



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**Presentation before the Planning and
Budget Commission of the Grand National
Assembly of Turkey**

**Erdem Başçı
Governor**

June 14, 2012

Outline

- I. Global Economic Developments**
- II. The New Policy Framework**
- III. External Balance**
- IV. Growth**
- V. Inflation**

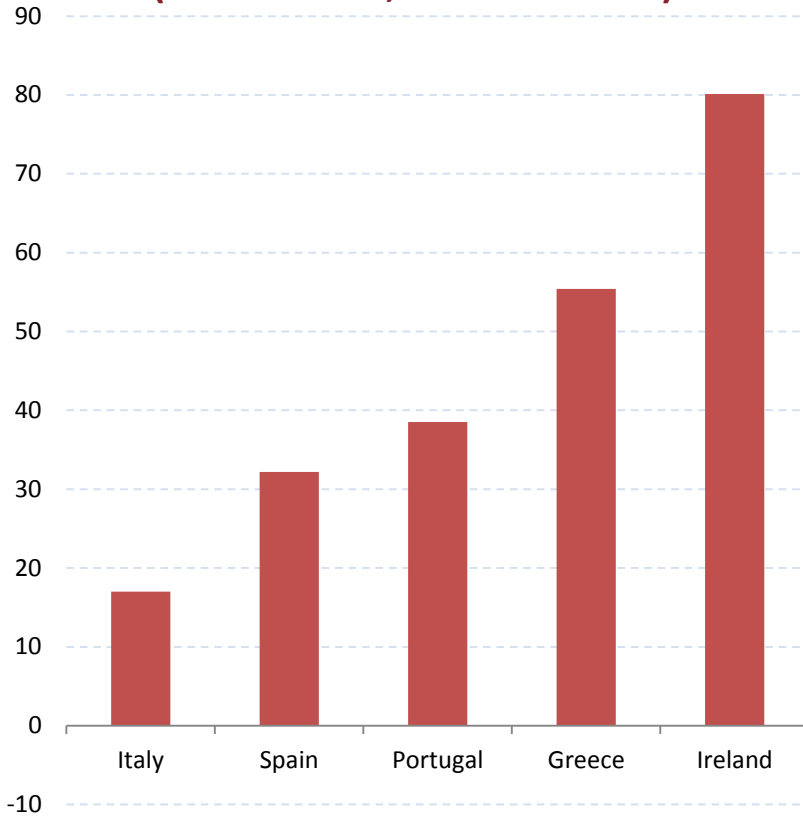
GLOBAL ECONOMIC DEVELOPMENTS

Two Different Phase in Global Crisis

- 1. Lehman Crisis: Global Effect**
- 2. European Debt Crisis: Selective Effect**

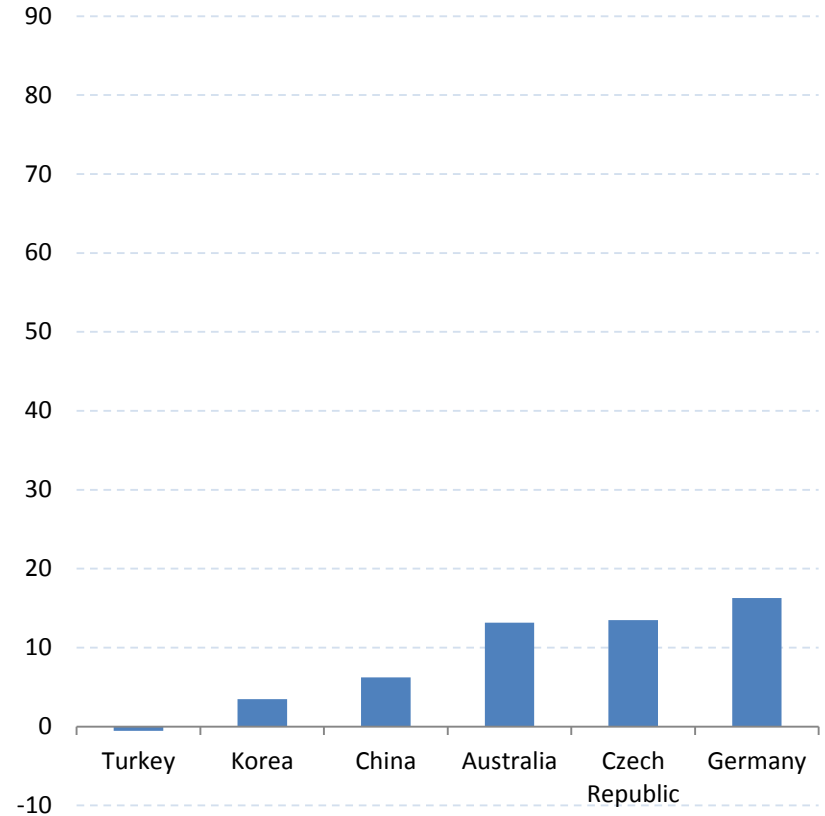
Increase in Public Debt (2007-2011)

Countries Failing to Sustain Fiscal Discipline (Ratio to GDP, Percent Points)



Source: IMF WEO, CBRT.

Countries Sustaining Fiscal Discipline (Ratio to GDP, Percent Points)



Source: IMF WEO, CBRT.

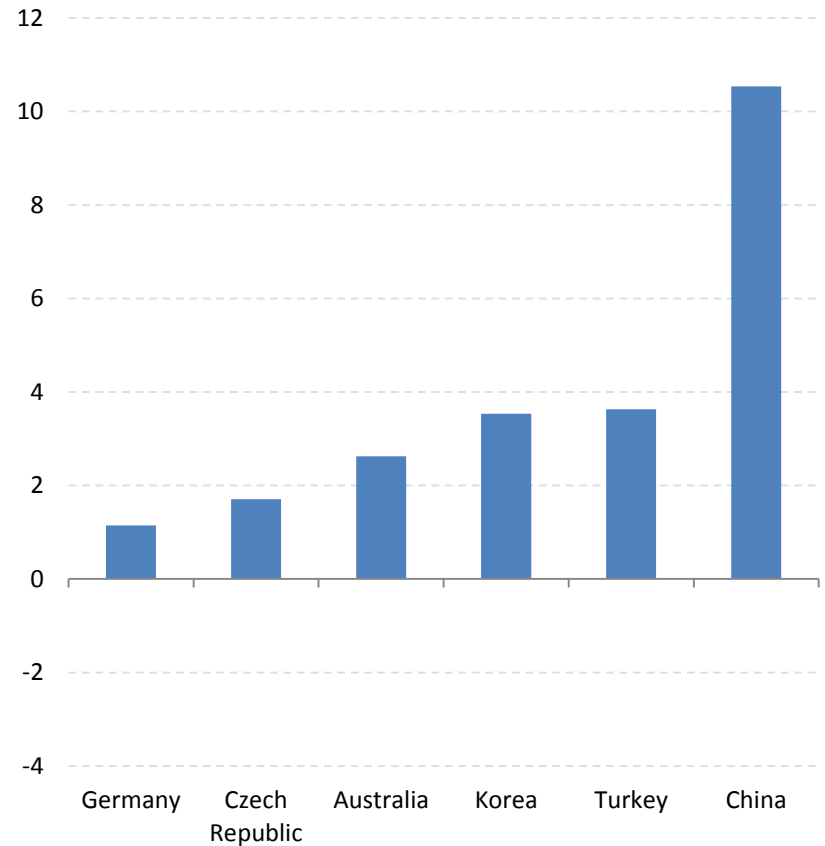
Average GDP Growth (2007-2011)

Countries Failing to Sustain Fiscal Discipline (Percent)



Source: IMF WEO, CBRT.

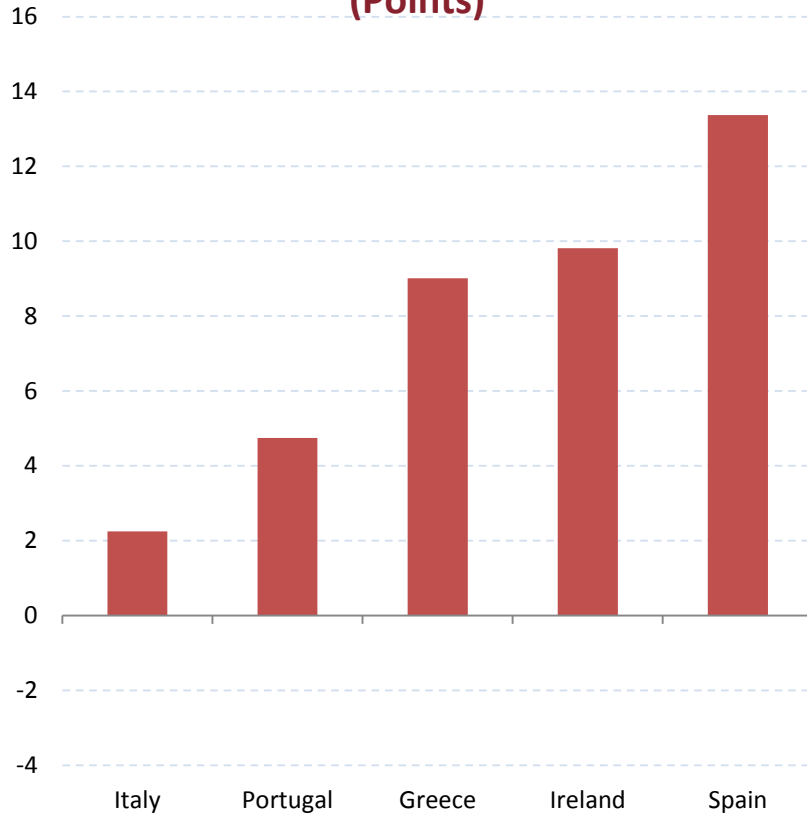
Countries Sustaining Fiscal Discipline (Percent)



Source: IMF WEO, CBRT.

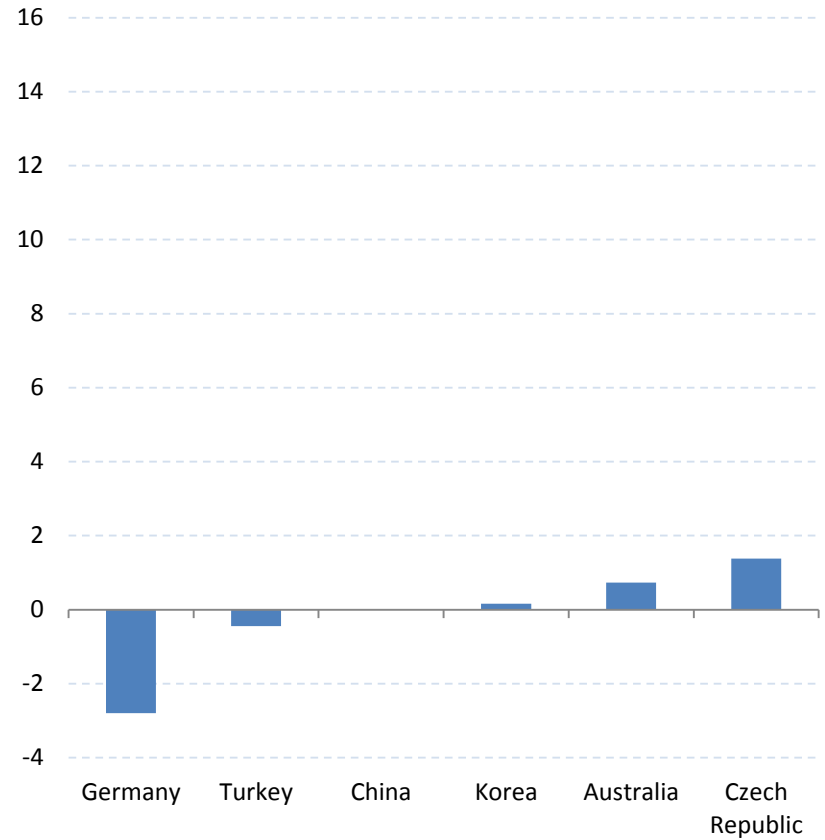
Increase in Unemployment Rate (2007-2011)

Countries Failing to Sustain Fiscal Discipline (Points)



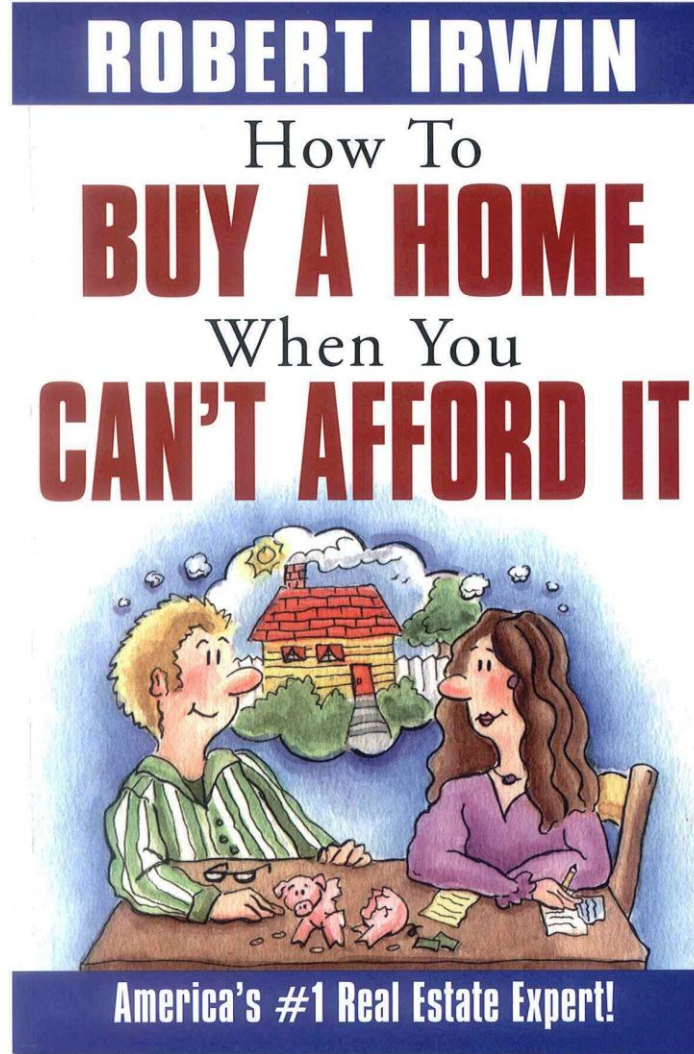
Source: IMF WEO, CBRT.

Countries Sustaining Fiscal Discipline (Points)



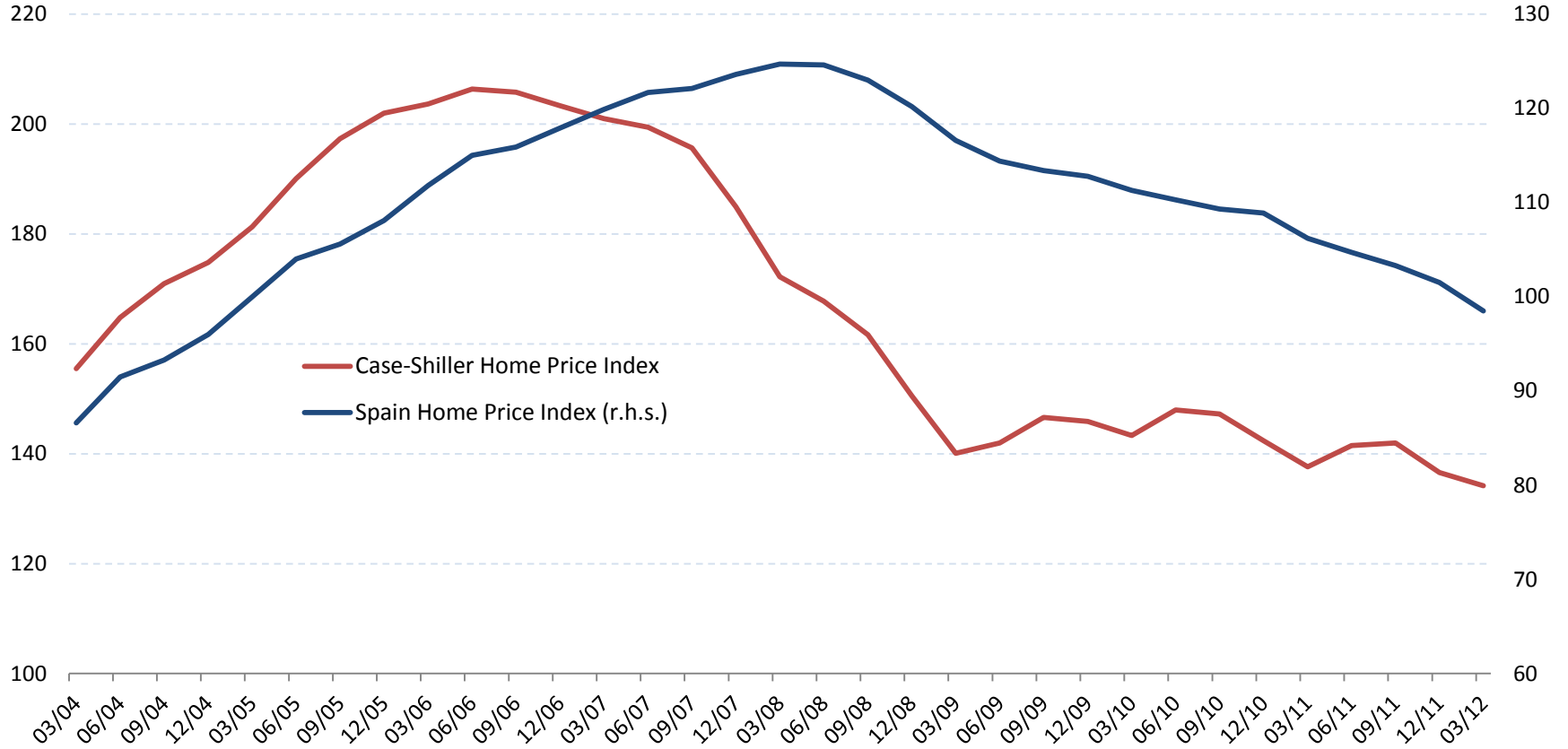
Source: IMF WEO, CBRT.

Housing Sector and the Global Crisis



Home Price Indices

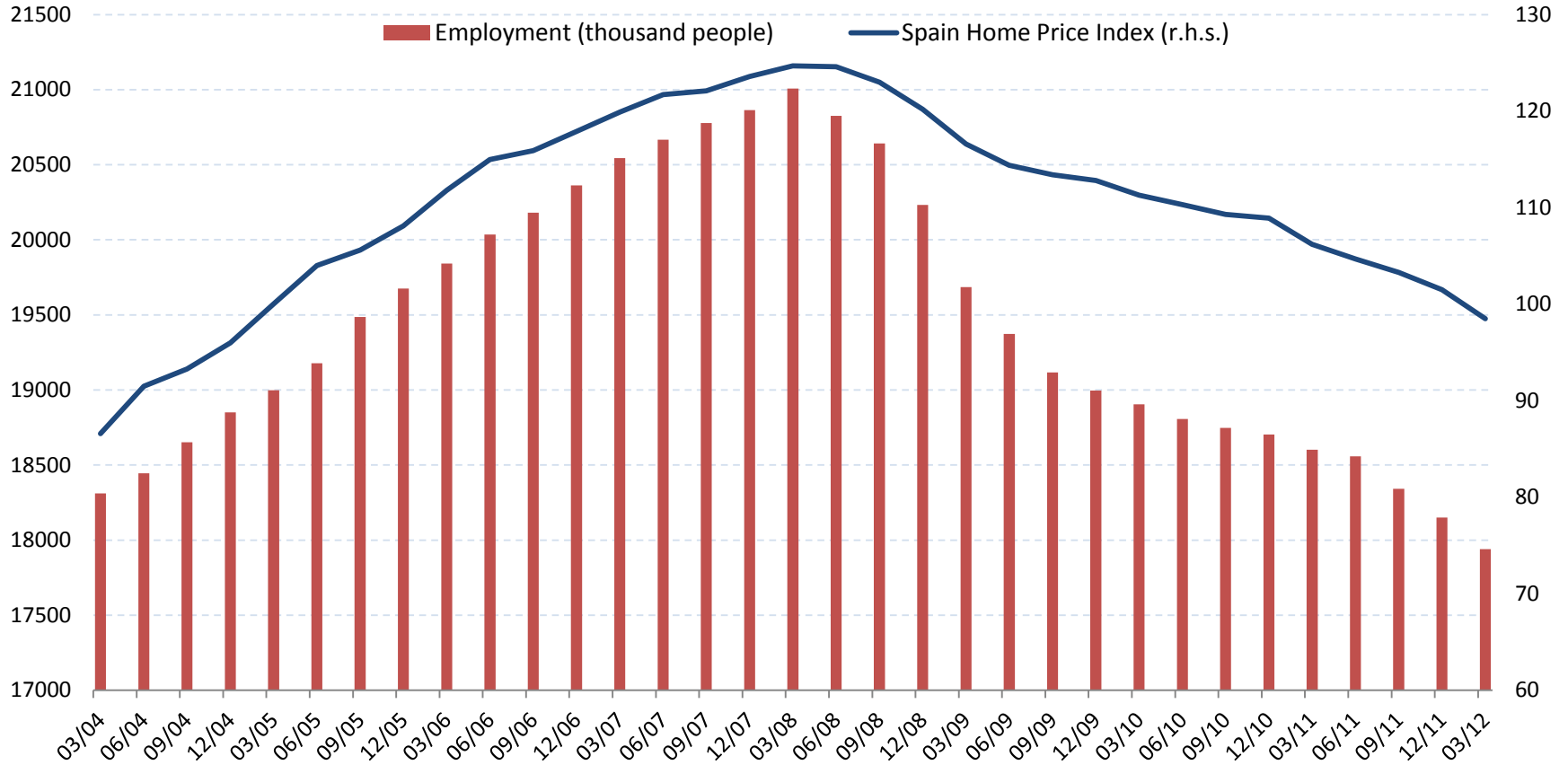
US and Spain
(For US: January 2000=100, For Spain: 2005Q1=100)



Source: Bloomberg, CBRT.

