



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2023-I INFLATION REPORT

Prof. Dr. Şahap Kavcıoğlu
Governor

JANUARY 26, 2023

ANKARA



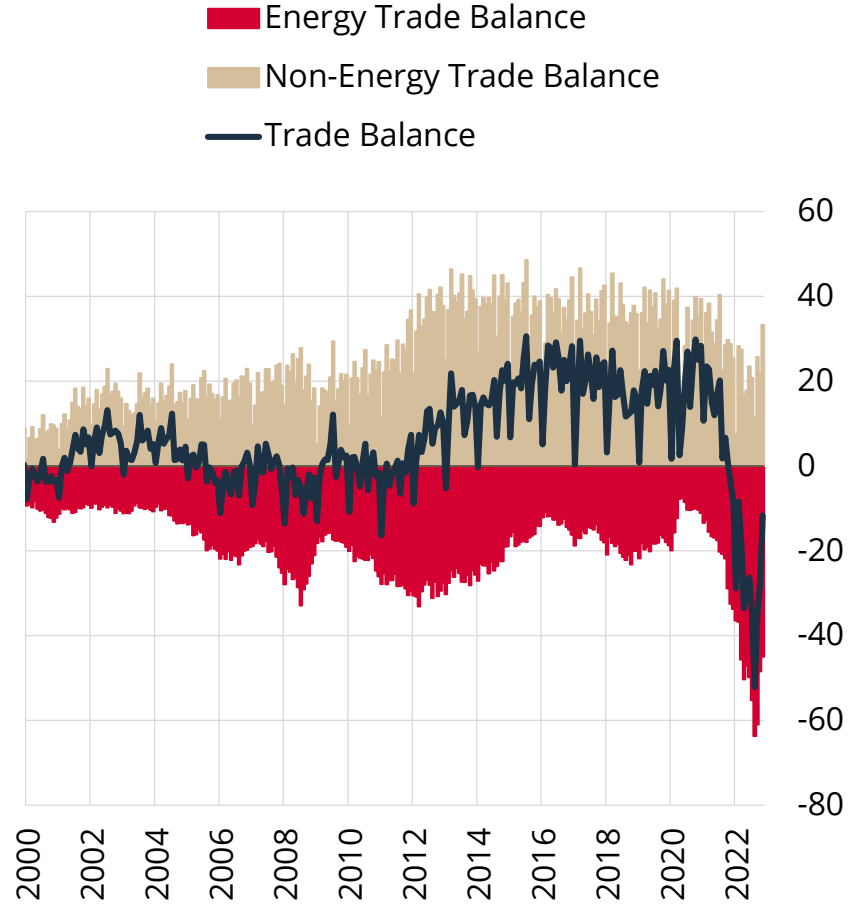
Outline

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

GLOBAL DEVELOPMENTS

Energy Cost

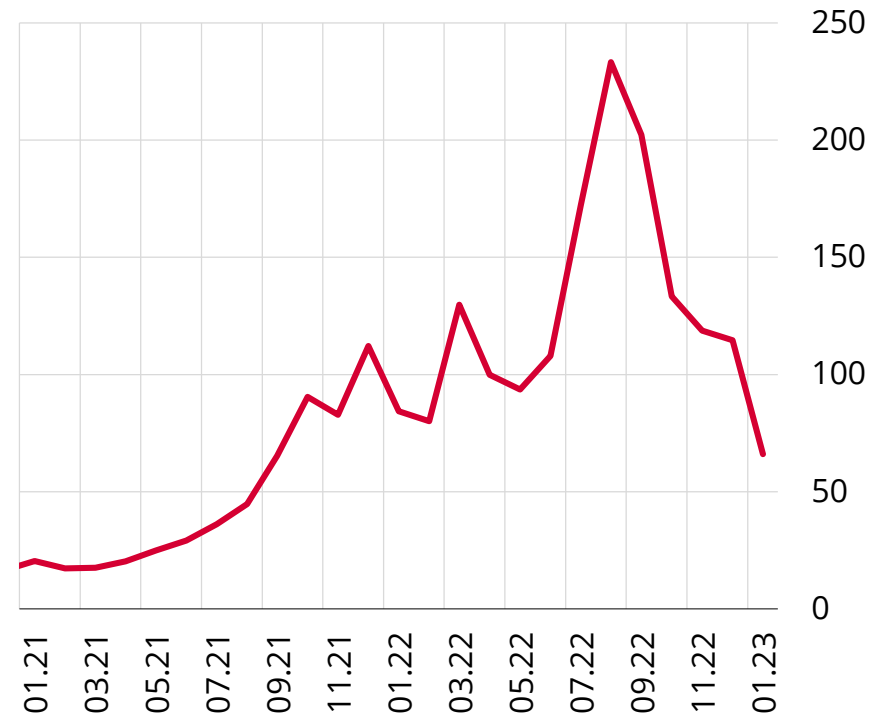
Eurozone Trade Balance (Billion Euro)



Source: Eurostat

Last Observation: November 2022

Natural Gas Prices in Europe* (Euro)



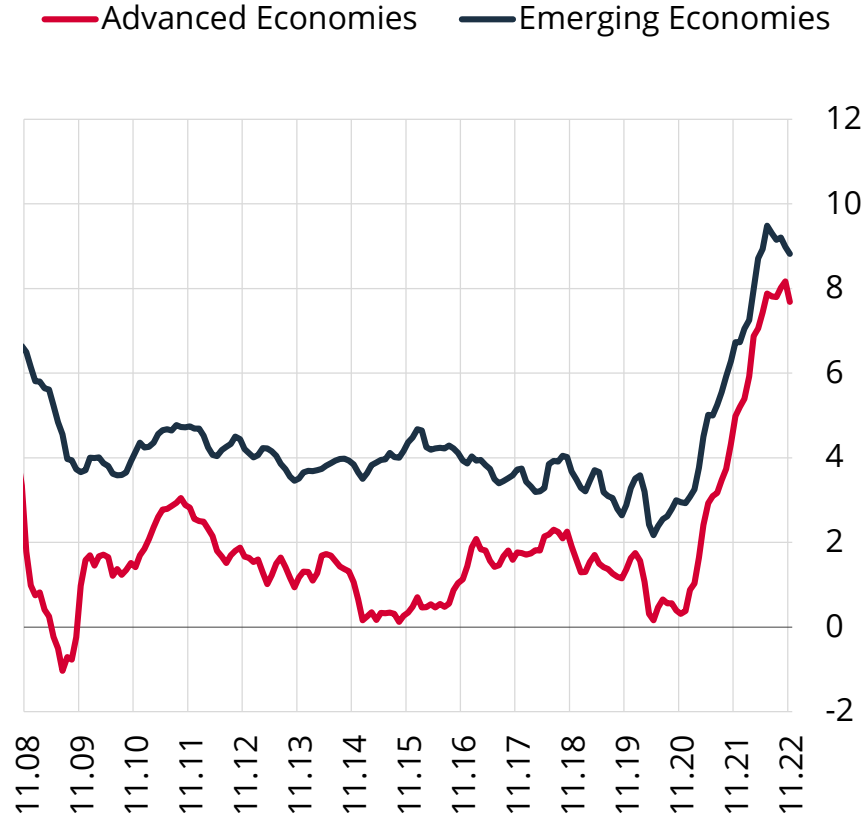
Source: Bloomberg

Last Observation: January 23, 2023

* Megawatt/hour.

Global Inflation

Inflation Rates in Advanced and Emerging Economies* (%)



Source: Bloomberg, CBRT

Last Observation: November 2022

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

Inflation Realization and Forecasts in Advanced and Emerging Countries* (%)

	2022	End-2023 Forecast	
	Realization	January 2023	Revision
Eurozone	9.2	5.9	0.1
Germany	8.6	6.4	-0.4
USA	6.5	3.8	-0.1
UK	10.5	7.2	0.8
Italy	11.6	6.6	1.6
France	5.9	4.8	0.8
Japan	4	1.9	0.3
Russia	11.9	6	-0.1
South Africa	7.2	5.6	0.1
Romania	16.4	10.3	1.2
Poland	16.6	13	1.4
Egypt	21.3	15.7	4.8
China	1.8	2.3	0
India	5.7	5	0
Malaysia	3.8	3	0
Indonesia	5.5	4.1	-0.7
Brazil	5.8	5.1	0.2
Chile	12.8	4.8	-0.1
Hungary	24.5	17.4	3.8
South Korea	5	3.1	-0.1
Mexico	7.8	4.8	0.2

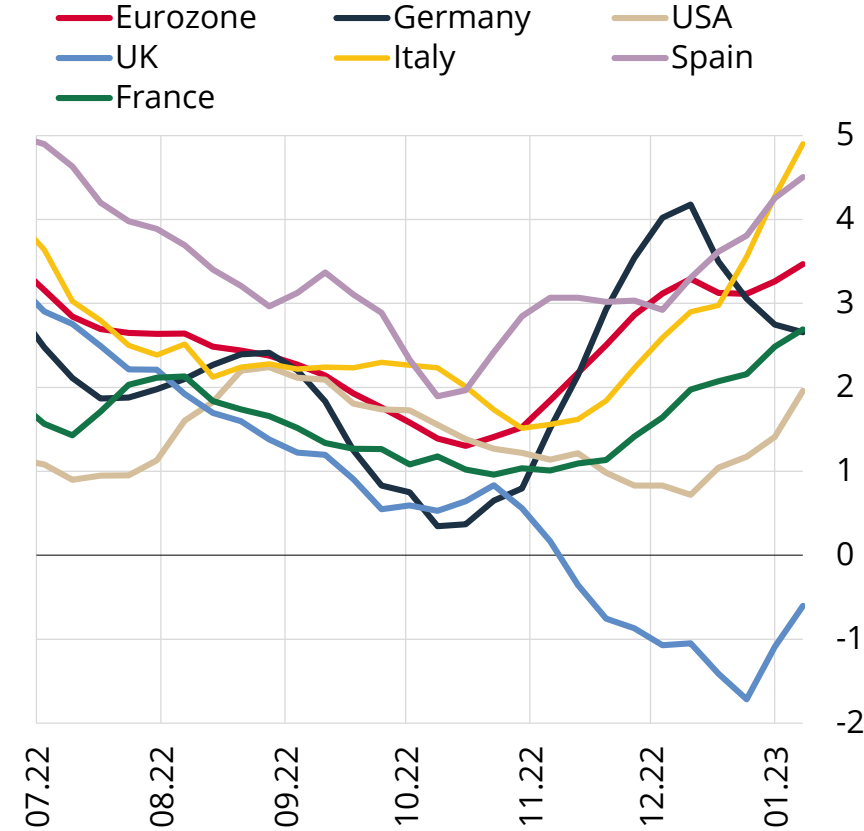
Source: Consensus Economics

Last Observation: January 2023

* Figures shown in red indicate an upward revision, and figures shown in green indicate a downward revision compared to the previous reporting period.

