TÜRKİYE CUMHURİYET
MERKEZ BANKASI

RECENT DEVELOPMENTS IN TURKISH ECONOMY AND MONETARY POLICY

July 8, 2013

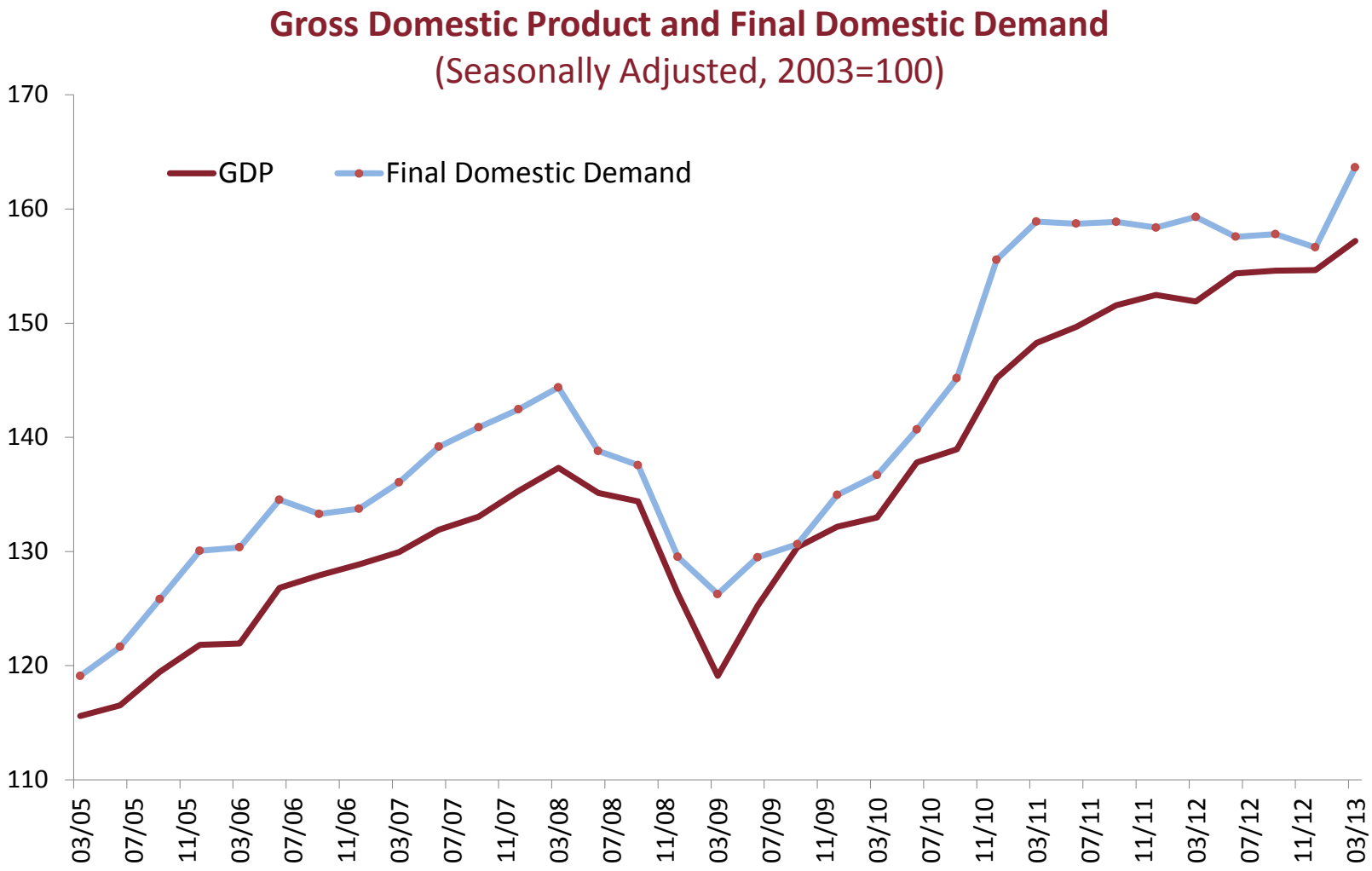
Ankara

Outline

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

ECONOMIC ACTIVITY

Economic Activity

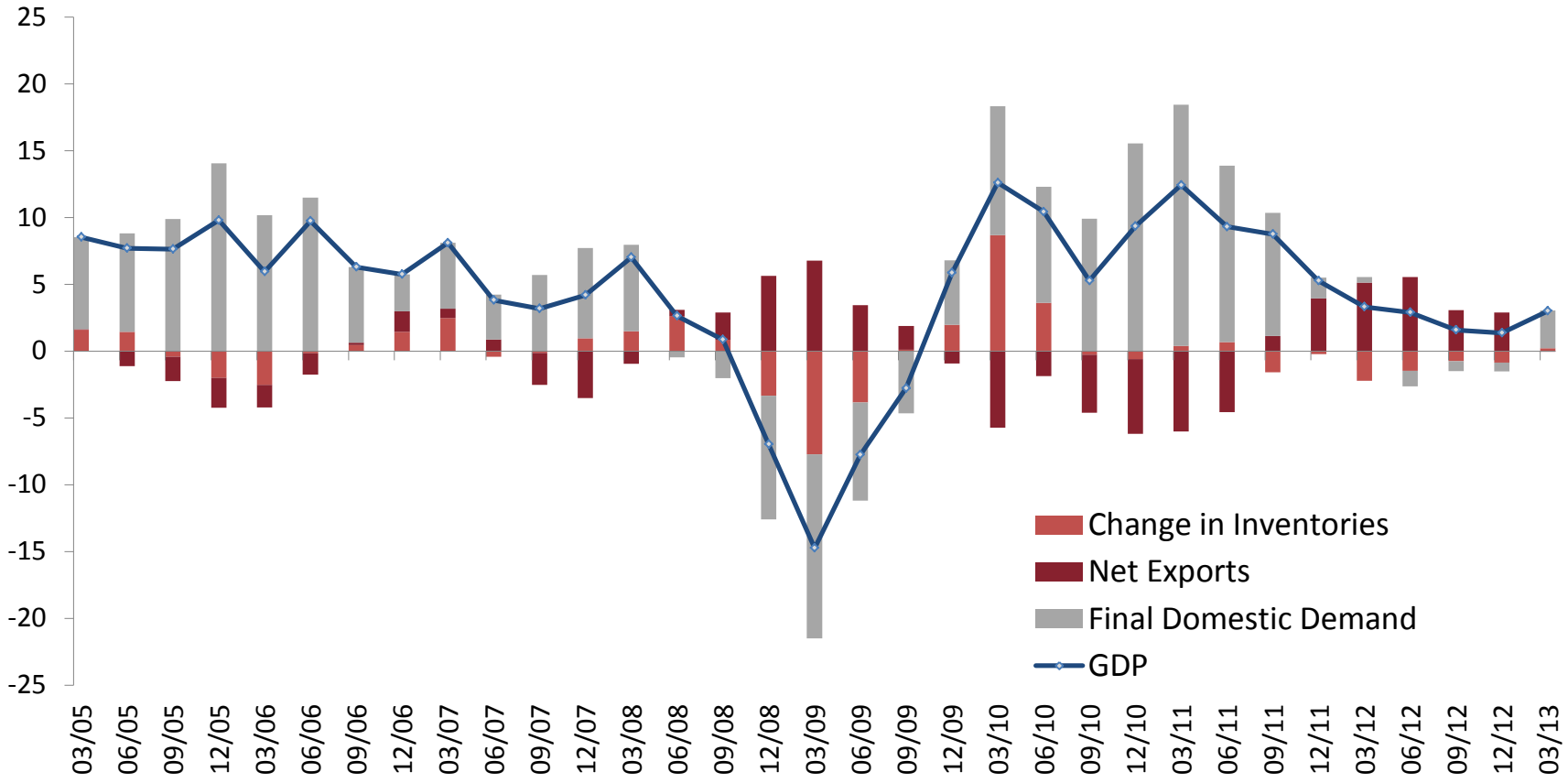


Source: TURKSTAT, CBRT.

Last Observation: 2013Q1

Economic Activity

Contribution to Annual GDP Growth
(Percentage Points)

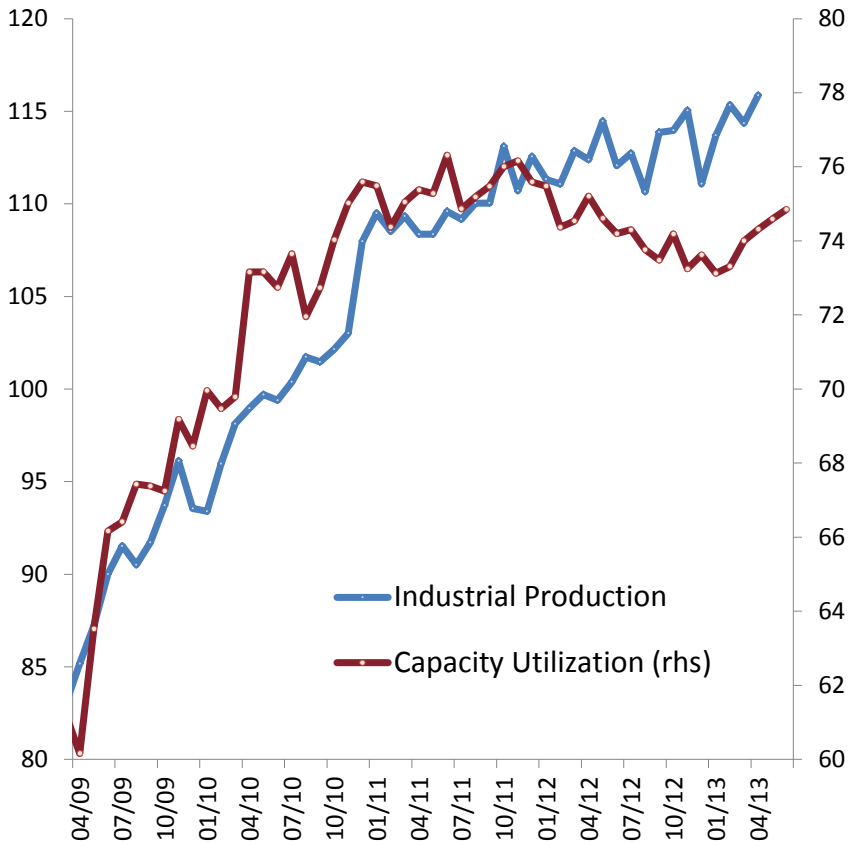


Source: TURKSTAT.

Last Observation: 2013Q1

Economic Activity

Industrial Production and Capacity Utilization
(Seasonally Adjusted)



Source: TURKSTAT, CBRT.

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

New Orders*
(Seasonally Adjusted)

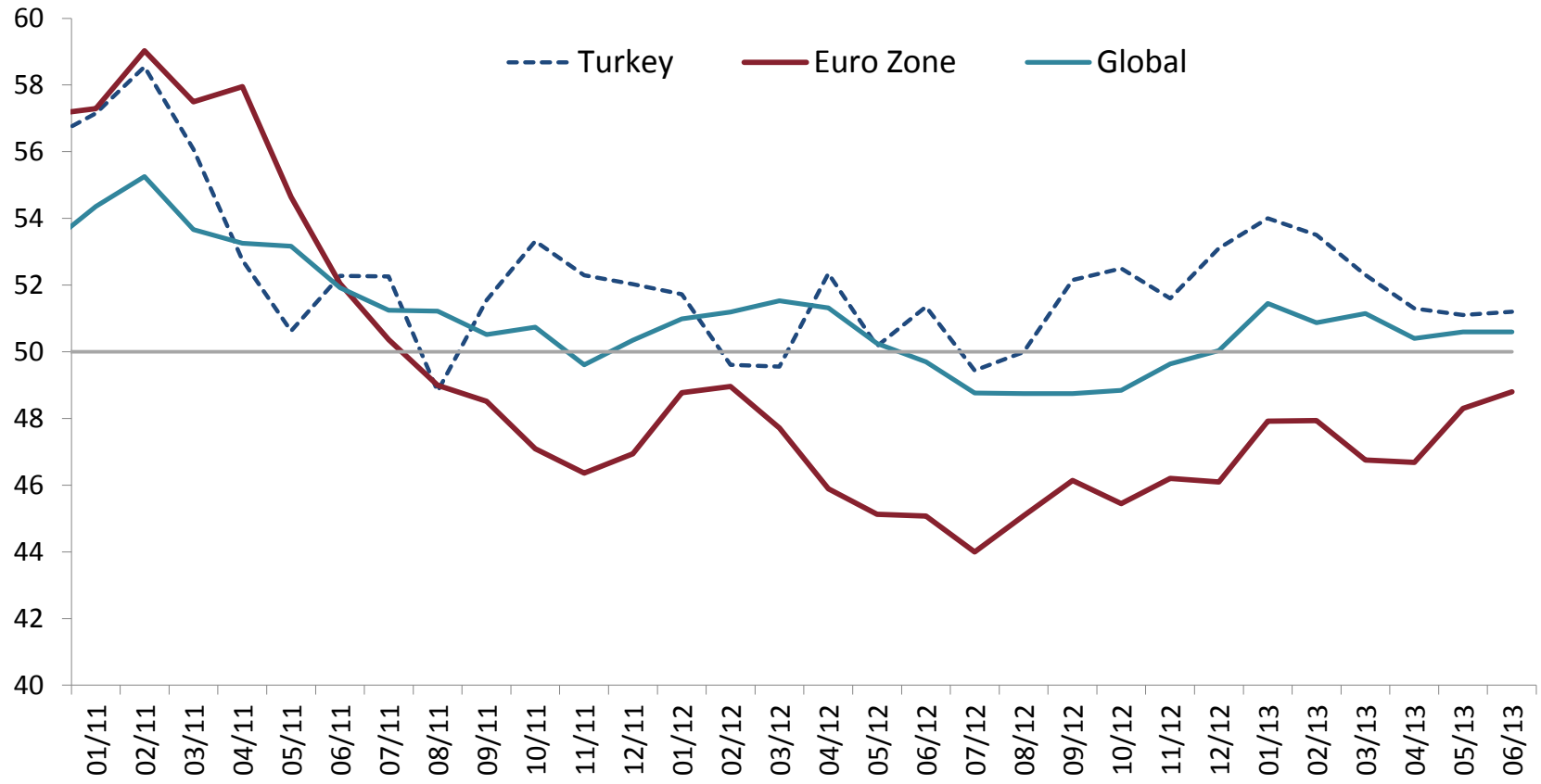
Source: CBRT Business Tendency Survey.

Last Observation: June 2013.

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

PMI: Turkey, Eurozone, and Global

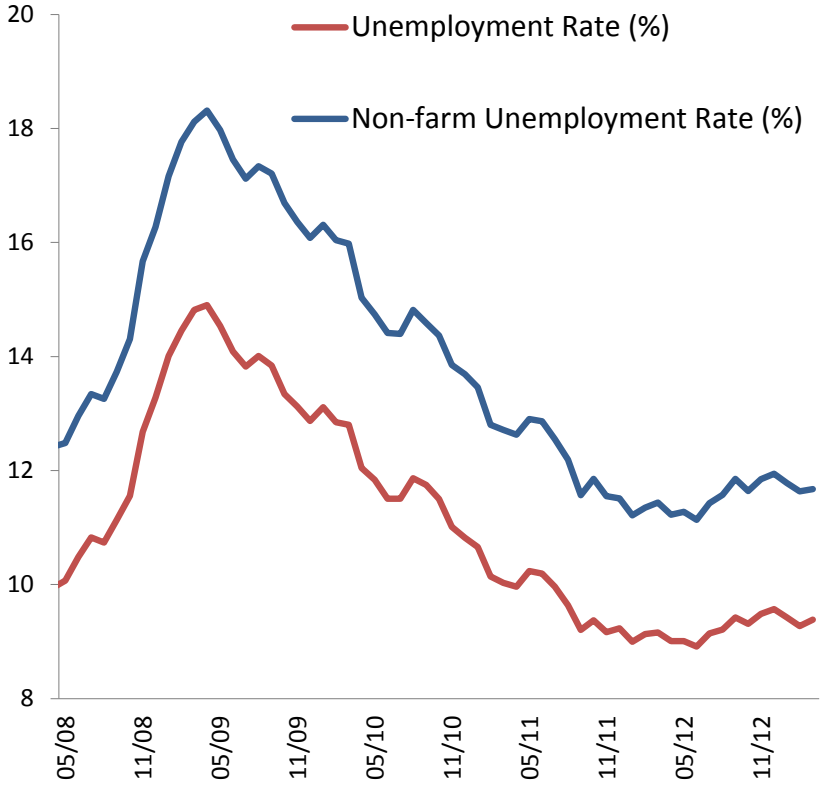
Manufacturing PMIs
(Seasonally Adjusted)

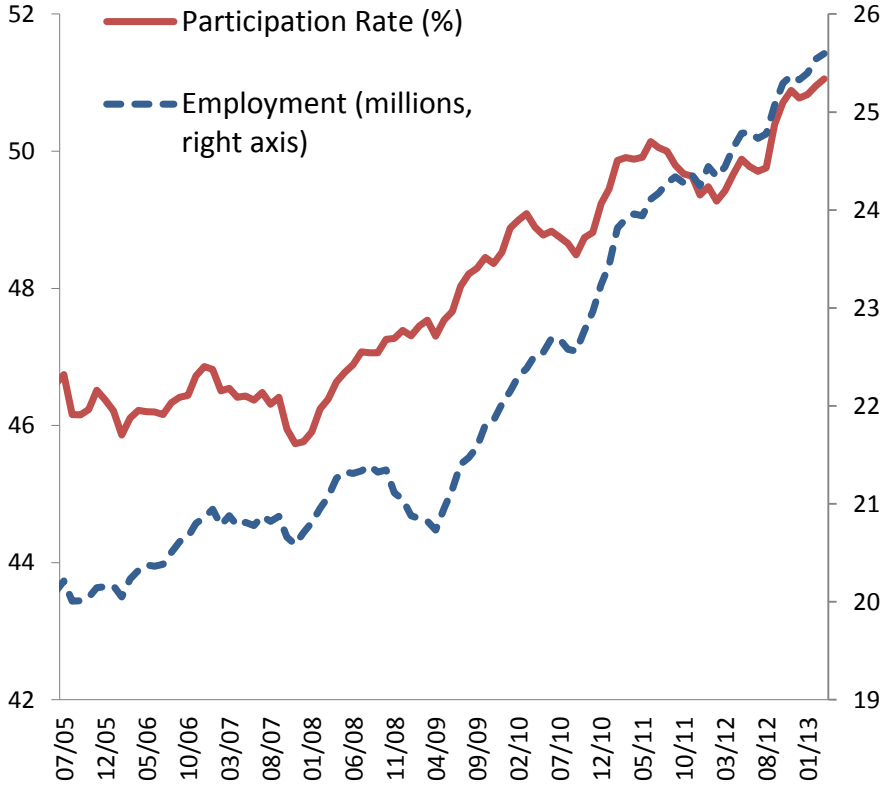


Source: MARKIT.

