



# **CENTRAL BANK OF THE REPUBLIC OF TURKEY**

**Overview of the Turkish Economy  
and Monetary Policy Stance**

**Dr. M. İbrahim Turhan  
Deputy Governor**

**January 2010**



# Presentation Outline

- I. Inflation Developments in Turkey
- II. Recent Acceleration in Headline Inflation  
Why is it Temporary?
- III. Monetary Policy Stance
- IV. Recent Developments in the Turkish Economy



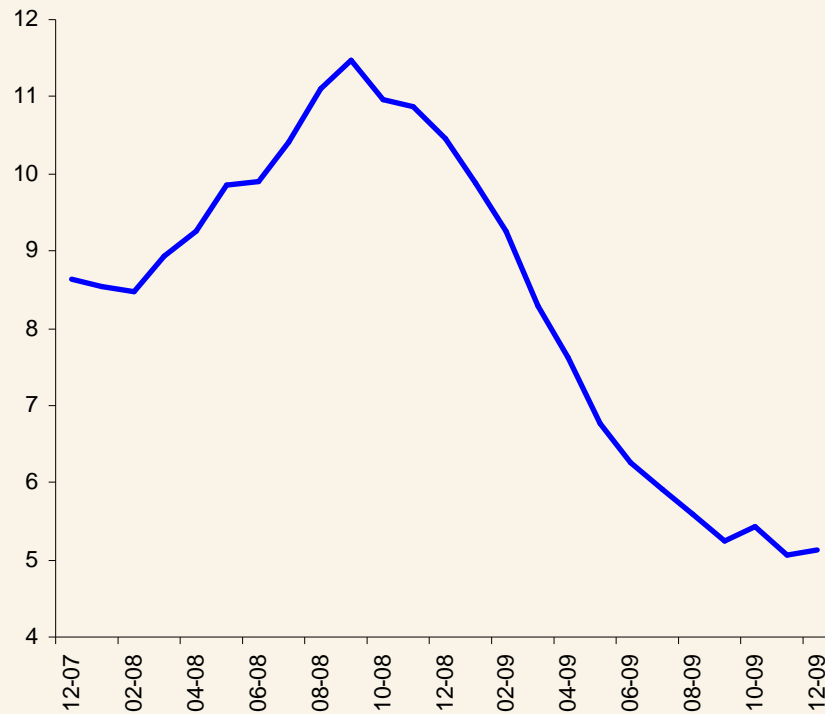
# I. Inflation Developments in Turkey



# Inflation Developments

## Services Inflation

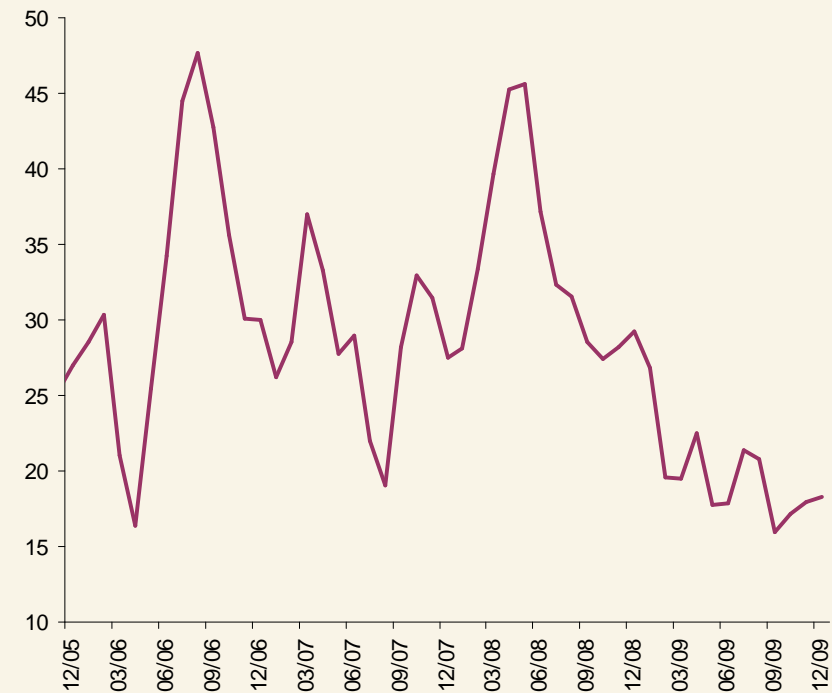
(Dec 2007 – Dec 2009, annual percentage change)



Source: TURKSTAT, CBT

## Inflation Diffusion Index\*

(Dec 2005 – Dec 2009, 2 month average, percent)



\* Difference between the percent of items in CPI basket whose prices increased and the percent of those whose prices decreased; Seasonally Adjusted

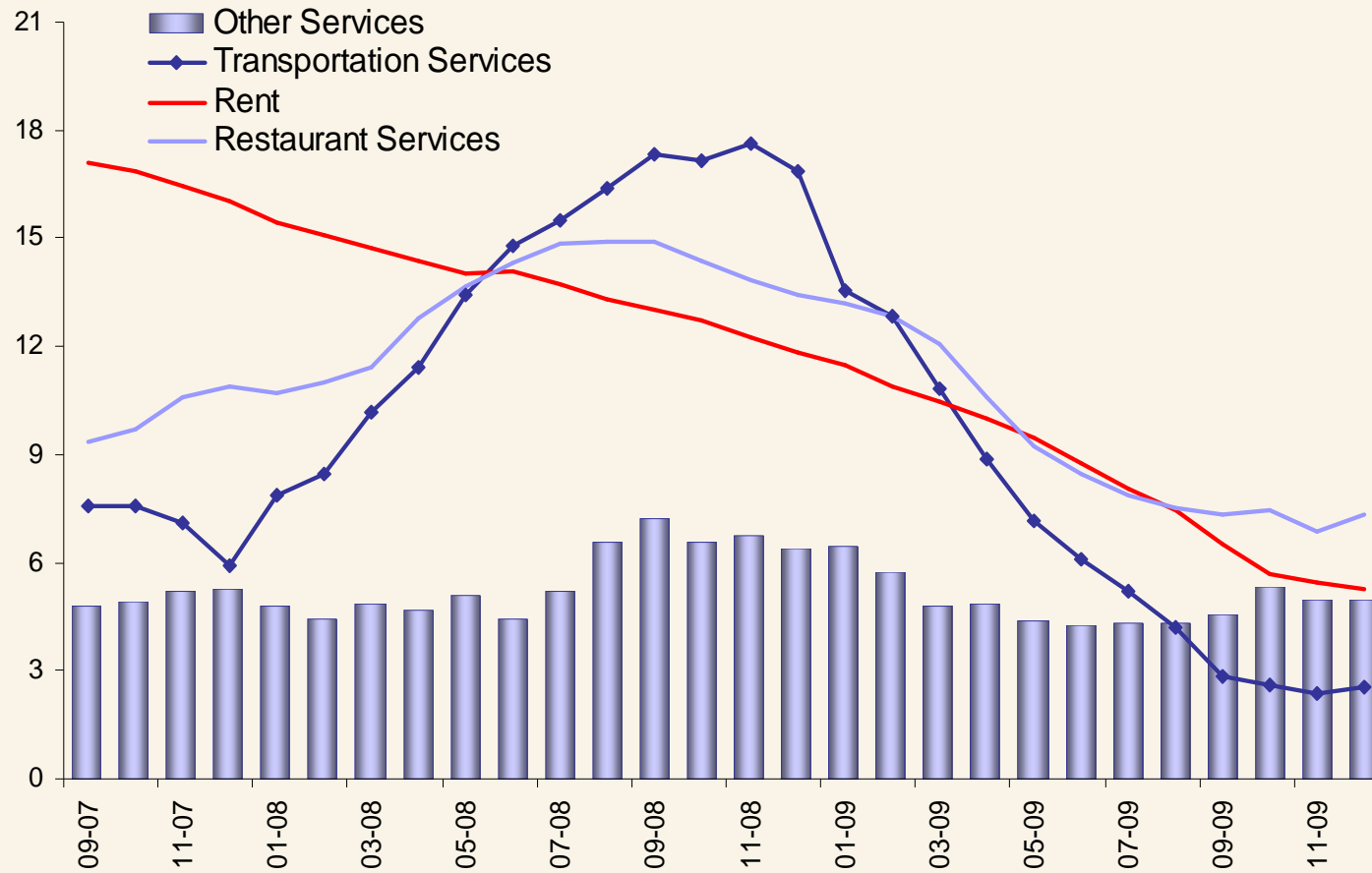
Source: TURKSTAT, CBT



# Inflation Developments

## Services Inflation

(Sep 2007 – Dec 2009, annual percentage change)



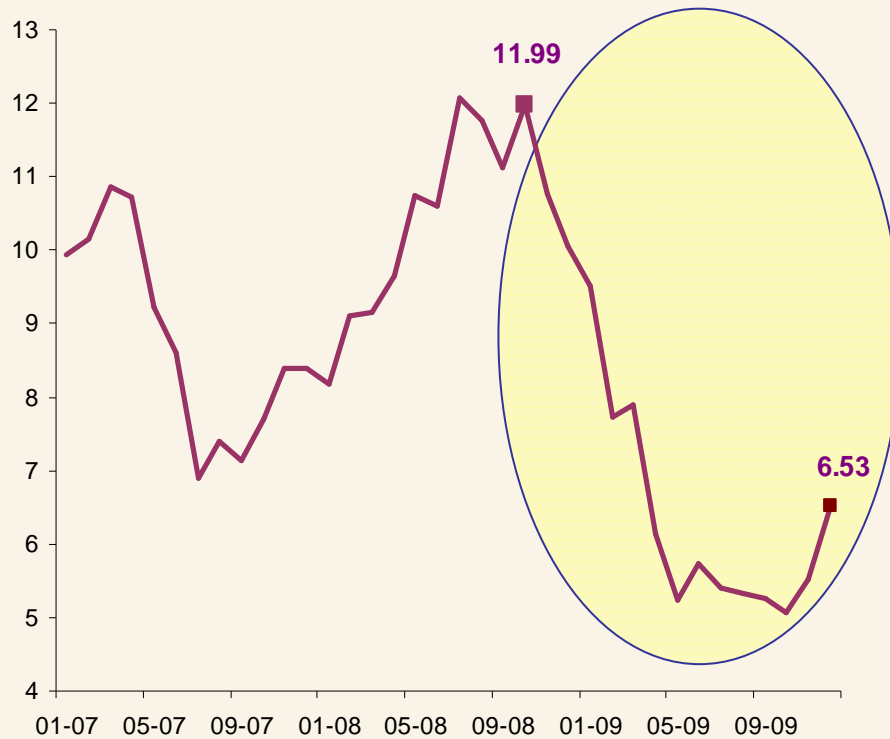
Source: TURKSTAT, CBT



# Inflation Developments

## Consumer Inflation

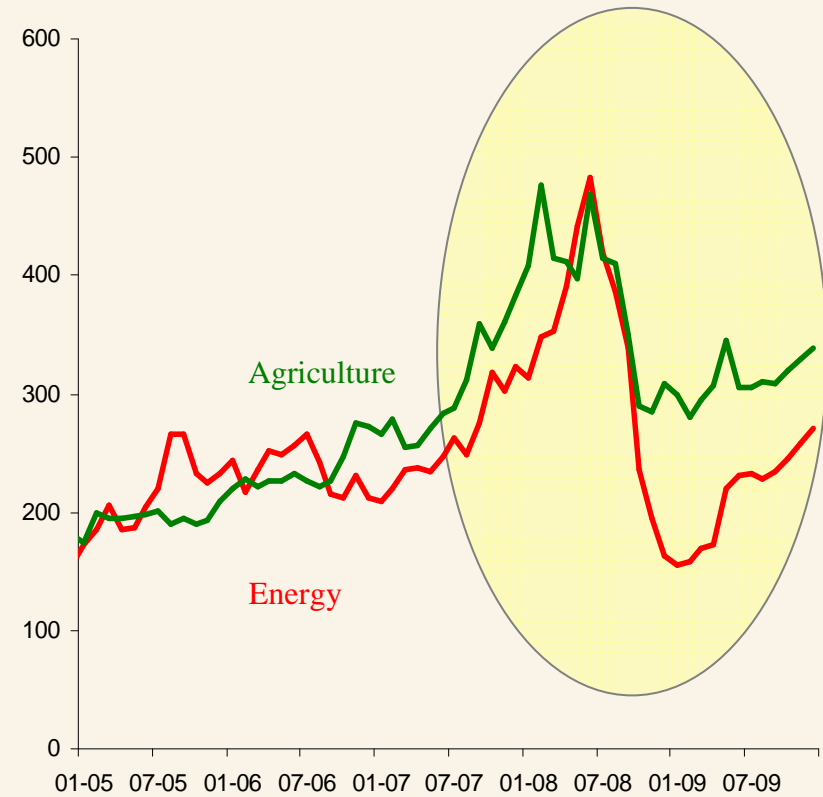
(Jan 2007 – Dec 2009, annual percentage change)



Source: TURKSTAT, CBT

## Commodity Prices

(Jan 2005 – Dec 2009, 2001 = 100)

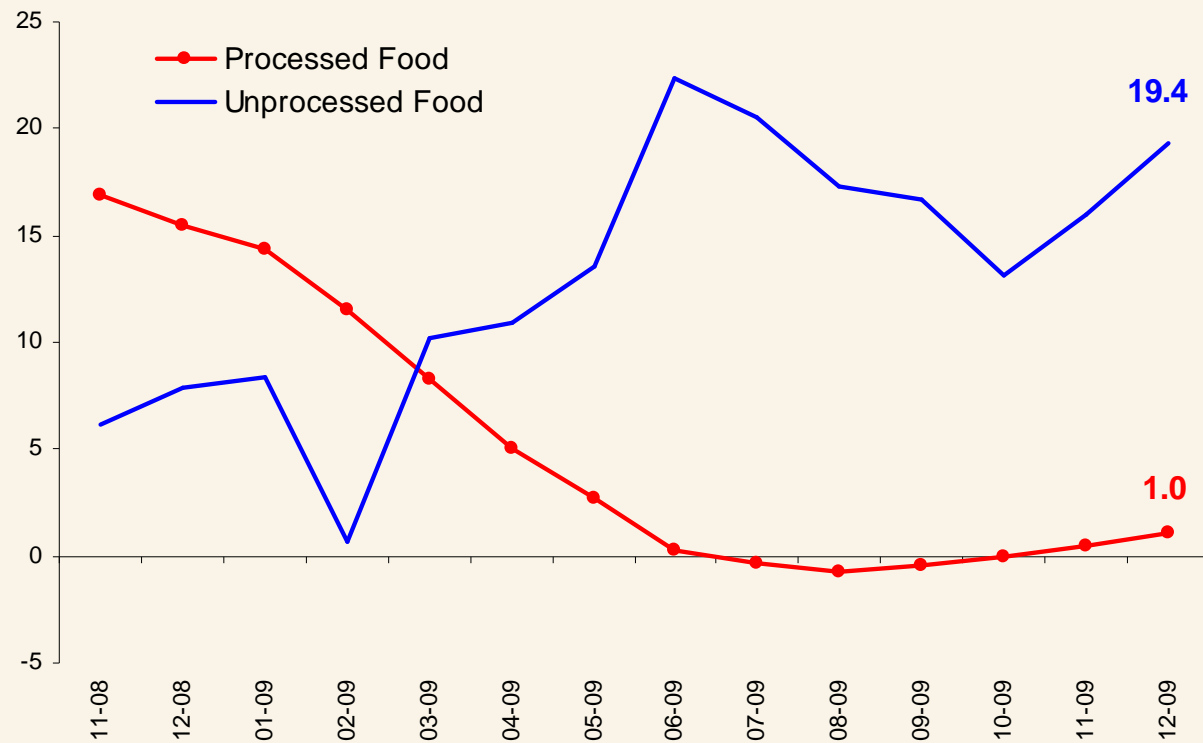


Source: TURKSTAT, CBT



# Inflation Developments

**Food Prices**  
(Nov 2008 – Dec 2009, annual percentage change)

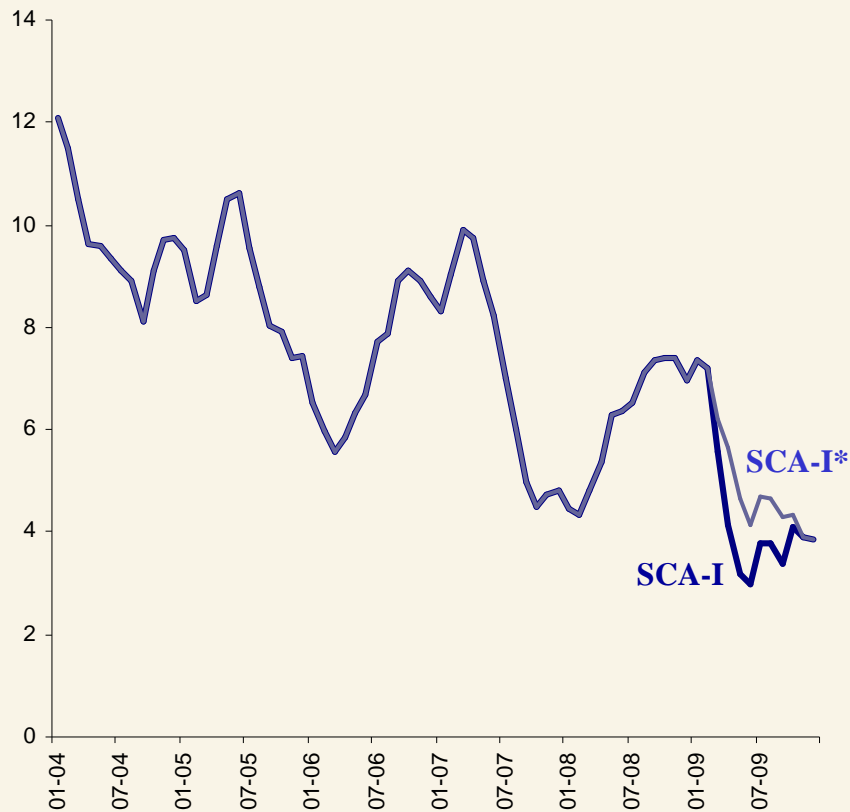


Source: TURKSTAT, CBT



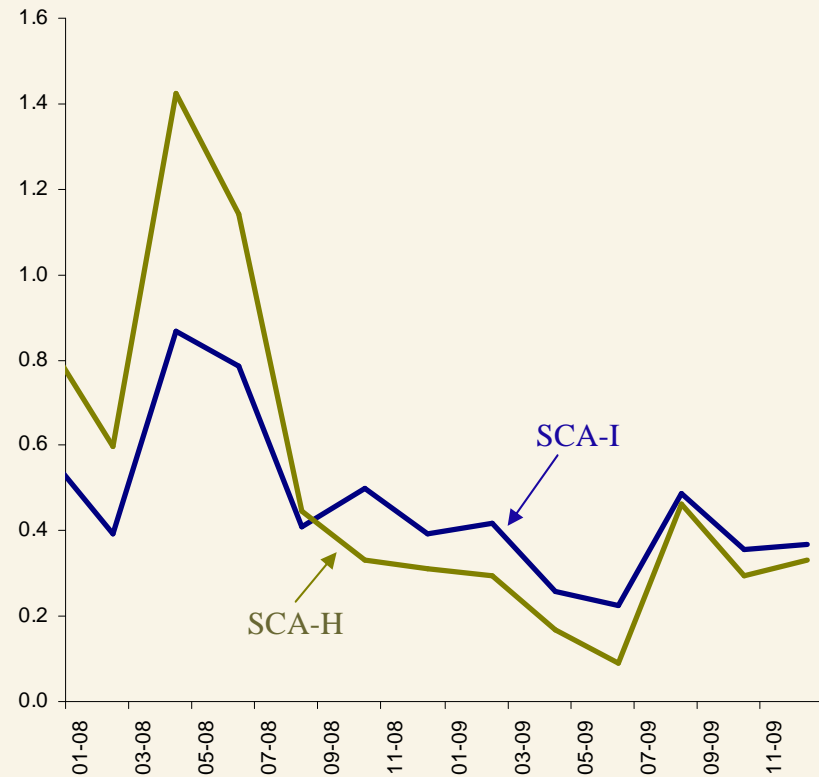
# Inflation Developments

**Core Inflation (Special I Index)**  
(Jan 2004 – Dec 2009, annual percentage change)



\*Corrected for temporary Tax Adjustments  
Source: TURKSTAT, CBT

**Core Inflation Indicators\***  
(Oct 2008 – Dec 2009, percent)



\*Corrected for temporary Tax Adjustments, seasonally-adjusted 2-month average  
Source: TURKSTAT, CBT





## **II. Recent Acceleration in Headline Inflation**

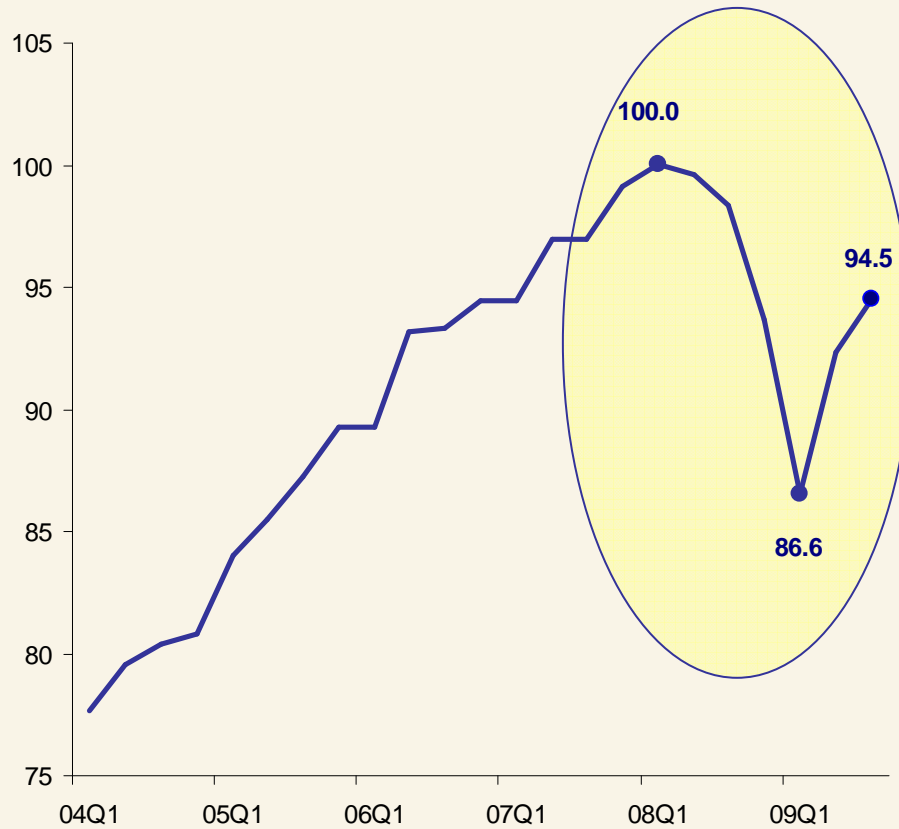
### **Why is it Temporary?**

- 1. Capacity Utilization**
2. Labor Market Conditions
3. Foreign Demand
4. Financial Conditions
5. Fiscal Policy



# Gradual Expansion in Economic Activities

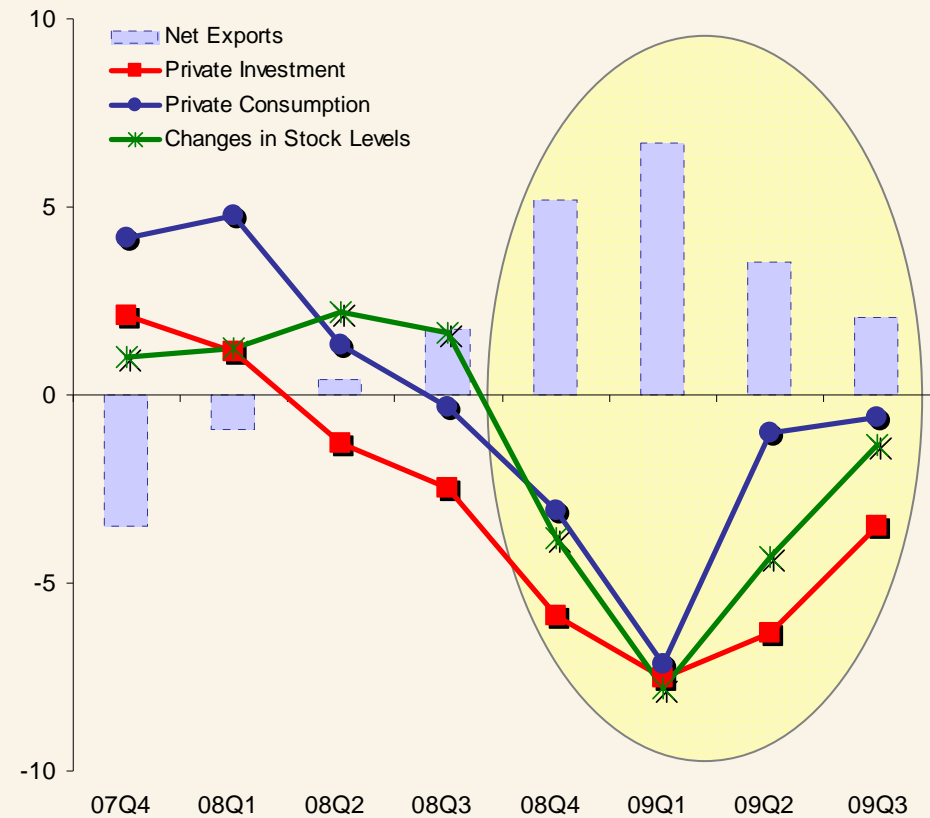
**Seasonally Adjusted Real GDP**  
(2004 Q1–2009 Q3, 2008 Q1=100)



