



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

MACROECONOMIC OUTLOOK AND MONETARY POLICY IN TURKEY

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Governor

April 20, 2017
Washington D.C.

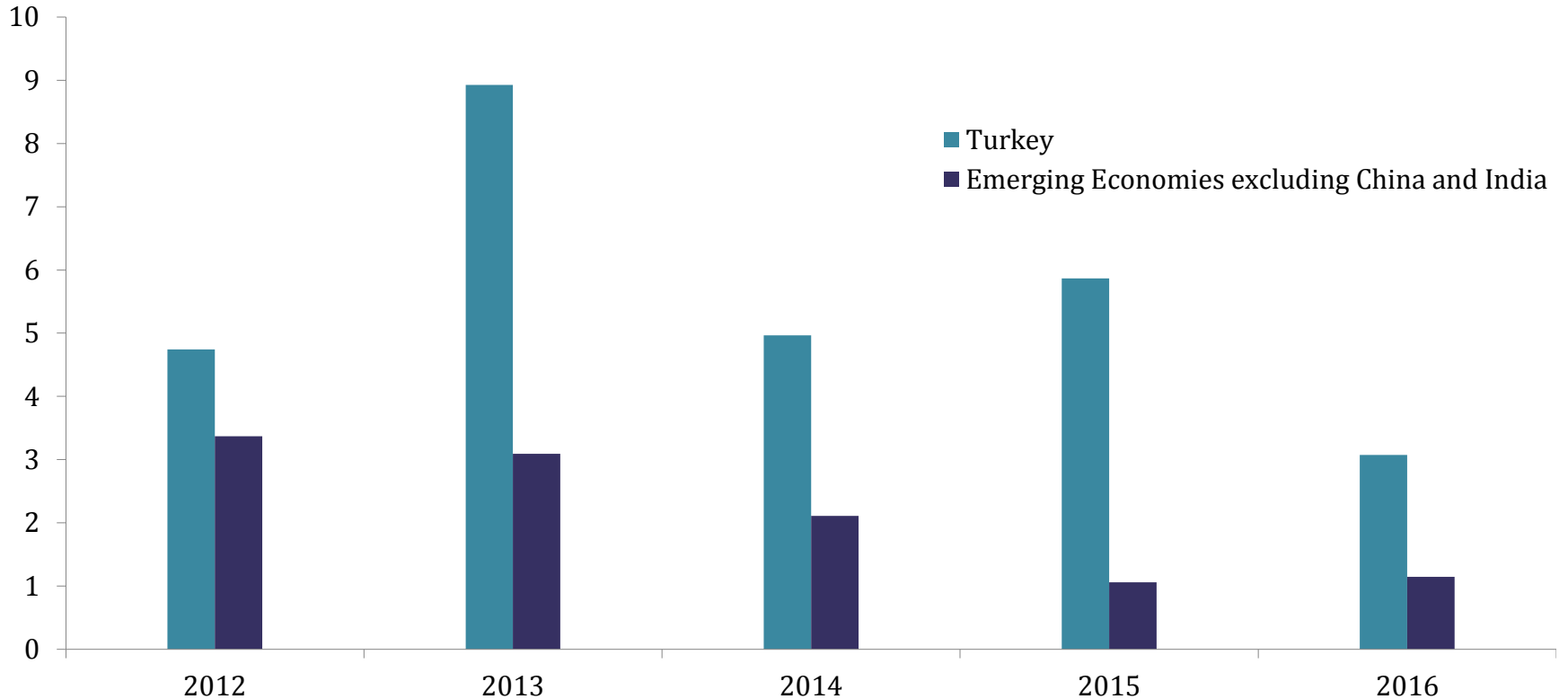
Outline

- I. Macroeconomic Outlook
- II. Monetary Policy

Macroeconomic Outlook

Turkey has outperformed emerging economies in recent years.

Growth Rates in Turkey and Emerging Economies
(Percent)



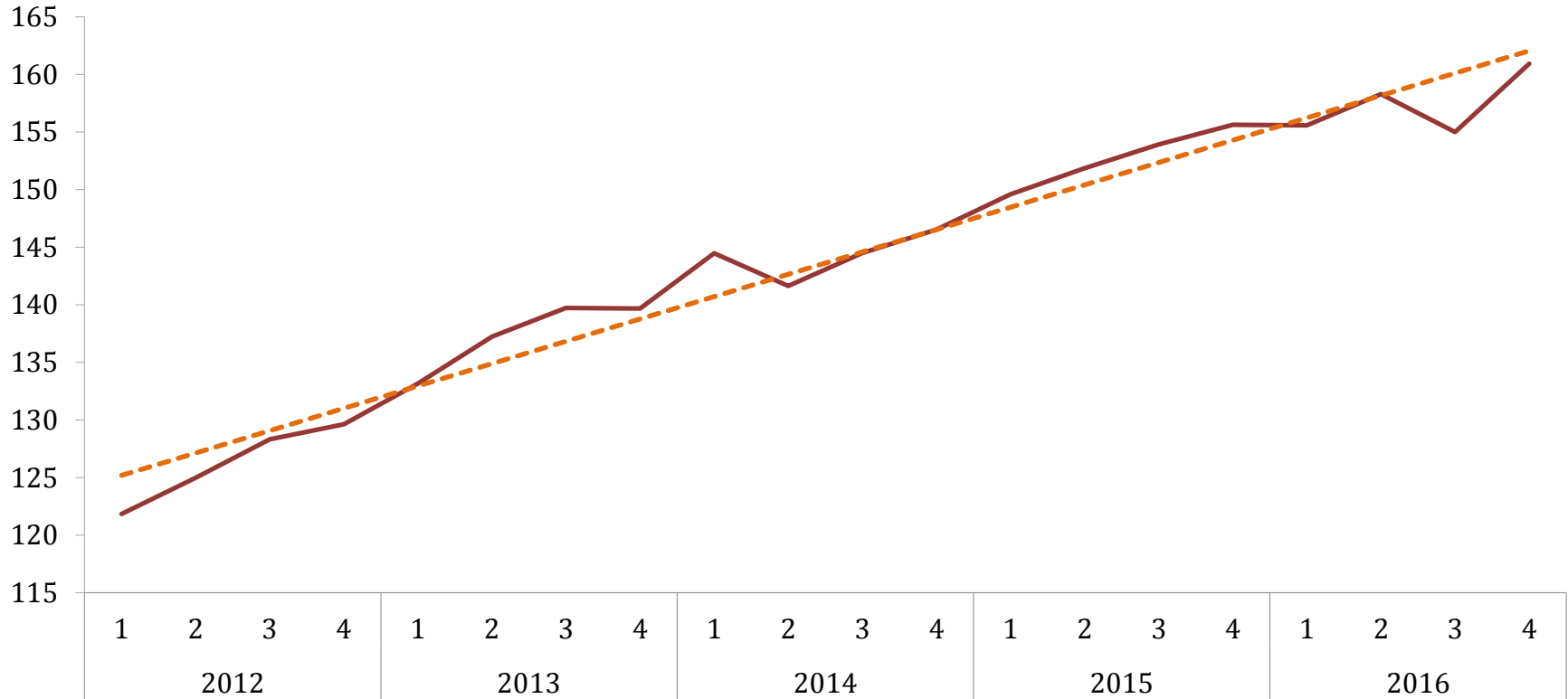
Emerging Economies excluding China and India: Brazil, Chile, Colombia, Czechia, Hungary, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Romania, Russia, S Africa, Thailand, Turkey, Ukraine.

Source: Bloomberg, CBRT.

Last Observation: 2016 Q4

The contraction in 2016 Q3 proved temporary.

