



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Economic Outlook and Monetary Policy**

**Erdem Başçı  
Governor**

**IMF – World Bank Spring Meetings  
Presentation to investors  
April 18, 2015  
Washington DC**

# Overview: Macroeconomic Outlook and Monetary Policy

- The global low growth environment brings both opportunities and challenges for the Turkish economy.
- Structural reforms, business dynamism and a sustained European recovery will support exports and the prospects for balanced growth.
- Thanks to prudent policies, disinflation is visible in core indicators.
- Disinflation in the headline CPI will become more pronounced during the second half of the year after a likely partial correction in food prices.

# Outline

1. Opportunities and Challenges
2. Balanced Growth Prospects
3. Disinflation

# OPPORTUNITIES AND CHALLENGES

# The global environment presents both opportunities and challenges for Turkey.

## Opportunities

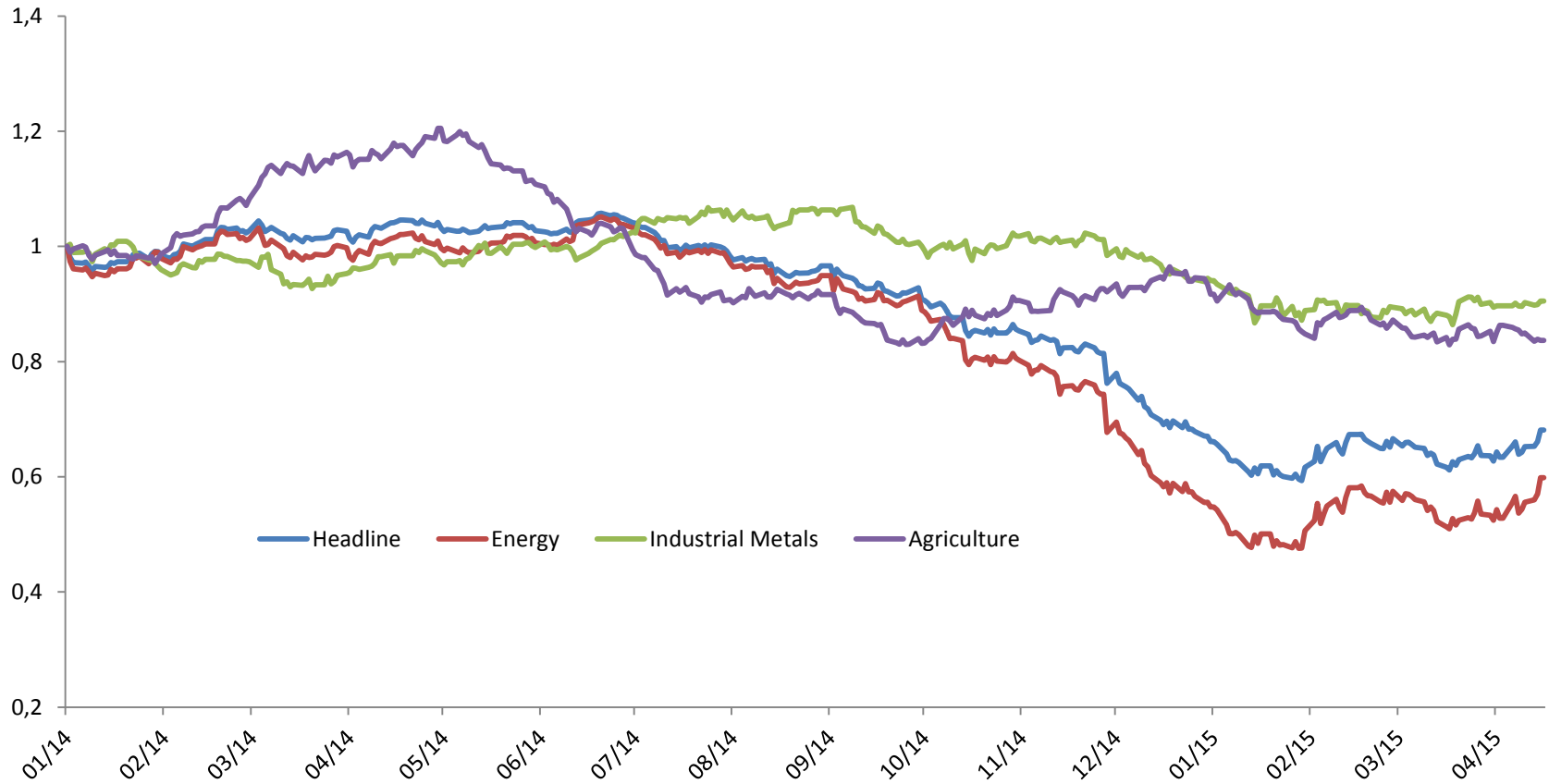
- Low commodity prices
- Low long term interest rates

## Challenges

- Weak external demand
- Volatility of the Euro/US Dollar parity

# Decline in commodity prices is helping the Turkish economy in all three fronts: inflation, current account deficit and growth.

## S&P-GS Commodity Indices (01.01.2014=1)

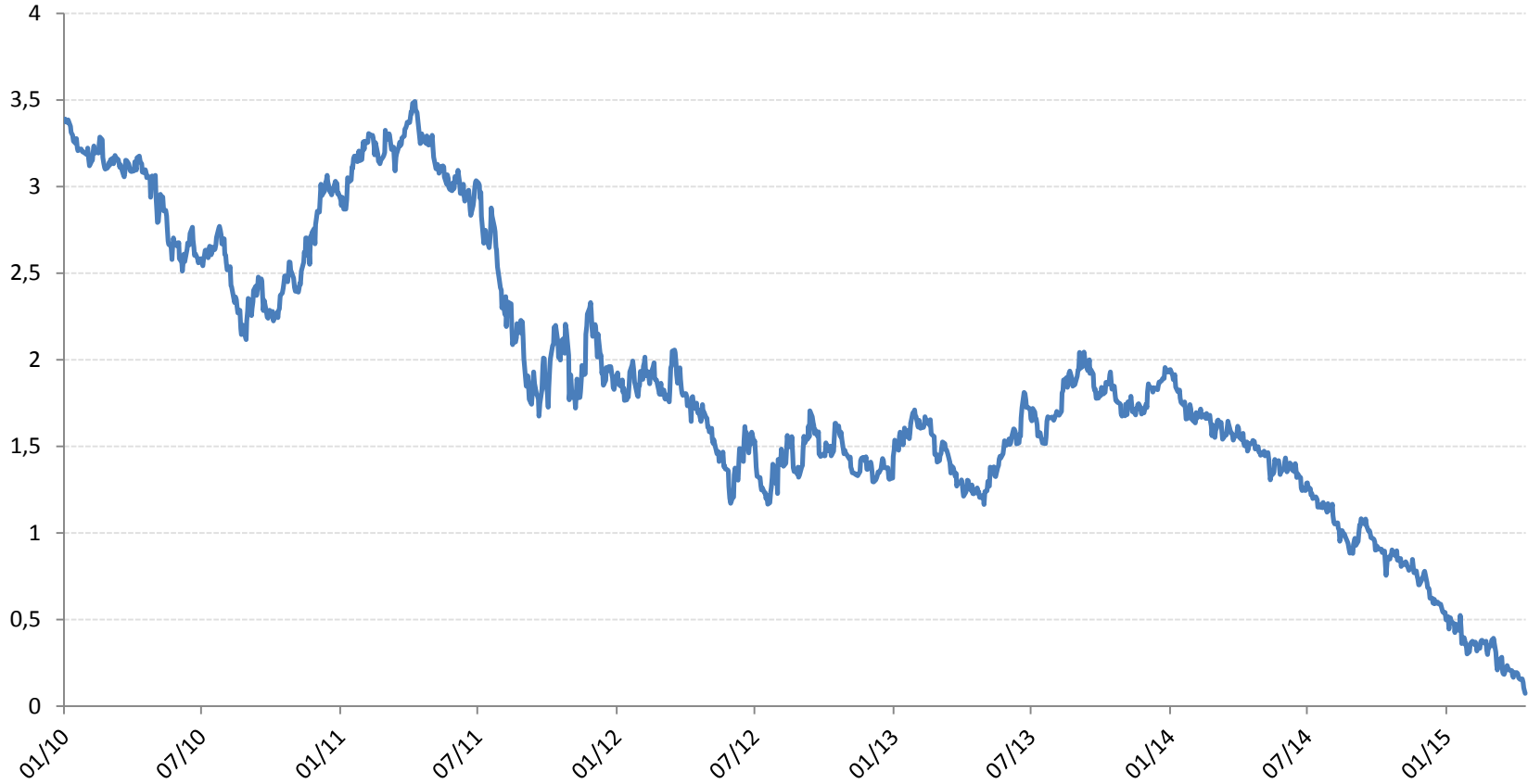


Source: Bloomberg.

Last Observation: April 16, 2015.

# Both Euro area long term government bond yields...

## Germany 10-Year Government Bond Yield (Percent)



Source: Bloomberg.

Last Observation: April 17, 2015.

... and US Treasury's long term government bond yields decrease in line with the decline in inflation expectations.

### US 10-Year Government Bond Yield (Percent)



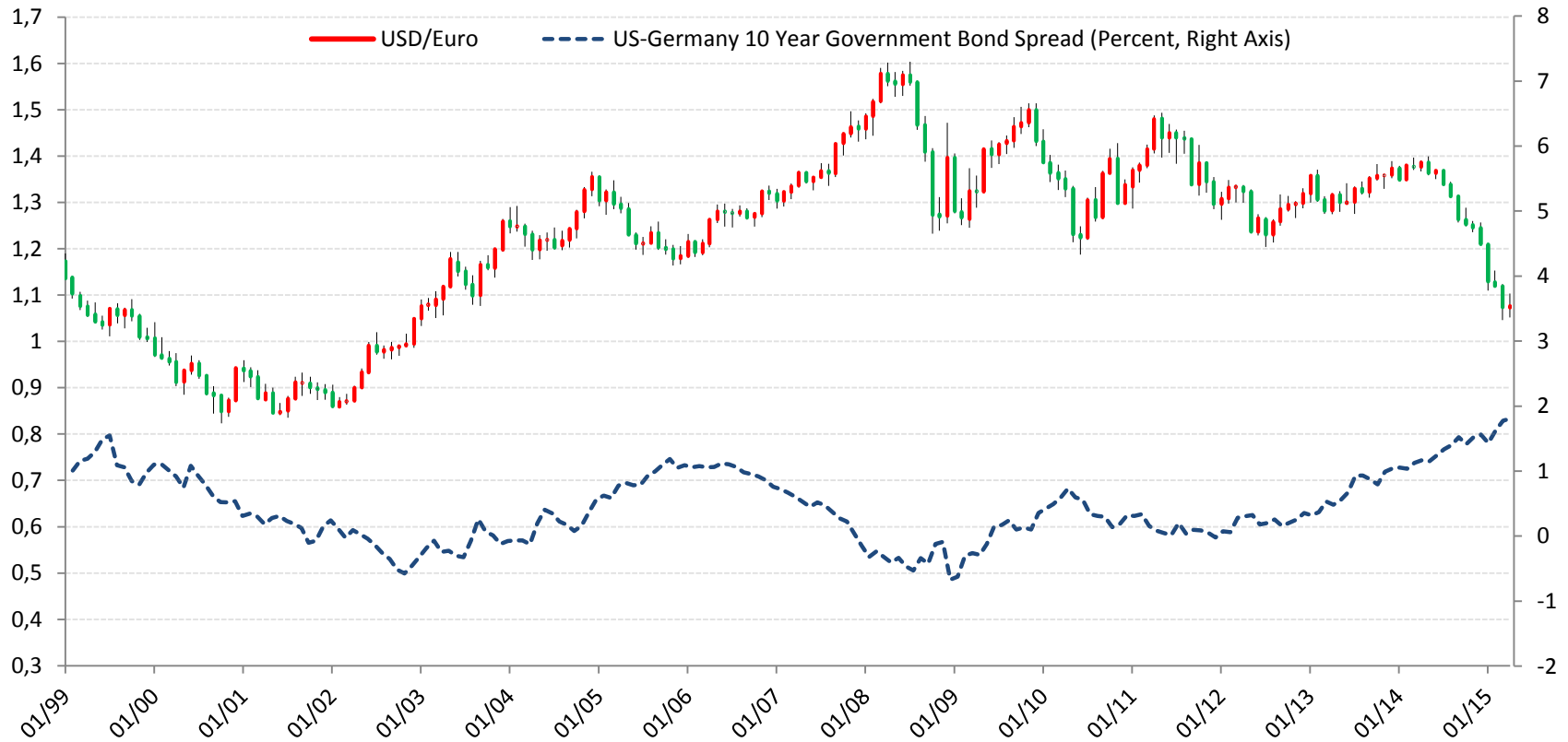
Source: Bloomberg.

