

Briefing on 2020-II Inflation Report

April 30, 2020 | ANKARA

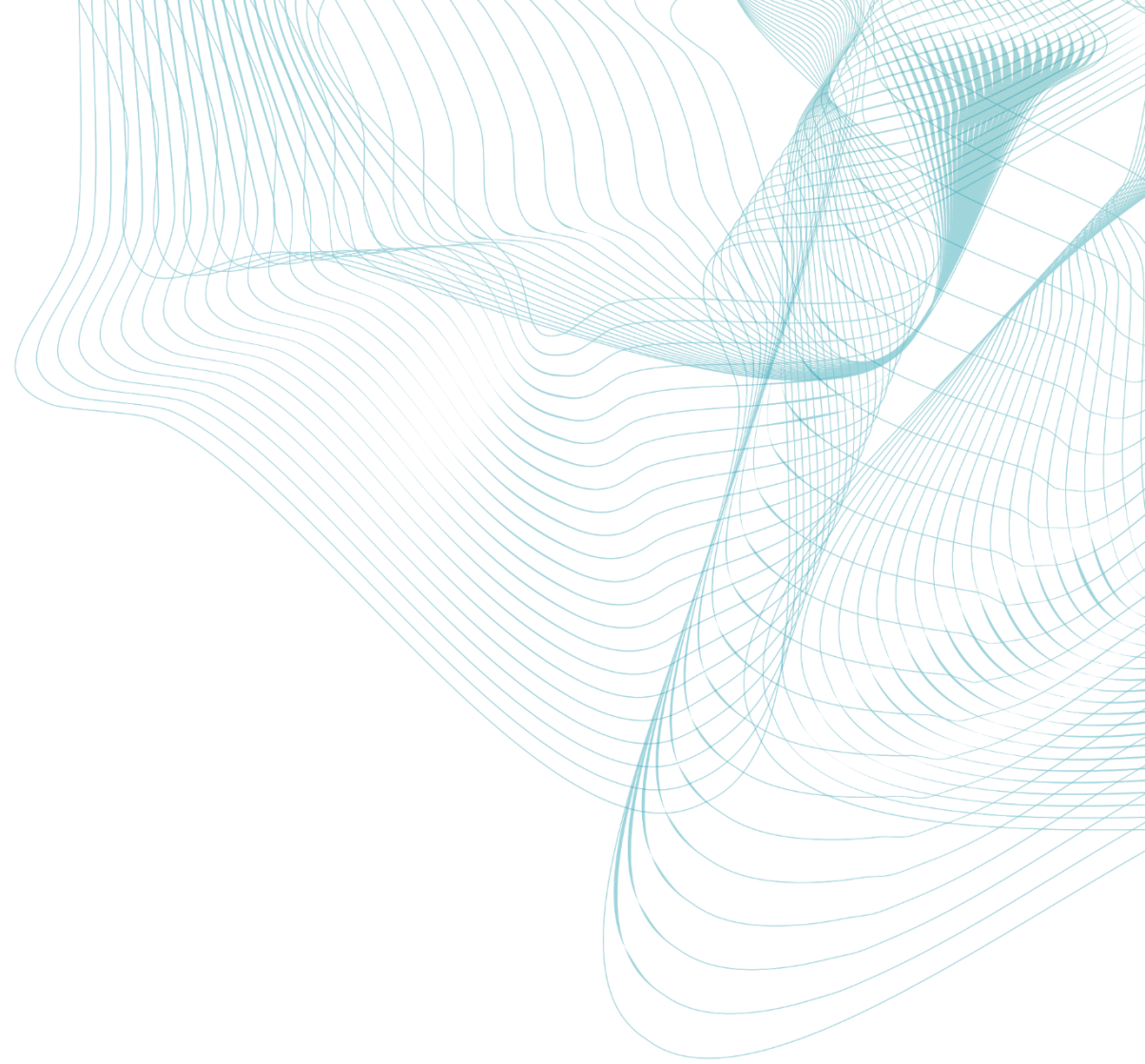
April 2020 Inflation Report: Main Sections

- Overview
- International Economic Developments
- Inflation Developments
- Supply and Demand Developments
- Financial Conditions and Monetary Policy
- Public Finance
- Medium Term Projections

April 2020 Inflation Report: Boxes

- Effects of the Pandemic on the Turkish Economy: Transmission Channels and Macro Policy Mix
- Global Economic Prospects and External Demand Outlook
- Global Economic Policies Against the Pandemic
- Possible Effects of the Pandemic on Inflation Outlook
- Possible Impact of the Pandemic through External Demand and Tourism Channels
- Revisions in Balance of Payments Statistics
- Monetary and Macroprudential Measures Against the Pandemic in Turkey
- Fiscal Measures Against the Pandemic in Turkey

