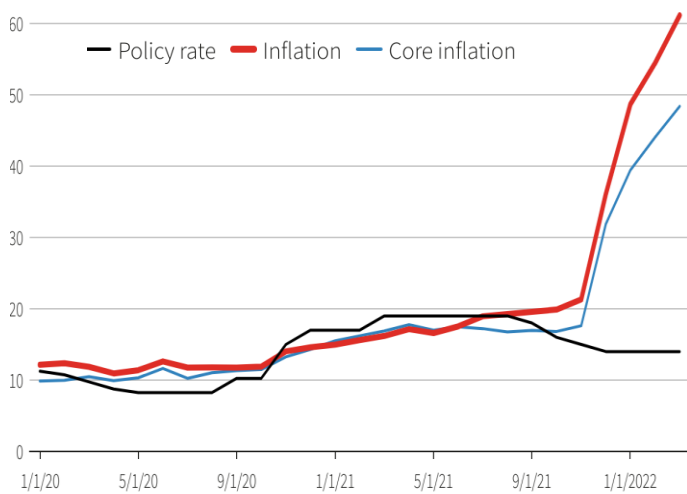




# TURKEY ECONOMIC DYNAMICS

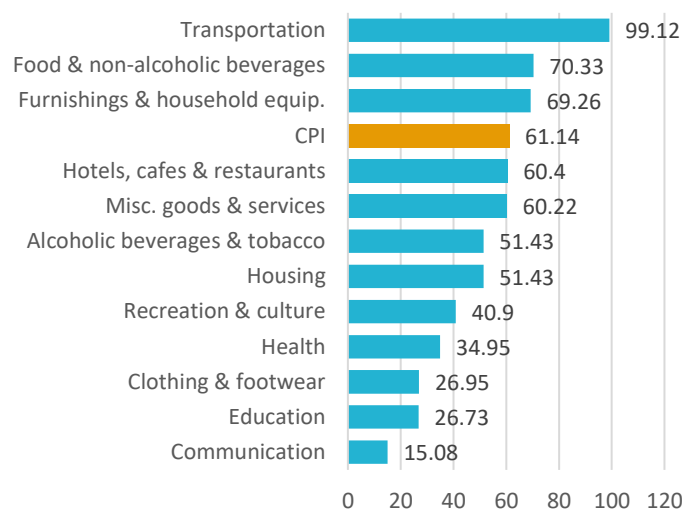
Turkey’s inflation surged to a 20-year high of 61.14% YoY in March, up from 54.44% YoY in February. This marked the 10<sup>th</sup> consecutive month of acceleration in general prices, fueled by higher energy and commodity costs as current geopolitical conflicts compound the impact of the lira’s fall last year. Turkey imports majority of its energy needs.

### Turkey’s Inflation vs. Key Interest Rate, %



Source: Refinitiv, Turkey Statistical Information, VC

### Turkey’s Inflation Components, %



The rise in inflation was broad-based across all components, but driven mainly by transportation +99.12%, food & non-alcoholic beverages +70.33% and furnishings & household equipment +69.26%.

Meanwhile, core inflation rose to 48.4% YoY in March from 44.15% YoY in February. Core goods inflation was at 60% YoY while services inflation rose 36.7%YoY.

Domestic factors that could drive inflation higher in coming months include a 35% increase in household gas tariffs in April, and on reports that the government is considering a hike to minimum wages.

Turkey’s inflation is expected to remain elevated around 65%-70% for the rest of the year, easing to 44%-45% only towards end-2022 when the high base effect kicks in.



# TURKEY ECONOMIC DYNAMICS

Despite high inflation, there is no sign of a monetary policy tightening. Central Bank of Turkey has put all its emphasis on the FX-protected deposit scheme and is unlikely to react to the strong CPI data.

The government expects inflation will fall to single digits in 2023 under the “new economic policy” of prioritizing low interest rates to boost production and exports, aimed at achieving a current account surplus.

However, trade deficit widened 77% YoY to USD8.24bln in March, driven by a 156% increase in energy imports, threatening to derail the current account goal.

Turkey’s real interest rates are currently deep into negative territory (-47.14%) and are expected to fuel further inflation in coming months.

