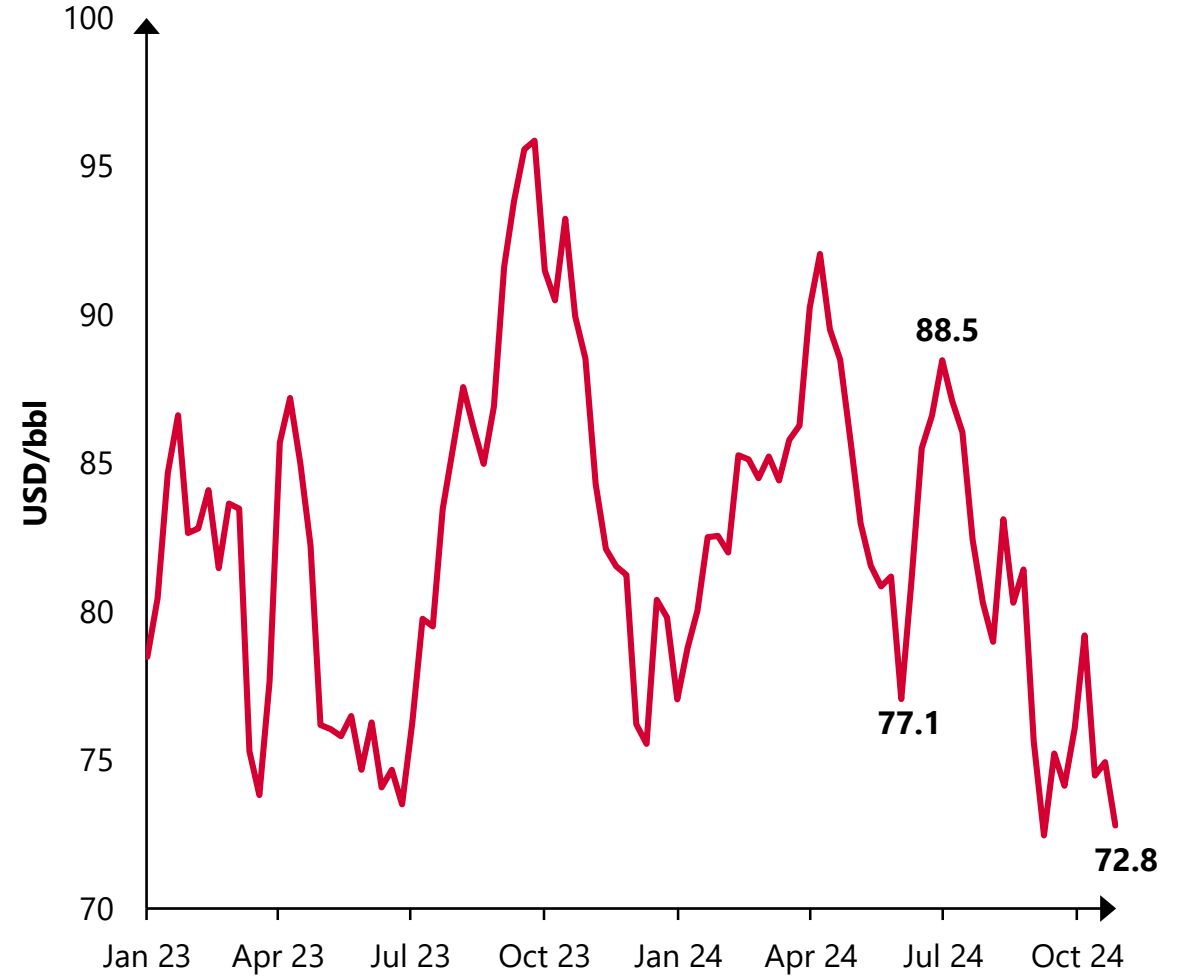


Energy prices have been volatile recently.

Commodity Price Indices*

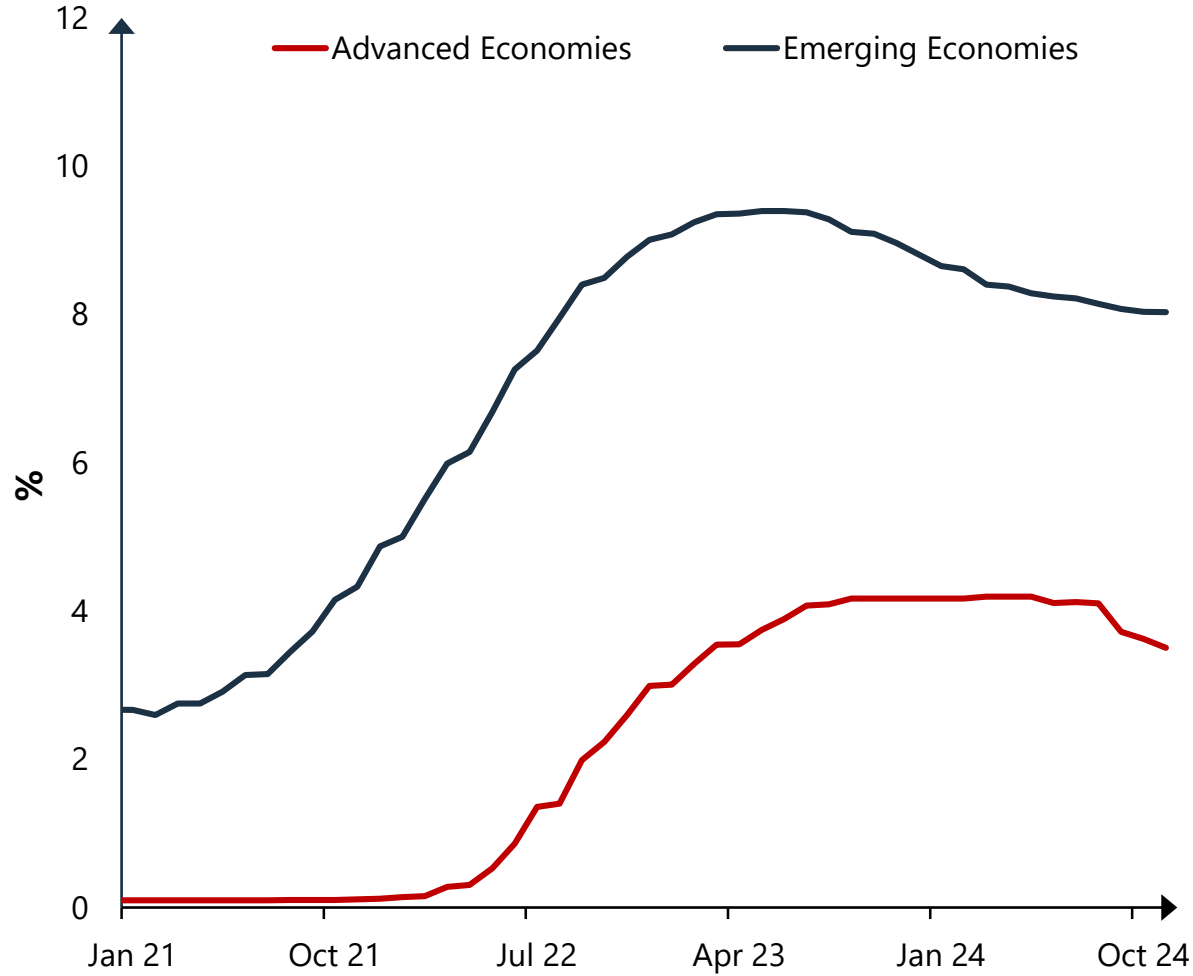


Brent Oil Price**

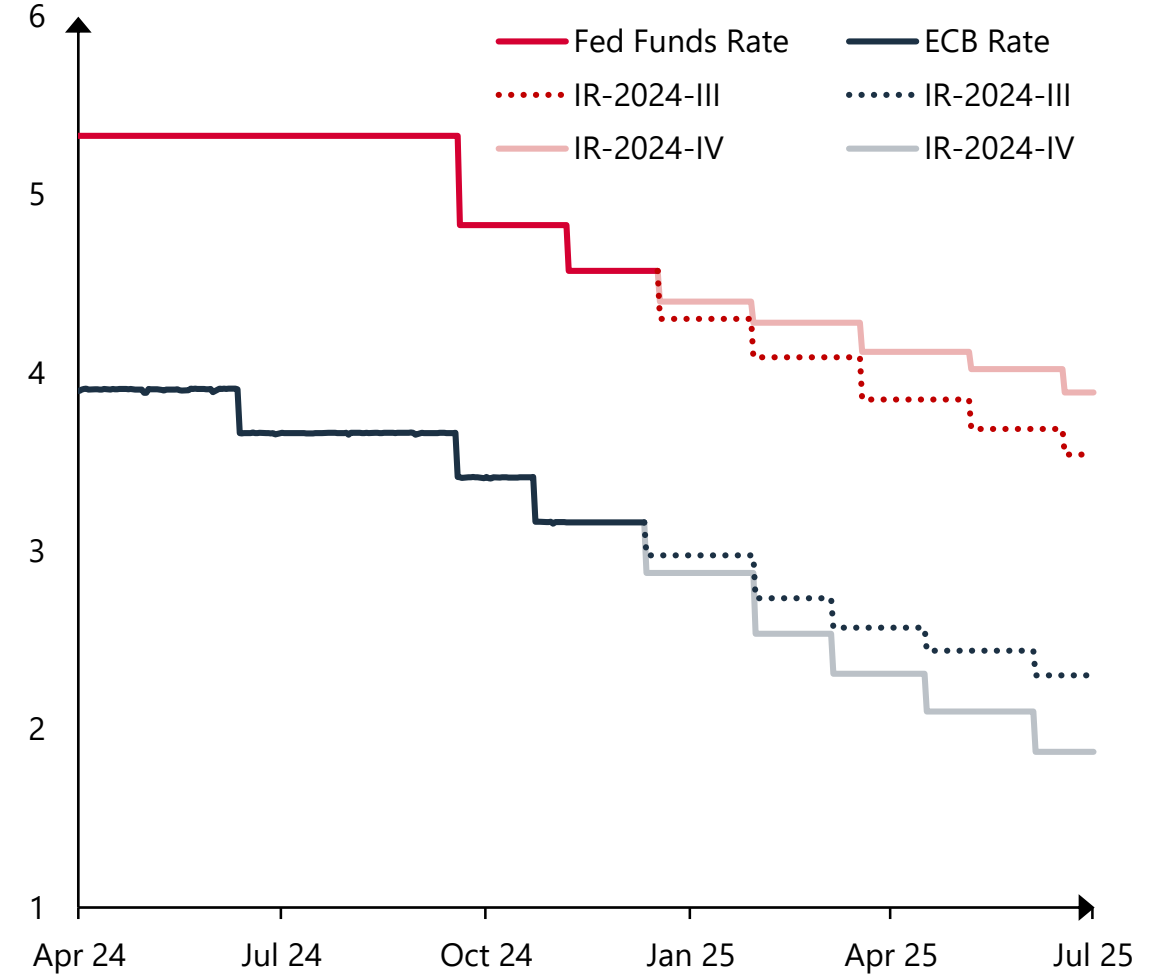


Central banks are easing monetary policy, taking into account the inflation trend.

Policy Rates*



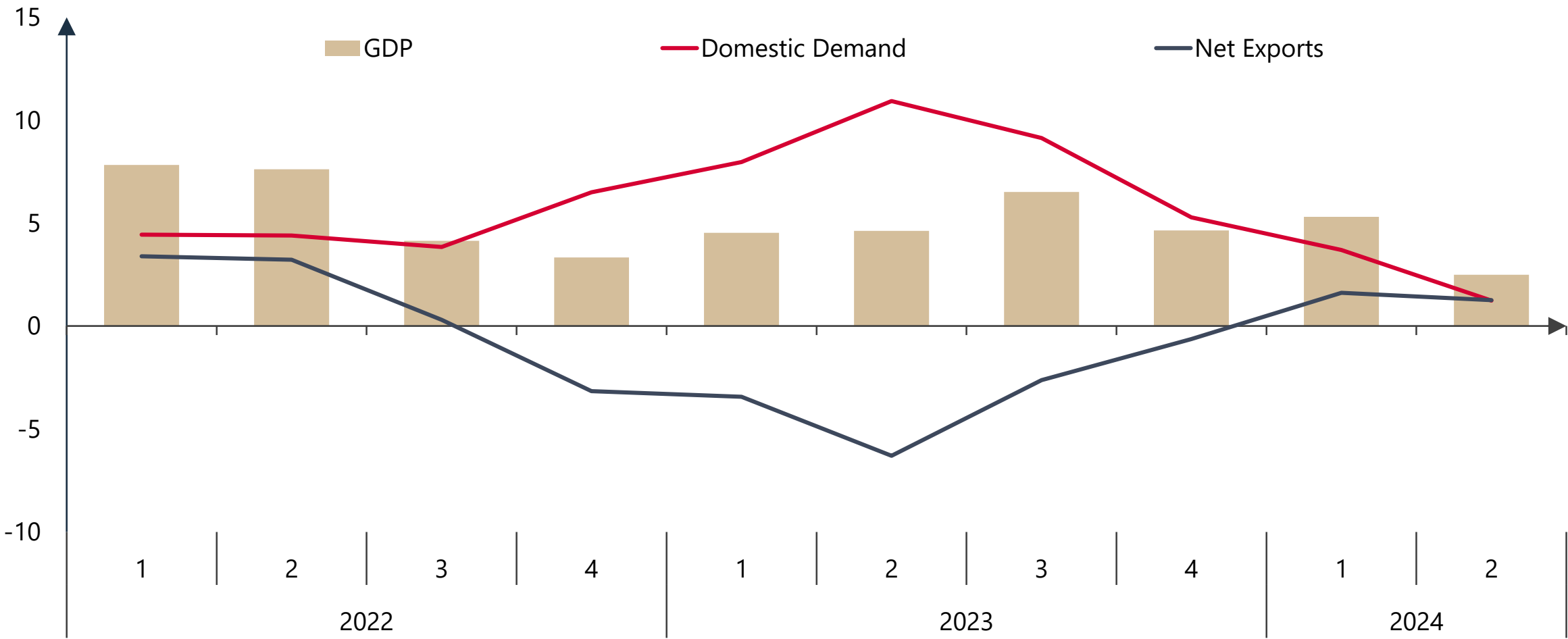
Market Implied Policy Rates (Effective)



ECONOMIC ACTIVITY

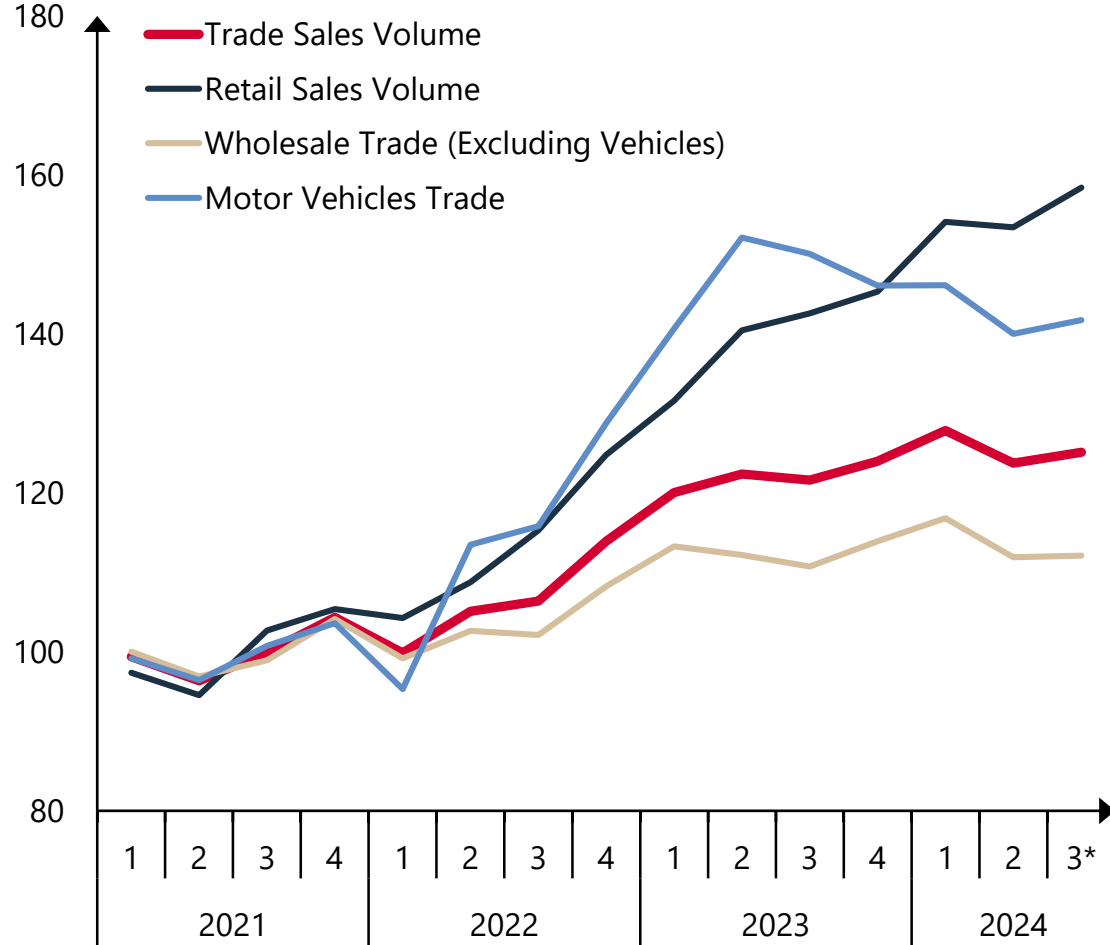
Demand continues to show a more balanced outlook.

