

BRIEFING ON 2021-II INFLATION REPORT

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Governor

29 April 2021

Ankara



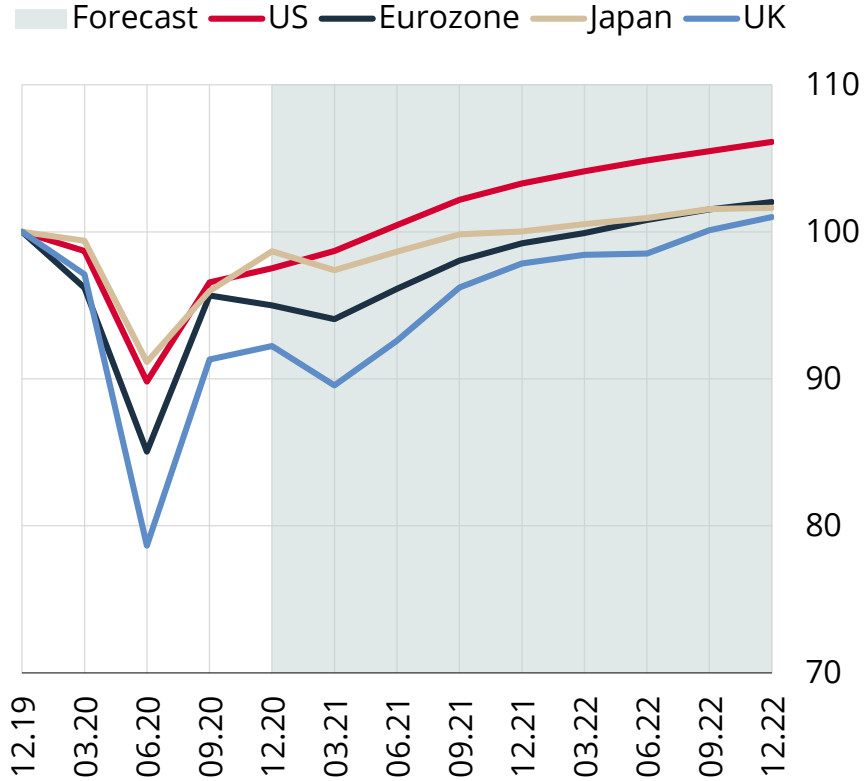
Outline

- **Macroeconomic Outlook**
- **The Determinants of Inflation**
- **Medium Term Projections**

MACROECONOMIC OUTLOOK

Global Growth

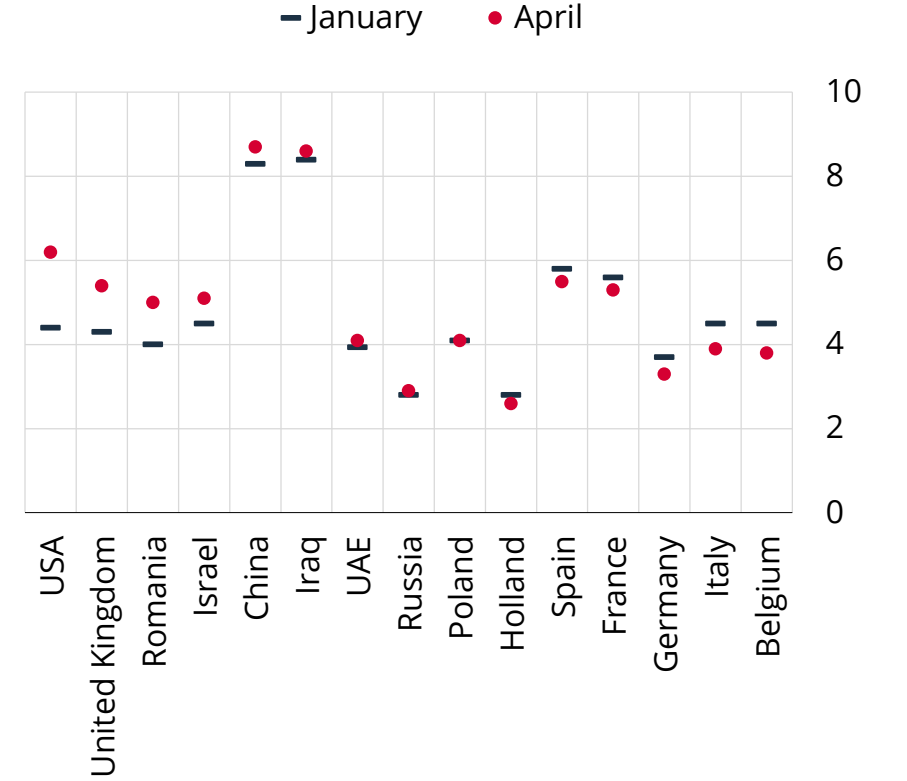
GDP and Forecasts in Advanced Economies (Constant Prices, 2019 Q4=100)



Source: Consensus Economics

Last Observation: 2022 Q4

2021 Growth Forecasts of Turkey's Main Trading Partners (%)

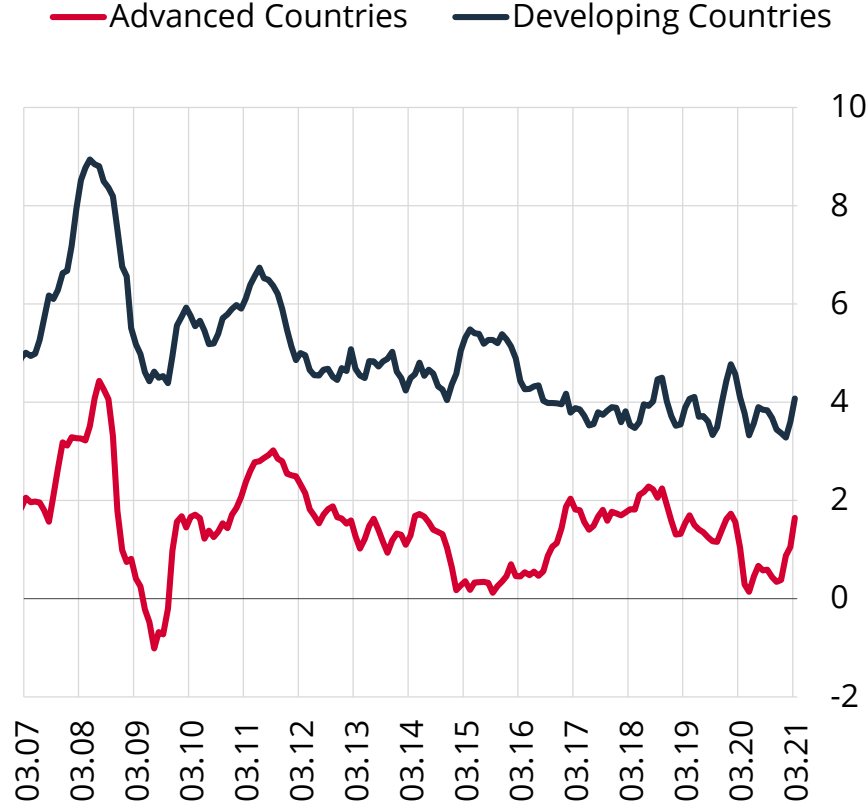


Source: Consensus Economics

Last Observation: April 2021

Global Inflation and Policy Rates

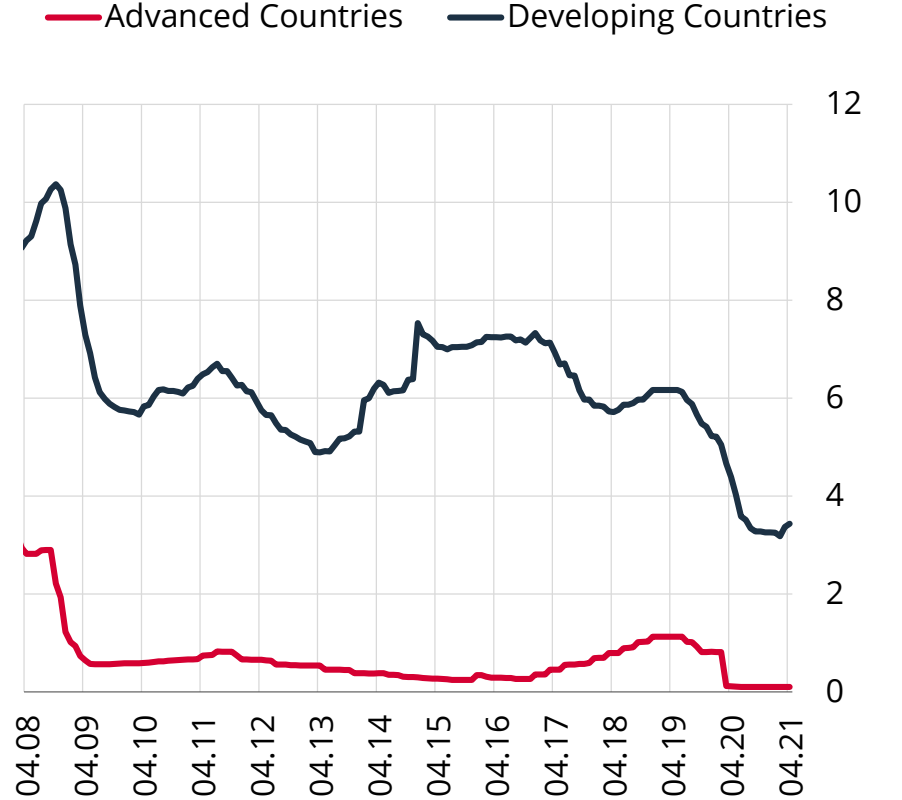
Inflation* (%)



Source: Bloomberg, CBRT

Last Observation: March 2021

Policy Rates** (%)



Source: Bloomberg, CBRT

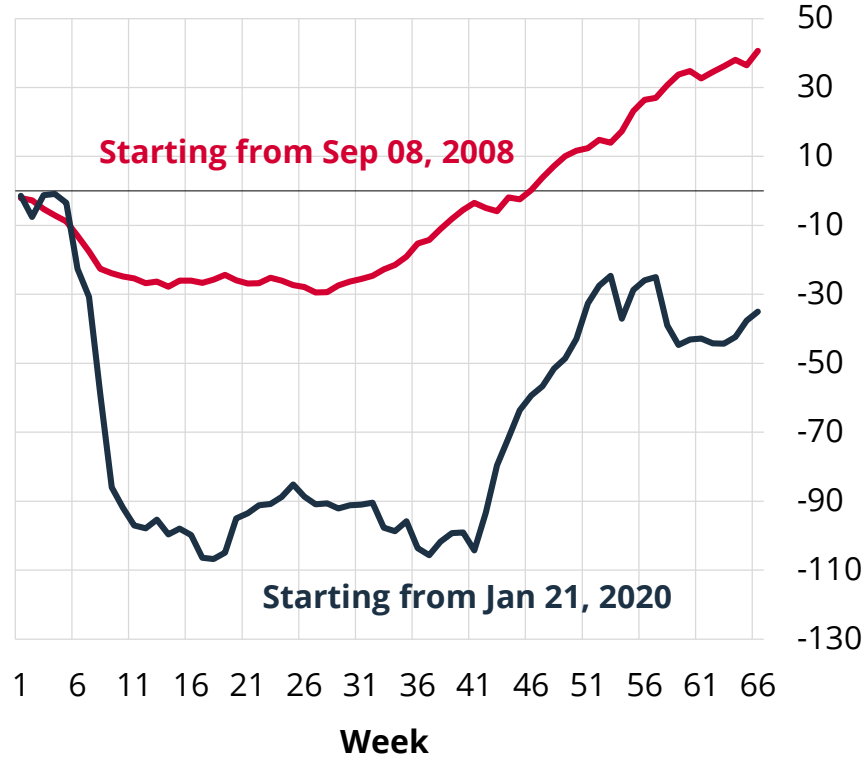
Last Observation: April 2021

* Advanced Countries: USA, Euro Area, Japan, UK, Canada, South Korea, Switzerland, Sweden, Norway, Denmark, Israel. Developing Countries: China, Brazil, India, Mexico, Russia, Turkey, Poland, Indonesia, South Africa, Argentina, Thailand, Czechia, Colombia, Hungary, Romania, Philippines, Ukraine, Vietnam, Chile, Peru, Egypt, Morocco.

** Advanced Countries: USA, Euro Area, Japan, UK, Canada, South Korea, Australia, Switzerland, Sweden, Norway, Denmark, Hong Kong, Israel, New Zealand. Developing Countries: Russia, Brazil, Mexico, Turkey, Poland, Indonesia, South Africa, Thailand, Czechia, Colombia, Hungary, Romania, Philippines.

