TÜRKİYE CUMHURİYET
MERKEZ BANKASI

RECENT DEVELOPMENTS IN TURKISH ECONOMY AND MONETARY POLICY

March 19, 2014

Ankara

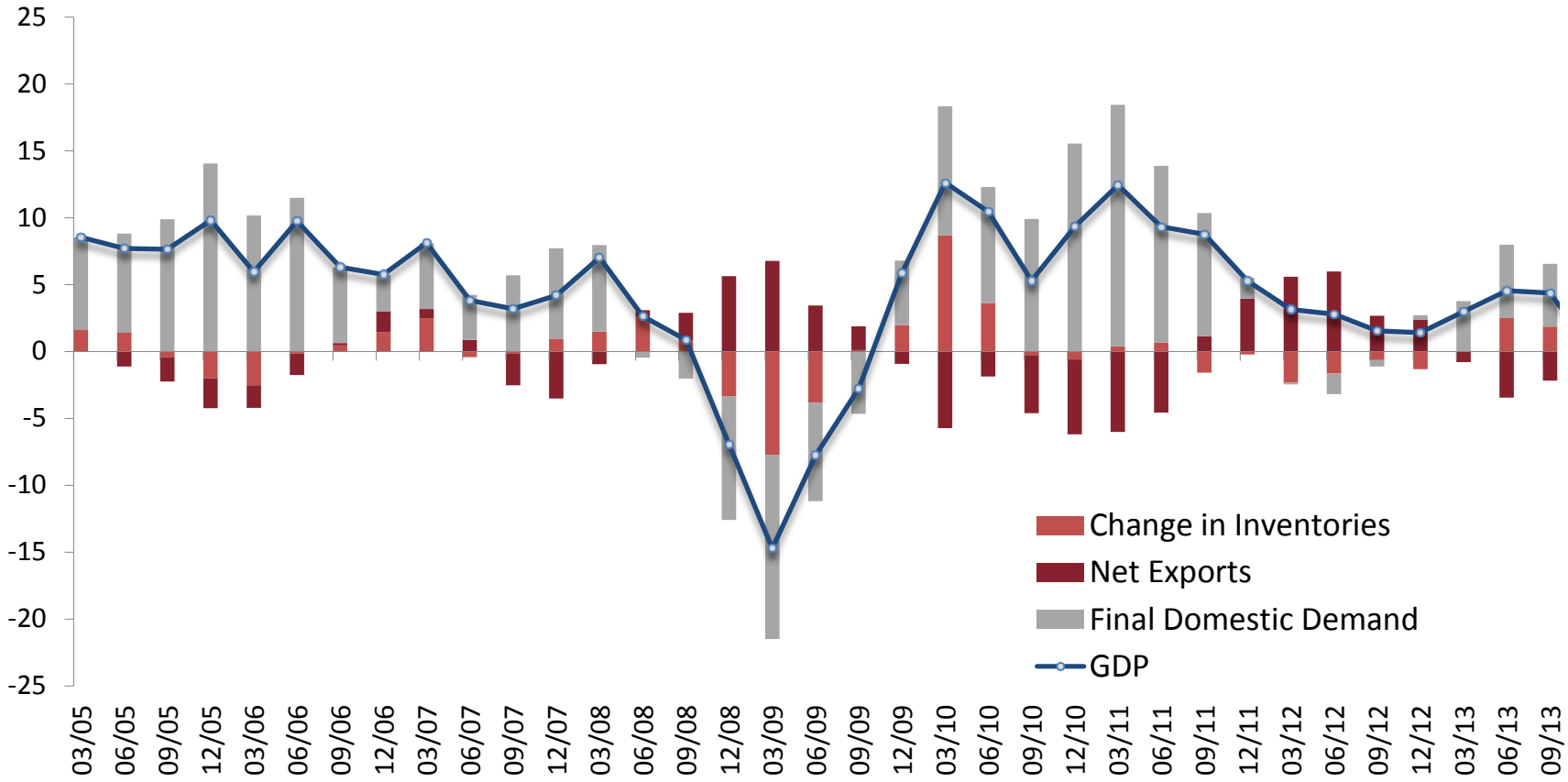
Outline

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

ECONOMIC ACTIVITY

Economic activity continued to expand through 2013.

Contribution to Annual GDP Growth
(Percentage Points)

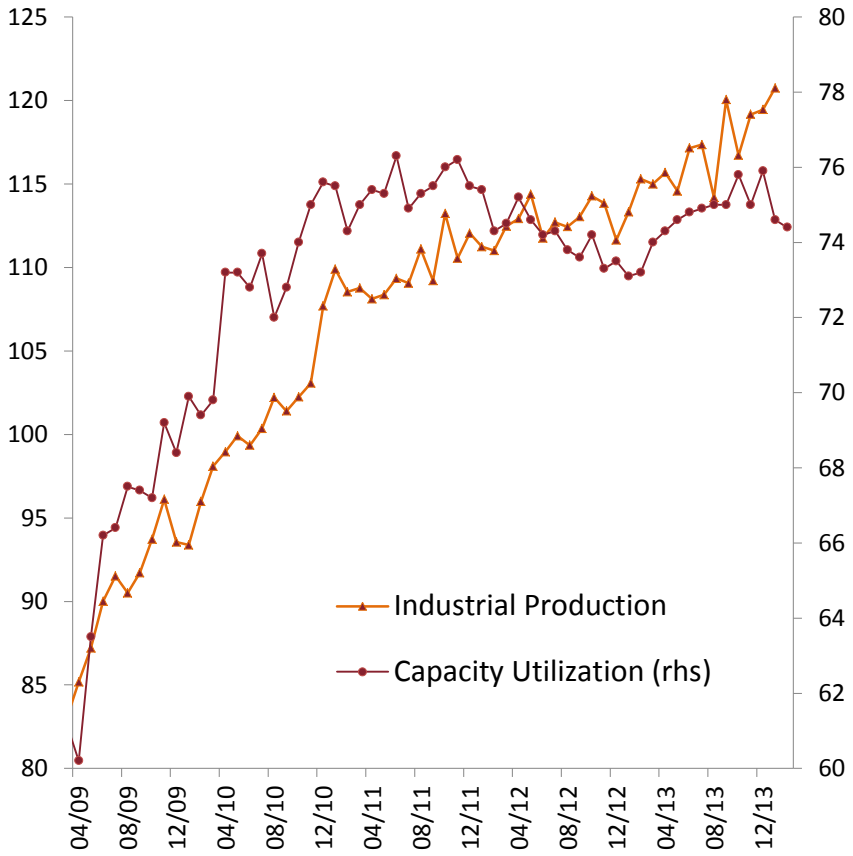


Source: TURKSTAT.

Last Observation: 2013Q3

Industrial production remains robust as of January, yet leading indicators point to some deceleration.

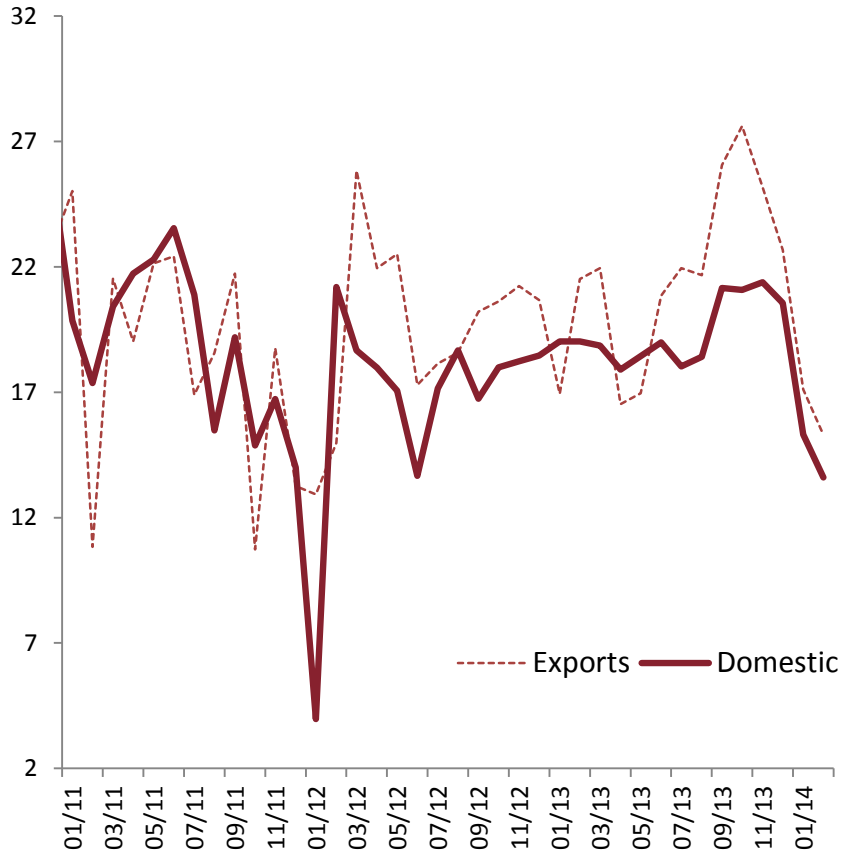
Industrial Production and Capacity Utilization
(Seasonally Adjusted)



Source: TURKSTAT, CBRT.

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

Expected Manufacturing Orders
(Seasonally Adjusted)



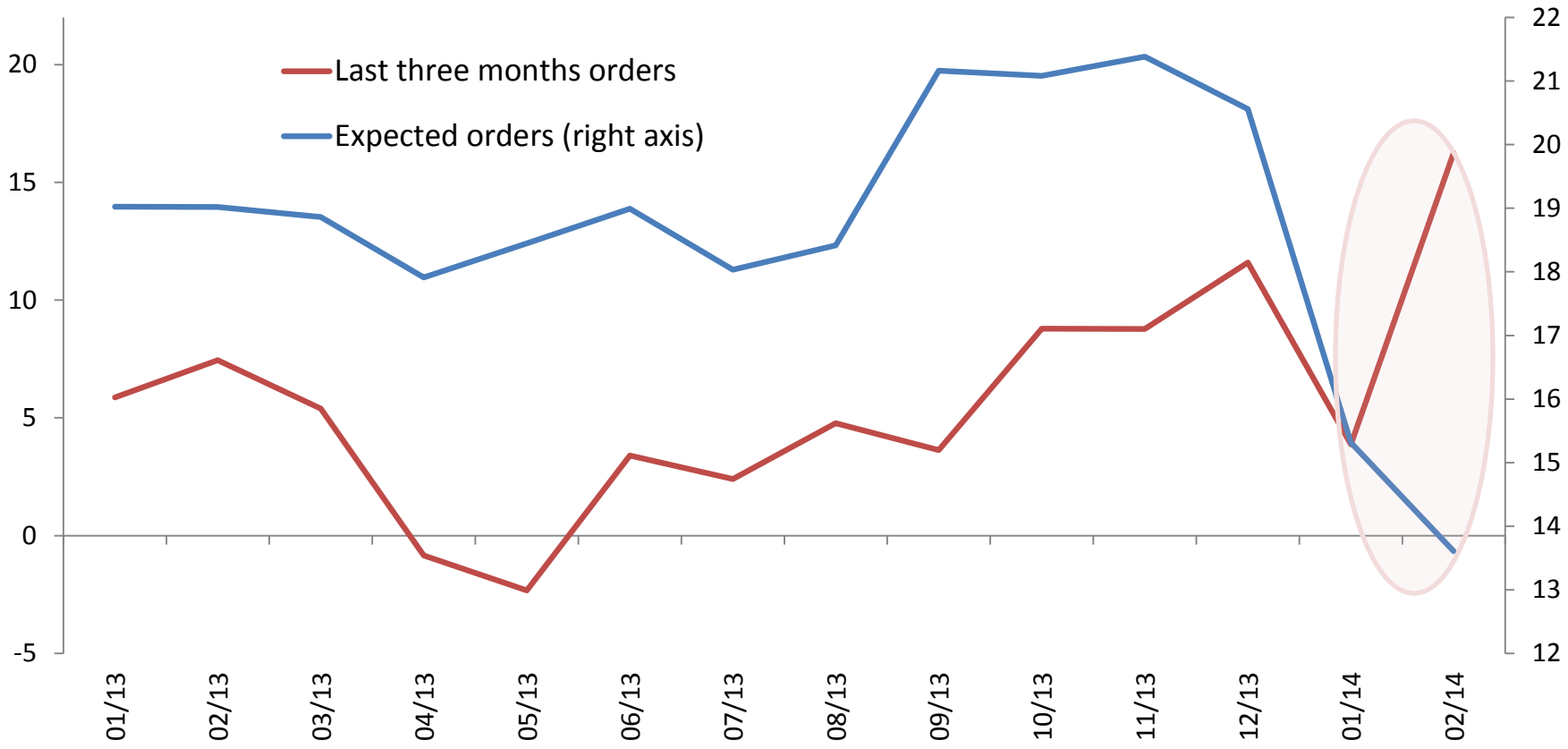
Source: CBRT Business Tendency Survey.

Last Observation: February 2014.

Expectations regarding new domestic orders are more pessimistic than realizations.

Domestic Orders

(Seasonally Adjusted)

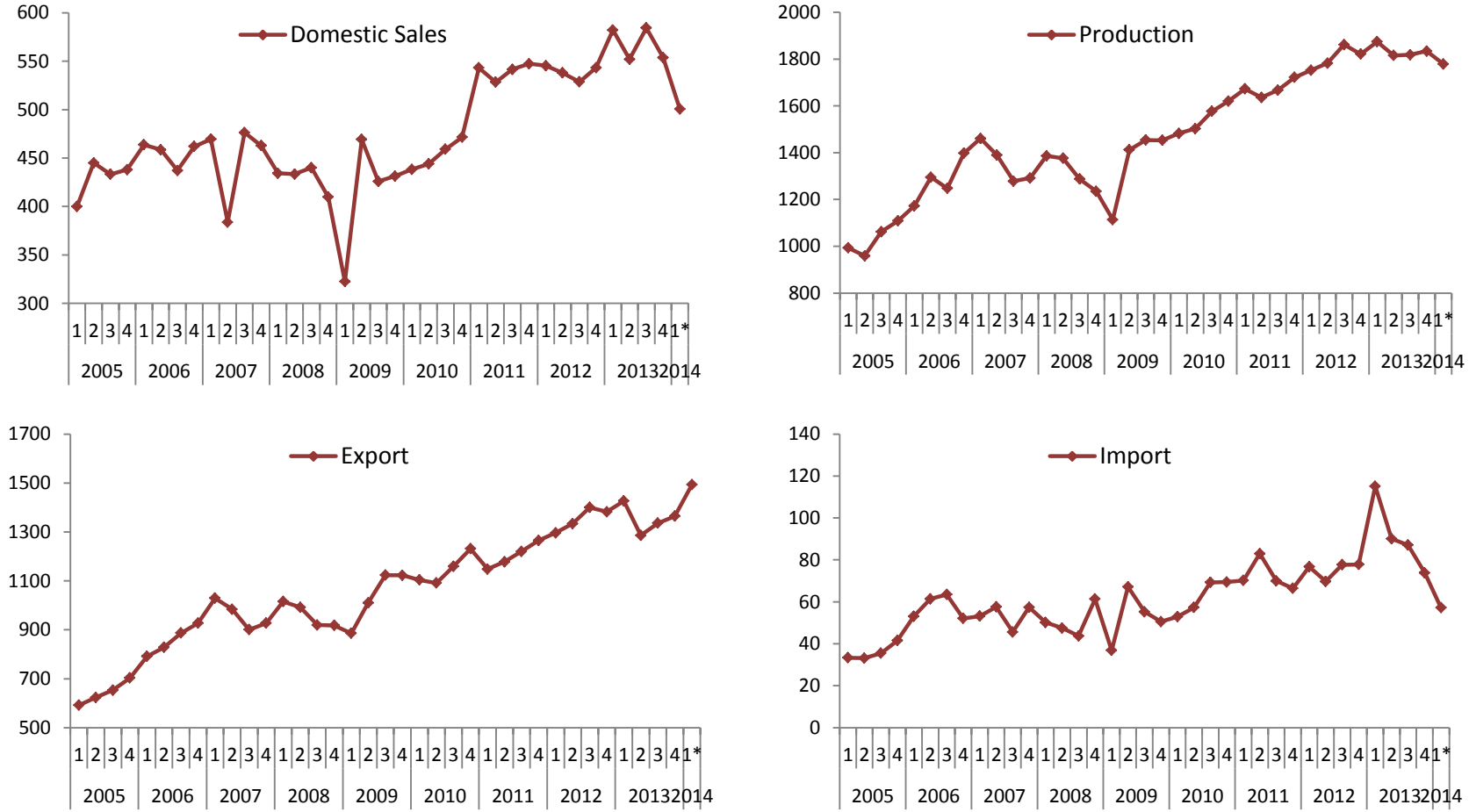


Source: CBRT Business Tendency Survey.

Last Observation: February 2014.

Resilience of production can be largely attributed to export growth, as demonstrated by recent white goods data.

White Goods Activity (Seasonally Adjusted, Thousands)

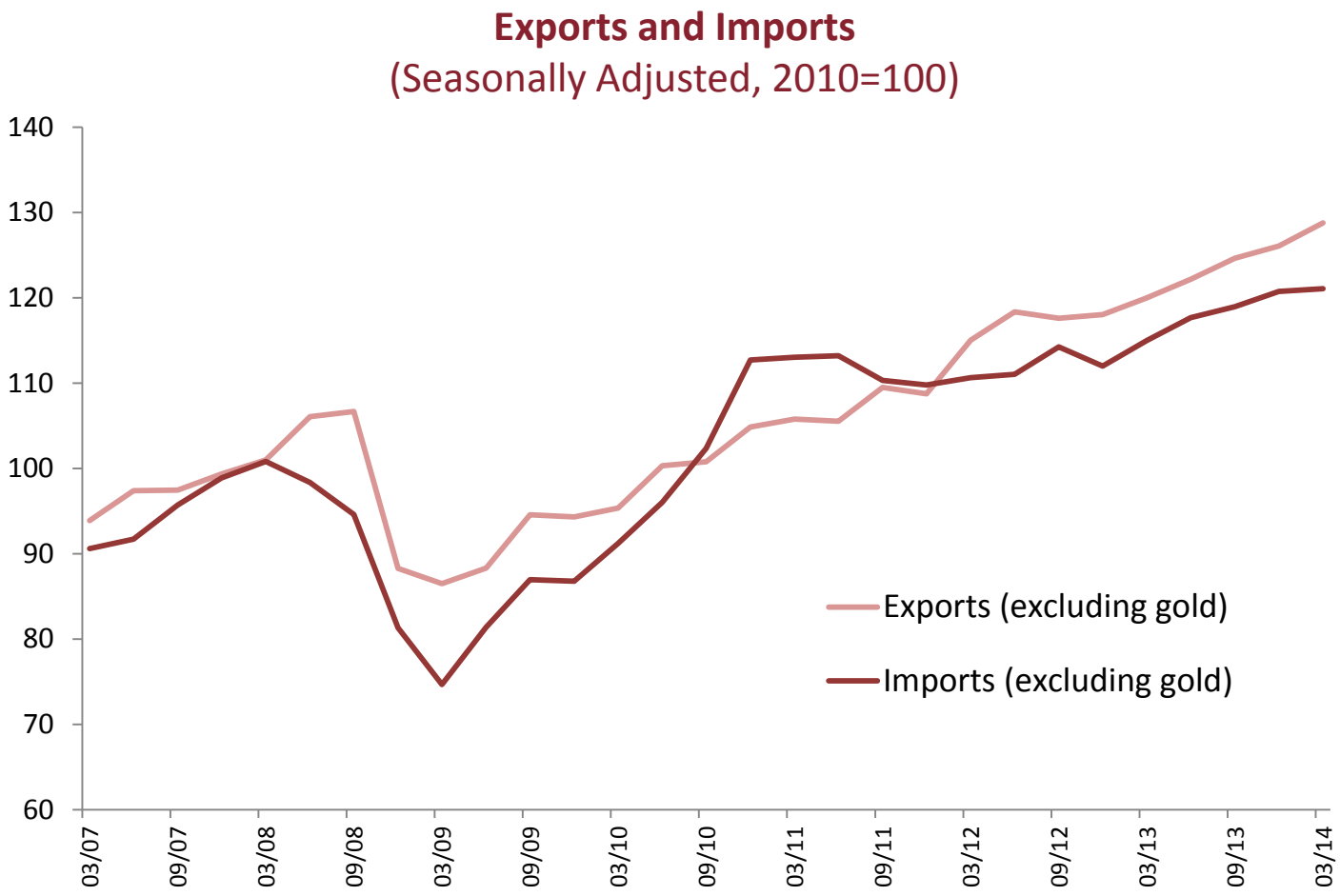


Source: TURKBESD, CBRT.

Last Observation: 2013Q4.

*Figures for the first quarter of 2014 are January values.

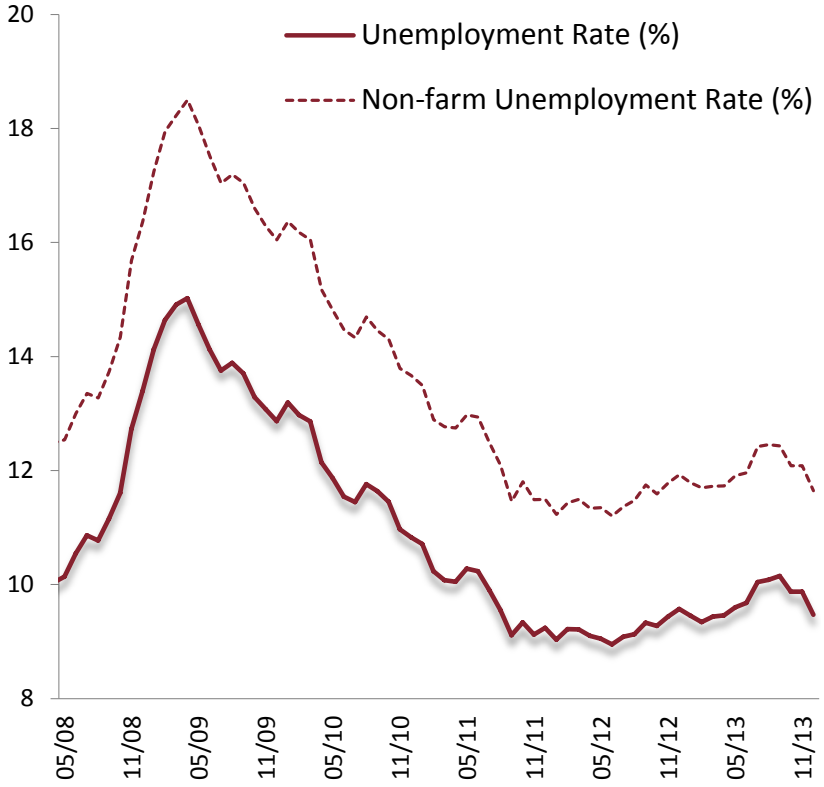
Real exports grow faster than real imports.

