



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**RECENT DEVELOPMENTS IN TURKISH ECONOMY
AND MONETARY POLICY**

December 19, 2012

Ankara

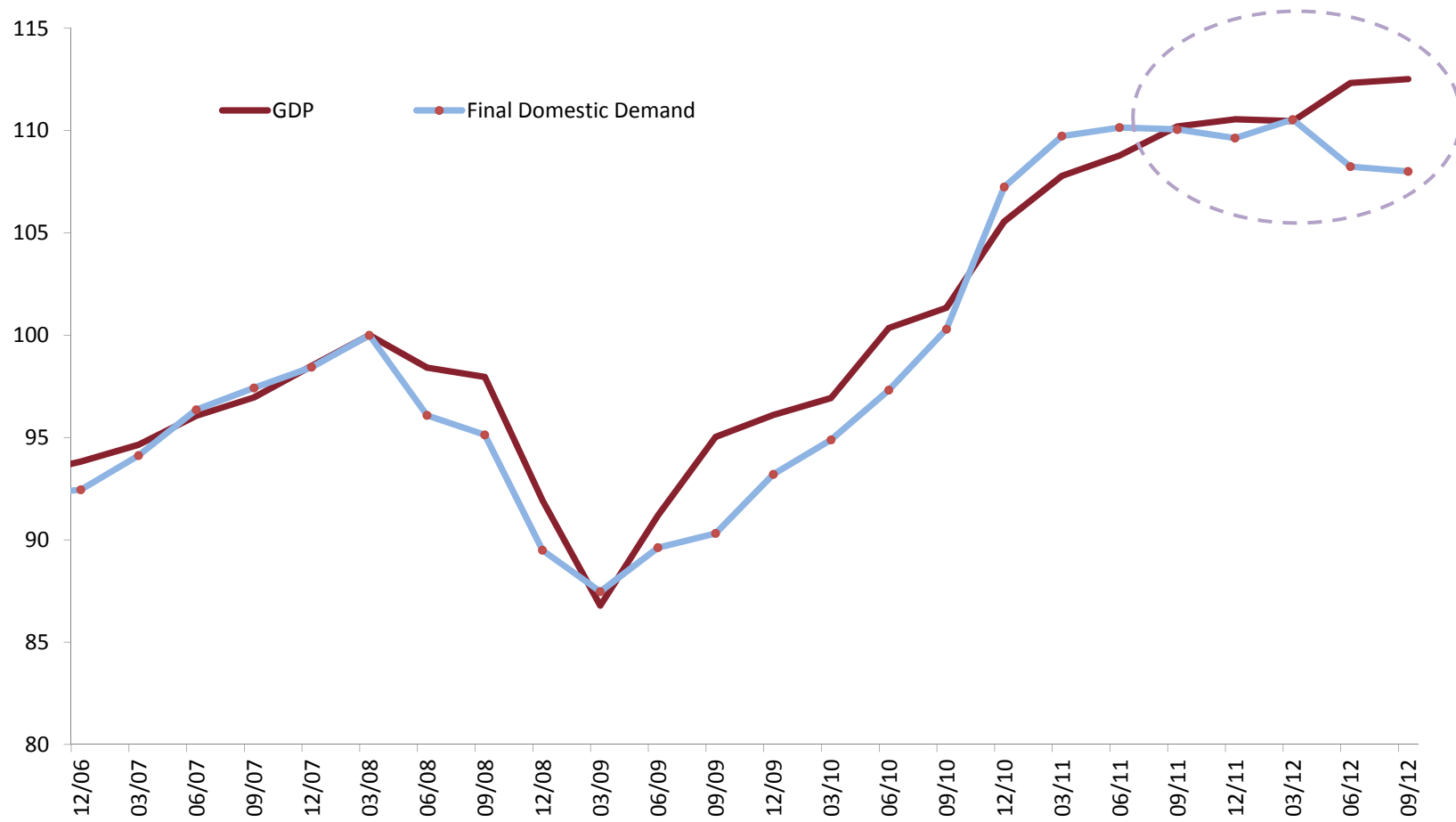
Outline

1. Economic Activity
2. Rebalancing
3. Inflation
4. Monetary and Financial Conditions

ECONOMIC ACTIVITY

Economic Activity

Gross Domestic Product and Final Domestic Demand
(Seasonally Adjusted, 2008Q1=100)

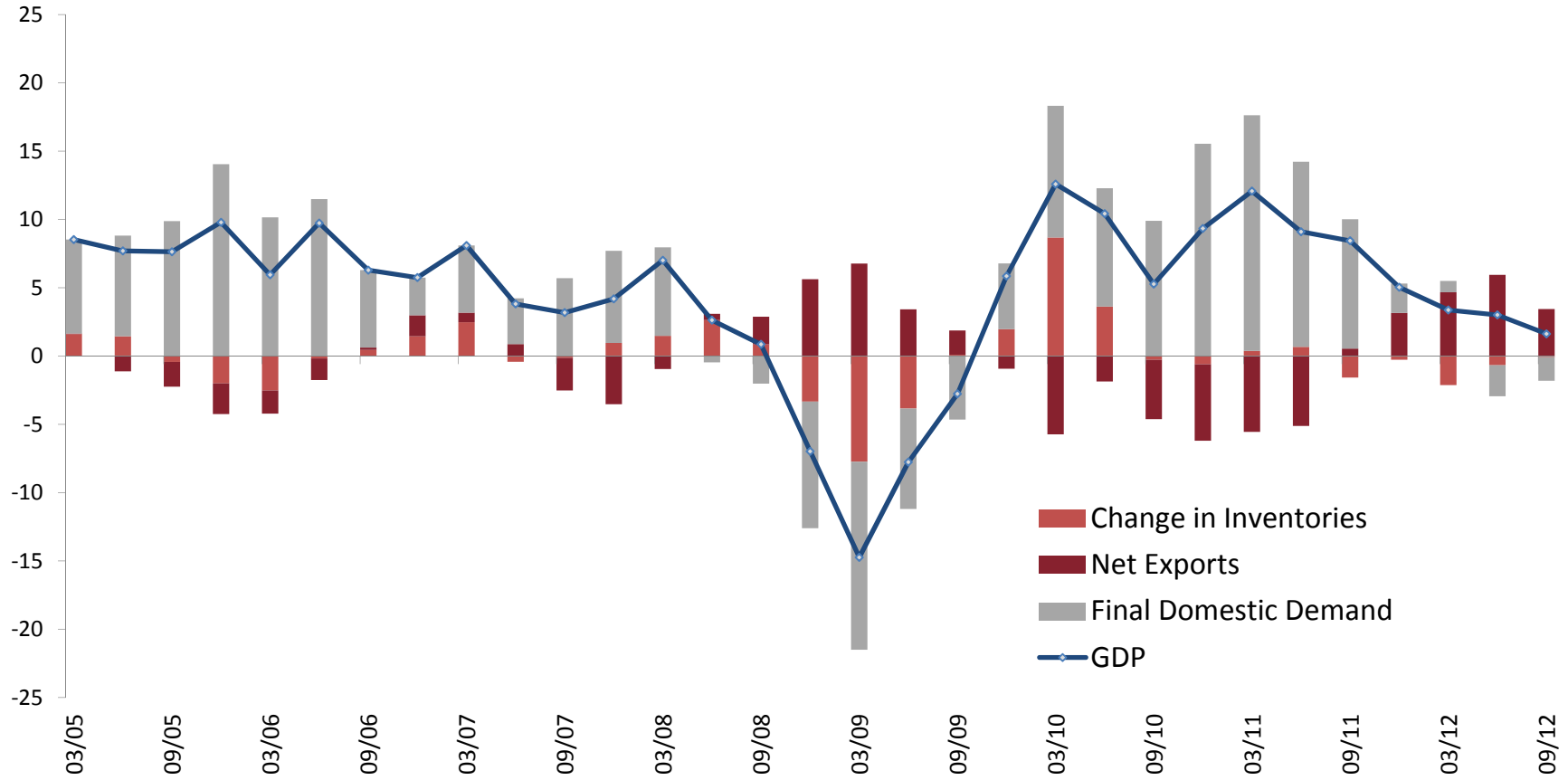


Source: TURKSTAT, CBRT.

Last Data: 2012Q3

Economic Activity

Contribution to Annual GDP Growth (Percentage Points)

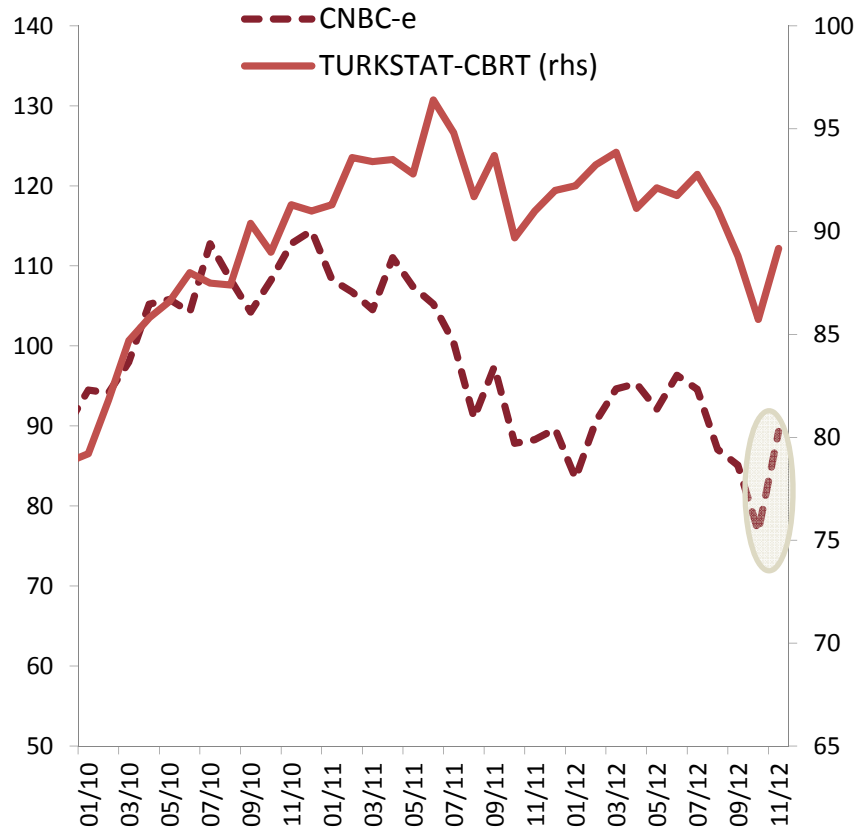


Source: TURKSTAT.

Last Data: 2012Q3

Leading Indicators for Demand

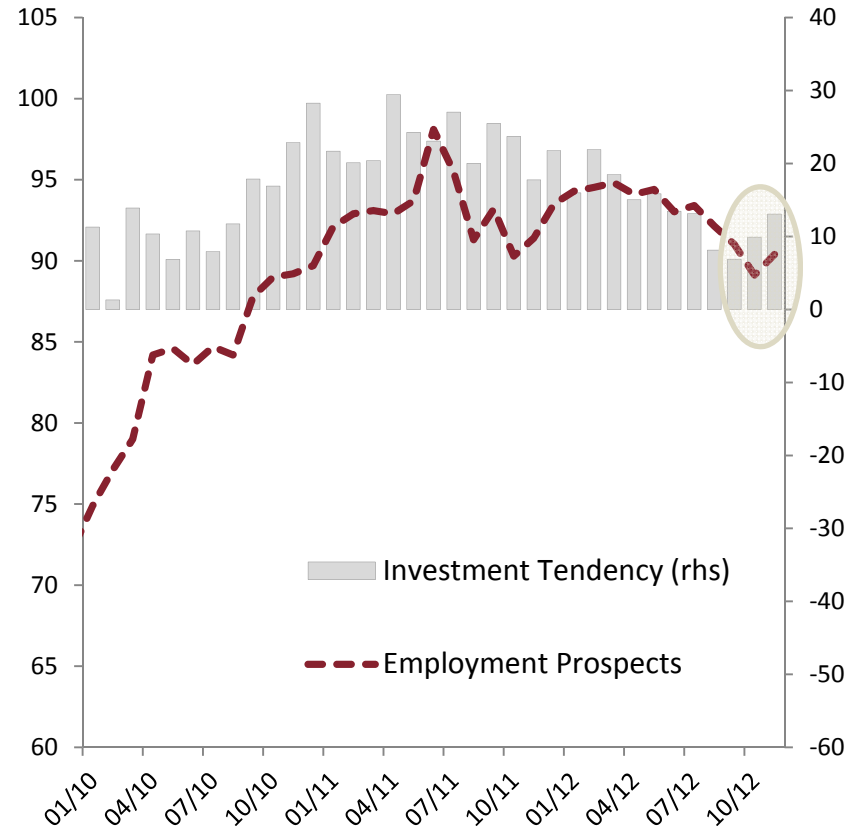
Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Data: November 2012 for TURKSTAT-CBRT,
November 2012 for CNBC-e

Employment and Investment Prospects (Seasonally Adjusted)



Source: TUKRSTAT, CBRT.