Source: TURKSTAT, CBT

**Growth Components**

(2007 Q4 – 2009 Q3, annual percentage contribution)

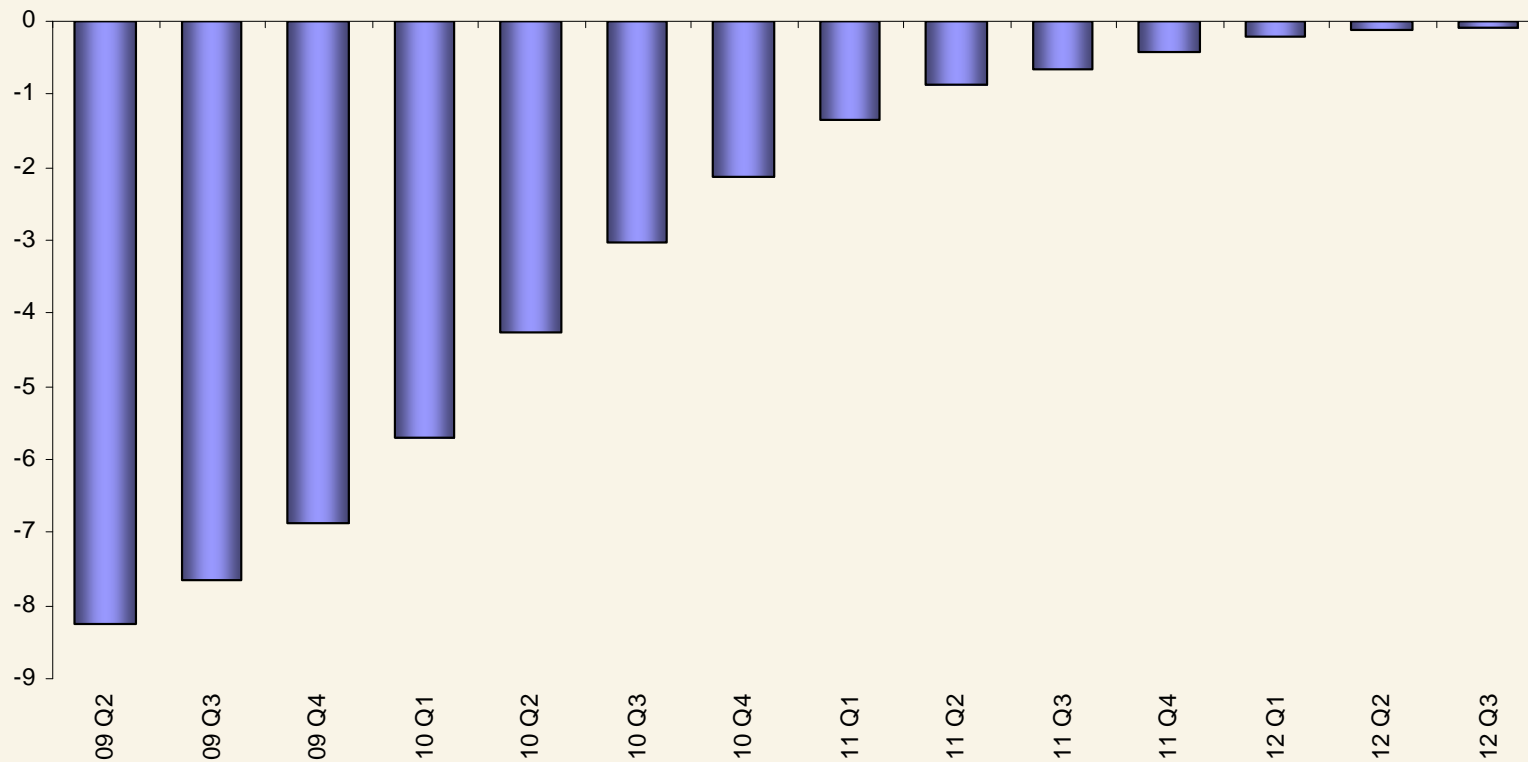


Source: TURKSTAT, CBT



# Output Gap to Remain Disinflationary Until 2011

**Output Gap**  
(2009 Q2 – 2012 Q3, percent)

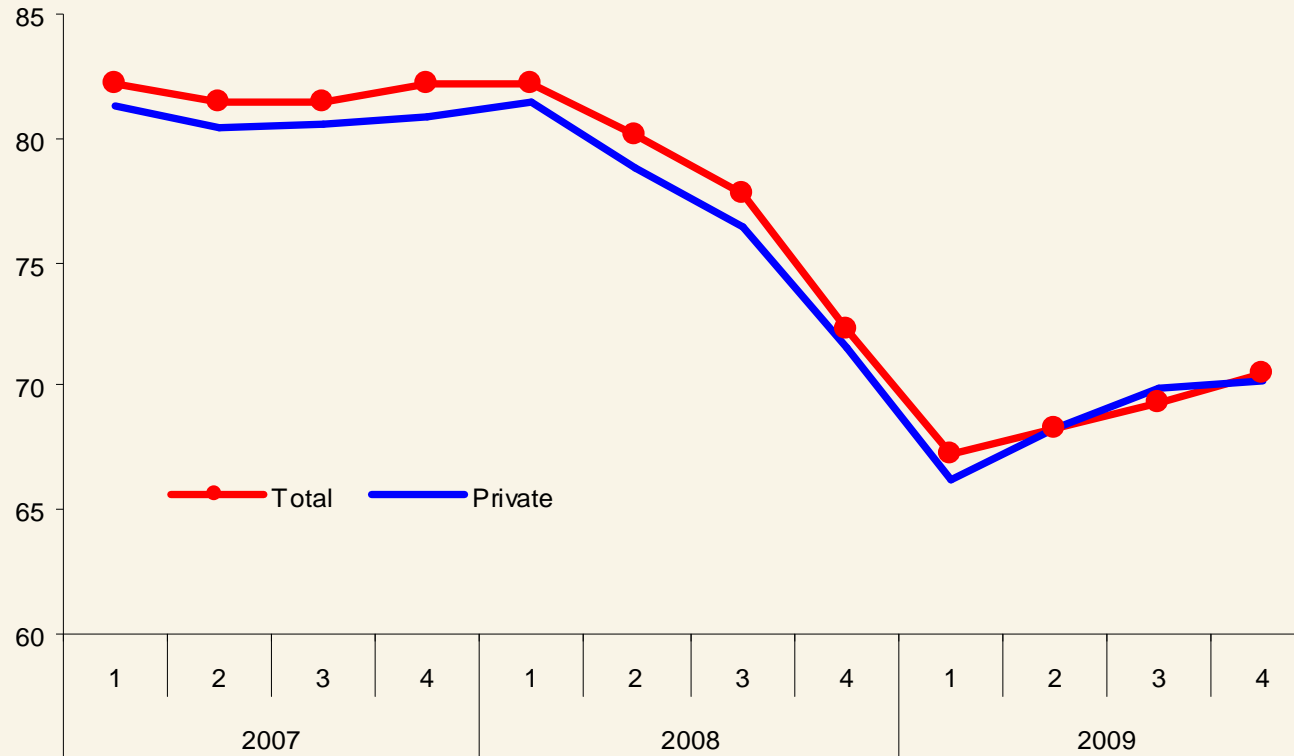


Source: CBT



# Ample Slack in Capacity Utilization

**Capacity Utilization in Manufacturing Industry\***  
(2007 Q1 –2009 Q4, percent)

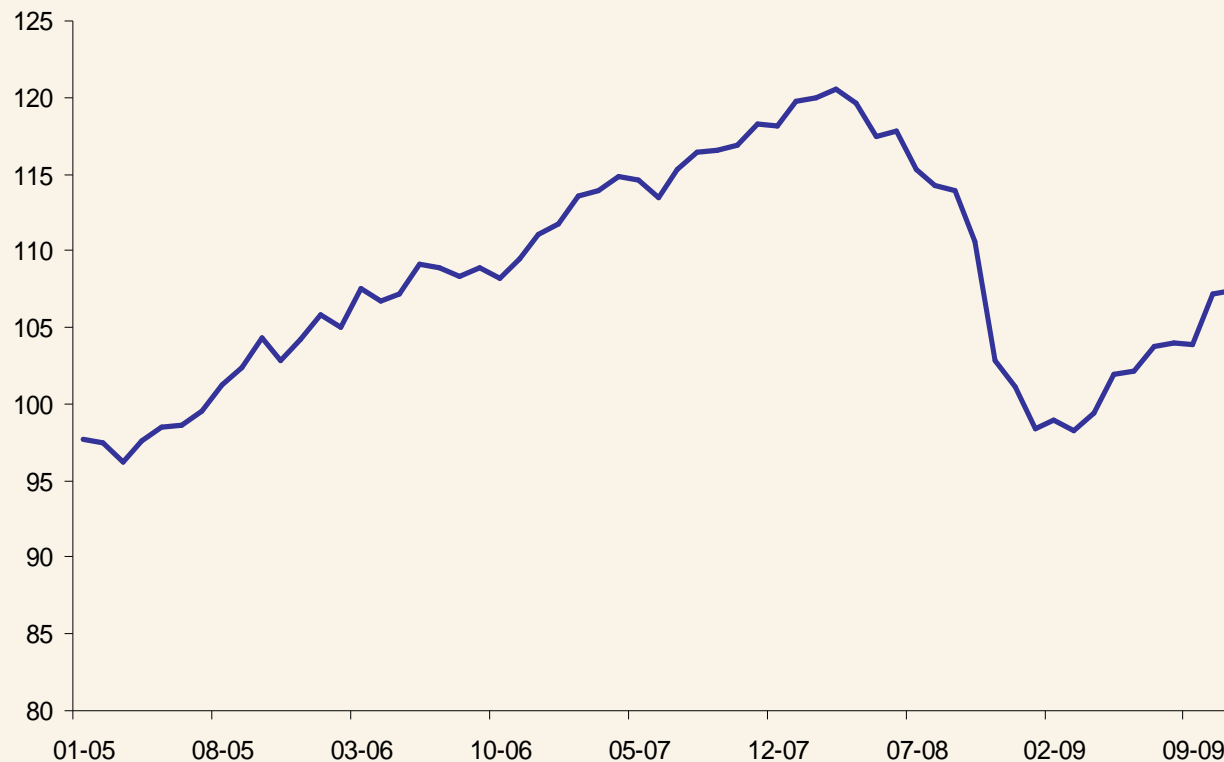


\* Seasonally adjusted  
Source: TURKSTAT, CBT



# Production Has Yet to Return to Pre-Crisis Levels

**Industrial Production Index\***  
(Jan 2005 – Nov 2009)

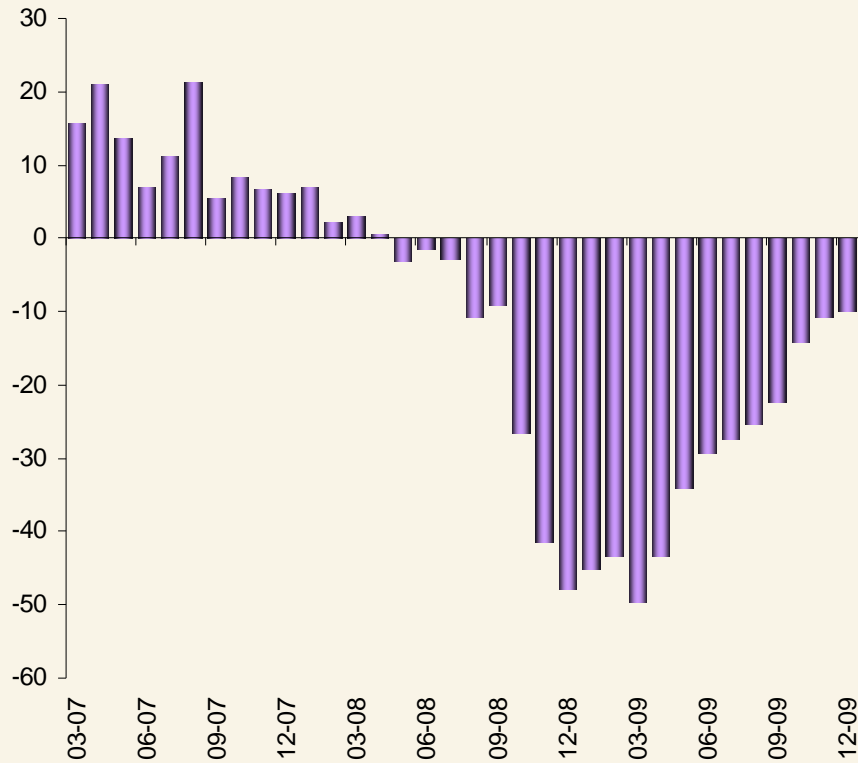


\* Seasonally adjusted.  
Source: TURKSTAT, CBT



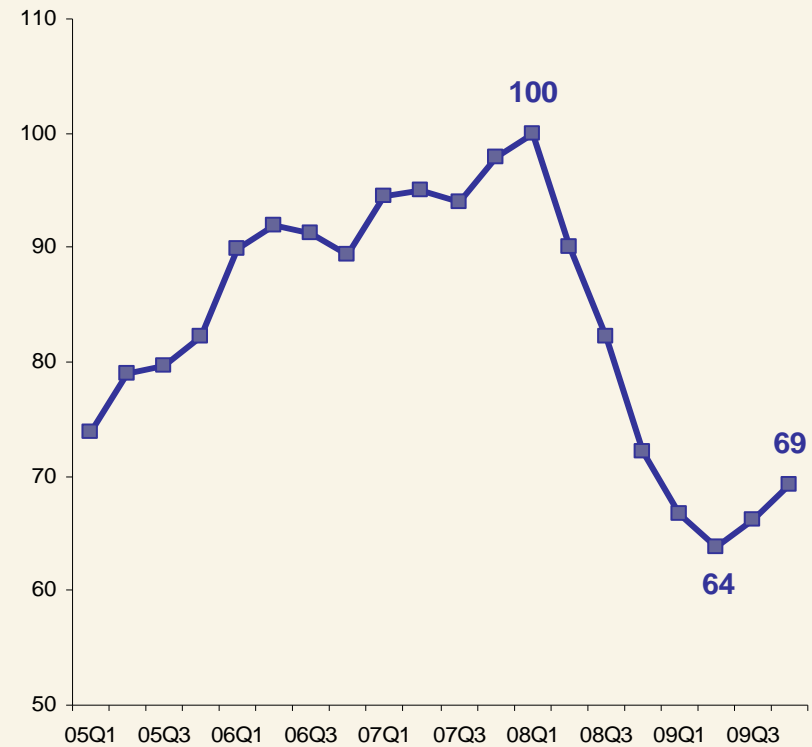
# Investment Spendings Remain Subdued

**Expectations of Fixed Capital Investment Expenditure\***  
(Mar 2007 – Dec 2009)



\* Seasonally adjusted  
Source: TURKSTAT, CBT

**Private Investment Expenditures**  
(2005 Q1 – 2009 Q4\*, 2008Q1=100)

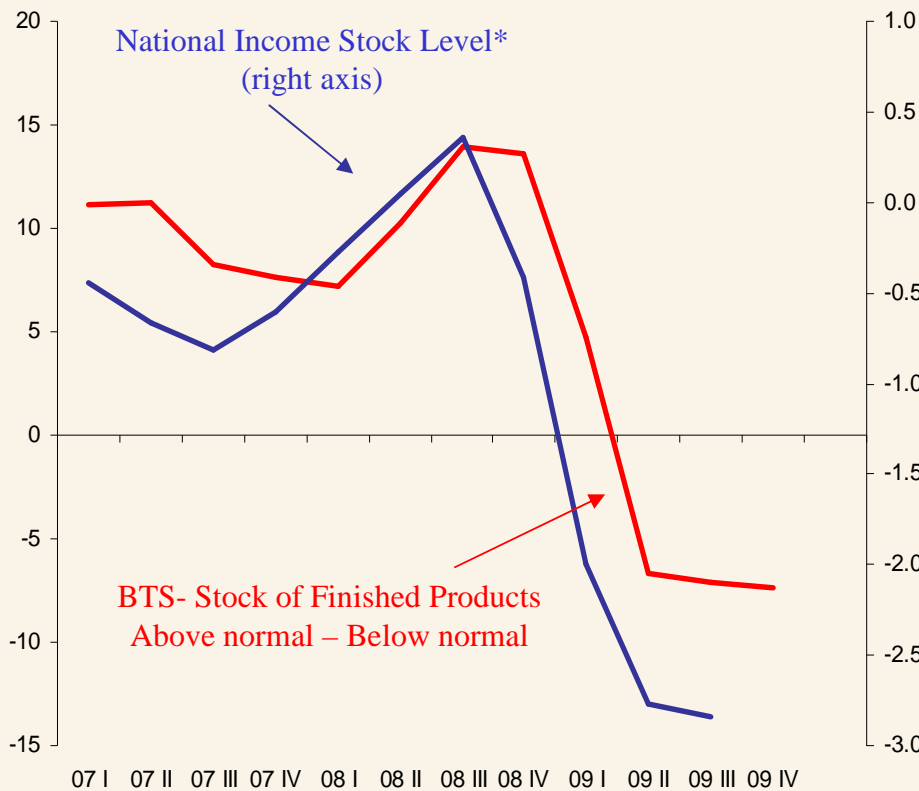


\*Estimate  
Source: TURKSTAT, CBT



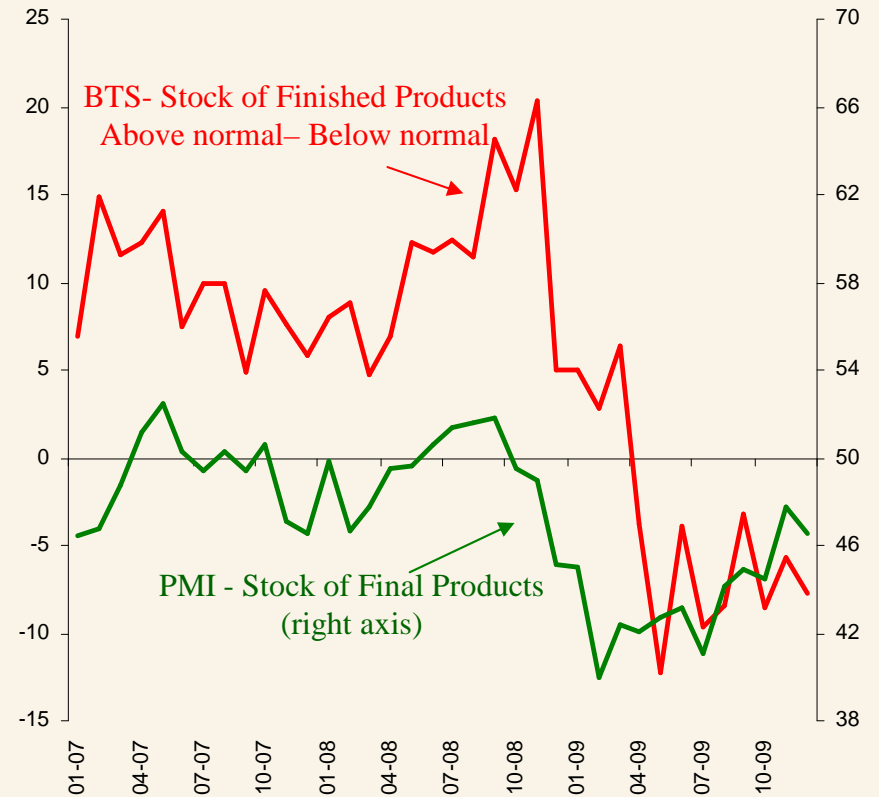
# Destocking Continues

**Stock Level and Expectations**  
(2007 Q1 – 2009 Q4)



\* Seasonally adjusted  
Source: TURKSTAT, CBT

**Expectations of the Stock of Finished Products**  
(Jan 2007– Dec 2009)



Source: Bloomberg, CBT



## II. Recent Acceleration in Headline Inflation

### Why is it Temporary?

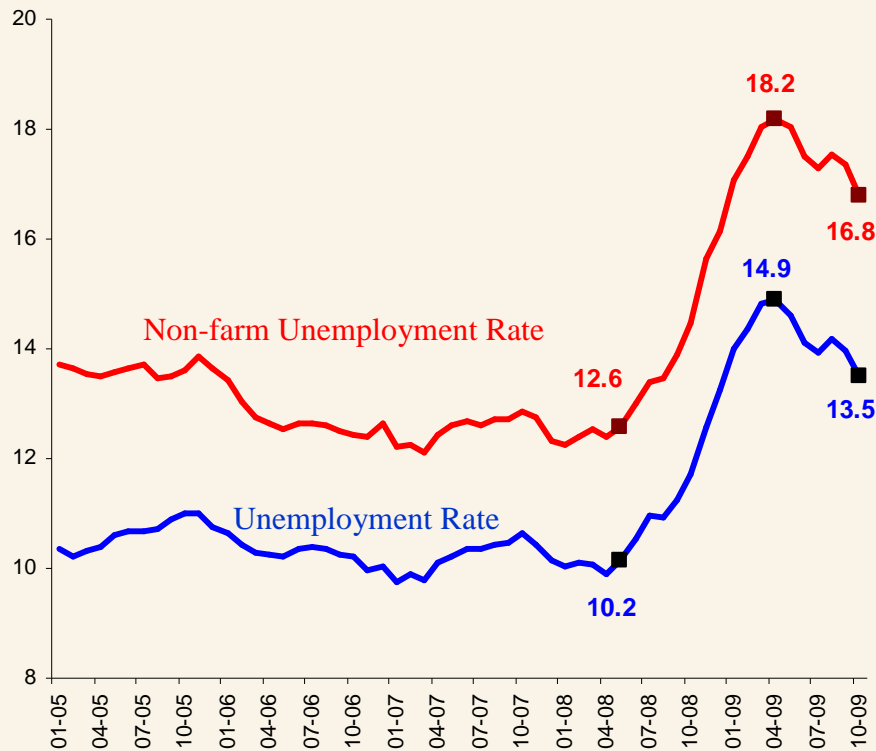
1. Capacity Utilization
- 2. Labor Market Conditions**
3. Foreign Demand
4. Financial Conditions
5. Fiscal Policy





