



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2024-II INFLATION REPORT

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Governor

9 MAY 2024

ANKARA



Outline

- **Global Economy**
- **Macroeconomic Outlook**
- **Monetary Policy**
- **Medium-Term Projections**
- **Overview**

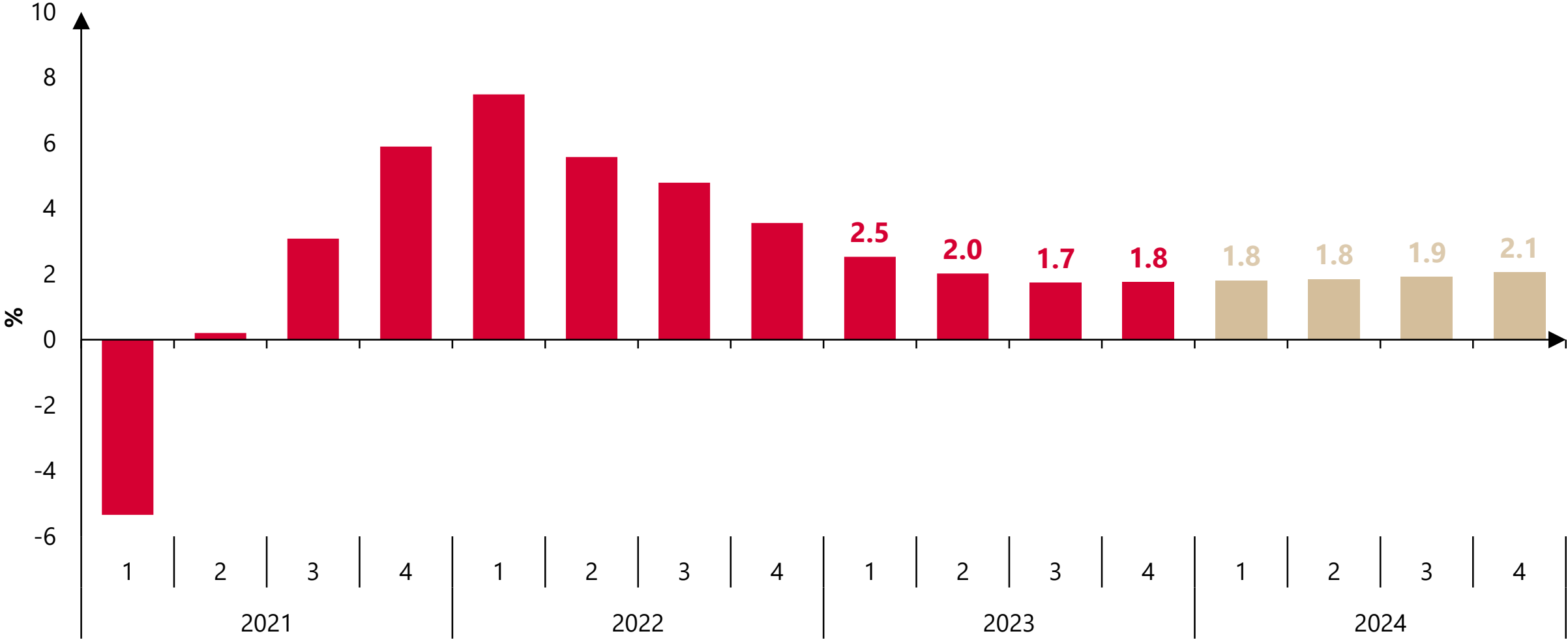
Boxes

- Services Production Index: Relation to Supply and Demand
- Services Inflation Outlook
- Inflation Expectations of Firms
- The Difference Between High- and Low-Volume Deposit Rates and Its Reasons
- Findings from Interviews with Firms

GLOBAL ECONOMY

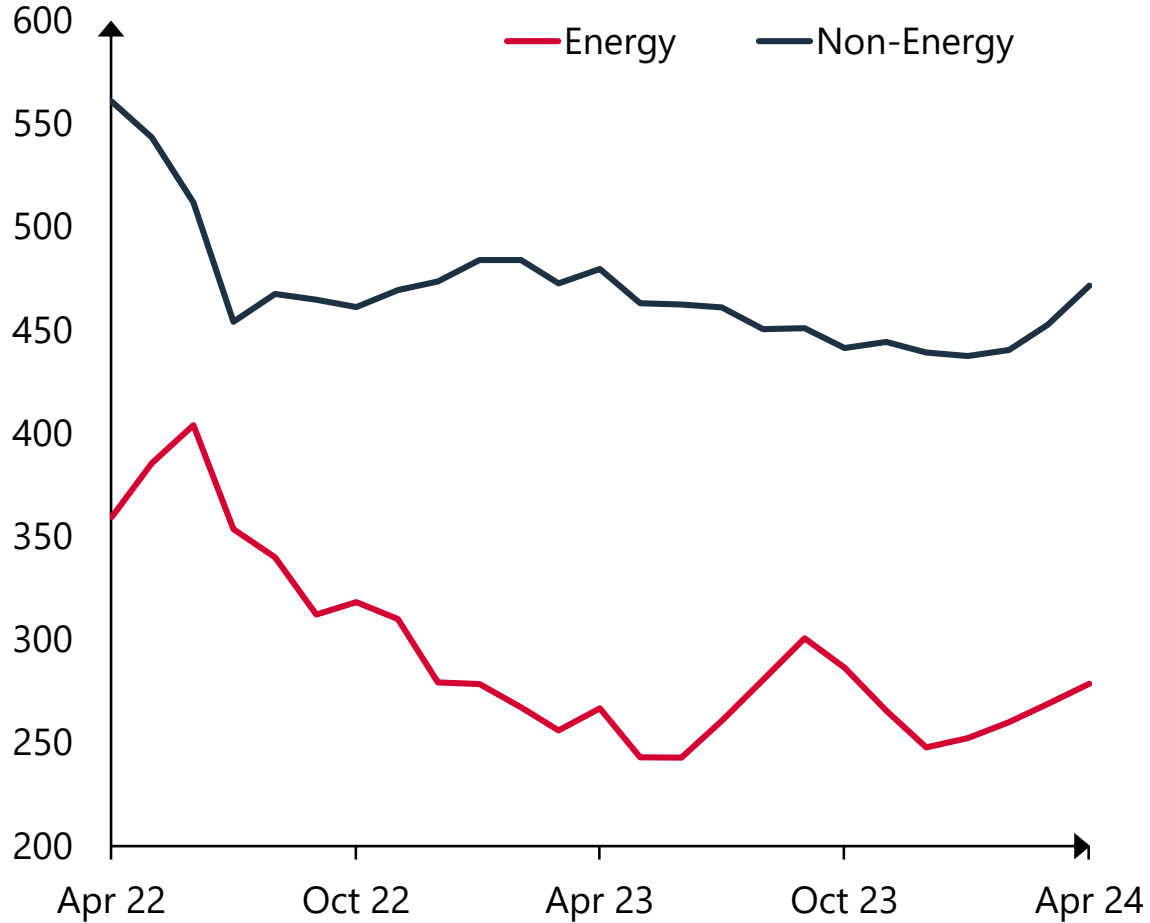
Global growth is projected to pick up slightly in 2024.

Export-Weighted Global Growth*

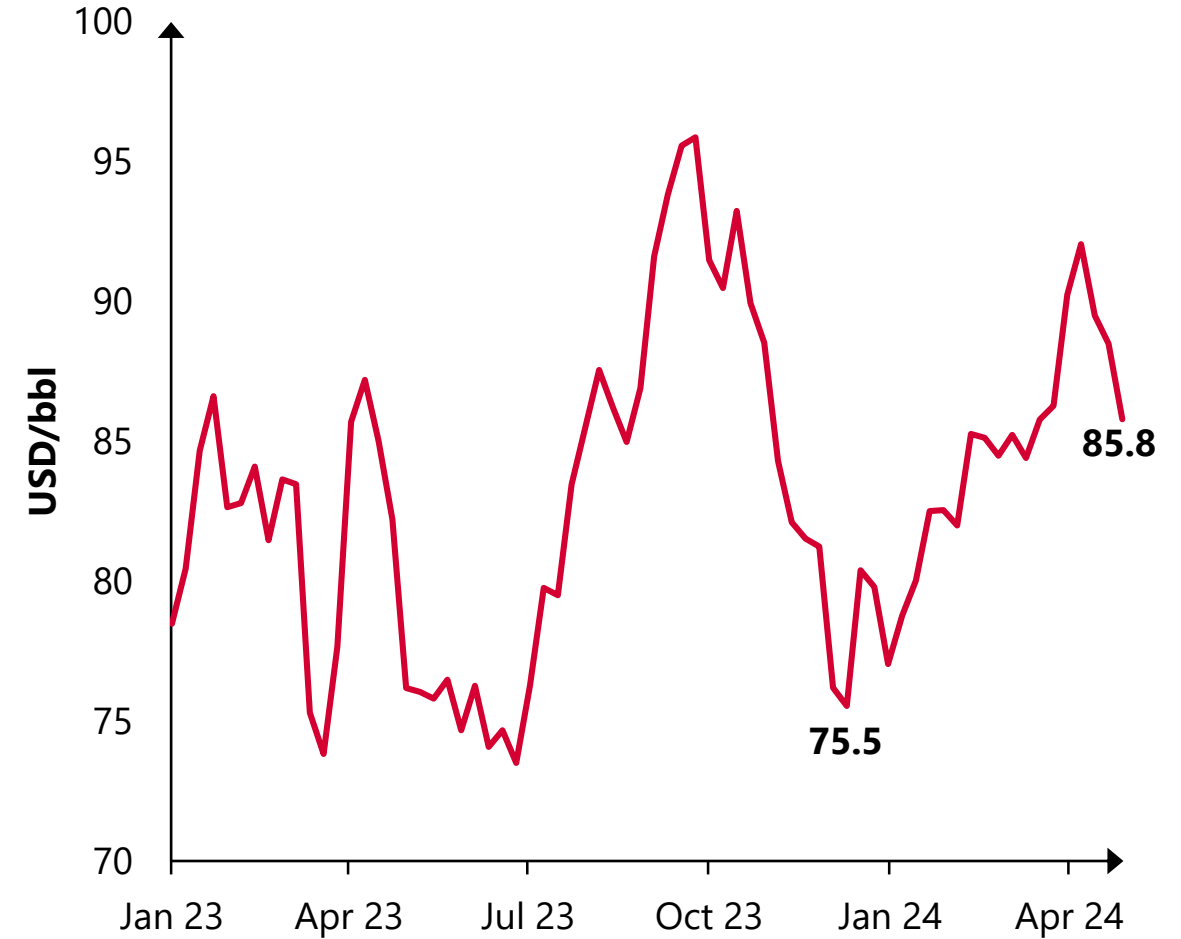


Commodity prices have recently posted a broad-based increase.

Commodity Price Indices*

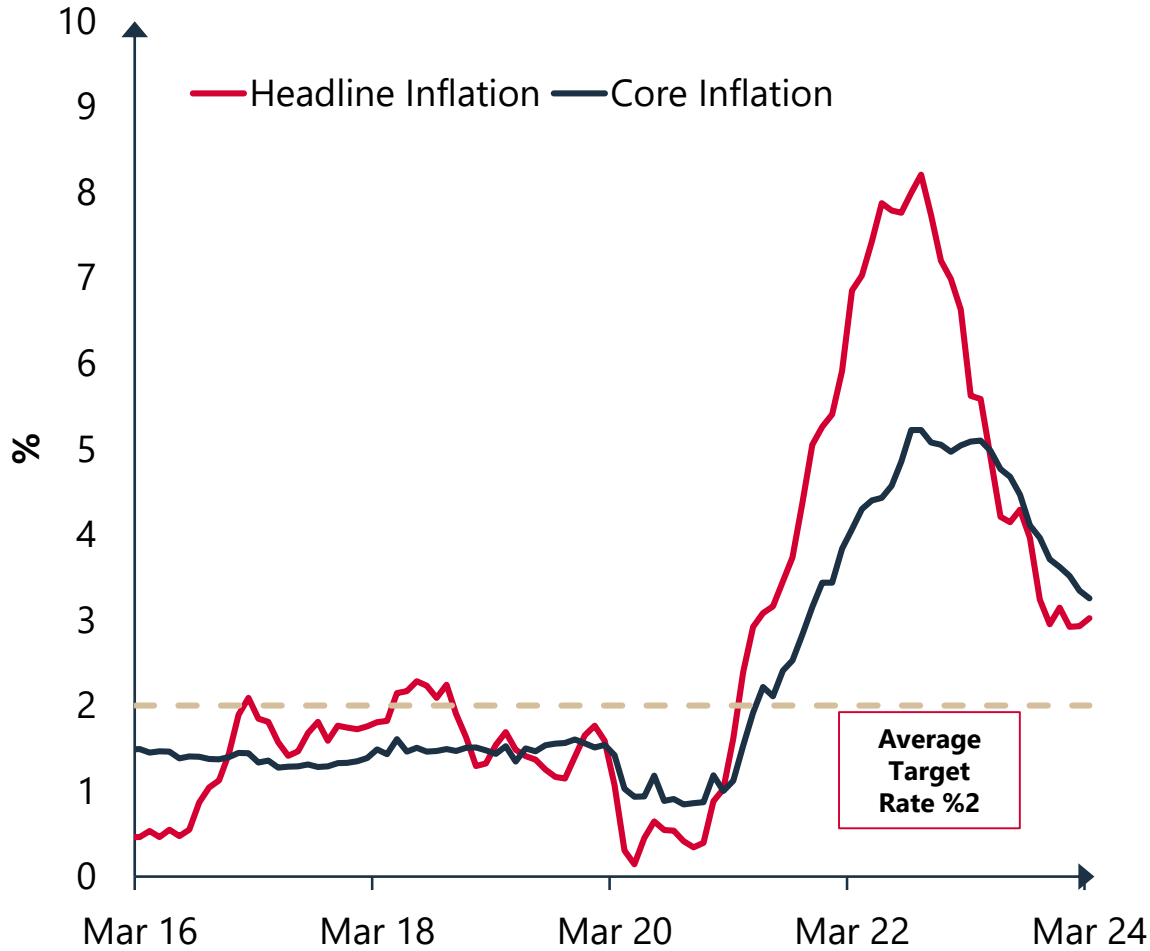


Brent Oil Price**

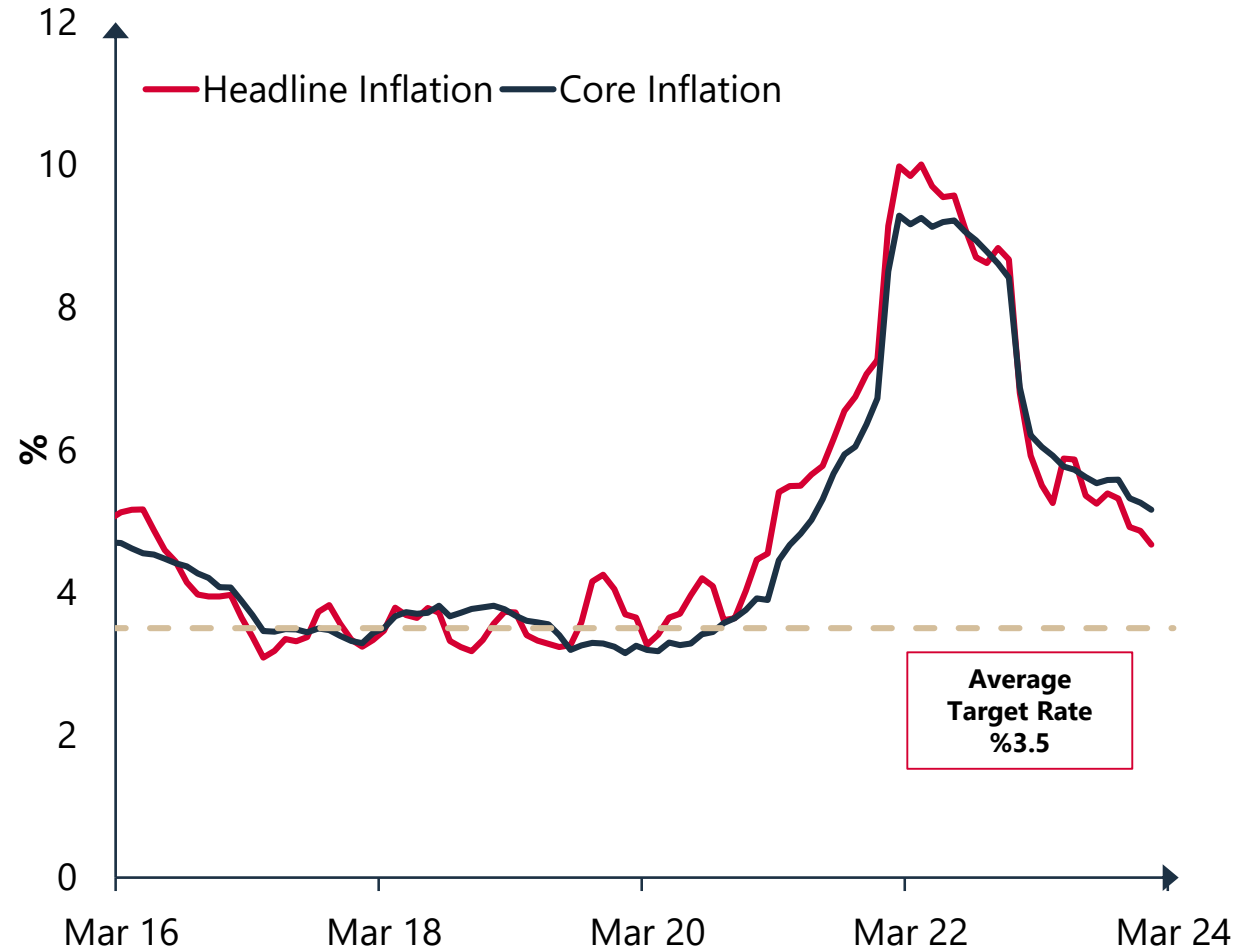


Global inflation continues to hover above targets.

