

BRIEFING ON 2021-III INFLATION REPORT

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Governor

July 29, 2021

Ankara



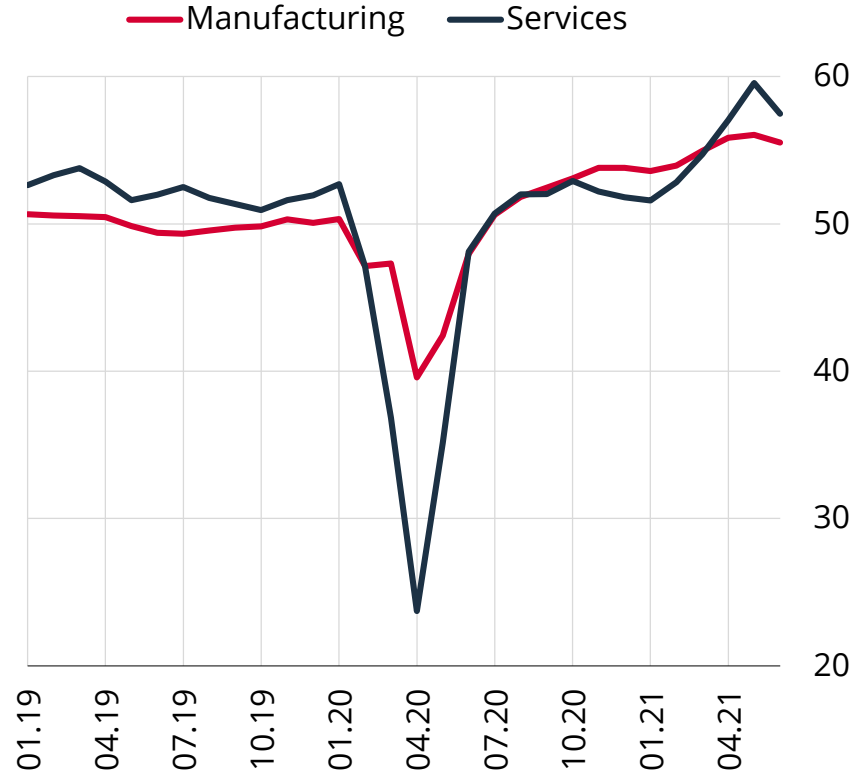
Outline

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

MACROECONOMIC OUTLOOK

Global Growth

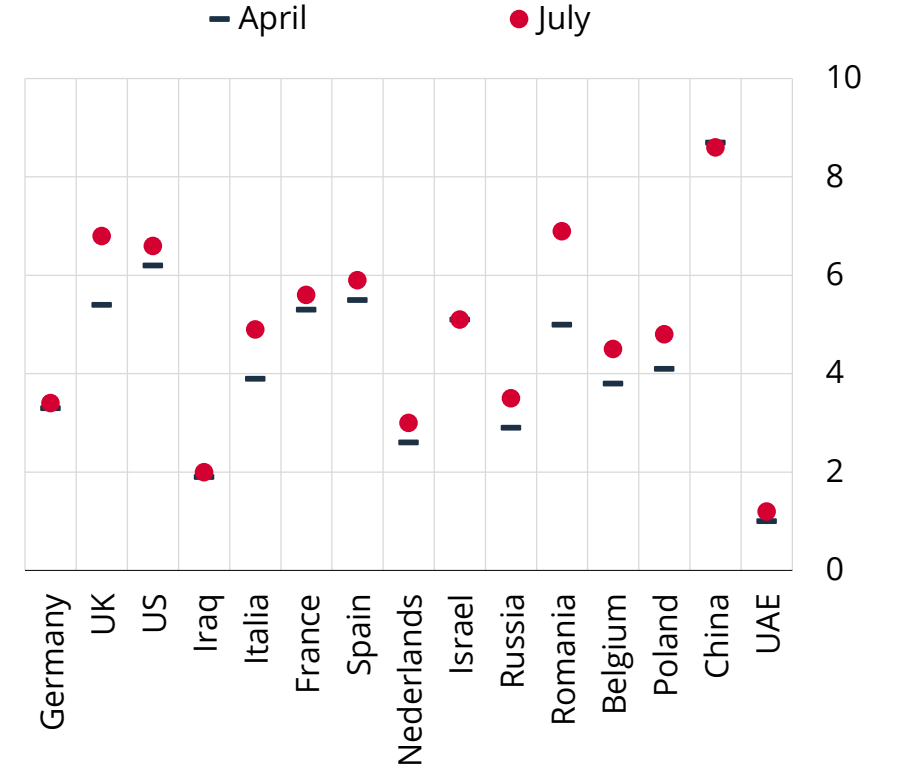
Global PMI Indices



Source: IHS Markit

Last Observation: June 2021

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



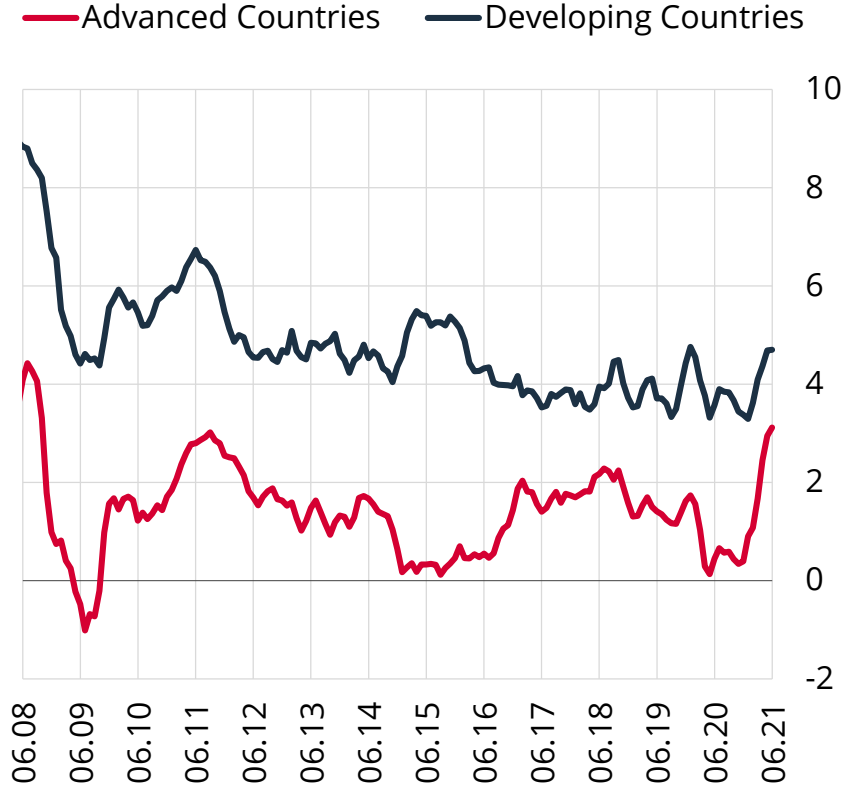
Source: Consensus Economics, World Bank

Last Observation: July 2021

* Countries are listed according to the size of their share in Turkey's exports. World Bank estimates is used for Iraq and UAE, comparison is made for January-June.

Global Inflation and Policy Rates

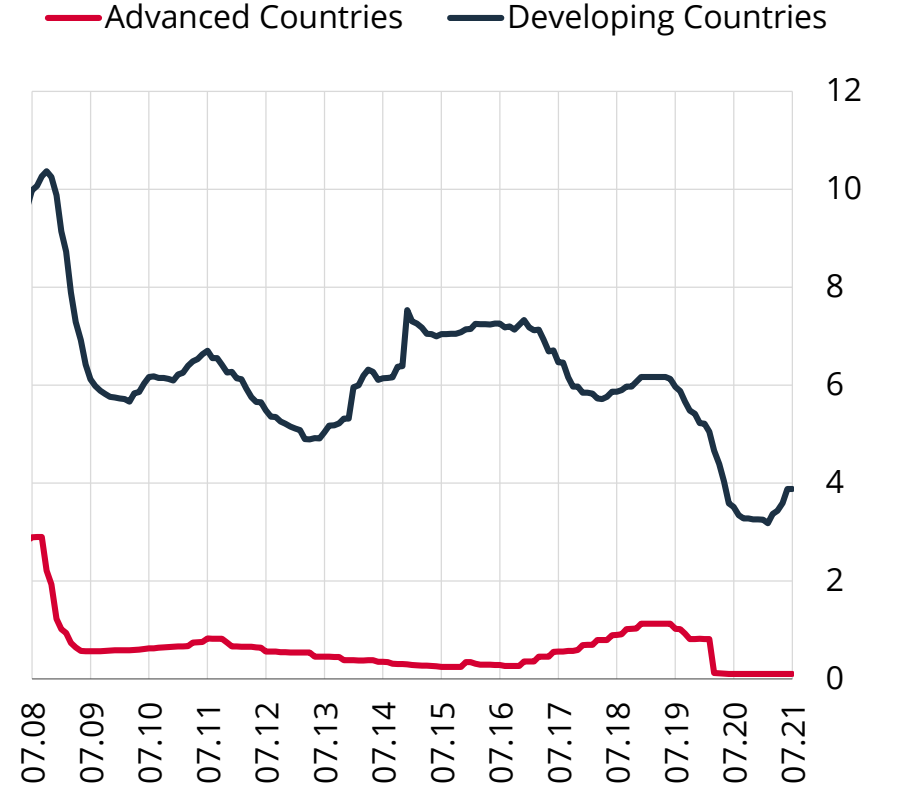
Global Consumer Inflation* (%)



Source: Bloomberg, CBRT

Last Observation: June 2021

Global Policy Rates** (%)



Source: Bloomberg, CBRT

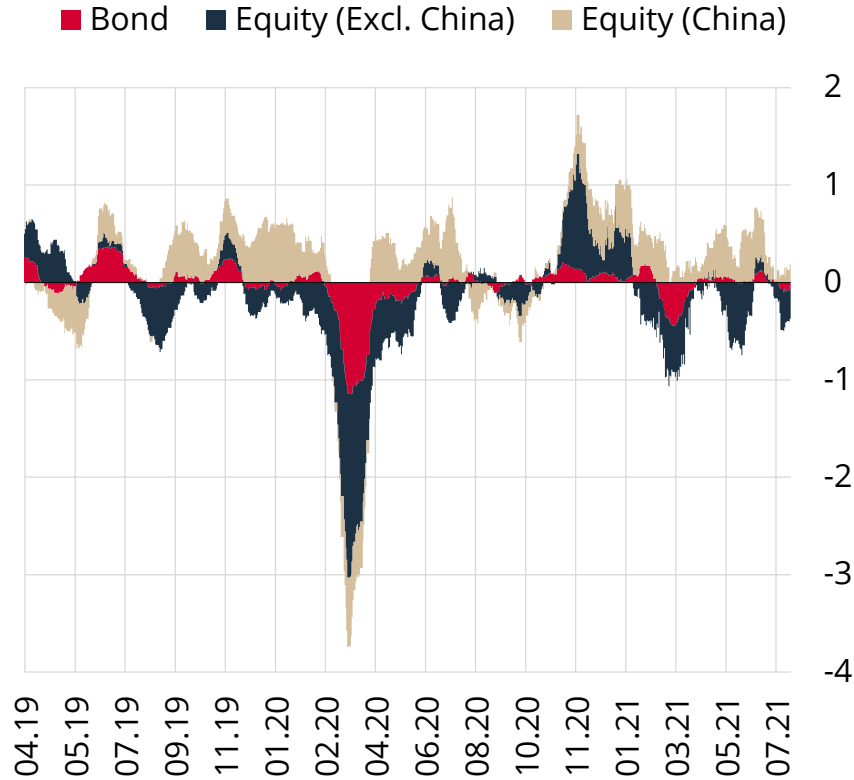
Last Observation: July 2021

* 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, Poland, Indonesia, South Africa, Thailand, Czechia, Colombia, Hungary, Romania, Philippines.

