



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Turkish Exporters Assembly Meeting

**Erdem Başçı
Governor**

May 18, 2012

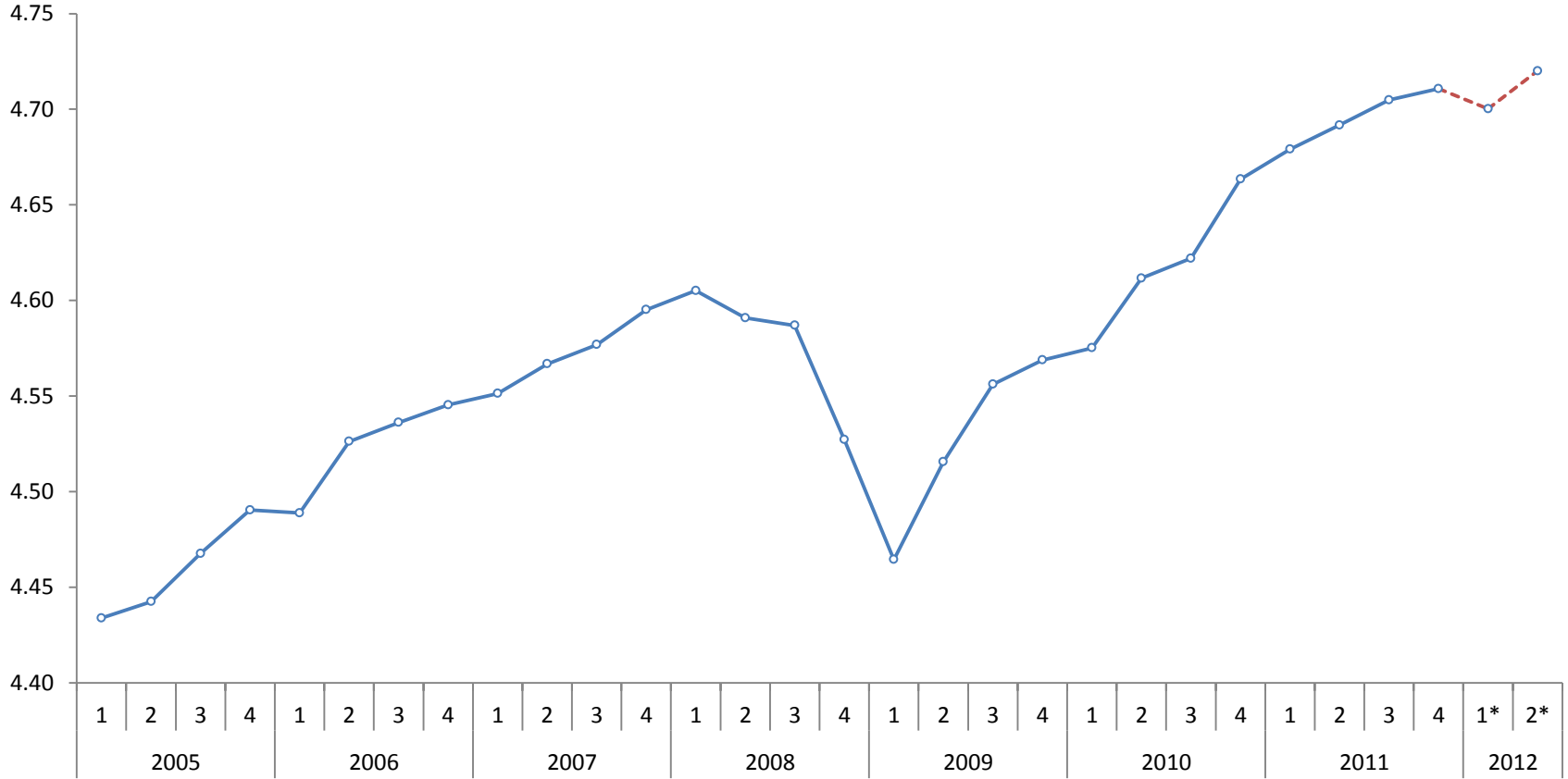
Contents

- I. Price Stability
- II. Financial Stability
- III. Policy Tools

PRICE STABILITY

Gross Domestic Product

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

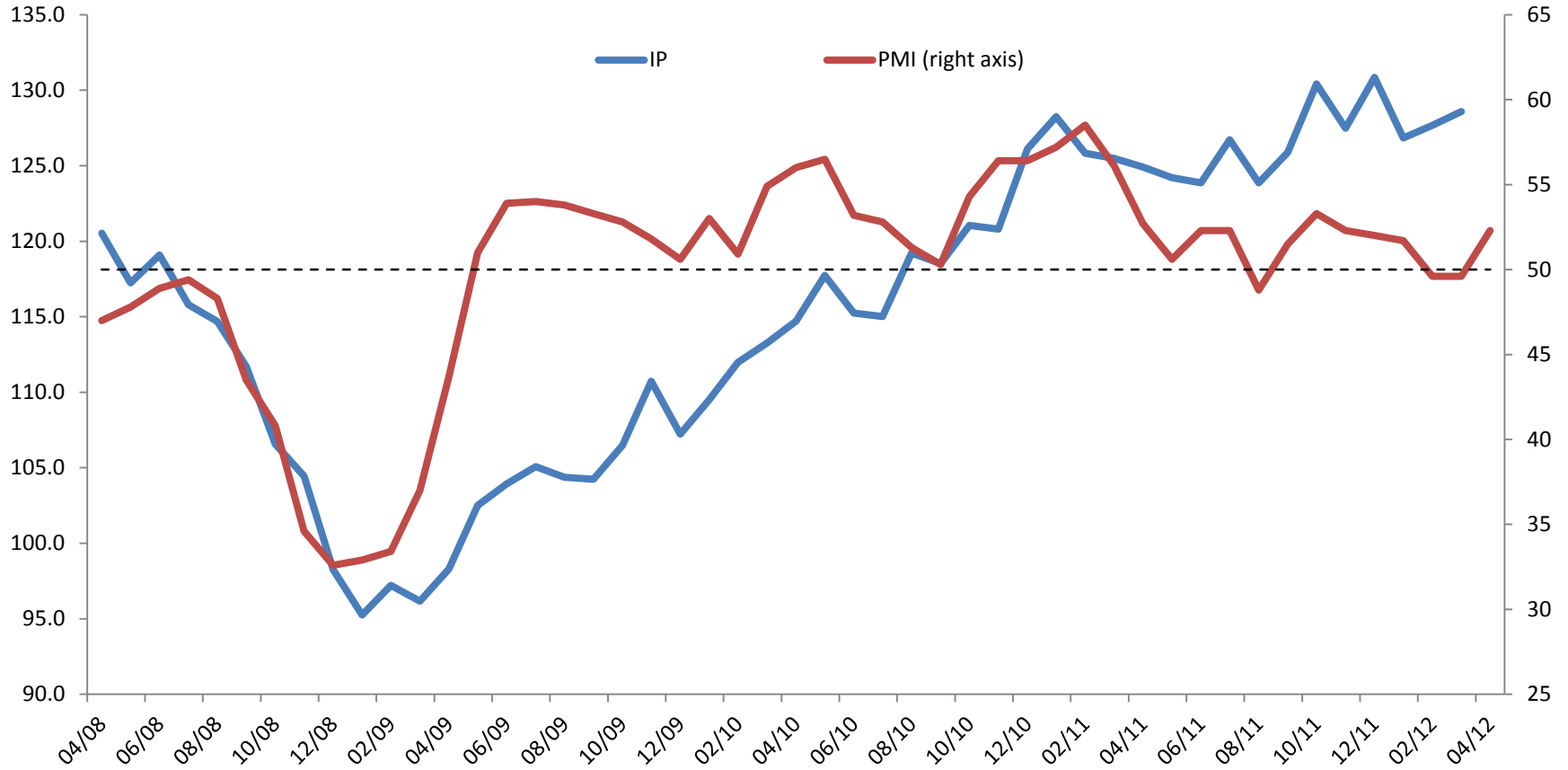


Source: TURKSTAT, CBRT.

*2012Q1 and Q2 is forecast.

Soft Landing

Industrial Production and PMI in Turkey (2005=100, Seasonally Adjusted, Monthly)

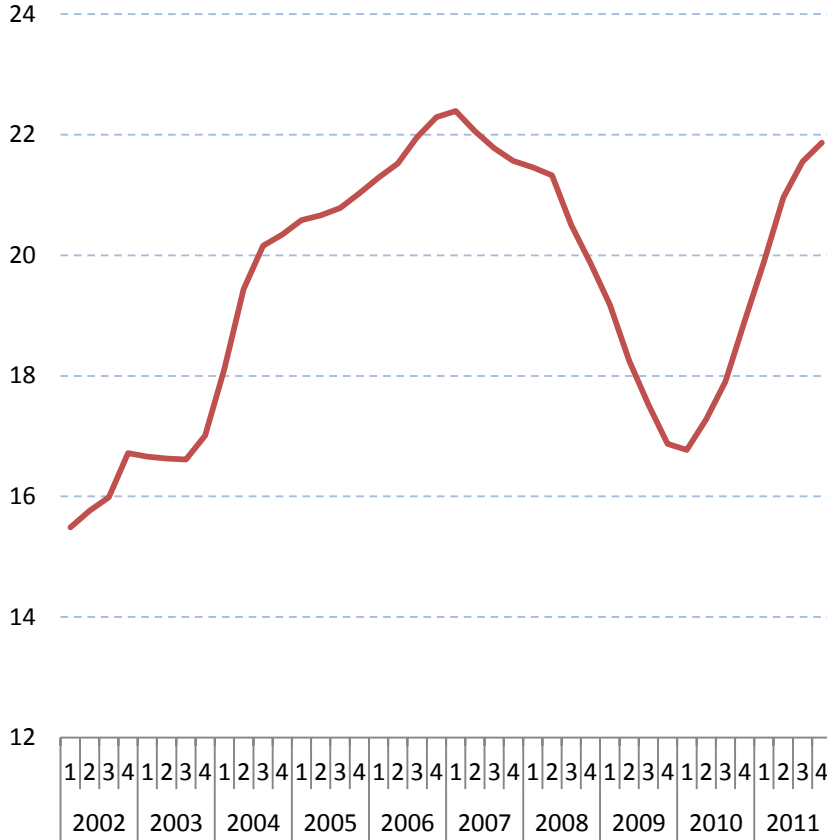


Source: MARKIT, TURKSTAT, CBRT.

Latest Observations: April 2012 for PMI, March 2012 for IP.