Seasonally Adjusted GDP
(Chain-Linked Volume Index, 2009=100)

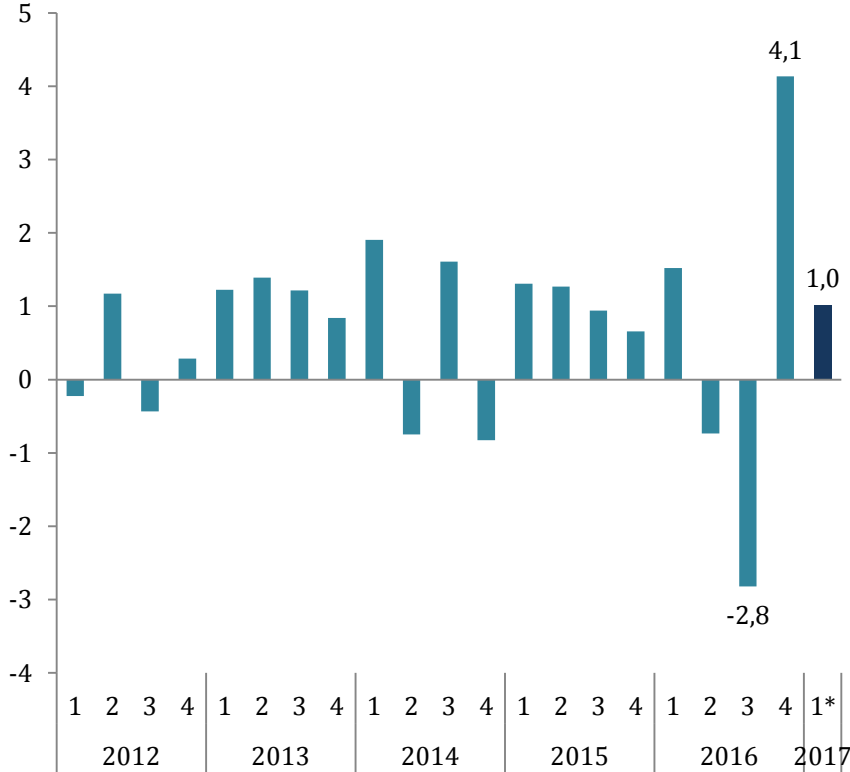


Source: TURKSTAT.

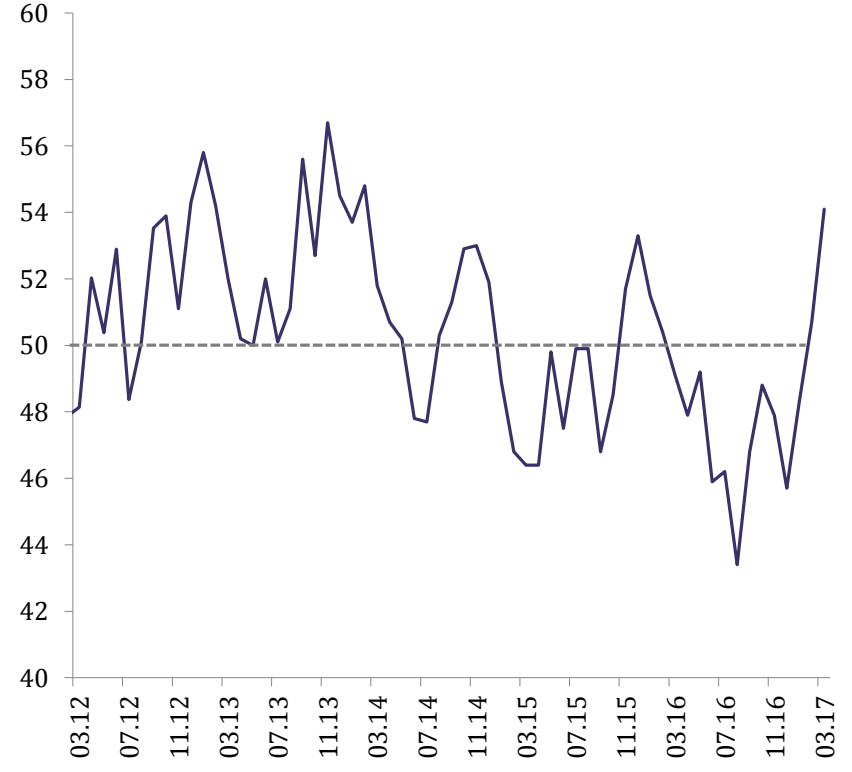
Last Observation: 2016 Q4

Leading data indicate mild growth in 2017 Q1; economic activity is expected to gain pace in Q2.

Industrial Production
(QoQ, Seasonally Adjusted)



PMI Production Index
(Seasonally Adjusted)



* Average of January and February 2017.

Source: TURKSTAT, CBRT.

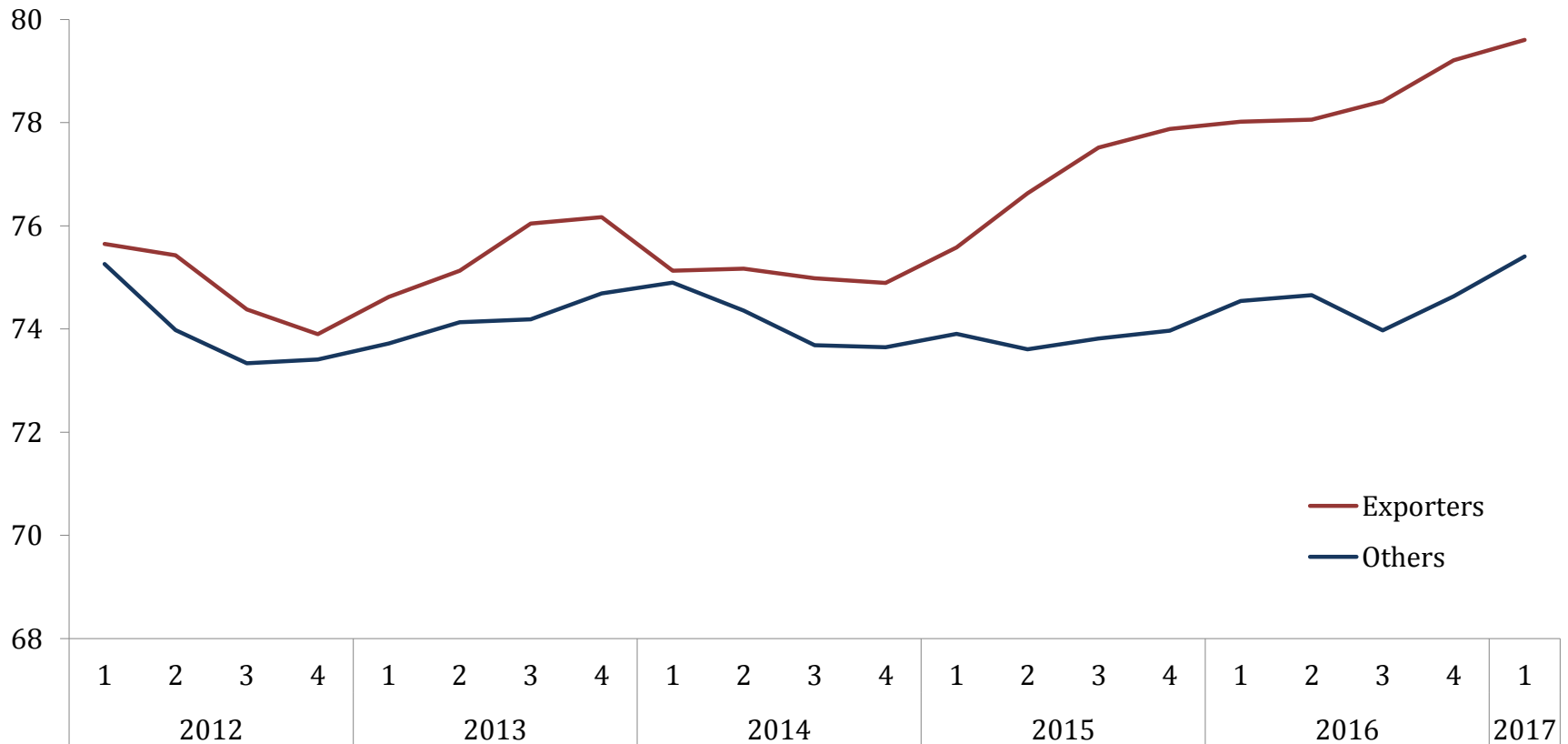
Last Observation: February, 2017

Source: PMI Markit.

Last Observation: March, 2017

Export oriented firms display stronger performance.

