TÜRKİYE CUMHURİYET MERKEZ BANKASI

THE ECONOMIC OUTLOOK AND MONETARY POLICY

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Deputy Governor

Erste Securities Istanbul's 5th Annual Turkey Conference: Turkey in Focus 2015

20 March 2015, Istanbul

Outline

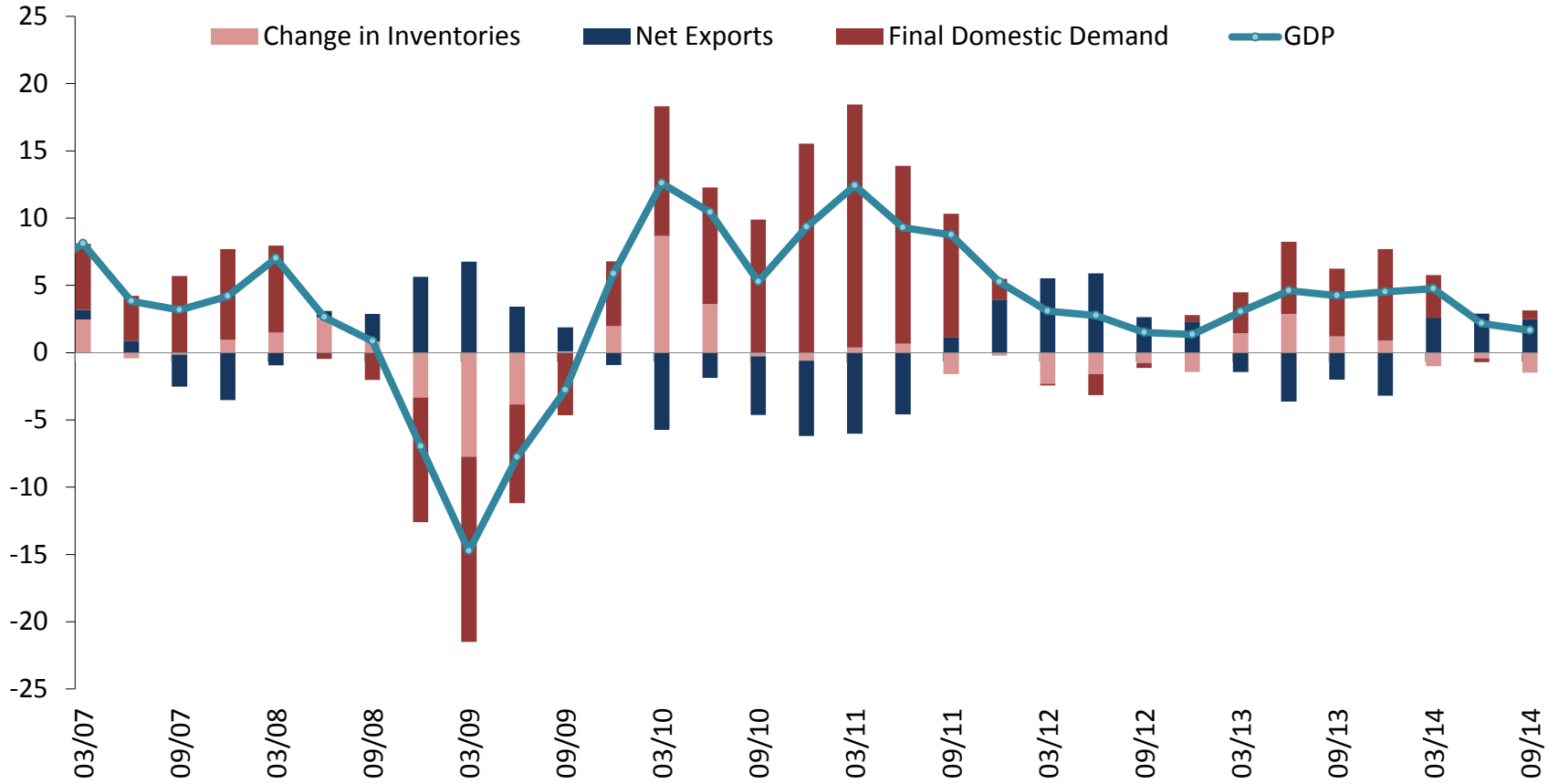
1. Economic Activity and Rebalancing
2. Inflation
3. Monetary and Financial Conditions

ECONOMIC ACTIVITY AND REBALANCING

The economy has recorded strong growth rates despite weaknesses in trade partners.

GDP Growth

(annual percentage change, quarterly)

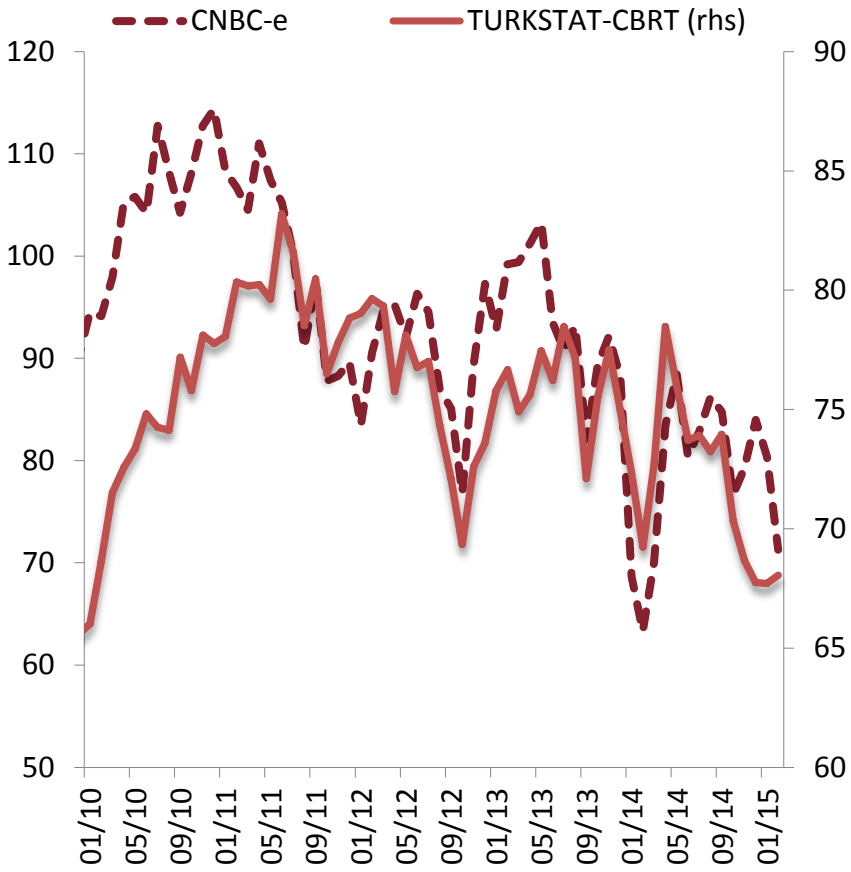


Source: TURKSTAT

Last Observation: September 2014

Leading indicators do not point to a recovery in the economic activity during the first quarter.

Consumer Confidence

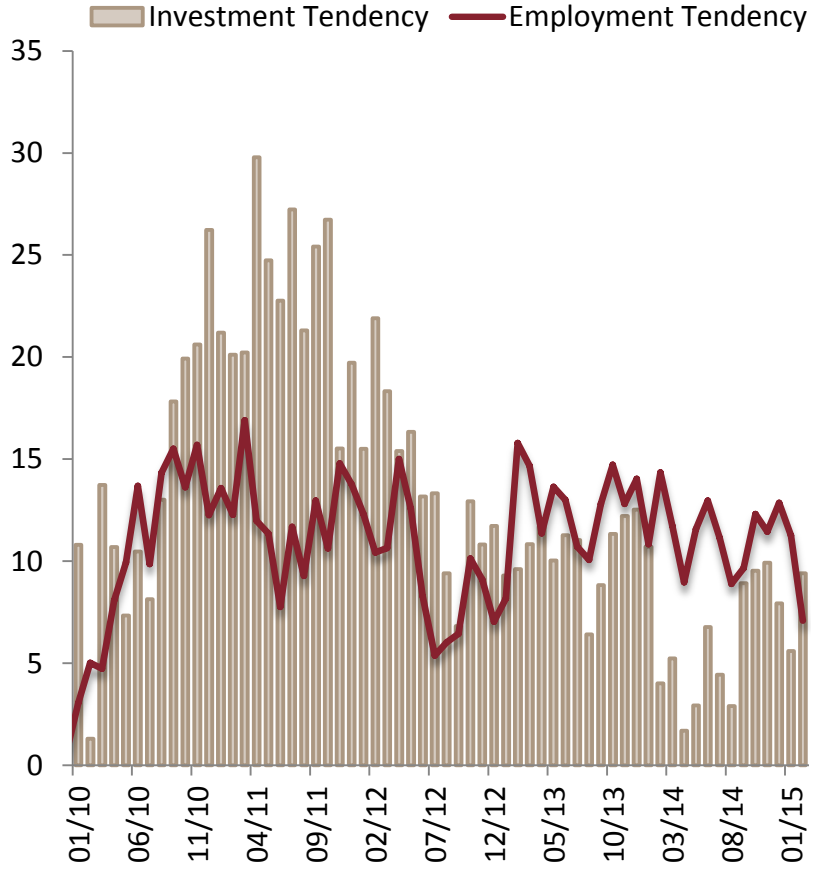


Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: February 2015.

Investment and Employment Prospects

(Seasonally Adjusted)



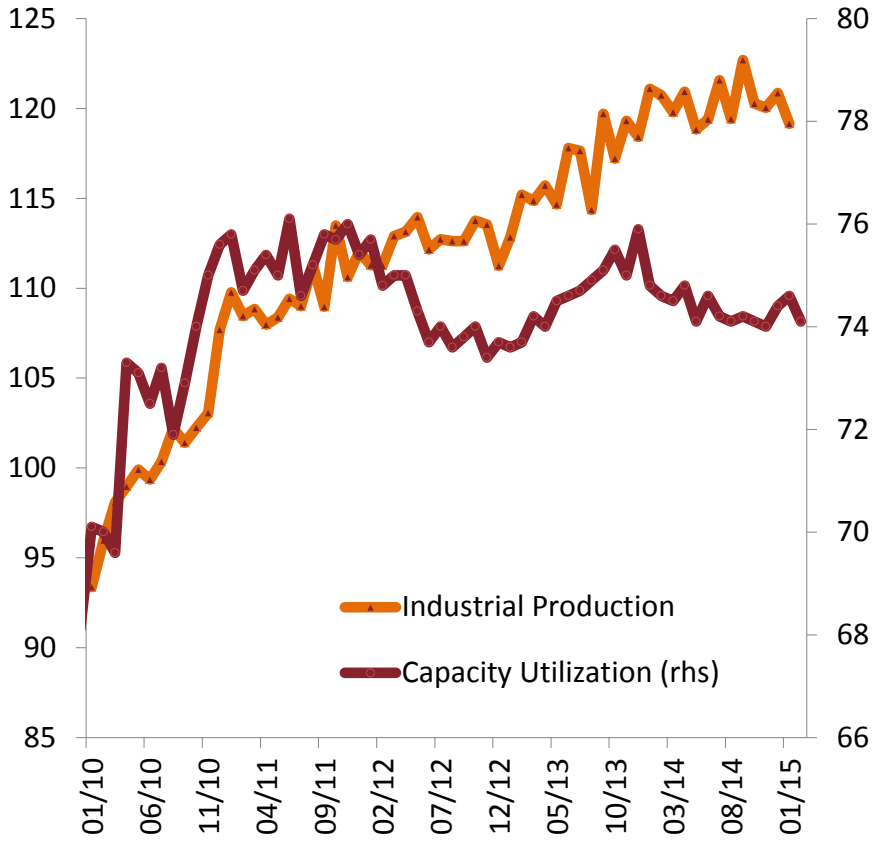
Source: CBRT Business Tendency Survey

Last Observation: February 2015.

Recently, export orders remain weak, while domestic orders show some softening, partly reflecting adverse weather conditions.

Industrial Production and Capacity Utilization

(Seasonally Adjusted)

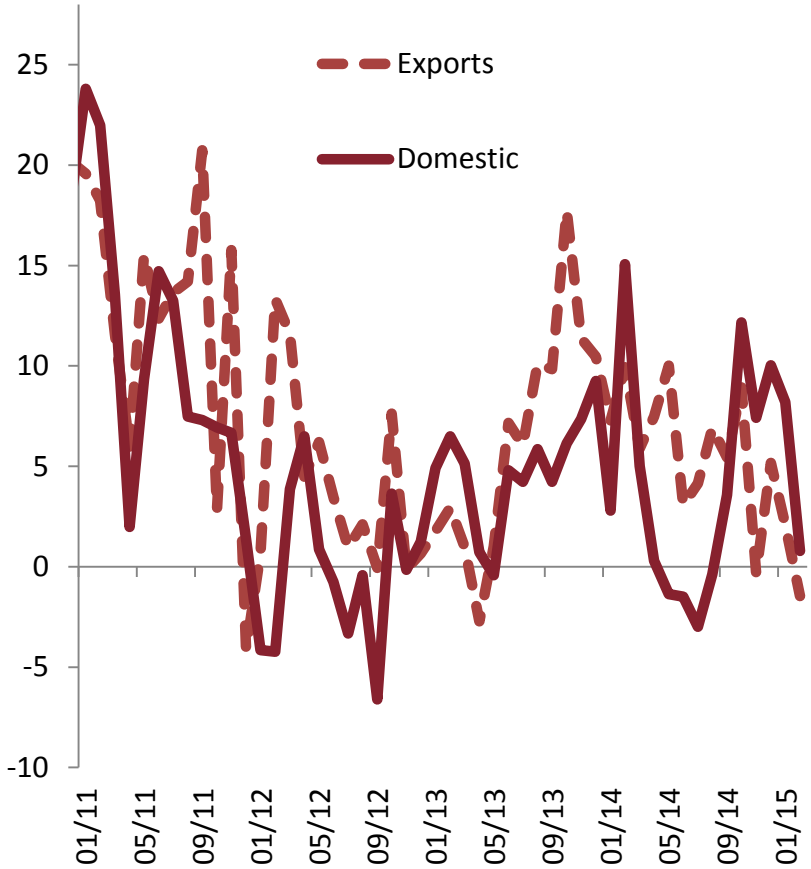


Source: TURKSTAT, CBRT.

