



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

**Presentation before the  
Council of Ministers**

**Erdem Başçı  
Başkan**

**May 2, 2012**

# Outline

- I. Global Economic Developments**
- II. Growth**
- III. Inflation**
- IV. Current Account Deficit**

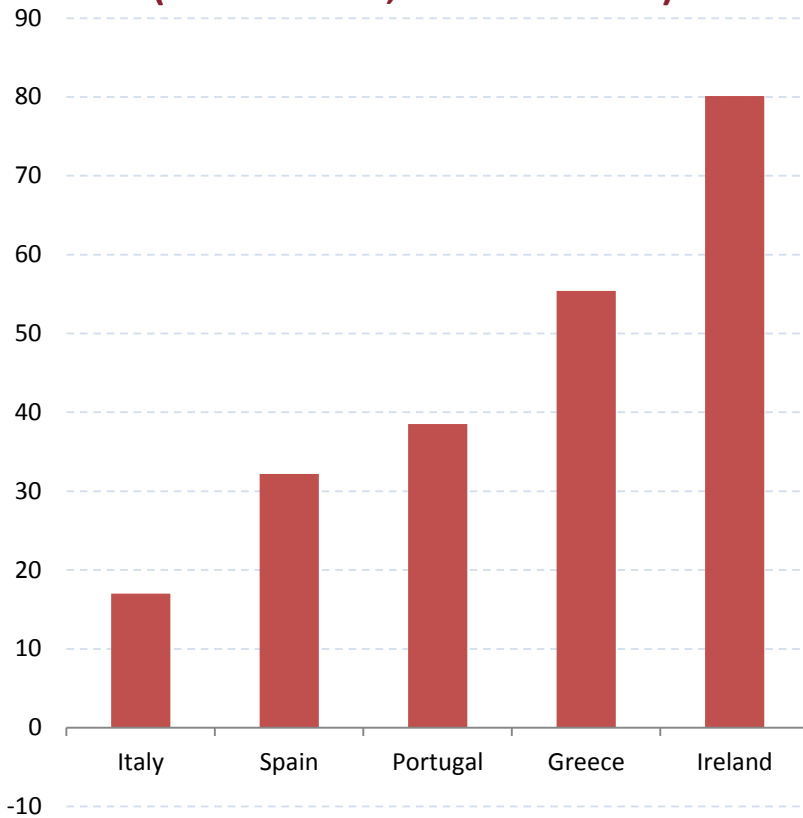
# GLOBAL ECONOMIC DEVELOPMENTS

# Two Different Phase in Global Crisis

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

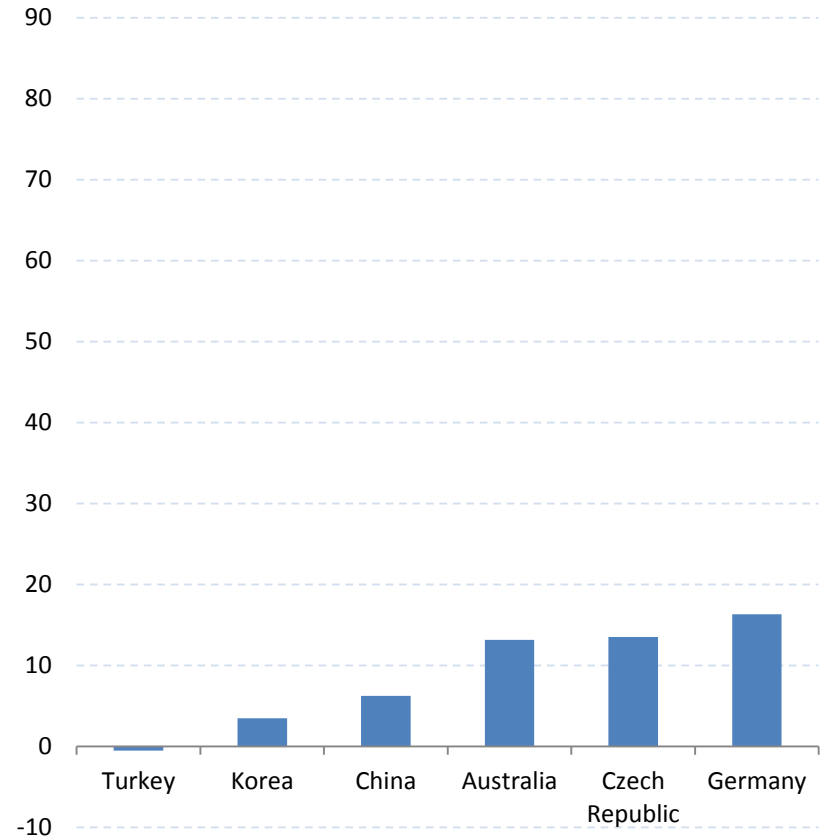
# Increase in Public Debt (2007-2011)

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



Source: IMF WEO, CBRT.

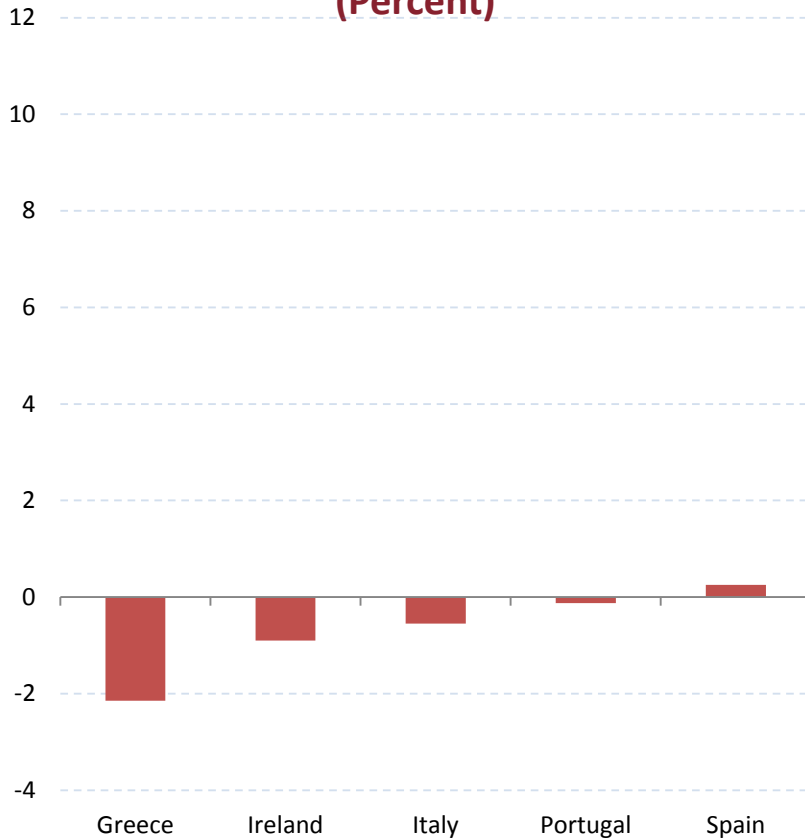
## Countries Sustaining Fiscal Discipline (Ratio to GDP, Percent Points)



Source: IMF WEO, CBRT.

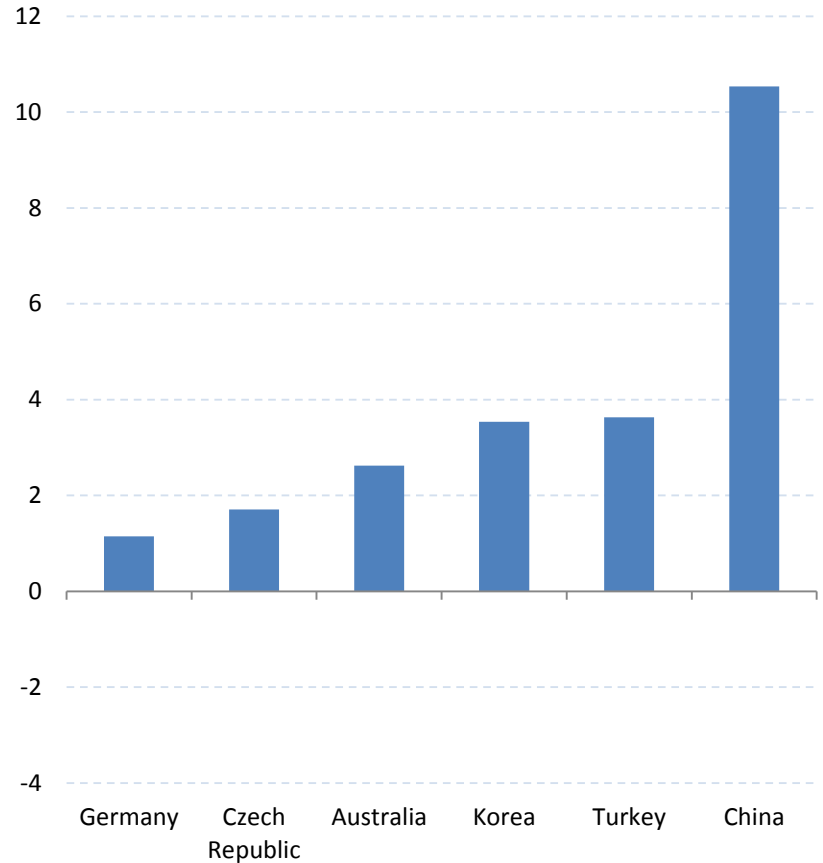
# Average GDP Growth (2007-2011)

## Countries Failing to Sustain Fiscal Discipline (Percent)



Source: IMF WEO, CBRT.

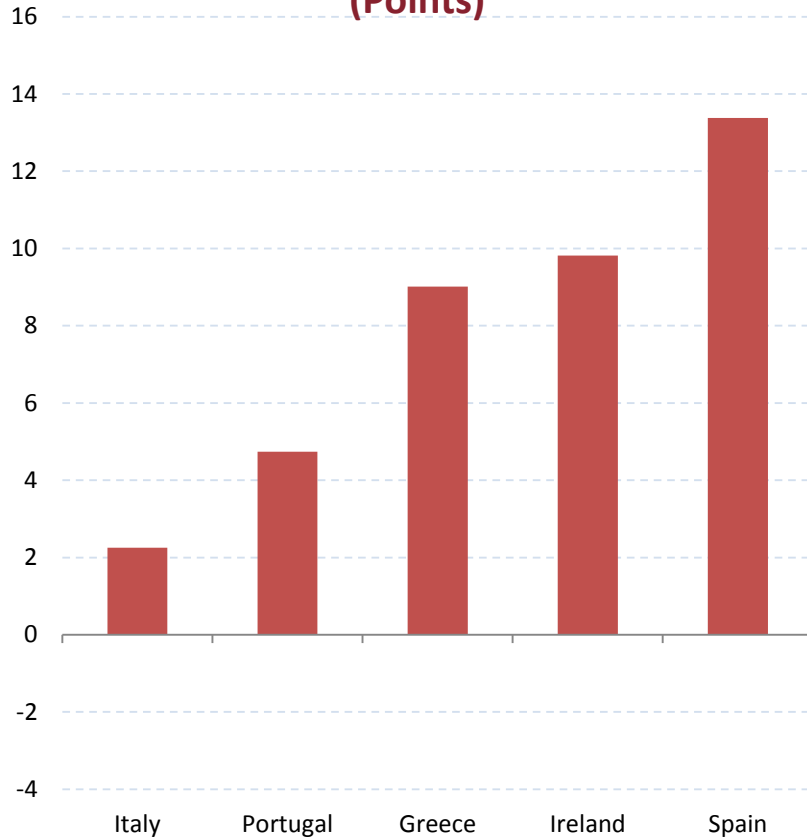
## Countries Sustaining Fiscal Discipline (Percent)



Source: IMF WEO, CBRT.

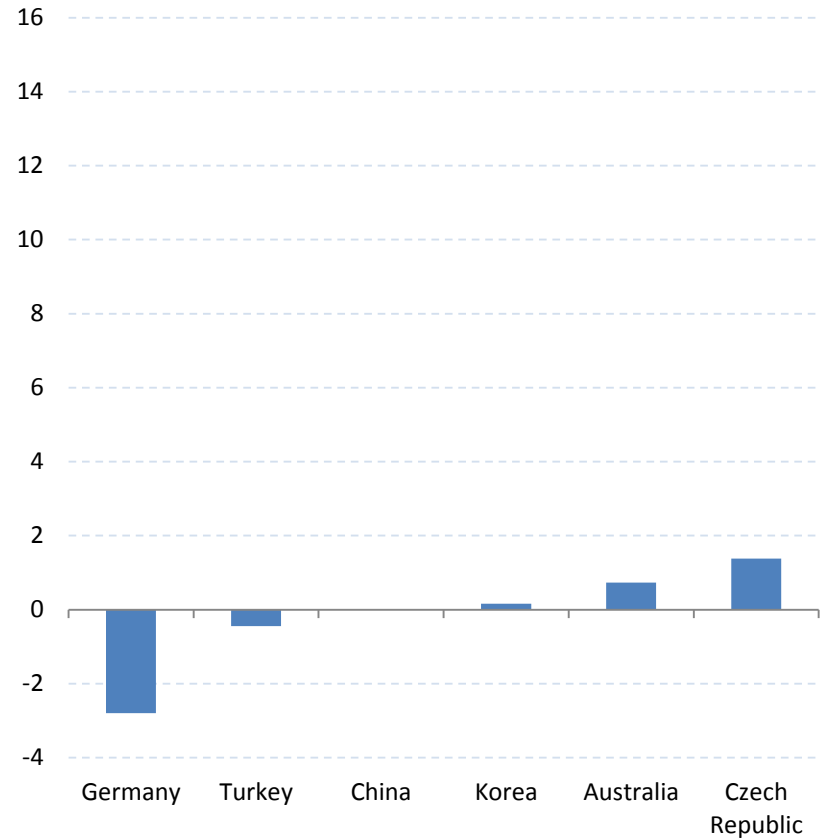
# Increase in Unemployment Rate (2007-2011)

## Countries Failing to Sustain Fiscal Discipline (Points)



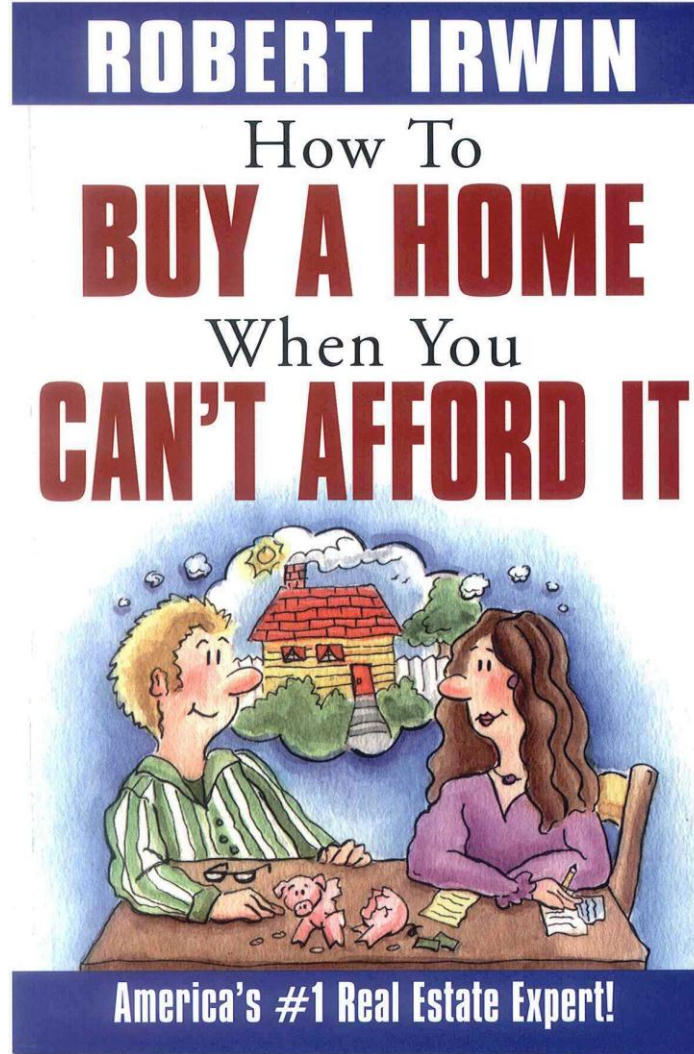
Source: IMF WEO, CBRT.

## Countries Sustaining Fiscal Discipline (Points)



Source: IMF WEO, CBRT.