Contributions to Annual Growth from the Expenditure Side
(Percentage Points)

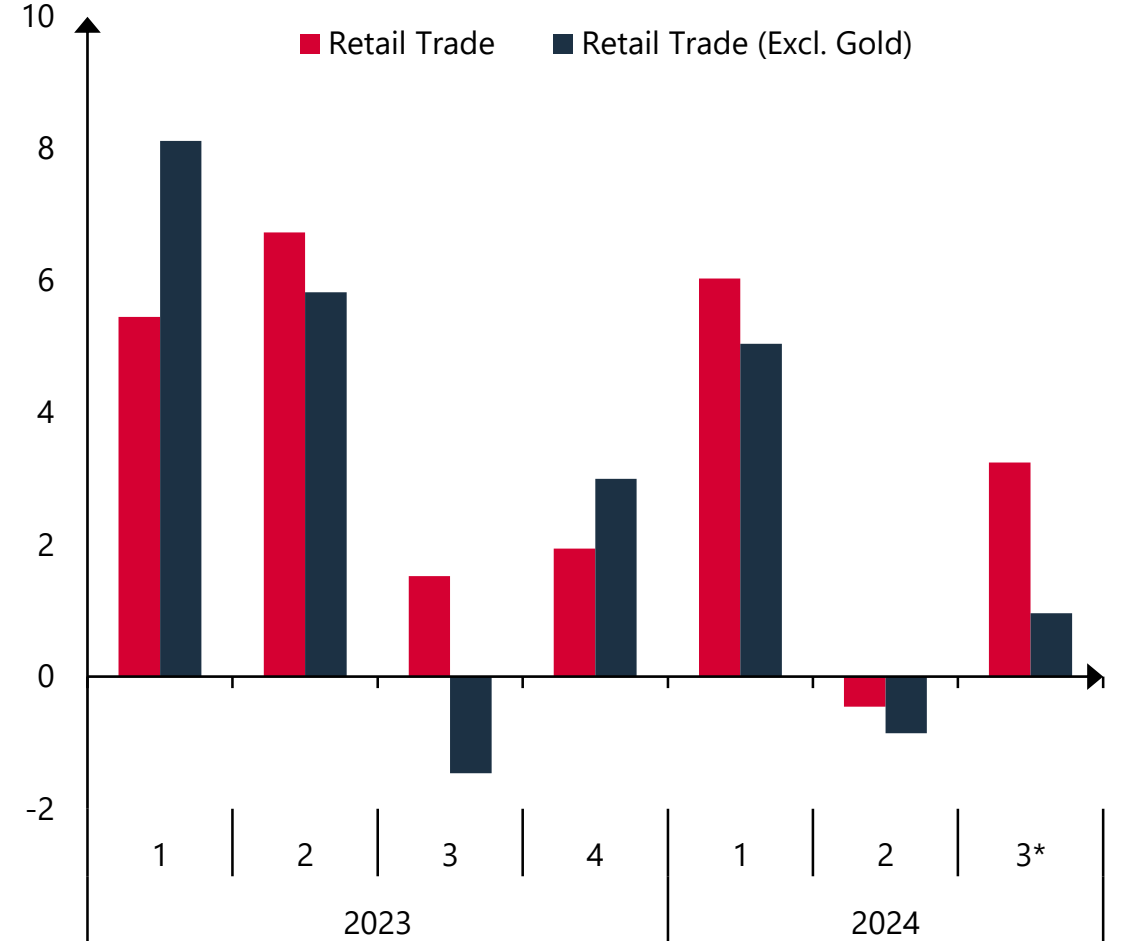


The slowdown in domestic demand continues at a moderate pace.

Consumption Indicators
(Seasonally and Calendar Adjusted, 2021=100)

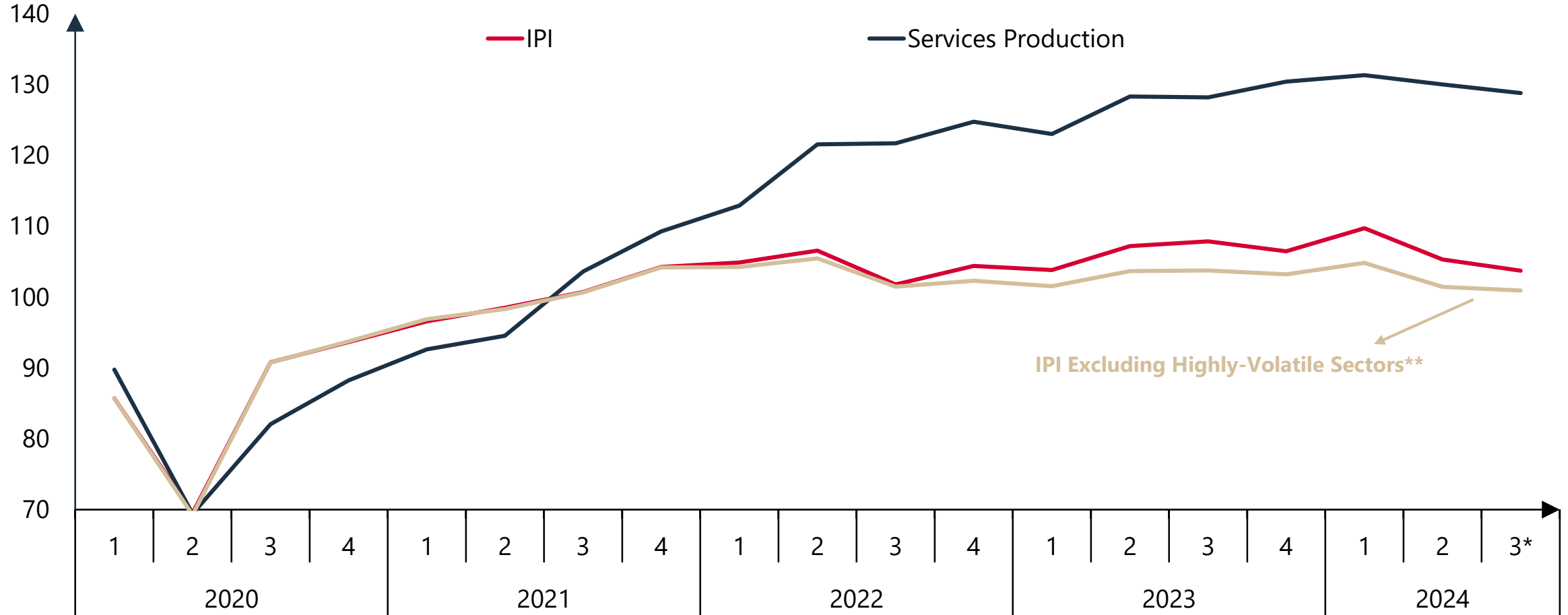


Retail Sales Volume Index
(Seasonally and Calendar Adjusted, Quarterly % Change)



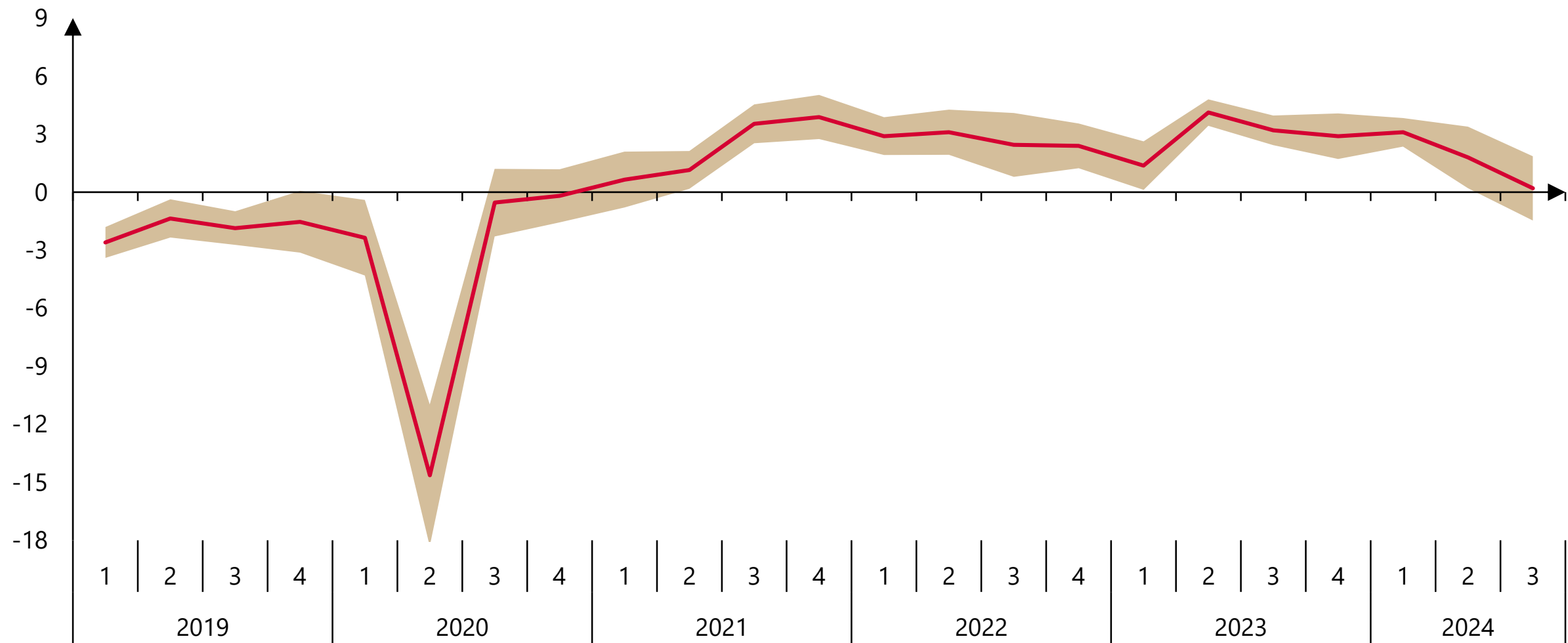
Supply indicators point to a slowdown in economic activity.

Industrial Production and Services Production Indices
(Seasonally and Calendar Adjusted, 2021=100)



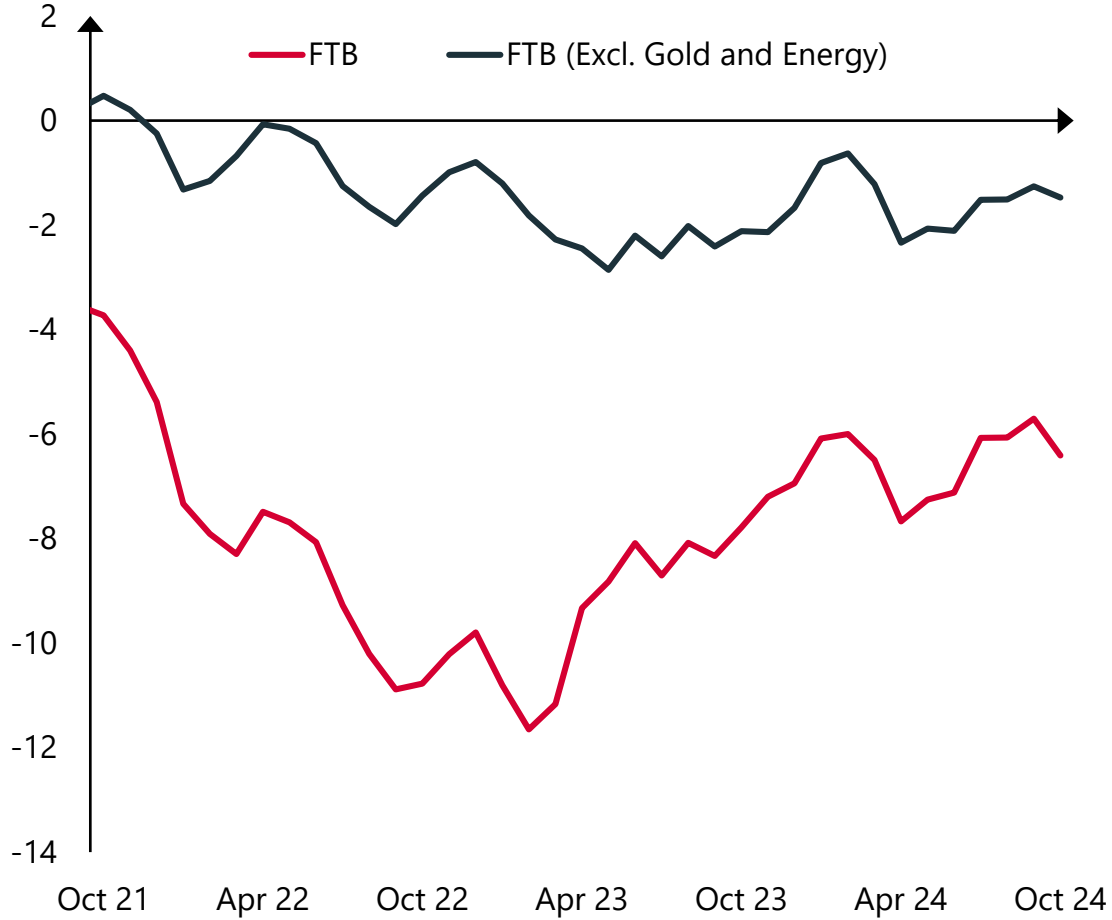
The output gap has continued to decline in the third quarter.

Output Gap*



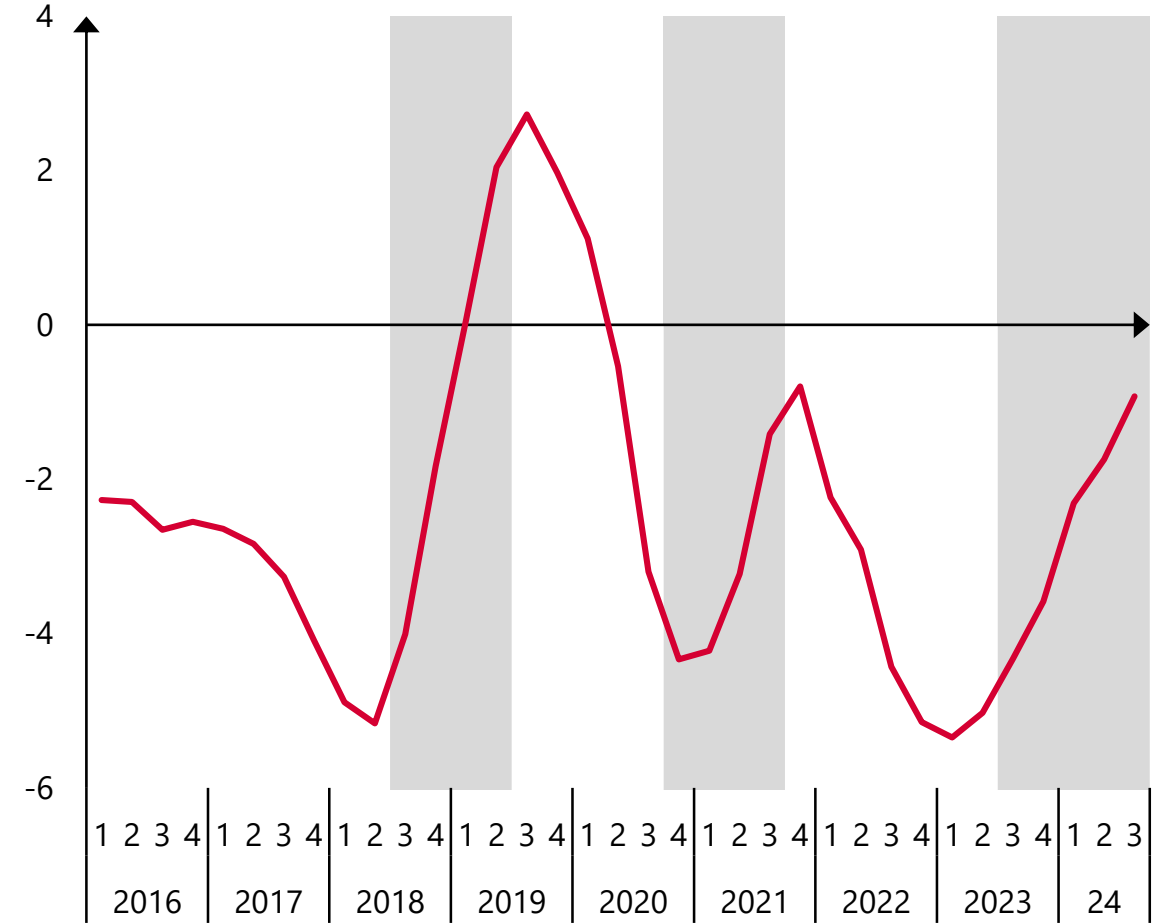
The improvement in the current account balance continues.