Inflation in Advanced Economies*

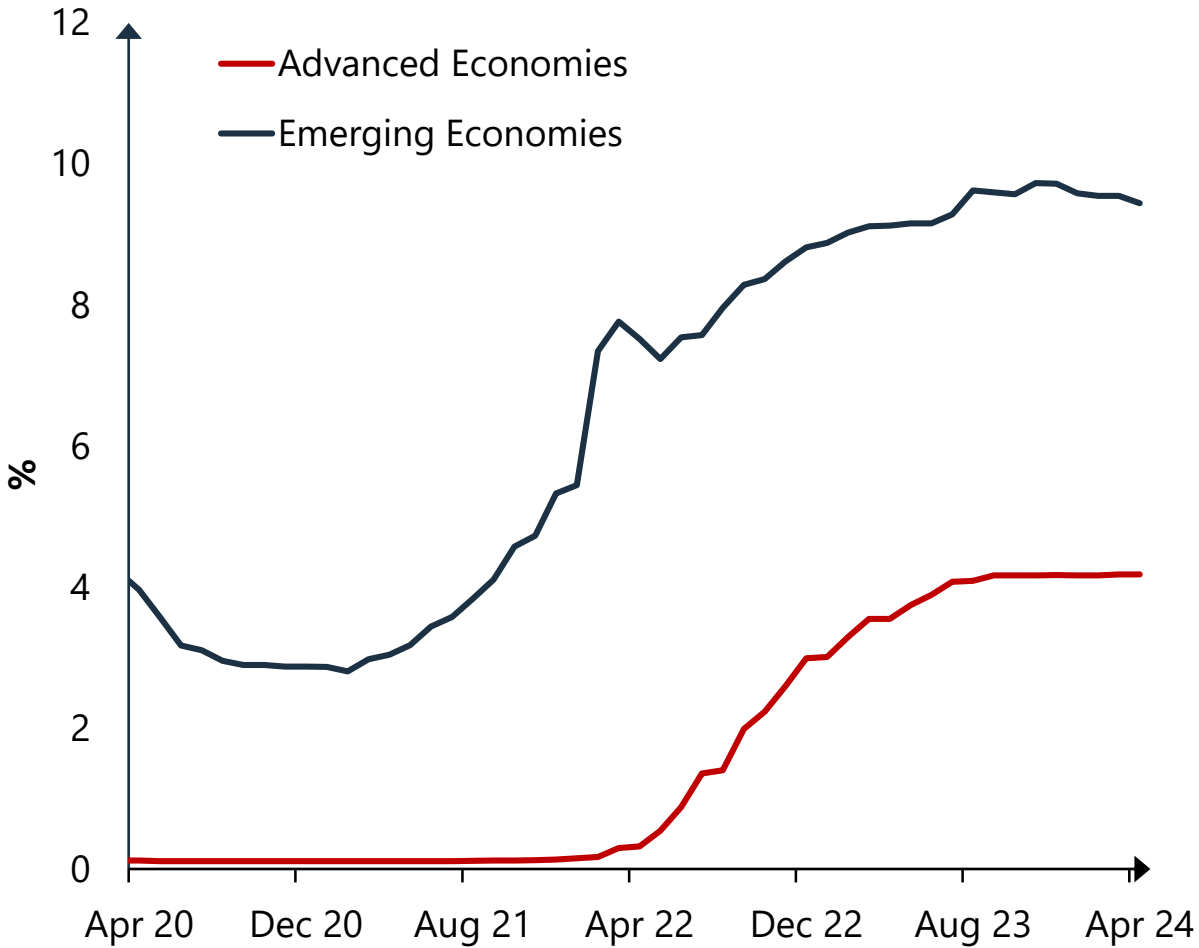


Inflation in Emerging Economies*

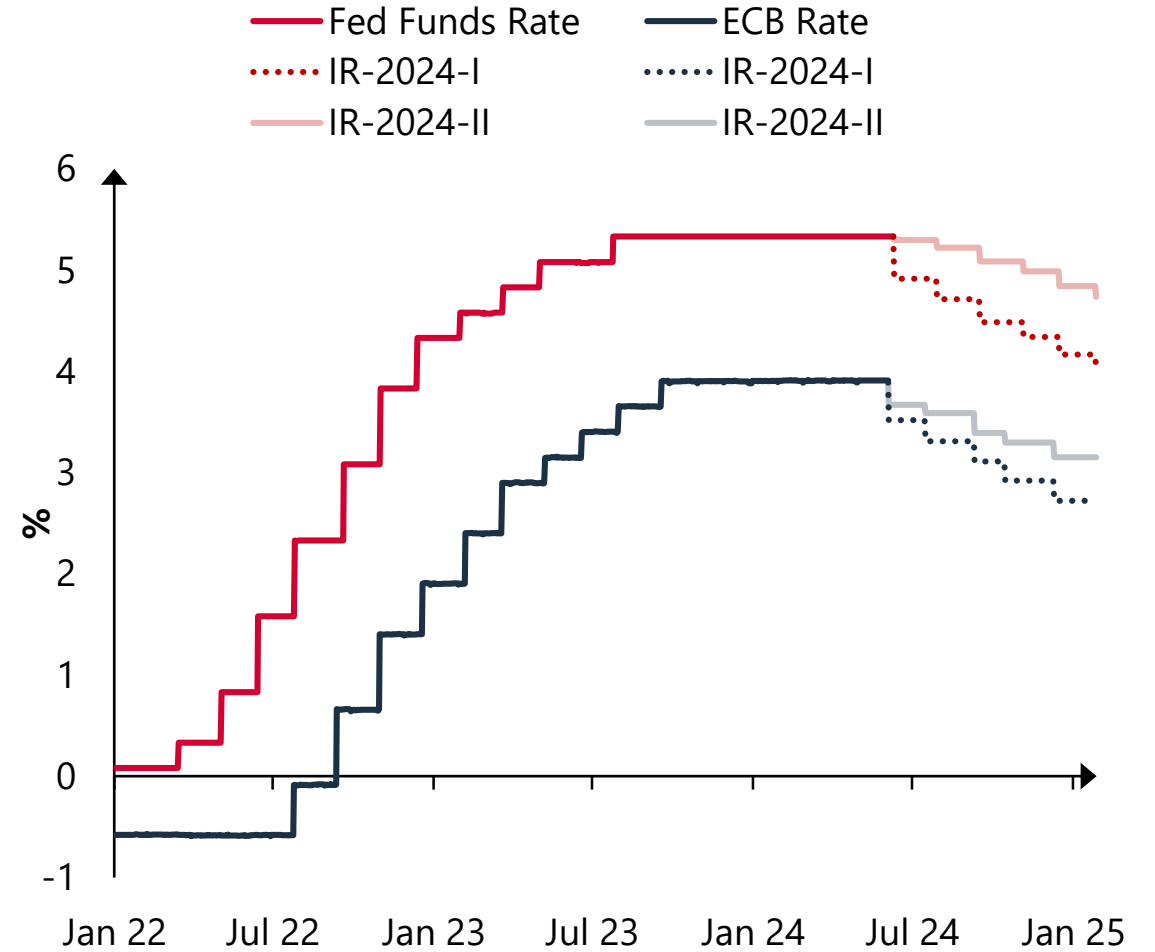


Central banks maintain monetary tightness.

Policy Rates*

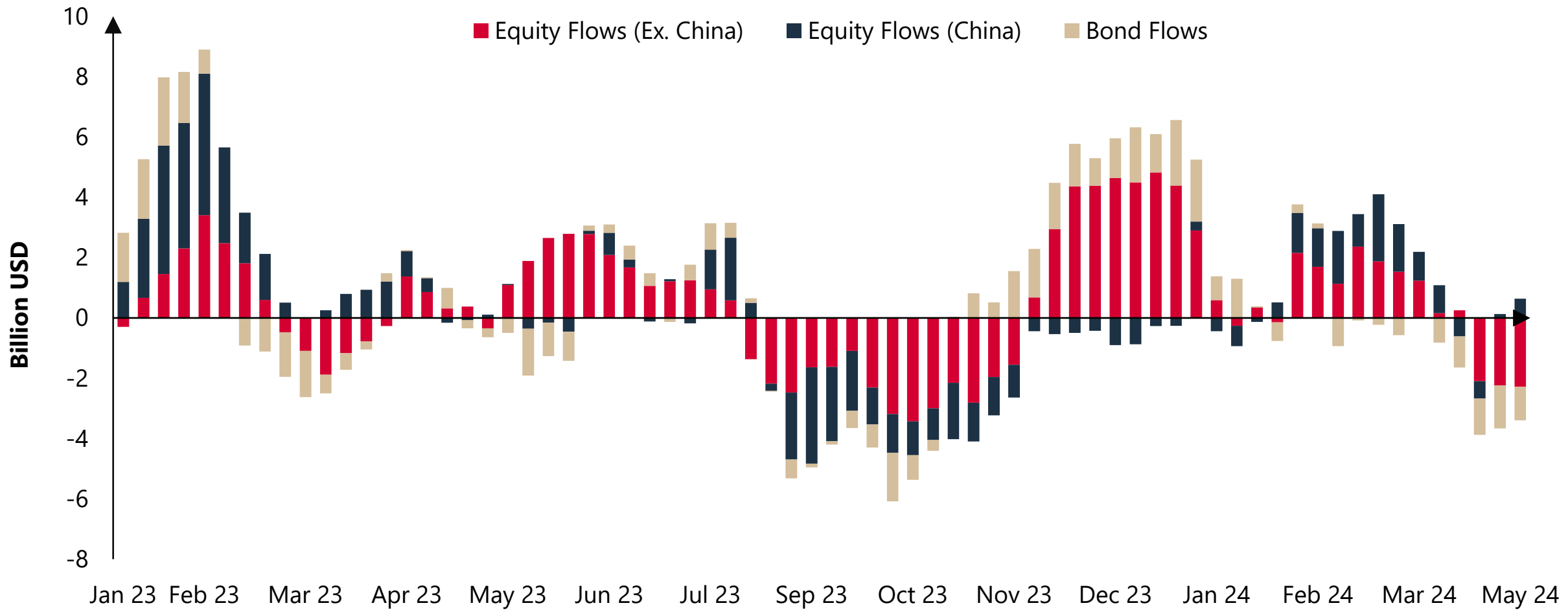


Market Implied Policy Rates (Effective)



There have been recent portfolio outflows from emerging economies.

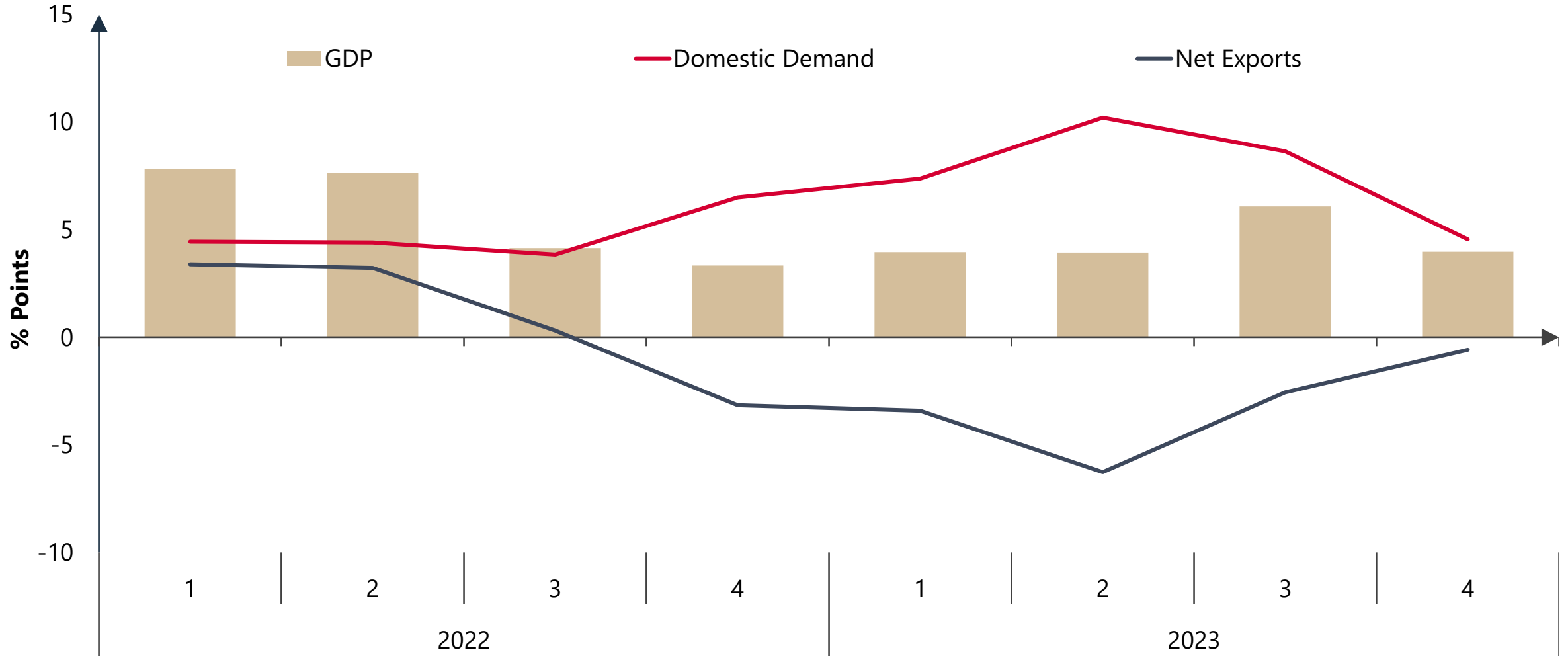
Portfolio Flows*



ECONOMIC ACTIVITY

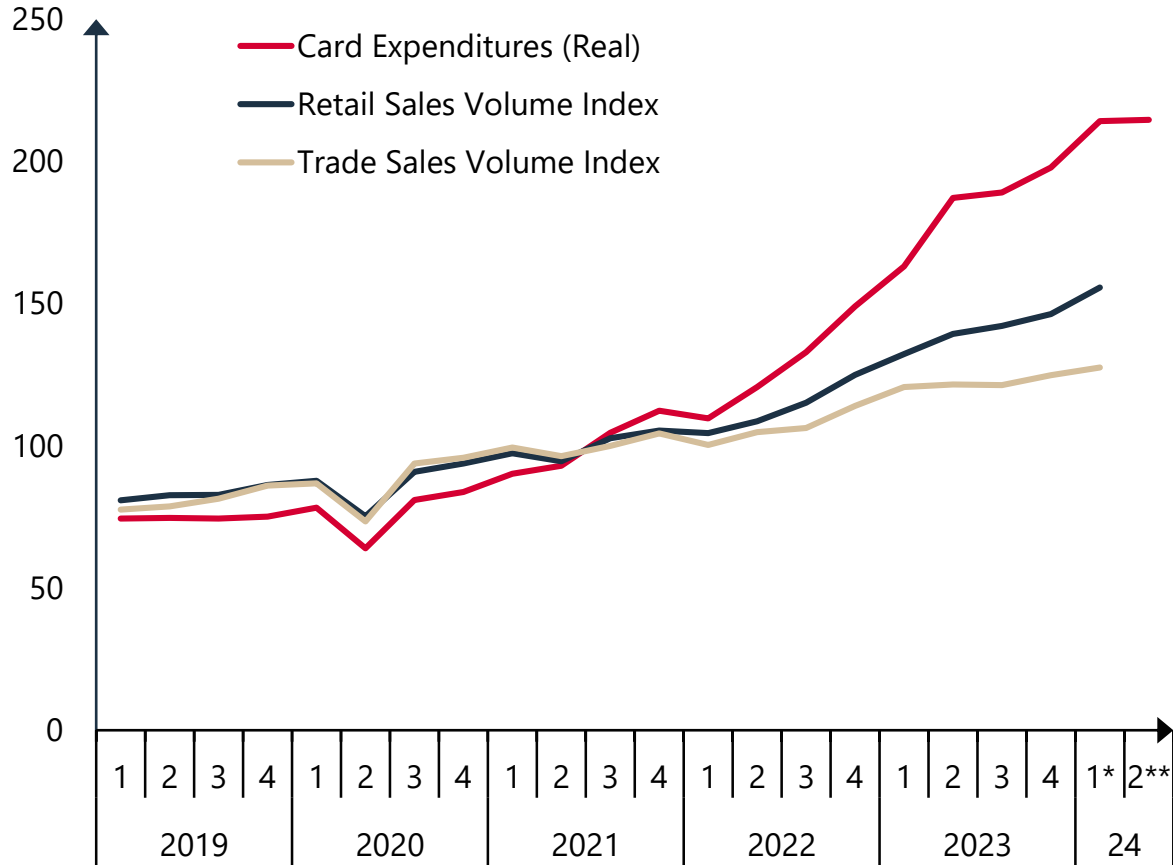
Domestic demand was the main driver of growth in 2023.

Contributions to Annual Growth from the Expenditure Side



While domestic demand remains resilient, there are signs of normalization.

