

MONETARY POLICY TRANSMISSION MECHANISM

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Outline

Transmission Mechanism

- Demand Channel
- Exchange Rate Channel
- Expectations Channel

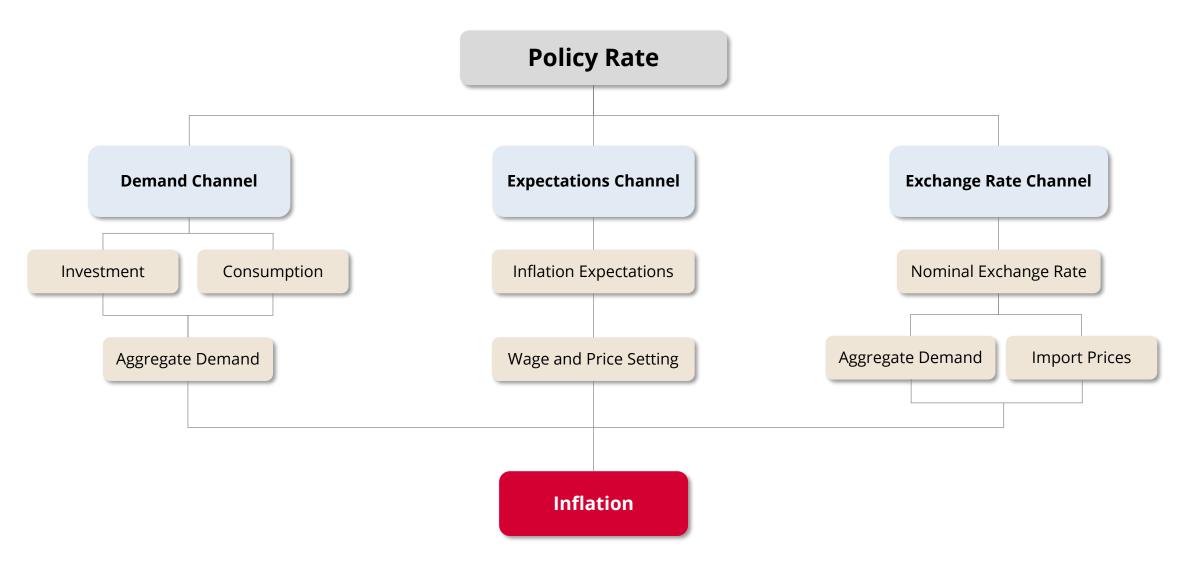
Inflation Outlook



TRANSMISSION MECHANISM



Monetary Policy Transmission Mechanism



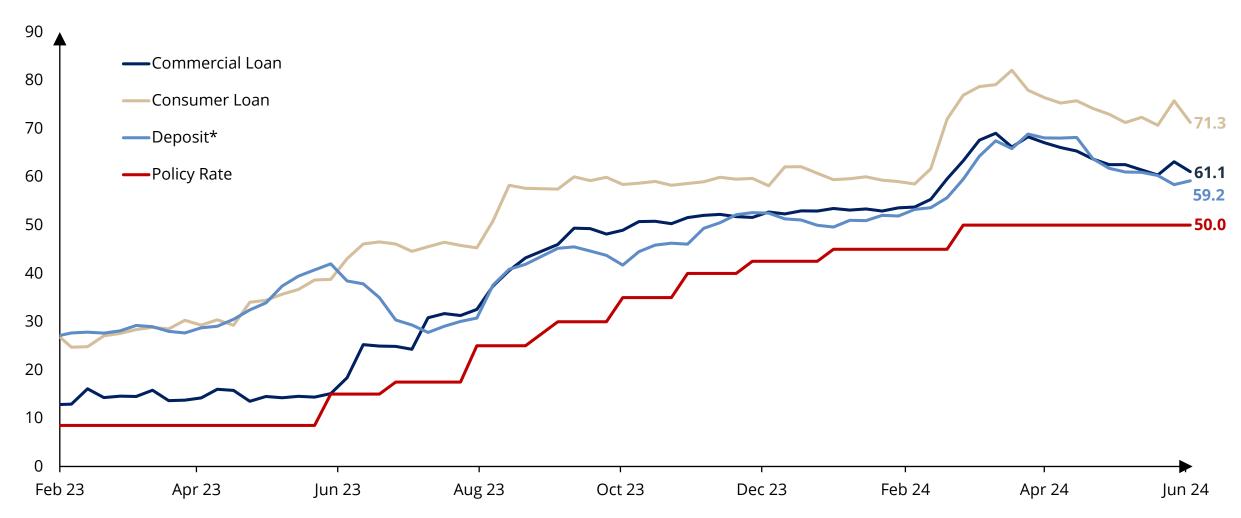


DEMAND CHANNEL



Financial conditions have tightened following the policy rate hikes.