Last Observation: June 2013.

Employment Conditions



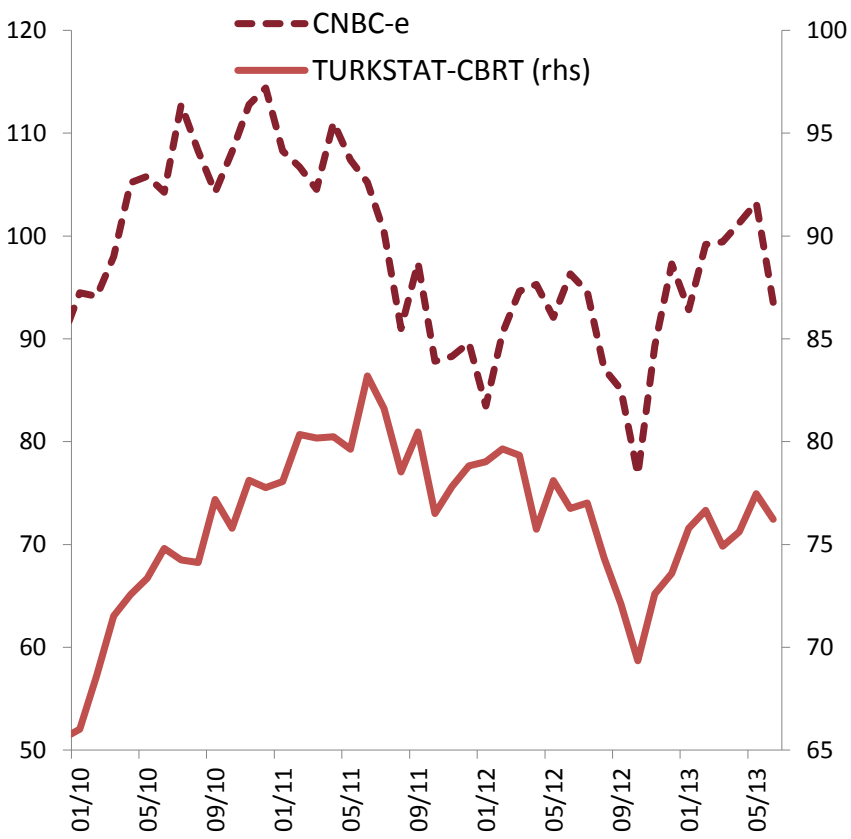


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: March 2013.

Leading Indicators for Demand

Consumer Confidence

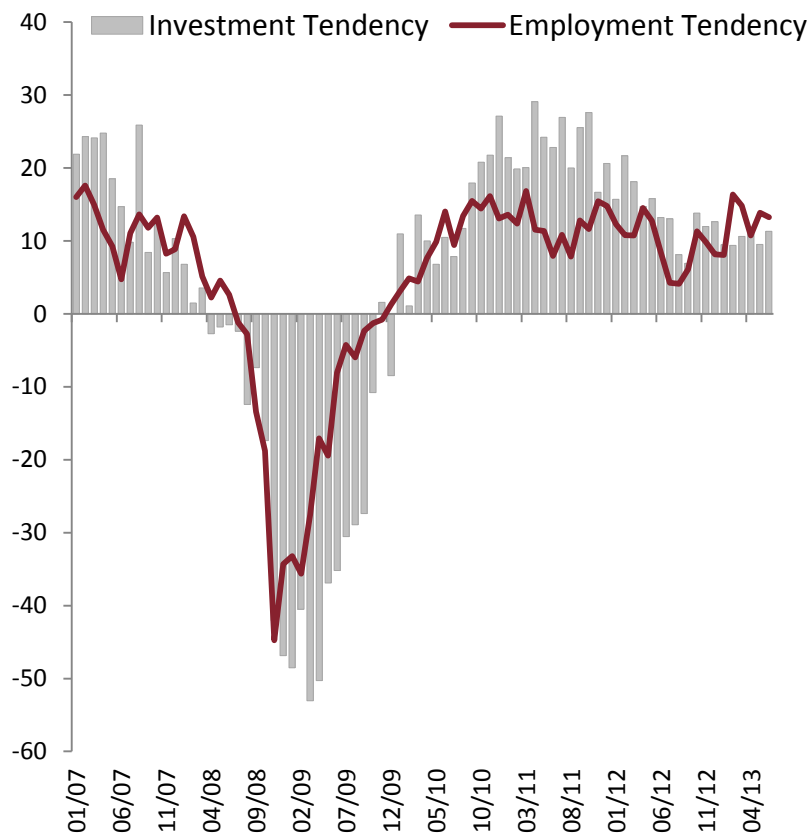


Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: June 2013.

Investment and Employment Prospects*

(Seasonally Adjusted)



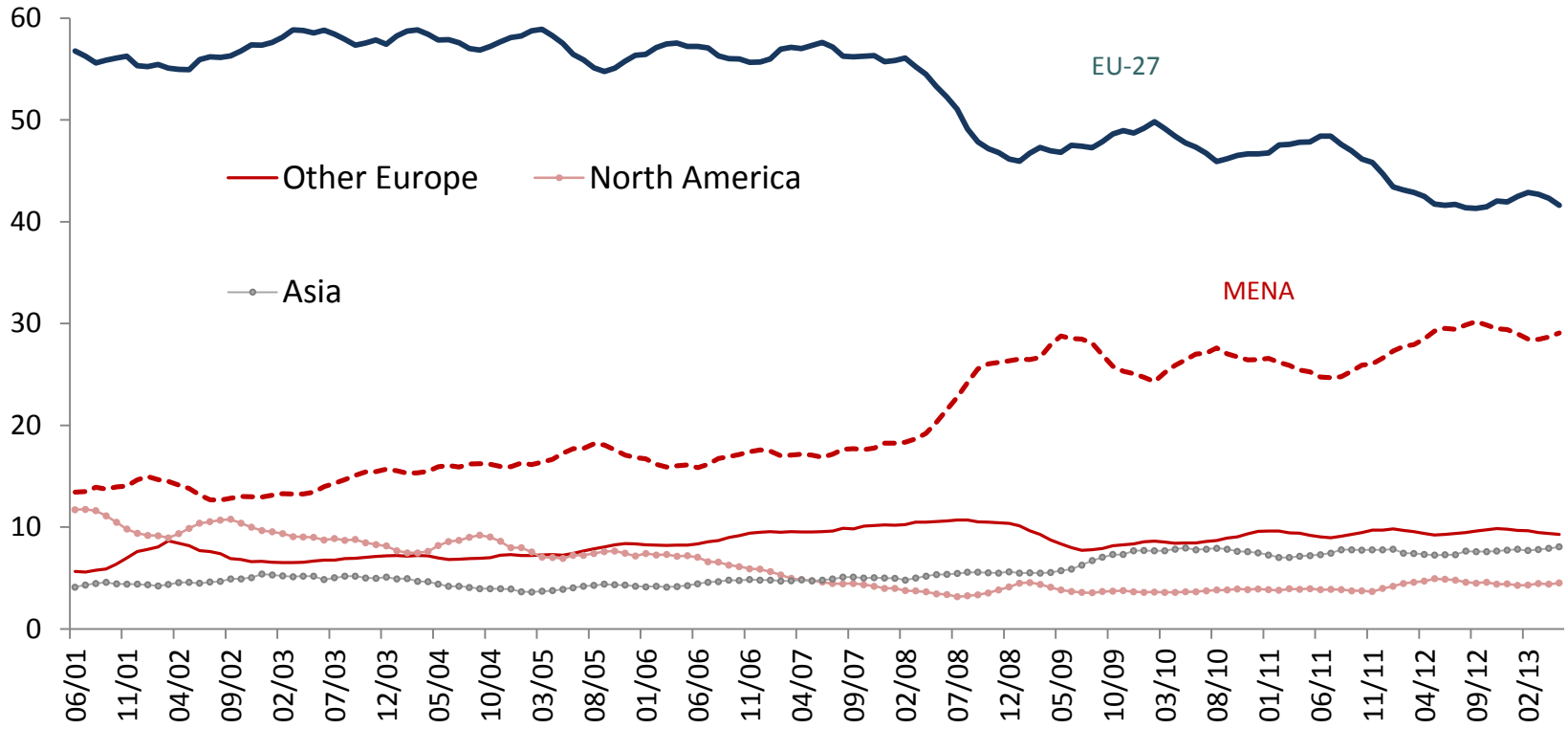
Source: TURKSTAT, CBRT.

Last Observation: June 2013.

* Business Tendency Survey

REBALANCING

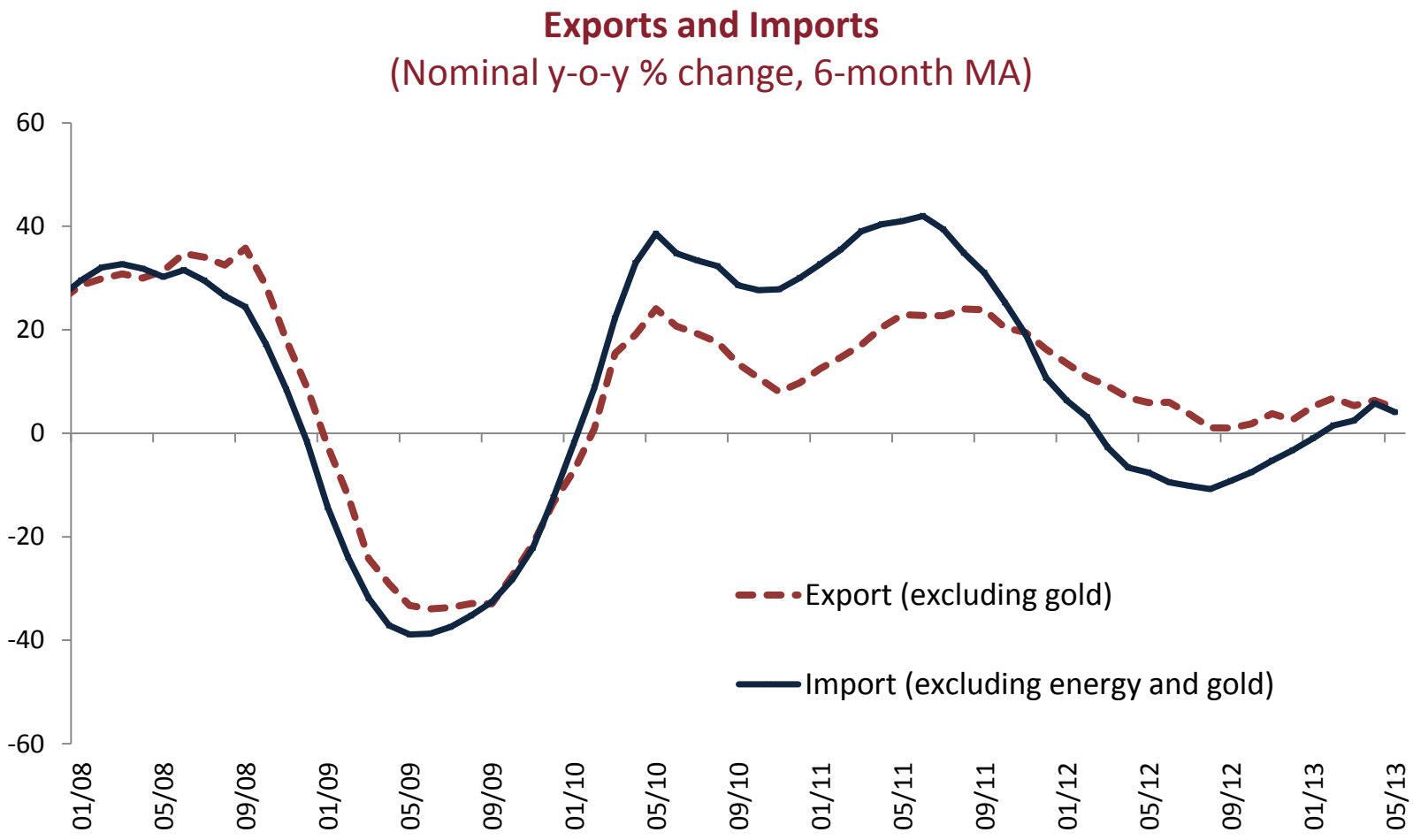
Market Share Shifting from EU to MENA



Source: TURKSTAT.

Last Observation: May 2013.

Rebalancing



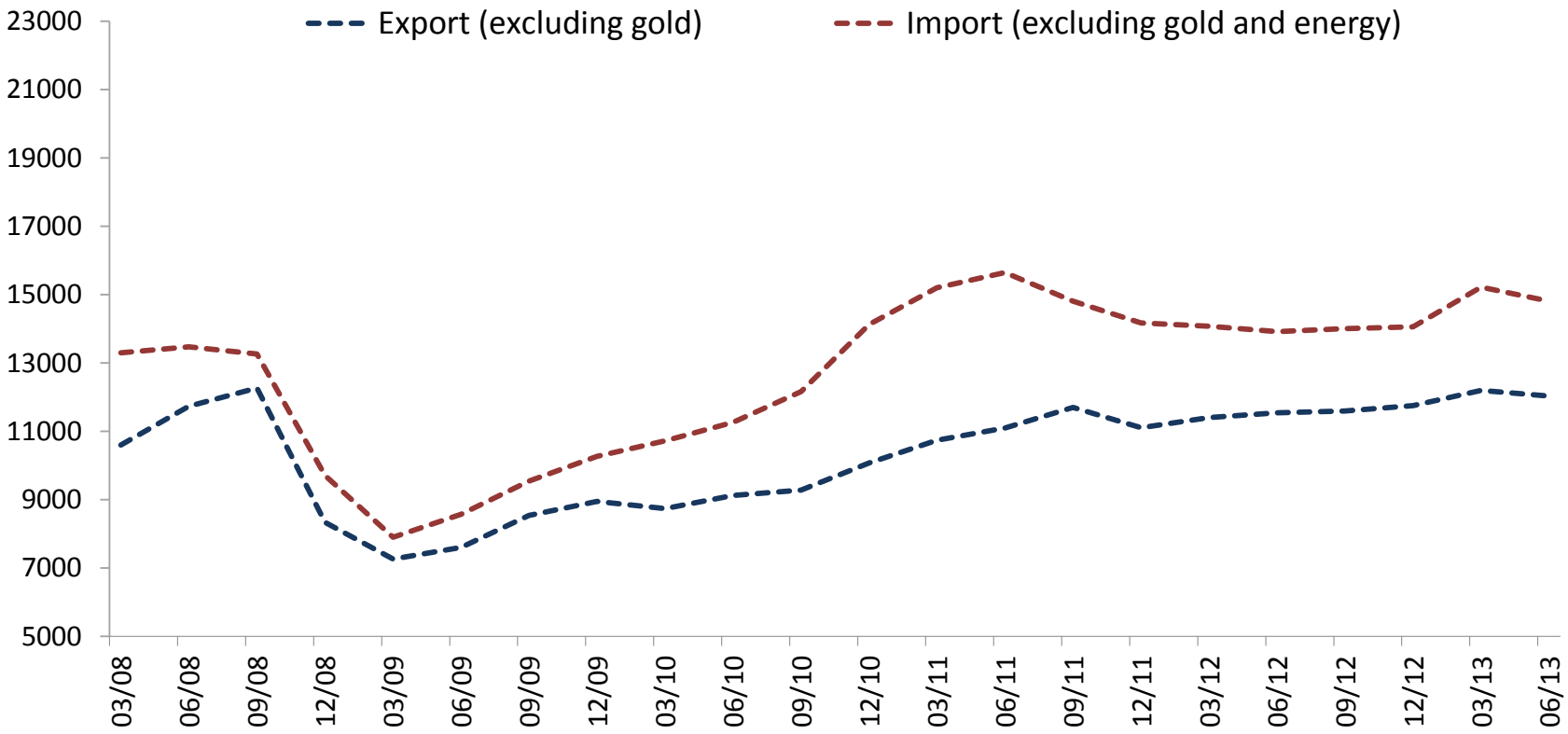
Source: TURKSTAT.

Last Observation: May 2013.

