

BRIEFING ON 2022-I INFLATION REPORT

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Governor

January 27, 2022

Ankara



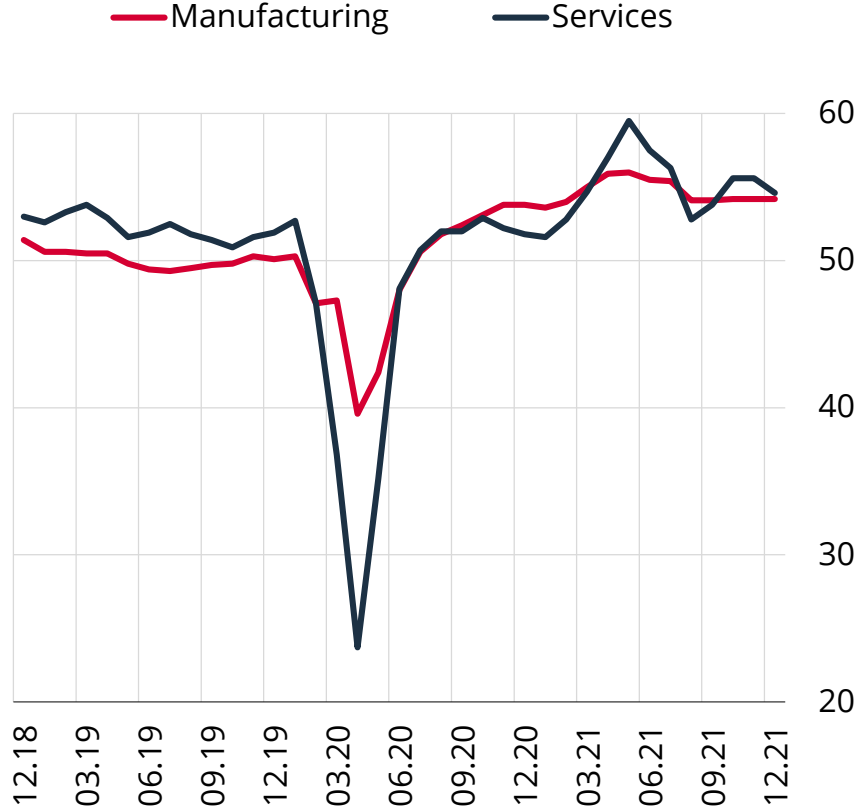
Outline

- **Macroeconomic Outlook**
- **The Determinants of Inflation**
- **Monetary Policy and Medium Term Projections**
- **Overview**

MACROECONOMIC OUTLOOK

Global Growth

Global PMI (Level)



Source: IHS Markit

Last Observation: December 2021

Growth Forecasts of Turkey's Main Trading Partners* (%)

	Realization for 2020	Forecast for 2021		Forecast for 2022	
		Oct. 21	Jan. 22	Oct. 21	Jan. 22
Eurozone	-6.5	5.1	5.1	4.4	4.0
Germany	-4.6	2.8	2.7	4.4	3.7
China	2.3	8.2	7.9	5.5	5
Russia	-3.0	4.2	4.3	2.5	2.6
USA	-3.5	5.7	5.6	4.1	3.9
Italy	-8.9	5.9	6.3	4.3	4.2
United Kingdom	-9.8	6.9	7	5.1	4.3
France	-8.0	6.1	6.6	3.8	3.8
Spain	-10.8	5.6	4.7	6.1	5.6
Netherlands	-3.7	4.1	4.3	3.5	3.3
Belgium	-6.3	5.4	5.9	3.4	3.1
Romania	-3.9	7.4	6.6	4.7	4.5
Poland	-2.7	5.2	5.4	5.1	4.7
Israel	-2.4	5.8	6.2	4.3	4.5

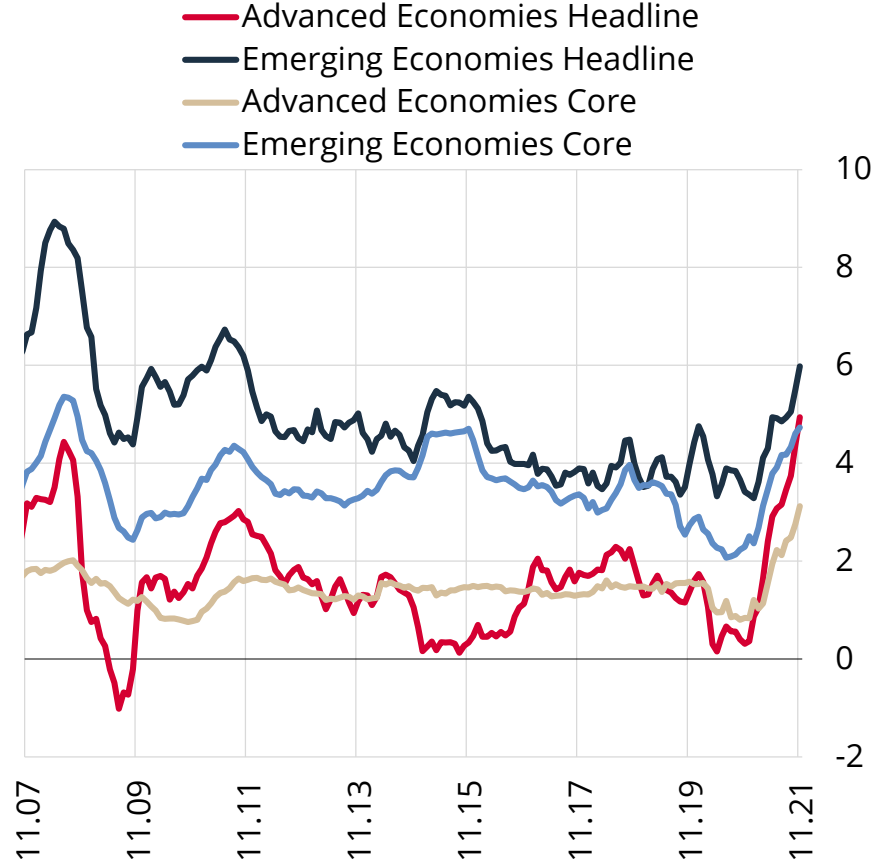
Source: Consensus Economics

Last Observation: January 2022

* Countries are listed according to their share in Turkey's total trade between January and November in 2021.

Global Inflation

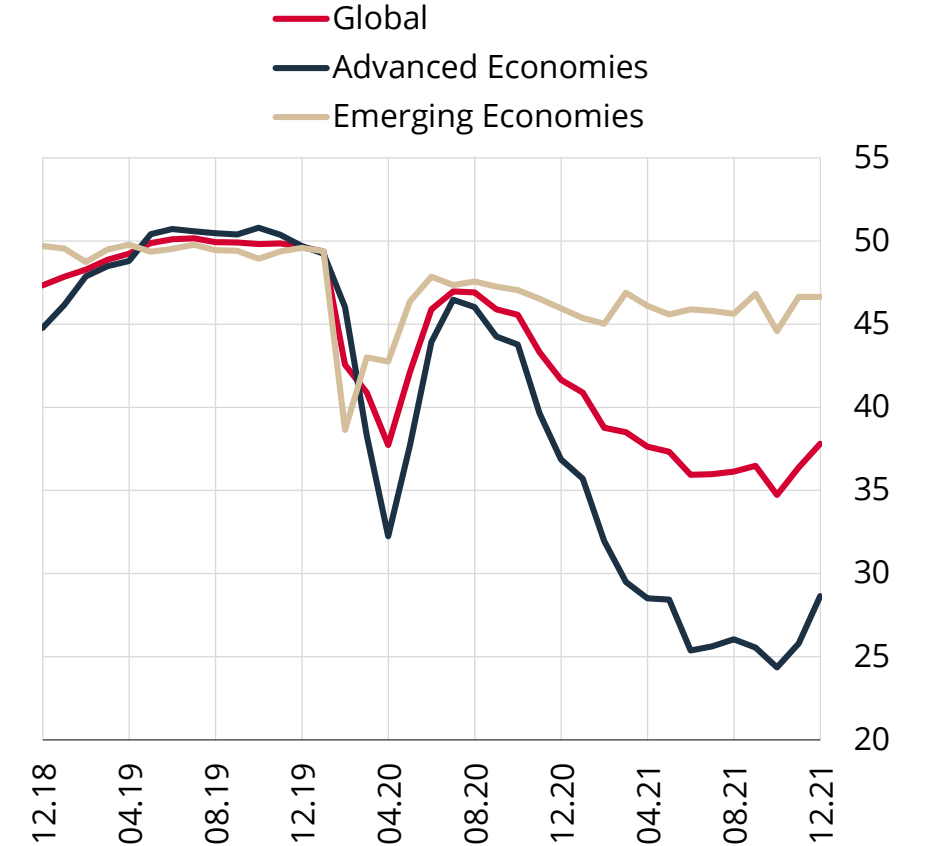
Inflation Rates in Advanced and Emerging Market Economies* (%)



Source: Bloomberg

Last Observation: November 2021

PMI Suppliers' Delivery Times** (Level)



Source: IHS Markit

Last Observation: December 2021

* **Headline Inflation:** Advanced Economies: USA, Euro Area, Japan, United Kingdom, Canada, S.Korea, Switzerland, Sweden, Norway, Denmark, Israel.

Emerging Economies: China, Brazil, India, Mexico, Russia, Turkey, Poland, Indonesia, S.Africa, Argentina, Thailand, Czechia, Colombia, Hungary, Romania, The Philippines, Ukraine, Vietnam, Chile, Peru, Egypt, Morocco.

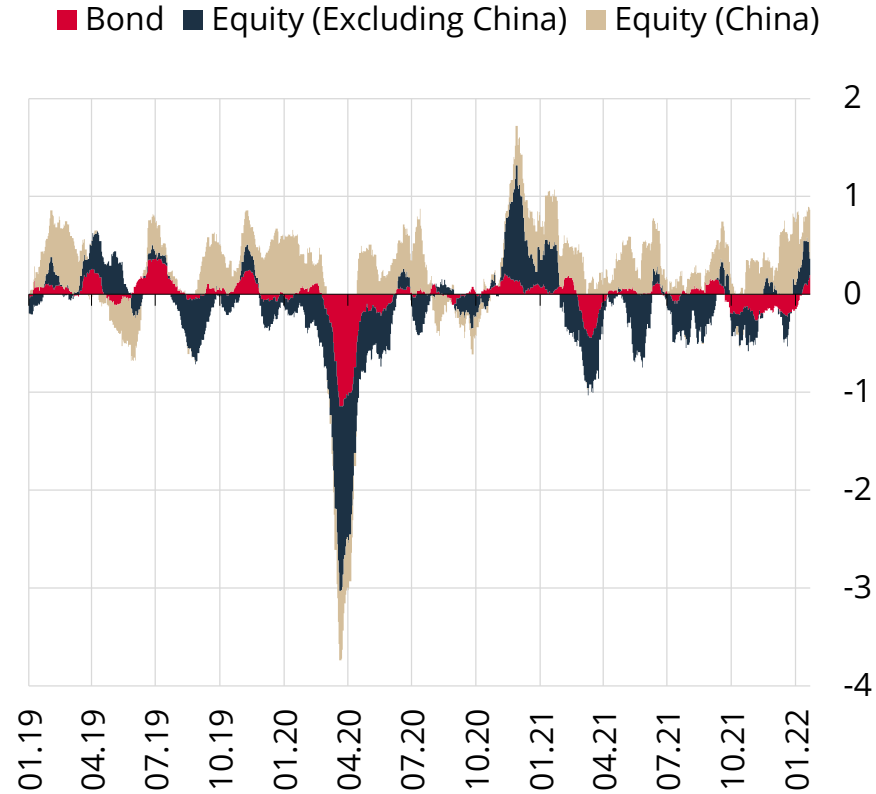
Core Inflation: Advanced Economies: USA, Euro Area, Japan, United Kingdom, Canada, S.Korea, Switzerland, Sweden, Norway, Israel.

Emerging Economies: China, Brazil, Mexico, Russia, Turkey, Poland, Indonesia, S.Africa, Thailand, Czechia, Colombia, Hungary, Romania, Chile, Peru.