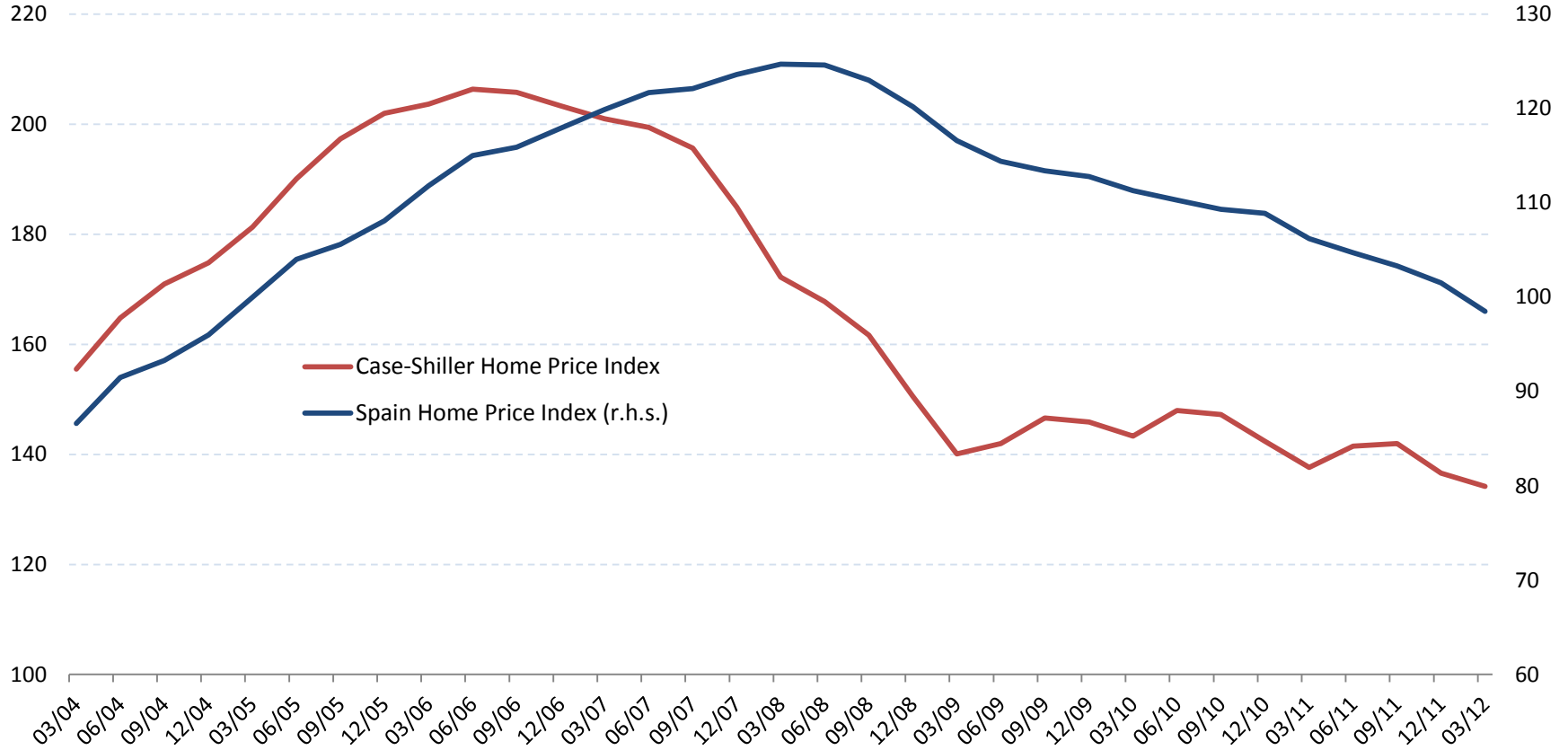
# Housing Sector and the Global Crisis





# Home Price Indices

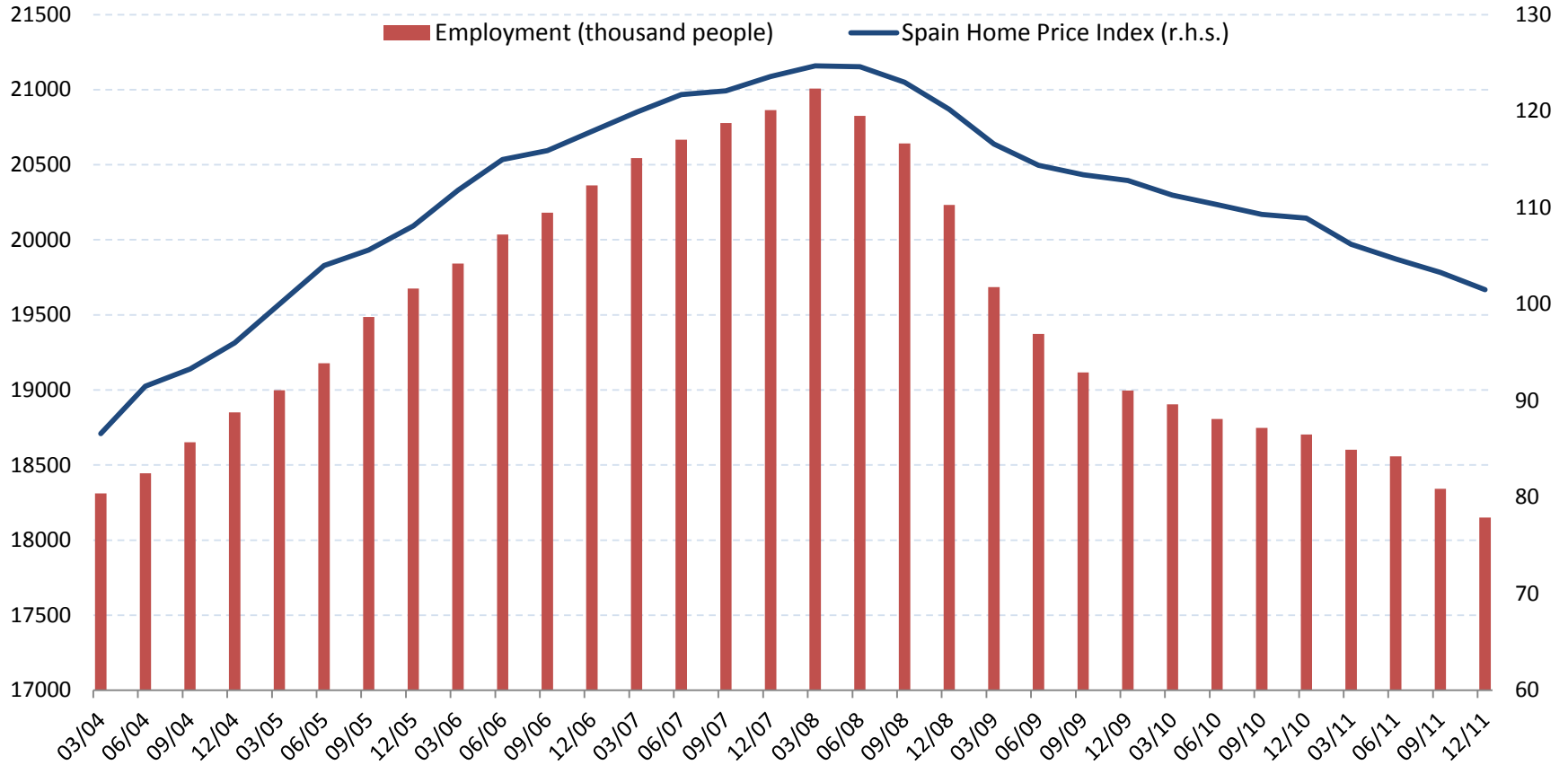
US and Spain  
(For US: January 2000=100, For Spain: 2005Q1=100)



Source: Bloomberg, CBRT.

# Spain

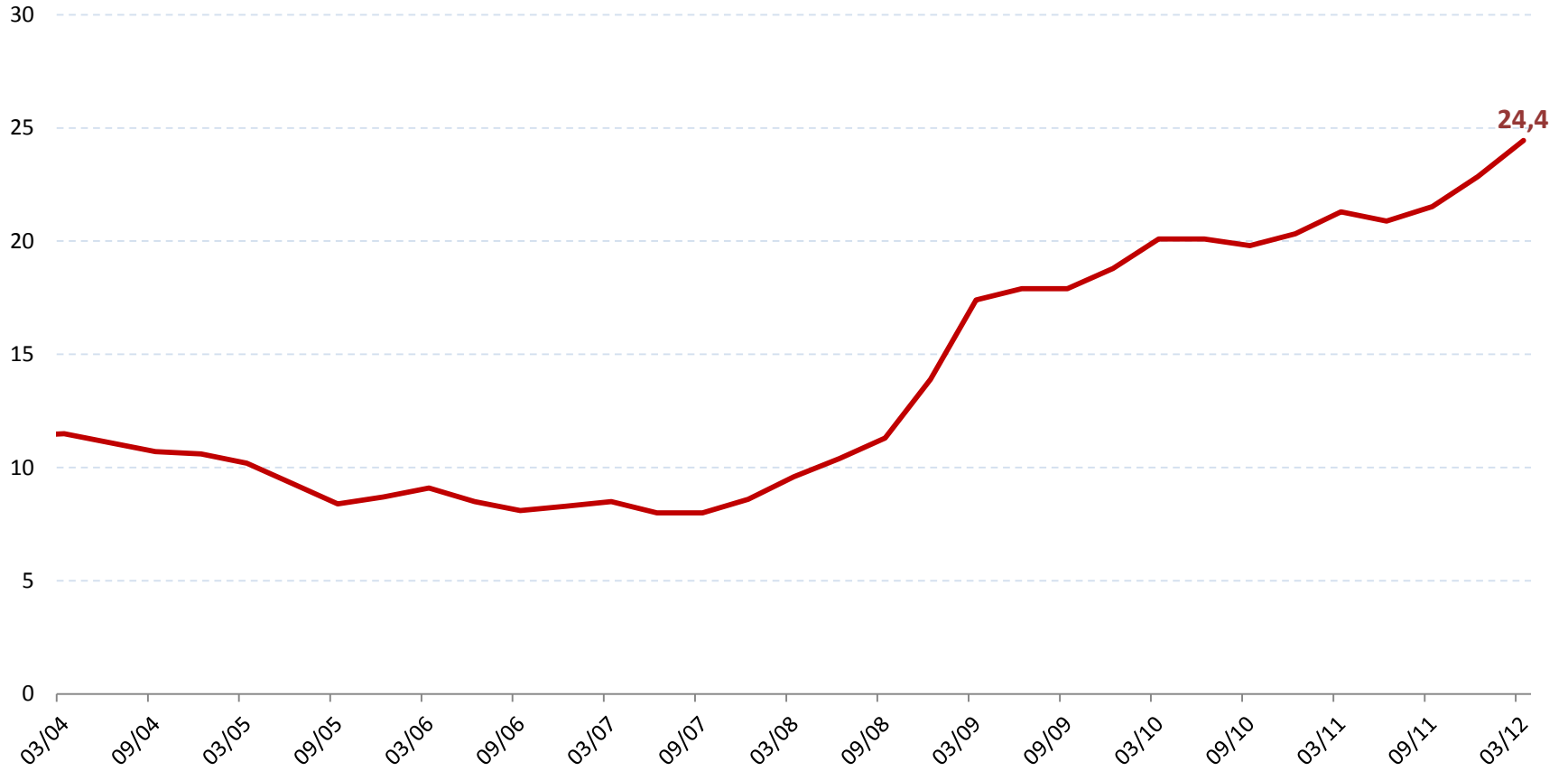
## Total Employment and Home Price Index (Thousand People, 2005Q1=100)



Source: Bloomberg, CBRT.

# Spain

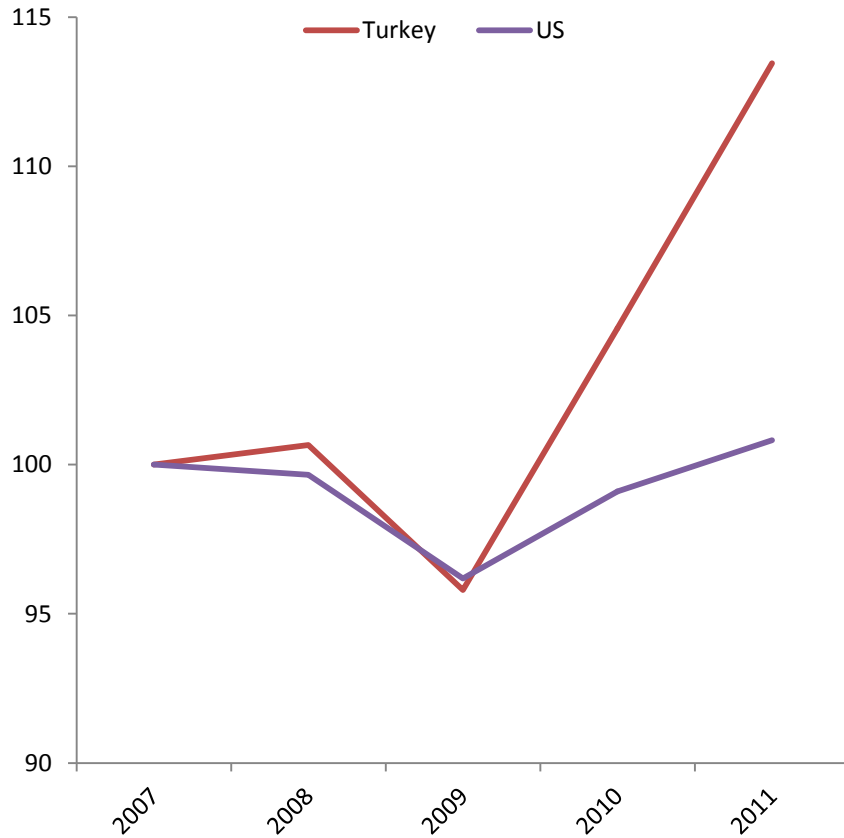
## Unemployment Rate (Percent)



Source: Bloomberg, CBRT.

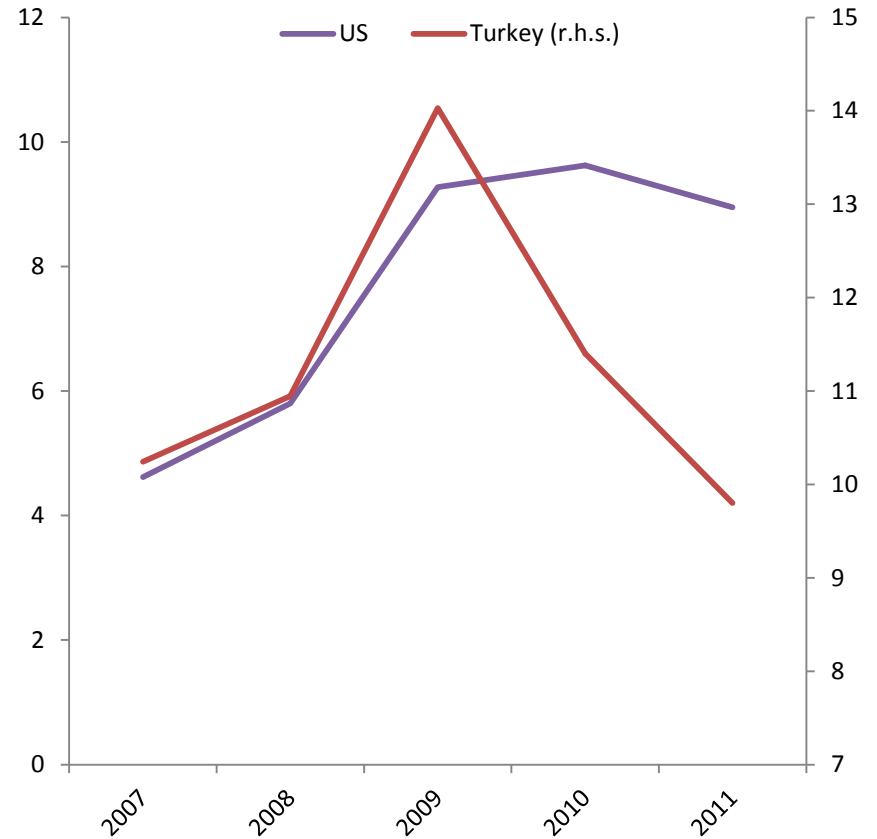
# Turkey and US

## GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

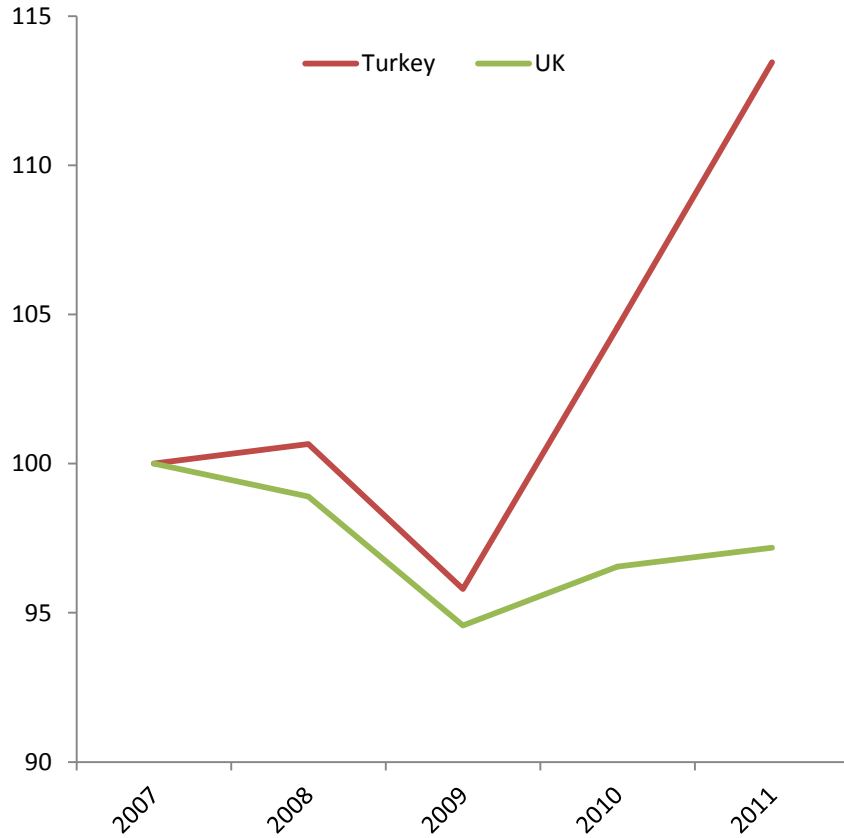
## Unemployment (Percent)



Source: IMF, WEO, CBRT.

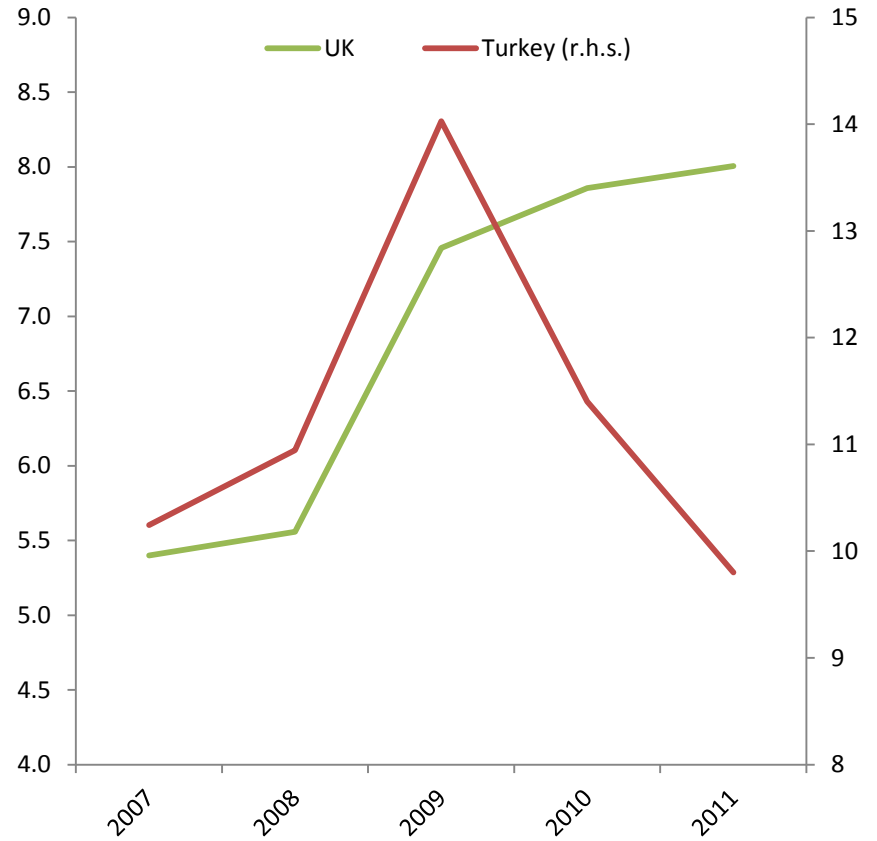
# Turkey and UK

## GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

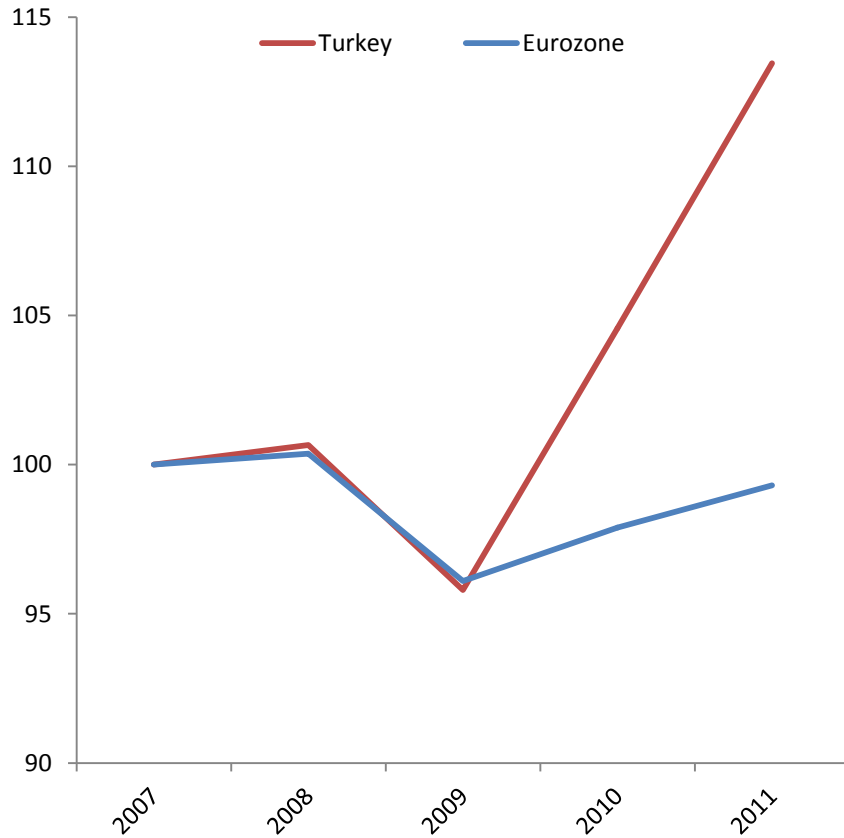
## Unemployment (Percent)



Source: IMF, WEO, CBRT.