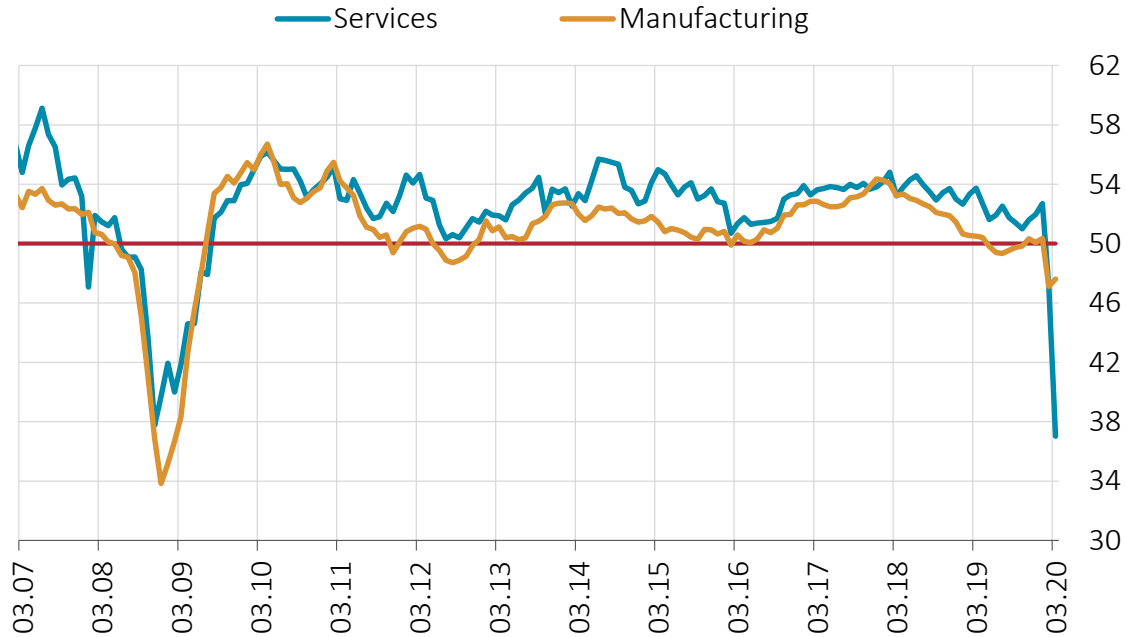
Macroeconomic Developments



Global Economic Outlook

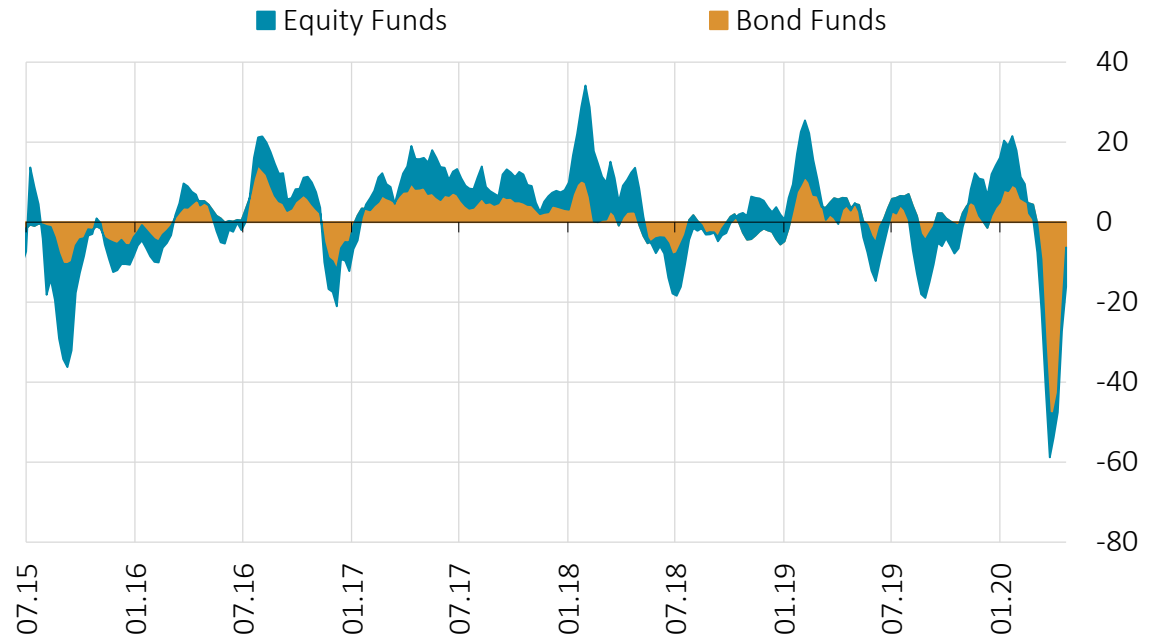
- Developments regarding the spread of the coronavirus substantially weaken global growth outlook.
- As the virus spread around the world, emerging economies faced large scale portfolio outflows.

Global PMI Indices (Seasonally Adjusted, Level)



Source: IHS Markit

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

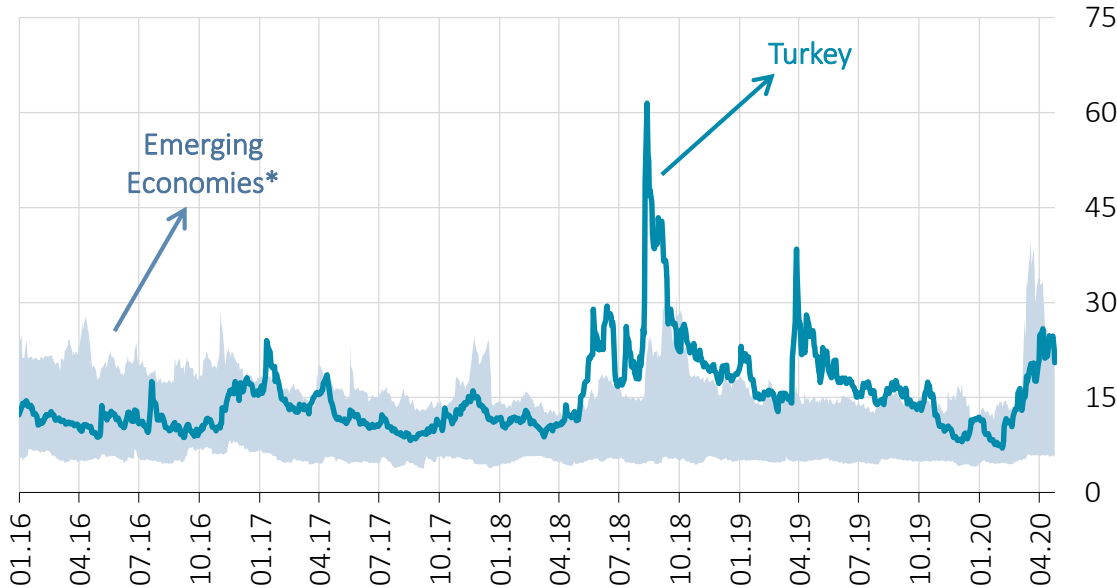


Source: EPFR

Financial Developments

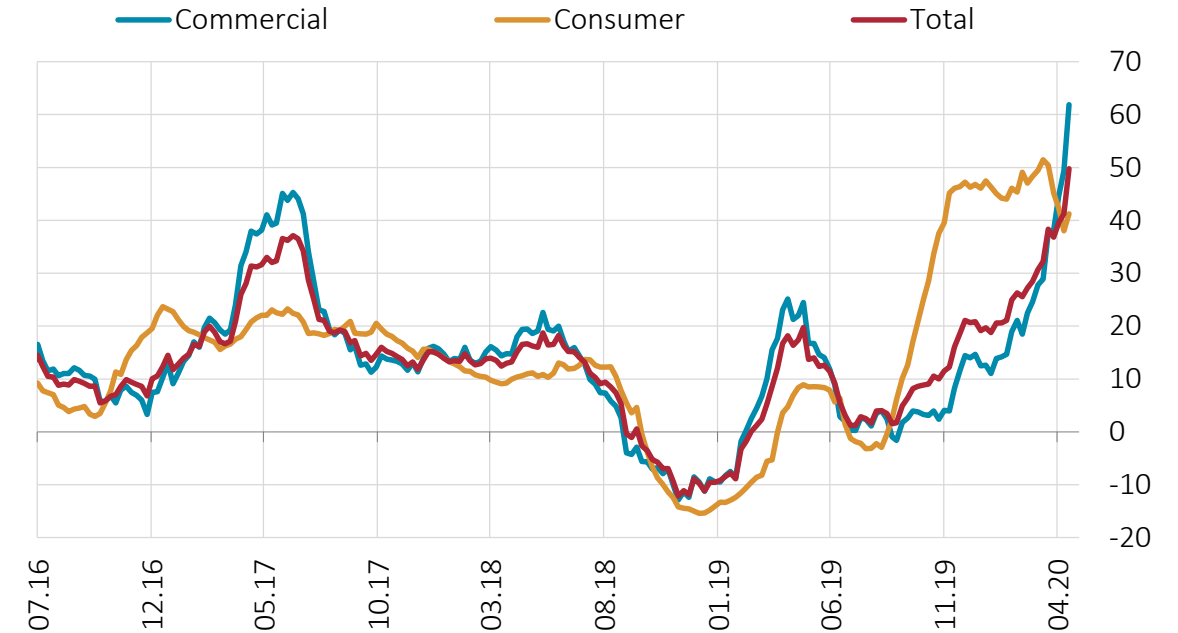
- The decline in global risk appetite led to a rise in country risk premium, a depreciation in domestic currency and an increase in exchange rate volatility.
- While consumer loan growth lost some pace since mid-March, commercial loans continued to accelerate.

Implied FX Volatility
(1 month, %)



Source: Bloomberg

Credit Growth Rates
(13-Week Moving Average, Adjusted for Exchange Rate, %)