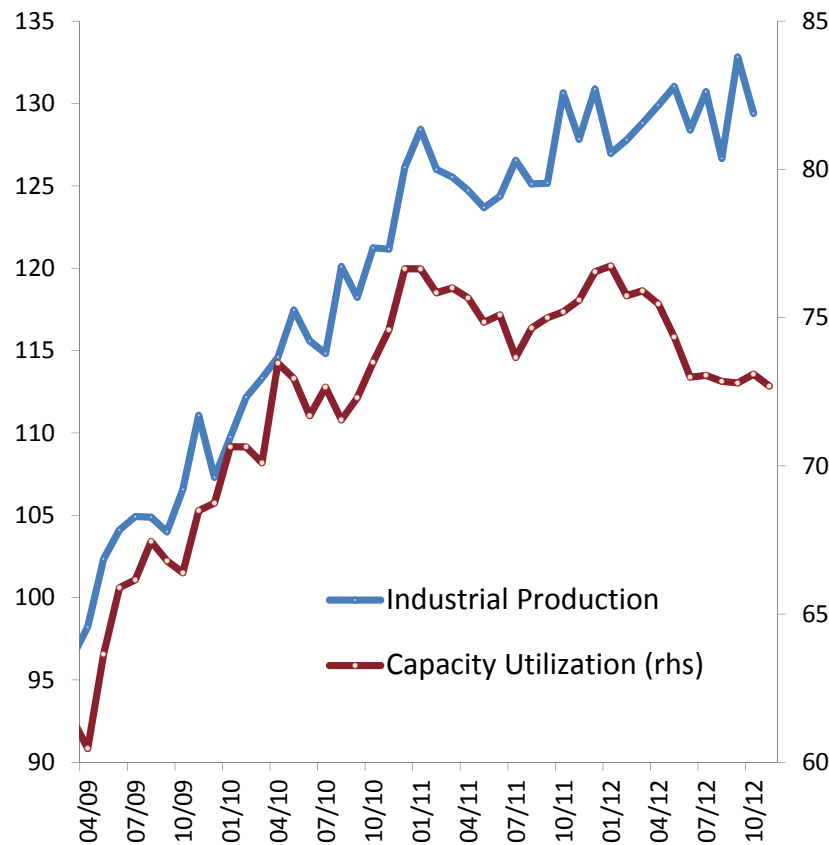
*Employment Prospects: Consumers expectation for Job Opportunities over the next 6 months.

Investment Tendency: How do you expect your fixed investment expenditure to change over the next 12 months?

Last data: October 2012 for Employment Prospects,
November 2012 for Investment Tendency

Economic Activity

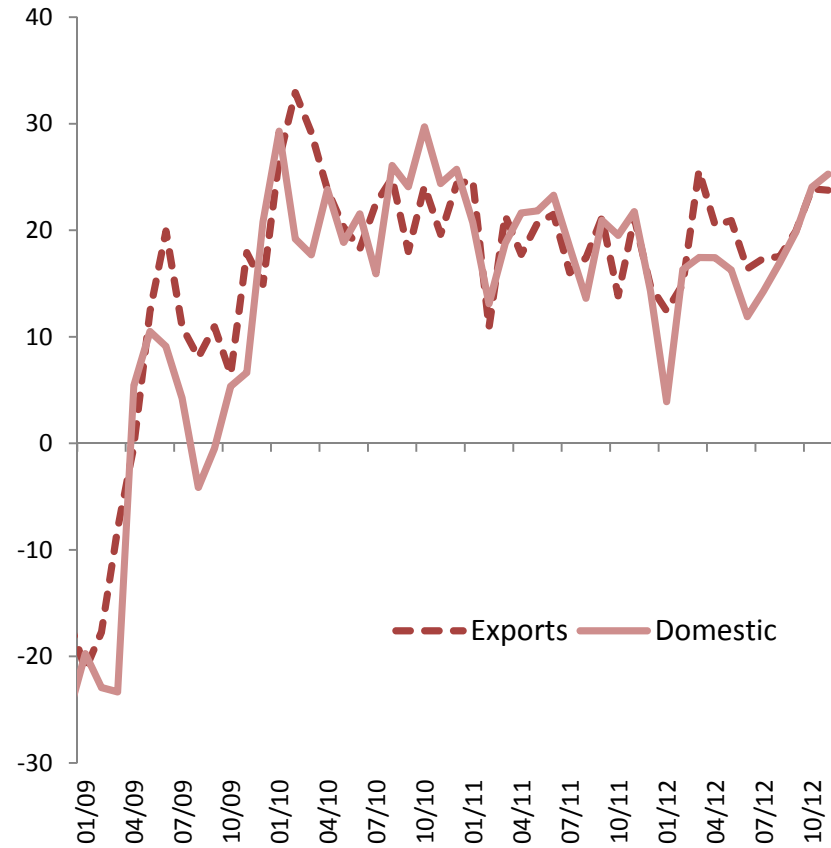
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

*Last data: October for Industrial Production, November for Capacity Utilization.

New Orders* (Seasonally Adjusted)

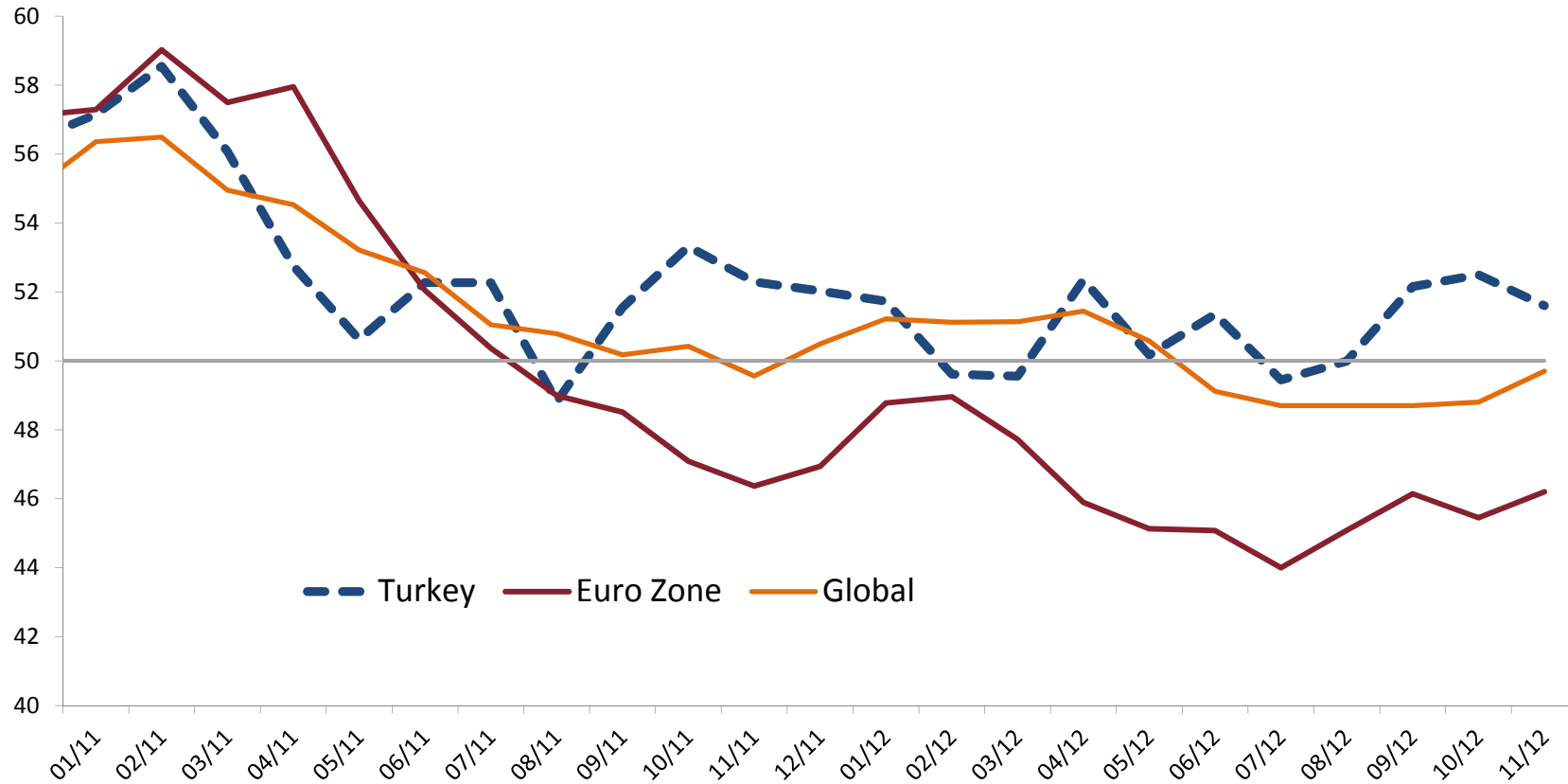


Source: CBRT Business Tendency Survey.

*Question Number 12 and 21 for exports and domestic orders, respectively: How do you expect your orders to develop over the next three months.
Last data: November 2012.

PMI: Turkey, Eurozone, and Global

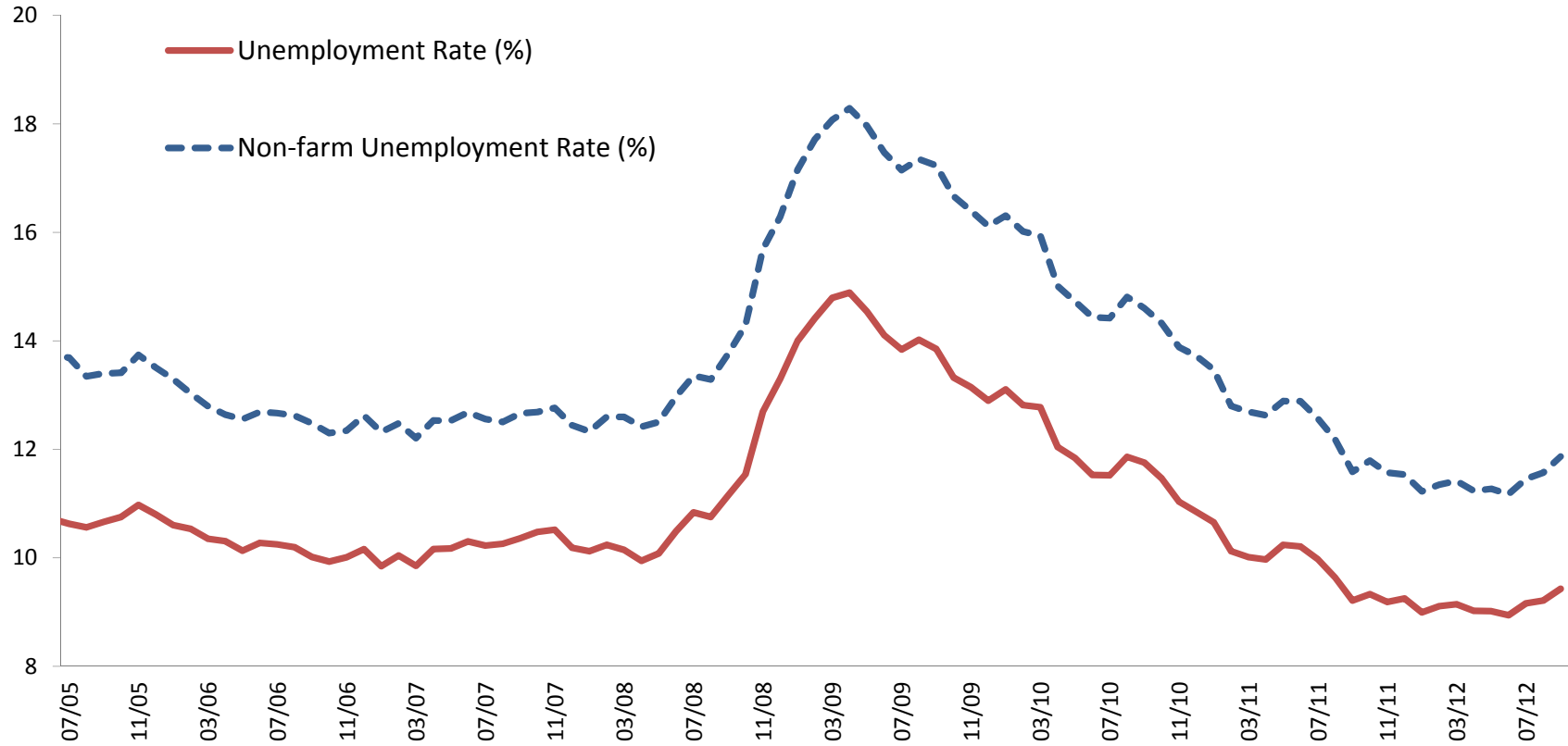
Manufacturing PMIs
(Seasonally Adjusted)



Source: MARKIT.