Consumption Indicators
(Seasonally Adjusted, 2021=100)

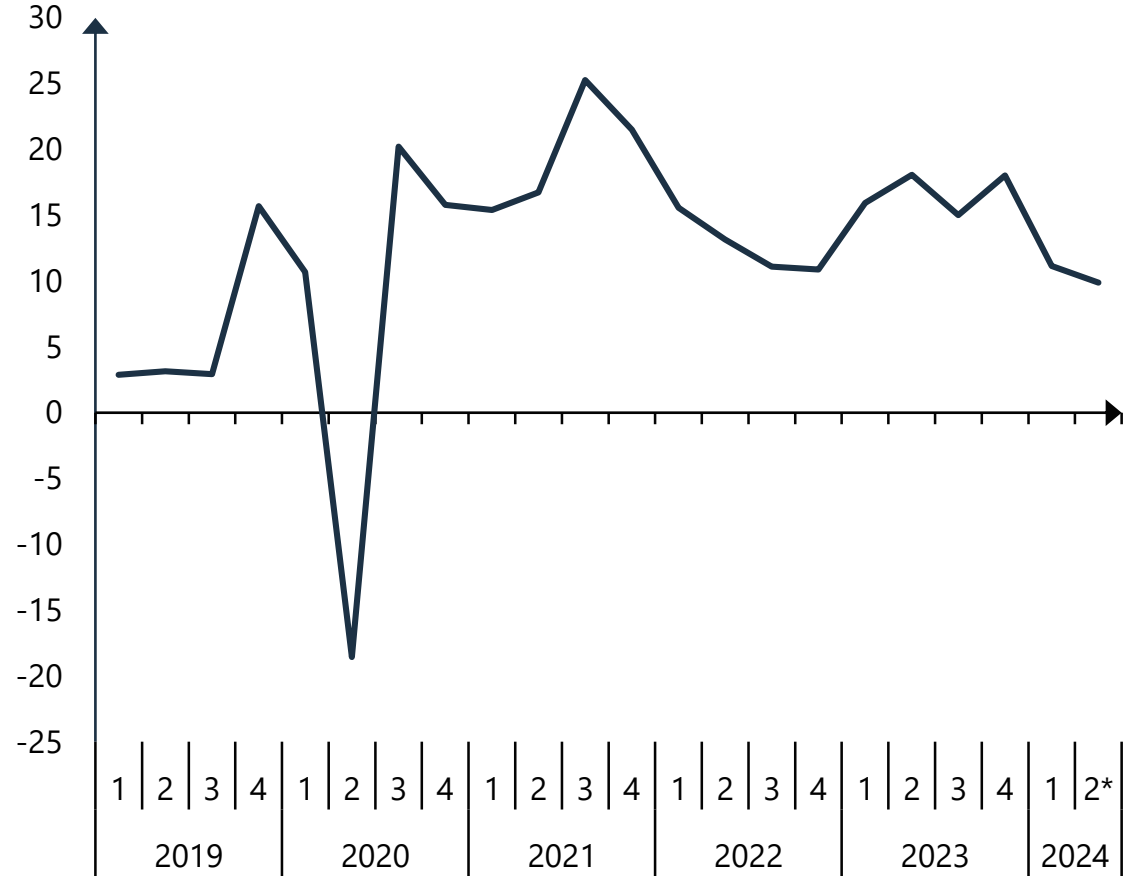


Source: CBRT, TURKSTAT.

* Retail sales and trade sales volume indices are the average of January-February.

** Card expenditures data is as of April. In real terms, deflated by CPI and indexed to 2021=100.

Business Tendency Survey Domestic Order Expectations
(Seasonally Adjusted, Up-Down, %)

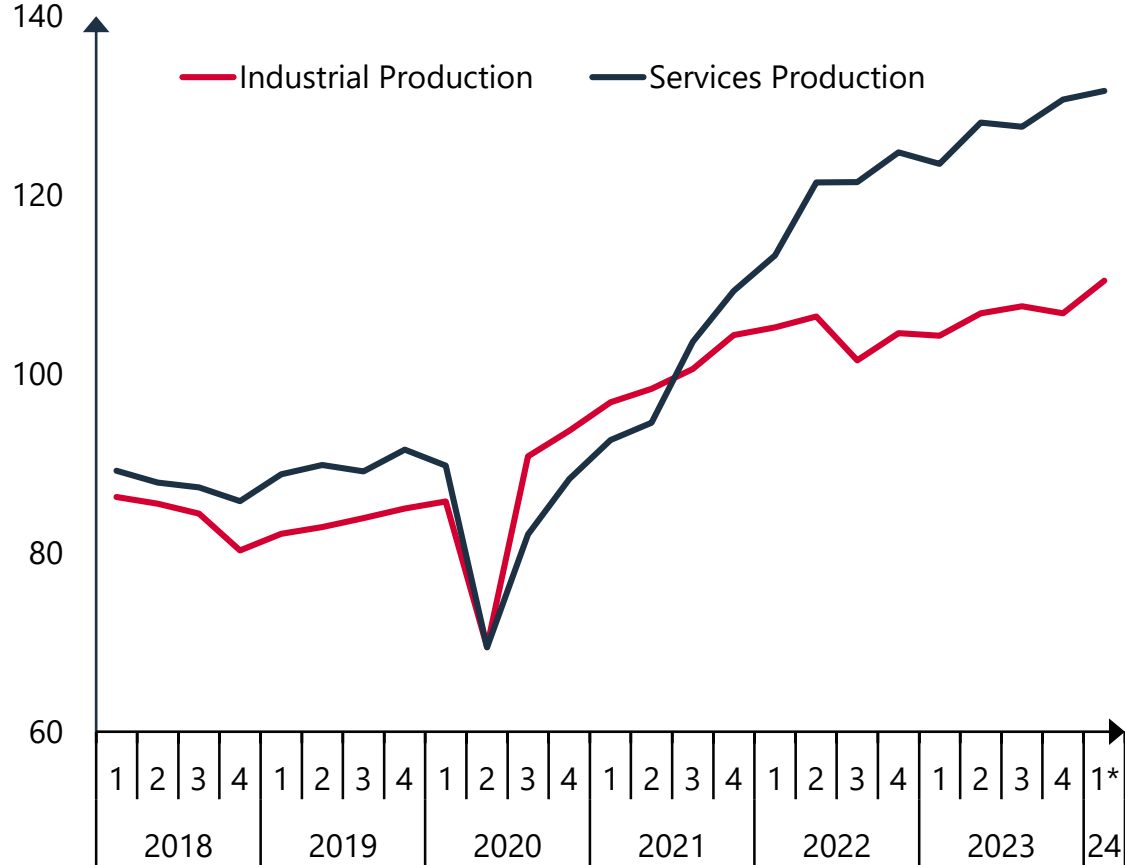


Source: CBRT

* As of April.

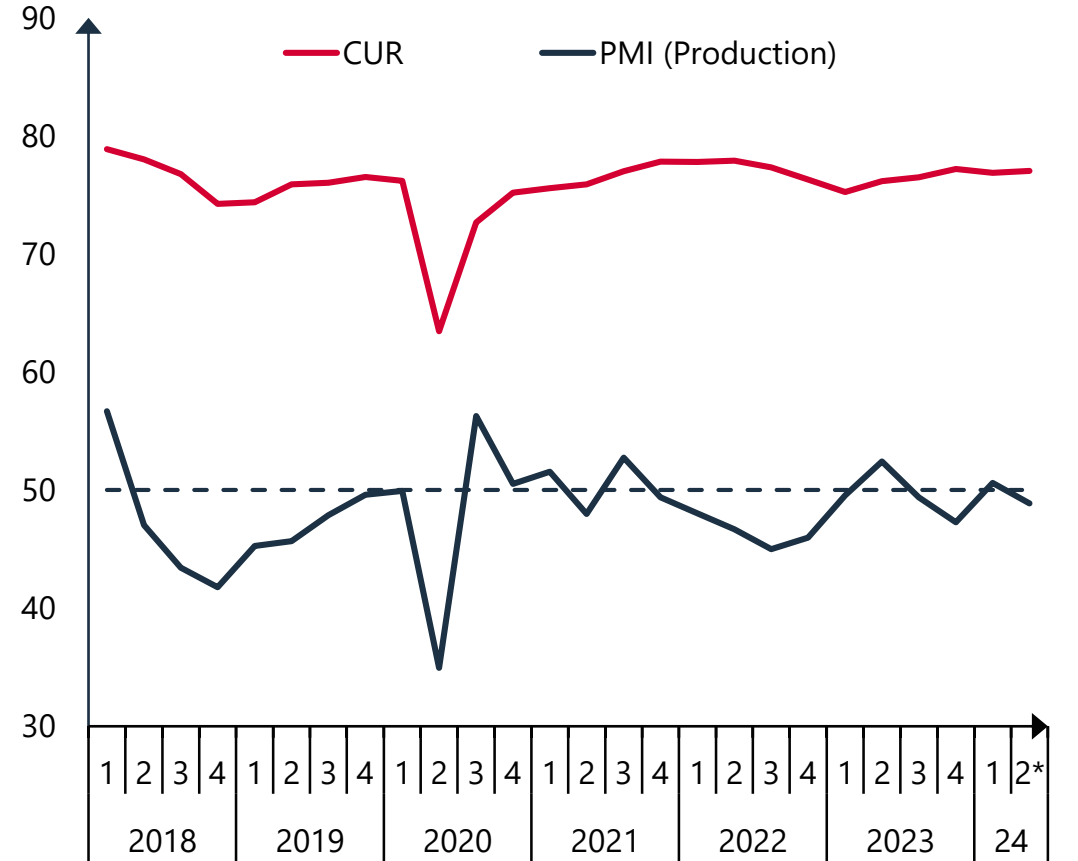
Supply conditions remain more moderate than demand conditions.

**Industrial Production and Services Production Indices
(Seasonally Adjusted, 2021=100)**



Source: CBRT, TURKSTAT.
*Average of January-February.

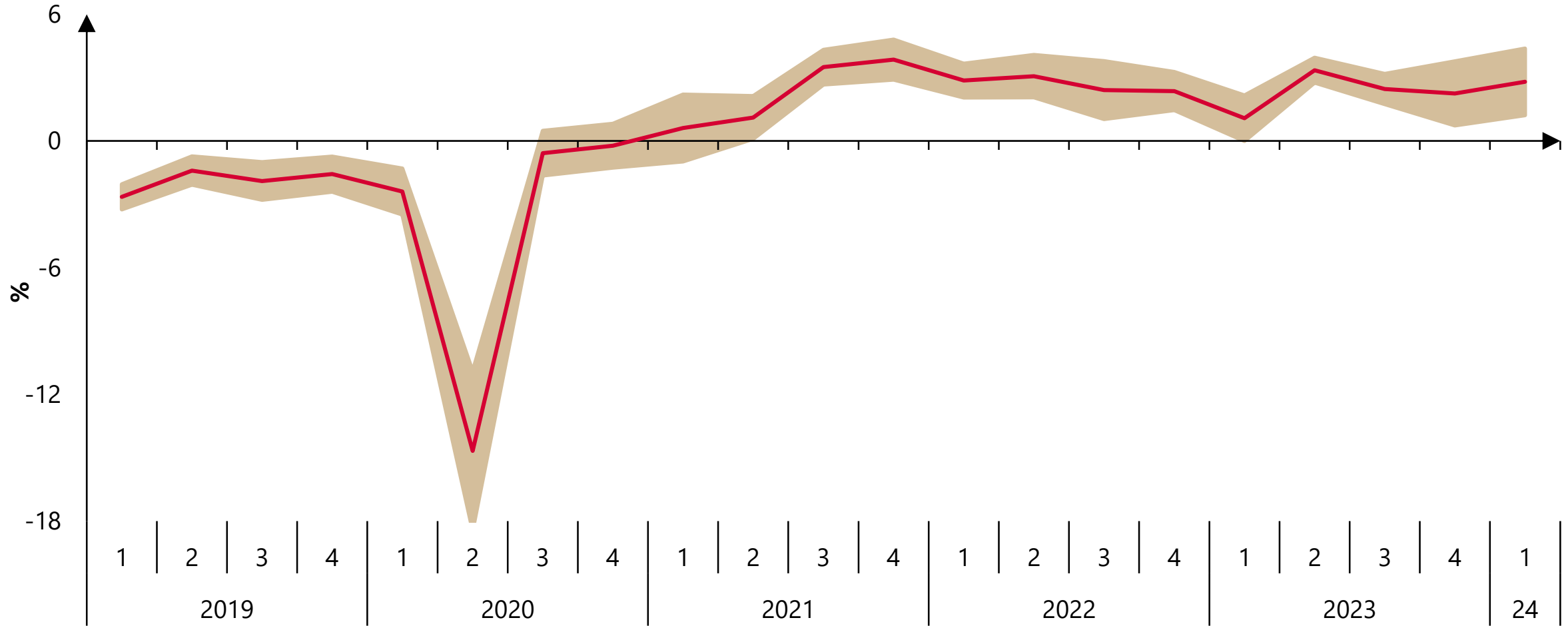
**Capacity Utilization Rate (Seasonally Adjusted, %) and
PMI Production (Seasonally Adjusted, Level)**



Source: CBRT, S&P Global.
*As of April.

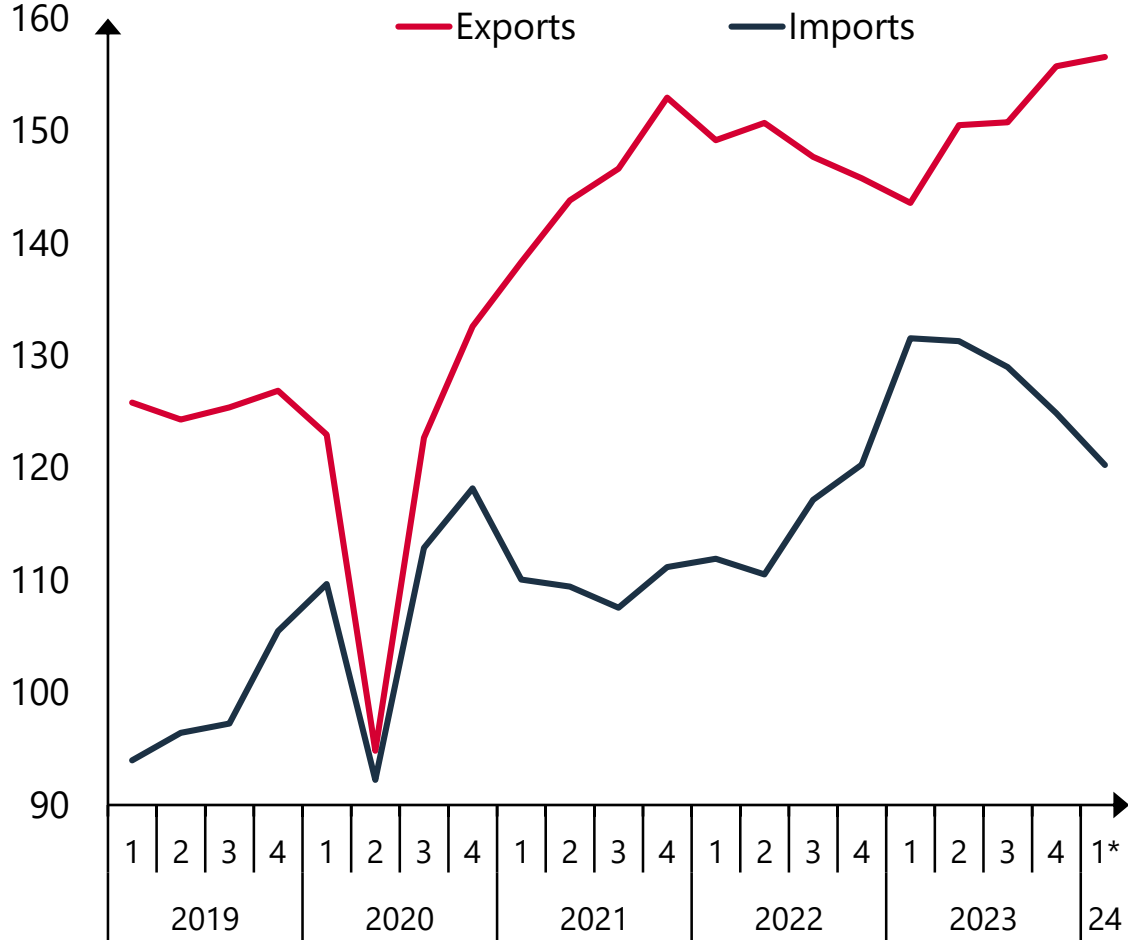
The output gap is estimated to have widened slightly in the first quarter.

Output Gap*

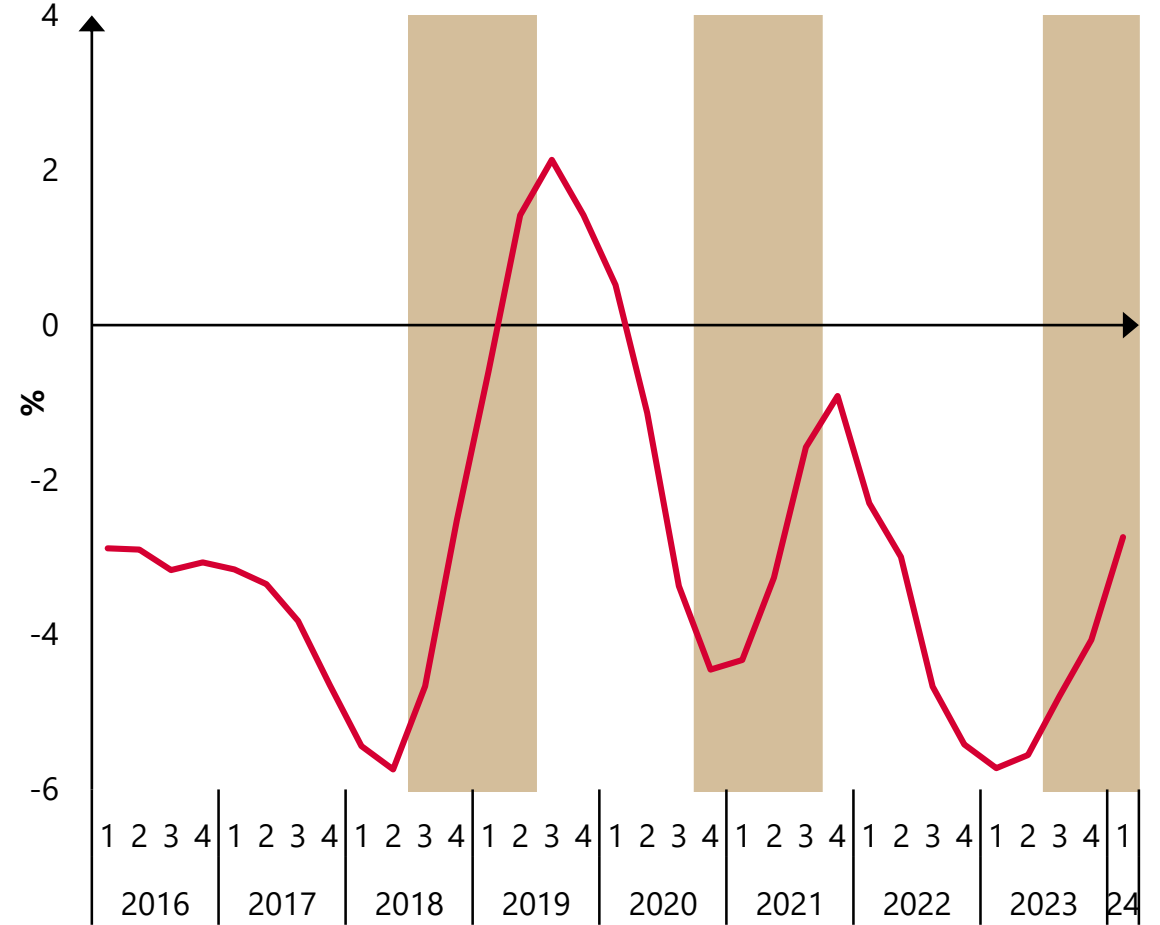


The improvement in the current account balance continues.