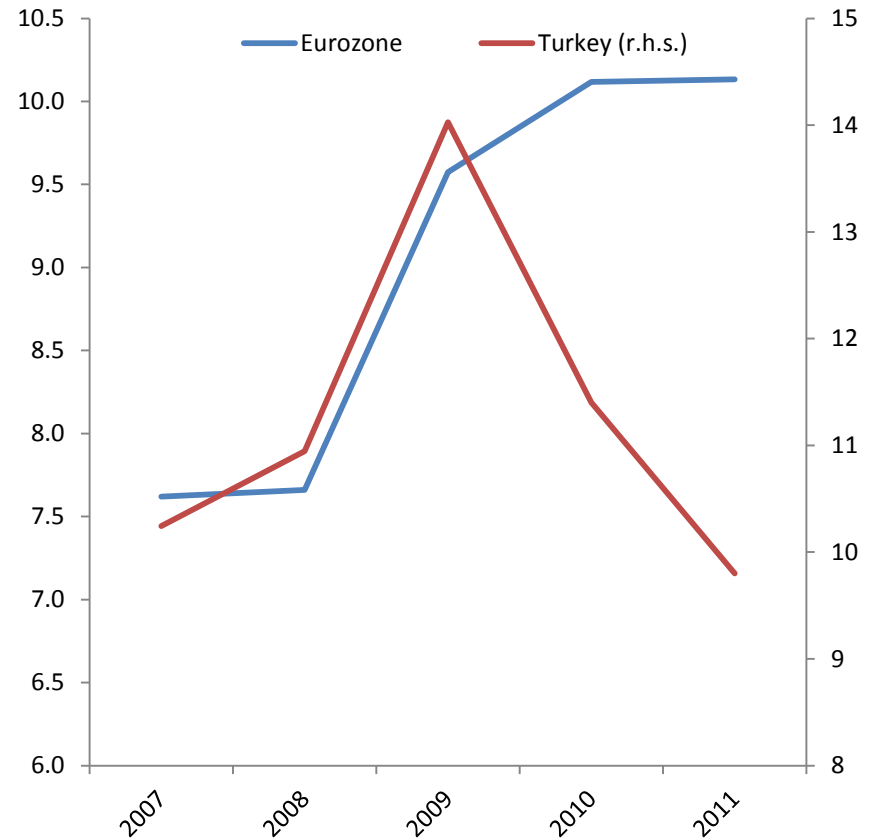
# Turkey and Eurozone

## GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

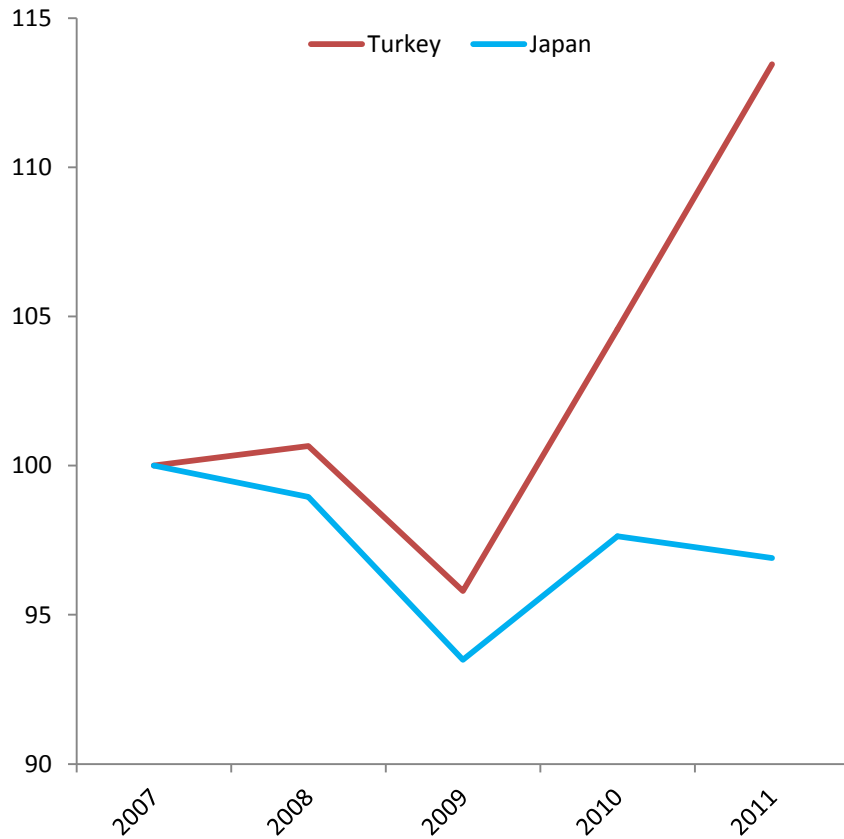
## Unemployment (Percent)



Source: IMF, WEO, CBRT.

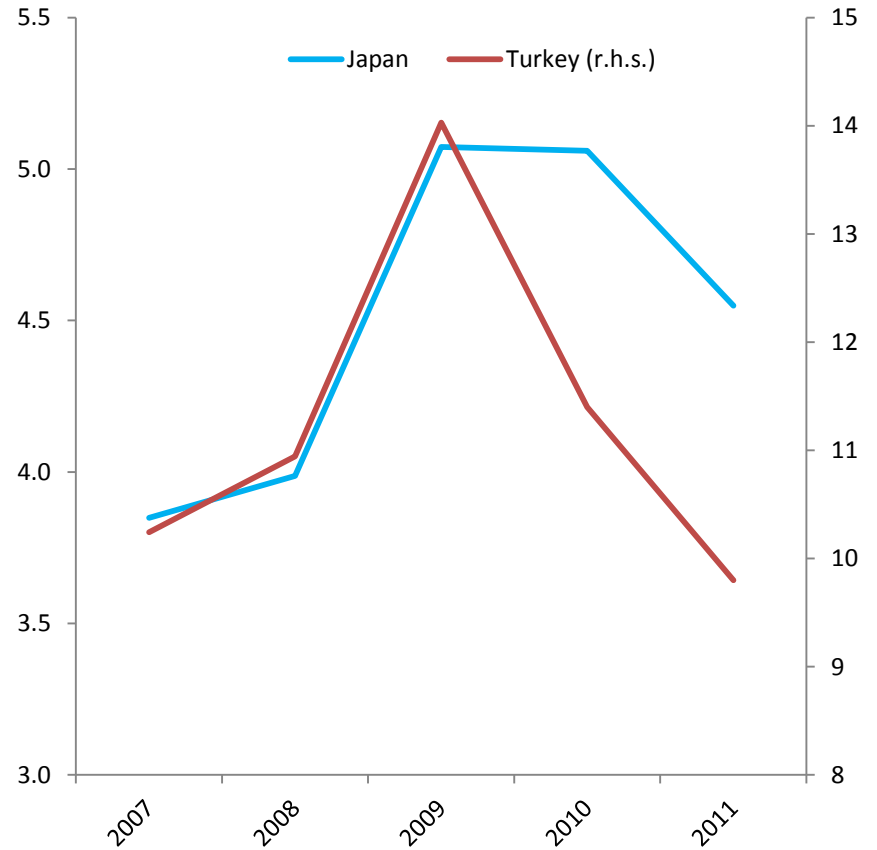
# Turkey and Japan

## GDP (Real, 2007=100)



Source: IMF, WEO, CBRT.

## Unemployment (Percent)



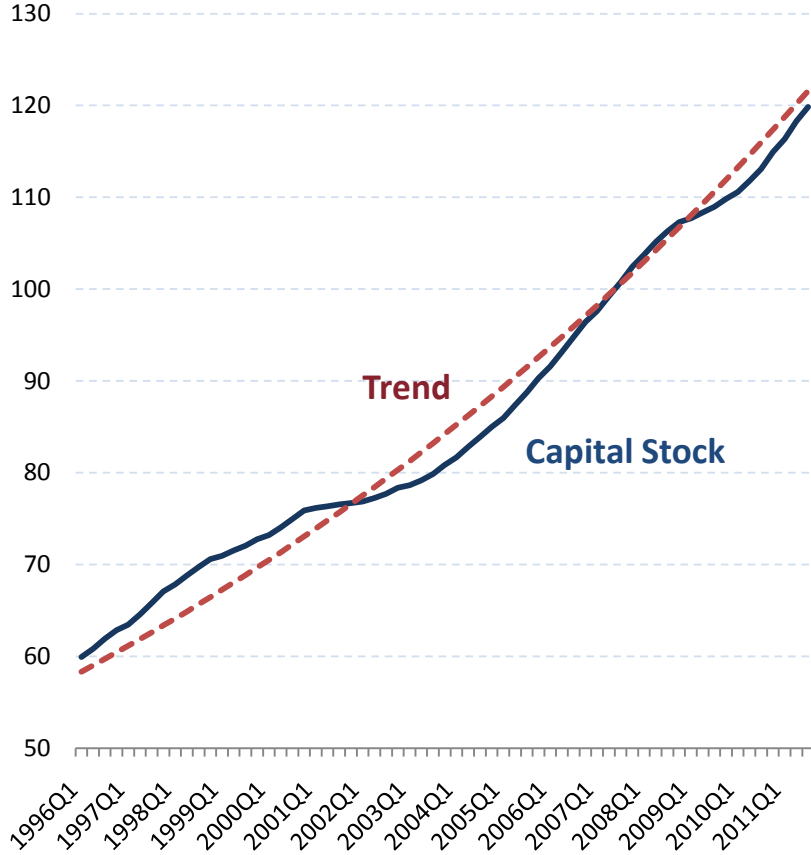
Source: IMF, WEO, CBRT.

# GROWTH

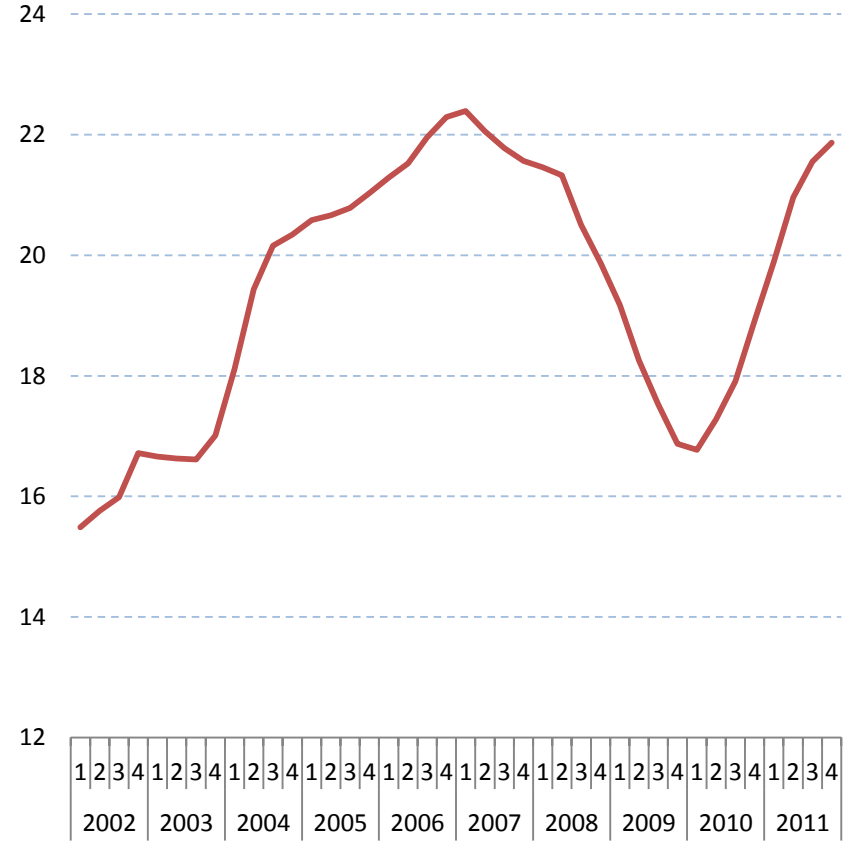


# Capital

**Capital Stock**  
(Constant Prices, 2007=100)



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



Source: TurkStat, CBRT.

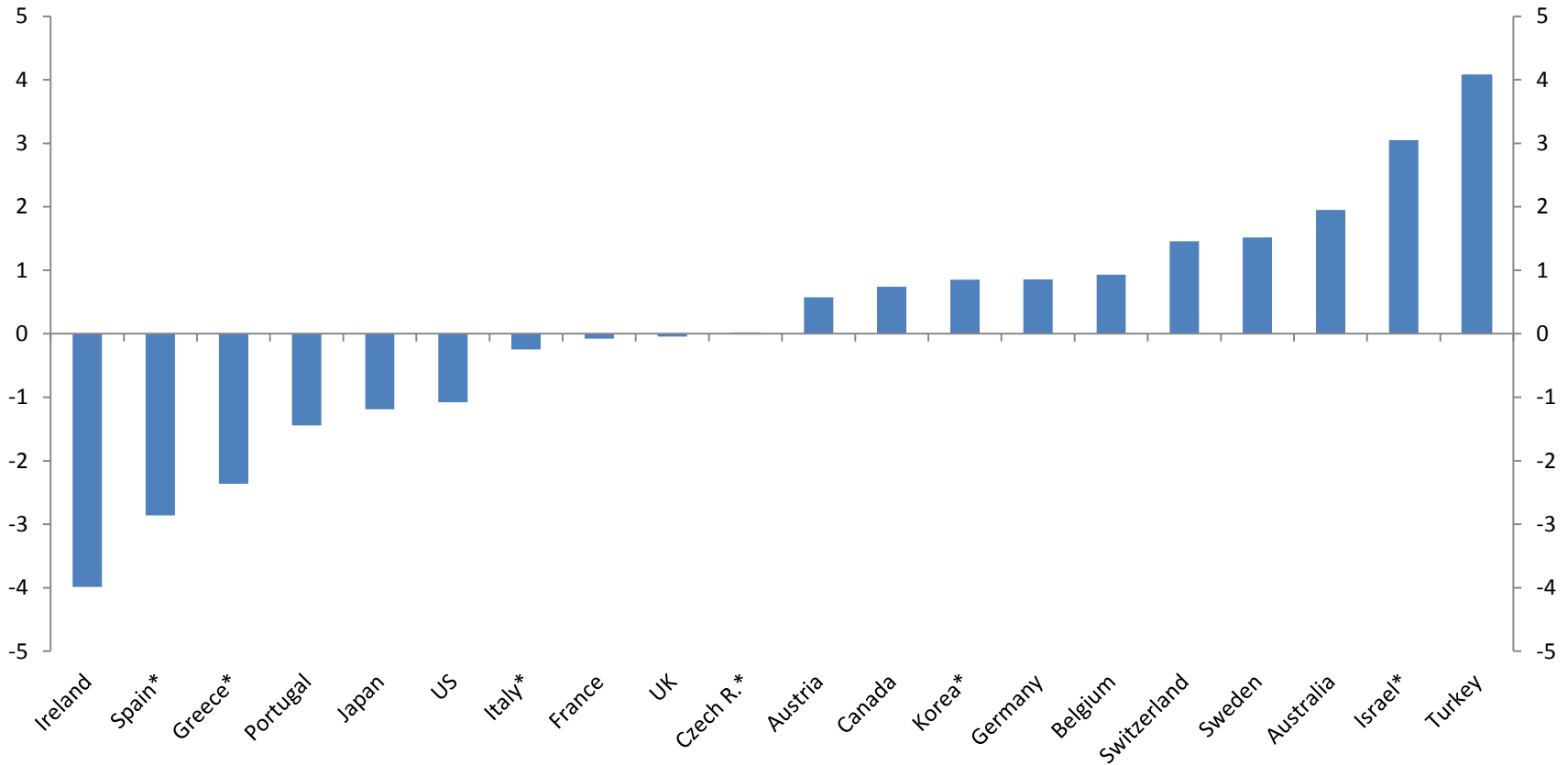
Last observation: 2011Q4

Source: TurkStat, CBRT.

