



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

## **Briefing on Inflation Report 2014-IV**

**Erdem BAŞÇI  
Governor**

**31 October 2014  
Istanbul**

# Inflation Report: Main Sections

- Overview
- International Economic Developments
- Inflation Developments
- Supply and Demand Developments
- Financial Markets and Financial Intermediation
- Public Finance
- Medium Term Projections

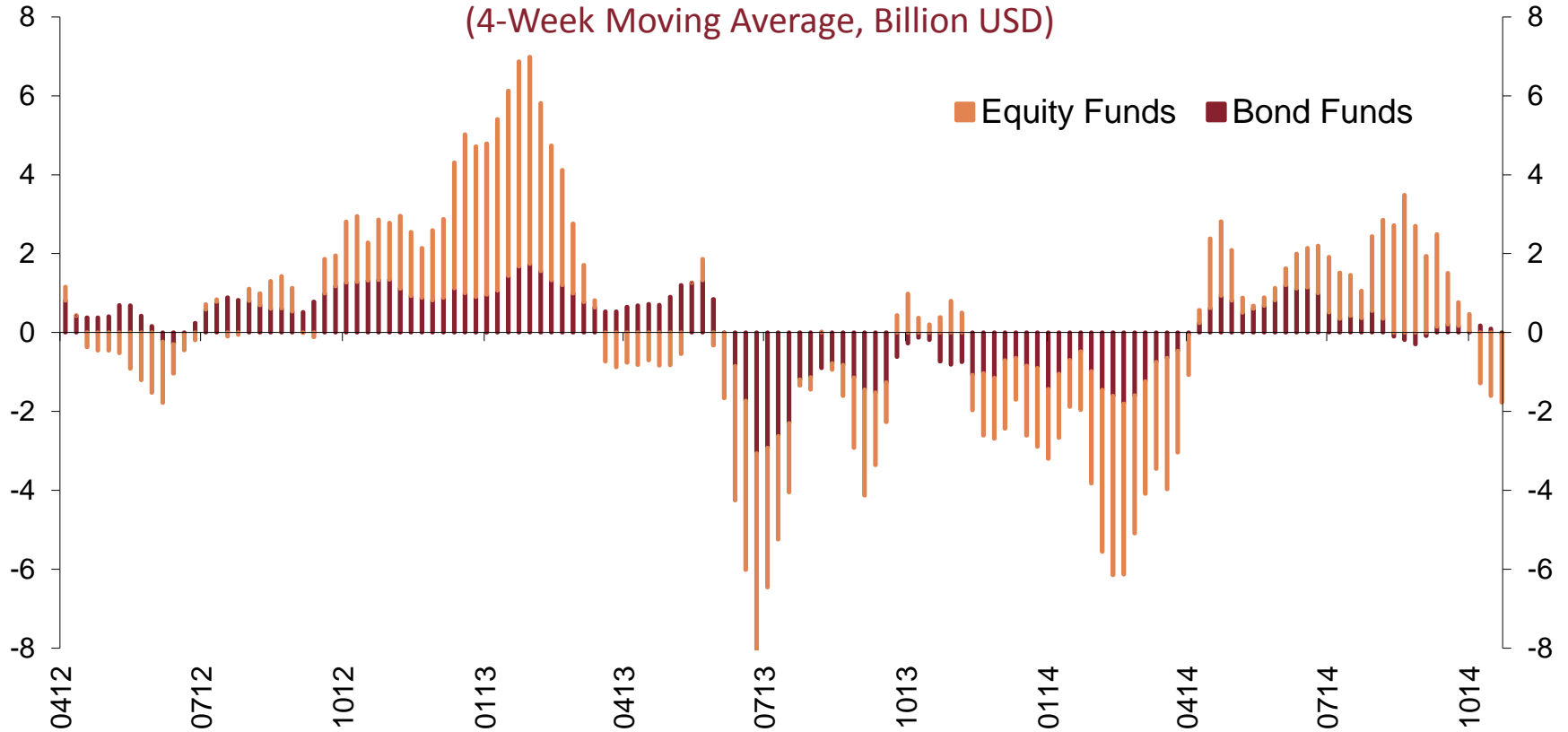
# Inflation Report: Boxes

- Time-varying Determinants of Bond Flows to Emerging Countries
- Sensitivity of Inflation to Output Gap and Credits
- Current Account Cycles and Aftermath of Current Account Deficits
- Non-Core Liabilities
- International Capital Flows and Domestic Loan Growth
- Capital Movements and Loan Growth: The Role of Macroprudential Measures

# Portfolio Flows

## Portfolio Flows to Emerging Economies

(4-Week Moving Average, Billion USD)



