

# ENAGrup – Inflation Research Group

Inflation Report and Economic Analysis

February 3rd, 2021

## January 2021 -Period ENAGrup Inflation Report and Economic Analysis

ENAGrup inflation rate in January 2021 has been reported as % 2.99

Certain factors played a role in the emergence of this ratio. We report them briefly below.

We believe that the Turkish economy will experience a permanent, sticky, and high inflation rates this year.

Although it has not been seen in official data, for the last 2.5-3 years the social burden of inflationary pressure has increased significantly since the early 2018.

Real purchasing power declined with the currency and price shocks that started in the middle of 2018. The negative outcomes of these shocks has been felt by the majority of society, particularly among the low income family groups.

The Covid-19 health epidemic, which occurred at the beginning of 2020 and still has a profound effect, brought real economy-shocks along with another currency one. Two accumulated, 2018 and 2020, crises have come to be experienced at the same time in the Turkish economy.

In January 2021, the main factors affecting the general level of prices can be summarized as follows:

1. The US dollar, which rose to 8.50 lira in the last quarter of 2020, has now declined to 7.29 lira. This came after appointments to the central bank and the ministry of finance, and for the time being, it has established a stable structure. On the other hand, the general level of prices increased significantly due to the currency shock, but the decline in currency rate did not occur in the same direction, and even the prices continued to increase

This is mainly the proof that prices are becoming permanent and sticky

2. By the end of January 2021, with the government decision, the price controls in particularly grocery markets started and carried out effectively via physical checks and media. It has been observed that the daily inflation rates remained at least constant on the days corresponding to the weekdays, and on the weekends when the curfew was imposed heavily. Though it was in an upward trend due to increase in demand for consumption goods

3. It should be noted in the groups of goods in the inflation basket, managed and directed by the government, prices have increased considerably in January. The limited tax exemption on alcoholic beverages did not put pressure on the price hikes

4. The European Union Statistics Office, Eurostat, suggested in the early stage of Covid-19 health crises that the member countries use the pandemic-weighted inflation basket. ENAGrup has applied the rules directed by the Eurostat and established its own weights where it is supposed to represent the change in consumption habits of the Turkish society (see, enagrup.org). TURKSTAT will likely apply this method starting from the beginning of 2021, as indicated in their web page (tuik.gov.tr).

We firmly believe and test it statistically that being late in applying such a rule will likely establish a false implication in the estimation of the price level and inflation due to **“misleading base year/month effect”**. This mainly because in the past 9 months the consumption pattern of the society has already been changes considerably and created a high level base effect for the prices. Any factor that adds to this base effect will falsify the basic trend of the general price levels.

5. In 2020, the sectors that earn foreign exchanges most have been affected negatively. Particular attention is given to the sectors that open to international trade and tourism. The monthly level in exports in January, for example, remained at the level of 2014, negatively affecting foreign exchange income. In the tourism sector, the situation is even more worse. In 2020, there was a contraction of up to 60 percent in tourism, creating annual foreign exchange income of approximately \$12 billion.

6. One of the most important factors that will affect the direction and the ratio of inflation will be the presence of new waves in the pandemic.

7. We care about the presence of the Price Statistics Advisory Board established within the body of TURKSTAT. On the other hand, we would like to emphasize that we will observe firmly how effective this will be in closing the gap between inflation felt by the public and announced.



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