\*Annualized

# Employment

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



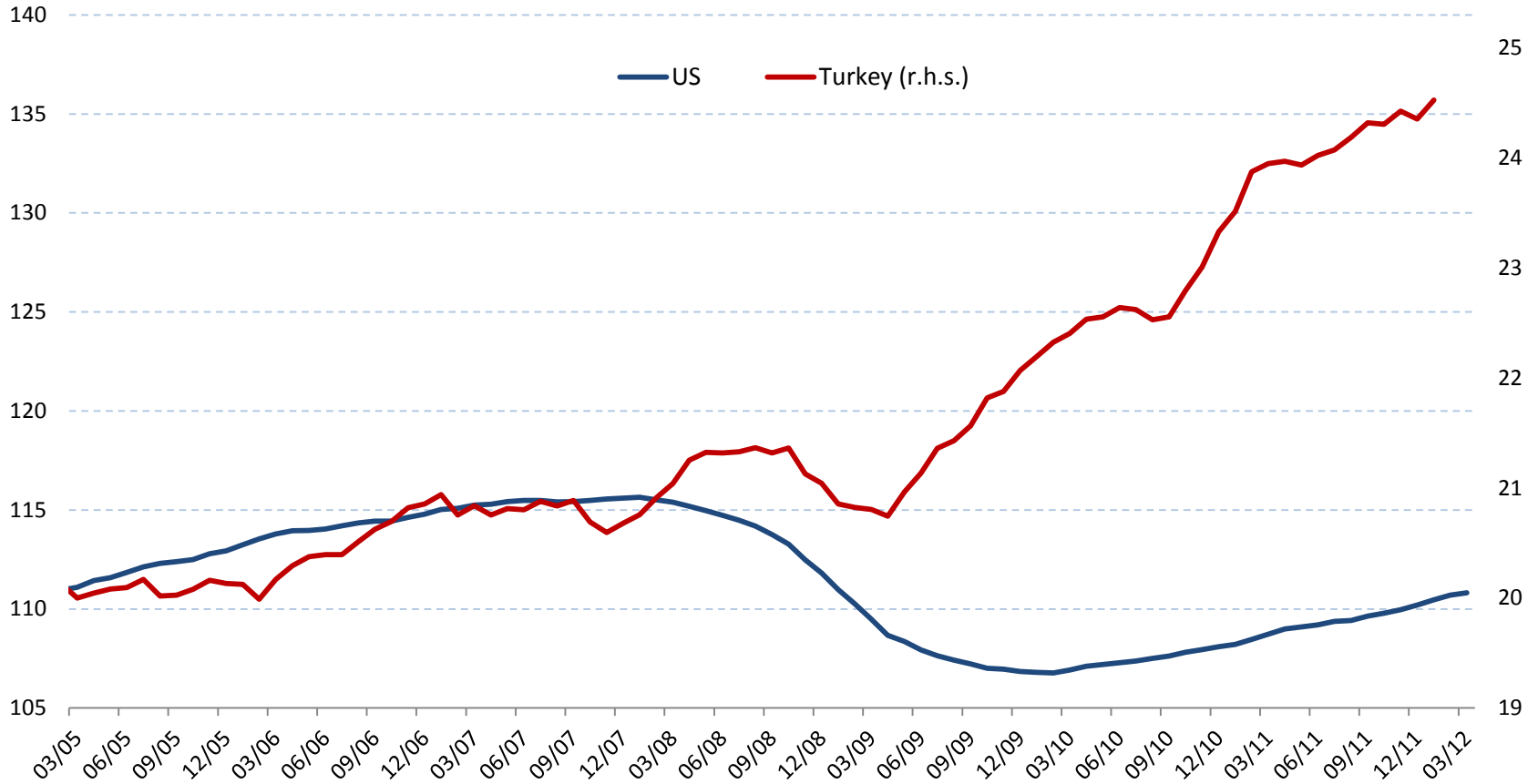
Source: IMF WEO, TurkStat, CBRT.

\*IMF projections used for end of 2011.

\*\*Difference of natural logs.

# Employment: Turkey and US

Total Employment\*  
(Million people)

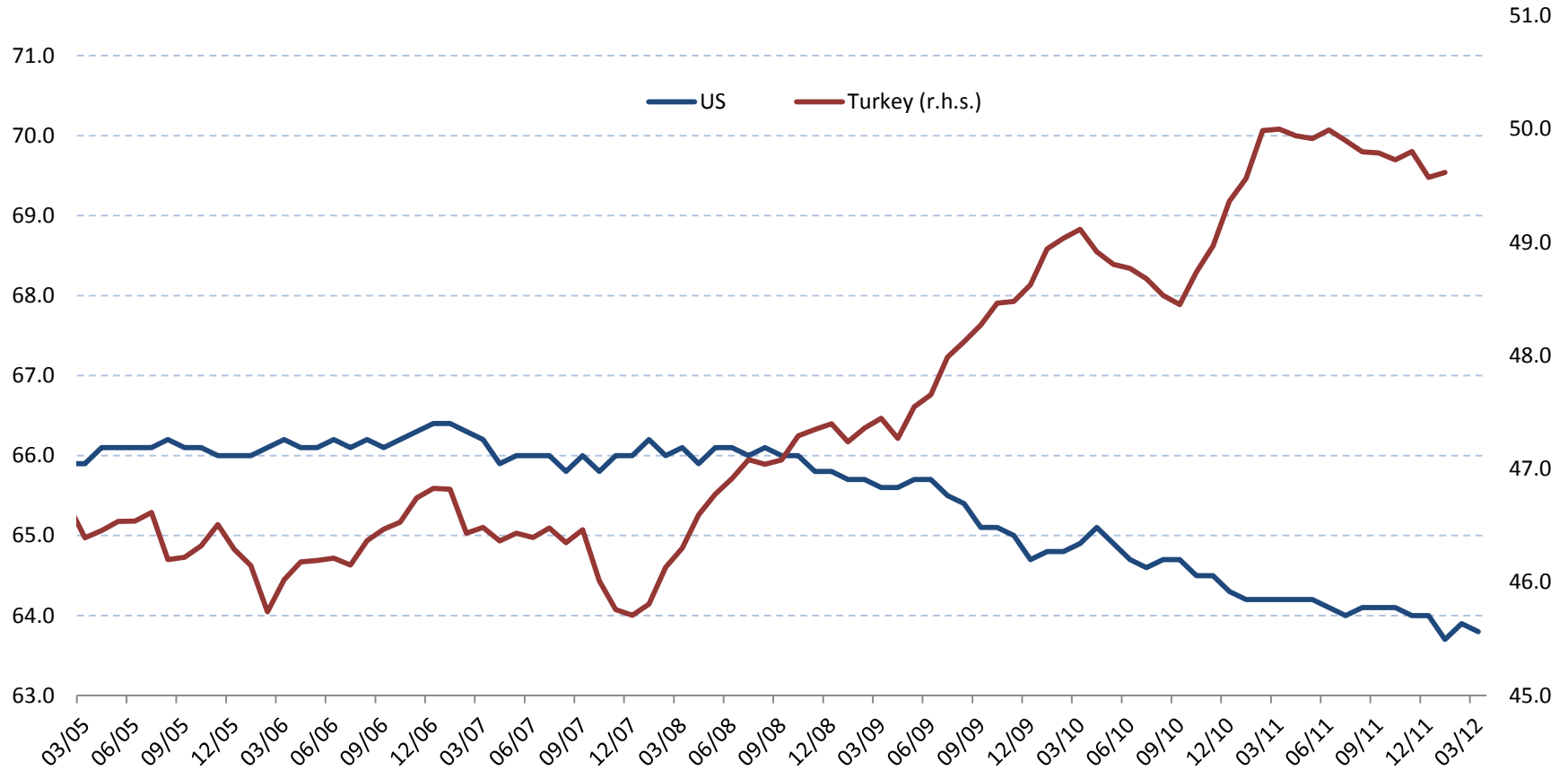


Source: TURKSTAT, BLS, CBRT.

\*Seasonally adjusted

# Labor Participation: Turkey and US

## Labor Participation Rate\* (Percent)

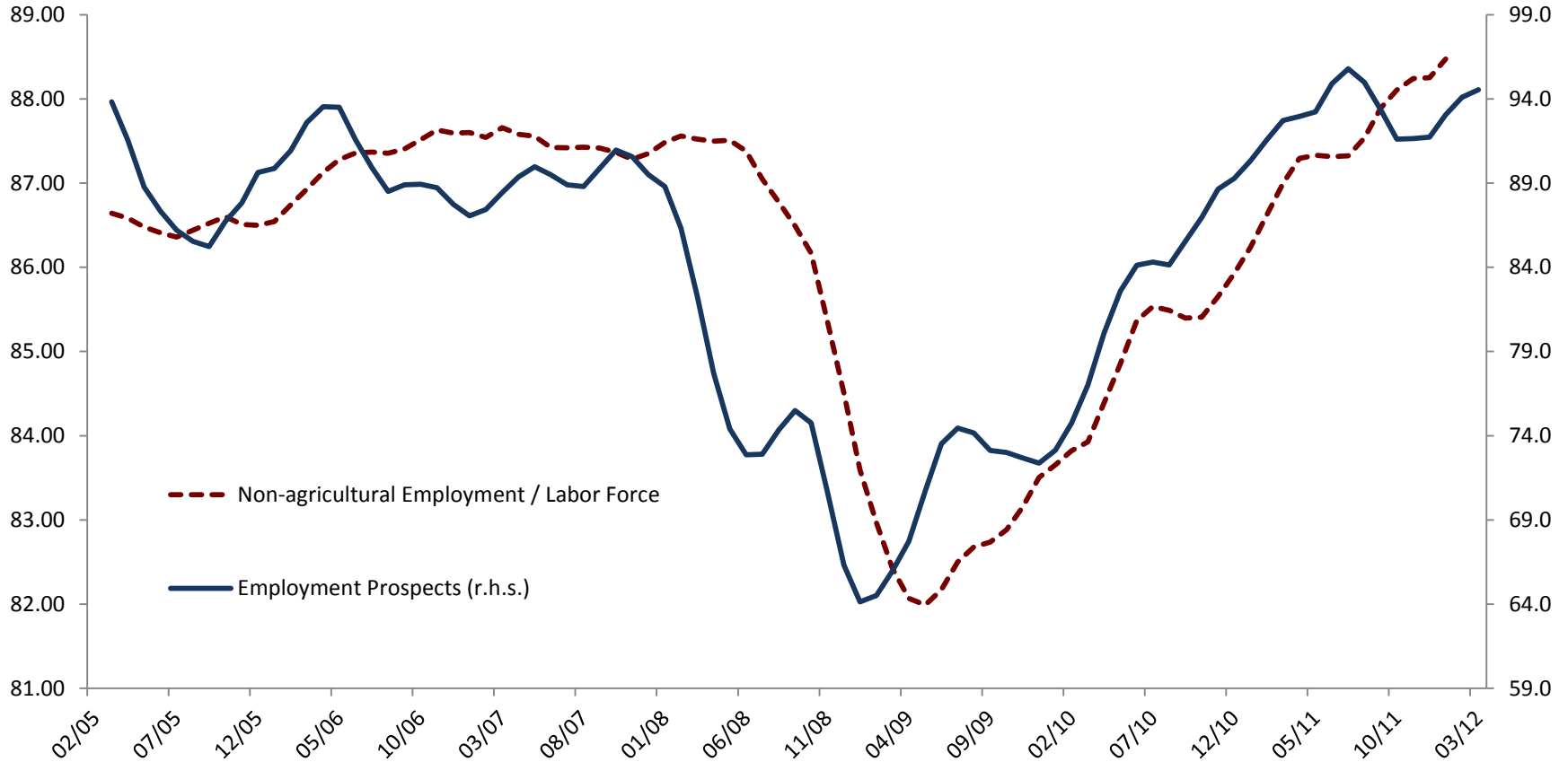


Source: TURKSTAT, BLS, CBRT.

\*Seasonally adjusted

# Employment

## Prospects and Employment (Percent, 3 month moving averages)



Source: TURKSTAT, CBRT

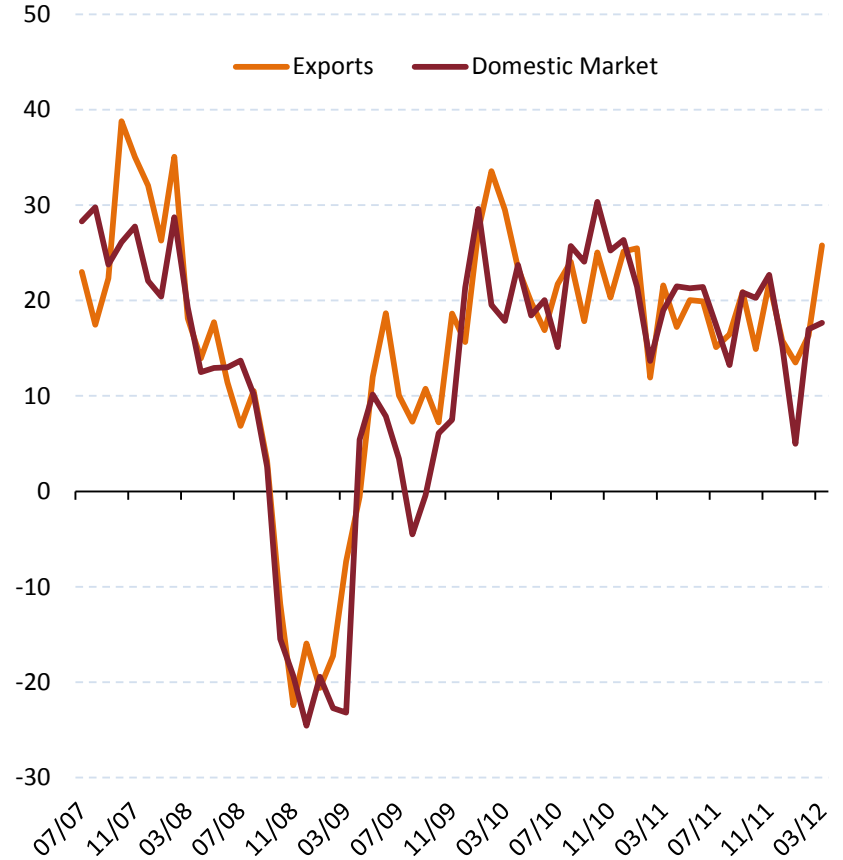
# Leading Indicators for Q2

## Consumer and Real Sector Confidence Index



Source: CBRT.

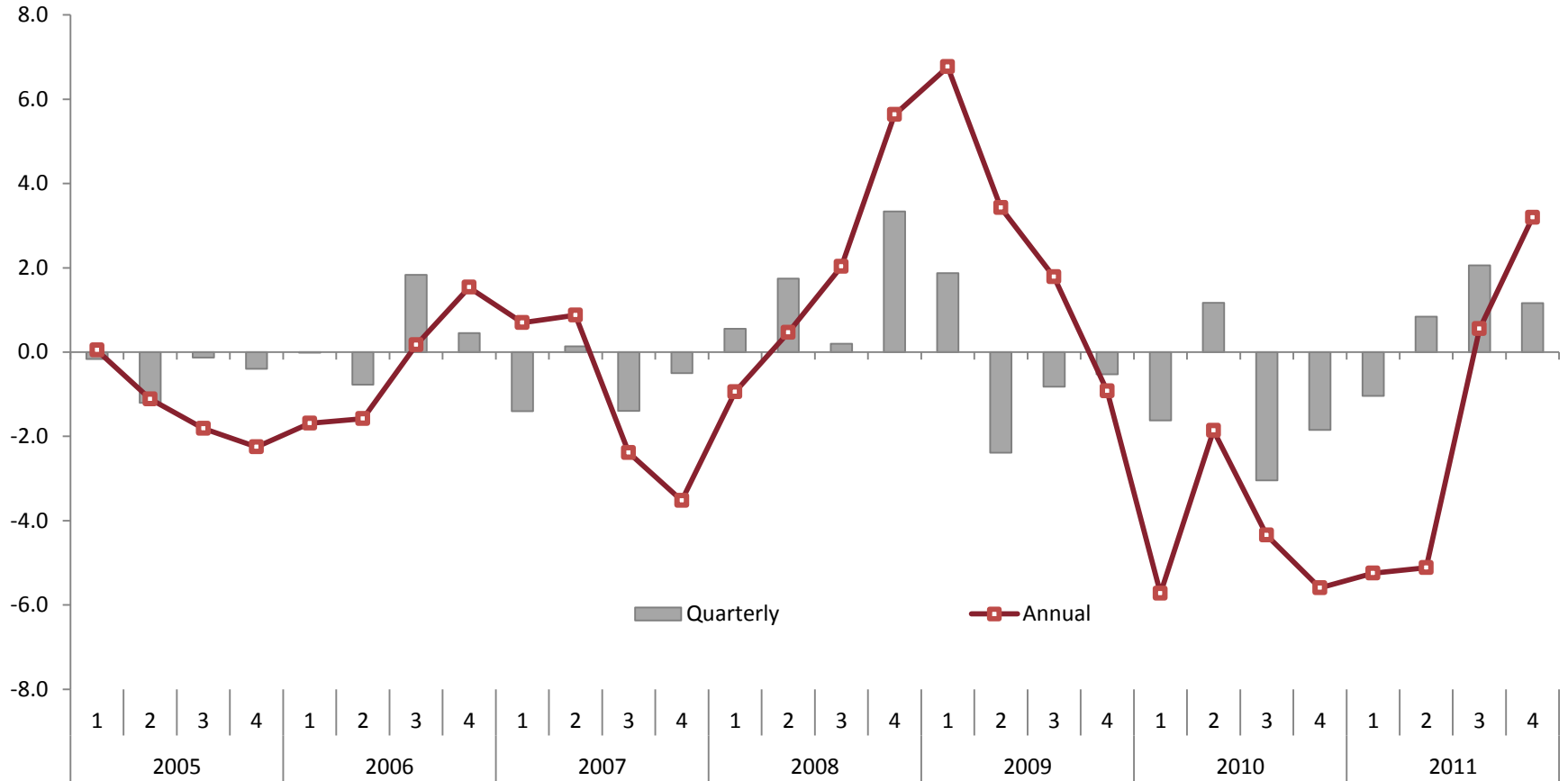
## New Orders\* (Seasonally Adjusted, Monthly)



Source: CBRT.