Last Observation: January 2014 for Industrial Production, February 2015 for Capacity Utilization.

Manufacturing Orders

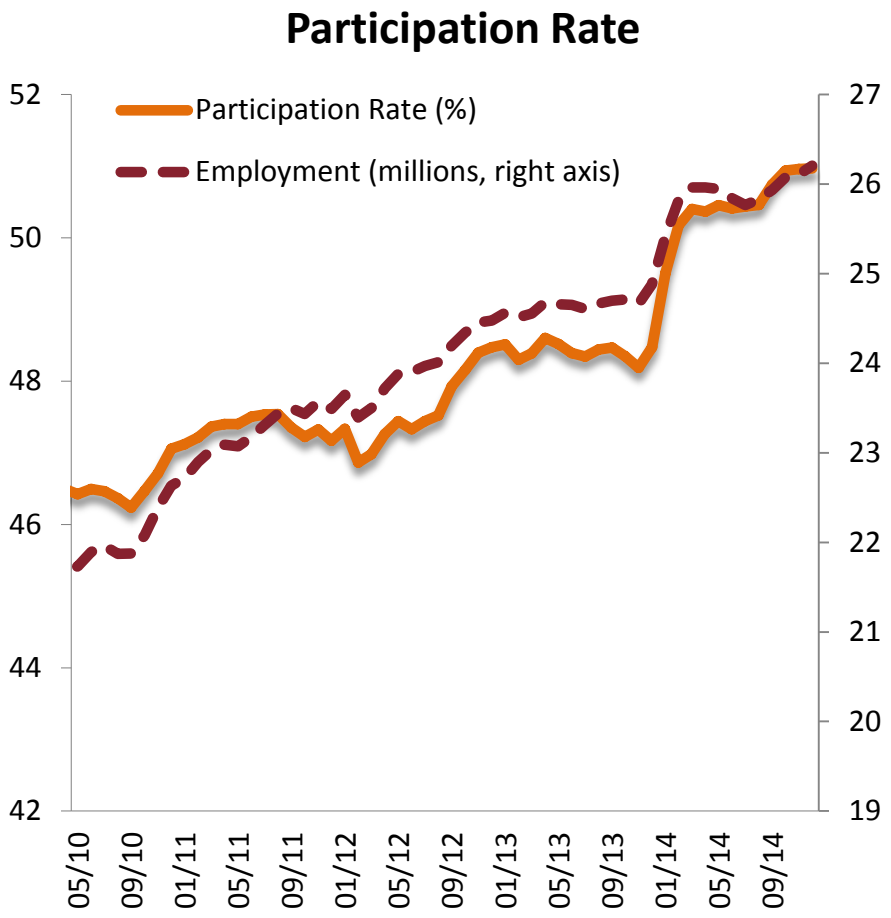
(Seasonally Adjusted)

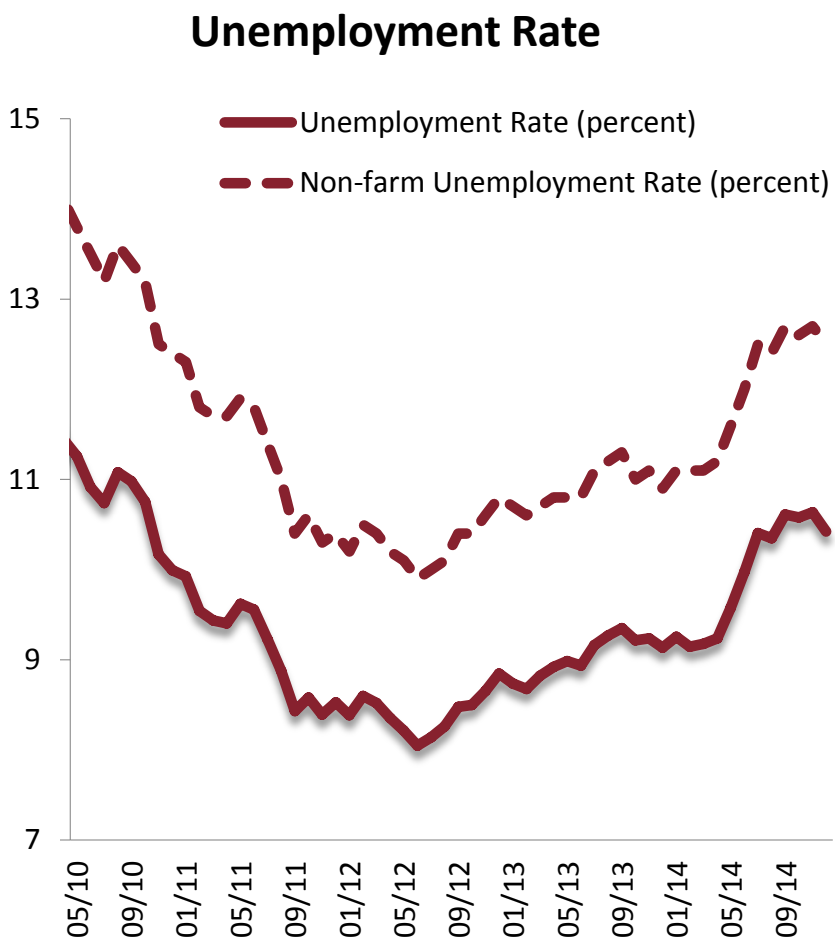


Source: CBRT Business Tendency Survey.

Last Observation: February 2015.

Unemployment rates increased significantly throughout 2014.

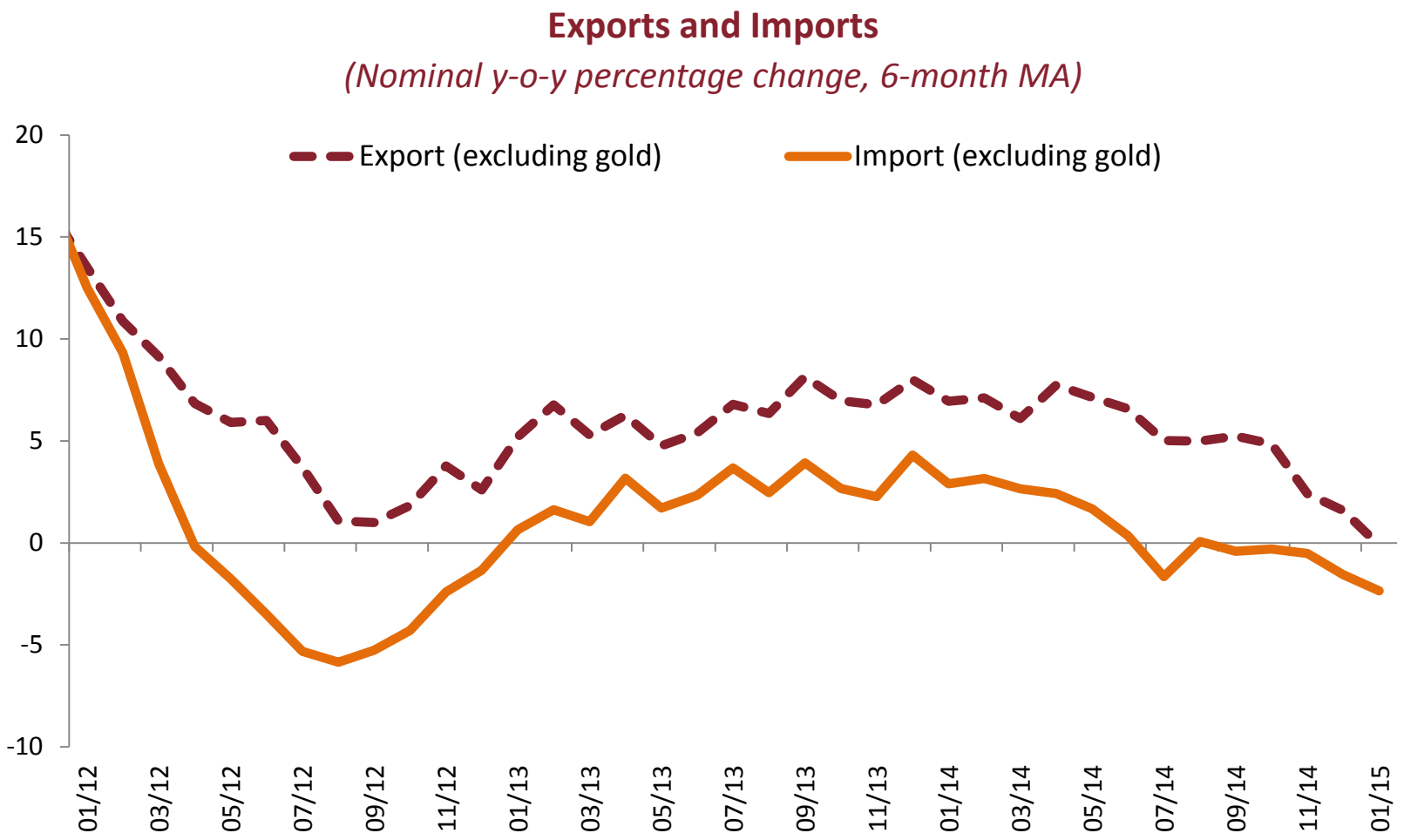




Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: December 2014.

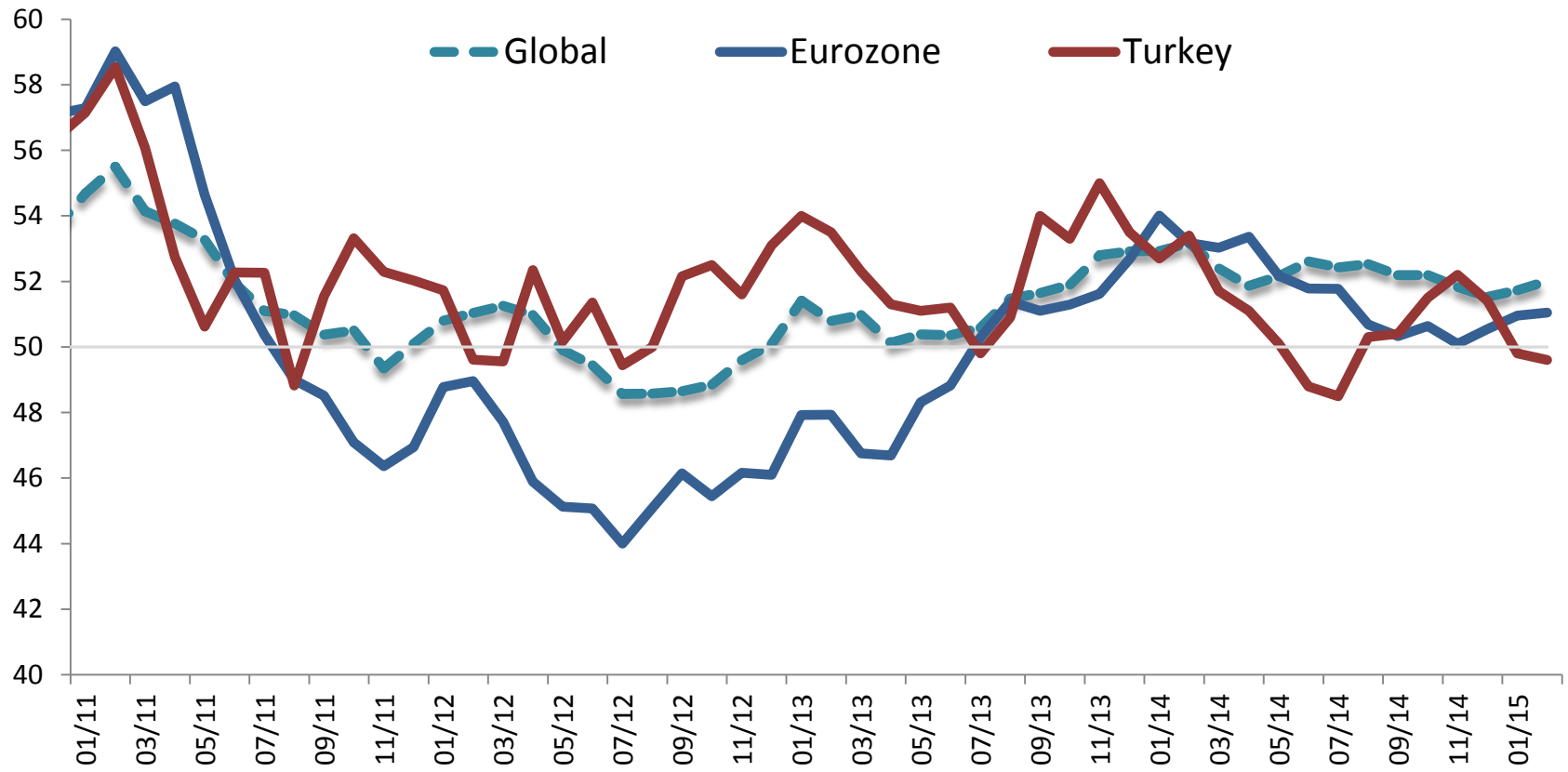
The downward trend in trade indicators reflects geopolitical developments, price effects,...



Source: TURKSTAT.

