



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **The IMF - World Bank Annual Meetings**

**Erdem Başçı  
Governor**

**October 2012**

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I. Policy Framework

II. Rebalancing

III. Growth

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# POLICY FRAMEWORK

# Three Pillars of Growth

- I. Price Stability
- II. Financial Stability
- III. Productivity Growth

# Central Bank's Contribution to Growth

- I. Price Stability (Safeguard)
- II. Financial Stability (Contribute to)

# Monetary Policy

## 1. Interest Rates

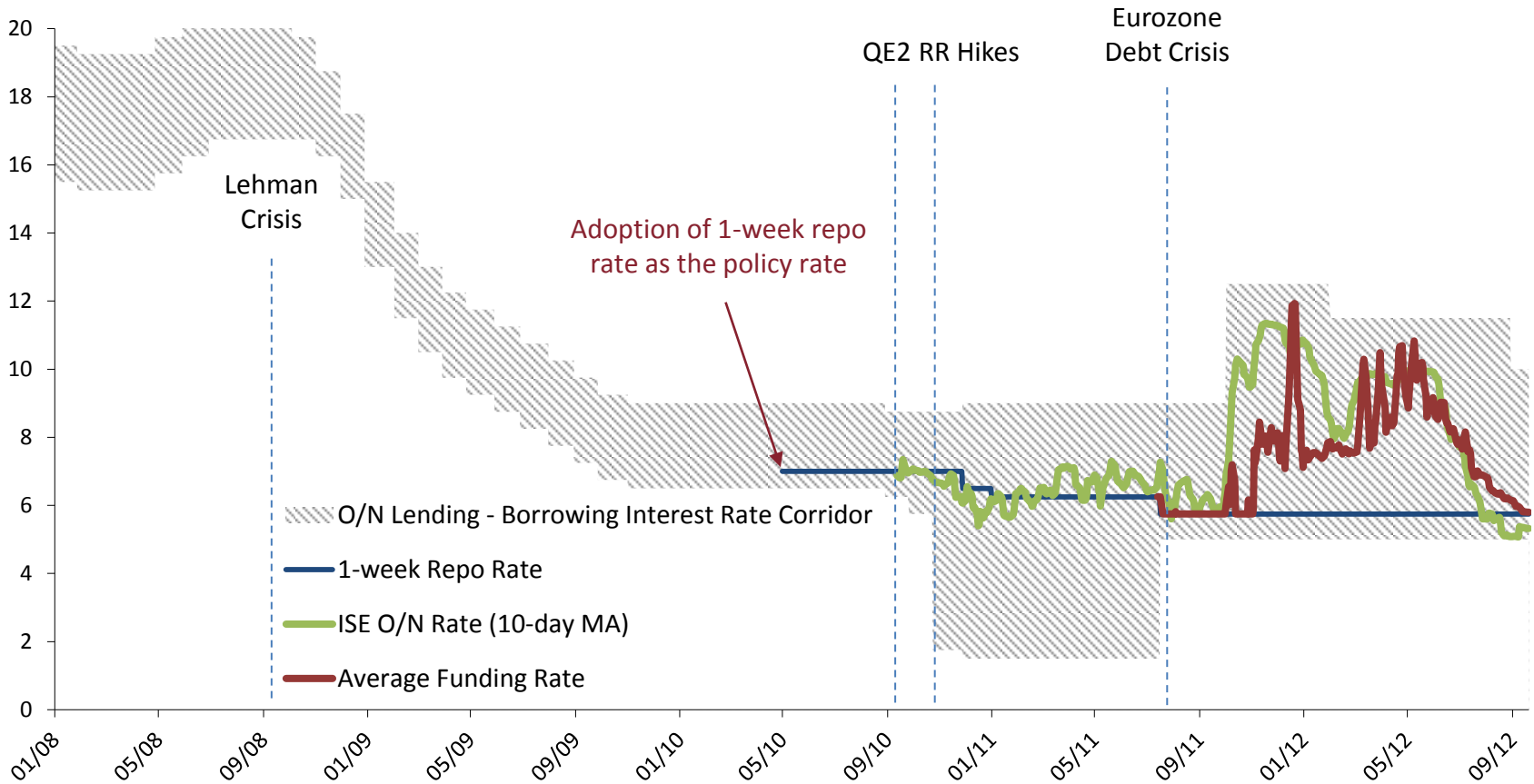
- Policy Rate
- Corridor

## 2. Liquidity Policy

- Reserve Requirements
- Reserve Options
- Funding Policy

# Monetary Policy

## Interest Rate Corridor and Average Funding Rate (Percent)

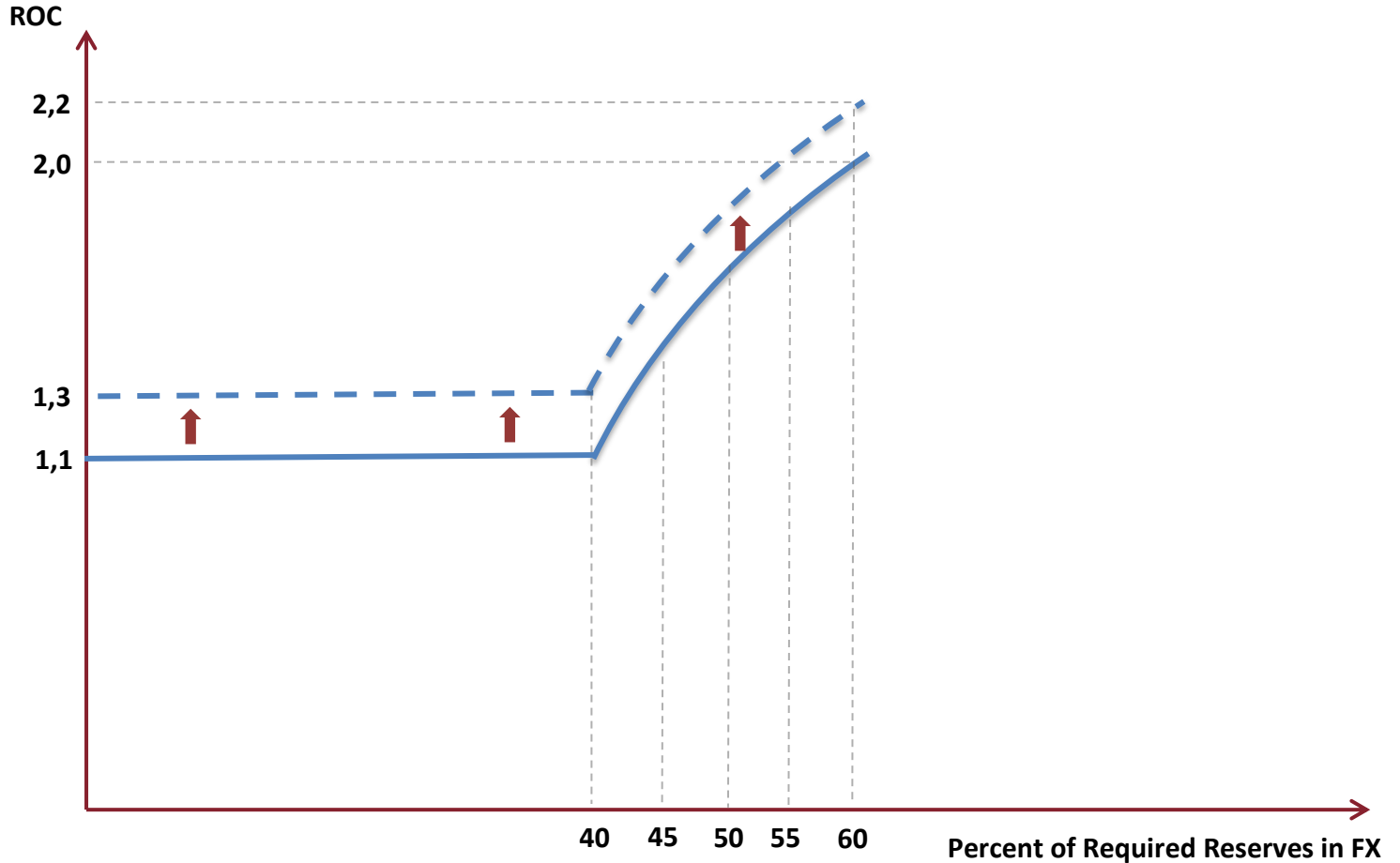


Source: ISE, CBRT.

Latest Observations: October 9, 2012

# Reserve Options Mechanism (FX)

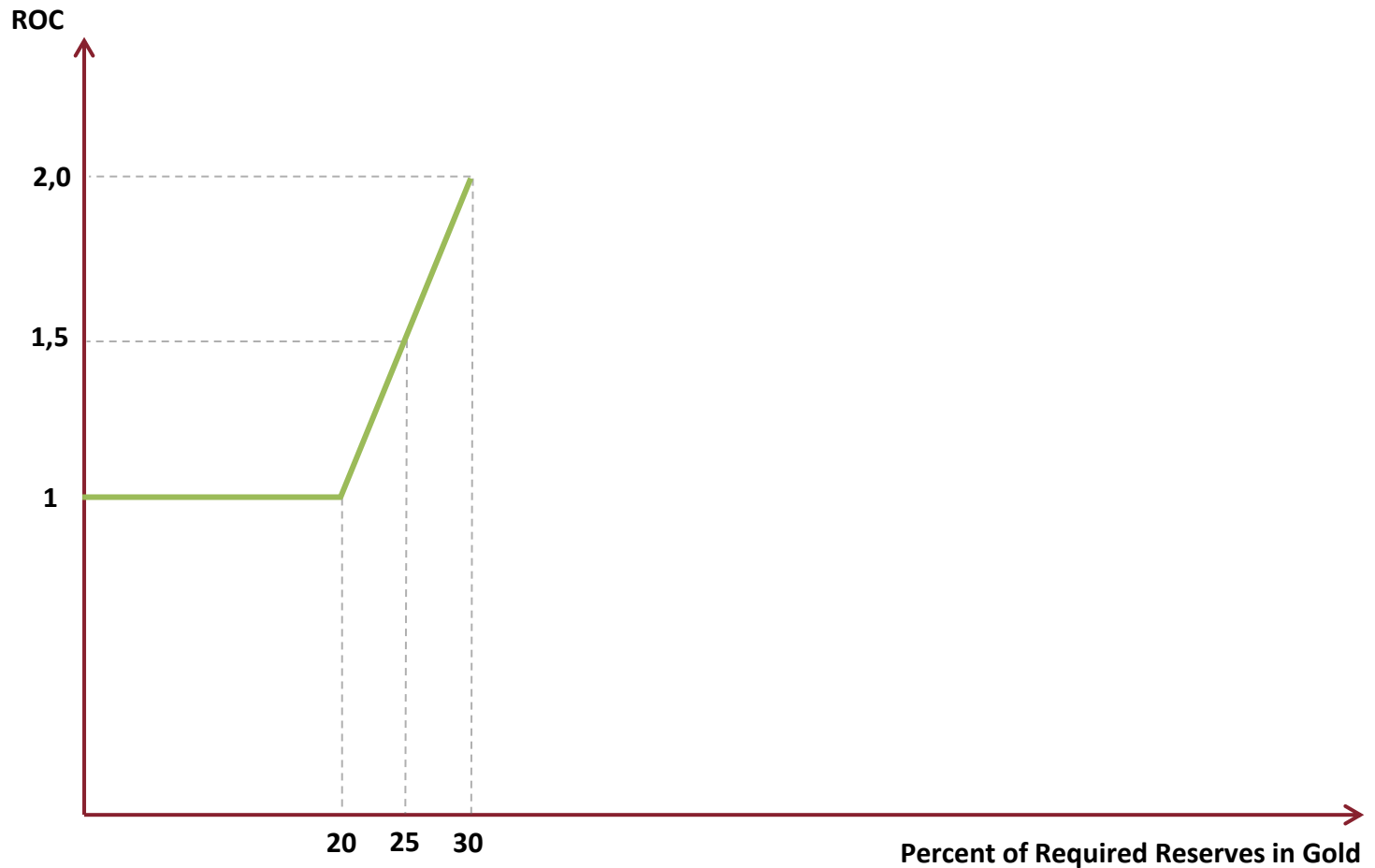
## Reserve Option Coefficients (ROC)





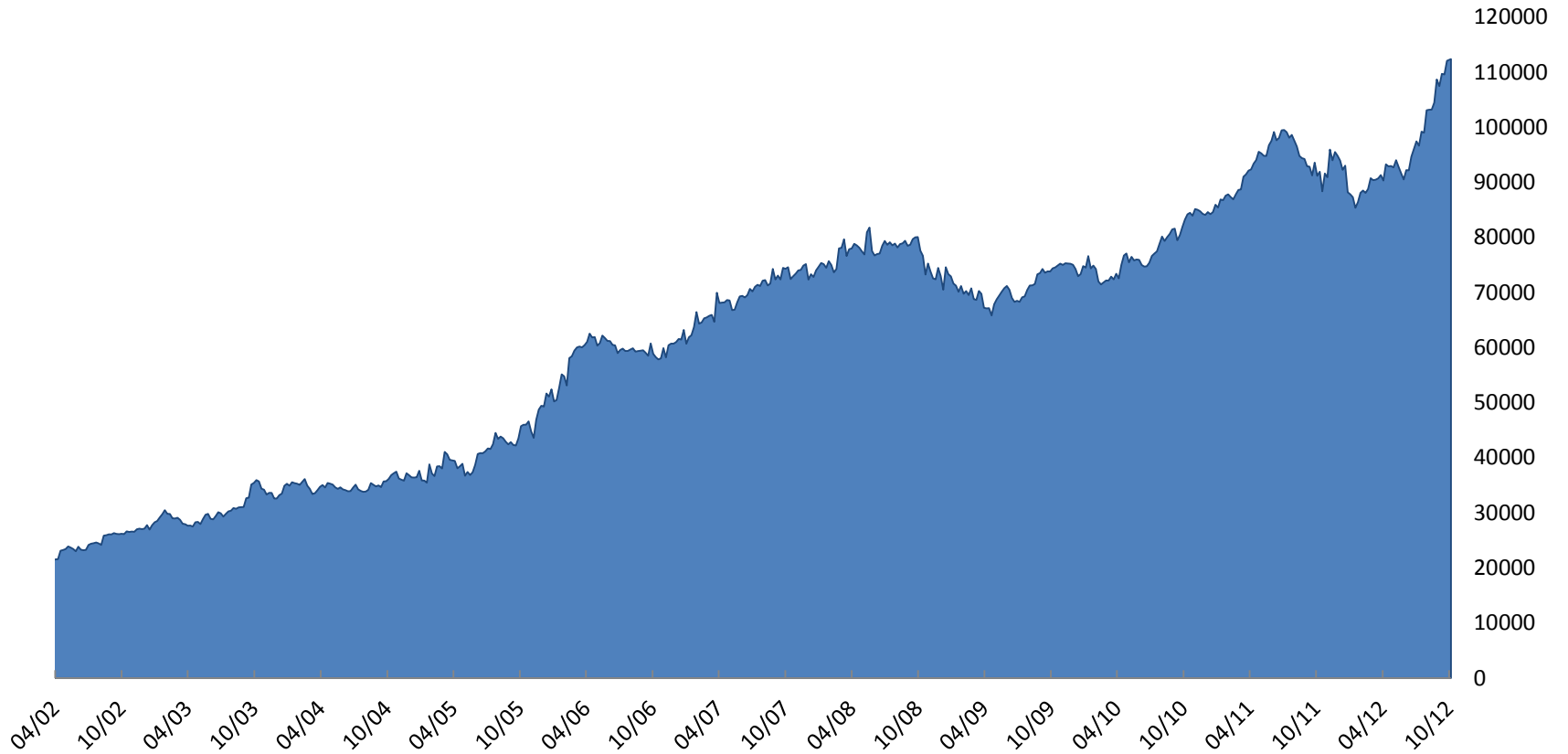
# Reserve Options Mechanism (Gold)