Global Growth

Weekly Economic Activity in Selected Countries (4-Week Moving Average, Annual % Change)



Source: OECD

Last Observation: January 2023

Growth Forecasts in Advanced and Emerging Economies* (%)

	2022 Forecast		2023 Forecast	
	January 2023	October 2022	November 2022	January 2023
Eurozone	3.3	0.0	-0.1	0.0
Germany	1.8	-0.9	-0.9	-0.5
USA	2.0	0.2	0.2	0.3
UK	4.2	-0.3	-0.9	-1.0
Italy	3.7	-0.1	-0.2	0.0
Iraq	9.2	5.1	4.7	4.5
Spain	4.7	1.2	0.8	0.9
France	2.5	0.3	0.2	0.2
Holland	4.2	0.7	0.2	0.2
Israel	6.1	3.2	3.1	3.0
Russia	-3.1	-3.1	-3.0	-2.6
UAE	6.3	3.8	2.7	2.7
Romania	4.7	2.4	2.1	2.5
Belgium	2.7	0.8	0.3	0.0
Poland	4.9	1.1	1.0	0.8
Egypt	6.3	4.2	4.0	3.7
Bulgaria	3.2	1.6	1.5	1.1
China	2.9	4.8	4.5	4.6

Source: Consensus Economics

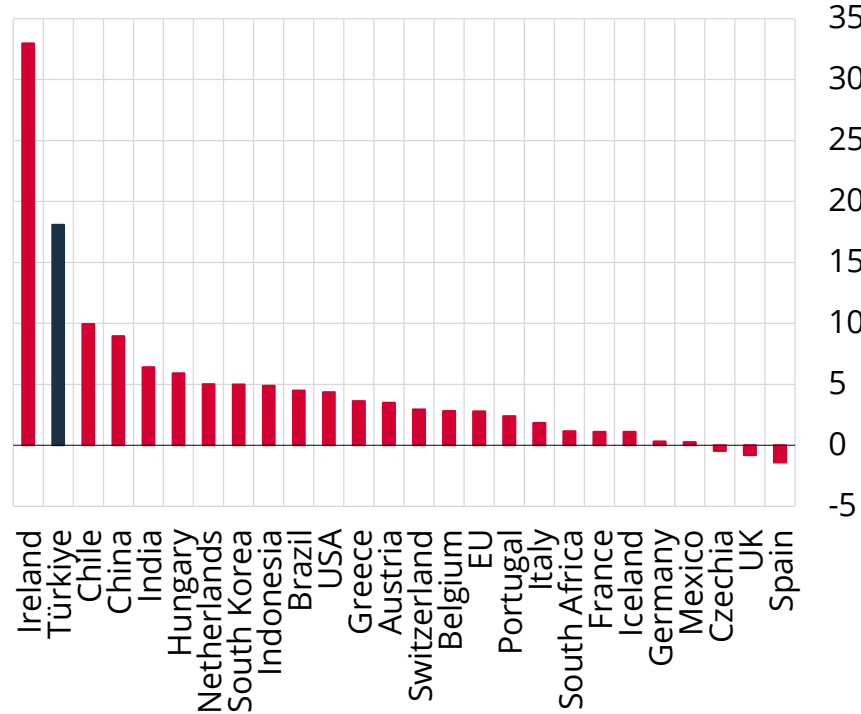
Last Observation: January 2023

* Countries are listed according to Türkiye's export share in 2021. Forecasts shown in red indicate a downward revision, and forecasts shown in green indicate an upward revision compared to the previous reporting period.

TURKISH ECONOMY

Growth Performance of the Turkish Economy

Growth Rates Across Countries* (2019Q4-2022Q3, % Change)

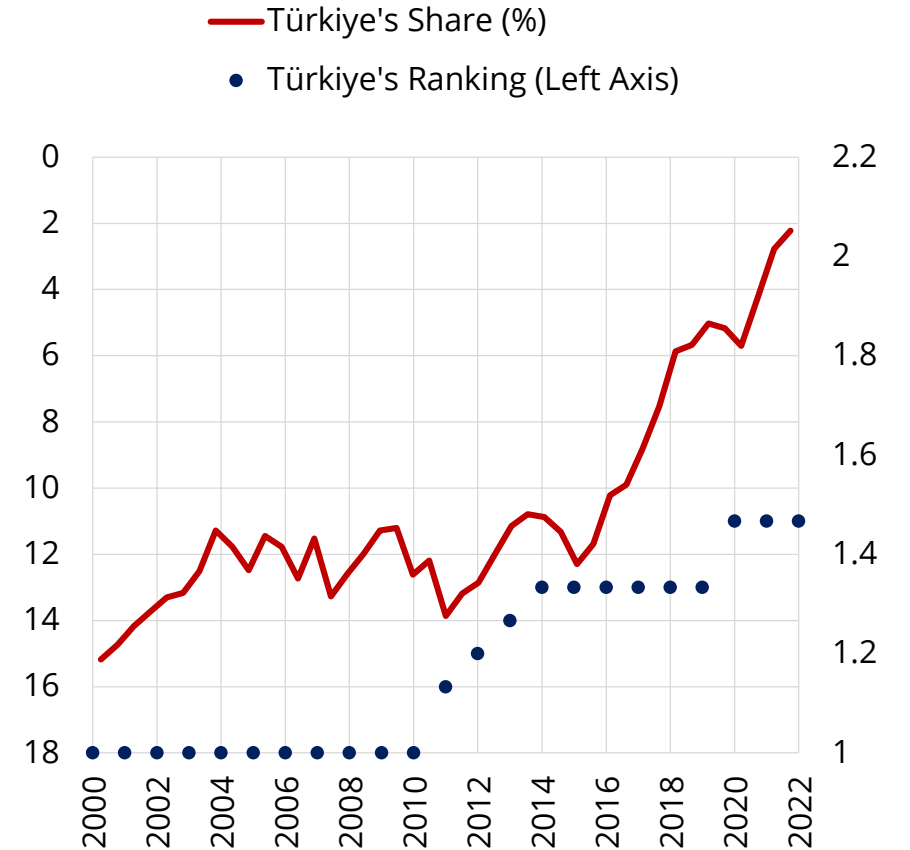


Source: OECD

Last Observation: 2022Ç3

* Shows the percent change in GDP between 2019Q4-2022Q3 in selected OECD and G20 countries. Adjusted for seasonal and calendar effects.

Türkiye's Share and Ranking in Global Economy*



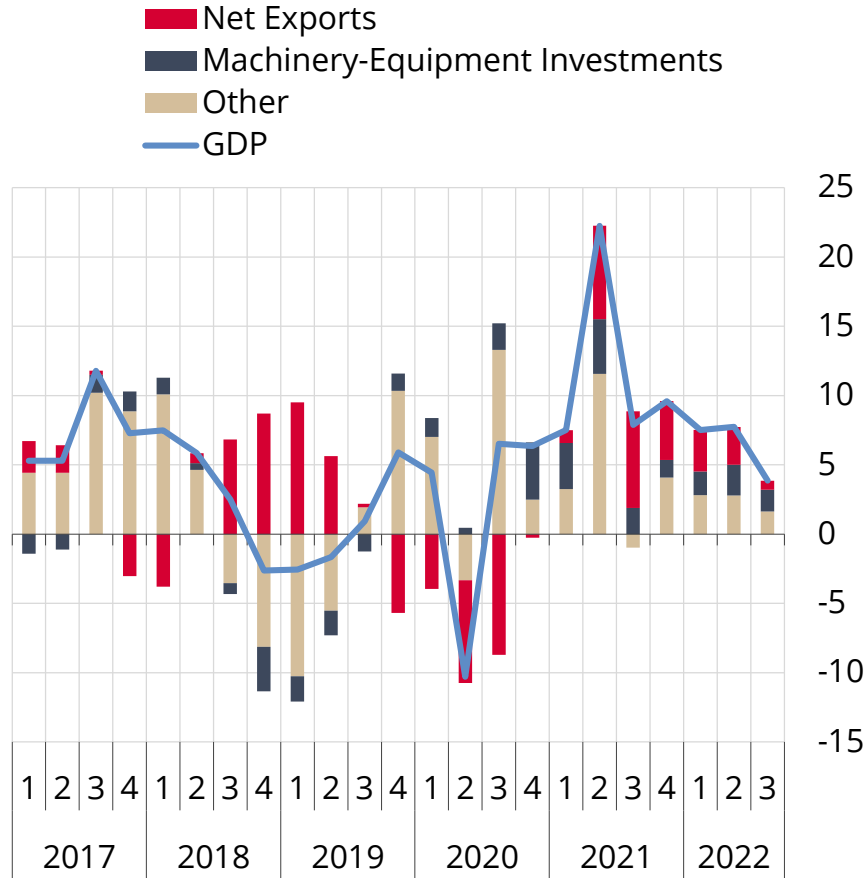
Source: IMF

Last Observation: 2022

* Based on purchasing power parity. Forecast for 2022.

Economic Activity

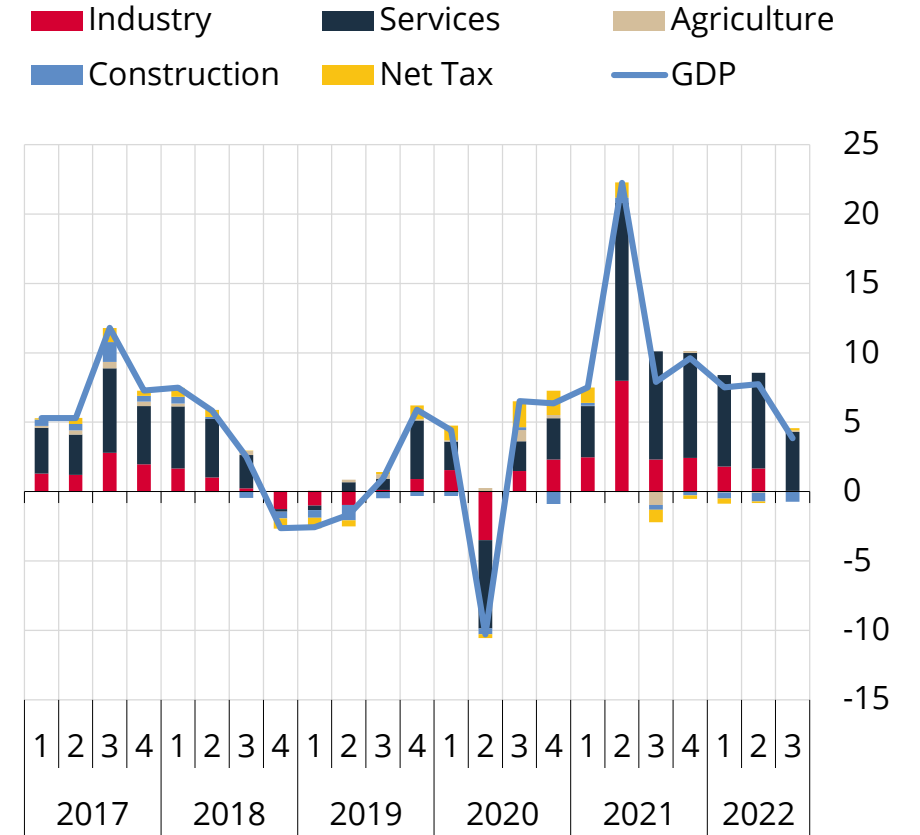
Contributions to Annual Growth by Expenditures (% Points)



Source: CBRT, TURKSTAT

Last Observation: 2022Q3

Contributions to Annual Growth by Production (% Points)

