



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

**THE ECONOMIC OUTLOOK AND  
MONETARY POLICY**

**July 04, 2014**

**Ankara**

# Outline

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

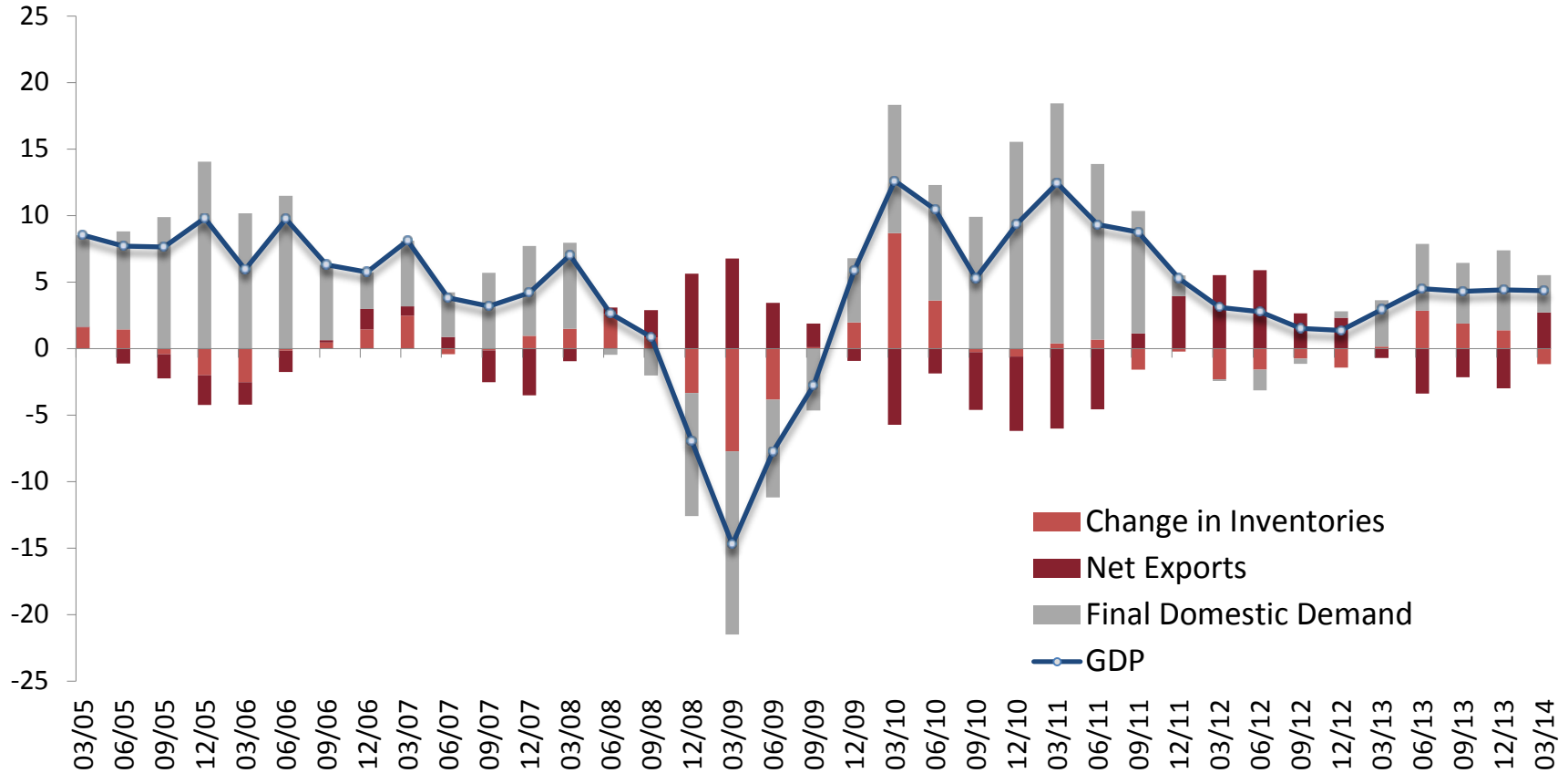
# Overview: Macroeconomic Outlook and Monetary Policy

- Tight monetary policy stance and macroprudential measures are keeping loan growth rates at reasonable levels.
- The Committee expects a significant improvement in the CA balance in 2014.
- The adverse impact of exchange rate developments since mid-2013 on annual inflation will gradually taper off. With the contribution of base effects, inflation is expected to decline markedly starting from this month.
- In light of these assessments and the recent improvement in global liquidity conditions, the Committee delivered a measured cut in the one-week repo rate.
- Inflation expectations, pricing behavior and other factors that affect inflation will be closely monitored and the tight monetary policy stance will be maintained, by keeping a flat yield curve, until there is a significant improvement in the inflation outlook.

# ECONOMIC ACTIVITY

# Economic activity continues to expand around 4% yearly.

## Contribution to Annual GDP Growth (Percentage Points)

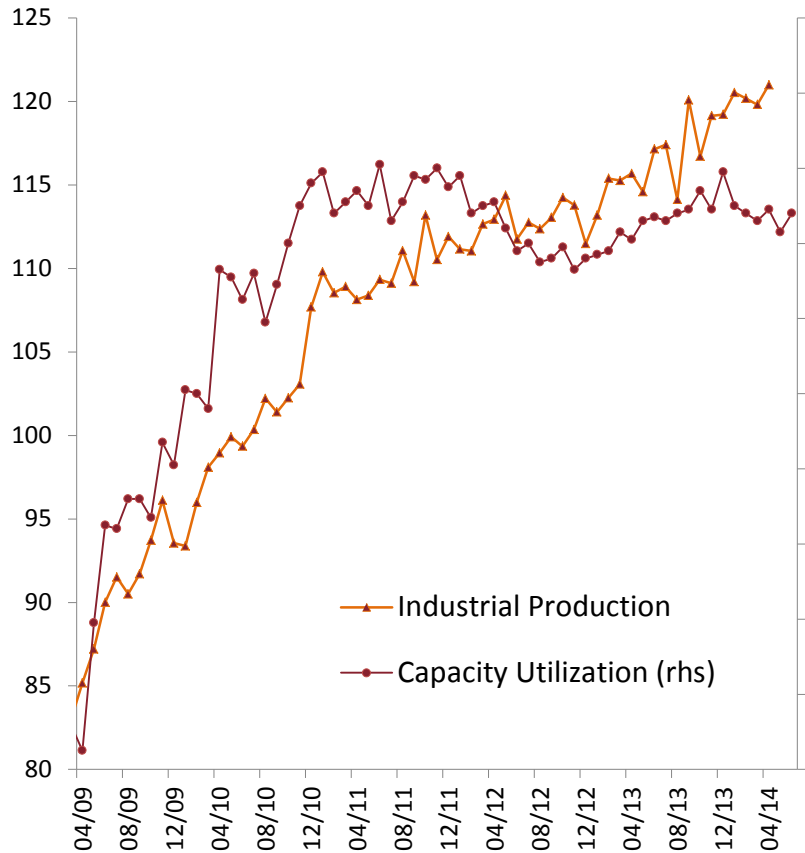


Source: TURKSTAT.

Last Observation: 2014Q1.

# Leading indicators point to a continued growth and higher contribution from exports.

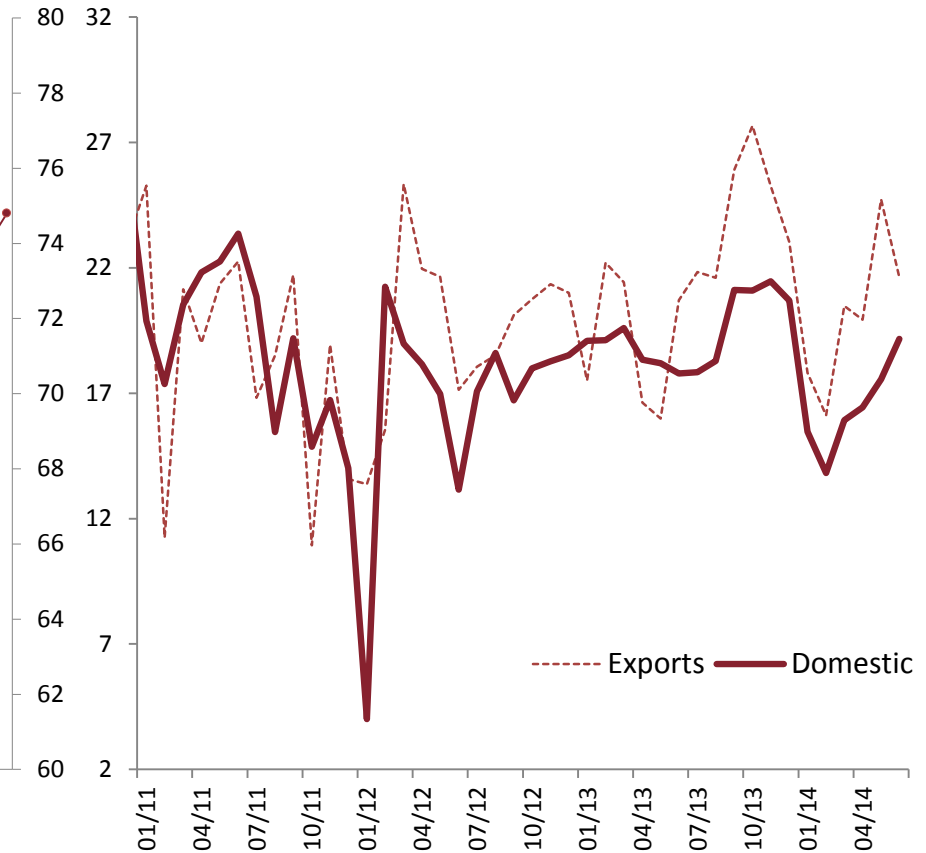
## Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Last Observation: April 2014 for Industrial Production,  
June 2014 for Capacity Utilization.

## Expected Manufacturing Orders (Seasonally Adjusted)

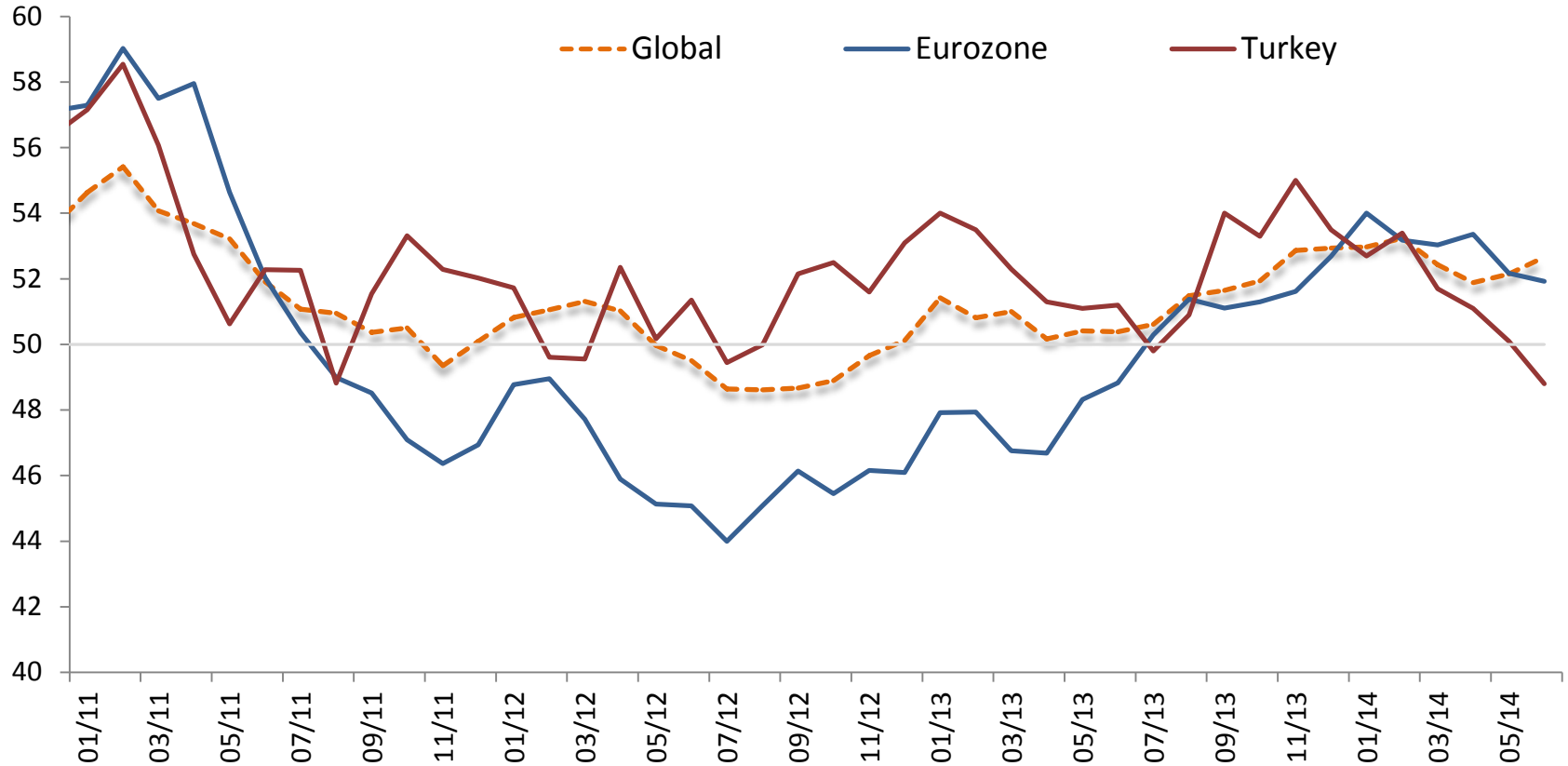


Source: CBRT Business Tendency Survey.

Last Observation: June 2014.

# Stronger external demand supports export growth.

## Manufacturing PMIs (Seasonally Adjusted)

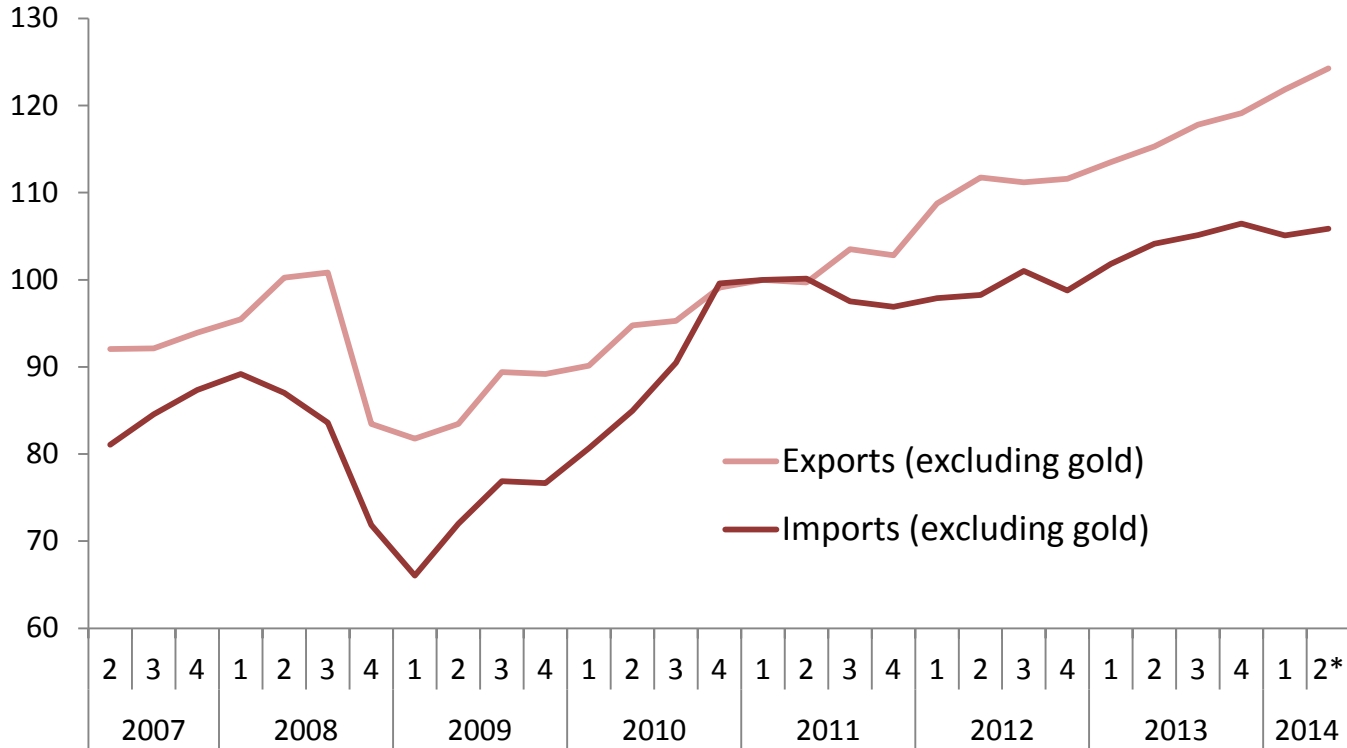


Source: MARKIT.

Last Observation: June 2014.