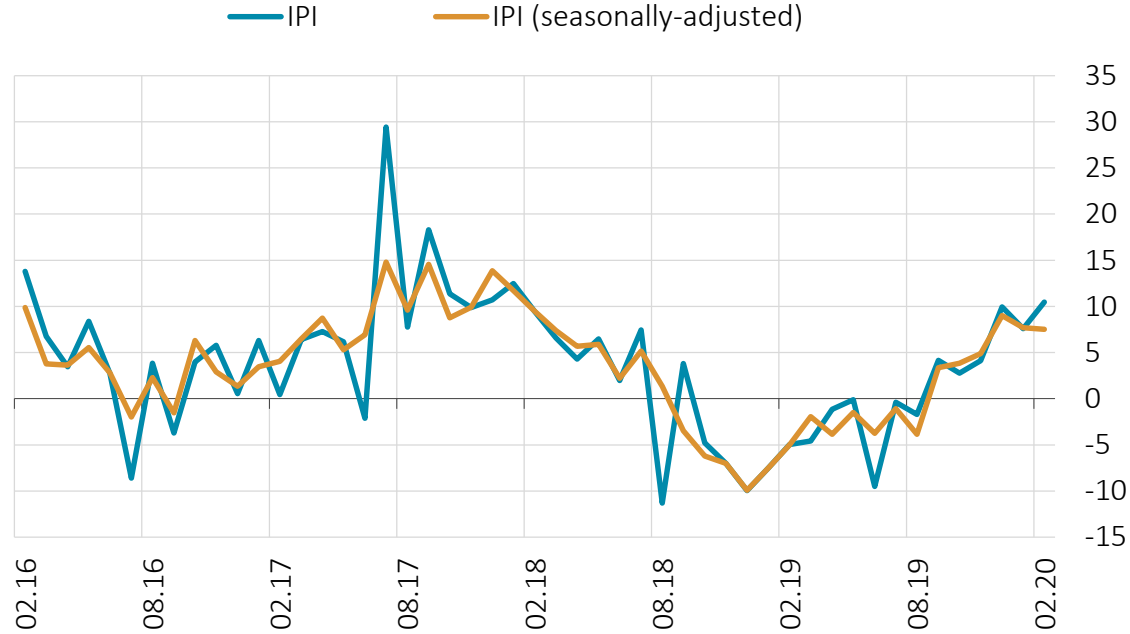


Source: CBRT

Economic Activity and Labor Market

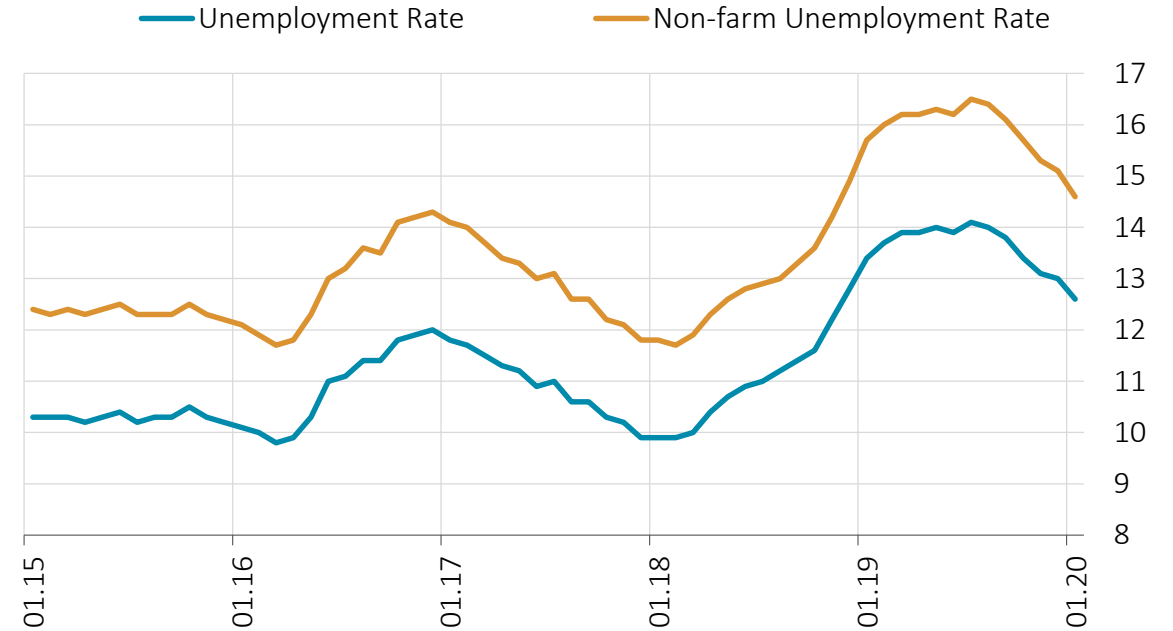
- Economic activity remained strong in January and February, with the support of the improvement in financial conditions.
- The effects of pandemic-related developments on economic activity became evident in April.

Industrial Production Index (Annual % Change)



Source: TURKSTAT

Unemployment Rates (Seasonally-Adjusted, %)

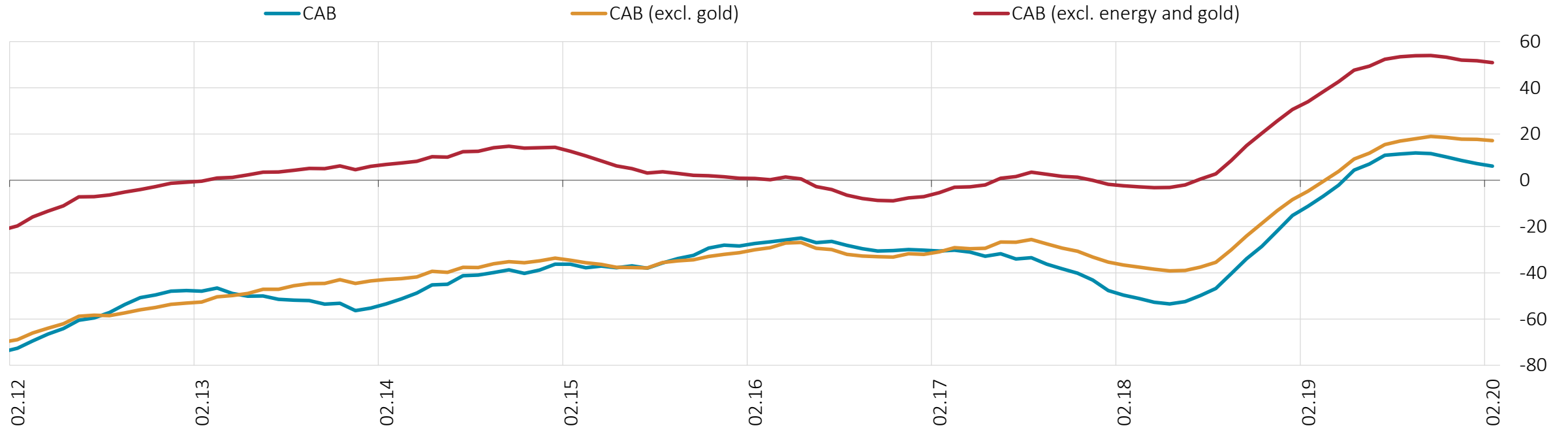


Source: TURKSTAT

External Balance

- Current account balance, which recently recorded significant improvement, is expected to follow a moderate course throughout the year due to the restraining effects of commodity prices and imports.

Current Account Balance (CAB, 12-Month Cumulative, Billion USD)

