



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

MONETARY POLICY TRANSMISSION MECHANISM

Hatice Karahan, PhD
Deputy Governor of the CBRT

JULY 11, 2024

ISTANBUL



Outline

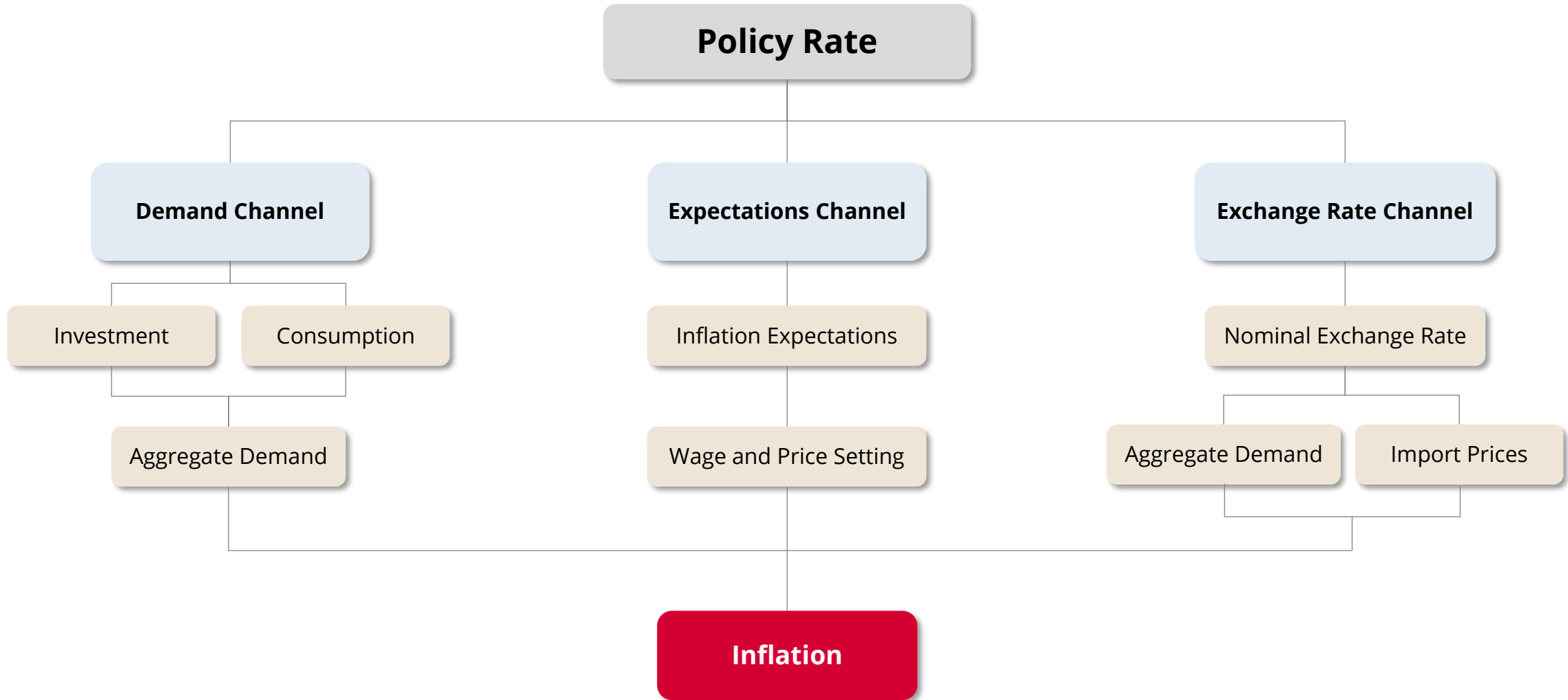
▪ Transmission Mechanism

- Demand Channel
- Exchange Rate Channel
- Expectations Channel

▪ Inflation Outlook

TRANSMISSION MECHANISM

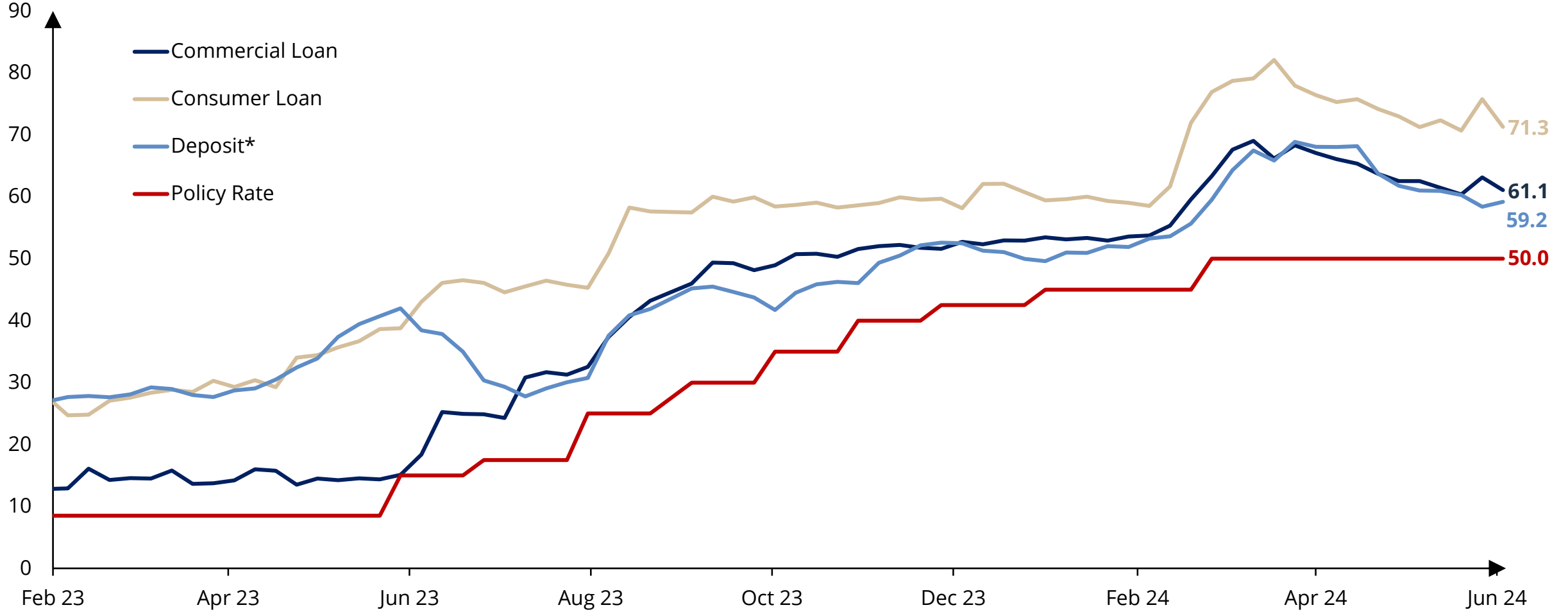
Monetary Policy Transmission Mechanism



DEMAND CHANNEL

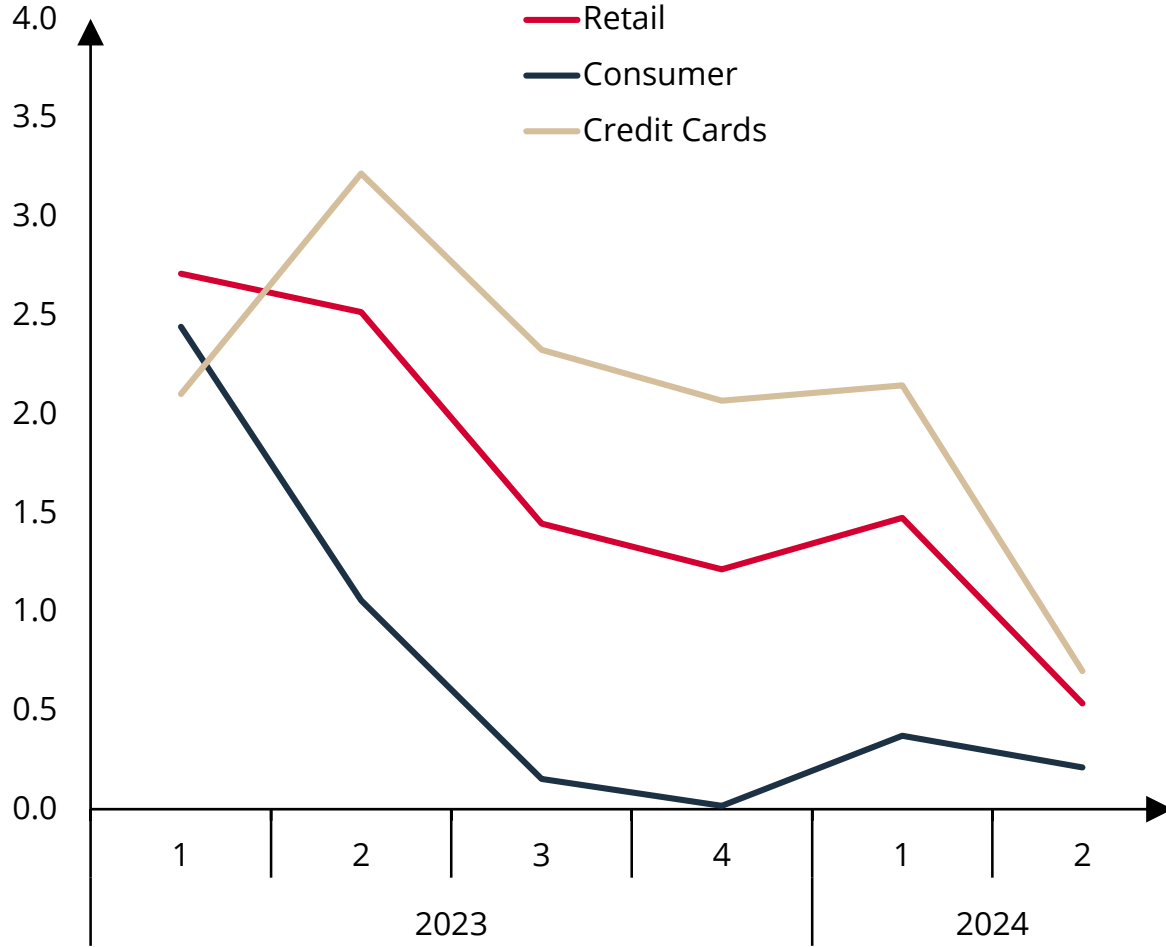
Financial conditions have tightened following the policy rate hikes.

Interest Rates (%)

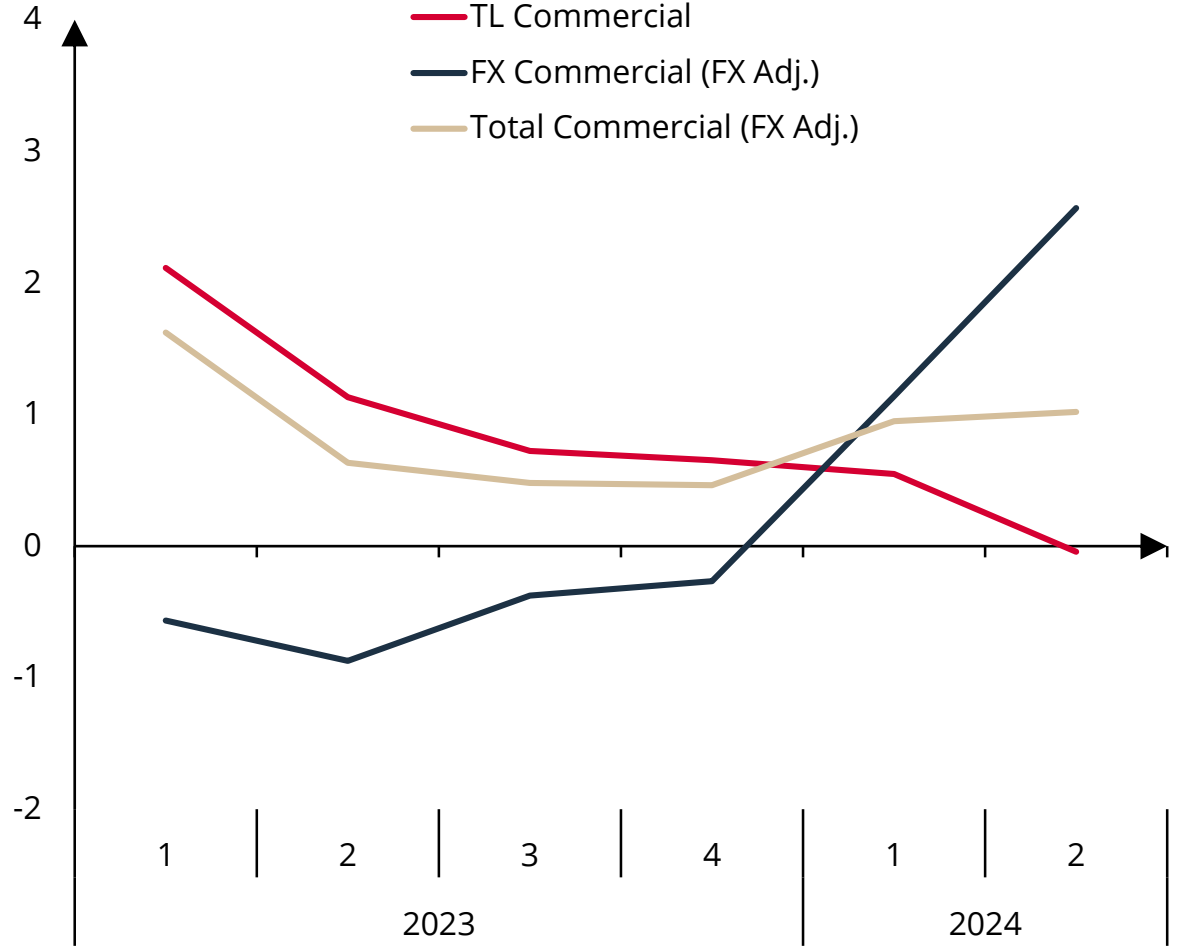


TL loan growth has moderated as a result.