# Real exports increase while real imports are stable, contributing to the rebalancing process.

**Exports and Imports**  
(Seasonally Adjusted, 2011Q1=100)



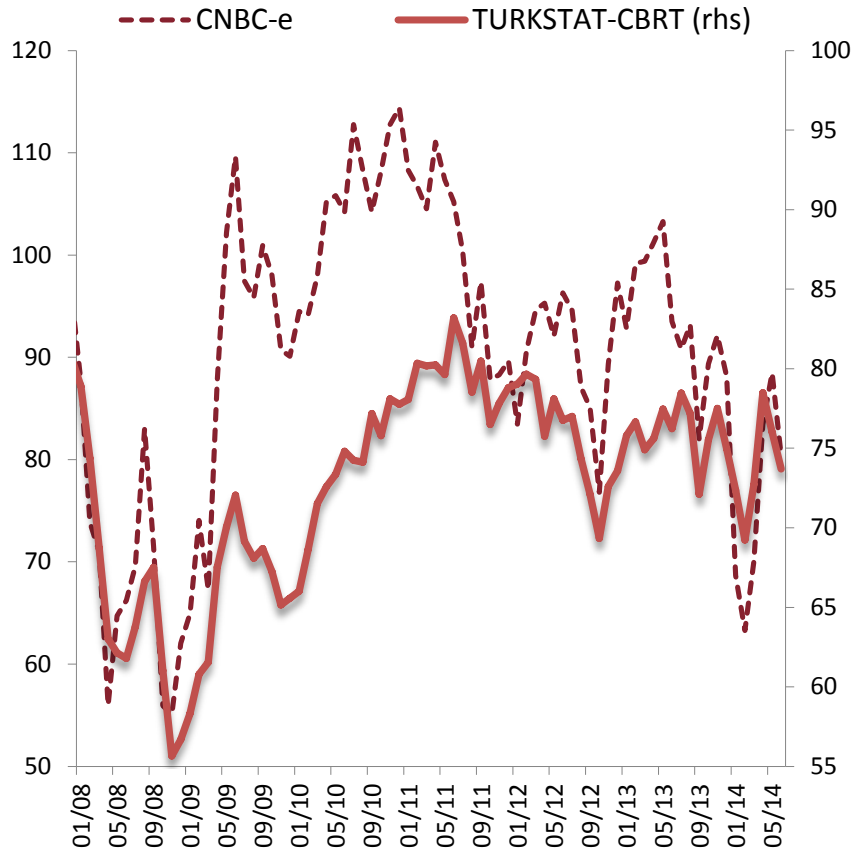
\*Last Observation: April 2014.

Source: TURKSTAT, CBRT.

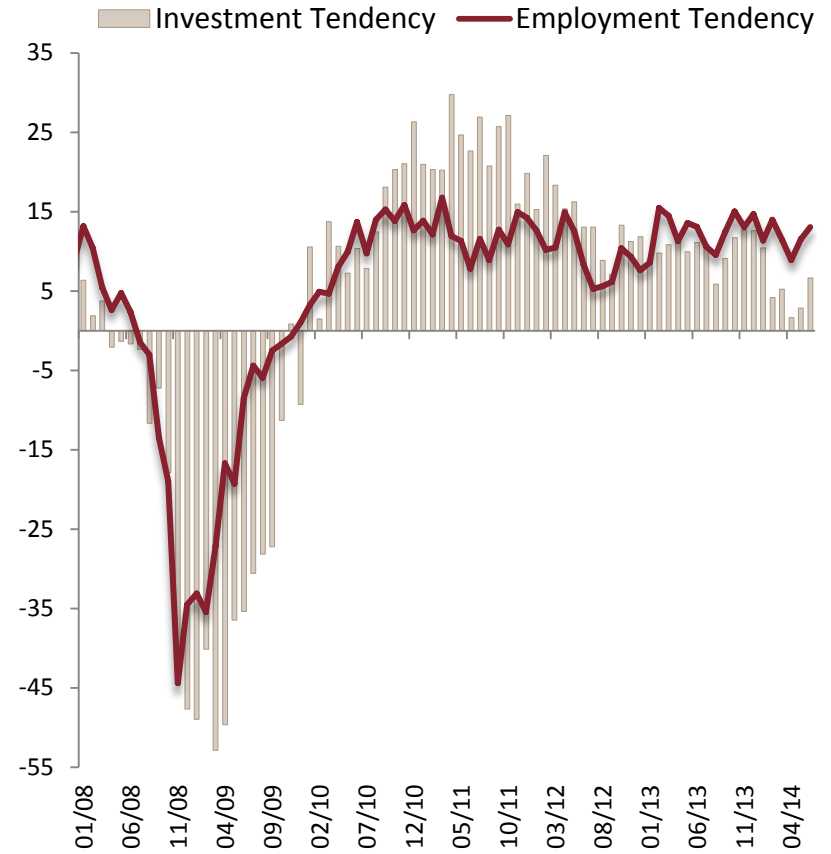


# Consumer confidence indices have recovered in the second quarter but investment tendency is relatively weaker.

## Consumer Confidence



## Investment and Employment Prospects (Seasonally Adjusted)



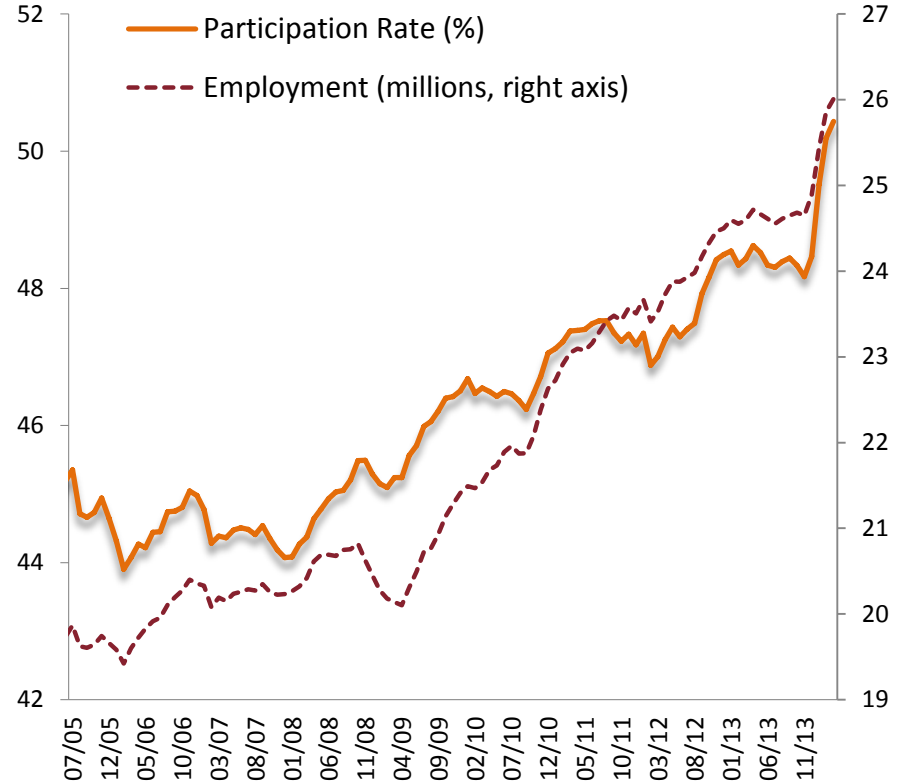
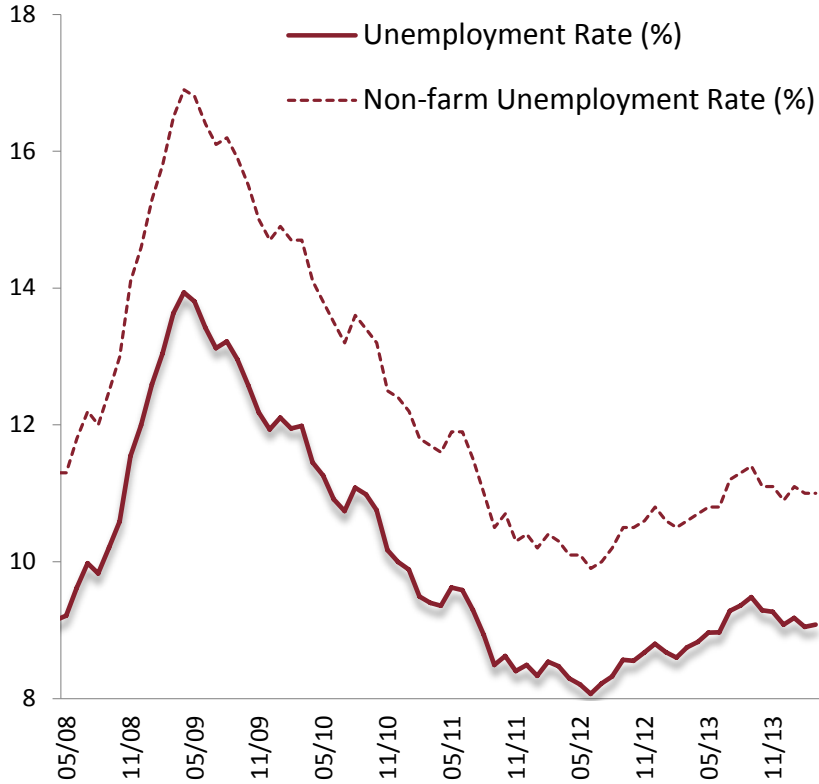
Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: June 2014.

Source: CBRT Business Tendency Survey

Last Observation: June 2014.

# Unemployment rate continues to decline gradually.



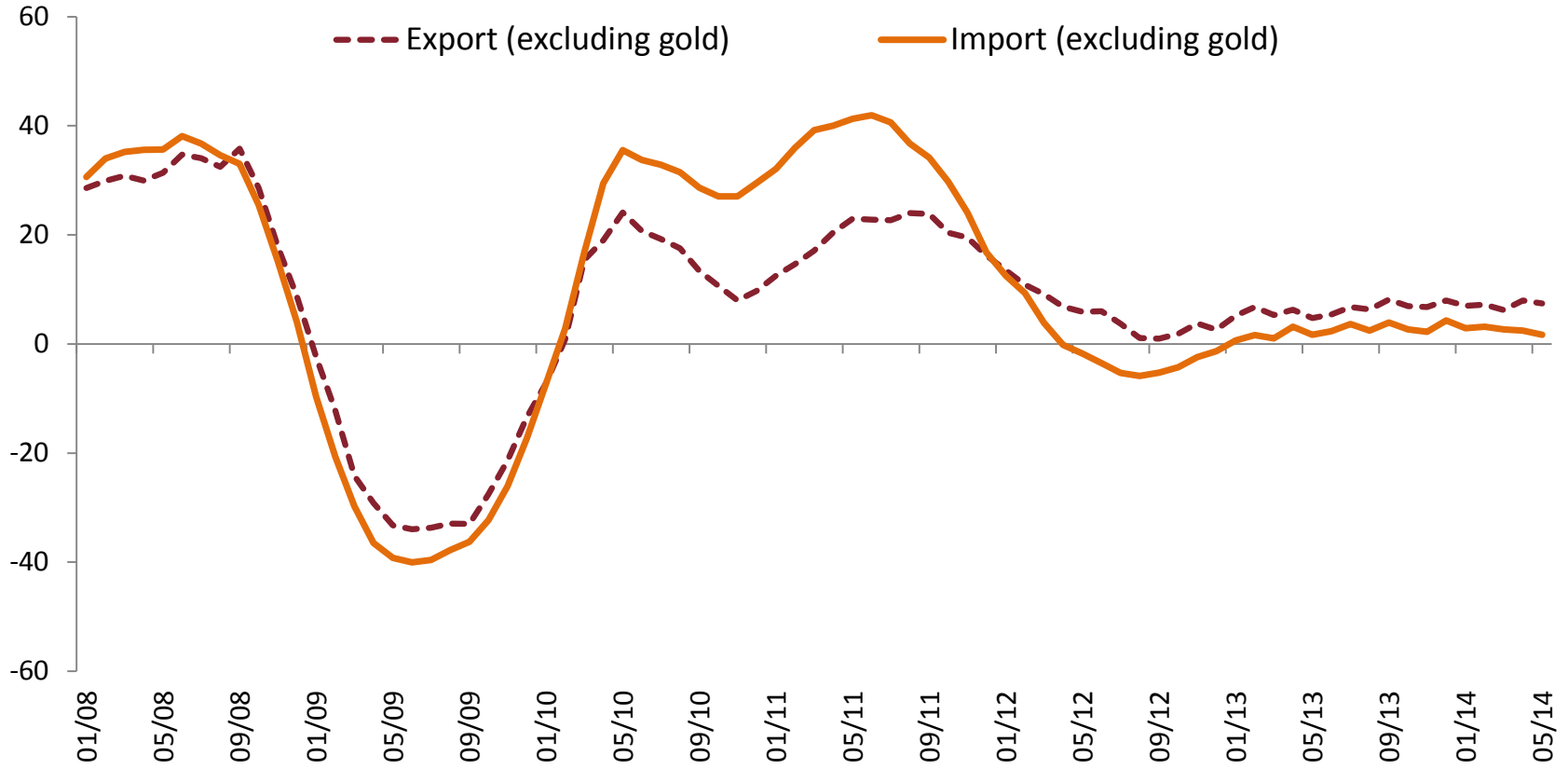
Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: March 2014.

# EXTERNAL BALANCE

# Exports continue to grow faster than imports.

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

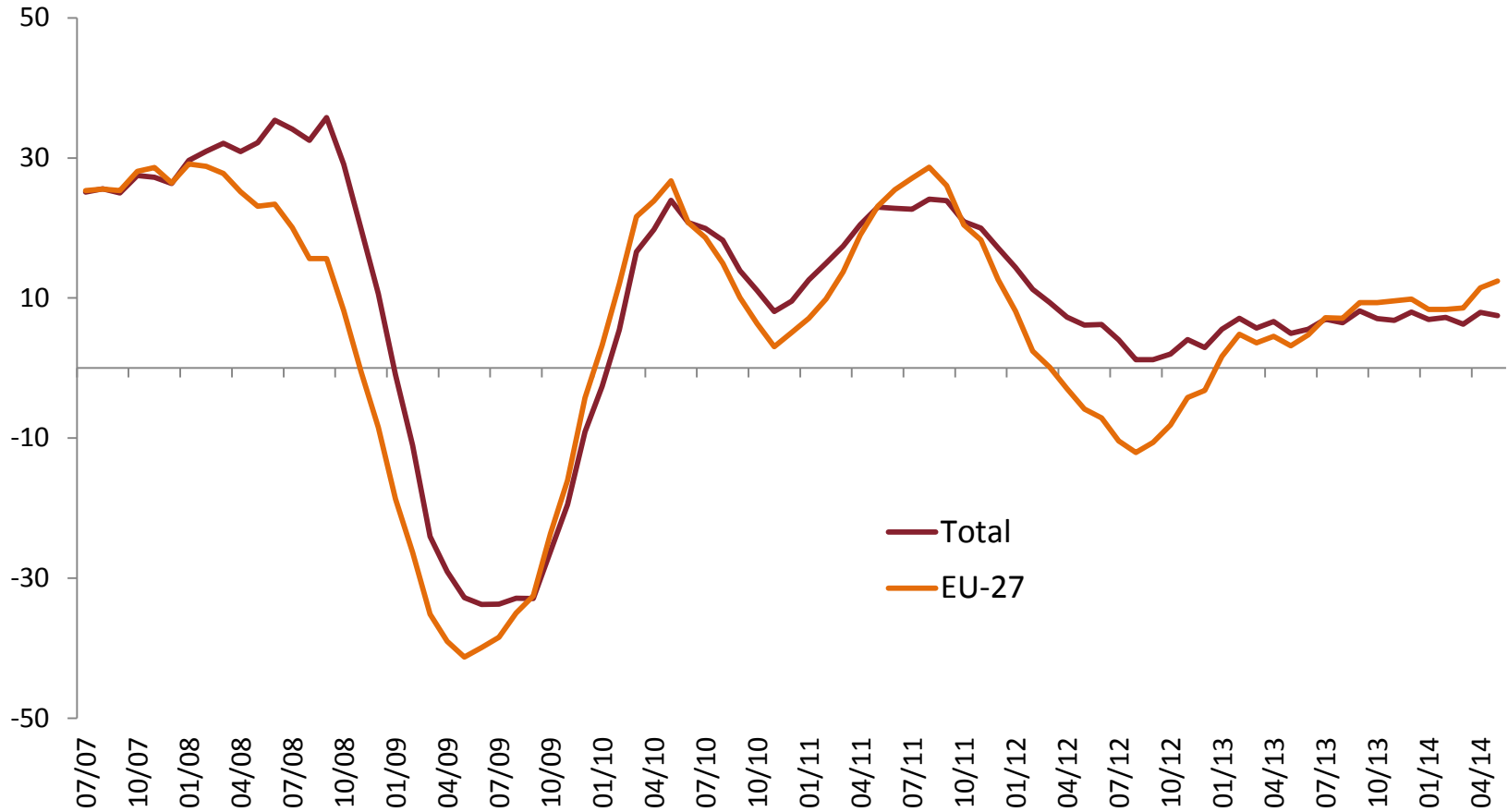


Source: TURKSTAT.

Last Observation: May 2014.