Last Observation: January 2015.

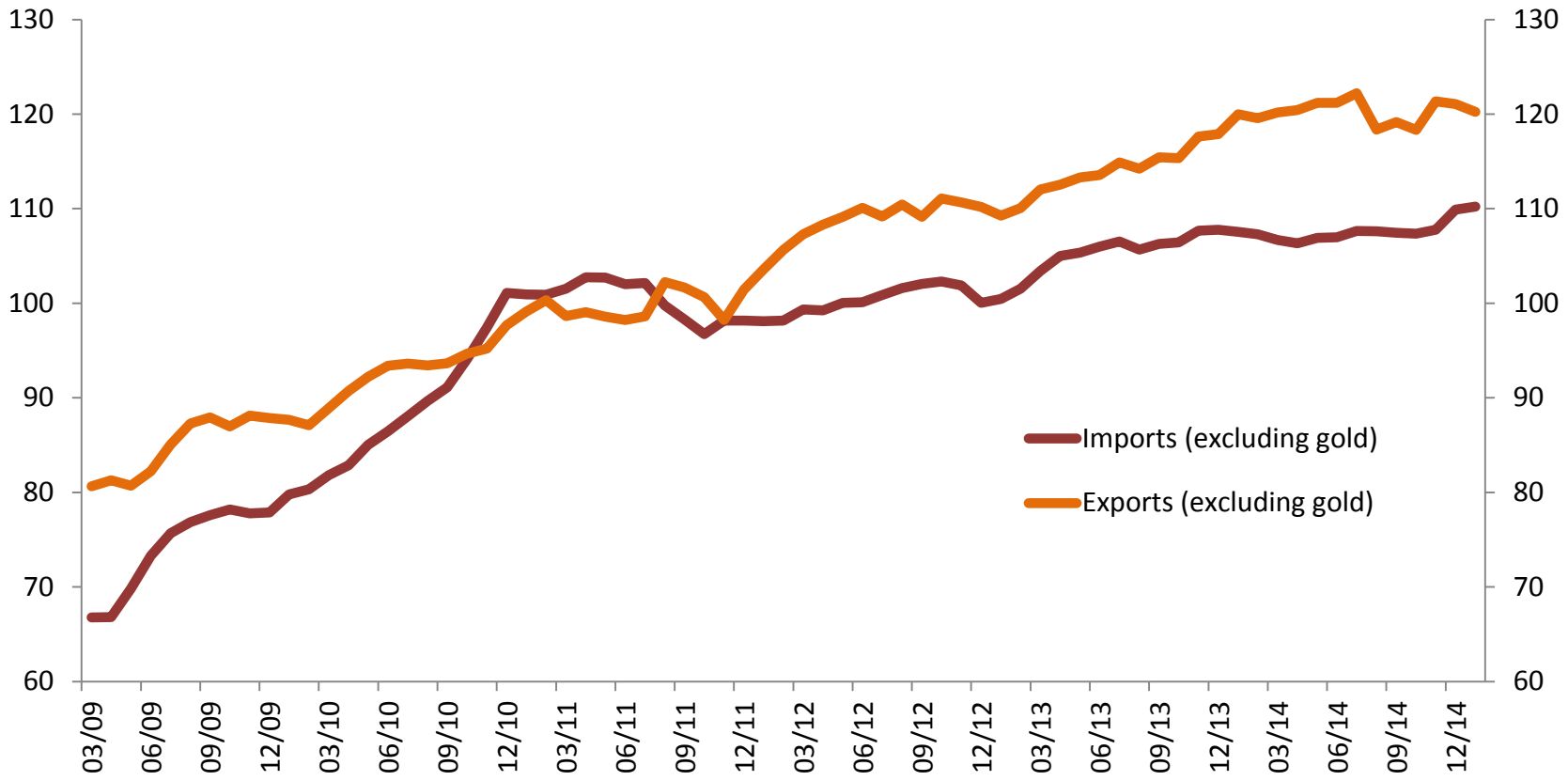
...as well as weak domestic and external demand.



Source: MARKIT.

Last Observation: February 2015.

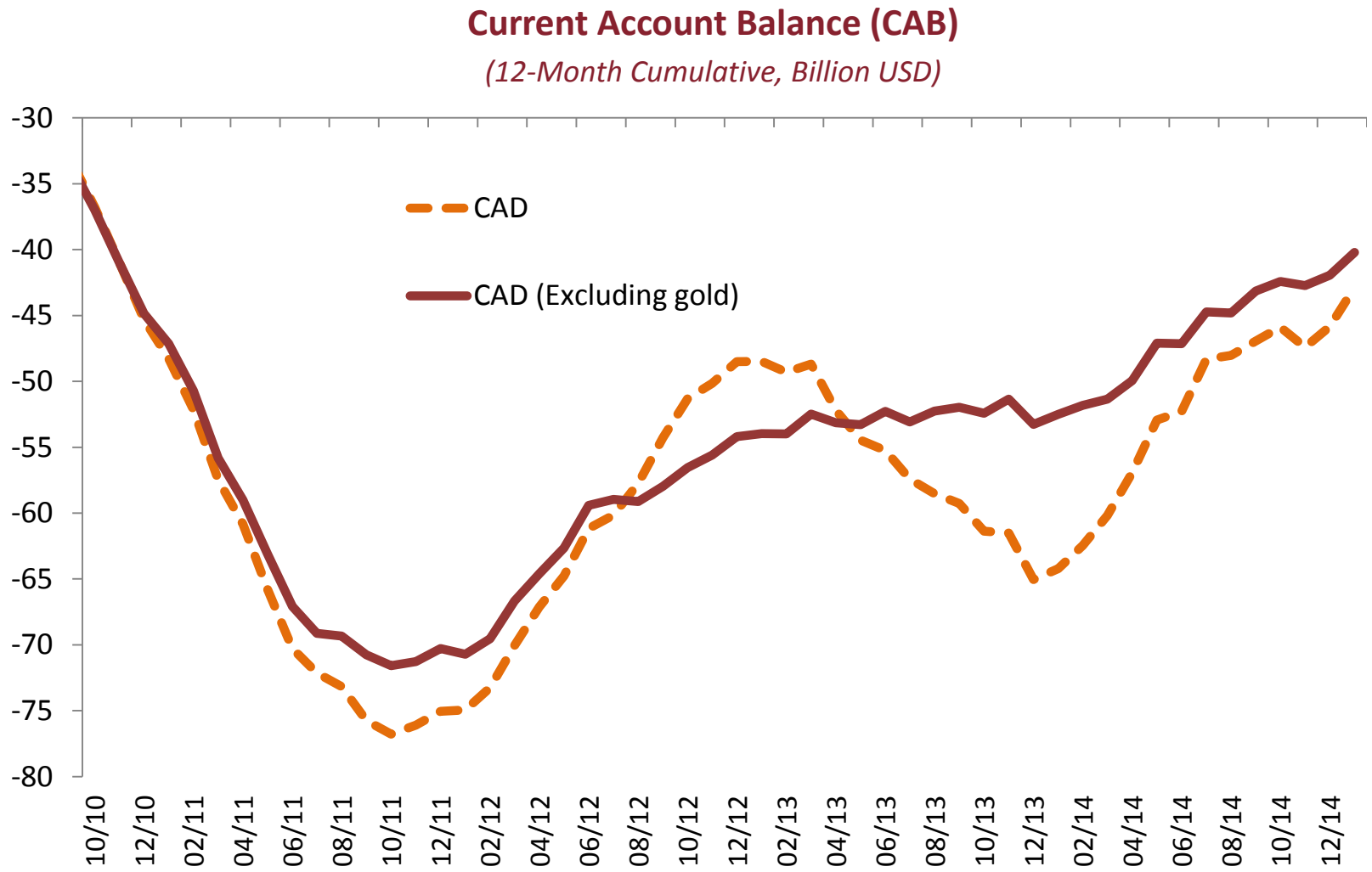
The decline in exports is less pronounced in real terms.



Source: TURKSTAT

Last Observation: January 2015.

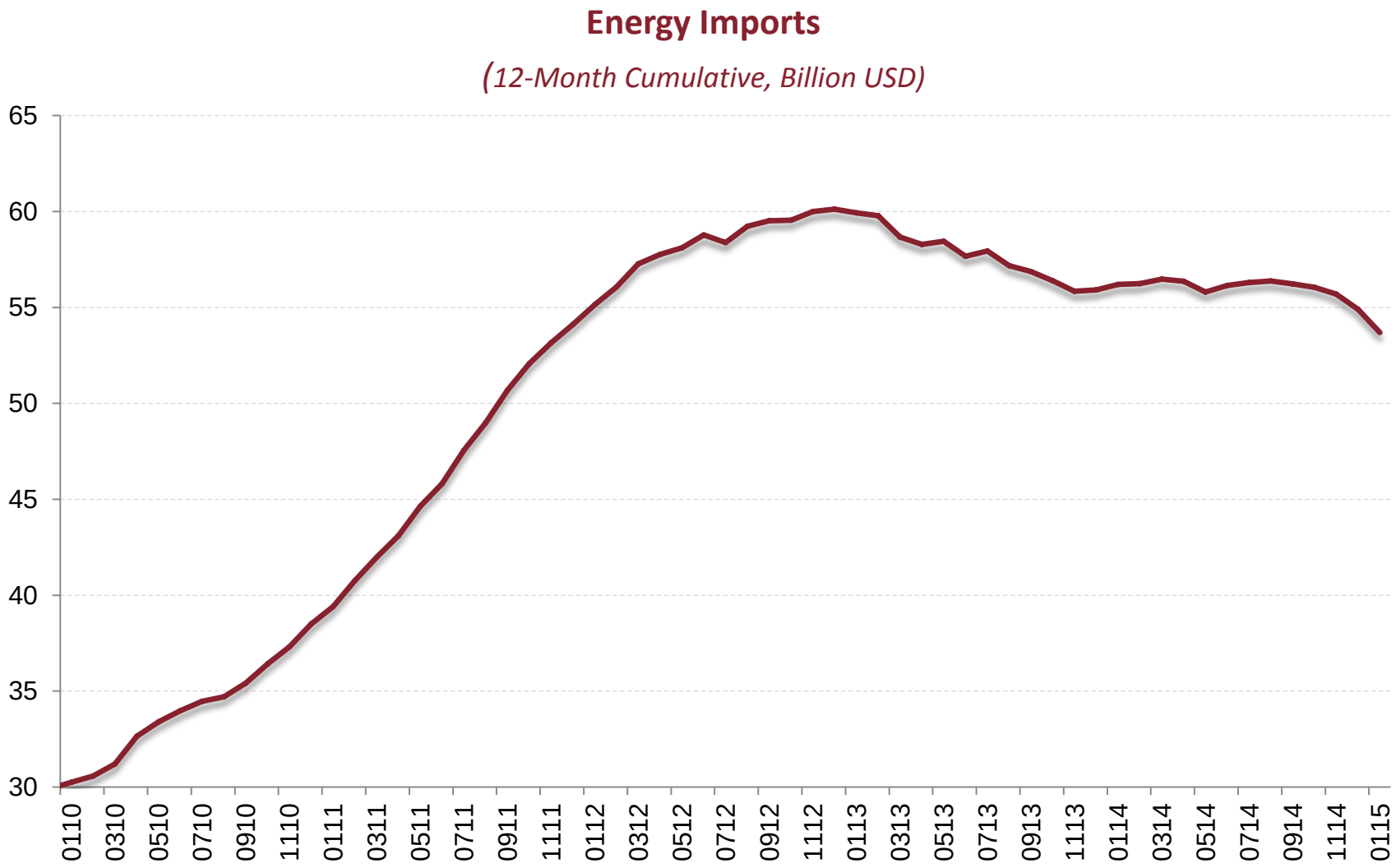
Current account balance have improved steadily since 2011 and a further major improvement is expected in 2015.



Source: CBRT.

Last Observation: January 2015.

The impact of lower oil prices has become visible on the current account balances.