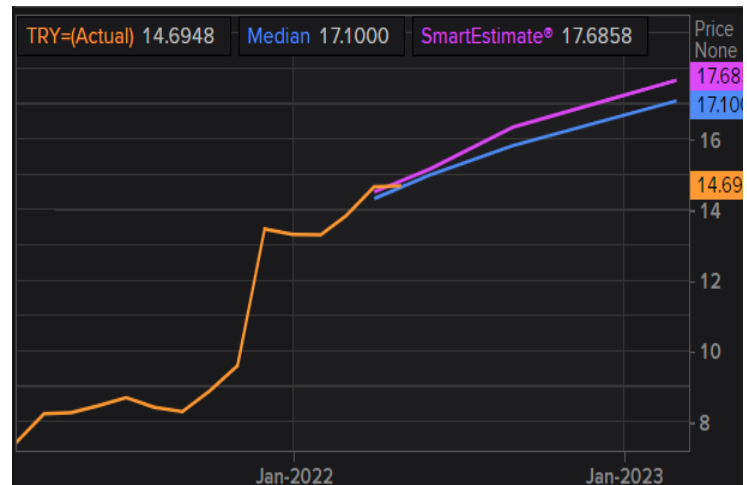
The lira was unaffected by March’s inflation, weakened slightly by 0.15% to 14.715/USD. The lira plunged 44% in 2021, and fell a further 10% year-to-date.

USD/TRY, 1-Year, as at 5 Apr 2022



Source: Refinitiv

USD/TRY Forecasts, as at 5 Apr 2022



Producer prices climbed 114.97% YoY in March, driven by higher costs of energy +214.87%, intermediate good +122.92%, durable & non-durable consumer goods +75.85% and +79.70% respectively, and capital goods +76.55%.

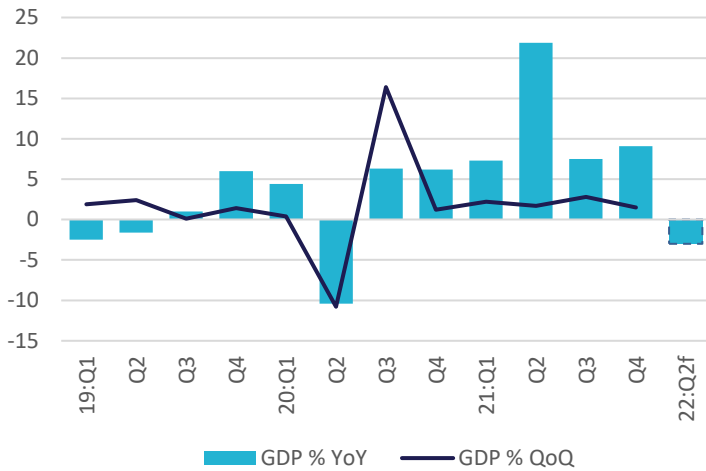
On a monthly basis, producer prices rose 9.19% YoY in March, driven by higher costs in energy +15.62%, intermediate goods +8.86%, non-durable & durable consumer goods +8.59% and +5.65% respectively, and capital goods +5.40%.

The Building Construction Cost Index climbed higher to 79.91% YoY in January vs. 67.74% YoY in December, led by increases in material index +98.20% and labour index +41.02%. As such expect continued price adjustment for constructions-in-progress or newly starting projects.

