



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

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

April 17, 2013

Ankara

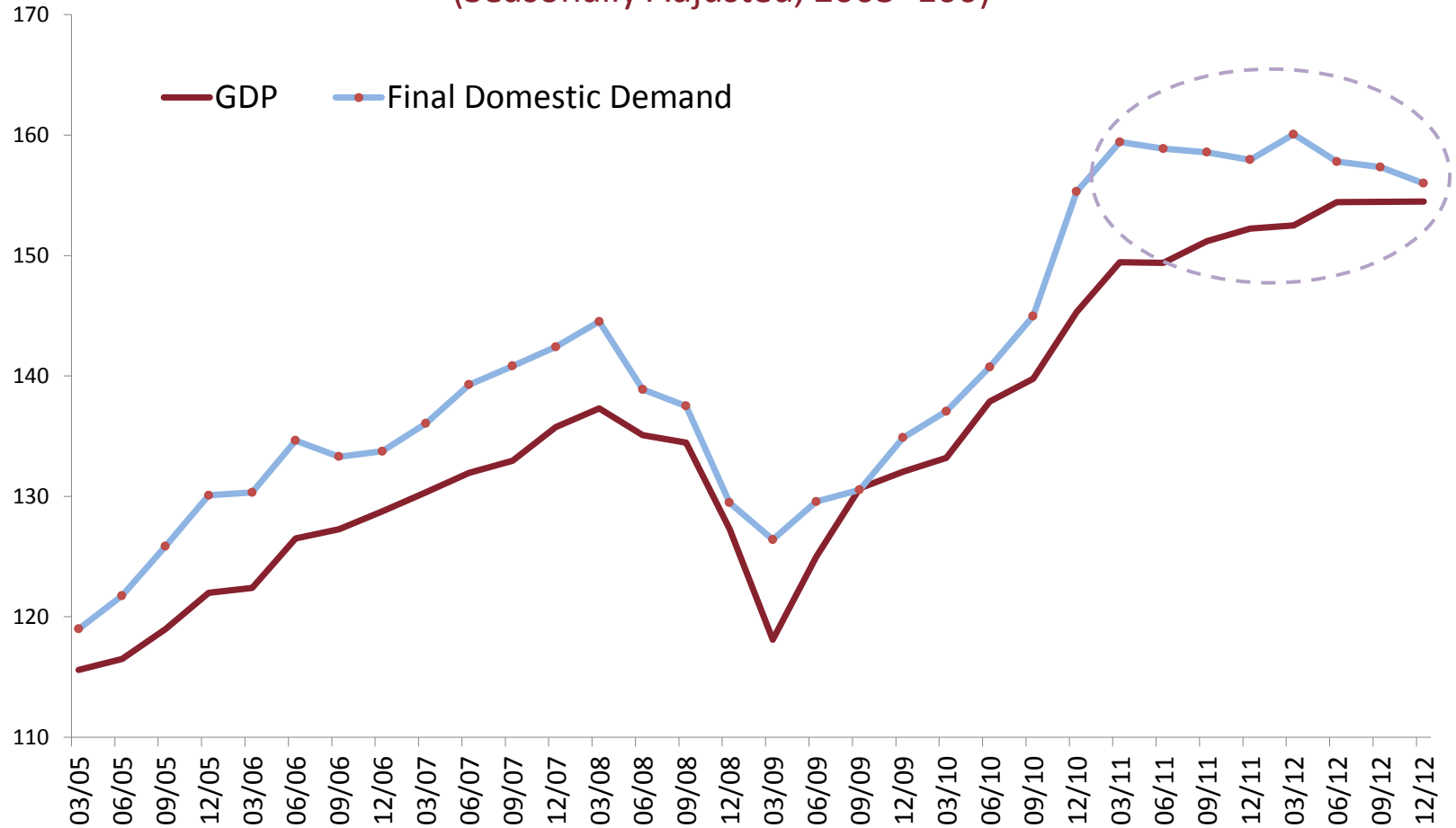
Outline

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, 2003=100)

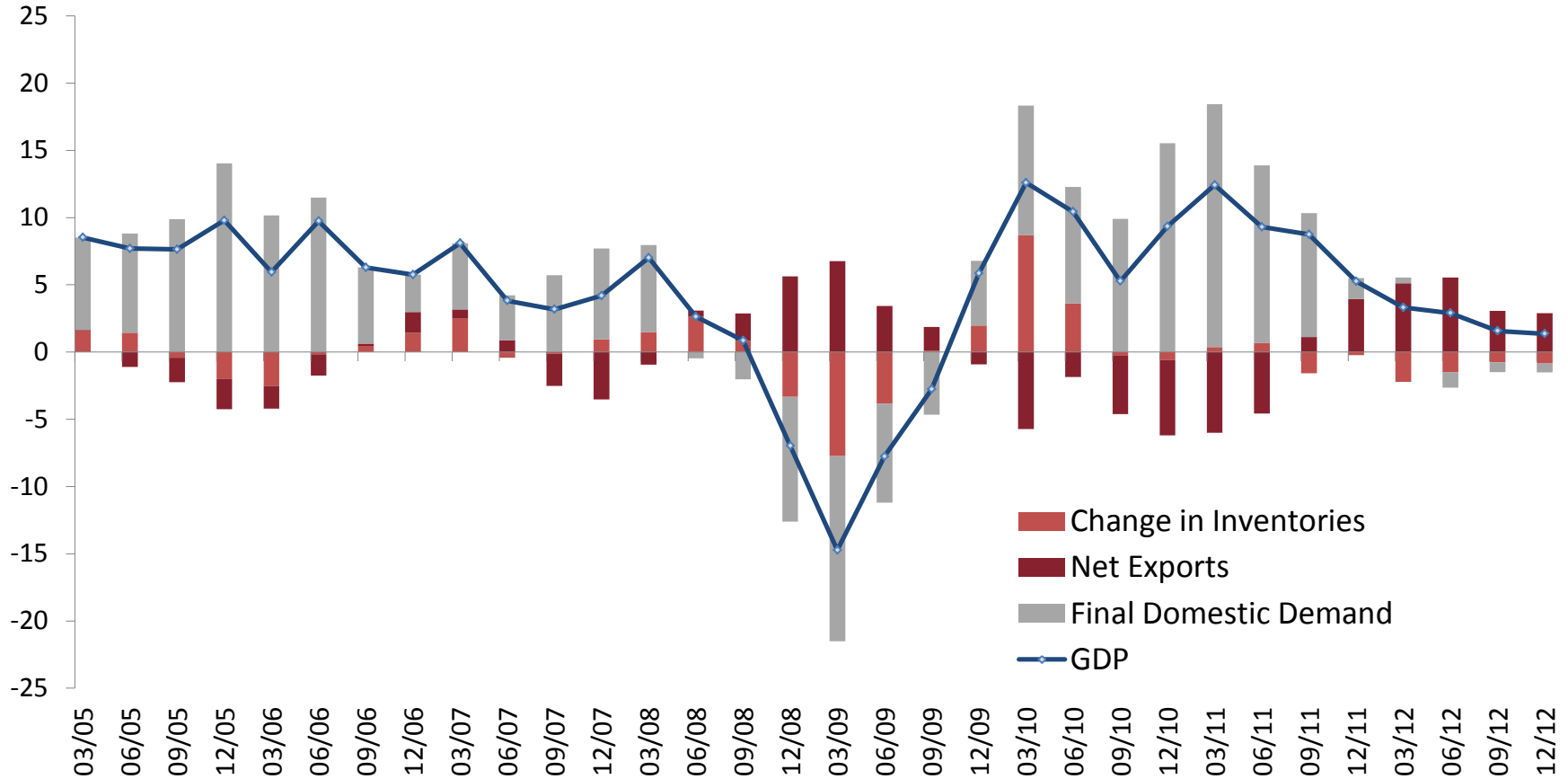


Source: TURKSTAT, CBRT.

Last Observation: 2012Q4

Economic Activity

Contribution to Annual GDP Growth (Percentage Points)

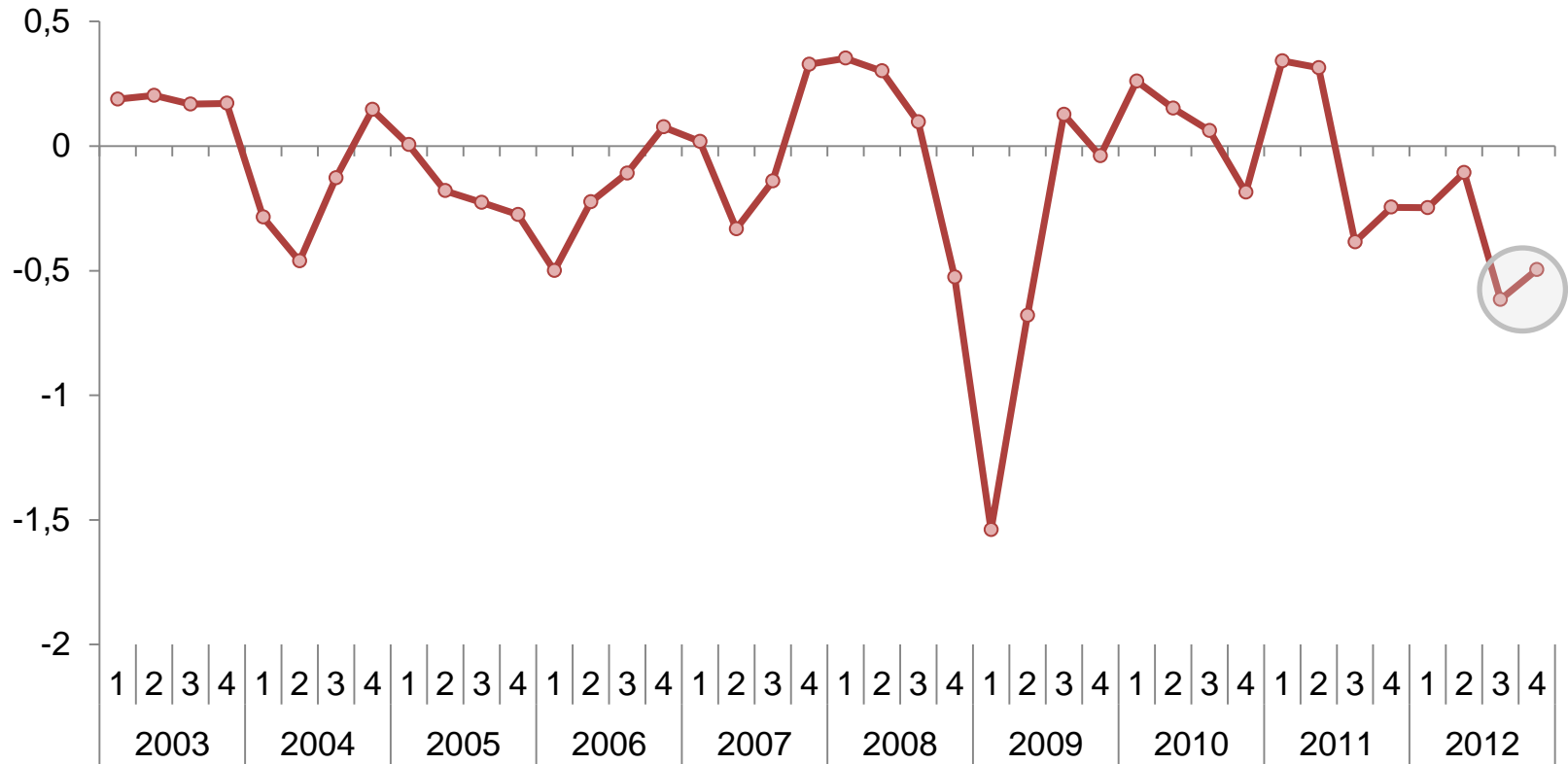


Source: TURKSTAT.

Last Observation: 2012Q4

Change in Inventories

(Seasonally adjusted billion TL)

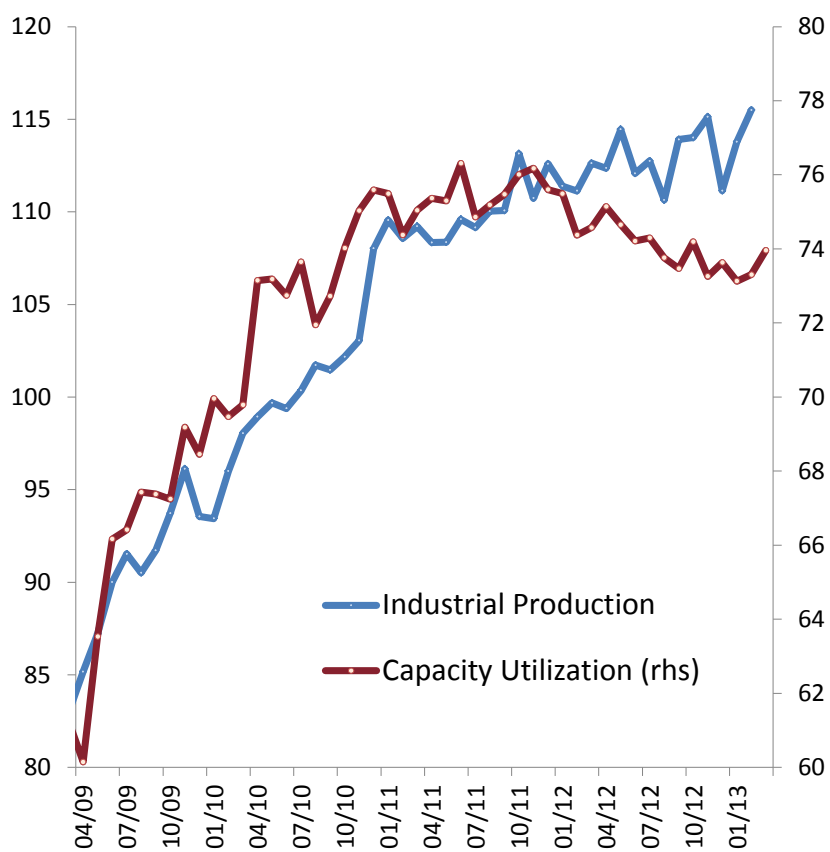


Source: TURKSTAT.

Last Observation: 2012Q4

Economic Activity

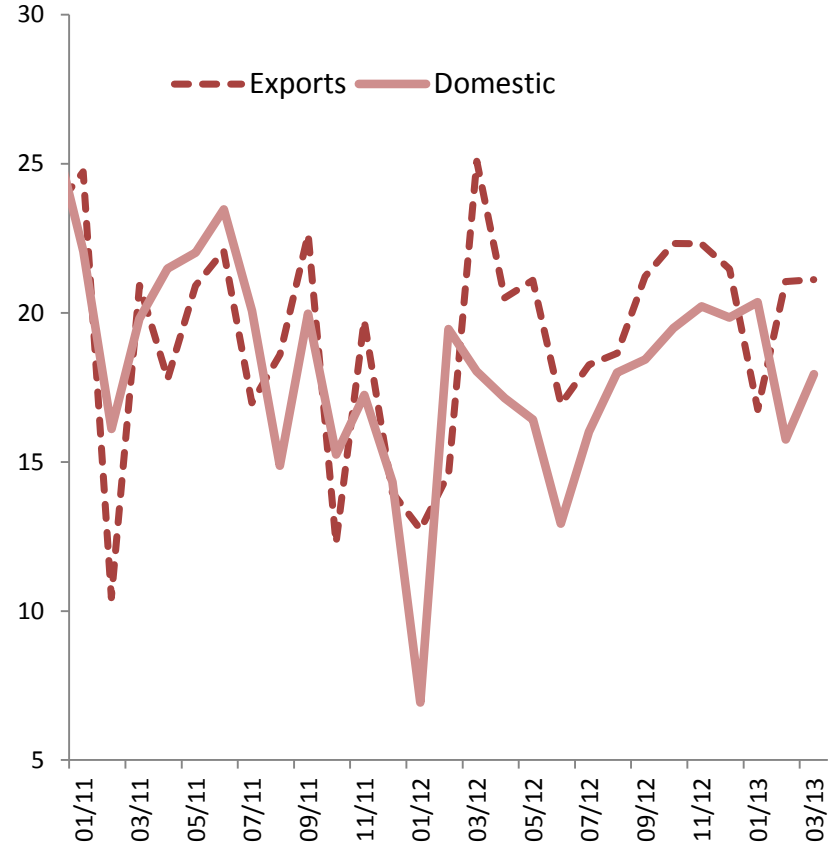
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

*Last Observation: February for Industrial Production, March for Capacity Utilization.