Rebalancing: Main Trends

Exports and Imports*

(Seasonally Adjusted, Quarterly Average, Million USD)

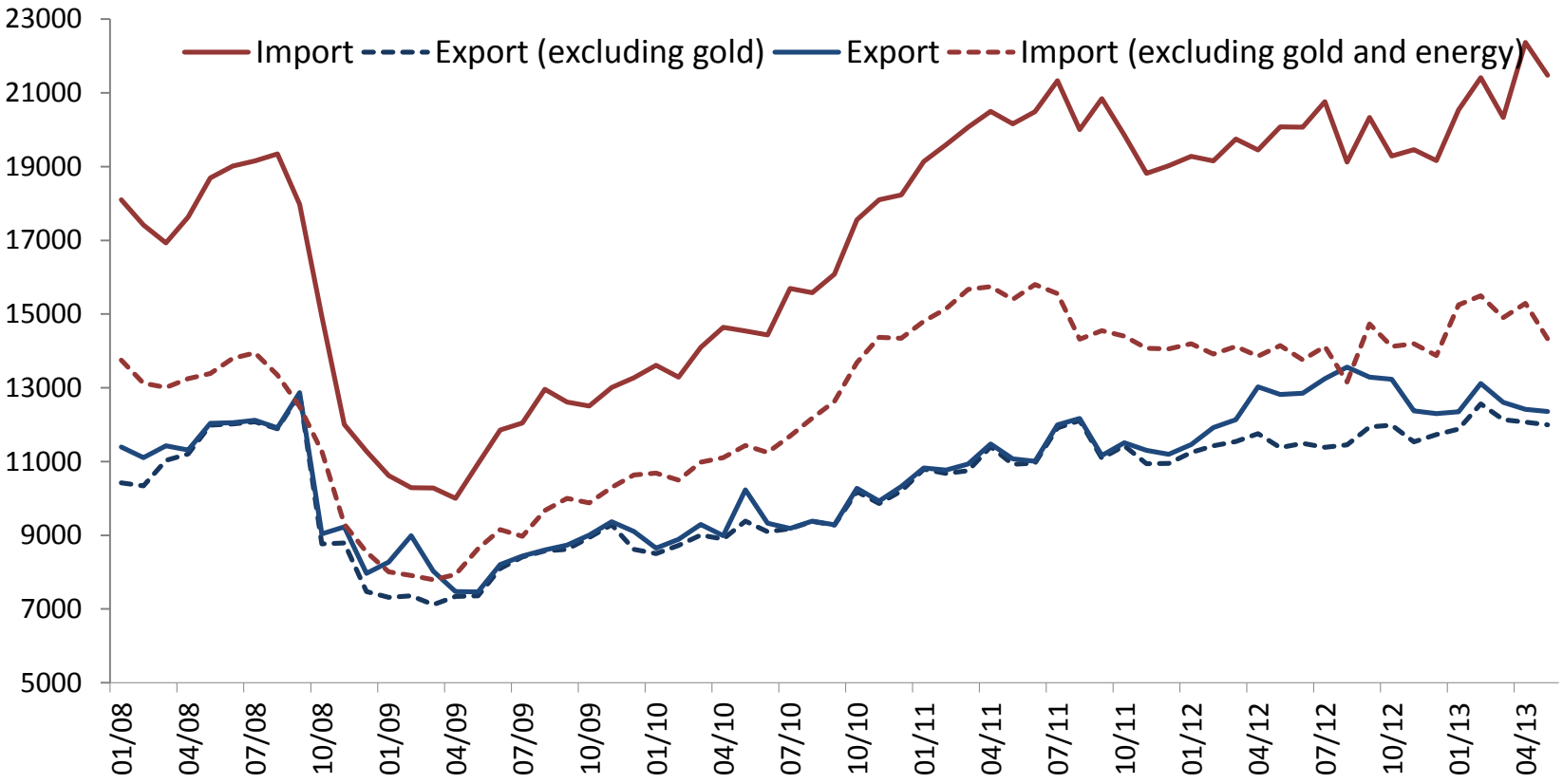


*Last quarter observation is the average of April and May

Source: TURKSTAT, CBRT.

Exports and Imports

(Seasonally Adjusted, Million USD)

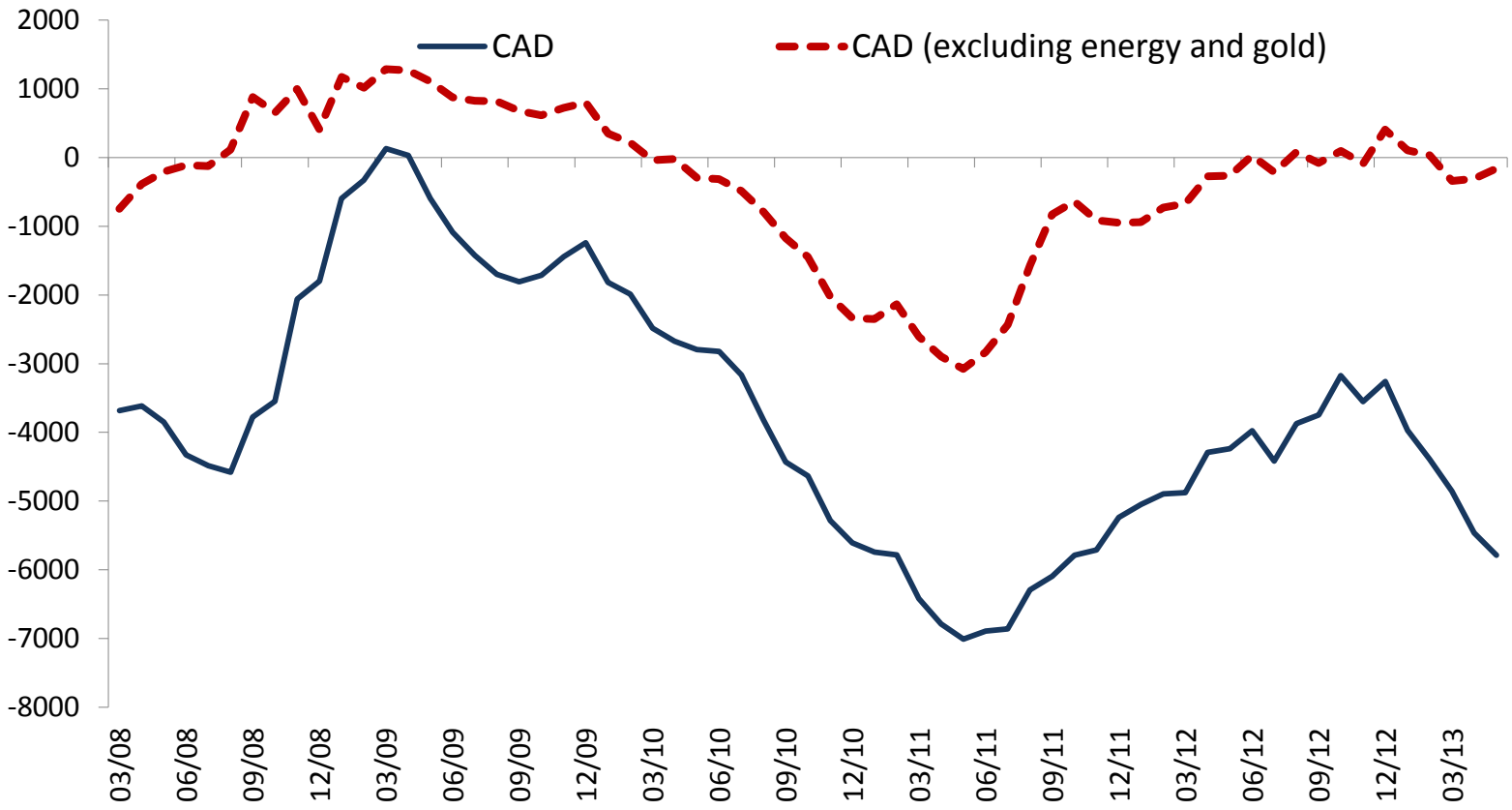


Source: TURKSTAT, CBRT.

Last Observation: May 2013.

Recent Trend in Current Account Balance

(Seasonally Adjusted, 3-Month Moving Average, Million USD)

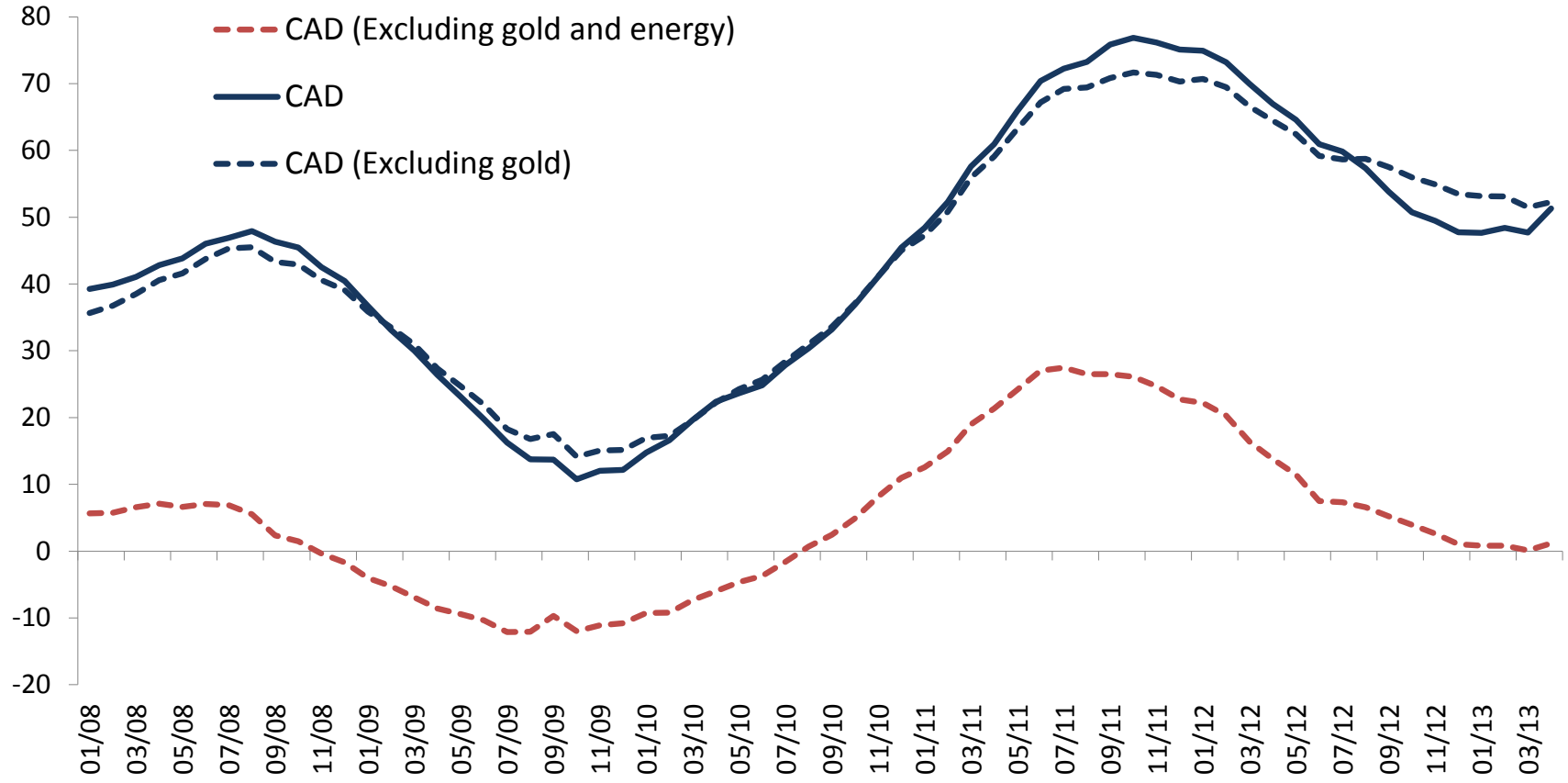


Source: CBRT.

Last Observation: May 2013.

Rebalancing

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

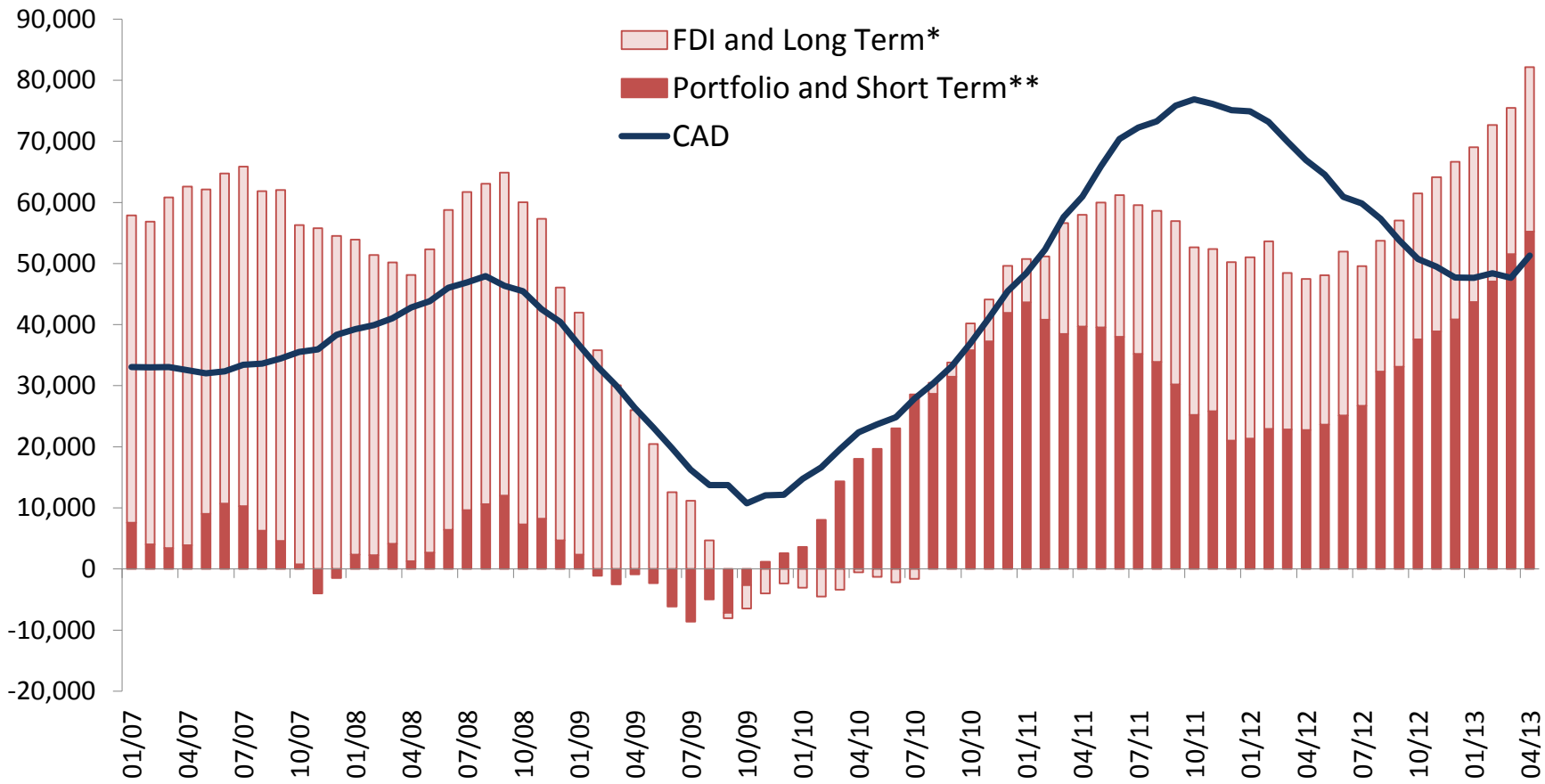


Source: CBRT.

Last Observation: April 2013.

Main Sources of External Finance

(12-months Cumulative, Billion USD)



Source: CBRT.

Last Observation: April 2013.