Spain

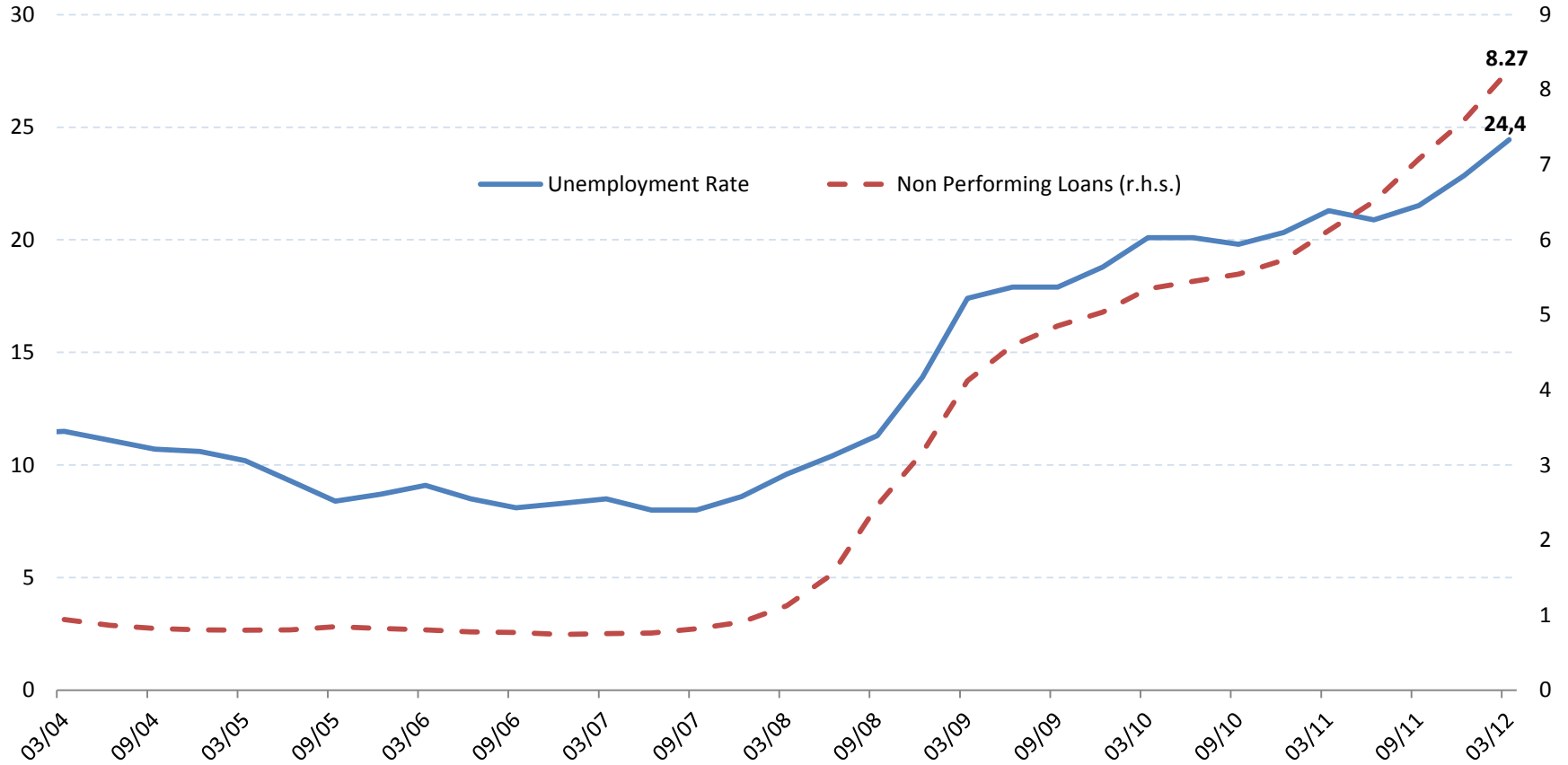
Total Employment and Home Price Index (Thousand People, 2005Q1=100)



Source: Bloomberg, CBRT.

Spain

Unemployment and Non Performing Loans* Rate (Percent)

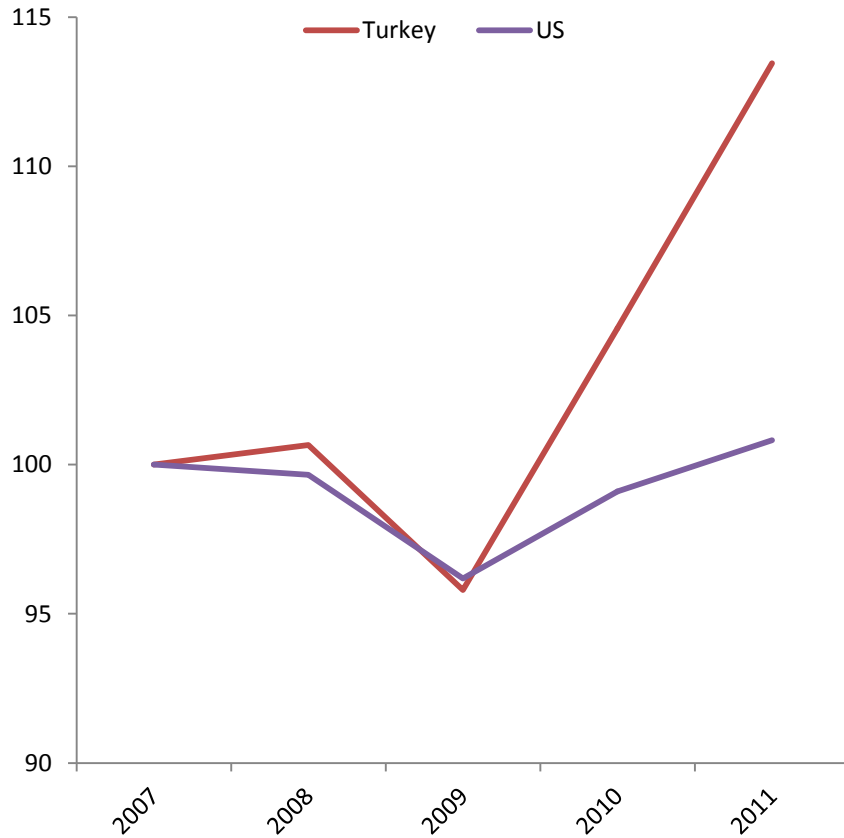


Source: Bloomberg, Banco de Espana, CBRT.

*NPL Rate = Doubtful Debtors / Loans to Real Sector and Households

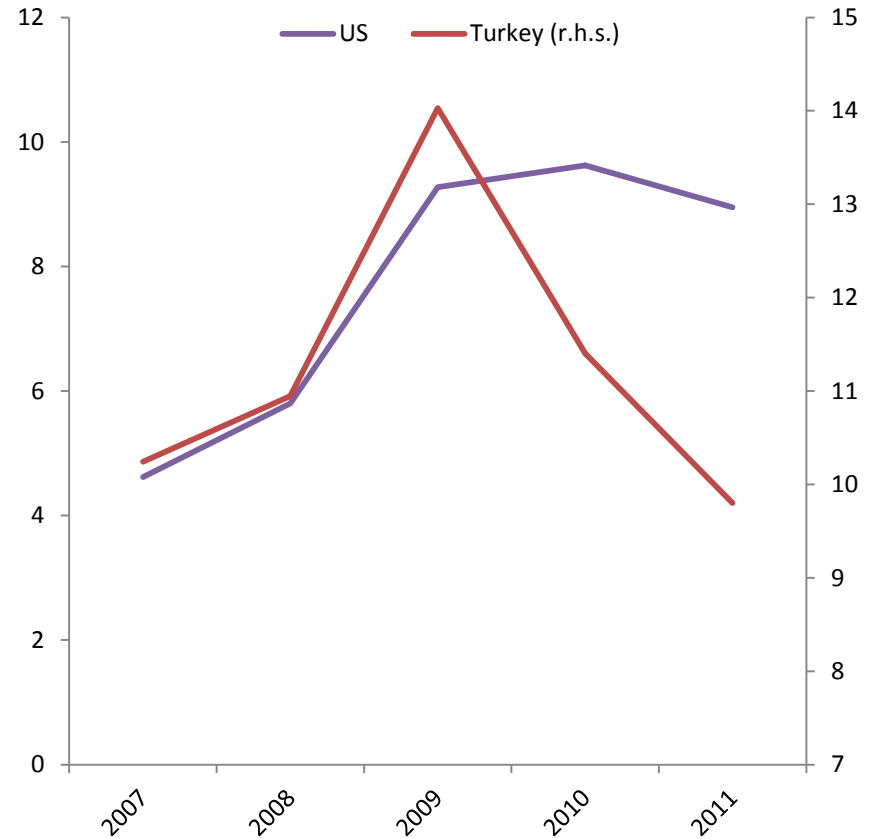
Turkey and US

GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

Unemployment (Percent)



Source: IMF, WEO, CBRT.

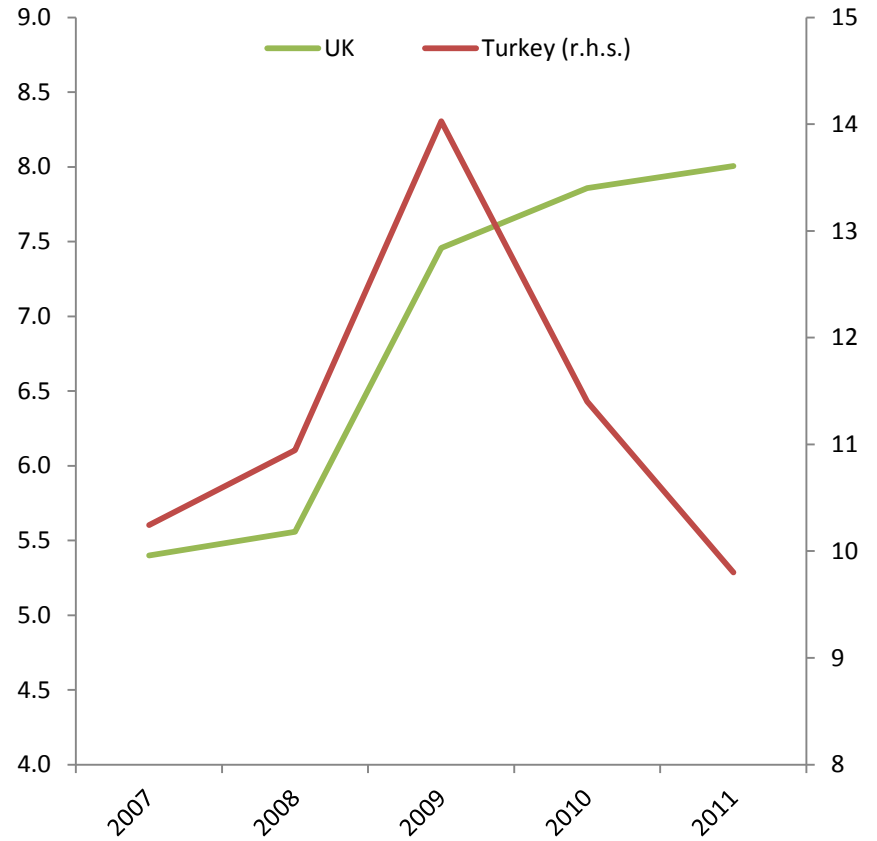
Turkey and UK

GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

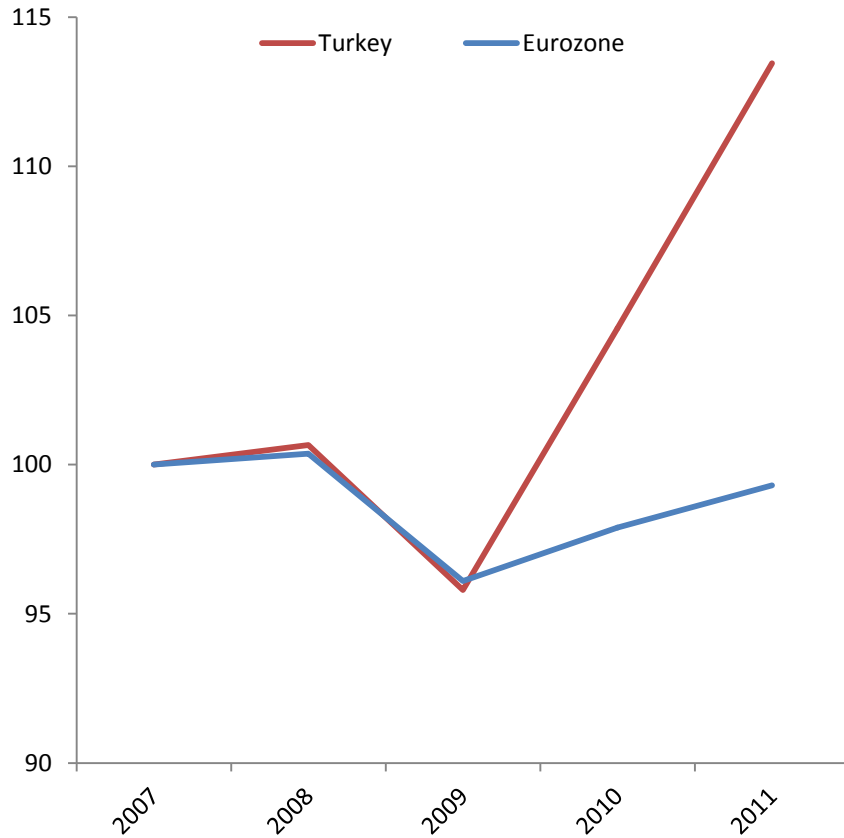
Unemployment (Percent)



Source: IMF, WEO, CBRT.

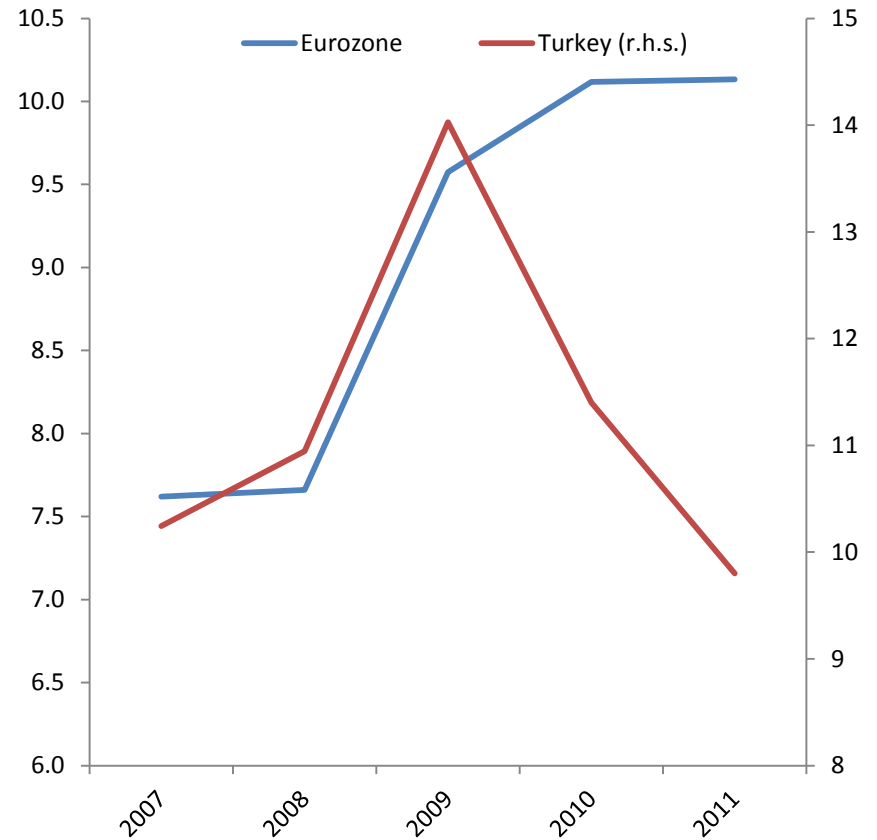
Turkey and Eurozone

GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

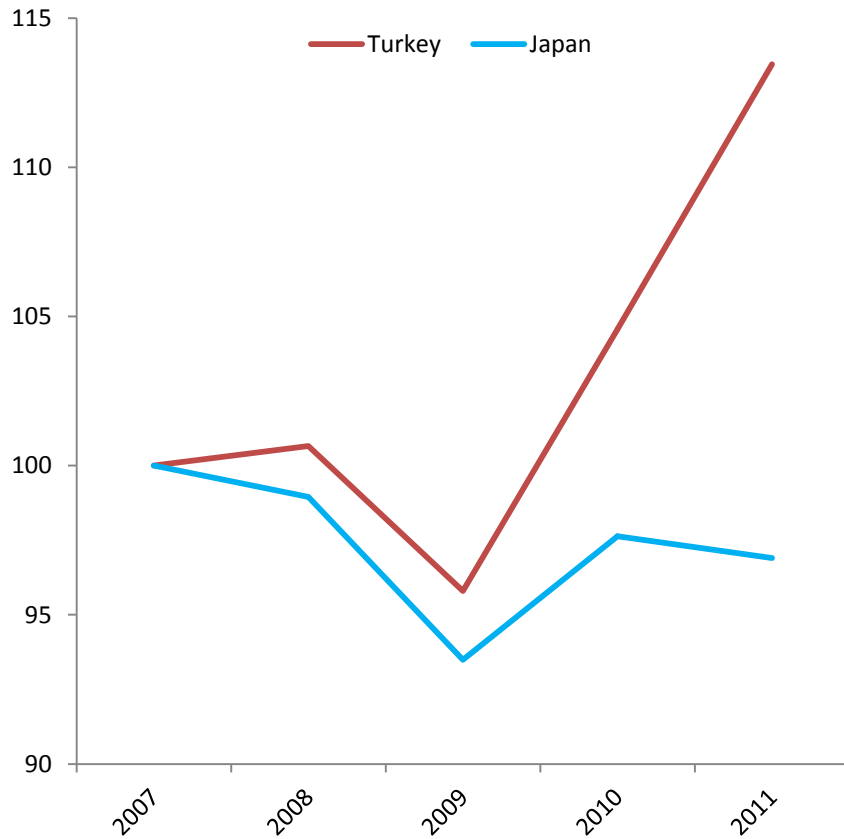
Unemployment (Percent)



Source: IMF, WEO, CBRT.

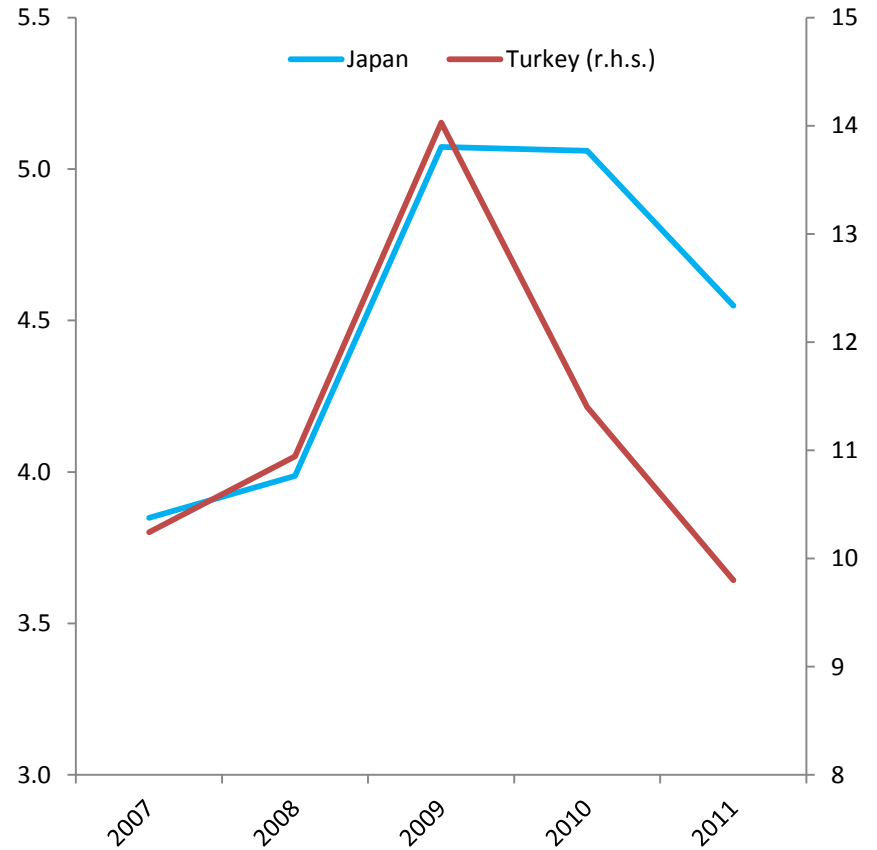
Turkey and Japan

GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

Unemployment (Percent)



Source: IMF, WEO, CBRT.