Capital and Labor

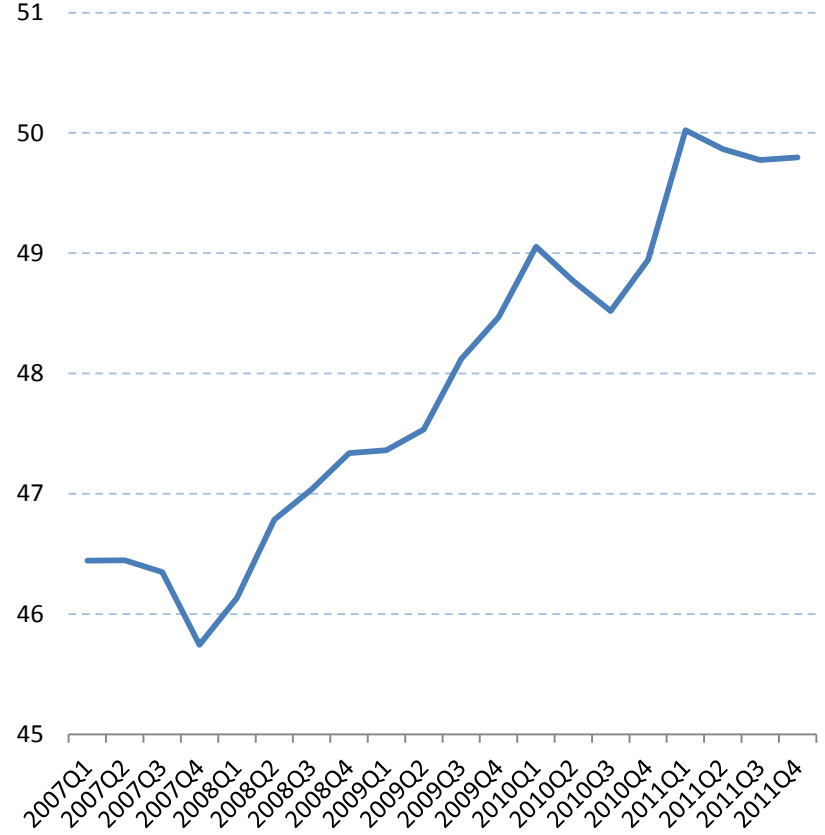
Fixed Capital Formation*
(Percent, Ratio to GDP with current prices)



Source: TURKSTAT, CBRT.

*Annualized.

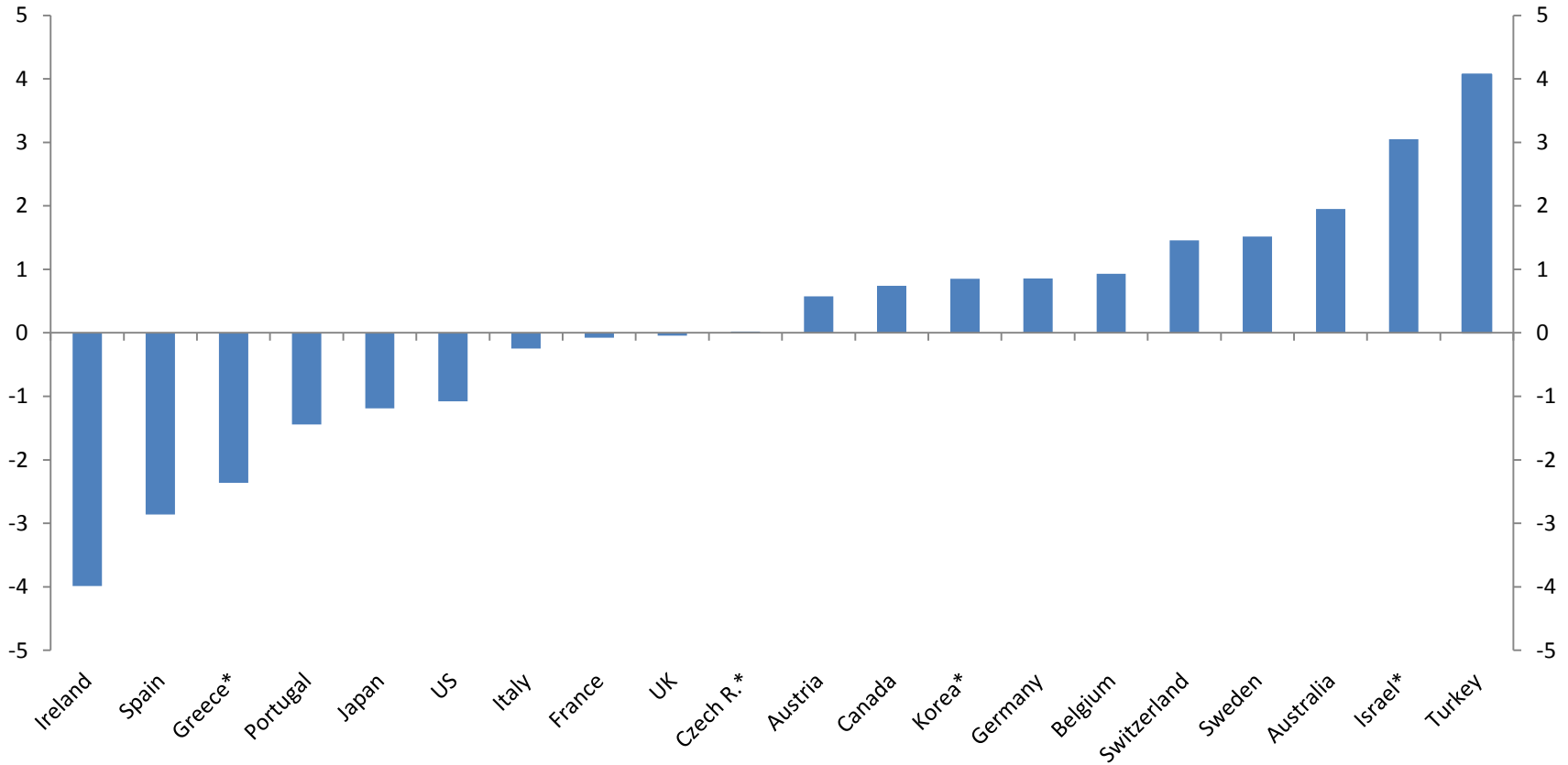
Labor Market Participation Rate
(Percent, Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Employment

Annual Average Employment Growth** (2007-2011)



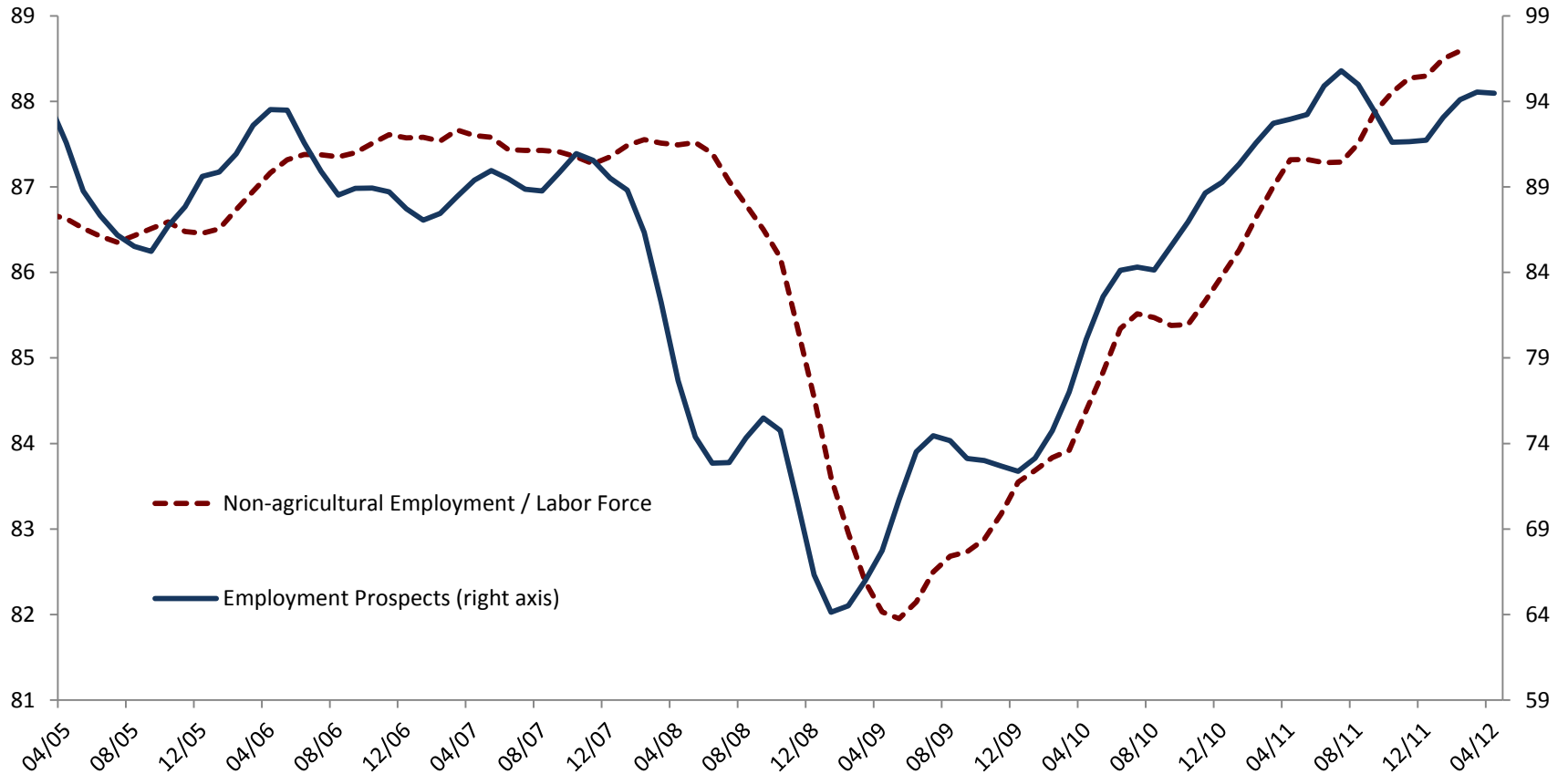
Source: IMF WEO, TURKSTAT, CBRT.