# Net Exports

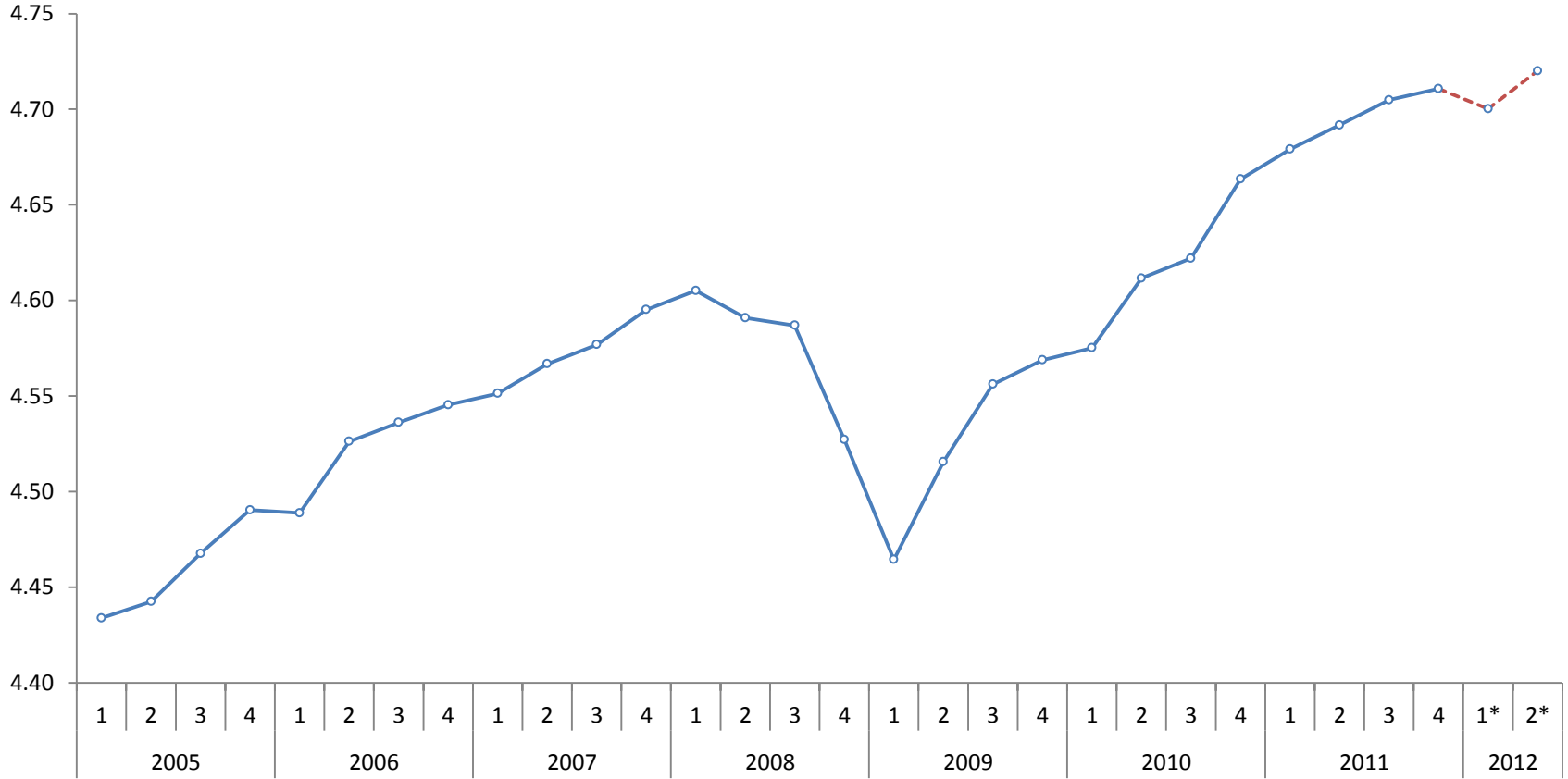
## Contribution of Net Exports to GDP (Percent Points)



Source: TurkStat, CBRT.

# Gross Domestic Product

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



Source: TURKSTAT, CBRT.

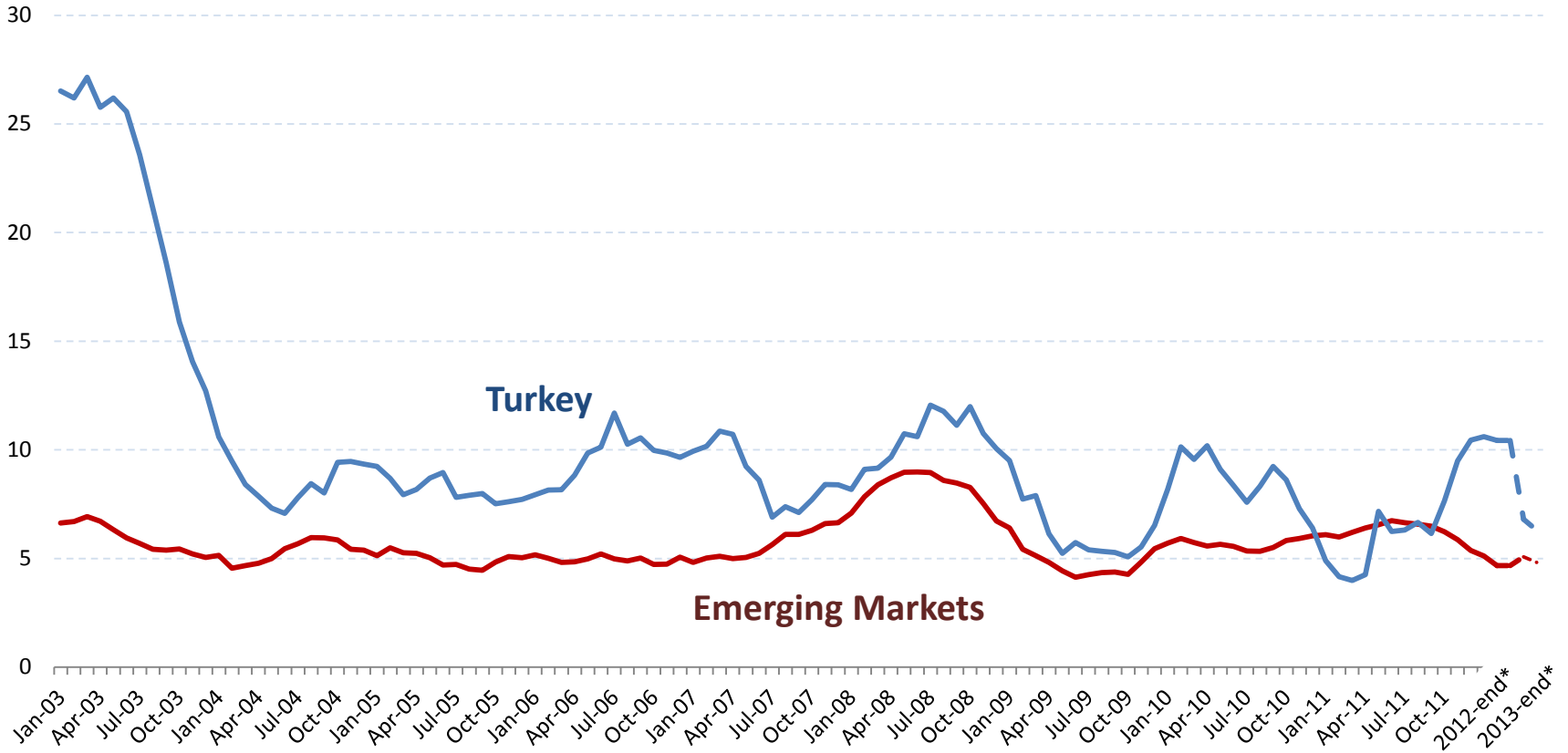
\*2012Q1 and Q2 is forecast.



# INFLATION

# Inflation

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

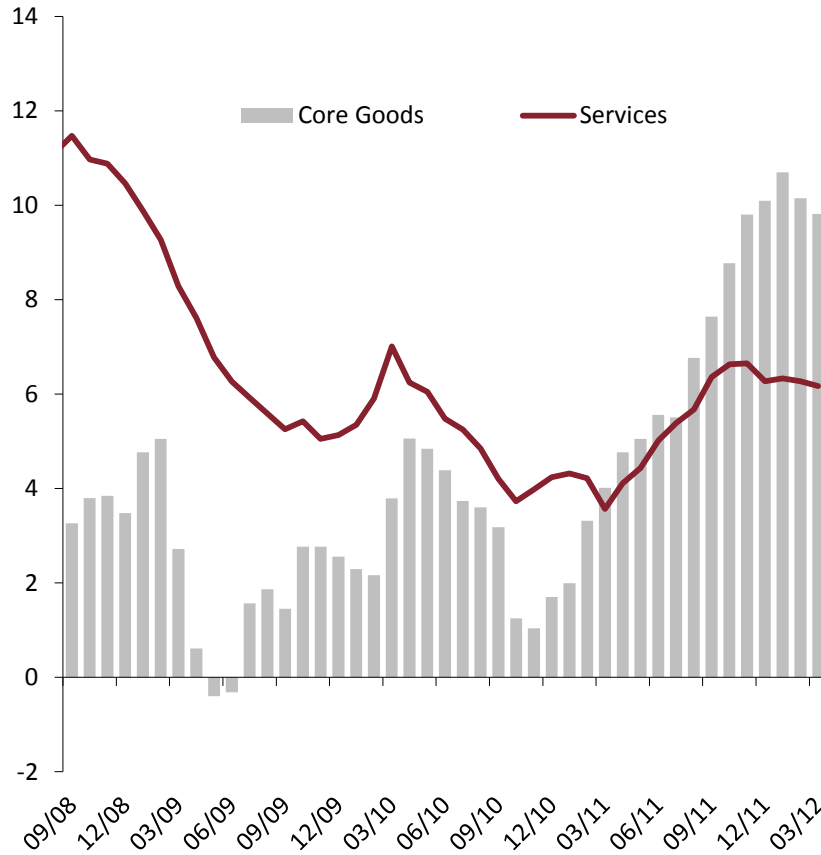


Source: CBRT and Bloomberg.

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.

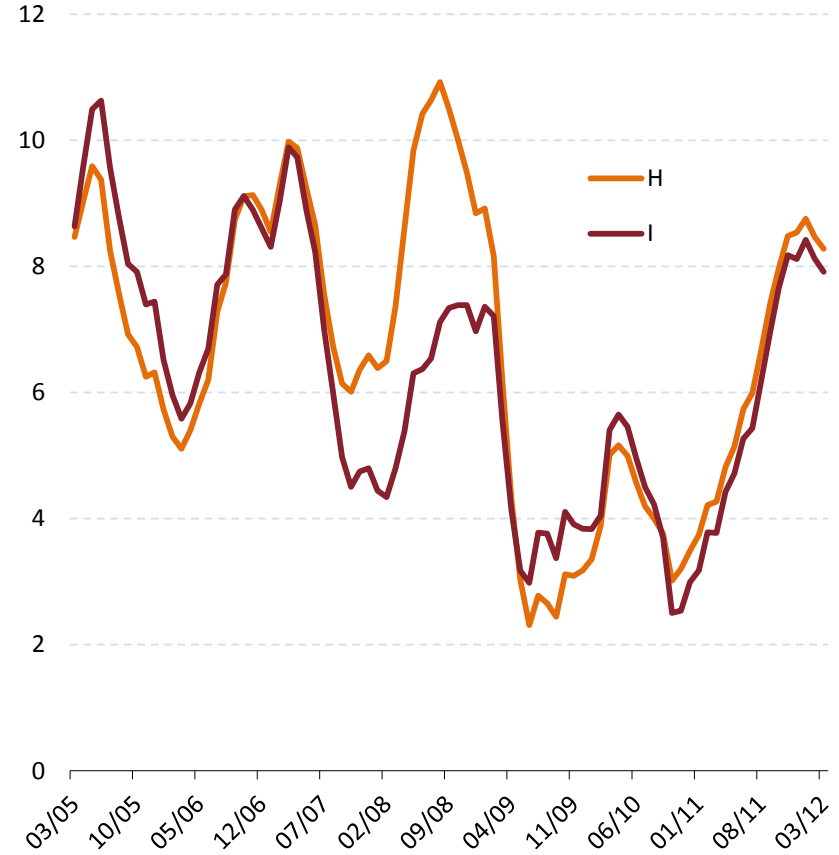
# Inflation

## Services and Core Goods Inflation (Annual percentage change)



Source: CBRT.

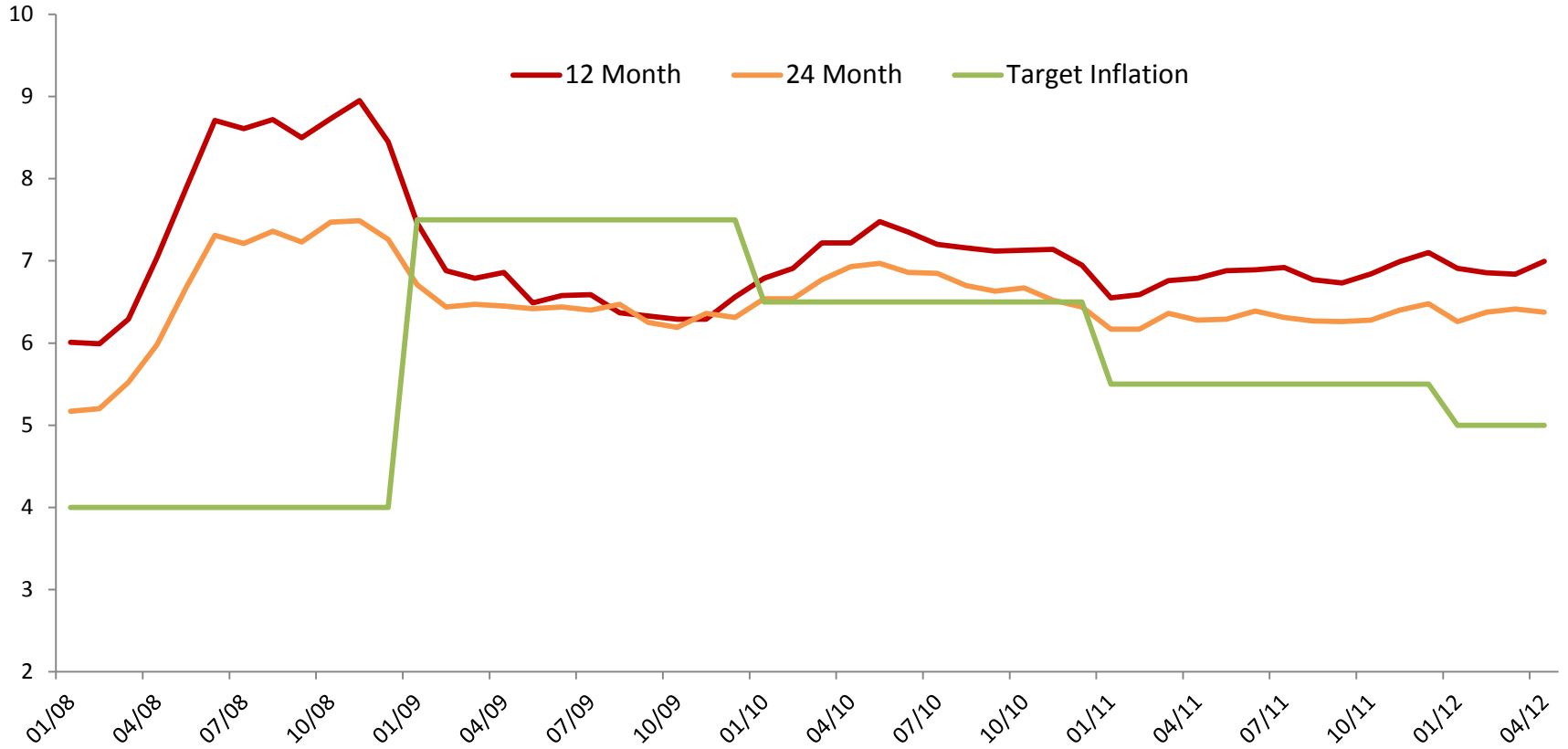
## Core Inflation Indicators (H & I) (Annual percentage change)



Source: CBRT.

# Inflation Expectations

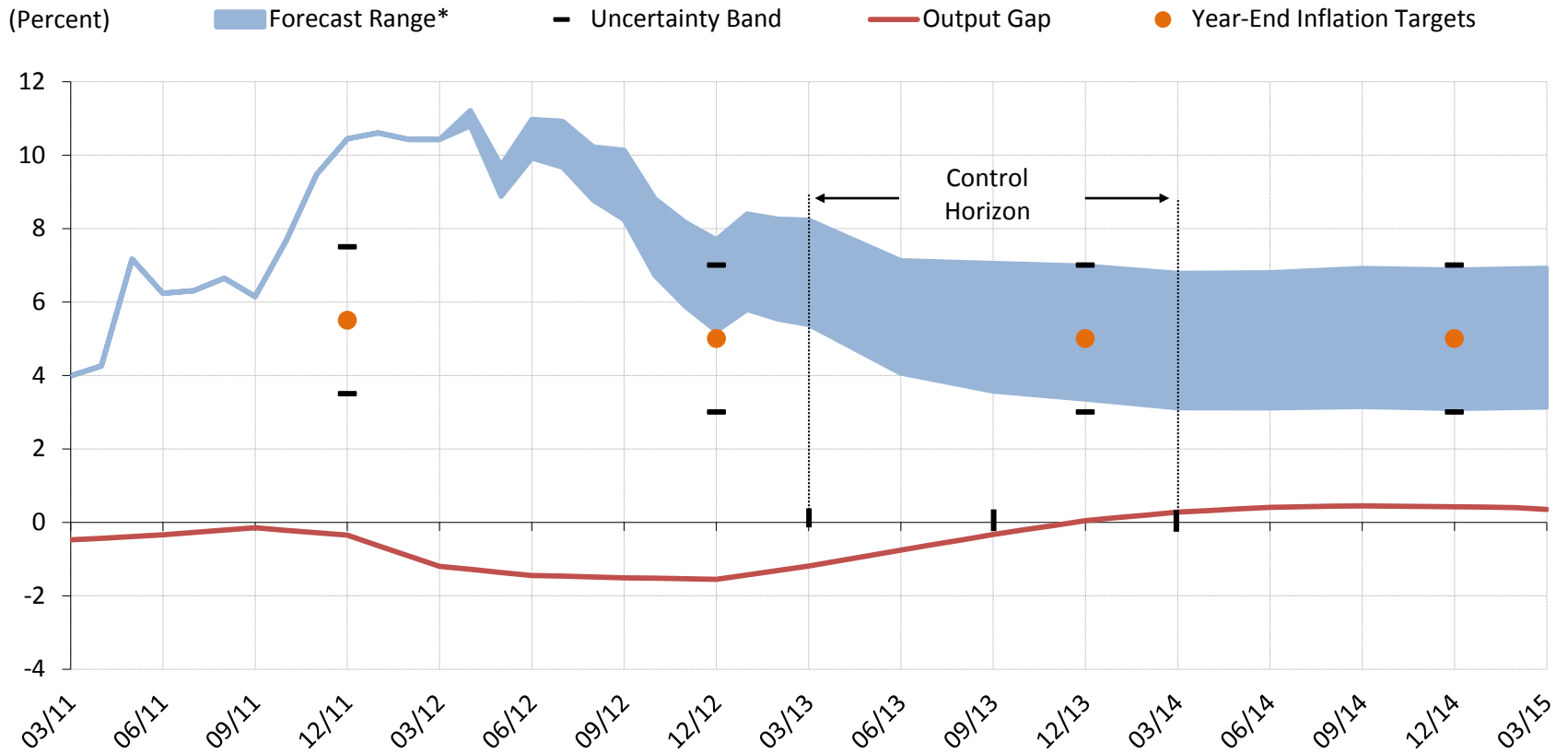
## Medium Term Inflation Expectations\* (Percent)



Source: CBRT.