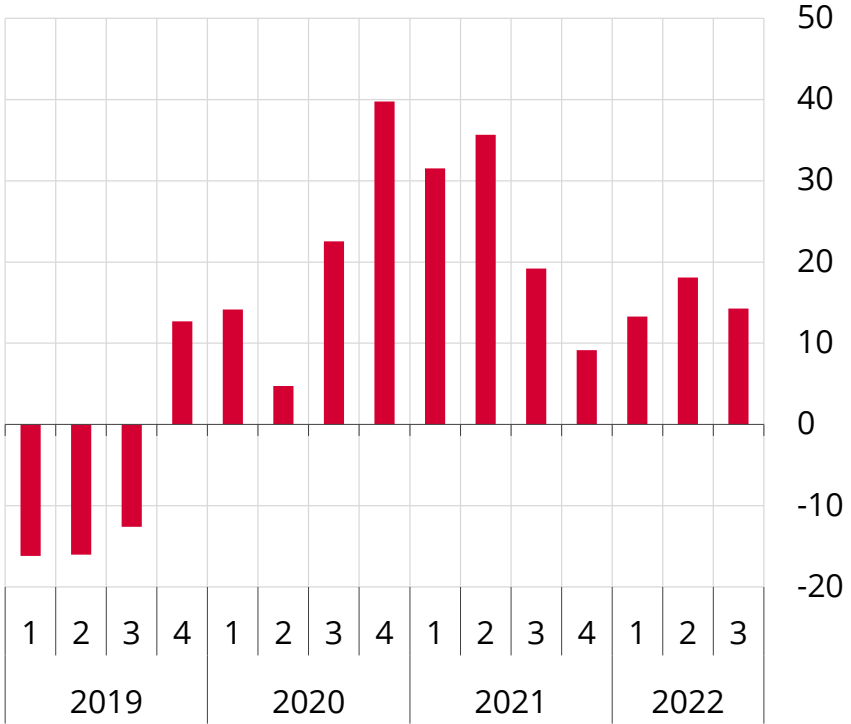


Source: CBRT, TURKSTAT

Last Observation: 2022Q3

Machinery-Equipment Investments and Net Exports

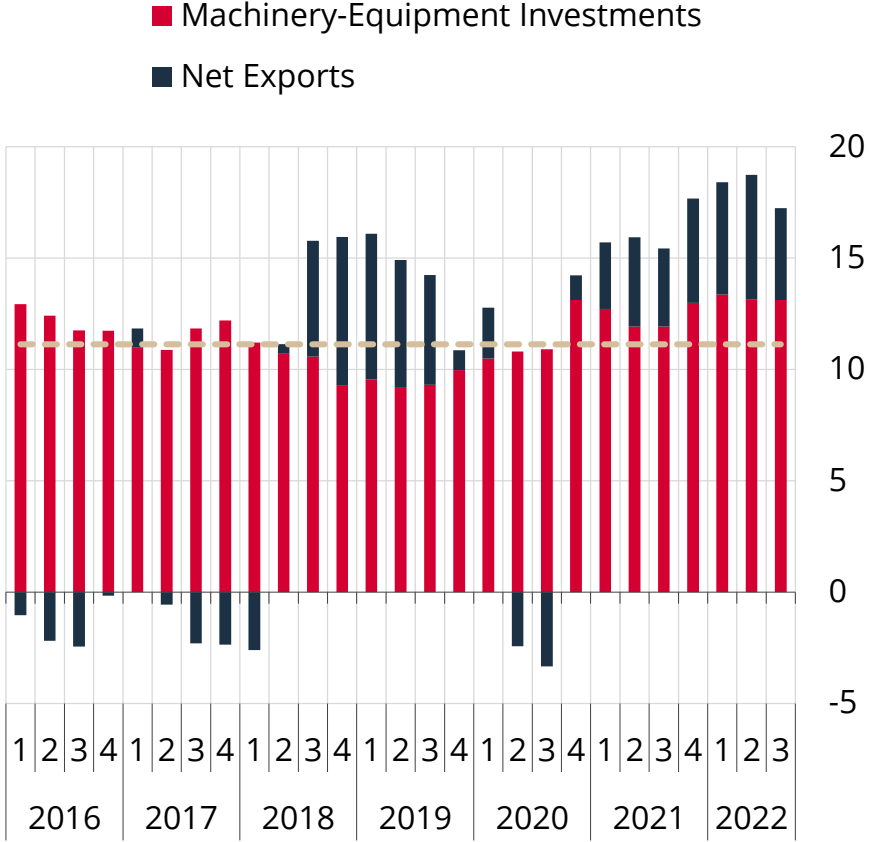
Machinery-Equipment Investments (Annual % Change)



Source: TURKSTAT

Last Observation: 2022Q3

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



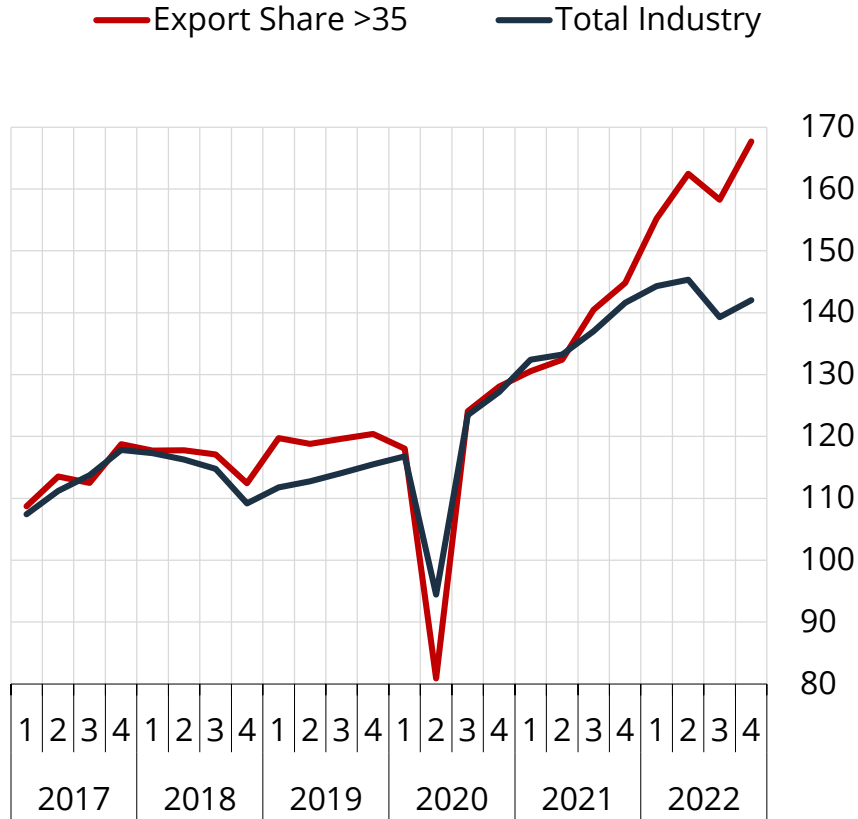
Source: CBRT, TURKSTAT

Last Observation: 2022Q3

* Dashed line represents the average of the share of machinery-equipment investments and net exports in GDP during 2009Q1-2022Q3.

Industrial Production Index and Capacity Utilization Rate

Industrial Production Index* (Seasonal and Calendar Adjusted, 2015=100)

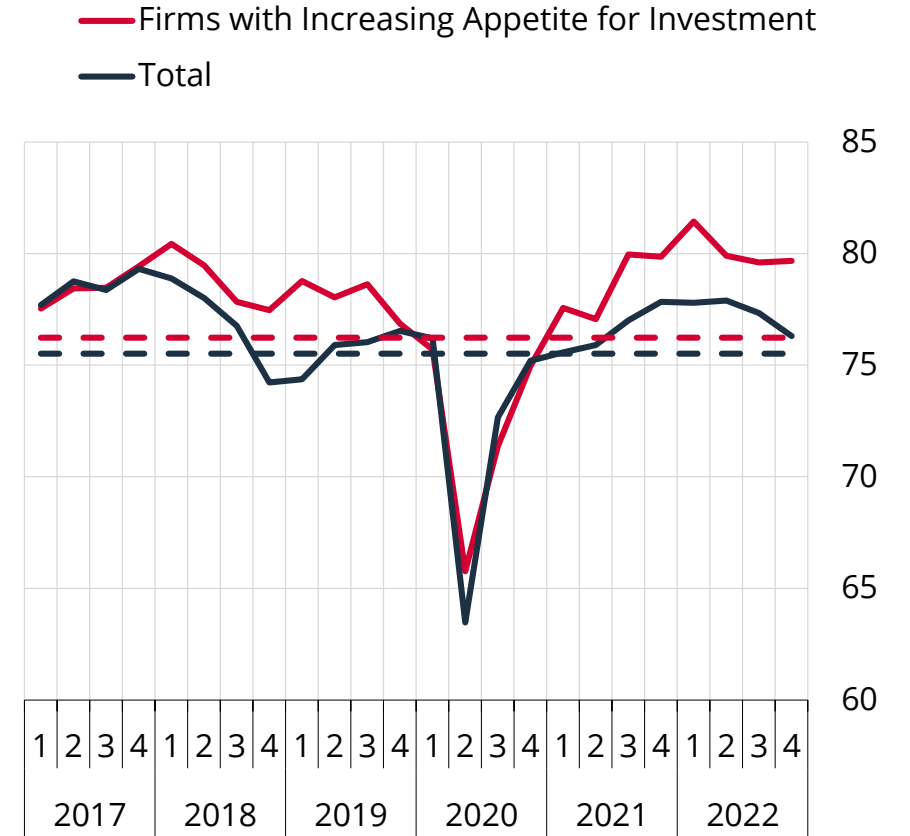


Source: CBRT, TURKSTAT

Last Observation: November 2022

* October-November average for 2022Q4. Sectors are classified according to the percentage share of export turnover in total turnover according to the 2009-2021 average.

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



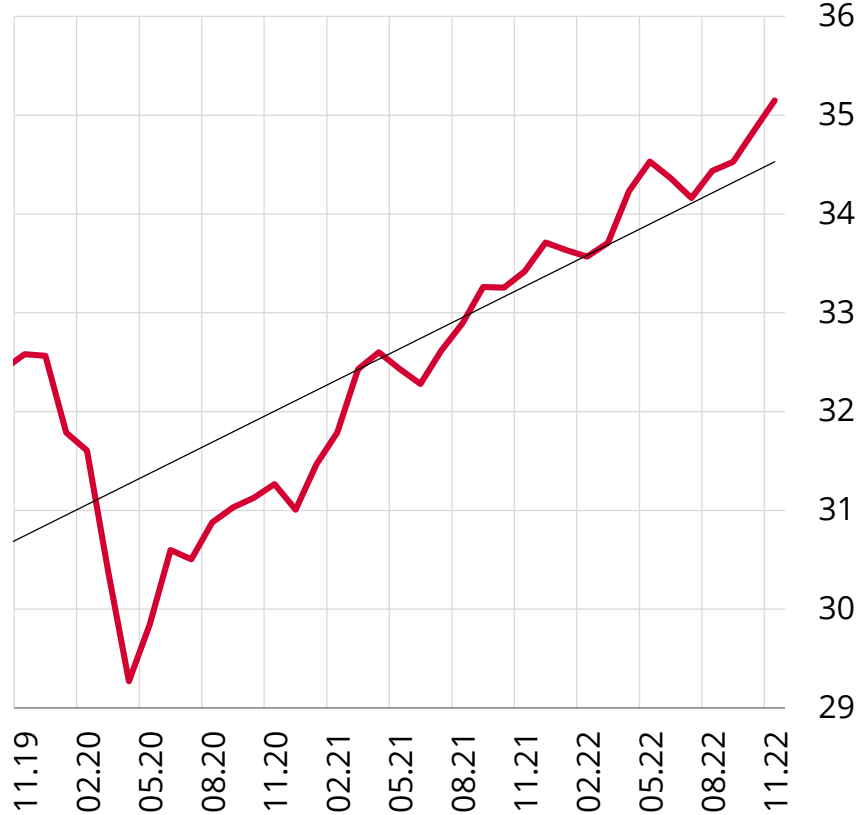
Source: CBRT

Last Observation: December 2022

* The dashed lines show the 2009Q1-2022Q4 average for the respective series.

Labor Market

Labor Force*
(Seasonally Adjusted, Million People)

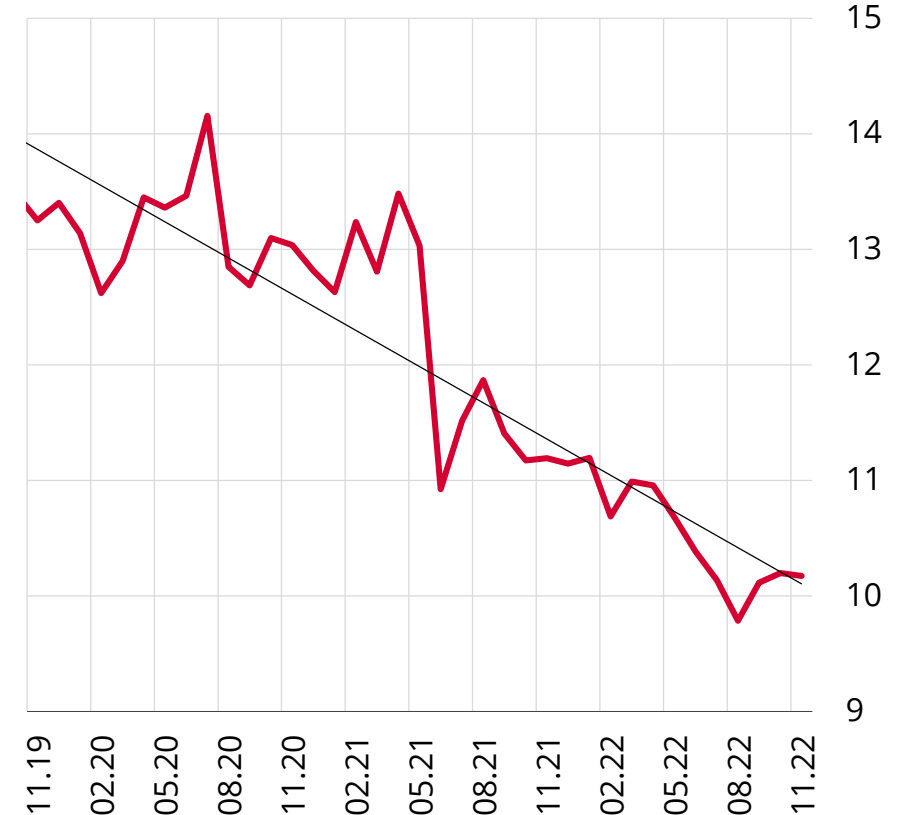


Source: TURKSTAT

Last Observation: November 2022

* The black line shows the trend in the relevant period.