Capacity Utilization Rate
(Seasonally Adjusted, Percent)



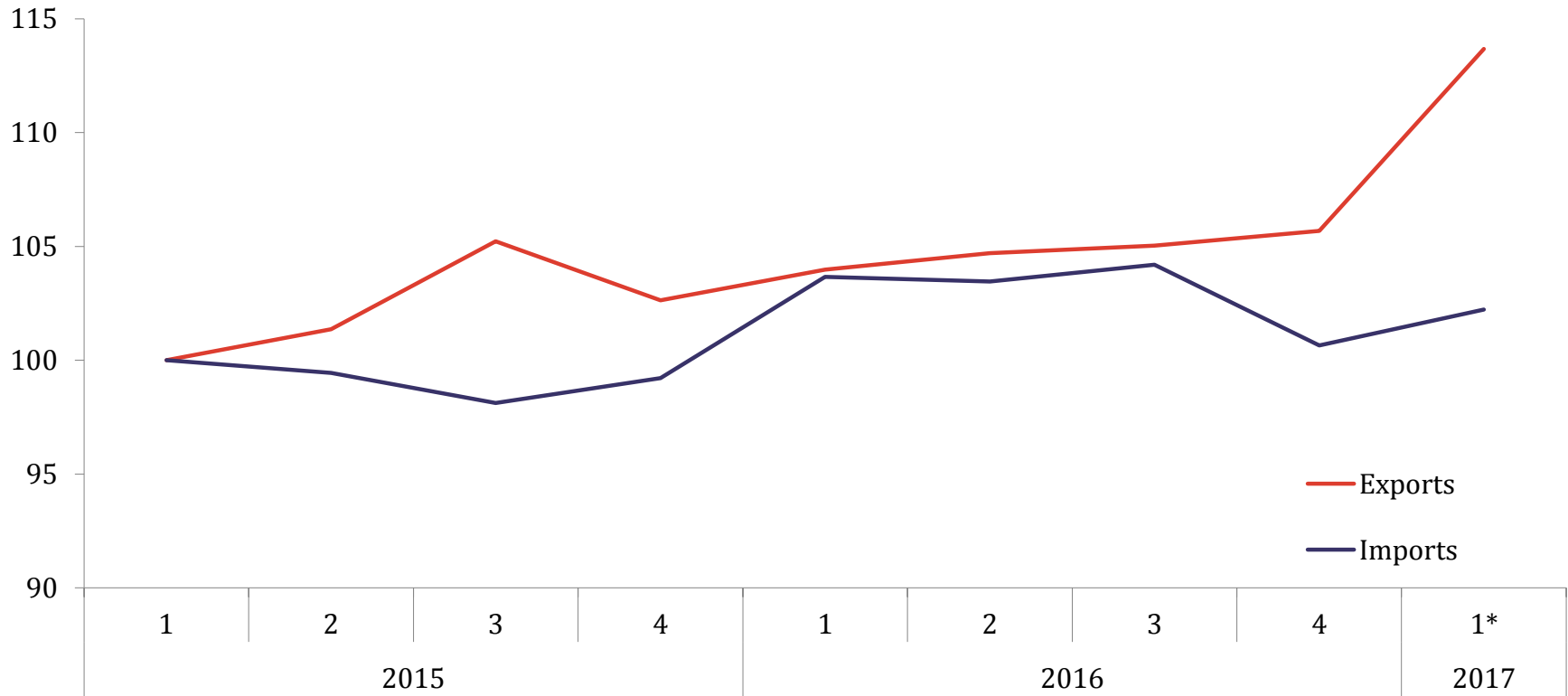
Source: CBRT.

Last Observation: March, 2017

Net exports will contribute to growth positively in 2017.

Exports and Imports

(Volume Indices, Seasonally Adjusted, 2015=100)



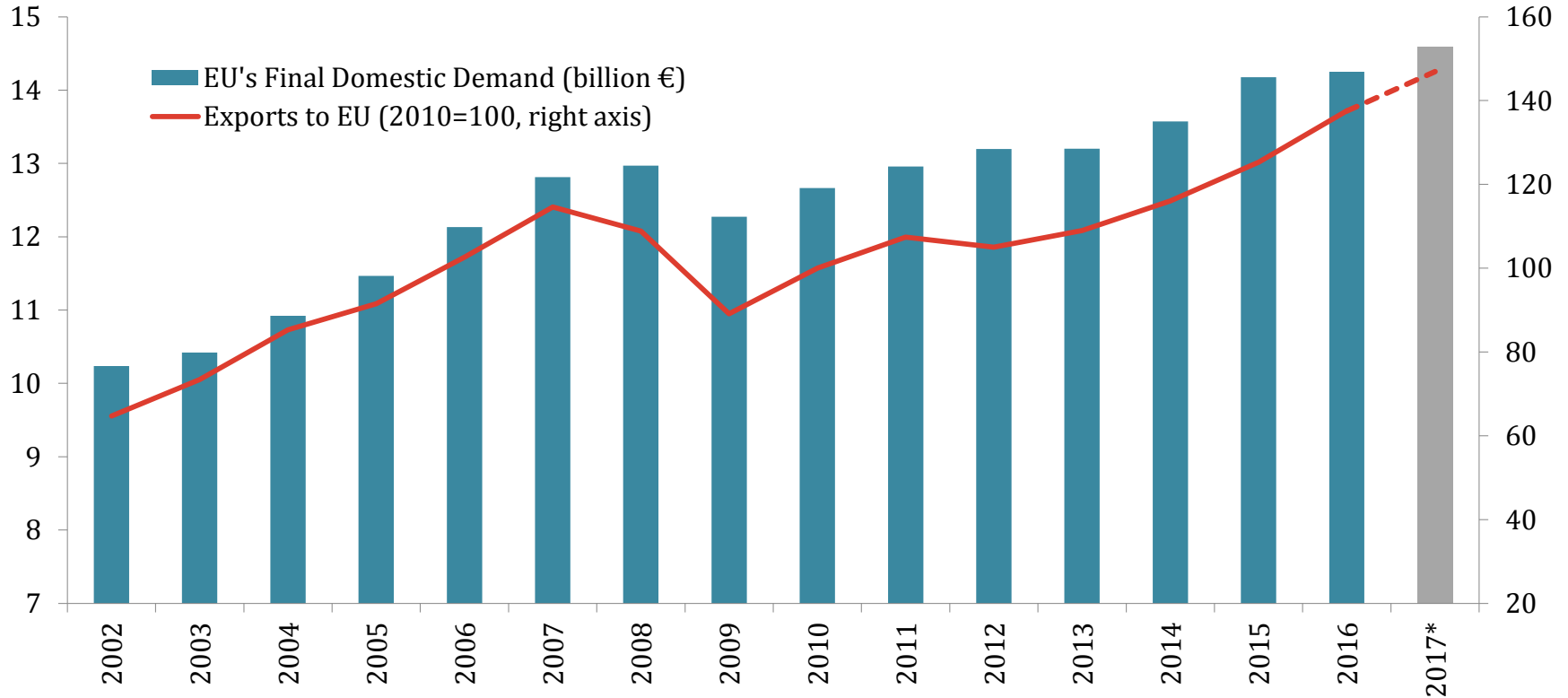
* Forecast

Source: TURKSTAT.

Last Observation: February, 2017

Demand from the European Union economies will continue to provide significant contribution to export growth.

Exports to EU and EU's Final Domestic Demand



* Forecast.

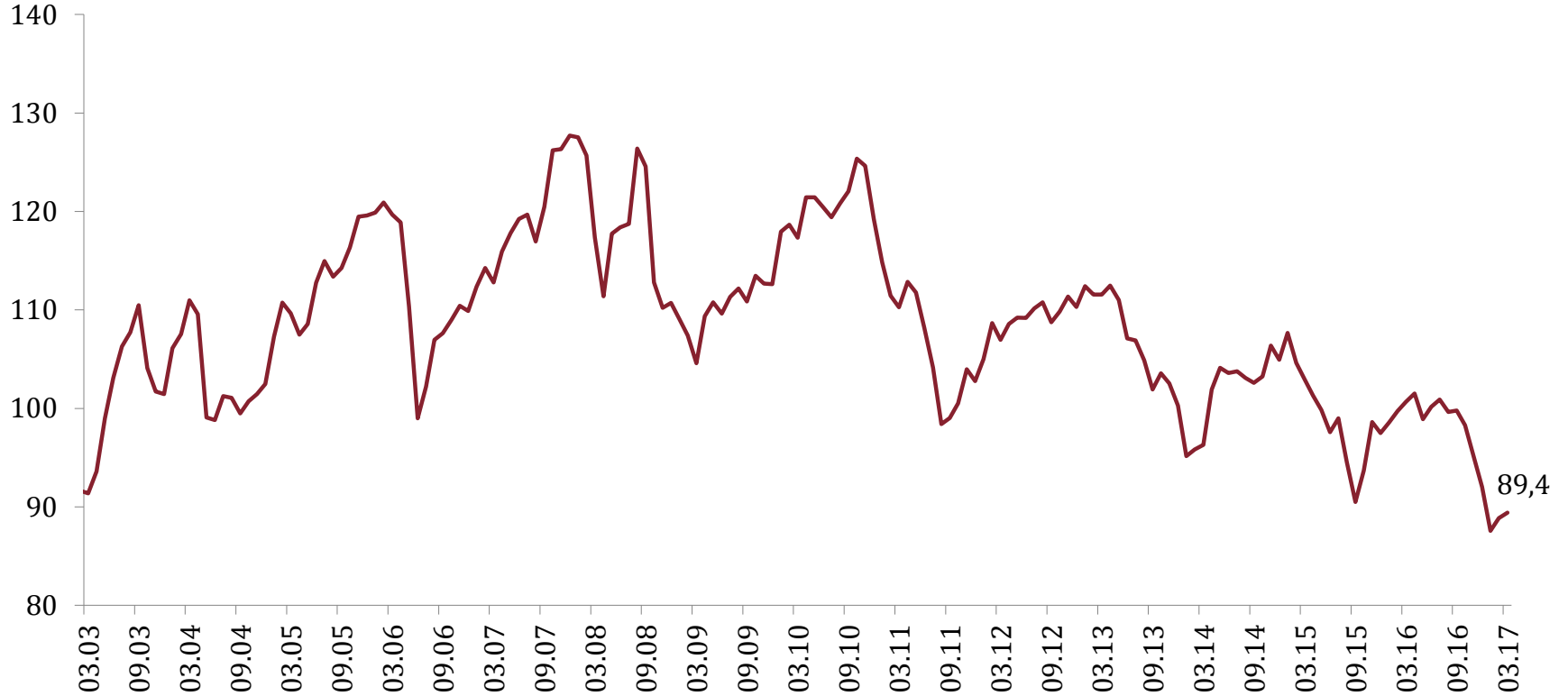
Source: Eurostat, IHS, CBRT.