Real Retail Loan Growth* (Quarterly, Standardized Value)

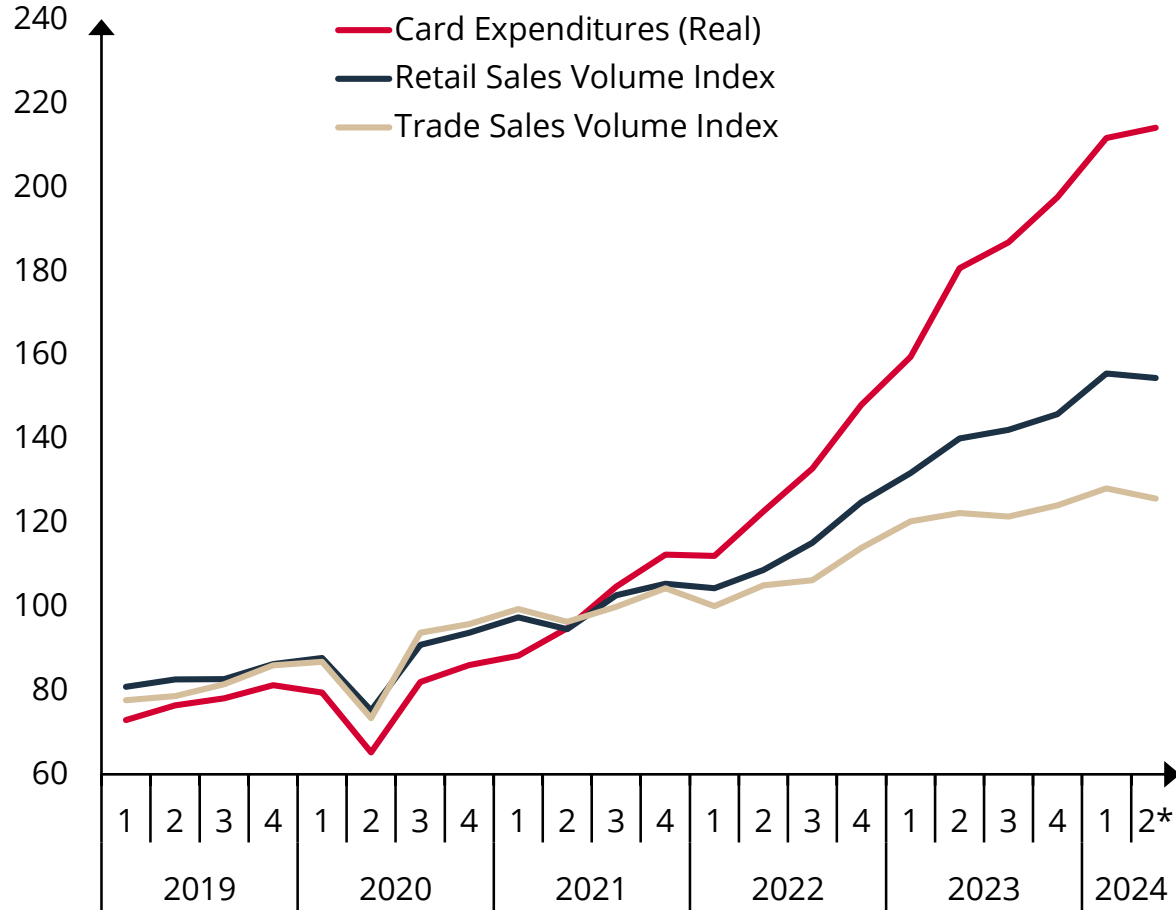


Real Commercial Loan Growth* (Quarterly, Standardized Value)

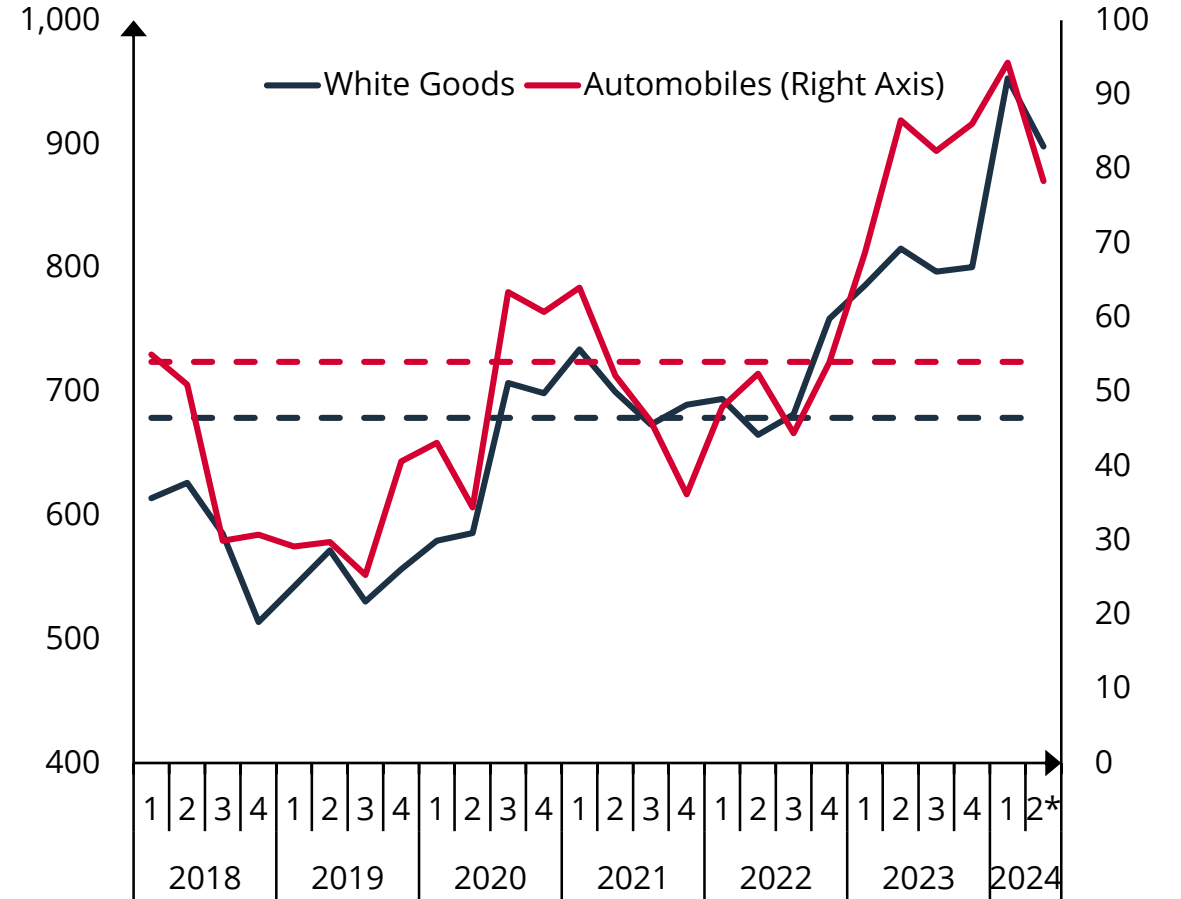


Real indicators point to a slowdown in domestic demand compared to 2024Q1.

Consumption Indicators (Seasonally Adjusted, 2021=100)



Sales of White Goods and Automobiles (Thousand, Seasonally and Calendar Adjusted)



Source: CBRT, TURKSTAT.

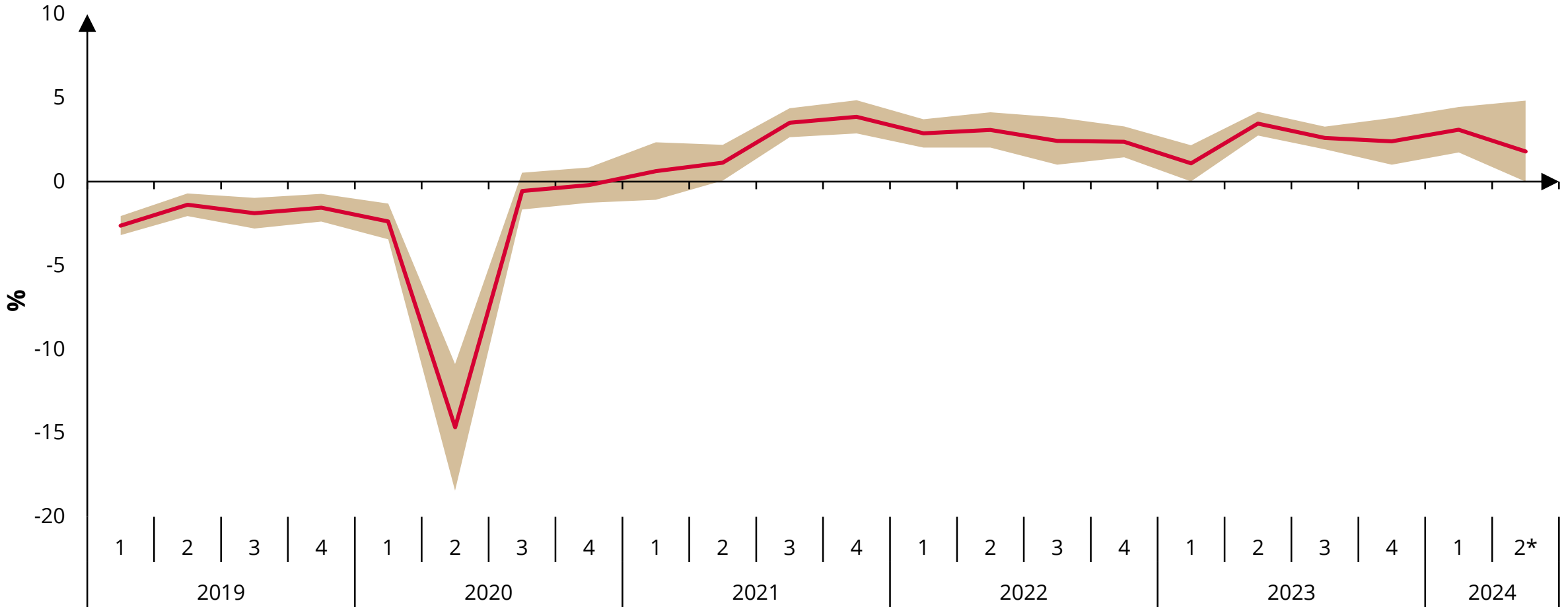
* Trade sales and retail sales indices data are as of April.

Source: ODMD, TURKBESD.

