

BRIEFING ON 2024-I INFLATION REPORT

Fatih Karahan, Ph.D. Governor

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ANKARA



Outline

- Global Economy
- Inflation
- Monetary Policy
- Financial Conditions
- Medium-Term Projections
- Overview

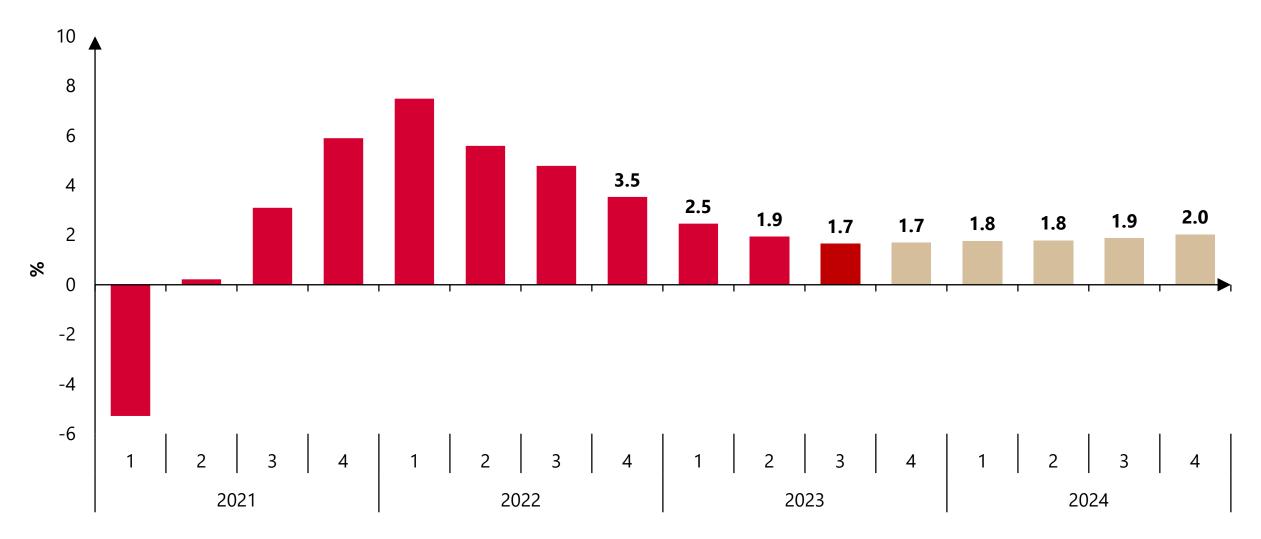


GLOBAL ECONOMY



Global growth is projected to remain subdued in 2024.

Export-Weighted Global Growth*



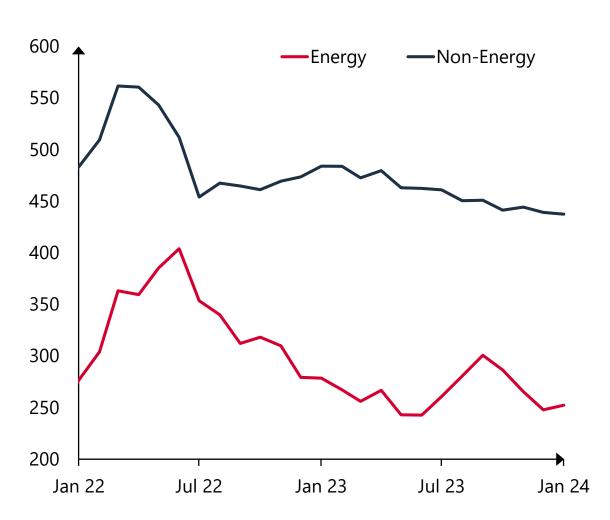


Source: S&P Global

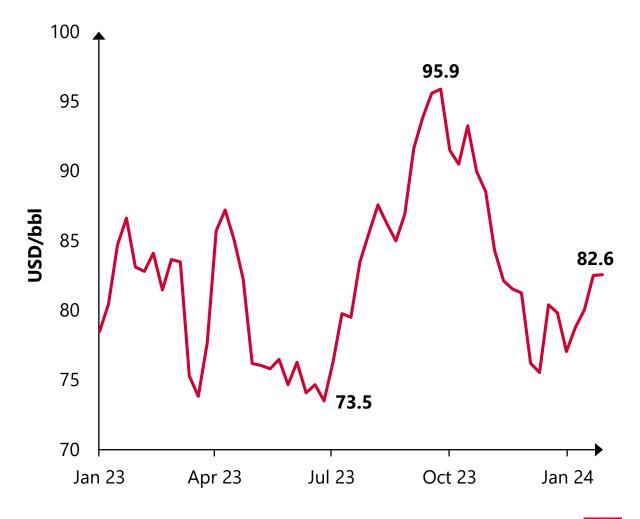
^{*} Annualized. The 2023-fourth-quarter and the 2024 values are forecasts.

Oil prices declined markedly, despite ongoing volatility.

Commodity Price Indices*



Brent Oil Price**





Source: Bloomberg

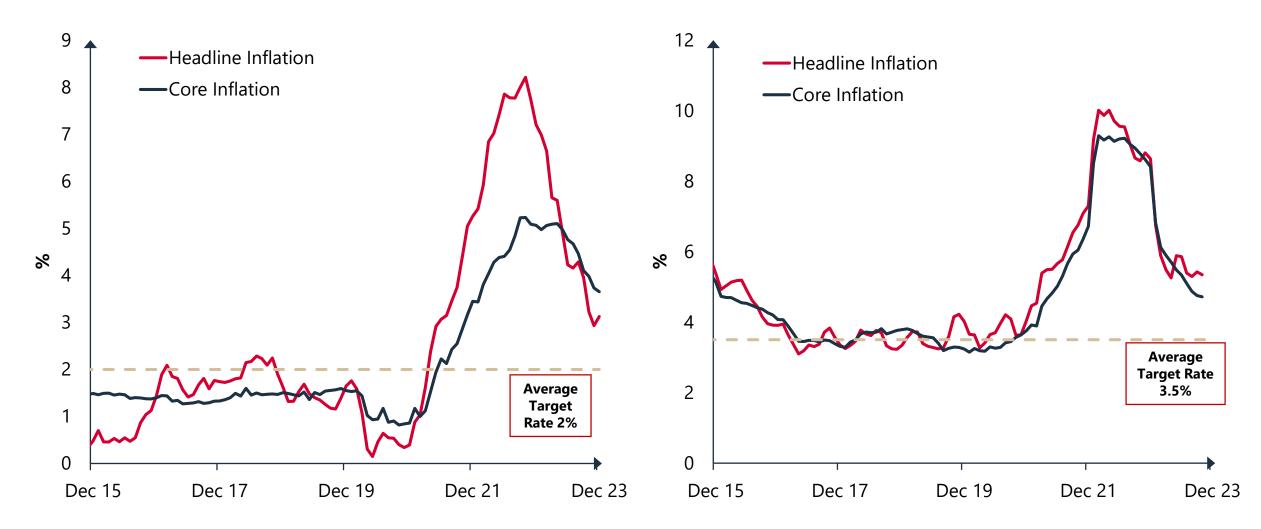
^{*} December 1969=100.

^{**} Denotes weekly values as of 2 February 2024.

While inflation has eased, it remains above target levels.

