

Briefing on 2019-II Inflation Report

APRIL 30, 2019 | ISTANBUL

April 2019 Inflation Report: Main Sections

- ▶ Overview
- ▶ International Economic Developments
- ▶ Inflation Developments
- ▶ Supply and Demand Developments
- ▶ Financial Conditions and Monetary Policy
- ▶ Public Finance
- ▶ Medium Term Projections

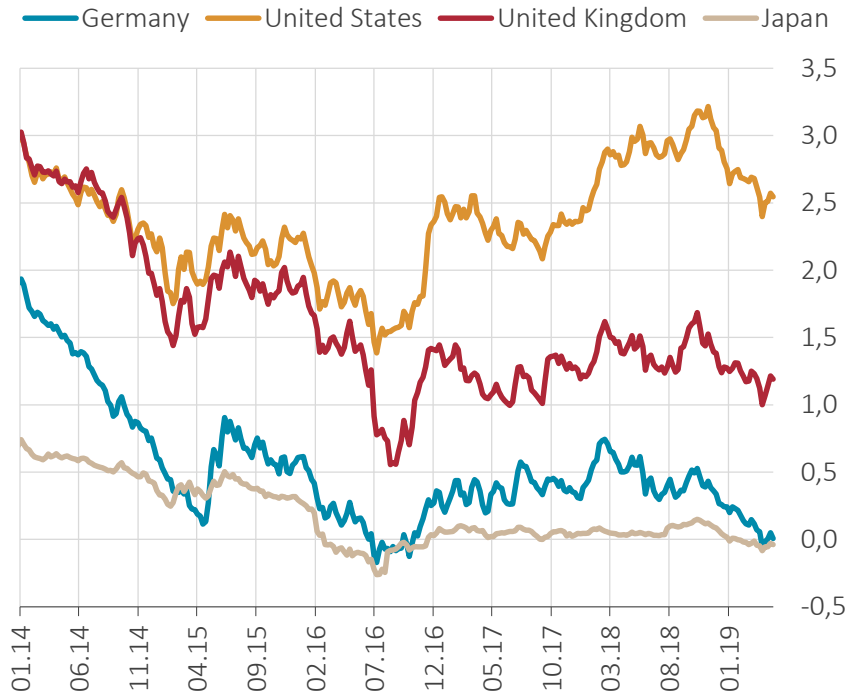
April 2019 Inflation Report: Boxes

- ▶ Euro Area Economic Outlook
- ▶ Drivers of Inflation Dynamics in the Recent Period
- ▶ Reflections of Base Effects on Consumer Price Inflation
- ▶ Sources of the Rapid Improvement in the Current Account Balance
- ▶ Short-Term Forecasts of Domestic Demand
- ▶ Heat Map for Economic Activity in Turkey
- ▶ A Regional Breakdown of the Determinants of Exports
- ▶ A Comparative Analysis of the Slope of the Yield Curve
- ▶ CBRT International Reserve Developments

Global Developments and Portfolio Flows

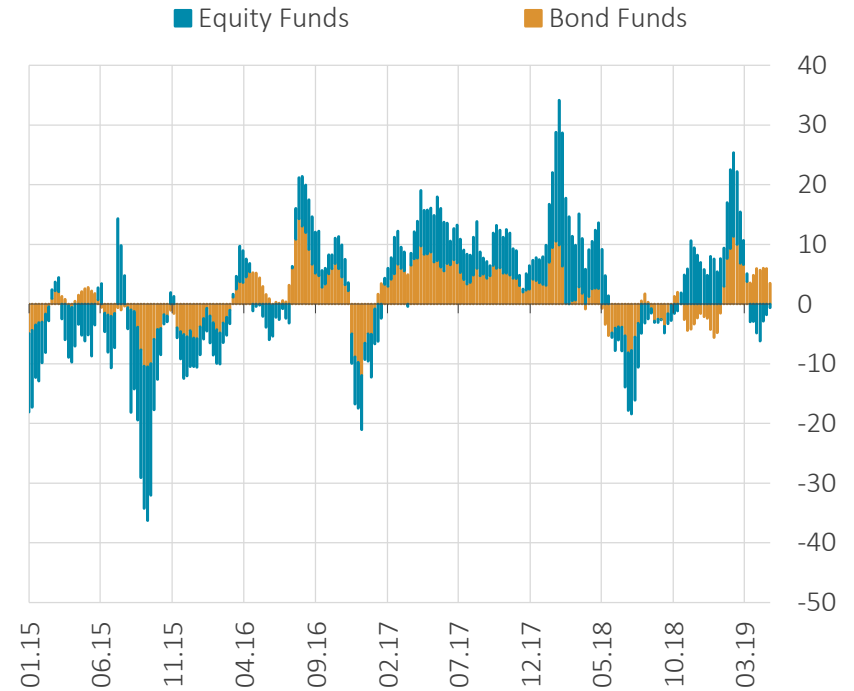
- ▶ The signals that the monetary policy normalization process will slow down in advanced economies led to a decline in long-term bond yields.
- ▶ Portfolio flows to emerging economies have been volatile.

10-Year Bond Rates (%)



Source: Bloomberg.

Portfolio Flows to Emerging Economies (4-Week Cumulative, Billion USD)



Source: EPFR.

Domestic Economic Outlook

- ▶ In the first quarter of 2019, there was a partial recovery in economic activity compared to the previous period.
- ▶ Due to the tightening in financial conditions, aggregate demand conditions continued to have a downward effect on inflation.
- ▶ With the strong support of net exports in this period, the rebalancing trend in the economy has continued.
- ▶ The improvement in the current account balance is expected to continue in the upcoming period.