* April-May average for white goods sales

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

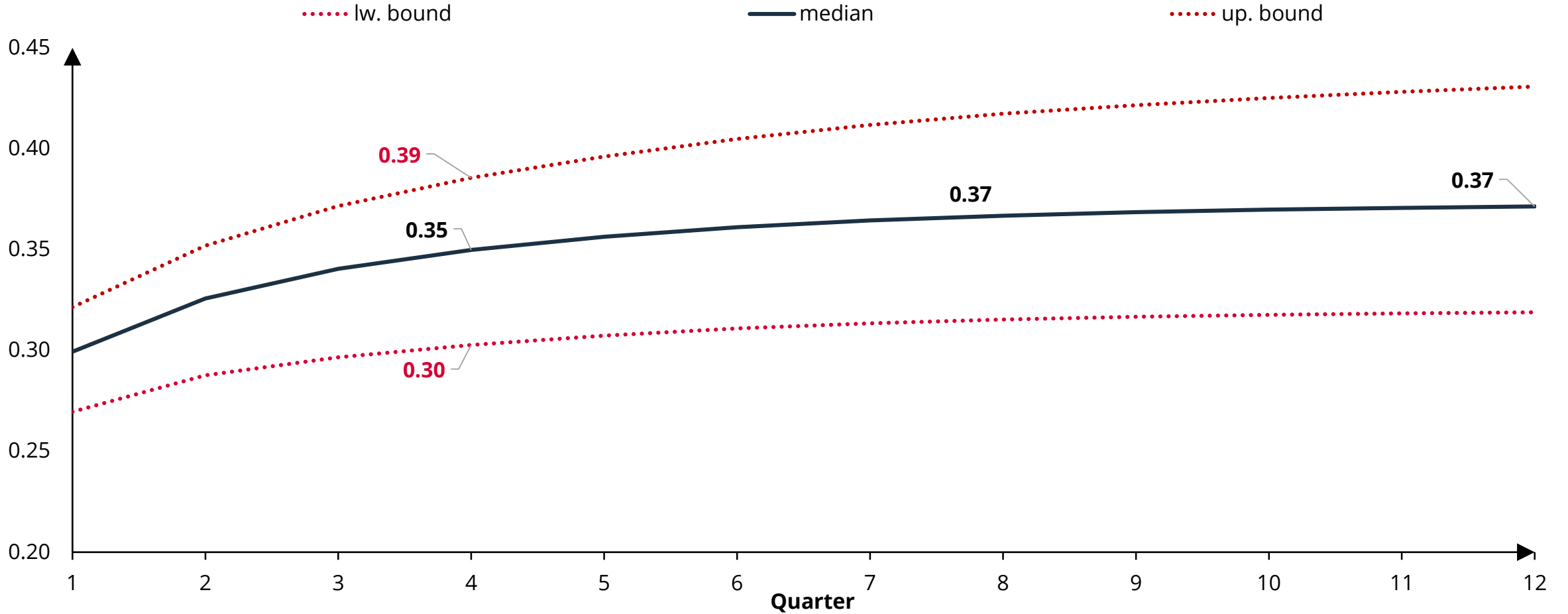
Output Gap (%)



EXCHANGE RATE CHANNEL

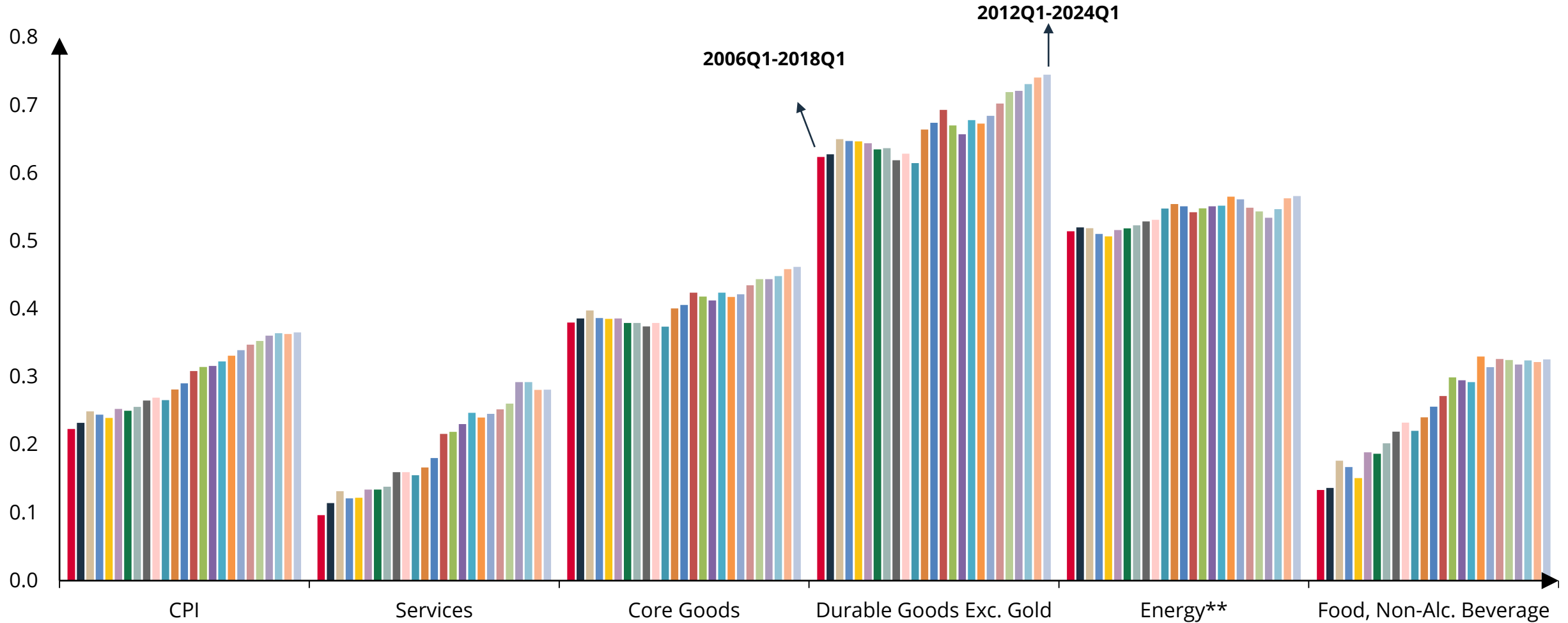
Exchange rate is one of the leading driving forces of inflation in Türkiye.

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



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.

Source: CBRT.

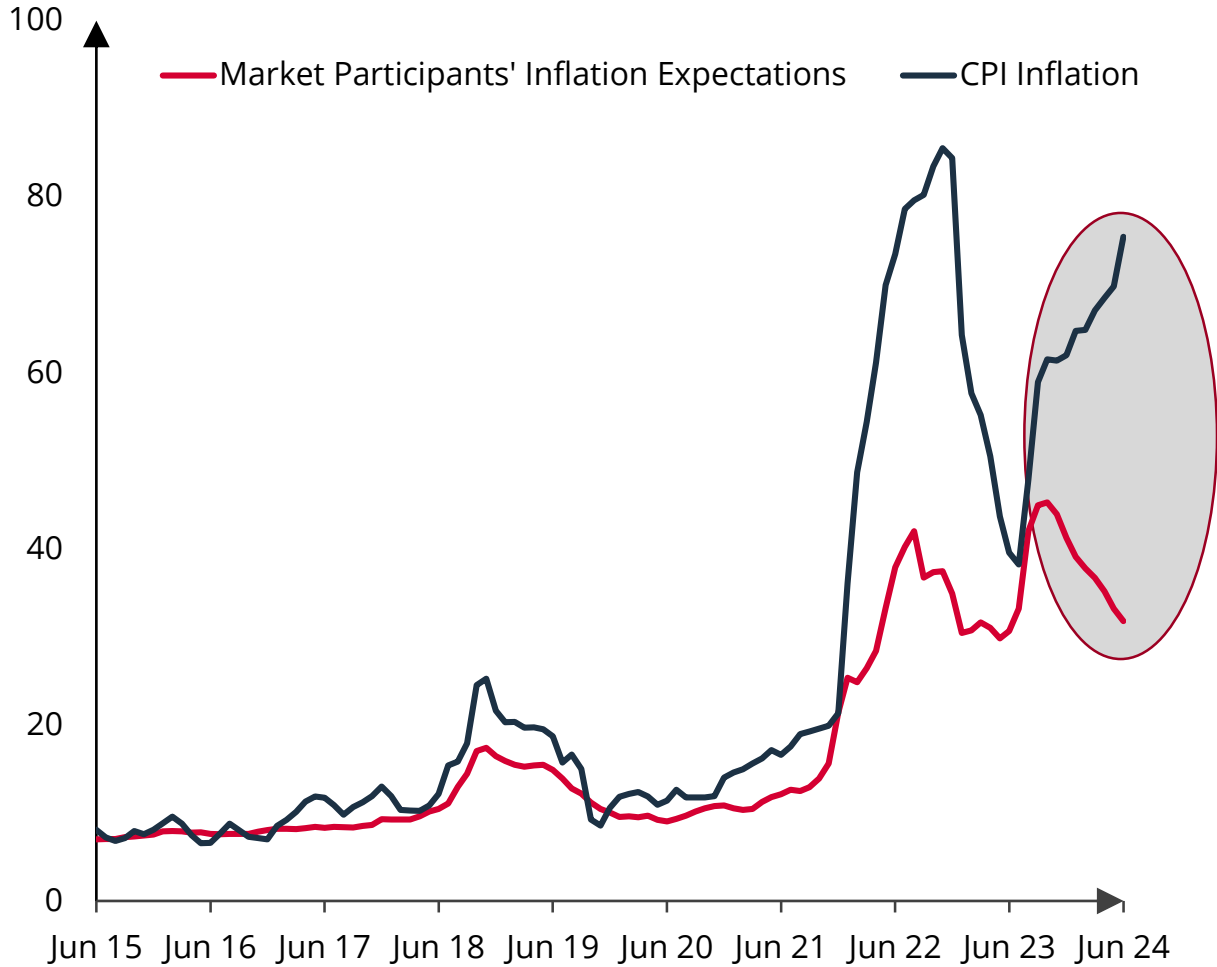
Exchange rate has significant impacts on inflation in EMEs like Türkiye.