Last Observation: April 17, 2015.



# The faster decline of interest rates in Euro area led to a sharp change in the USD/Euro parity.

## USD/Euro Parity and US-Germany 10-Year Bond Yield Difference

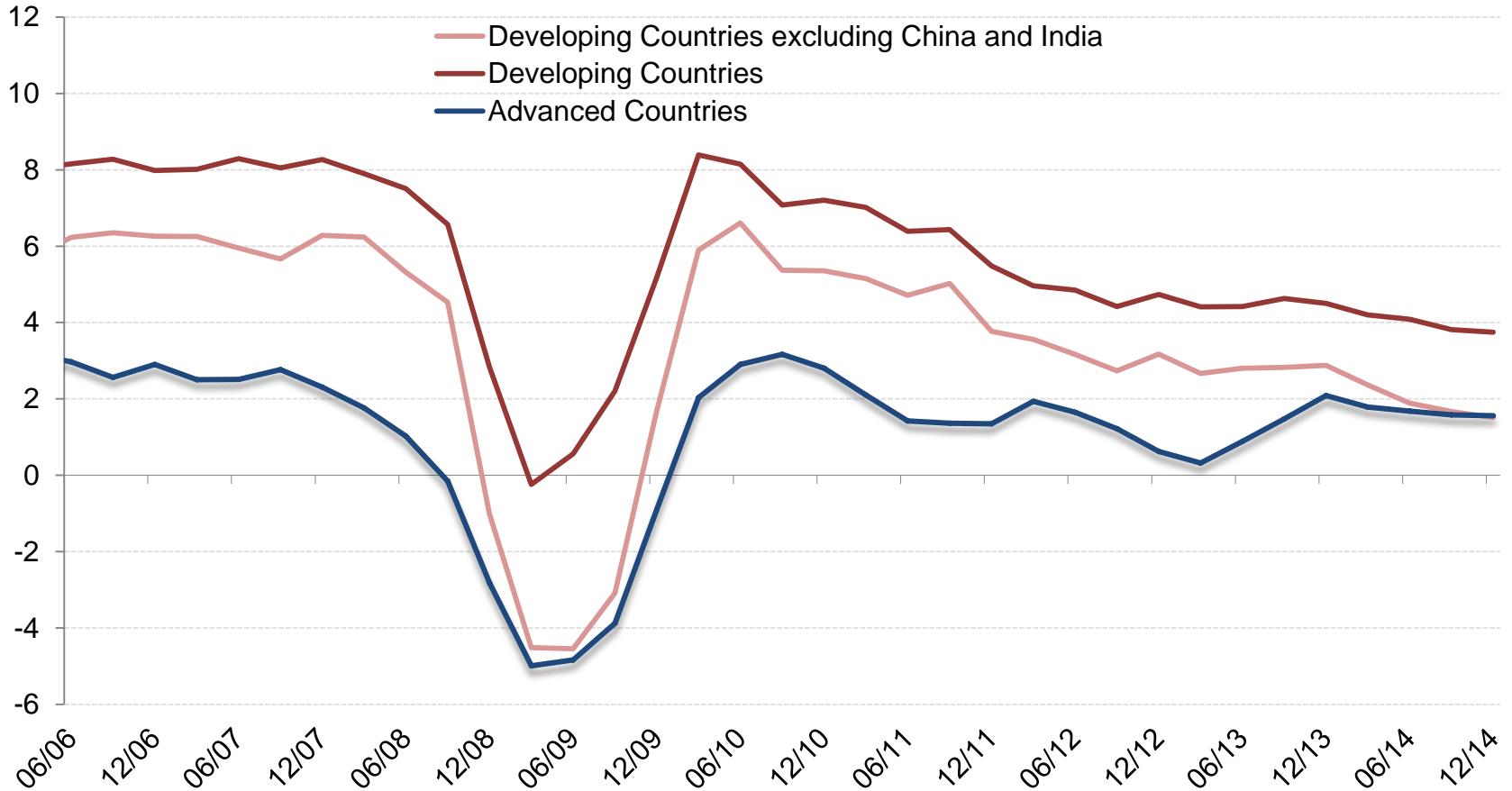


Source: Bloomberg.

Last Observation: April 17, 2015.

# Global growth rates, hence external demand, continue to be weak.

## Aggregate Growth Rates\* (Annual Change, Percent)



Source: Bloomberg, CBRT.

\*During aggregation process, countries are weighted according to their GDP values.

Last Observation: 2014 Q4.

# BALANCED GROWTH PROSPECTS

# Turkish Lira has appreciated mildly vis-a-vis the euro.

## Turkish Lira/Euro Parity



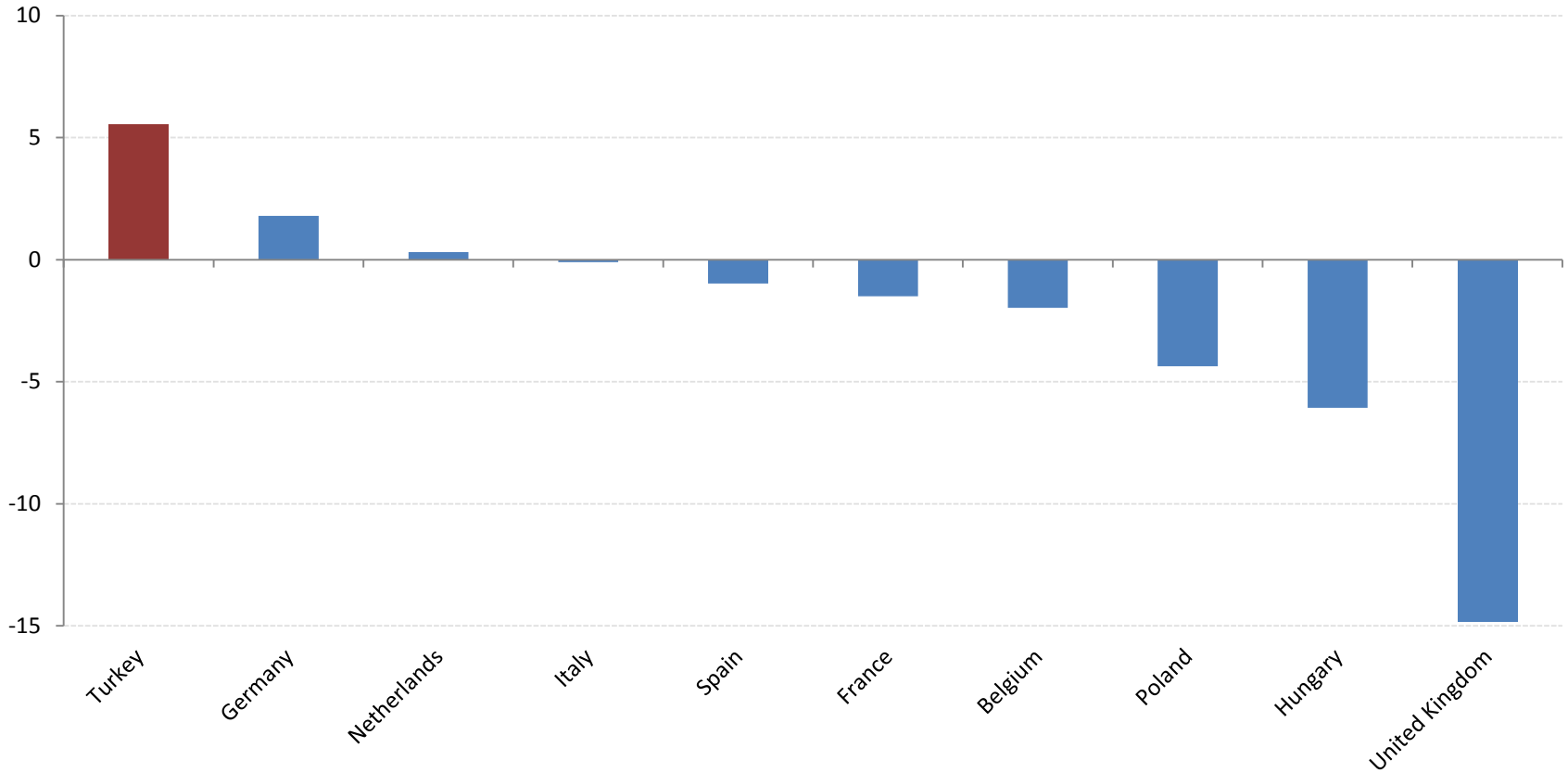
Source: Bloomberg.

Last Observation: April 17, 2015.

# Yet, Turkish exports continue to rise.

## Exports Measured in Euros\*

(Nominal, Last 12 Months Compared to the Previous 12 Months, Percentage Change)



Source: EUROSTAT, TURKSTAT.

\*Non-Seasonally adjusted.  
Last Observation: January 2015.

# Adverse impacts of geopolitical developments on external trade are offset by increasing market share of Turkish Exports globally...