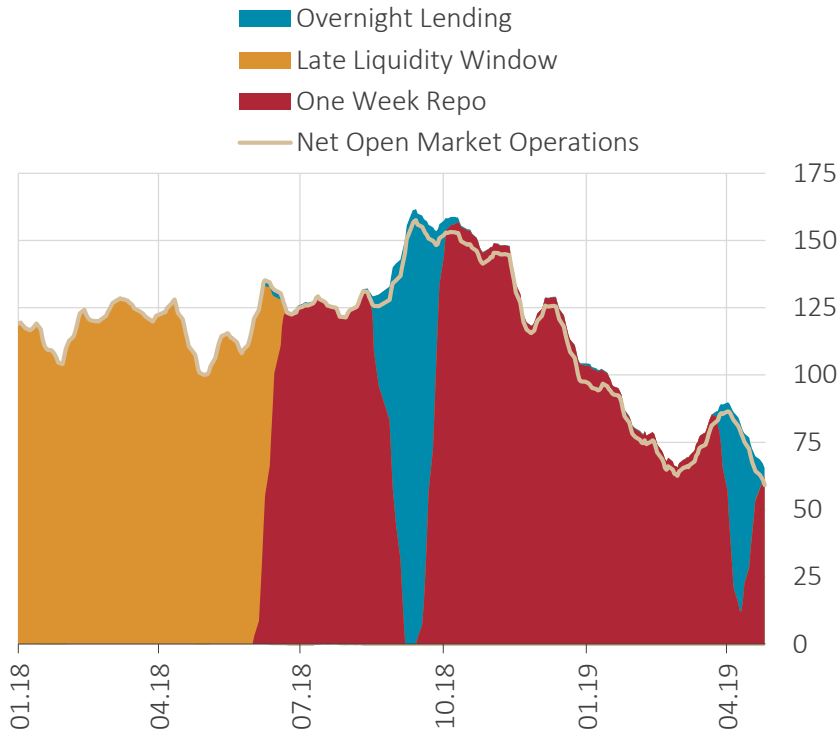
Monetary Policy and Financial Conditions



Monetary Policy

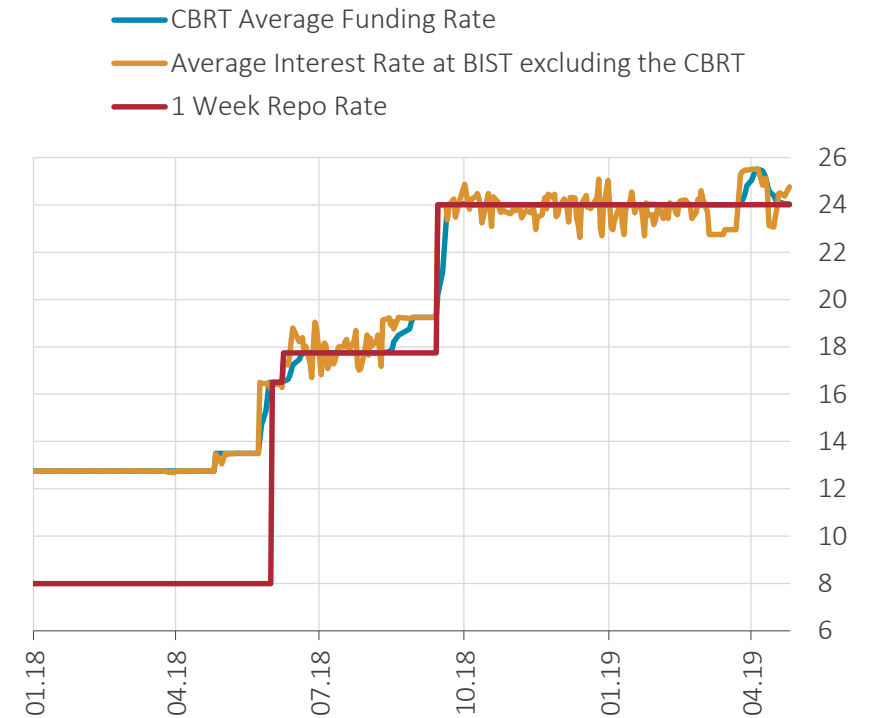
► Tight monetary policy stance has been maintained in view of the risks on price stability.

CBRT Open Market Operations (2-Week Moving Average, Billion TL)



Source: CBRT.

Short-Term Interest Rates (%)

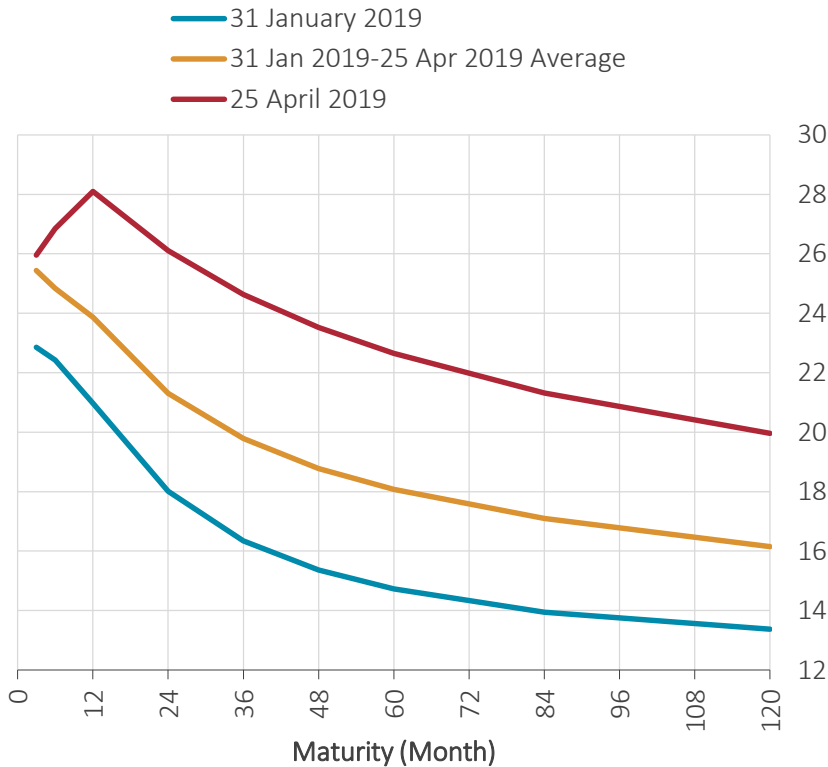


Source: BIST, CBRT.