** The lower values of the series indicate a longer delivery time.

Portfolio Flows

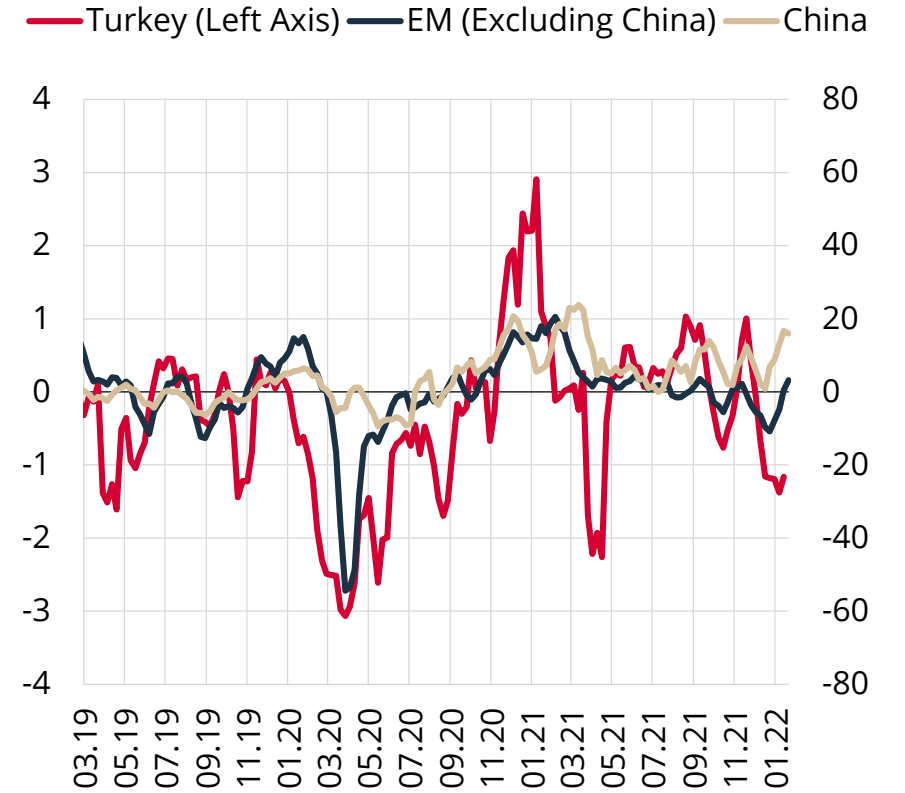
Portfolio Flows to Emerging Market Economies (Billion USD, 4-Week Moving Average)



Source: IIF

Last Observation: January 21, 2022

Portfolio Flows to Turkey and Emerging Market Economies* (Billion USD, 4-Week Cumulative)



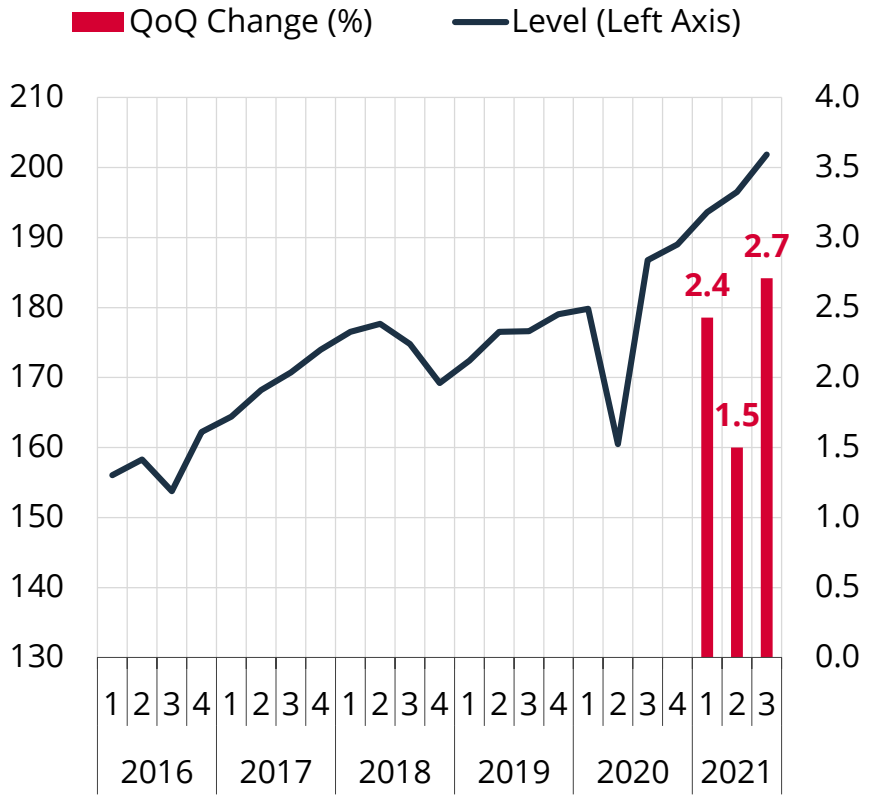
Source: EPFR, CBRT

Last Observation: January 19, 2022
Turkey: January 14, 2022

* Turkey data includes portfolio flows to stocks and GDDS market. Repo is included in the GDDS data. Emerging markets data is taken from the EPFR database. It includes the weekly net investments made by all funds in this database in the developing country stock and bond markets.

Domestic Economic Activity

GDP (Seasonally and Calendar Adjusted, Chain-Linked Index, 2009=100)

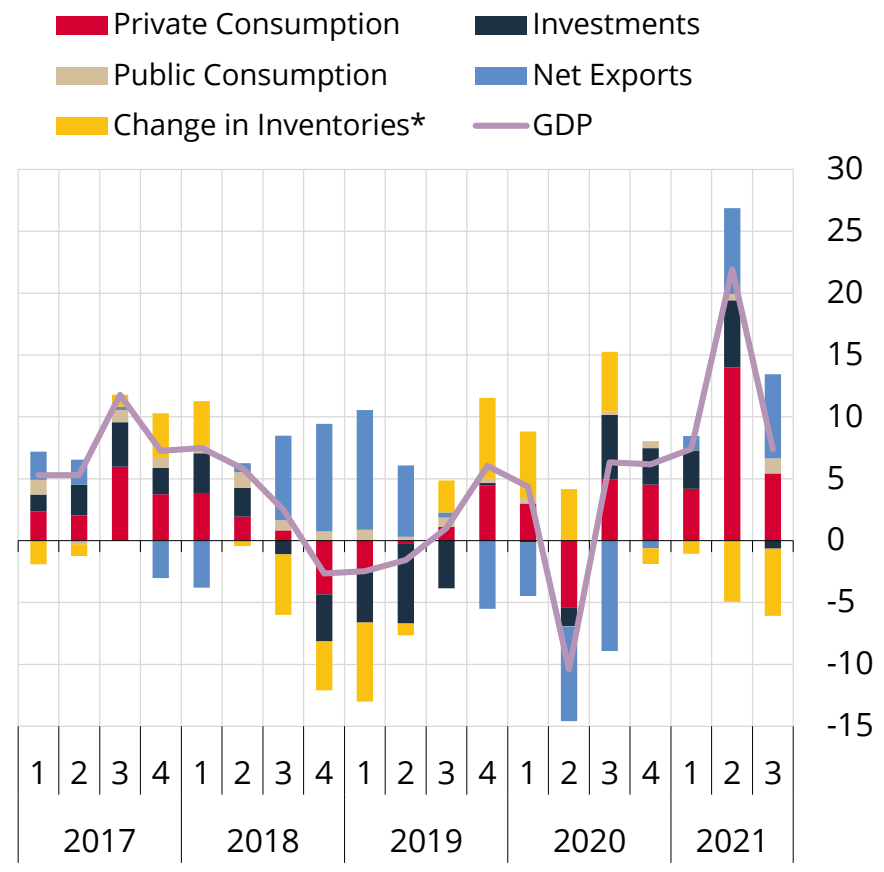


Source: TURKSTAT

Last Observation: 2021Q3

* Includes change in stocks and statistical discrepancy due to chain-linked index.

Contribution to Annual GDP Growth From Expenditure Side (% Point)

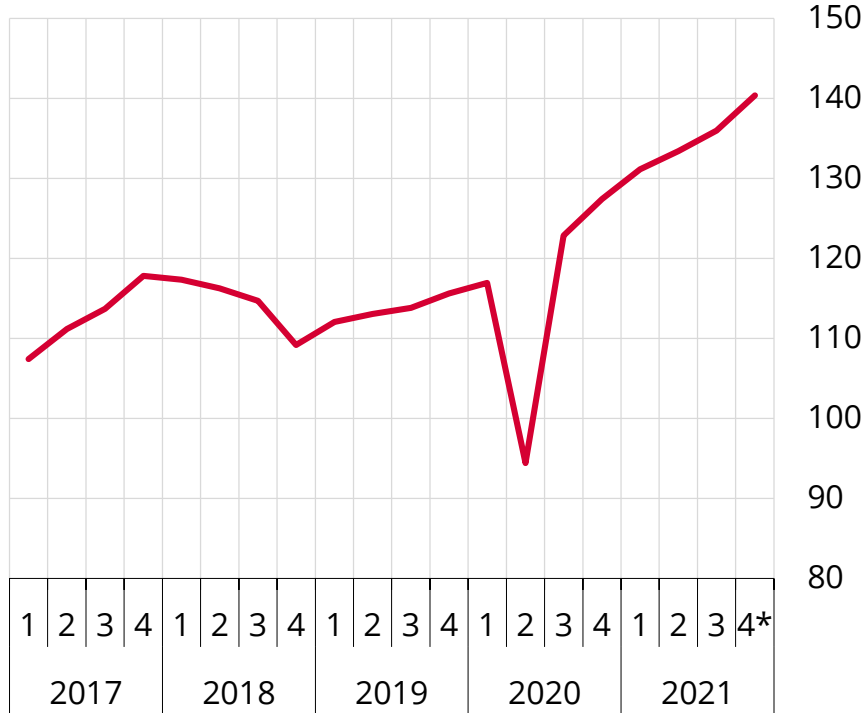


Source: CBRT, TURKSTAT

Last Observation: 2021Q3

Domestic Economic Activity

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

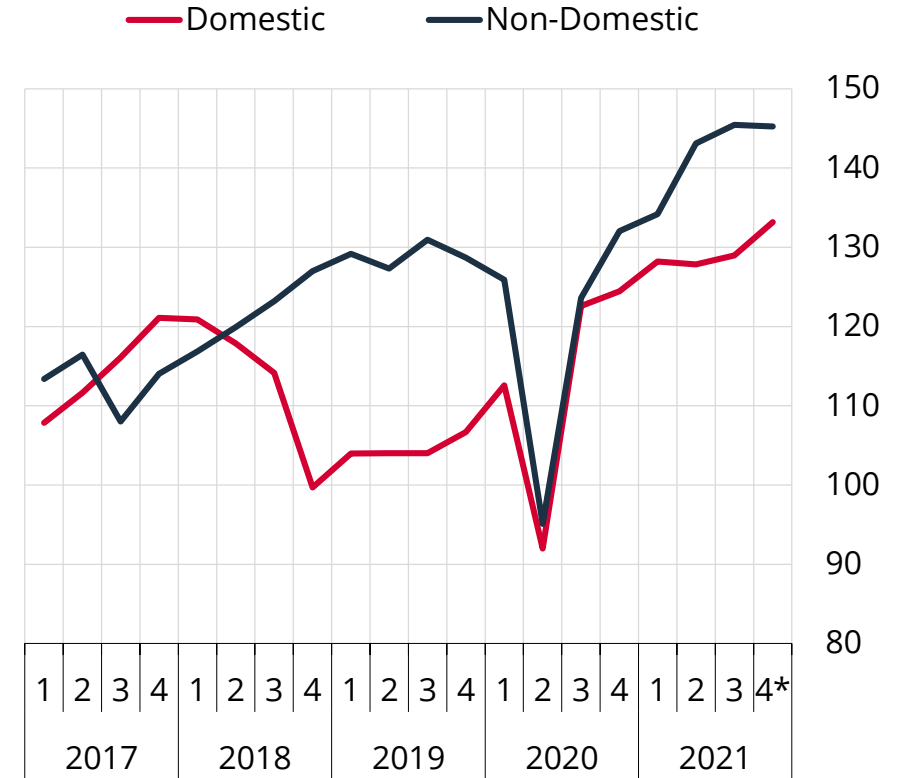


Source: TURKSTAT

Last Observation: November 2021

* Average of October and November.

