



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

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

June 19, 2013

Ankara

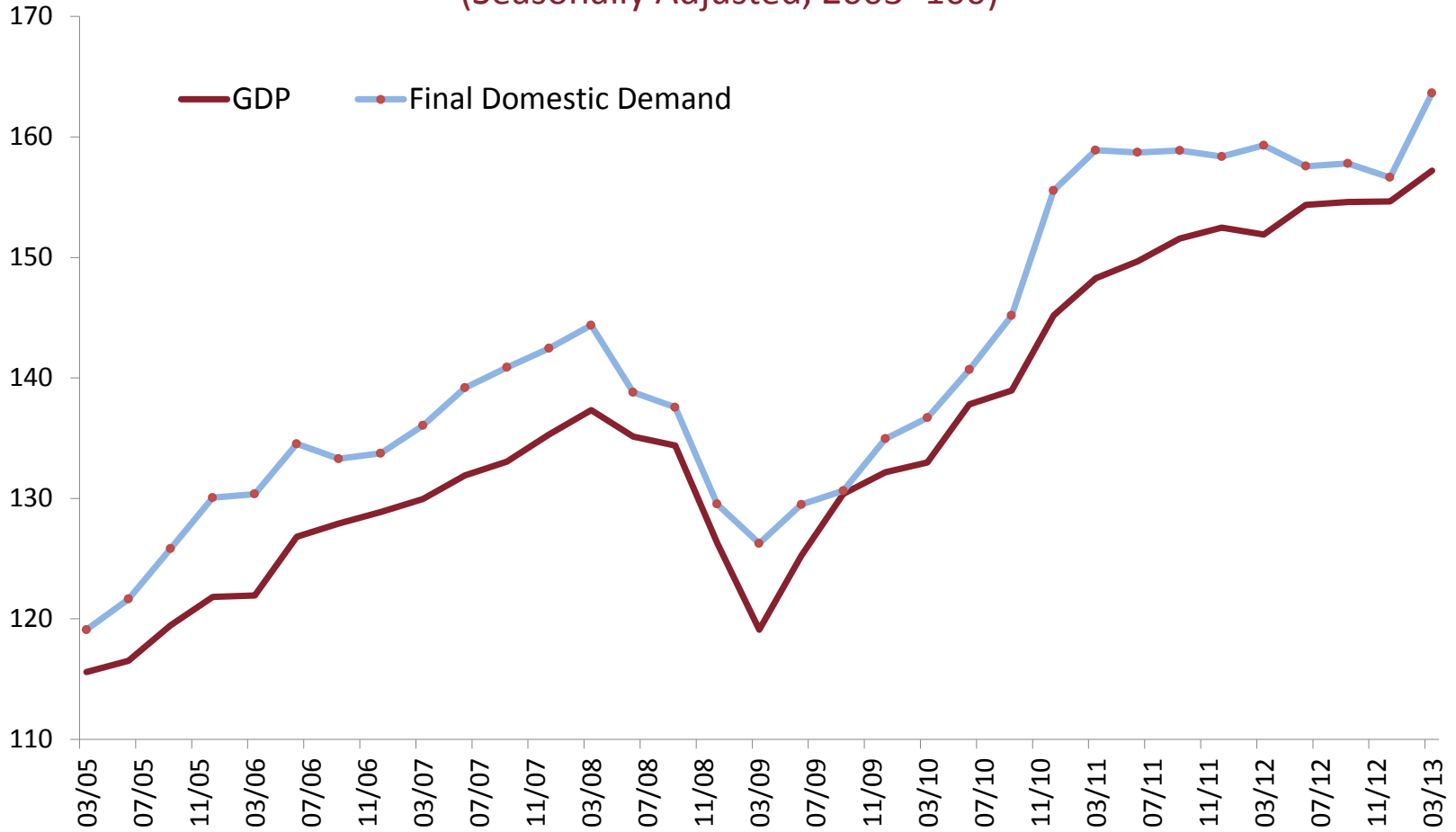
Outline

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)

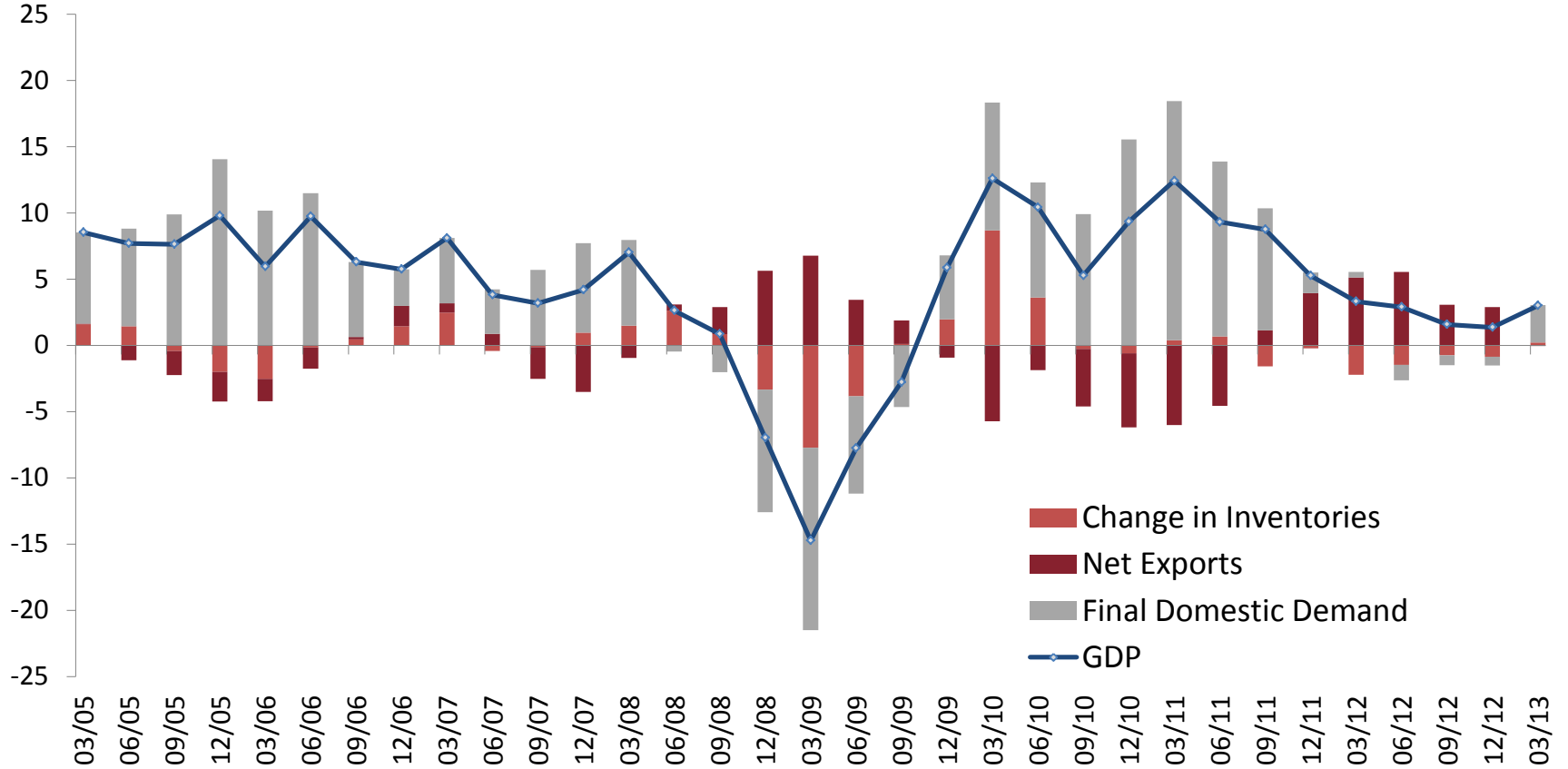


Source: TURKSTAT, CBRT.

Last Observation: 2013Q1

Economic Activity

Contribution to Annual GDP Growth (Percentage Points)

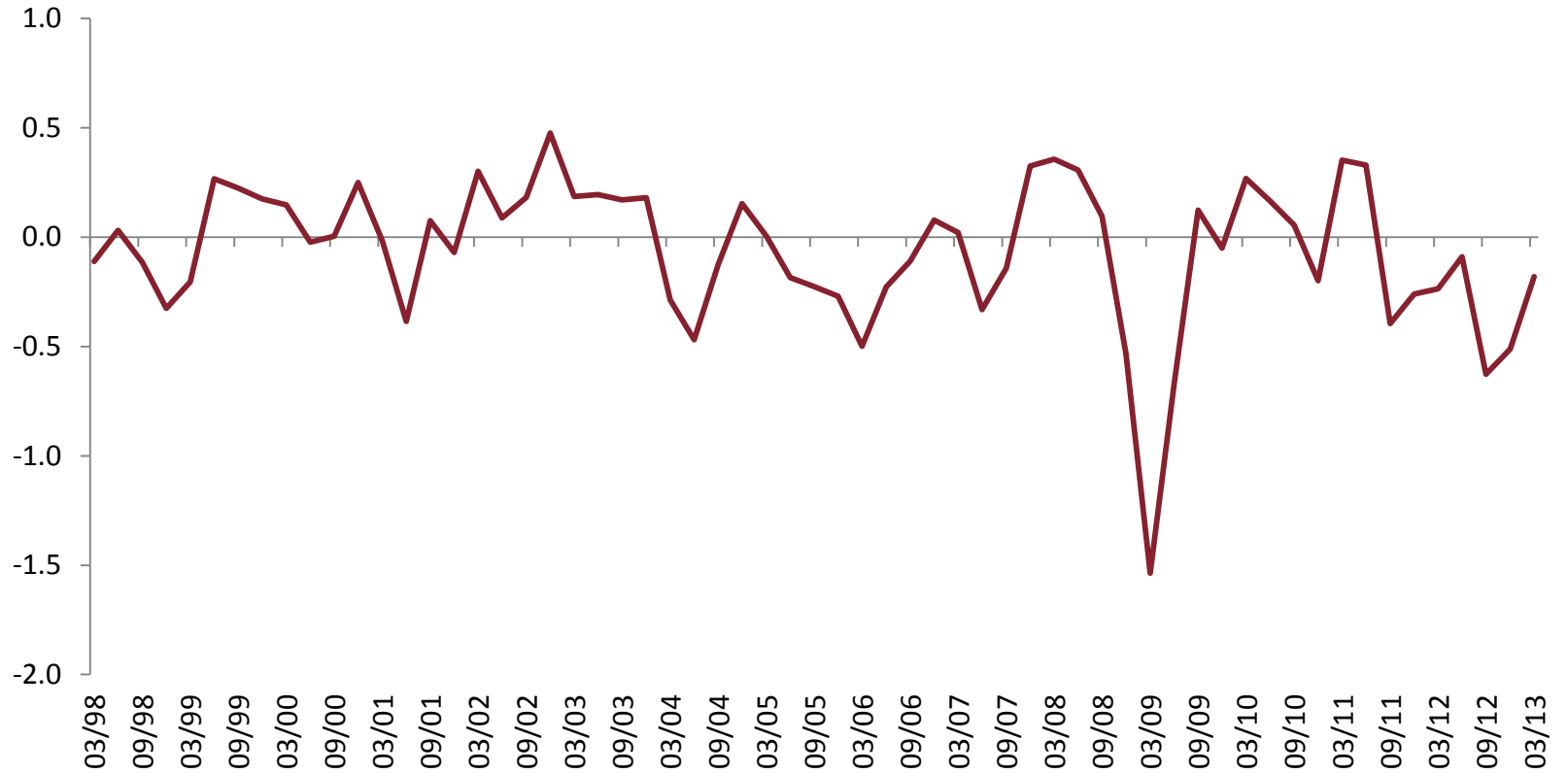


Source: TURKSTAT.

Last Observation: 2013Q1

Change in Inventories

(Seasonally adjusted billion TL)

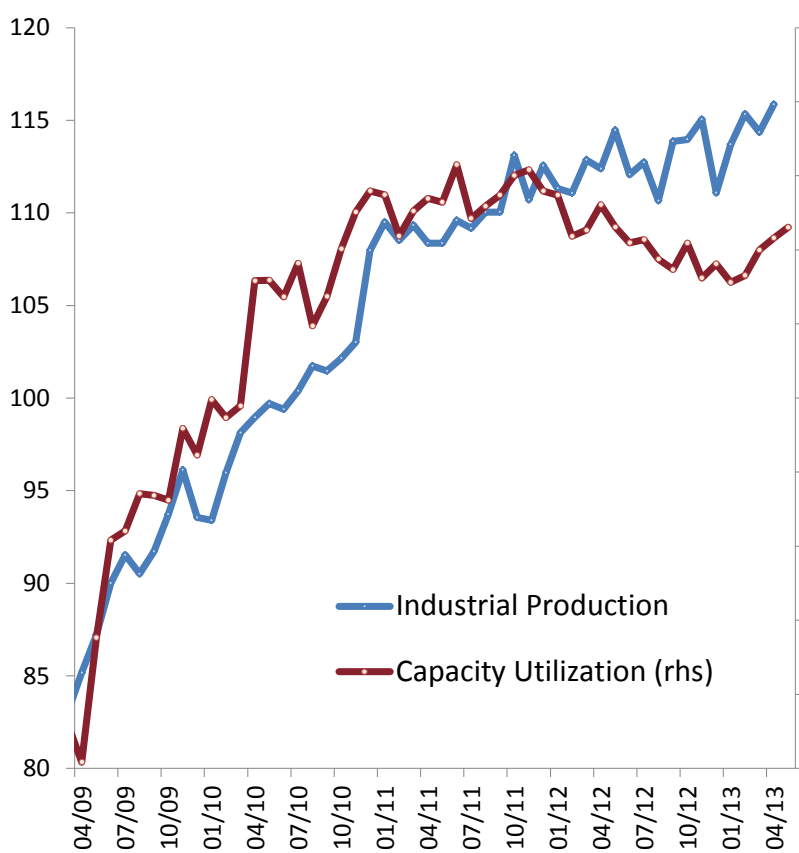


Source: TURKSTAT.

Last Observation: 2013Q1

Economic Activity

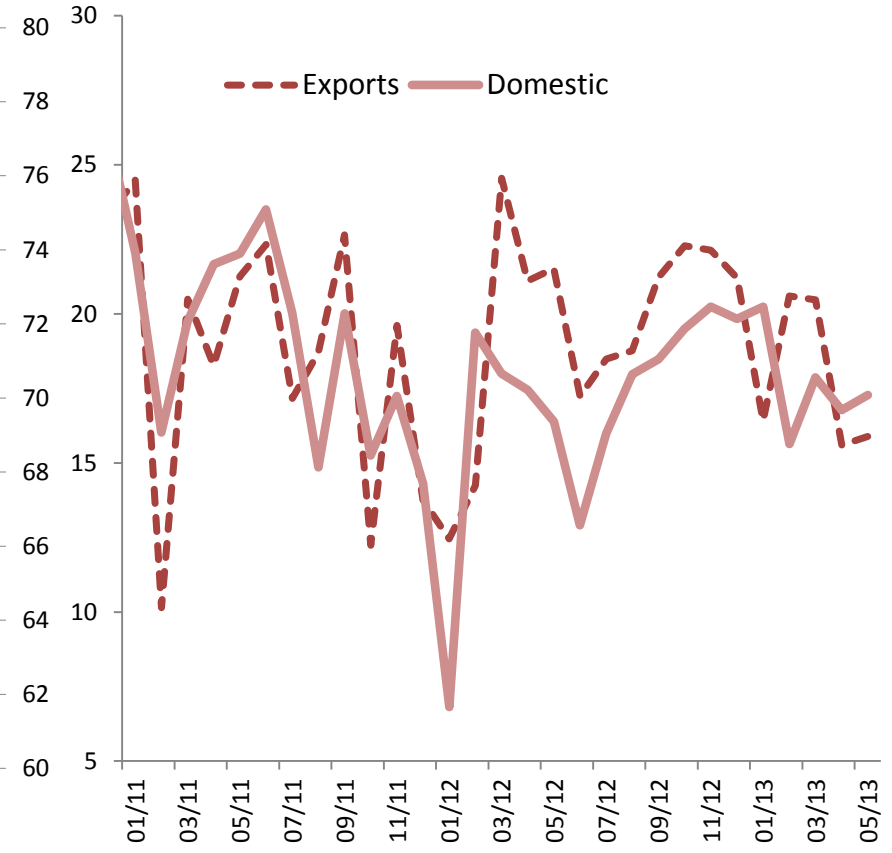
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

*Last Observation: April for Industrial Production,
May for Capacity Utilization.

