

# BRIEFING ON 2022-III INFLATION REPORT

**Prof. Şahap Kavcıođlu**  
Governor

July 28, 2022

Ankara



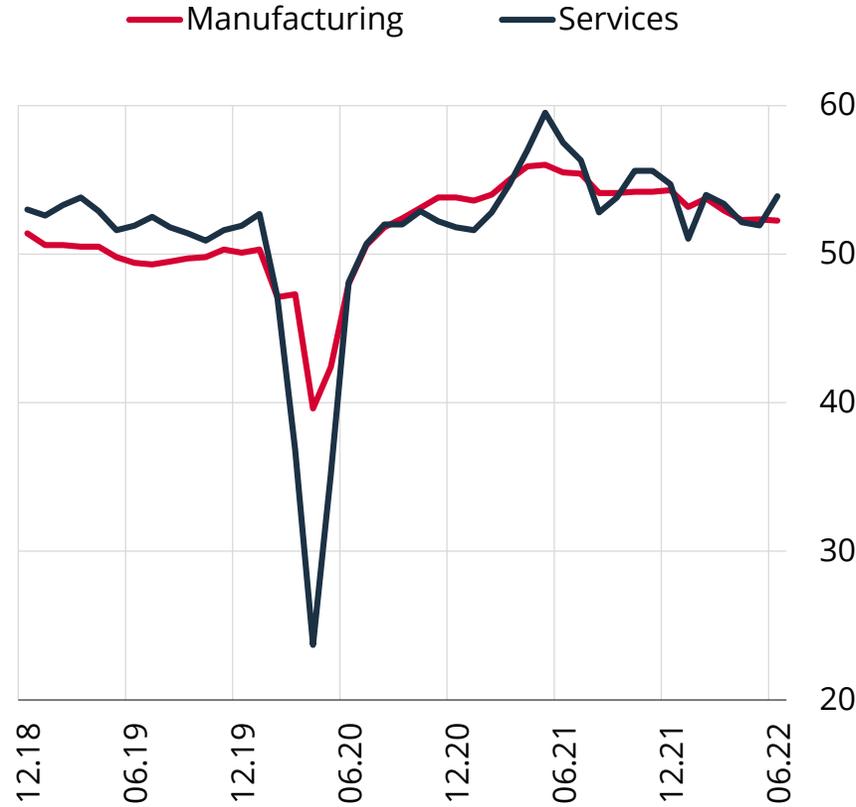
# Outline

- **Macroeconomic Outlook**
- **Determinants of Inflation**
- **Monetary Policy**
- **Medium-Term Projections**
- **Overview**

# MACROECONOMIC OUTLOOK

# Global Growth

## Global PMI Indicators



Source: IHS Markit

Last Observation: June 2022

## Growth Forecasts in Advanced and Emerging Countries\* (%)

	2021 Realizations	2022 Forecasts	
		April 2022	July 2022
<b>Euro Area</b>	5.3	2.8	<b>2.7</b>
<b>Germany</b>	2.9	2.2	<b>1.6</b>
<b>USA</b>	5.7	3.2	<b>2.1</b>
<b>UK</b>	7.4	3.9	<b>3.3</b>
<b>Italy</b>	6.6	2.7	2.7
<b>Iraq</b>	5.9	9.1	<b>9.5</b>
<b>Spain</b>	5.1	4.6	<b>4.2</b>
<b>France</b>	6.8	3.1	<b>2.3</b>
<b>Netherlands</b>	5.0	3.2	<b>2.9</b>
<b>Israel</b>	8.2	5.0	<b>4.7</b>
<b>Russia</b>	4.7	-10.0	<b>-7.7</b>
<b>UAE</b>	2.3	5.7	<b>5.6</b>
<b>Romania</b>	6.0	2.7	<b>4.5</b>
<b>Belgium</b>	7.0	2.8	<b>2.5</b>
<b>Poland</b>	5.9	3.9	<b>4.8</b>
<b>Egypt</b>	3.3	5.2	<b>5.3</b>
<b>Bulgaria</b>	4.2	2.7	<b>2.8</b>
<b>China</b>	8.1	4.9	<b>4.2</b>

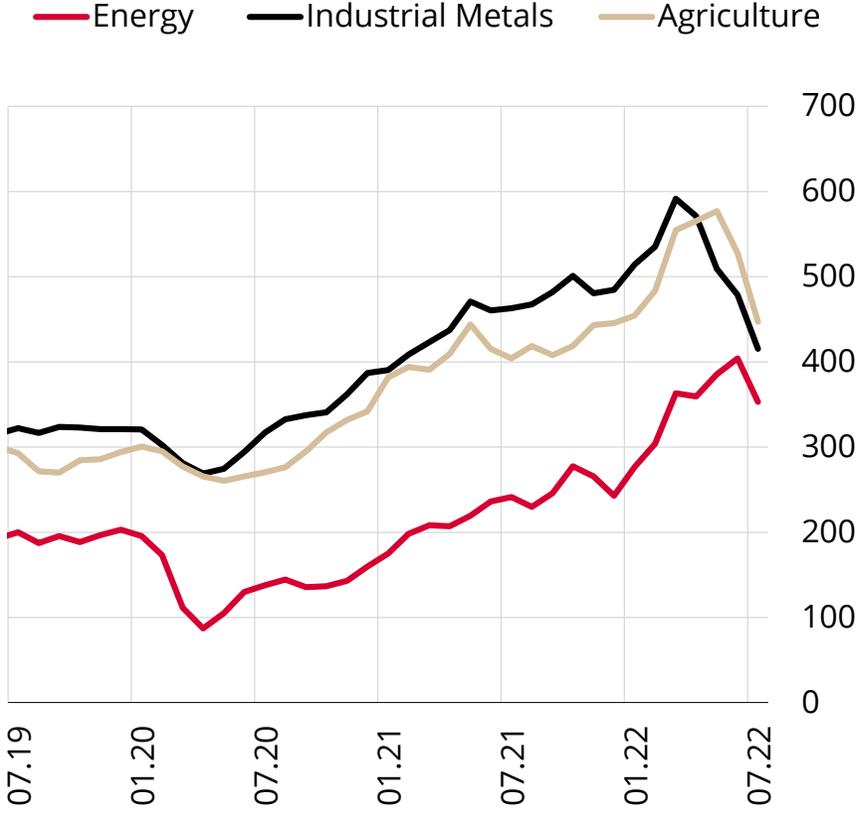
Source: Consensus Economics

Last Observation: July 2022

\* Countries are listed according to their share in Türkiye's exports in 2021.

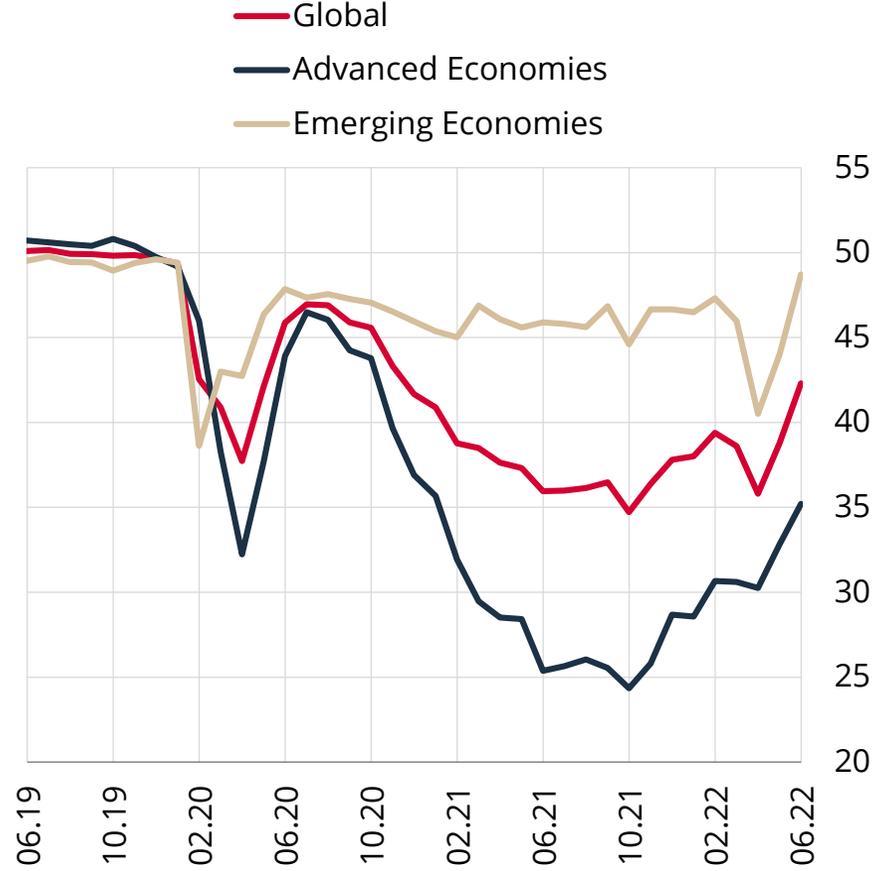
# Commodity Prices and Supply Conditions

Commodity Indices



Source: Bloomberg Last Observation: July 25, 2022

PMI Manufacturing Industry Delivery Times\*

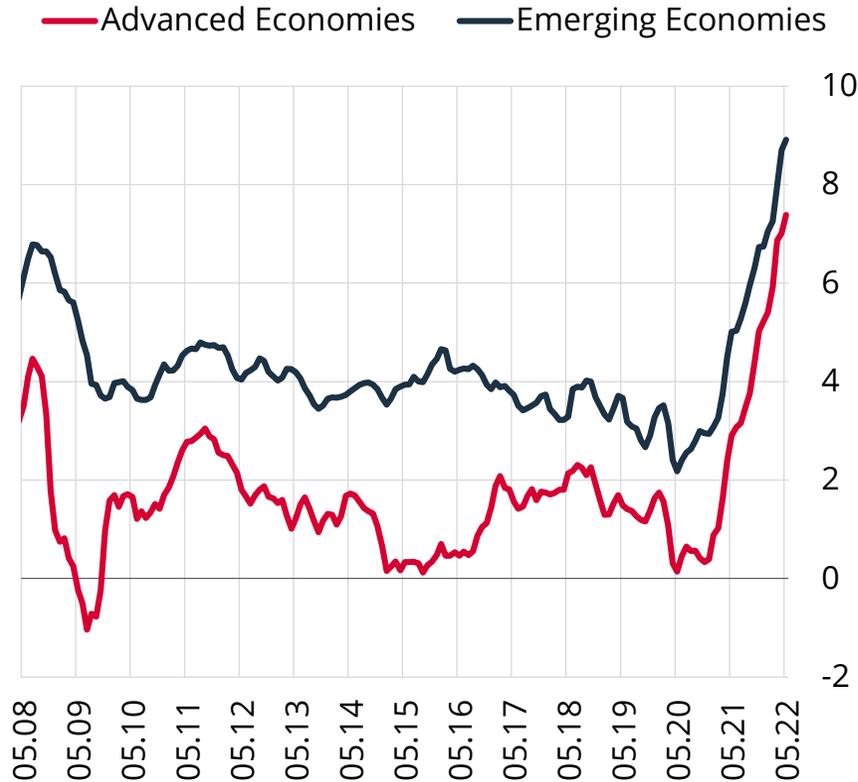


Source: IHS Markit Last Observations: June 2022

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

# Global Inflation

## Inflation Rates in Advanced and Emerging Market Economies\* (%)



Source: Bloomberg, CBRT

Last Observation: May 2022

\* Advanced Economies: USA, Euro Area, S. Korea, United Kingdom, Israel, Sweden, Switzerland, Japan, Canada, Norway. Emerging Economies: Brazil, Czechia, Indonesia, Philippines, S. Africa, Colombia, Hungary, Mexico, Poland, Romania, Thailand.