Portfolio Flows

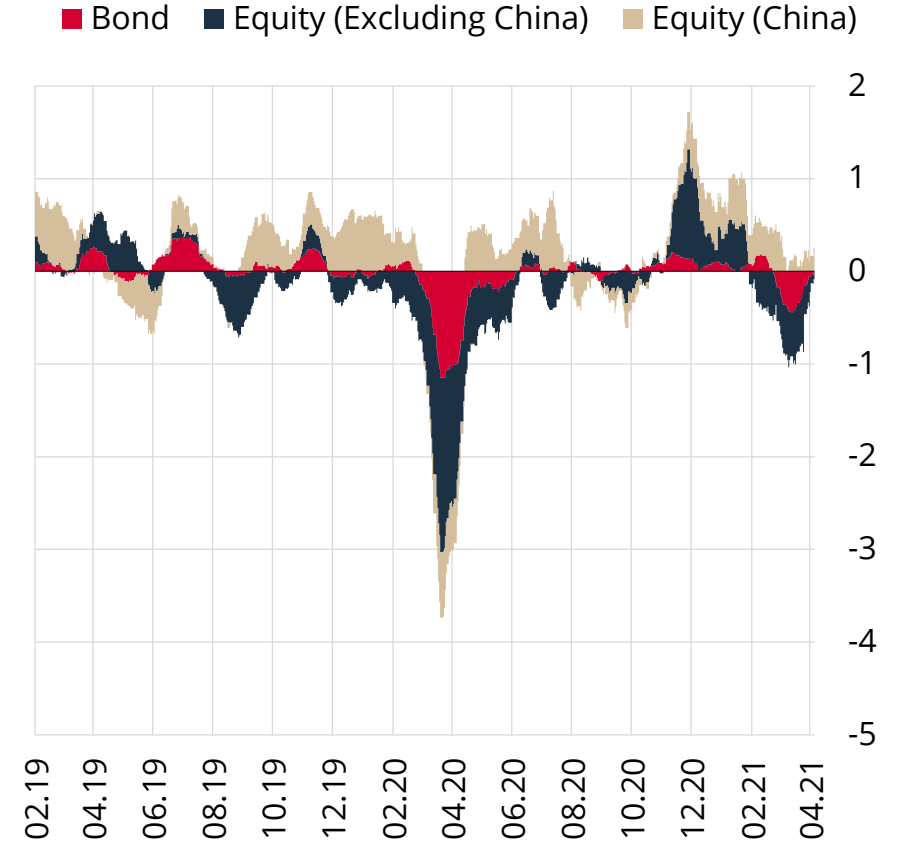
Portfolio Flows to Emerging Economies (Cumulative, Weekly, Billion USD)



Source: IIF

Last Observation: April 23, 2021

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

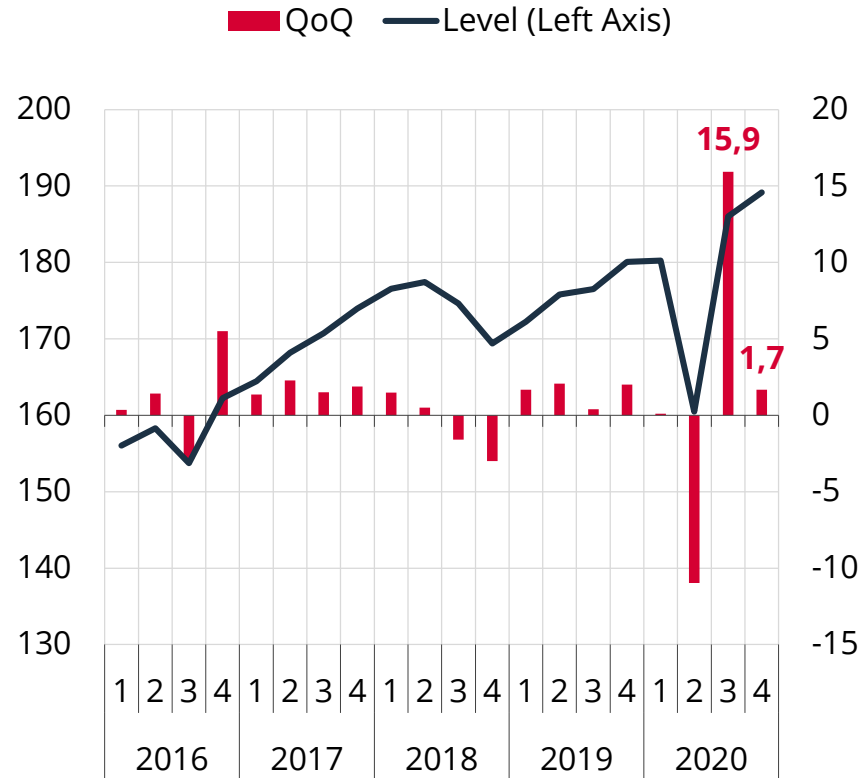


Source: IIF

Last Observation: April 26, 2021

Economic Activity

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

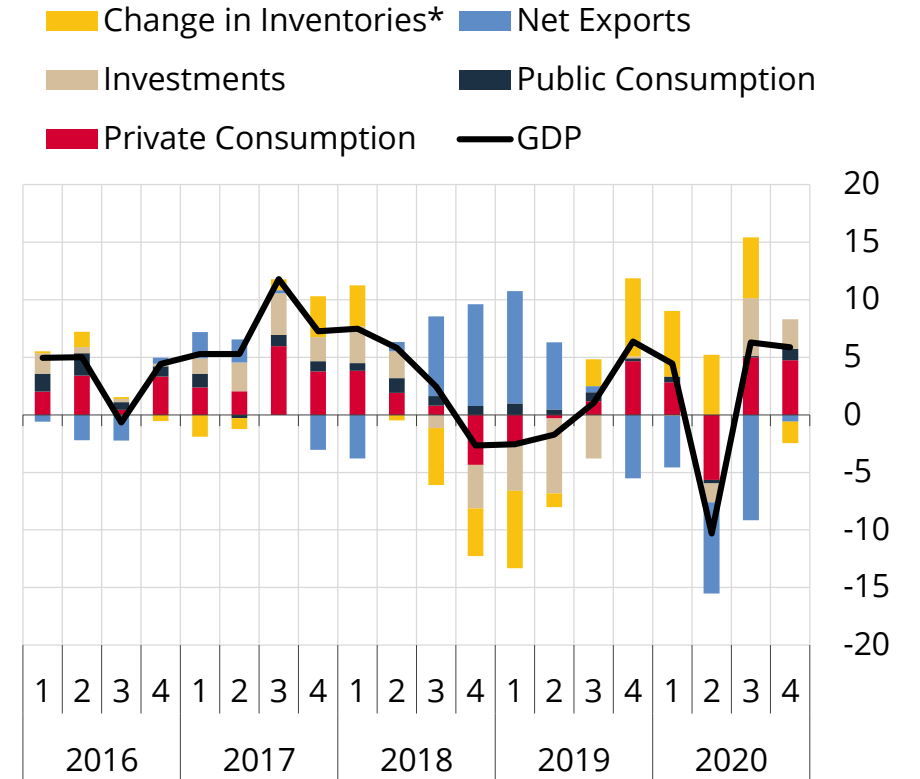


Source: TURKSTAT

Last Observation: 2020 Q4

* Includes stock and chain index-driven statistical discrepancy.

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

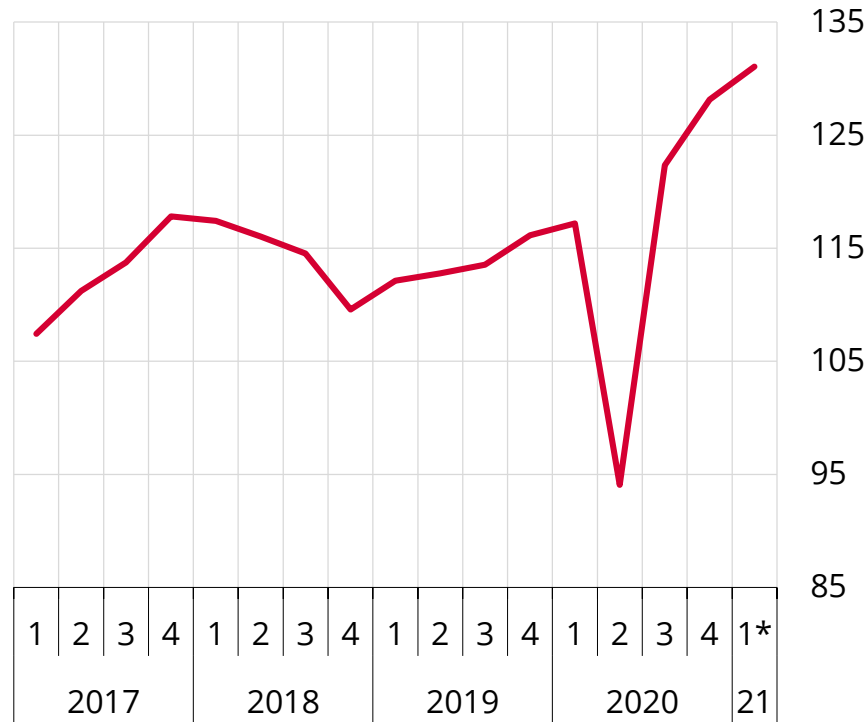


Source: CBRT, TURKSTAT

Last Observation: 2020 Q4

Economic Activity

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

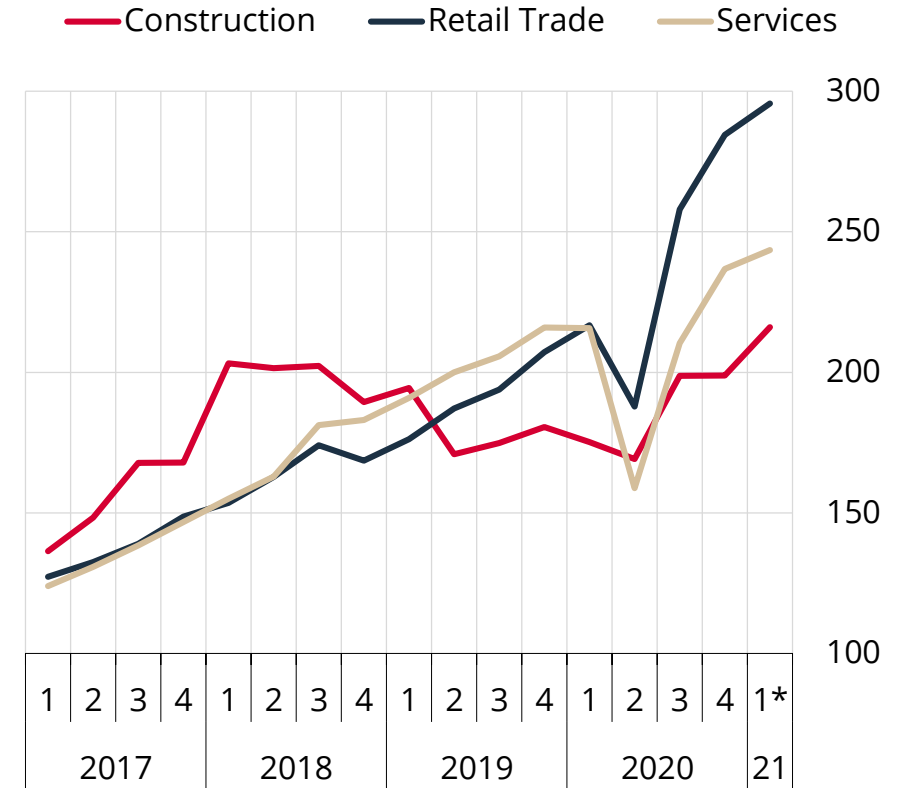


Source: TURKSTAT

Last Observation: 2021 Q1

* Average of January and February.