New Orders* (Seasonally Adjusted)

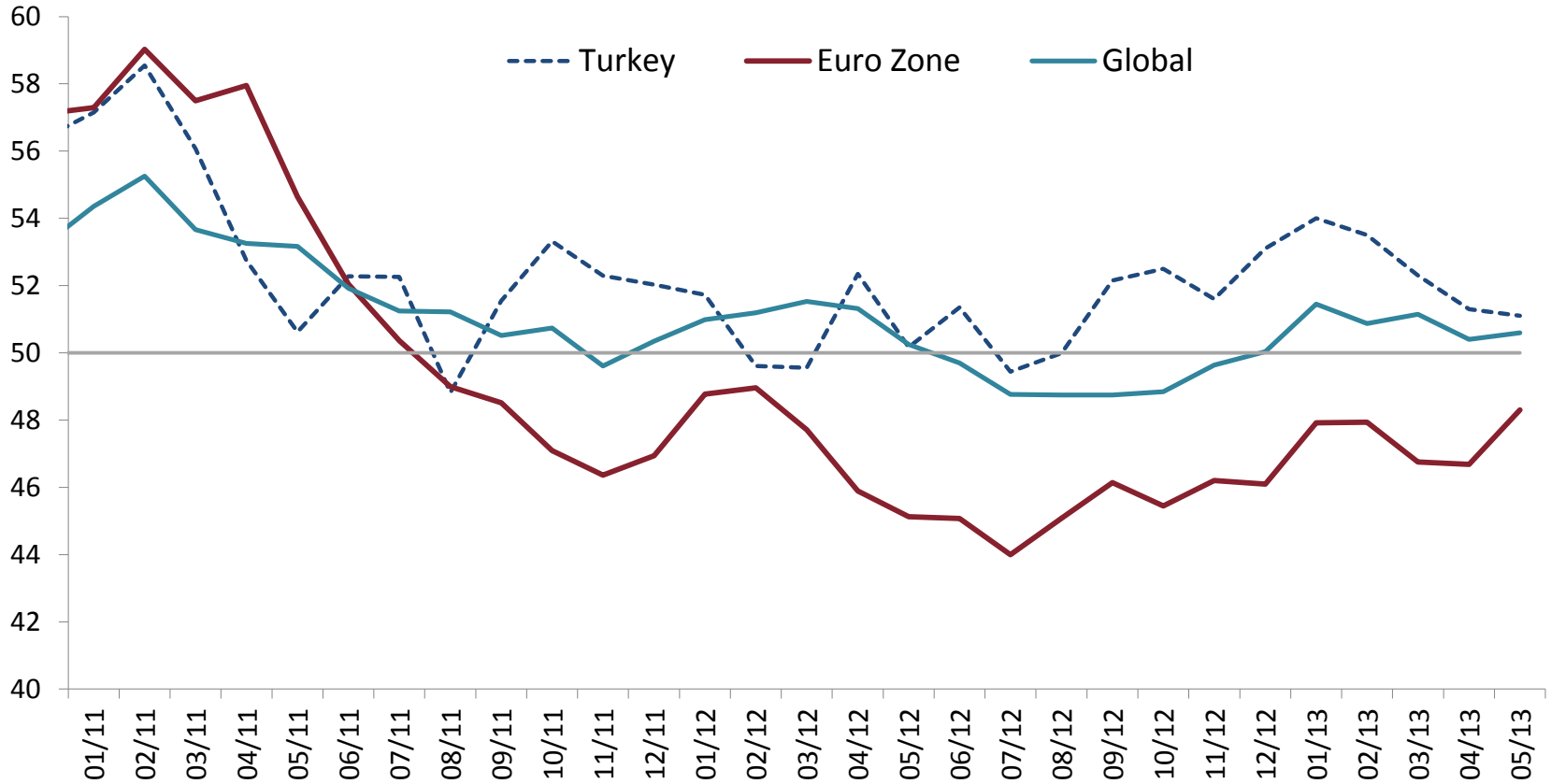


Source: CBRT Business Tendency Survey.

*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: May 2013.

PMI: Turkey, Eurozone, and Global

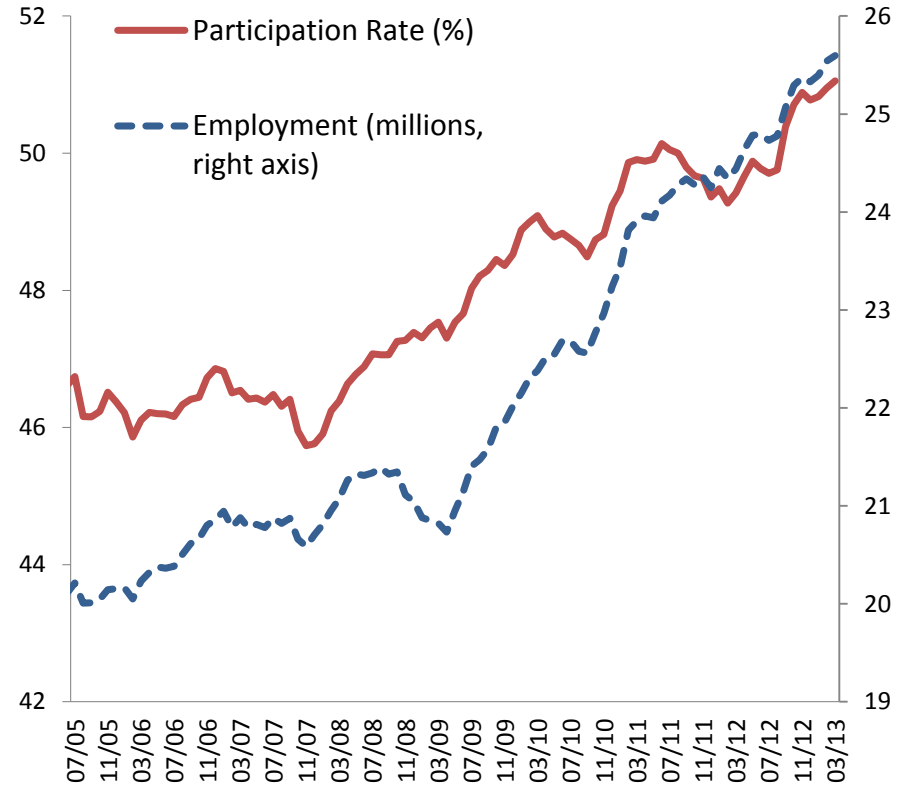
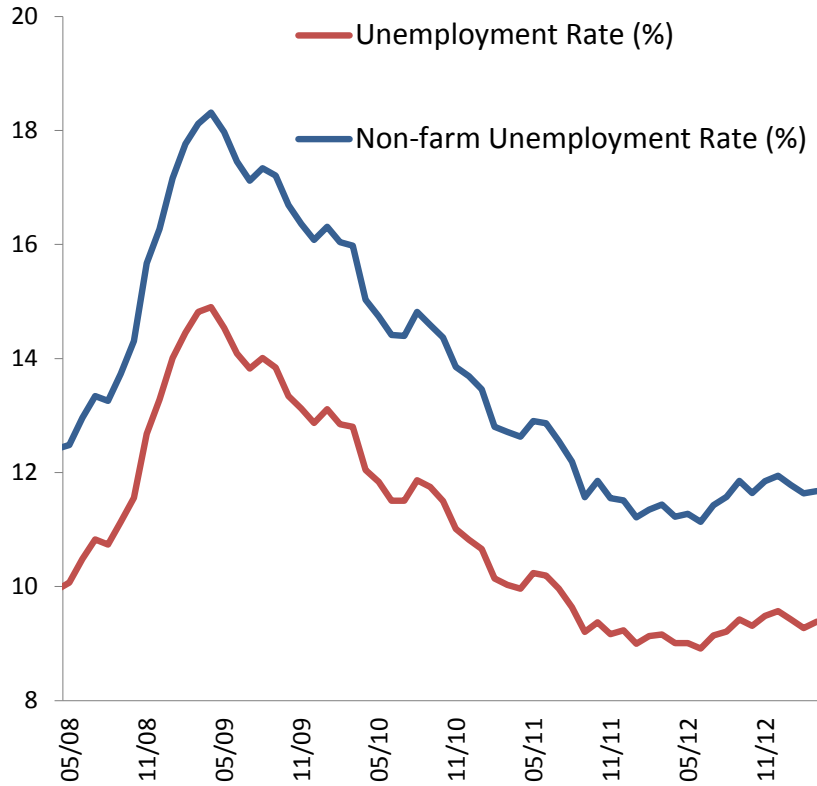
Manufacturing PMIs (Seasonally Adjusted)



Source: MARKIT.

Last Observation: May 2013.

Employment Conditions

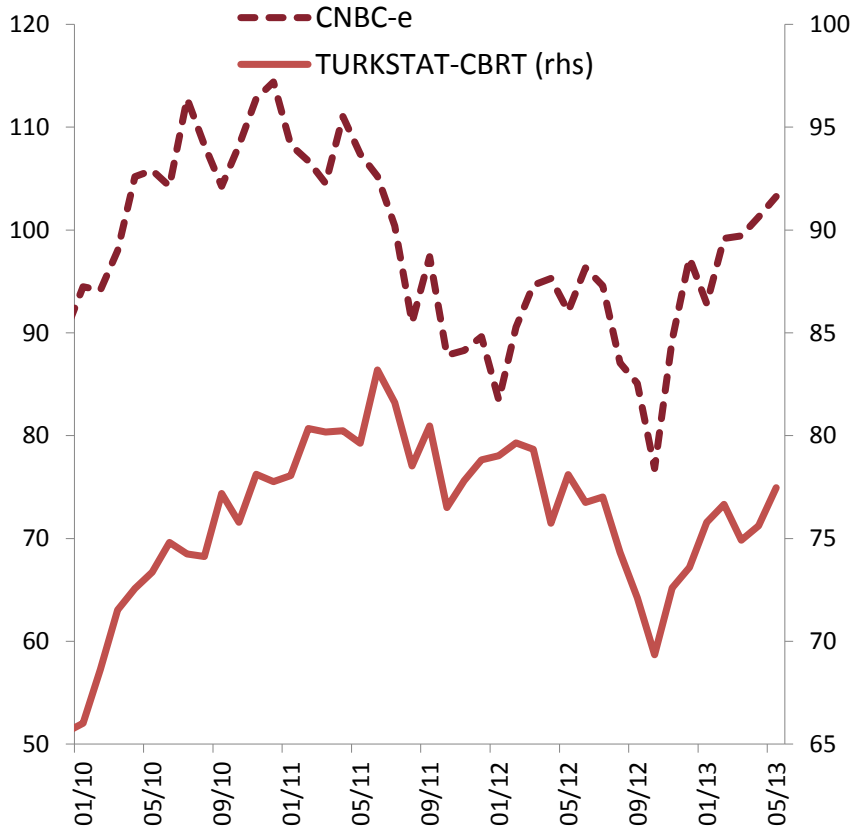


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: March 2013.

Leading Indicators for Demand

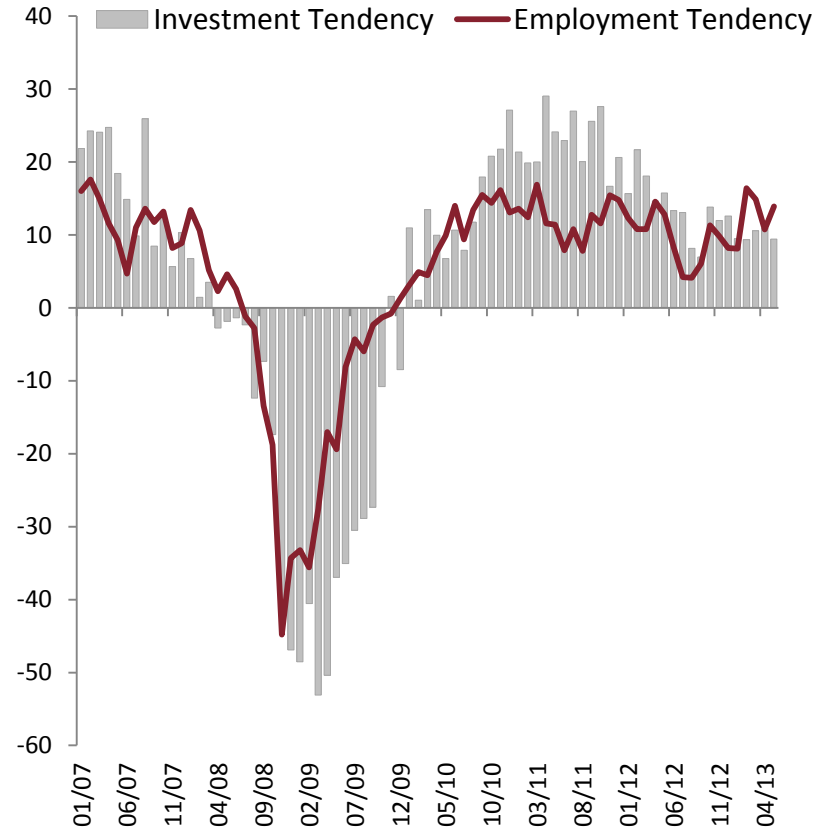
Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: May 2013.

Investment and Employment Prospects* (Seasonally Adjusted)



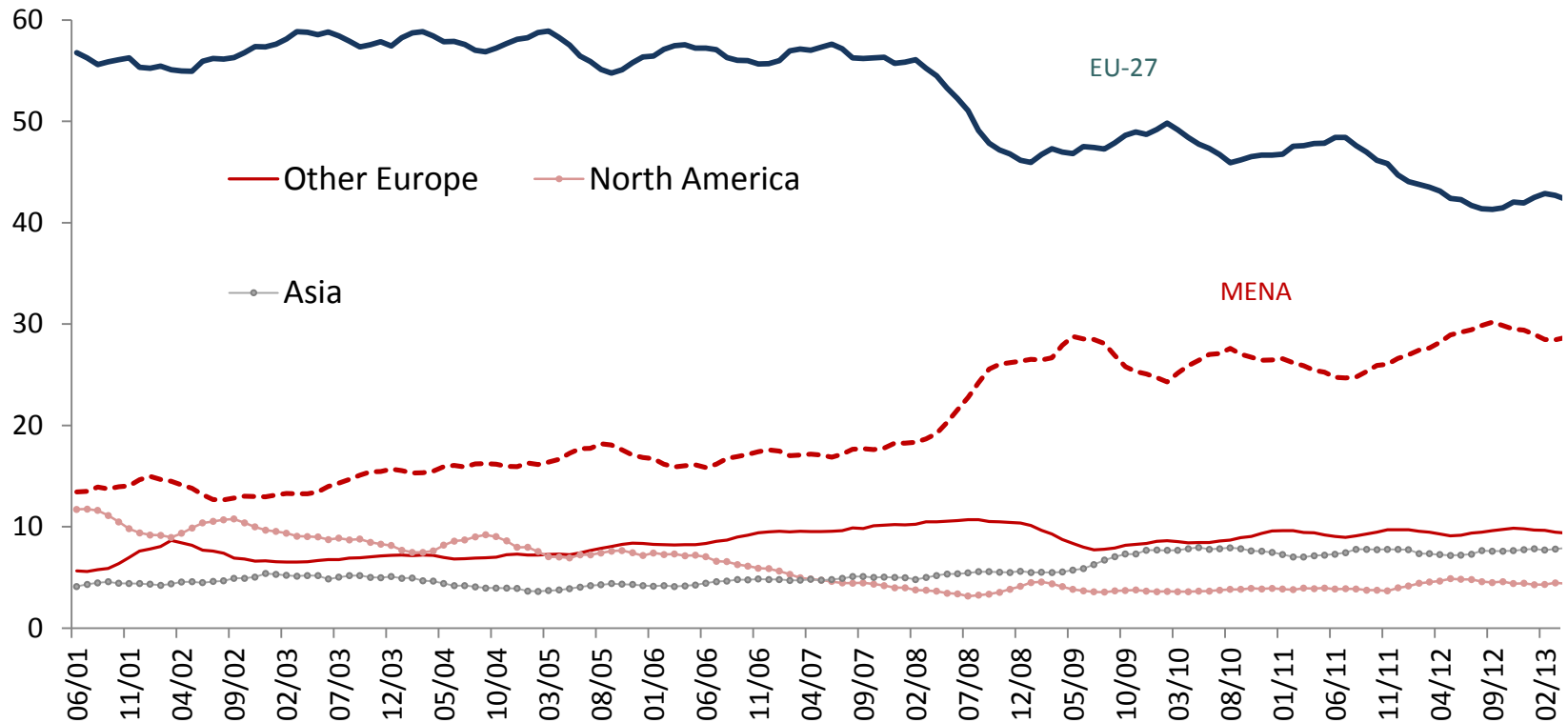
Source: TURKSTAT, CBRT.