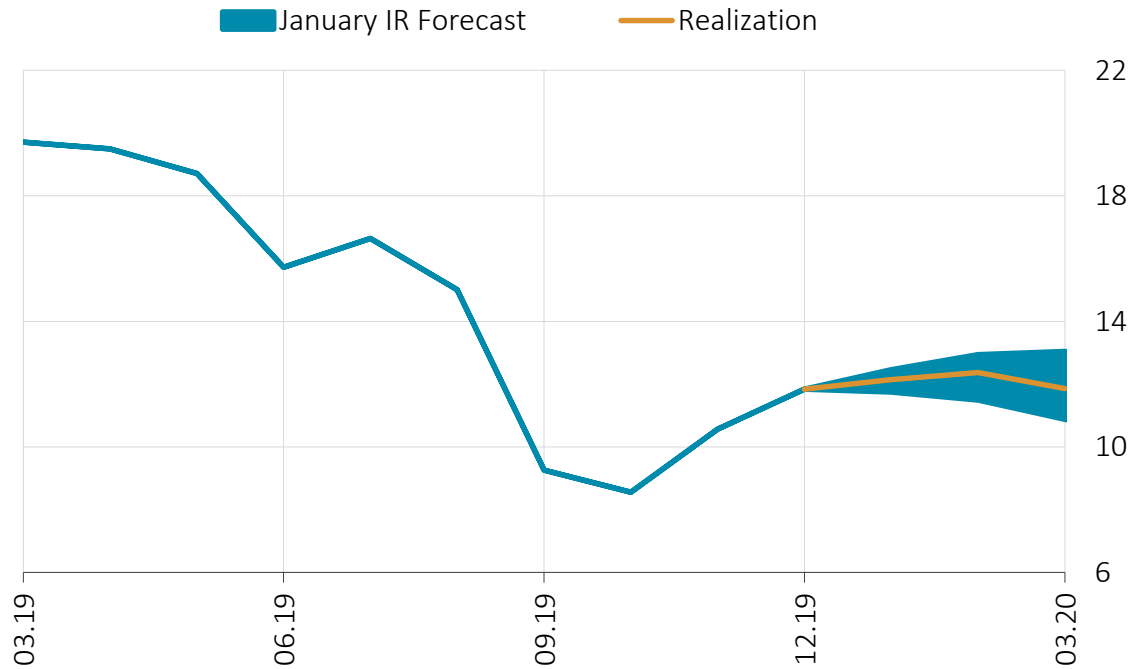


Source: CBRT

January 2020 Inflation Report Forecasts and Realizations

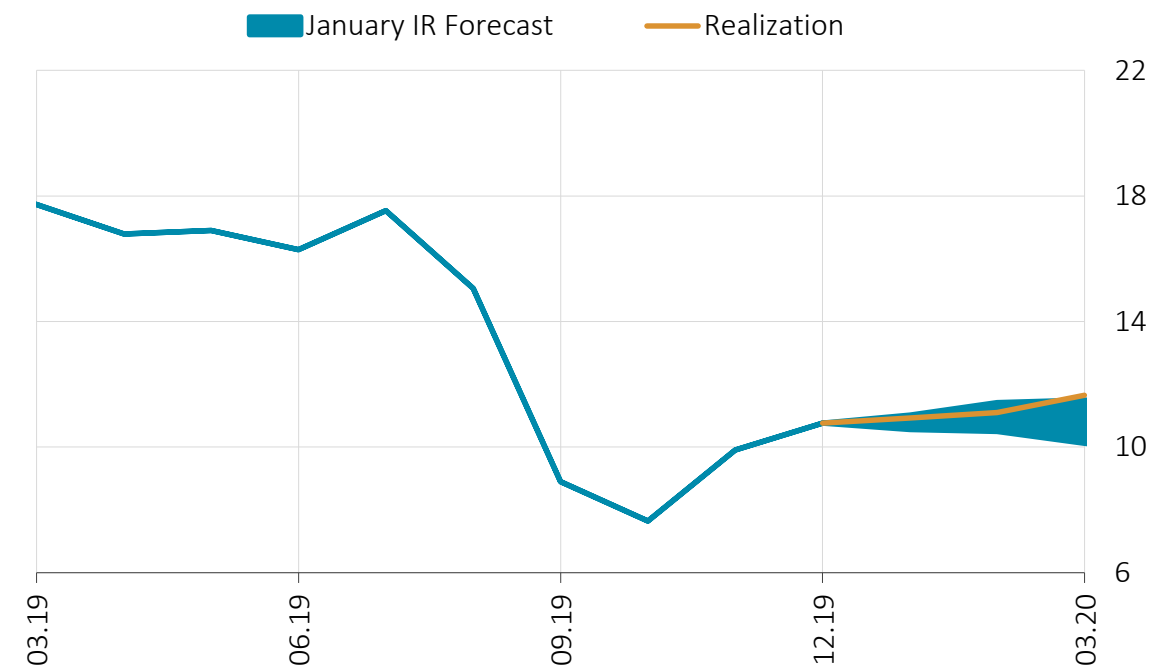
➤ Consumer inflation was in line with the January Inflation Report forecasts in the first quarter of 2020.

January 2020 Inflation Forecast and Actual Inflation* (%)



Source: CBRT, TURKSTAT

January 2020 Forecast and Actual Rates for Inflation Excl. Unprocessed Food, Energy, Alcohol-Tobacco and Gold (B Index)* (%)

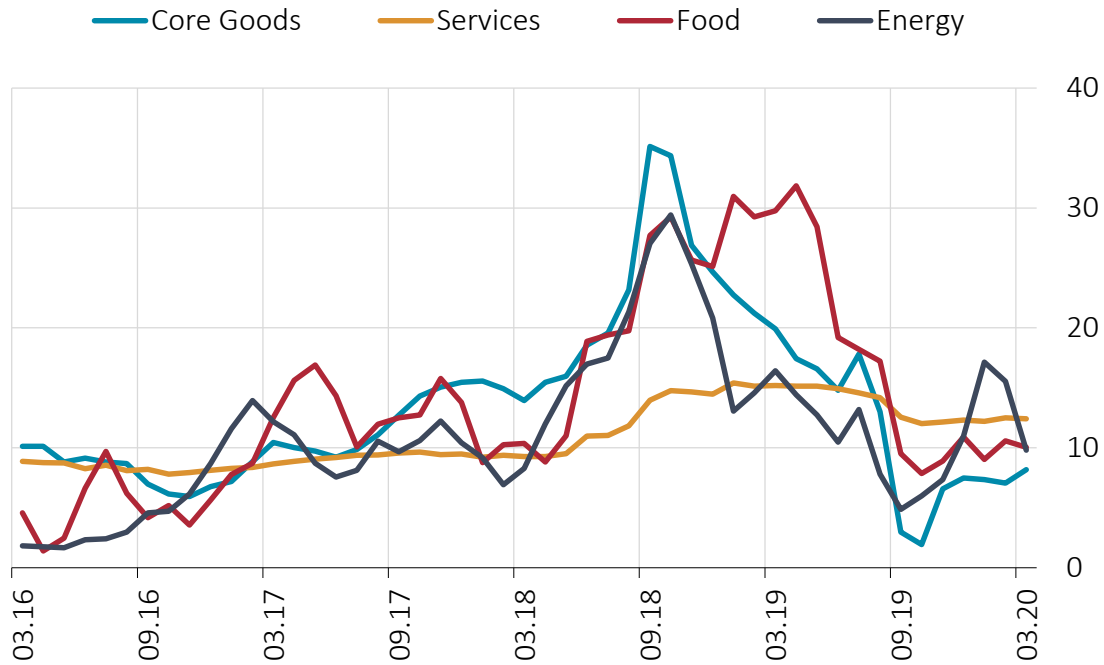


Source: CBRT, TURKSTAT

Inflation

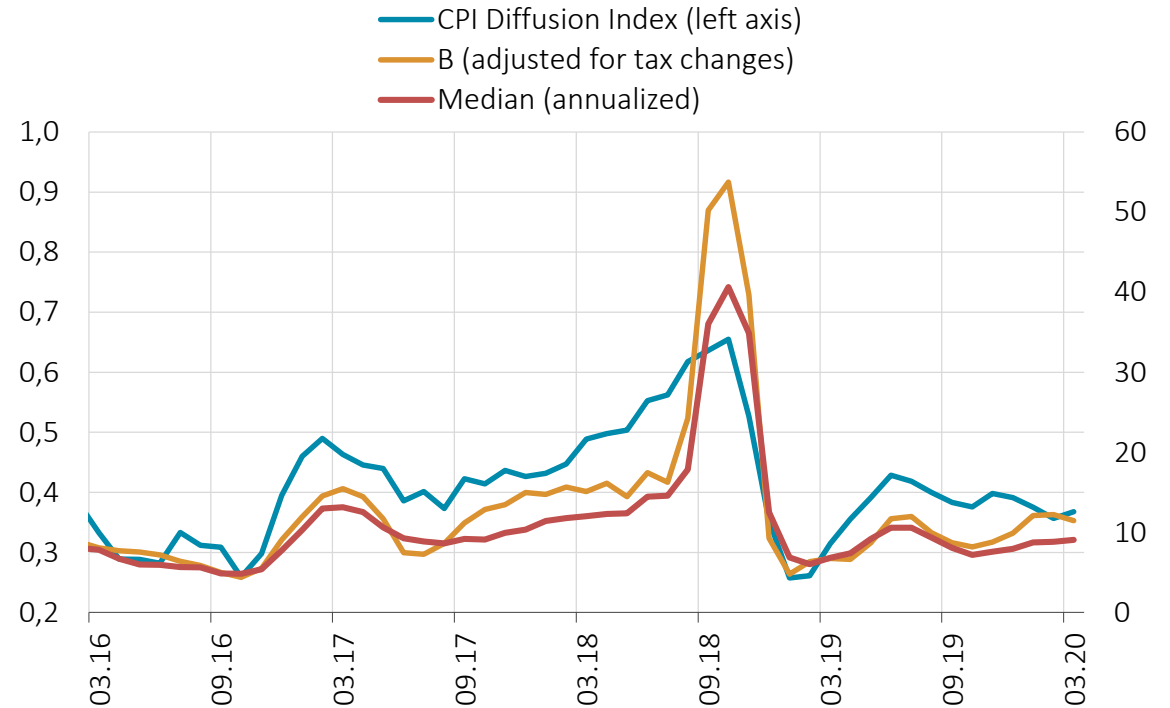
- Developments in inflation expectations, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators.