New Orders* (Seasonally Adjusted)

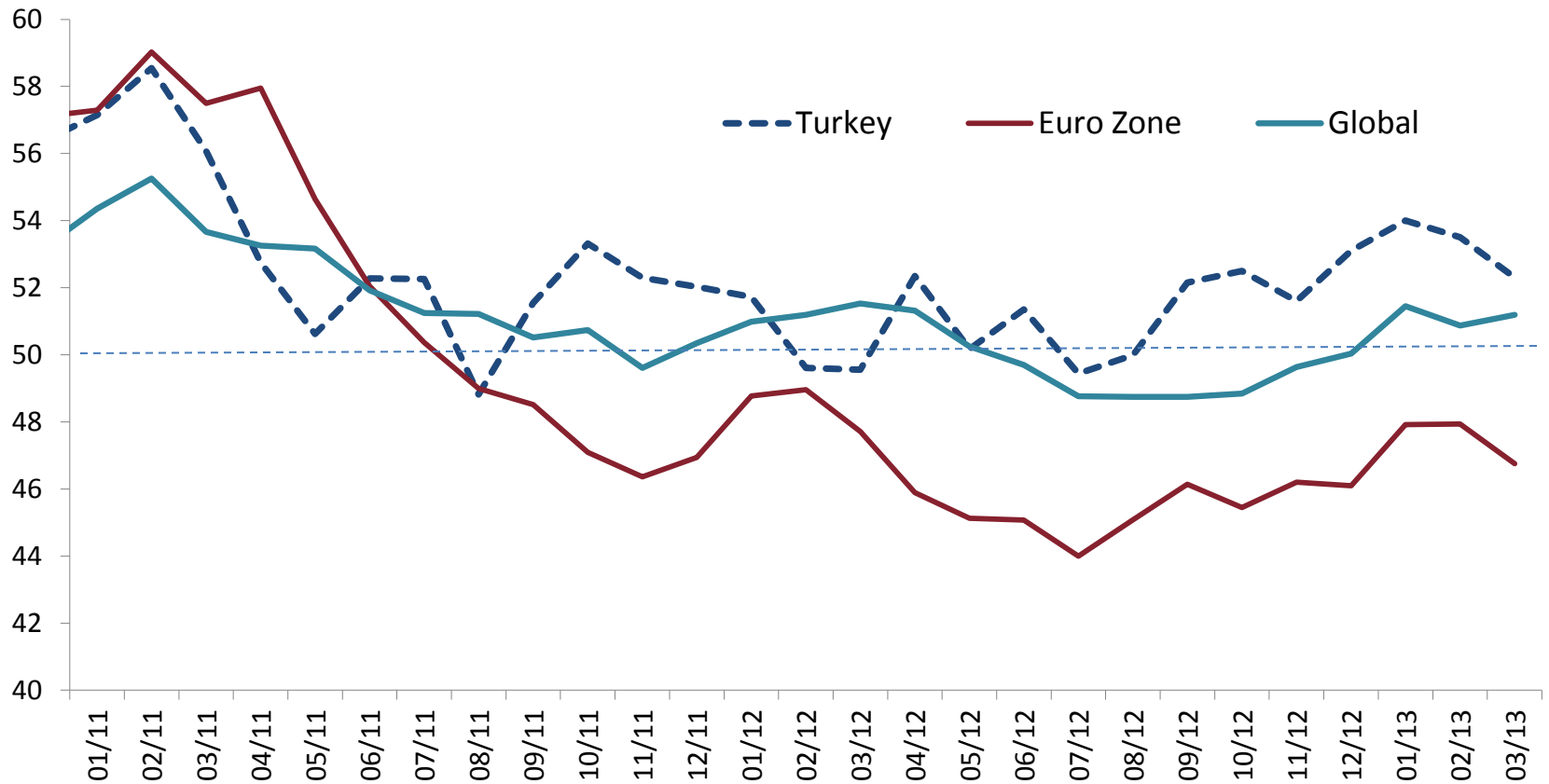


Source: CBRT Business Tendency Survey.

*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 Observation: March 2013.

PMI: Turkey, Eurozone, and Global

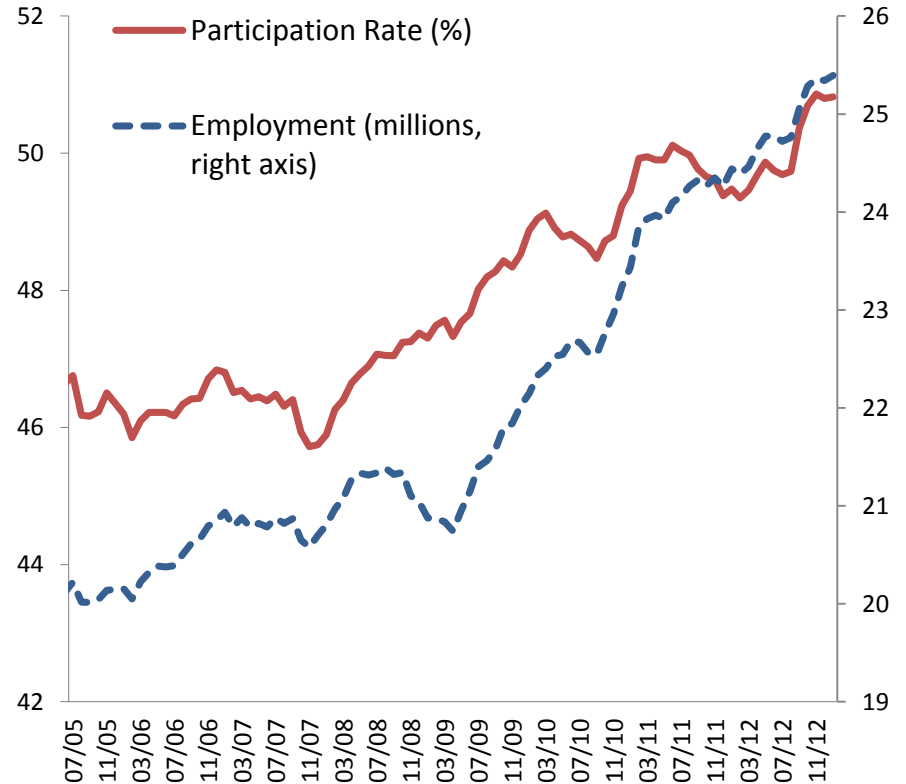
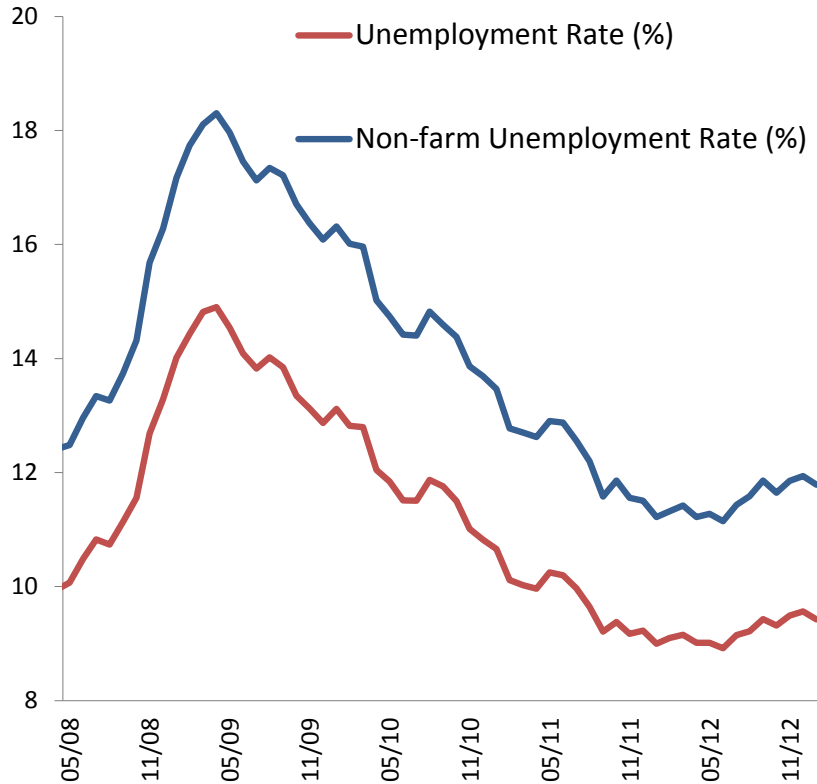
Manufacturing PMIs (Seasonally Adjusted)



Source: MARKIT.

Last Observation: March 2013.

Employment Conditions

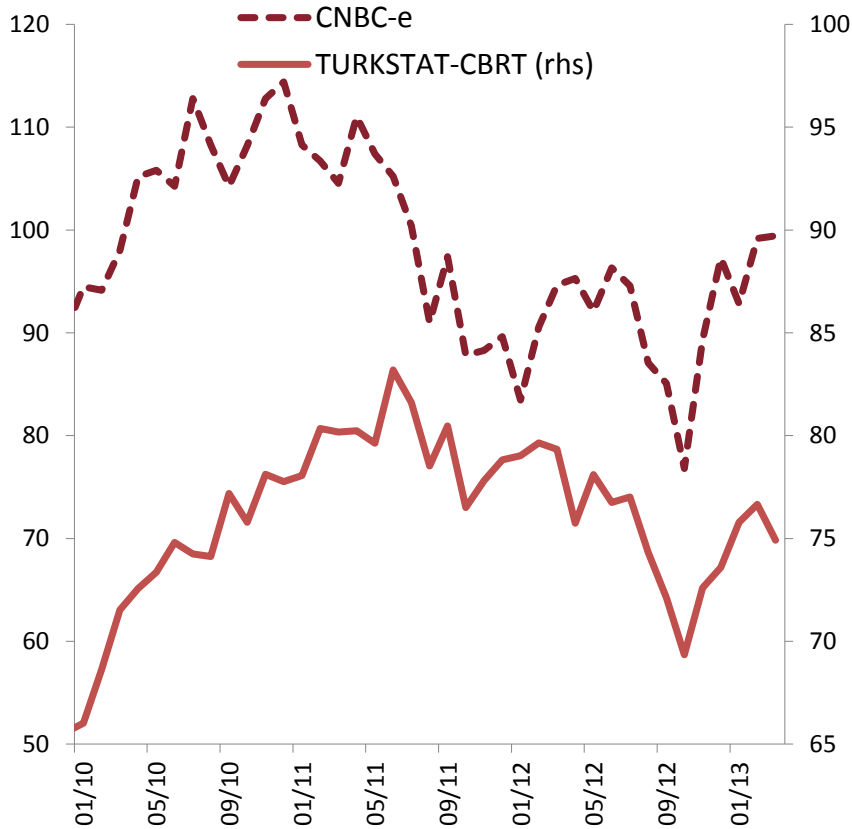


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: January 2013.

Leading Indicators for Demand

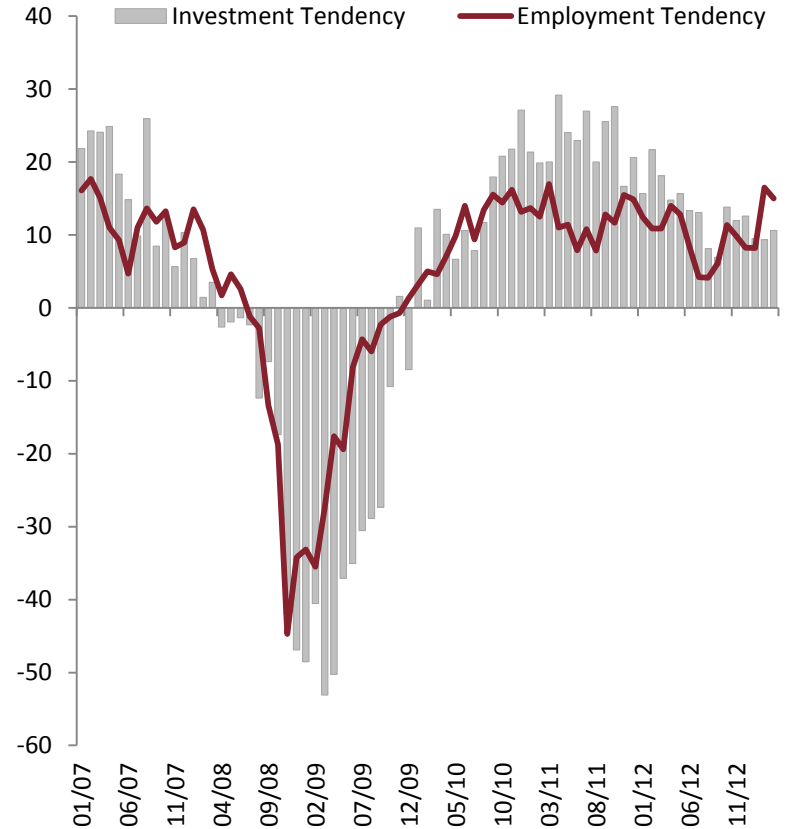
Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: March 2013.

Investment and Employment Prospects* (Seasonally Adjusted)



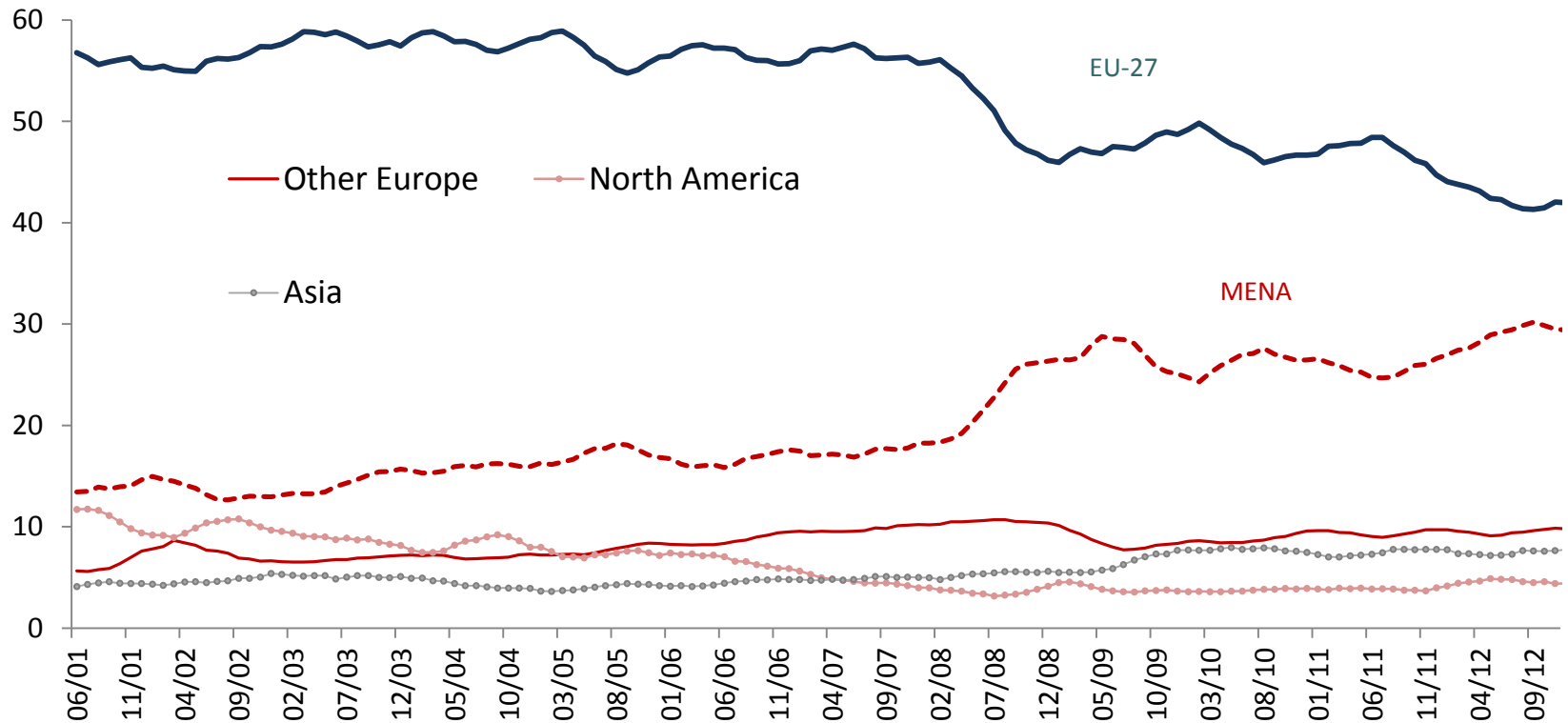
Source: TURKSTAT, CBRT.

