



TÜRKİYE CUMHURİYET  
MERKEZ BANKASI

# ECONOMIC OUTLOOK AND MONETARY POLICY

Murat Çetinkaya  
Governor

2016 Annual Meeting of the IMF and the World Bank Group

October 2016

**Washington D.C.**

# Overview

- While domestic demand has slowed down recently, leading indicators suggest that economic activity will recover starting from the final quarter.
- External balance continues to improve.
- Core inflation displayed a downward trend throughout 2016.
- The CBRT maintains a cautious stance to ensure the sustainability of the disinflation process.
- Simplification of monetary policy framework contributes to the effectiveness of monetary policy.
- Implementation of the structural reforms would contribute to the potential growth.

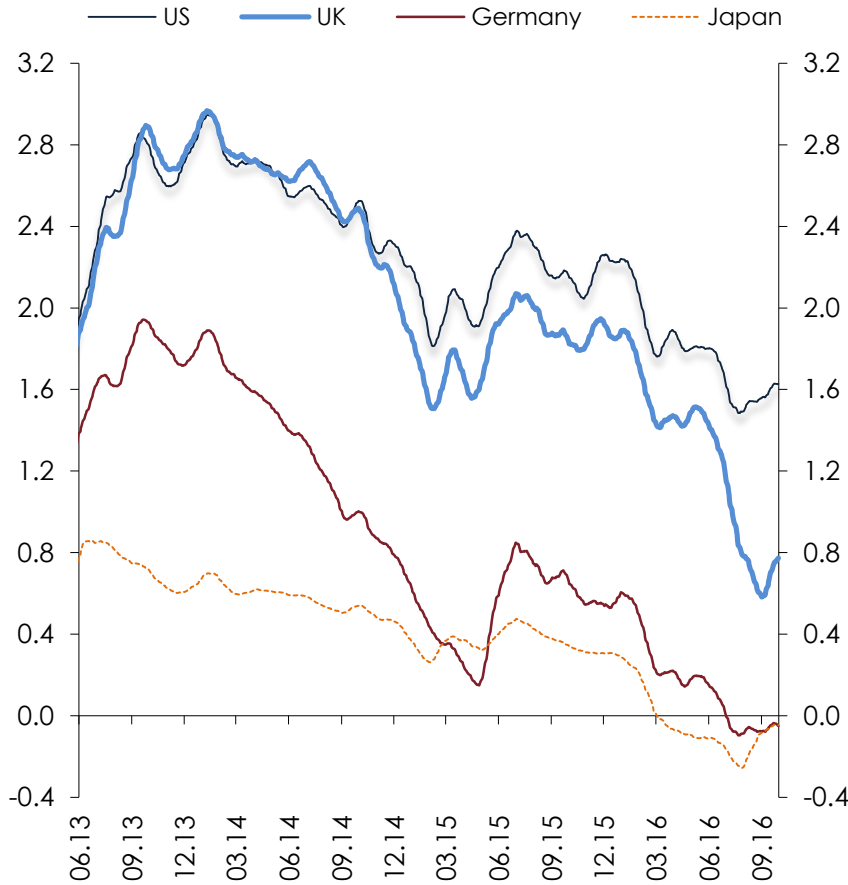
# Outline

- I. Economic Activity and External Balance
- II. Inflation
- III. Monetary and Financial Conditions

# ECONOMIC ACTIVITY AND EXTERNAL BALANCE

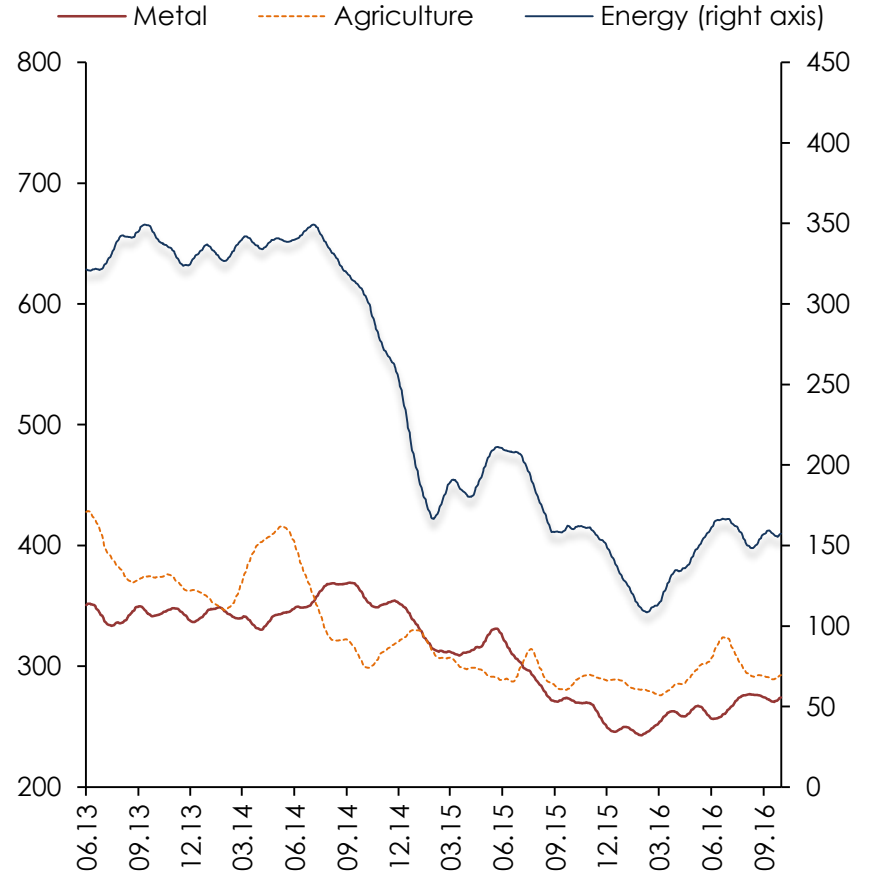
# Low global rates and low commodity prices are supportive for both external balances and inflation outlook in Turkey.

## Treasury Bond Rates in Advanced Economies (10-Year Maturity, %)



Source: Bloomberg.

## S&P-GS Commodity Price Indices



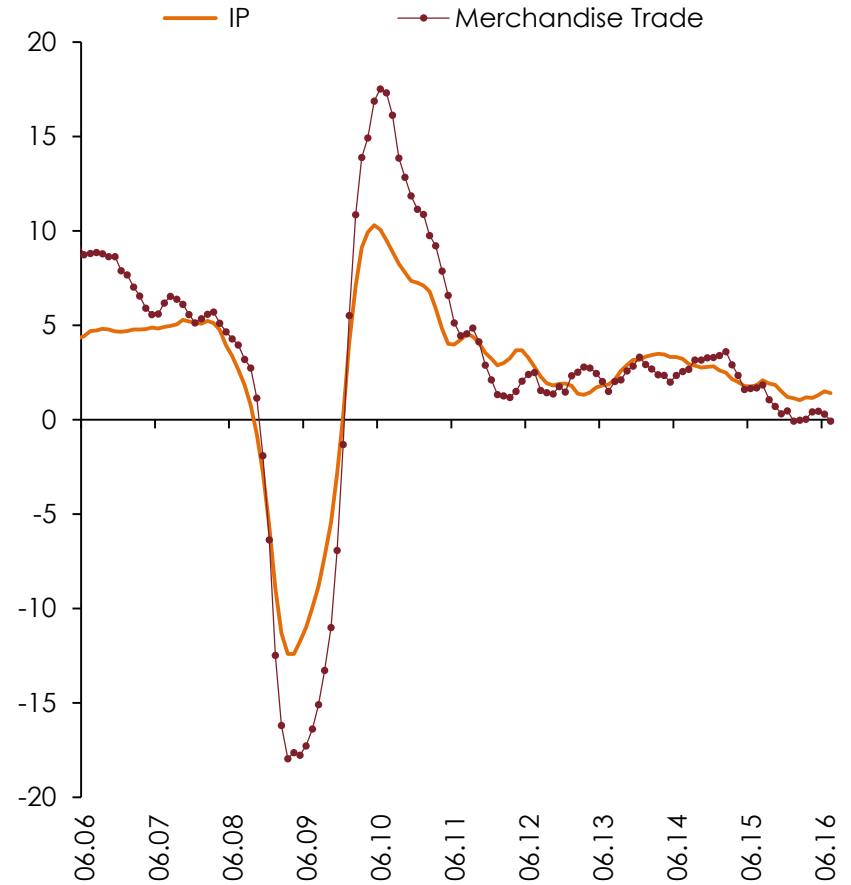
Last Observation: September 2016

# However, weaker global demand restrains economic activity.

Global GDP Growth Rate  
(% Change, Annual)



Global Trade Volume and Industrial Production  
(3-month MA, YoY % Change)