CPI Sub-Groups (Annual % Change)



Source: TURKSTAT

CPI Diffusion Index, Median Inflation and B Index *

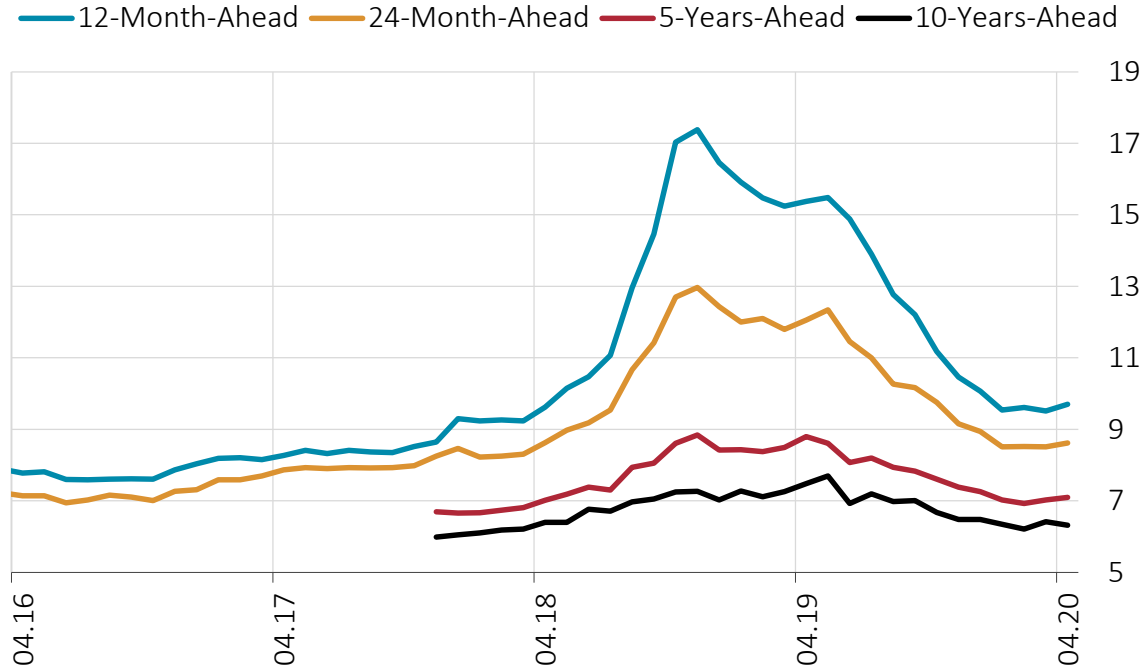


Source: CBRT, TURKSTAT

Inflation Expectations

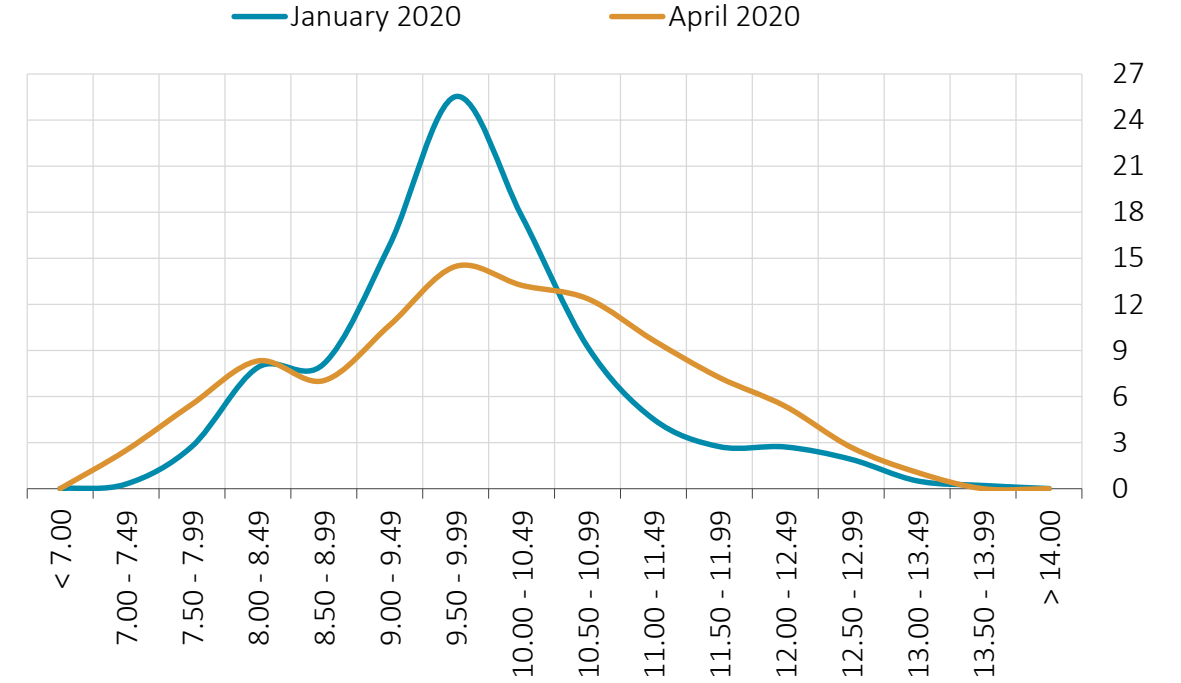
➤ Compared to previous quarter, inflation expectations remained flat, while forecast uncertainty slightly increased.

Inflation Expectations (%)



Source: CBRT

Distribution of Inflation Expectations (12-Month-Ahead)