## Reserve Option Coefficients (ROC)



# FX Reserves (Gold included)

Million USD



Source: CBRT

Latest Observation: October 9, 2012

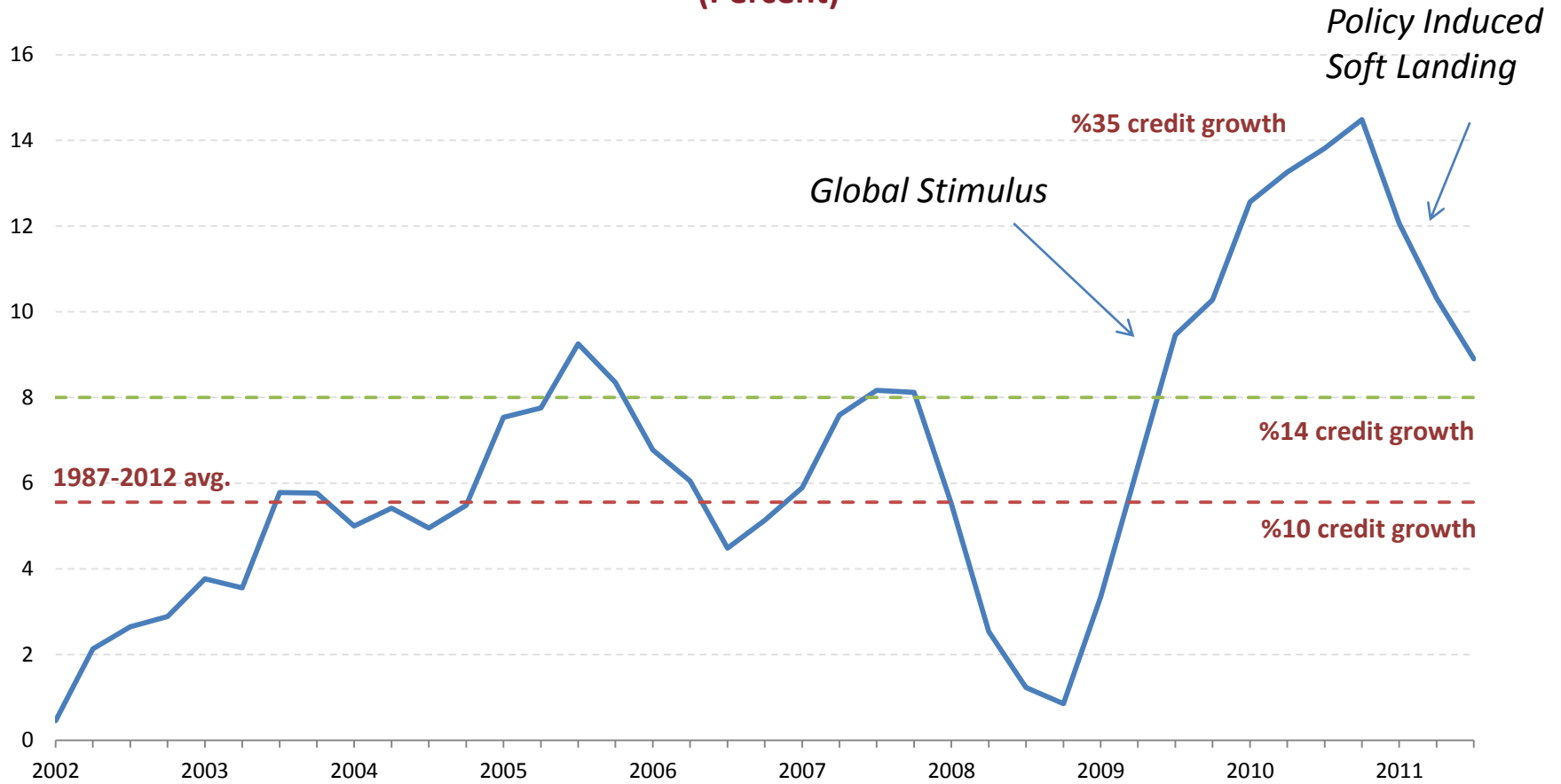
# REBALANCING

# REBALANCING

- **CREDIT**
- **CURRENCY**
- **EXTERNAL BALANCE**

# Credit Impulse

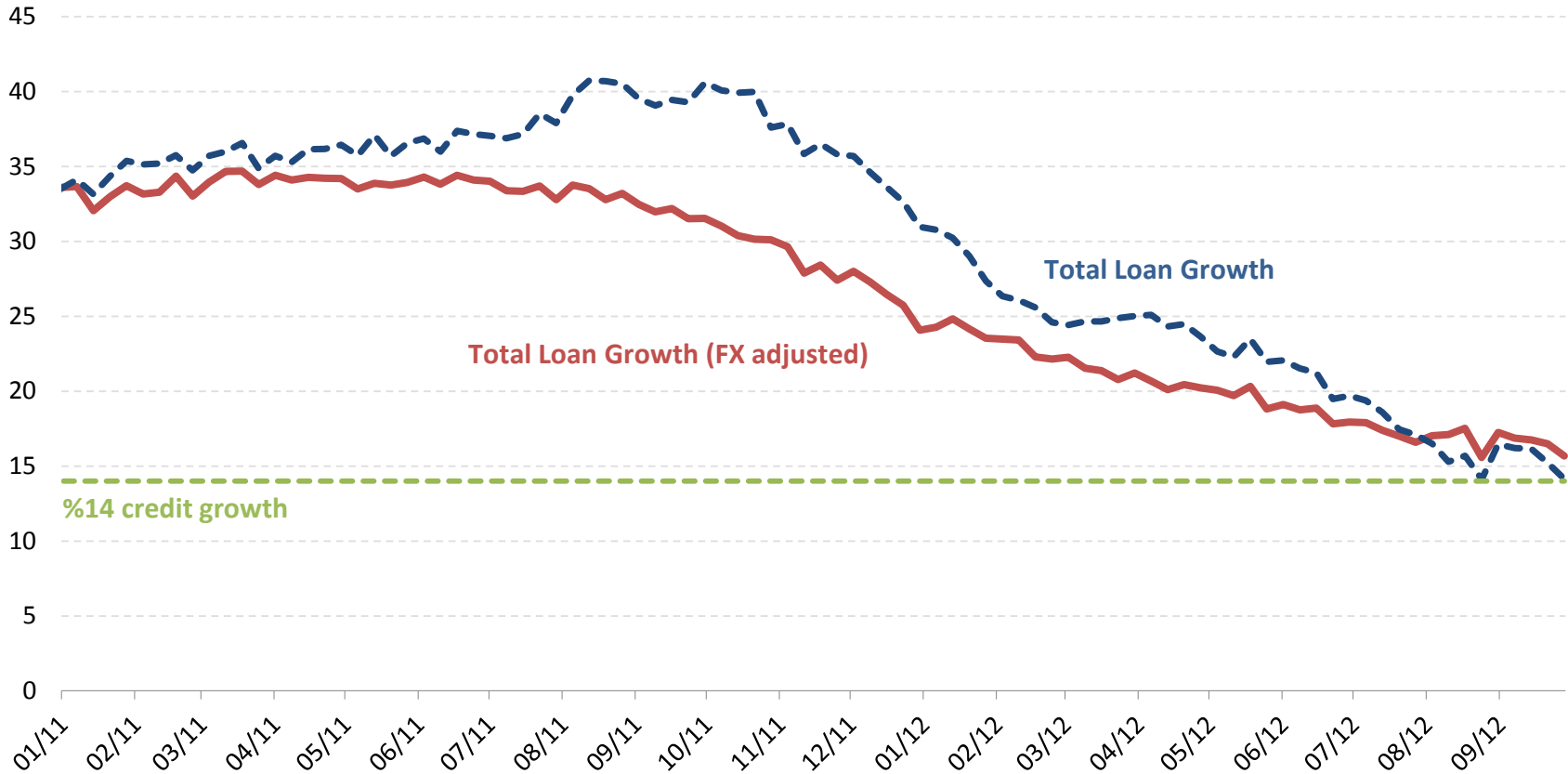
(Change in Total Debt)/GDP  
(Percent)



Source: CBRT.

# Total Loans

## Total Loan Growth Rates (YoY Change, Percent)

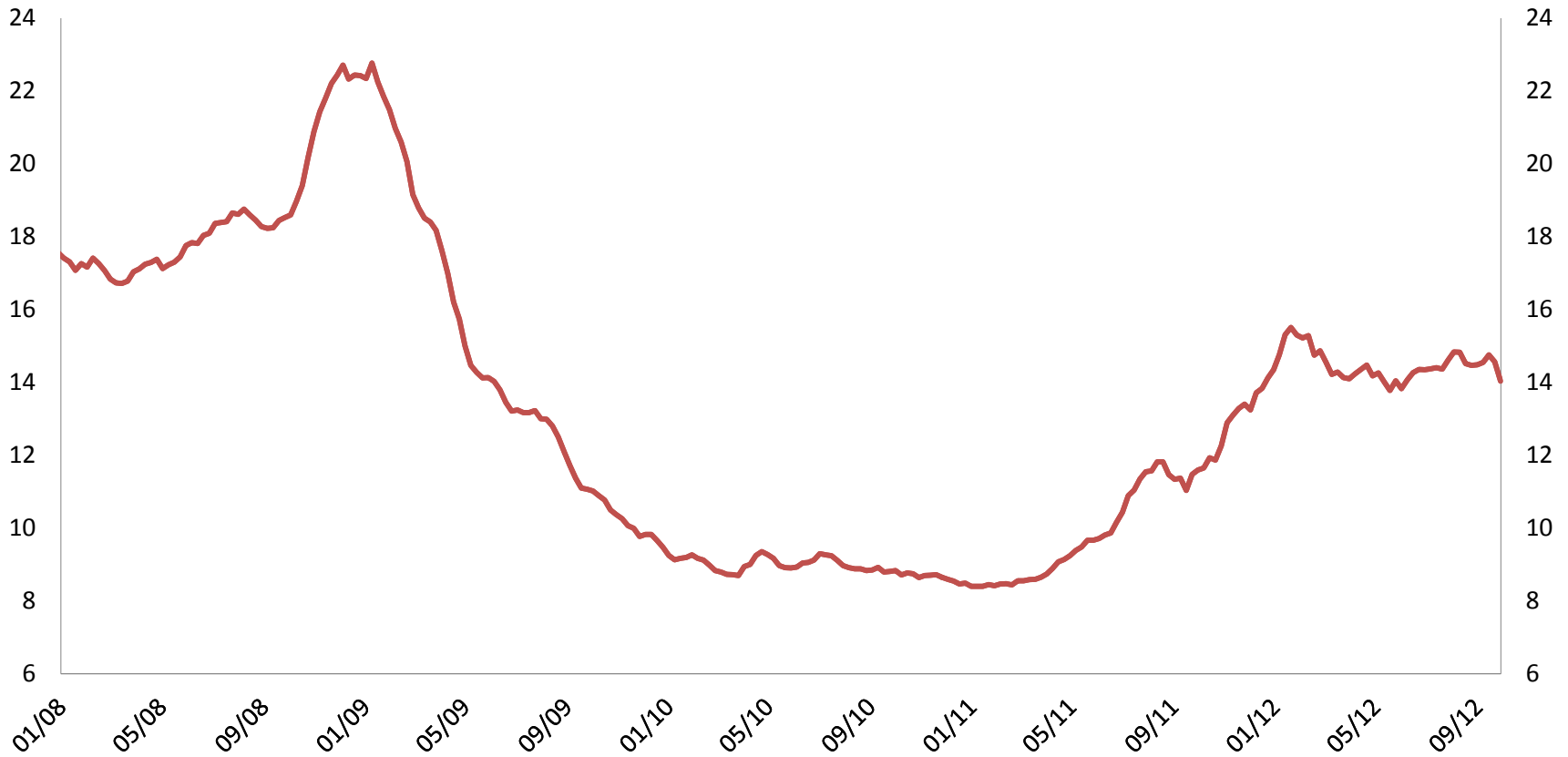


Source: BRSA.