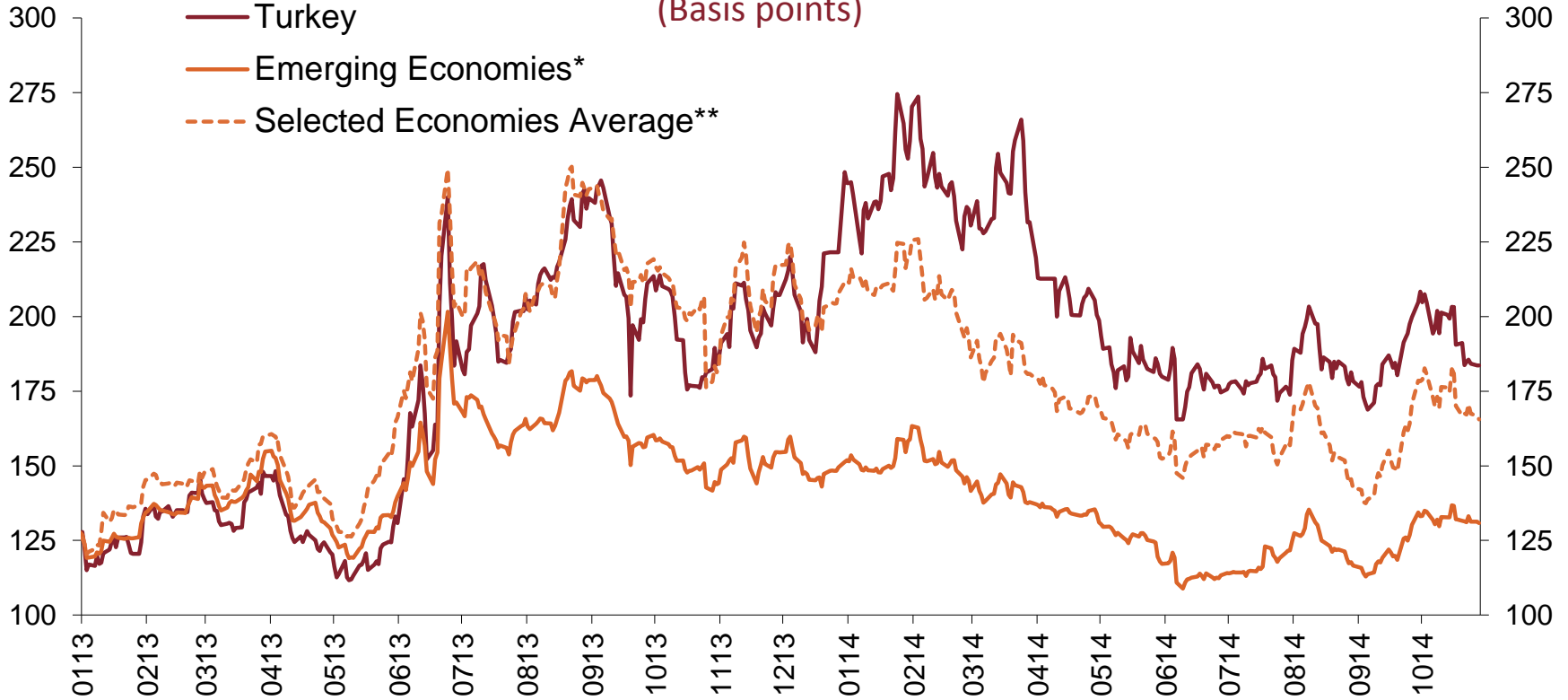
Source: EPFR.

➤ Portfolio flows to emerging countries follow a volatile course.

# Risk Premium

## CDS for Emerging Economies and Turkey

(Basis points)



\*Brazil, Czech Rep., Indonesia, S. Africa, Colombia, Hungary, Mexico, Poland, Romania ve Chile.

\*\* Brazil, Indonesia, and S.Africa.

Source: Bloomberg

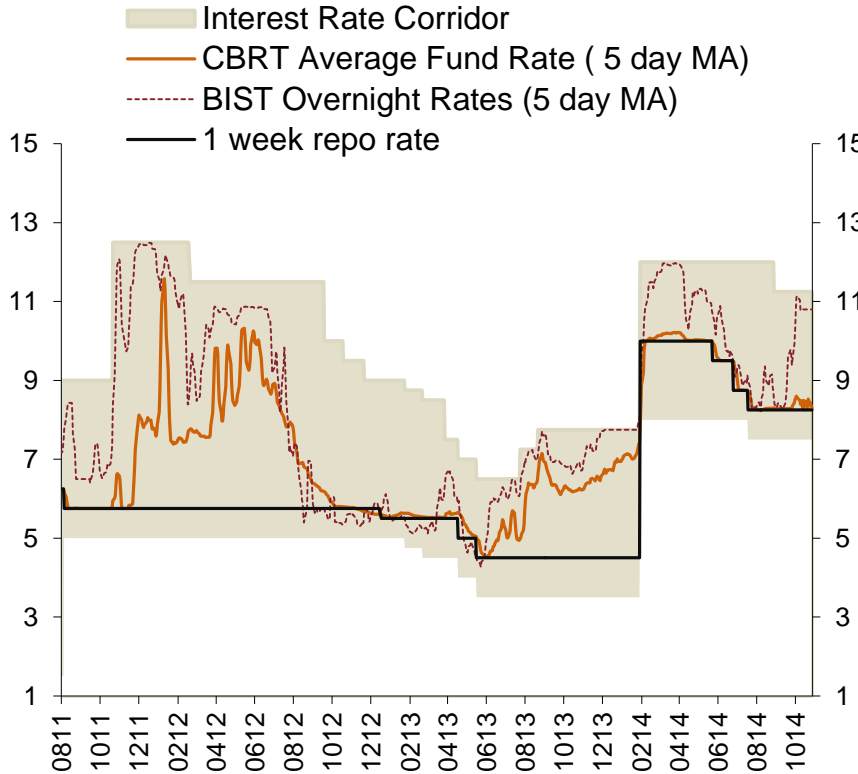
➤ Risk premium indicators for Turkey follow a similar path to those of other emerging economies.