Foreign Trade Balance (FTB)*
(Seasonally and Calendar Adjusted, Billion Dollars, 3-Month MA)



Source: TURKSTAT, Ministry of Trade, CBRT.
* October 2024 (Provisional data).

Current Account Balance/GDP* (%)



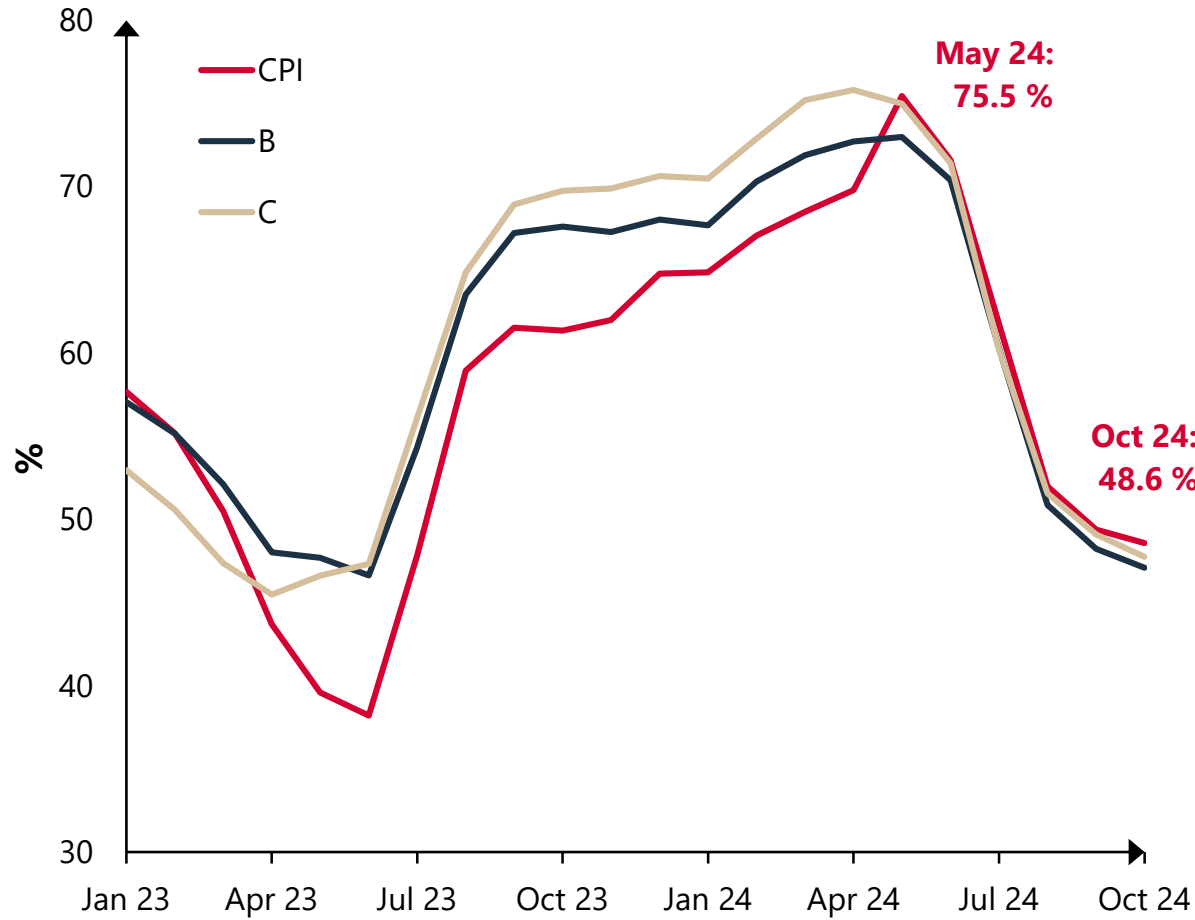
Source: CBRT, TURKSTAT.

* Shaded areas indicate the monetary tightening periods defined by the difference between the lowest and highest values of the 1-week repo rate in the corresponding time interval. Current account balance to GDP ratio for 2024-Q3 is forecast.

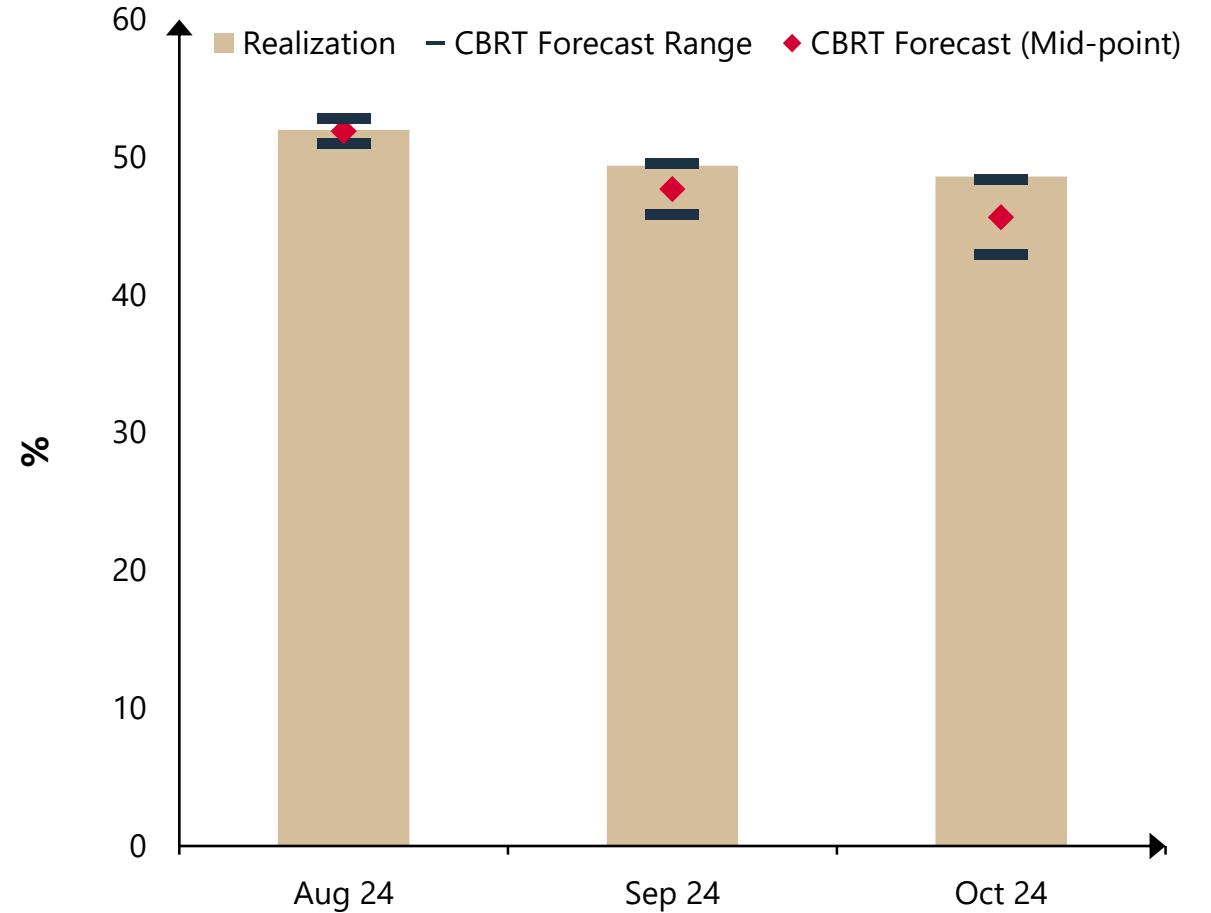
INFLATION

Disinflation process is on track.

CPI and Core Indicators
(Annual % Change)

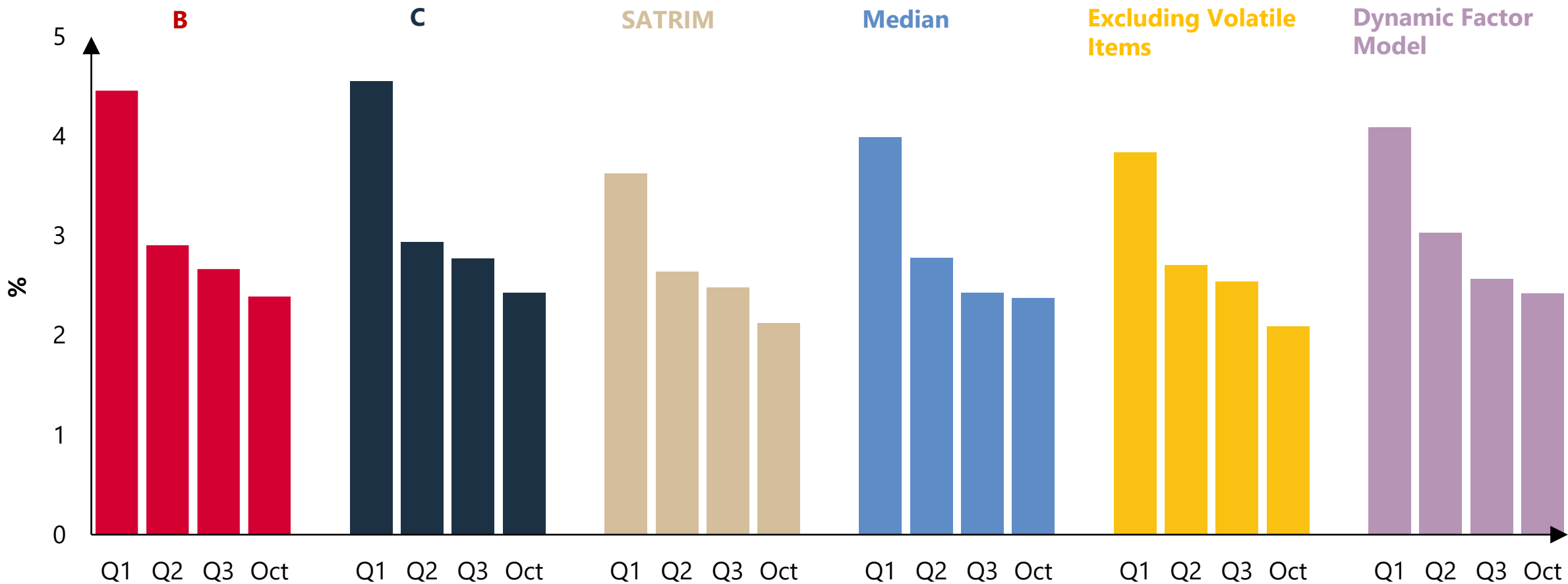


Actual CPI and CBRT Forecast (IR 2024-III)
(Annual % Change)



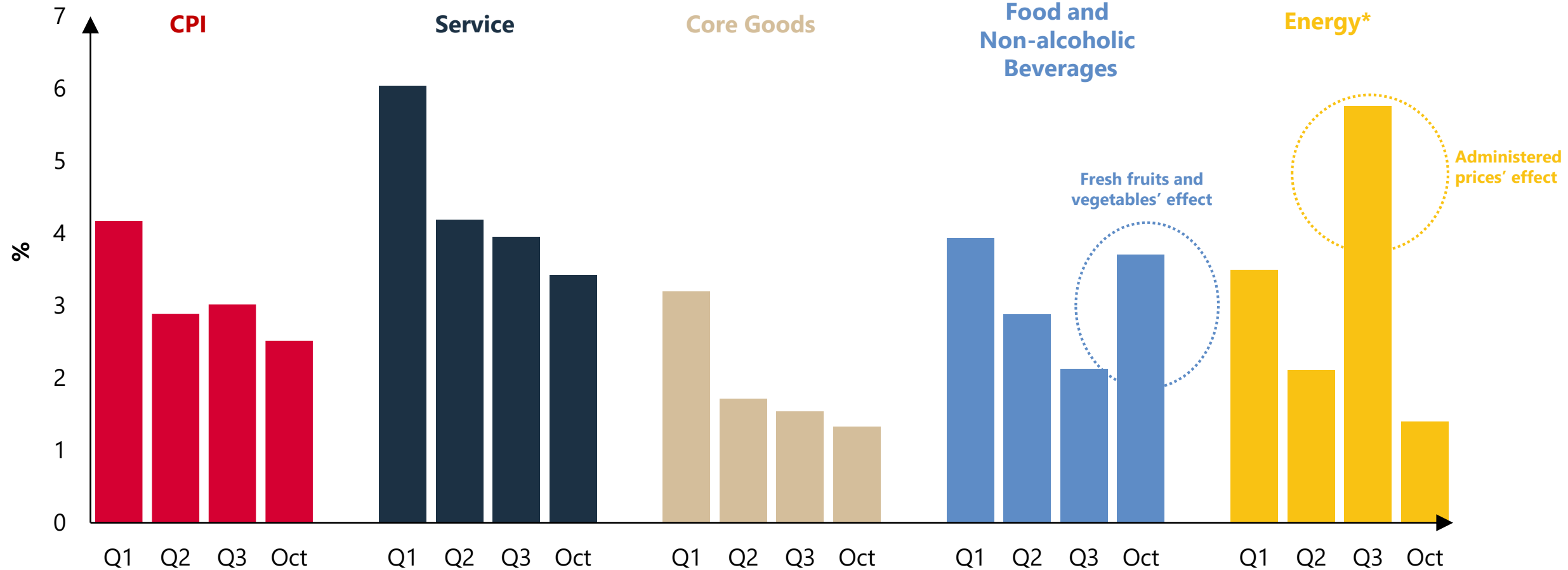
The slowdown in the underlying inflation continues.

Underlying Inflation Indicators of Monthly Inflation
(Seasonally Adjusted, Quarterly Average, 2024)



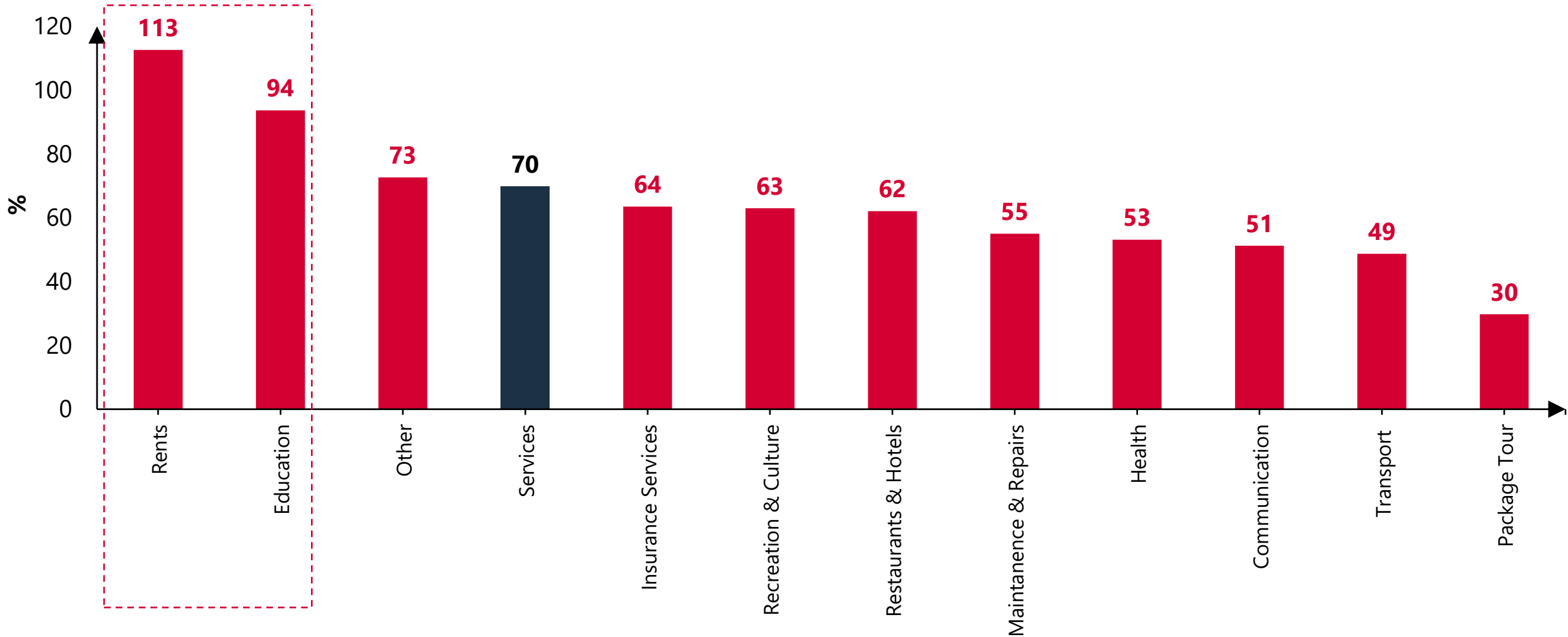
The improvement in the underlying inflation continues, led by core goods.