Inflation in Advanced Economies*

Inflation in Emerging Economies*



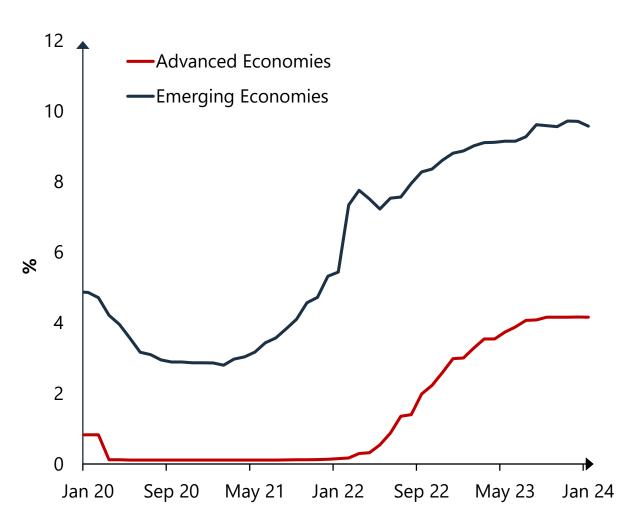


Source: Bloomberg

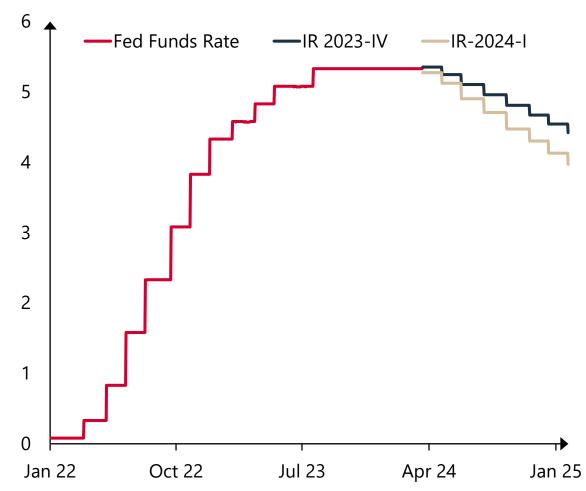
^{*} Based on GDP weights. Advanced economies include Canada, Euro Area, Israel, Japan, Norway, South Korea, Sweden, Switzerland, UK and USA, and emerging economies include Brazil, Chile, Colombia, Czechia, Hungary, India, Indonesia, Mexico, Peru, Philippines, Poland, Romania, Russia, South Africa and Thailand.

Central banks maintain monetary tightness.





Futures Implied Fed Funds Rate (Effective, %)



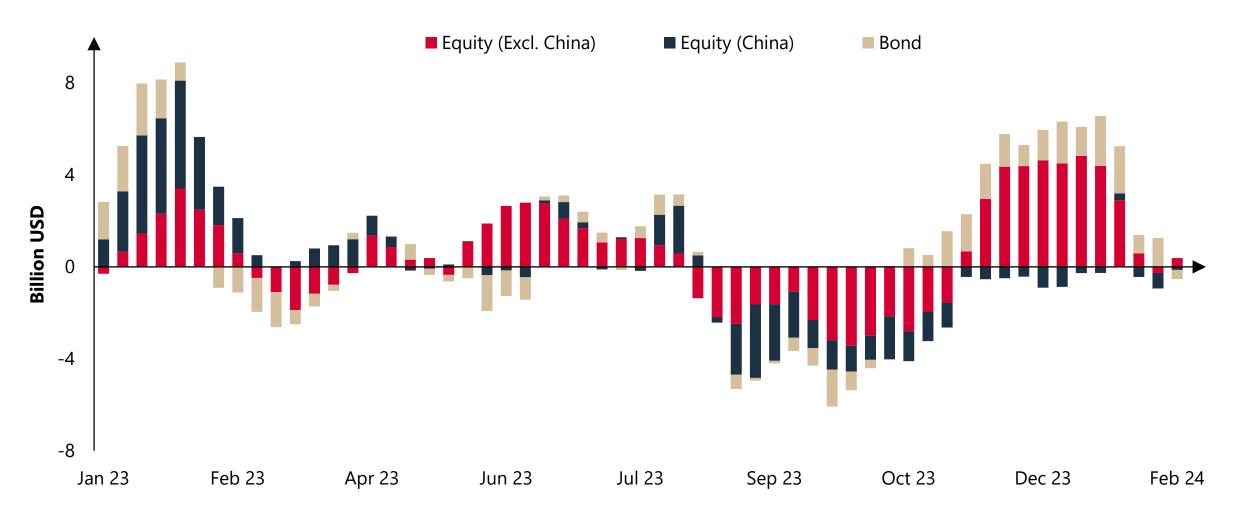


Source: Bloomberg

^{*} Based on GDP weights. Advanced economies include Canada, Euro Area, Israel, Japan, Norway, South Korea, Sweden, Switzerland, UK and USA, and emerging economies include Brazil, Chile, Colombia, Czechia, Hungary, India, Indonesia, Mexico, Peru, Philippines, Poland, Romania, Russia, South Africa and Thailand.

Portfolio inflows to emerging markets have increased in the recent period.

Portfolio Flows*



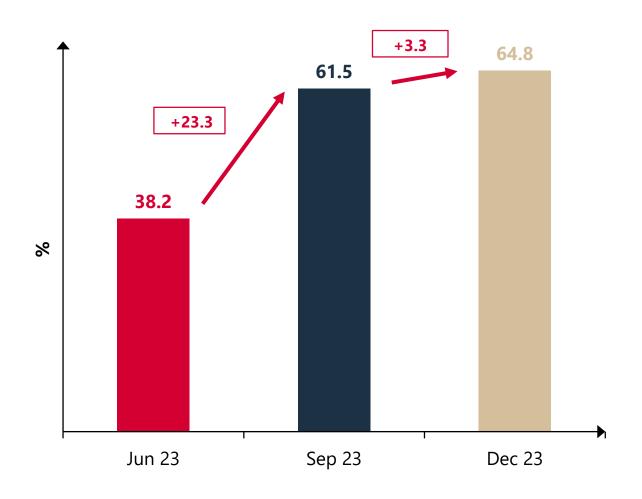


INFLATION



Annual inflation posted a limited increase in the last quarter, as forecasted.

Annual Inflation



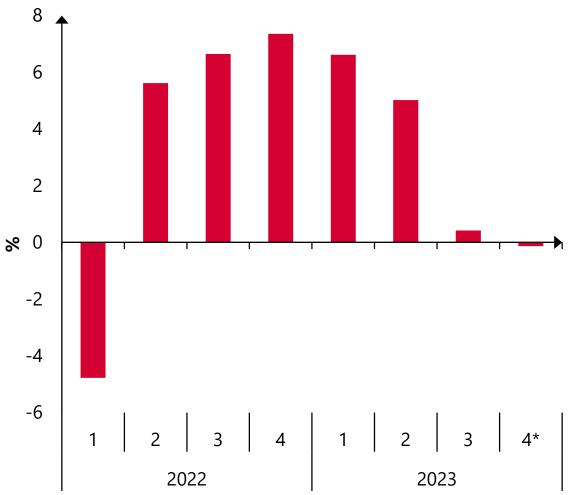
Contributions to the Increase in September-December Inflation				
Driver of Inflation	Contribution (Points)			
Natural Gas (Excessing the 25 m ³ free-of-charge consumption limit)	2.4			
Fuel-Oil (Exc. Exchange Rate, Indirect Effects)	1.2			
Demand	-1.0			
Exchange Rate	0.9			
Other*	0.3			
Unprocessed Food, Alcohol-Tobacco (Exc. Tax and Fuel)	-0.5			
Total	3.3			



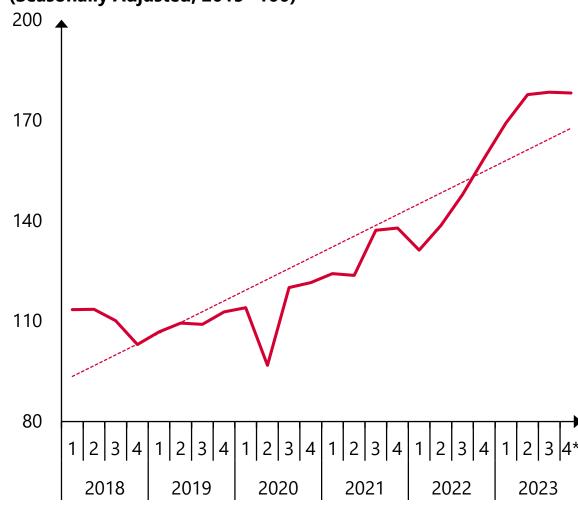
^{*} Other consists of import prices excluding fuel-oil, wages, taxes (excluding fuel), deterioration in pricing behavior, constant term, error term and external factors that are not included in taxes.

Consumption growth has been slowing down amid monetary tightening.