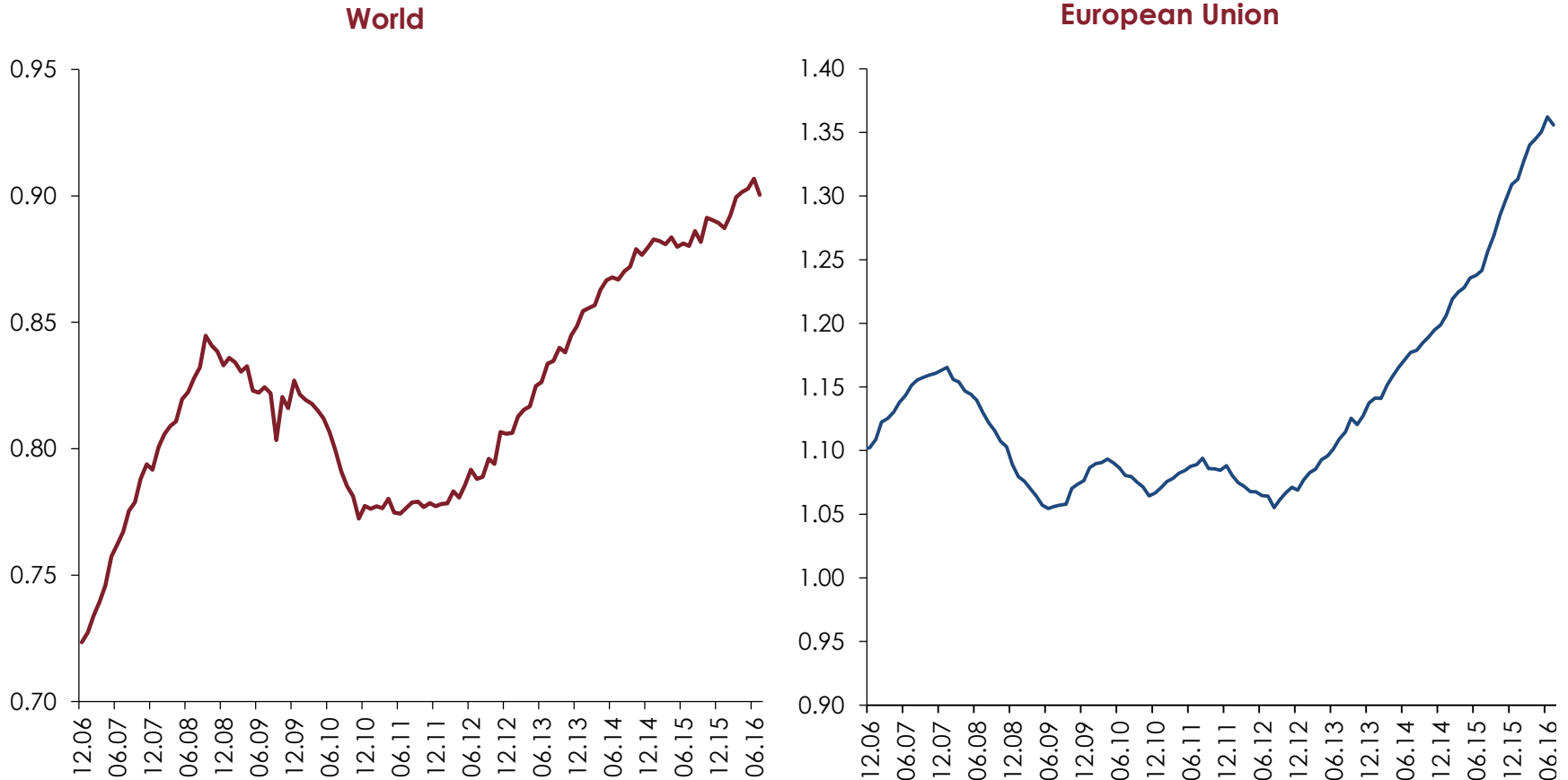


Source: Bloomberg, CBRT.

Last Observation: 2016Q2 for GDP, July 2016 for IP and MT  
Source: Netherlands Bureau for Economic Policy Analysis (CPB).

# Market share of Turkish exports has continued to rise, despite the geopolitical risks.

## Market Share of Turkish Exports (12 Month Cumulative, %)

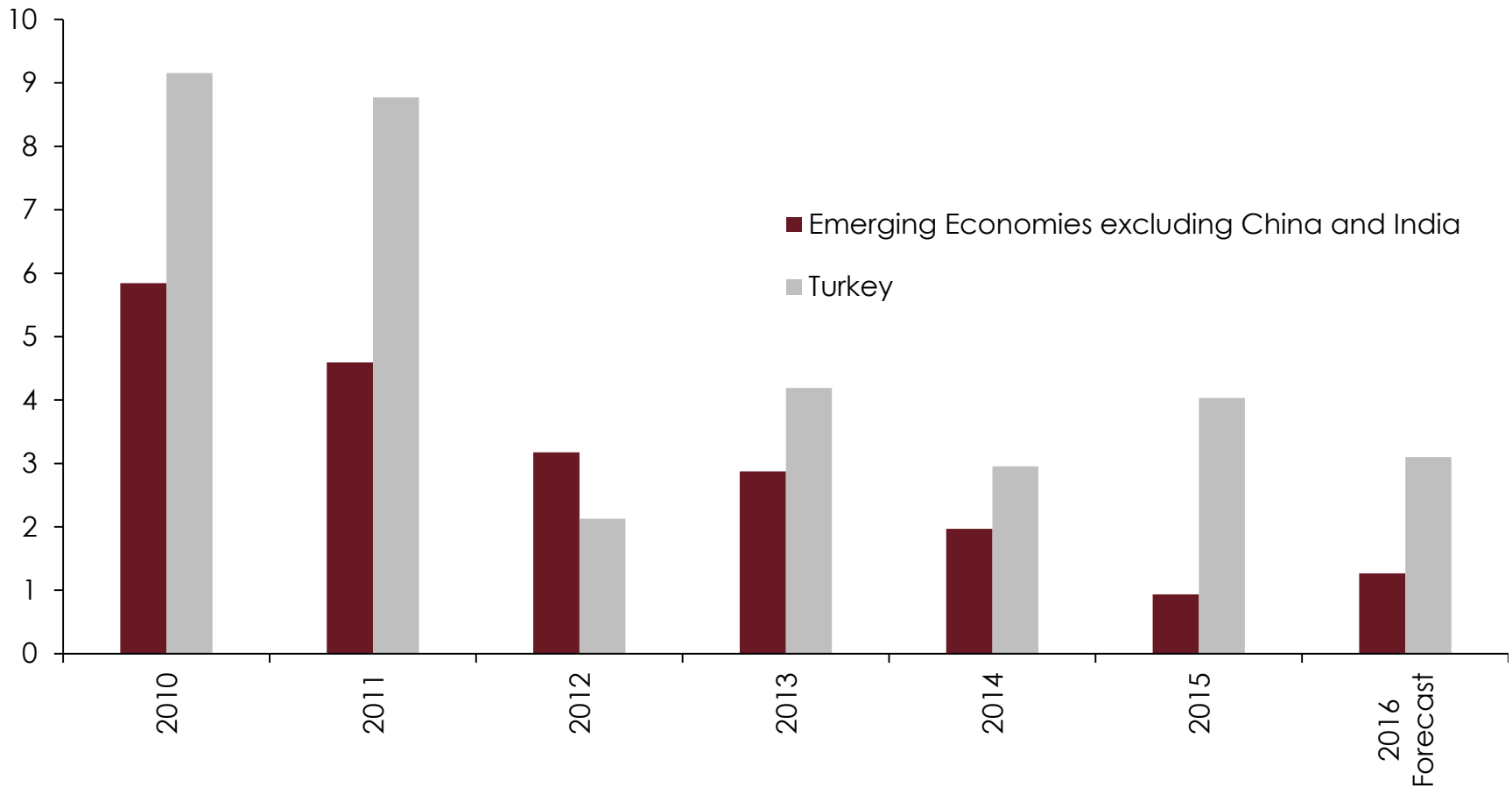


Source: IMF-Direction of Trade Statistics, WTO and TURKSTAT.

Last Observation: July 2016

# The growth rate in Turkey has outperformed emerging economies in recent years.

Growth Rates in Turkey and Emerging Economies  
(% Change, Annual)