# Monetary Policy and Financial Conditions

# Monetary Policy

## CBRT Rates and BIST Interbank O/N Repo Rates

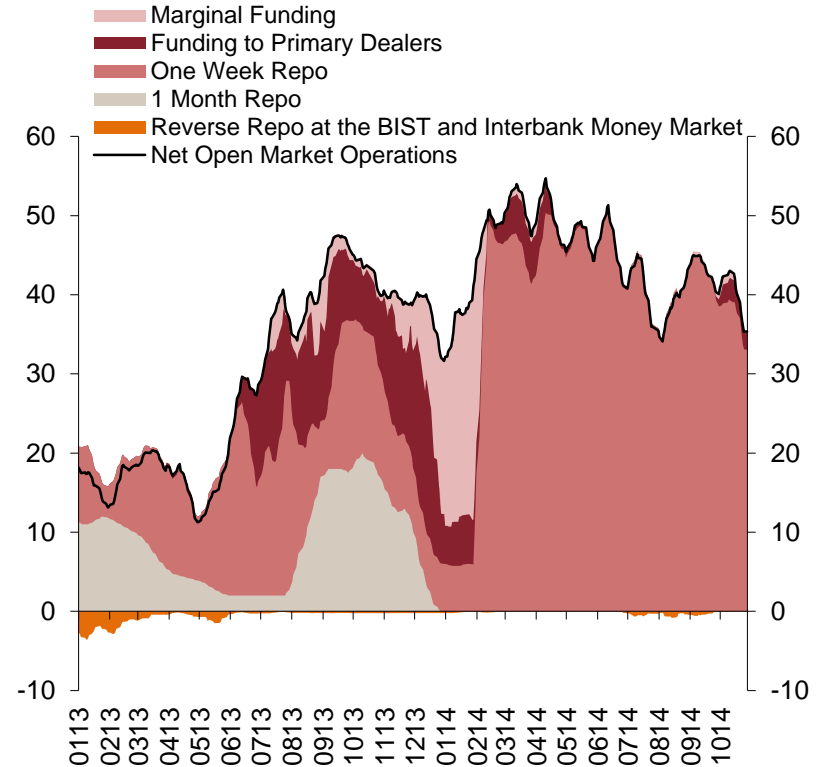
(Percent)



Source: BIST, CBRT.

## CBRT Funding\*

(2-Week Moving Average, Billion TL)



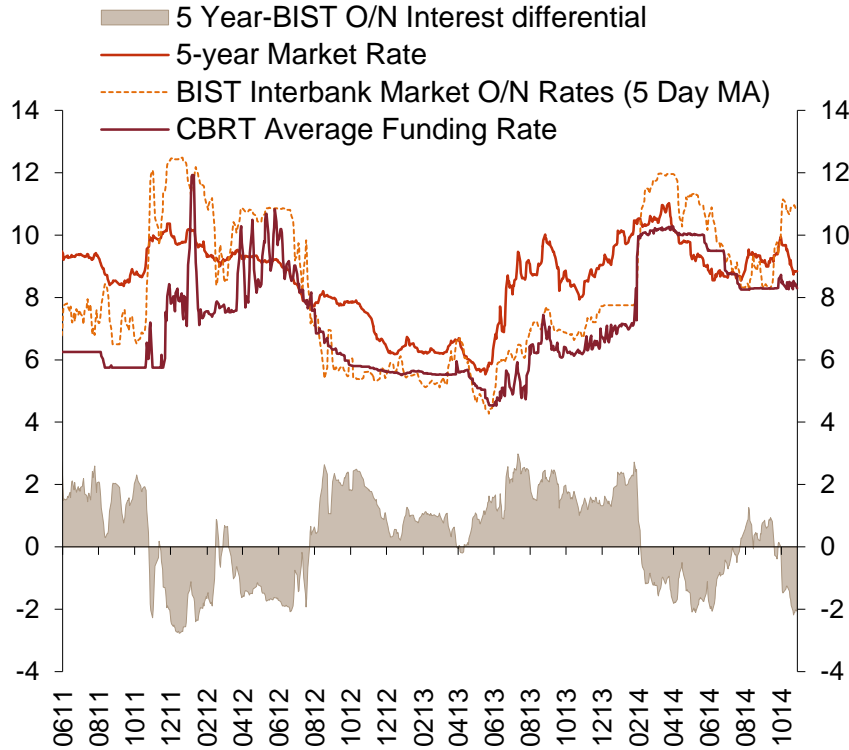
\*Marginal funding is O/N funding quoted at the upper limit of the corridor.

Source: BIST, CBRT.

➔ The CBRT provides funding primarily via one-week repo auctions.

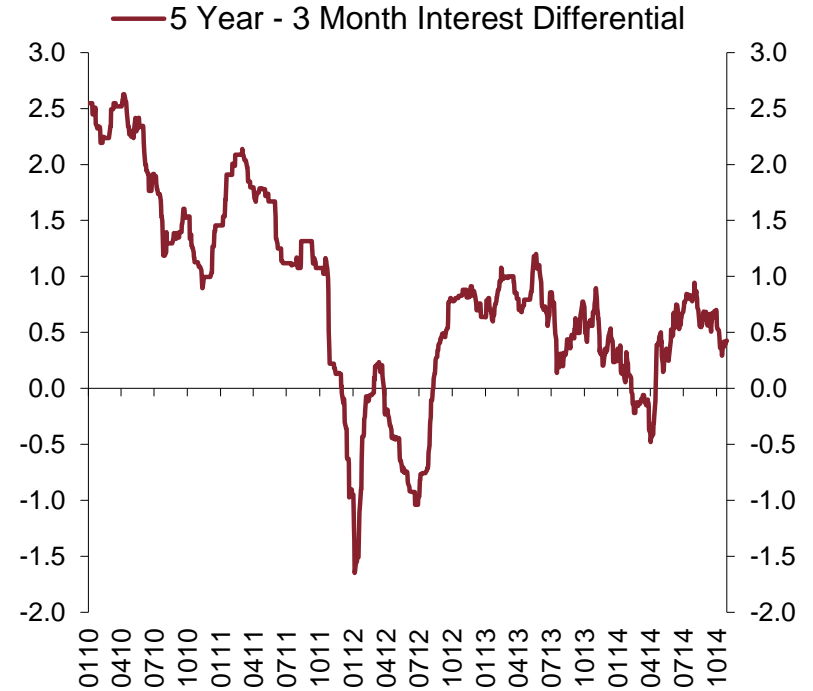
# Monetary Conditions

## Money Market and CBRT Funding Rates (Percent)



Source: BIST, CBRT.

