



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

BRIEFING ON 2023-IV INFLATION REPORT

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Governor

2 November 2023

ANKARA



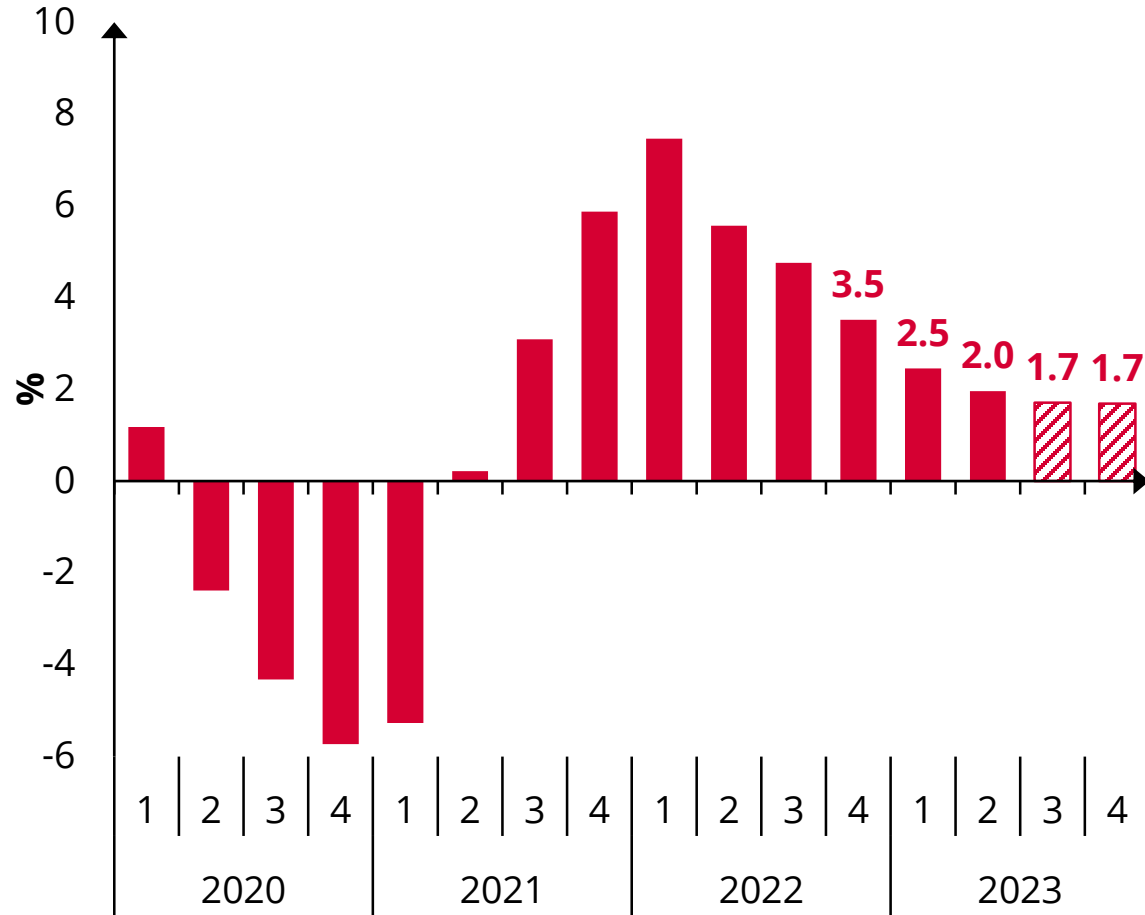
Outline

- **Global Economy**
- **Inflation**
- **Monetary Policy**
- **Effects of Monetary Policy**
- **Medium-Term Projections**
- **Overview**

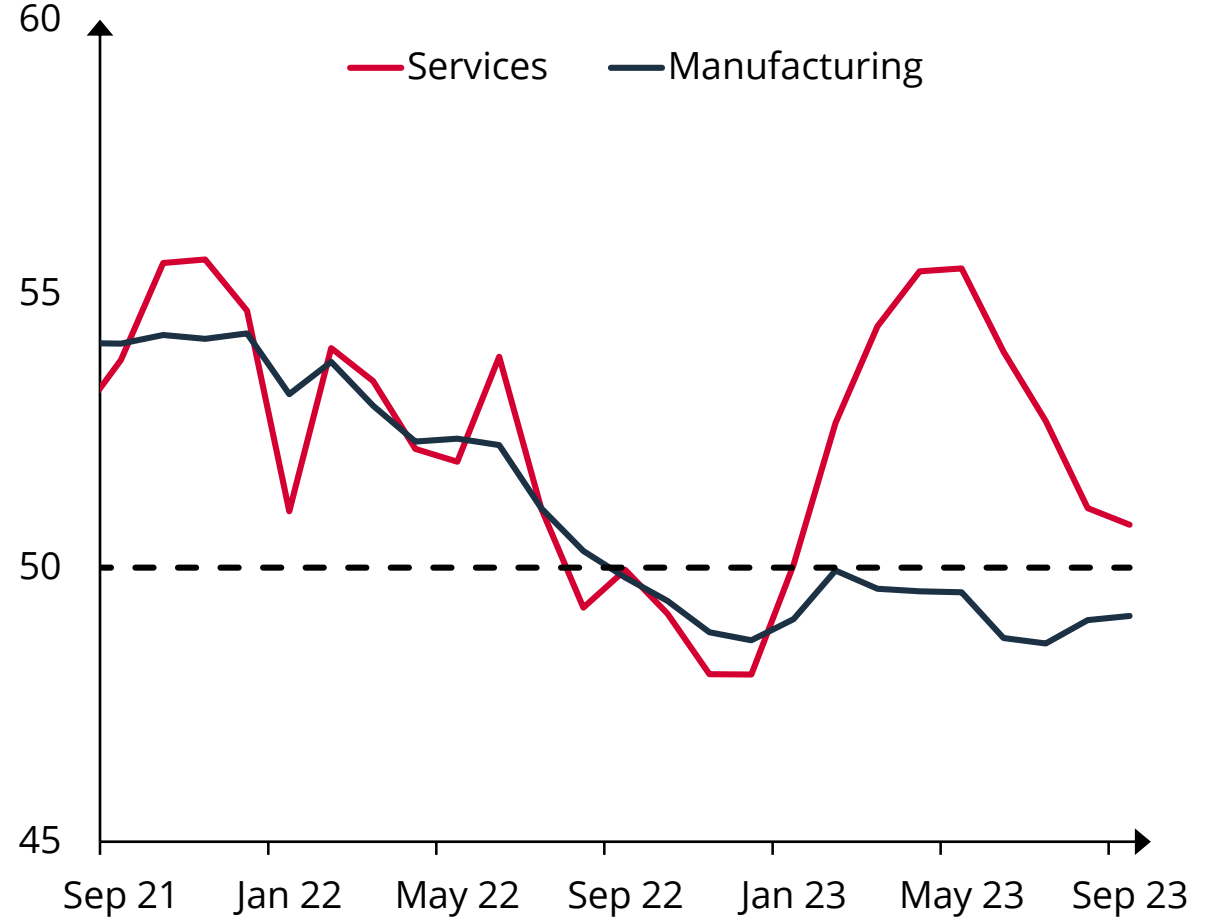
GLOBAL ECONOMY

As global growth weakens, leading indicators point to a continued slowdown.

Export-Weighted Global Growth*

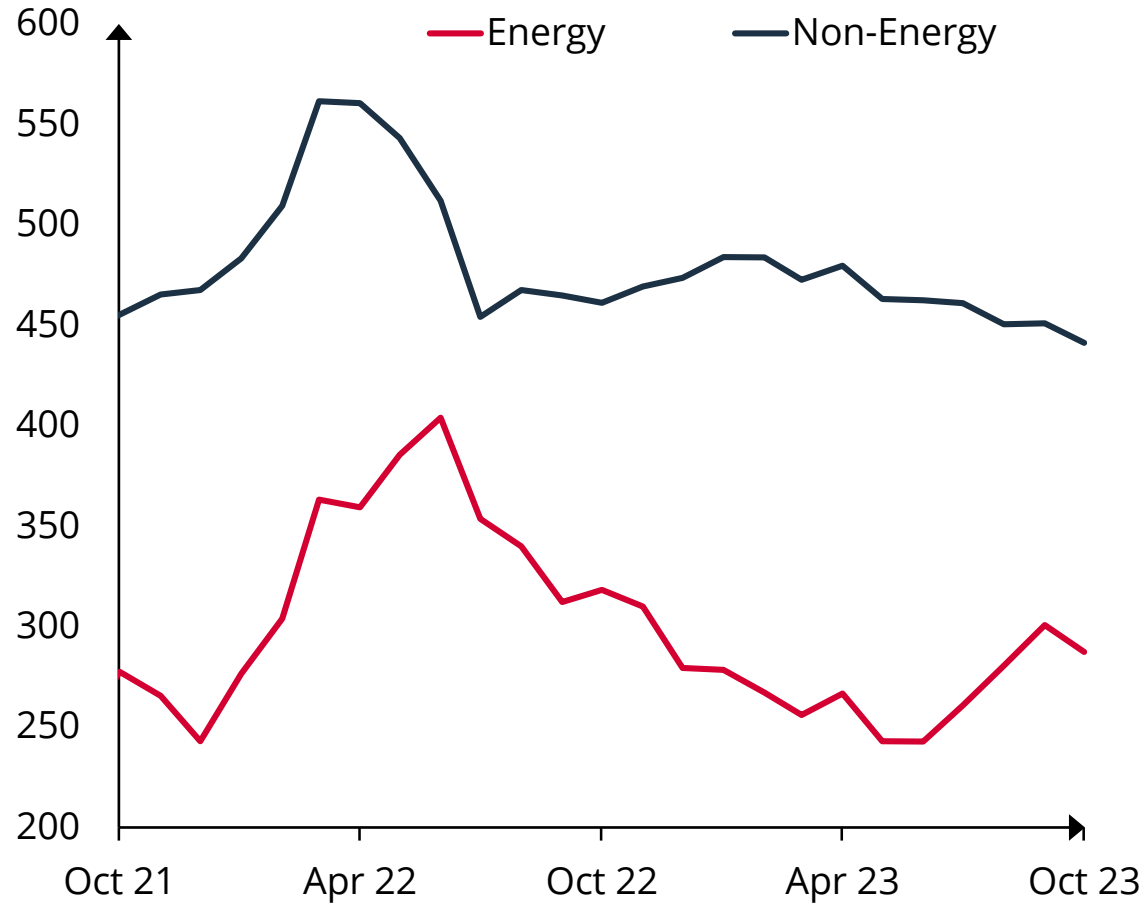


Global PMI Indicators**

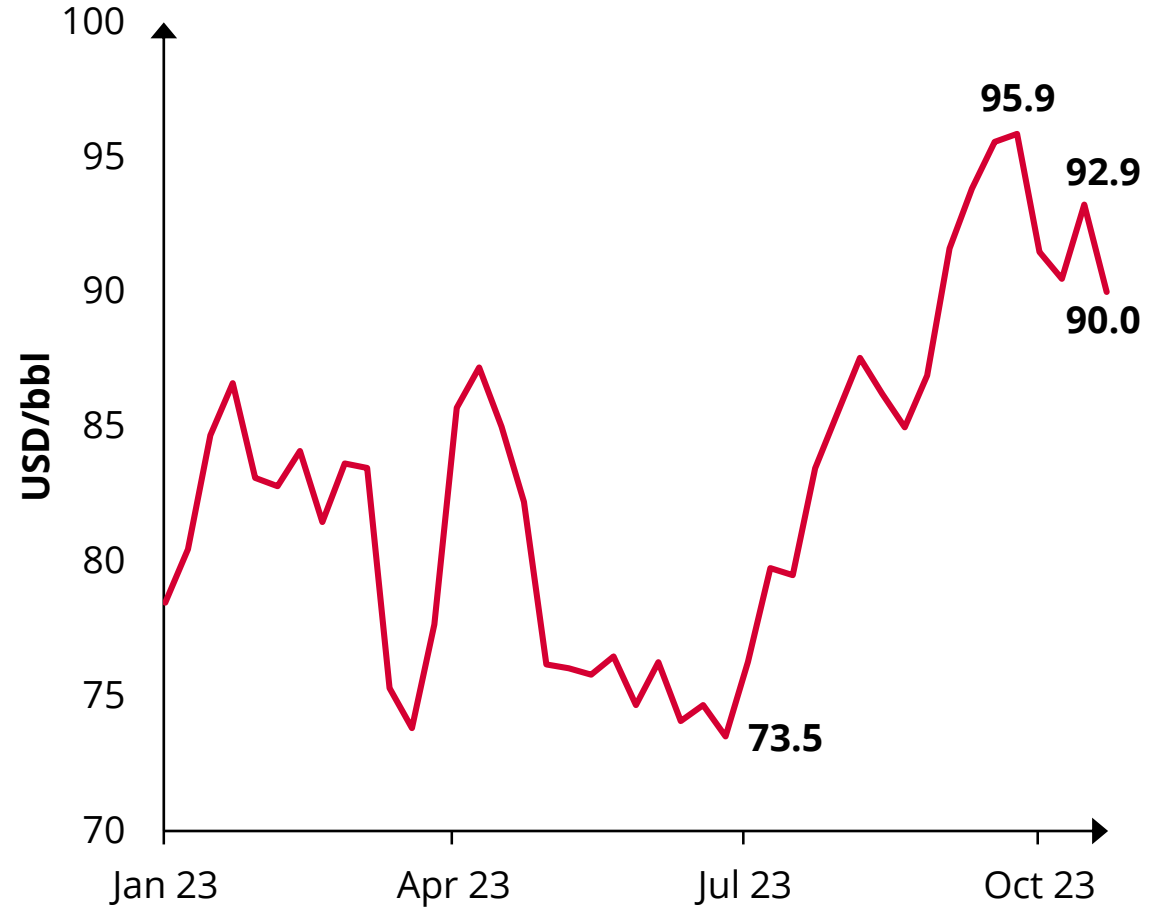


Oil prices exhibit high volatility due to geopolitical risks and supply.