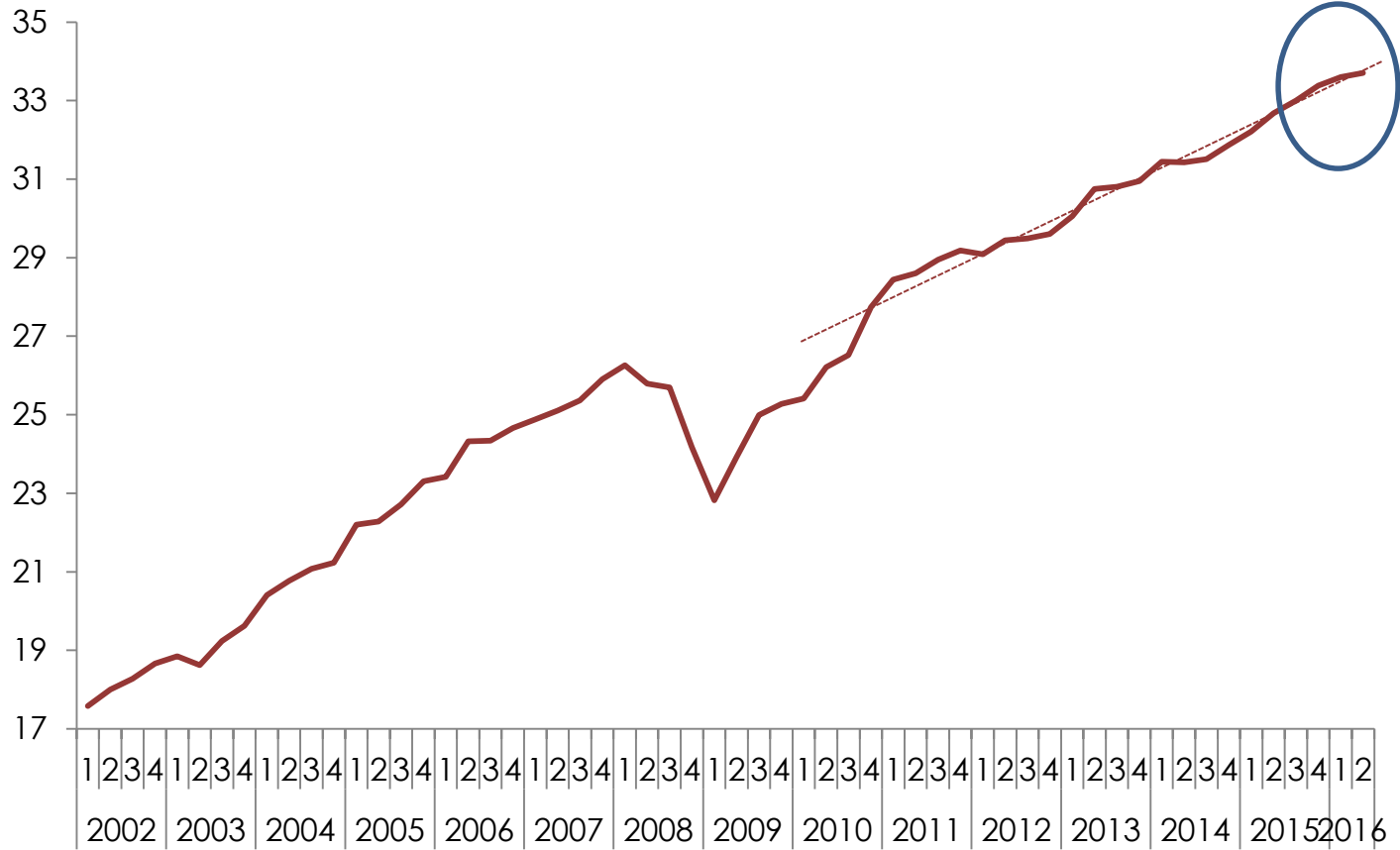
Source: Bloomberg, Consensus Forecasts, CBRT.

Last Observation: September 2016



# Economic activity has recently moderated.

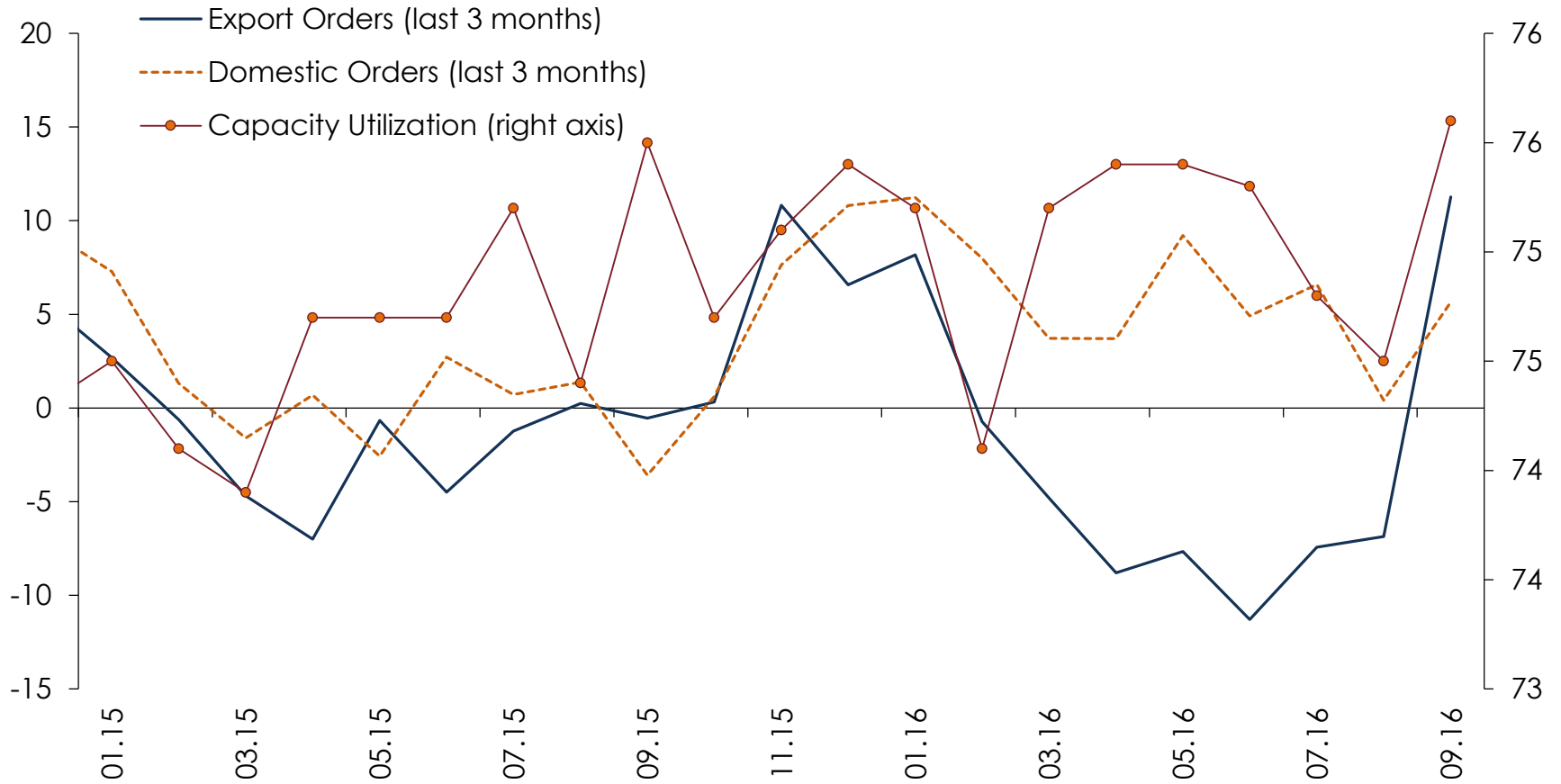
Gross Domestic Product  
(Seasonally adjusted, Constant prices, Billion TL)



Source: Turkstat.

# Recent data indicate a recovery in economic activity.

## Orders and Capacity Utilization (%)

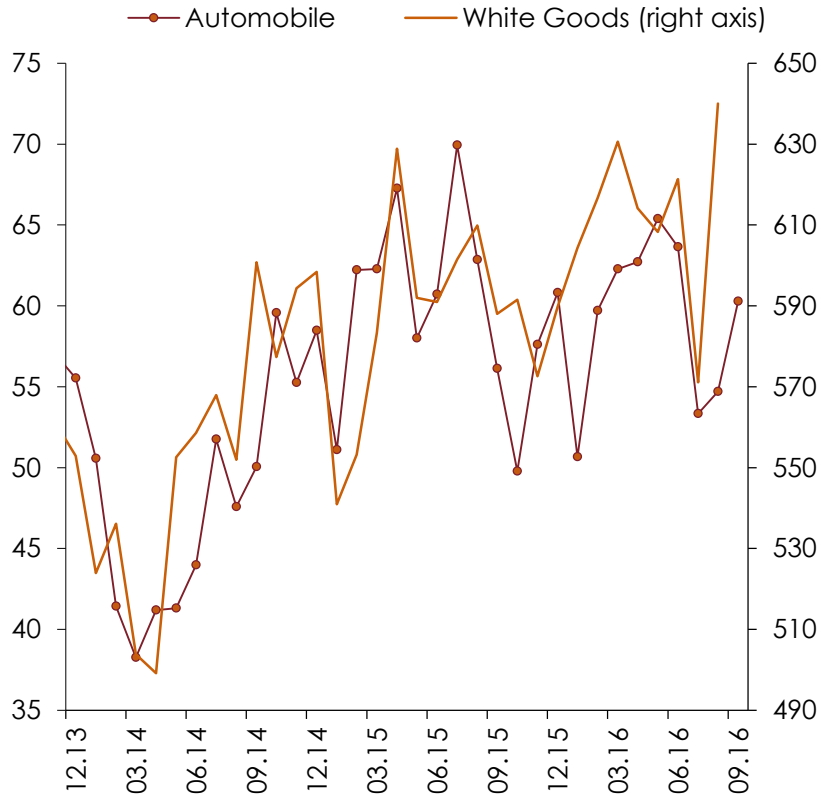


Source: CBRT.