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

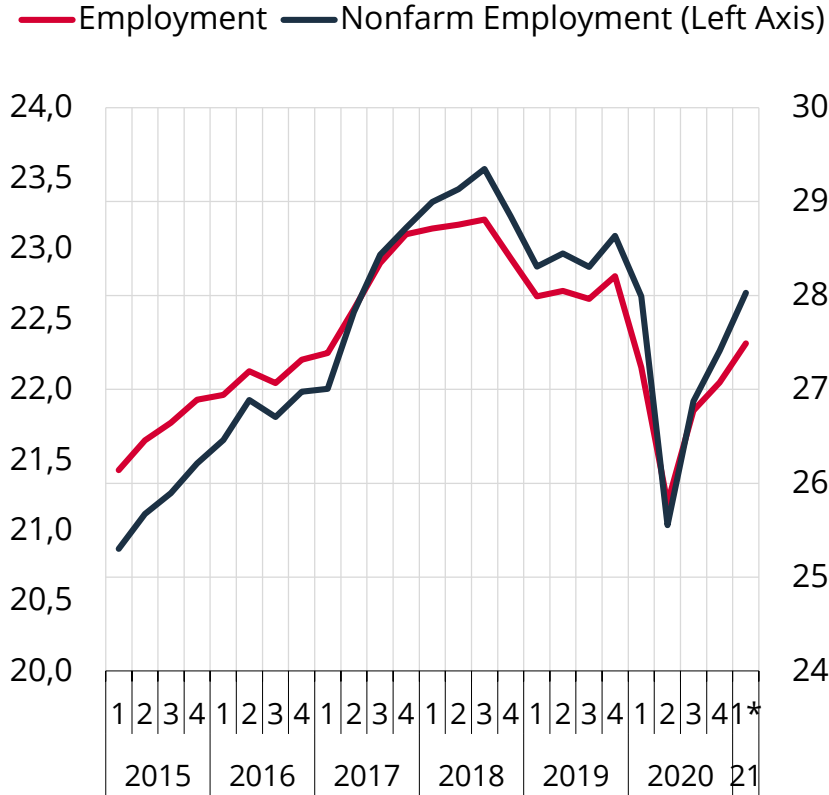


Source: TURKSTAT

Last Observation: 2021 Q1

Labor Market

Total and Nonfarm Employment (Seasonally Adjusted, Million)

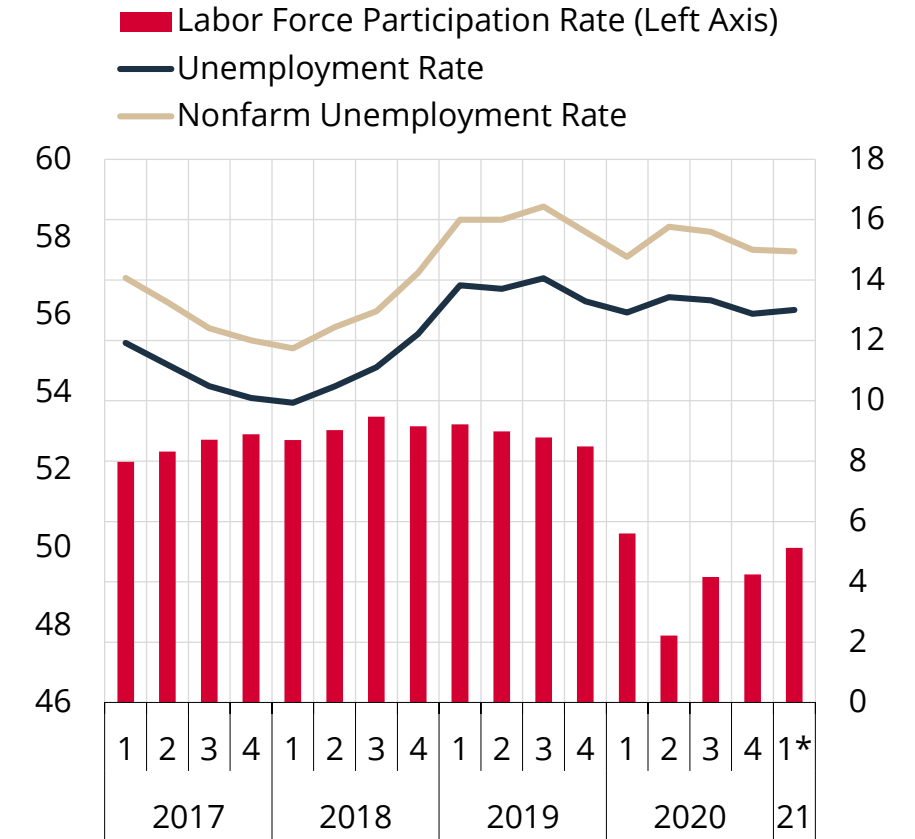


Source: TURKSTAT

Last Observation: 2021 Q1

* Average of January and February.

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

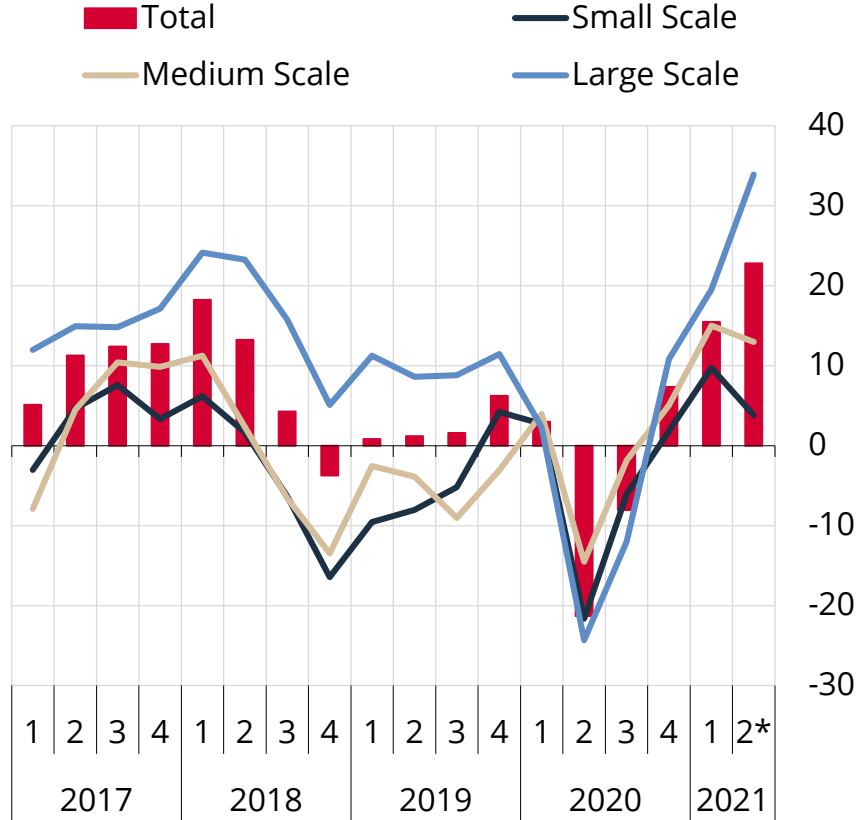


Source: TURKSTAT

Last Observation: 2021 Q1

Investment Tendency

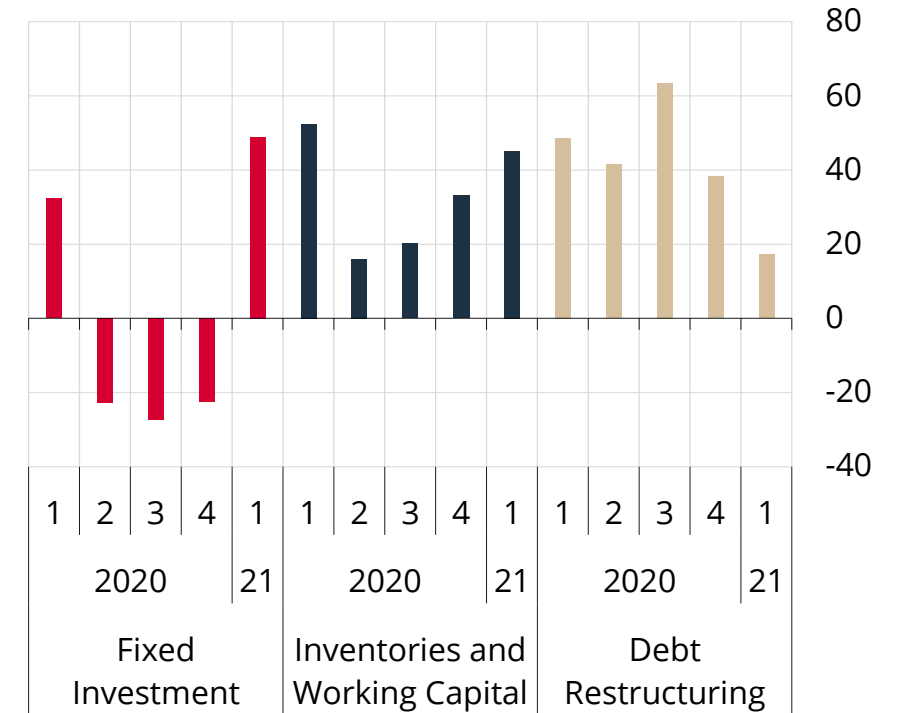
**Investment Tendency by Firm Scale
(Seasonally Adjusted, Increase-Decrease,%)**



Source: CBRT

Last Observation: April 2021

Factors Affecting Credit Demand of Firms* (%)



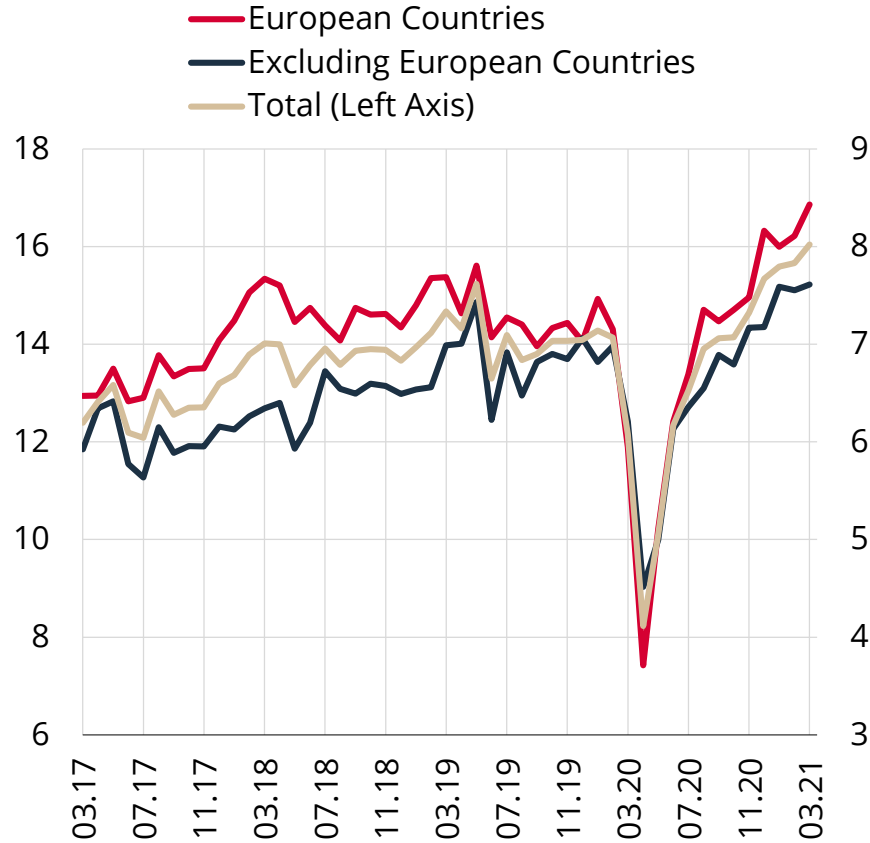
Source: CBRT

Last Observation: 2021 Q1

* Net percentage changes regarding the factors are calculated by taking the difference between the ratio of banks reporting that the factor in question has an increasing effect on credit demand and banks reporting that it has a downward effect.

External Balance

Exports* (Billion USD, Seasonally Adjusted)

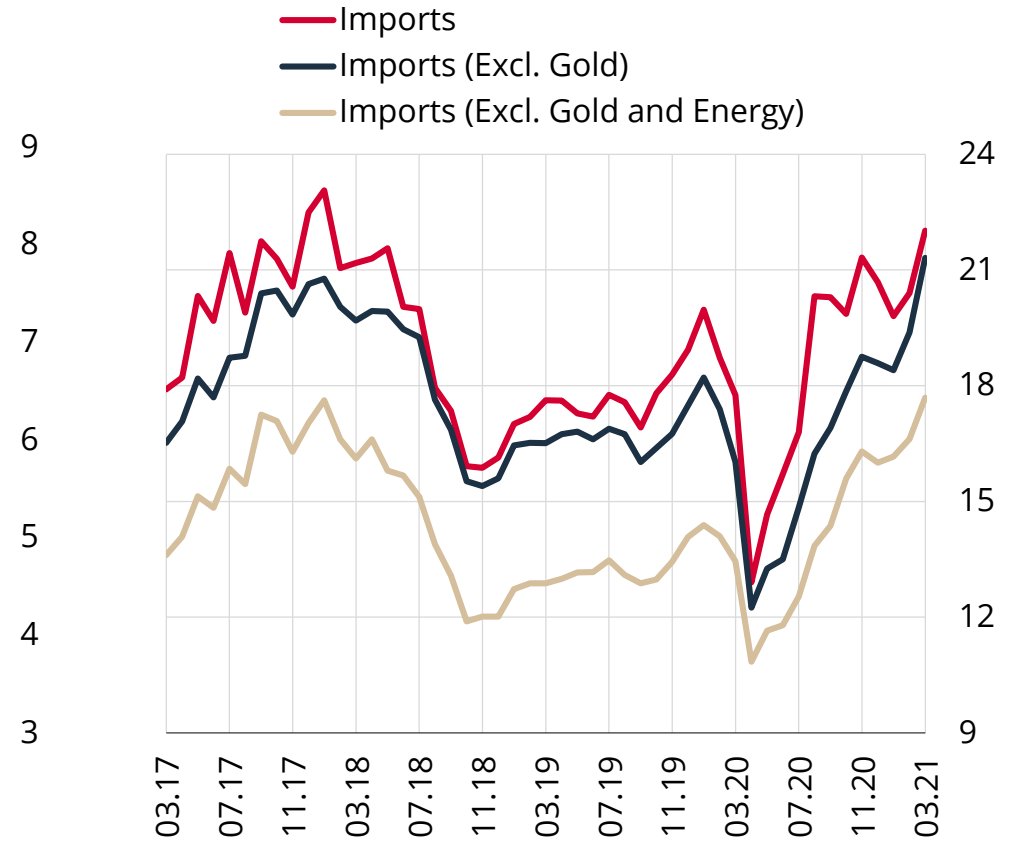


Source: MoT, CBRT, TEA, TURKSTAT

Last Observation: February 2021

* March data are provisional data from Ministry of Trade.

