

# BRIEFING ON 2022-II INFLATION REPORT

**Prof. Şahap Kavcıoğlu**  
Governor

April 28, 2022

Ankara



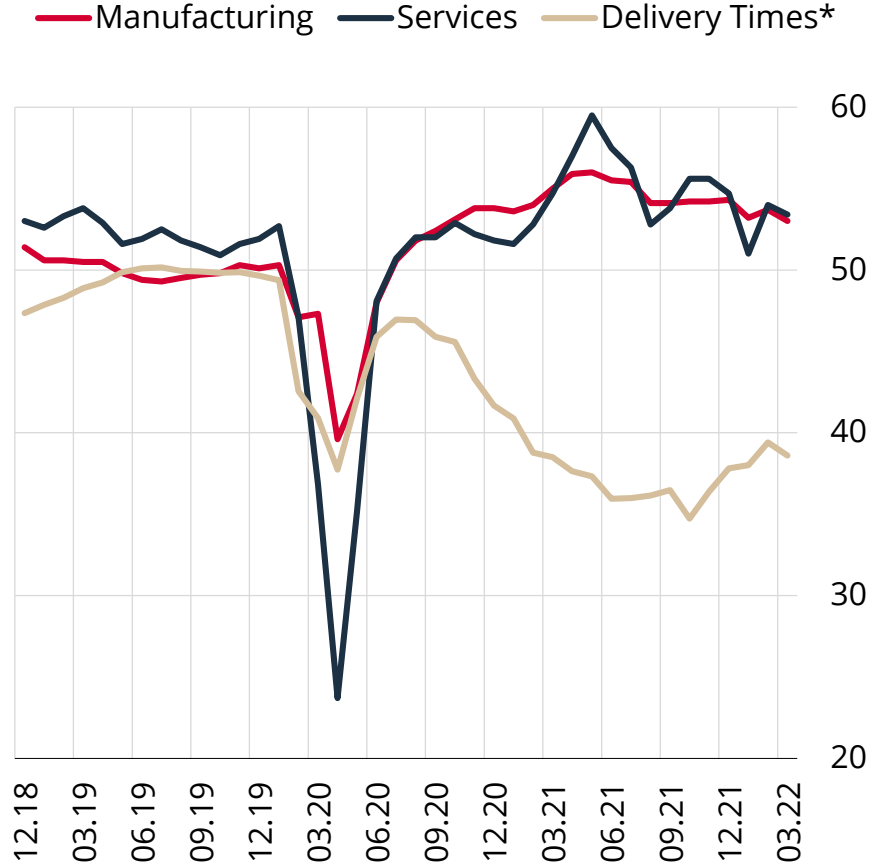
# Outline

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

# MACROECONOMIC OUTLOOK

# Global Growth

## Global PMI Indicators (Level)



Source: IHS Markit

Last Observation: March 2022

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

\*\* Countries are listed according to their share in Türkiye's exports in 2021.

## Growth Forecasts of Türkiye's Main Trading Partners\*\* (%)

	2021	2022 Forecasts	
	Realizations	Jan 22	Apr 22
<b>Euro Area</b>	5.3	4.0	<b>2.8</b>
<b>Germany</b>	2.8	3.7	<b>2.2</b>
<b>USA</b>	5.7	3.9	<b>3.2</b>
<b>UK</b>	7.4	4.3	<b>3.9</b>
<b>Italy</b>	6.6	4.2	<b>2.7</b>
<b>Iraq</b>	5.9	5.9	<b>9.1</b>
<b>Spain</b>	5.1	5.6	<b>4.6</b>
<b>France</b>	7.0	3.8	<b>3.1</b>
<b>Netherlands</b>	5.0	3.3	<b>3.2</b>
<b>Israel</b>	8.2	4.5	<b>5.0</b>
<b>Russia</b>	4.7	2.6	<b>-10.0</b>
<b>UAE</b>	2.3	4.3	<b>5.7</b>
<b>Romania</b>	6.0	4.5	<b>2.7</b>
<b>Belgium</b>	6.3	3.1	<b>2.8</b>
<b>Poland</b>	5.7	4.7	<b>3.9</b>
<b>Egypt</b>	3.3	5.0	<b>5.2</b>
<b>Bulgaria</b>	4.2	3.6	<b>2.7</b>
<b>China</b>	8.1	5.0	<b>4.9</b>

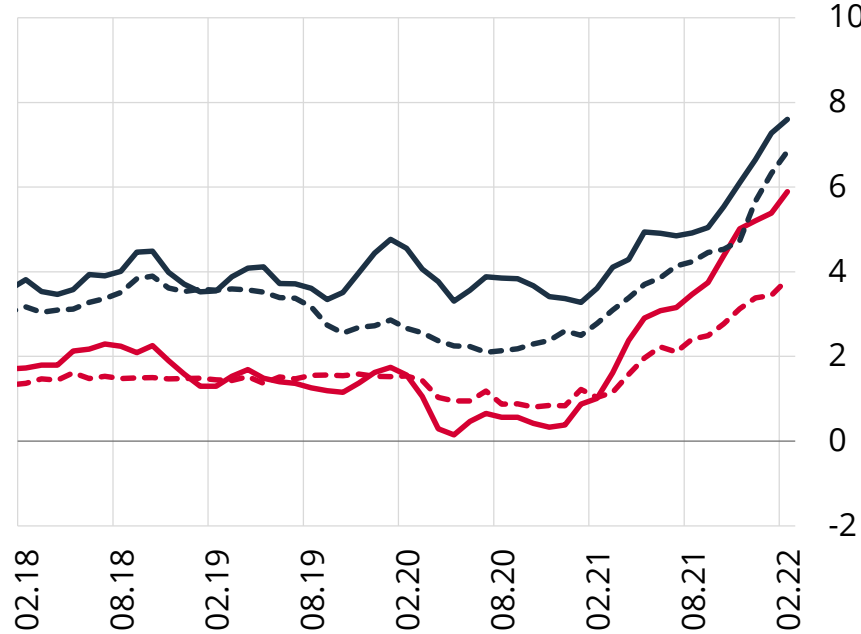
Source: Consensus Economics

Last Observation: April 2022

# Global Inflation

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

- Developed Economies Headline
- Emerging Market Economies Headline
- - - Developed Economies Core
- - - Emerging Market Economies Core

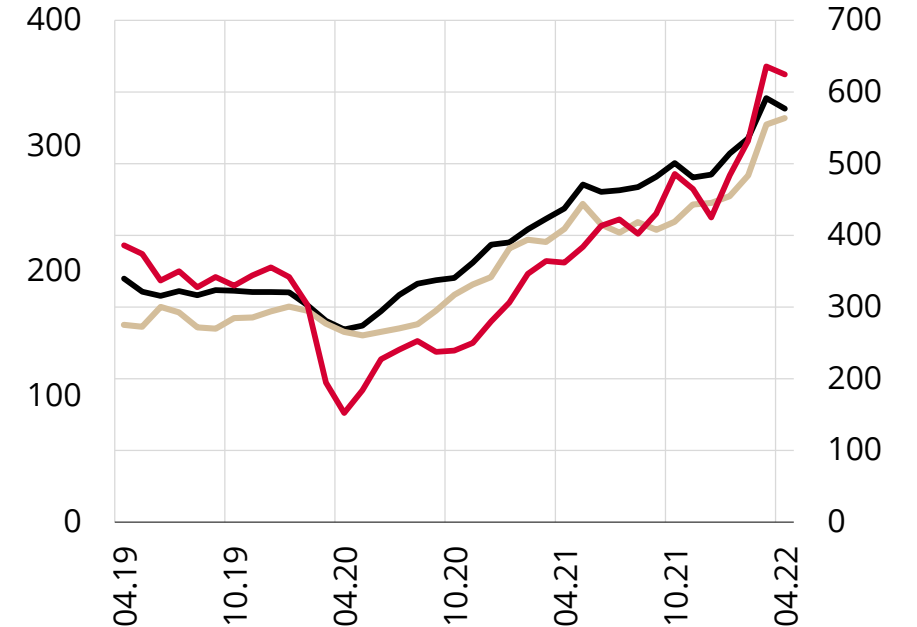


Source: Bloomberg

Last Observation: February 2022

## Commodity Indices (Level)

- Industrial Metals
- Grains
- Energy (Left Axis)



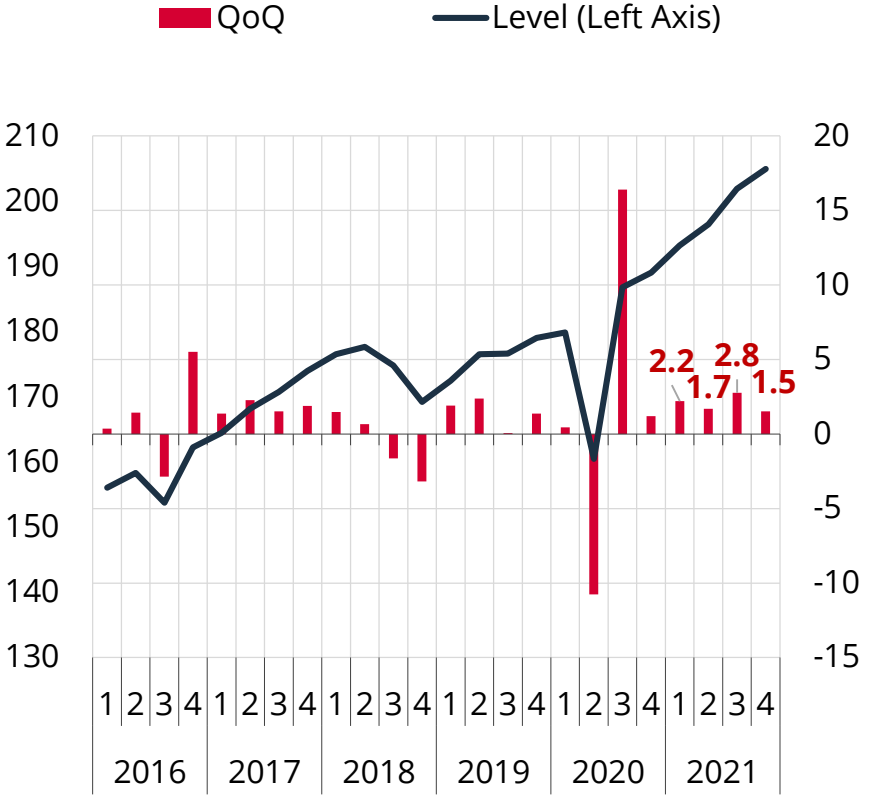
Source: Bloomberg

Last Observation: April 25, 2022

\* **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, Türkiye, 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, Türkiye, Poland, Indonesia, S.Africa, Thailand, Czechia, Colombia, Hungary, Romania, Chile, Peru.