*IMF Estimate for 2011

**Difference of natural logarithms.

Employment

Prospects and Employment
(Percent, 3 month moving averages)

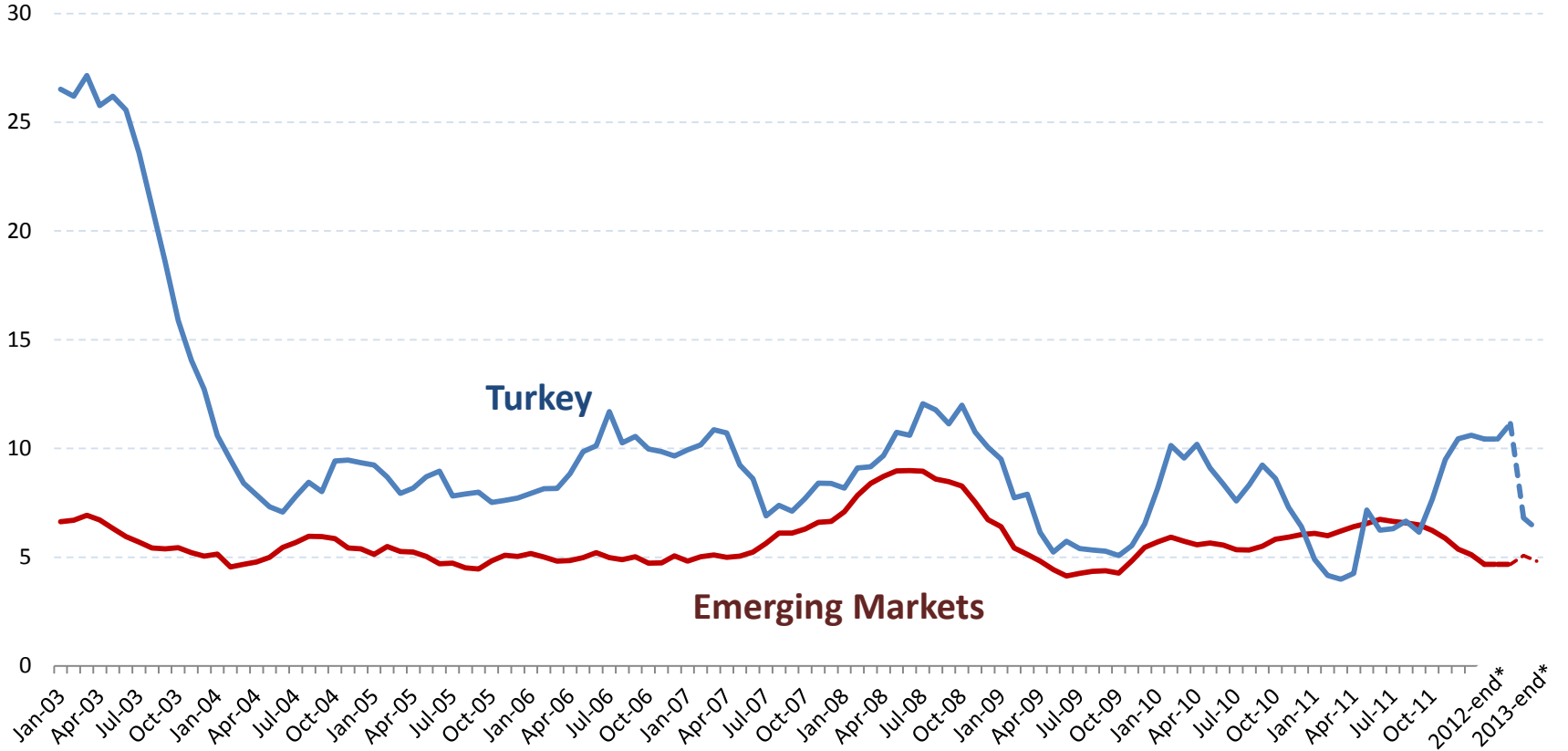


Source: CBRT

Latest Observation: April 2012 for employment prospects, Feb 2012 for employment ratio .

Inflation

Turkey vs. Emerging Markets (Percent, Weighted Average)

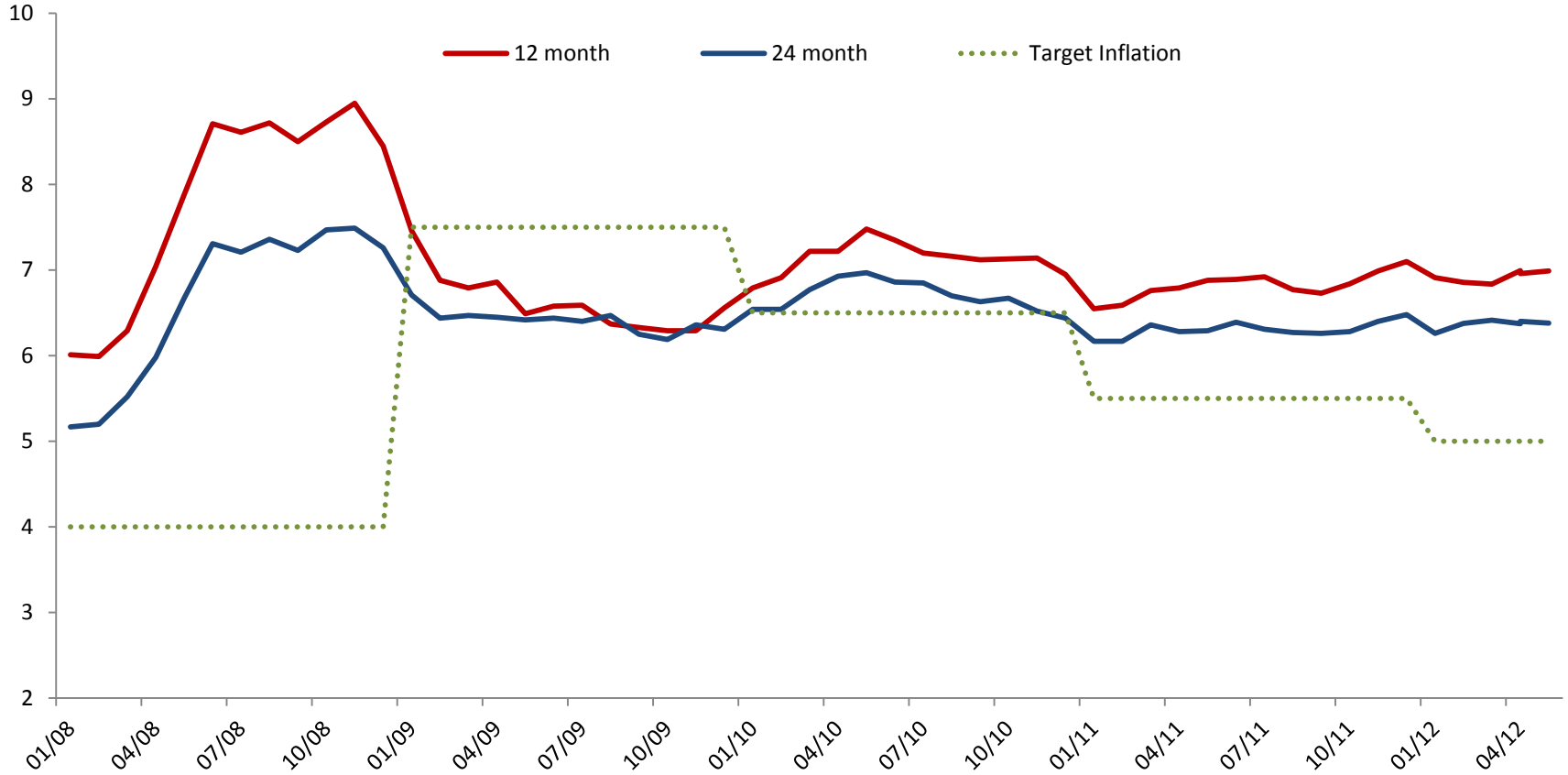


Source: CBRT and Bloomberg.

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 Expectations

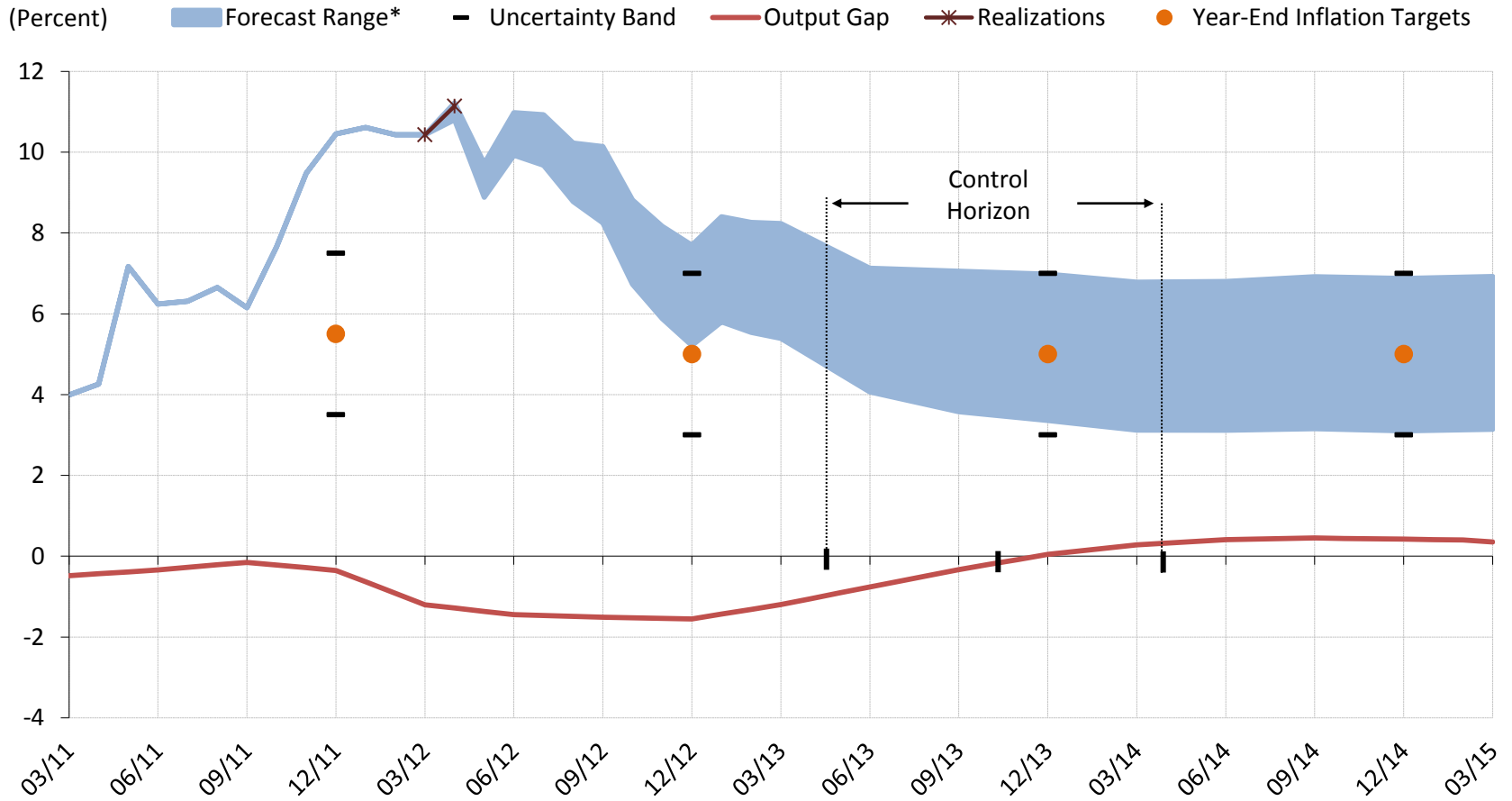
Medium Term Inflation Expectations* (Percent)



Source: CBRT.

*CBRT Survey of Expectations.