Commodity Price Indices*

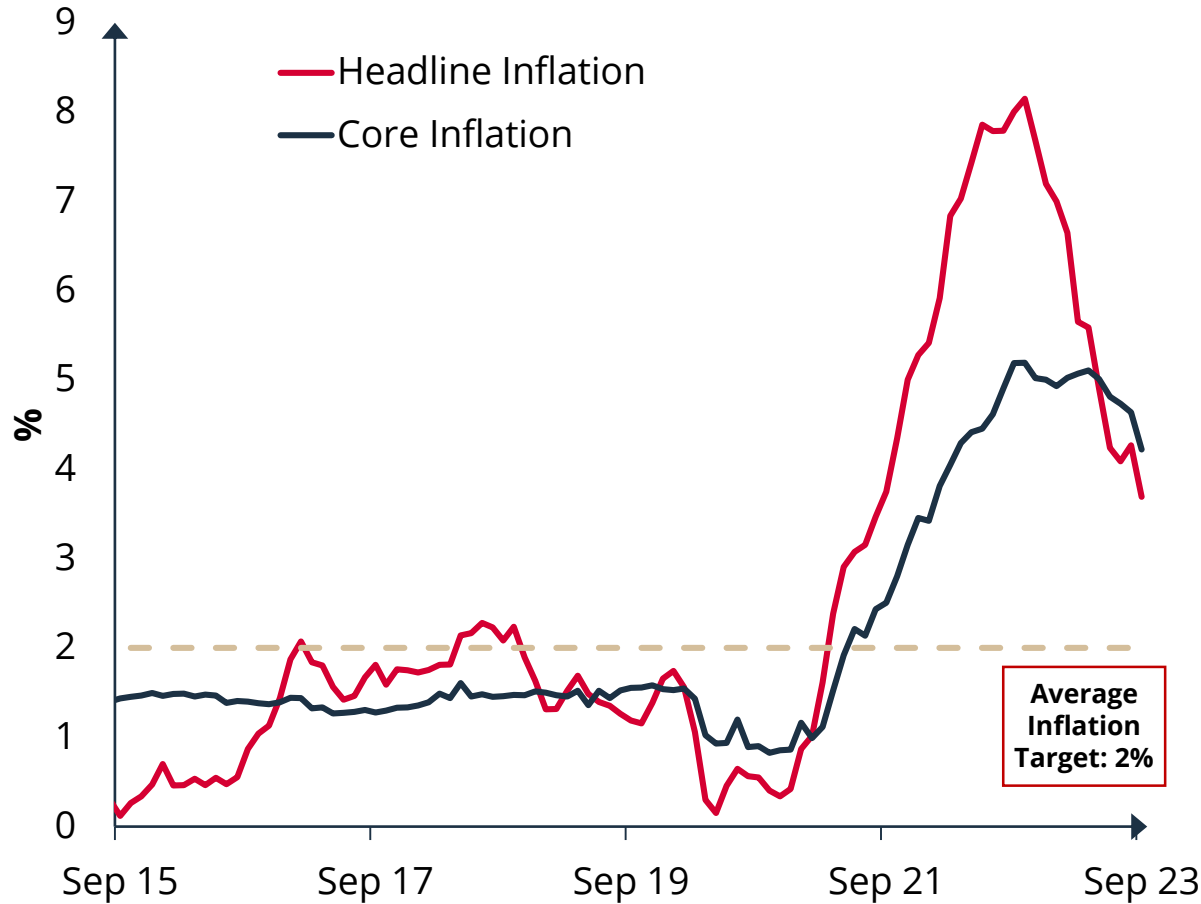


Brent Oil Price**

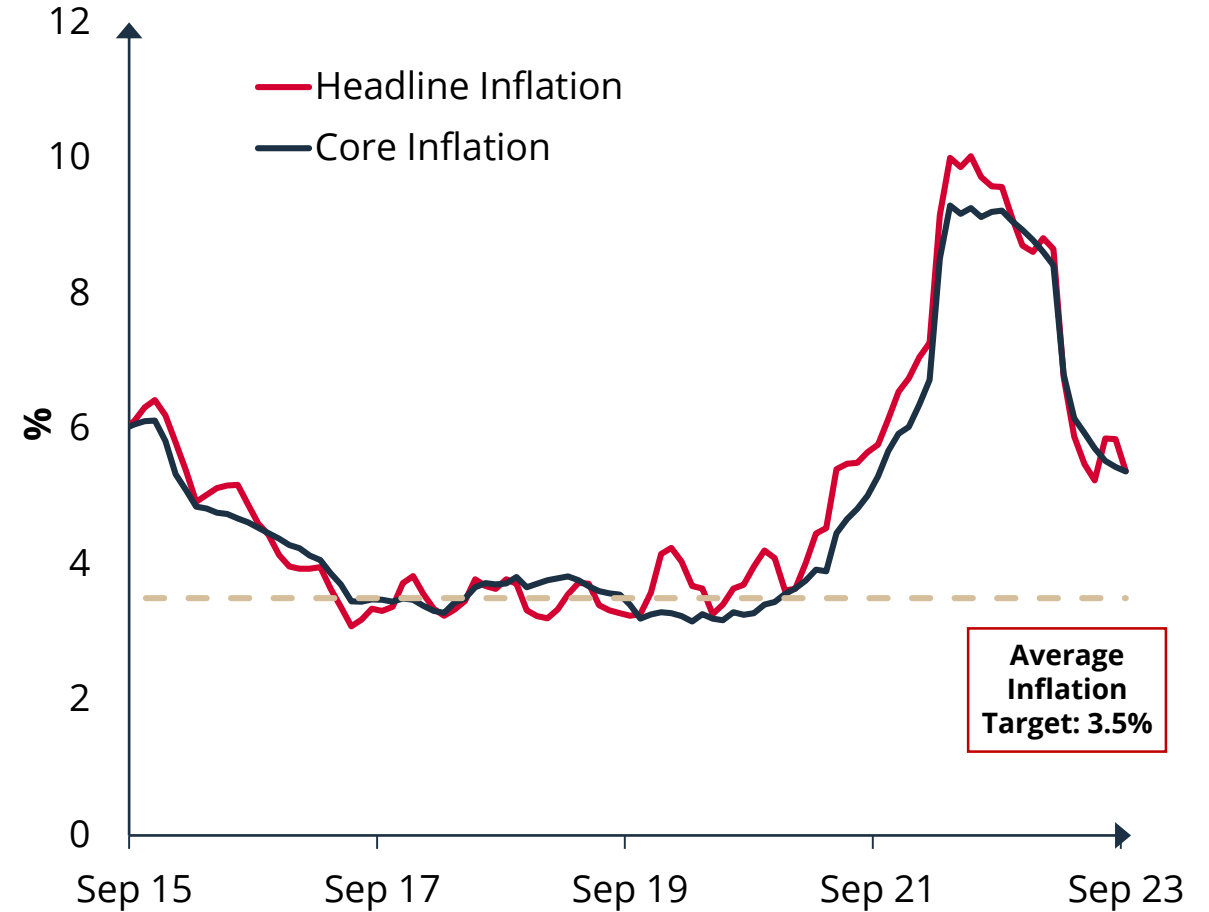


Inflation continues to remain above targets.

Inflation in Advanced Economies*

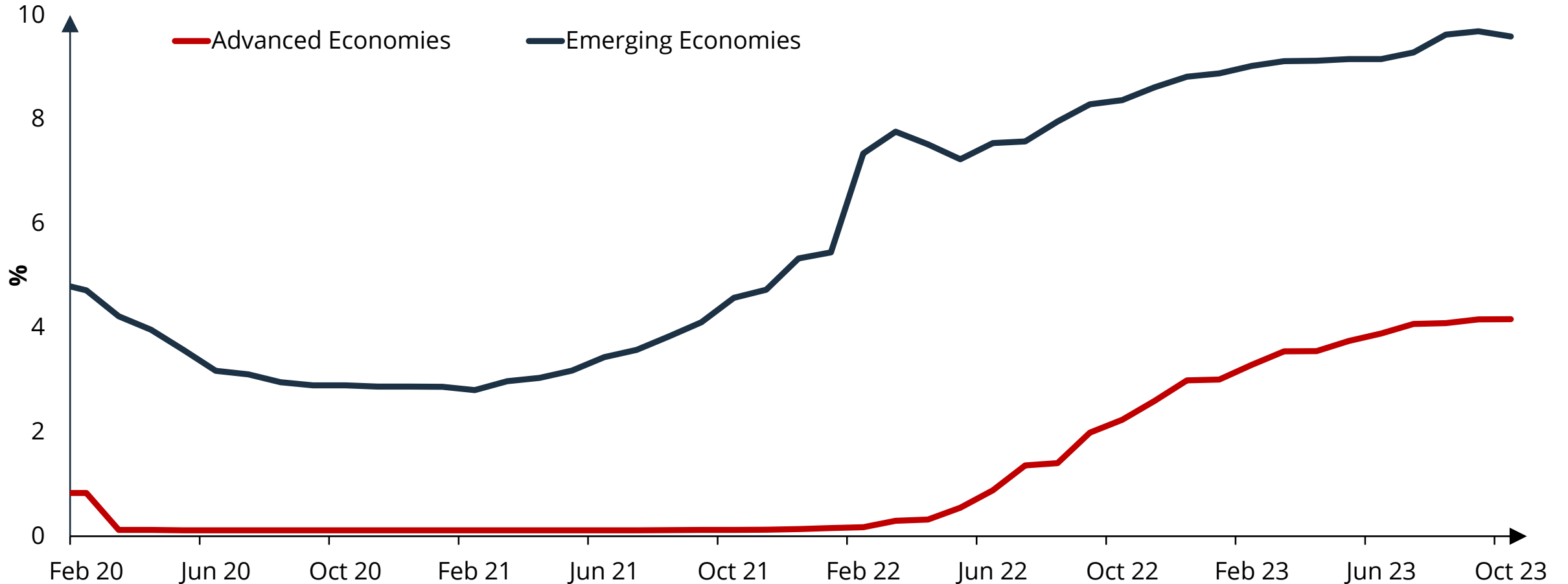


Inflation in Emerging Economies*



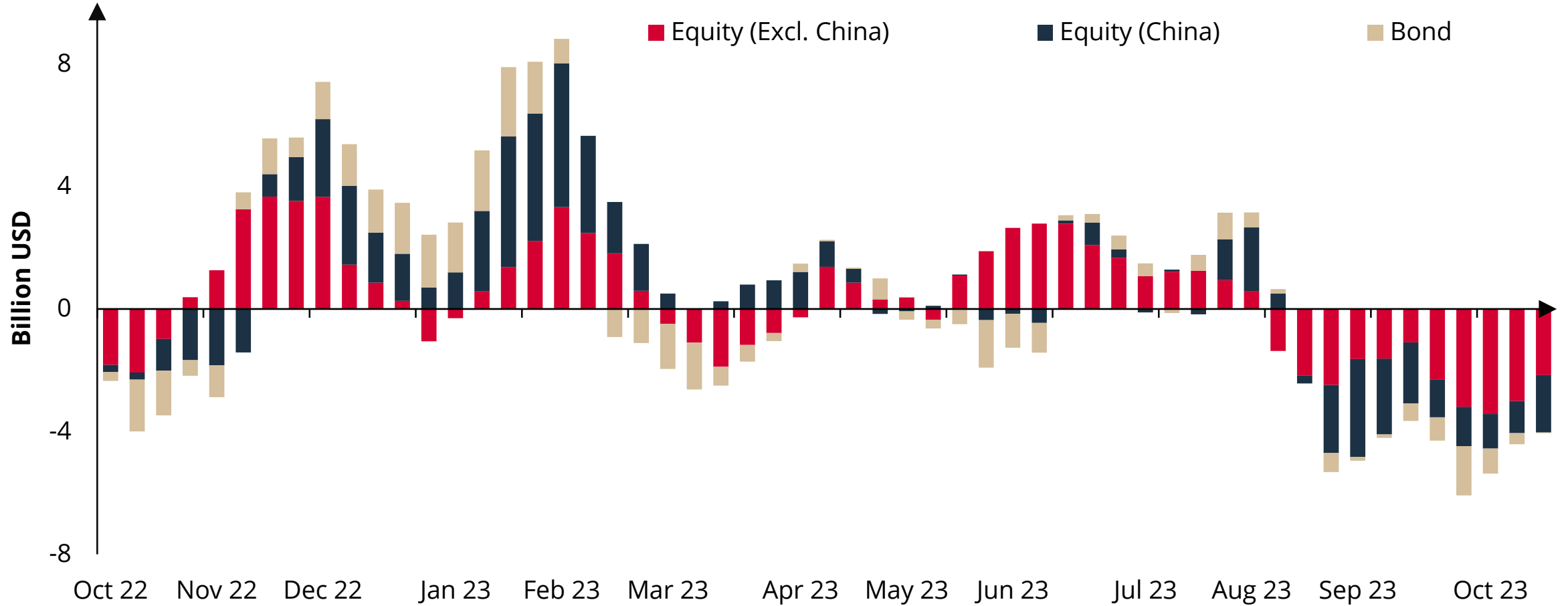
Central banks maintain their tight monetary policies.