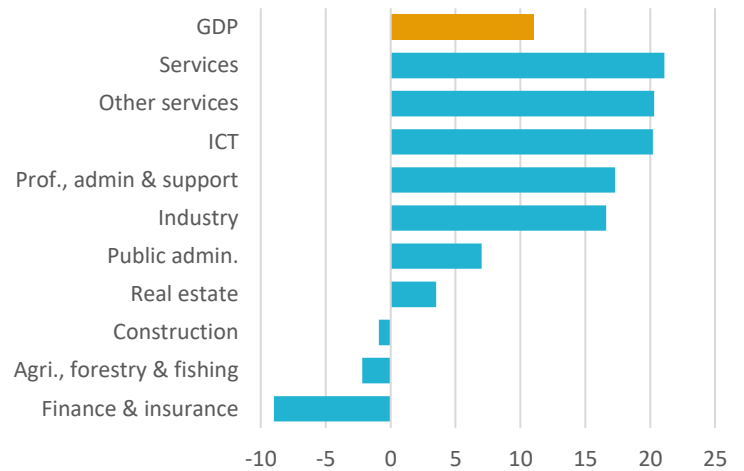


# TURKEY ECONOMIC DYNAMICS

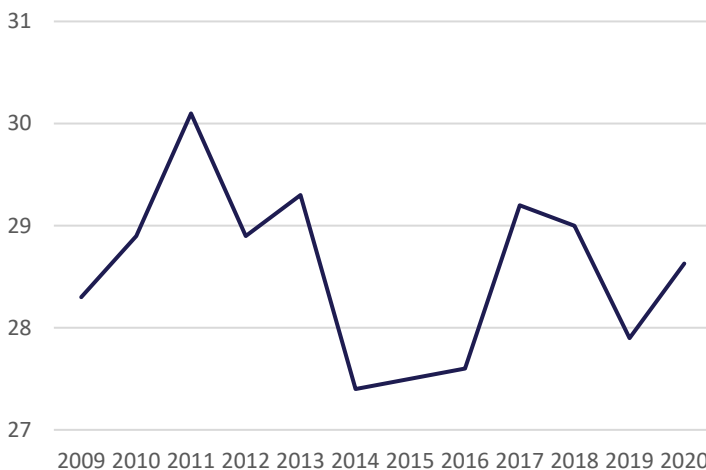
### Turkey's GDP Growth Trend



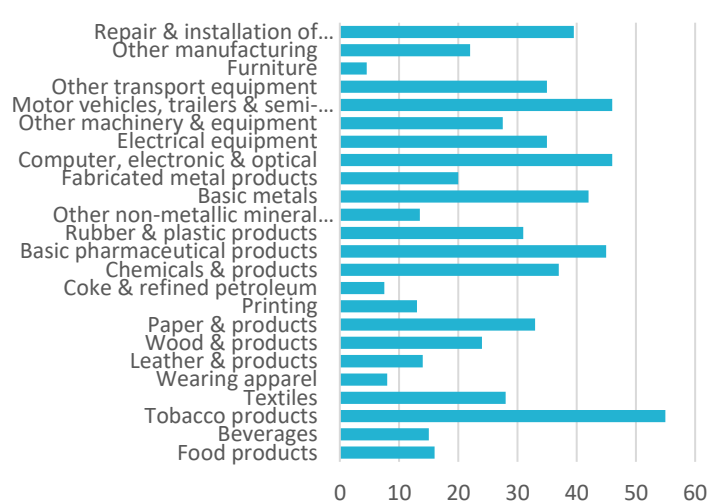
### Turkey 2021 GDP Growth Components, %



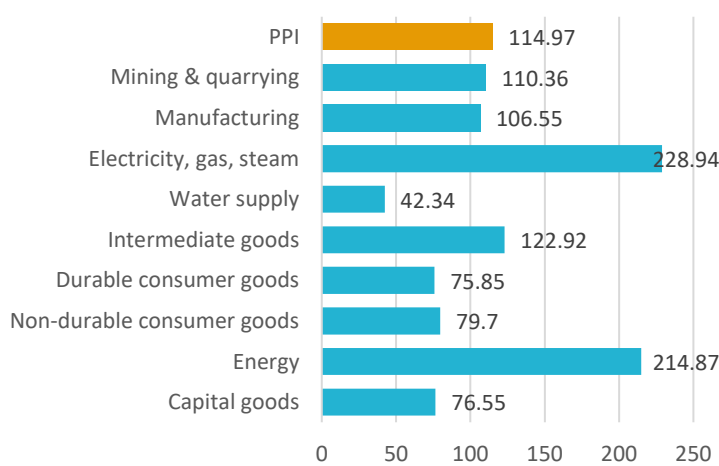
### Imported Input Share of Exporting Firms in Turkey's Manufacturing Industry, %



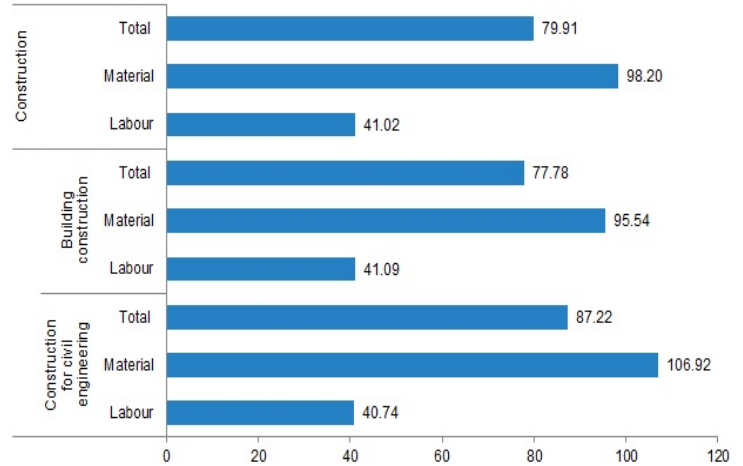
### Imported Input Share by Turkey's Manufacturing Sub-Sectors, %



### Producer Price Index Components, March 2022, % YoY



### Turkey's Construction Cost Index, January 2022, % YoY



Source: CBRT, Turkey Statistical Information, VC

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VERNY CAPITAL

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