Last Observation: September 2016

# Recent data indicate a recovery in economic activity.

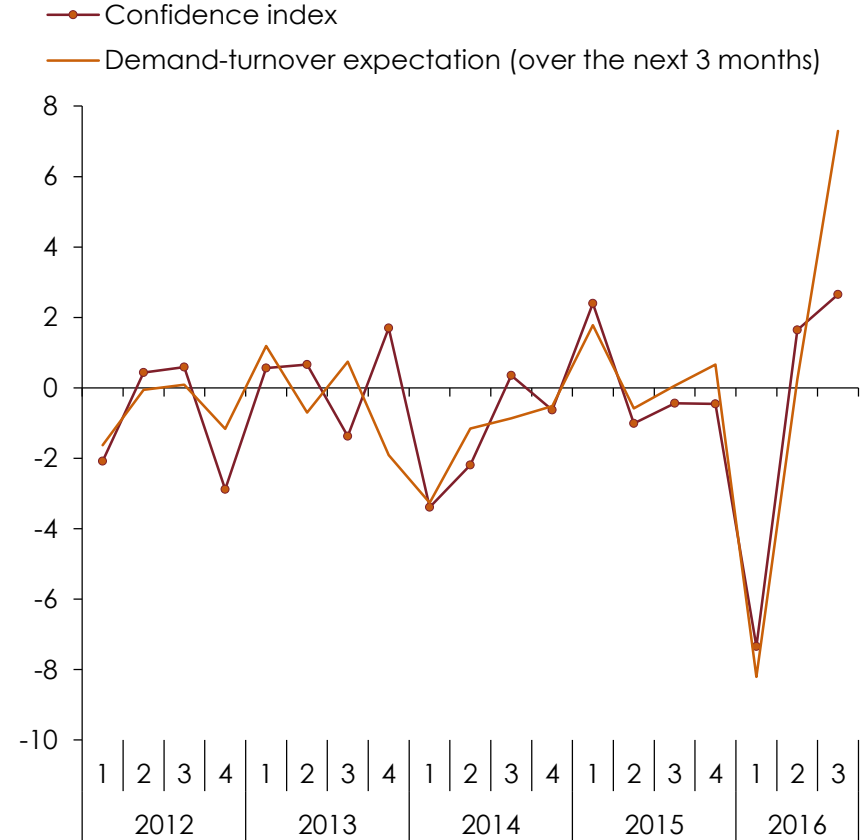
**Domestic Sales of Durables  
(Thousand)**



Last Observation: August 2016 for White Goods  
September 2016 for Automobile

Source: TURKBESD, OSD.

**Confidence and Expectations in  
Services Sector (Q-o-Q)**



Source: TURKSTAT, CBRT

Last Observation: September 2016

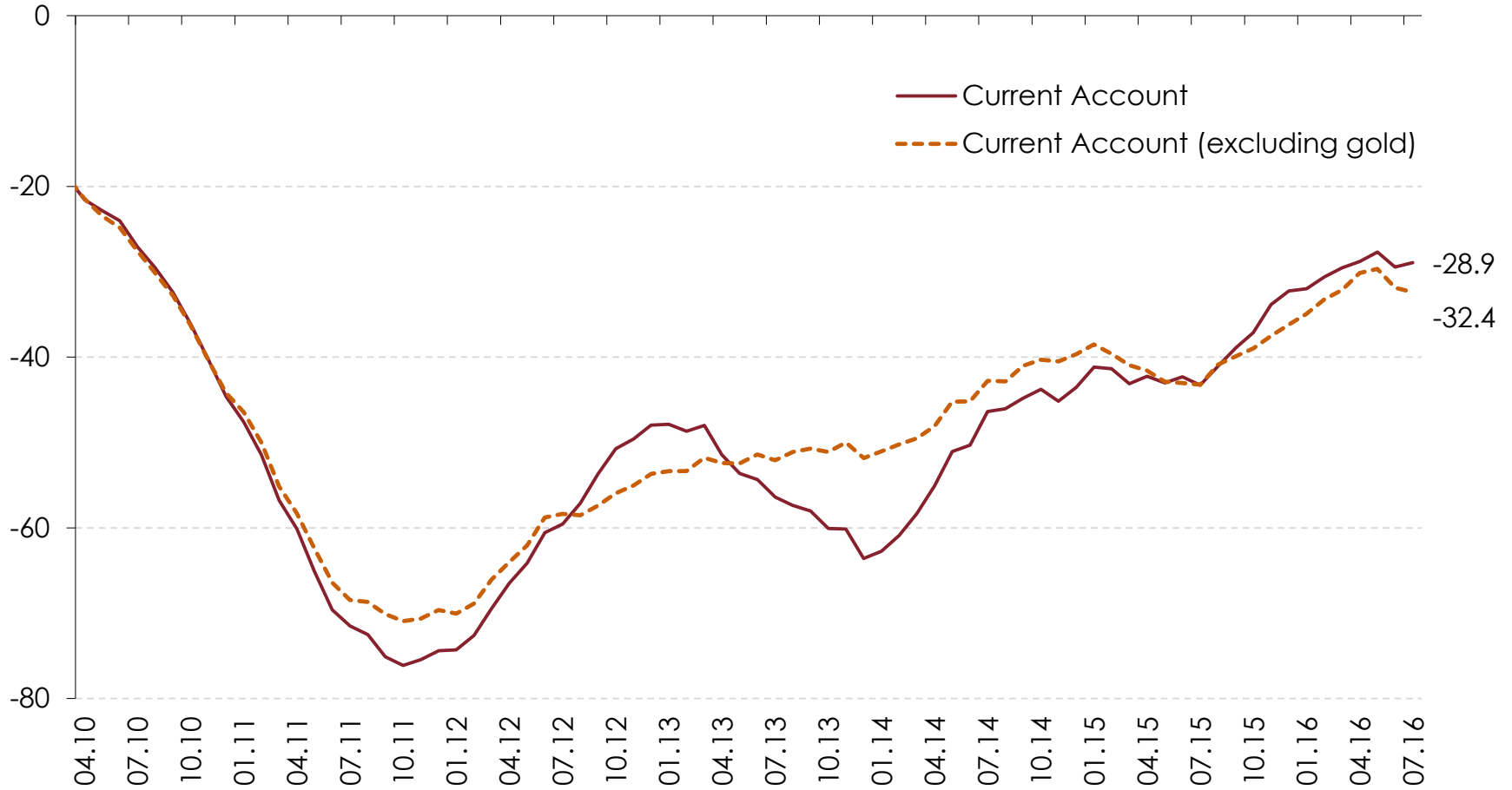
# Structural reforms will be the key drivers of balanced growth.

Key reform areas:

- Human capital and labor markets
- R&D, technology, and innovation
- Productivity and competition
- Domestic savings
- Physical infrastructure

# Current account balance continues to improve.

(12 month cumulative, Billion USD)

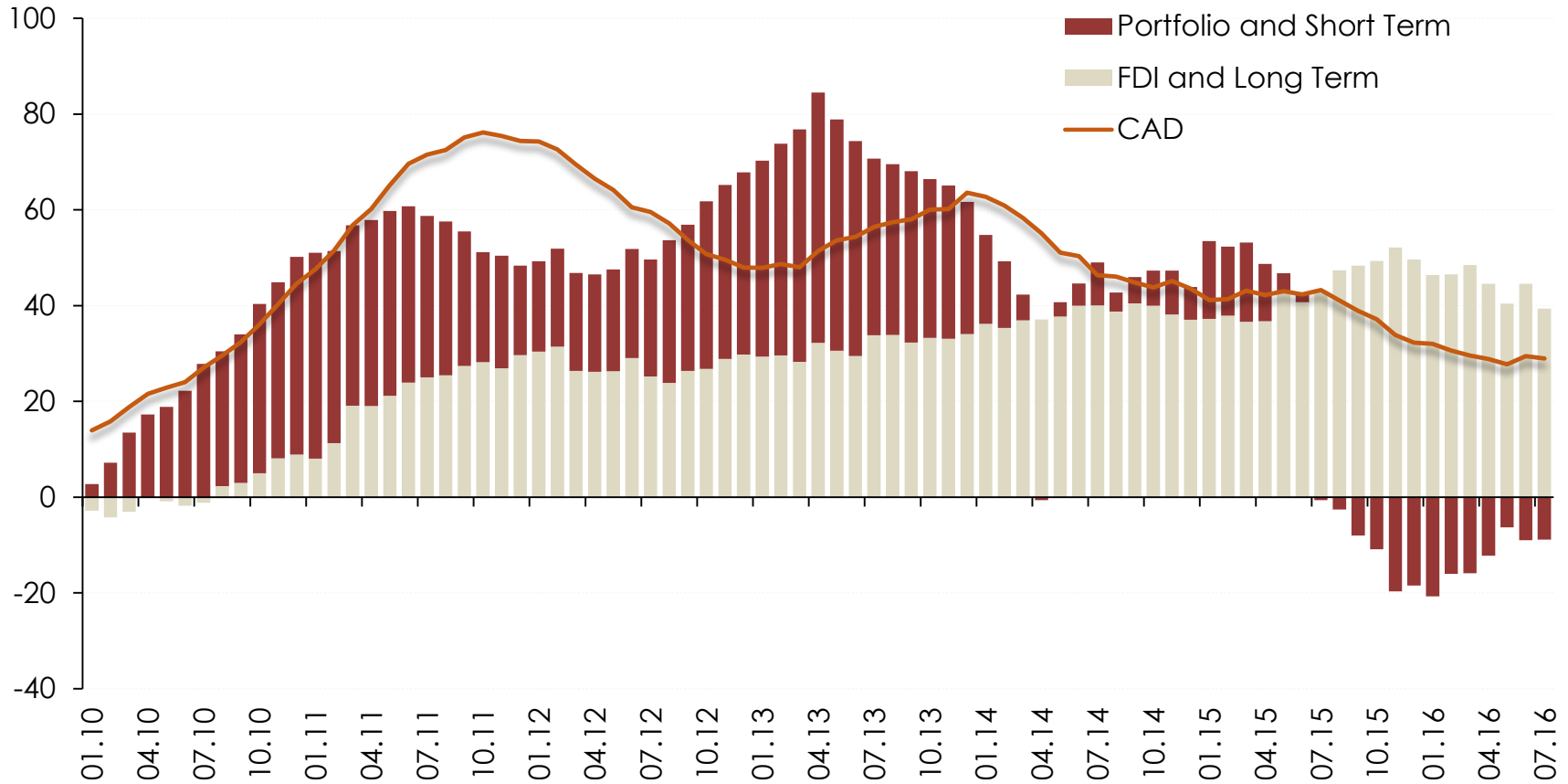


Source: CBRT.