Interest Rates (%)

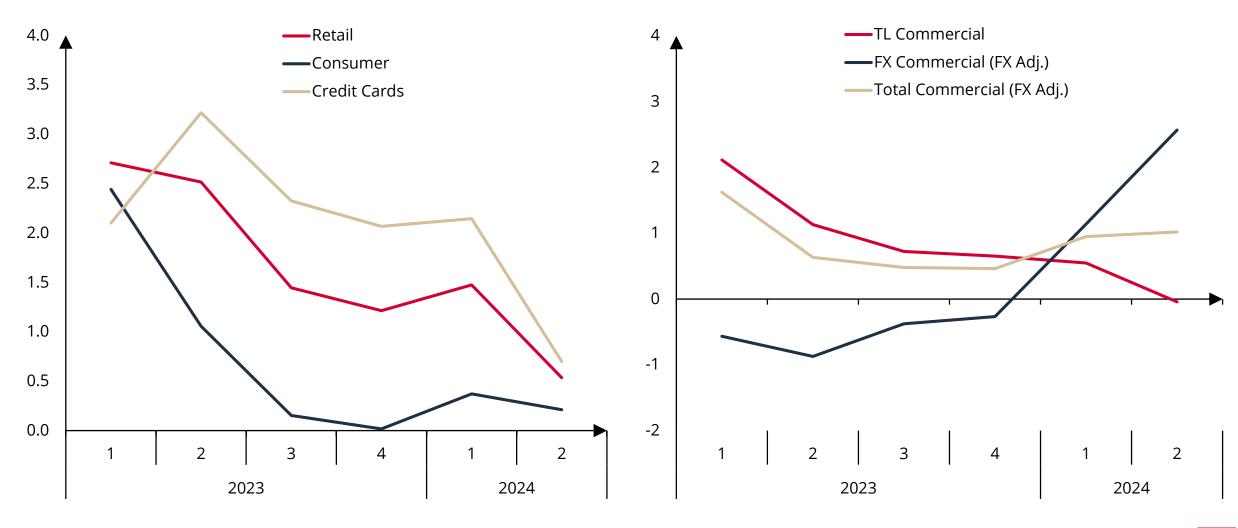




TL loan growth has moderated as a result.

Real Retail Loan Growth* (Quarterly, Standardized Value)

Real Commercial Loan Growth* (Quarterly, Standardized Value)

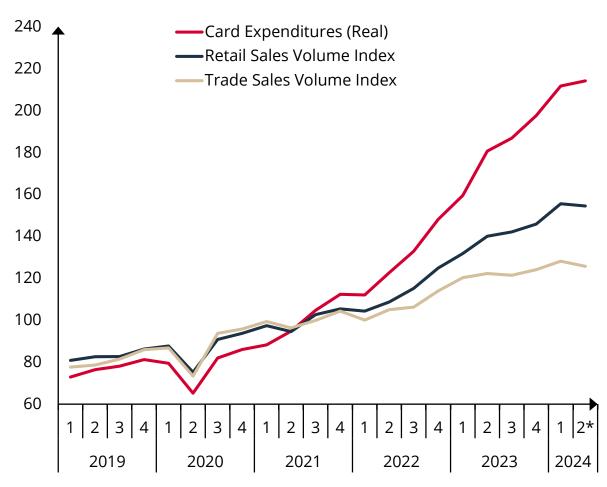




^{*}As of 28 June 2024. Series are deflated by CPI. The mean and standard deviations of the series are calculated based on the 2006-2019 period. The quarterly average is taken after weekly real changes are standardized. Source: CBRT.

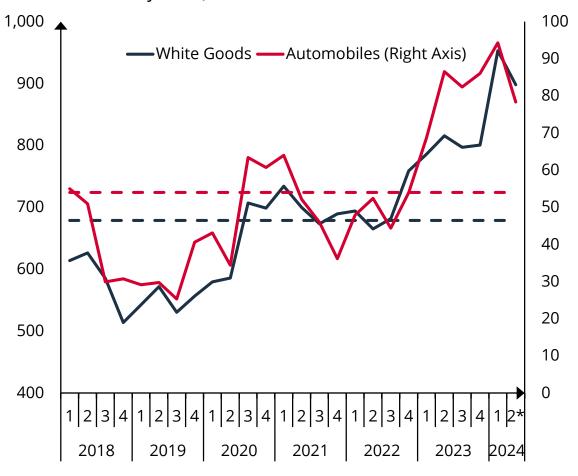
Real indicators point to a slowdown in domestic demand compared to 2024Q1.

Consumption Indicators (Seasonally Adjusted, 2021=100)



Source: CBRT, TURKSTAT.

TÜRKİYE CUMHURİYET MERKEZ BANKASI **Sales of White Goods and Automobiles** (Thousand, Seasonally and Calendar Adjusted)