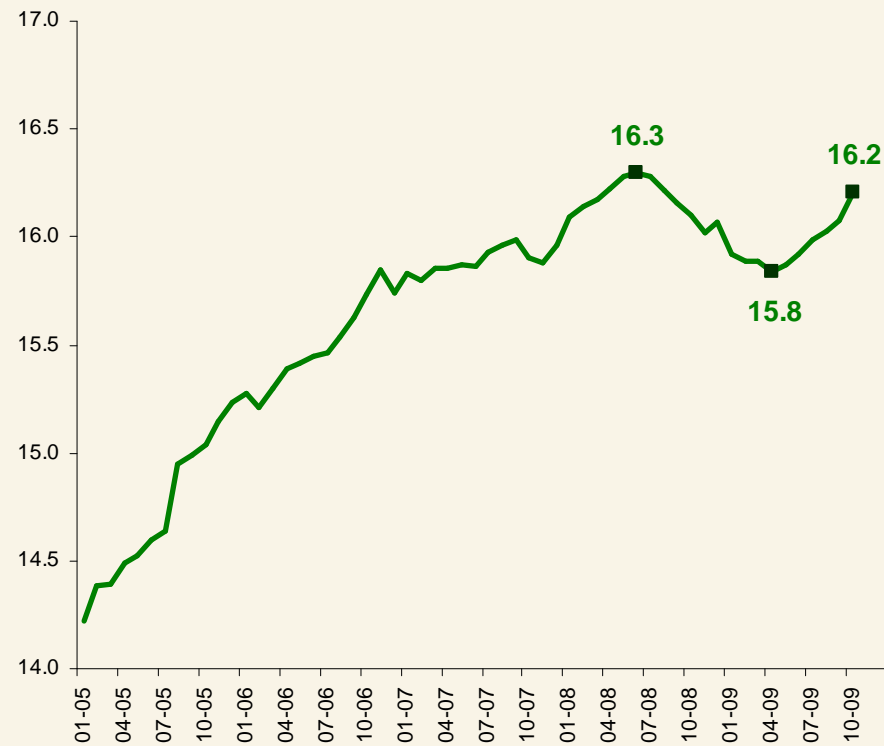
# Employment

**Unemployment Rates\***  
(Jan 2005 - Oct 2009, percent)



\*Seasonally adjusted  
Source: TURKSTAT, CBT

**Non-farm Employment\***  
(Jan 2005 - Oct 2009, million)

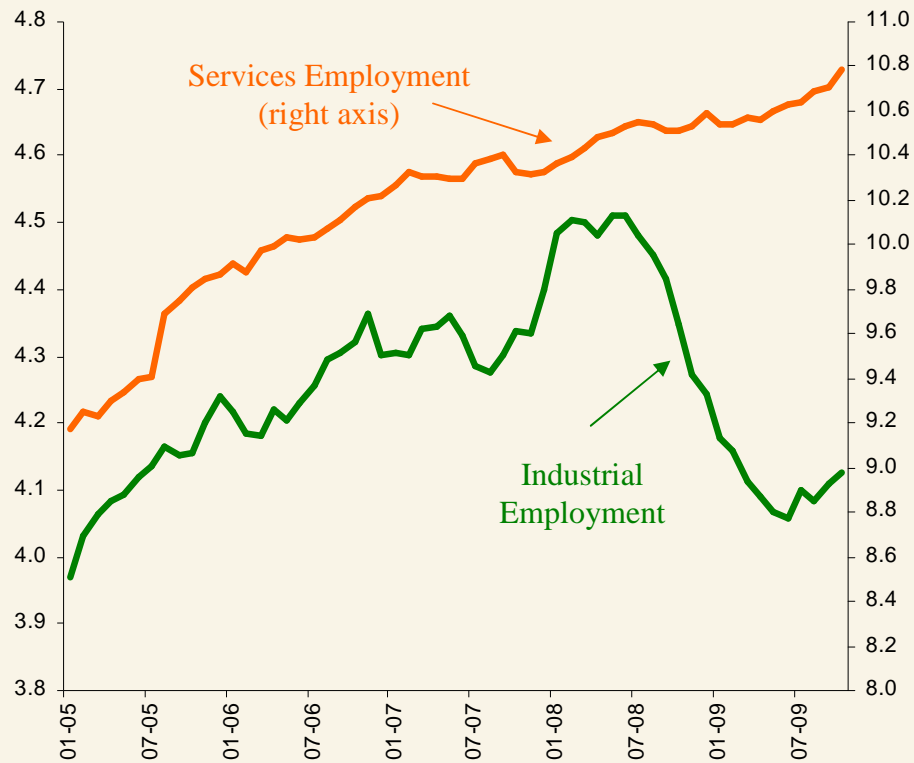


\*Seasonally adjusted  
Source: TURKSTAT, CBT



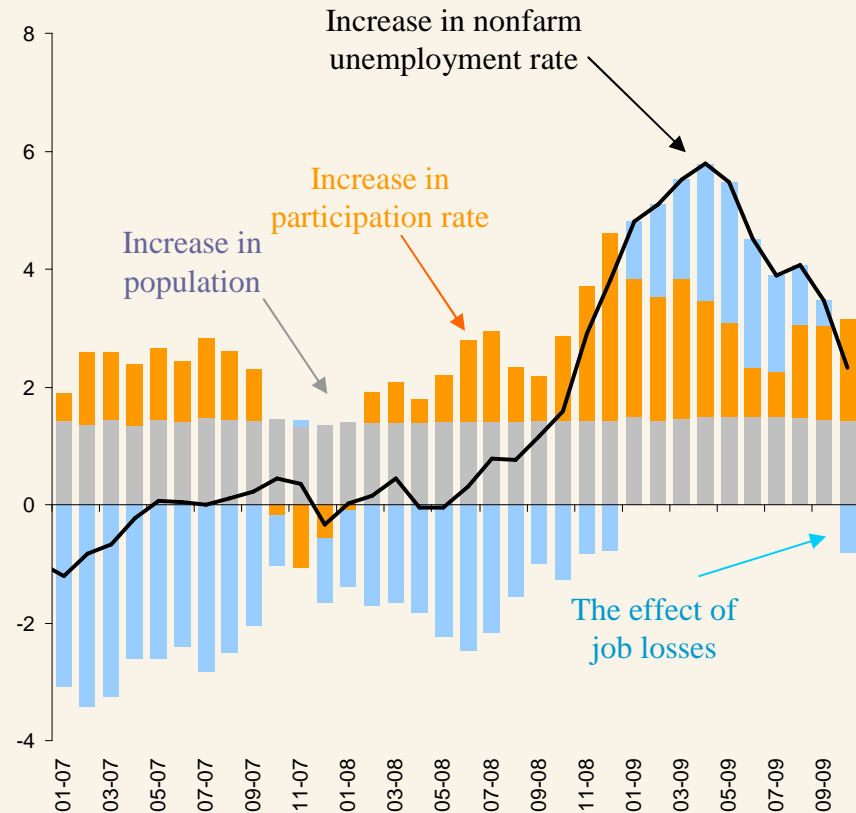
# Employment

**Employment in Industrial and Services Sectors\***  
(Jan 2005 - Oct 2009, million)



\*Seasonally adjusted  
Source: TURKSTAT, CBT

**Subitems of Non-Farm Unemployed\***  
(Jan 2007- Oct 2009, annual change, percentage points)

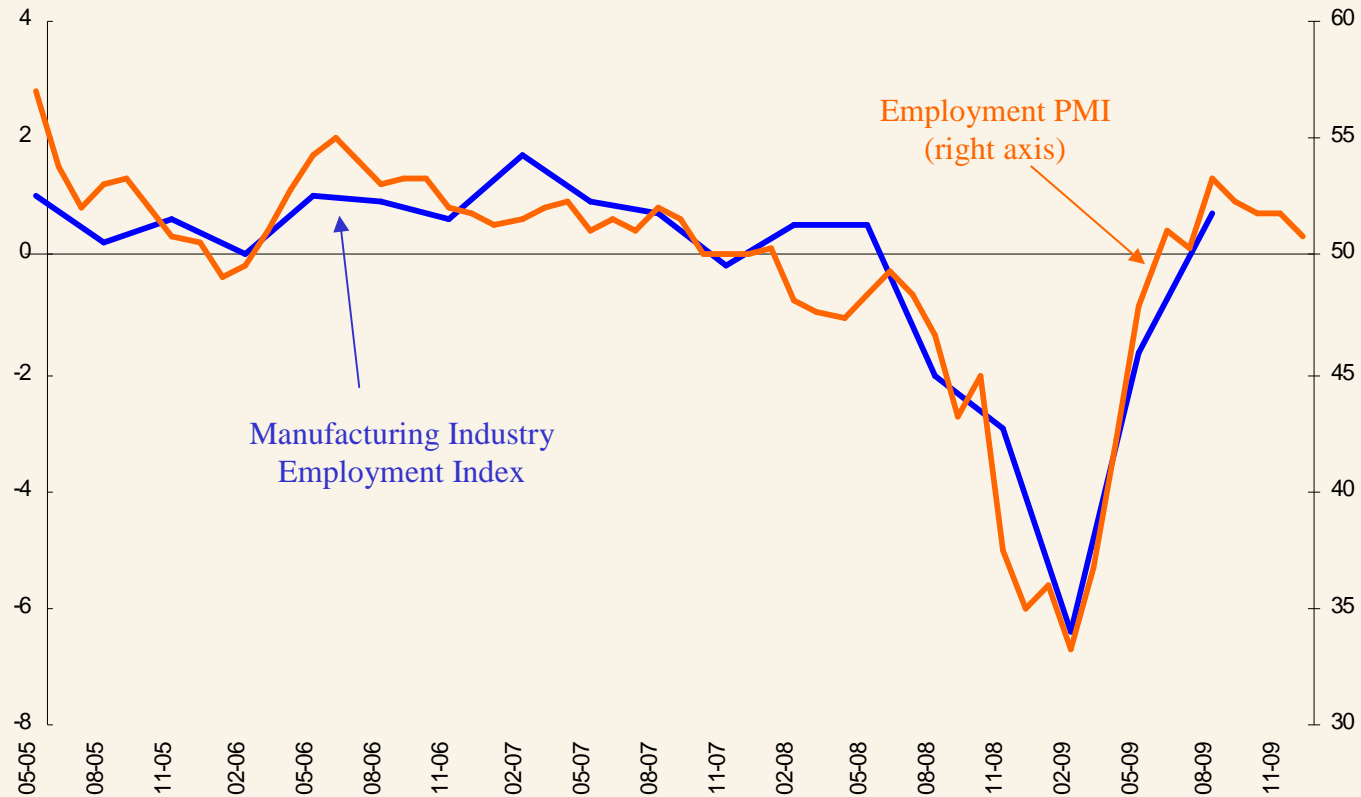


\*Seasonally adjusted  
Source: TURKSTAT, CBT



# Employment

**Manufacturing Industry Employment Index\*** (May 2005 - Dec 2009, quarterly change, percent)  
**Employment PMI** (May 2005 - Sep 2009)



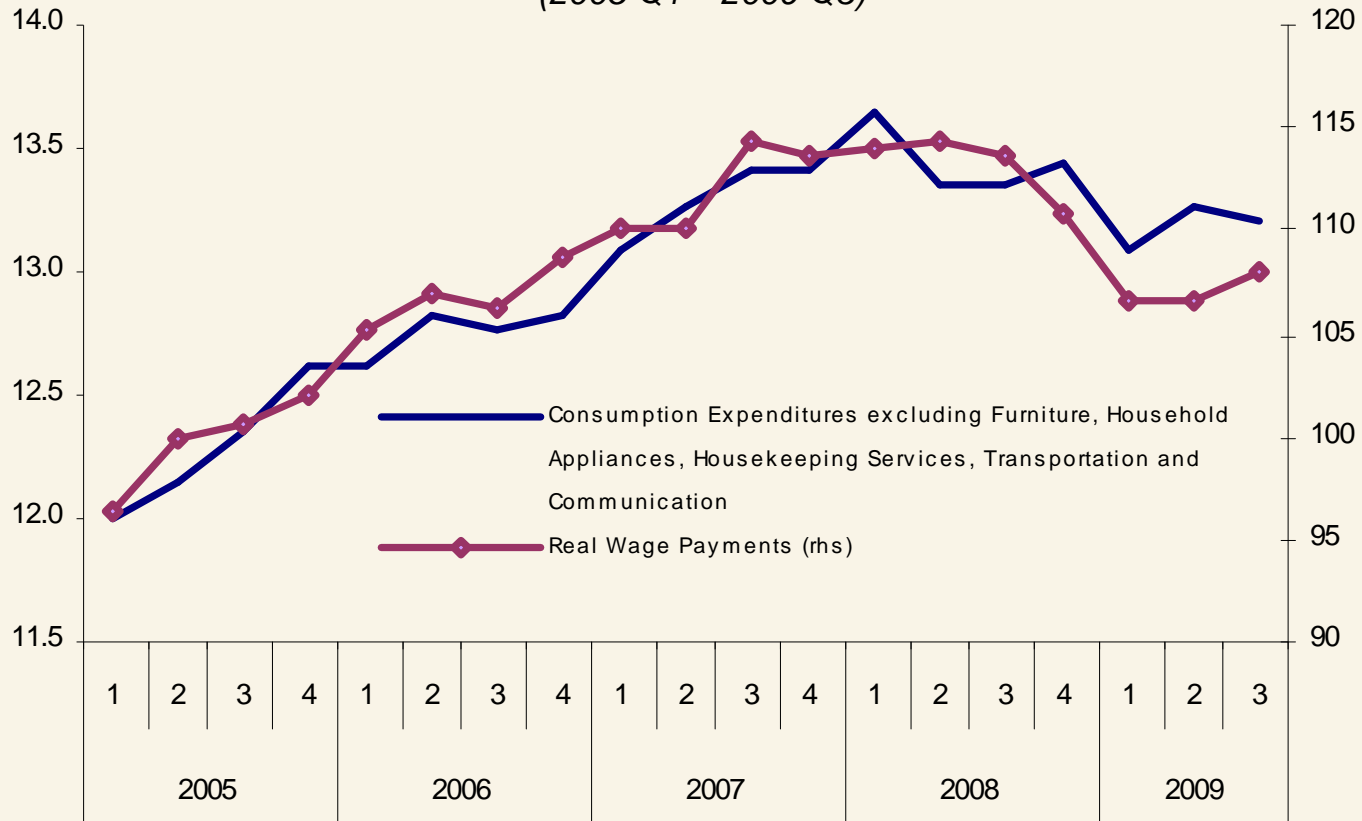
\* Seasonally Adjusted

Source: Bloomberg, TURKSTAT, CBT



# Real Wages and Consumption

**Real Wage Payments\* and Real Private Consumption\*\***  
(2005 Q1 –2009 Q3)



\*Calculated based on wage payments' weighted average of total sectors including industry, construction, trade, restaurants, transportation and communication. Index is deflated by CPI.;

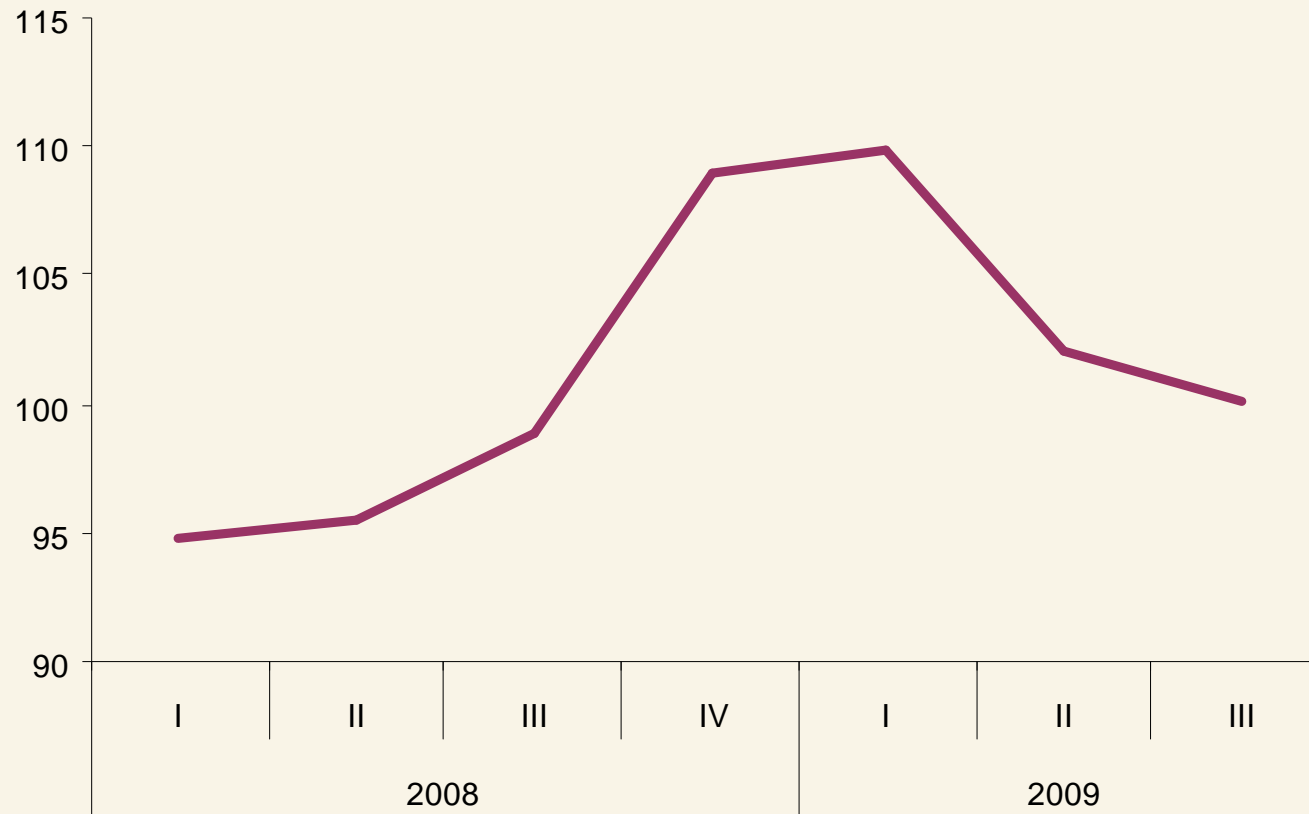
\*\* Constant Prices, Seasonally Adjusted, billion TL)

Source: TURKSTAT, CBT



# Real Wage Payments

**Real Unit Wages\***  
(2008 Q1 – 2009 Q3)



\*CPI is used to calculate real unit wage.

Source: TURKSTAT, CBT



## II. Recent Acceleration in Headline Inflation

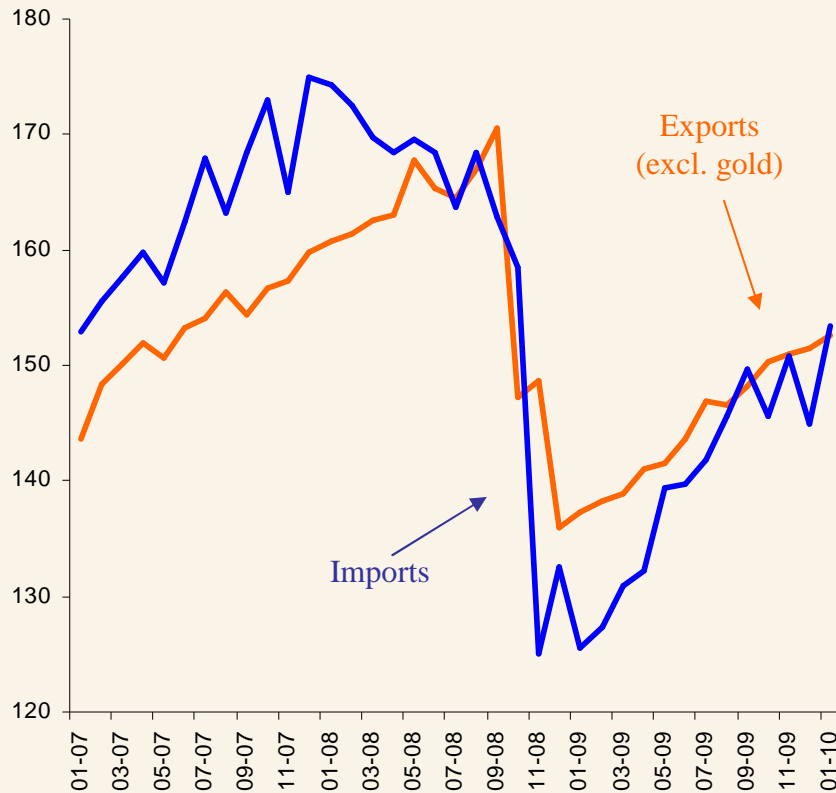
### Why is it Temporary?

1. Capacity Utilization
2. Labor Market Conditions
- 3. Foreign Demand**
4. Financial Conditions
5. Fiscal Policy



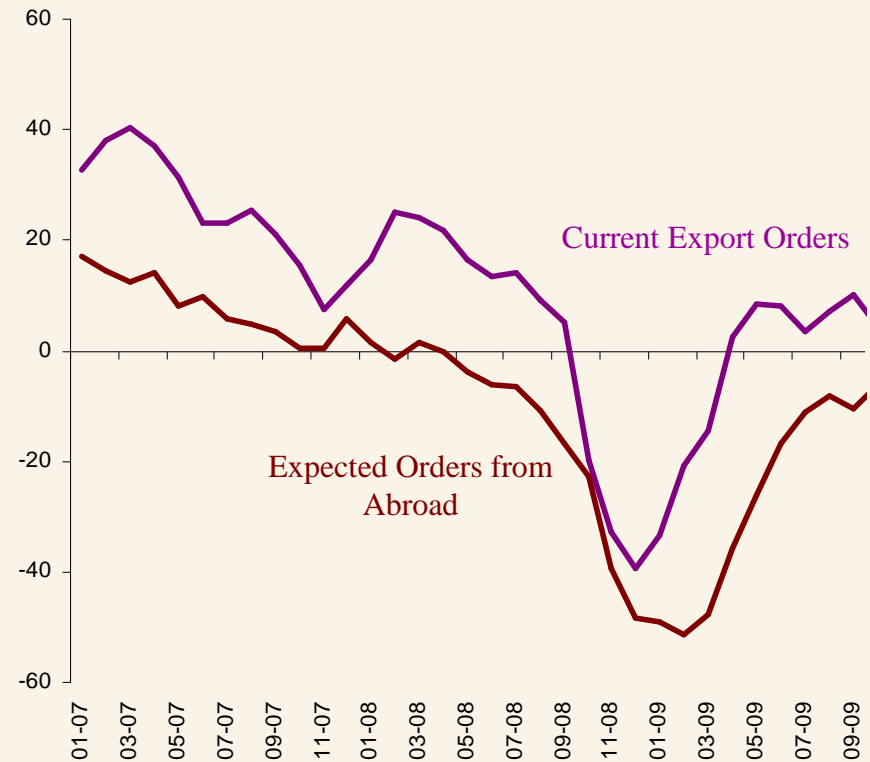
# External Demand

**Real Exports and Imports\***  
(Jan 2007- Jan 2010, 2003=100)



\*Seasonally adjusted for working days  
Source: TURKSTAT, CBT

**Export Expectations\***  
(Jan 2007 - Dec 2009)

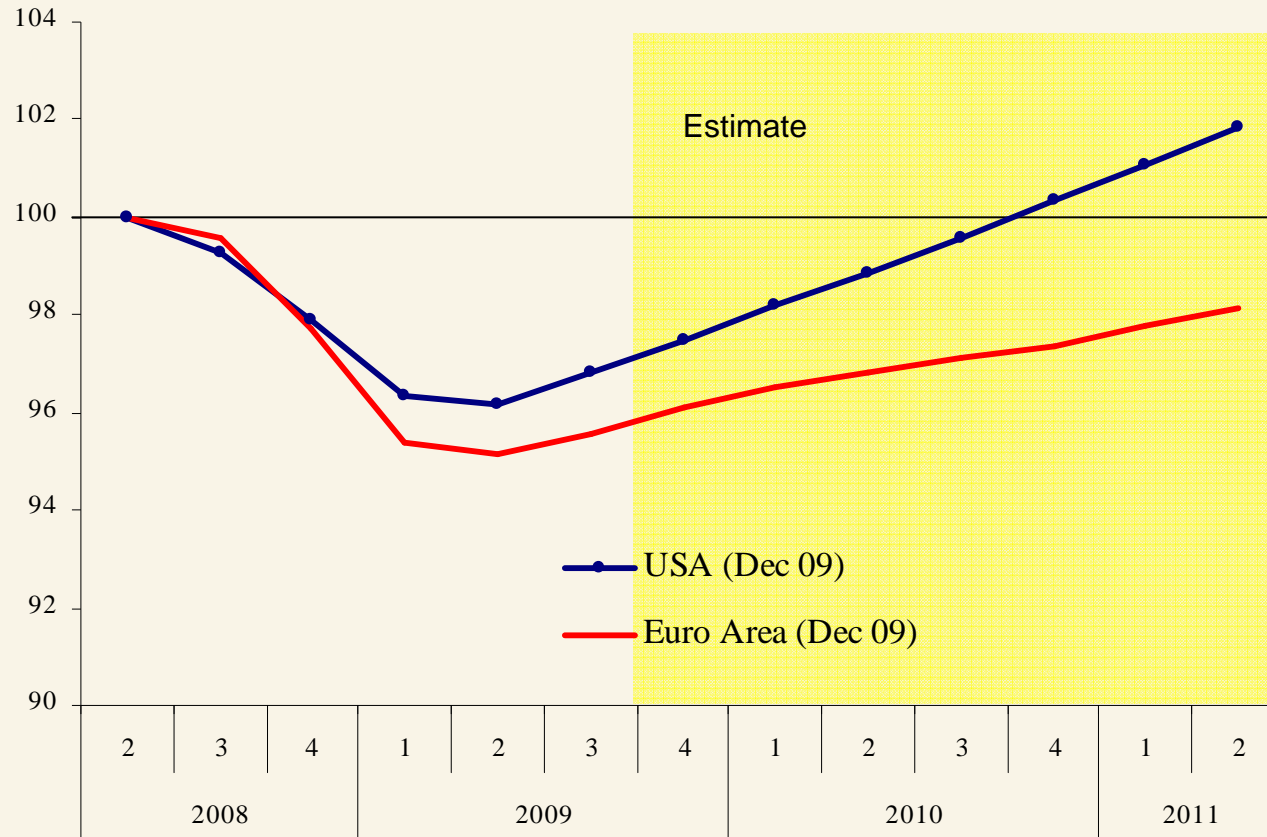


\* Difference between increase and decrease in the Business Tendency Survey  
Source: TURKSTAT, CBT