* Business Tendency Survey
Last Observation: May 2013.

REBALANCING

Market Share Shifting from EU to MENA

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

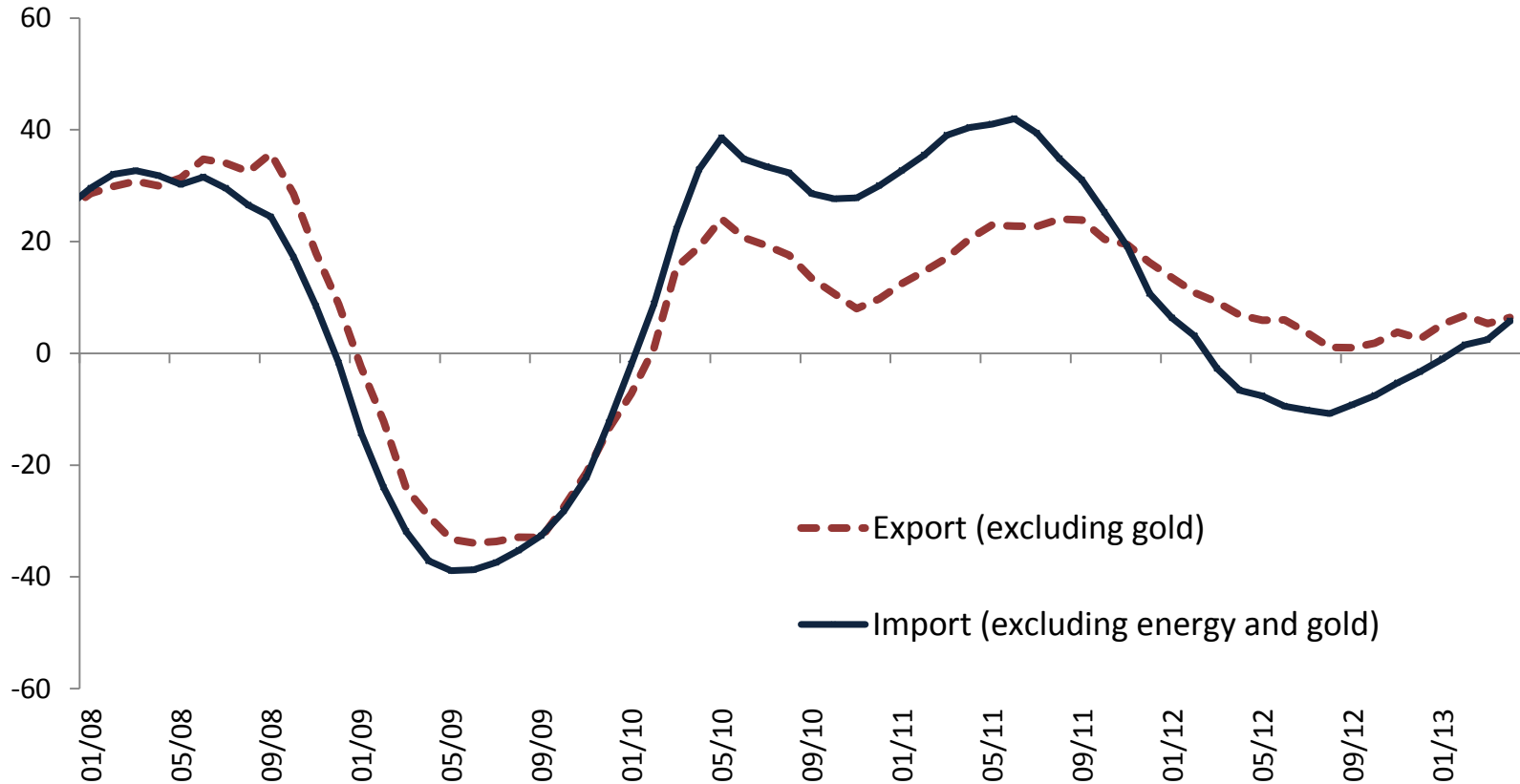


Source: TURKSTAT.

Last Observation: April 2013.

Rebalancing

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

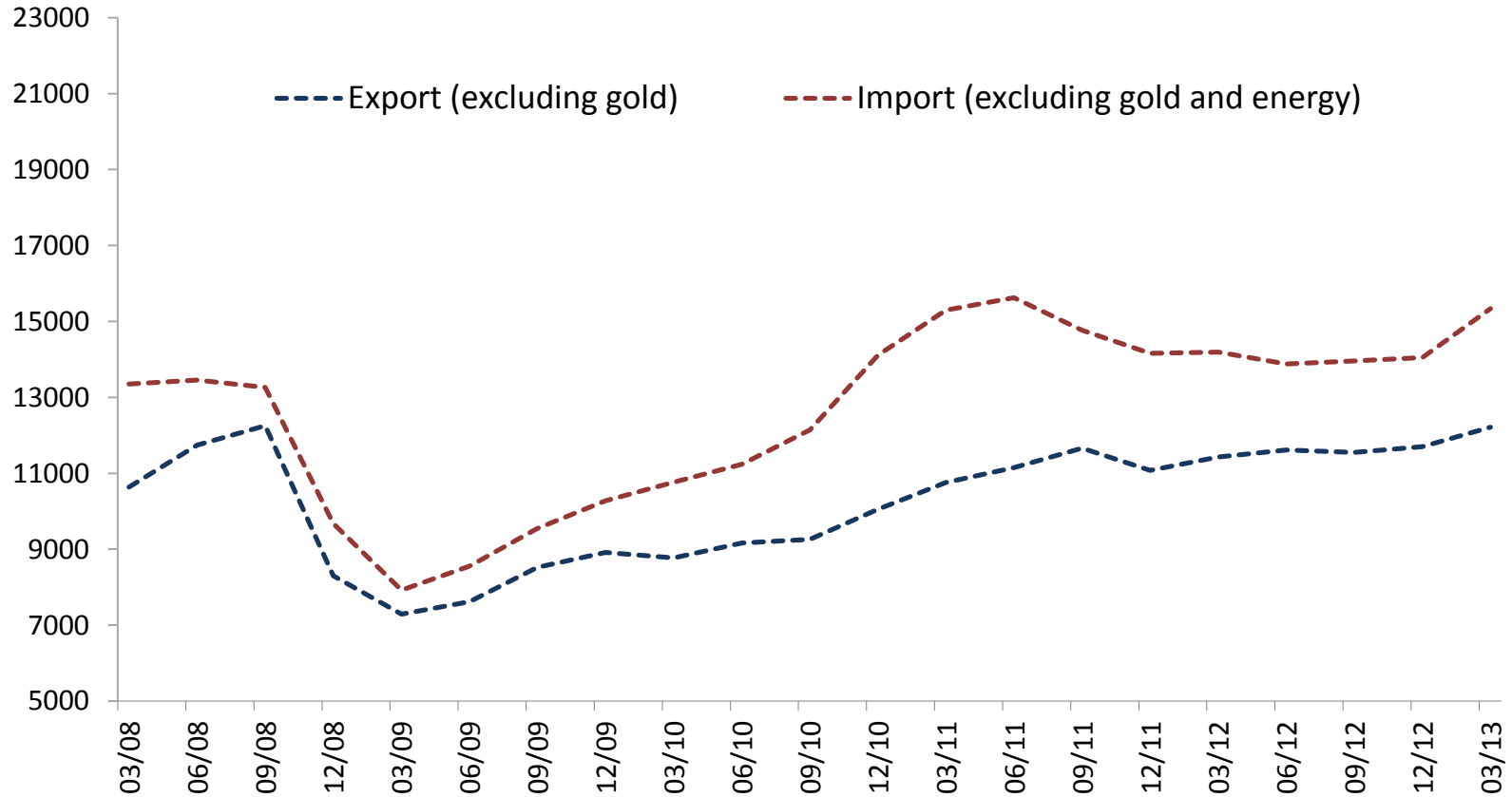


Source: TURKSTAT.

Last Observation: April 2013.

Rebalancing: Main Trends

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

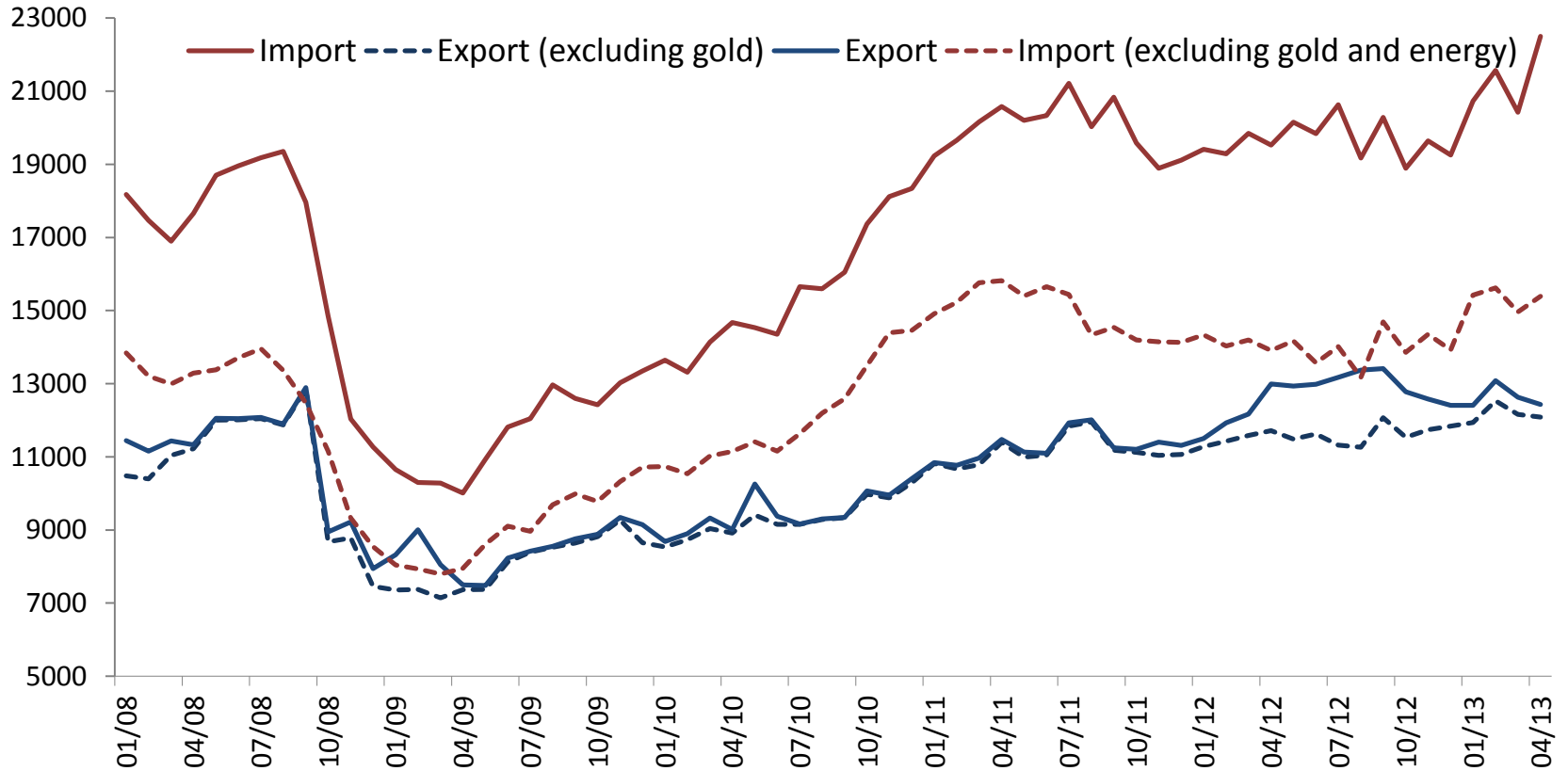


Source: TURKSTAT, CBRT.

Last Observation: March 2013.

Exports and Imports

(Seasonally Adjusted, Million USD)

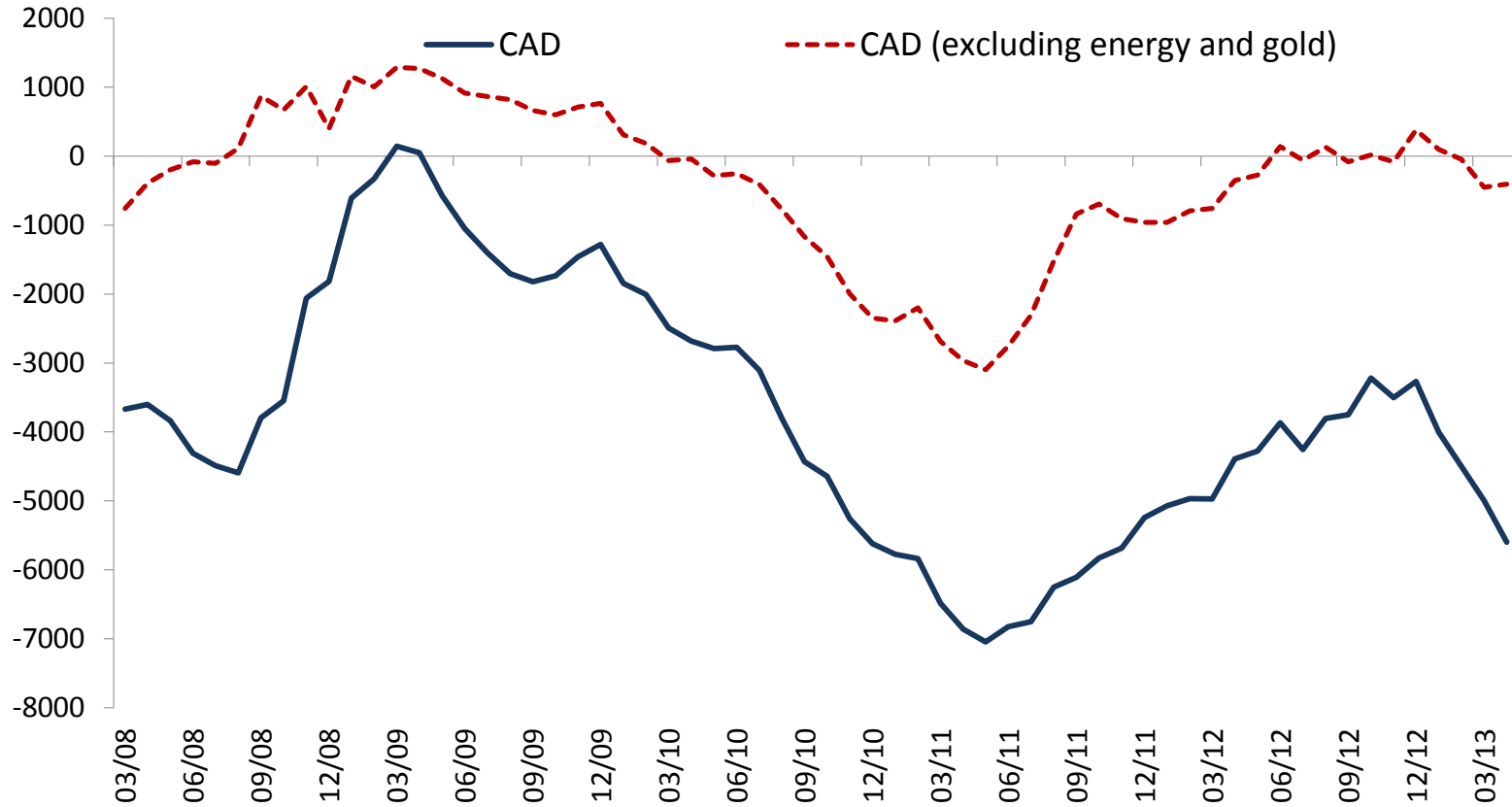


Source: TURKSTAT, CBRT.