Policy Rates*



Emerging economies have witnessed portfolio outflows recently.

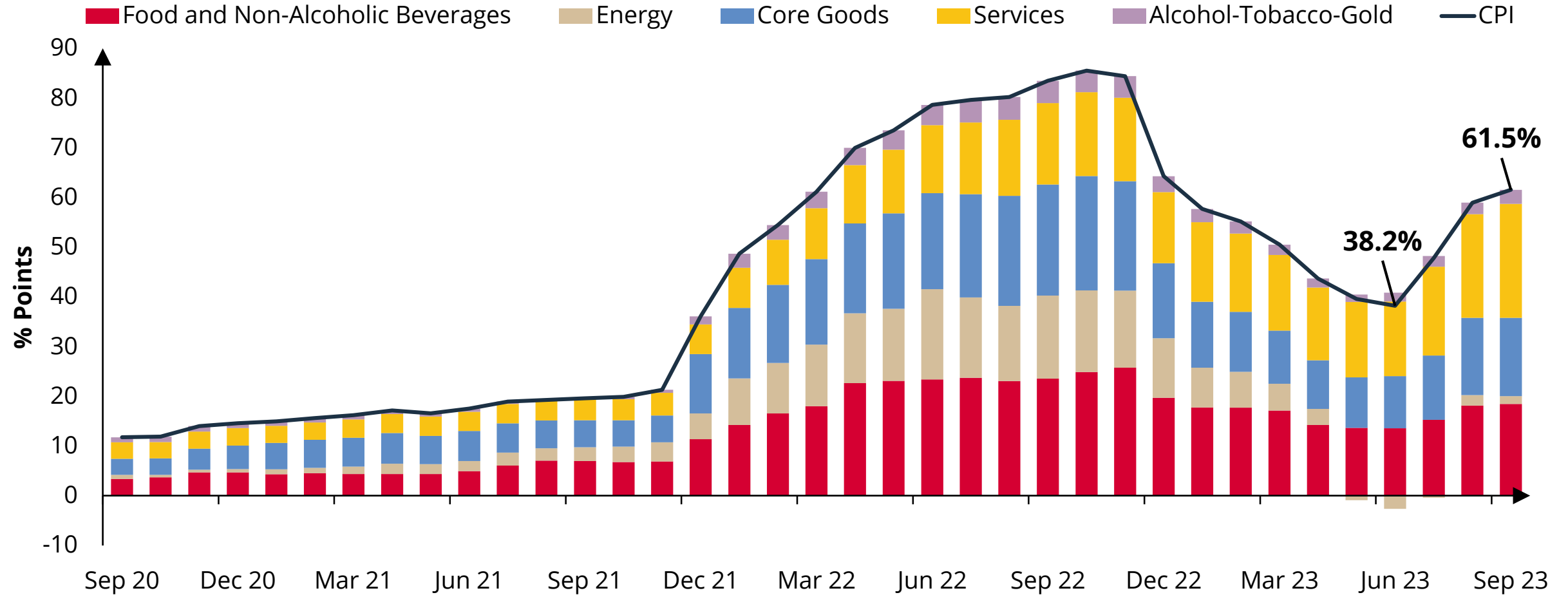
Portfolio Flows*



INFLATION

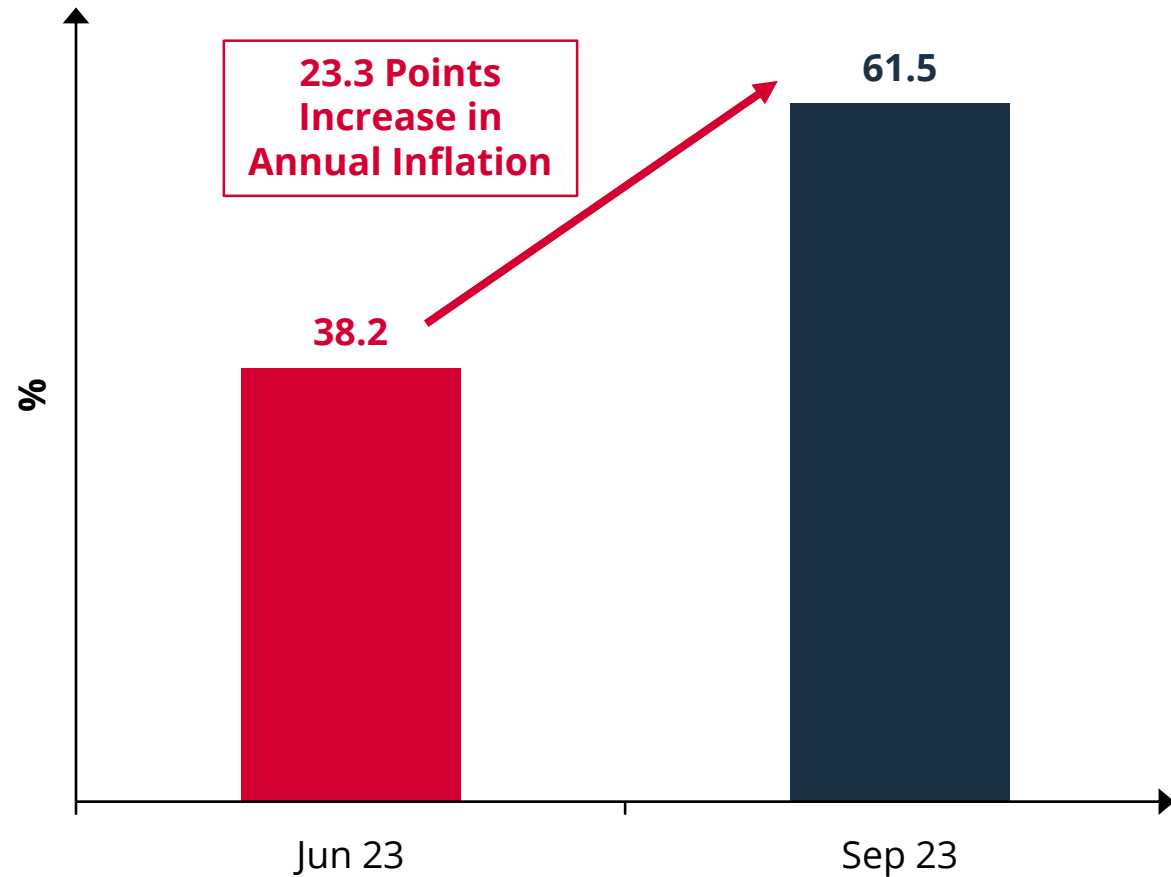
Annual inflation rose to 61.5% as of September.

Contribution of Main Groups to Annual CPI Inflation



The rise in inflation was driven by the simultaneity of large shocks.

Annual Headline Inflation

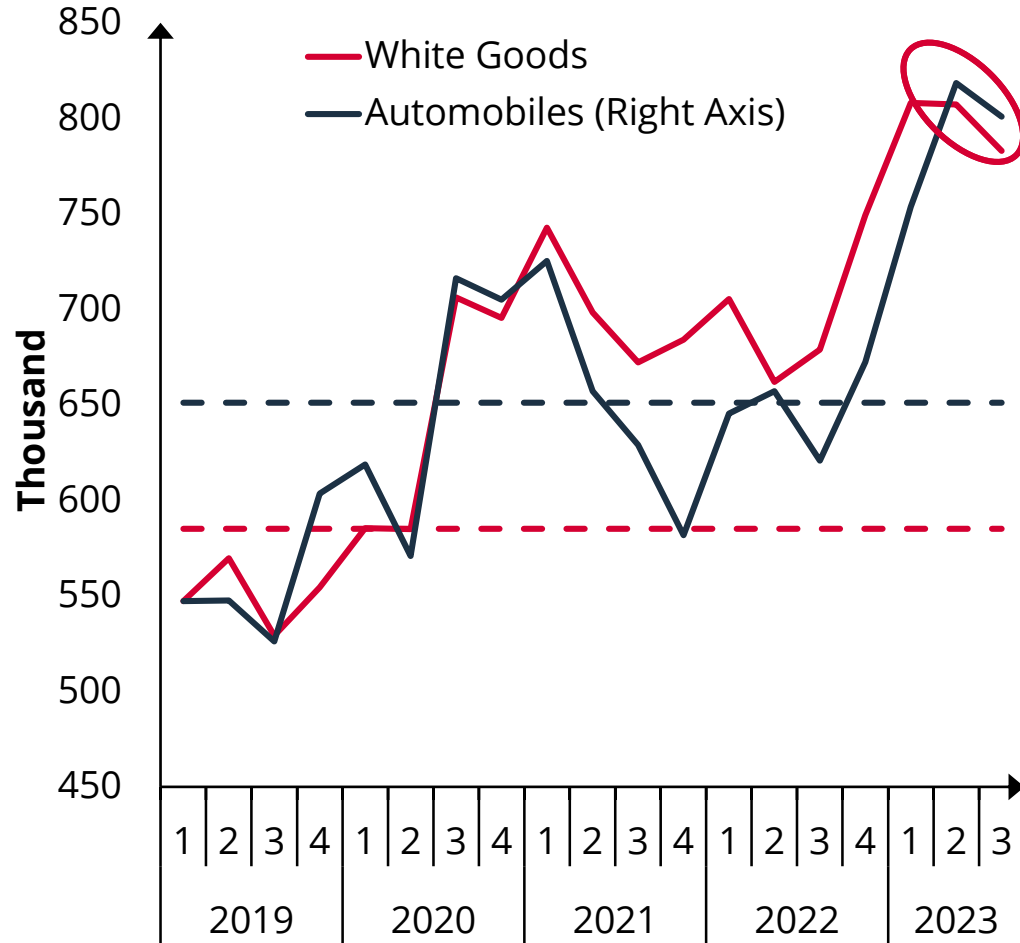


Contributions to the Increase in June-September Inflation

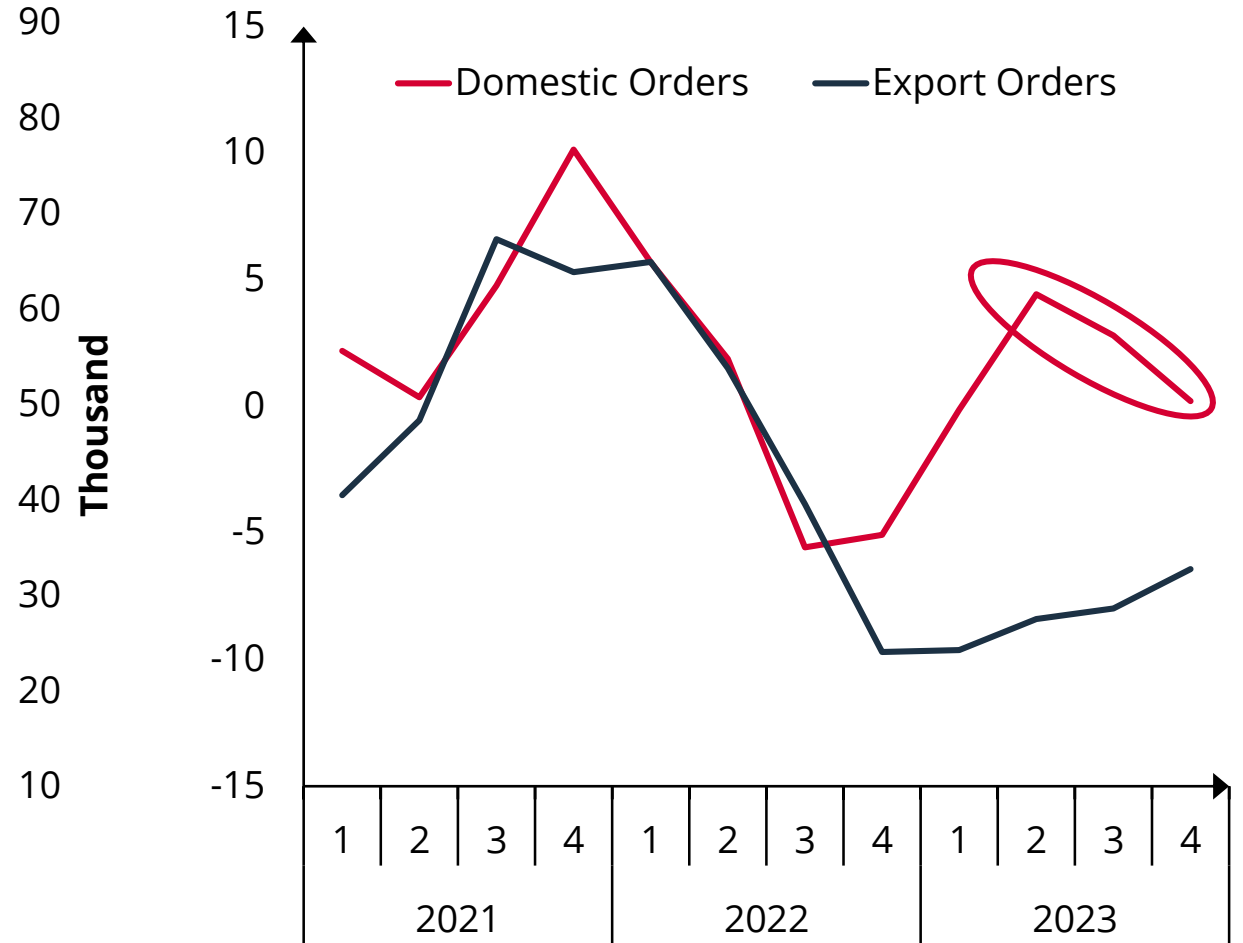
Driver of Inflation	Change	Contribution (Points)
Fuel-Oil (Excl. Exchange Rate)	May-September increase by 89.5%	4.8
Exchange Rate	May-September increase by 36.9%	4.3
Tax (Excl. Fuel-Oil)	Increase in VAT and lump-sum SCT in some items	2.5
Other*	-	1.6
+		
Deterioration in Pricing Behavior	-	10.1

Demand remains robust, albeit with deceleration.