# Export growth tracks the European recovery quite closely.

**Total Exports and Exports to EU-27**  
(Excluding gold, Nominal y-o-y % change, 6-month MA)

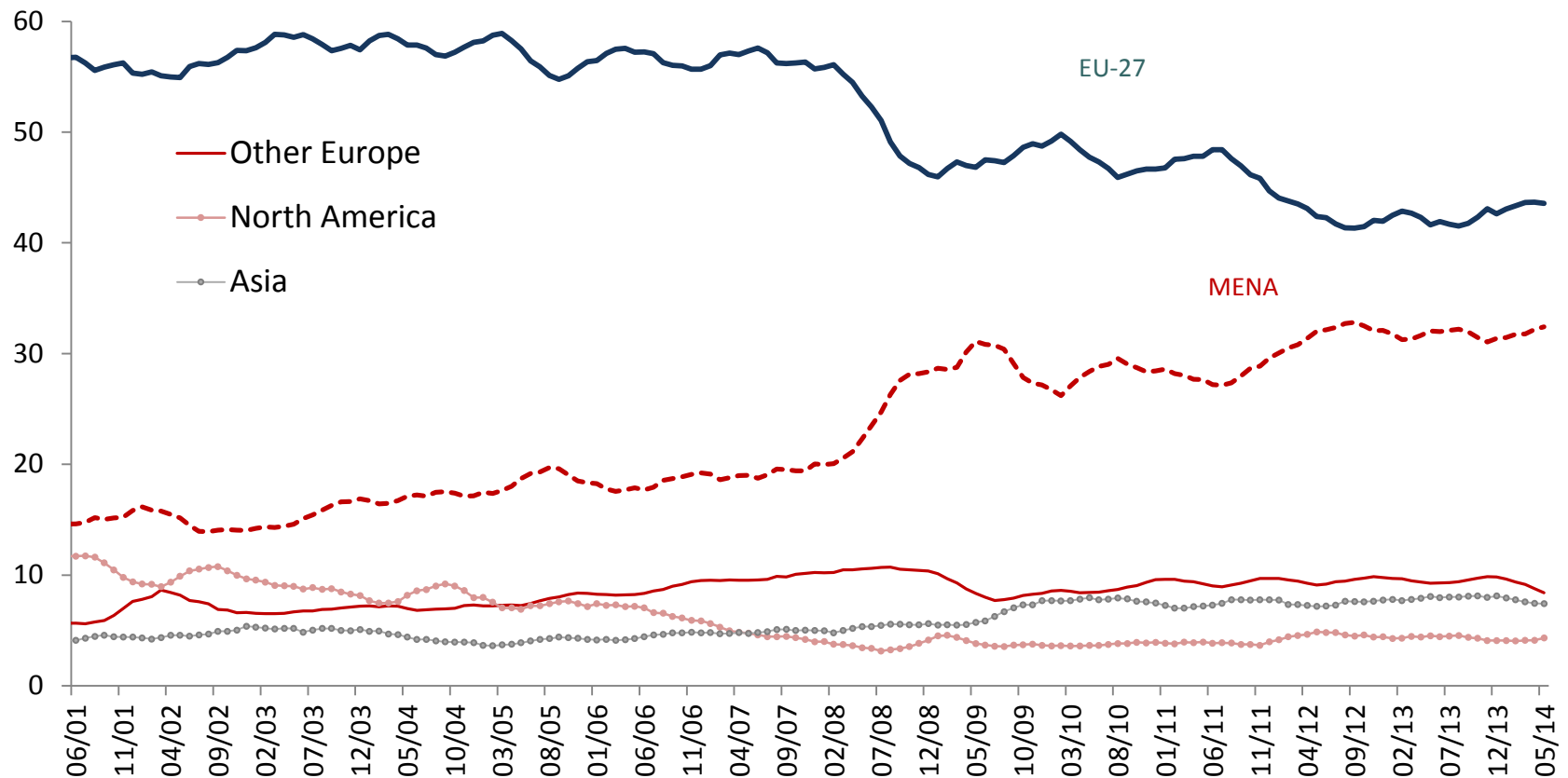


Source: TURKSTAT, CBRT.

Last Observation: May 2014.

# The European recovery is also reflected in export market shares.

Exports (exc. gold) Market Share  
(6-month cumulative, percent)

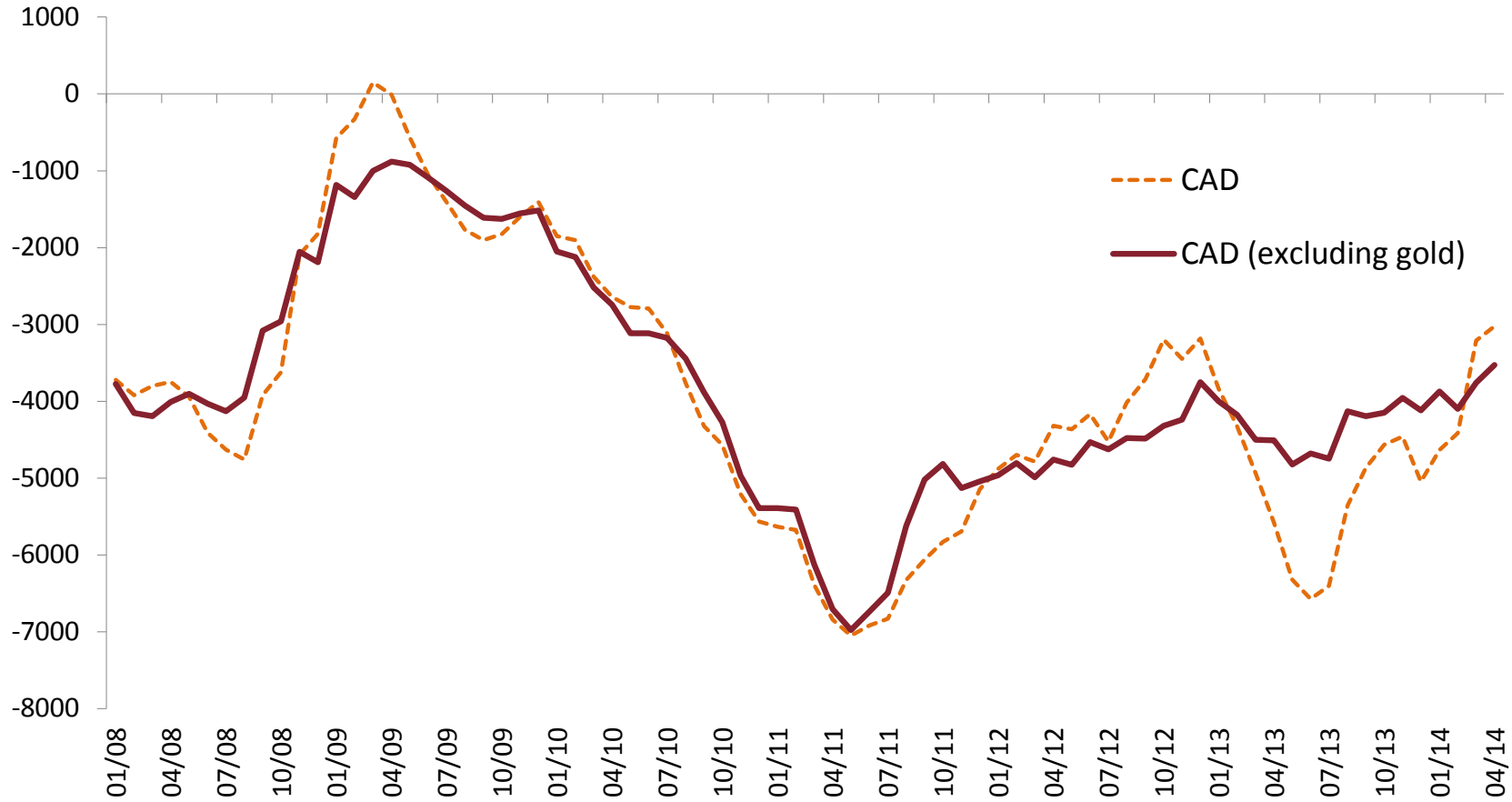


Source: TURKSTAT.

Last Observation: May 2014.

# Current account deficit has continued to shrink recently.

(Seasonally Adjusted, 3-Month MA, Million USD)

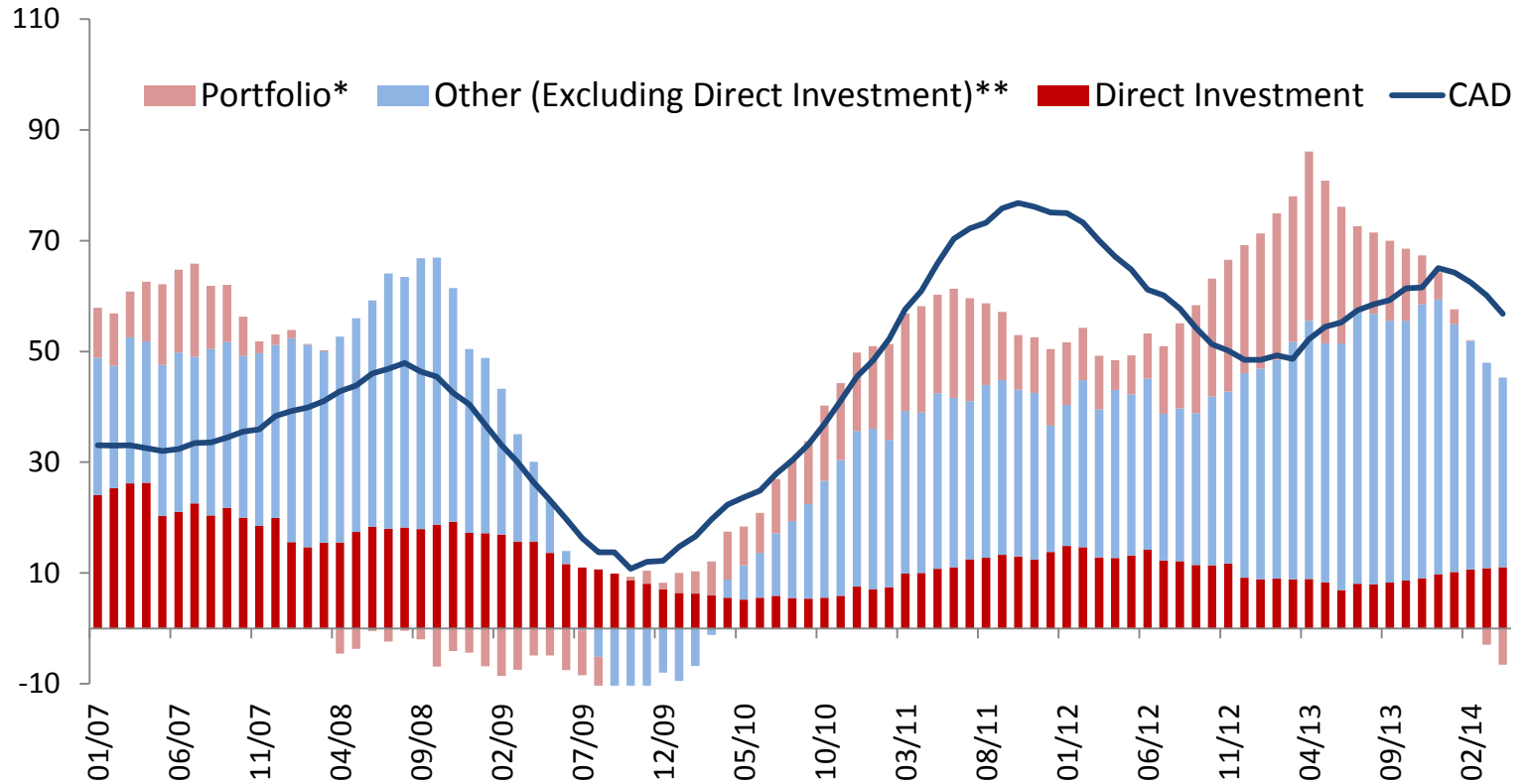


Source: CBRT.

Last Observation: April 2014.

# 12 month cumulative CA balance is expected to display a significant improvement in 2014.

(12-Months Cumulative, Billion USD)



Last Observation: April 2014.

Source: CBRT.

\*Portfolio includes equities and domestic government bonds.

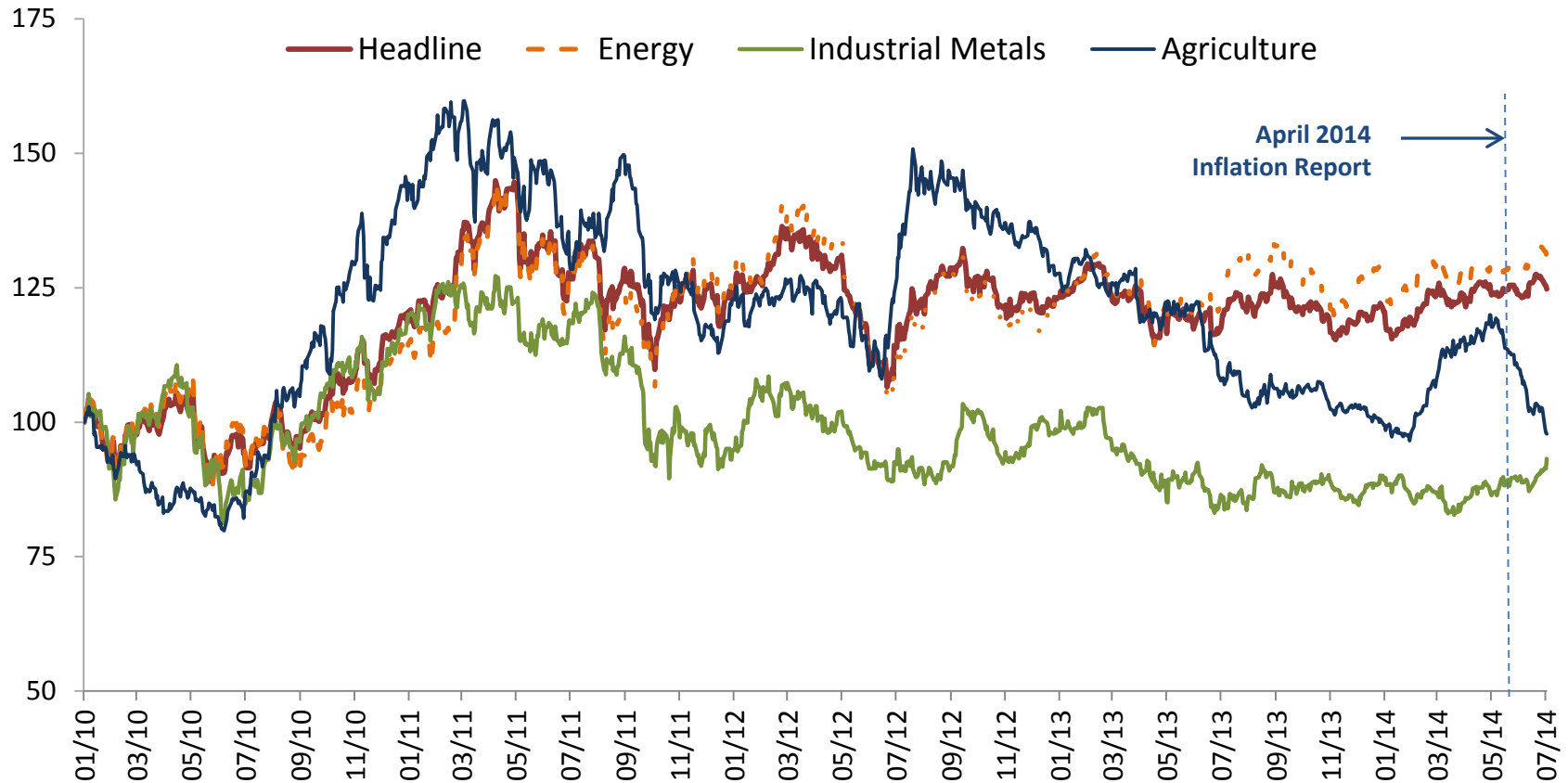
\*\* Other includes short and long term net credits of banks and other sectors, bonds issued abroad by banks and eurobonds, and banks' deposits.



# INFLATION

# International energy prices have edged up recently, while food prices have remained on a downward course.

## S&P GS Indices

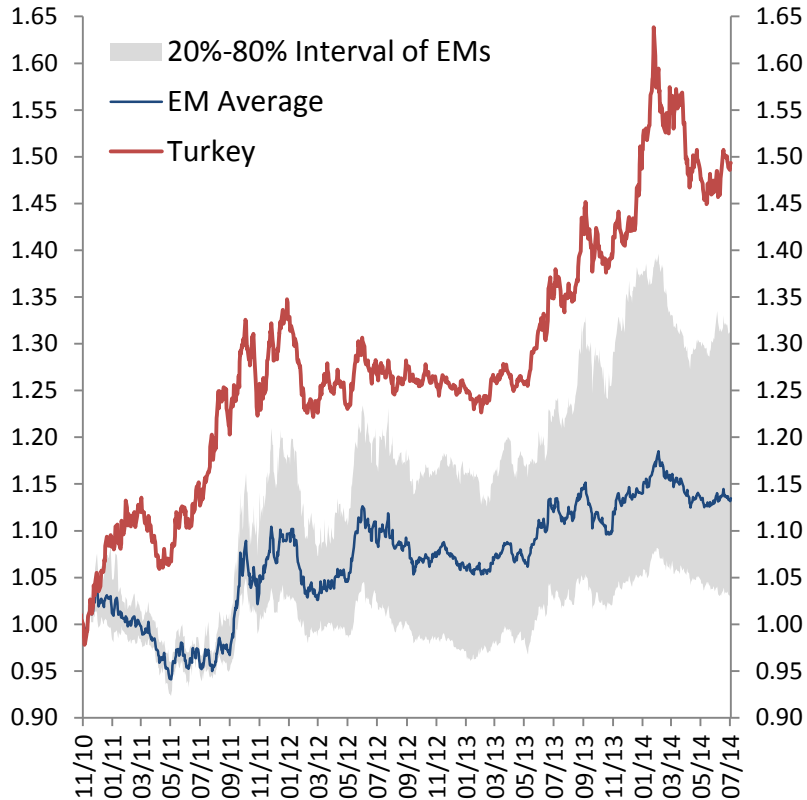


Source: Bloomberg.