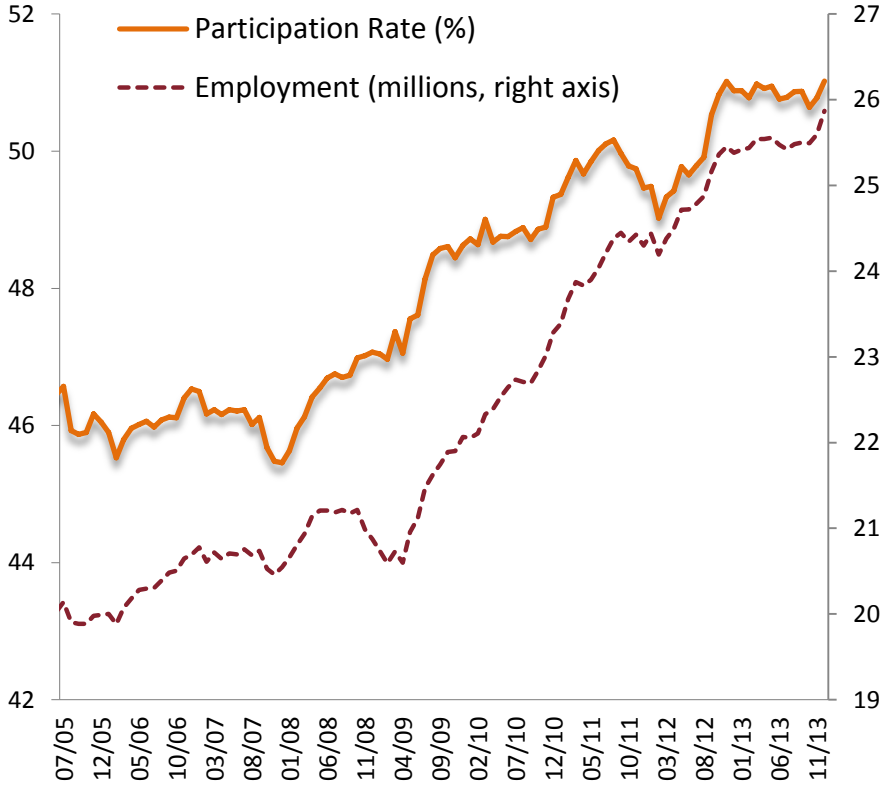


Last Observation: 2013Q4.
Figures for the first quarter of 2014 are January values.

Source: TURKSTAT, CBRT.

Employment growth and labor participation have recovered recently.



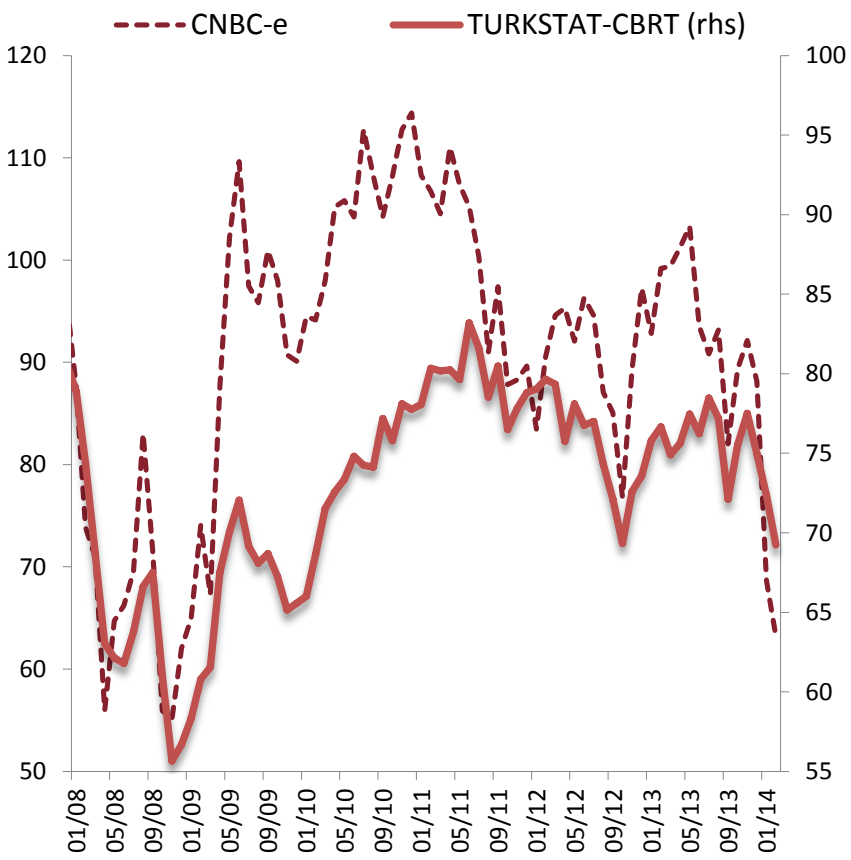


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: December 2013.

Consumer confidence indices and investment prospect indicators have fallen significantly.

Consumer Confidence

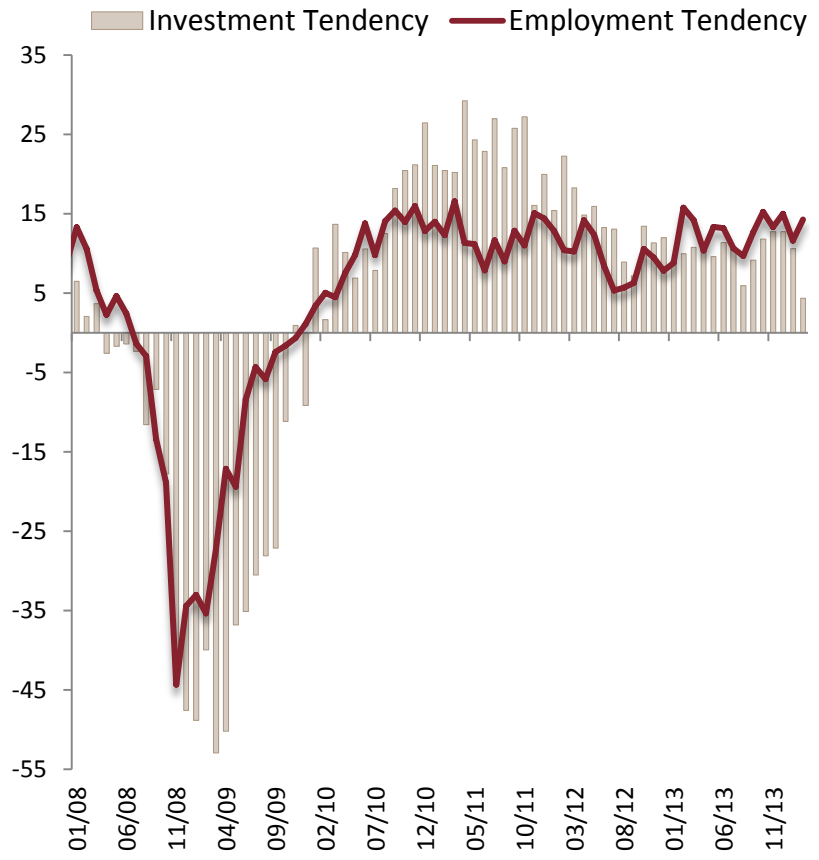


Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: February 2014.

Investment and Employment Prospects

(Seasonally Adjusted)

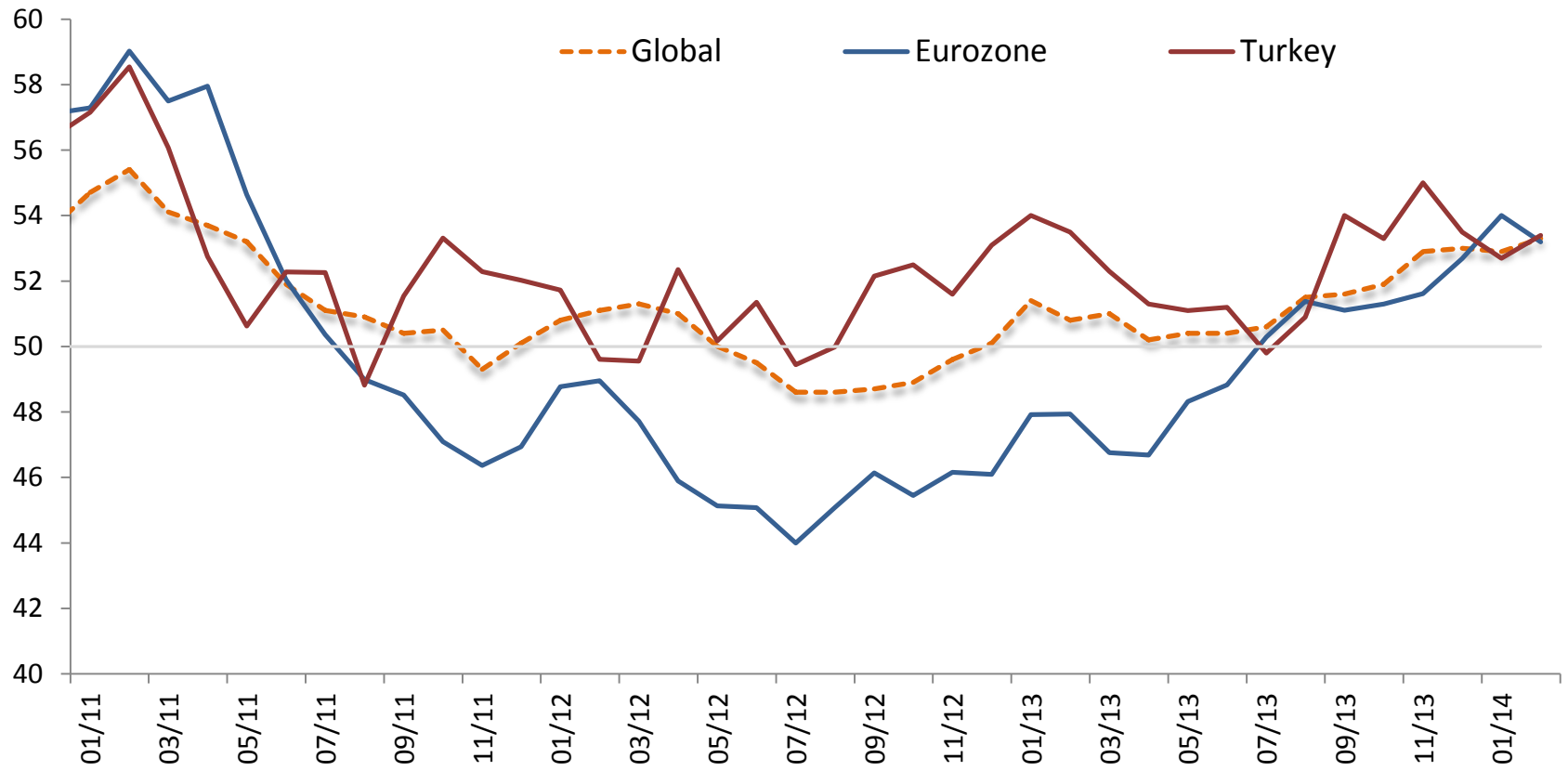


Source: TURKSTAT, CBRT.

Last Observation: February 2014.
Business Tendency Survey

Stronger external demand supports export growth.

Manufacturing PMIs
(Seasonally Adjusted)



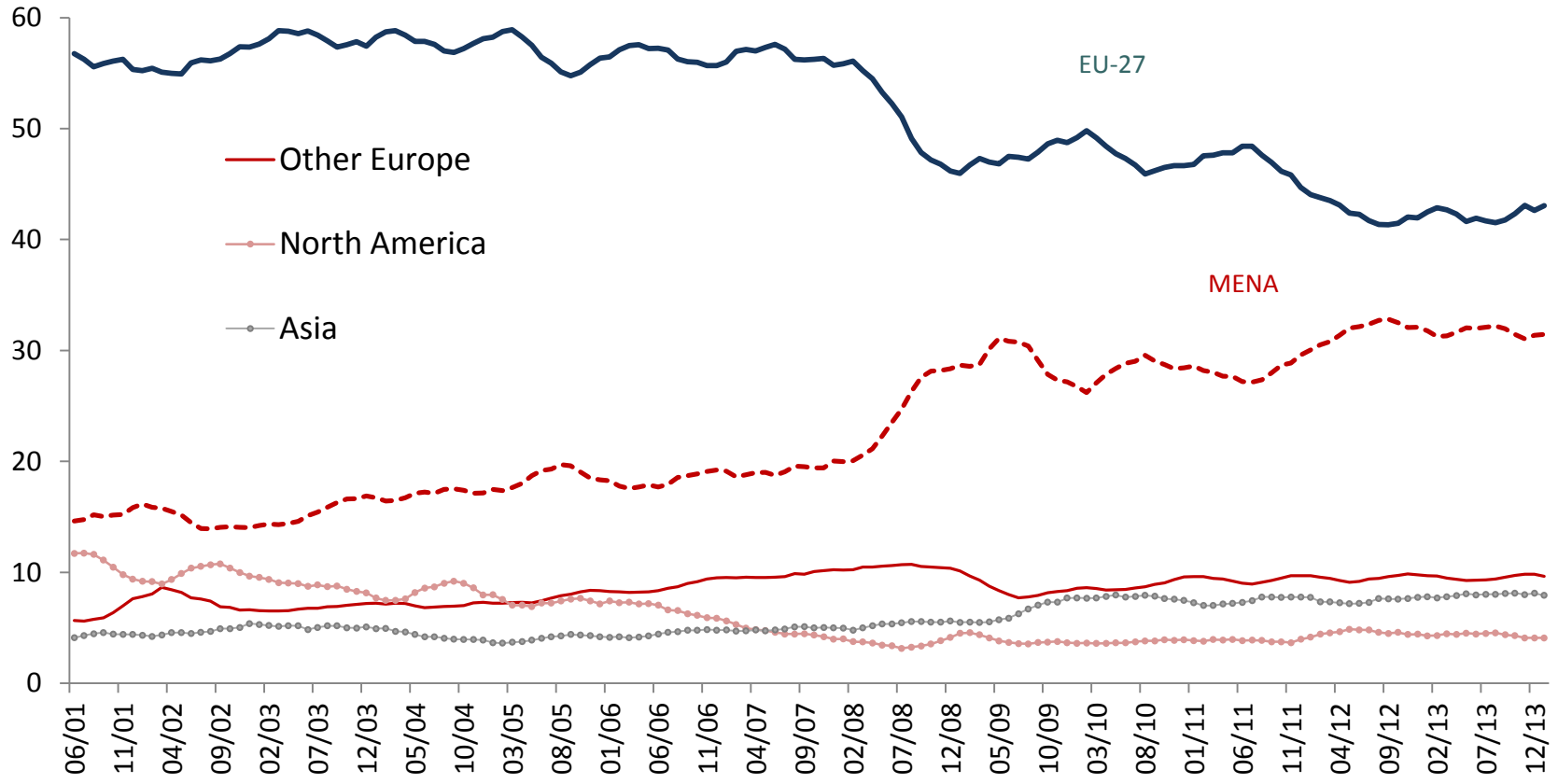
Source: MARKIT.

Last Observation: February 2014.

EXTERNAL BALANCE

Recovery in EU economy is reflected in market shares.

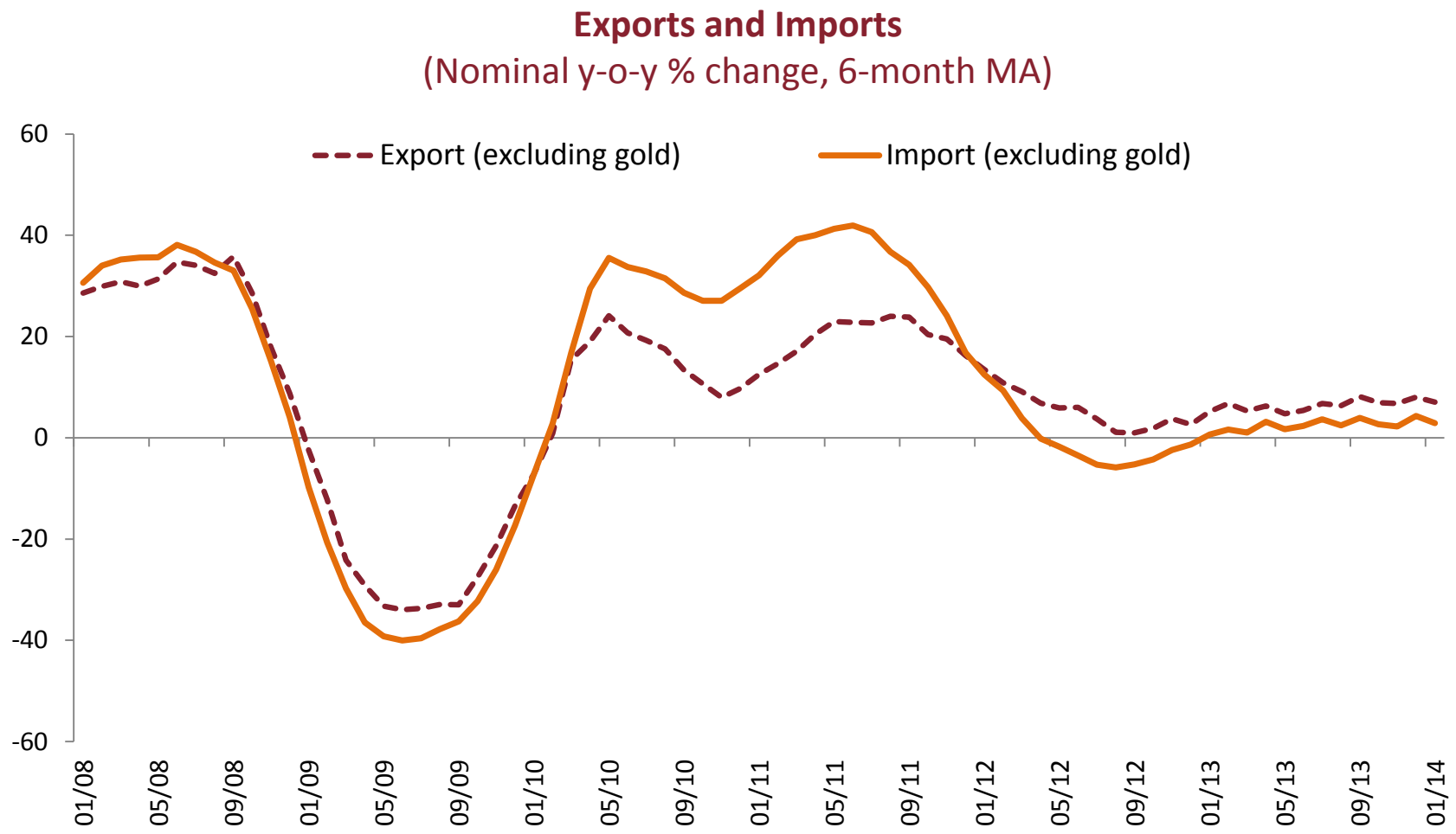
Exports (exc. gold) Market Share
(6-month cumulative, percent)



Source: TURKSTAT.

Last Observation: January 2014.

Exports continue to grow faster than imports…

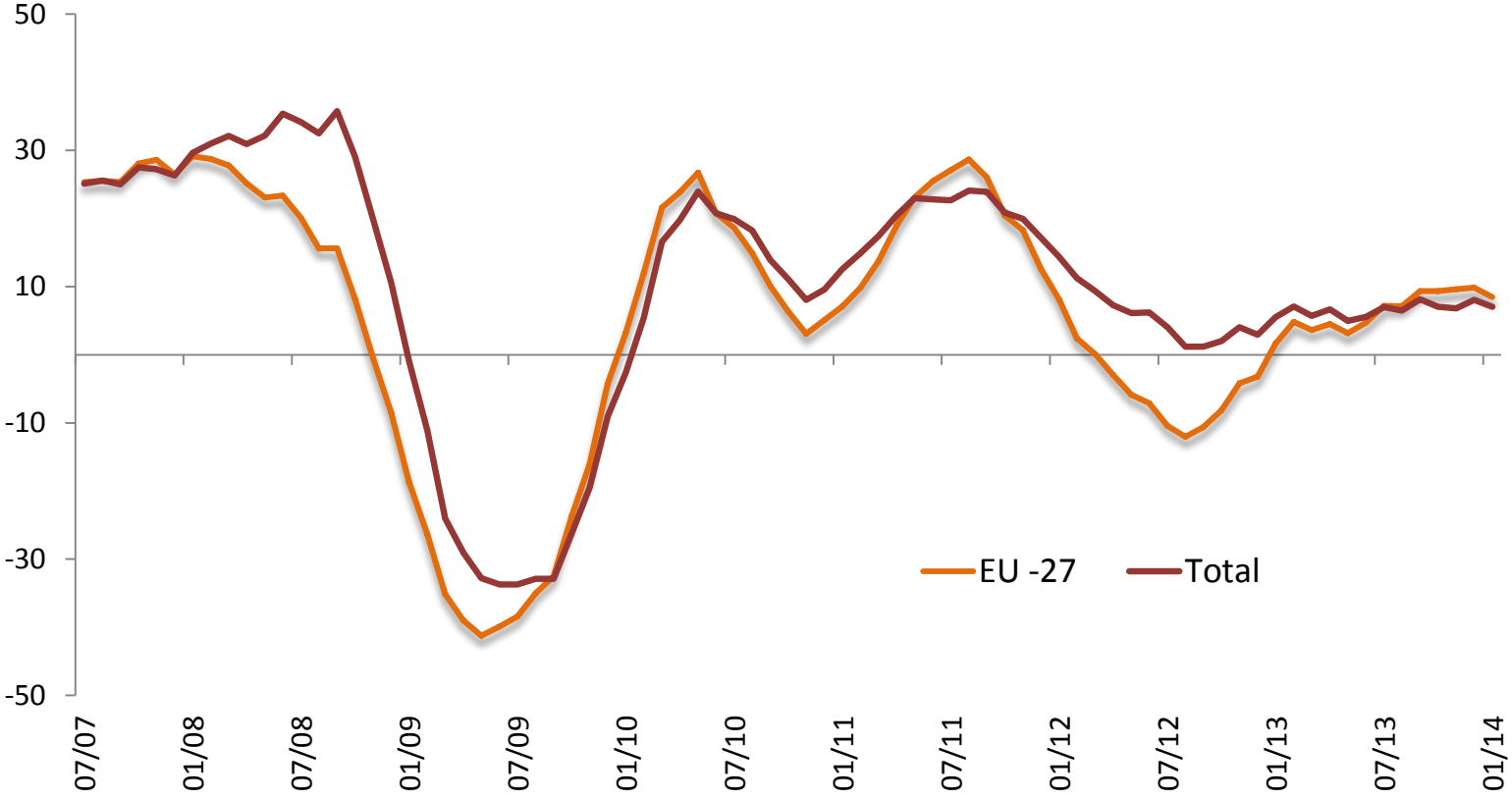


Source: TURKSTAT.

Last Observation: January 2014.

Recent export growth is closely related to EU demand.