Imports* (Billion USD, Seasonally Adjusted)

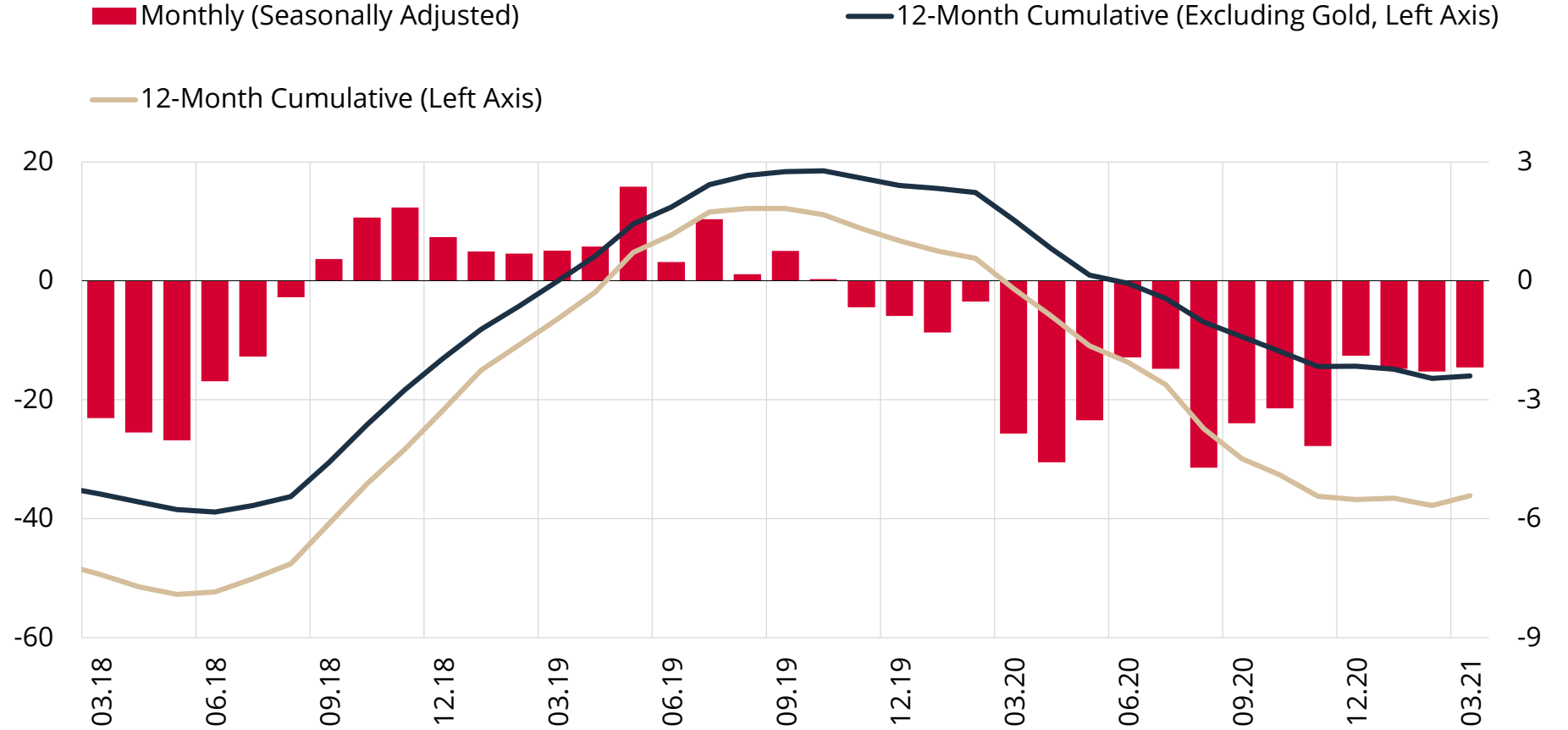


Source: MoT, CBRT, TURKSTAT

Last Observation: February 2021

External Balance

Current Account Balance* (Billion USD)



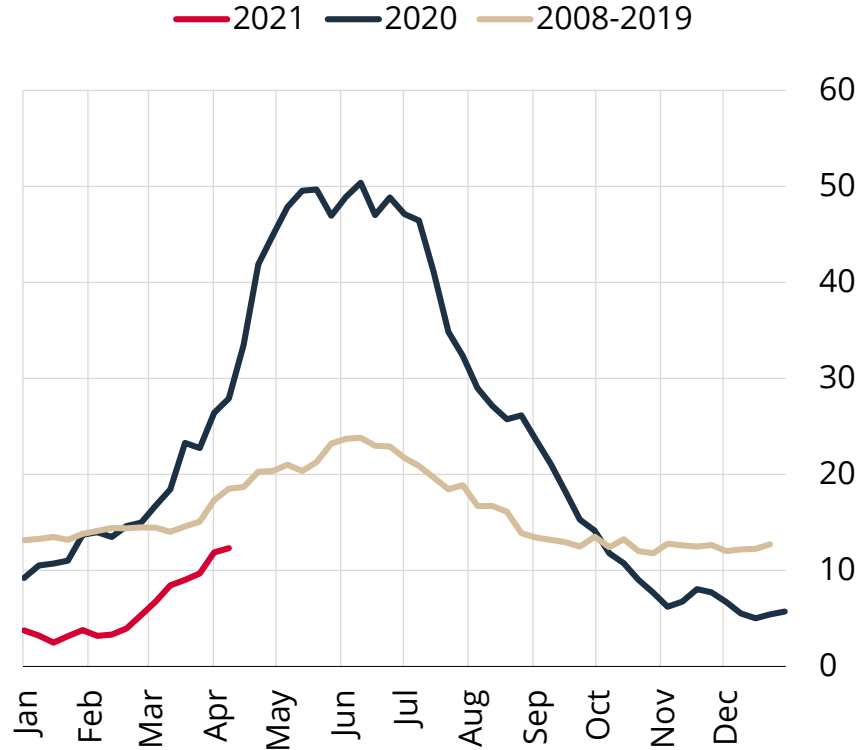
Source: CBRT

Last Observation: February 2021

* March data is forecast.

Credit Developments

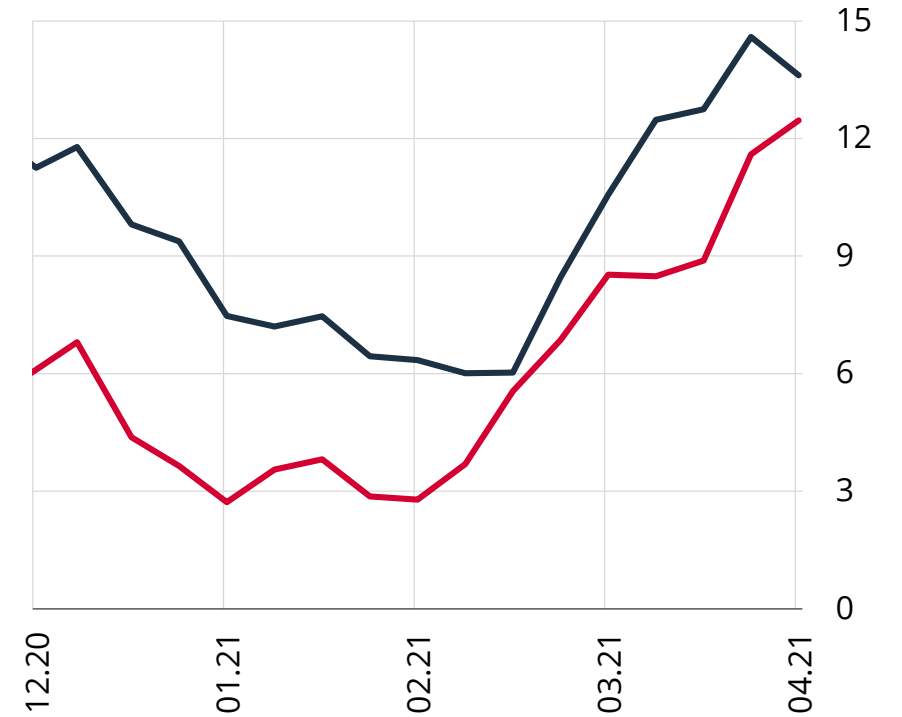
Loan Growth (Annualized 13-Week Average Growth, Adjusted for Exchange Rate, %)



Source: CBRT

Last Observation: April 16, 2021

Commercial Consumer (Inc. Credit Cards)

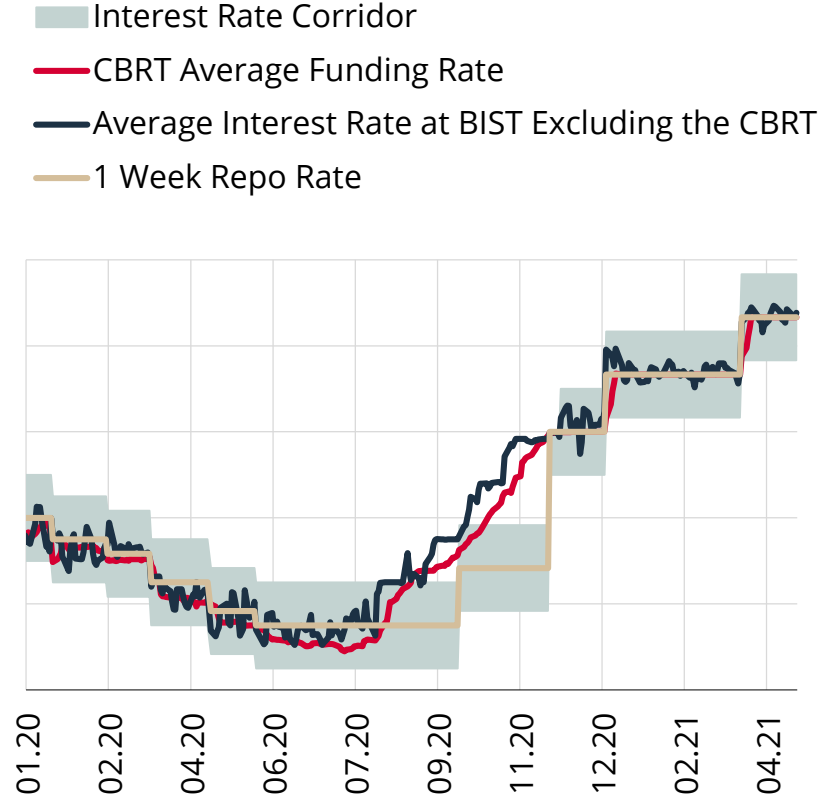


Source: CBRT

Last Observation: April 16, 2021

Monetary Policy

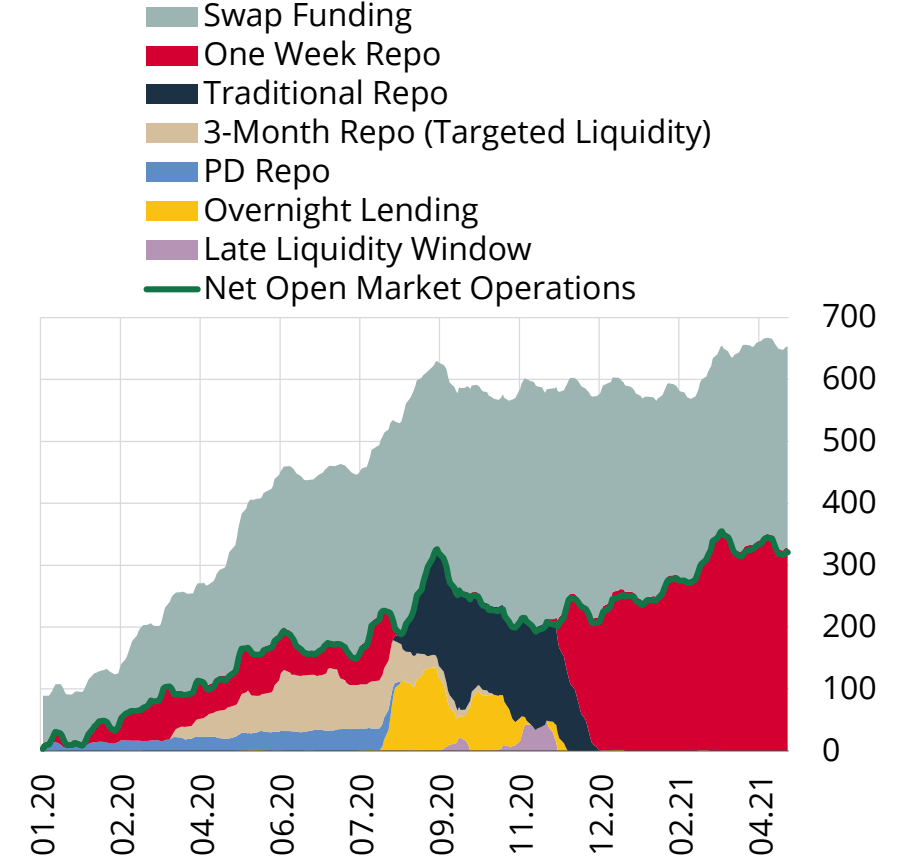
CBRT Policy Rate and Short Term Interest Rates (%)