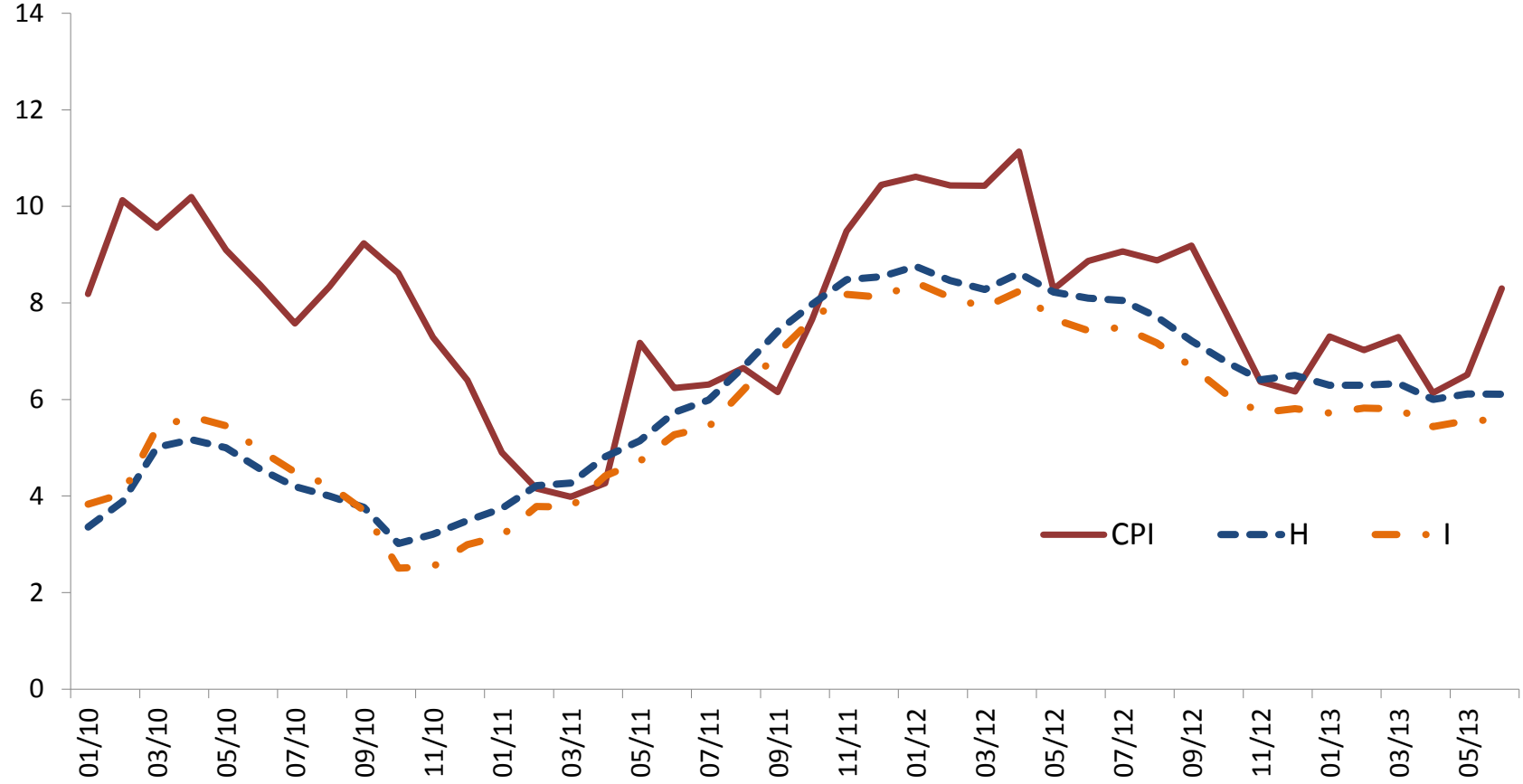
*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

**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

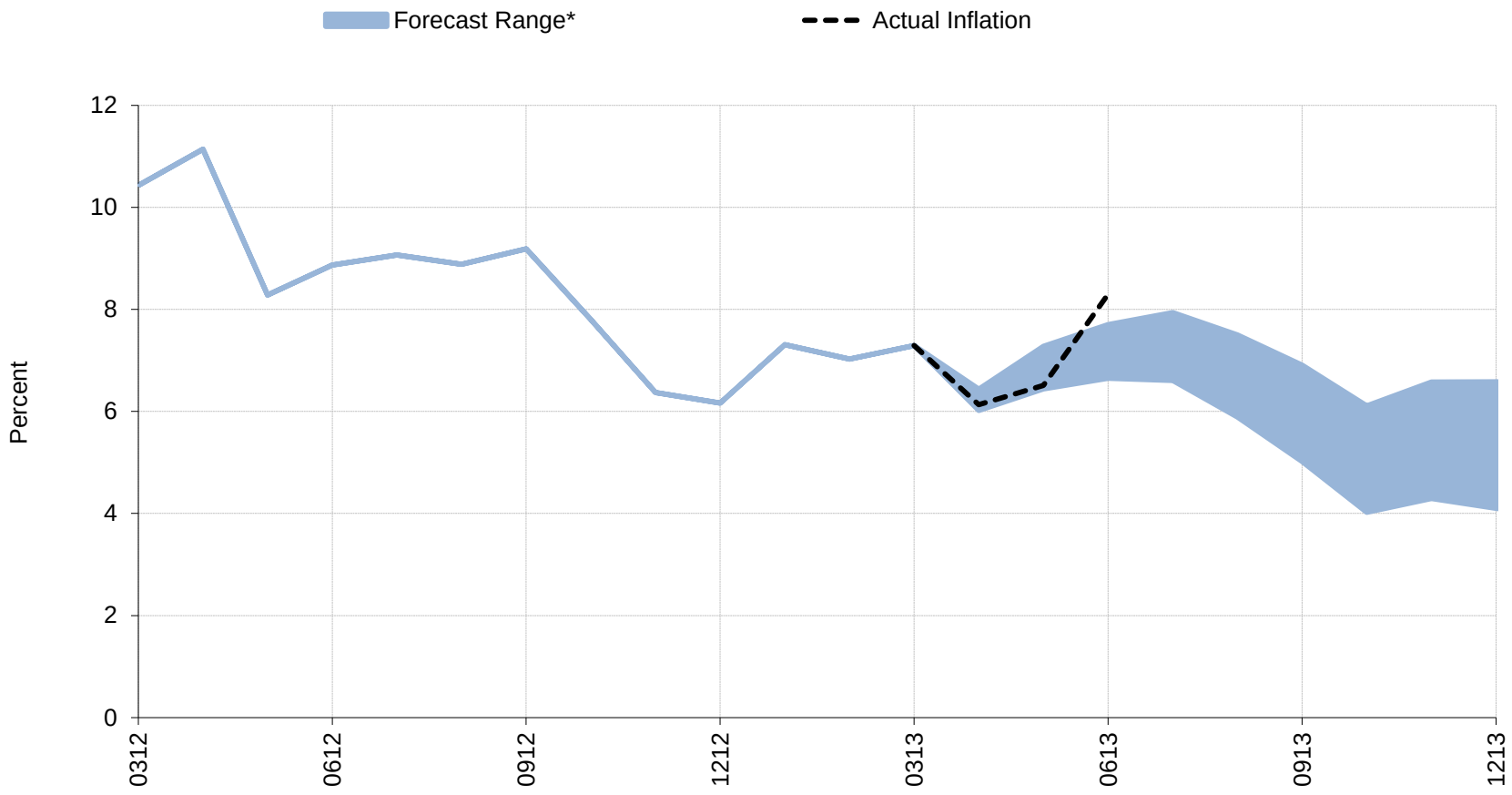
(Annual Percent Change)



Source: TURKSTAT.

Last Observation: June 2013.

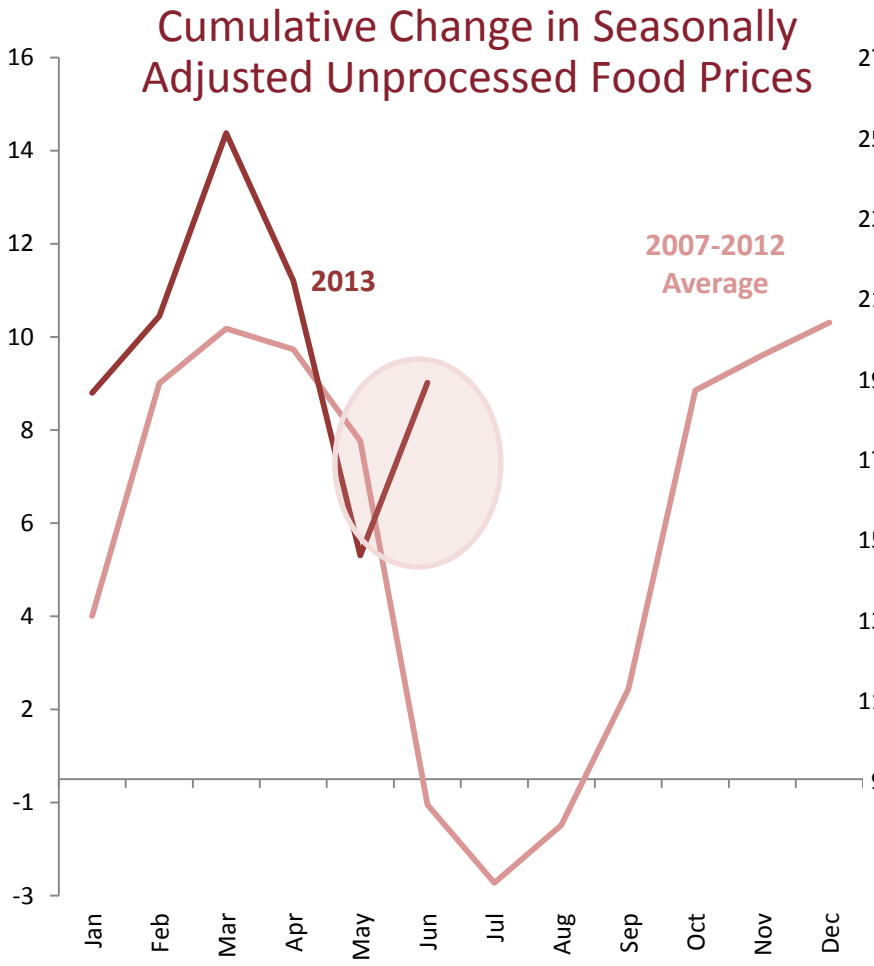
April 2013 Inflation Report Projections and Realizations

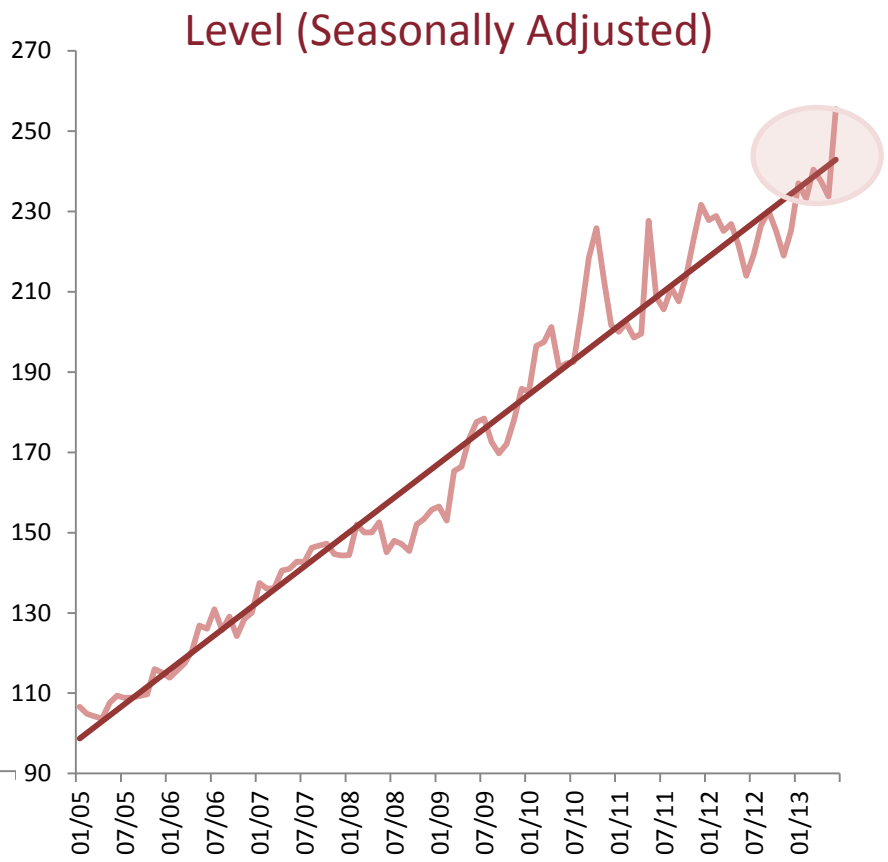


* Shaded region indicates the 70 percent confidence interval for the forecast

Last Observation: June 2013.

Unprocessed Food Prices



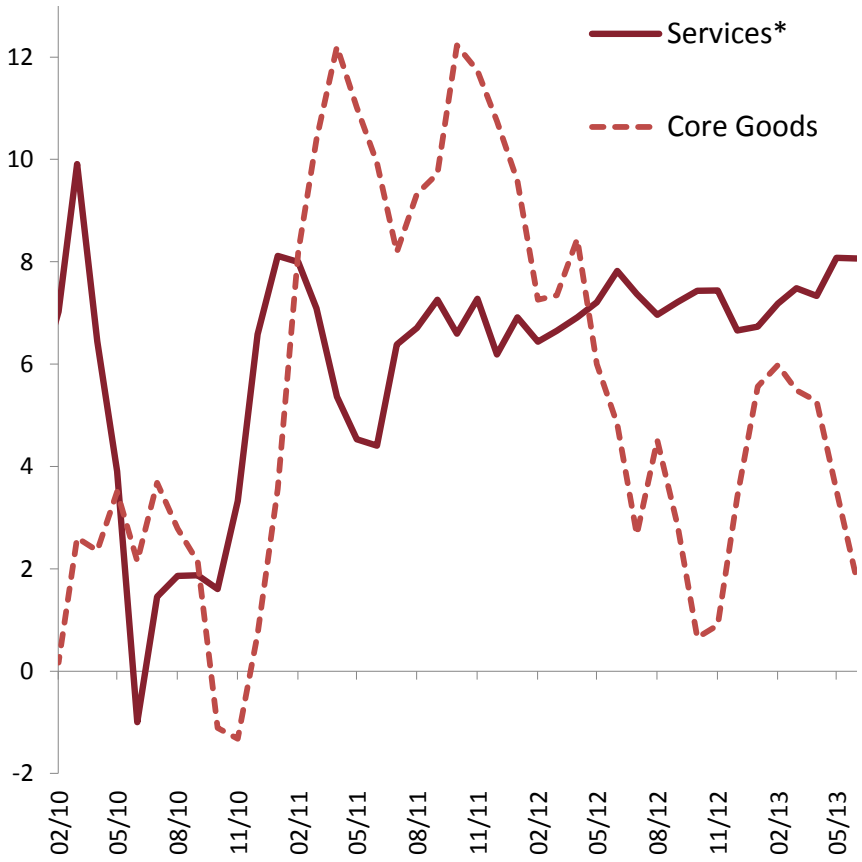


Source: TURKSTAT, CBRT.

Last Observation: June 2013.

Trend Inflation

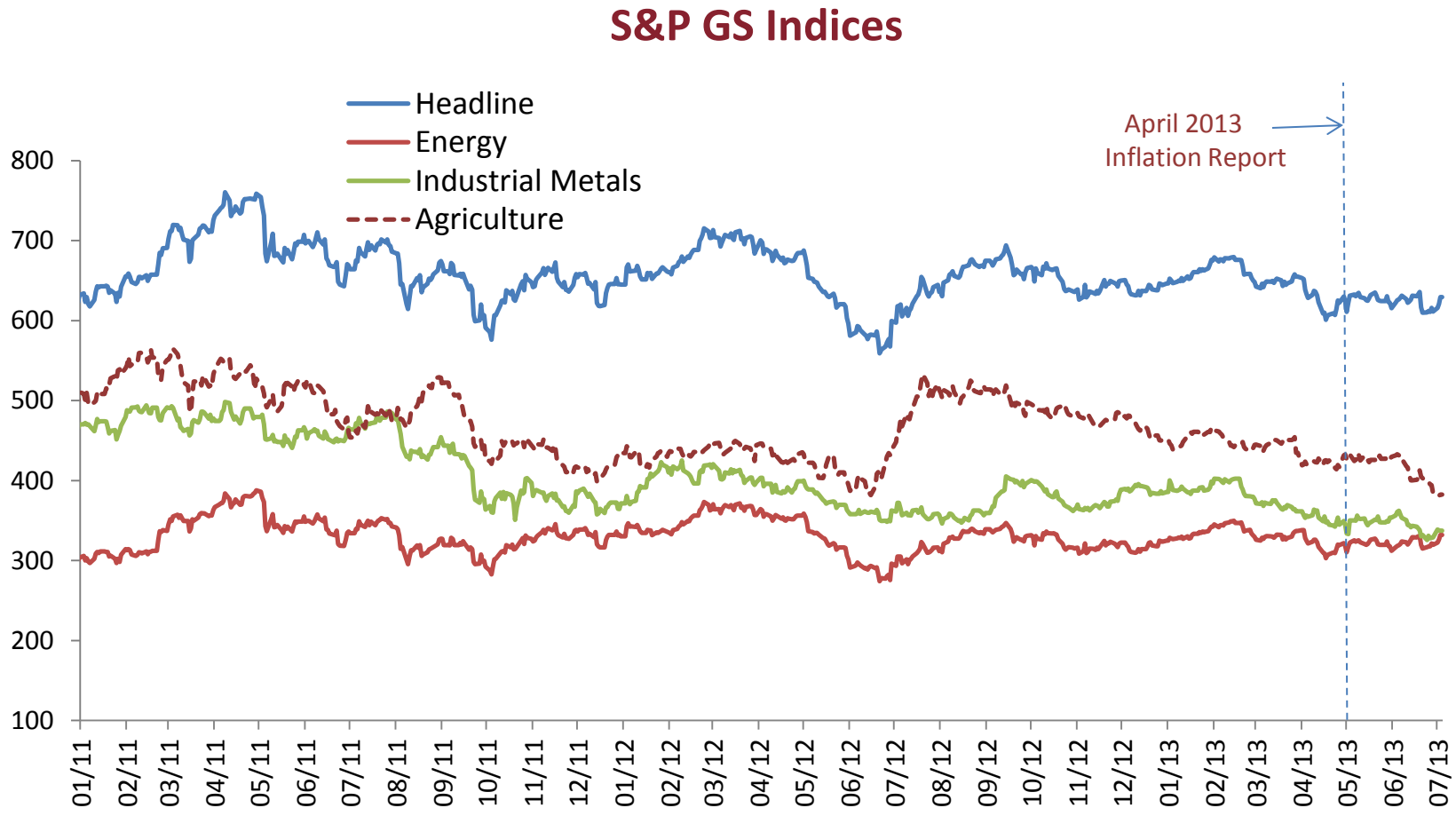
(Seasonally Adjusted, Monthly Percent Change,
3-Month Average, Annualized)



Last Observation: June 2013.
* Services excluding driving course fees.

Source: TURKSTAT, CBRT.