## Year-End Inflation Forecasts in Advanced and Emerging Countries (%)

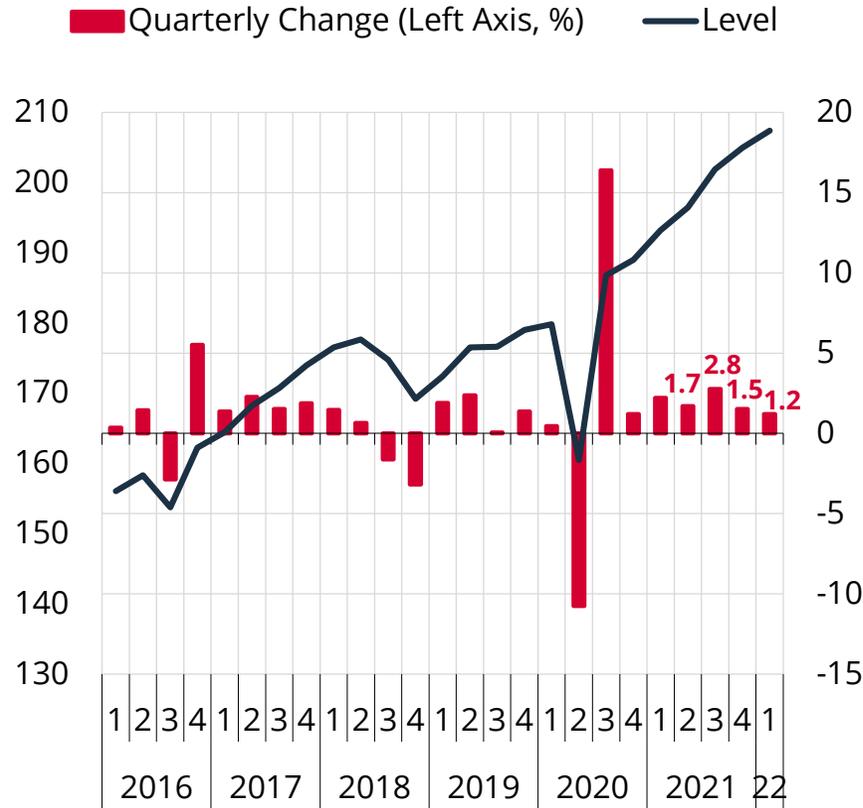
	2021 Realizations	2022 Forecasts	
		April 2022	July 2022
Euro Area	2.6	6.5	7.5
Germany	3.1	6.3	7.2
USA	4.7	7.0	7.9
UK	2.6	7.2	8.6
Italy	1.9	6.2	6.8
Canada	3.4	5.2	6.7
Spain	3.1	7.2	8.0
France	1.7	4.2	5.3
Netherlands	2.7	7.3	8.6
Japan	-0.2	1.6	2.0
Norway	3.5	3.4	4.9
Israel	1.5	3.4	4.0
Russia	8.4	21.8	16.1
South Africa	4.5	5.4	6.2
Romania	5.1	9.3	12.3
Belgium	2.4	7.5	8.5
Poland	5.1	10.4	13.0
Egypt	5.2	10.3	13.2
China	0.9	2.1	2.2
India	5.5	5.8	6.9
Malaysia	2.5	2.7	3.0
Indonesia	1.6	3.3	3.9
Philippines	3.9	4.2	4.9
Brazil	10.1	7.8	8.0
Chile	7.2	7.3	11.3
Colombia	5.6	7.2	9.1
Hungary	5.1	8.8	11.4
South Korea	2.5	3.6	4.9
Switzerland	0.6	2.0	2.6
Mexico	7.4	6.4	7.4
Thailand	1.2	4.3	6.2
Czechia	3.8	11.5	14.4

Source: Consensus Economics

Last Observation: July 2022

# Domestic Economic Activity

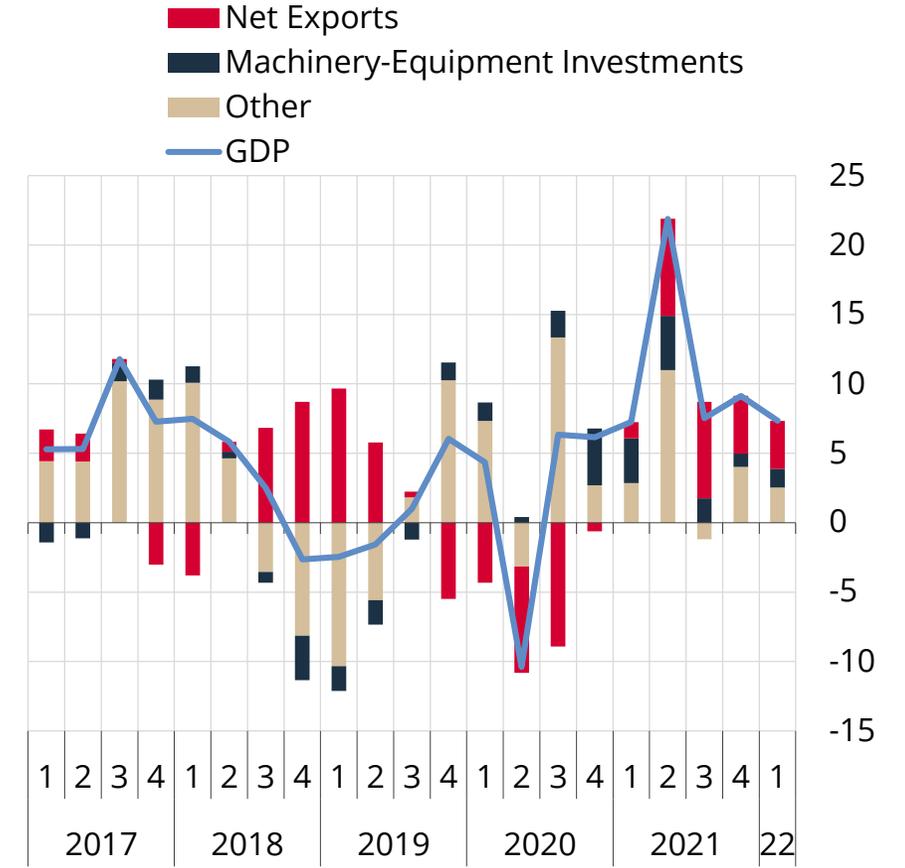
## GDP (Seasonally Adjusted, Chain Linked Volume Index, 2009=100)



Source: TURKSTAT

Last Observation: 2022Q1

## Contributions to GDP Growth from the Expenditures Side\* (% Point)



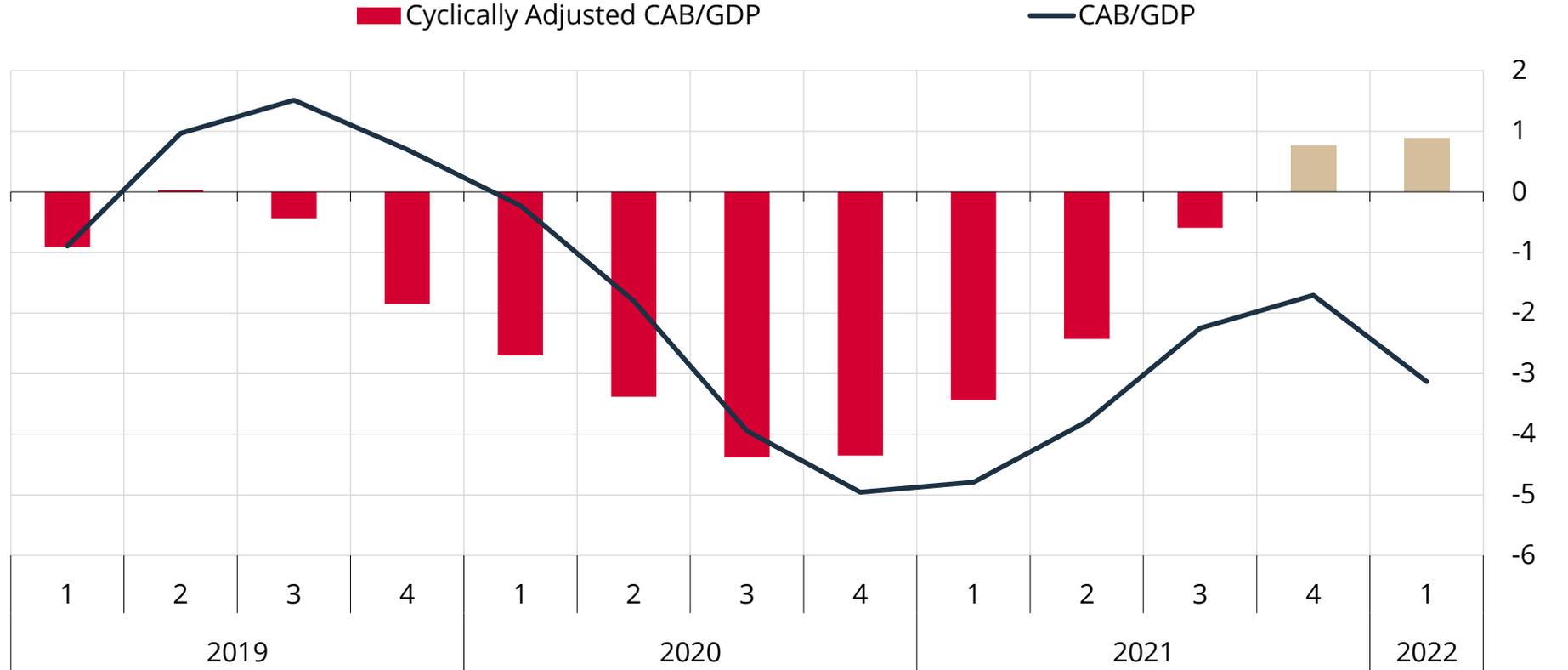
Source: CBRT, TURKSTAT

Last Observation: 2022Q1

\* Other item includes the sum of the contributions of items excluding net exports and machinery and equipment investments to annual GDP growth.

# Structural Change

Cyclically Adjusted Current Account Balance\* (12-Months Cumulative, %)



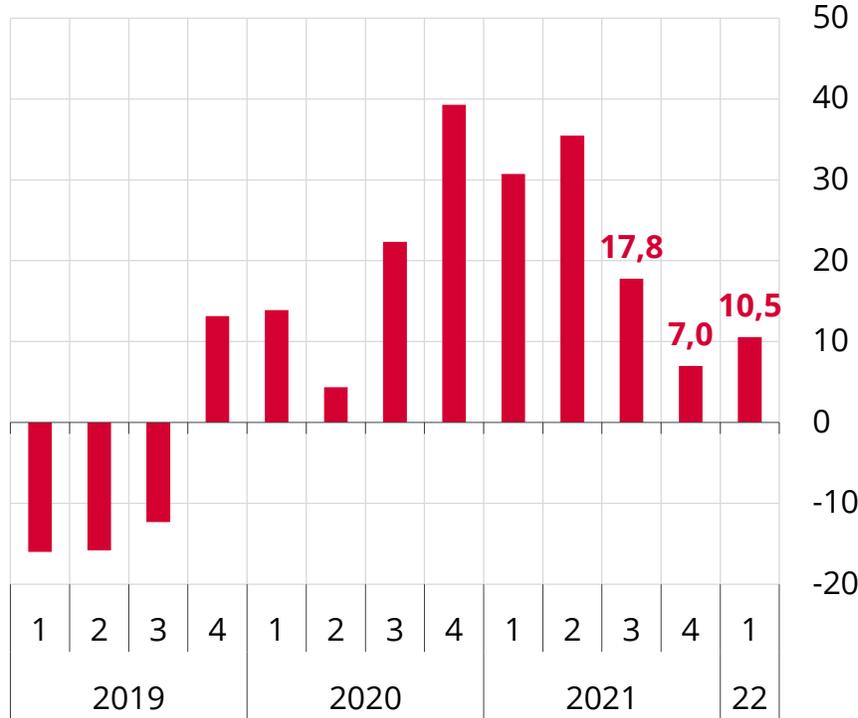
Source: CBRT, TURKSTAT

Last Observation: 2022Q1

\* CAB: Current Account Balance. Adjusted for cyclical and price effects.

# Machinery-Equipment Investments and Net Exports

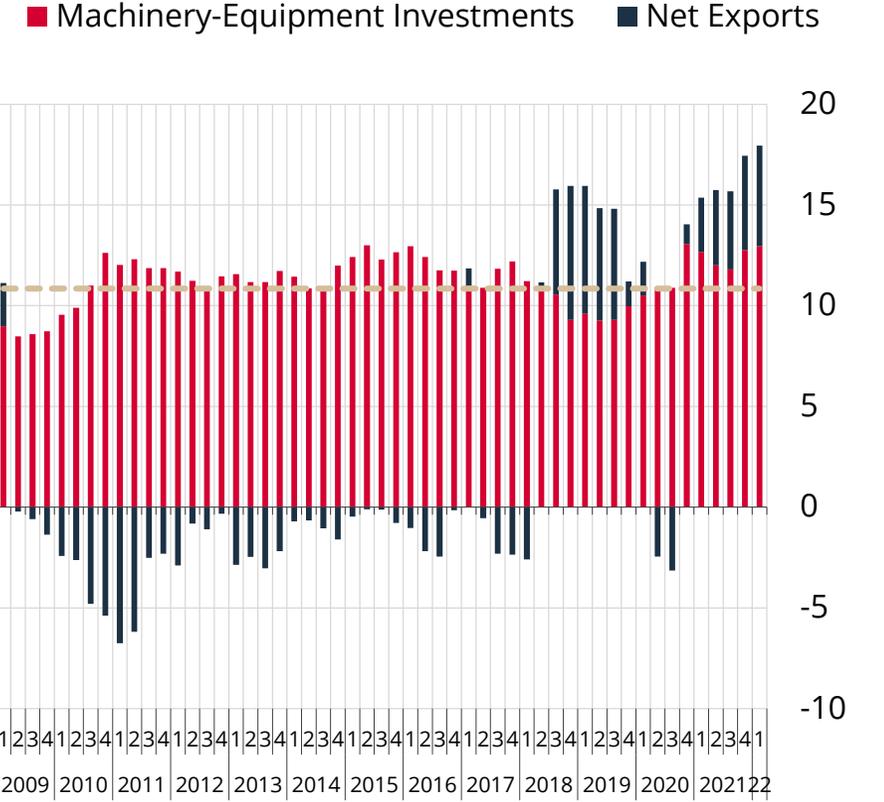
## Machinery-Equipment Investments (Annual Change, %)