# Growth Expectations

**Growth Estimates for Developed Countries**  
(2008 Q2 –2011 Q2, seasonally adjusted, 2008 Q2=100)



Source: Concensus Forecast





## II. Recent Acceleration in Headline Inflation

### Why is it Temporary?

1. Capacity Utilization
2. Labor Market Conditions
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5. Fiscal Policy



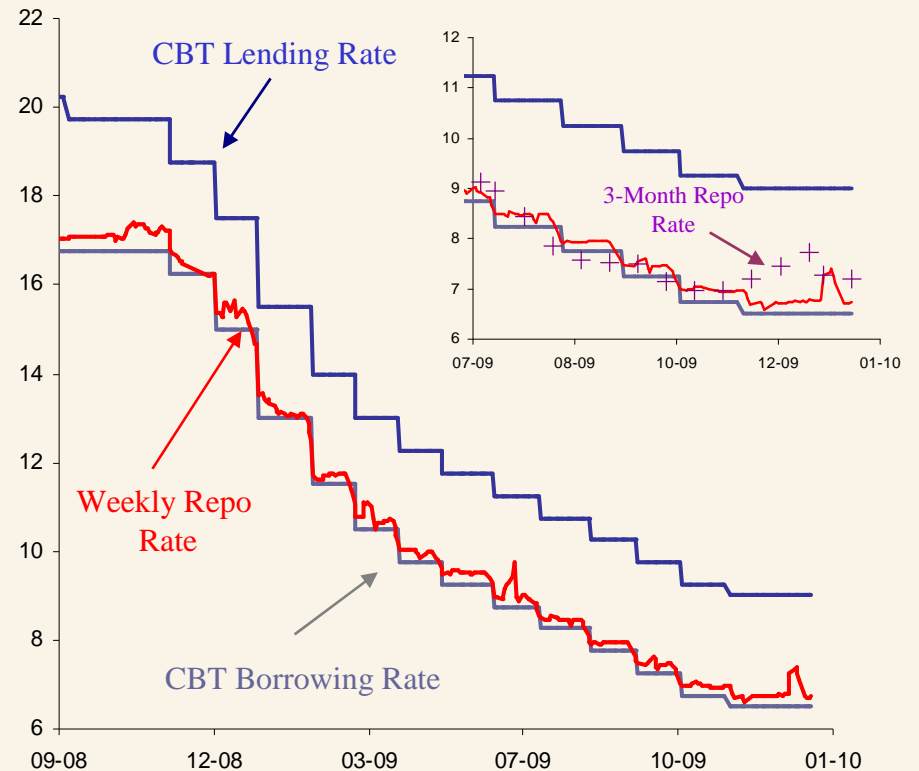
# TRY Liquidity Measures

**TRY Liquidity Provided by the Central Bank**  
(Jan 2007 – Jan 2010, billion TRY)



Source: CBT

**Policy Rate and Repo Rate**  
(Sep 2008 – Jan 2010, percent)



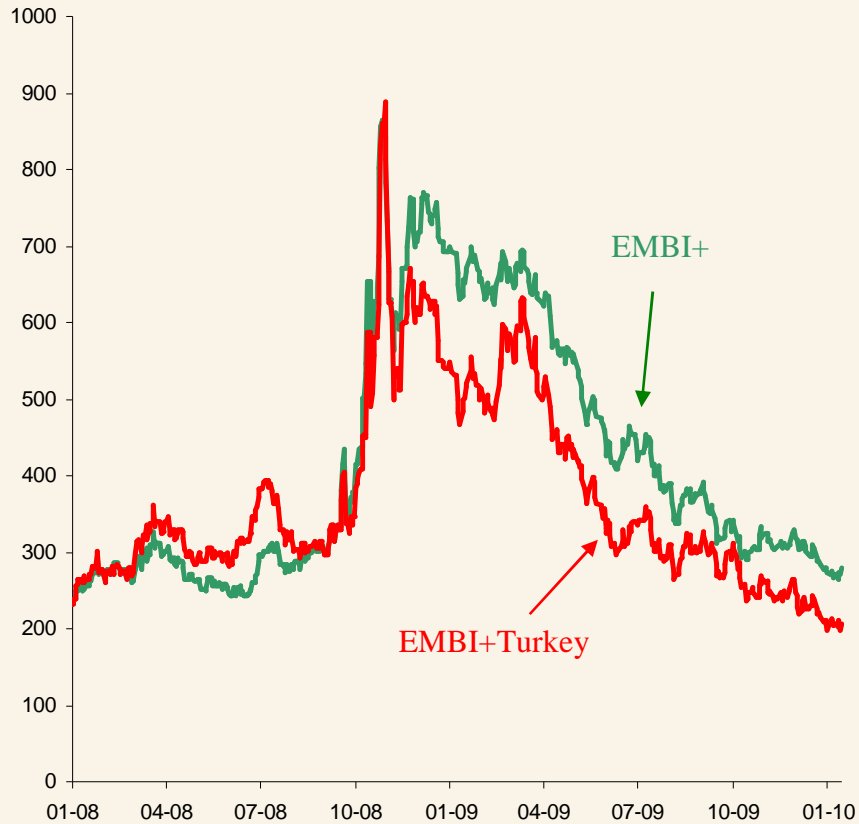
Source: CBT



# Financial Stability in Turkey

## Risk Indicators

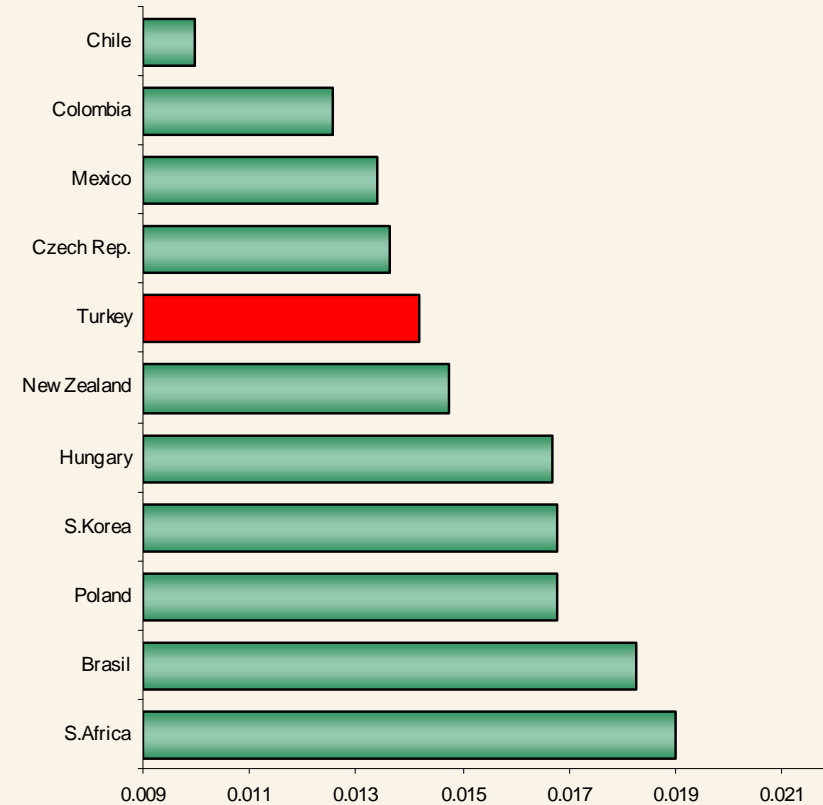
(Jan 2008 - Jan 2010, basis points)



Source: Bloomberg, CBT

## Exchange Rate Volatility

(Sep 2008 - Jan 2010, standard deviation of daily changes in exchange rates)

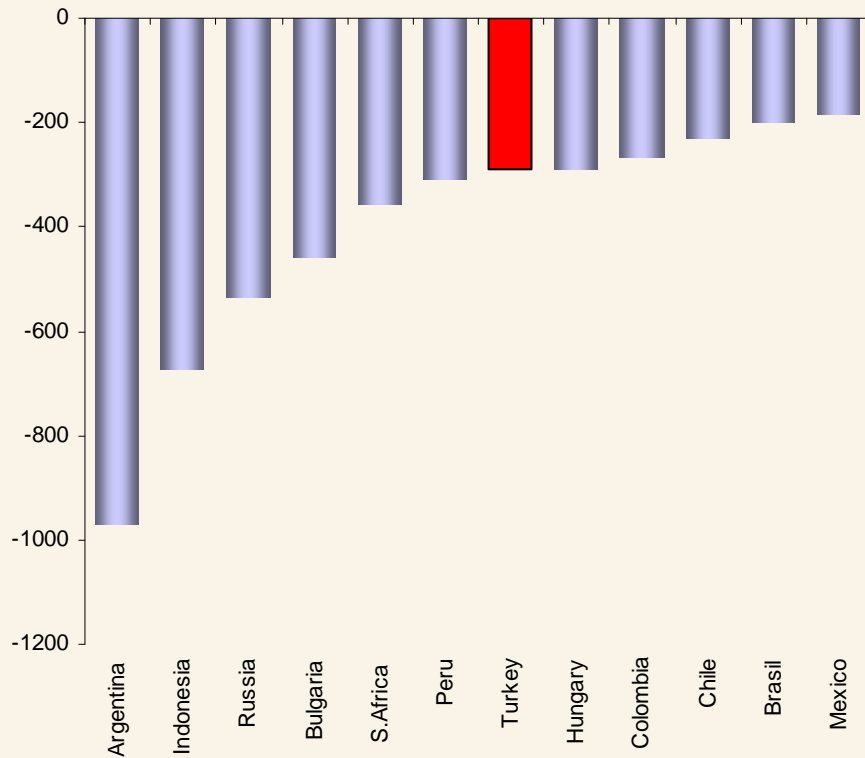


Source: Bloomberg, CBT



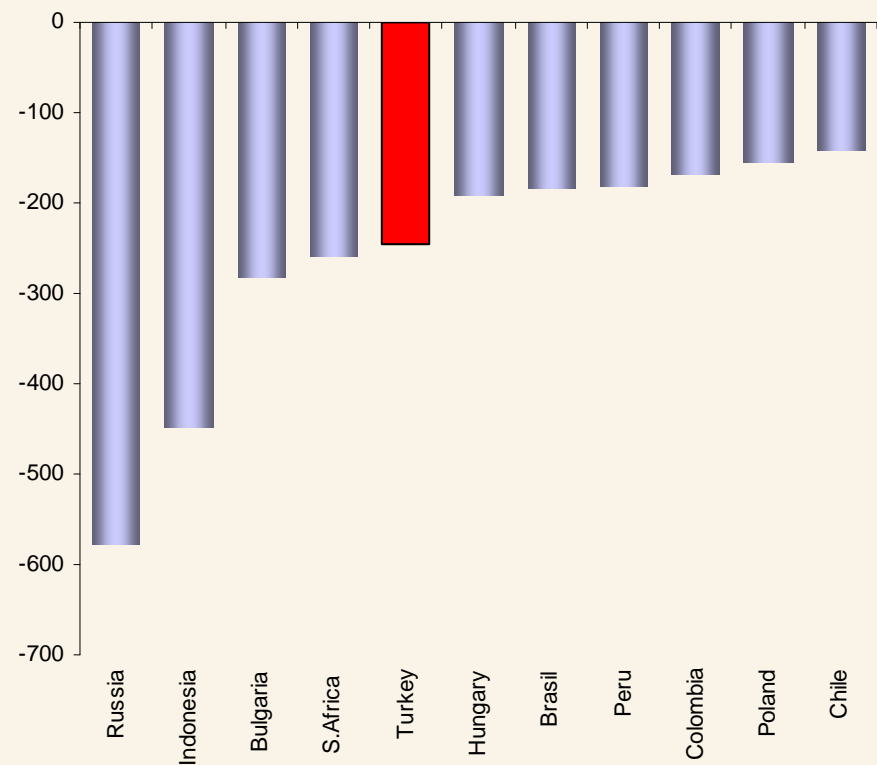
# Financial Stability in Turkey

**EMBI+ Changes in Markets**  
(Jan 2009– Jan 2010, basis points)



Source: Bloomberg, CBT

**CDS Changes in Markets**  
(Jan 2009– Jan 2010, basis points)

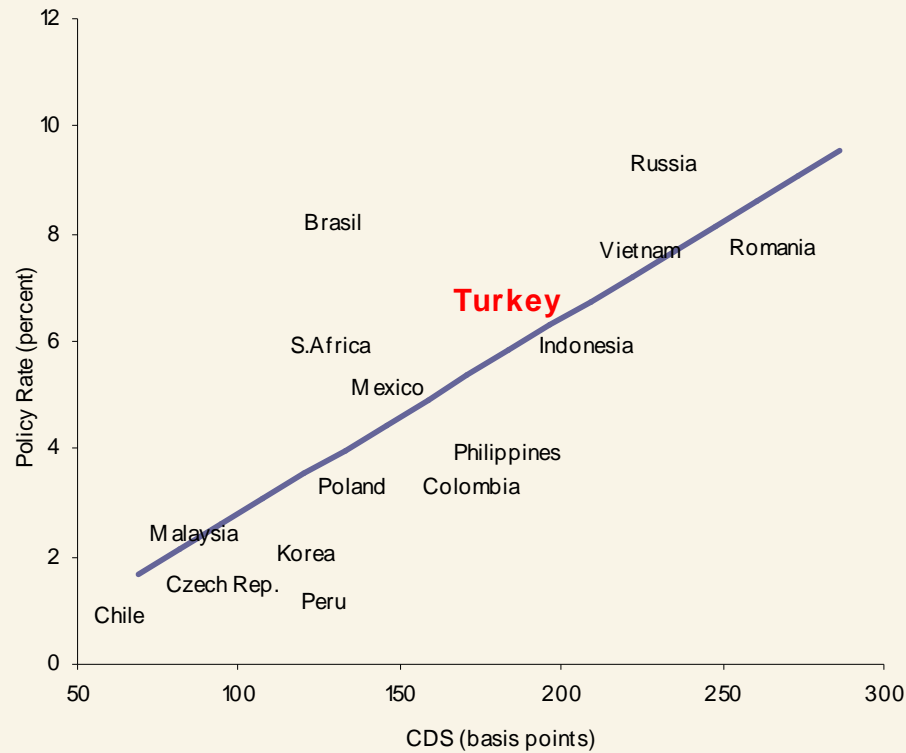


Source: Bloomberg, CBT



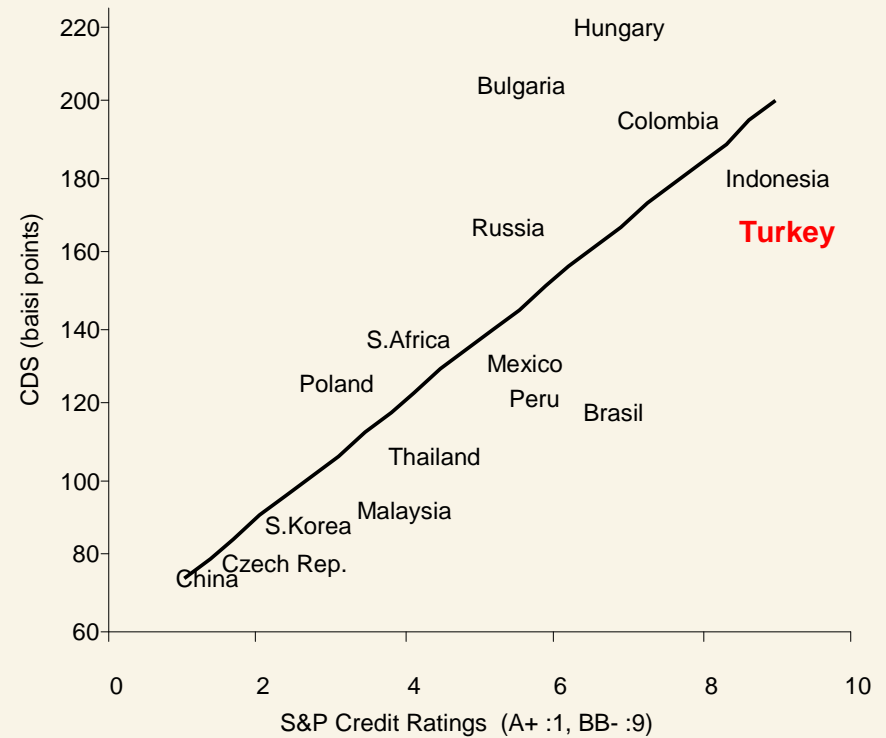
# Financial Stability in Turkey

**Policy Rates and Risk Premiums**  
(Jan 2010)



Note: Trend line includes countries except Turkey.  
Source: Bloomberg, CBT

**Policy Rates and Credit Ratings**  
(Jan 2010)

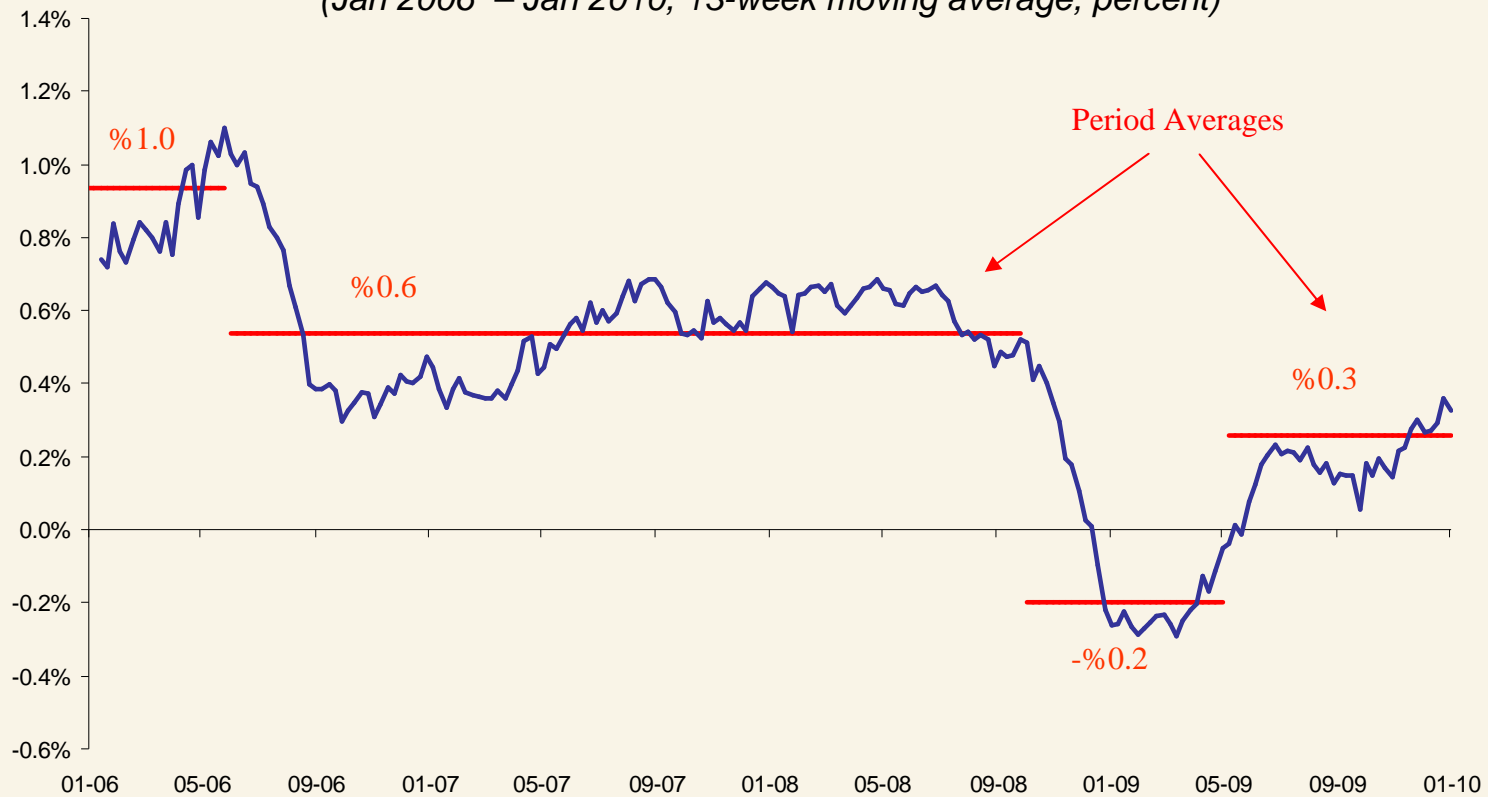


Note: Trend line includes countries except Turkey.  
Source: Bloomberg, CBT



# Commercial Loans

**Weekly Change in Total Credit Volume\***  
(Jan 2006 – Jan 2010, 13-week moving average, percent)

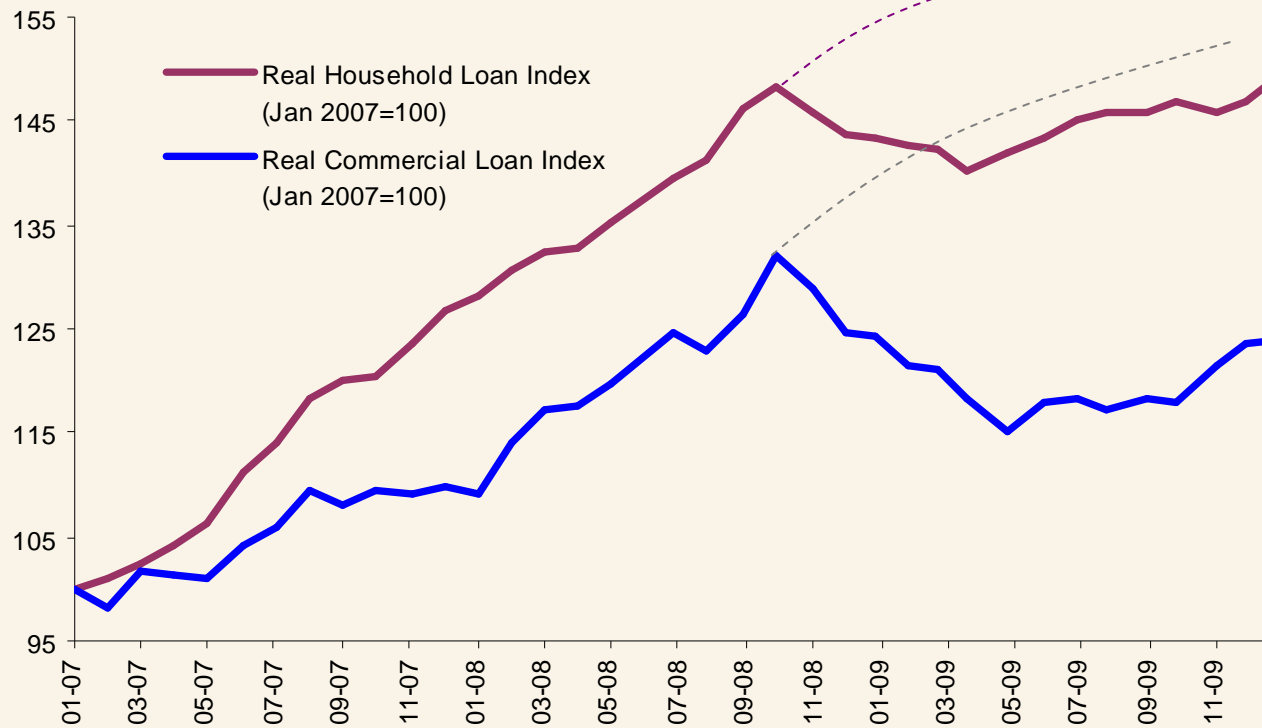


\* Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted  
Source: BRSA, CBRT



# Real Credit Volume

**Real Credit Volume**  
(Jan 2007 – Dec 2009)



Source: BRSA, CBRT



## II. Recent Acceleration in Headline Inflation

### Why is it Temporary?

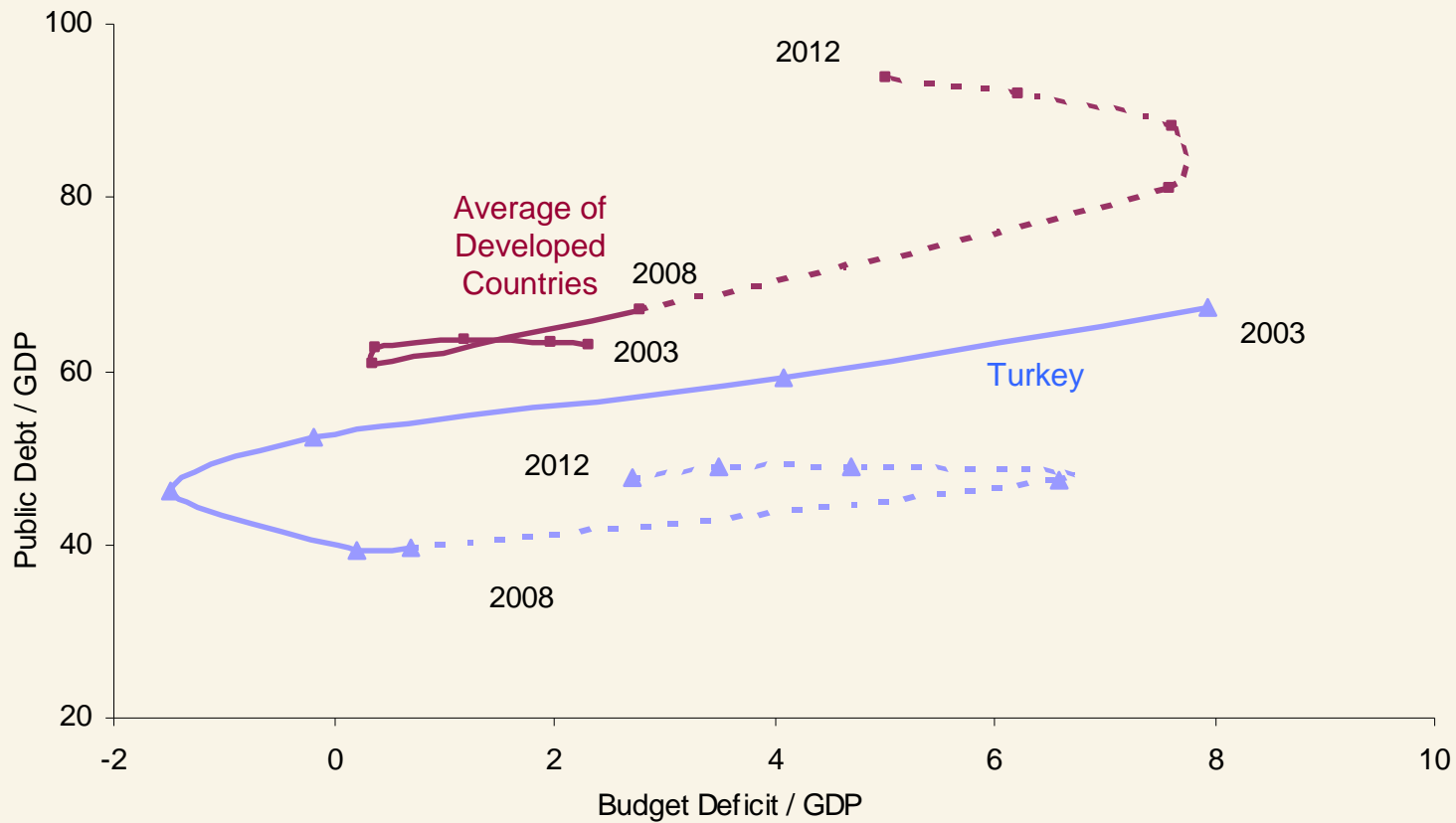
1. Capacity Utilization
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# Budget Deficit and Indebtedness Level - I