Last Observation: 2016

Real exchange rate hovers at historically low levels.

Real Effective Exchange Rate

(CPI-Based, 2003=100)

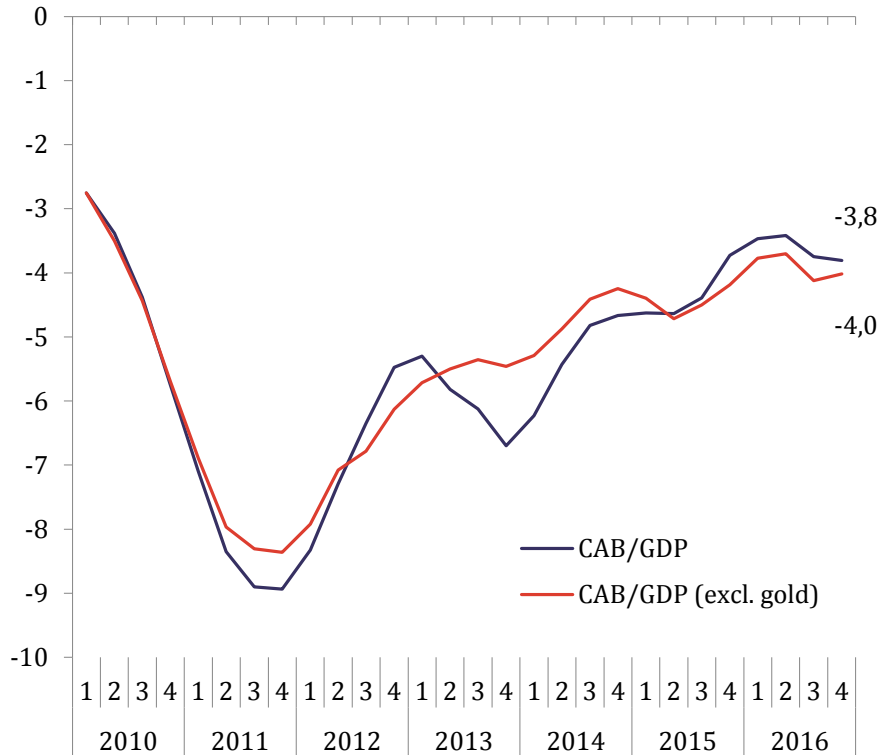


Source: CBRT.

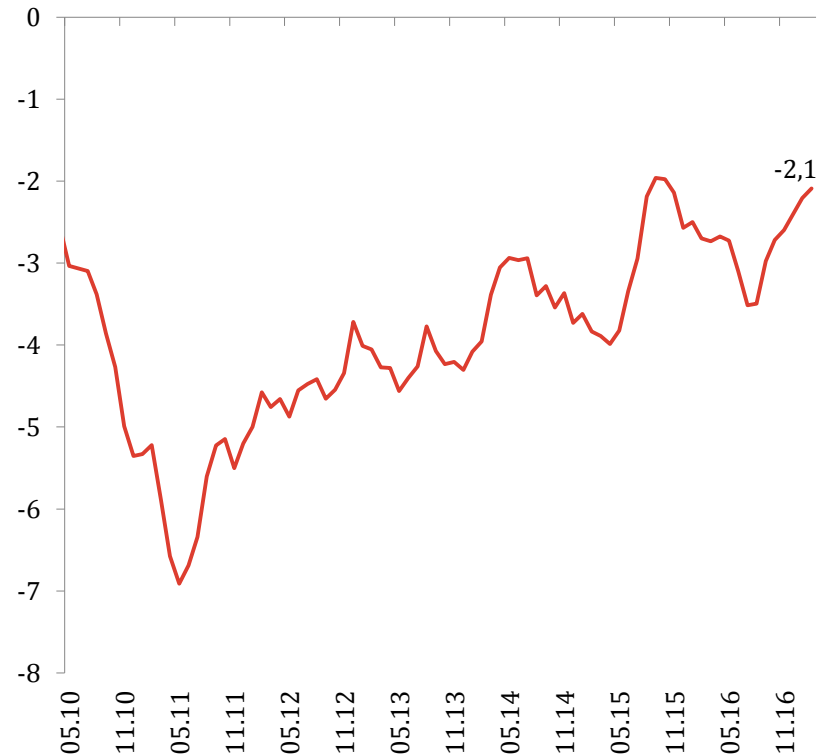
Last Observation: March, 2017

Current account balance has adjusted markedly in recent years; sequential trend suggests further improvement.

Current Account Balance
(12-Month Cumulative, Percent of GDP)



Current Account Balance
(Excluding Gold, Seas. Adj., 3-Month MA, Billion USD)

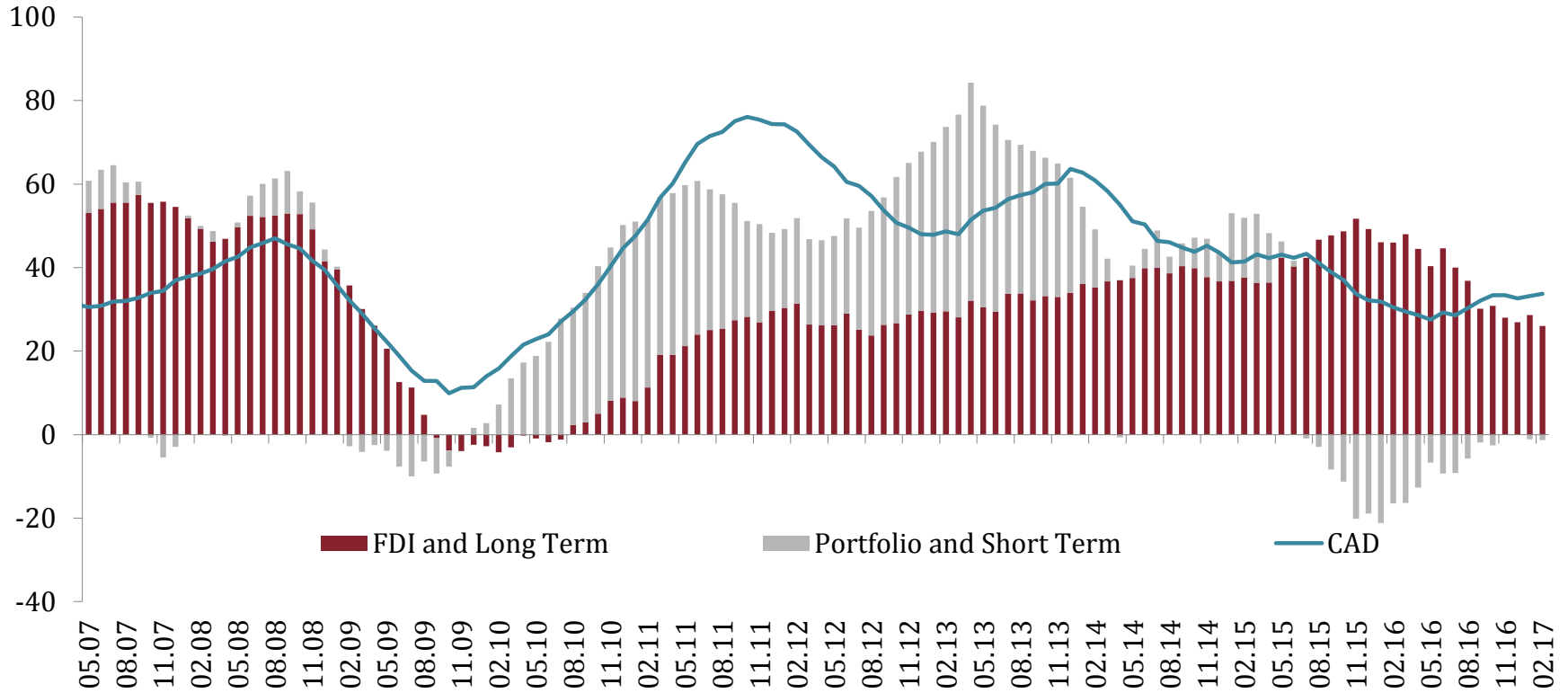


Source: CBRT.

