



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**RECENT DEVELOPMENTS IN TURKISH ECONOMY
AND MONETARY POLICY**

September 19, 2012

Ankara

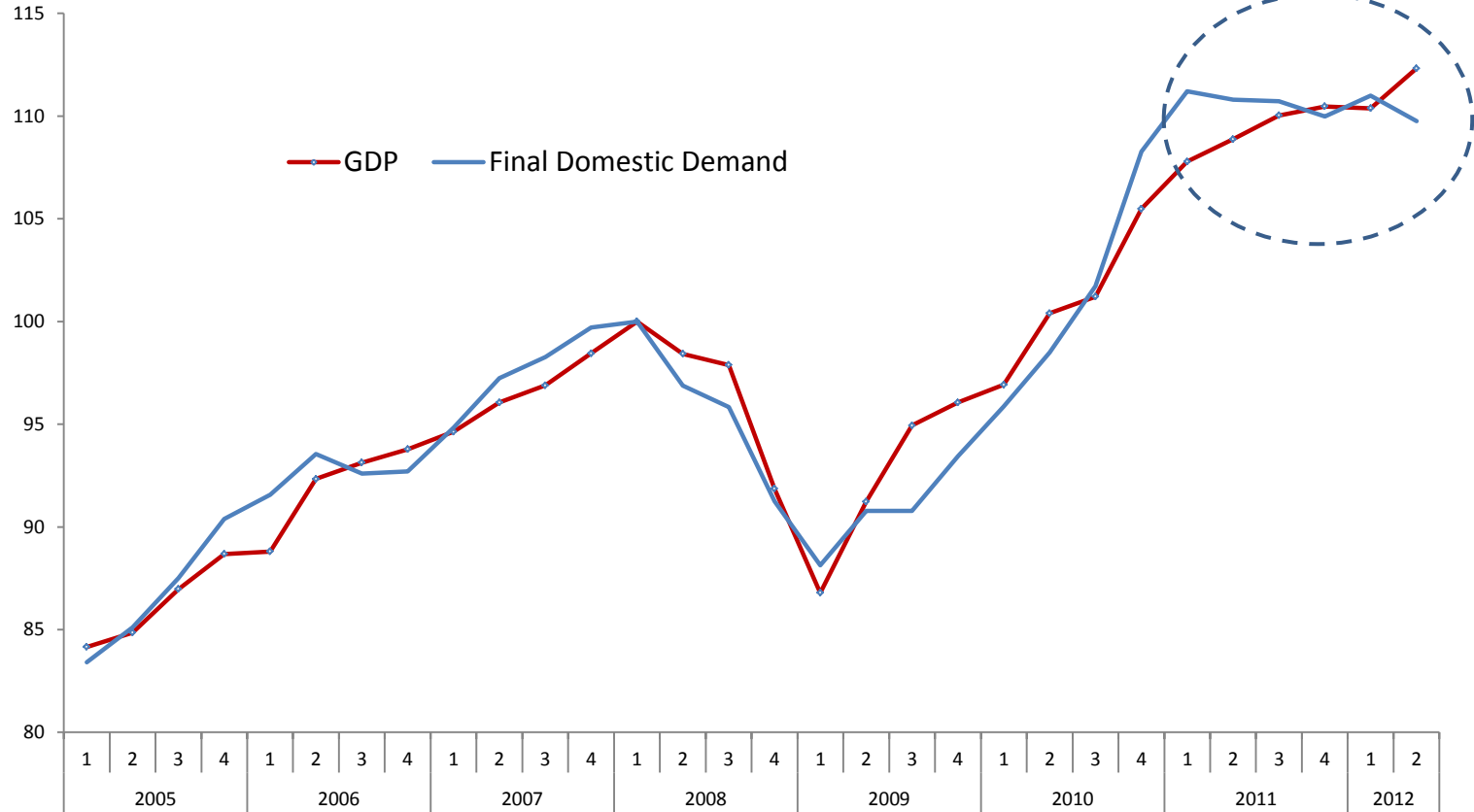
Outline of the Presentation

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

ECONOMIC ACTIVITY

Economic Activity

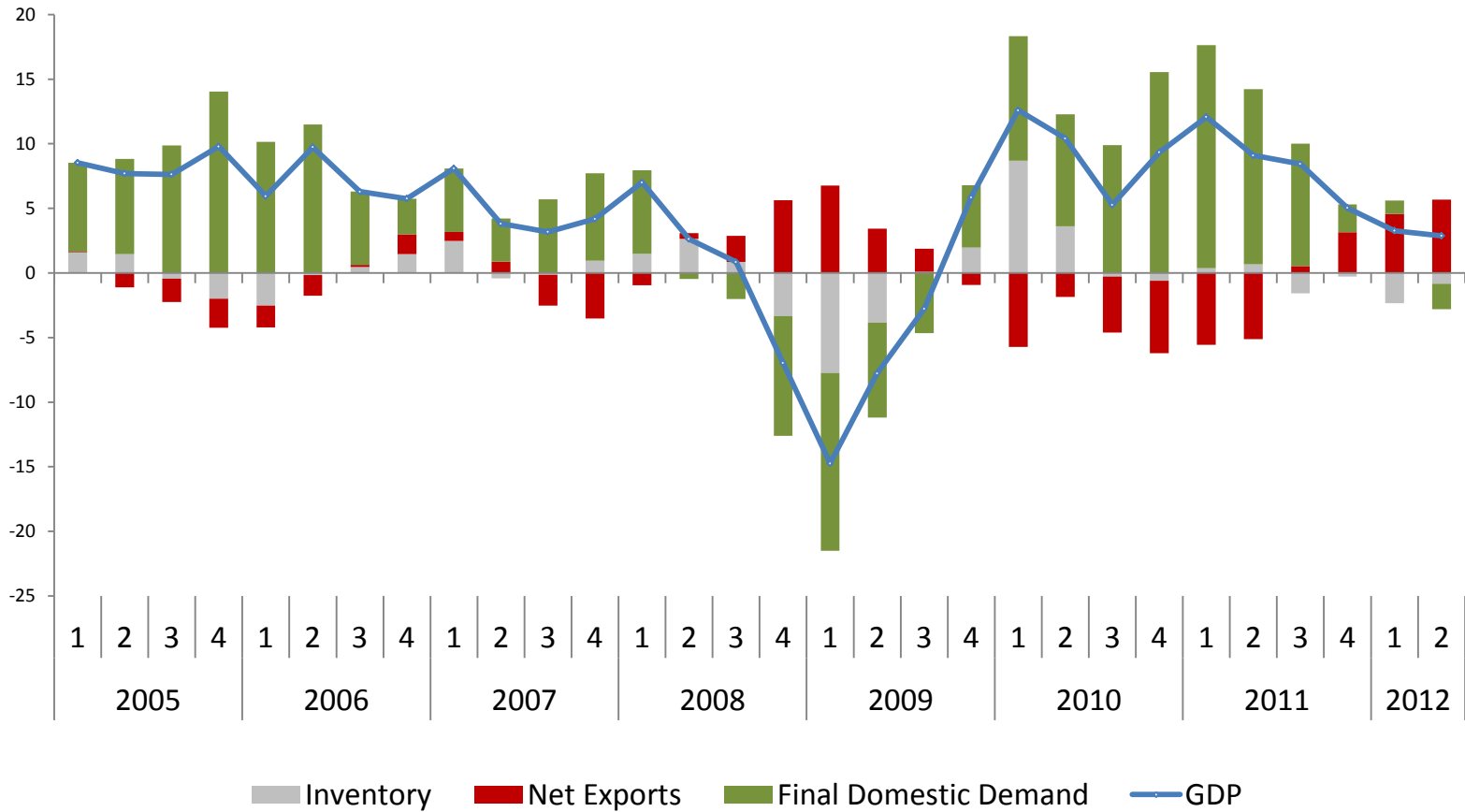
Gross Domestic Product and Final Domestic Demand (Seasonally Adjusted, 2008Q1=100)



Source: TURKSTAT, CBRT.

Economic Activity

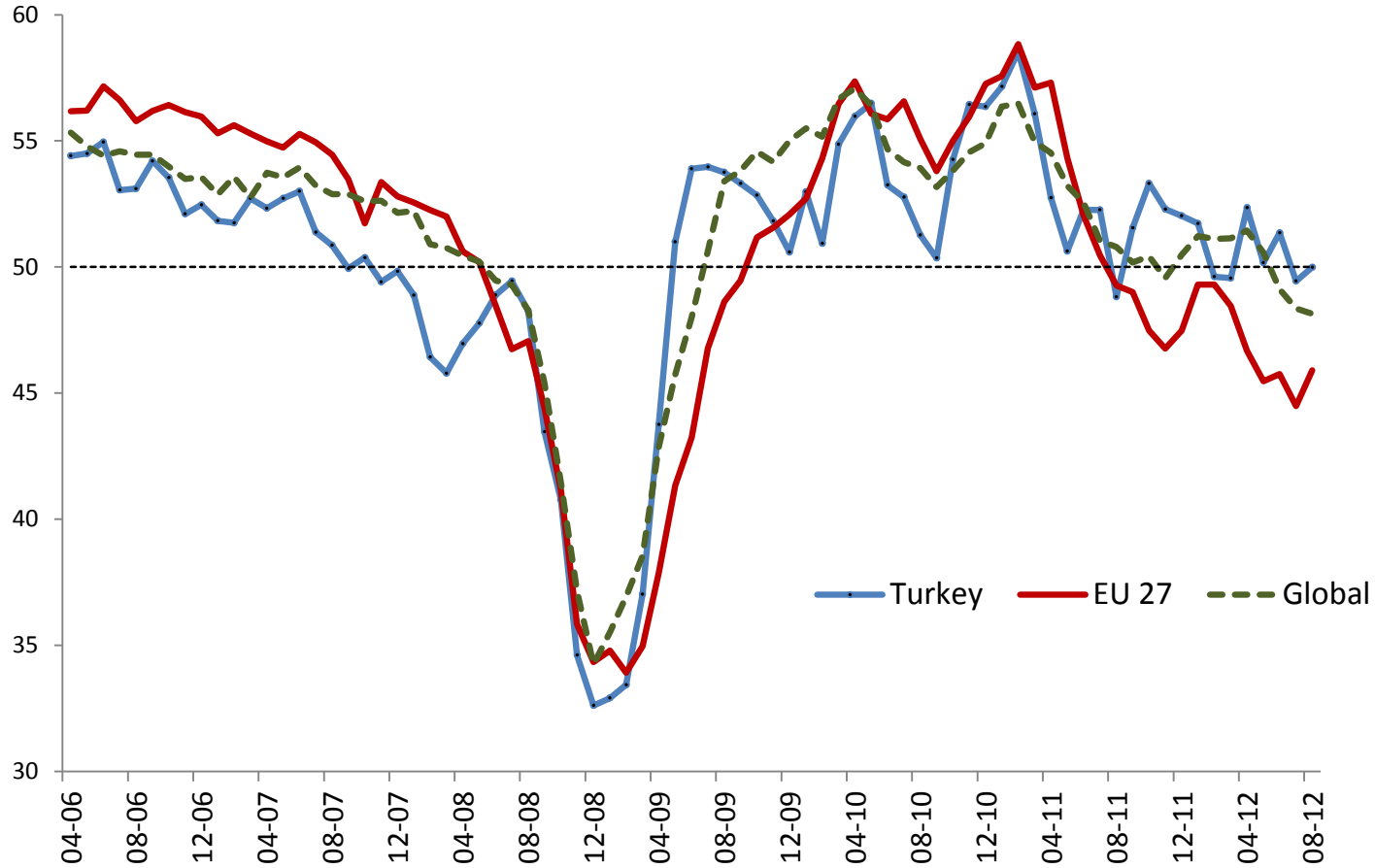
Contribution to Annual GDP Growth (Percentage Points)