Last Observation: July 2016

# Current account deficit is financed through long term borrowing and FDI flows.

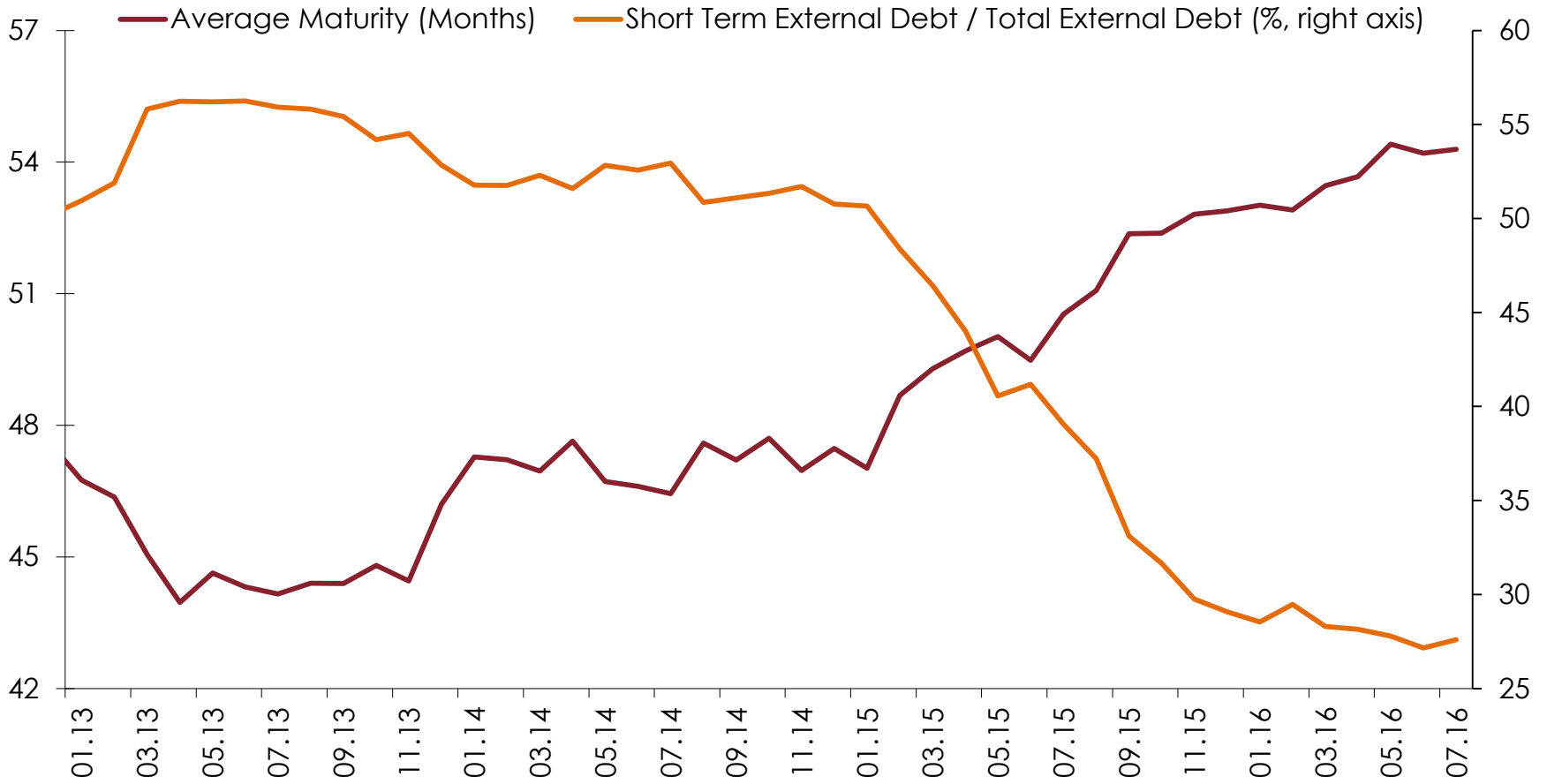
(12 month cumulative, Billion USD)



Source: CBRT.

Last Observation: July 2016

# Maturity of banks' external liabilities has increased considerably.

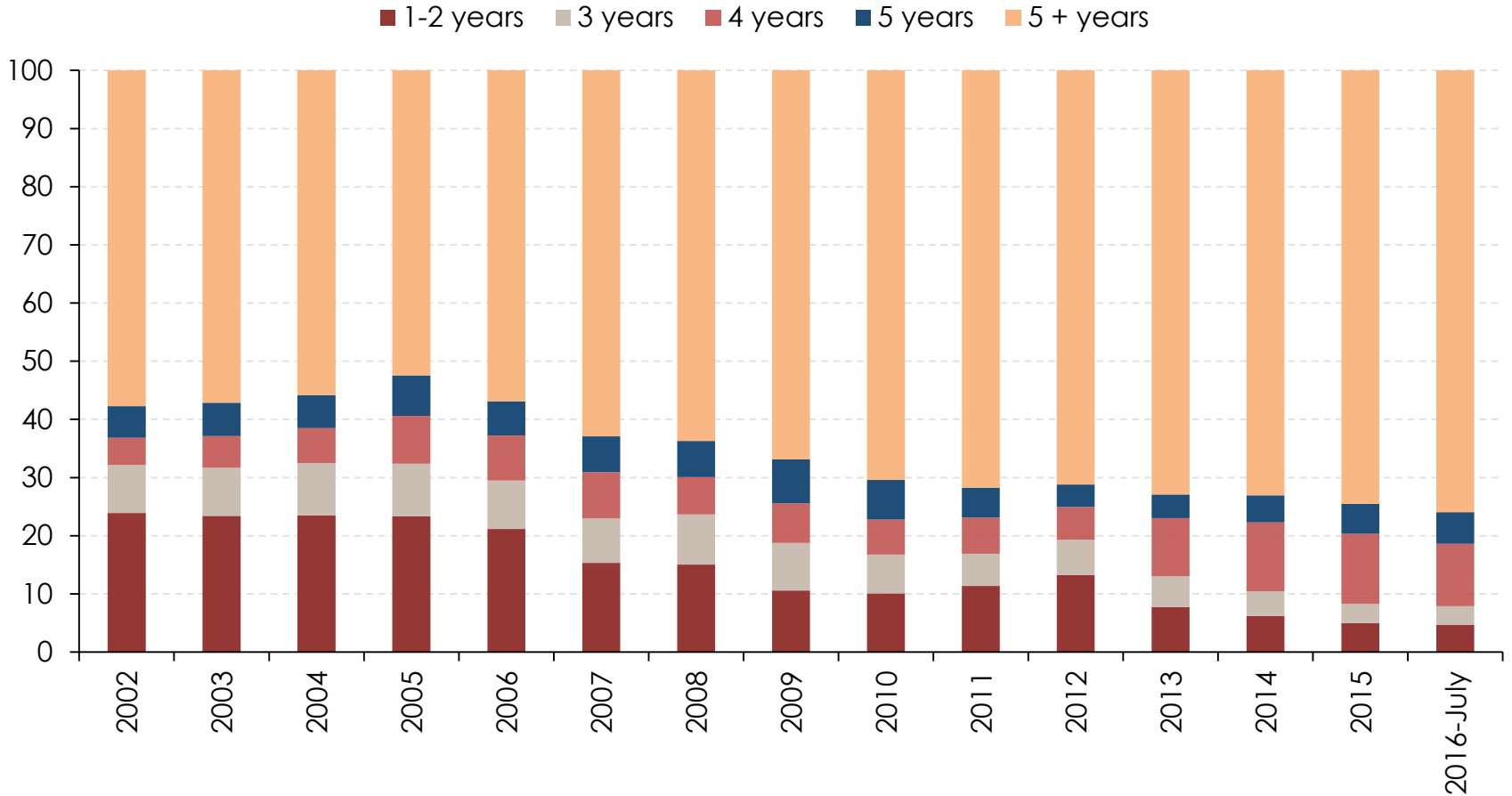


Source: Capital Markets Board of Turkey, Public Disclosure Platform, CBRT.