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



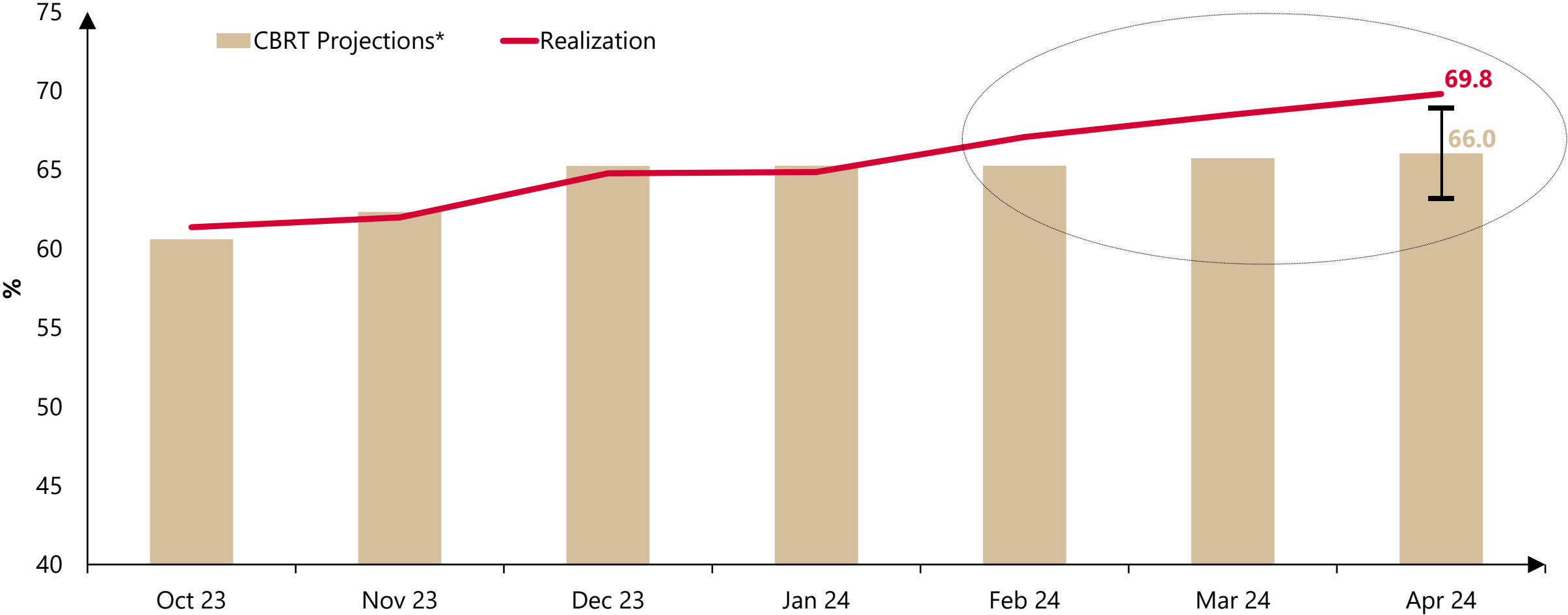
Current Account Balance/GDP**



INFLATION

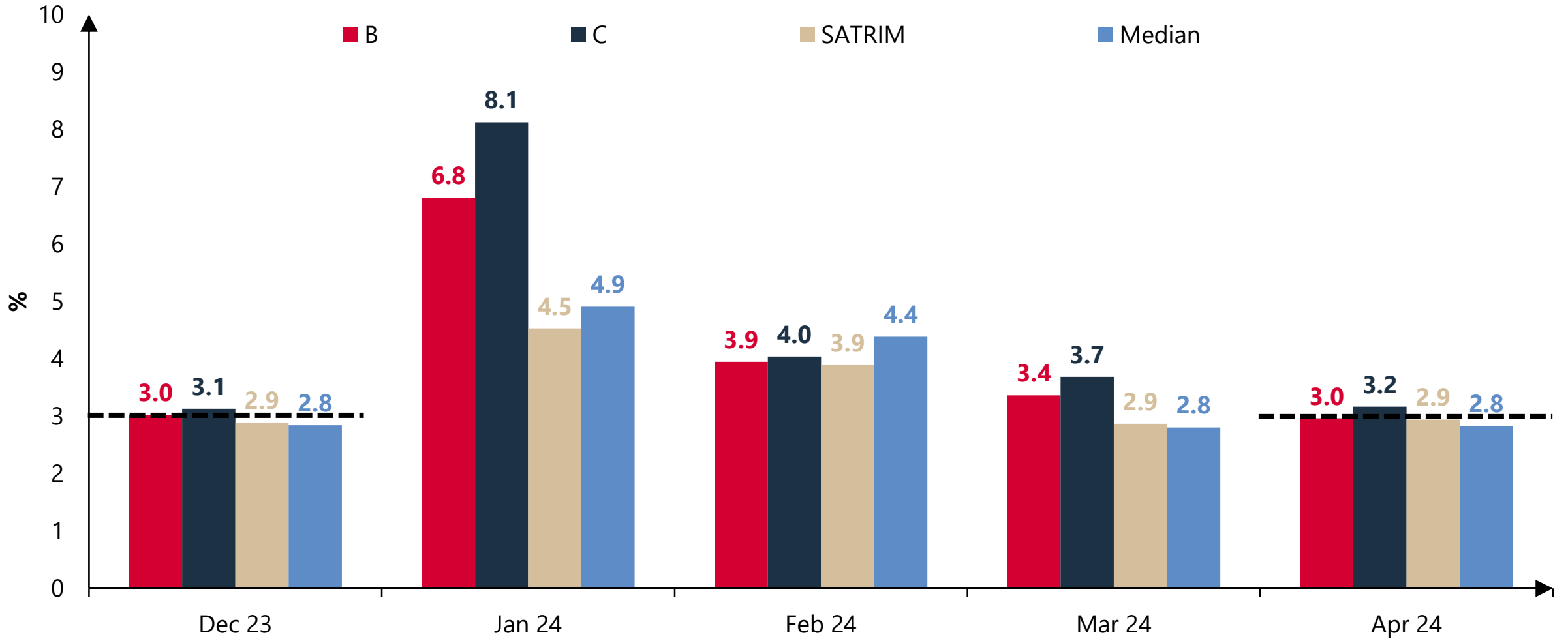
Consumer inflation is above the forecast range.

Actual and CBRT Forecasts for CPI
(Annual % Change)



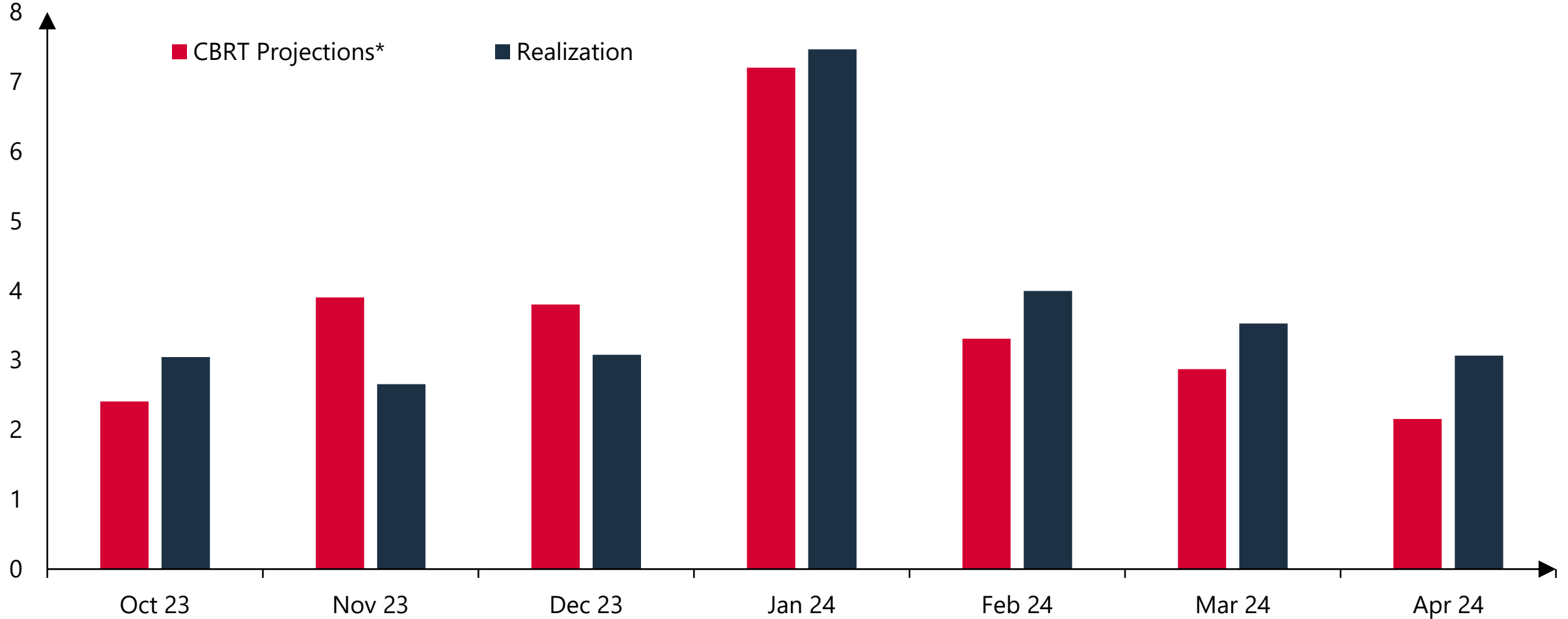
Inflation indicators point to a decline in underlying trend.

Monthly Inflation Indicators*



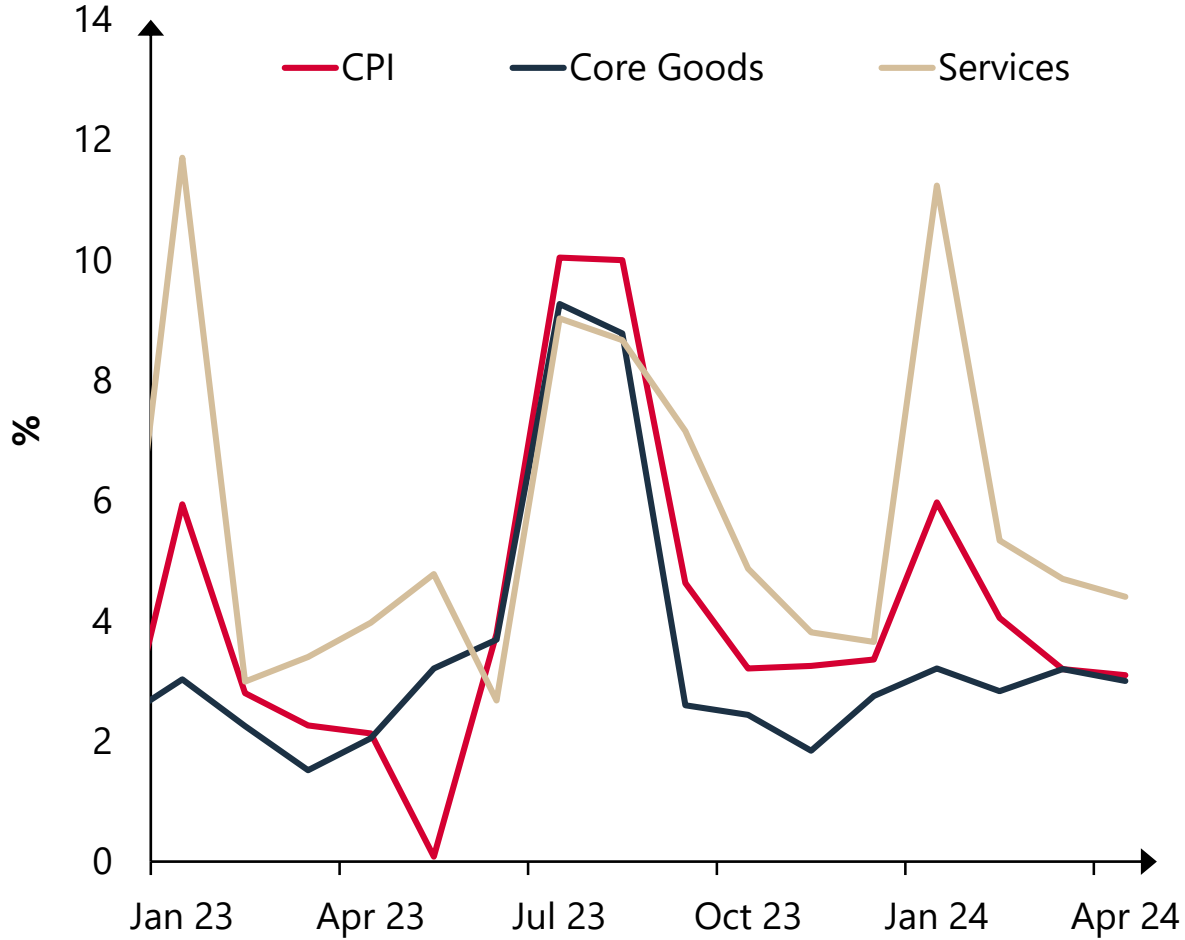
Underlying trend decelerated but remained higher than our forecasts.

Underlying Trend of Inflation
(Average of B and C Indices, Seasonally Adjusted, Monthly % Change)

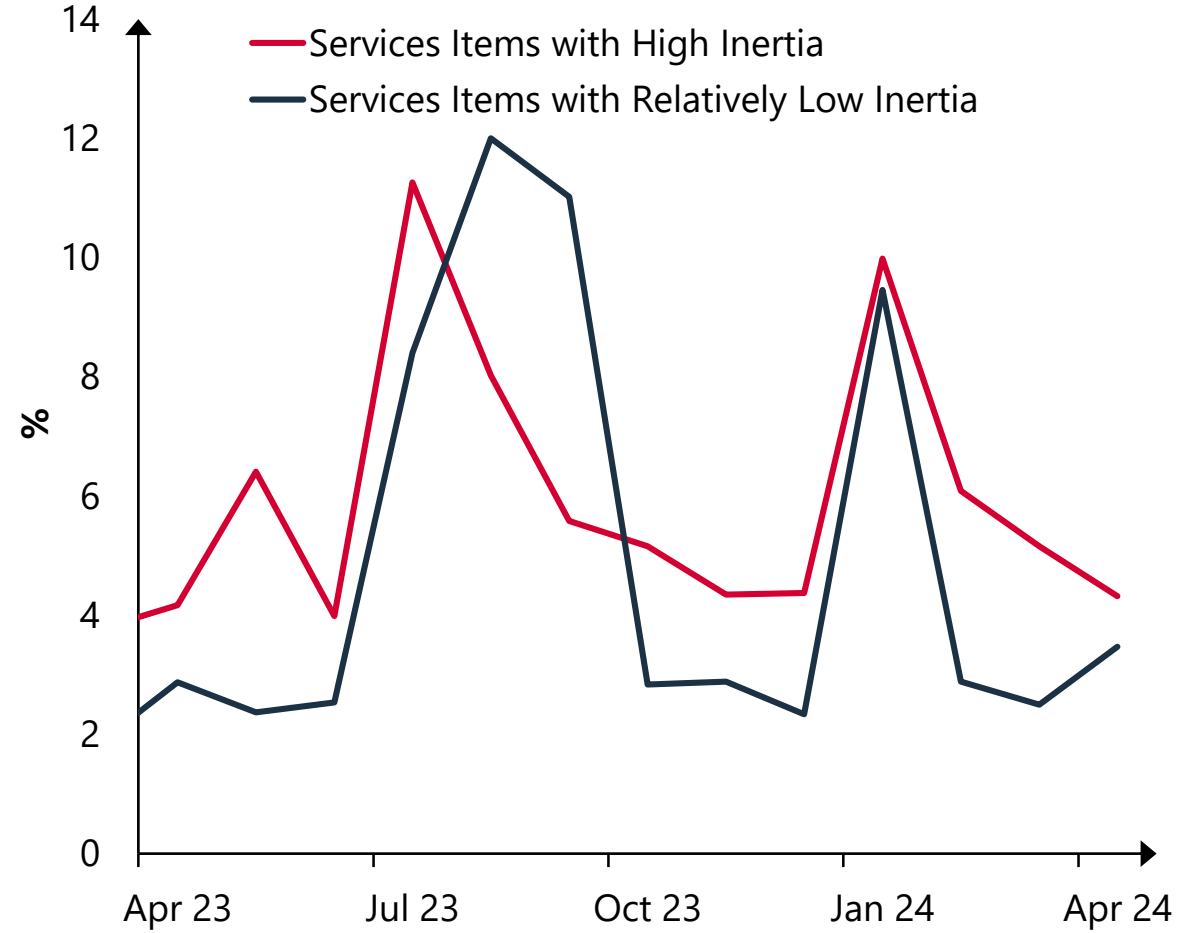


Services prices play a significant role in the elevated course of the underlying trend.