Monetary Conditions

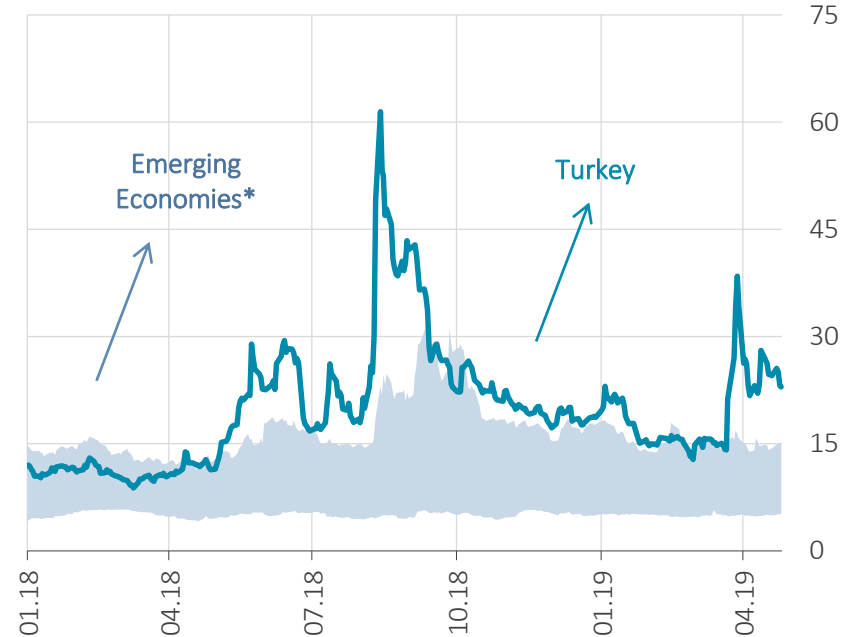
► Currency swap rates and the implied volatility of the Turkish lira increased in the recent period.

Yield Curve on Cross Currency Swaps (%)



Source: Bloomberg.

Implied FX Volatility* (1 Month, %)

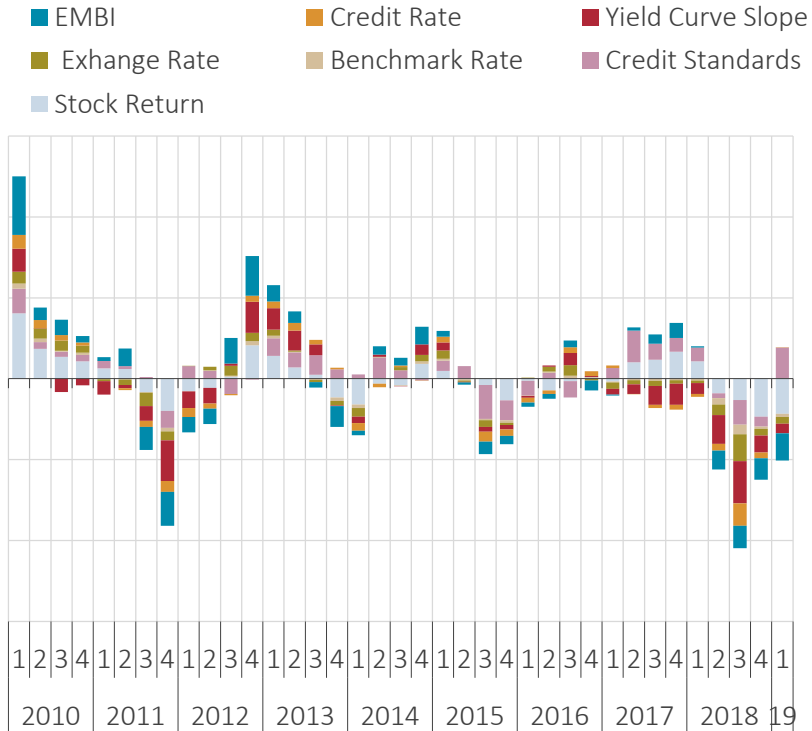


Source: Bloomberg.

Financial Conditions

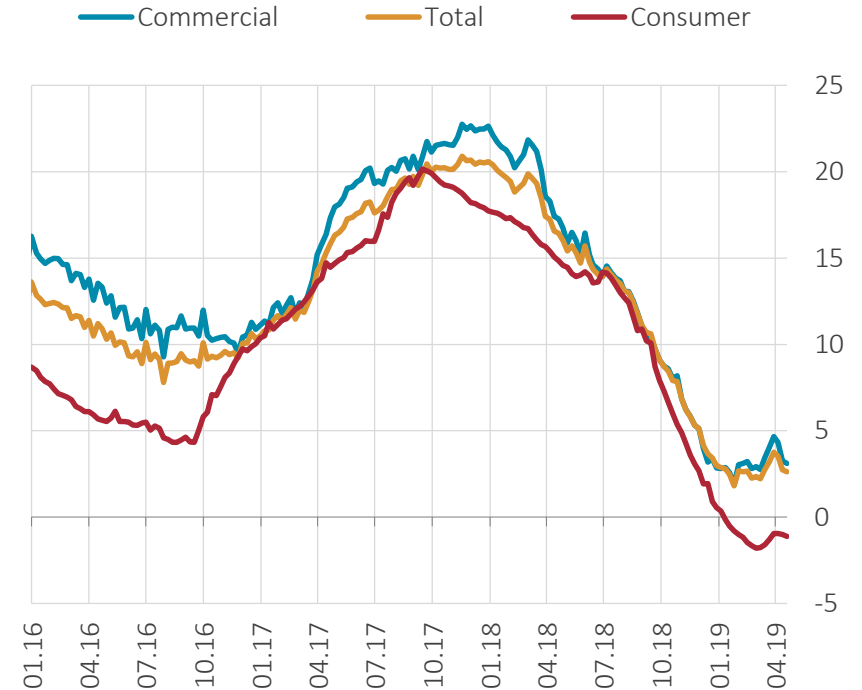
▶ While financial conditions remained tight, a moderate increase in credit growth was recorded.