Last Observation: February, 2017

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

Financing of Current Account Deficit
(12-Month Cumulative, Billion USD)



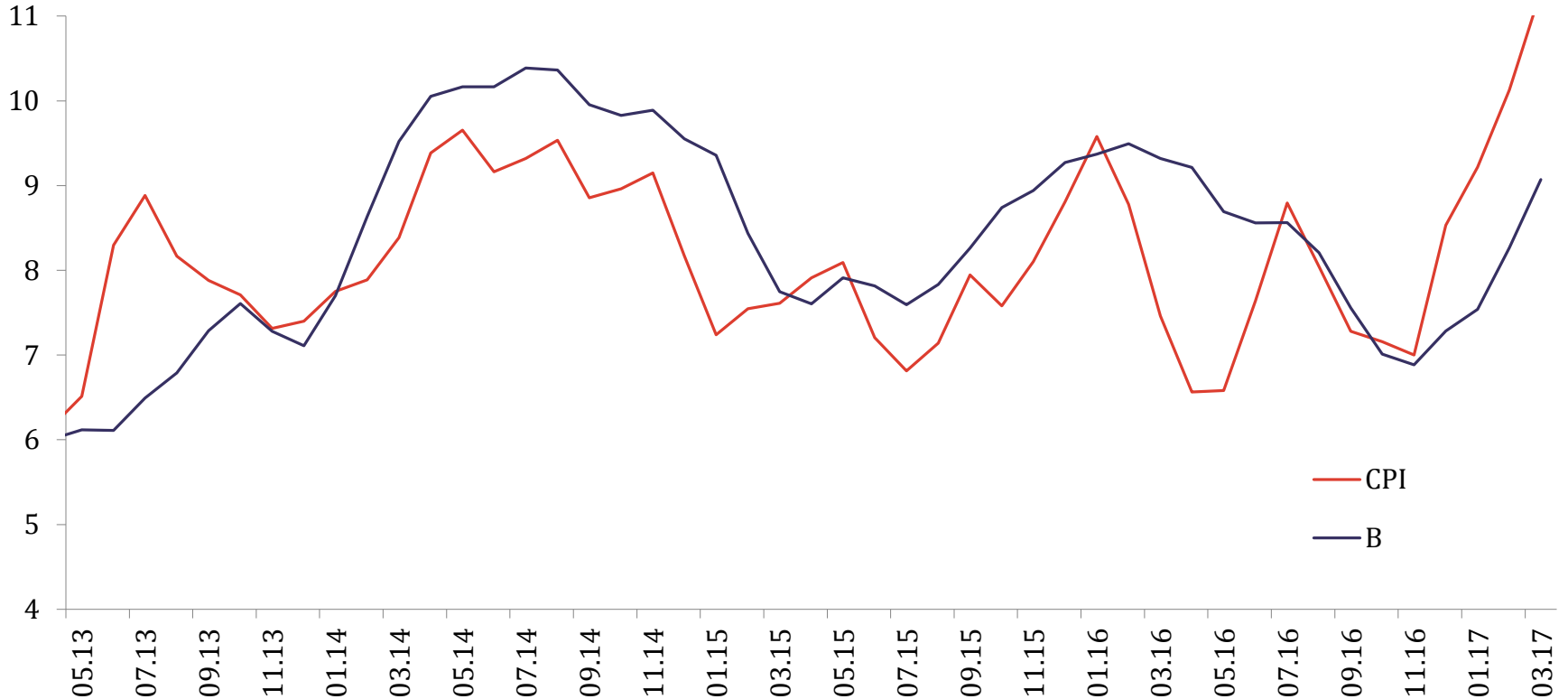
*Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury. Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

Source: CBRT.

Last Observation: February, 2017

CPI inflation increased sharply since November due to base effects in food prices, higher oil prices, and FX pass-through.

CPI and Core Price Index (B)*
(Annual Percentage Change)



*B index, among special indicators, which are newly released by the TURKSTAT, is the successor of the H index released before 2017.

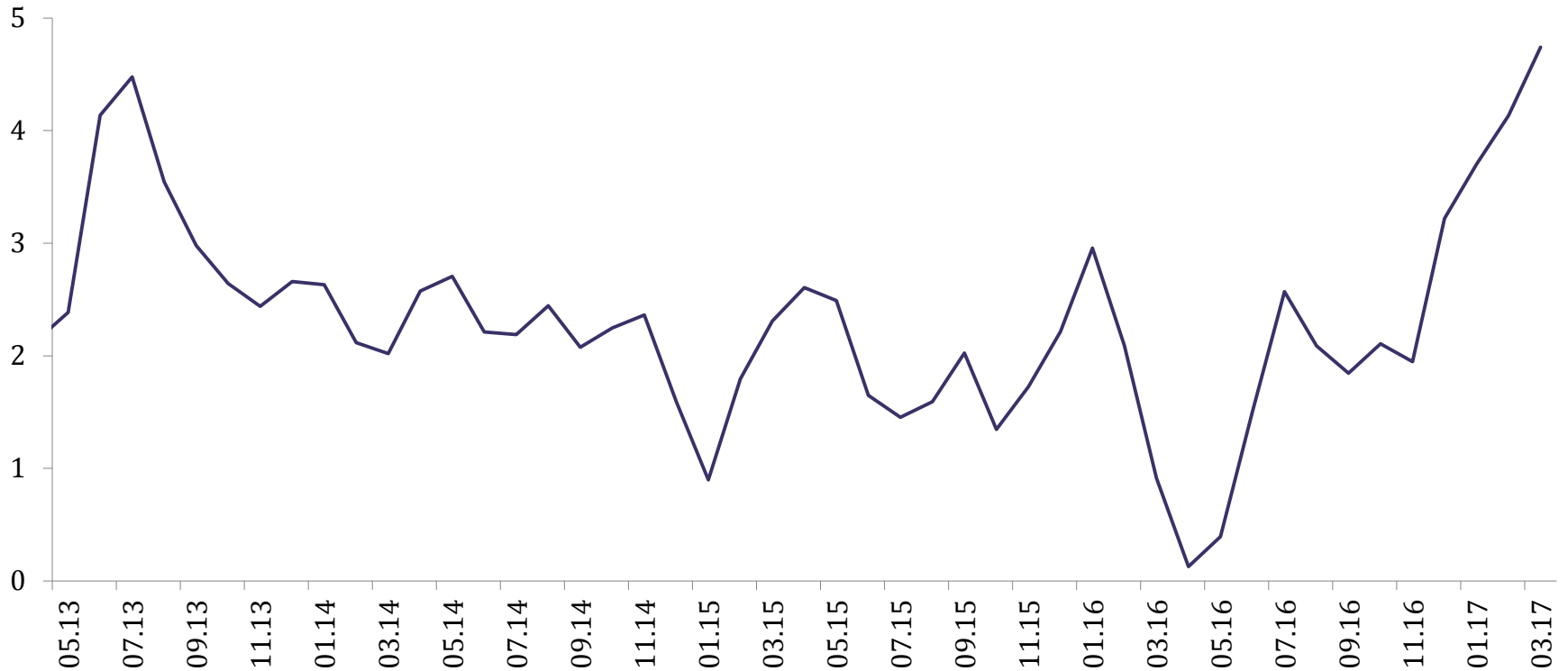
B: CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold.

Source: TURKSTAT, CBRT.

Last Observation: March, 2017

The contribution of unprocessed food, energy and tobacco prices to CPI inflation rose dramatically in recent months.