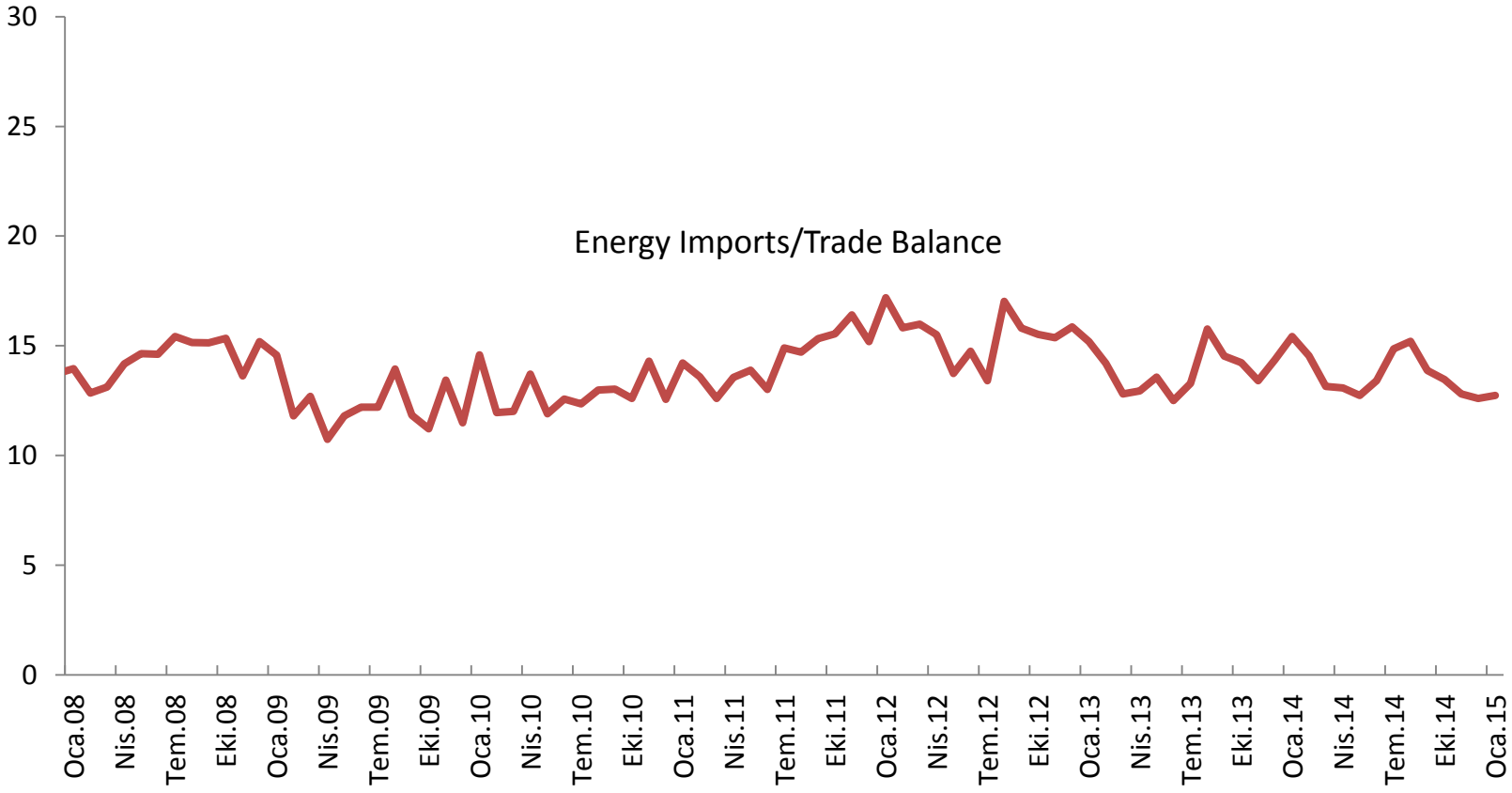
Source: TURKSTAT

Last Observation: January 2015.

Lower oil prices has a significant potential in improving external balances.

Energy Imports in Trade Balance

(%)



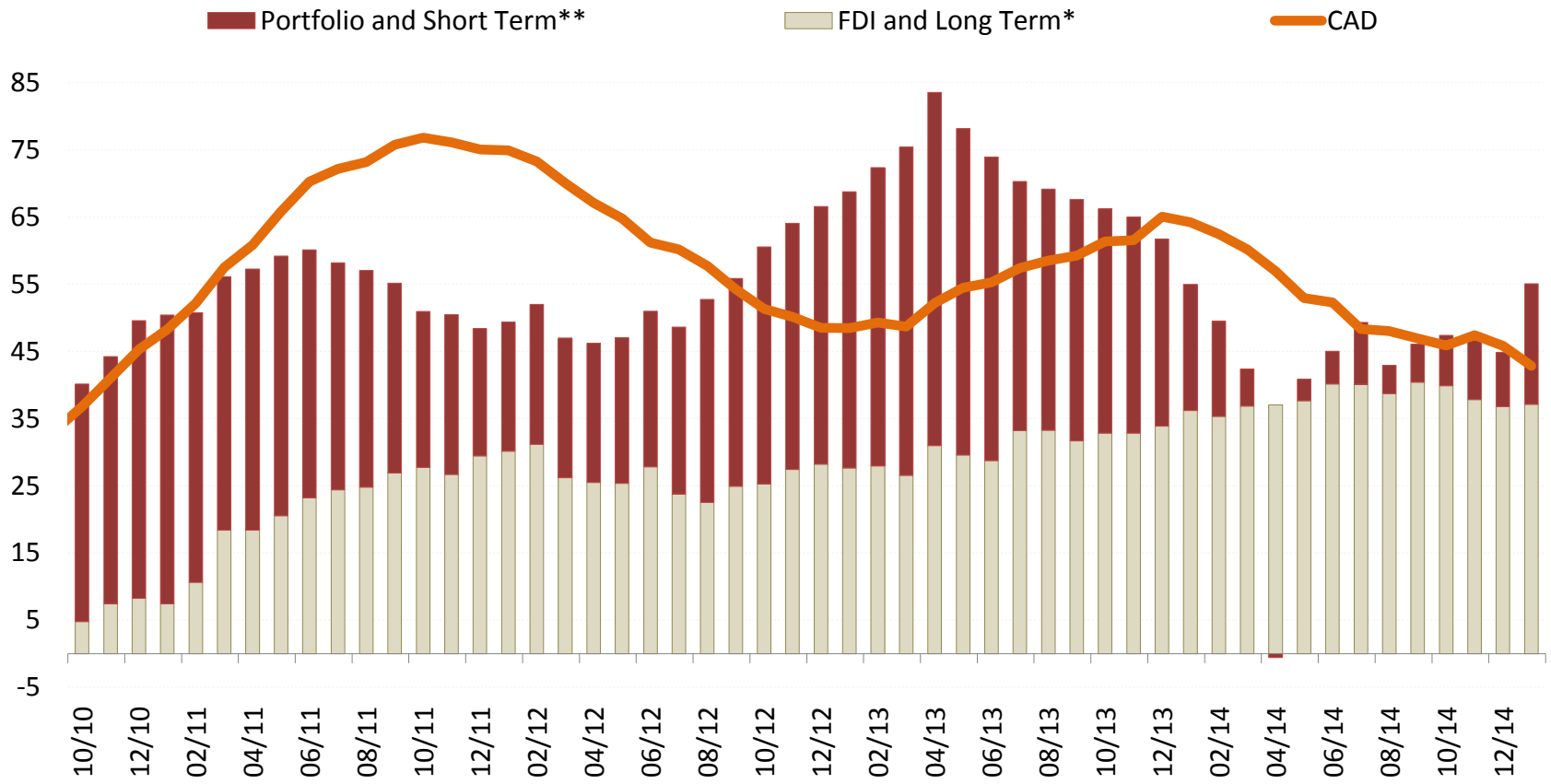
Source: TURKSTAT
Last Observation: January 2015

Source: TURKSTAT
Last Observation: January 2015

Current account deficit is largely financed through long term borrowing and FDI.

Current Account Financing

(12-Months Cumulative, Billion USD)



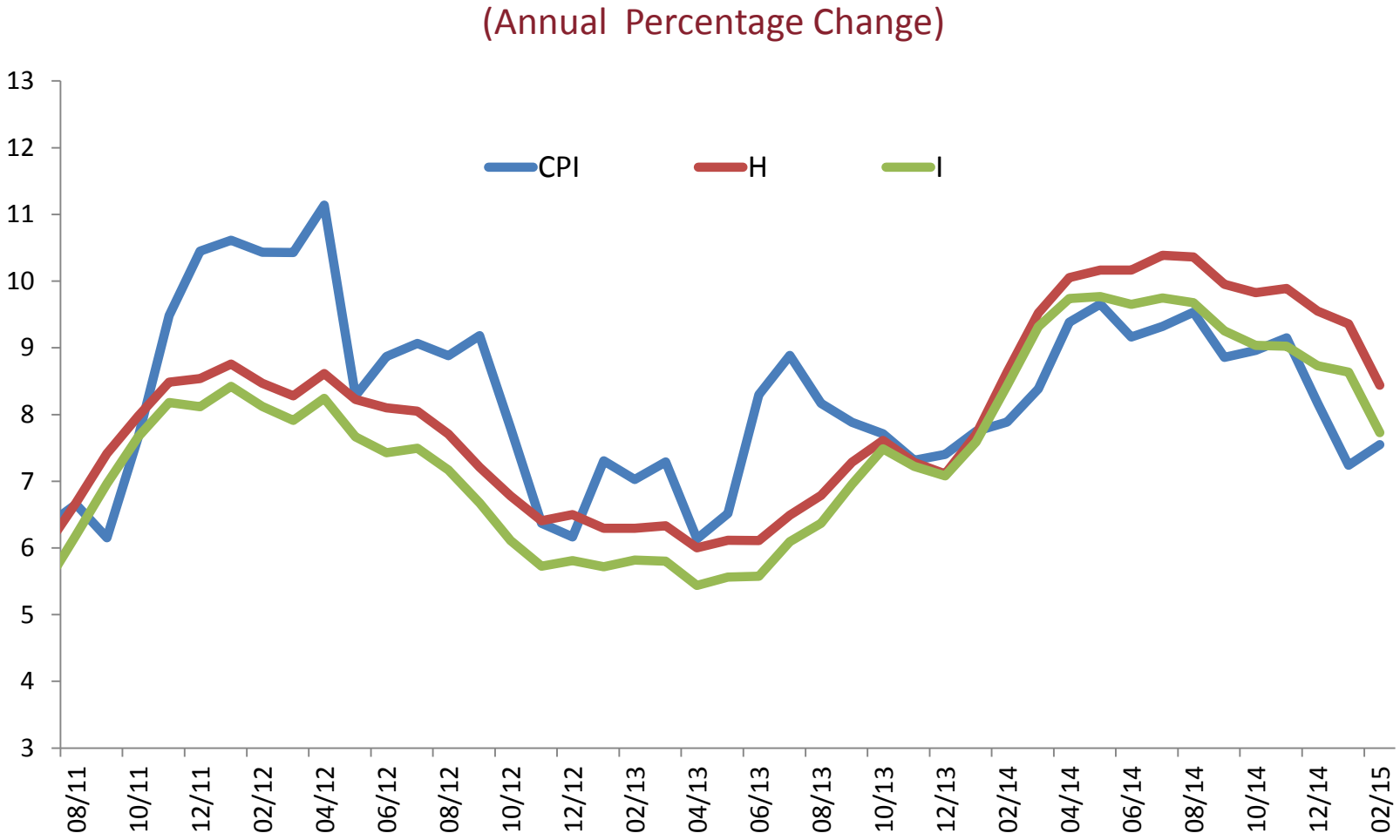
Source: CBRT.

*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.

Last Observation: January 2015.

INFLATION

The improvement in core inflation indicators has continued in recent months.



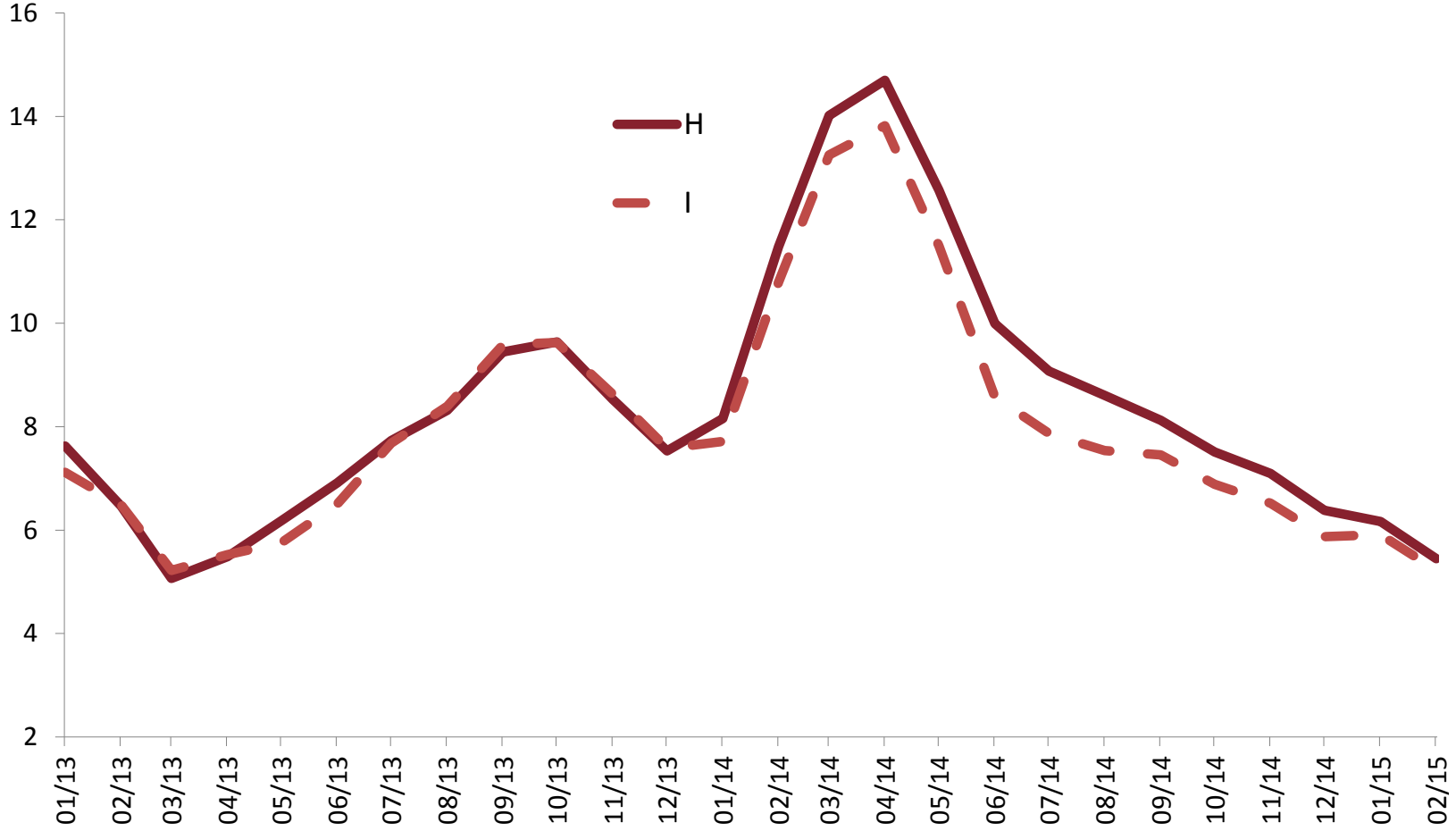
Source: TURKSTAT.