Last Observation : : July 02, 2014.

# Both nominal and real exchange rates have appreciated in recent months.

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

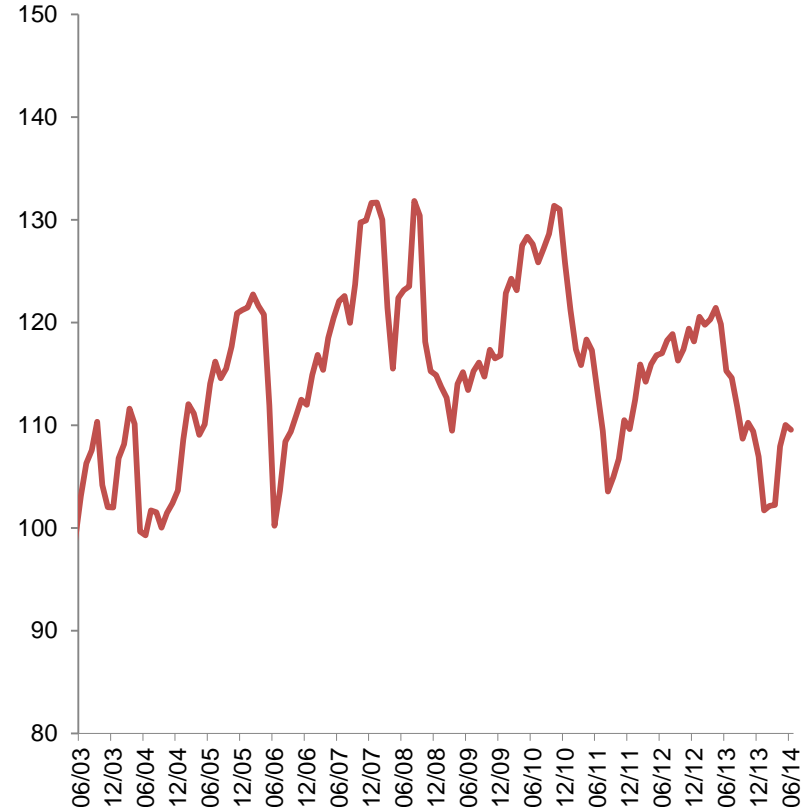


Last Observation: July 02, 2014.

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

Source: Bloomberg.

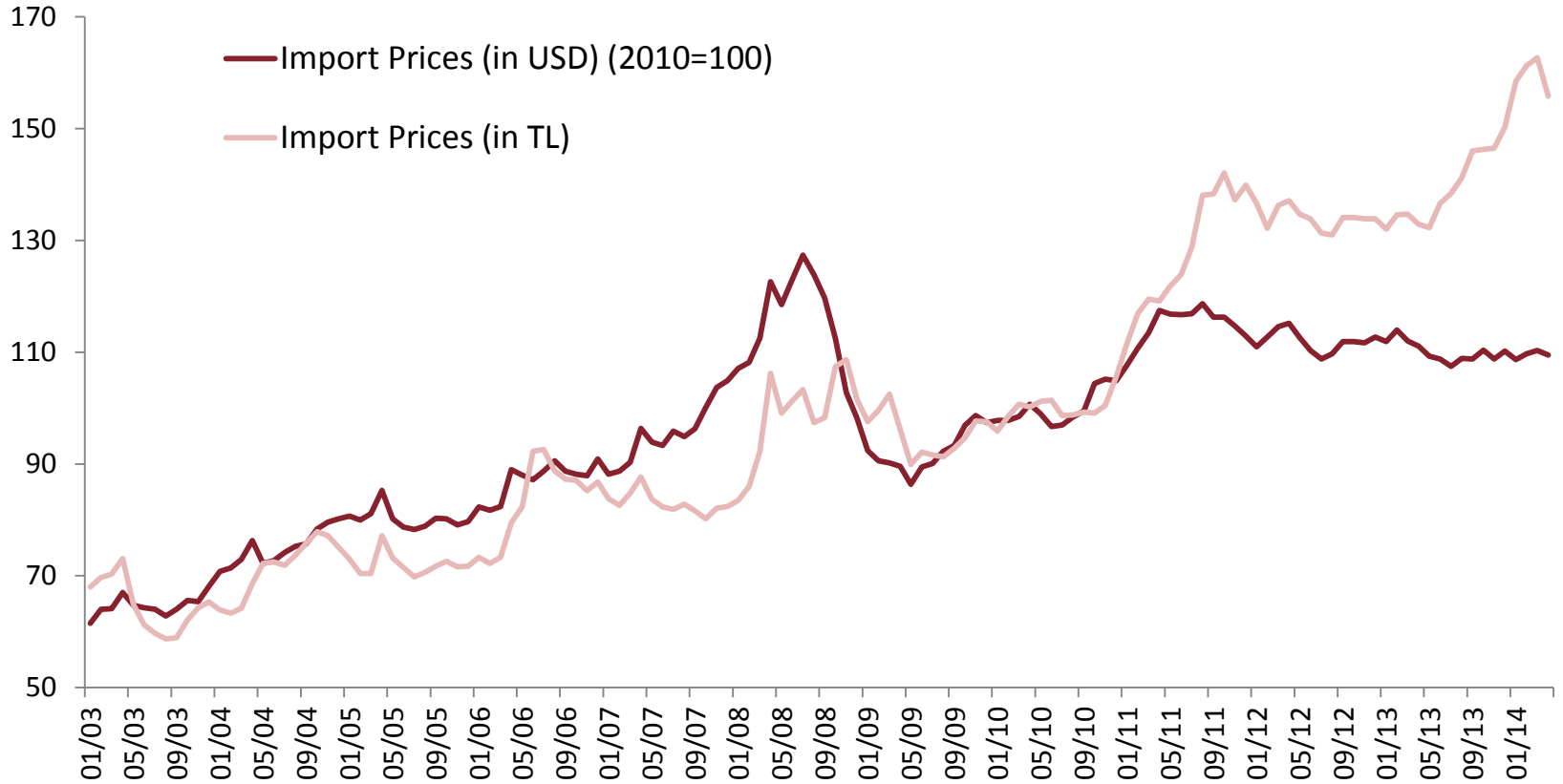
**Real Effective Exchange Rates  
(2003=100)**



Source: CBRT.

Last Observation: May 2014.

# Exchange rates pass-through have been the main driver of inflation in the past year,

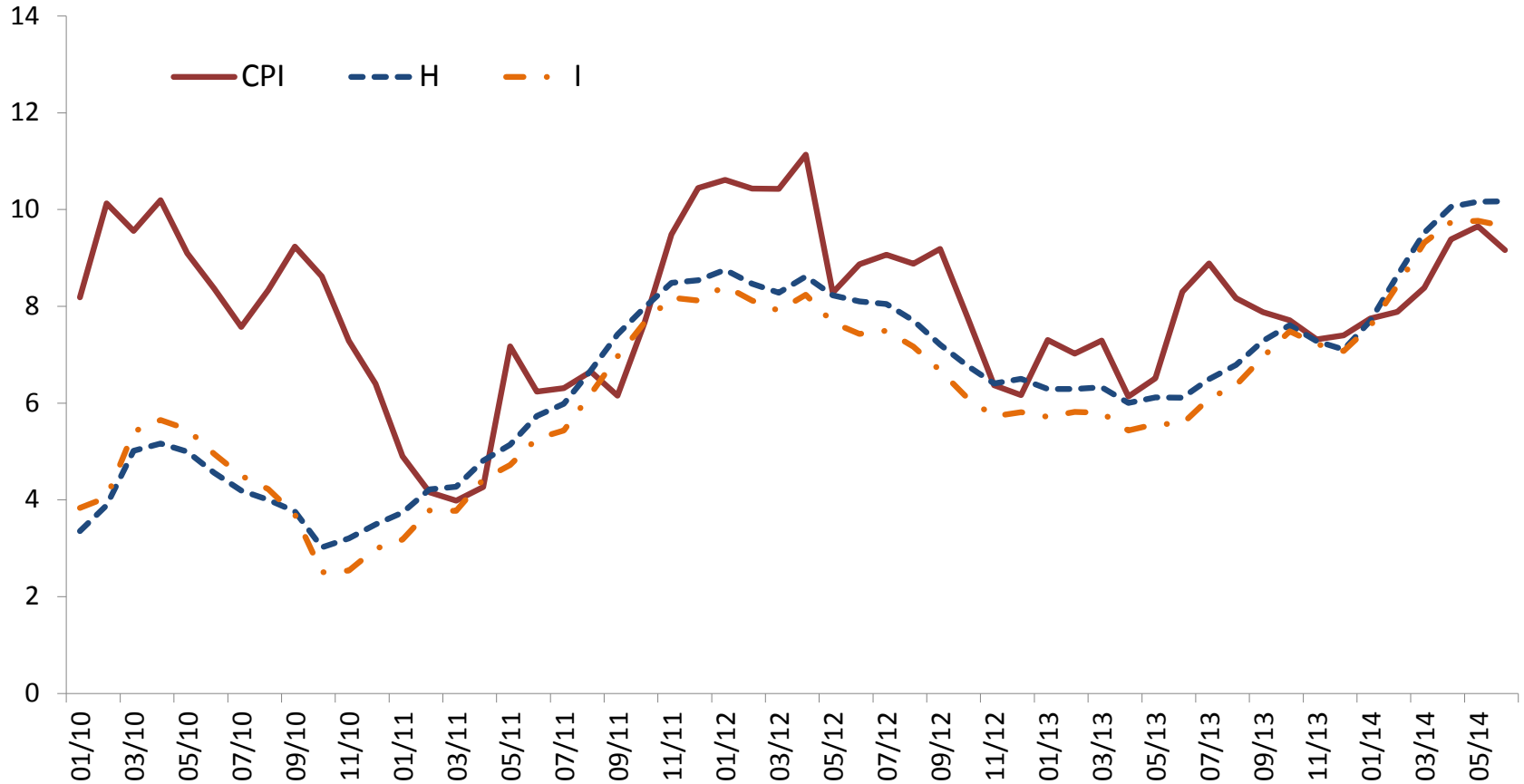


Source: TURKSTAT.

Last Observation: April 2014.

# ... as reflected in the path of core inflation indicators.

(Annual Percentage Change)

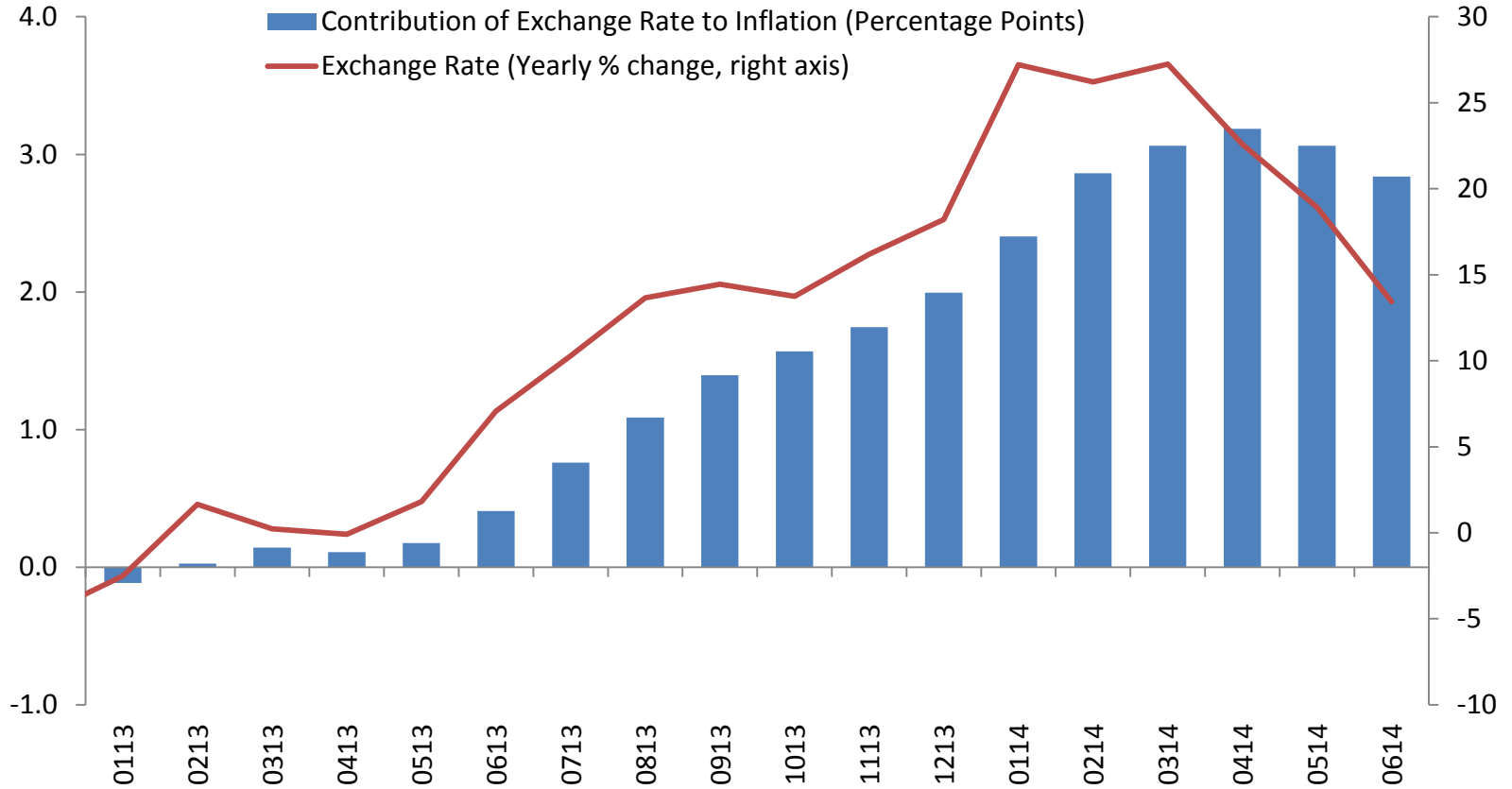


Source: TURKSTAT.

Last Observation:: June 2014.

# The contribution of exchange rate pass-through to annual inflation is estimated to peak around 3 percentage points in April 2014.

## Contribution of Exchange Rate to Consumer Prices

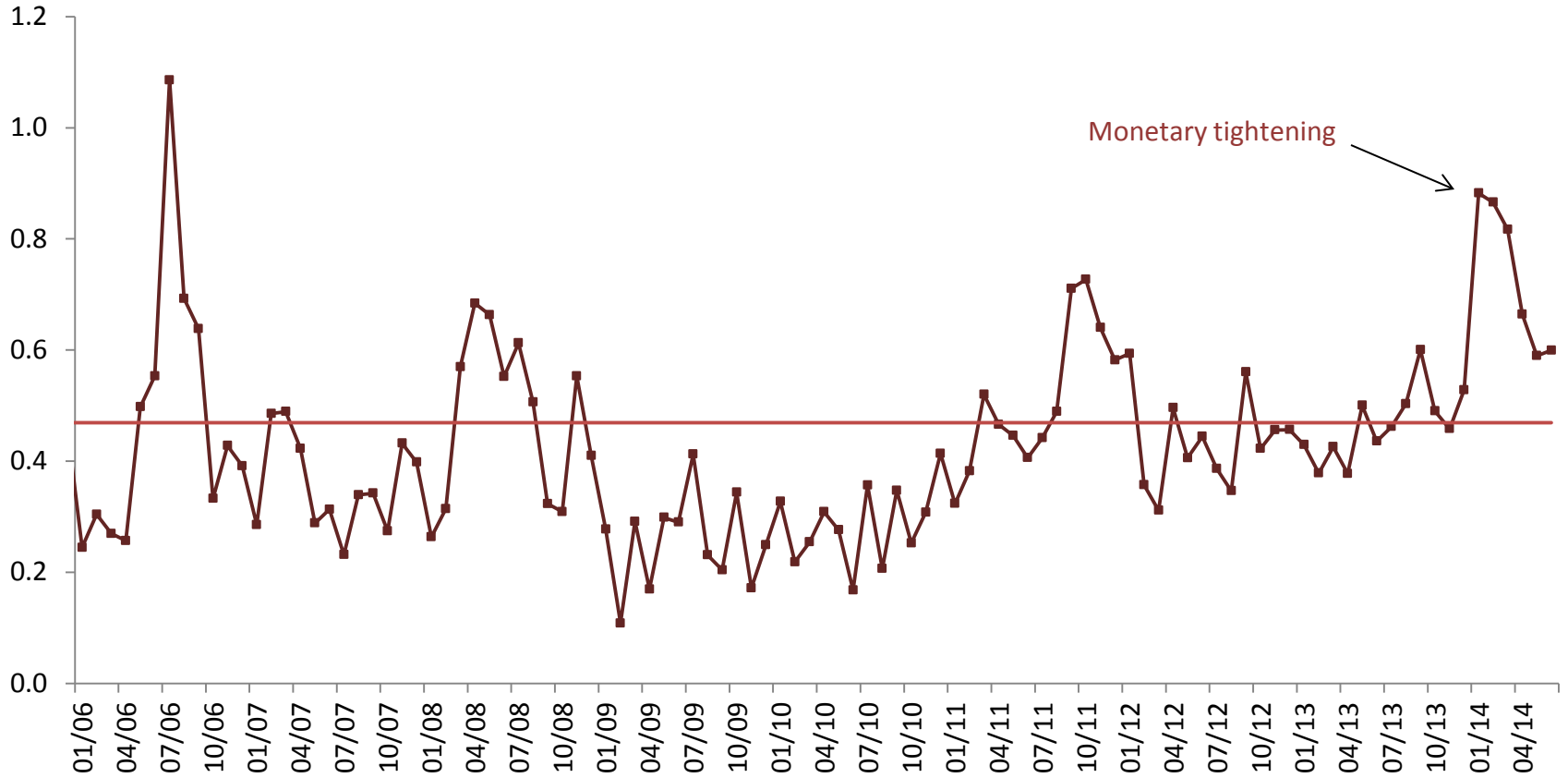


Source: CBRT.