Portfolio Flows

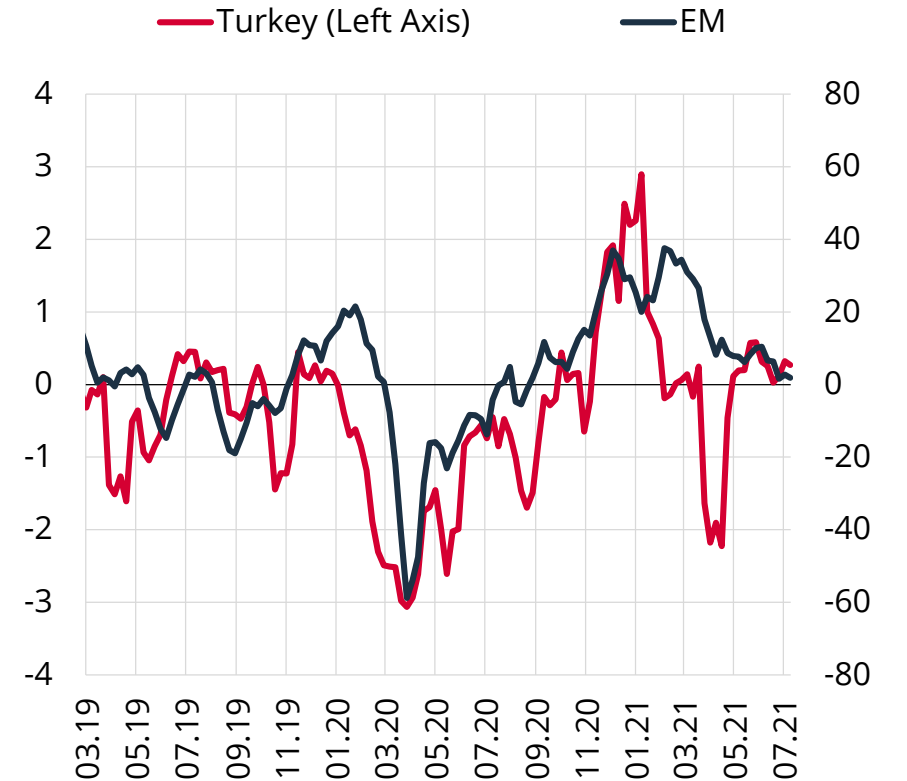
Portfolio Flows to Emerging Economies (Billion USD, 4-Week Moving Average)



Source: IIF

Last Observation: July 19, 2021

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



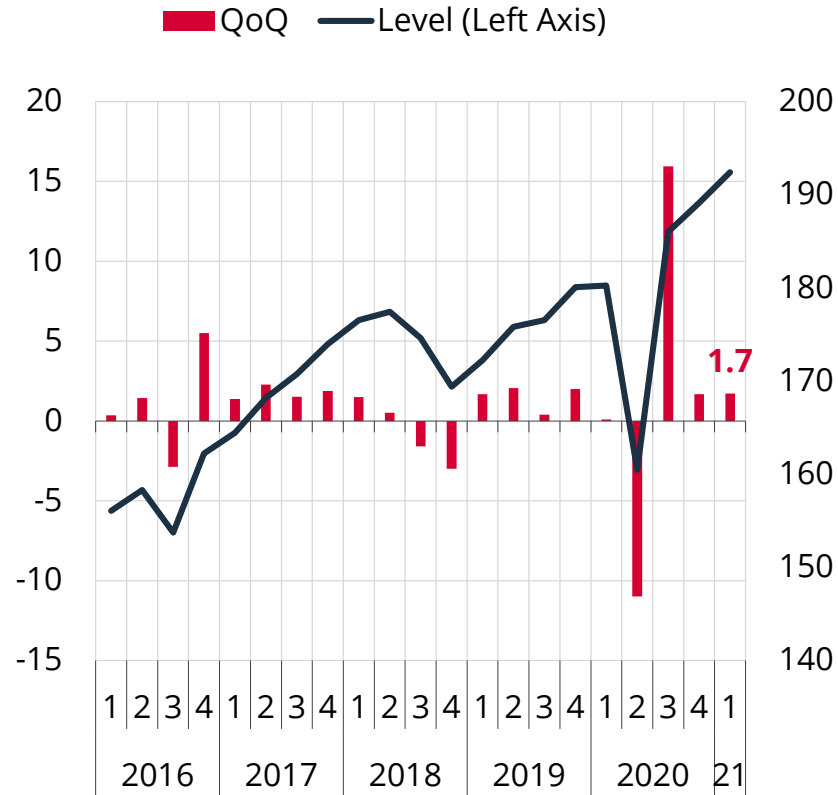
Source: CBRT, EPFR

Last Observation: July 9, 2021

* 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 and includes all the database-covered funds' weekly net investments in equity and GDDS markets in emerging economies.

Economic Activity

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

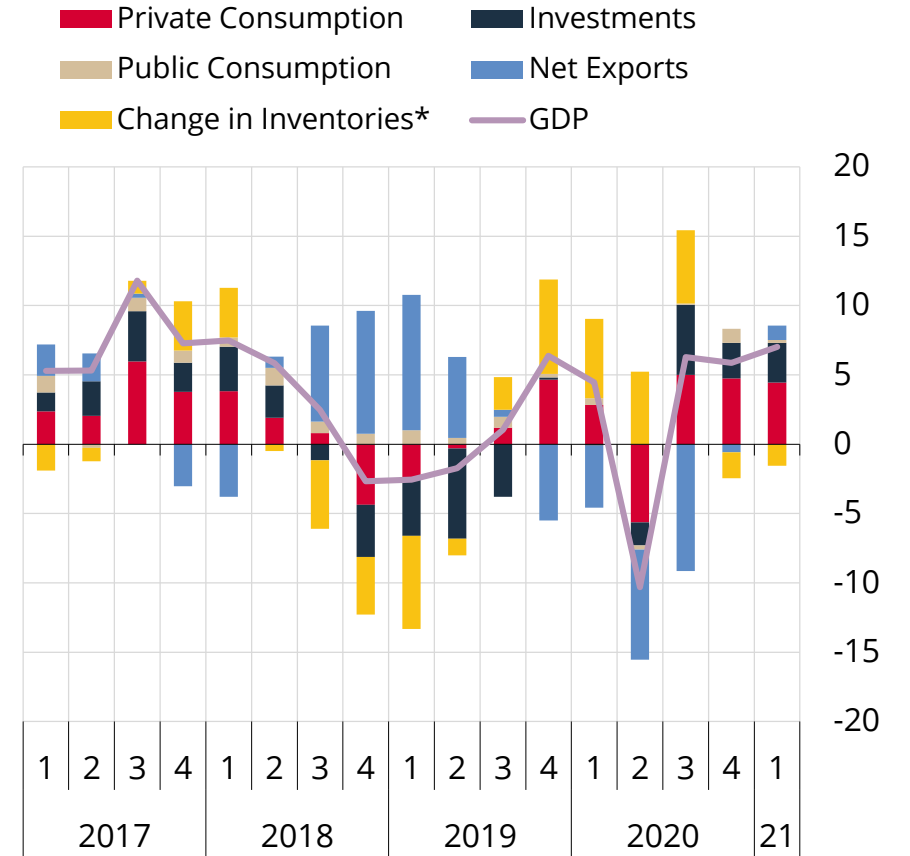


Source: TURKSTAT

Last Observation: 2021 Q1

* Includes stock and chain index-driven statistical discrepancy.

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

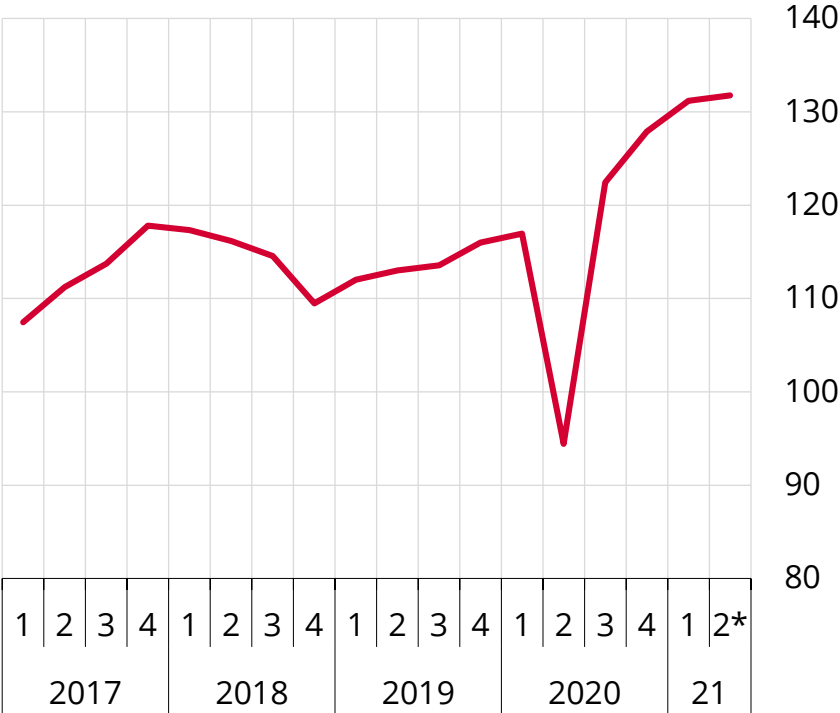


Source: CBRT, TURKSTAT

Last Observation: 2021 Q1

Economic Activity

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

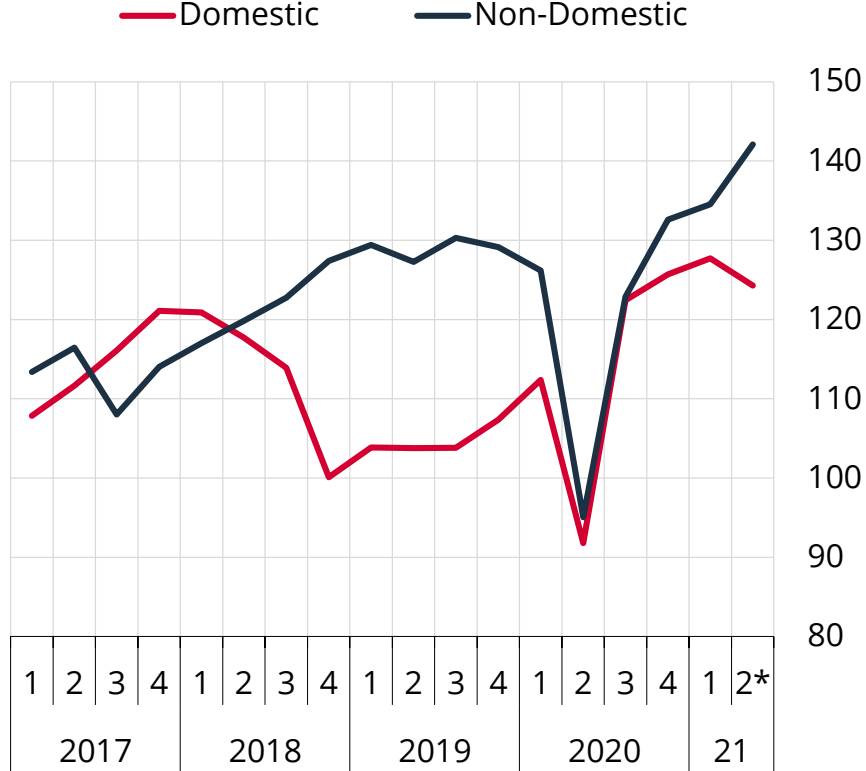


Source: TURKSTAT

Last Observation: May 2021

* Average of April and May.

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

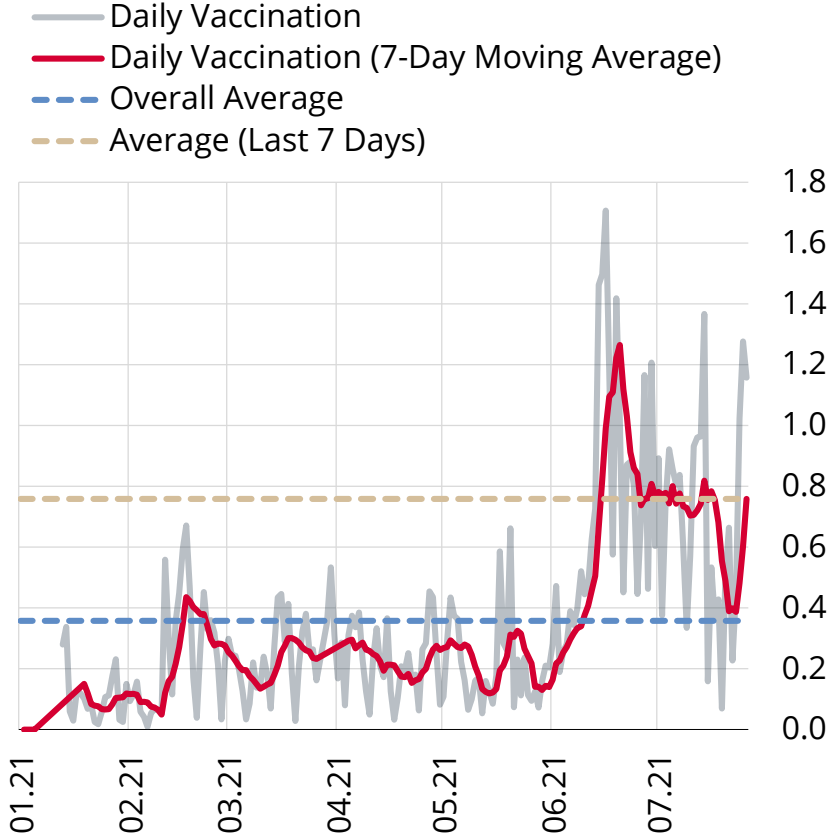


Source: CBRT, TURKSTAT

Last Observation: May 2021

Vaccination and Economic Normalization

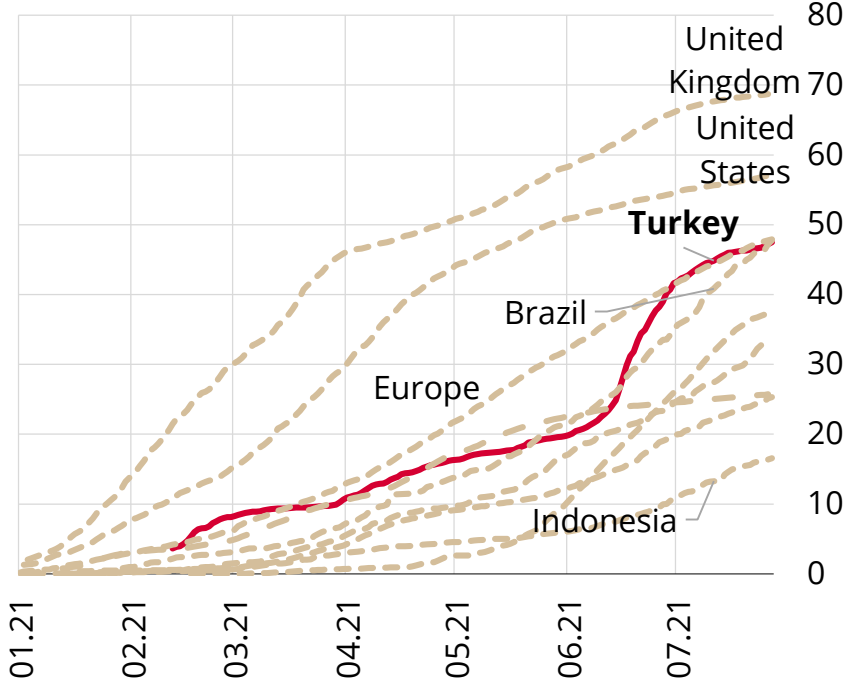
Daily Vaccination of Turkey (Amount of Doses, Millions)