Source: TURKSTAT

Last Observation: 2022Q1

## Share of Machinery-Equipment Investments and Net Exports in GDP\* (%)



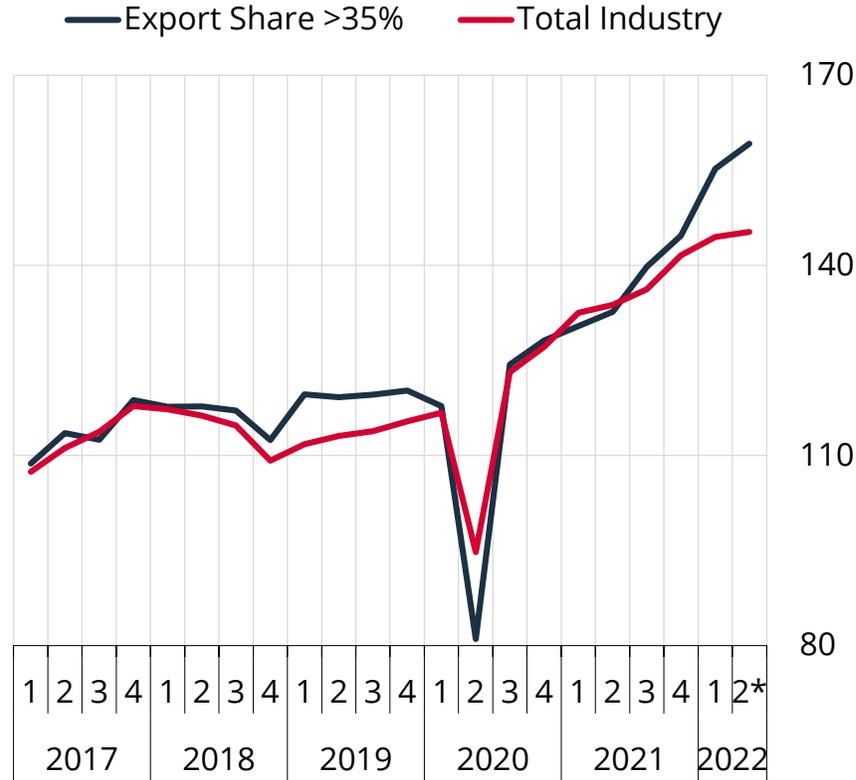
Source: CBRT, TURKSTAT

Last Observation: 2022Q1

\* Dashed line represents the average of the share of machinery-equipment investments and net export in GDP during the period of 2009Q1-2022Q2.

# Industrial Production Index and Capacity Utilization Rate

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

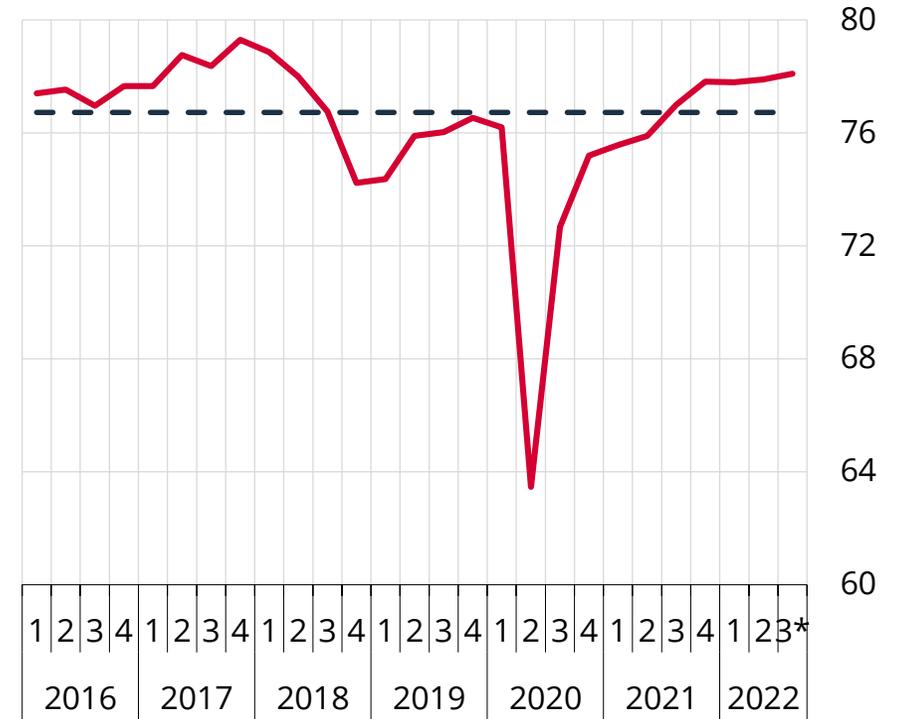


Source: CBRT, TURKSTAT

Last Observation: May 2022

\* Sectors are classified according to the percentage share of export turnover in total turnover according to the 2009-2020 average. The second quarter data is the average of April and May.

## Manufacturing Industry Capacity Utilization Rate (Seasonally Adjusted, %)



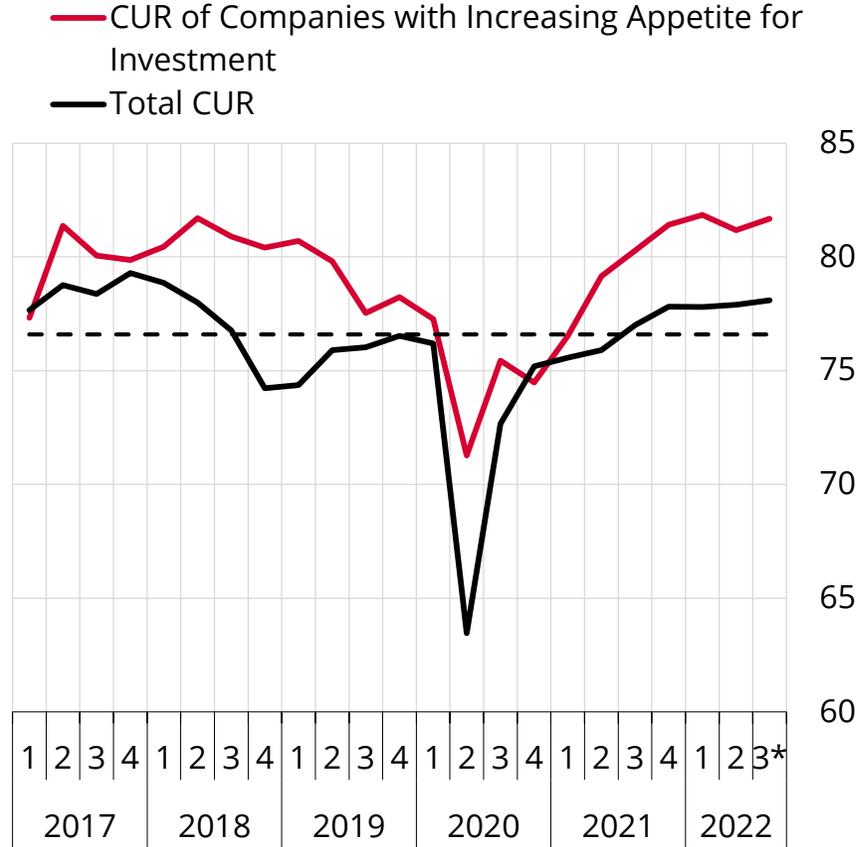
Source: CBRT

Last Observation: July 2022

\* The third quarter data is as of July. The dashed line represents 2011-2019 average.

# Capacity Utilization Rate and Investment Tendency

## Manufacturing Industry Capacity Utilization Rate (Seasonally Adjusted, %)

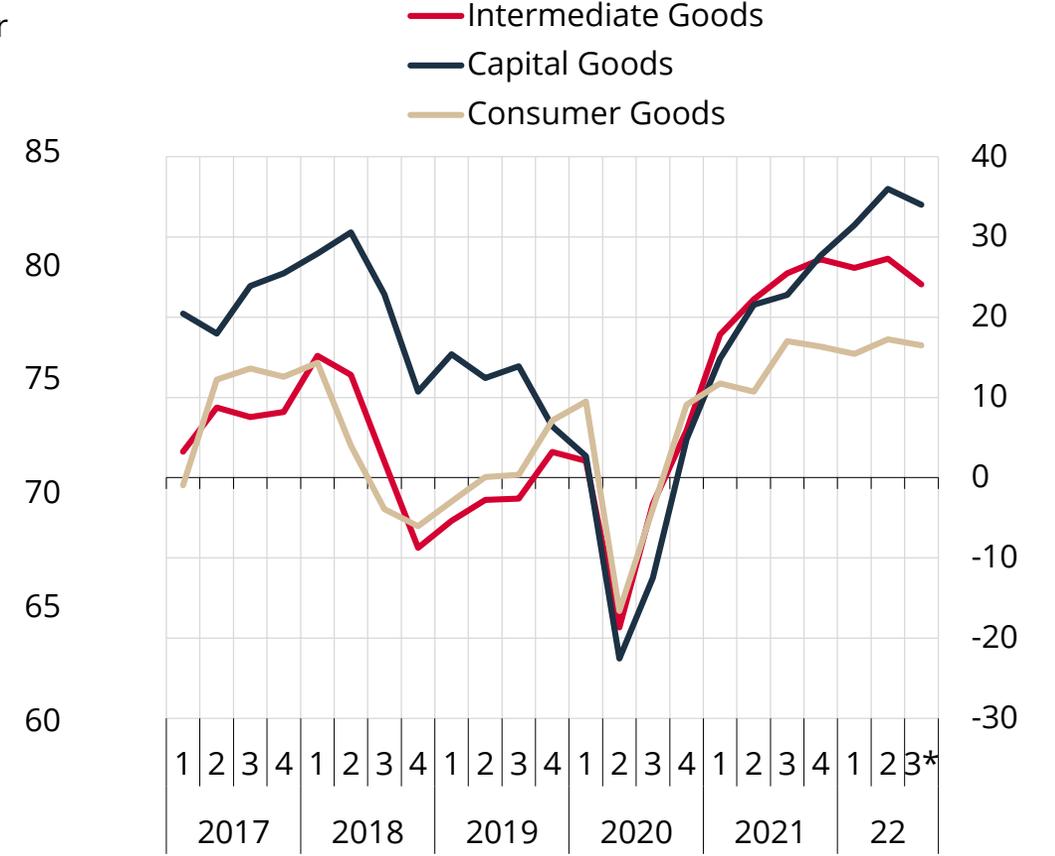


Source: CBRT

Last Observation: July 2022

\* The third quarter data is as of July. Dashed line represents 2011-2019 average. CUR: Capacity Utilization Rate.

## Investment Tendency (Seasonally Adjusted, Increase-Decrease, %)



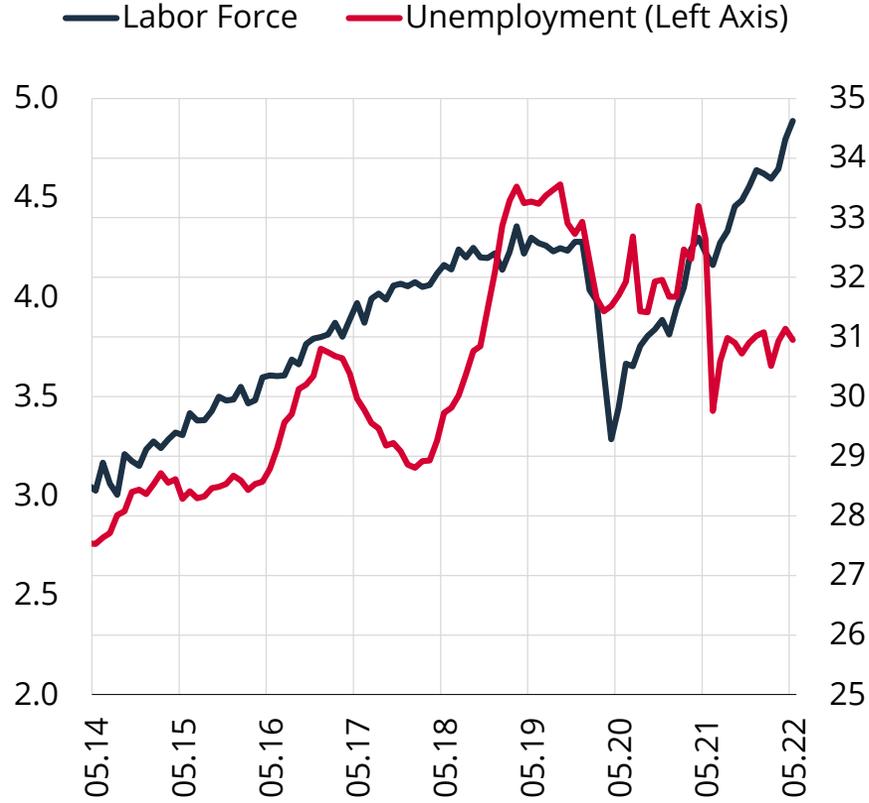
Source: CBRT

Last Observation: July 2022

\* The third quarter data is as of July.