# Domestic Economic Activity

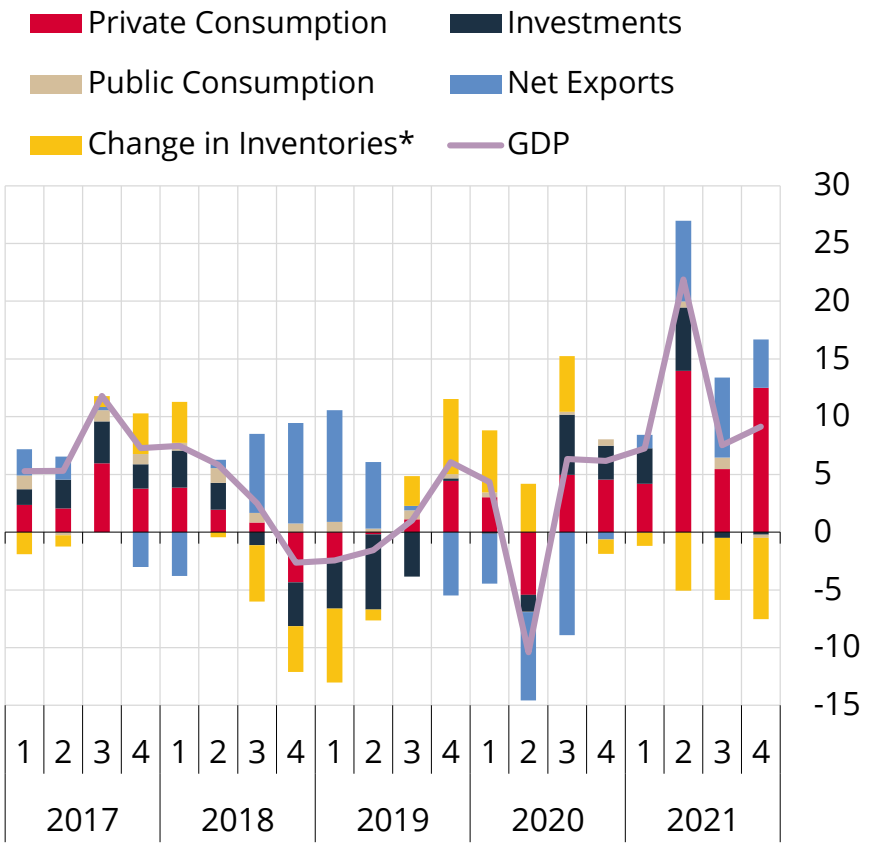
GDP (Seasonally and Calendar Adjusted, Chain-Linked Index, 2009=100)



Source: TURKSTAT

Last Observation: 2021Q4

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



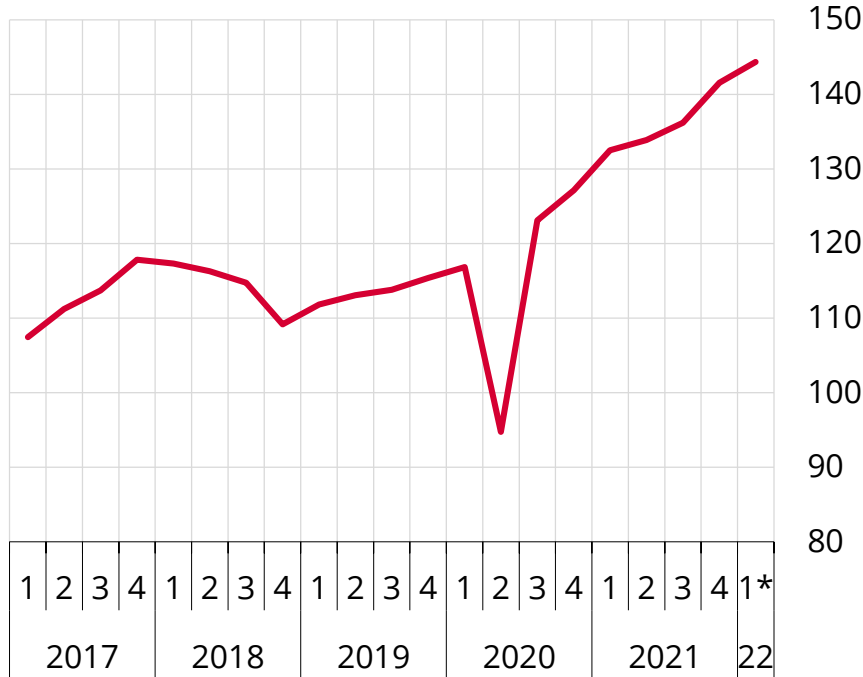
Source: CBRT, TURKSTAT

Last Observation: 2021Q4

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

# Domestic Economic Activity

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



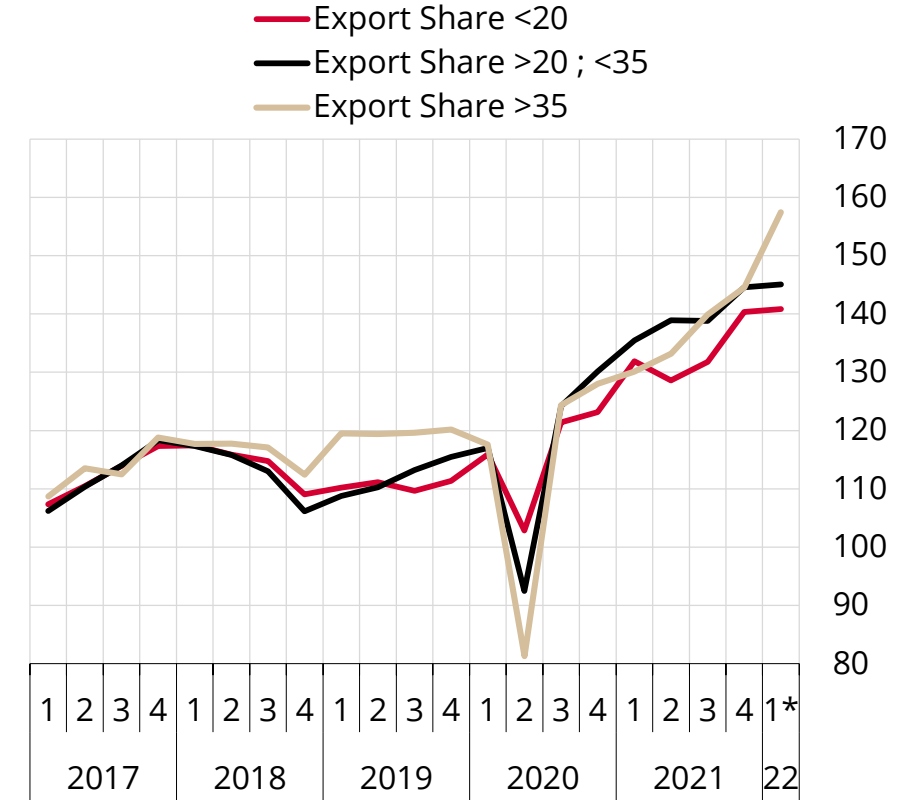
Source: TURKSTAT

Last Observation: February 2022

\* Average of January and February.

\*\* Sectors are classified according to the percentage share of export turnover in total turnover, according to the average of 2009-2020.

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

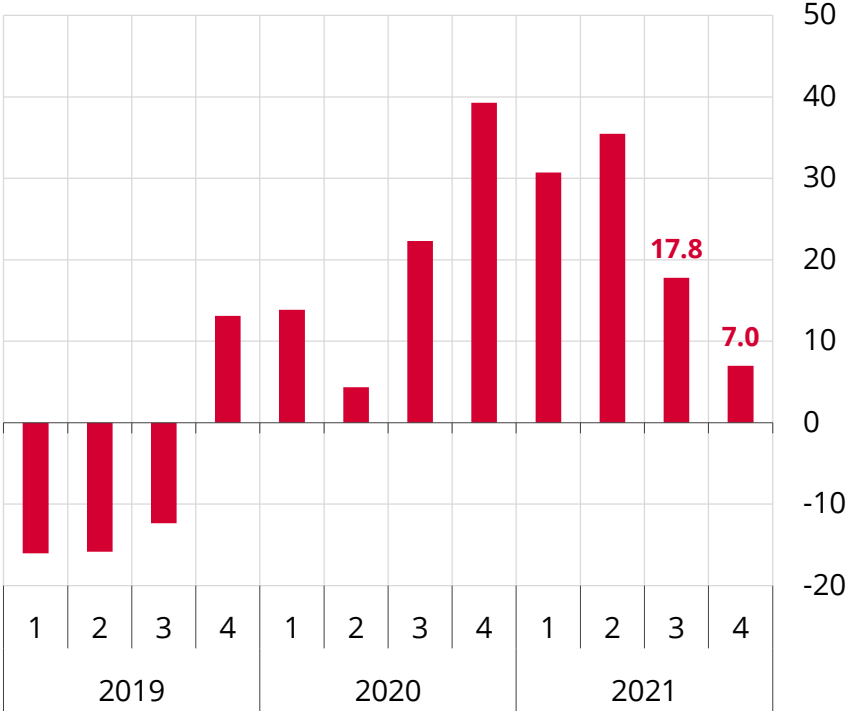


Source: CBRT, TURKSTAT

Last Observation: February 2022

# Investment Expenditures

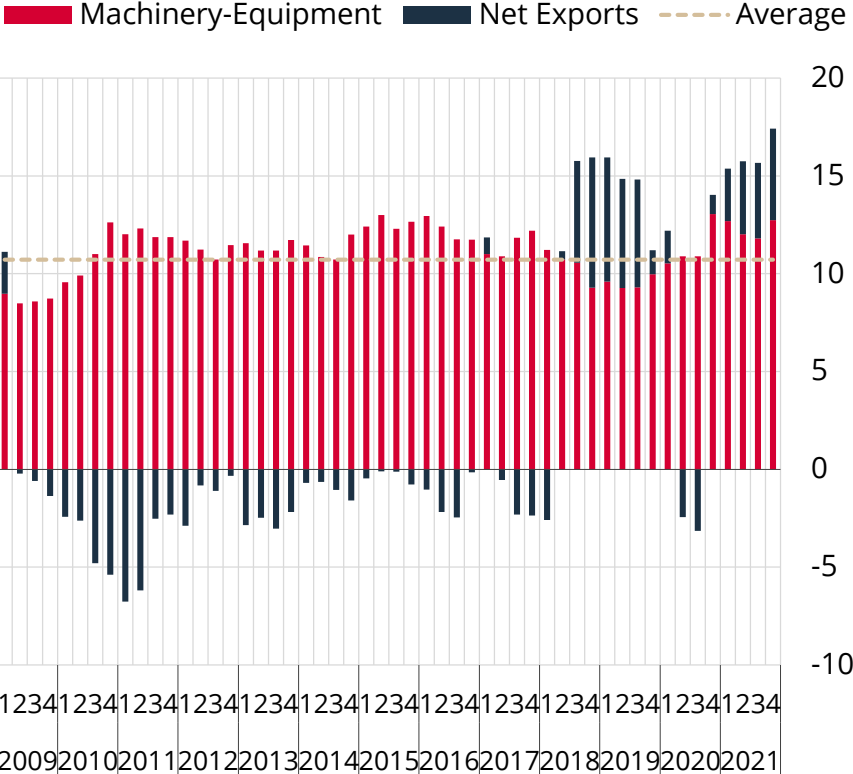
## Machinery-Equipment Investments (Annual Change, %)