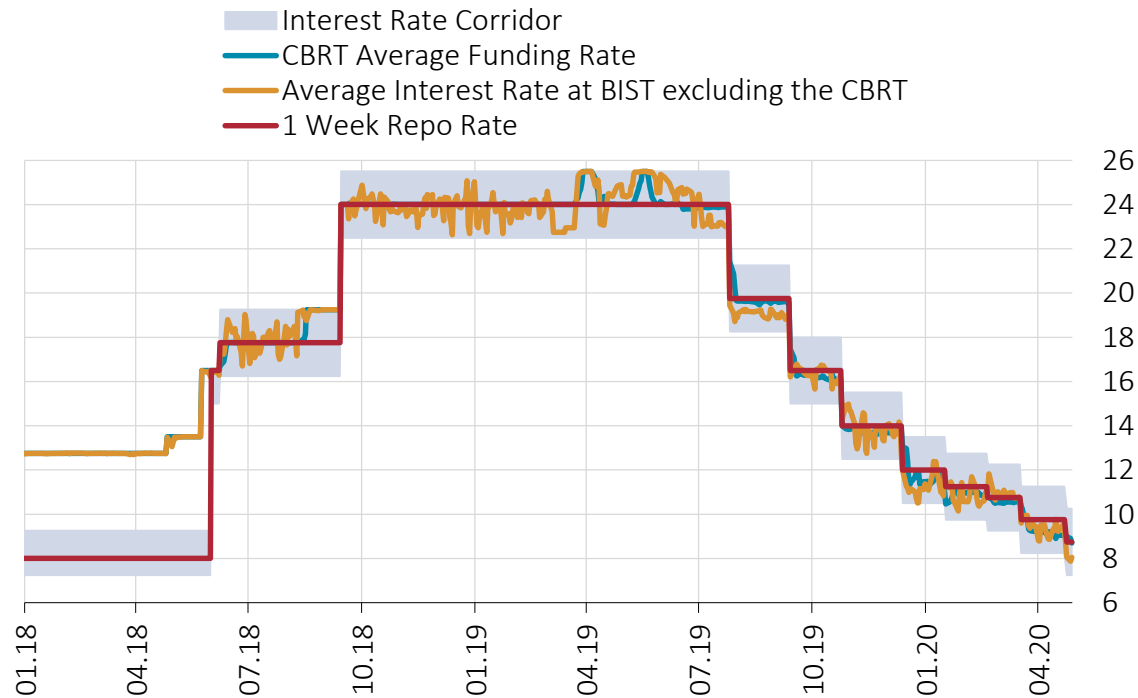


Source: CBRT

Monetary Policy

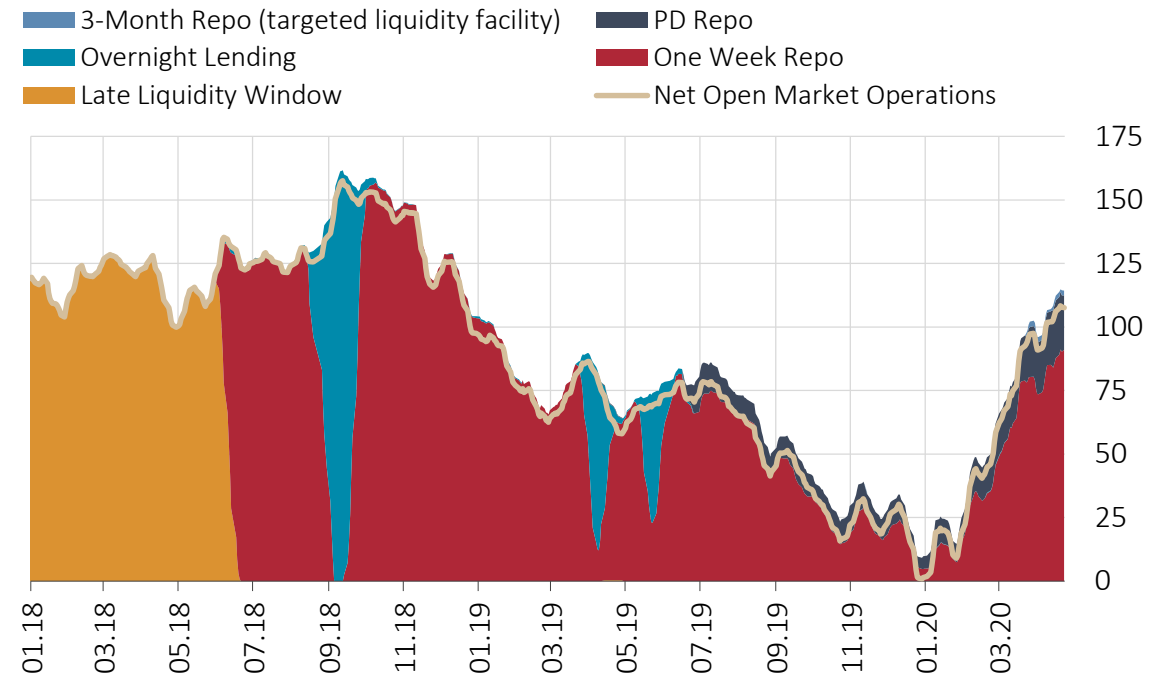
- One week repo rate was reduced to 8.75 percent based on the inflation outlook.
- The net funding amount provided through open market operations (OMO) increased due to increase in funding need.

CBRT Rates and Short Term Interest Rates (%)



Source: BIST, CBRT

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



Source: CBRT

In addition to interest rate cuts, the CBRT has implemented a comprehensive set of measures.



1 Predictability and flexibility in Turkish lira and FX liquidity management are enhanced.



2 Banks are provided with targeted additional liquidity facilities to secure uninterrupted credit flow to corporate sector.