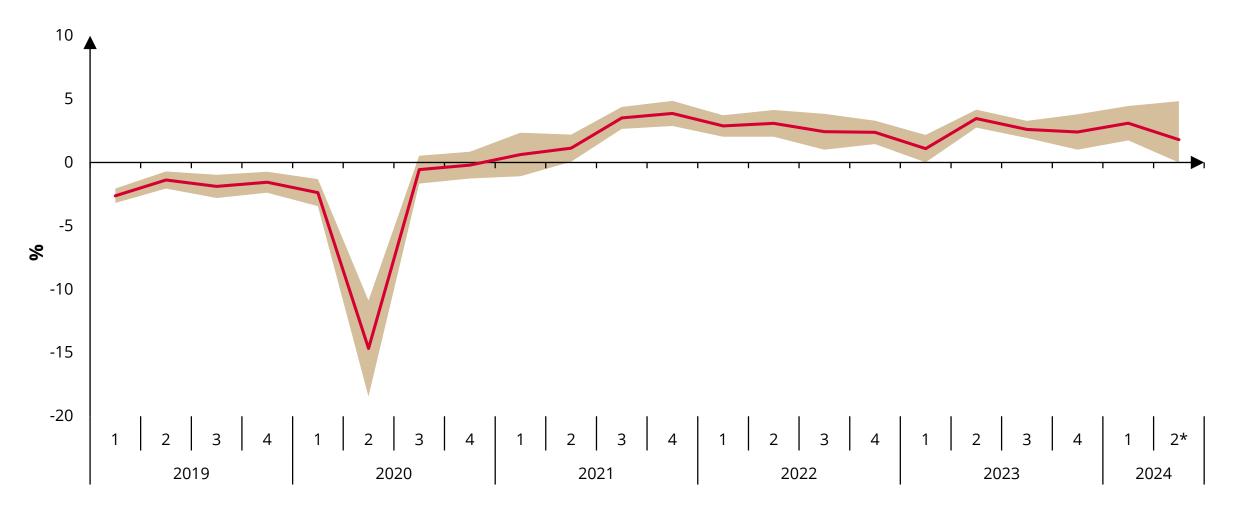
Source: ODMD, TURKBESD.

^{*} Trade sales and retail sales indices data are as of April.

^{*} April-May average for white goods sales

The output gap, albeit still at inflationary levels, is expected to narrow in 2024Q2.

Output Gap (%)





Source: CBRT.

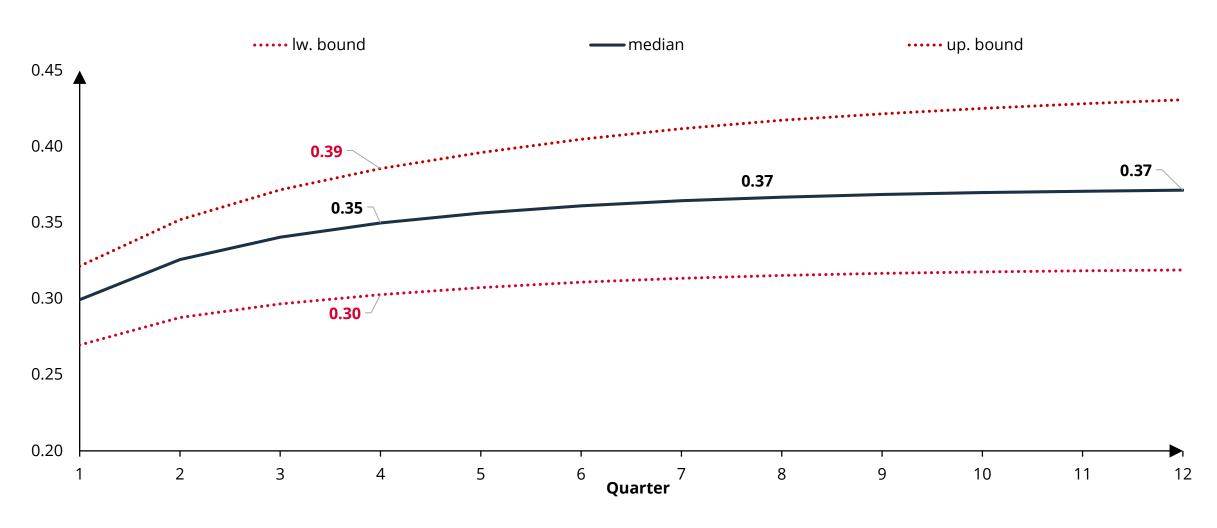
^{*} Shown with a 95 percent confidence interval based on eight output gap indicators calculated by different methods.

EXCHANGE RATE CHANNEL



Exchange rate is one of the leading driving forces of inflation in Türkiye.