THE NEW POLICY FRAMEWORK

Against Excessive Credit Growth

Predominant Policy

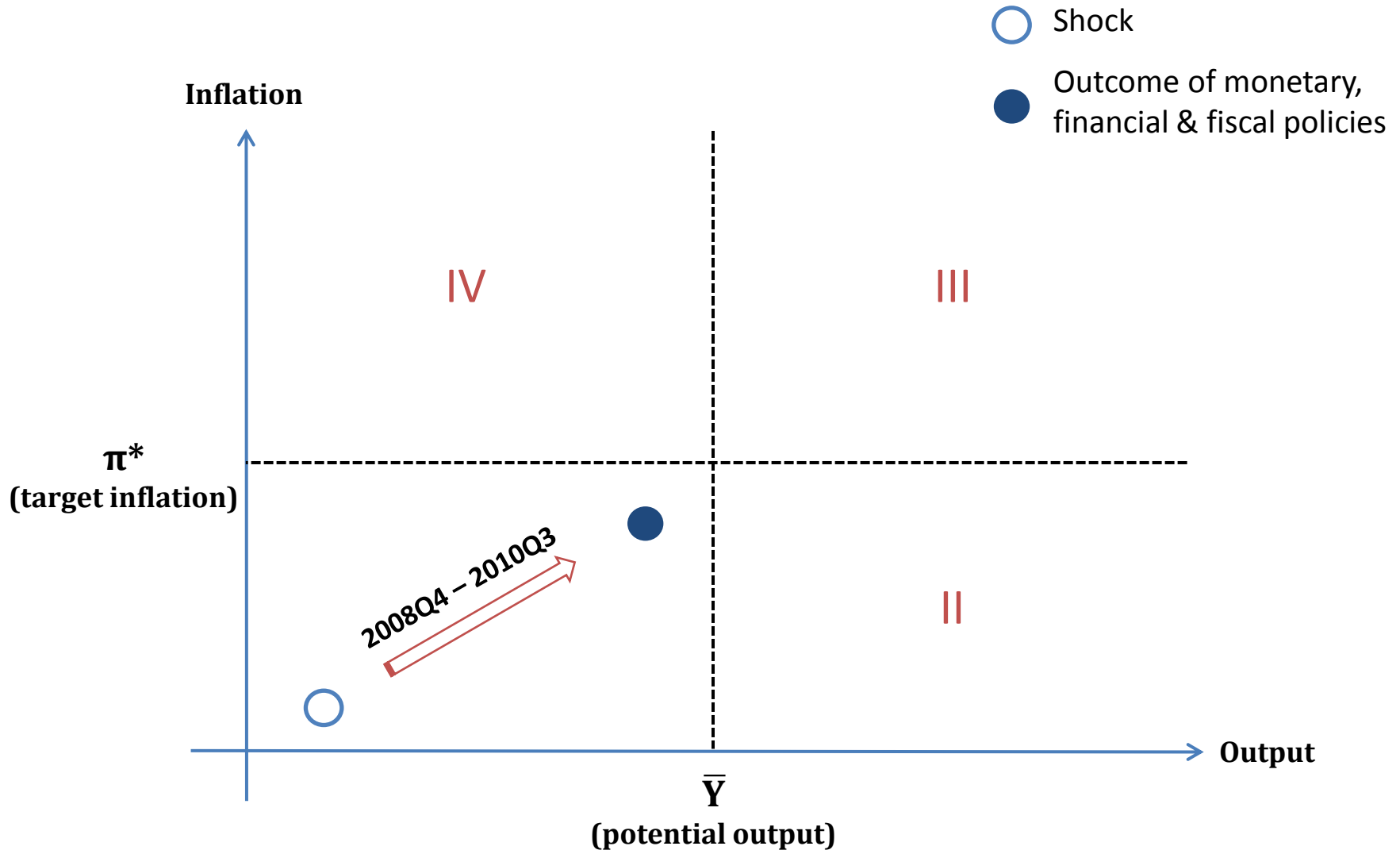
Before August 2011

Macroprudential Tightening

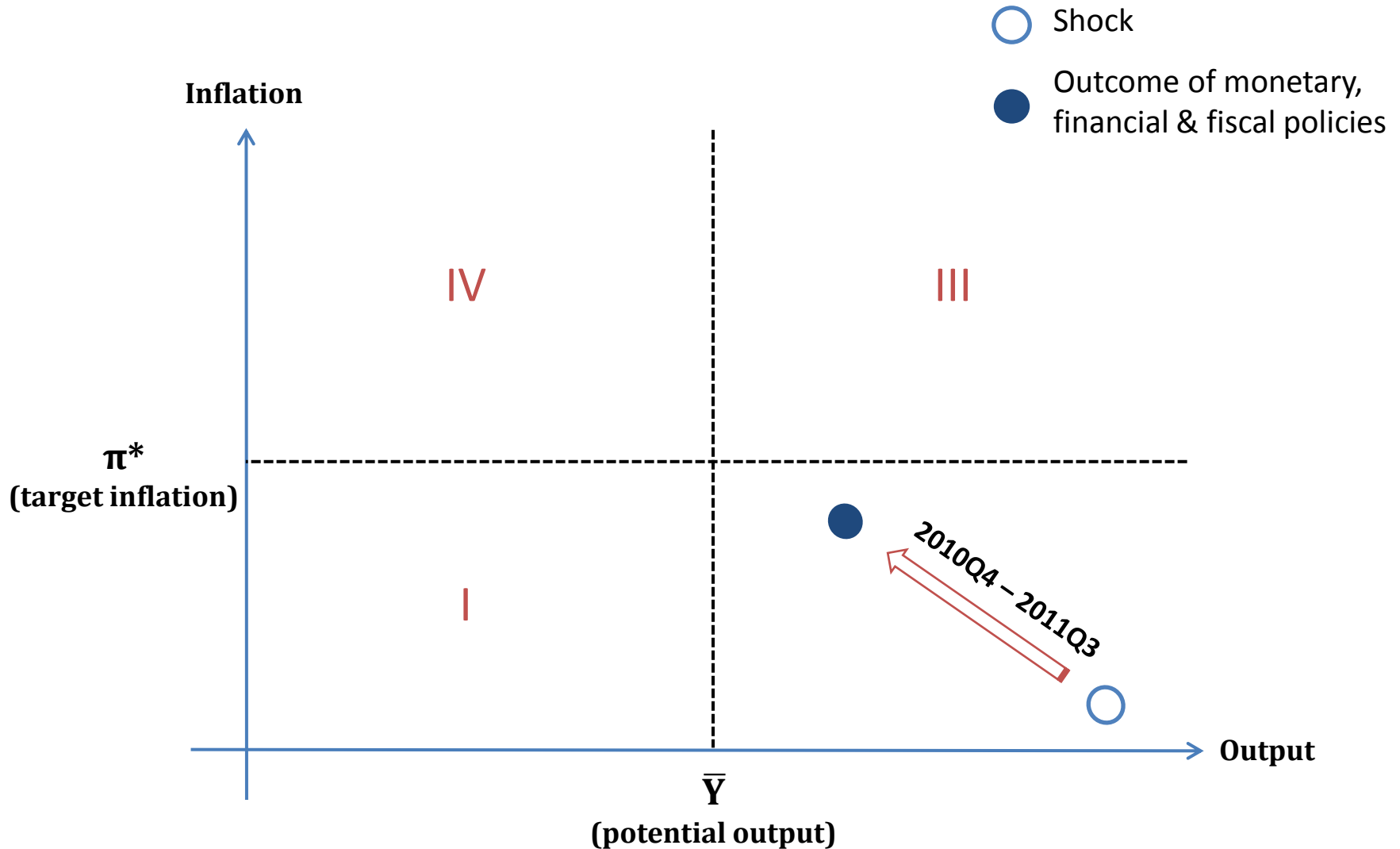
After October 2011

Monetary Tightening

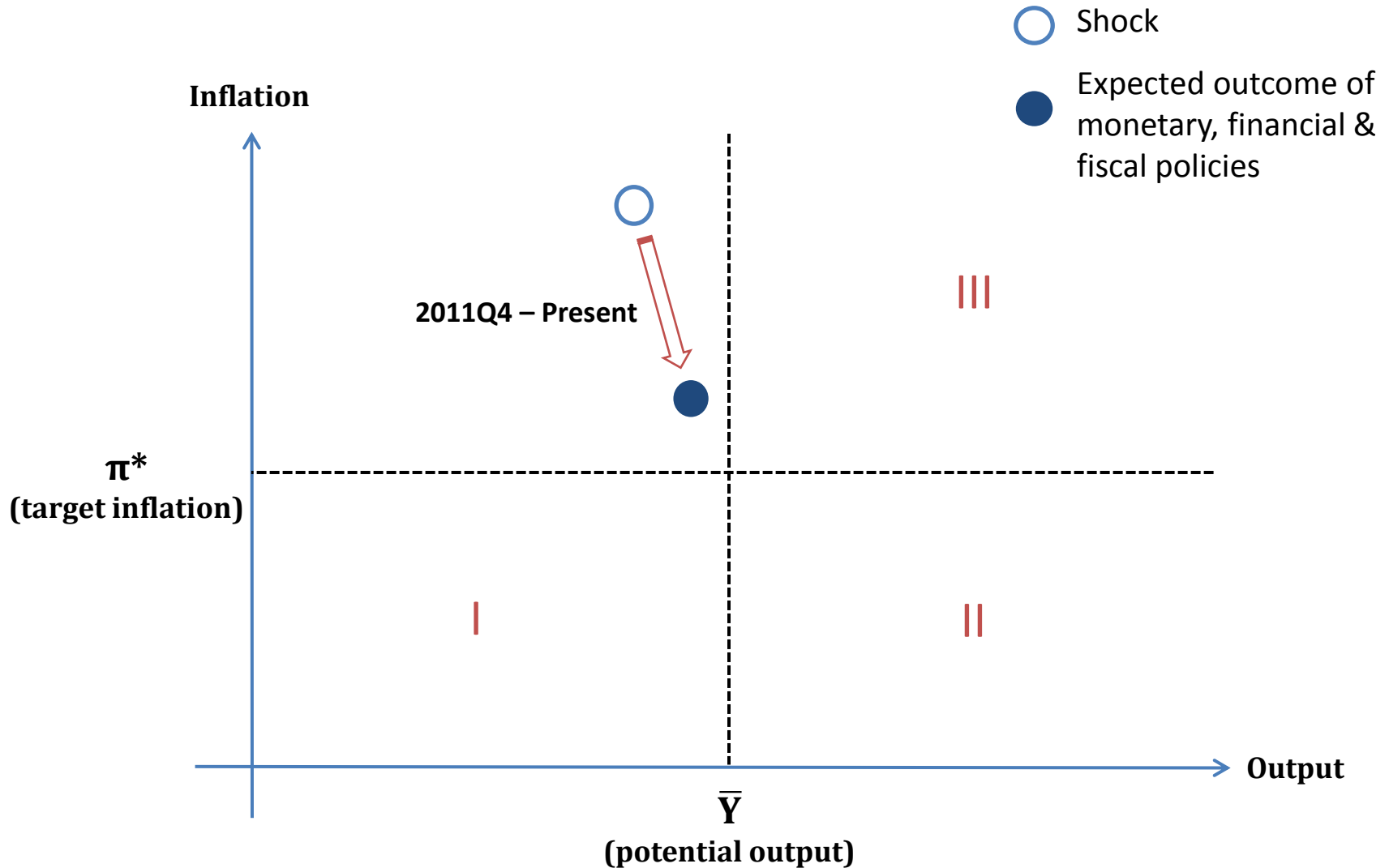
Policies: Post-Lehman



Policies: Global Monetary Expansion

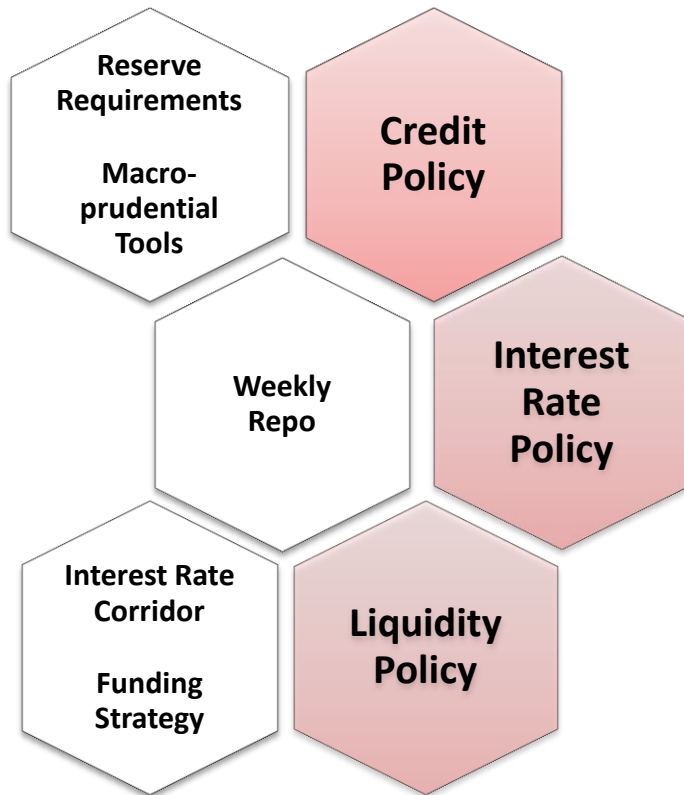


Policies: European Debt Crisis

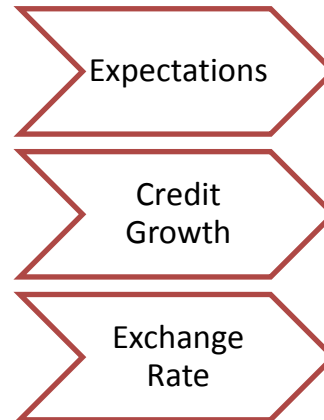


Multiple Objectives, Multiple Instruments

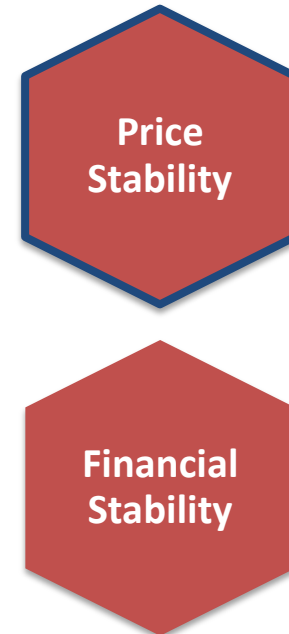
INSTRUMENTS



KEY INDICATORS

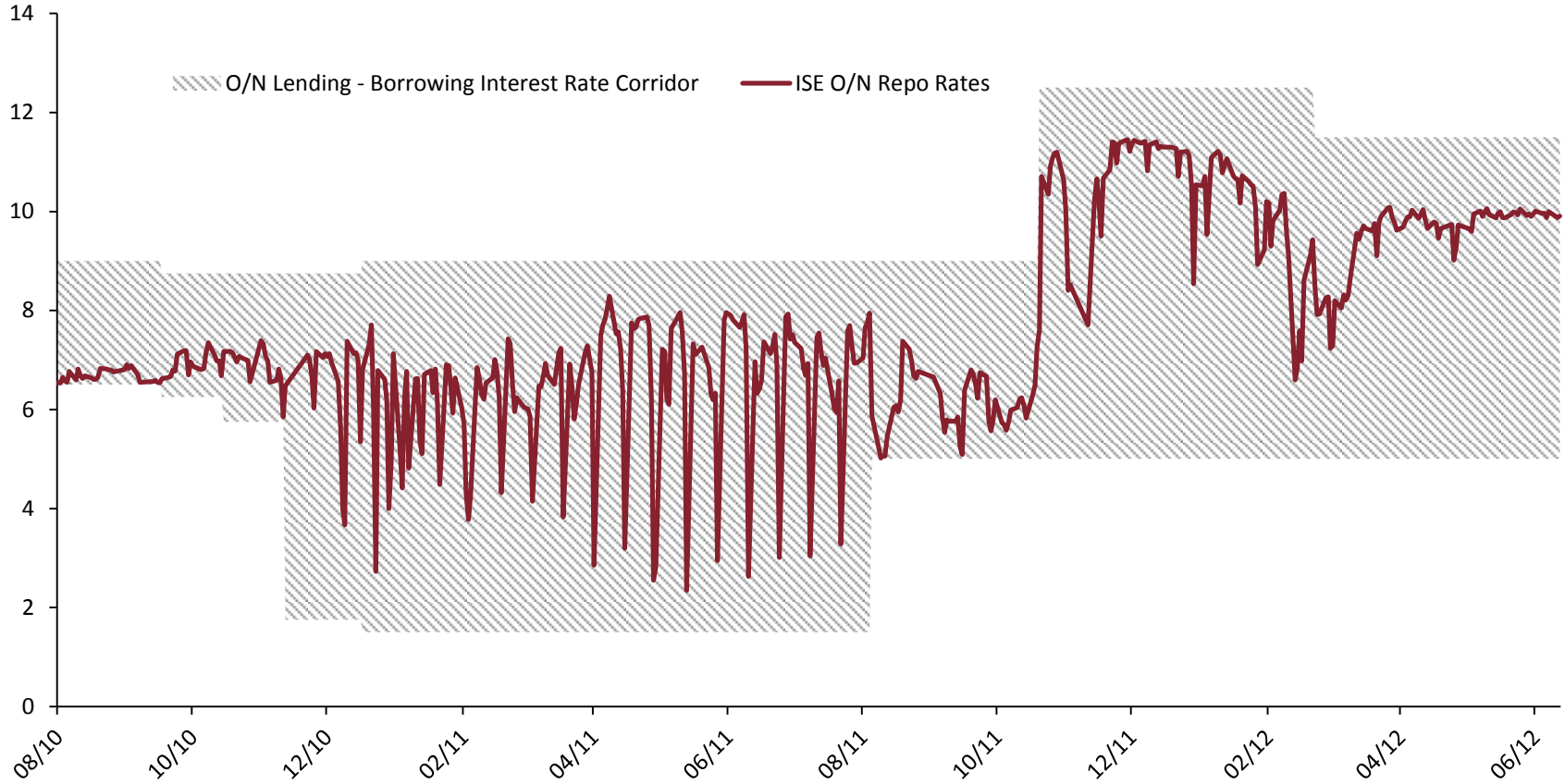


OBJECTIVES



Liquidity Policy

CBRT Interest Rate Corridor and ISE O/N Repo Rates (Percent)

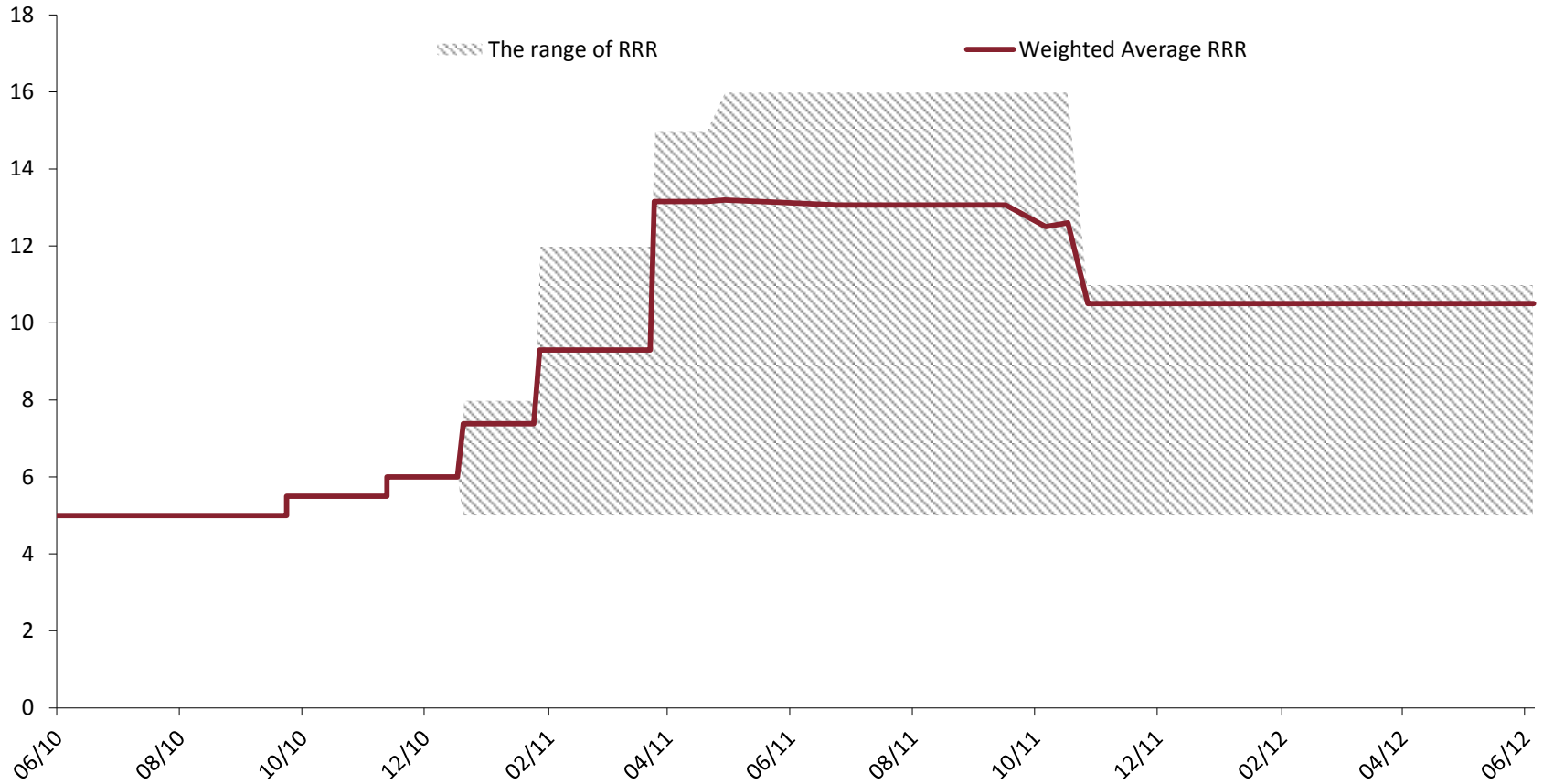


Source: ISE, CBRT.

Last Observation: 12 June 2012

Credit Policy

TRY Reserve Requirements

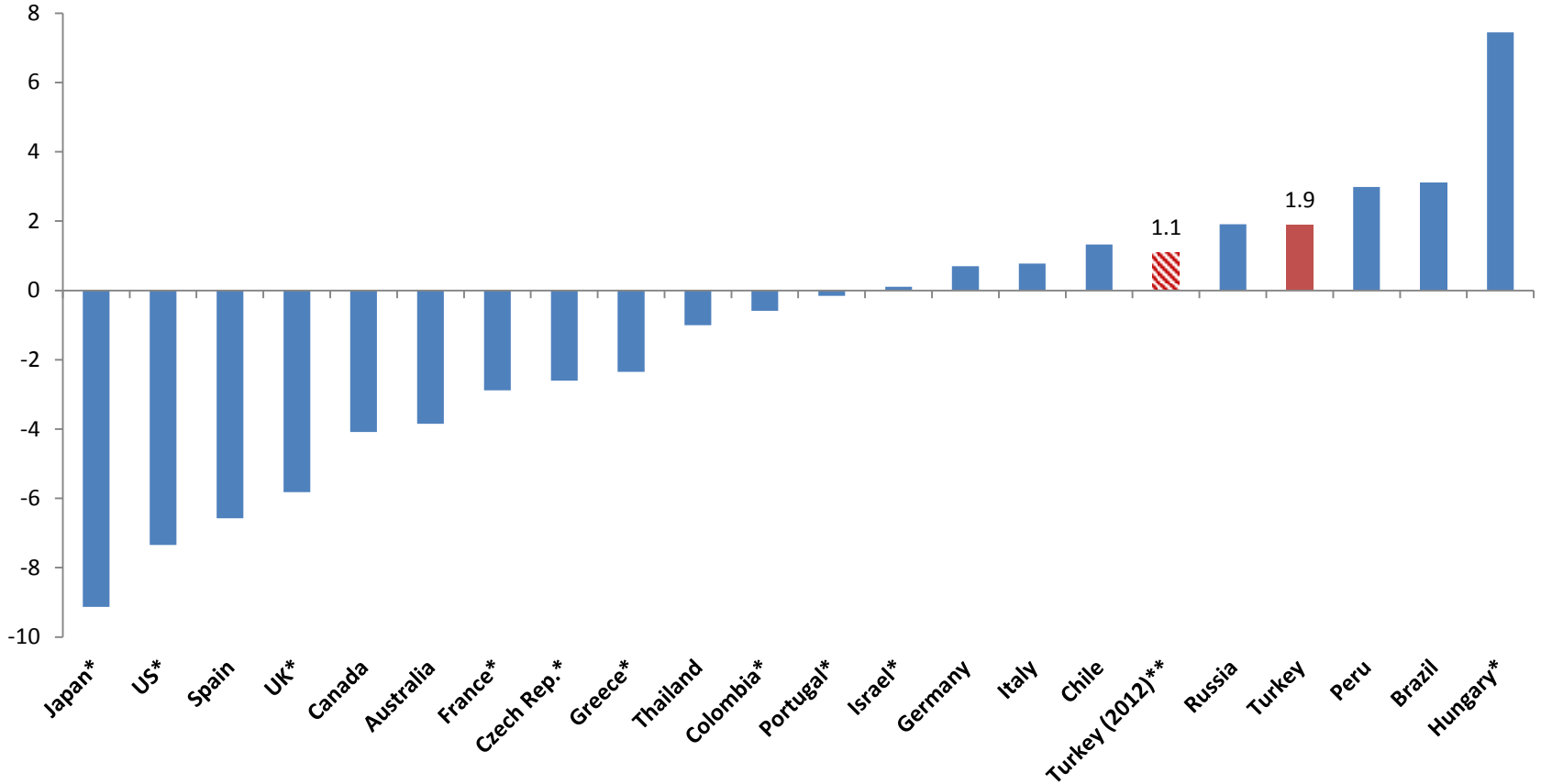


Source: CBRT.