Source: TURKSTAT

Economic Activity

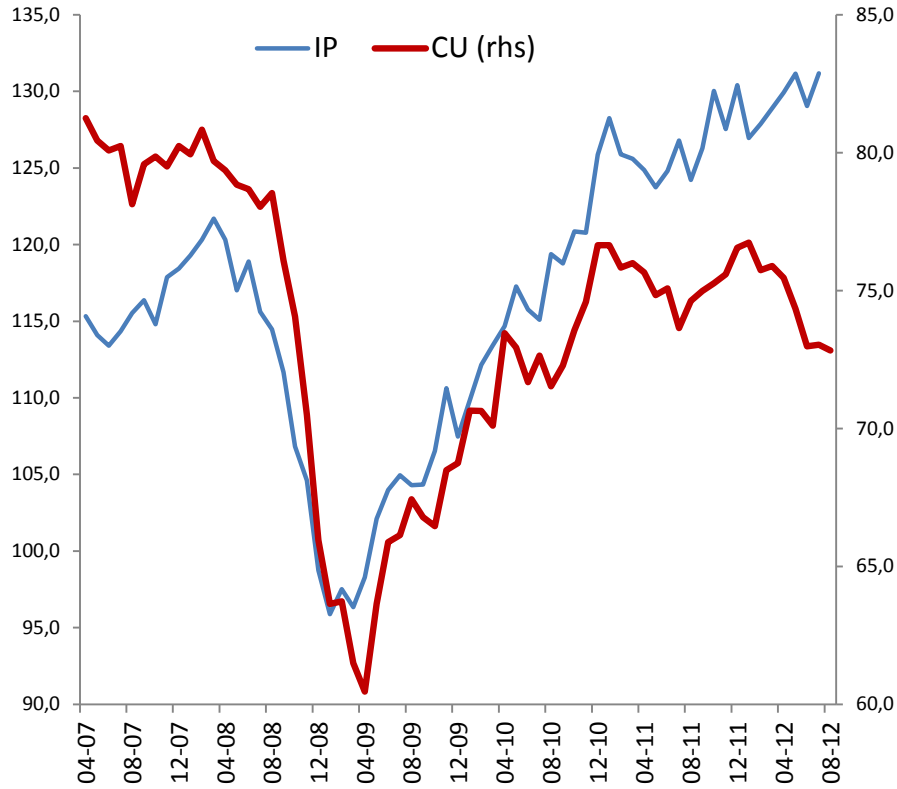
Manufacturing PMIs (Seasonally Adjusted)



Source: MARKIT.

Economic Activity

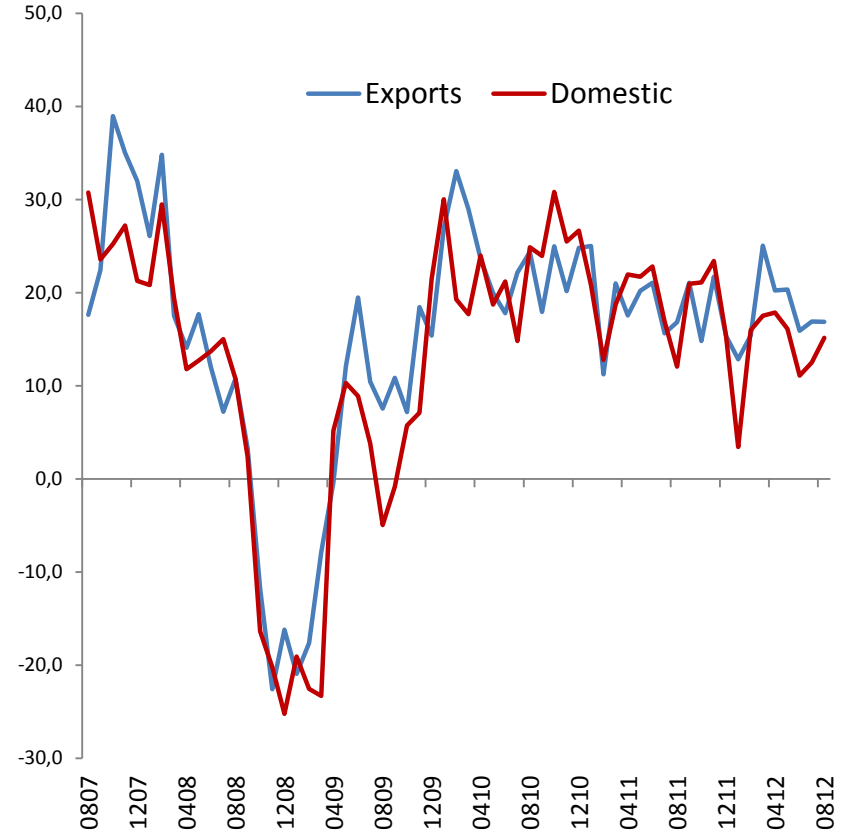
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

*Last data: July for Industrial Production, August for Capacity Utilization.

New Orders* (Seasonally Adjusted)

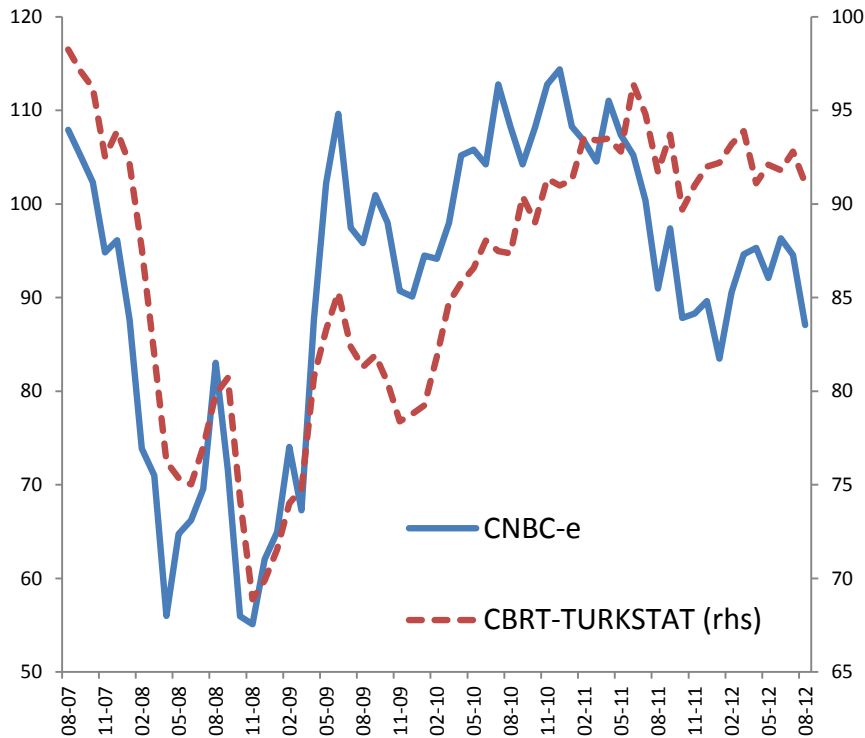


Source: CBRT Business Tendency Survey.

*Question Number 12 and 21 for exports and domestic orders, respectively: How do you expect your orders to develop over the next three months. Last data: August 2012.

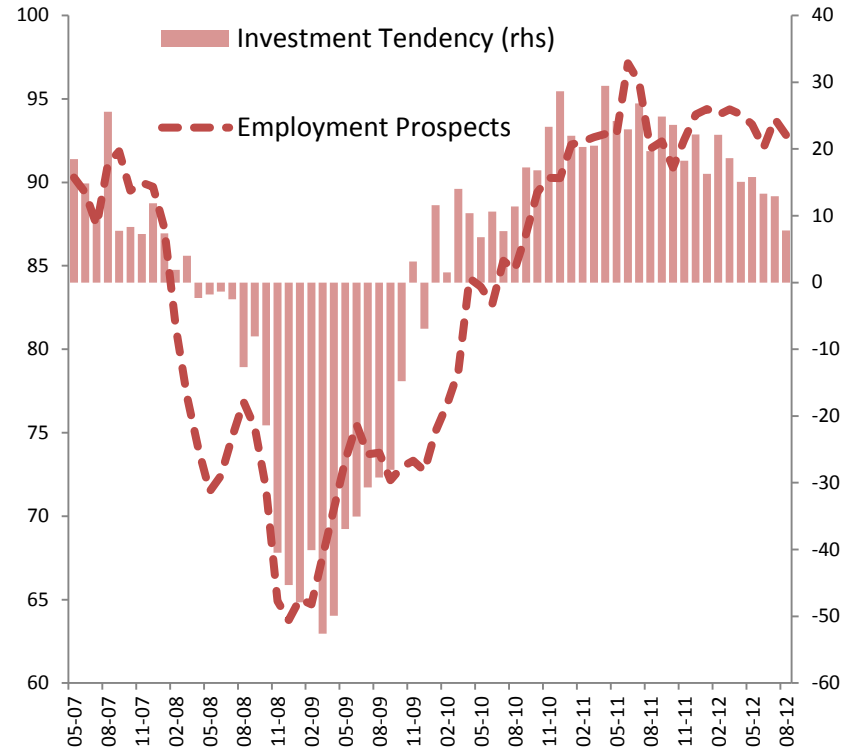
Leading Indicators for Demand

Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.
Last data: August 2012

Employment and Investment Prospects (Seasonally Adjusted)



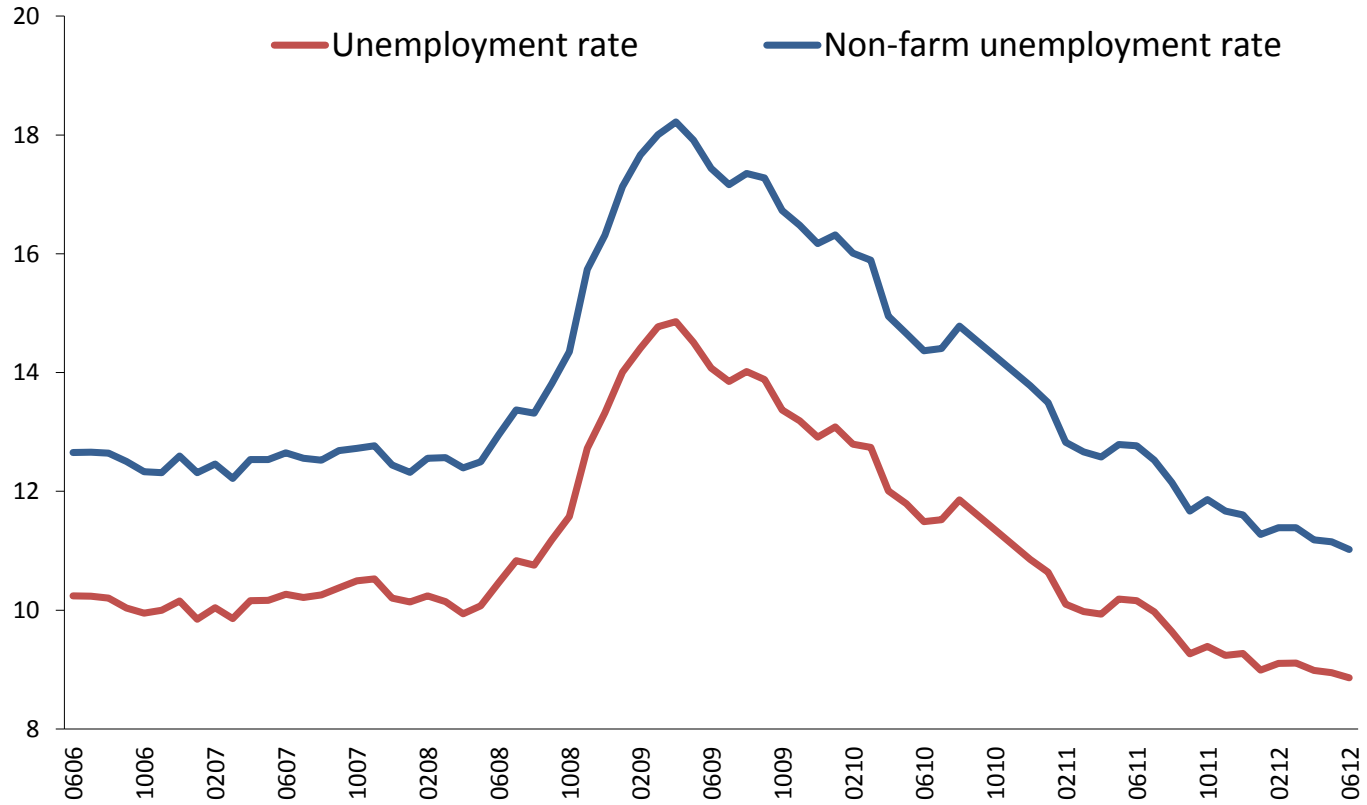
*Employment Prospects: Consumers expectation for Job Opportunities over the next 6 months.