Source: TURKSTAT

Last Observation: 2021Q4

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



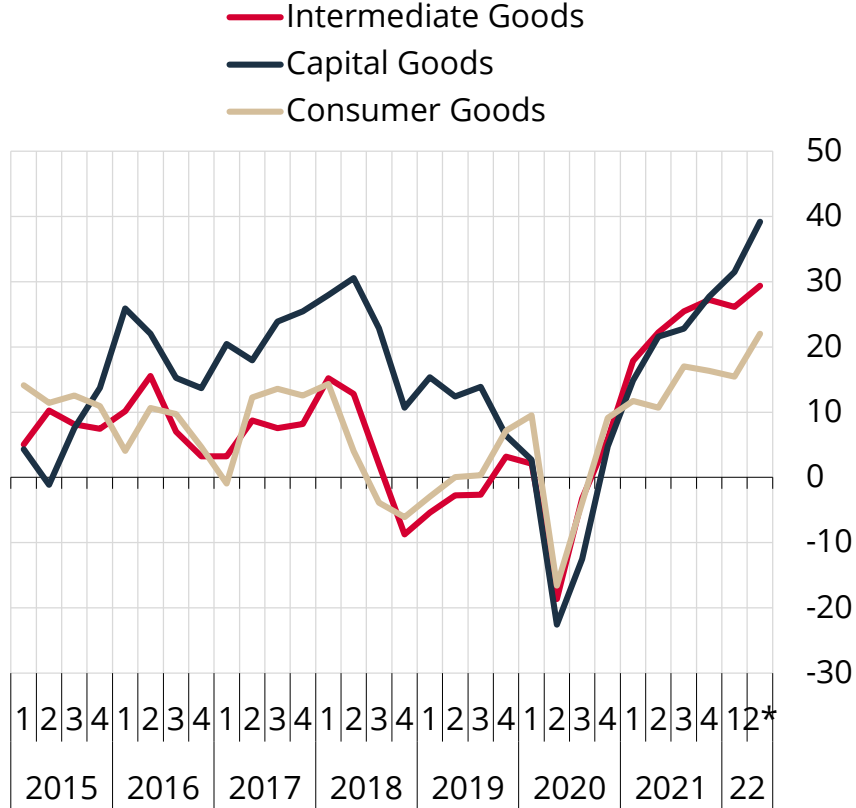
Source: CBRT, TURKSTAT

Last Observation: 2021Q4



# Investment Tendency

## BTS Investment Tendency (Seasonally Adjusted, Increase-Decrease, %)



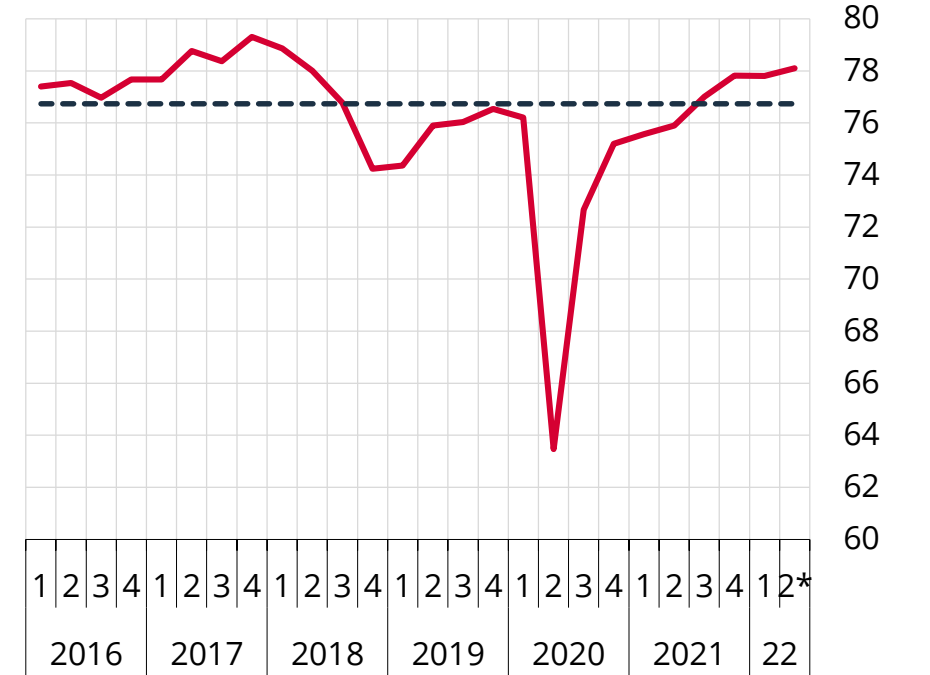
Source: CBRT

Last Observation: April 2022

\* As of April.

\*\* The dashed line shows the average for the period 2011-2019.

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

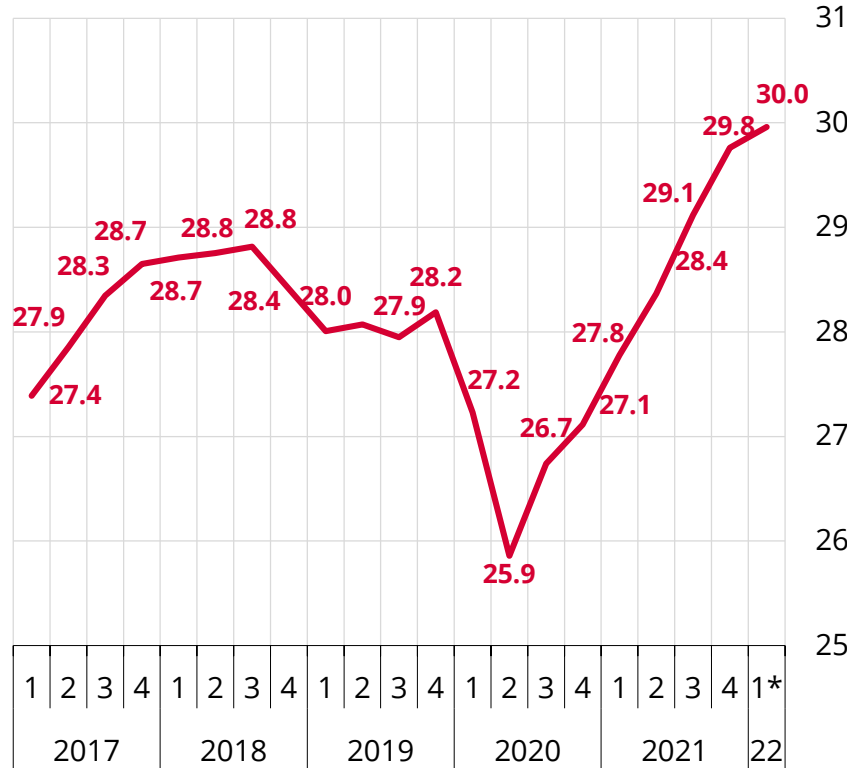


Source: CBRT

Last Observation: April 2022

# Labor Market

**Total Employment  
(Seasonally Adjusted, Million People)**



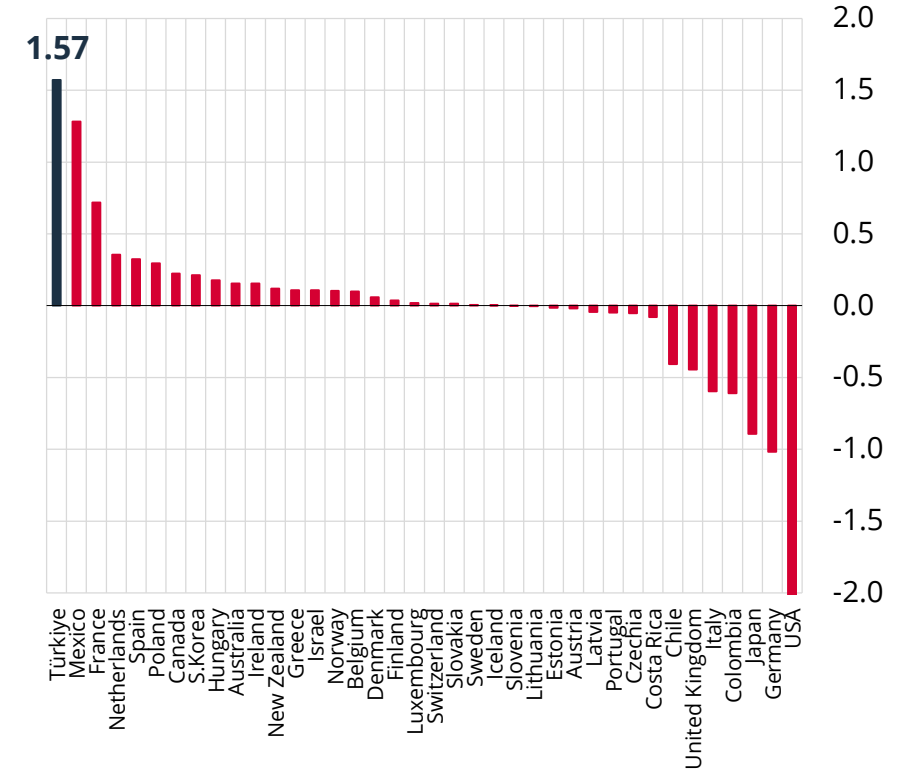
Source: CBRT, TURKSTAT

Last Observation: February 2022

\* January-February Average.

\*\* For countries without 2021Q4 data, the most recent observation is taken into account. The lower bound is limited to 2 million people to preserve readability. In that period, the loss of employment in the USA was 3.4 million people.

**Change in Employment\*\* (Seasonally Adjusted, Change from 2019Q4 to 2021Q4, Million People)**

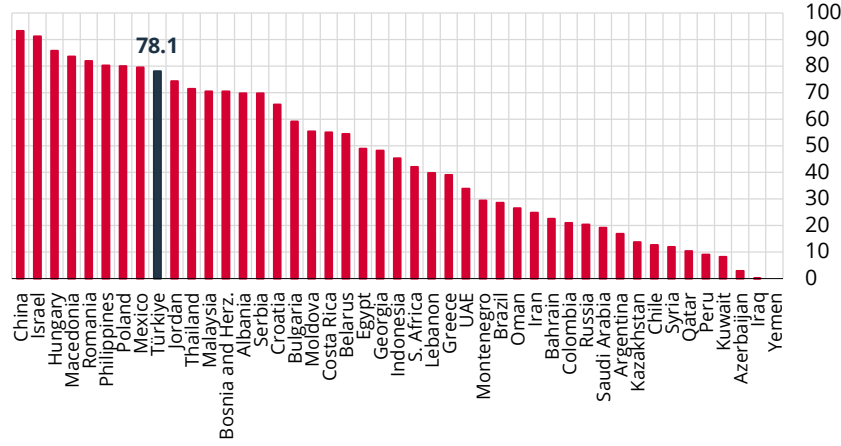


Source: OECD, TURKSTAT

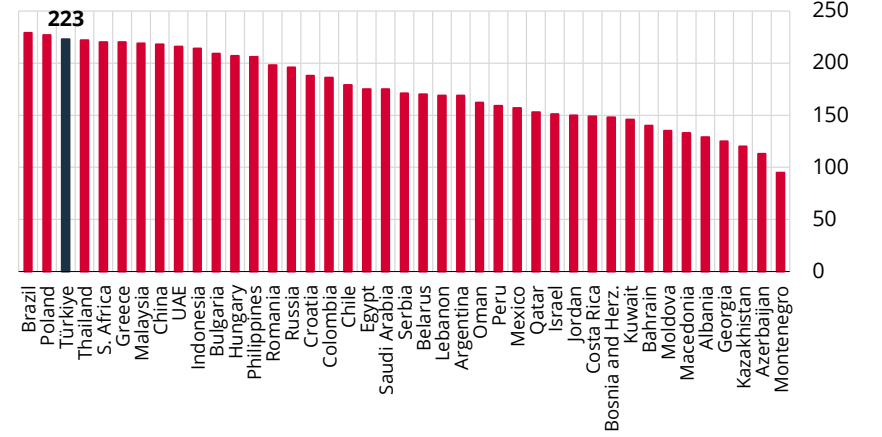
Last Observation: December 2021

# The Structure of Türkiye's Exports

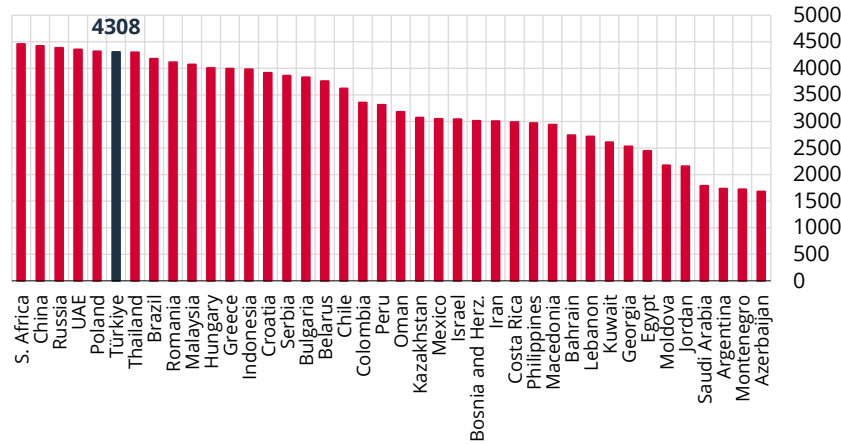
Share of Manufacturing in Exports\* (%)