Last Observation: 12 June 2012

Primary Balance

Primary Balances of Selected Economies (Ratio to GDP, percent, 2011)



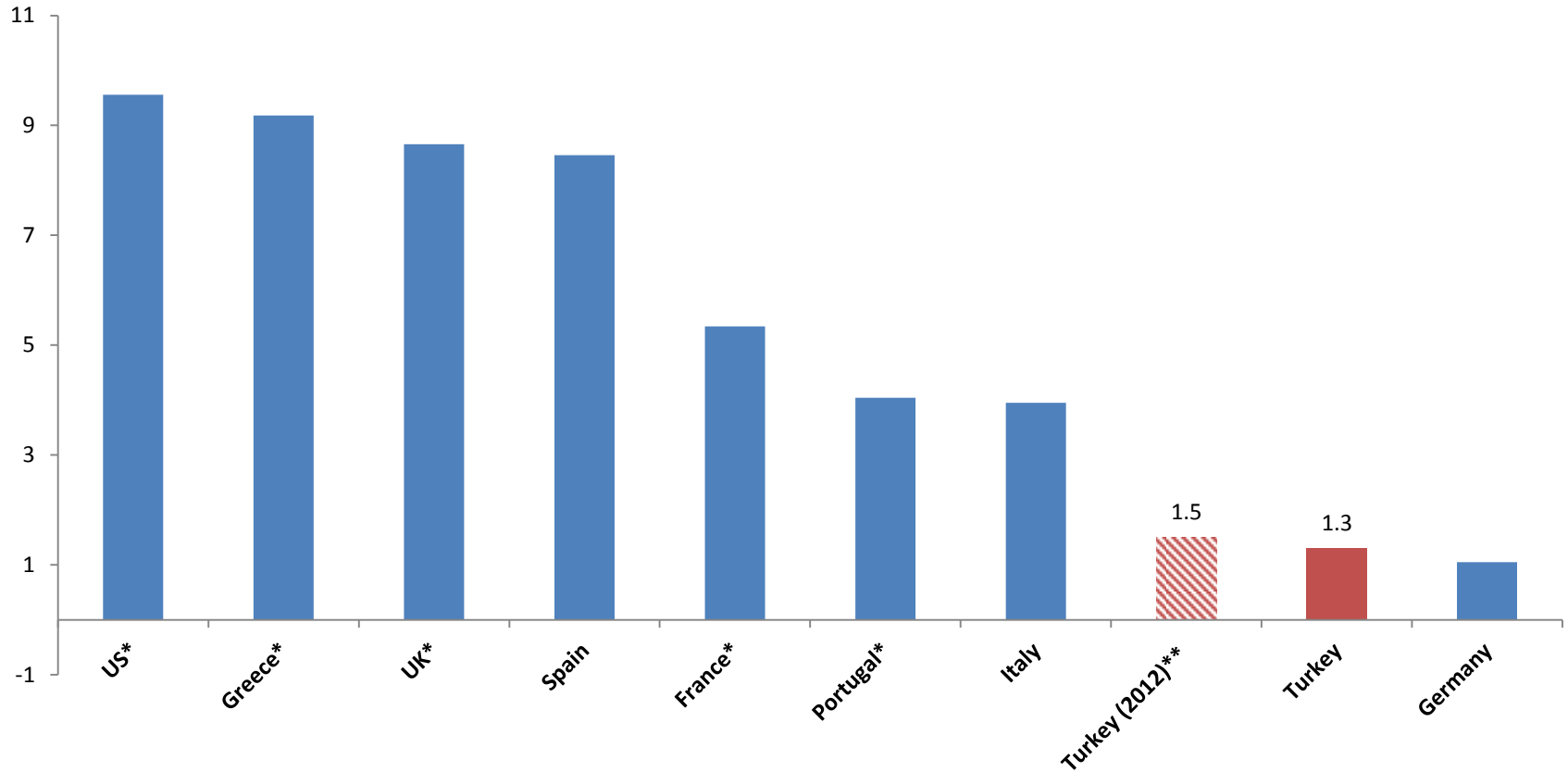
Source: IMF WEO, Ministry of Development, CBRT.

*IMF forecast

**2012 forecast for Turkey taken from MTP.

Budget Deficit (Advanced Economies)

Budget Deficit
(Ratio to GDP, percent, 2011)



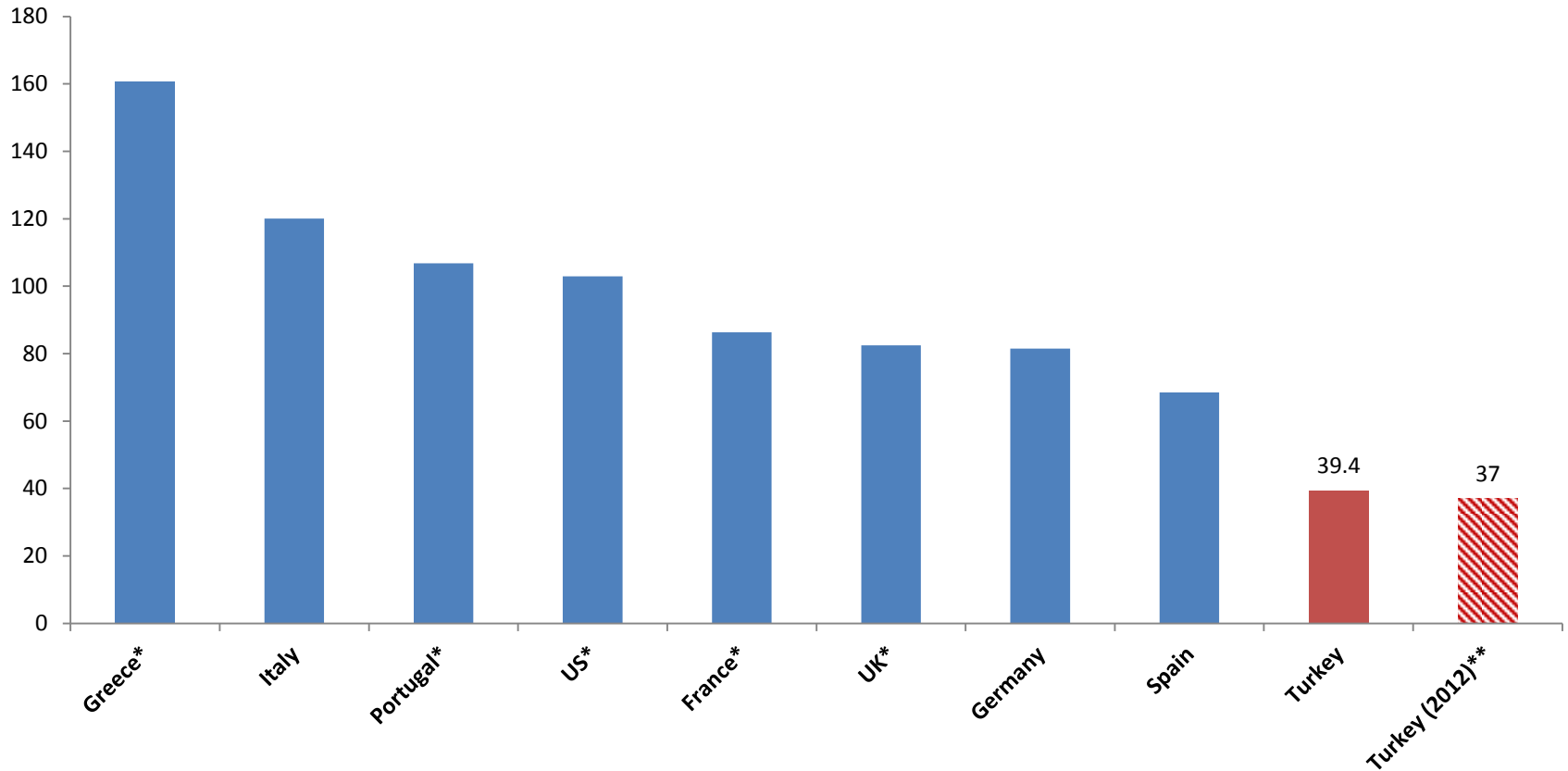
Source: IMF WEO, Ministry of Development, CBRT.

*IMF forecast

**2012 forecast for Turkey taken from MTP.

Public Debt (Advanced Economies)

Public Debt
(Ratio to GDP, percent, 2011)



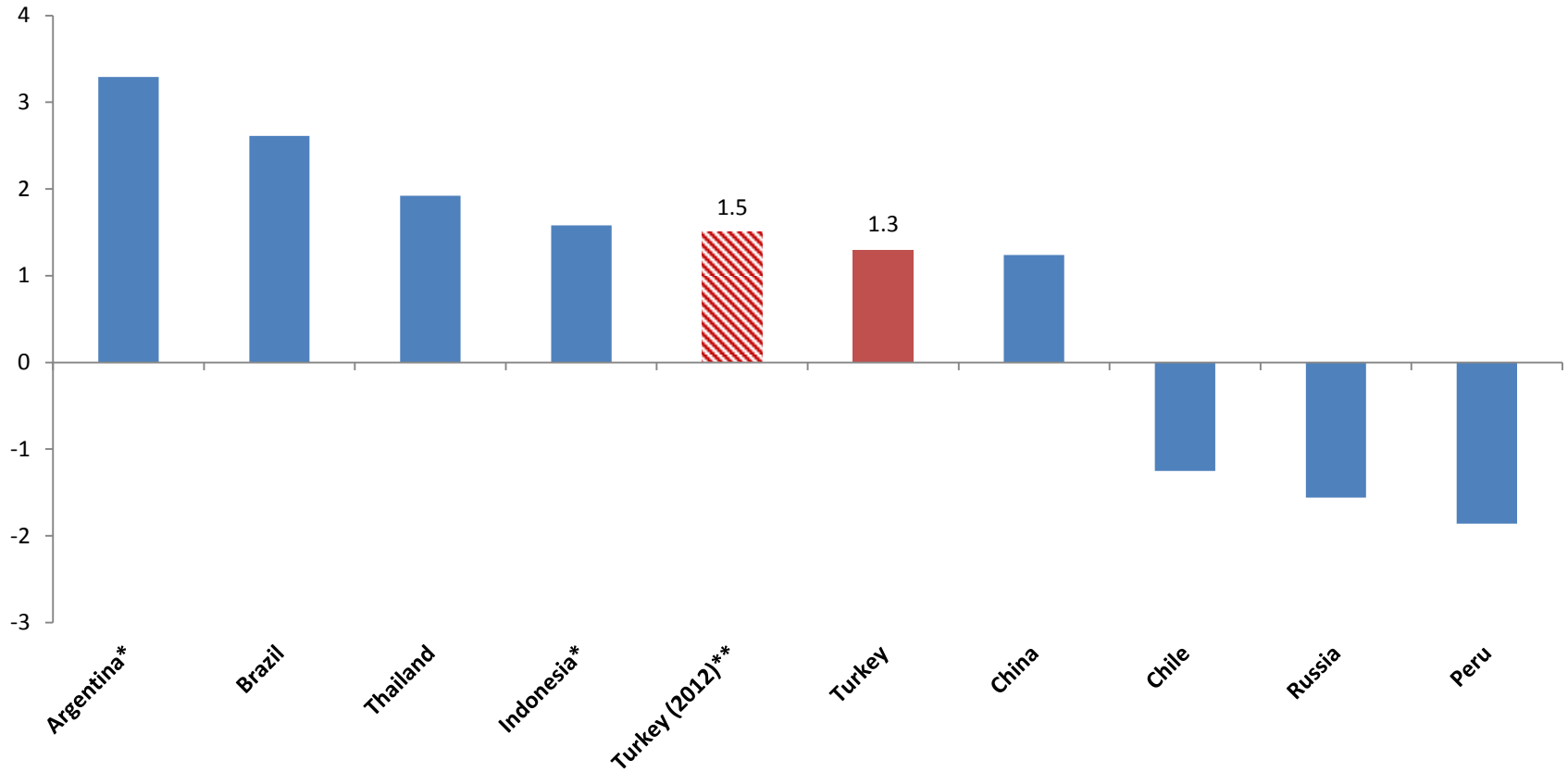
Source: IMF WEO, Ministry of Development, CBRT.

*IMF forecast

**2012 forecast for Turkey taken from MTP.

Budget Deficit (Emerging Economies)

Budget Deficit
(Ratio to GDP, percent, 2011)



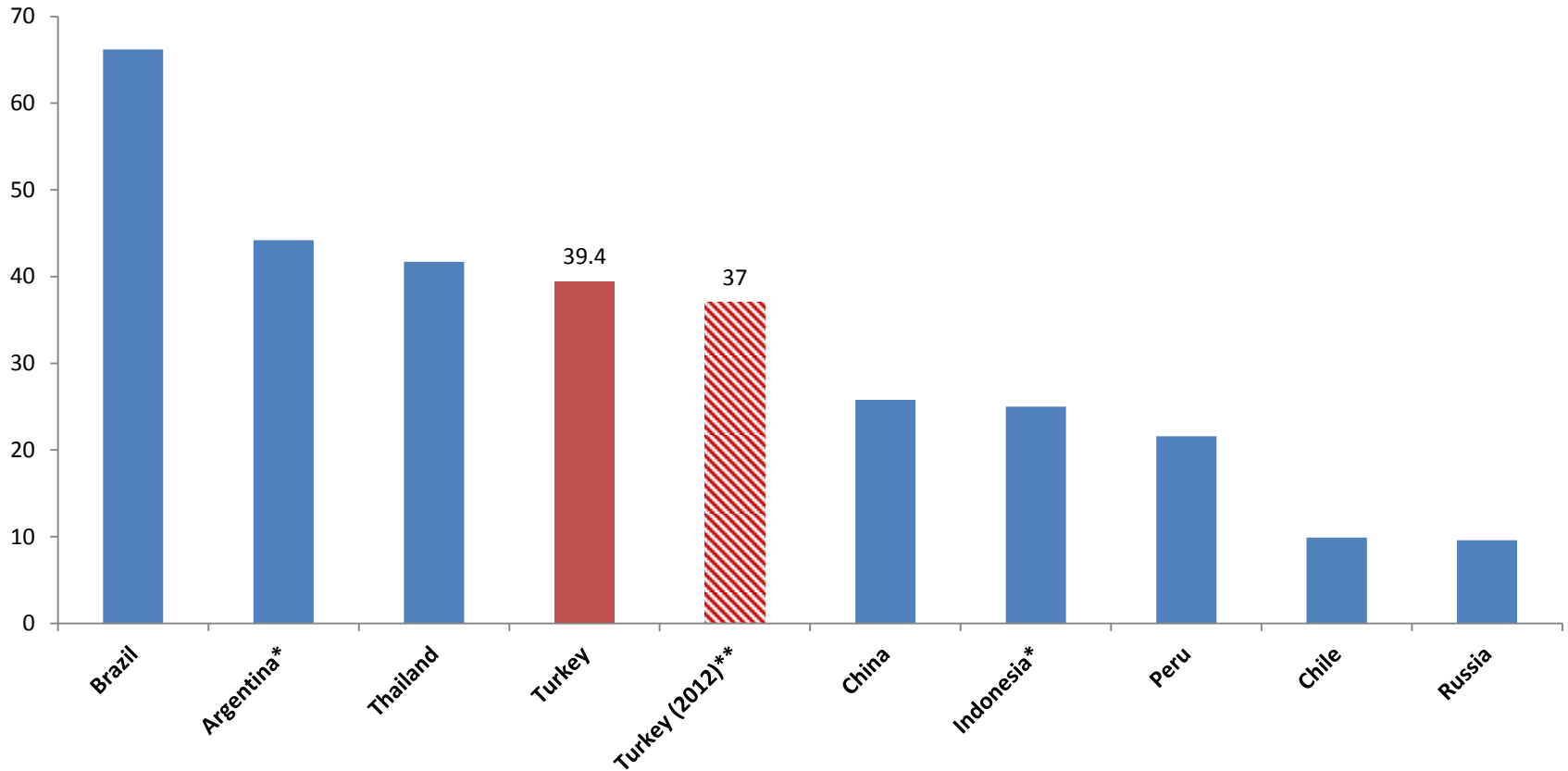
Source: IMF WEO, Ministry of Development, CBRT.

*IMF forecast

**2012 forecast for Turkey taken from MTP.

Public Debt (Emerging Economies)

Public Debt
(Ratio to GDP, percent, 2011)



Source: IMF WEO, Ministry of Development, CBRT.

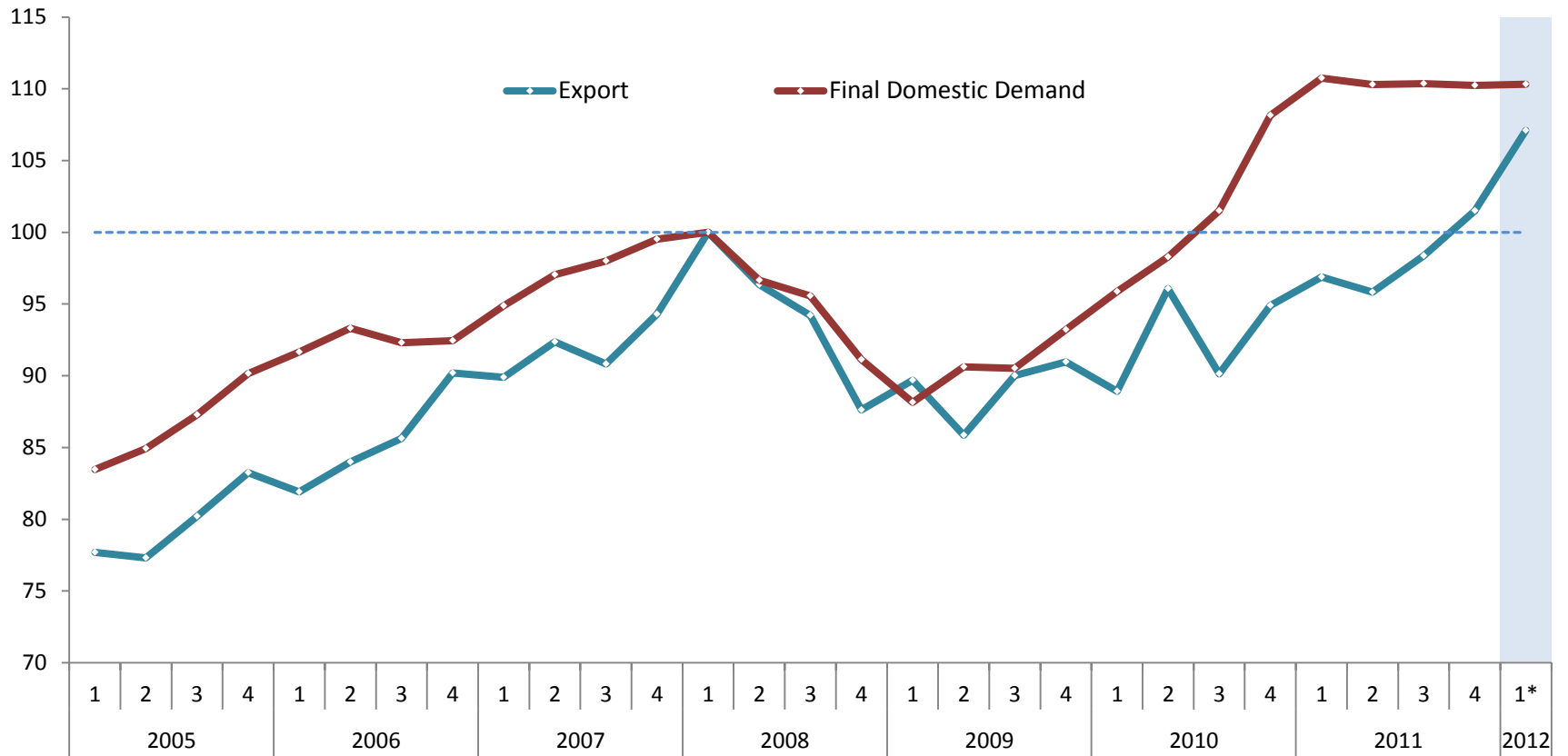
*IMF forecast

**2012 forecast for Turkey taken from MTP.

EXTERNAL BALANCE

Rebalancing

Final Domestic Demand and Exports (2008Q1=100)

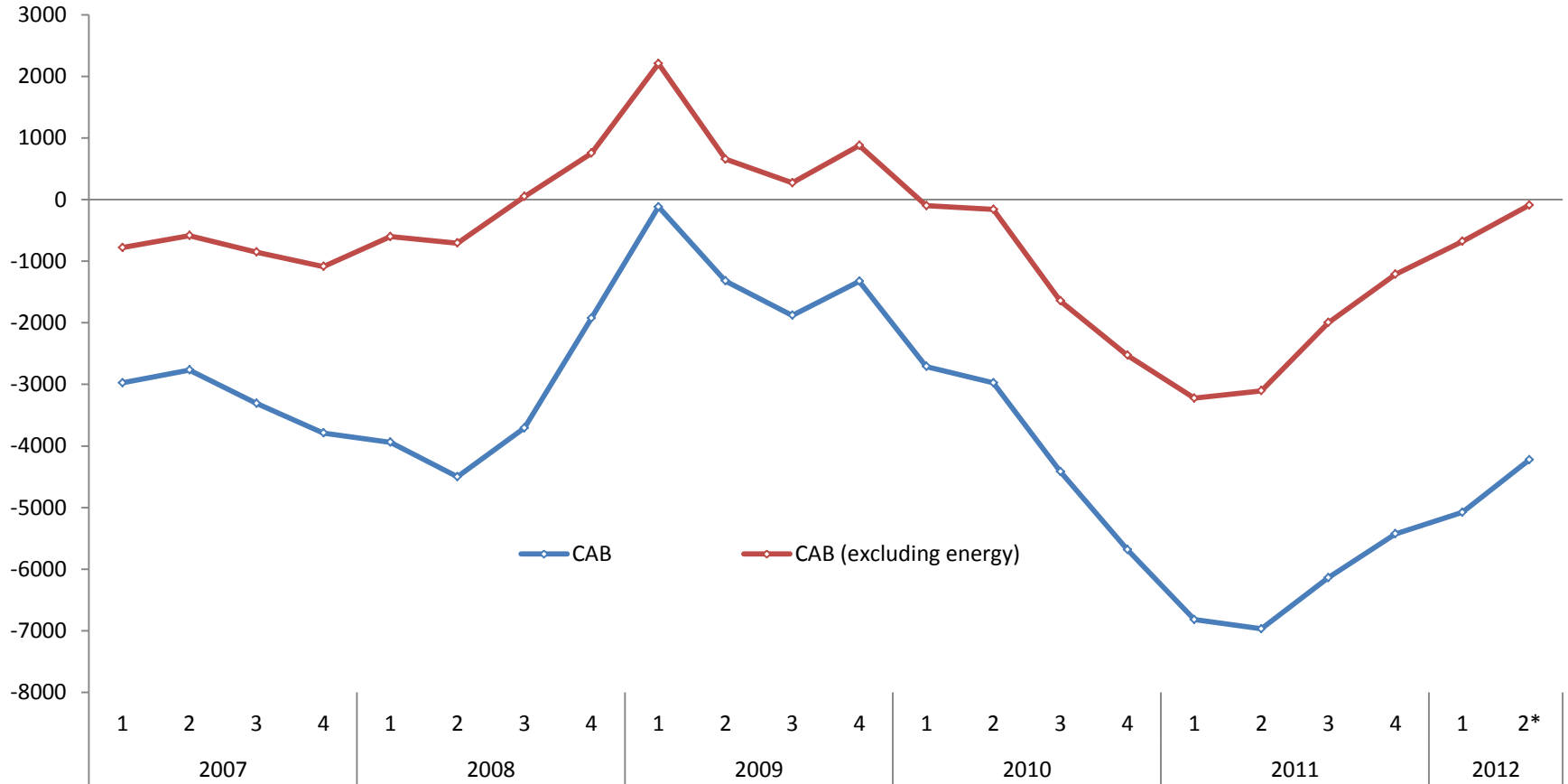


Source: CBRT.