Sales*

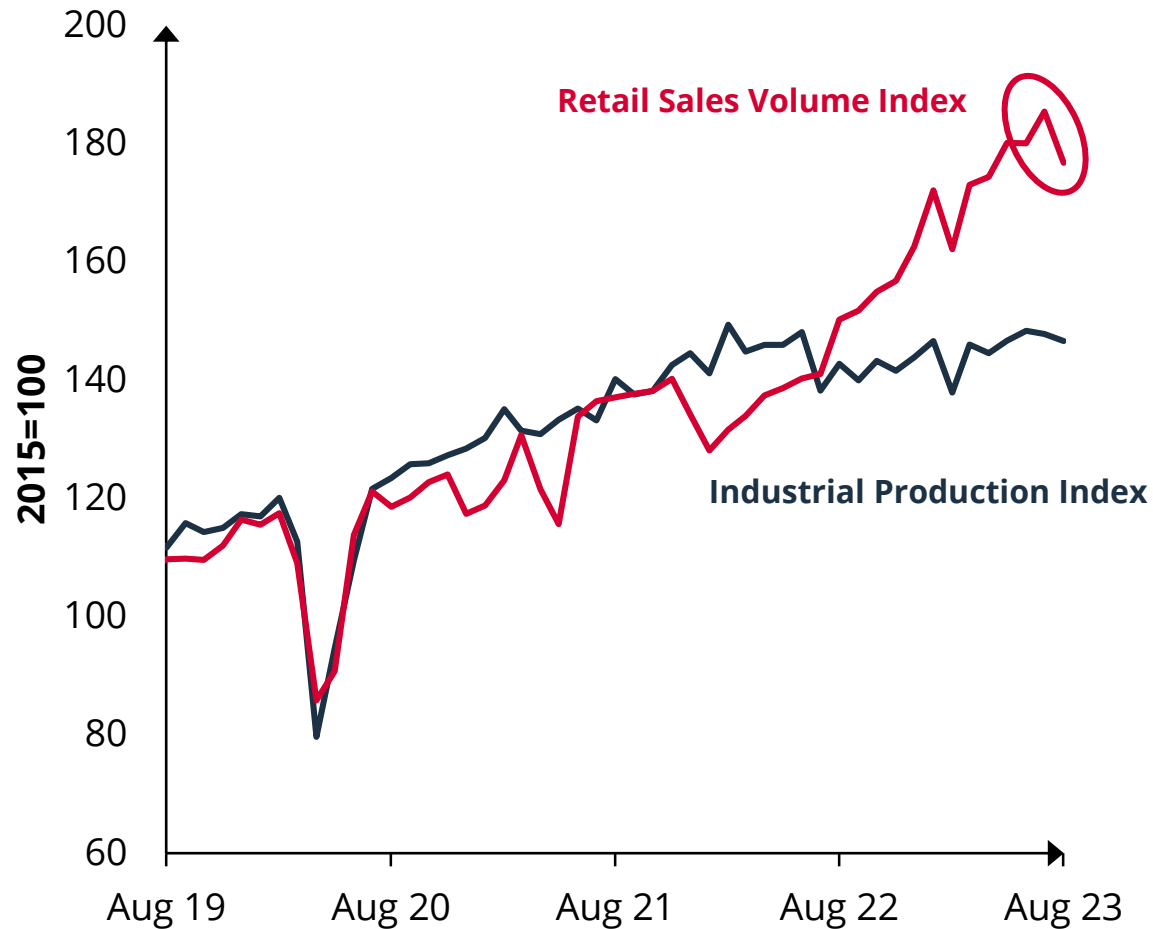


Registered Orders**

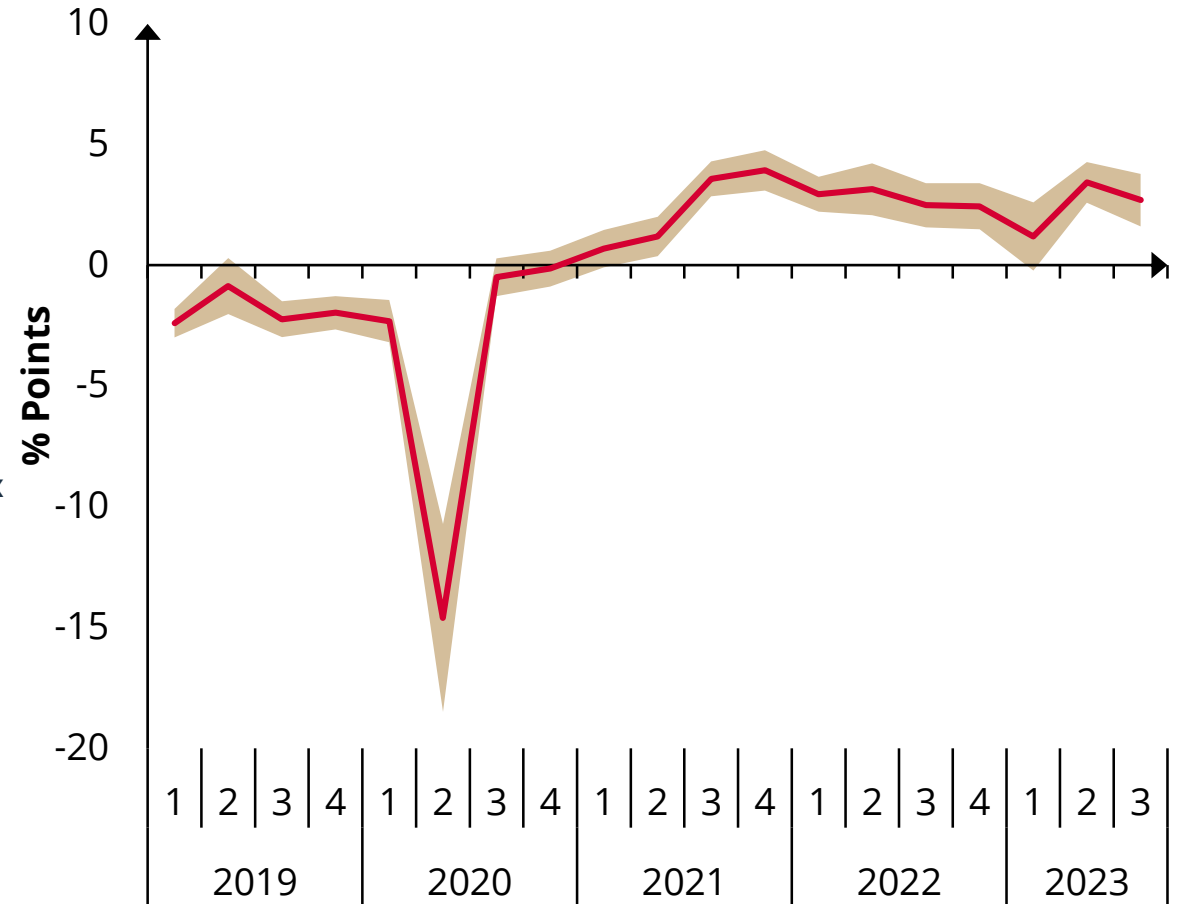


A gradual normalization in supply-demand balance has started.

Supply and Demand Indicators*



Output Gap**



Excessive demand had a negative impact on current account balance.

Current Account Balance and Its Components*

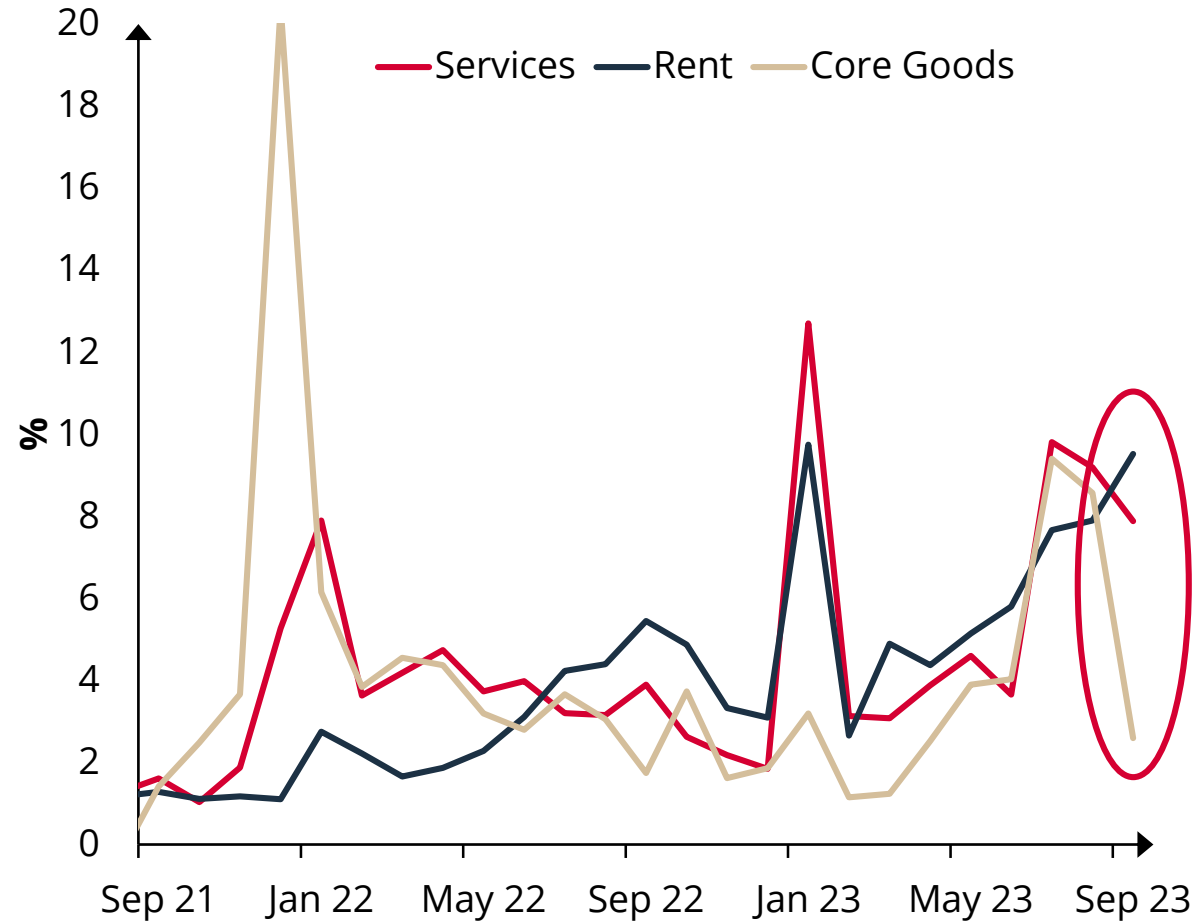
	2022	2023
Current Balance	-33.5	-57.0
Foreign Trade Balance	-89.9	-118.2
Services Balance	46.1	51.2

Foreign Trade Balance and Its Components*

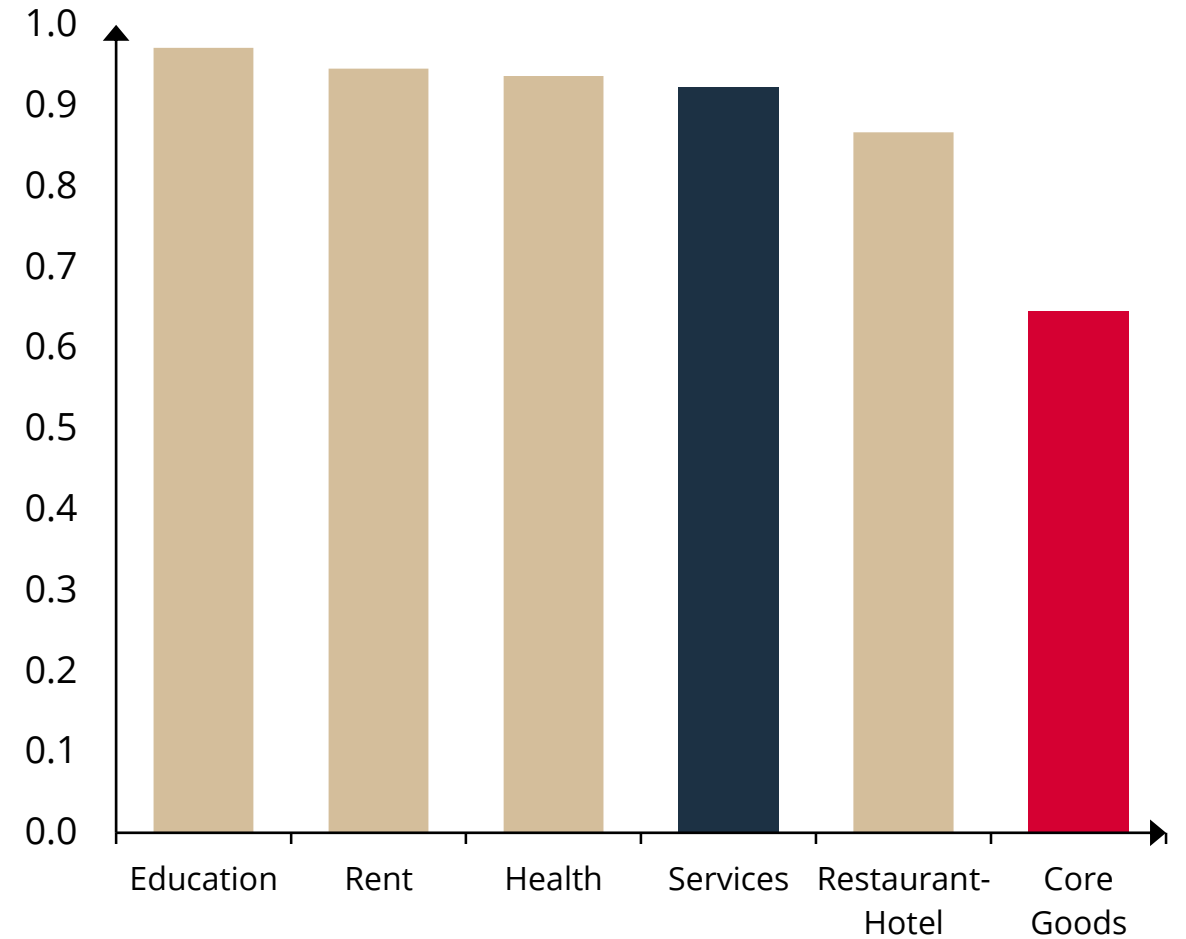
	2022	2023
Foreign Trade Balance	-89.9	-118.2
Exports	250.6	253.4
Imports	340.5	371.6
Consumer Goods	26.9	X 1.6 42.4
Gold	10.2	X 3.3 33.8

Price rigidity in services will continue to weigh on inflation.