Industrial Turnover Indices (Seasonally and Calendar Adjusted, Real, 2015=100)



Source: CBRT, TURKSTAT

Last Observation: November 2021

Normalization in Economic Activity

Ratio of Total Number of Second and Booster Dose Vaccines to Total Population (%)

	Second Dose	Booster Dose
United Kingdom	70.4	53.7
Israel	64.8	53.7
Germany	72.2	48.0
Italy	75.3	46.5
France	75.4	44.1
Spain	81.7	39.4
Turkey	61.4	35.8
USA	62.6	24.9
Poland	56.8	23.8
Brazil	69.0	17.9
Russia	47.3	5.8
Japan	79.0	1.3
South Africa	27.0	0.7
India	47.3	0.3
Mexico*	58.2	-
Indonesia*	43.5	-

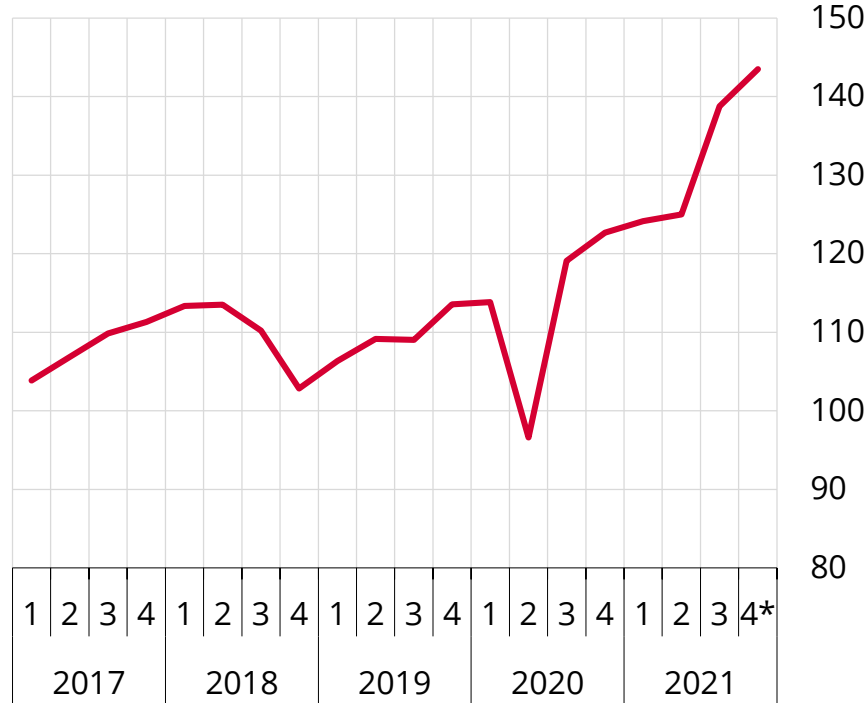
Source: Our World in Data

Last Observation: January 18, 2022

* Reminder dose data are not available.

Normalization in Economic Activity

Retail Sales Volume Indices (Seasonally and Calendar Adjusted, 2015=100)

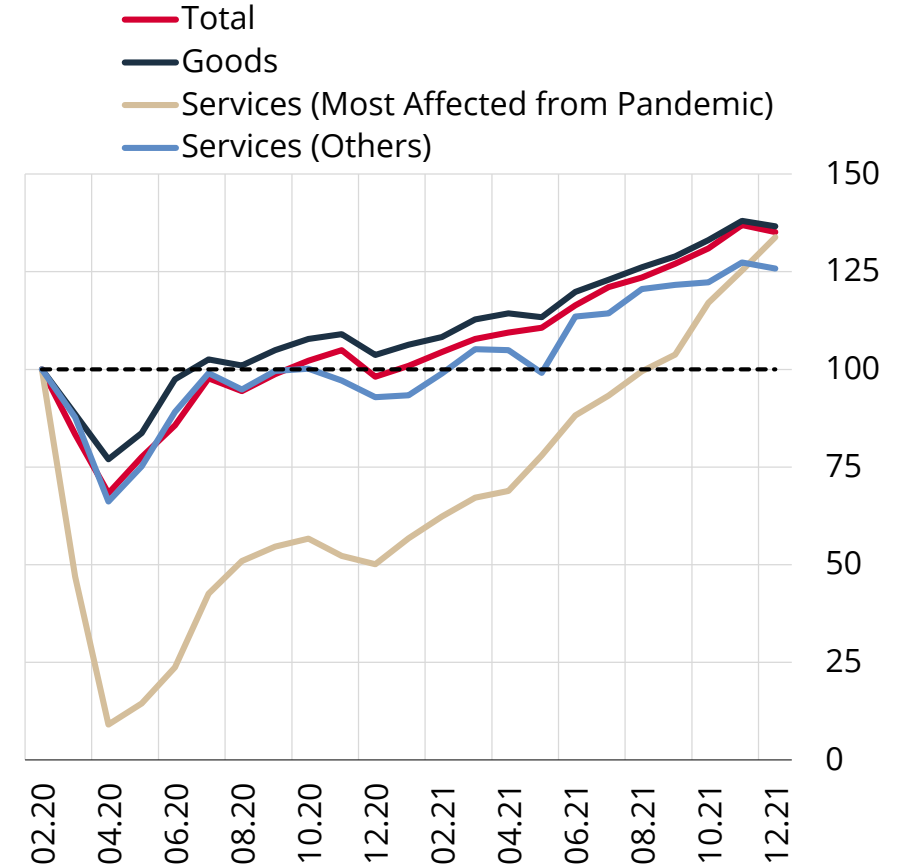


Source: CBRT

Last Observation: November 2021

* Average of October and November.

Card Expenditures (Seasonally and Calendar Adjusted, Real, February 2020=100)

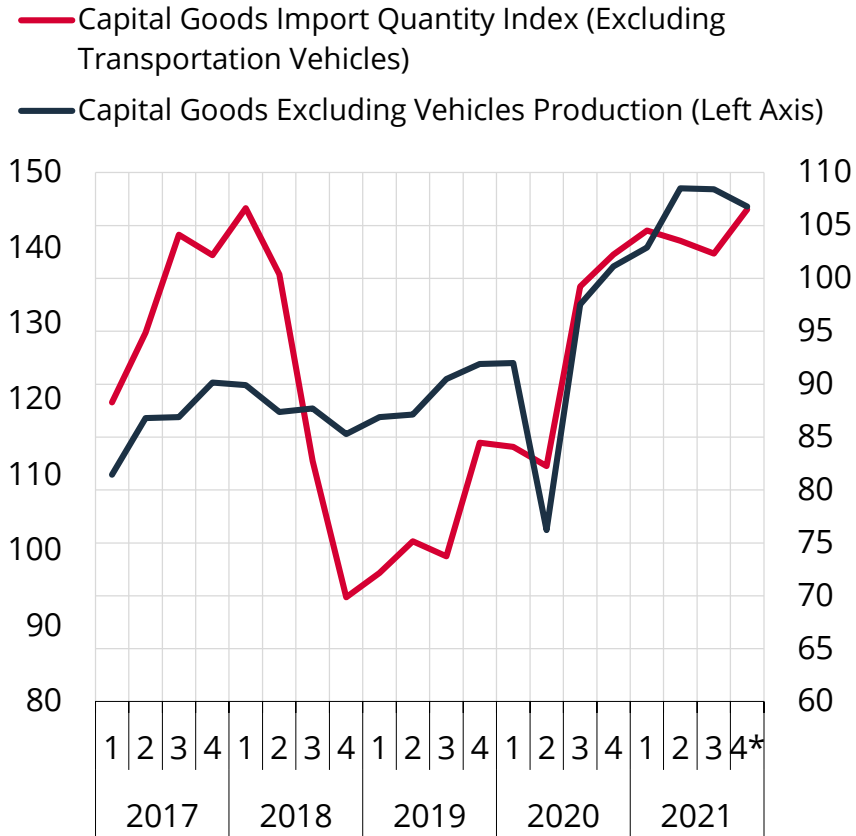


Source: CBRT, TURKSTAT

Last Observation: December 2021

Investment Tendency

Capital Goods Production and Import Quantity Index (Seasonally Adjusted)

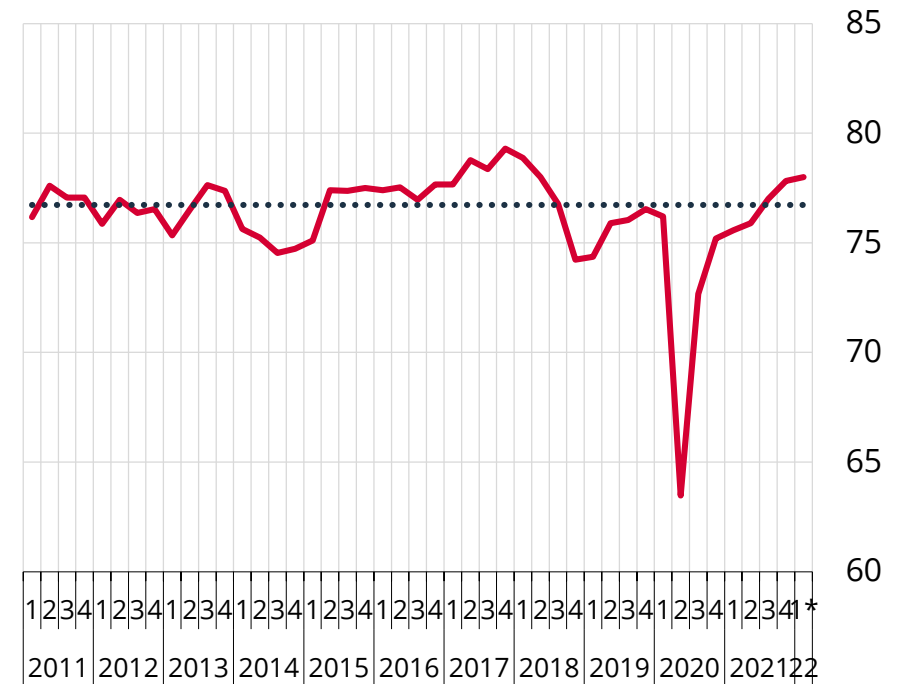


Source: TURKSTAT

Last Observation: November 2021

* As of January. The dashed line shows the average for the period 2011-2019.