Exports excluding gold
(Nominal y-o-y % change, 6-month MA)

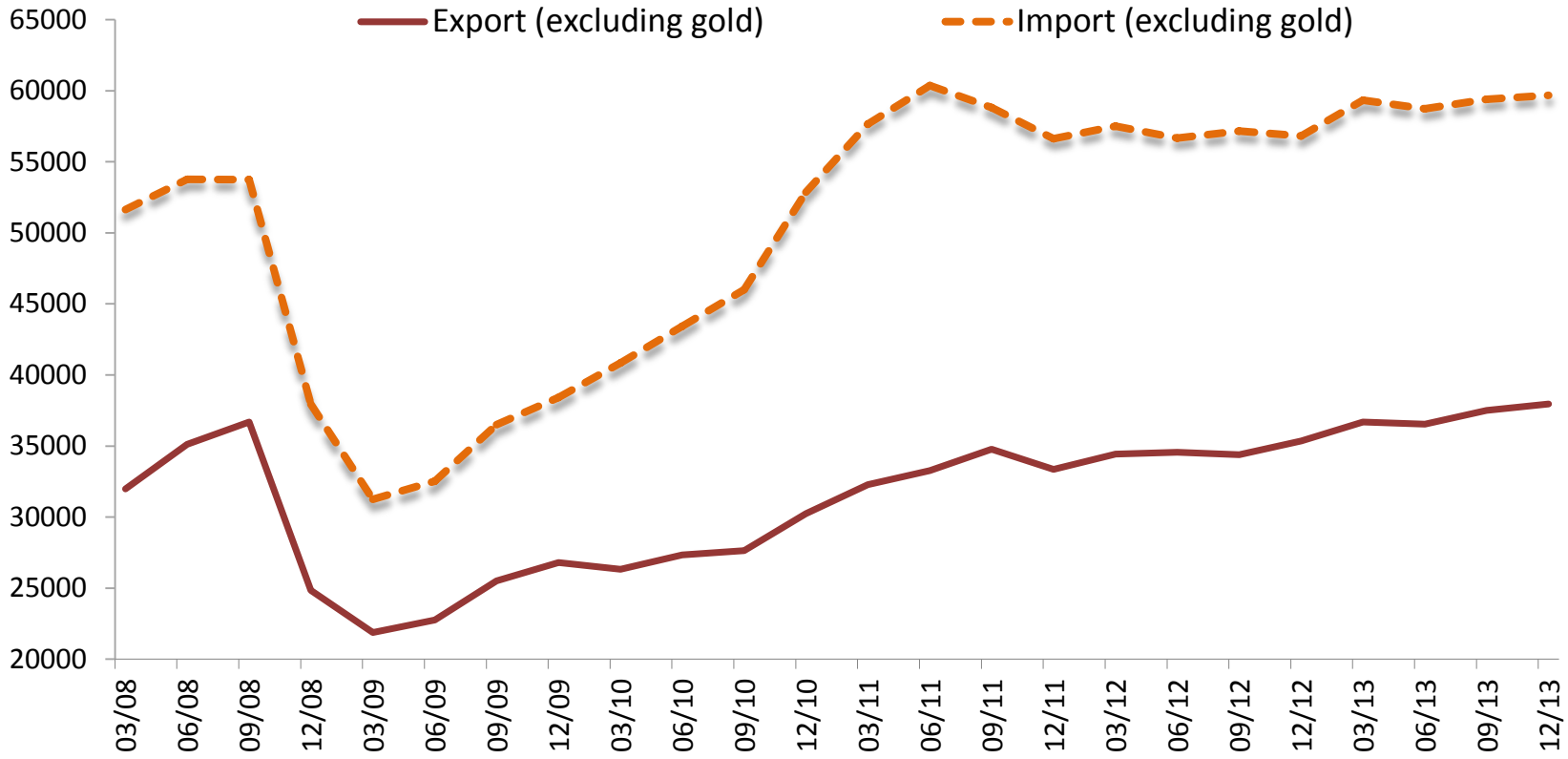


Last Observation: January 2014.

Source: TURKSTAT, CBRT.

Rebalancing can be also seen in recent trends.

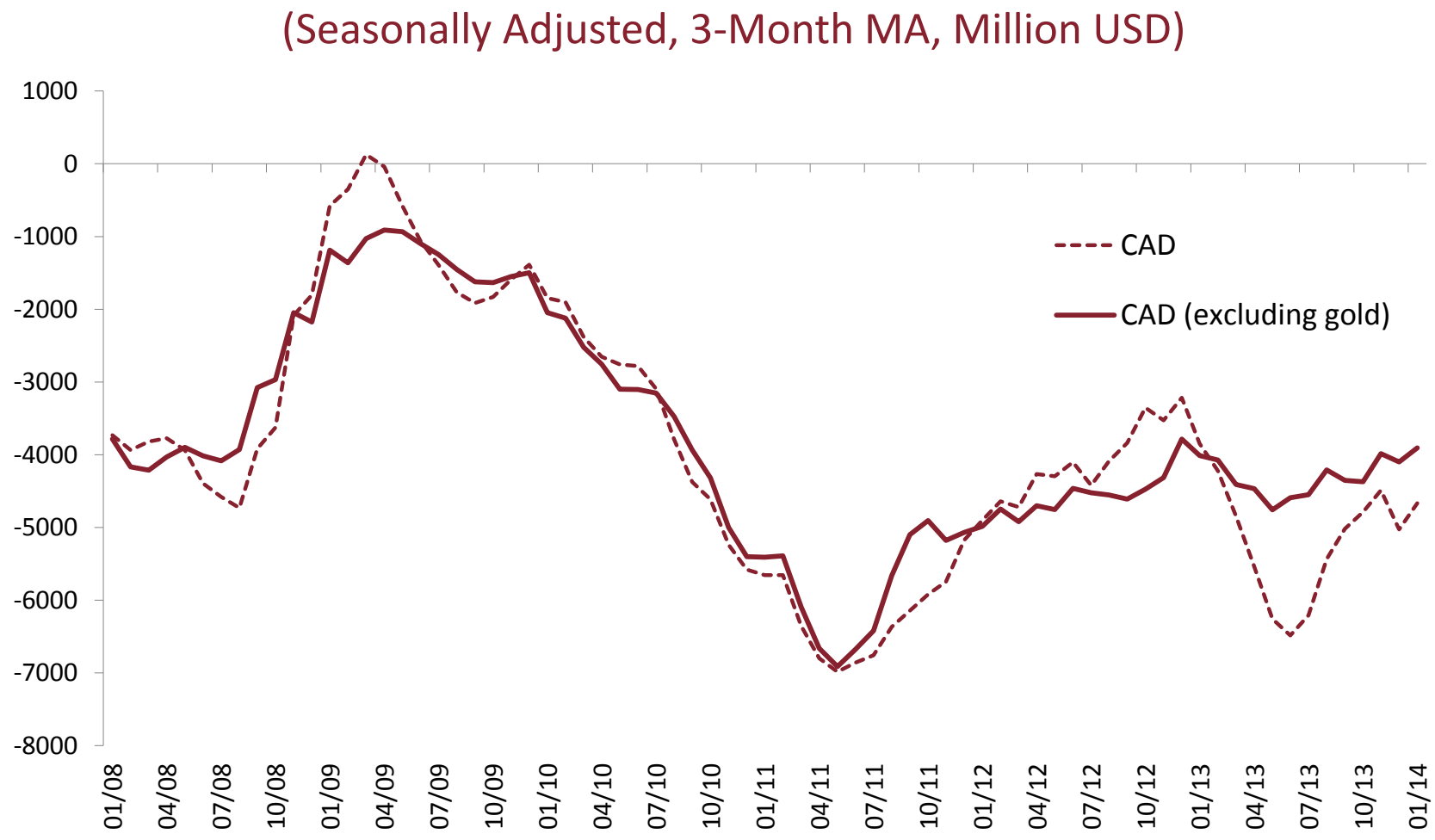
Exports and Imports
(Seasonally Adjusted, Quarterly Average, Million USD)



Source: TURKSTAT, CBRT.

Last Observation: 2013Q4.

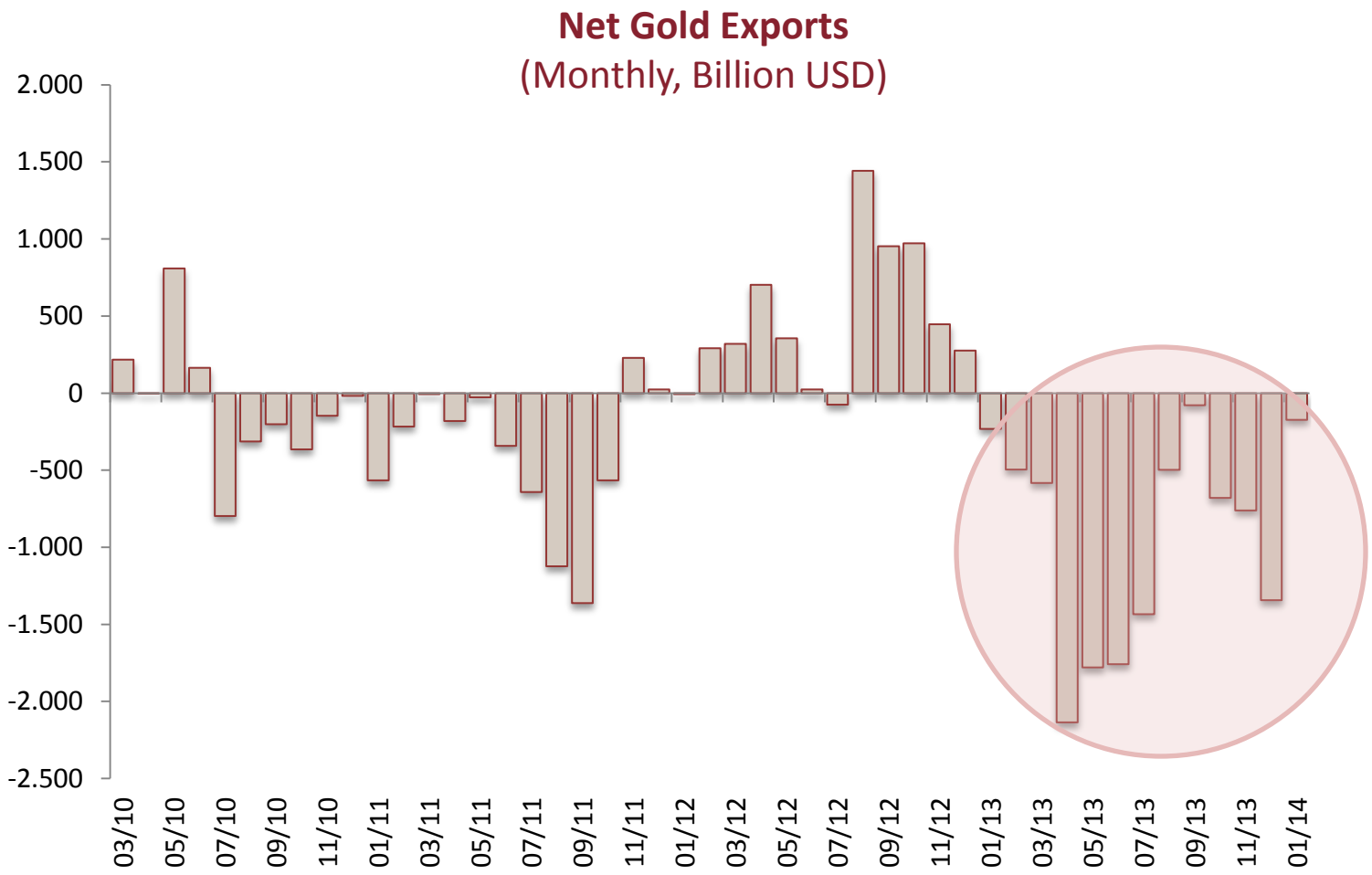
As a result, current account balance continues to improve.



Source: CBRT.

Last Observation: January 2014.

Adverse base effects due to gold trade will reverse in the forthcoming months.

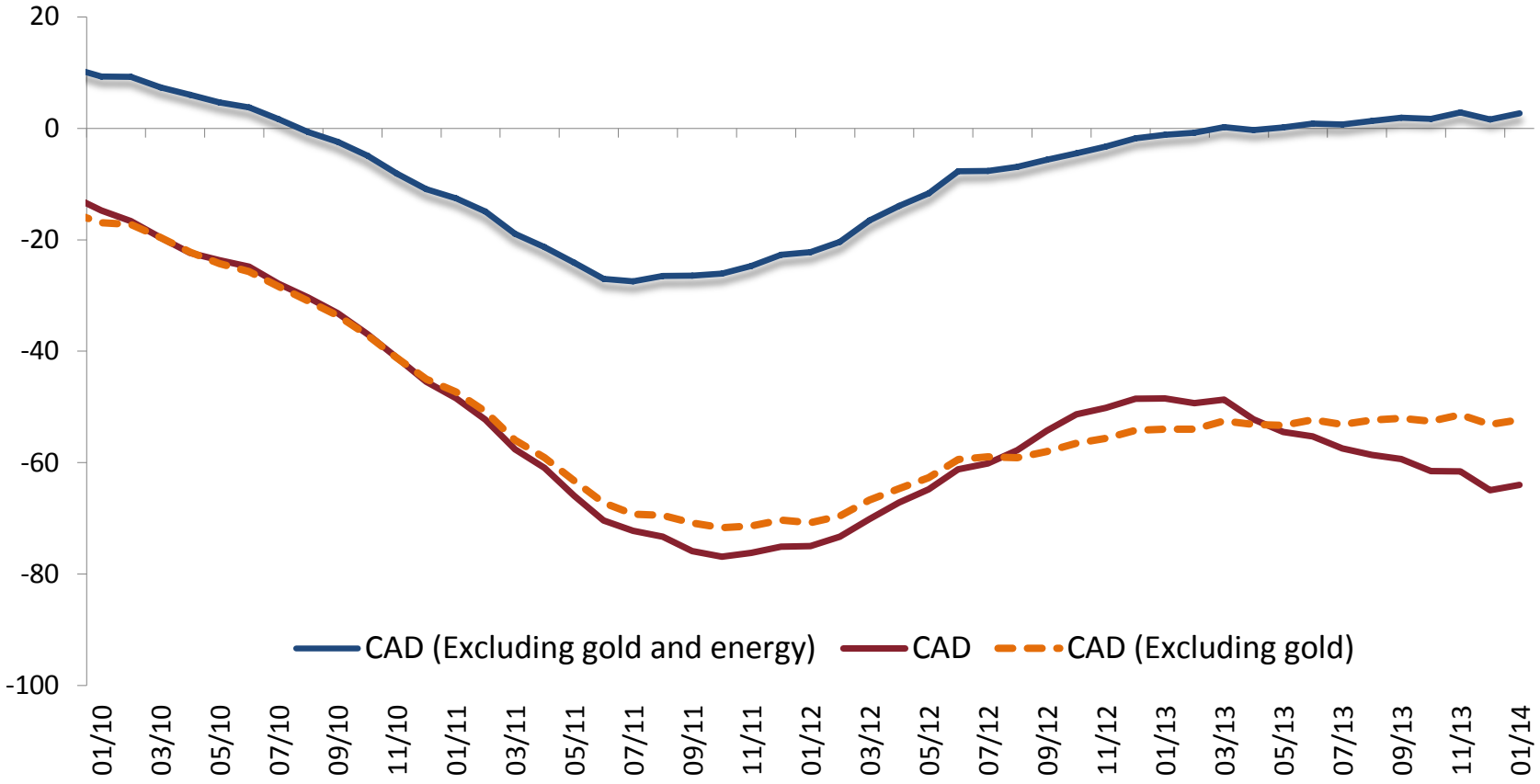


Last Observation: January 2014.

Source: TURKSTAT, CBRT.

A significant improvement is expected in the current account deficit for 2014.

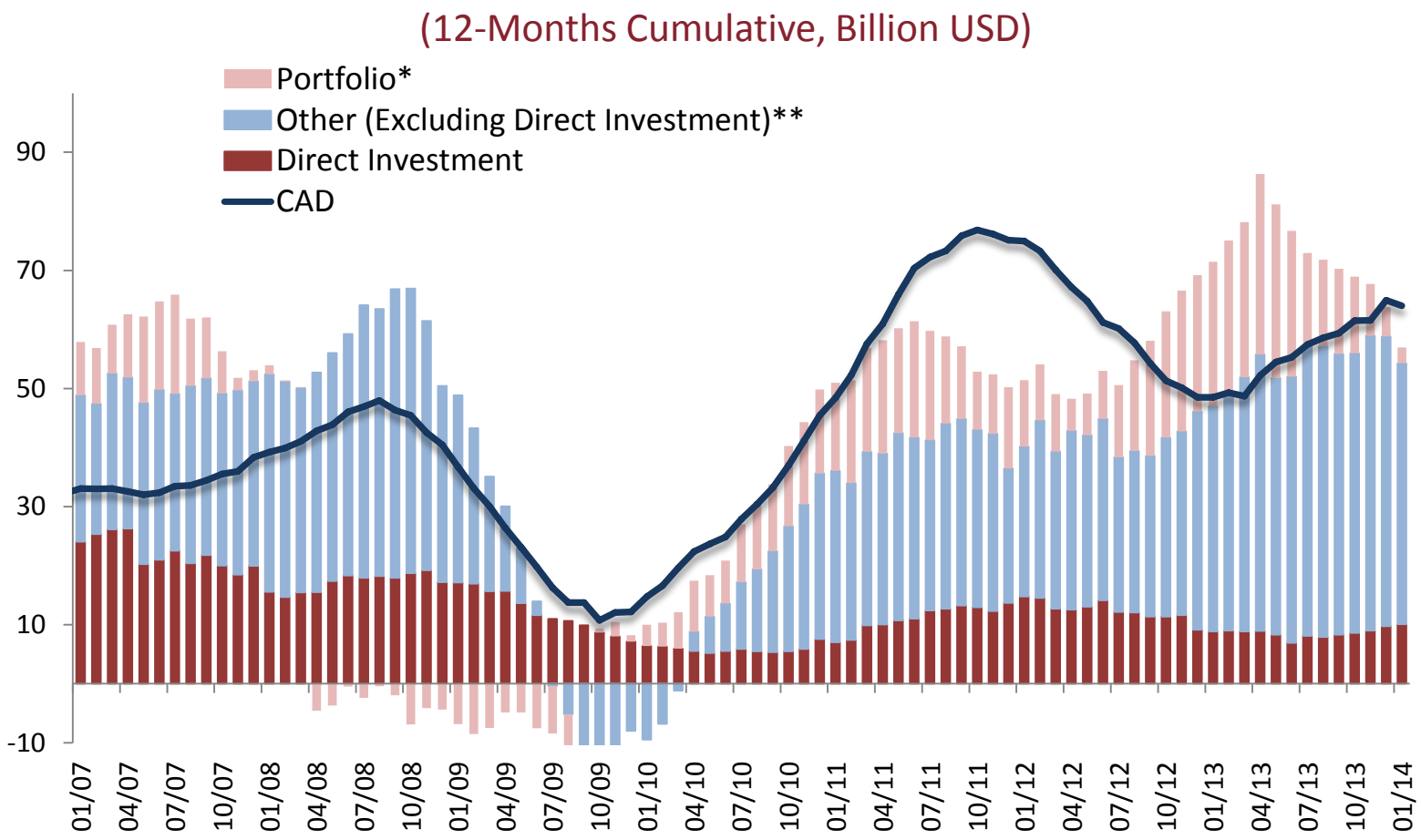
(12-Month Rolling, Billion USD)



Source: CBRT.

Last Observation: January 2014.

Major sources of current account financing maintain their stable course, despite weak portfolio flows.



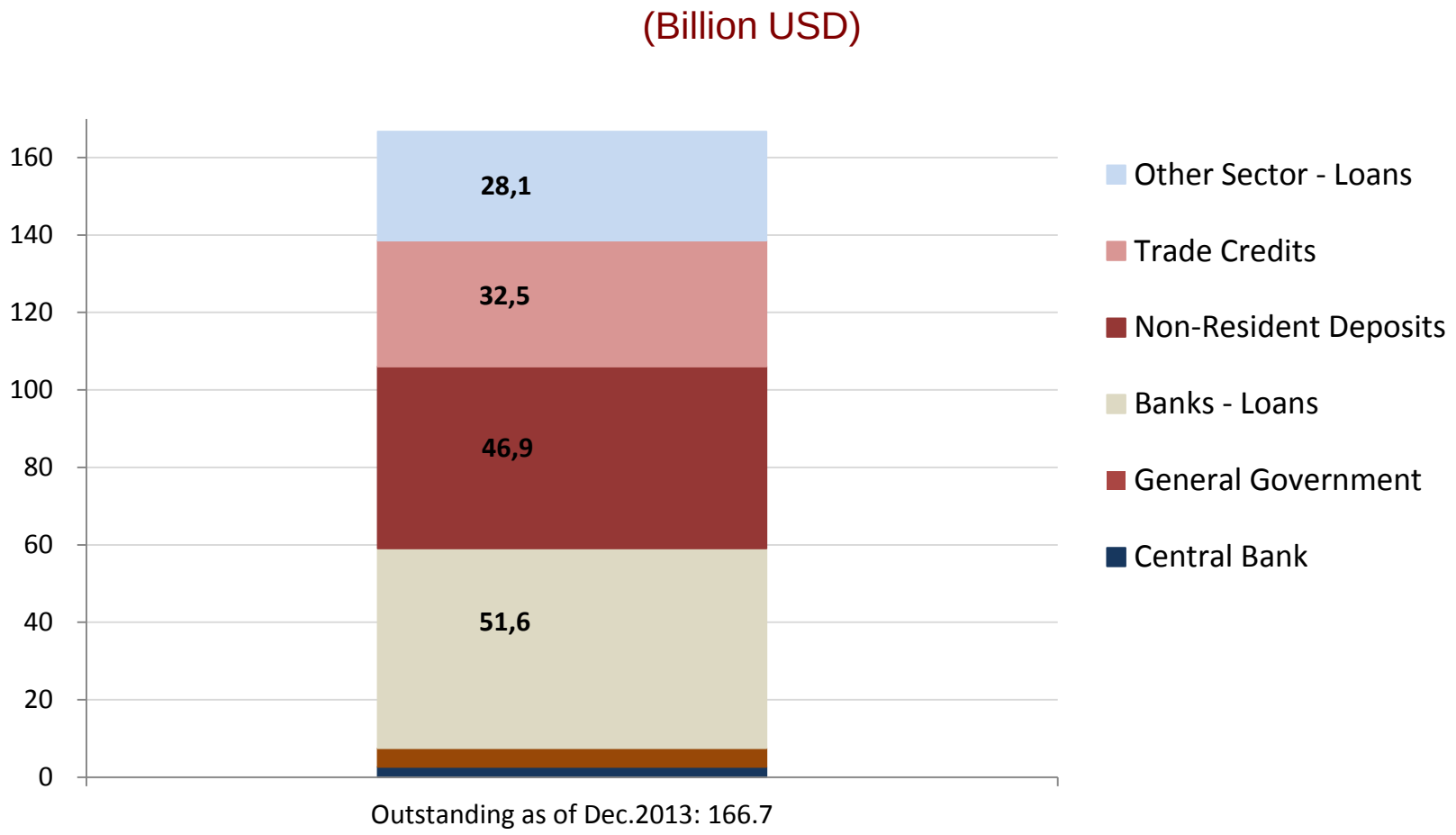
Last Observation: January 2014.