Source: Our World in Data

Last Observation: July 27, 2021

Share of People Who Received at Least One Dose of Vaccine* (% of Total Population)



Source: Our World in Data

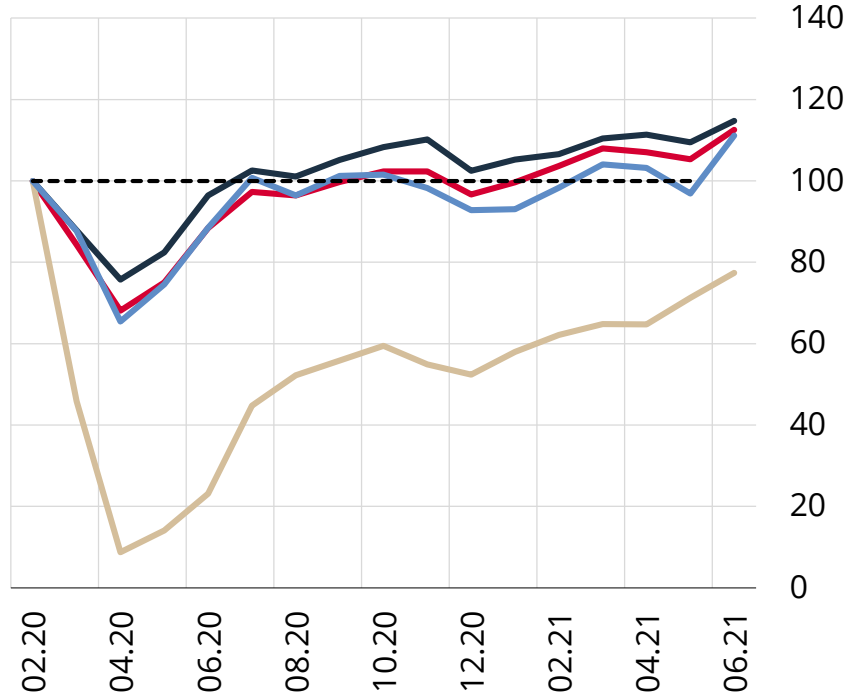
Last Observation: July 27, 2021

* This may not be equal to the share that are fully vaccinated if the vaccine requires two doses.

Opening-Up and Economic Normalization

**Expenditures on Domestic Cards (Seasonally
and Calendar Adjusted, Real, February
2020=100)**

- Total
- Goods
- Services (Most Affected from Pandemic)
- Services (Others)

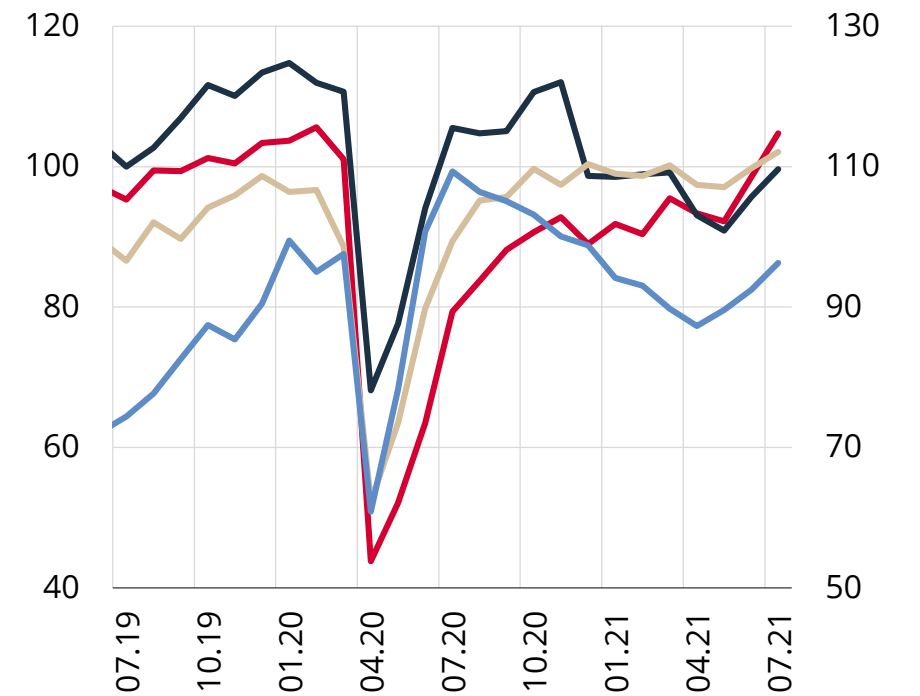


Source: CBRT

Last Observation: June 2021

**Sectoral Confidence Indices (Seasonally
Adjusted)**

- Services
- Retail Trade
- Manufacturing
- Construction

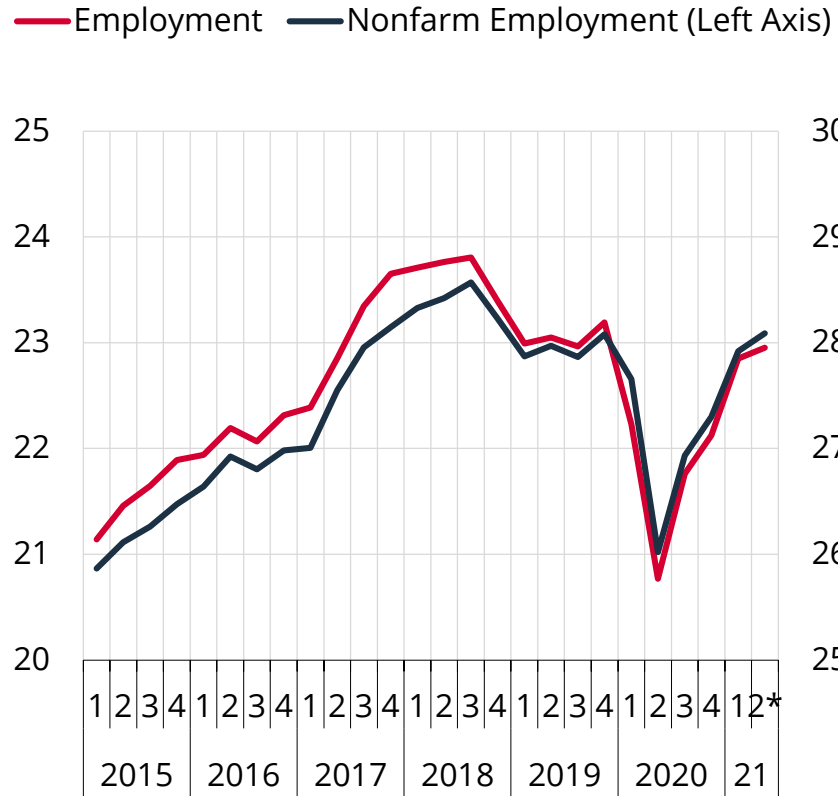


Source: CBRT, TURKSTAT

Last Observation: July 2021

Labor Market

Total and Nonfarm Employment (Seasonally Adjusted, Millions)

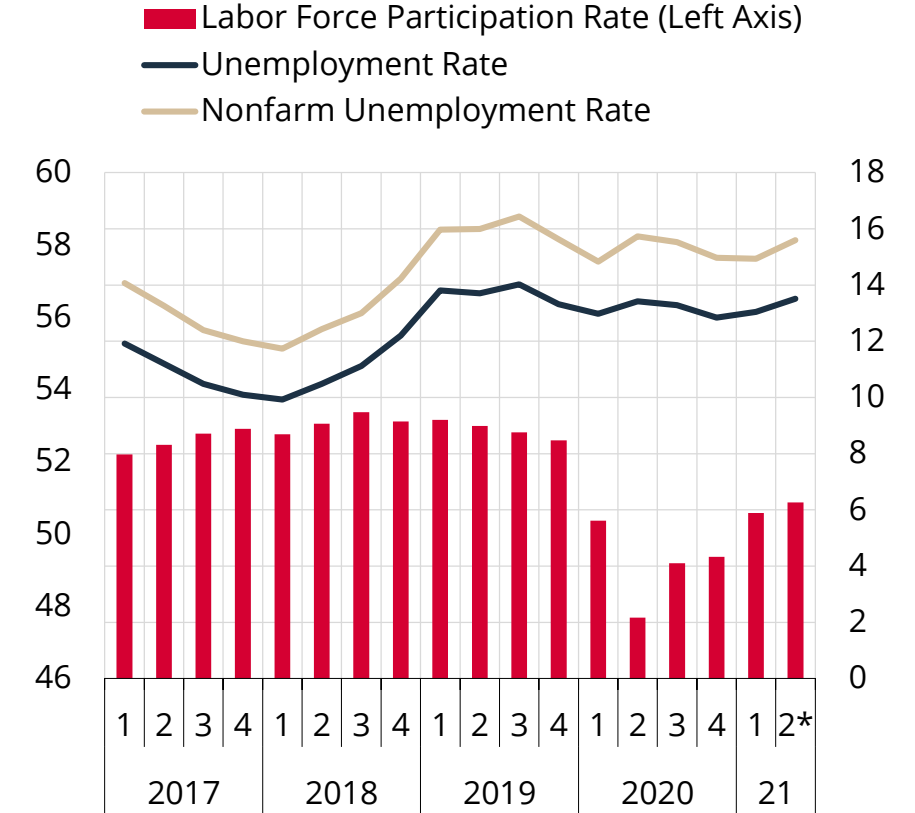


Source: TURKSTAT

Last Observation: May 2021

* Average of April and May.

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

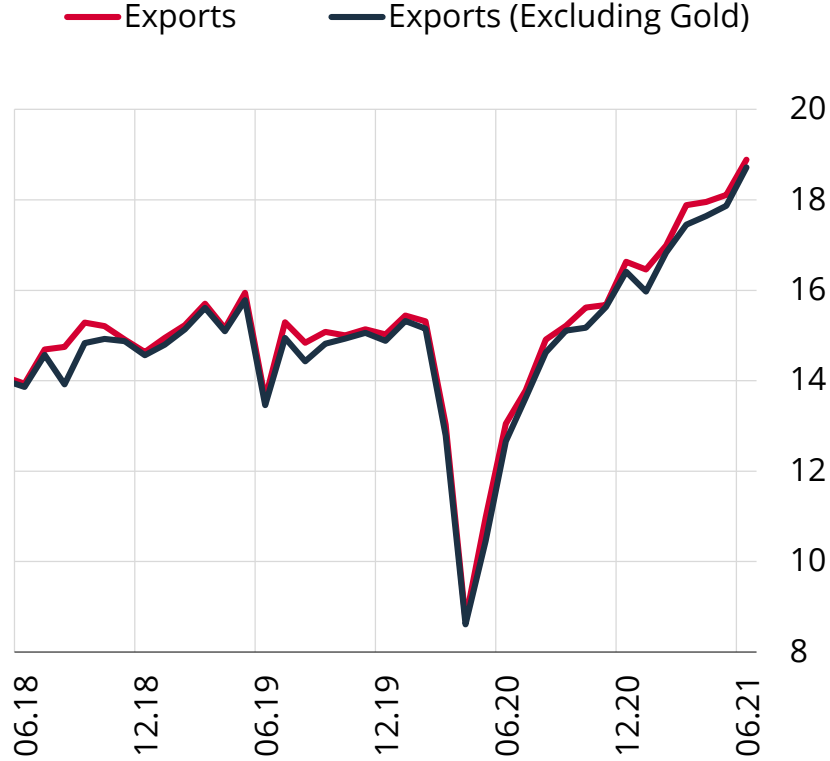


Source: TURKSTAT

Last Observation: May 2021

External Balance

Exports* (Billion USD, Seasonally and Calender Adjusted)

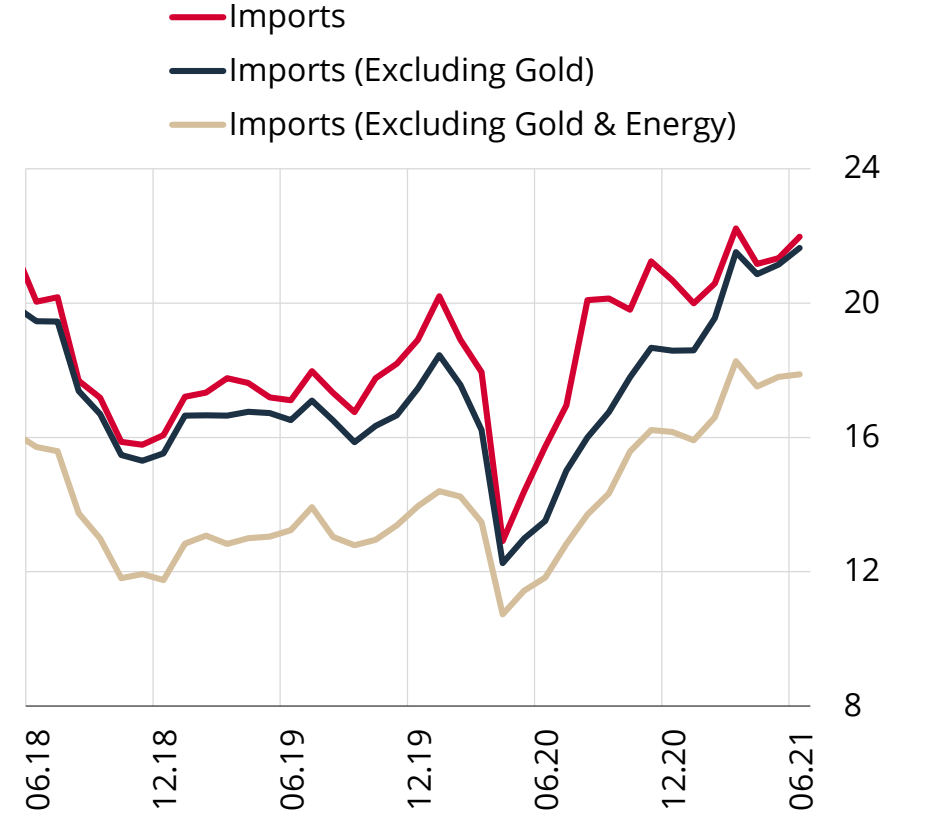


Source: CBRT, TEA, TURKSTAT

Last Observation: June 2021

* June data are provisional.