Last Observation: April 2013.

Recent Trend in Current Account Balance

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

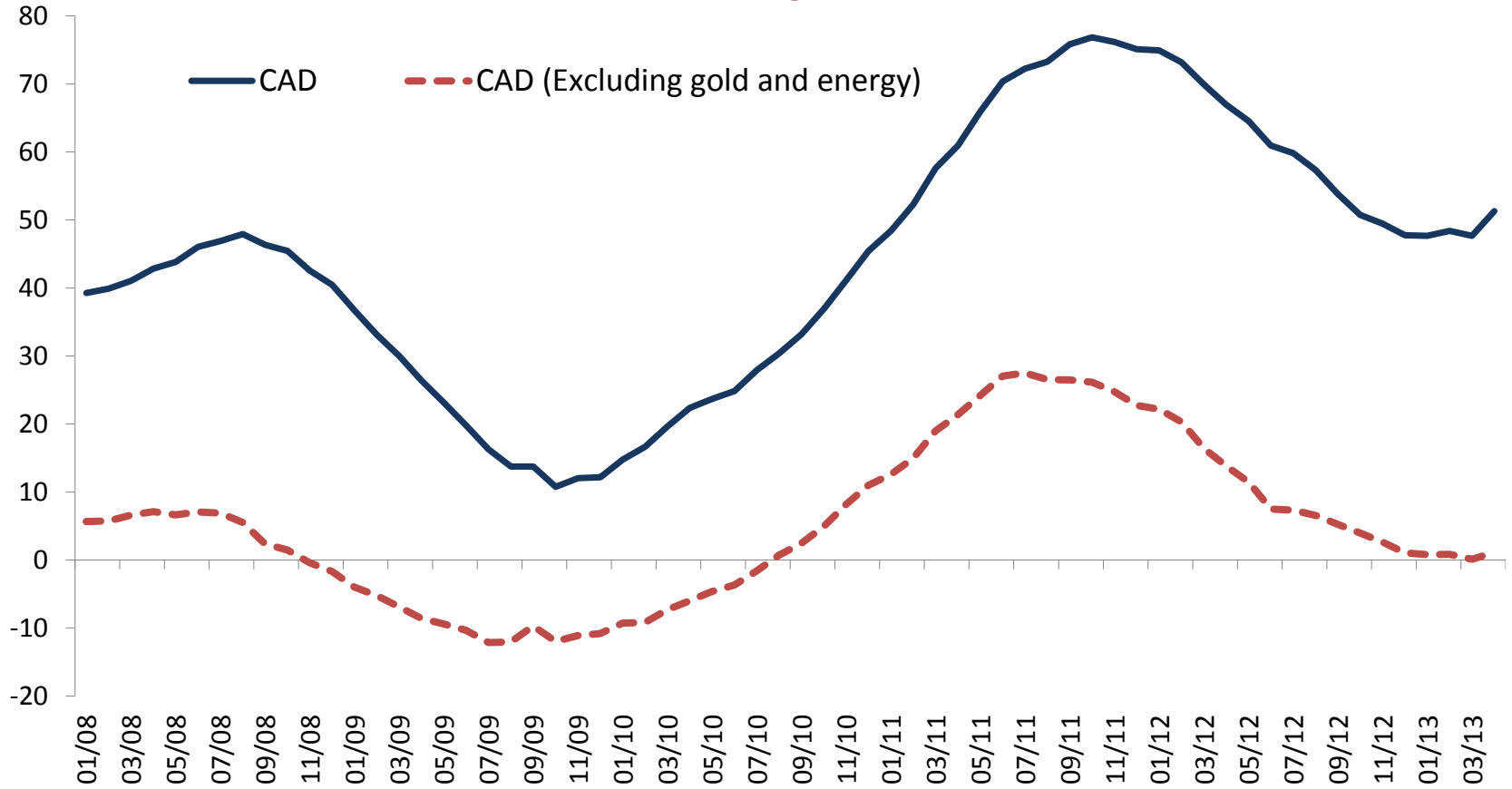


Source: CBRT.

Last Observation: April 2013.

Rebalancing

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

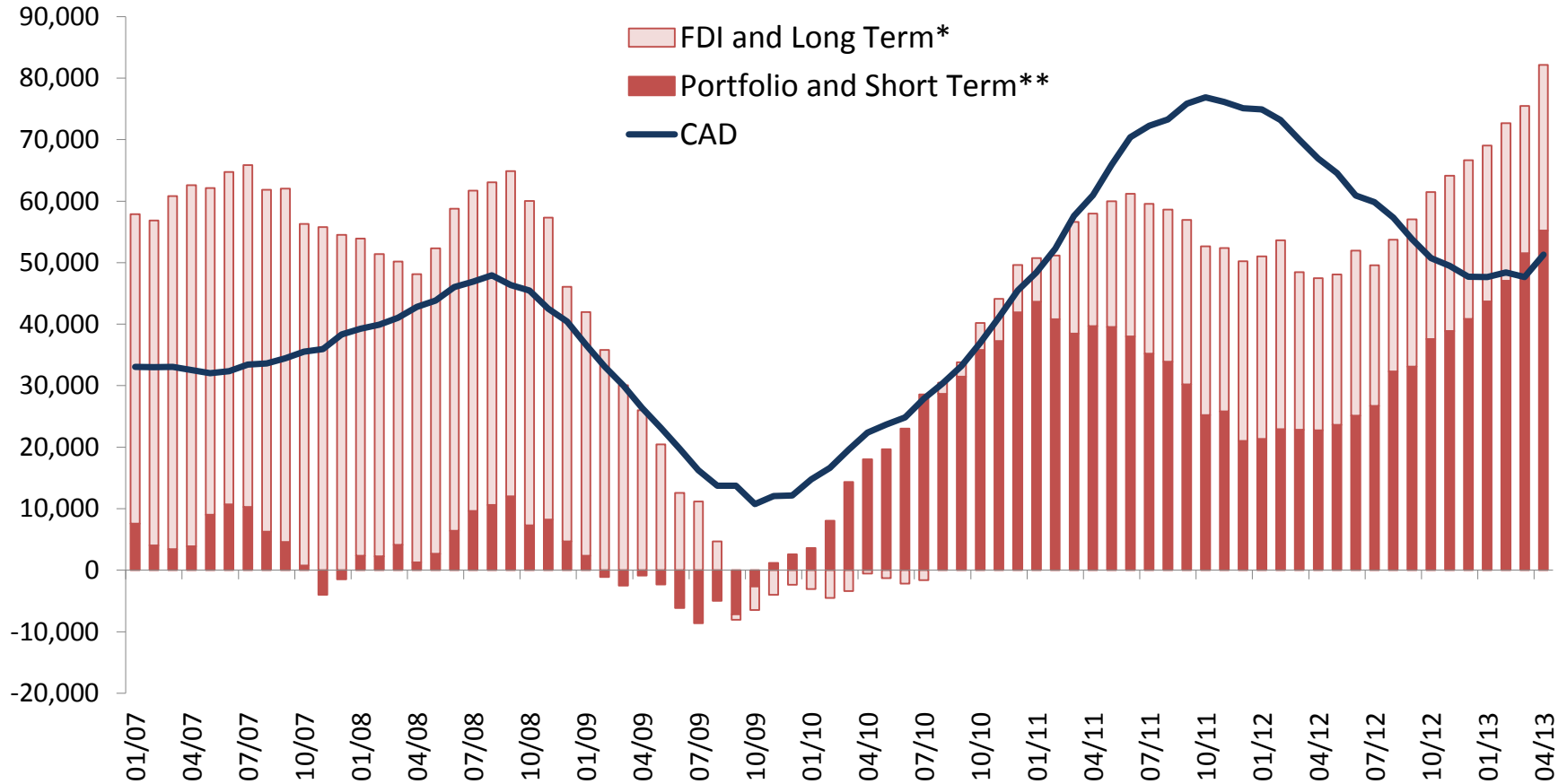


Source: CBRT.

Last Observation: April 2013.

Main Sources of External Finance

(12-months Cumulative, Billion USD)



Source: CBRT.

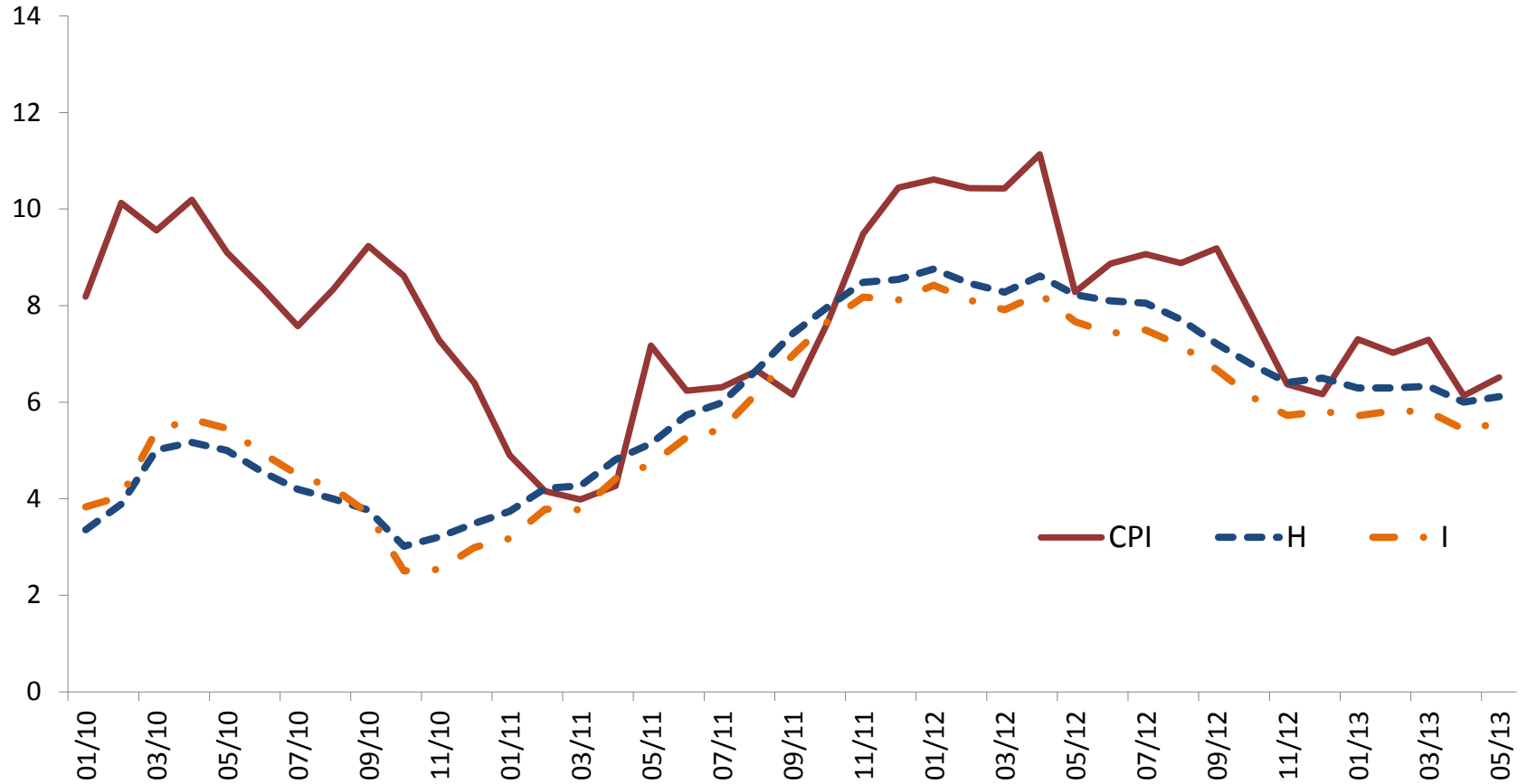
*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

**Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.
Last Observation: April 2013.

INFLATION

Inflation: CPI and Core Indicators

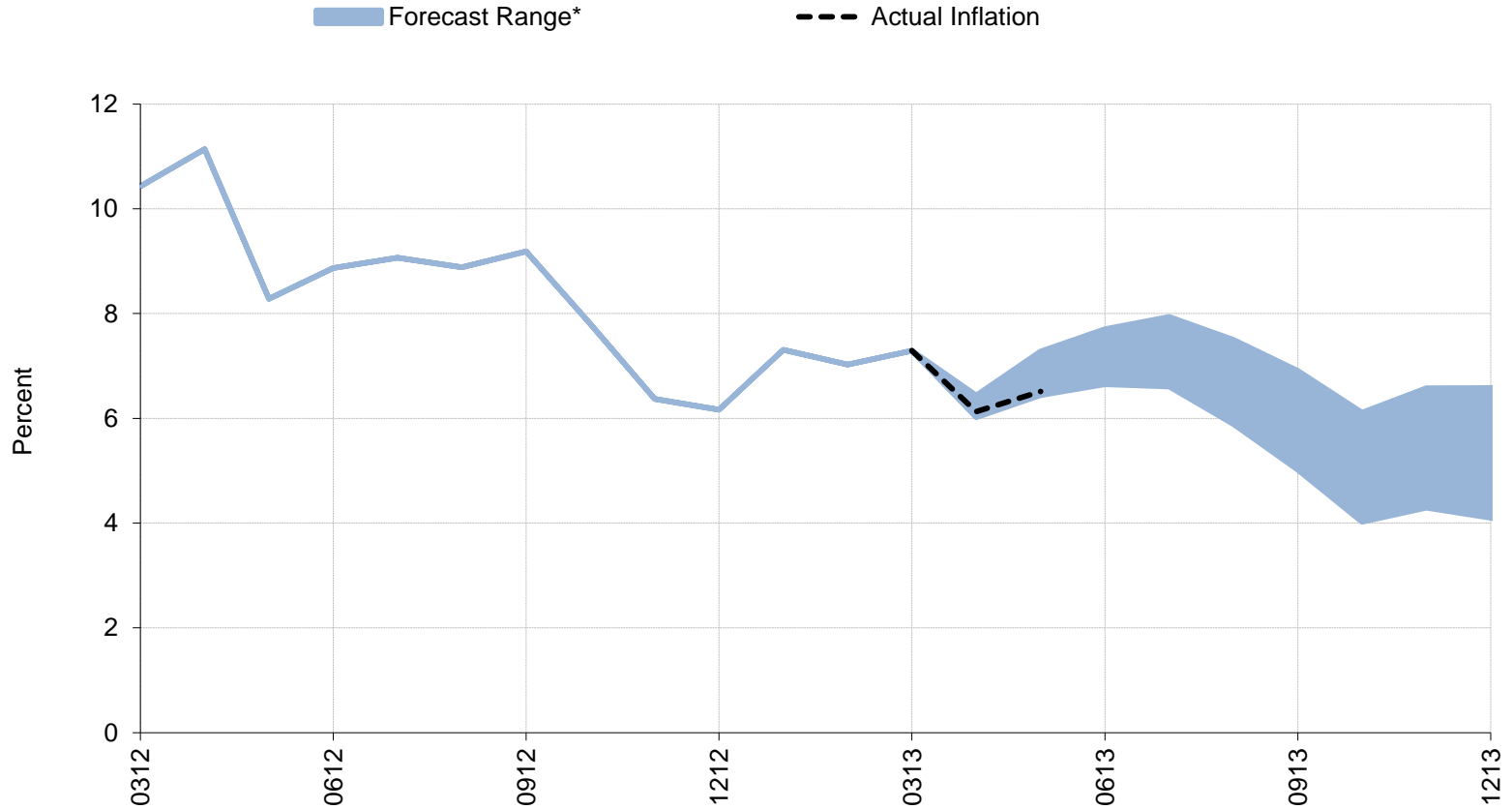
(Annual Percent Change)



Source: TURKSTAT.

Last Observation: May 2013.