Monthly Inflation in Services and Goods



Inertia in Services Inflation*



The monetary tightening process will initiate the re-anchoring of expectations.

12-Month-Ahead Inflation Expectations

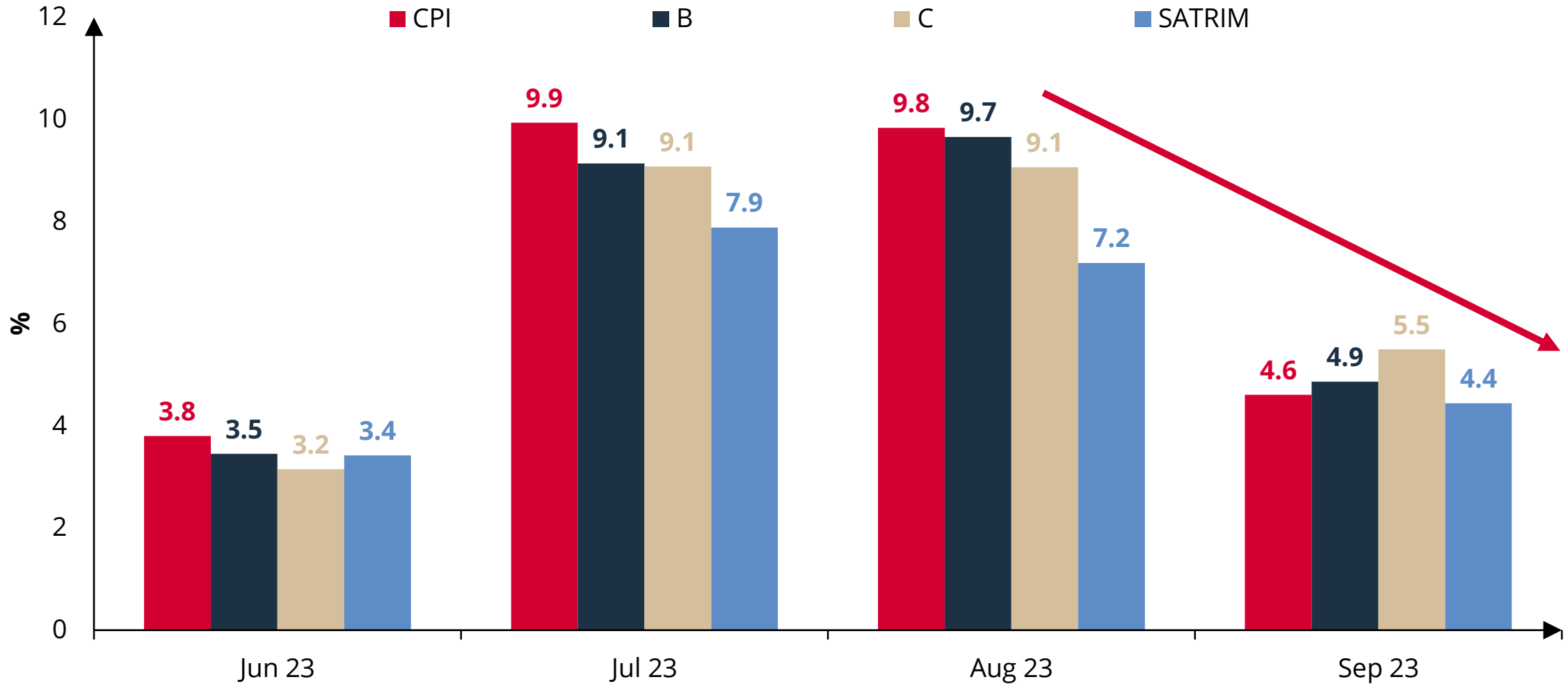
	12-Month-Ahead Inflation Expectations	Change in Expectations (Points)	Coefficient of Variation*
July 2023	33.2		0.23
August 2023	42.0	8.8	0.16
September 2023	44.9	2.9	0.16
October 2023	45.3	0.3	0.12

Inflation Expectations in Fixed Panel**

	September 23	October 23	Difference
End-2023	67.8	68.2	0.4
12-Month-Ahead	45.9	45.4	-0.5
24-Month-Ahead	24.8	23.7	-1.1
5-Year-Ahead	10.5	9.8	-0.7

Inflation indicators point to a decline in underlying trend.

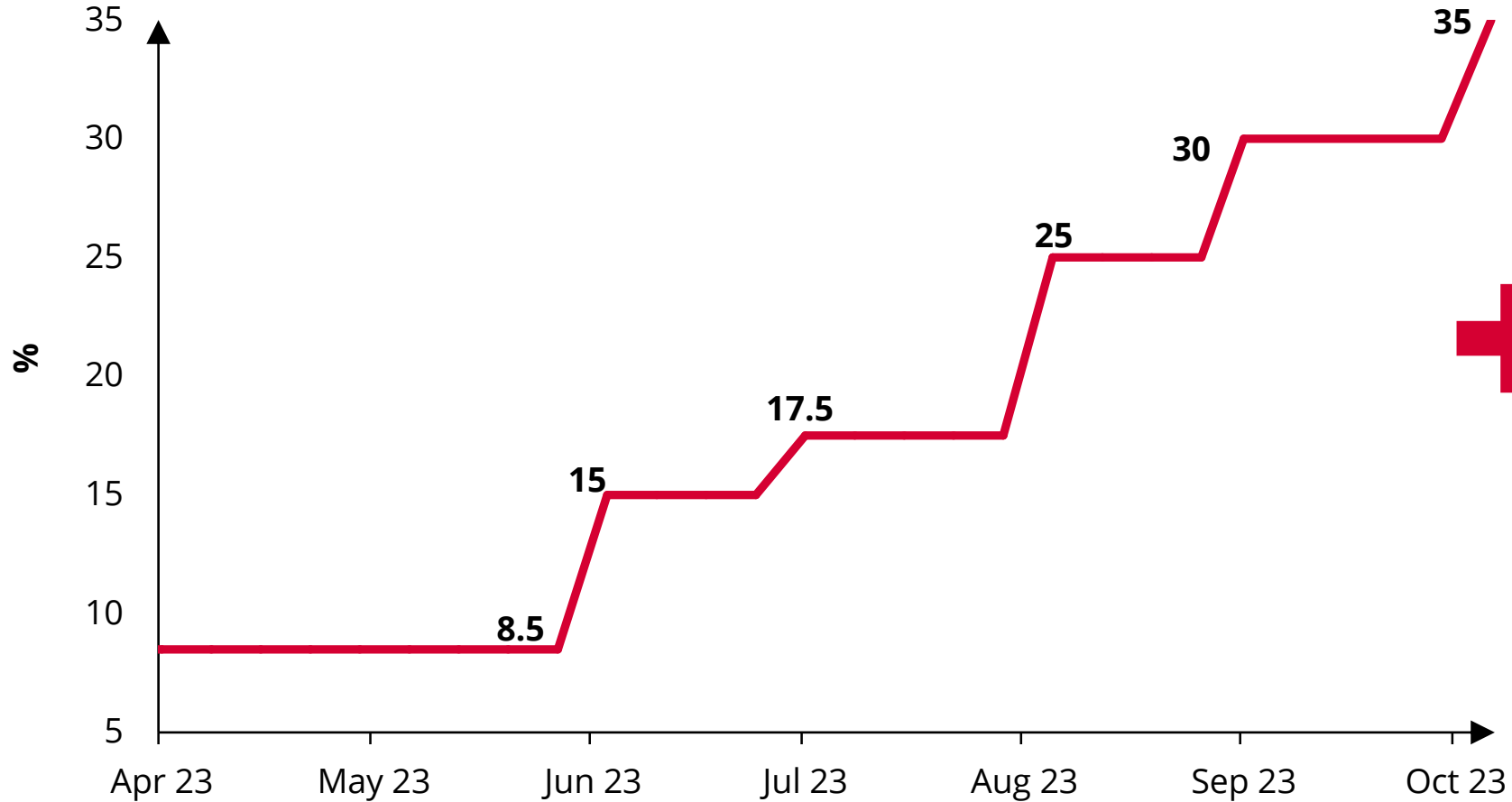
Monthly Inflation Indicators*



MONETARY POLICY

The monetary tightening process is strengthened with a holistic approach.

Policy Rate*



Quantitative Tightening



Selective Credit Tightening

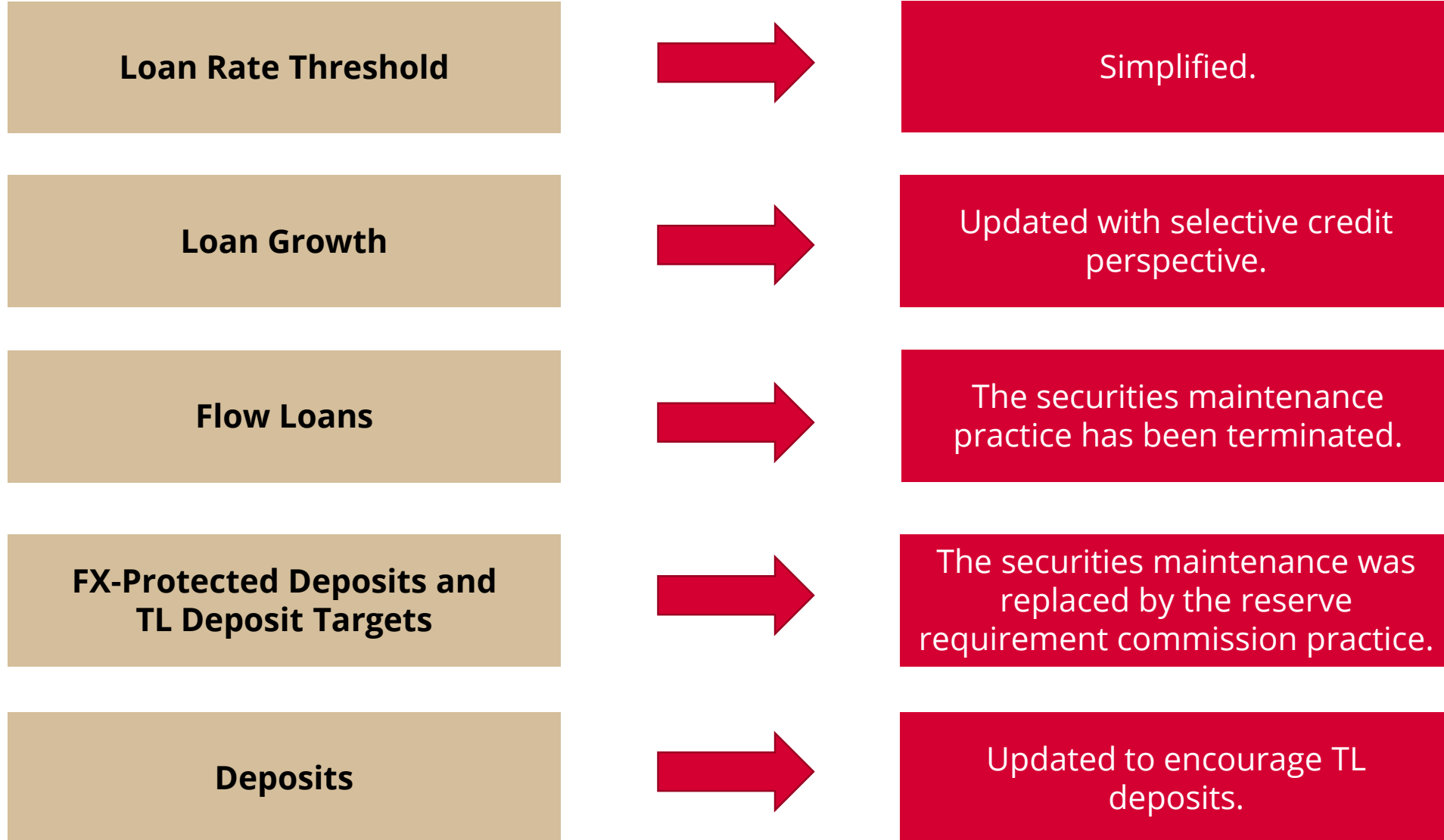
Quantitative tightening continues through sterilization of excess liquidity .