Imports* (Billion USD, Seasonally and Calender Adjusted)



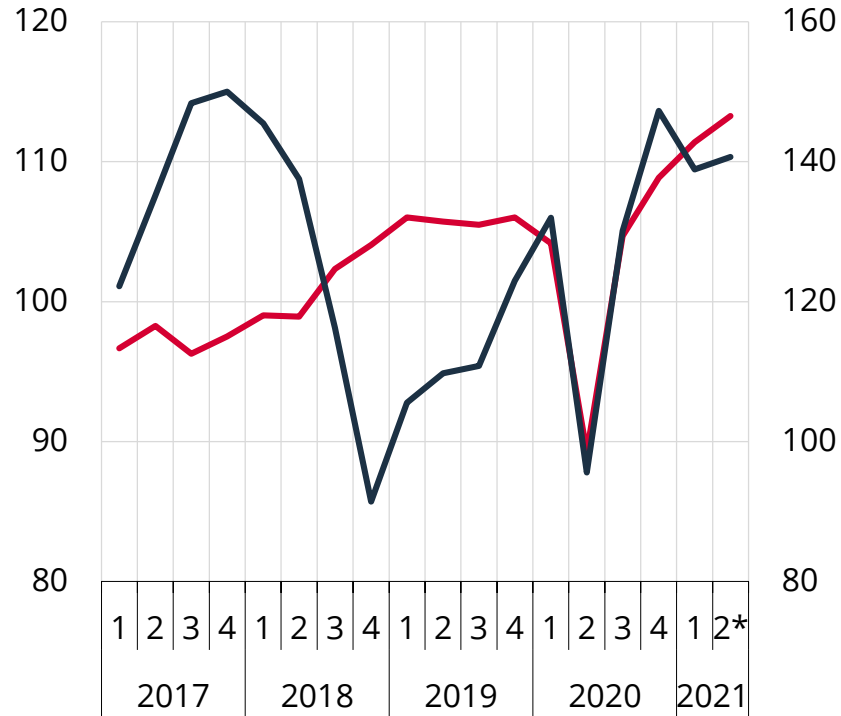
Source: CBRT, MoT, TURKSTAT

Last Observation: June 2021

External Balance

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

— Exports (Exc. Gold) — Imports (Exc. Gold, Left Axis)



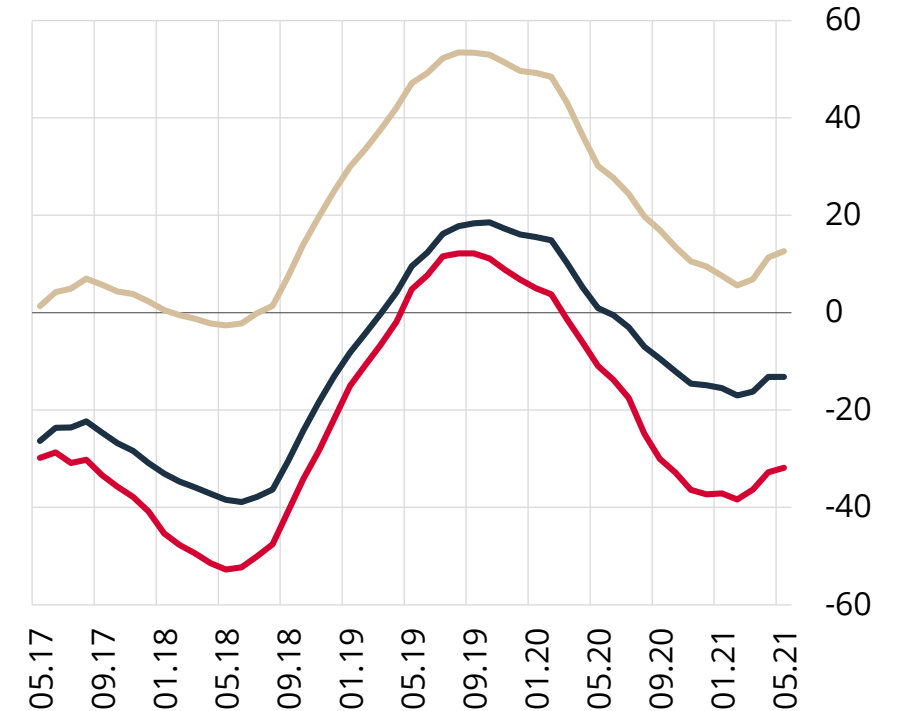
Source: CBRT, TURKSTAT

Last Observation: Mayıs 2021

* Average of April and May.

Current Account Balance (12 Month Cumulative, Billion USD)

— CAB
— CAB (Exc. Gold)
— CAB (Exc. Gold and Energy)

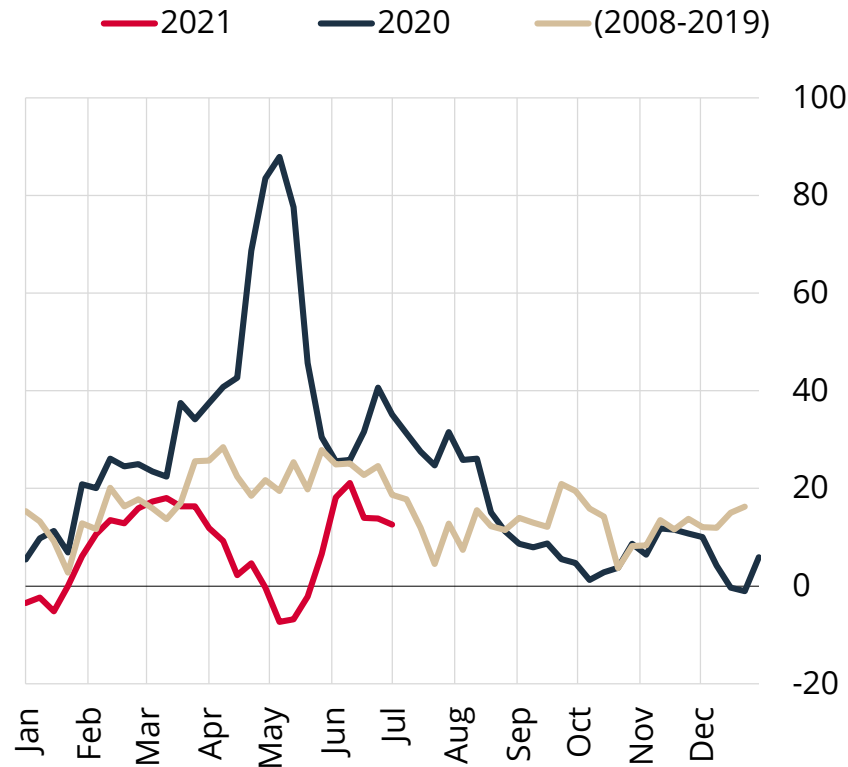


Source: CBRT

Last Observation: Mayıs 2021

Credit Developments

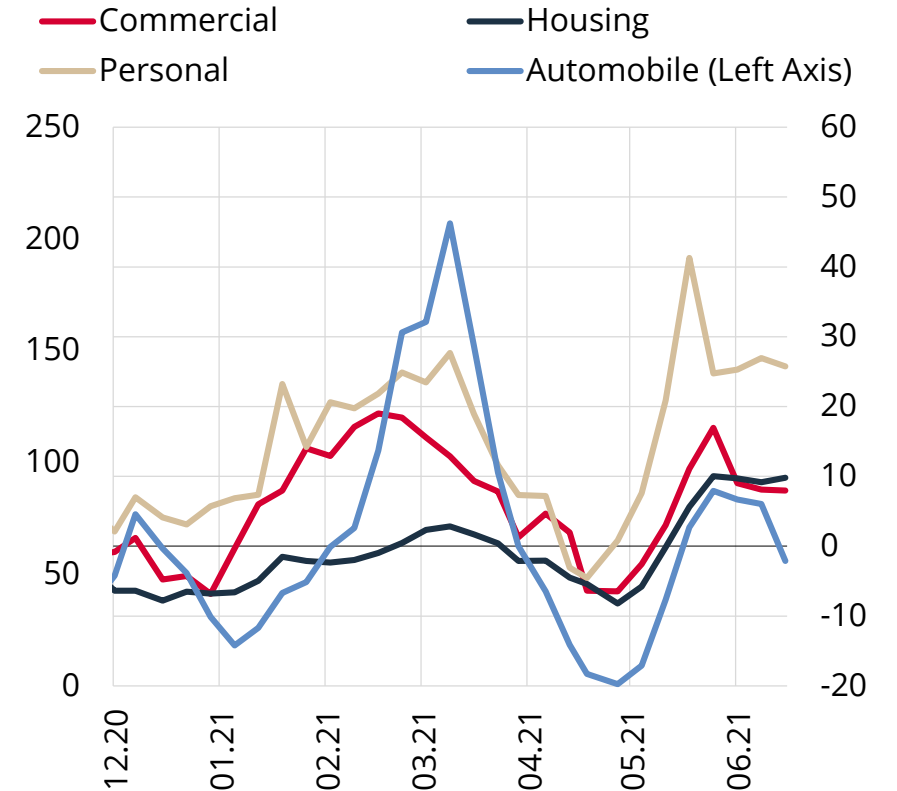
Loan Growth (Annualized 4-Week Moving Average, Adjusted for Exchange Rate, %)



Source: CBRT

Last Observation: July 9, 2021

Loan Growth by Types of Loans (Annualized 4-Week Moving Average, Adjusted for Exchange Rate, %)