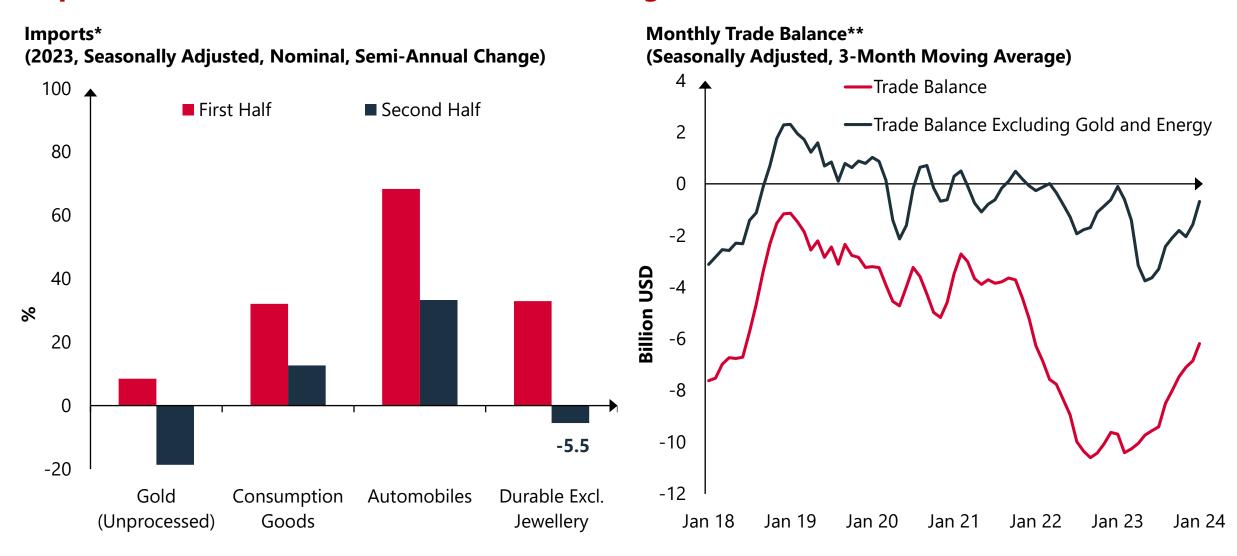




Source: TURKSTAT.

^{*} October-November average. Dashed line in the right panel shows the linear trend.

Import demand and trade deficit are declining.





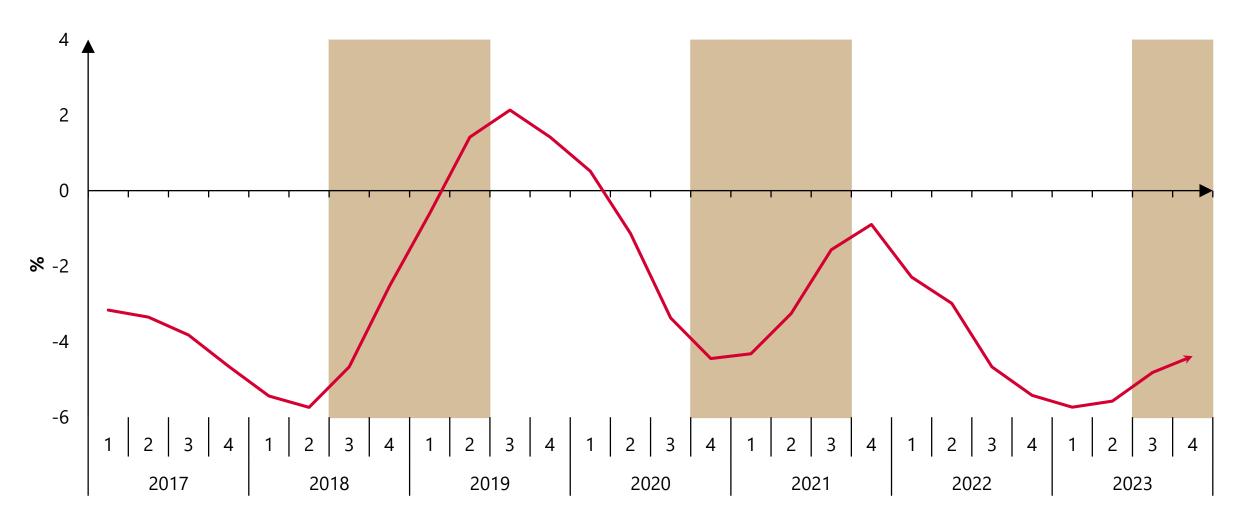
Source: CBRT, TURKSTAT, Ministry of Trade.

^{*} Percentage change of the imports in the consecutive semi-annual periods.

^{**} Provisional data for January.

Normalization in demand has a positive impact on the current account balance.

Current Account Balance/GDP*

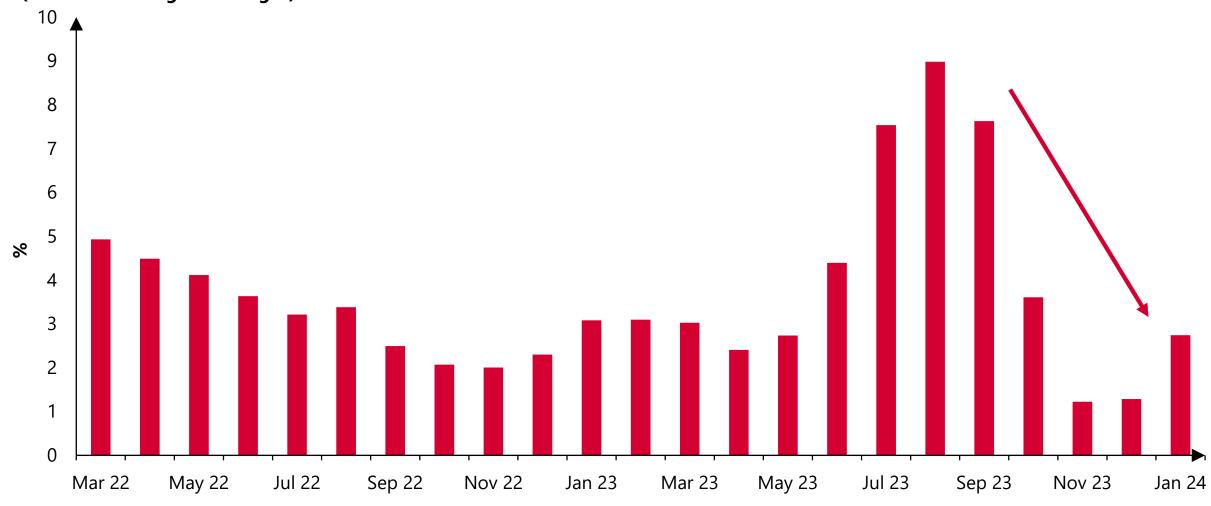




^{*} Shaded areas show the monetary tightening periods defined according to the difference between the lowest and highest values of the one-week repo rate in the corresponding time intervals. Current account balance to GDP ratio of 2023-Q4 is forecast.

Prices of durable goods respond to monetary tightening.

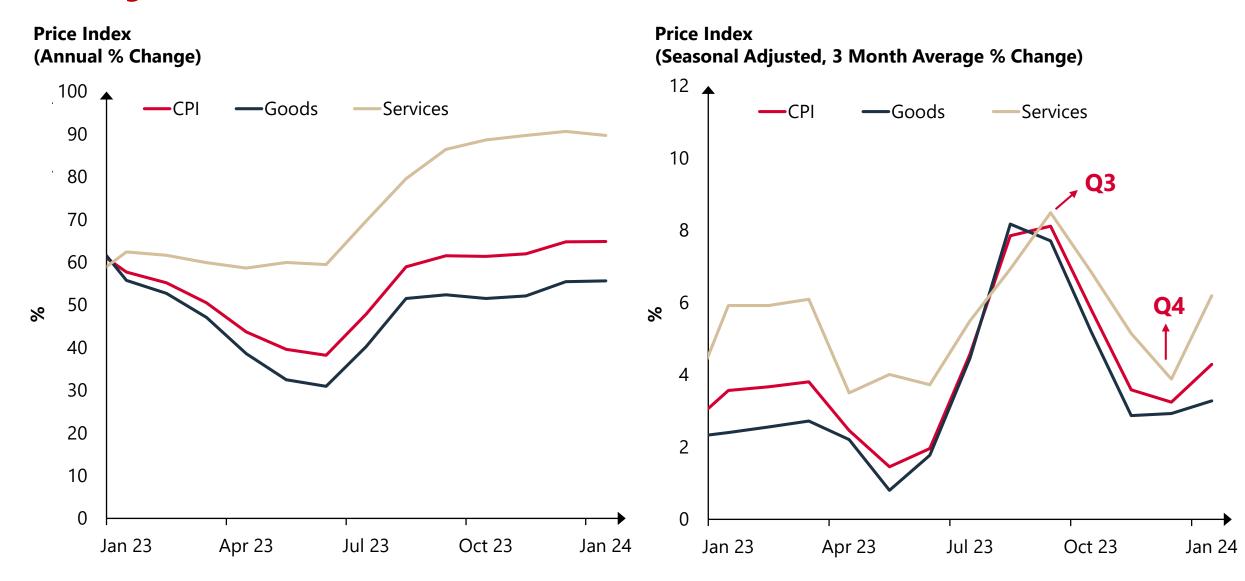
Prices of Durable Goods (Excluding Gold) (3 Months Average % Change*)





^{* 3-}months average % change is calculated by taking the average of monthly inflations in the corresponding three-month periods.