*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.

Source: CBRT.

External Debt Stock Maturing in One Year (*)

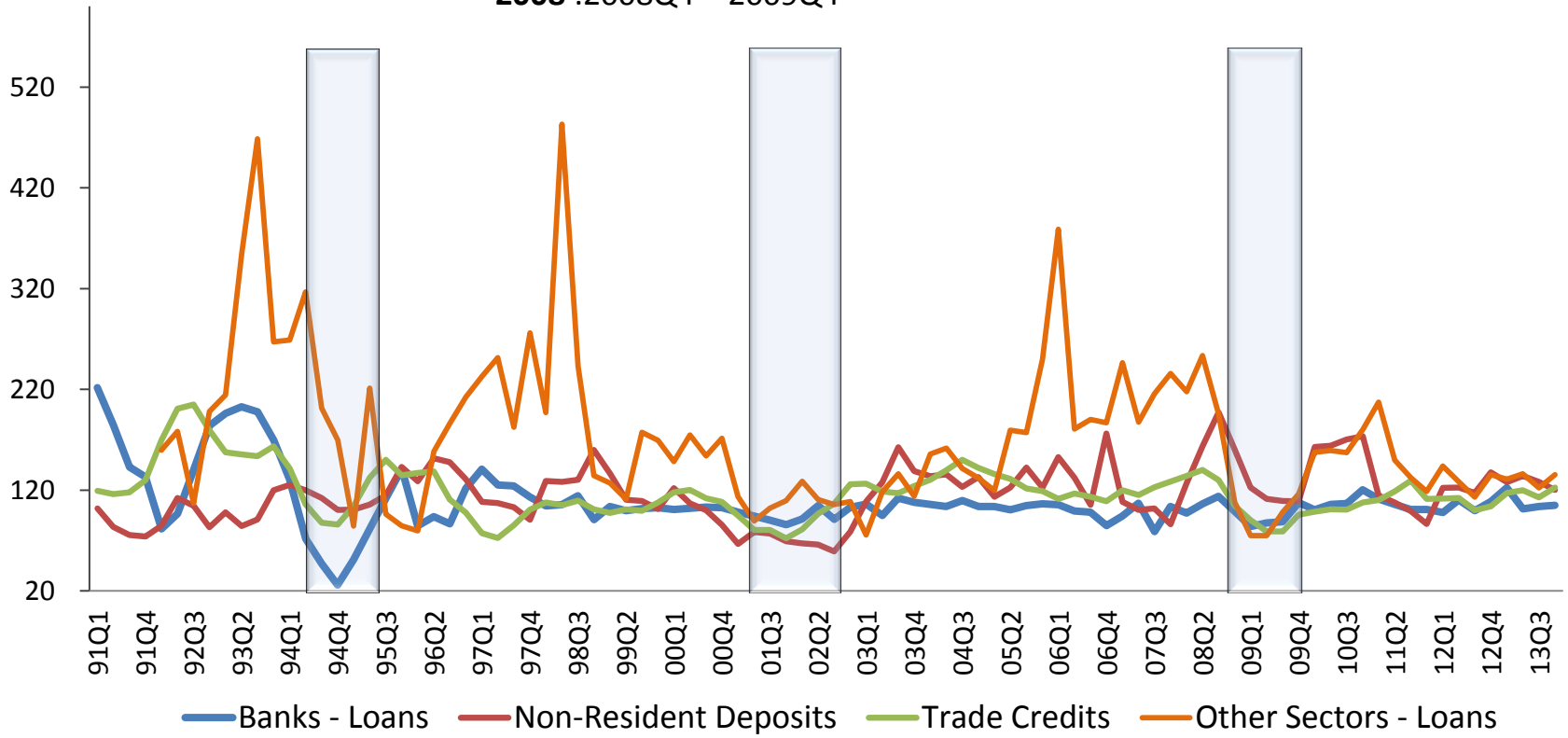


Source: CBRT.

*External debt maturing within 1 year or less regardless of the original maturity.
Last Observation: March 06, 2014.

Roll-over Ratios of External Debt

- **Crisis Periods:**
  - **1994** :1994Q2 – 1995Q2
  - **2001 :**2001Q2 – 2002Q3
  - **2008** :2008Q4 – 2009Q4



Source: CBRT.

Last Observation: 2013Q4.

Roll-Over Ratios During Past Crises

	1994 (1994Q2 - 1995Q2)		2001 (2001Q2 - 2002Q3)		2008 (2008Q4 - 2009Q4)	
	lowest rollover	average rollover	lowest rollover	average rollover	lowest rollover	average rollover
Banks - Loans	26%	55%	86%	93%	49%	93%
Non-Resident Deposits	100%	108%	59%	70%	109%	122%
Trade Credits	86%	103%	72%	86%	79%	90%
Other Sector - Loans	84%	199%	89%	108%	75%	94%

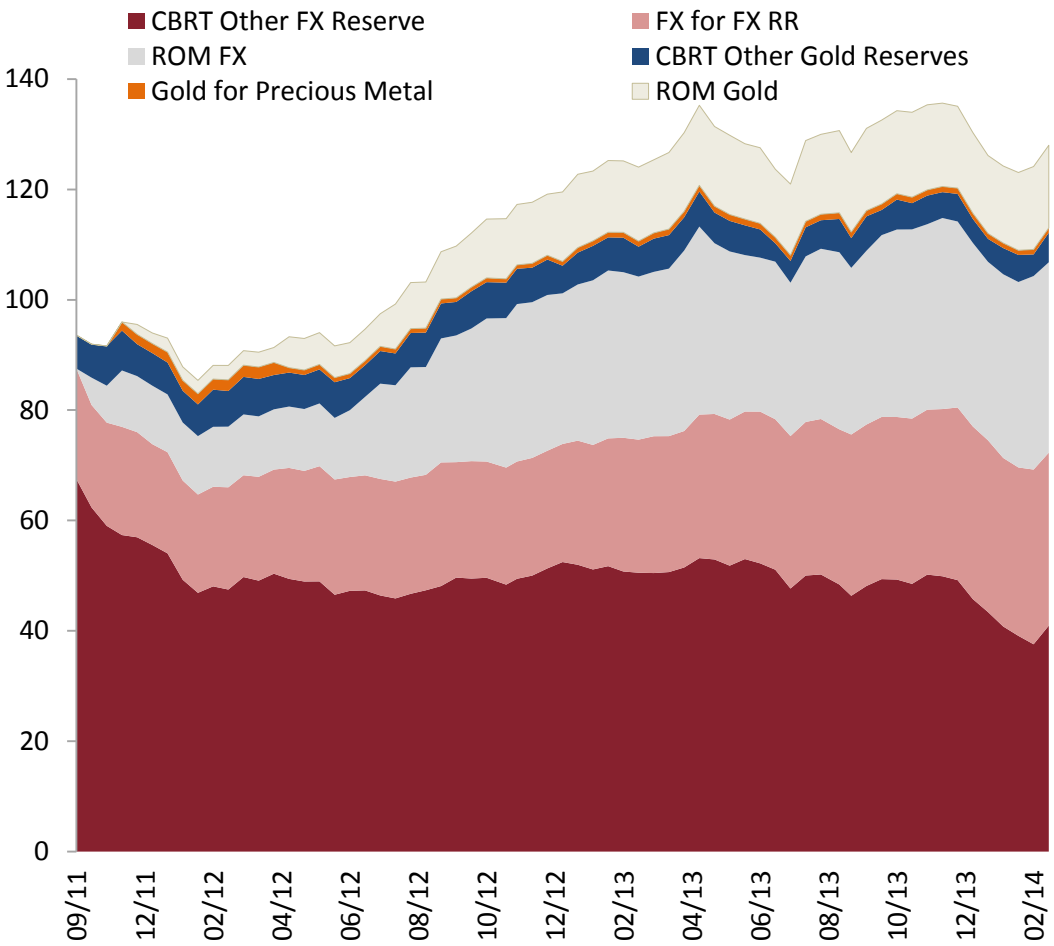
Source: CBRT.

Scenario Analysis Constructed Using Worst Roll-Overs

	Scenario I	Scenario II
Banks - Loans	26%	55%
Non-Resident Deposits	59%	70%
Trade Credits	72%	86%
Other Sectors - Loans	75%	94%
Weighted Average Rollover Ratios	**53.8%**	**72.6%**

Source: CBRT.

Central Bank Reserves
(Billion $)



	FX Sales (-)	Export Credit (+)
June 2013	1.7	
July 2013	5.15	0.97
August 2013	1.95	1.19
September 2013	1.86	1.15
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	0.50	0.30

	Amount (Billion $)
ROM FX	34.5
FX Required Reserves	31.4
Total	65.9

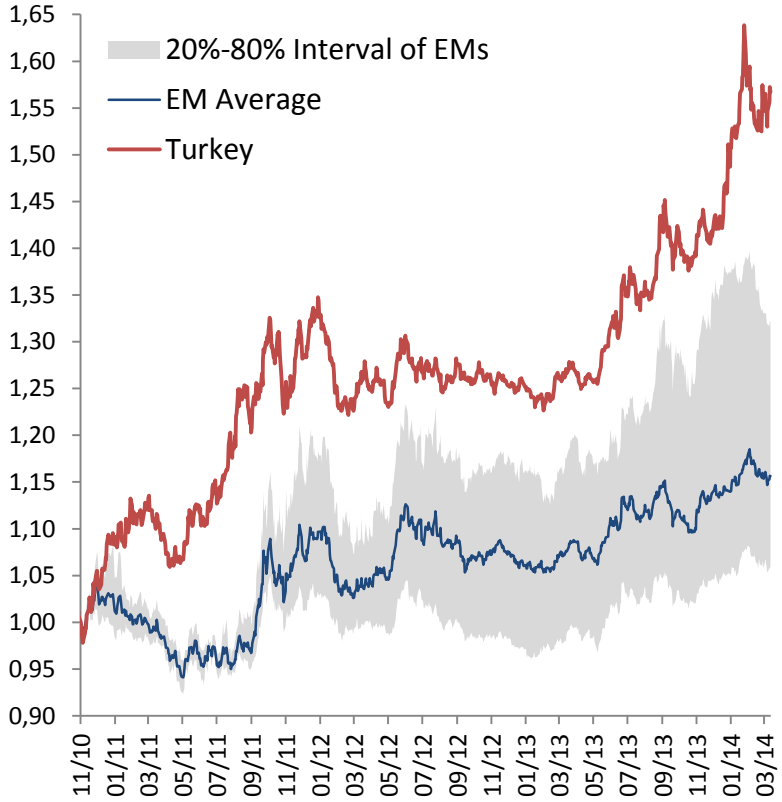
Source: CBRT.

*Includes the direct currency intervention of January 2014.
Last Observation: March 14, 2014.

INFLATION

Both nominal and real exchange rates depreciated significantly since May 2013.

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

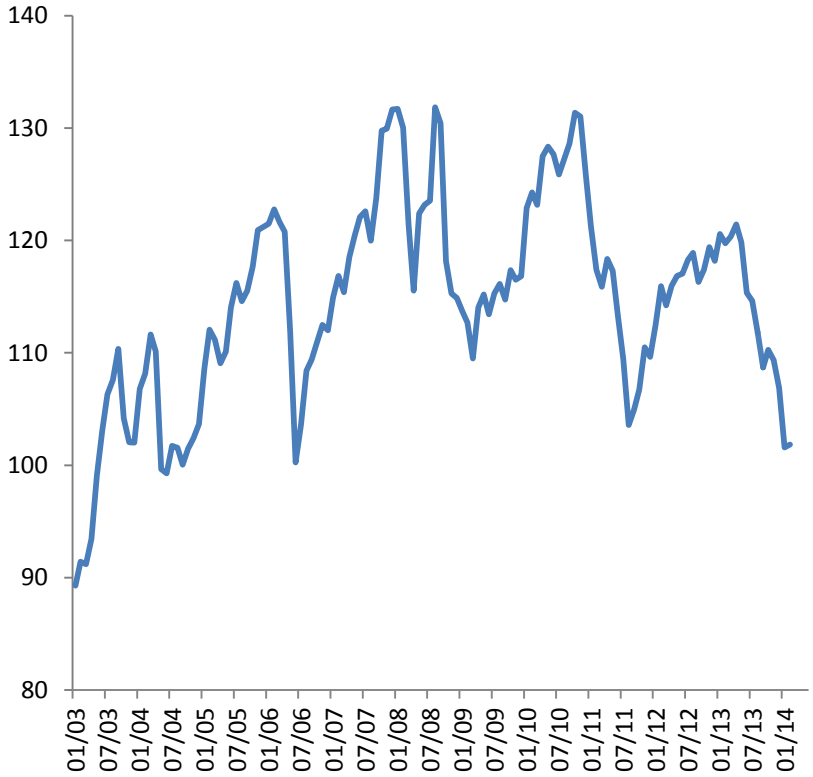


Source: Bloomberg.

Last Observation: March 12, 2014.

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)

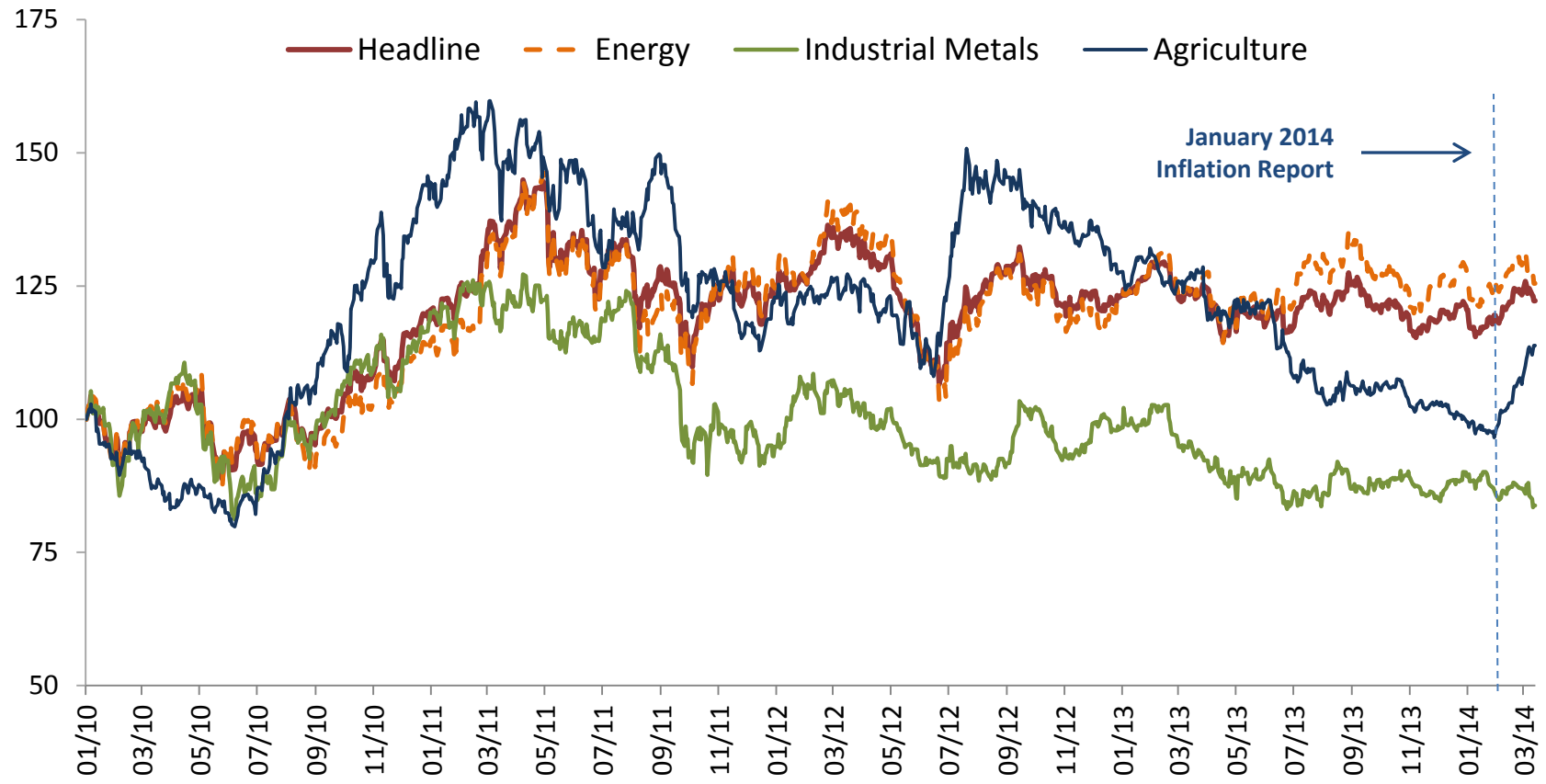


Source: CBRT.

Dotted lines represent 2 percent trends for May 2003=100 or May 2003=90.

Commodity prices are somewhat stable, partly limiting the cost-push pressures.

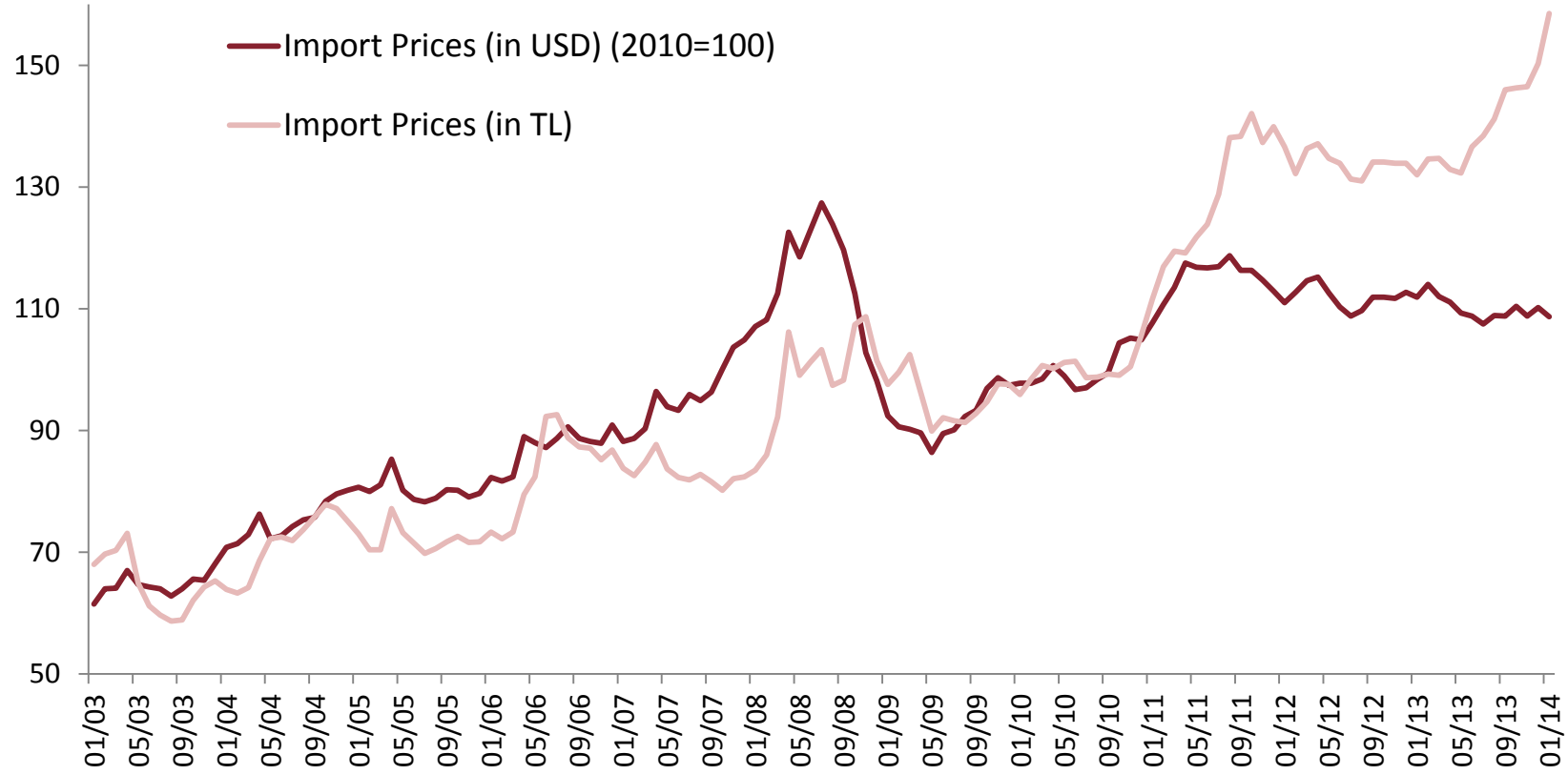
S&P GS Indices



Source: Bloomberg.

Last Observation: : March 13, 2014.

Exchange rate pass-through remains to be the main driver of inflation,

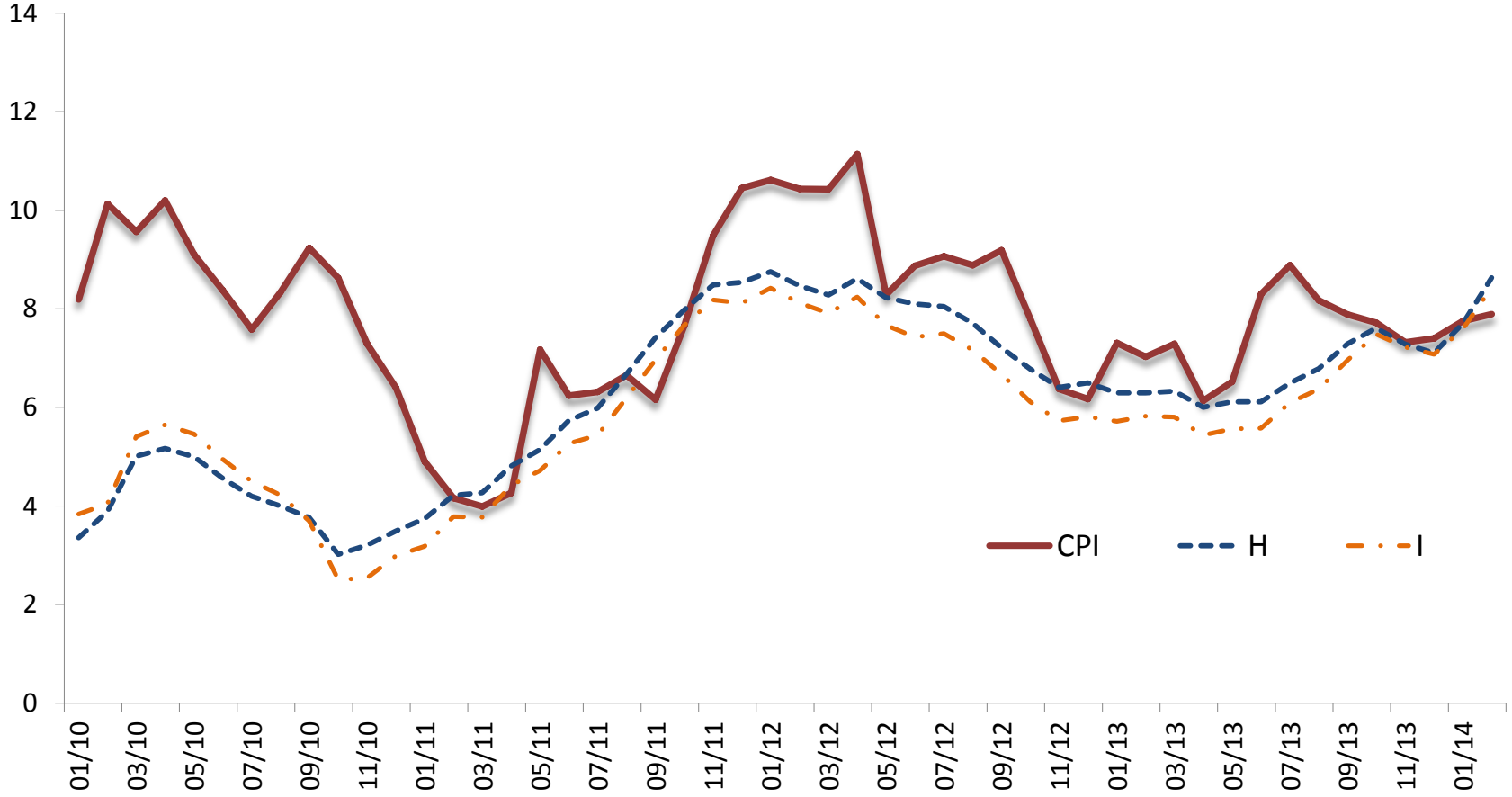


Source: TURKSTAT.