Monthly Inflation
(Seasonally Adjusted, Quarterly Average)



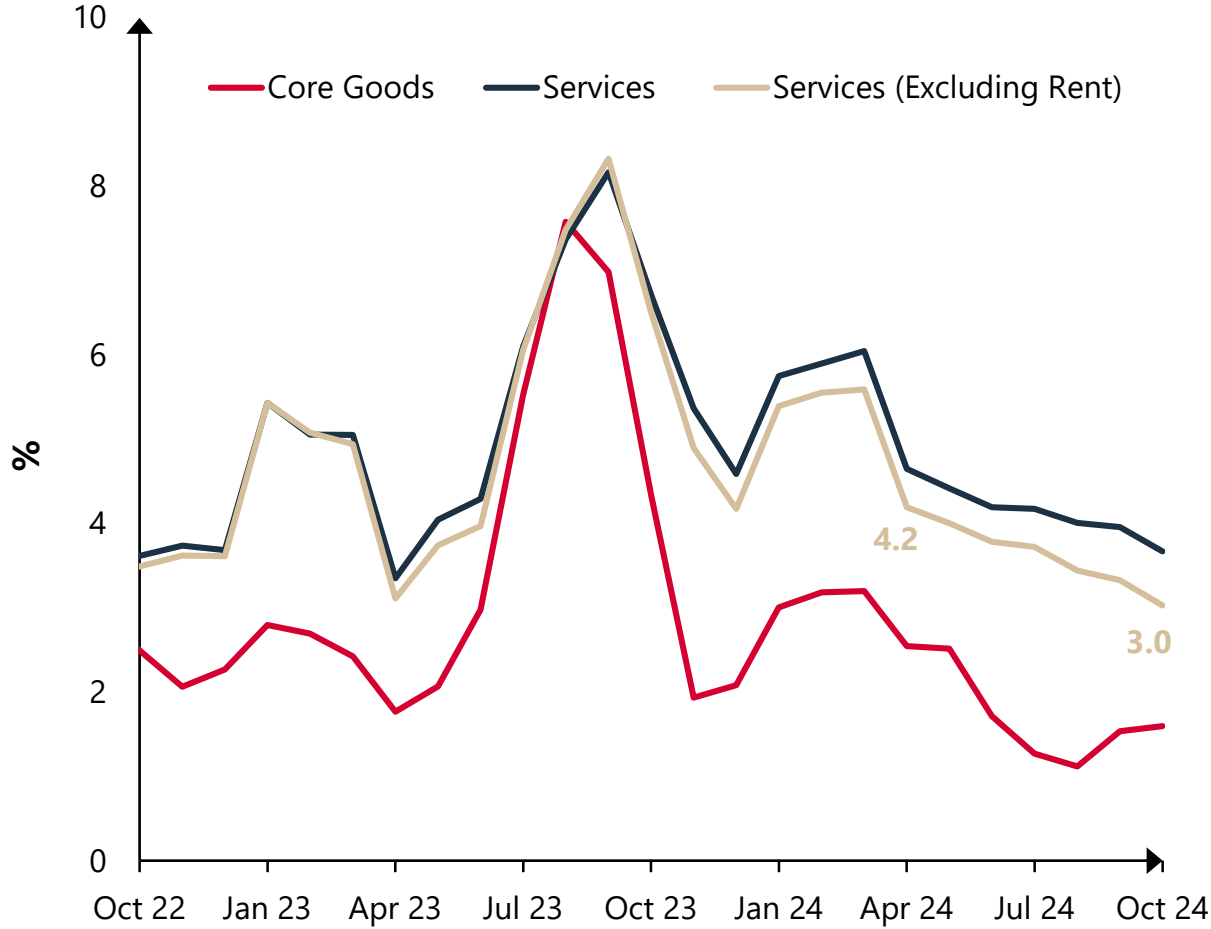
Items with strong backward-indexation put upward pressure on services inflation.

Services Prices
(Annual % Change)

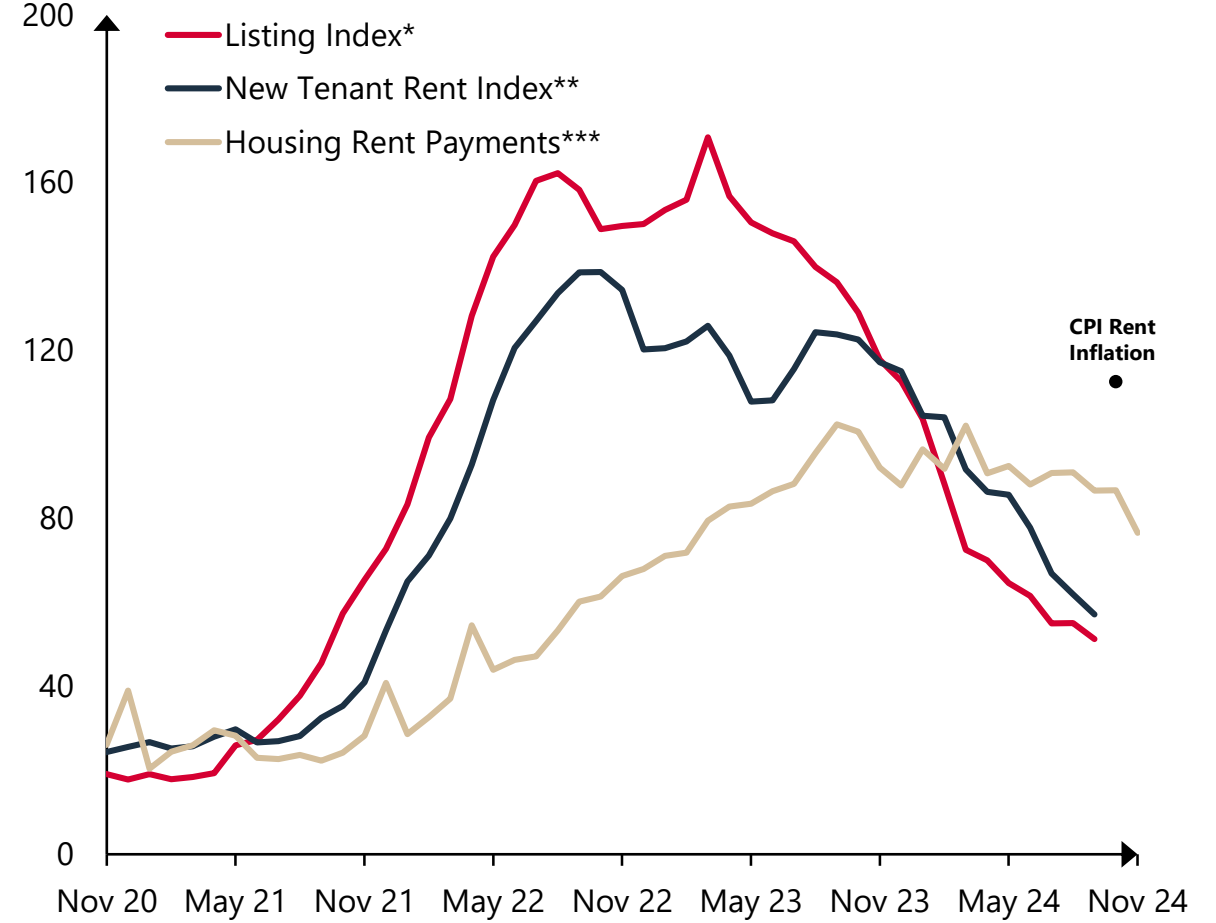


Price increases in the services sector excluding rents are gradually losing momentum.

Core Goods, Services and Services Excluding Rents
(Seasonally Adjusted, Monthly % Change, 3 Month Average)



Rent Inflation Indicators
(Annual % Change)



Source: CBRT, Sahibinden.com, TURKSTAT.

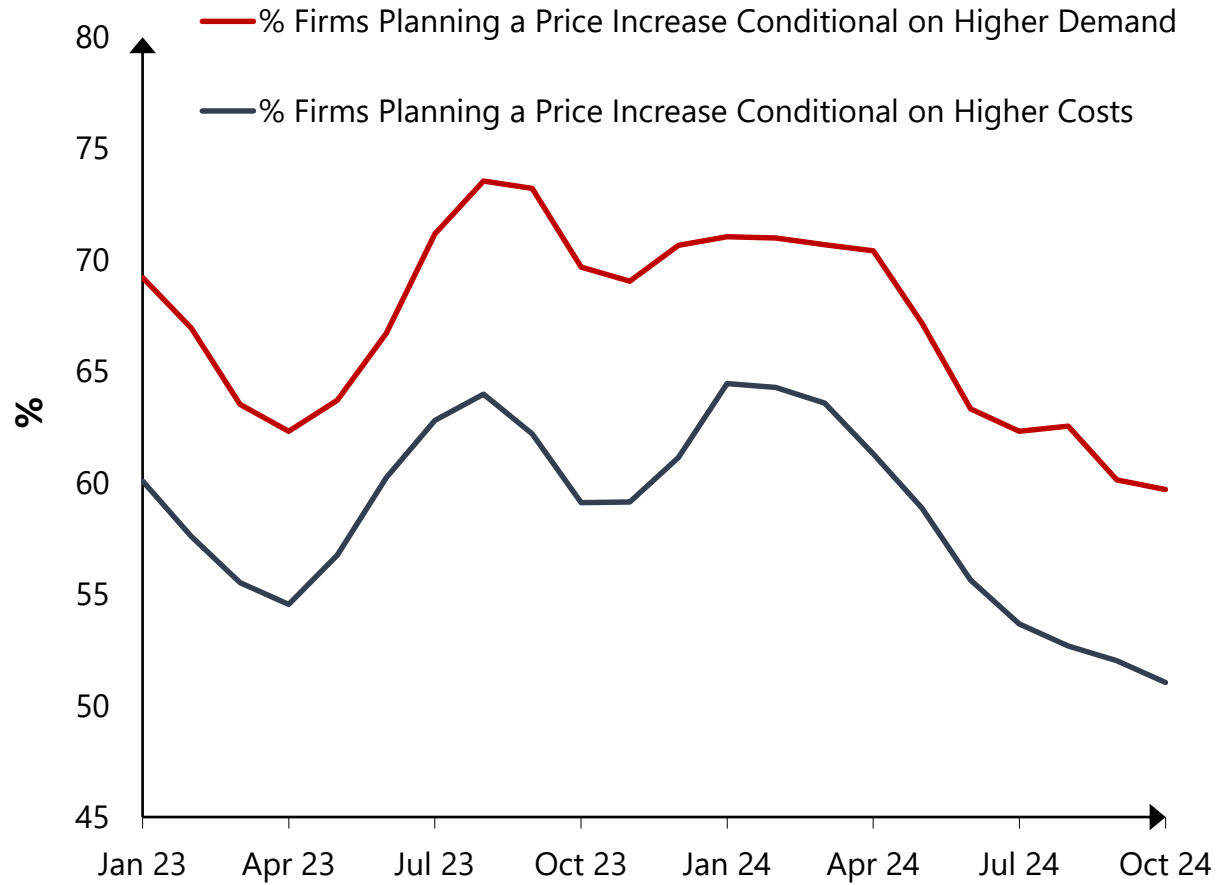
*It is constructed using rental prices (TL/m²) listed on Sahibinden.com for the three largest cities (İstanbul, Ankara and İzmir).

** It is an indicator related to expert opinions obtained from housing loans valuation reports, as a part of the CBRT House Price Index study.

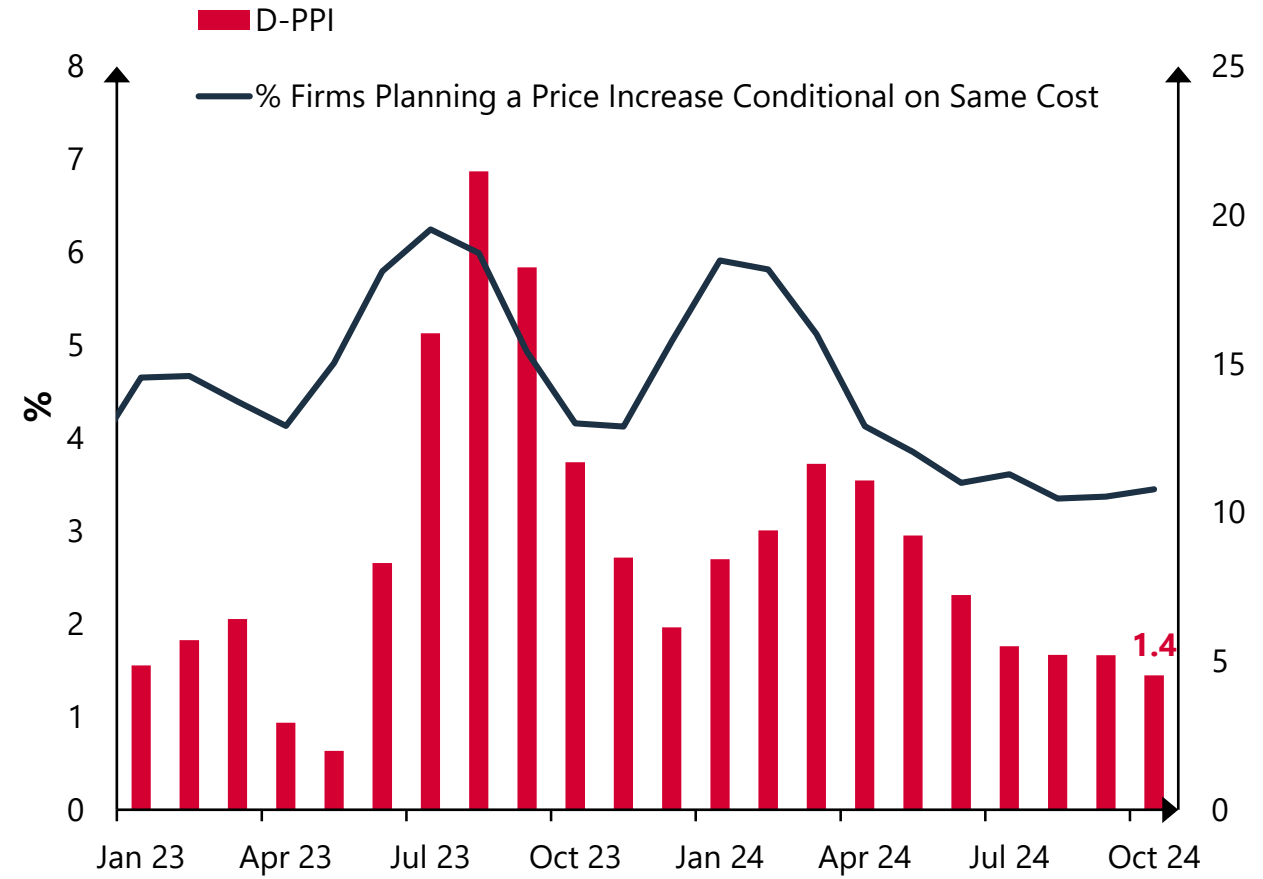
*** It is percentage change of new and renewed contracts compared to the previous contracts. Data covers the first 7 days of November.

Pricing behavior of firms in the industrial sector is improving.