# Labor Market

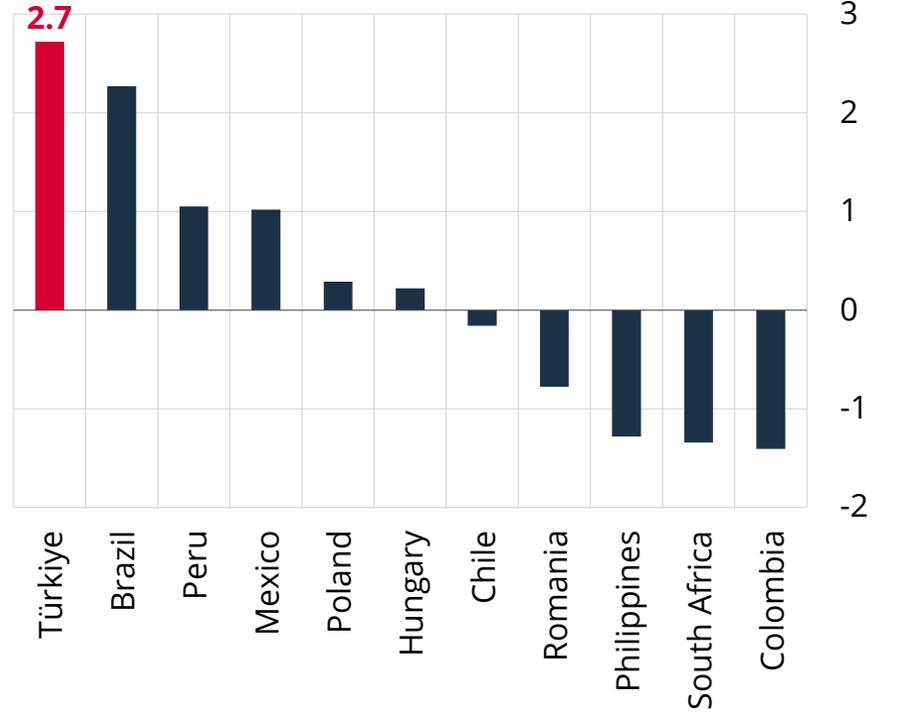
## Unemployment and Labor Force (Seasonally Adjusted, Million People)



Source: TURKSTAT

Last Observation: May 2022

## Change in Employment\* (2020Q1-2022Q1, Million People)



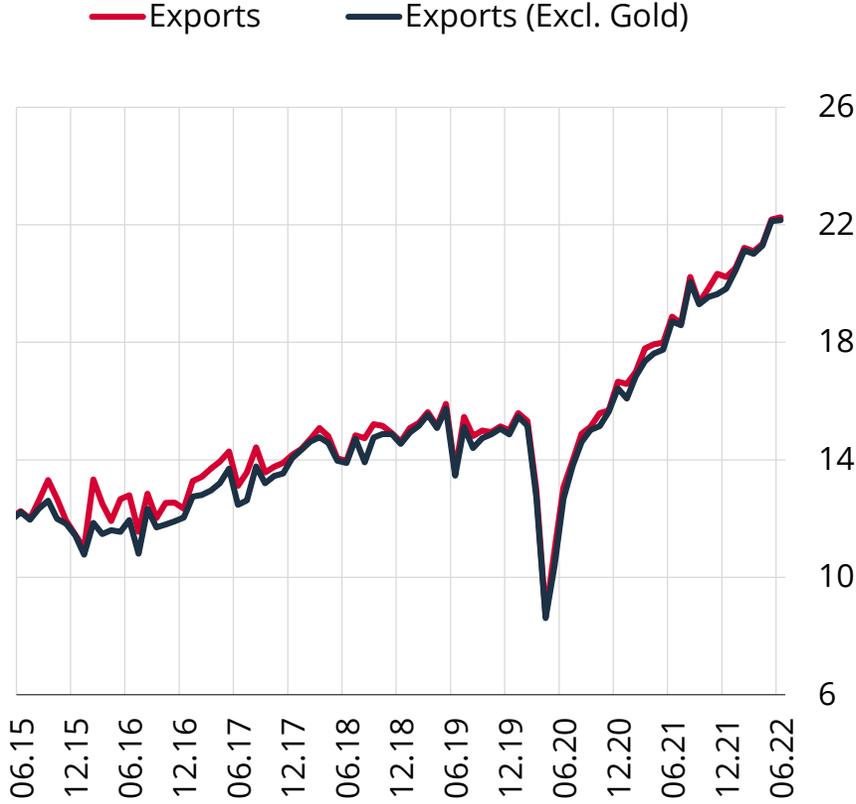
Source: ILO, TURKSTAT

Last Observation: 2022Q1

\* Comparisons are based on unadjusted data.

# External Balance

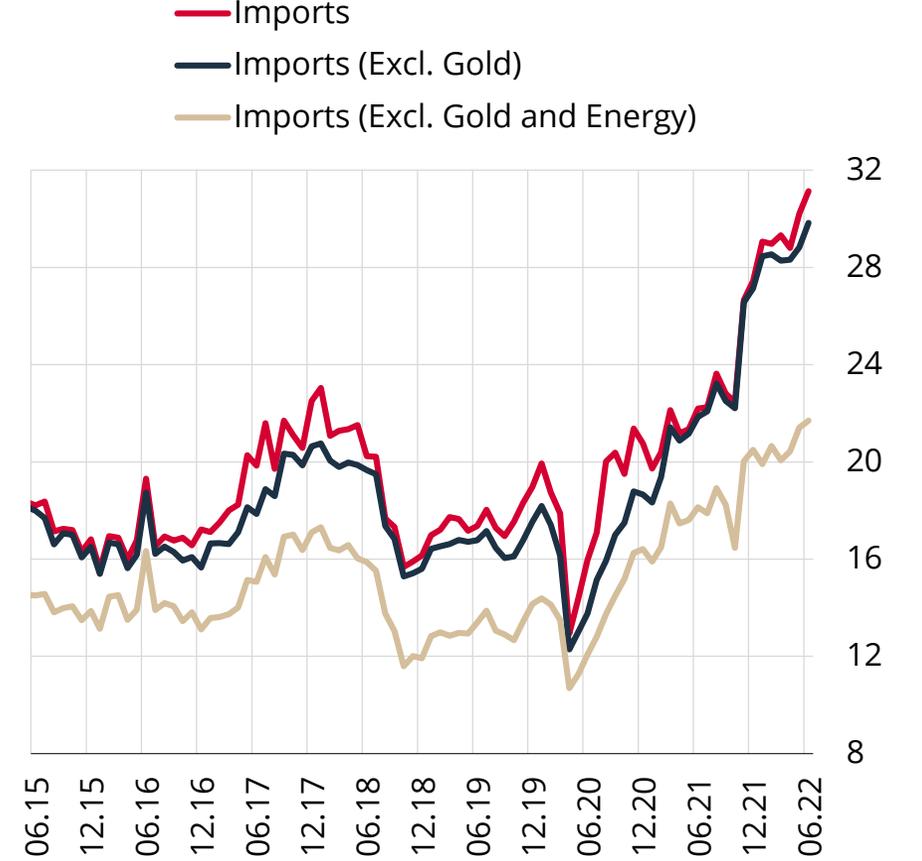
Exports\* (Seasonally and Calendar Adjusted, Billion USD)



Source: CBRT, Ministry of Trade, TURKSTAT Last Observation: June 2022

\* Provisional data for June.

Imports\* (Seasonally and Calendar Adjusted, Billion USD)

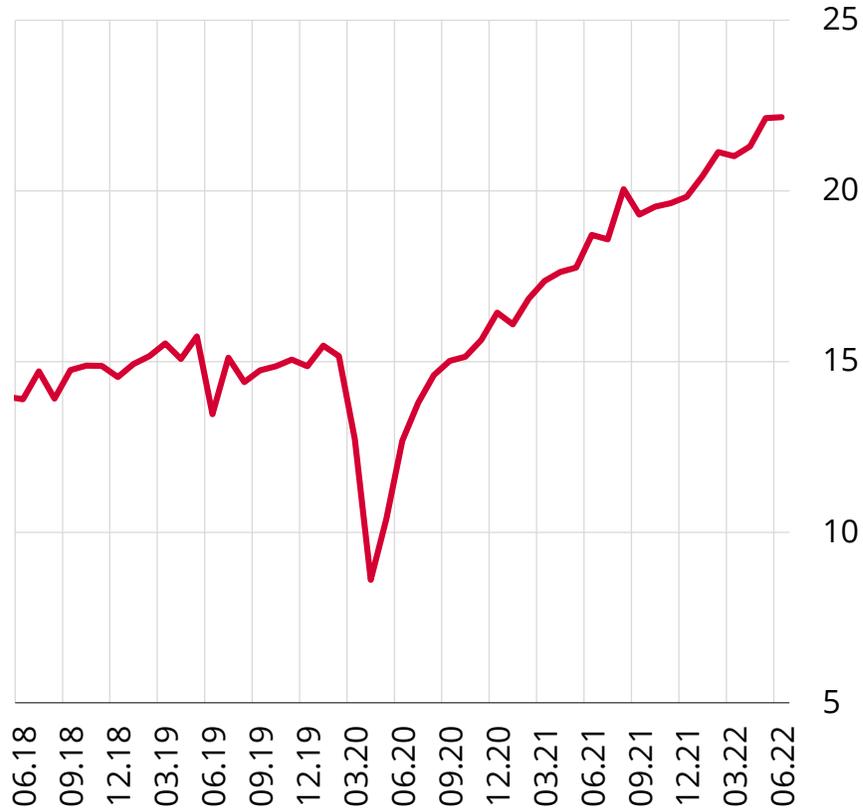


Source: CBRT, Ministry of Trade, TURKSTAT Last Observation: June 2022

\* Provisional data for June.

# Exports and Investment-Export Loans

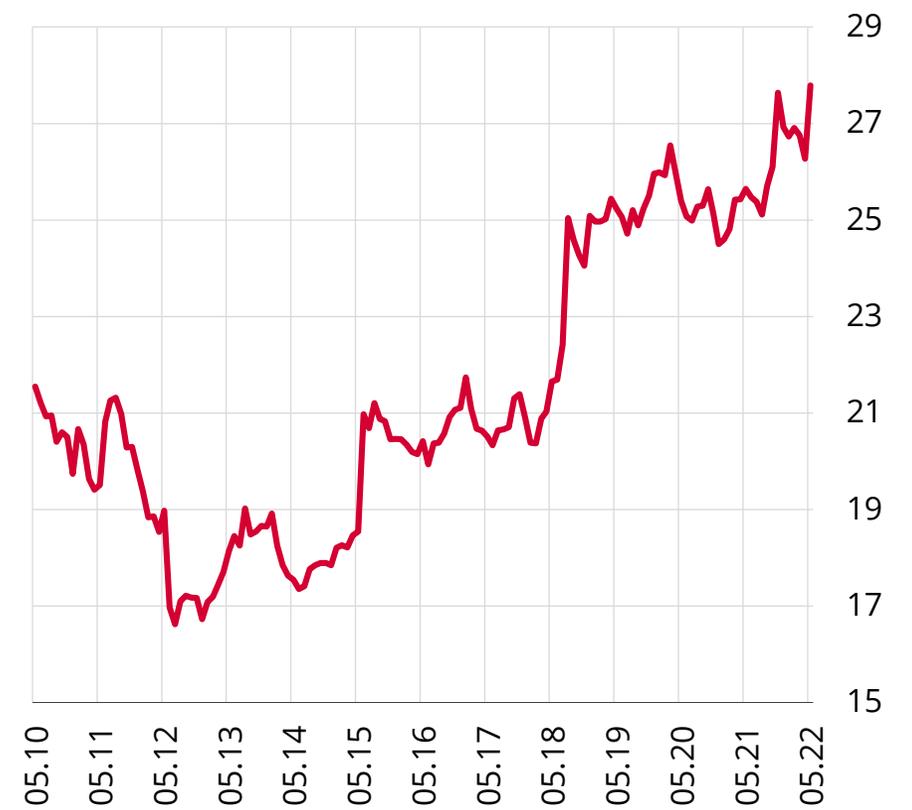
**Exports Excluding Gold  
(Seasonally and Calendar Adjusted, Billion USD)**



Source: CBRT, Ministry of Trade, TURKSTAT Last Observation: June 2022

\* Provisional data for June.