## Global Market Share of Turkish Exports (Excluding Gold, 12-month Moving Average, Percent)

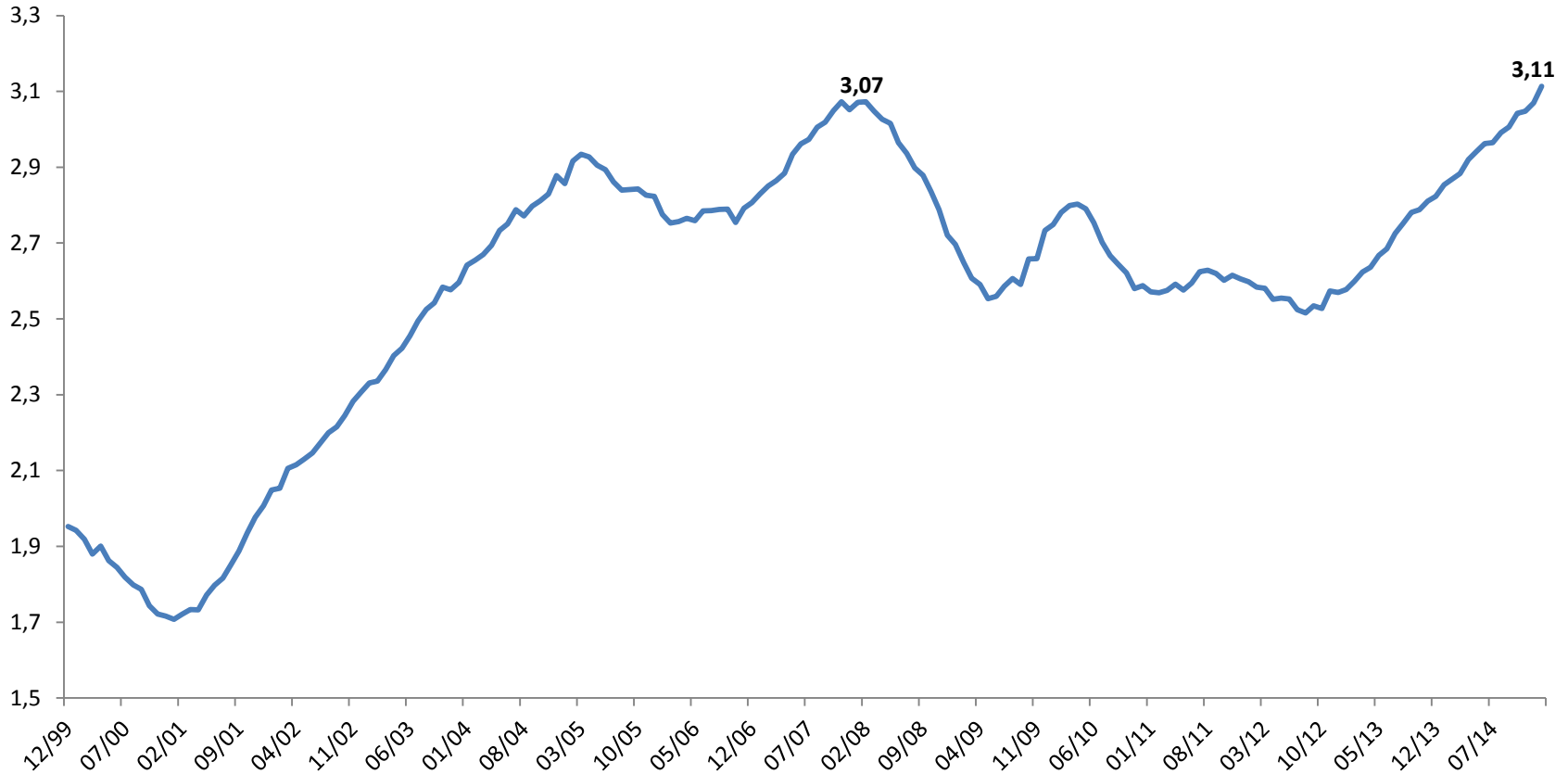


Source: TURKSTAT, World Trade Organization (WTO).

Last Observation: January 2015.

... and especially in the European Union.

### Share of Turkey in Total EU Imports\* (Percent, 12-month Moving Windows)



Source: TURKSTAT, CBRT.

Last Observation: January 2015.

\*12-month cumulative exports of Turkey to the EU28 countries / 12-month cumulative imports of EU28 countries from the rest of the world

Along with the European Union, the United States is one of our important trade destinations.

### Export Routes of Turkey

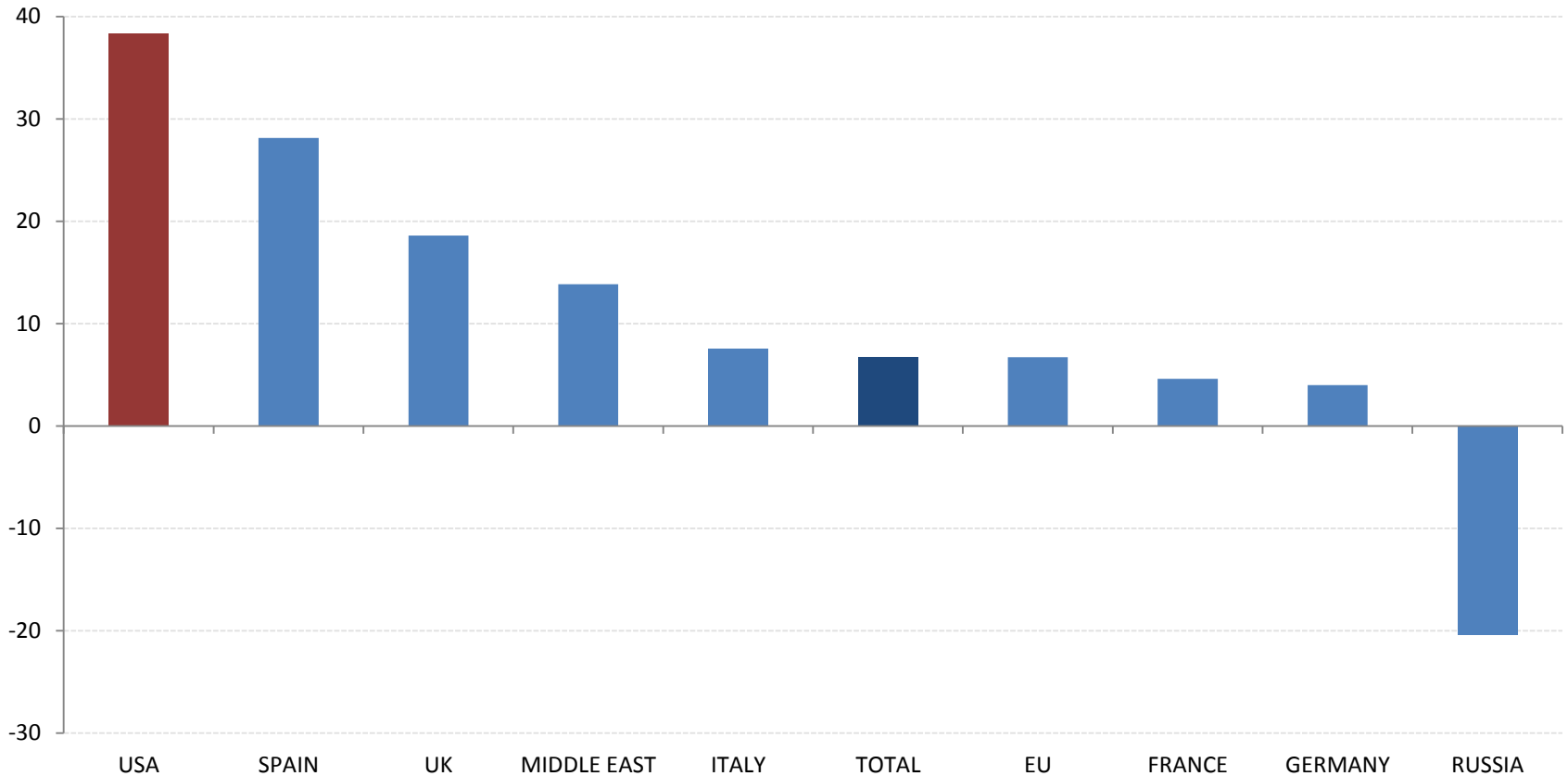


Source: WTO.



# Along with the European Union, the United States is one of our important trade destinations.

## Exports to the Main Trade Partners (3-month Cumulative, Annual Percent Change, in terms of Euro)

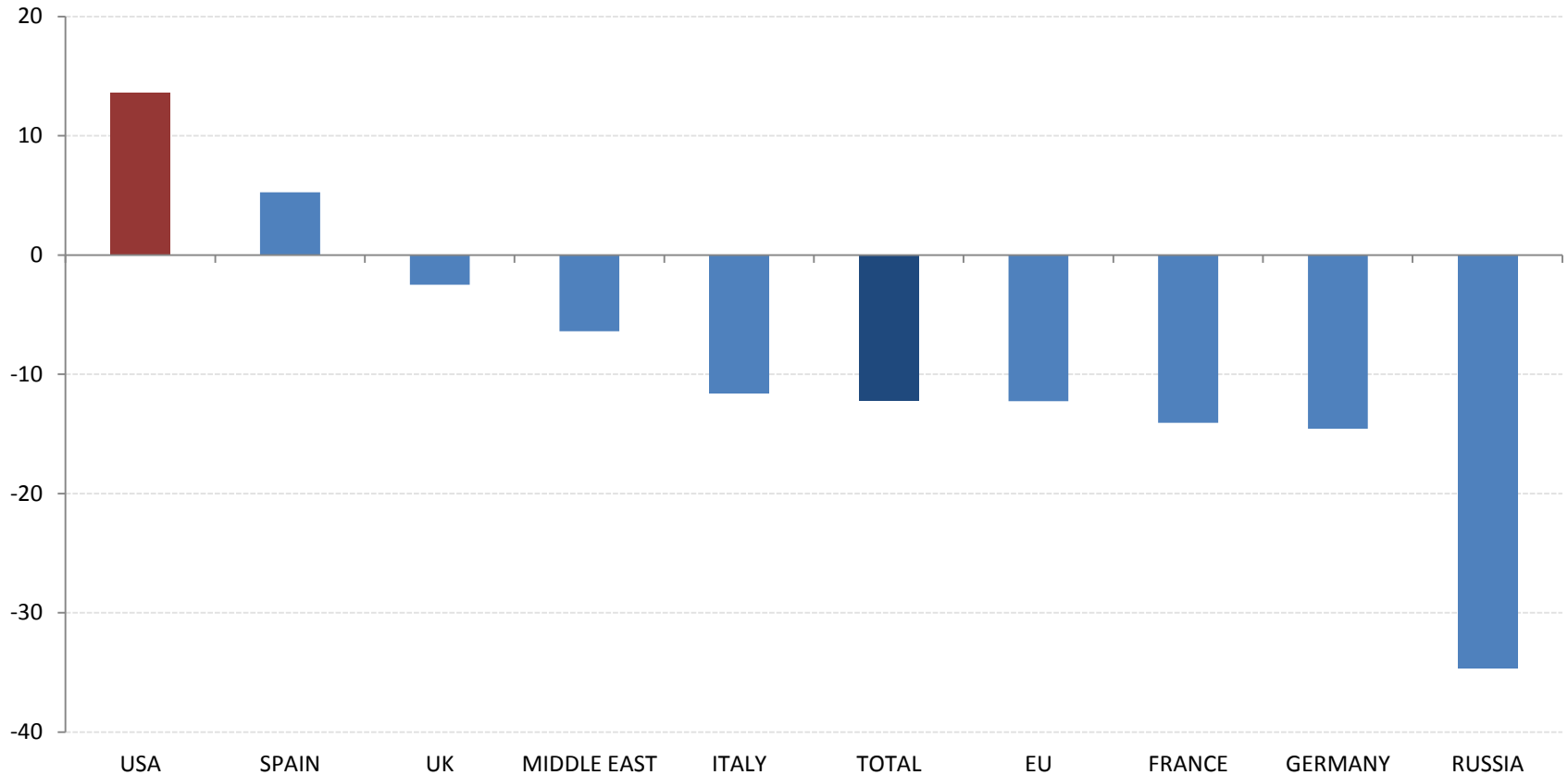


Source: TEA.

Last Observation: March 2015.

Along with the European Union, the United States is one of our important trade destinations.

**Exports to the Main Trade Partners**  
(3-month Cumulative, Annual Percent Change, in terms of USD)



Source: TEA.

Last Observation: March 2015.