BVAR Model Cumulative Exchange Rate Effect on D Inflation (2011Q1-2023Q2)*



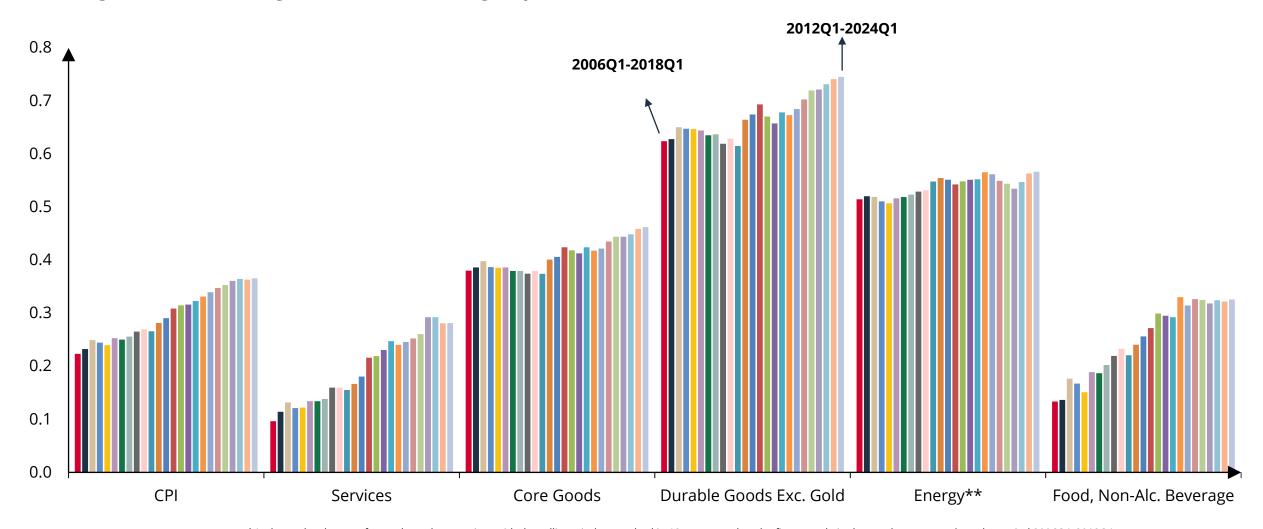


^{*} Normal Wishart, 4 Lags, Brent oil, import prices (\$), exchange rate basket, output gap, inflation expectations, D inflation (SA) Exogenous Variables: Minimum Wage, tax etc.

Source: CBRT.

Exchange rate pass-through is relatively high for tradable goods.

Exchange Rate Pass-Through Into Consumer Subgroups (2006Q1-2024Q1)*





^{*} It shows the change of pass-throughs over time with the rolling window method in 12-year samples, the first sample in the graph corresponds to the period 2006Q1-2018Q1, and the last sample corresponds to the period of 2012Q1-2024Q1.

^{**} Excluding electricity and natural gas. In order to better capture the internal dynamics of sub-groups, exchange rate pass-through of LPG, fuel oil and diesel oil items are calculated separately.

Exchange rate has significant impacts on inflation in EMEs like Türkiye.

- Imports of final goods
- Imports of intermediate goods
- Intertemporal substitution of import demand
- Inflation expectations and price-setting behavior
- Demand for Turkish lira-denominated financial assets



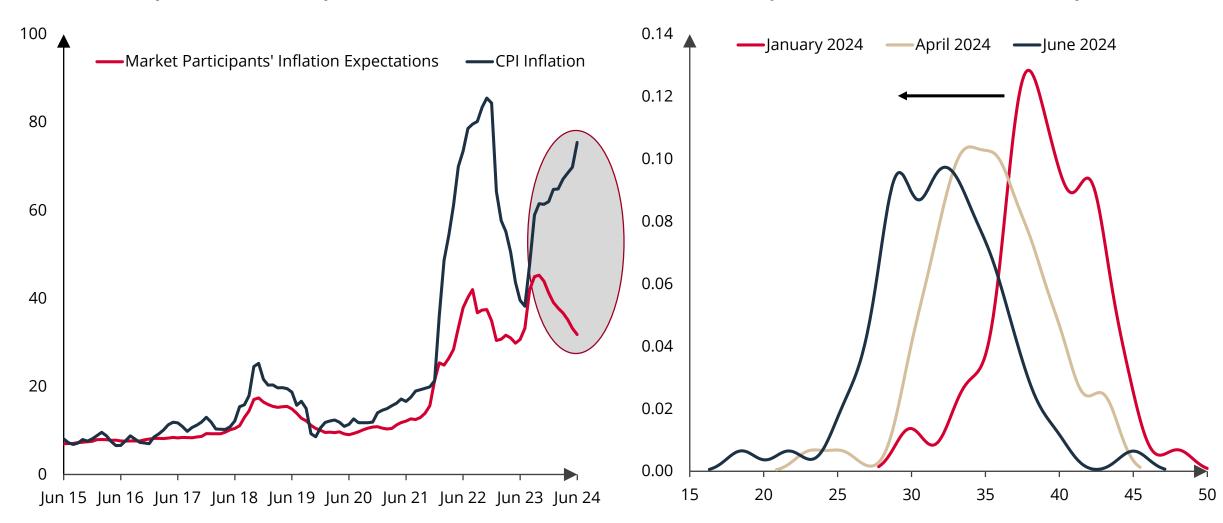
EXPECTATIONS CHANNEL



Inflation Expectations – (1) Market Participants

Market Participants' Inflation Expectations (12-month ahead, %)