**Share of Investment and Export Loans in  
Corporate Loans (%)**

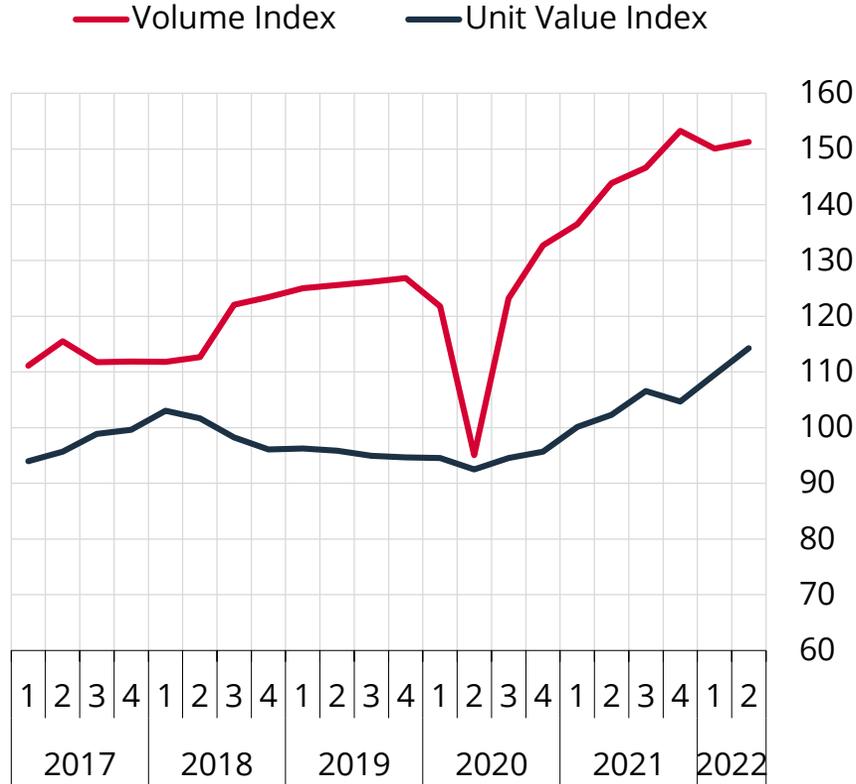


Source: BRSA, CBRT

Last Observation: May 2022

# External Trade Volume and Price Developments

Export Volume Index (Seasonally Adjusted, 2015=100) and Export Unit Value Index\* (2015=100)

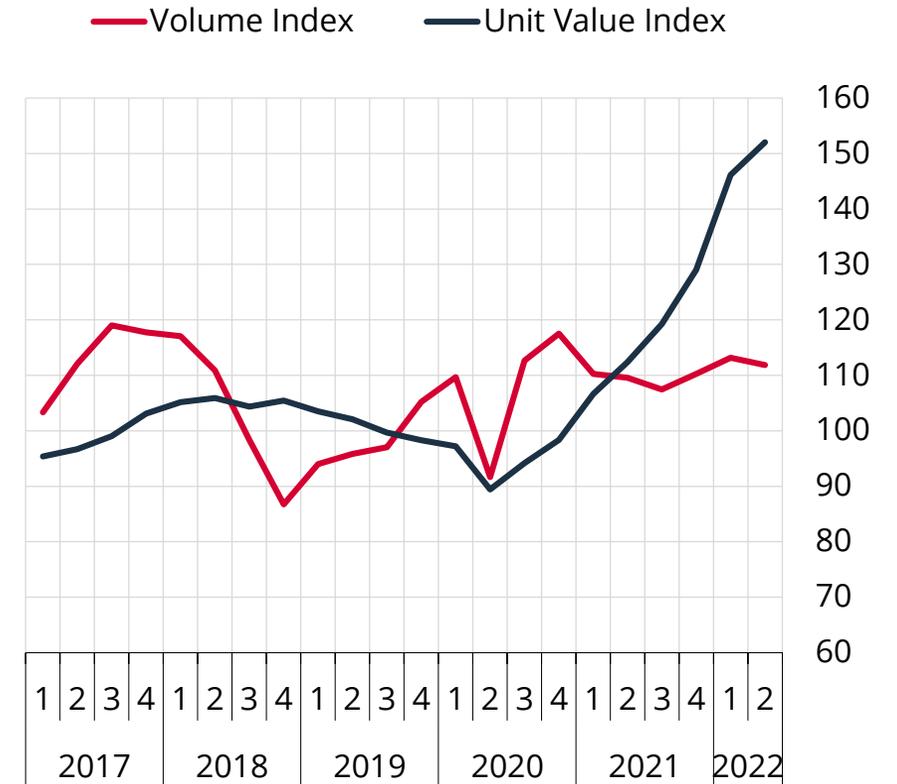


Source: TURKSTAT

Last Observation: May 2022

\* The second quarter data is the average of April and May.

Import Volume Index (Seasonally Adjusted, 2015=100) and Import Unit Value Index\* (2015=100)



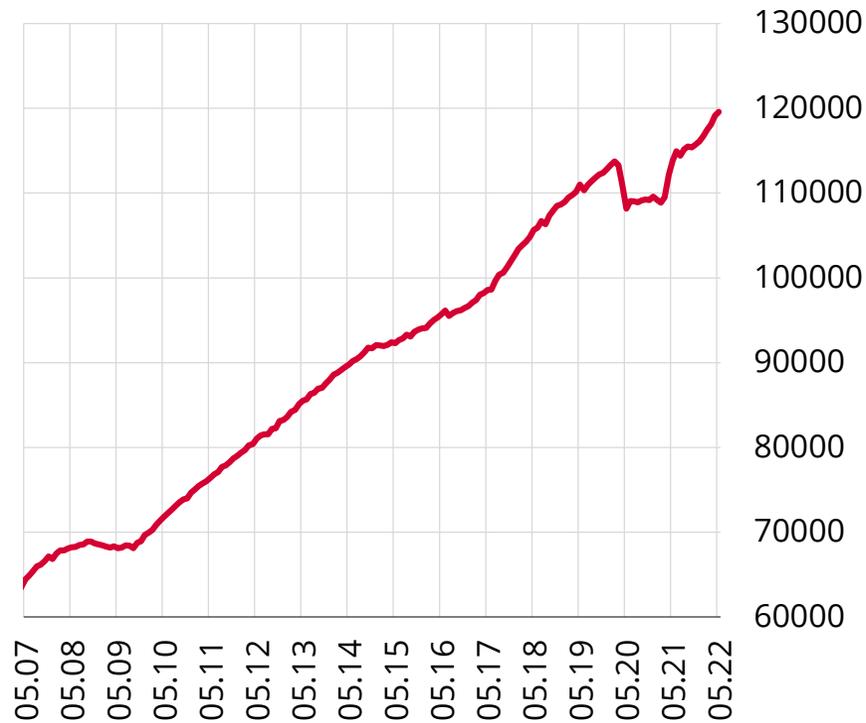
Source: TURKSTAT

Last Observation: May 2022

\* The second quarter data is the average of April and May.

# Product and Market Diversification in Exports

Number of Products-Destinations for Turkish Exports\* (GTS, 2007 May - 2022 May, 12-Month Moving Average)



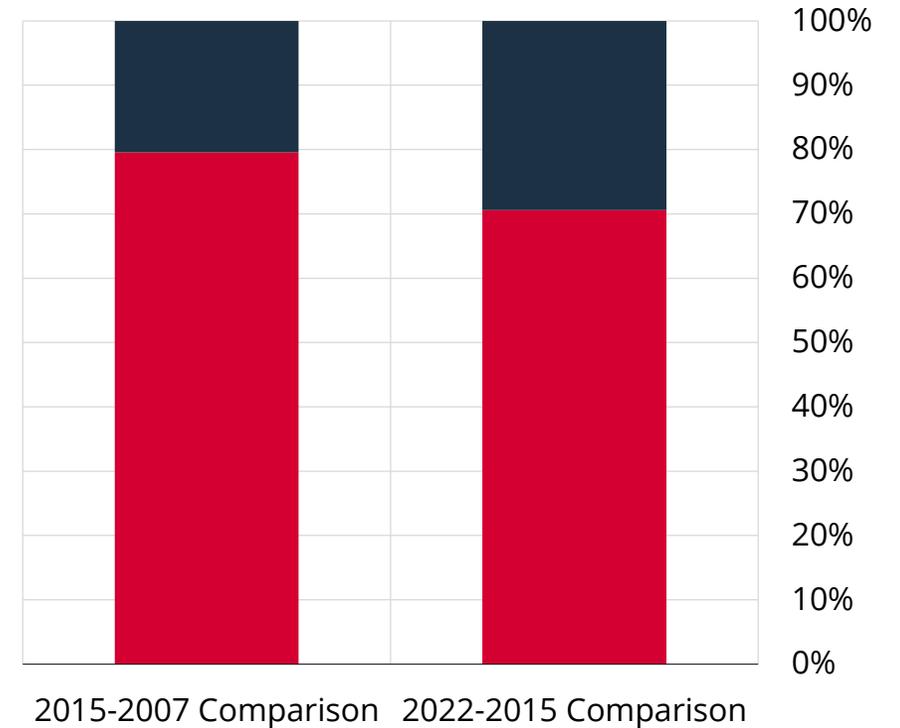
Source: CBRT, Ministry of Trade

Last Observation: May 2022

\* Denotes the total number of products at HS-6 level that Türkiye exports, according to the customs tariff statistical position classification.

The Sources of Change in Türkiye's Exports\* (GTS)

■ Intensive Margin    ■ Extensive Margin



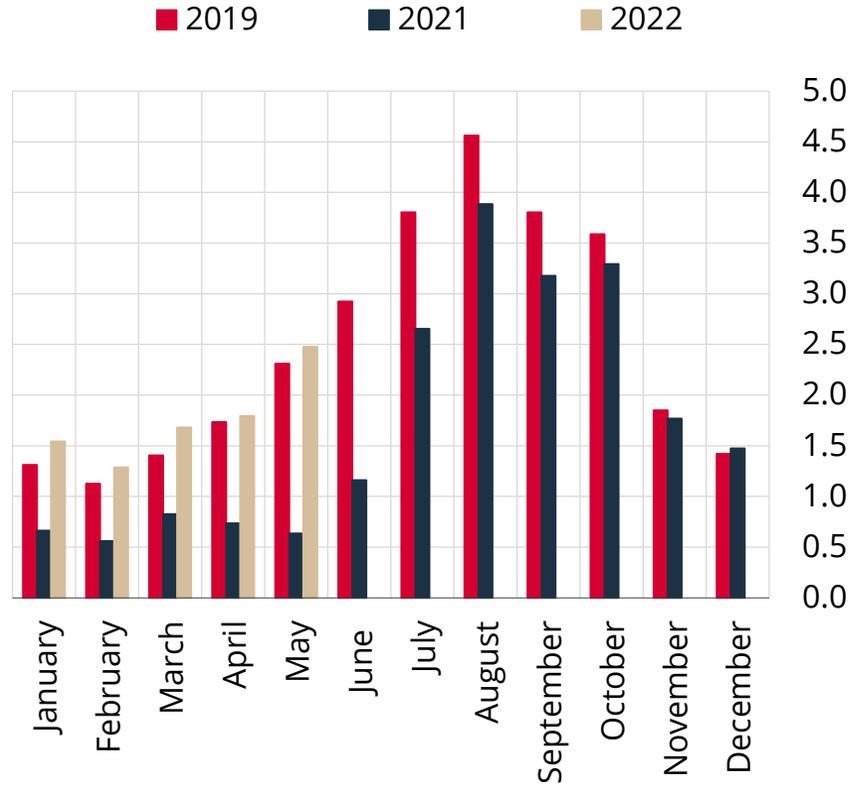
Source: CBRT, Ministry of Trade

Last Observation: May 2022

\* The comparison is conducted on biannualized (June-May) data. Confidential data and energy data are excluded.

# Travel Revenues and Number of Foreign Visitors

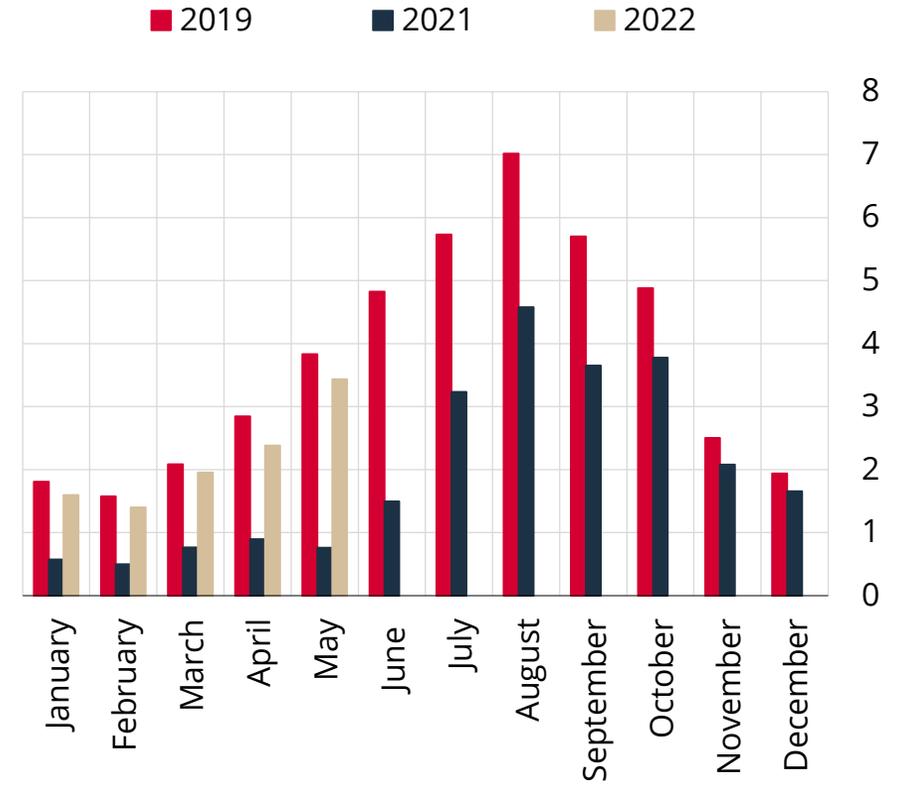
## Travel Revenues (Billion USD, Monthly)