# Our firms are quite flexible in shifting to new trade destinations.

## Exports to the Main Trade Partners\* (3-month Cumulative, Thousand USD)

January-March 2014			January-March 2015		
COUNTRY	Amount	Share in Total (%)	COUNTRY	Amount	Share in Total (%)
GERMANY	3,705,610	10.0	GERMANY	3,166,270	9.7
IRAQ	3,007,500	8.1	IRAQ	2,293,099	7.1
UK	2,260,476	6.1	UK	2,204,017	6.8
ITALY	1,812,553	4.9	ITALY	1,602,480	4.9
FRANCE	1,615,321	4.4	US	1,537,559	4.7
RUSSIA	1,437,524	3.9	FRANCE	1,387,909	4.3
US	1,353,533	3.7	SPAIN	1,158,823	3.6
SPAIN	1,101,019	3.0	RUSSIA	938,776	2.9
NETHERLANDS	908,371	2.5	UAE	935,465	2.9
UAE	797,501	2.2	IRAN	875,393	2.7
ISRAEL	787,391	2.1	SAUDI ARABIA	794,342	2.4
EGYPT	765,679	2.1	NETHERLANDS	727,811	2.2
BELGIUM	741,619	2.0	BELGIUM	640,095	2.0
ROMANIA	738,848	2.0	ROMANIA	639,871	2.0
SAUDI ARABIA	719,629	1.9	EGYPT	635,089	2.0
CHINA	684,808	1.9	ISRAEL	625,858	1.9
IRAN	663,946	1.8	POLAND	568,017	1.7
AZERBAIJAN	609,948	1.6	AZERBAIJAN	538,100	1.7
POLAND	608,837	1.6	TURKMENISTAN	457,030	1.7
TURKMENISTAN	495,185	1.3	CHINA	455,640	1.4

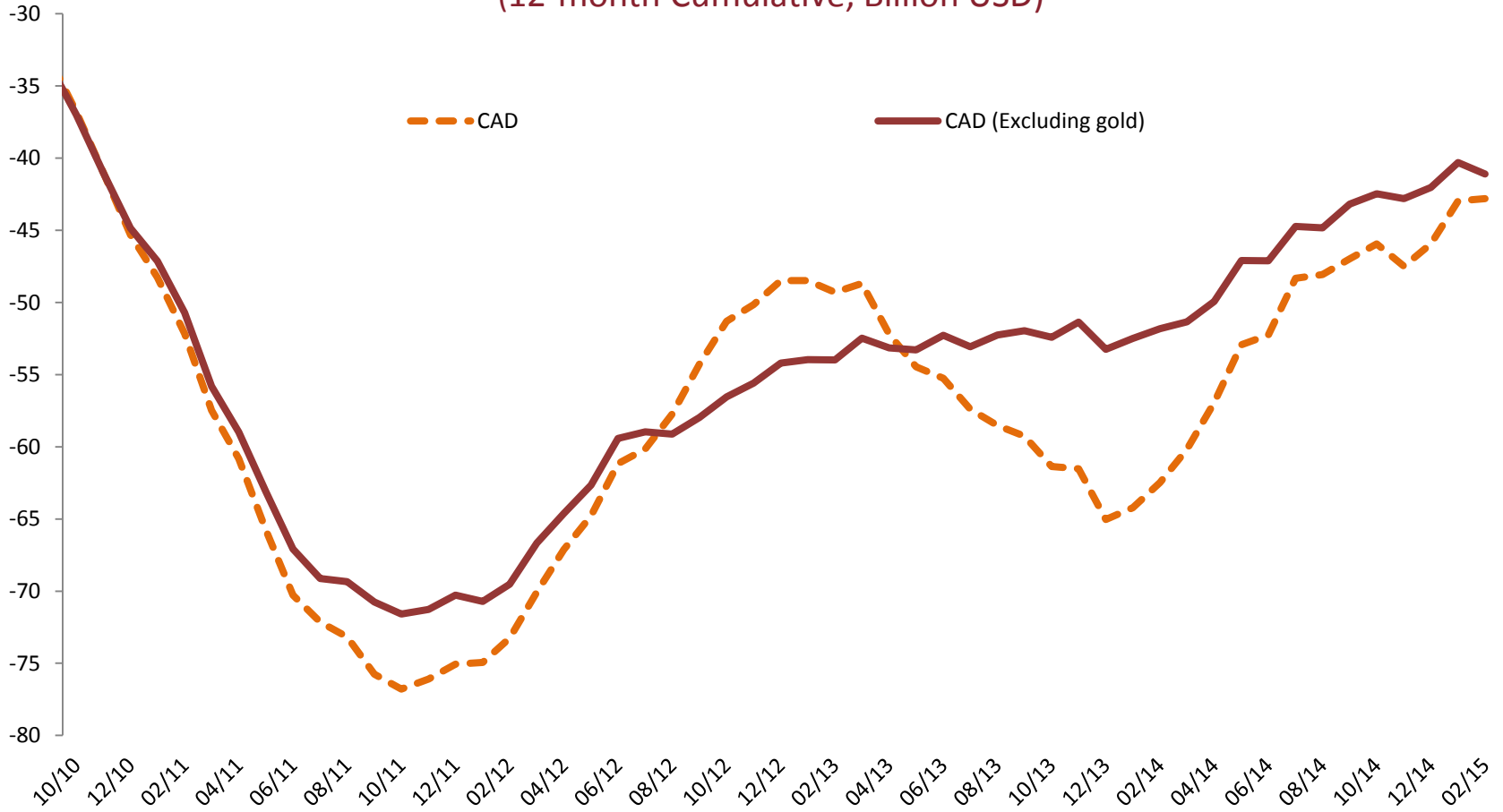
Source: TEA.

\*Blue, red and green indicates increase, decrease and unchange in the ranking respectively.

Last Observation: March 2015.

# Current account balance has been improving since 2011.

## Current Account Balance (12-month Cumulative, Billion USD)

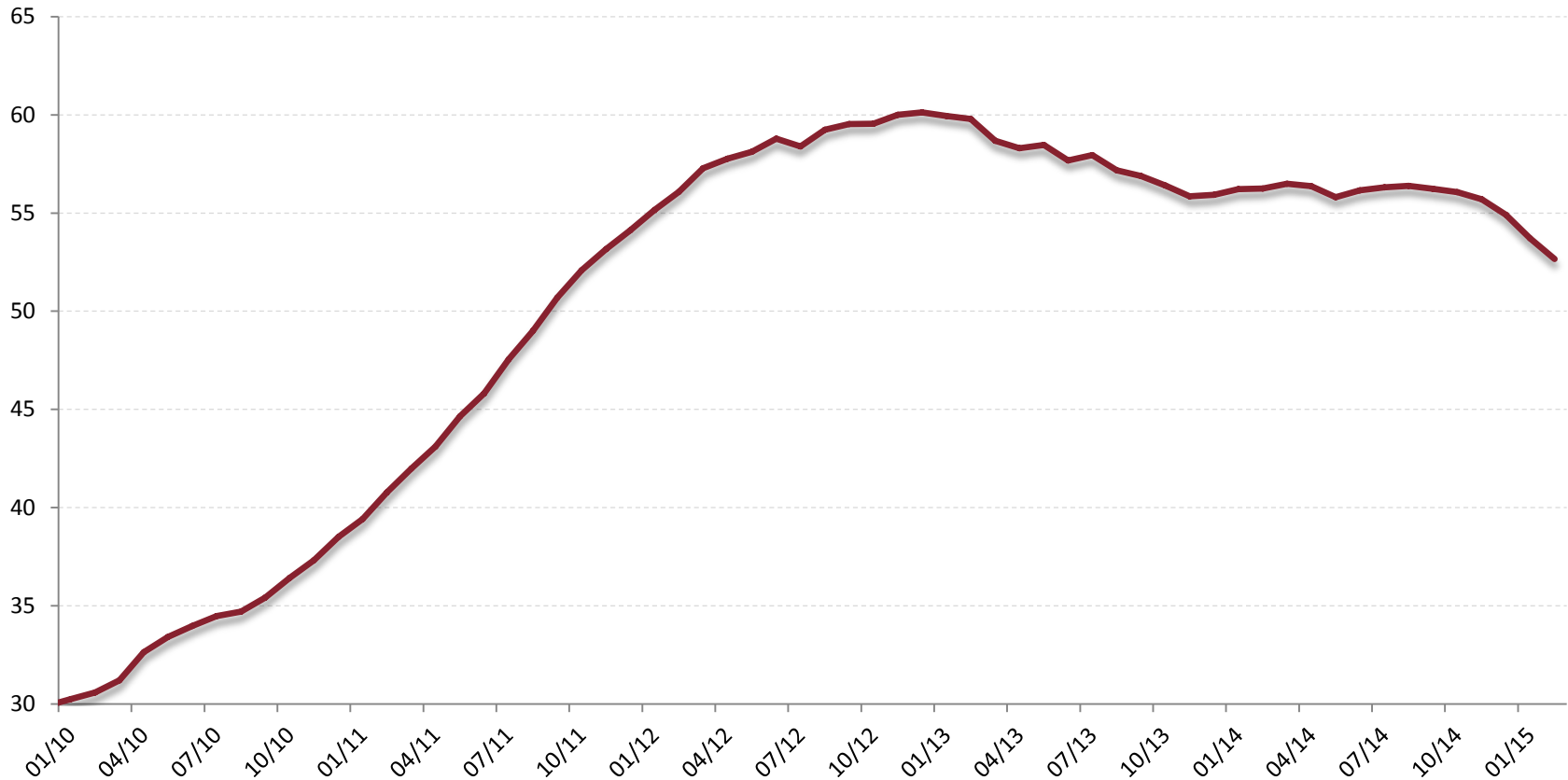


Source: CBRT.

Last Observation : February 2015.

# The impact of lower oil prices will become more visible in the coming months.

## Energy Imports (12-Month Cumulative, Billion USD)

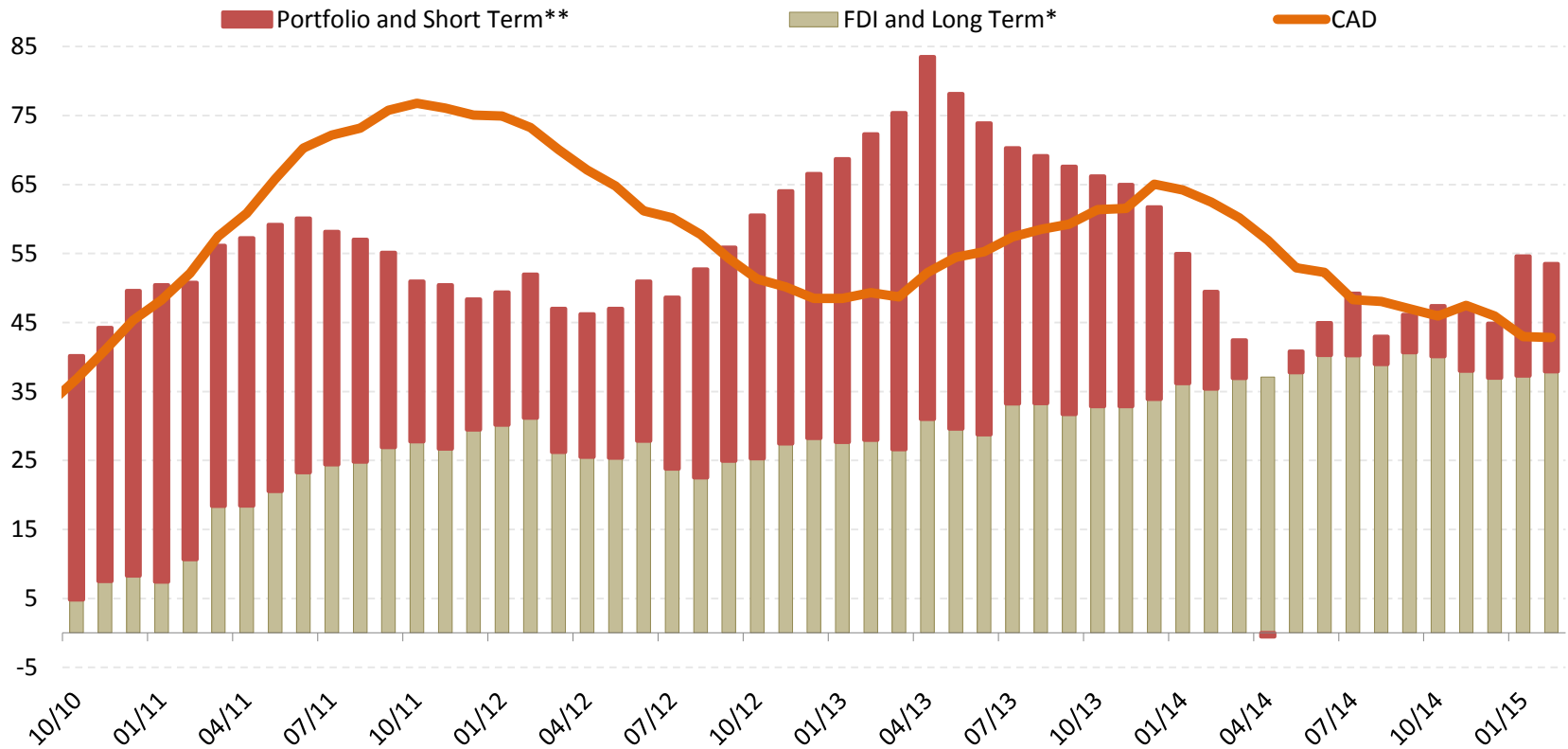


Source: TURKSTAT.