Investment Tendency: How do you expect your fixed investment expenditure to change over the next 12 months?

Source: TUKRSTAT, CBRT.

Last data: August 2012

Unemployment Rate

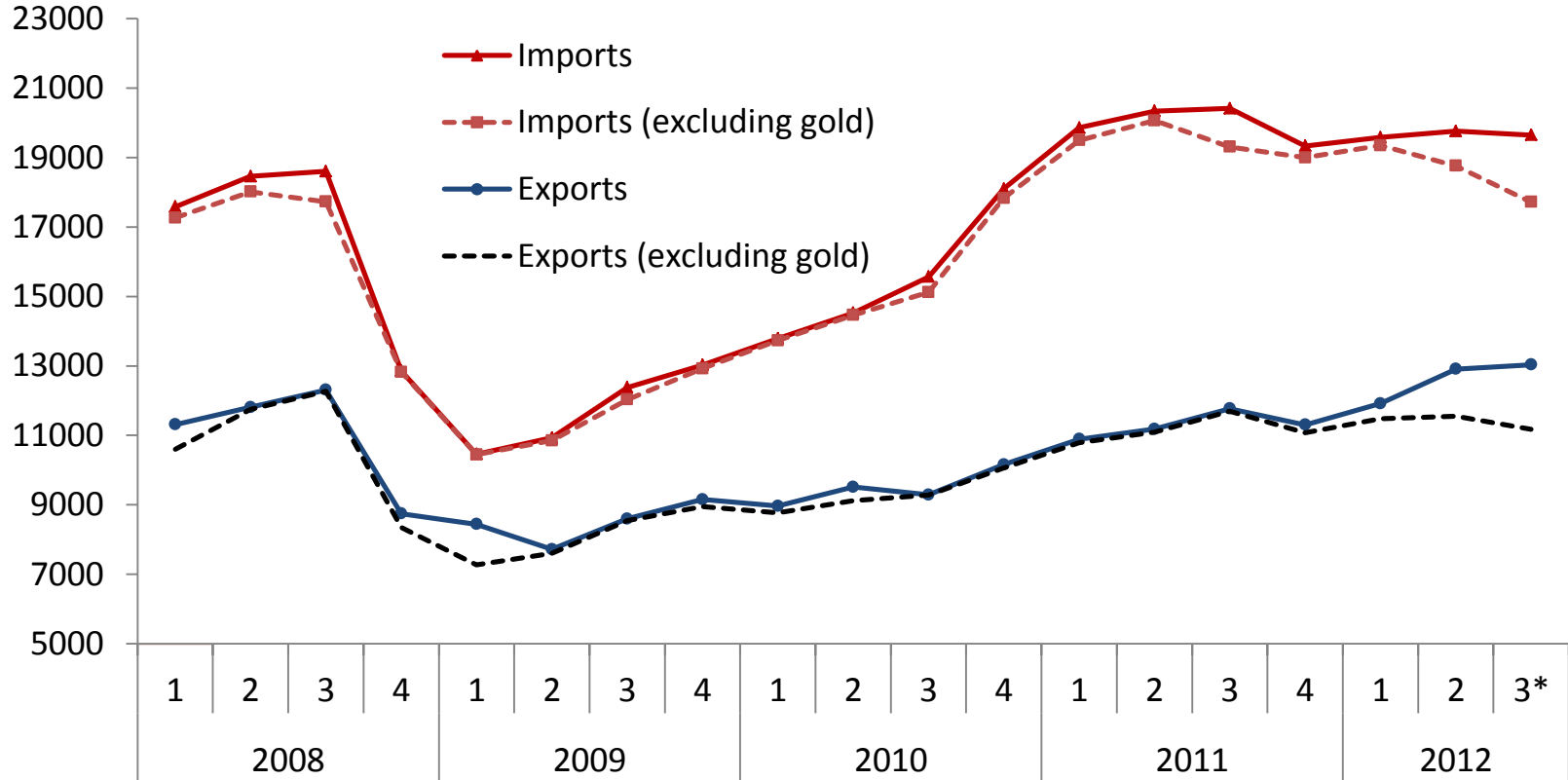


Source: TURKSTAT, Household Labor Force Survey, CBRT.

REBALANCING

Rebalancing

Exports and Imports
(Seasonally Adjusted, Million USD)

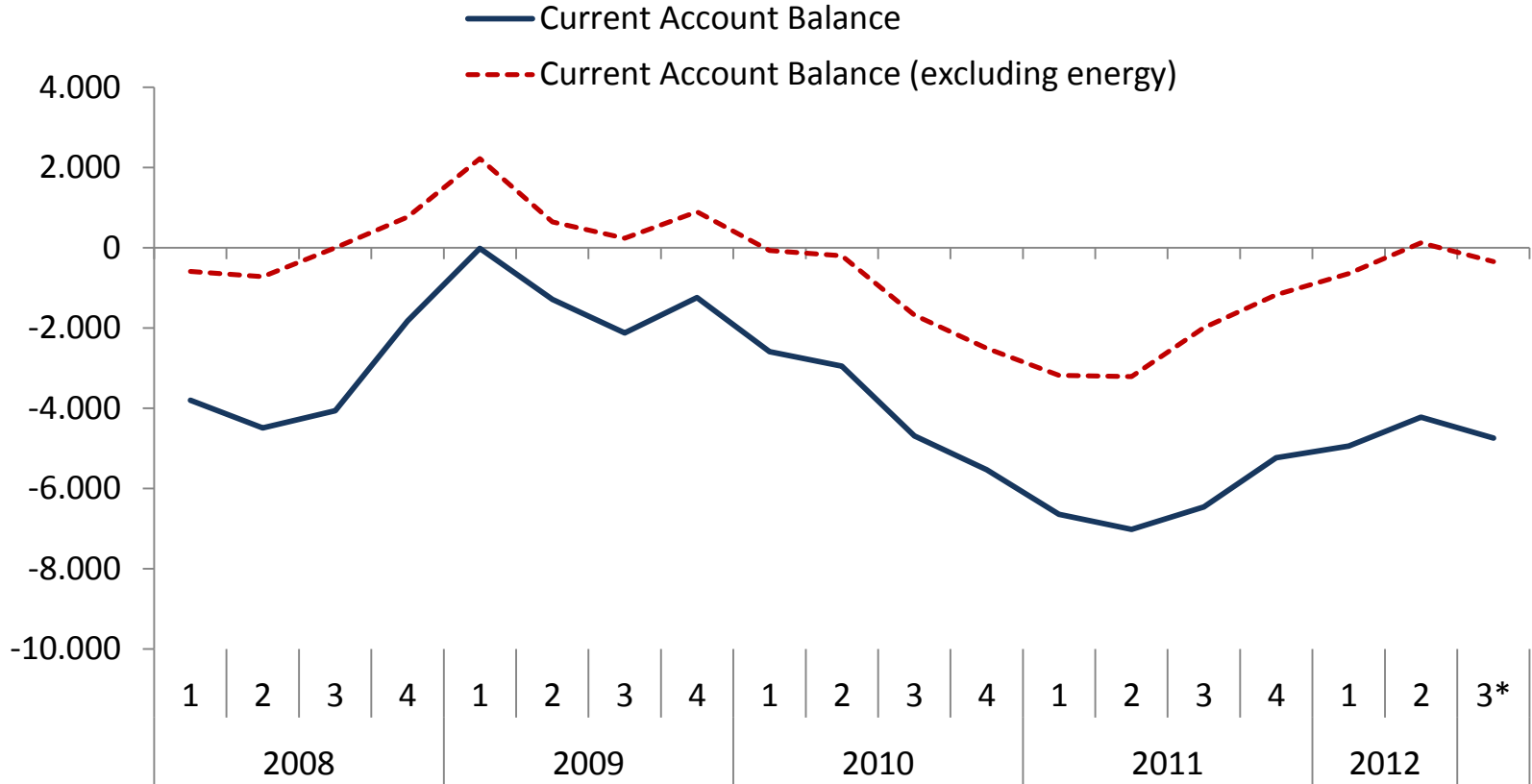


* July

Source: TURKSTAT, CBRT.

Rebalancing

Current Account Balance (Seasonally Adjusted, Quarterly, Million USD)

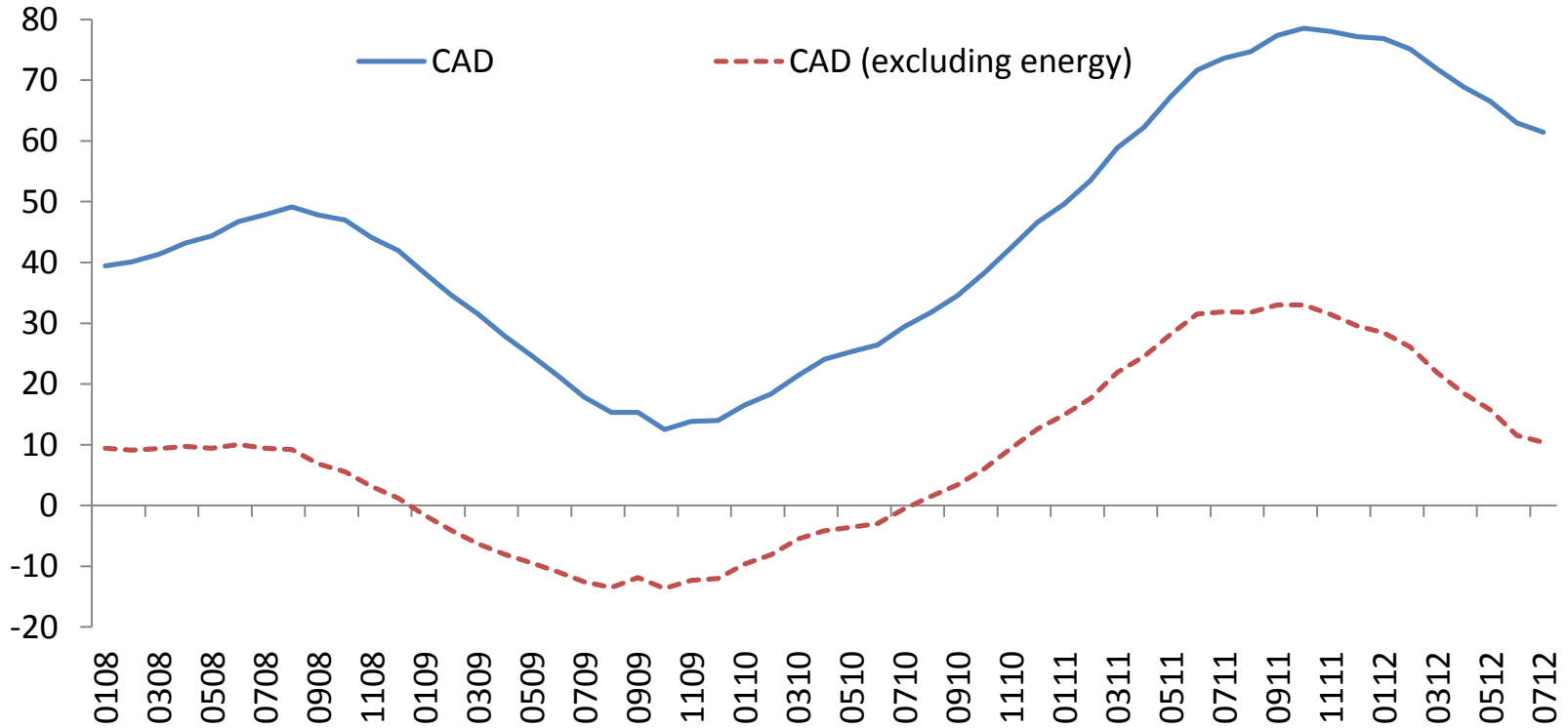


* July

Source: CBRT.