Unemployment Rate*
(%, Seasonally Adjusted)



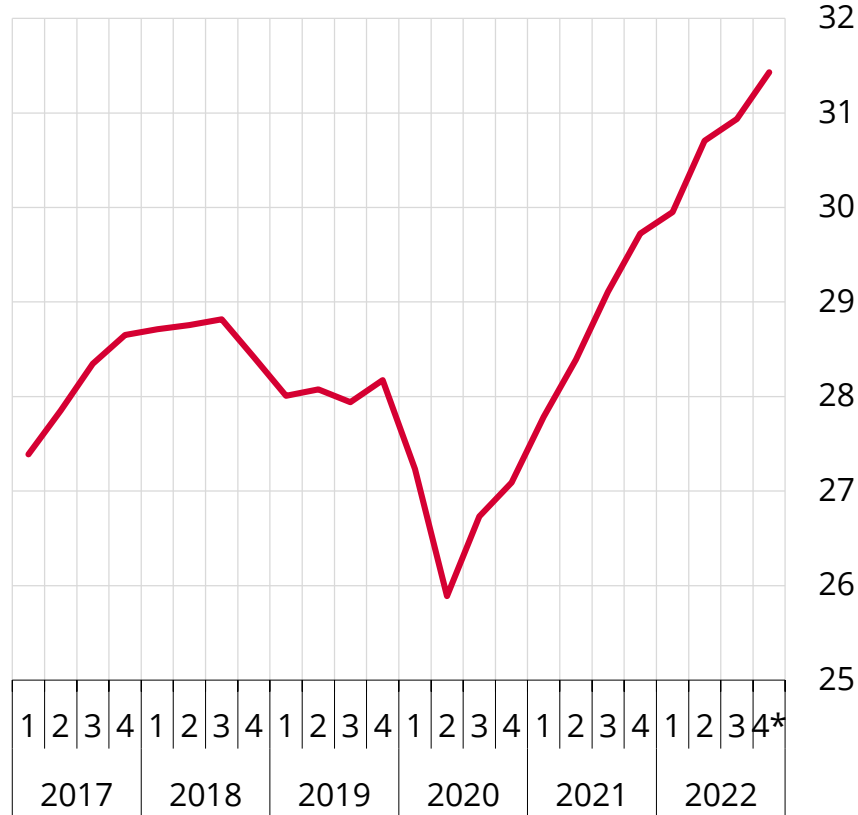
Source: TURKSTAT

Last Observation: November 2022

* The black line shows the trend in the relevant period.

Labor Market

Employment
(Seasonally Adjusted, Million People)

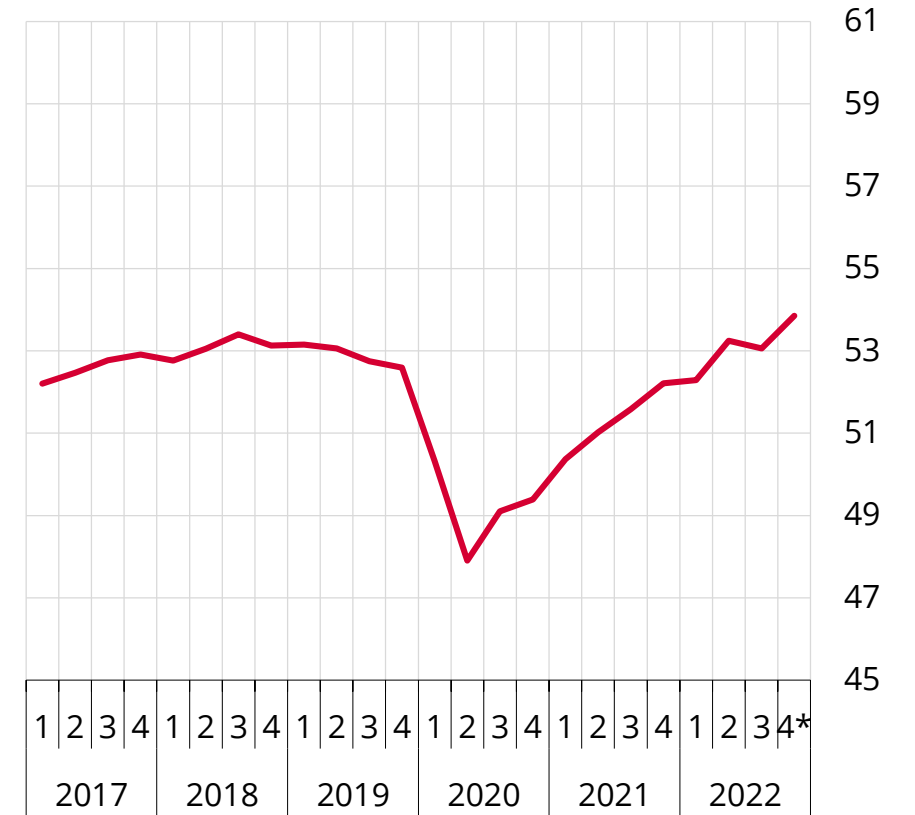


Source: TURKSTAT

Last Observation: November 2022

* October-November average.

Participation Rate
(Seasonally Adjusted, %)



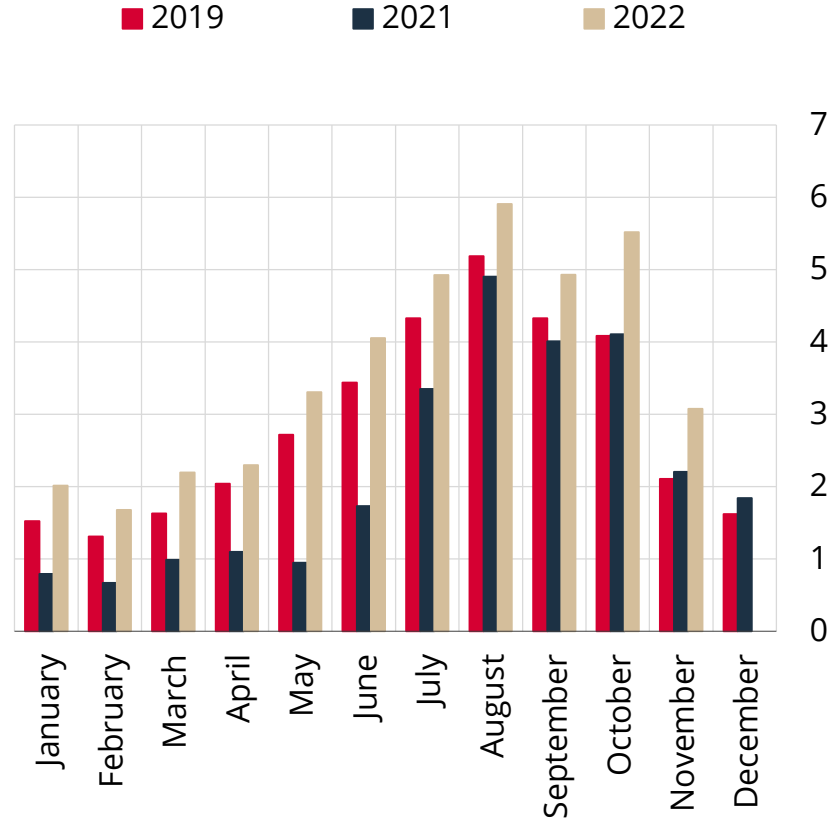
Source: TURKSTAT

Last Observation: November 2022

* October-November average.

Tourism

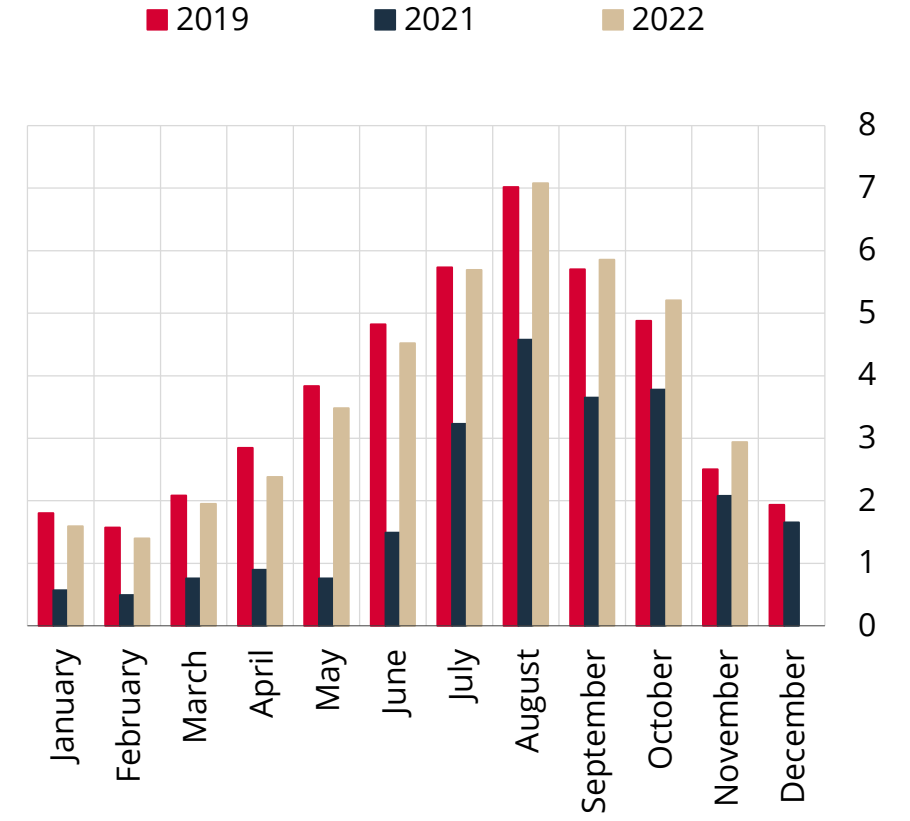
Travel Revenues (USD Billion)



Source: CBRT, TURKSTAT

Last Observation: November 2022

Number of Foreign Visitors (Million People)

