



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2023-III INFLATION REPORT

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Governor

27 July 2023

ANKARA



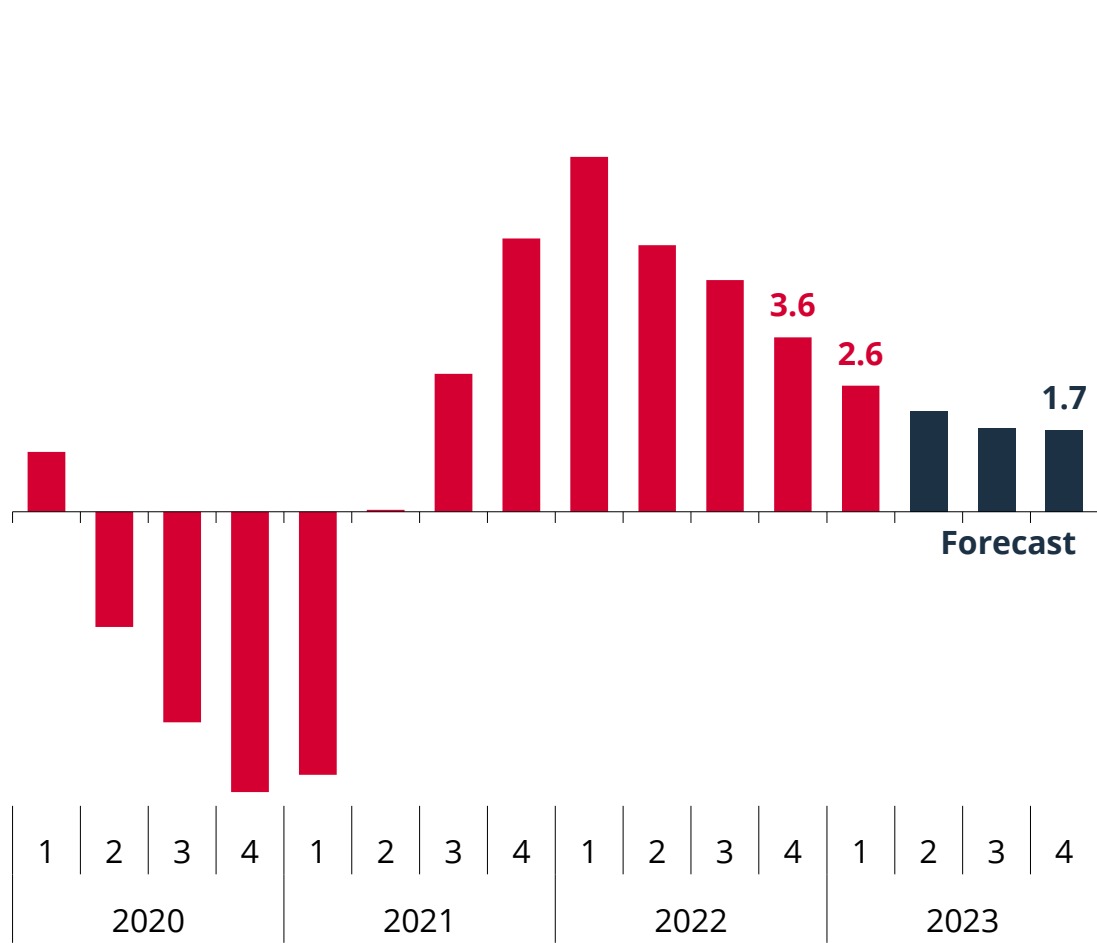
Outline

- **Global Economy**
- **Inflation**
- **Monetary Policy**
- **Medium-Term Projections**

GLOBAL ECONOMY

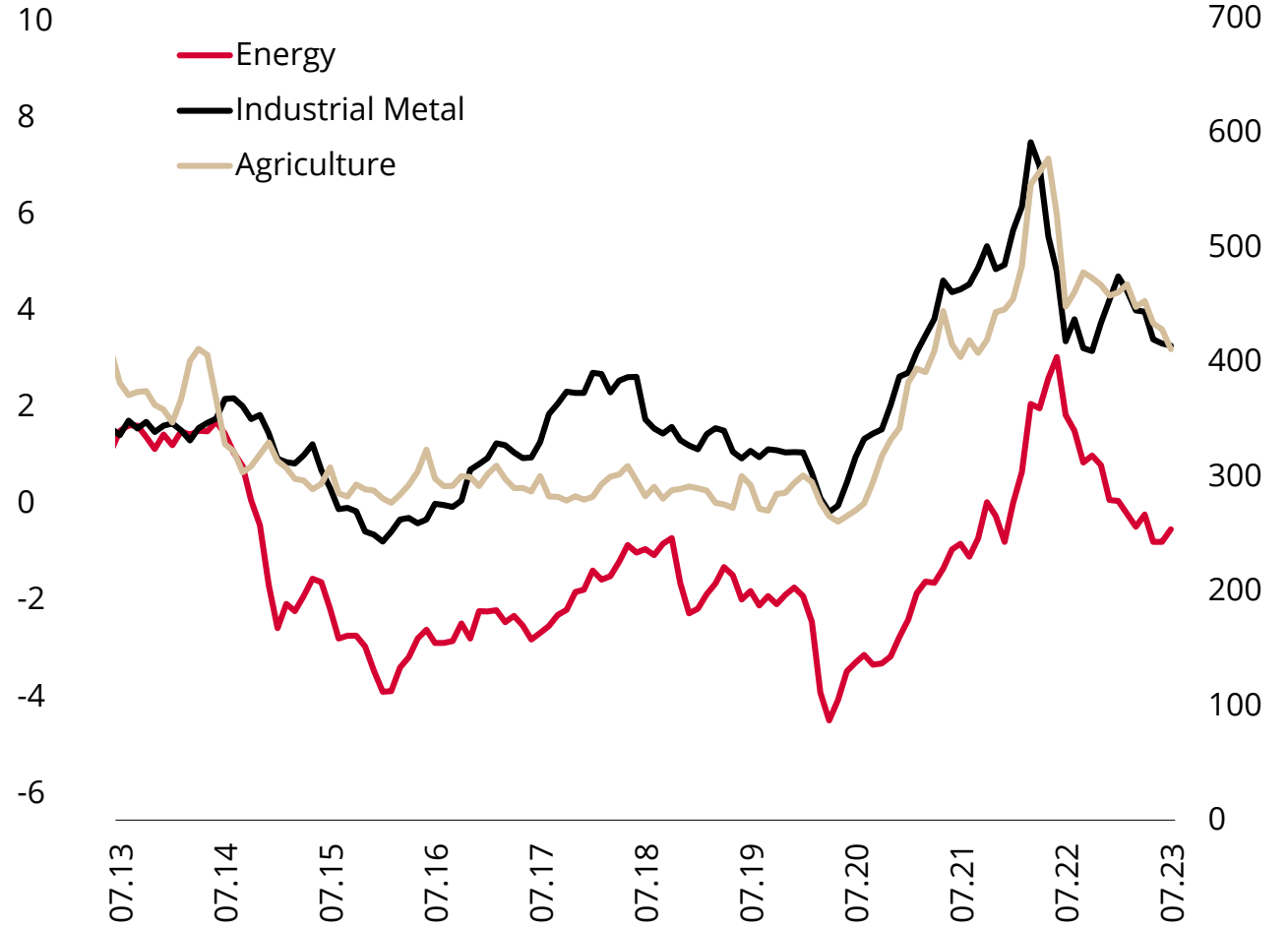
Global growth is weakening while commodity price indices are declining.

Export Weighted Global Growth Index
(Annualized, Annual % Change)



Source: Consensus Economics, S&P Global, CBRT

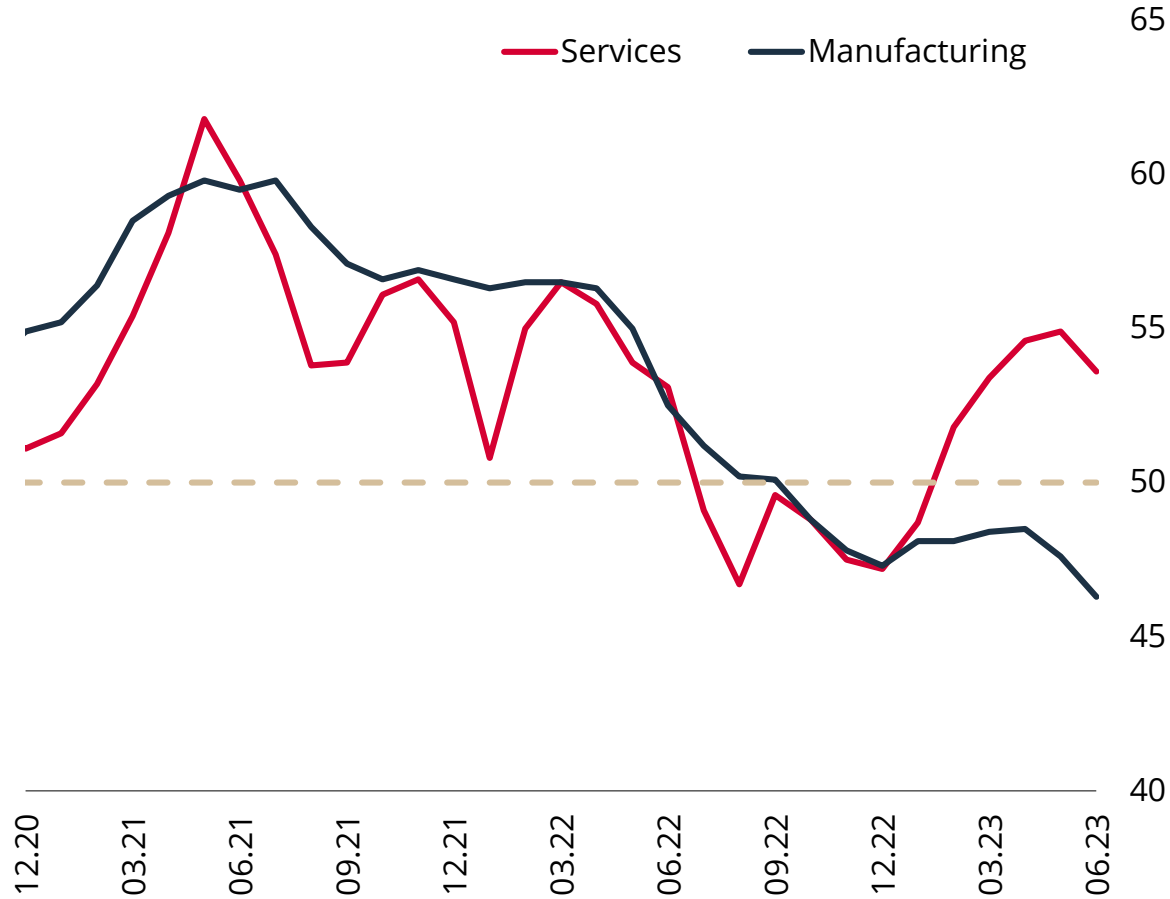
Commodity Price Indices



Source: Bloomberg

Economic activity diverges in services and manufacturing sectors.