Rebalancing

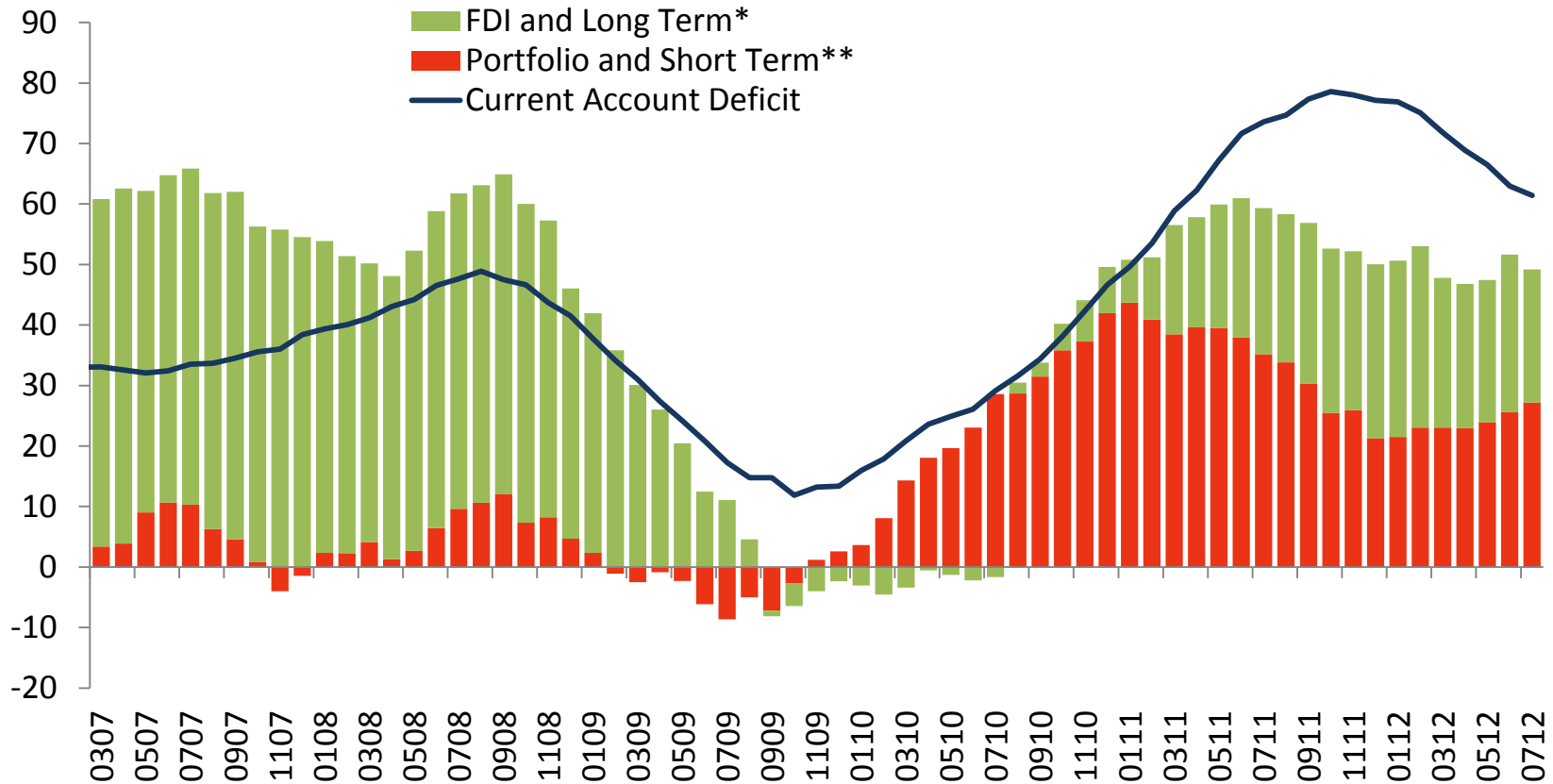
Current Account Deficit (12-Month Rolling, Billion USD)



Source: CBRT.

Main Sources of External Finance

(12-months Cumulative, Billion USD)



Source: CBRT.

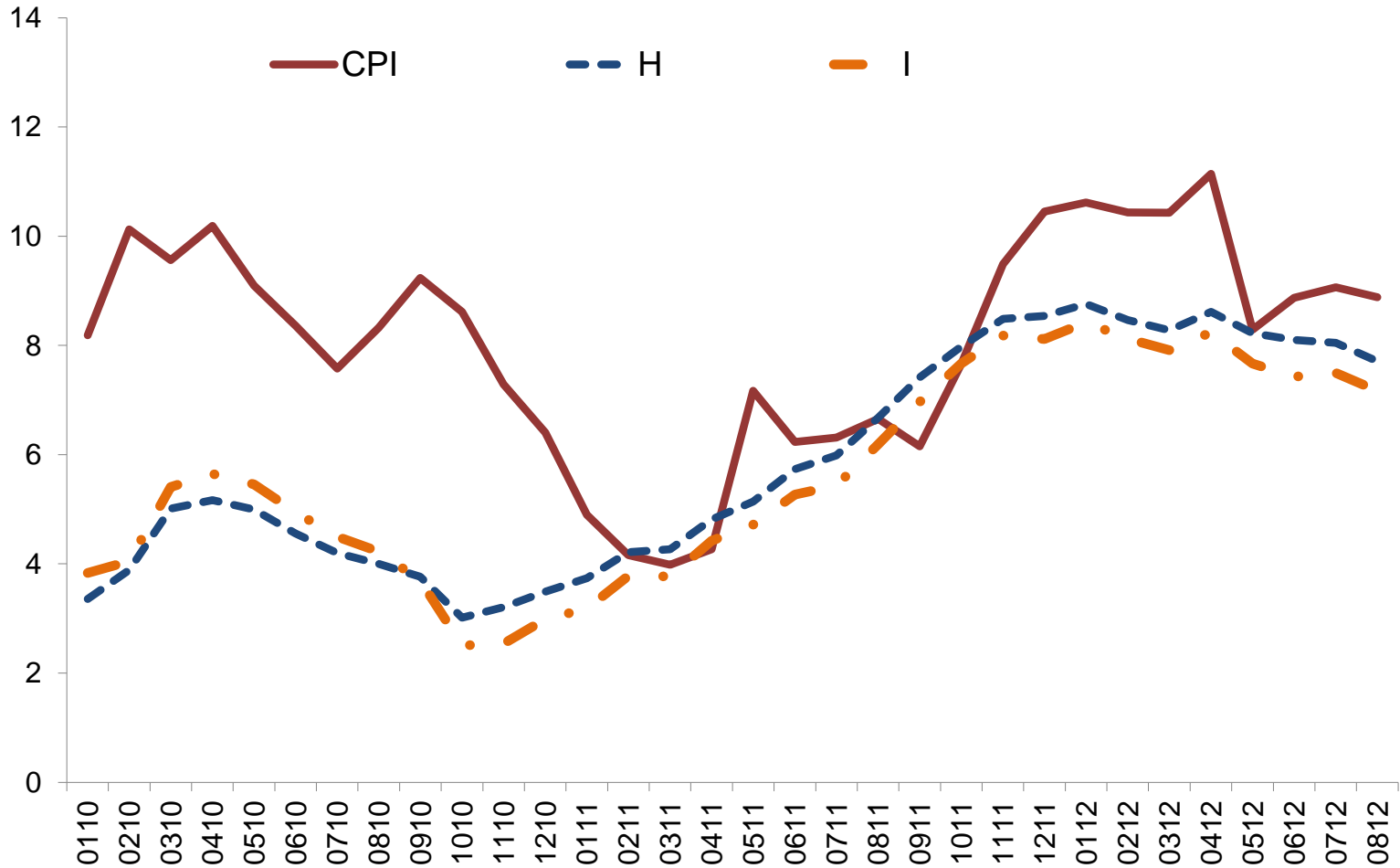
*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

**Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

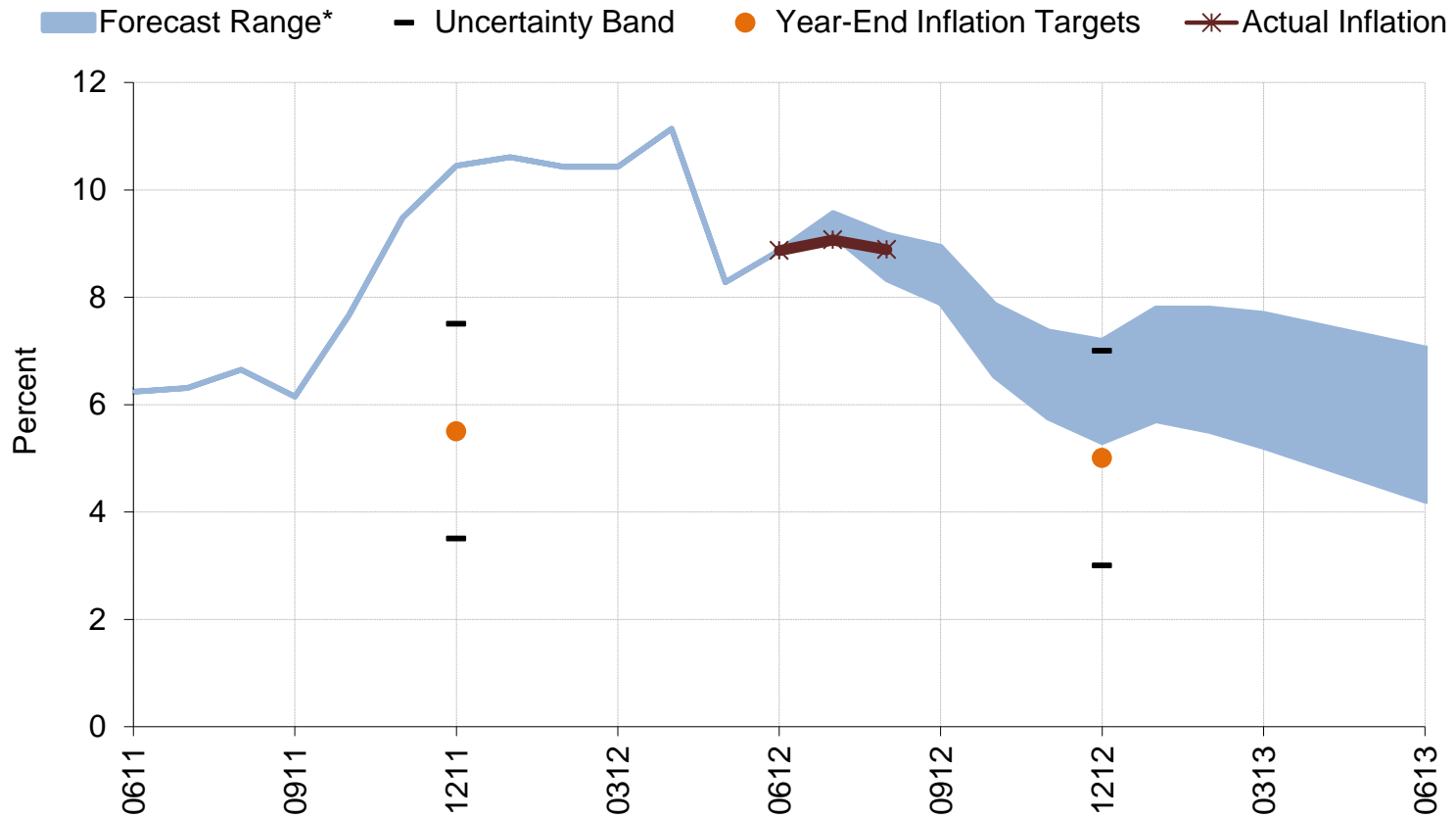
INFLATION

Inflation: CPI and Core Indicators

(Annual % Change)