Last data: November 2012

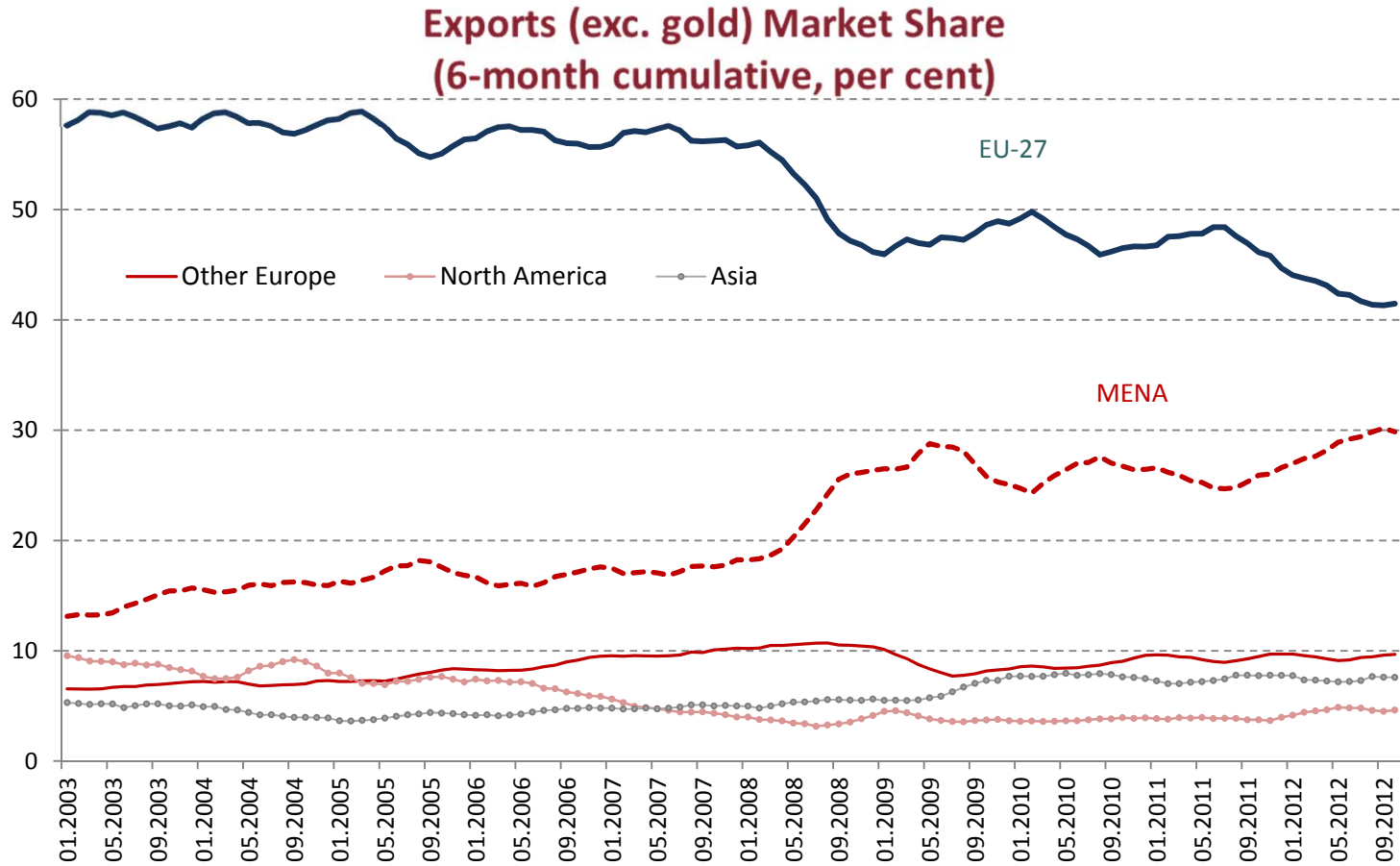
Unemployment Rate



Source: TURKSTAT, Household Labor Force Survey, CBRT.

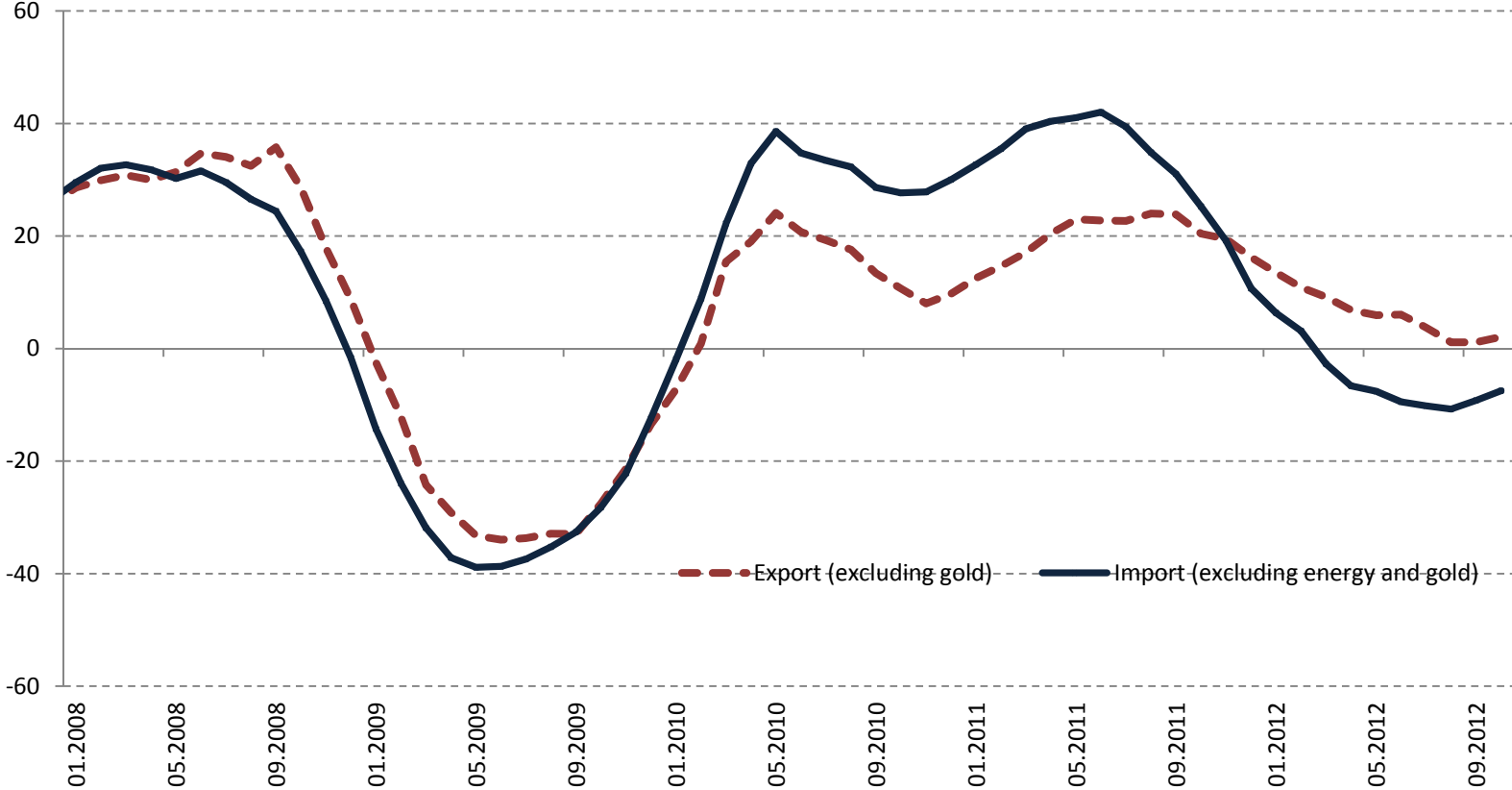
REBALANCING

Market Share Shifting from EU to MENA



Rebalancing

Exports and Imports (Nominal y-o-y % change, 6-month MA)

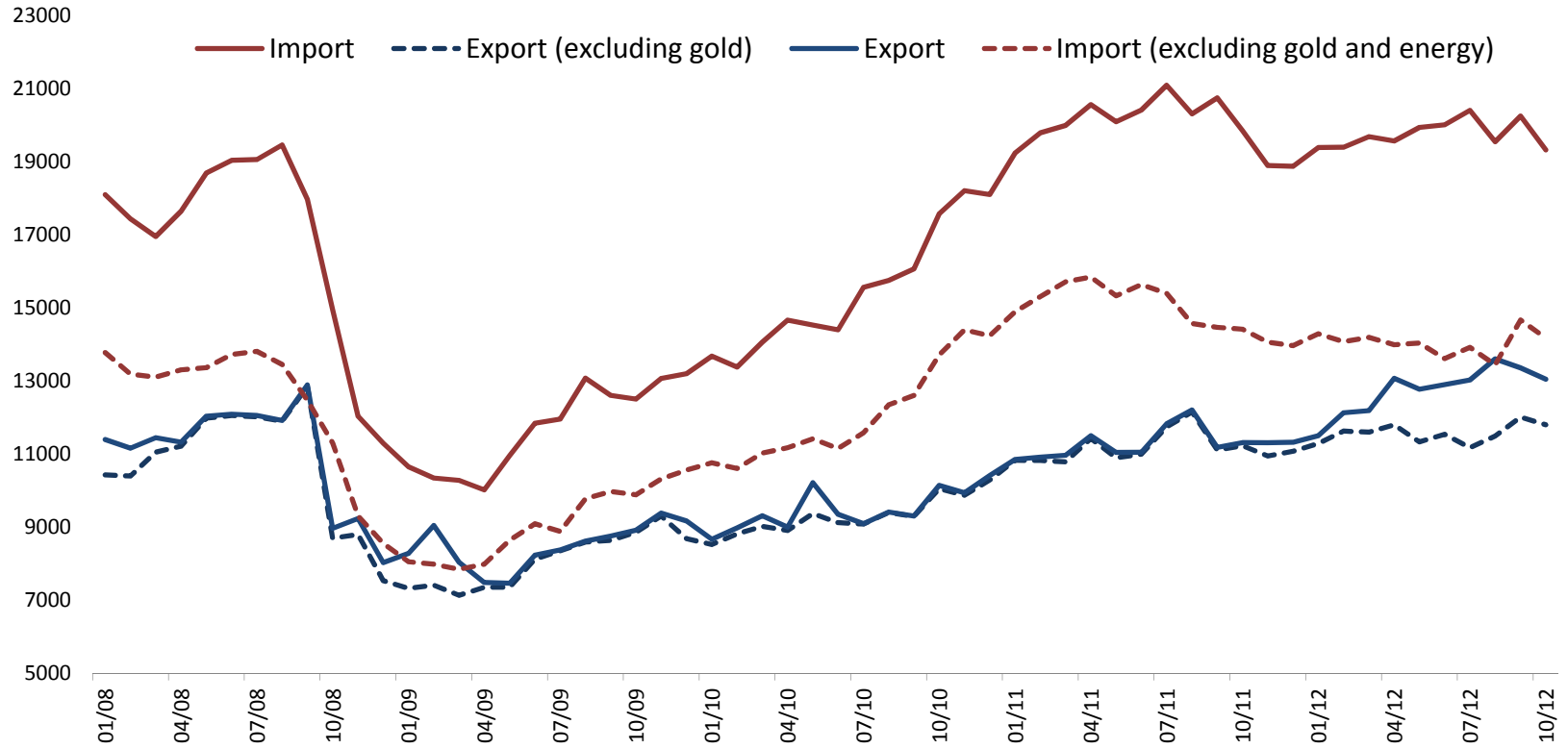


Source: TURKSTAT.

Last data: October 2012

Rebalancing

Exports and Imports (Seasonally Adjusted, Million USD)

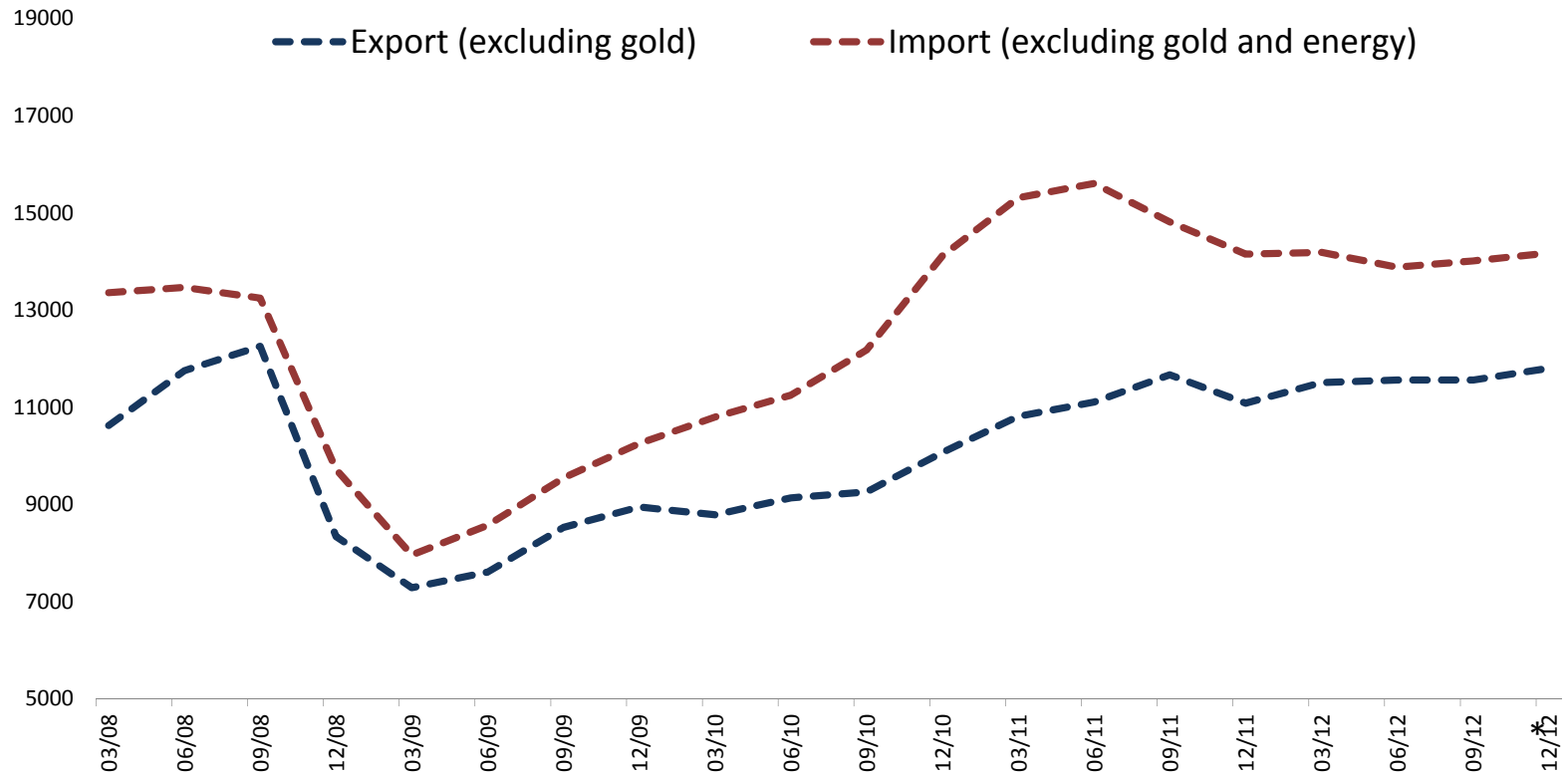


Source: TURKSTAT, CBRT.