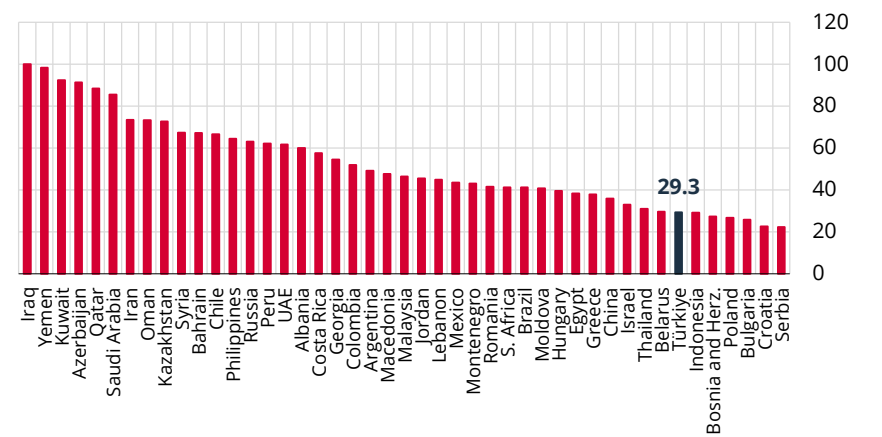
Number of Export Countries\*\*



Number of Exported Products\*\*\*



The Share of the Three Most Exported Products in Total Exports\*\*\*\* (%)

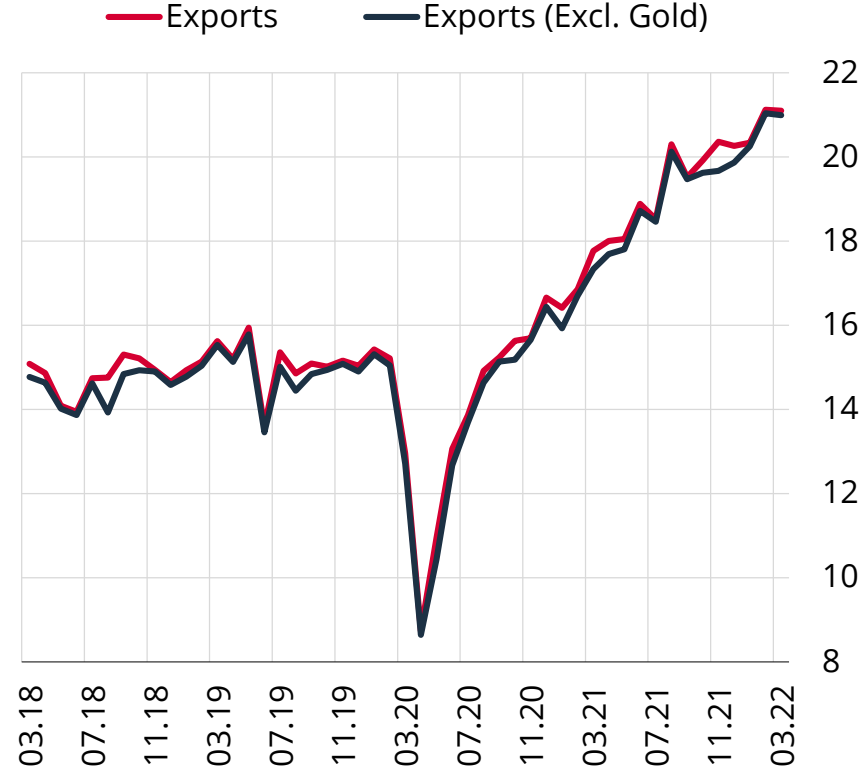


Source: WTO, World Bank, UN Comtrade

\* Average of 2018-2020. \*\* Member states of the UN and countries with autonomous structures/special status are included. \*\*\* As of 2019. \*\*\*\* As of 2010 for Syria, 2016 for Iraq, 2018 for Oman and Iran, 2019 for Russia, Hungary, Bahrain and Yemen, and 2020 for the remaining countries.

# External Balance

Exports\* (Seasonally and Calendar Adjusted, Billion USD)

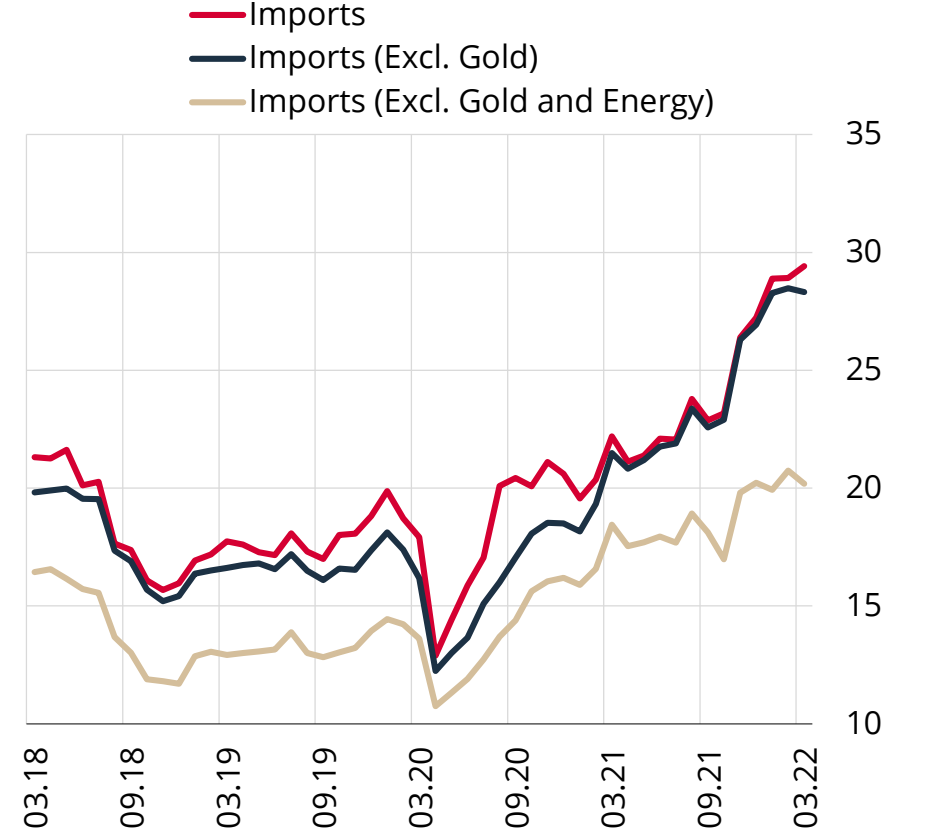


Source: CBRT, MoT, TURKSTAT

Last Observation: March 2022

\* March data is provisional.

Imports\* (Seasonally and Calendar Adjusted, Billion USD)

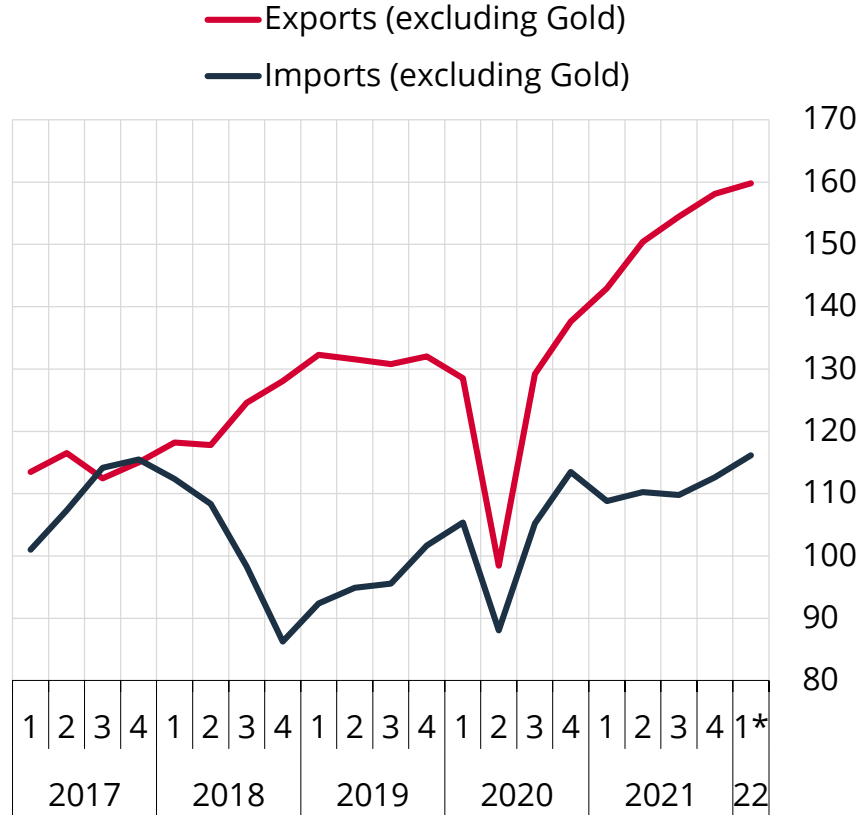


Source: CBRT, MoT, TURKSTAT

Last Observation: March 2022

# External Balance

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

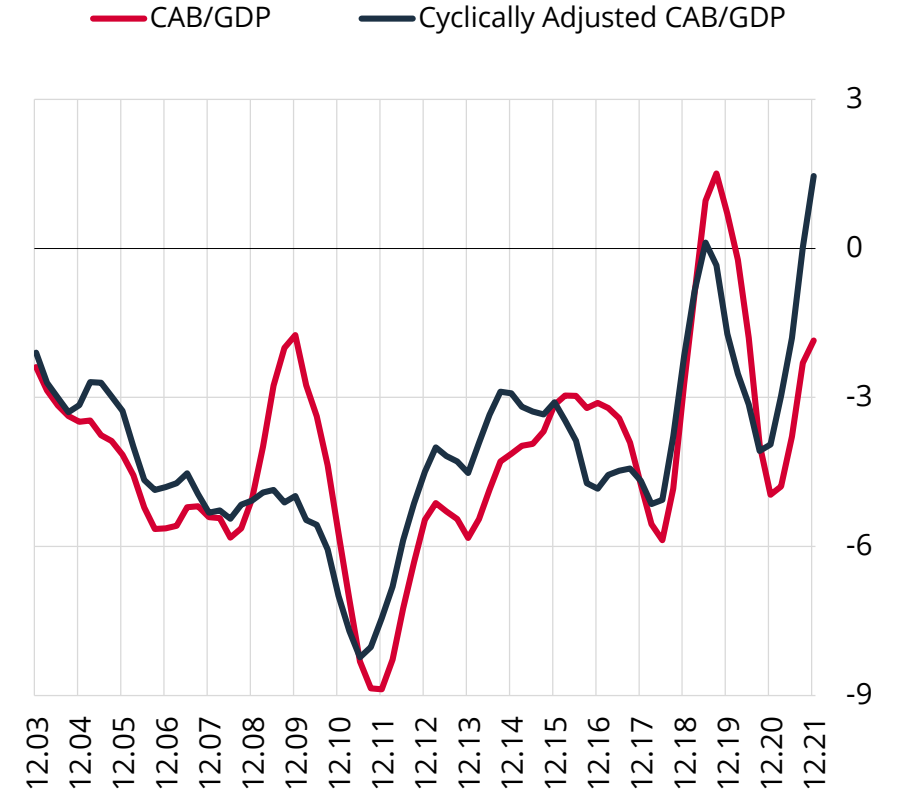


Source: TURKSTAT

Last Observation: February 2022

\* Average of January and February.

