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# TCMB SIGNALS FIRM STANCE IN FIGHTING INFLATION

The Central Bank of the Republic of Turkey (CBRT) has clearly stated in its recent Monetary Policy Committee meeting that the current level of the policy rate will be maintained until a significant and sustained decrease is achieved in the main trend of monthly inflation, and until inflation expectations approach the forecasted range. The central bank has signaled that it will continue tightening with all its tools if the fight against inflation falters.

**Risk Factors to Challenge Central Bank Targets for a While Longer**

To achieve a lasting decrease in inflation, tight monetary policies will be maintained, and the presence of geopolitical risks is seen as prominent risk factors for the course of global economic activity in 2024. High inflation expectations imply that global inflation will continue to exceed central banks' targets for some time. Credit growth and normalization in composition continue, with average growth rates of individual loans decreasing while there has been a higher increase in individual credit cards. The increase in the amount of Turkish lira and foreign currency commercial loans continues. It is evaluated that the levels reached in credit interest rates with the decisions of monetary and quantitative tightening and simplification are consistent with the targeted level of financial tightness.

**Improvement in the Current Account Contributes to Exchange Rate Stability**

External financing conditions, the level of reserves, improvement in the current account, and demand for Turkish lira assets continue to contribute to exchange rate stability. CBRT's gross international reserves have reached the level of $134 billion. While the volatility of the Turkish lira has decreased, Turkey's 5-year credit default swap has fallen below the 300 basis points level with the improvement in global risk appetite. Starting from June, with the decrease in risk premiums and exchange rate volatility, there has been a net portfolio inflow of $3 billion into the government bond market and $3 billion into the stock market, totaling $6 billion.

**Indicators for the Recent Period Indicate Continued Balance in Domestic Demand**

Indicators for the recent period indicate that the balancing process in domestic demand continues. This balancing process has been strong in consumer goods and gold imports, while indicators for other consumer spending have been slower compared to the forecast. Retail sales volume and industrial production index continued to show an increasing trend on a monthly basis. The capacity utilization rate in manufacturing industry has approached historical averages. Seasonally adjusted employment reached 32.1 million at the end of the year, while the labor force participation rate remained flat. The unemployment rate has fallen below 9%

**Exports remain relatively flat, while imports show a decreasing trend.**

The current account deficit has declined to $45 billion. This decrease is attributed to the increase in exports, strong decrease in the foreign trade deficit excluding gold, and continued annual decrease in energy prices. While exports show a relatively flat trend, imports indicate a decreasing trend. The slowdown in consumer goods imports continues. Meanwhile, the services balance surplus has continued to increase, reaching $52 billion. The long-term debt rollover ratio of the banking sector has been realized at 115%. This ratio has been around 100% for companies outside the banking sector. In this context, an improvement in external financing opportunities is observed.

The inflation rate has increased and reached 65%. While the annual contribution of energy and service groups to inflation has increased, it has decreased in food, basic goods, and alcohol-tobacco-gold groups. In the consumer inflation outlook, the significant increase in service group inflation stands out due to wage adjustments, managed/directed price adjustments, and backward indexation behavior. The current level of domestic demand, rigidity in service prices, geopolitical risks, and food price inflation keep inflation pressures alive.

**Unfortunately, the pricing approach of the service sector has led to inertia and prolonged shocks.**

As a result of the continued strength of price pressures stemming from the service sector, pricing trends over time are particularly high in items such as transportation, rent, restaurants-hotels, health, private education, maintenance-repair, insurance, and managed/directed services. While the cost-oriented impact of wage increases is reflected relatively quickly in both goods and services prices, the demand-oriented impact is spread over time and contains more uncertainty compared to cost-oriented effects. This pricing behavior prevailing in the service sector leads to significant inertia and prolongs the effects of shocks on inflation over a long period. While the annual inflation in essential goods and services groups is approximately around 70%, the annual inflation in the service sector is observed to be around 90%. Considering recent consumer inflation developments, there is a risk of higher inflation for a while longer in certain service sector items. It is evaluated that sectors such as education, health, maintenance-repair, and insurance will continue to stand out in this context.