**Price Index
(Seasonally Adjusted, Monthly % Change)**

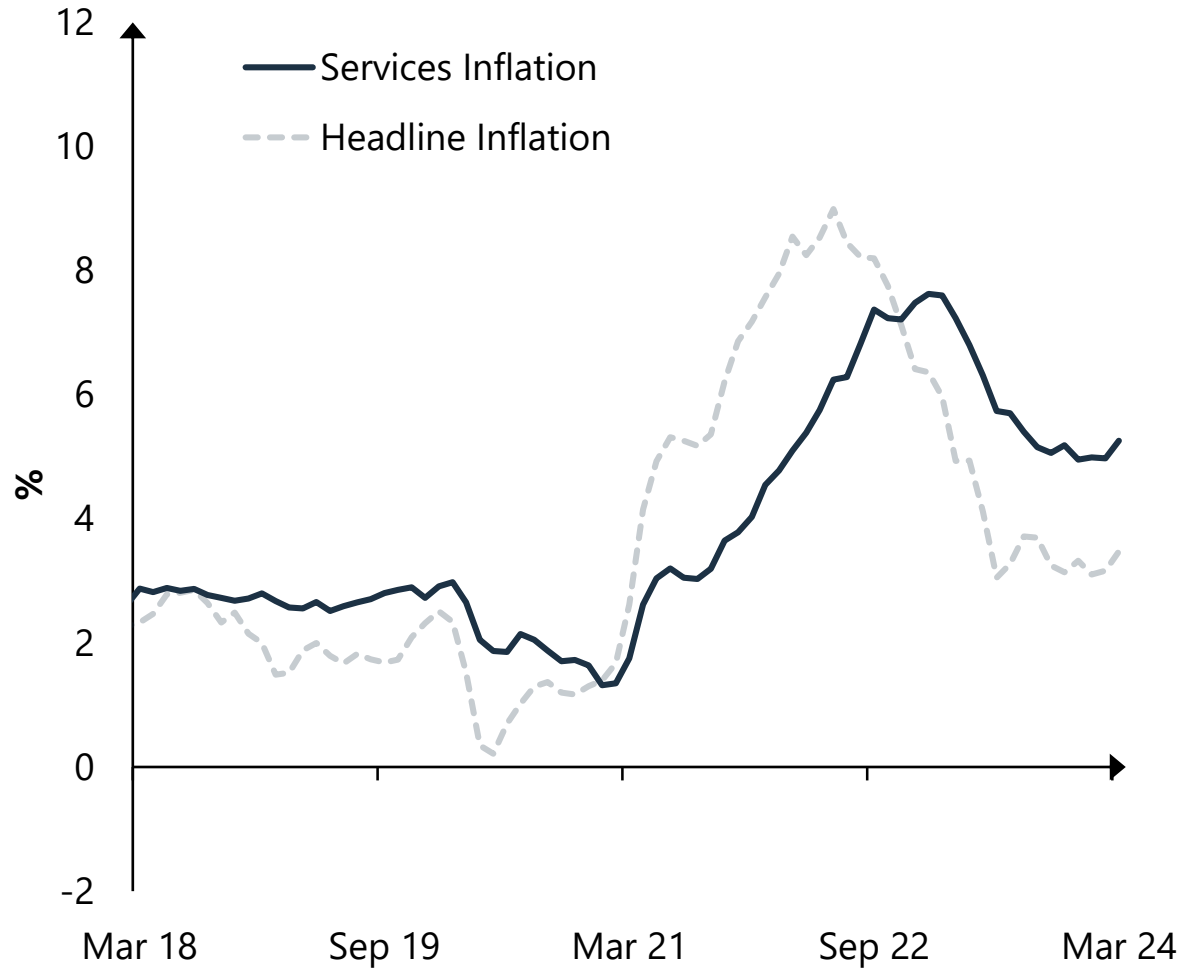


**Services Price Index*
(Seasonally Adjusted, Monthly % Change)**

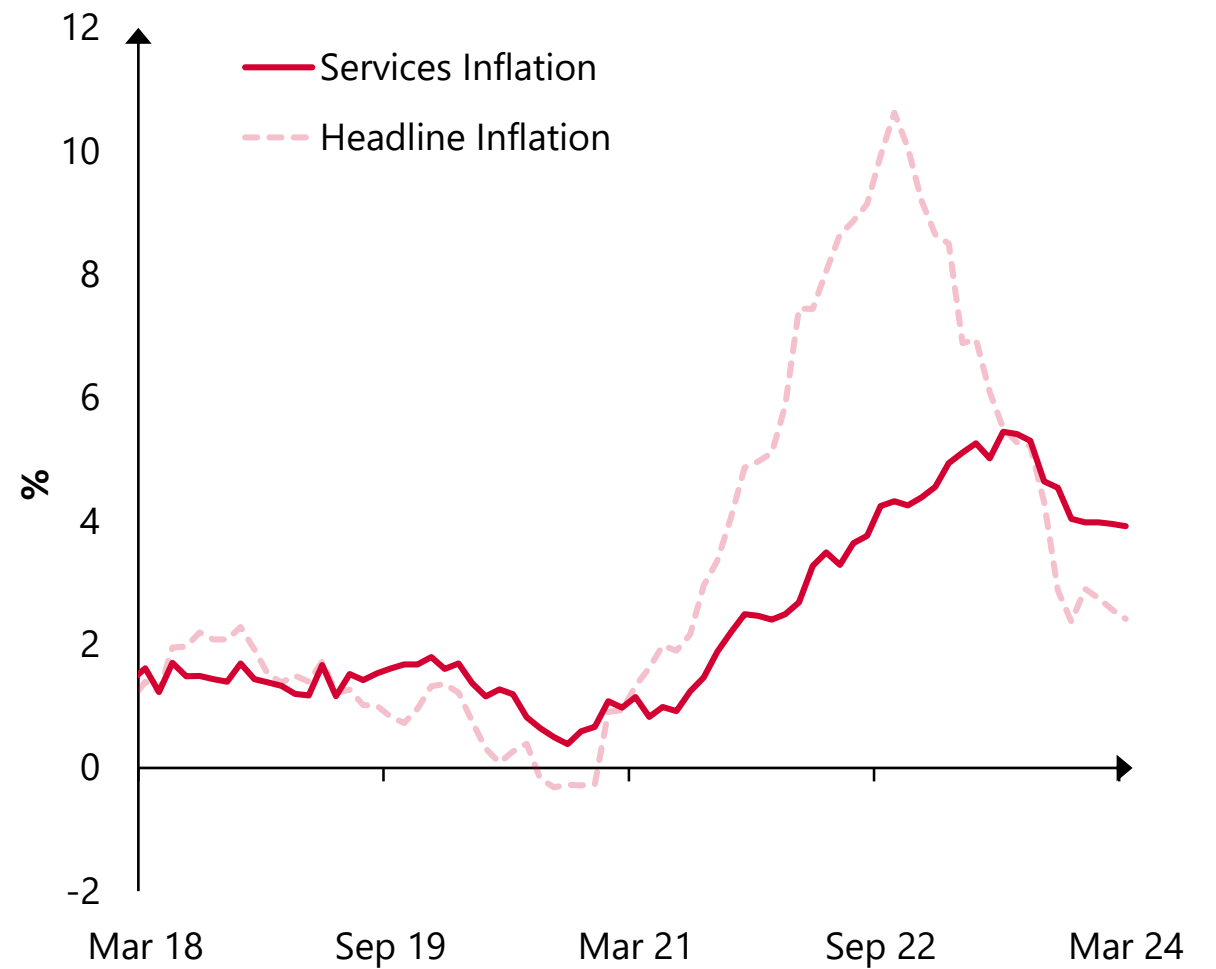


Services inflation is also above the headline inflation in advanced economies.

Headline Inflation and Services Inflation in the USA (Annual)

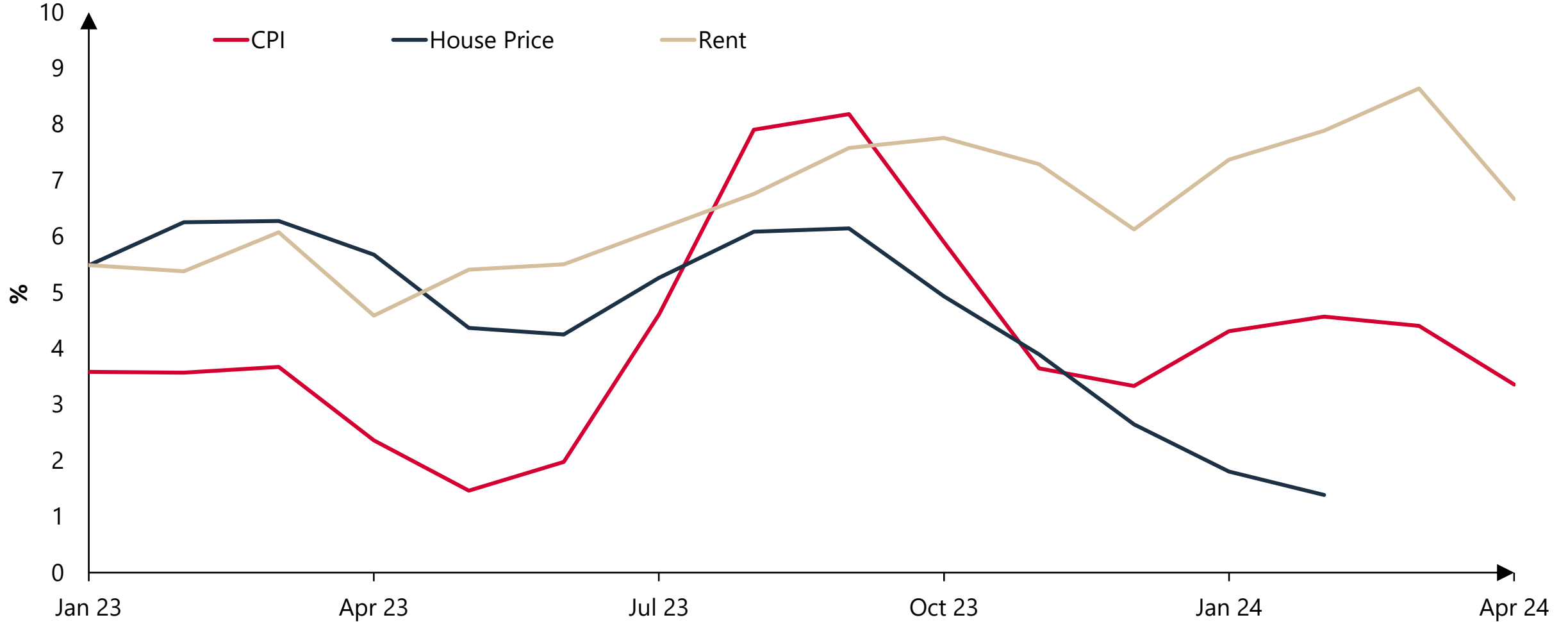


Headline Inflation and Services Inflation in the Euro Area (Annual)



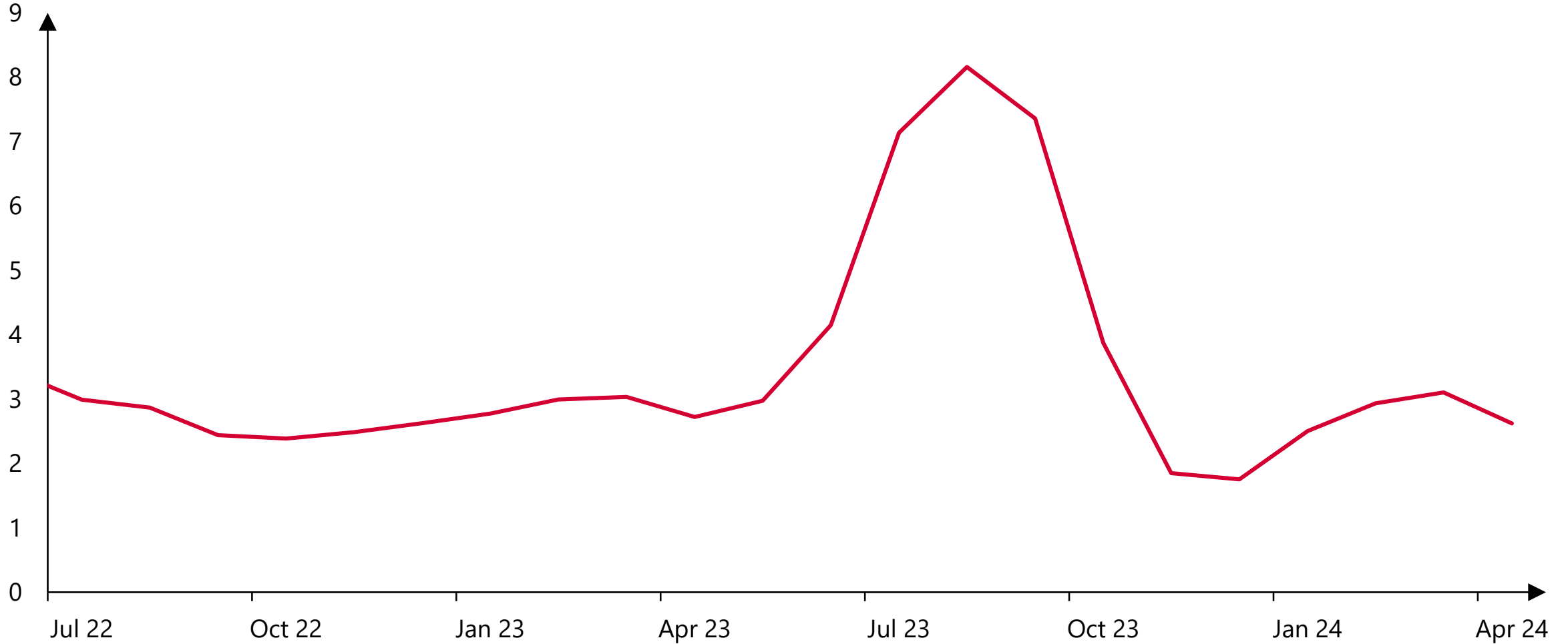
The upward trend in house prices is losing pace.

CPI, House Price Index and Rent Index
(Seasonally Adjusted, 3 Month Average % Change)*



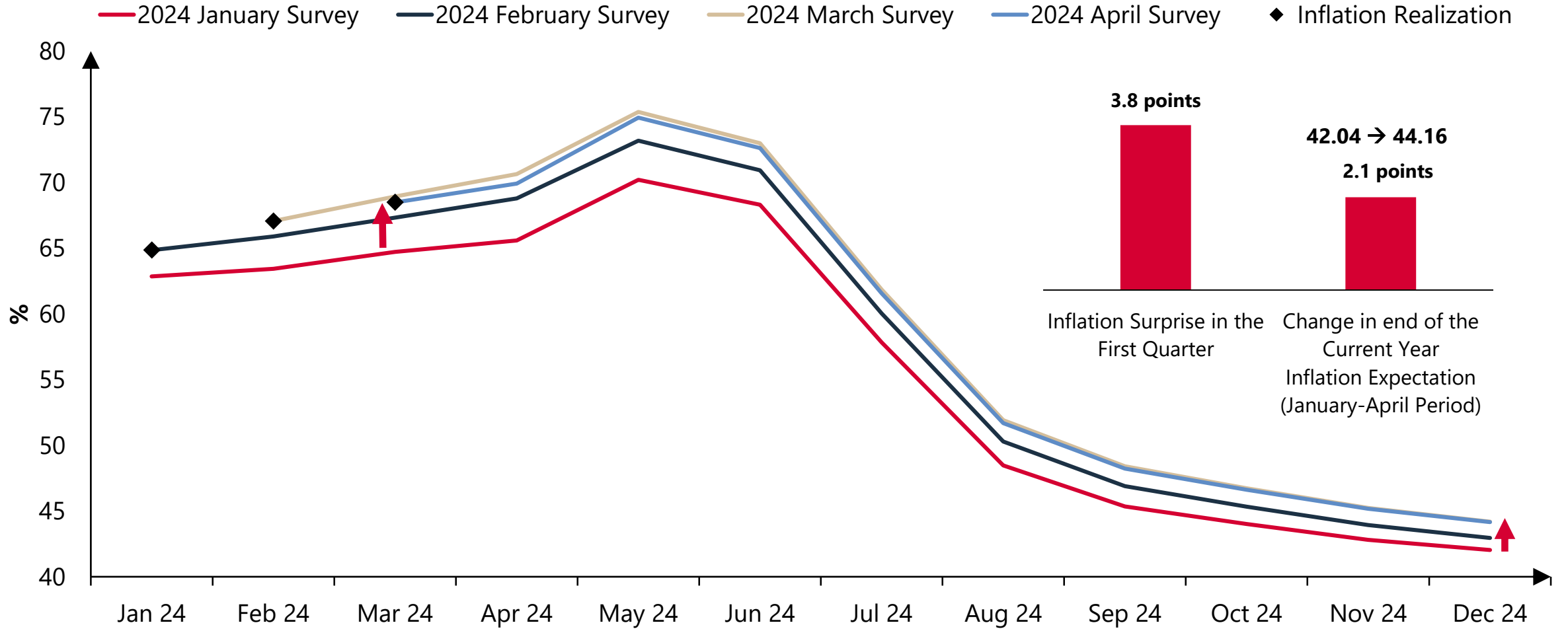
Price increases in durable consumption goods are expected to lose pace.

Prices of Durable Goods
(Seasonally Adjusted, 3 Month Average % Change, Excluding Gold)



The impact of monetary tightening on expectations is closely monitored.