Source: BIST, CBRT

Last Observation: April 22, 2021

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



Source: CBRT

Last Observation: April 22, 2021

Financial Indicators

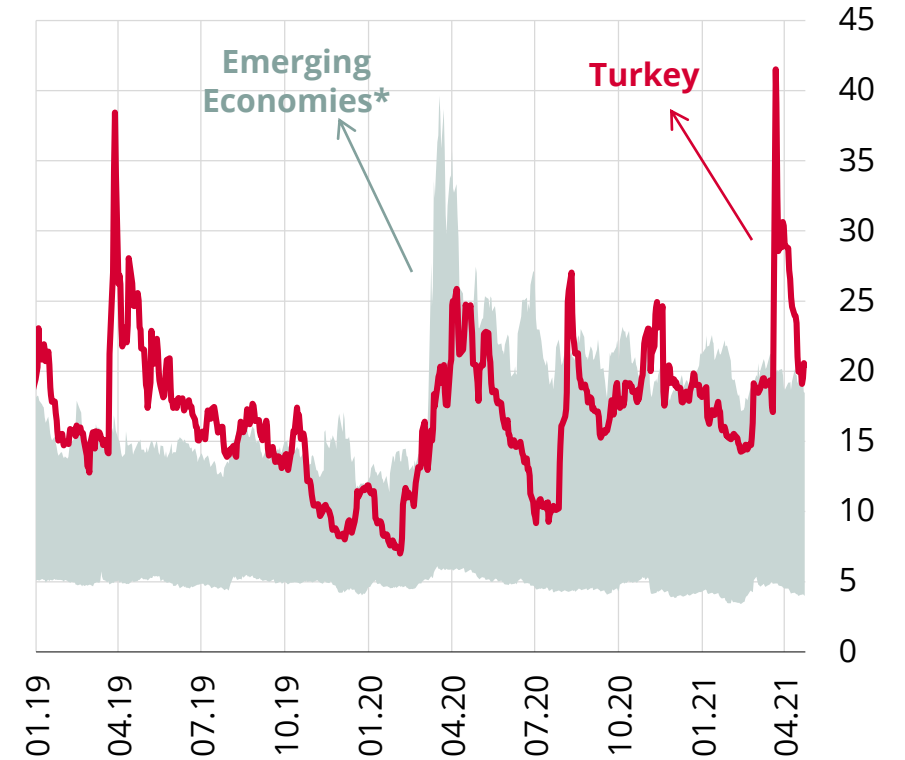
Turkey CDS Premium (Basis Points, 5 Year Term)



Source: Bloomberg

Last Observation: April 23, 2021

USD/TL Implied FX Volatility (1 Month, %)



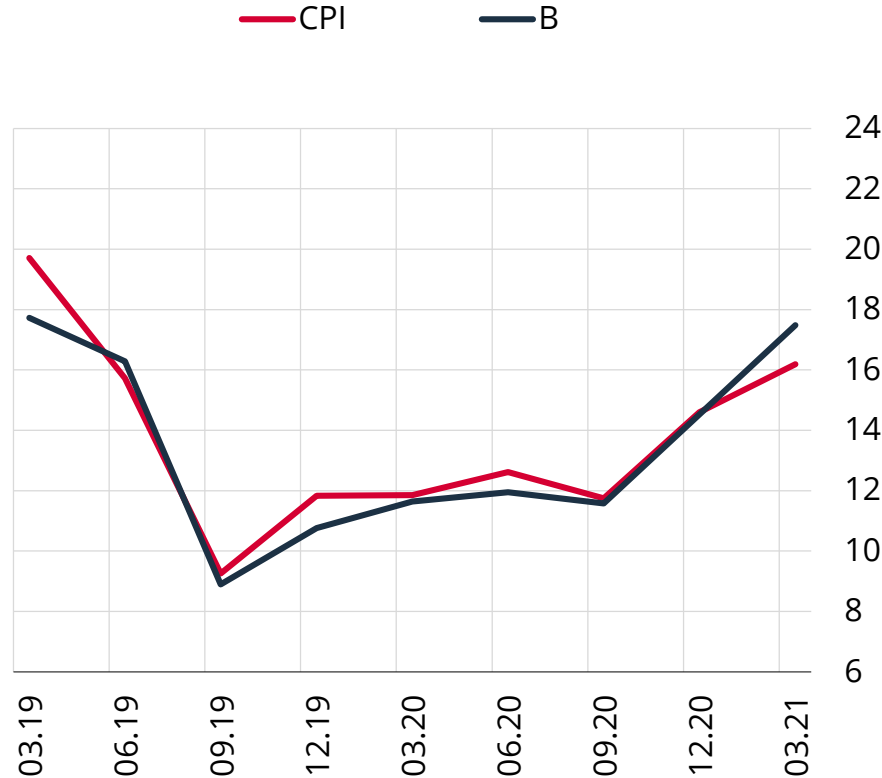
Source: Bloomberg

Last Observation: April 23, 2021

* Developing Countries: Brazil, Chile, Colombia, Mexico, Poland, Philippines, Malaysia, South Africa, Indonesia, Romania and Hungary.

Consumer Inflation

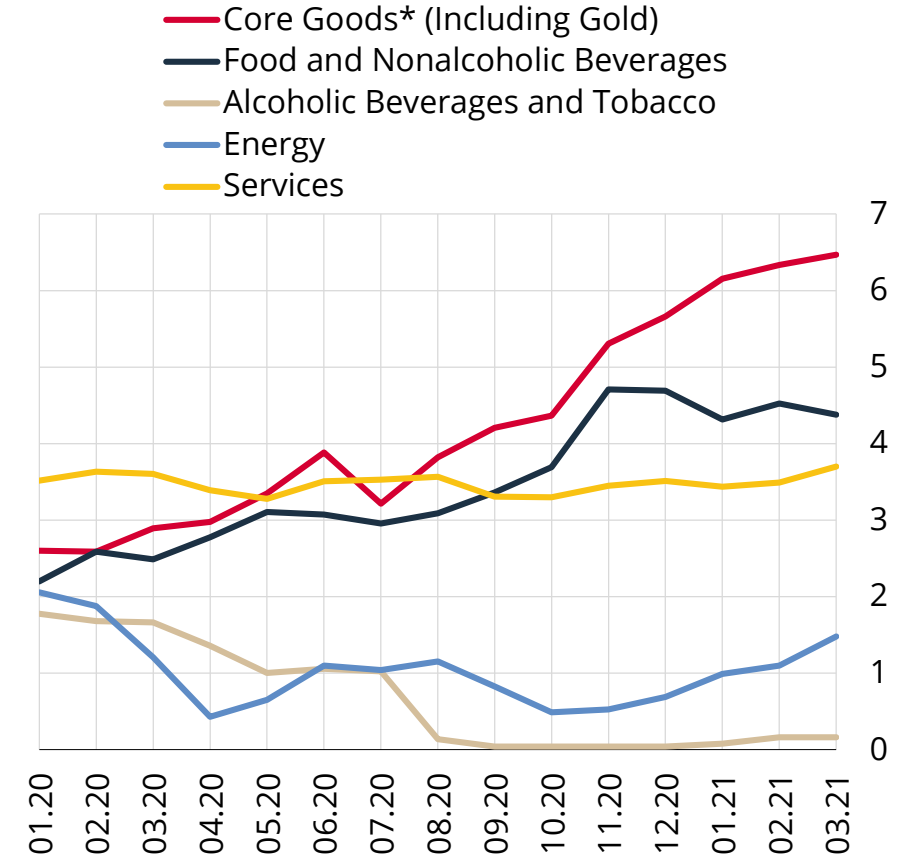
CPI and B Index (Annual % Change)



Source: TURKSTAT

Last Observation: March 2021

Contribution to Consumer Inflation (% Points)



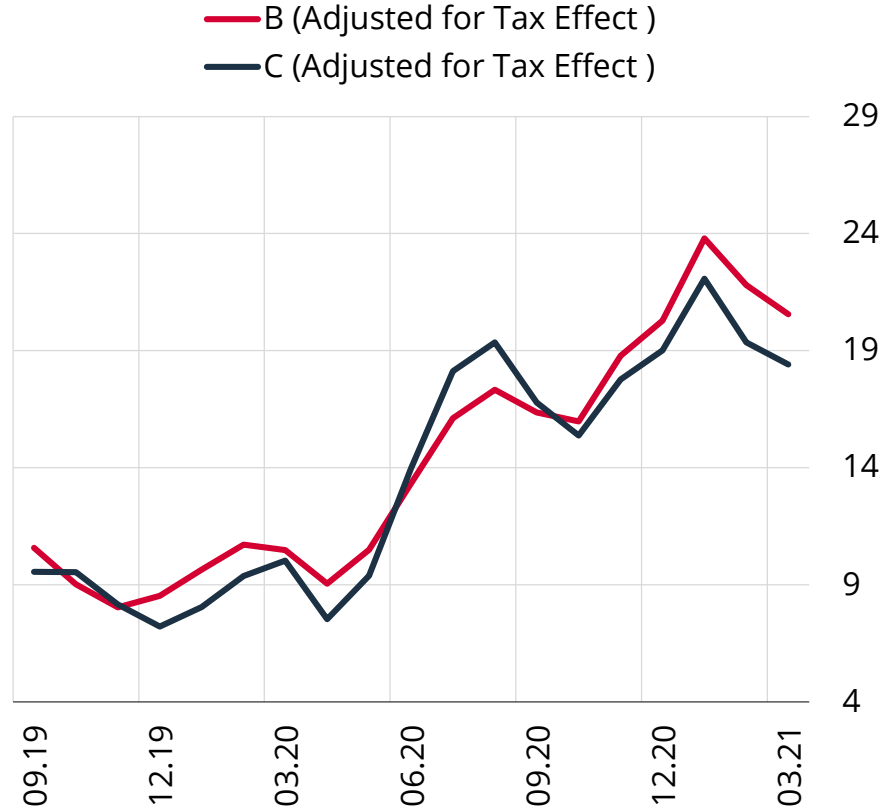
Source: CBRT, TURKSTAT

Last Observation: March 2021

* Core Goods: Goods excluding food, energy, alcoholic beverages and tobacco.

Consumer Inflation

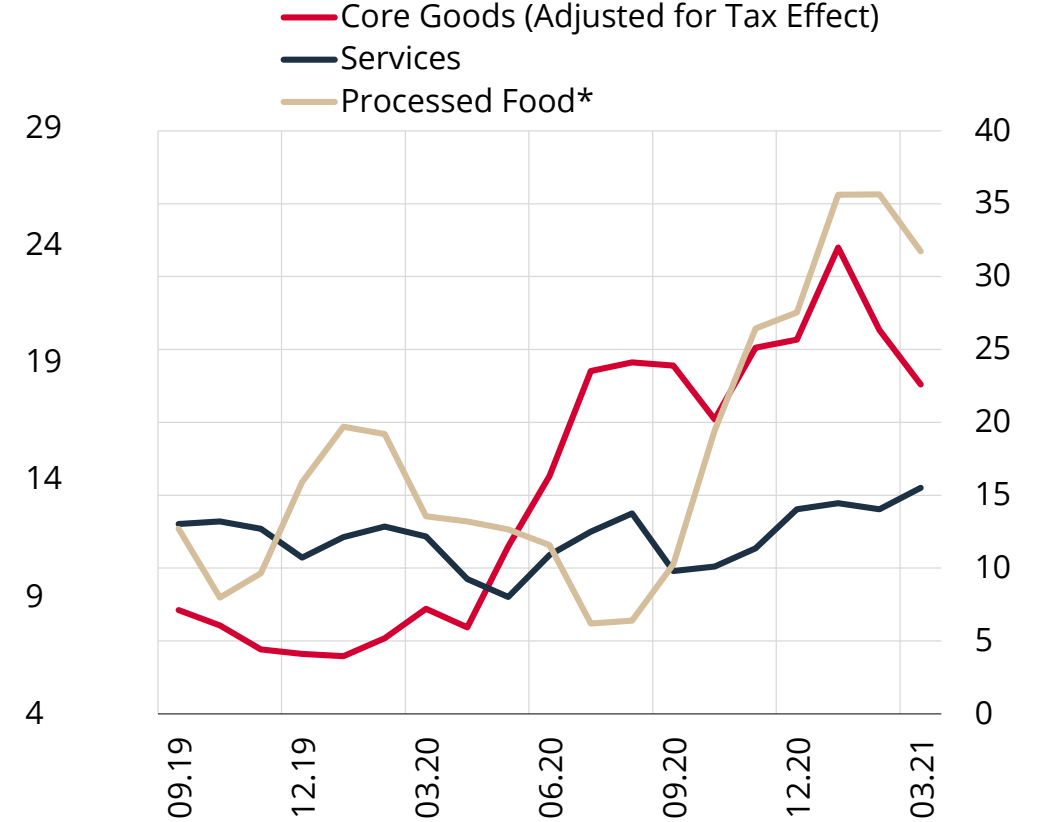
B and C Indices (Seas. Adj., Annualized 3-Month Average % Change)