Last Observation: January 2014.

… as evidenced in the sharp increase in core inflation,

(Annual Percentage Change)

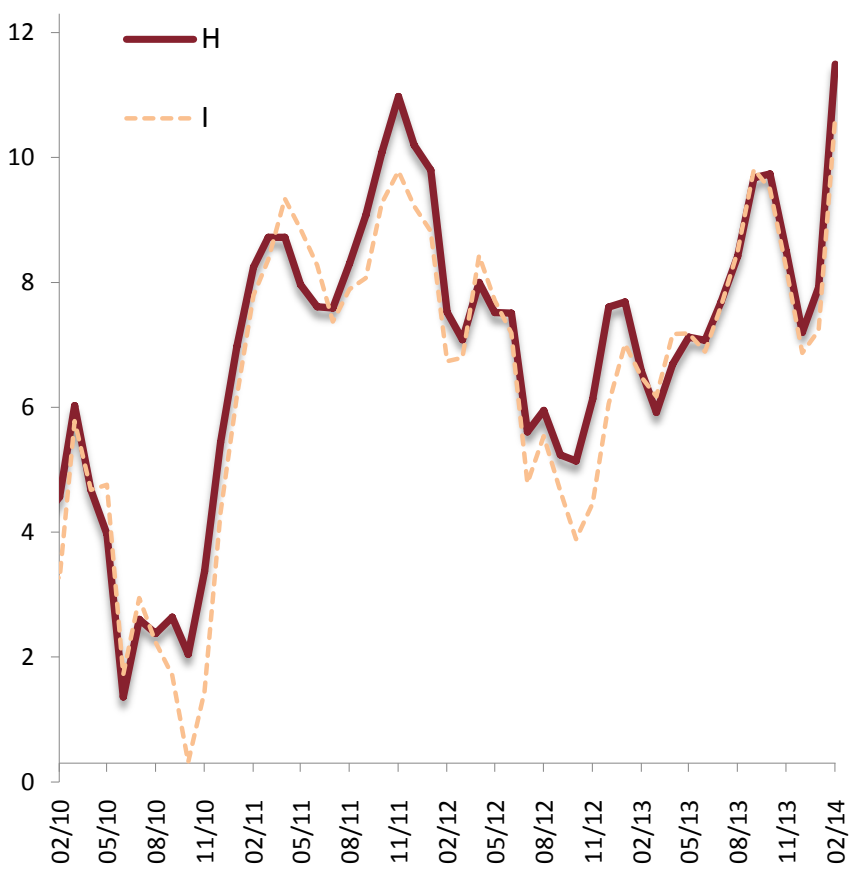


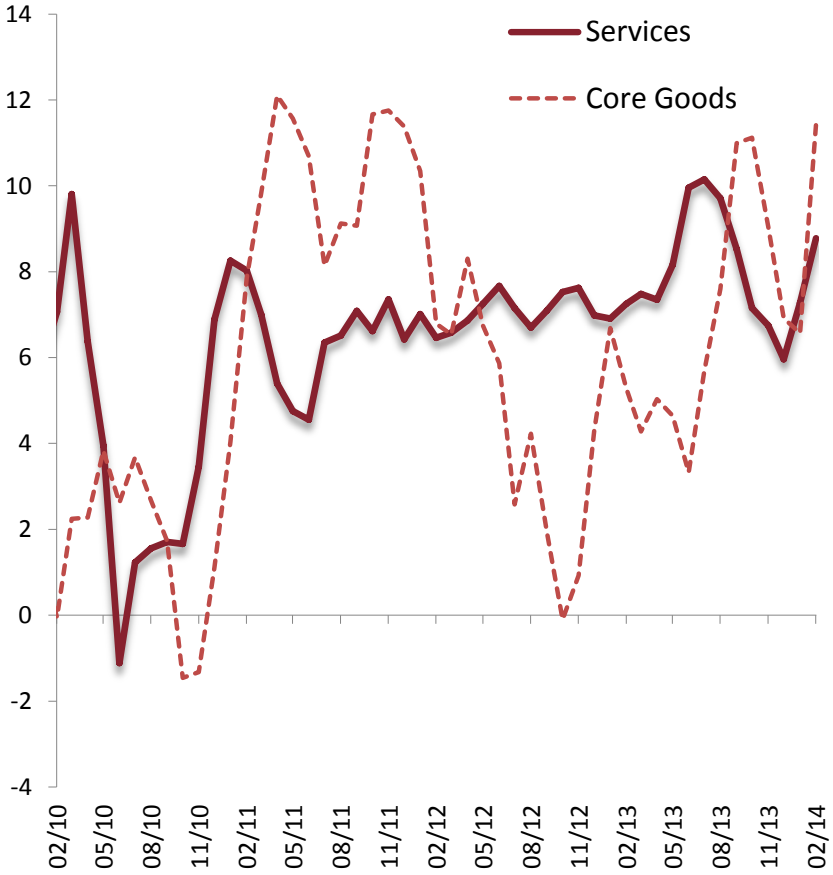
Source: TURKSTAT.

Last Observation: February 2014.

...especially in core goods.

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





Source: TURKSTAT, CBRT.

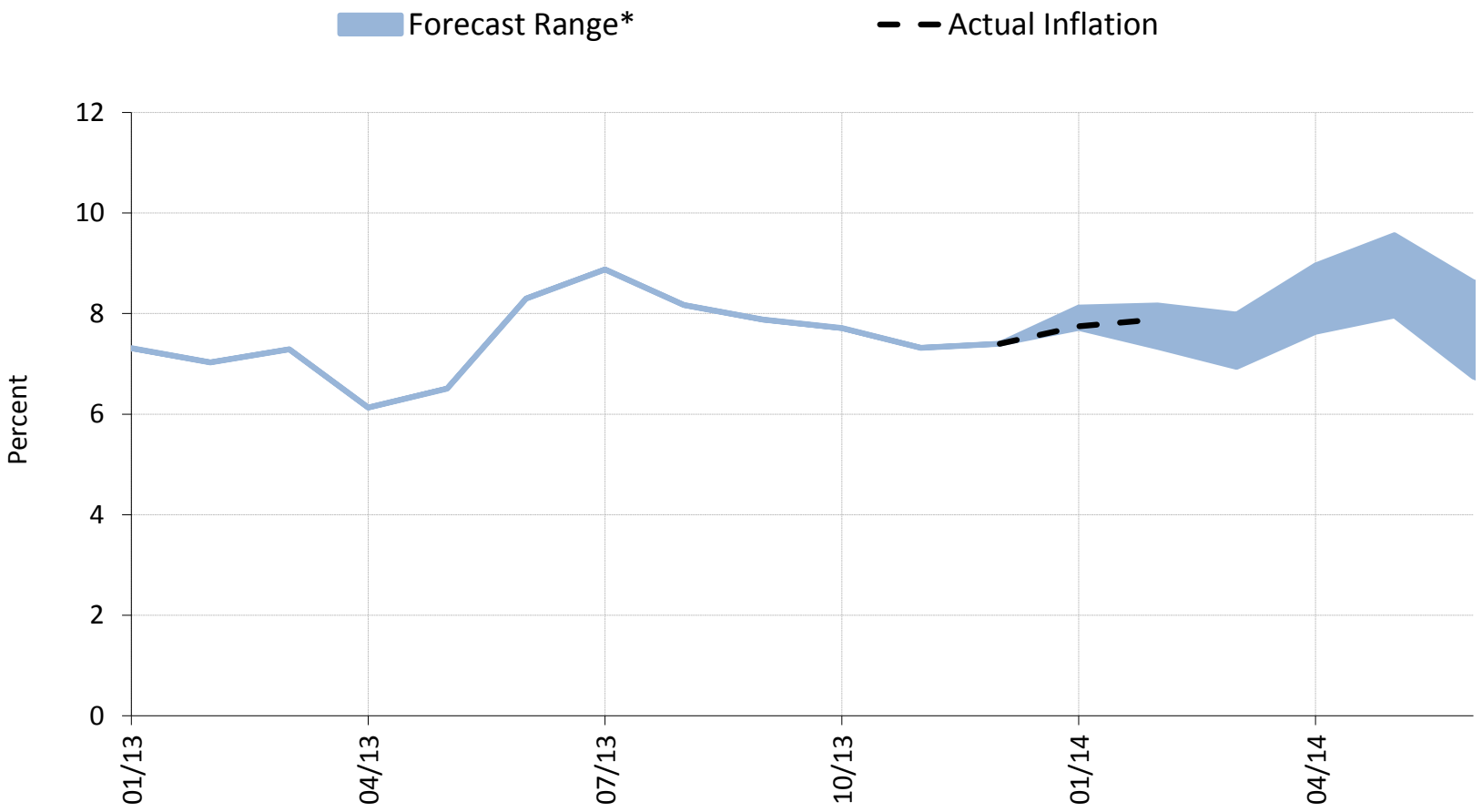
Last Observation: February 2014.

As a consequence, shorter-term inflation expectations have continued to deteriorate.

Source: CBRT.

Last Observation: March 2014.

Inflation is in line with inflation report forecasts as of February.

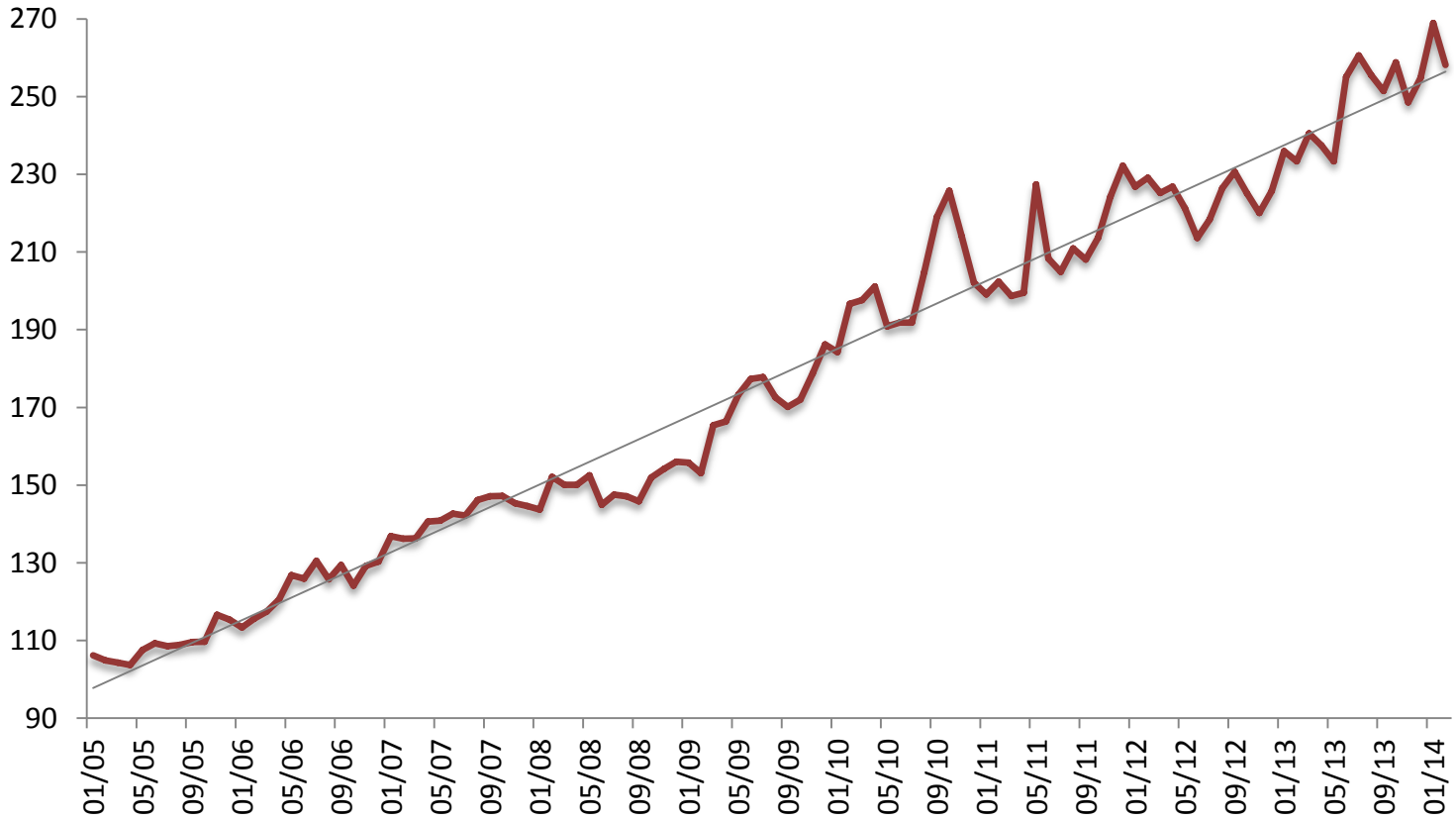


* Shaded region indicates the 70 percent confidence interval for the forecast

Last Observation: February 2014.

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

Unprocessed Food Price Index
(Level, Seasonally Adjusted)

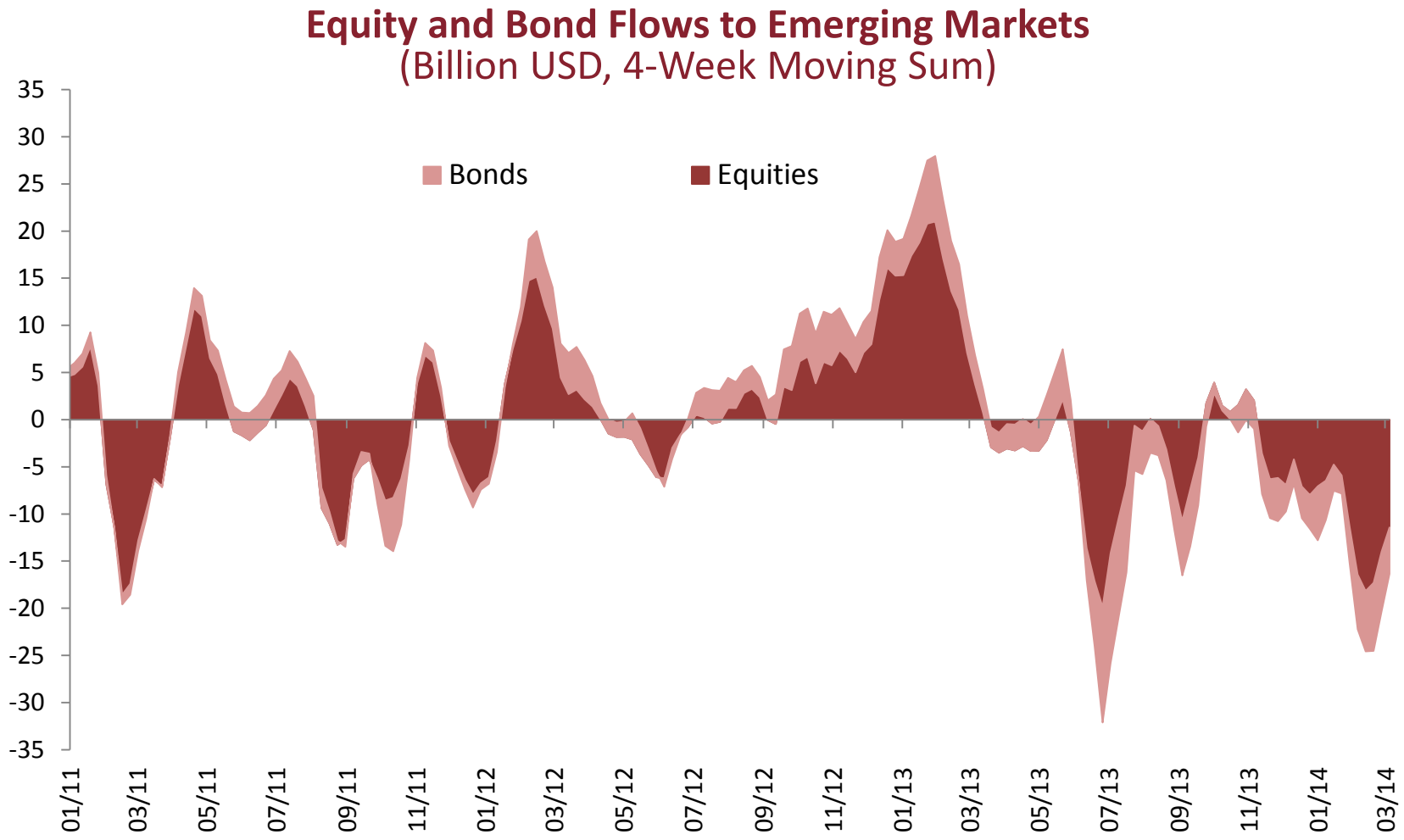


Source: TURKSTAT, CBRT.

Last Observation: February 2014.

Monetary and Financial Conditions

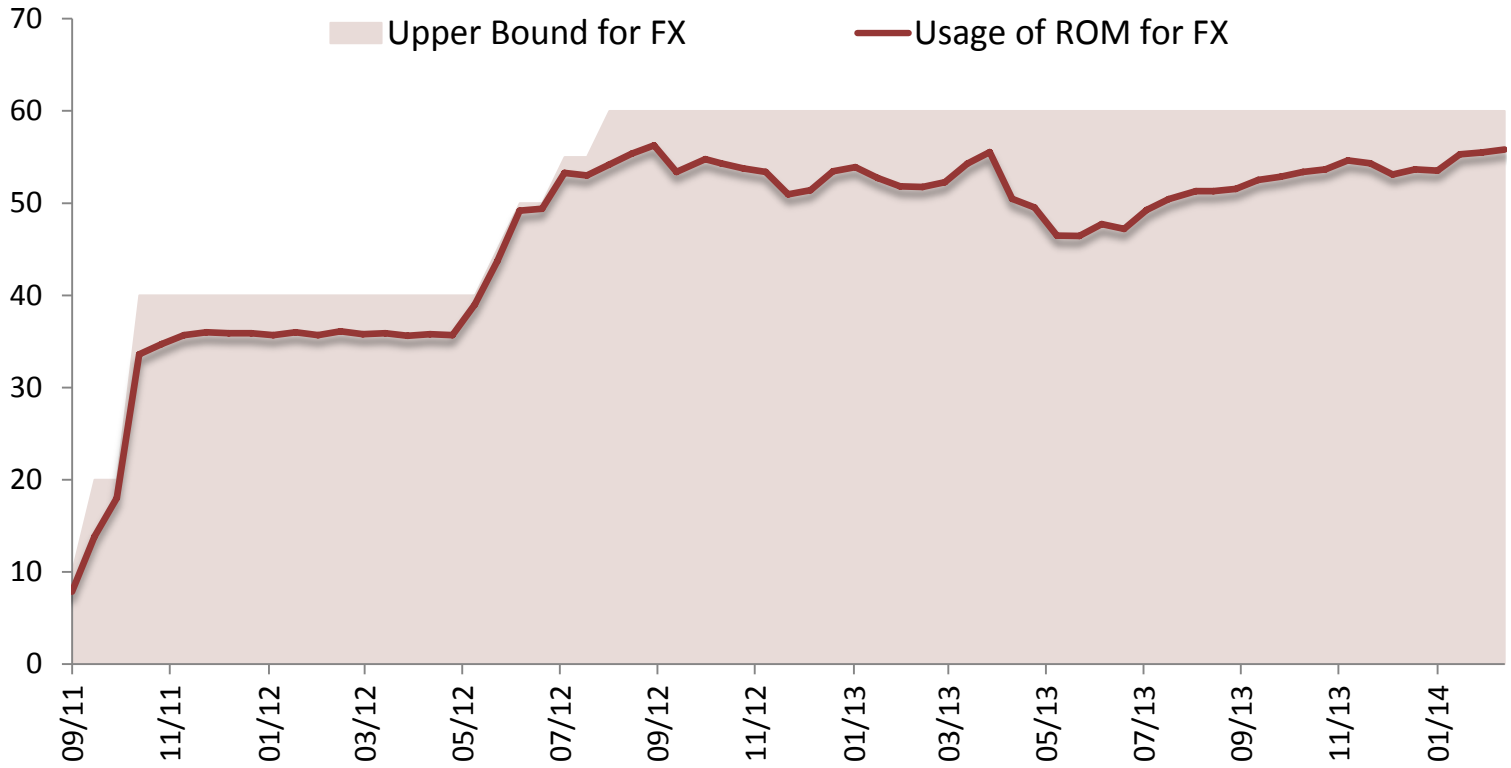
Portfolio flows to Emerging Markets continue to be weak.



Source: EPFR.

Last Observation: March 05, 2014.

The utilization for ROM has continued to increase despite the weakening in net capital inflows.