Last Observation: February 2015.

# Current account deficit is mainly financed by long-term borrowing and foreign direct investments.

## Current Account Deficit Financing Sources (12-month Cumulative, Billion USD)



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

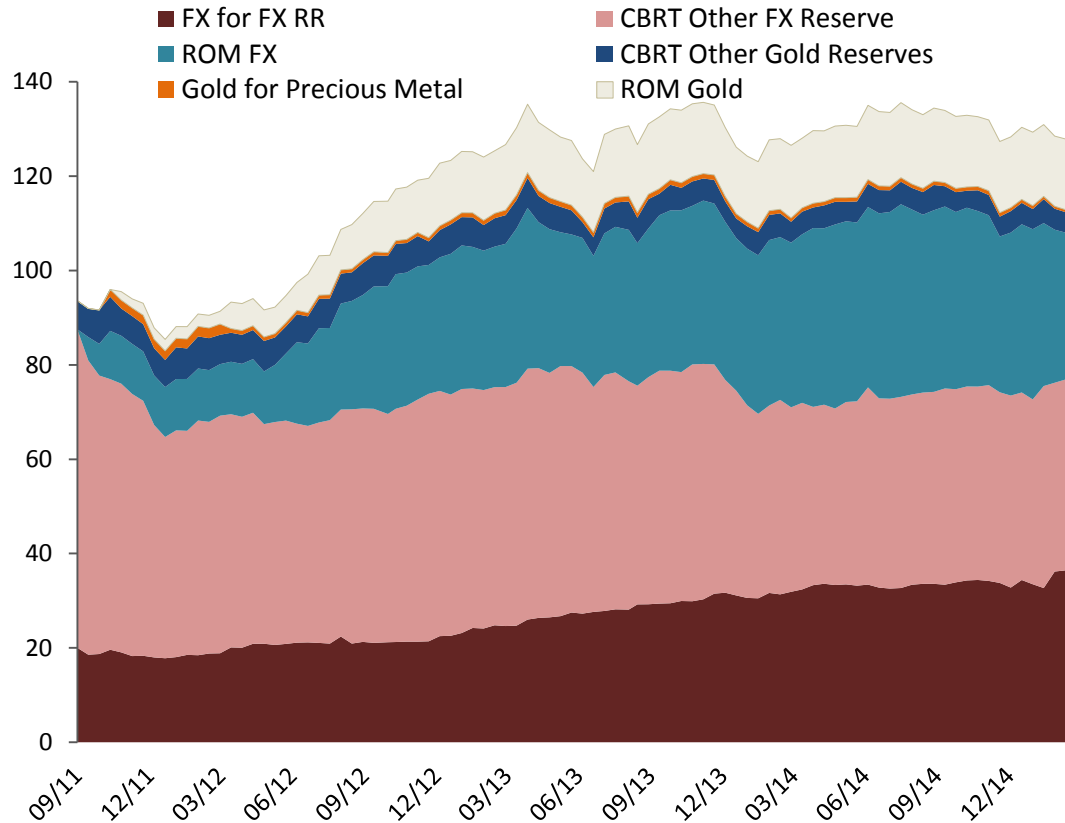
\*\*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

Last Observation: February 2015.

Source: CBRT.

# Reserve requirements are used effectively as macroprudential tools against strong FX debt inflows in a global low rate environment.

## CBRT Reserves\* (Billion USD)



Source: CBRT.

Last Observation: March 27, 2015.

\* Total 123.4 Billion USD.

	Net <sup>1</sup> FX Sales (-)	Export Credit (+)
2009	-3,41	1,04
2010	-14,87	1,10
2011	7,15	1,92
2012	2,46	8,30
2013	17,61	12,66
2014	14,35	13,0
2015	7,20 <sup>2</sup>	15,5 <sup>3</sup>

### FX reserves acquired through reserve requirements

	Amount (Billion USD)
FX for FX RR	38,1
ROM FX	30,5
<b>TOTAL</b>	<b>68,6</b>

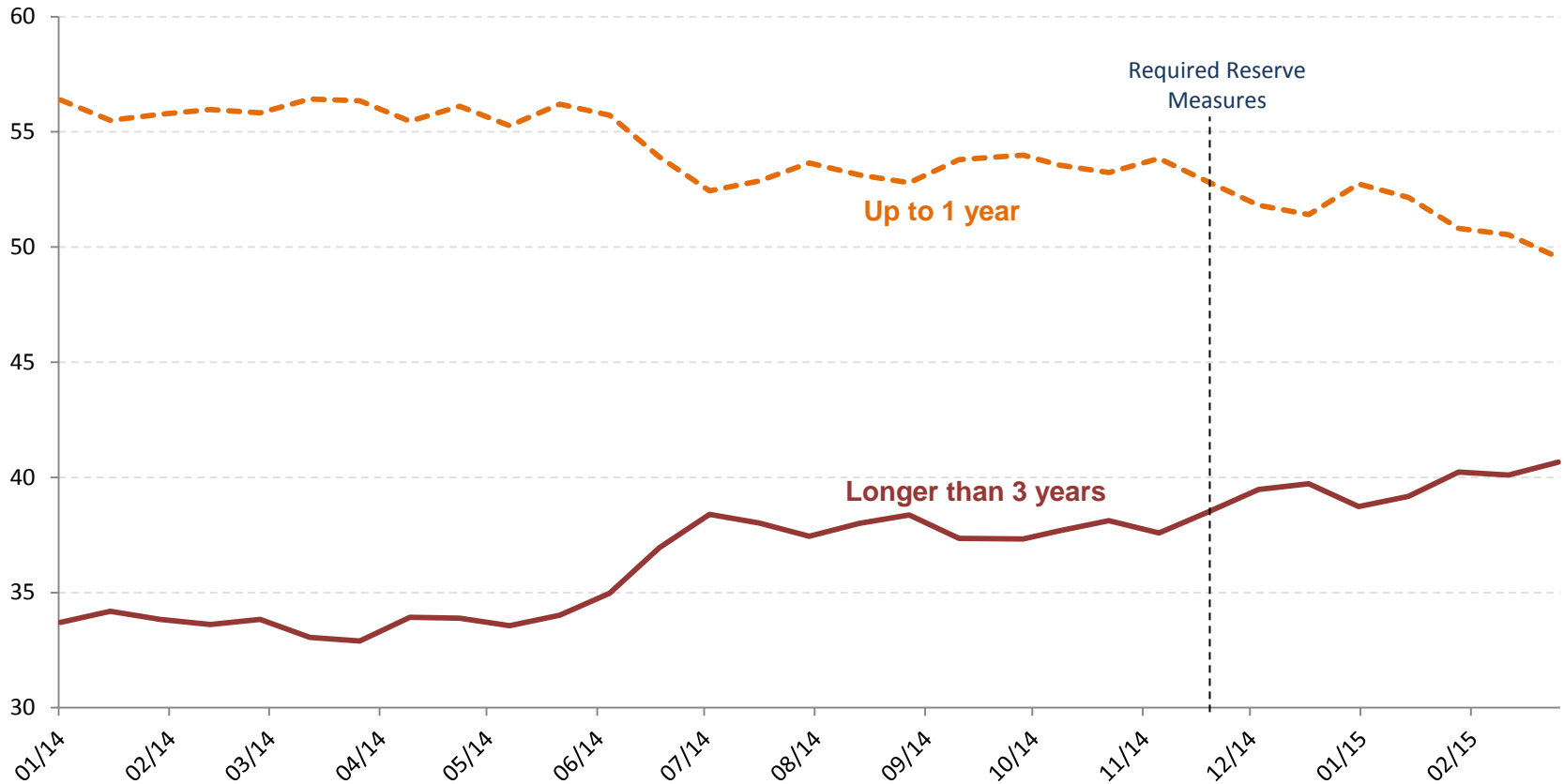
<sup>1</sup>Includes FX Sales to Public Energy Companies.

<sup>2</sup>FX Sales are as of March 2015.

<sup>3</sup>2015 year-end forecast.

# Non-core liabilities of the financial institutions have been shifting towards longer maturities since the announcement of the RR measures.