* Business Tendency Survey
 Last Observation: March 2013.

REBALANCING

Market Share Shifting from EU to MENA

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

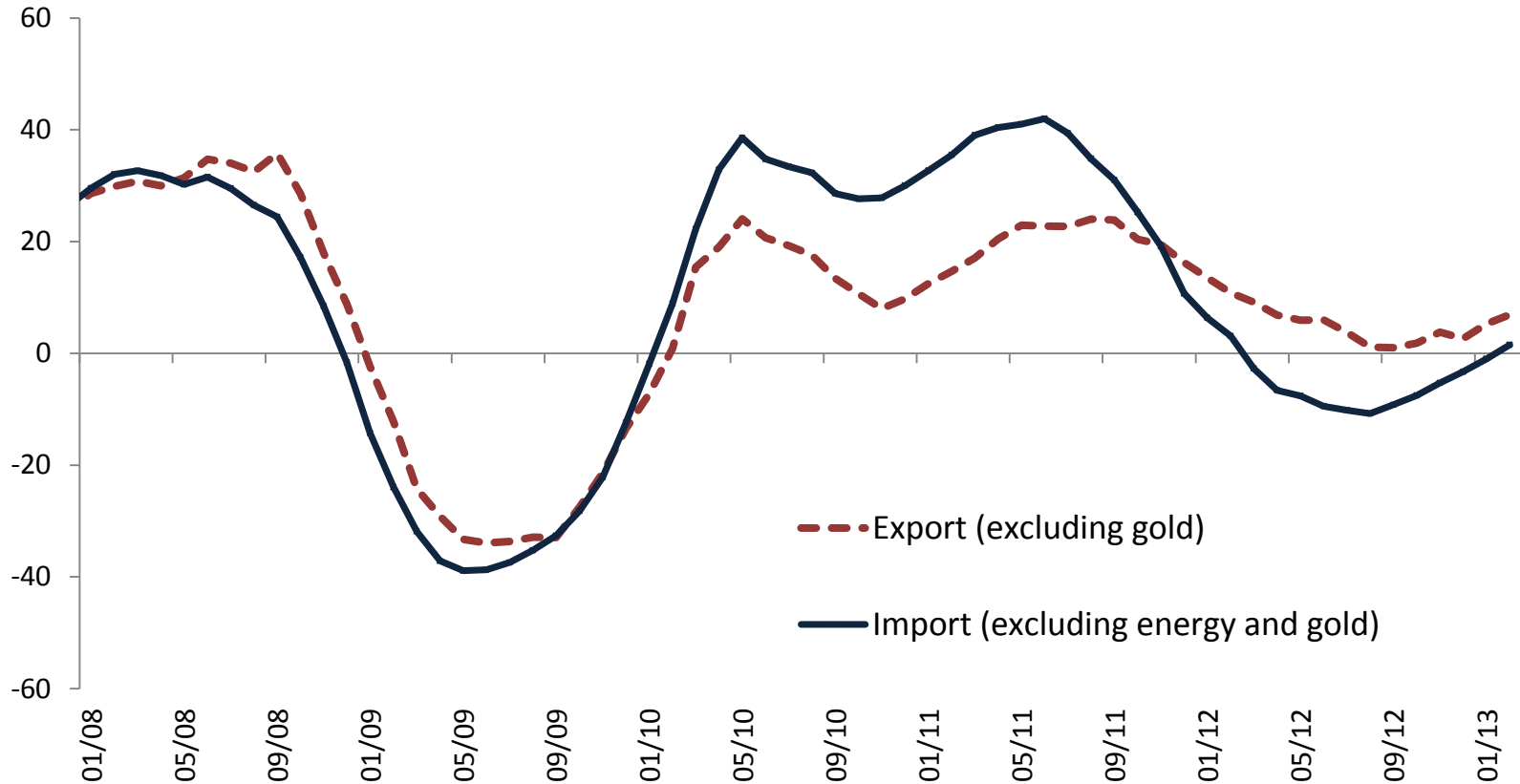


Source: TURKSTAT.

Last Observation: February 2013.

Rebalancing

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

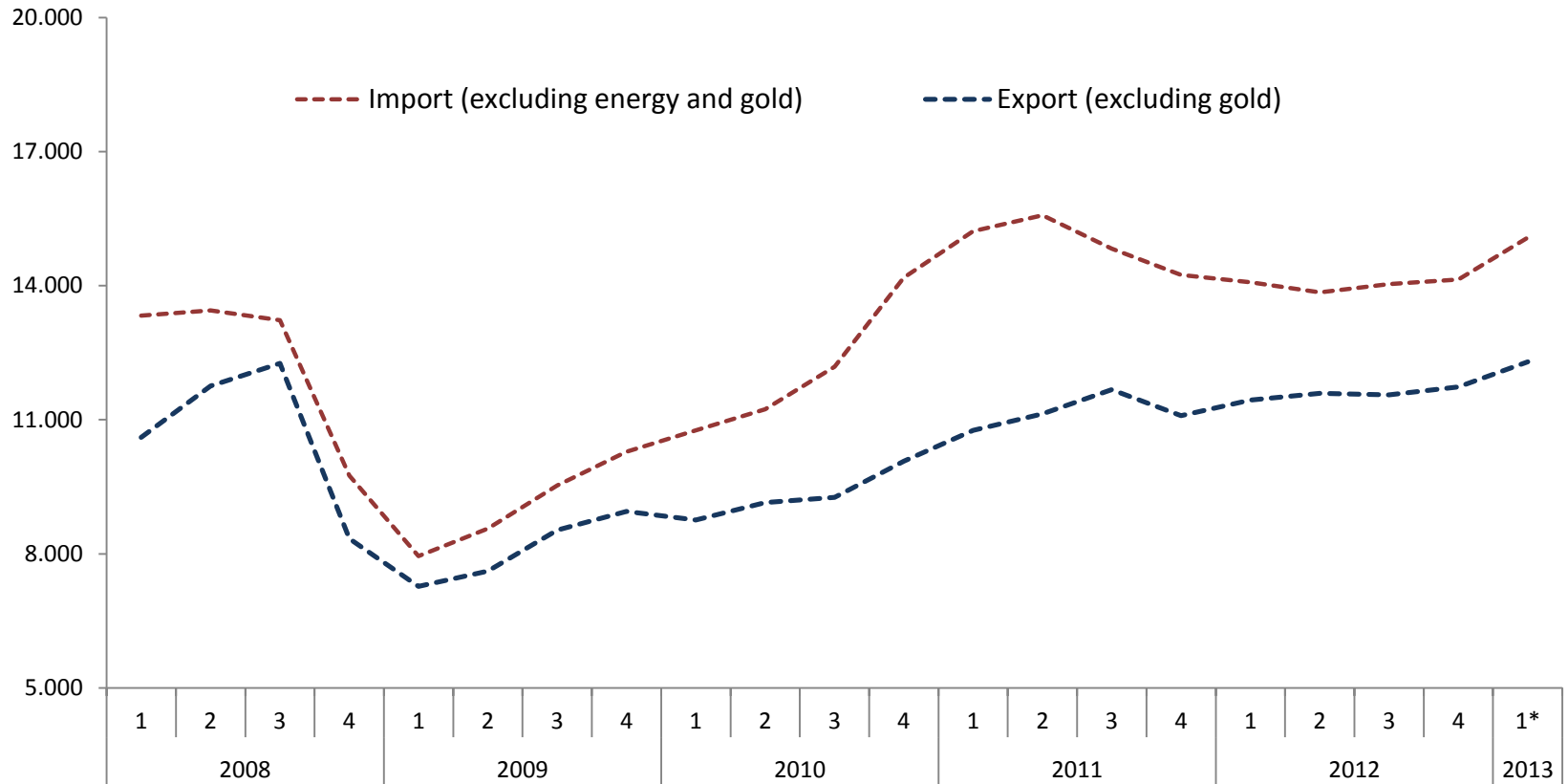


Source: TURKSTAT.

Last Observation: February 2013.

Rebalancing: Main Trends

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

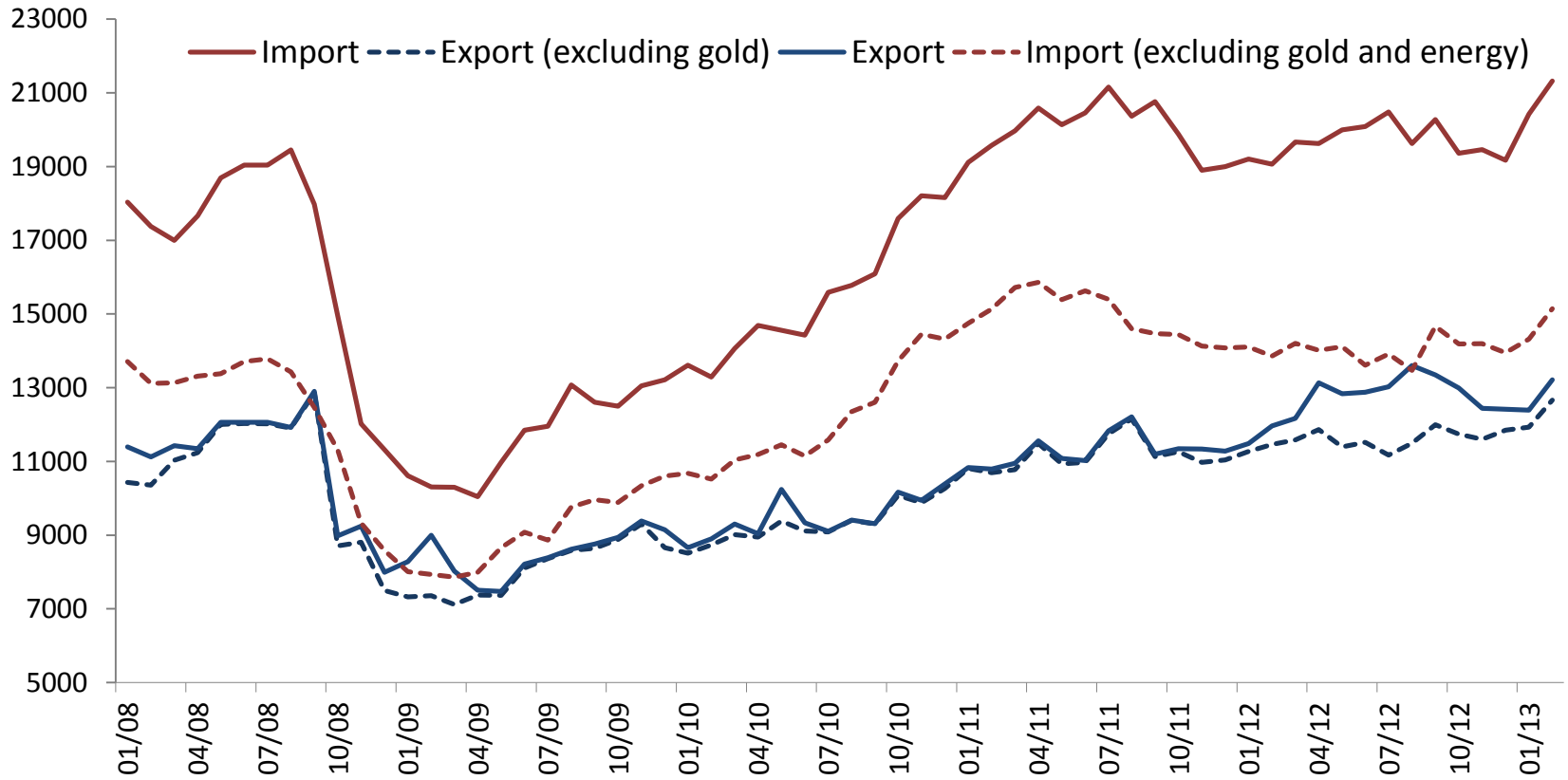


Source: TURKSTAT, CBRT.

Last Observation: 2013 Q1.

Exports and Imports

(Seasonally Adjusted, Million USD)

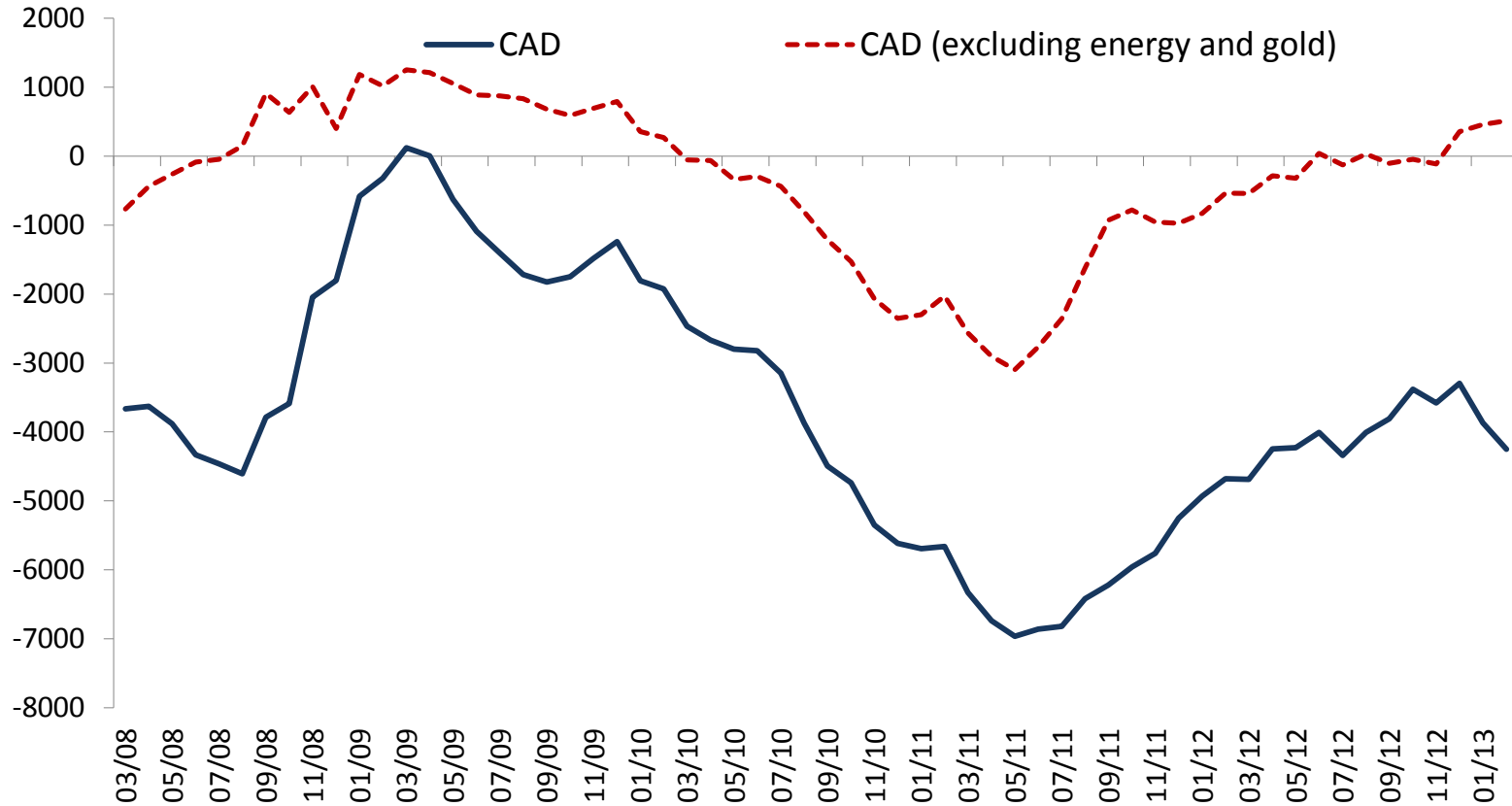


Source: TURKSTAT, CBRT.

Last Observation: February 2013.