## Cyclically Adjusted Current Account Balance (12-Month Cumulative, % of GDP)

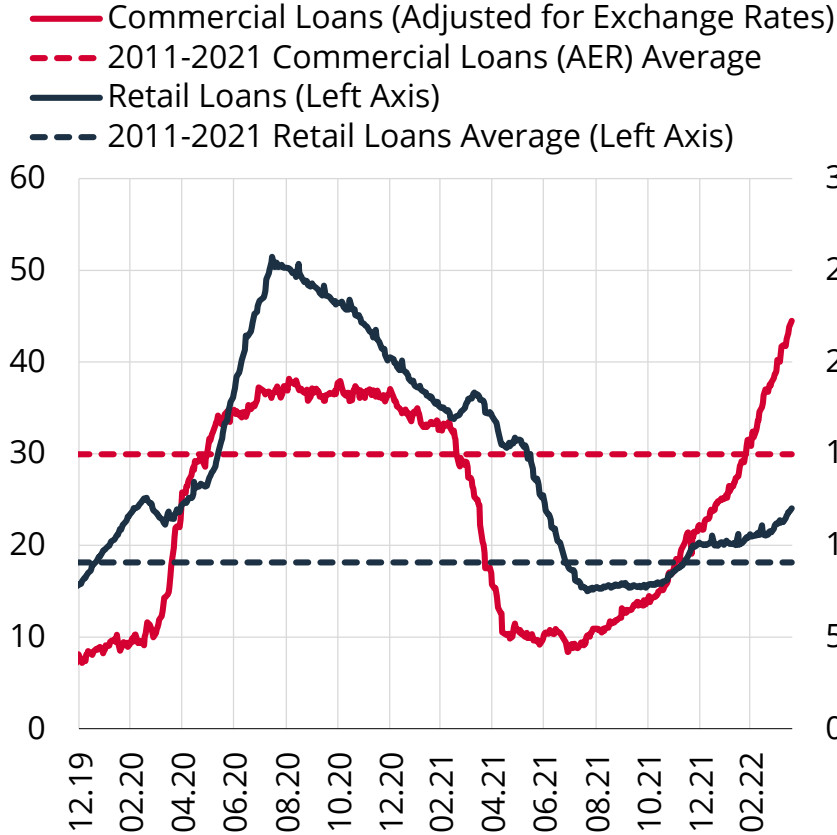


Source: CBRT, TURKSTAT

Last Observation: 2021Q4

# Credit Developments

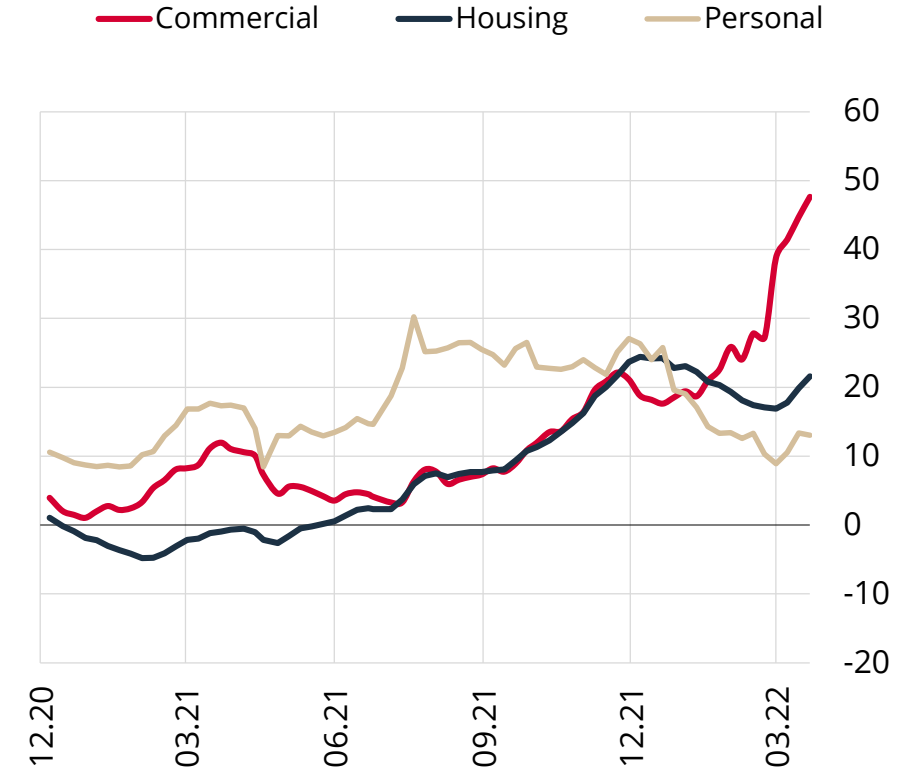
## Loan Growth (Annual, Adjusted for Exchange Rate, %)



Source: CBRT

Last Observation: April 18, 2022

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

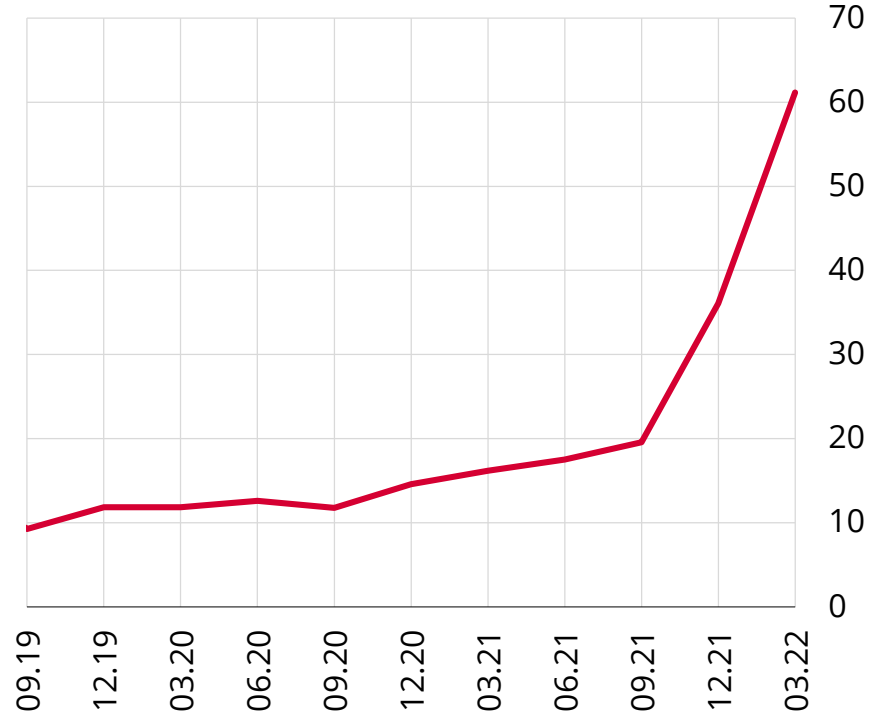


Source: CBRT

Last Observation: April 15, 2022

# Consumer Inflation

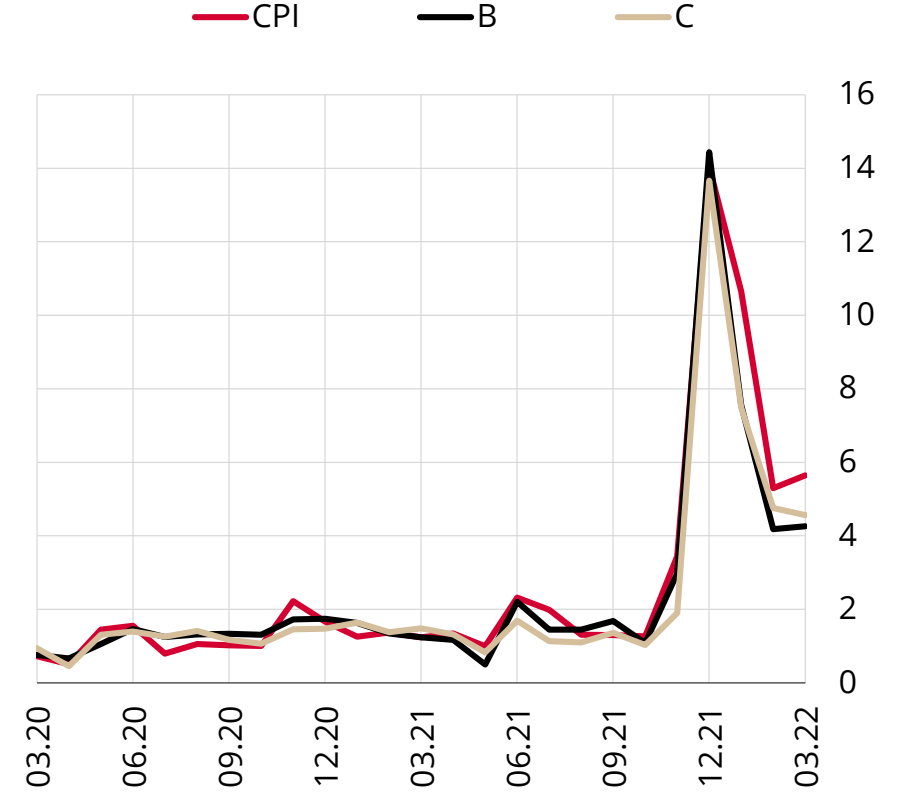
**CPI**  
(Annual % Change)



Source: TURKSTAT

Last Observation: March 2022

**CPI, B Index\* and C Index \*\***  
(Seasonally Adjusted, Monthly % Change)



Source: CBRT, TURKSTAT

Last Observation: March 2022

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

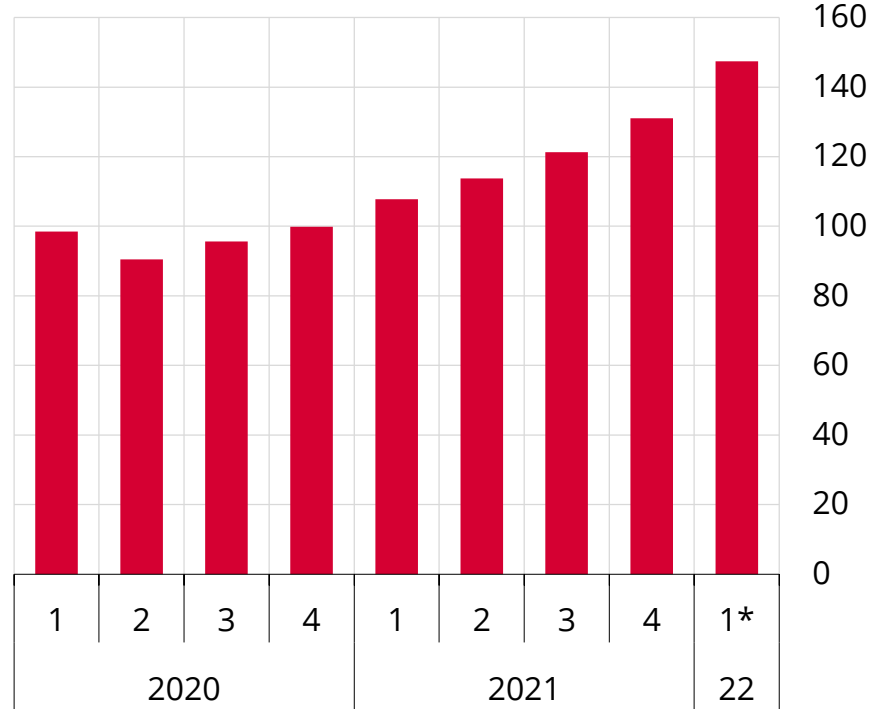
\*\* CPI excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products and gold.

# THE DETERMINANTS OF INFLATION



# Import Costs

Import Unit Value Index\* (2019Q4=100)

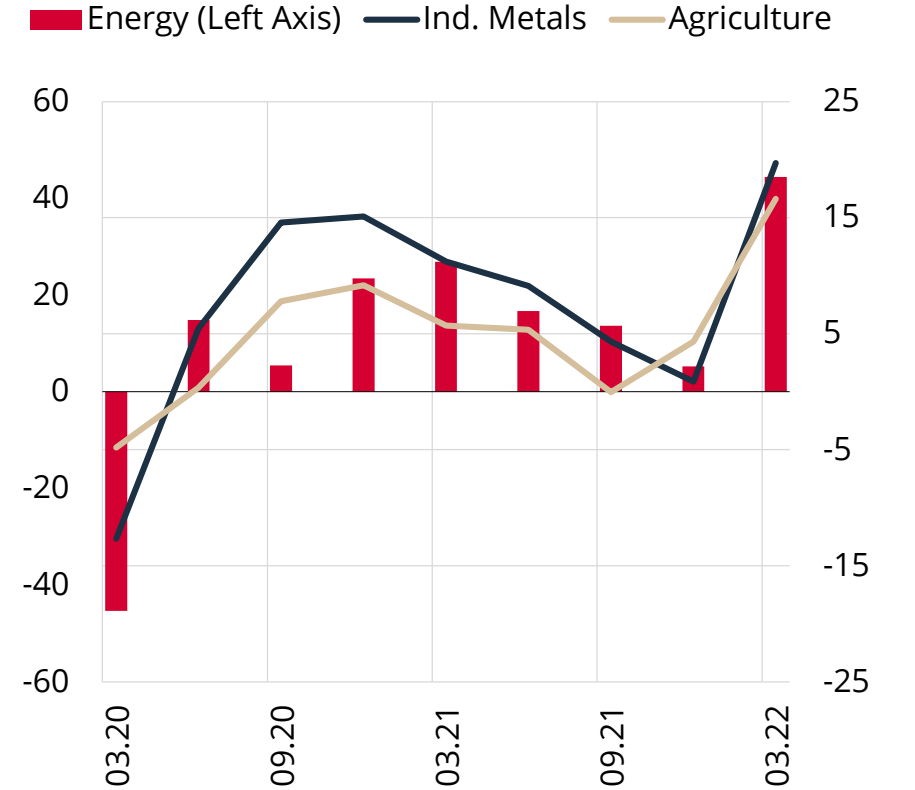


Source: TURKSTAT

Last Observation: February 2022

\* 2022Q1 data is average of January and February.