Last Observation: February 2015.

Cautious monetary policy along with prudent fiscal and macroprudential policies are having a favorable impact on core inflation trends.

Core Inflation Indicators H and I

(Seasonally adjusted, Annualized 3-Month-Average, Percent)



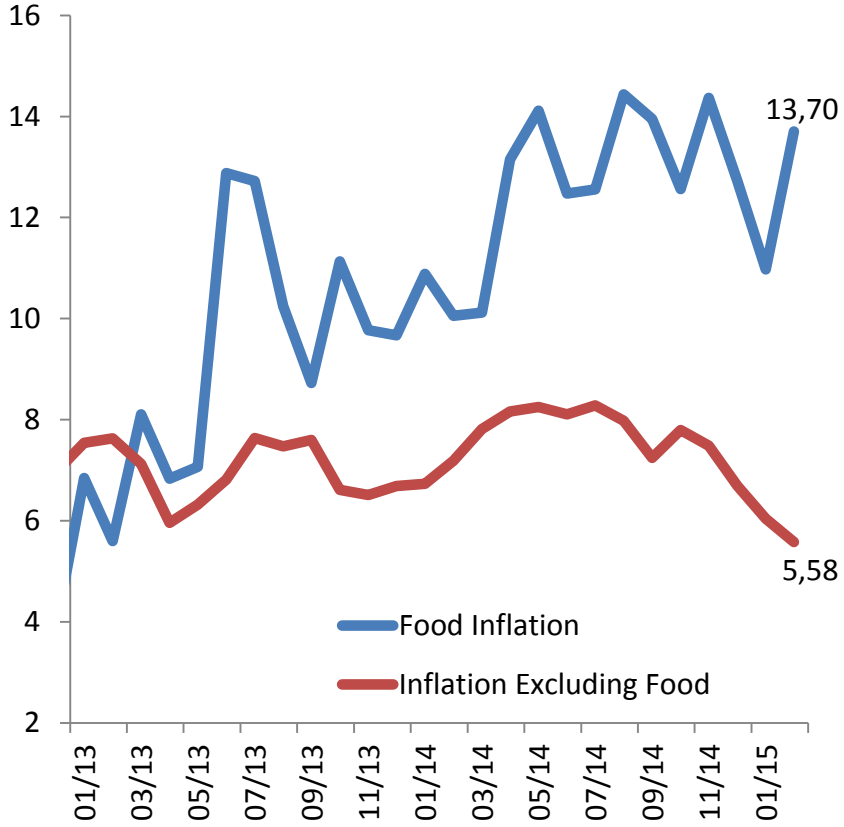
Source: TURKSTAT, CBRT.

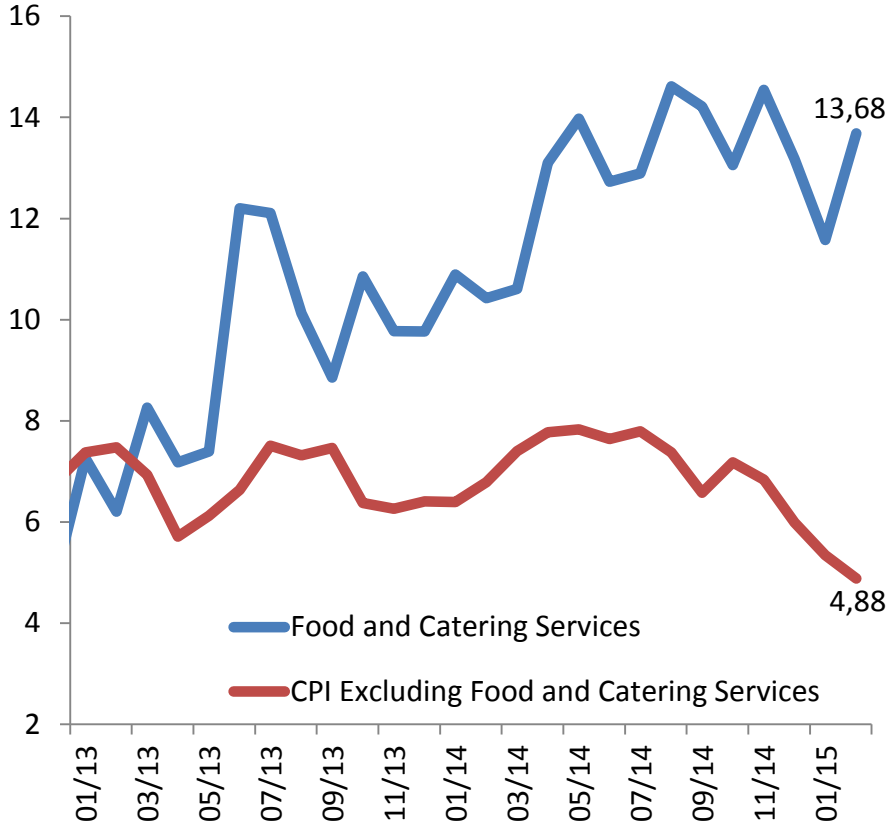
Last Observation: February 2015.

Yet, elevated levels and high volatility in food prices continue to weigh on headline CPI inflation.

Annual Inflation

(Percent)

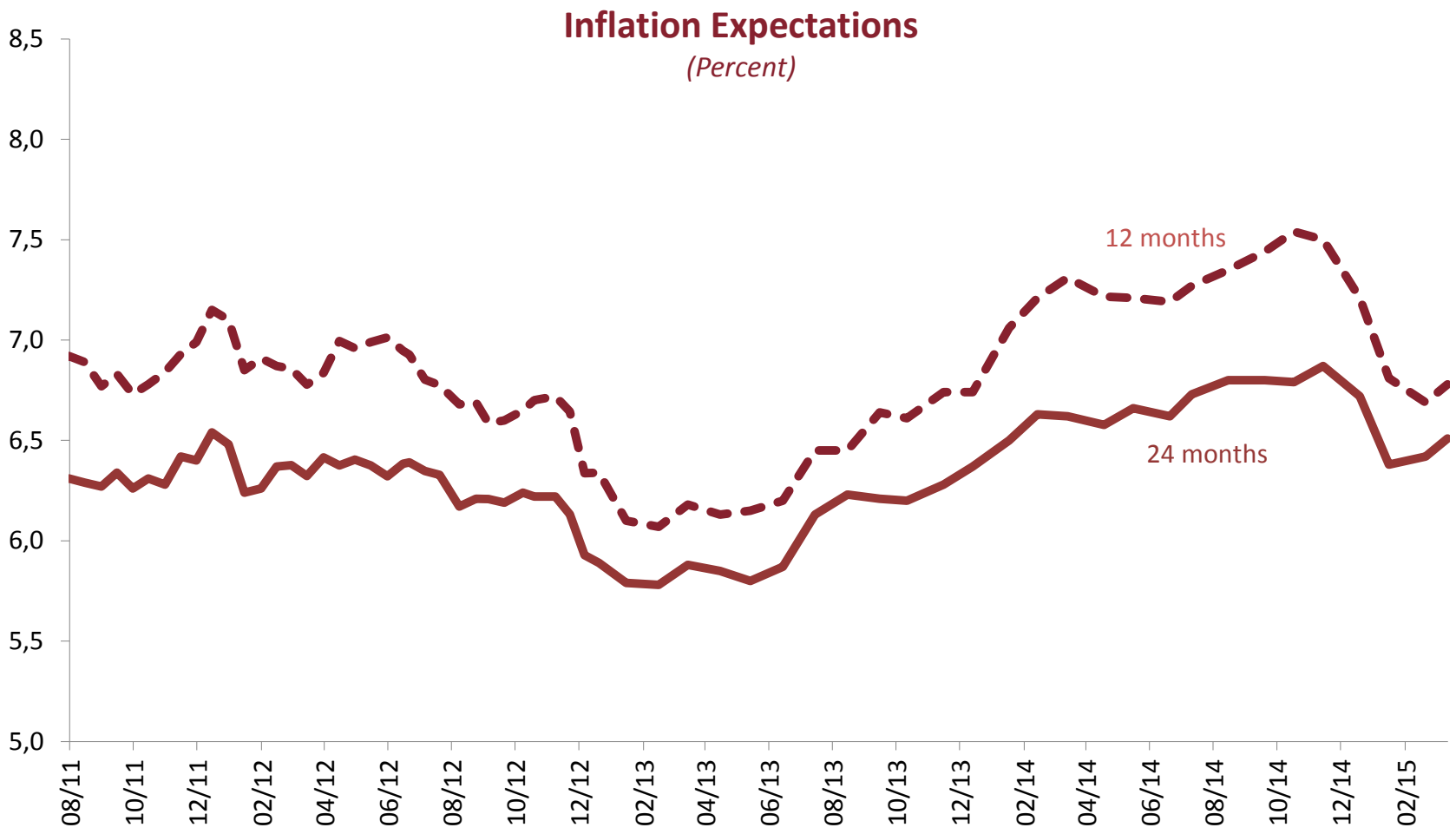




Source: TURKSTAT, CBRT.

Last Observation: February 2015.

Recently, inflation expectations have edged up slightly.



Source: CBRT.

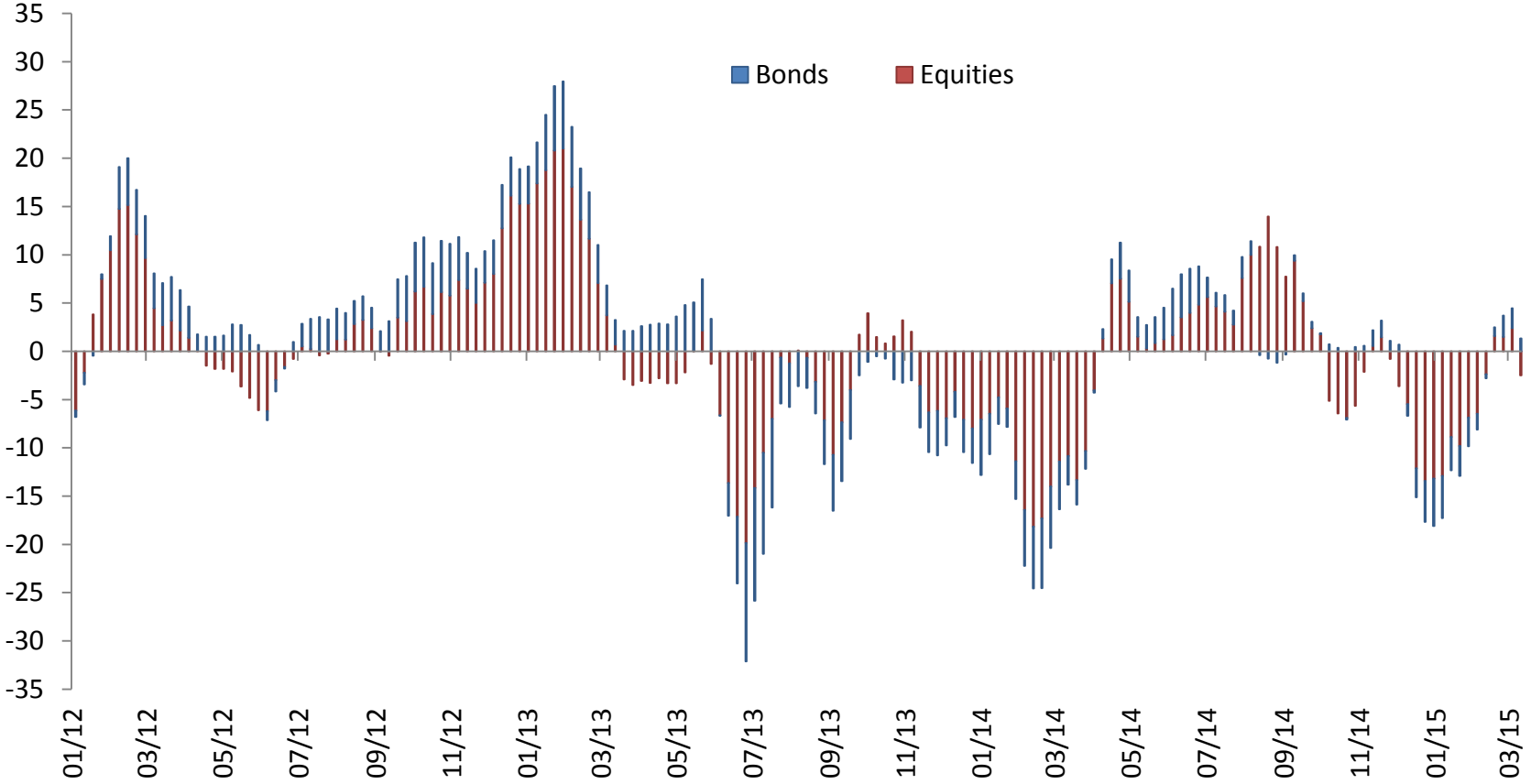
Last Observation: March 2015.

Monetary and Financial Conditions

Portfolio flows to emerging countries have been volatile...