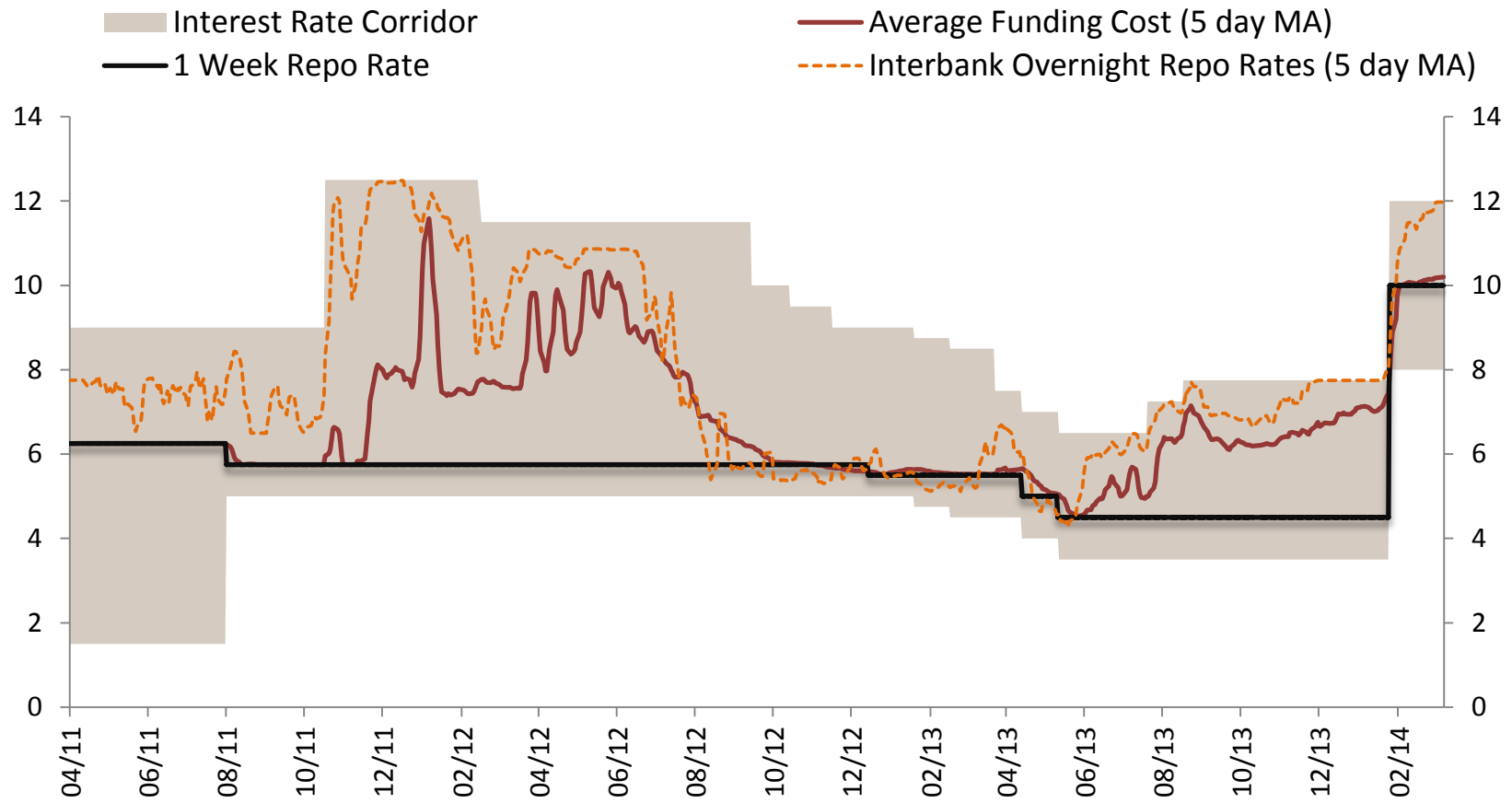


Last Observation: March 14, 2014.

Source: CBRT.

Central Bank implemented a strong and frontloaded monetary tightening at the interim meeting of January 28, 2014.

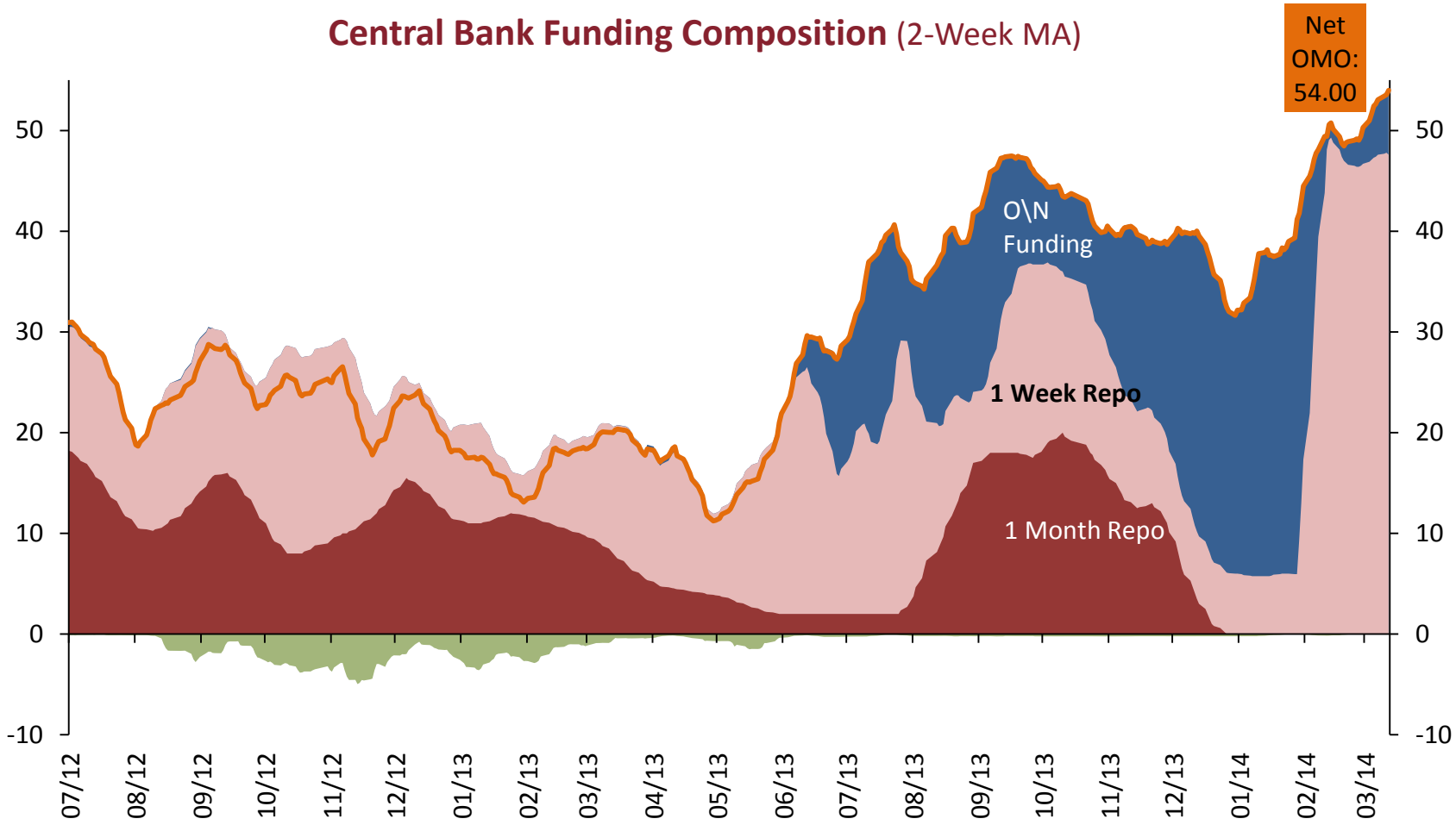
Interest Rate Corridor, Average Funding Rate, and O/N Repo Rates in the Interbank Money Market (Percent)



Source: CBRT.

Last Observation: March 12, 2014.

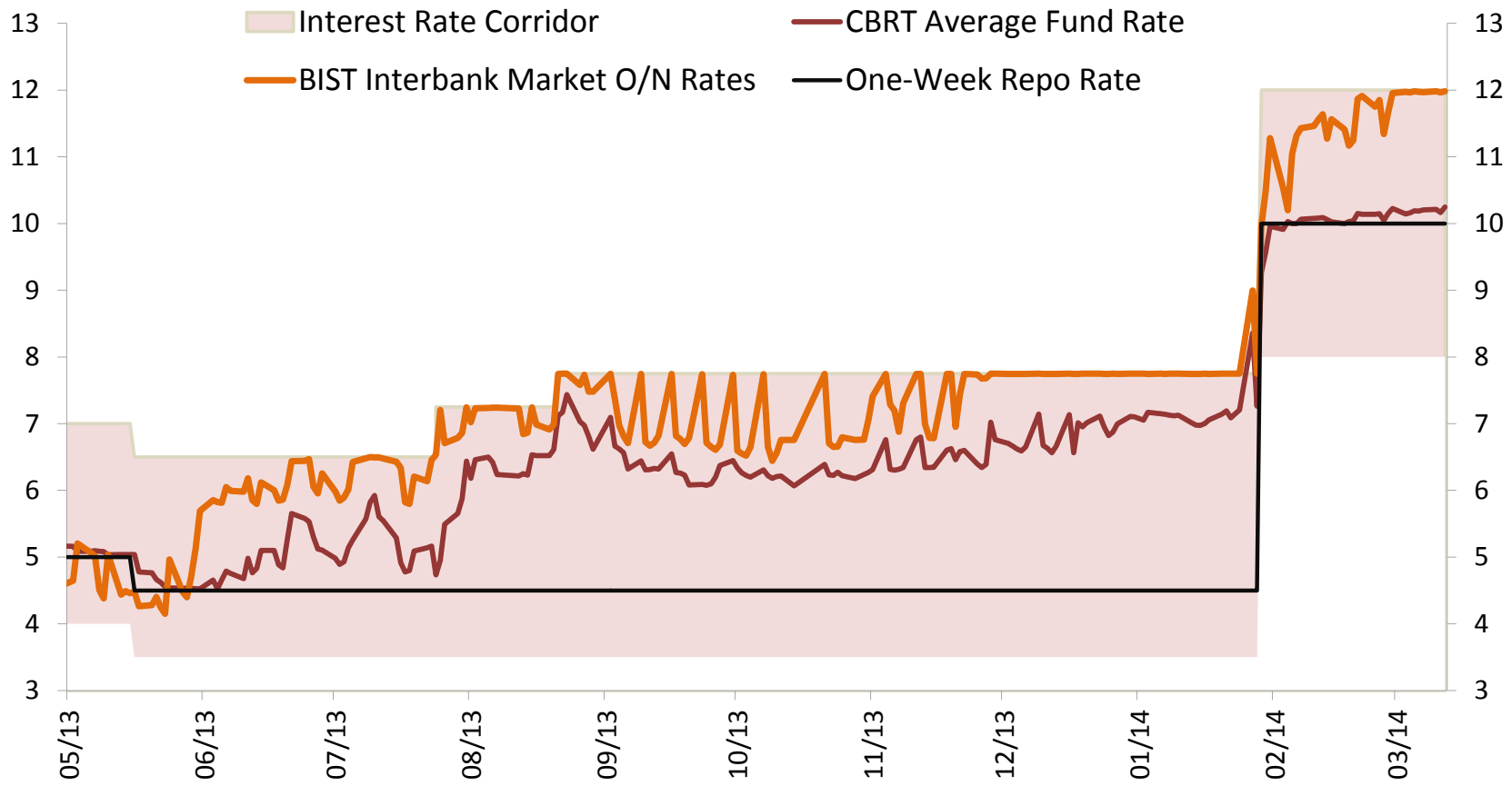
CBRT liquidity provision is mostly through 1-week repo auctions, and partly through overnight lending facilities,



Source: CBRT

Last Observation: March 12, 2014.

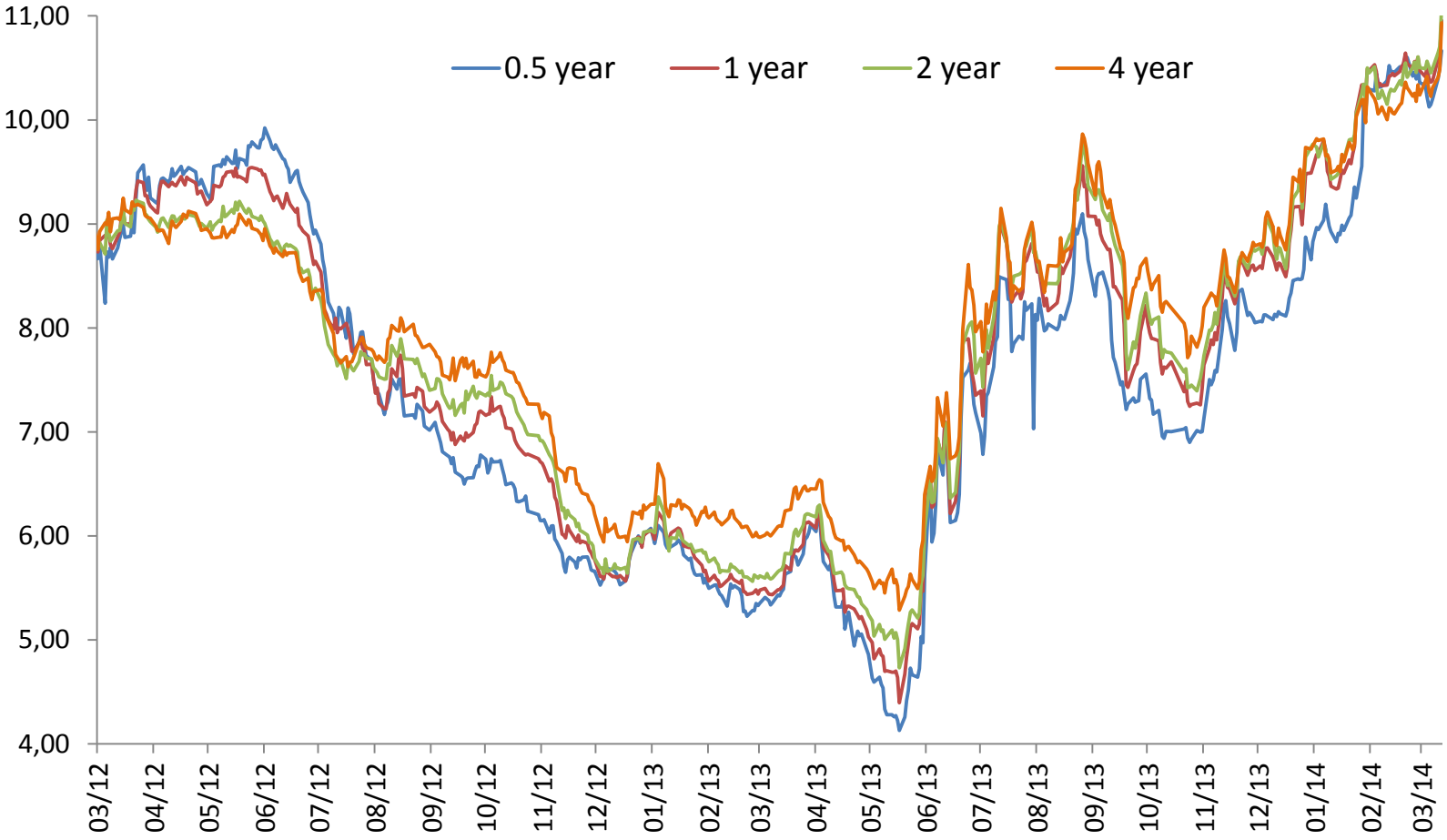
... hence, interbank rates are at the upper bound of the corridor, while weighted average funding rate is close to 10 percent.



Source: CBRT

Last Observation: March 12, 2014.

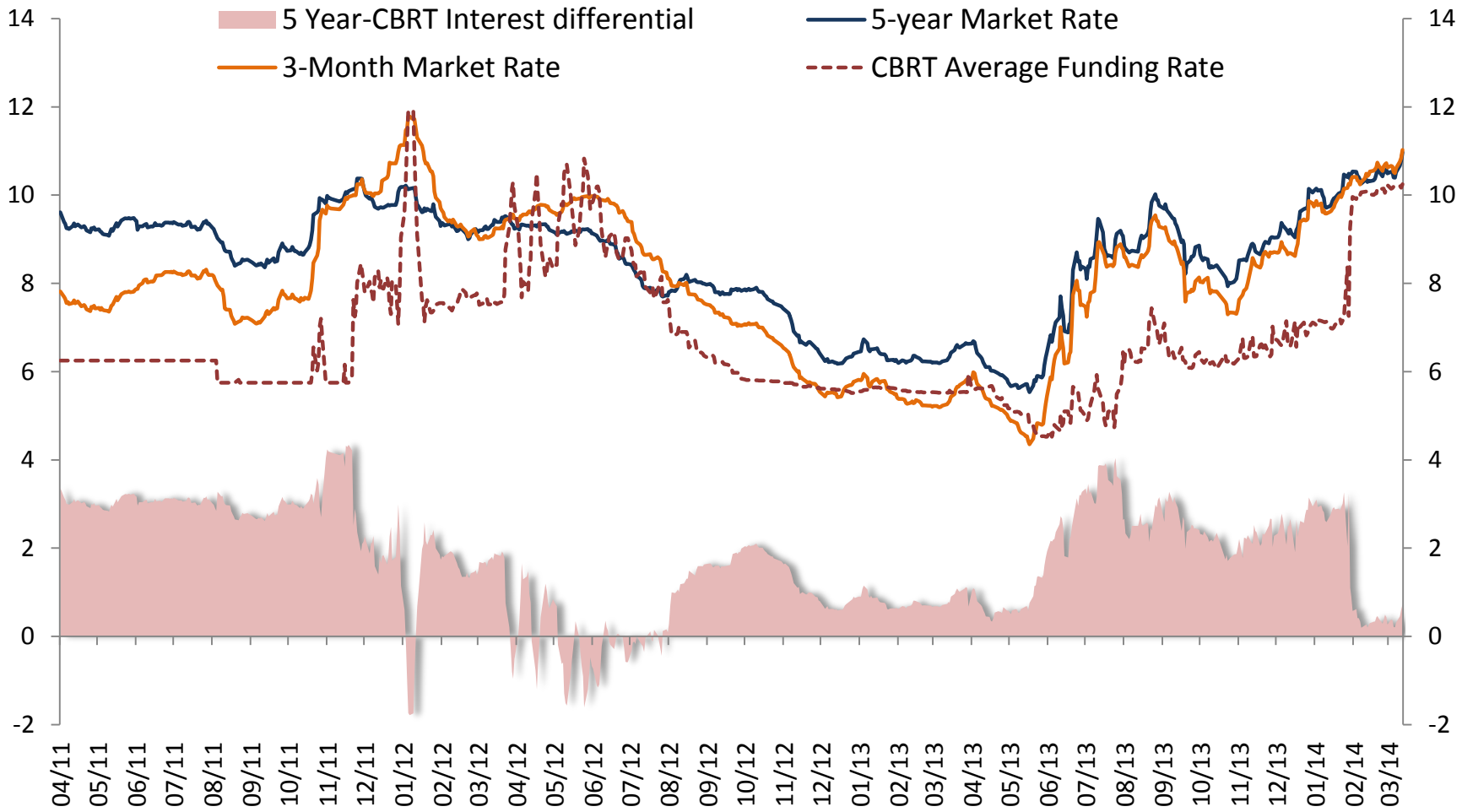
Interest rates have increased across all maturities, contributing to the tightening in financial conditions.



Source: BIST, CBRT.

Last Observation: March 12, 2014.

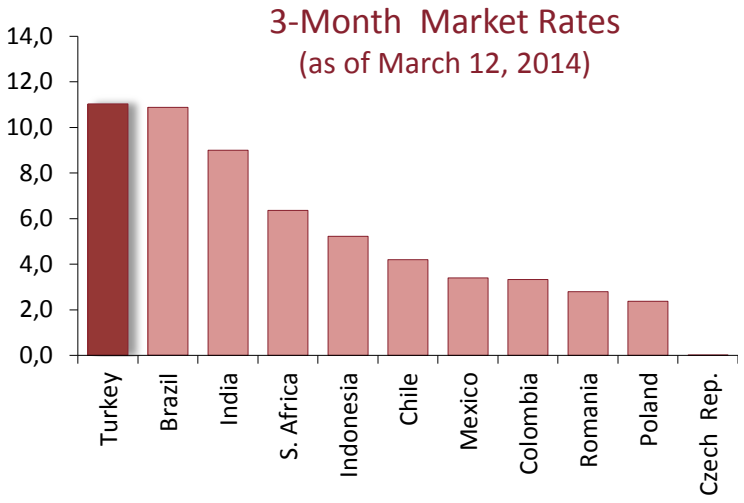
Yield curve has flattened after the January tightening.

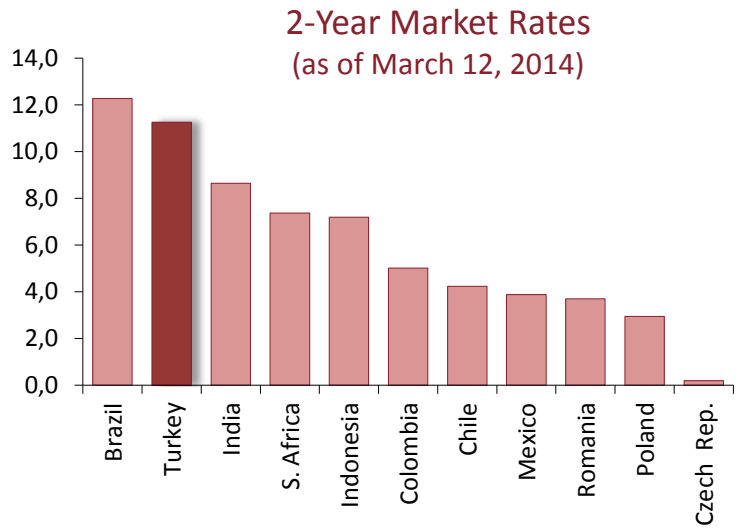


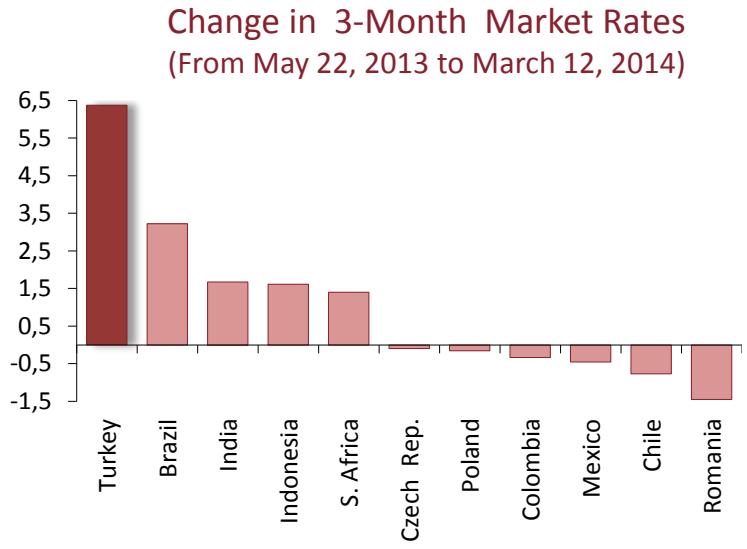
Source: CBRT.