Recent Trend in Current Account Balance

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

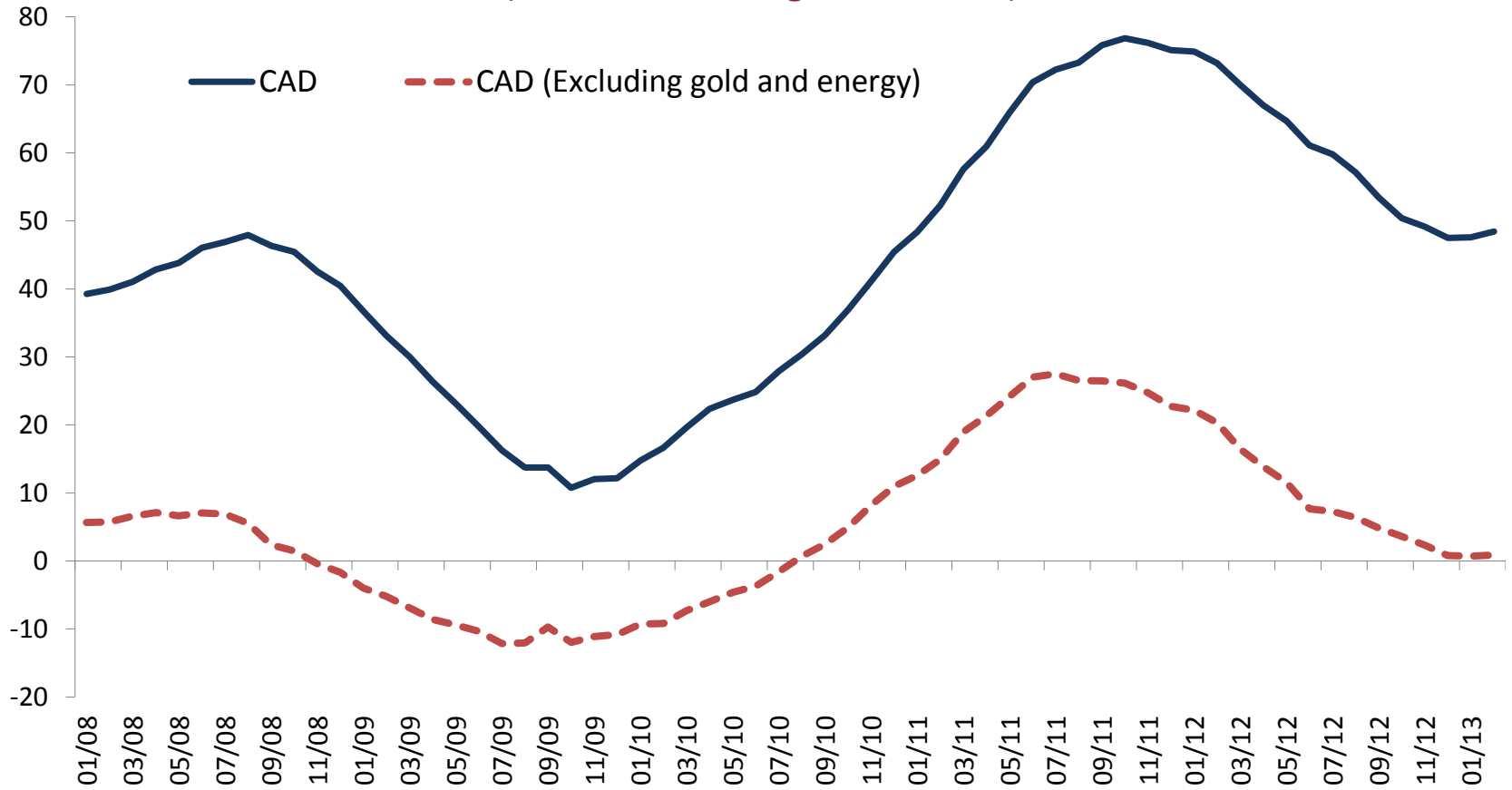


Source: CBRT.

Last Observation: February 2013.

Rebalancing

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

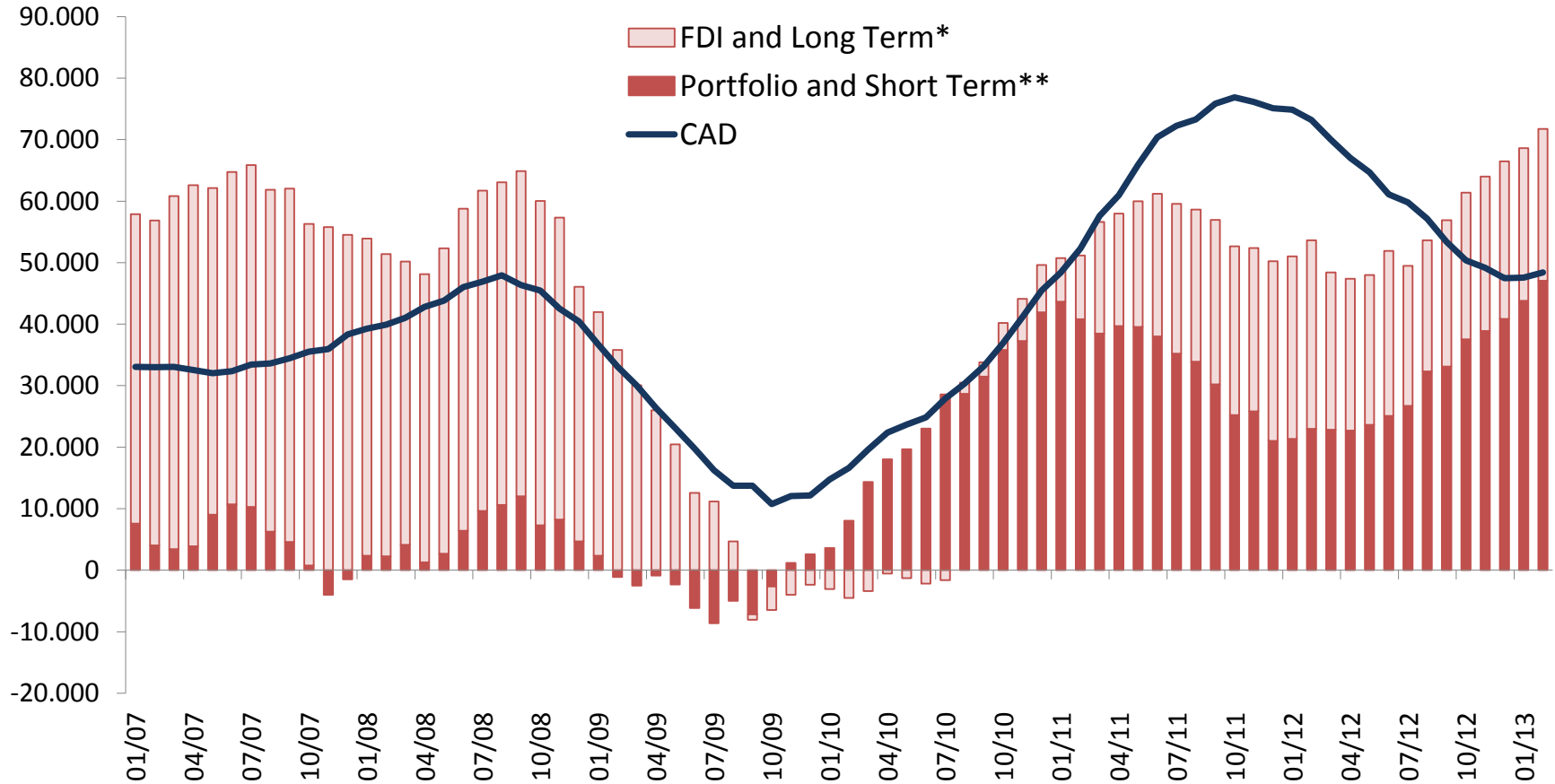


Source: CBRT.

Last Observation: February 2013.

Main Sources of External Finance

(12-months Cumulative, Billion USD)



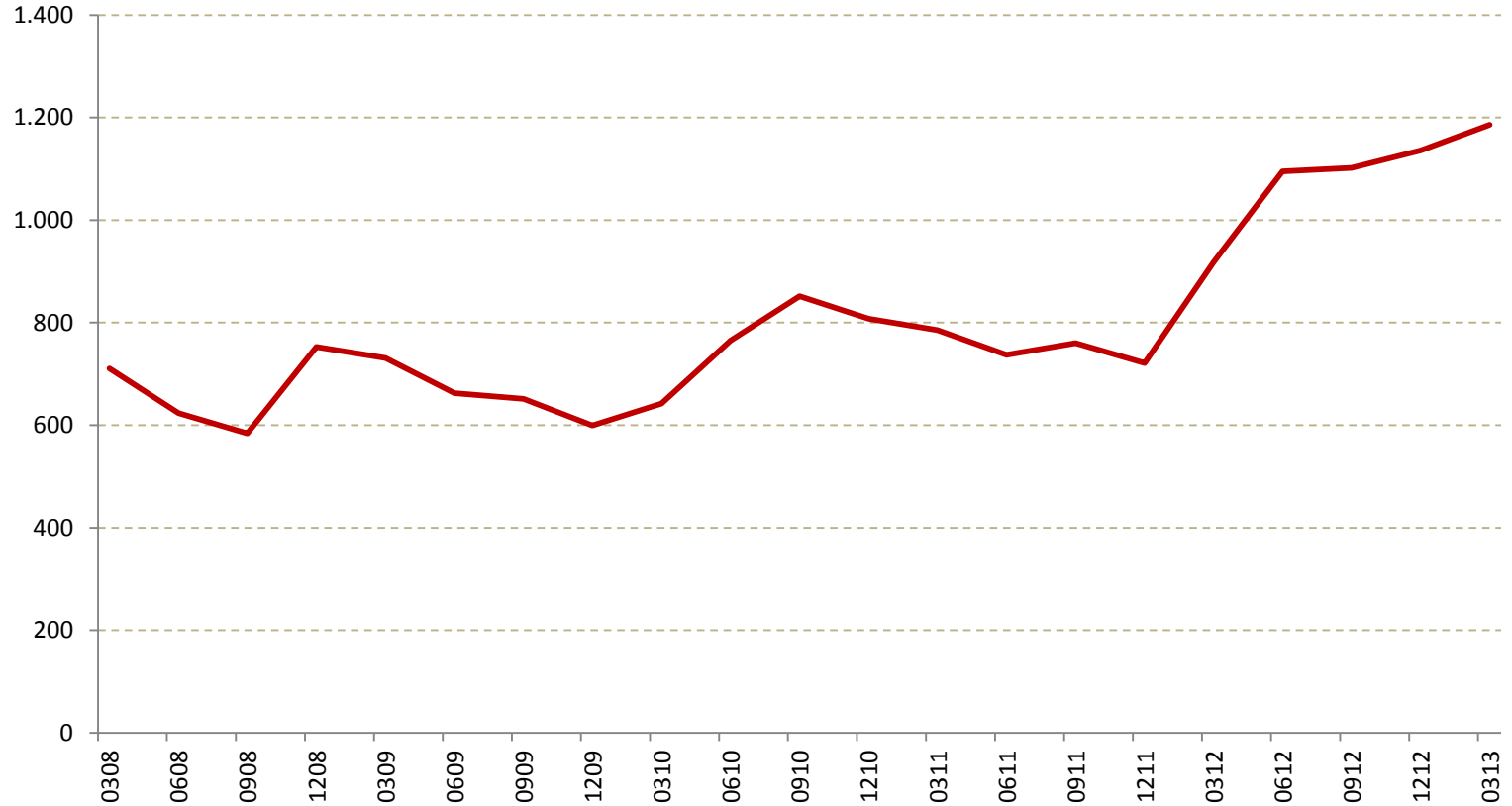
Source: CBRT.

*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.
Last Observation: February 2013.

Maturity of Government Securities Held by Non-Residents

(days)



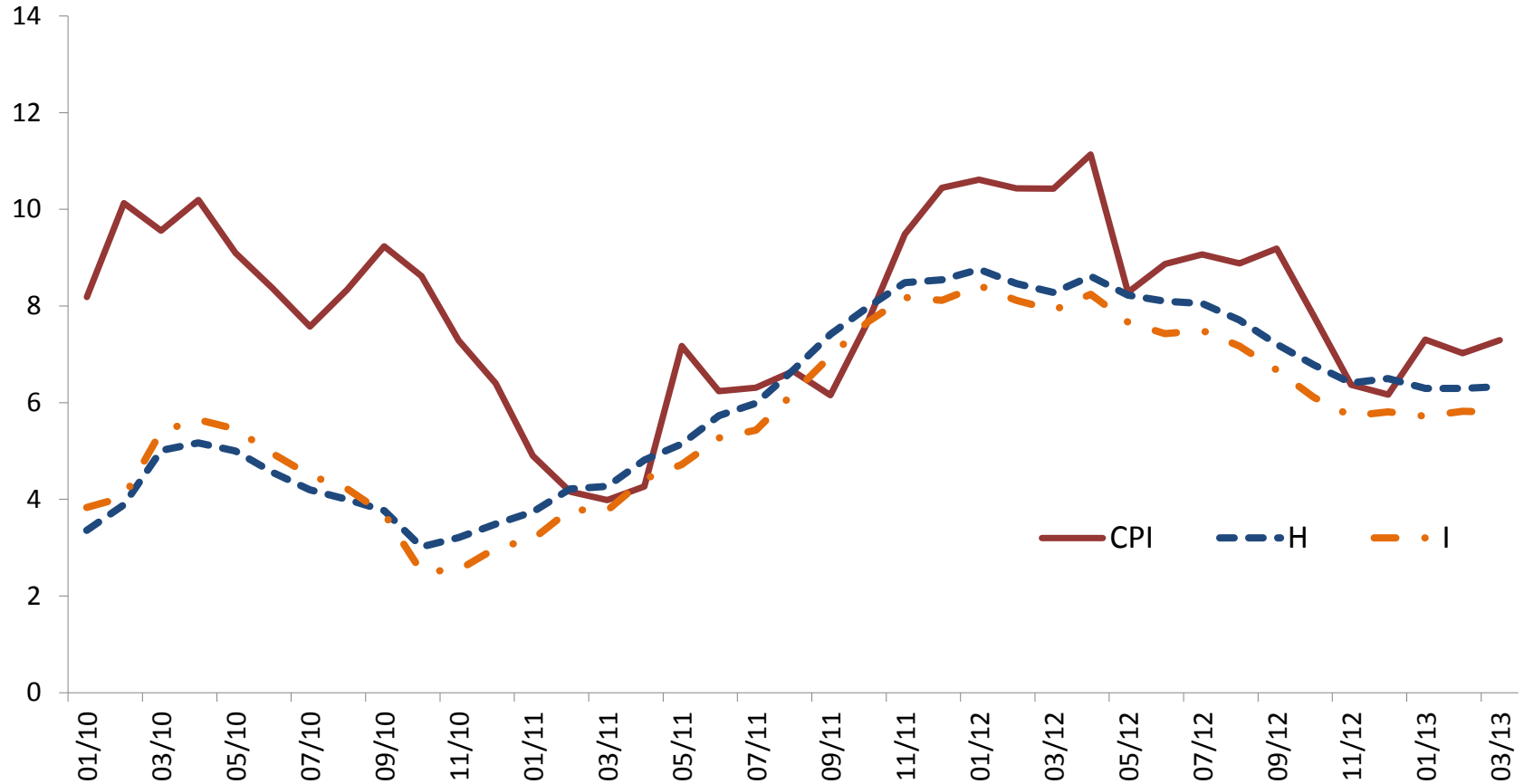
Source: CBRT.

Last data: March 2013.