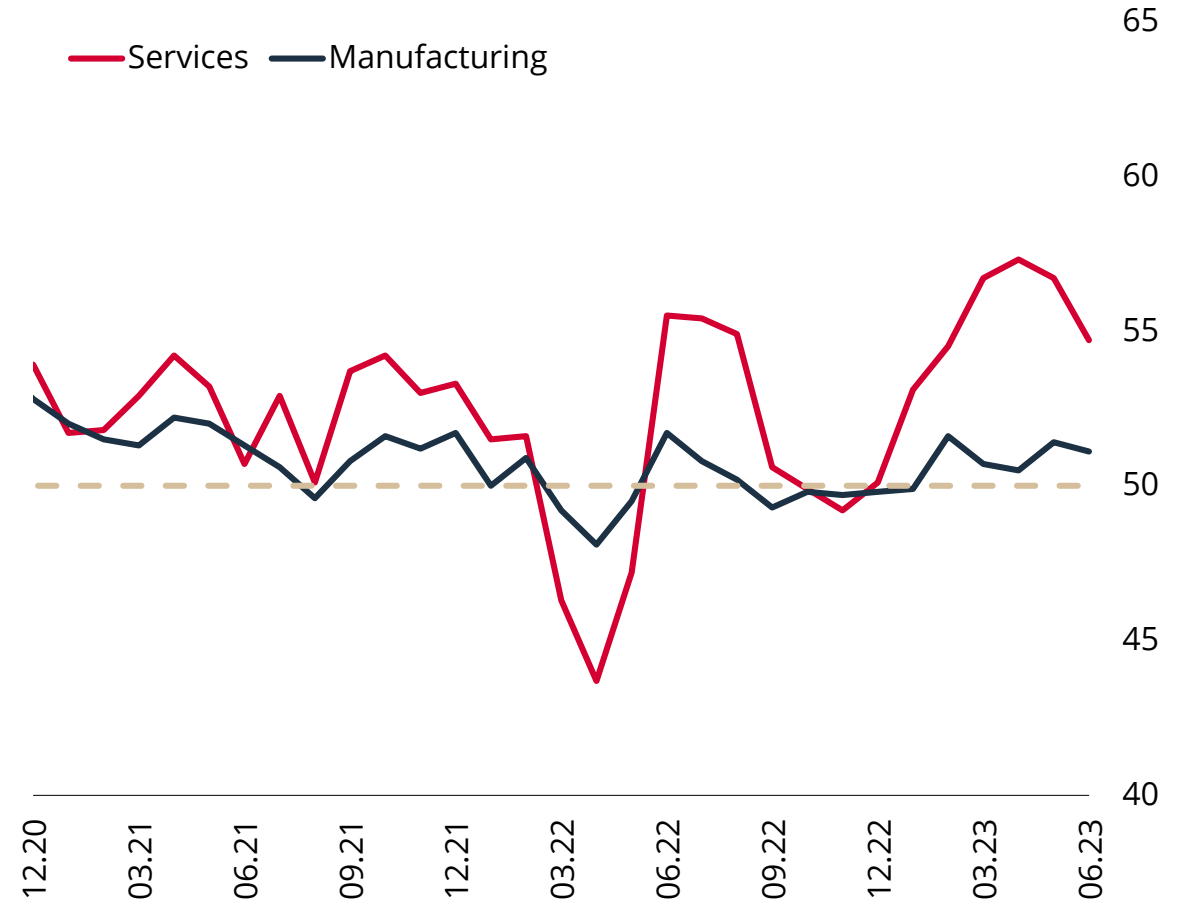
Advanced Economies PMI*



Source: S&P Global

* The dashed line shows the threshold value.

Developing Economies PMI*

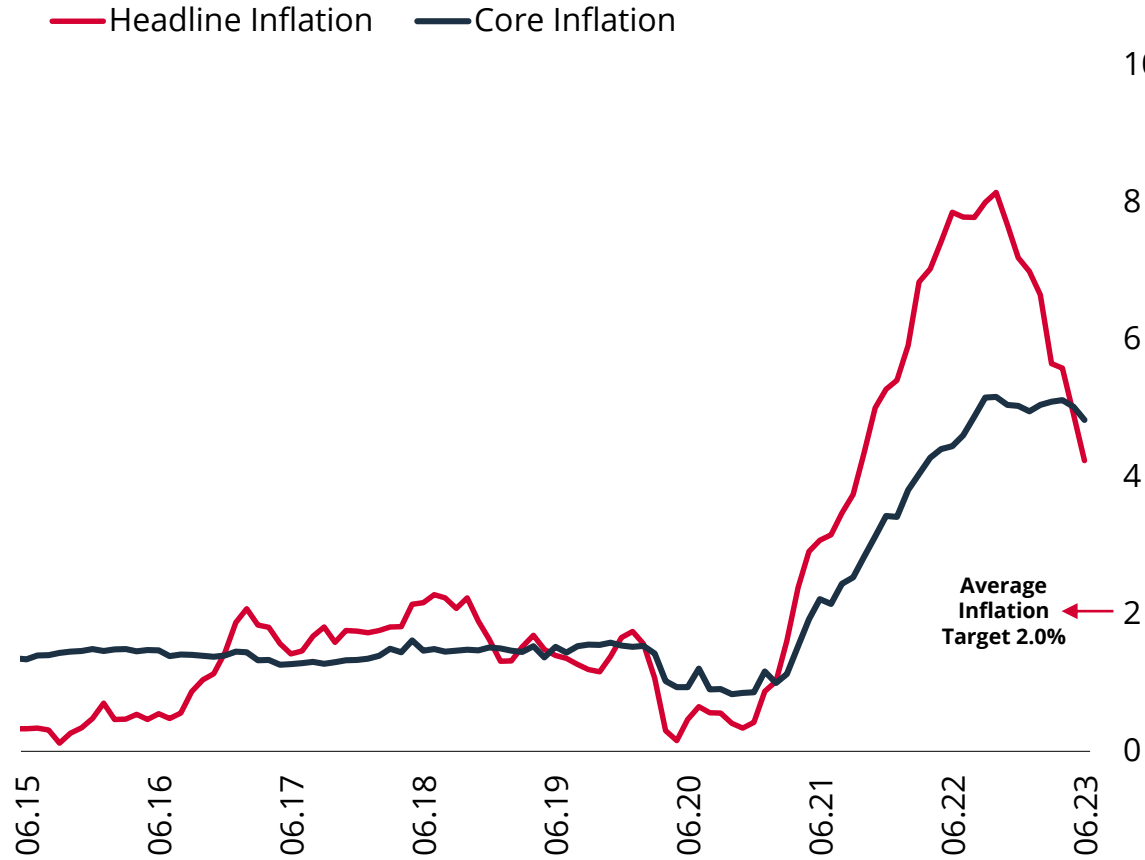


Source: S&P Global

* The dashed line shows the threshold value.

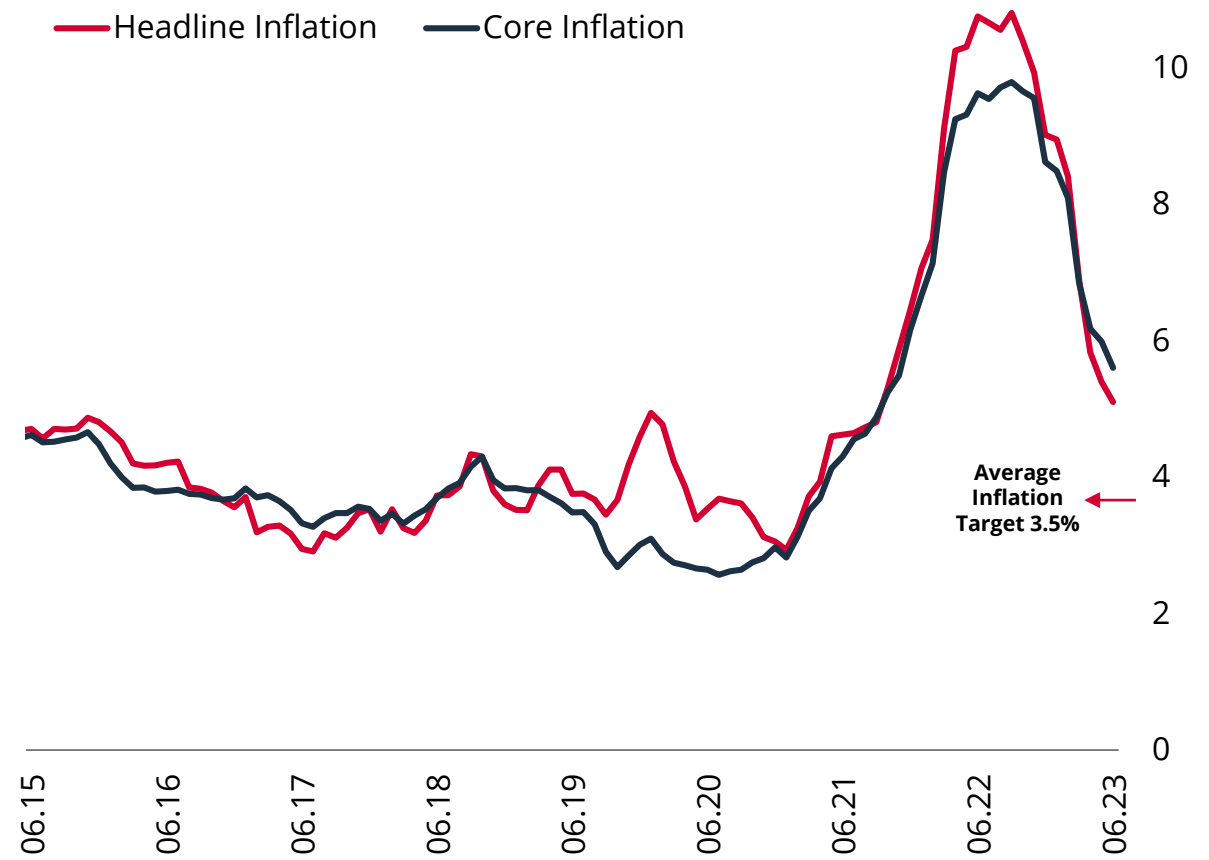
As disinflation continues, persistence in core inflation remains the major issue.

Inflation Rates in Advanced Economies (%)



Source: Bloomberg

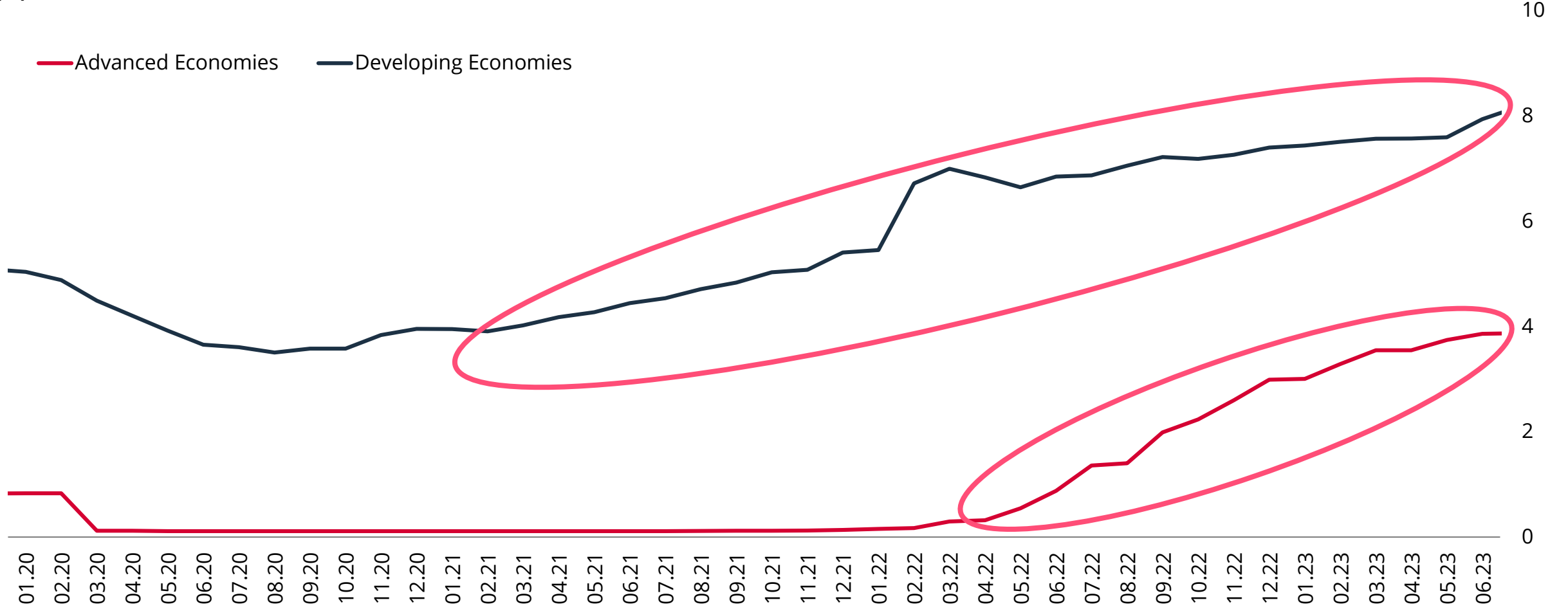
Inflation Rates in Developing Economies (%)



Source: Bloomberg

Central banks continue monetary tightening.