Total credit is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

# Commercial Loan Rates

## Commercial Loan Rates (4 Weeks Moving Average, Percent)

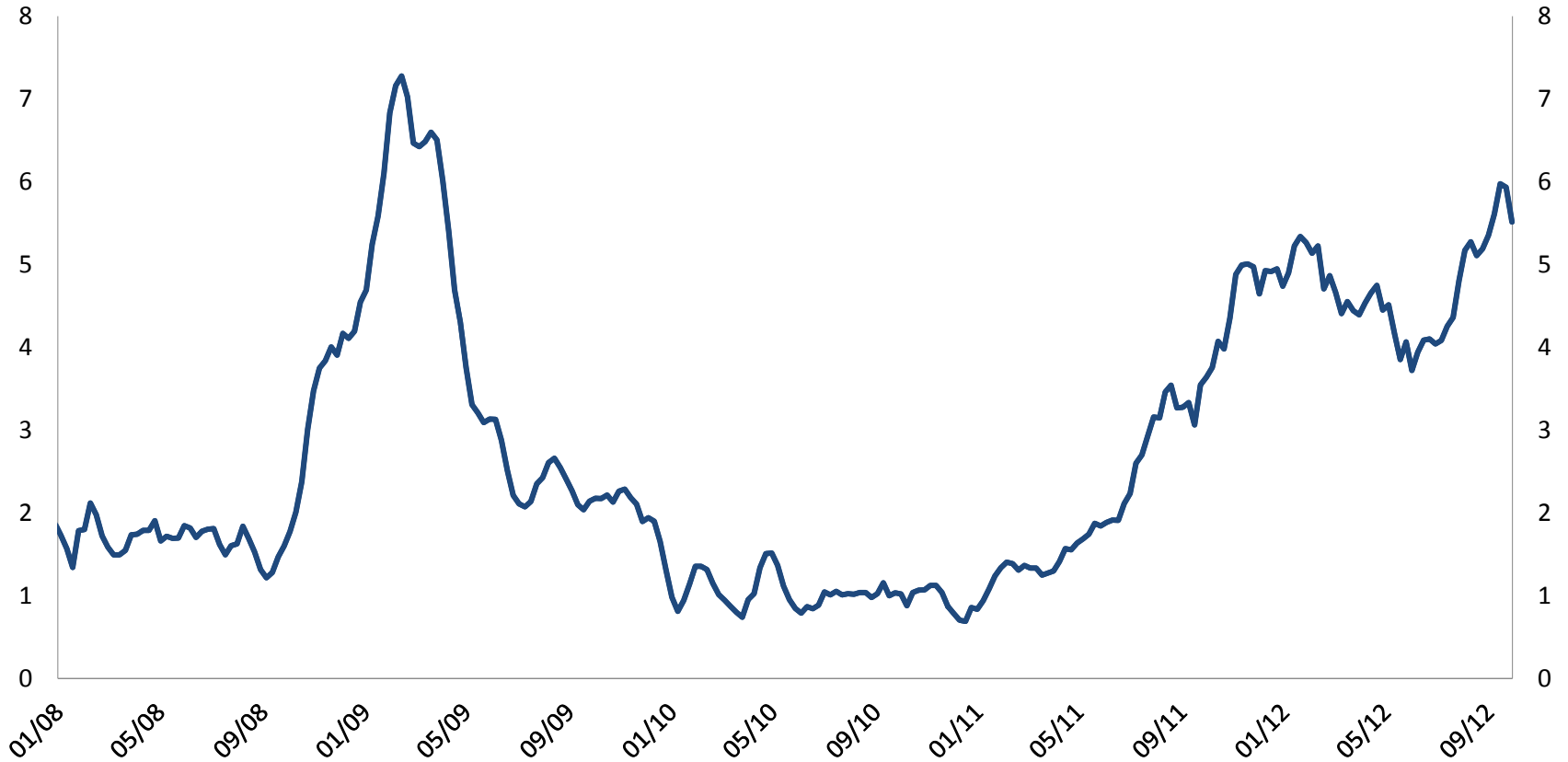


Source: CBRT.

Latest Observations: September 28, 2012

# Lending - Deposit Rate Spread

## Lending - Deposit Rate Spread (4 Weeks Moving Average, Percent)



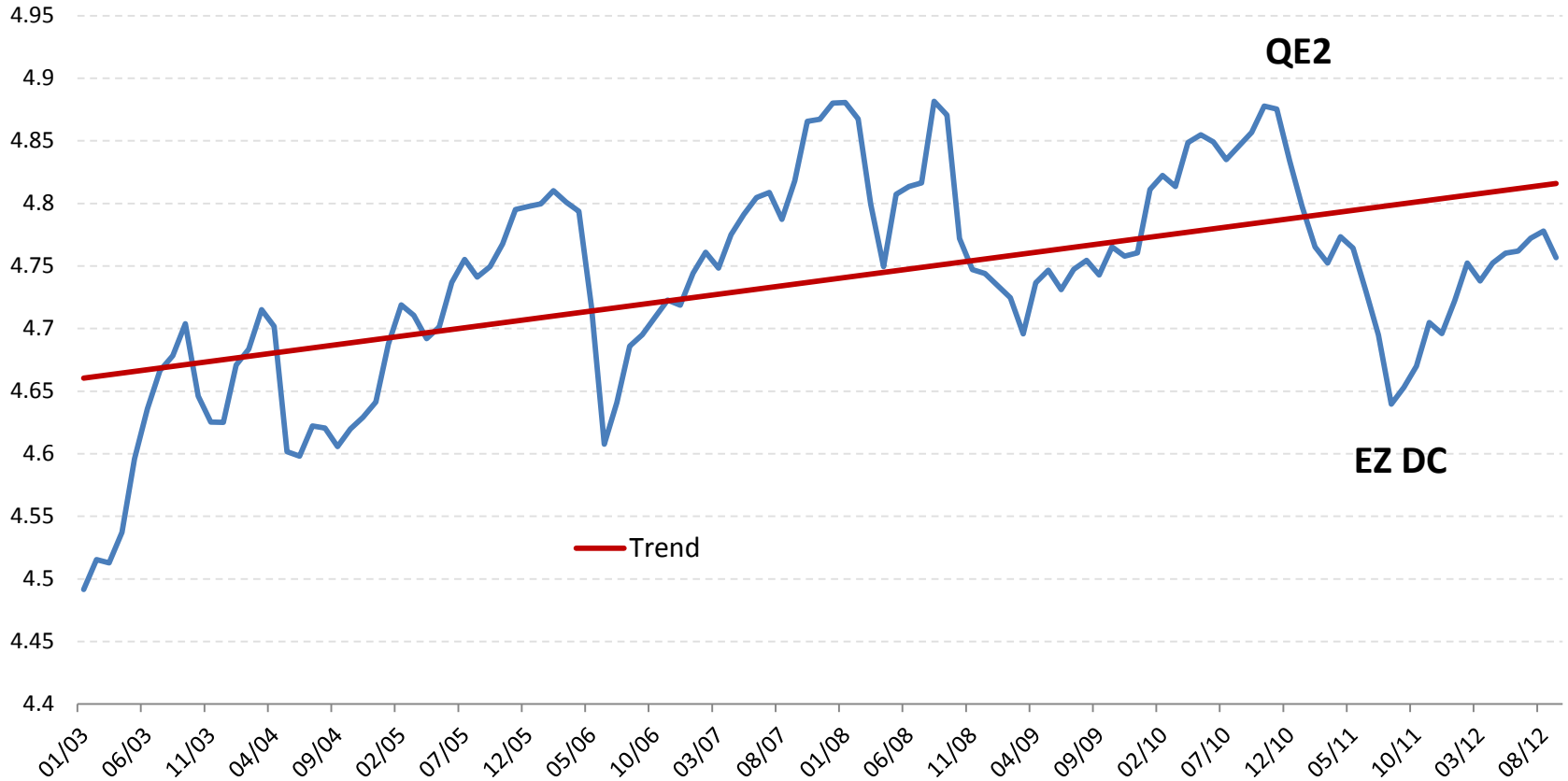
Source: CBRT.

Latest Observations: September 28, 2012



# Real Exchange Rates

## CPI Based REER\* (Base year: 2003)

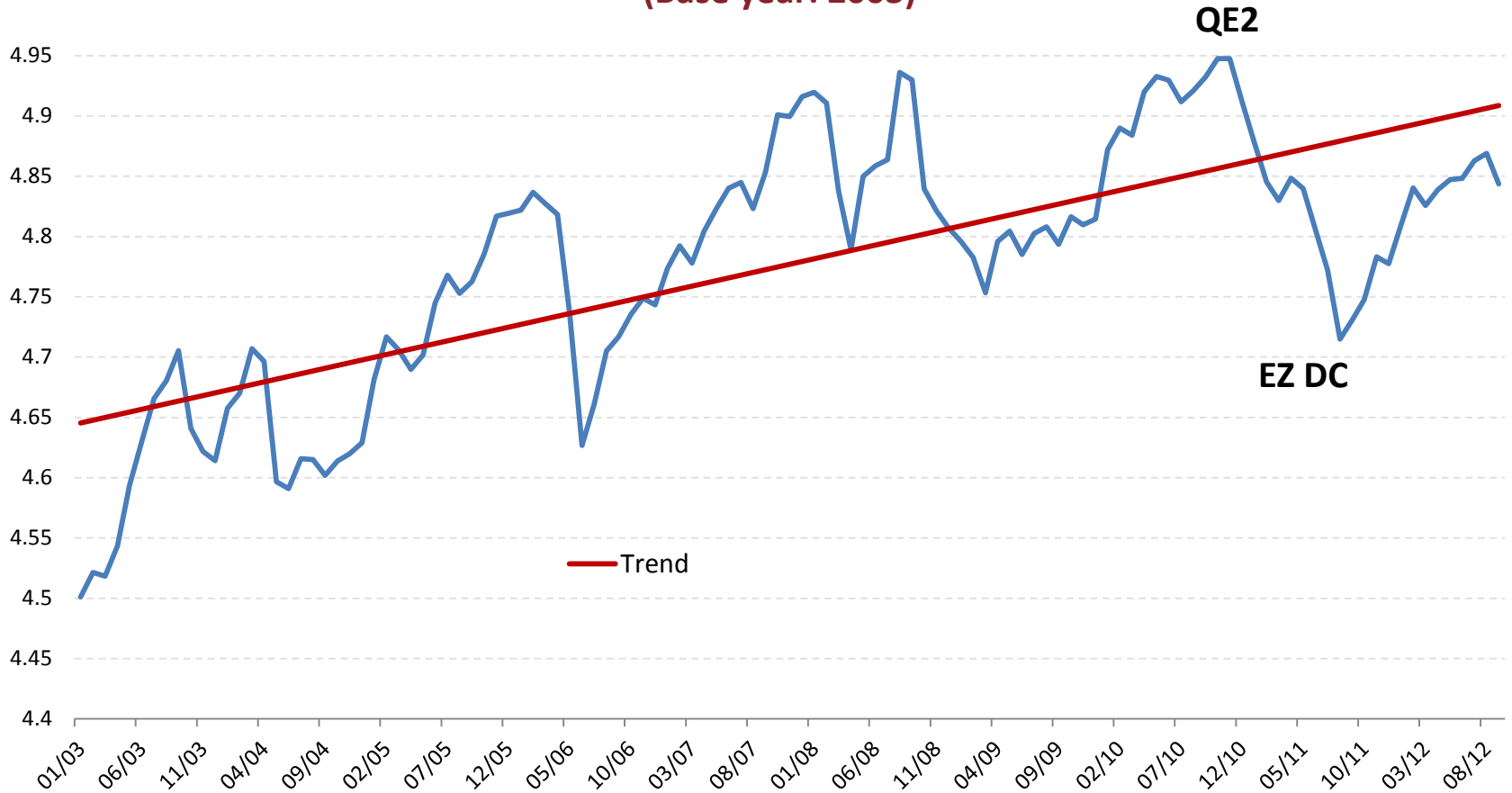


Source: CBRT.

\*Real effective exchange rate, Natural logarithms.  
Latest Observation: September 2012

# Real Exchange Rates

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

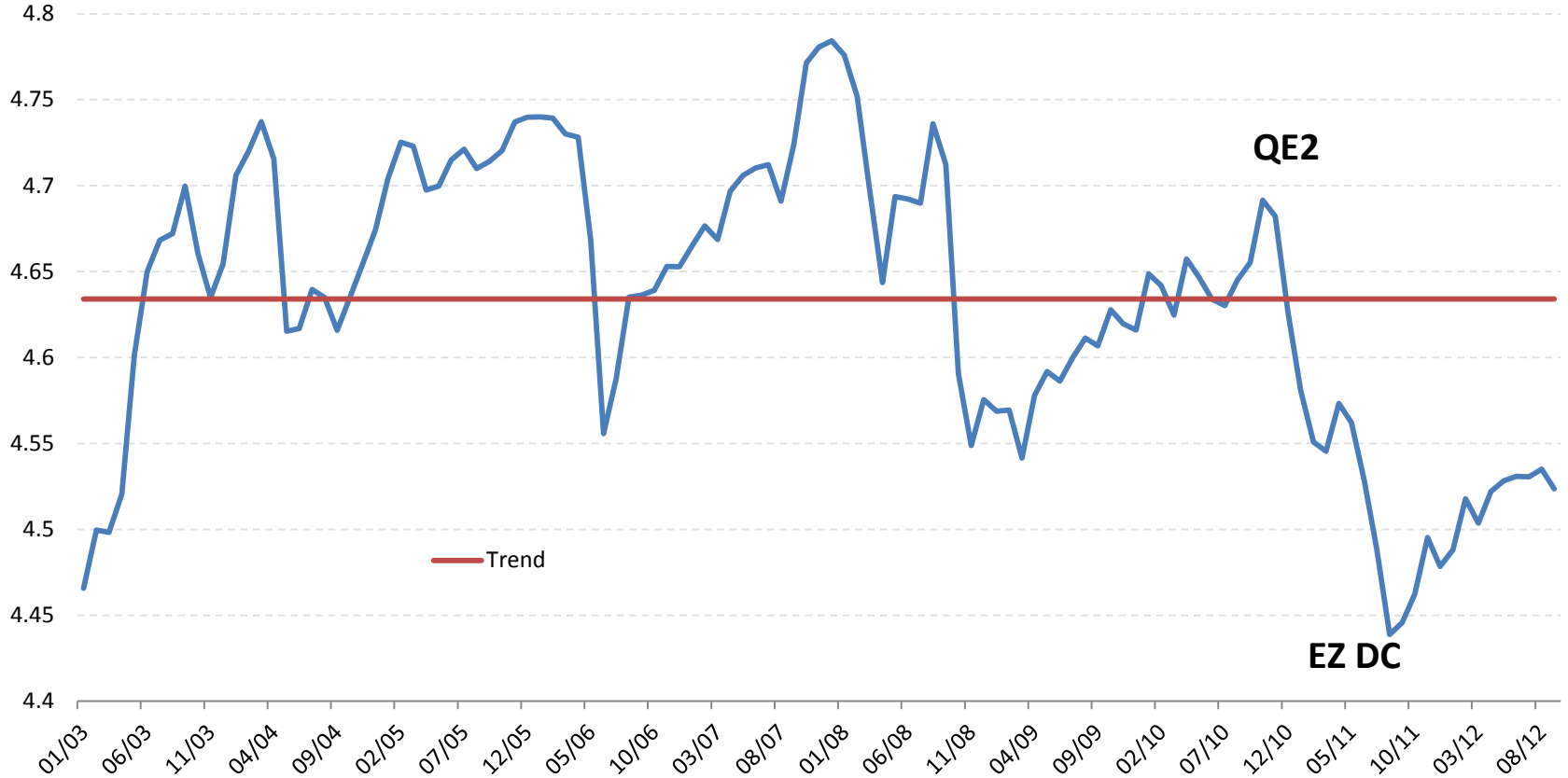


Source: CBRT.