Equity and Bond Flows to Emerging Markets

(Billion USD, 4-Week Moving Sum)



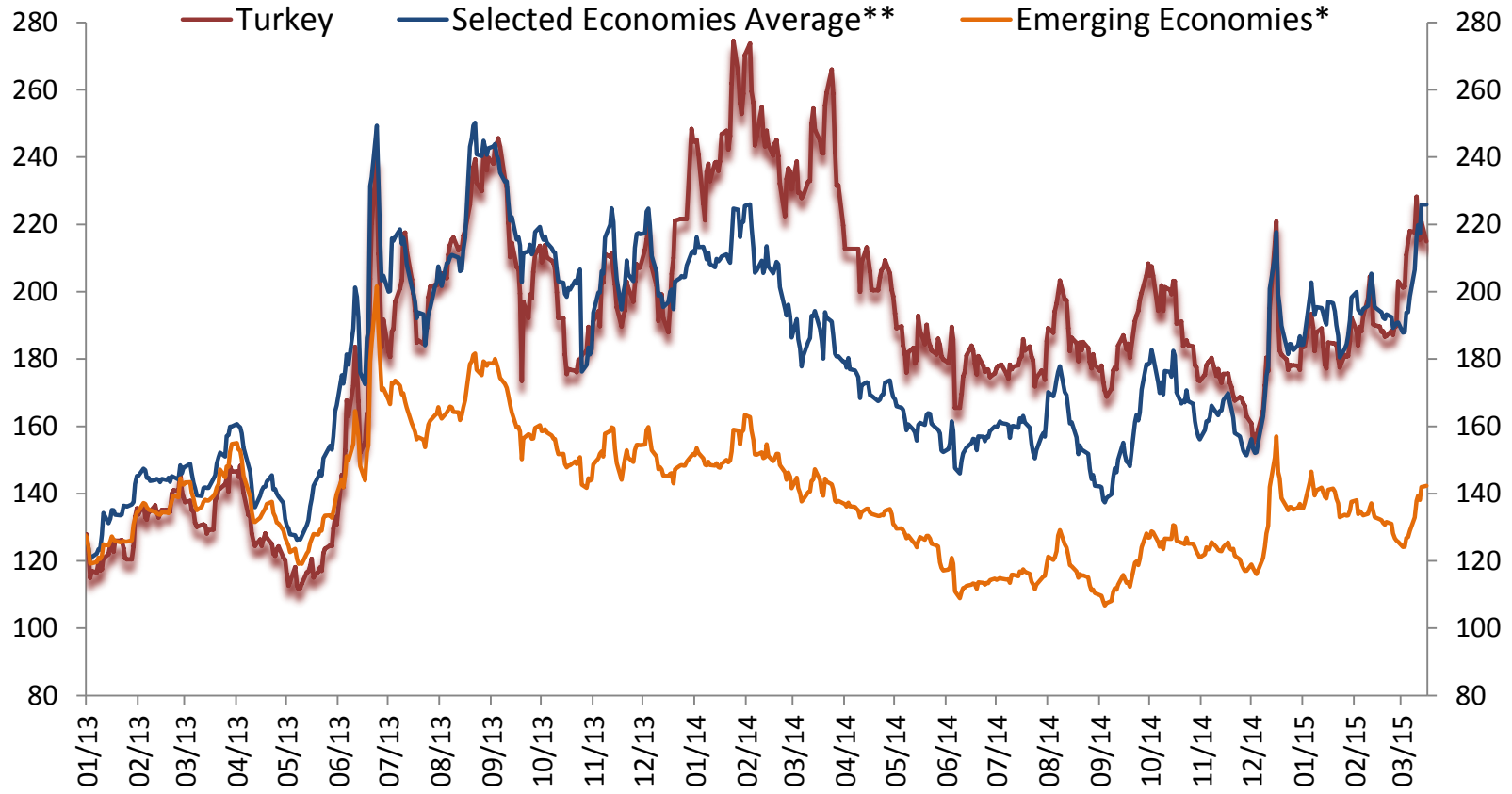
Source: EPFR.

Last Observation: March 11, 2015.

… as well as the risk premium indicators.

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.

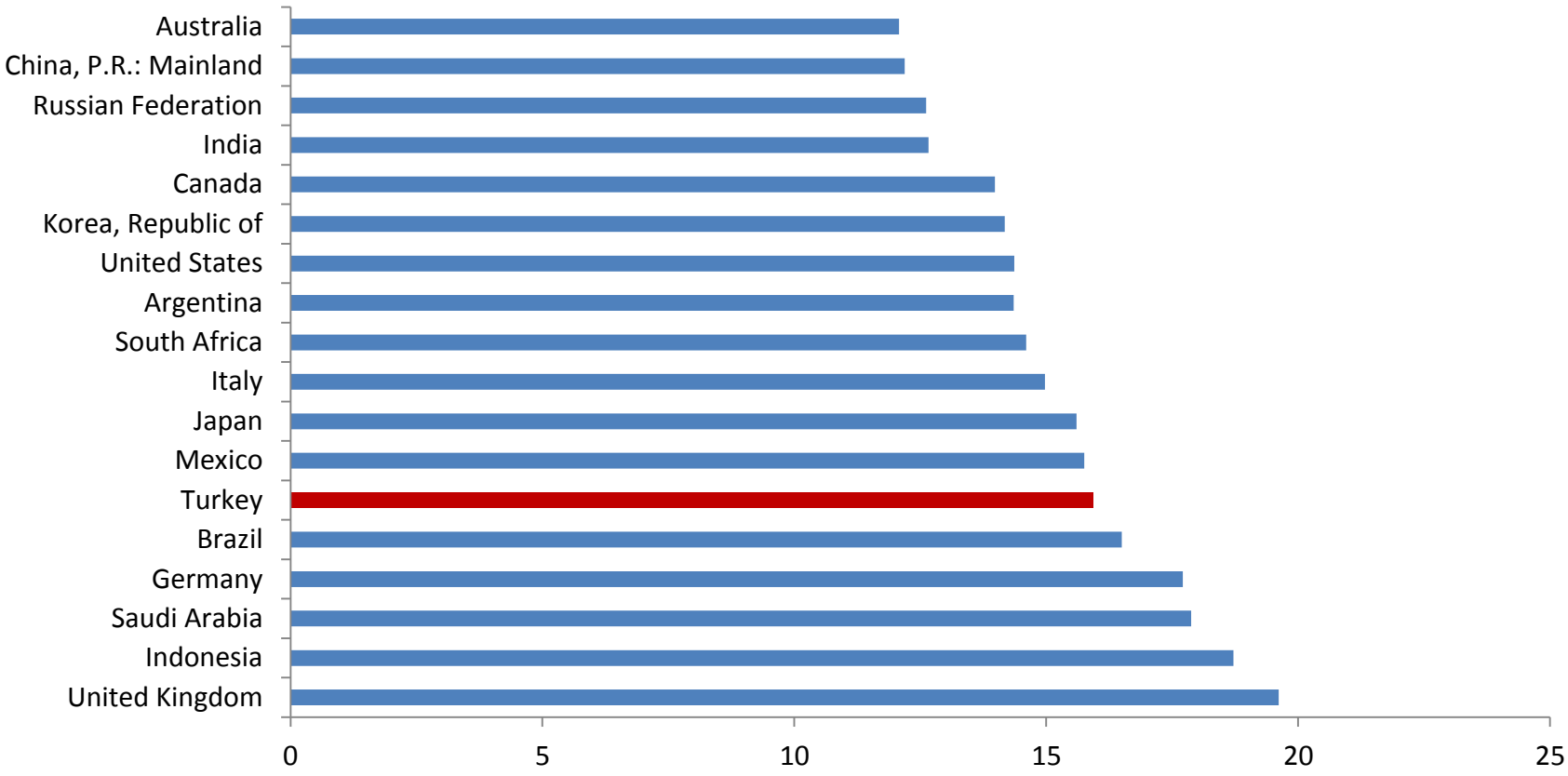
** Selected Economies include Brasil, Indonesia and S. Africa.

Last Observation: March 16, 2015.

Sound banking sector: high capital adequacy ratios…

Capital Adequacy Ratios

(Selected G20 countries, %)



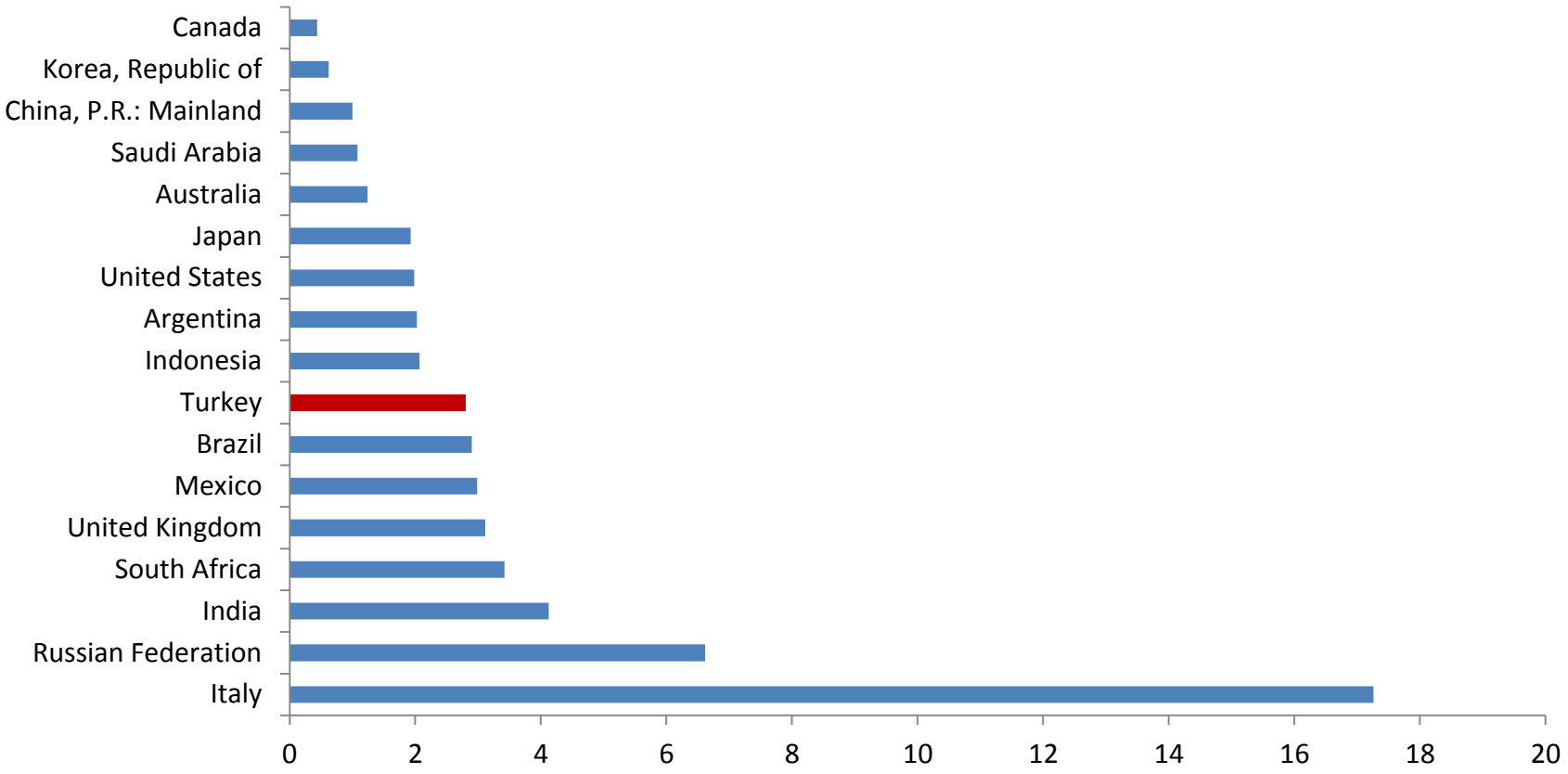
Source: IMF

Last observation: 2014 Q4

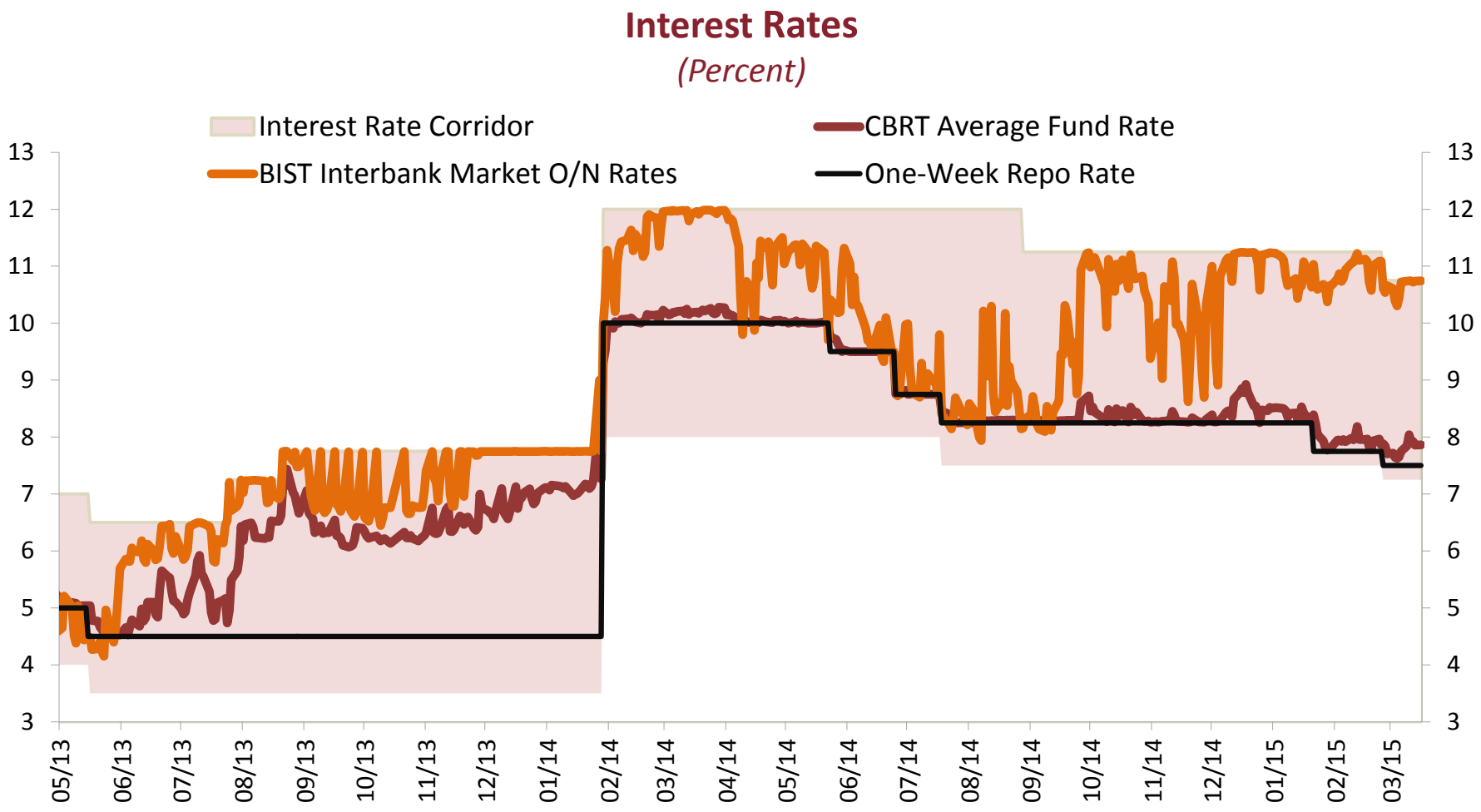
...and high quality assets.