Inflation Forecasts and Realizations



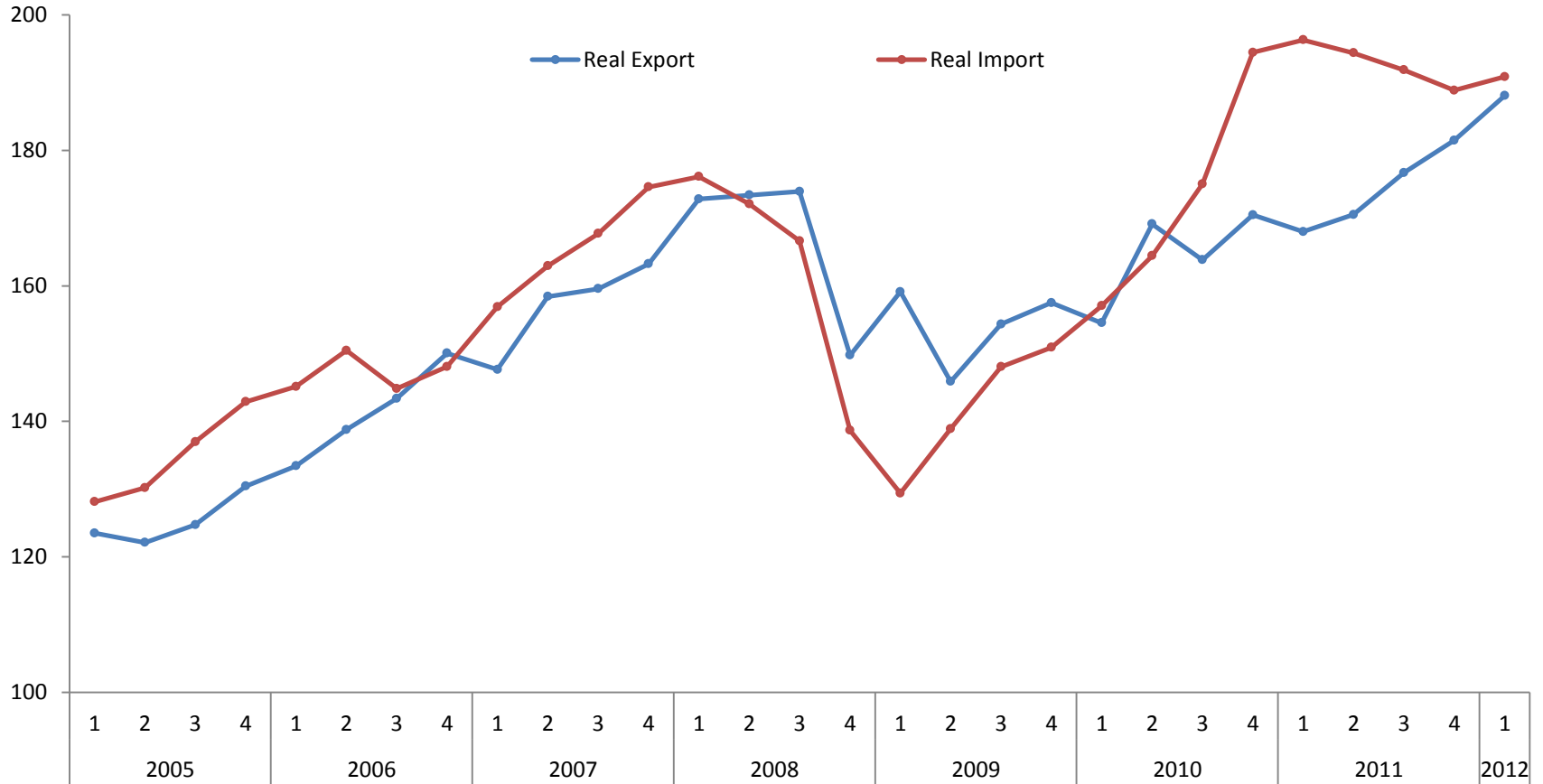
Source: CBRT.

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

FINANCIAL STABILITY

Rebalancing

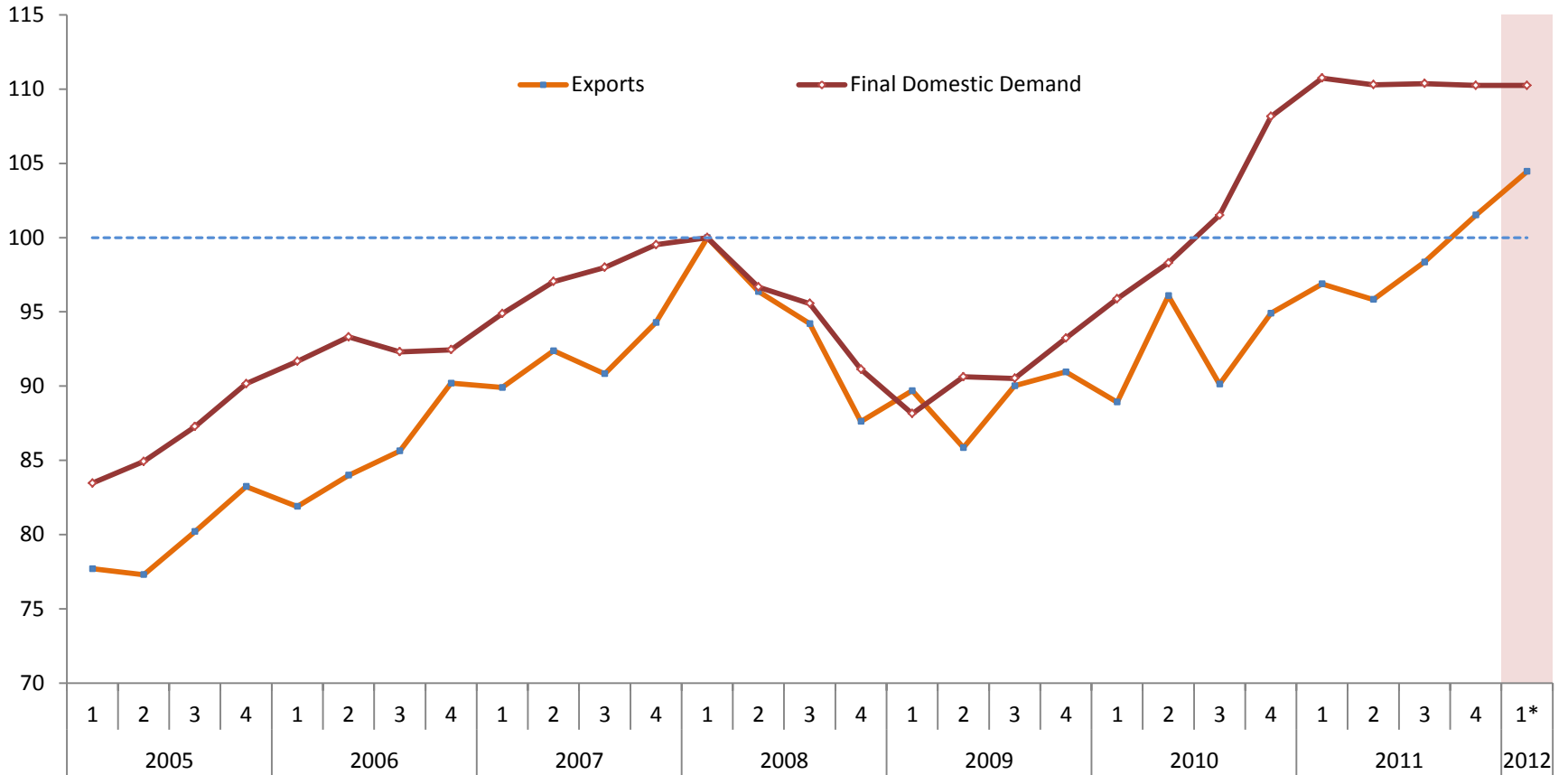
Real Exports and Imports (2003=100, Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Rebalancing

Final Domestic Demand and Exports (2008Q1=100)

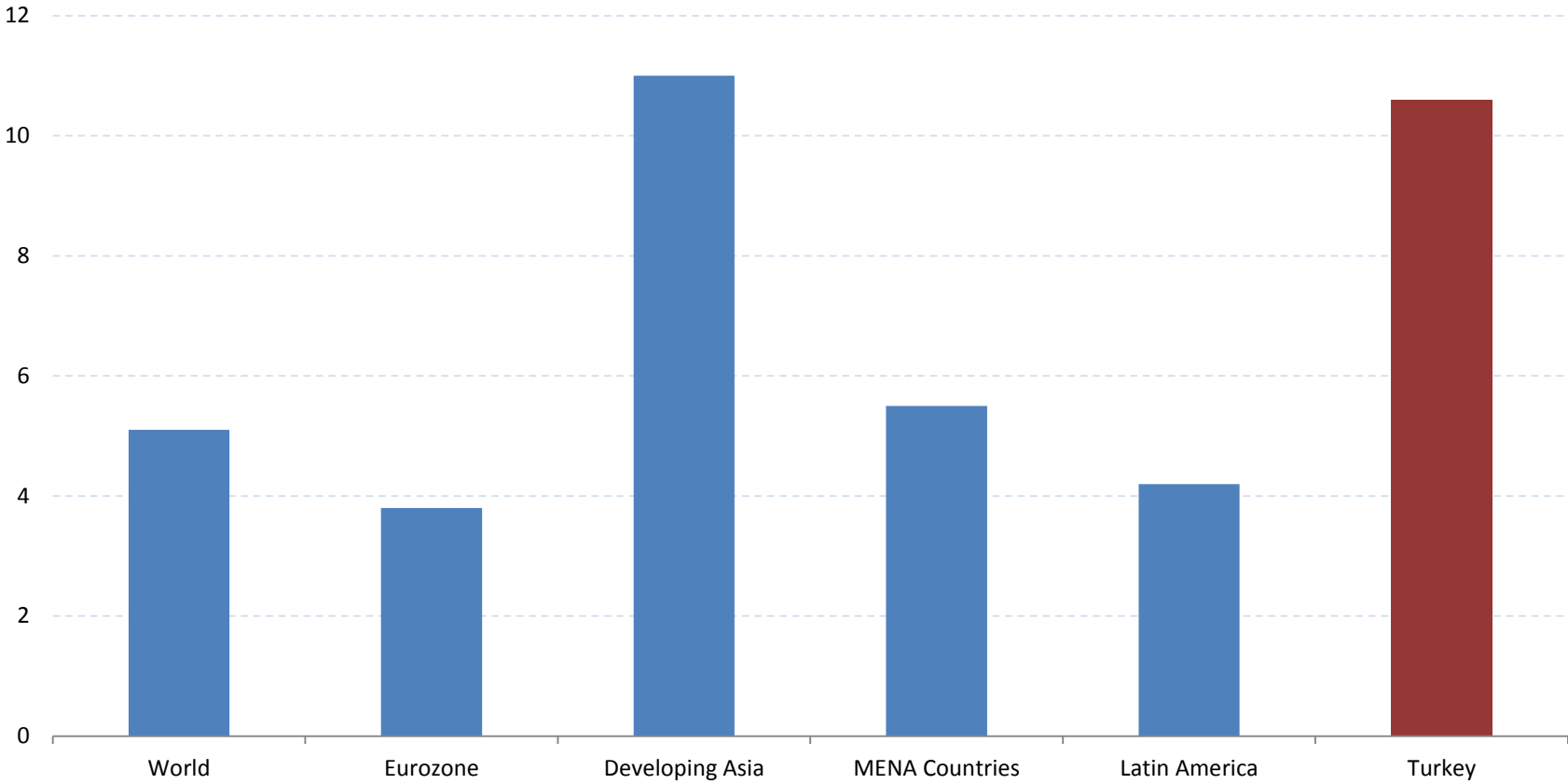


Source: CBRT.

*2012Q1 is forecast.