\*Real effective exchange rate, Natural logarithms.  
Latest Observation: September 2012

# Real Exchange Rates

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

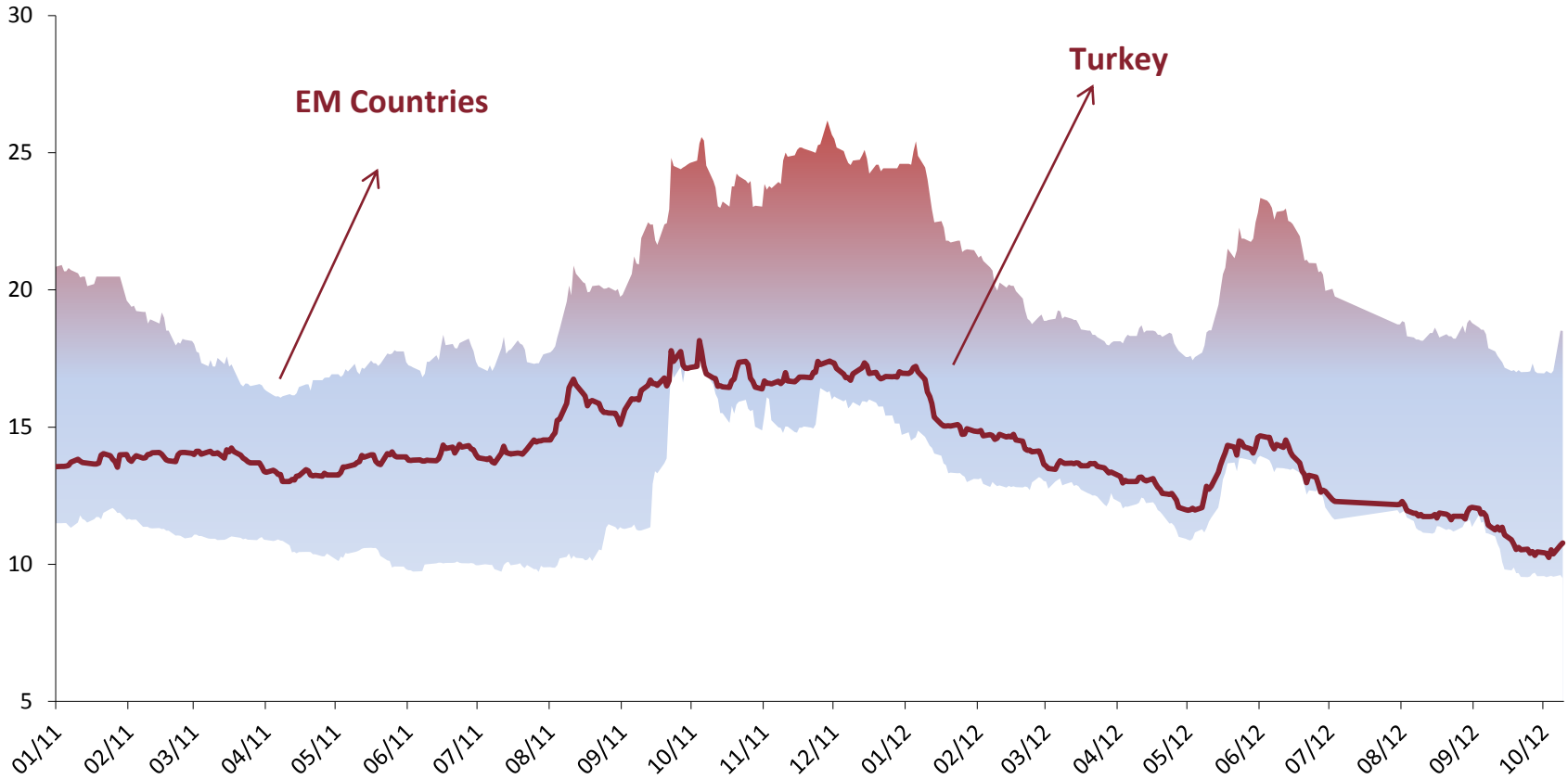


Source: CBRT.

\*Real effective exchange rate, Natural logarithms.  
Latest Observation: September 2012

# Exchange Rate Volatility

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

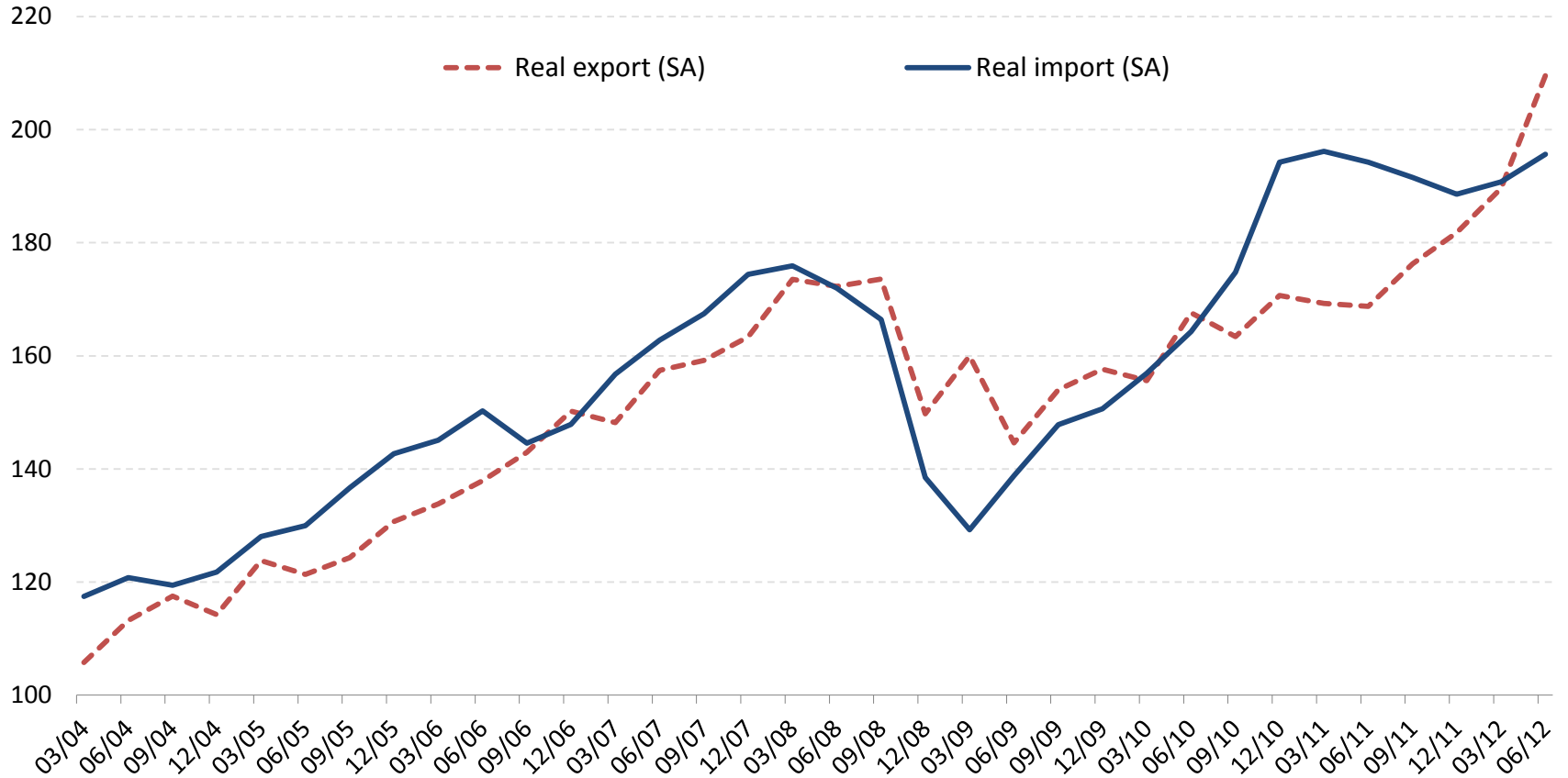


Source: Bloomberg, CBRT.

\*Emerging market currencies include Brazil, Chile, Czech Republic, Hungary, Mexico, Poland, South Africa, Indonesia, South Korea and Colombia.  
Latest Observations: October 9, 2012.

# Real Export - Import

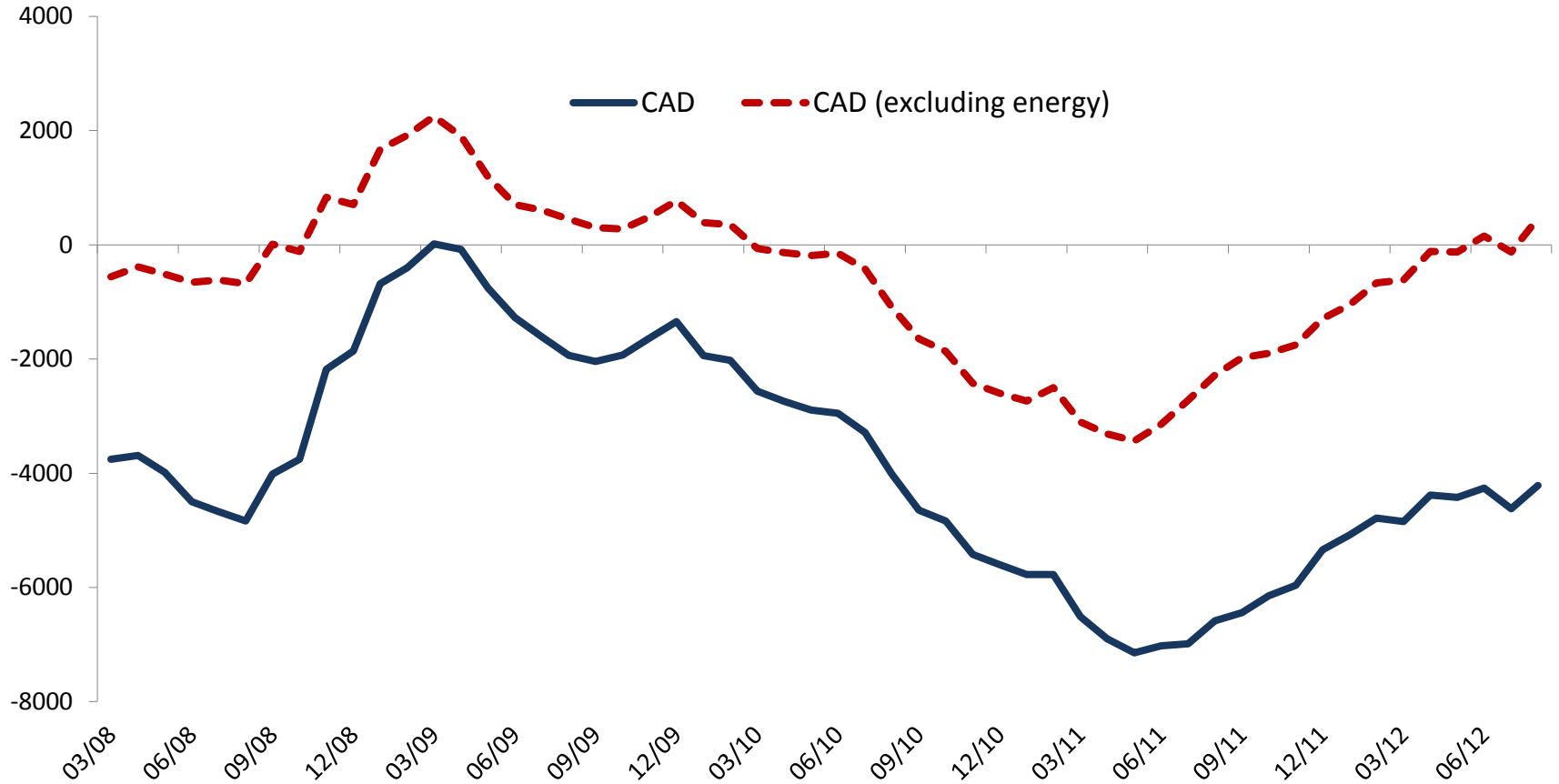
Exports and Imports Index  
(Seasonally Adjusted, Quarterly, 2003=100)



Source: TURKSTAT, CBRT.

# Rebalancing

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

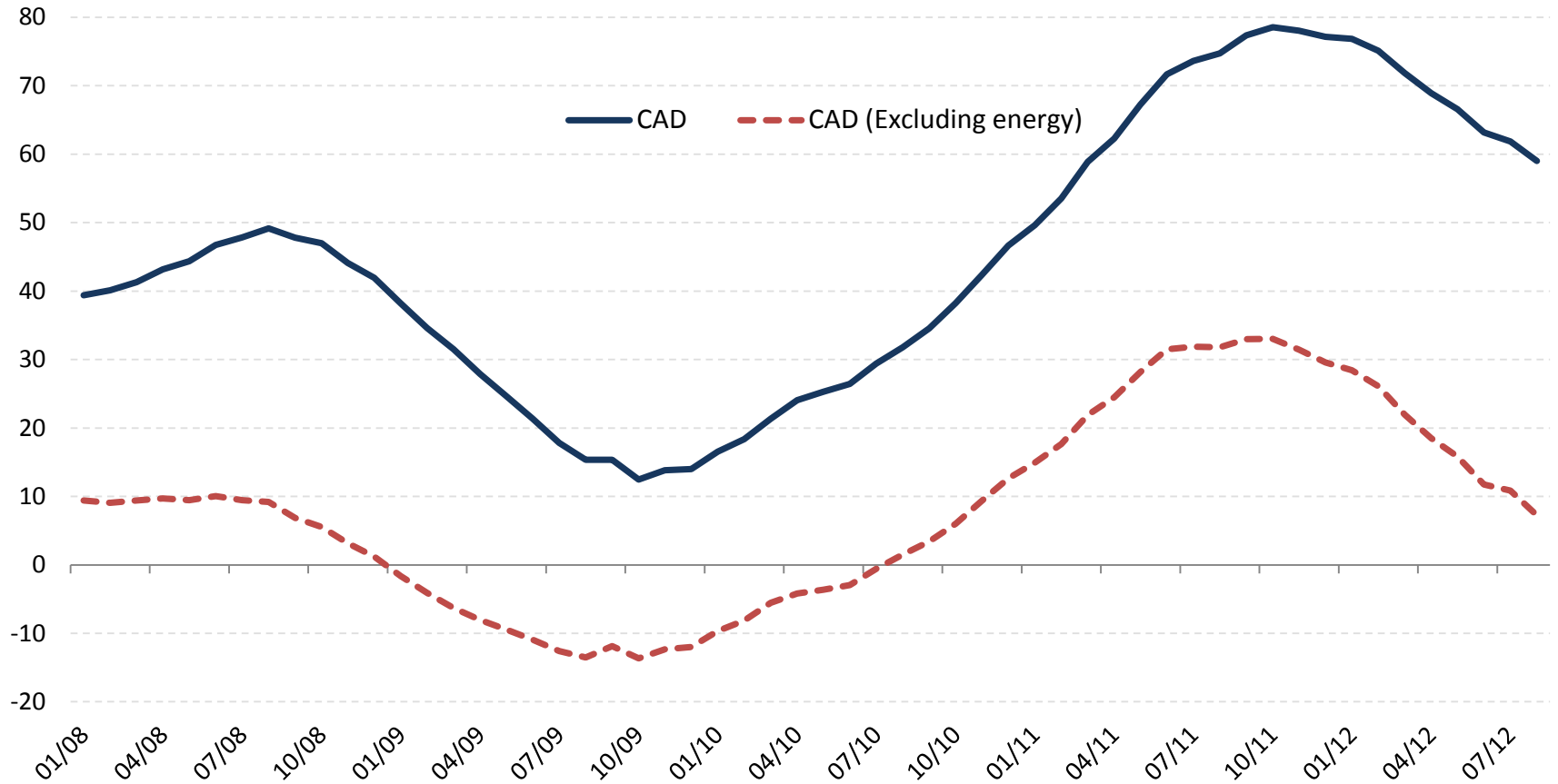


Source: CBRT.