## Long and Short Term Interest Rate Differential (Percent)



Source: Bloomberg.

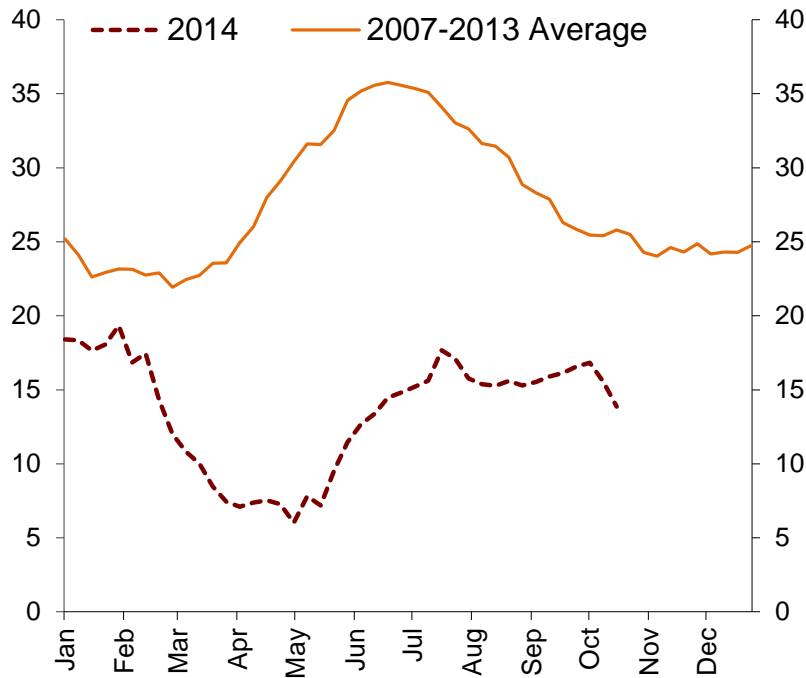
➤ Tight monetary policy stance is maintained by keeping the yield curve flat.



# Financial Stability

## Consumer Loan Growth

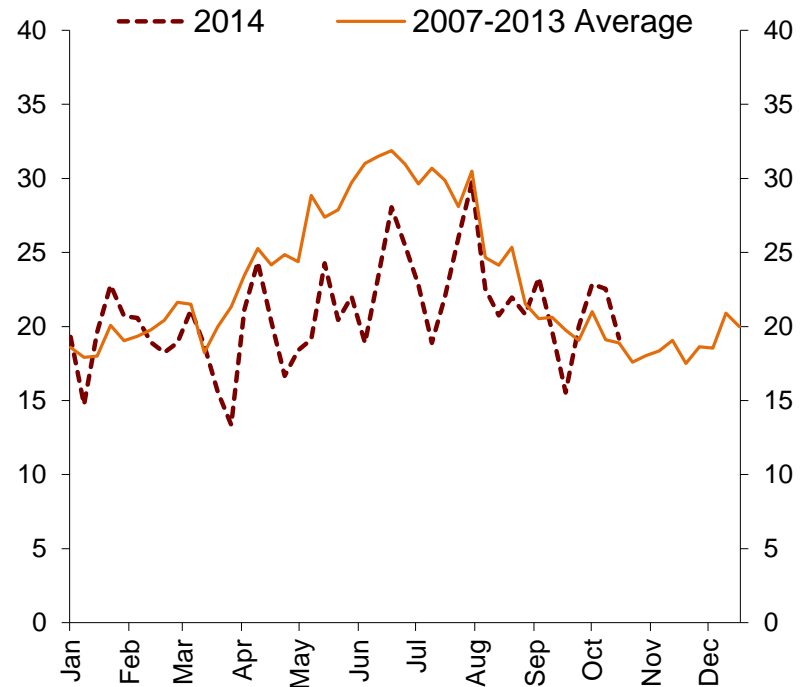
(13-Week Moving Average, Annualized, Percent)



Source: CBRT

## Commercial Loan Growth

(13-Week Moving Average, Adjusted for Exchange Rate, Annualized, Percent)



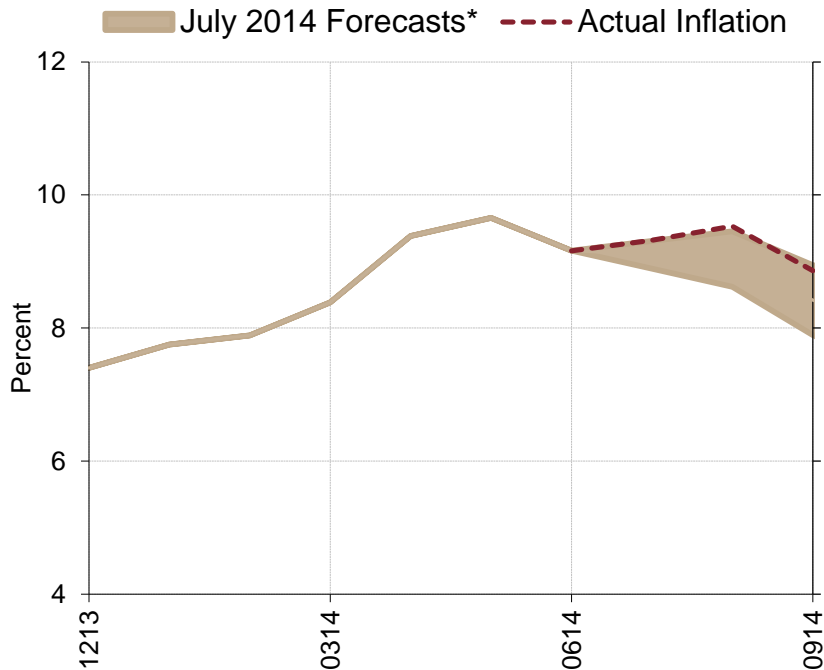
Source: CBRT.