Source: CBRT, TURKSTAT

Last Observation: March 2021

Subgroups of B Index (Seas Adj., Annualized 3-Month Average % Change)



Source: CBRT, TURKSTAT

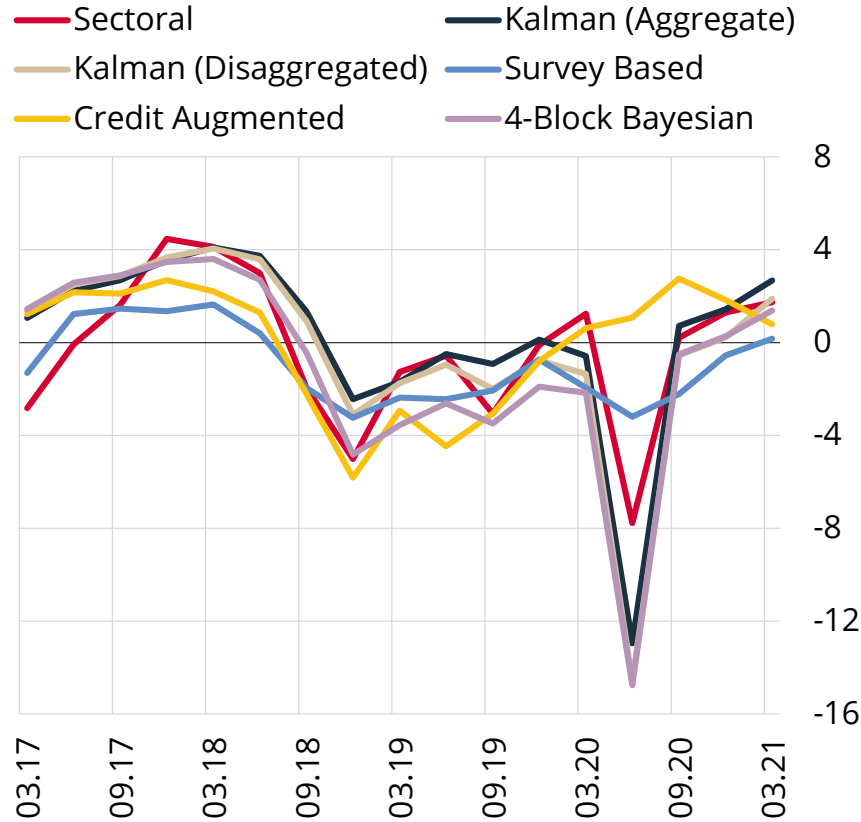
Last Observation: March 2021

* There is no seasonality in the processed food group.

THE DETERMINANTS OF INFLATION

Output Gap

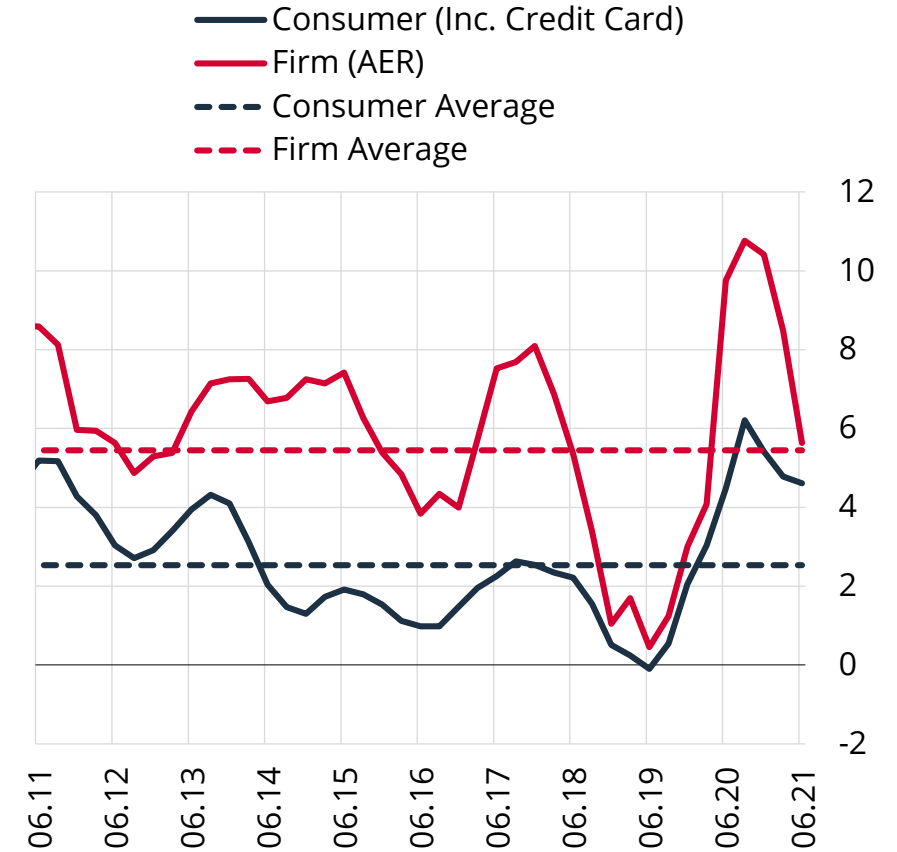
Output Gap Indicators (%)



Source: CBRT

Last Observation: March 2021

Net Loan Utilization* (%)



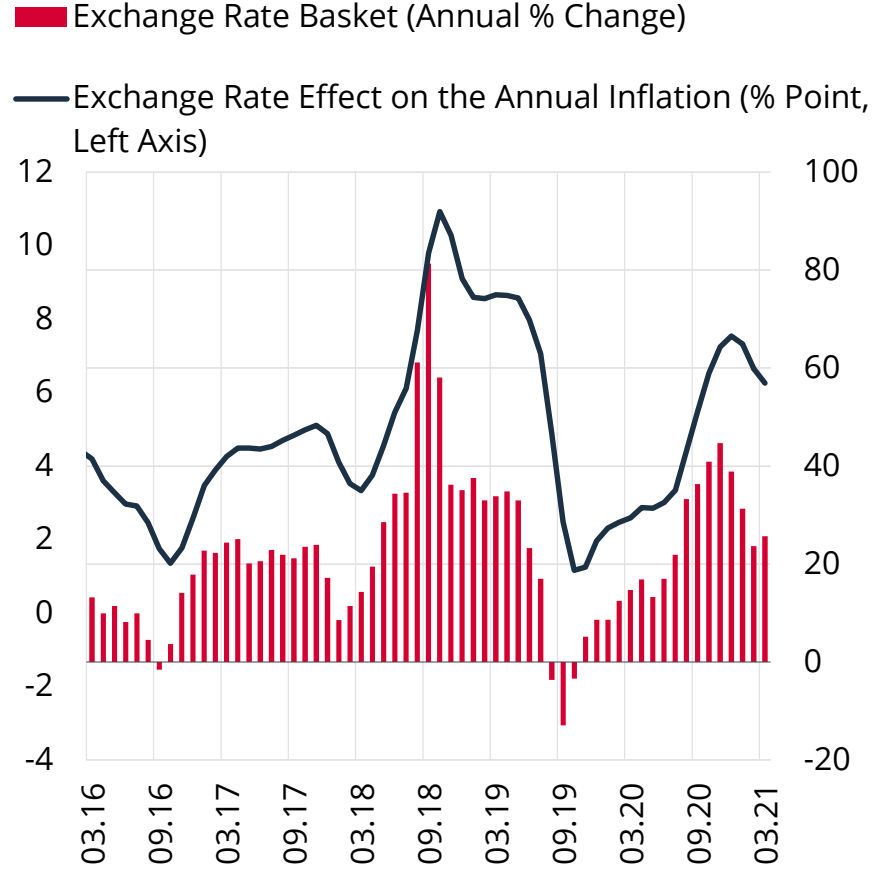
Source: CBRT

Last Observation: April 2021

* 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, and the net loan usage in April 2021 was calculated using the 12-month net loan change until April 2021. The historical average covers the period 2006-2019.

Import Costs

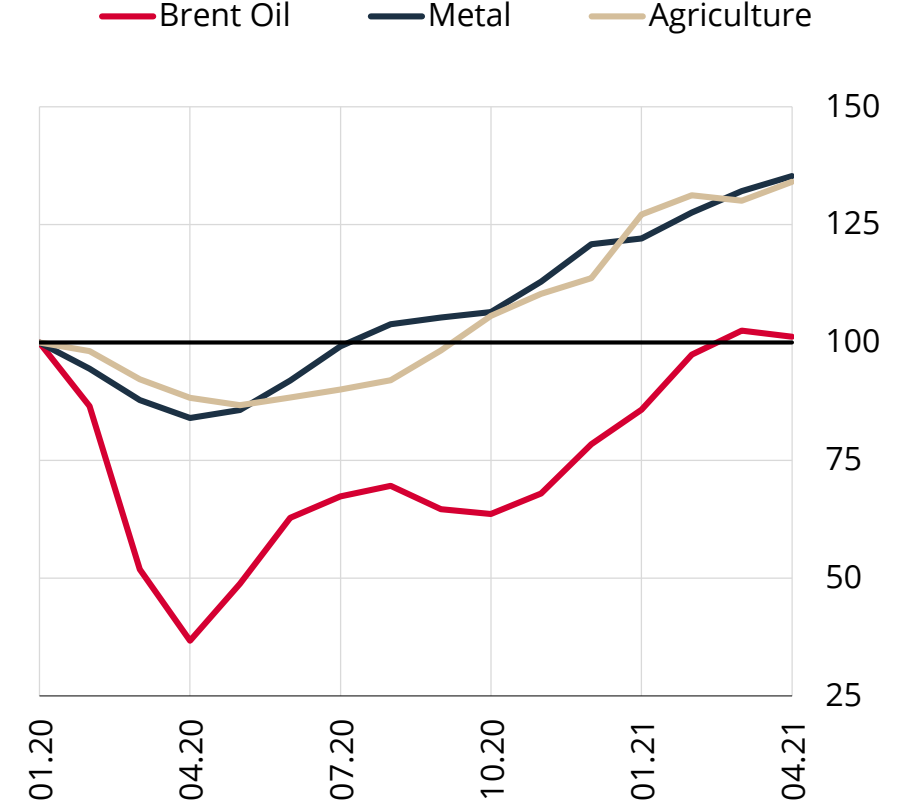
Contribution of Exchange Rate to CPI (% Point)



Source: CBRT

Last Observation: March 2021

International Commodity Prices (January 2020=100)



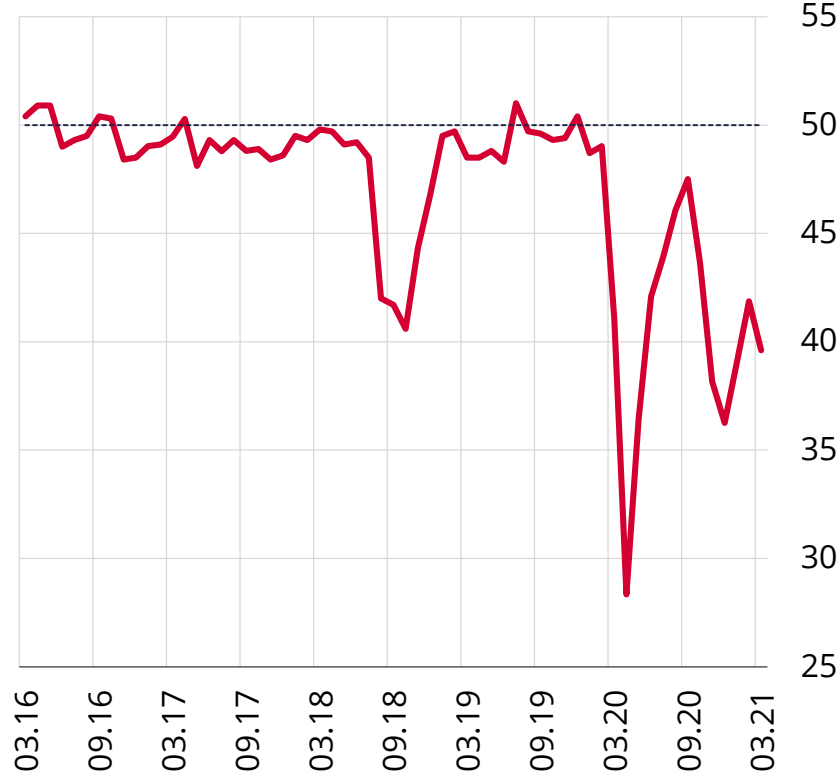
Source: Bloomberg, Goldman Sachs

Last Observation: April 26, 2021

Supply Constraints: Delivery Times

PMI Suppliers' Delivery Times* (Seasonally Adjusted)