Last Observation: June 2014.

# Pricing behavior have somewhat improved recently.

## Median Monthly Inflation (5-Digit Inflation Sub-Indices) (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Last Observation: May 2014.  
152 indices are used.

# Inflation expectations have stabilized.



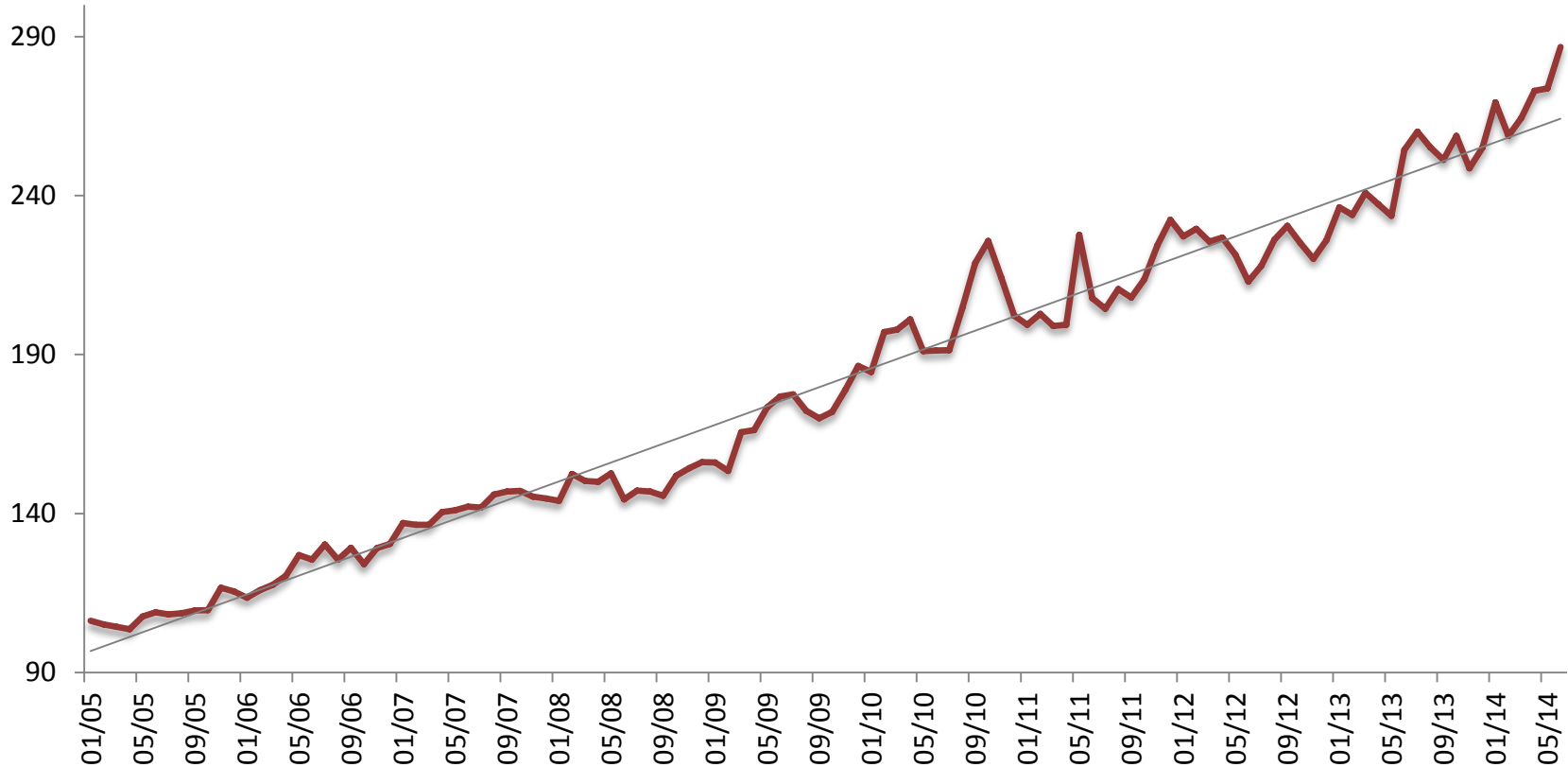
Source: CBRT.

Last Observation: June 2014.



# High volatility in unprocessed food prices continue to pose risks on inflation outlook.

**Unprocessed Food Price Index**  
(Level, Seasonally Adjusted)

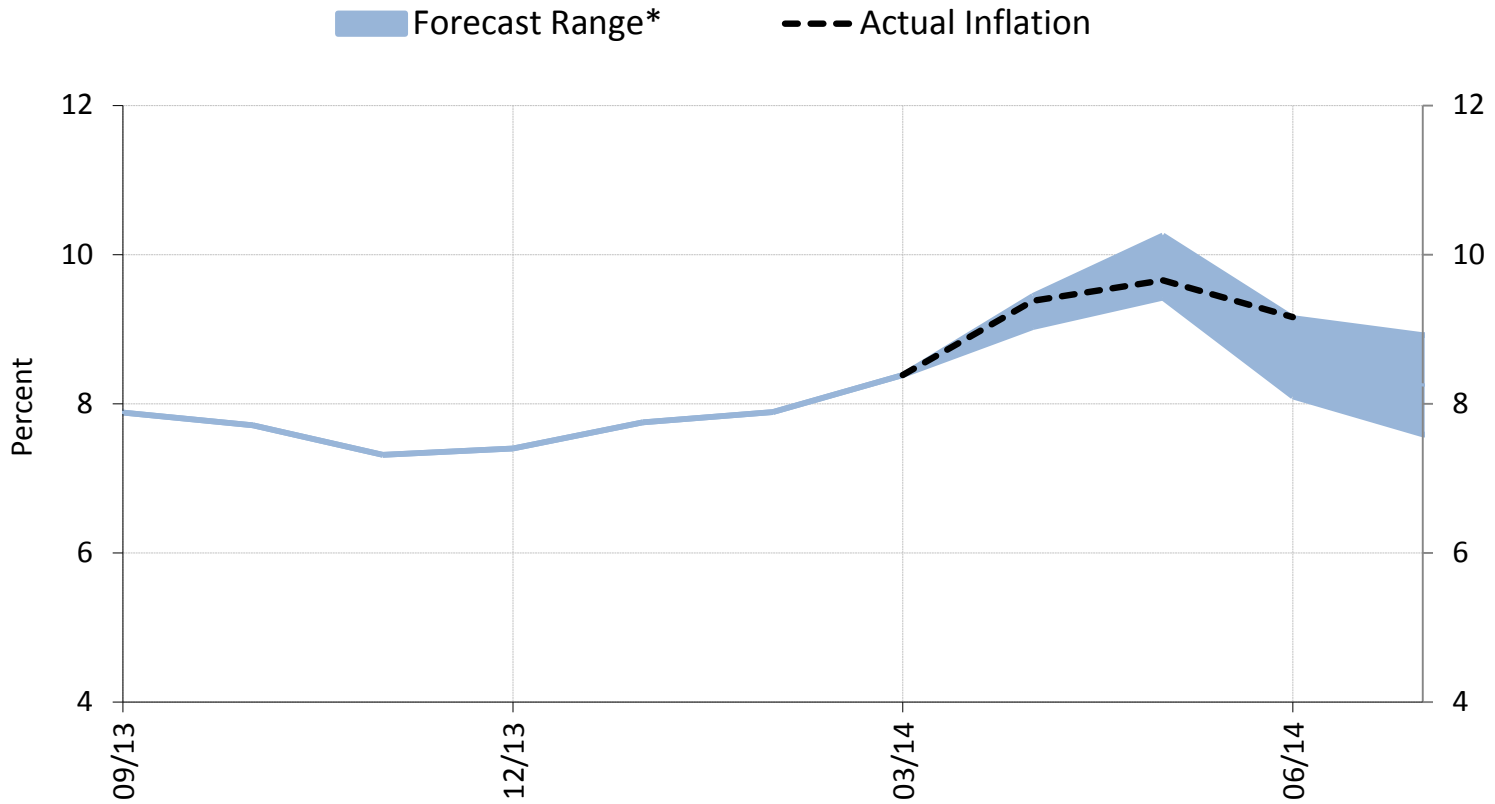


Source: TURKSTAT, CBRT.

Last Observation: June 2014.

# Inflation started falling from June onwards.

## Consumer Price Inflation



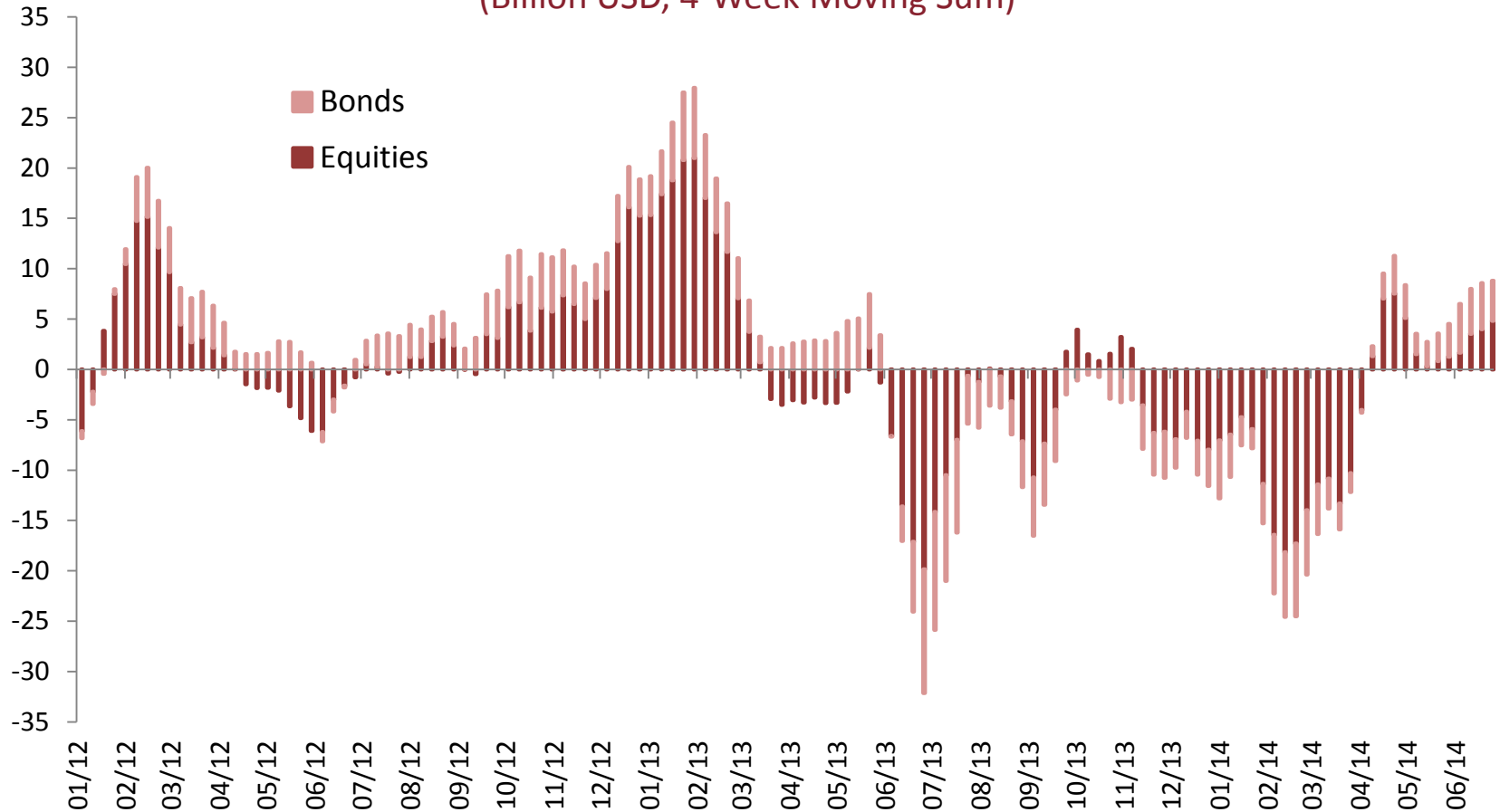
Source: CBRT.

Last Observation: June 2014.

# Monetary and Financial Conditions

# Portfolio flows to emerging countries have picked up recently.

## Equity and Bond Flows to Emerging Markets (Billion USD, 4-Week Moving Sum)

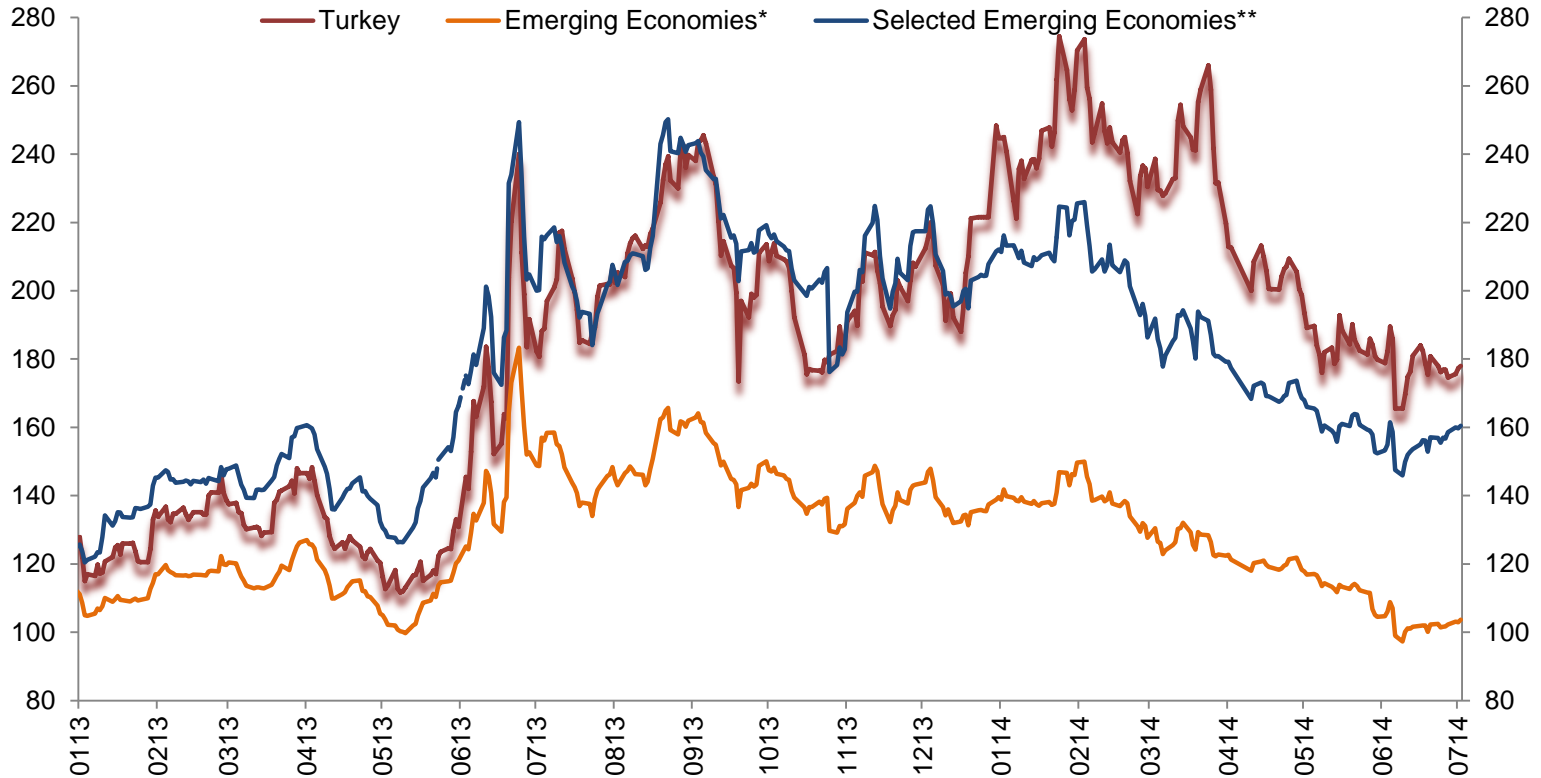


Source: EPFR.

Last Observation: June 25, 2014.