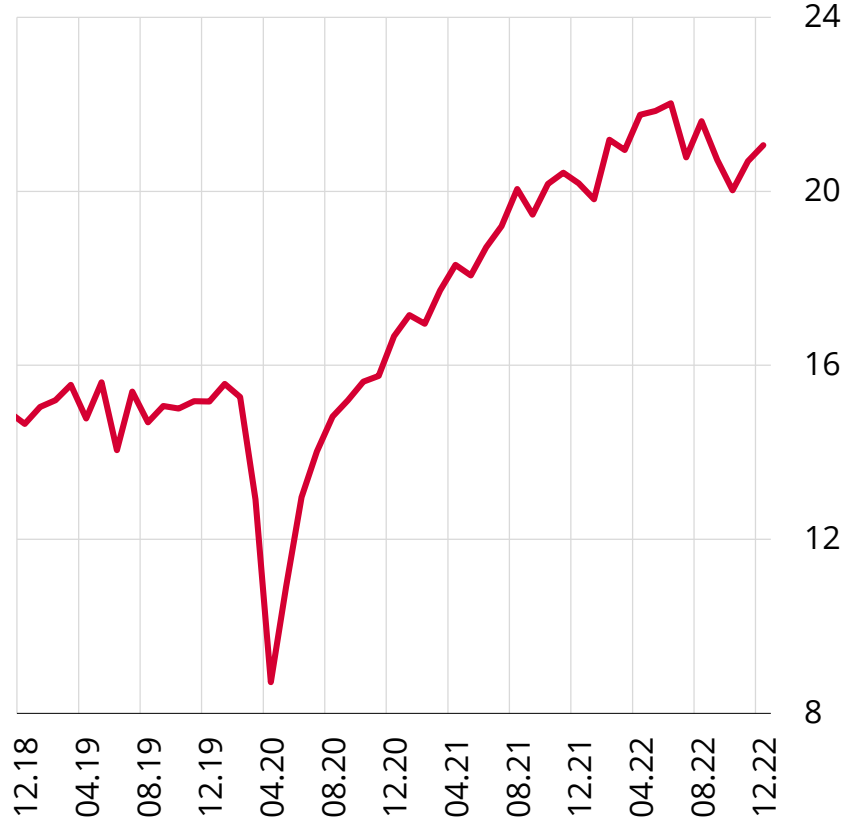


Source: CBRT, TURKSTAT

Last Observation: November 2022

External Trade

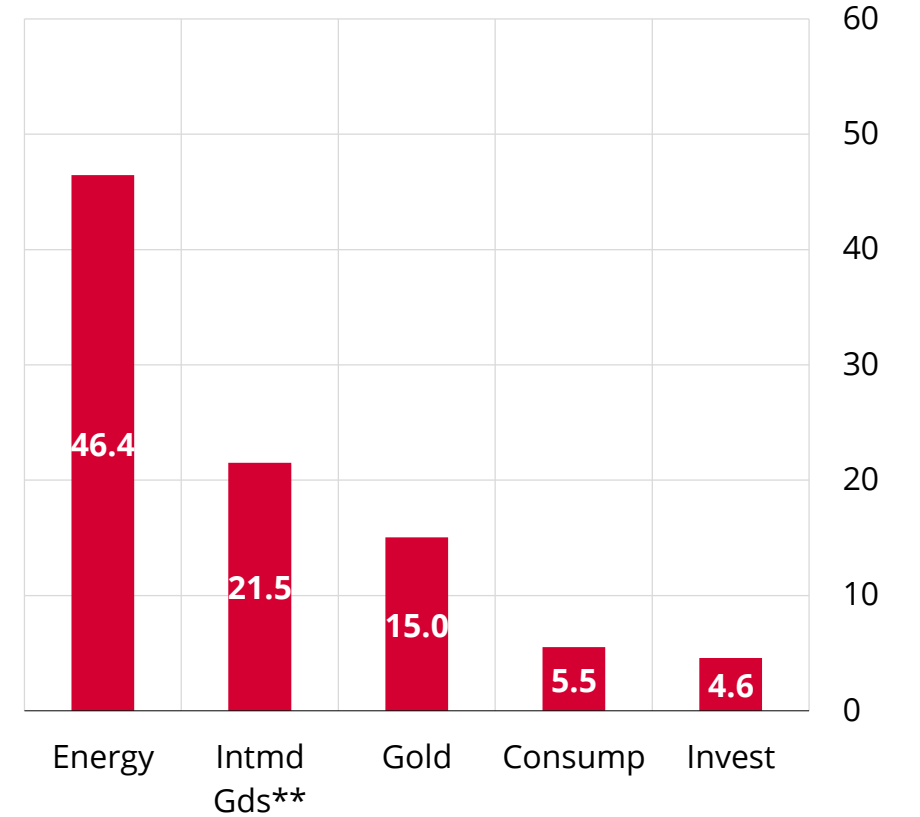
Exports*
(Seasonal and Calendar Adjusted, Billion USD)



Source: CBRT, Ministry of Trade, TURKSTAT Last Observation: December 2022

* Provisional data for December 2022.

2022-2021 Change in Imports*
(Billion USD)



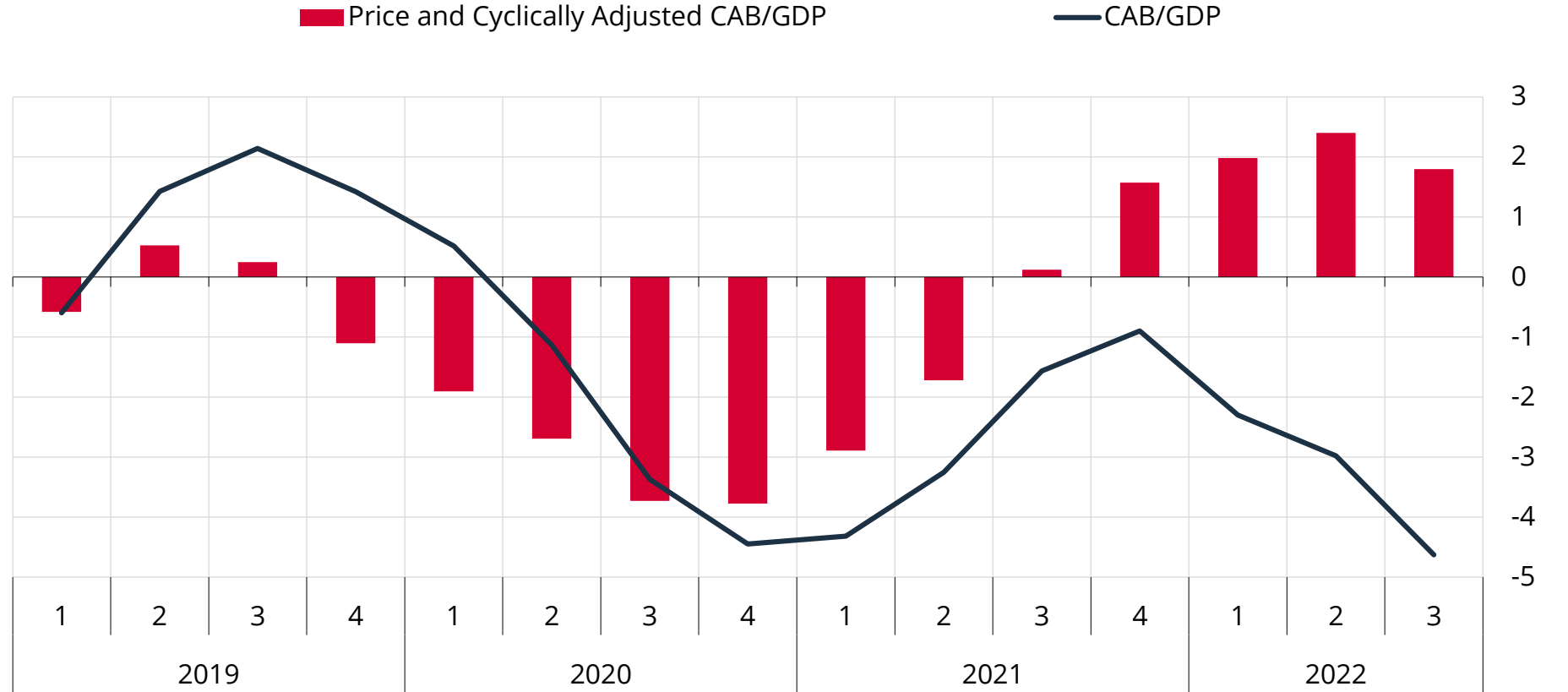
Source: CBRT, Ministry of Trade, TURKSTAT Last Observation: December 2022

* Provisional data for December 2022.

** Excluding gold and energy.

Structural Current Account Balance

Current Account Balance* (12-Month Cumulative, %)



Source: CBRT, TURKSTAT

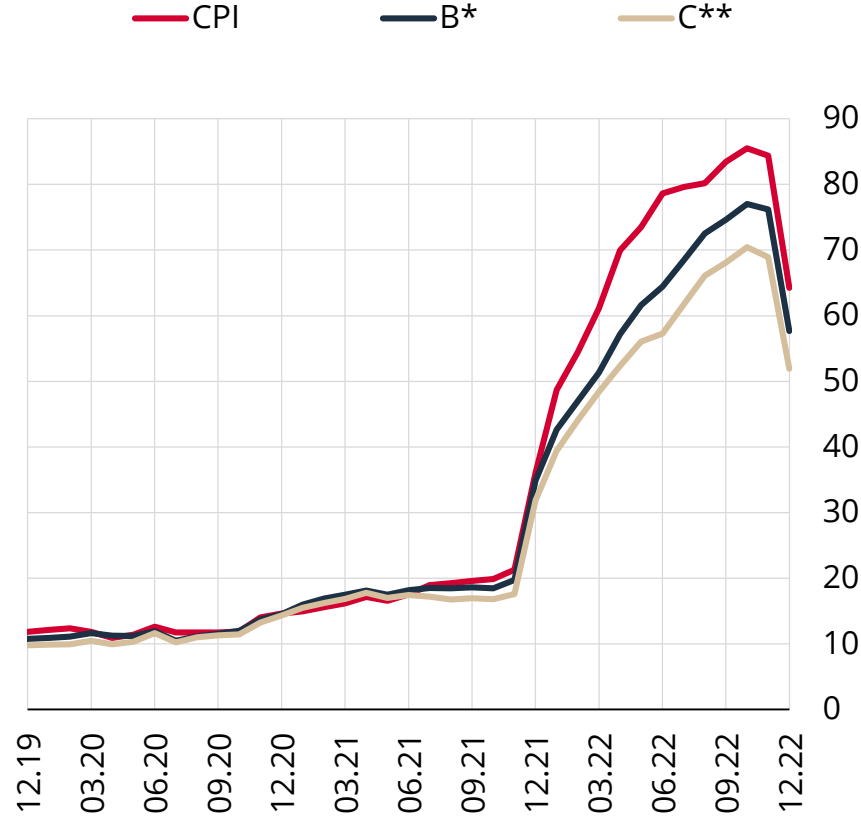
Last Observation: 2022Q3

* CAB: Current Account Balance.

INFLATION

Inflation

CPI and Core Indicators
(Annual % Change)



Source: CBRT, TURKSTAT

Last Observation: December 2022

* 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)

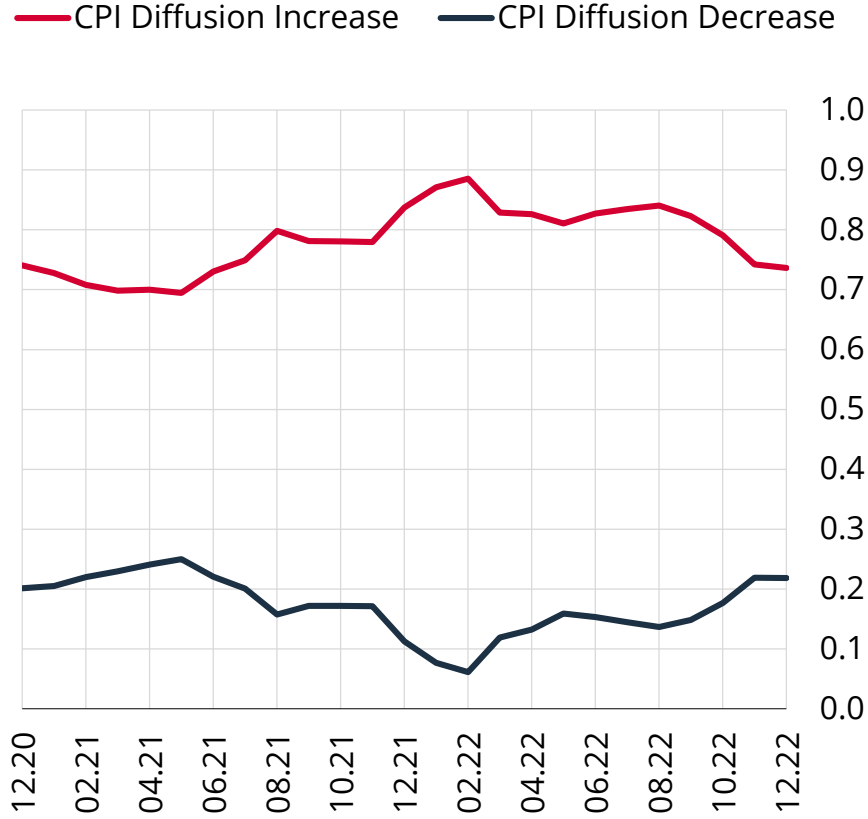
	Contributions to Annual Inflation	Shares of Contributions in Annual Inflation
Groups Sensitive to Exogenous Shocks		
(I) Food-Alcohol-Tobacco	22.5	35.0
(II) Energy	12.0	18.6
(III) Core Goods and Gold	15.5	24.1
I+II+III	50.0	77.8
(IV) Services	14.3	22.2
Total (I+II+III+IV)	64.3	100