Manufacturing Industry Capacity Utilization Rate (Seasonally Adjusted, %)

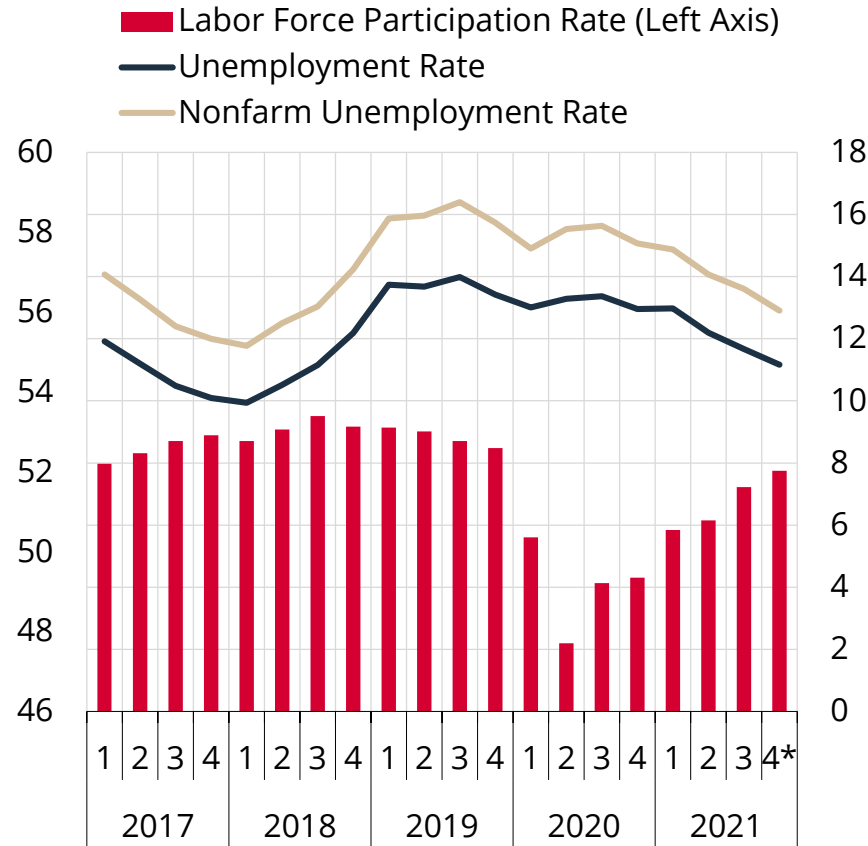


Source: CBRT

Last Observation: January 2022

Labor Market

Unemployment and Labor Force Participation Rates (Seasonally Adjusted, %)



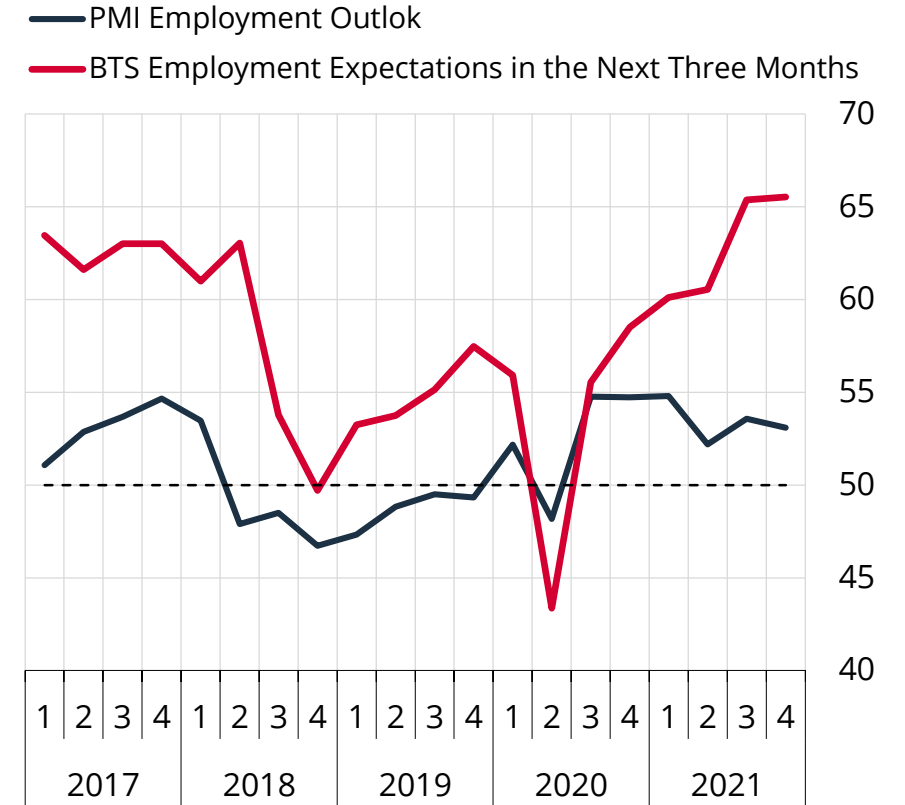
Source: TURKSTAT

Last Observation: November 2021

* Average of October and November.

** The BTS indicator is set at a neutral level of 50 in line with the PMI.

Employment Outlook and Expectations in the Industry Sector** (Seasonally Adjusted, Increase-Decrease)

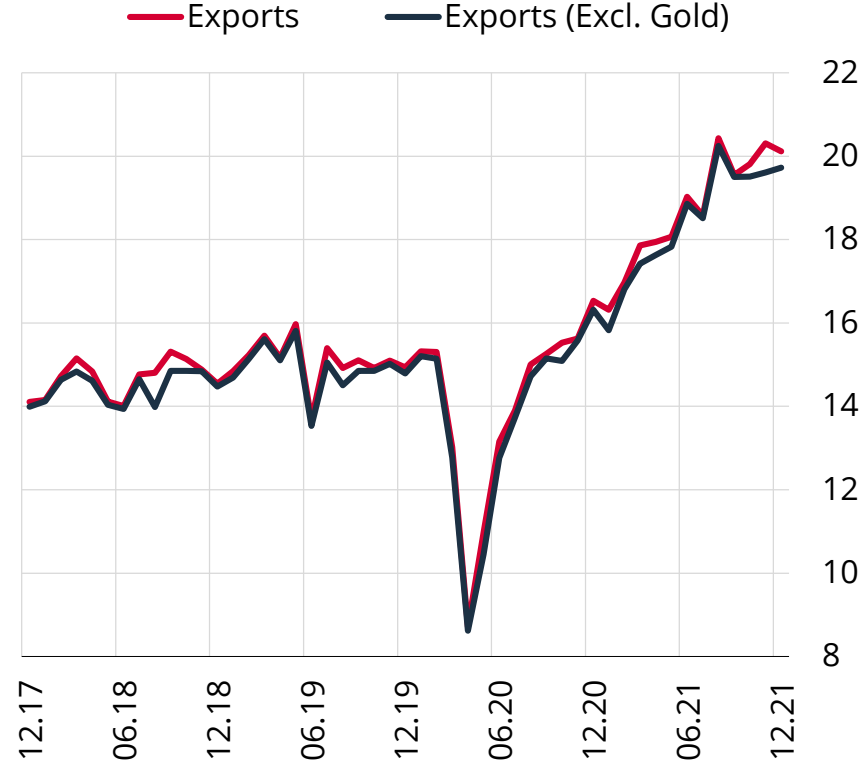


Source: CBRT, IHS Markit

Last Observation: December 2021

External Balance

Exports* (Seasonally and Calendar Adjusted, Billion USD)

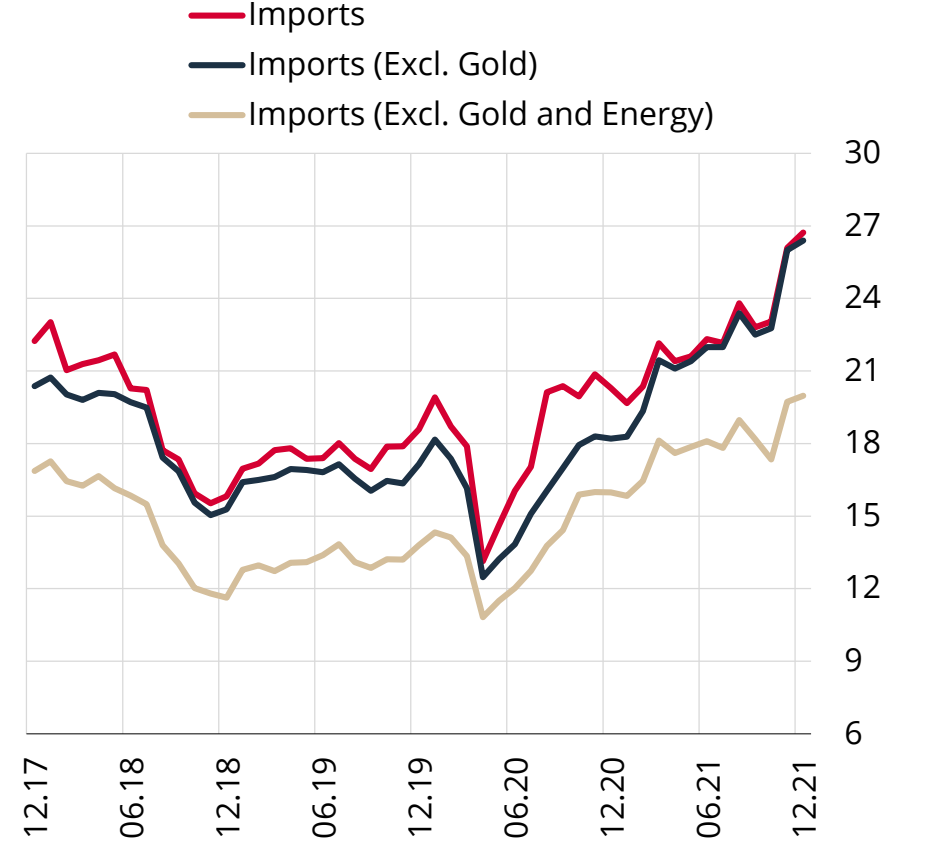


Source: CBRT, MoT, TURKSTAT

Last Observation: December 2021

* December data is provisional.

Imports* (Seasonally and Calendar Adjusted, Billion USD)

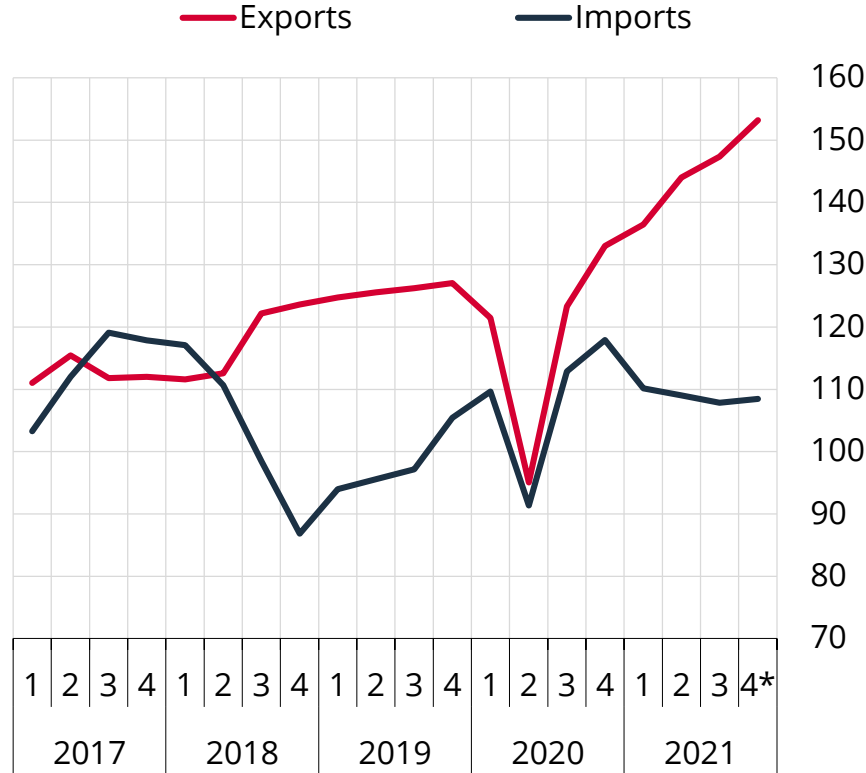


Source: CBRT, MoT, TURKSTAT

Last Observation: December 2021

External Balance

Foreign Trade Volume Indices (Seasonally Adjusted, 2015=100)

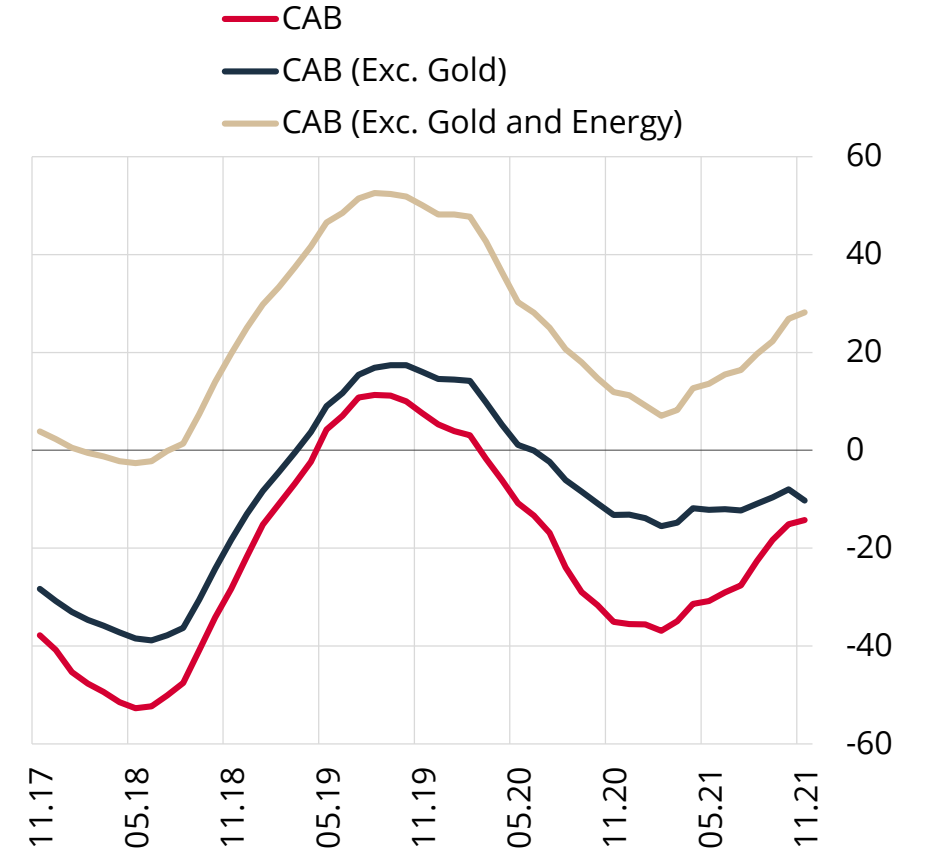


Source: TURKSTAT

Last Observation: November 2021

* Average of October and November.