NPL ratios

(Selected G20 countries, %)



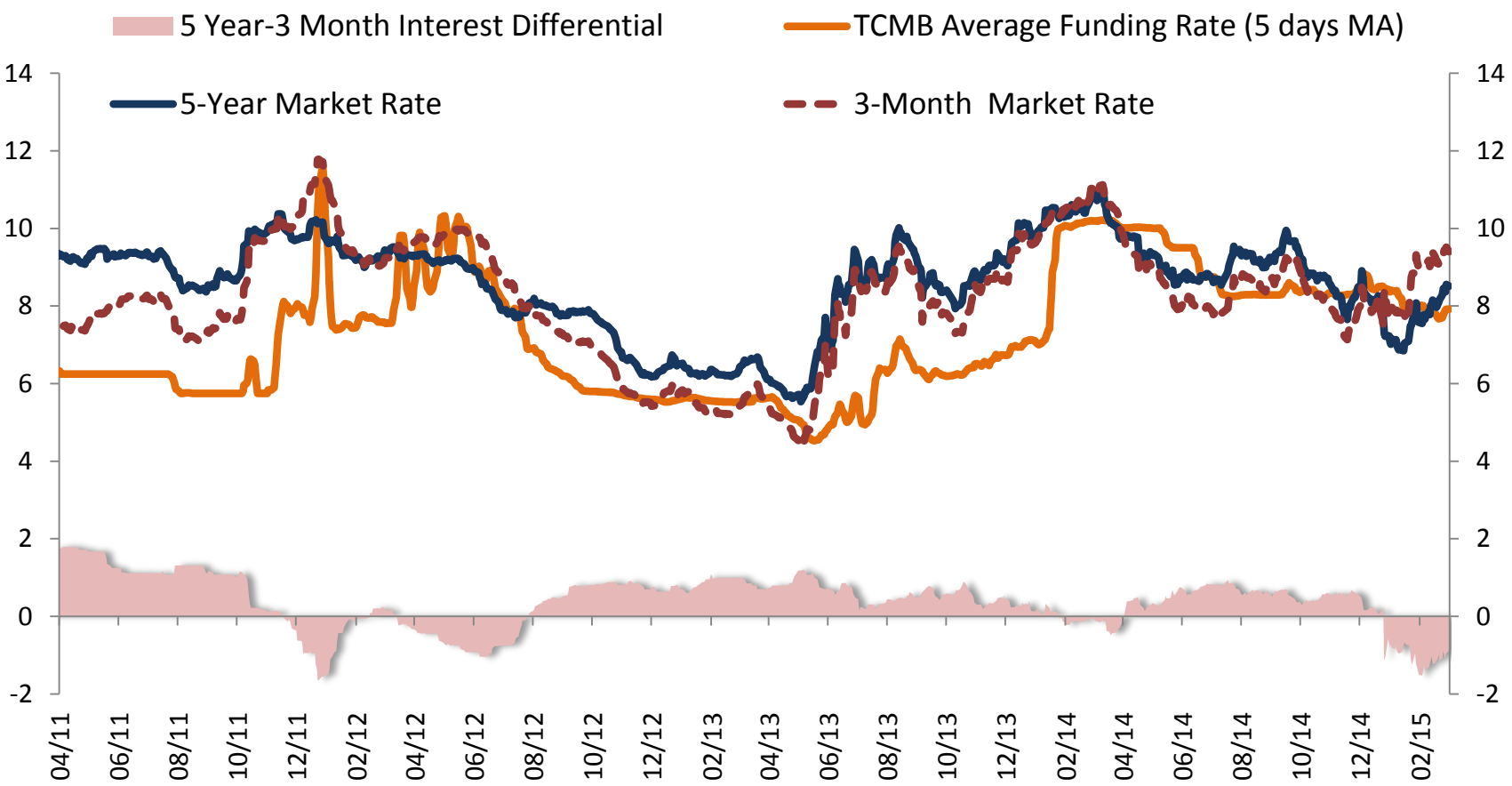
The monetary policy has been implemented in a flexible framework.



Source: CBRT

Last Observation: March 16, 2015.

Yield curve remains inverted, reflecting tight liquidity policy.



Source: CBRT.

Last Observation: March 16, 2015.

Loans continue to expand at a reasonable pace due to cautious monetary policy stance and macroprudential measures.

Total Loan Growth Rate

(Year on Year Change, Percent)

Last Observation: March 06, 2015.

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

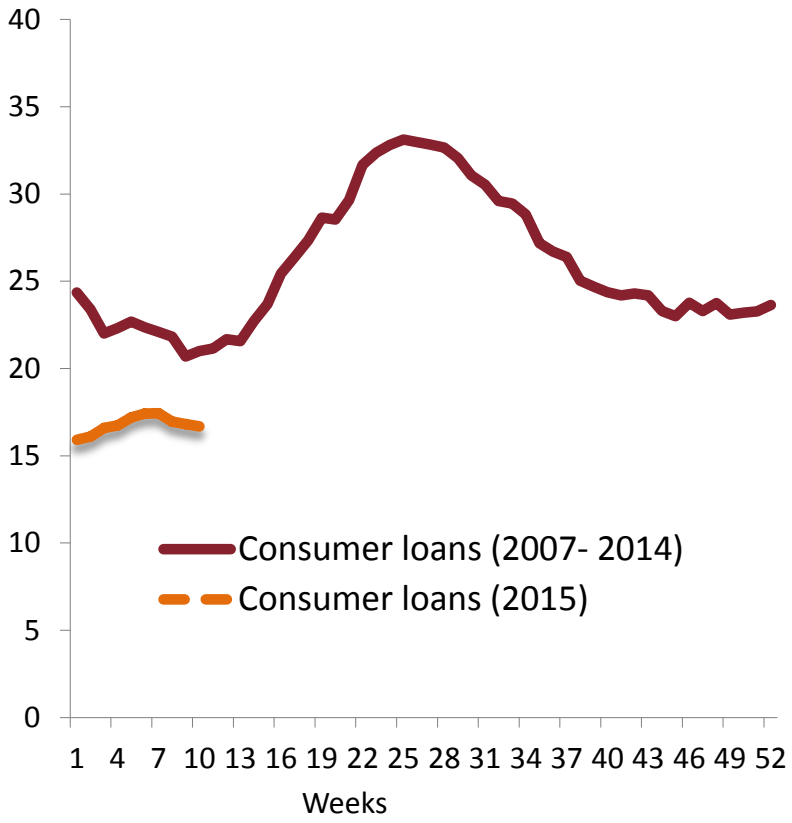
Adjusted for exchange rate.

Source: CBRT.

Consumer loans grow at a slower pace than commercial loans contributing to rebalancing process and financial stability.

Consumer Loan Growth Rates

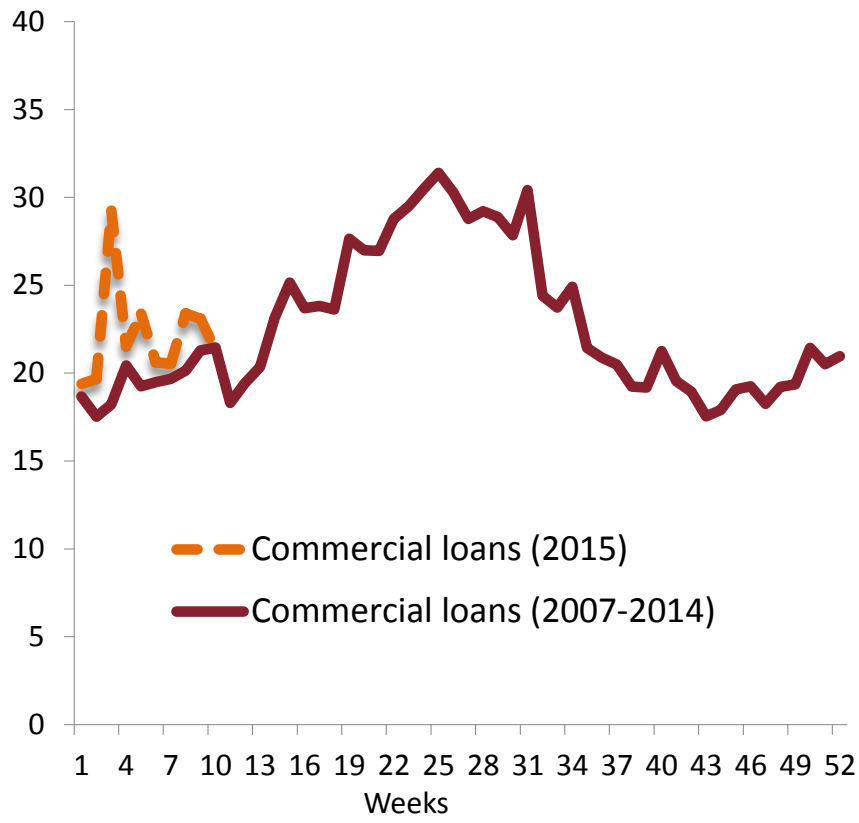
(13-Week Moving Average, Annualized, Percent)



Source: CBRT.

Commercial Loan Growth Rates*

(Adjusted for Exchange Rate,13-Week Moving Average, Annualized, Percent)

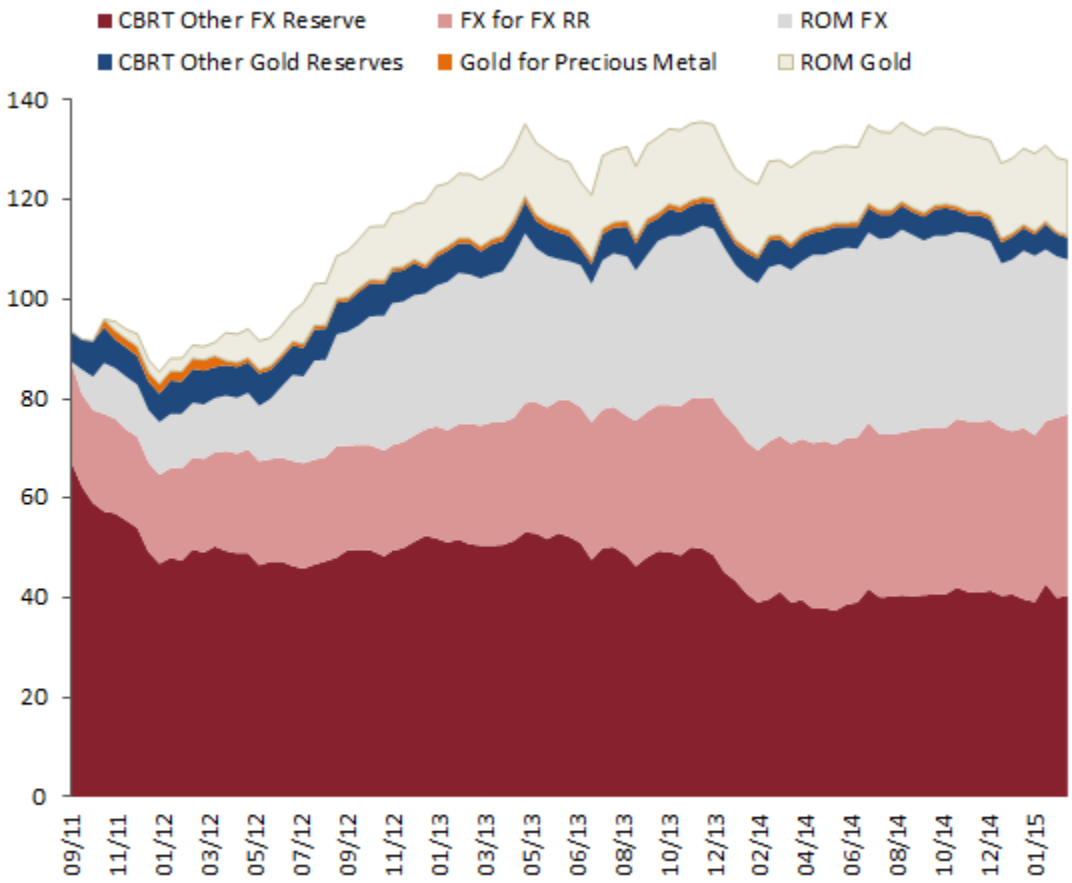


Last Observation: March 06, 2015.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Export credits continue to contribute to CBRT reserves.

CBRT Reserves

(Billion USD)



Source: CBRT.
Last Observation: March 13, 2015.