# Risk premium indicators for emerging countries have displayed some improvement as well.

## CDS for Emerging Economies and Turkey (5-year, Basis Points)



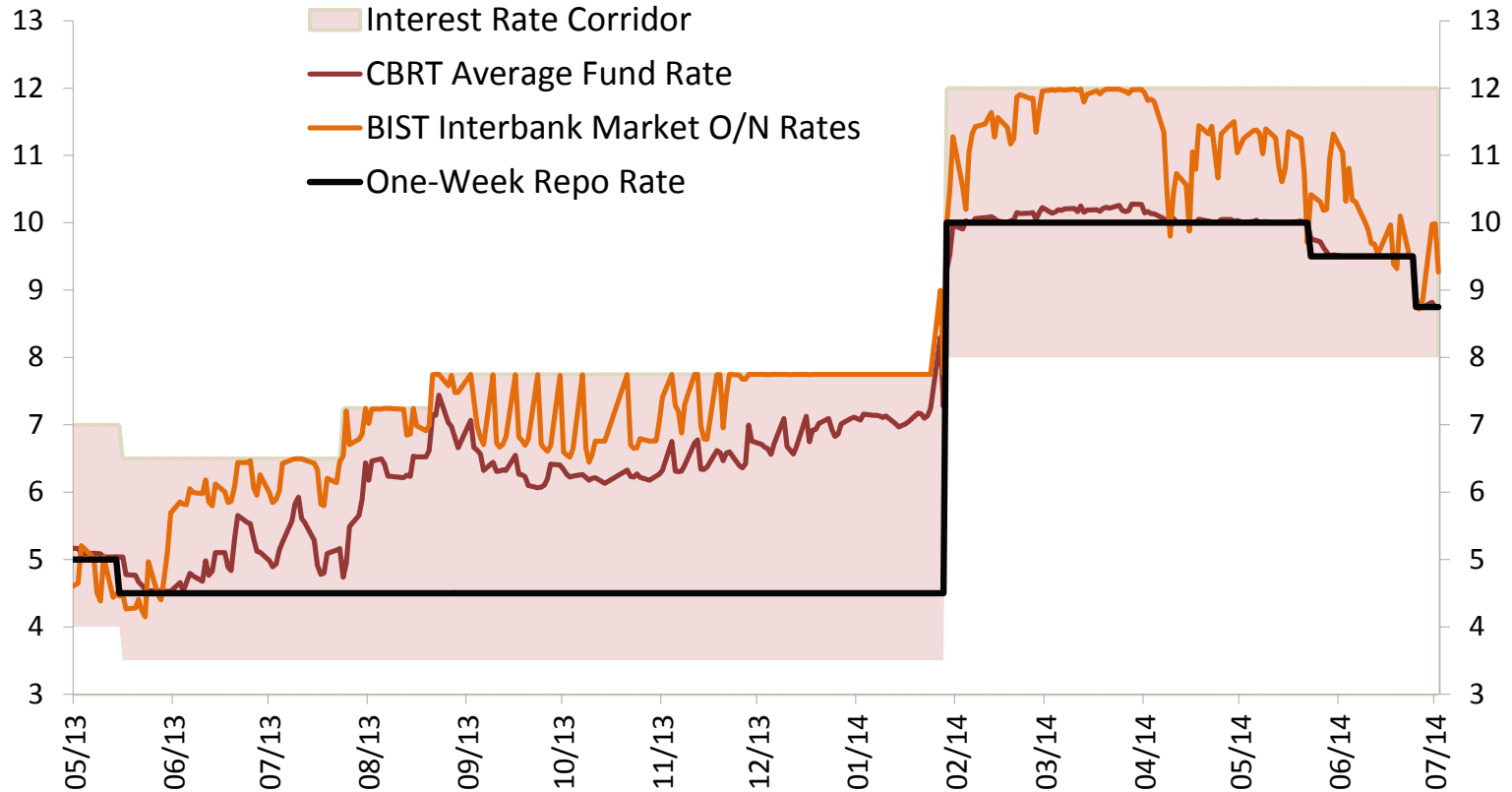
Source: CBRT, Bloomberg.

\*Emerging Economies include Brasil, Czech Rep., Indonesia, S. Africa, Colombia, Hungary, Mexico, Poland, Romania and Chili.

\*\* Selected Economies include Brasil, Indonesia and S. Africa.

Last Observation: July 02, 2014.

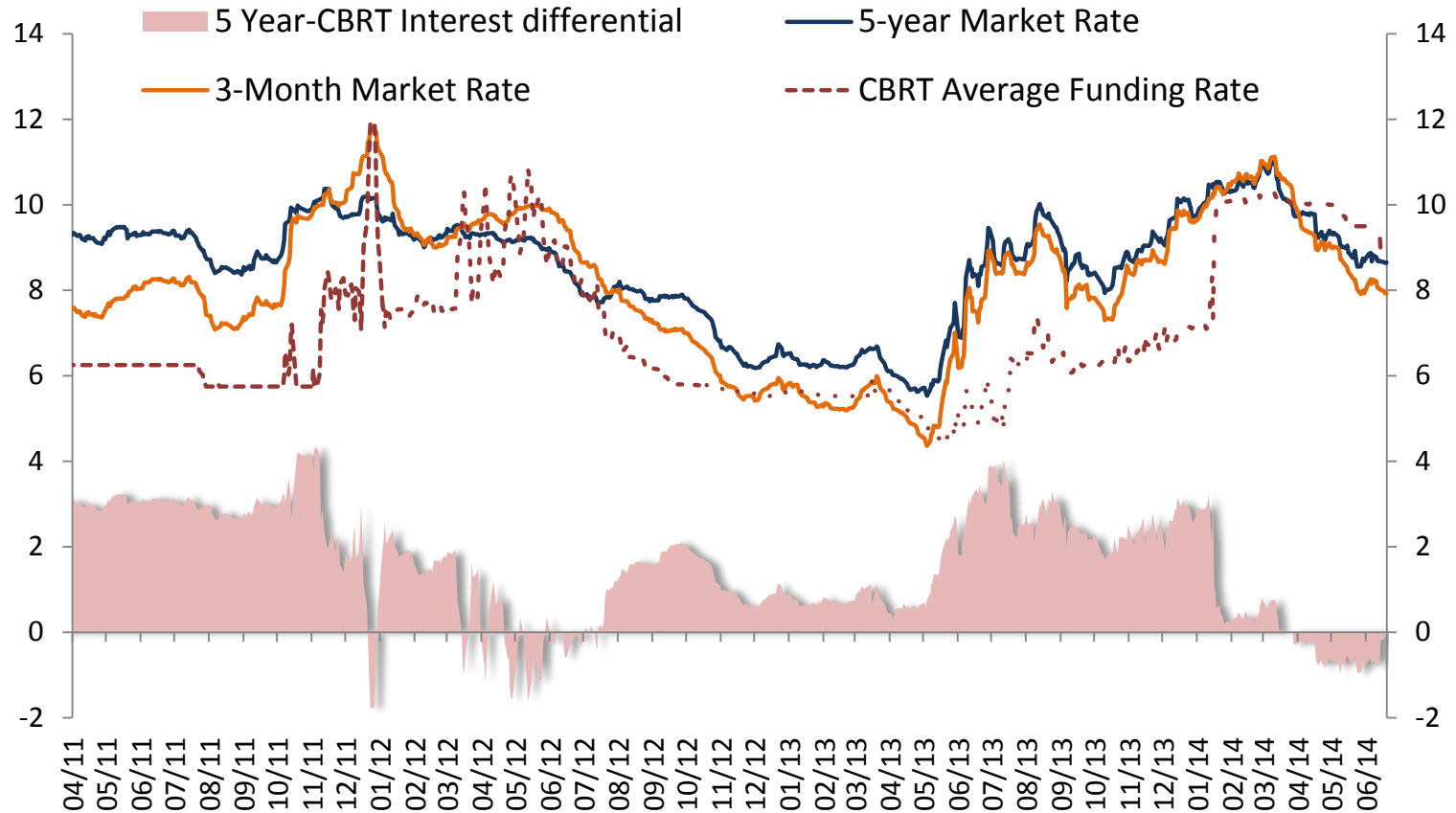
# The Monetary Policy Committee decided to deliver measured cuts in the one-week repo rate.



Source: CBRT

Last Observation: July 02, 2014.

# Yield curve has remained flat since the January tightening...

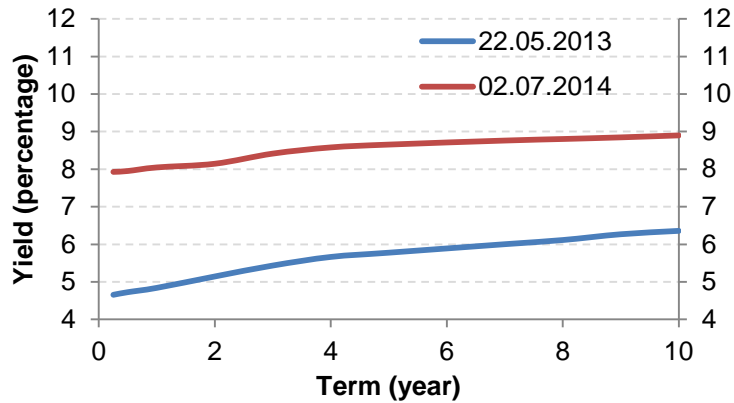


Source: CBRT.

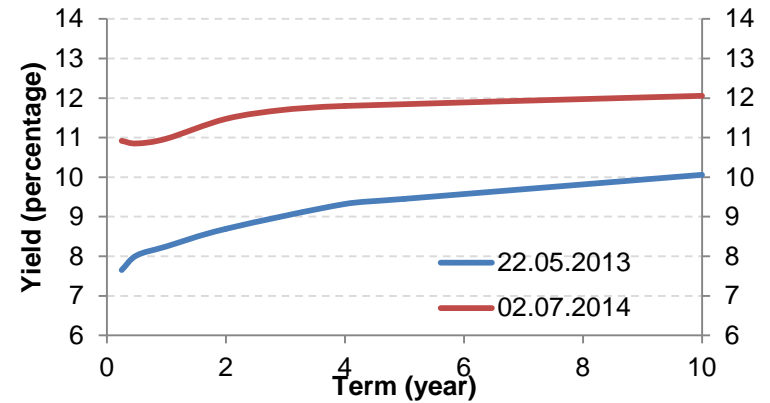
Last Observation: July 02, 2014.

# ...and is flatter compared to the peer emerging markets.

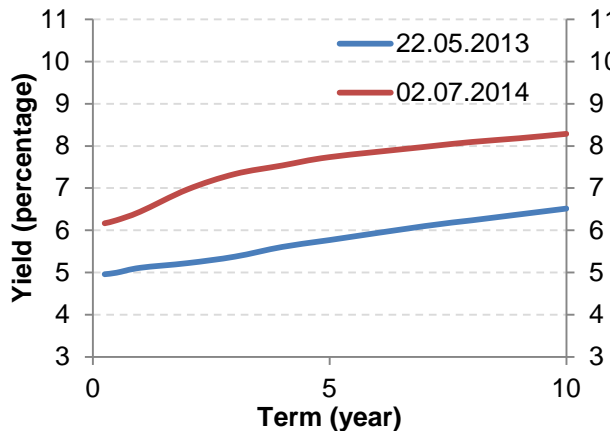
Turkey



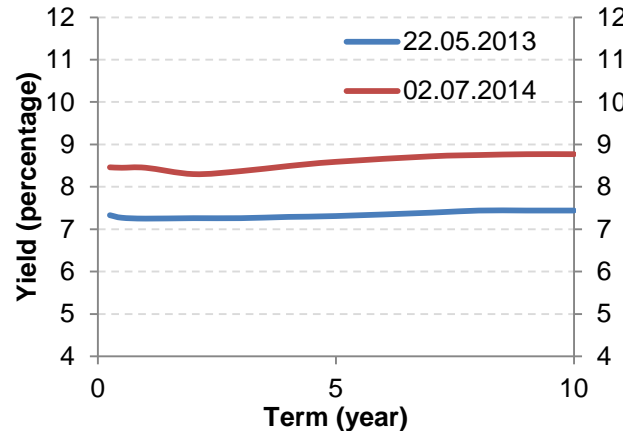
Brazil



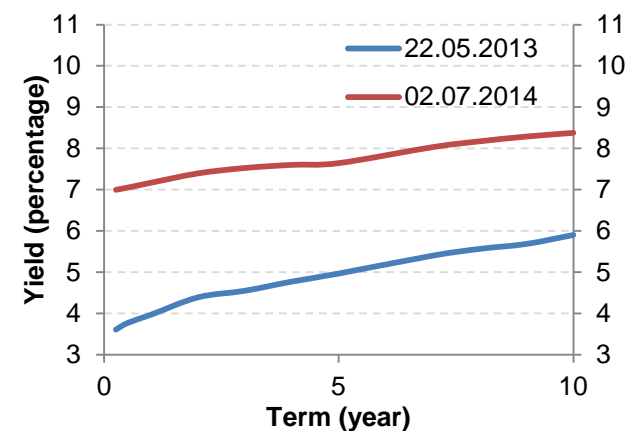
S. Africa



India



Indonesia

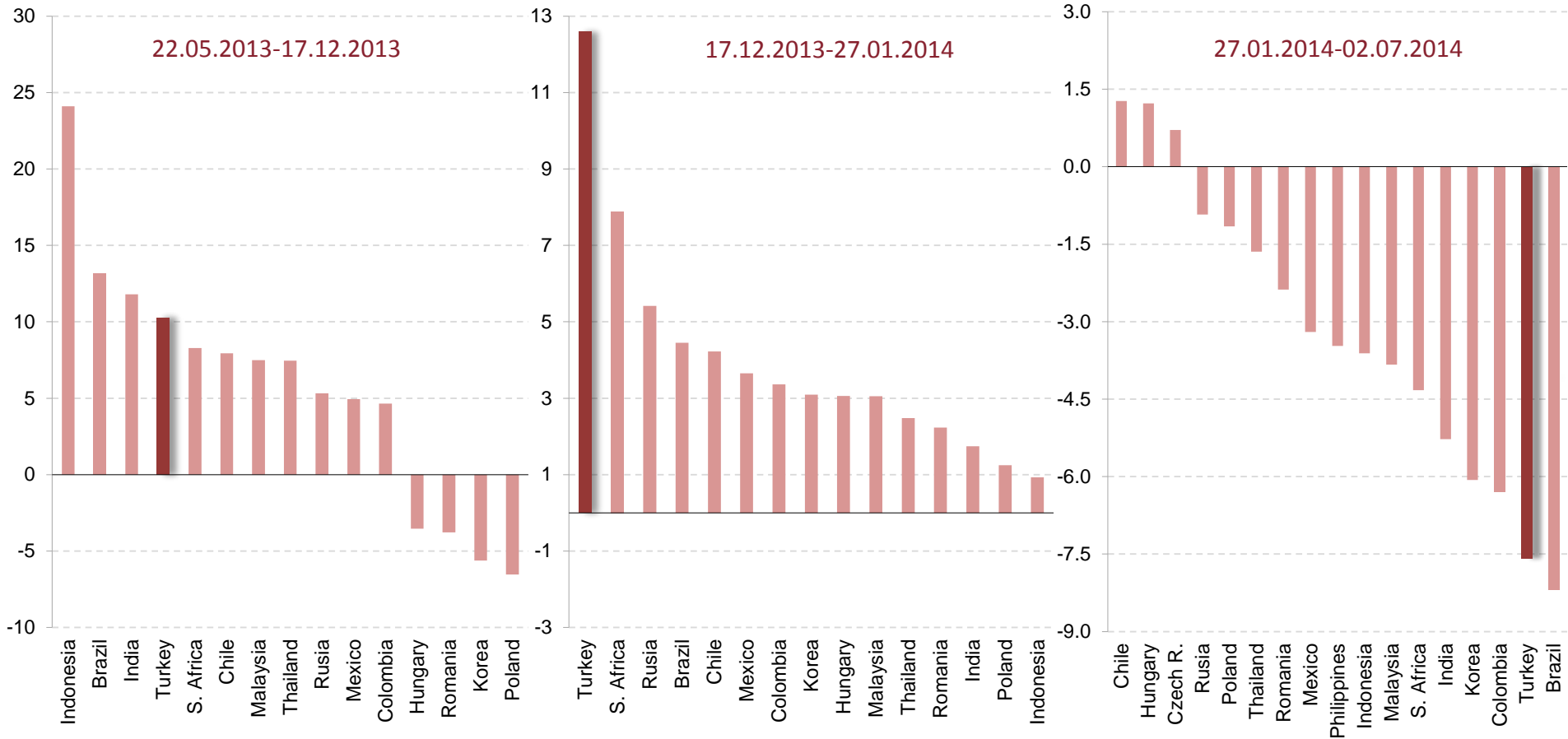


Source: Bloomberg.



# Turkish lira performed relatively well after the front-loaded monetary tightening delivered in the January interim meeting.