Last data: October 2012

Rebalancing: Main Trends

Exports and Imports (Seasonally Adjusted, Quarterly Average, Million USD)

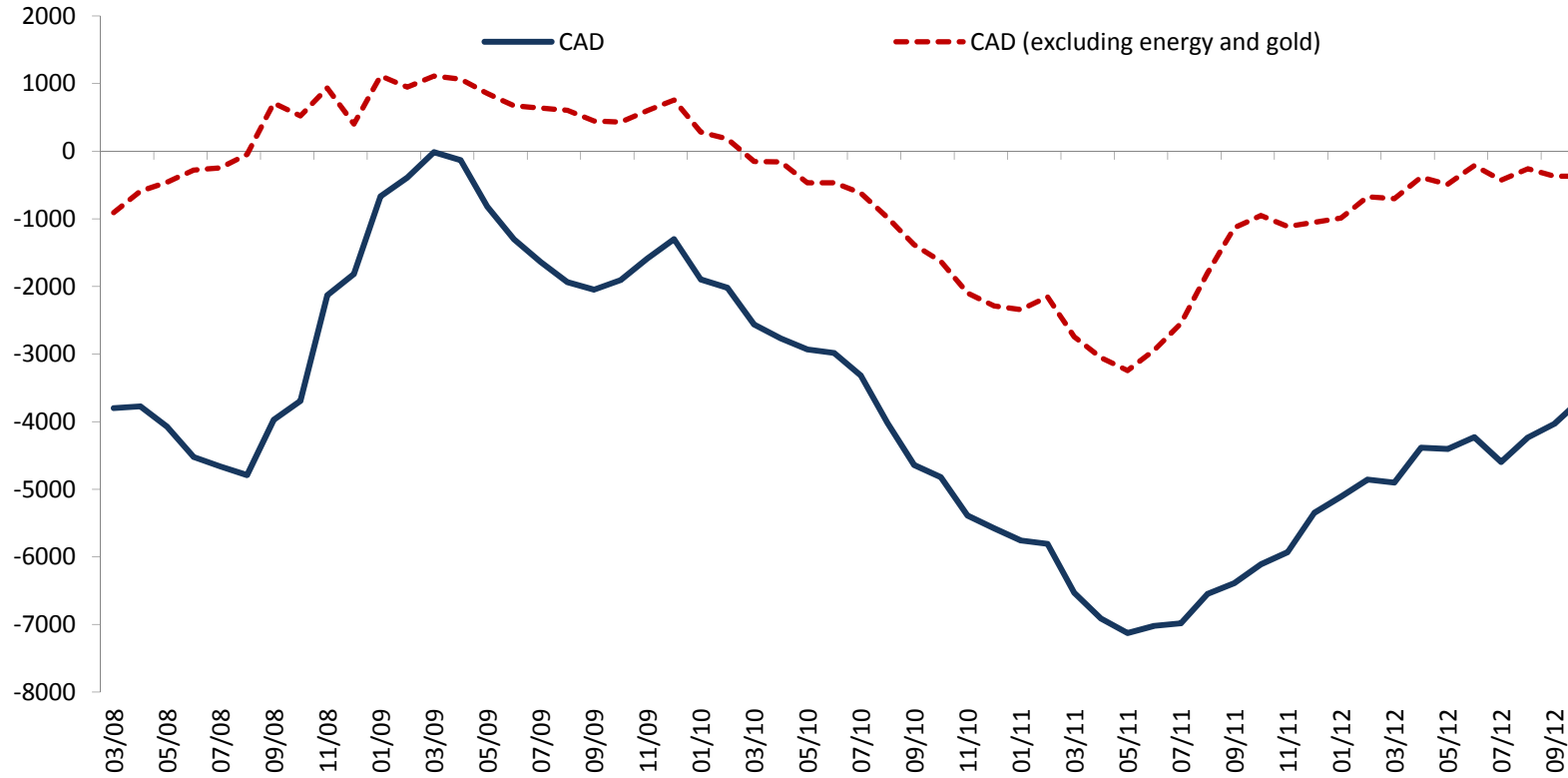


Source: TURKSTAT, CBRT.

* Final Quarter is October.

Rebalancing

Current Account Balance
(Seasonally Adjusted, 3-Month Average, Million USD)

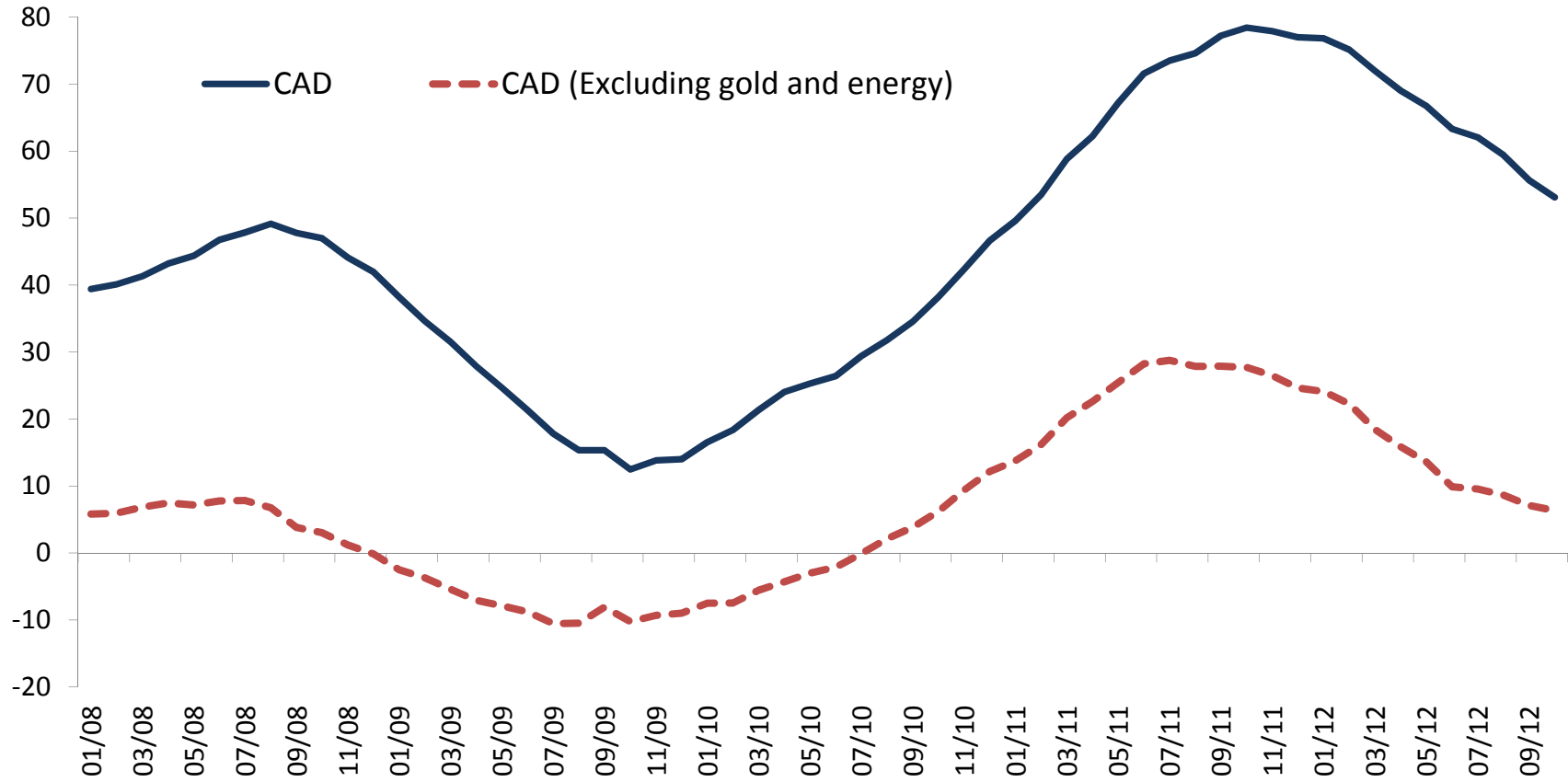


Source: CBRT.

Last data: October 2012

Rebalancing

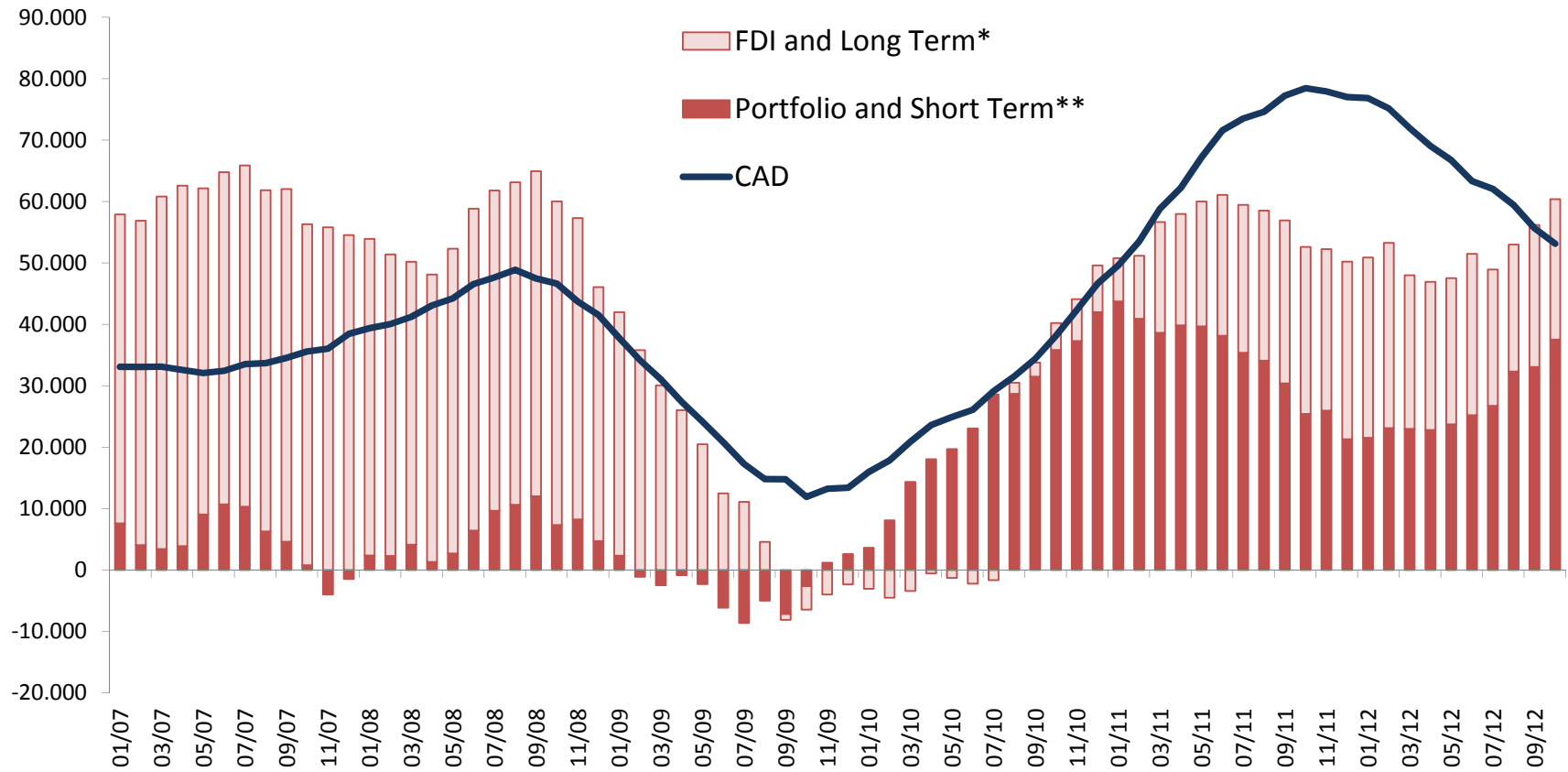
Current Account Deficit (12-Month Rolling, Billion USD)



Source: CBRT.