Financial Conditions and Credit Growth



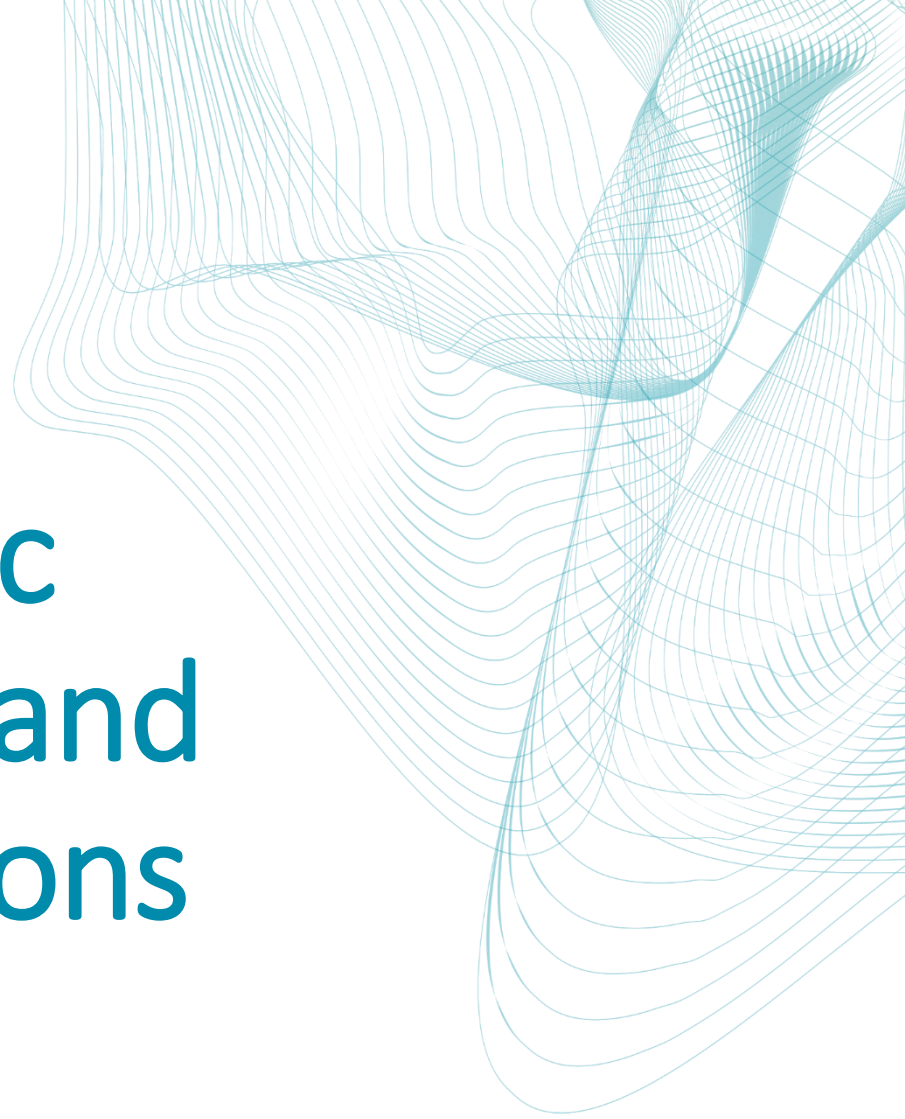
Source: CBRT.

Annual Credit Growth (Adjusted for Exchange Rate, %)



Source: CBRT.

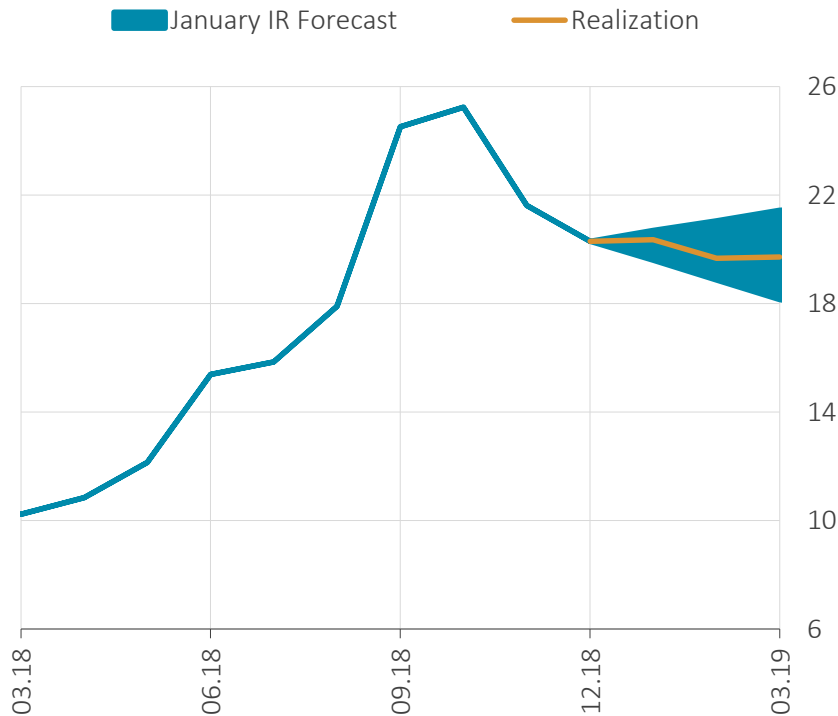
Macroeconomic Developments and Main Assumptions



January 2019 Inflation Report Forecasts and Realizations

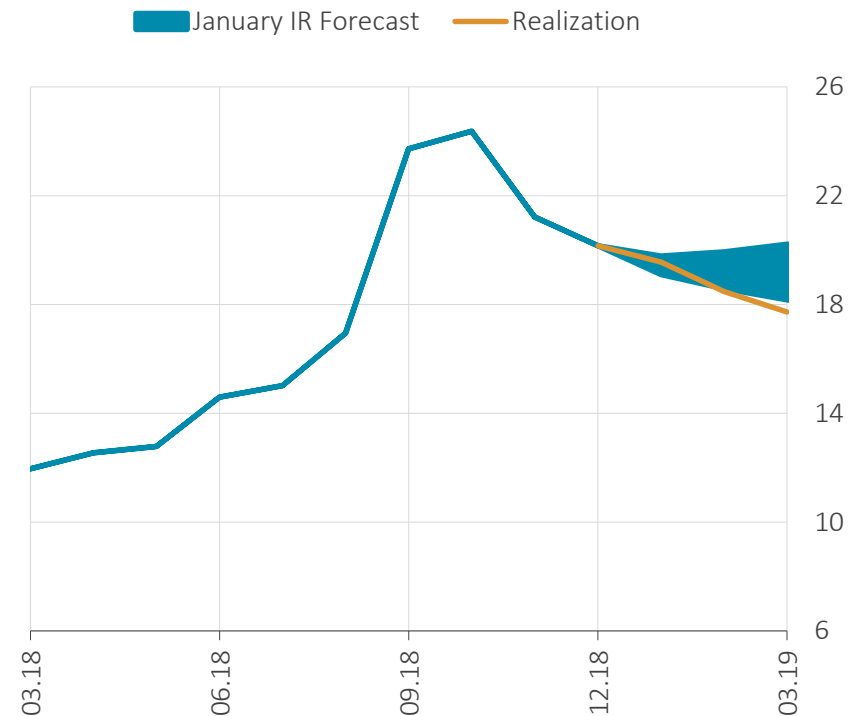
► In the first quarter, inflation was in line with the January 2018 Inflation Report forecasts.

Consumer Inflation* (%)



Source: CBRT, TURKSTAT.