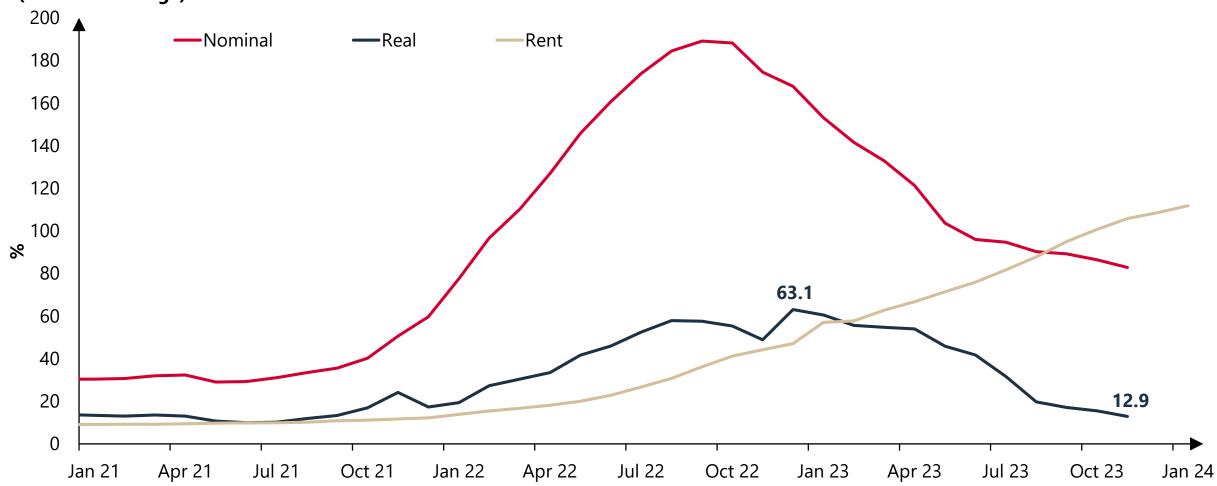
Although services inflation has slowed down, its inertia remains.





Inflation in house prices is slowing down.



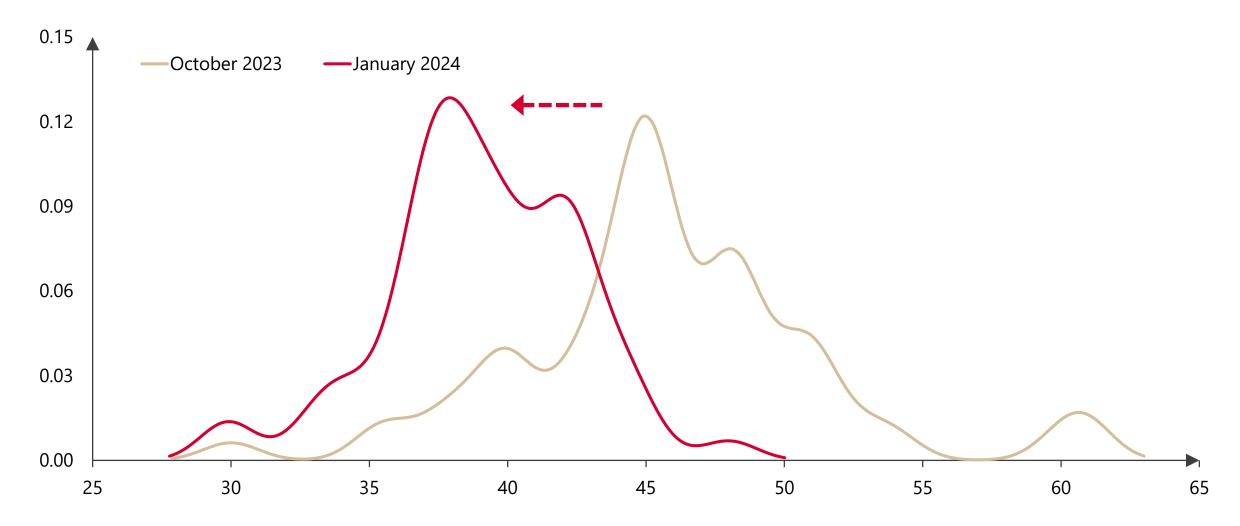




^{*} Real price is calculated by using CPI.

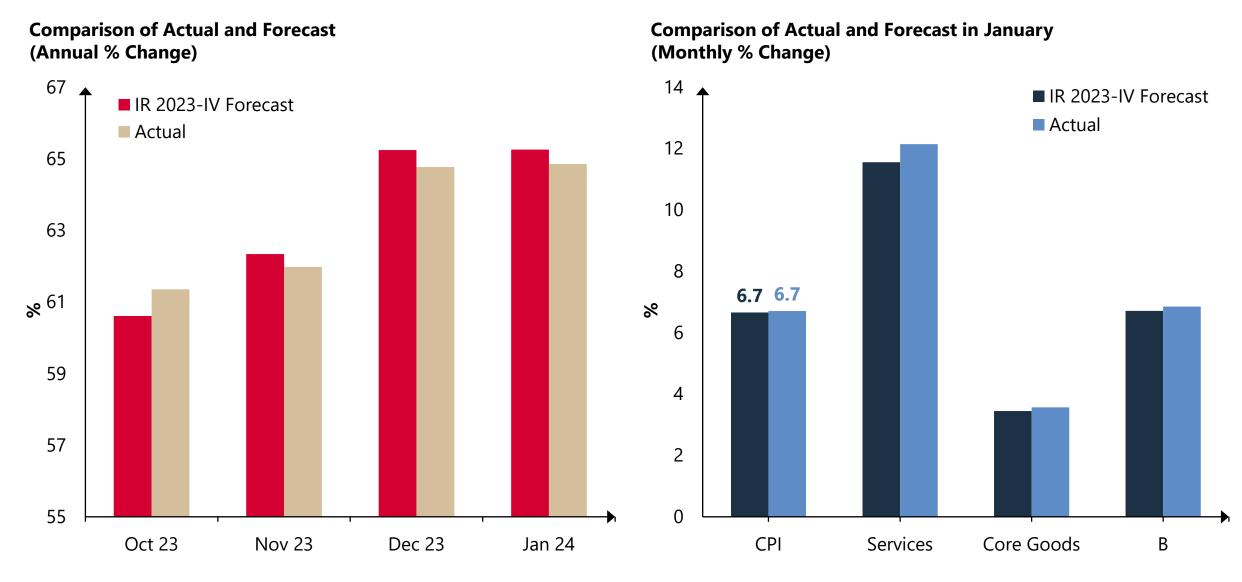
The level and distribution of inflation expectations have improved significantly.