Main Sources of External Finance

(12-months Cumulative, Billion USD)



Source: CBRT.

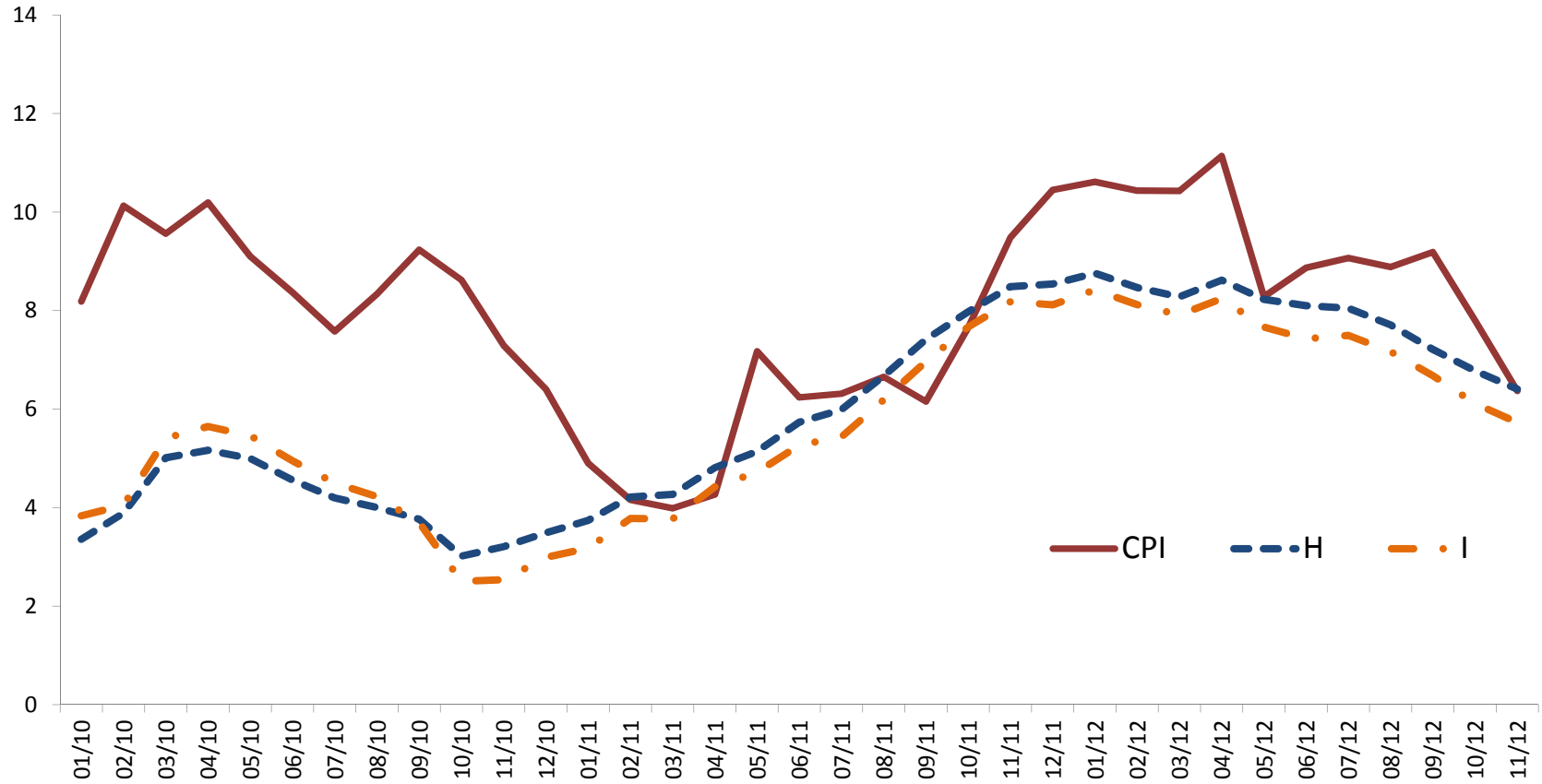
*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

**Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

INFLATION

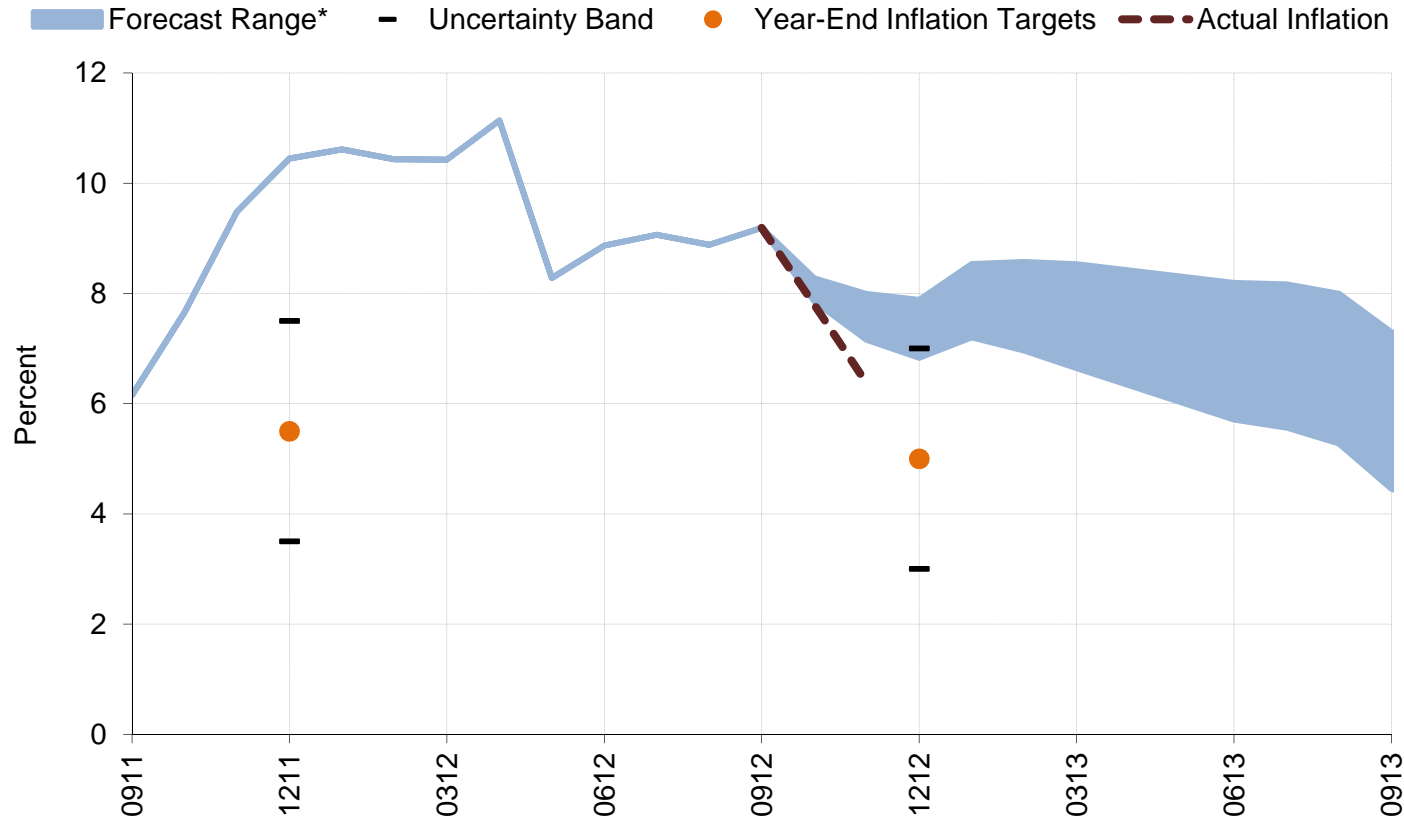
Inflation: CPI and Core Indicators

(Annual Percent Change)



Source: TURKSTAT.

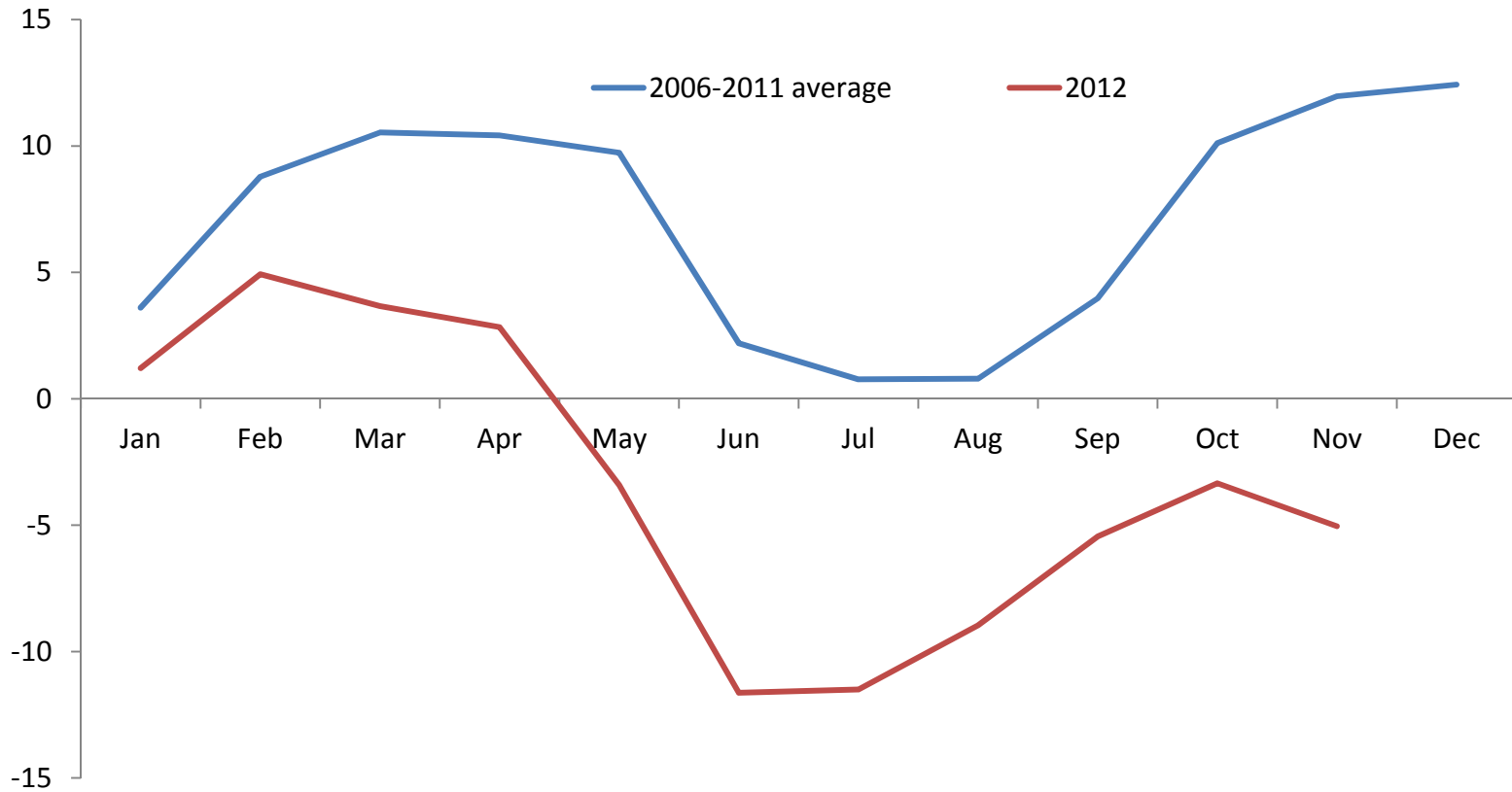
October 2012 Inflation Report Projections and Realizations