**Public Debt and Budget Deficit Ratios**  
(2003–2012, percent of GDP)

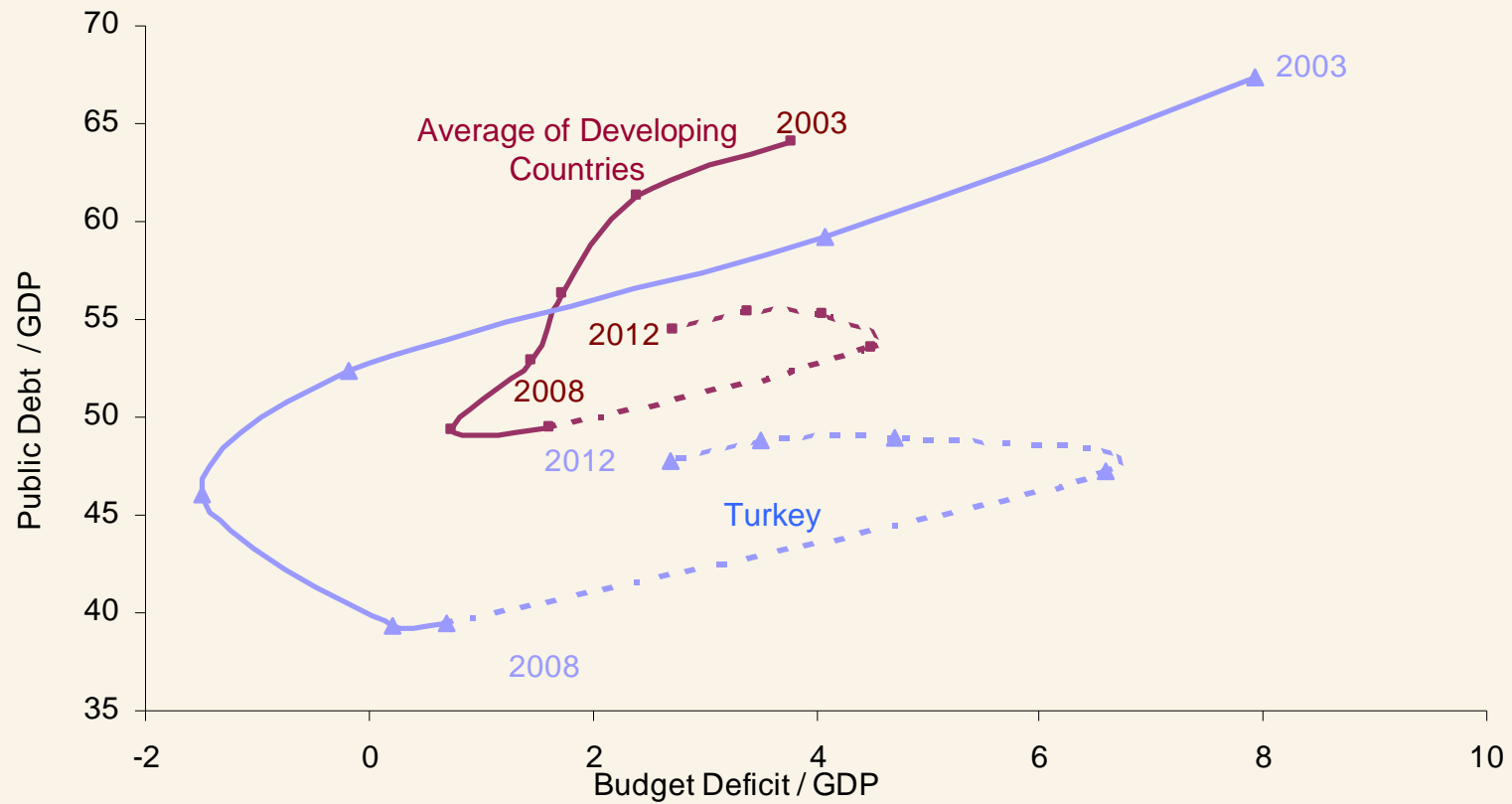


Source: Bloomberg, Ministry of Finance, CBT



# Budget Deficit and Indebtedness Level - II

**Public Debt and Budget Deficit Ratios**  
(2003 – 2012, percent of GDP)



Source: Bloomberg, Ministry of Finance, CBT

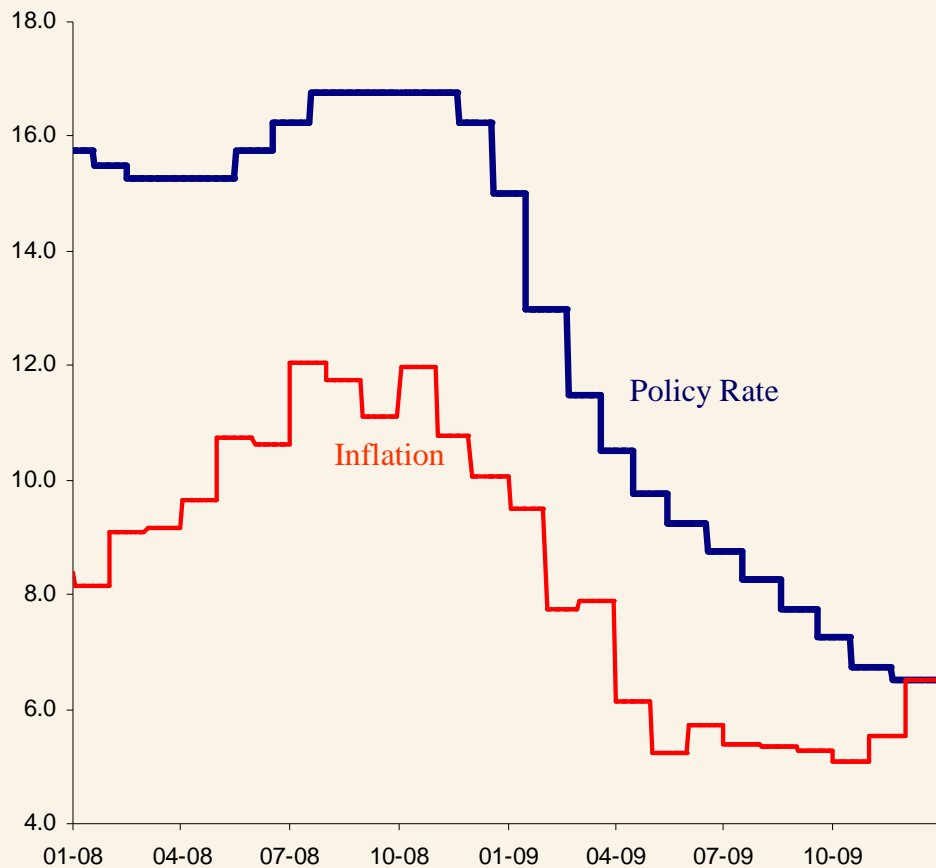


## III. Monetary Policy Stance



# Monetary Policy Action

**CBT Policy Rate and CPI**  
(Jan 2008 – Dec 2009, percent)



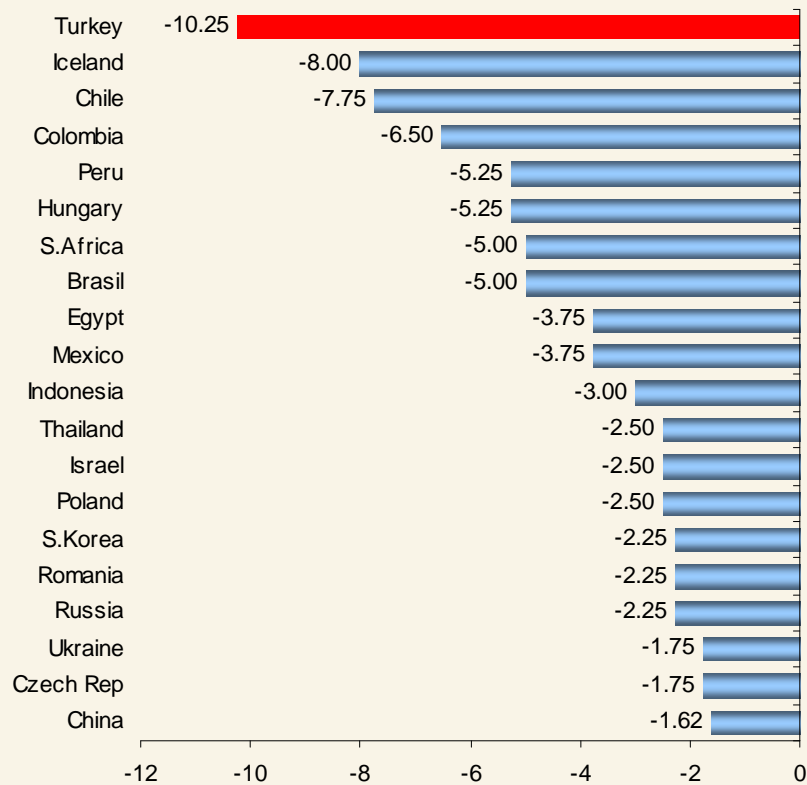
Source: TURKSTAT, CBT

	Policy Rate	Change
<b>October 08</b>	16.75	0.00
<b>November 08</b>	16.25	-0.50
<b>December 08</b>	15.00	-1.25
<b>January 09</b>	13.00	-2.00
<b>February 09</b>	11.50	-1.50
<b>March 09</b>	10.50	-1.00
<b>April 09</b>	9.75	-0.75
<b>May 09</b>	9.25	-0.50
<b>June 09</b>	8.75	-0.50
<b>July 09</b>	8.25	-0.50
<b>August 09</b>	7.75	-0.50
<b>September 09</b>	7.25	-0.50
<b>October 09</b>	6.75	-0.50
<b>November 09</b>	6.50	-0.25
<b>December 09</b>	6.50	0.00
<b>January 10</b>	6.50	0.00



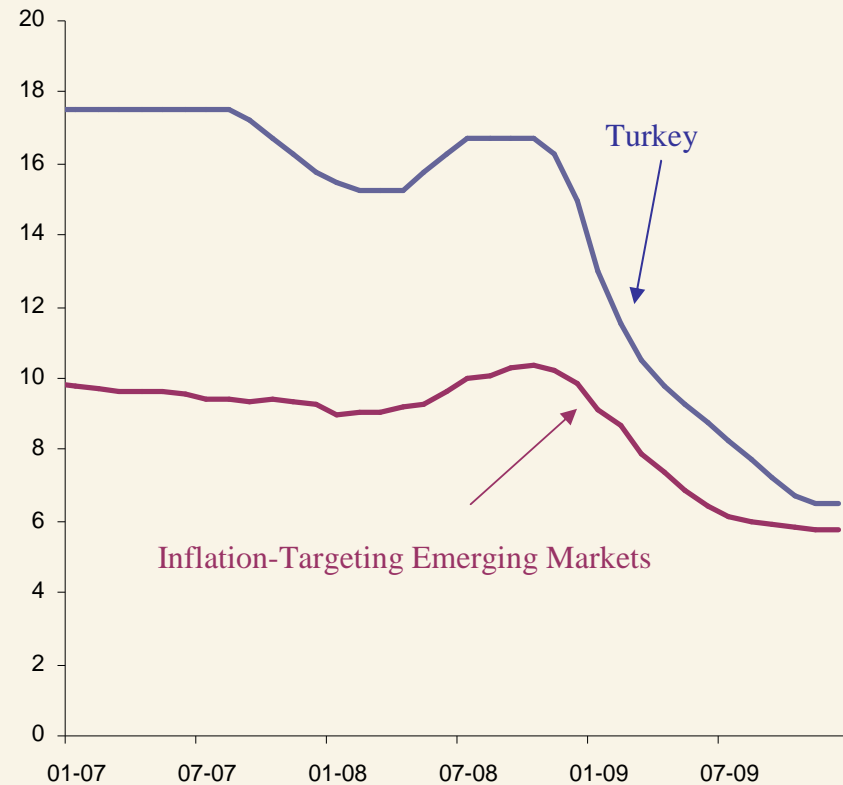
# Monetary Policy Action

**Change in the Policy Rates of Emerging Market Economies**  
(Oct 2008 – Dec 2009, percentage points)



Source: Central Banks, CBT

**Policy Rates in Inflation-Targeting Emerging Market Economies and Turkey**  
(Jan 2007 – Dec 2009, percent)

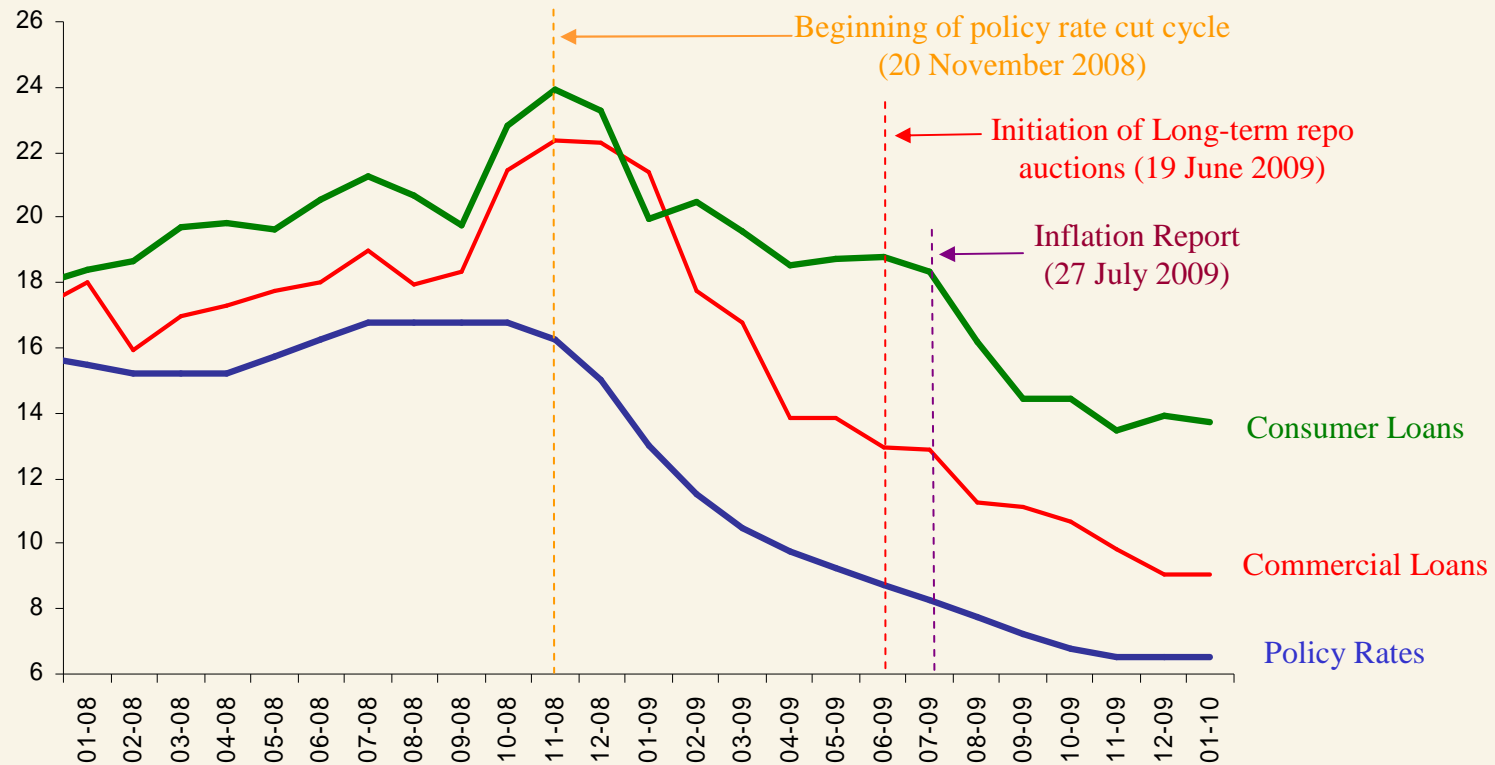


Source: Central Banks, CBT



# Response of the Credit Markets

**Consumer Loans, Commercial Loans and Policy Rates**  
(Jan 2008 – Jan 2010, percent)

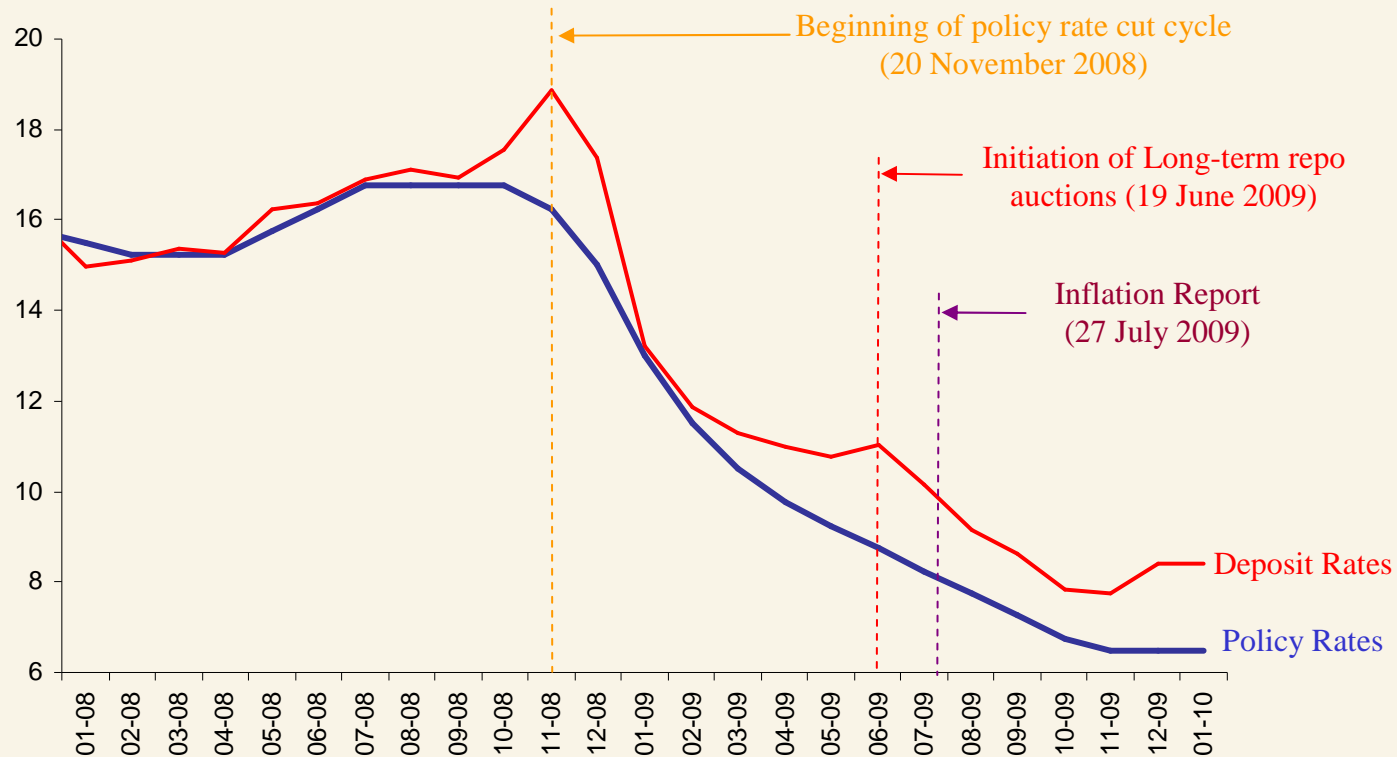


Source: CBT



# Response of the Credit Markets

**Policy Rates and Average Deposit Rates\***  
(Jan 2008 – Jan 2010, percent)

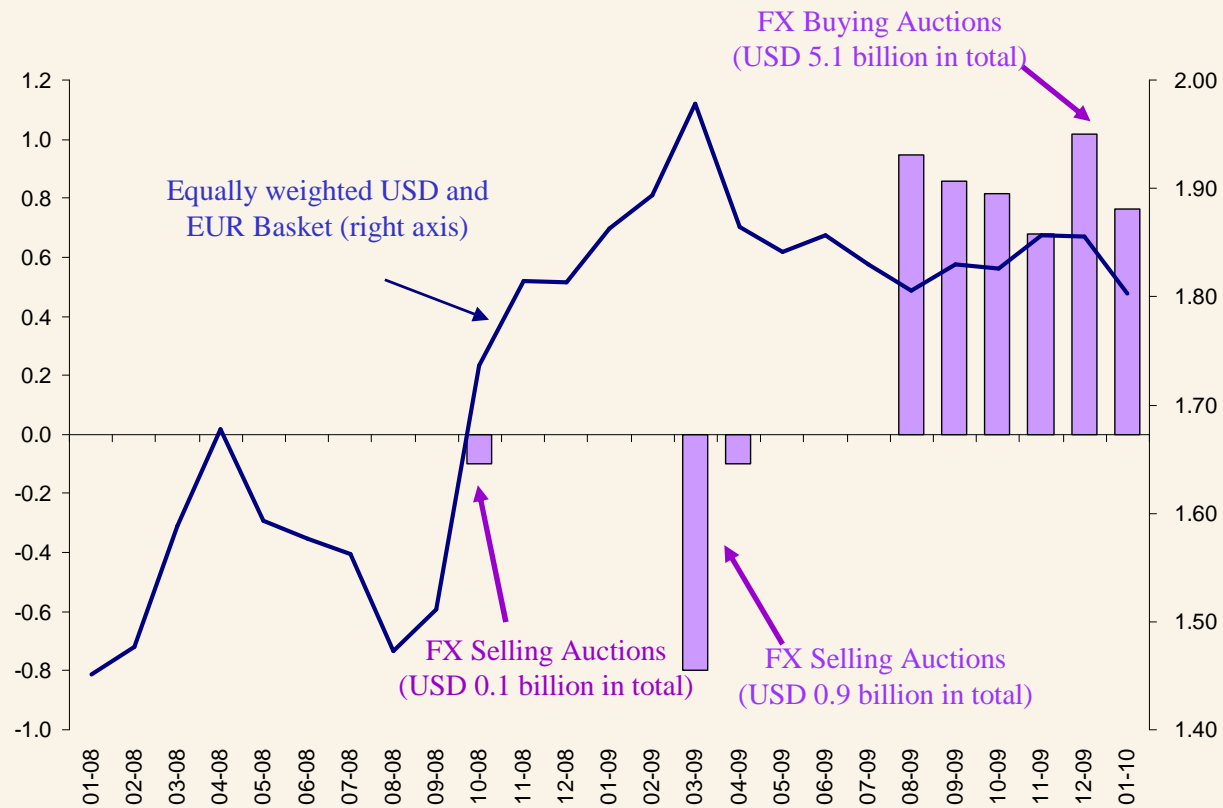


\* Weighted average, flow interest rates. Excluding Interbank deposits.  
Source: BRSA, CBT



# FX Liquidity Measures

**FX Buying and Selling Auctions** (monthly cumulative, billion USD)  
**and FX Basket** (equally weighted, Jan 2008 – Jan 2010\*)



\* As of 27 January 2010  
Source: CBT





# Monetary Policy Stance

## *Inflation, Policy Rates and Credit Rating of Selected Countries (Jan 2010, percent)*

	Credit Rating (Fitch)	Outlook	Policy Rate	2010 Inflation Expectations	Real Policy Rate
Chile	A	stable	0.50	2.65	-2.09
Thailand	BBB	negative	1.25	3.00	-1.70
S.Korea	A+	stable	2.00	2.90	-0.87
Czech Rep.	A+	stable	1.00	1.50	-0.49
Colombia	BB+	stable	3.50	4.00	-0.48
Norway	AAA	stable	1.75	2.20	-0.44
<b>Turkey</b>	<b>BB+</b>	<b>stable</b>	<b>6.50</b>	<b>6.90</b>	<b>-0.37</b>
Philippines	BB	stable	4.00	4.00	0.00
Mexico	BBB	stable	4.50	4.35	0.14
Malaysia	A-	stable	2.00	1.75	0.25
Indonesia	BB	stable	6.50	5.67	0.79
S.Africa	BBB+	negative	7.00	6.00	0.94
Poland	A-	stable	3.50	2.50	0.98
Australia	AA+	stable	3.75	2.30	1.42
Hungary	BBB	negative	6.00	4.00	1.92
China	A+	stable	5.31	2.75	2.49
Brazil	BBB-	stable	8.75	4.40	4.17