**Firms' Domestic Sales Price Expectation
(%, 3 Month Average)**

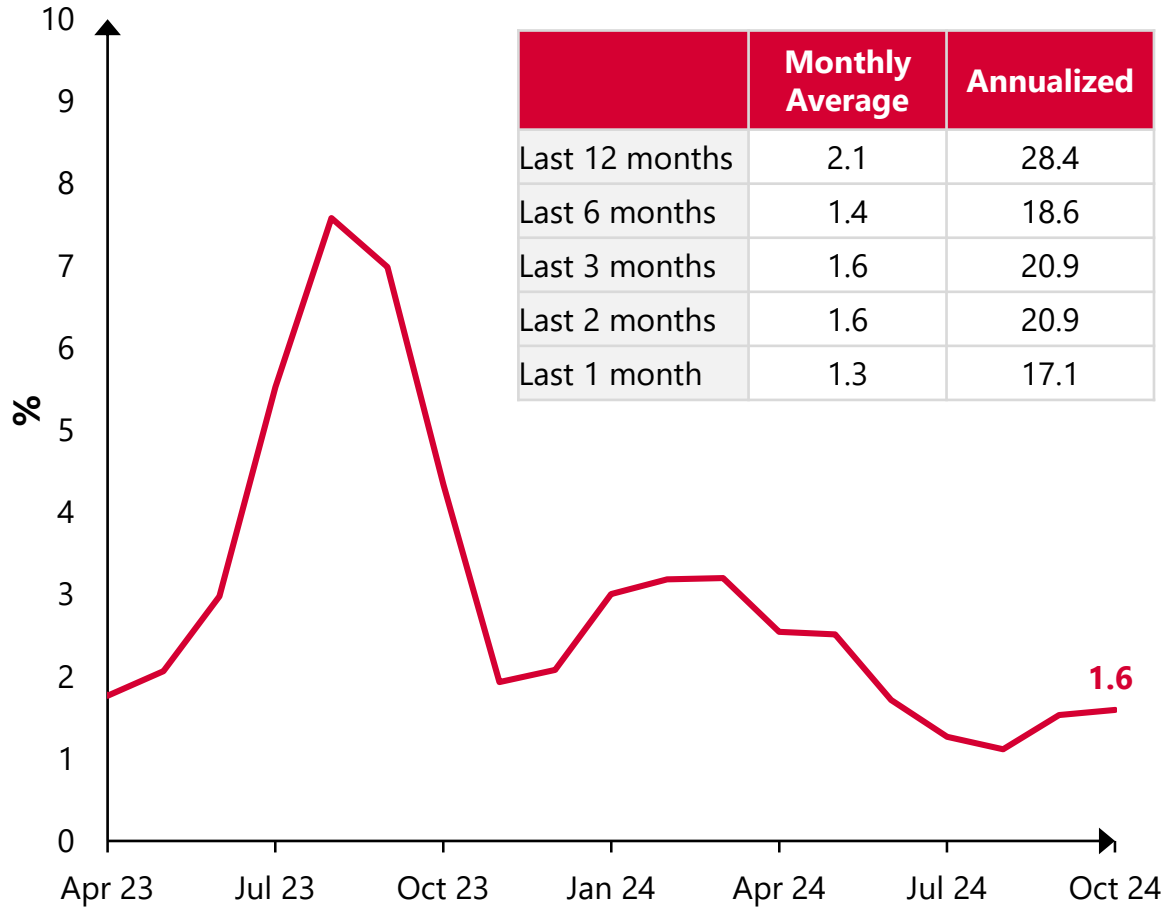


Domestic Producer Price Index (Monthly % Change, 3 Month Average) and Firms' Domestic Sales Price Expectation (%, 3 Month Average)

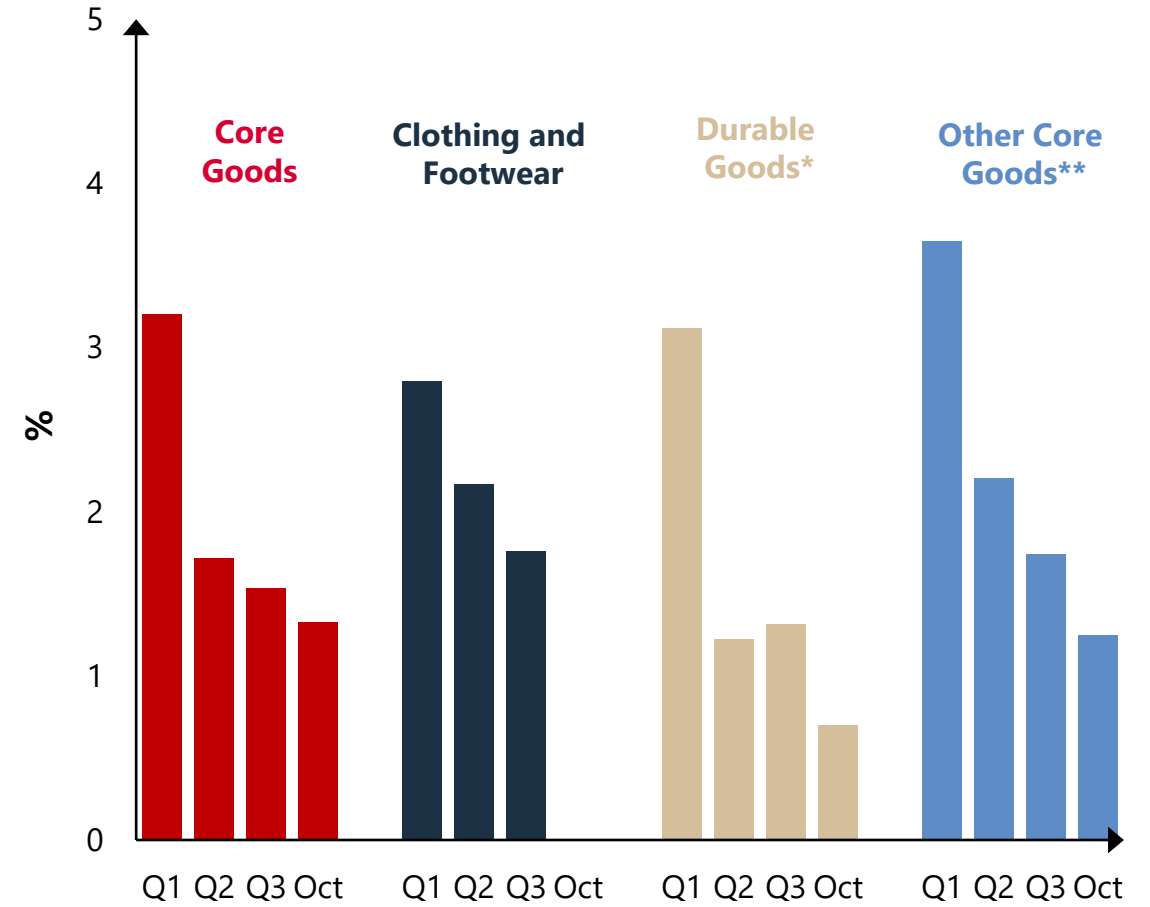


Core goods inflation remains weak.

Core Goods Prices
(Seasonally Adjusted, Monthly % Change, 3 Month Average)

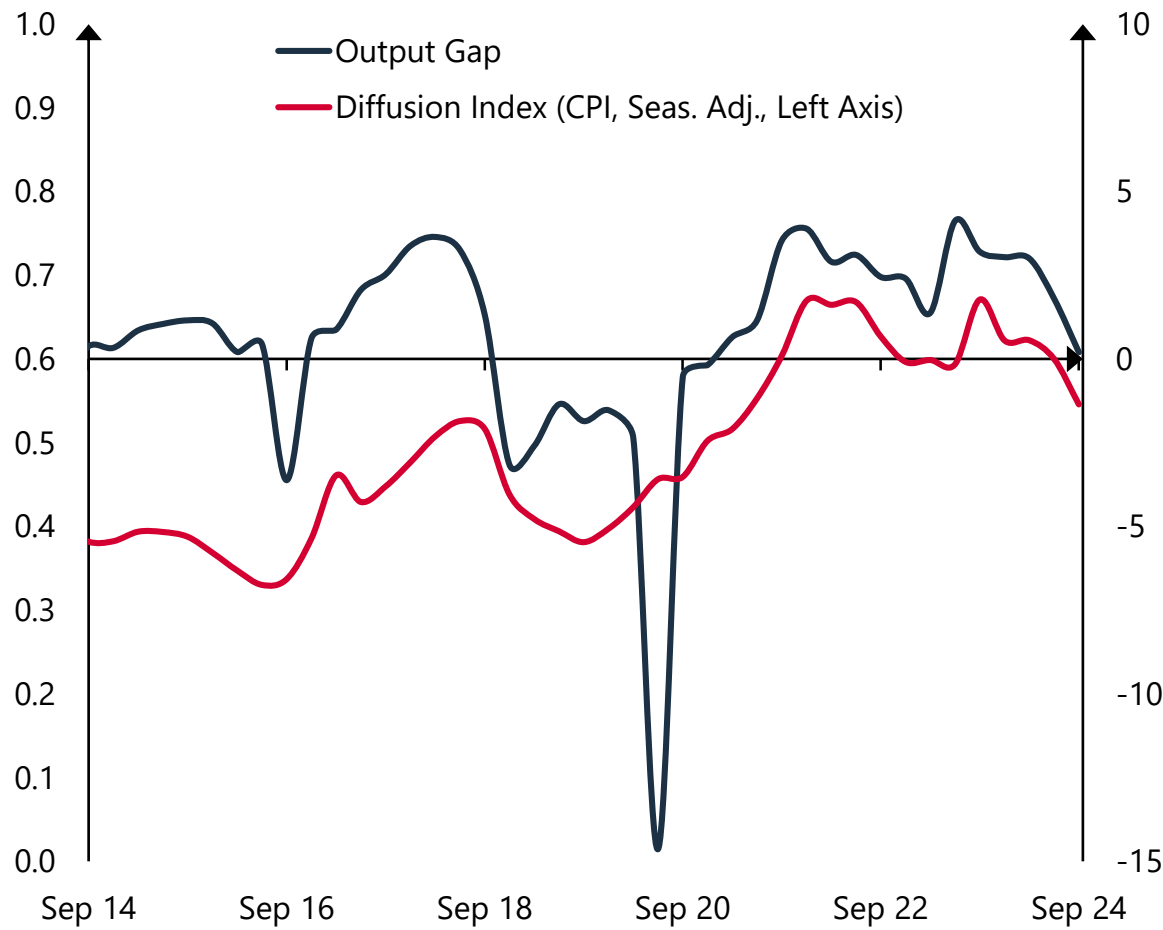


Core Goods Subgroups Prices
(Seasonally Adjusted, Monthly % Change, Quarterly Average)

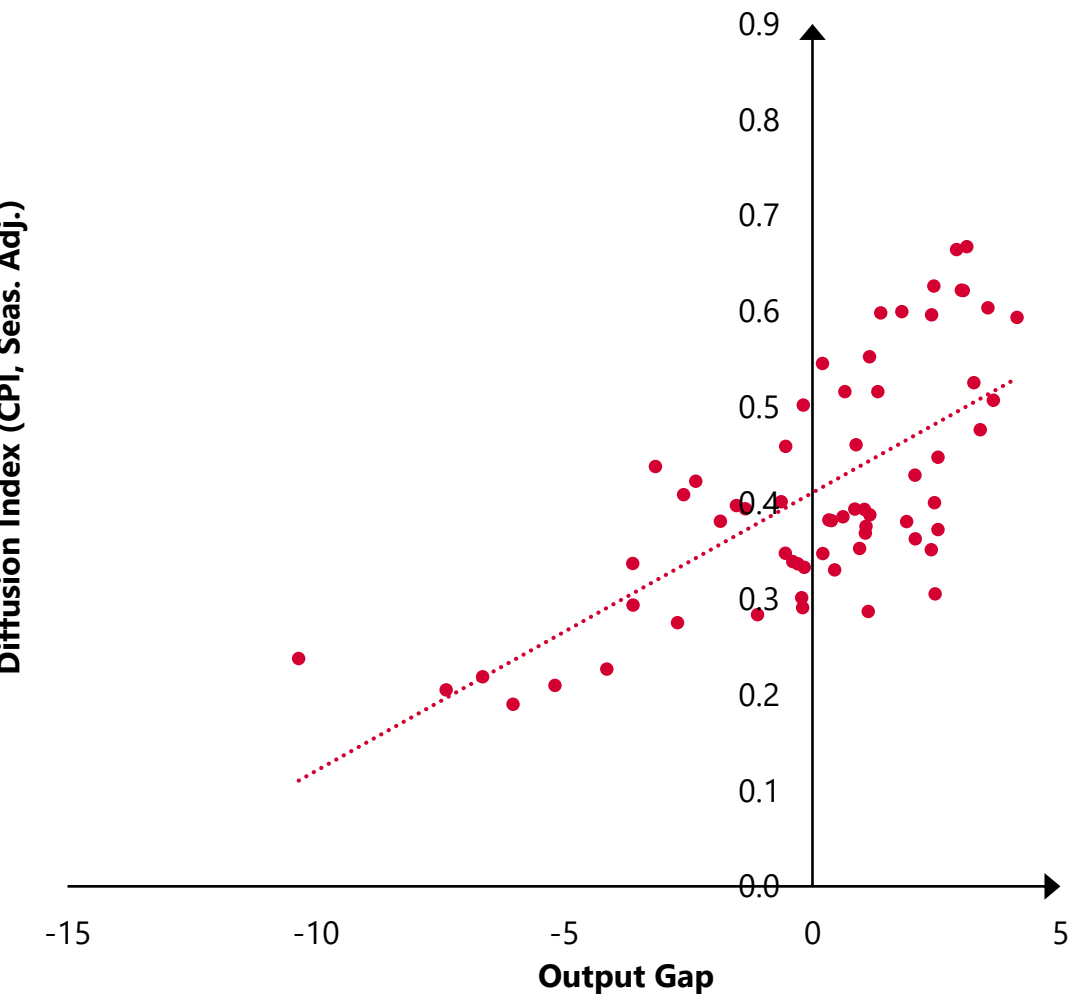


As demand conditions weaken, the diffusion of price increases declines.

Demand Conditions and the Diffusion of Price Increases in CPI



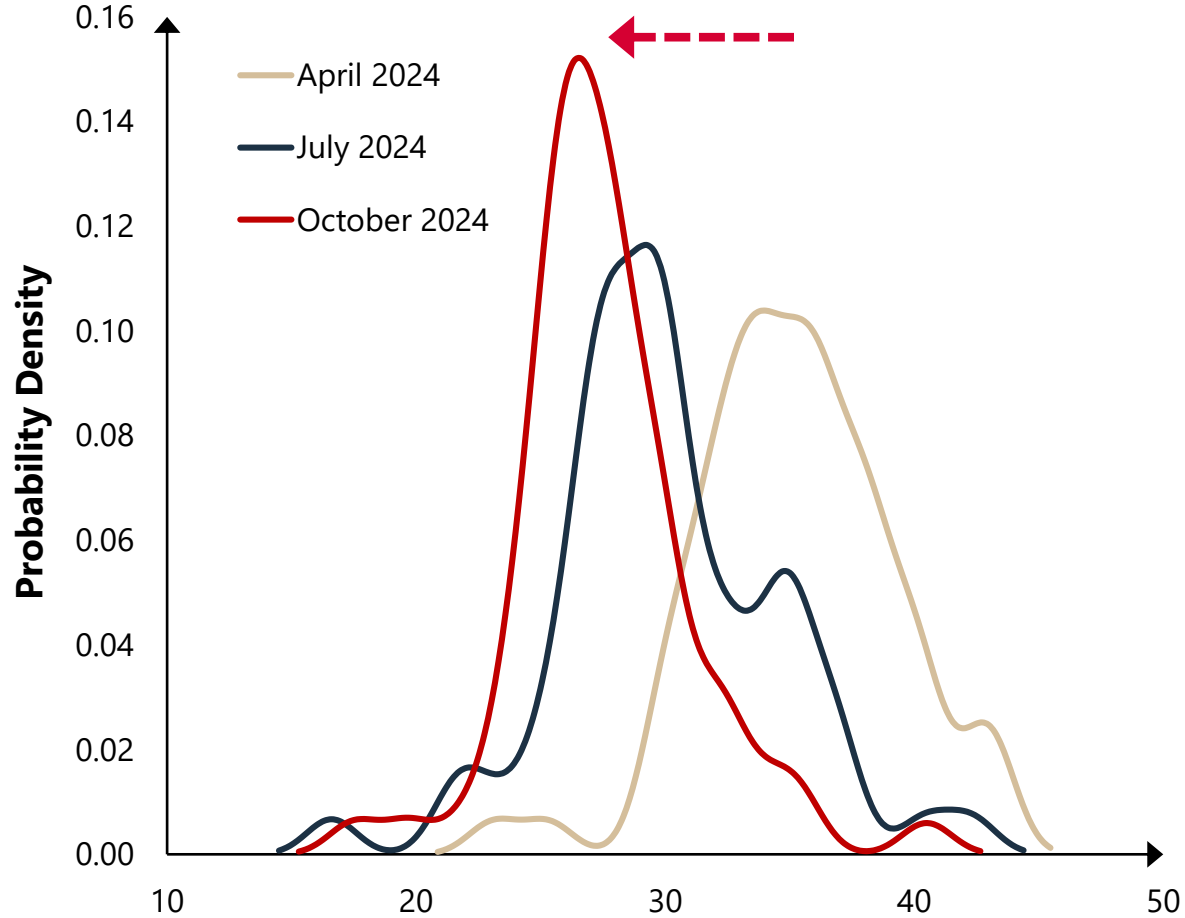
Output Gap and CPI Diffusion Index Scatter Plot*