## Maturity Breakdown of Non-Core FX Liabilities (Percent)



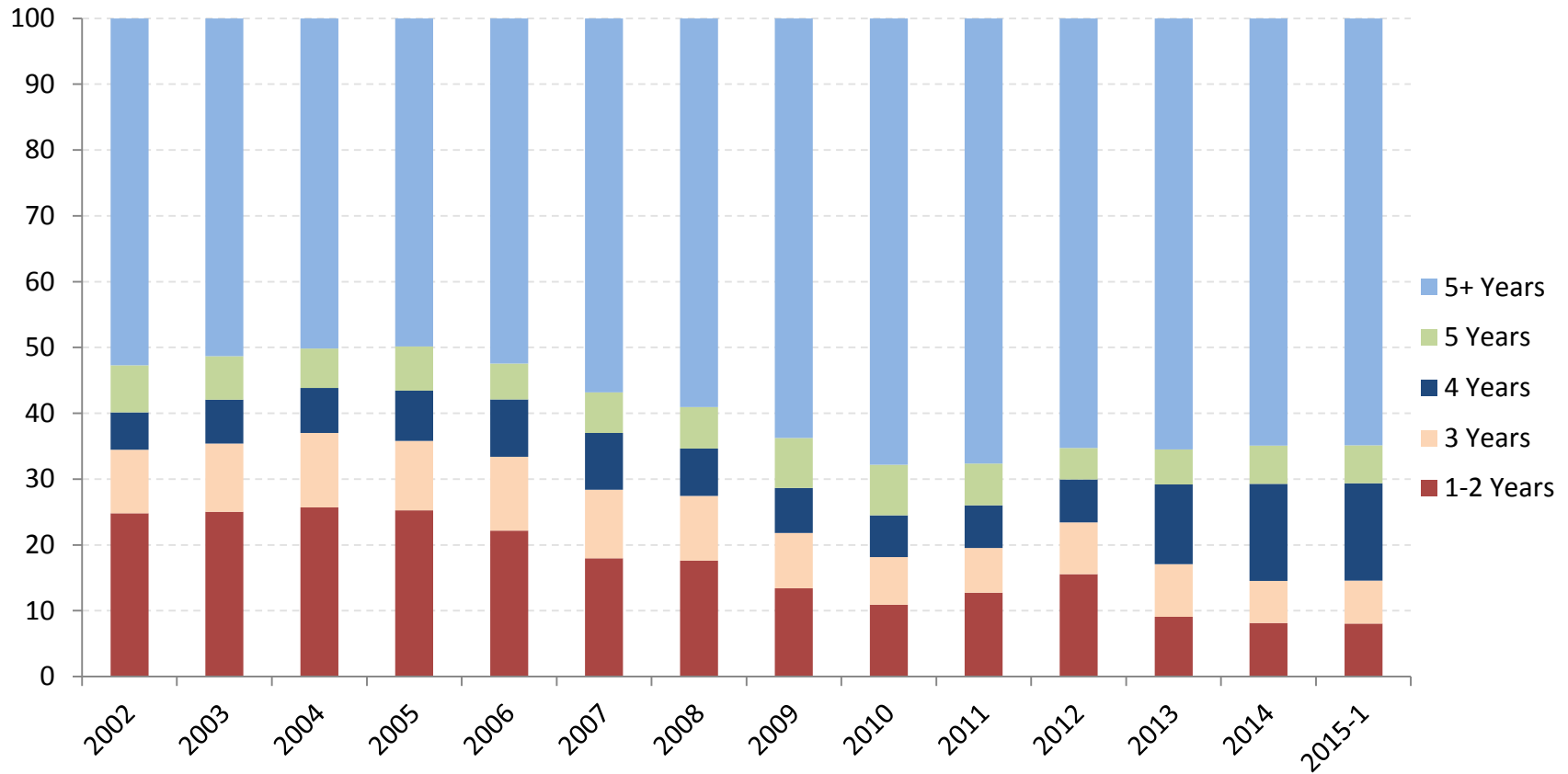
Source: CBRT.

Last Observation: March 13, 2015.



# The external debt maturity of non-financial firms is already quite long.

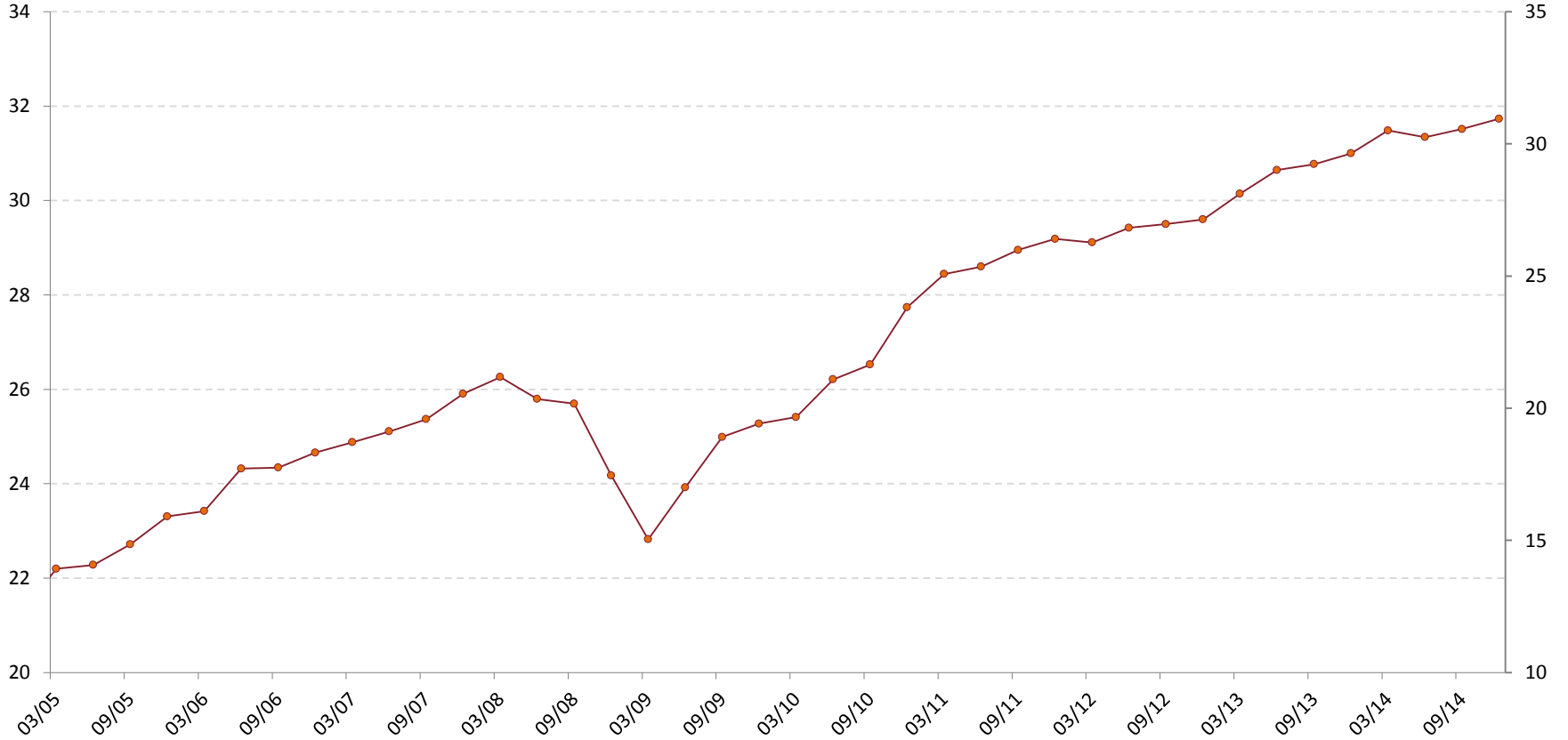
## Real Sector External Debt Maturity (Percent)



Source: CBRT.

# GDP exhibits a moderate growth.

**GDP**  
(1998 Constant Prices Billion TL, Seasonally Adjusted)

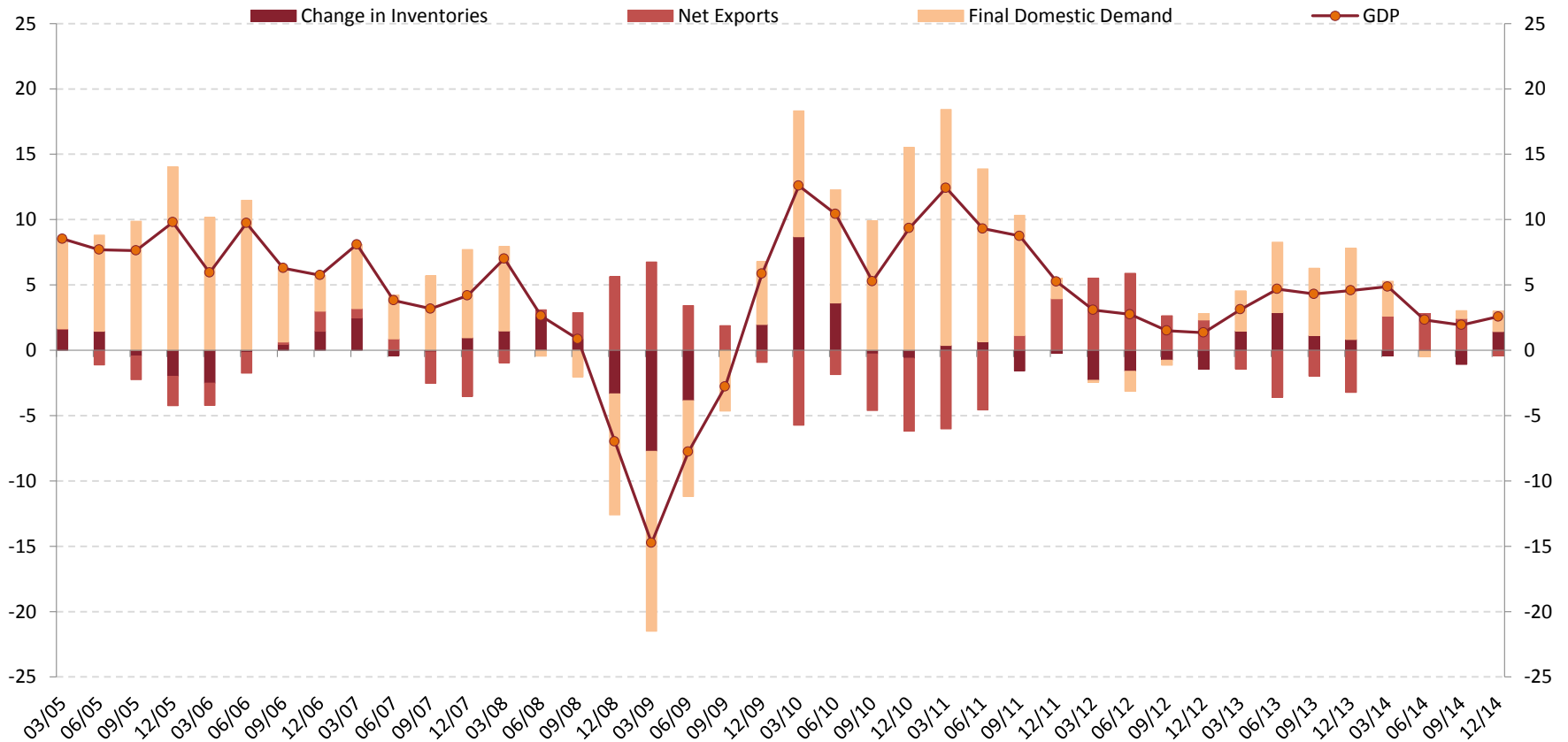


Source: TURKSTAT.

Last Observation: 2014 Q4.

# Despite the weak external demand, net exports contributed to growth in 2014.

## Contribution to Annual GDP Growth (Percentage Points)



Source: TURKSTAT.

Last Observation: 2014 Q4.

