

ENAGroup – Inflation Research Group

Inflation Report and Economic Analysis

June 3th, 2021

May 2021- Period ENAGroup Inflation Report and Economic Analysis

Economic Growth

Periodic Gross Domestic Product increased by 7% annually, and by 1.7% compared to the previous quarter. When we look at the components of national income, we observe that consumption expenditures increased by 7.1%, government expenditures by 1.3%, investment expenditures by 11.4%, and exports by 3.3%, while imports decreased by 1.1%.

It is observed that the decrease in export volumes in the third and fourth quarters of 2020 has been somewhat compensated in this quarter. On the other hand, it should be emphasized that the limited increase in export volume seems still a basic problem for the Turkish economy. The fact that the increase in imports in the 3rd quarter of 2020 has created a strong increase in machinery and equipment investments is reflected in the data.

In addition, consumer expenditures, which were carried up by credit expansion, strongly increased the growth in GDP in the last 3 quarters.

While ENAGroup predicts that the increase in national income will reach a higher quality structure with the pace of the Covid-19 vaccination process, it emphasizes that the "adjustment cost" in the labor market will be a long-term problem for the economy.

Inflation

The high inflation rate obtained from daily price changes will affect all macro balances of the Turkish economy. When we analyze the monthly price trend, it is necessary to expect that many economic variables, from interest rates to the general level of wages, from productivity to resource allocation, are affected by this high rate.

The volatility and upward movement in the exchange rate have a reducing impact on the monetary policy effectiveness of the central bank. Considering the drought in agriculture and the global increases in food and other commodity prices, we can predict that economic policies will have difficulties in establishing macro balances as well.

In the upcoming period, the pressure of exchange rates, the weak formation of central bank reserves, and the production process that is heavily dependent on imports will be the most important factors determining the direction of inflation in Turkey.



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