➤ Commercial loans grow at a faster pace than consumer loans.

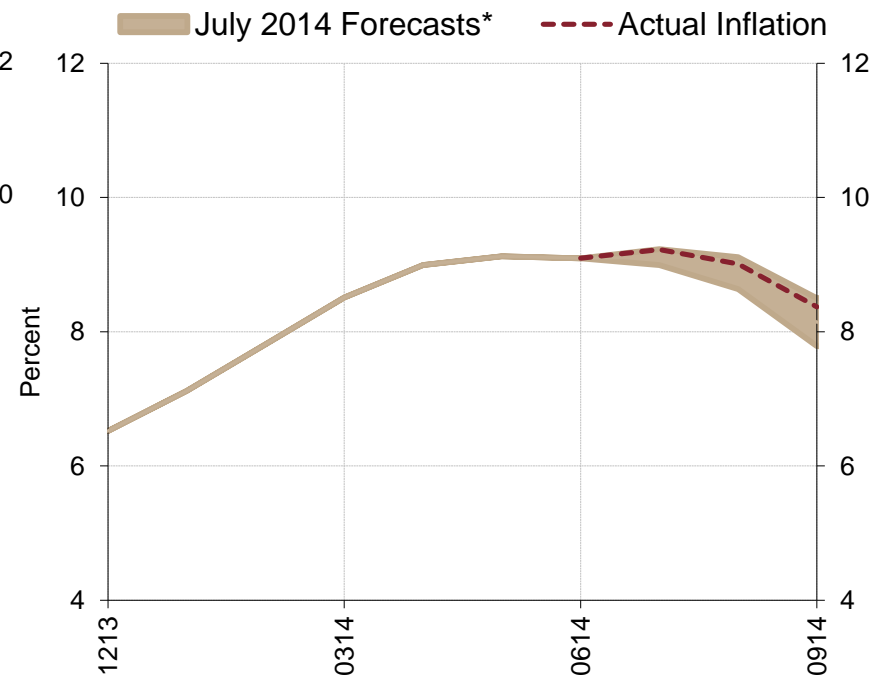
# Macroeconomic Developments and Main Assumptions

# July Inflation Report Forecasts and Realizations

## July Inflation Forecasts and Realizations (Percent)



## July Inflation Forecasts and Realizations Excluding Unprocessed Food and Tobacco (Percent)



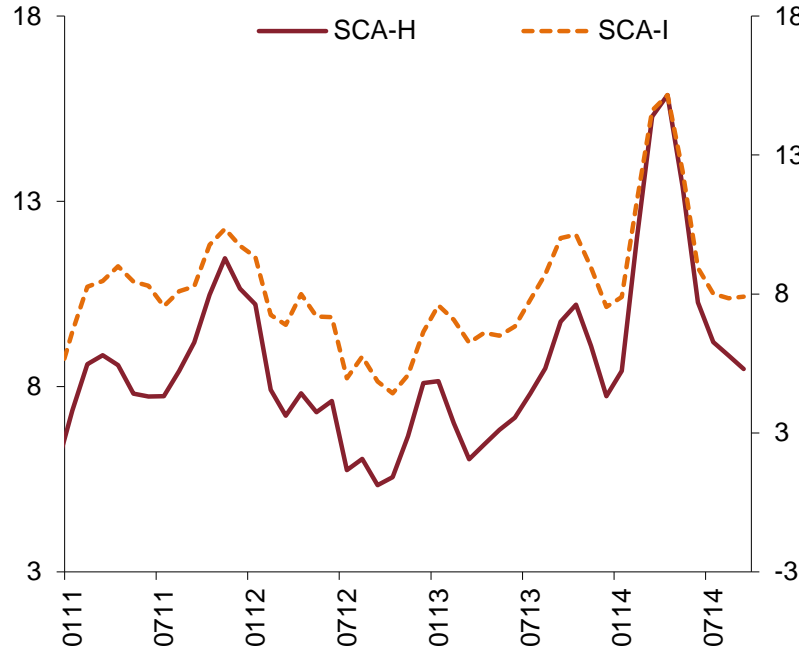
\* Shaded region indicates the 70 percent confidence interval for the forecast.  
Source: TURKSTAT, CBRT.

- In the third quarter of 2014, inflation excluding unprocessed food and tobacco was mostly consistent with the July Inflation Report forecasts.