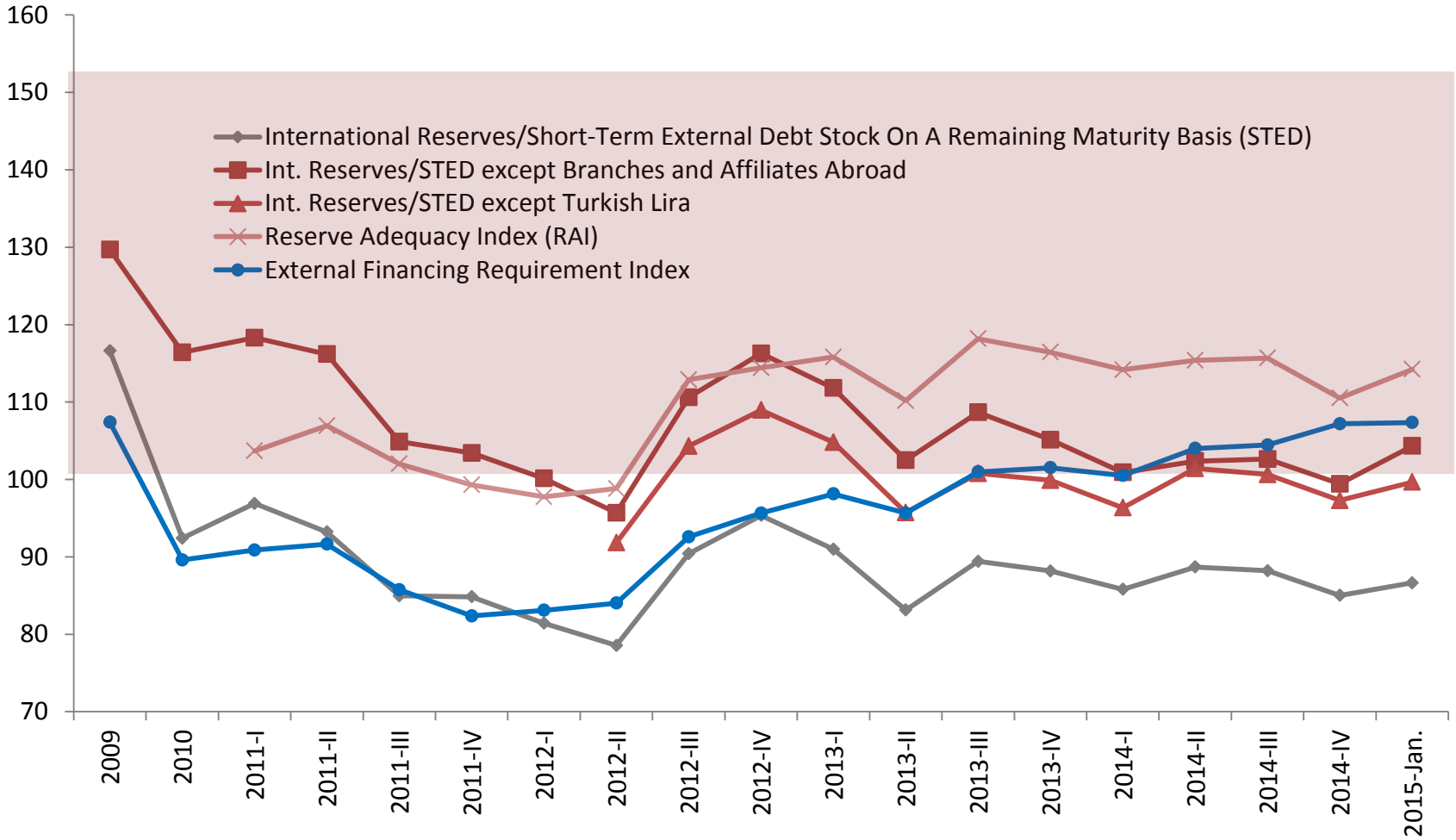
Billion USD

	FX Sales (-)	Export Credit (+)
June 2014	0.42	1.54
July 2014	0.38	1.46
August 2014	0.21	1.38
September 2014	0.31	1.42
October 2014	0.72	1.32
November 2014	0.80	0.79
December 2014*	2.19	1.34
January 2015*	1.92	2.04
February 2015*	2.34**	1.35
March 2015*	0.62**	1.26†
April 2015		1.38†
May 2015		1.04†
June 2015		0.81†

	Amount (Billion USD)
ROM FX	31.1
FX Required Reserves	36.4
Total	67.5

* Includes FX sales to Public Energy Companies
** FX Sales are as of March 11, 2015.
†Provisional.

Satisfactory reserve adequacy ratios.



Source: CBRT

Last Observation: January 2015

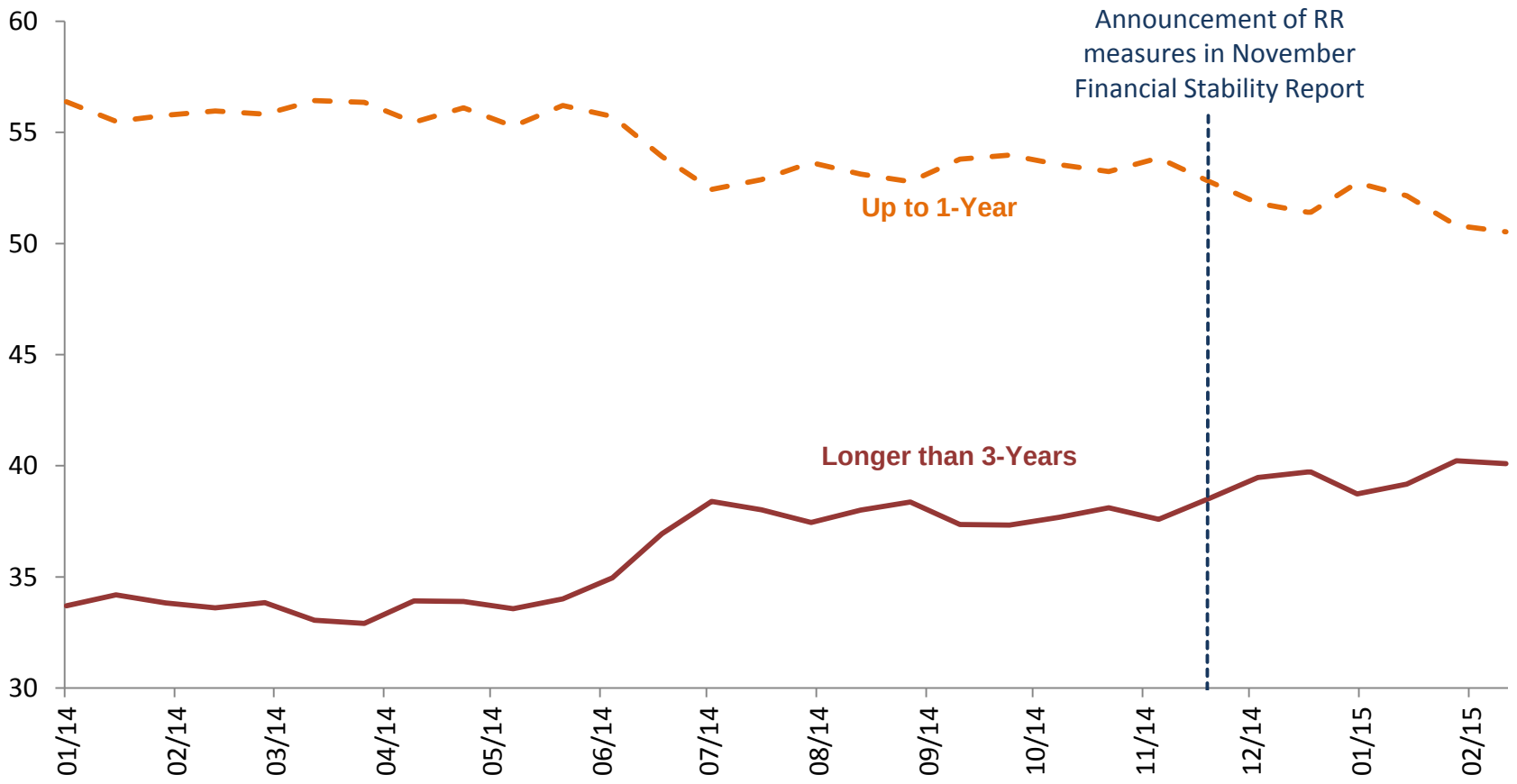
Recent FX liquidity- and financial stability-related measures.

- Smooth FX volatility
  - Orderly and daily FX sale auctions but in prudent way
- Meet the temporary FX liquidity needs
  - Direct FX lending facility to banks – reduce interest rates
  - Adjustments in Reserve Option Coefficients
- Lengthen the maturity of non-core liabilities
  - Higher RRRs on short-term FX liabilities
- Encourage banks to reduce their loan-to-deposit ratios
  - Interest on reserve requirements

Non-core liabilities of the financial institutions have been shifting towards longer maturities since the announcement of the RR measures.

Maturity Structure of FX Non-core Liabilities

(Percent share in total non-core liabilities)

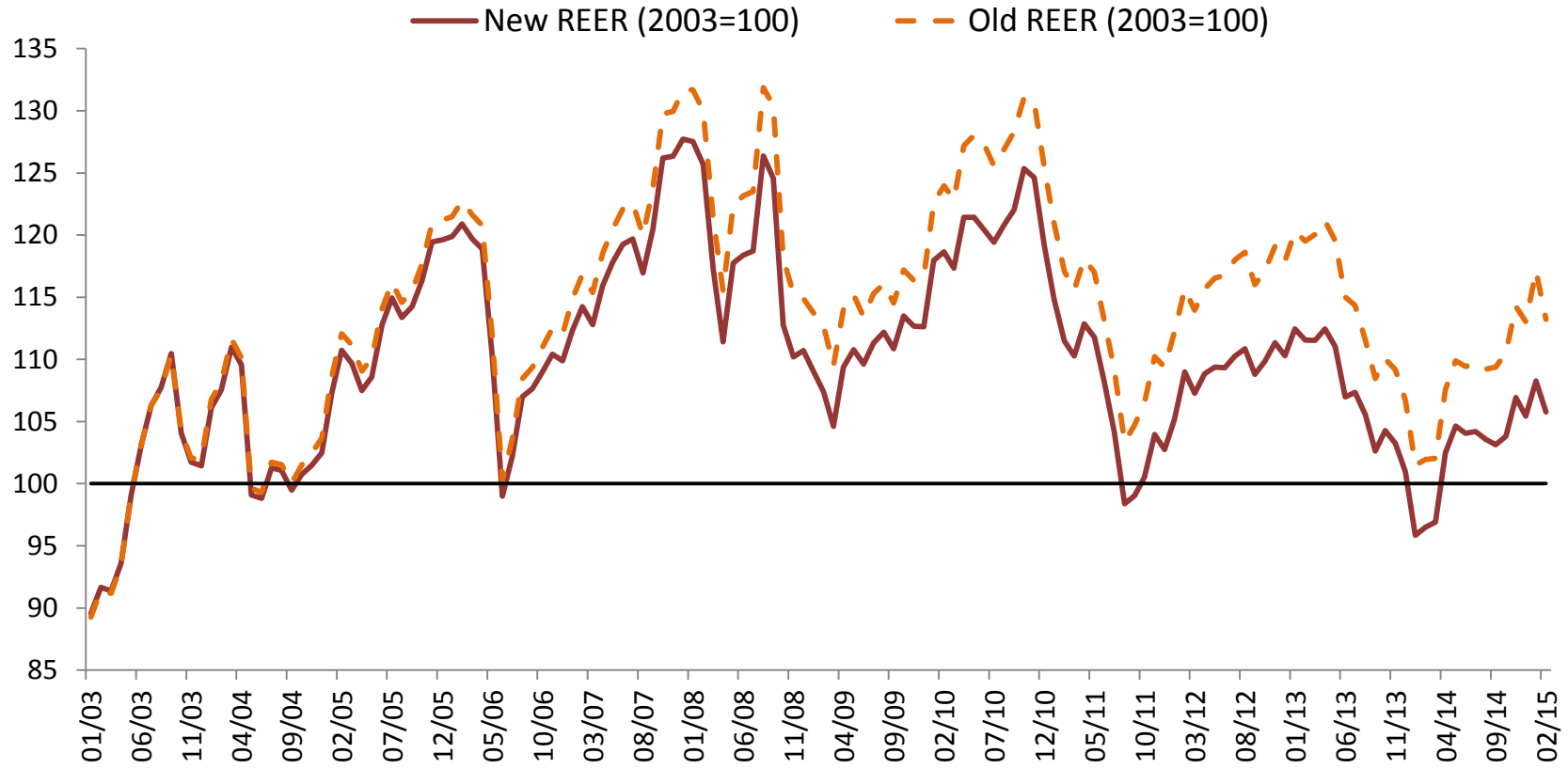


Source: CBRT.

Last Observation: February 27, 2015.

Revised Real Effective Exchange Rate indices

Reel Effective Exchange Rates with the Old vs. New Methodologies



Source: CBRT.

Last Observation: February 2015.

Lifting growth potential up.

10th Development Plan

- Human Capital- and Labor Market-Related Reforms
- Technology and Innovation Reforms
- Physical Infrastructure Reform

Monetary Policy Stance

- Yet, uncertainty in global markets and elevated food prices necessitates maintaining the cautious stance in monetary policy.
  - Accordingly, the Committee decided to keep the interest rates at current levels.
- Future monetary policy decisions will be conditional on the improvements in the inflation outlook.
  - Inflation expectations, pricing behavior and other factors that affect inflation will be monitored closely and
  - the cautious monetary policy stance will be maintained, by keeping a flat yield curve, until there is a significant improvement in the inflation outlook.

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THE ECONOMIC OUTLOOK AND MONETARY POLICY

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