World Bank Commodity Price Indices (Quarterly % Change)

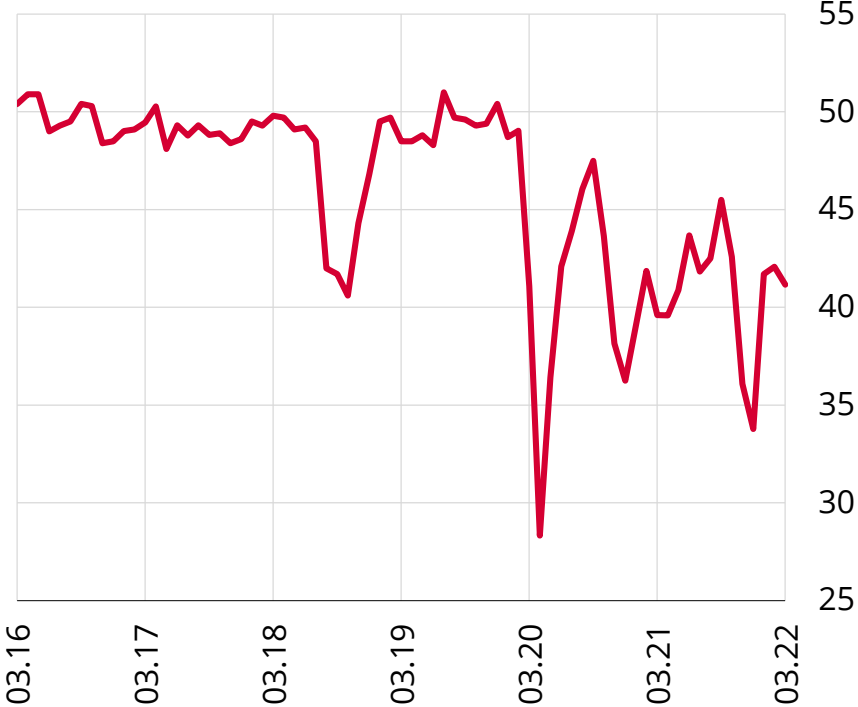


Source: World Bank

Last Observation: March 2022

# Supply Constraints

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

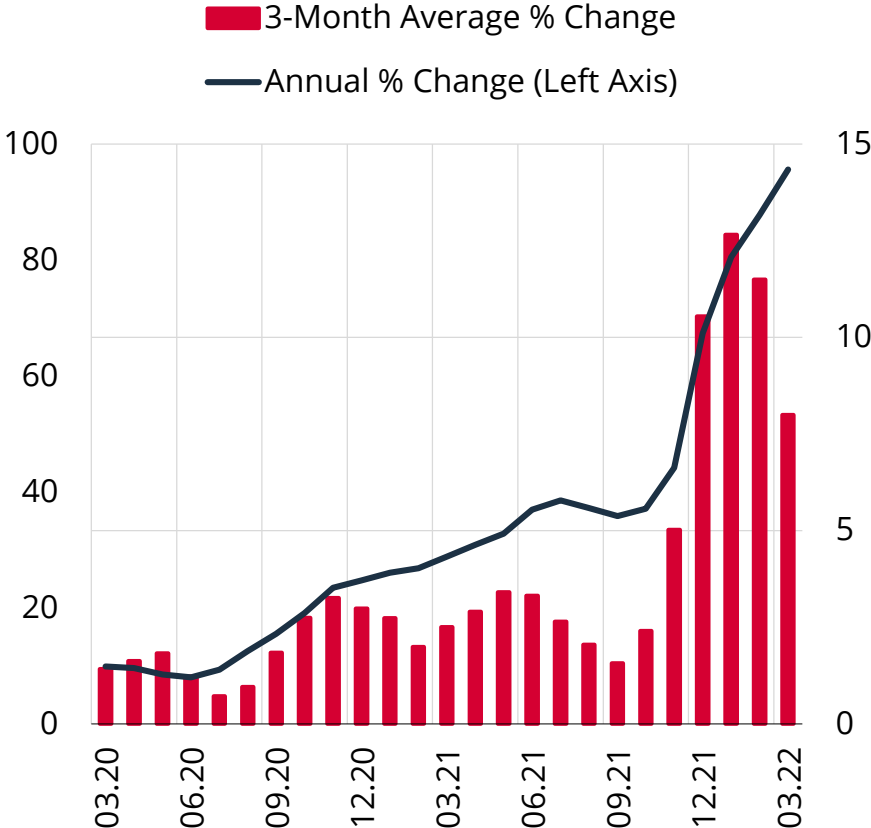


Source: IHS Markit

Last Observation: March 2022

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

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

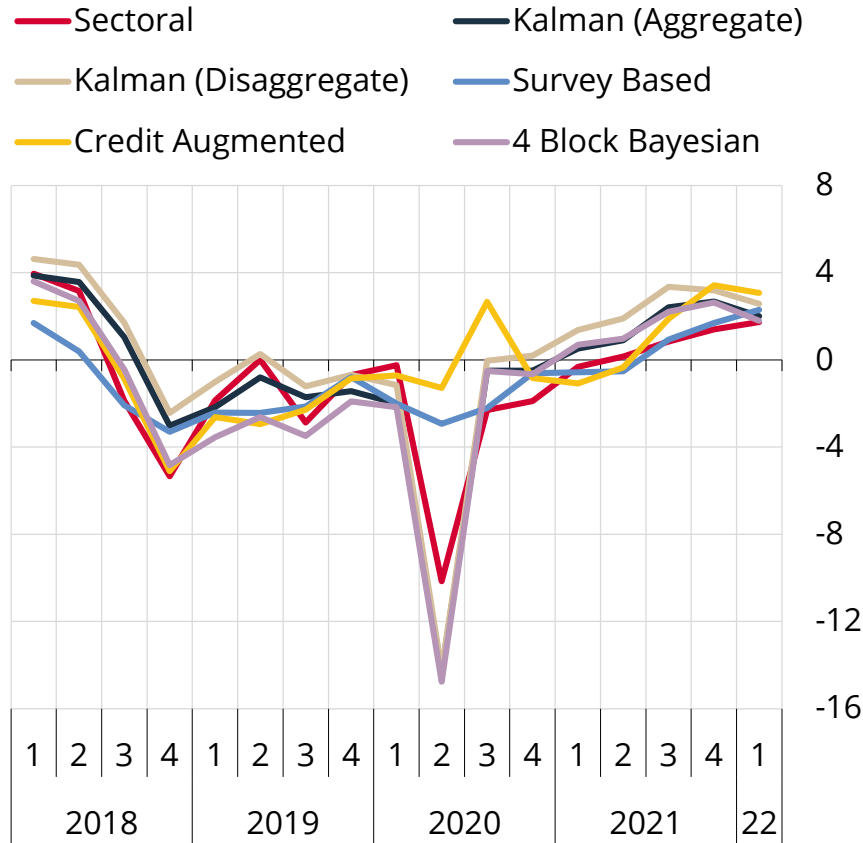


Source: CBRT, TURKSTAT

Last Observation: March 2022

# Output Gap

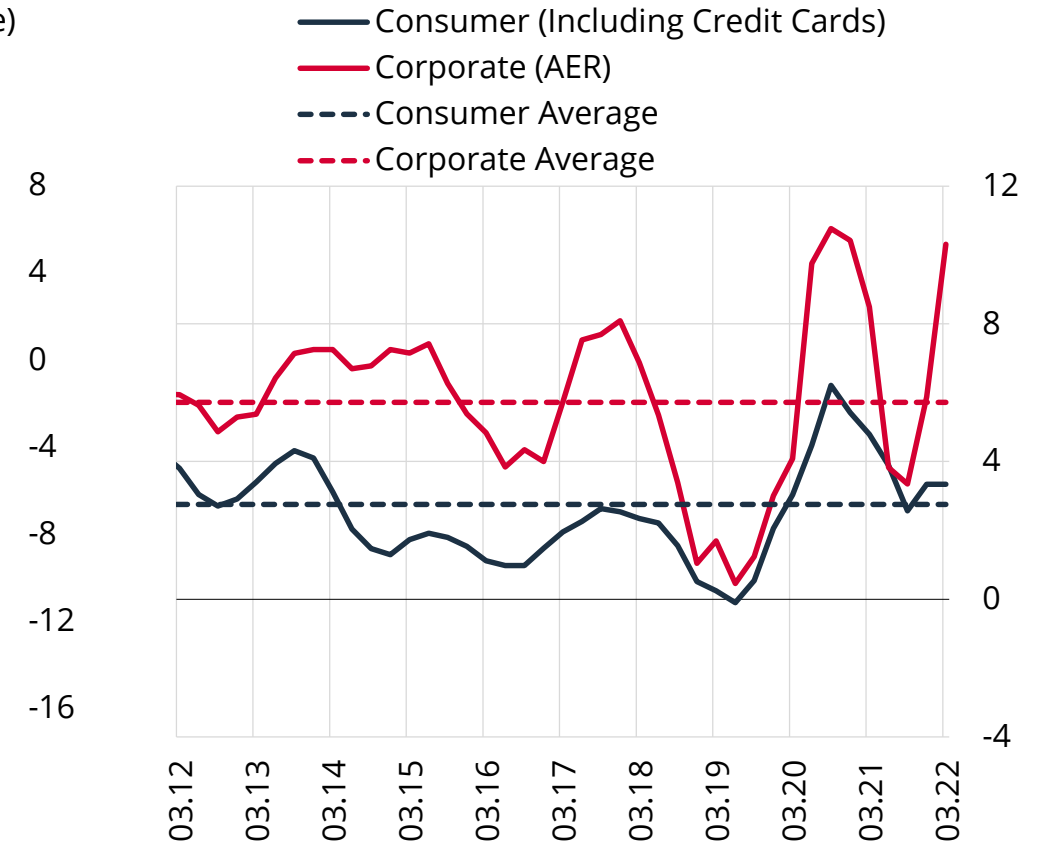
## Output Gap Indicators (%)



Source: CBRT

Last Observation: 2022Q1

## Net Loan Utilization\* (%)



Source: CBRT

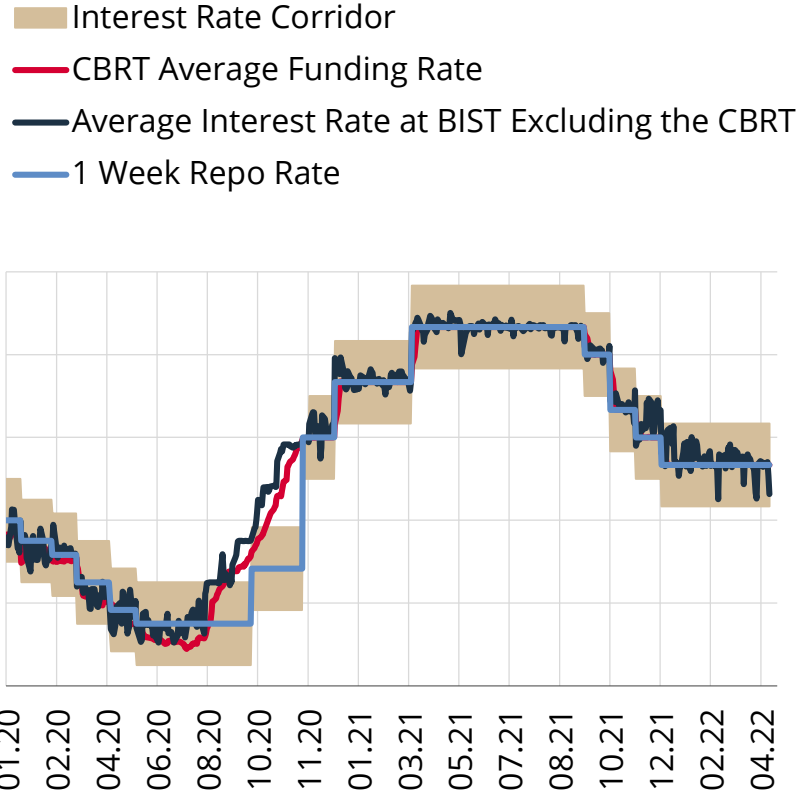
Last Observation: 2022Q1

\* 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 – 2021Q4. GDP forecast for 2022Q1 is used.