**Leading indicators suggest a slowdown in inflation**

Leading indicators suggest a slowdown in the main trend of inflation. According to leading indicators, while price increases strengthen in the food group compared to the previous month, they slow down in other groups, especially in services. Indicators suggest that there is a deviation above the expected in food prices, especially with the effect of the Ramadan month, and the reflections of these developments are also felt on out-of-home eating services in the restaurant-hotel group. The volatility in rapidly rising oil prices, especially through the fuel prices channel, continues to be a risk factor for inflation due to geopolitical developments. In global commodity prices, which started to decline from the fourth quarter of 2023, there has been a limited increase in the new year. While global energy prices have risen, non-energy commodity prices have remained flat. International transportation costs have increased due to geopolitical developments in the Red Sea. There has been a significant increase in global freight rates. Although this development has not yet had a significant impact on domestic pricing, it is considered a risk factor with the lengthening of delivery times by suppliers. While the increase rate in housing prices continues to slow down, the increase in rent has strengthened at the beginning of the year due to seasonal effects depending on the number of contract renewals. Leading indicators suggest that the rise in rent will slow down. According to leading indicators, in addition to the declining contract renewal rate, the loss of momentum in the rate of increase in renewed rents is effective in this development.

In conclusion, the CBRT has evaluated that the current level of the policy rate will be maintained until a significant and sustained decrease is achieved in the main trend of monthly inflation, and until inflation expectations approach the forecasted range. In case of a significant and sustained deterioration in the inflation outlook, the monetary policy stance will be tightened. Macro-prudential policies will continue to be implemented in a manner that preserves the functionality of the market mechanism and macro-financial stability. Indicators related to inflation and its main trend will be closely monitored, and all available tools will be used decisively in line with the primary objective of price stability.

### GLOBAL POVERTY WILL DISAPPEAR IN 230 YEARS

# The fight against inequality will prevail

The total wealth of the world's five richest individuals has more than doubled since 2020, reaching $869 billion. Approximately 5 billion people have become poorer, exacerbating inequality to unprecedented levels and posing a growing threat to democracy. However, as demonstrated by workers, regulators, and organizers, the fight against oligarchy (privileged small group) can be won. The wealth gap between the top 0.01% and the bottom half of the world's population has increased by 50% since the 2008 global financial crisis. A recent World Bank analysis revealed that "the fight against poverty has stalled." Given the current trajectory of wealth distribution, while the world may have its first trillionaire within 10 years, the eradication of global poverty will take 230 years.

The past 12 years have been extremely favorable for the ultra-rich. The wealth of the 2,640 billionaires on the planet, most of whom are male, has more than doubled. The wealth gap between the top 0.01% and the bottom half of the world's population has increased by 50% since the 2008 global financial crisis. The events following COVID-19 and the war in Ukraine have been particularly profitable for ultra-rich individuals who have benefited immensely from pandemic stimulus packages and corporate welfare, profiting from soaring prices and blaming inflation for record profits, and benefiting from economic advantages. A recent report by

Oxfam revealed that the total wealth of the world's five richest individuals (Elon Musk, Jeff Bezos, Bernard Arnault, Larry Ellison, and Warren Buffett) has more than doubled since 2020, reaching $869 billion.

### UNFORTUNATELY, 60% OF THE WORLD'S POPULATION HAS BECOME EVEN POORER

While some were accumulating wealth, what happened to the rest of the world? Primarily, about 5 billion people representing 60% of the world's population have become even poorer. While global income inequality has gradually decreased over time due to rising incomes in China, inequality between countries has increased for the first time in decades, and inequality within most countries has reached unprecedented levels. Alarmingly, a recent World Bank analysis revealed that "the fight against poverty has stalled." Given the current trajectory of wealth distribution, while the world may have its first trillionaire within 10 years, the eradication of global poverty will take 230 years.

Such statistics may no longer be surprising but should be alarming as the trends they capture pose a serious threat to democratic governance. Increasing inequality, rightfully linked to tax policies and debt, can no longer ignore the vital role of corporate monopolies in transferring wealth from workers and the middle class to the top 0.1%. In the 12 months leading up to June 2023, the largest corporations in the world made approximately $1.8 trillion in profit. This represents a 52% increase over their average annual profits between 2018 and 2021.