* Shaded region indicates the 70 percent confidence interval for the forecast

Inflation: Unprocessed Food Prices

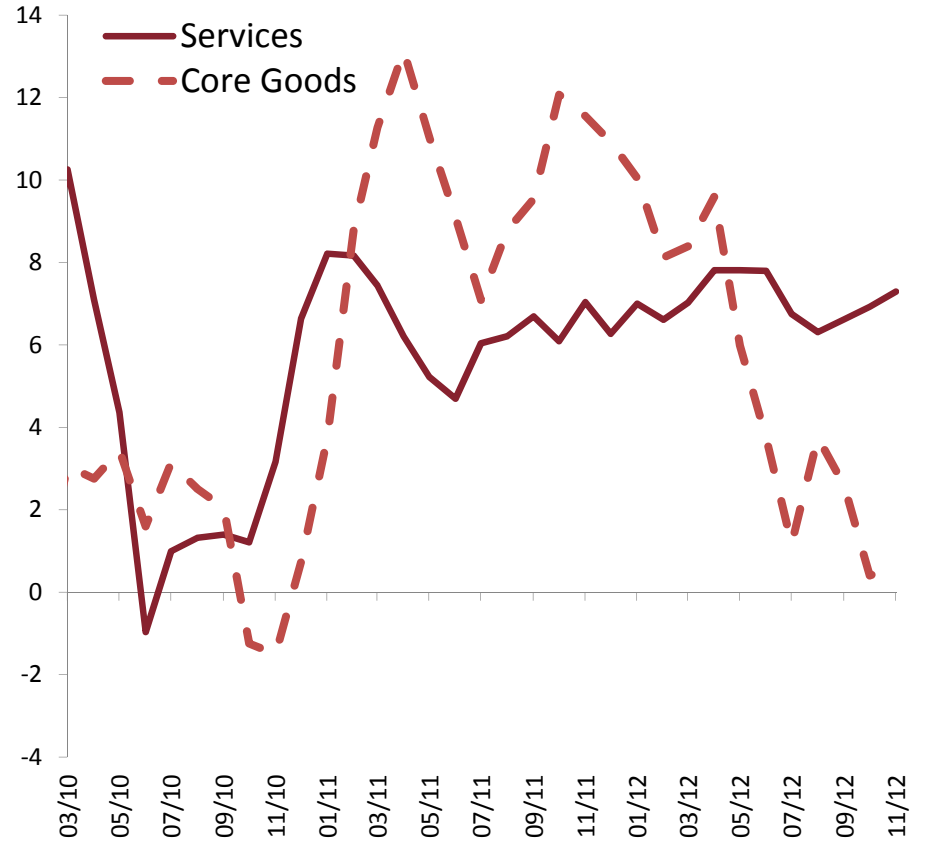
(Cumulative Percent Change)



Source: TURKSTAT, CBRT.

Trend Inflation

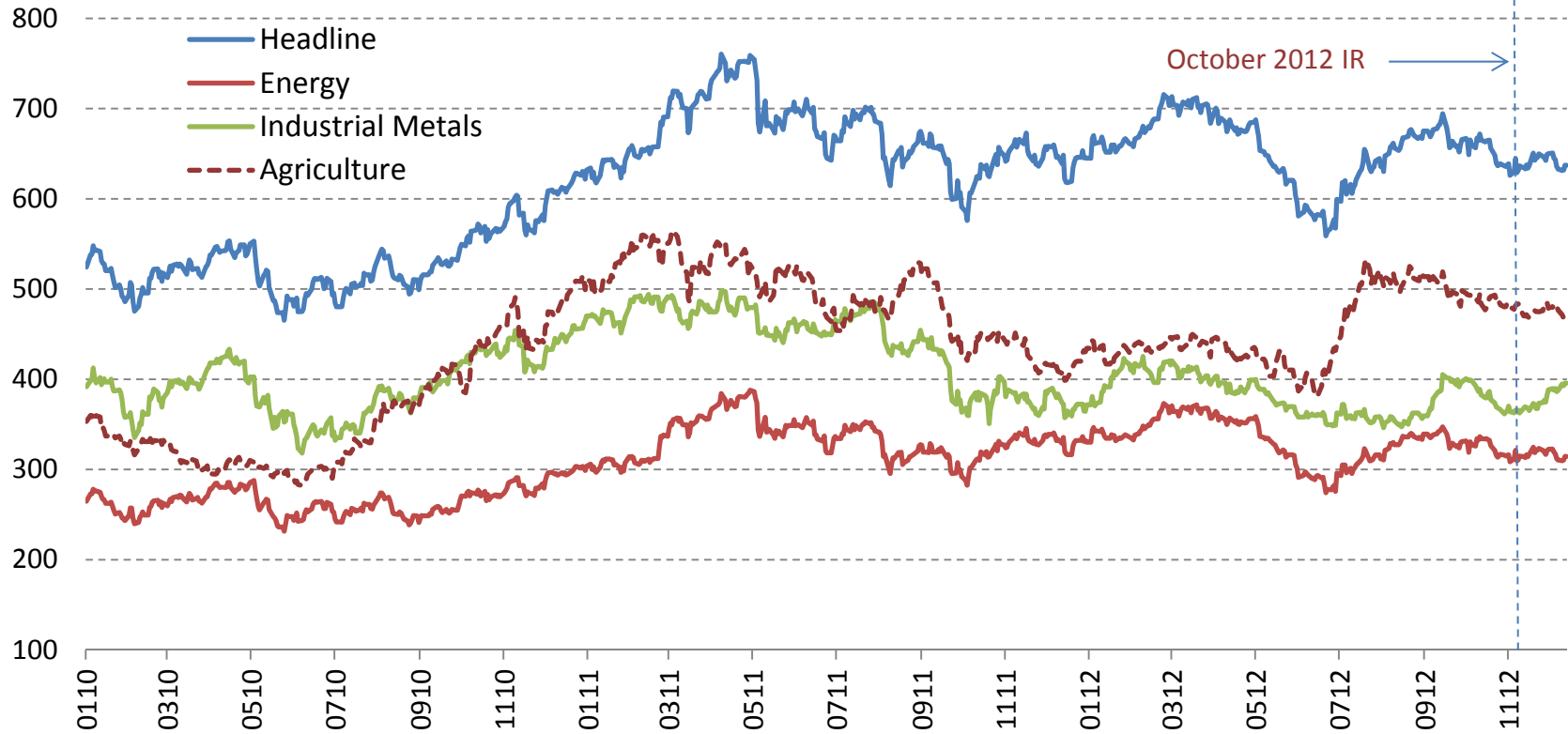
Seasonally Adjusted, Monthly Percent Change,
3-Month Average, Annualized



Source: TURKSTAT, CBRT.

Commodity Prices

S&P GS Indices



Source: Bloomberg.

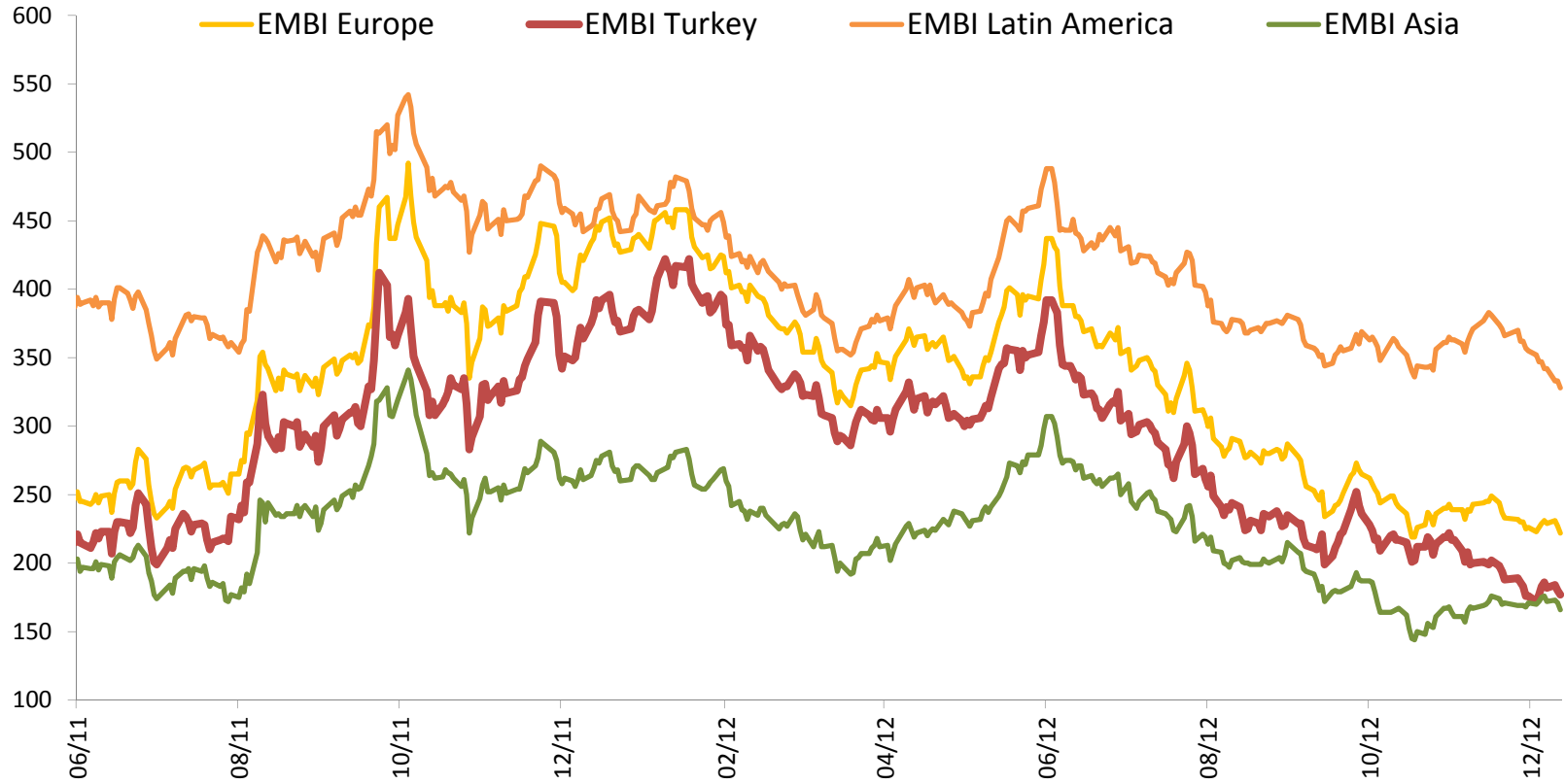
Inflation Expectations



Source: CBRT.

Monetary and Financial Conditions

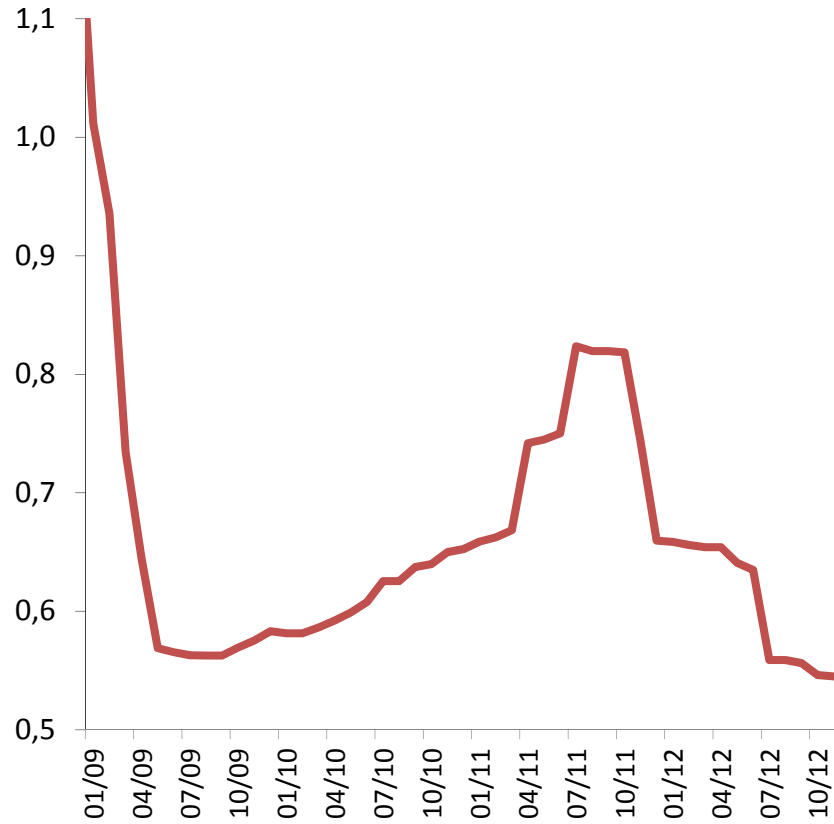
Risk Premium



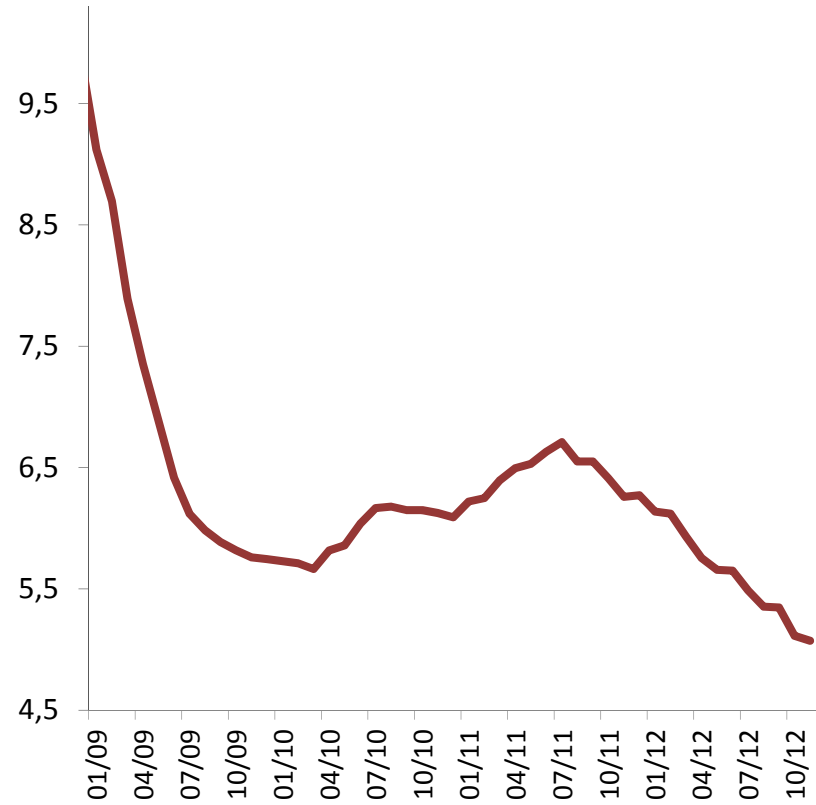
Source: Bloomberg.