12-Month Ahead Annual CPI Inflation Expectations





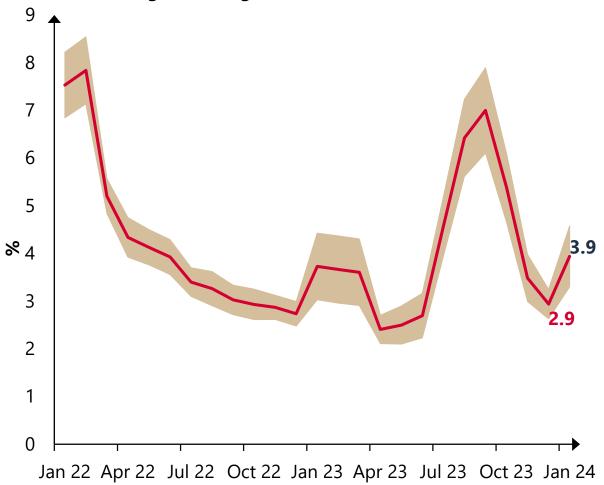
Consumer inflation is in line with previous Inflation Report forecasts.





Underlying trend of inflation has declined faster than forecasted.

Underlying Inflation Indicators (3-Month Average % Change)*



	Monthly Inflation (%, Seasonally Adjusted 3-Month Averages)						
	2023 IR-IV	Actual	2023 IR-IV	Actual	2023 IR-IV	Actual	
	СРІ		В		С		
Oct.23	6.0	5.8	5.7	5.9	5.4	5.7	
Nov.23	4.1	3.6	3.7	3.6	3.8	3.6	
Dec.23	3.8	3.2	3.2	2.8	3.5	3.0	
Jan.24	4.3	4.3	4.7	4.2	5.3	4.6	
	Average of January						
	Forecast: 4.8				Actual: 4.4		



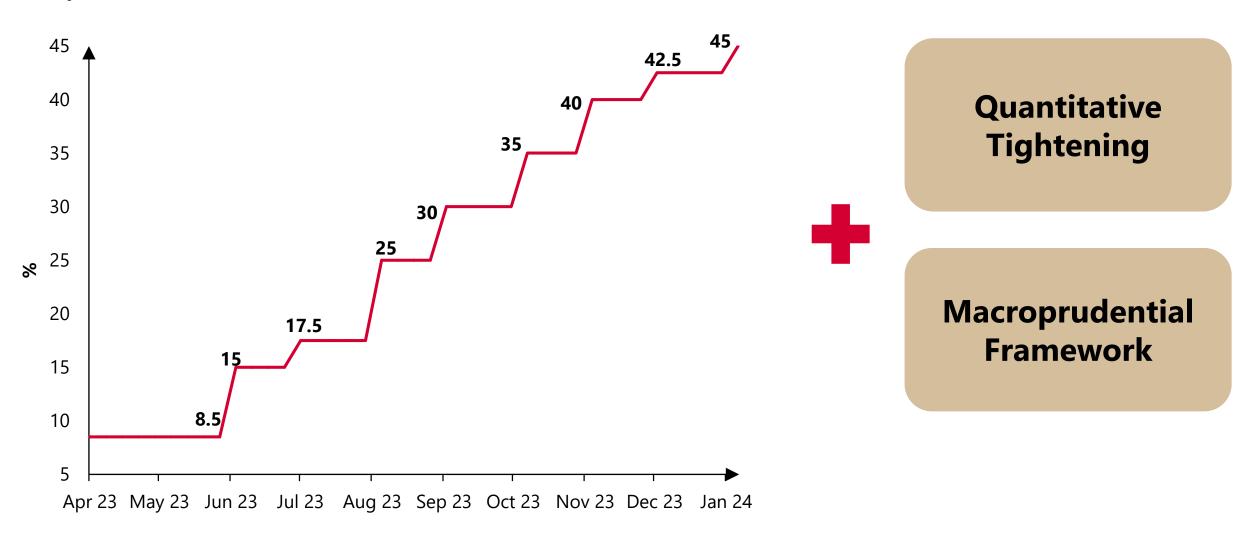
^{*} It is the average of 7 different indicators which are seasonally adjusted B, C, SATRIM, Median, excluding volatile items, principal components, and dynamic factor model. The shaded area indicates the 95% confidence interval.

MONETARY POLICY



The monetary tightening process is strengthened with a holistic approach.

Policy Rate*





Source: CBRT

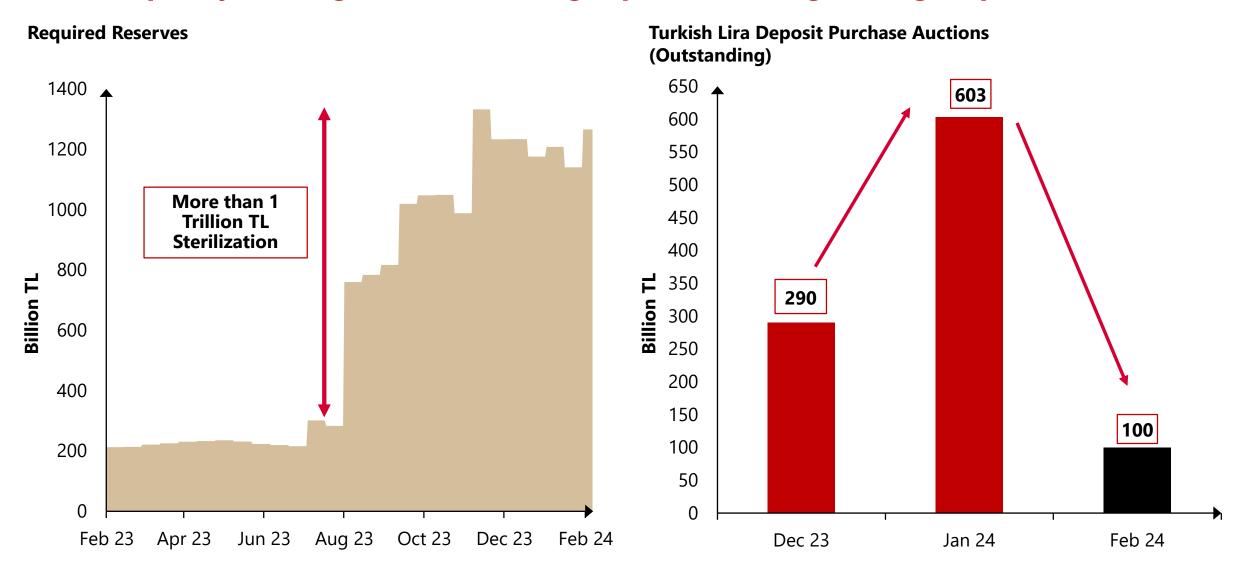
* As of 25 January 2024.

An important progress has been made in the simplification of macroprudential framework.

Terminated Transition from FX Deposits to FX-Protected Deposits **Terminated** TL (Including FX-Protected) Deposit Ratio **Securities Maintenance based** on **New Loan Extensions Terminated Terminated** Loan Rate Thresholds **FX** Deposits **Eased** Loan Growth Thresholds **In Effect Commission and** Transition from FX-Protected Deposits to TL Deposits In Effect Remuneration on Reserve **Requirements based** In Effect TL (Excluding FX-Protected) Deposit Ratio on

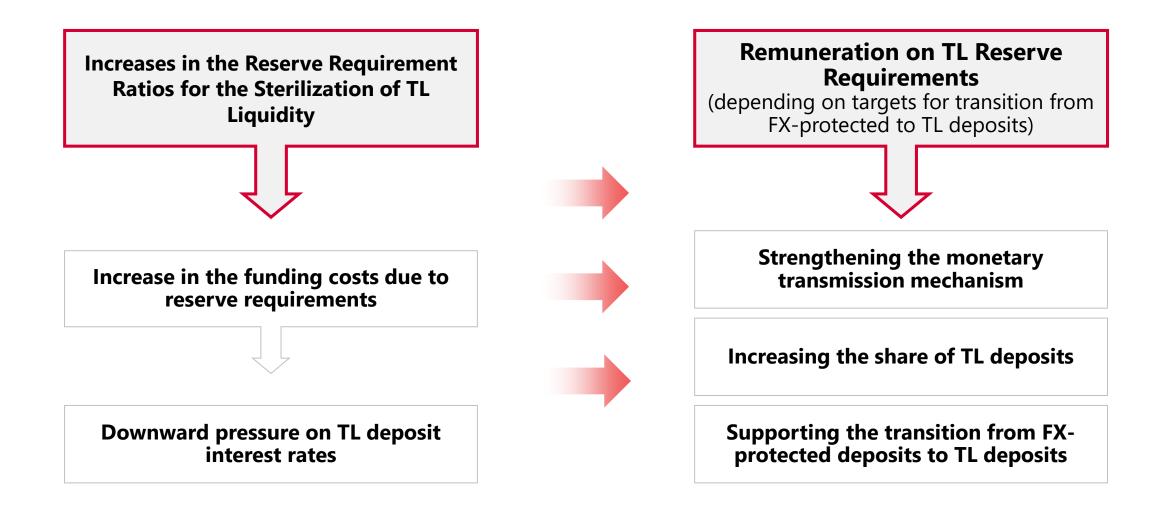


Excess liquidity is being sterilized through quantitative tightening steps.