- 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

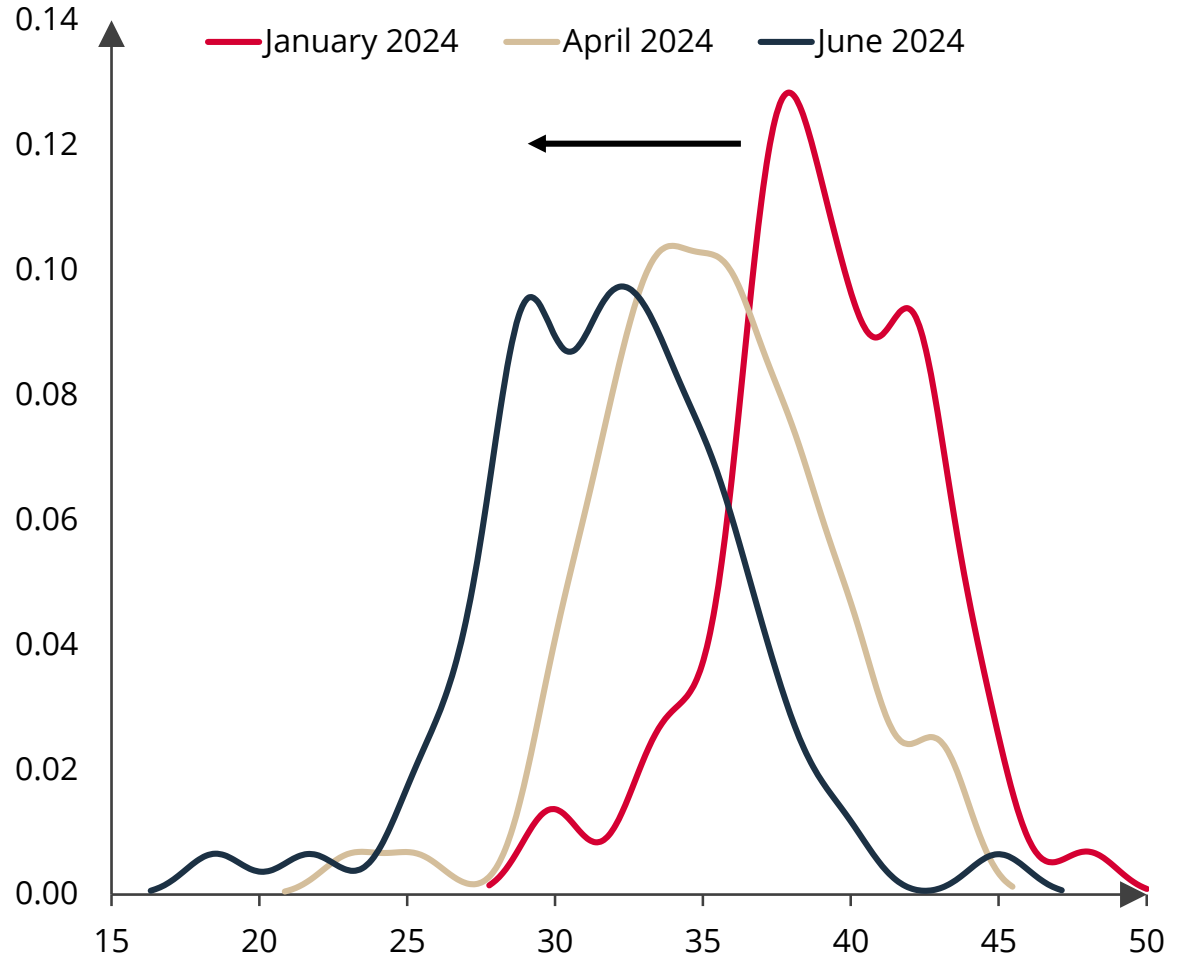
EXPECTATIONS CHANNEL

Inflation Expectations – (1) Market Participants

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

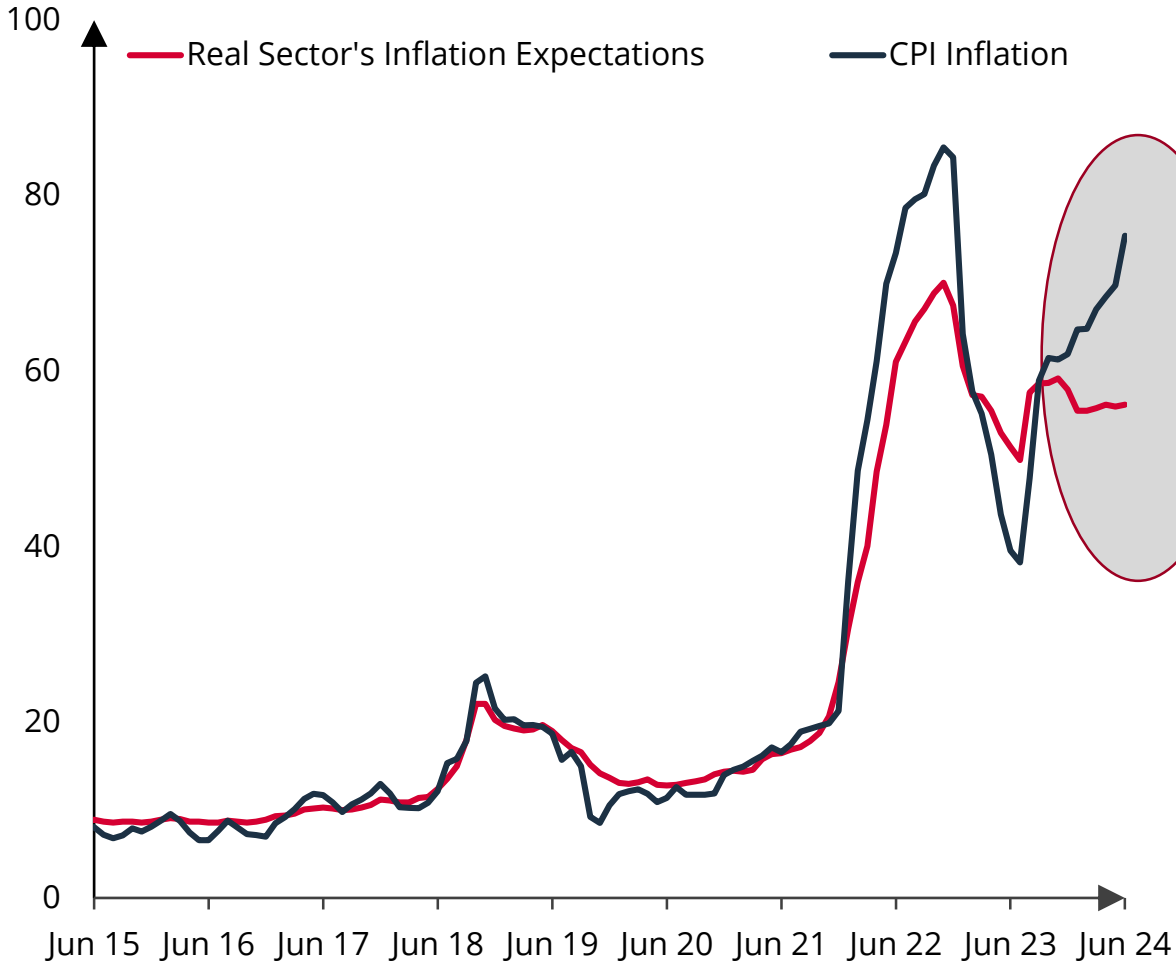


Kernel Density of 12-month-ahead Inflation Expectations

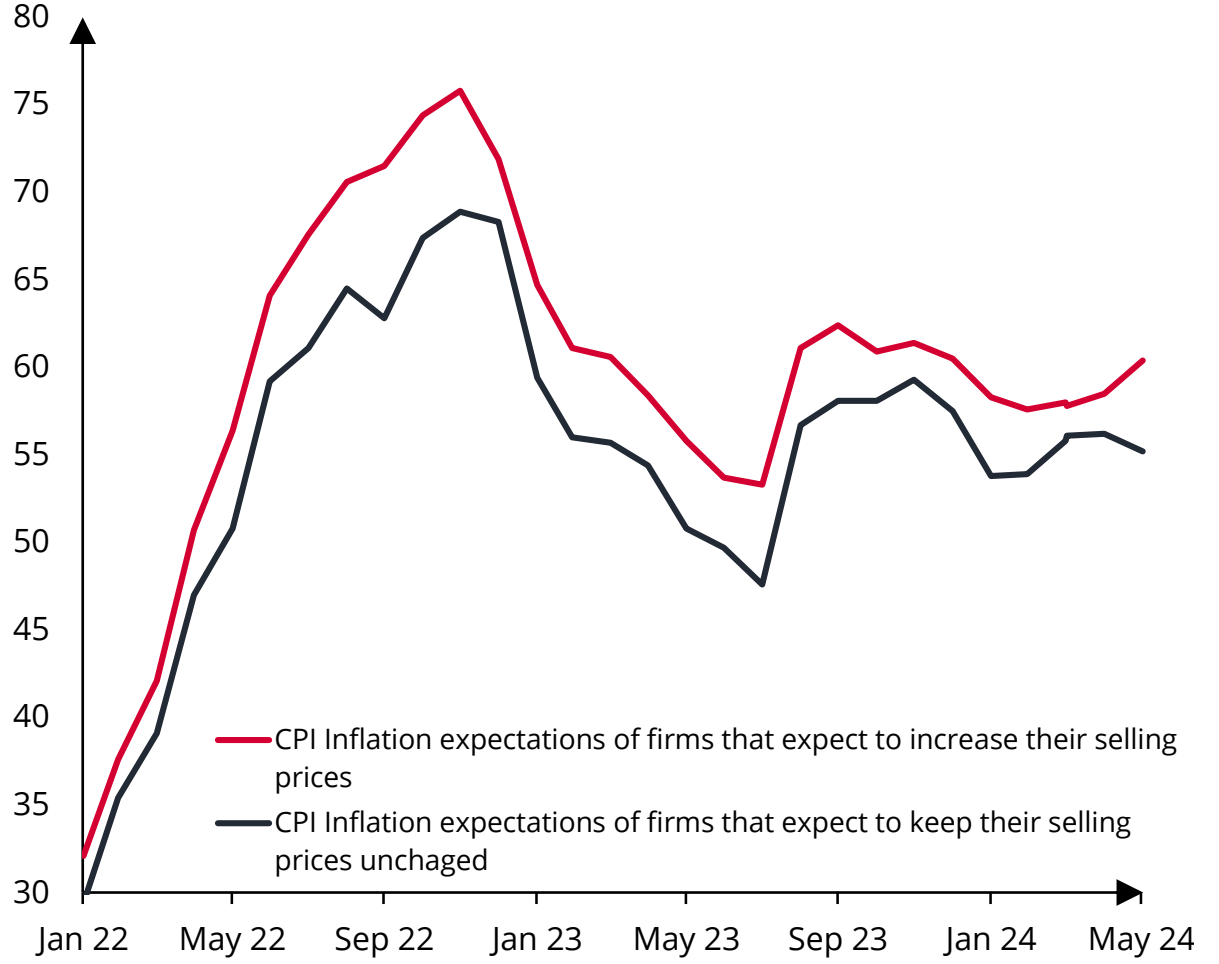


Inflation Expectations – (2) Real Sector

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

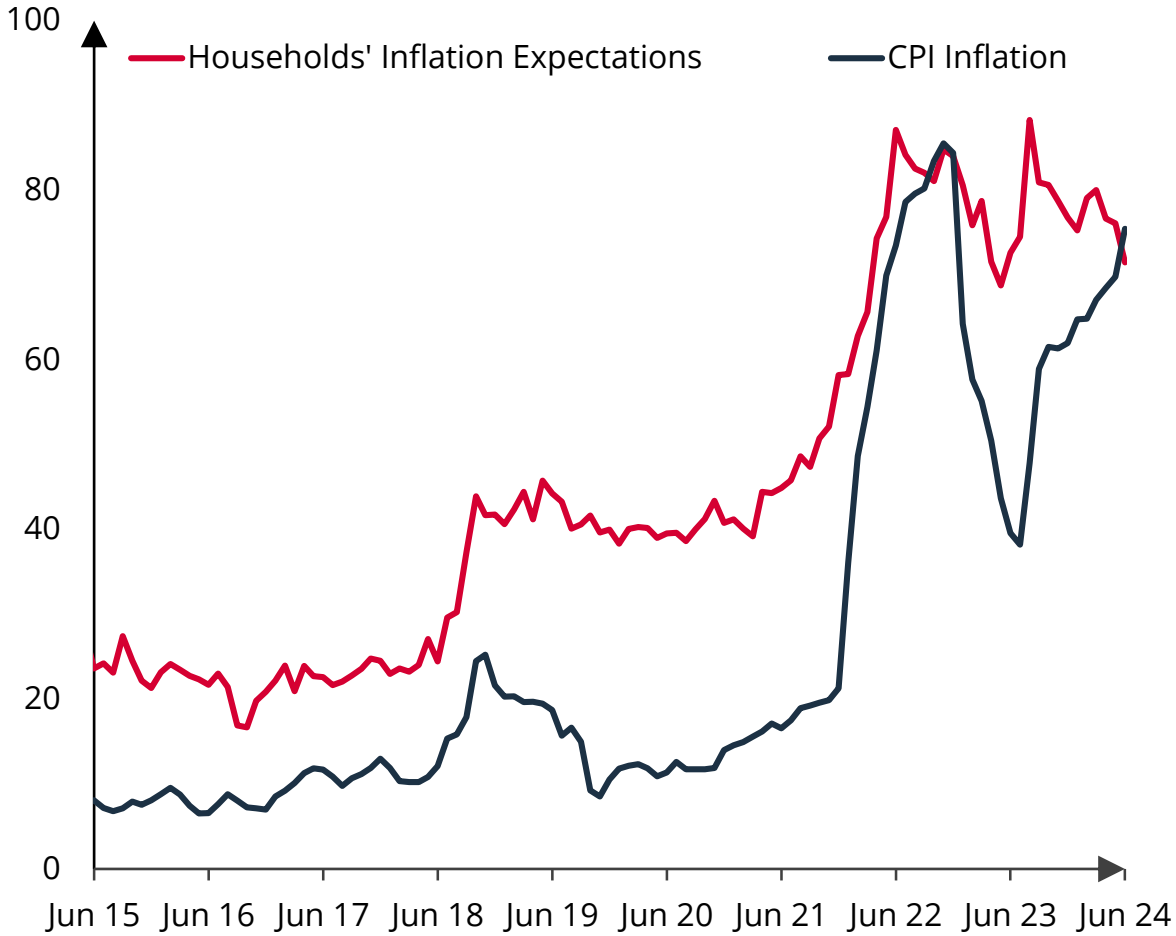