Current Account Balance (12 Month Cumulative, Billion USD)



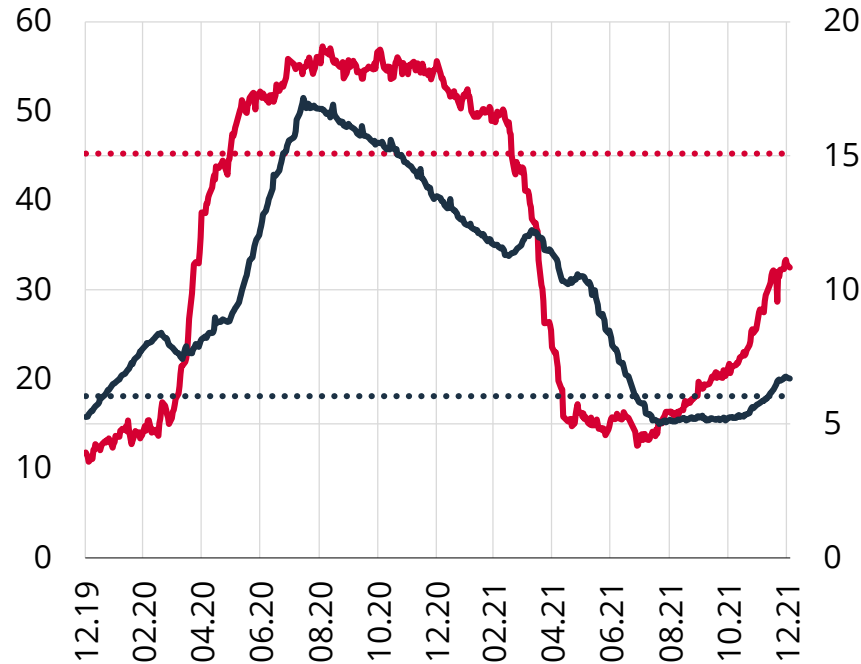
Source: CBRT

Last Observation: November 2021

Credit Developments

Loan Growth (Annual Growth, Adjusted for Exchange Rate, %)

- Commercial Loans (Adjusted for Exchange Rates)
- ⋯ 2011-2021 Commercial Loans (AER) Average.
- Retail Loans (Left Axis)
- ⋯ 2011-2021 Retail Loans Average (Left Axis)

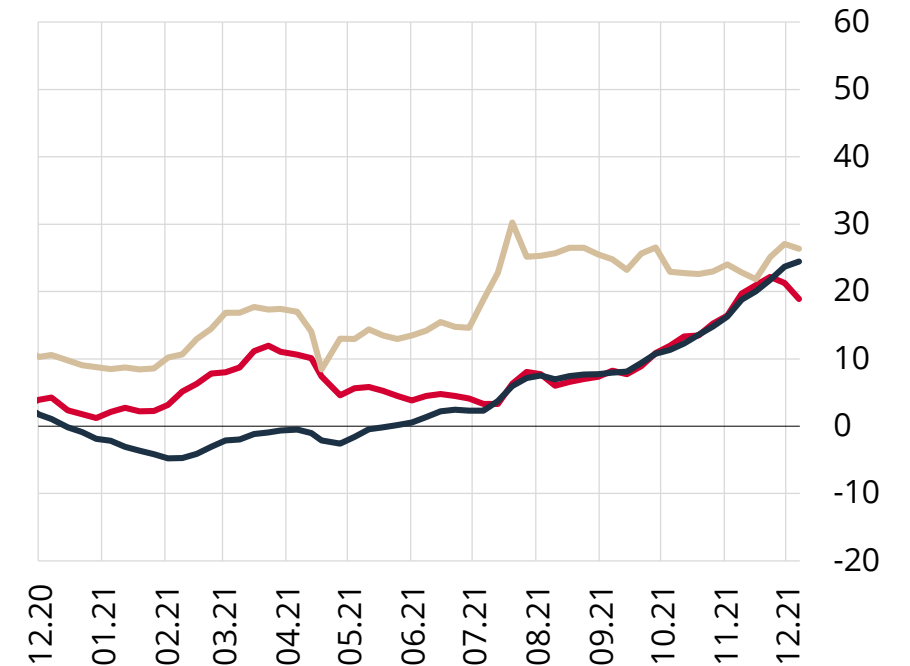


Source: CBRT

Last Observation: January 3, 2022

Loan Growth by Types of Loans (Annualized 13-Week Moving Average, Adjusted for Exchange Rate, %)

- Commercial
- Housing
- Personal

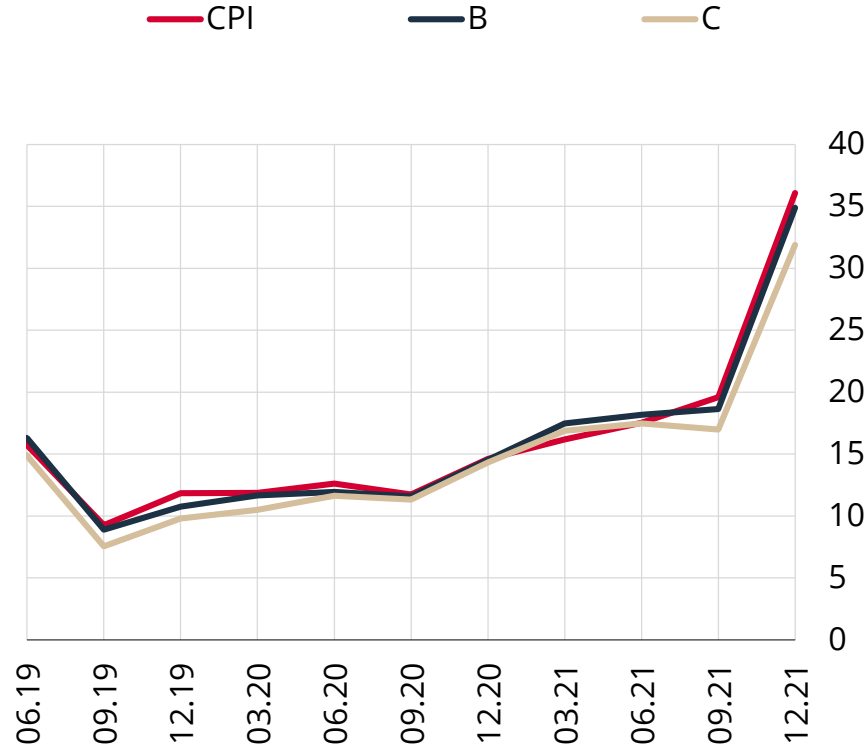


Source: CBRT

Last Observation: December 31, 2021

Consumer Inflation

CPI, B Index* and C Index** (Annual % Change)

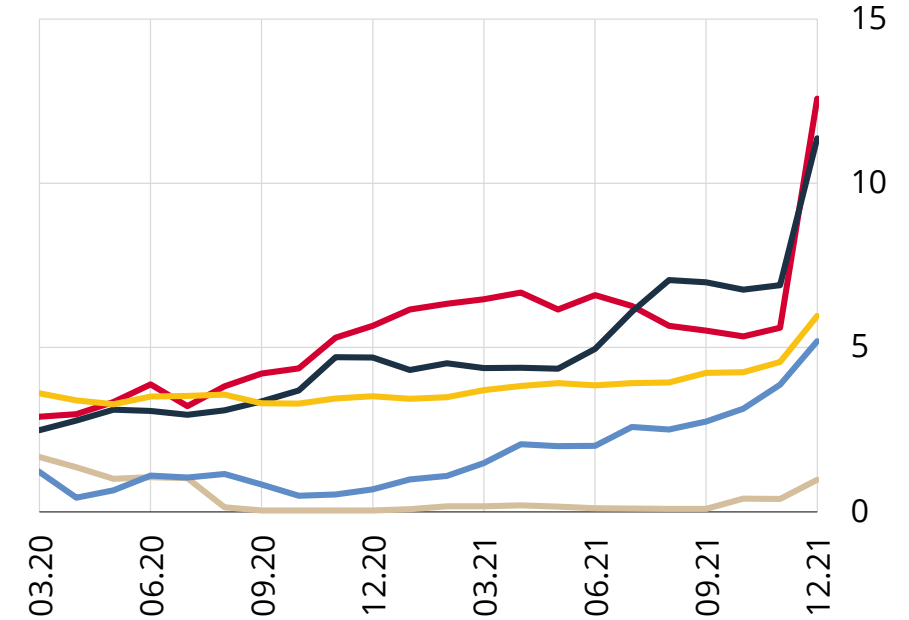


Source: TURKSTAT

Last Observation: December 2021

Contribution to Annual Consumer Inflation (% Points)

- Core Goods (Including Gold)
- Food and Non-Alcoholic Beverages
- Alcoholic Beverages and Tobacco
- Energy
- Services



Source: CBRT, TURKSTAT

Last Observation: December 2021

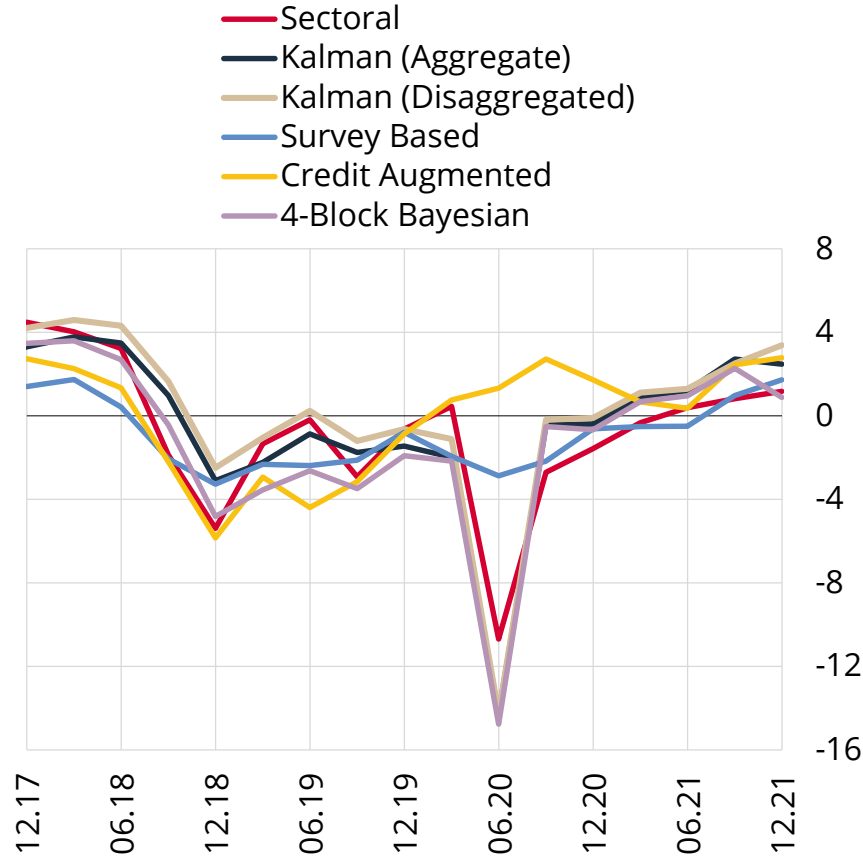
* CPI excluding unprocessed food, energy, alcoholic beverages and tobacco products and gold.

** CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products and gold.

THE DETERMINANTS OF INFLATION

Output Gap

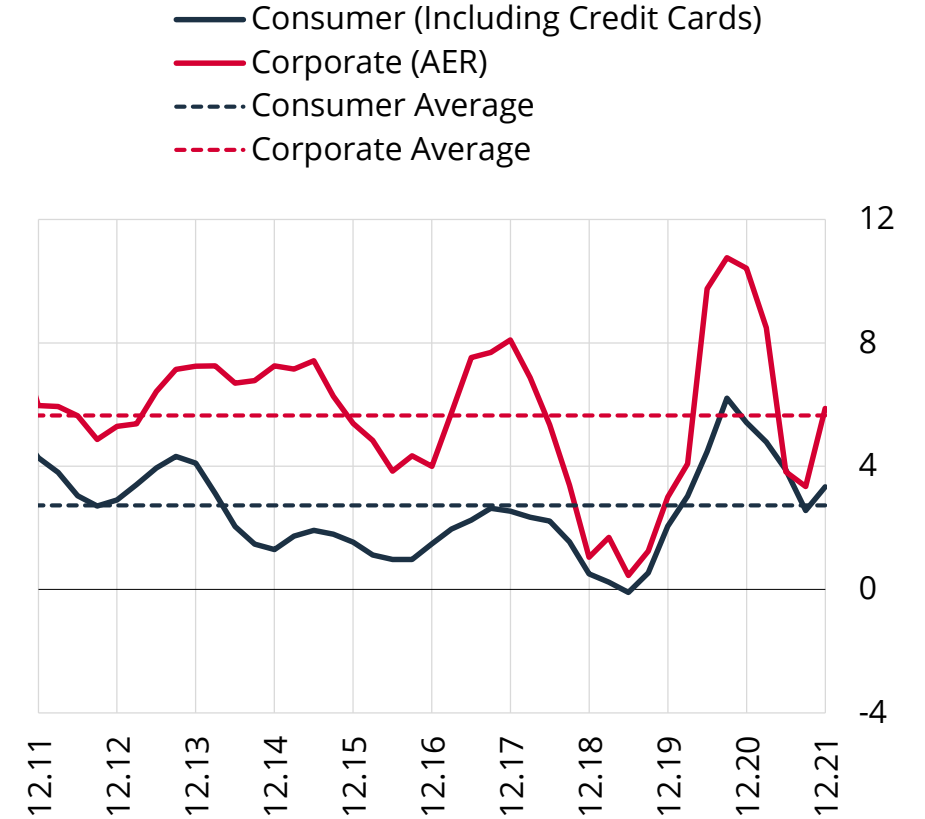
Output Gap Indicators (%)



Source: CBRT

Last Observation: 2021Q4

Net Loan Utilization* (%)



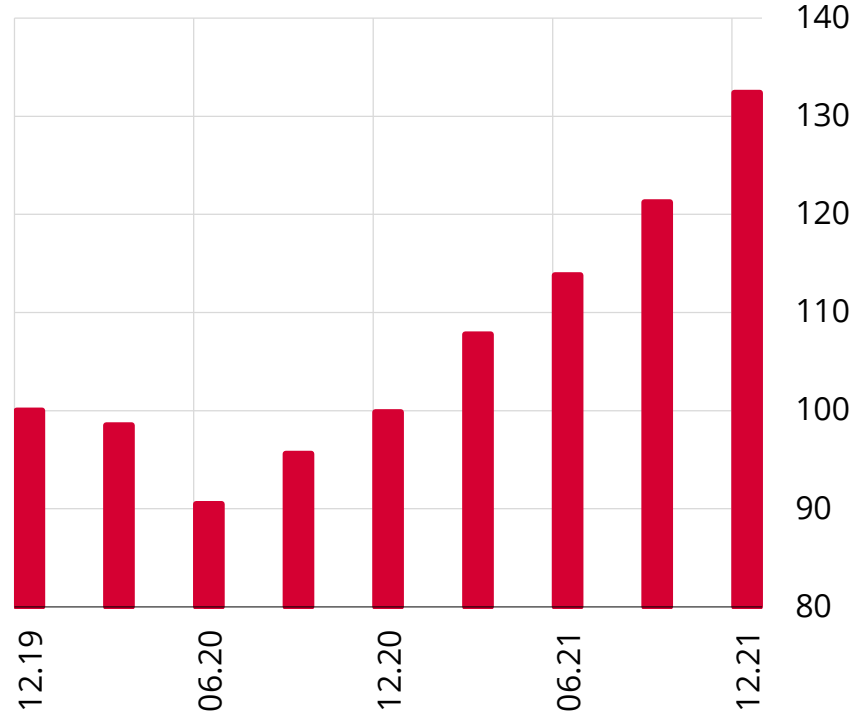
Source: CBRT

Last Observation: 2021Q4

* Net loan utilization is calculated as the ratio of the annual change in the nominal loan stock to the annual GDP of 4 quarters before. The historical average covers the period 2006Q1 – 2021Q3. GDP forecast for 2021Q4 is used.

Import Costs

Import Unit Value Index* (2019Q4=100)

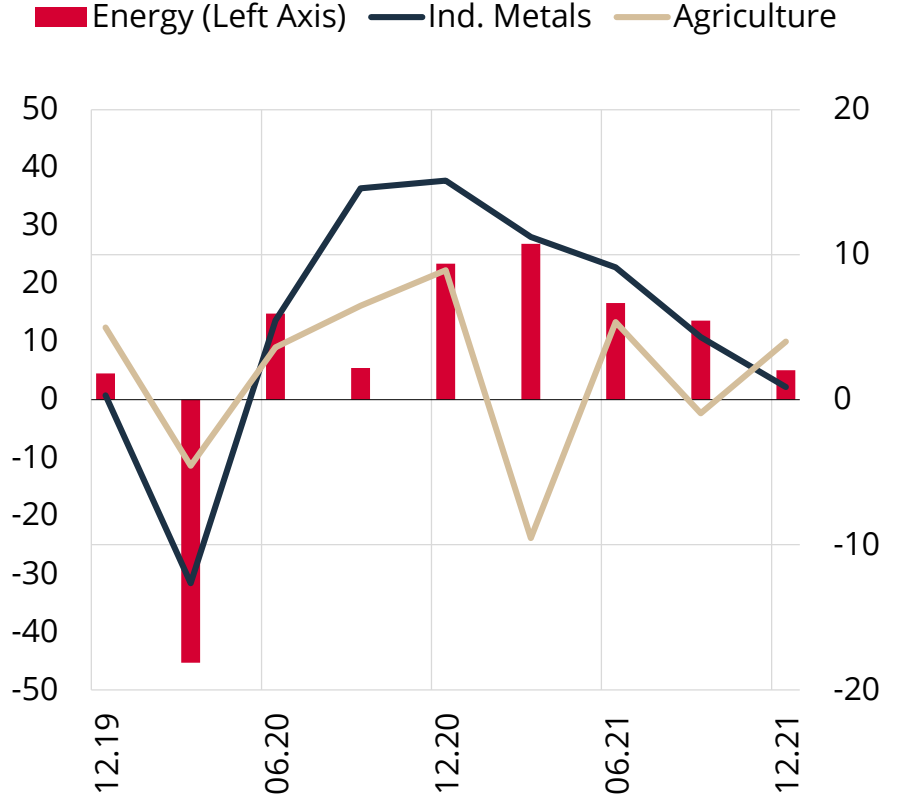


Source: TURKSTAT

Last Observation: November 2021

* 2021 Q4 data is average of October and November.

World Bank Commodity Price Indices (Quarterly % Change)

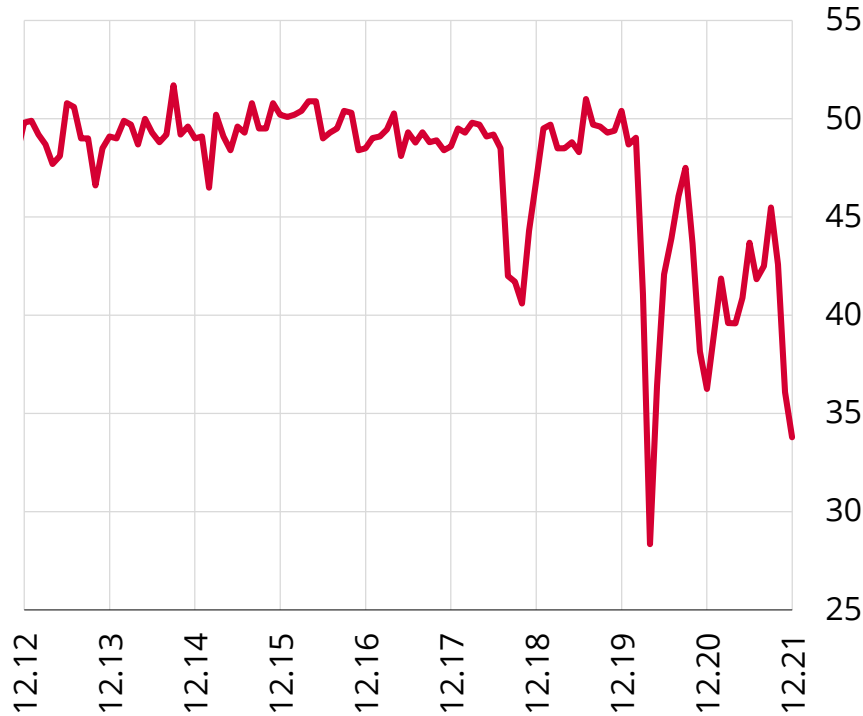


Source: World Bank

Last Observation: December 2021

Supply Constraints

**PMI Suppliers' Delivery Times*
(Manufacturing, Seasonally Adjusted)**

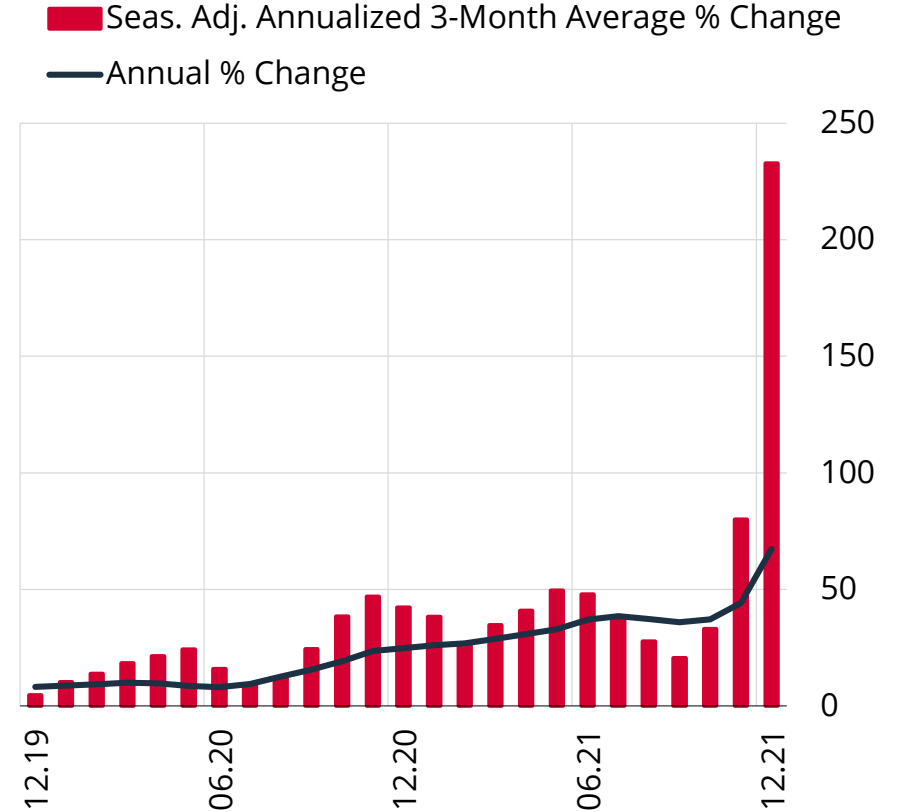


Source: IHS Markit

Last Observation: December 2021

* The lower values of the series indicate a longer delivery time.