Announcement Date	Required Reserves Ratios for TL Maintenance		Liquidity Effect (Billion TL)
	FX-Protected Deposits	FX Deposits*	
21 July 2023	15%		472
14 September 2023	25% for 0-6 month maturity 5% for 6+ month maturity		230
2 November 2023	30% for 0-6 month maturity 10% for 6+ month maturity	Additional 4% to be maintained in Turkish lira	348
Total			1050

Selective credit tightening contributes to the rebalancing of demand.

		June	Current
Growth Cap on Commercial Loans	↓	3%	2.5%
Growth Cap on Auto Loans	↓	3%	2%
Growth Cap on General-Purpose Loans	→	3%	3%
<hr/>			
Commercial Loan Interest Threshold	✘	X 1.4-1.8	-
General-Purpose Loan Interest Threshold (Over 70 Thousand TL)	↑	X 1.8-2.0	X 2.0
Credit Card Maximum Interest Rate Limit (Cash Withdrawals and Overdraft Accounts)	↑	1.36%	4.42%

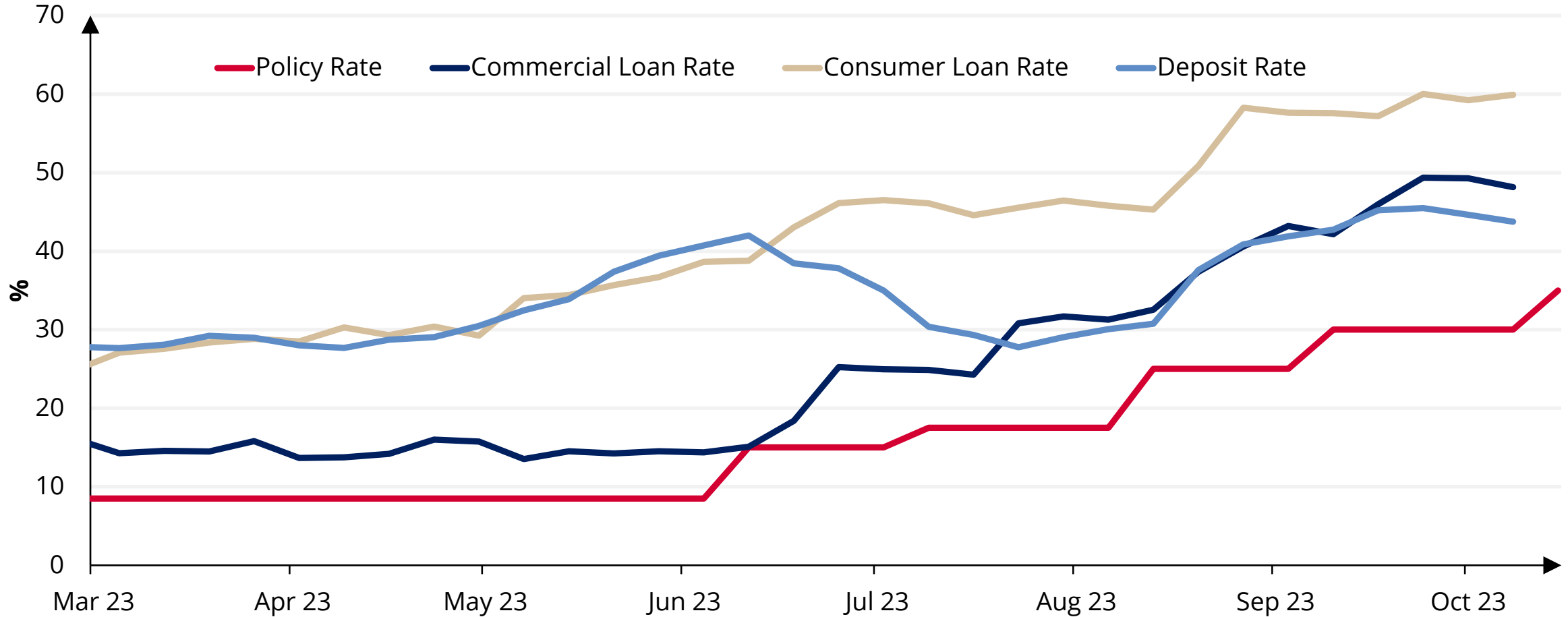
Macroprudential framework has been significantly simplified in the last 5 months.



EFFECTS OF MONETARY POLICY

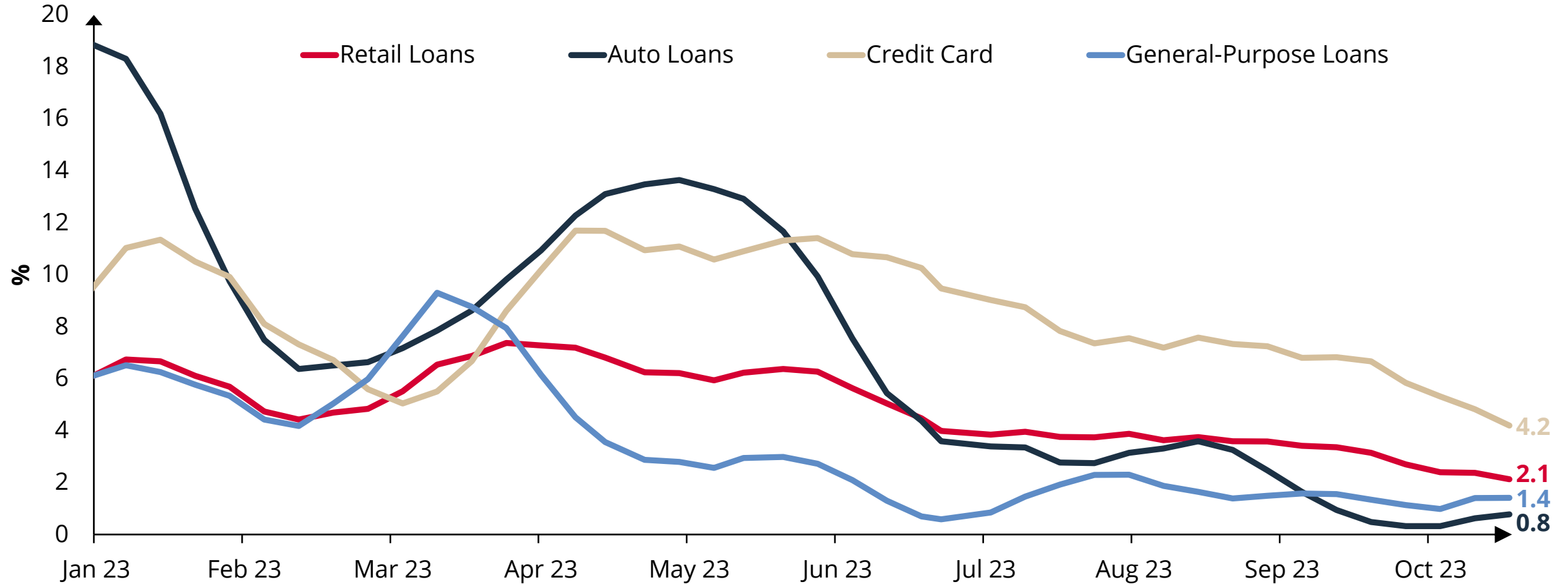
Market rates have evolved in line with our policy goals.

TL Interest Rates*



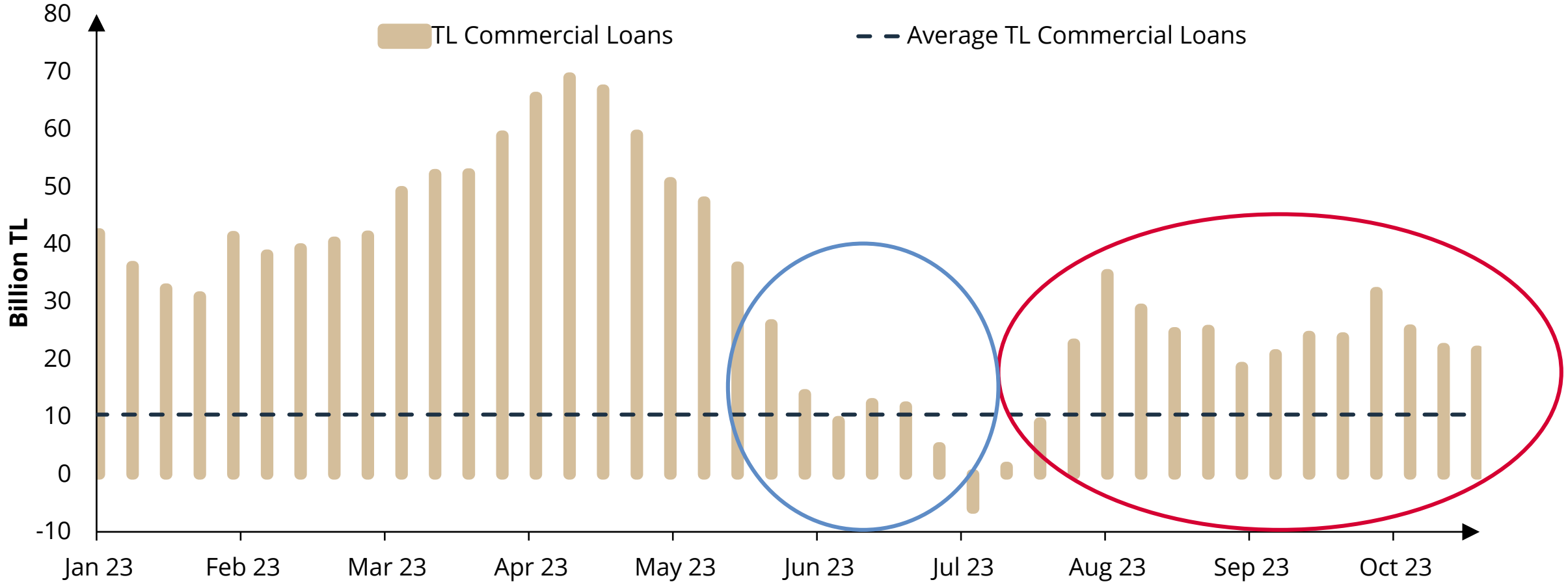
Retail loan growth has started to normalize.

Loan Growth*



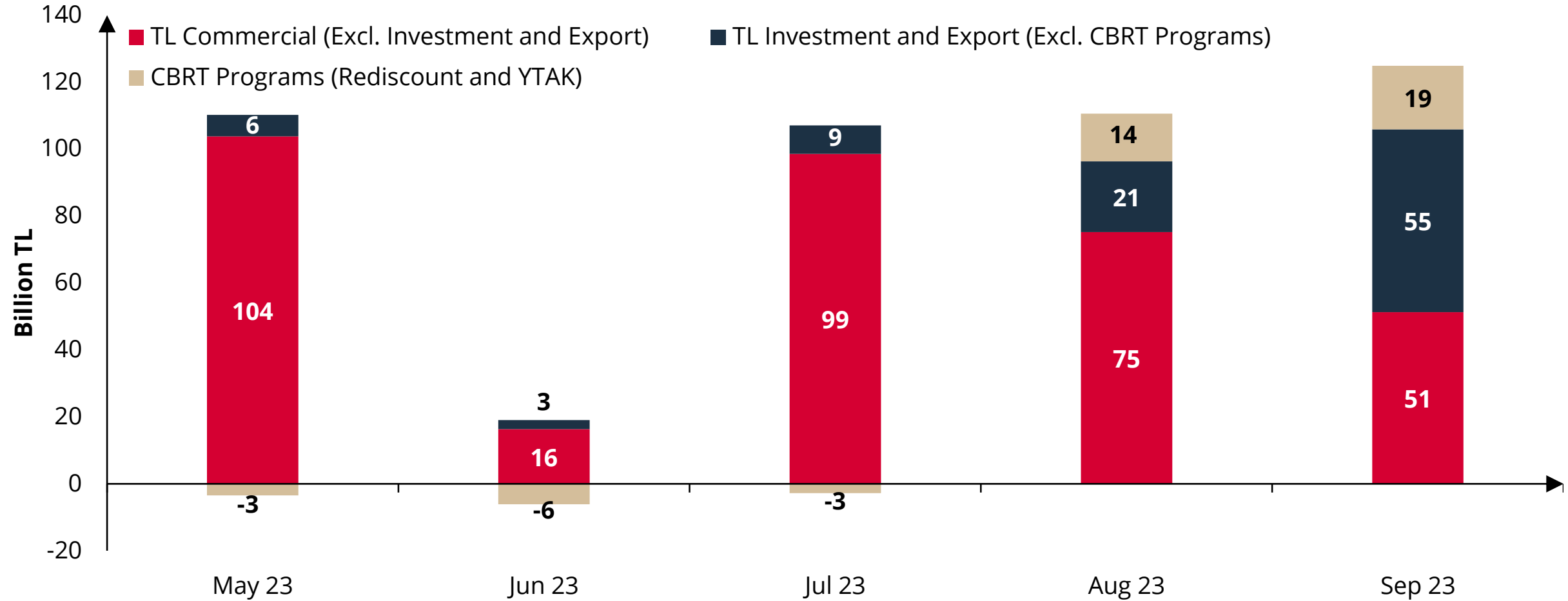
Commercial loan growth shows continuity.