Source: Bloomberg, CBT



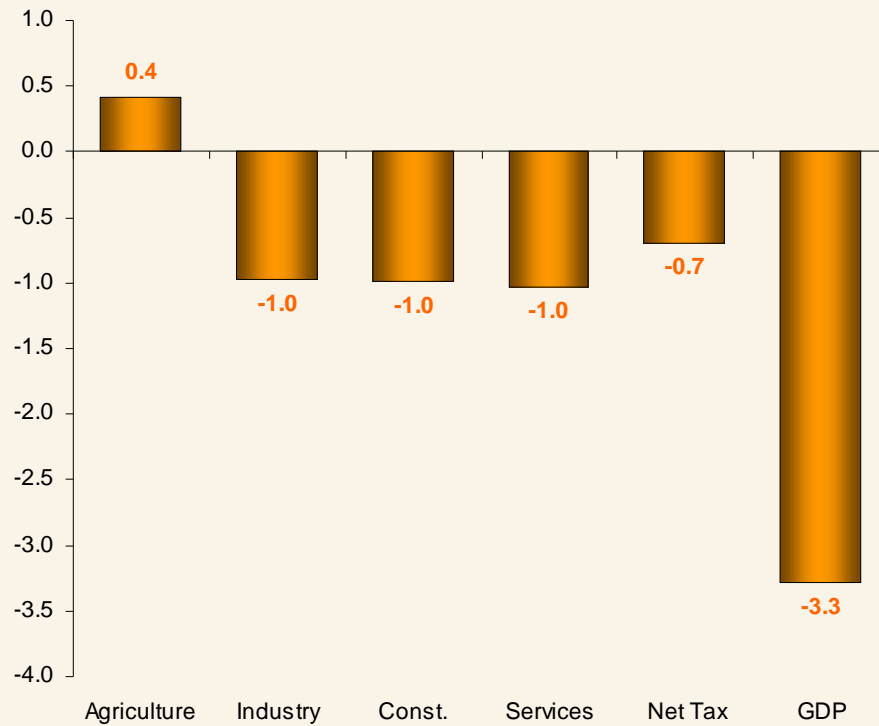
## **IV. Recent Developments in the Turkish Economy**



# Turkish Economy

## Growth Components

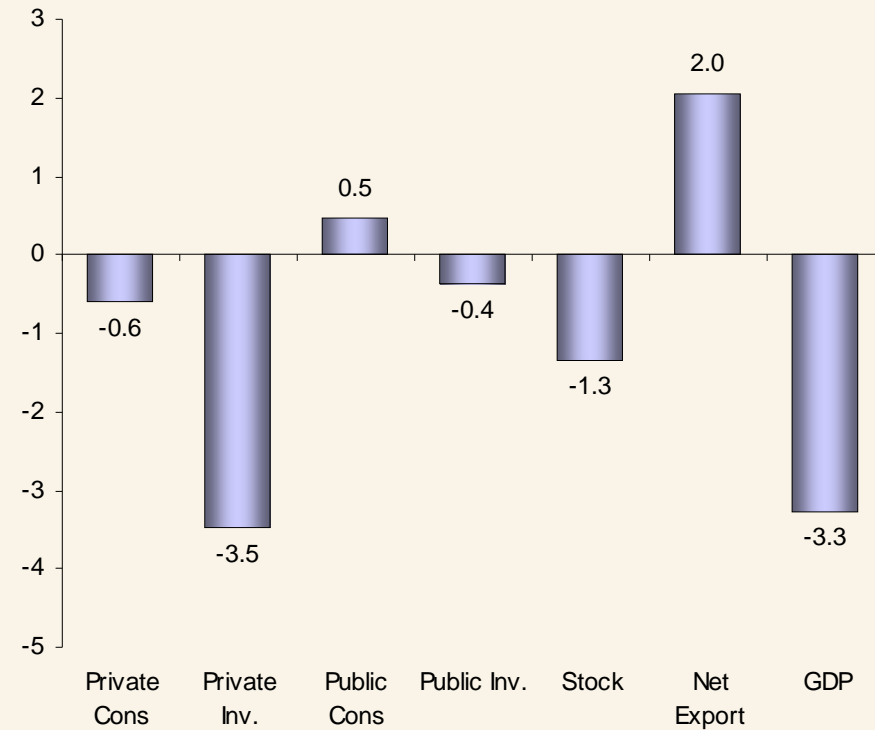
(2009 Q3, annual percentage contribution)



Source: TURKSTAT, CBT

## Growth Components

(2009 Q3, annual percentage contribution)



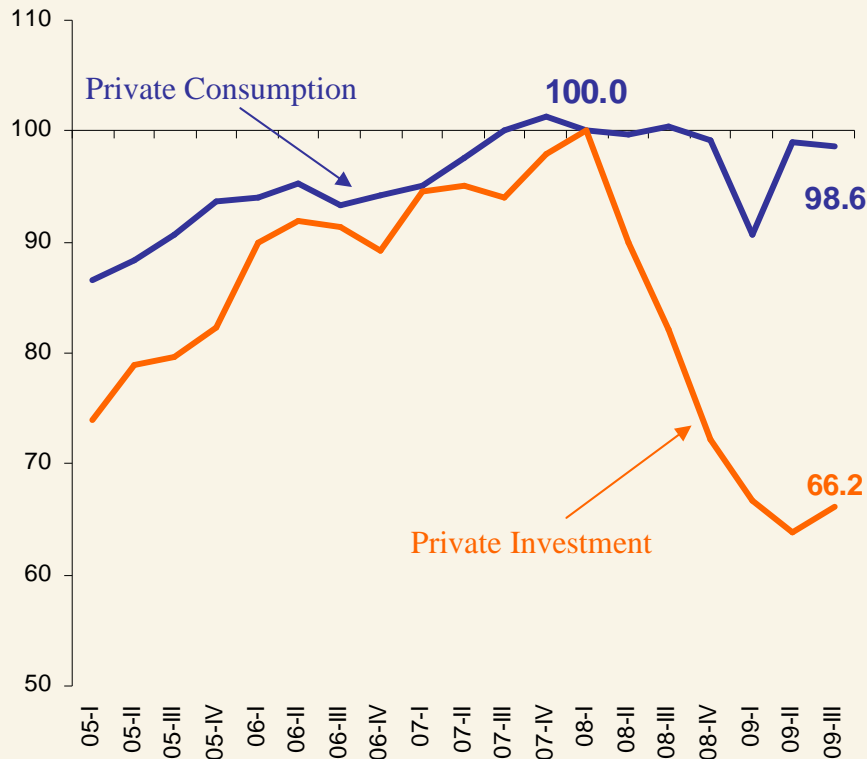
Source: TURKSTAT, CBT



# Turkish Economy

**GDP Sub-items: Private Consumption and Investment**

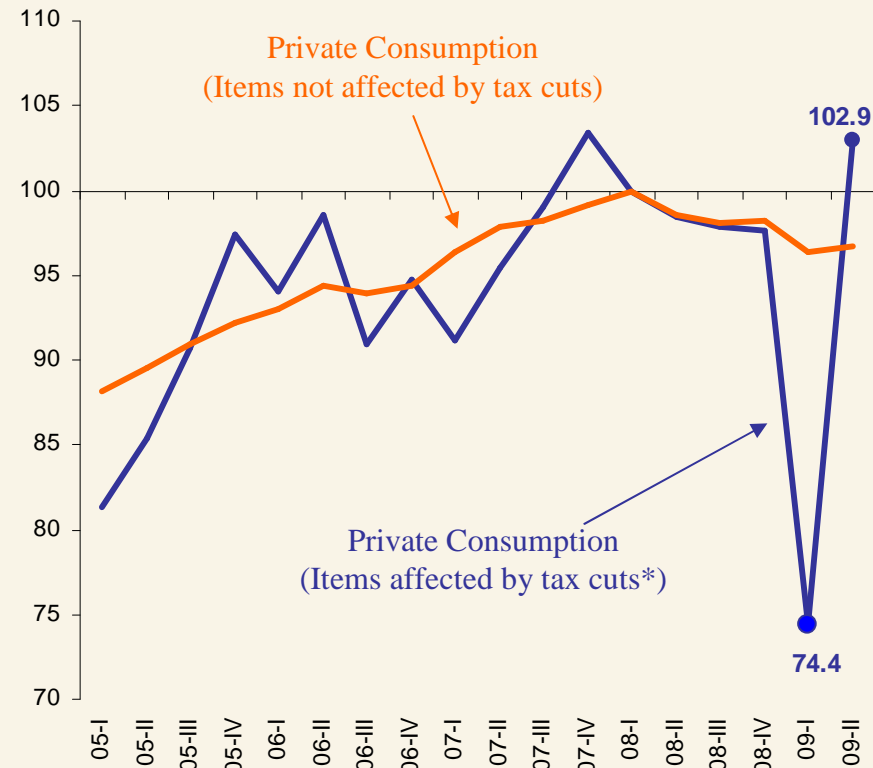
(2005 Q1 – 2009 Q3, SA, 2008 Q1=100)



Source: TURKSTAT, CBT

**GDP Sub-items: Private Consumption and Tax Effect**

(2005 Q1 – 2009 Q2, SA, 2008 Q1=100)



\* Furniture, Household Appliances and Home Improvement Services, and Transport and Communications

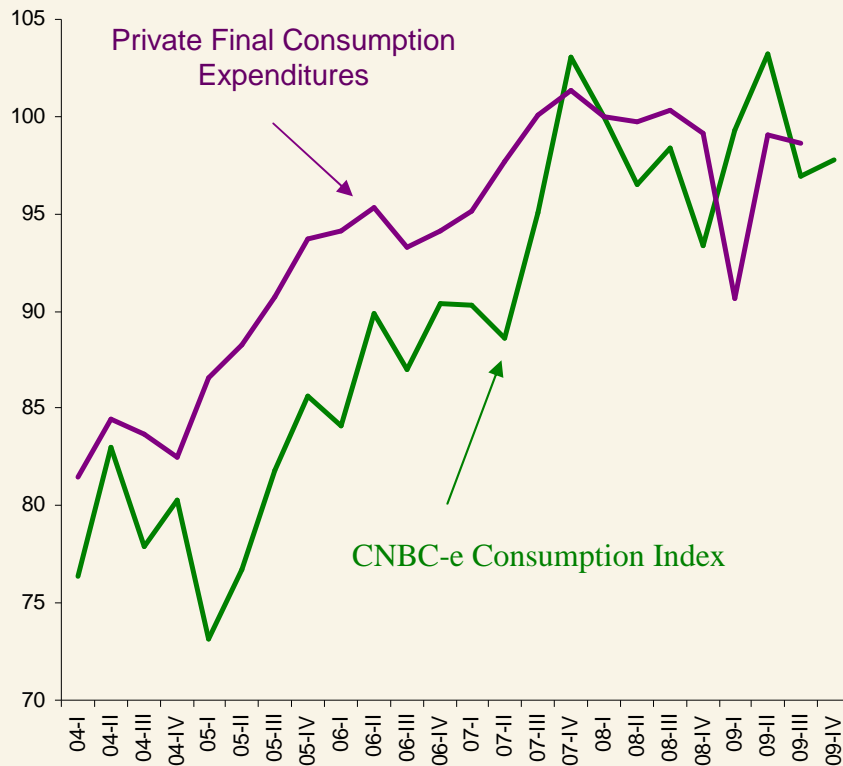
Source: TURKSTAT, CBT



# Private Consumption

## Consumption Expenditures\*

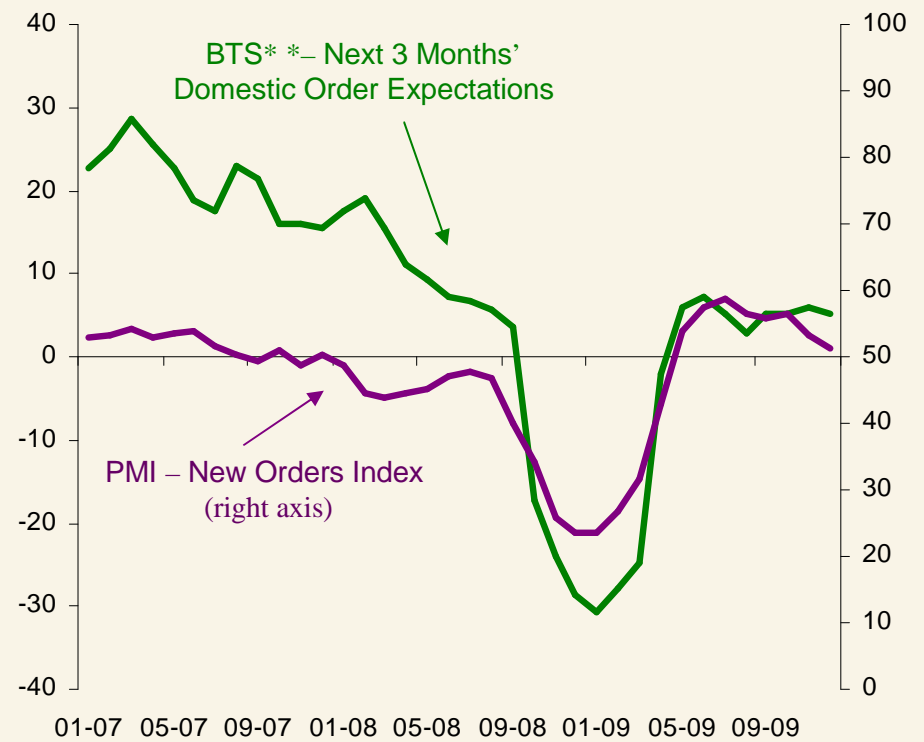
(2004 Q1 – 2009 Q4, percent, 2008 Q1 = 100)



\*Seasonally adjusted  
Source: CNBC, TURKSTAT, CBT

## Demand Indicators\*

(Jan 2007 – Dec 2009)

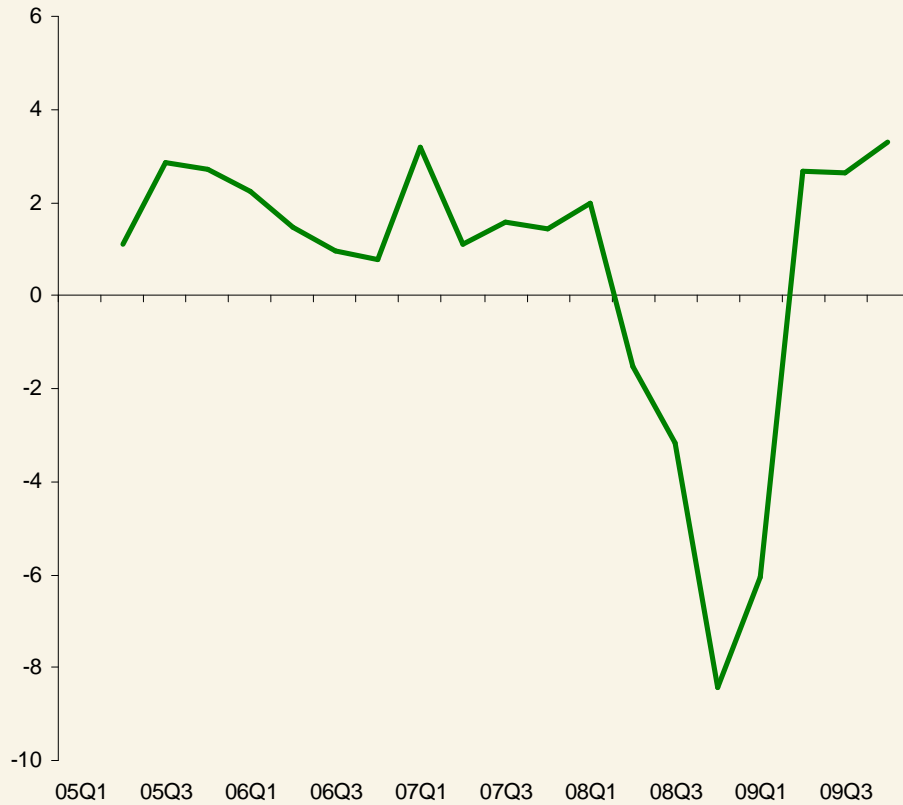


\*Seasonally adjusted  
\*\*Business Tendency Survey  
Source: Bloomberg, CBT



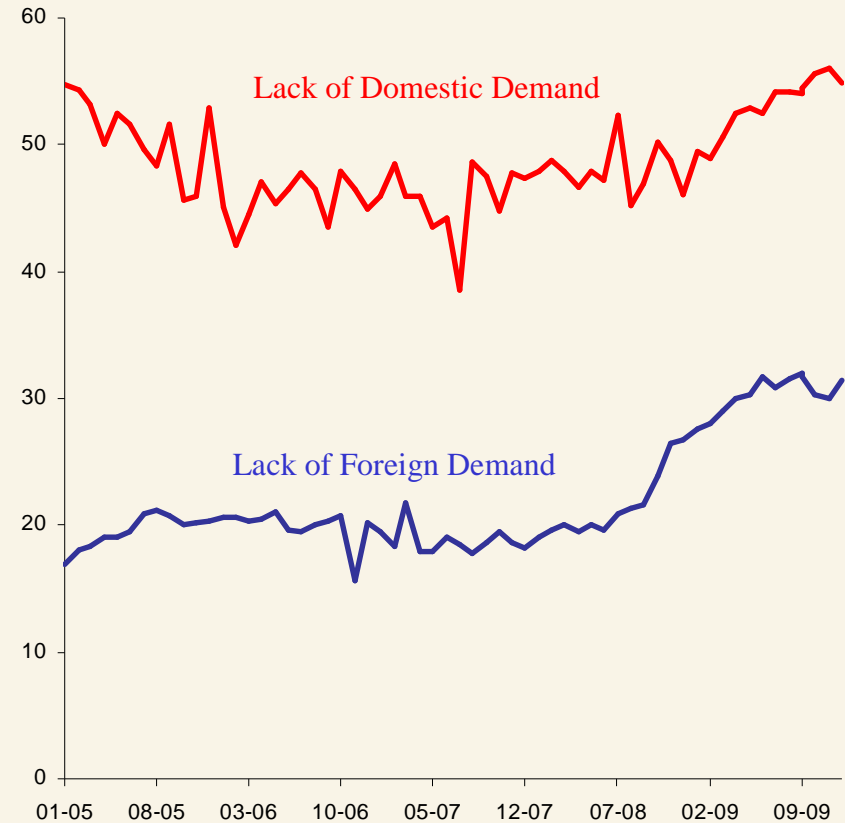
# Production Developments

**Quarterly Change in Industrial Production**  
(2005 Q1 – 2009 Q4\*, seasonally adjusted, percent)



\* October-November average  
Source: TURKSTAT, CBT

**Reasons for Operating Under Full Capacity**  
(Jan 2005 – Dec 2009, Percent Share)

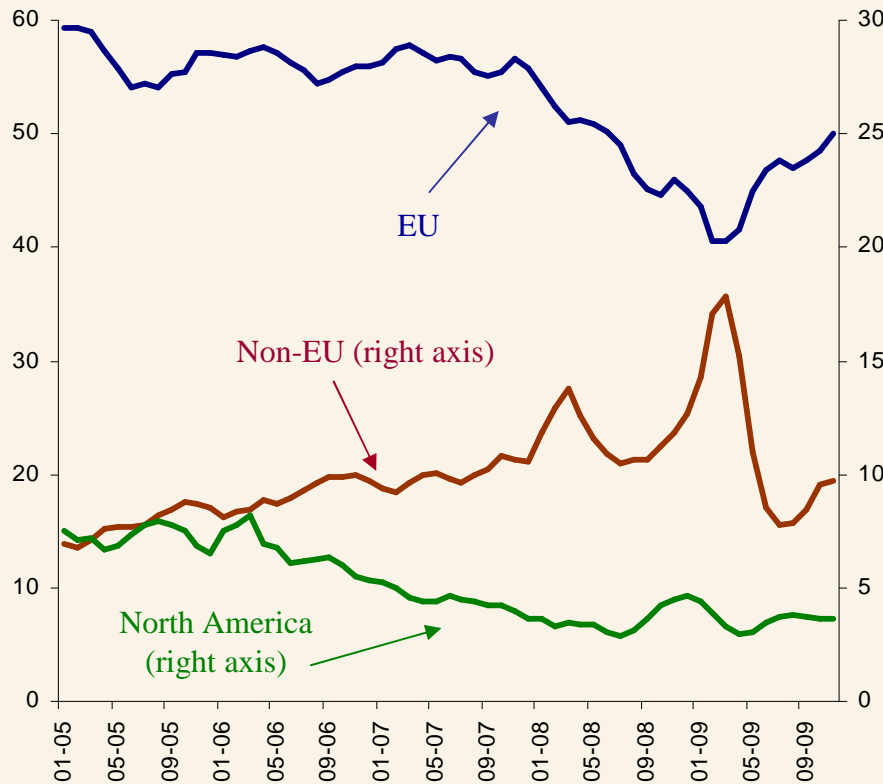


Source: TURKSTAT, CBT



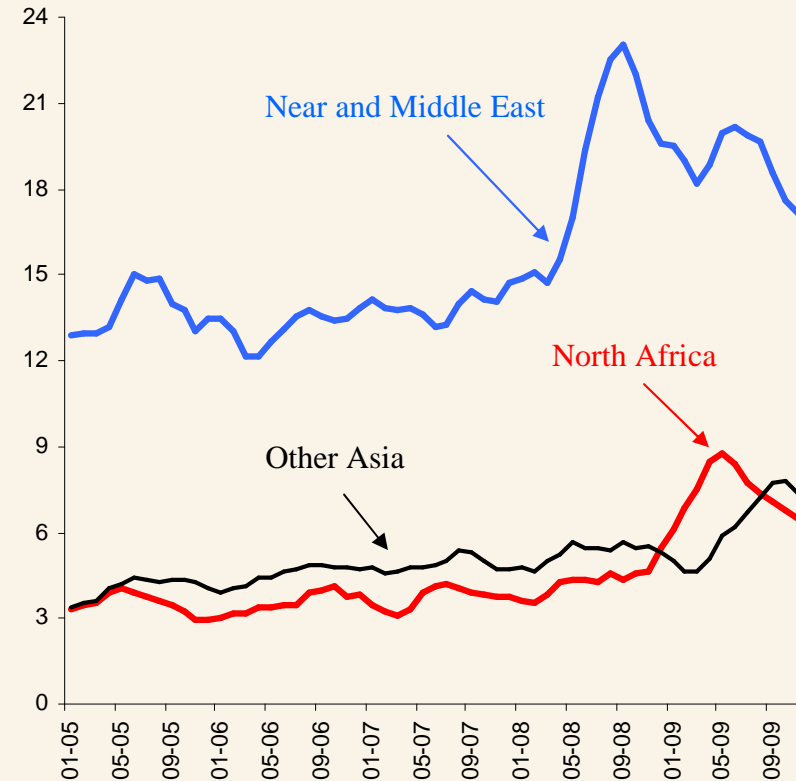
# Foreign Demand

**Turkey's Selected Export Markets**  
(Jan 2005 – Nov 2009, percentage share)



Source: TURKSTAT, CBT

**Turkey's Selected Export Markets**  
(Jan 2005 – Nov 2009, percentage share)



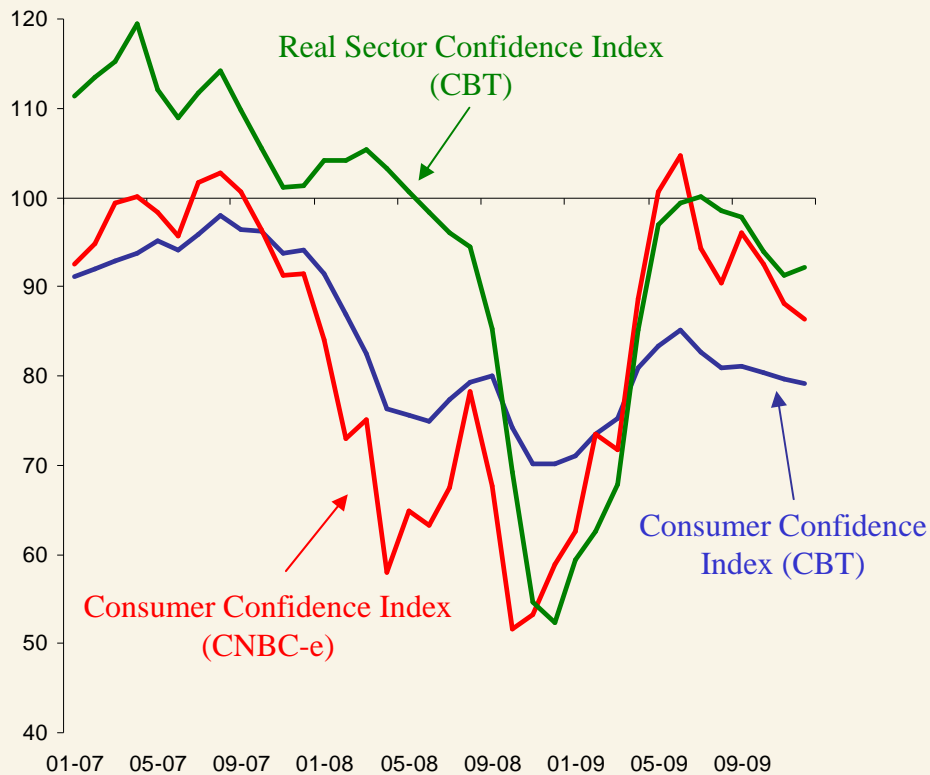
Source: TURKSTAT, CBT



# Confidence Indices and Leading Indicators

## Corporate Sector and Consumer Confidence Indices

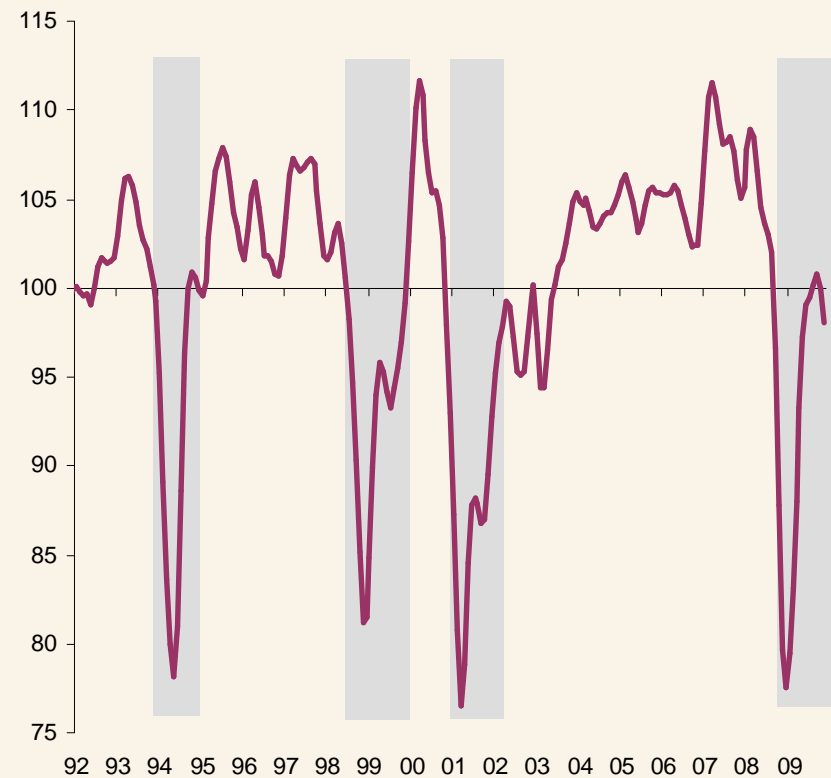
(Jan 2007 – Dec 2009)