# Inflation

## Core Inflation Indicators SCA-H and SCA-I

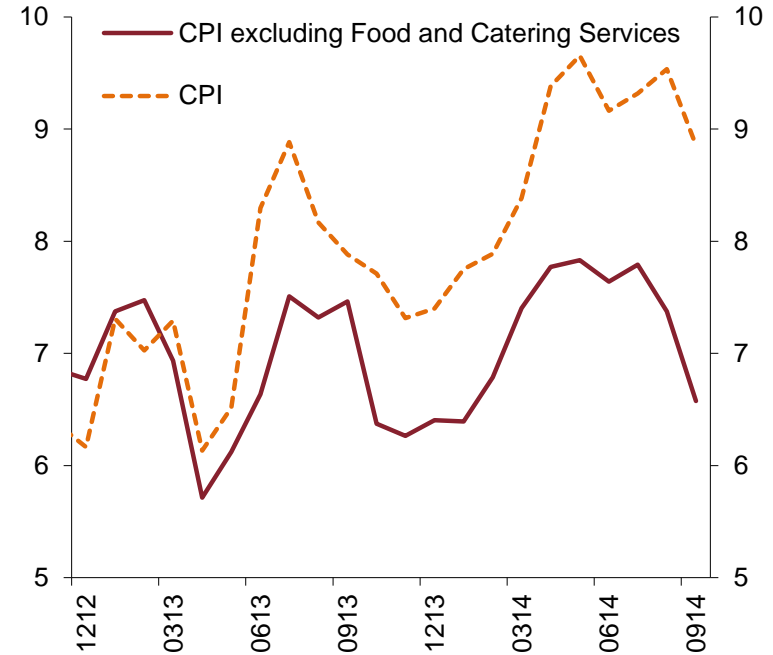
(Seasonally Adjusted, Annualized 3 Month Average Percent Change)



Source: TURKSTAT, CBRT.

## CPI Excluding Food and Catering Services and CPI

(Annual Percentage Change)

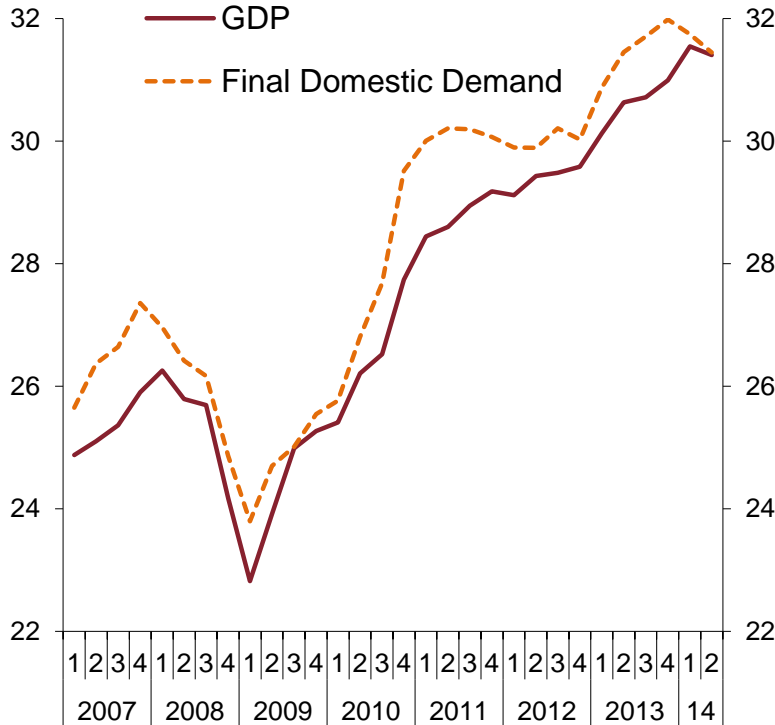


- Owing to the macroprudential measures and the tight monetary policy stance, the core inflation trend has started to decline.

# Aggregate Demand Developments

## GDP and Final Domestic Demand

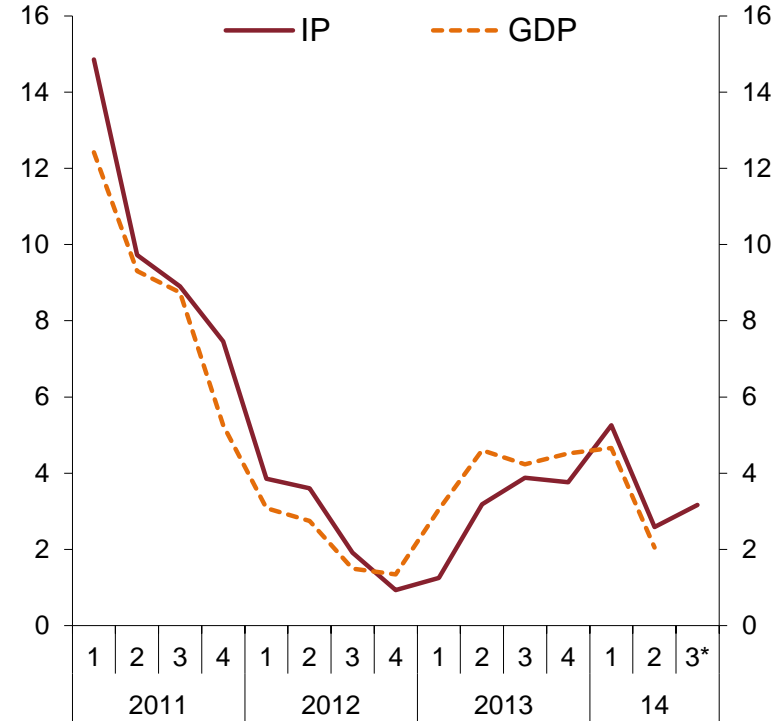
(Seasonally Adjusted, Billion TL, 1998 Prices)



Source: TURKSTAT, CBRT.

## Industrial Production and GDP

(Annual Percentage Change)



\*Percentage change of July-August average relative to the same period of previous year.