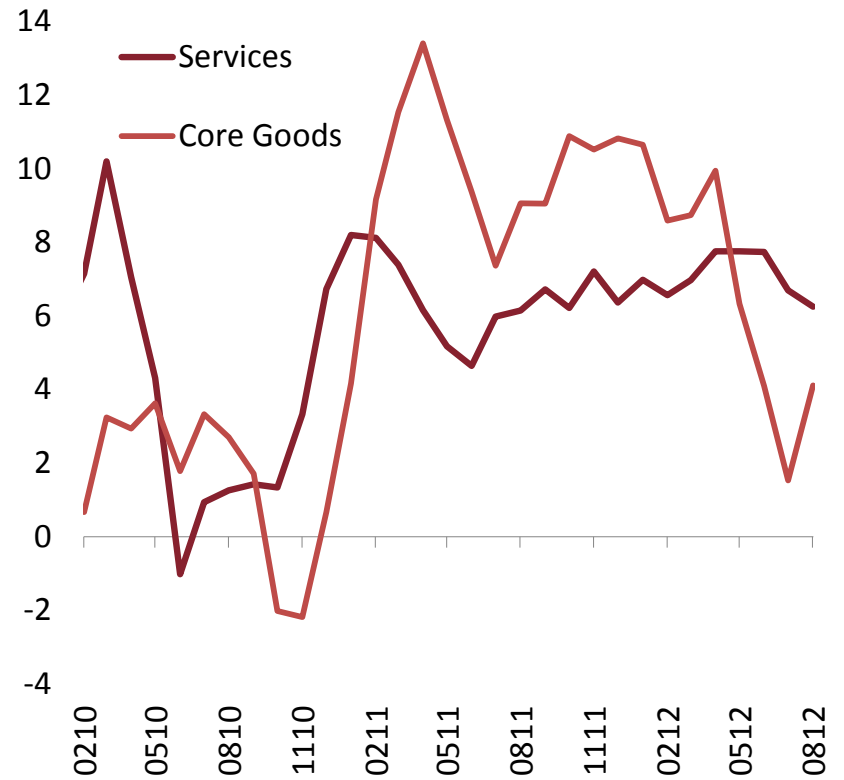
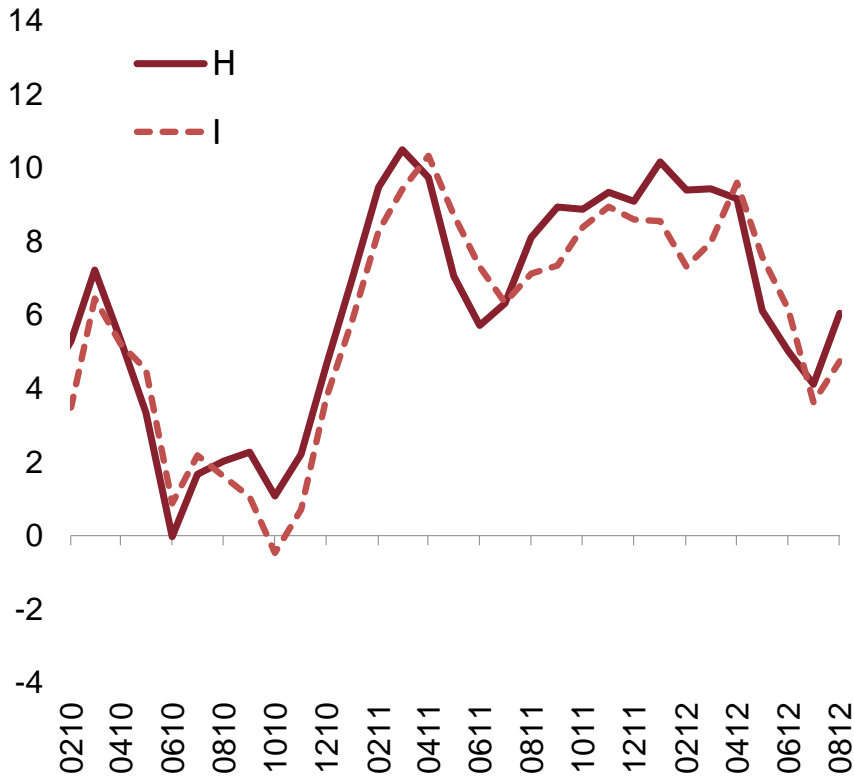
July 2012 Inflation Report Projections and Realizations