Latest Observations: August 2012

# Rebalancing

## Current Account Deficit (12-Month Rolling, Billion USD)

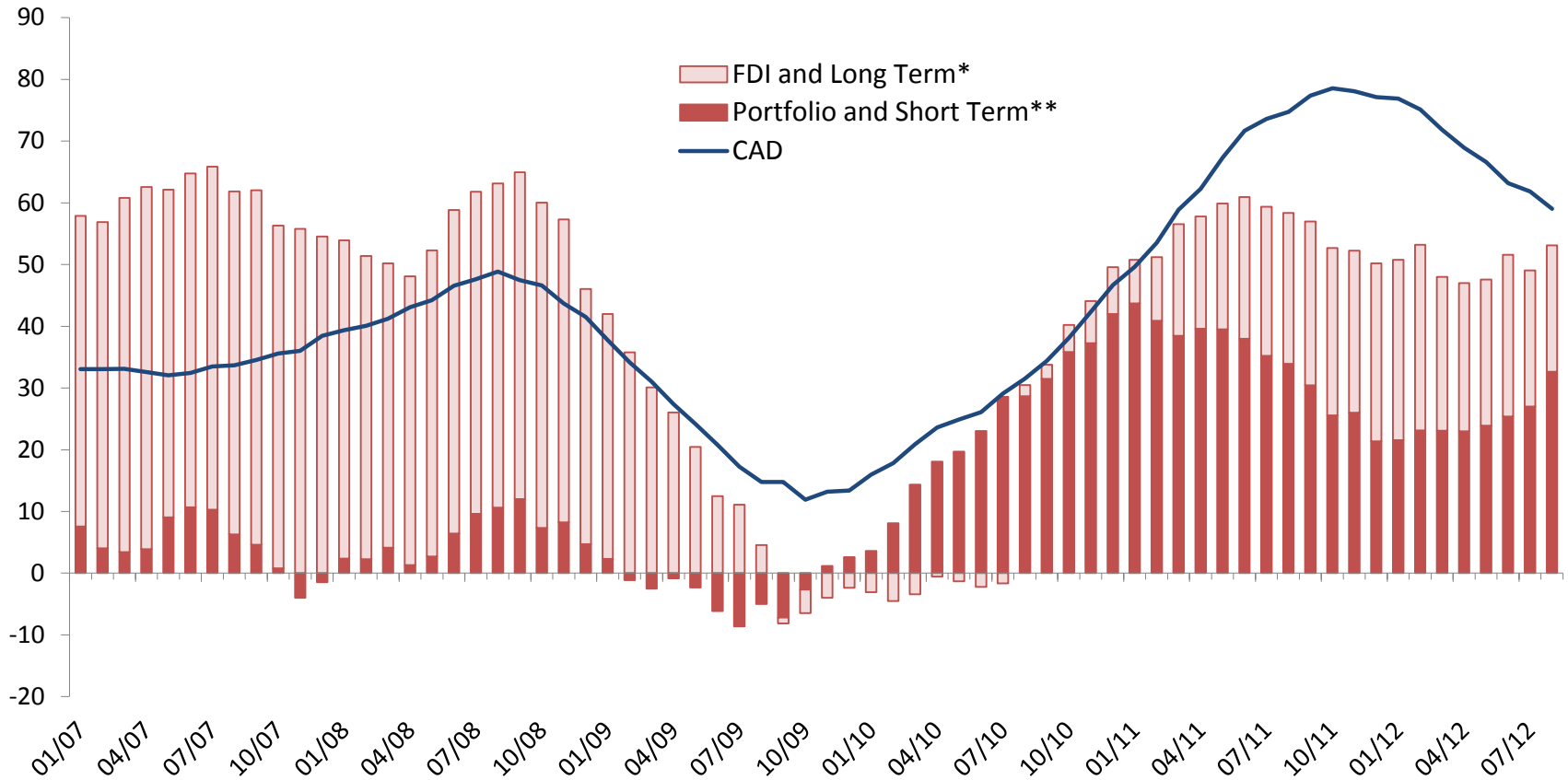


Source: CBRT.

Latest Observations: August 2012

# Main Sources of External Finance

(12-months Cumulative, Billion USD)



Source: CBRT.

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

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

Latest Observations: August 2012

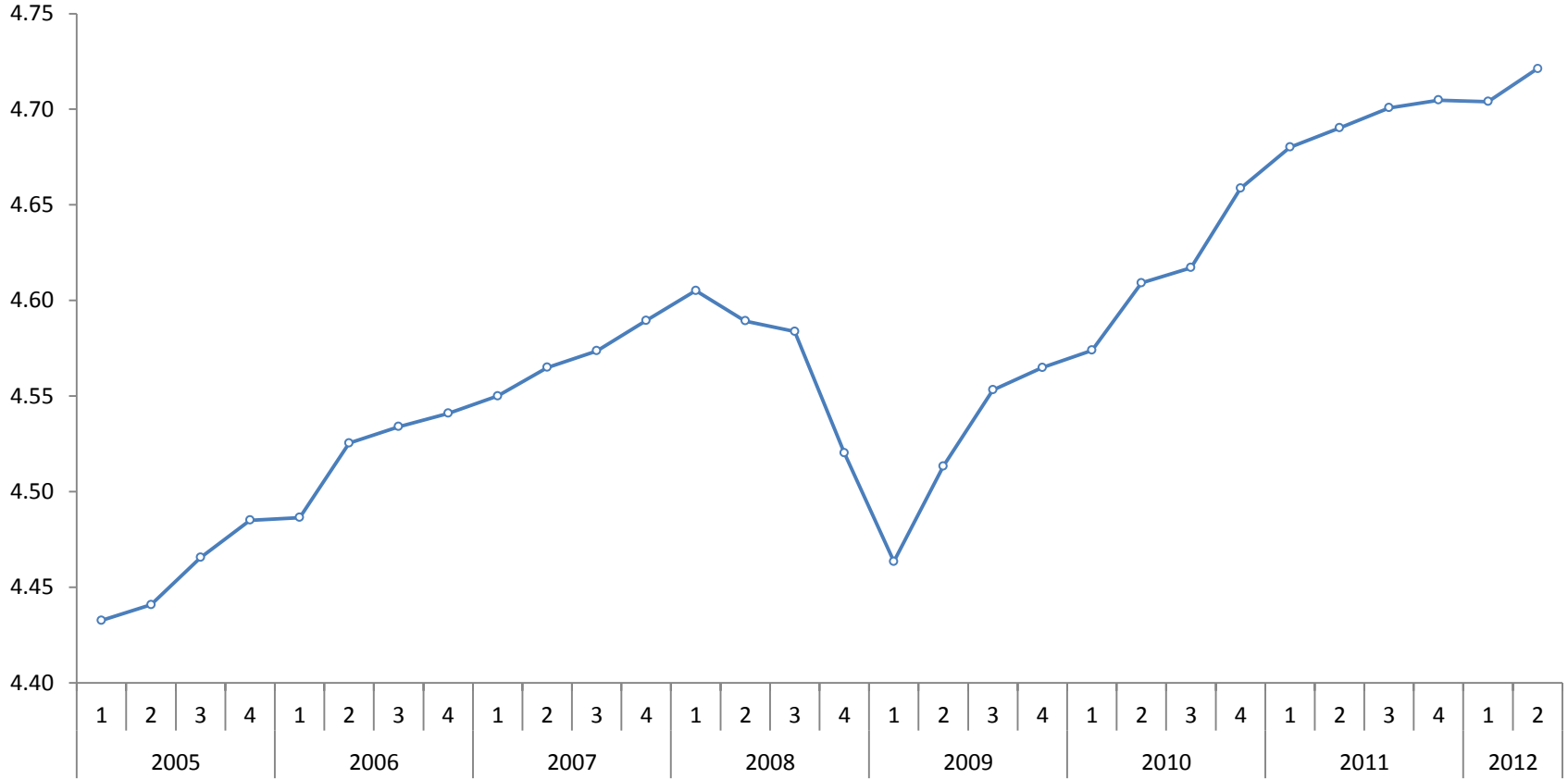


# GROWTH

# Gross Domestic Product

## Actual GDP

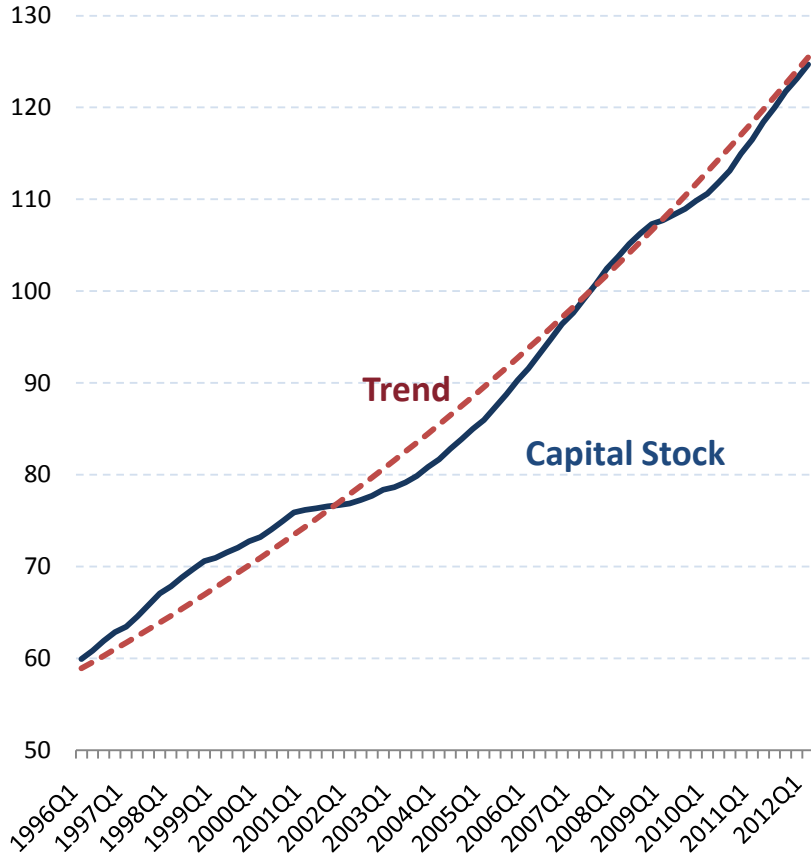
(Base Quarter: 2008Q1, Seasonally Adjusted, Natural Logarithms)



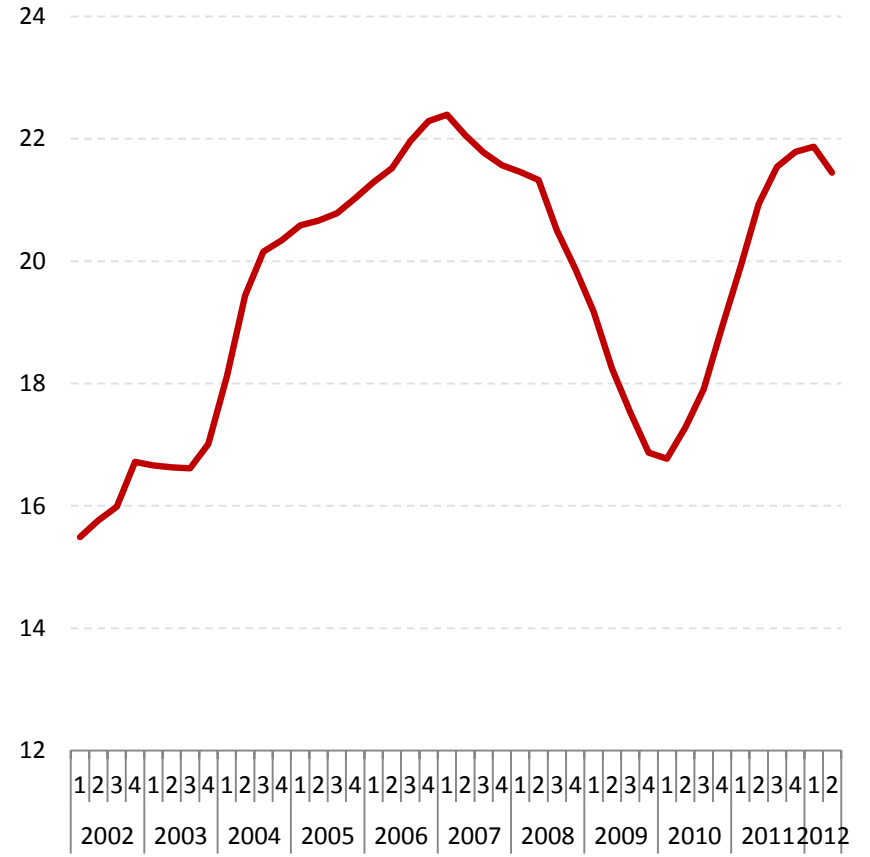
Source: TURKSTAT, CBRT.

# Capital

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



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



Source: TURKSTAT, CBRT.

Source: TURKSTAT, CBRT.

\*Annualized.

# Labor

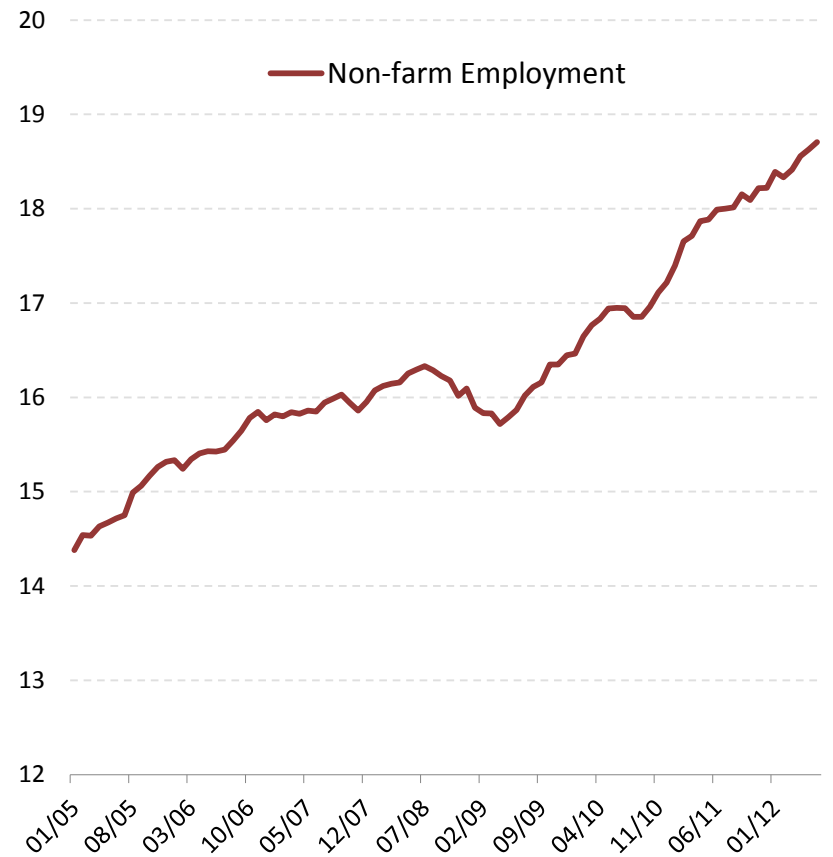
## Unemployment Rates\* (Percent)



Source: TURKSTAT, CBRT.