\*CBRT Survey of Expectations

# Inflation



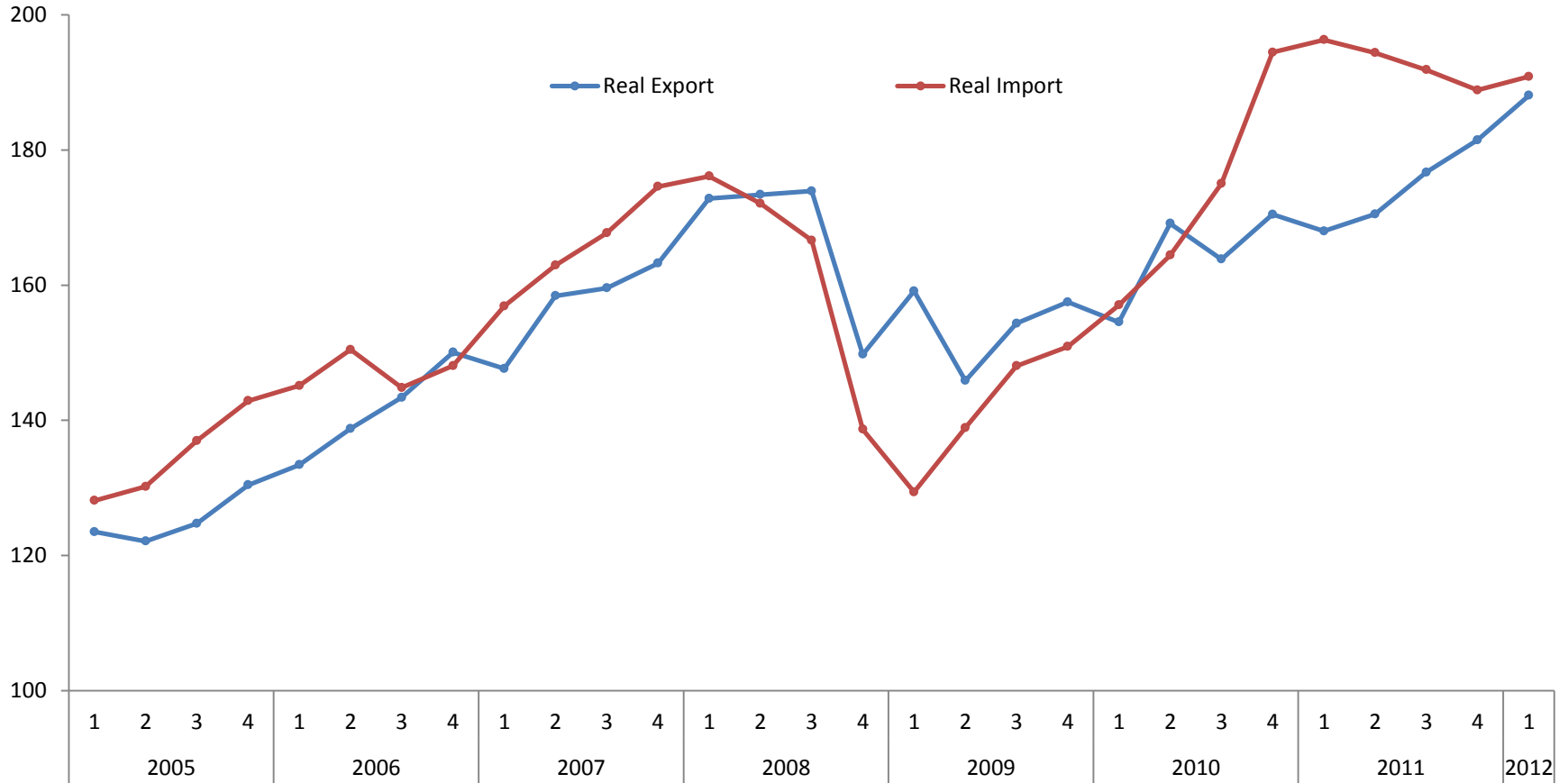
Source: CBRT.

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

# CURRENT ACCOUNT DEFICIT

# Rebalancing

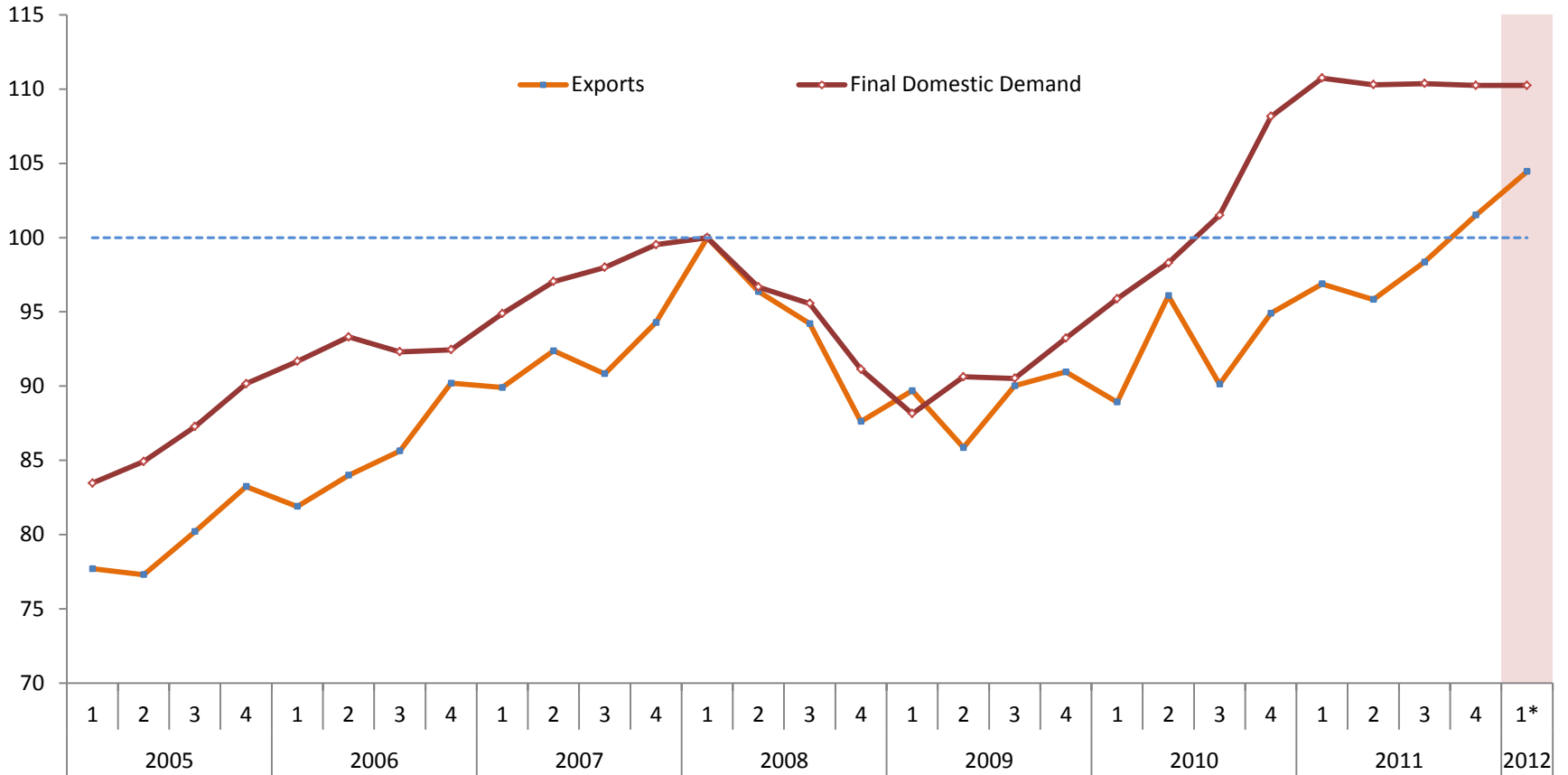
## Real Exports and Imports (2003=100, Seasonally Adjusted)



Source: TURKSTAT, CBRT.

# Rebalancing

## Final Domestic Demand and Exports (2008Q1=100)



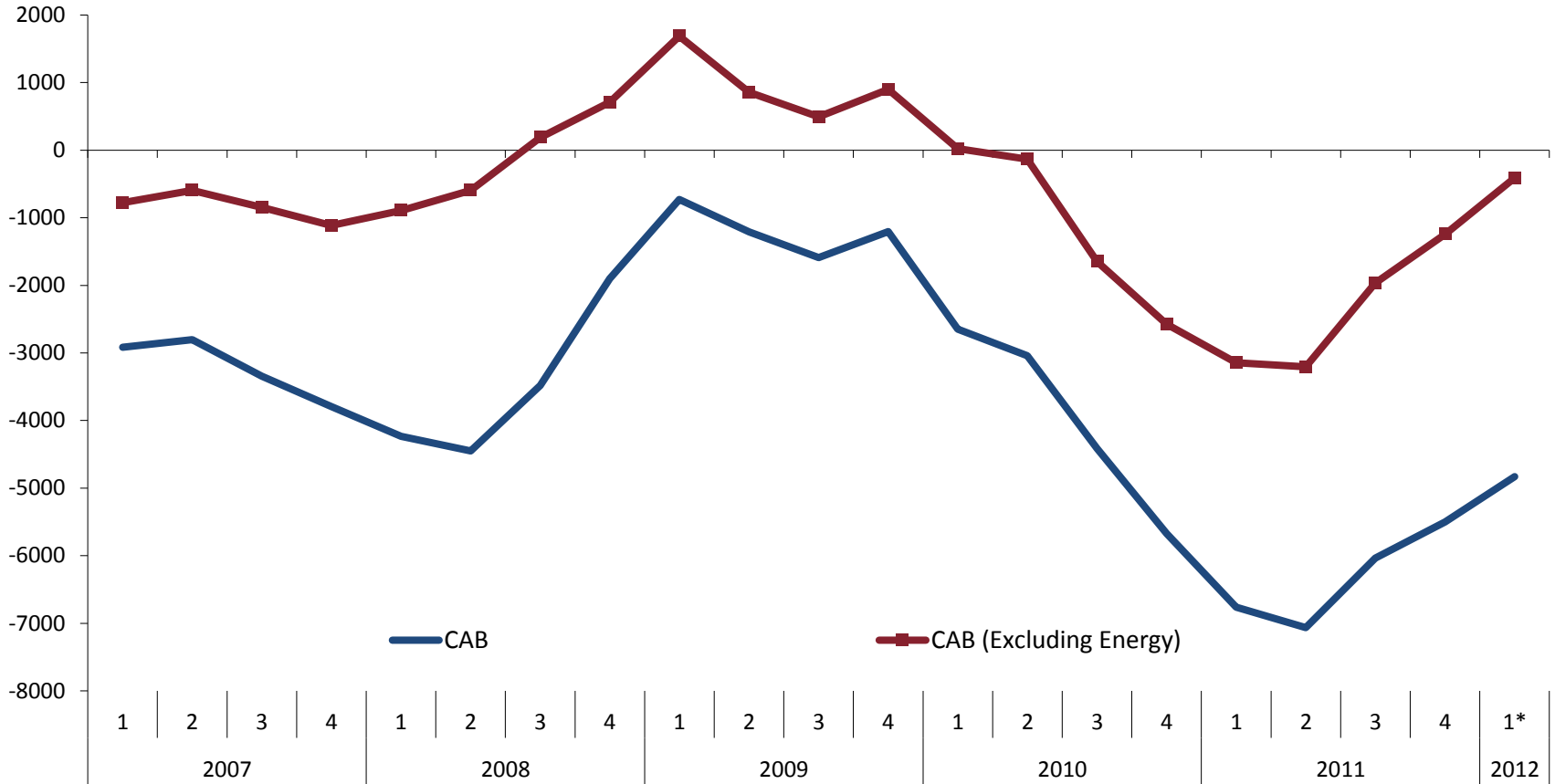
Source: CBRT.

\*2012Q1 is forecast.



# Rebalancing

**Current Account Balance**  
(Seasonally Adjusted, Monthly Average, Million USD)

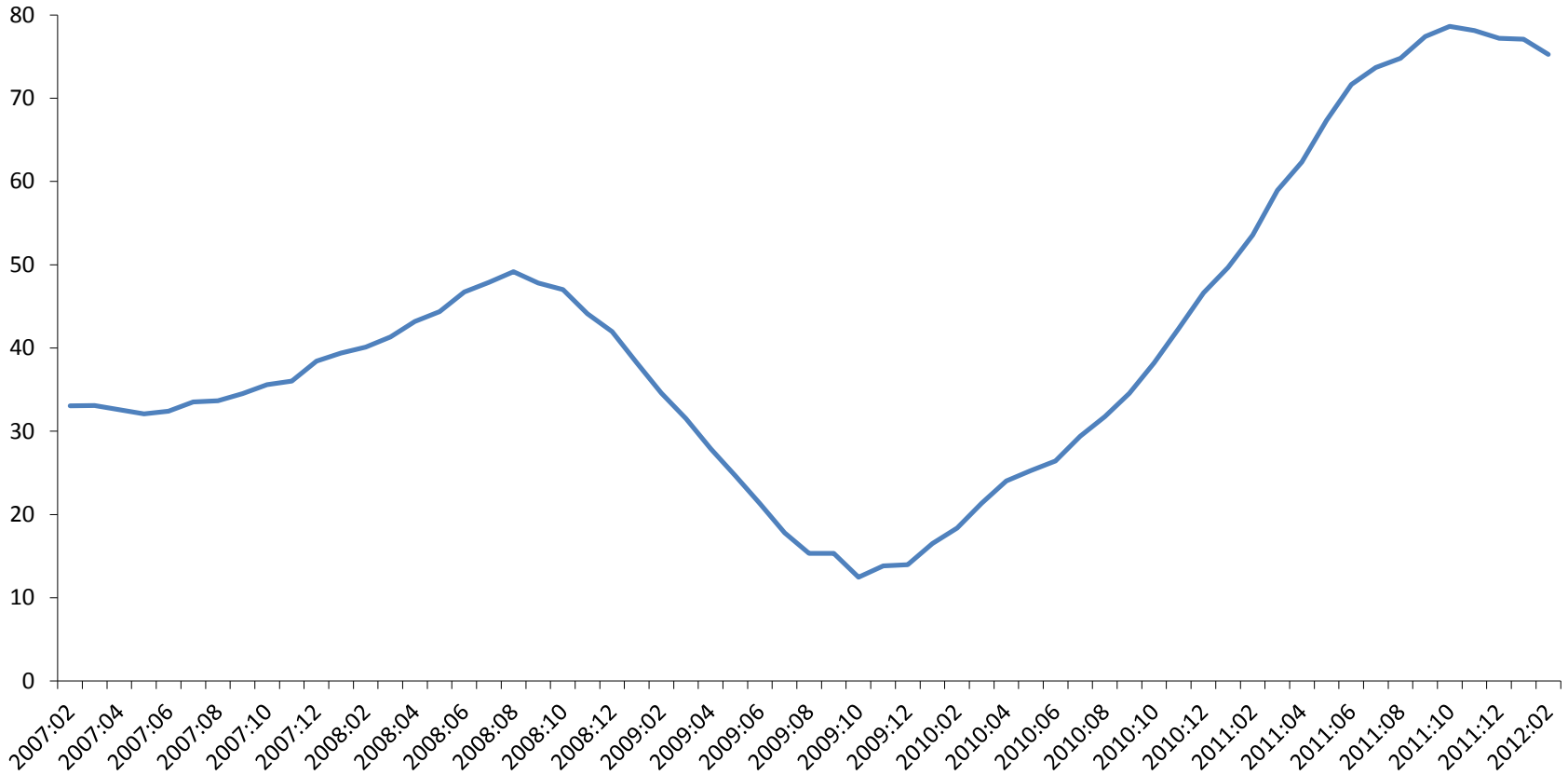


Source: CBRT.

\* Jan-Feb average.

# Rebalancing

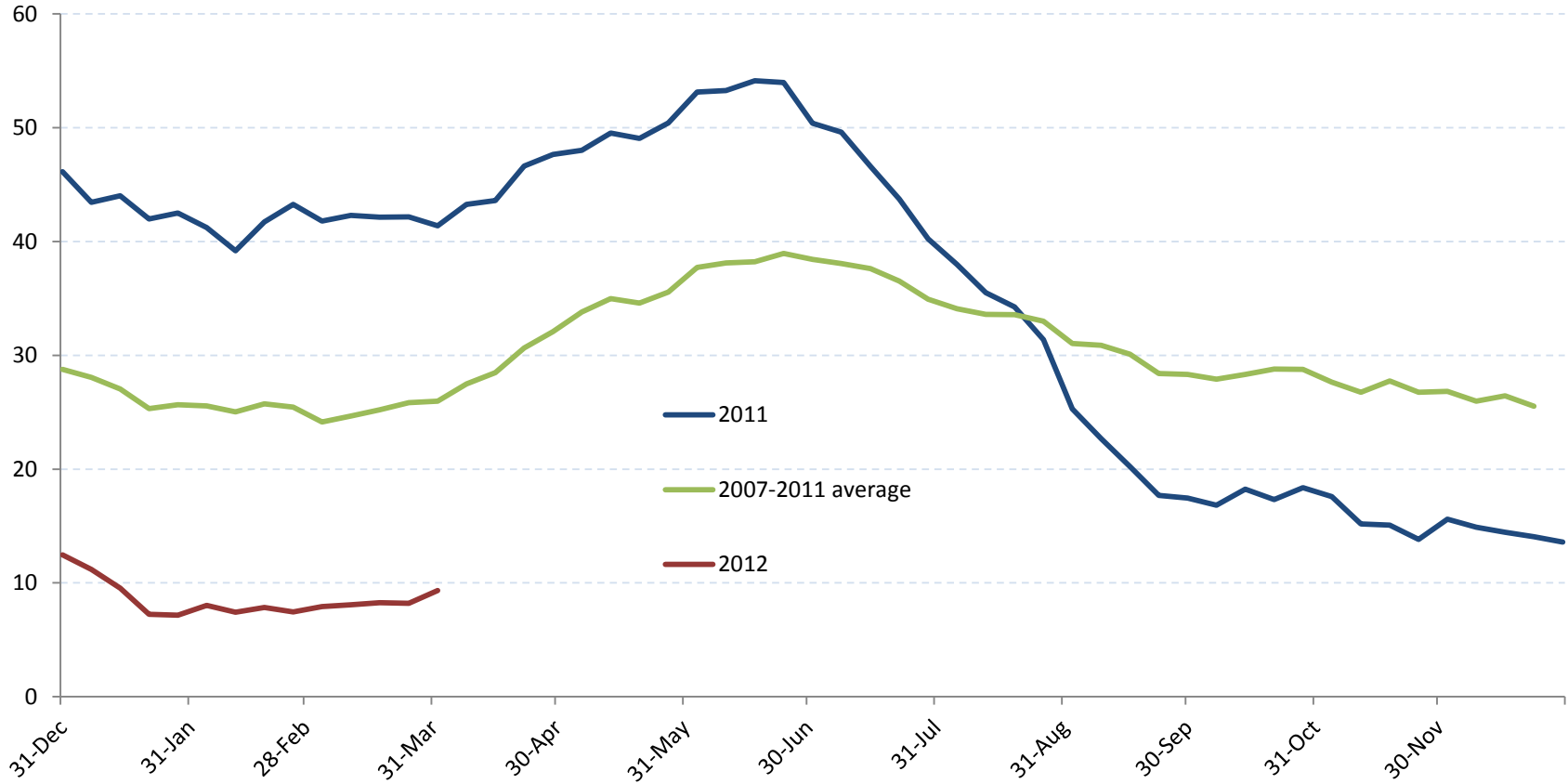
## Current Account Deficit (12-months Cumulative, Billion USD)



Source: CBRT.