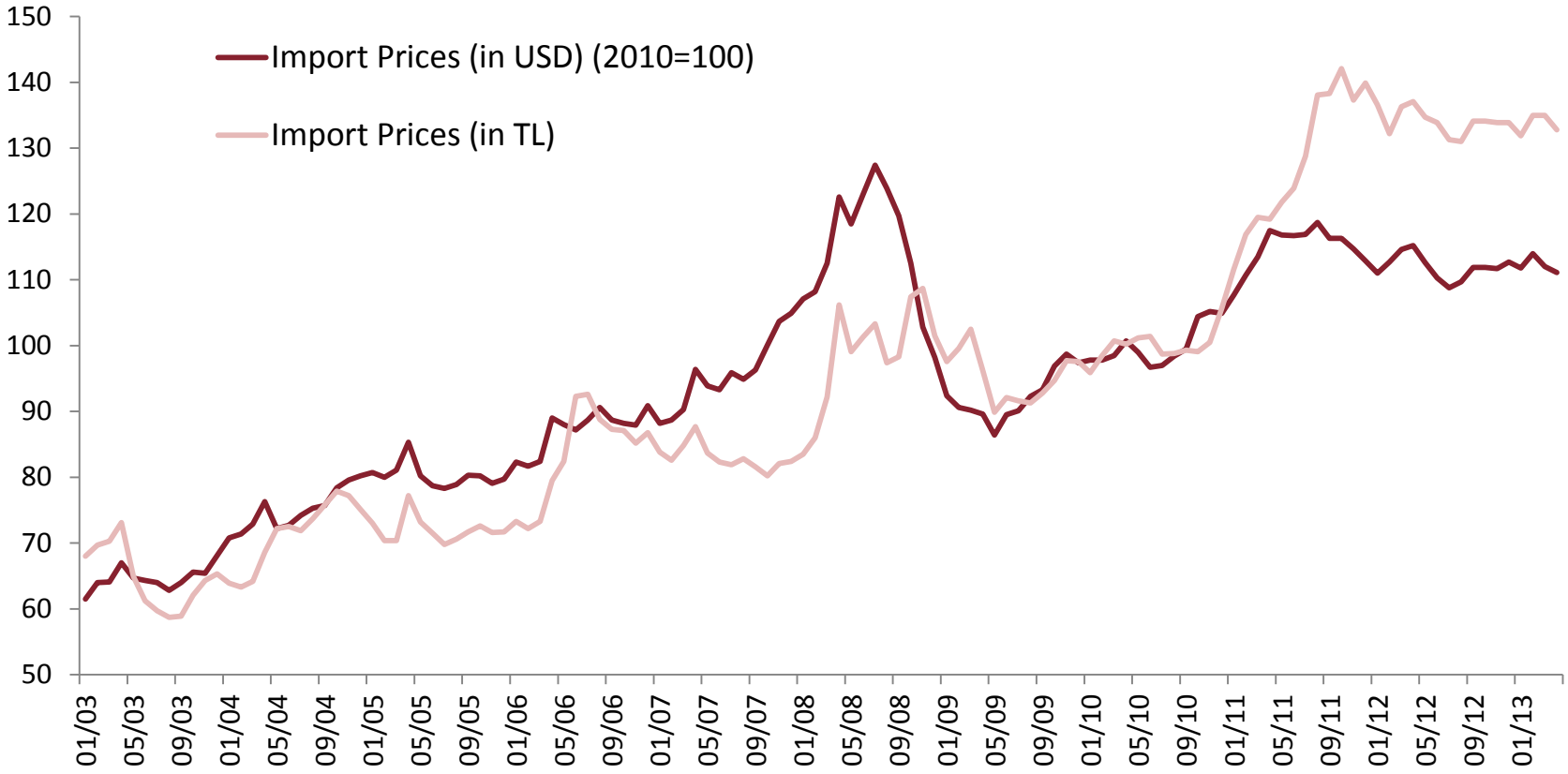
Commodity Prices



Source: Bloomberg.

Last Observation: July 04, 2013.

Import Prices

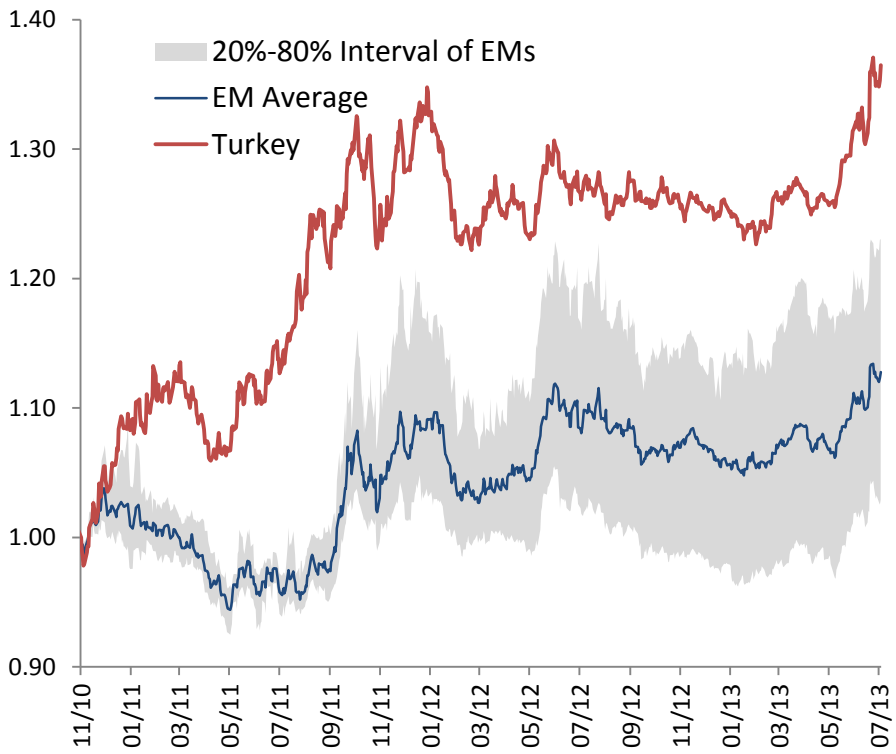


Source: TURKSTAT.

Last Observation: April 2013.

Nominal and Real Exchange Rates

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

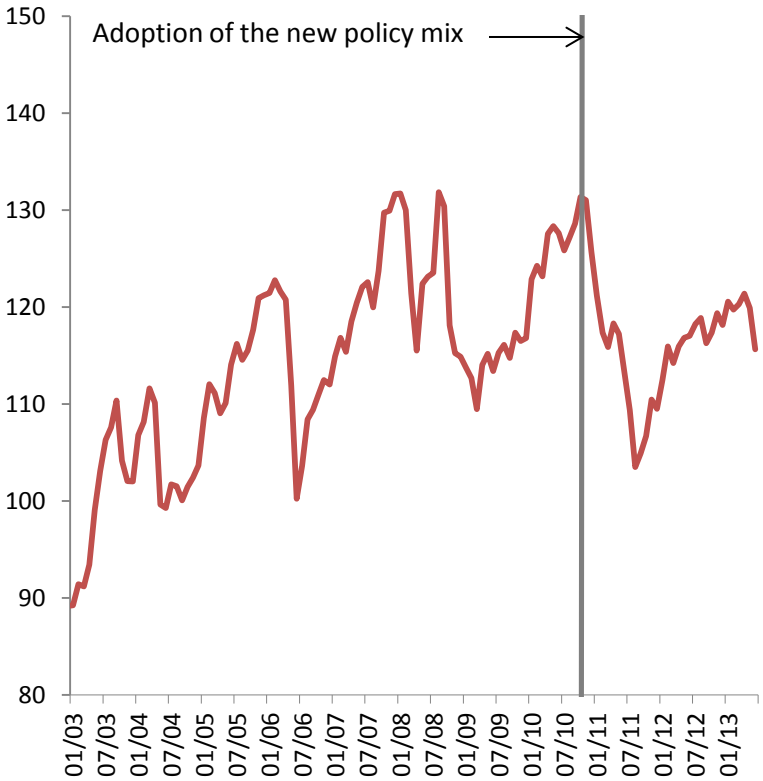


Last Observation: July 03, 2013.

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

Source: Bloomberg.

Real Effective Exchange Rates (2003=100)



Last Observation: July 2013.

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

Source: CBRT.

Inflation Expectations

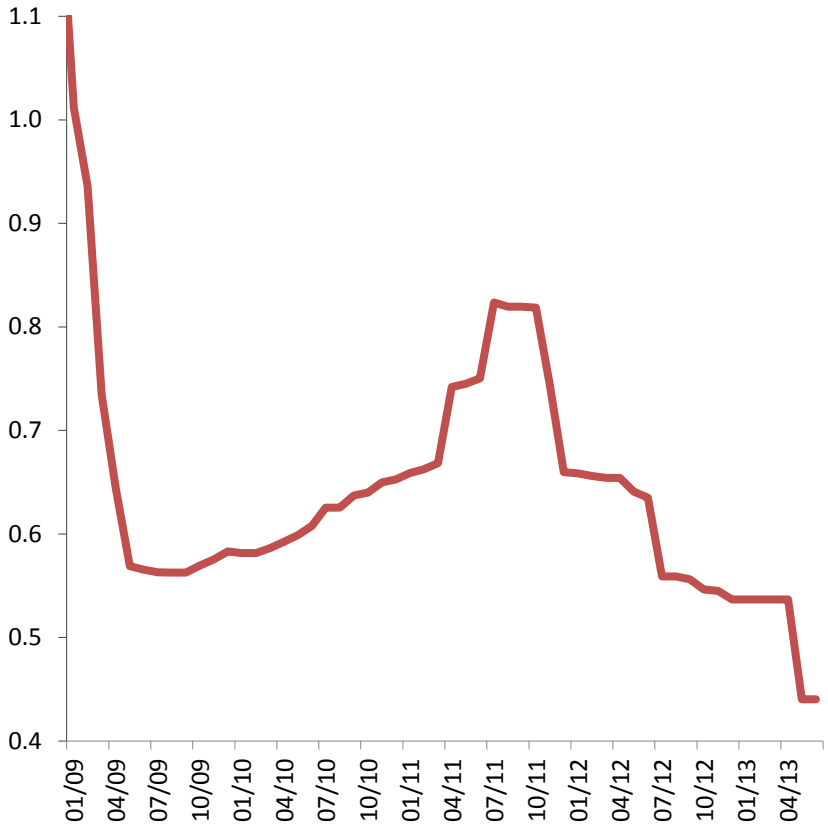
Source: CBRT.

Last Observation: June 2013.

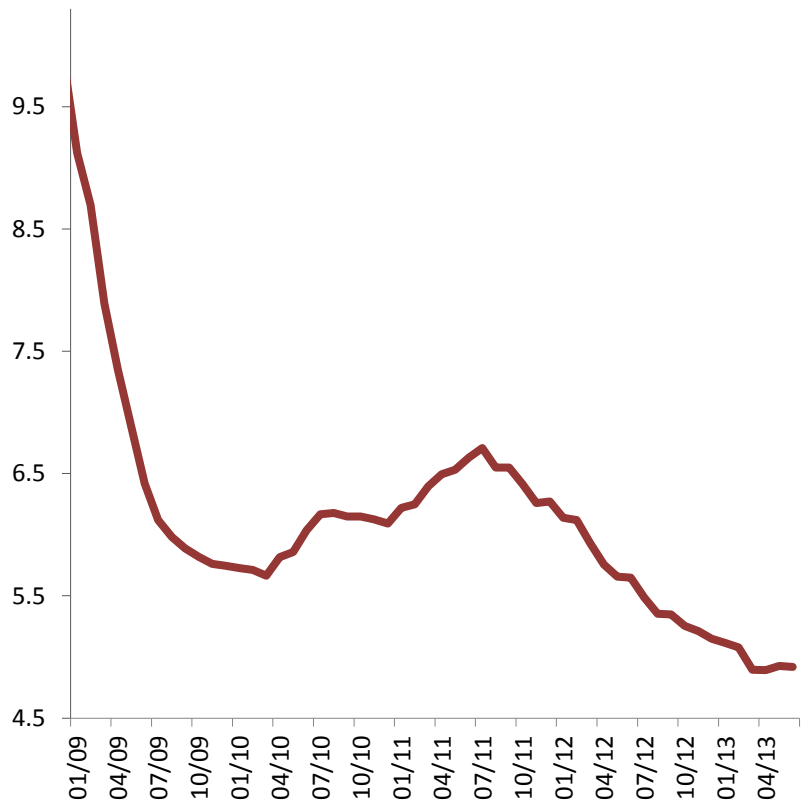
Monetary and Financial Conditions

Global Policy Rates

Advanced Countries



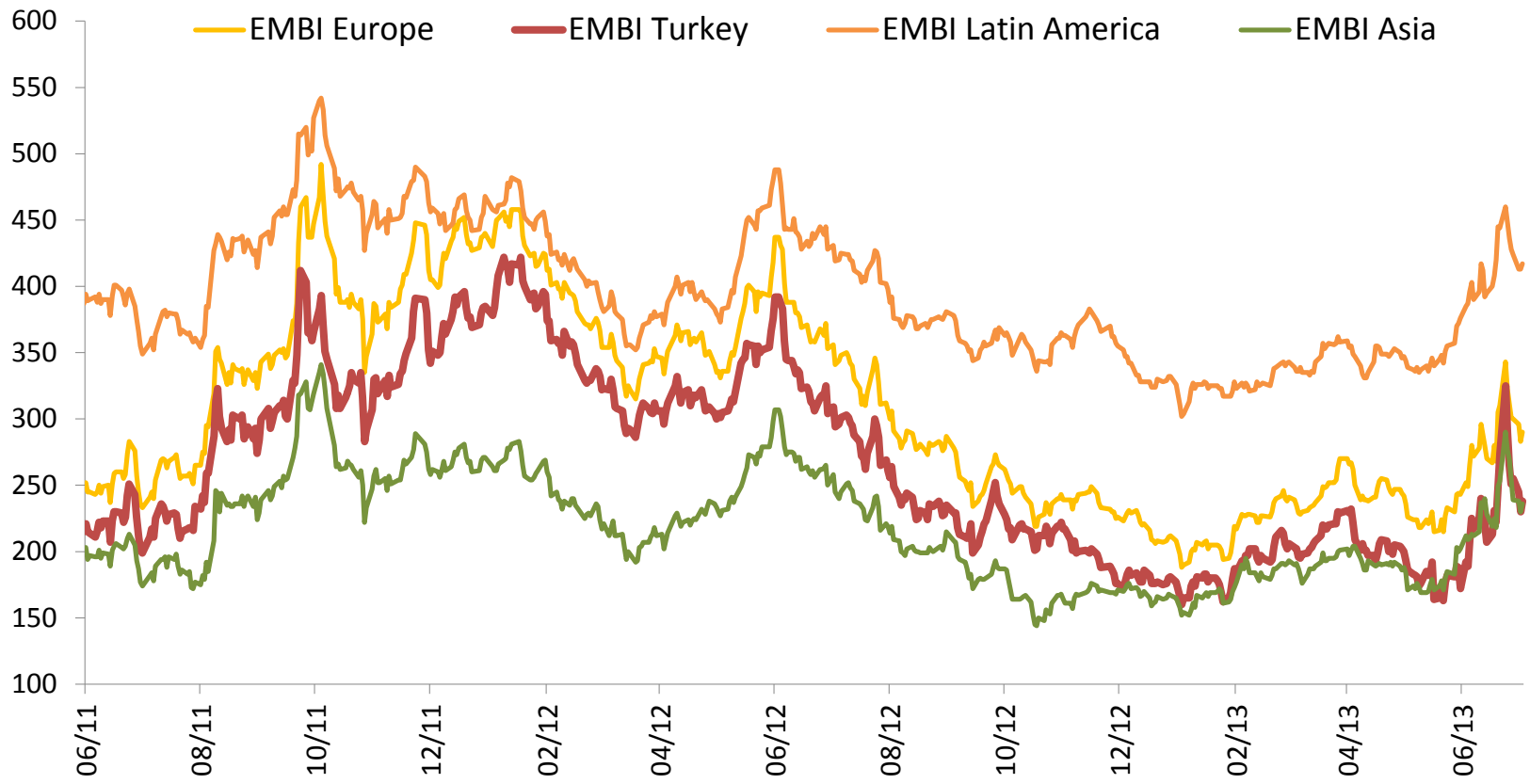
Emerging Countries



Source: Bloomberg.

Last Observation: June 2013.