April 2013 Inflation Report Projections and Realizations

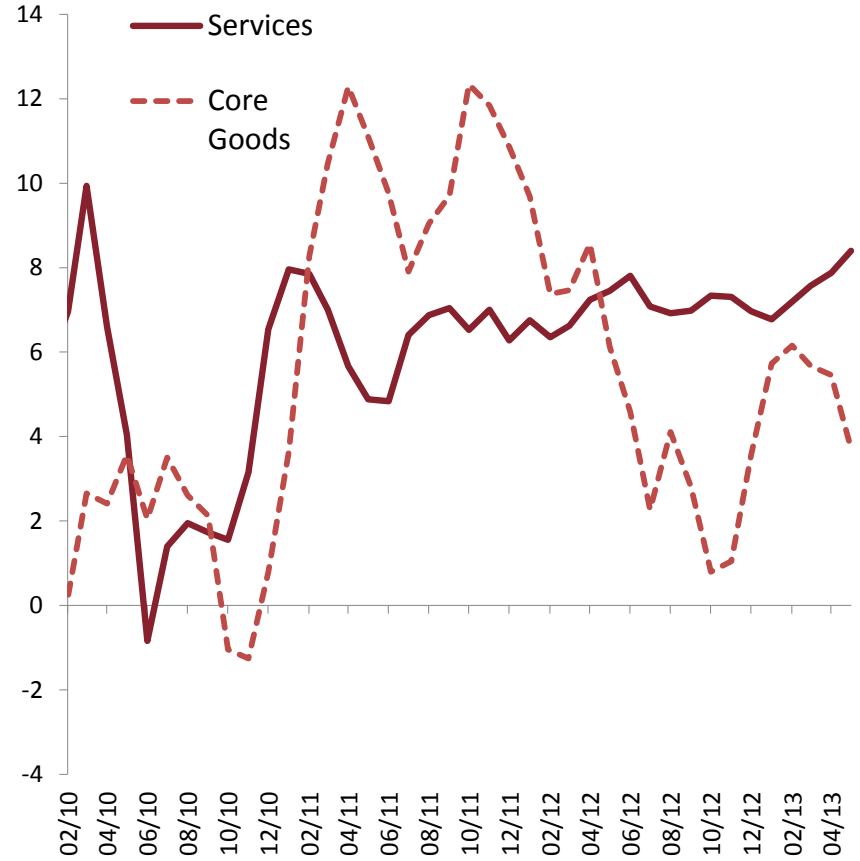
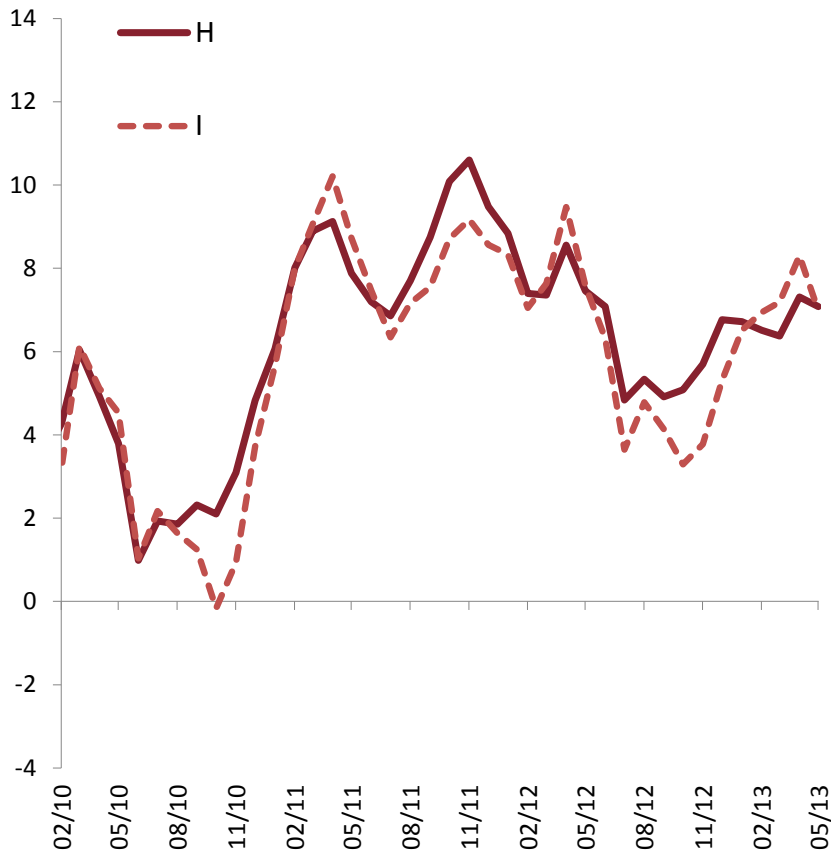


* Shaded region indicates the 70 percent confidence interval for the forecast

Last Observation: May 2013.

Trend Inflation

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

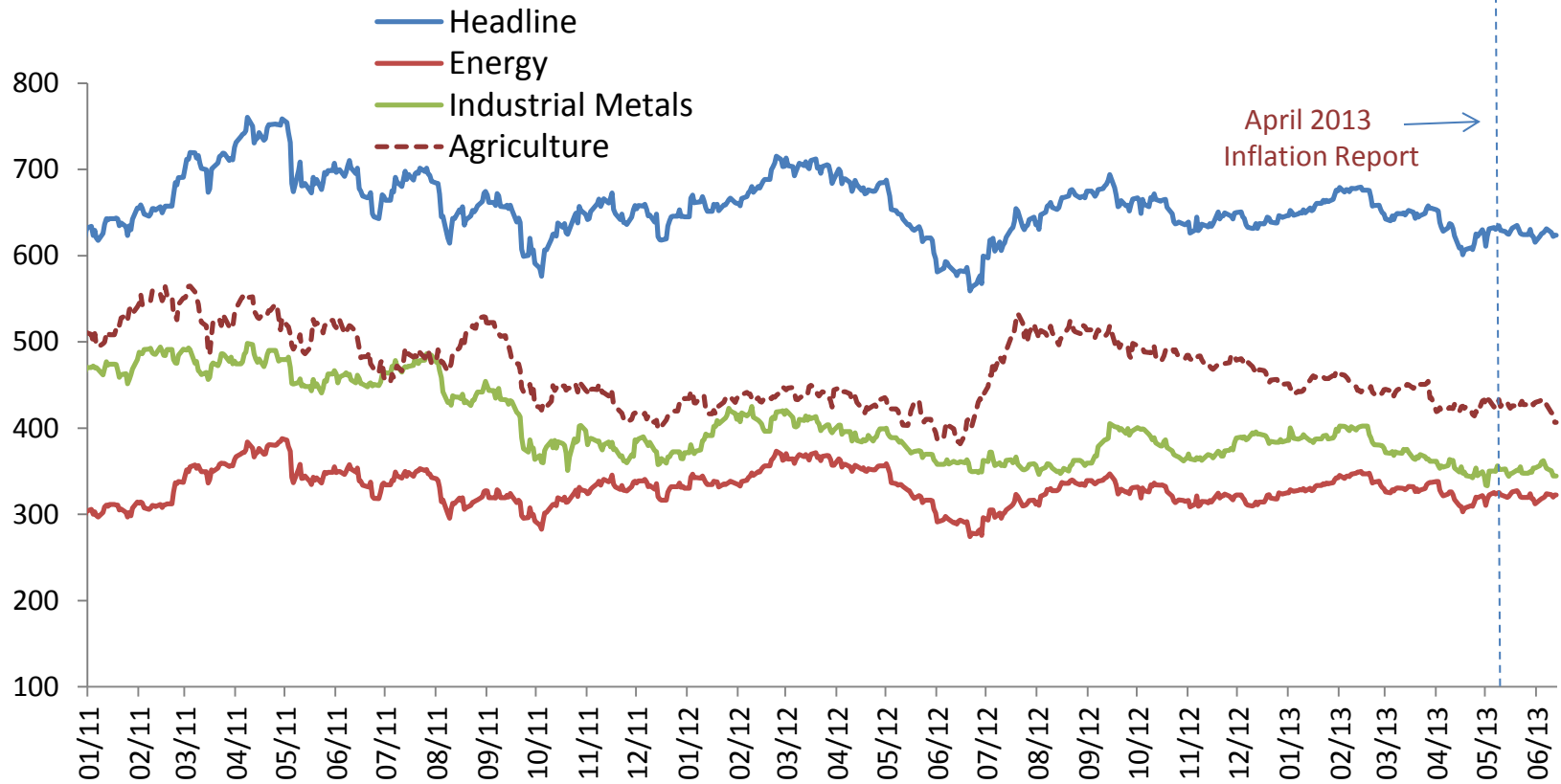


Source: TURKSTAT, CBRT.

Last Observation: May 2013.

Commodity Prices

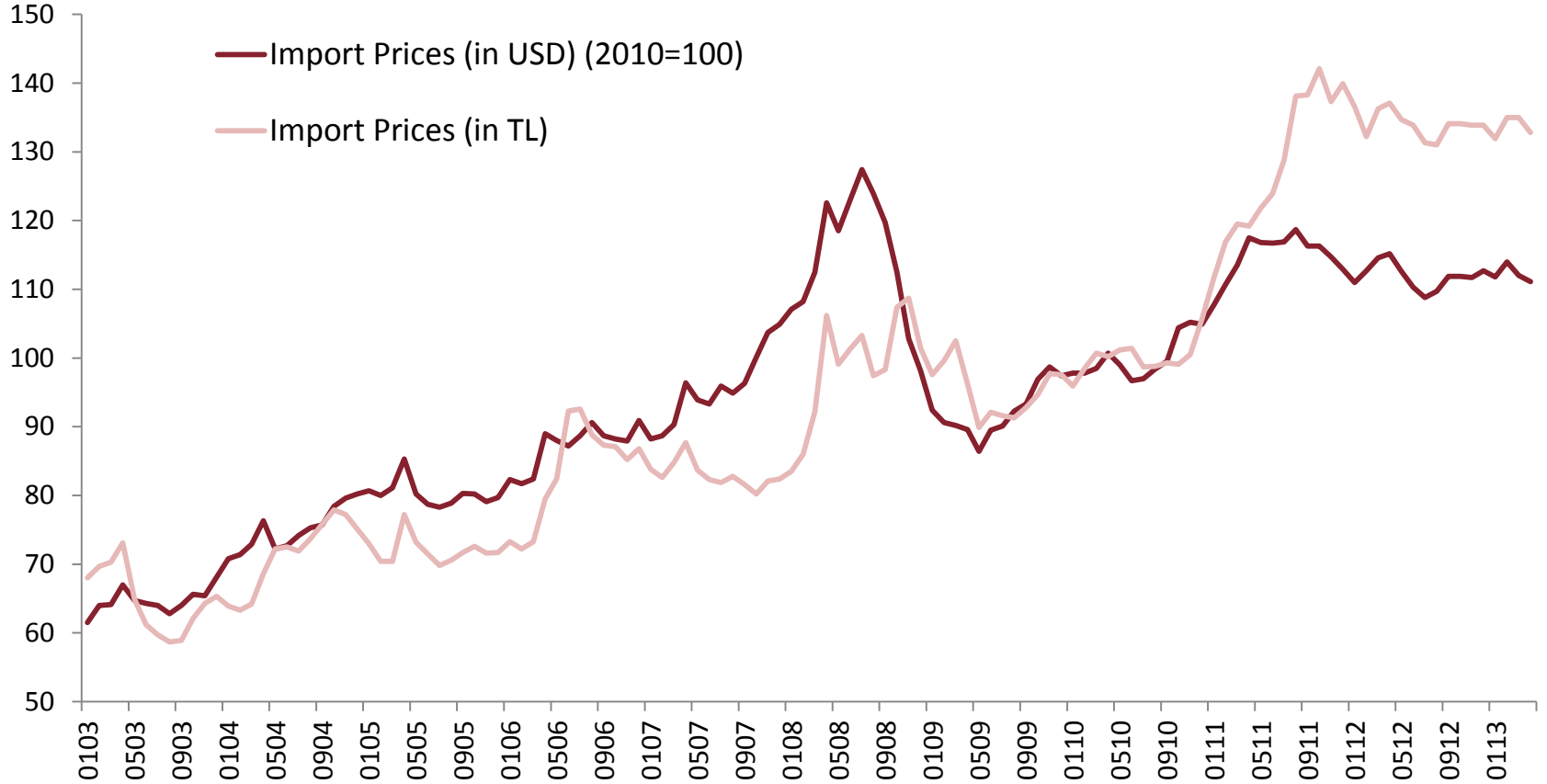
S&P GS Indices



Source: Bloomberg.

Last Observation: June 13, 2013.

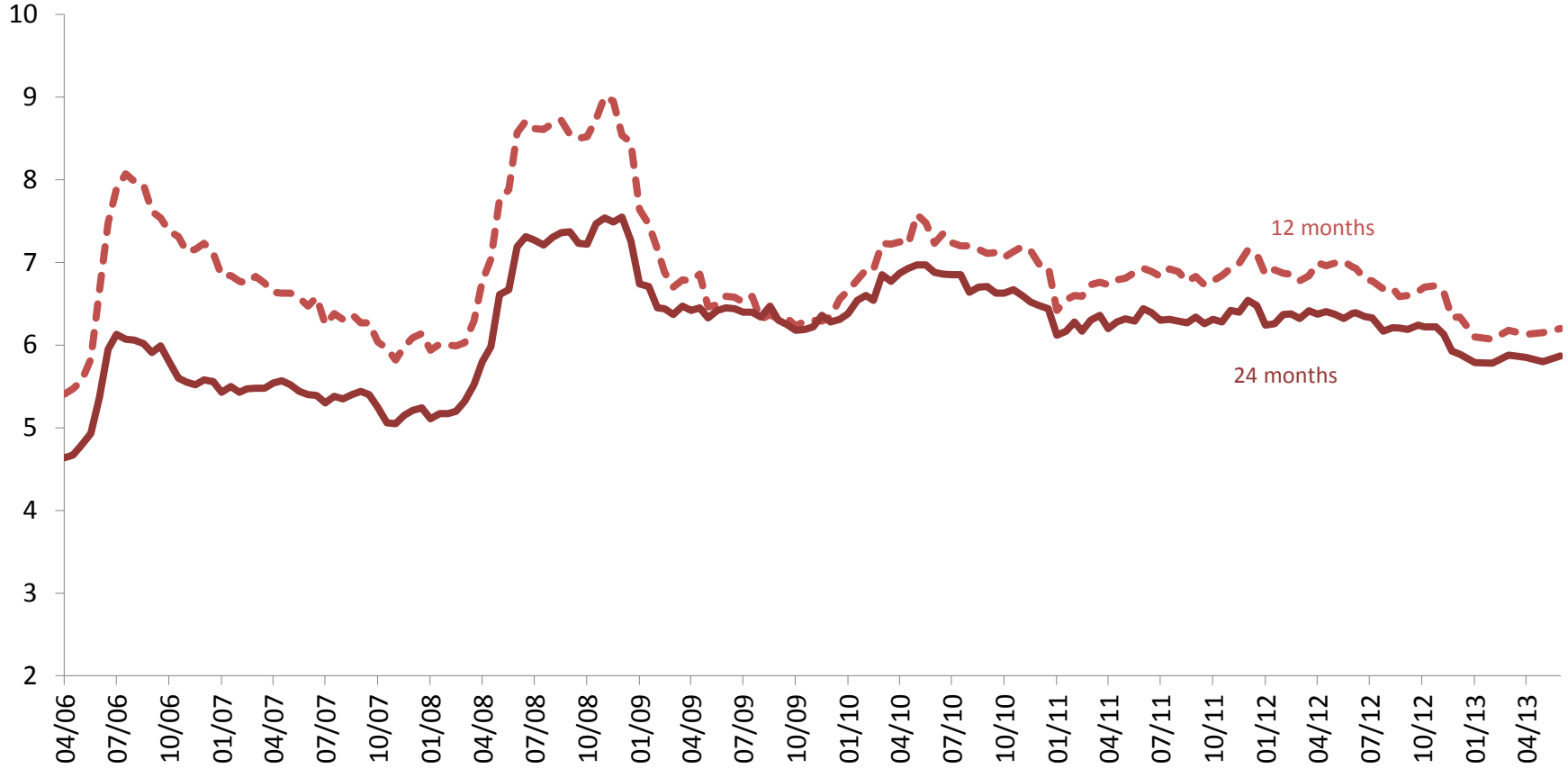
Import Prices



Source: TURKSTAT.

Last Observation: April 2013.