# **MONETARY POLICY AND MEDIUM TERM PROJECTIONS**

# Monetary Policy

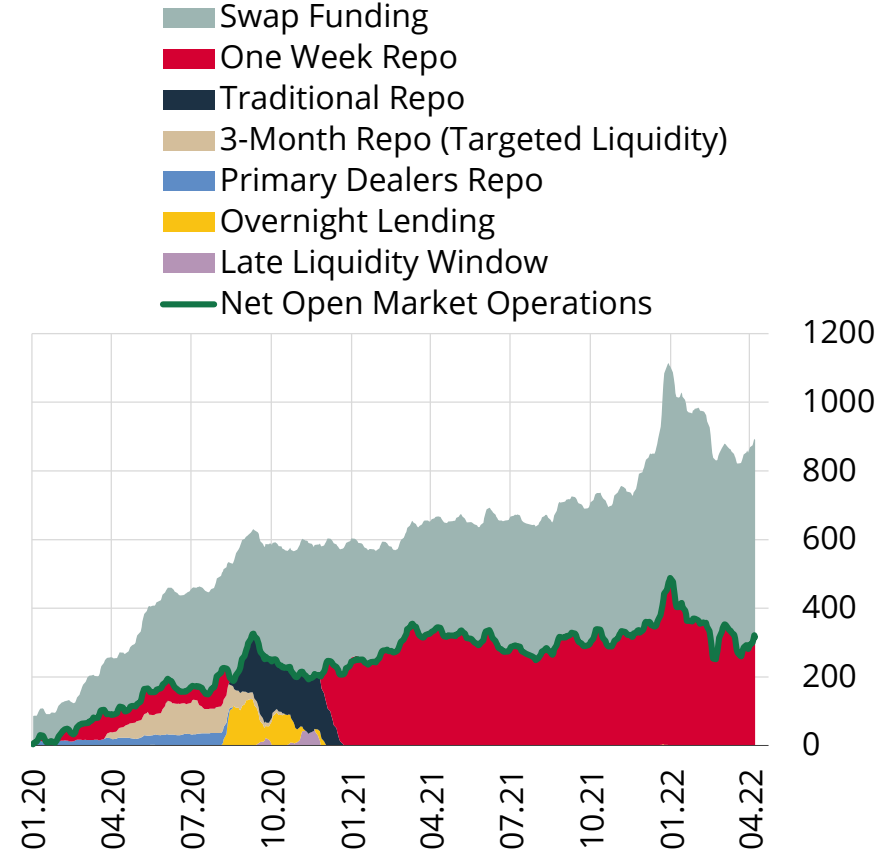
### CBRT Policy Rate and Short Term Interest Rates (%)



Source: BIST, CBRT

Last Observation: April 22, 2022

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

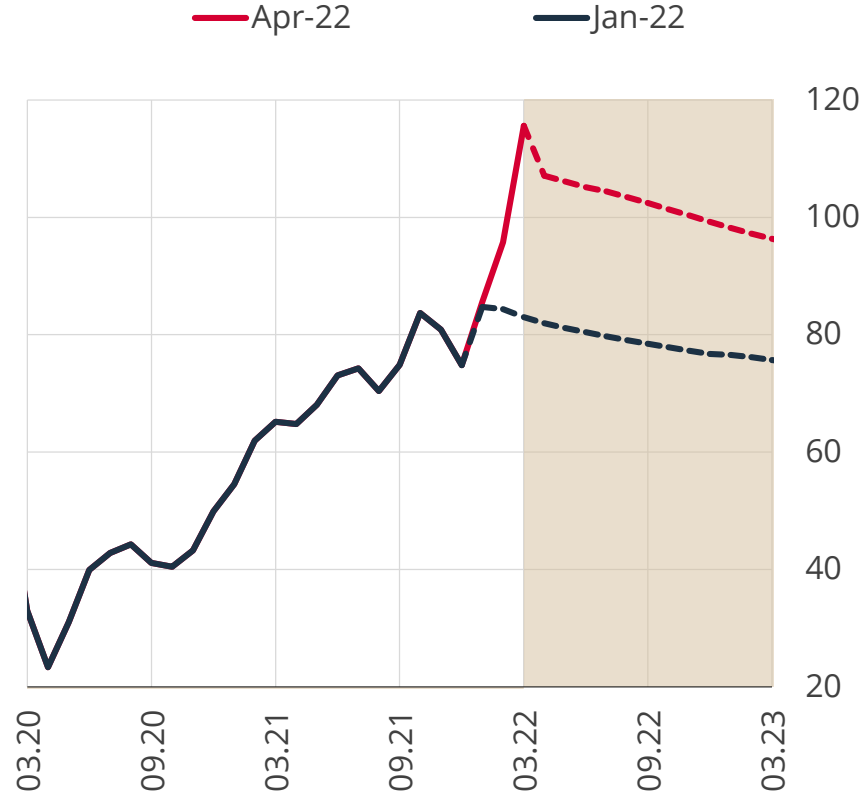


Source: CBRT

Last Observation: April 22, 2021

# Assumptions for External Variables

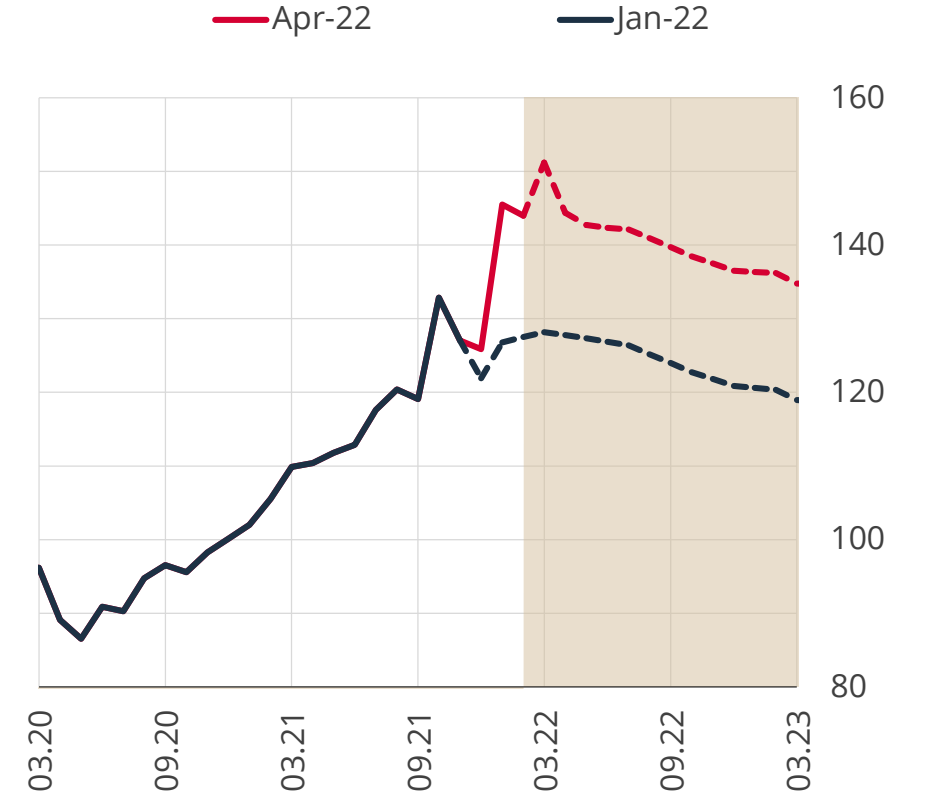
## Revisions to Oil Price Assumptions\* (USD/Barrel)



Source: Bloomberg, CBRT

Last Observation: March 2022

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



Source: CBRT, TURKSTAT

Last Observation: February 2022

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

# Revisions to Main Assumptions

		January IR	April IR
Output Gap (%)	2021Q4	2.9	2.7
	2022Q1	1.6	1.5
Food Prices (Year-end % Change)	2022	24.2	49.0
	2023	10.0	15.0
Import Prices (USD, Average Annual % Change)	2022	8.2	22.2
	2023	-6.7	-7.0
Oil Prices (Average, USD)	2022	80.4	102.2
	2023	74.3	93.9
Export-Weighted Global Production Index (Average Annual % Change)	2022	4.3	3.0
	2023	3.0	3.3

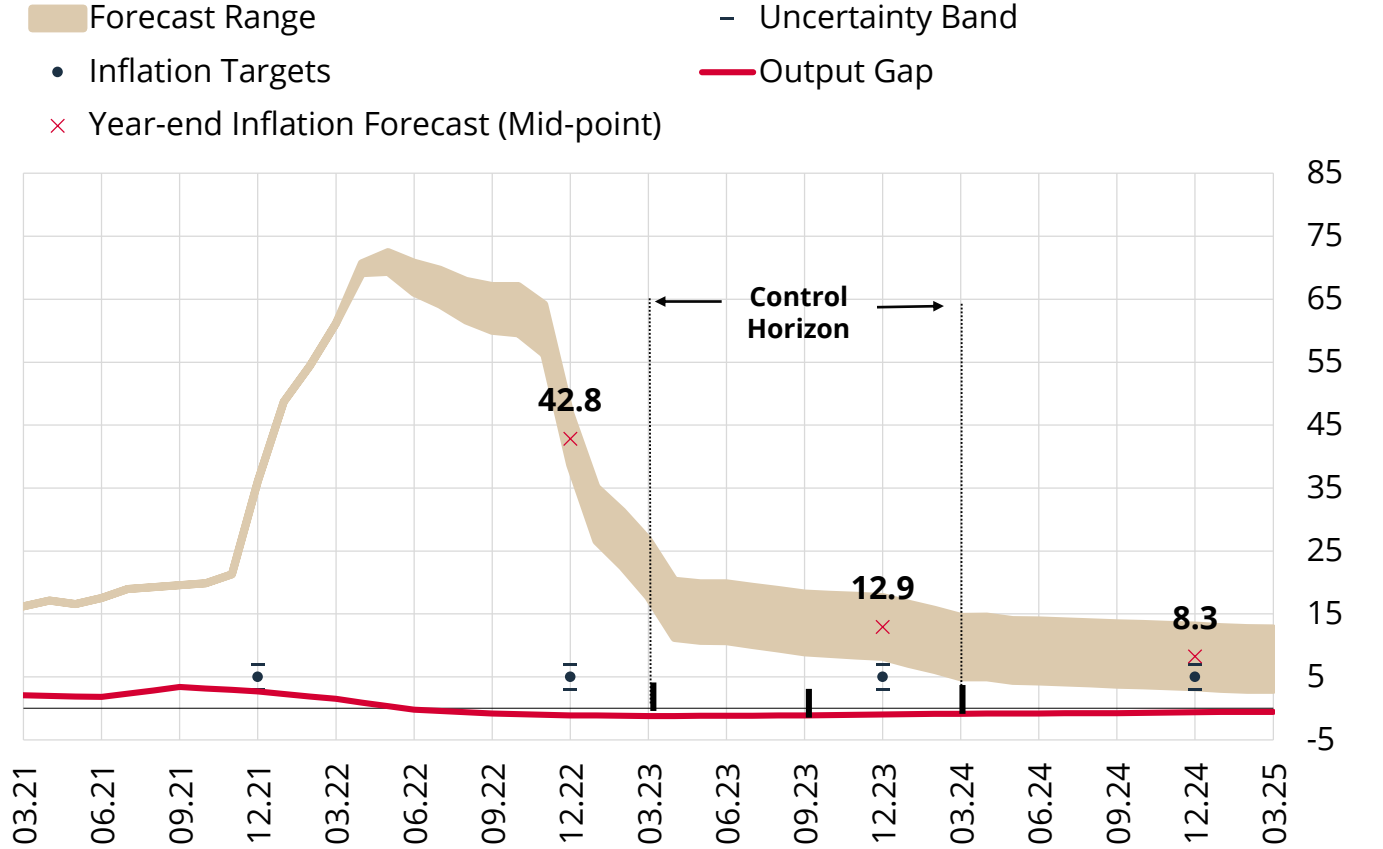
# Inflation Outlook

## Accordingly, inflation is expected to be

- Between 38.7% and 46.9% (with a mid-point of 42.8%) at end-2022;
- Between 8.1% and 17.7% (with a mid-point of 12.9%) 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.