Global Policy Rates

Advanced Countries



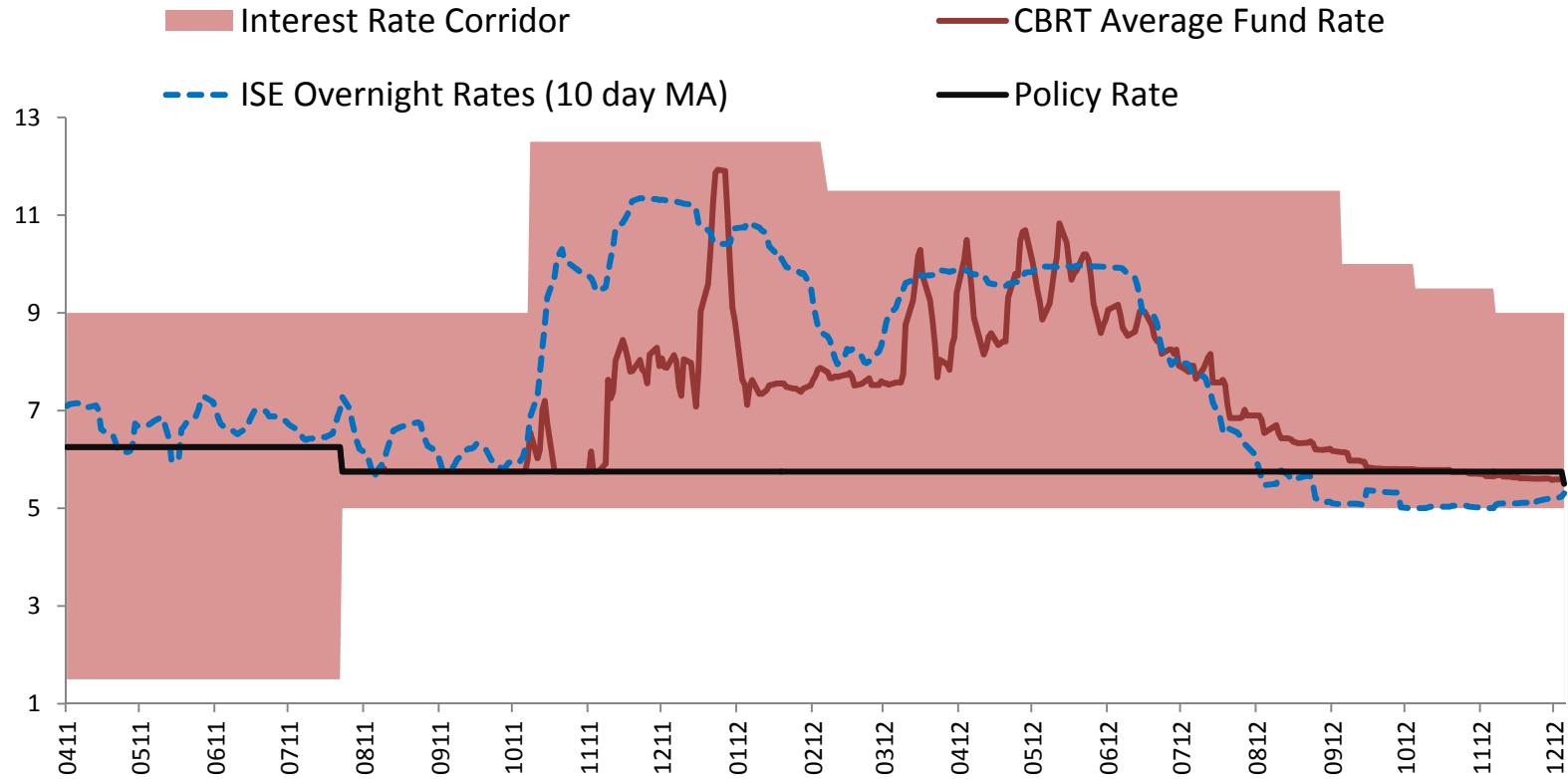
Emerging Countries



Source: Bloomberg.

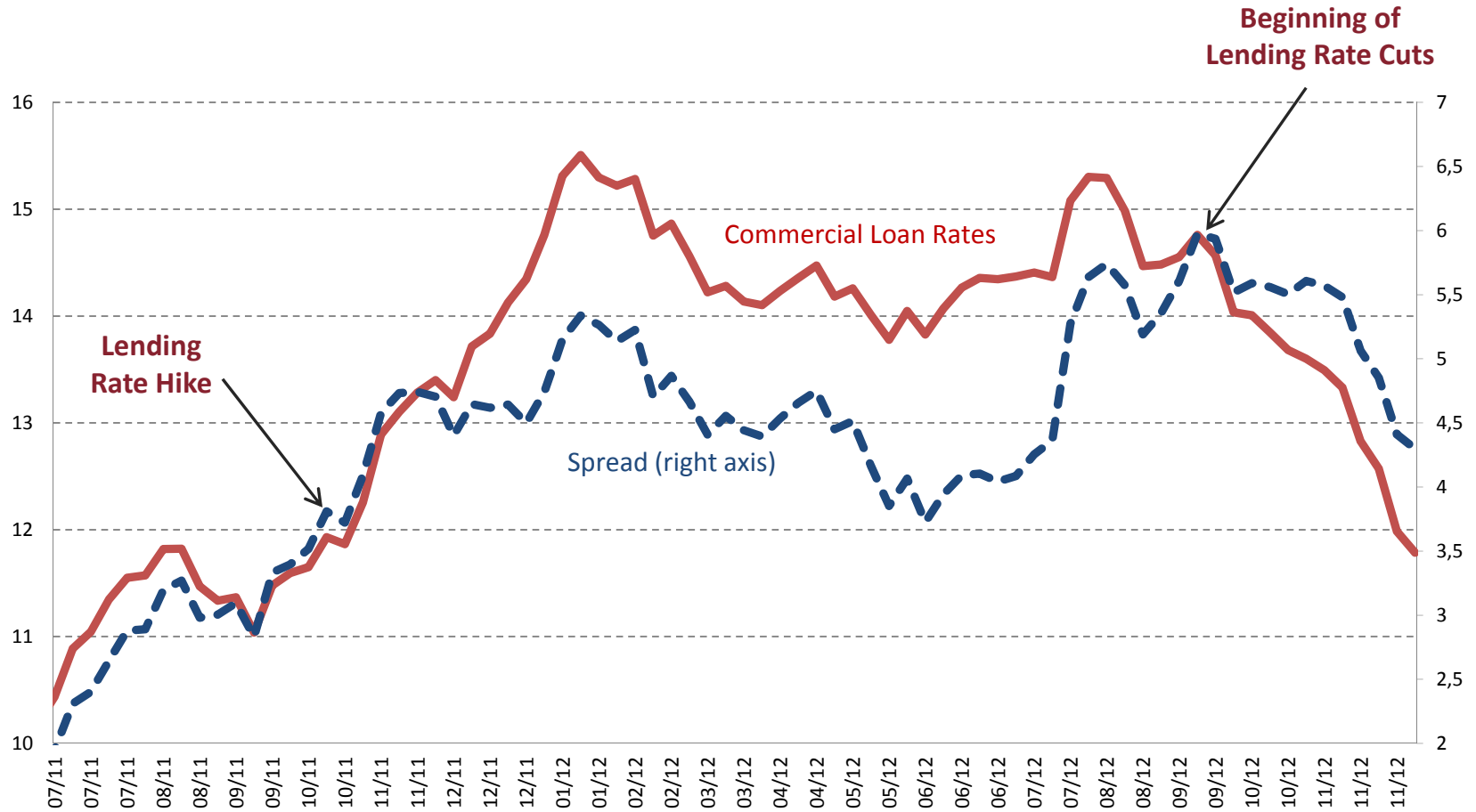
Monetary Policy

Interest Rate Corridor, Average Funding Rate, and O/N Repo Rates in the Money Market (Percent)



Source: CBRT.

Lending - Deposit Rate Spread



Source: CBRT.

Last Data: December 7, 2012

4 Weeks MA

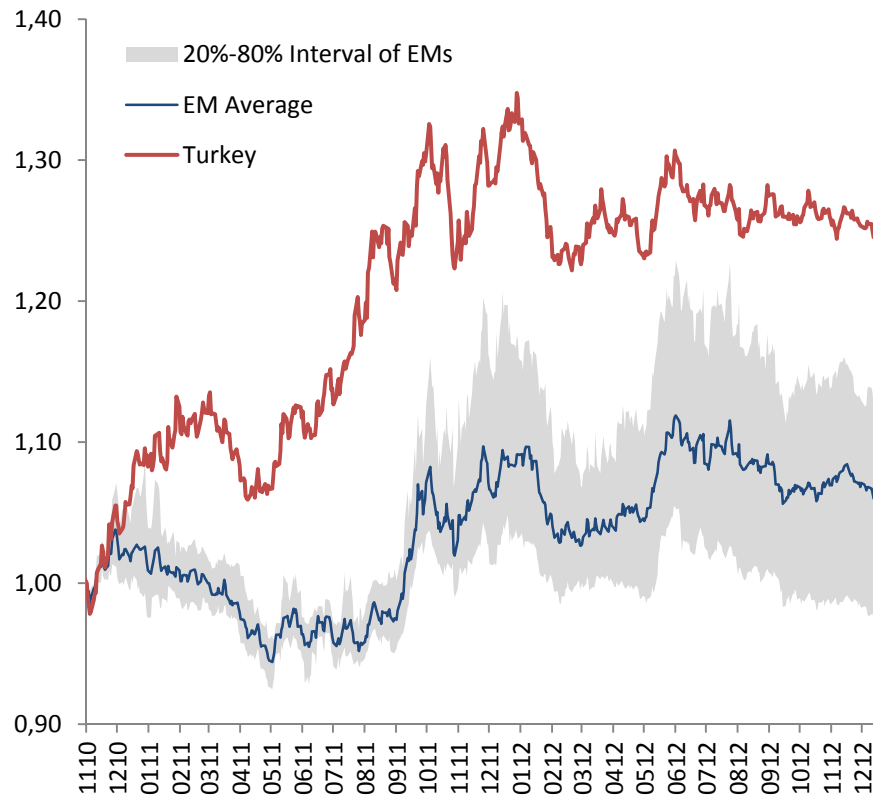
Interest Rates Across Different Maturities



Source: ISE, CBRT.

Nominal and Real Exchange Rates

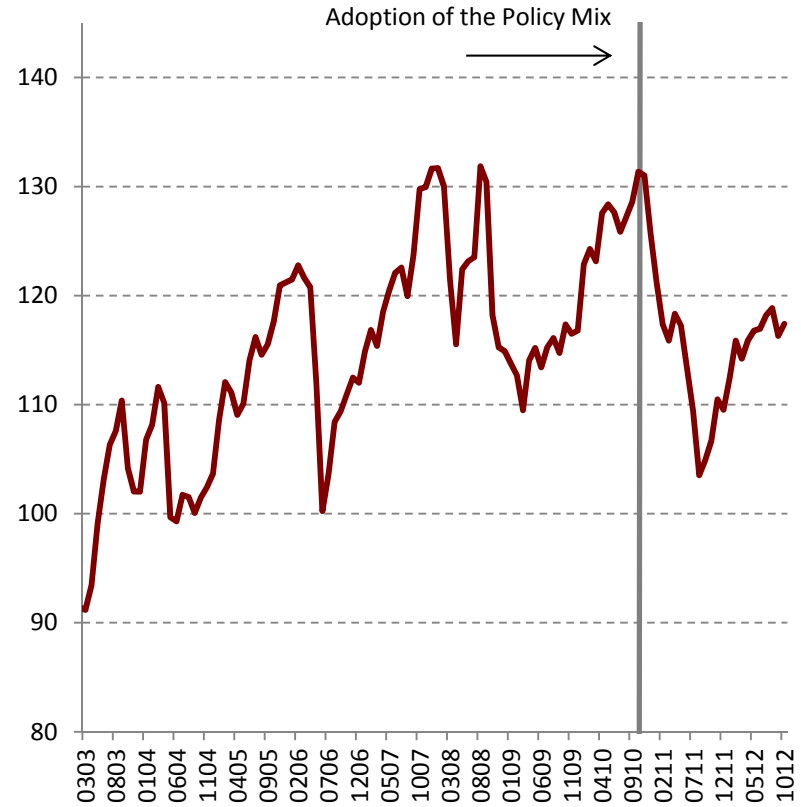
**TL and Other Emerging Market Currencies
(01.11.2010=1)**



Source: Bloomberg.