Inflation Expectations



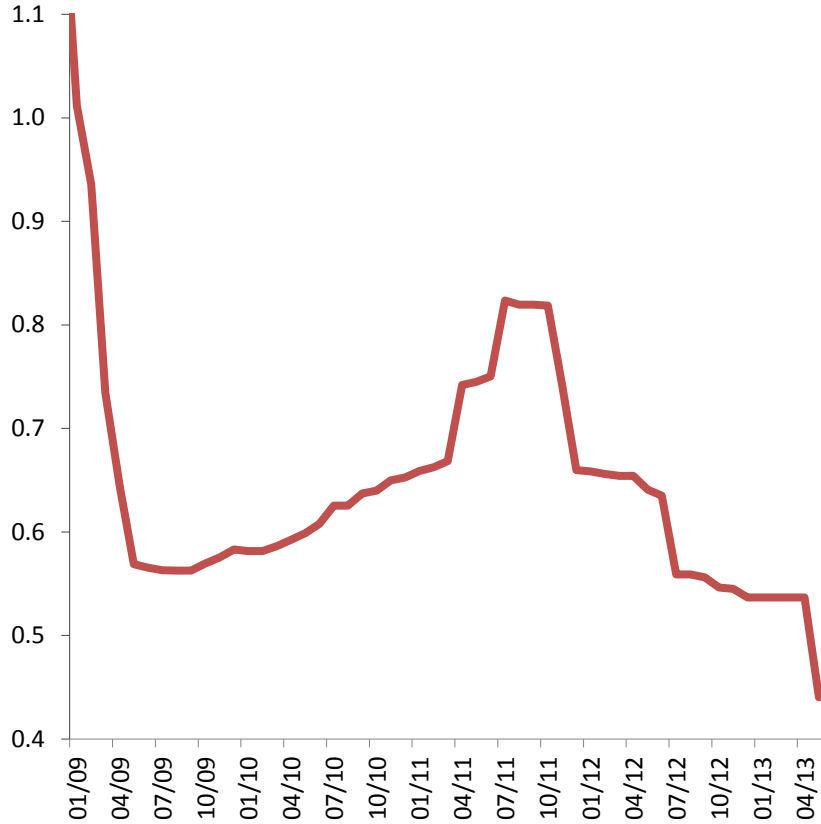
Source: CBRT.

Last Observation: June 2013.

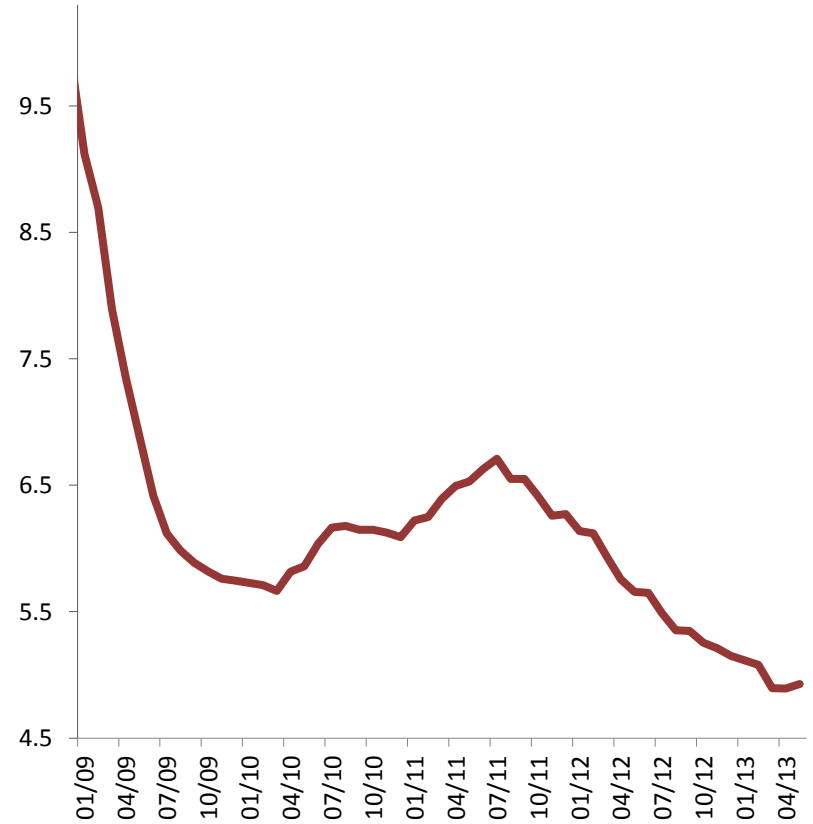
Monetary and Financial Conditions

Global Policy Rates

Advanced Countries



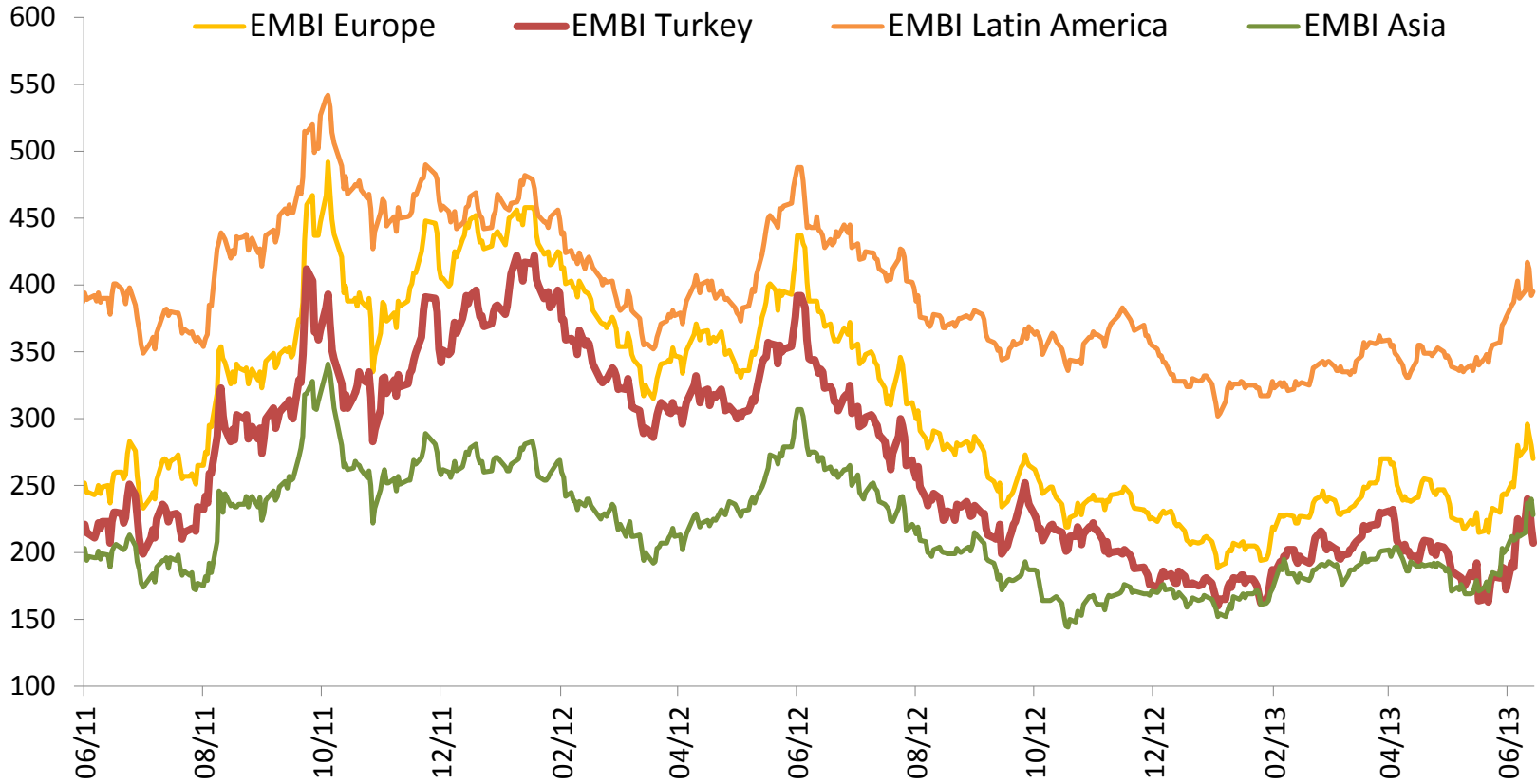
Emerging Countries



Source: Bloomberg.

Last Observation: May 2013.

Risk Premium

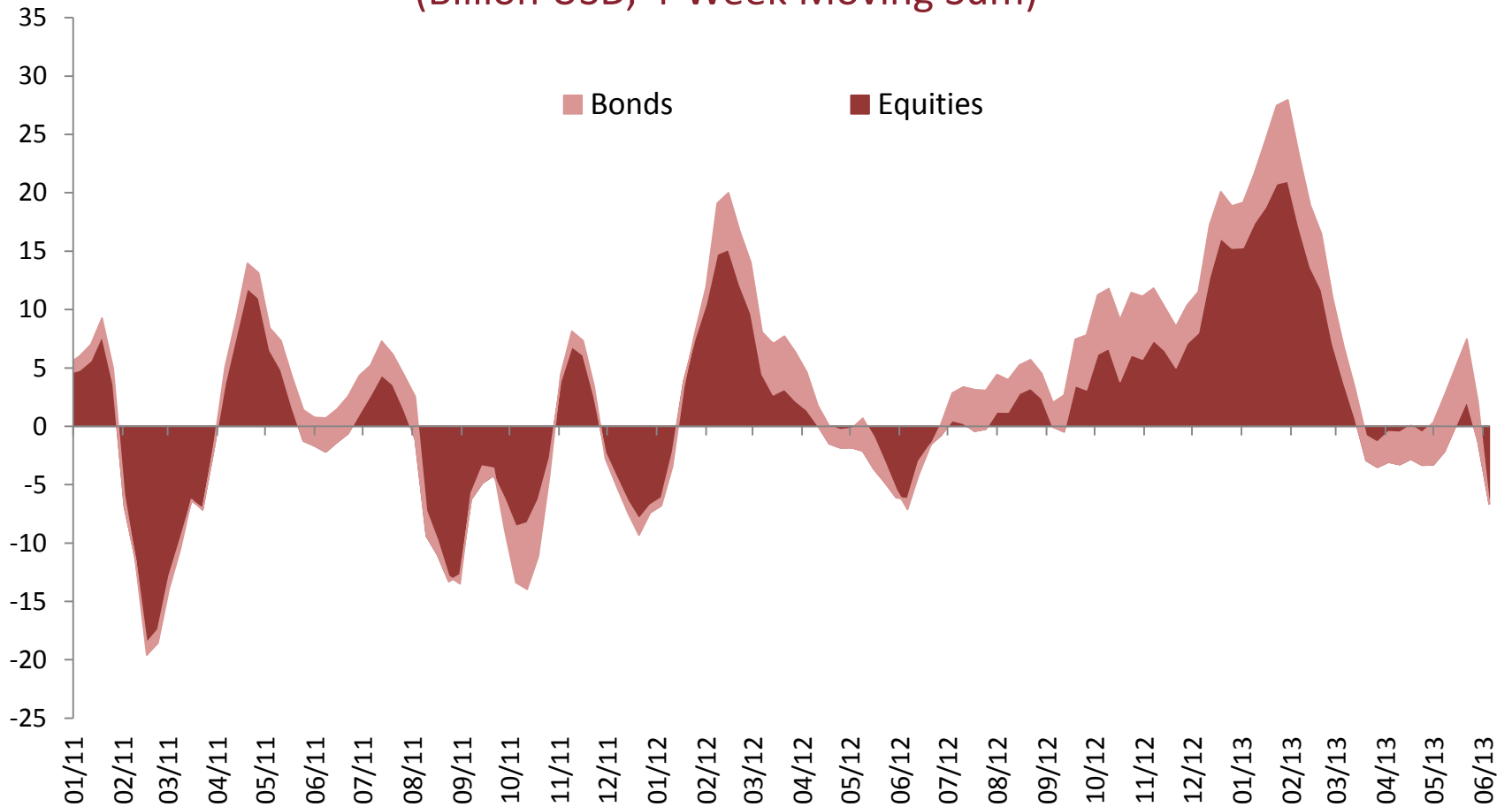


Source: Bloomberg.

Last Observation: June 14, 2013.

Capital Flows

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

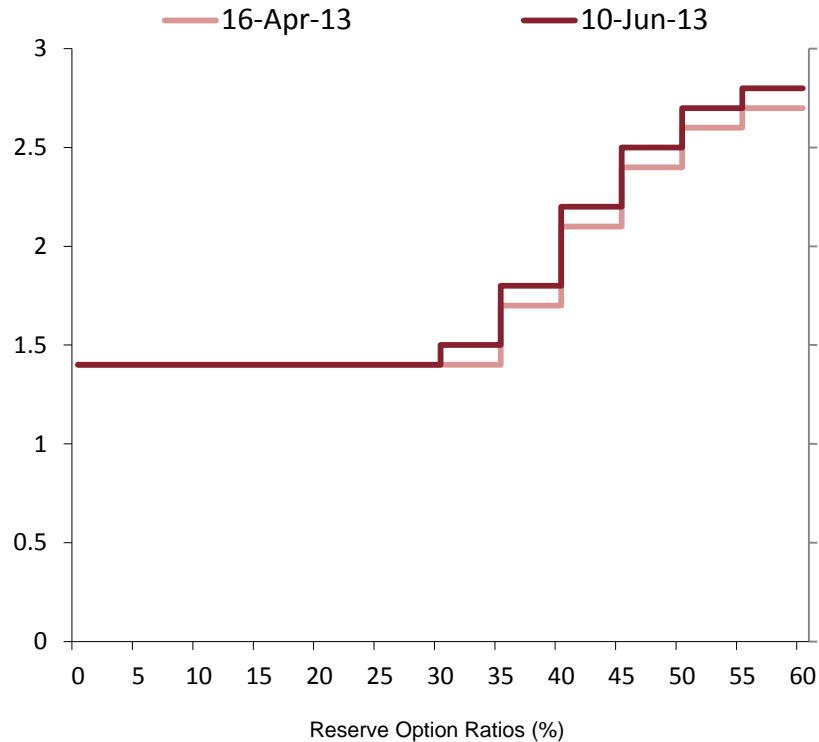


Source: EPFR.

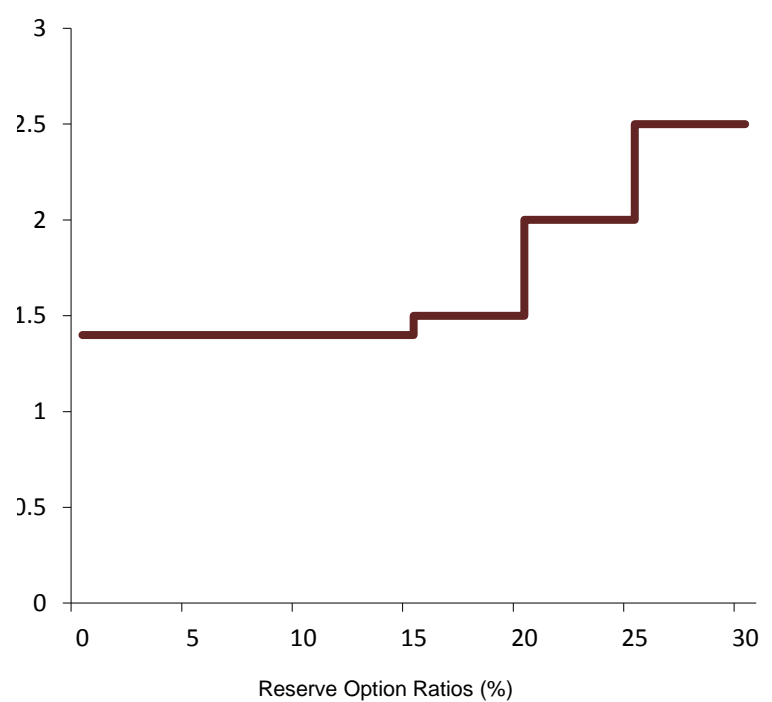
Last Observation: June 05, 2013.