Individual Firms' Price Setting Behavior vs Their Expectations

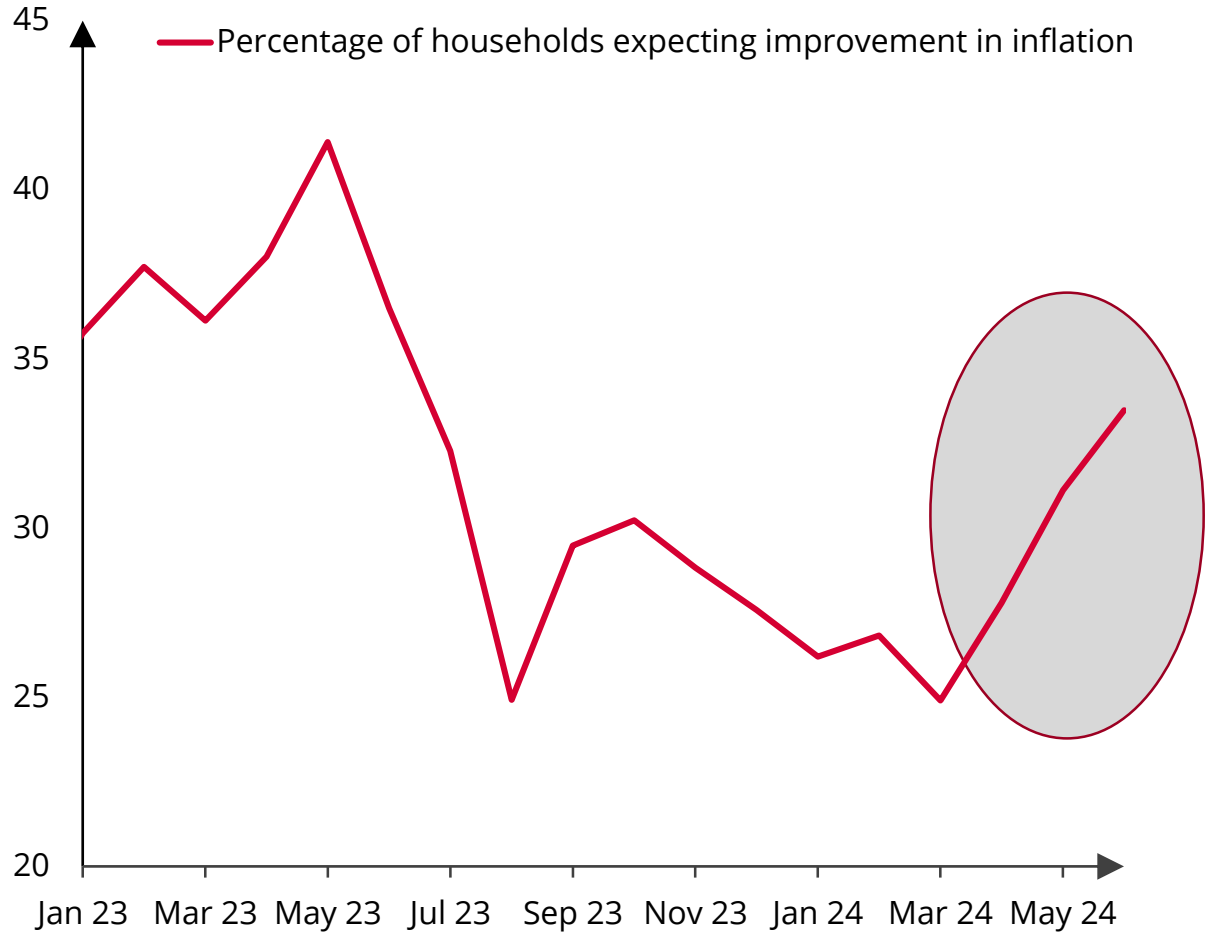


Inflation Expectations – (3) Households

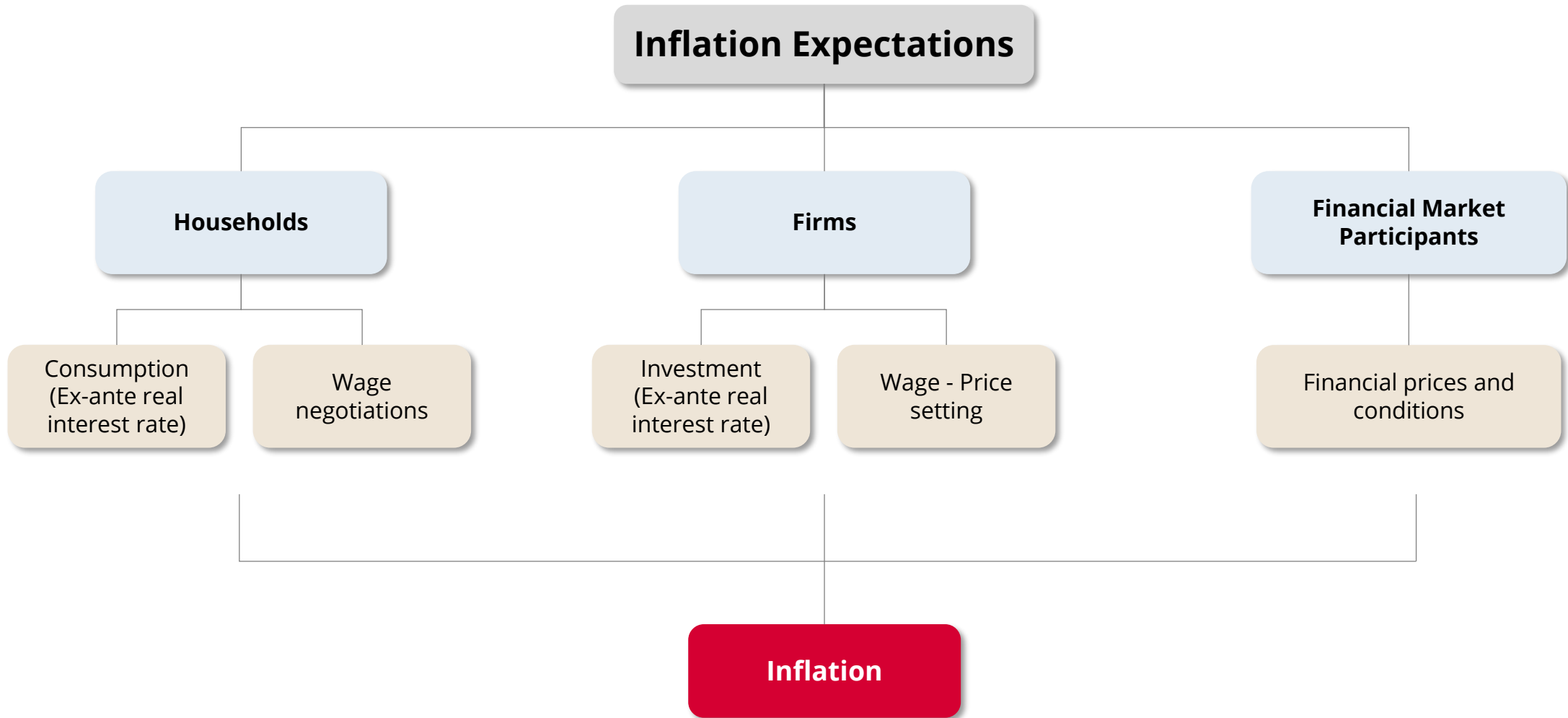
Households' Inflation Expectations (12-month ahead, %)



Households' Expectations for Consumer Price Changes (%)



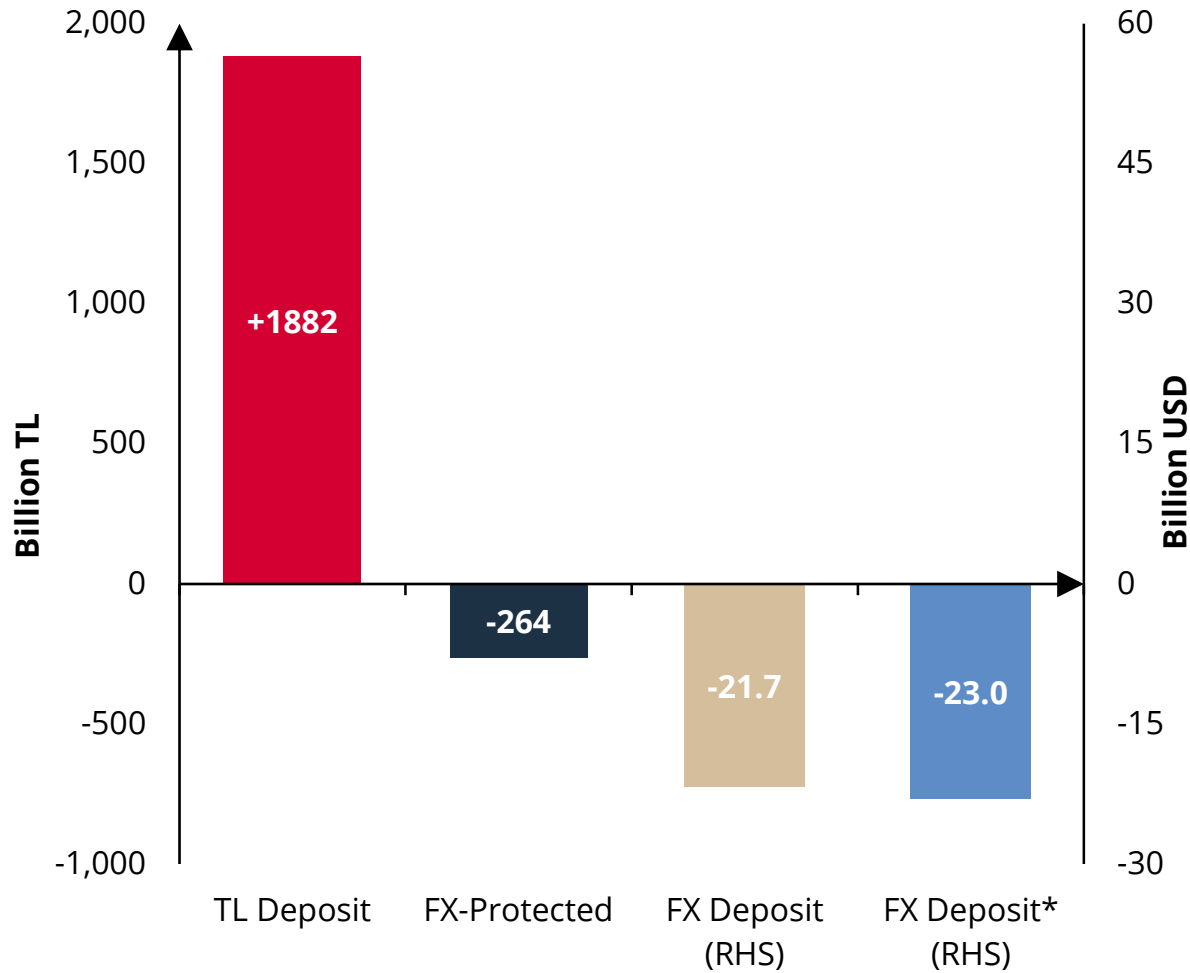
Why Inflation Expectations Matter?



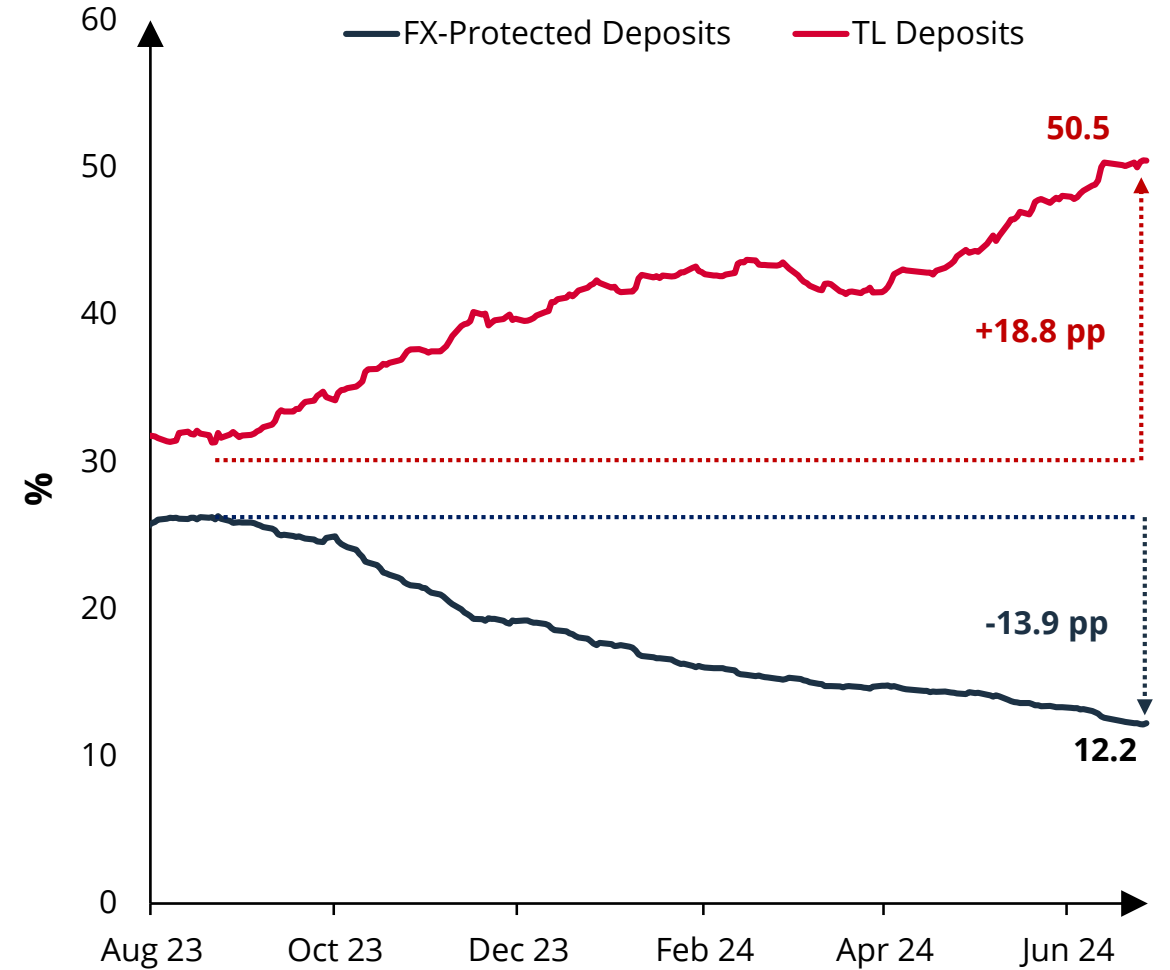
FACTORS SUPPORTING THE TRANSMISSION MECHANISM

Rise in the share of TL deposits supports transmission mechanism.