Source: CBRT, TURKSTAT

Last Observation: May 2022

## Number of Foreign Visitors (Million People, Monthly)

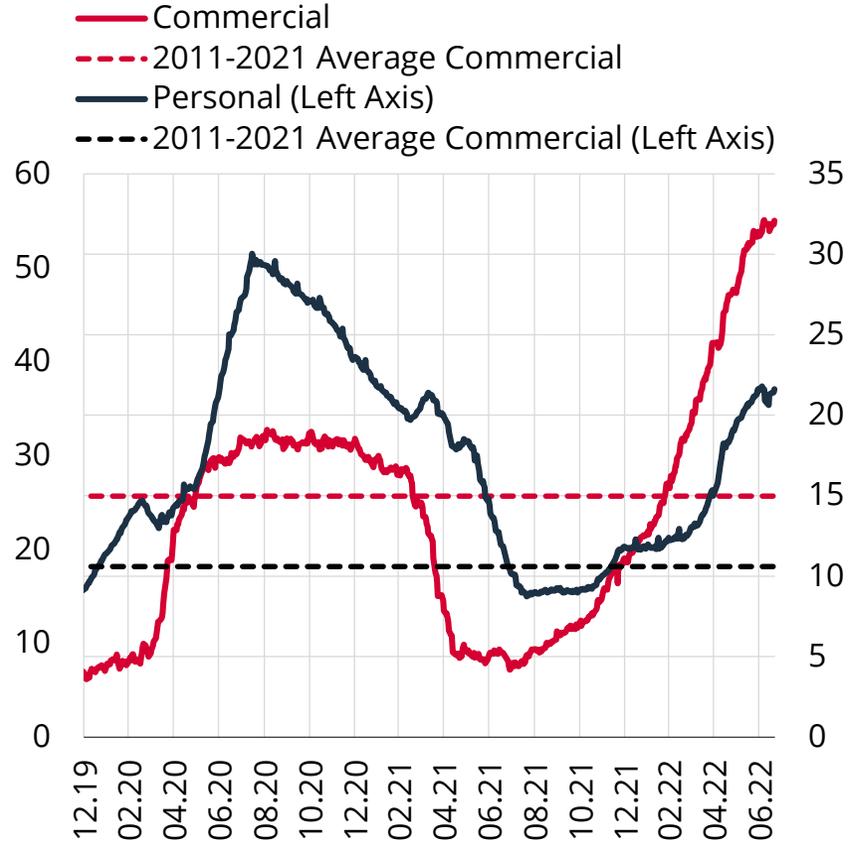


Source: CBRT, TURKSTAT

Last Observation: May 2022

# Credit Developments

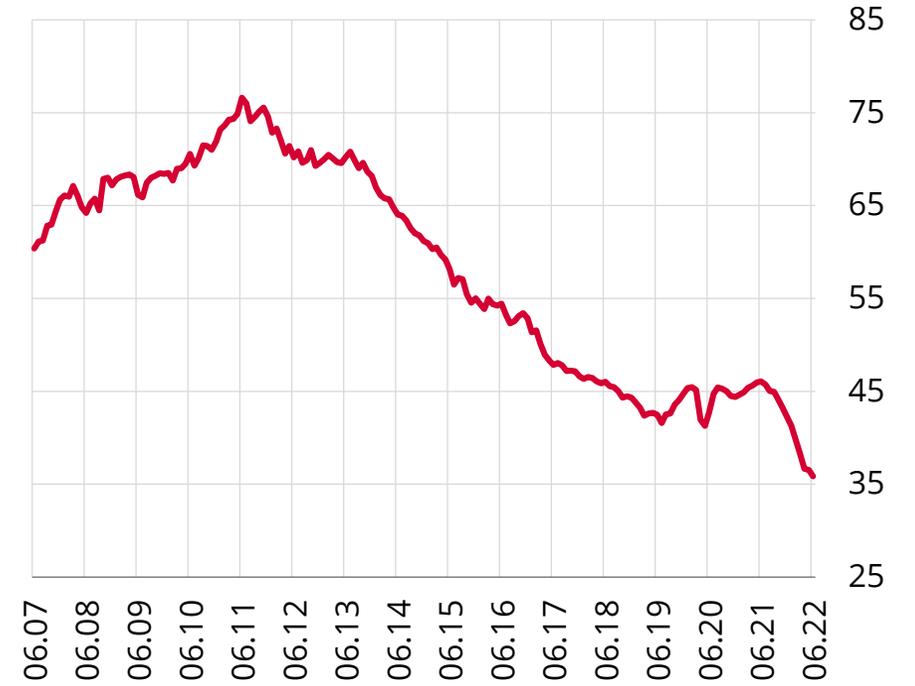
## Loan Growth (Annual Growth, Adjusted for Exchange Rate, %)



Source: CBRT

Last Observation: July 20, 2022

## Consumer Loans/ TL Commercial Loans Ratio (Seasonally Adjusted, %)

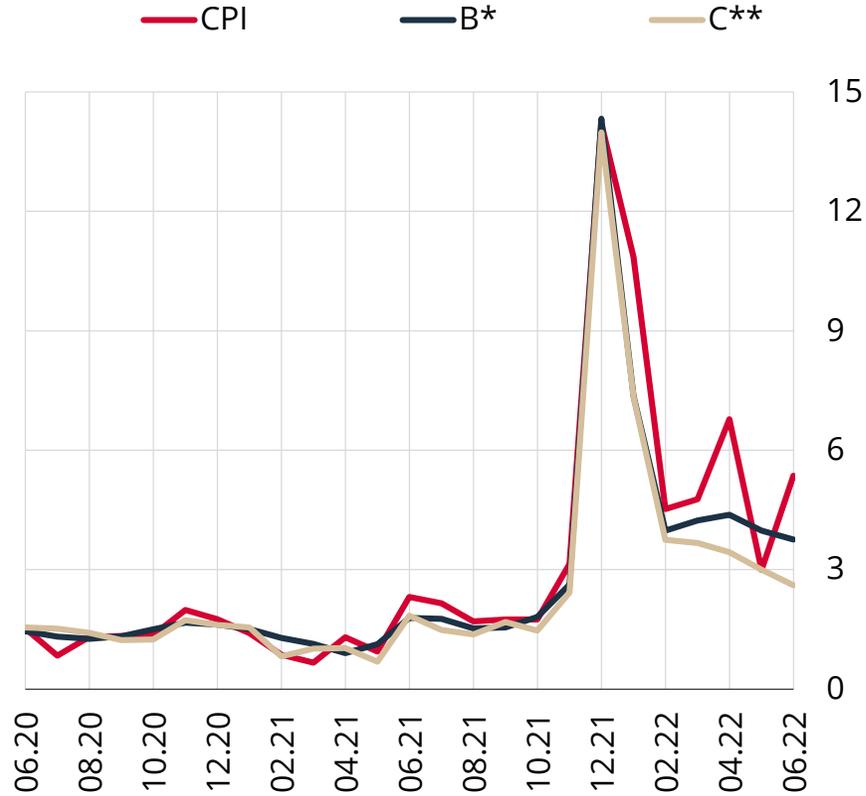


Source: BRSA, CBRT

Last Observation: June 2022

# Contributions to Annual CPI

CPI, B Index and C Index  
(Seasonally Adjusted, Monthly % Change)



Source: CBRT, TURKSTAT

Last Observation: June 2022

\* CPI excluding unprocessed food, energy, alcohol-tobacco and gold.

\*\* CPI excluding food and non-alcoholic beverages, energy, alcohol-tobacco and gold.

Contributions to Annual Inflation and  
Shares of Contributions in Annual Inflation  
(% Points)

	Contributions to Annual Inflation	Shares of Contributions in Annual Inflation
(I) Food-Alcohol-Tobacco	26.7	33.9
(II) Energy	18.1	23.1
(III) Core Goods	19.3	24.5
<b>I+II+III</b>	<b>64.1</b>	<b>81.5</b>
Services	13.7	17.4
Golds	0.8	1.1
<b>Total</b>	<b>78.6</b>	<b>100</b>

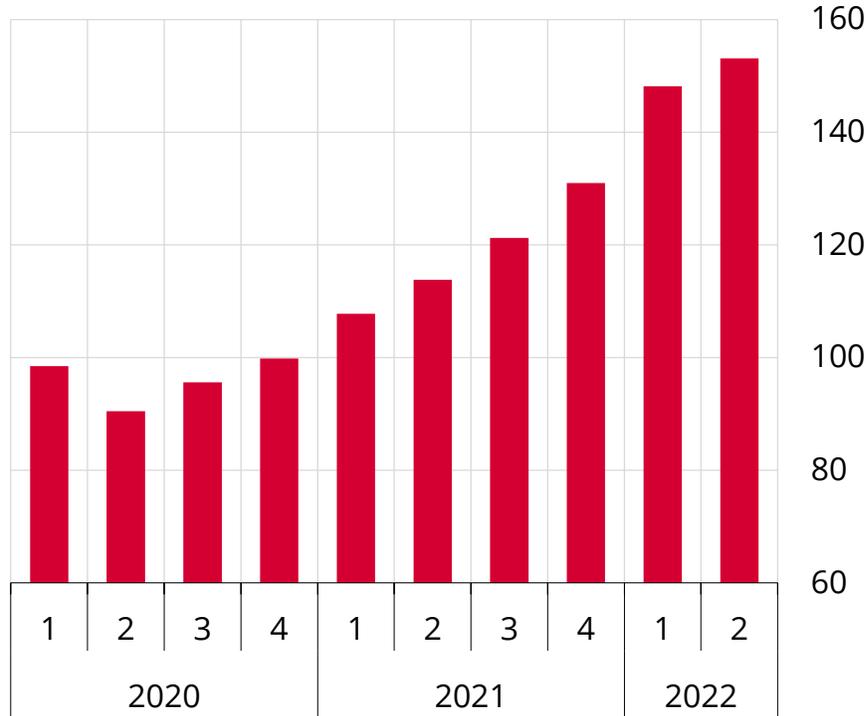
Source: CBRT, TURKSTAT

Last Observation: June 2022

# DETERMINANTS OF INFLATION

# Import Costs

## Import Unit Value Index\* (2019Q4=100, USD)

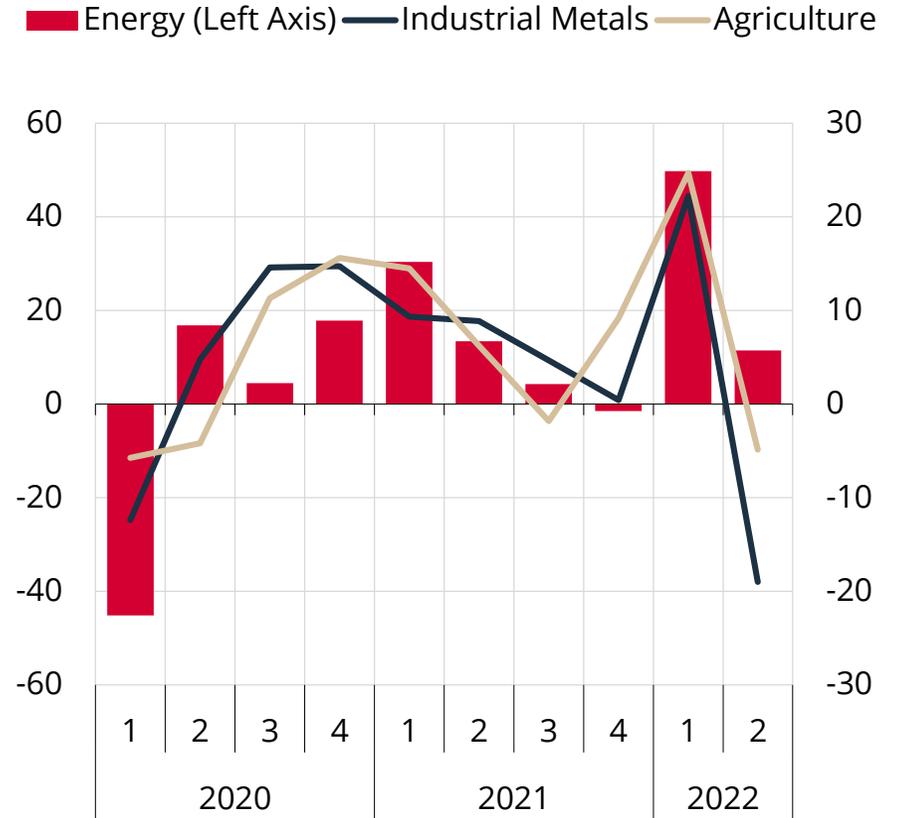


Source: TURKSTAT

Last Observation: May 2022

\* The second quarter data is the average of April and May.