Source: CNBC-e, TURKSTAT, CBT

## Leading Indicators

(Jan 1992 – Nov 2009)



Source: CBT

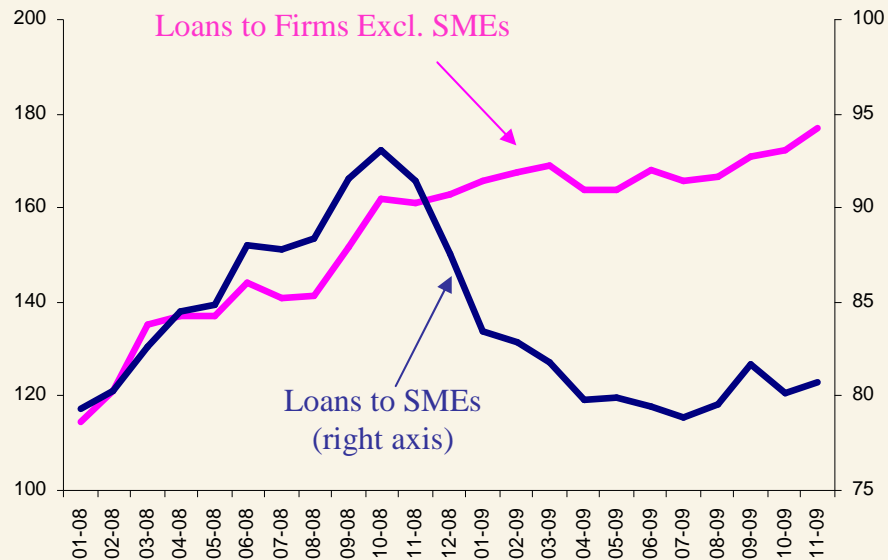




# Commercial Loans

**Loans Extended to Firms and SMEs**

(Jan 2008 – Nov 2009, billion TRY)

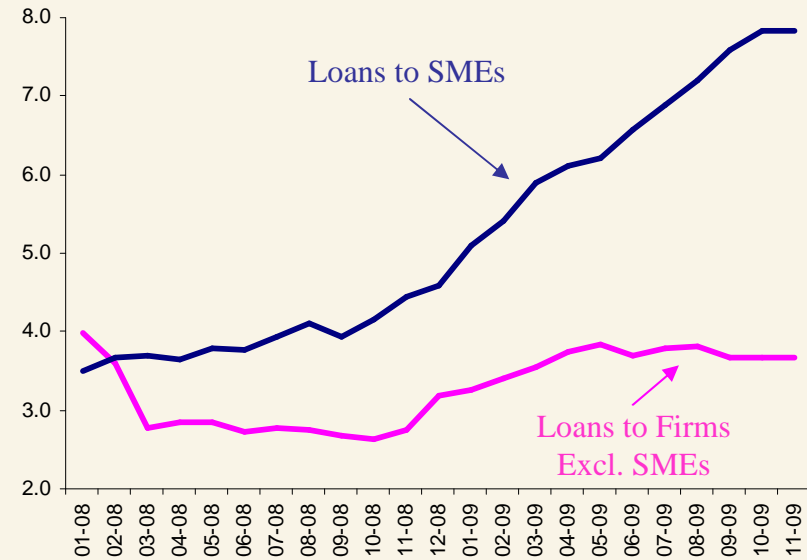


	Loans to SMEs	Loans to Firms Excl. SMEs
11-08	87.6	164.8
11-09	80.7	176.8

Source: BRSA, CBT

**NPL Ratio of Loans to Firms and SMEs**

(Jan 2008 – Nov 2009, percent)



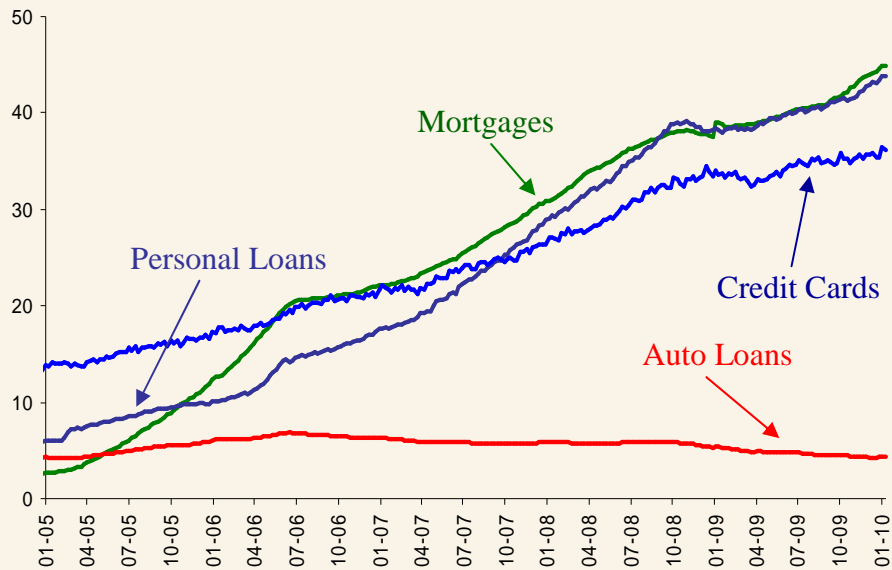
	Loans to SMEs	Loans to Firms Excl. SMEs
11-08	4.7	2.6
11-09	7.8	3.7

Source: BRSA, CBT



# Consumer Loans

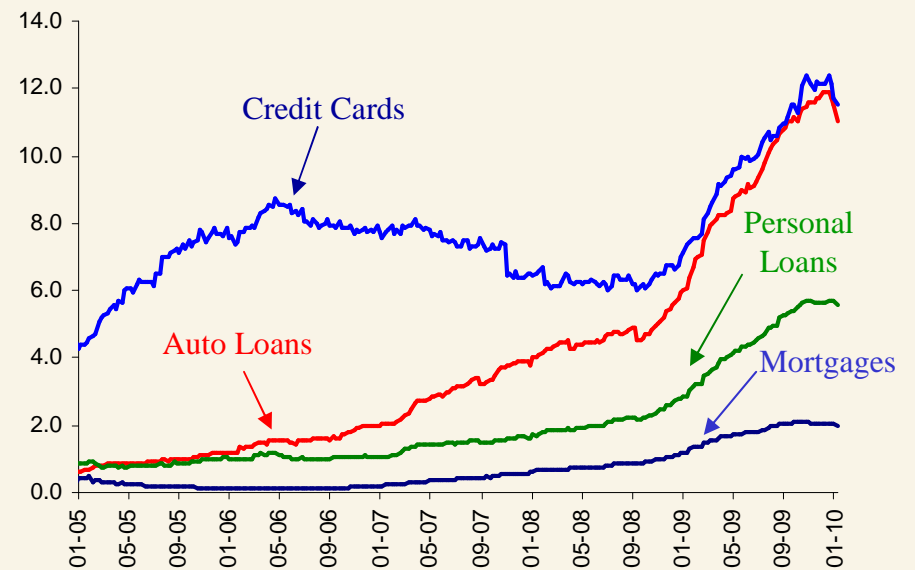
**Sub-items of Consumer Loans**  
(Jan 2005 – Jan 2010, billion TRY)



	TOTAL	Mortgages	Automobiles	Personal Loans	Credit Cards
01-08	95.3	33.0	6.0	29.7	26.6
01-09	115.9	38.6	5.2	38.4	33.7
01-10	129.4	45.0	4.4	43.9	36.1

Source: BRSA, CBT

**Ratio of Non-Performing Consumer Loans**  
(Jan 2005 – Jan 2010, percent)



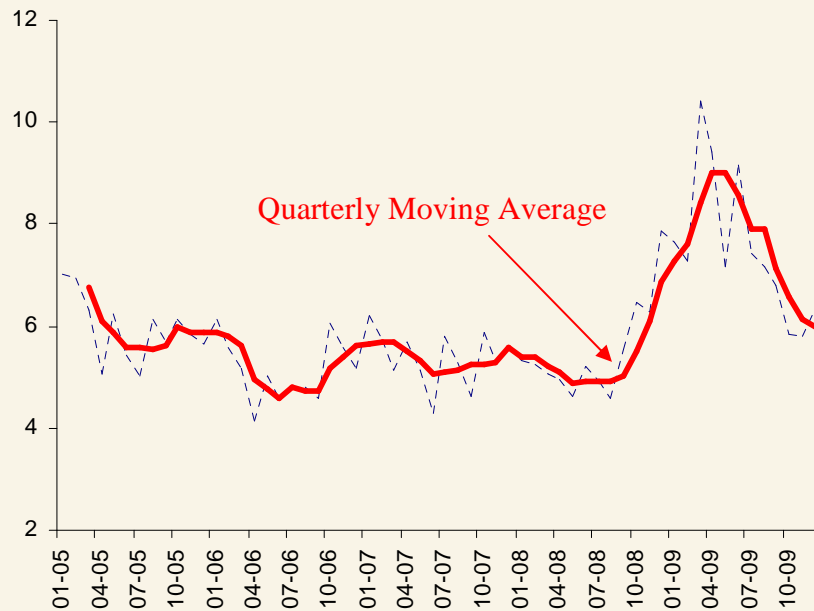
	TOTAL	Mortgages	Automobiles	Personal Loans	Credit Cards
01-08	2.4	0.7	4.0	1.8	6.4
01-09	3.4	1.4	6.5	3.1	7.0
01-10	5.3	2.0	9.9	5.3	10.3

Source: BRSA, CBT



# Commercial Activities

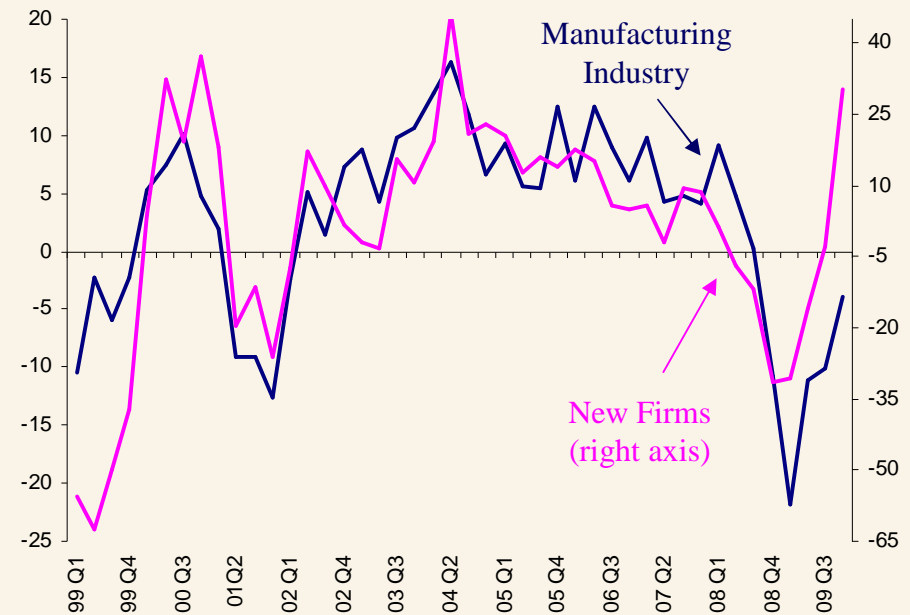
**Ratio of the Number of Bad Cheques to Total Cheques**  
(Jan 2005 – Dec 2009, percent)



2006	2007	08-III	08-IV	09-I	09-II	09-III	09-IV
5.14	5.39	5.54	7.87	10.40	9.15	6.79	6.34

Source: ICHC , CBT

**Number of New Firms and Growth in Manufacturing Industry**  
(1999 Q1 – 2009 Q4, annual percentage change)



Percentage Change	07	08-IV	09-I	09-II	09-III	09-IV
Manufacturing Industry	5.6	-10.8	-21.8	-11.2	-3.9	
New Firms	5.0	-31.4	-30.6	-15.8	-2.8	30.5

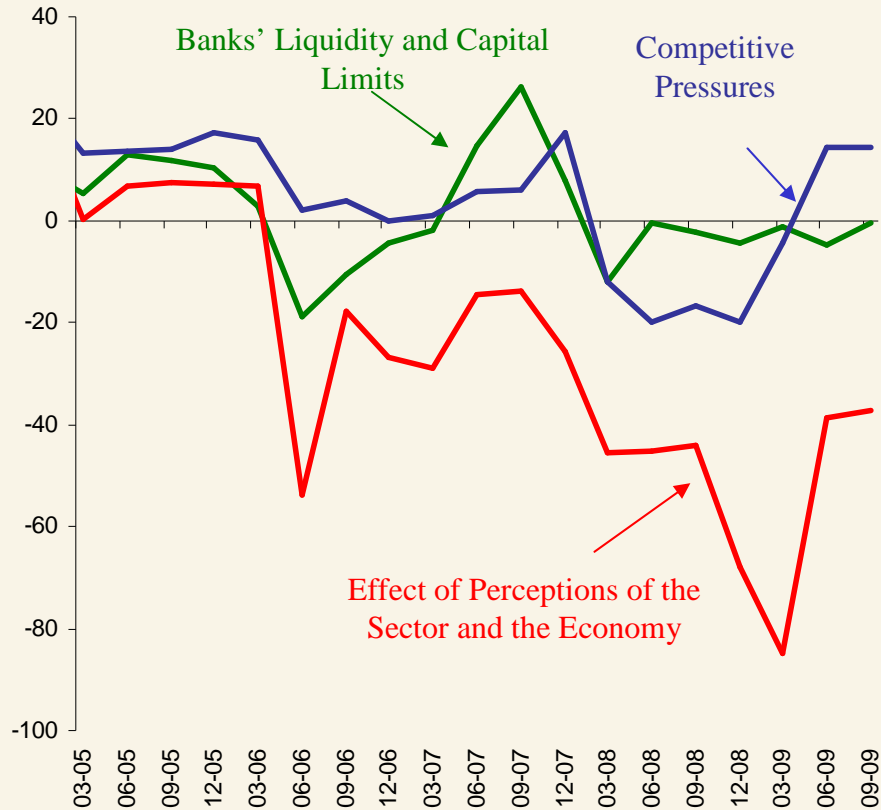
Source: TURKSTAT, CBT



# Results of Bank Loans Tendency Survey

## Factors Affecting Credit Supply

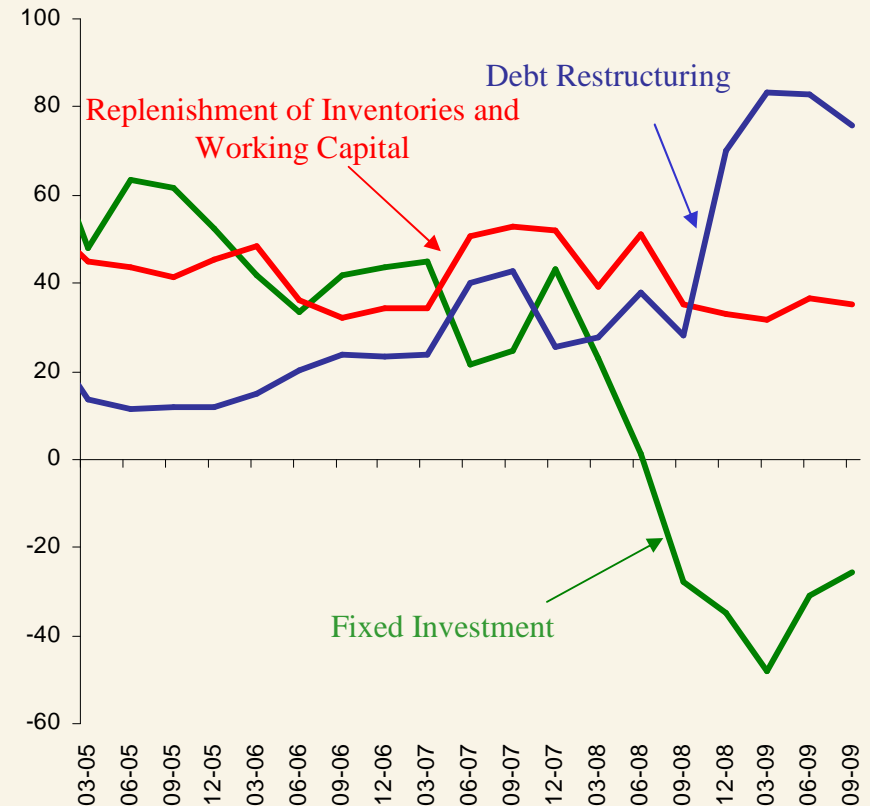
(Mar 2005 - Sep 2009)



Source: CBT

## Factors Affecting Credit Demand

(Mar 2005 - Sep 2009)



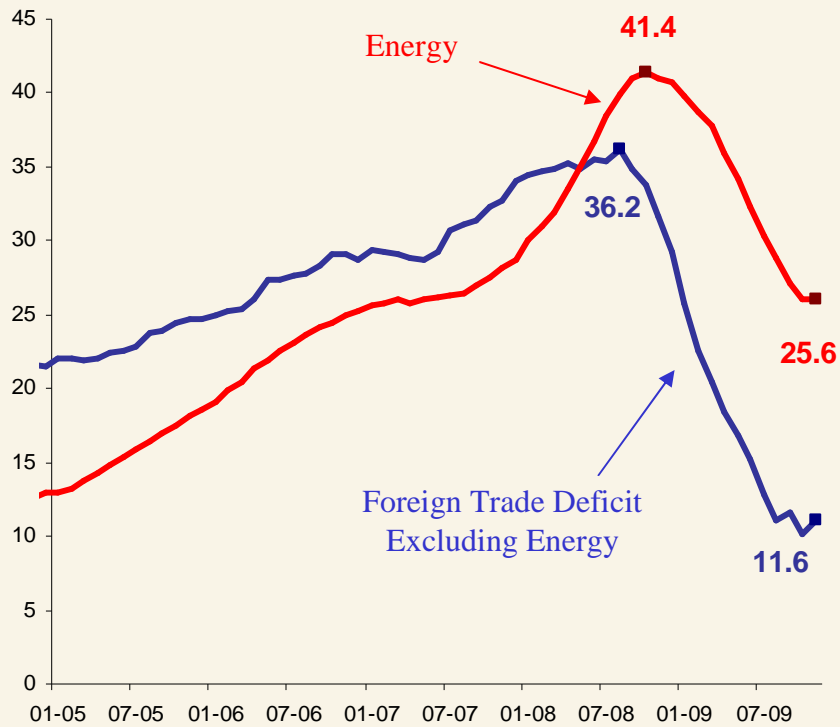
Source: CBT



# Balance of Payments

## Foreign Trade Deficit

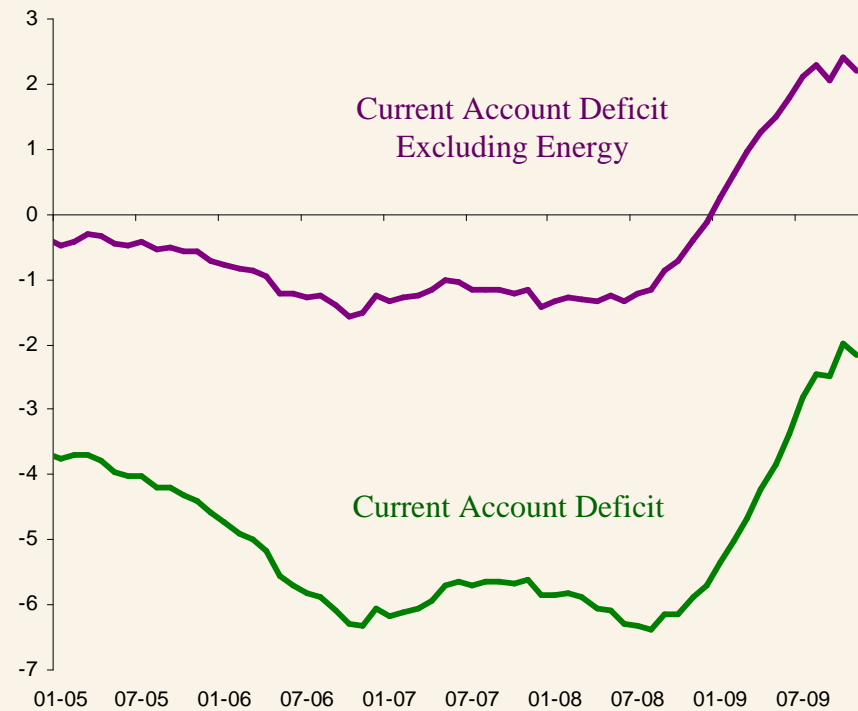
(Jan 2005 – Nov 2009, billion USD)



Source: TURKSTAT, CBT

## Current Account Deficit

(Jan 2005 – Nov 2009, percent of GDP)



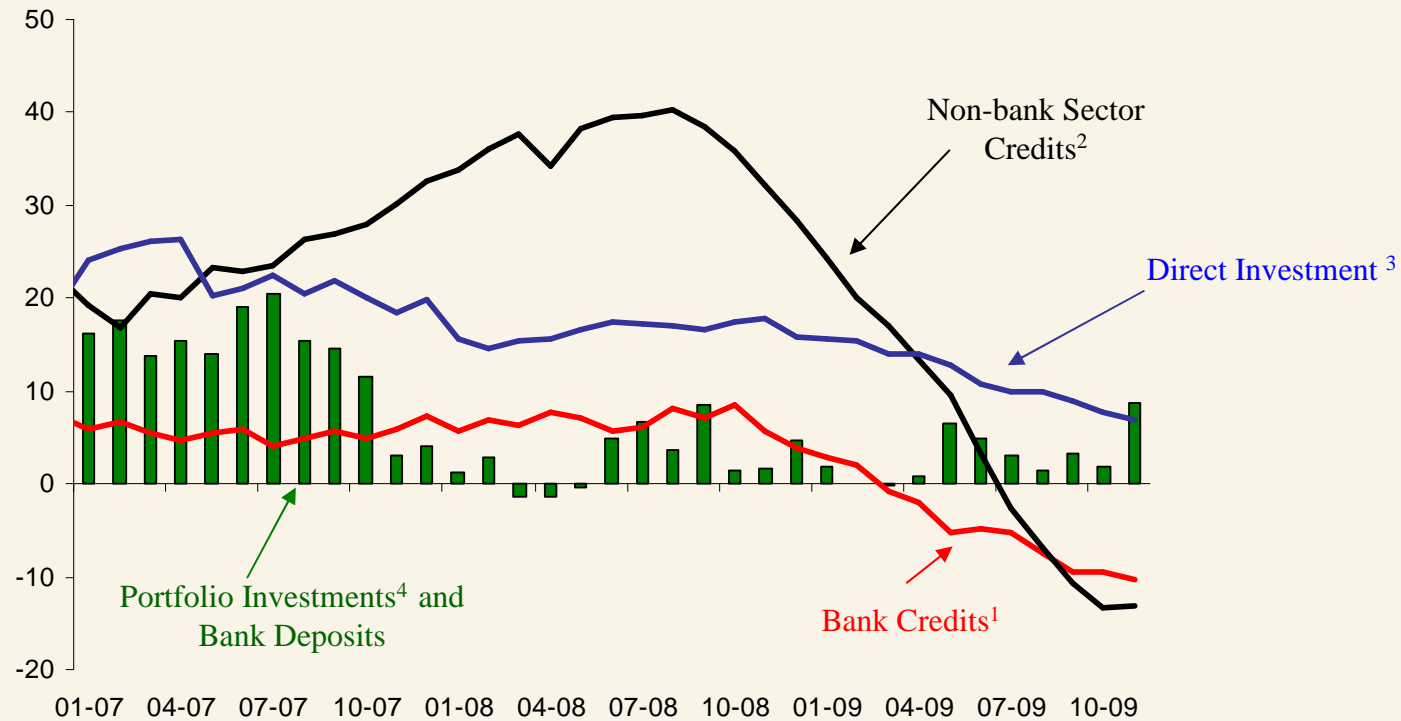
Source: TURKSTAT, CBT



# Balance of Payments

## Capital Account Figures

(Jan 2007 – Nov 2009, 12 month moving sum, billion USD)