\*Seasonally adjusted

## Employment\* (Million People)

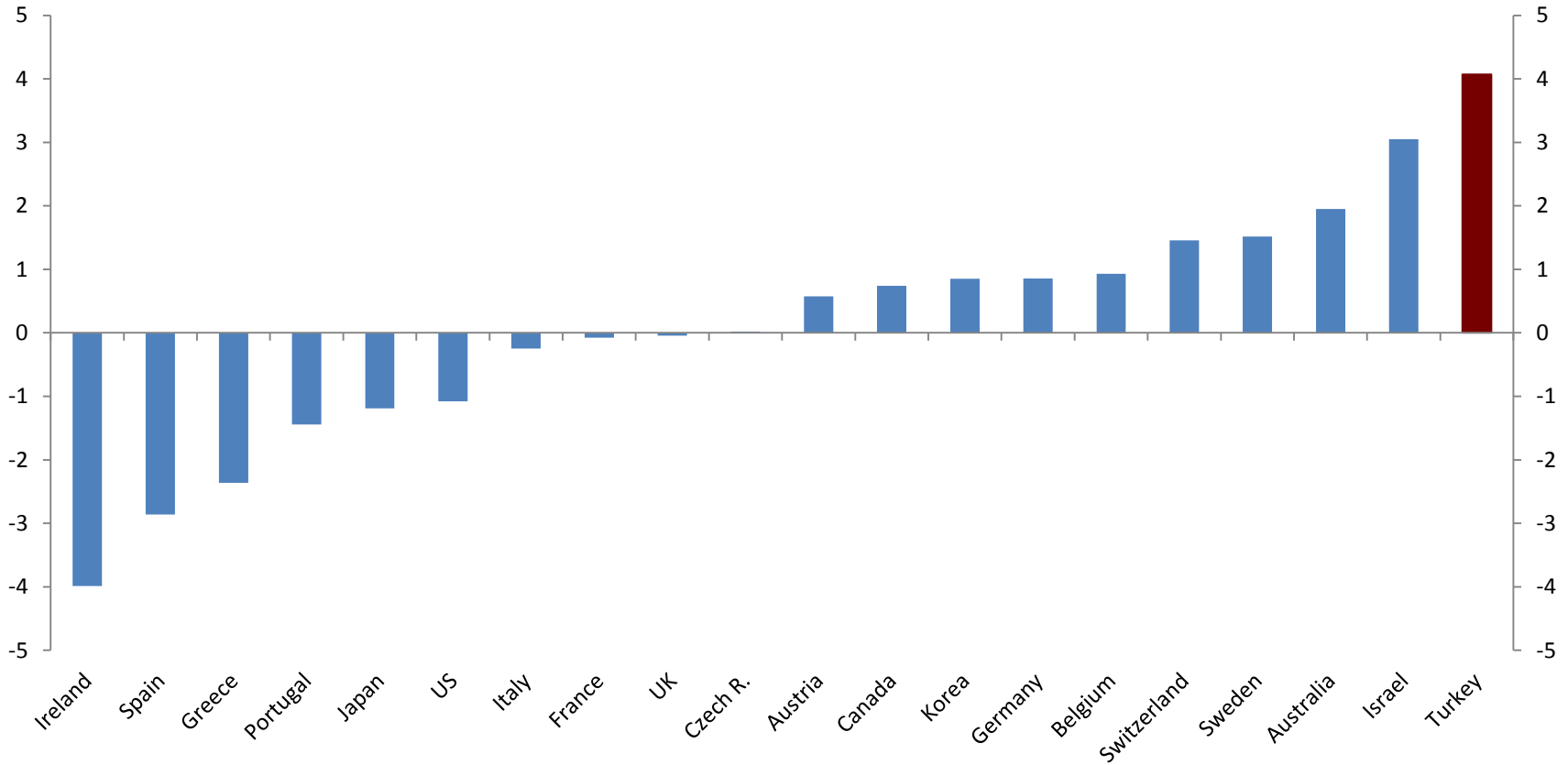


Source: TURKSTAT, CBRT.

\*Seasonally adjusted

# Employment

## Annual Average Employment Growth\* (2007-2010)

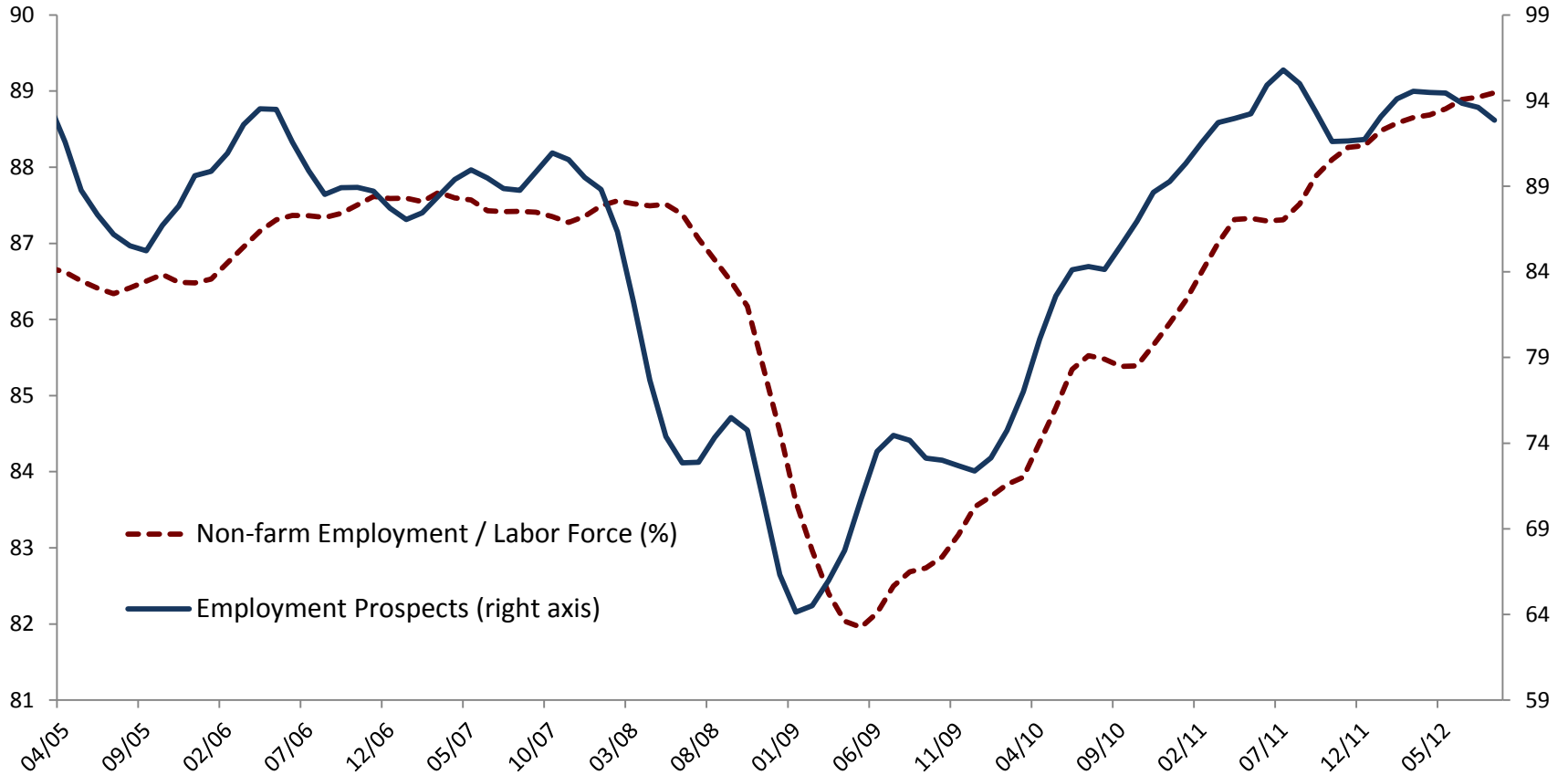


Source: WEO, Turkstat, CBRT.

\*Difference of natural logarithms.

# Employment

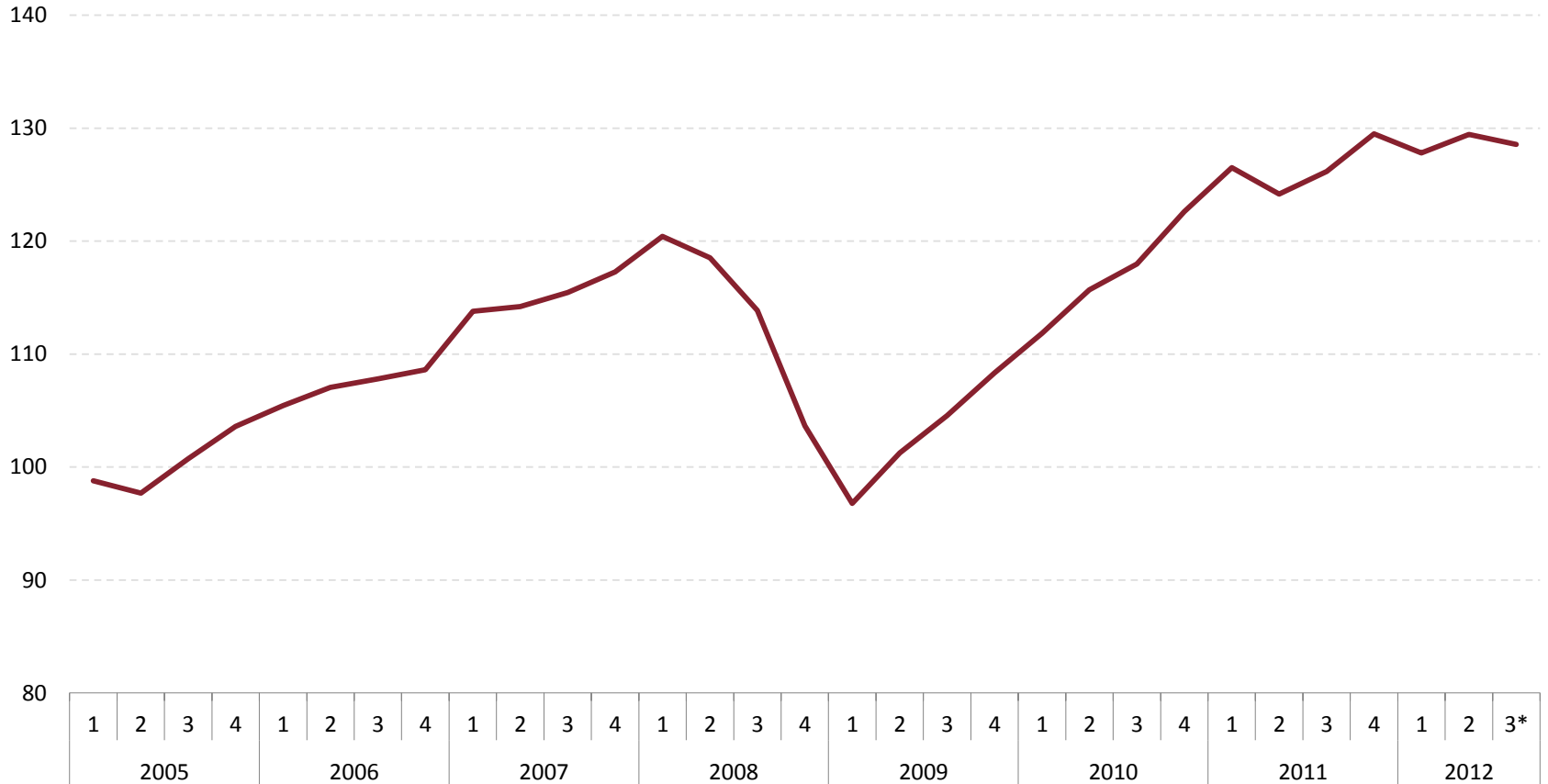
## Prospects and Employment (Percent, 3 month moving averages)



Source: CBRT

# Leading Indicators

## Industrial Production (2005=100, Seasonally Adjusted, Quarterly)

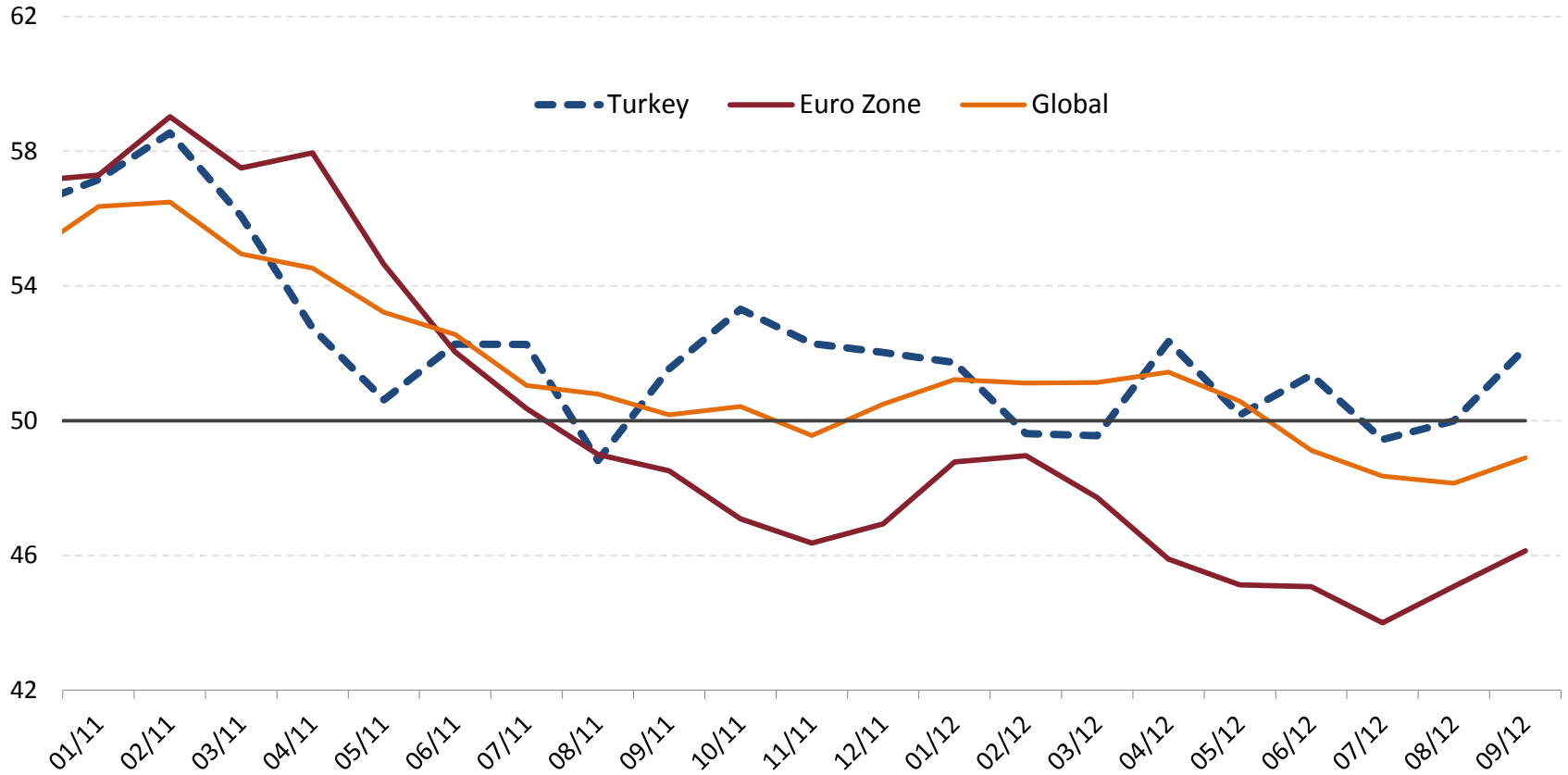


Source: TURKSTAT, CBRT.