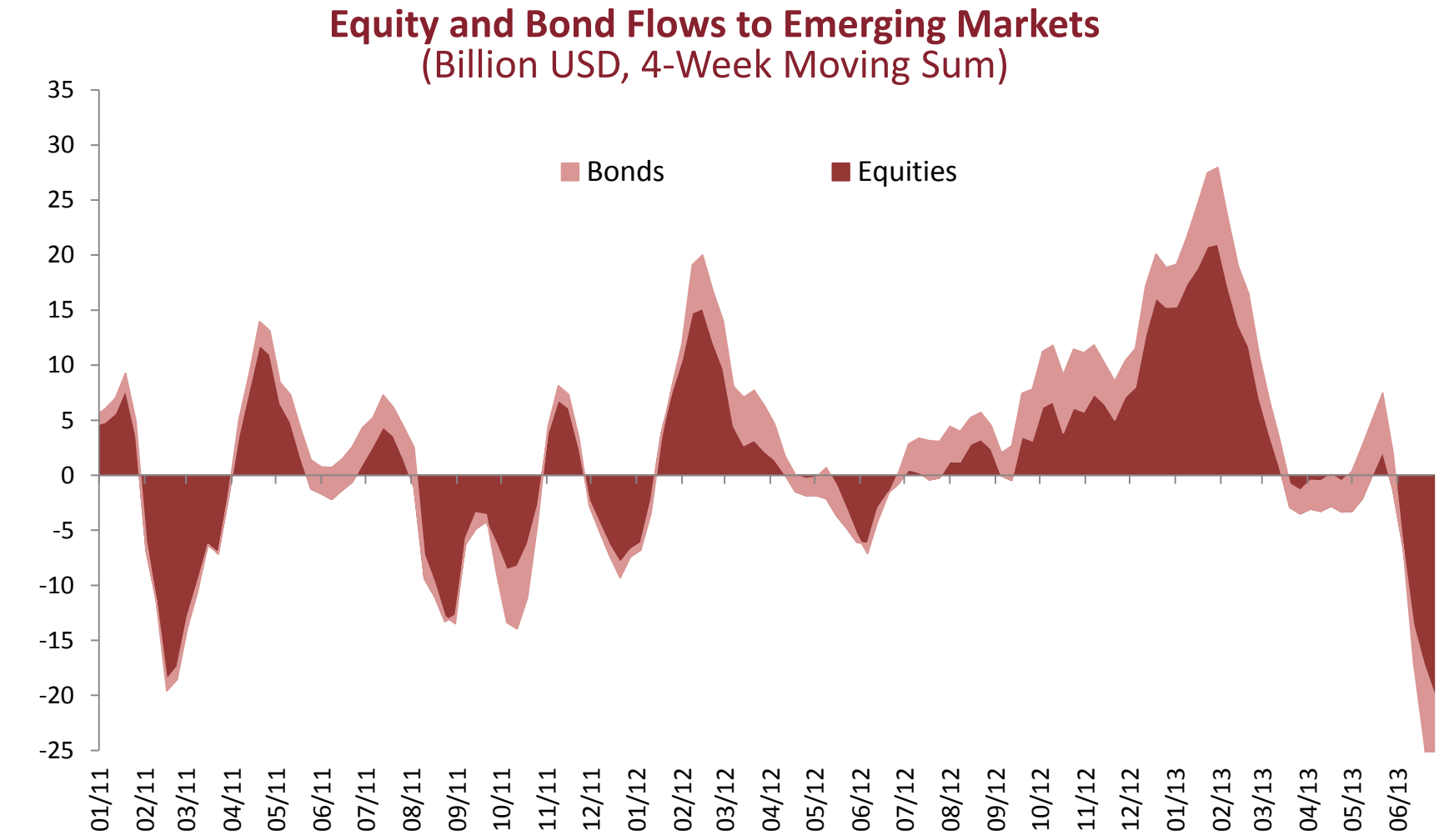
Risk Premium



Source: Bloomberg.

Last Observation: July 03, 2013.

Capital Flows

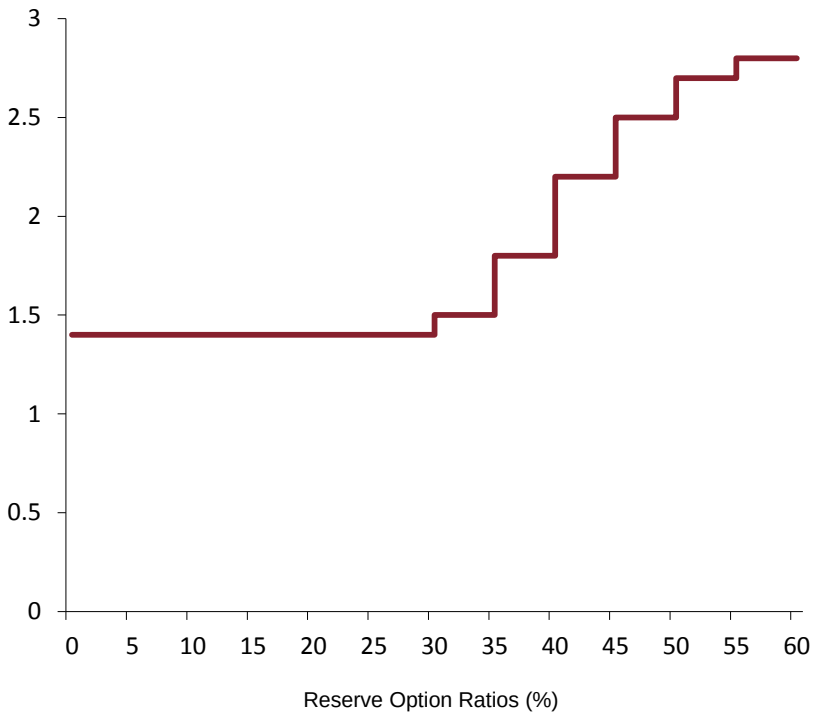


Source: EPFR.

Last Observation: June 29, 2013.

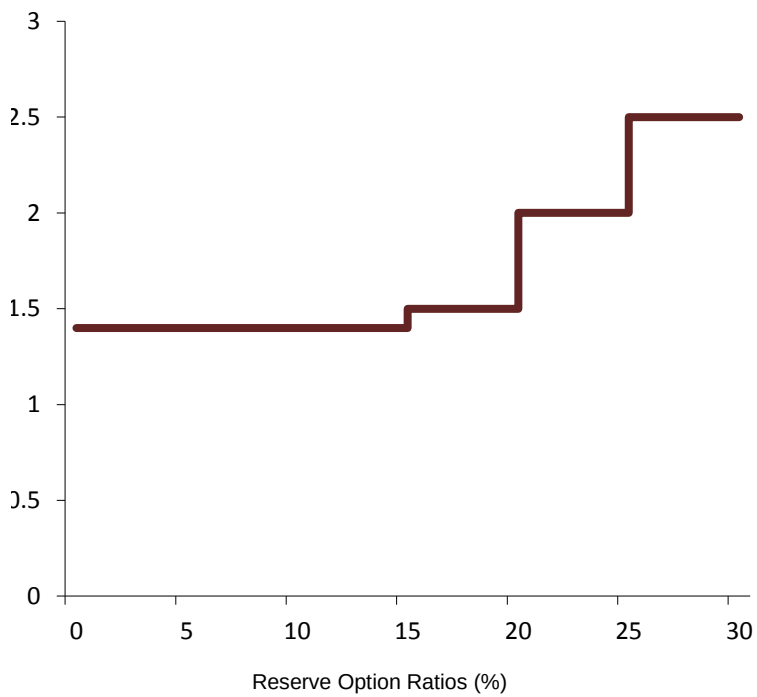
Reserve Options Coefficients (ROC)

Reserve Option Coefficients for FX



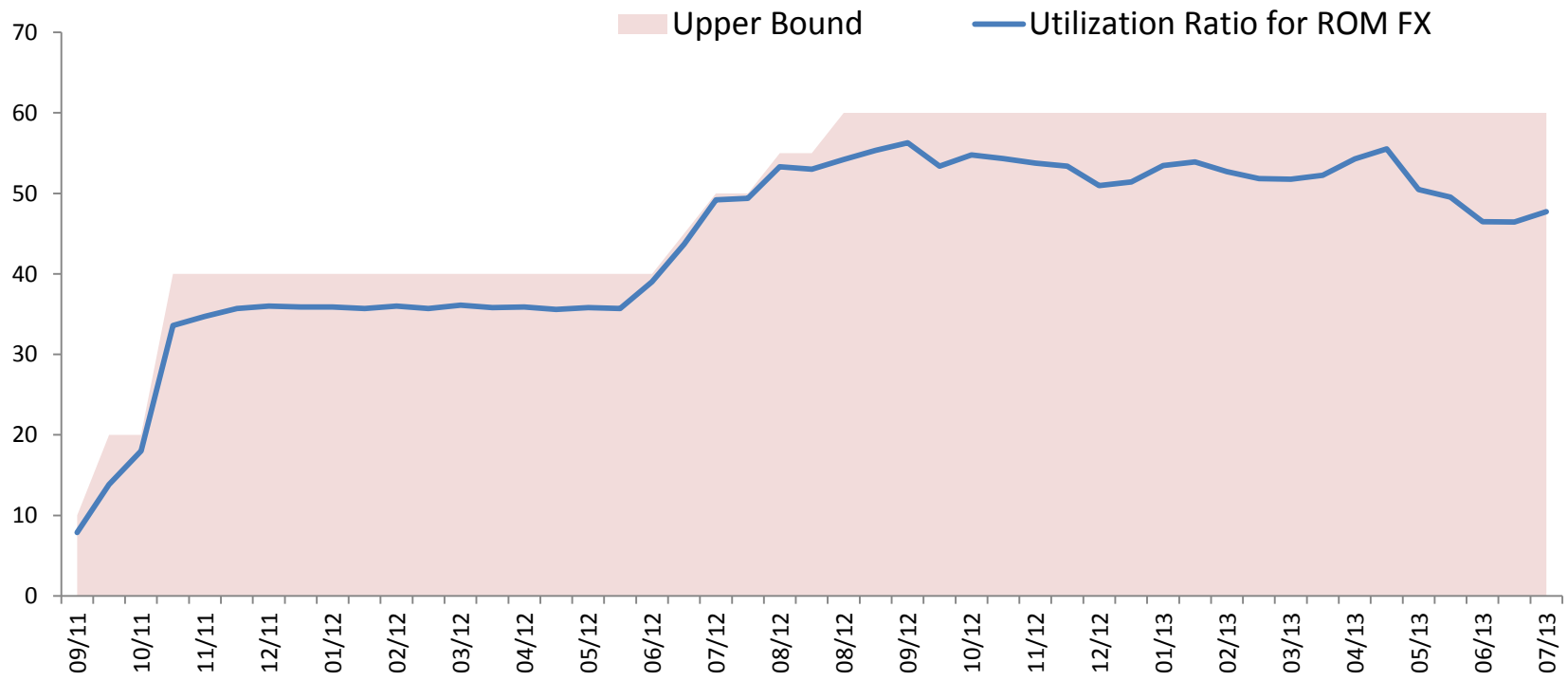
Source: CBRT.

Reserve Option Coefficients for Gold



Source: CBRT.

Utilization Ratio for ROM

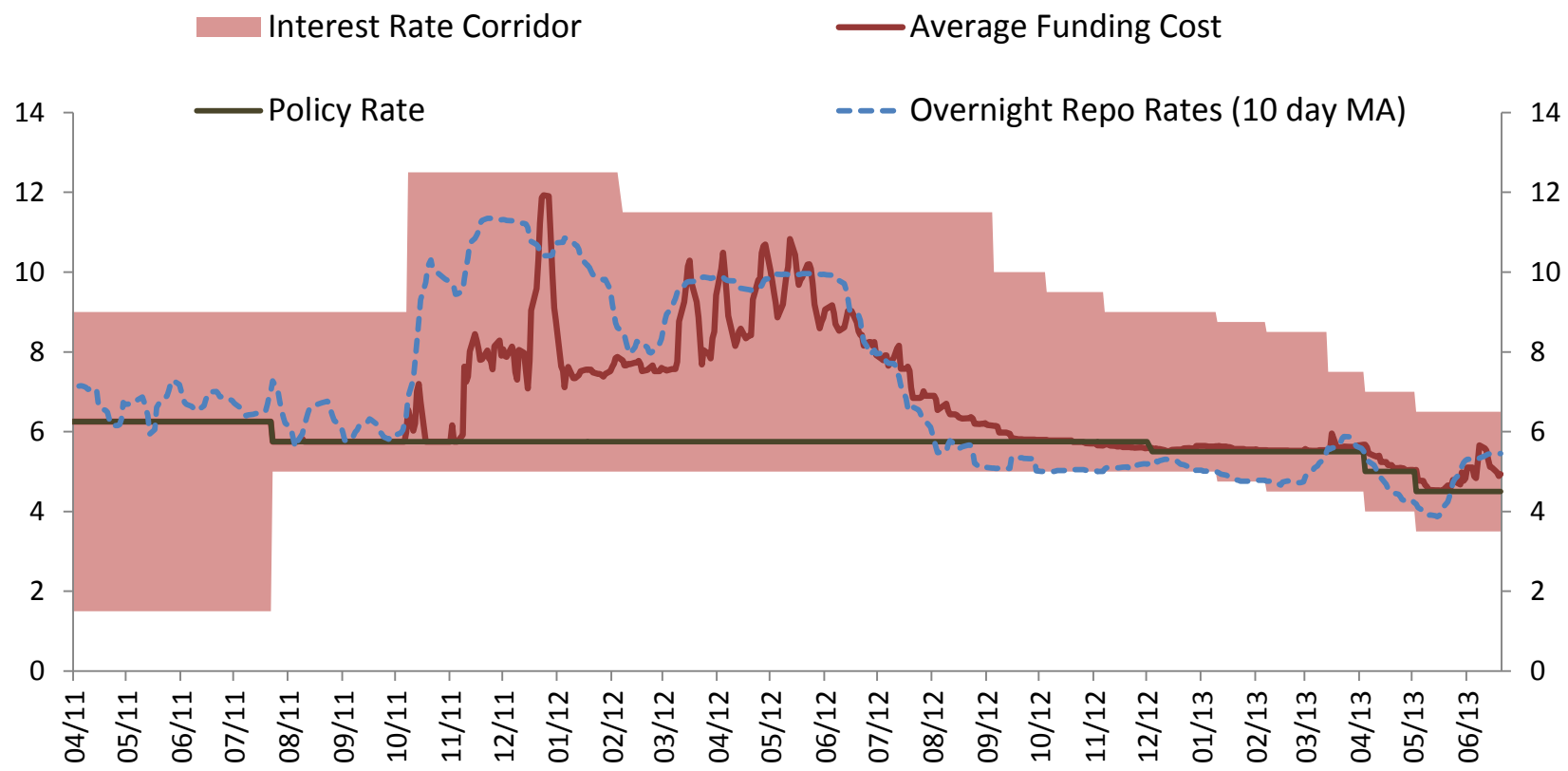


Source: CBRT.

Last Observation: July 2013.

Monetary Policy

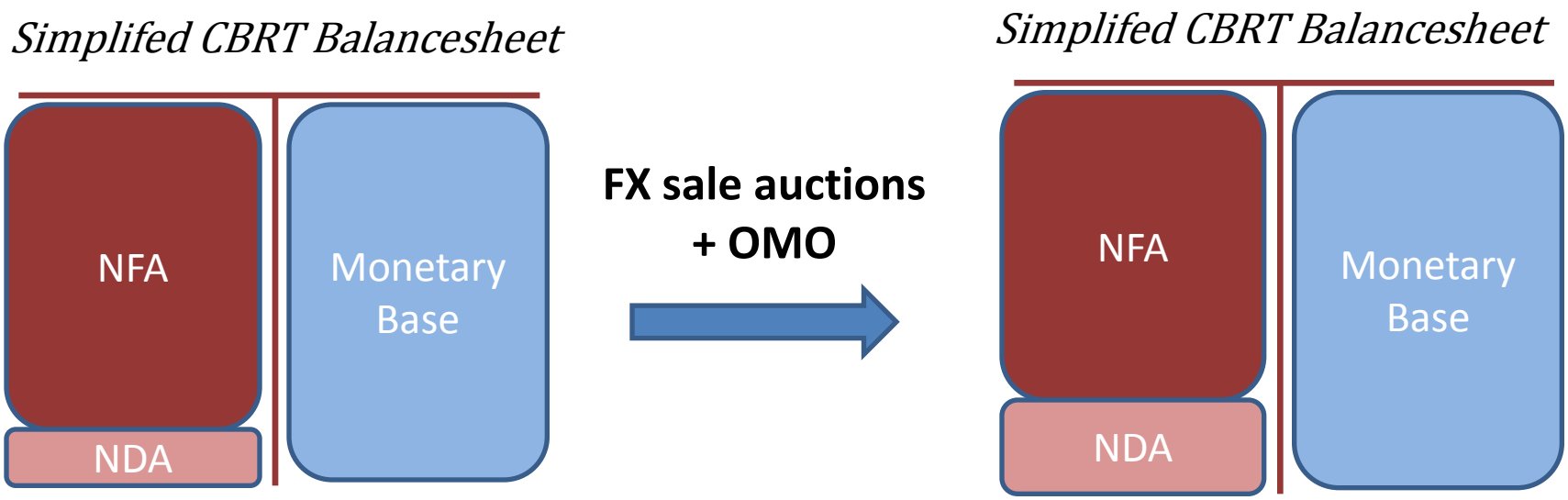
Interest Rate Corridor, Average Funding Rate, and O/N Repo Rates in the Money Market (Percent)



Source: CBRT.