Change in Deposits (29 March - 28 June)

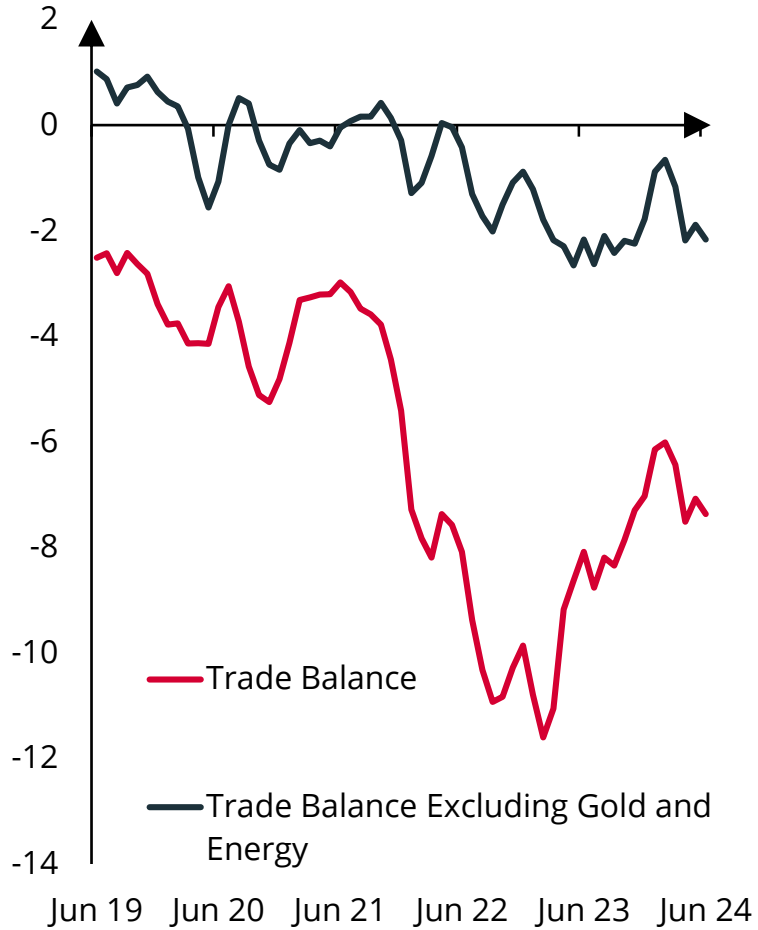


Deposit Share

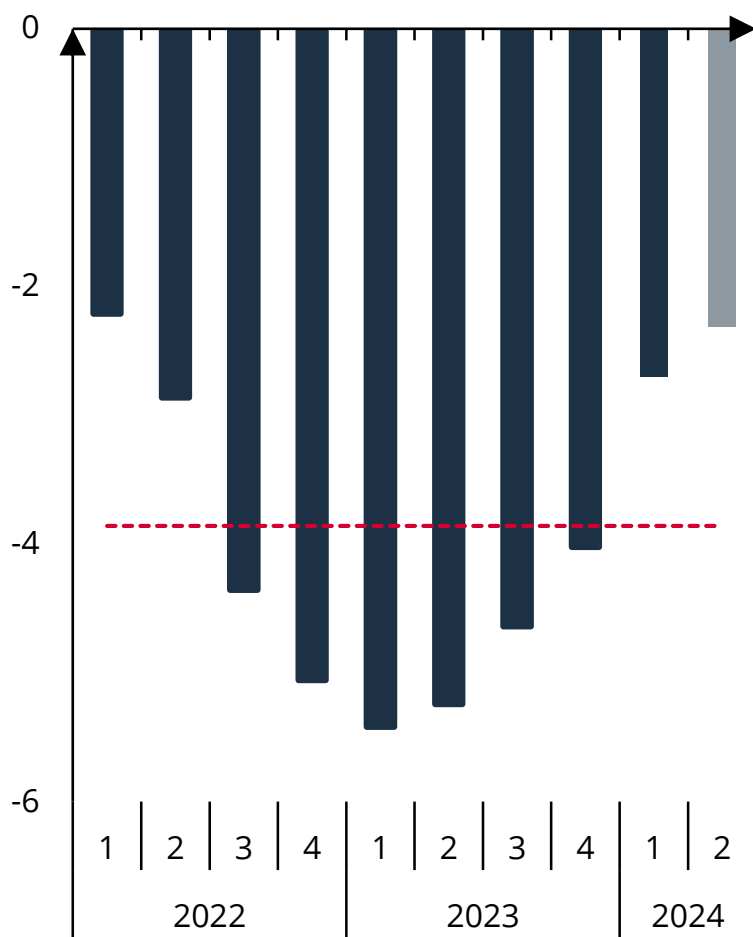


Improvement in the current account balance and reserves support transmission mechanism.

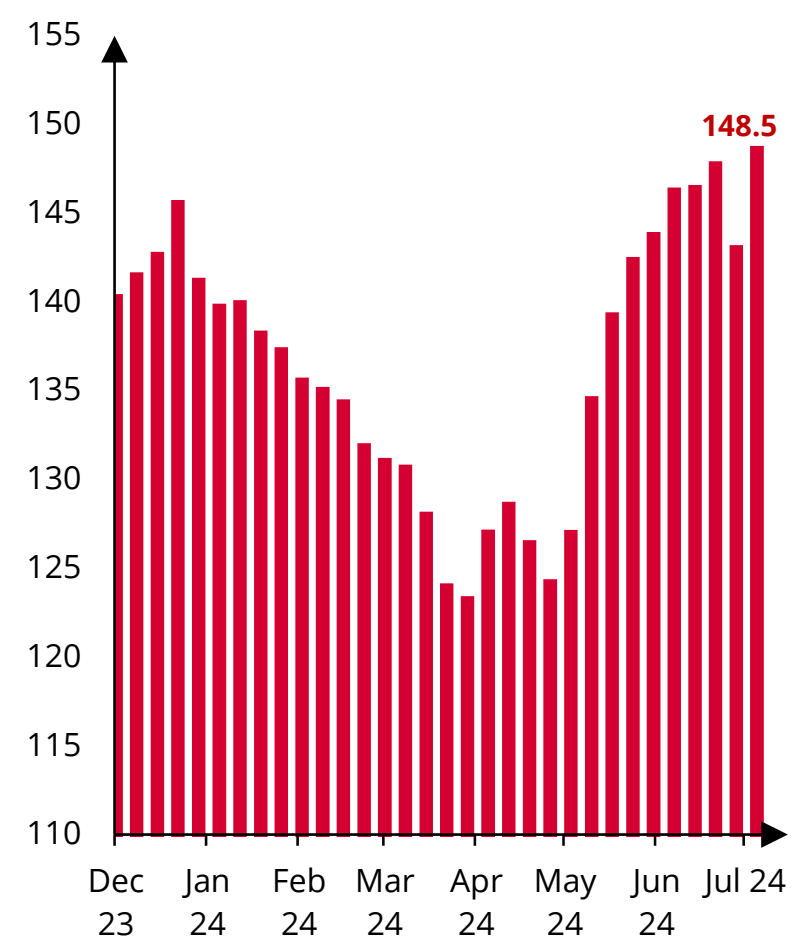
Monthly Trade Balance* (SA, 3-month MA, Billion USD)



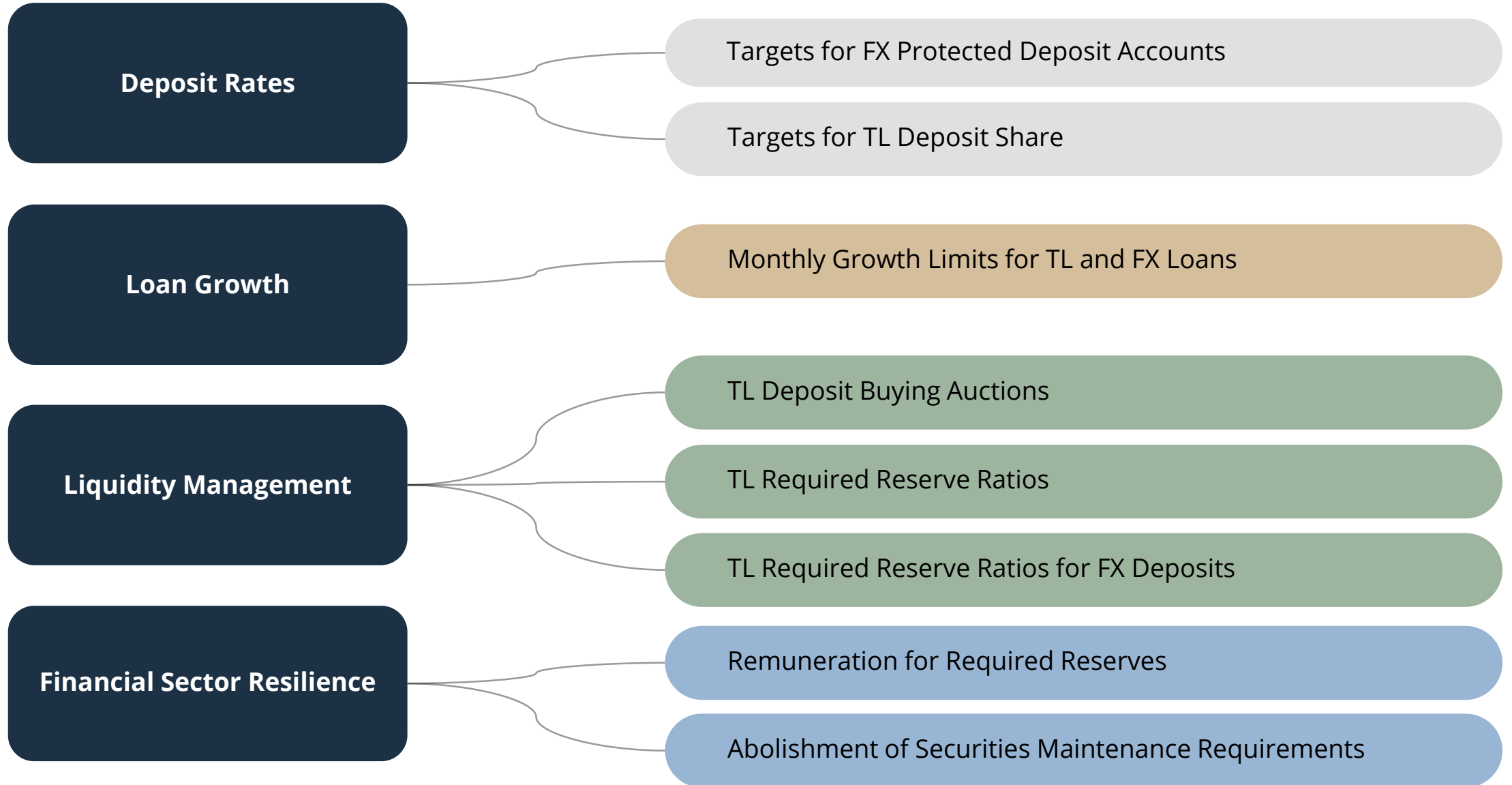
Current Account Balance** (12-month-accumulated, % of GDP)