Kernel Density of 12-month-ahead Inflation Expectations

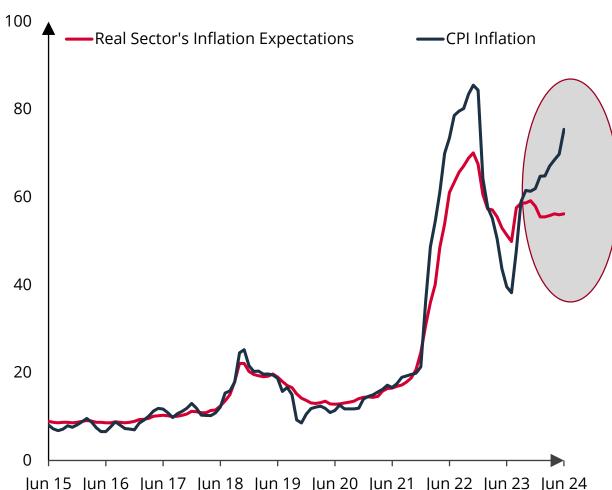




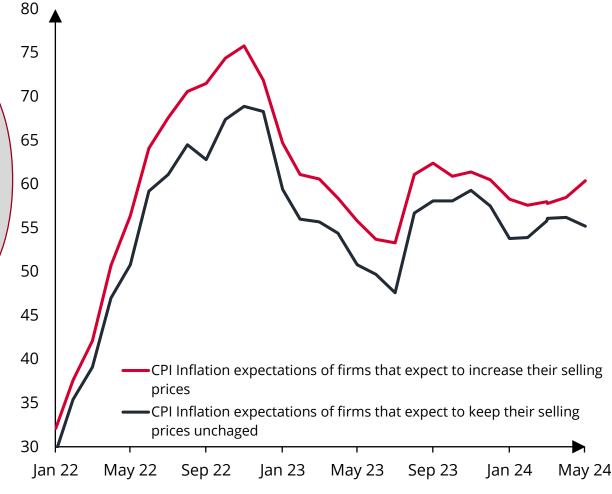
Source: CBRT, TURKSTAT

Inflation Expectations – (2) Real Sector

Real Sector's Inflation Expectations (12-month-ahead, %)



Individual Firms' Price Setting Behavior vs Their Expectations

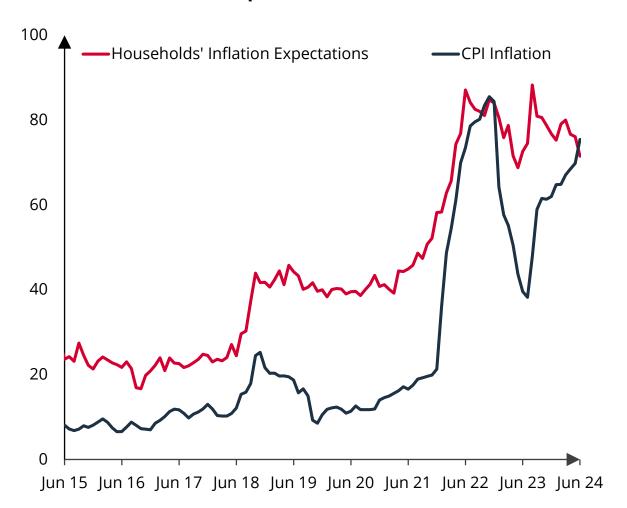




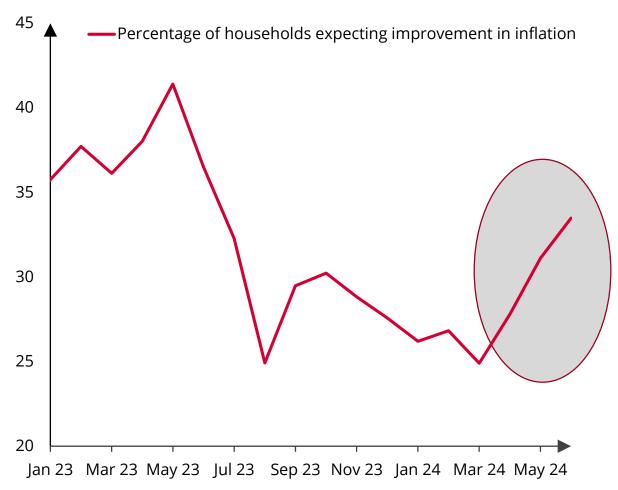
Source: CBRT, TURKSTAT

Inflation Expectations – (3) Households

Households' Inflation Expectations (12-month ahead, %)



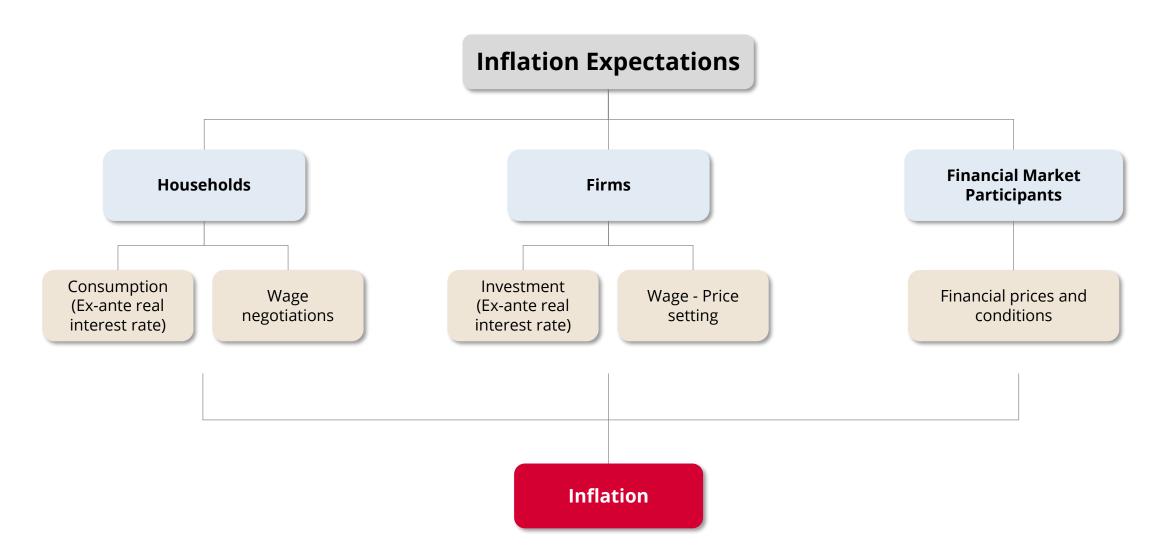
Households' Expectations for Consumer Price Changes (%)





Source: CBRT, TURKSTAT

Why Inflation Expectations Matter?