\*July and August data.

# Leading Indicators

## Manufacturing PMIs: Turkey, Eurozone, and Global (Seasonally Adjusted)



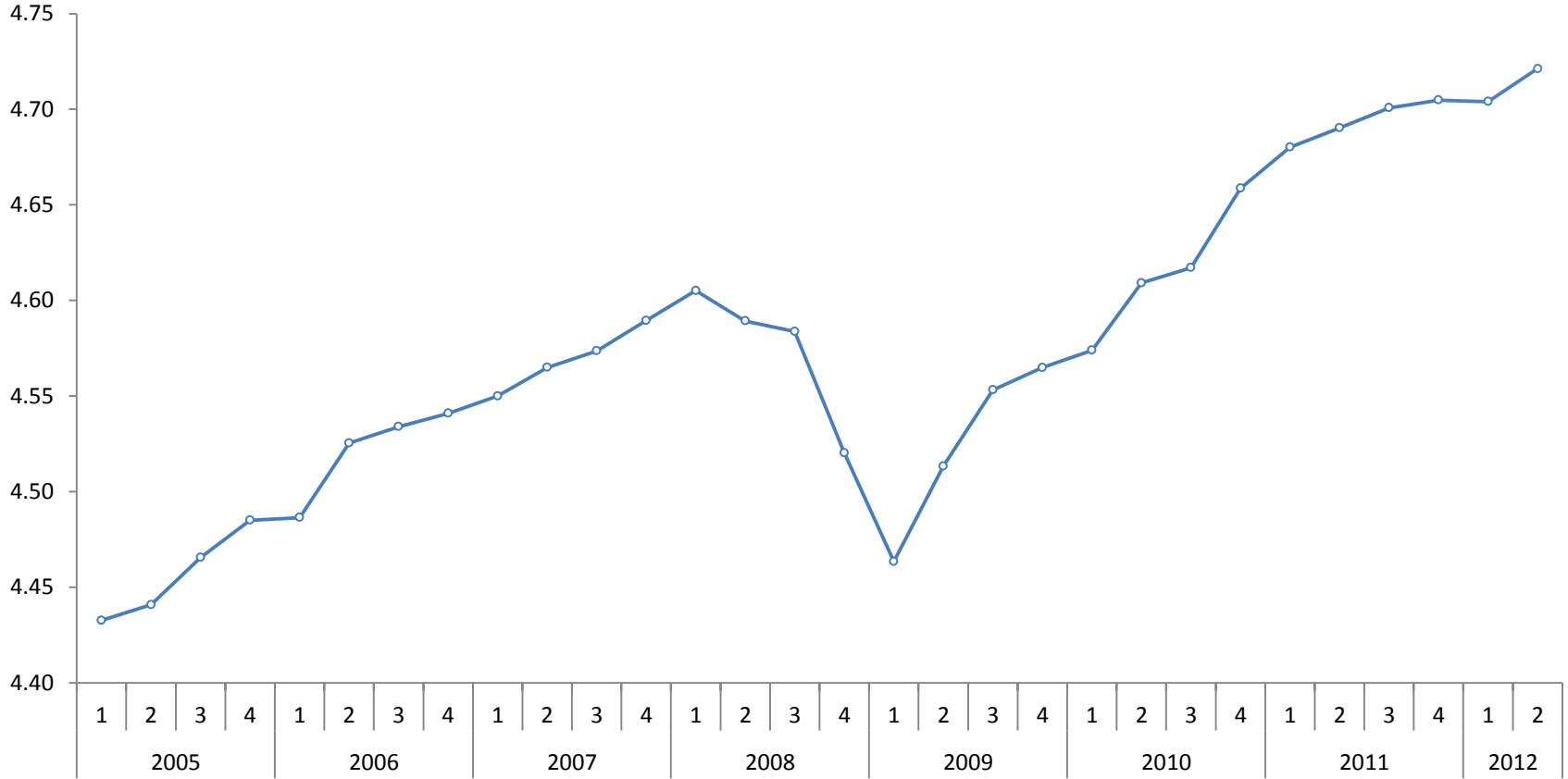
Source: MARKIT.



# Gross Domestic Product

## Actual GDP

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

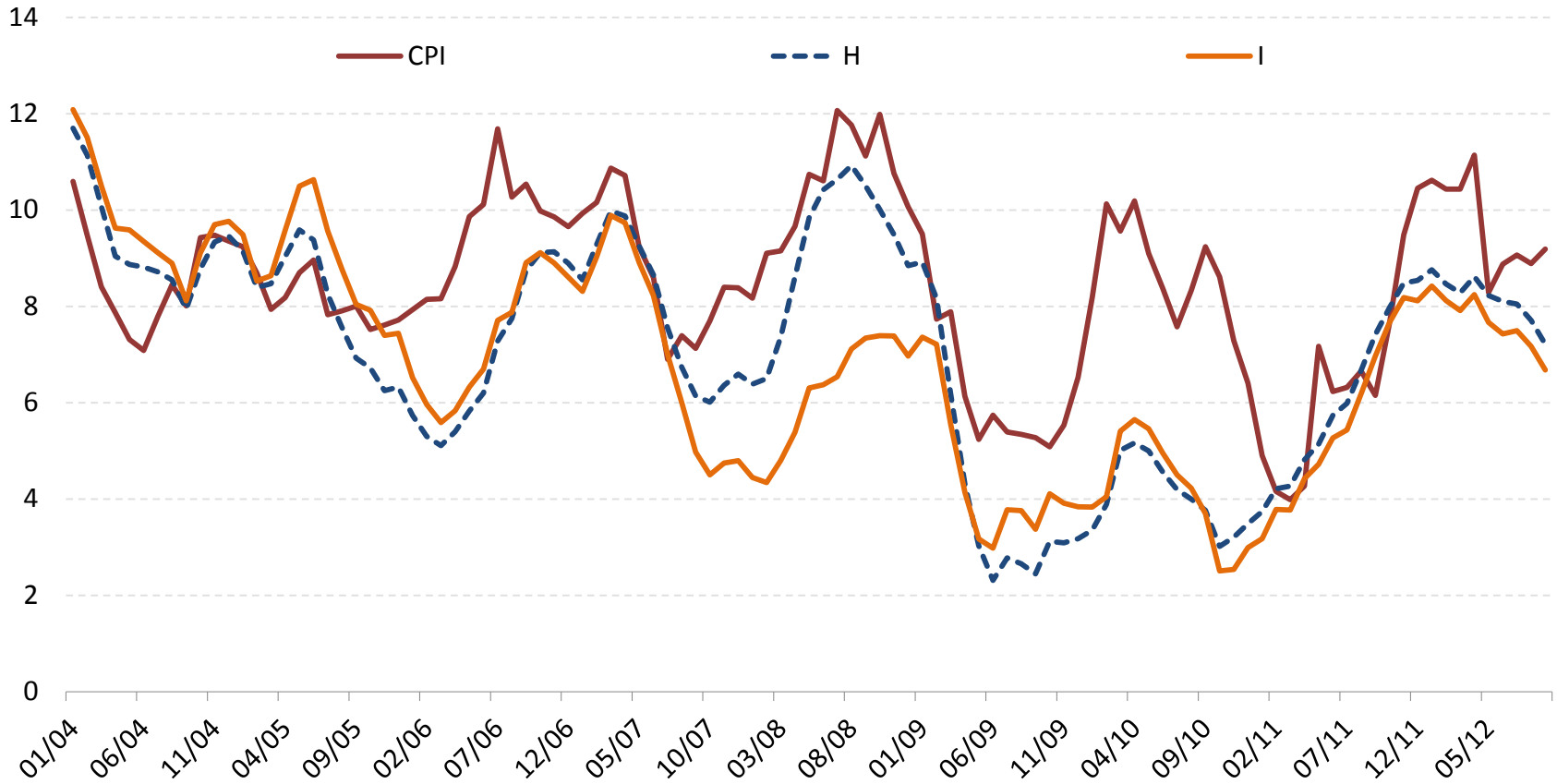


Source: TURKSTAT, CBRT.

# INFLATION

# CPI and Core Price Indicators

(Annual Percentage Change)

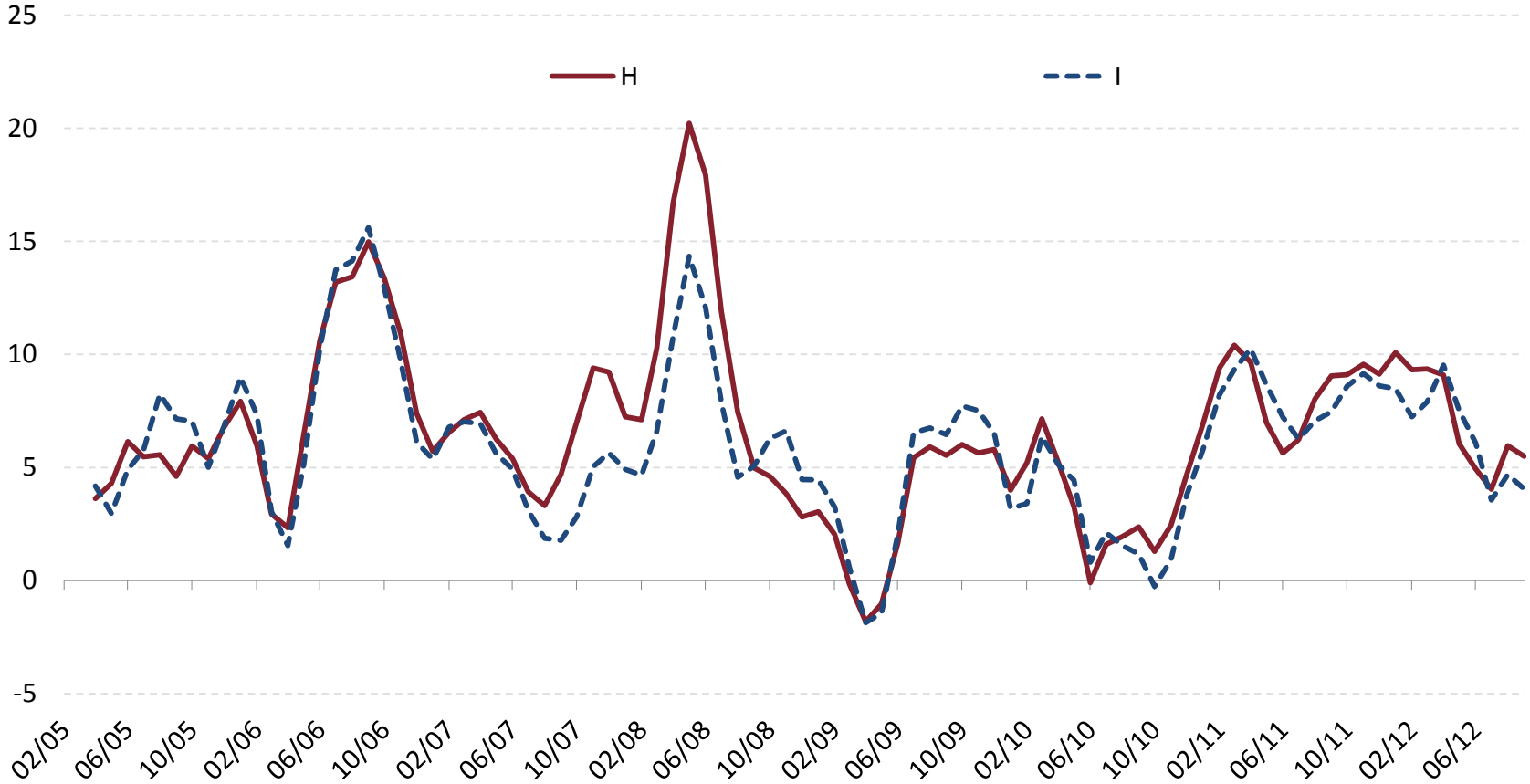


Source: TURKSTAT.