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

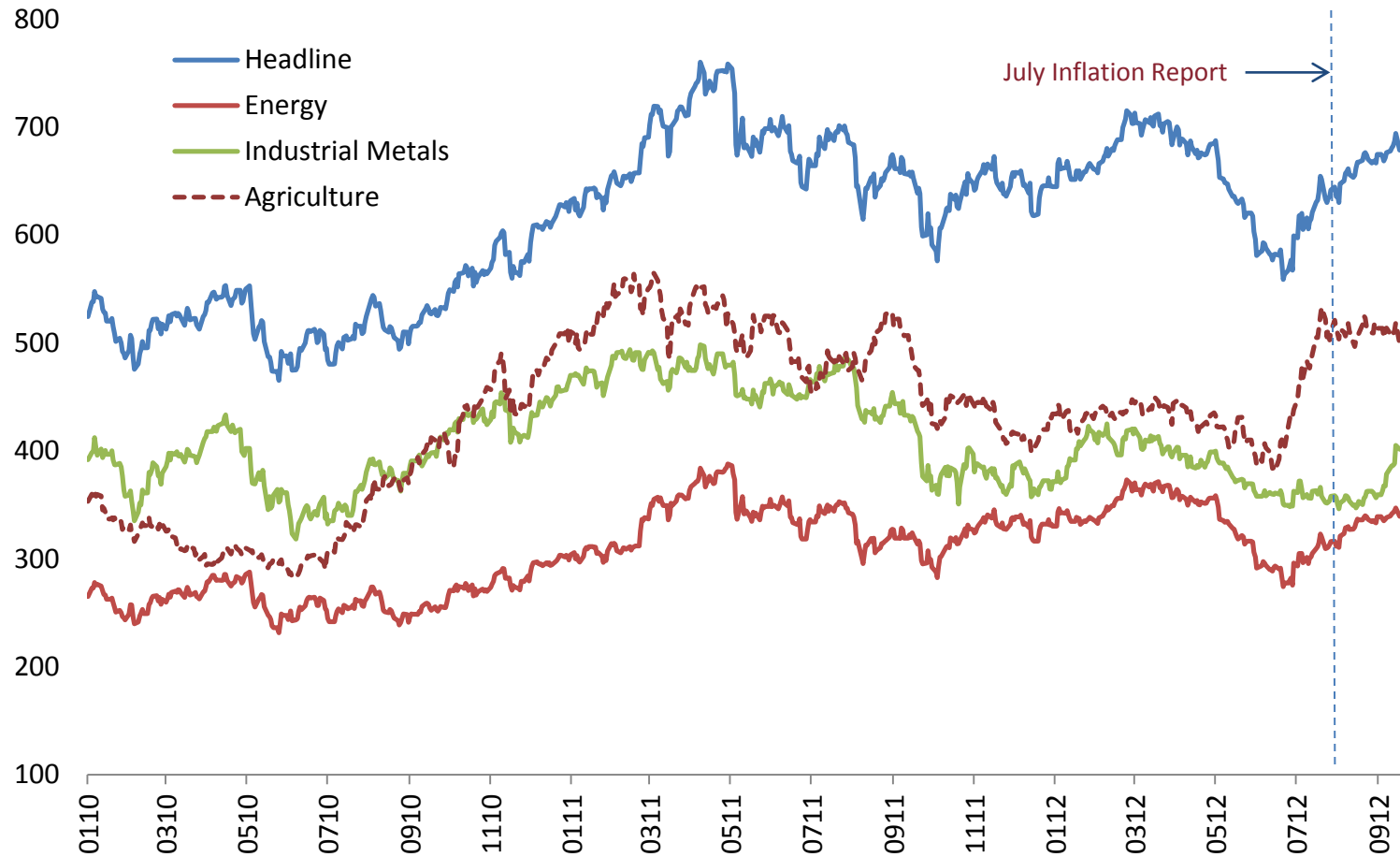
Trend Inflation

Seasonally Adjusted, Monthly % Change,
3-Month Average, Annualized

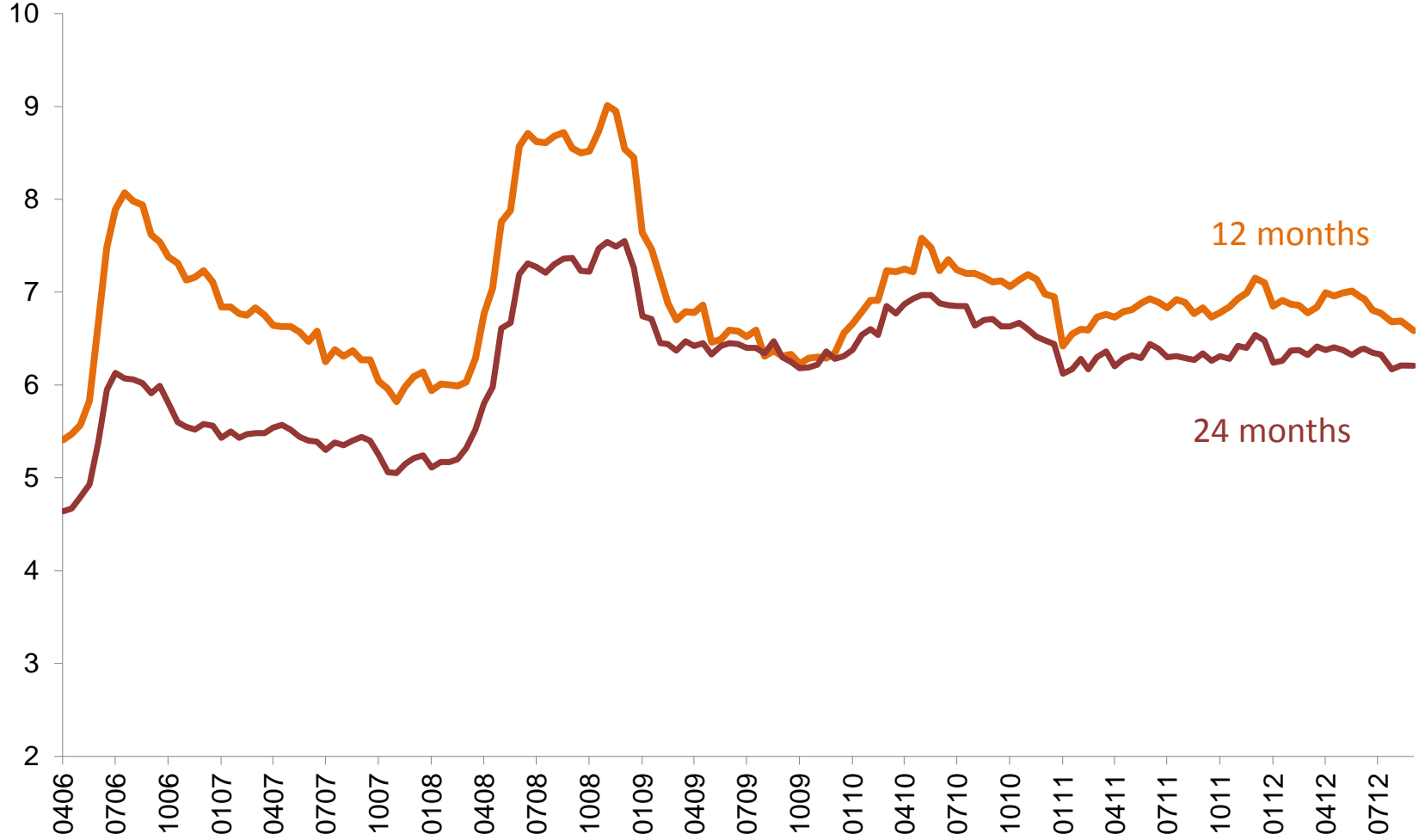


Commodity Prices

S&P GS Indices

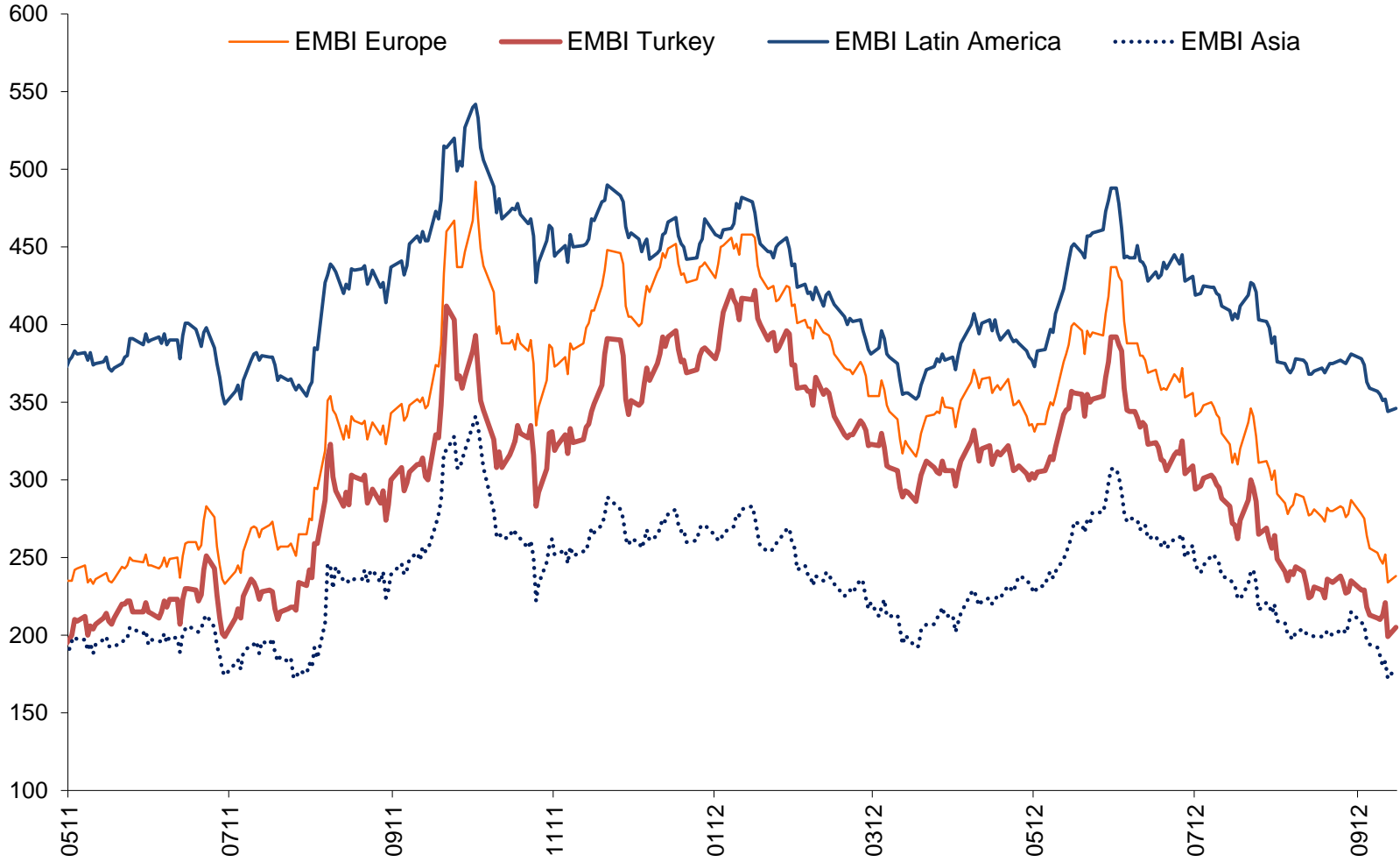


Inflation Expectations



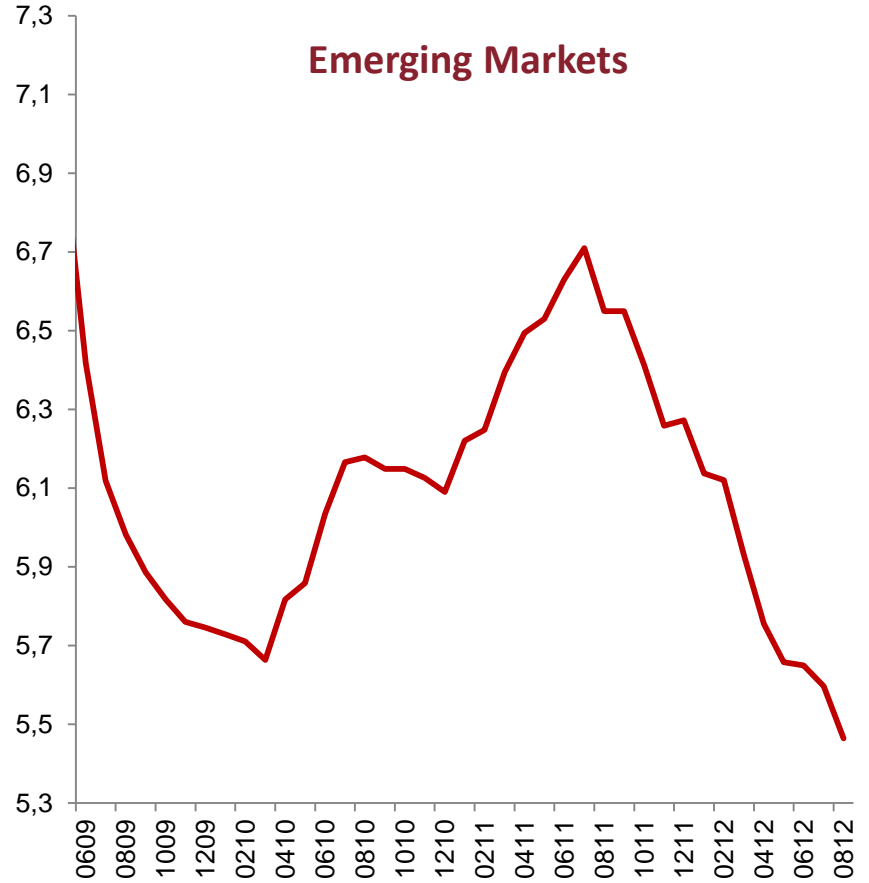
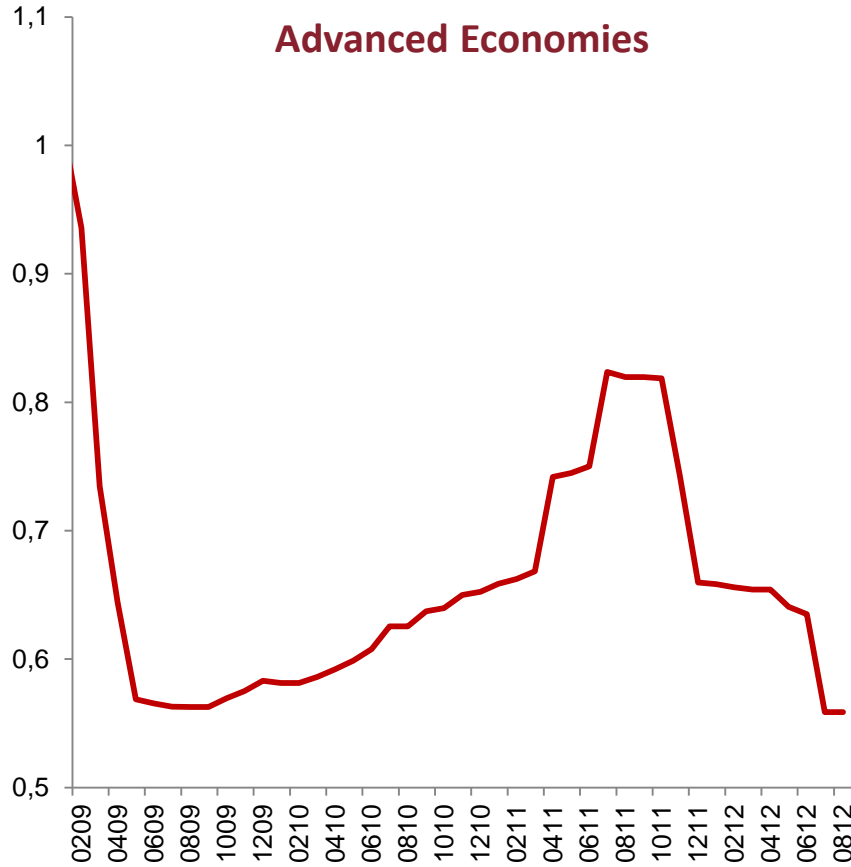
MONETARY AND FINANCIAL CONDITIONS