# Structural reforms will further boost the growth potential of Turkey.

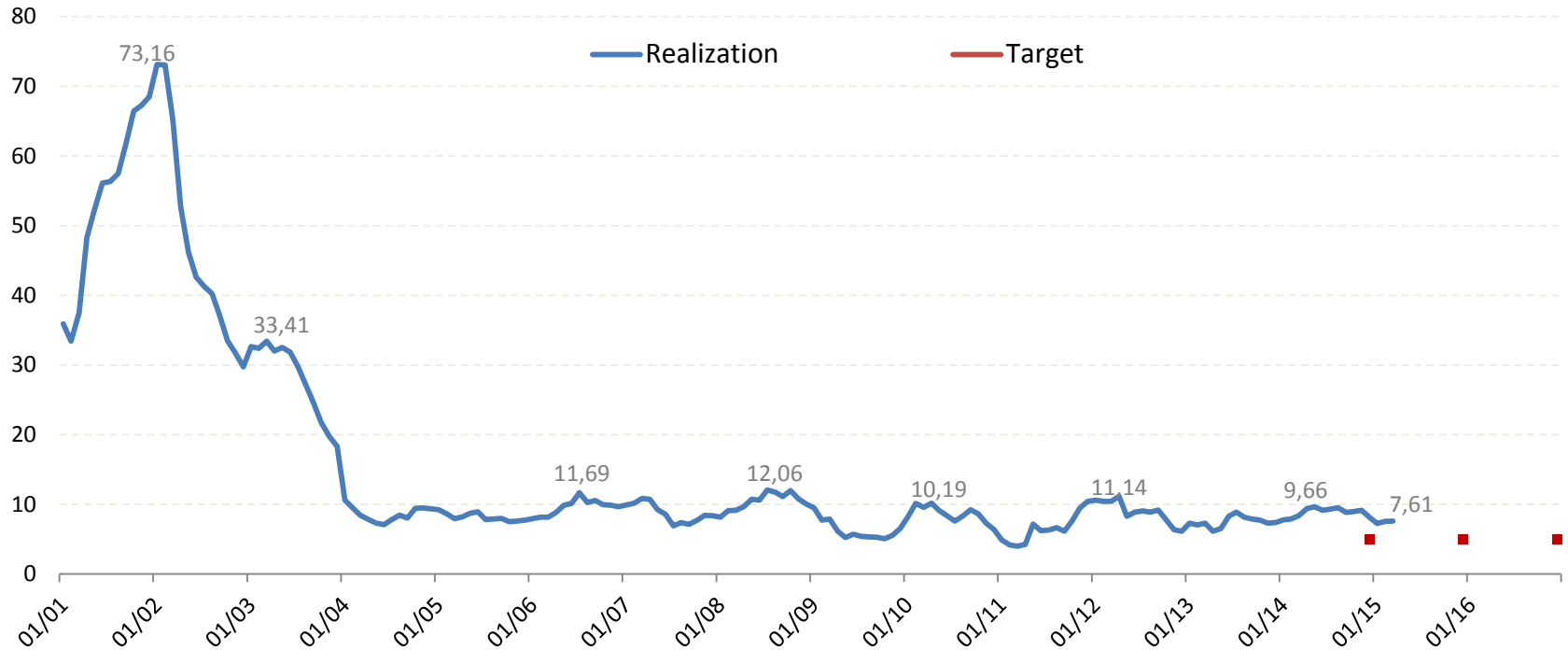
## 10<sup>th</sup> Development Plan Reforms

- i. Human Capital and the Labor Market
- ii. Technology and Innovation
- iii. Physical Infrastructure

# DISINFLATION

# Turkey is in a disinflation process.

## Inflation Realizations and Targets (Percent)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Target</b>	35	20	12	8	5	4	4	7.5	6.5	5.5	5	5	5	5	5
<b>Realization</b>	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2	-	-

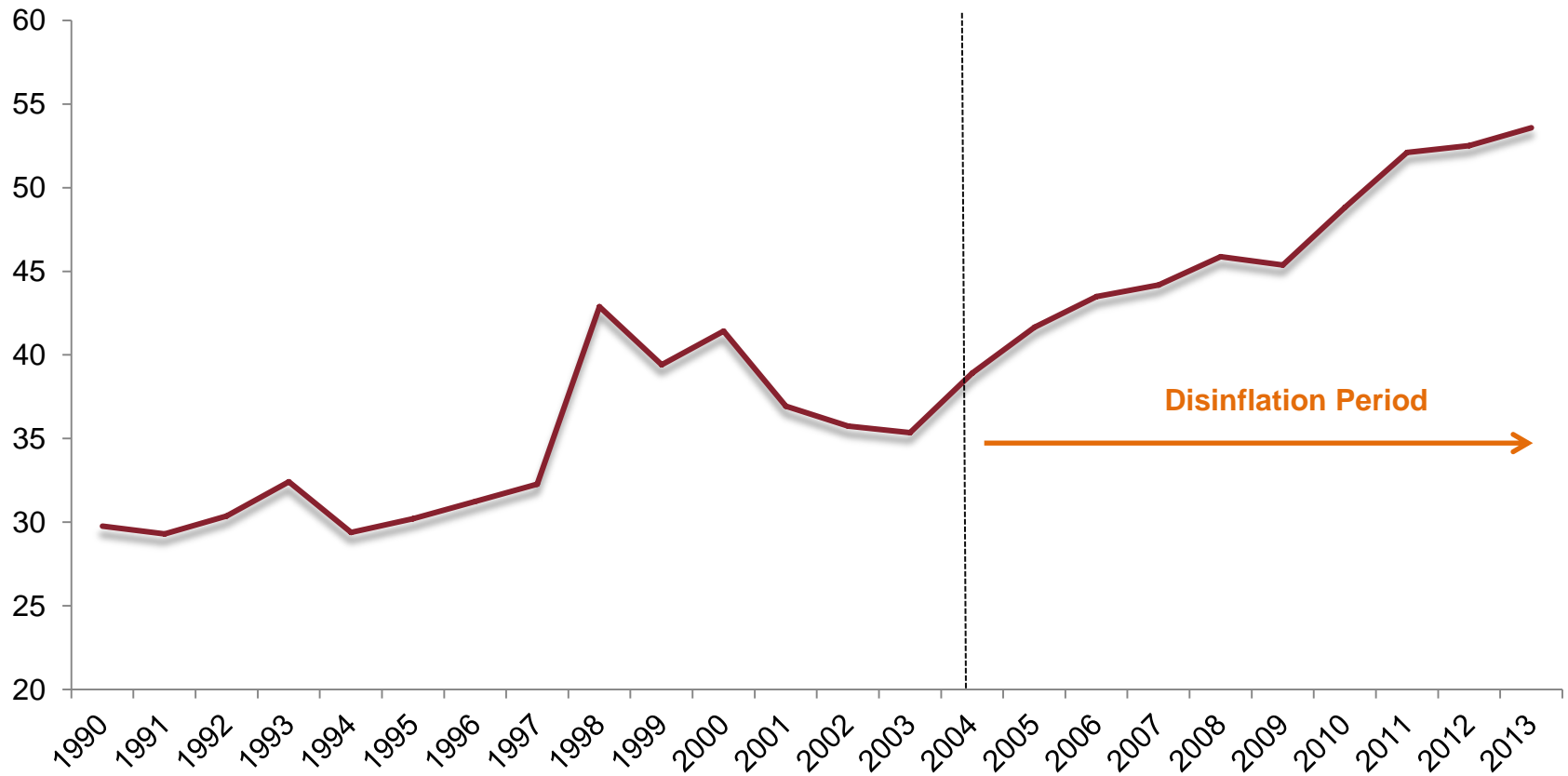
Source: TURKSTAT, CBRT.

January 2002: 73.16, March 2003: 33.41, July 2006: 11.69, July 2008: 12.06, April 2010: 10.19, April 2012: 11.44, May 2014: 9.66

Last Observation: March 2015.

# Turkey's relative real GDP per capita has been increasing during the disinflation period.

## Turkey/European Union GDP Per Capita (Purchasing Power Parity, Percent)

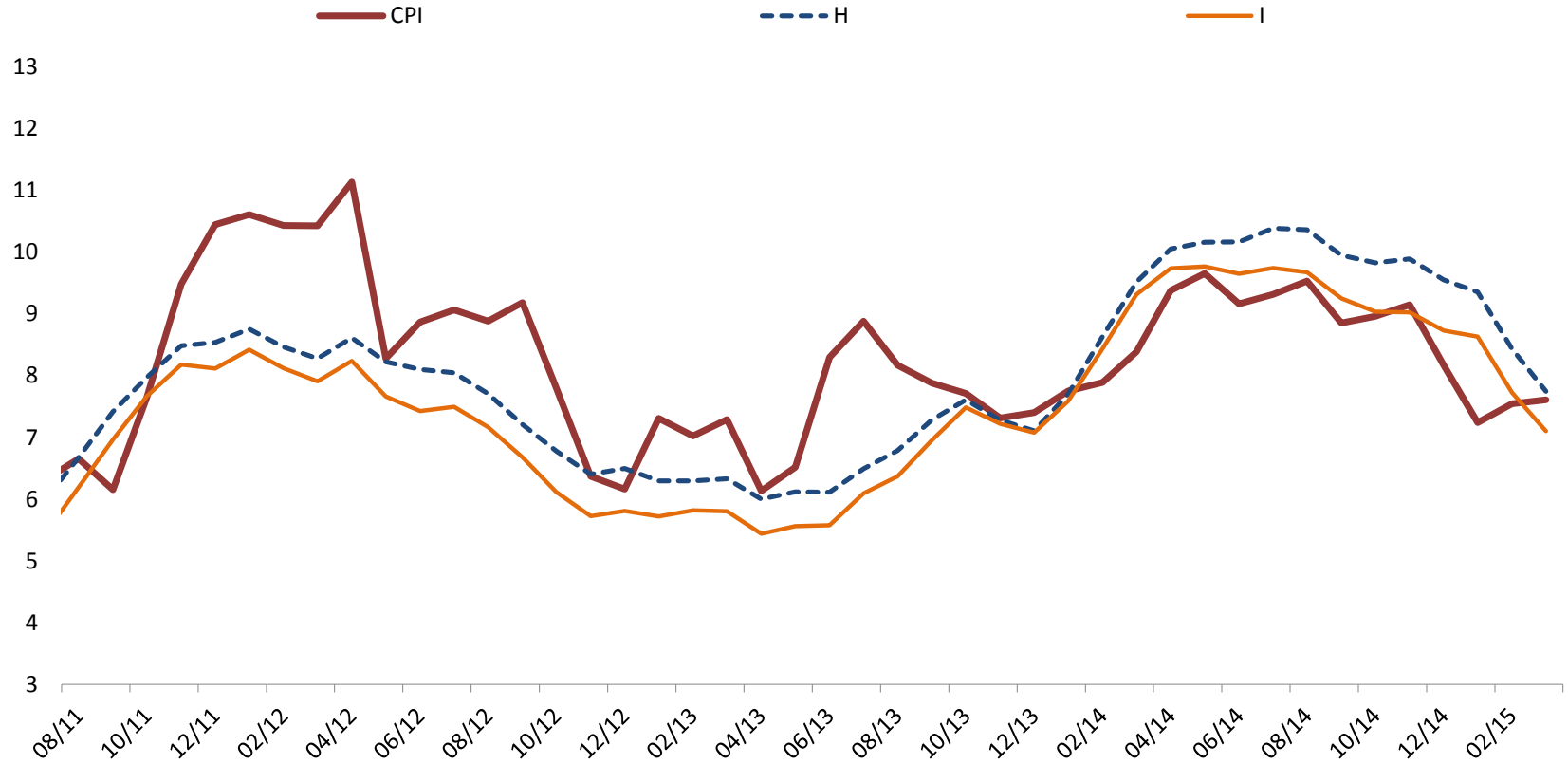


Source: World Bank.

Last Observation: 2013.