Policy Rates
(%)

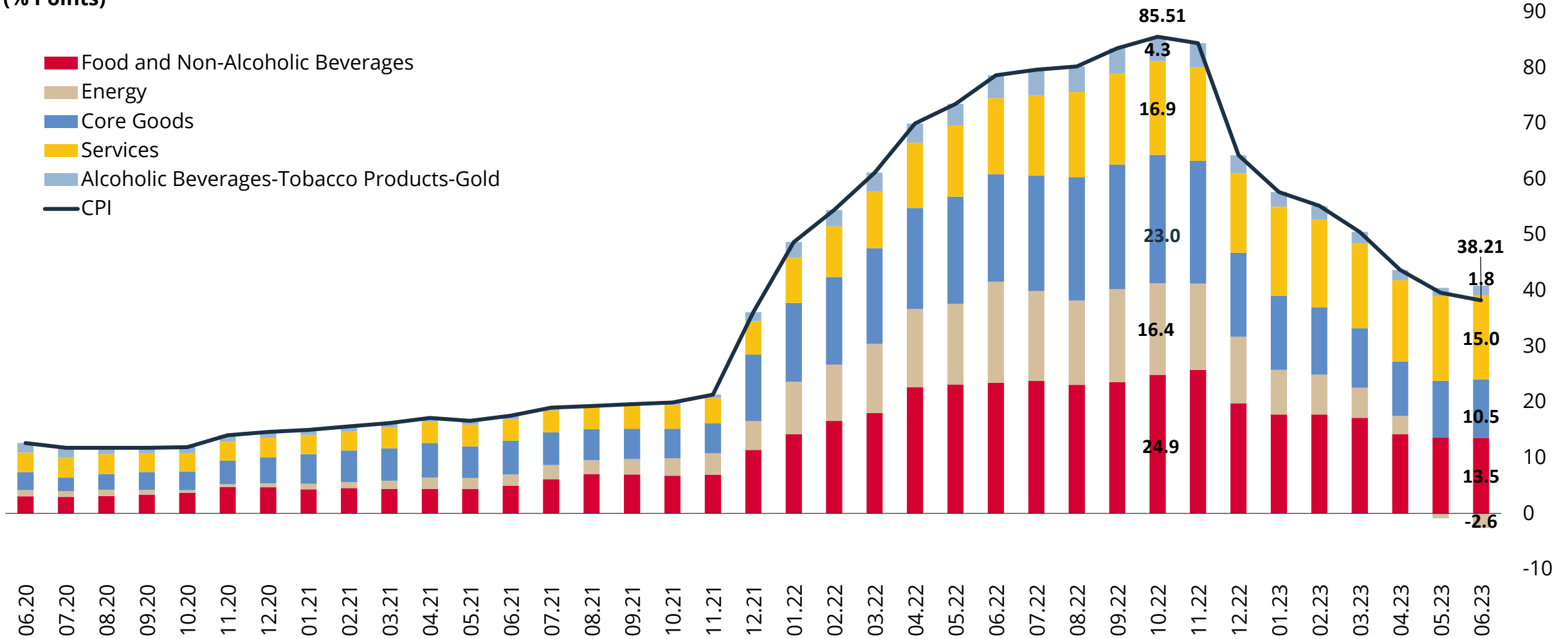


Source: Bloomberg

INFLATION

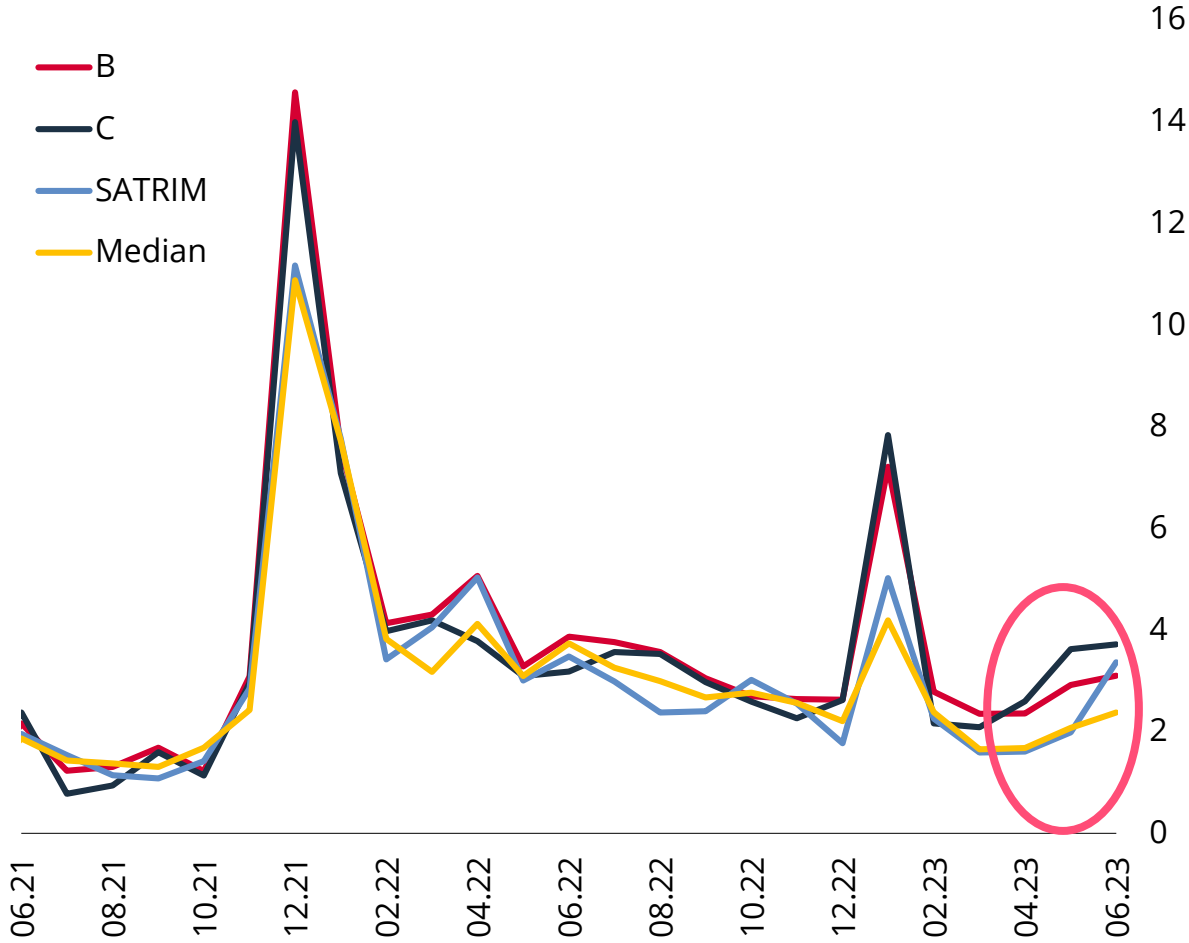
Annual inflation decreased to 38.2% in June.

Contribution of Main Groups to Annual CPI Inflation (% Points)



The underlying trend of inflation has started to rise again in recent months.

Core and Alternative Indicators of Inflation
(Seasonally Adjusted, Monthly % Change)

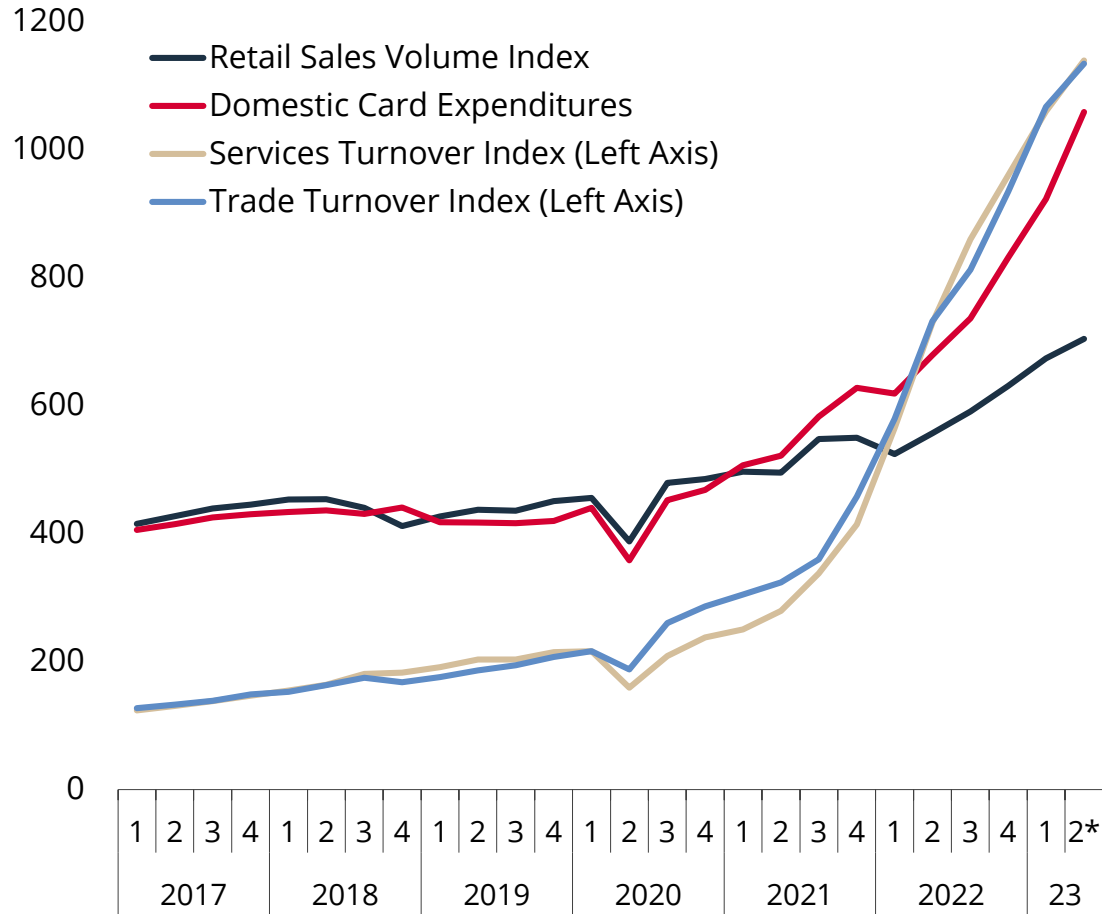


Underlying Trend Indicators
(Seasonally Adjusted, Monthly % Change)

	Jun. 22	Jul. 22	Aug. 22	Sep. 22	Oct. 22	Nov. 22	Dec. 22	Jan. 23	Feb. 23	Mar. 23	Apr. 23	May. 23	Jun. 23
B	3.87	3.76	3.57	3.05	2.70	2.64	2.63	7.21	2.78	2.35	2.36	2.91	3.10
C	3.18	3.56	3.53	2.97	2.59	2.26	2.62	7.83	2.16	2.09	2.59	3.62	3.72
D	5.93	2.05	2.98	3.35	2.66	2.23	1.97	6.16	2.48	1.76	1.25	0.03	3.12
Core Goods	2.51	3.99	3.91	2.37	2.64	1.47	2.38	3.39	2.10	1.46	1.79	2.98	3.48
Services	3.48	3.42	3.53	3.88	3.58	3.24	3.26	11.42	2.24	2.55	3.42	3.83	3.39
SATRIM	3.48	2.99	2.37	2.40	3.02	2.55	1.77	5.02	2.25	1.59	1.60	1.98	3.36
Median	3.73	3.26	2.99	2.67	2.77	2.56	2.20	4.19	2.38	1.65	1.68	2.07	2.38
CPI Diffusion	0.60	0.75	0.66	0.56	0.59	0.42	0.56	0.91	0.65	0.47	0.50	0.40	0.65
Services Diffusion	0.85	0.77	0.77	0.70	0.72	0.74	0.78	0.79	0.75	0.69	0.79	0.69	0.77

