

# ENAGrup – Inflation Research Group

Inflation Report and Economic Analysis

May 3th, 2021

## April 2021 - Period ENAGroup Inflation Report and Economic Analysis

%2.62 increase in the general price level in April 2021 should be evaluated with recent economic developments.

The pressure on the prices has been noticed in all markets, especially since the beginning of the Covid-19 pandemic. This has shown effects on multiple aspects ranging from real wages to the formation of international trade, or from tourism to currency reserves.

Let's investigate these aspects:

### 1. Price Pressure on the Commodity Market

Starting from the pandemic in March 2020 and continuing up till today, we observe an immense amount of increase in the prices. Commodity basket, which includes aluminum, crude oil, wheat, coffee, corn, gold, live kettle, sugar, etc., had a more than 50% increase in the price index in this period and put pressure on global inflation.

The below graph illustrates some of the development of the global prices.



Source: Bloomberg Commodity Index, BCOM, (<https://www.bloomberght.com/borsa/endeks/bcom>)

## **2. Development in International Trade**

The increase in international trade volume right after the change in measurement methodology did not bring the expected positive changes in the Turkish economy. An increase in the real wages affected by the trade, reformation of employment, or no other issue showed progress. In addition, loss in employment caused by the pandemic has not been replaced. This weakening in employment could not add to the power of production, which led to pressure on the prices.

## **3. Structural Deformation in Currency Reserves**

Even though the gross reserves in the central bank are around \$85 billion, net reserves have declined to the lowest level ever. Additionally, these reserves are currently - \$45 to -\$60 billion intervals, excluding Swap. This negative outcome in reserves will increase the prices for both producers and consumers by pressuring the exchange rate.

## **4. Problems Expected in Tourism Sector**

With the summer season upon us, this sector will be negatively affected due to vaccination not being proceeded effectively. This will likely lose Turkey its comparative advantage, and result in a larger current account deficit due to exchange rate pressure.

## **5. Central Bank Monetary Policy**

The inflation rate hike and its sticky property are the primary impediments in front of the central bank decreasing the interest rate. In addition, structural deformations in the balance of payments will also likely decrease this probability.



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