*2012Q1 is forecast.

Rebalancing

Current Account Balance (Seasonally Adjusted, 3-Month Average, Million USD)

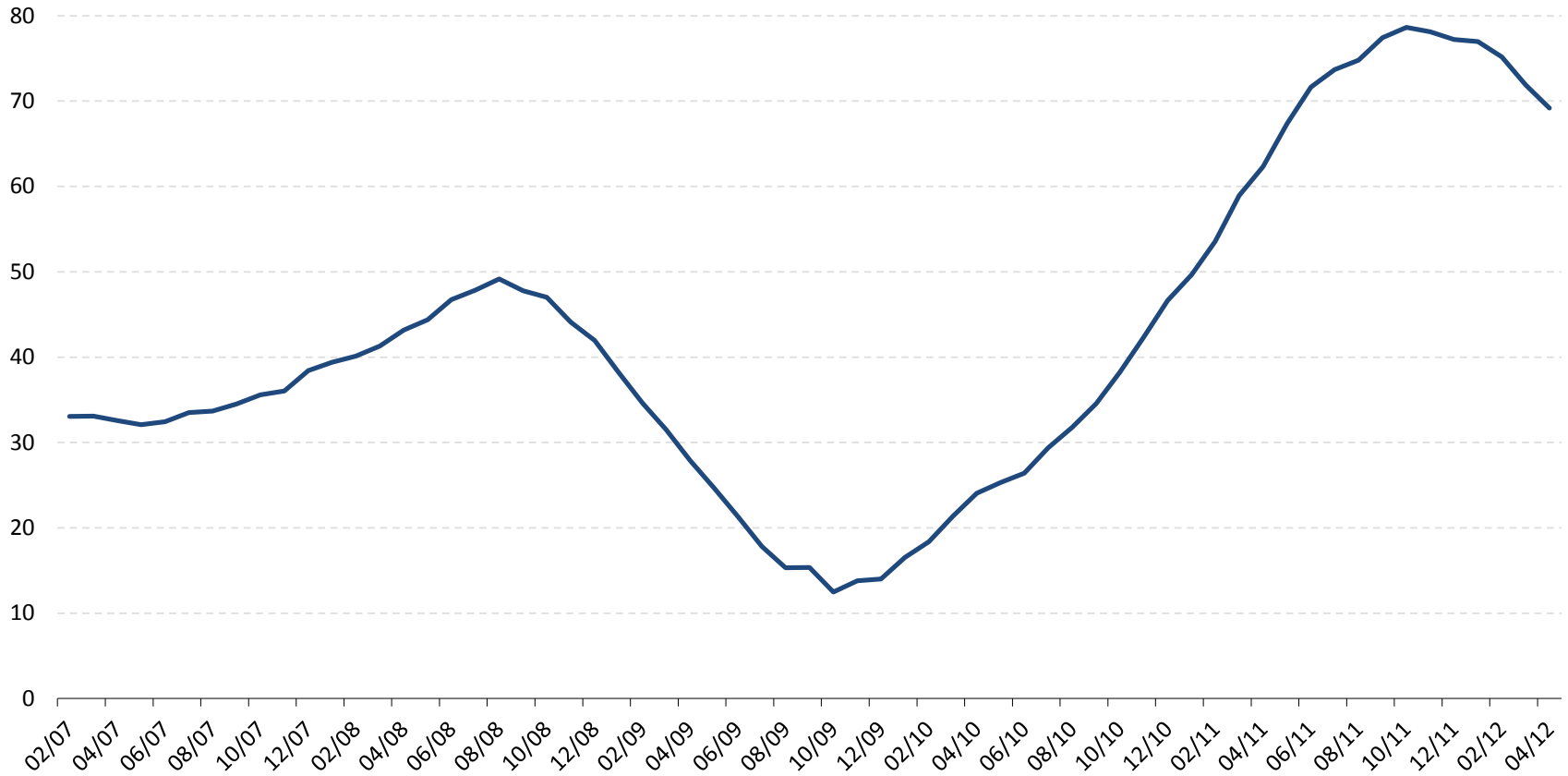


Source: TurkStat, CBRT.

* May and June figures are forecasts.

Rebalancing

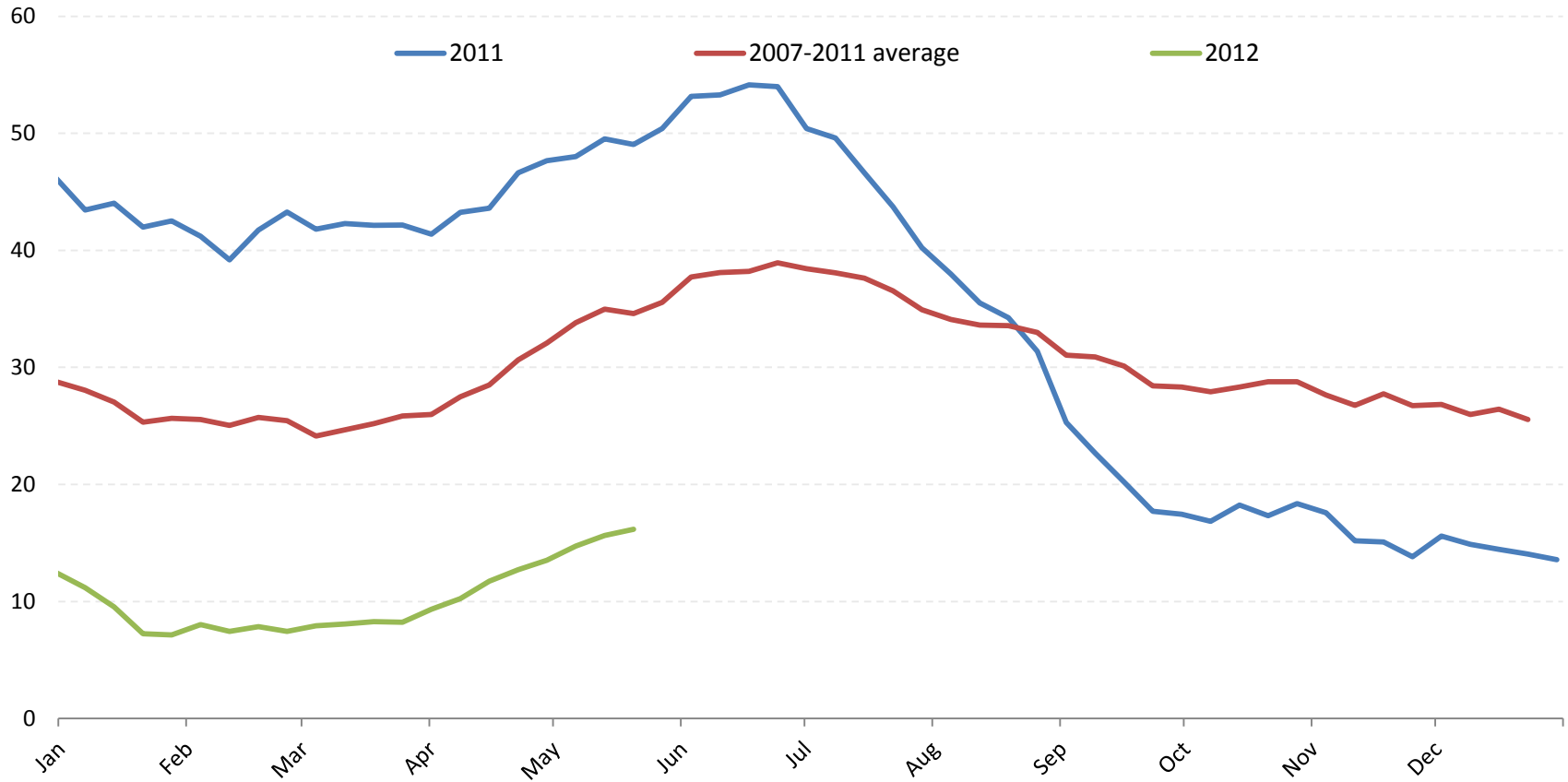
Current Account Deficit (12-months Cumulative, Billion USD)



Source: CBRT.

Consumer Loans

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

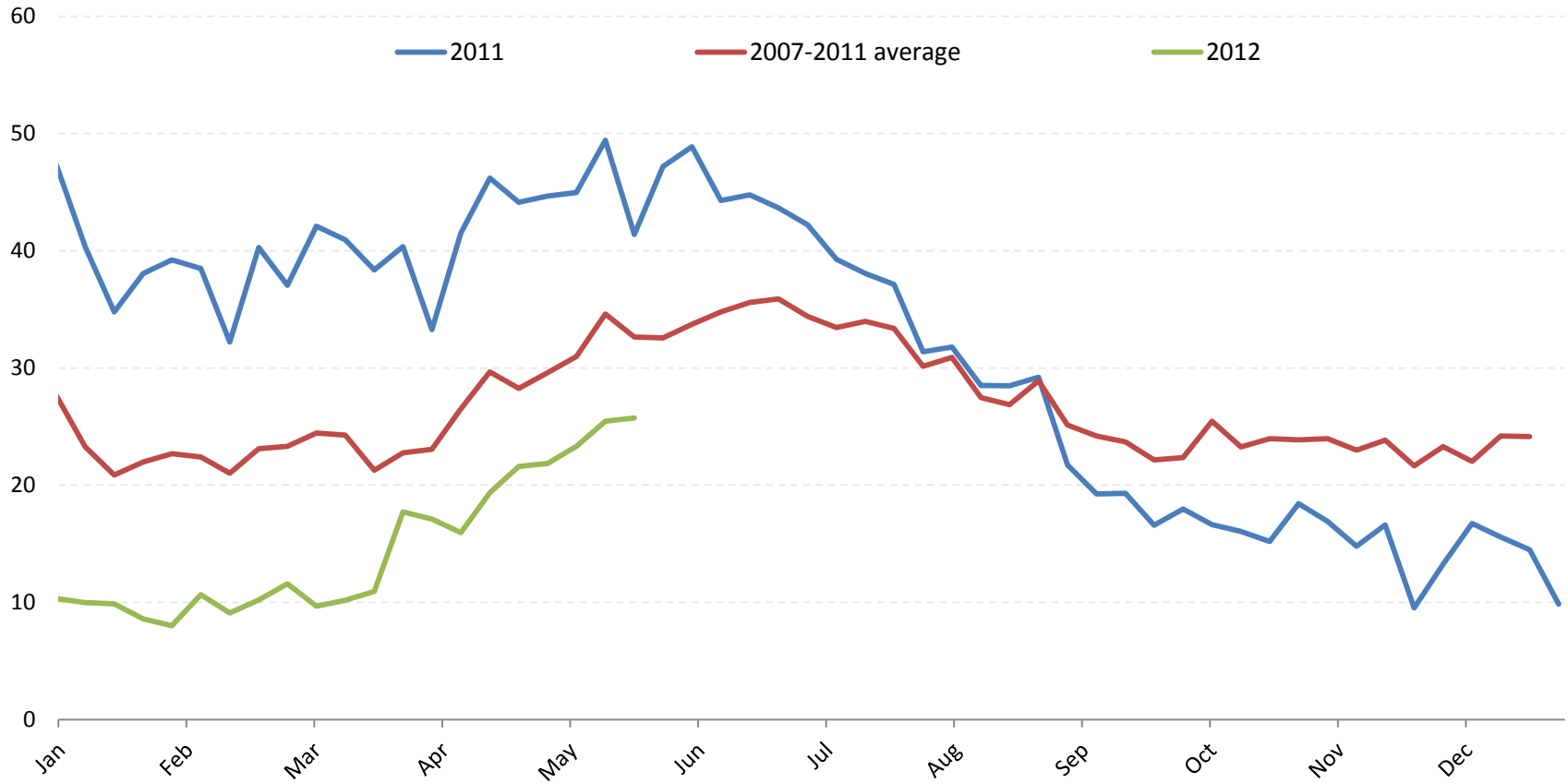


Source: CBRT.

Latest Observation: May 25, 2012

Total Loans

Total Loan Growth Rates (13 Weeks Moving Average, Annualized, FX Adjusted, Percent)

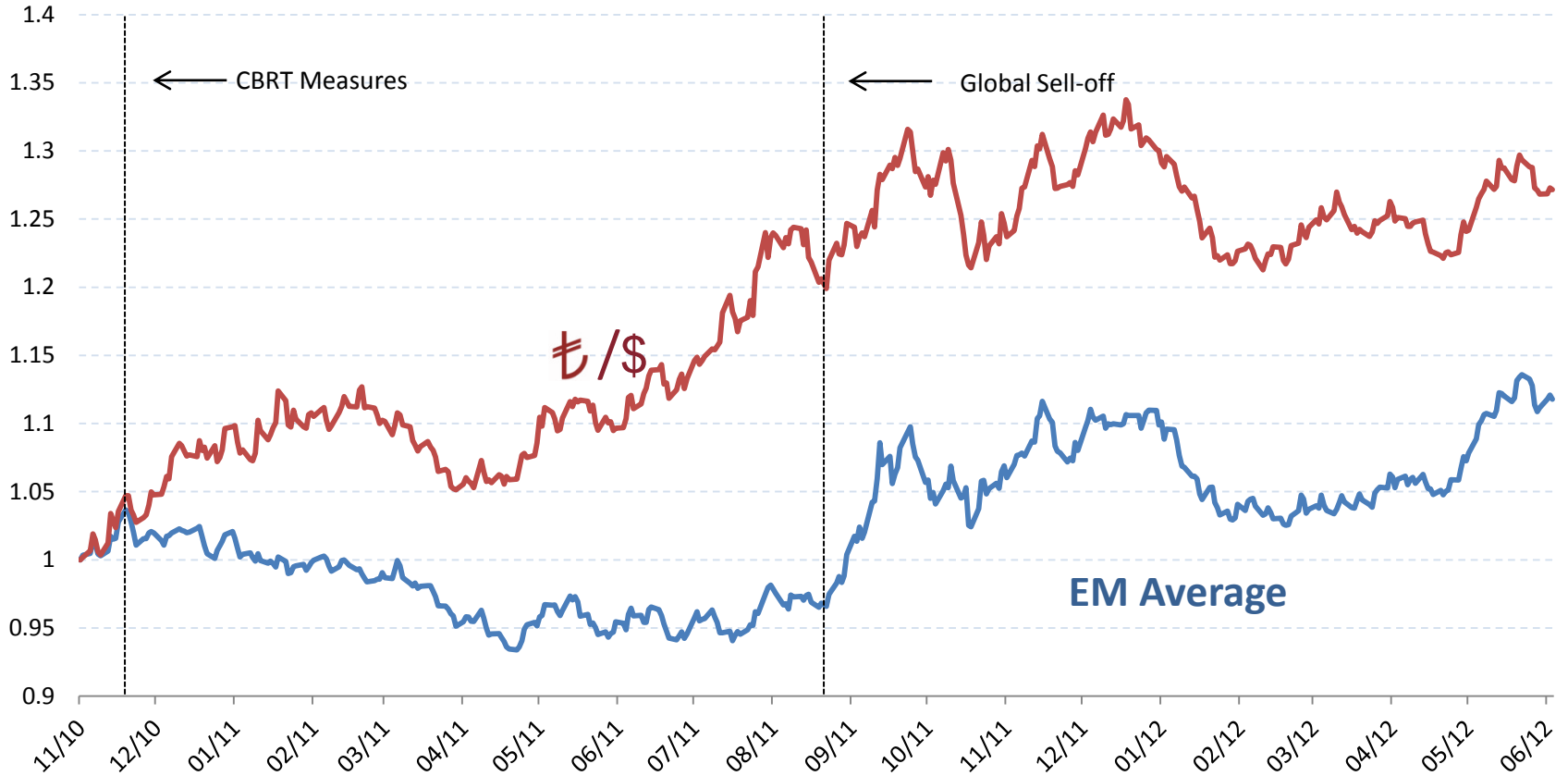


Source: CBRT.

Latest Observation: May 25, 2012

Exchange Rates

TRY and Other EM Currencies against USD* (11.11.2010=1)

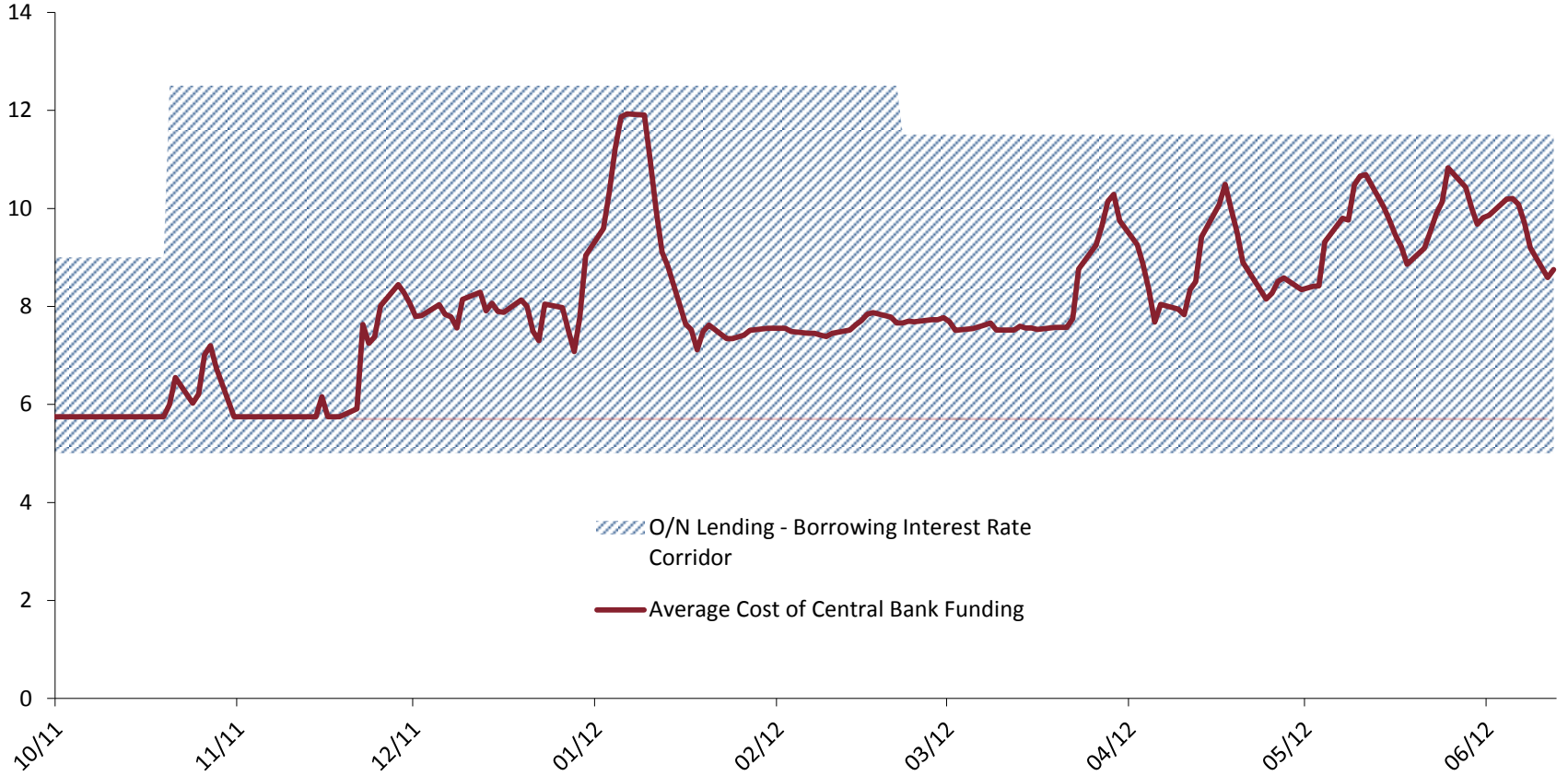


Source: Bloomberg, CBRT.

* EM average includes: Brazil, Chile, Czech R., Hungary, Mexico, Poland, S.Africa, Indonesia, Korea and Colombia. Increase means depreciation against US dollar.
Latest Observations: June 13, 2012.