Manufacturing

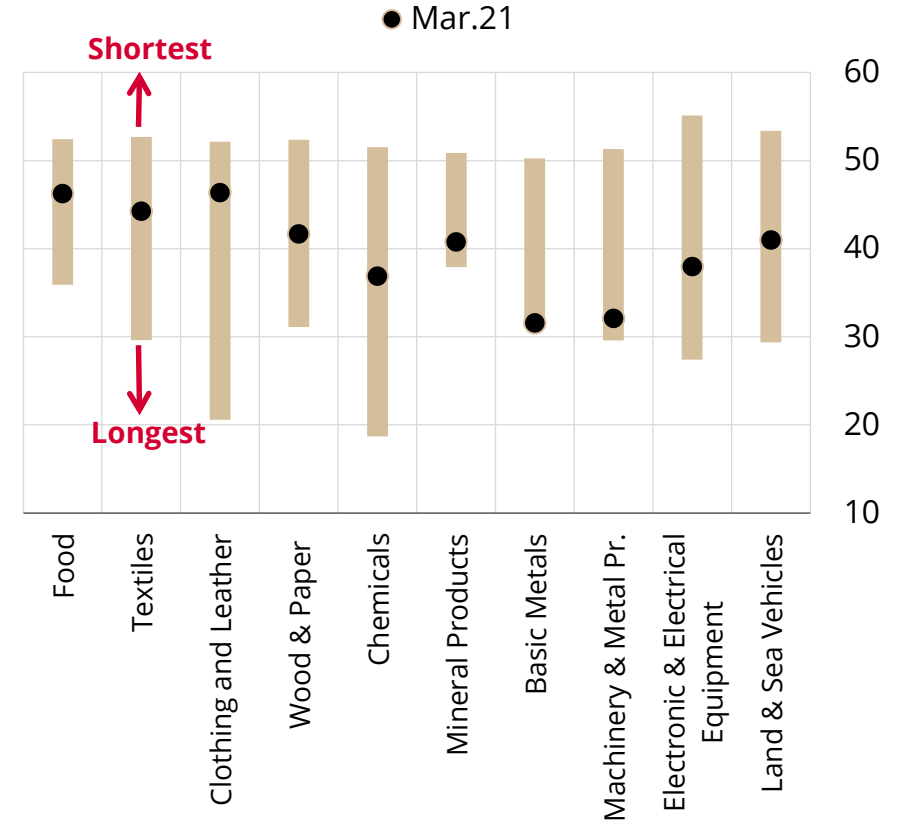


Source: IHS Markit

Last Observation: March 2021

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

Selected Subgroups

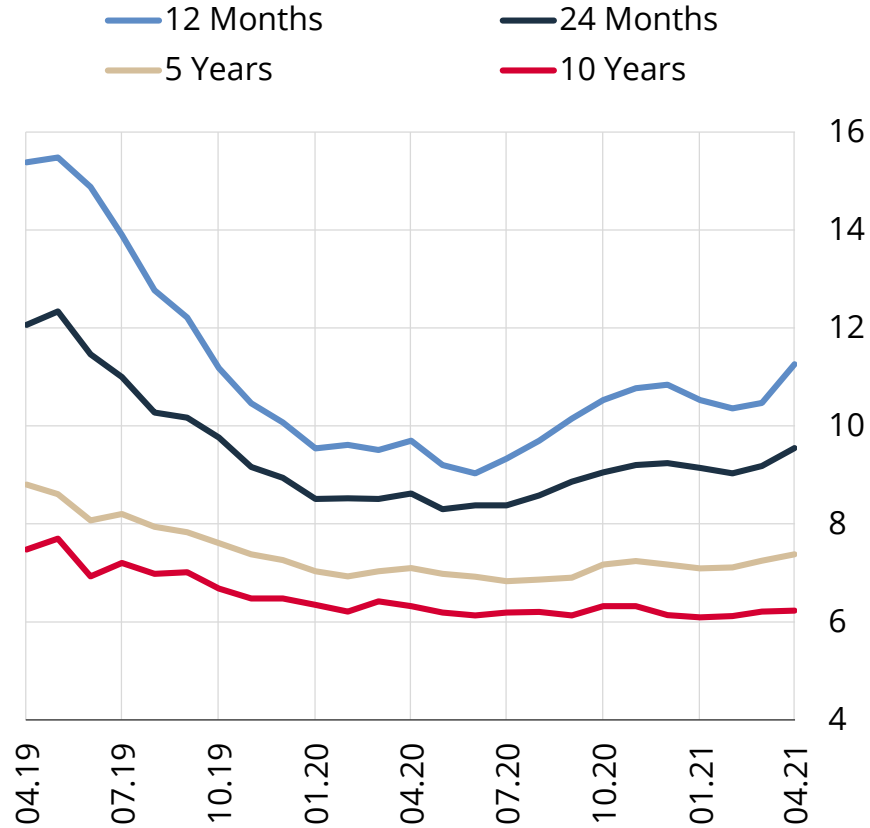


Source: IHS Markit

Last Observation: March 2021

Inflation Expectations

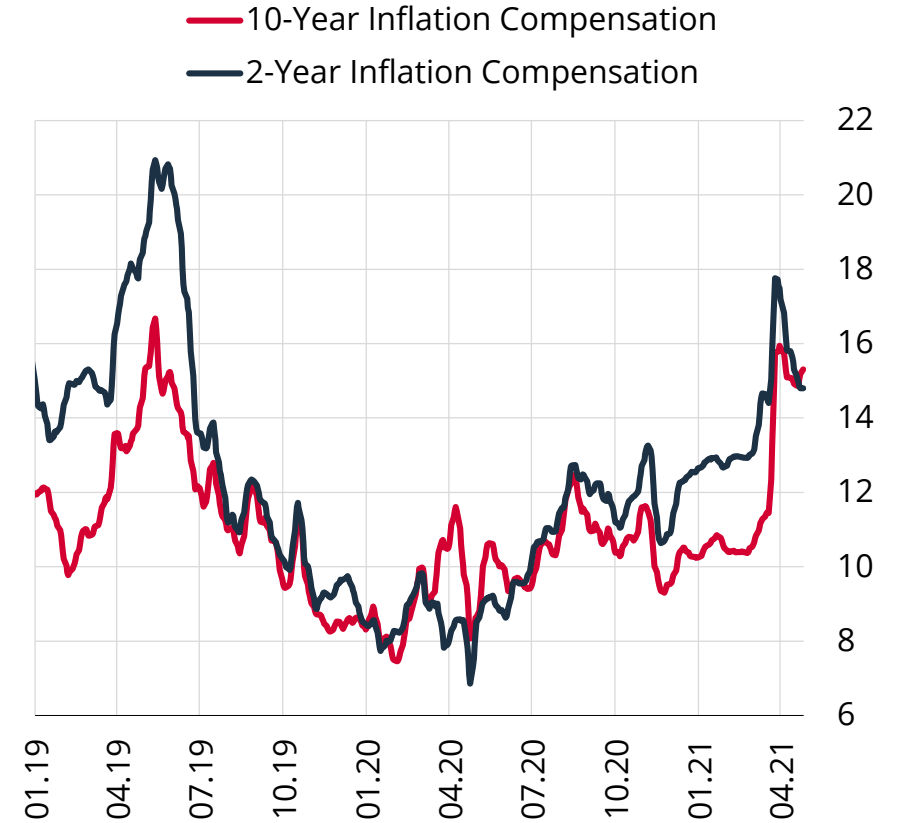
Consumer Inflation Expectations* (%)



Source: CBRT

Last Observation: April 2021

Inflation Compensation** (%
(%, 5-Day Moving Average)



Source: Bloomberg

Last Observation: April 26, 2021

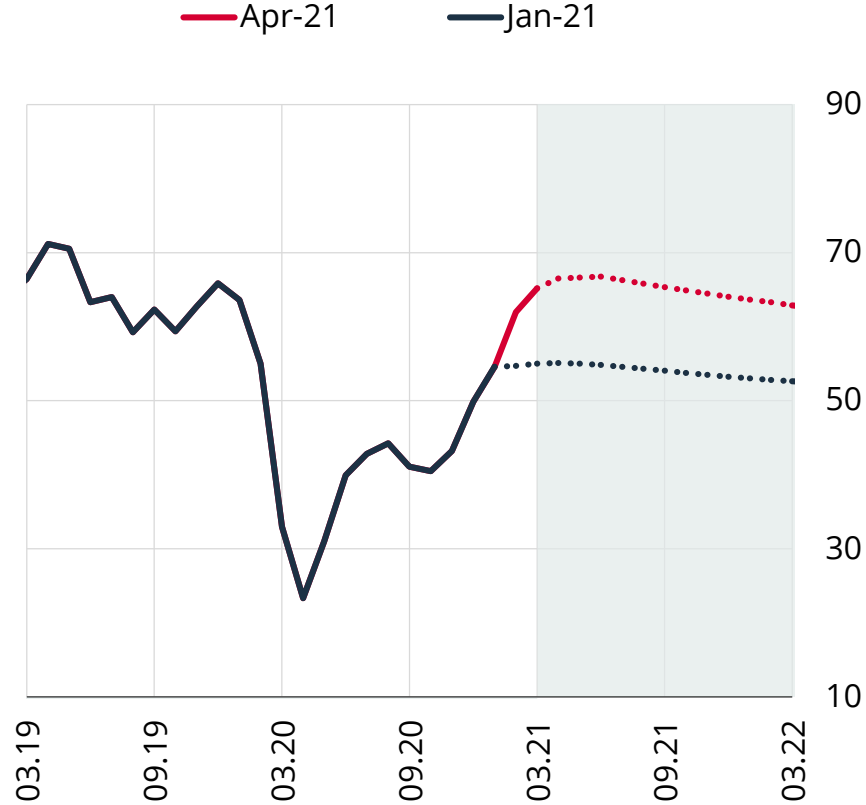
*Data from the CBRT Survey of Expectations responded by the representatives of the real and financial sectors and professionals.

**Calculated by the yield spread between nominal and inflation-indexed Treasury bonds with same maturities.

MEDIUM TERM PROJECTIONS

Assumptions for External Variables

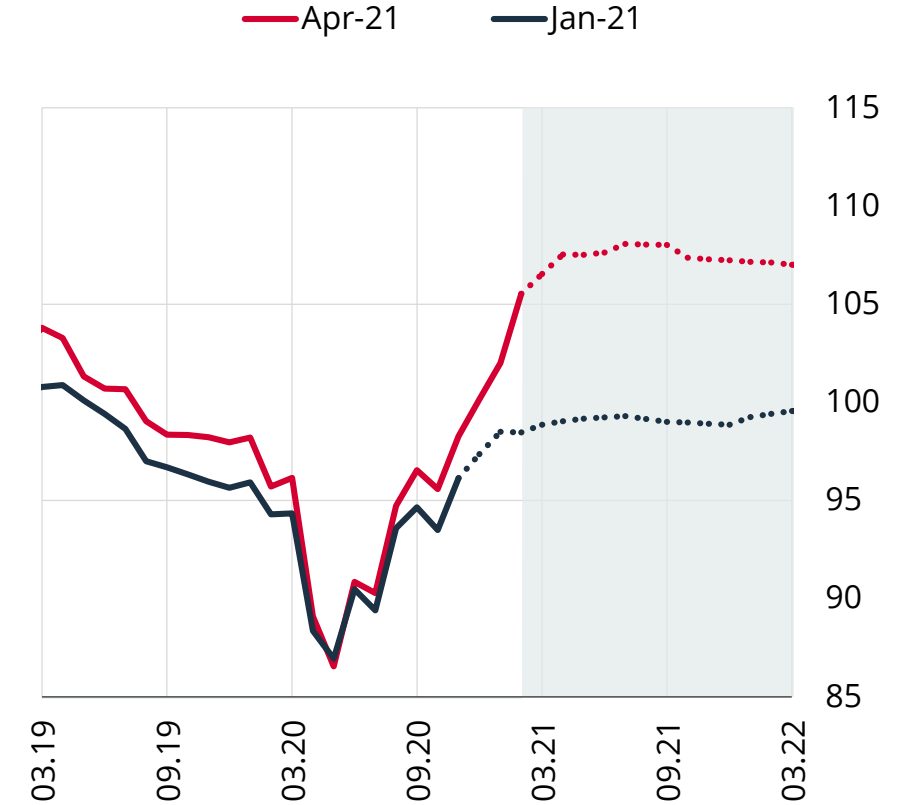
Revisions to Oil Price Assumptions* (USD/Barrel)



Source: Bloomberg, CBRT

Last Observation: March 2021

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



Source: CBRT, TURKSTAT

Last Observation: February 2021

*Shaded area shows the forecast period.