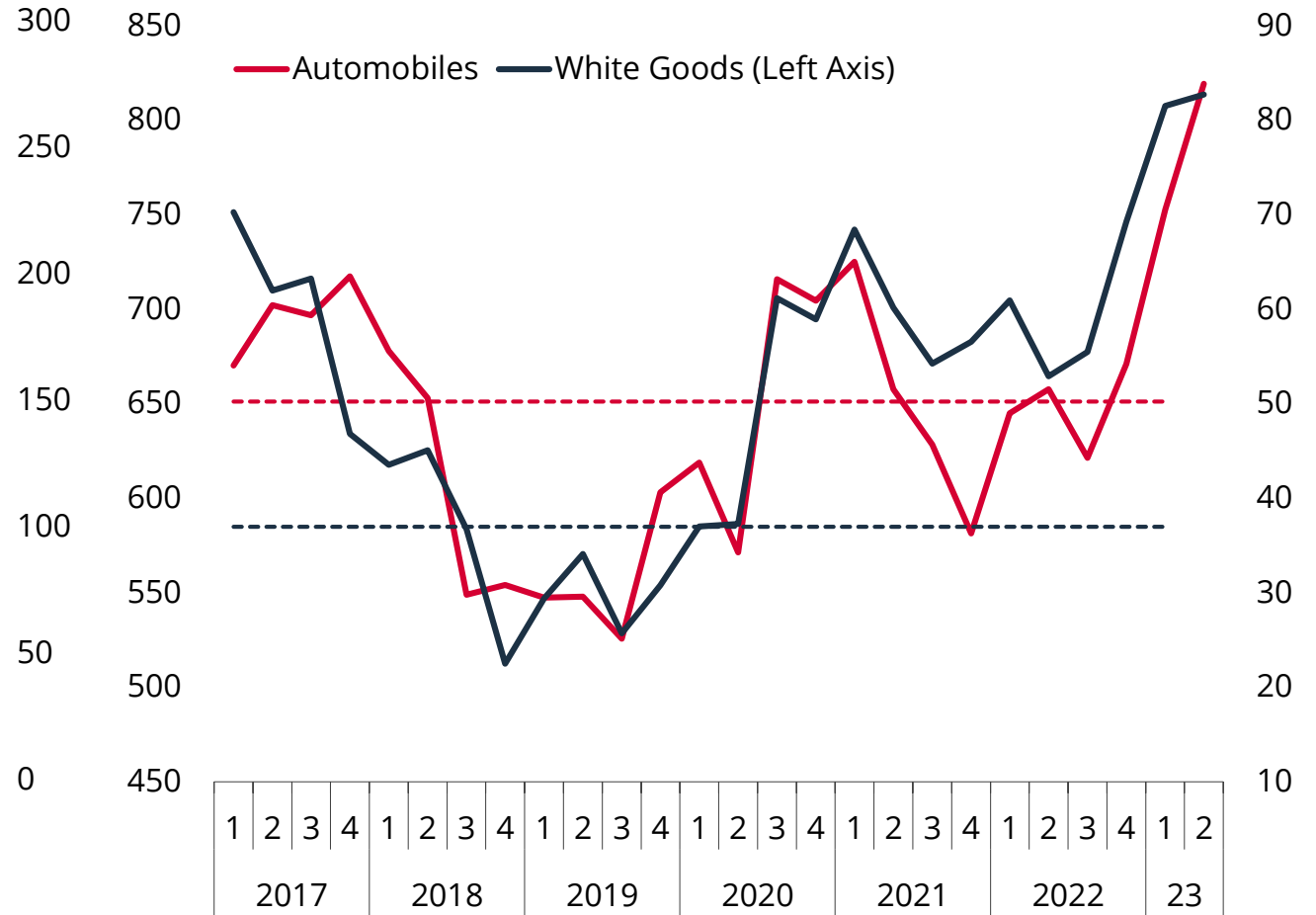
Domestic Demand: Consumption tendency remains high.

(Seasonally Adjusted, 2015=100)



* Last Observation: June 2023 for Real Domestic Card Expenditures, May 2023 for others

Sales
(Seasonally Adjusted, Thousand)*



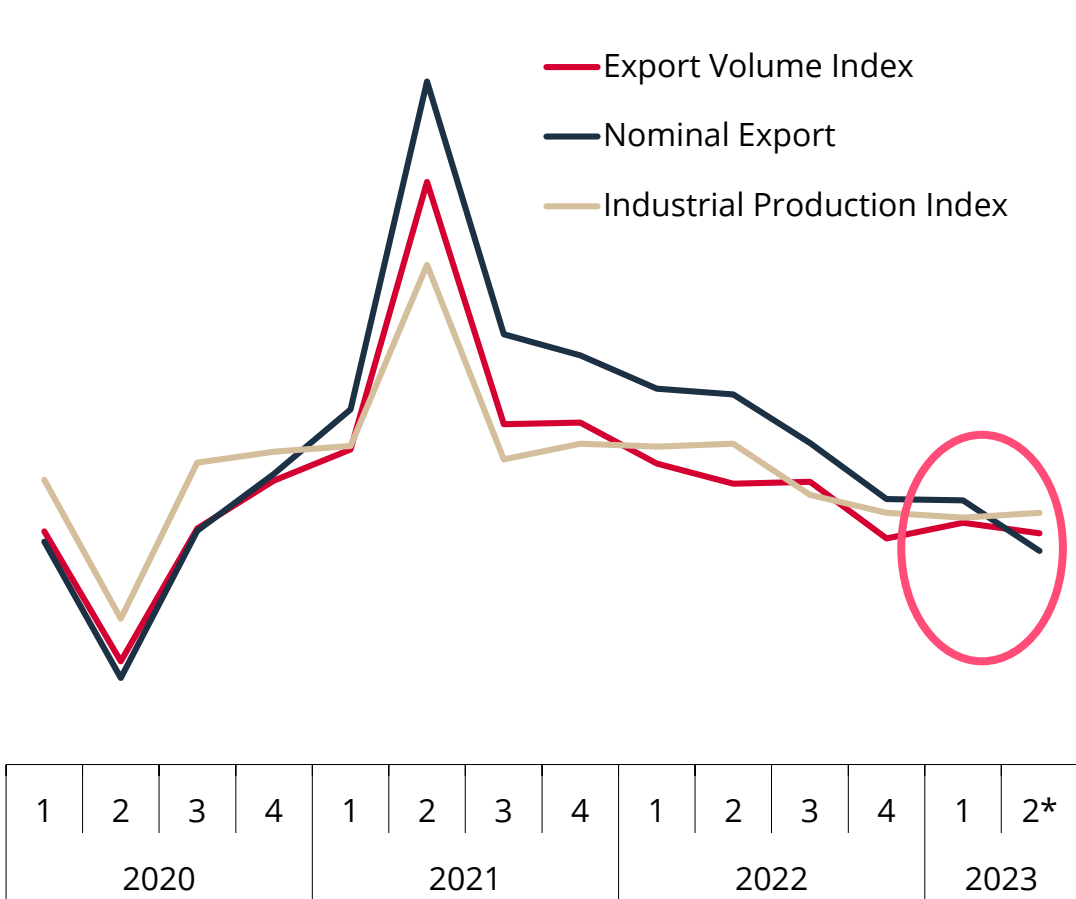
Source: ODMD, TURKBESD, CBRT

Last Observation: June 2023

* Dashed lines show historical averages (2011-2019).

Supply Conditions: Industrial production and exports are slowing down.

**Exports and Industrial Production
(Annual % Change)**

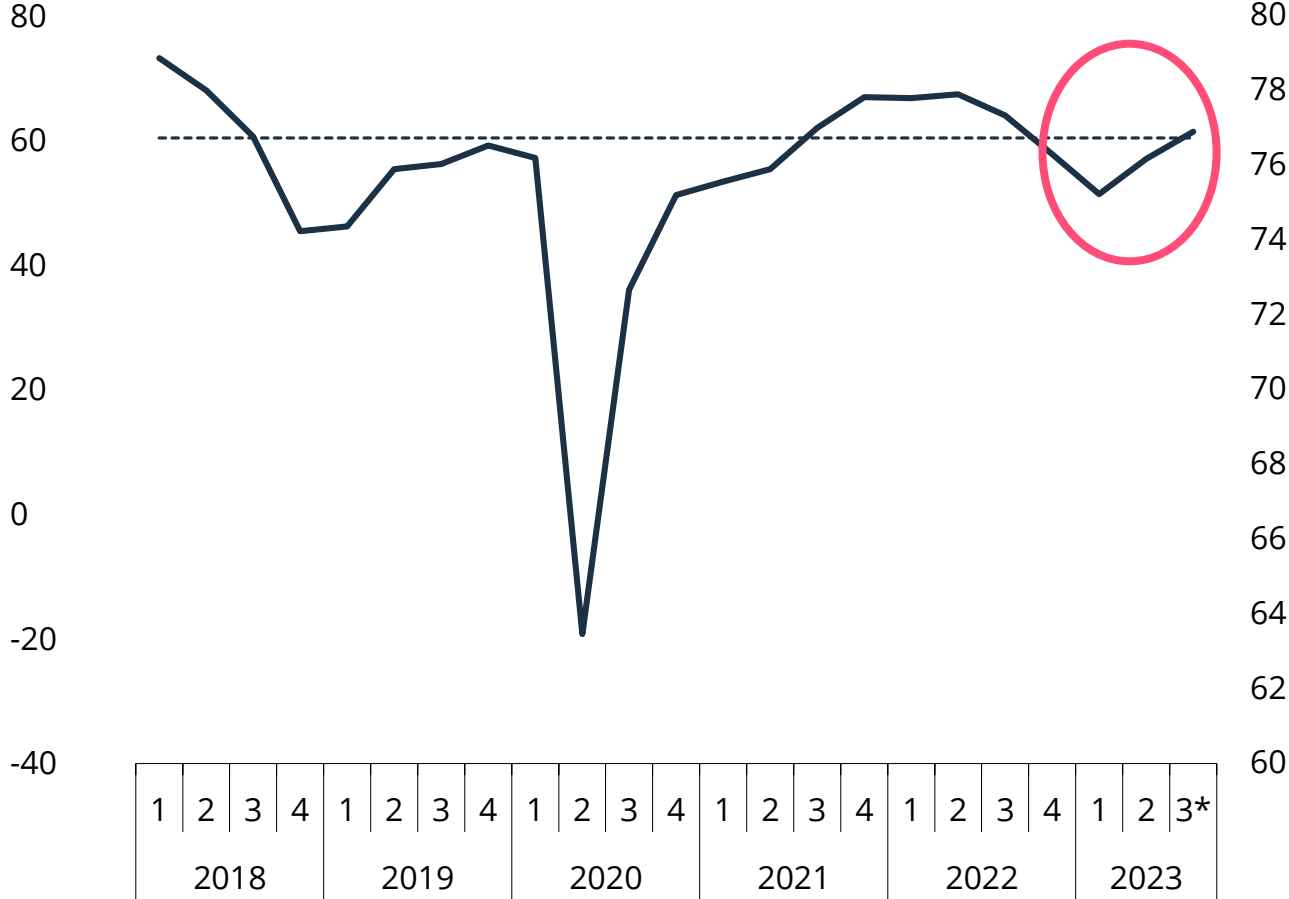


Source: CBRT, Ministry of Trade, TURKSTAT

Last Observation: June 2023

* Average of April-May period for the Export Quantity Index and the Industrial Production Index.
Provisional data for nominal exports as of June.