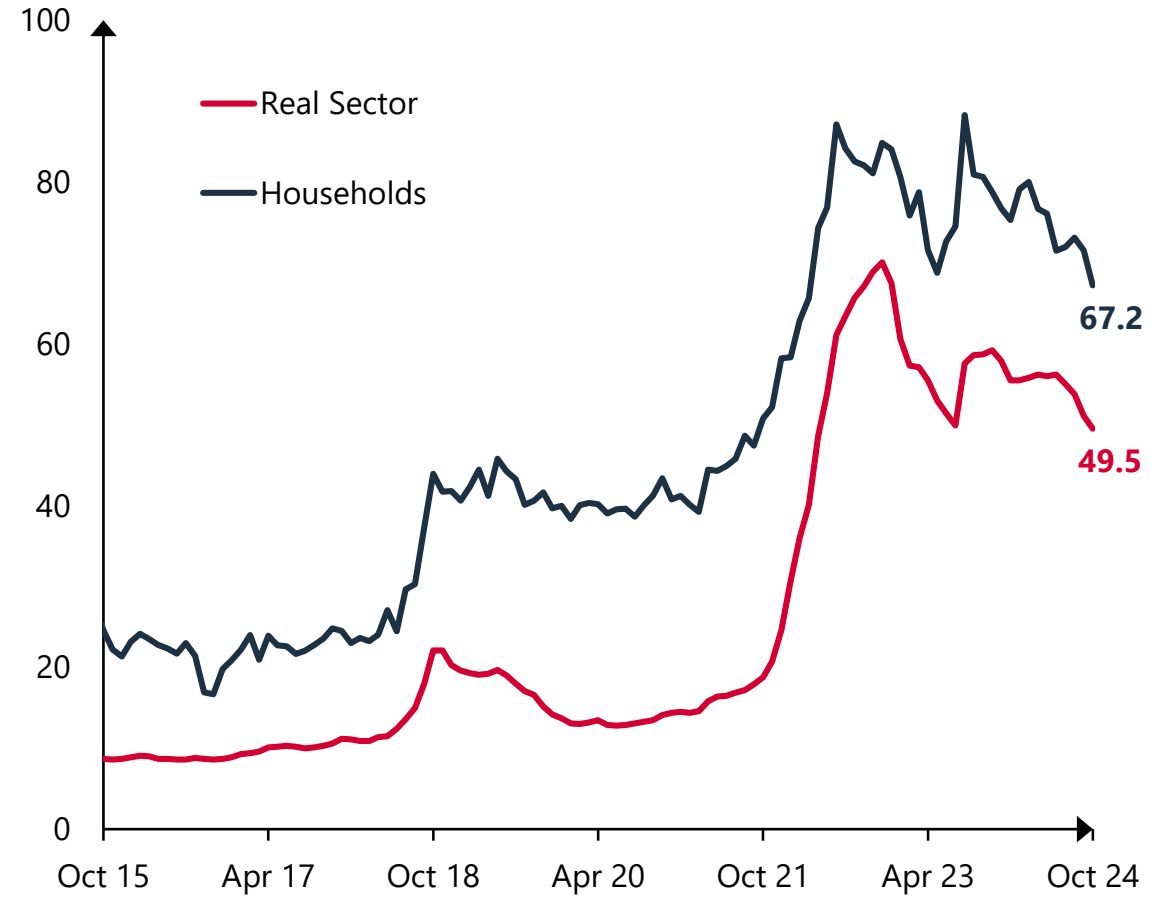
Source: CBRT, TÜRKSTAT.
* Sample Period: 2008Q2-2024Q3. In addition to 2020Q2 (Covid period) when supply-side effects are evident, 2021Q4 and 2023Q3 quarters are also excluded from the sample.

The impact of tight monetary policy on expectations is closely monitored.

Survey of Market Participants 12-Month Ahead Annual CPI Expectation



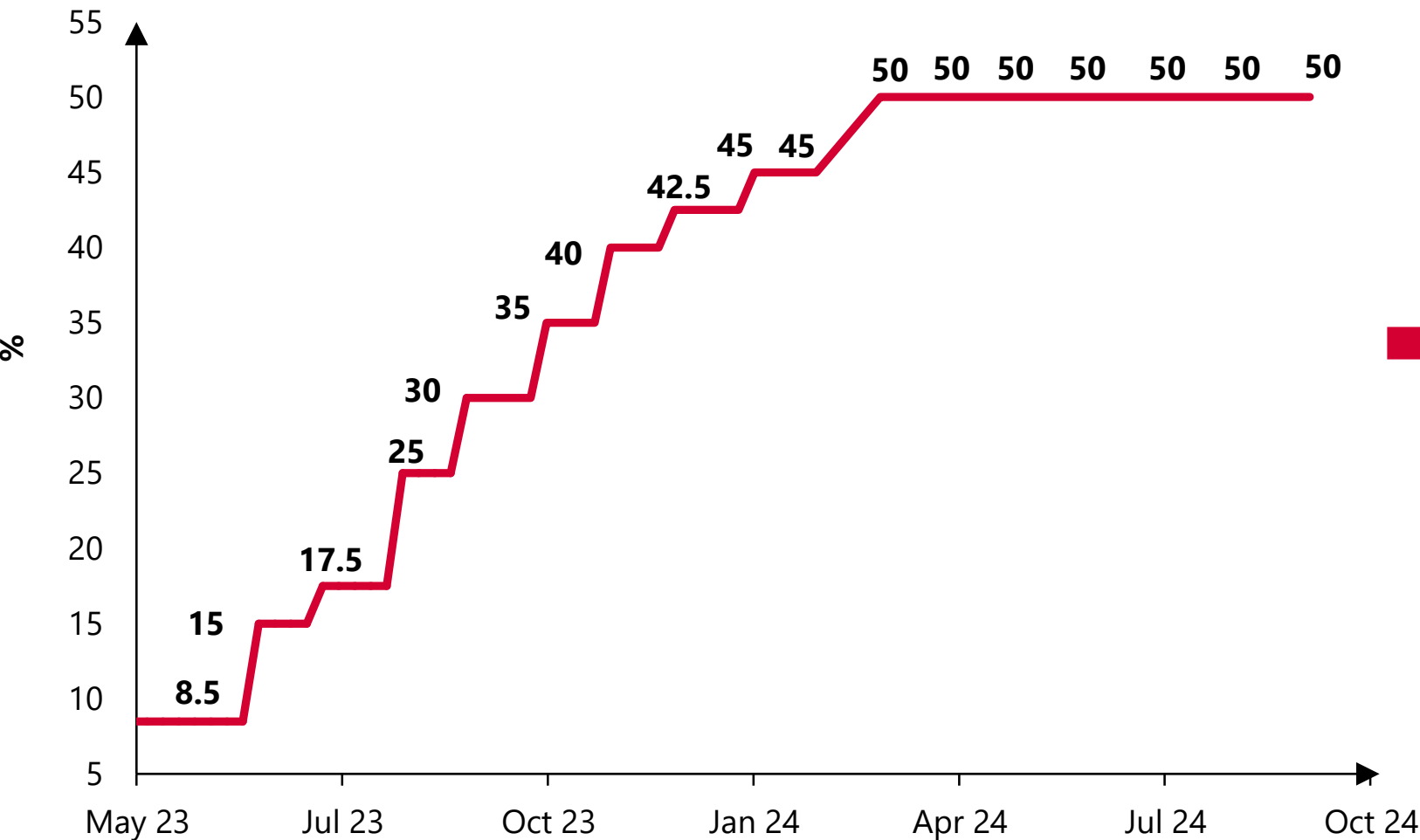
12-Month Ahead Annual CPI Inflation Expectation



MONETARY POLICY

Tight monetary stance has been maintained.

Policy Rate



**Quantitative
Tightening**

**Macroprudential
Framework**

Tight monetary stance is supported by macroprudential measures.

1

Regulations for TL deposit share and KKM

- Targets for TL deposit share
- Targets for KKM gradual reduction

2

Loan growth caps

- Limits on TL and FX loan growth
- Prepayment commissions for TL commercial loans

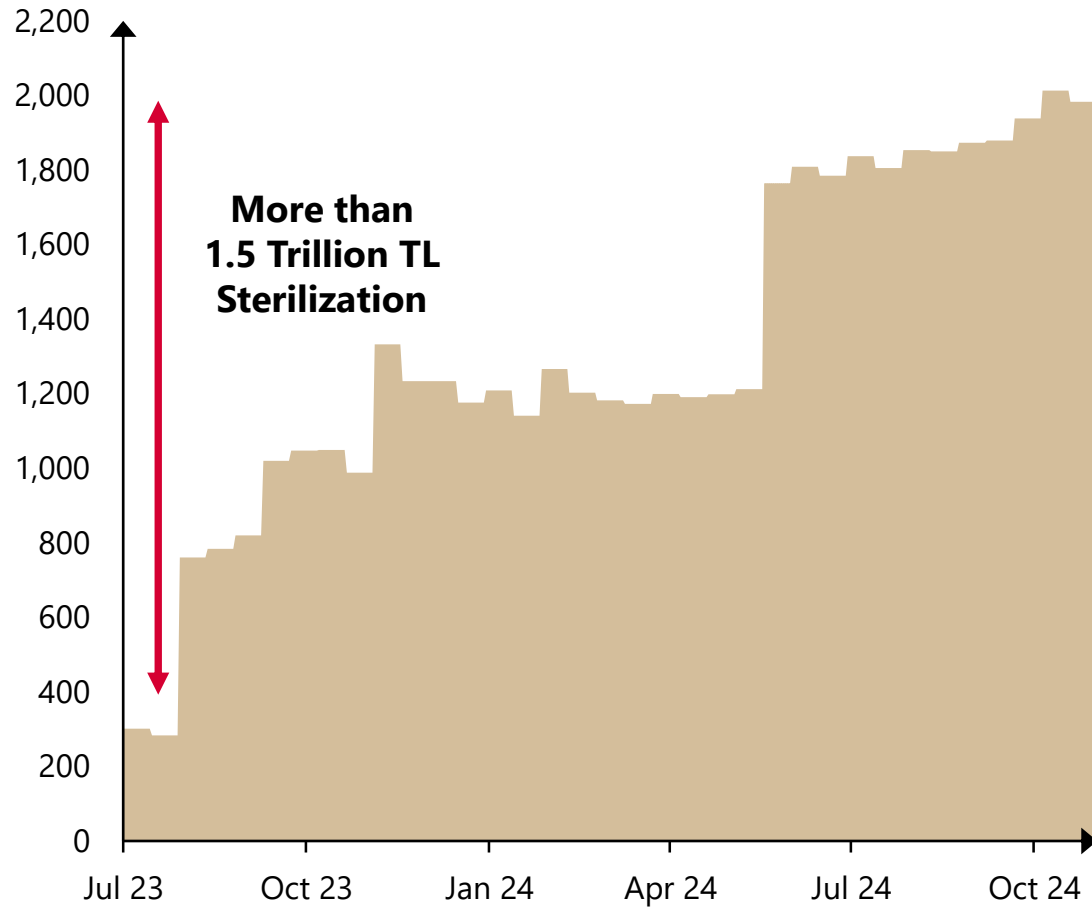
3

Liquidity management

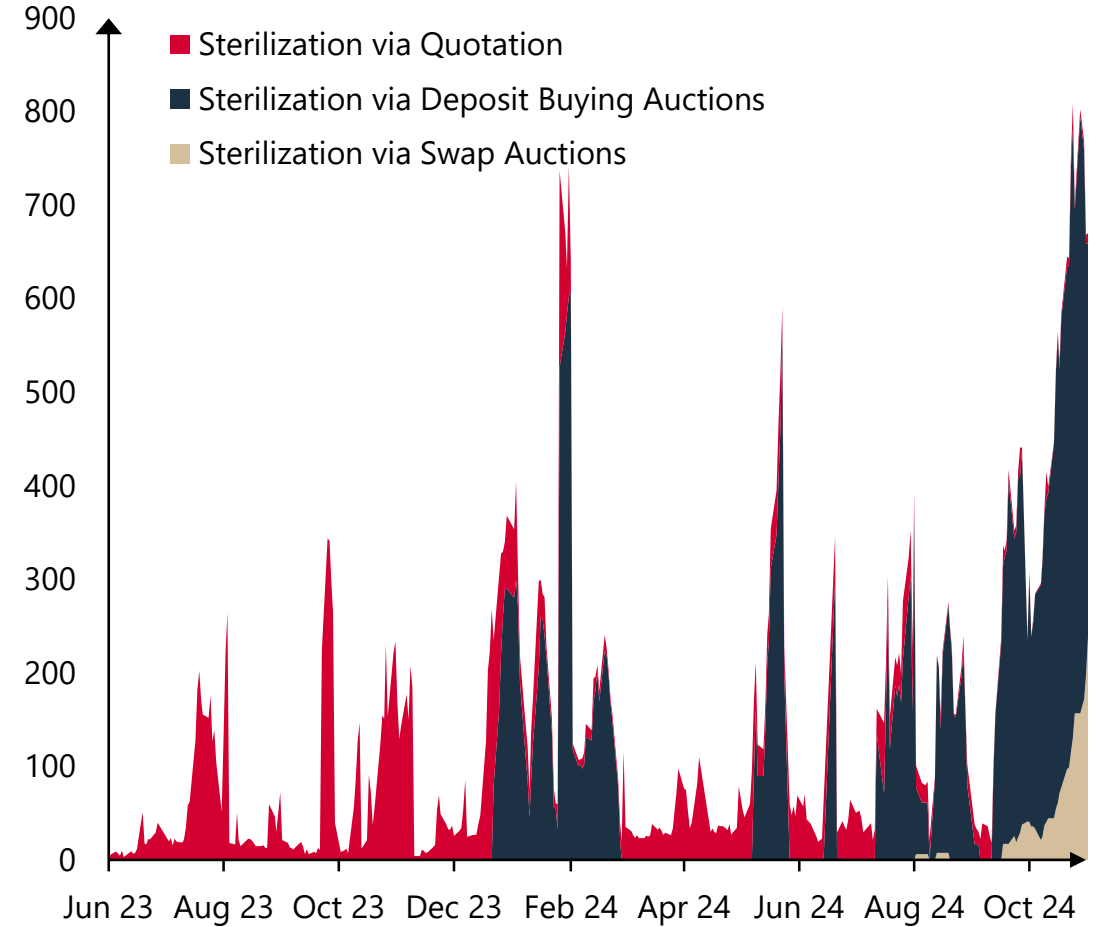
- Reserve requirement ratios
- TL deposit auctions

Excess liquidity has been sterilized by quantitative tightening.