The last reserve requirement step aims to support Turkish lira deposits.





The current level of policy interest rate will be maintained as long as needed.

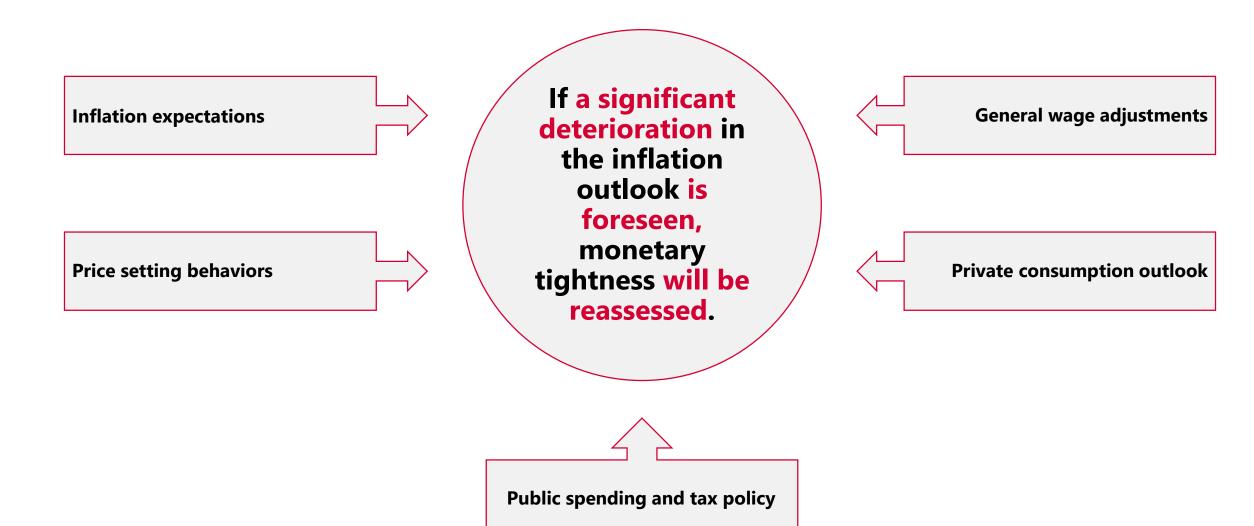
Until the underlying trend of monthly inflation shows a significant decline

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

Until inflation expectations converge to the projected forecast range

 Broad measures of inflation expectations





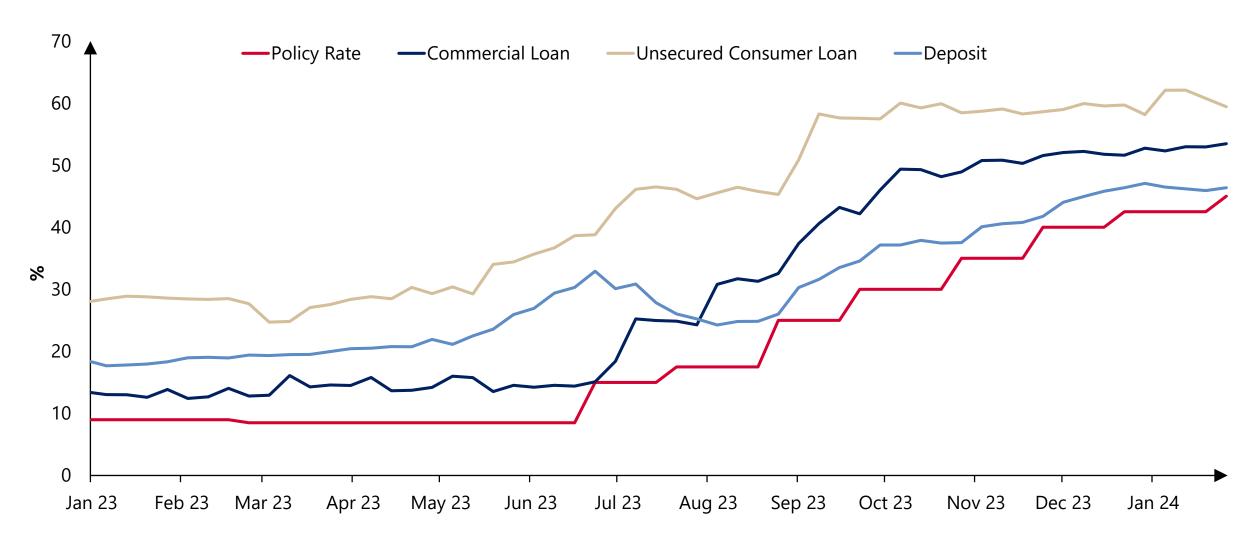


FINANCIAL CONDITIONS



Financial conditions have tightened following the policy rate hikes.

Interest Rates*

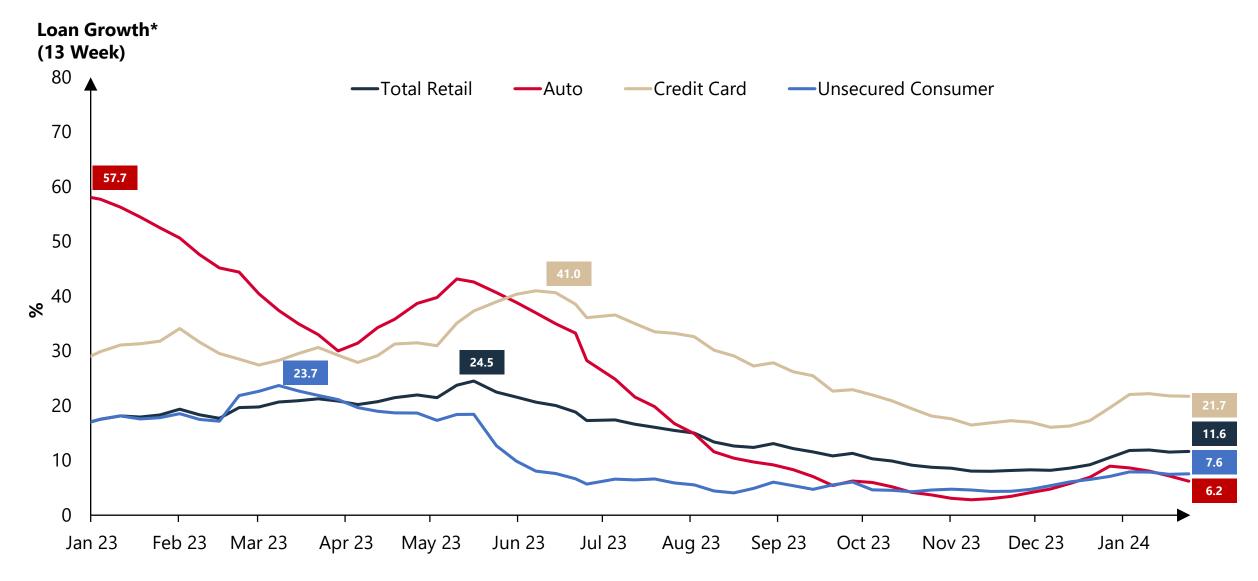




Source: CBRT

^{*} As of 26 January 2024

The rebalancing process in retail loan growth is closely monitored.