Last Observation: July 2016

# Maturity of external debt for non-financial companies has been lengthening.

## Maturity Composition of NFC External Debt (%)



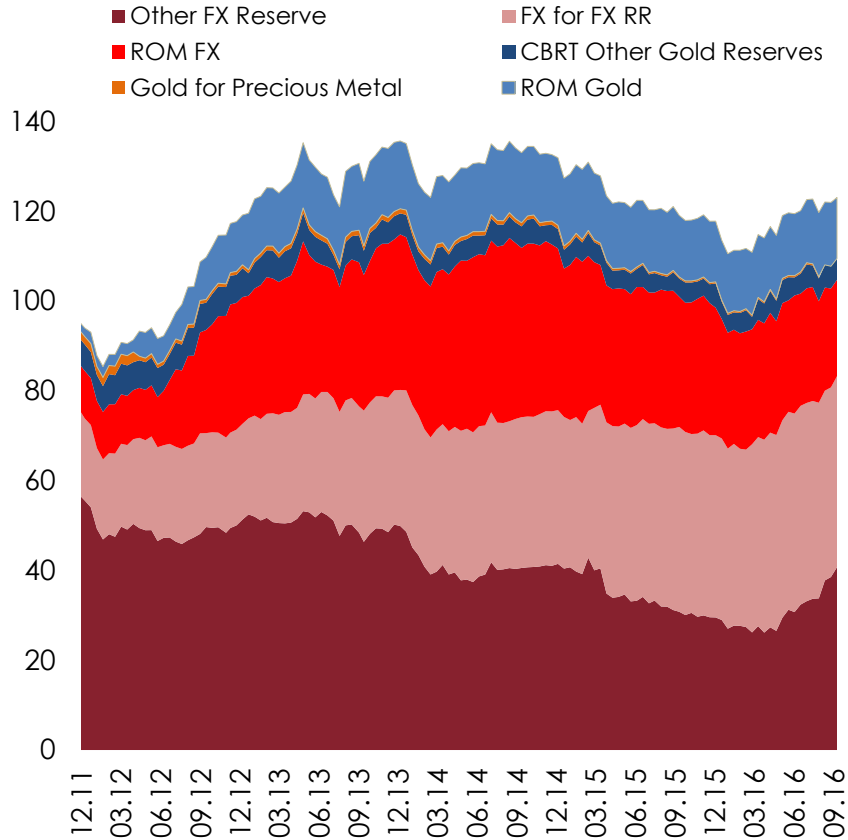
Source: CBRT.

Last Observation: July 2016



# CBRT reserves have been increasing steadily in recent months.

## Components of CBRT Reserves (Billion USD)



Source: CBRT.

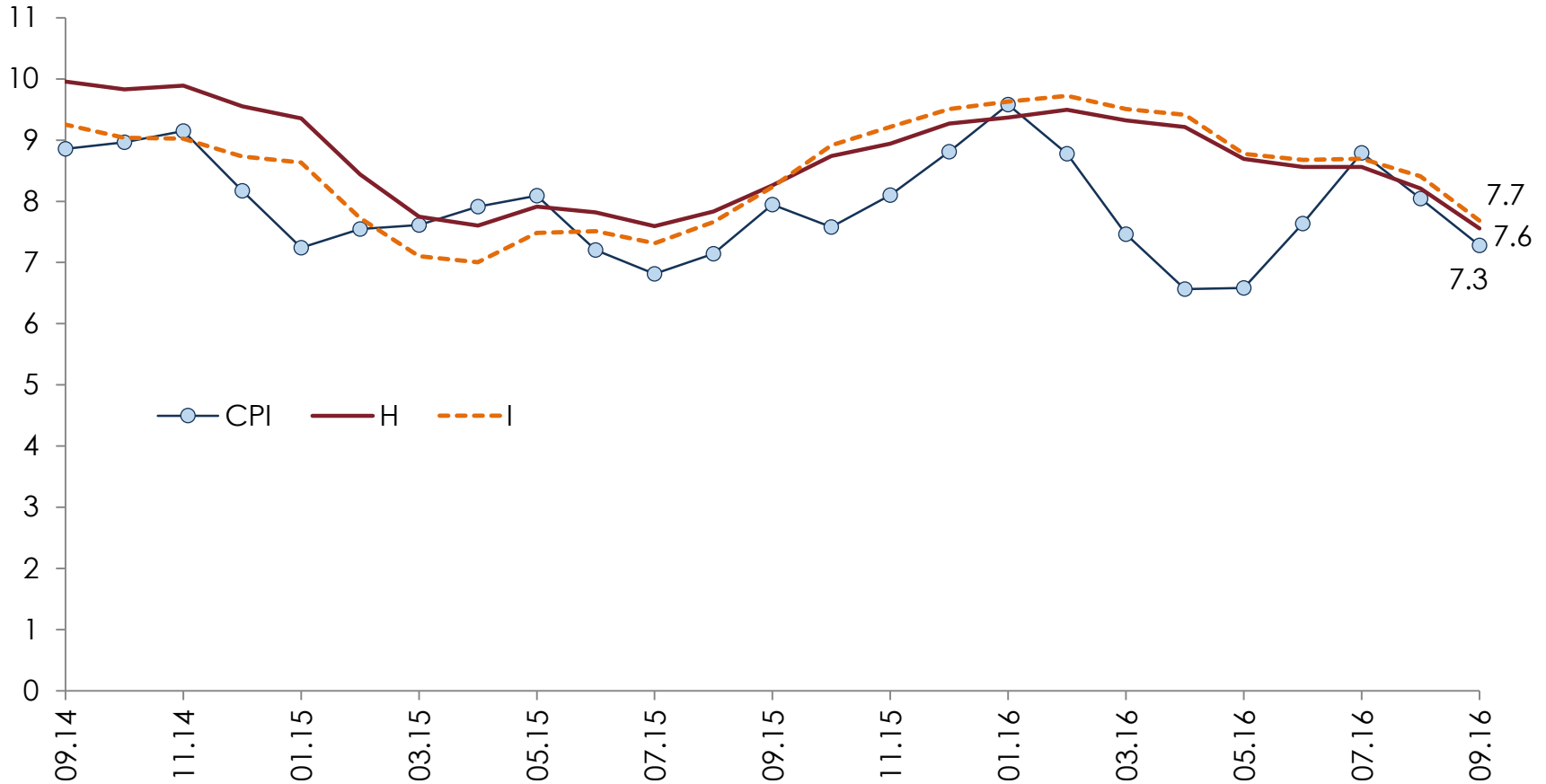
Last Observation: September 23, 2016

	Rediscount Credits	Reserves
2015	15.18	113
2016	10.95	122
January	1.08	111
February	1.1	111
March	1.13	114
April	1.03	116
May	1.37	118
June	1.4	120
July	1.35	120
August	1.02	122
September	1.44	122

# INFLATION

# Core inflation has continued to improve throughout 2016, while CPI remains volatile.

## CPI and Core Indicators (Annual % Change)



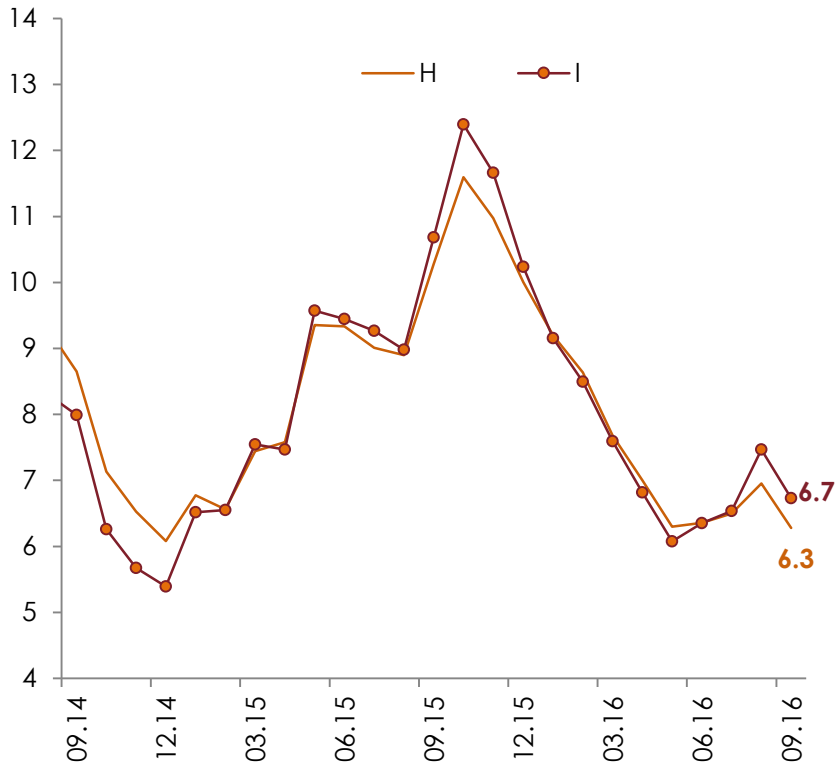
Source: TURKSTAT.

Last Observation: September 2016

# Underlying trend of core inflation has slowed down.

## Seasonally Adjusted H and I

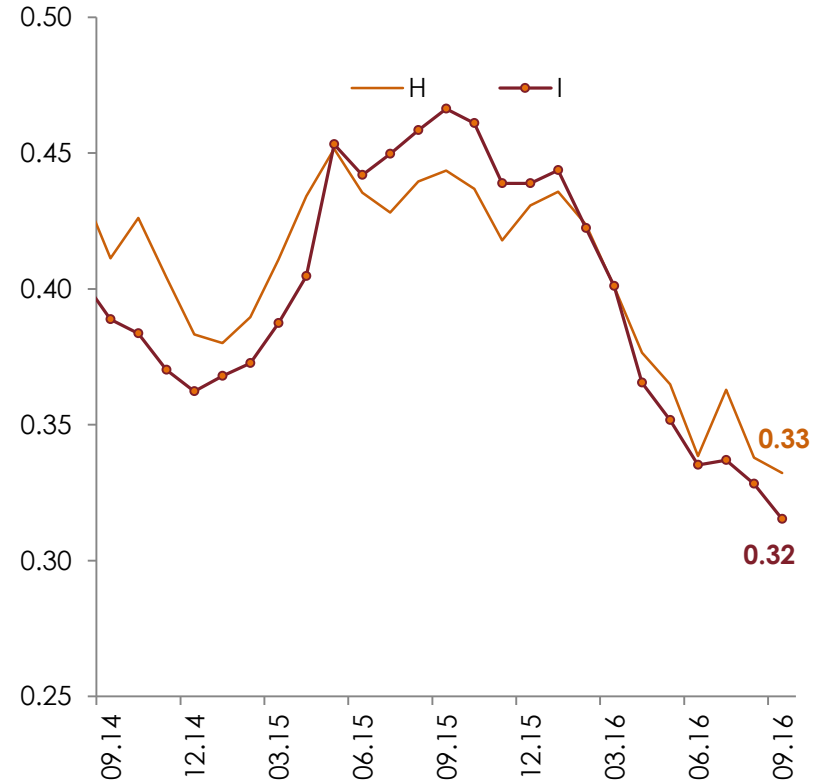
(Annualized 3-Month-Average % Change)



Source: TURKSTAT, CBRT.