**Nominal FX Rates**  
(Percentage change against USD)

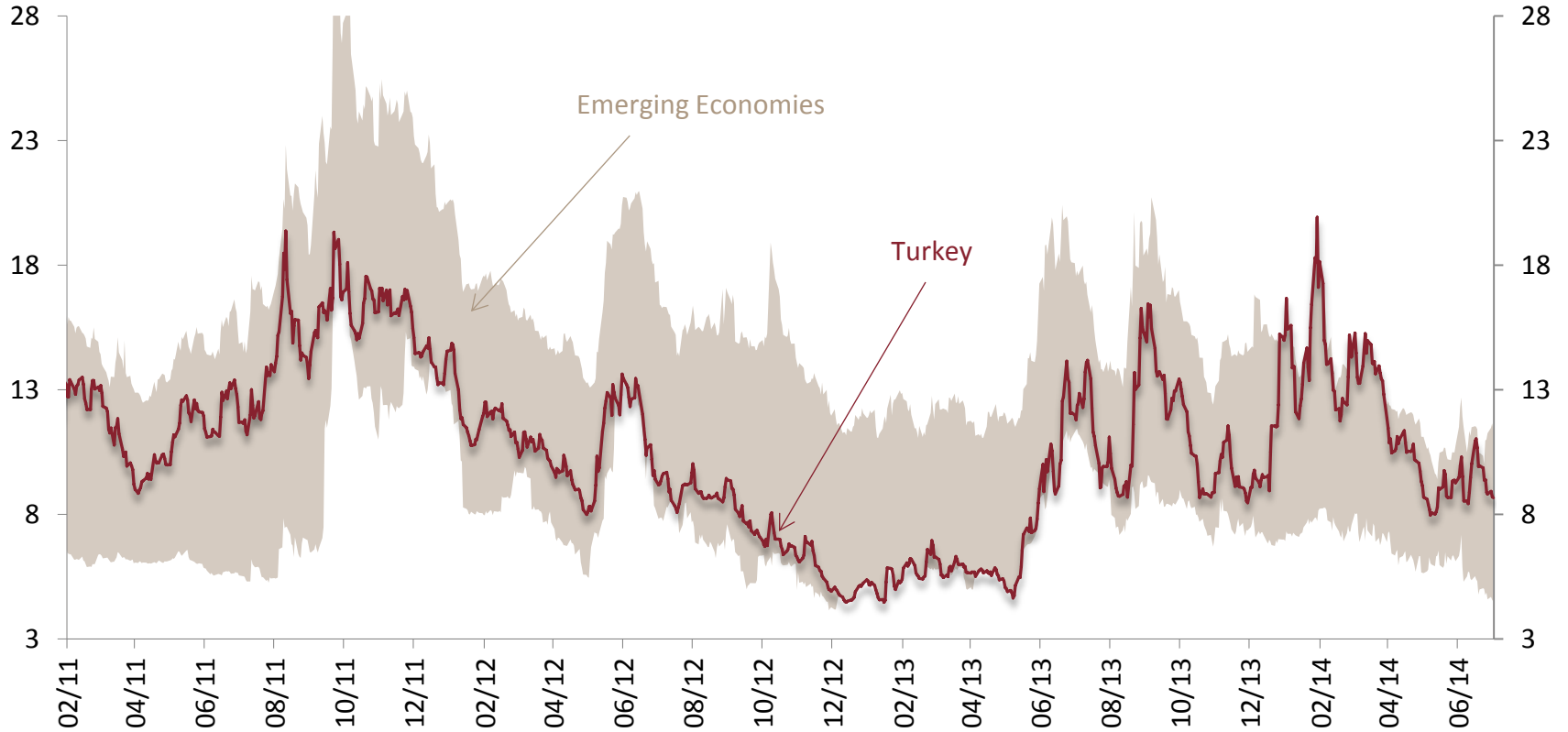


Source: Bloomberg, CBRT.

A positive value means the currency depreciates against US Dollar.

# Implied FX volatility has decreased recently.

(1 month)

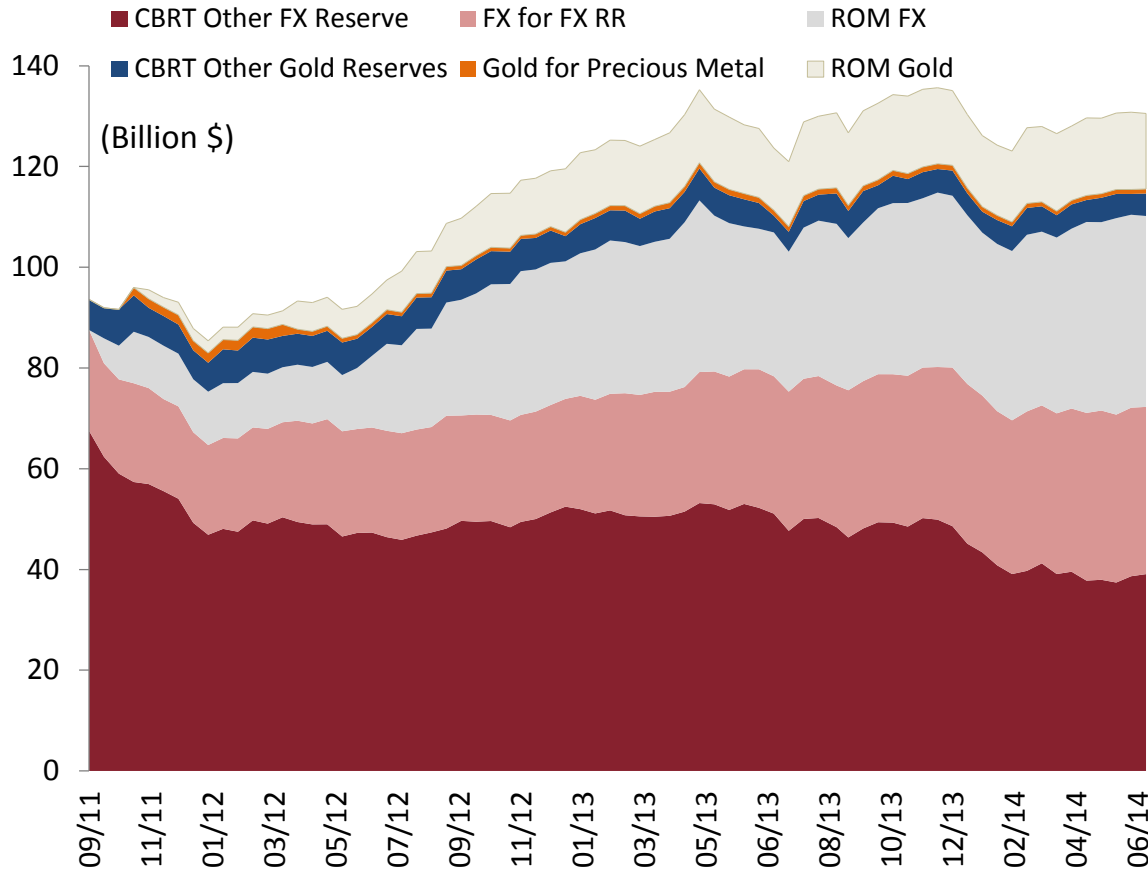


Source: Bloomberg.

Emerging market currencies include Brazil, Chile, Colombia, Mexico, Poland, Czech Republic, South Africa, Indonesia, Romania against USD.

Last Observation: July 02, 2014.

# Central Bank started accumulating net reserves through export credits since May.



Source: CBRT.

	FX Sales (-)	Export Credit (+)
October 2013	0.84	1.07
November 2013	1.44	1.70
December 2013	4.67	1.02
January 2014*	5.8	0.57
February 2014	1.0	0.30
March 2014	1.05	0.48
April 2014	1.02	0.36
May 2014	0.50	2.06
June 2014	0.30**	1.53 <sup>+</sup>
July 2014		1.46 <sup>+</sup>
August 2014		1.36 <sup>+</sup>
September 2014		1.41 <sup>+</sup>

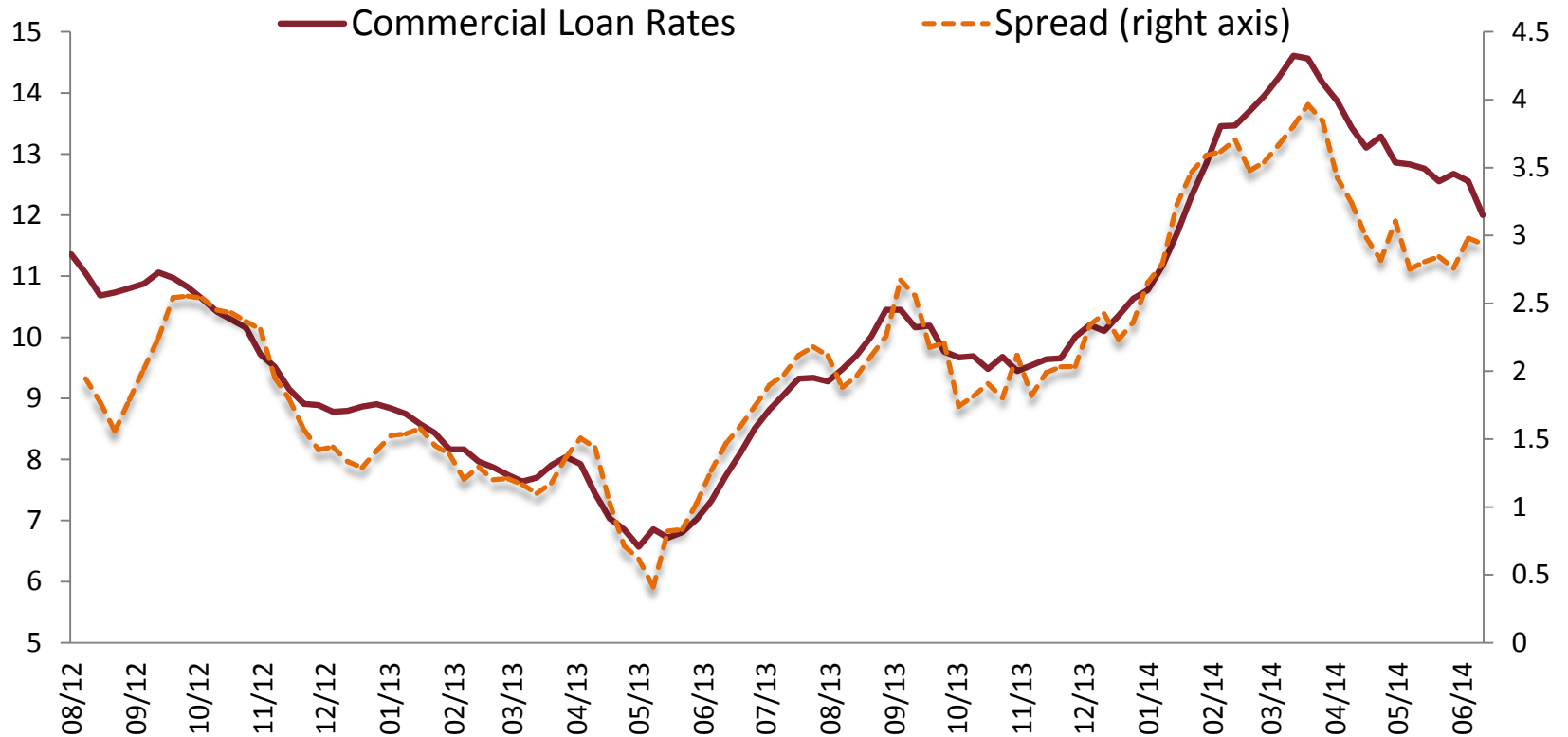
	Amount (Billion \$)
<b>ROM FX</b>	39
<b>FX Required Reserves</b>	33.3
<b>Total</b>	72.3

\*Includes the direct currency intervention of January 2014.

\*\* FX Sales are as of June 20, 2014.

<sup>+</sup>Provisional.

# Commercial loan rates and loan–deposit rates have decreased in recent weeks.



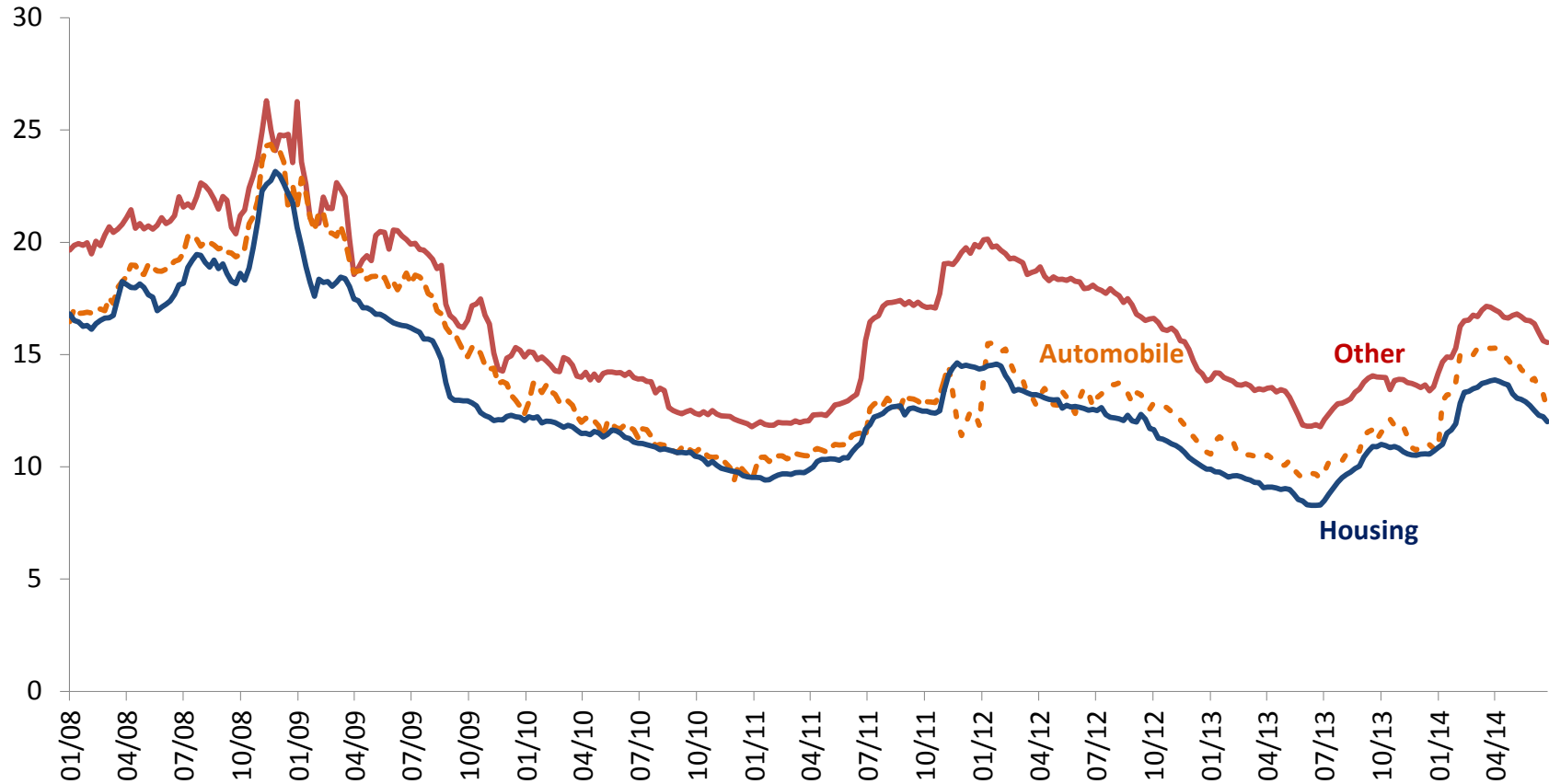
Last Data: June 27, 2014.

4 Weeks MA

Source: CBRT.

Commercial loan rates exclude corporate overdraft account rates and corporate credit card rates.

# Consumer loan rates also display some decline.

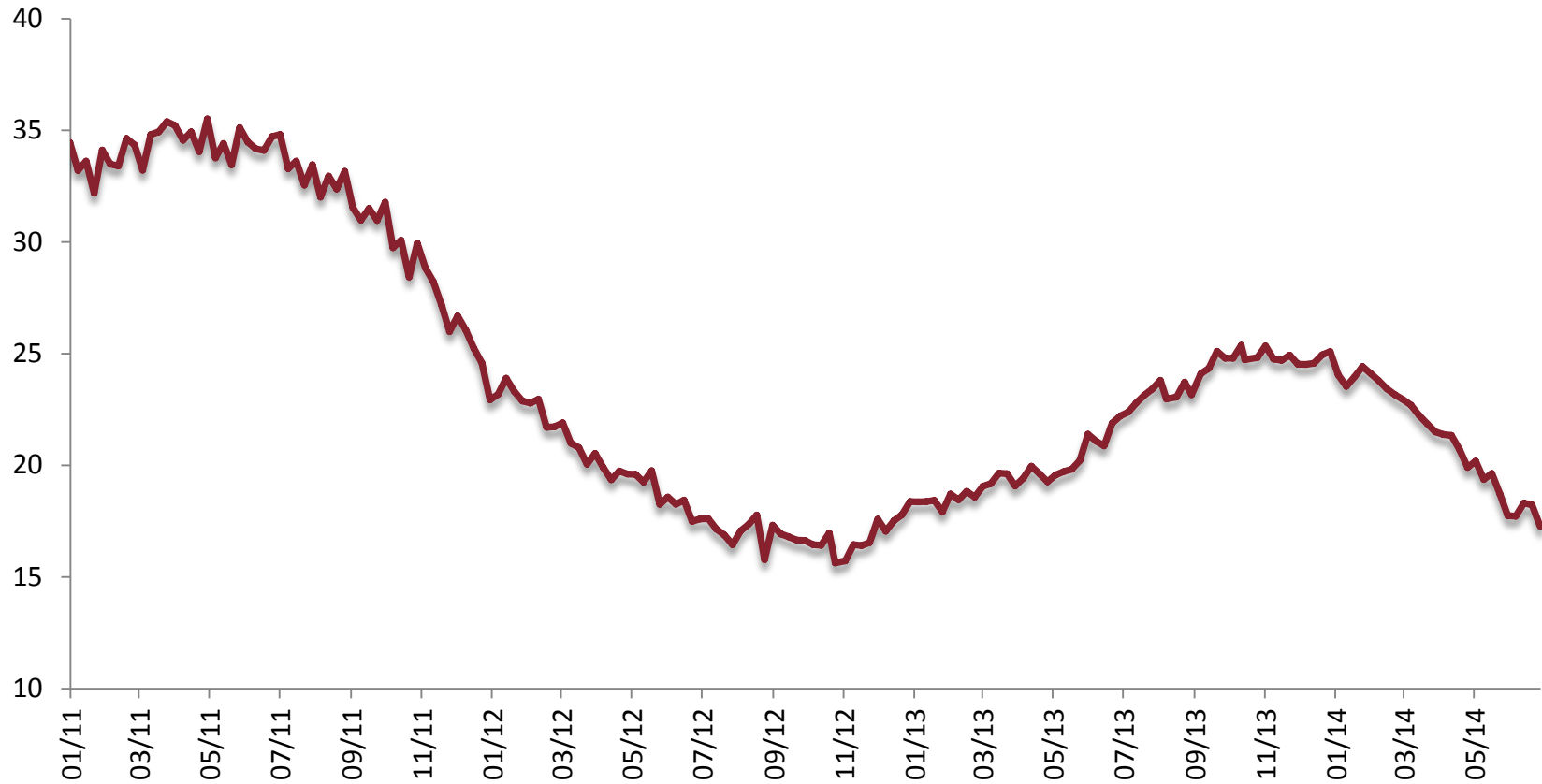


Source: CBRT.