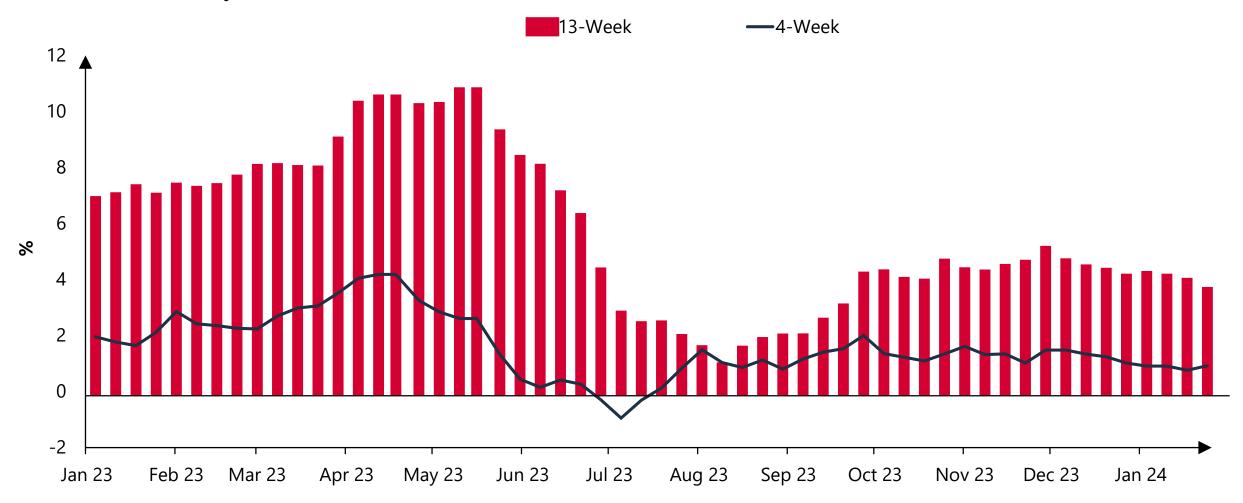


Source: CBRT

^{*} As of 26 January 2024.

Commercial loan growth follows a stable path.

Commercial Loan Growth* (4 and 13 Week, FX Adjusted)



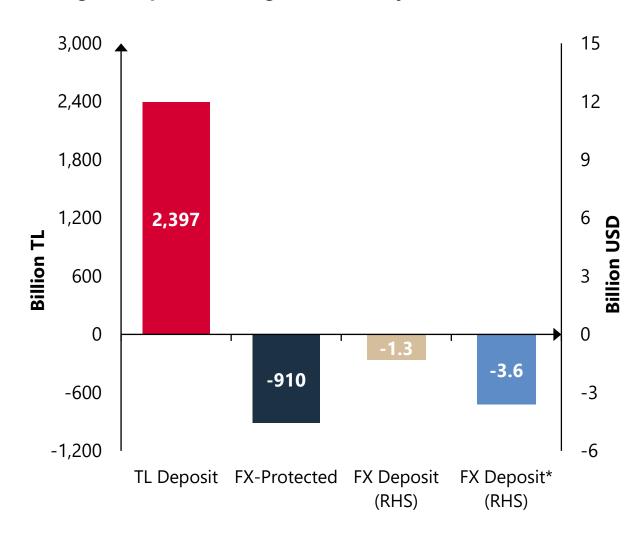


Source: CBRT

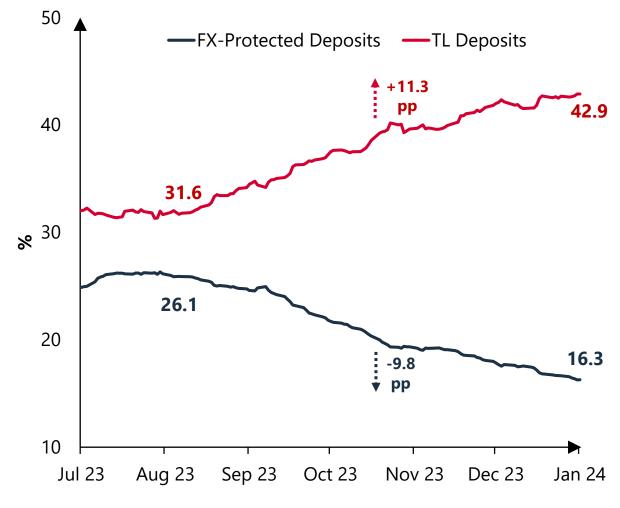
^{*} As of 26 January 2024.

Transition to Turkish lira deposits continues.

Change in Deposits (25 August-26 January)



Deposit Share



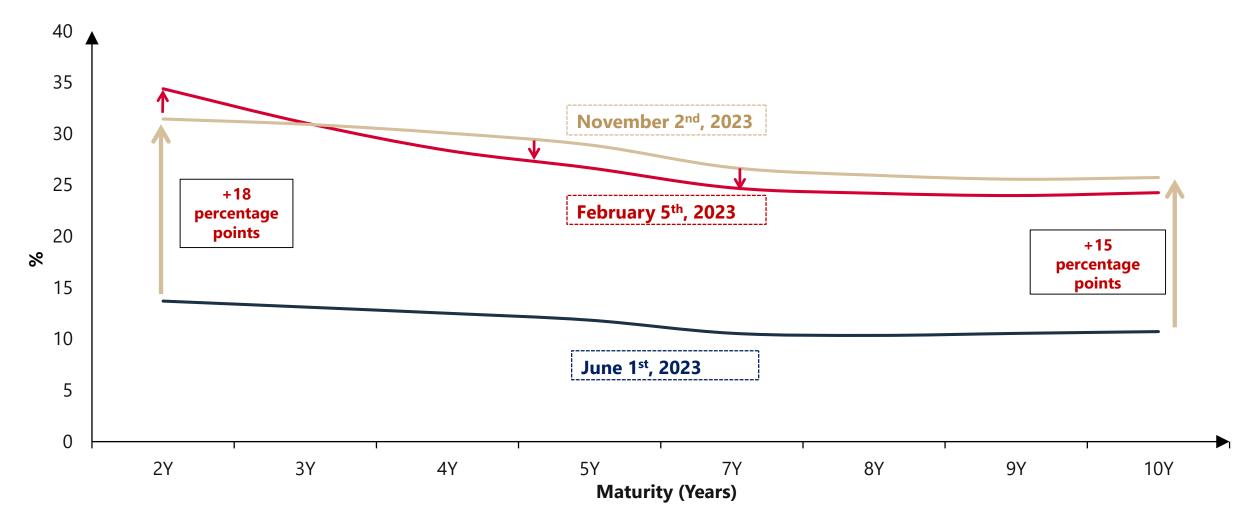


Source: CBRT

* Parity and price effects adjusted.

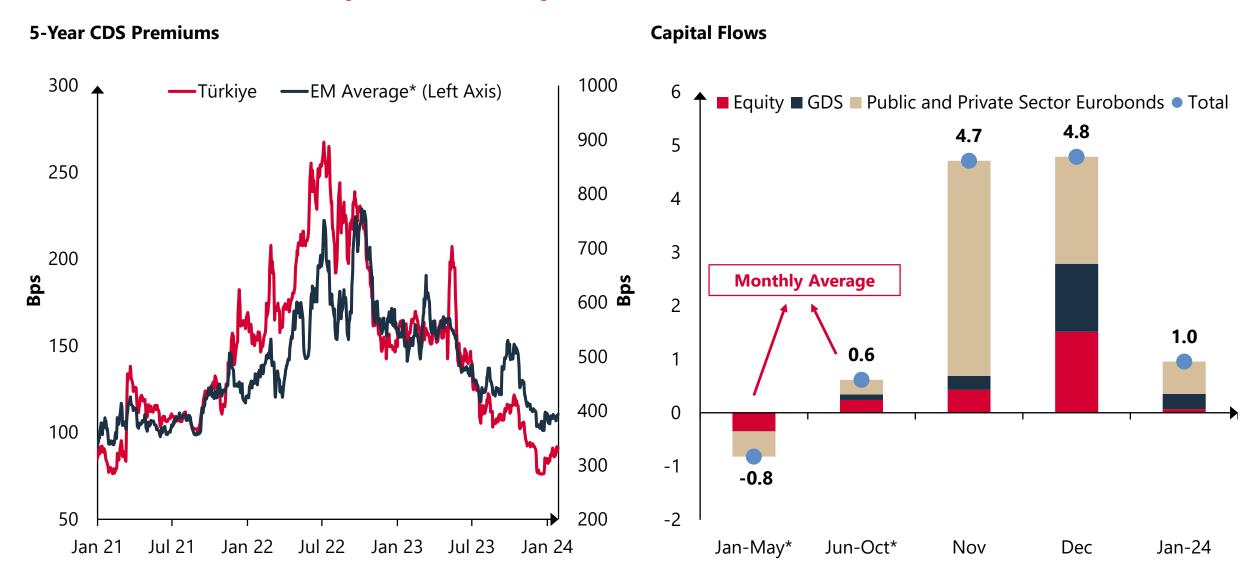
Yield curve is shaping up in line with the monetary stance.