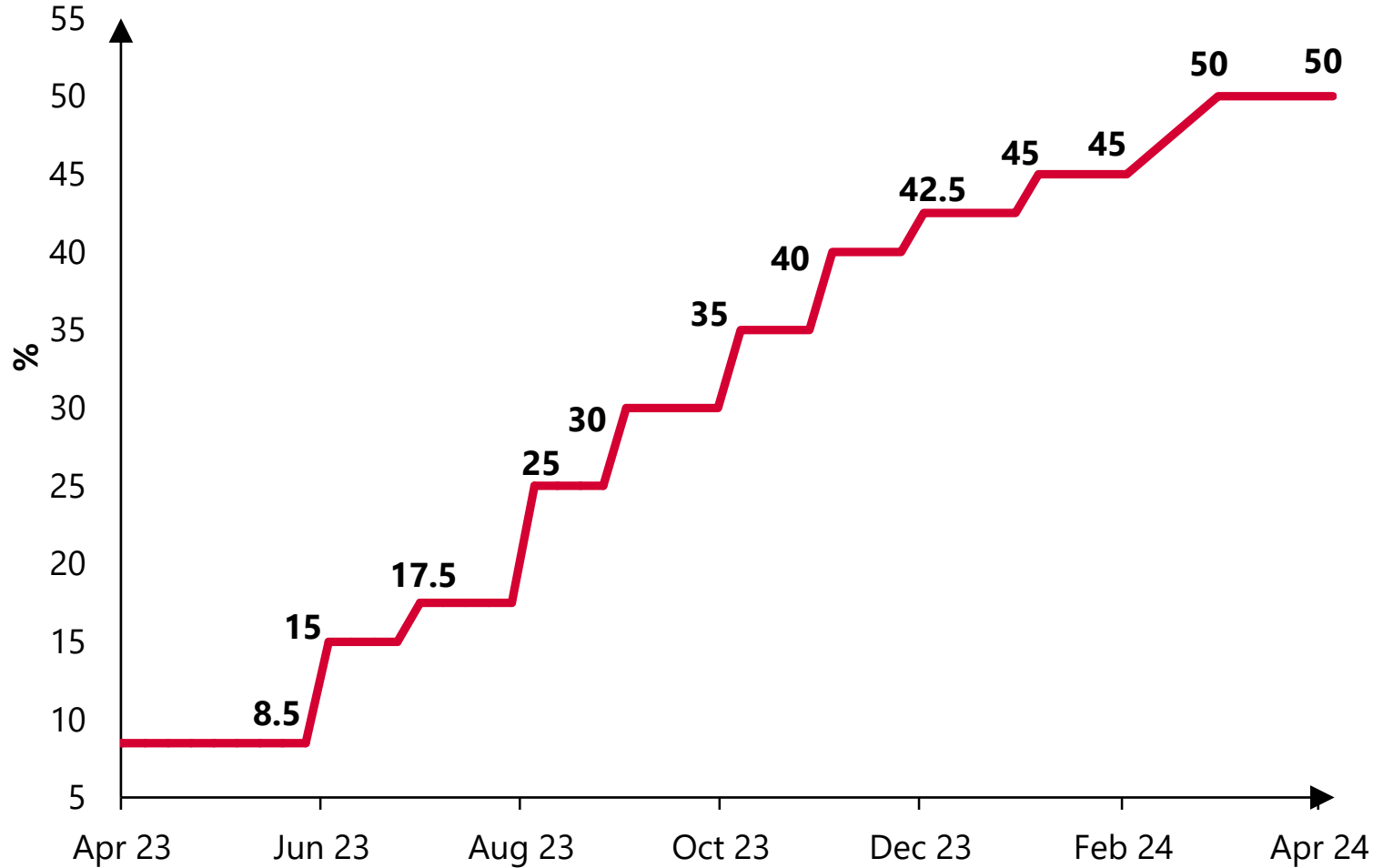
CPI Annual Inflation Realization and Inflation Expectation Curve of Survey of Market Participants*



MONETARY POLICY

Monetary stance has been significantly tightened.

Policy Rate



Quantitative Tightening

Macroprudential Framework

Steps have been taken towards supporting and reinforcing the transmission mechanism.

ADJUSTMENTS

GOALS

- Decreased monthly growth cap
- Introduced RR for excess loan growth

1

- Rebalancing in credit growth

- Targets on TL deposit ratio and transition to TL
- Sterilization of excess liquidity
- Remuneration on TL RR

2

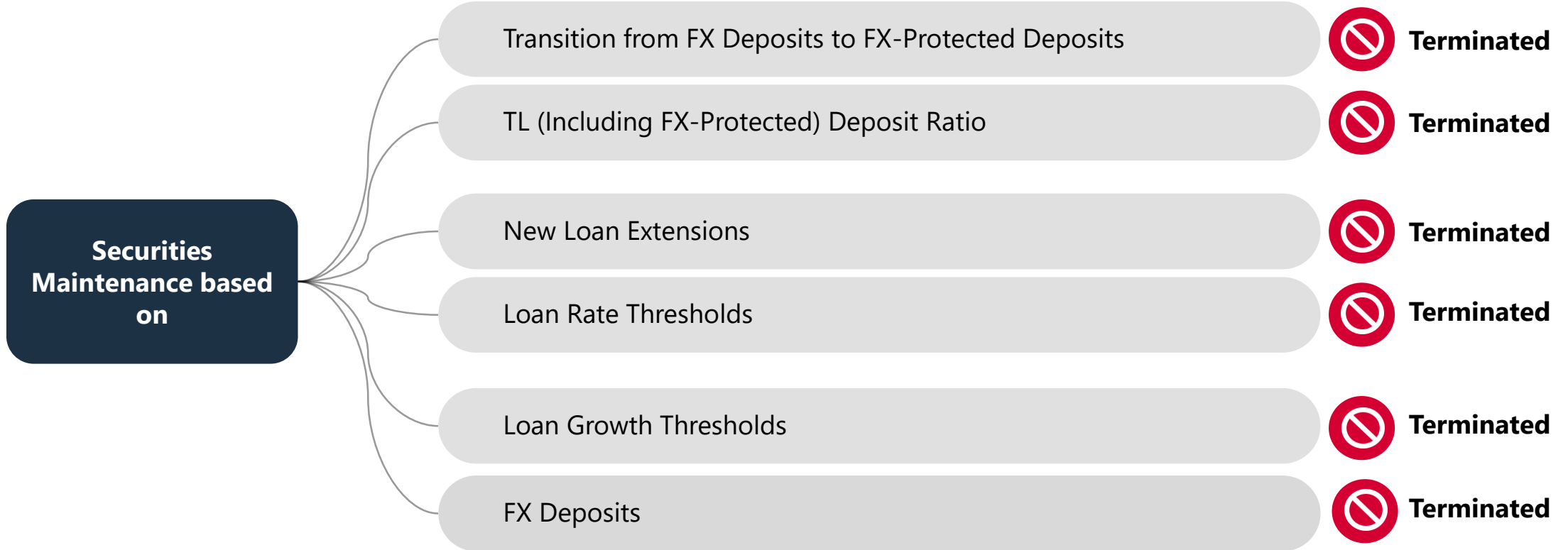
- Increasing the share of TL deposits
- Strengthening the transmission to deposit rates

- Raised the maximum interest rates on credit cards

3

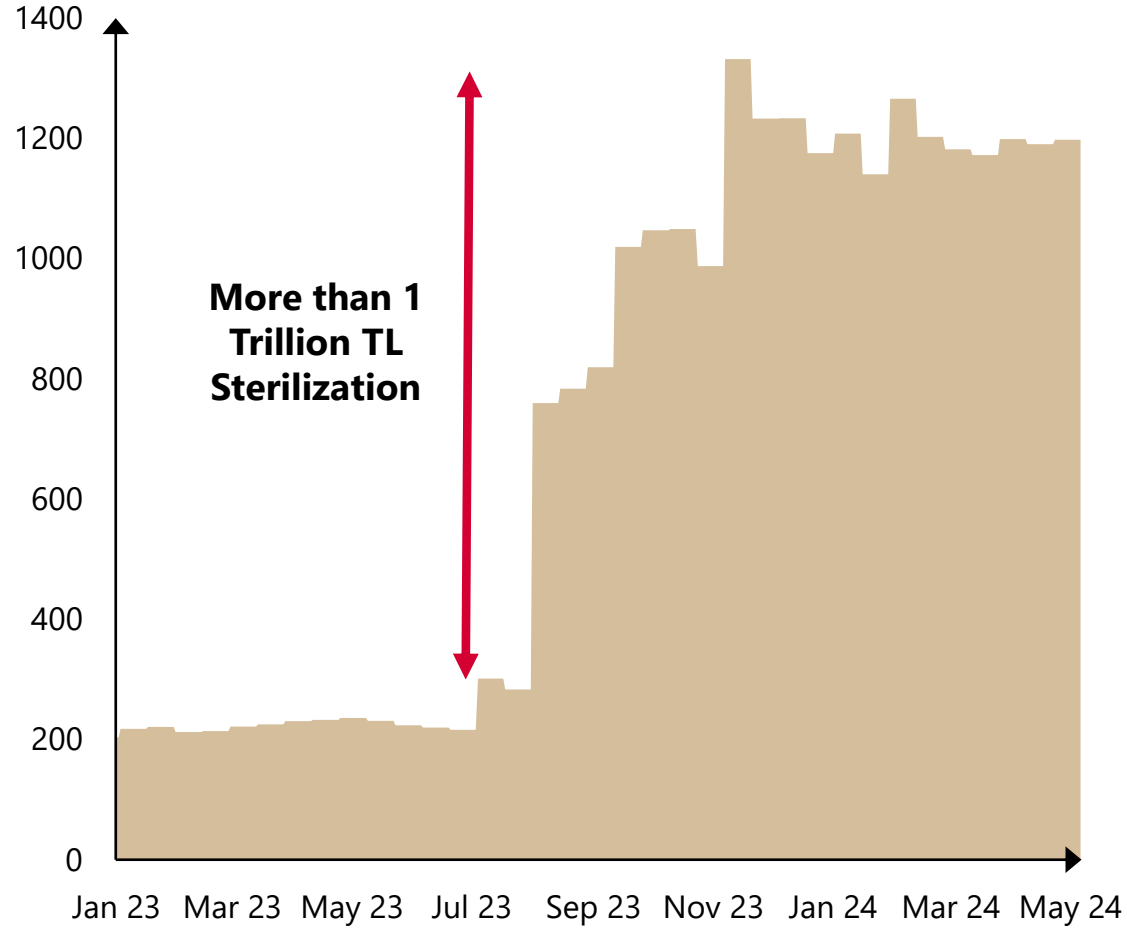
- Moderating the excessive consumption demand

The securities maintenance practice was terminated on the 9th of May.

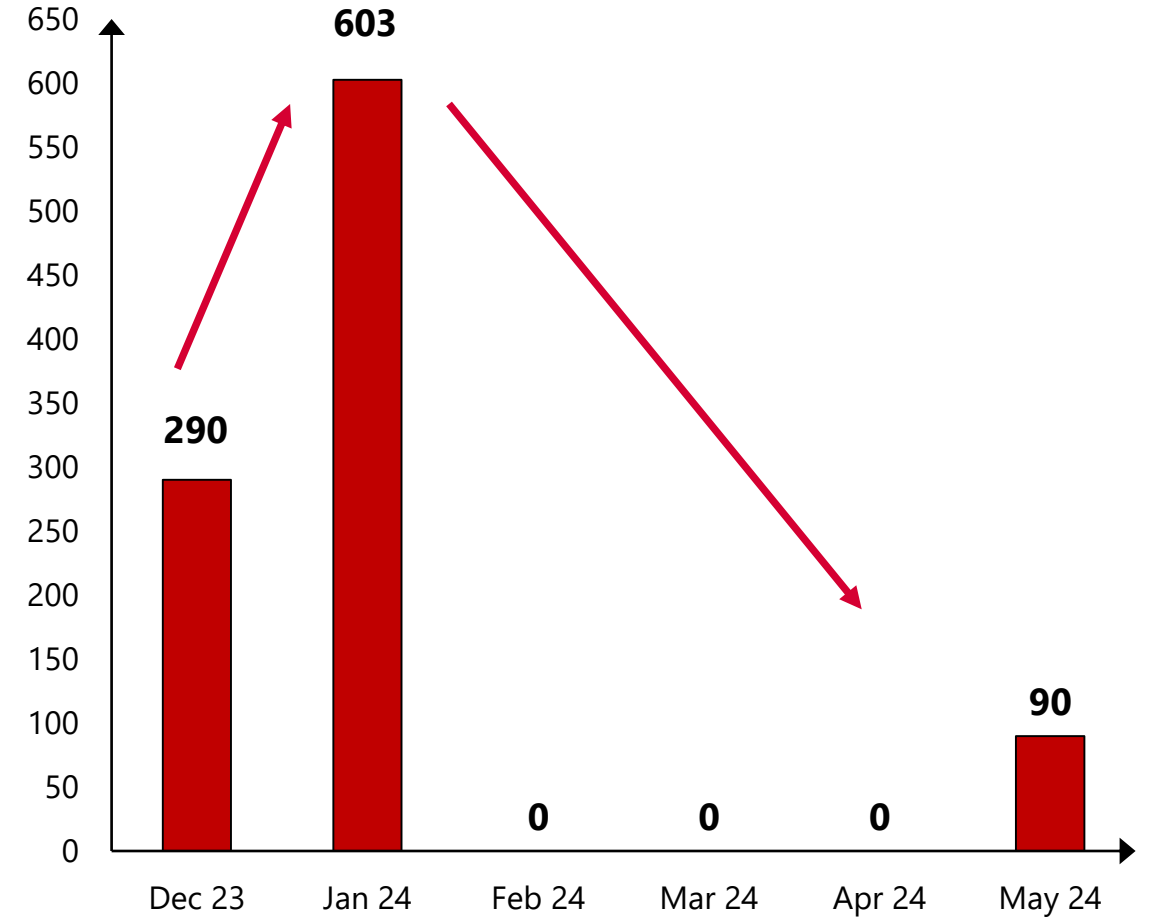


Excess liquidity is being sterilized through quantitative tightening.

**Required Reserves
(Billion TL, Weekly)**



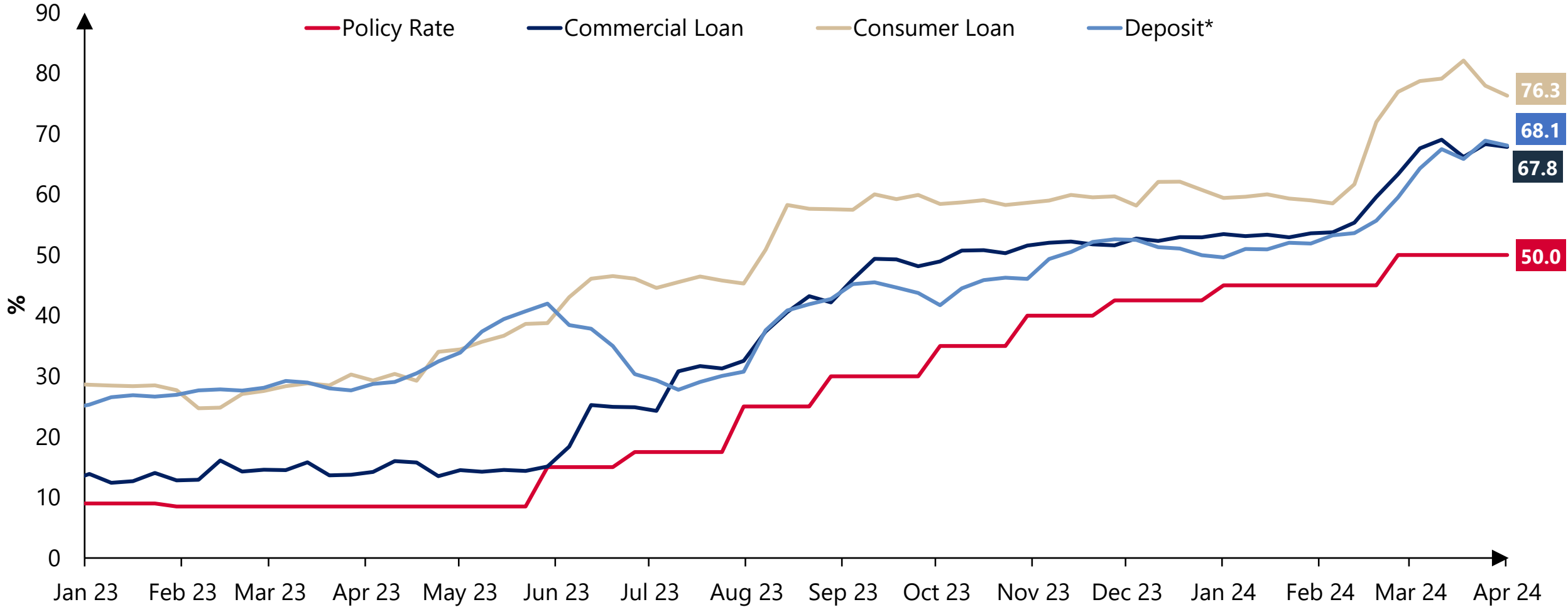
**TL Deposit Purchase Auctions
(Billion TL, Outstanding)**



FINANCIAL CONDITIONS

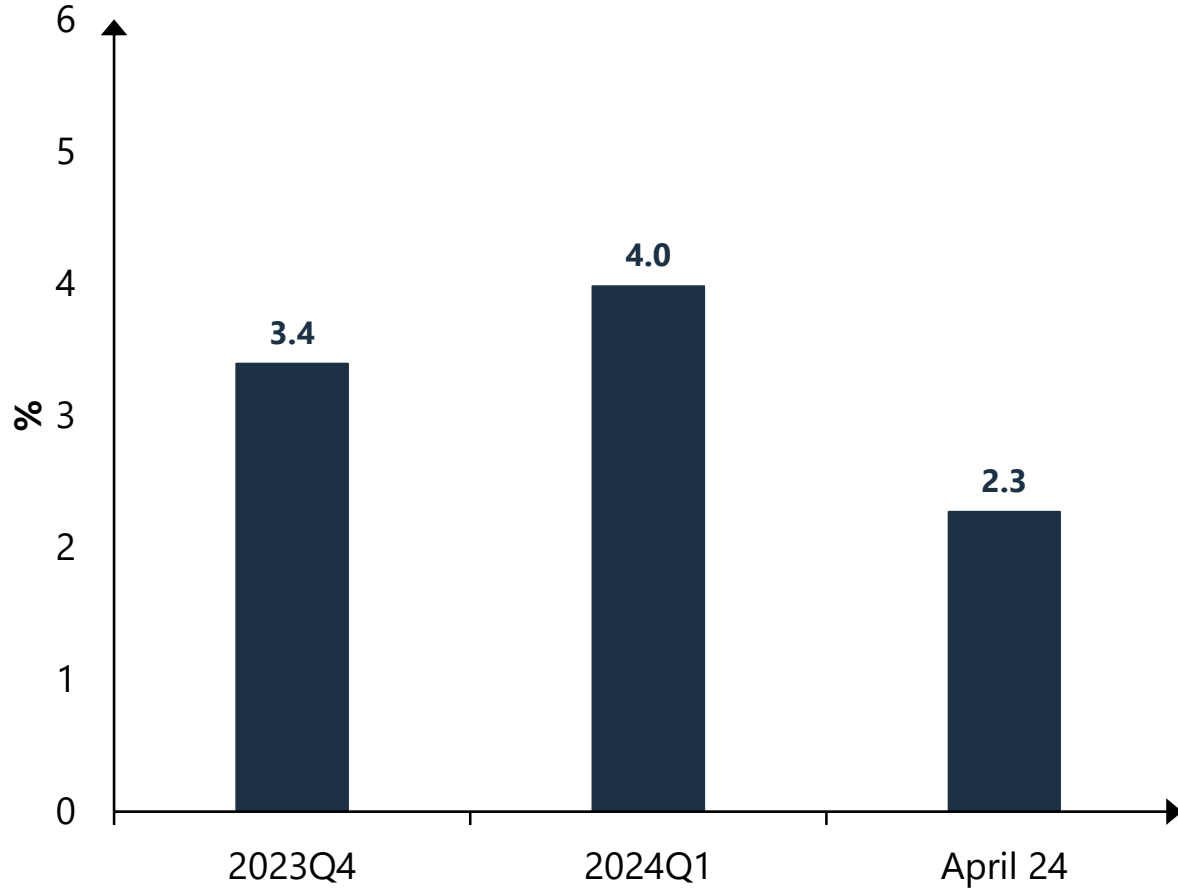
Financial conditions have tightened on the back of rate hikes and macroprudential policies.