**Manufacturing Prices Exc. Petroleum and
Base Metals**



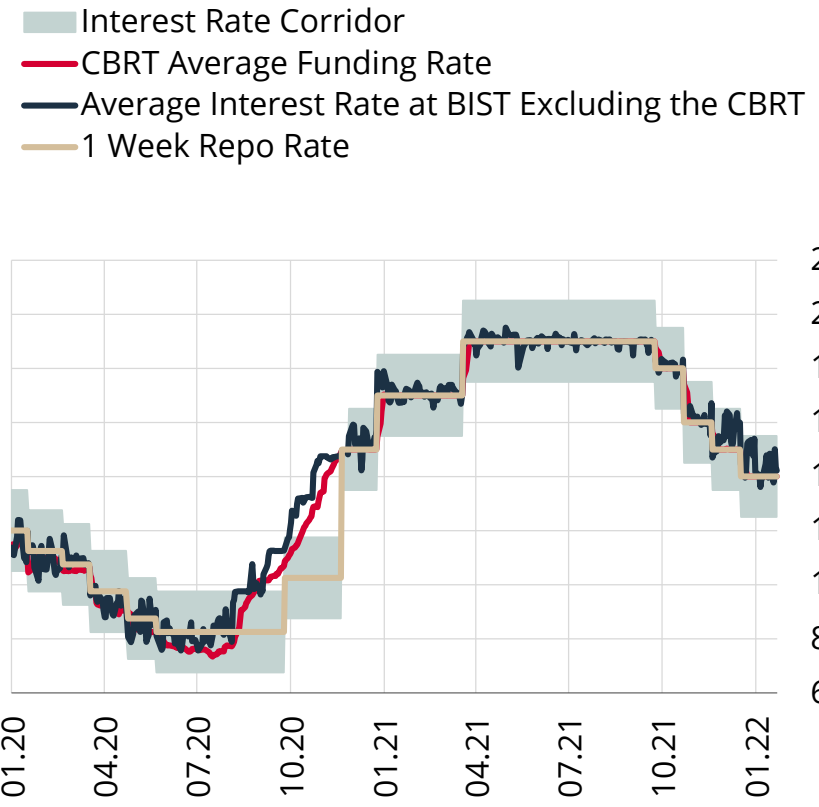
Source: CBRT, TURKSTAT

Last Observation: December 2021

MONETARY POLICY AND MEDIUM TERM PROJECTIONS

Monetary Policy

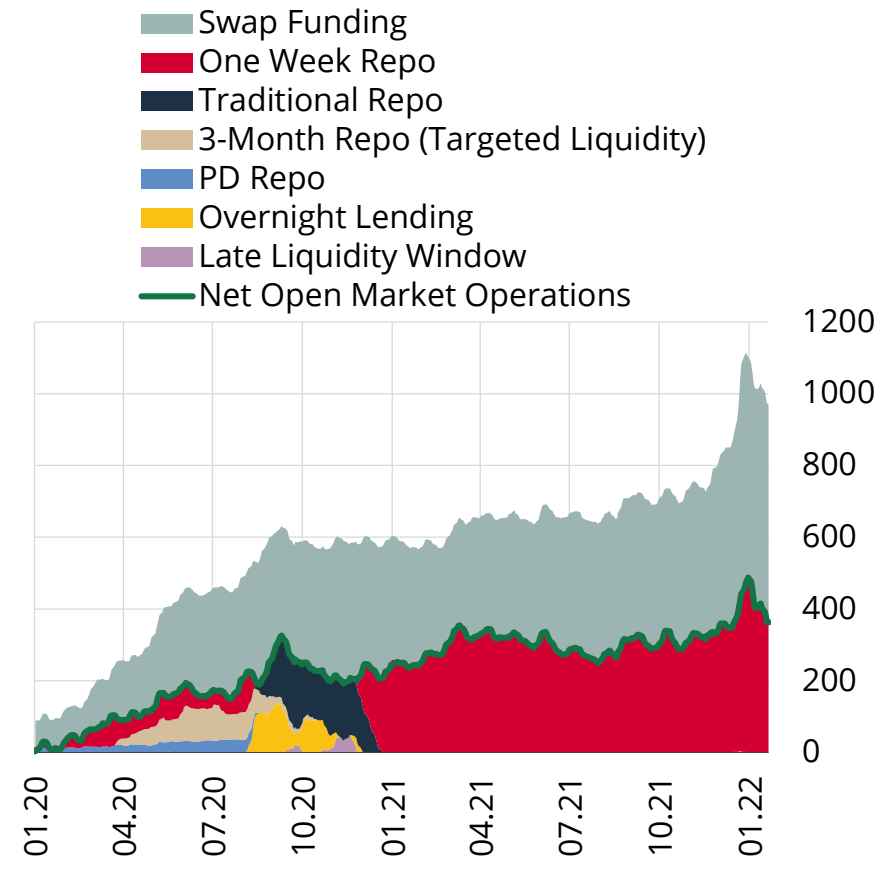
CBRT Policy Rate and Short Term Interest Rates (%)



Source: BIST, CBRT

Last Observation: January 21, 2022

CBRT Open Market and Swap Operations (1-Week Moving Average, Billion TL)

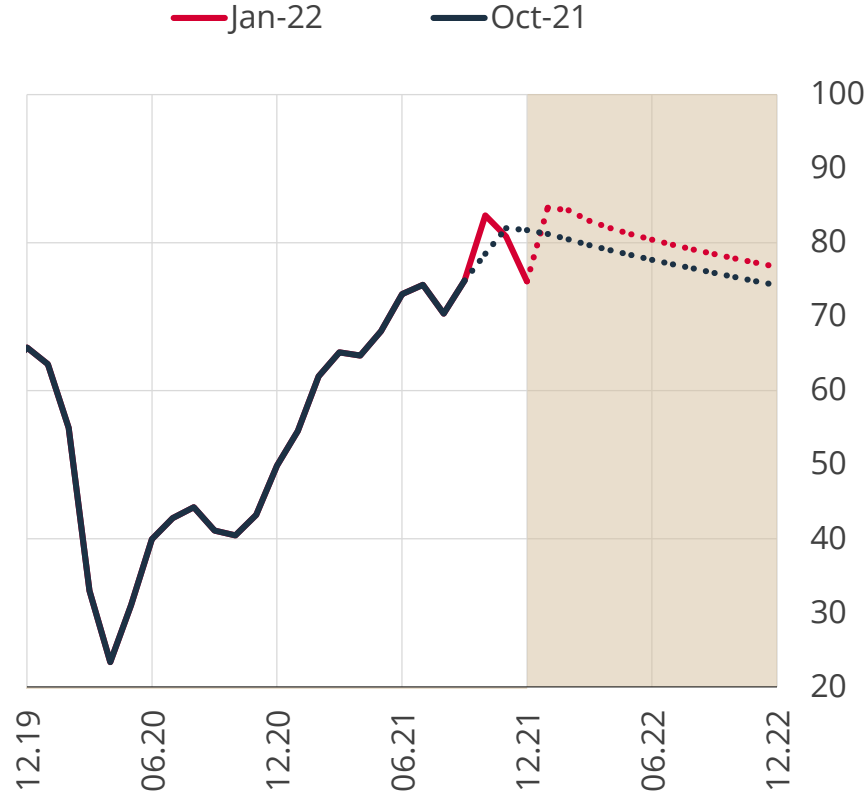


Source: CBRT

Last Observation: January 21, 2021

Assumptions for External Variables

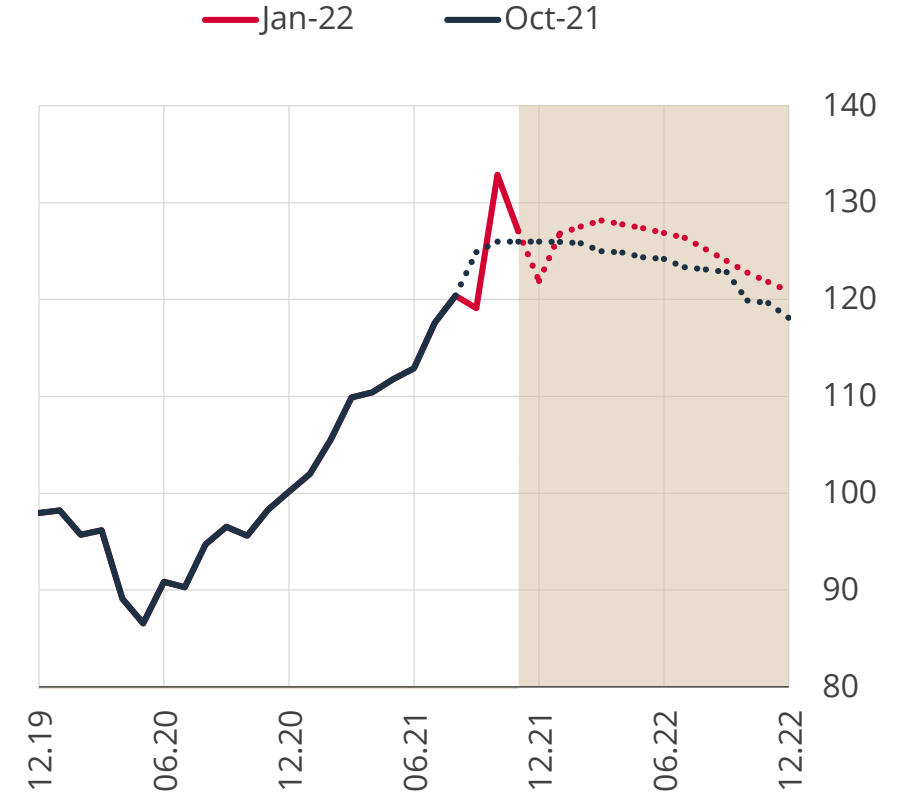
Revisions to Oil Price Assumptions* (USD/Barrel)



Source: Bloomberg, CBRT

Last Observation: December 2021

Revisions to Import Price Assumptions* (Index, 2015=100)



Source: CBRT, TURKSTAT

Last Observation: November 2021

* Shaded area shows the forecast period. Oil and import price assumptions are derived from the future price curves in international markets.