Manufacturing Industry Capacity Utilization Rate
(Seasonally Adjusted, %)**

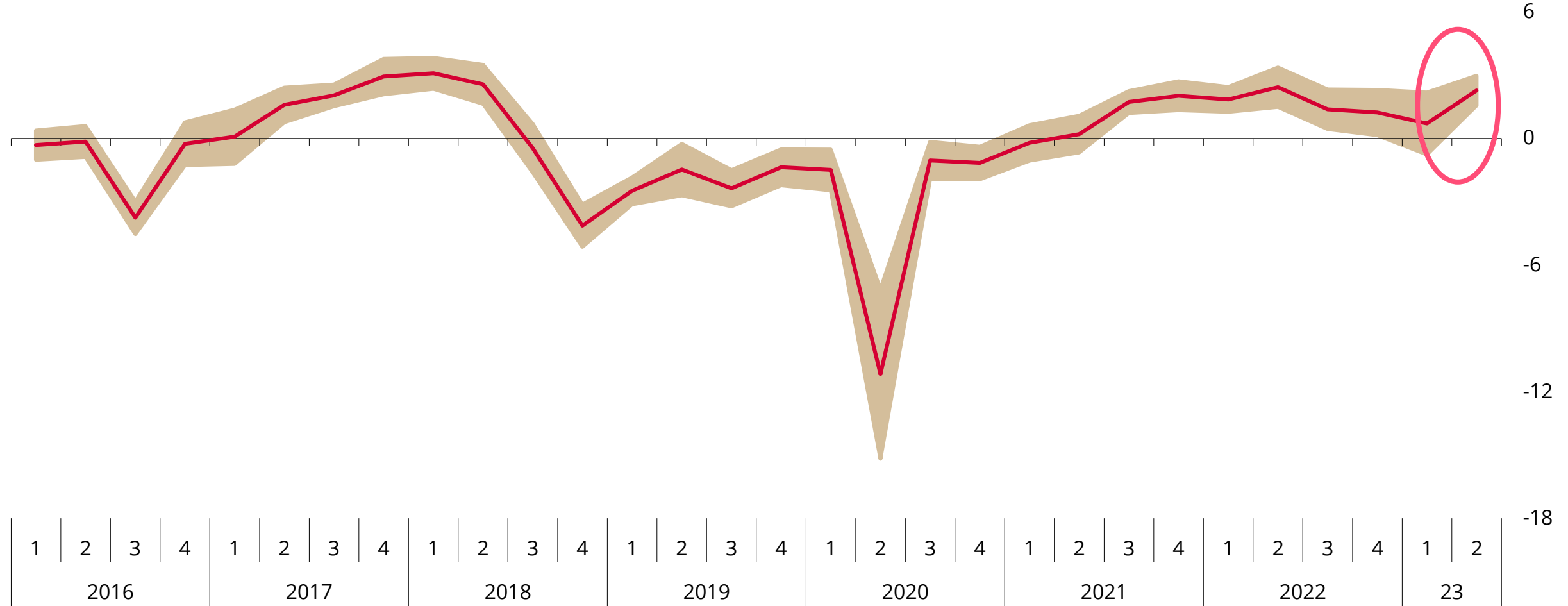


* Third quarter data is as of July.

** The dashed lines show historical averages (2011-2019).

Supply-Demand Balance: Output gap is widening.

Output Gap*
(%)



* The red line shows the average of the output gap indicators calculated by 8 different methods and the shaded area shows the 95% confidence interval.

Strong domestic demand also has an impact on consumption goods imports.

External Balance Statistics (Billion USD)	2022 First Half*	2022	2023 First Half*	2023**	Annual Change (Billion USD)
Current Account Balance	-26.1	-48.4	-37.7	-60.0	-11.6
External Trade Balance***	-51.6	-109.5	-61.4	-119.4	-9.8
Exports	125.7	254.2	123.4	251.9	-2.3
Imports	177.3	363.7	184.8	371.2	7.5
Consumption Goods	13.3	30.5	21.6	38.8	8.3 ×1.6
Gold	5.2	20.4	16.6	31.9	11.4 ×3.2
Services Balance	13.0	50.1	14.4	51.5	1.4
Travel Revenue	11.5	41.4	14.1	43.9	2.5
Transport Revenue	12.3	36.7	13.8	38.2	1.5

Source: CBRT, Ministry of Trade, TURKSTAT

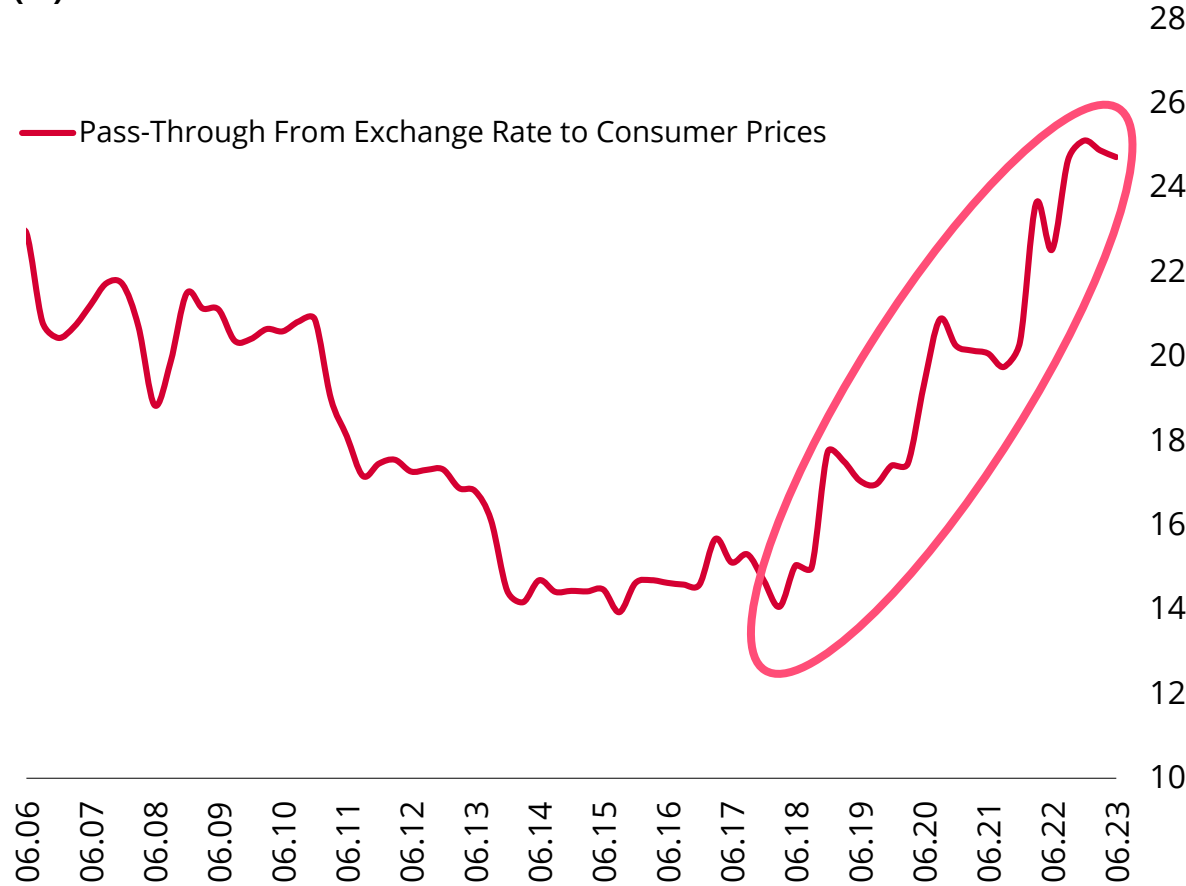
* Current account balance, services balance, travel and transportation revenues are as of January-May, while foreign trade data defined by the General Trade System (GTS) are as of January-June.

** Values for 2023 are 12-month cumulative totals as of June for foreign trade data, and as of May for current account balance, service balance, travel and transportation revenues.

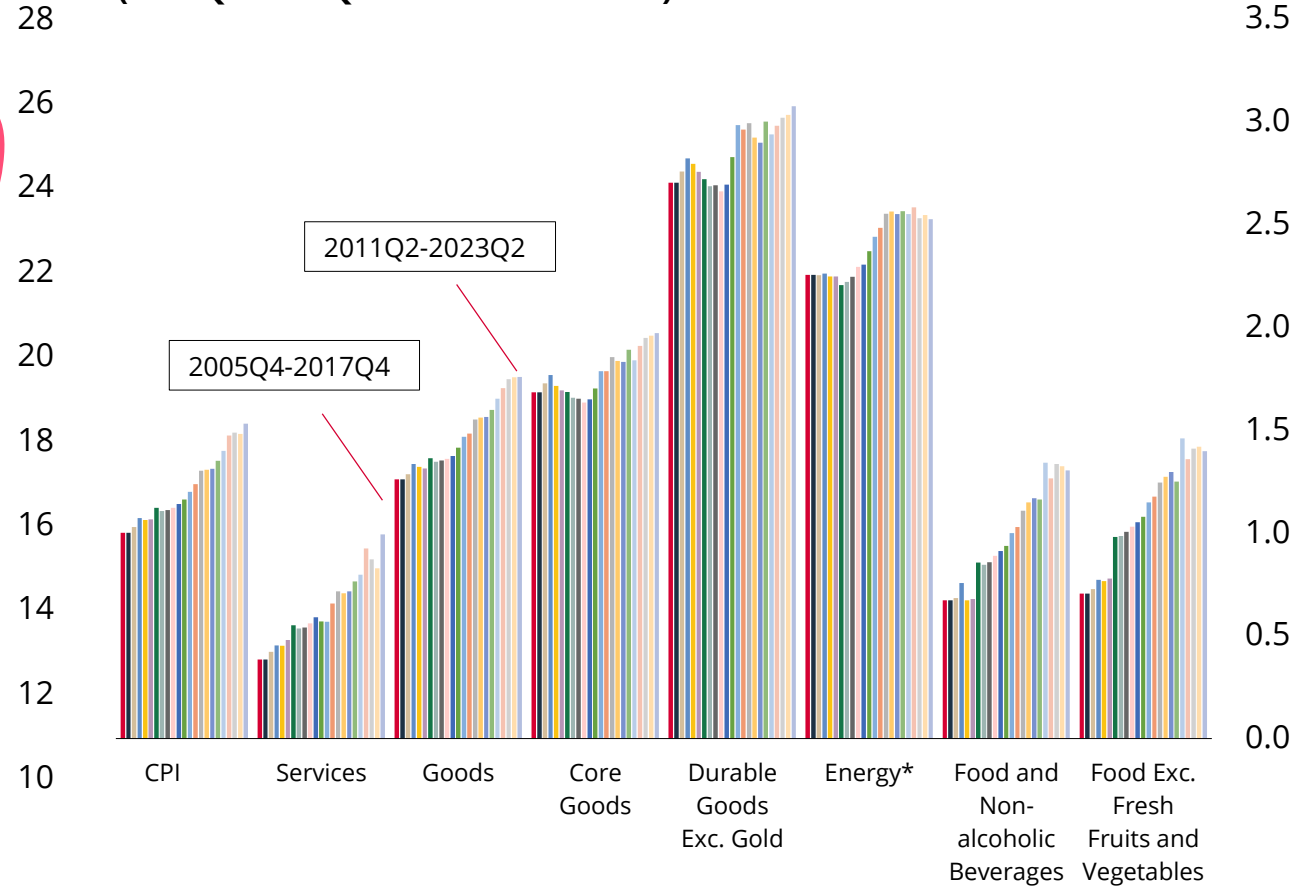
*** Foreign trade data for June 2023 is the temporary data of the Ministry of Trade.

Costs: The pass-through from exchange rates to domestic prices is increasing.