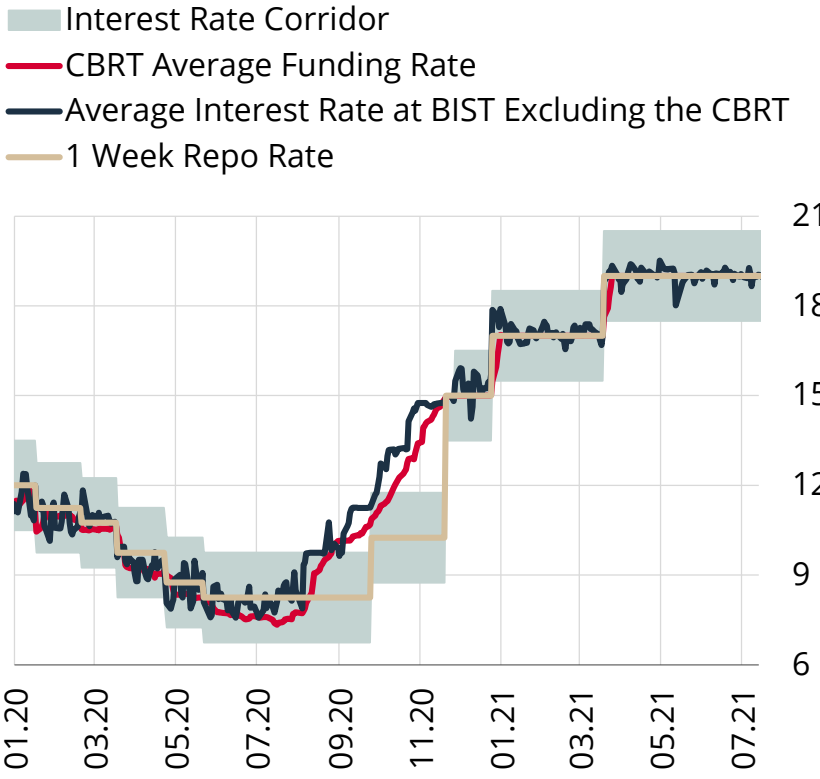


Source: CBRT

Last Observation: July 9, 2021

Monetary Policy

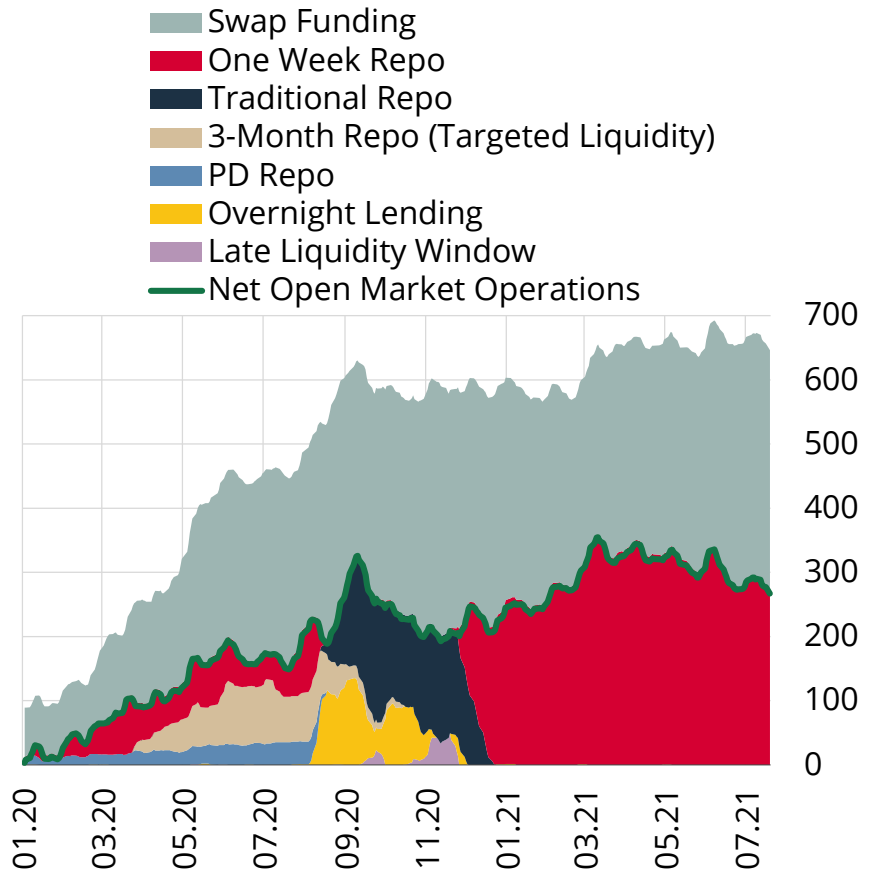
CBRT Policy Rate and Short Term Interest Rates (%)



Source: BIST, CBRT

Last Observation: July 19, 2021

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

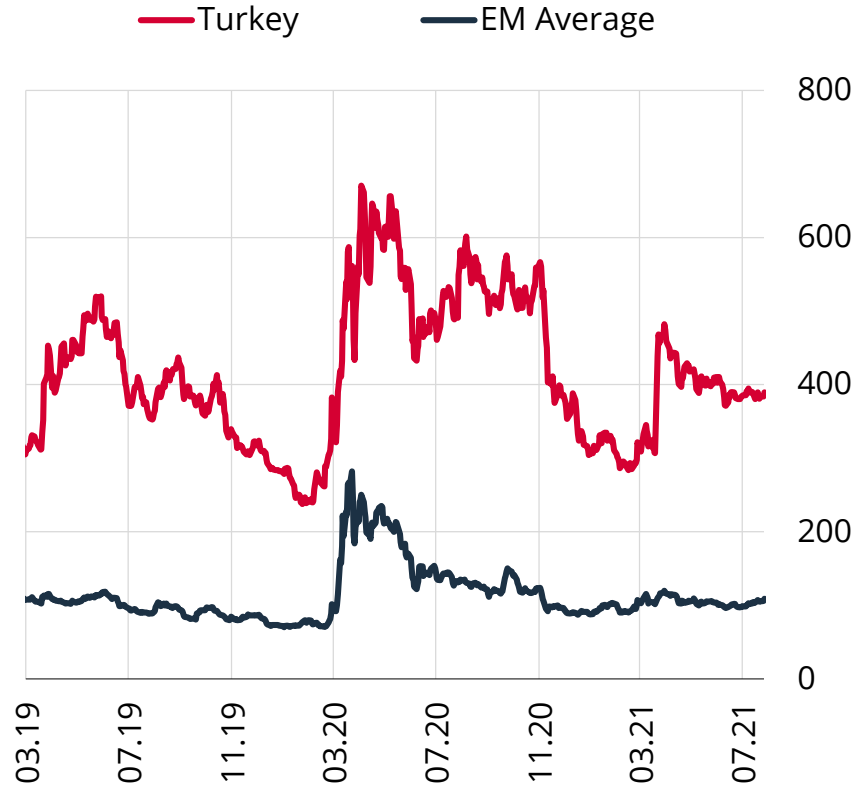


Source: CBRT

Last Observation: July 19, 2021

Financial Indicators

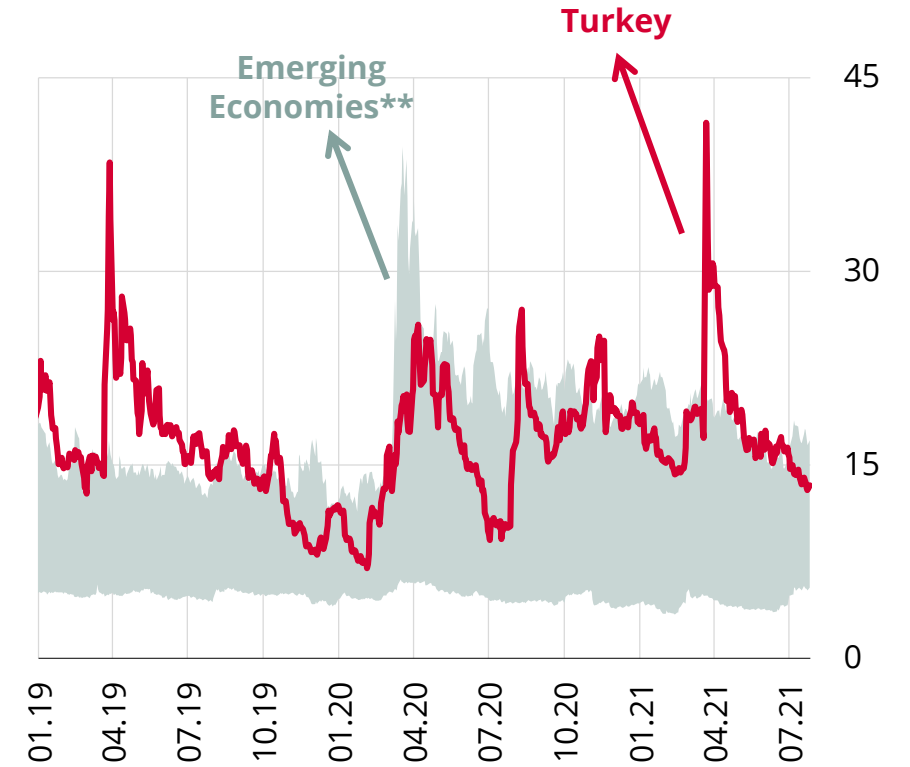
Turkey and Developing Country* Risk Premiums (CDS, Basis Points, 5 Year Term)



Source: Bloomberg

Last Observation: July 26, 2021

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



Source: Bloomberg

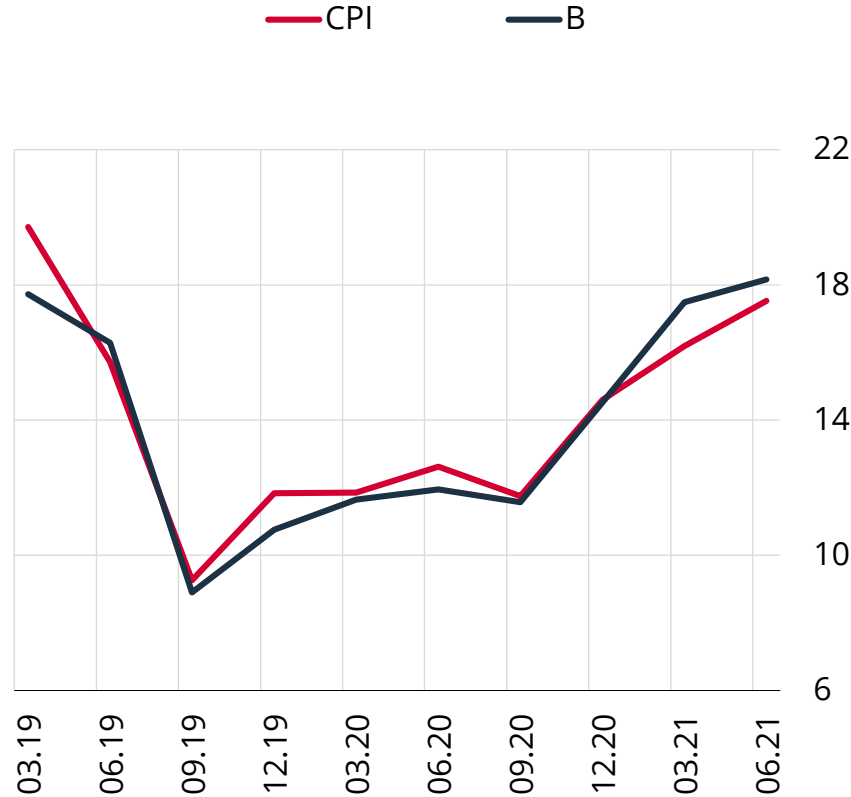
Last Observation: July 26, 2021

* Emerging Economies: Brazil, Chile, Colombia, Mexico, Philippines, Malaysia, South Africa, Indonesia and Russia.

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

Consumer Inflation

CPI and B Index* (Annual % Change)

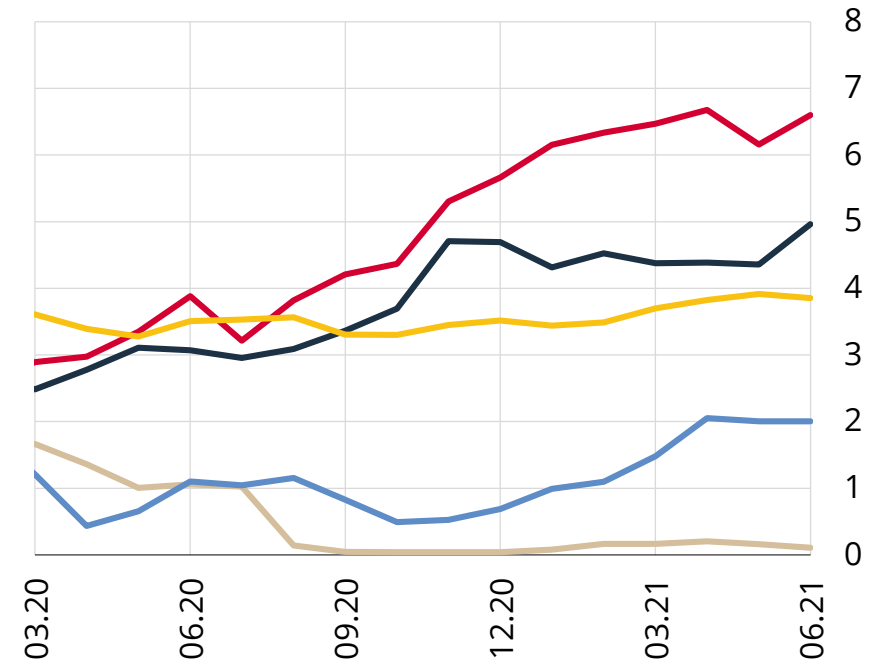


Source: TURKSTAT

Last Observation: June 2021

Contribution to Consumer Inflation (% Points)