# Inflation Trend

## Main Inflation Indicators

(Seasonally Adjusted Monthly Change, 3-Month Average, Annualized)

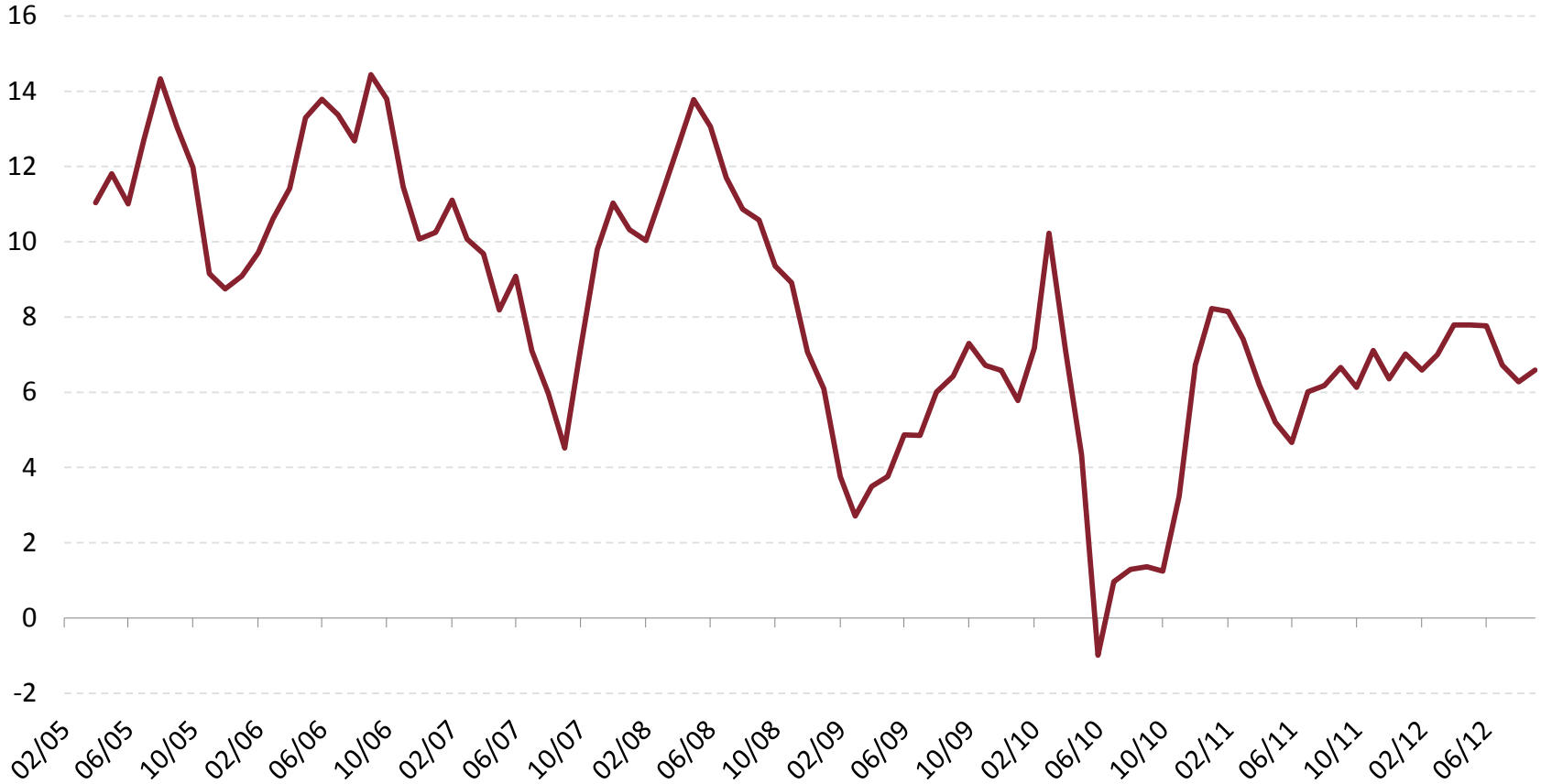


Source: TURKSTAT, CBRT.

# Inflation Trend

## Services Prices

(Seasonally Adjusted Monthly Change, 3-Month Average, Annualized)

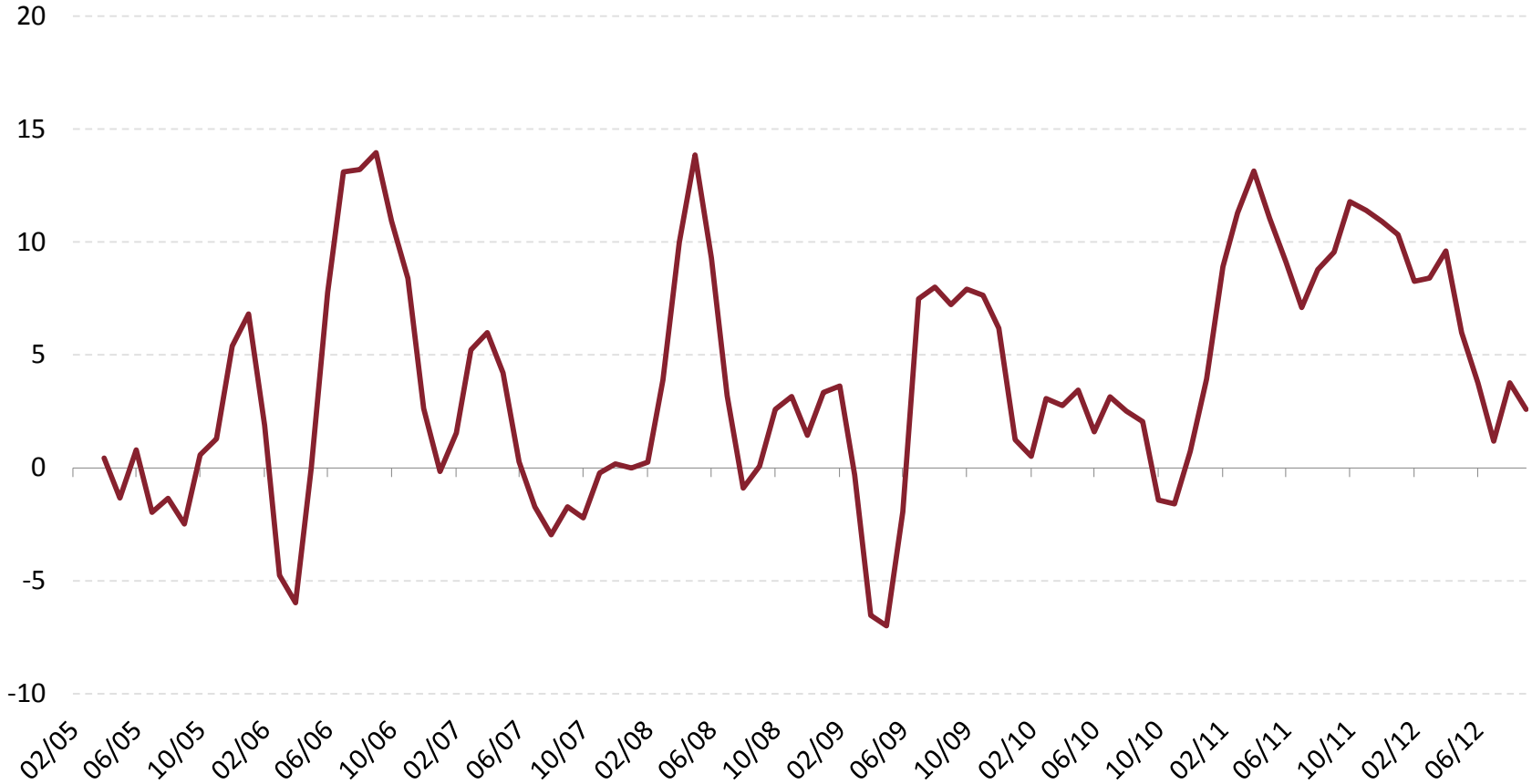


Source: TURKSTAT, CBRT.

# Inflation Trend

## Core Goods Prices

(Seasonally Adjusted Monthly Change, 3-Month Average, Annualized)

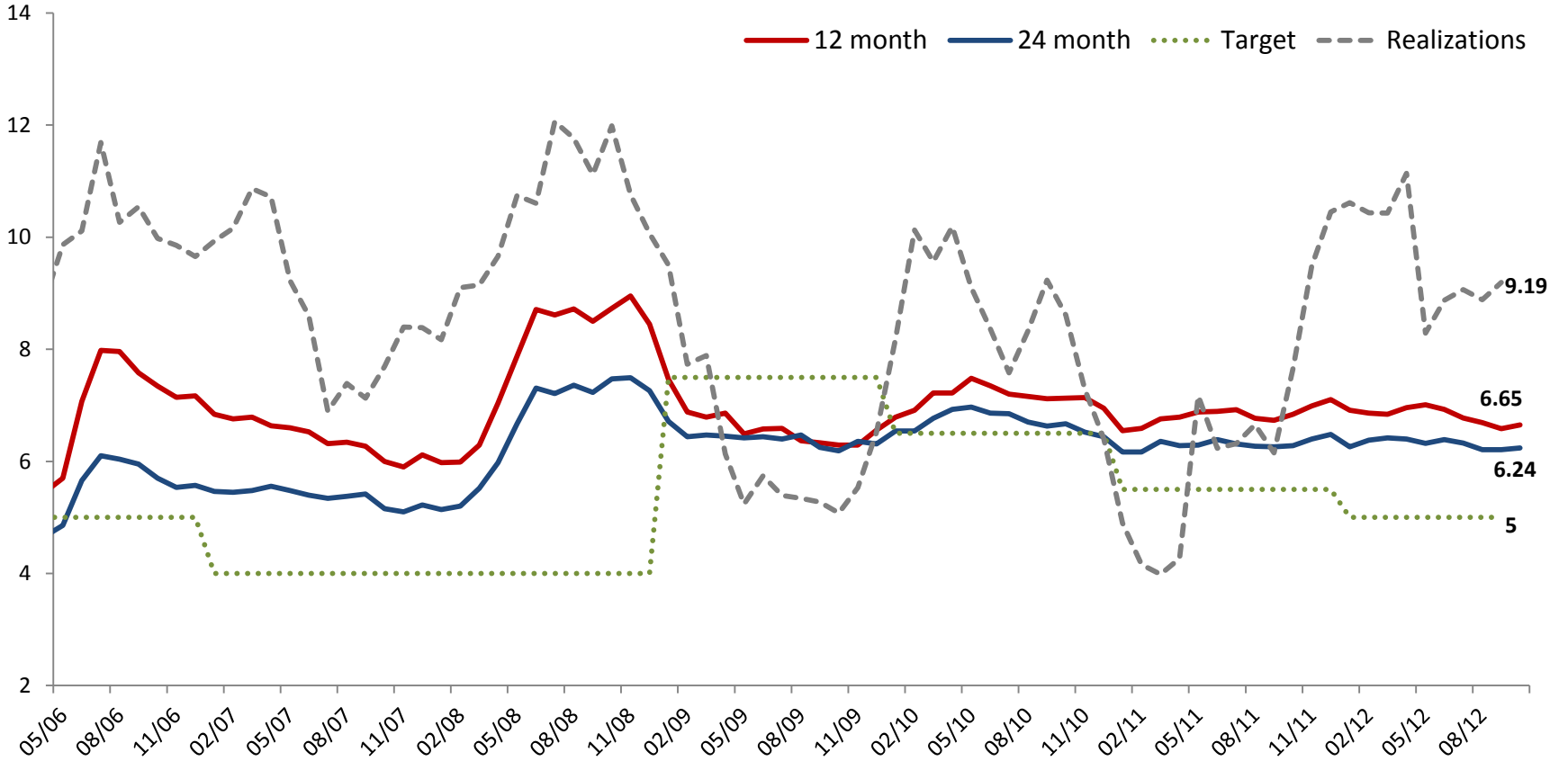


Source: TURKSTAT, CBRT.

Core goods: Goods excluding food, energy, alcoholic beverages , tobacco and gold

# Inflation Expectations

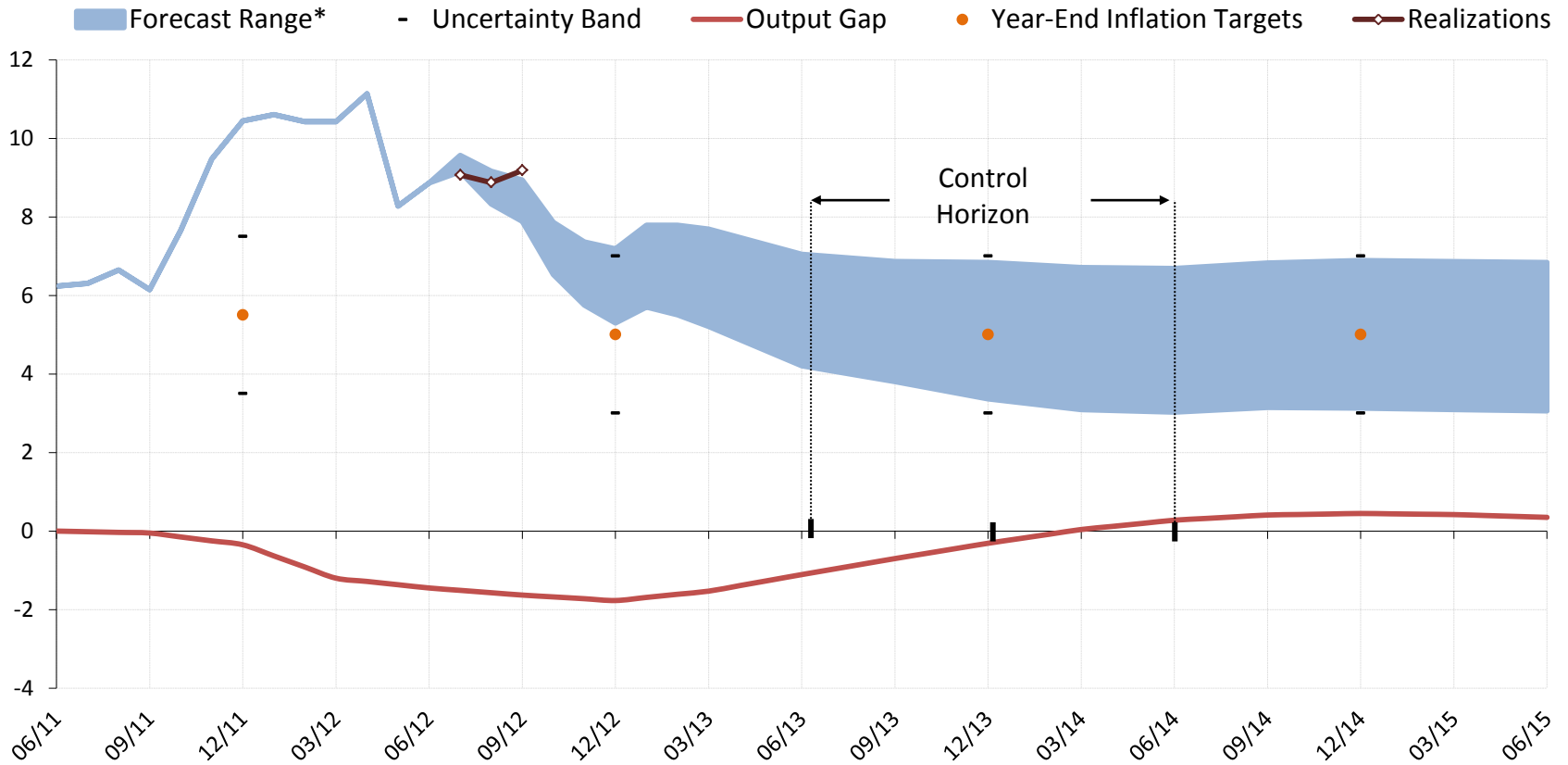
## Medium Term Inflation Expectations



Source: CBRT.

\* CBRT Survey of Expectations.

# Inflation Forecasts and Realizations



Source: CBRT.

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



# Summary

- Growth is expected to pick up in the last quarter of 2012, and follow a course close to its potential in 2013.
- The fall in inflation is expected to become more evident during the last quarter of the year.
- Given that inflation will continue to stay above the target rate of 5% for some time, a cautious stance regarding pricing behavior is warranted.

# Summary

- Increasing the reserve option coefficients and narrowing the interest rate corridor will support financial stability.
- If deemed necessary, a measured step in the same direction may be taken in the forthcoming period.
- Increasing the reserve option coefficients will enhance the FX liquidity of the Central Bank and the banking system simultaneously.
- Reducing the overnight lending rates will lead to a gradual fall in commercial lending rates and the credit deposit spreads of the banking sector.



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Governor**

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