Weekly Change in TL Commercial Loans*



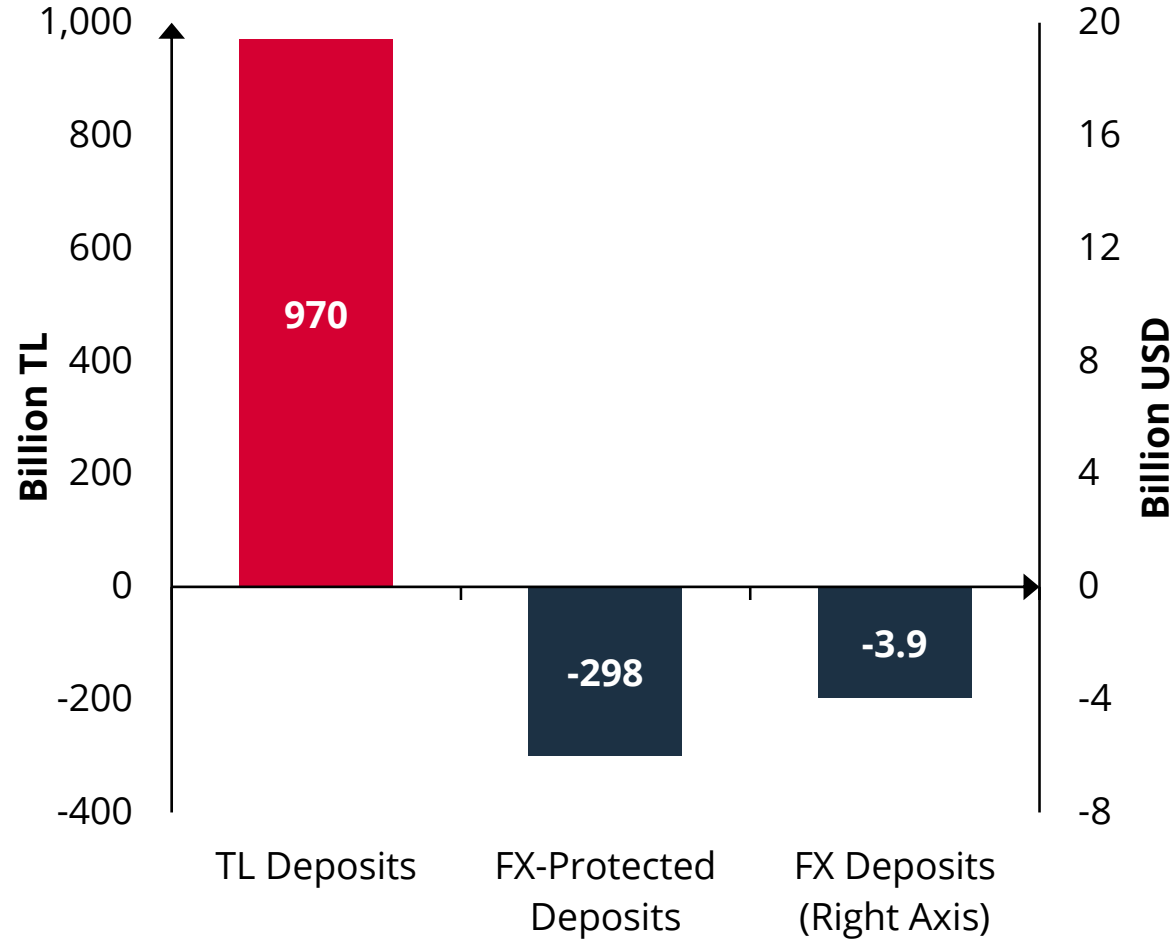
Commercial loan composition is supported by export and investment loans.

Change in Stock TL Commercial Loans*

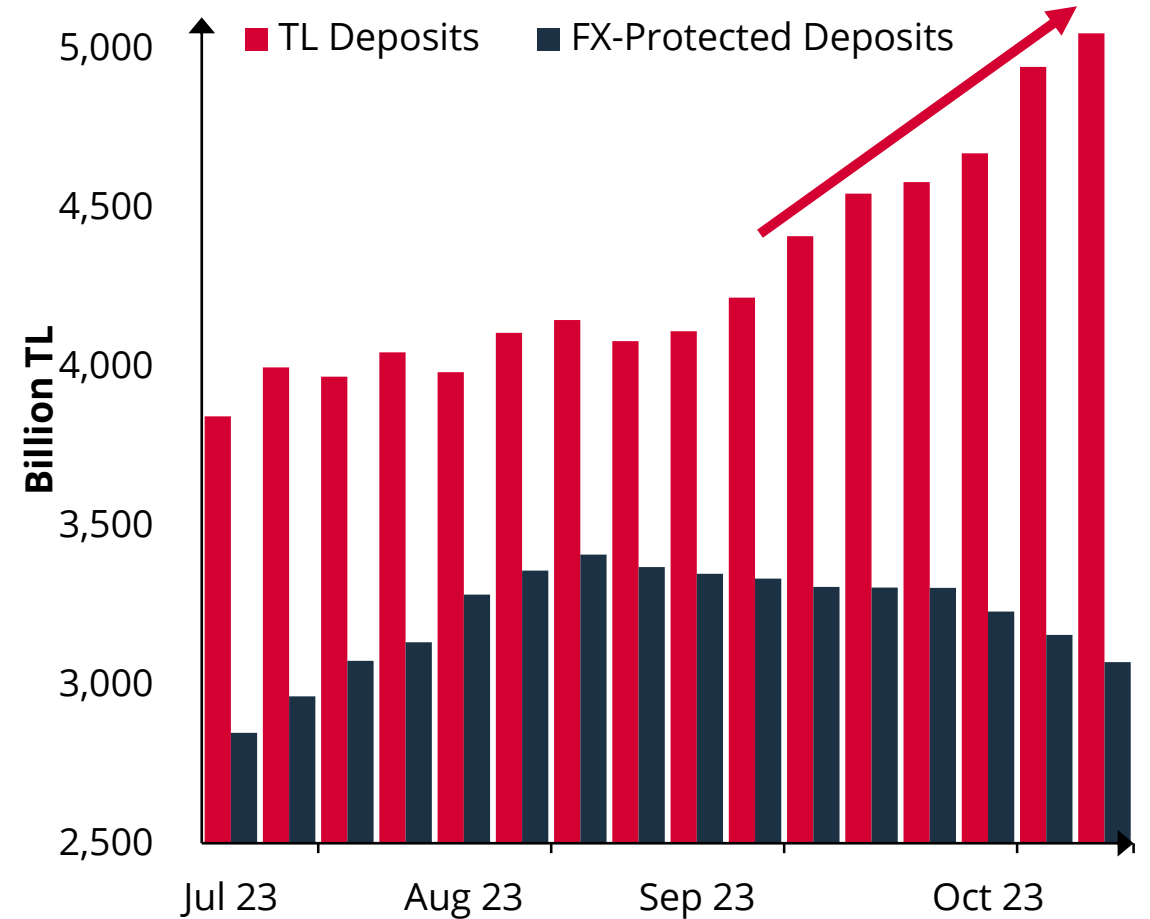


FX-protected deposits and FX deposits declined while TL deposits increased.

Change in Outstanding Deposits*

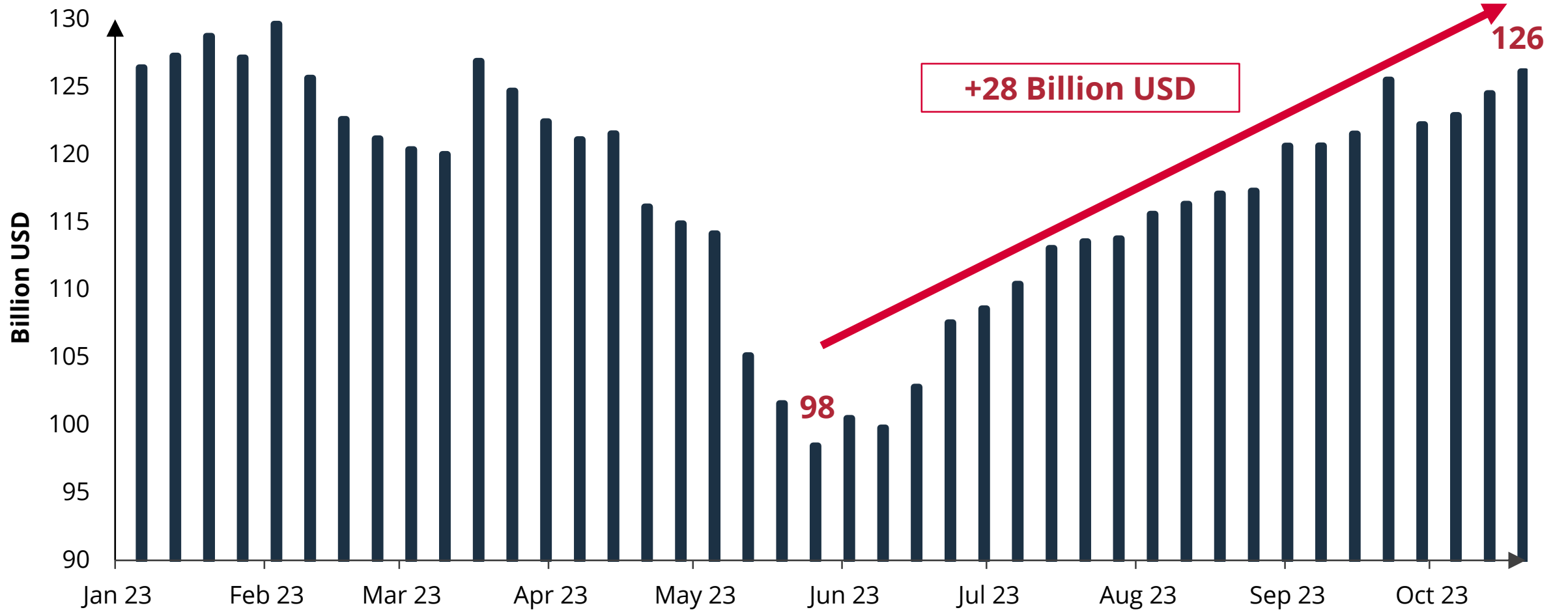


Outstanding Deposits



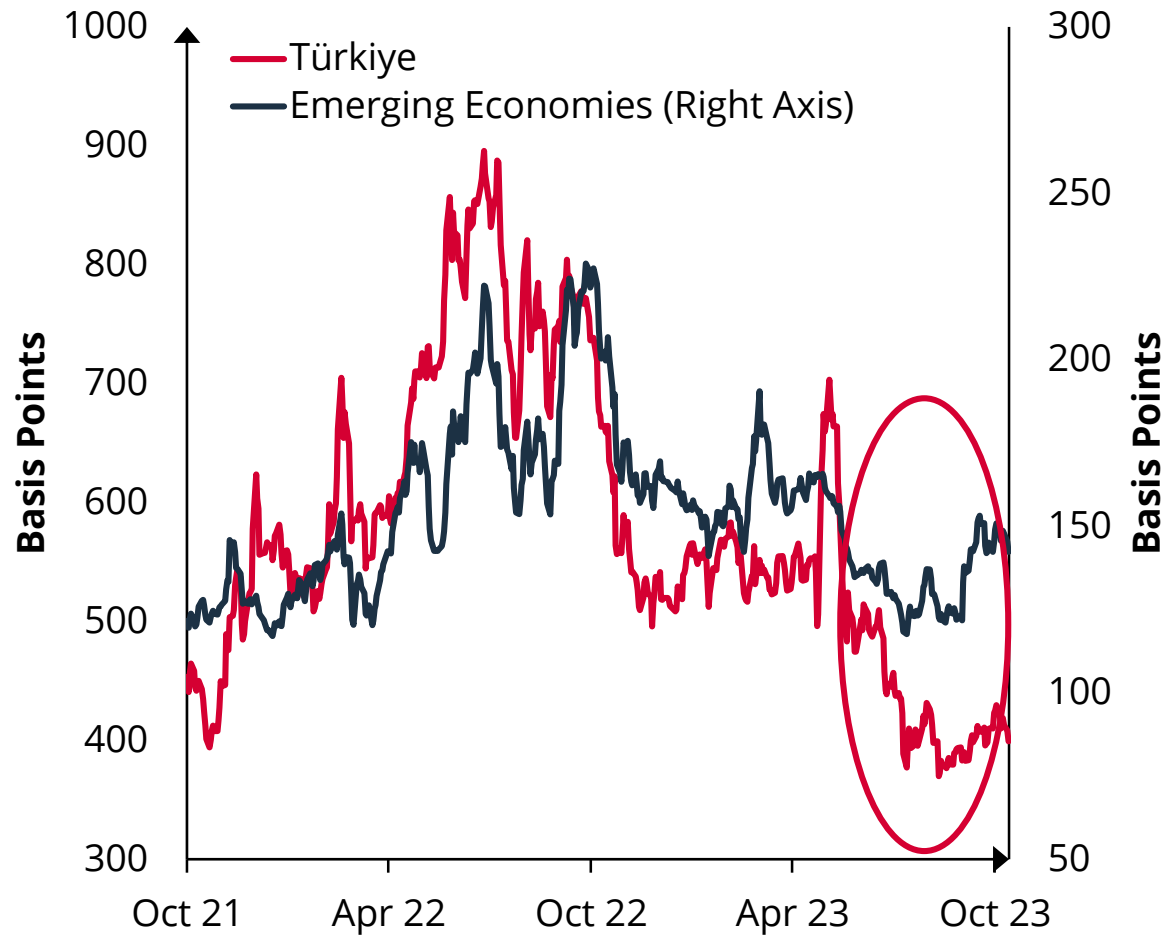
The steady increase in reserves continues.