Monetary Policy

CBRT Policy Rate, Interest Rate Corridor and Average Cost of Funding

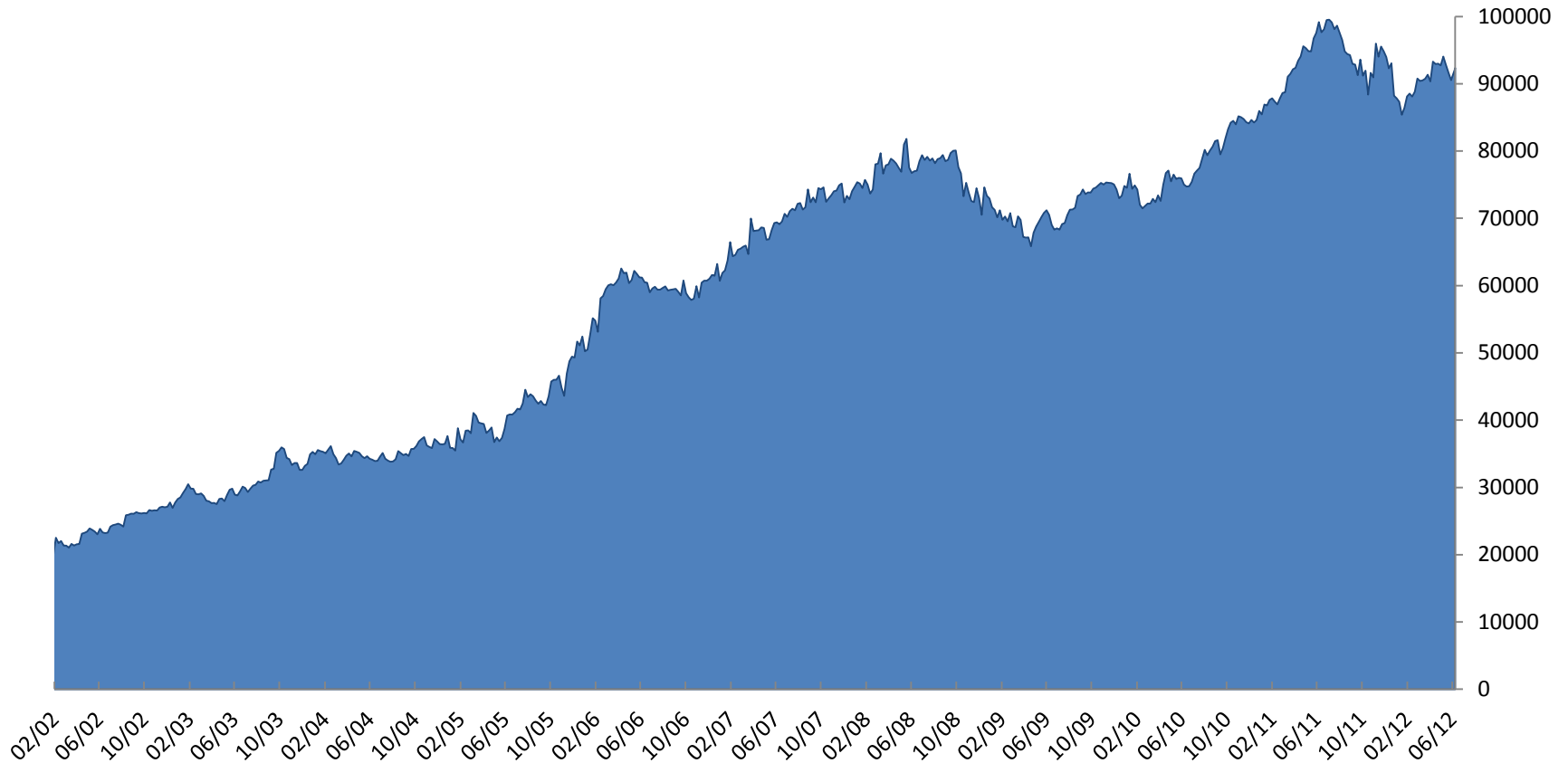


Source: CBRT.

Latest Observation: June 12, 2012.

CBRT International Reserves

Reserves of the CBRT (FX and Gold, Million USD)

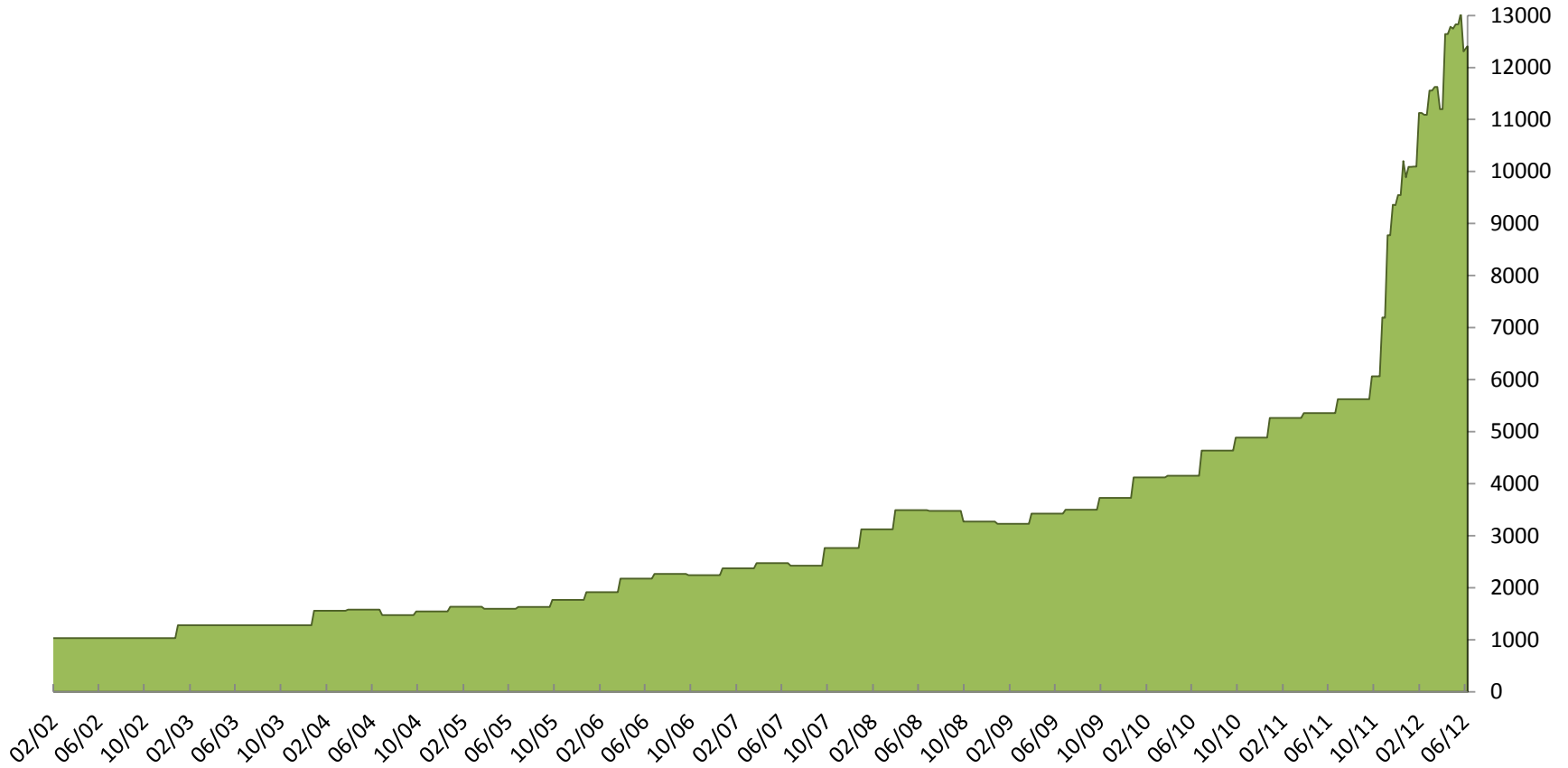


Source: CBRT.

Latest observation: June 12, 2012

CBRT Gold Reserves

CBRT Gold Reserves (Million USD)

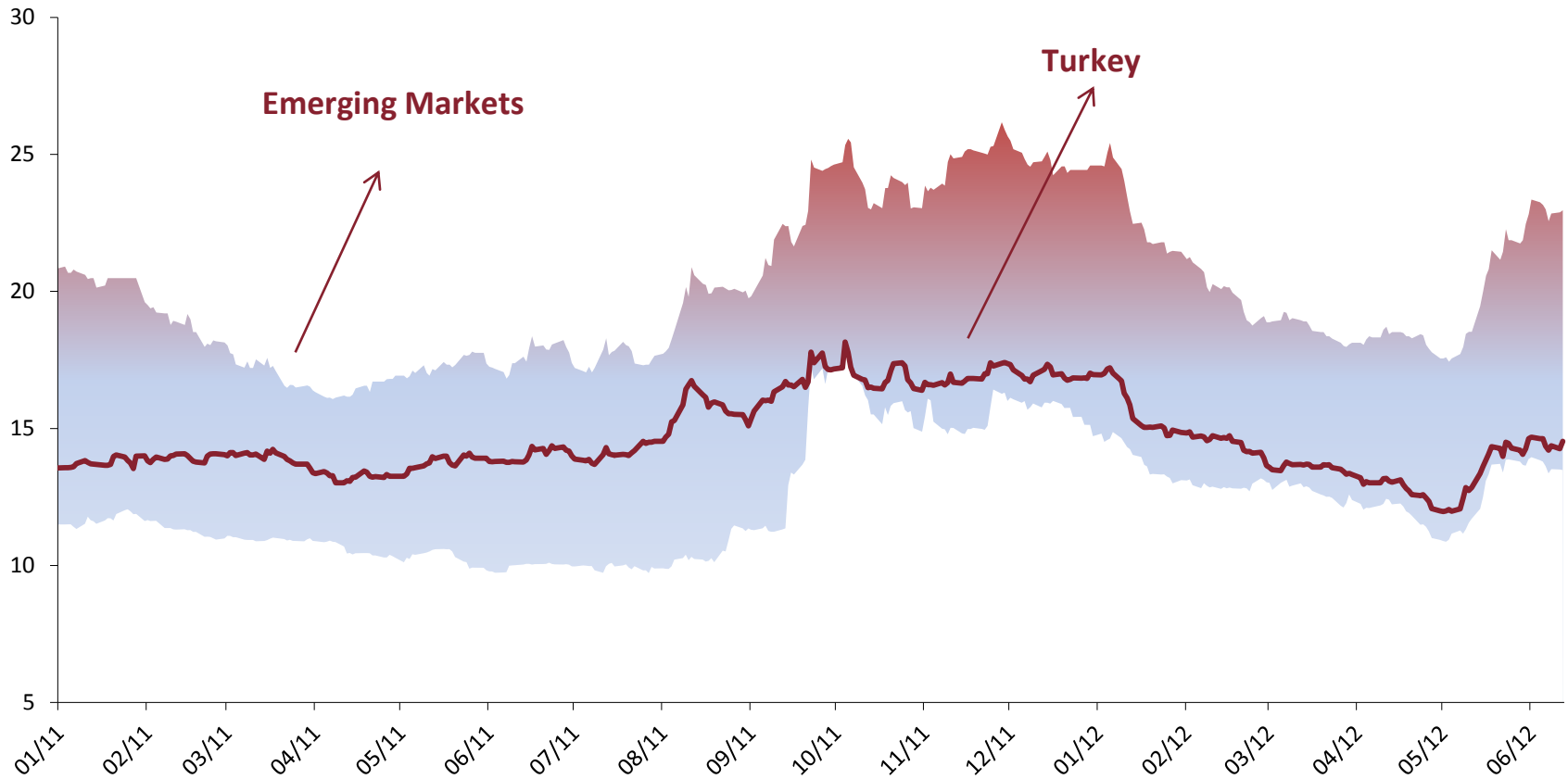


Source: CBRT.

Latest observation: June 12, 2012

FX Volatility

Volatility in Emerging Market Currencies (Percent, Implied for the next 12 months)



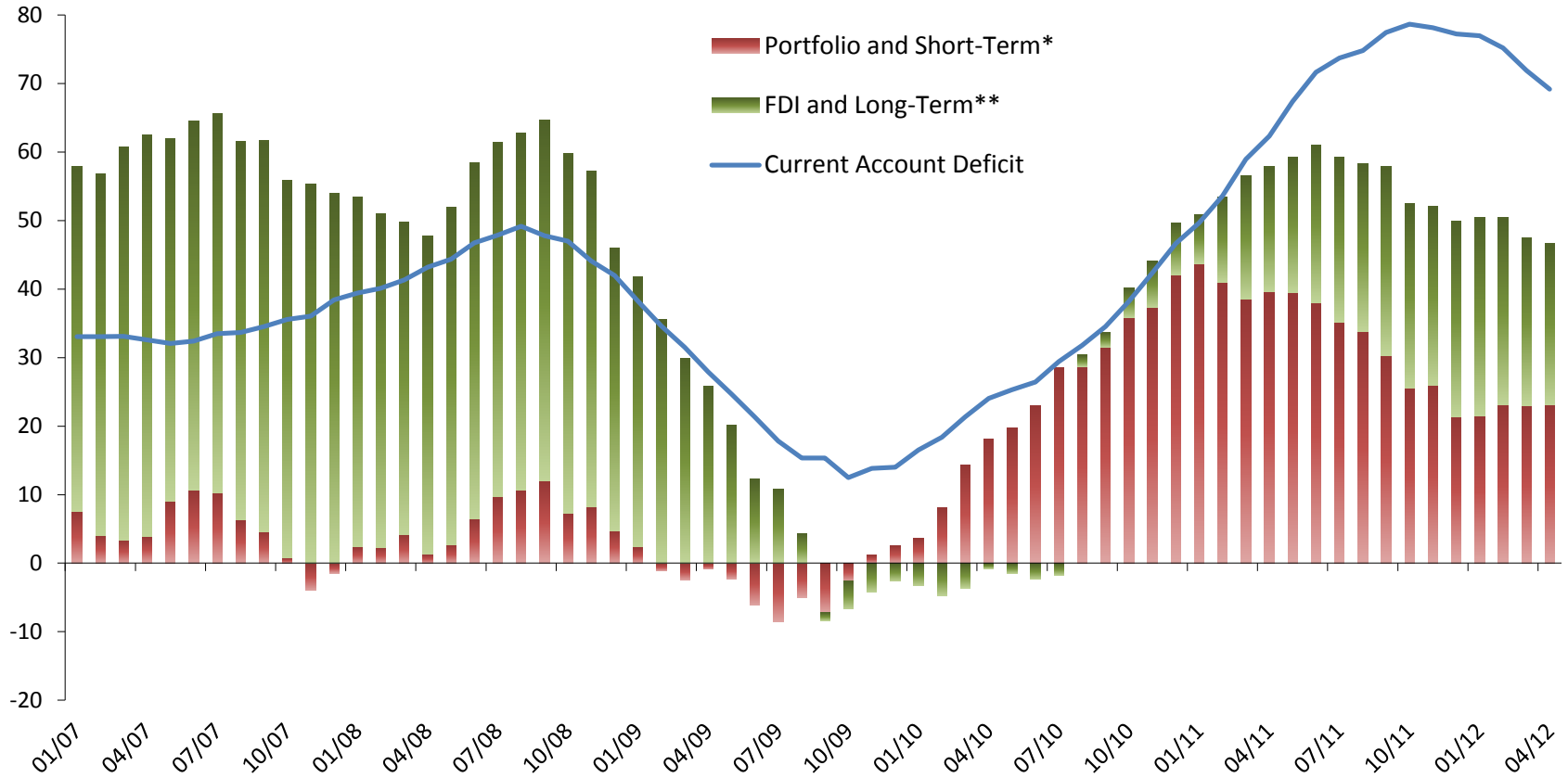
Source: Bloomberg, CBRT.

Emerging market currencies, including Brazil, Chile, Czech Republic, Hungary, Mexico, Poland, South Africa, Indonesia, Korea and Colombia.

Latest Observations: June 12, 2012

Quality of Capital Inflows

Main Sources of Current Account Deficit Finance (12-months Cumulative, Billion USD)



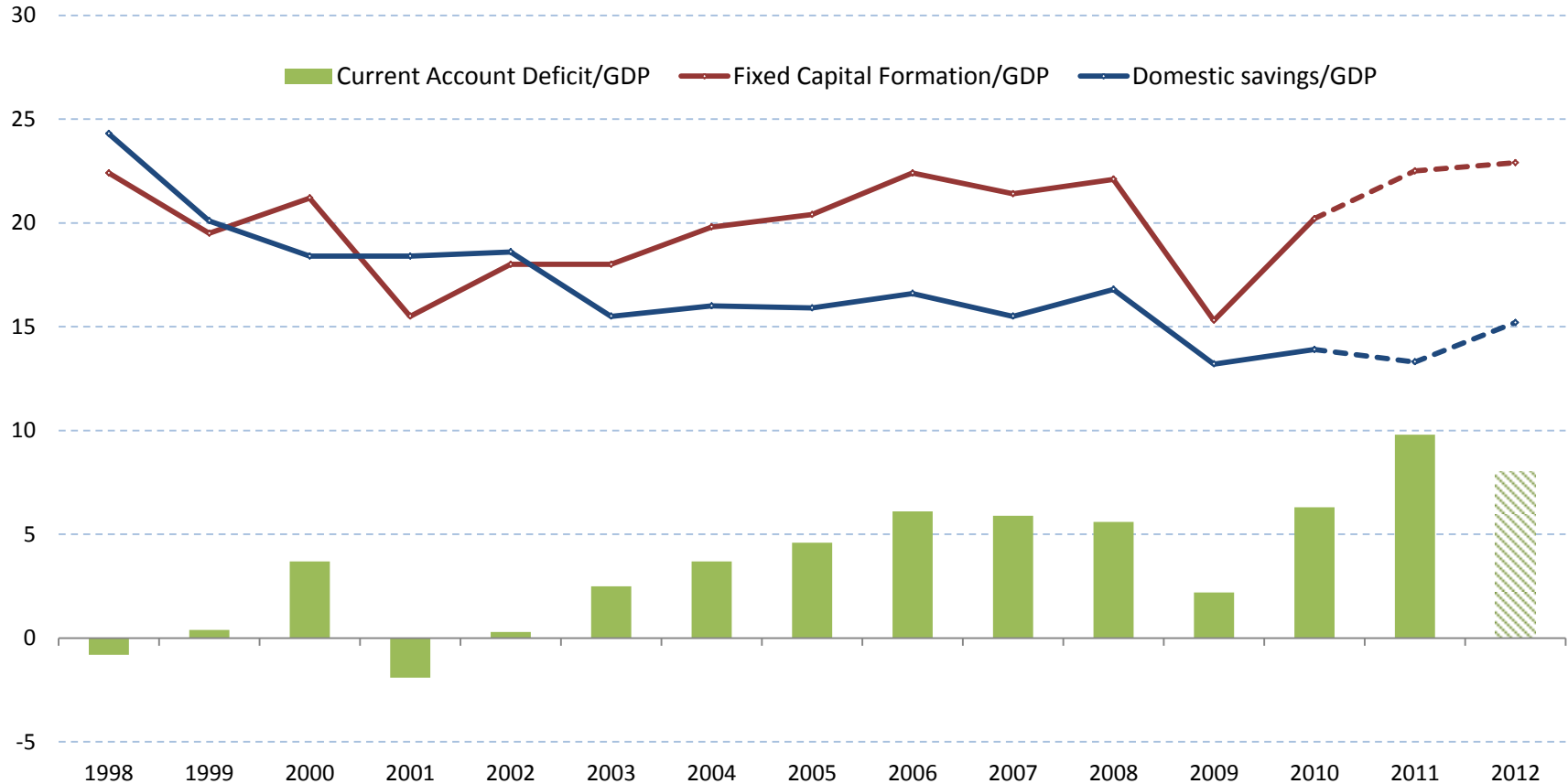
Source: CBRT.

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

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

Components of Current Account Balance

Investments and Savings (Percent, Current Prices)



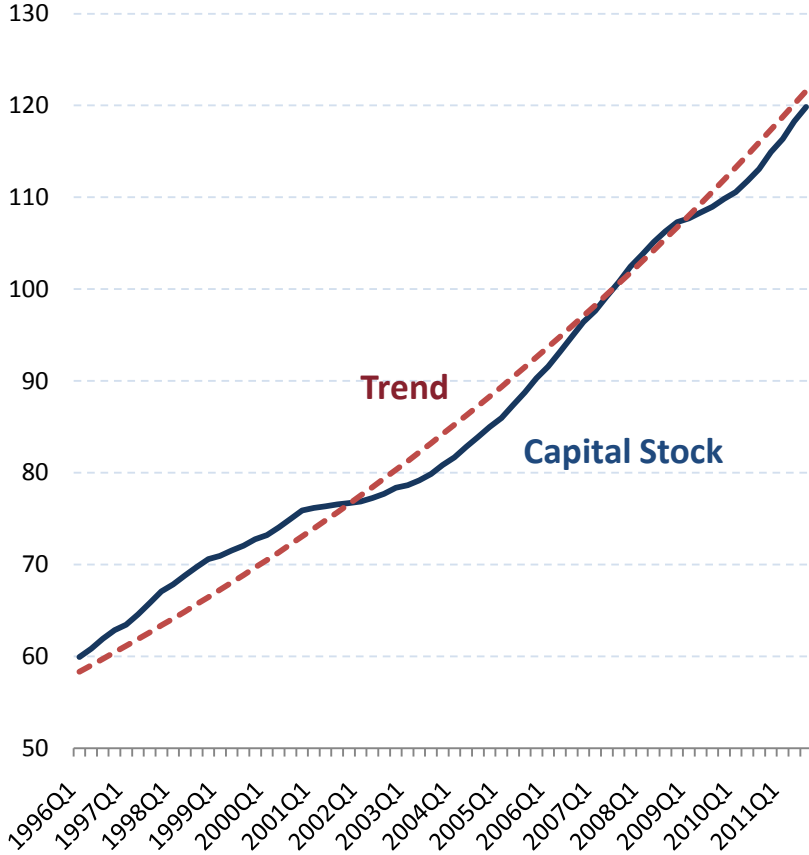
Source: Ministry of Development, CBRT.

*2011 - 2012 data for savings and investments is forecast. 2012 estimate for current account balance is taken from MTP.