Revisions to Assumptions

		October IR	January IR
Output Gap (%)	2021Q3	2.5	3.4
	2021Q4	2.1	2.9
Food Prices (Year-end % Change)	2022	13.9	24.2
	2023	-	10.0
Import Prices (USD, Average Annual % Change)	2022	6.0	8.2
	2023	-	-6.7
Oil Prices (Average, USD)	2022	77.5	80.4
	2023	-	74.3
Export-Weighted Global Production Index (Average Annual % Change)	2022	4.5	4.3
	2023	-	3.0

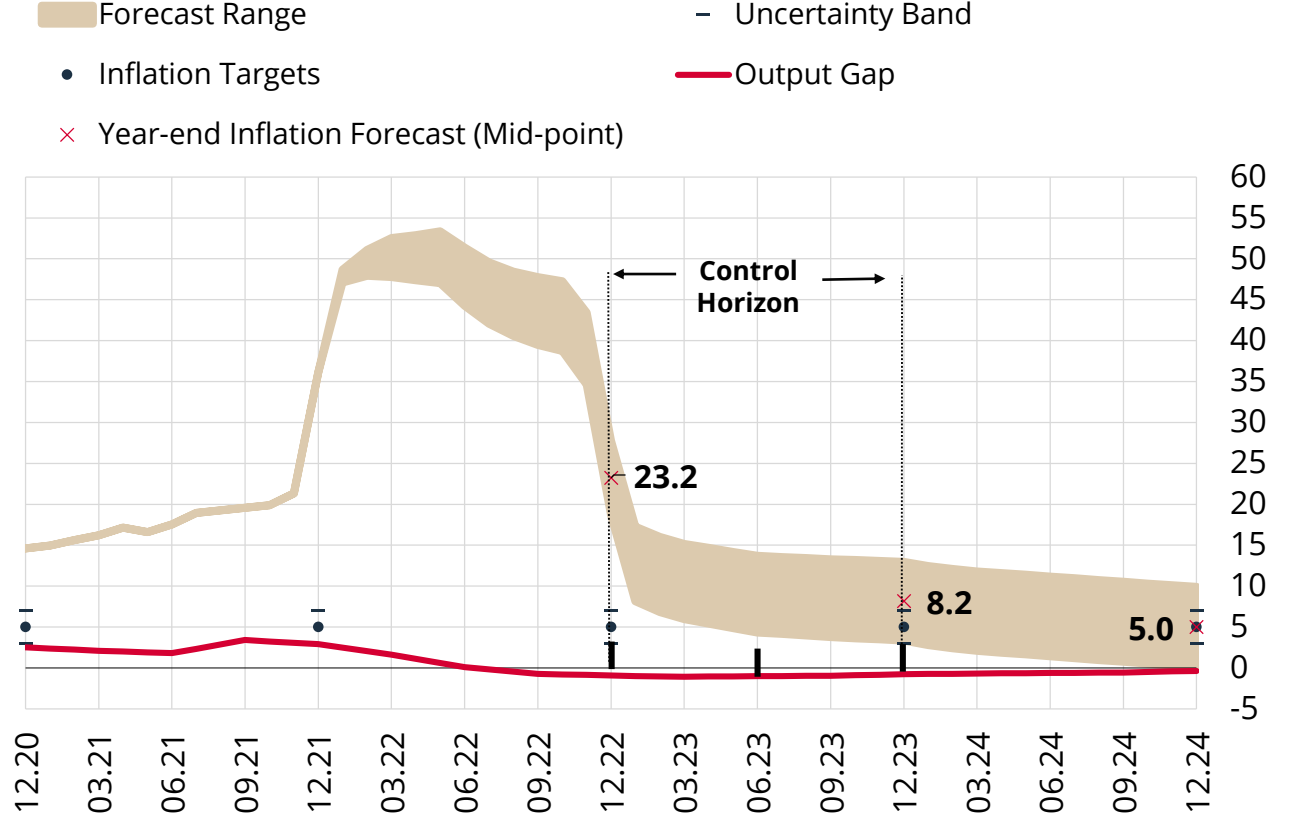
Inflation Outlook

Accordingly, inflation is expected to be

- Between 18.6% and 27.8% (with a mid-point of 23.2%) at end-2022;
- Between 3.4% and 13.0% (with a mid-point of 8.2%) at end-2023;

with 70% probability.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

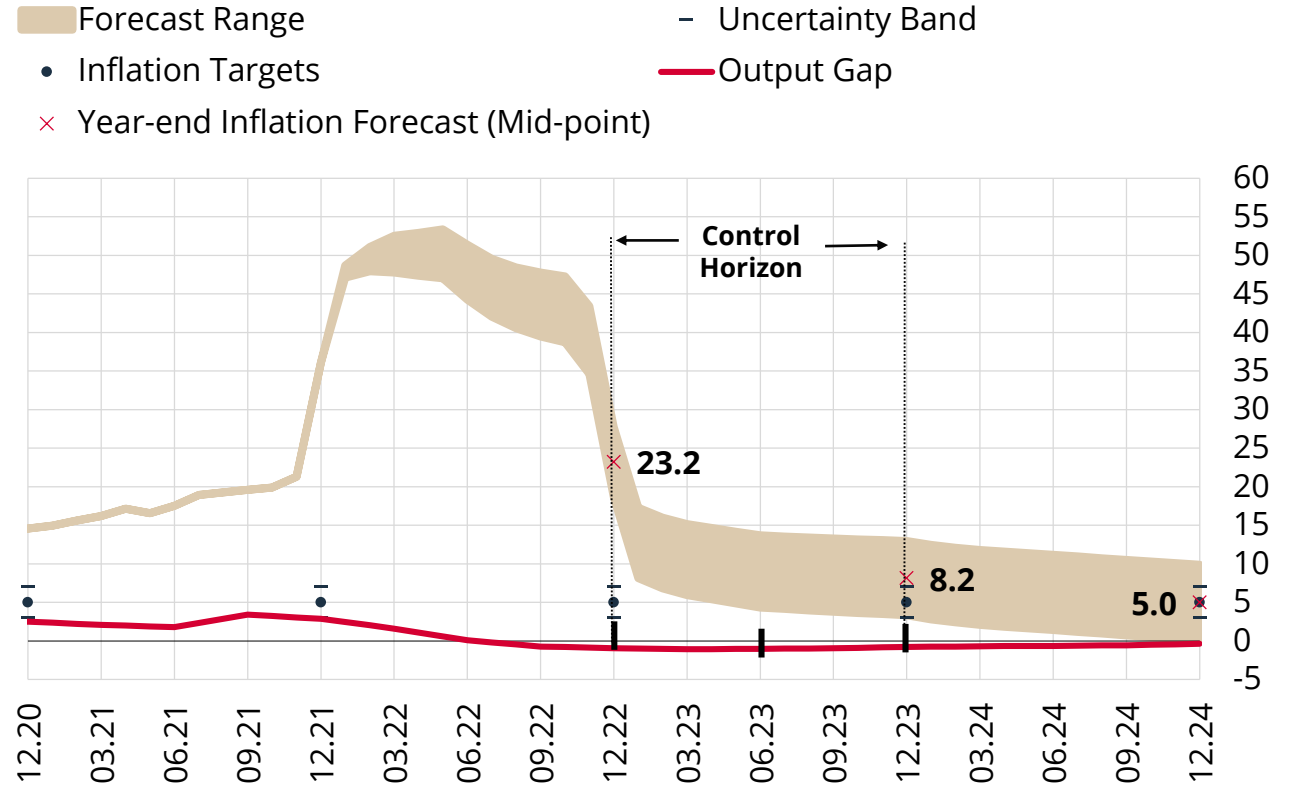
* Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

Accounting of the revision in 2022 year-end inflation forecasts relative to previous Report:

- +4.2 points from TL denominated import prices,
- -0.3 points from output gap,
- +2.0 points from rise in unit labor cost,
- +2.5 points from revision in food inflation,
- +3.0 points from administered prices.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

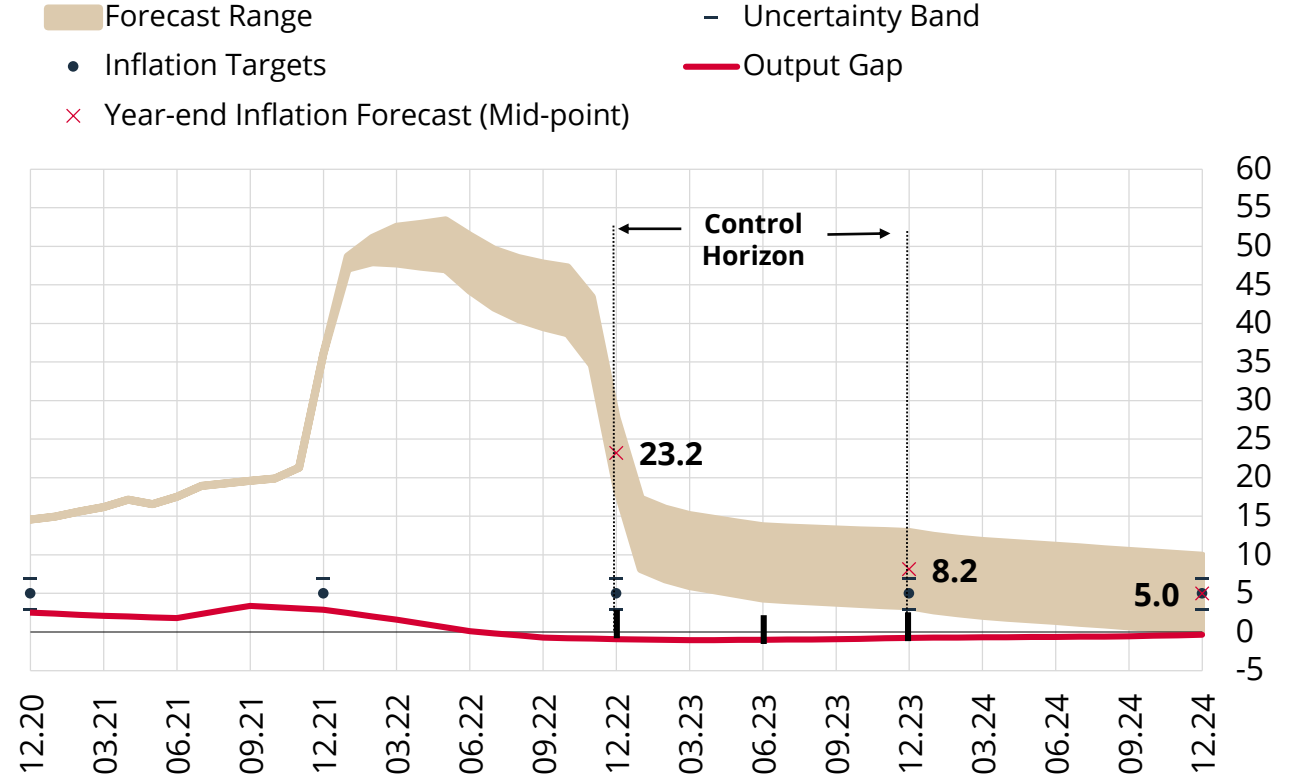
* Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

Accounting of the revision in 2023 year-end inflation forecasts relative to previous Report:

- +0.5 points from TL denominated import prices,
- -0.2 points from output gap,
- +0.1 points from revision in food inflation,
- +0.8 points from the rise in underlying trend of inflation due to revision in initial conditions.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

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

OVERVIEW

Overview

- While the effects of high global inflation on inflation expectations and international financial markets are closely monitored, central banks in advanced economies assess that the rise in inflation on the back of rising energy prices and imbalances between supply and demand may last longer than previously anticipated.
- Level of capacity utilization and other leading indicators show that domestic economic activity remains strong, with the help of robust external demand.
- While share of sustainable components of economic growth increases, current account balance is expected to post a surplus in 2022.
- Increase in inflation in the recent period has been driven by distorted pricing behavior due to unhealthy price formations in the foreign exchange market, supply side factors such as the rise in global food and agricultural commodity prices, supply constraints, and demand developments.
- The Committee expects disinflation process to start on the back of measures taken for sustainable price and financial stability along with the decline in inflation owing to the base effect.
- While cumulative impact of the recent policy decisions is being monitored, to create a foundation for sustainable price stability, the comprehensive review of the policy framework is being conducted with the aim of prioritizing Turkish lira in all policy tools of the CBRT.

«Liraization» Strategy in the Review of the Policy Framework

- Reshaping price stability on a sustainable basis is possible by making the Turkish lira the essential element of the financial system.
- The Liraization strategy is created with a holistic approach that focuses on the use of the Turkish lira in the system, through new financial products, collateral diversification and liquidity management practices.
- Within the scope of the Liraization strategy, the CBRT has implemented a set of practices.
- It is important that loans and monetary aggregates grow at a rate consistent with sustainable price stability and that the weight of the Turkish lira among these aggregates is increased.
- The focus of all implementations to be implemented in the near, medium and long term will be to ensure the Liraization of the financial system in order to reshape price stability on a sustainable basis.



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