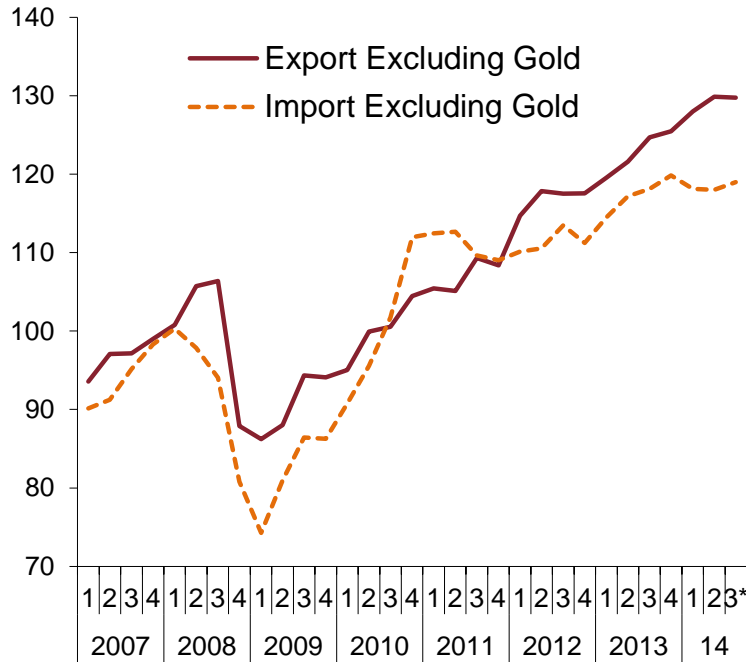
Source: TURKSTAT, CBRT.

- In the second quarter, GDP growth fell short of industrial production growth due to the weakness in agricultural production.

# Financial Stability

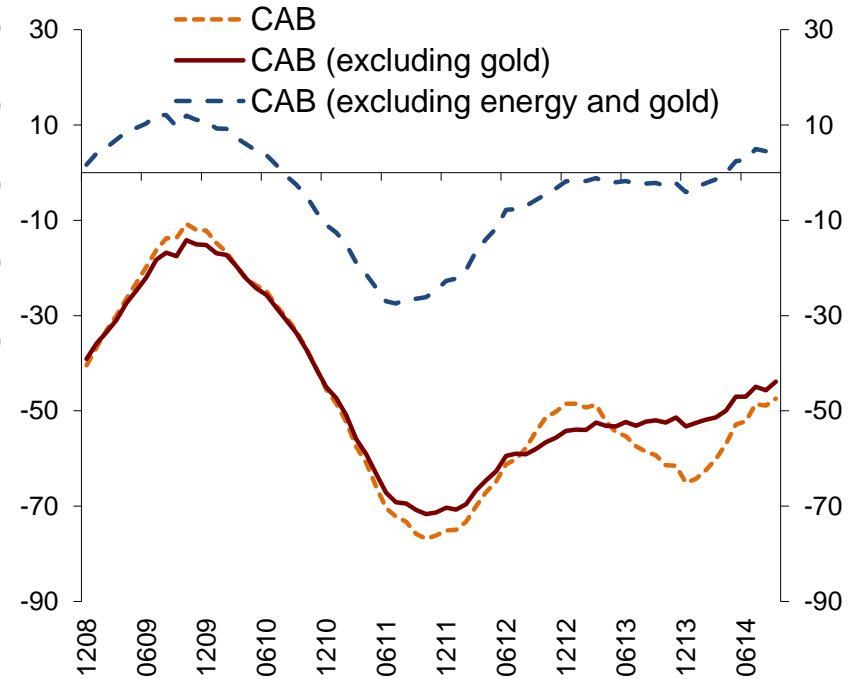
## Export and Import Volume Indices

(Seasonally Adjusted, 2010=100)



## Current Account Balance

(12-Month Cumulative, Billion USD)



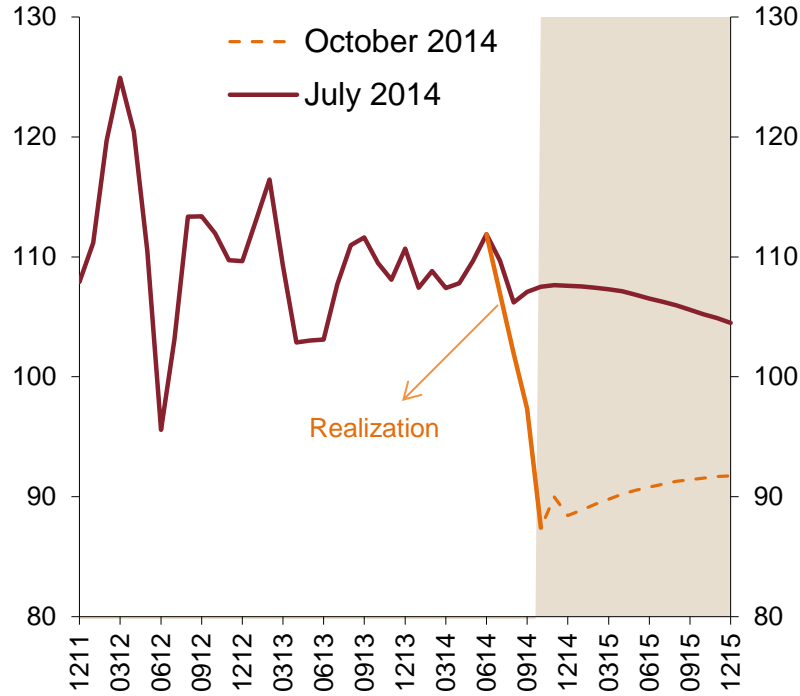
\* Third quarter data reflects July, August realizations and September forecasts.