Pass-Through (%)



Exchange Rate Pass-Through Into Consumer Subgroups (2005Q4-2017Q4 CPI=1 Normalized)**

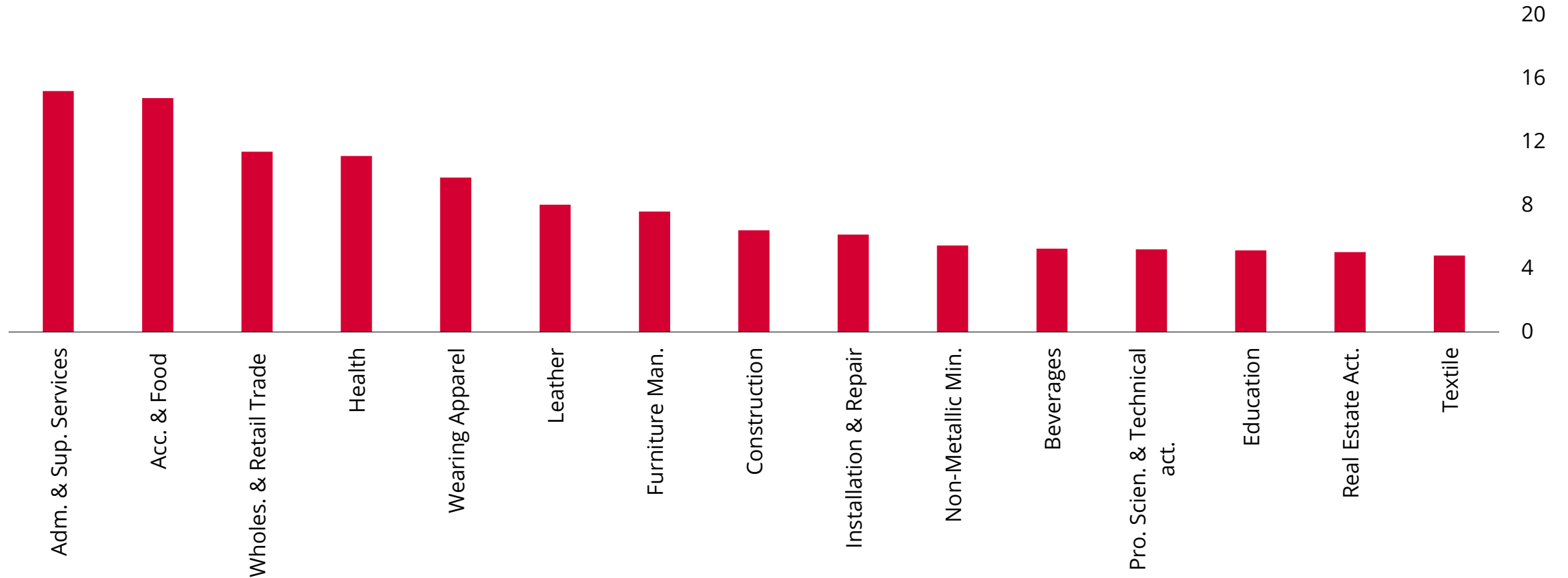


* Excluding electricity and natural gas. In order to better capture the internal dynamics of sub-groups, exchange rate pass-through of LPG, fuel oil and diesel oil items are calculated separately.

** It shows the change of pass-throughs over time with the rolling window method in 10-year samples, the first sample in the graph corresponds to the period 2005Q4-2017Q4, and the last sample corresponds to the period of 2011Q2-2023Q2.

Costs: The effect of wage increases on inflation

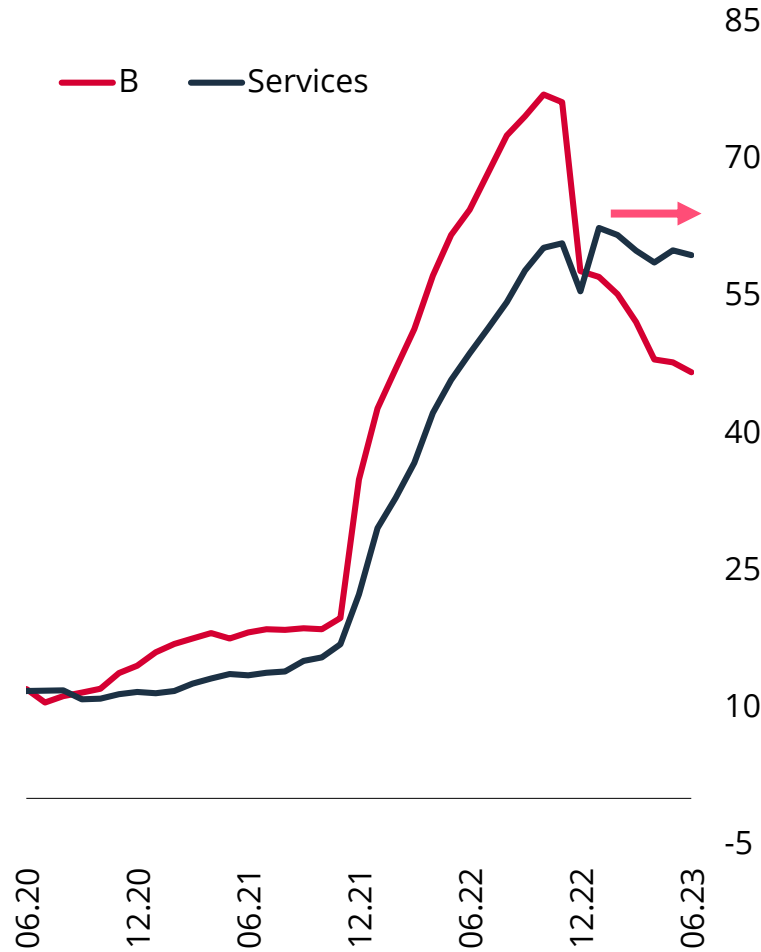
Minimum Wage Payments in Production Cost
(%, 2021)



Sources: CBRT (2021), TURKSTAT HLFS Micro Data, Annual Industry and Service Statistics.

Persistence in Inflation: The persistence in services inflation has become evident.

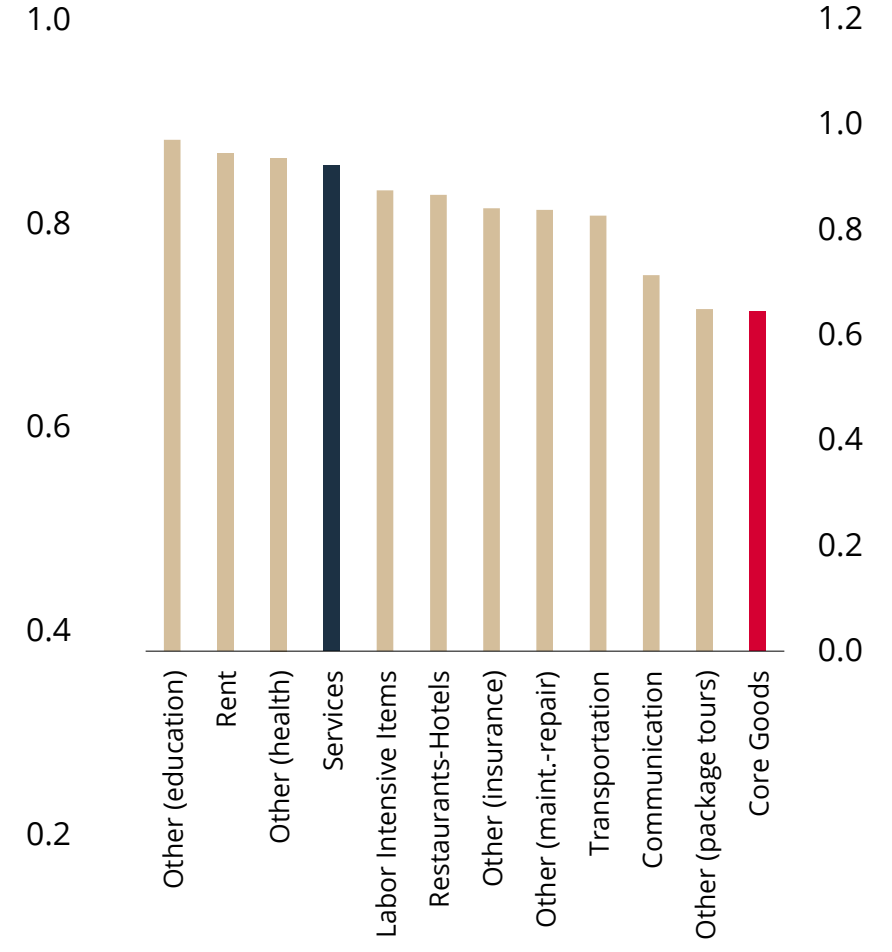
**B Index and Services Prices
(Annual % Change)**



**CPI and Services Diffusion Indices*
(Seasonally Adjusted, 3-Month Average)**



Persistence in Services Inflation



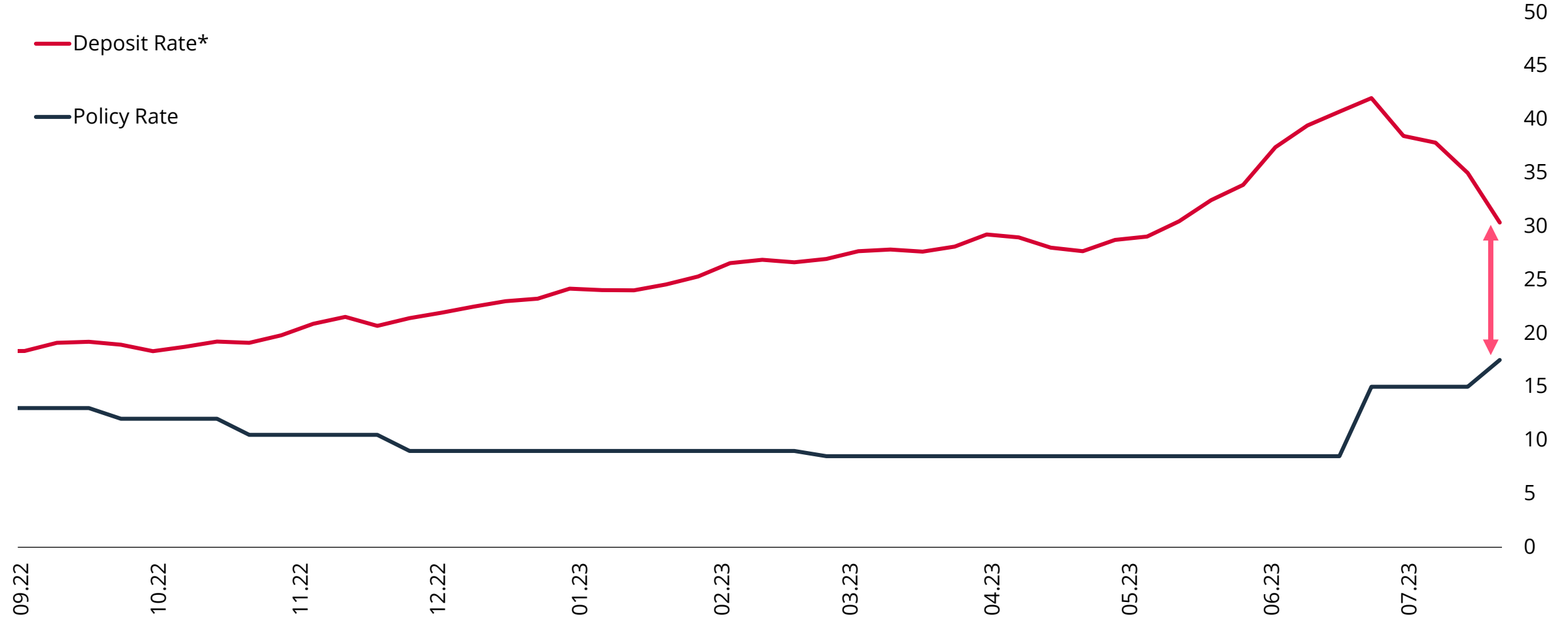
* It is calculated by taking the three-month averages over the ratio of the difference between the number of products with an increasing price and the number of products with a decreasing price to the total number of products.

For details, see "Persistence of Services Inflation", Inflation Report 2023 III, Box 2.3.

MONETARY POLICY

Spread between the policy and deposit rate is narrowing.