Source: CBRT, TURKSTAT

Last Observation: December 2022

Underlying Inflation Trend

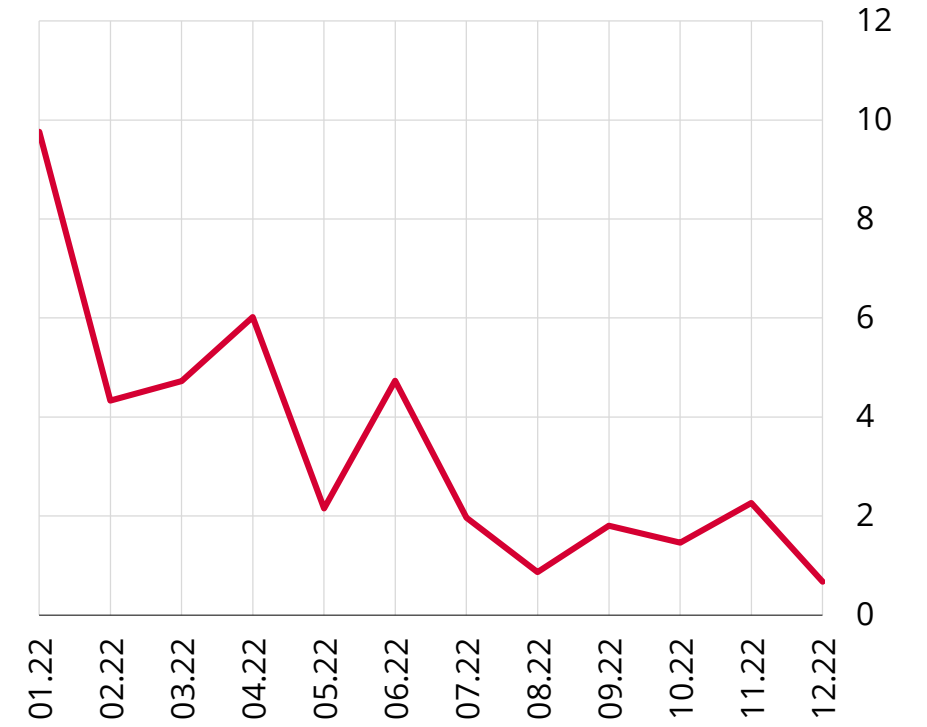
CPI Diffusion (Seasonally Adjusted, 3-Month Average)



Source: CBRT

Last Observation: December 2022

Monthly Inflation and Historical Average Spread* (% Points)



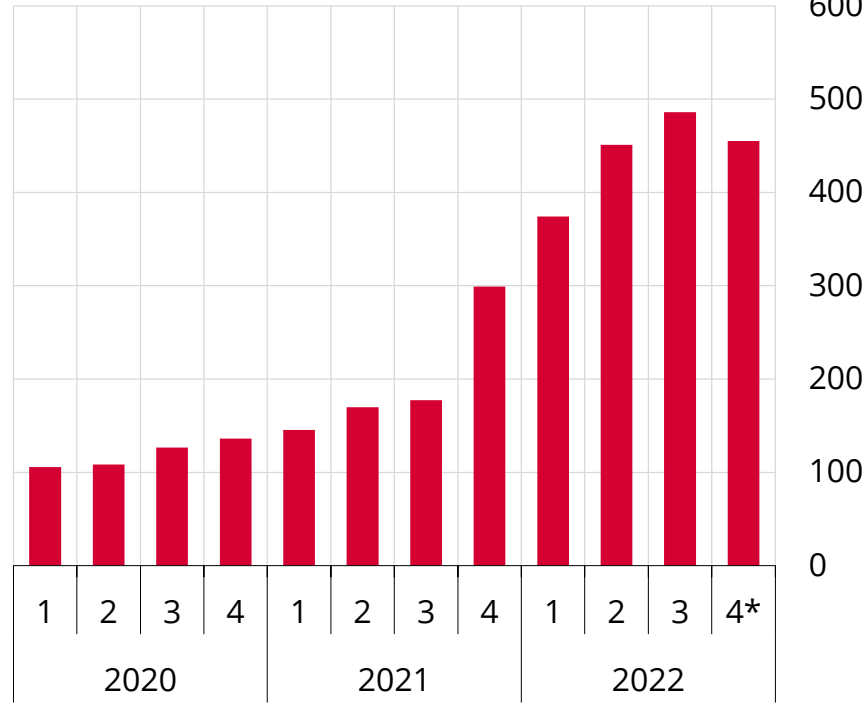
Source: CBRT, TURKSTAT

Last Observation: December 2022

* Spread between monthly CPI inflation and average monthly inflation for the 2011-2020 period.

Import Costs

Import Unit Value Index
(2019Q4=100, TL)



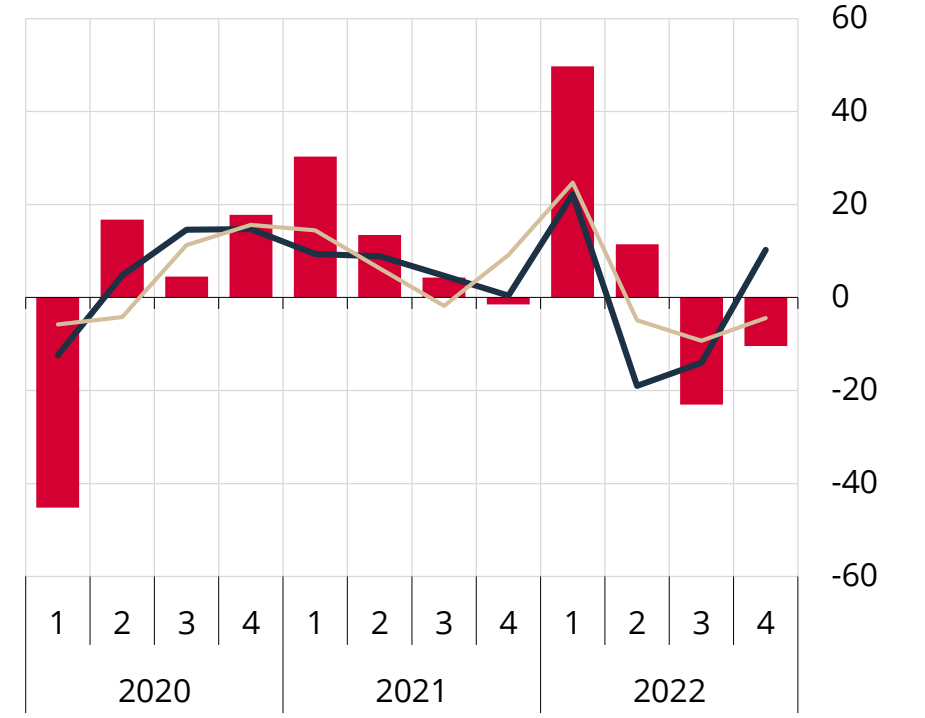
Source: TURKSTAT

Last Observation: November 2022

* As of November.

Commodity Price Indices
(Quarterly % Change)

Energy Industrial Metals Agriculture

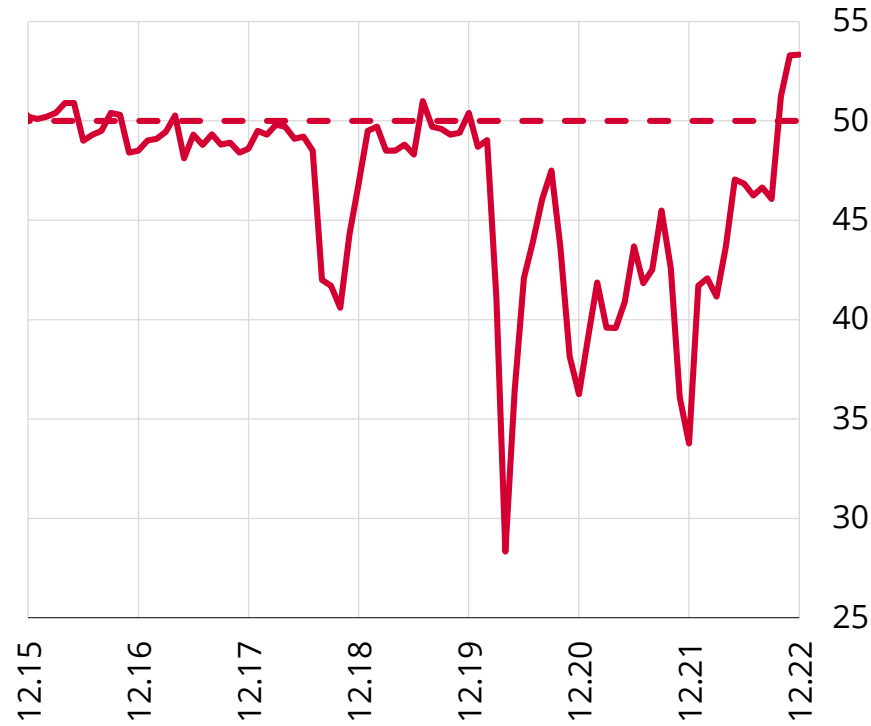


Source: Goldman Sachs

Last Observation: December 2022

Supply Constraints

PMI Manufacturing Industry Delivery Times* (Seasonally Adjusted)

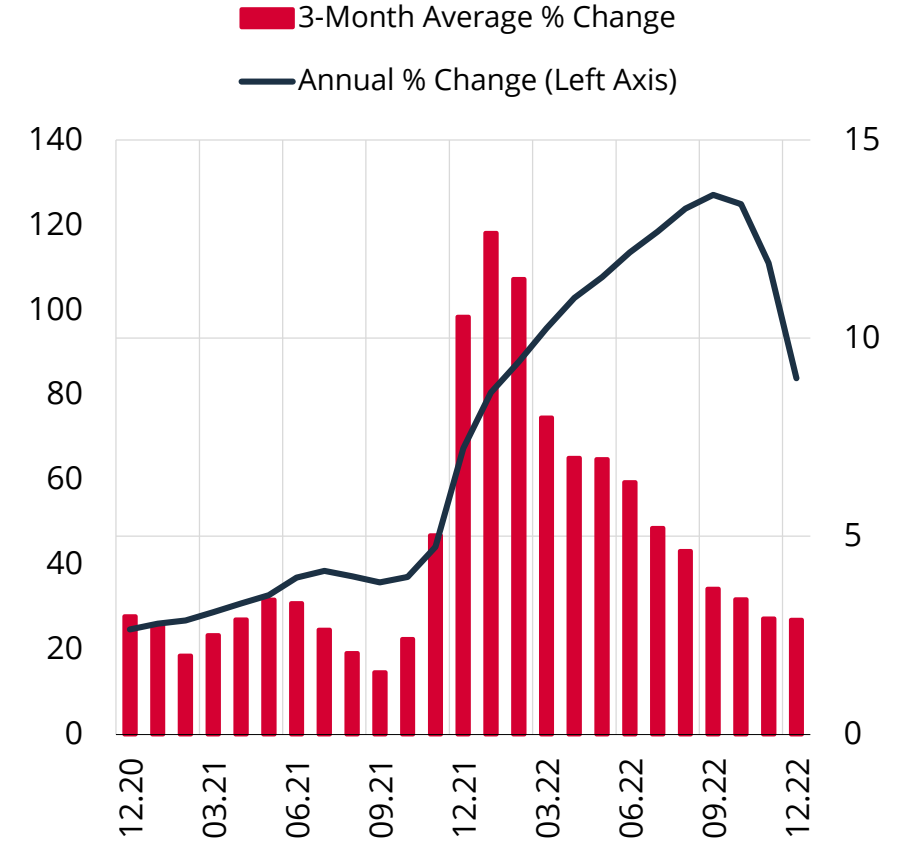


Source: S&P Global

Last Observation: December 2022

* Lower values indicate longer delivery times. The dashed line shows the threshold value.