Inflation Excluding Unprocessed Food, Energy, Alcoholic Beverages, Tobacco Products and Gold *(%)

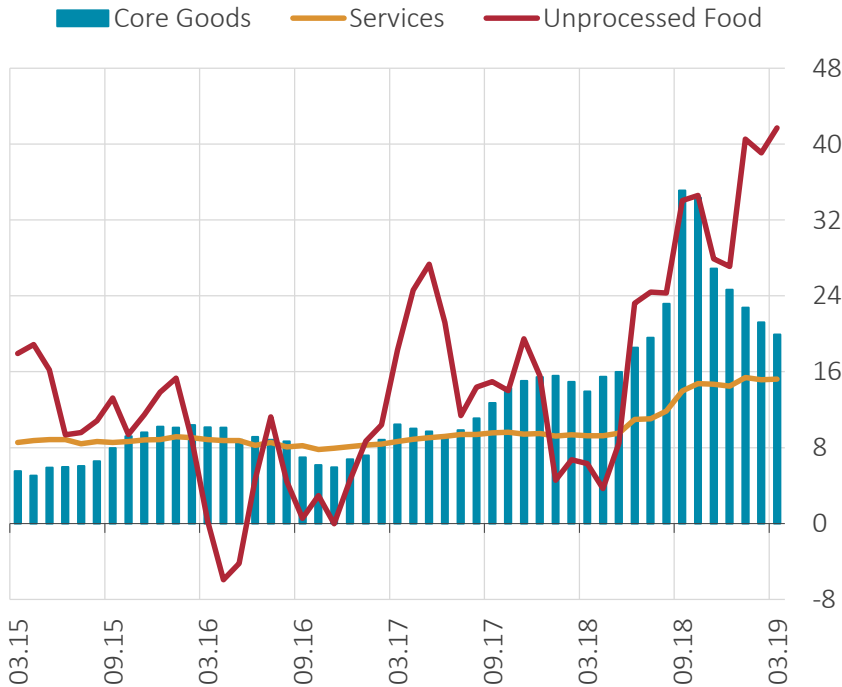


Source: CBRT, TURKSTAT.

Inflation

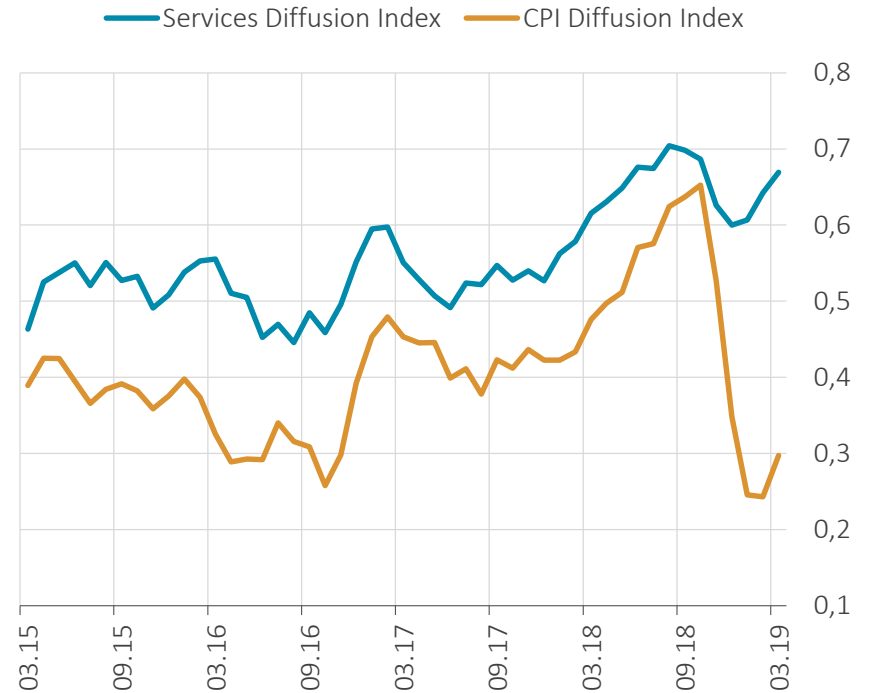
- ▶ Core goods and energy groups were the main drivers of the decline in annual inflation.

CPI Sub-component Prices (Annual % Change)



Source: TURKSTAT.

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

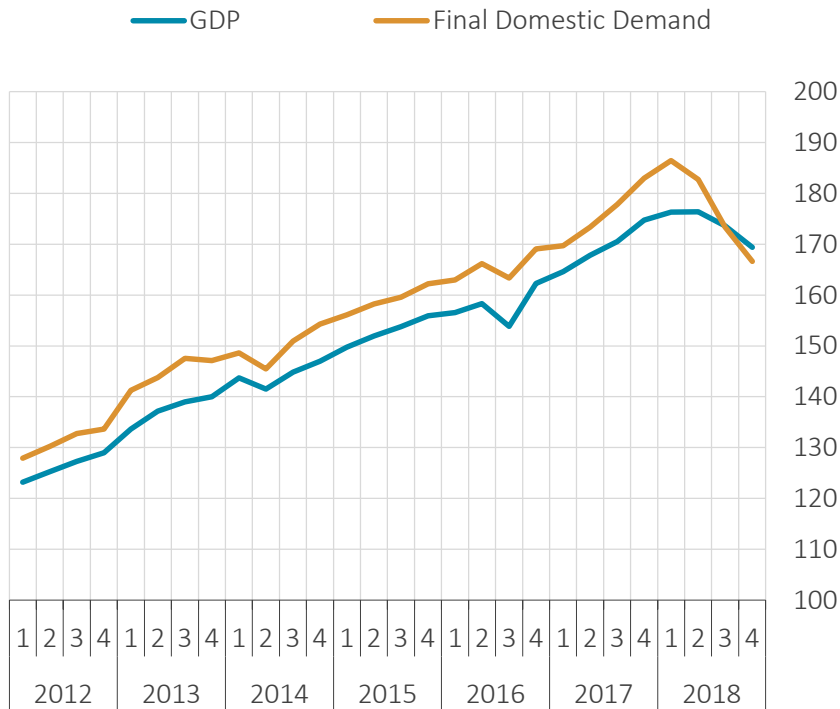


Source: CBRT, TURKSTAT.