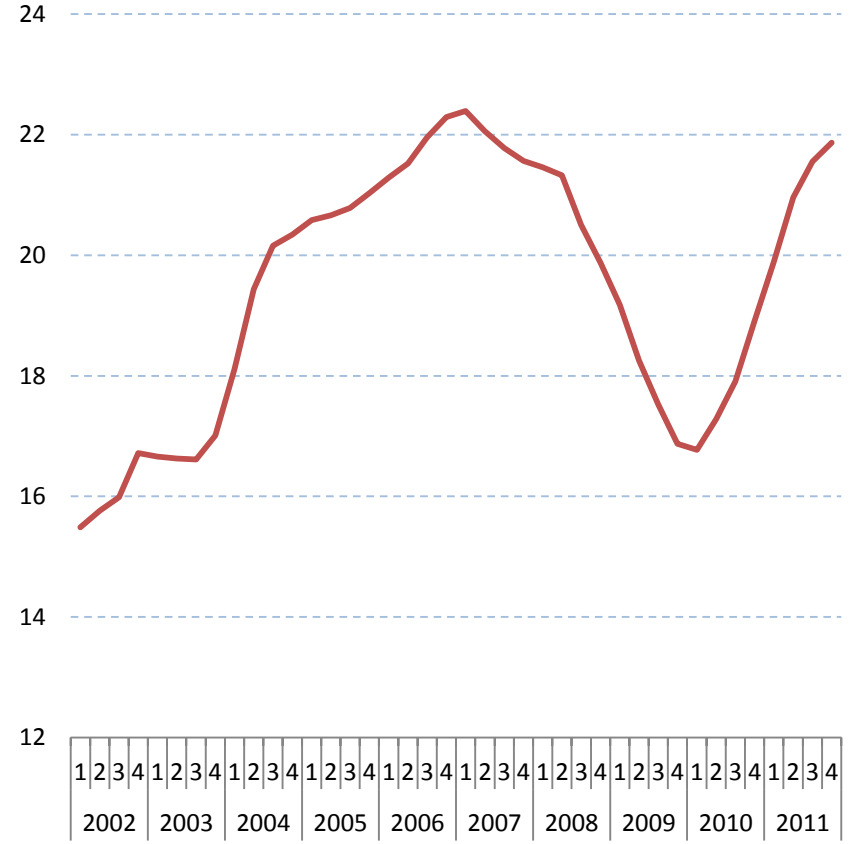
GROWTH

Capital

Capital Stock
(Constant Prices, 2007=100)



Fixed Capital Formation*
(Percent, Ratio to GDP, Current Prices)



Source: TurkStat, CBRT.

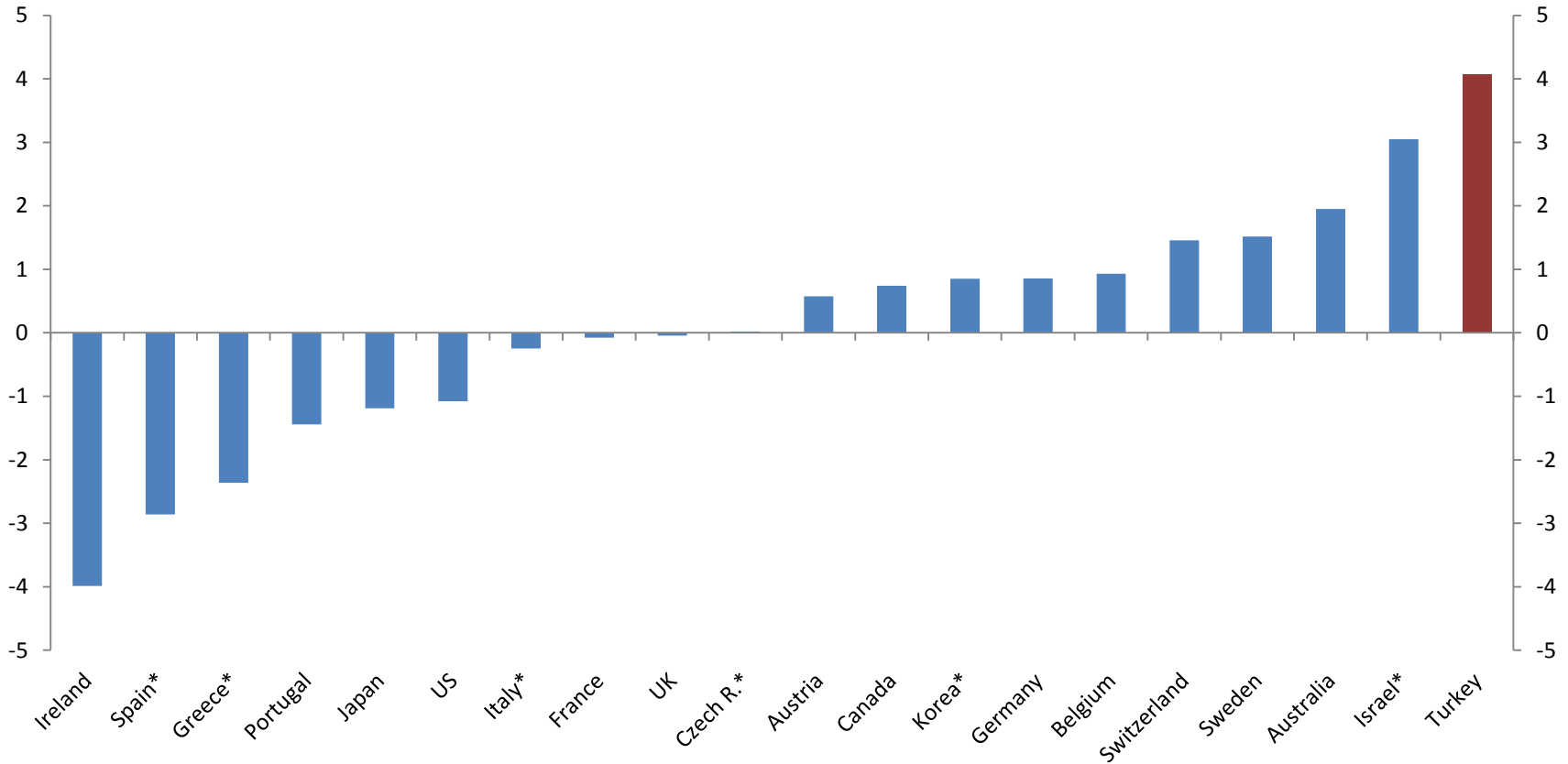
Last observation: 2011Q4

Source: TurkStat, CBRT.

*Annualized

Employment

Average Annual Employment Growth** (Percent, 2007-2011)



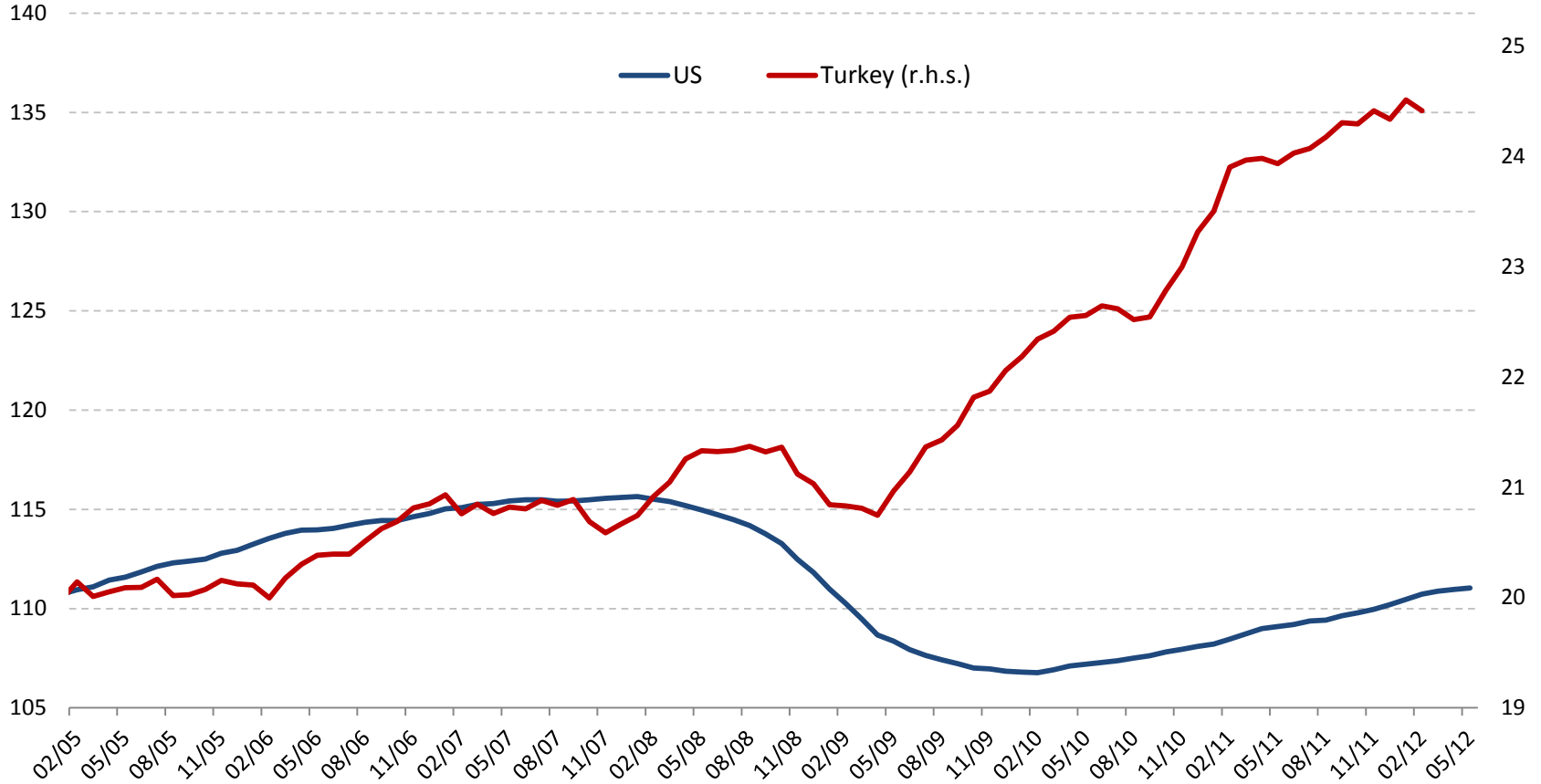
Source: IMF WEO, TurkStat, CBRT.

*IMF projections used for end of 2011.

**Difference of natural logs.

Employment: Turkey and US

Total Employment*
(Million people)

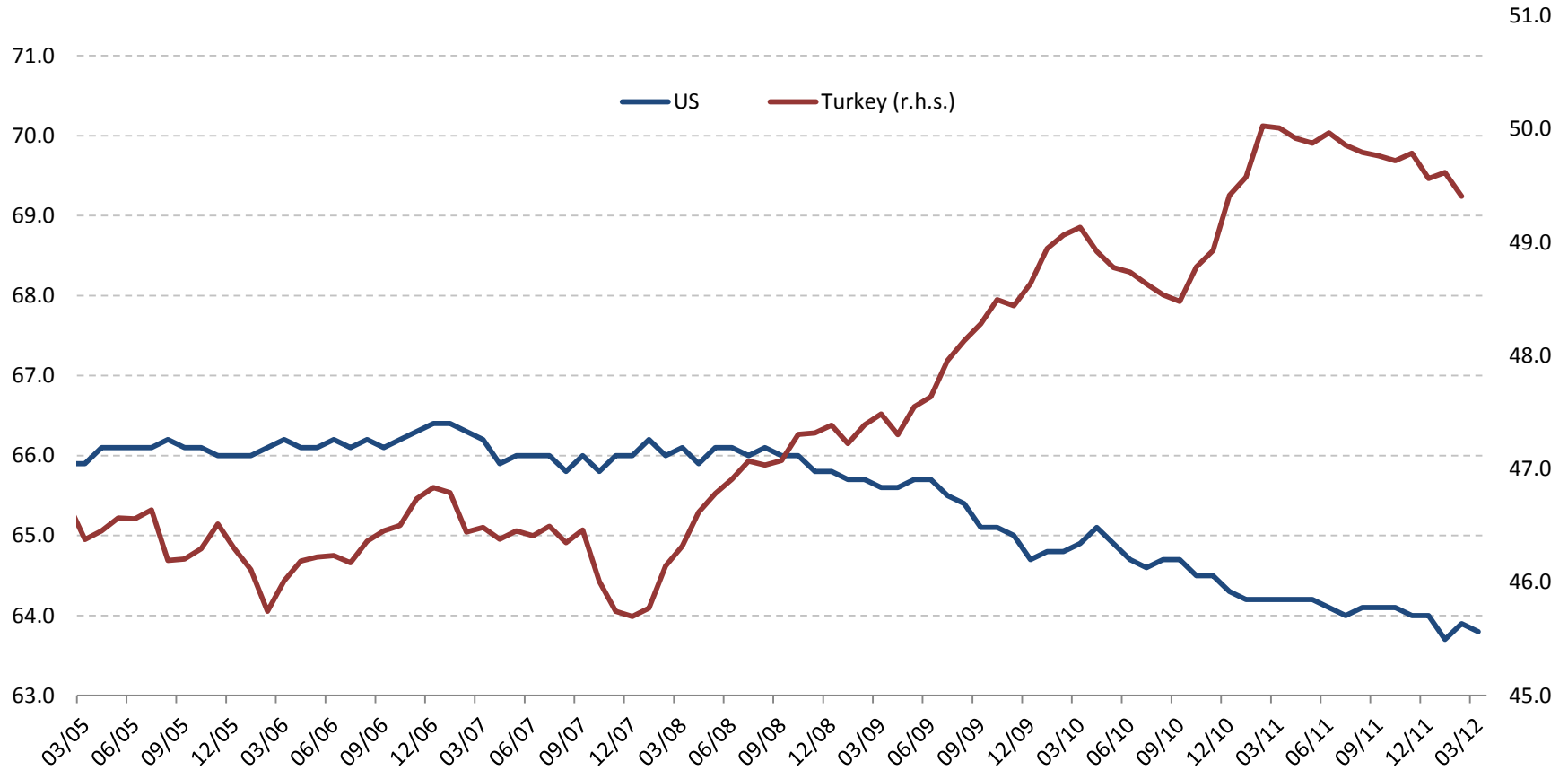


Source: TurkStat, BLS, CBRT.

*Seasonally adjusted

Labor Participation: Turkey and US

Labor Participation Rate* (Percent)

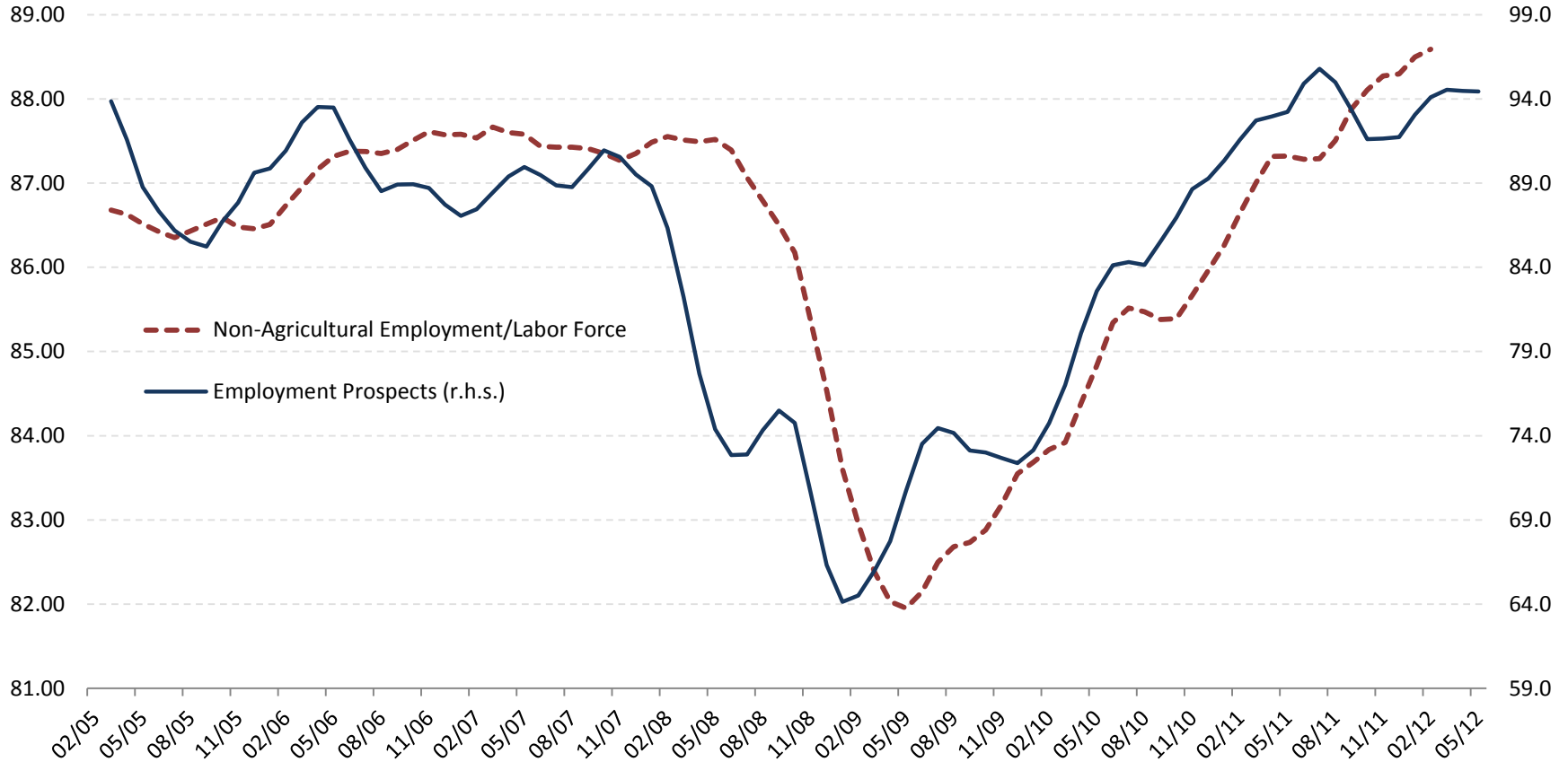


Source: TurkStat, BLS, CBRT.

*Seasonally adjusted

Employment

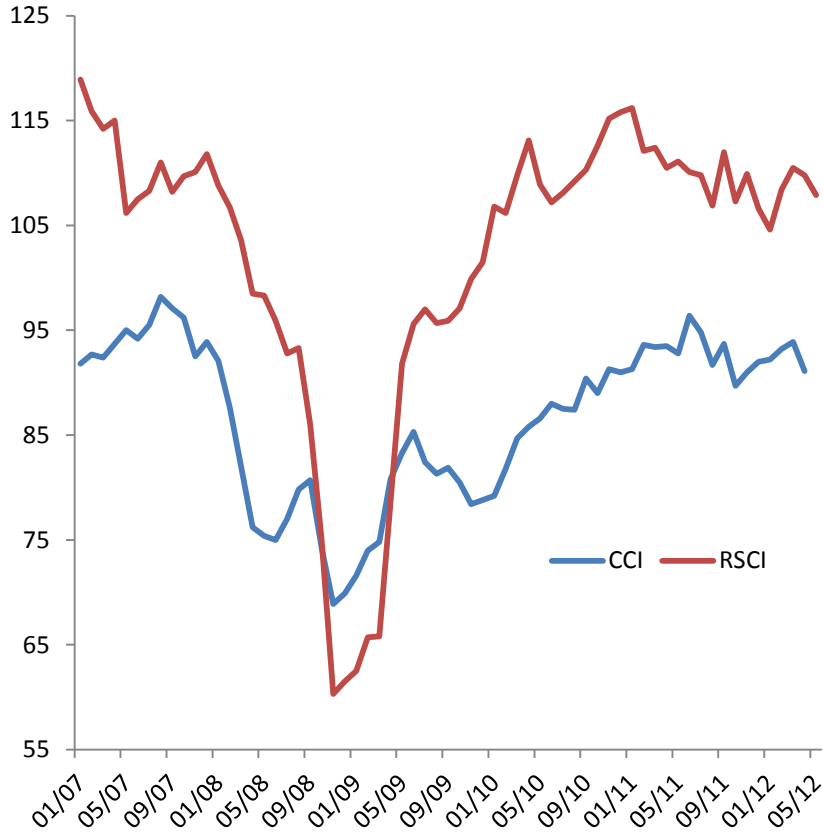
Prospects and Employment (Percent, 3 month moving averages)



Source: TurkStat, CBRT

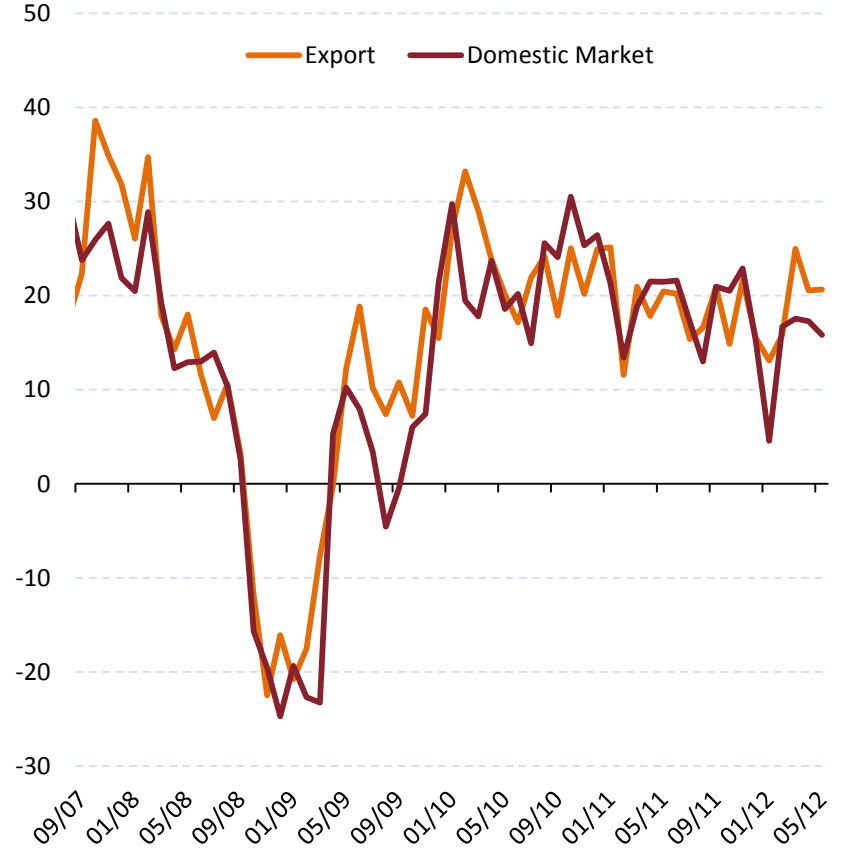
Leading Indicators for Q2

Consumer and Real Sector Confidence Index



Source: CBRT.