Reserve Options Coefficients (ROC)

Reserve Option Coefficients for FX



Reserve Option Coefficients for Gold

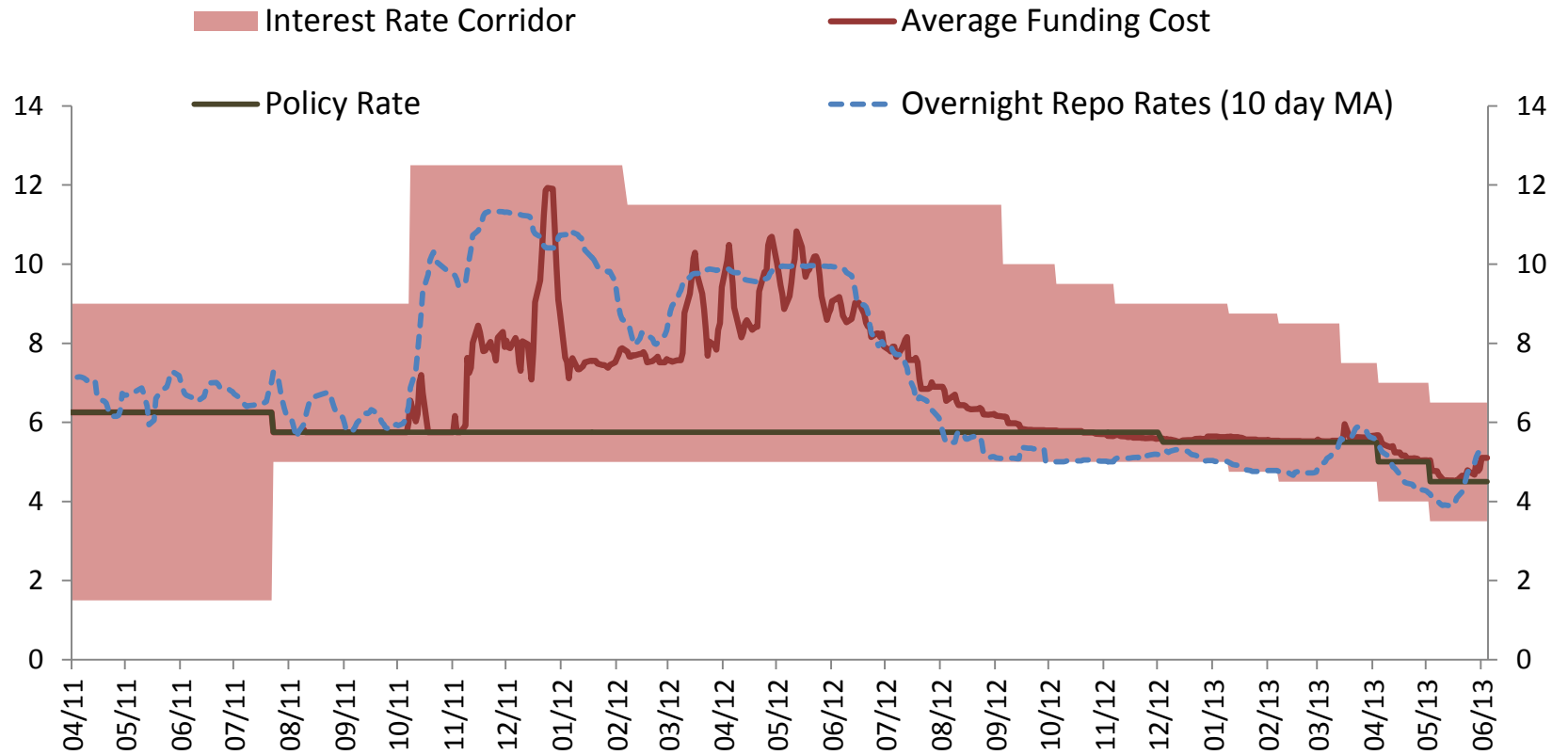


Source: CBRT.

Source: CBRT.

Monetary Policy

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

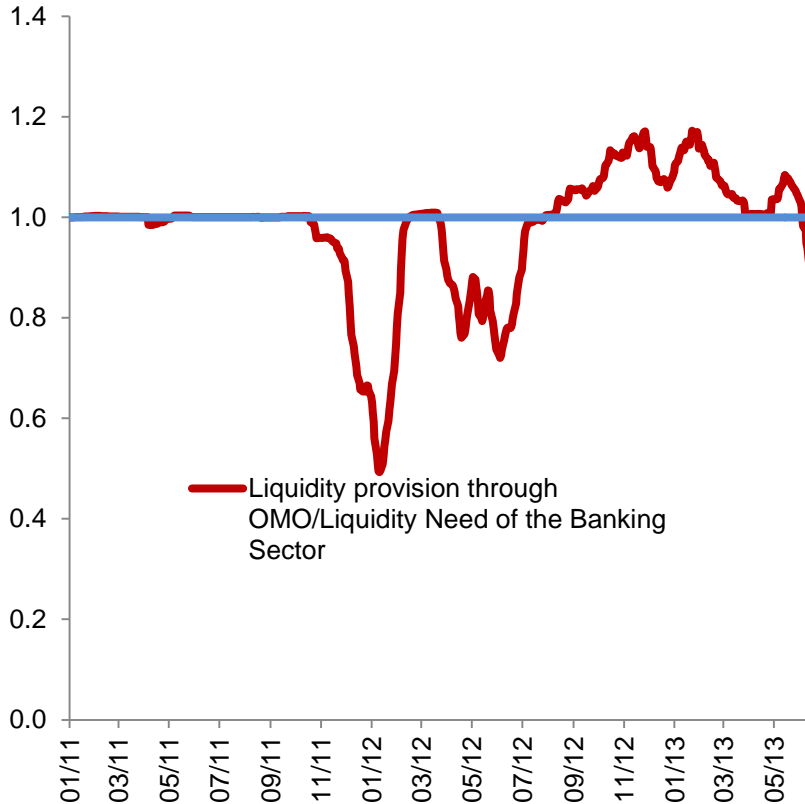


Source: CBRT.

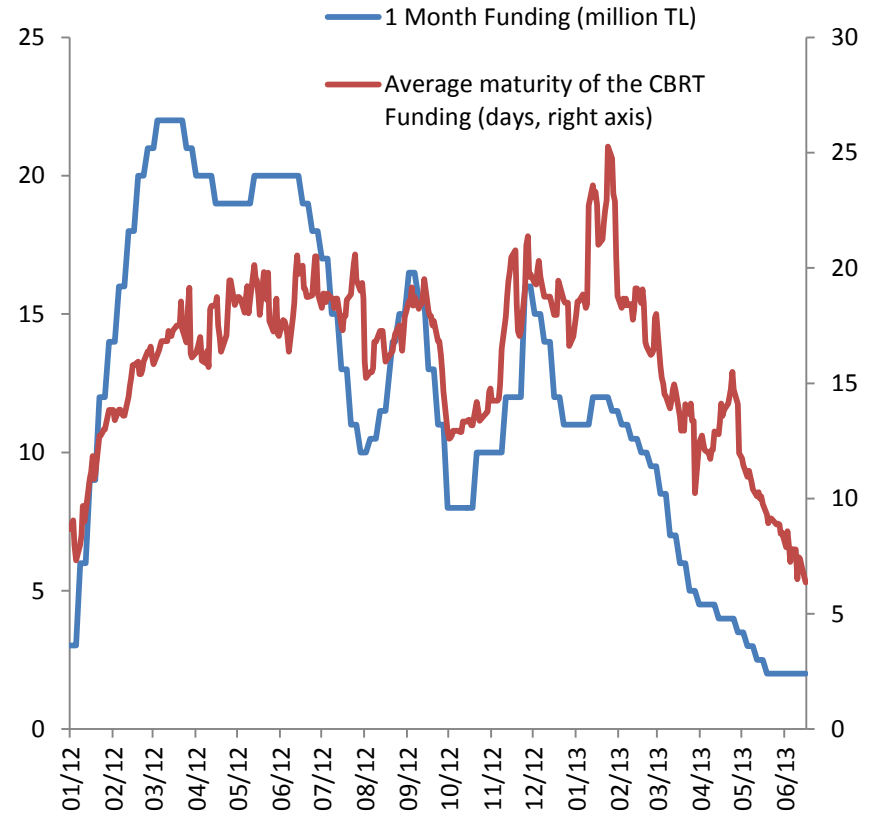
Last Observation: June 17, 2013.

Liquidity Policy

Liquidity Stance of the CBRT



Maturity of Liquidity Provision

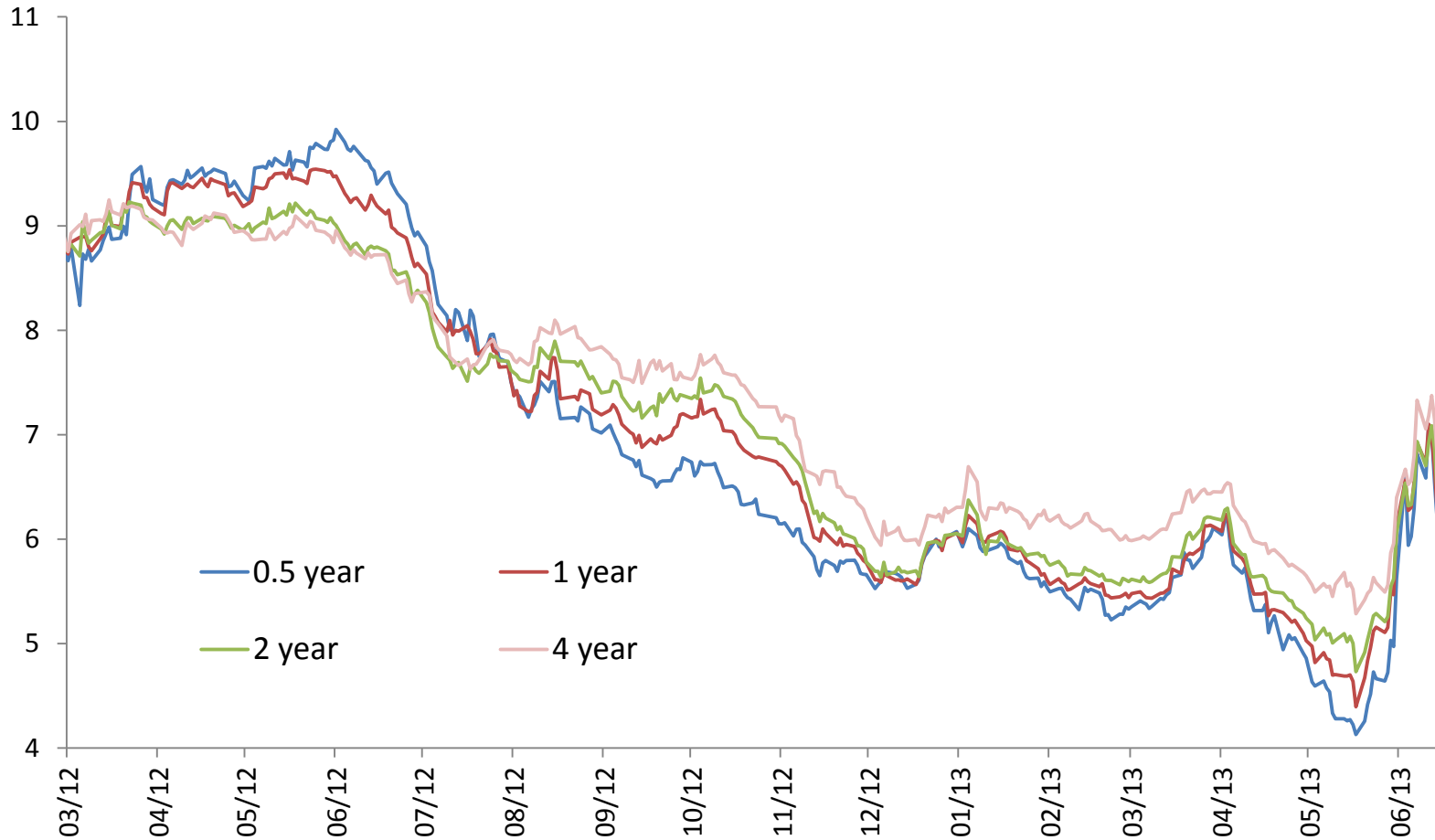


Source: CBRT.

Last Observation: June 17, 2013.

Last Observation: June 17, 2013.

Interest Rates Across Different Maturities

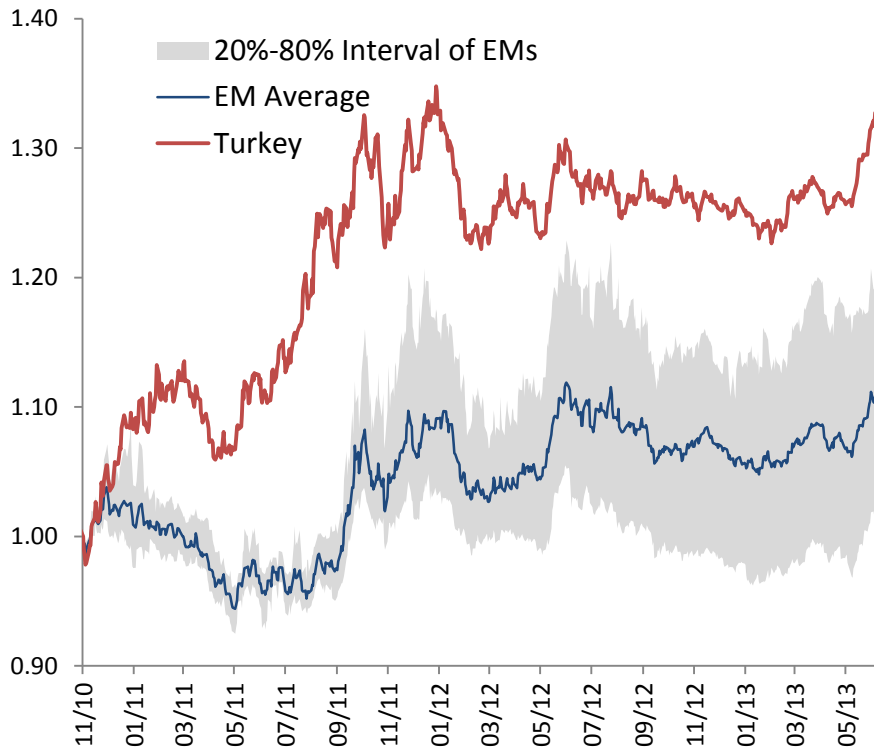


Source: BIST, CBRT.

Last Observation: June 14, 2013.

Nominal and Real Exchange Rates

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

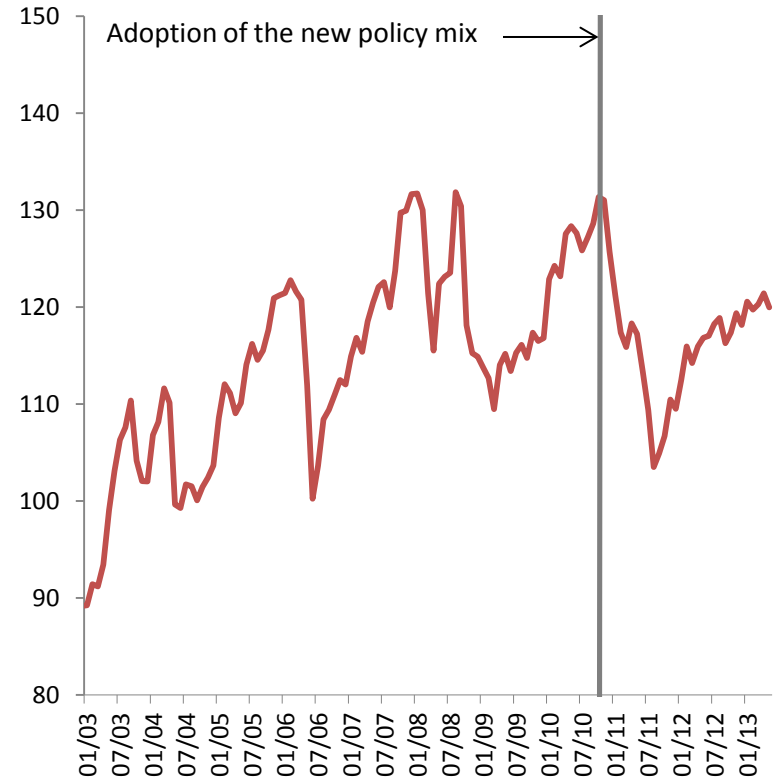


Last Observation: June 14, 2013.