Policy and Deposit Rates (%)



* Up to 3 months

High growth in retail loans

Retail Loans (Quarterly % Change)	2013-2023* Average	2022Q4	2023Q1	2023Q2	First 6 Months of 2023
Retail	5.2	16.6	20.9	16.1	40.3
Housing	4.0	1.6	8.8	12.0	21.8
Vehicle	7.0	60.8	30.9	28.5	68.2
General Purpose	5.3	16.6	21.2	5.3	27.7
Credit Card	6.3	28.3	29.2	32.5	71.1

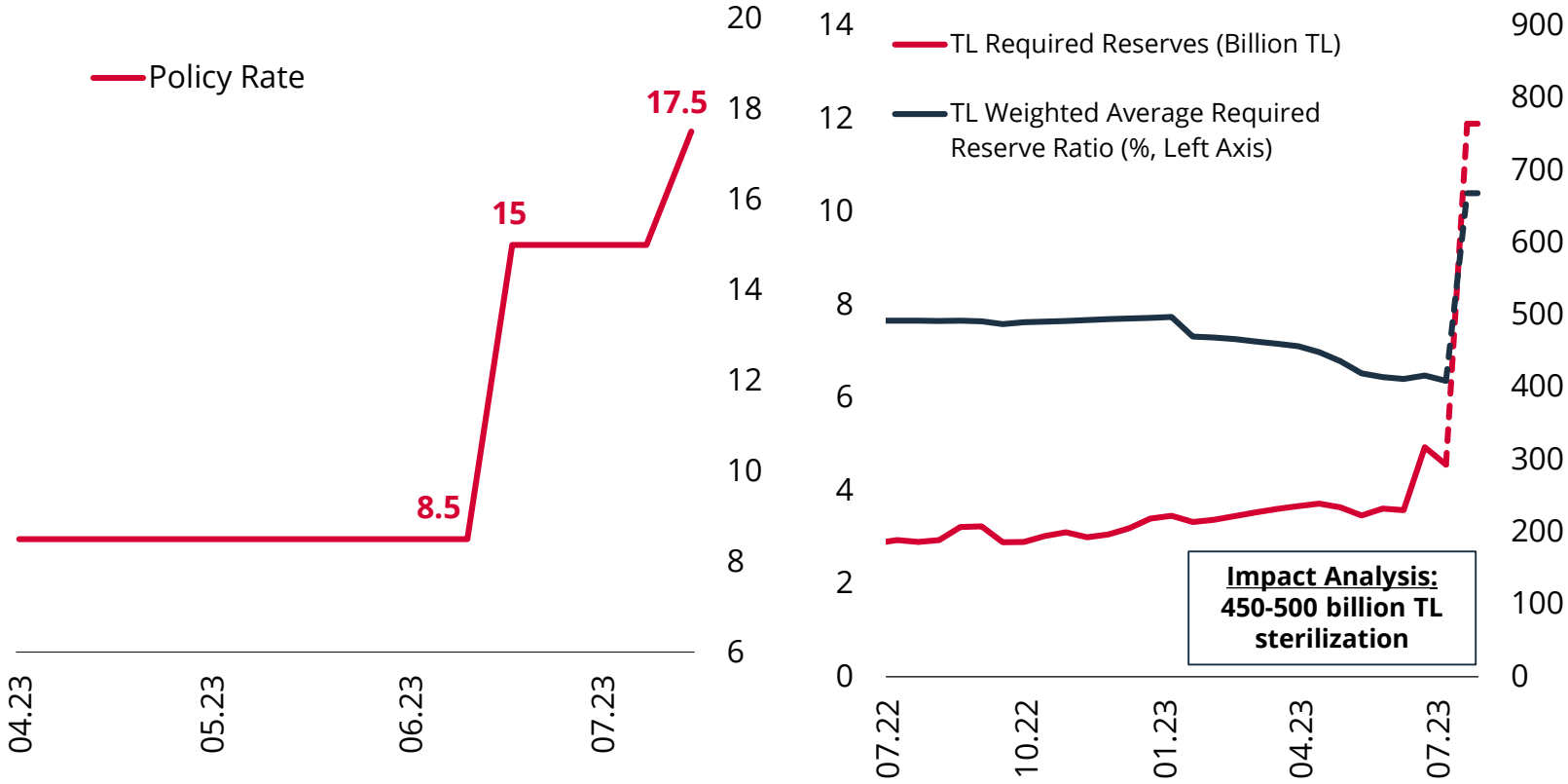
* 2013Q2-2023Q2 Average

Monetary Tightening
Establishing Disinflation
Anchoring of Expectations

Quantitative Tightening
Sterilization of Excess Liquidity

Selected Loan Tightening
Rebalancing in Domestic Demand
Reducing Excess Consumption and Imports

Rate Hike
Gradual
Stable



Growth:

- Vehicle Loans: 3% → 2%
- Commercial Loans: 3% → 2.5%

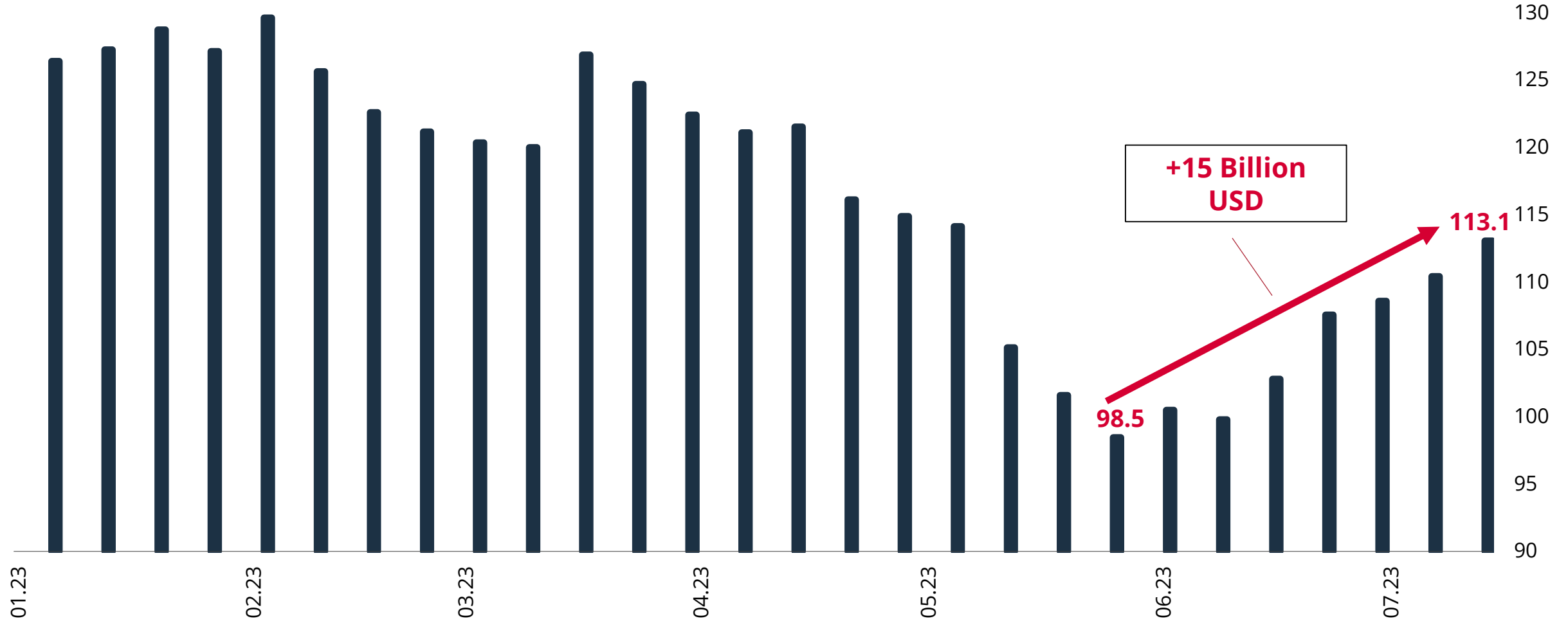
Interest Rate:

- Maximum interest rate applied to credit card cash utilization and overdraft accounts: ↑ 2.89%
- Application of interest rate threshold for TL commercial loans as a single tier*. ↑

* Investment and exports loans are excluded.

A steady upward trend has started in reserves.

CBRT International Reserves
(Weekly, Billion USD)



A decline in risk premium and improvement in financing conditions are expected.

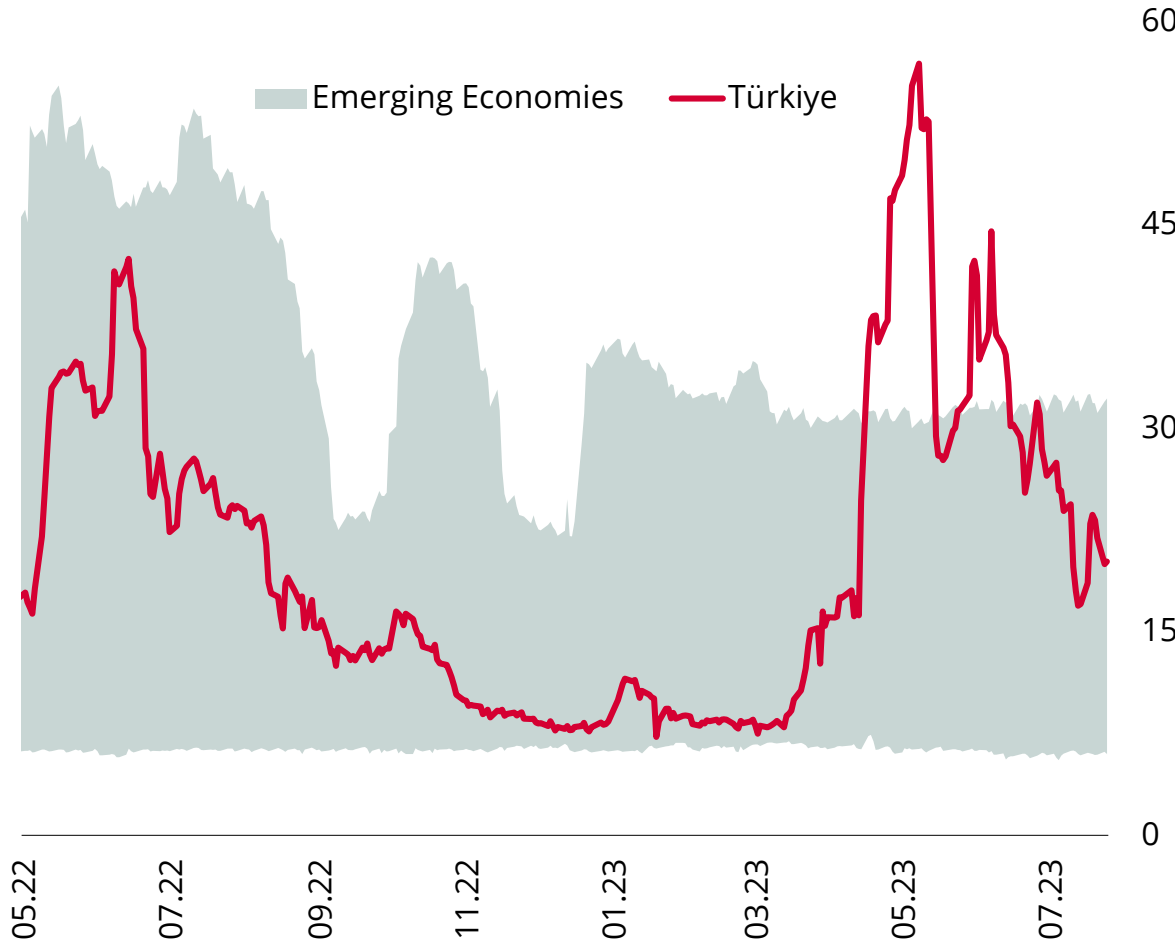
Risk Premium
(Basis Point)