Strong Export Growth

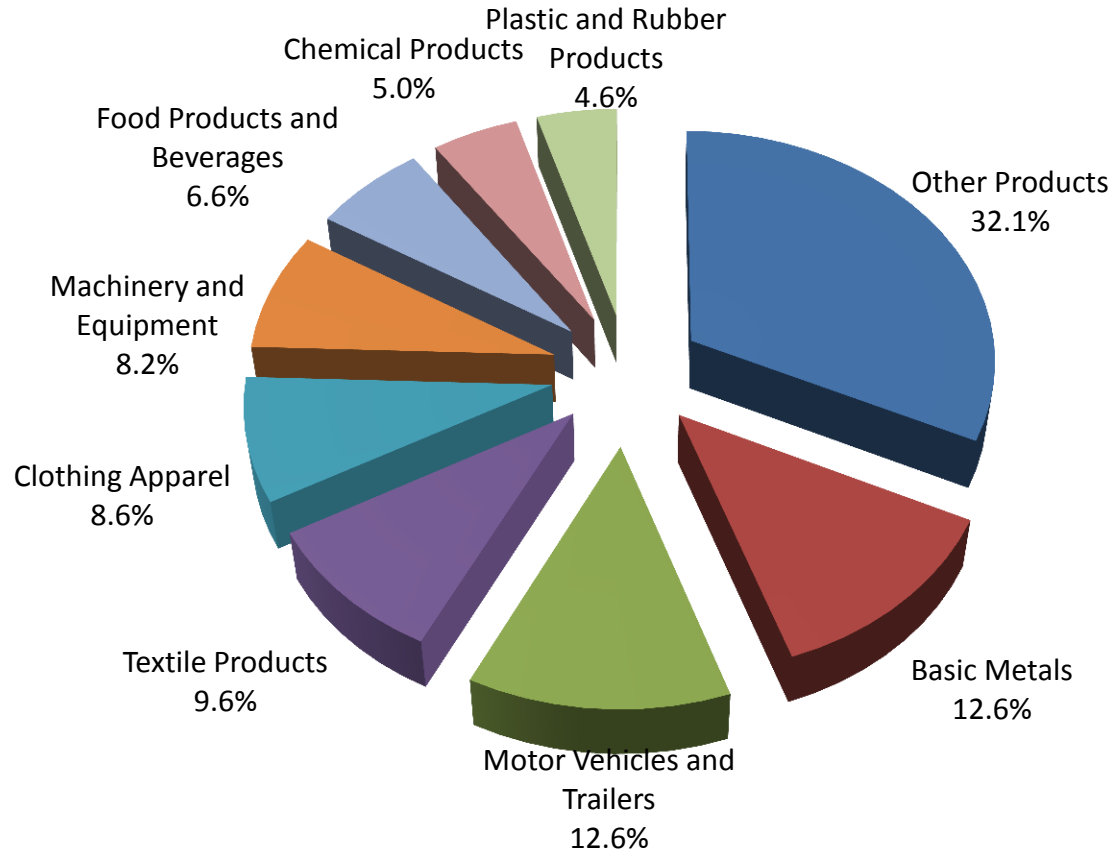
Export Performance
(Average Annual Growth Rate, Percent, 2001-2011)



Source: IMF WEO

Exports Products Diversification

Composition of Exports (Eight Leading Exports Sectors in 2011)

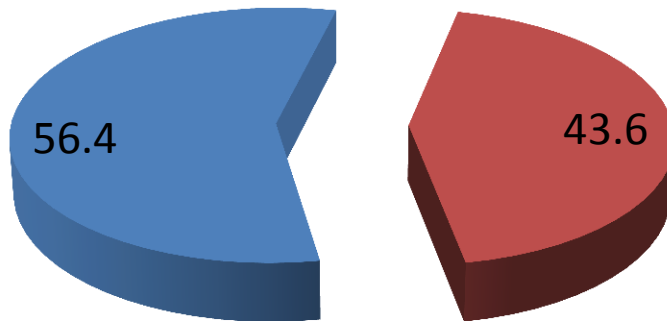


Source: TURKSTAT, CBRT.

New Export Markets

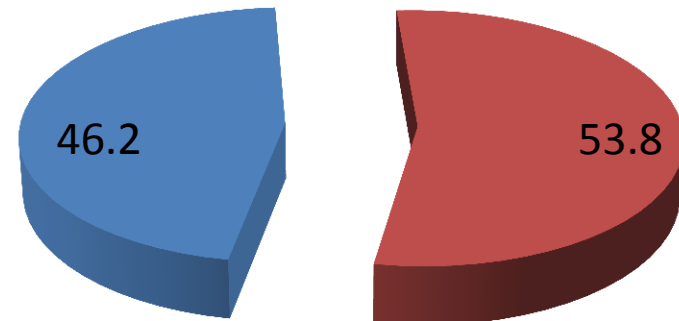
Share of EU Countries in Turkish Export (%)

2000



■ EU Countries ■ Other Countries

2011

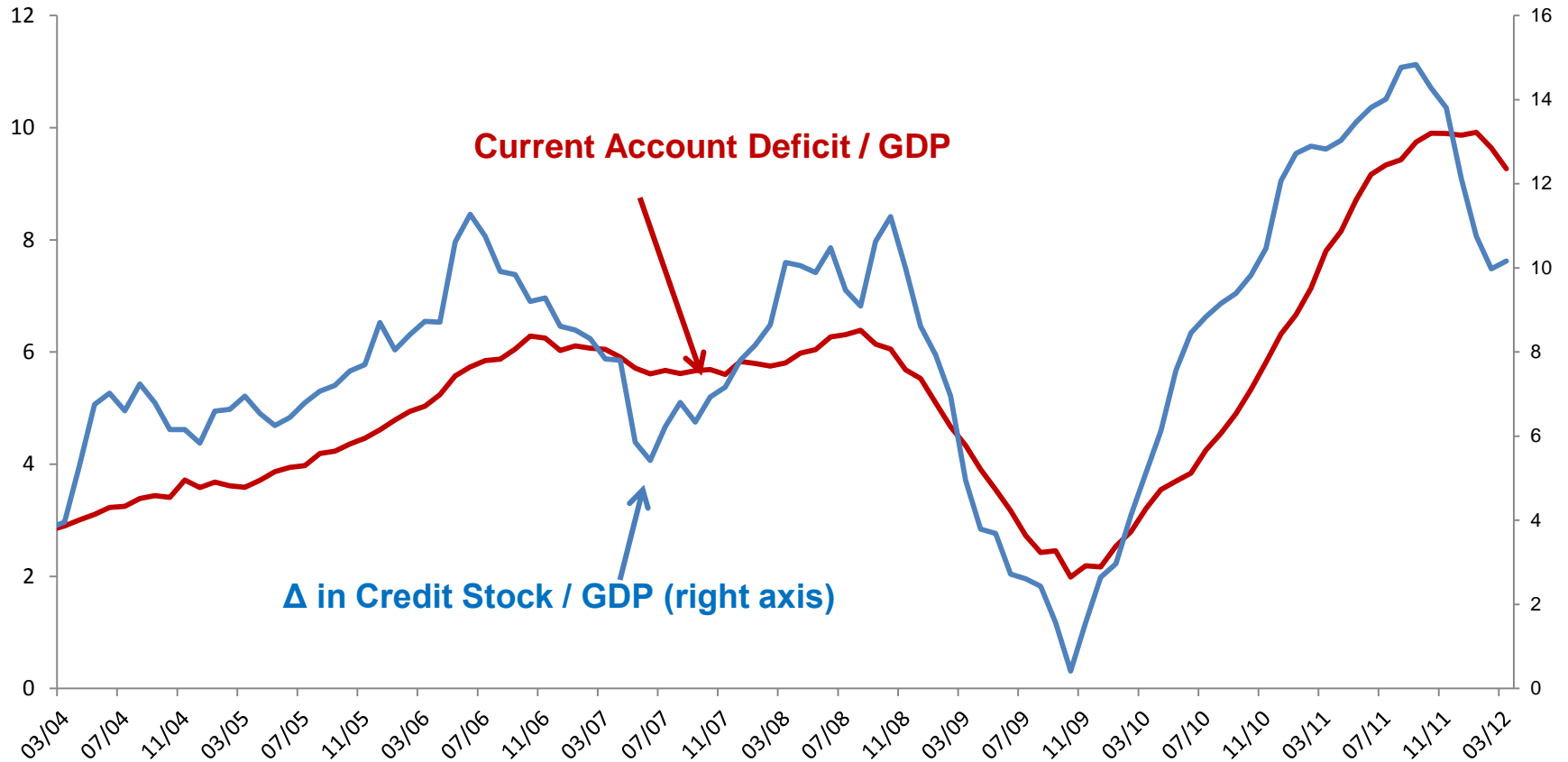


■ EU Countries ■ Other Countries

Source: TURKSTAT, CBRT

Credit Growth

Credit Growth and Current Account Deficit (Percent, 12 month cumulative)

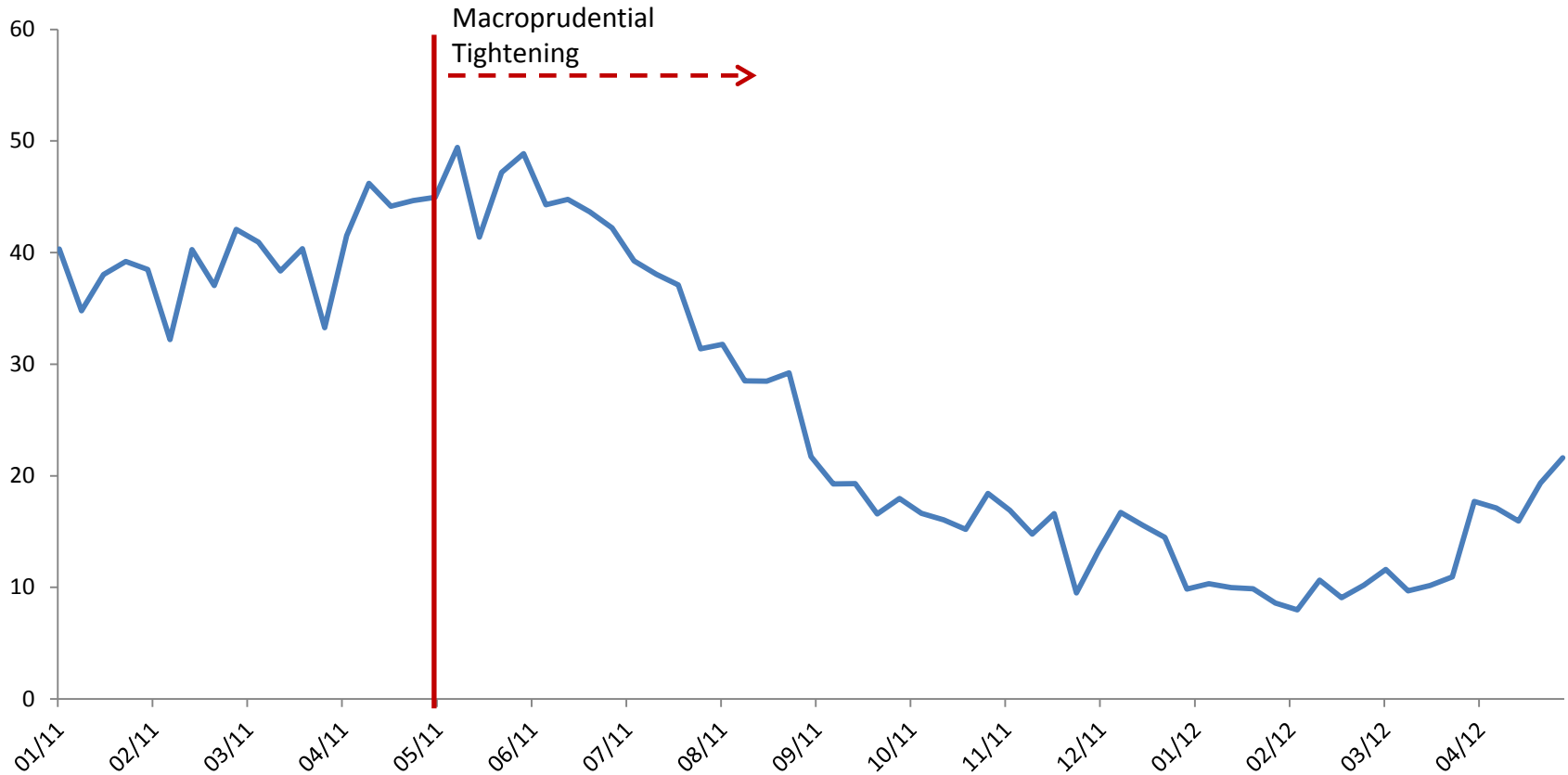


Source: CBRT.