### RICH SHAREHOLDERS RECLAIM 82 OUT OF EVERY $100 OF PROFIT

Only 0.4% of the world's most influential 1,600 companies have explicitly committed to paying a living wage and supporting workers, so corporate gains have come at the expense of employees. Meanwhile, wealthy shareholders claim 82 out of every $100 of profit through dividends and buybacks. Dominant firms pull in workers, consumers, and small businesses into their orbits; multinational corporations' global profit share has quadrupled in the last 40 years of neoliberal orthodoxy. According to a recent study by the International Monetary Fund, the increase in monopoly power accounts for 76% of the decline in labor's income share in the U.S. manufacturing sector in the second half of the 20th century.

In today's highly concentrated world economy, the "Big Three" index funds (BlackRock, Vanguard, and State Street) control over $20 trillion in assets. Even Vanguard's late founder John Bogle sounded the alarm about the dominance of the Big Three in 2018, warning that "a handful of giant institutional investors will one day hold almost all voting control over nearly all the major U.S. corporations."

### WELCOME TO THE ERA OF INDUSTRIAL OLIGARCHY

During the Original Gilded Age, titans like John D. Rockefeller were synonymous with economic power. In the contemporary version, seven out of the world's top 10 corporations either have a billionaire CEO or a billionaire as their major shareholder; this gives today's counterparts of Rockefeller even greater influence over our political economies. The extreme concentration of wealth and power recalls a situation that late U.S. Supreme Court Justice William Douglas termed "industrial oligarchy," where fortunes are tied to whims or caprices, political biases, and the emotional stability of a few self-sufficient individuals. However, amidst this seemingly bleak scenario, recent developments offer a glimmer of hope.

### THE RACIAL WEALTH GAP IS A STAGGERING $2 TRILLION

Consider the United States. Since 2020, the top 0.1% of Americans, who own 13.9% of the country's wealth, have become over $2 trillion richer than the poorest half of the population, who hold only 2.6% of the country's wealth. The racial wealth gap is nearly as wide as it was in 1950, with the typical white household having six times the wealth of a Black household. Meanwhile, millions of Americans struggle to make ends meet, with hunger reaching nearly its highest level in the past decade. However, the good news is that in the U.S., low-wage workers have seen real wage increases over the past three years, and the wealth of the bottom has increased slightly by 50%. Ironically! Most importantly, there has been a resurgence in labor actions with over 460,000 workers going on strike in 2023, the second-highest figure since 1986. Striking automotive workers, UPS drivers, and Hollywood screenwriters achieved significant victories last year, demonstrating that progress is possible.

### THERE'S A STRONG BACKLASH AGAINST INDUSTRIAL OLIGARCHY

A shift in economic paradigm seems to be underway exemplified by the resurgent anti-monopoly movement within the U.S. government. Federal Trade Commission (FTC) Chair Lina Khan and Assistant Attorney General for Antitrust Jonathan Kanter have developed a series of ambitious reforms. They've rewritten loose merger rules that enable unprecedented consolidation of power by corporations and proposed bans on non-compete clauses. Milestone victories are being scored for patients and consumers. Particularly, the FTC's antitrust lawsuit against Amazon represents a powerful rebuke to industrial oligarchy.

Of course, the decades-long dominance of neoliberalism, which has served as a steward for increasing inequality in America, won't be dismantled overnight. To get to this point, Congress must rein in corporate power and enact laws that curb excessive profits, ensure a living wage, and protect collective bargaining rights. The U.S. should not act alone. Brazil's presidency of the G20 offers a unique opportunity to foster international cooperation in the fight against inequality.

Reimagining public action is vital to advancing this paradigm shift. As President Joe Biden revitalizes industrial policy, tax revenues must be ensured not to subsidize corporate dominance. Guarantees and public solutions that protect people's interests, such as universal child care and affordable housing, offer promising avenues to break free from oligarchy. Escaping the New Gilded Age may be more challenging than fleeing the original age. However, as demonstrated by workers, regulators, and organizers, the fight against inequality can only be won through struggle.