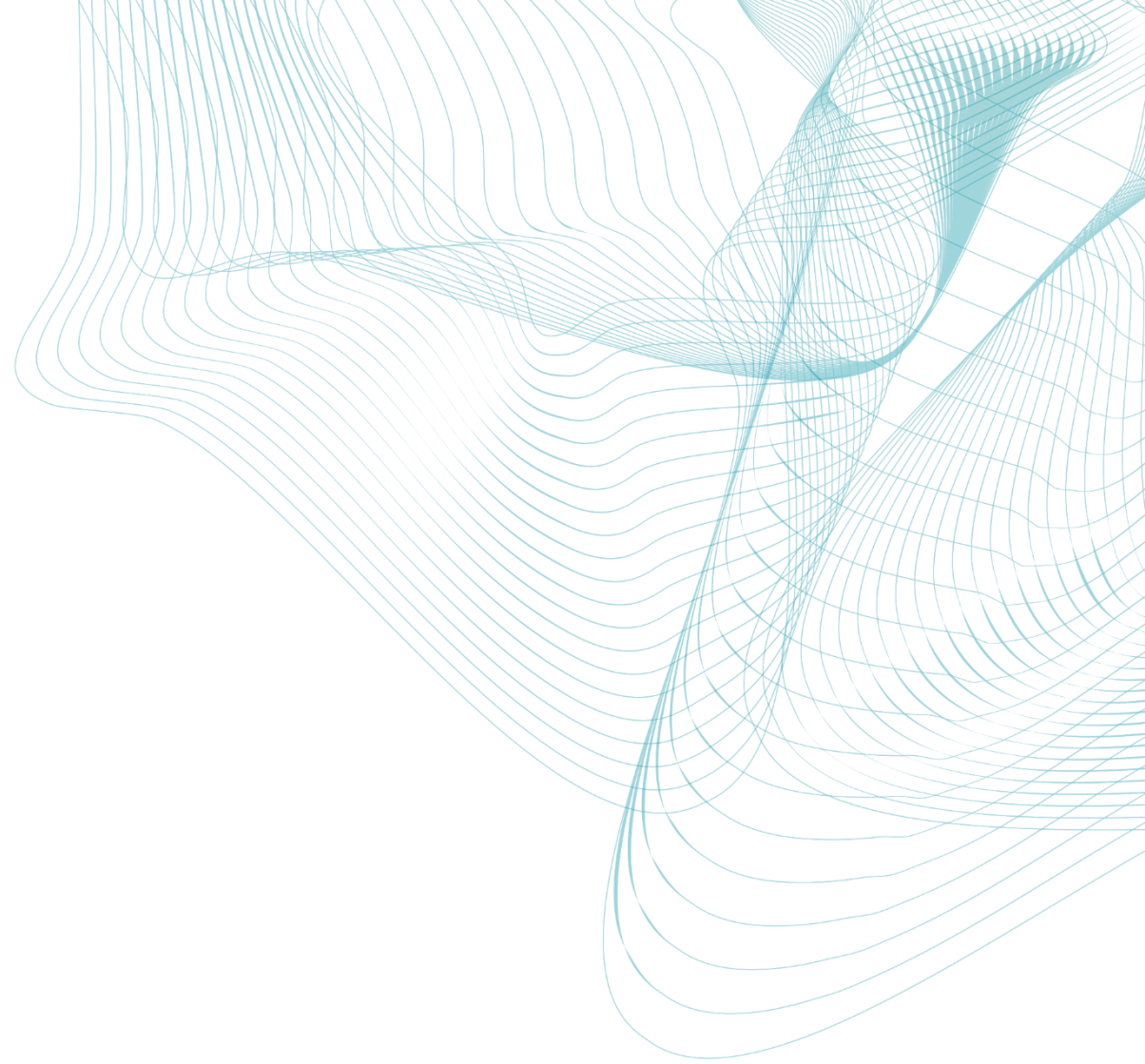


3 Cash flows of exporting firms are supported through changes in rediscount credits.



4 Steps are taken to support the liquidity in the Government Domestic Debt Securities (GDDS) market.

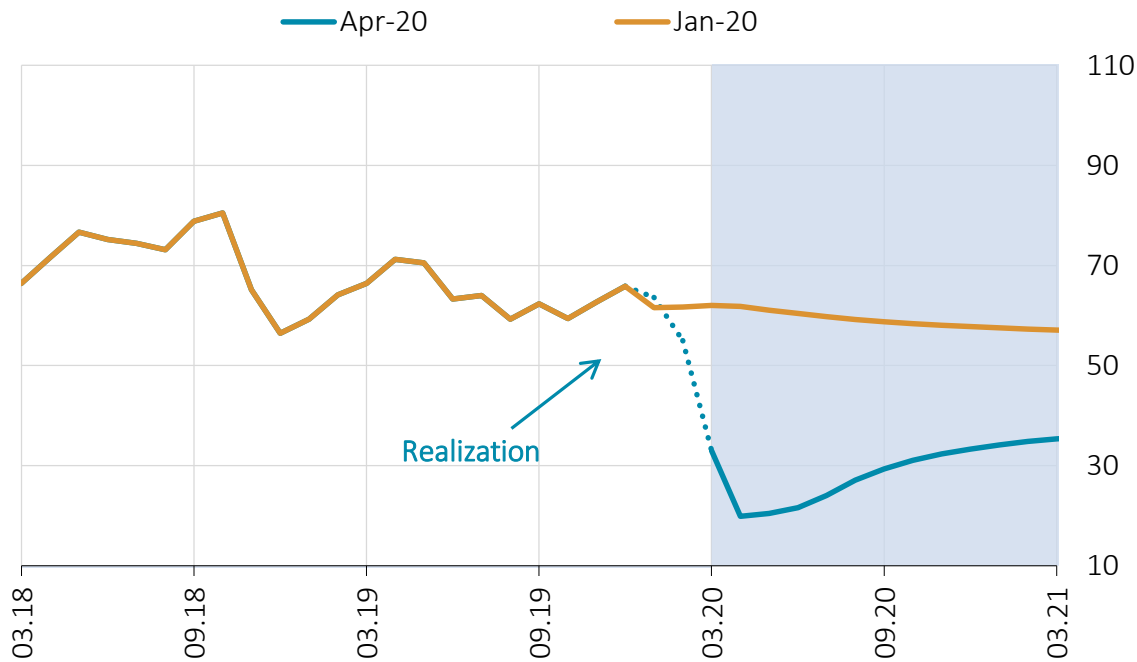
Main Assumptions and Forecasts



Assumptions for External Variables

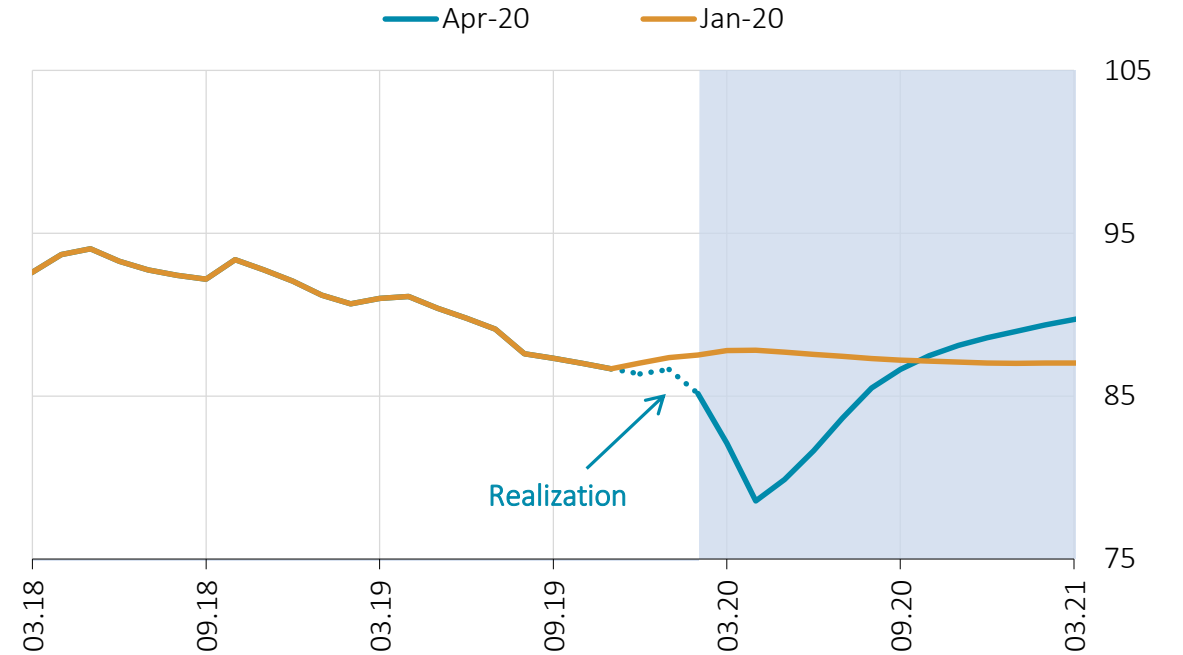
- Assumptions regarding international crude oil and USD-denominated import prices were revised significantly downwards.

Revisions to Oil Price Assumptions* (USD/Barrel)



Source: Bloomberg, CBRT

Revisions to Import Price Assumptions* (Index, 2010=100)



Source: CBRT, TURKSTAT

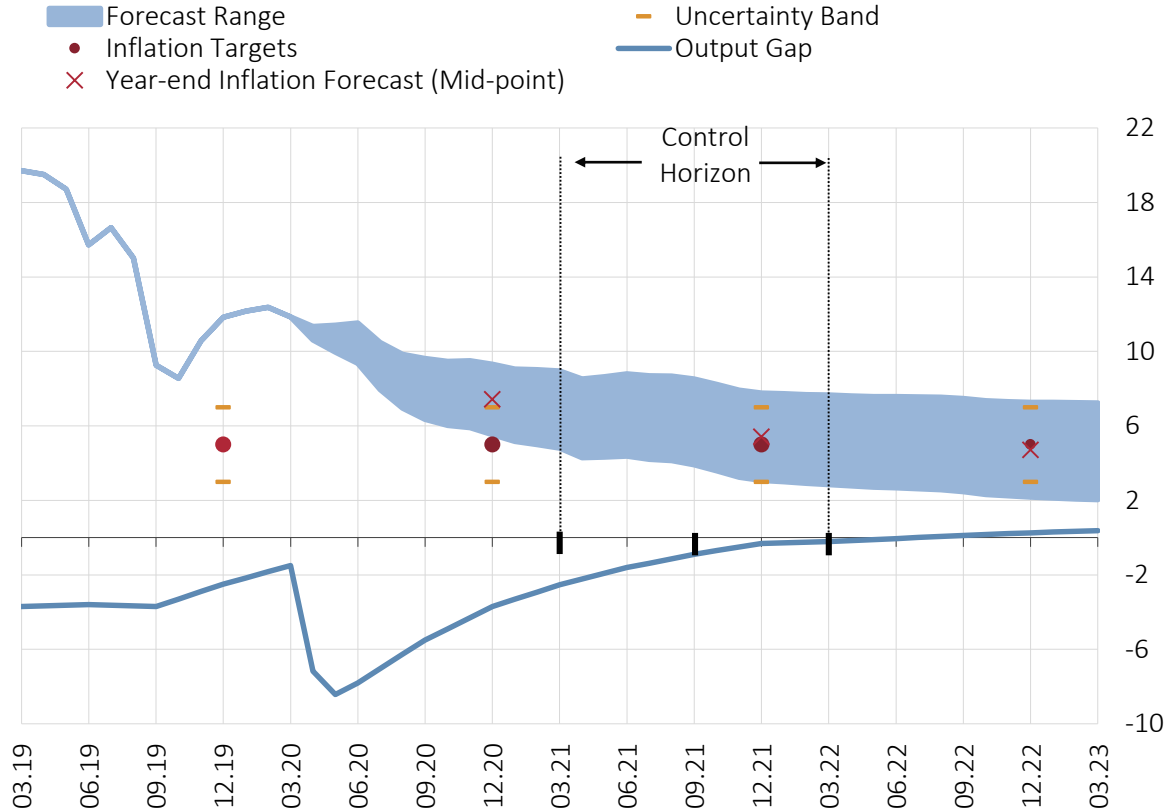
* Shaded area shows the forecast period.