Risk Premium



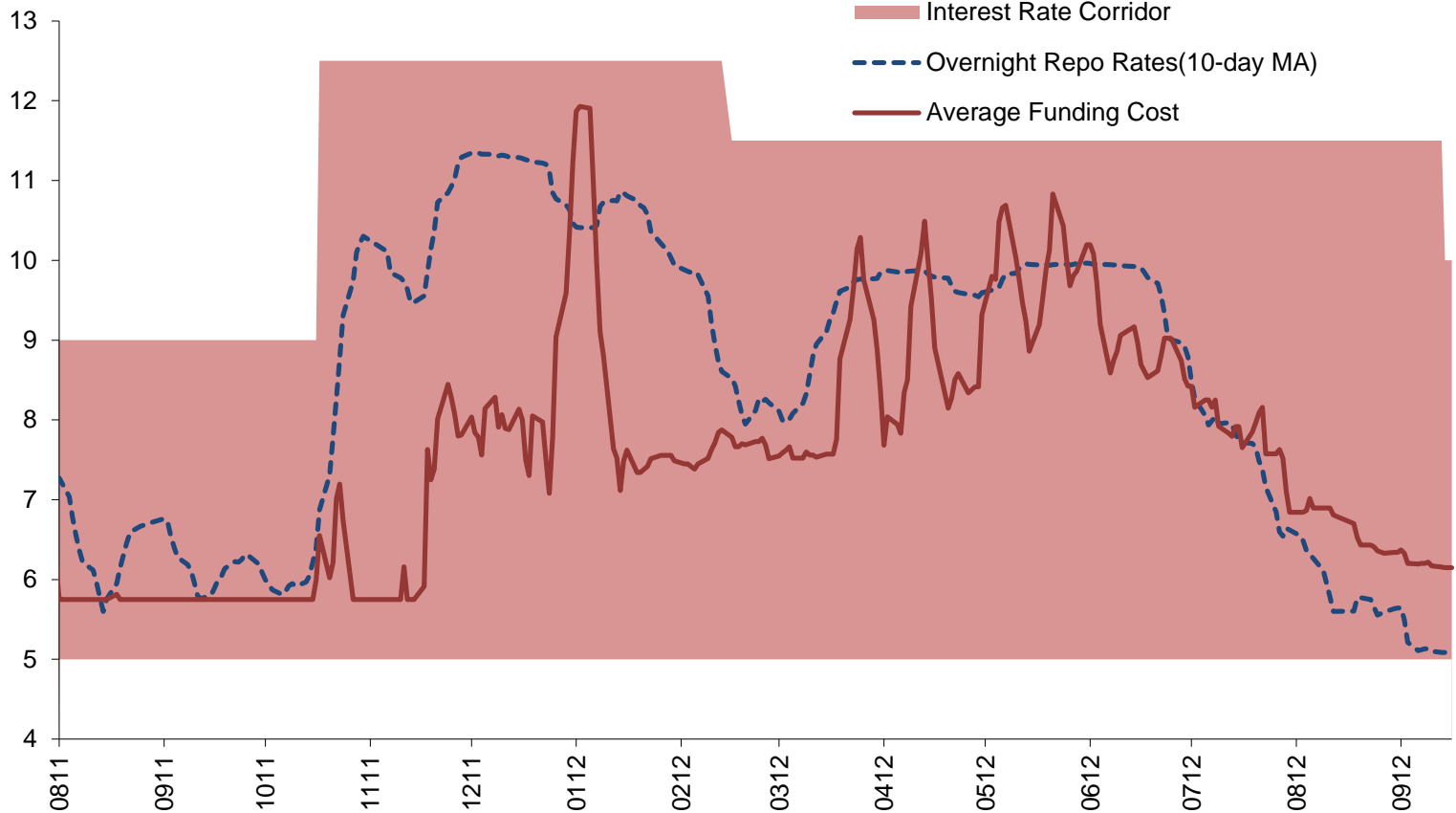
Source: Bloomberg.

Global Policy Rates



Source: Bloomberg.

Monetary Policy



Source: CBRT.

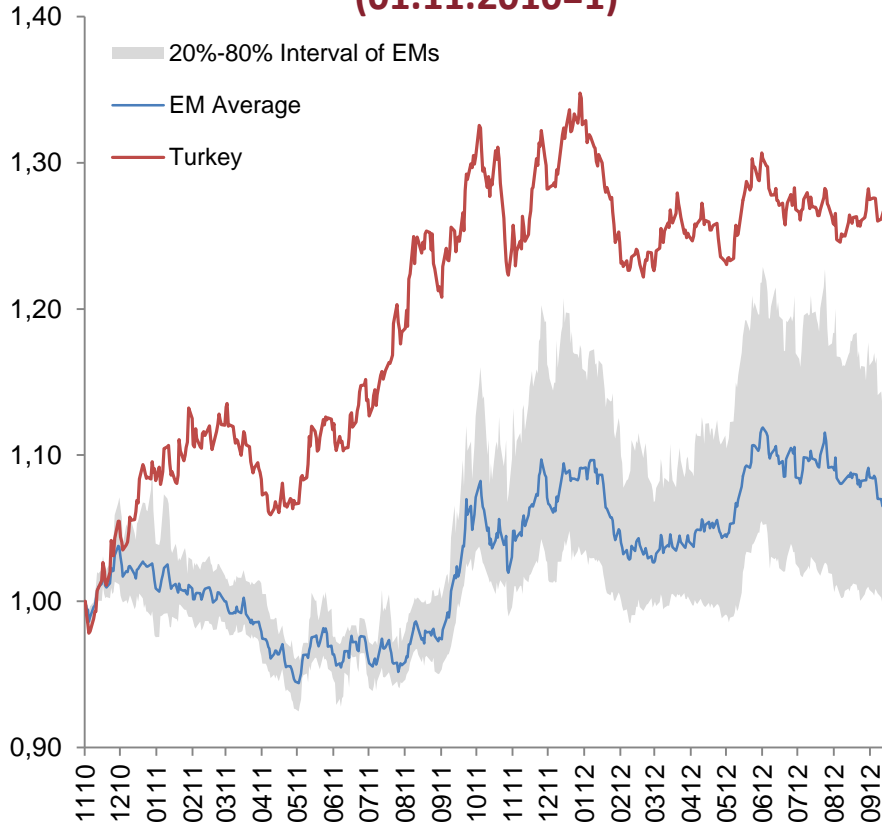
Interest Rates Across Different Maturities



Source: ISE, CBRT.

Nominal and Real Exchange Rates

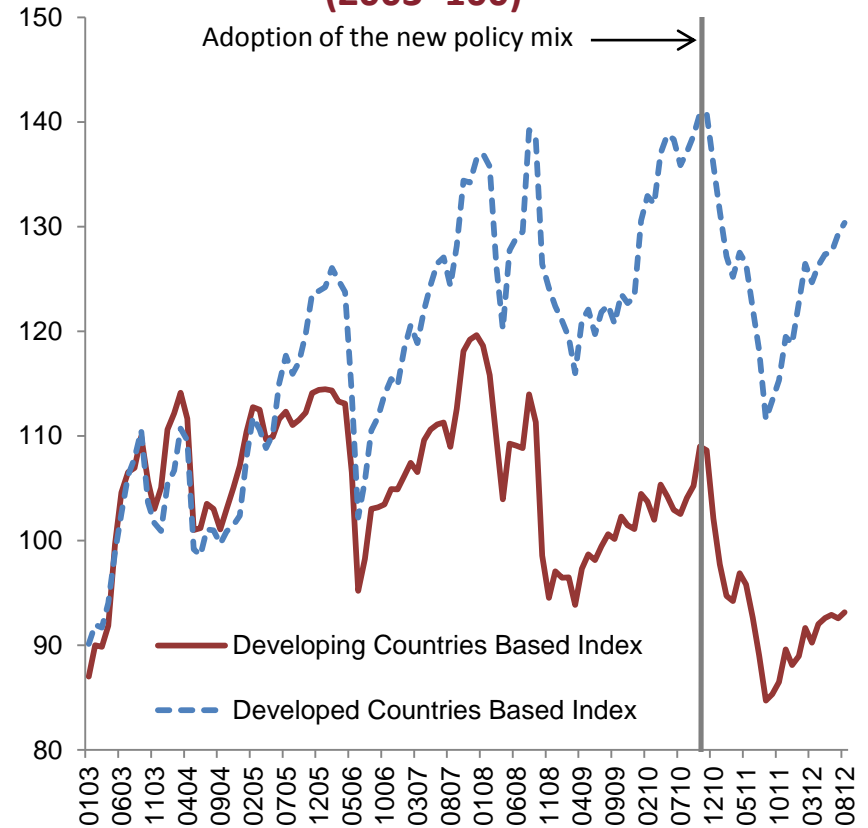
TL and Other Emerging Market Currencies (01.11.2010=1)



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)

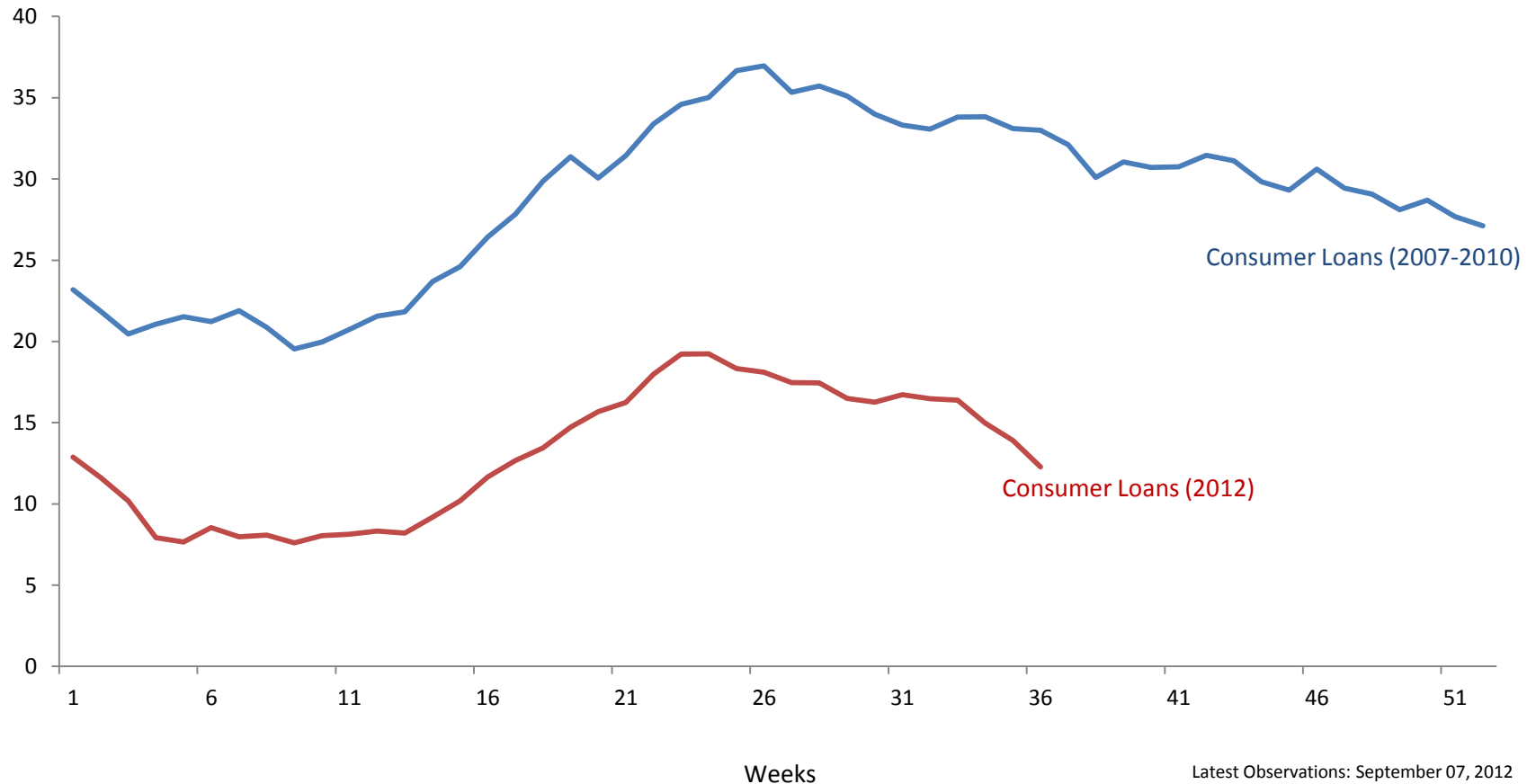


An increase in index indicates an appreciation of the Turkish lira.

Source: CBRT.