# Consumer Loans

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

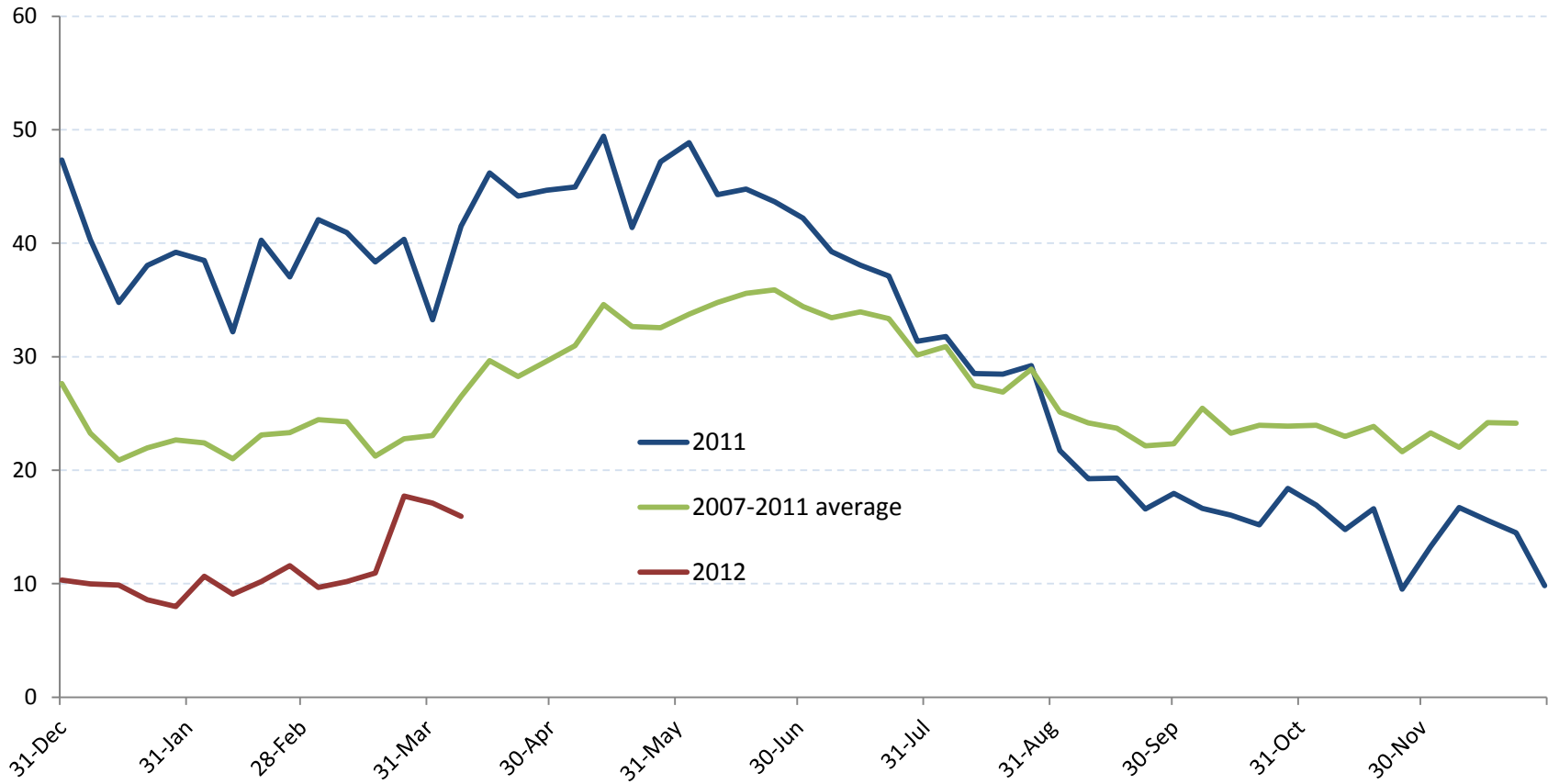


Source: CBRT.

Latest Observations: April 8, 2012

# Total Loans

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

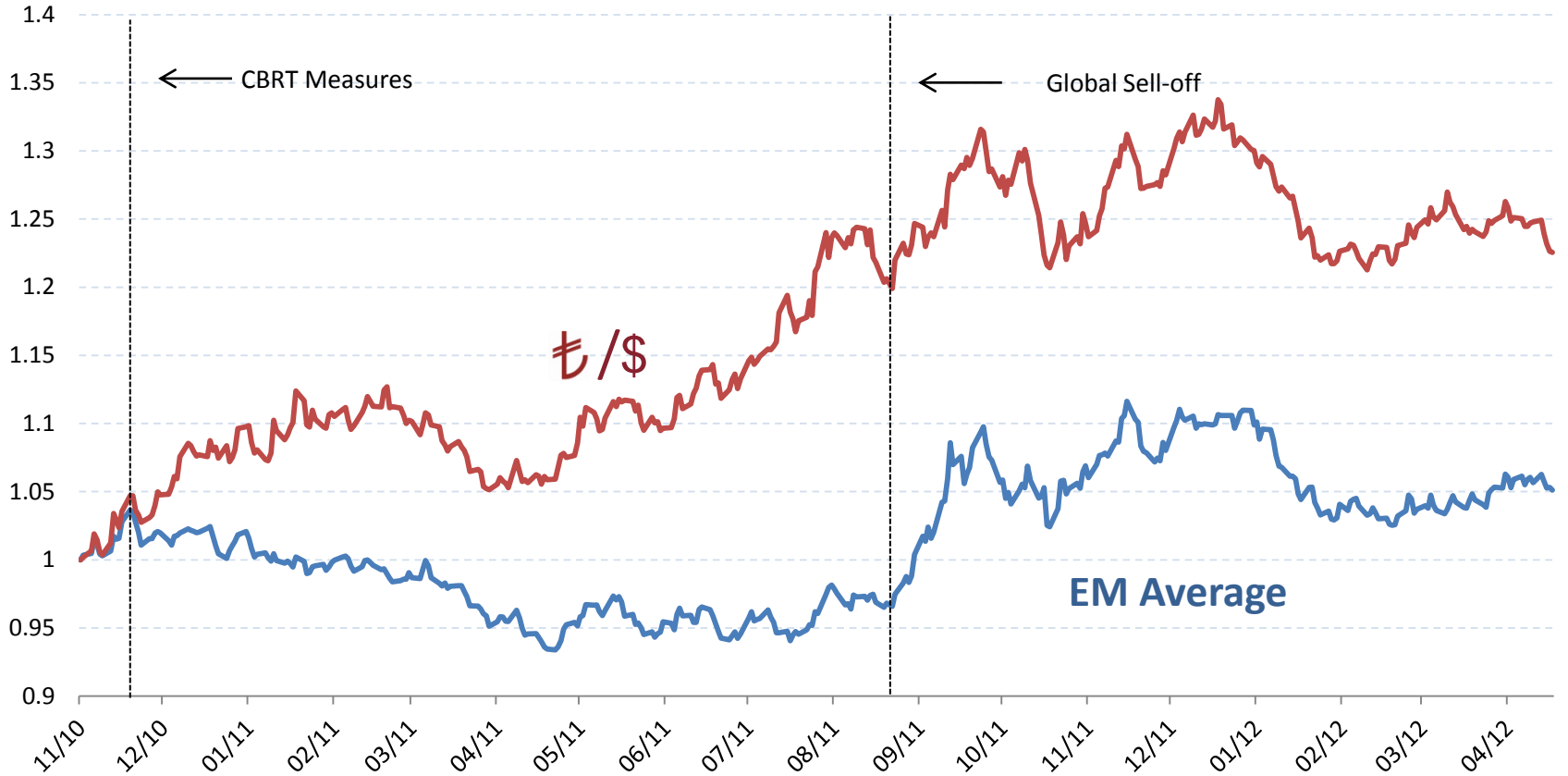


Source: CBRT.

Latest Observations: April 15, 2012

# Exchange Rates

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

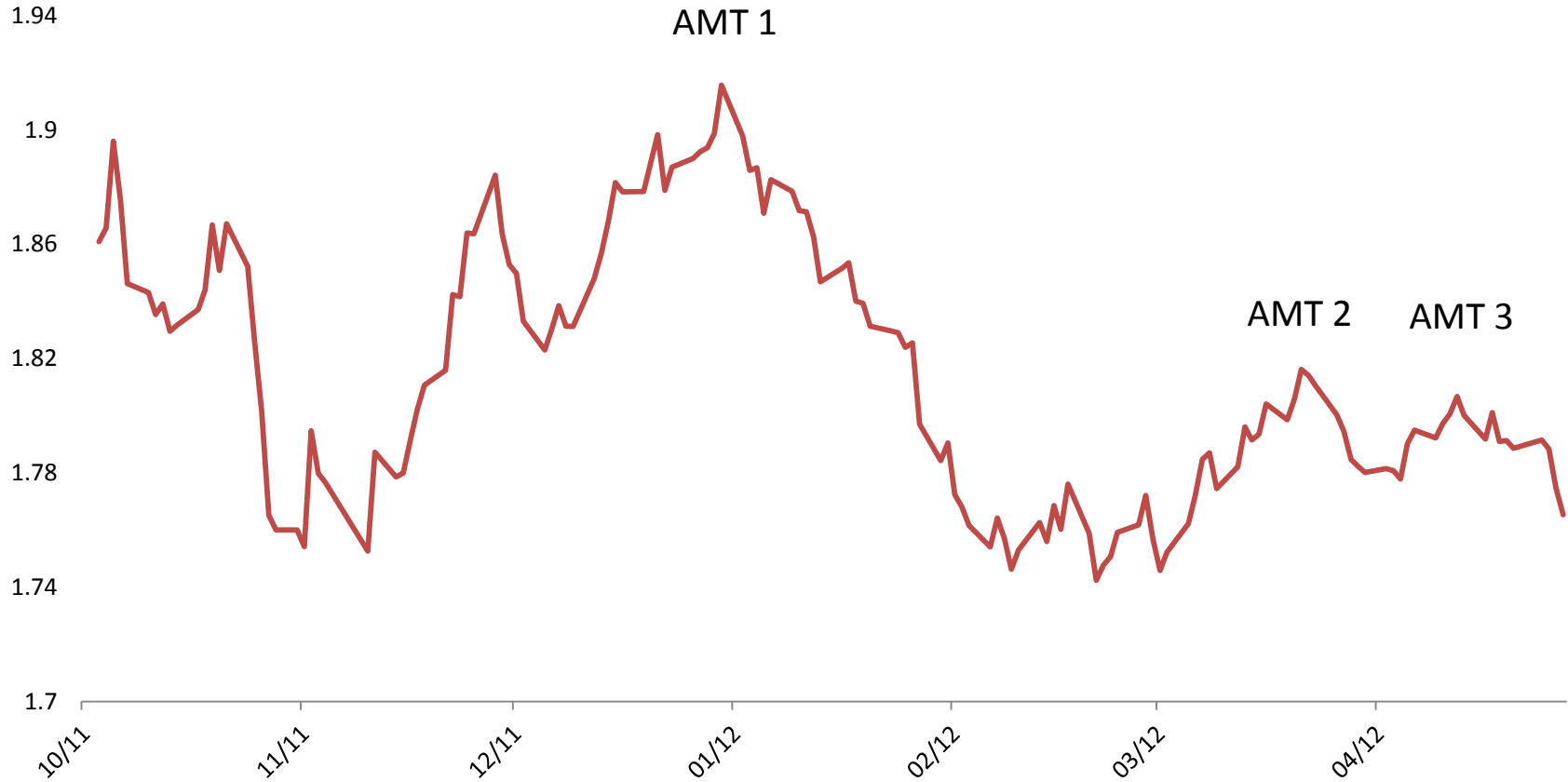


Source: Bloomberg, CBRT.

\* EM average includes: Brazil, Chile, Czech R., Hungary, Mexico, Poland, S.Africa, Indonesia, Korea and Colombia. Increase means depreciation against US dollar.  
Latest Observations: April 27, 2012.

# Exchange Rates

₺/\$

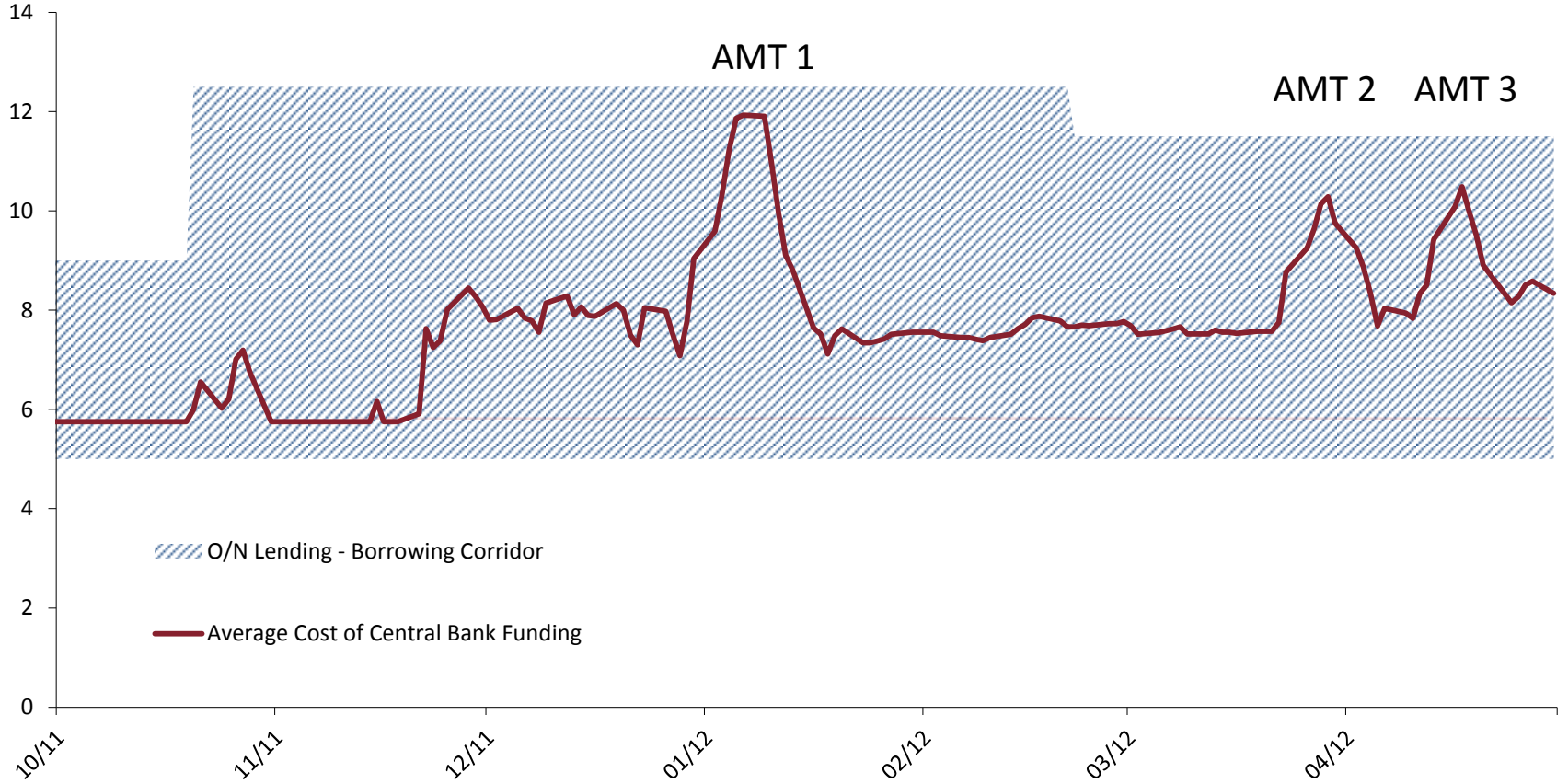


Source: Bloomberg, CBRT.

AMT: Additional Monetary Tightening  
Increase means depreciation against US dollar.  
Latest Observation: April 27, 2012.