Contribution of Unprocessed Food, Energy and Tobacco
(Percentage Points)

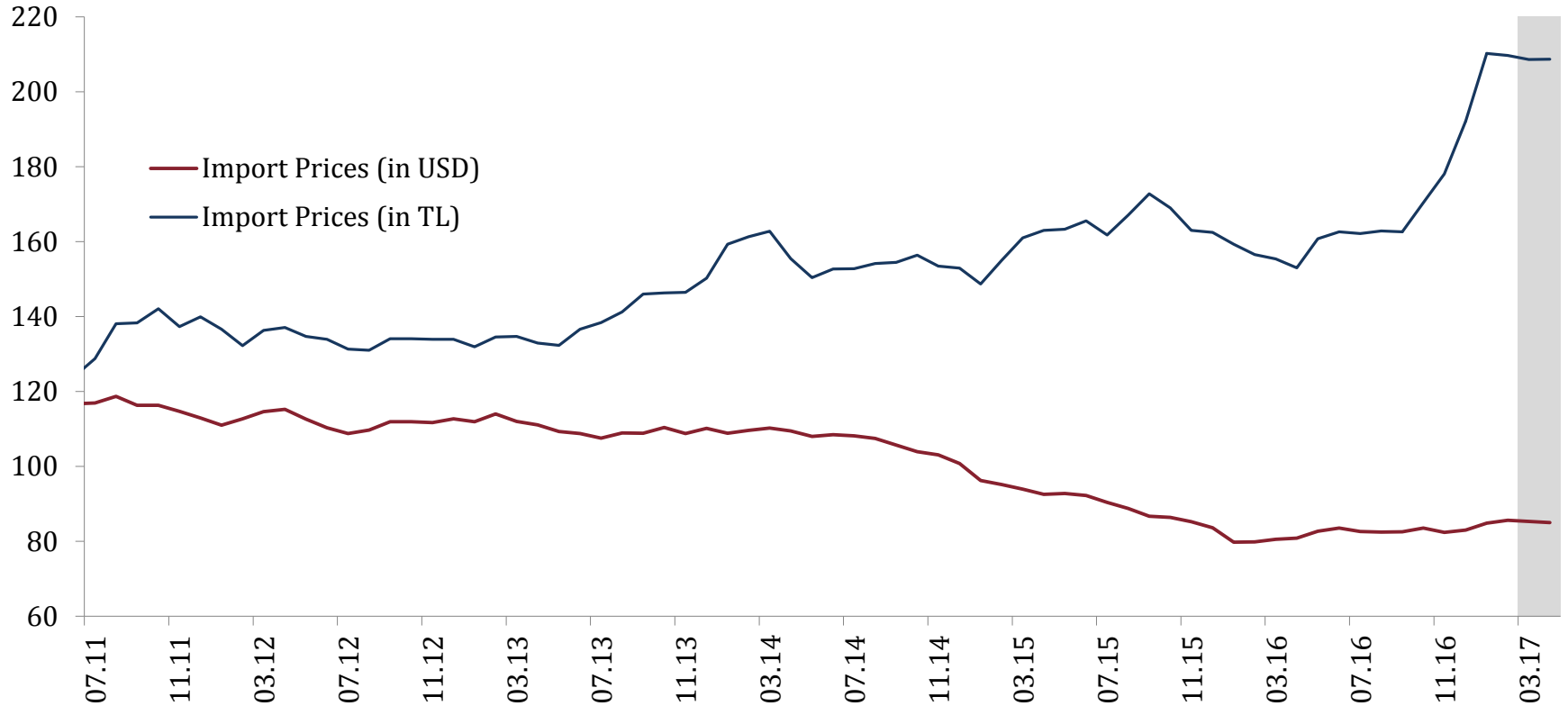


Source: TURKSTAT, CBRT.

Last Observation: March, 2017

Exchange rate pass-through has been the main driver of core inflation.

Import Price Index (2010=100)



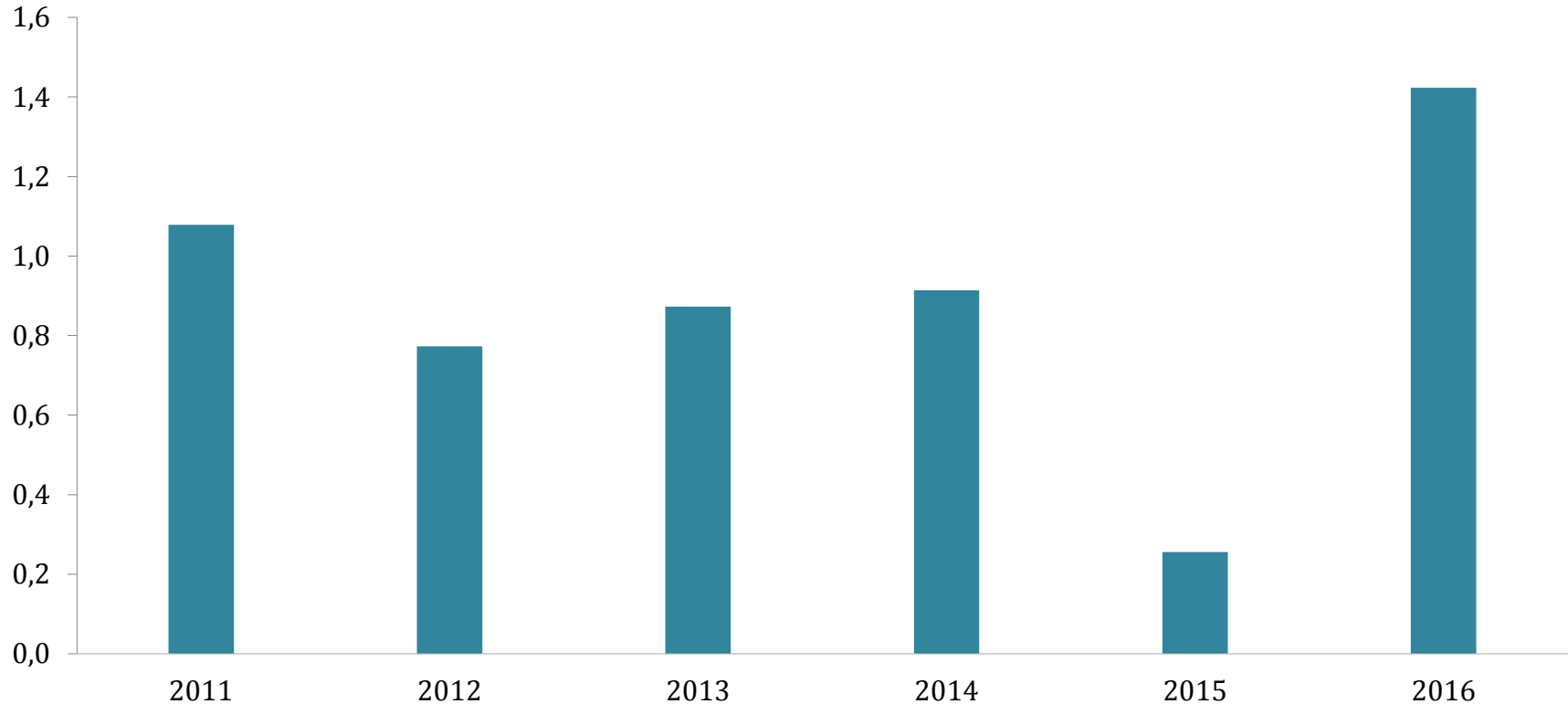
Shaded area shows the forecasts for March and April 2017.

Source: TURKSTAT, CBRT.

Last Observation: February, 2017

The historically high impact of fiscal measures during the past year is expected to fade away throughout 2017.

Contribution of Tax Adjustments to Inflation (Percent)