Aggregate Demand

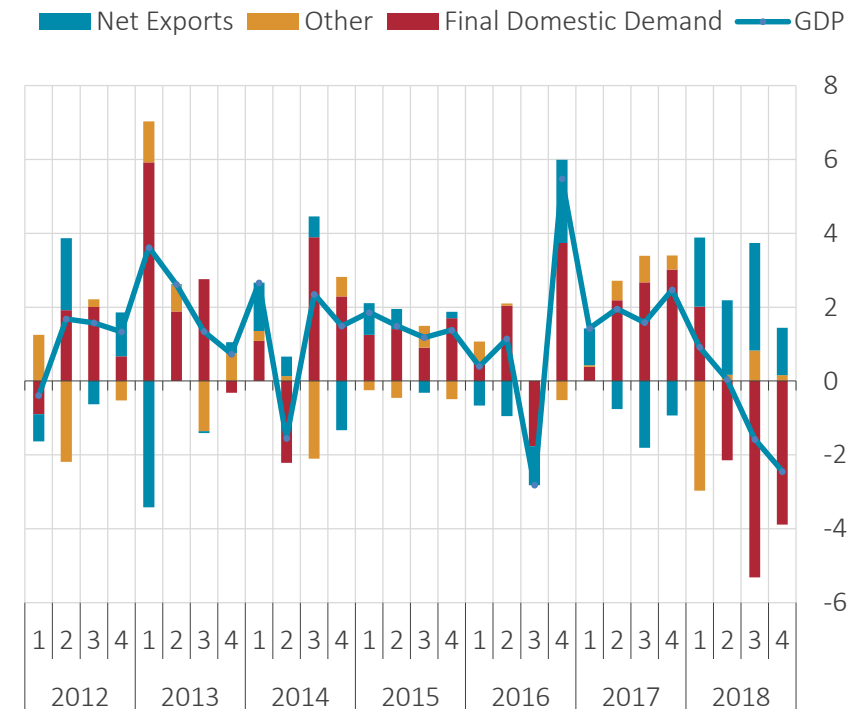
- ▶ Rebalancing process in the economy became more pronounced in the fourth quarter of 2018.

GDP and Final Domestic Demand (Real, Seasonally Adjusted, 2009=100)



Source: CBRT, TURKSTAT.

Contribution of Demand Components to Quarter-on-Quarter GDP Growth* (% Point)

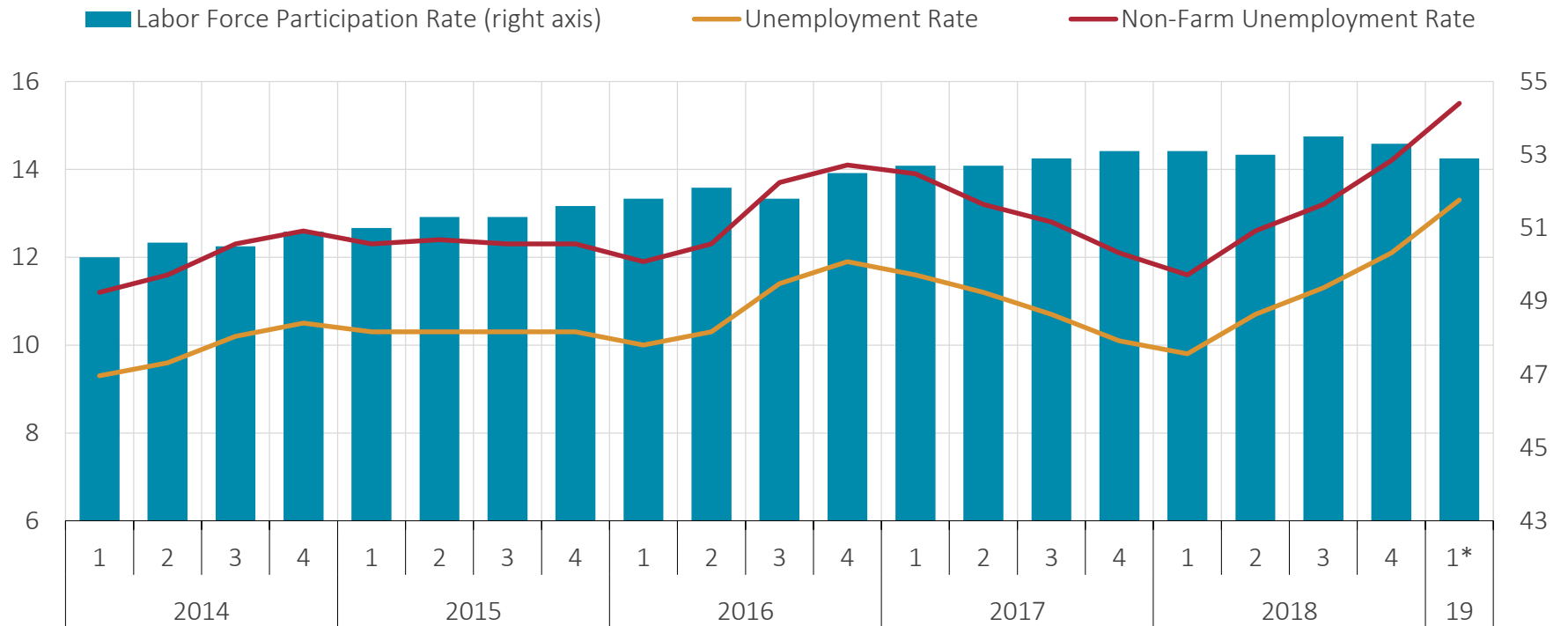


Source: CBRT, TURKSTAT.

Labor Market

- ▶ Unemployment rates continued to increase in the January 2019 period as a result of the slowdown in economic activity.