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



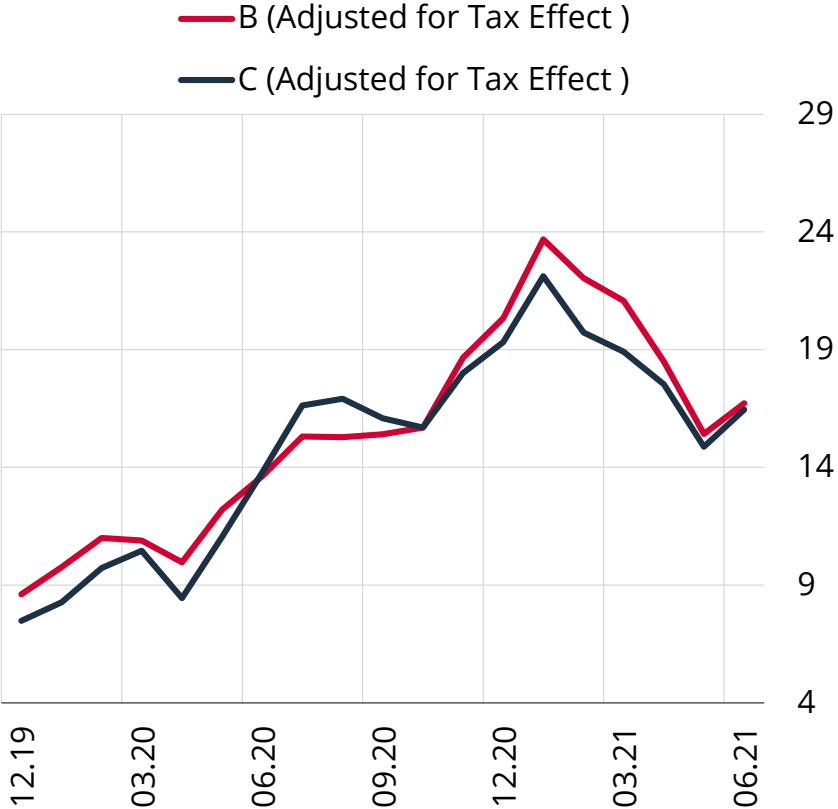
Source: CBRT, TURKSTAT

Last Observation: June 2021

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

Consumer Inflation

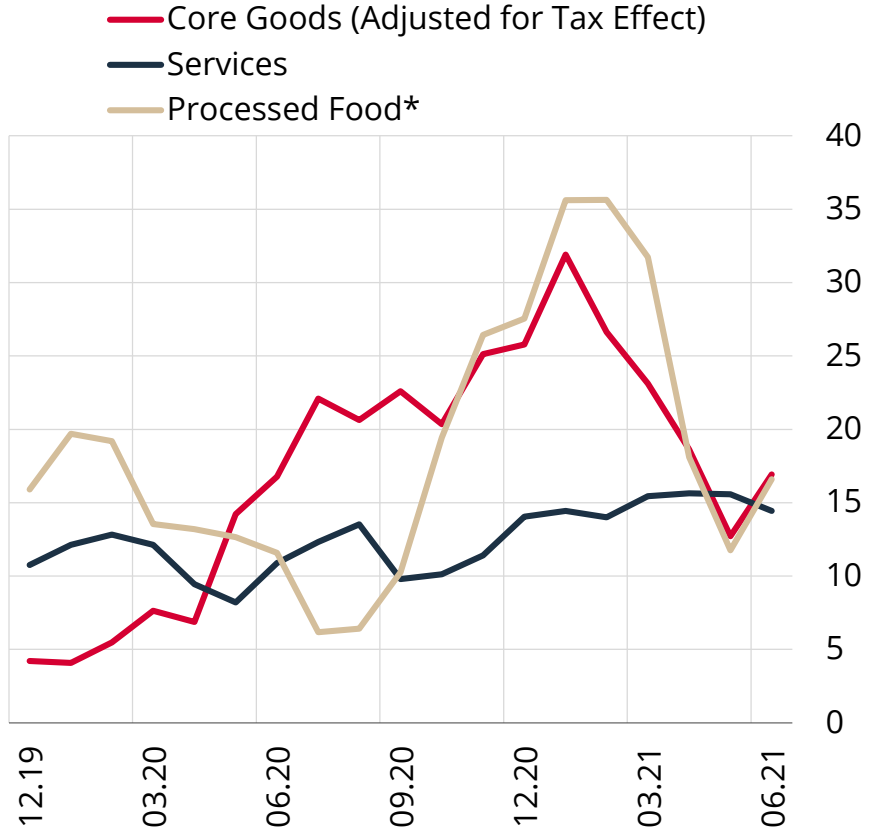
B and C Indices (Seas. Adj., Annualized 3-Month Average % Change)



Source: CBRT, TURKSTAT

Last Observation: June 2021

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



Source: CBRT, TURKSTAT

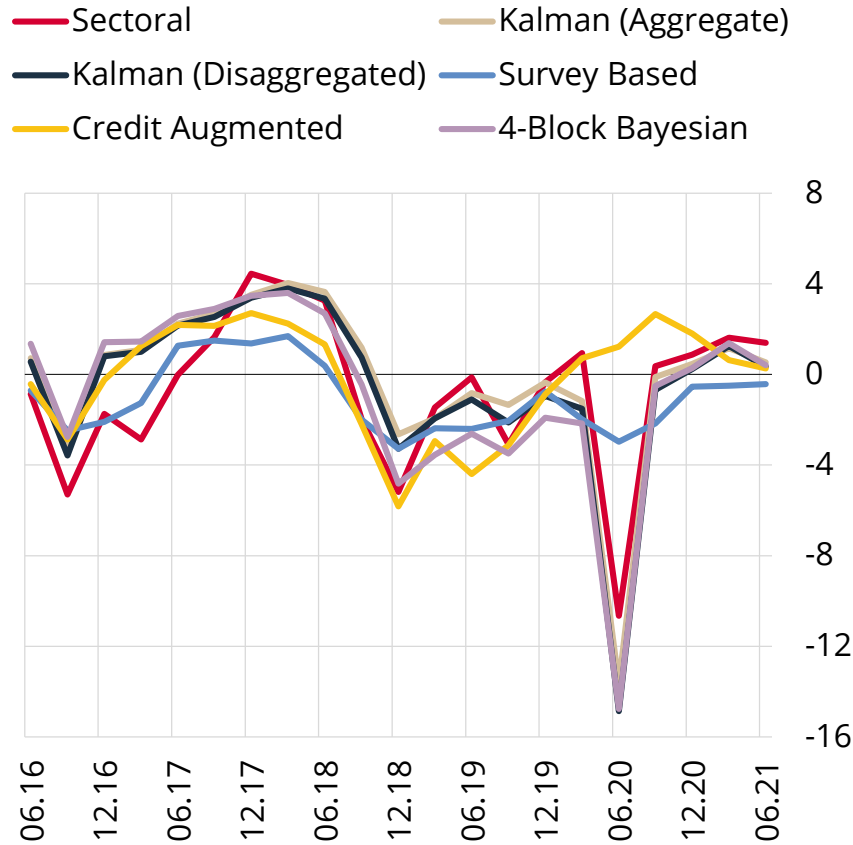
Last Observation: June 2021

* There is no seasonality in the processed food group.

THE DETERMINANTS OF INFLATION

Output Gap

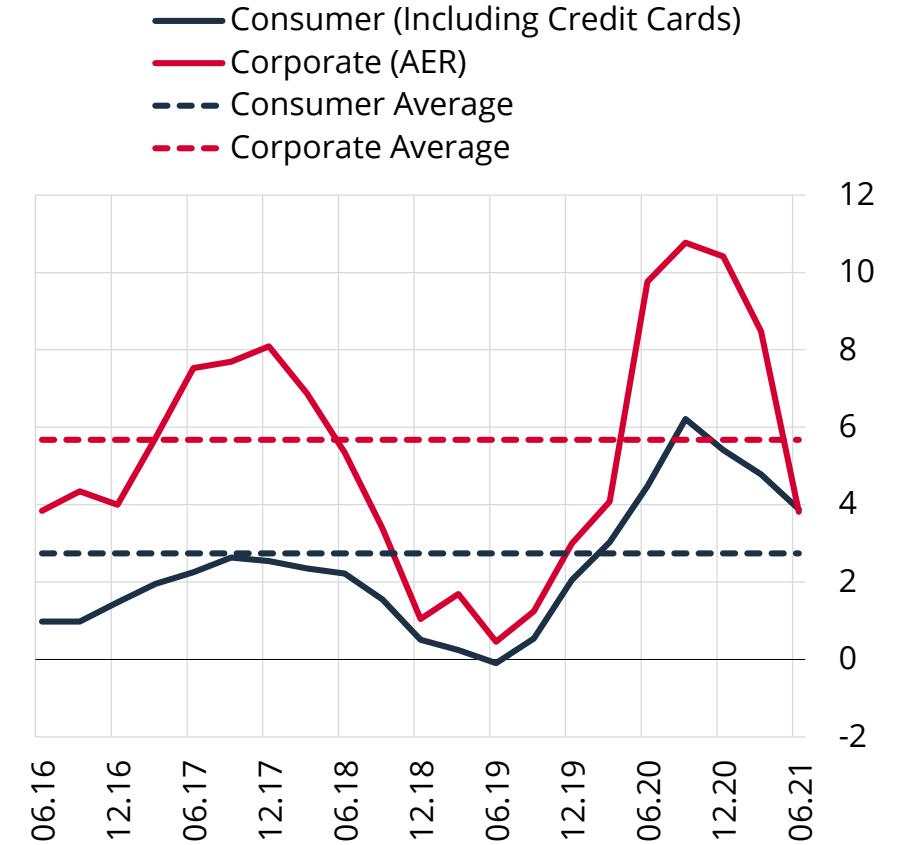
Output Gap Indicators (%)



Source: CBRT

Last Observation: 2021 Q1

Net Loan Utilization* (%)



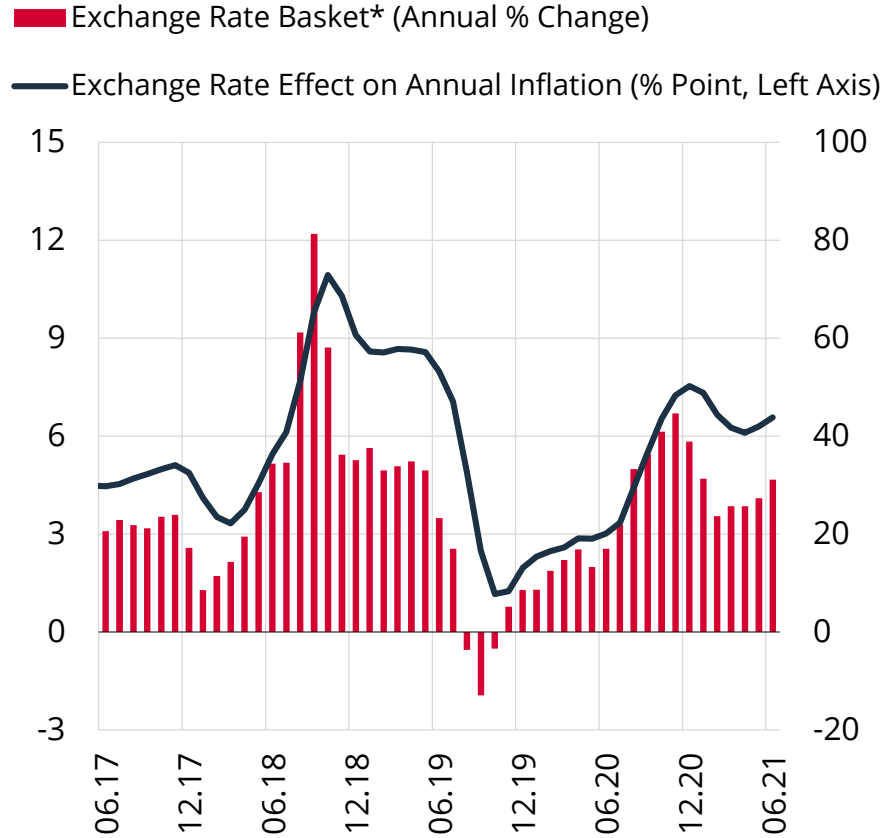
Source: CBRT

Last Observation: 2021 Q2

* 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 2006 Q1 - 2021 Q2.

Import Costs

Contribution of Exchange Rate to CPI (% Point)

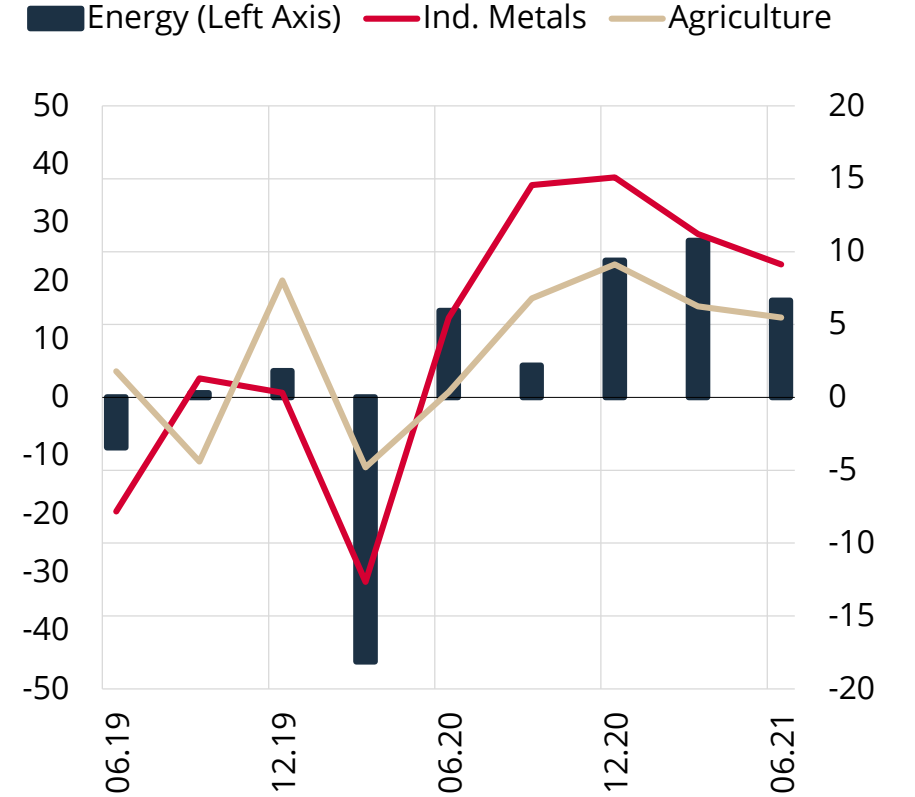


Source: CBRT, TURKSTAT

Last Observation: June 2021

* USD and euro are equally weighted.