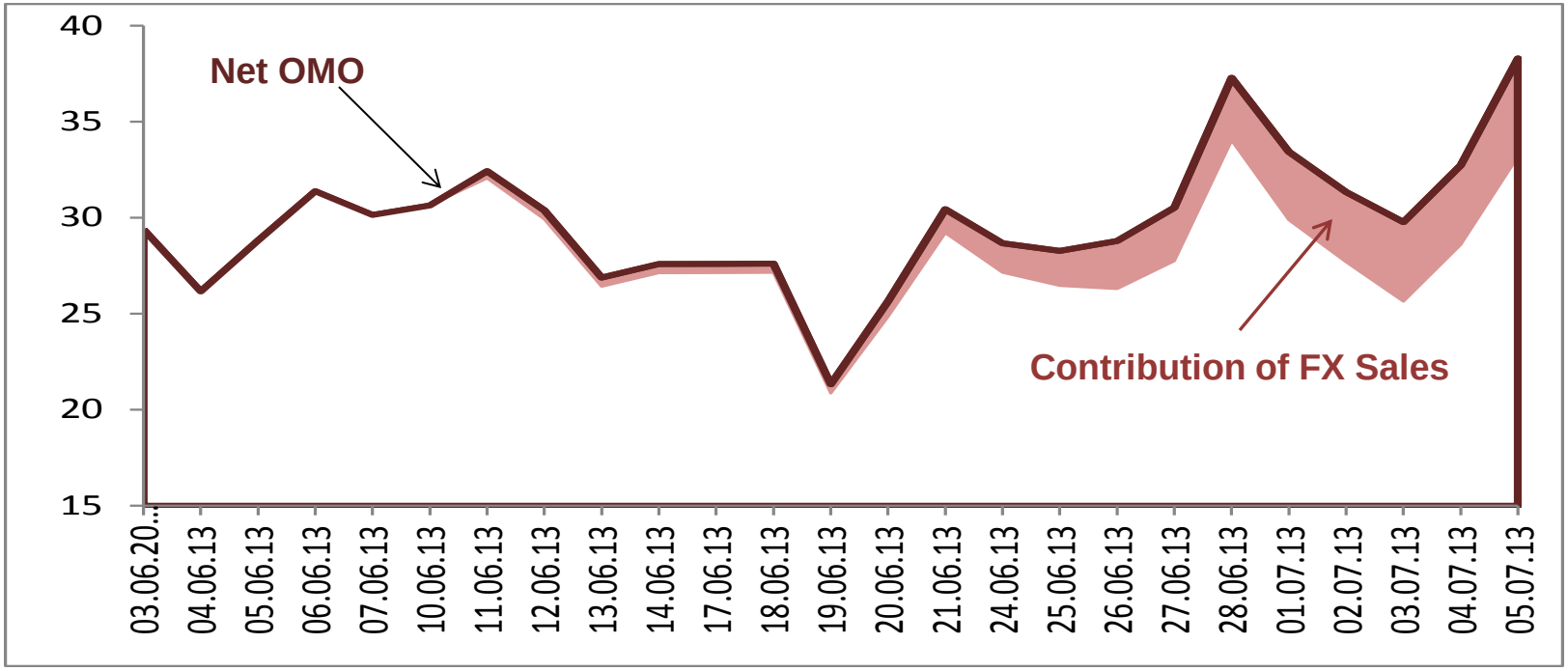
Last Observation: July 03, 2013.

Change in the Composition of the CBRT Balancesheet



MPC Minutes (June 18, 2013): «…the Committee stated that necessary adjustments would be made in the composition of Turkish lira liquidity provided by the Central Bank. The main instrument in the adjustment of liquidity composition is the foreign exchange sale auctions that lead to a shift from net foreign assets to net domestic assets and from permanent liquidity to short term funding.»

Change in the Composition of Liquidity



Between June 10-July 5, 2013:

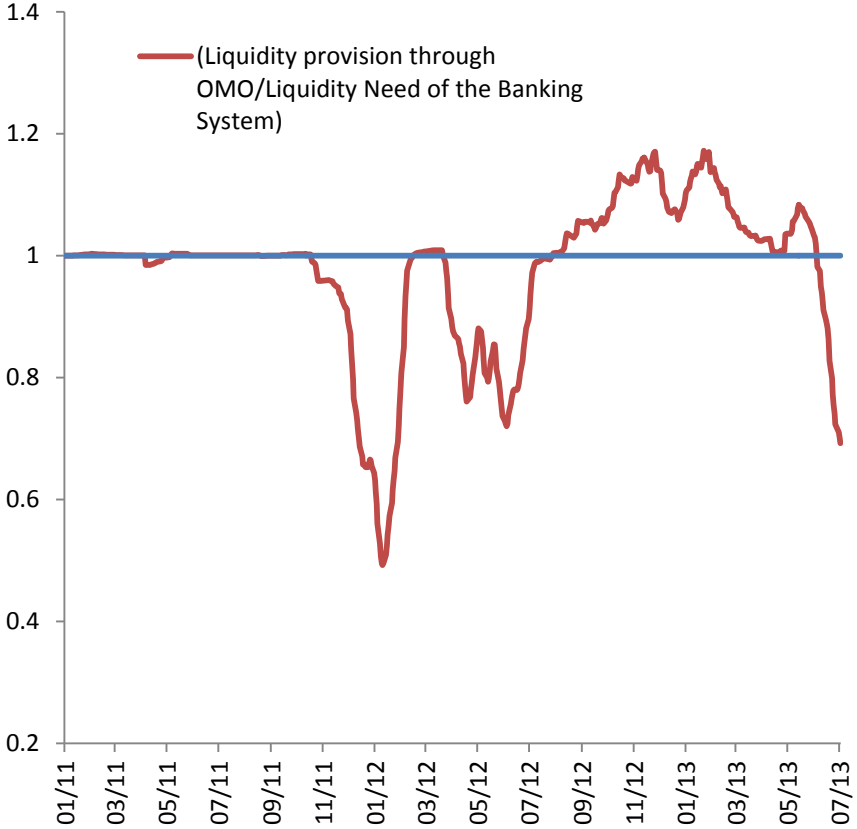
Liquidity withdrawn through FX sales : 5.1 billion TL => Decline in Net Foreign Assets

Change in Net OMO: 7.7 billion TL => Increase in Net Domestic Assets

Source: CBRT

Liquidity Policy

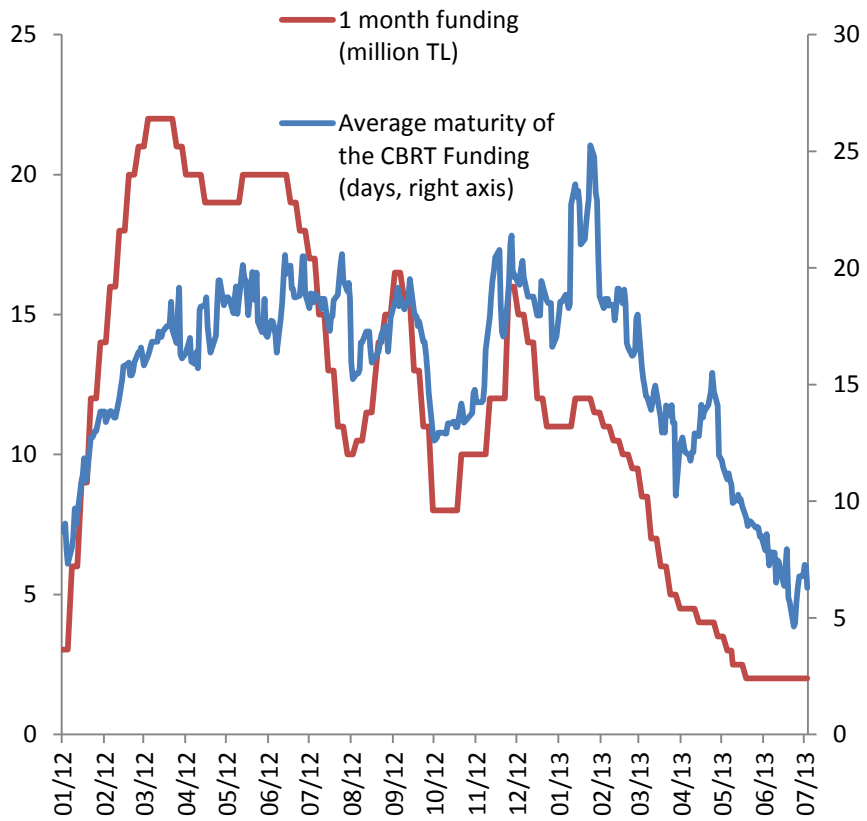
Liquidity Stance of the CBRT



Source: CBRT.

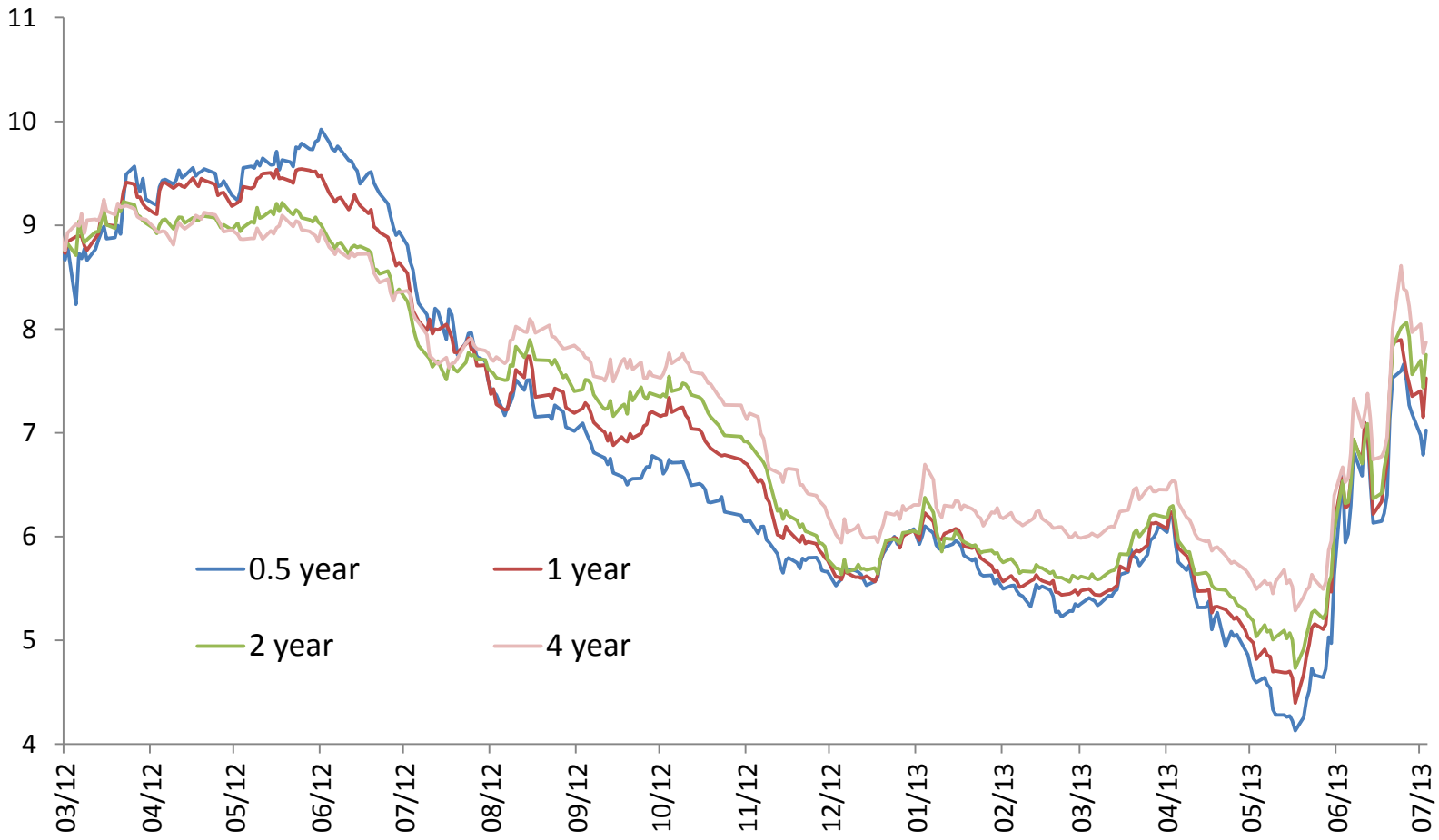
Last Observation: July 04, 2013.

Maturity of Liquidity Provision



Last Observation: July 04, 2013.

Interest Rates Across Different Maturities

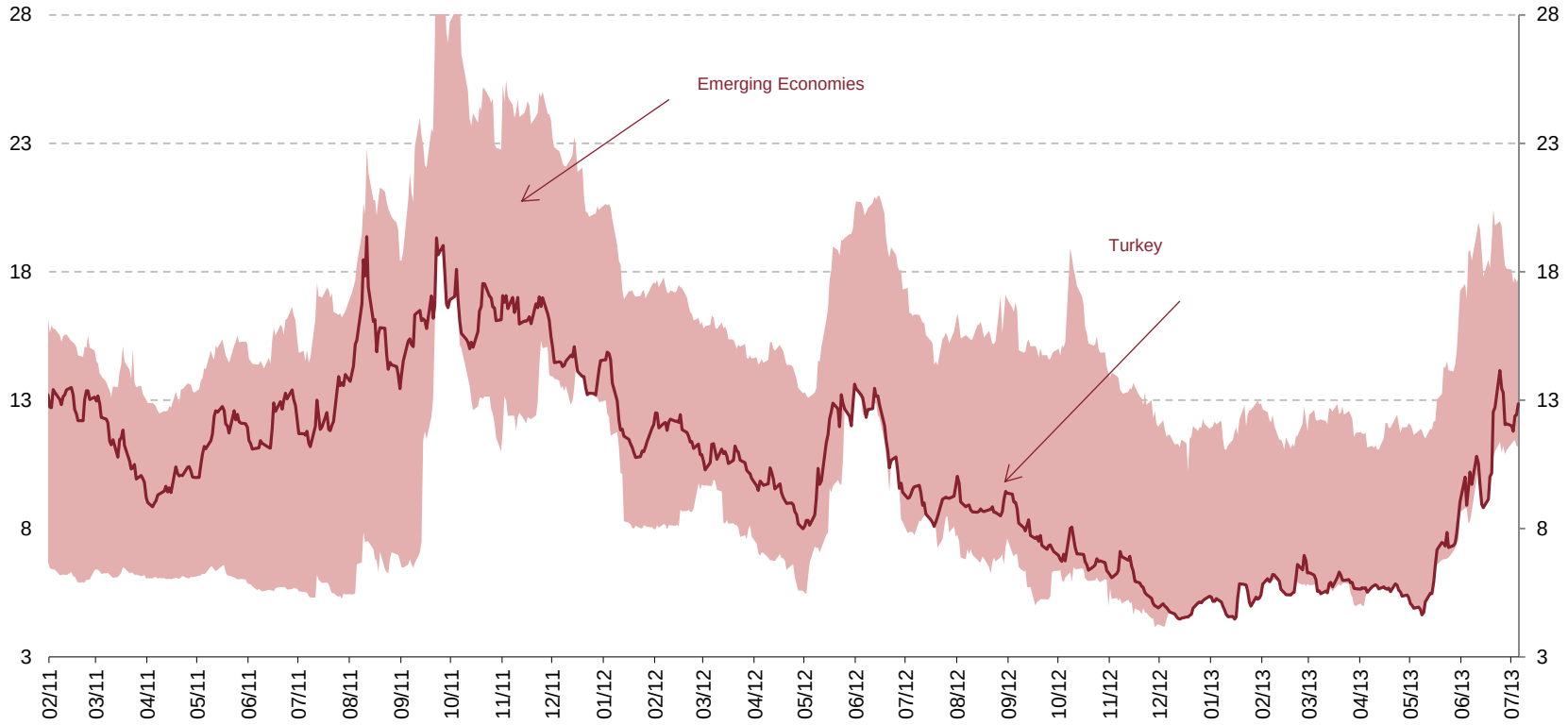


Source: BIST, CBRT.

Last Observation: July 03, 2013.

Implied FX Volatility

(1 month)



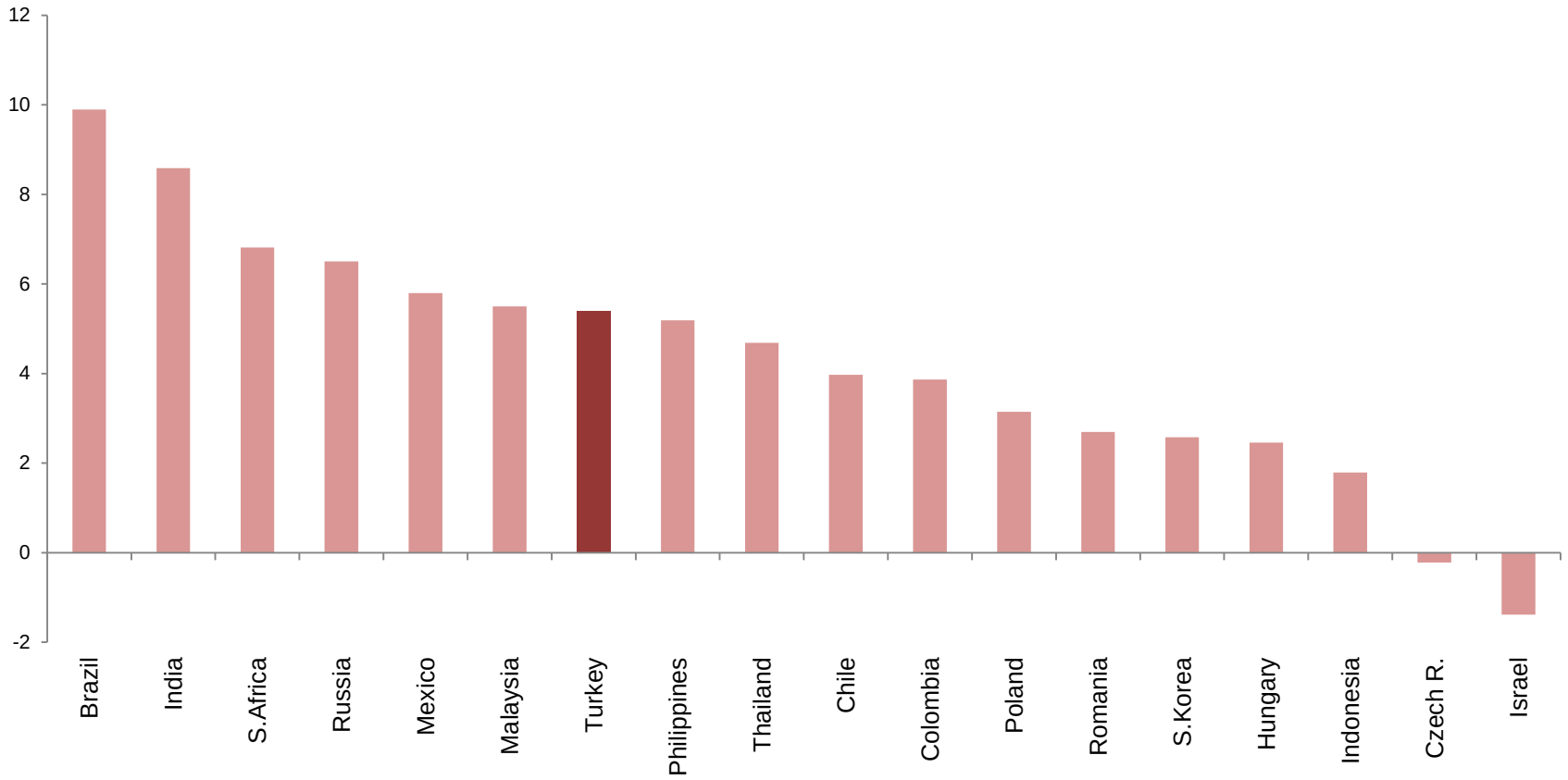
Source: Bloomberg.