# Monetary Policy

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

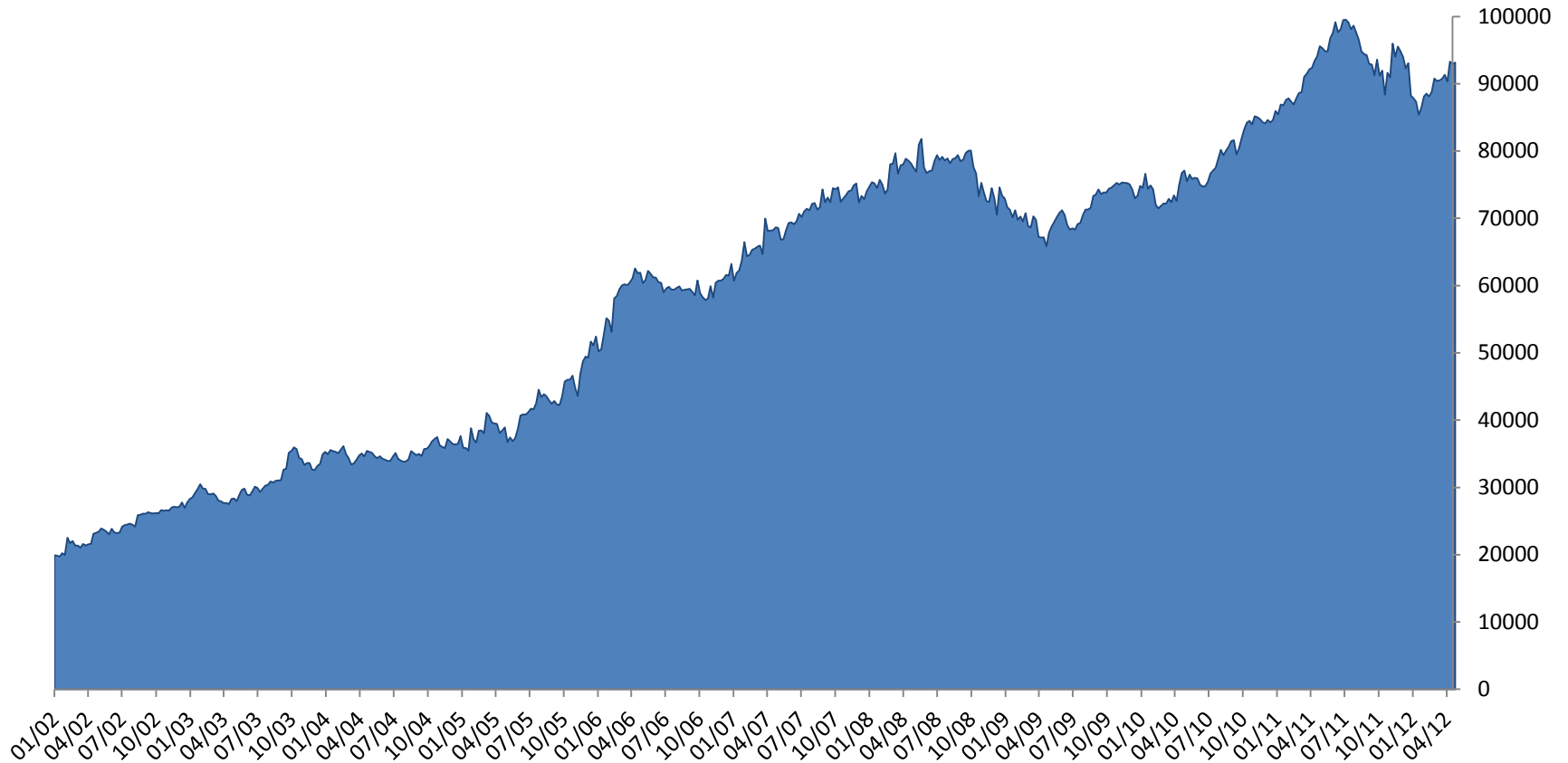


Source: CBRT.

AMT: Additional Monetary Tightening  
Latest Observation: April 30, 2012.

# CBRT International Reserves

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



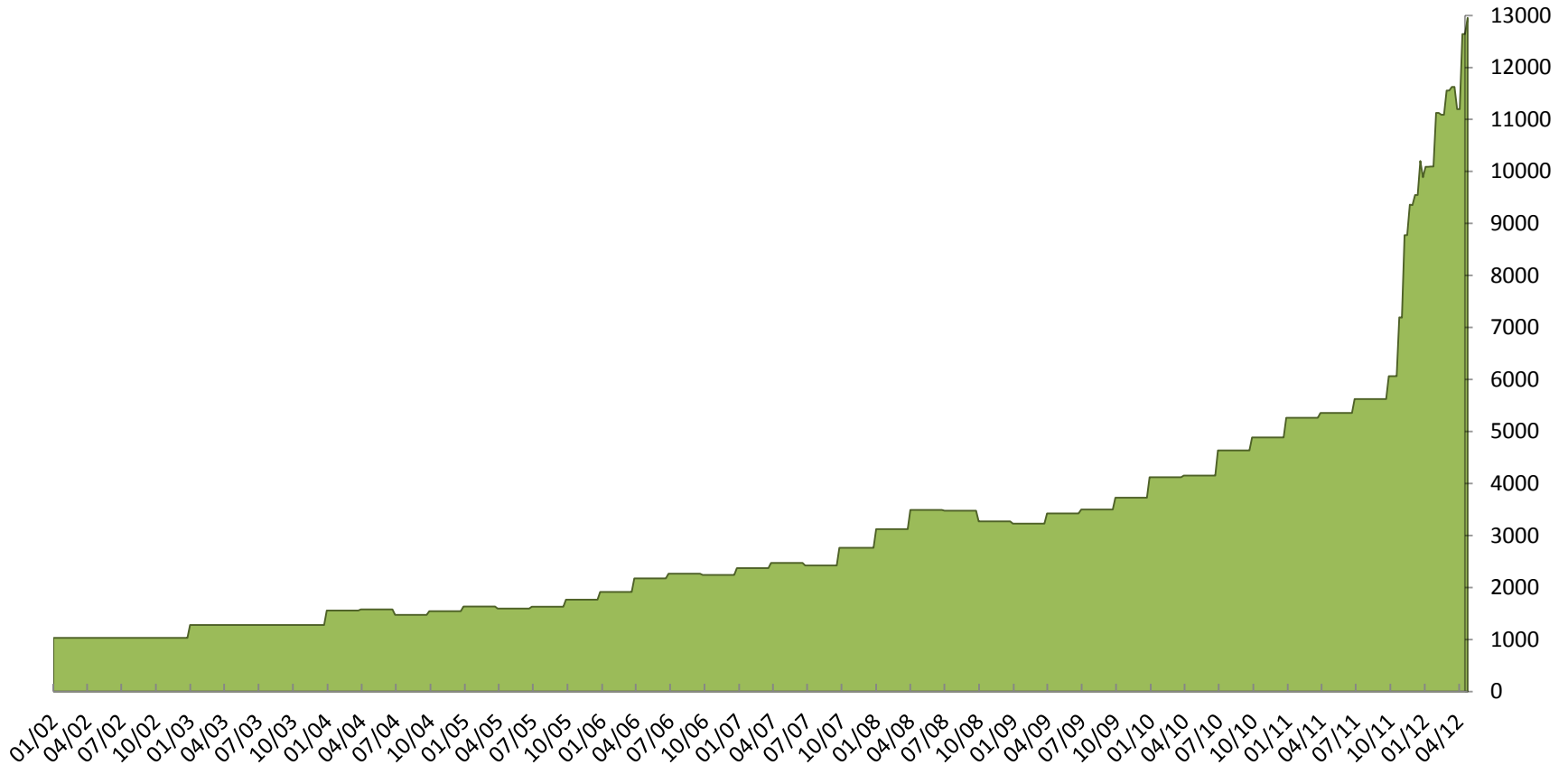
Source: CBRT.

Latest observation: April 27, 2012



# CBRT Gold Reserves

CBRT Gold Reserves  
(Million USD)

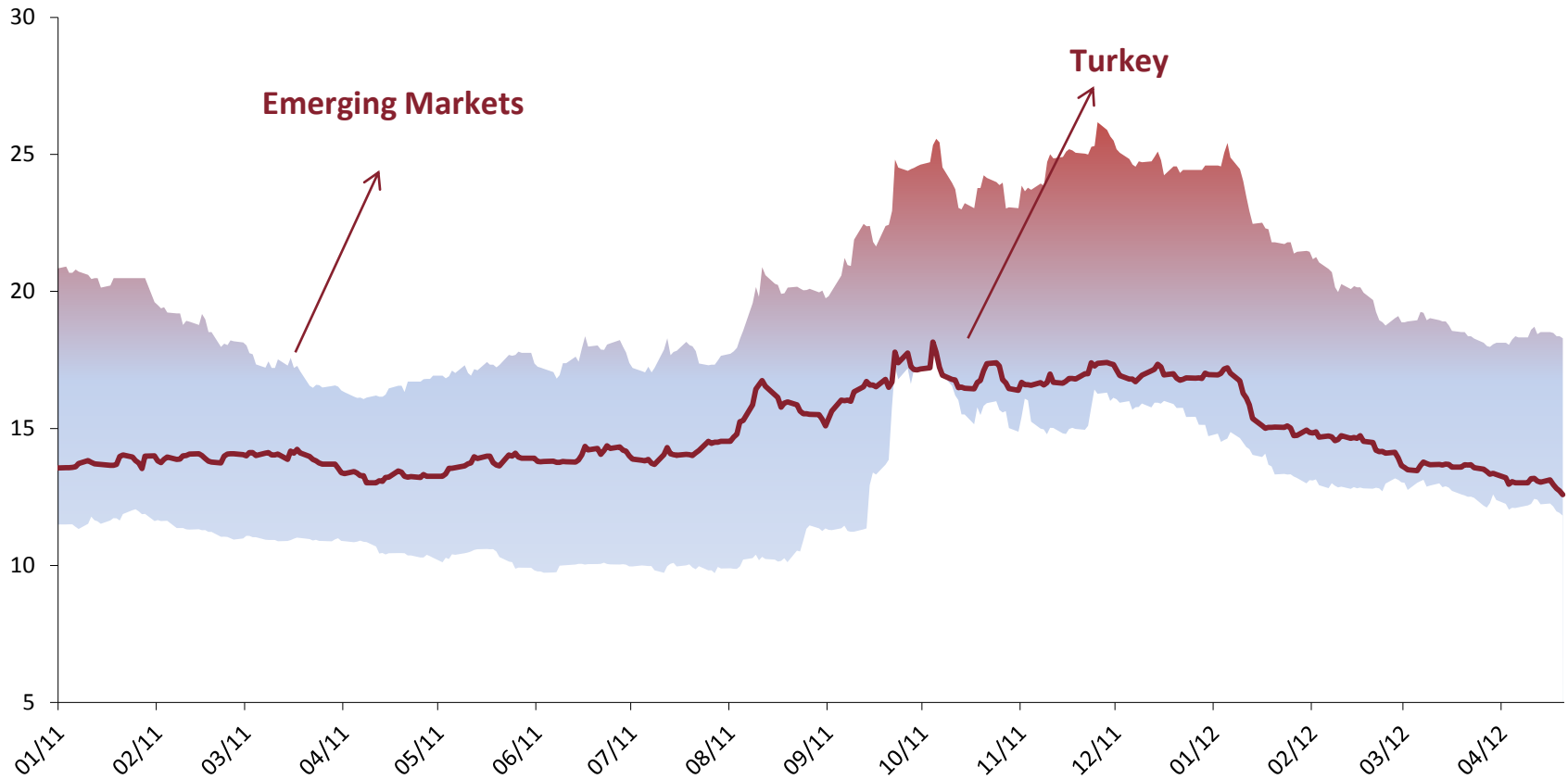


Source: CBRT.

Latest observation: April 27, 2012

# FX Volatility

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



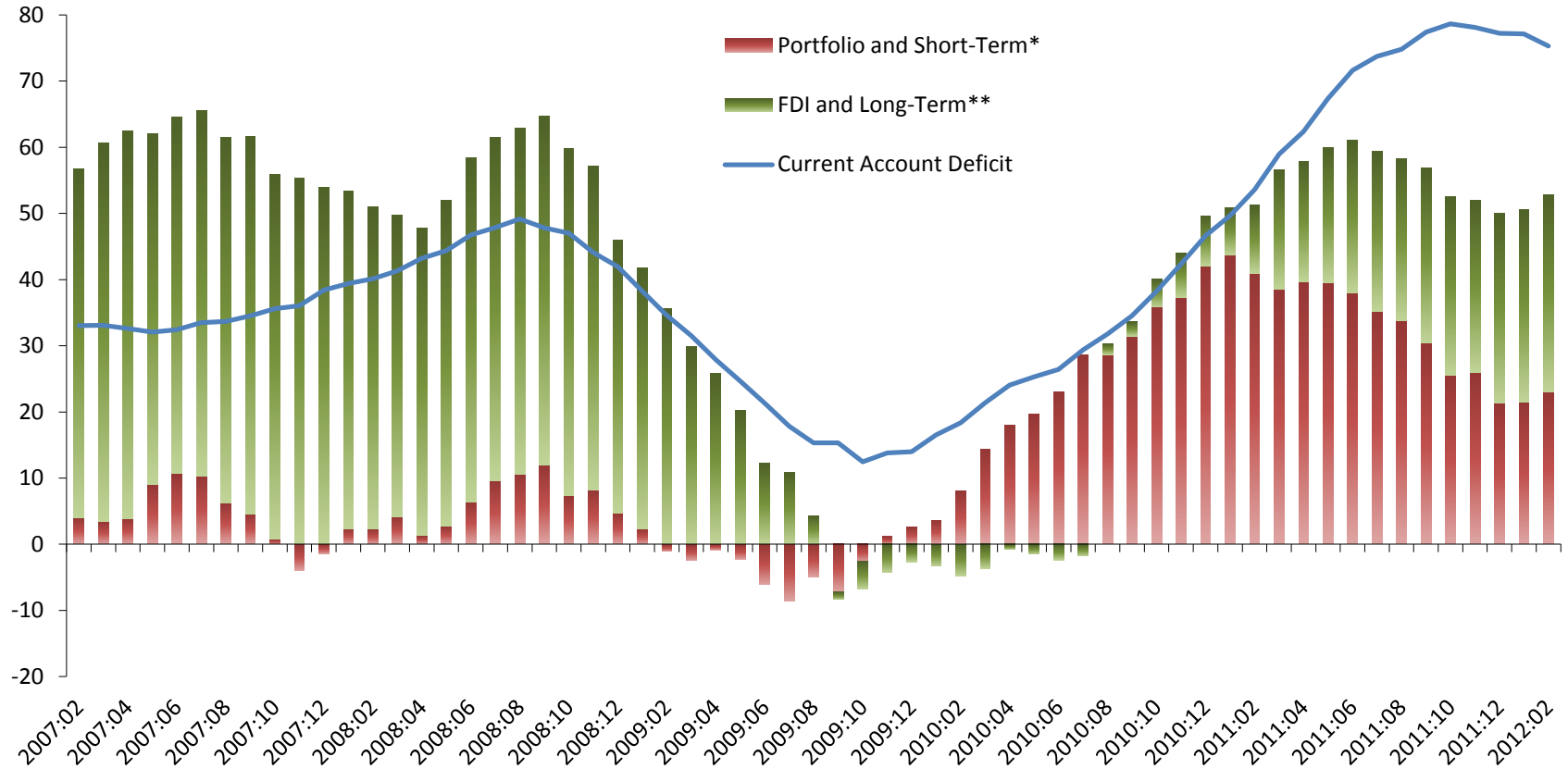
Source: Bloomberg, CBRT.

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

Latest Observations: April 20, 2012

# Quality of Capital Inflows

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



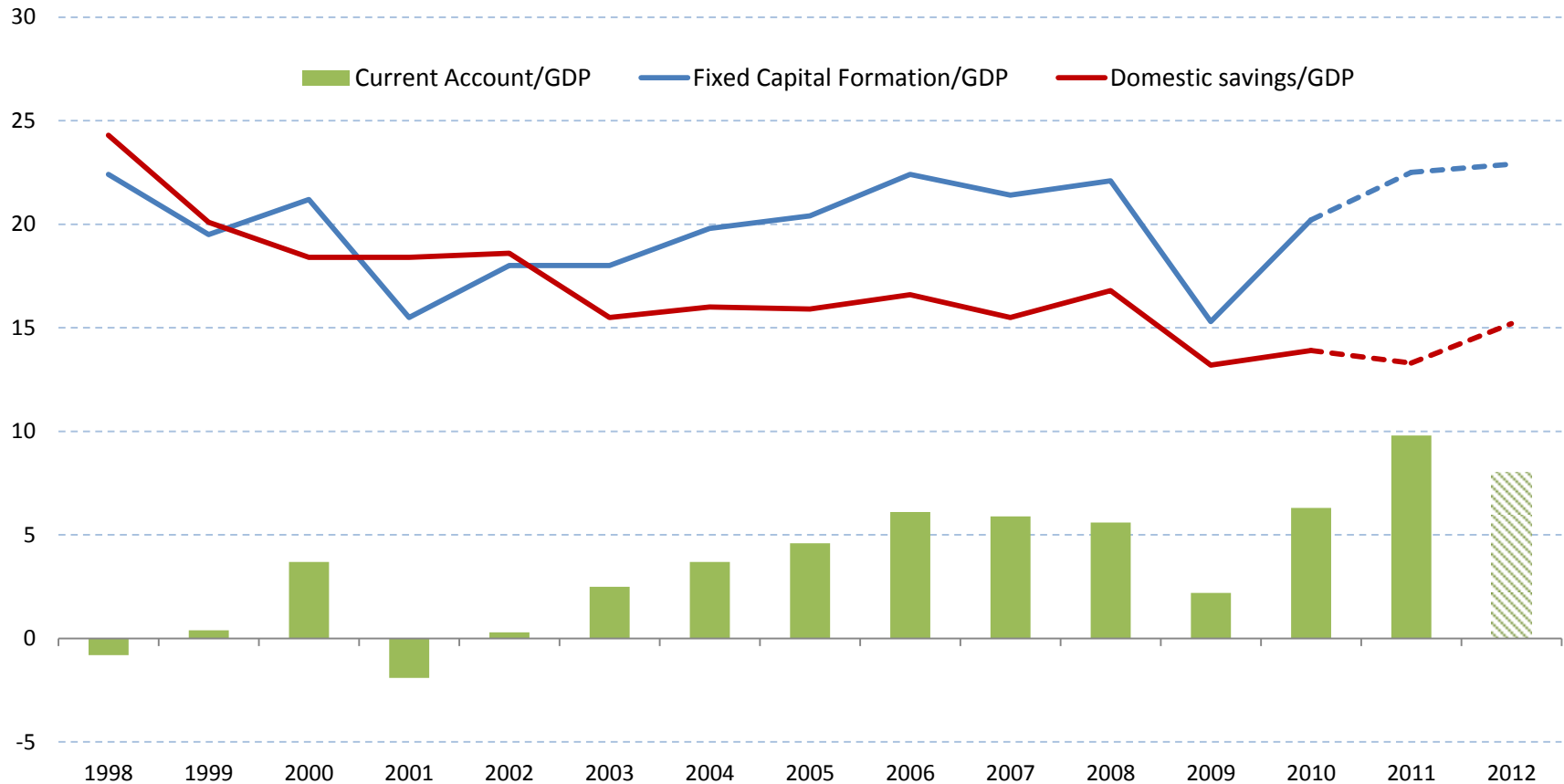
Source: CBRT.

\*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.

# Structural Reforms

- New Incentive System
- Reforms promoting growth based on equity
  - Incentives for Private Pension Scheme
  - Tax Regulation

# Summary

- Rebalancing between the domestic and external demand continues as envisaged.
- The highest level in current account deficit was seen in October 2011. The improvement will continue in the coming months.
- Growth will remain moderate throughout 2012.
- Inflation will peak in this month and it will fall significantly in May. The fall will resume and accelerate in the last months of the year.
- The Central Bank strictly prefers revising its policy stance to revising its inflation forecast.
- All policy actions will remain geared to attain the 5% inflation target by mid-2013.



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

**Presentation before the  
Council of Ministers**

**Erdem Başçı  
Başkan**

**May 2, 2012**