INFLATION

Inflation: CPI and Core Indicators

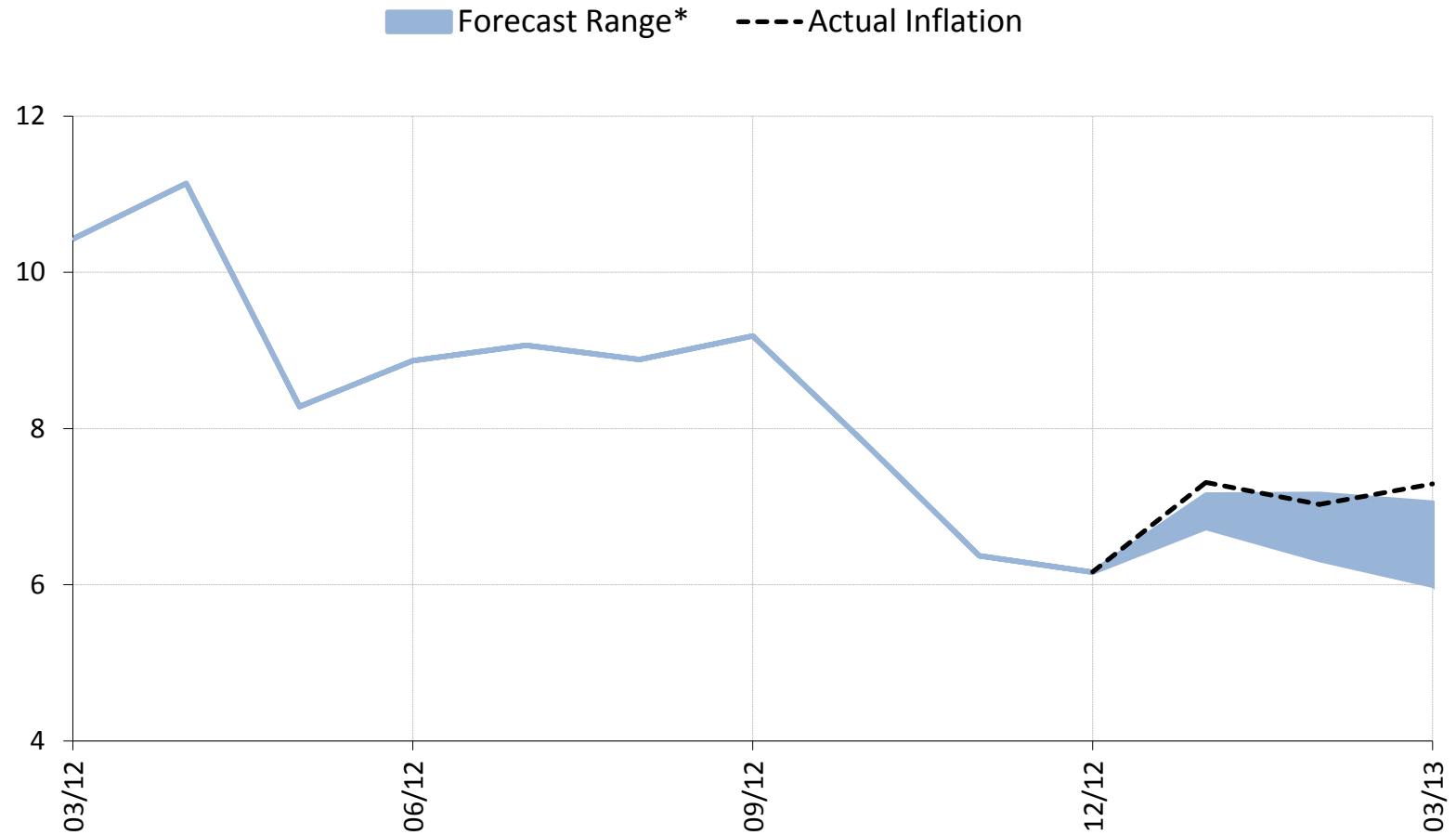
(Annual Percent Change)



Source: TURKSTAT.

Last Observation: March 2013.

January 2013 Inflation Report Projections and Realizations

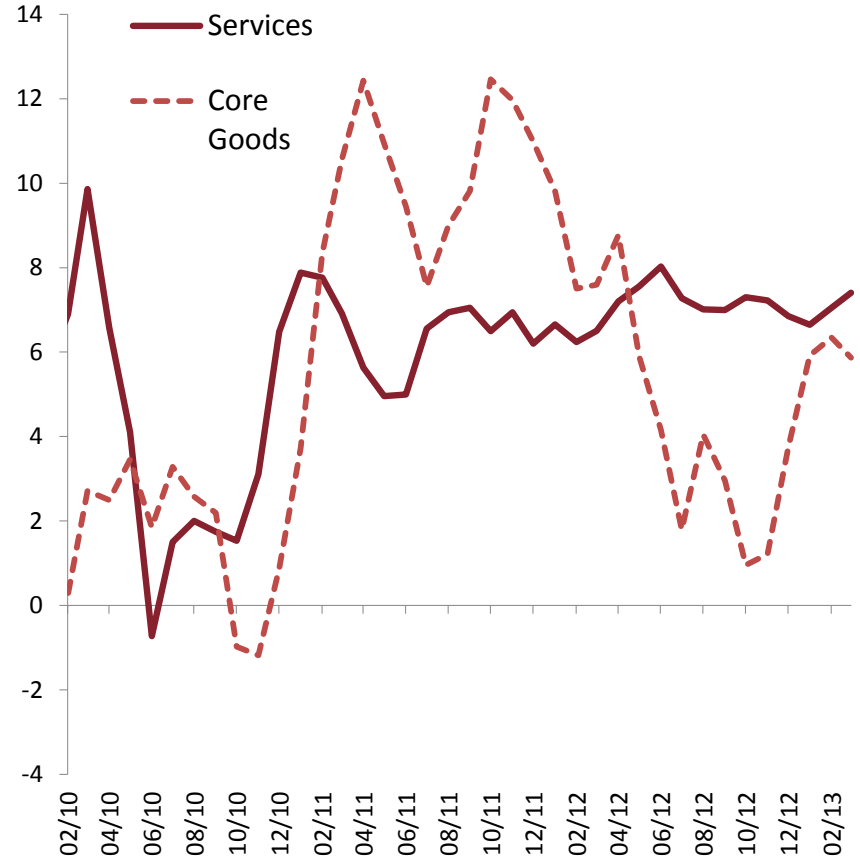


* Shaded region indicates the 70 percent confidence interval for the forecast

Last Observation: March 2013.

Trend Inflation

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

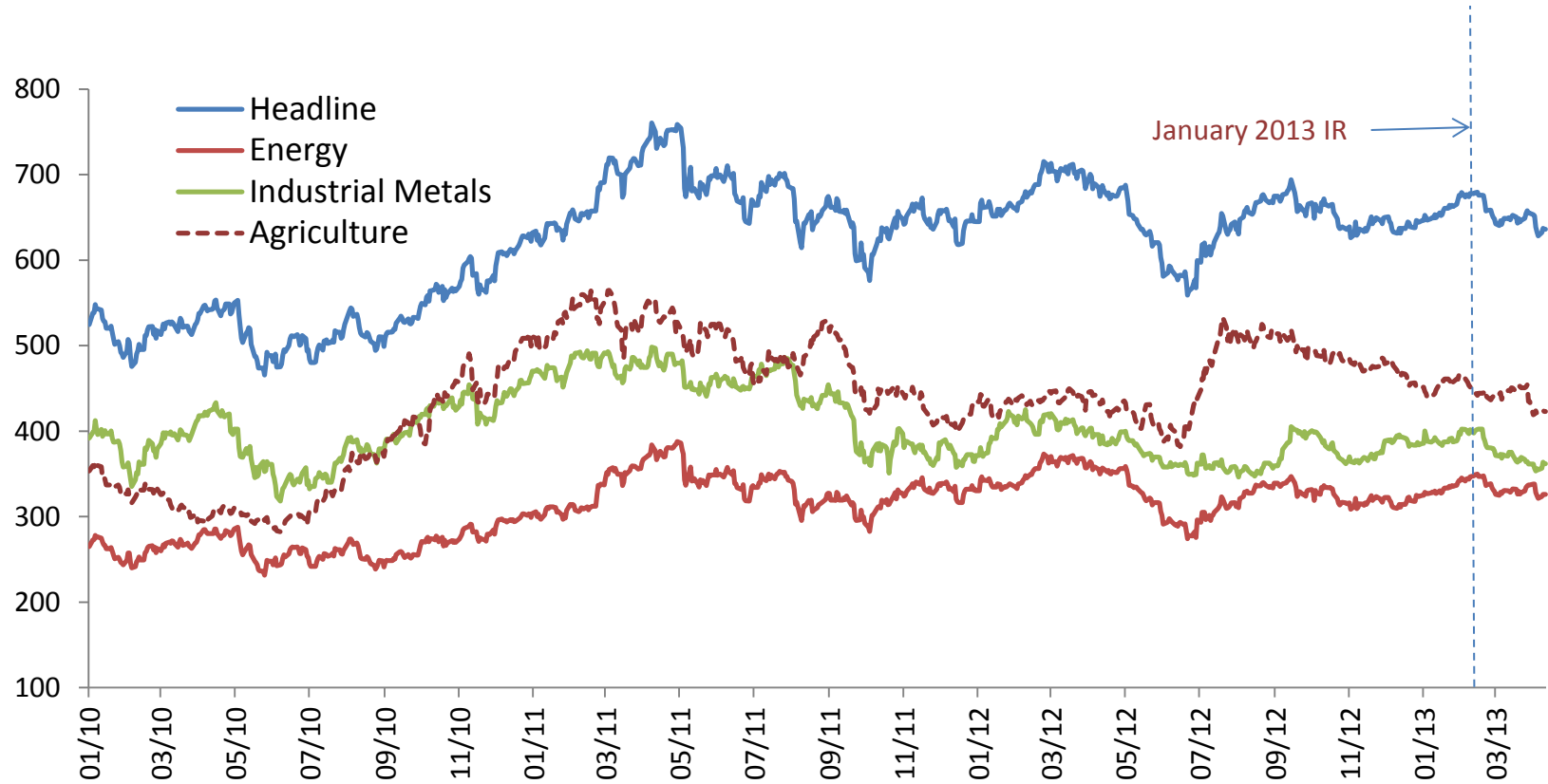


Source: TURKSTAT, CBRT.

Last Observation: March 2013.

Commodity Prices

S&P GS Indices



Source: Bloomberg.

Last Observation: April 11, 2013.

Inflation Expectations



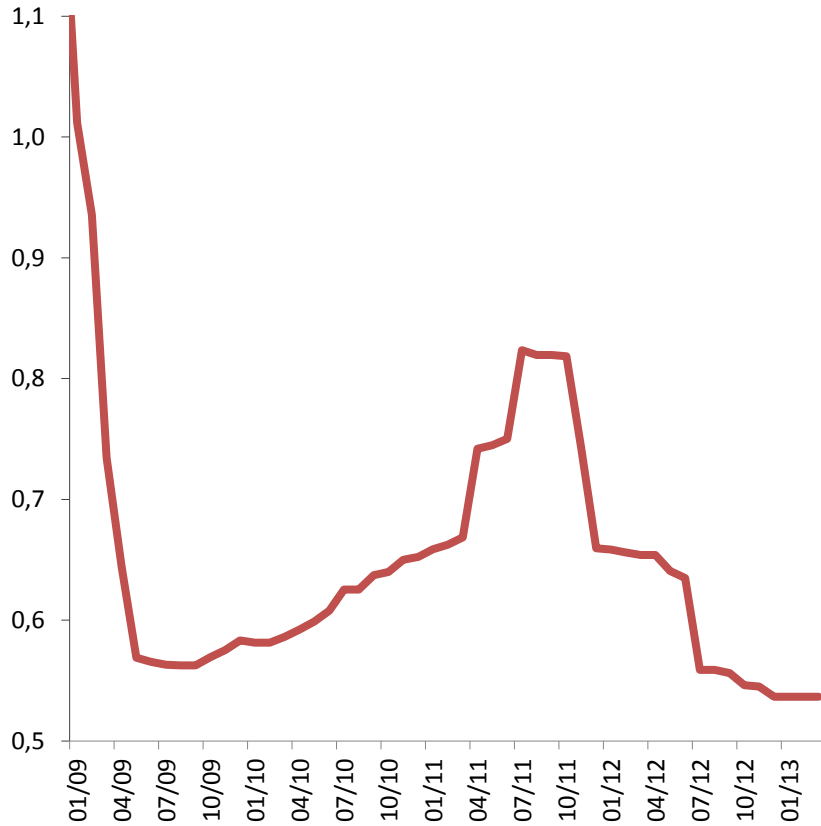
Source: CBRT.

Last Observation: April 2013.

Monetary and Financial Conditions

Global Policy Rates

Advanced Countries



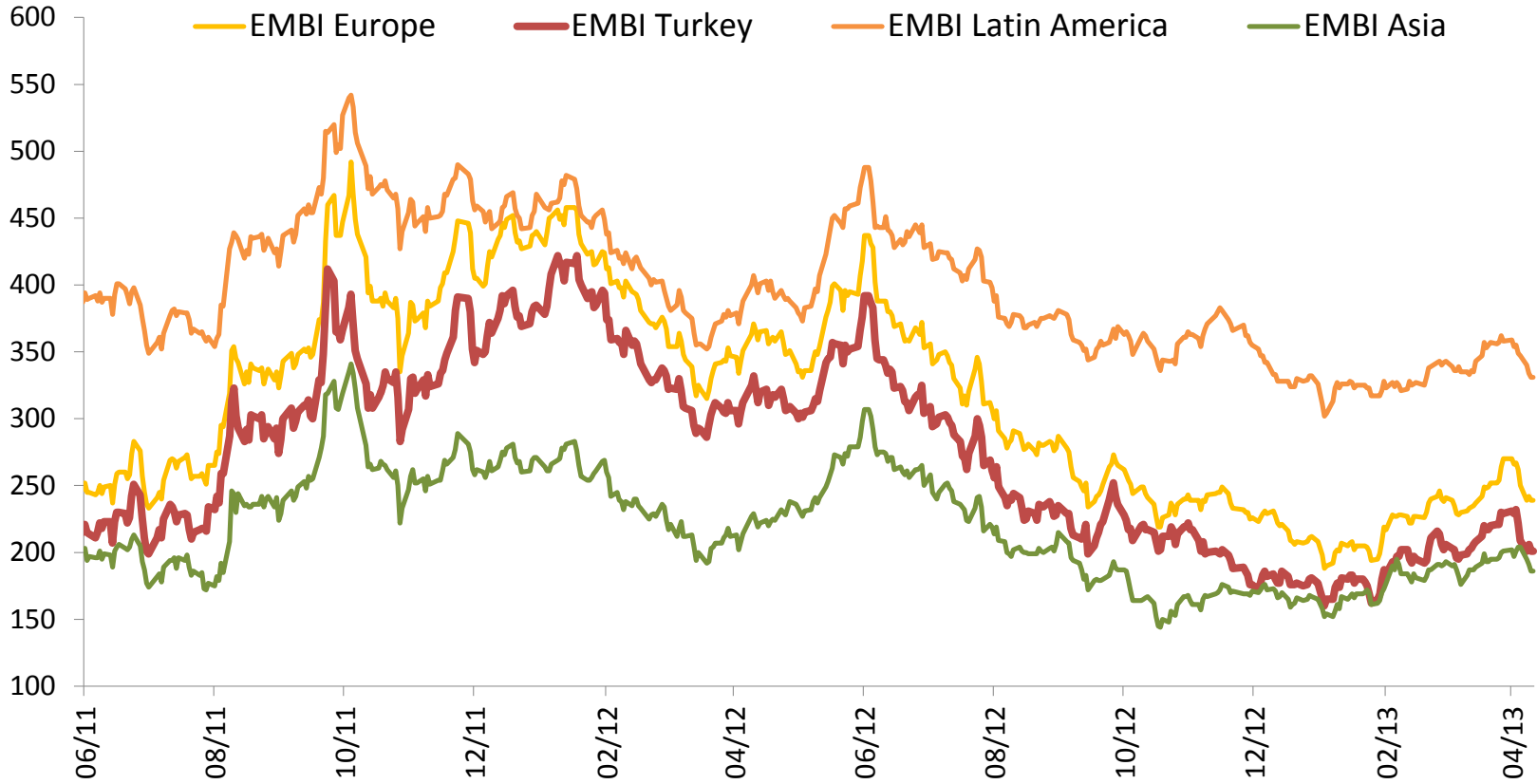
Emerging Countries



Source: Bloomberg.

Last Observation: March 2013.