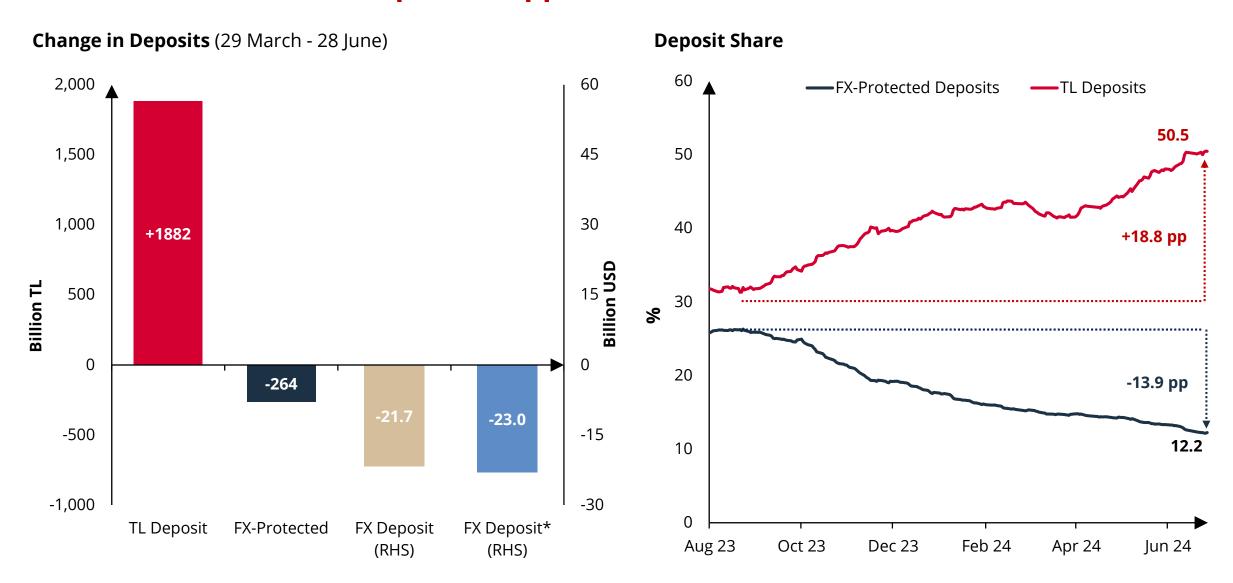




FACTORS SUPPORTING THE TRANSMISSION MECHANISM



Rise in the share of TL deposits supports transmission mechanism.



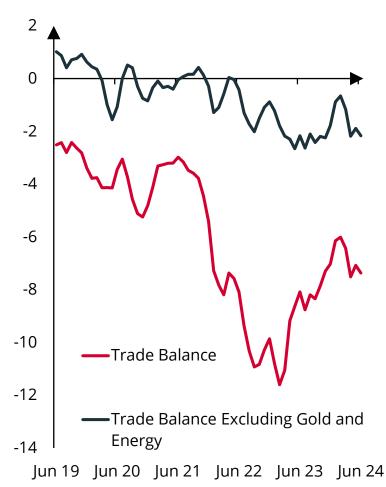


Source: CBRT

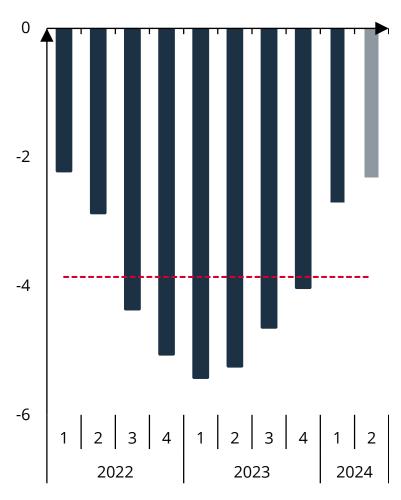
^{*} Parity and price effects adjusted.

Improvement in the current account balance and reserves support transmission mechanism.