## Diffusion Indices\*

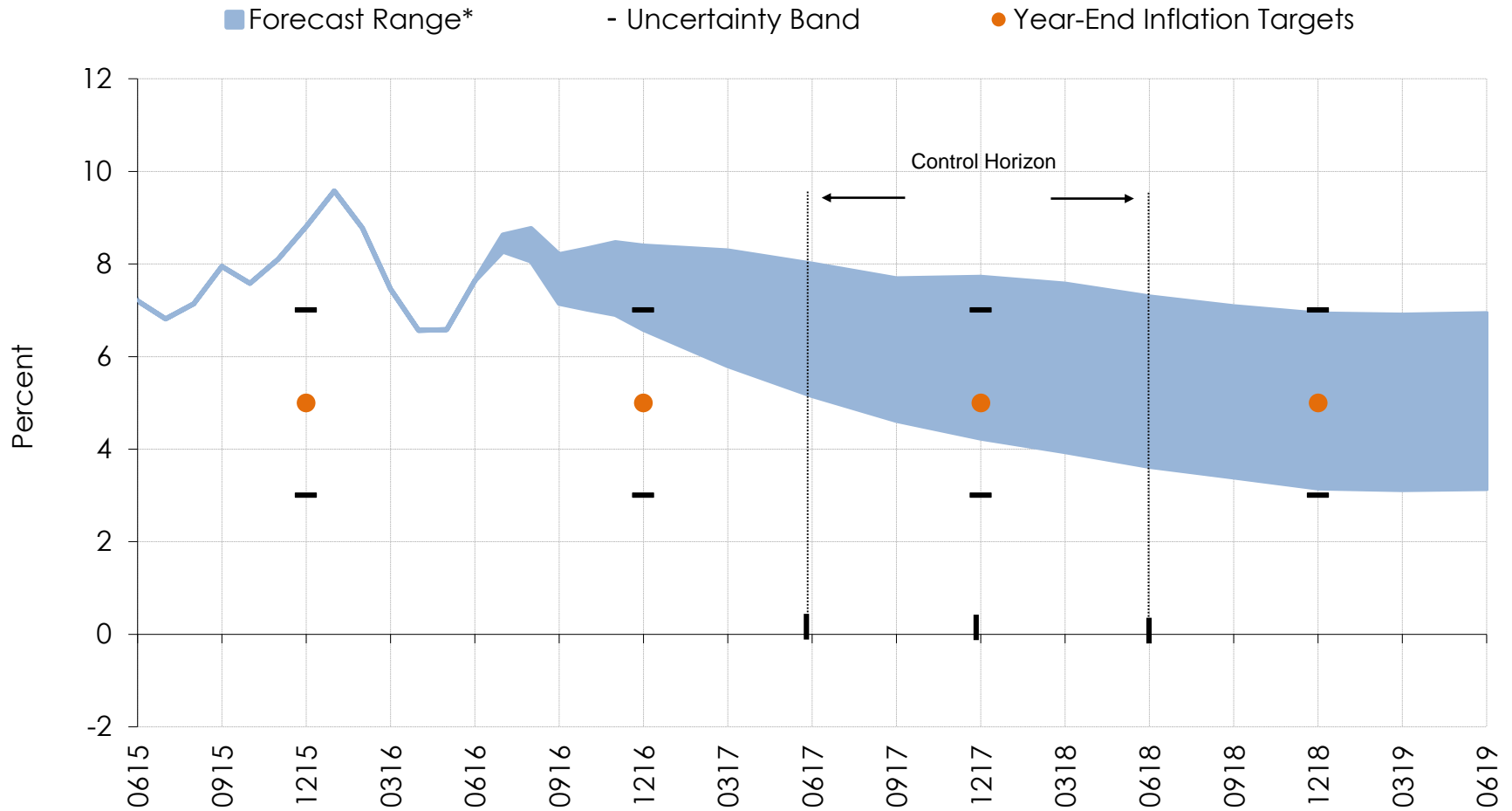
(Seasonally Adjusted 3-Month-Average)



\*Calculated as the difference between share of items whose prices increased and those decreased.

Last Observation: September 2016

# Disinflation process is expected to continue.



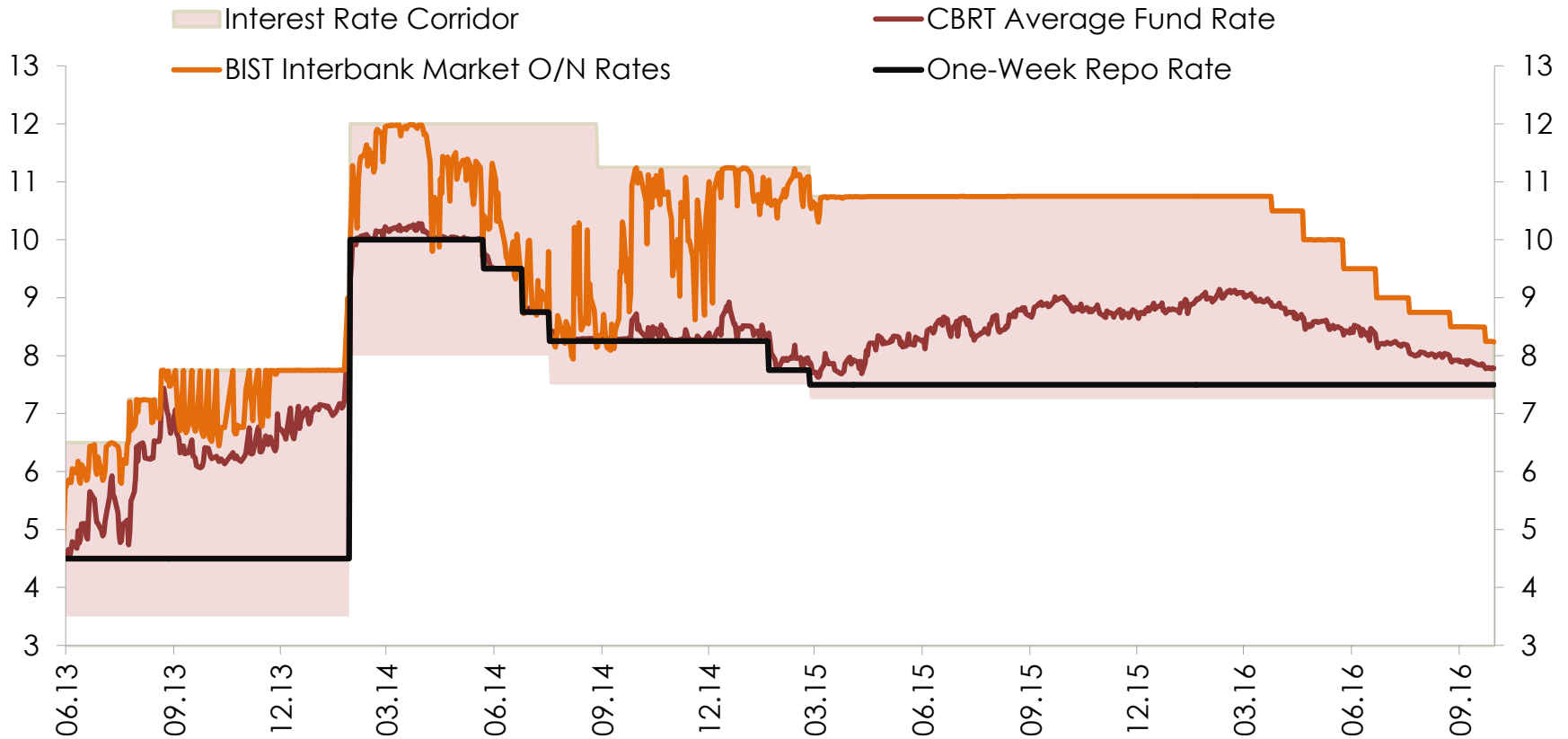
\* Shaded area denotes the 70 percent confidence interval for the forecast.

Source: CBRT.

# MONETARY AND FINANCIAL CONDITIONS

# The simplification process is expected to increase the effectiveness of monetary policy.

## Interest Rates (%)



Source: CBRT.