## Commodity Price Indices (Quarterly % Change)

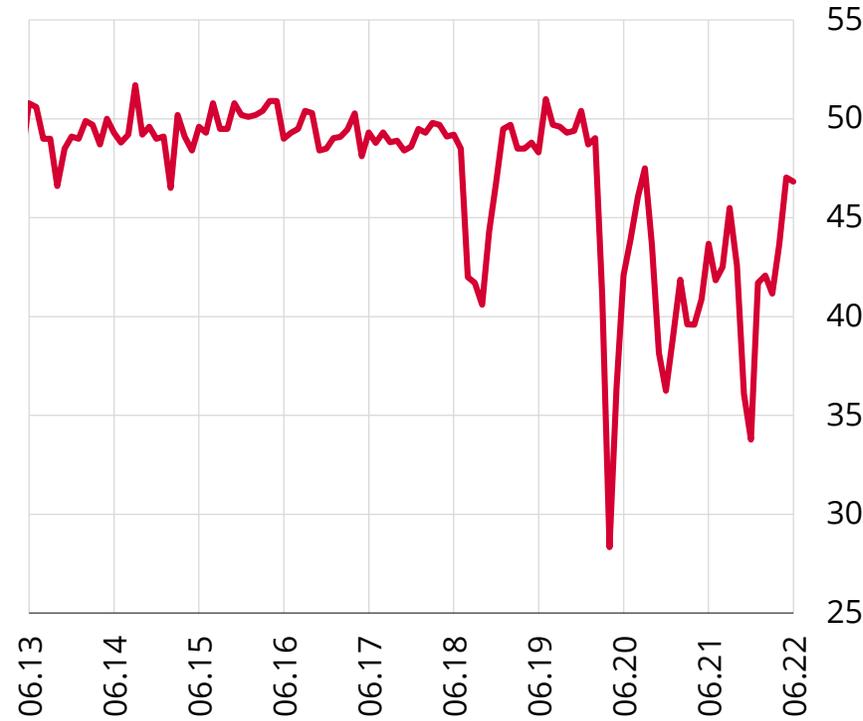


Source: Goldman Sachs

Last Observation: June 2022

# Supply Constraints

PMI Manufacturing Industry Delivery Times\*  
(Seasonally Adjusted)

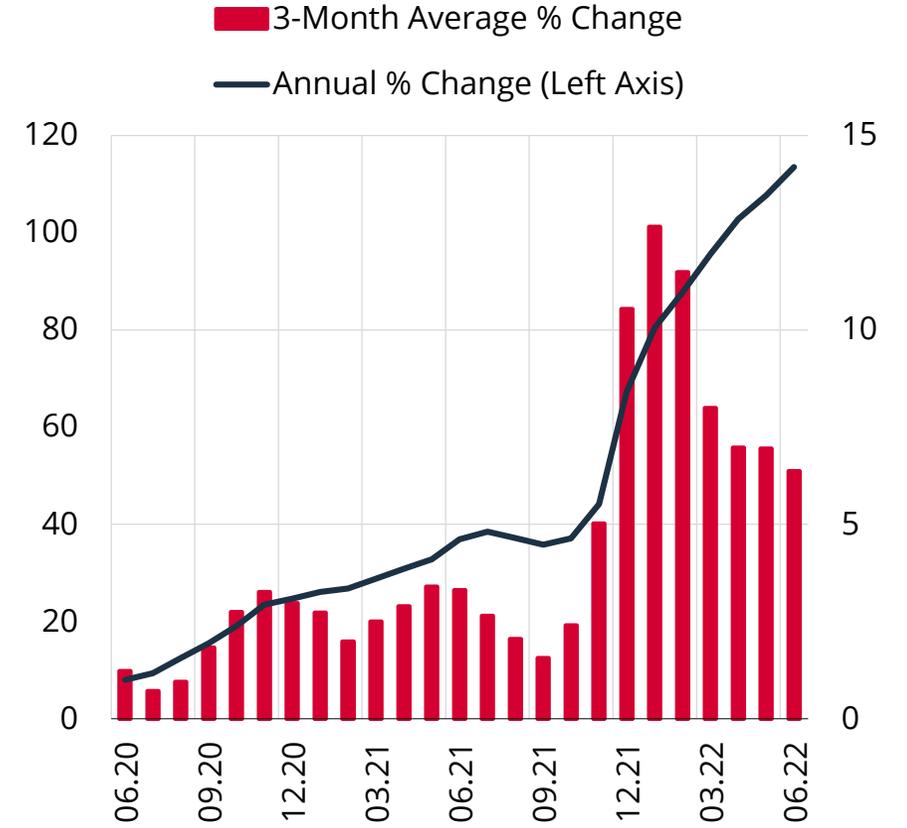


Source: IHS Markit

Last Observation: June 2022

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

Manufacturing Prices excl. Petroleum and  
Base Metals

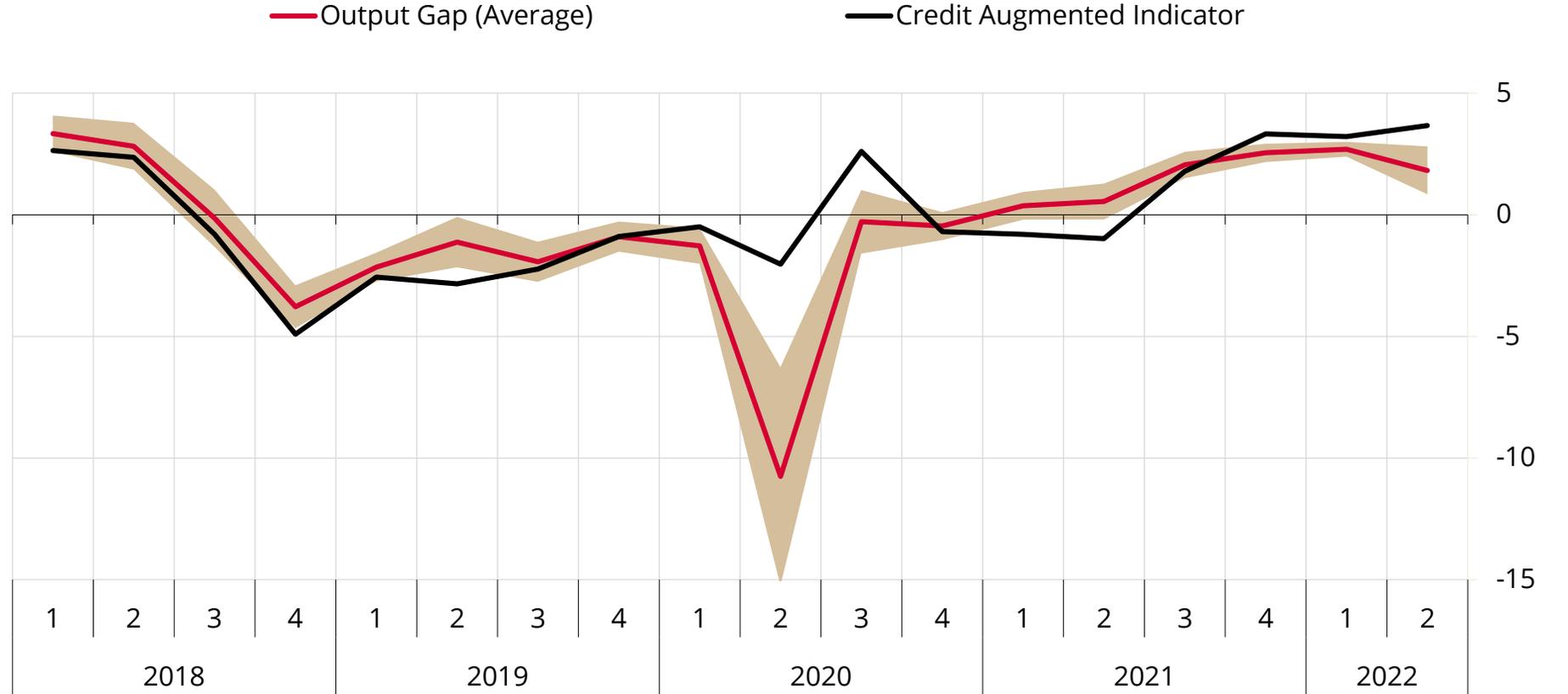


Source: CBRT, TURKSTAT

Last Observation: June 2022

# Demand Conditions

## Output Gap Indicators\* (%)



Source: CBRT

Last Observation: 2022Q2

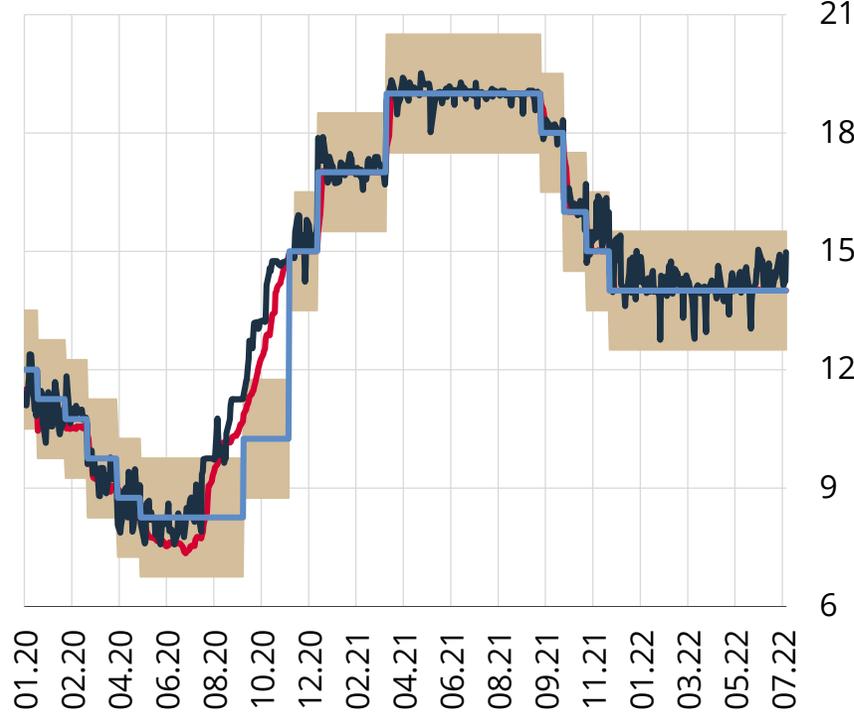
\* The shaded area denotes the average of the output gap indicators calculated by 6 different methods with the 95% confidence interval.

# MONETARY POLICY

# CBRT Policy Rates and Credit Growth

## CBRT Policy Rate and Short Term Interest Rates (%)

- Interest Rate Corridor
- CBRT Average Funding Rate
- Average Interest Rate at BIST Excluding the CBRT
- 1 Week Repo Rate

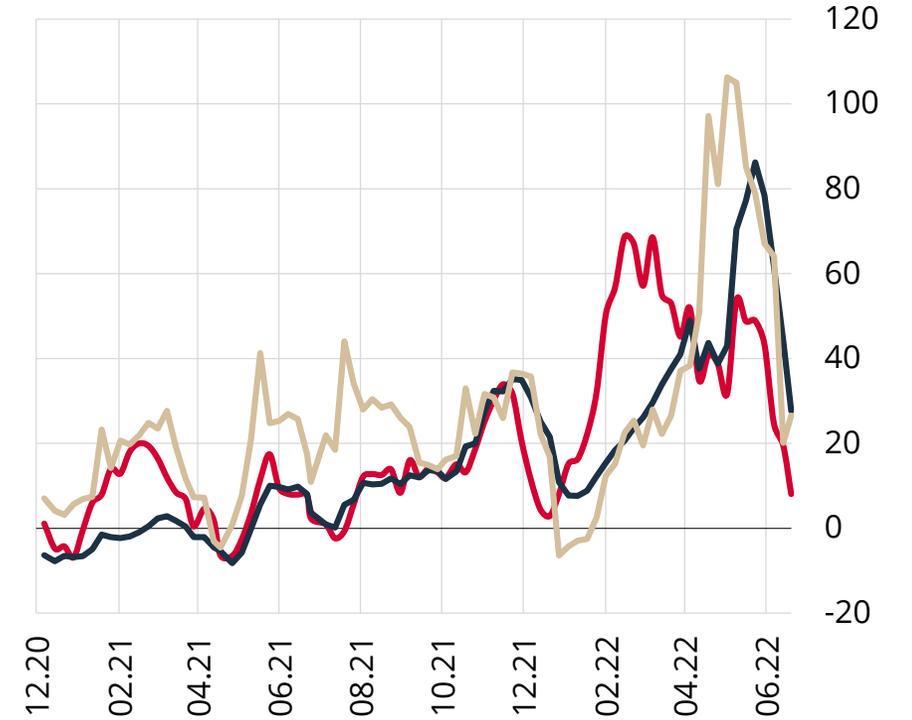


Source: BIST, CBRT

Last Observation: July 21, 2022

## Credit Growth Rates (Annualized 4-Week Moving Average, Adjusted for Exchange Rate, %)

- Commercial
- Housing
- Personal



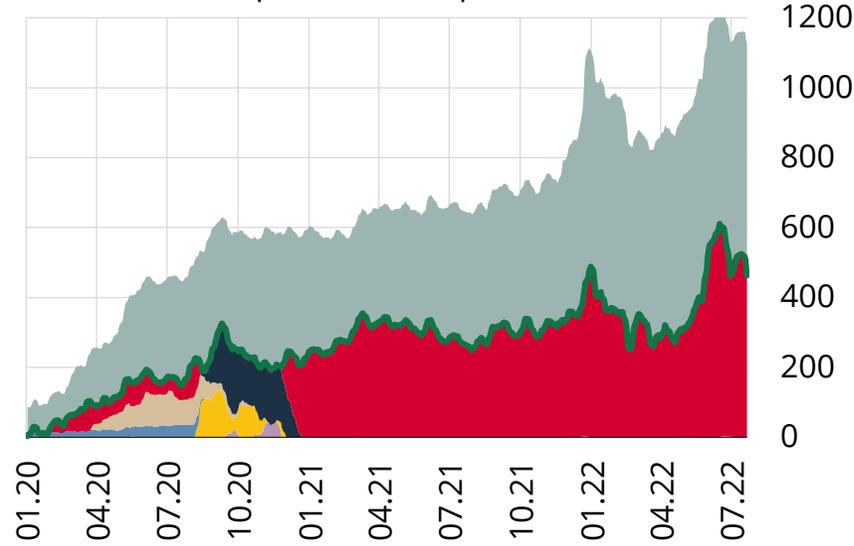
Source: CBRT

Last Observation: July 14, 2022

# Collateral Arrangements and Yield Curve

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

- Swap Funding
- One Week Repo
- Traditional Repo
- 3-Month Repo (Targeted Liquidity)
- Primary Dealers Repo
- Overnight Lending
- Late Liquidity Window
- Net Open Market Operations