Risk Premium

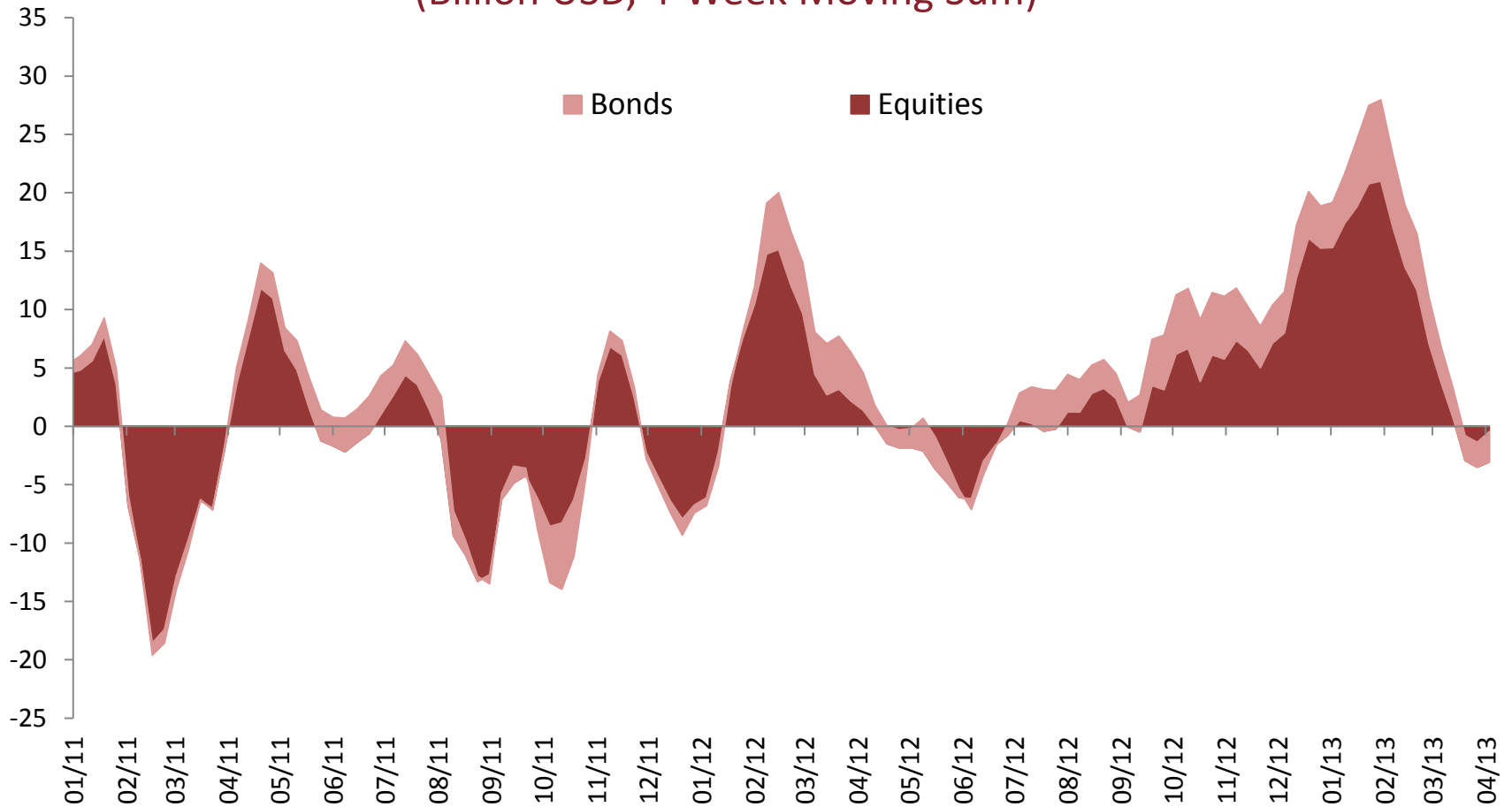


Source: Bloomberg.

Last Observation: April 11, 2013.

Capital Flows

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

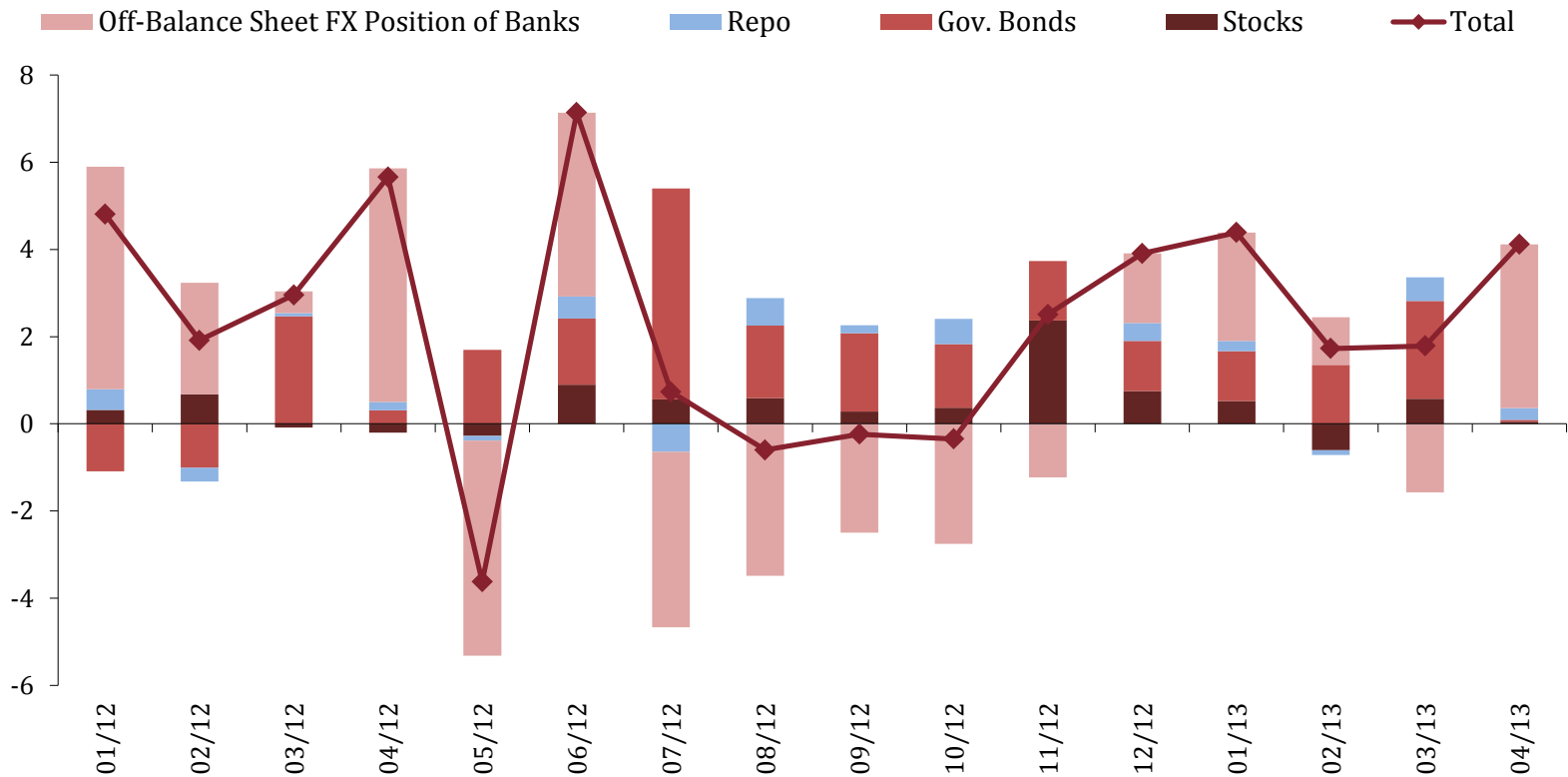


Source: EPFR.

Last Observation: April 3, 2013.

Portfolio Investment of Non-Residents

(Monthly, Billion USD)

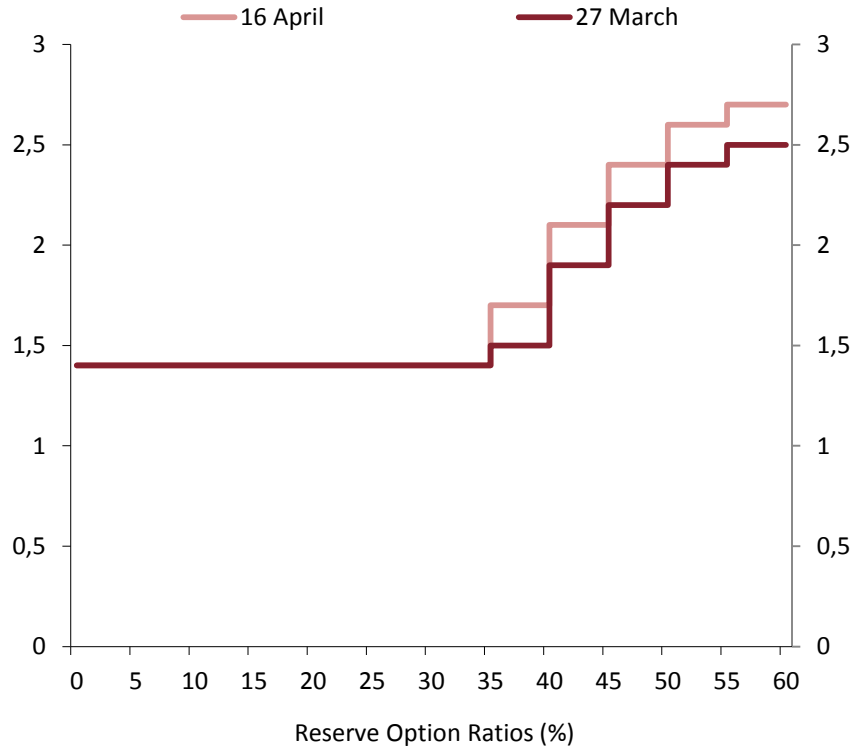


Source: BRSA, CBRT.

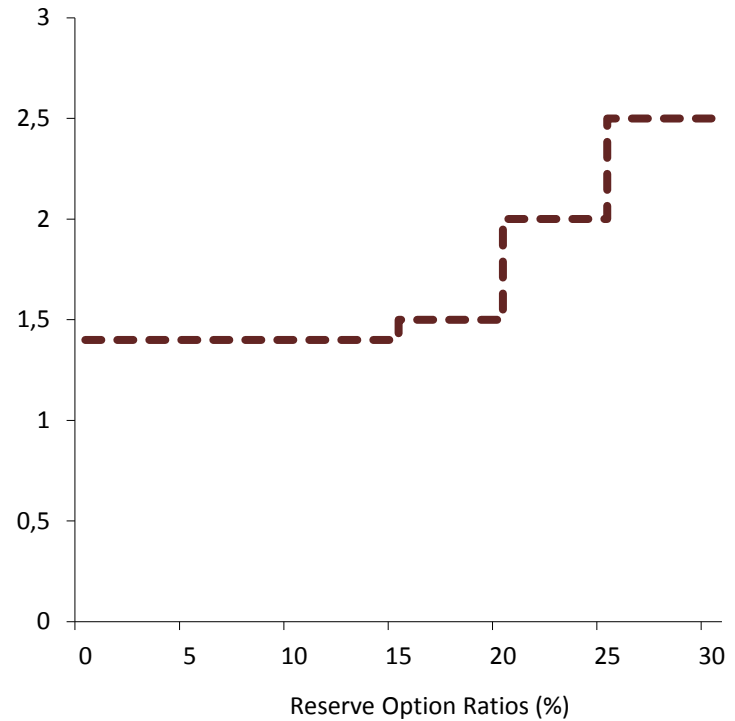
Last Observation: April 5, 2013.

Reserve Options Coefficients (ROC)

Reserve Option Coefficients for FX



Reserve Option Coefficients for Gold

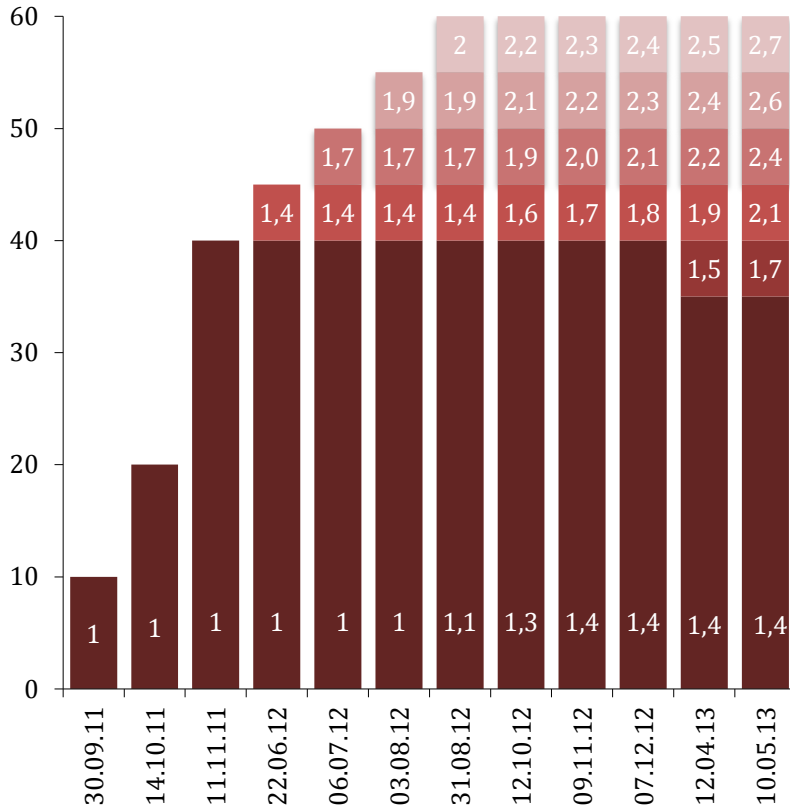


Source: CBRT.

Source: CBRT.

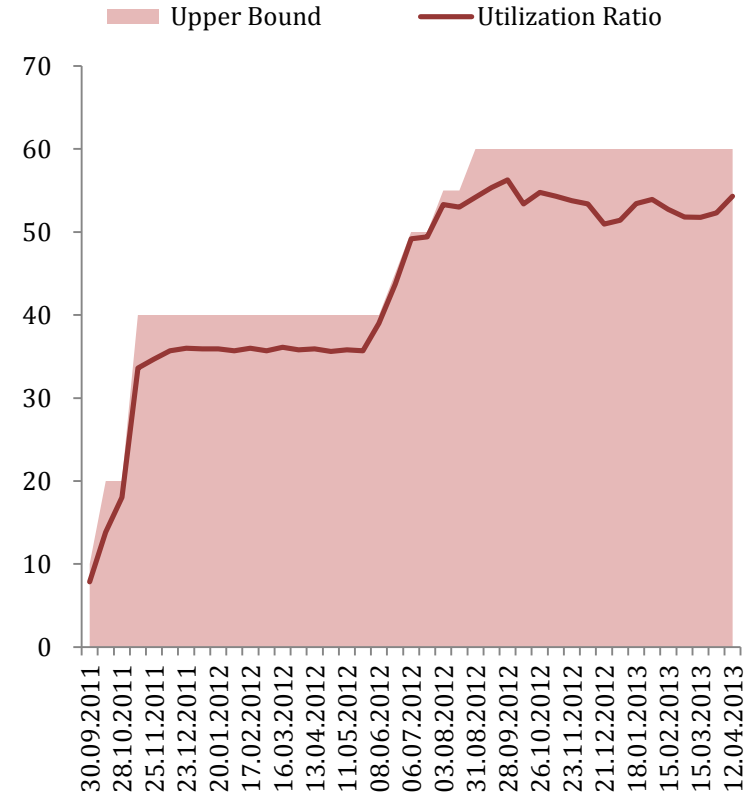
Reserve Options Mechanism (ROM)

ROC for FX*



Source: CBRT.