Latest Observation: March 2012

Credit Growth

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

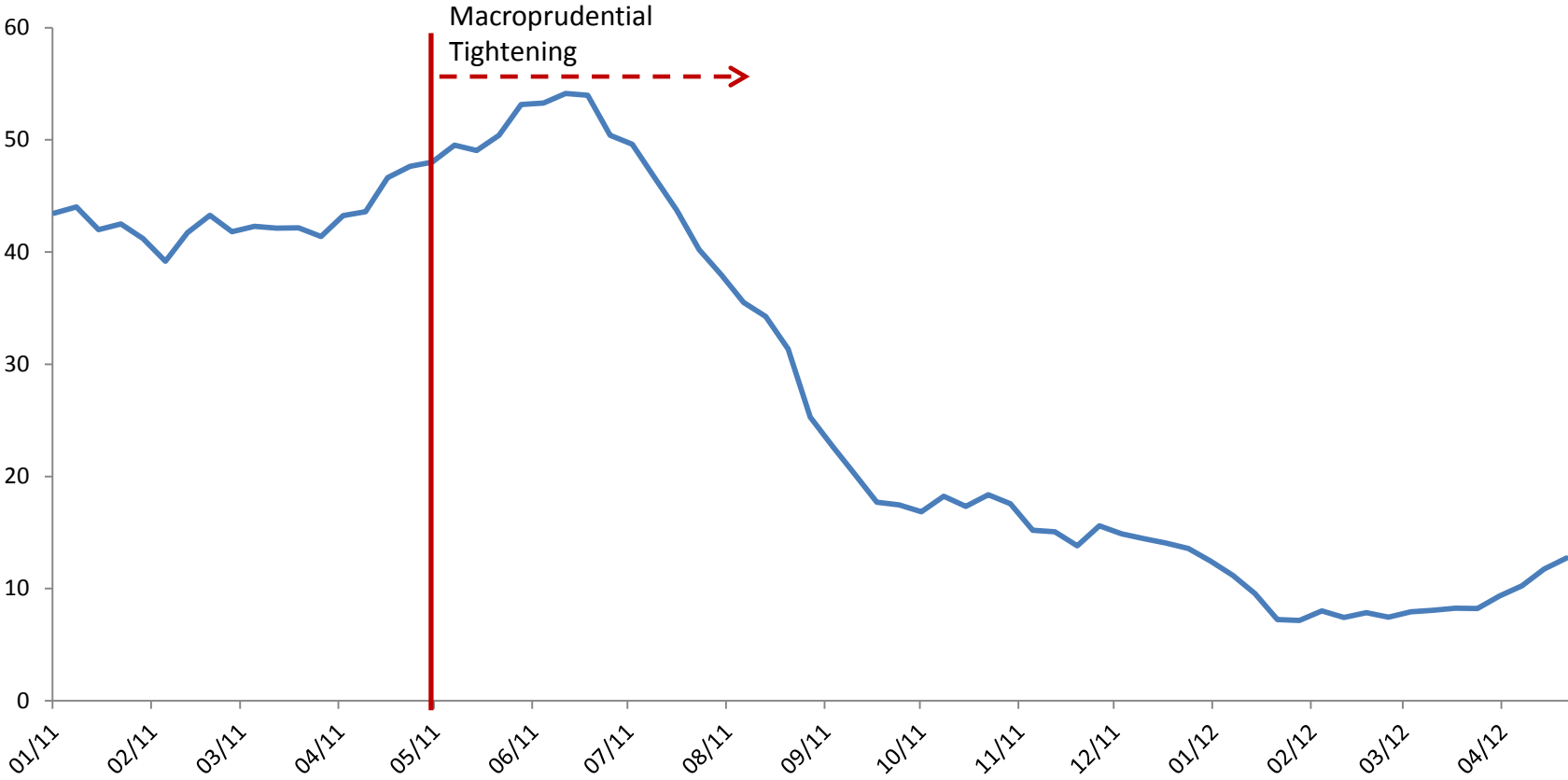


Source: CBRT.

Latest Observations: April 27, 2012

Credit Growth

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



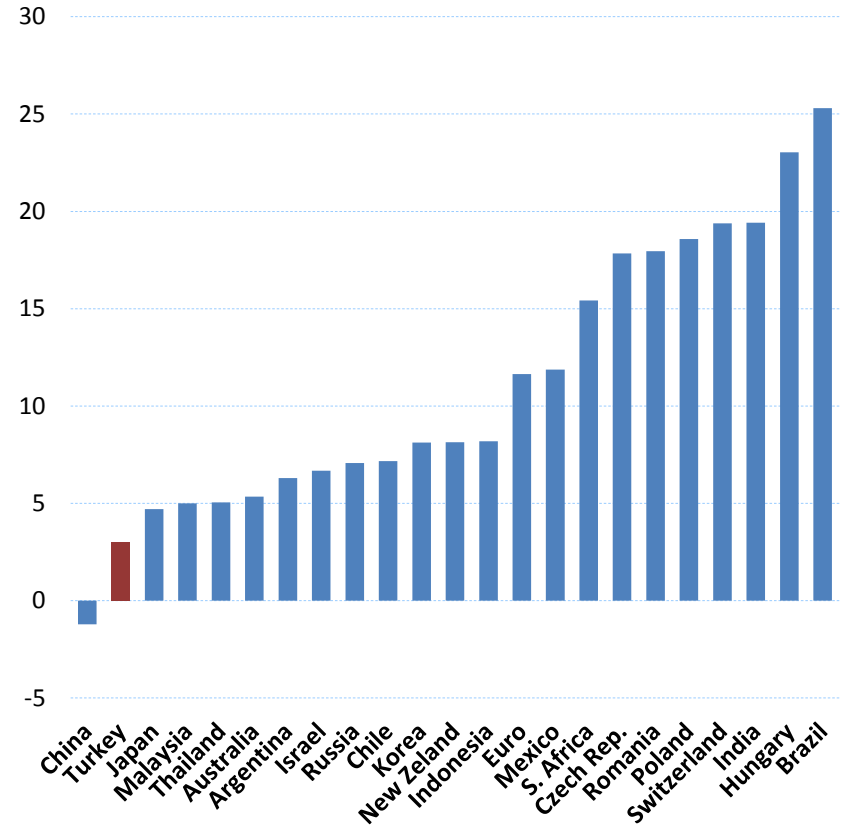
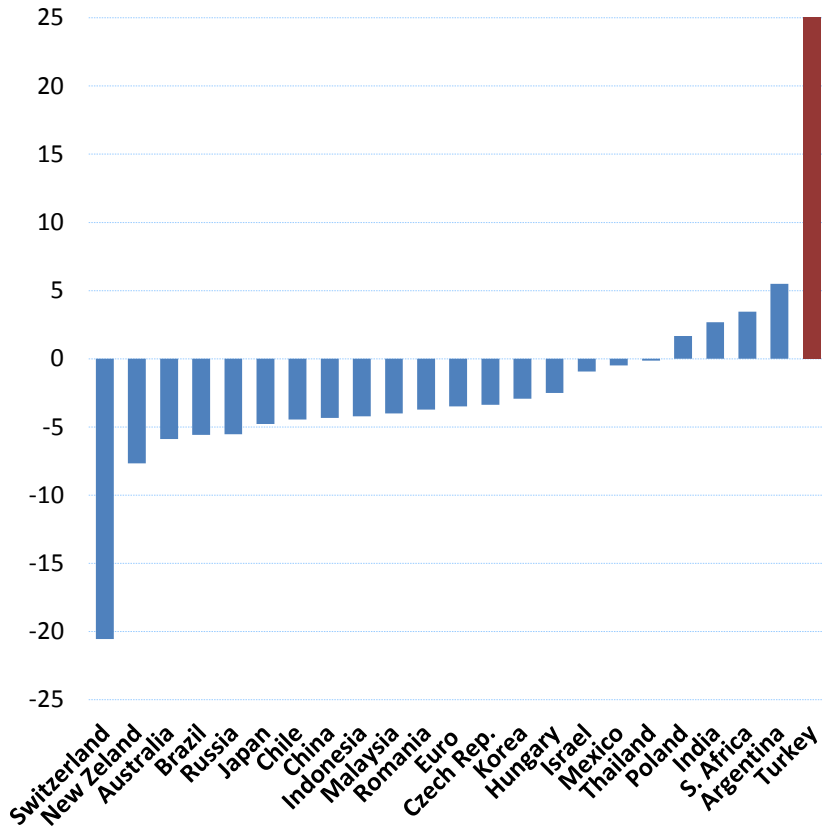
Source: CBRT.

