# Summary of the Monetary Policy Committee Meeting

**23 December 2021, No: 2021-63**

Meeting date: 16 December 2021

## Inflation Developments

1. In November, consumer prices surged by 3.51%, and annual inflation rose by 1.42 points to 21.31%, with prices of energy and services in the lead. Despite the price hikes in food and core goods, annual inflation edged down due to the base effect. Exchange rate developments, the upsurge in domestic energy prices, the ongoing adverse course of international commodity prices and resurging supply constraints drove producer prices considerably upwards. Against this background, annual inflation in B and C indices as well as their recent trends increased.
2. In November, prices of food and non-alcoholic beverages increased by 3.92%, and the group's annual inflation fell by 0.30 points to 27.11% due to the high base effect. Annual inflation rose to 28.86% in the processed food group, but dropped to 25.22% in the unprocessed food group. The decline in the unprocessed food inflation was mainly driven by the prices in the fresh fruits-vegetables subcategory. In this period, prices of vegetables declined amid favorable weather conditions, and annual inflation fell considerably in the fresh fruit-vegetables group due also to the high base effect. In other unprocessed food group, price hikes were more notable for meat, eggs, potatoes, nuts and pulses due to exchange rate developments and input costs. In the processed food group, monthly price increases accelerated. The hike in bread and cereal prices of 7.20% was notable, which was led by the agricultural drought, the adverse course of international wheat prices and exchange rate developments. Among other processed food items, negative divergences were seen in the processed meat products due to meat prices, and fats-oils as well as sugar and sugar-related product groups due to international oil prices. Consequently, annual inflation in the food group excluding fresh fruits and vegetables increased by 2.23 points to 29.76%.
3. In November, energy prices increased by 5.95%, while annual energy inflation surged by 6.38 points to 32.14%. In this period, international energy prices eased somewhat, domestic energy prices moved higher amid the developments in the Turkish lira. Items that stood out with large price increases were solid fuels, bottled gas and fuel.
4. Core goods prices increased by 3.67% in November, and annual core goods inflation fell by 0.10 points to 18.36% due to the base effect. While annual inflation decreased in durable goods, it remained almost flat in the clothing and footwear group and increased in other core goods. Prices of durable consumption goods rose by 4.06% month-on-month, led by automobiles, furniture and white goods, but annual inflation in this group declined thanks to the base effect. While prices in the clothing and footwear group posted an increase below seasonal averages in November, annual inflation in this group remained flat on account of the base effect driven by the pandemic in the same period last year. Prices of other core goods posted broad-based increases in line with exchange rate developments.

5. Services prices increased by 1.88% in November, and annual services inflation rose by 1.45 points to 16.88%. Annual inflation increased across all subcategories led by restaurants-hotels. The restaurants-hotels subcategory posted price increases due to both catering and accommodation services, and diverged significantly from the other services groups on account of high inflation. In this period, catering services prices increased by 4.24% month-on-month due to the adverse course of food prices. It is considered that catering services were adversely affected by the prices of bread-cereal products, and meat and meat products in particular. The other services subcategories that stood out in this period were rents and repair services. In addition to insurance services, the maintenance and repair services with high exchange rate sensitivity diverged negatively in the other services group. According to seasonally adjusted data, the upward trend in rent inflation continued in November.
6. According to the Survey of Market Participants, inflation expectations continued to be revised upward. The current year-end inflation expectation rose by 4.54 points to 23.85%, while the 12-month ahead inflation expectation increased by 5.78 points to 21.39%. The long-term data indicate that the five-year ahead inflation expectation increased by 0.76 points to 8.72%.

## Factors Affecting Inflation and Risks

7. Leading indicators show that the robust recovery in the global economy is sustained, albeit to varying degrees across regions. Confidence indices in the US have recently declined due to the pandemic, while they have recorded a partial improvement in some European countries. Despite the recovery in global economic activity and the increase in the vaccination rate, the reintroduction of travel restrictions and lockdowns due to new variants keeps the downside risks to global economic activity alive and raises the uncertainty.
8. Recovery in global demand, high course of commodity prices, supply constraints in some sectors and rise in transportation costs have led to producer and consumer price increases internationally. While the effects of high global inflation on inflation expectations and international financial markets are closely monitored, central banks in advanced economies assess that the rise in inflation on the back of rising energy prices and imbalances between supply and demand may last longer than previously anticipated. Accordingly, while monetary policy communication of central banks in advanced economies varies with their diverse outlook for economic activity, labor market and inflation expectations, they continue their supportive monetary stances and asset purchase programs.
9. Emerging market debt securities markets continue to experience outflows, while there have been inflows to equity markets. The volatility in long-term bond rates in advanced economies and the course of global financial conditions keep the risks to portfolio flows to emerging economies alive. The impact of such risks through portfolio flows channel towards Turkey are judged to prove to be relatively limited, considering the current levels of non-residents' portfolio positions.
10. In November, producer prices increased by 9.99% and annual producer inflation reached 54.62%. Price increases were widespread, and the trend of manufacturing industry prices excluding oil and base metals increased significantly. Exchange rate developments, unfavorable price movements in international agricultural commodity products, rising domestic energy costs and renewed supply issues were the main factors driving producer prices up in November.
11. In the third quarter, Gross Domestic Product increased by 7.4% year-on-year and 2.7% quarter-on-quarter on the back of the easing of restrictions and the significant recovery trend in tourism following the strong vaccination momentum. On the production side, industrial and services sectors were the main drivers of annual and quarterly growth, while