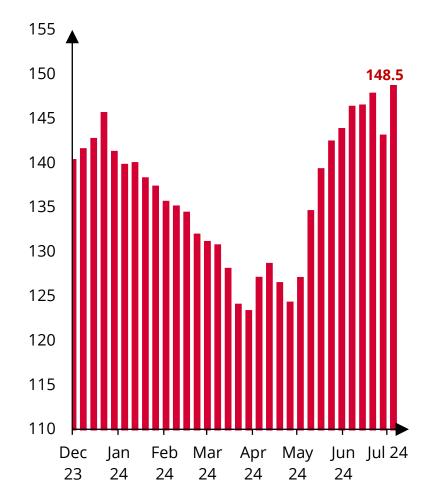
Monthly Trade Balance* (SA, 3-month MA, Billion USD)



Current Account Balance** (12-month-accumulated, % of GDP)



Reserves*** (Billion USD)





Macroprudential tools strengthen the functionality of the mechanism

Targets for FX Protected Deposit Accounts **Deposit Rates** Targets for TL Deposit Share Monthly Growth Limits for TL and FX Loans **Loan Growth** TL Deposit Buying Auctions TL Required Reserve Ratios **Liquidity Management** TL Required Reserve Ratios for FX Deposits Remuneration for Required Reserves **Financial Sector Resilience** Abolishment of Securities Maintenance Requirements

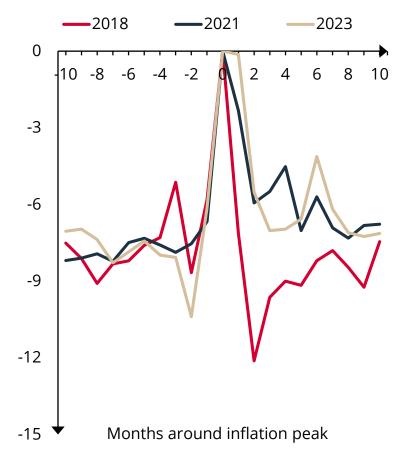


INFLATION OUTLOOK

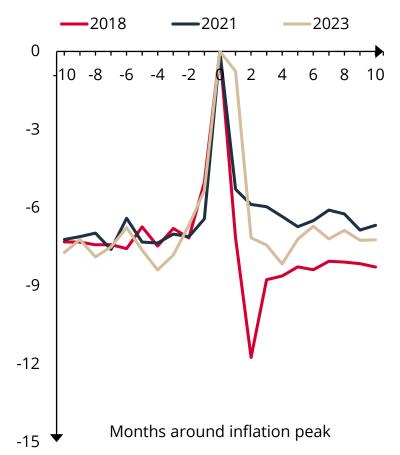


Core goods inflation weakens relatively rapidly in disinflation periods.

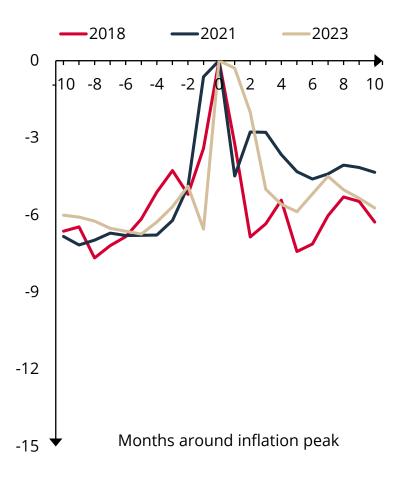
CPI Inflation Historical Disinflations: Relative to Inflation Peaks (Seasonally Adjusted, Monthly % Change)



Core Goods Price Historical Disinflations: Relative to Inflation Peaks (Seasonally Adjusted, Monthly % Change)



Services Price Historical Disinflations: Relative to Inflation Peaks (Seasonally Adjusted, Monthly % Change)

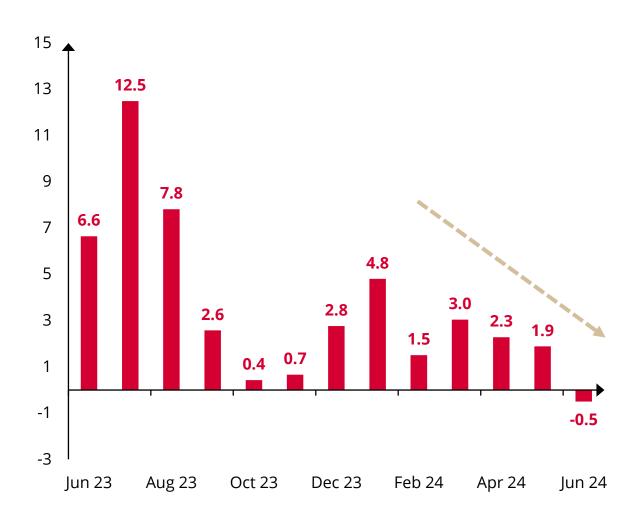


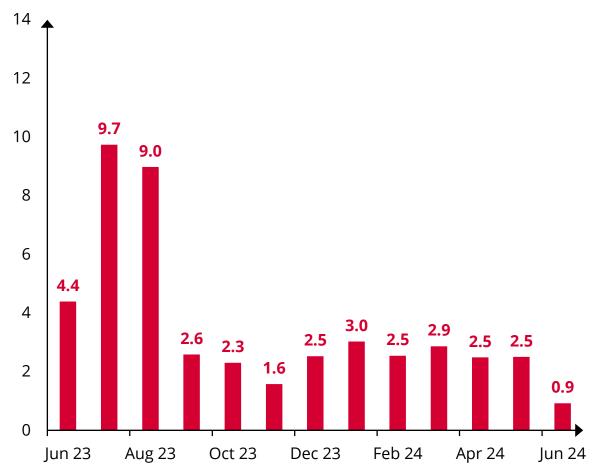


Inflation in core goods, particularly durables, has declined.