Latest Observations: April 27, 2012

Nominal Exchange Rates

01.11.2010 – 22.08.2011

23.08.2011 – 16.05.2012

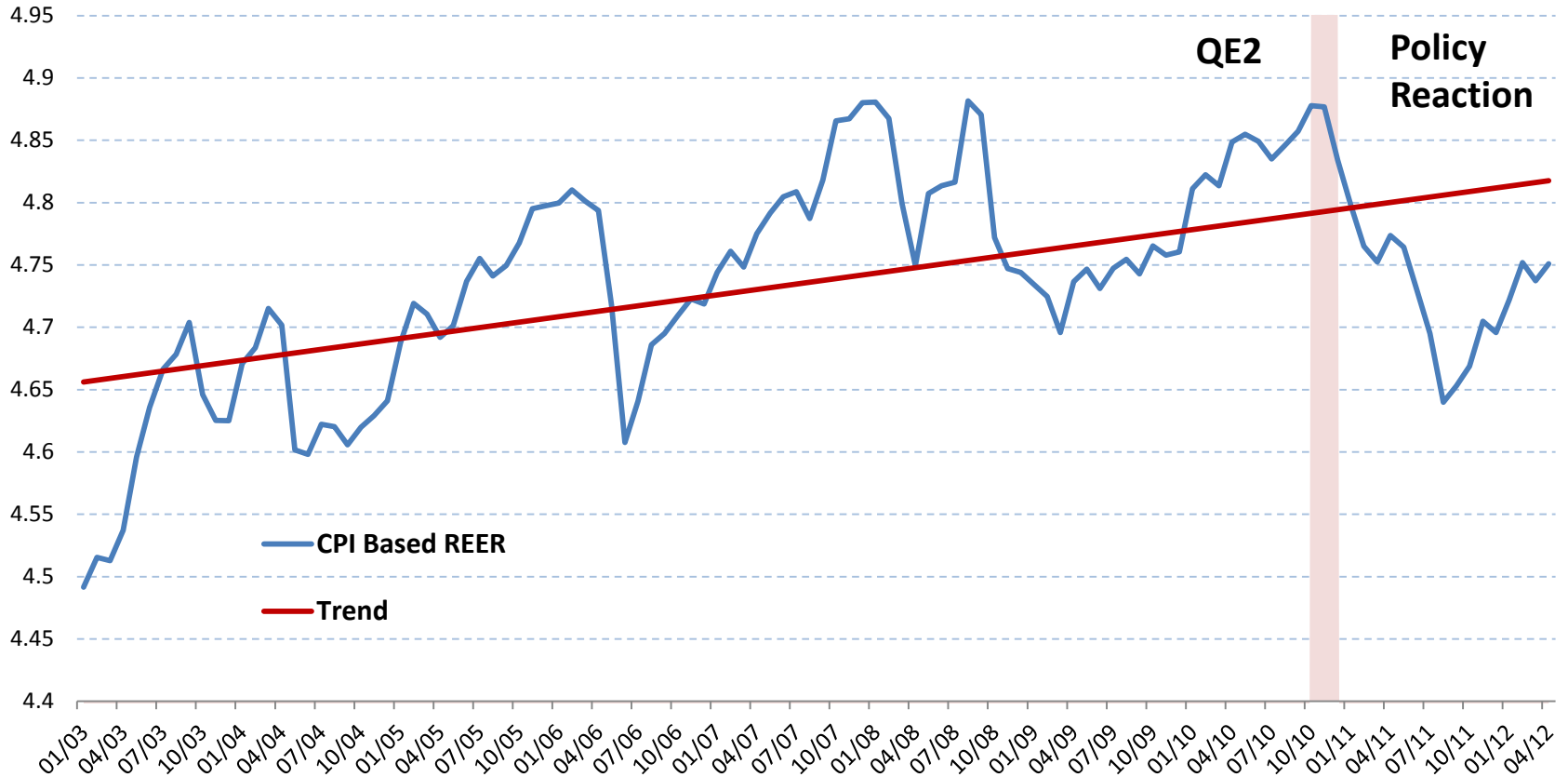


Source: Bloomberg, CBRT.

Note: Positive change means depreciation against US dollar.

Real Exchange Rates

CPI Based REER* (Base year: 2003)

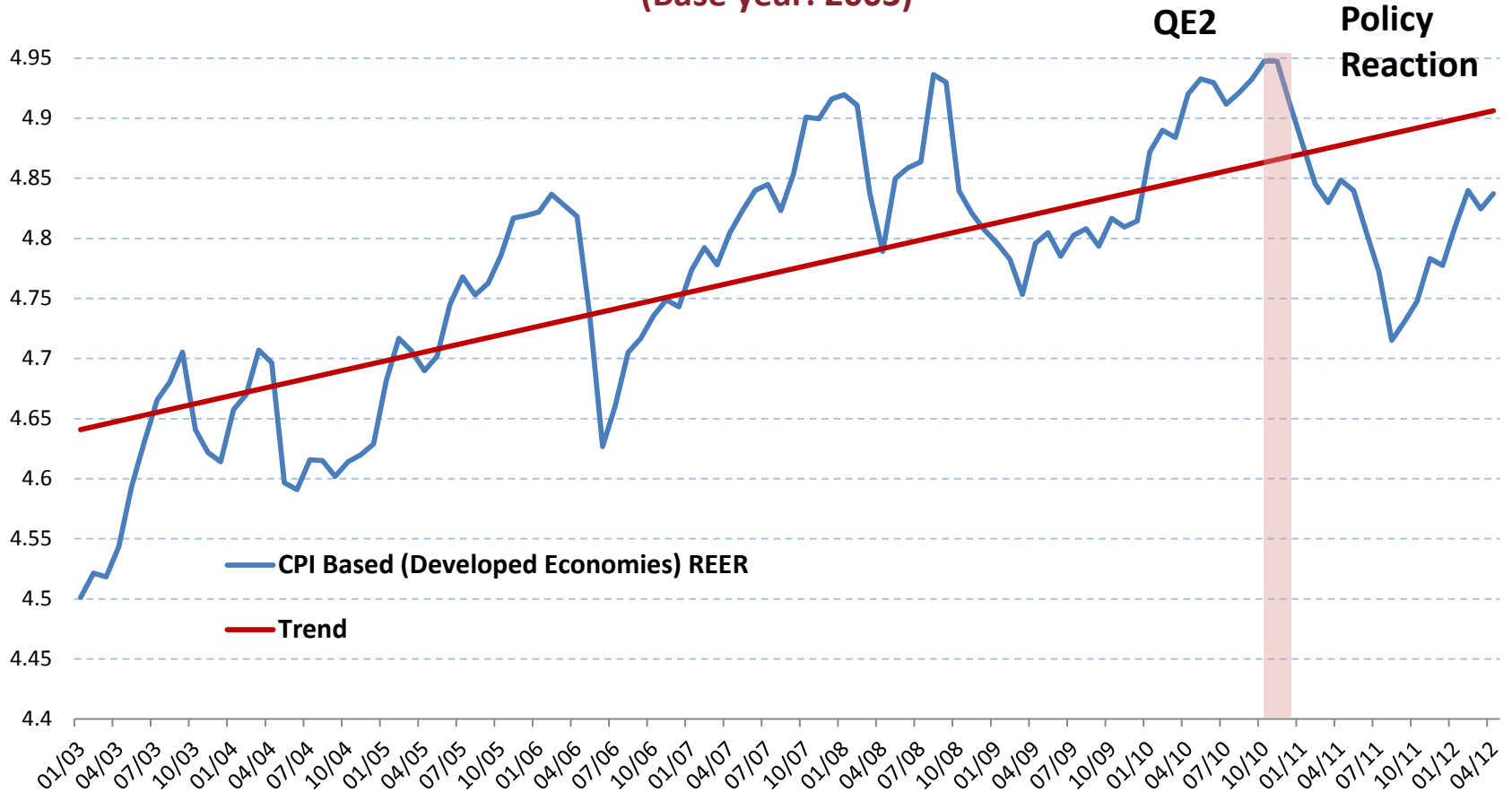


Source: CBRT.

*Real effective exchange rate, Natural logarithms.

Real Exchange Rates

CPI Based (Developed Economies) REER* (Base year: 2003)

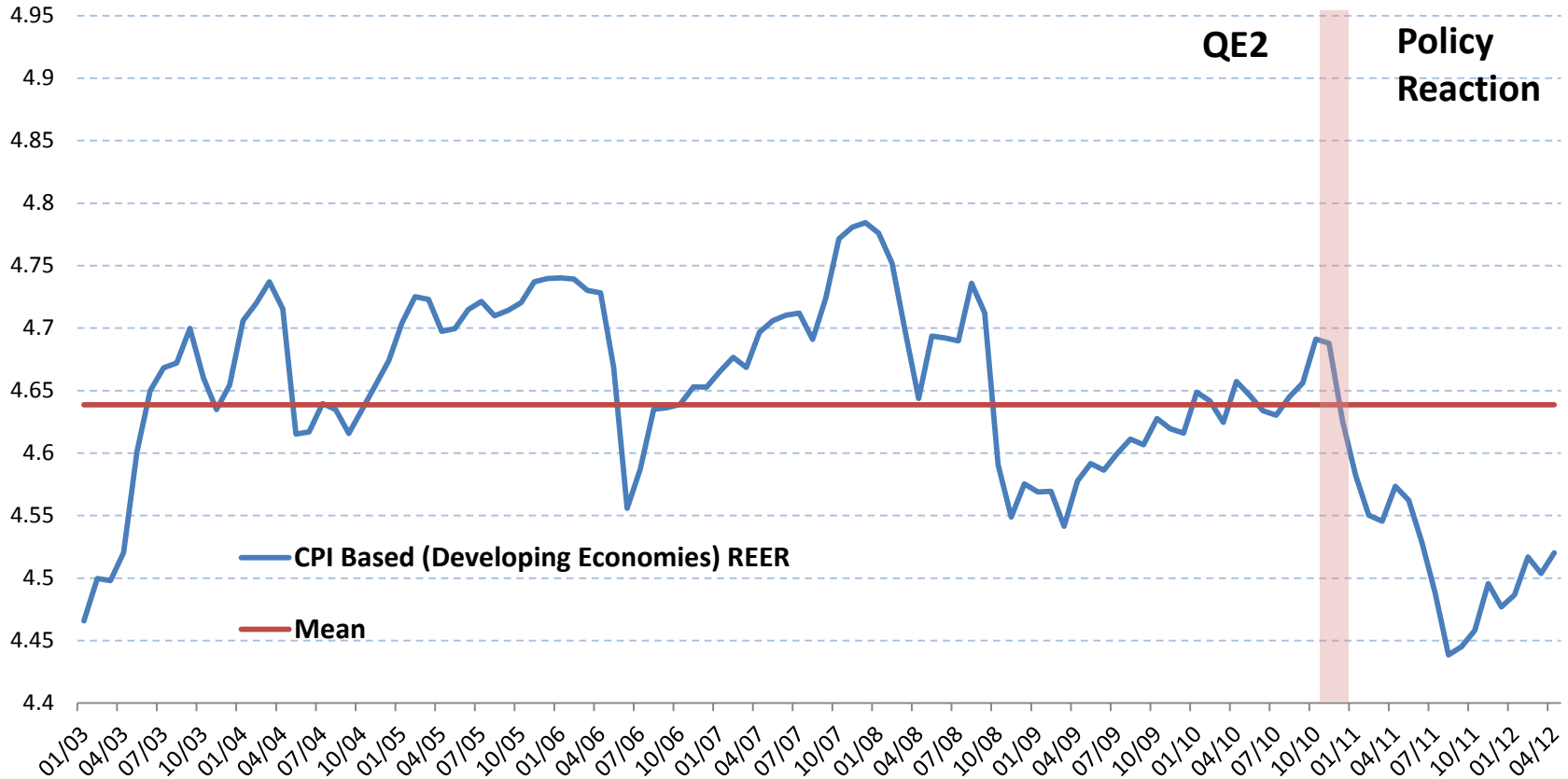


Source: CBRT.

*Real effective exchange rate, Natural logarithms.