**Required Reserves
(Billion TL)**



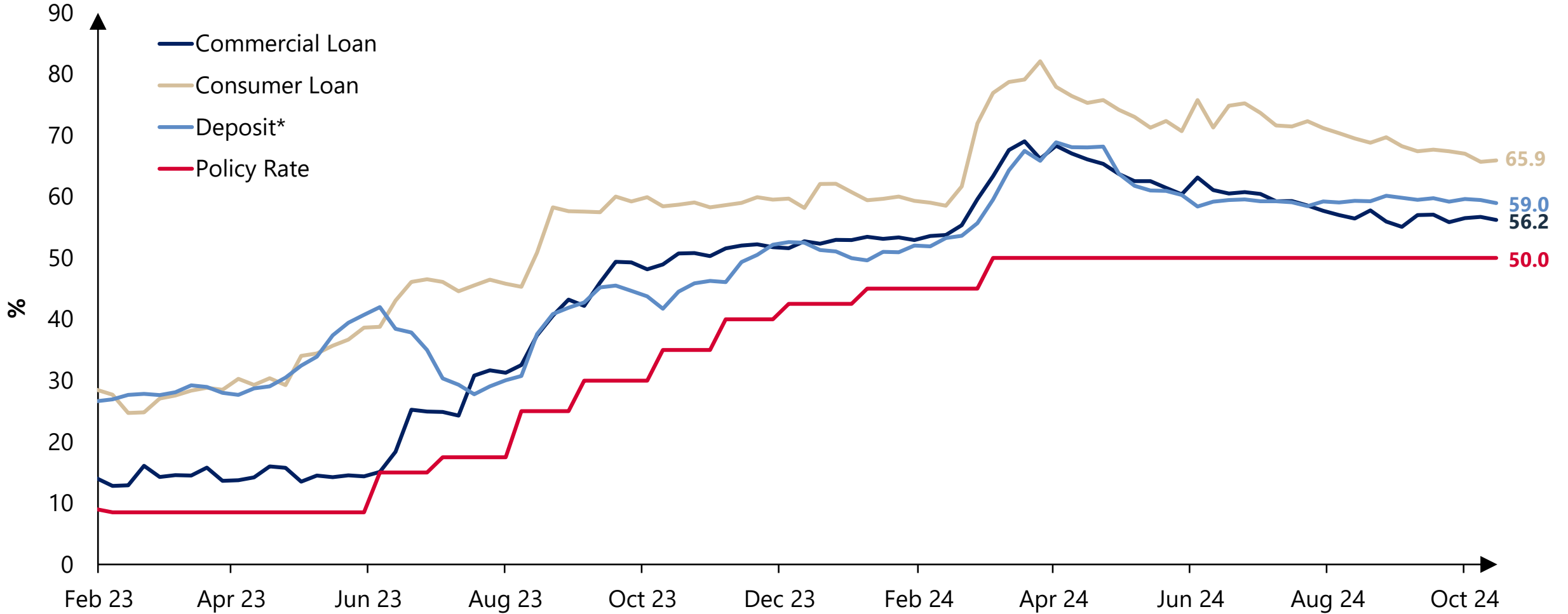
**Sterilization via Quotation and Auctions
(Billion TL)**



FINANCIAL CONDITIONS

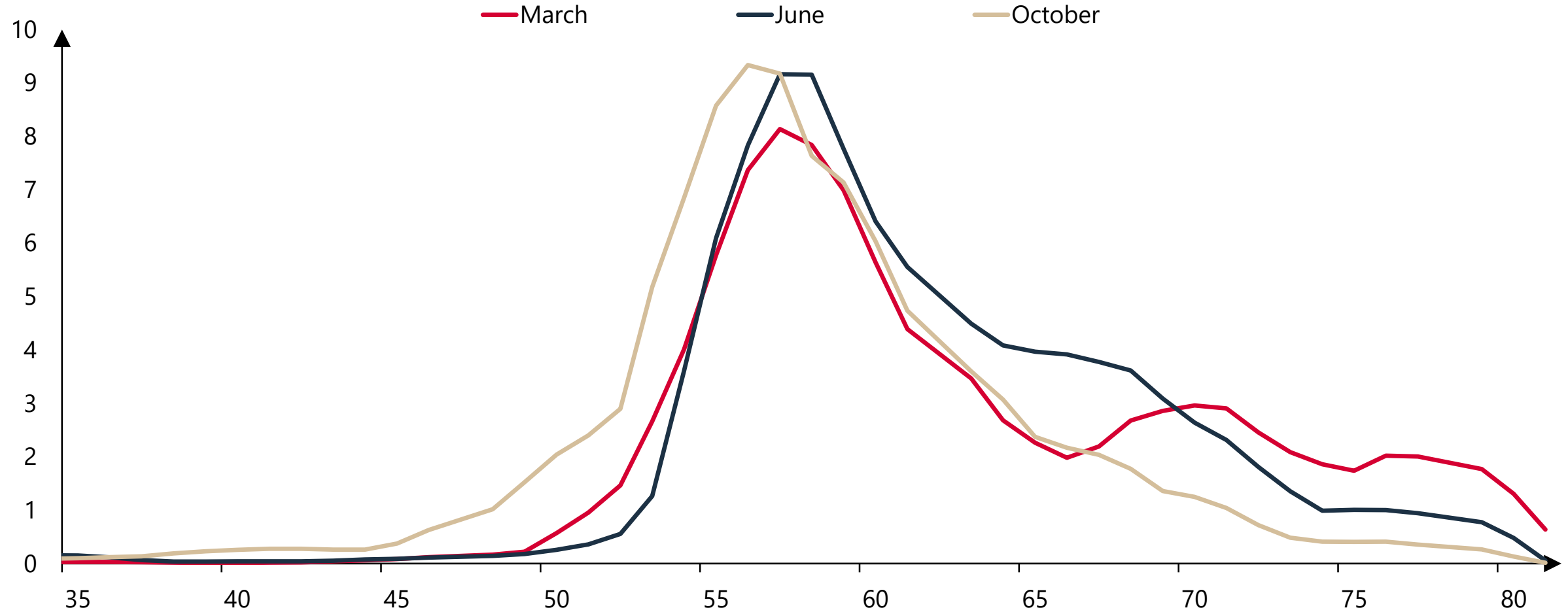
Financial conditions remain tight.

Interest Rates



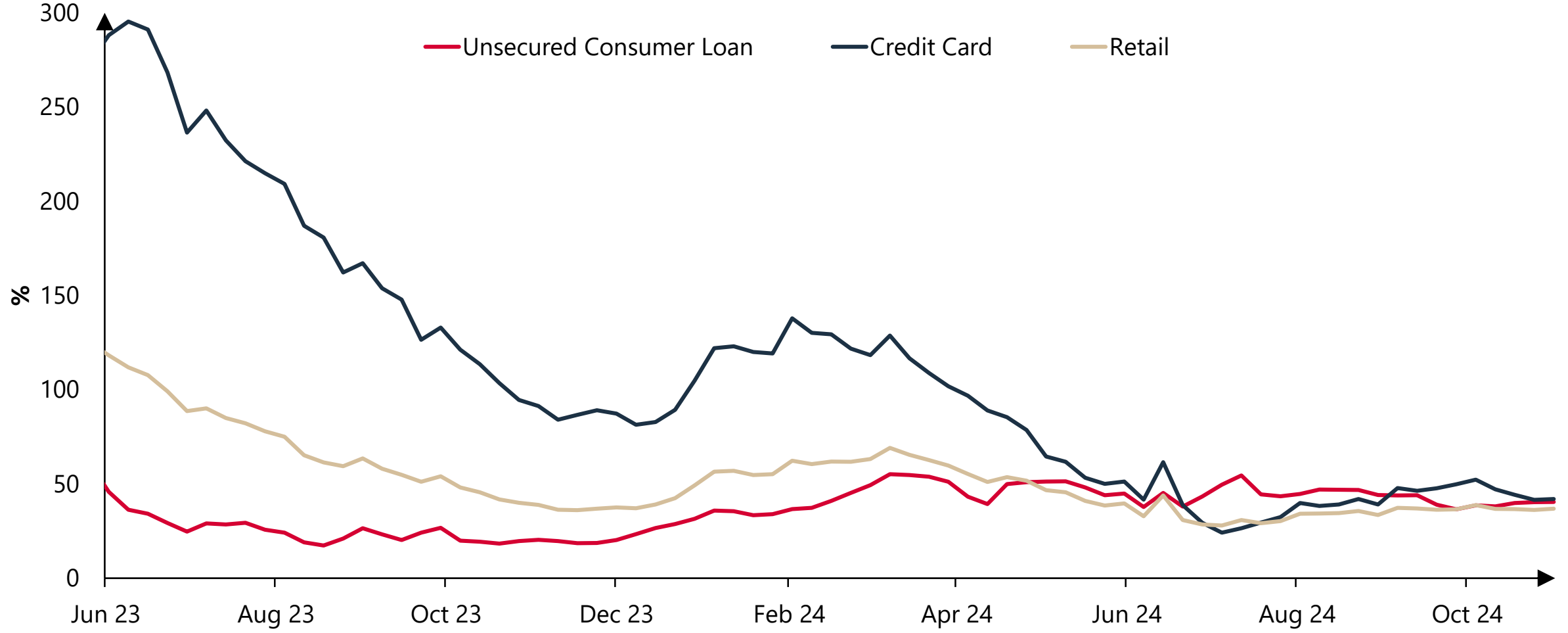
Loan rates have decreased with the improvement in inflation expectations.

Density of TL Commercial Loan Rates*
(Flow)



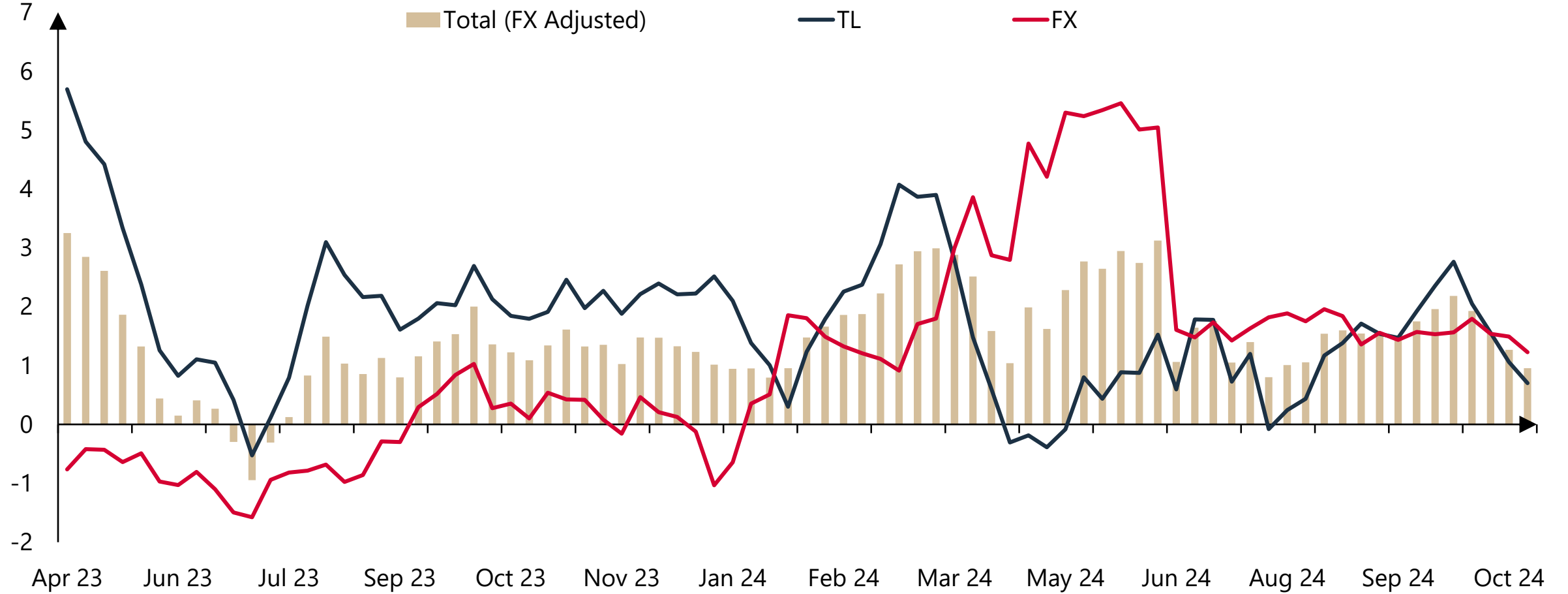
Consumer credit growth is moderate.

Consumer Loan Growth
(13 Week, Annualized)



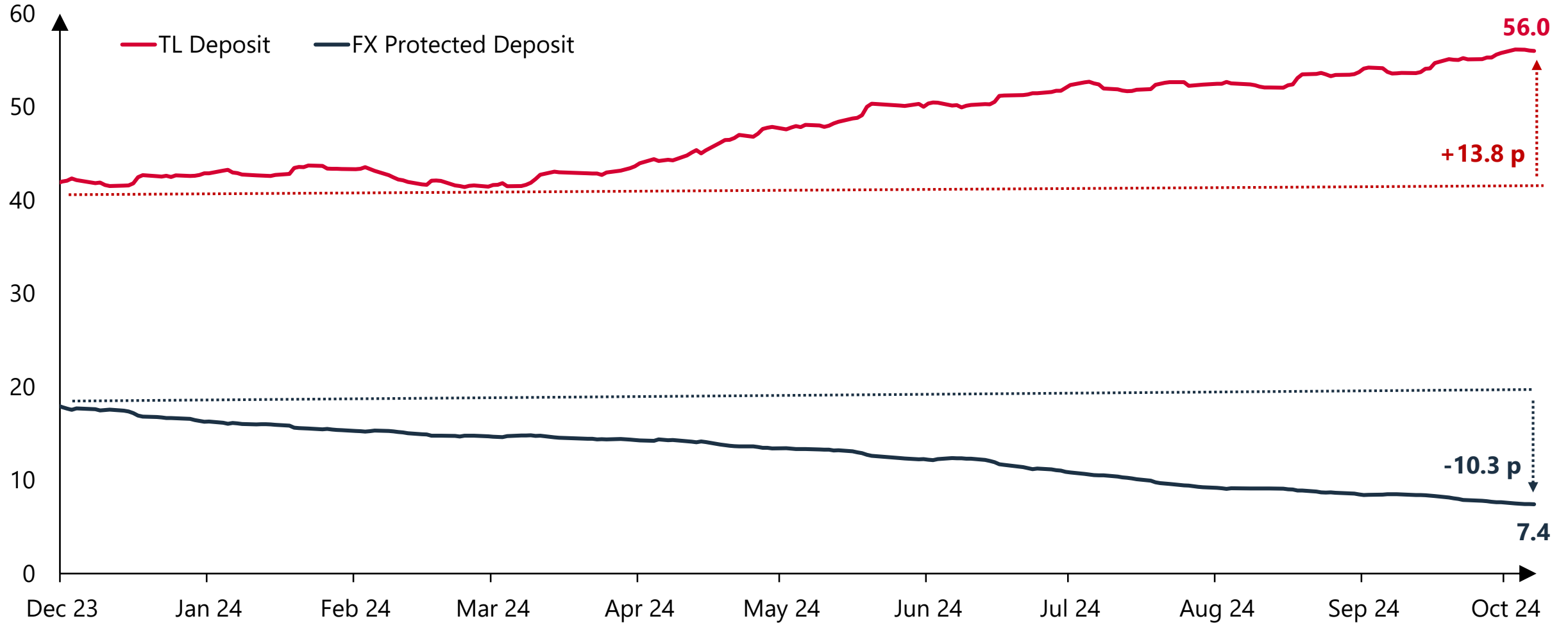
Commercial loan growth rates are below the monthly growth limits.

Commercial Loan Growth
(4 Week, %)



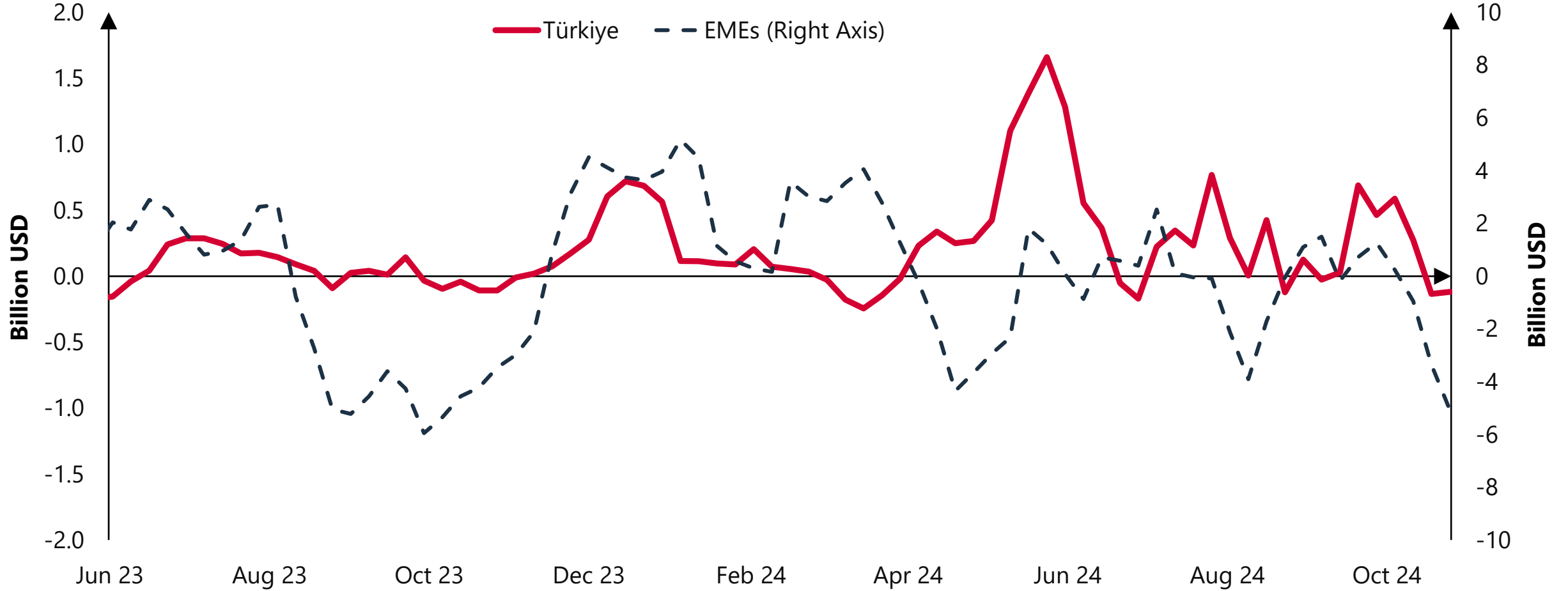
While TL deposit share continues to increase, FX protected deposit share diminishes.