Source: TURKSTAT, CBRT.

➡ The current account balance continues to improve.

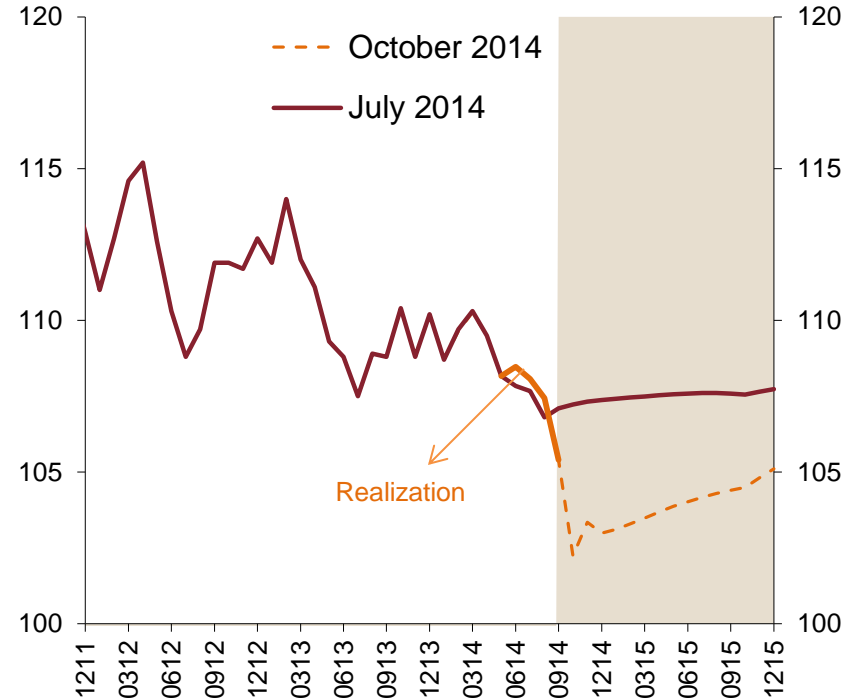
# Oil and Import Prices

**Oil Prices\***  
(USD/barrel)



\* Shaded area indicates the forecast horizon.  
Source: Bloomberg, CBRT.

**Import Prices\***  
(USD, 2010=100)



\* Shaded area indicates the forecast horizon.  
Source: TURKSTAT, CBRT.

➤ In the third quarter of the year, outlook of oil and import prices remained below the path envisaged in the July Inflation Report.

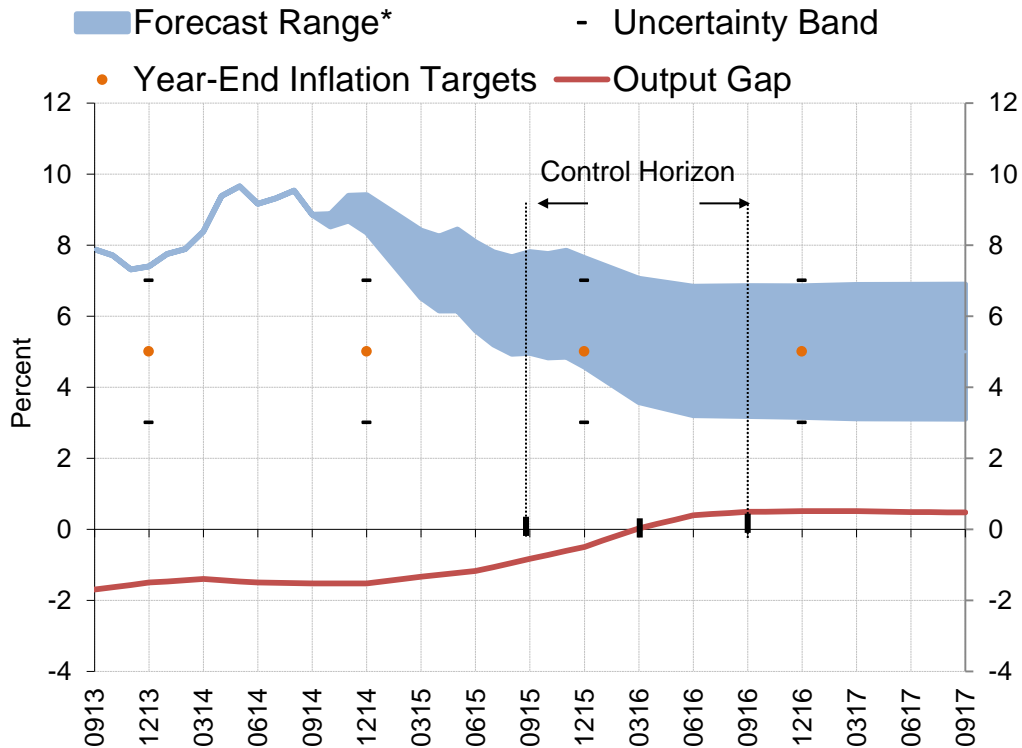
# Monetary Policy Stance

- Medium-term forecasts are based on the assumption that the tight monetary policy stance will be maintained by keeping the yield curve flat.
- It is assumed that the annual loan growth rate will near 15 percent by the end of 2014 on the back of the macro prudential measures and stabilize around these reasonable levels.



# Inflation Outlook

## Inflation and Output gap Forecasts



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

Accordingly, inflation is expected to

- **be between 8.4 % and 9.4 % (mid-point of 8.9 %) by the end of 2014,**
- **be between 4.6 % and 7.6 % (mid-point of 6.1 %) by the end of 2015,**
- **stabilize at 5 % in the medium term**

with 70 percent probability.



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