construction and agricultural sectors imposed a drag on quarterly growth. On the expenditure side, the main driver of quarterly growth was domestic demand. The increasing contribution of domestic demand stemmed from private consumption expenditures due to the recovery in the pandemic-stricken sectors following the reopening. The annual growth in machinery-equipment investments remained high at 17.5%. There was an increase in both exports and imports on a quarterly basis, while the contribution of net exports to quarterly growth was limited to 0.1 percentage points, contribution to annual growth was 6.8 percentage points.

12. Leading indicators show that domestic economic activity remains strong, with the help of robust external demand. In October, the Industrial Production Index (IPI) increased by 0.6% month-on-month and by 5.4% year-on-year in seasonally and calendar-adjusted terms. Thus, the IPI rose by 1.5% relative to the third quarter, maintaining its upward trend also in the final quarter. Excluding the sectors that experience historically high fluctuations, other transport vehicles in particular, the monthly increase in industrial production, led by non-durable goods, is stronger than the headline value. As of November, investment tendencies of manufacturing industry firms for the next twelve months remain high.
13. The spread of domestic vaccination throughout the society facilitates the recovery in services, tourism and related sectors, which have been adversely affected by the pandemic, and leads to a more balanced composition in economic activity. The retail sales volume and services turnover indices continue to increase thanks particularly to tourism-related sectors. On the other hand, the recovery trend in non-durable consumer goods is maintained.
14. The improvement in the labor market continues in line with the economic activity outlook. In October, employment remained on an upward trend led by the services sector on the back of the reopening and the favorable course in tourism, while the labor force participation rate posted a limited increase. Accordingly, the seasonally-adjusted unemployment rate further declined to 11.2%. Survey indicators and high-frequency data suggest that the improvement in the employment outlook and the positive course in the labor market continue.
15. Favorable external demand conditions impact the current account balance positively. The current account balance posted a surplus of USD 3.2 billion in October while it decreased by USD 3.2 billion to USD 15.4 billion in 12-month cumulative terms. Provisional foreign trade data suggest that exports remained strong in November, and imports rose due also to the large increase in energy imports. Despite this outlook in the foreign trade balance, the favorable course in services revenues continues to support the current account balance. The current account balance is expected to post a surplus in 2022 due to the strengthening of the upward trend in exports. Strengthening of the improvement trend in the current account balance is important for the price stability objective, and in this respect, developments in commercial and consumer loans are closely monitored.

## Monetary Policy

16. The monetary policy stance will be set by taking into account the evaluations on the source and permanence of risks, along with the extent to which they can be contained by monetary policy, and with a focus on bringing inflation down permanently in a cautious manner and achieving the price stability target. Accordingly, the policy stance will continue to be determined by taking into account inflation developments, inflation expectations, as well as the temporary factors projected to bear effect on these in the short term, and at a degree of tightness that will restore the disinflation process as soon as possible and ensure its sustainability until the medium-term targets are achieved.

17. Increase in inflation in November has been driven by developments in exchange rates and supply side factors such as the rise in global food and agricultural commodity prices, supply constraints, and demand developments. The Committee decided to complete the use of the limited room implied by transitory effects of supply-side factors and other factors beyond monetary policy's control on price increases and reduced the policy rate by 100 basis points. Cumulative impact of the recent policy decisions will be monitored in the first quarter of 2022 and during this period, all aspects of the policy framework will be reassessed in order to create a foundation for a sustainable price stability.
18. Inflation is expected to follow a volatile course in the short term due to various supply and demand-side factors, with exchange rates, commodity prices and administered prices in the lead. However, a monetary stance to ensure the return of inflation to its downward trend once temporary effects disappear, will serve as a significant buffer against external and temporary volatilities in the context of inflation expectations, the pricing behavior and financial market developments.
19. The CBRT will continue to use all available instruments decisively until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is achieved in pursuit of the primary objective of price stability.
20. Stability in the general price level will foster macroeconomic stability and financial stability through the fall in country risk premium continuation of the reversal in currency substitution and the upward trend in foreign exchange reserves, and durable decline in financing costs. This would create a viable foundation for investment, production and employment to continue growing in a healthy and sustainable way.
21. Demand and cost-side effects are closely monitored for inflation given the developments in the credit market, economic activity, supply-side factors, and import prices. The outlook for monetary policies in advanced economies and the global risk appetite heighten the risks to portfolio flows towards emerging economies. In formulating the monetary policy towards achieving the price stability objective, the Committee will continue to follow an approach that also addresses risks to financial stability. In this context, the effect of macroprudential policies on credit and the CBRT funding's composition between OMO and swap transactions are closely monitored.
22. The Committee reiterated that in order to achieve price stability, strong policy coordination and a holistic macro policy mix involving all stakeholders are required.
23. The Committee will continue to take its decisions in a transparent, predictable and data-driven framework.