Prices of Durable Goods (Monthly % Change, Exc. Gold)

Prices of Core Goods (Monthly % Change, Seasonally Adjusted)



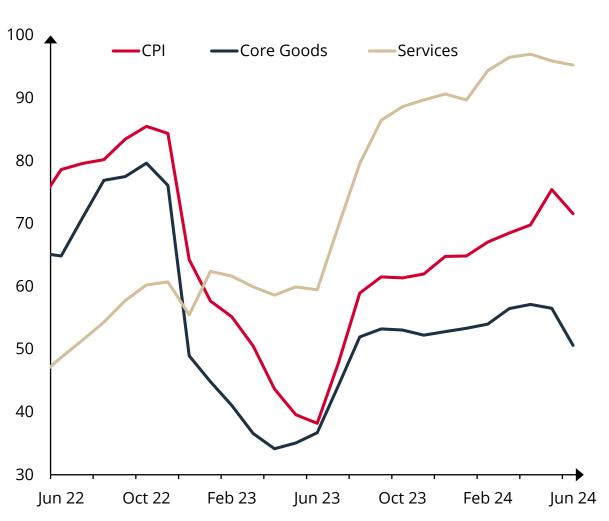




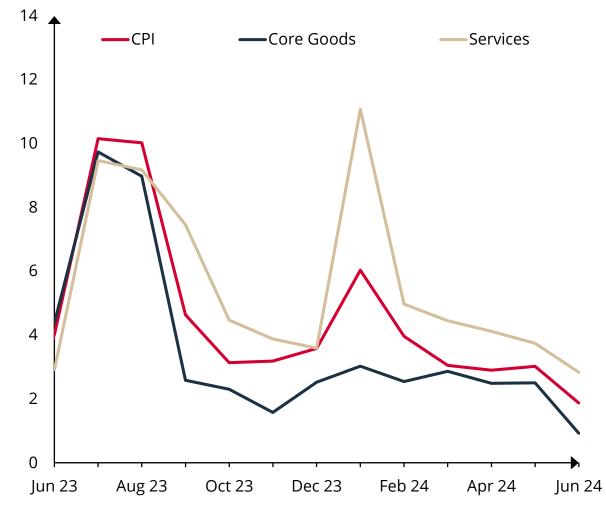
Source: TURKSTAT, CBRT

Stickiness in services inflation has been a challenge for transmission mechanism.





Price Index (Seasonally Adjusted, Monthly % Change)





Source: TURKSTAT,CBRT.

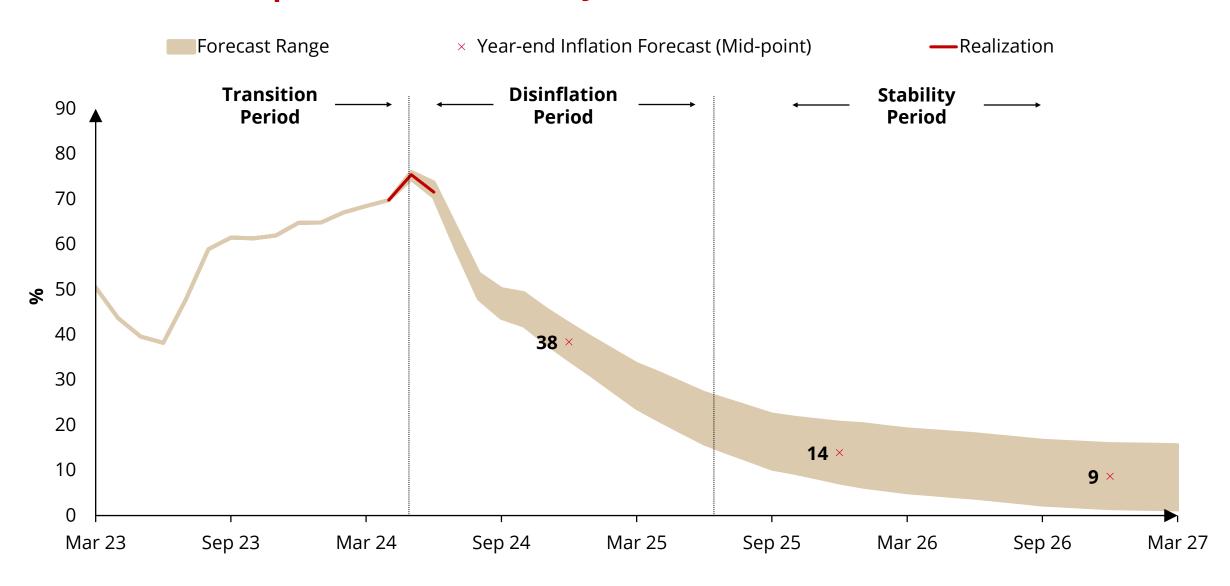
The persistence of rent inflation is rather high.

Persistency in CPI Sub-items (Sample Period: 2006Q2 2021Q3)

	Weight in CPI (%, 2024)	Persistence Coefficient
Services	27.85	0.48
Rent	5.06	0.76
Services Excluding Rent	22.78	0.42
Goods	72.15	0.21
CPI	100.00	0.28



The disinflation period has started in June.







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