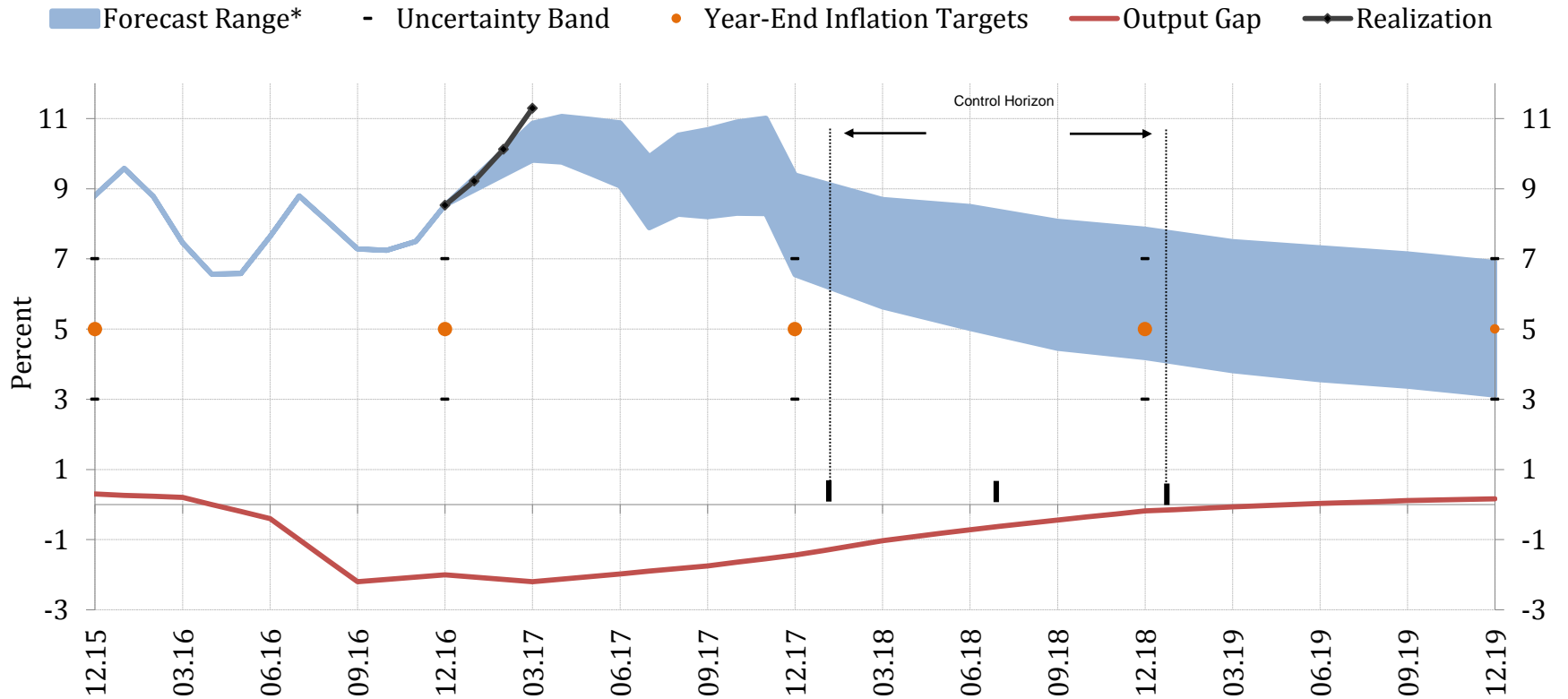


Source: TURKSTAT, CBRT.

Last Observation: December, 2016

Inflation is expected to peak in April, before gradually coming down in the forthcoming period.

January 2017 Inflation Report Forecasts



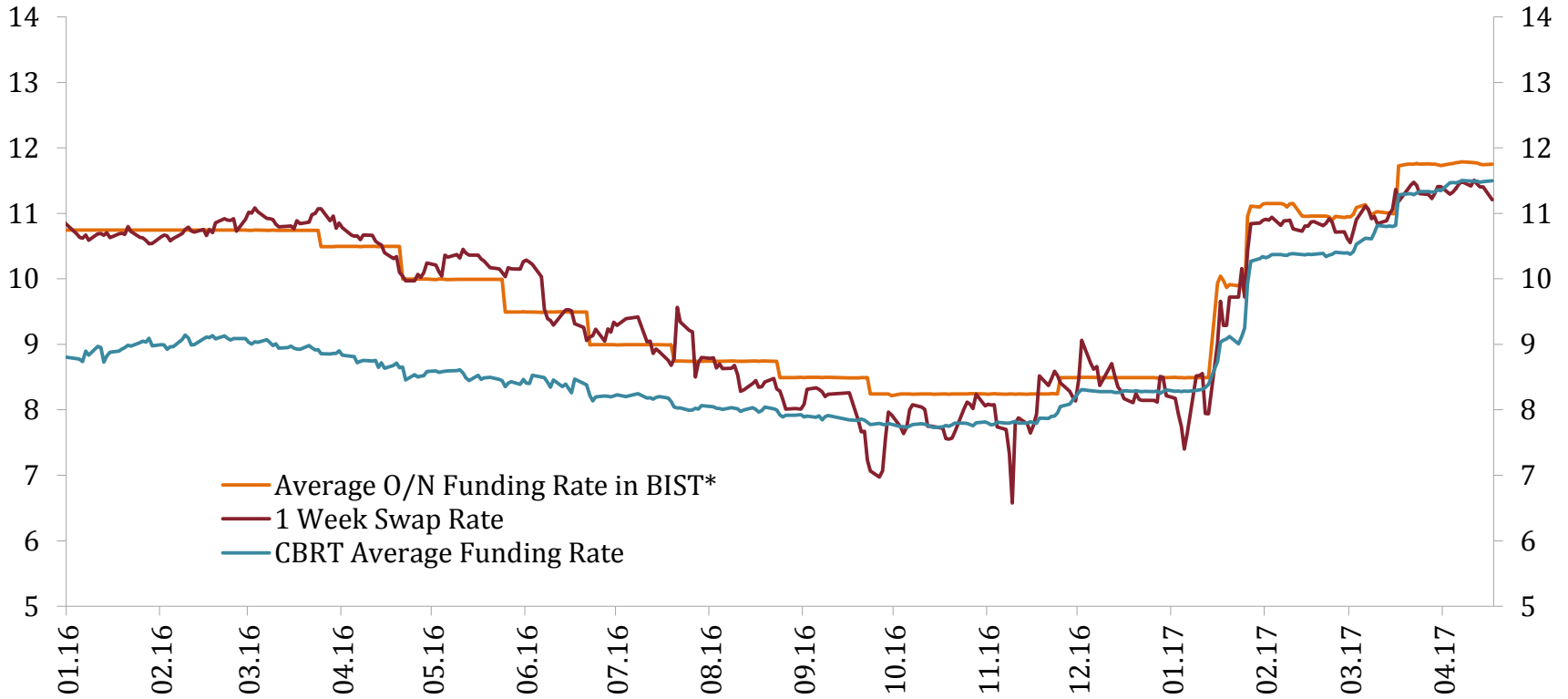
*Shaded region indicates the 70 percent confidence interval for the forecast.

Source: January 2017 Inflation Report.

Monetary Policy

The CBRT has significantly tightened monetary policy.

Money Market Rates (Percent)

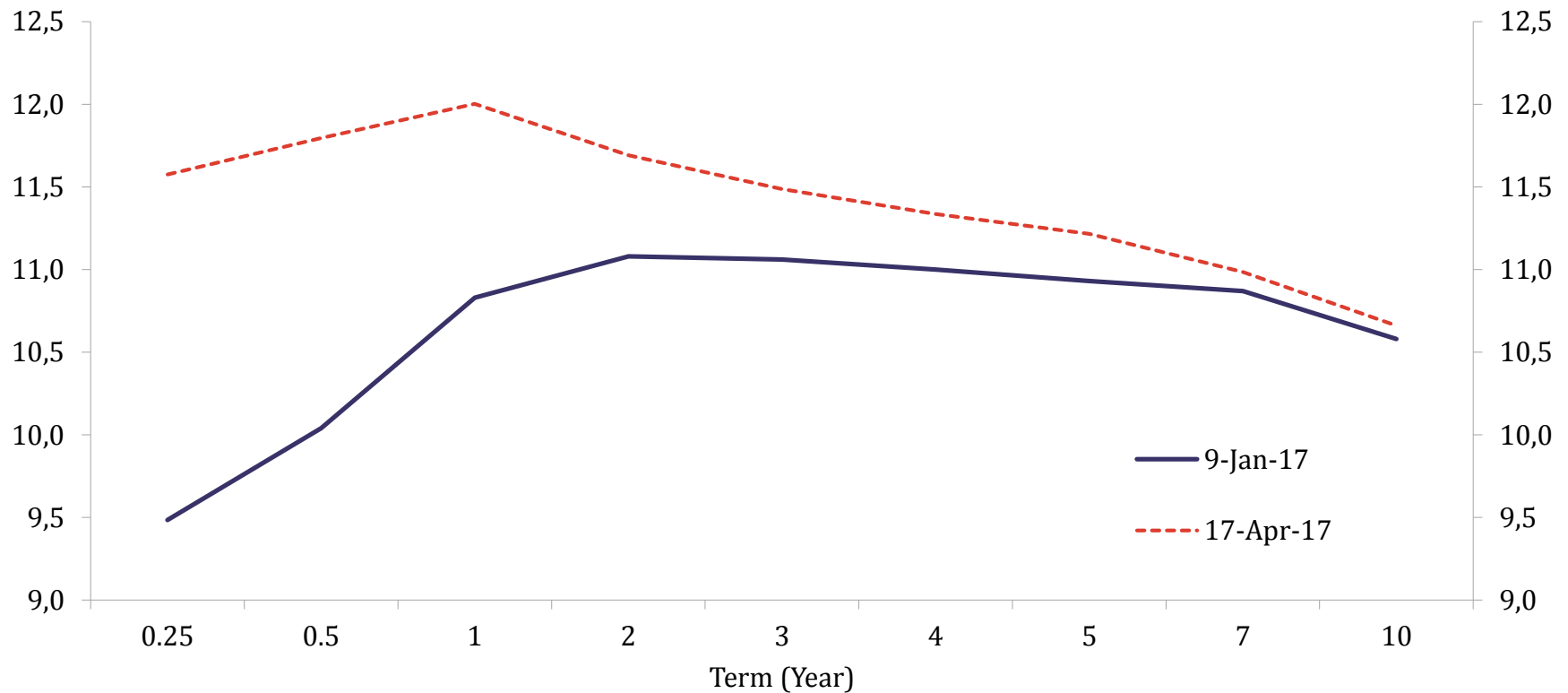


*Average O/N Funding Rate in BIST excluding CBRT Funding.
Source: CBRT, BIST.