**The import price series presented in January IR has been updated to 2015 = 100 in line with the revision.

Revisions in Assumptions

		January IR	April IR
Output Gap (%)	2020 Q4	2.8	2.5
	2021 Q1	1.3	2.3
Food Prices (Year-end % Change)	2021	11.5	13.0
	2022	9.4	9.8
Import Prices (USD, Average Annual % Change)	2021	6.5	13.3
	2022	0.3	-0.5
Oil Prices (Average, USD)	2021	54.4	64.4
	2022	52.1	61.9
Export-Weighted Global Production Index (Average Annual % Change)	2021	4.7	4.4
	2022	4.3	4.4

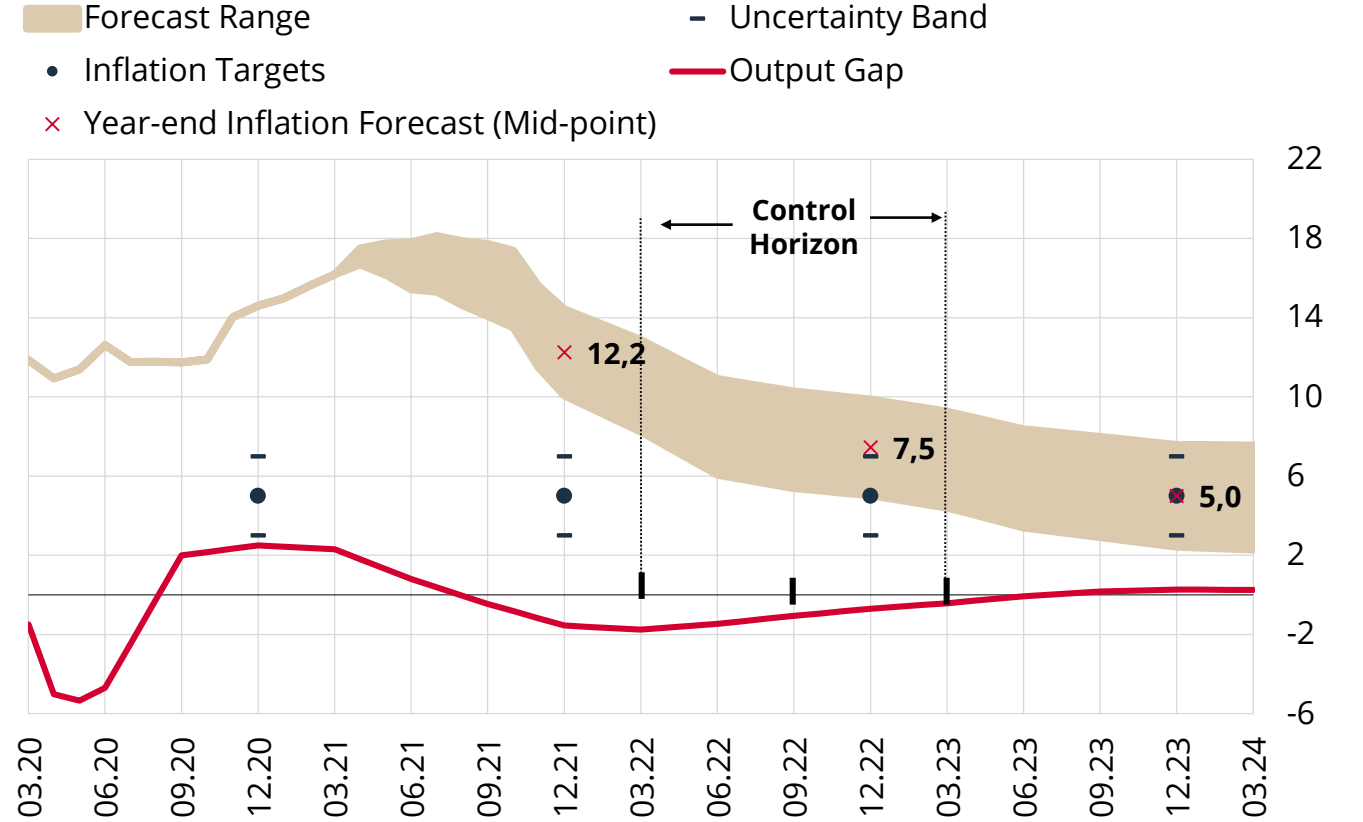
Inflation Outlook

Accordingly, inflation is expected to be

- Between 10.0% and 14.4% (with a mid-point of 12.2%) at end-2021
- Between 5.0% and 7.5% (with a mid-point of 7.5%) at end-2022

with 70% probability.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

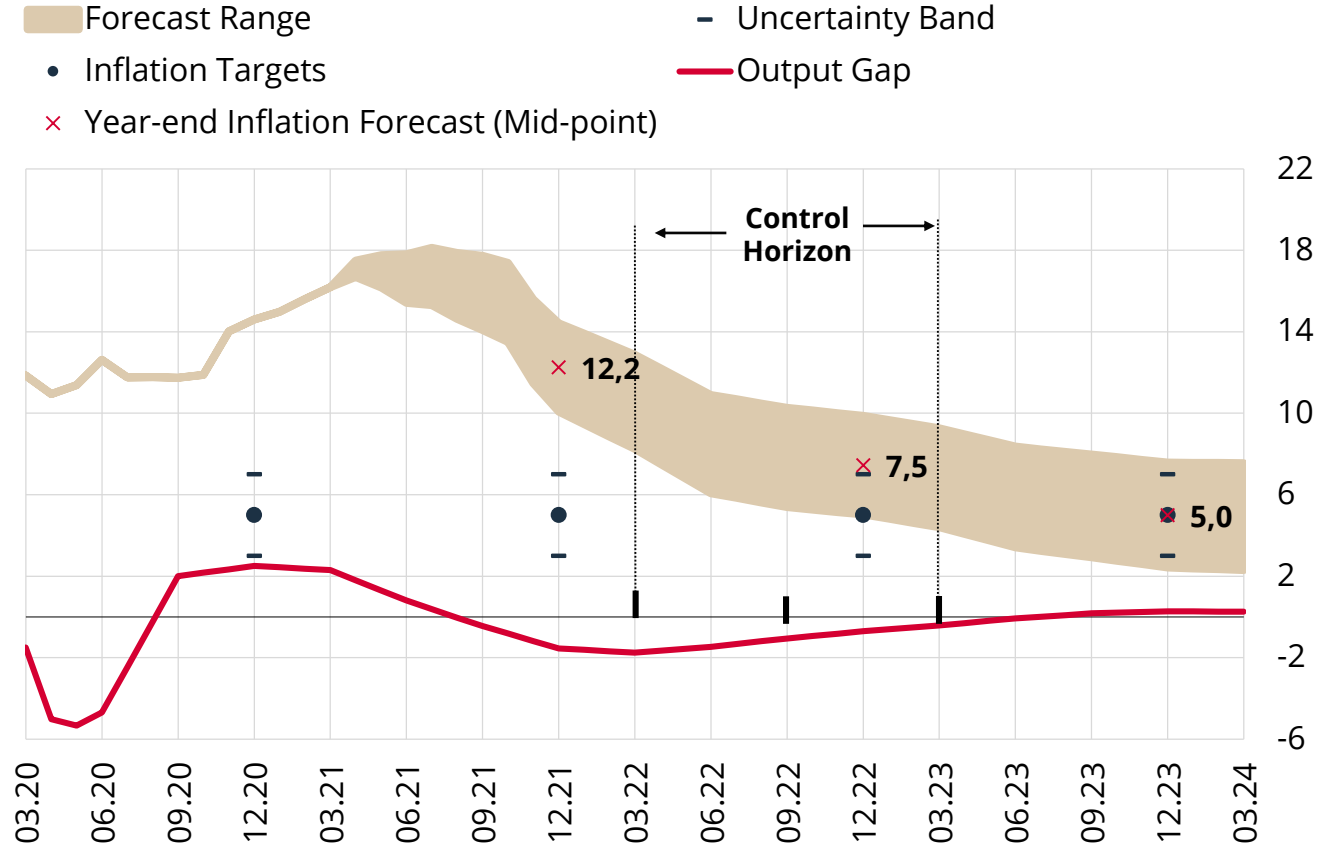
* Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

Accounting of the revision in 2021 year-end inflation forecasts relative to previous Report:

- +1.8 points from TL denominated import price,
- +0.4 points from output gap,
- +0.4 points from revision in food inflation,
- +0.1 points from administered prices,
- +0.1 points from the rise in underlying trend of inflation and initial conditions.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

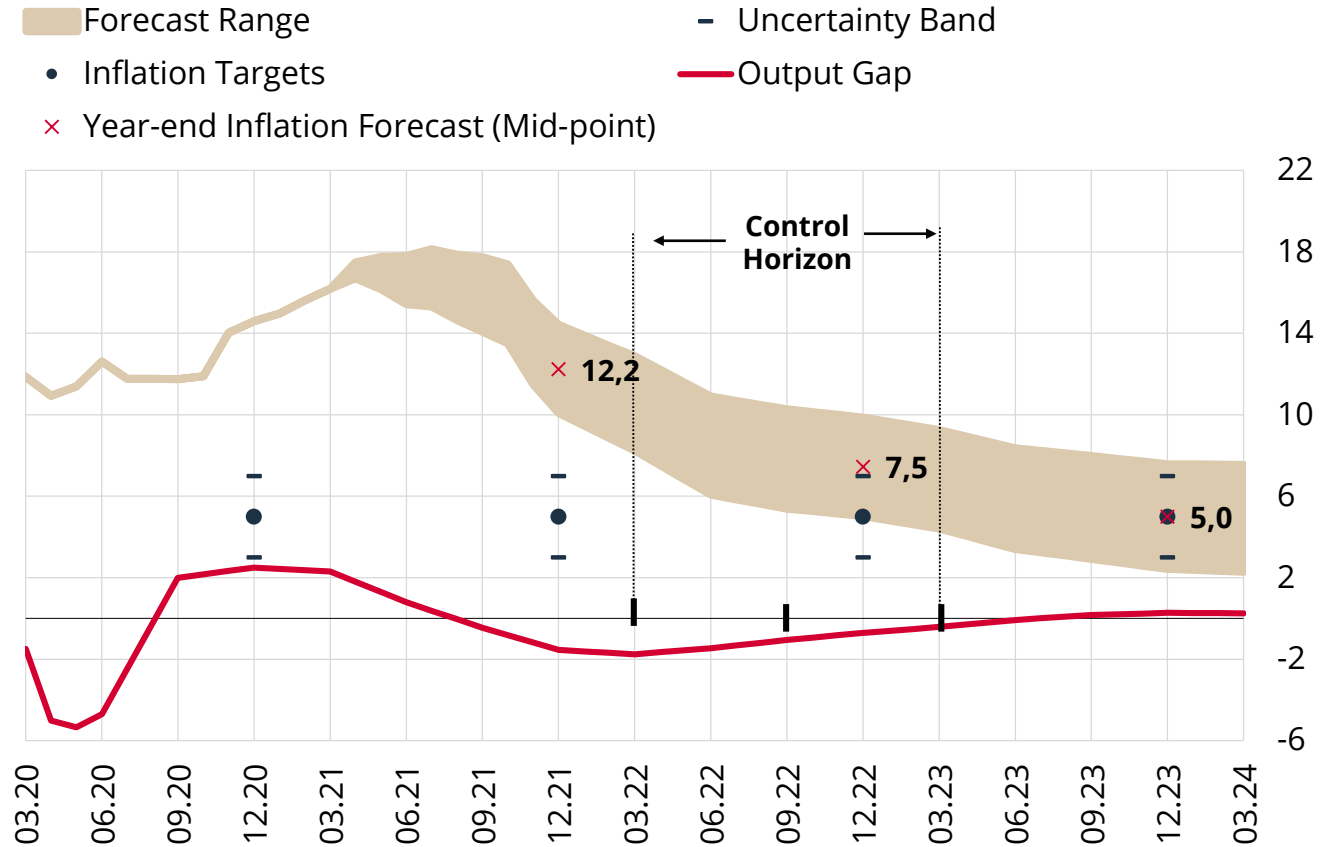
* Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

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

- +0.3 points from TL denominated import price,
- -0,2 points from output gap,
- +0.1 points from revision in food inflation,
- +0.3 points from the rise in underlying trend of inflation and initial conditions.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

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

Overview

- Demand and cost-side effects remain significant for inflation given credit market and economic activity indicators, as well as exchange rate volatility and developments in import prices.
- Despite the constraining effect of the pandemic, domestic economic activity is strong, led by domestic and external demand.
- Notwithstanding the rise in exports and the fall in gold imports, strong domestic demand and commodity prices continue to adversely affect the current account balance.
- While commercial loans exhibit a moderate course, an upward trend is observed in consumer loan growth despite tightening financial conditions.
- The decelerating impact of the current monetary stance on credit and domestic demand is envisaged to become more significant in the upcoming period.
- The policy rate will continue to be determined at a level above realized and expected inflation to maintain a strong disinflationary effect until strong indicators point to a permanent fall in inflation and the medium-term 5% target is reached.
- The tight monetary stance will serve as a significant buffer against external and temporary volatilities in the context of inflation expectations, pricing behavior and financial market developments.
- The stability in the general price level will foster macroeconomic stability and financial stability through the fall in country risk premium, reversal in currency substitution, accumulation of foreign exchange reserves and perpetual decline in financing costs.
- This would create a viable foundation for investment, production and employment to continue growing in a healthy and sustainable way.



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