Emerging economies include Brazil, Chile, Colombia, Czech Republic, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Philippines, Poland, Romania, South Africa, South Korea and Thailand.

**Real Effective Exchange Rates
(2003=100)**

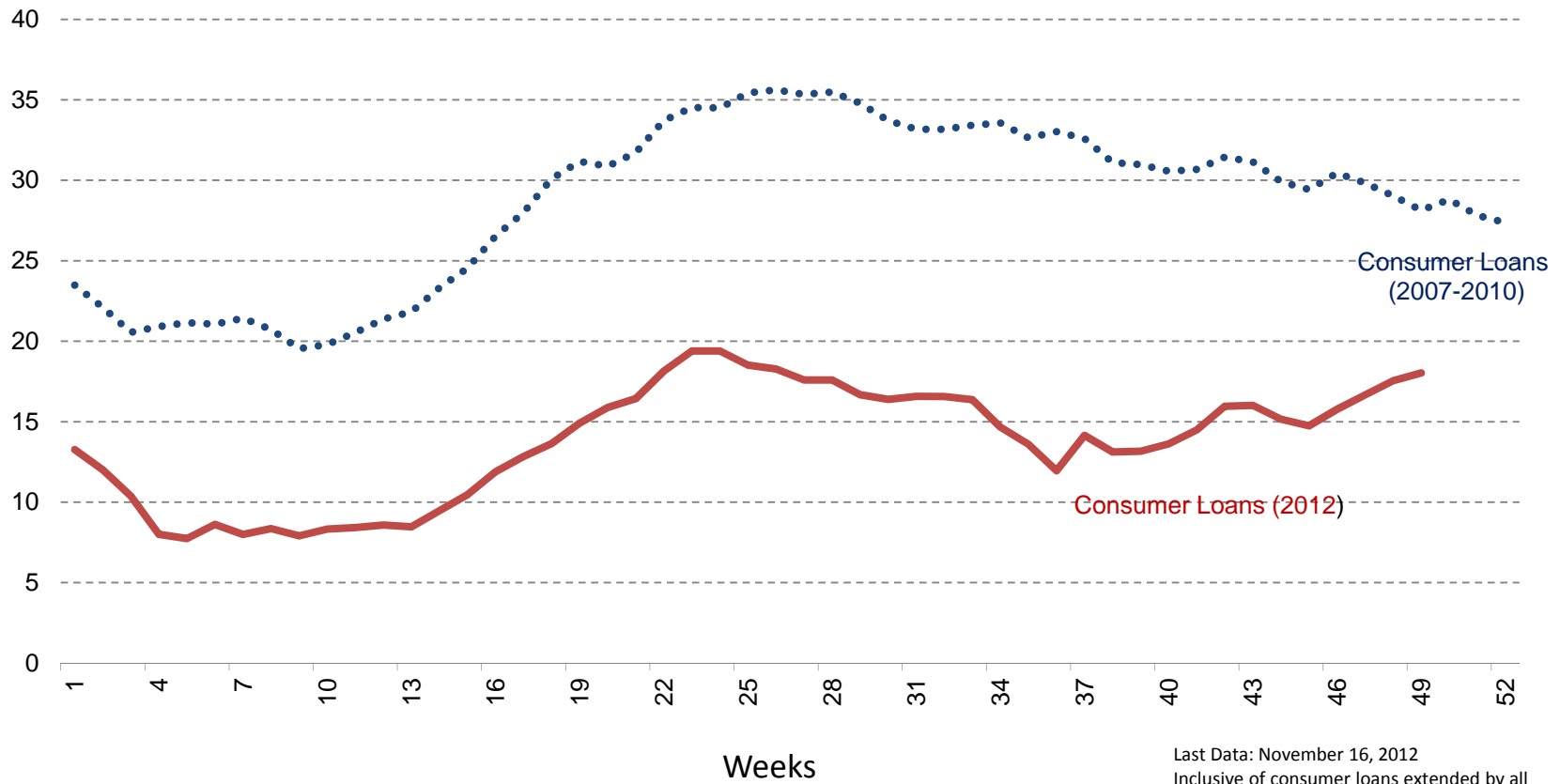


Source: CBRT.

An increase in index indicates an appreciation of the Turkish lira.

Consumer Loans

Consumer Loan Growth Rates (13-Week Moving Average, Annualized, Percent)

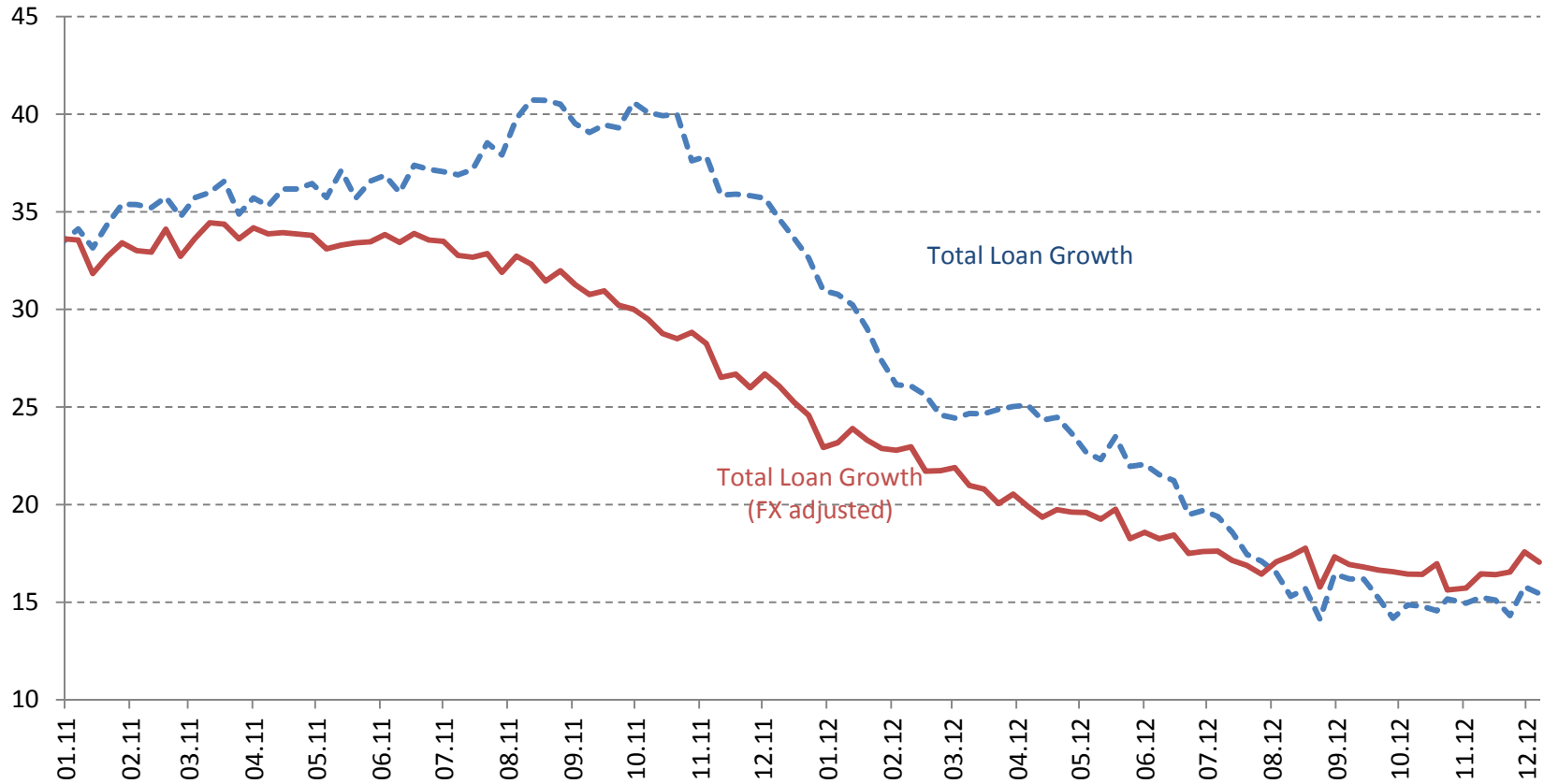


Source: CBRT.

Last Data: November 16, 2012
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Total Loans

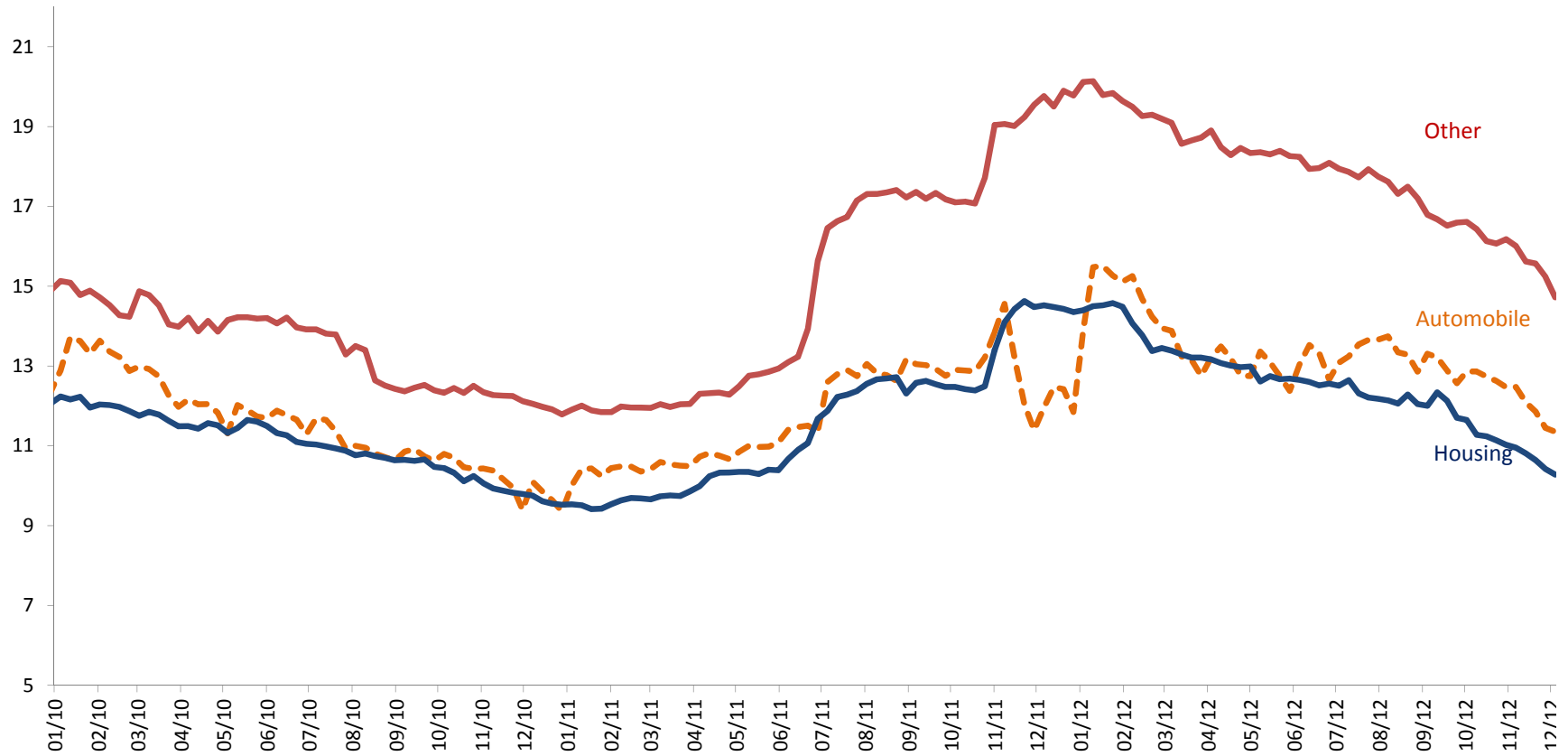
Total Loan Growth Rates (Year on Year Change, Percent)



Source: CBRT.

Last Data: December 7, 2012
Total credit is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

Consumer Loan Rates



Source: CBRT.

Last Data: December 7, 2012

Overview

- Recent data confirm that rebalancing continues as envisaged.
- There is a pick-up in credit and domestic demand during the final quarter, owing to the accommodative liquidity policies since mid-year as well as improved risk appetite.
- Year-end inflation is now expected to be significantly lower than the forecast presented in the Inflation Report, owing to the benign course of unprocessed food prices.
- In order to contain the macro financial risks in the face of capital inflows, the proper policy would be to keep interest rates at low levels while continuing with macroprudential measures.
- If deemed necessary for financial stability, a measured adjustment in the interest rate corridor might also be considered.
- Ongoing uncertainties regarding the global economy necessitate to remain flexible on both sides.



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