Last Observation: April 17, 2017

The yield curve confirms the tight stance of monetary policy.

Yield Curve
(Swap, Percent)

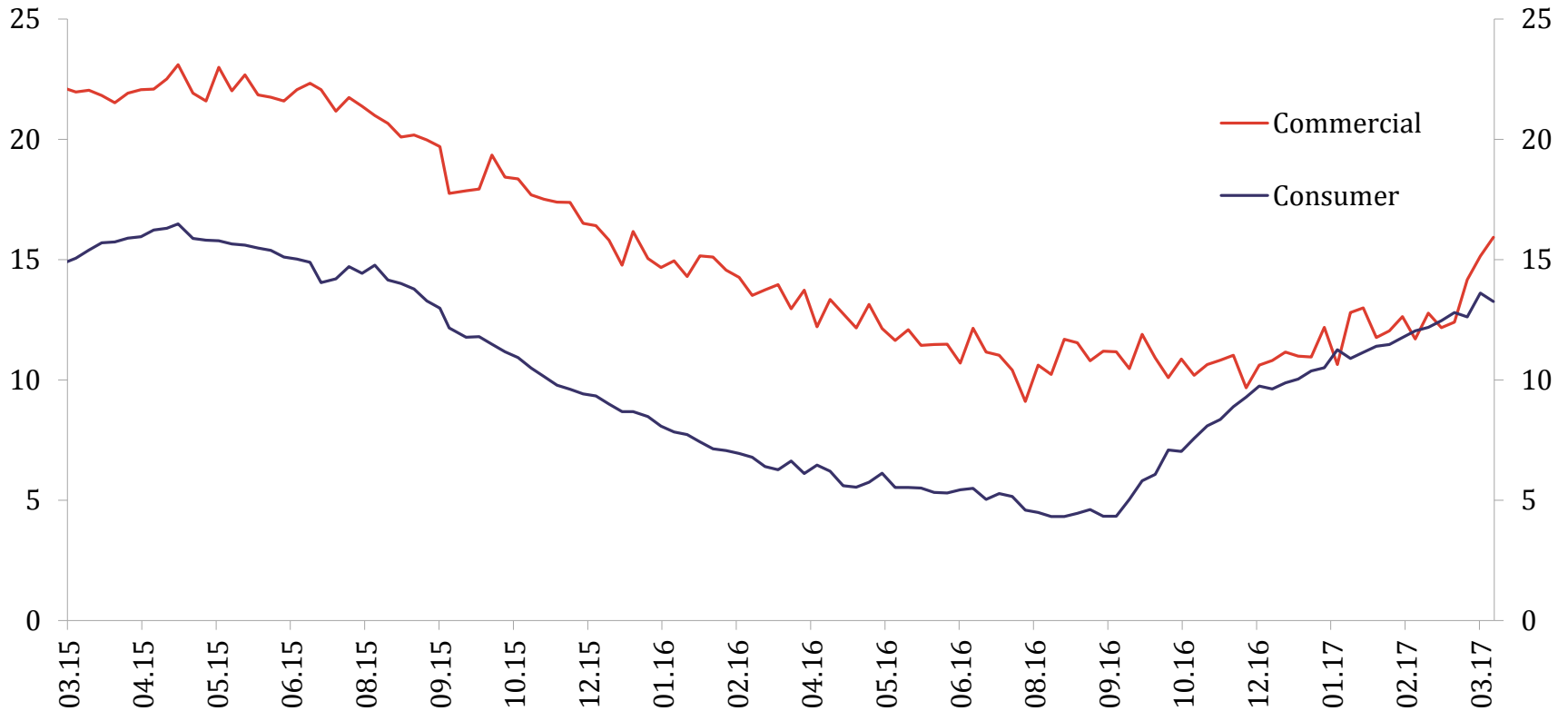


Source: Bloomberg.

Last Observation: April 17, 2017

Comprehensive measures taken by regulatory and government authorities have been effective in stimulating credit growth.

Annual Percentage Change (Adjusted for Exchange Rate Effect)

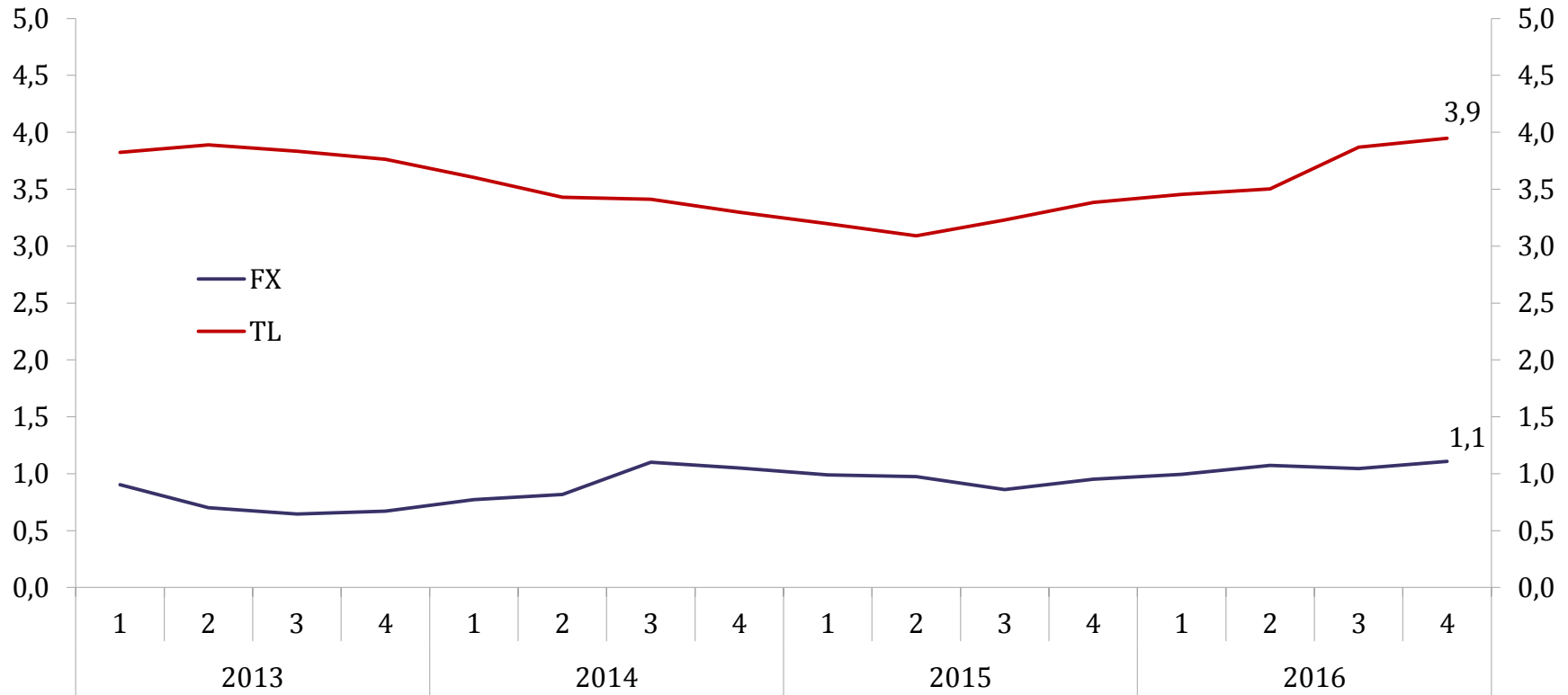


Source: Bloomberg.

Last Observation: April 07, 2017

Asset quality for corporate loans confirms the resilience of firms against shocks.

NPL Ratios For Corporate Loans (Percent)



Source: Independent audit reports.

Last Observation: 2016 Q4

Overview

- Recent macroeconomic developments indicate the resilience of the Turkish economy.
- Supportive fiscal and macroprudential policies have mitigated the downside risks on economic activity.
- Contribution of exports to economic growth will increase throughout 2017.
- Lagged impact of cost push factors will keep inflation at elevated levels in the near term.
- Tight stance in monetary policy will be maintained until inflation outlook displays a significant improvement.



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