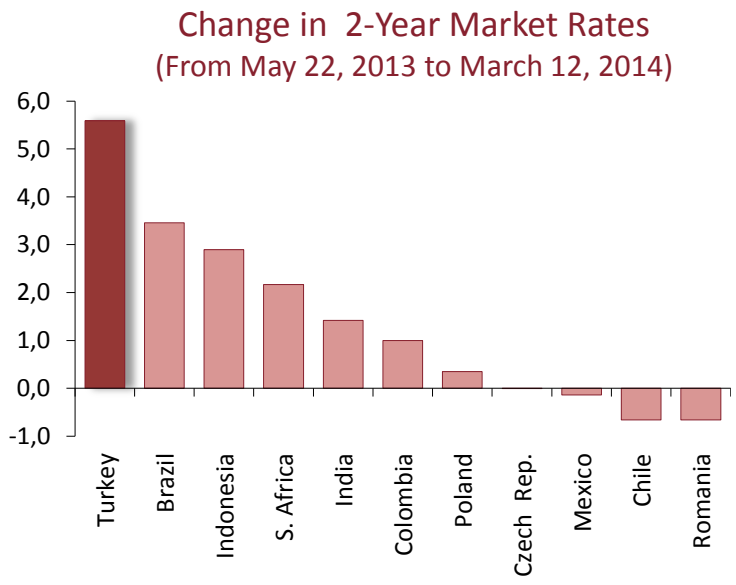
Last Observation: March 12, 2014.

Interest Rates in Emerging Markets



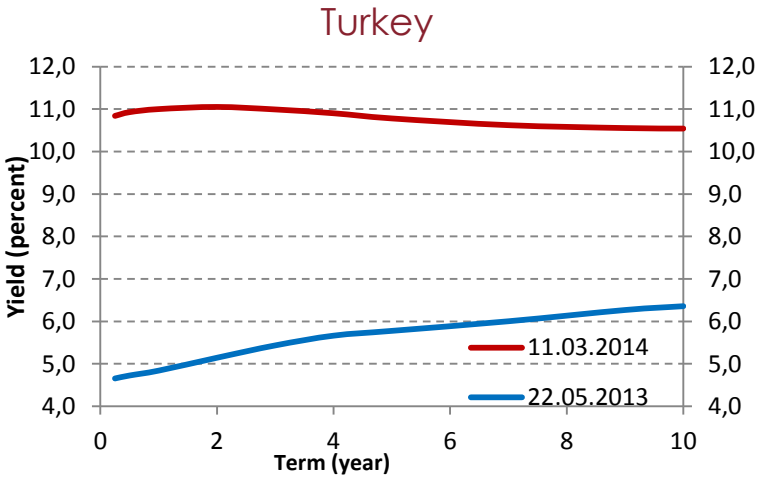


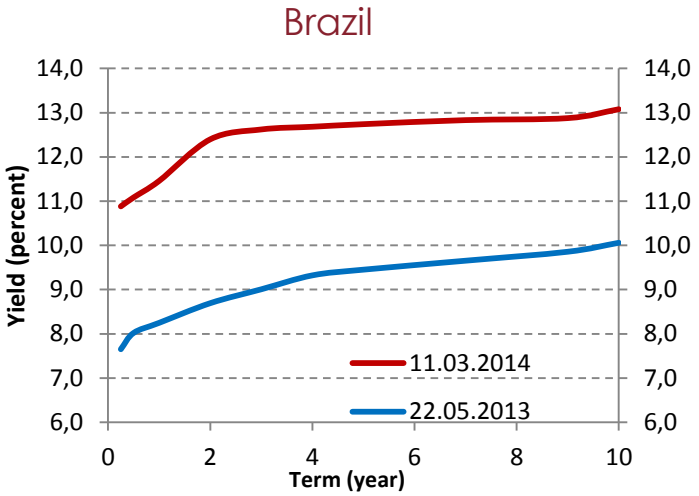


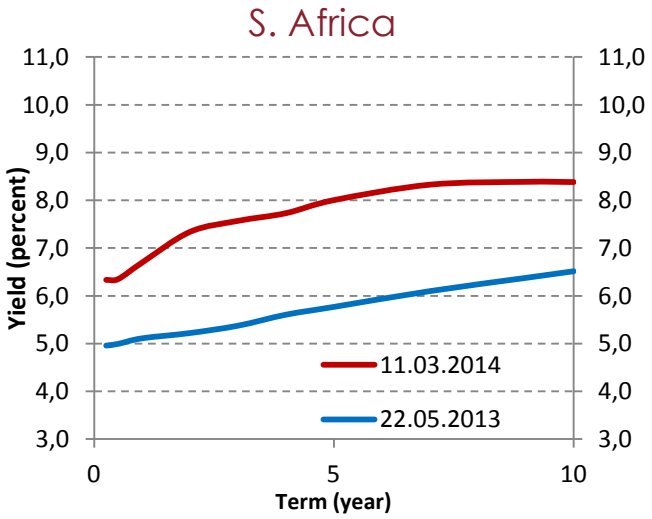


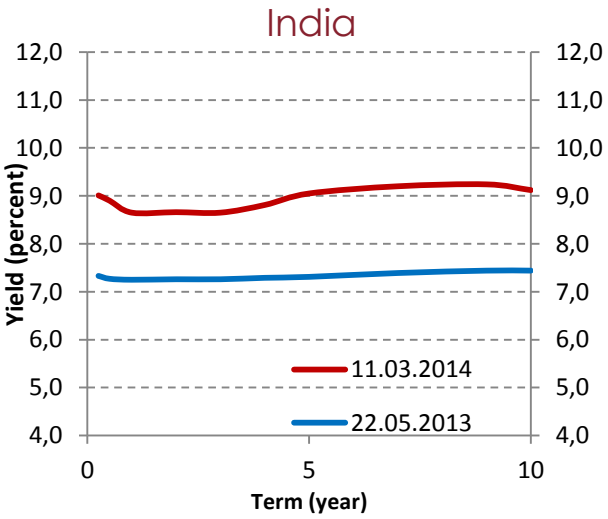
Source: Bloomberg

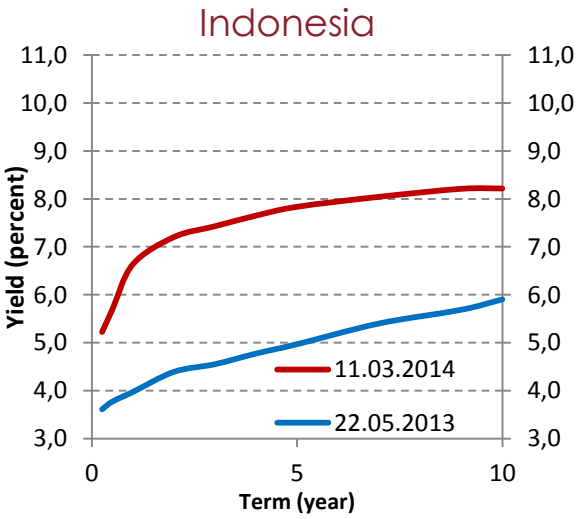
Recently, Turkish yield curve is the only downward sloped one among peer emerging markets.







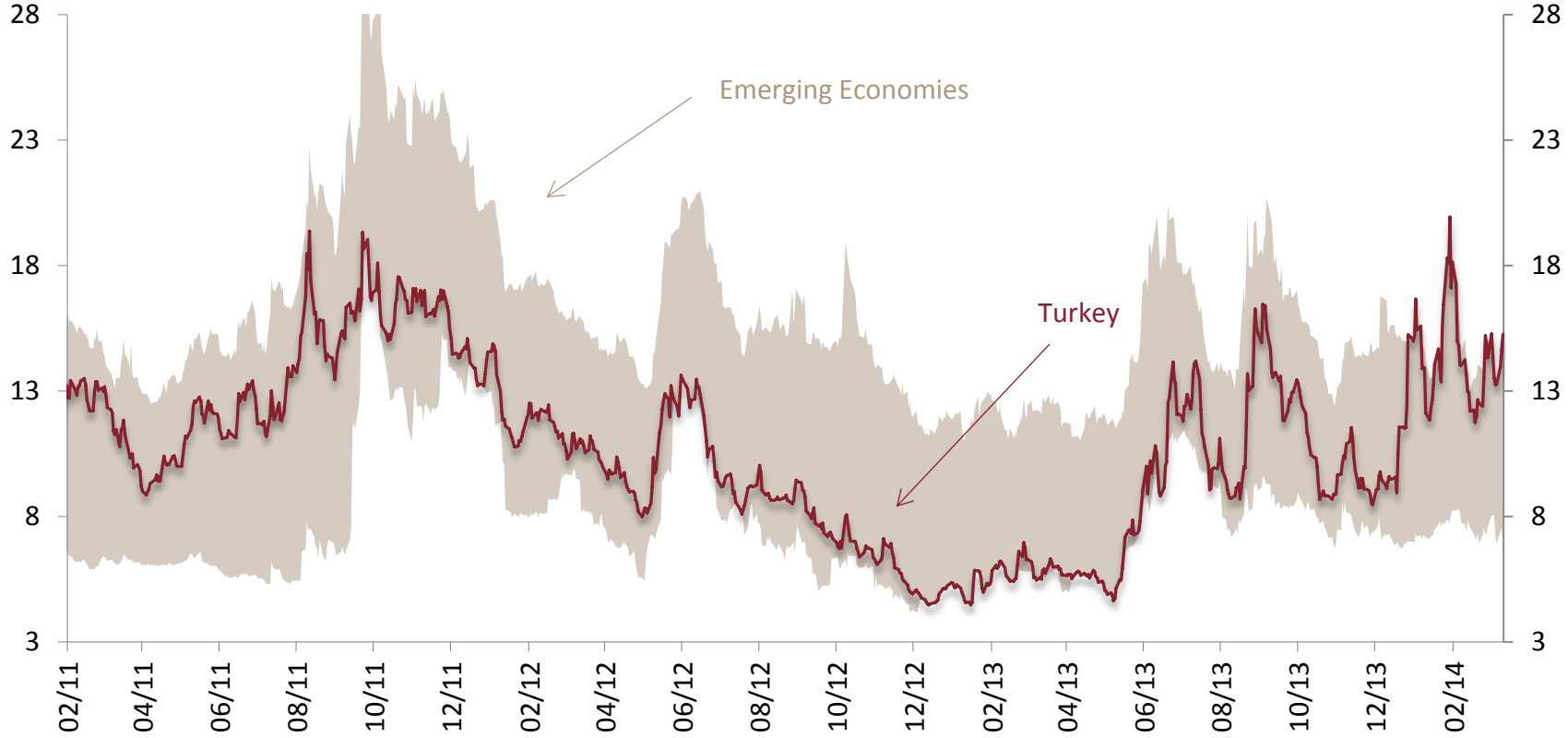




Source: Bloomberg.

Implied FX volatility is relatively high due to external and domestic uncertainty.

(1 month)



Source: Bloomberg.

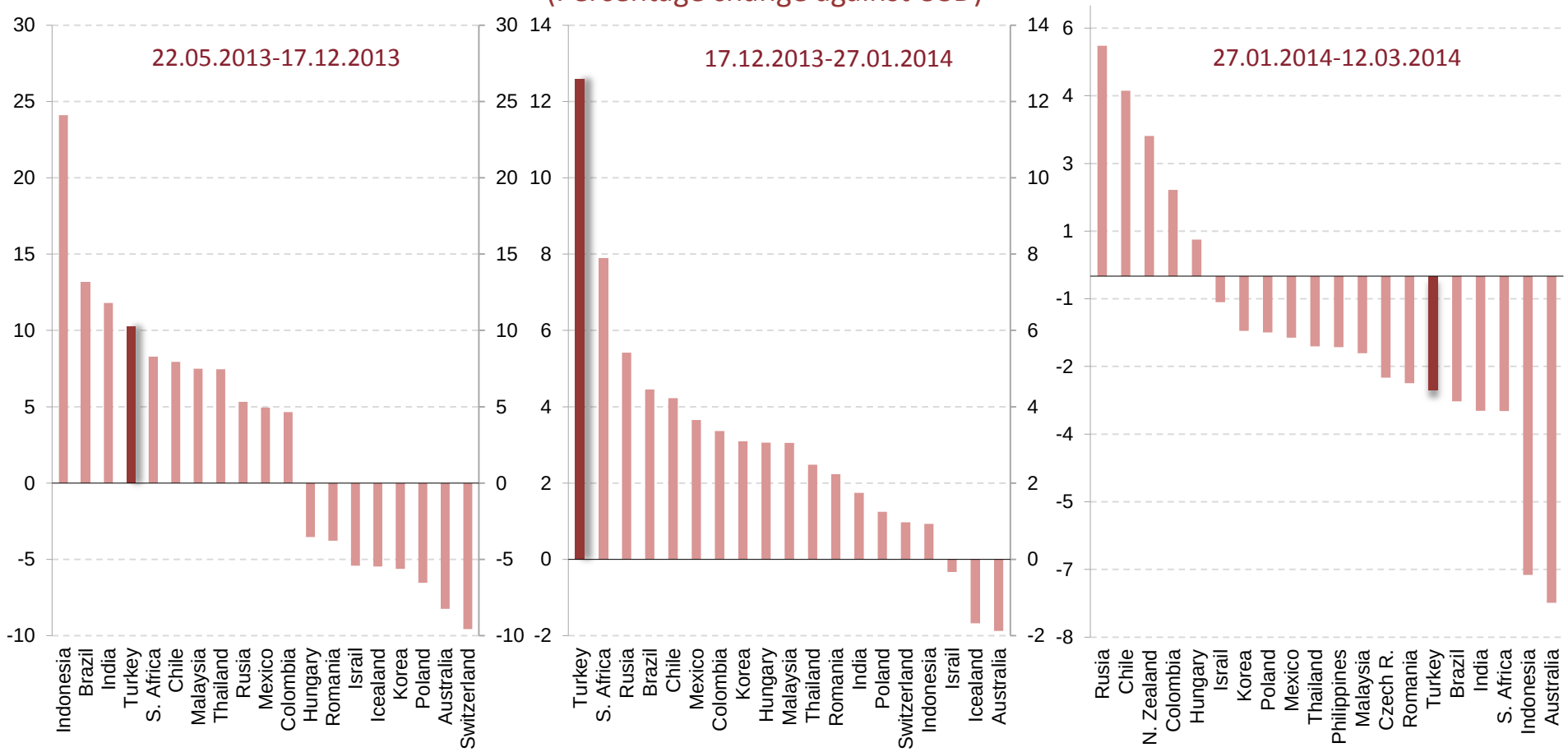
Emerging market currencies include Brazil, Chile, Colombia, Mexico, Poland, Czech Republic, South Africa, Indonesia, Romania against USD.

Last Observation: March 12, 2014.

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

Nominal FX Rates

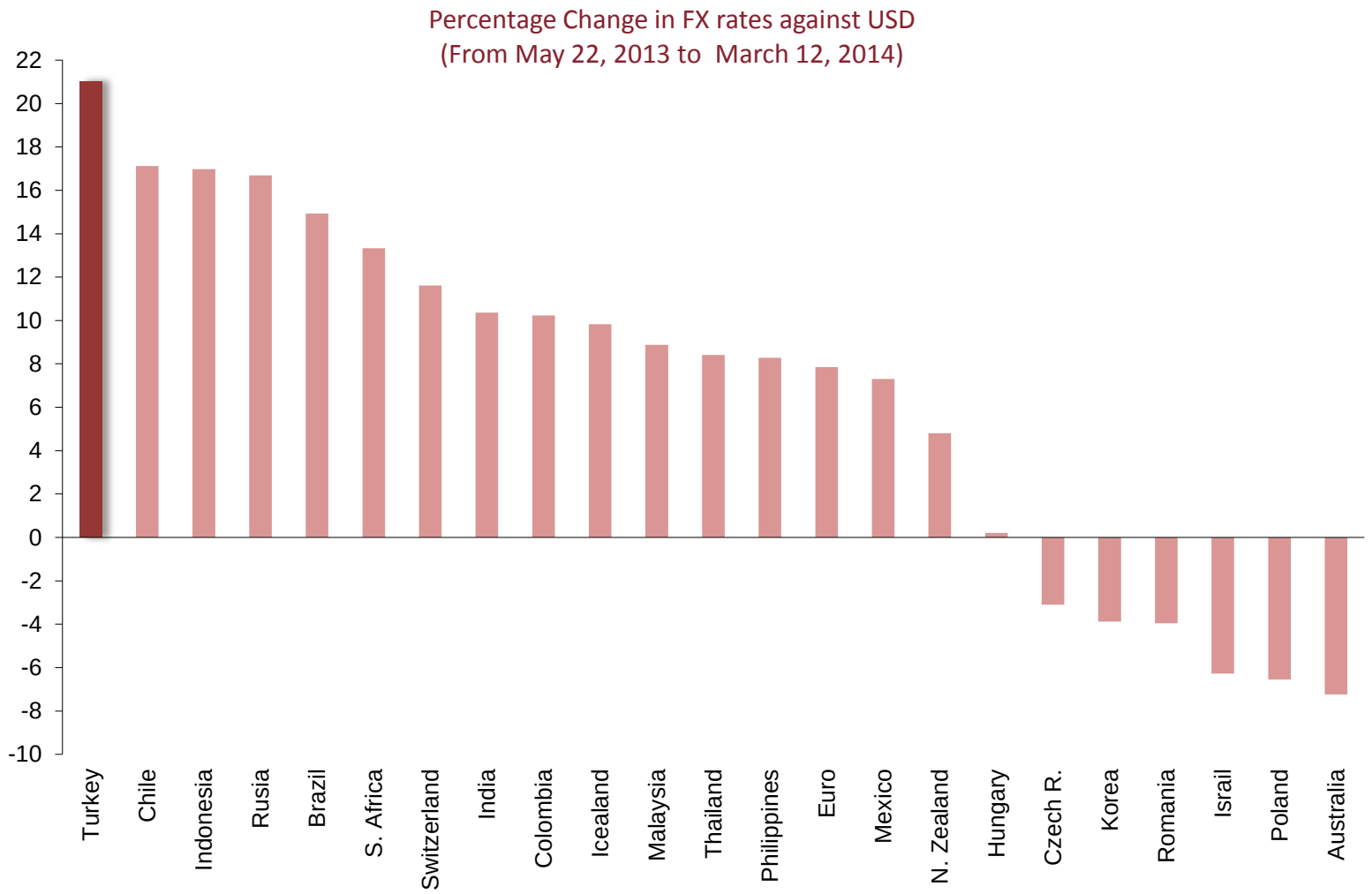
(Percentage change against USD)



Source: Bloomberg, CBRT.

A positive value means the currency depreciates against US Dollar.

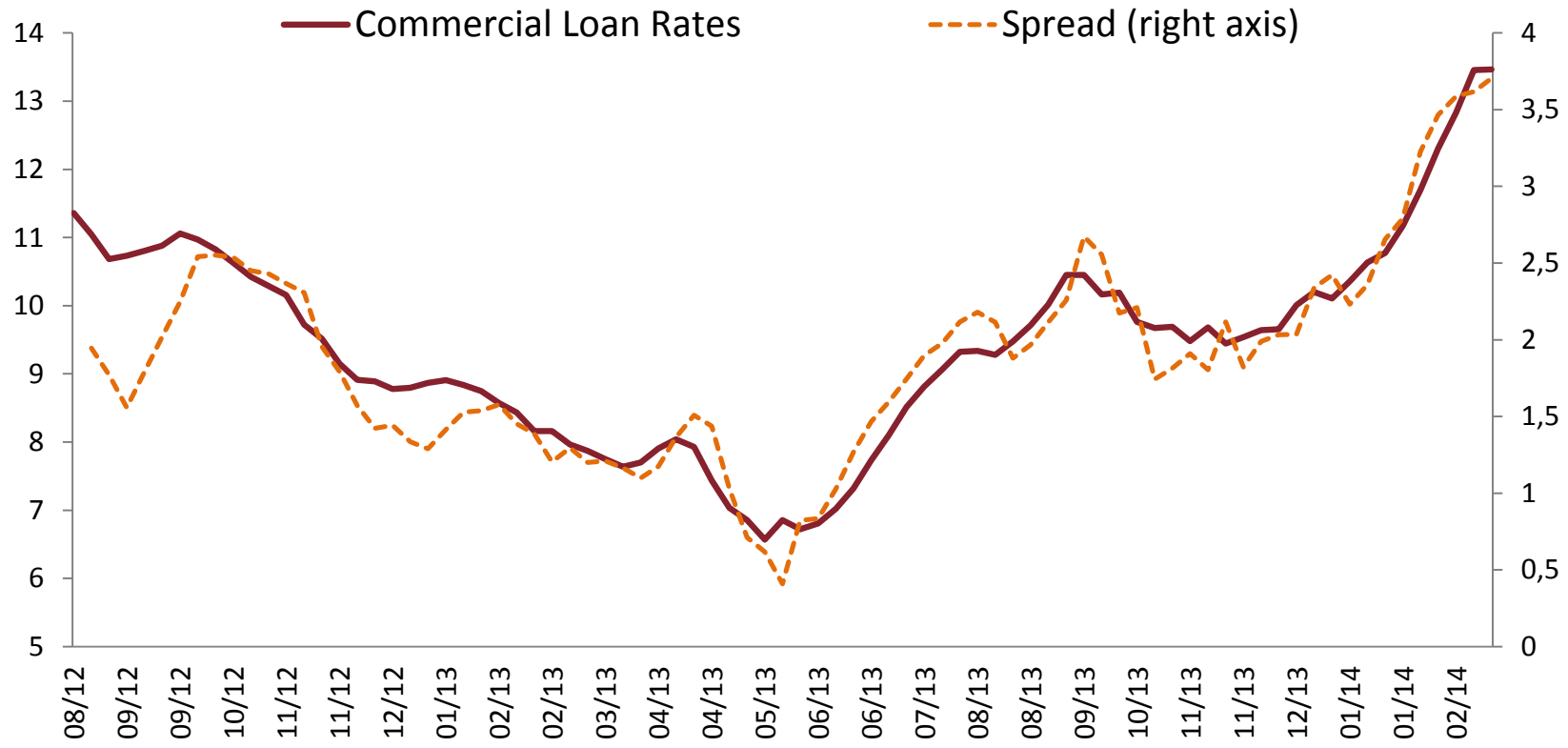
Still, the cumulative depreciation rate in TRY is high compared to peer currencies.



Source: Bloomberg.

A positive value means the currency depreciates against US Dollar.

Commercial loan rates and loan–deposit rates are at historically high levels.