Manufacturing Prices excl. Petroleum and Base Metals



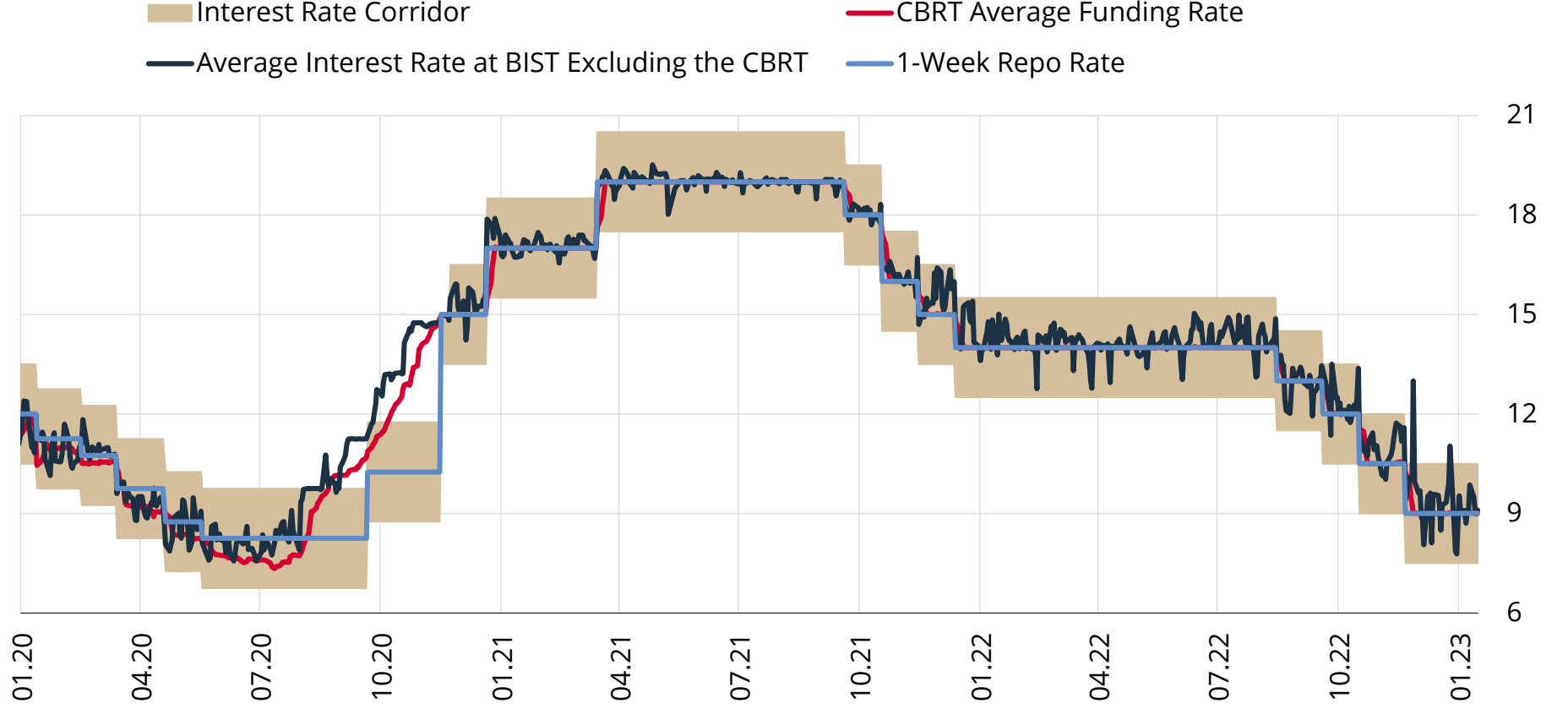
Source: CBRT, TURKSTAT

Last Observation: December 2022

MONETARY POLICY

Interest Rates

CBRT Rates and Short-Term Interest Rate (%)

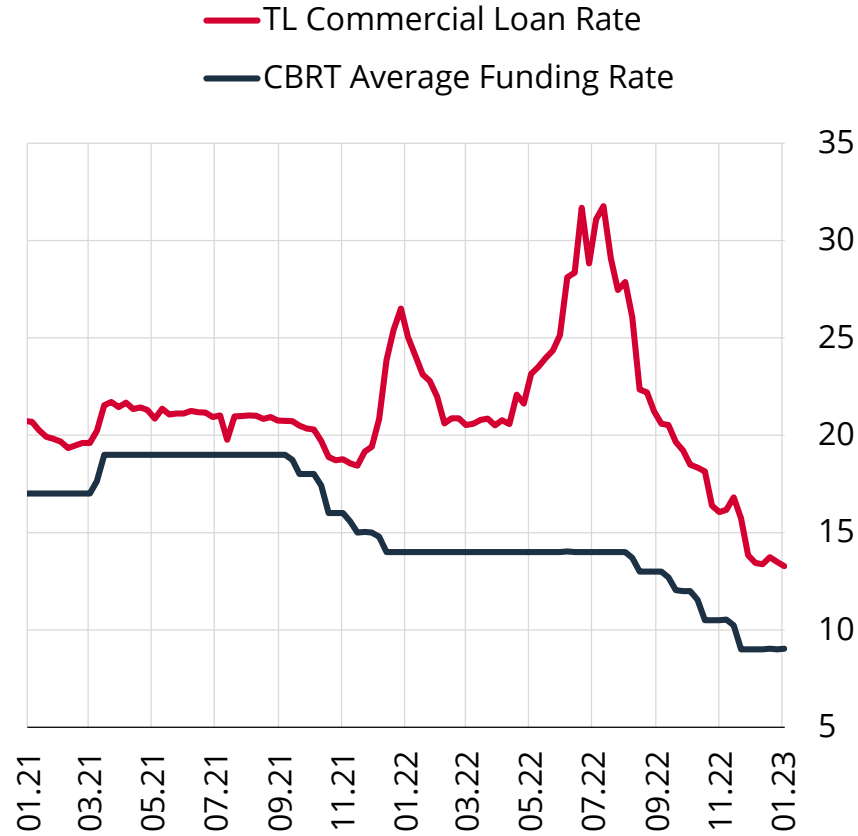


Source: BIST, CBRT

Last Observation: January 19, 2023

Monetary Transmission Effectiveness

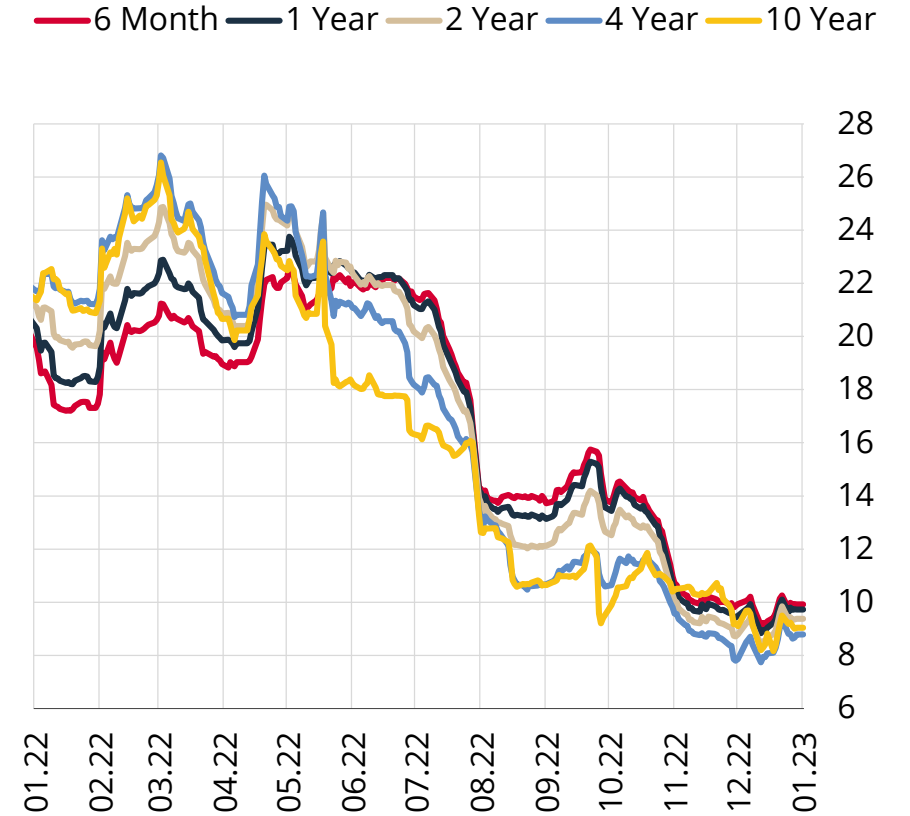
TL Commercial Loan Rates (%)



Source: CBRT

Last Observation: January 13, 2023

GDSS Yields (%)



Source: Bloomberg

Last Observation: January 23, 2023

Targeted Loan Developments

Credits (Adjusted for Exchange Rate, Billion TL)

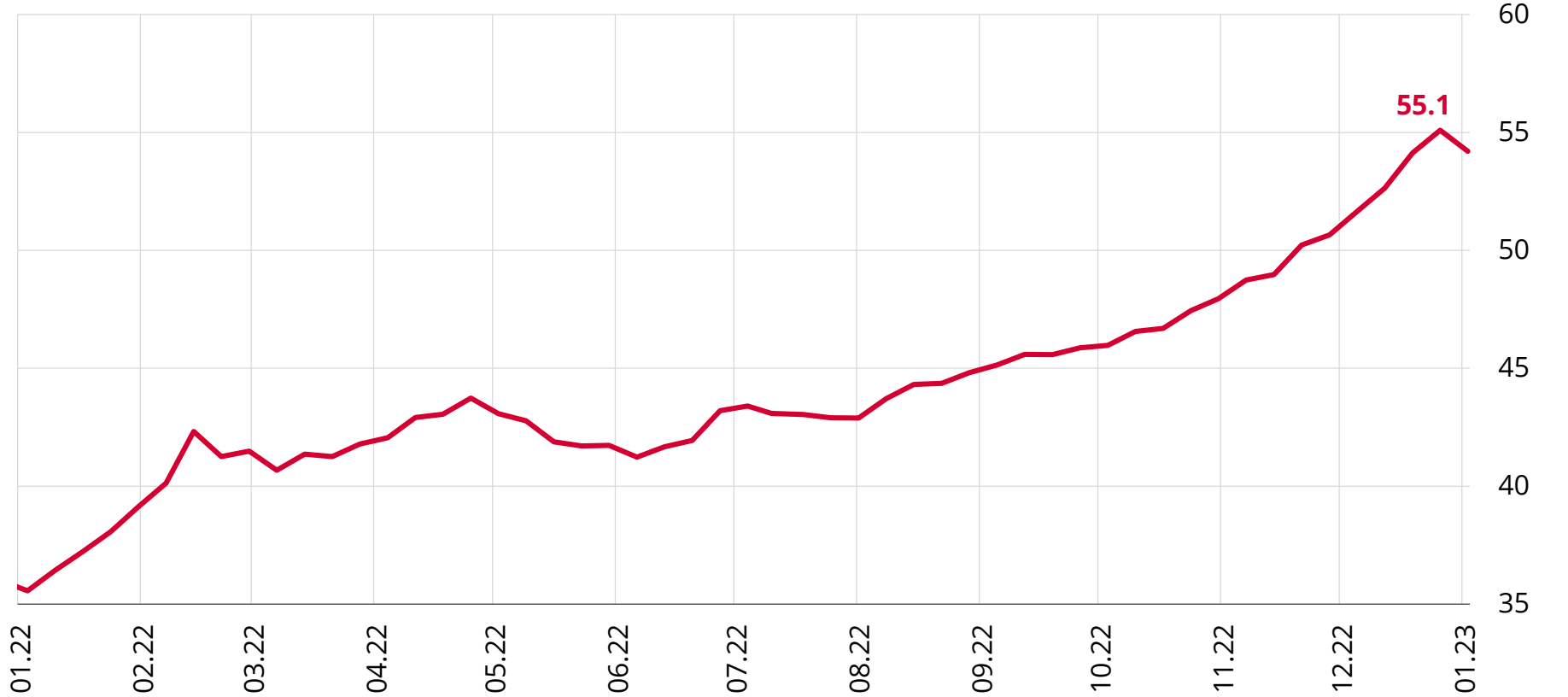
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Dec
Total Credits (2022)	55	138	211	181	181	194	67	151	155	167	188	246	1934
Total Credits (2021)	1	33	60	3	5	49	-1	29	86	24	98	78	465
Total Firm (2022)	49	124	181	150	109	134	42	105	113	118	116	148	1390
Total Firm (2021)	-1	26	42	1	2	27	-14	7	69	18	69	52	298
TL Firm (2022)	53	108	177	161	151	170	79	153	163	147	158	206	1726
TL Firm (2021)	-10	18	31	4	3	29	-10	38	34	24	83	72	316
- Large Firm (2022)	43	84	66	74	89	92	47	81	81	72	59	51	839
- Large Firm (2021)	-6	10	20	4	4	16	-6	24	17	15	42	48	188
- SMEs (2022)	10	25	111	87	62	78	31	71	82	76	99	155	887
- SMEs (2021)	-4	8	11	0	-1	13	-4	14	16	9	40	25	127