CBRT International Reserves*

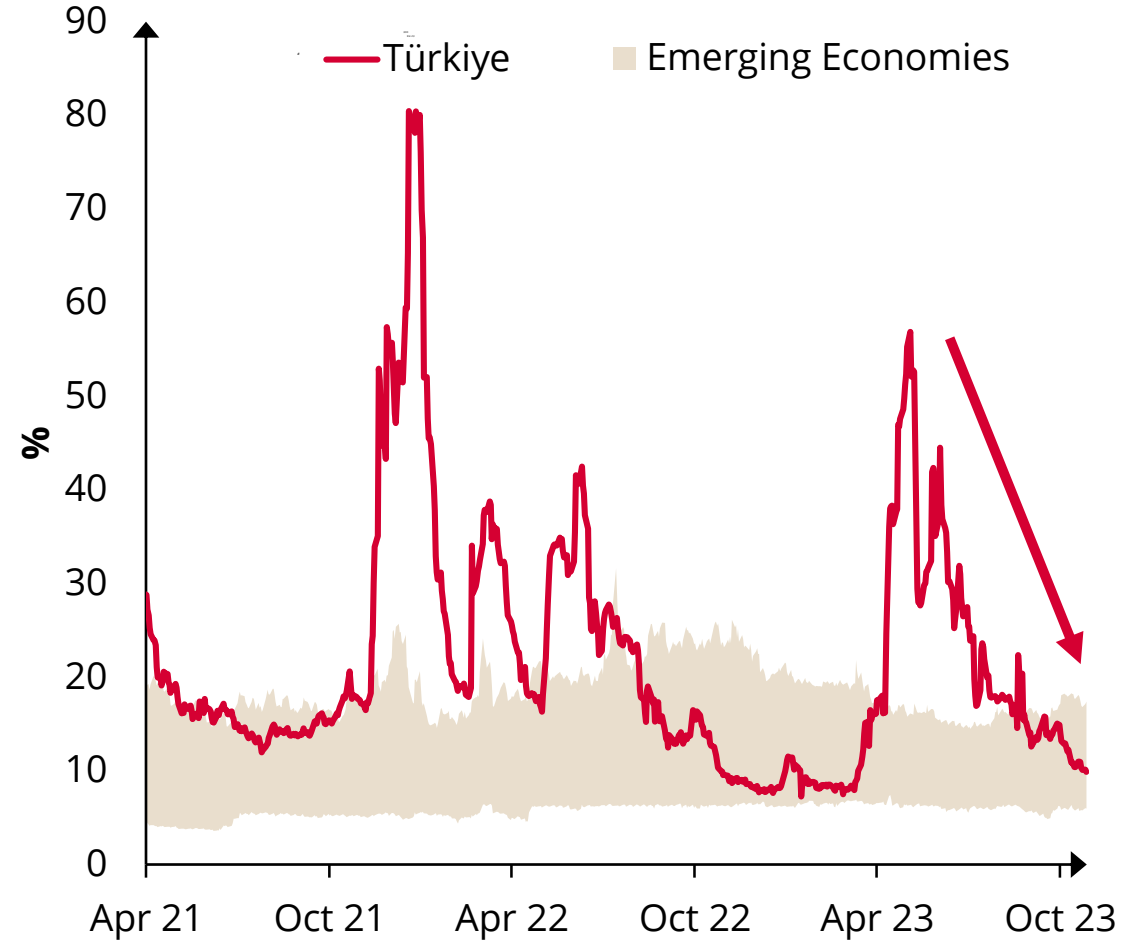


The risk premium and implied FX volatility have significantly improved.

CDS Premium*



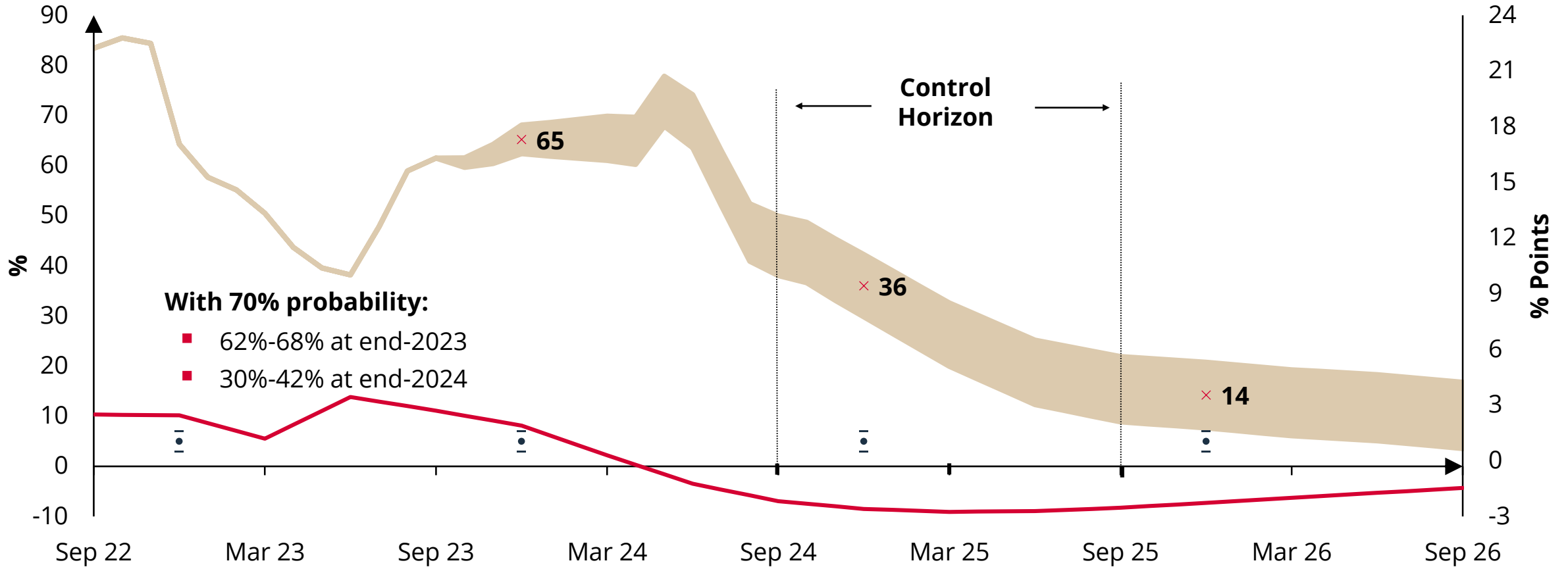
Implied FX Volatility by Options*



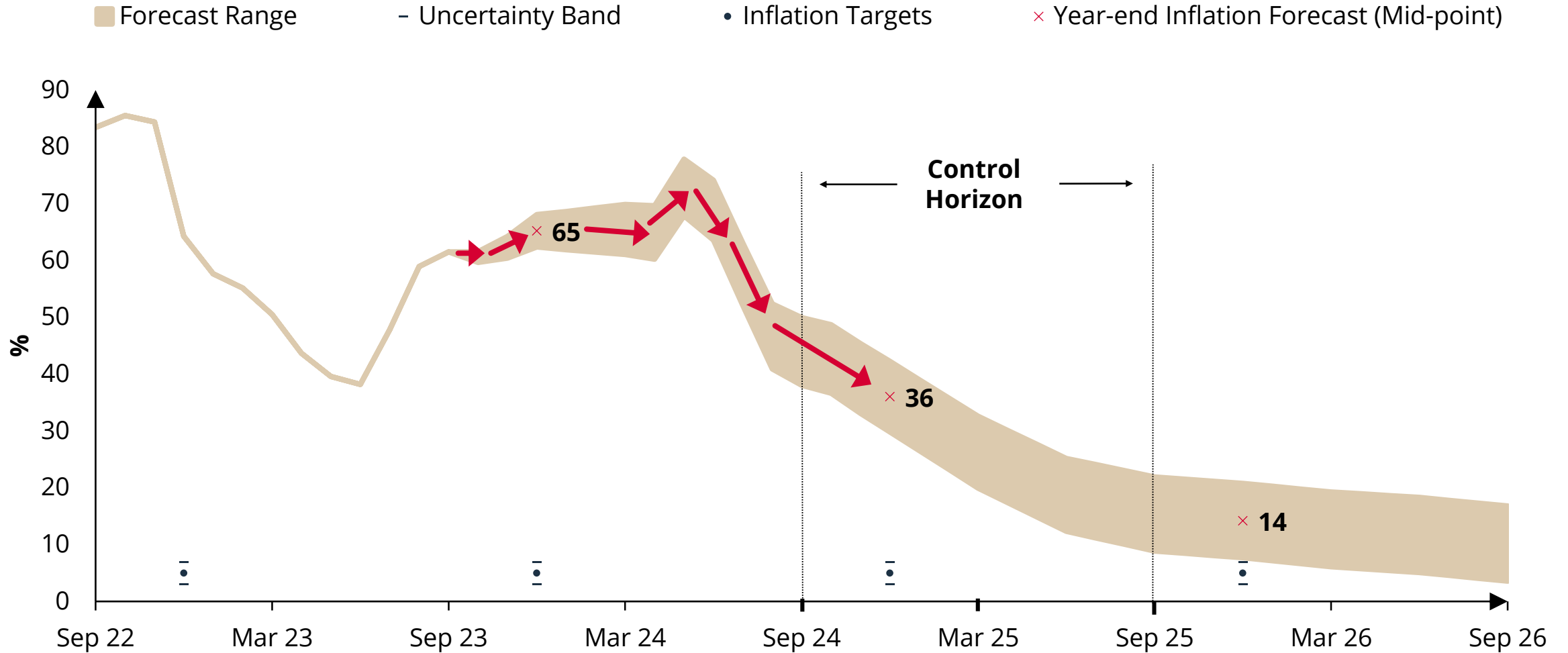
MEDIUM-TERM PROJECTIONS

The year-end inflation forecast was revised as 65% for 2023 and 36% for 2024.

■ Forecast Range - Uncertainty Band • Inflation Targets × Year-end Inflation Forecast (Mid-point) — Output Gap (Right Axis)



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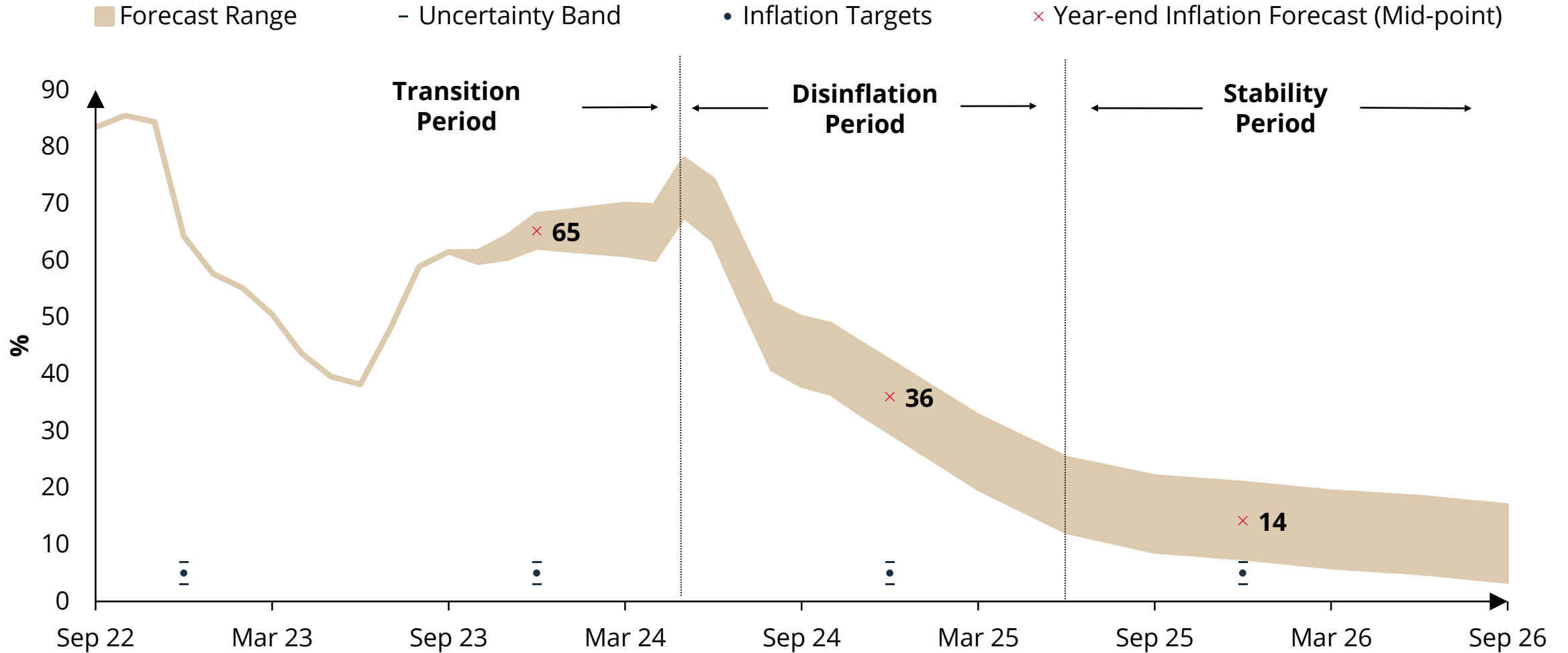


Revisions to Inflation Forecasts

	2023	2024
IR 2023-III Year-End Forecast (%)	58	33
IR 2023-IV Year-End Forecast (%)	65	36
Forecast Revision Compared to IR 2023-III Period (% Points)	7	3
Sources of Forecast Revision (% Points)		
Realization-Forecast Difference and Its Reflection on Underlying Inflation	+2.9	+1.4
TL-Denominated Import Prices	+2.0	+1.8
Administered Prices (Including Energy)	-	+1.5
Food Prices	+1.3	-1.0
Output Gap	+0.8	-0.7

OVERVIEW

Disinflation will start in 2024 with the cumulative effects of monetary tightening.





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