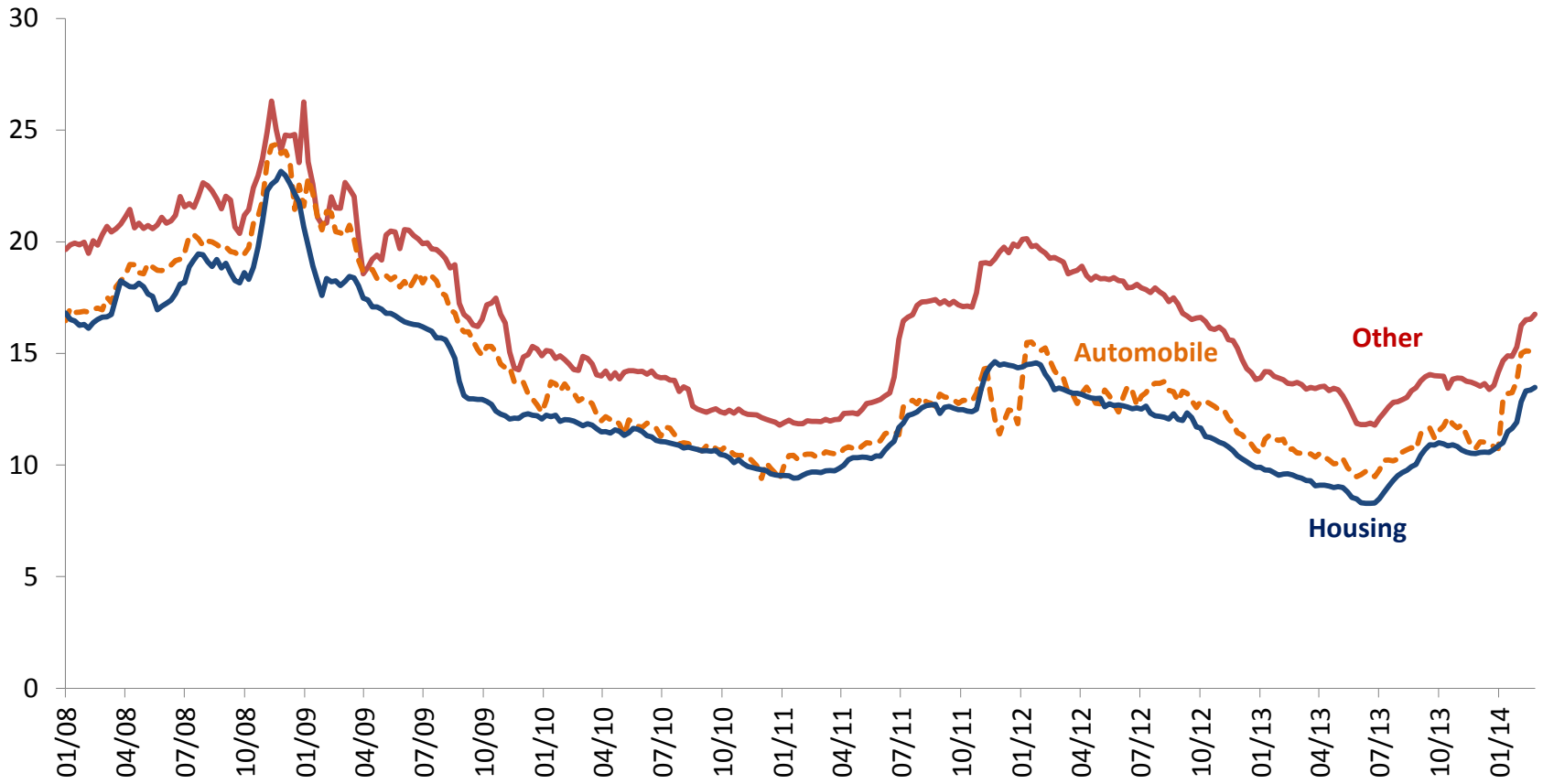
Last Data: February 28, 2014.

4 Weeks MA

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

Source: CBRT.

Consumer loan rates continued to increase.

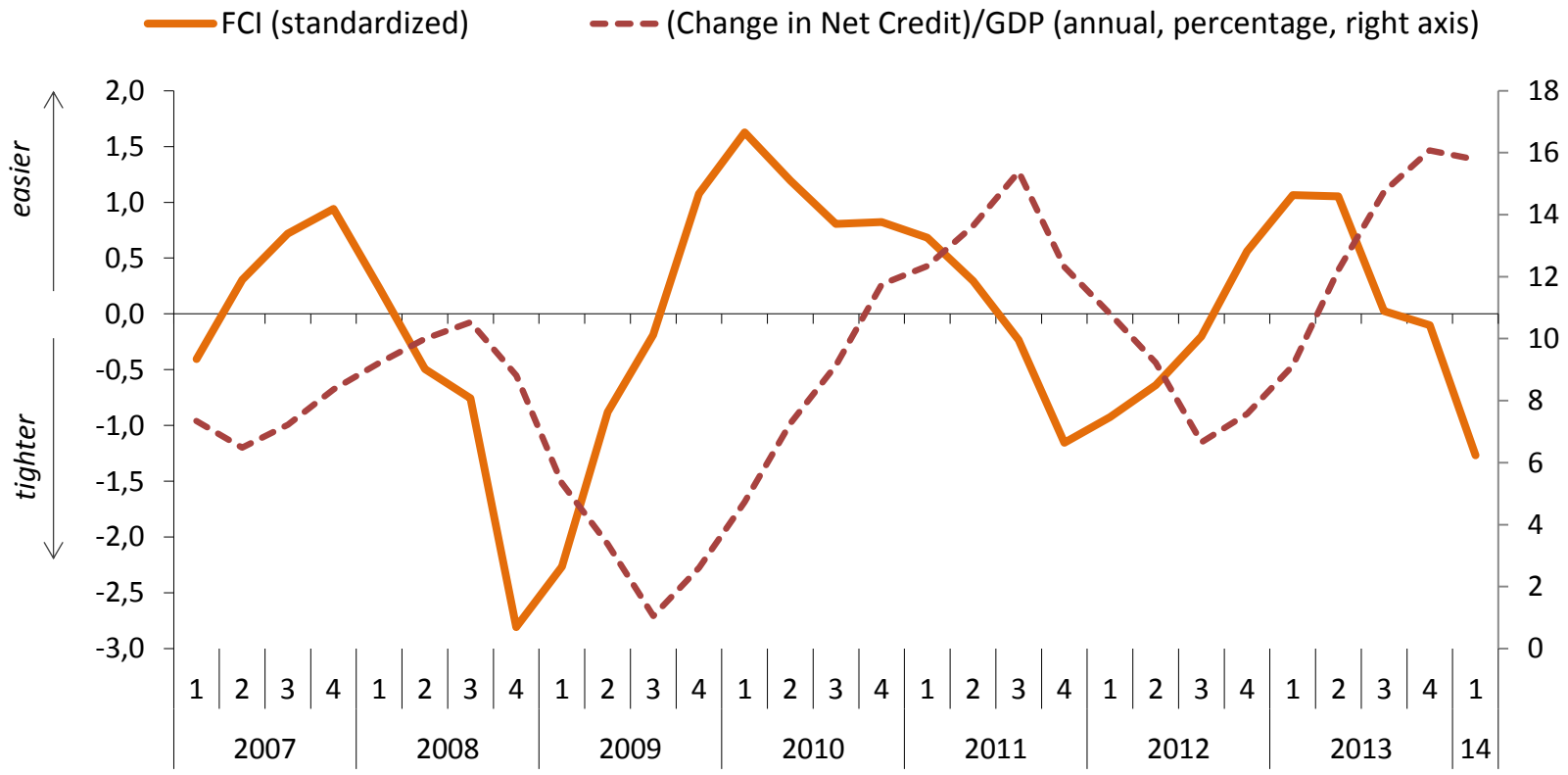


Source: CBRT.

Last Observation: February 28, 2014.

Financial conditions have tightened significantly.

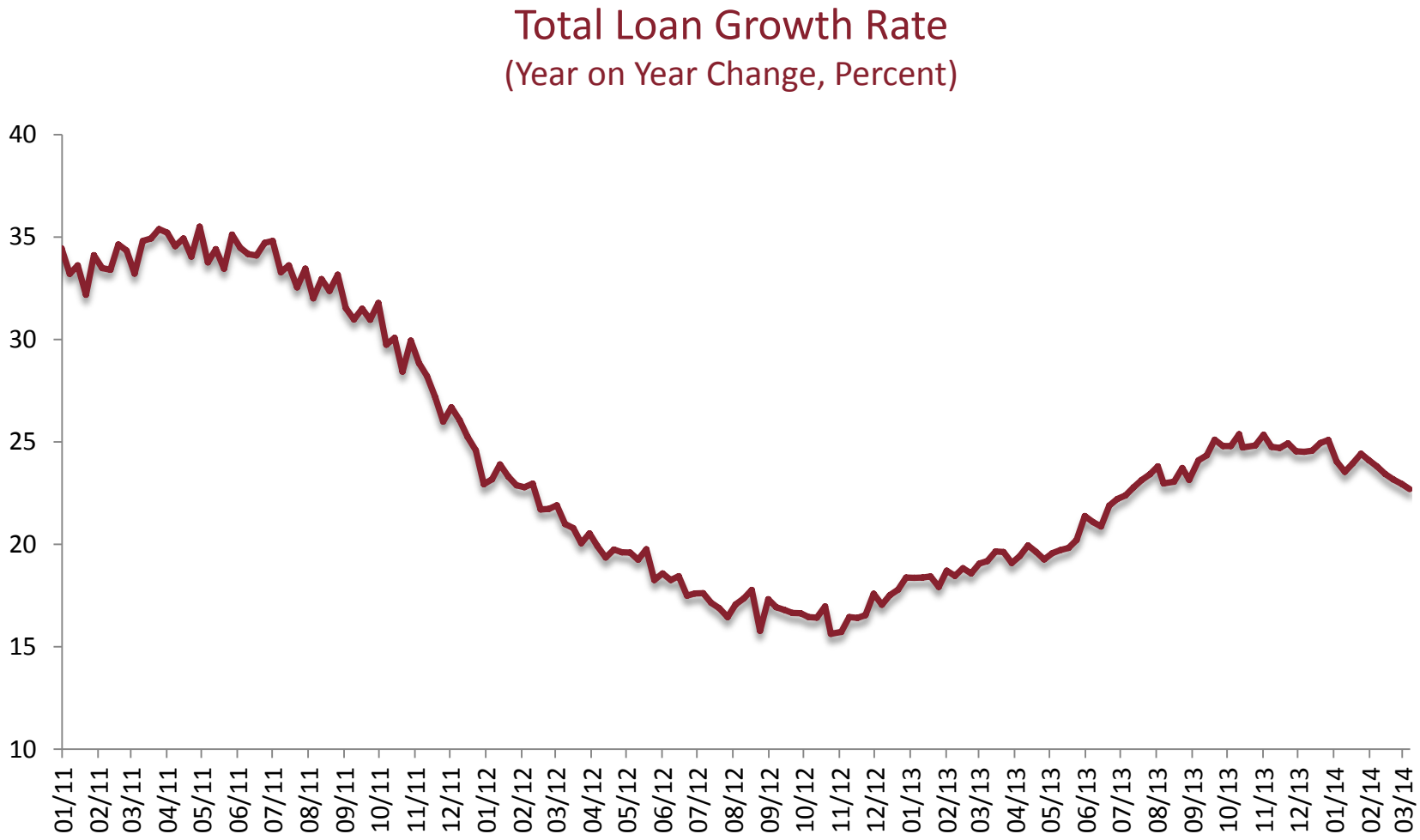
Financial Conditions Index (FCI) and Credit



Source: CBRT.

Last Observation: 2013Q4.
*Figures for the first quarter of 2014 are forecasts.

Loan growth has started to respond to the tightening in financial conditions…



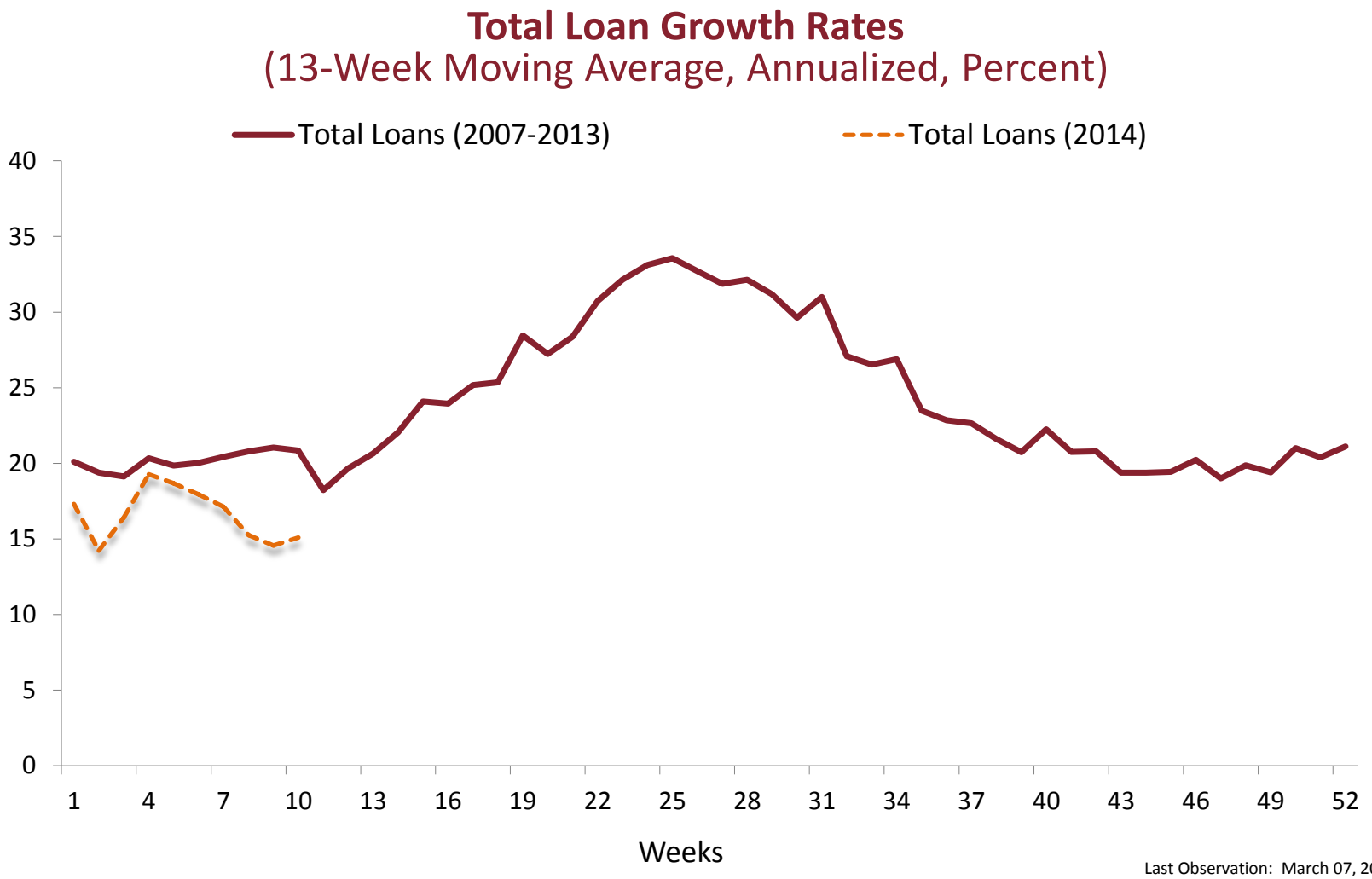
Last Observation: March 07, 2014.

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

Adjusted for exchange rate.

Source: CBRT.

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



Source: CBRT.

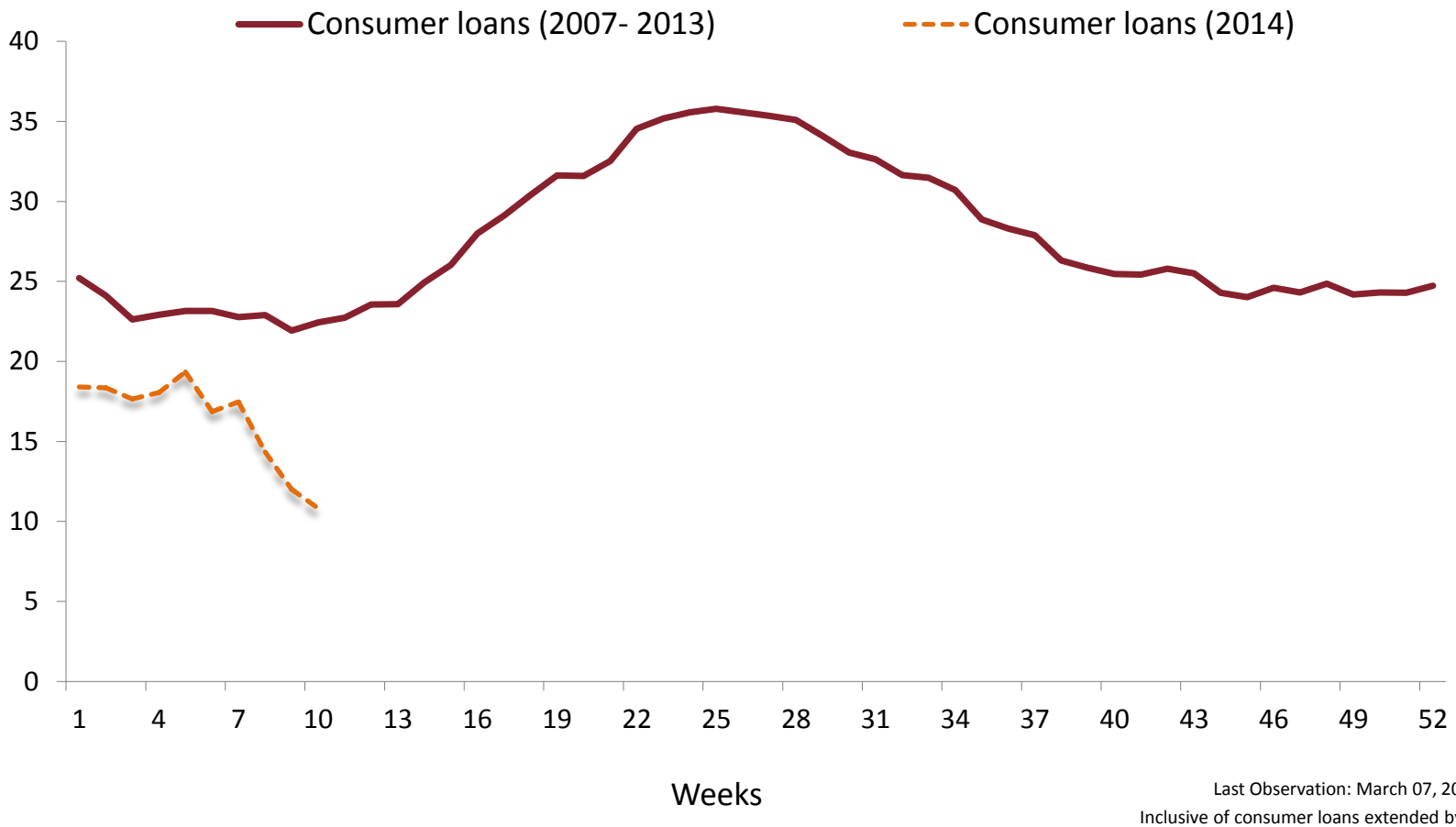
Last Observation: March 07, 2014.

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 decelaration in loan growth can be mostly attributed to the slowdown in consumer loans.

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

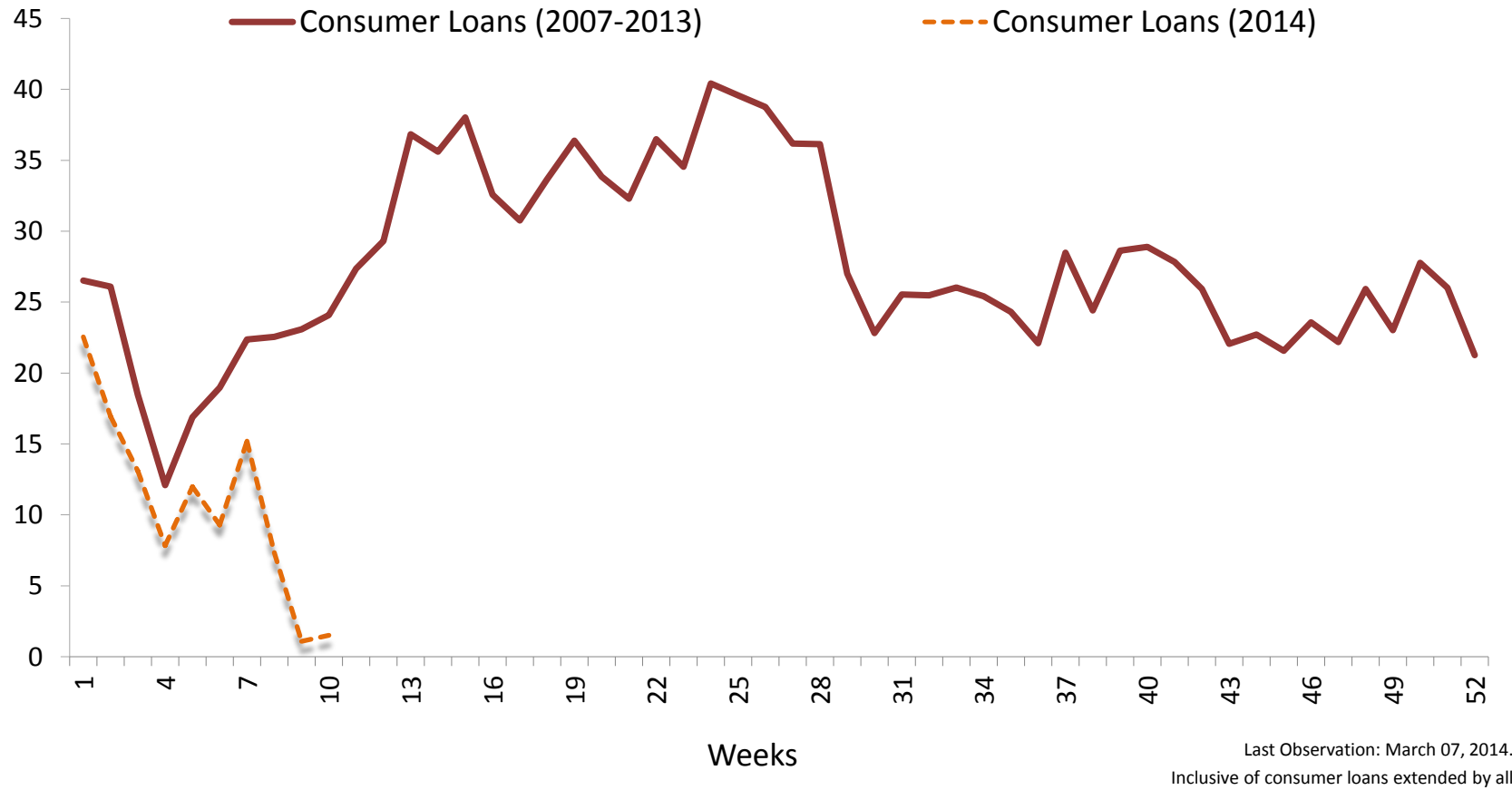


Last Observation: March 07, 2014.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Source: CBRT.

The slowdown in consumer loans has been even more pronounced during the past few weeks.

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



Last Observation: March 07, 2014.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Source: CBRT.

Overview: Inflation and Monetary Policy

- The Committee highlighted the upside risks on the inflation outlook and assessed that the strong and frontloaded monetary tightening delivered at the January interim meeting has contained the adverse impact of such risks on the medium term inflation expectations.
- Yet, inflation is expected to increase until June, partly reflecting base effects.
- The impact of monetary tightening on inflation will be observed with some lag.
- Against this backdrop, inflation expectations and pricing behavior will be closely monitored and the tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.

TÜRKİYE CUMHURİYET
MERKEZ BANKASI

RECENT DEVELOPMENTS IN TURKISH ECONOMY AND MONETARY POLICY

March 19, 2014

Ankara