Unemployment Rates (Seasonally Adjusted, %)



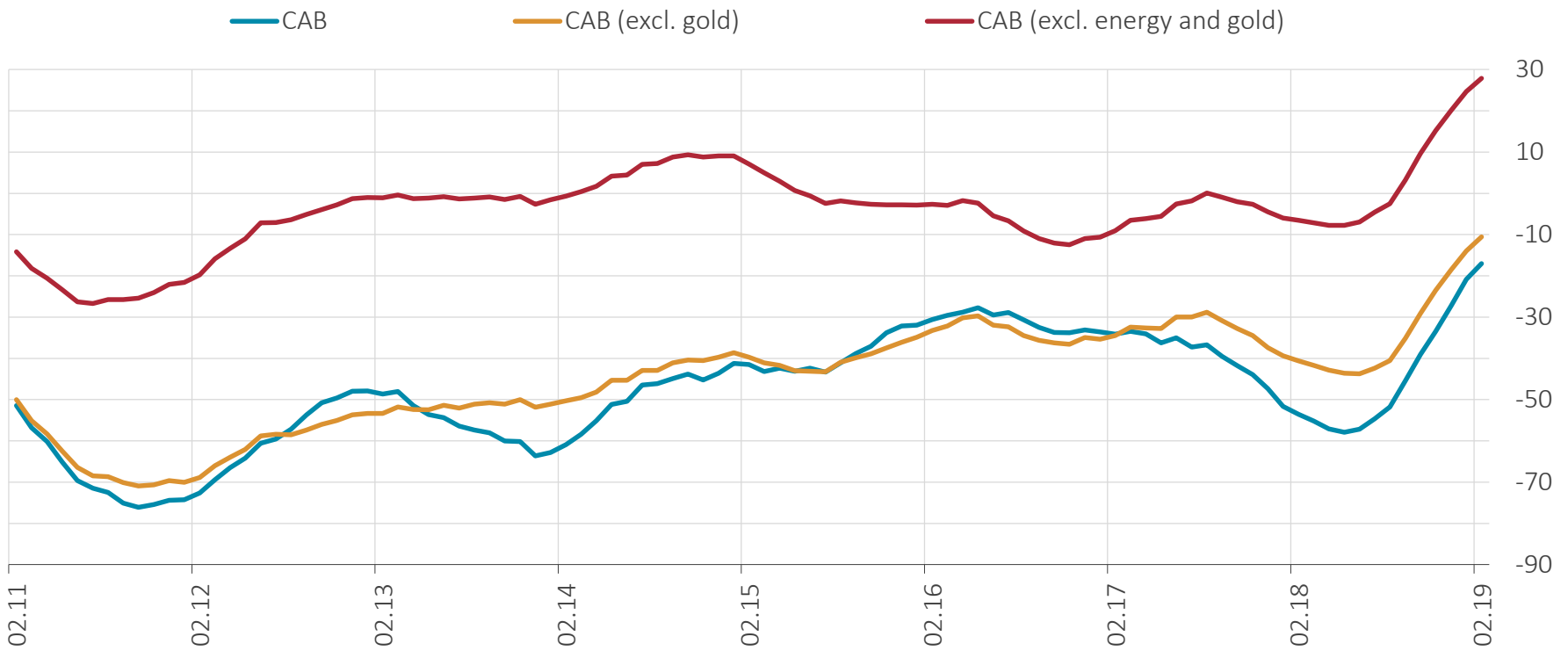
Source: TURKSTAT.



External Balance

- ▶ The improvement in the current account balance continues at an accelerated pace.

Current Account Balance (CAB) (12-Month Cumulative, Billion USD)



Source: CBRT.

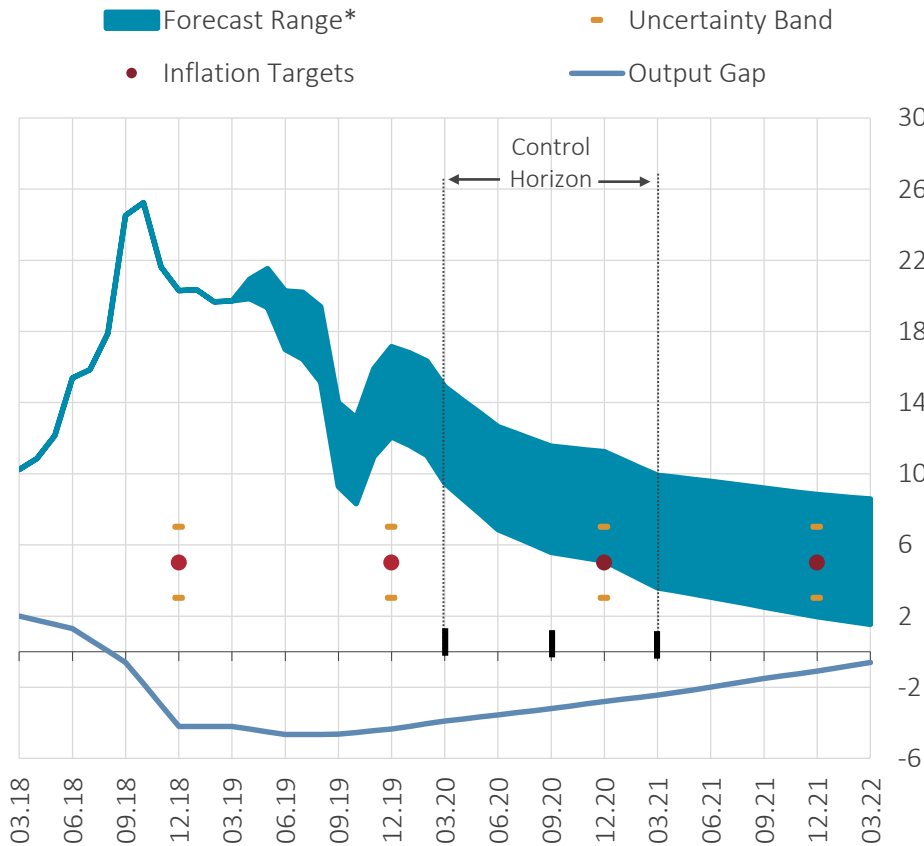
Revision in Assumptions

		January 2019	April 2019
Output Gap	2018 Q4	-4.2	-4.2
	2019 Q1	-4.5	-4.2
Export-Weighted Global Production Index (Average Annual Percent Change)	2019	2.28 ⁽¹⁾	2.07
	2020	-	2.37
Oil Prices (Average, USD)	2019	63.1	67.2
	2020	63.8	66.2
Import Prices (USD, Average Annual Percent Change)	2019	-2.2	0.0
	2020	1.5	0.8
Food Prices (End-year Percent Change)	2019	13.0	16.0
	2020	10.0	11.0

(1) As the calculation method of the index has been revised, the assumption of 2019 differs from 2.57 percent, the value published in the January IR. Detailed information is given in Section 2 of the Inflation Report.