Reserves*** (Billion USD)



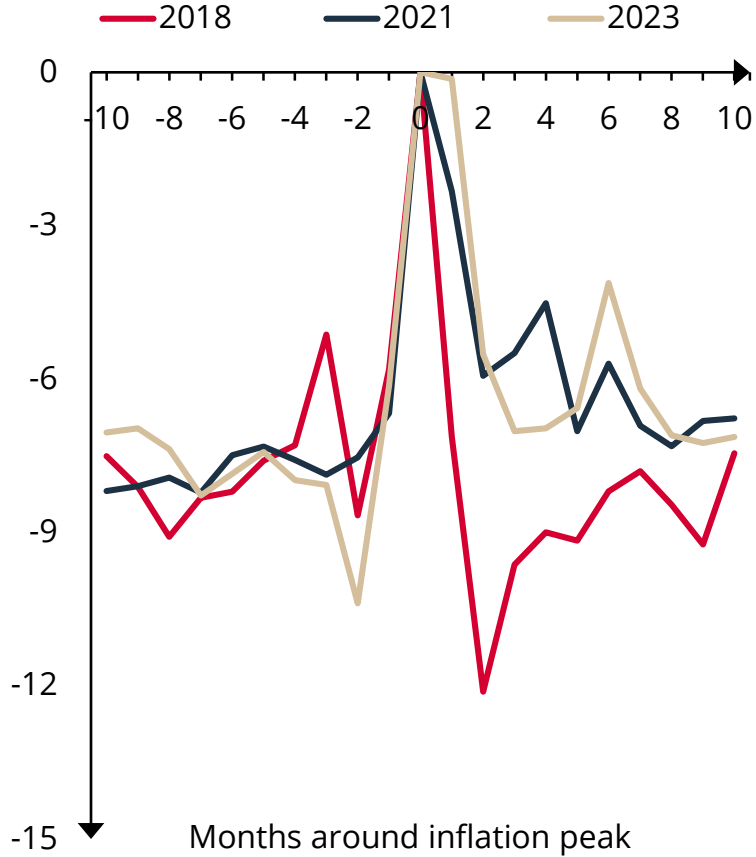
Macprudential tools strengthen the functionality of the mechanism



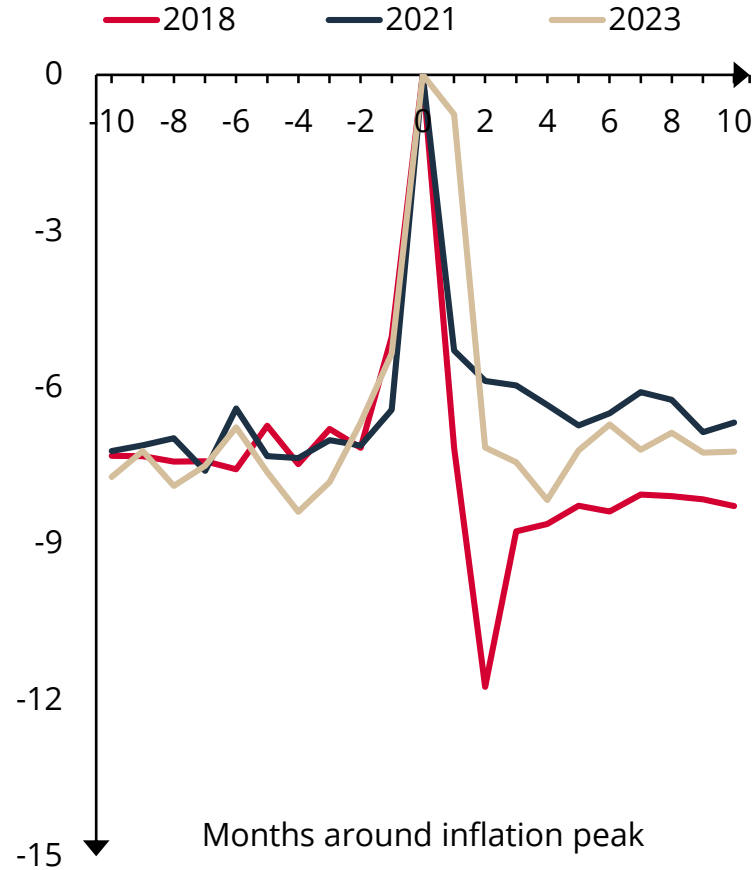
INFLATION OUTLOOK

Core goods inflation weakens relatively rapidly in disinflation periods.

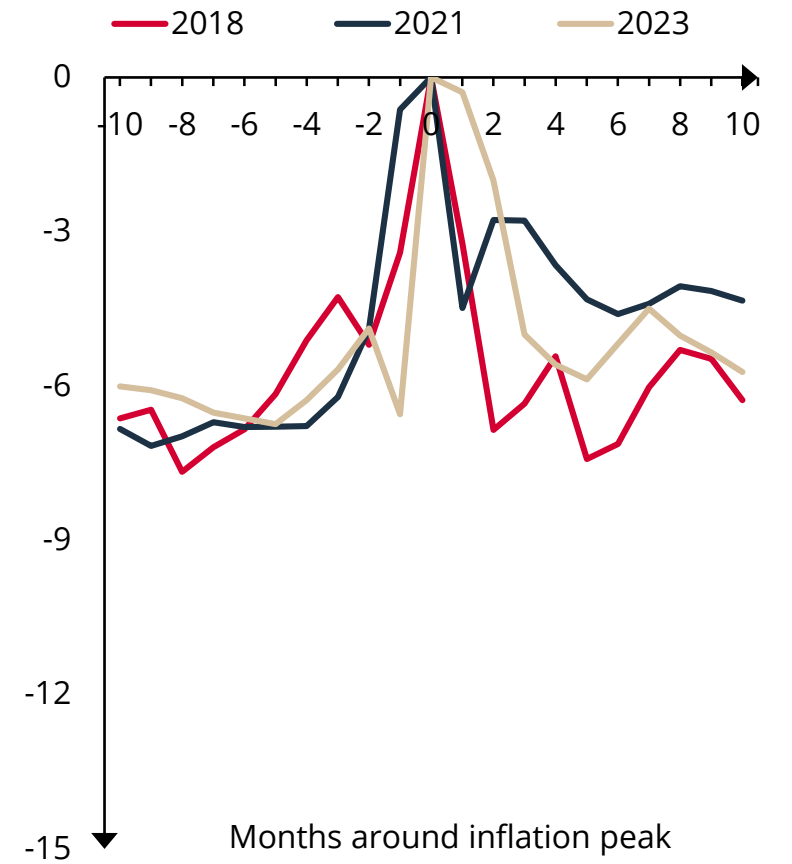
CPI Inflation Historical Disinflations:
Relative to Inflation Peaks (Seasonally Adjusted, Monthly % Change)



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

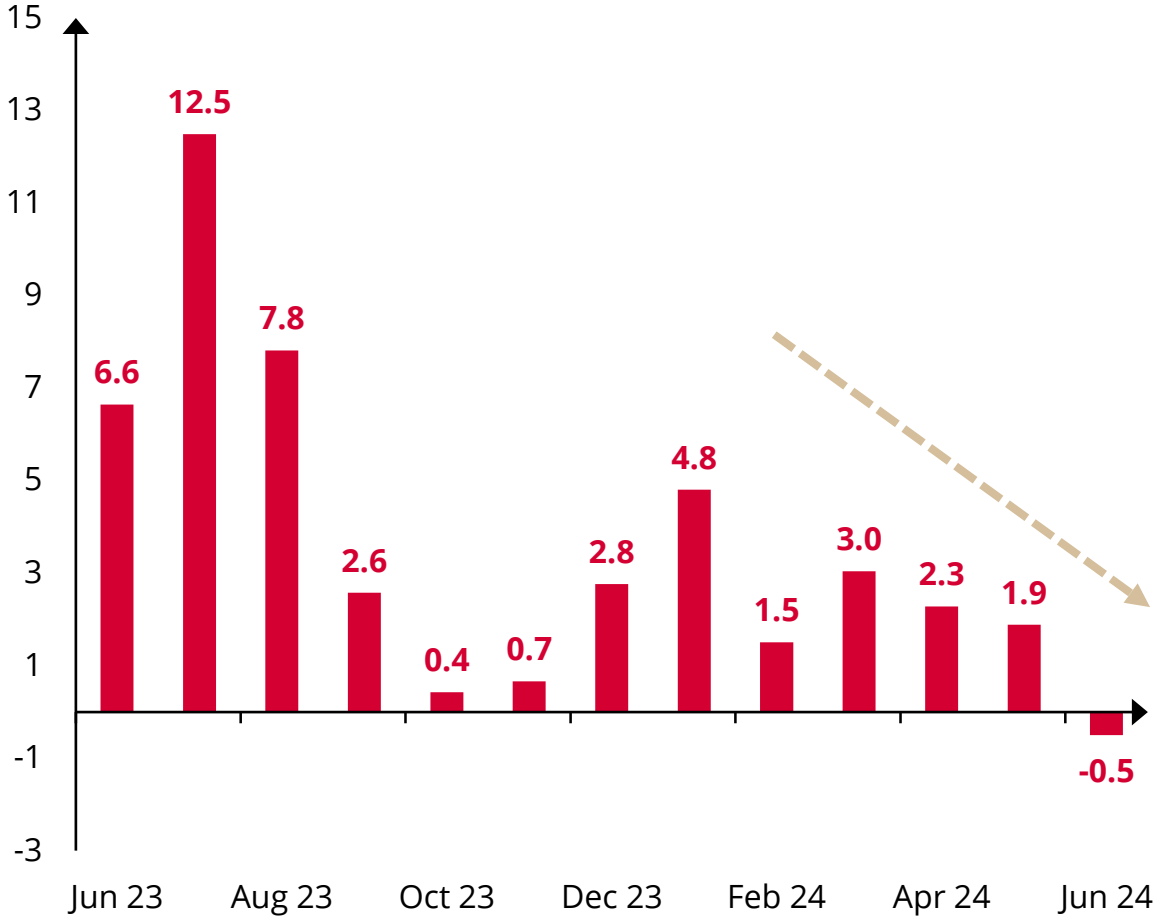


Services Price Historical Disinflations:
Relative to Inflation Peaks (Seasonally Adjusted, Monthly % Change)

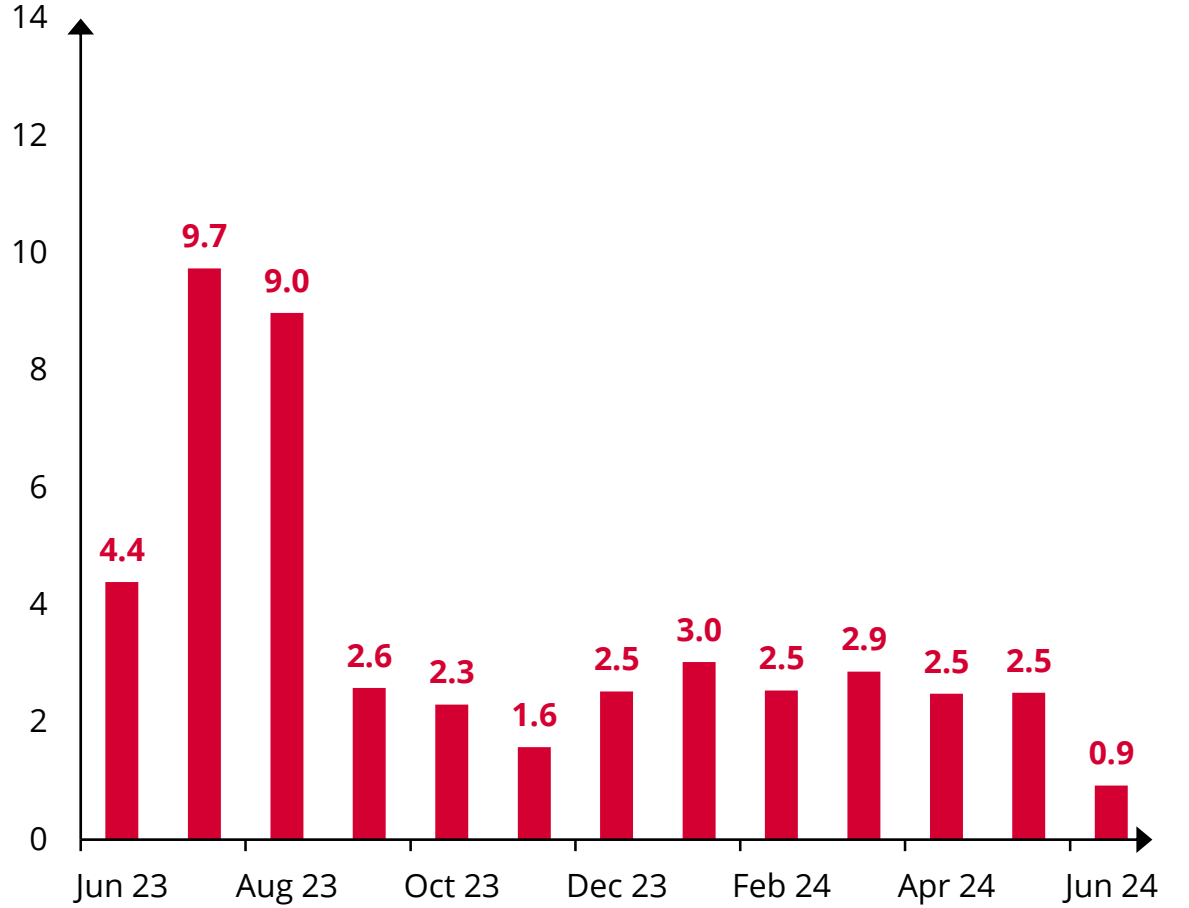


Inflation in core goods, particularly durables, has declined.