Last Observation September 30, 2016

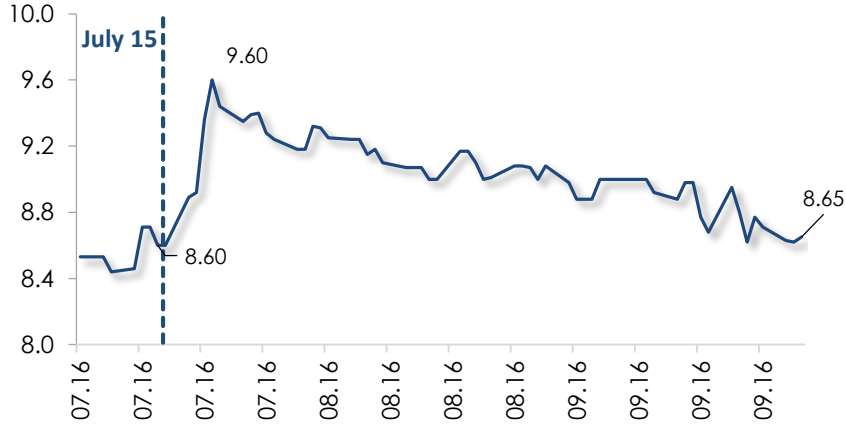
## CBRT announced a series of additional measures to support financial markets in July.

- Provision of TL liquidity without limits
- Provision of intraday liquidity free of commission
- Acceptance of FX deposits without limits as collateral for TL liquidity
- Further easing of collateral conditions
- Reduction in reserve requirement ratios

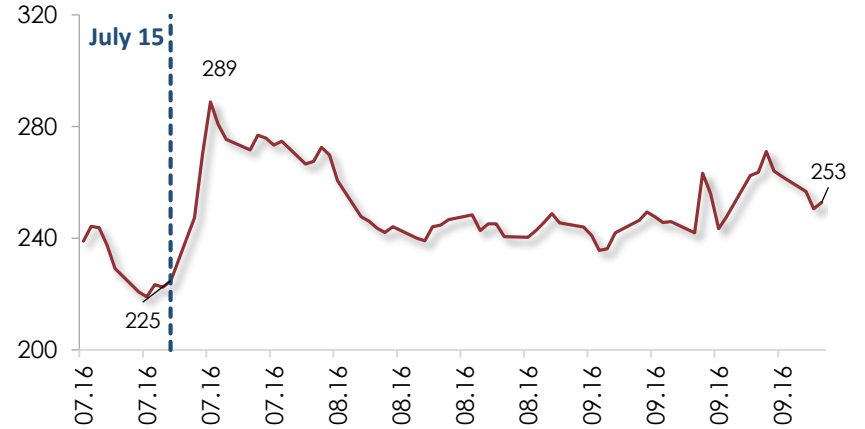


# Financial market indicators have been stabilizing.

**Turkey 2Y Government Bond Yield (%)**



**Turkey 5Y CDS (Basis Point)**



**\$/TL Exchange Rate**



**BIST 100 Index**

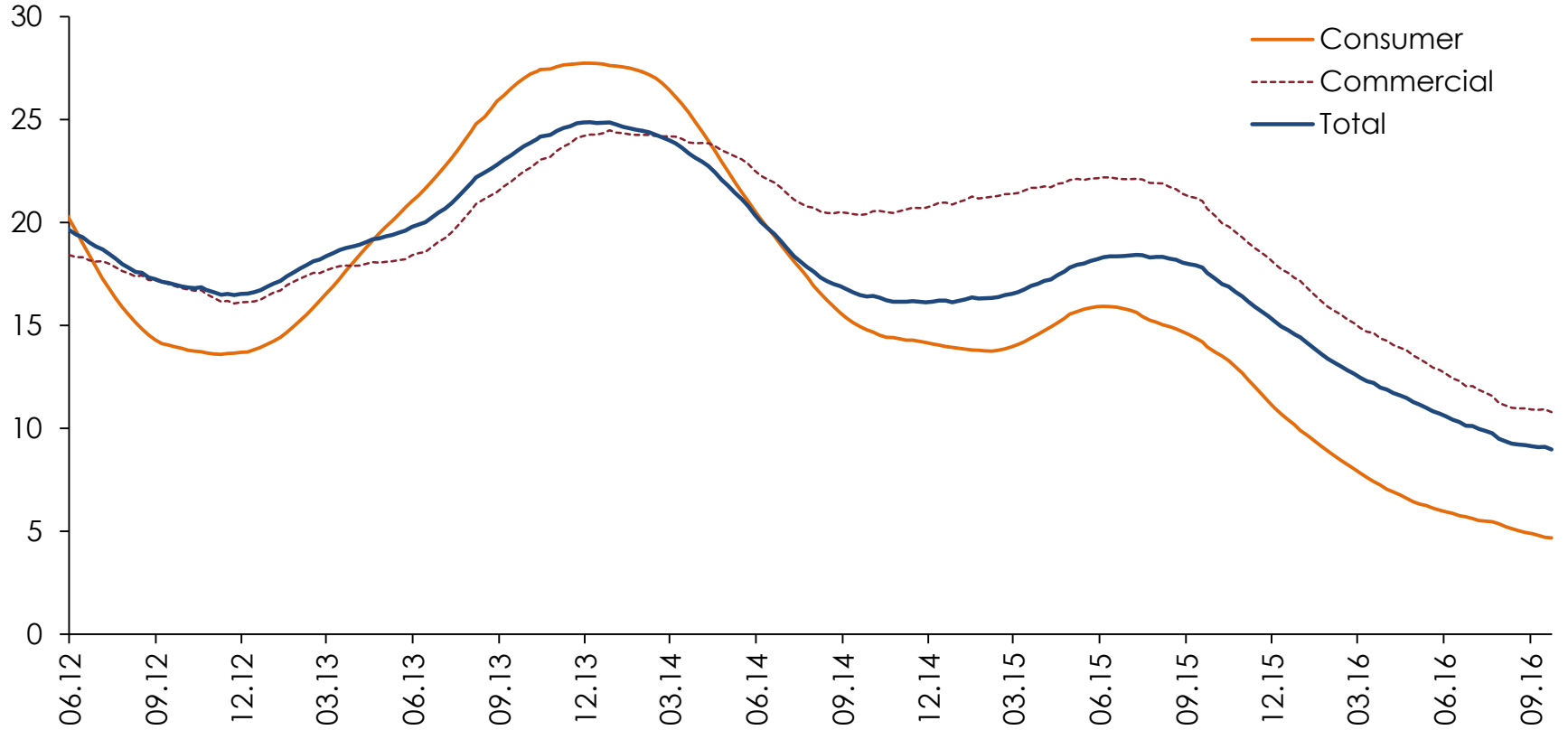


Source: Bloomberg.

Last Observation: October 6, 2016

# Loan growth has decelerated, reflecting the developments in financial conditions.

Loan Growth Rates\*  
(Annual % Change, 13 Week Moving Average)



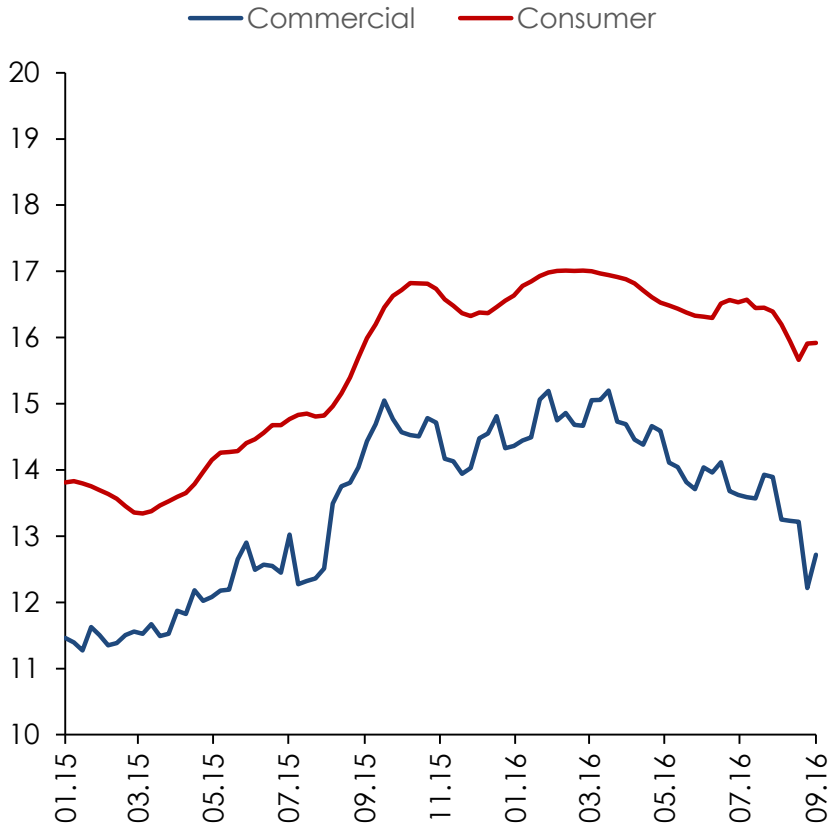
\* FX adjusted.  
Source: CBRT.

Last Observation: September 23, 2016

# Recent steps and measures are expected to alleviate tightness in financial conditions.

**Loan Rates**  
(%, 4 Week Moving Average)

**Commercial Loan Rate-Deposit Rate Spread**  
(%, 13 Week Moving Average, Flow)



Latest Data: September 23, 2016

Source: CBRT

Last Observation: September 23, 2016

# OVERVIEW

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- Simplification of monetary policy framework contributes to the effectiveness of monetary policy.
- Implementation of the structural reforms would contribute to the potential growth.



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