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

Last Observation: 05 July 2013.

Exchange Rate Developments in Emerging Markets

(Percentage change against USD between May 22nd and July 5th)

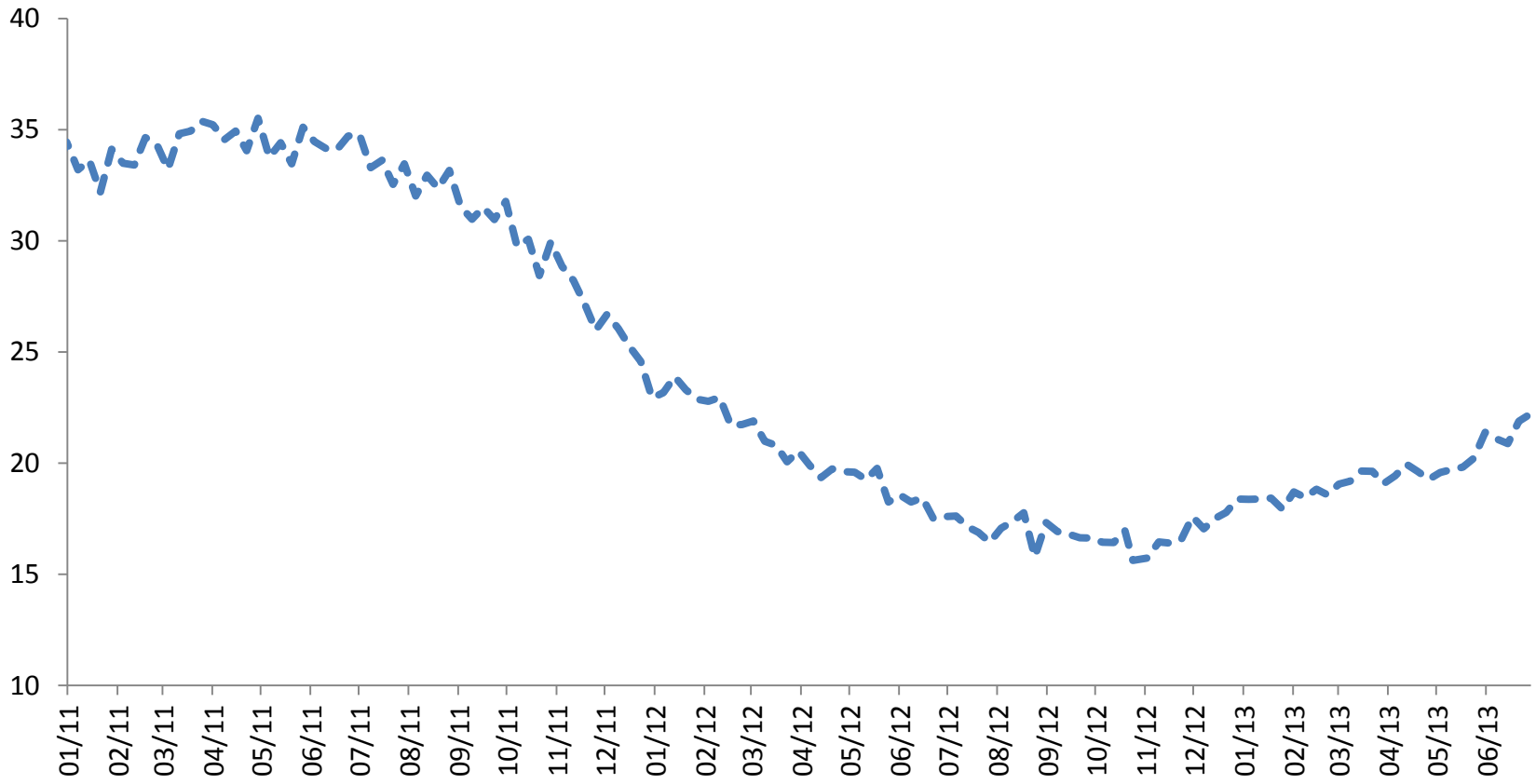


Source: Bloomberg.

Last Observation: 05 July 2013.

Total Loan Growth Rate

(Year on Year Change, Percent)



Source: CBRT.

Last Observation: June 28, 2013.
Total credit is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

Recent Trends in Total Loan Growth

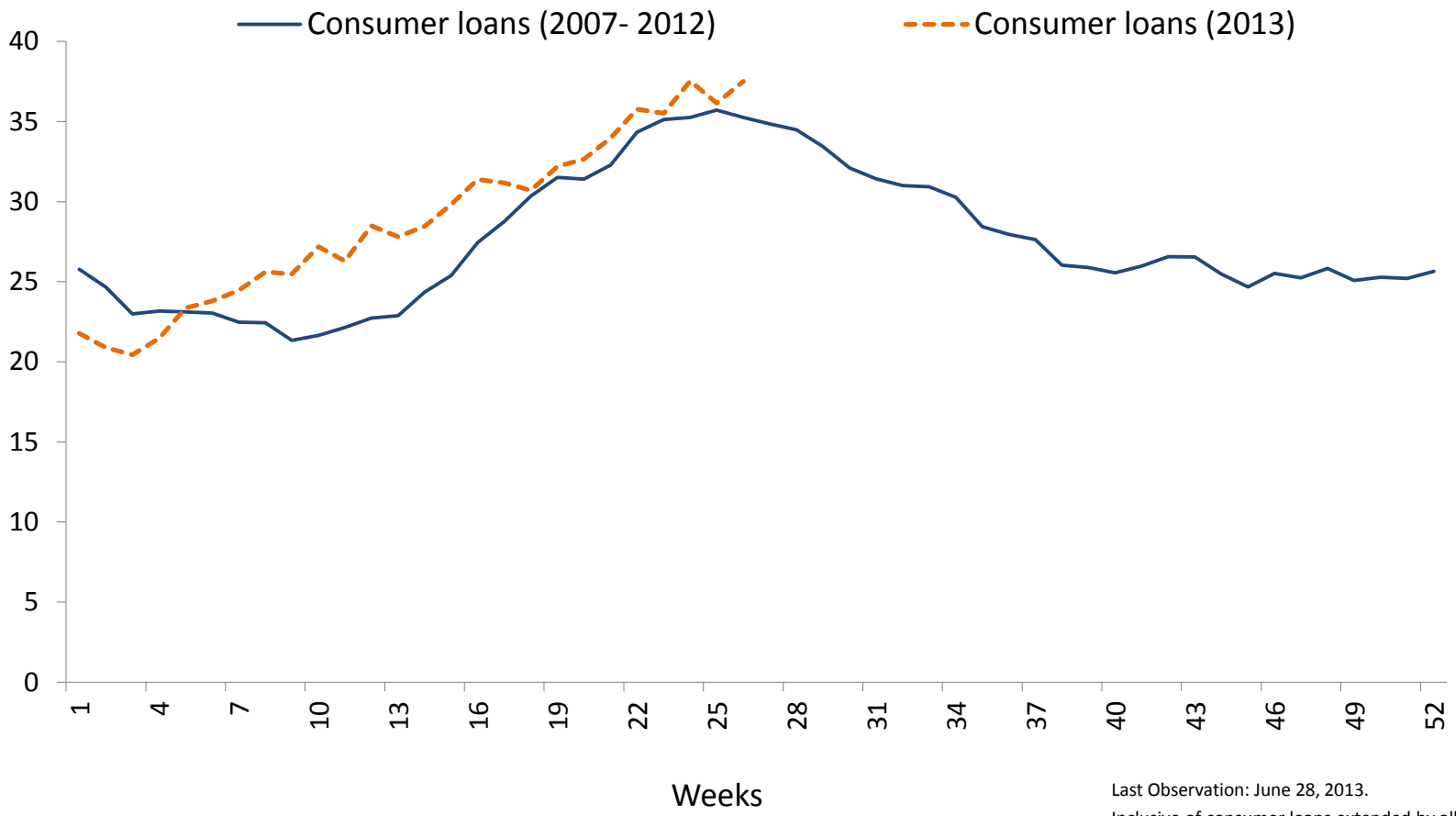
Last Observation: June 28, 2013.

Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Source: CBRT.

Consumer Loans

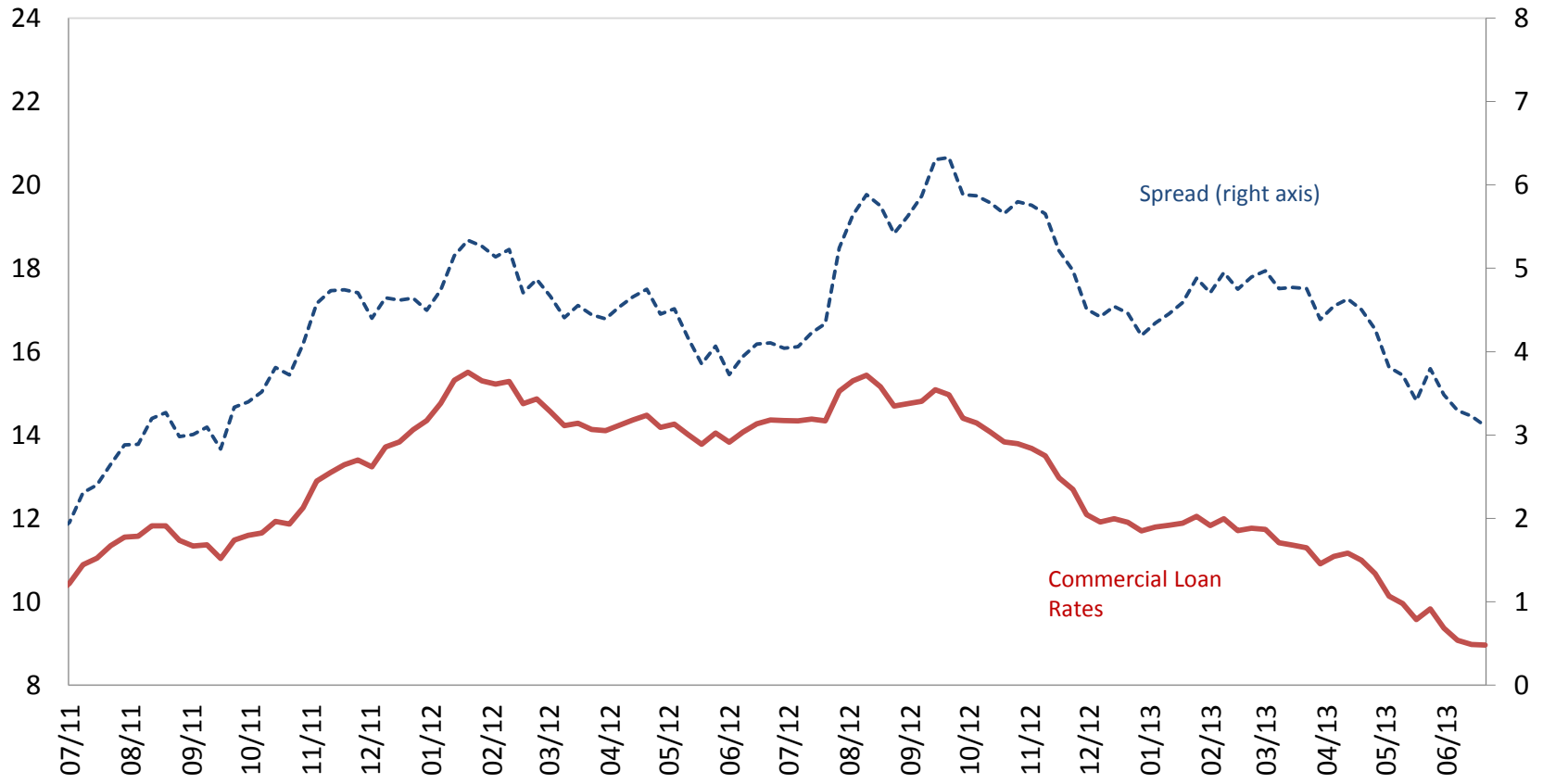
Consumer Loan Growth Rates
(13-Week Moving Average, Annualized, Percent)



Last Observation: June 28, 2013.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Source: CBRT.

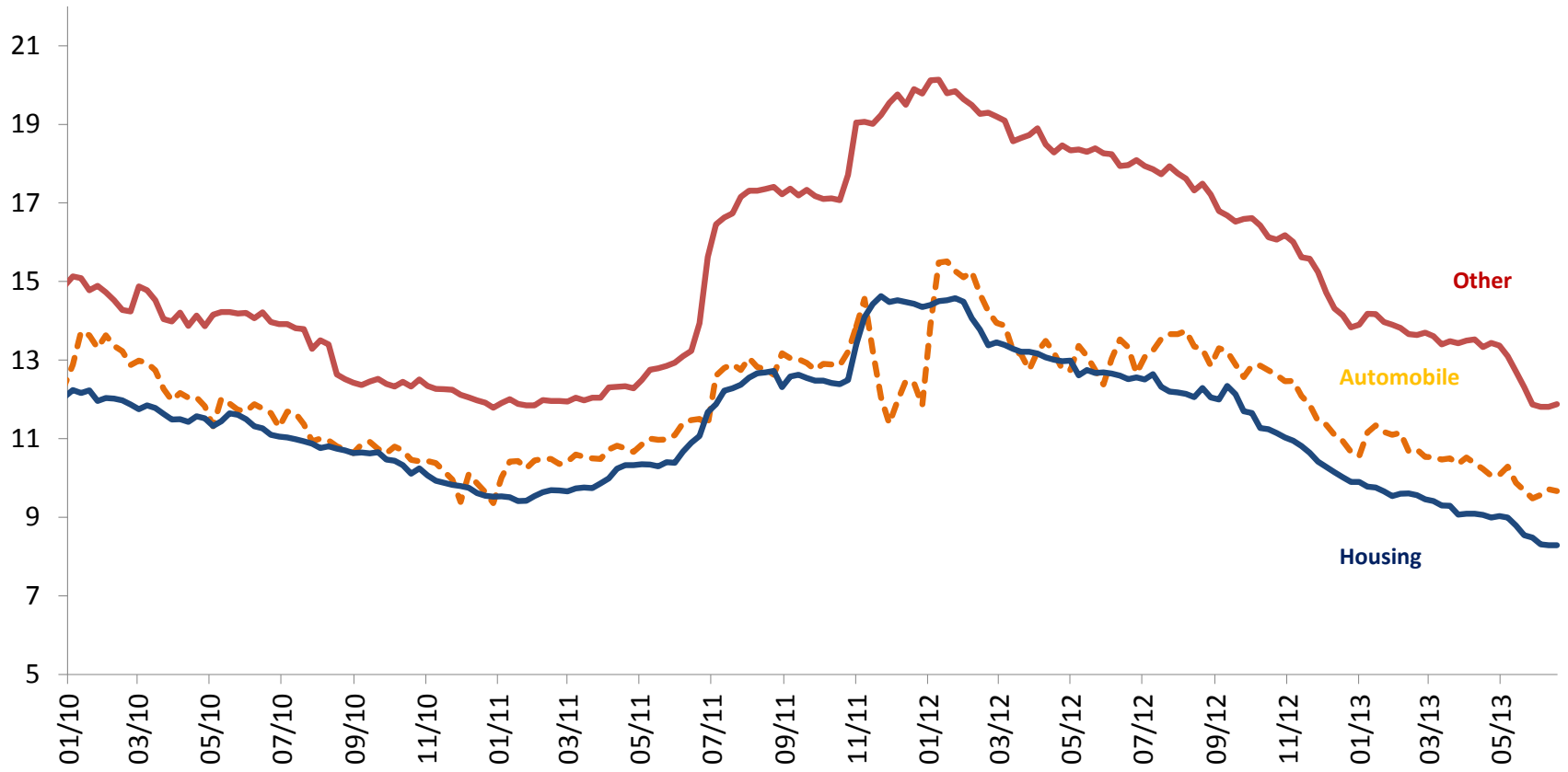
Lending - Deposit Rate Spread



Source: CBRT.

Last Data: June 21, 2013.
4 Weeks MA

Consumer Loan Rates



Source: CBRT.

Last Observation: June 21, 2013.

Overview

- Capital flows have weakened due to heightened uncertainty regarding monetary policy outlook of advanced economies. Yet, loan growth continues to hover above the reference rate.
- The recent jump in headline inflation is not broad-based. It can rather be attributed to the volatility in unprocessed food prices and base effects.
- Downward trend in inflation is expected to resume in the coming months.
- Core inflation indicators have so far displayed a benign trend, yet pass-through from recent exchange rate movements may have a temporary impact on tradable goods prices.
- The impact of exchange rate movements as well as growth in loans and domestic demand on the pricing behavior will be closely monitored.
- The composition of the liquidity provided by the CBRT will continue to be gradually shifted from net foreign assets to net domestic assets until the next MPC meeting.
- This will not only contain the rapid credit growth through the liquidity channel but also will support the value of the Turkish lira.

TÜRKİYE CUMHURİYET
MERKEZ BANKASI

RECENT DEVELOPMENTS IN TURKISH ECONOMY AND MONETARY POLICY

July 8, 2013

Ankara