Last Observation: June 27, 2014.

# Loan growth continues at reasonable levels in response to the tight monetary policy stance and macroprudential measures.

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



Source: CBRT.

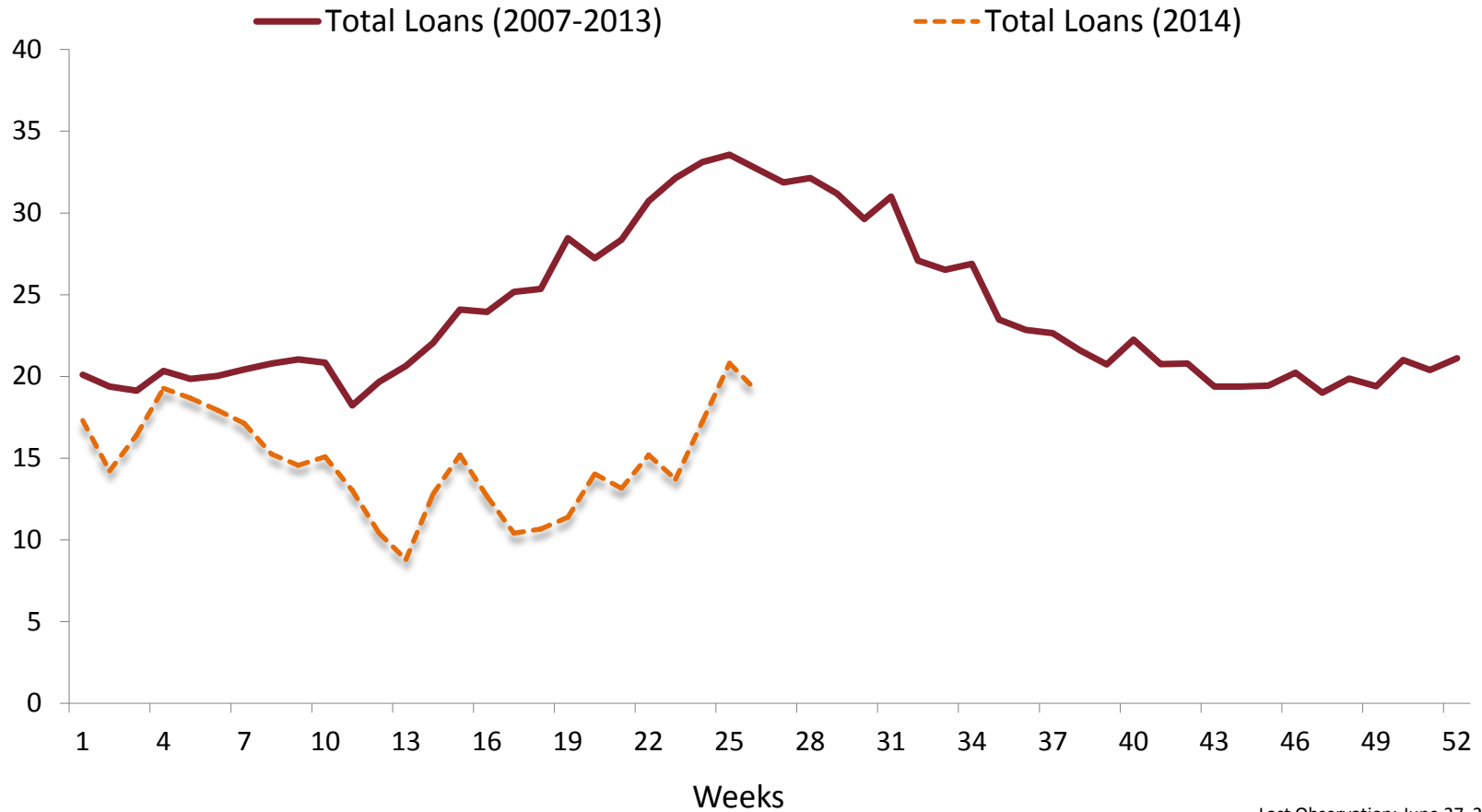
Last Observation: June 27, 2014.

Total loan is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

Adjusted for exchange rate.

# Total loans have been weaker than historical averages since the beginning of the year.

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



Source: CBRT.

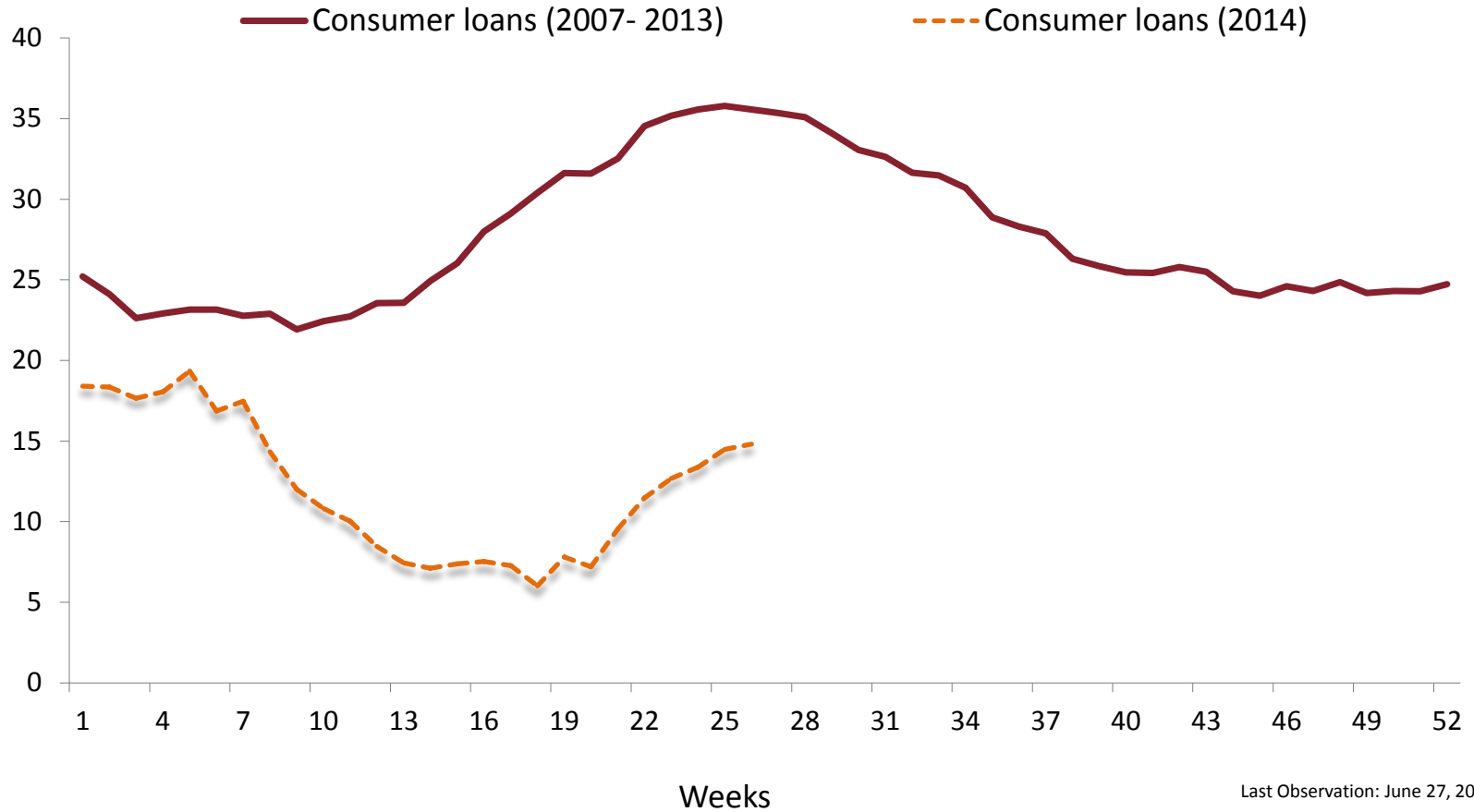
Last Observation: June 27, 2014.

Total loan is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

Adjusted for exchange rate.

# The deceleration in loan growth can be mostly attributed to the slowdown in consumer loans,

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



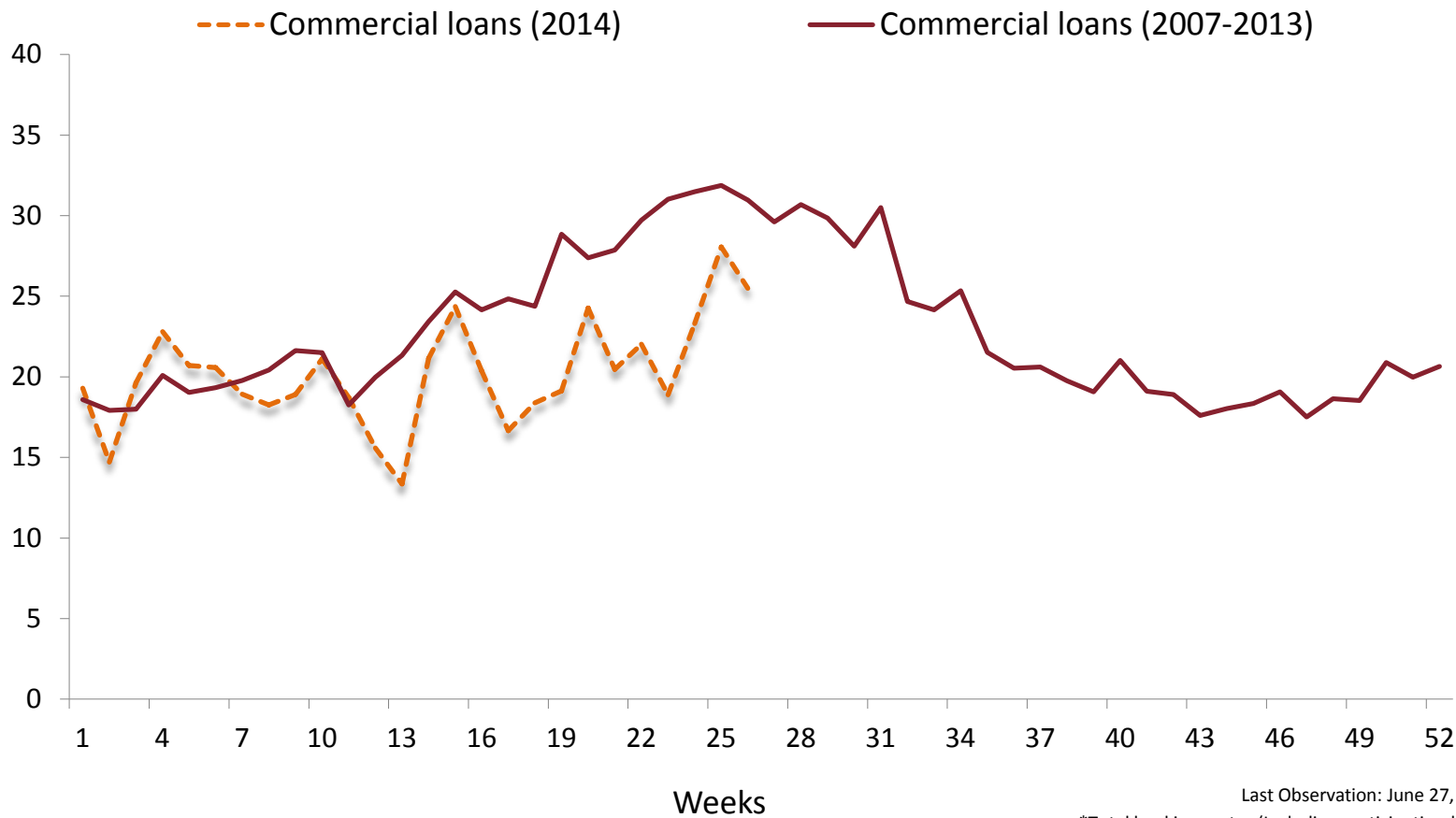
Source: CBRT.

Last Observation: June 27, 2014.  
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).



# ...while commercial loans follow stronger growth numbers.

**Commercial Loan Growth Rates\***  
(Adjusted for Exchange Rate, 13-Week Moving Average, Annualized, Percent)

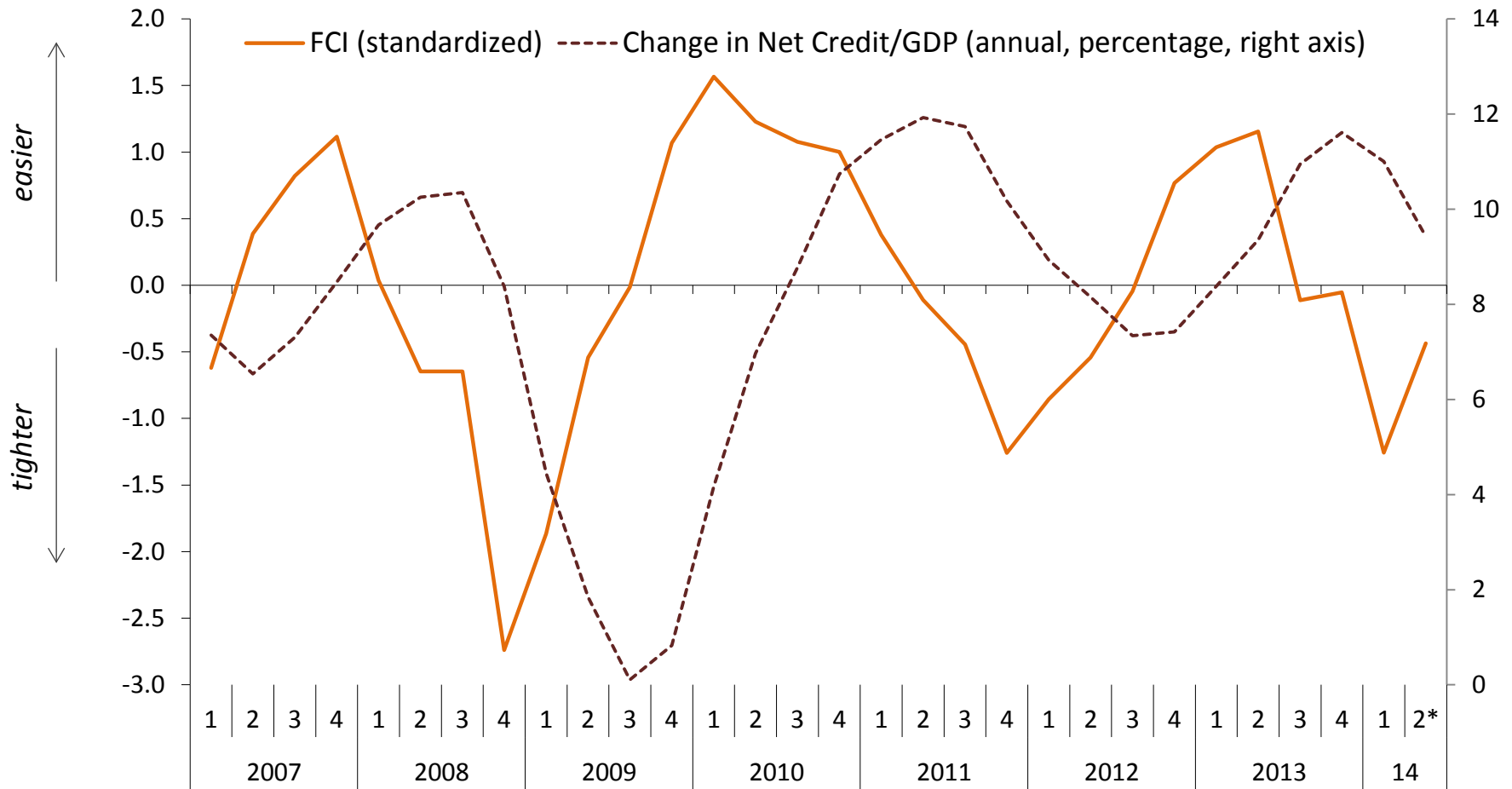


Source: CBRT.

Last Observation: June 27, 2014.  
\*Total banking sector (Including participation banks)  
NPLs Excluded  
Adjusted for exchange rate.

# Financial conditions remain on the restrictive territory, despite the recent easing.

## Financial Conditions Index (FCI) and Credit



Source: CBRT.

Updated as of June 19, 2014.

\*Figures for the second quarter of 2014 are forecasts.

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- The adverse impact of exchange rate developments since mid-2013 on annual inflation will gradually taper off. With the contribution of base effects, inflation is expected to decline markedly starting from this month.
- In light of these assessments and the recent improvement in global liquidity conditions, the Committee delivered a measured cut in the one-week repo rate.
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