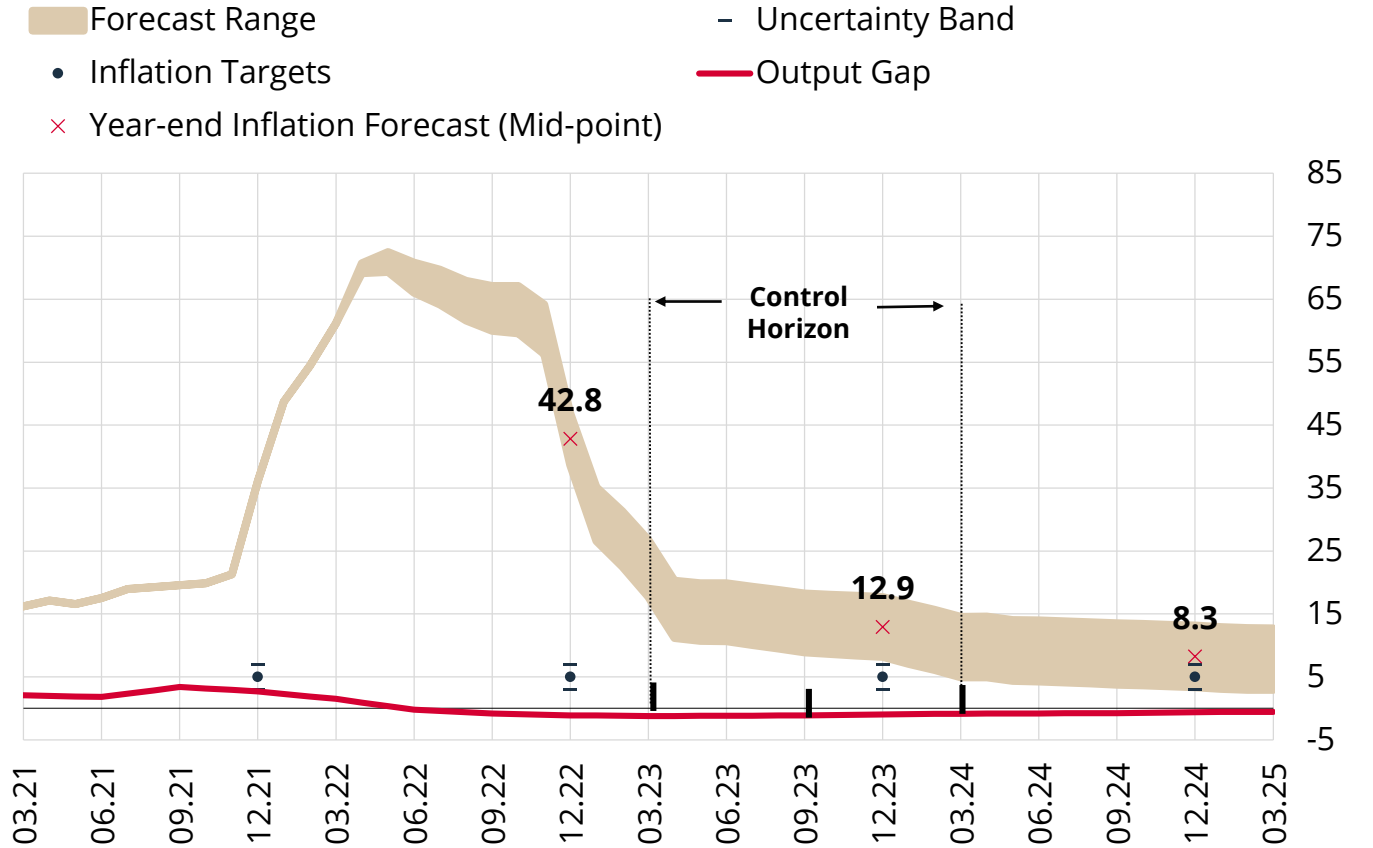


# Inflation Outlook

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

- +5.5 points from TL denominated import prices,
- -0.1 points from output gap,
- +2.8 points from revision in food inflation,
- +2.1 points from administered prices,
- +9.3 points from the rise in underlying trend of inflation due to revision in initial conditions.

## Inflation and Output Gap Forecasts\* (%)



Source: CBRT, TURKSTAT

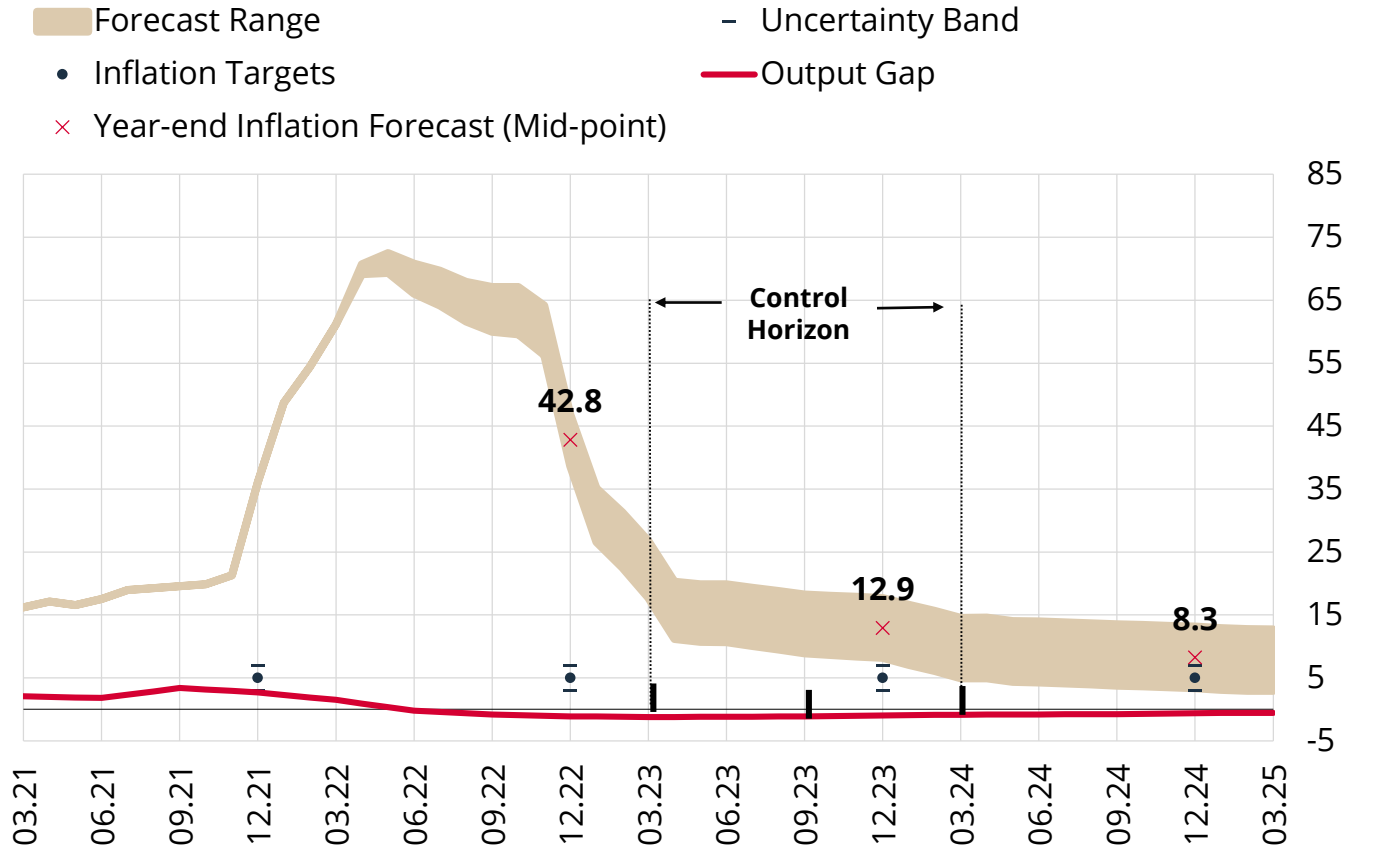
\* Shaded region indicates the 70 percent confidence interval for the forecast.

# Inflation Outlook

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

- +2.2 points from TL denominated import prices,
- -0.1 points from output gap,
- +0.7 points from revision in food inflation,
- +1.9 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 AND LIRAIZATION STRATEGY

# Overview

- Inflation, which increased as a result of supply constraints during the pandemic process, increases this time through commodity prices, following the increase in geopolitical risks.
- Global inflation is exceeding the highest levels in recent history and global growth expectations are deteriorating rapidly.
- While our economy strengthens its position in global trade after the pandemic, the contribution of sustainable components such as machinery-equipment investments and net exports increases in our growth composition.
- Labor market indicators are improving continuously after the pandemic and the increase in the employment creation capacity of the economy is fed by the sectors that strengthen the current account balance.
- The volume of exports shows a strong increase compared to the volume of imports, and our cyclically adjusted current account balance indicates a surplus.
- Energy and raw material prices, which have recently posed a risk to our current account balance and peaked with the conflicts in our region, have a negative impact on inflation.
- As long as there is a normalization in energy price levels, which we do not consider sustainable in terms of the global economy, we will achieve decrease in inflation and sustainable current account balance targets.
- We will carry out this process decisively with the strong steps we will take within the framework of the Liraization strategy.

# Liraization Strategy

- The essential element of the CBRT's policy review process is the Liraization strategy.
- In this context, a series of implementations, whose review process has been completed, have been launched recently.
- An important component of our Liraization strategy is that affordable and long-term loans support sustainable price stability through increases in production, investment and exports.
- Our technical teams have completed the steps to be taken regarding the collateral structure of the liquidity management, the review process of which continues within the scope of the Liraization strategy.
- In line with the roadmap in the Monetary and Exchange Rate Policy text, additional steps will be taken soon to increase the use of Turkish lira-denominated assets as collateral in the funding structure.
- The recent decisions to make payments between companies in Turkish lira are welcomed.
- Providing the infrastructure of a solid, strong and stable Turkish lira is the primary threshold towards our permanent price stability target. Together with all parties, we carry out comprehensive studies that will increase the effectiveness of our monetary policy instruments.
- Our ultimate goal is to complete a financial architecture in which all our economic agents can make savings in Turkish lira without the need for any currency other than lira in all their decisions, and take all their financial decisions in Turkish lira.



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

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# BRIEFING ON 2022-II INFLATION REPORT

April 28, 2022

Ankara