Commodity Price Indices (Quarterly % Change)

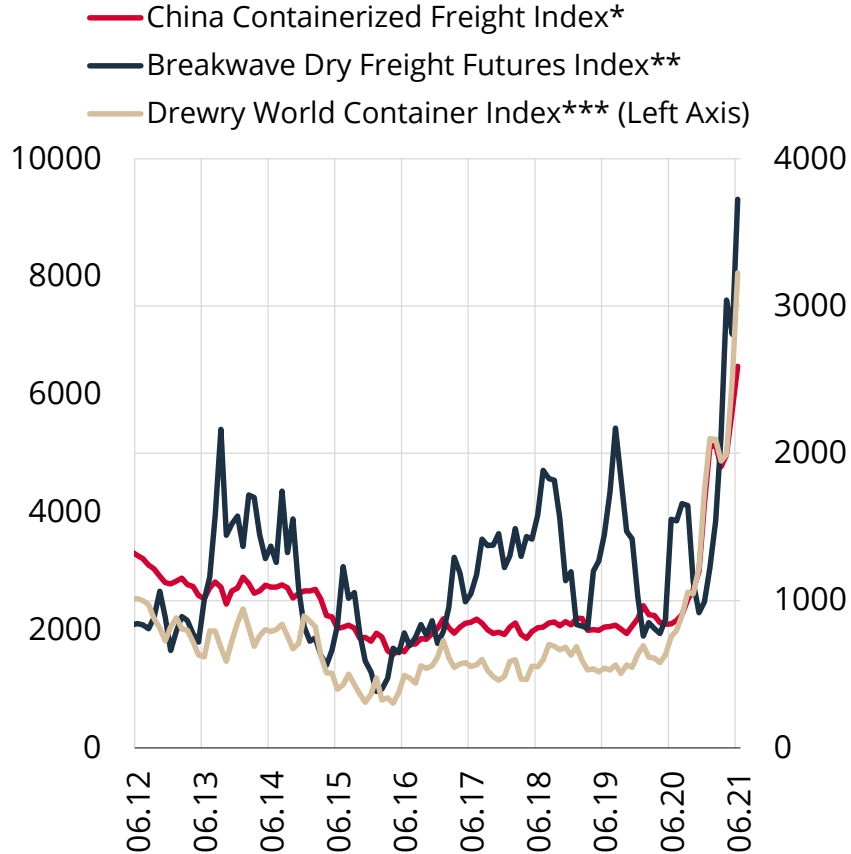


Source: World Bank

Last Observation: June 2021

Supply Constraints

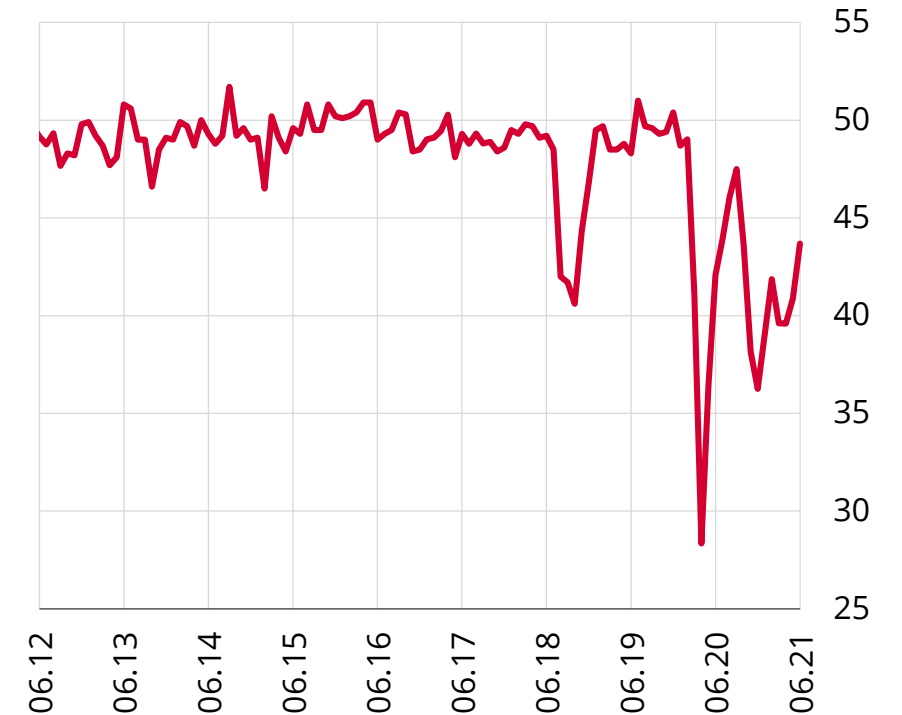
International Transportation Costs (USD)



Source: Bloomberg

Last Observation: June 2021

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



Source: IHS Markit

Last Observation: June 2021

* It is derived from the weighted average of spot and contract freight costs by volume for transportation from Chinese container ports.

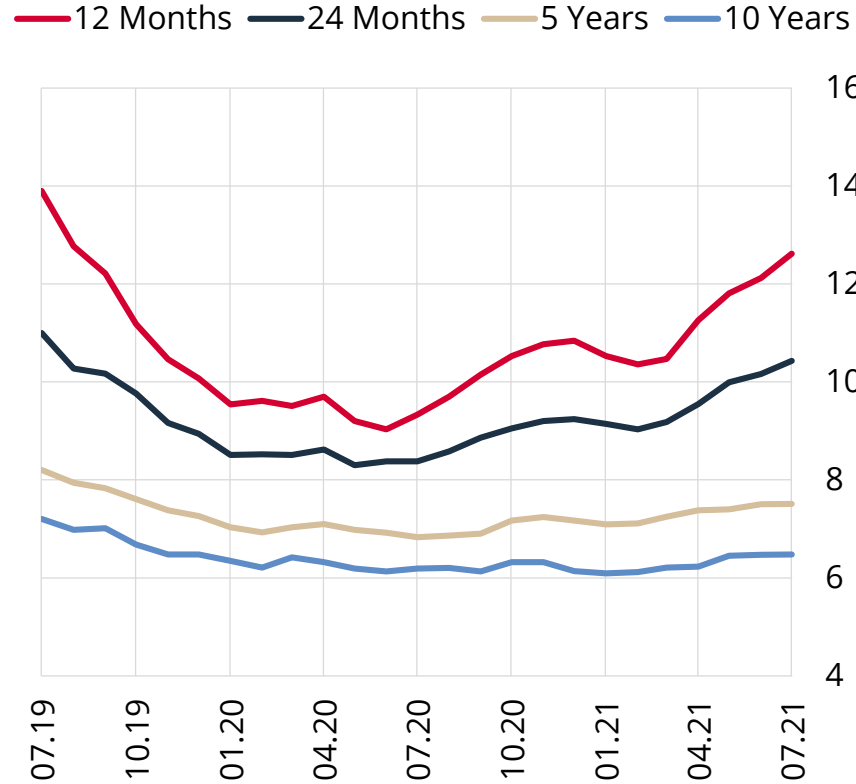
** It is obtained from the weighted average of the Capesize, Panamax and Supramax dry cargo freight forward contracts by volume-contract size.

*** Freight cost of 40 ft container weighted by trade volume on 8 shipping routes.

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

Inflation Expectations

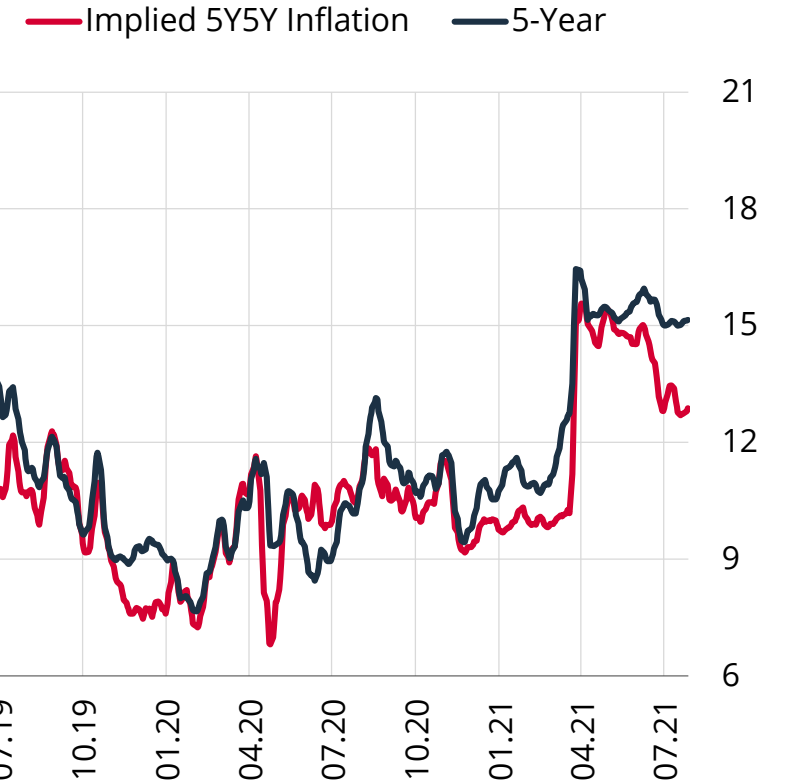
Consumer Inflation Expectations* (%)



Source: CBRT

Last Observation: July 2021

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



Source: Bloomberg

Last Observation: July 27, 2021

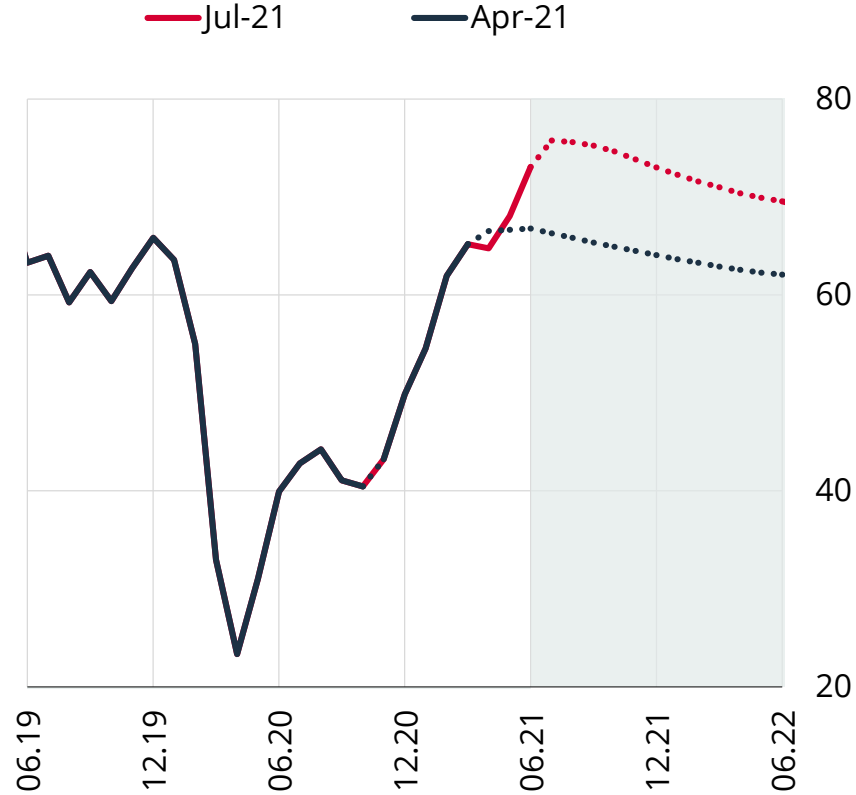
* Data from the CBRT Survey of Expectations responded by the representatives of the real and financial sectors and professionals.

** Calculated by the yield spread between nominal and inflation-indexed Treasury bonds with same maturities. 5Y5Y inflation compensation is a measure of expected inflation over a five-year period starting five years from now.

MEDIUM TERM PROJECTIONS

Assumptions for External Variables

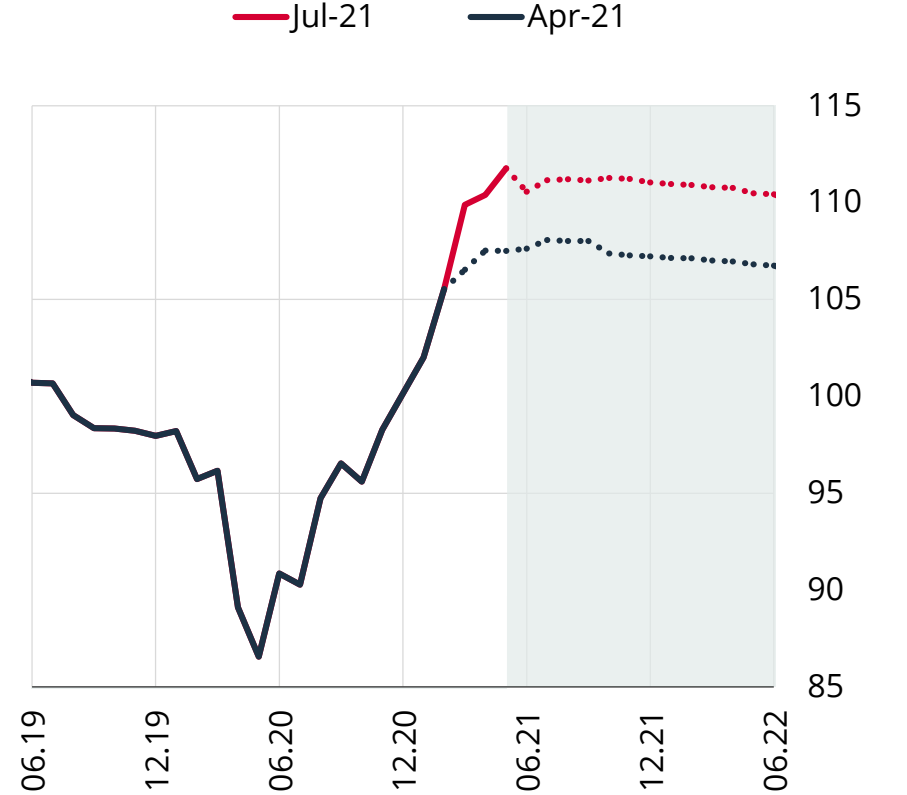
Revisions to Oil Price Assumptions* (USD/Barrel)



Source: Bloomberg, CBRT

Last Observation: June 2021

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



Source: CBRT, TURKSTAT

Last Observation: May 2021

* Shaded area shows the forecast period.