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)**



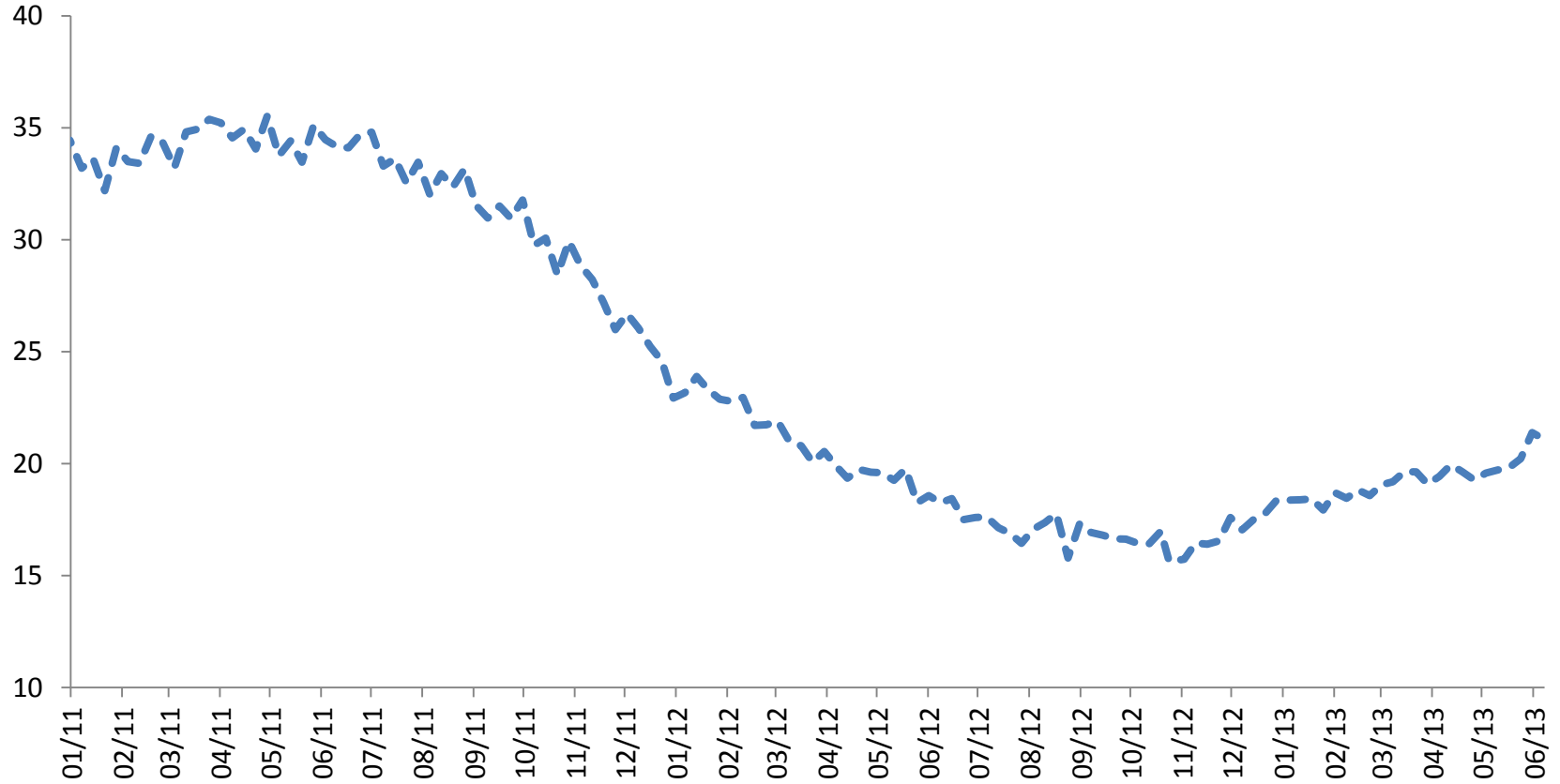
Last Observation: May 2013.

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: June 07, 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)

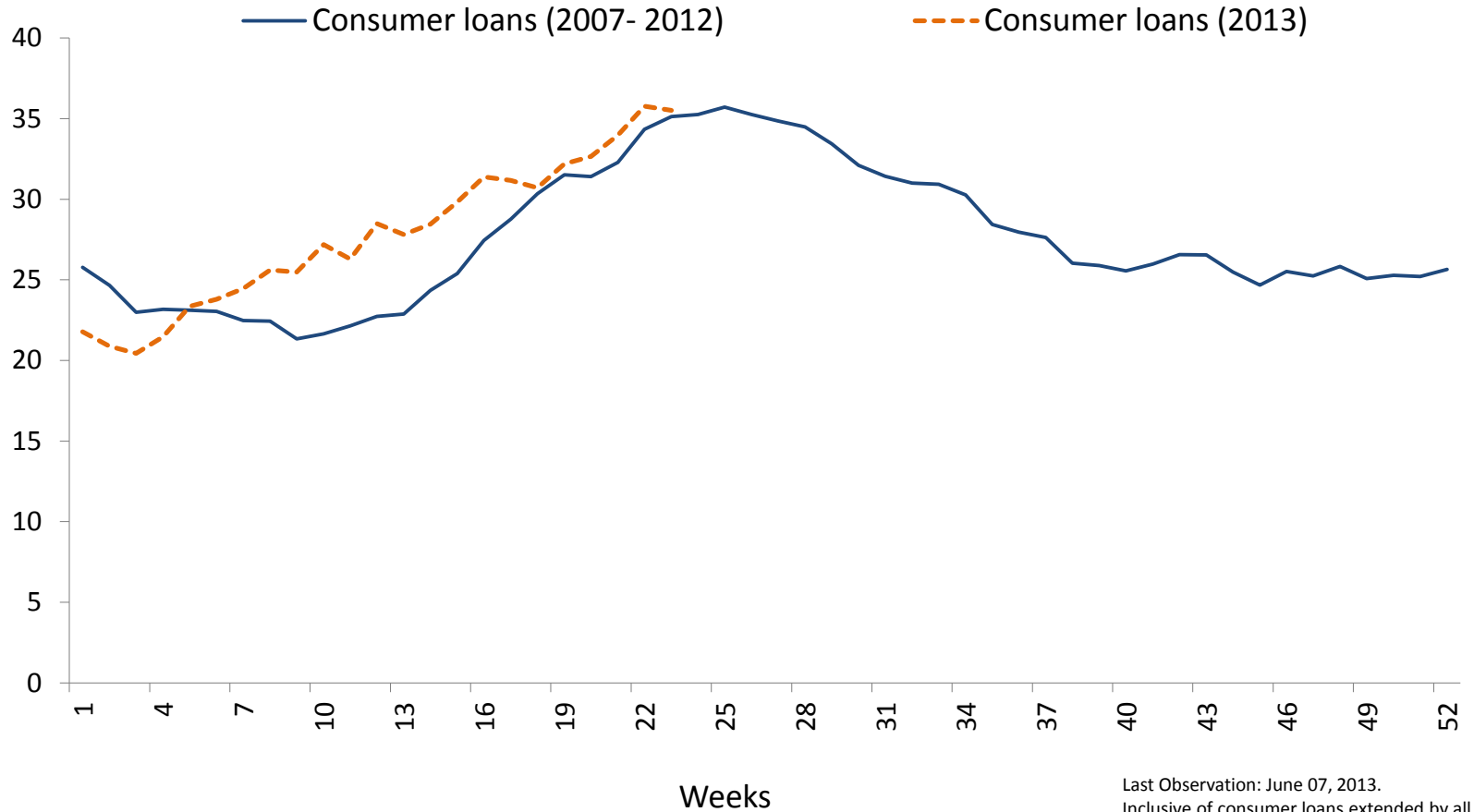


Source: CBRT.

Last Observation: June 07, 2013.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Consumer Loans

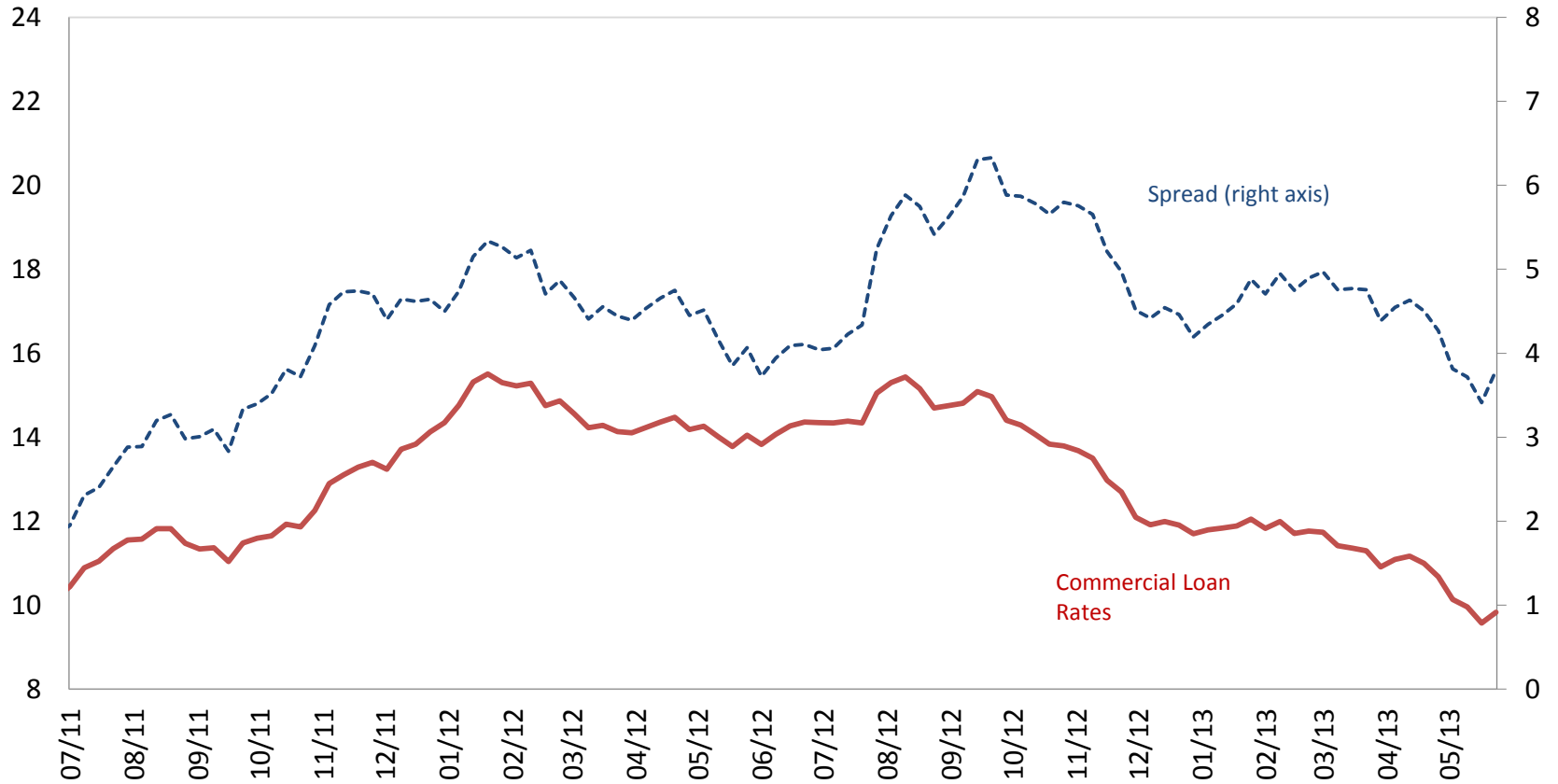
Consumer Loan Growth Rates (13-Week Moving Average, Annualized, Percent)



Source: CBRT.

Last Observation: June 07, 2013.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

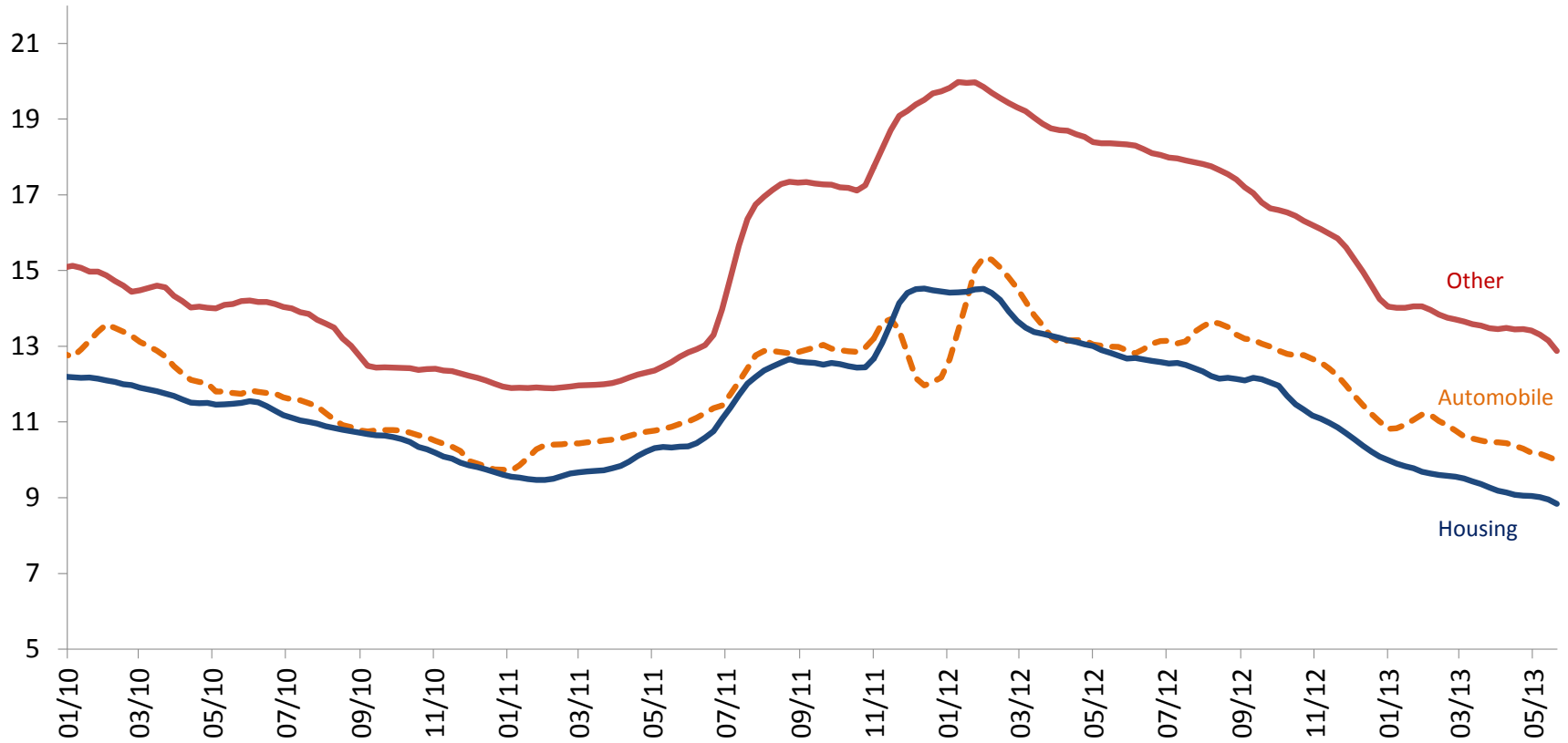
Lending - Deposit Rate Spread



Source: CBRT.

Last Data: May 24, 2013.
4 Weeks MA

Consumer Loan Rates



Source: CBRT.

Last Observation: May 24, 2013.

Overview

- Domestic demand follows a healthy recovery while exports slow down due to weak global economic activity.
- Capital flows have weakened due to increasing uncertainty regarding the global monetary policies. Yet, loan growth continues to hover above the reference rate.
- The impact of exchange rate movements as well as growth in loans and domestic demand on the pricing behavior will be closely monitored.
- Inflation is expected to increase significantly due to unprocessed food prices in June and to start falling in August.
- Ongoing uncertainties regarding the global economy and the volatility in capital flows necessitate the monetary policy to remain flexible in both directions.
- Necessary adjustments will be made in the composition of Turkish lira liquidity provided by the Central Bank.



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