Revisions in Assumptions

		January 2020	April 2020
Output Gap (Percent)	2019 Q4	-2.8	-2.5
	2020 Q1	-2.5	-1.5
Export-Weighted Global Production Index (Average Annual Percent Change)	2020	1.81	-4.75
	2021	-	4.38
Oil Prices (Average, USD)	2020	60.0	32.6
	2021	56.7	36.8
Import Prices (USD, Average Annual Percent Change)	2020	-1.9	-5.1
	2021	-0.5	7.3
Food Prices (Year-end Percent Change)	2020	11.0	9.5
	2021	7.0	7.0

Inflation Outlook

Inflation and Output Gap Forecasts* (%)



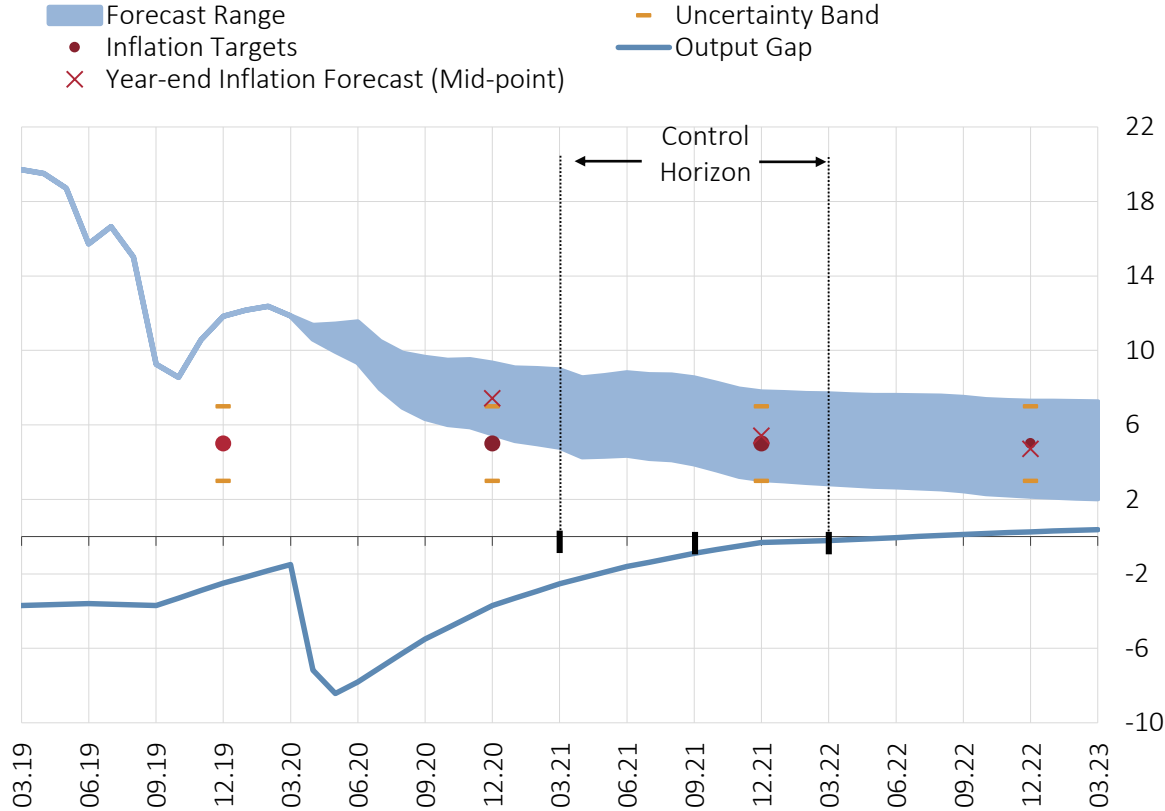
Source: CBRT, TURKSTAT

- Under the current monetary policy stance and strong policy coordination, inflation is projected to converge gradually to the targets.
 - Inflation is projected to be 7.4% at end-2020 and fall to 5.4% at end-2021, stabilizing around 5% in the medium term.
 - Accordingly, inflation is expected to be
 - between 5.5% and 9.3% (with a mid-point of 7.4%) at end-2020
 - between 3.1% and 7.7% (with a mid-point of 5.4%) at end-2021
- with 70% probability.

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

Inflation Outlook

Inflation and Output Gap Forecasts* (%)

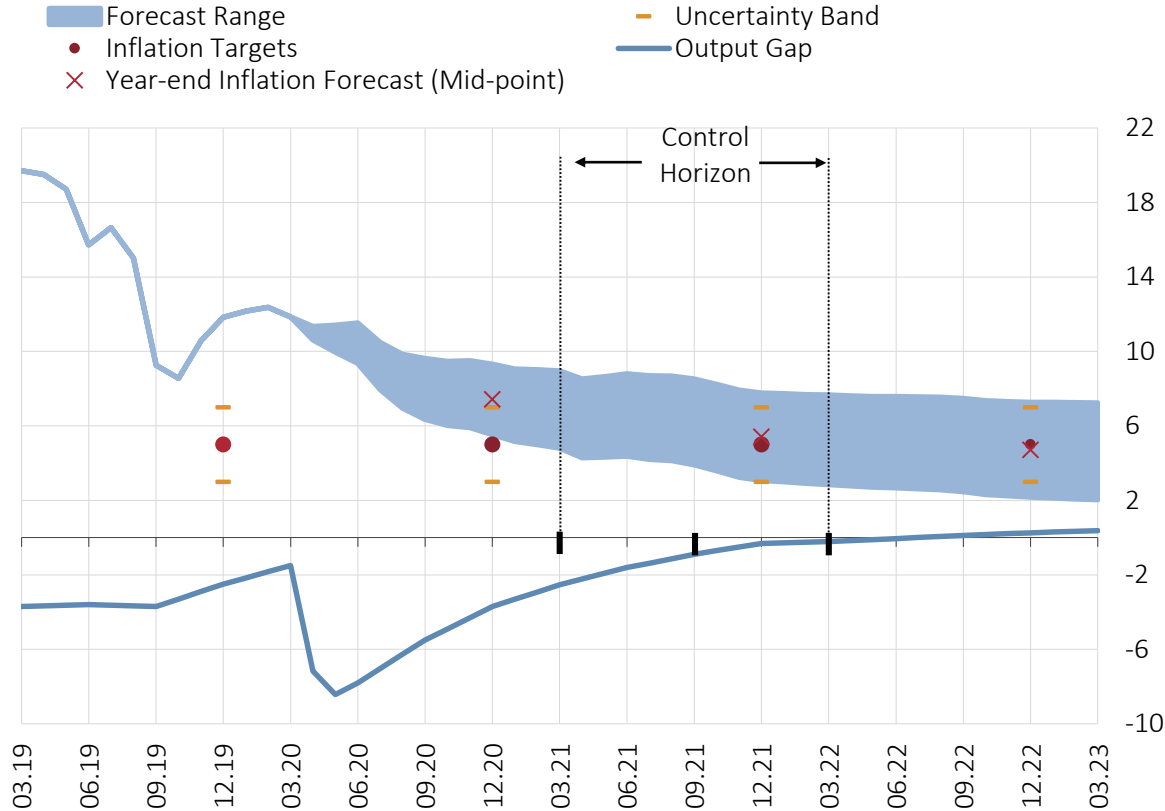


Source: CBRT, TURKSTAT

- Drivers of the revision in 2020 year-end inflation forecasts relative to previous Report:
 - - 1.2 points from output gap,
 - - 0.3 points from food inflation,
 - + 0.5 points from real unit labor costs,
 - + 0.2 points from TL denominated import prices.
- Accordingly, the inflation forecast for end-2020 was revised downwards by 0.8 percentage points.

Inflation Outlook

Inflation and Output Gap Forecasts* (%)



Source: CBRT, TURKSTAT

- Factors that affect 2021 year-end inflation forecasts, relative to previous Report:
 - TL-denominated import prices by +0.3 points
 - Output gap by -0.3 points.
- 2021 year-end inflation forecast remained unchanged, as the downward and upward effects balanced out.

Overview

- Economic activity has started to weaken in mid-March due to the effects of the coronavirus pandemic on external trade, tourism and domestic demand.
- Developments in inflation expectations, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators.
- Despite the recent depreciation in the Turkish lira due to global developments, continued sharp decline in international commodity prices, especially crude oil and metal prices, affects inflation outlook favorably.
- Disinflationary effects of aggregate demand conditions are estimated to have increased as of the second quarter.
- Recent monetary and fiscal measures will contribute to financial stability and post-pandemic recovery by supporting the potential output of the economy.
- Despite the deceleration in exports of goods and services, current account balance is expected to follow a moderate course throughout the year due to the restraining effects of commodity prices and imports.

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