<sup>1</sup> **Bank Credits:** Net credit usage of banking sector from abroad

<sup>2</sup> **Non-bank Sector Credits:** Net credit usage of non-banking sector from abroad

<sup>3</sup> **Direct Investment :** Foreign Direct Investment

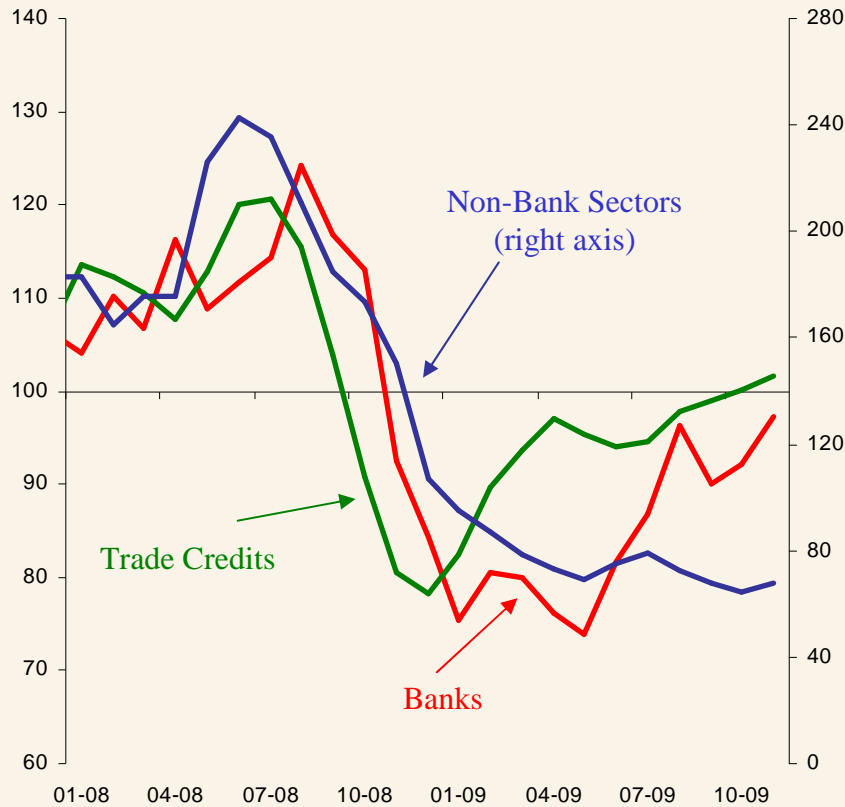
<sup>4</sup> **Portfolio Investments:** Equity and treasury bill purchases of foreign residents

Source: CBT



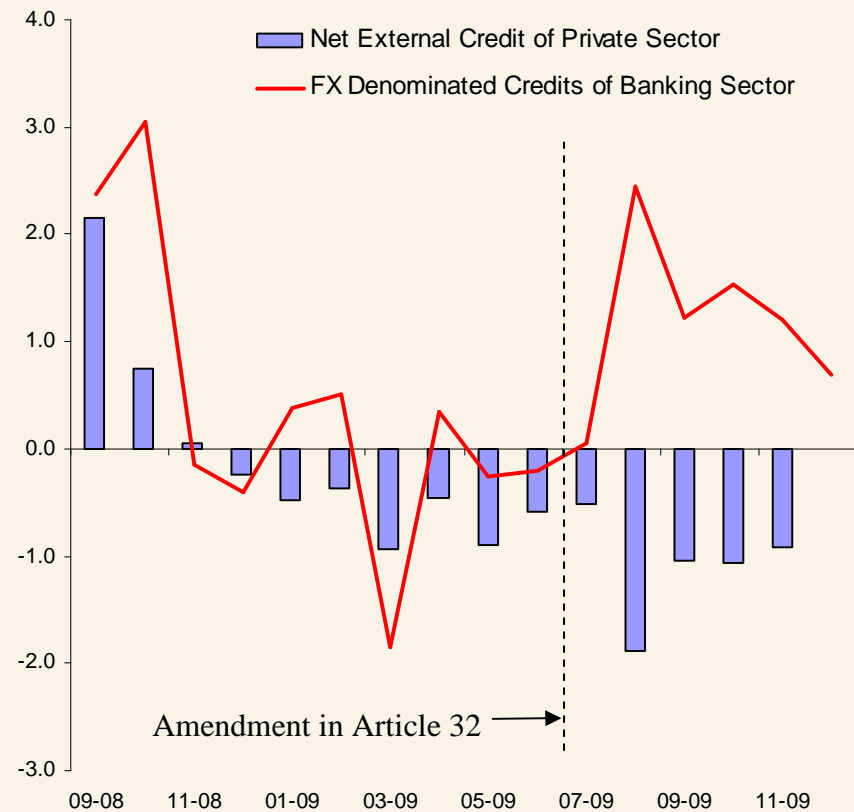
# Balance of Payments

**Private Sector Debt Roll-over Ratio\***  
(Jan 2008 – Nov 2009, percent)



\* Ratio of new credits to capital payments, total of short and long-term credits  
Source: CBT

**Domestic and Foreign FX Credit Flows**  
(Sep 2008 – Nov 2009, billion USD)



Source: CBT



# Balance of Payments

## Balance of Payments in October 2008 - December 2009 period

UTILIZATION	Billion USD
<b>Current Account Balance</b>	<b>-15.9</b>
<b>Loans</b> (Commercial loans, banking sector loans, real sector loans, public sector loans)	<b>-22.7</b>

Source: CBT

### NET ERRORS AND OMISSIONS ITEM

- ✓ FX deposit transfers from abroad to FX accounts in Turkey due to reasons like the Repatriation Amnesty.
- ✓ Conversion of FX savings not registered in the banking sector to Turkish Lira.
- ✓ Foreign currency losses/gains realized during the accounting of FX transactions.

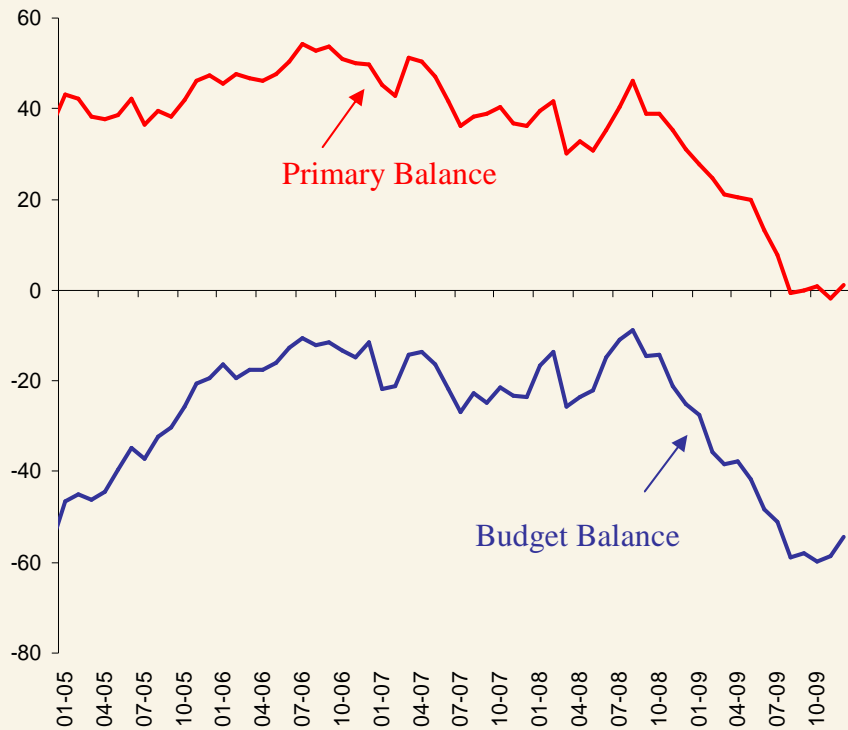
SOURCE	Billion USD
<b>Net Errors and Omissions</b>	<b>14.1</b>
<b>Portfolio Investments</b> (Equity, debt instruments and bank deposits)	<b>1,9</b>
<b>Foreign Direct Investment</b>	<b>9.7</b>
<b>Other</b>	<b>1.0</b>
<b>Reserve Assets</b>	<b>11.2</b>
(Official reserves)	(6.4)
(FX deposits in banks)	(1.1)
(FX assets of other sectors)	(4.4)





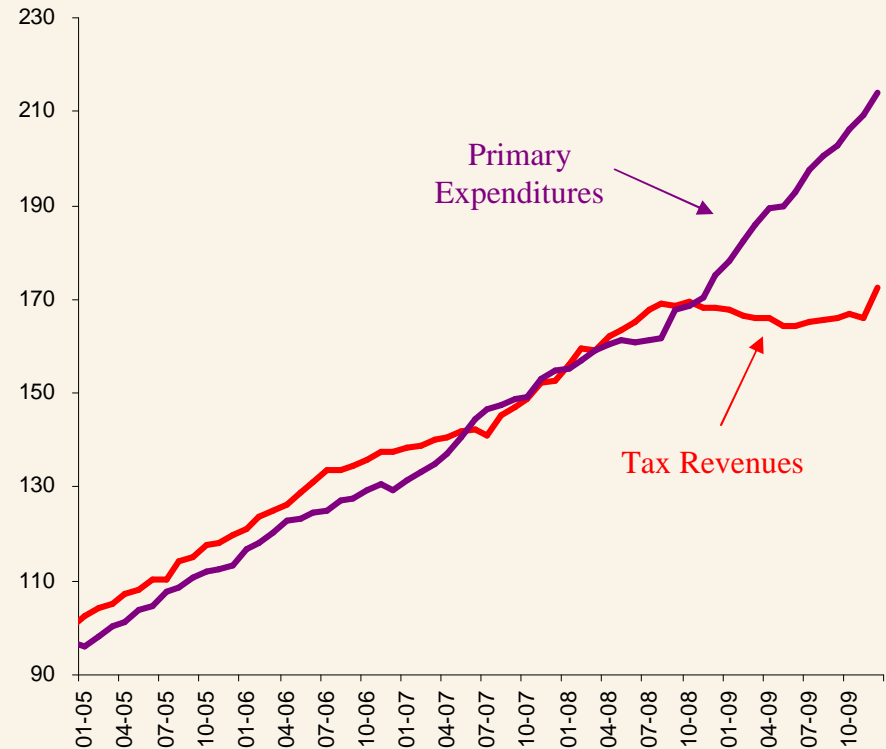
# Public Sector

**Central Government Budget and Primary Balance**  
(Jan 2005 – Dec 2009, real 12 month cumulative, billion TRY)



Source: Ministry of Finance, CBT

**General Budget Primary Expenditures and Tax Revenues**  
(Jan 2005 – Dec 2009, real 12 month cumulative, billion TRY)

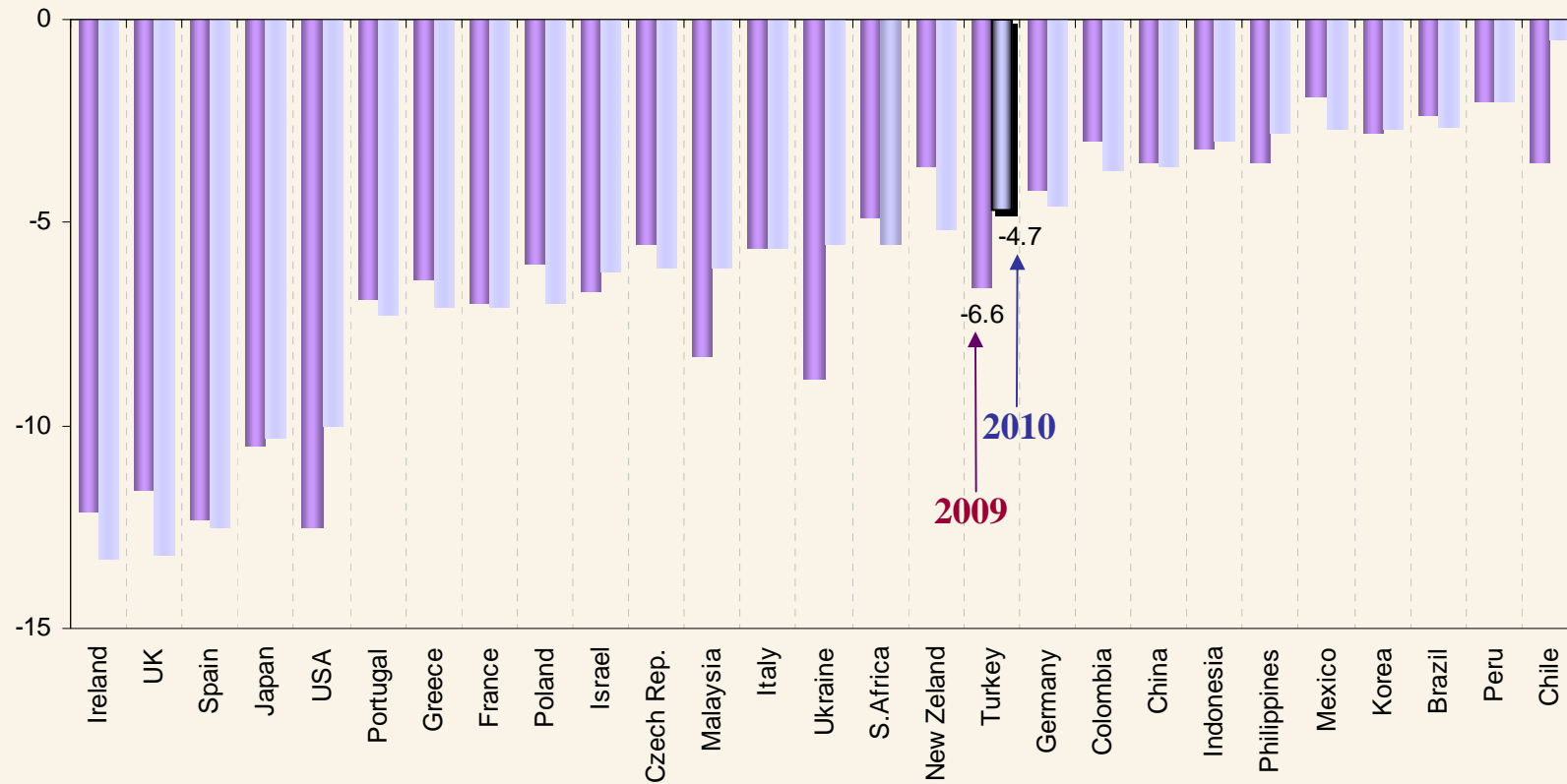


Source: Ministry of Finance, CBT



# Public Sector

**Budget Deficit Forecasts in Selected Countries\***  
(2009-2010, Ratio to GDP, percent)

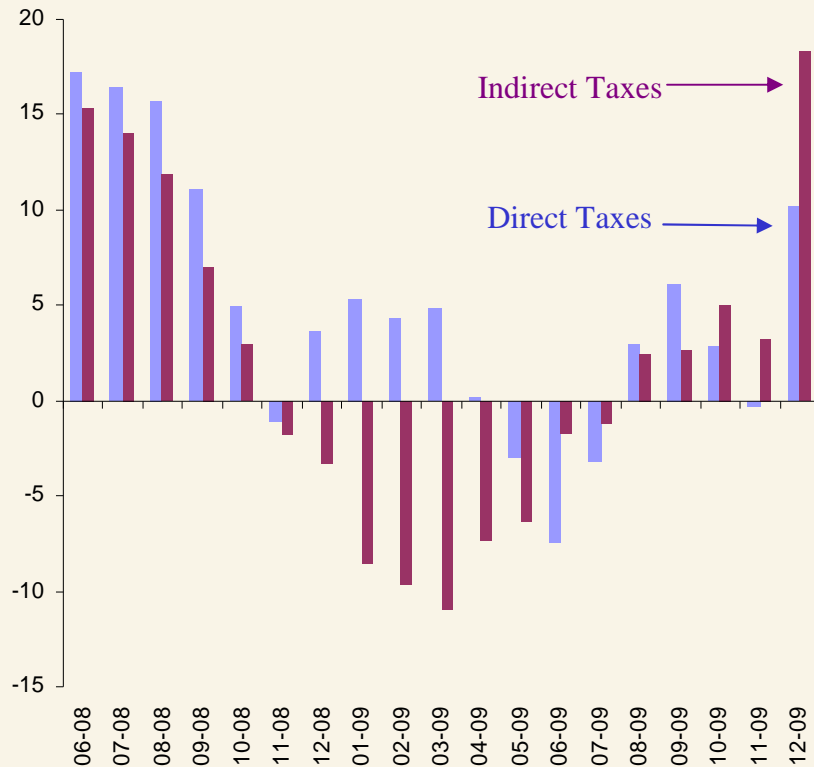


\*Medium Term Program forecasts are used for Turkey and IMF forecasts for the rest.  
Source: IMF, GS, Treasury, CBT



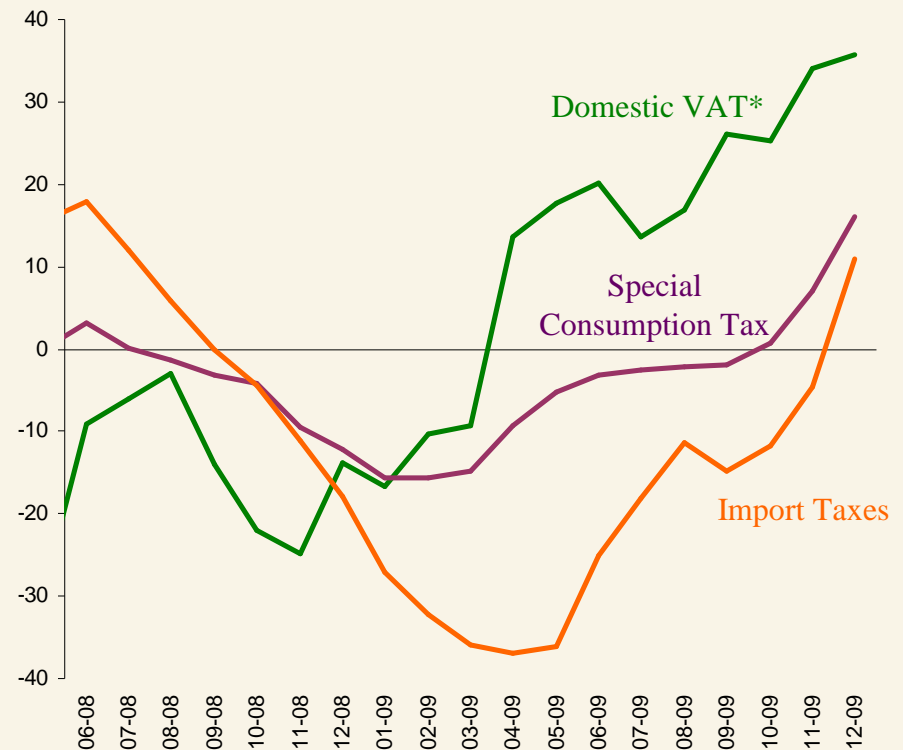
# Public Sector

**Change in Tax Revenues**  
(Jun 2008 – Dec 2009, 3 months moving average, percent)



Source: Ministry of Finance, CBT

**Components of Indirect Tax Revenues**  
(Jun 2008 – Dec 2009, 3 months moving average, percent)



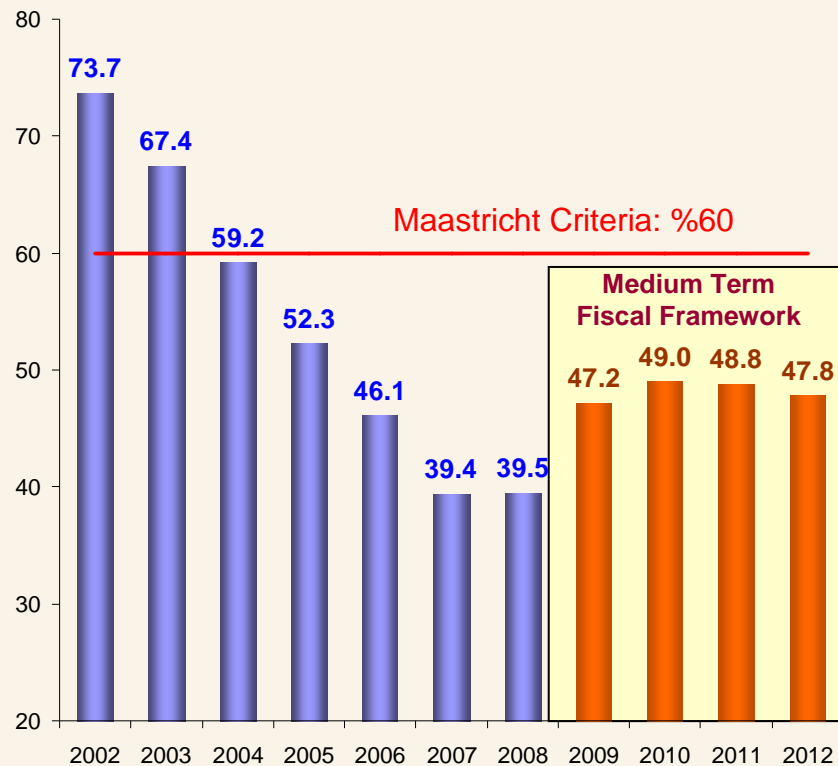
\* Nov-Dec 2009 figures are adjusted for calendar effect

Source: Ministry of Finance, CBT



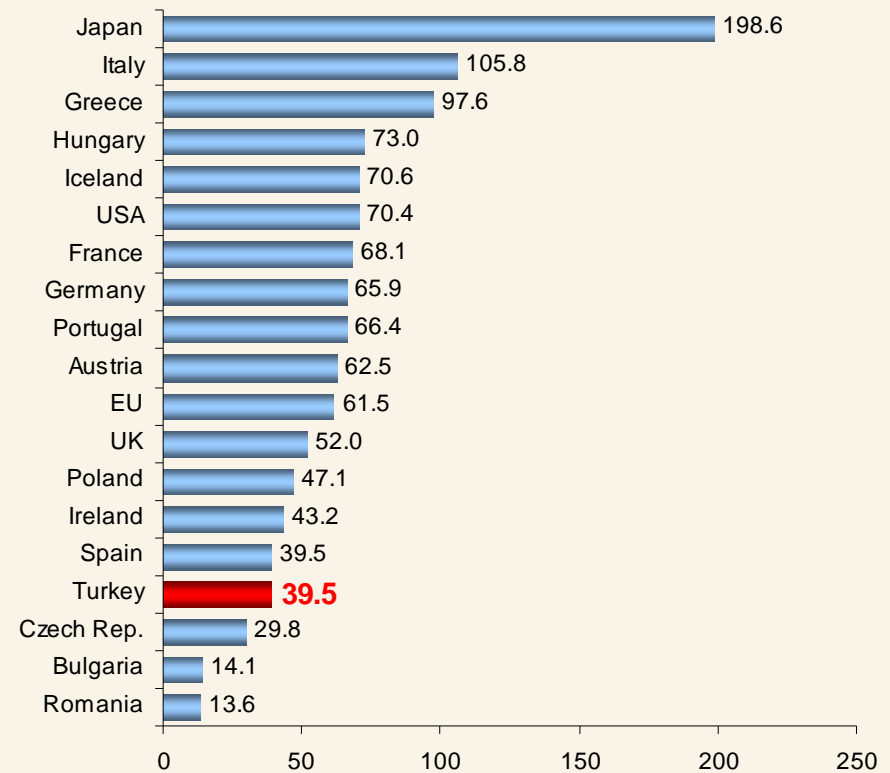
# Public Sector

**EU Defined Public Debt Stock and  
Medium Term Targets**  
(2002 – 2012, percent of GDP)



Source: Treasury

**Public Debt in Selected Countries**  
(2008, percent of GDP)



Source: EUROSTAT, IMF, CBT



# Overall Assessment

- Inflation is likely to rise significantly over the next two months due to tax adjustments and base effects, hovering above the target for some time.
- Yet, the underlying trend implied by core inflation indicators is expected to remain consistent with medium term targets and display a declining trend once the temporary factors die out.
- The credit markets have continued to recover in response to the monetary easing and the improvements in global risk perceptions.
- However, lingering problems across the global economy are not resolved completely and uncertainties regarding the strength of the recovery persist.
- All in all, it would be necessary to keep policy rates at low levels for a long period of time.



# **CENTRAL BANK OF THE REPUBLIC OF TURKEY**

## **Overview of the Turkish Economy and Monetary Policy Stance**

**Dr. M. İbrahim Turhan  
Deputy Governor**

**January 2010**