Revisions in Assumptions

		April IR	July IR
Output Gap (%)	2021 Q1	2.3	2.1
	2021 Q2	0.8	0.8
Food Prices (Year-end % Change)	2021	13.0	15.0
	2022	9.8	10.1
Import Prices (USD, Average Annual % Change)	2021	13.3	16.3
	2022	-0.5	0.2
Oil Prices (Average, USD)	2021	64.4	69.6
	2022	61.9	69.4
Export-Weighted Global Production Index (Average Annual % Change)	2021	4.4	4.8
	2022	4.4	4.5

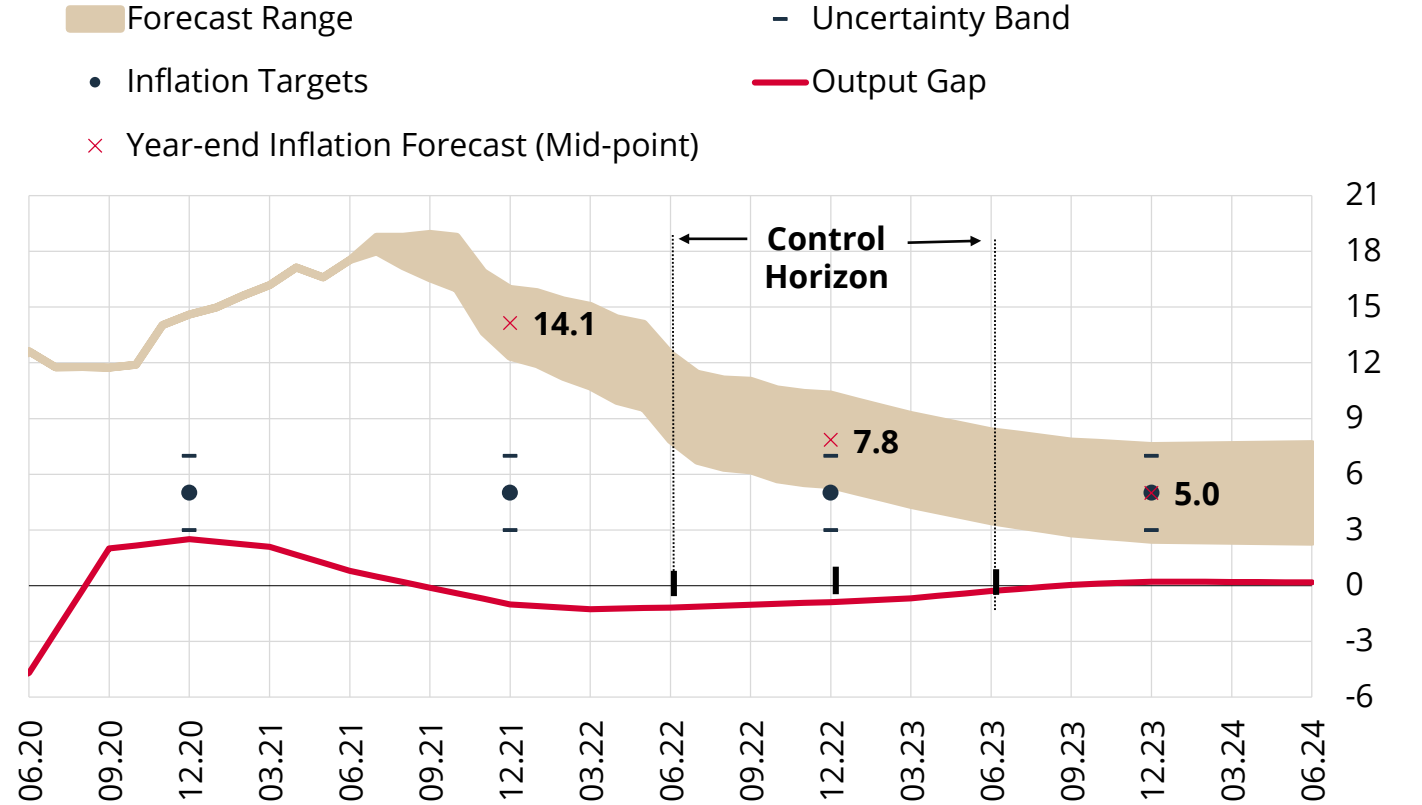
Inflation Outlook

Accordingly, inflation is expected to be

- Between 12.2% and 16.0% (with a mid-point of 14.1%) at end-2021
- Between 5.4% and 10.2% (with a mid-point of 7.8%) at end-2022

with 70% probability.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

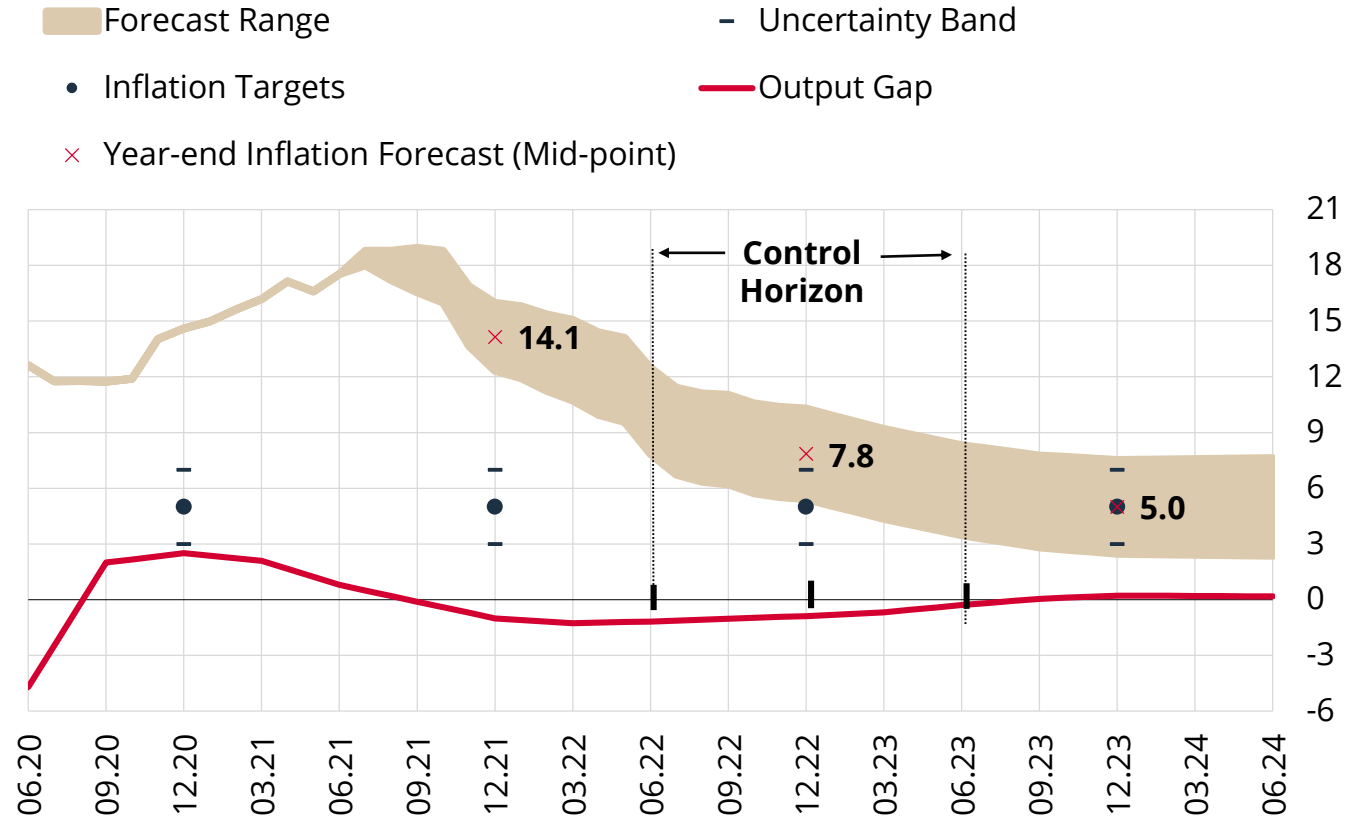
* Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

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

- +0.8 points from TL denominated import price,
- +0.1 points from output gap,
- +0.5 points from revision in food inflation,
- +0.3 points from administered prices,
- +0.2 points from the rise in underlying trend of inflation.

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

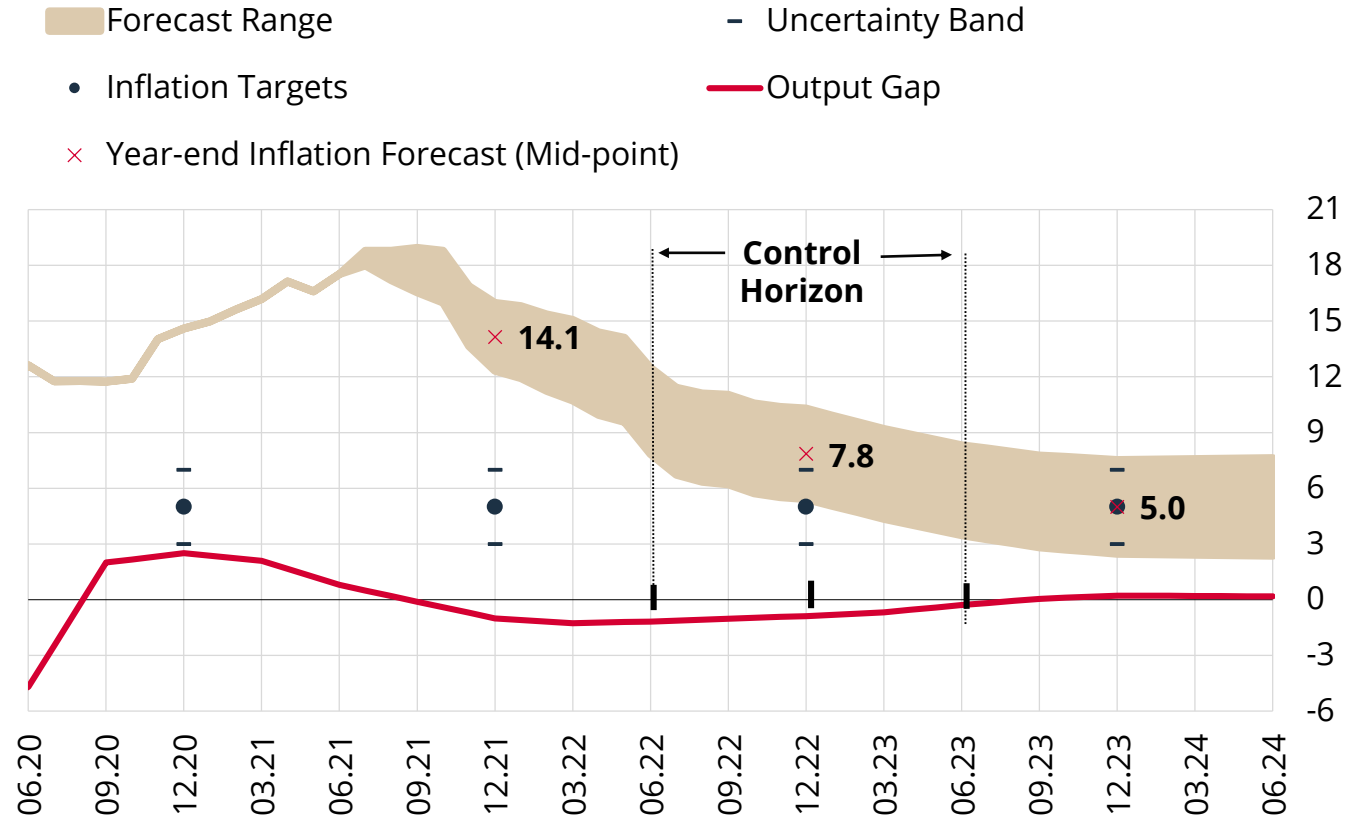
* Shaded region indicates the 70 percent confidence interval for the forecast.

Inflation Outlook

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

- +0,1 points from output gap,
- +0.1 points from revision in food inflation,
- +0.1 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

- Domestic economic activity is strong. While domestic demand has slightly decelerated in the second quarter due to pandemic restrictions and the tightening in financial conditions, external demand remains strong.
- The acceleration of domestic vaccination rollout facilitates the recovery in services and tourism sectors, which have been adversely affected by the pandemic, and leads to a more balanced composition in economic activity.
- The effects of the implemented macroprudential measures will be monitored on personal loans, which recently displayed a rise due to the reopening and deferred demand.
- The current account is expected to post a surplus in the rest of the year due to the strong upward trend in exports, and the strong progress in the vaccination program stimulating tourism activities.
- In addition to the recent increases in import prices and administered prices, demand conditions, supply constraints in some sectors, possible volatility in inflation during the summer due to the reopening, and high levels of inflation expectations continue to pose risks to the pricing behavior and inflation outlook.
- The policy rate will continue to be determined at a level above 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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