Inflation Outlook

Inflation and Output Gap Forecasts* (%)



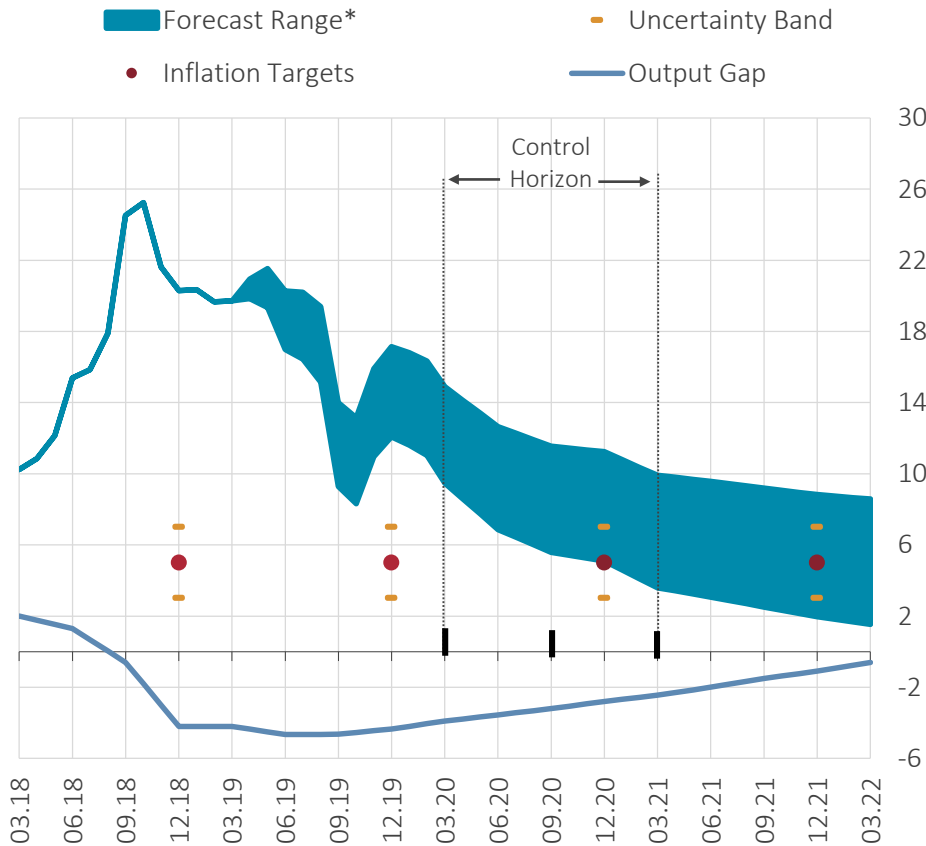
Source: CBRT, TURKSTAT.

- ▶ Under a tight monetary policy stance and enhanced policy coordination focused on bringing inflation down, inflation is projected to converge gradually to the target.
- ▶ Inflation is projected to be 14.6% at end-2019, 8.2% at end-2020 and stabilize around 5% in the medium term.
- ▶ Accordingly, inflation is expected to
 - be between 12.1% and 17.1% (with a mid-point of 14.6%) at end-2019
 - be between 5.1% and 11.3% (with a mid-point of 8.2%) at end-2020
 with 70 percent probability.

*Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

Inflation and Output Gap Forecasts* (%)



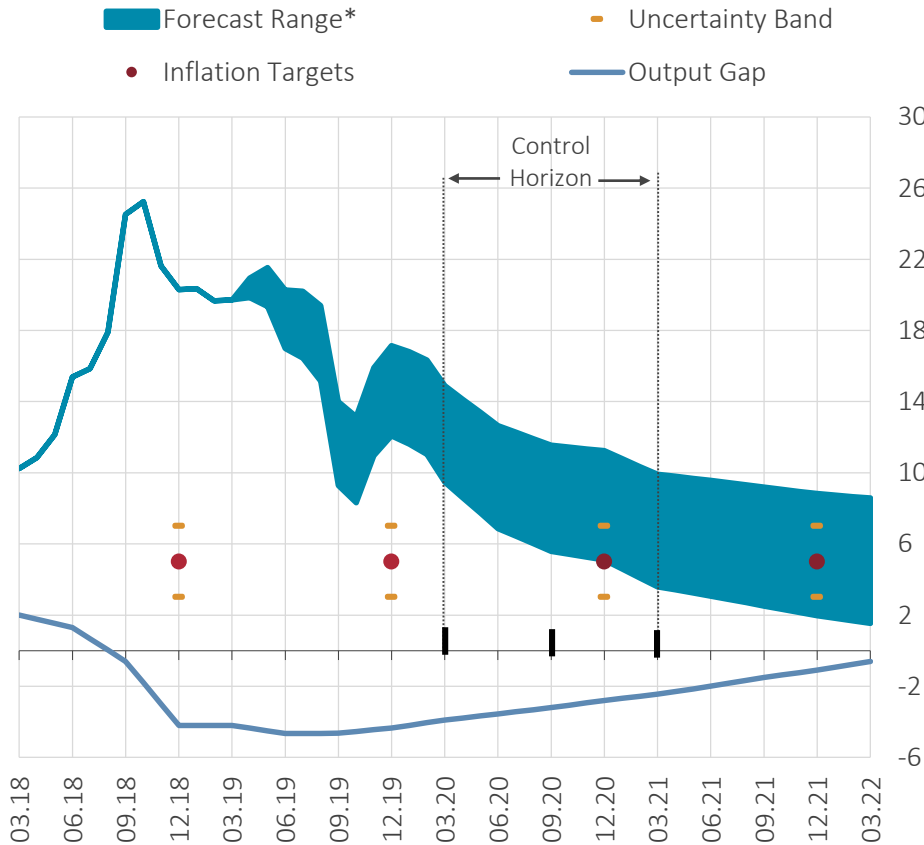
Source: CBRT, TURKSTAT.

- ▶ Upward effects on the 2019 year-end inflation forecasts:
 - +0.7 points from food prices,
 - +0.3 points from TL-denominated import prices.
- ▶ Downward effects on the 2019 year-end inflation forecasts:
 - -0.3 points from the improvement in the underlying trend of inflation,
 - -0.6 points from taxes and administered prices,
 - -0.1 points from output gap.
- ▶ Inflation forecast for 2019 year-end remained unchanged compared to the previous Report, as the downward and upward effects balanced out.

*Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT.

- ▶ Upward effects on the 2020 year-end inflation forecasts:
 - +0.2 points from food prices,
- ▶ Downward effects on the 2020 year-end inflation forecasts:
 - -0.2 points from the improvement in the underlying trend of inflation.
- ▶ Inflation forecast for 2020 year-end remained unchanged compared to the previous Report, as the downward and upward effects balanced out.

*Shaded region indicates the 70 percent confidence interval for the forecast.

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