Utilization of ROM (FX) (Percent)

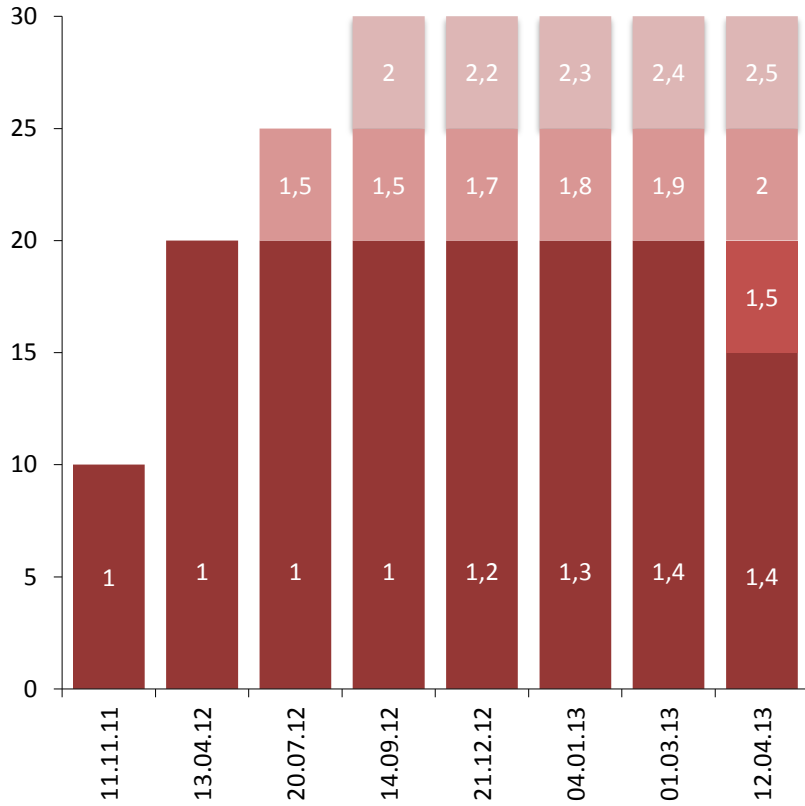


Source: CBRT.

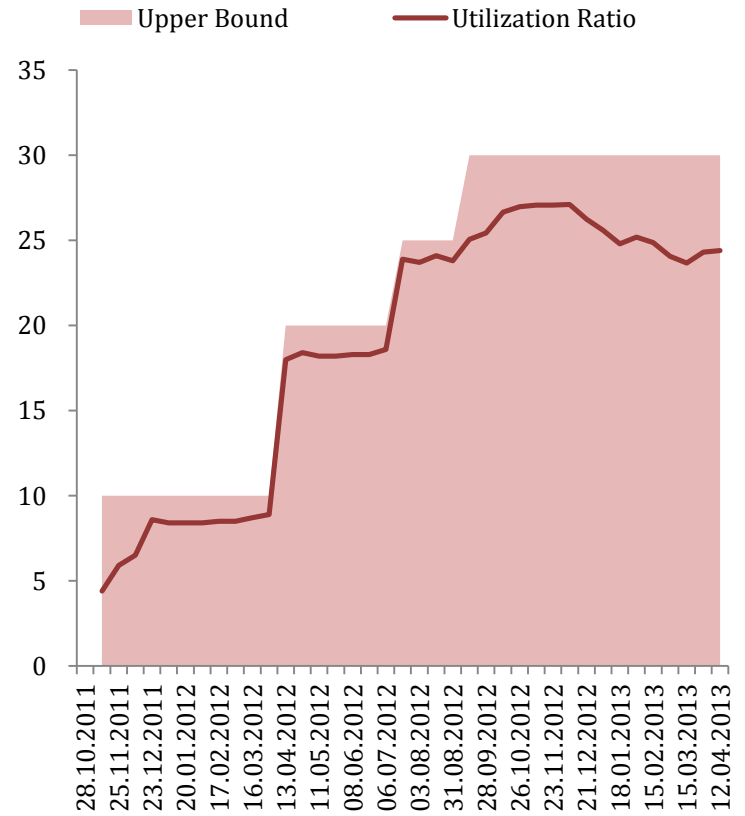
*In terms of holding periods.

ROM

ROC for Gold*



Utilization of ROM (Gold) (Percent)



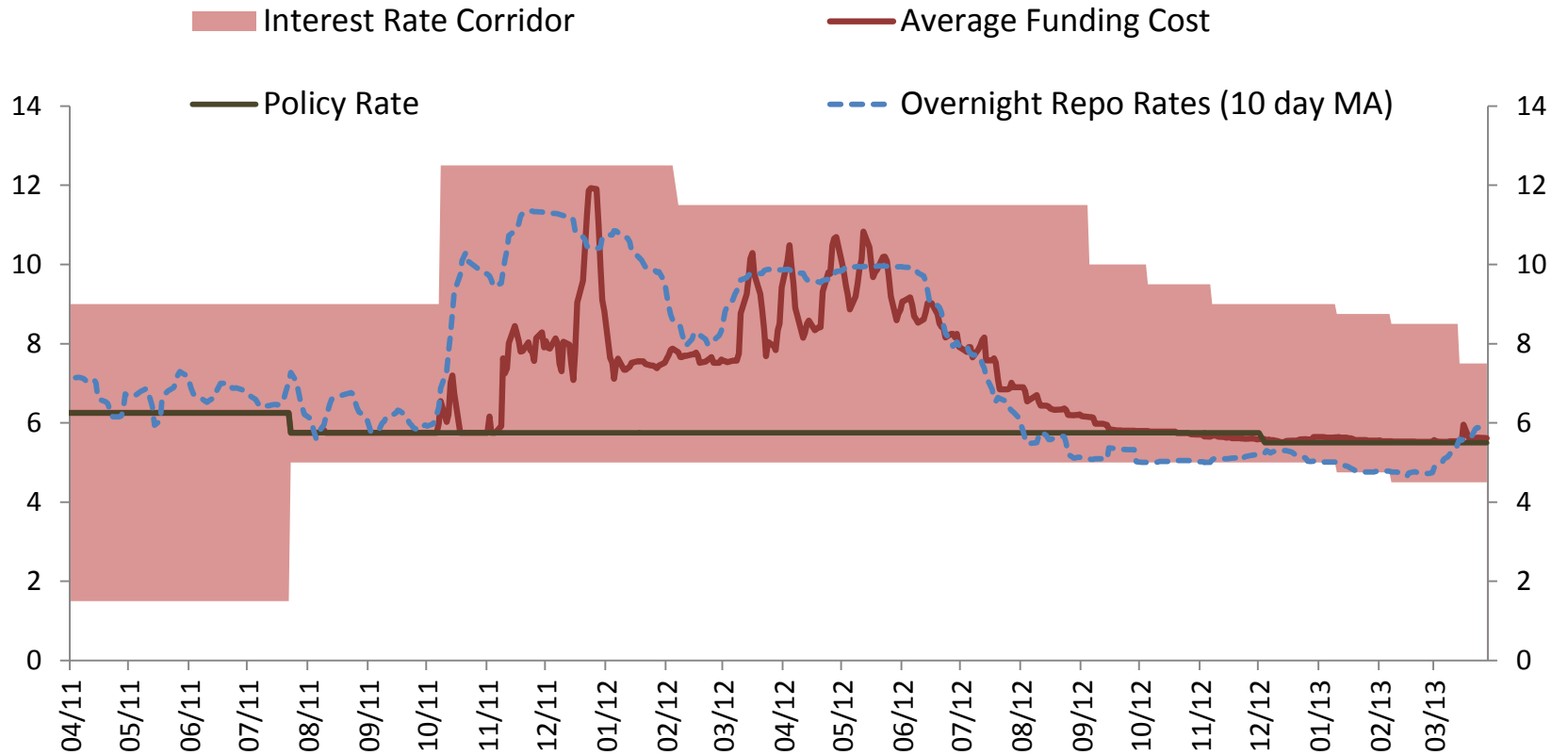
Source: CBRT.

Source: CBRT.

*In terms of holding periods.

Monetary Policy

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

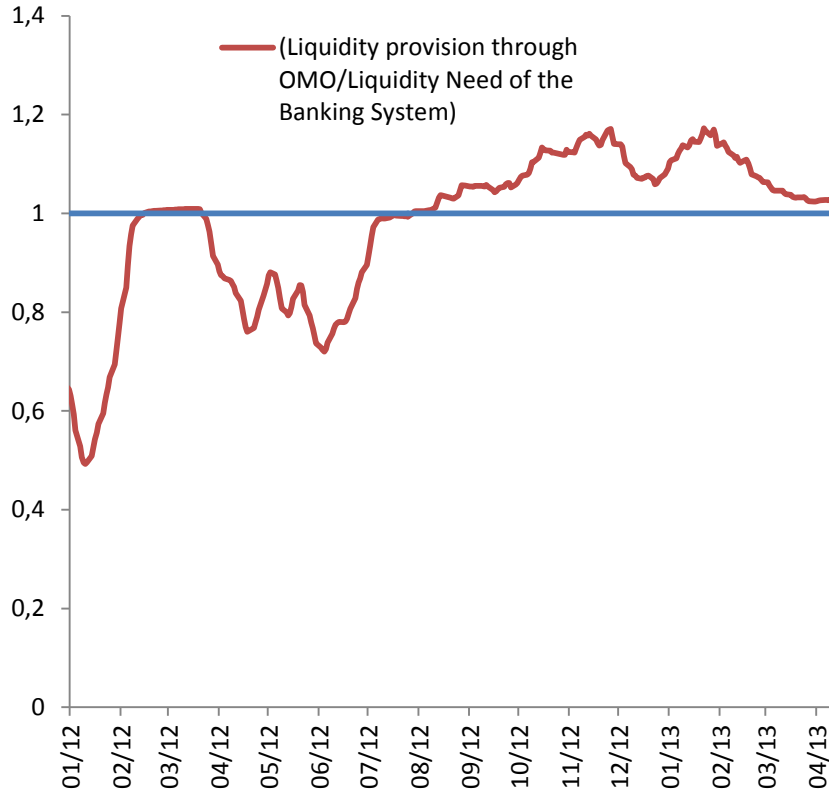


Source: CBRT.

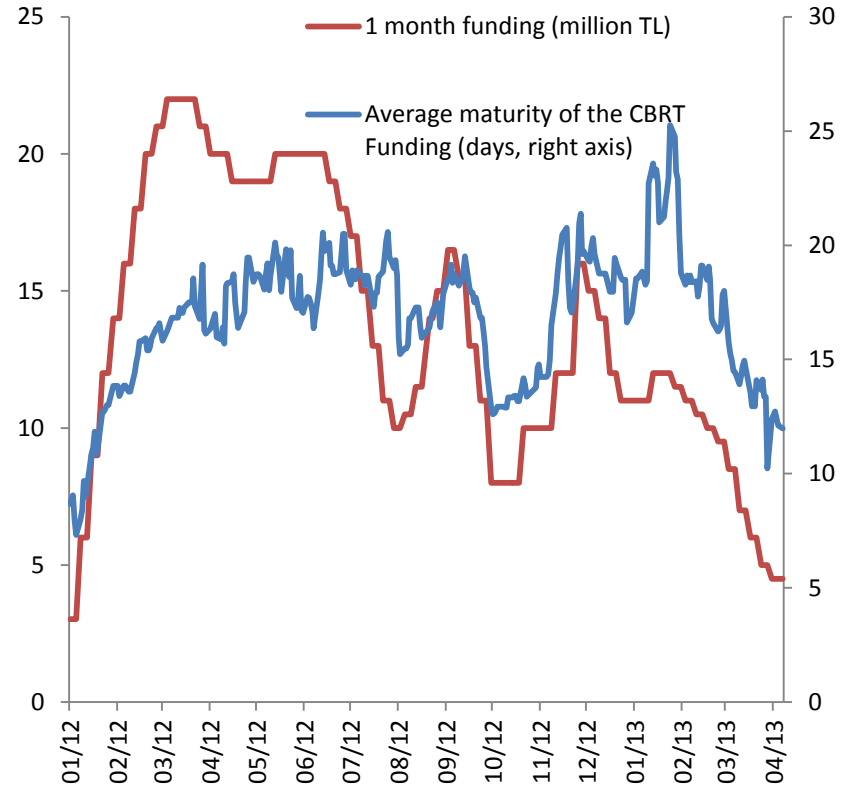
Last Observation: April 10, 2013.

Liquidity Policy

Liquidity Stance of the CBRT



Maturity of Liquidity Provision

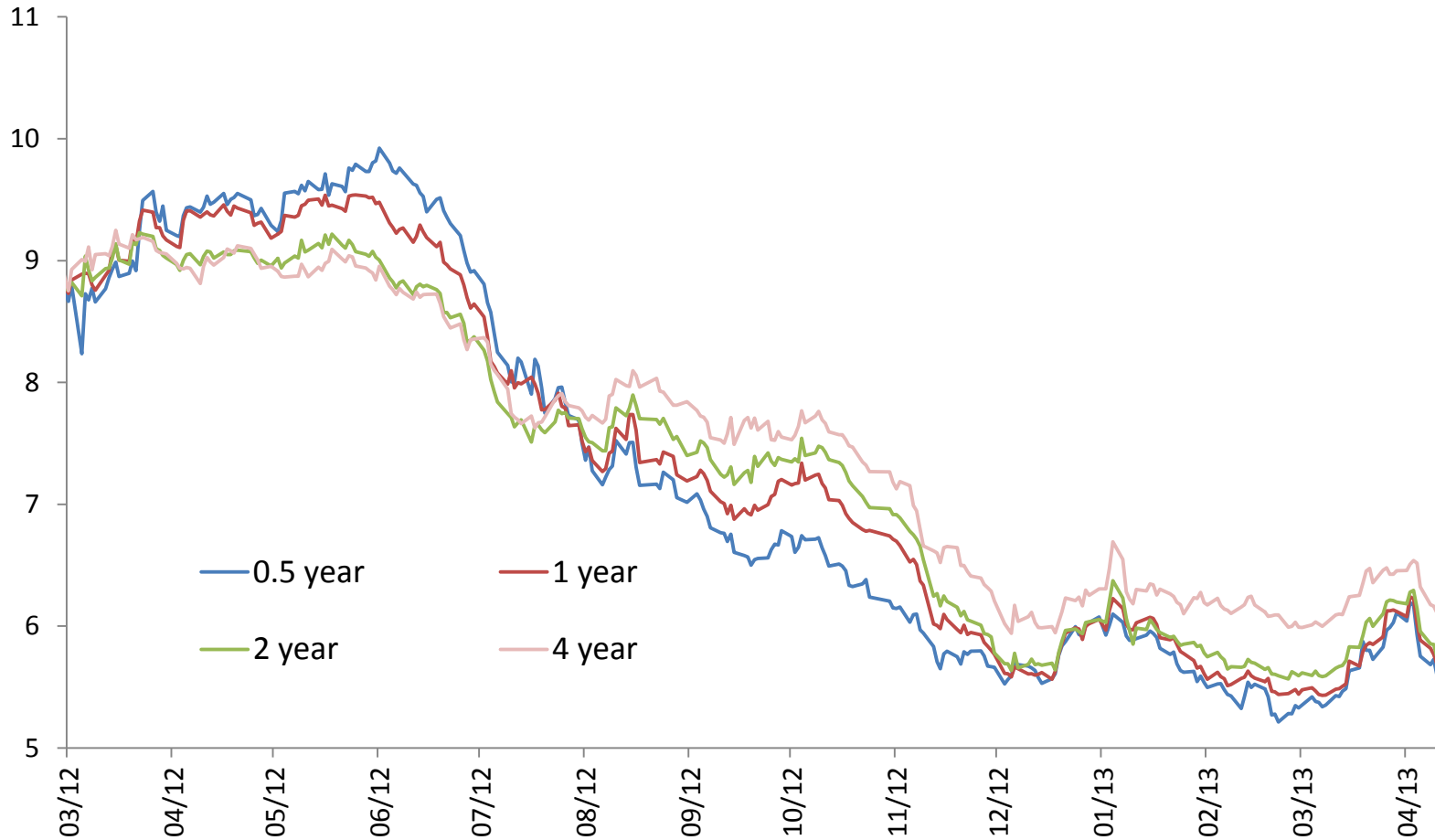


Source: CBRT.

Last Observation: April 12, 2013.

Last Observation: April 8, 2013.