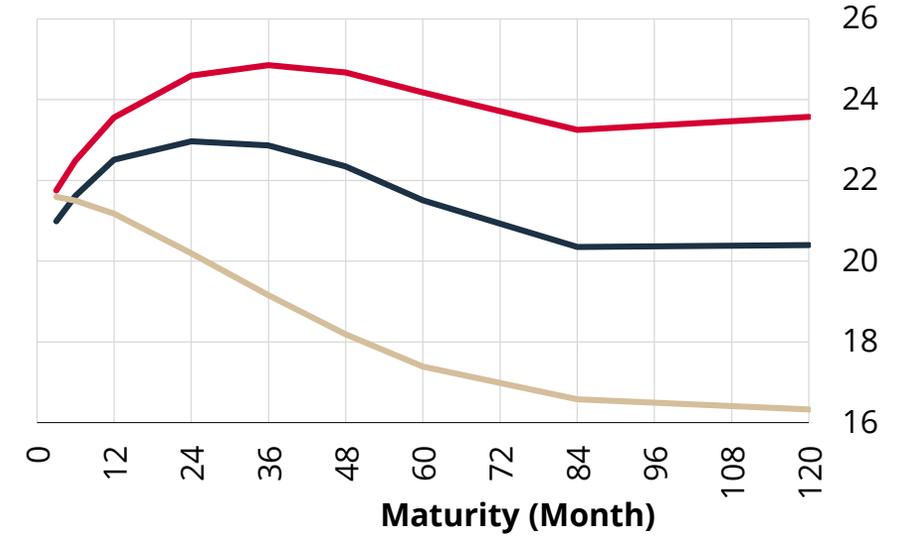


Source: CBRT

Last Observation: July 21, 2022

**Yield Curve (%)**

- 9 June 2022
- 10 June 2022
- 25 July 2022



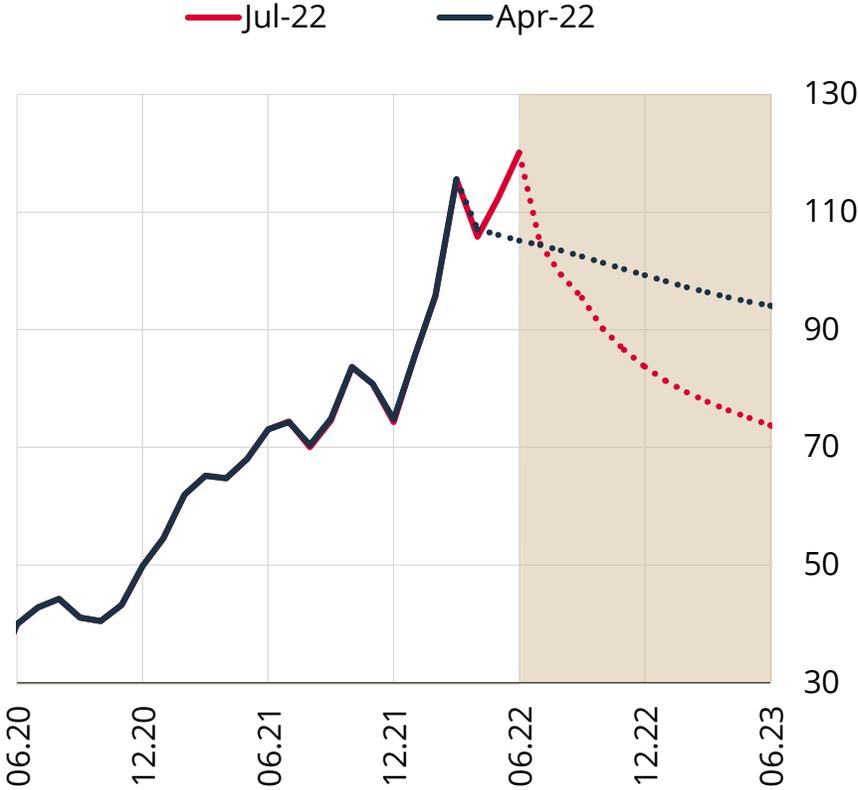
Source: Bloomberg

Last Observation: July 25, 2022

# MEDIUM-TERM PROJECTIONS

# Assumptions for External Variables

Revisions to Oil Price Assumptions\* (USD/bbl)

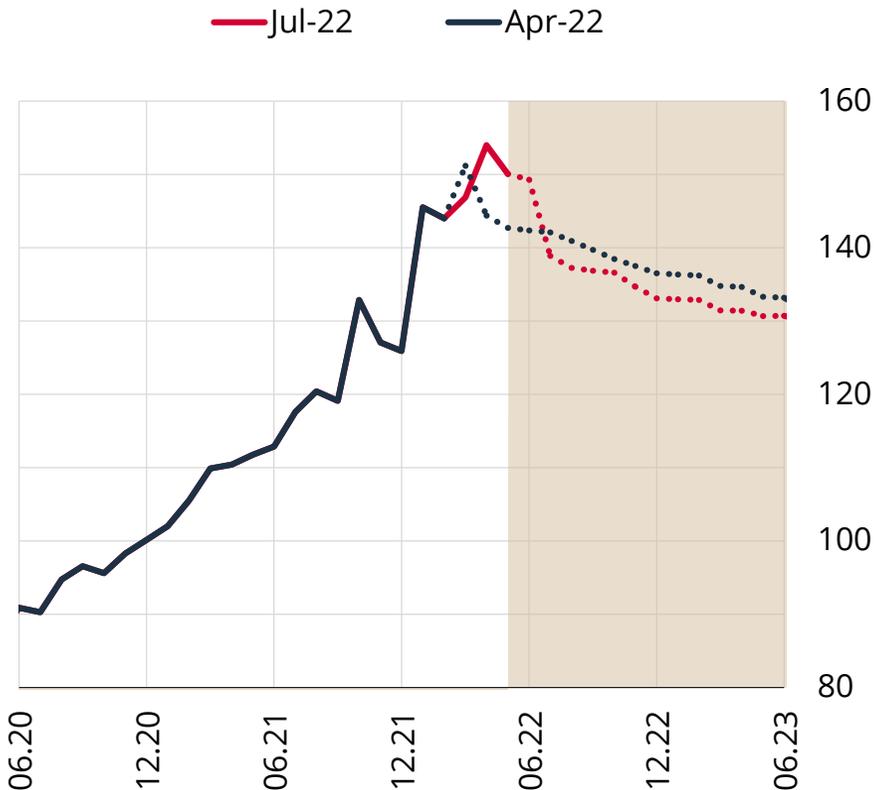


Source: Bloomberg, CBRT

Last Observation: June 2022

\* Shaded area denotes the forecast period. Oil price assumptions are derived from the future price curves in international markets.

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



Source: CBRT, TURKSTAT

Last Observation: May 2022

\* Shaded area denotes the forecast period. Import price assumptions are derived from the future price curves in international markets.

# Revisions to Main Assumptions

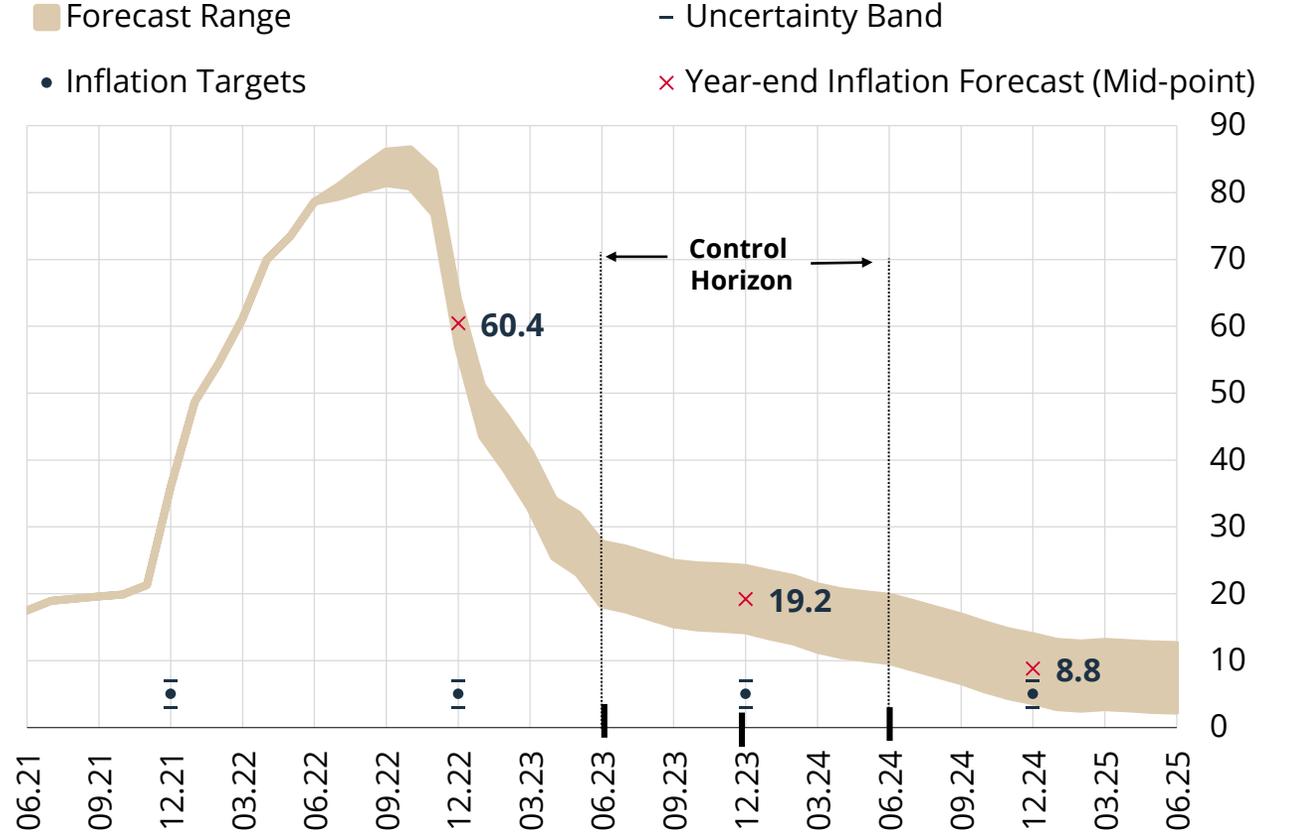
		April IR	July IR
Energy Prices (Year-end % Change)	2022	45.0	87.2
	2023	15.0	22.0
Food Prices (Year-end % Change)	2022	49.0	71.3
	2023	15.0	25.7
Import Prices (USD, Average Annual % Change)	2022	22.2	23.3
	2023	-7.0	-8.4
Oil Prices (Average,USD)	2022	102.2	99.6
	2023	93.9	73.7
Export-Weighted Global Production Index (Average Annual % Change)	2022	3.0	2.6
	2023	3.3	2.5

# Inflation Outlook

## Accordingly, inflation is expected to be

- Between 56.9% and 63.9% (with a mid-point of 60.4%) at end-2022
- Between 14.5% and 23.9% (with a mid-point of 19.2%) at end-2023 with 70% probability.

## Inflation Forecasts\* (%)



Source: CBRT, TURKSTAT

\* Shaded region denotes the 70 percent confidence interval for the forecast.

# Inflation Outlook

## Revisions to Year-End-Inflation Forecasts for 2022 and 2023 and Sources of Revisions

	2022	2023
2022-II (April 2022) Forecast (%)	42.8	12.9
2022-III (July 2022) Forecast (%)	60.4	19.2
<b>Forecast Revision as Compared to 2022-II Period</b>	+17.6	+6.3
<b>Sources of Forecast Revisions (% Point)</b>		
Turkish Lira-Denominated Import Prices (Including Exchange Rate, Oil and Import Prices)	+7.4	+0.1
Food Prices	+3.0	+1.0
Administered Prices	+0.4	+0.3
Output Gap	+0.3	-0.1
Unit Labor Cost	+2.4	+0.6
Deviation from the Inflation Forecast / the Underlying Trend of Inflation	+4.1	+4.4

Source: CBRT

# OVERVIEW

# Overview

- Geopolitical risks and increasing volatility in global financial conditions caused inflation to reach historically high levels amid successive supply shocks.
- Labor market is functioning well, while the manufacturing and export-oriented production structure follows a strong course.
- Arrangements were made in order to support the positive contribution of targeted export and investment loans to the current account balance.
- Increasing the current account surplus capacity of the economy is of critical importance for permanent price stability.
- Measures aiming at the use of credits in accordance with economic activity were decisively put into effect.
- As a result of the policy implementations, it is observed that credits have started to normalize.

# Overview

- In order to increase the effectiveness of the monetary transmission, the convergence of bond, loan and deposit rates to the policy rate is monitored.
- It is acted to ensure that liquidity is provided in line with liraization.
- The positive contributions of the holistic approach are observed on supply security and current account balance against global geopolitical risks.
- With the measures taken and the normalization of the conditions, our economy will achieve a sustainable current account balance in addition to its fiscal balance.
- Accordingly, a strong financial architecture will be established on the axis of liraization, and inflation will be ensured to fall to levels consistent with our forecasts.

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Governor

July 28, 2022

Ankara