Yield Curve





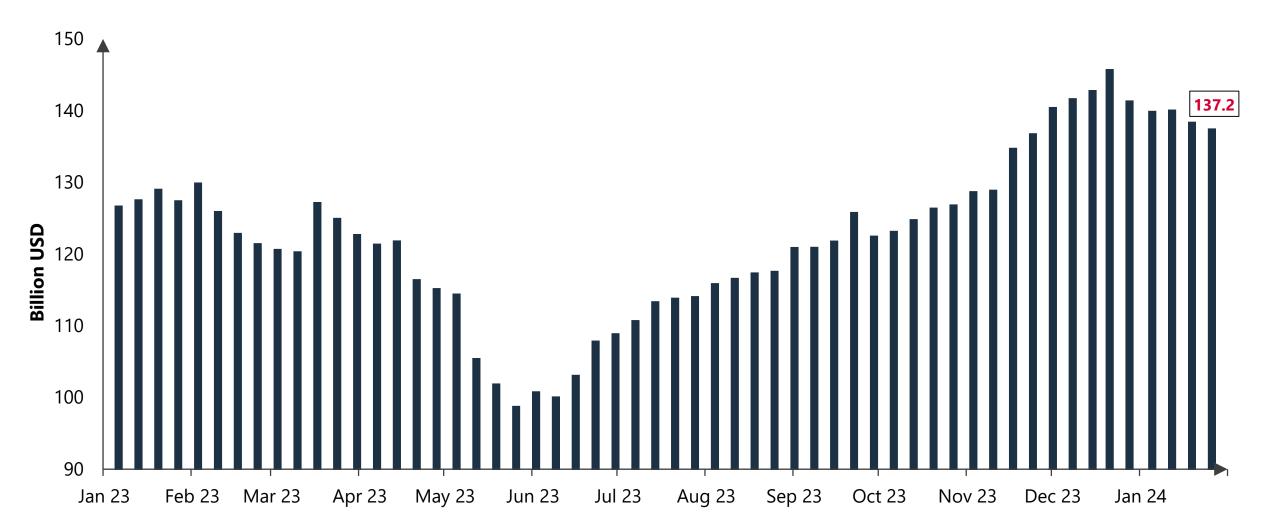
Risk indicators have improved and capital inflows have continued.





Monetary tightening process has a positive impact on reserves.

CBRT International Reserves*



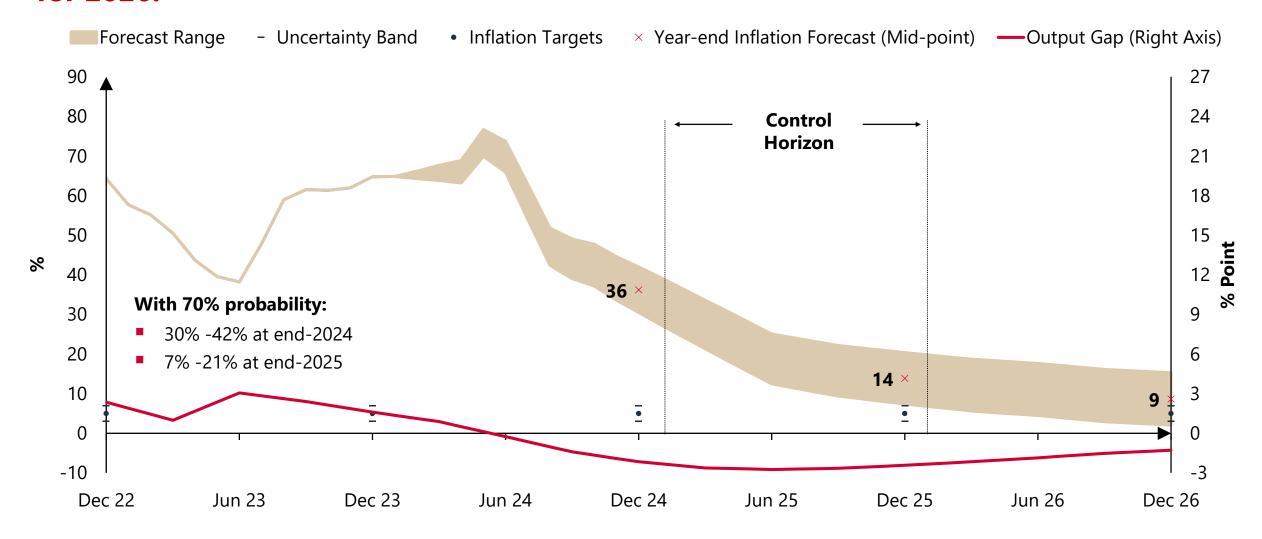


Source: CBRT
*As of January 26, 2024

MEDIUM TERM PROJECTIONS



The year-end inflation forecasts are maintained at 36% for 2024, 14% for 2025 and 9% for 2026.





Wages drive forecasts up, while the improvement in underlying trend of inflation brings forecasts down.

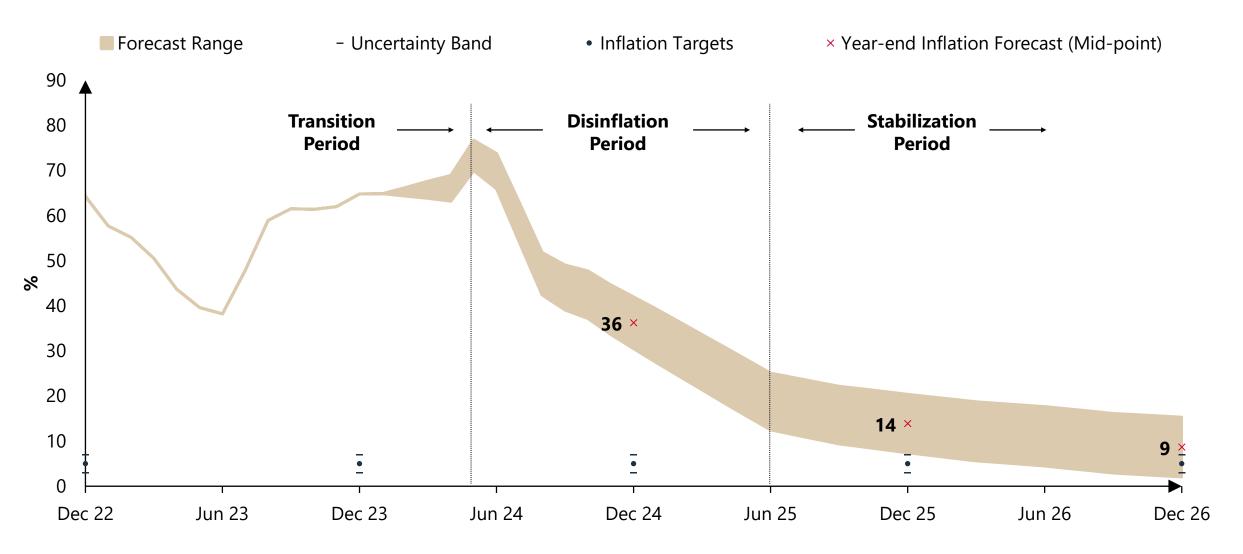
	2024
IR 2023-IV Forecast (%)	36
IR 2024-I Forecast (%)	36
Forecast Revision as Compared to IR 2023-IV Period (% Point)	0
Sources of Forecast Revisions (% Point)	
Output Gap	+0.4
Unit Labor Cost	+1.5
Import Prices in Turkish Lira	+0.5
Food Prices	+0.9
Underlying Trend of Inflation	-3.2
Administered Prices	-0.1



OVERVIEW



Disinflation will begin in the second half of 2024.







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