Consumer Loans

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

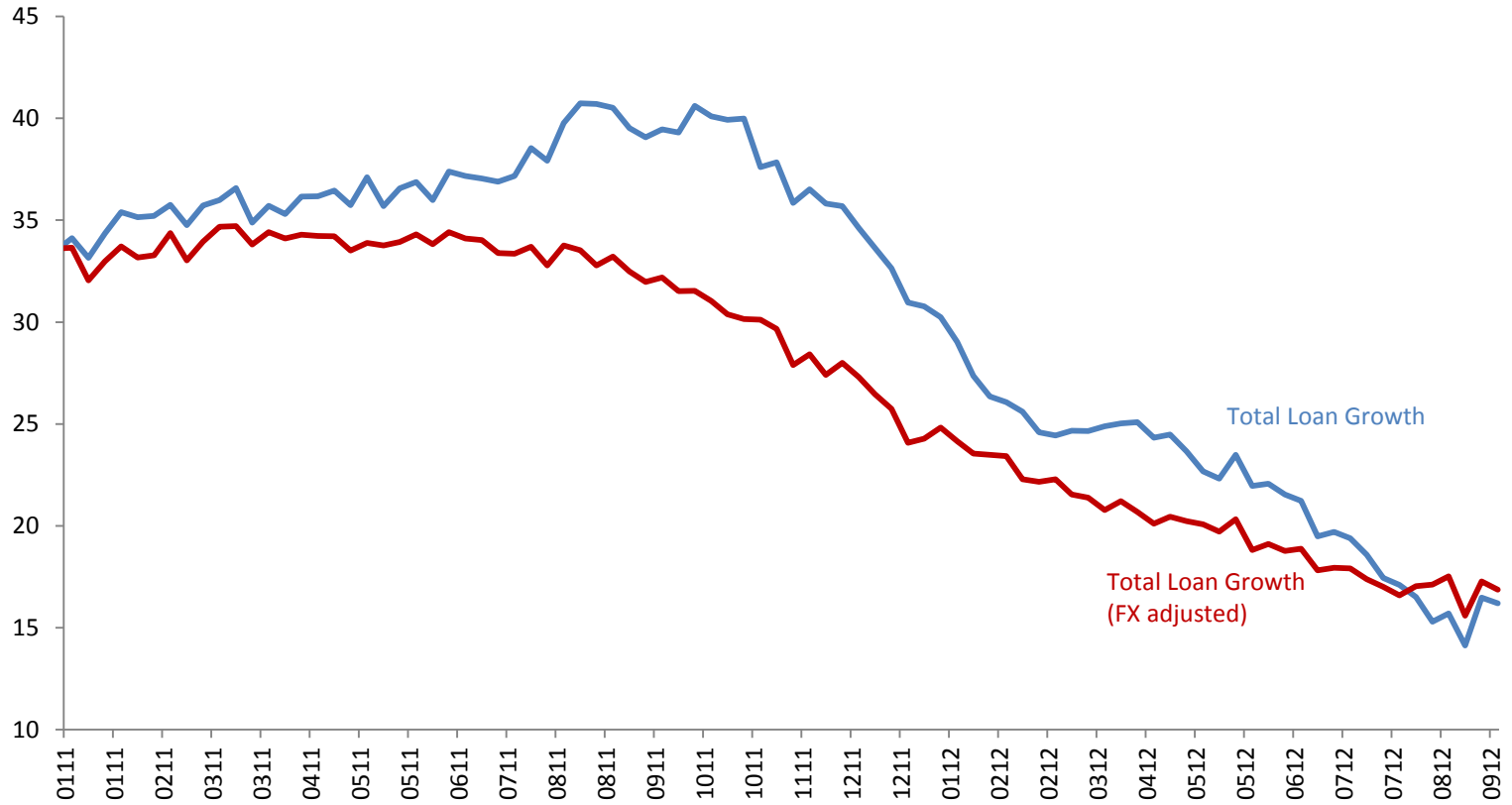


Source: BRSA.

Latest Observations: September 07, 2012
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Total Loans

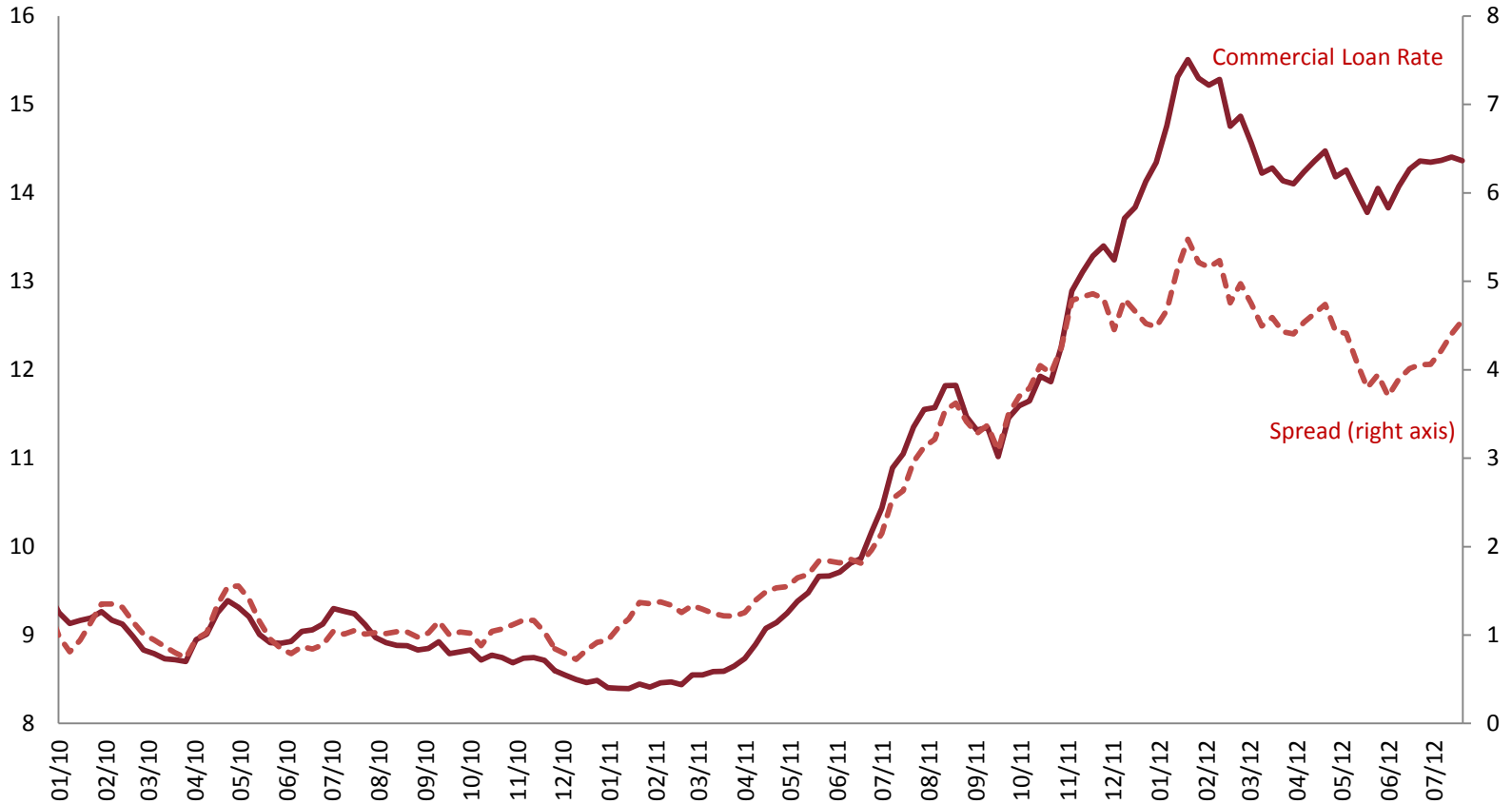
Total Loan Growth Rates (Year on Year Change, Percent)



Source: BRSA.

Latest Observations: September 07, 2012
Total credit is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

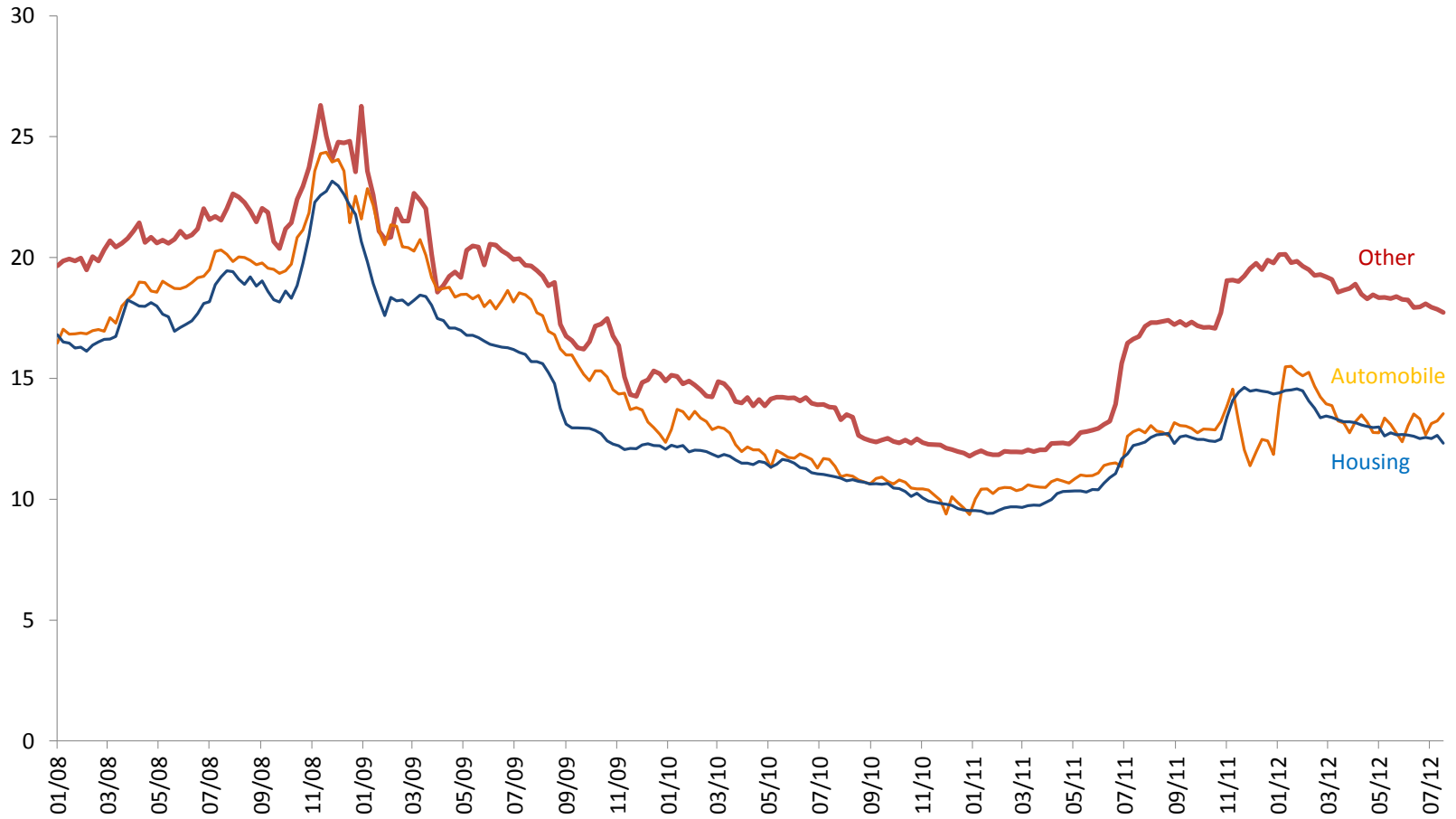
Lending - Deposit Rate Spread



Source: CBRT.

Latest Observations: July 20, 2012
4 Weeks MA

Consumer Loan Rates



Source: CBRT.

Latest Observation: July 20, 2012

Overview

- The fall in inflation will become more evident during final quarter.
- However, a cautious stance regarding pricing behavior is still warranted given the recent increases in energy prices and the high level of inflation.
- Recent data confirm that the rebalancing continues as envisaged.
- Credit growth is broadly consistent with the outlook presented in the Inflation Report.
- Although the risk appetite has recently improved, ongoing uncertainties regarding the global economy necessitate to remain flexible on both sides.
- The Committee has stated that increasing the reserve option coefficients and narrowing the interest rate corridor would support financial stability.
- If deemed necessary, a measured step in the same direction may be taken in the forthcoming period.



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