Interest Rates

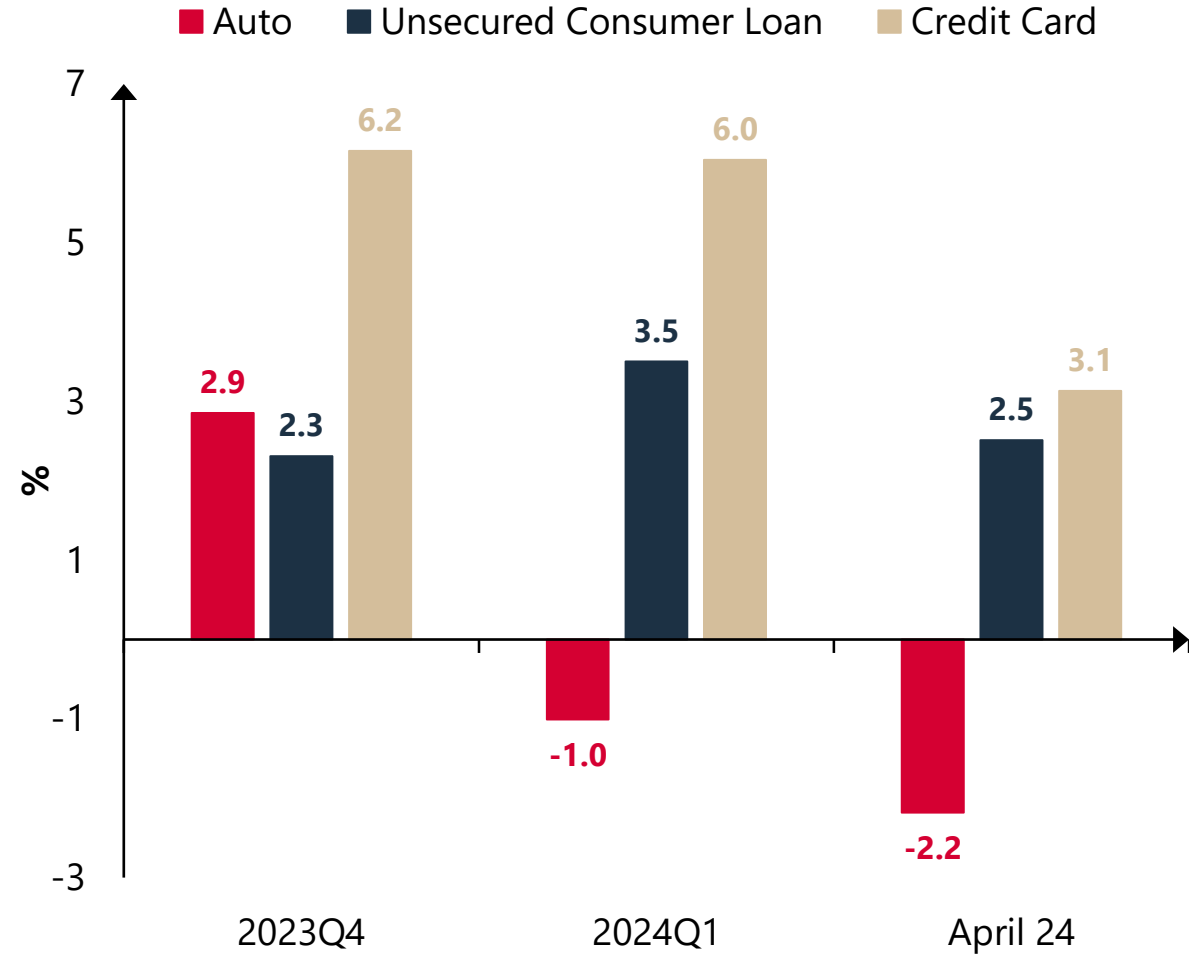


Consumer loan growth has been weakening.

Consumer Loan Growth*
(Monthly)

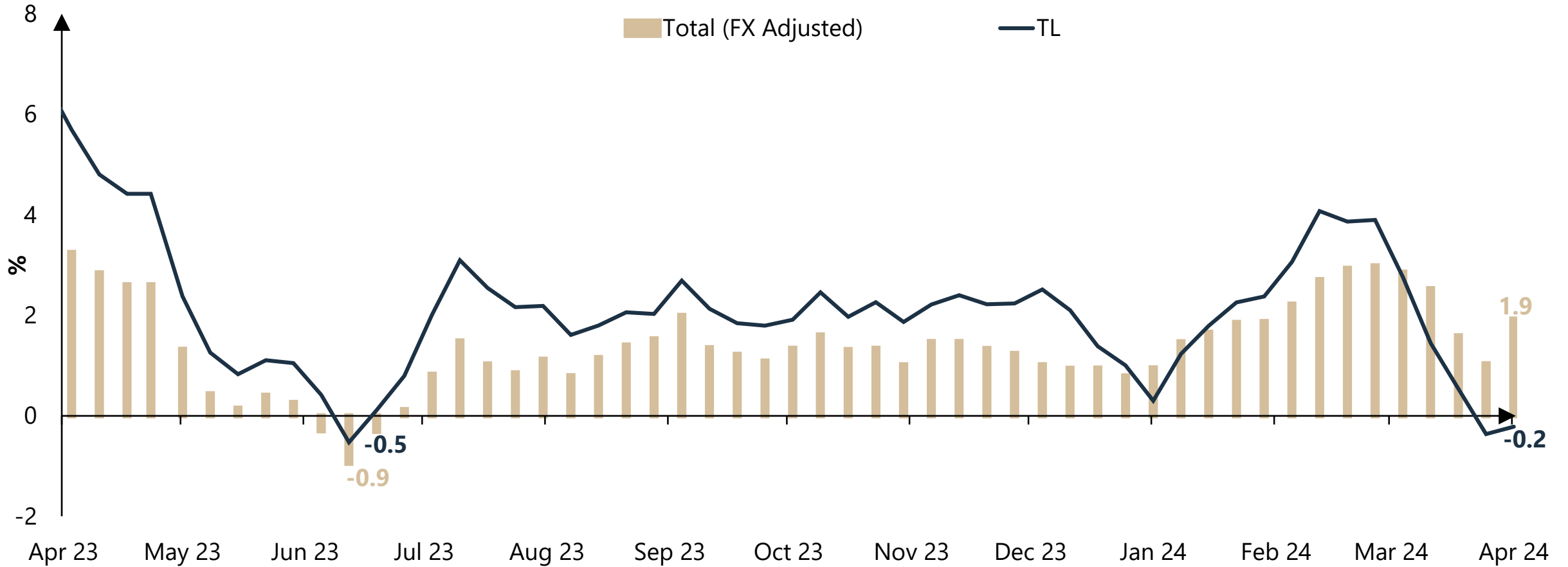


Consumer Loan Growth by Type
(Monthly)



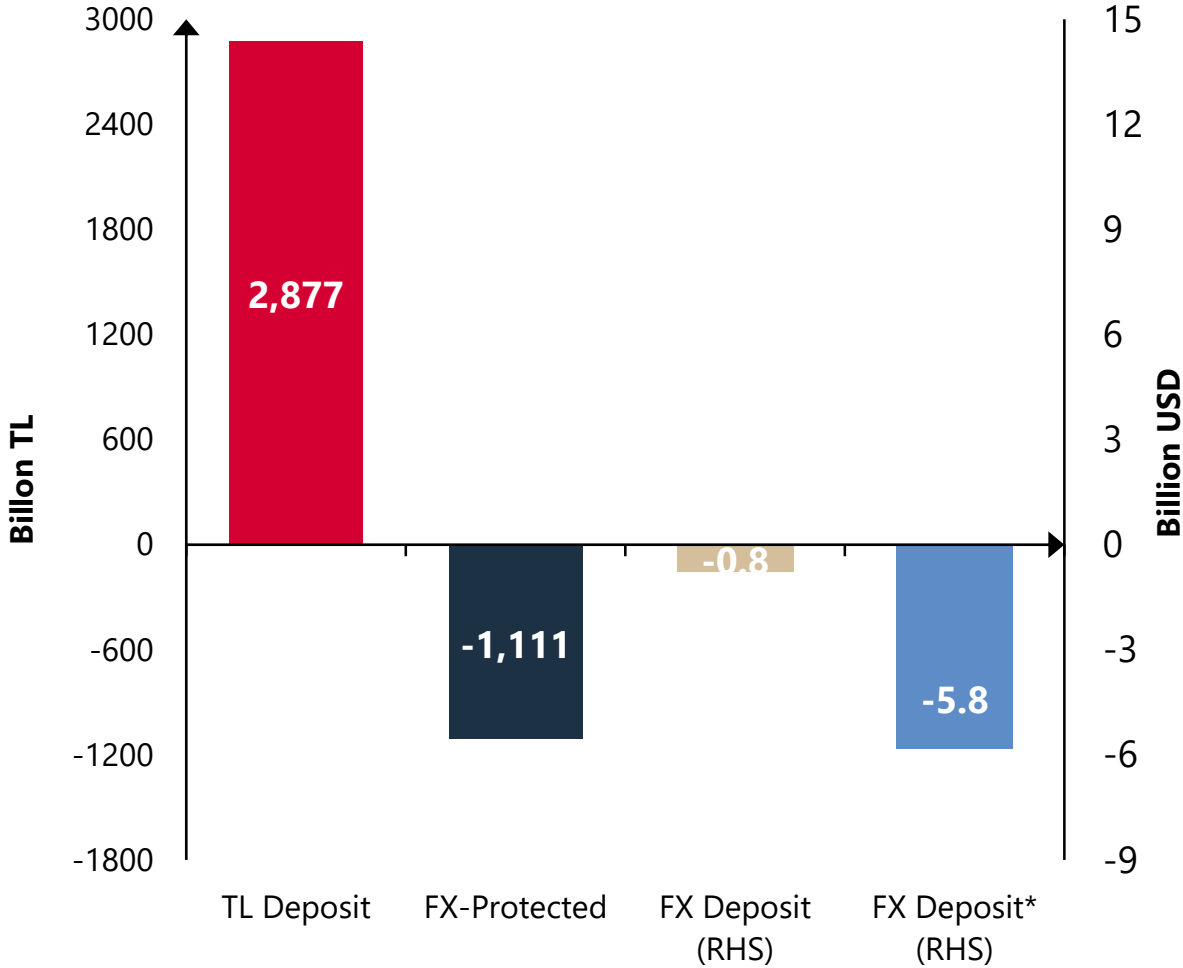
Having picked up in Q1, commercial loan growth slowed down after the rate hike.

Commercial Loan Growth
(4-Week)

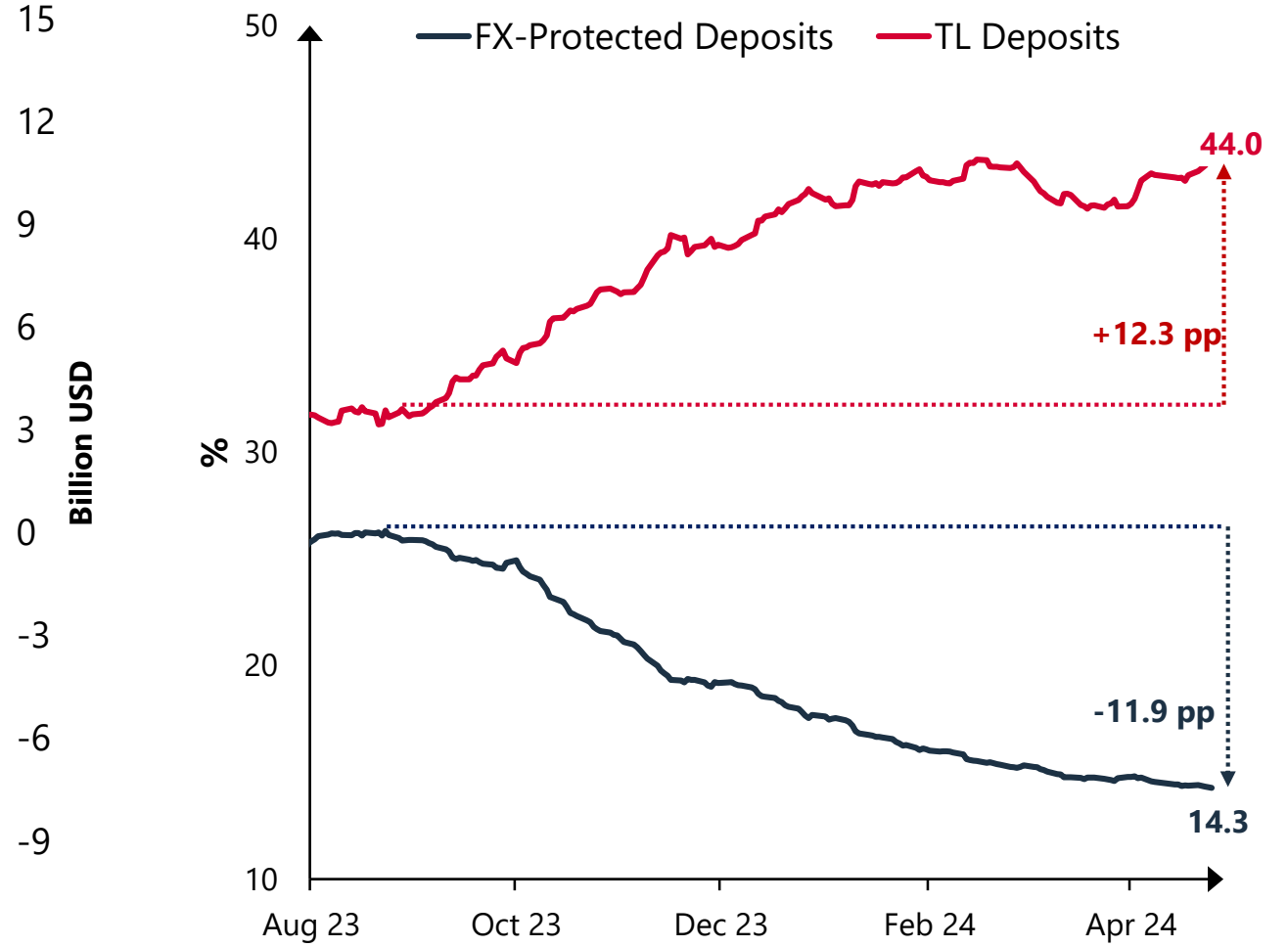


The rise in the share of Turkish lira deposits continues.