Source: CBRT

Last Observation: December 30, 2022

Deposit Liraization

Total TL Deposit Ratio* (%)



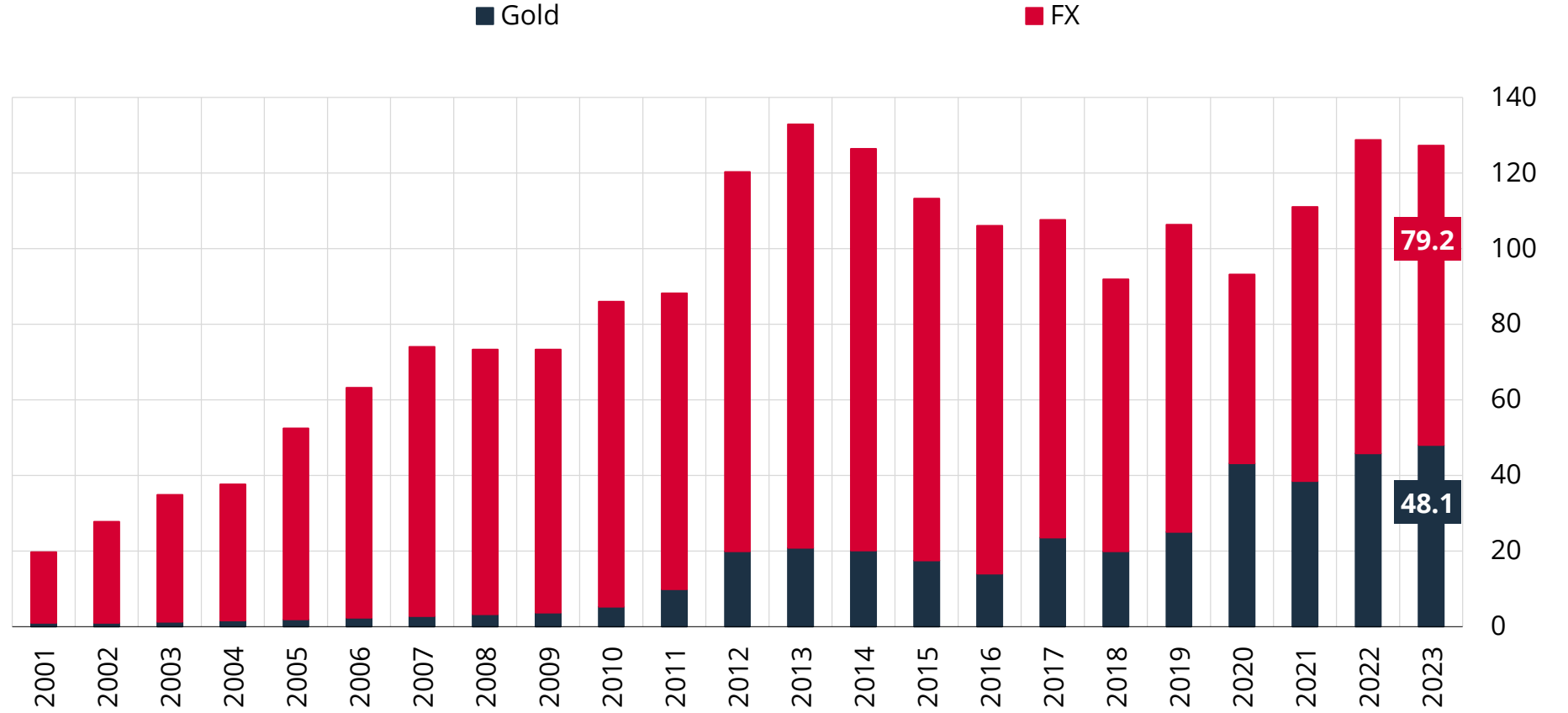
Source: BRSA, CBRT

Last Observation: January 6, 2023

* FX deposits of non-residents are not included in the calculation of TL deposit ratio. In addition, deposits in official institutions, institutions within the scope of the Public Treasurer's regulation, domestic banks, CBRT, Treasury and banks established by international agreement in Türkiye are excluded.

International Reserves

CBRT Reserves (Billion USD)



Source: CBRT

Last Observation: January 13, 2023

MEDIUM-TERM PROJECTIONS

Revisions in Main Assumptions

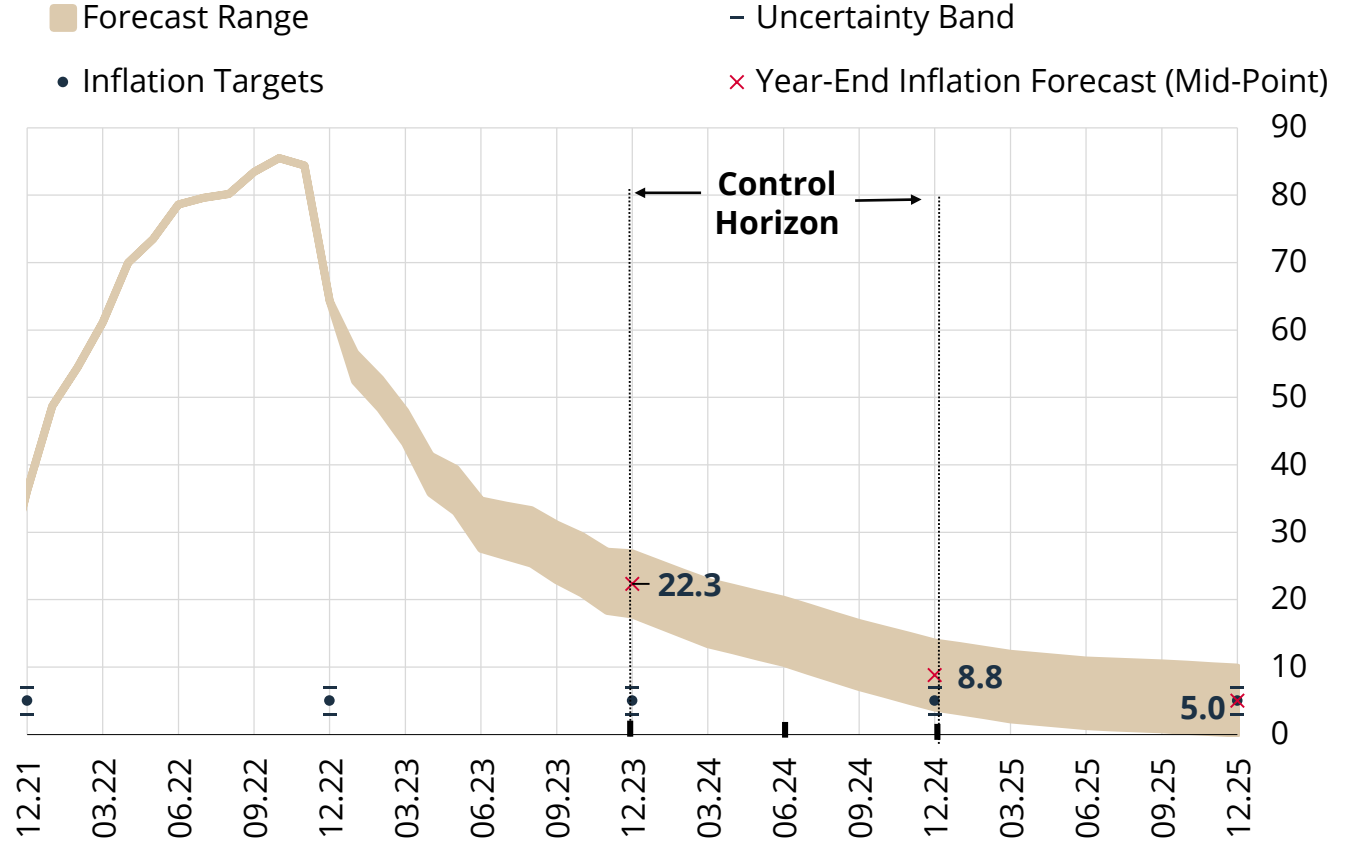
		October 2022	January 2023
Export-Weighted Global Production Index (Average Annual % Change)	2023	1.8	1.3
	2024	-	2.5
Oil Prices (USD, Annual Average)	2023	79.3	80.8
	2024	-	77.3
Import Prices (USD, Average Annual % Change)	2023	-9.2	-8.5
	2024	-	2.3
Energy Prices (Year-End % Change)	2023	23.2	13.9
	2024	-	10.8
Food Prices (Year-End % Change)	2023	22.0	22.0
	2024	-	11.5

Inflation Forecasts

Accordingly, inflation is expected to be

- Between 17.8% and 26.9% with a mid-point of 22.3% at end-2023
- Between 4.0% and 13.7% 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.

Inflation Forecasts

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

	2023
October 2022 Forecast (%)	22.3
January 2023 Forecast (%)	22.3
Forecast Revision as Compared to 2022-IV Period	0.0
Sources of Forecast Revisions (% Point)	
Import Prices	+0.1
Administered Prices	-0.2
Unit Labor Cost	+1.5
Underlying Trend of Inflation and Expectations	-1.4

Source: CBRT

OVERVIEW

Overview

- Our country implements the Turkish Economy Model, which envisages investment, employment, production and export-oriented development for the continuation of sustainable growth.
- In 2022, all policy tools were reviewed, and a monetary policy framework was built, which would best suit the needs and conditions of our country.
- Within the Liraization Strategy, policy rate was used jointly tools regarding liquidity, collateral, reserve requirements and international reserves in the most effective way with a holistic approach.
- To reduce inflation and achieve price stability on a permanent basis, policies were implemented to support production and investments, and to expand the current account surplus capacity.
- Within the targeted loan approach, a gradually increasing credit volume was achieved in favor of firms, particularly SMEs.
- Increasing the share of the Turkish lira in the assets and liabilities of the households, firms and banking sector and ensuring that the financial system has a Turkish lira-weighted structure is supported within the Liraization Strategy.

Overview

- Climate change issues are closely monitored due to their implications for the economy and the financial system.
- The CBRT contributed to “2053 Net Zero Emissions” target and “Green Development” vision within the framework of its own duties and responsibilities.
- The CBRT actively participates in national and international activities on climate change.
- In the upcoming period, the CBRT will continue to monitor the effects of climate change on the economy and the financial system and cooperate with all stakeholders on this issue.
- The first payments were made successfully in the Digital Turkish Lira Network.
- GEÇİT infrastructure and SİPER service were put into service.
- The CBRT will expand the Digital Turkish Lira Collaboration Platform and carry out pilot tests with broad participation by moving on to advanced phases.

Overview

- In 2023, all tools will continue to be used in the most effective way to achieve and maintain price stability, which is the main objective.
- Targeted loan implementations will be improved and maintained in order to support investment, employment, production and exports.
- The Liraization Strategy will be strengthened to increase the weight of the Turkish lira on a permanent basis.
- The steady increase in international reserves will continue by maintaining diversification of sources in reserve management.
- In an environment where cost shocks are fully reflected, predictability in exchange rates increase, profitability performances of companies have improved and financing costs are supported, there is no ground for the continuation of high price increases.
- The price stability objective will be achieved on a permanent basis by bringing inflation down to 20% by the end of 2023 and below 10% by the end of 2024 in line with the projections.



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