Real Exchange Rates

CPI Based (Developing Economies) REER* (Base year: 2003)

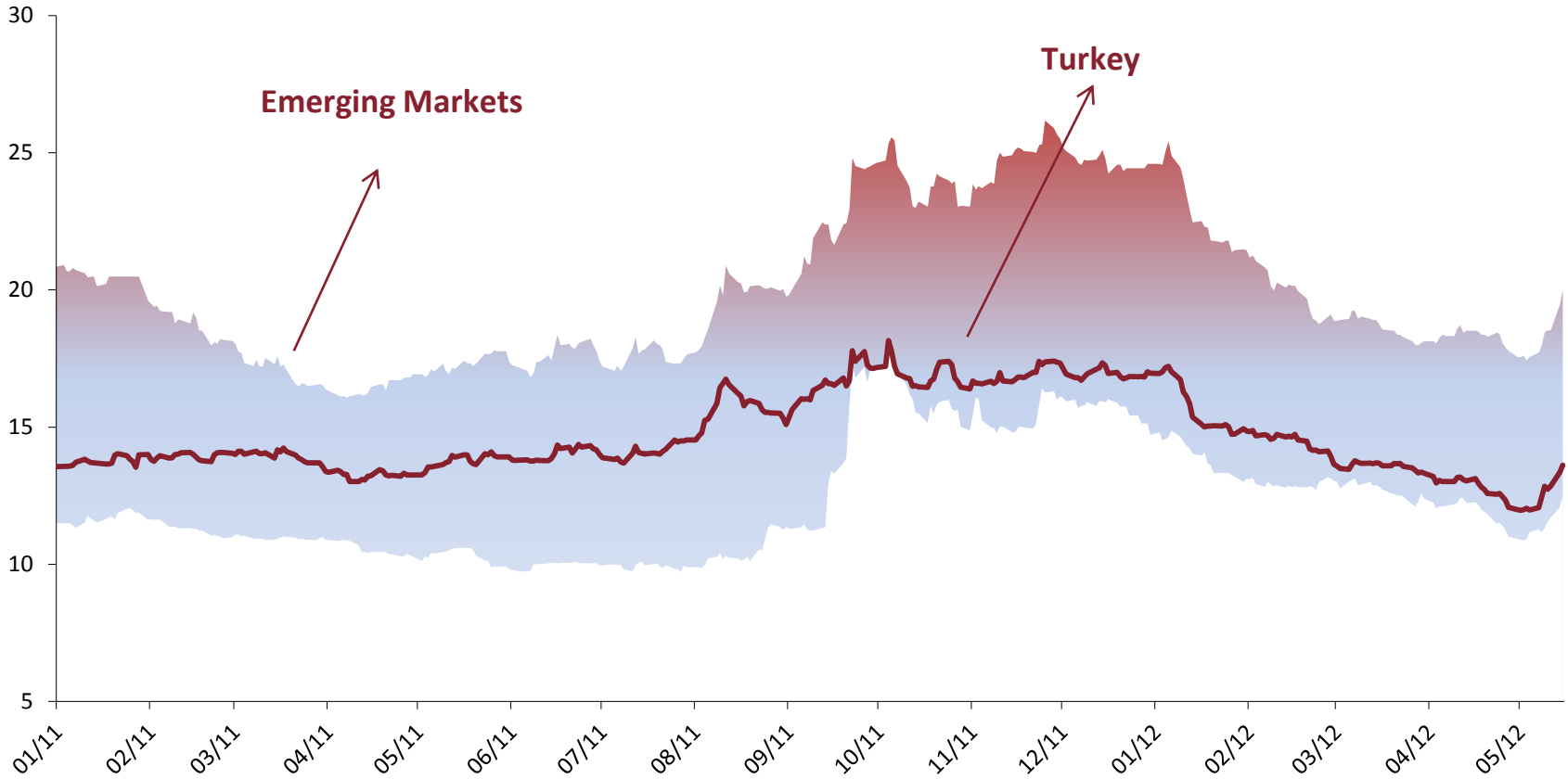


Source: CBRT.

*Reel effective exchange rate, Natural logarithms.

Exchange Rate Volatility

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



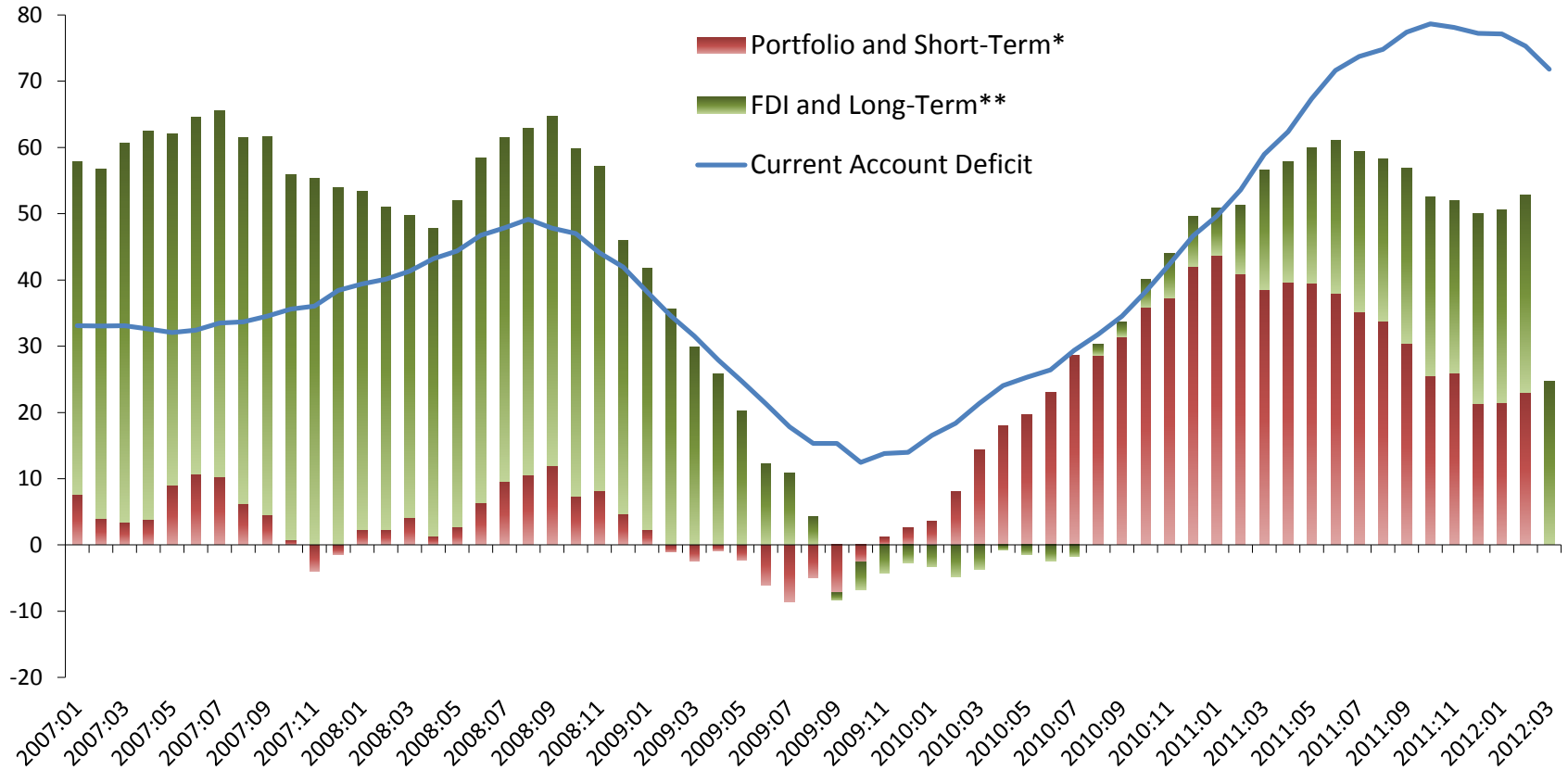
Source: Bloomberg, CBRT.

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

Latest Observations: May 15, 2012

Quality of Capital Inflows

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



Source: CBRT.

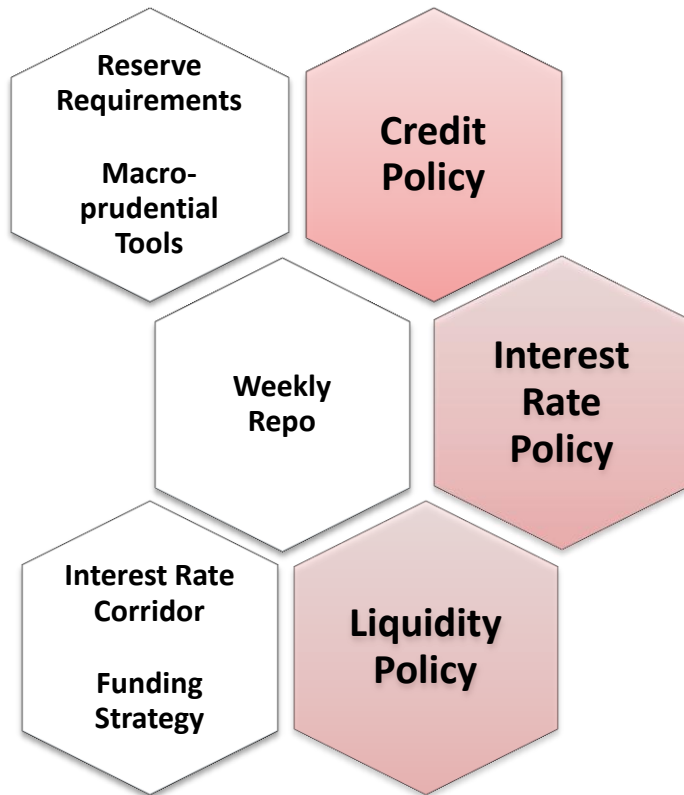
*Short-term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

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

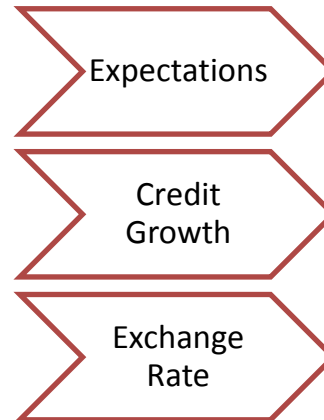
POLICY TOOLS

Multiple Instruments, Multiple Objectives

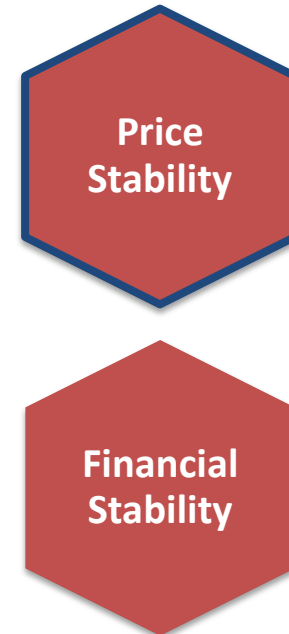
INSTRUMENTS



KEY INDICATORS



OBJECTIVES



Additional Monetary Tightening

- Strong
- Effective
- Temporary

Additional Monetary Tightening

Decision of the Monetary Policy Committee on 18 April 2012:

- The Committee will not tolerate temporary factors to have an adverse impact on the inflation outlook.
- Accordingly, it was underscored that additional monetary tightening may be implemented more frequently in the forthcoming period.

Summary

- Inflation has peaked in April and it will fall significantly in May. The fall will resume and accelerate in the last months of the year.
- 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.
- Increased lending facilities provided to exporters will support the growth of exports and strengthen our foreign exchange reserves.
- The monetary policy will maintain its firm stance on its focus on price stability.



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