**Change in Deposits
(25 August - 26 April)**

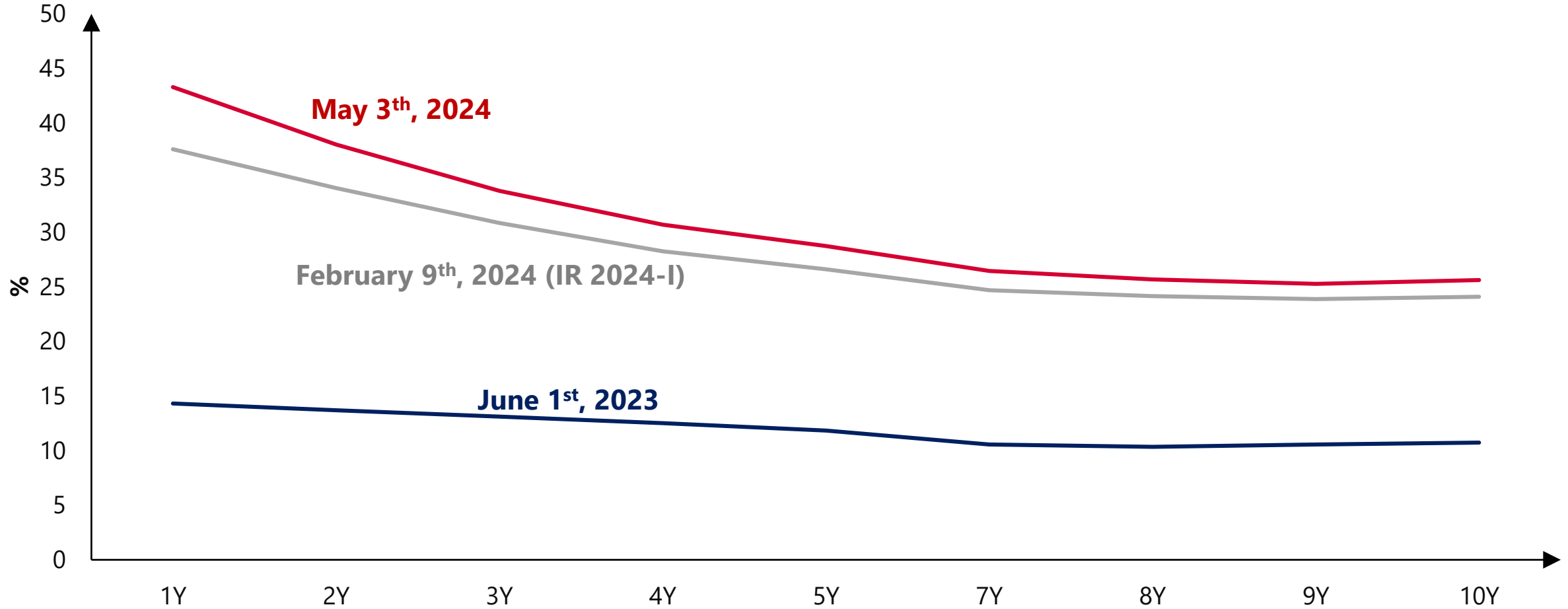


Deposit Share



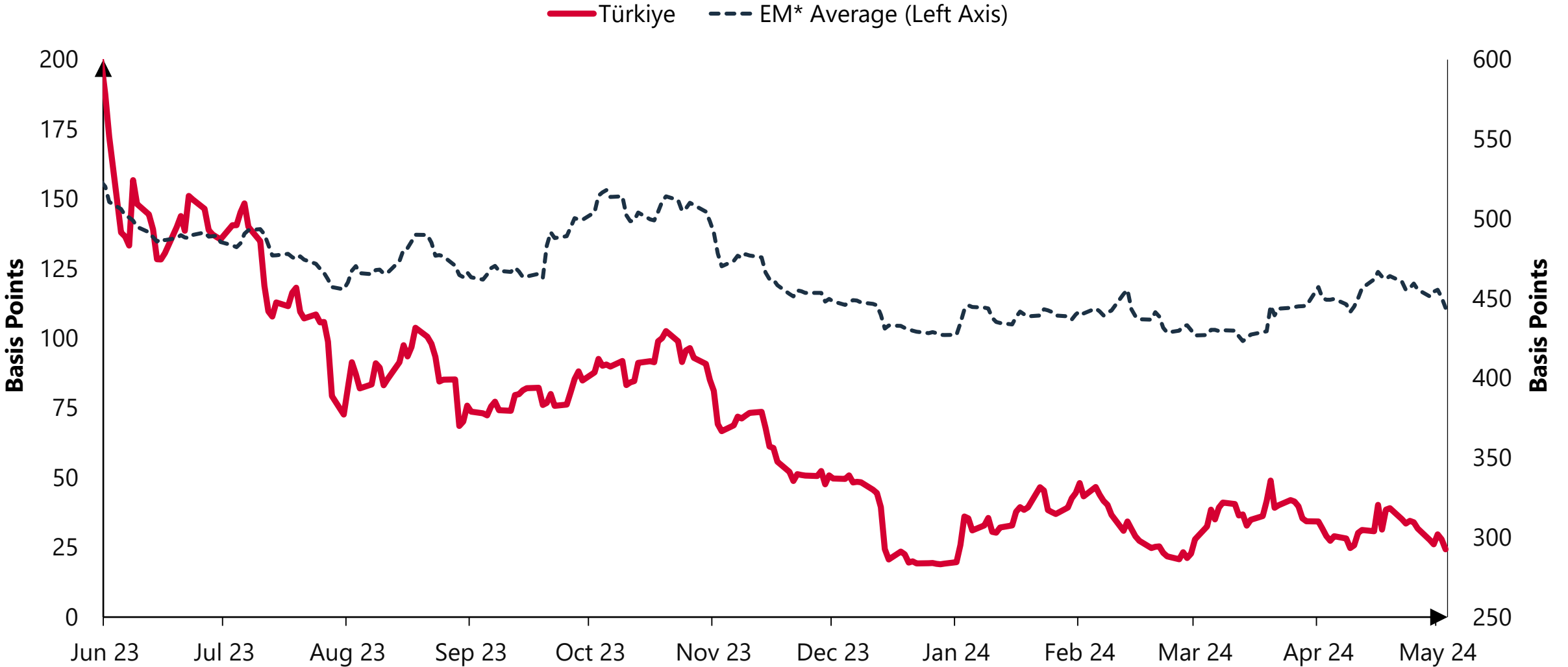
Yield curve is shifting in tandem with monetary stance.

Yield Curve



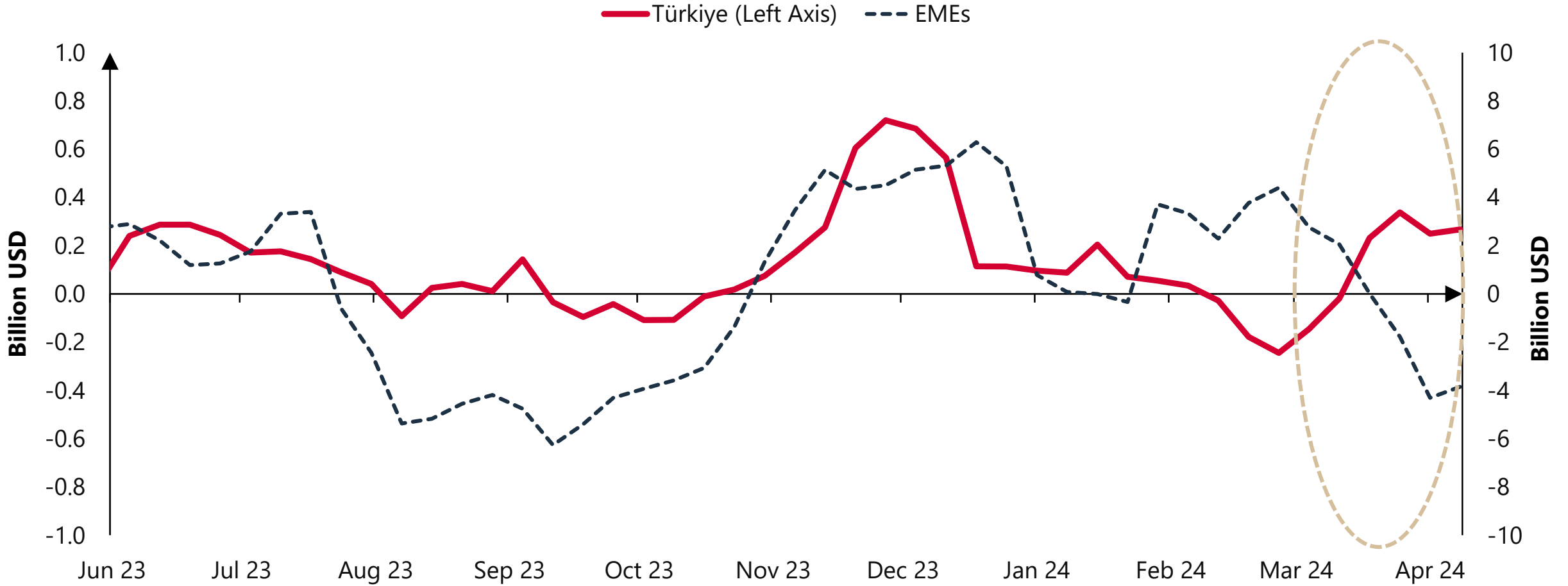
Risk premium has improved.

5-Year CDS Premium



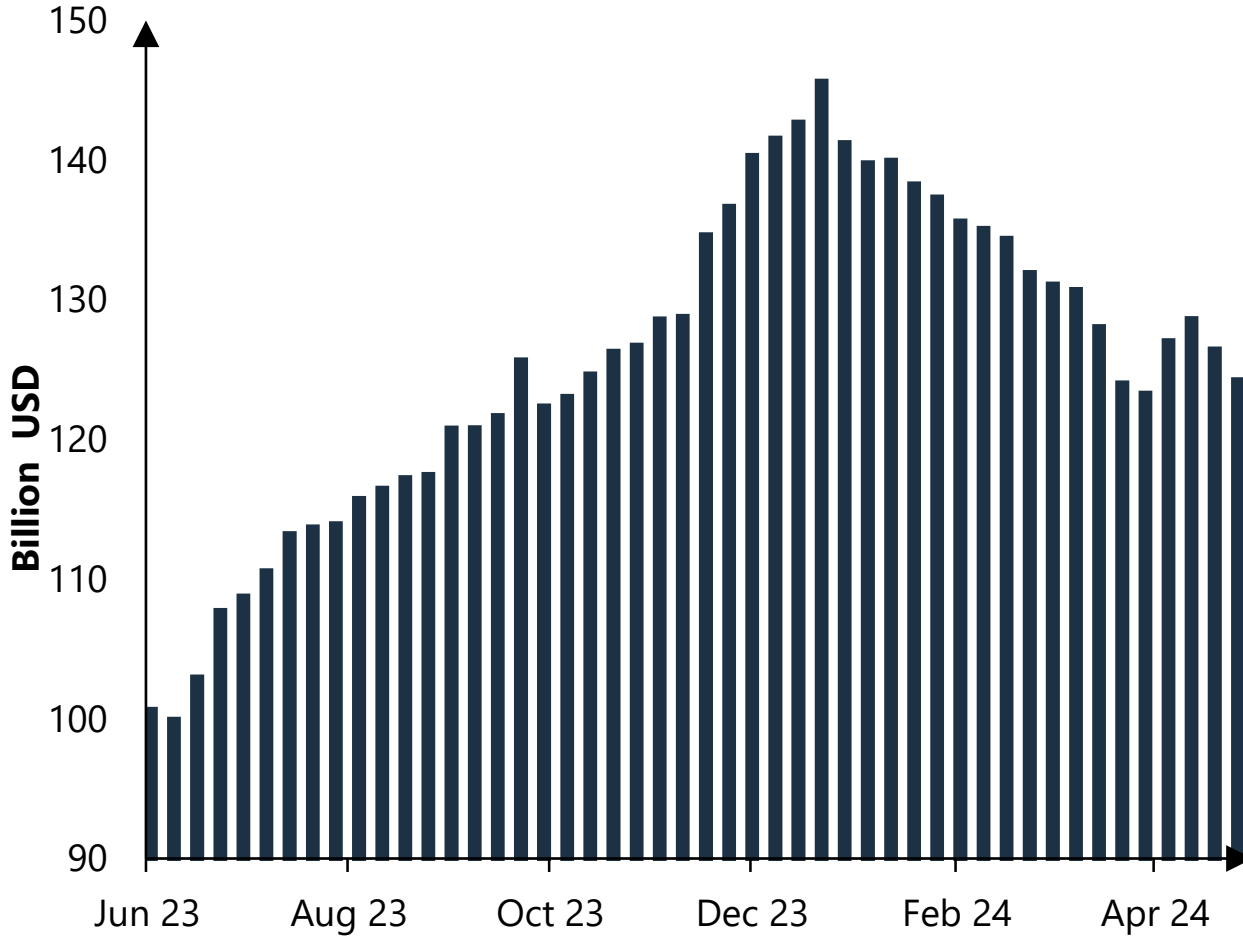
EMEs had portfolio outflows, while Türkiye recorded inflows.

Capital Flows to Türkiye and EMEs
(4-Week Average)



Monetary tightening has positive impact on international reserves.

CBRT Gross Reserves



Change in International Reserves of CBRT in March 22 – April 26 (Billion USD)

Gross Reserves	0.2
Net Reserves exc. Swaps	16.4
FX Deposits	-7.0
Corporate	-5.2
Retail	-1.8

MEDIUM-TERM PROJECTIONS

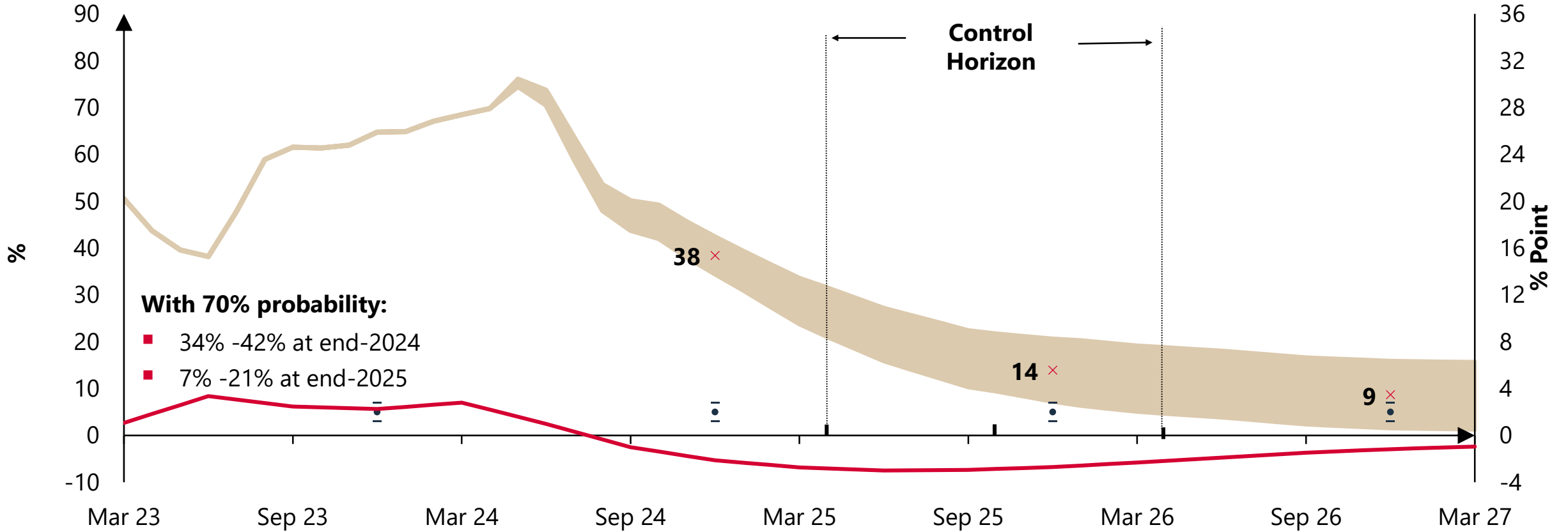
Revisions in Main Assumptions

		IR 2024-I	IR 2024-II
Global Production Index* (Average Annual % Change)	2024	2.0	2.1
	2025	2.3	2.3
Oil Prices (USD, Annual Average)	2024	83.6	86.4
	2025	81.2	82.3
Import Prices (USD, Average Annual % Change)	2024	-0.1	0.8
	2025	0.7	2.6
Food Prices (Year-End % Change)	2024	34.6	35.5
	2025	15.0	15.0

* Based on the growth rates and export shares of 110 countries to which Türkiye exports.

Inflation Forecasts: 2024 \uparrow 38% 2025 \leftrightarrow 14% 2026 \leftrightarrow 9%

Forecast Range
 - Uncertainty Band
 • Inflation Targets
 × Year-end Inflation Forecast (Mid-point)
 — Output Gap (Right Axis)



Forecasts for 2024 were revised due largely to initial conditions.

	2024
IR 2024-I Year End Forecast (%)	36
IR 2024-II Year End Forecast (%)	38
Forecast Revision as Compared to IR 2024-I Period (% Point)	2
Sources of Forecast Revisions (% Point)	
Underlying Trend of Inflation	+1.8
Import Prices in Turkish Lira	-0.2
Output Gap	+0.4
Food Prices	+0.2
Administered Prices	-0.2

OVERVIEW

The tight monetary policy stance will be maintained decisively until price stability is achieved.

Until the underlying trend of monthly inflation shows a significant and sustained decline

- Underlying trend indicators
- Domestic demand and import indicators
- Financial conditions indicators

Until inflation expectations converge to the projected forecast range

- Broad measures of inflation expectations

Inflation expectations

Price setting behavior

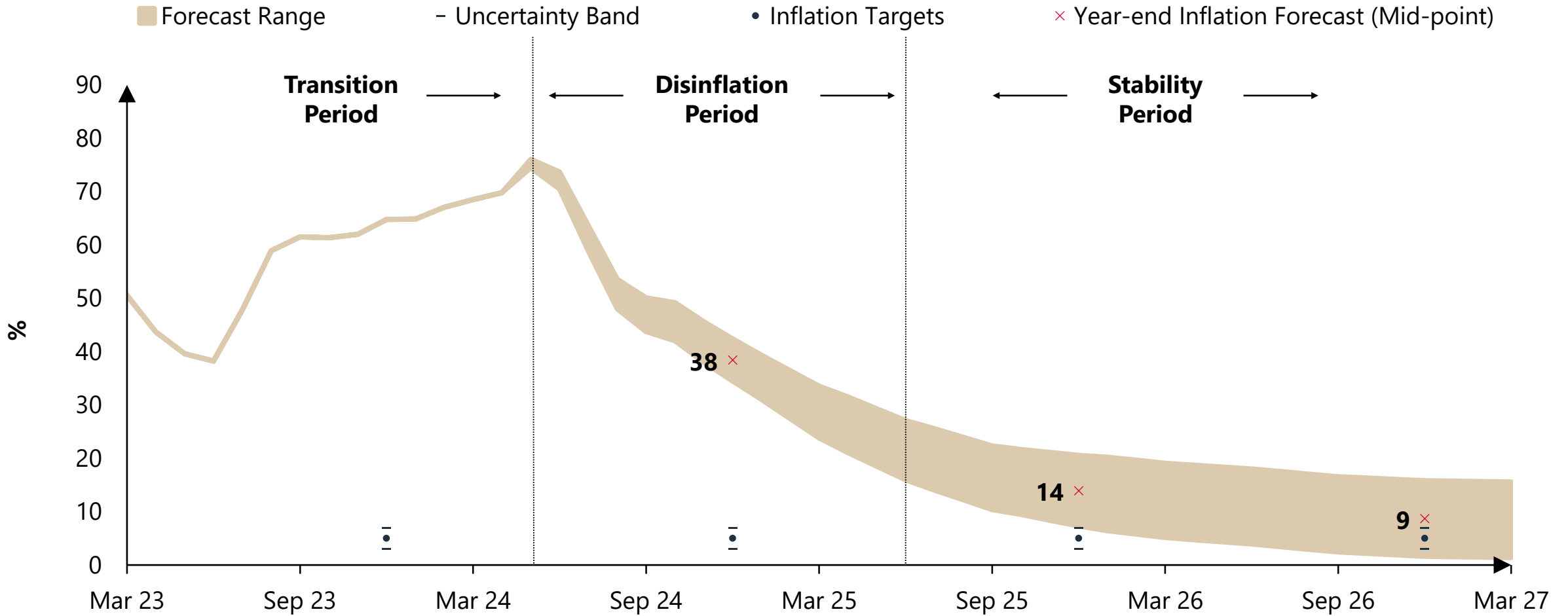
If a significant and persistent deterioration in the inflation is foreseen, monetary policy stance will be tightened.

General wage adjustments

Private consumption outlook

Public spending and tax policy

The tight monetary policy stance will be maintained decisively.





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