Source: Bloomberg

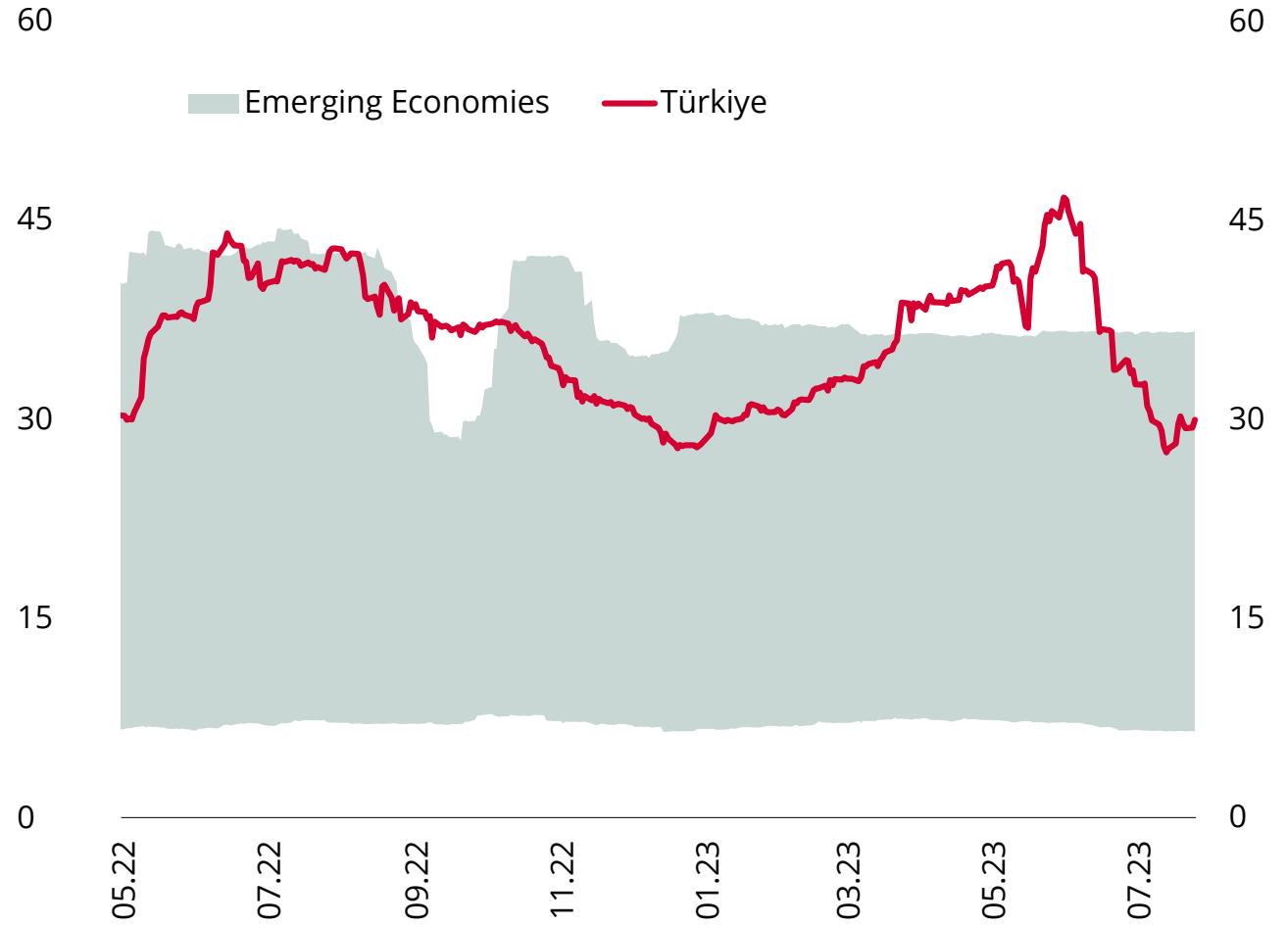
Exchange rate volatility implied by options is decreasing.

Implied FX Volatility by Options
(Against USD, 1-Month, %)



Source: Bloomberg

Implied FX Volatility by Options
(Against USD, 12-Month, %)



Source: Bloomberg

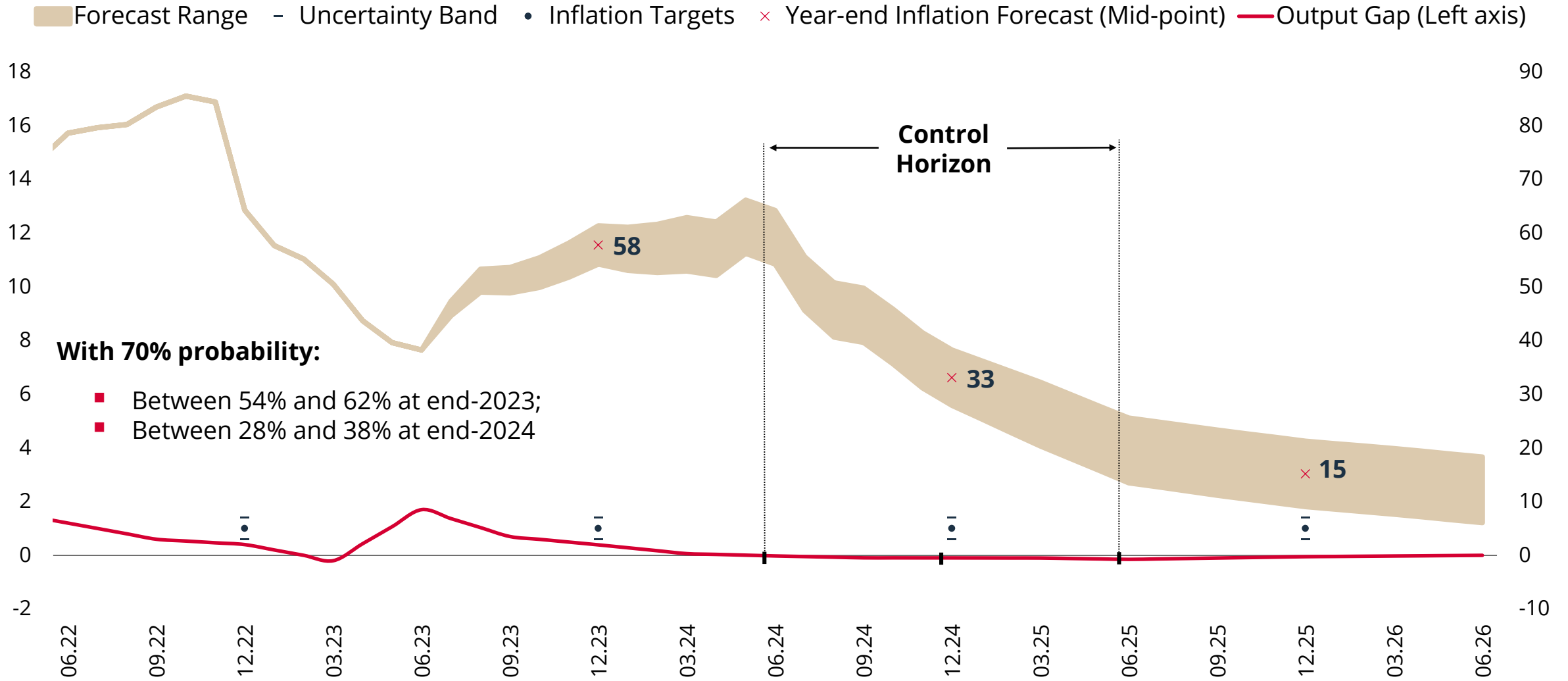
MEDIUM-TERM PROJECTIONS

Revisions in Main Assumptions

		IR 2023-II	IR 2023-III
Global Growth Index* (Average Annual % Change)	2023	1.6	1.7
	2024	2.4	2.1
Oil Prices (USD, Annual Average)	2023	78.1	79.4
	2024	73.6	76.3
Import Prices (USD, Average Annual % Change)	2023	-9.8	-9.5
	2024	0.4	2.4
Food Prices (Year-End % Change)	2023	27.9	61.5
	2024	11.5	35.0

* It is constructed by using the growth rates of 110 countries to which Türkiye exports and their share in exports.

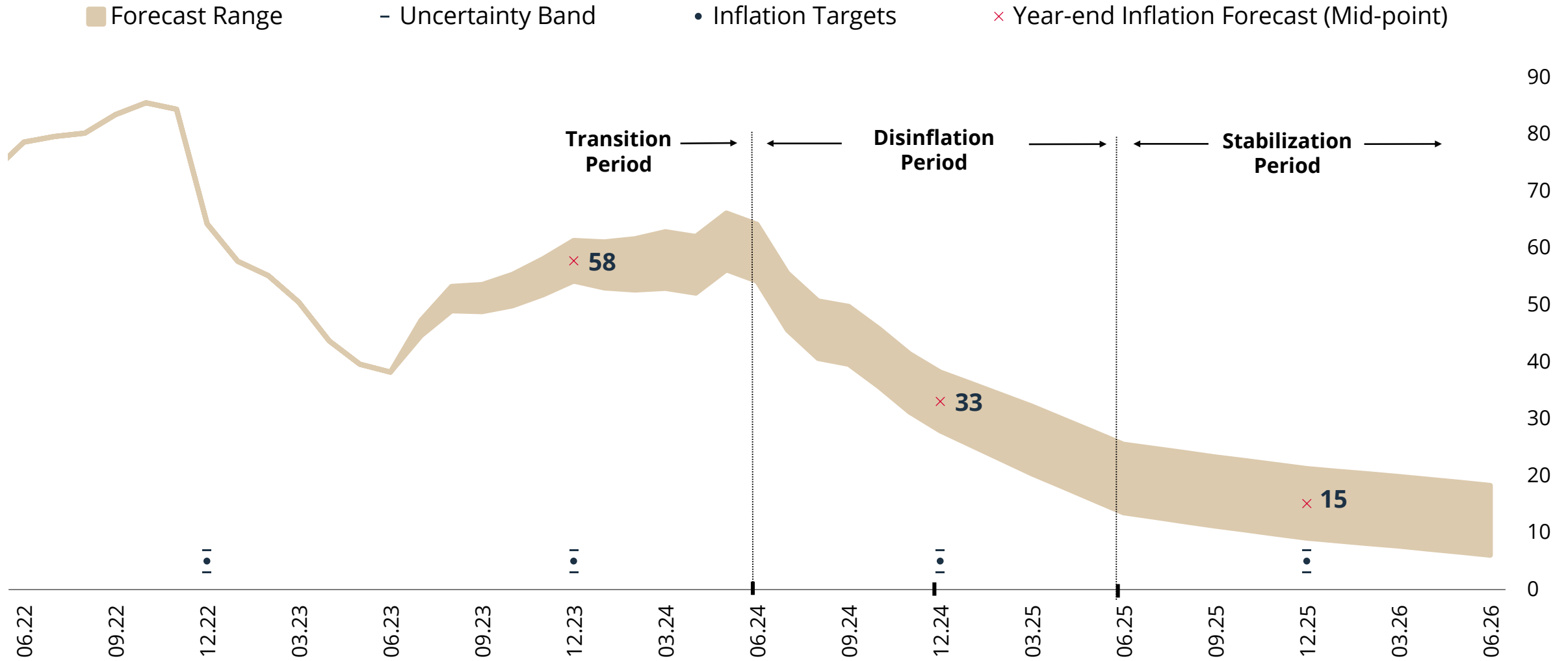
Inflation Forecasts: 2023 → 58; 2024 → 33; 2025 → 15



Revisions to Inflation Forecasts

	2023	2024
IR 2023-II Forecast (%)	22.3	8.8
IR 2023-III Forecast (%)	58.0	33.0
Forecast Revision as Compared to IR 2023-II Period (% Point)	35.7	24.2
Sources of Forecast Revisions (% Point)		
Import Prices in Turkish Lira (Including exchange rate, oil and import prices)	7.5	8.3
Output Gap	1.3	0.4
Food Prices	8.5	6.0
Administered Prices and Unit Labor Cost	7.5	3.6
Forecast Deviation and Change in Forecasting Approach	10.9	5.9

Disinflation Process





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