Interest Rates Across Different Maturities

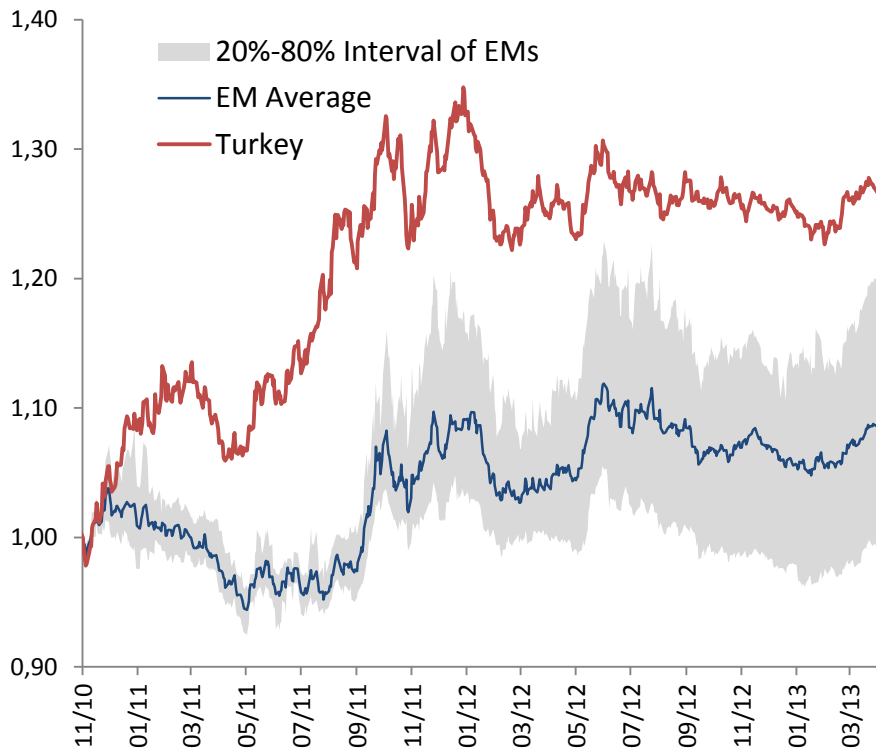


Source: BIST, CBRT.

Last Observation: April 10, 2013.

Nominal and Real Exchange Rates

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

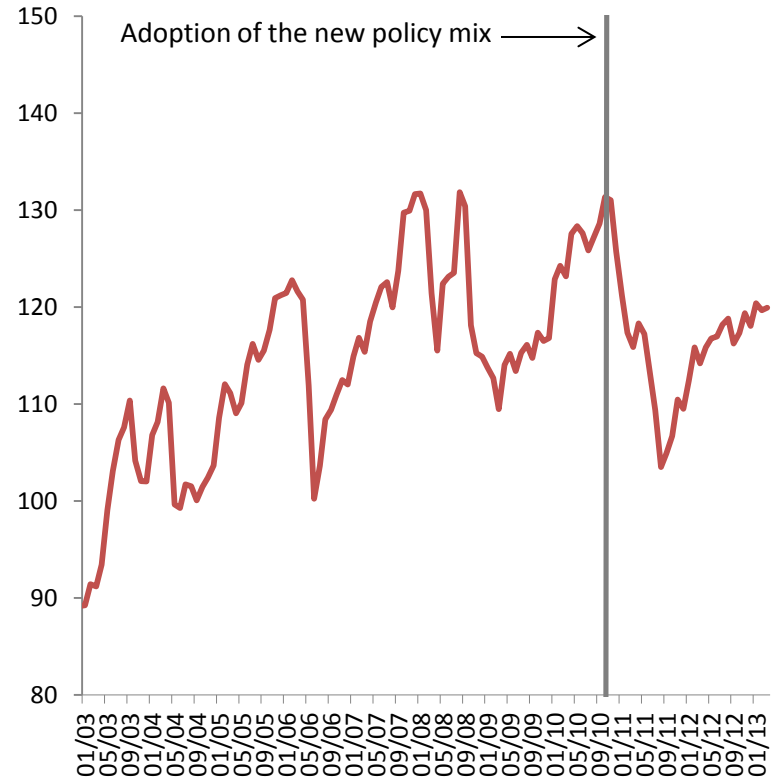


Last Observation: April 10, 2013.

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)**



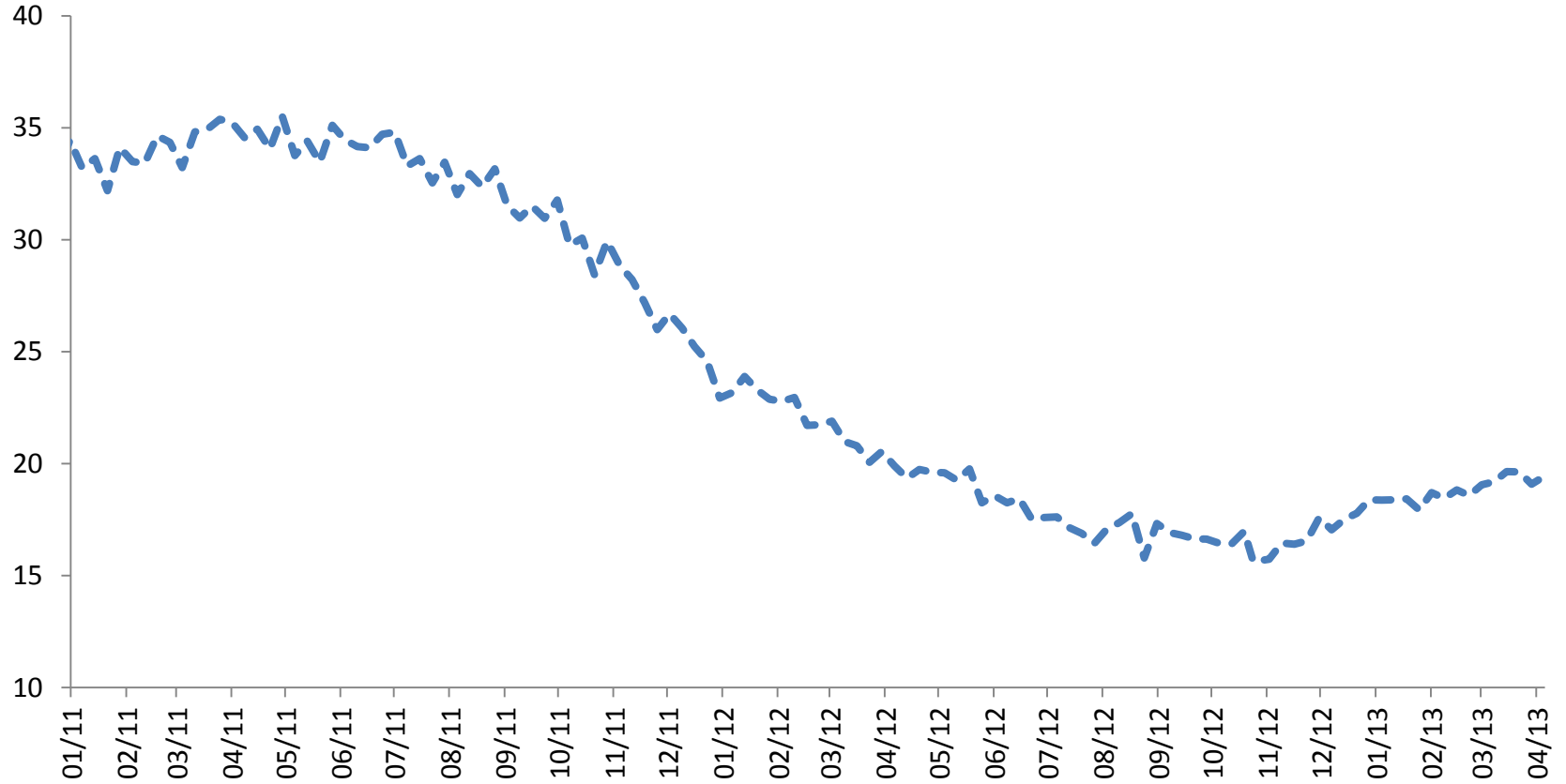
Last Observation: March 2013.

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

Source: CBRT.

Total Loan Growth Rate

(Year on Year Change, Percent)



Source: CBRT.

Last Observation: April 05, 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

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

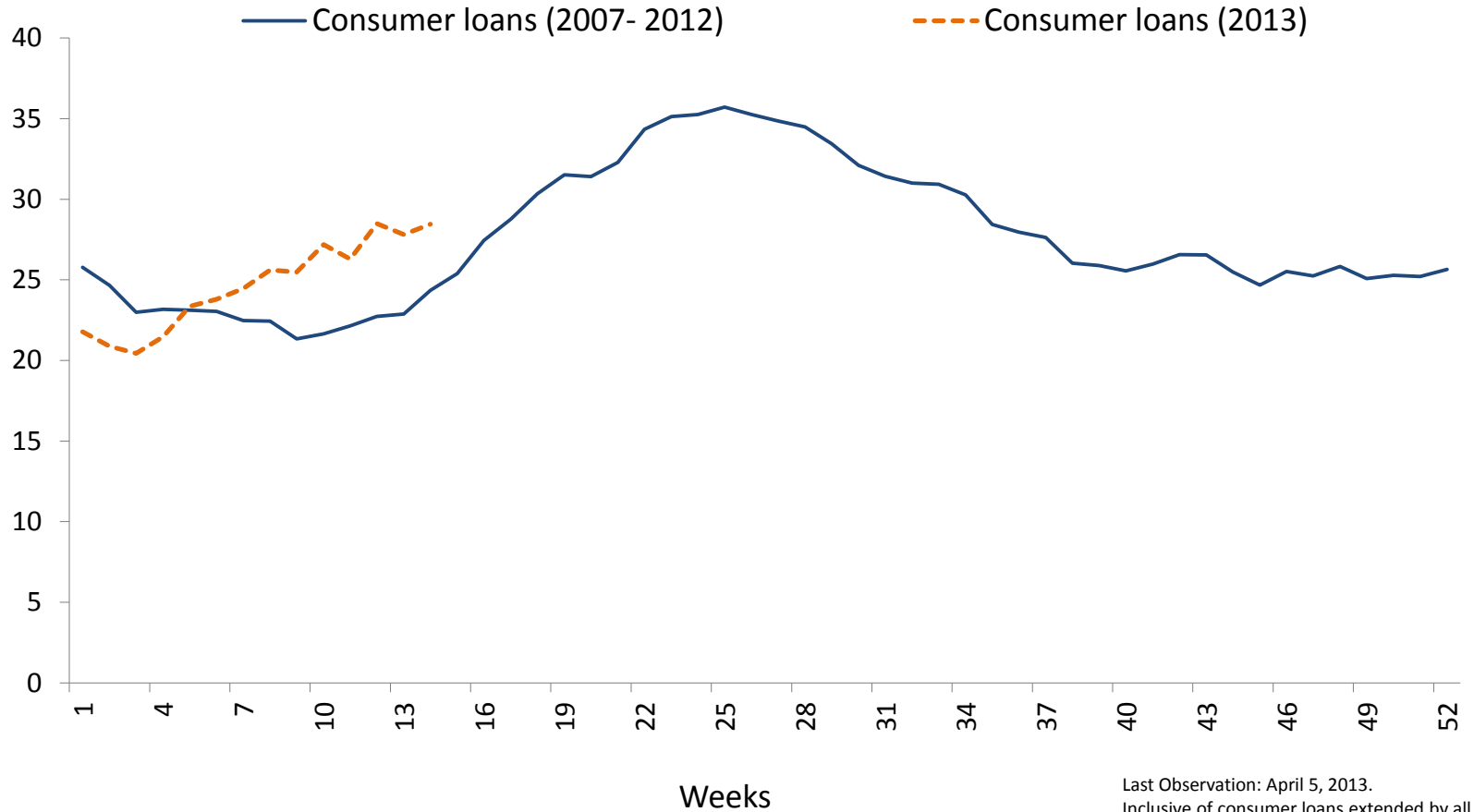


Source: CBRT.

Last Observation: April 05, 2013.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Consumer Loans

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



Source: CBRT.

Last Observation: April 5, 2013.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Lending - Deposit Rate Spread

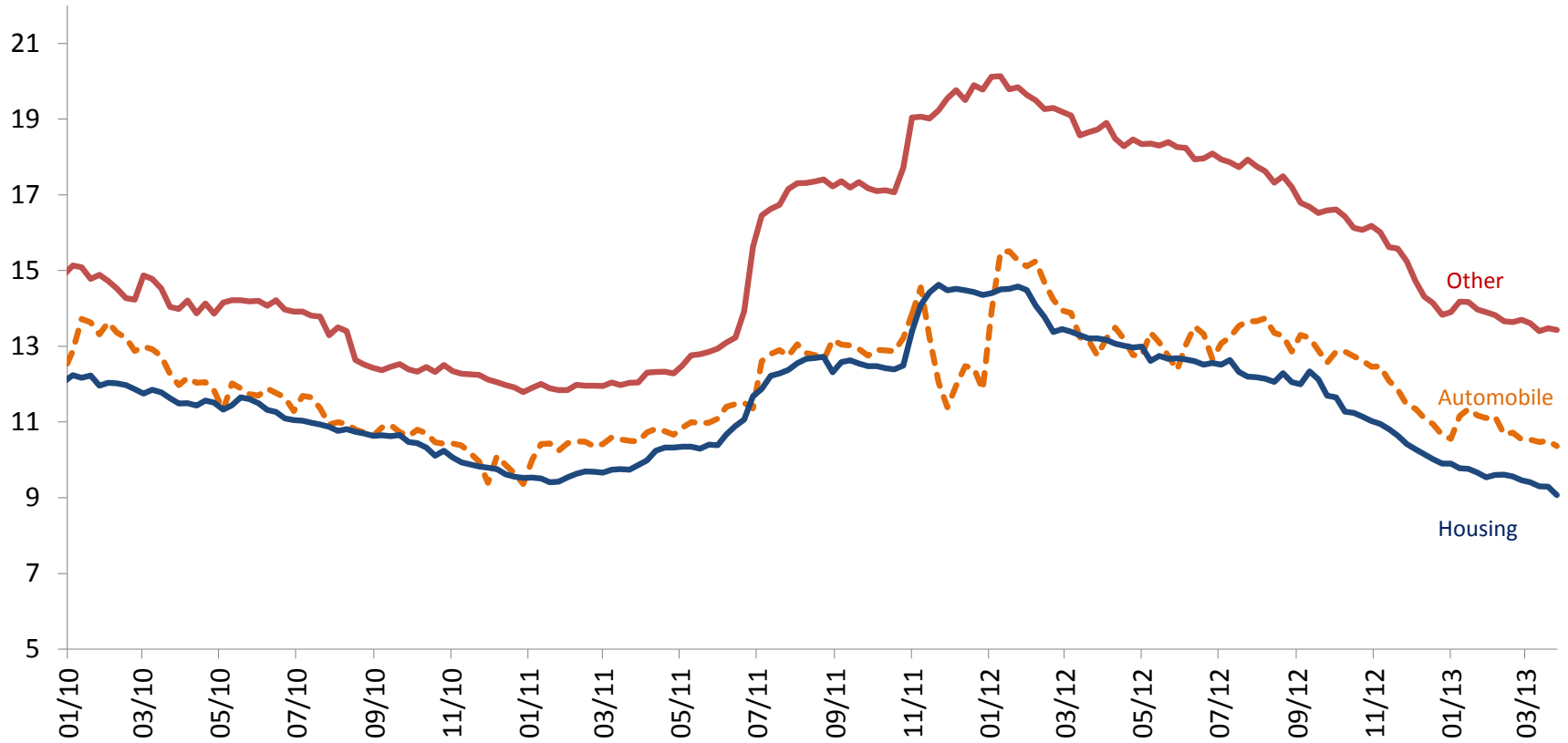


Source: CBRT.

Last Data: March 29, 2013.

4 Weeks MA

Consumer Loan Rates



Source: CBRT.

Last Observation: March 29, 2013.

Overview-1

- Credit growth continues to hover above reference rates.
- Capital flows have strengthened recently, but the volatility is high.
- There is some increase in current account deficit, yet the existing policy framework and falling commodity prices will limit further deterioration.
- The Committee indicated that, in order to balance the risks on financial stability, the proper policy would be to keep interest rates low while increasing foreign currency reserves via macroprudential measures.
- Accordingly, reserve options coefficients were increased while delivering a cut in the short term interest rates.

Overview-2

- Automatic stabilizer nature of the ROM reduces the need for a wider interest rate corridor.
- However, ongoing uncertainties in the global economy and heightened capital flow volatility still necessitate to remain flexible in liquidity policy.
- Weak global demand and the commodity price outlook contain the upward pressures on inflation; yet the impact of increases in credit and domestic demand on the pricing behavior will be monitored closely.



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

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

April 17, 2013

Ankara