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

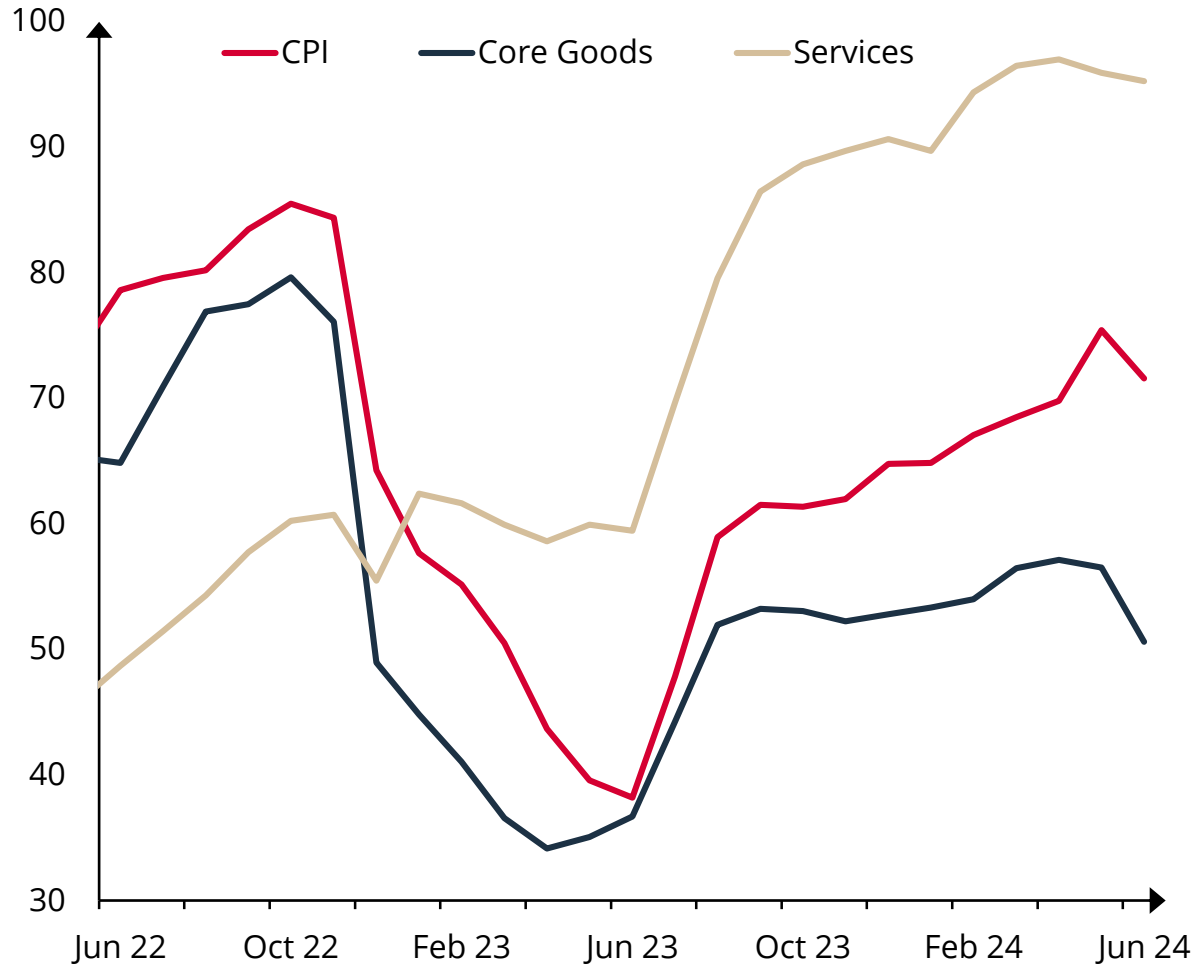


Prices of Core Goods (Monthly % Change, Seasonally Adjusted)

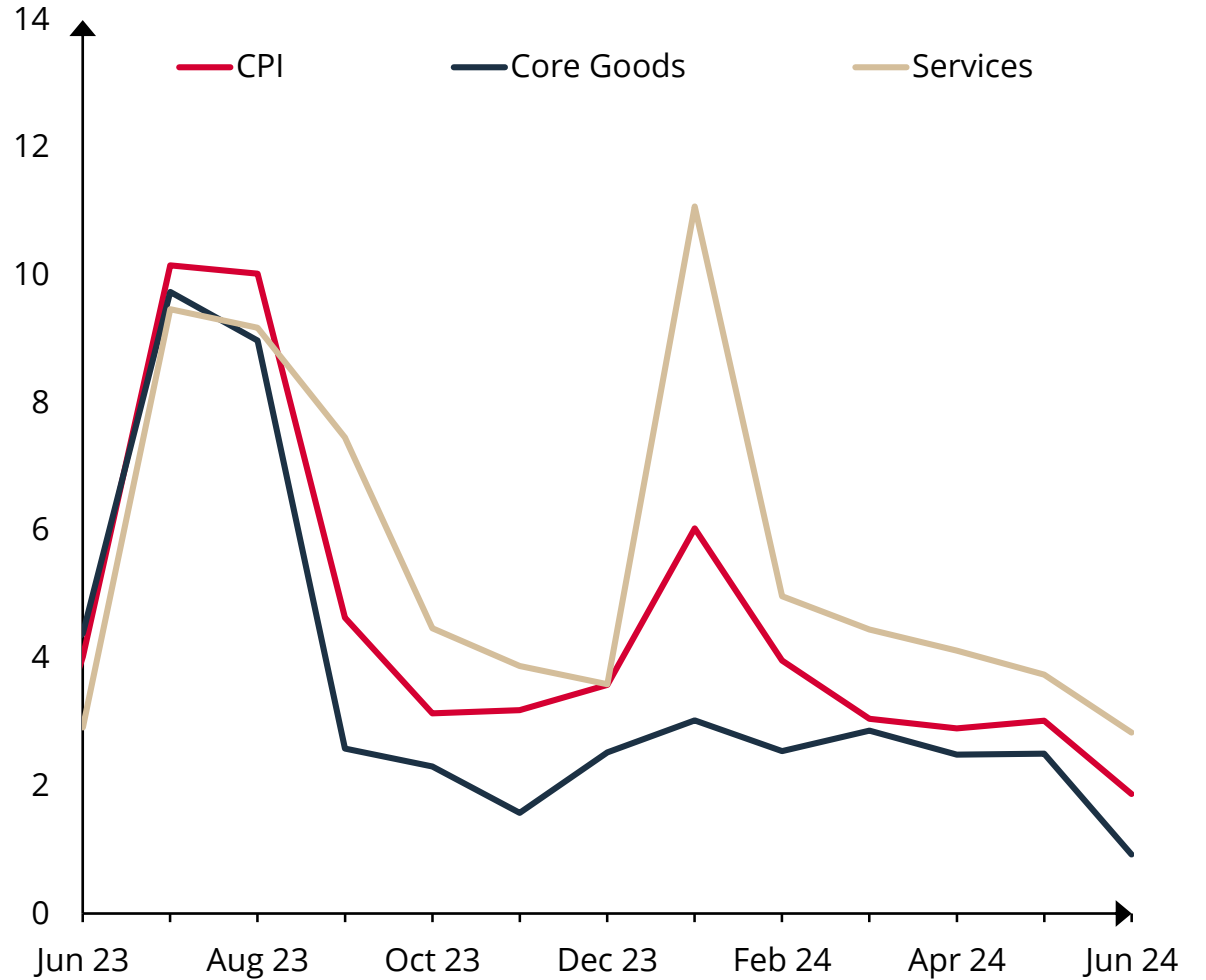


Stickiness in services inflation has been a challenge for transmission mechanism.

Price Index (Yearly % Change)



Price Index (Seasonally Adjusted, Monthly % Change)

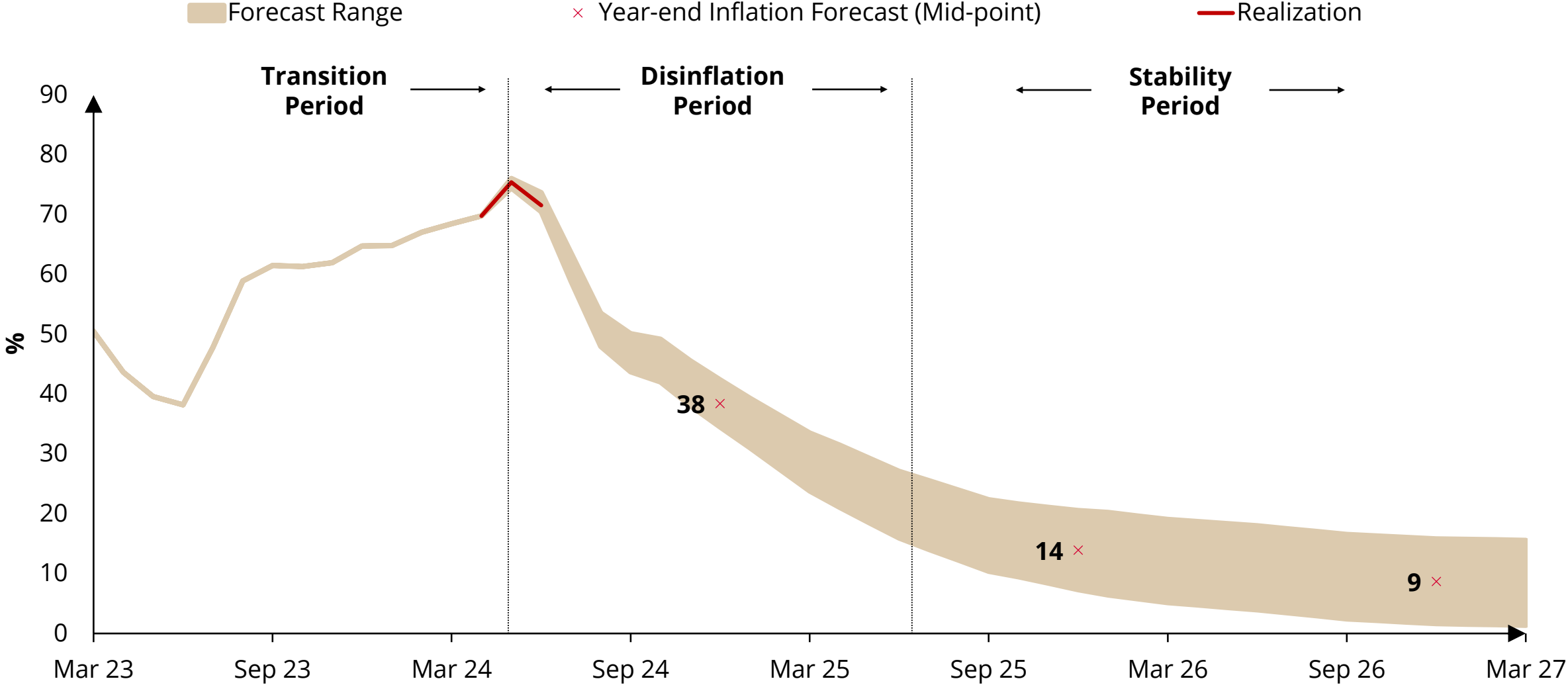


The persistence of rent inflation is rather high.

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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