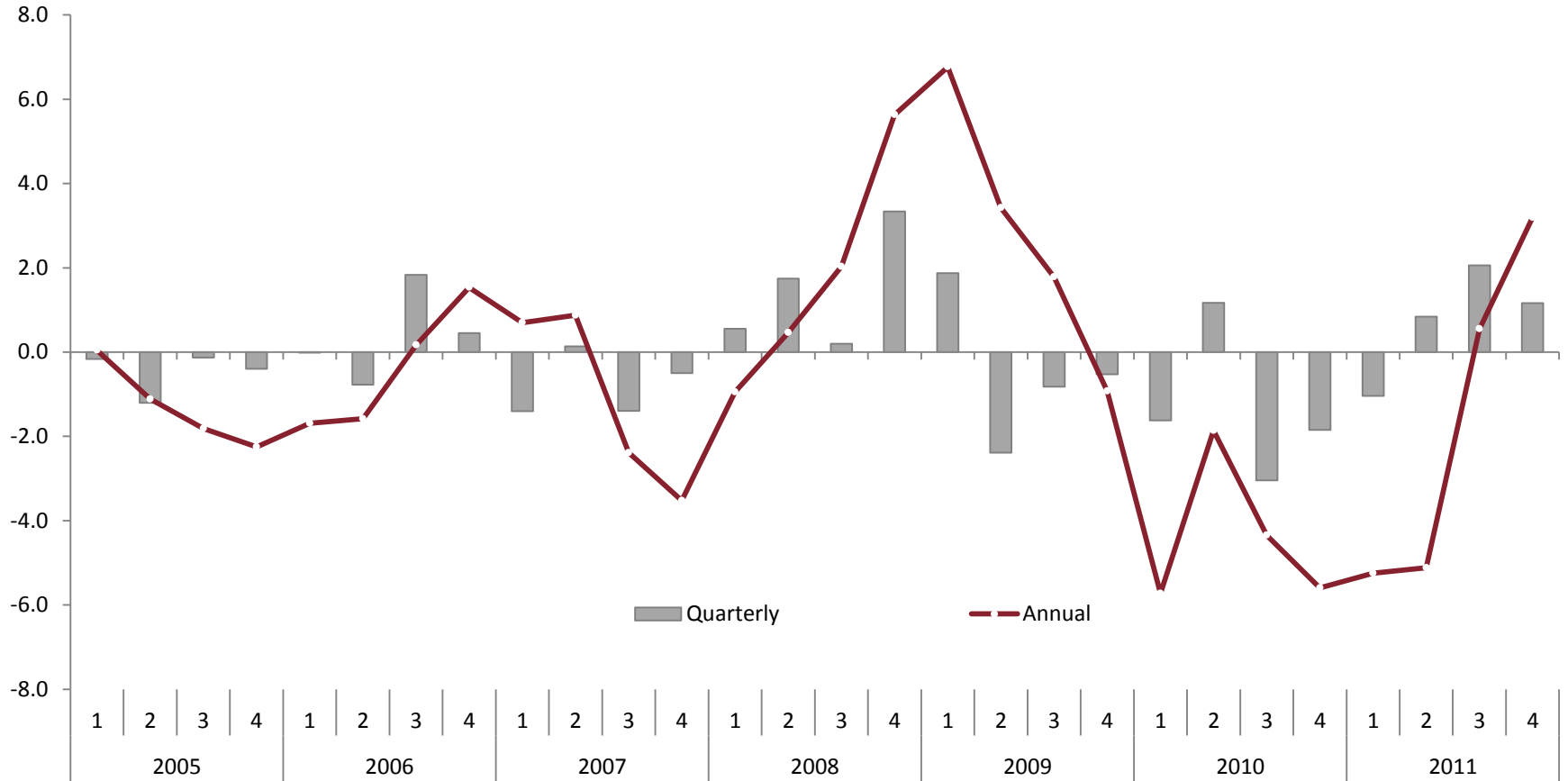
New Orders* (Seasonally Adjusted, Monthly)



Source: CBRT.

Net Exports

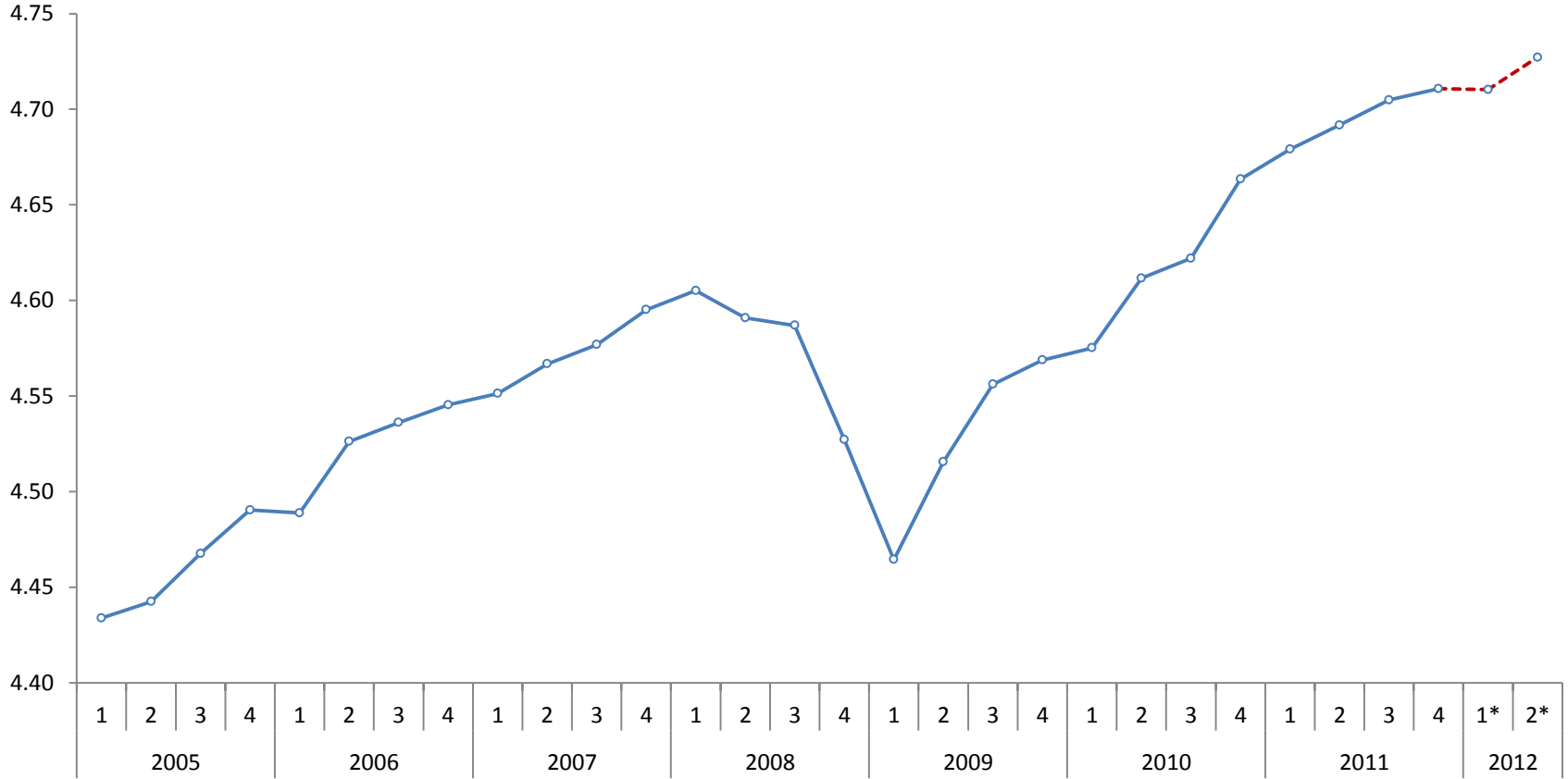
Contribution of Net Exports to GDP (Percent Points)



Source: TurkStat, CBRT.

Gross Domestic Product

Actual GDP (Base Quarter: 2008Q1, Seasonally Adjusted, Natural Logarithm)



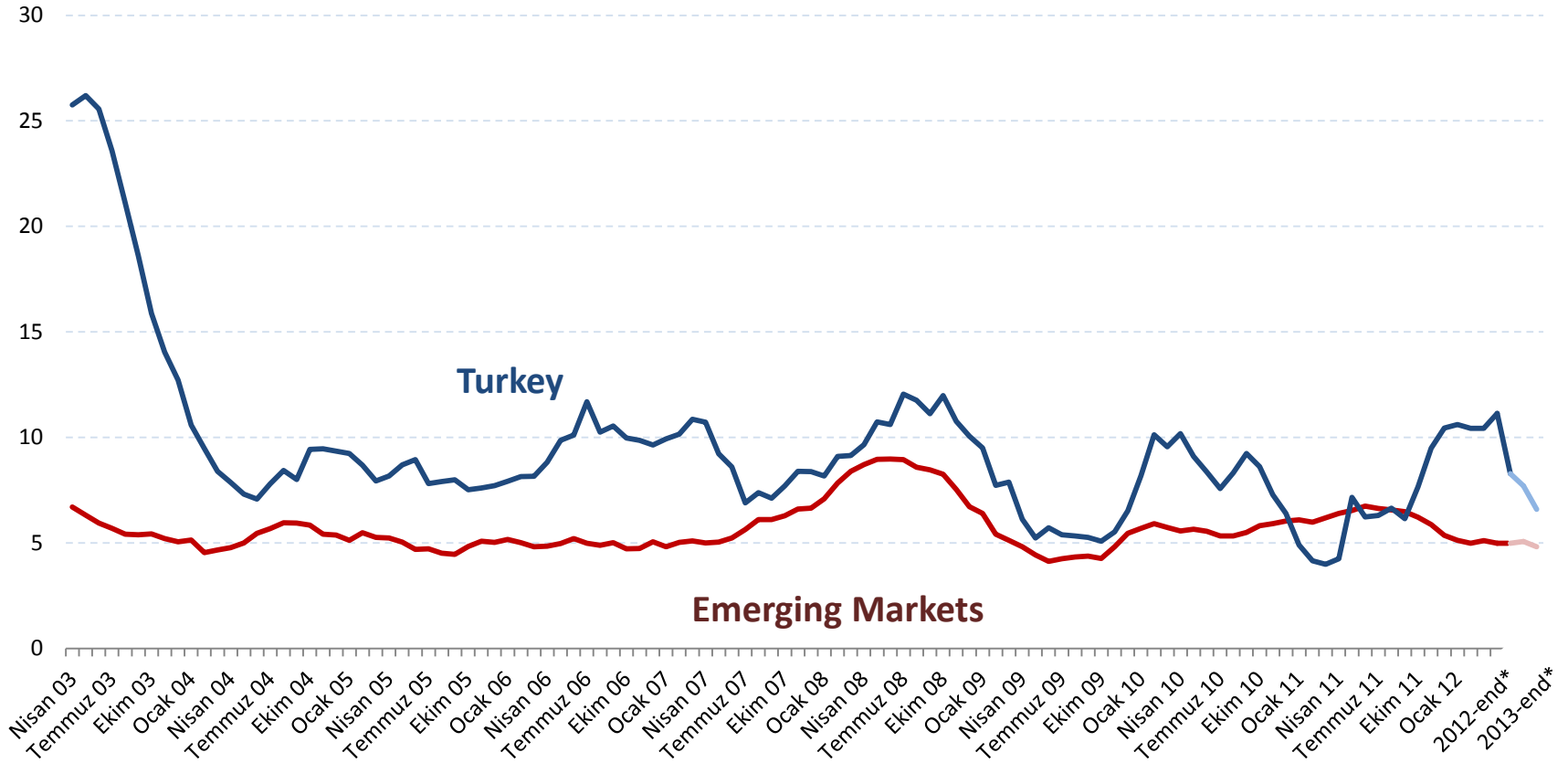
Source: TurkStat, CBRT.

*2012Q1 and Q2 is forecast.

INFLATION

Inflation

Inflation in Turkey vs. Emerging Markets (Percent, Weighted Average)



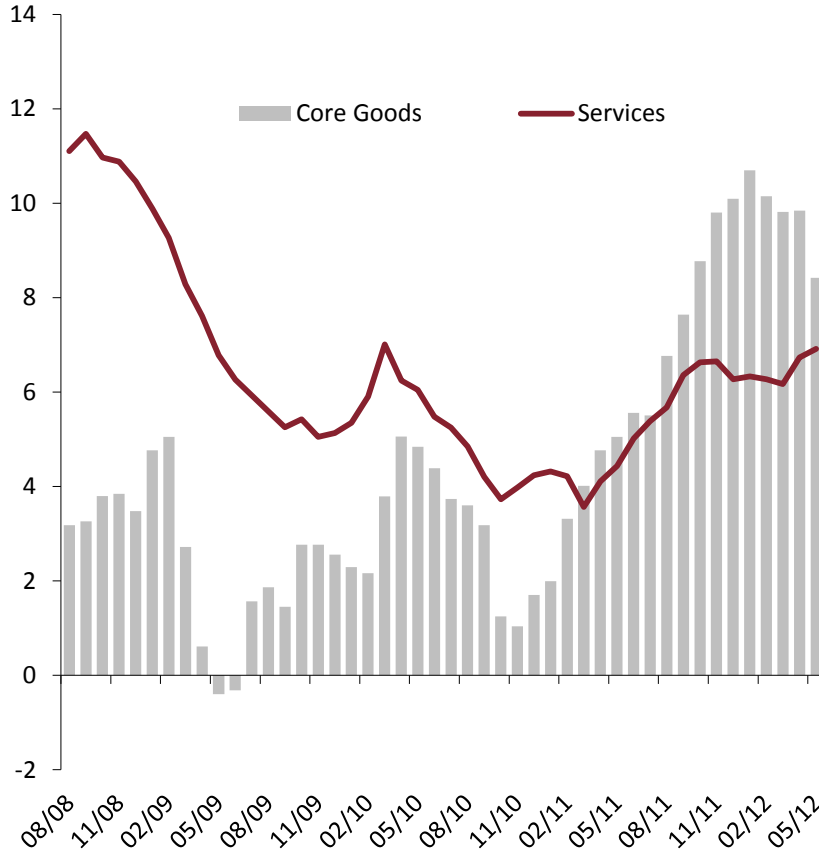
Source: Bloomberg, CBRT.

Emerging Market Economies: China, Brazil, India, Mexico, Russia, Turkey, Poland, Indonesia, S. Africa, Argentina, Thailand, Malaysia, Czech Rep., Colombia, Hungary, Romania, Ukraine, Vietnam, Chili, Peru, Egypt, Morocco, Lebanon and S. Arabia.

*2012 and 2013 end year values are from Consensus Forecast.

Inflation

Services and Core Goods Inflation (Annual percentage change)



Source: TurkStat, CBRT.

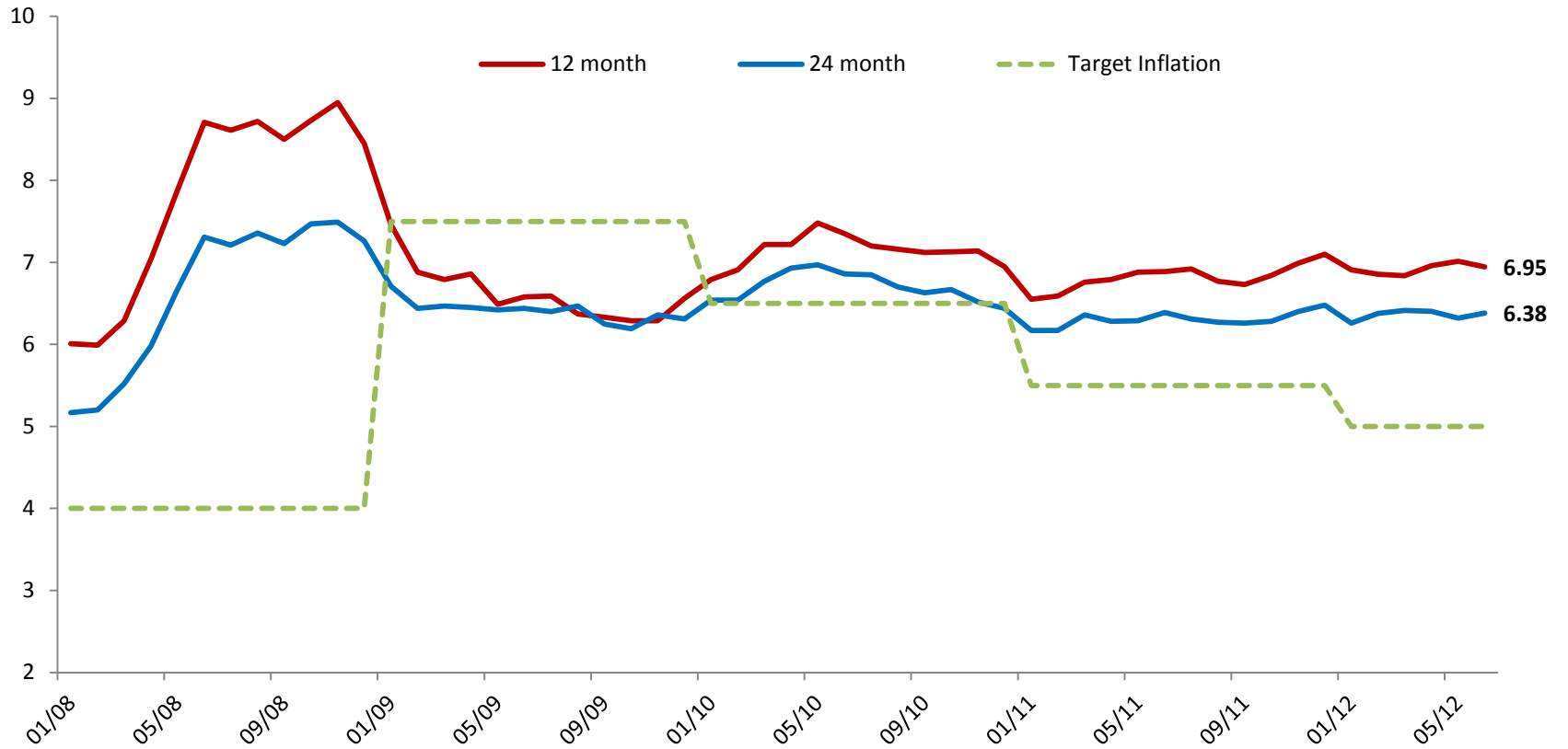
Core Inflation Indicators (H & I) (Annual percentage change)



Source: TurkStat, CBRT.

Inflation Expectations

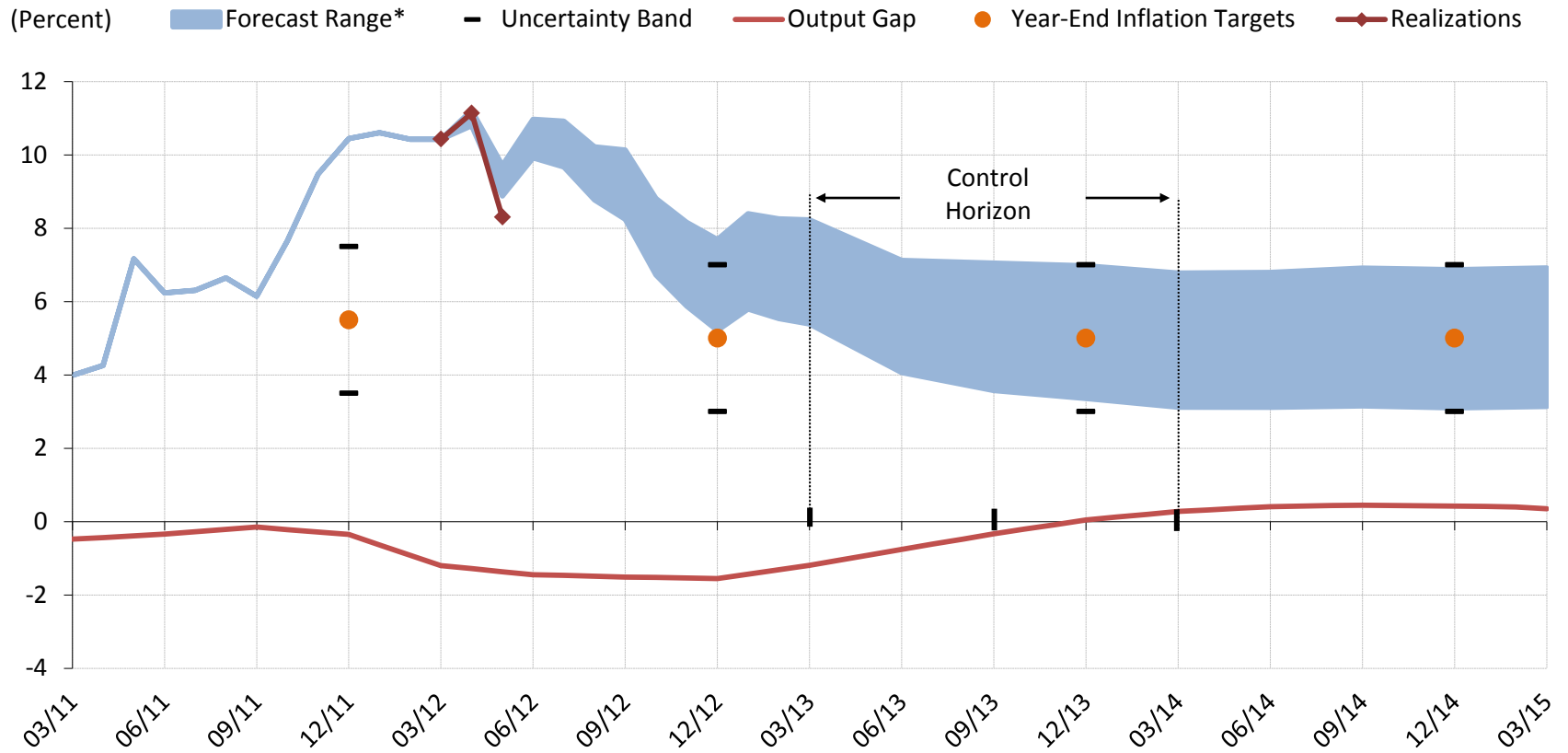
Medium Term Inflation Expectations* (Percent)



Source: CBRT.

*CBRT Survey of Expectations. Latest observations are from the first period survey in June.

Inflation



Source: CBRT.

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

Structural Reforms

- Increasing Domestic Savings
 - Sustaining Fiscal Discipline
 - Increasing Household and Firm Savings
 - ✓ Transition to government subsidized New Private Pension Scheme
 - ✓ Regulations on supporting insurance sector
- Decreasing Foreign Dependence in Energy

Structural Reforms

- Increasing competitiveness, diversity of goods and markets
 - New Incentive System
 - Input Provision Strategy (GİTES)
 - Diversifying export markets

- Increasing the quality of financing
 - Encouraging long-term savings
 - Supporting corporate (firms and banks) bond issuance
 - Diversifying government debt instruments: Rent Certificates
 - Tax incentives for Private Participation Capital and Venture Capital Funds

Summary

- Rebalancing between the domestic and external demand continues as envisaged.
- The improvement in the current account that started after October 2011 continues.
- Growth will remain moderate throughout 2012.
- Inflation, that has fallen remarkably in May, will decline significantly in the last quarter reaching to the levels of 6.5% by the end of 2012; and by mid 2013, it will reach to the target of 5%.



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