Deposit Share (%)



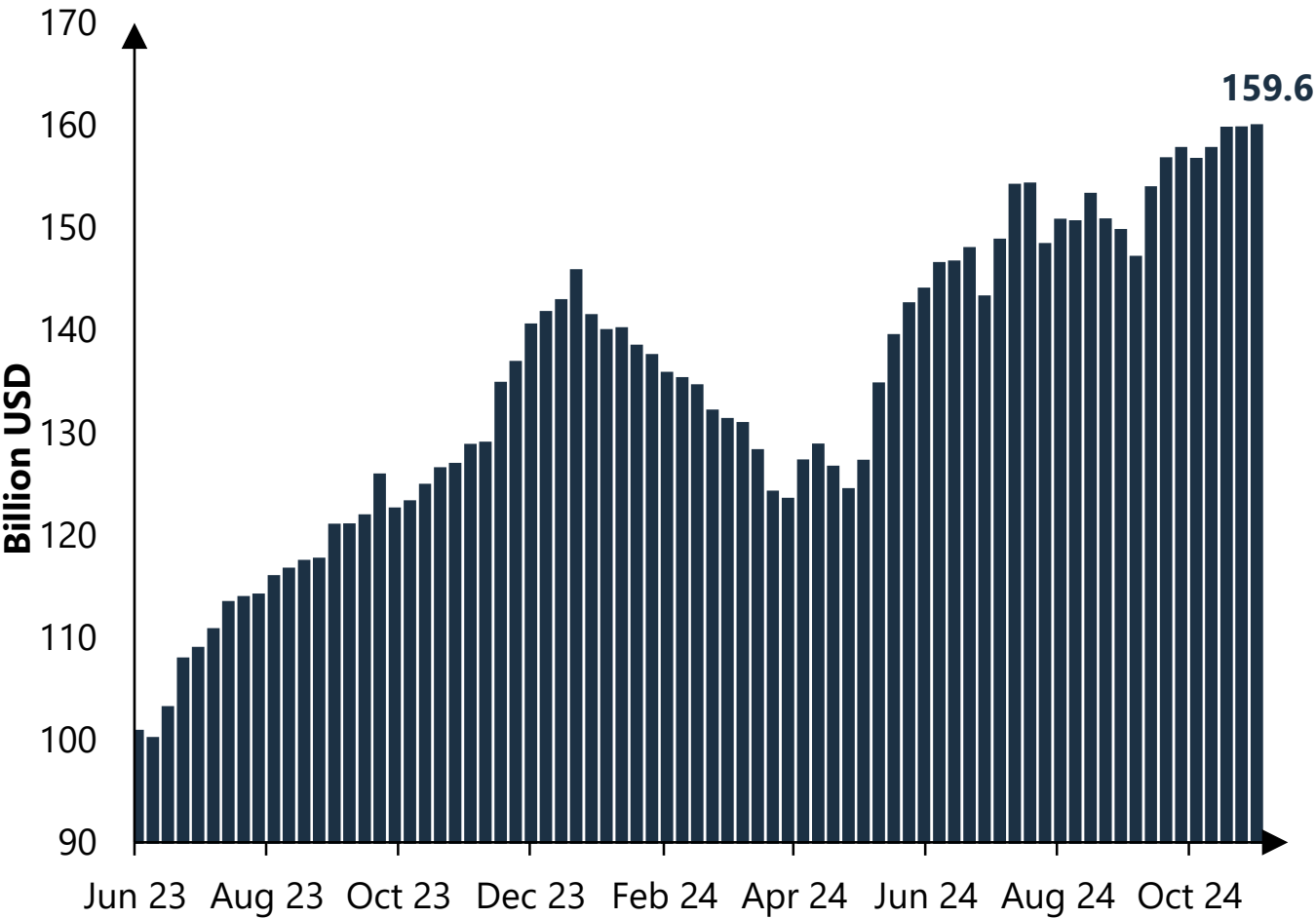
Capital inflows slowed down due to declining risk appetite in global markets.

Capital Flows to Türkiye and EMEs
(4-Week Average)



Tight monetary policy stance has favorable impact on international reserves.

CBRT Gross Reserves

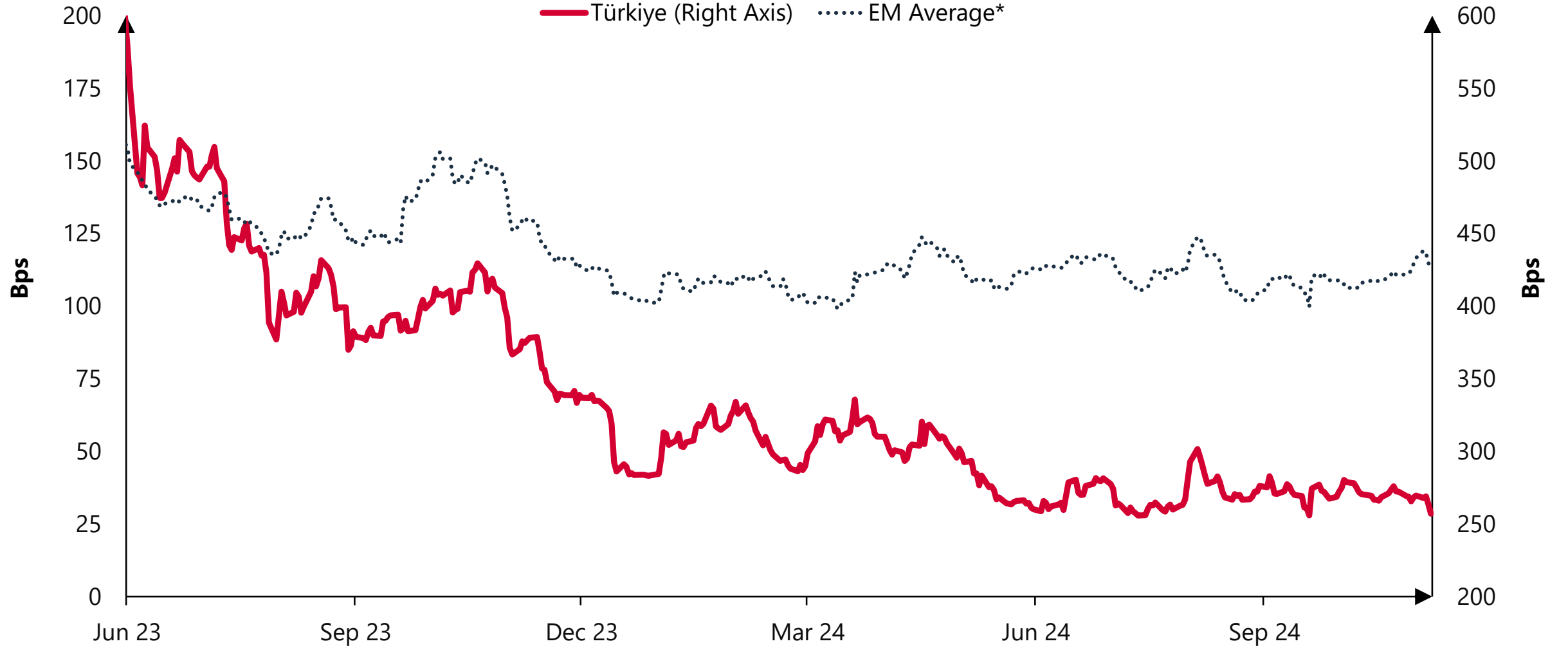


CBRT International Reserves as of 1 November 2024 (Billion USD)	
Gross Reserves	159.6
Net Reserves exc. Swaps (Including Local Swaps)	45.9

Change in International Reserves Compared to 22 March 2024 (Billion USD)	
Gross Reserves	35.8
Net Reserves exc. Swaps (Including Local Swaps)	110.4

Risk premium has continued its moderate course.

5 Year Credit Risk Premium (CDS)



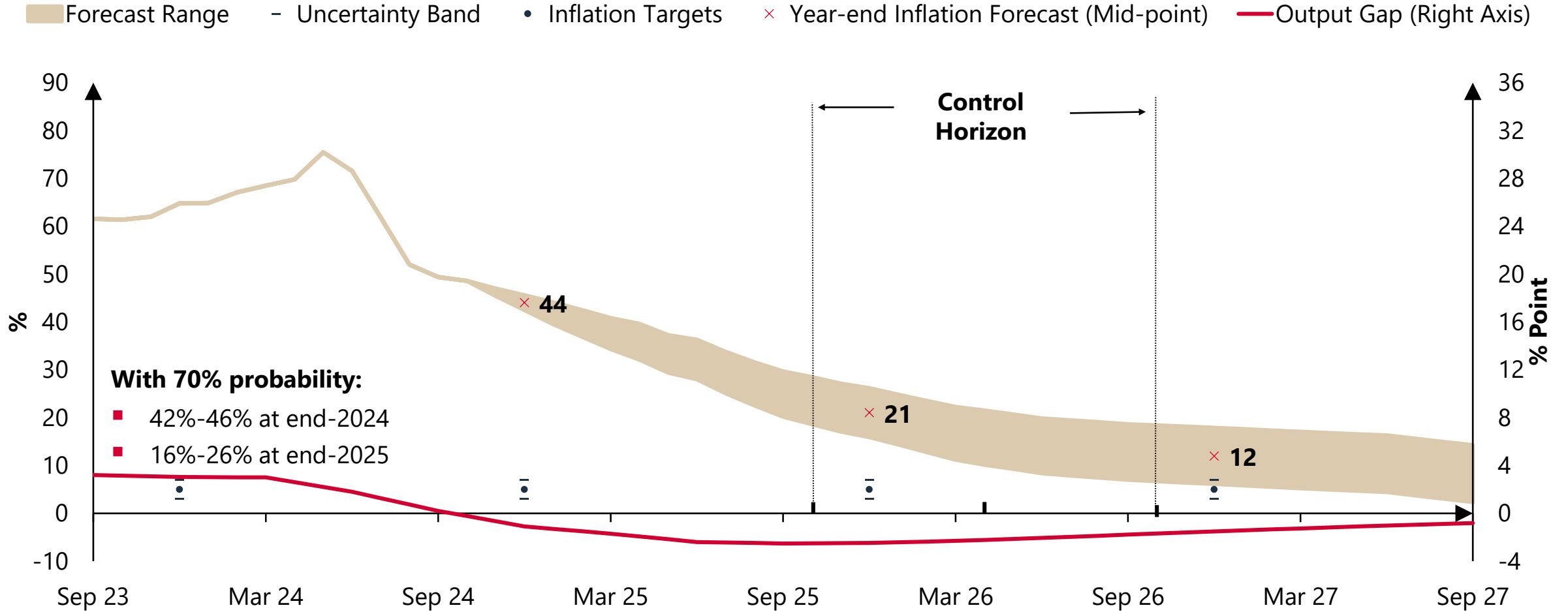
MEDIUM-TERM PROJECTIONS

Revisions in Main Assumptions

		IR 2024-III	IR 2024-IV
Global Production Index* (Average Annual % Change)	2024	2.0	2.0
	2025	2.4	2.4
Oil Prices (USD, Annual Average)	2024	84.2	81.1
	2025	82.9	78.8
Import Prices (USD, Average Annual % Change)	2024	0.7	0.8
	2025	2.8	2.8
Food Prices (Year-End % Change)	2024	35.5	41.8
	2025	15.0	22.5

* Based on the growth rates and export shares of 110 countries to which Türkiye exports.

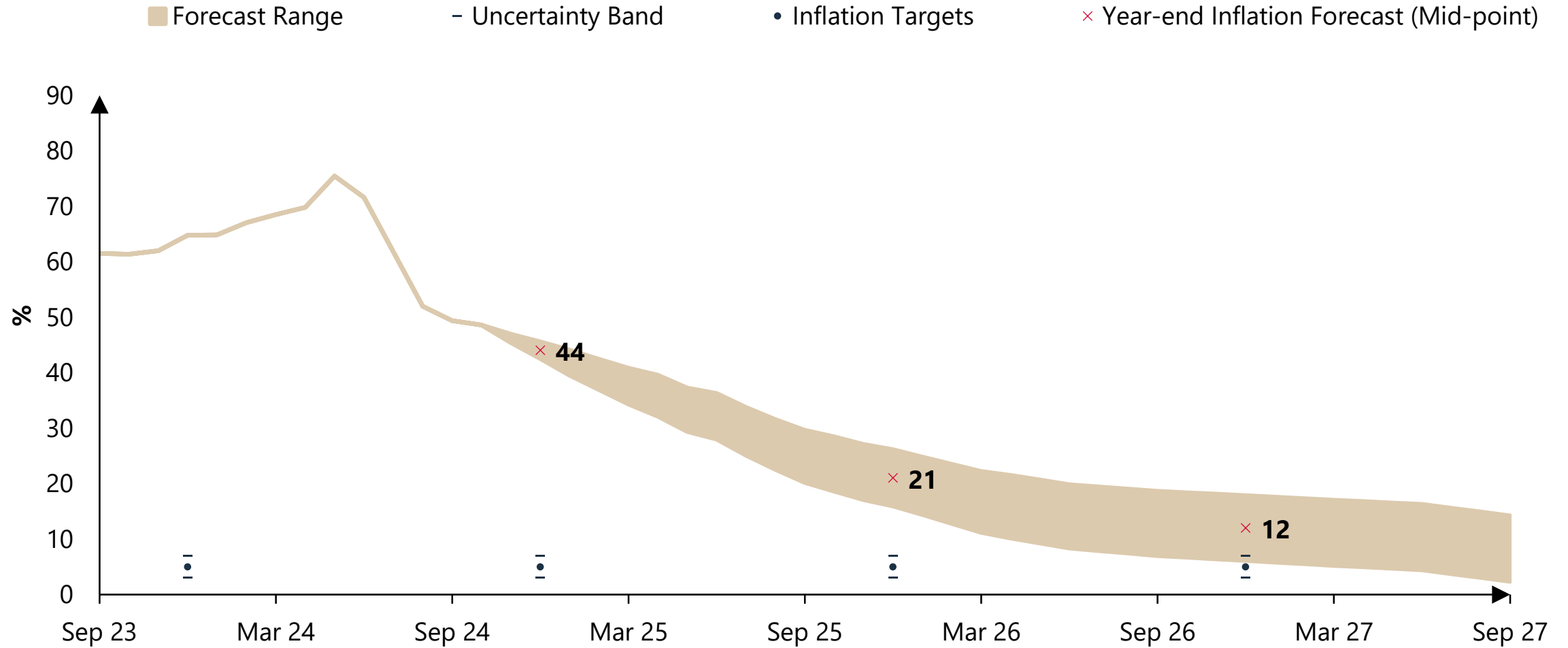
Inflation forecasts are revised as 44% for 2024, 21% for 2025 and 12% for 2026.



Forecast revisions are driven by initial conditions and inertia.

	2024	2025
IR 2024-III Year End Forecast (%)	38	14
IR 2024-IV Year End Forecast (%)	44	21
Forecast Revision as Compared to IR 2024-III Period (% Point)	6	7
Sources of Forecast Revisions (% Point)		
Food Prices	+1.6	+1.9
Import Prices in Turkish Lira	+0.2	+0.5
Output Gap	+0.3	+0.2
Administered Prices	-	+0.9
Initial Conditions, Underlying Inflation and Inertia	+3.9	+3.5

Tight monetary policy stance will be maintained decisively.



The tight monetary policy stance will be maintained decisively until price stability is achieved.

Until the underlying trend of monthly inflation shows a significant and sustained decline

- Underlying inflation indicators
- Domestic demand and import indicators
- Financial conditions indicators

Until inflation expectations converge to the projected forecast range

- Broad measures of inflation expectations



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