# The improvement in core inflation indicators has continued in recent months.

## CPI and Core Inflation Indicators (Annual Percentage Change)



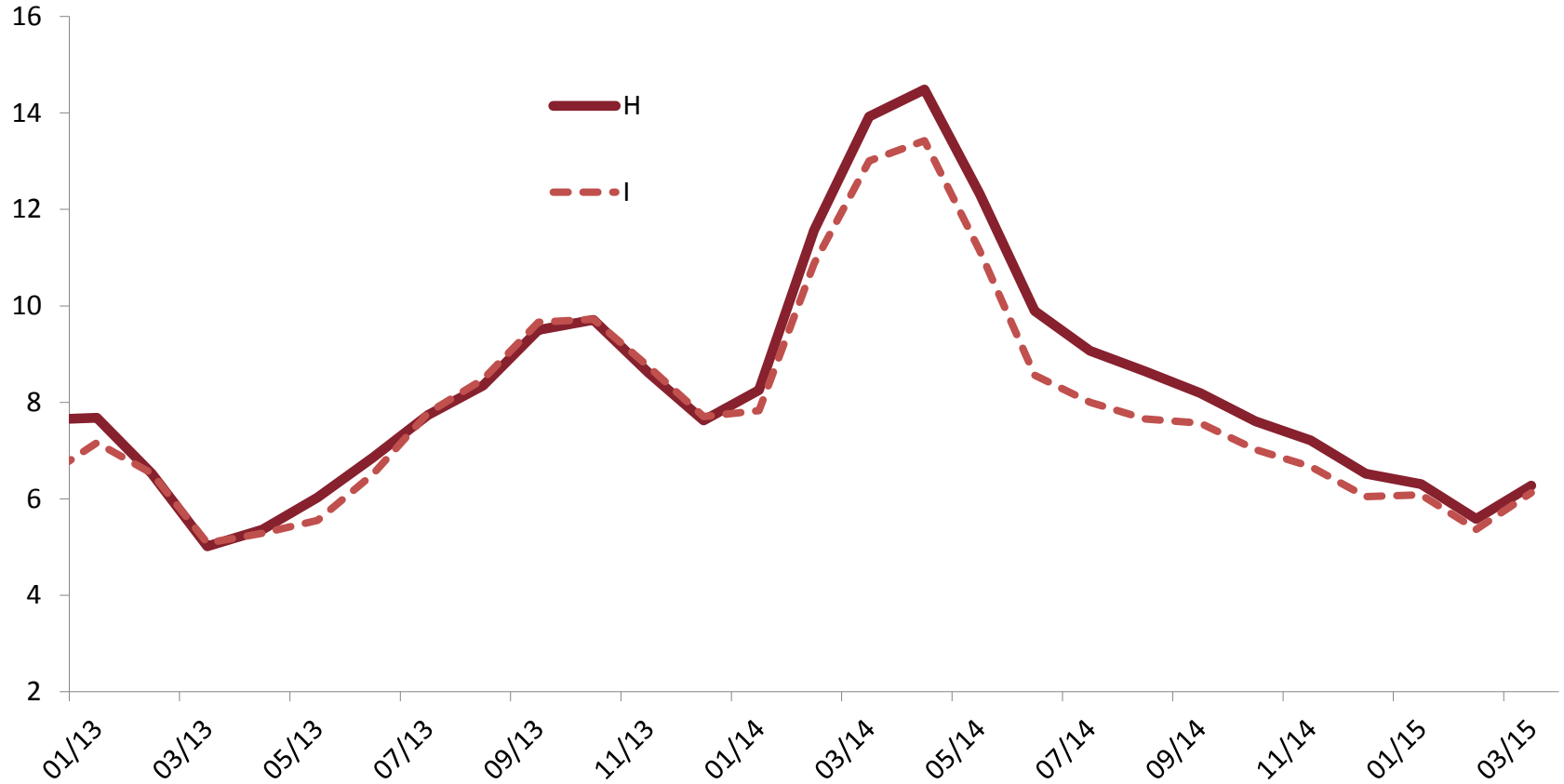
Source: TURKSTAT.

Last Observation: March 2015.



**Cautious monetary policy along with prudent fiscal and macroprudential policies are having a favorable impact on core inflation trends.**

**Core Inflation Indicators H and I**  
(Seasonally adjusted, Annualized 3-Month-Average, Percent)

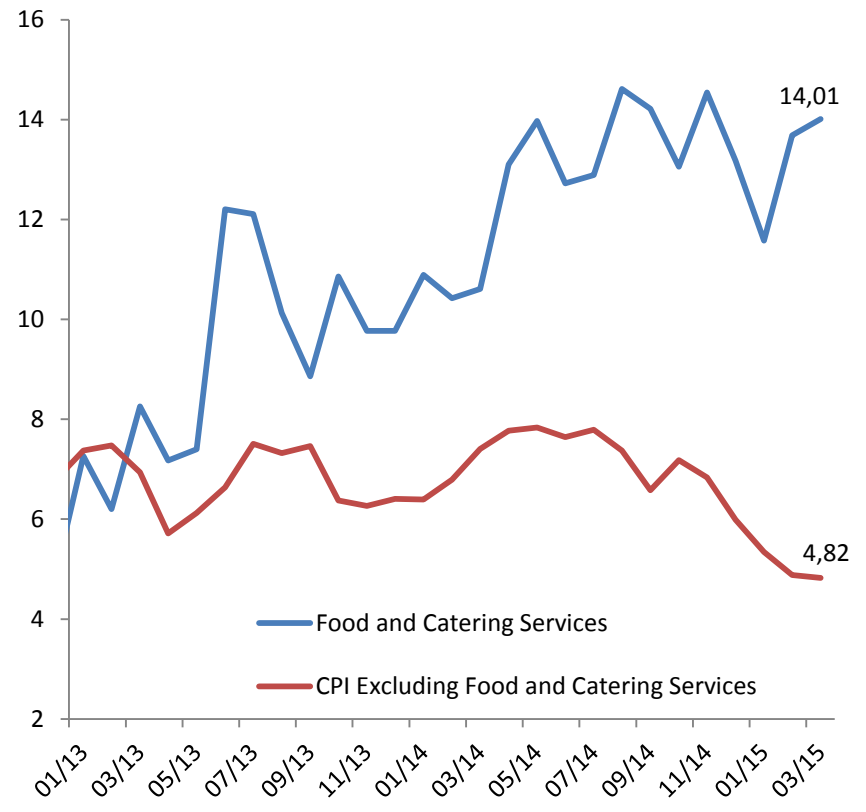
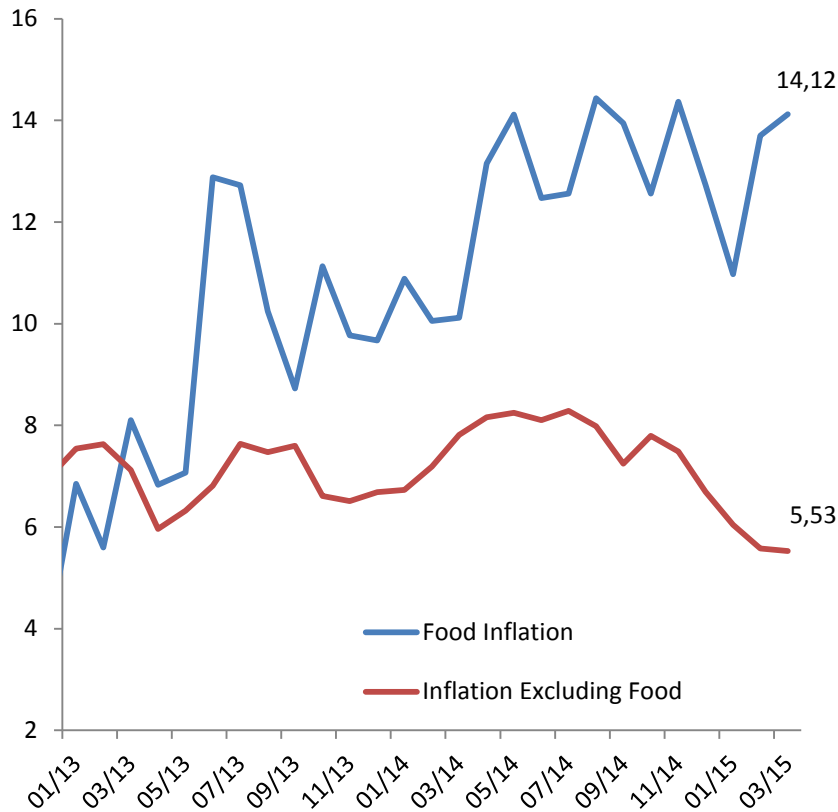


Source: TURKSTAT, CBRT.

Last Observation: March 2015.

# Elevated levels and high volatility in food prices continue to weigh on headline CPI inflation.

## Annual Inflation (Percent)

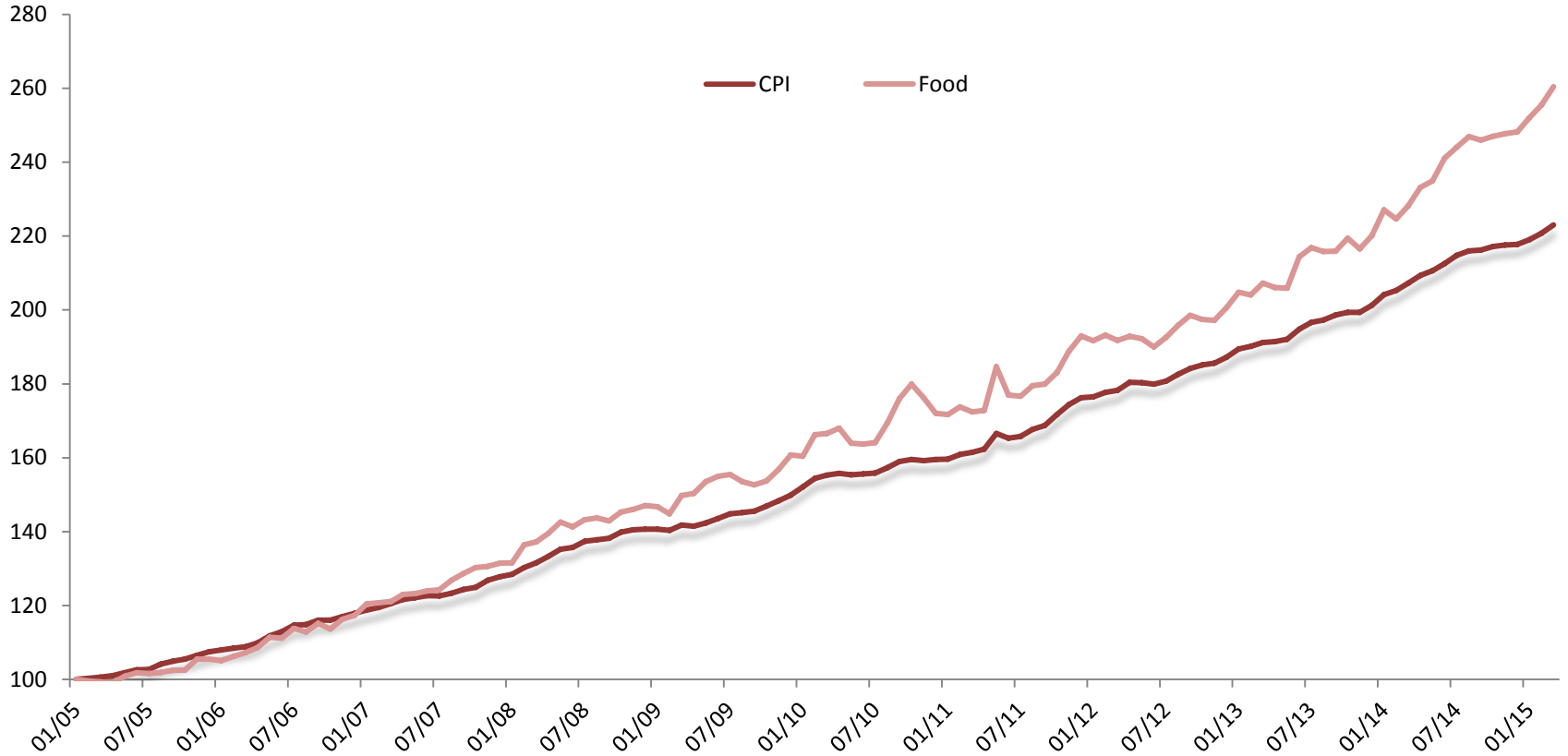


Source: TURKSTAT, CBRT.

Last Observation: March 2015.

We expect a partial correction in food prices in the second half of the year.

### Consumer and Food Price Indices (Seasonally Adjusted, January 2005=100)



Source: TURKSTAT, CBRT.

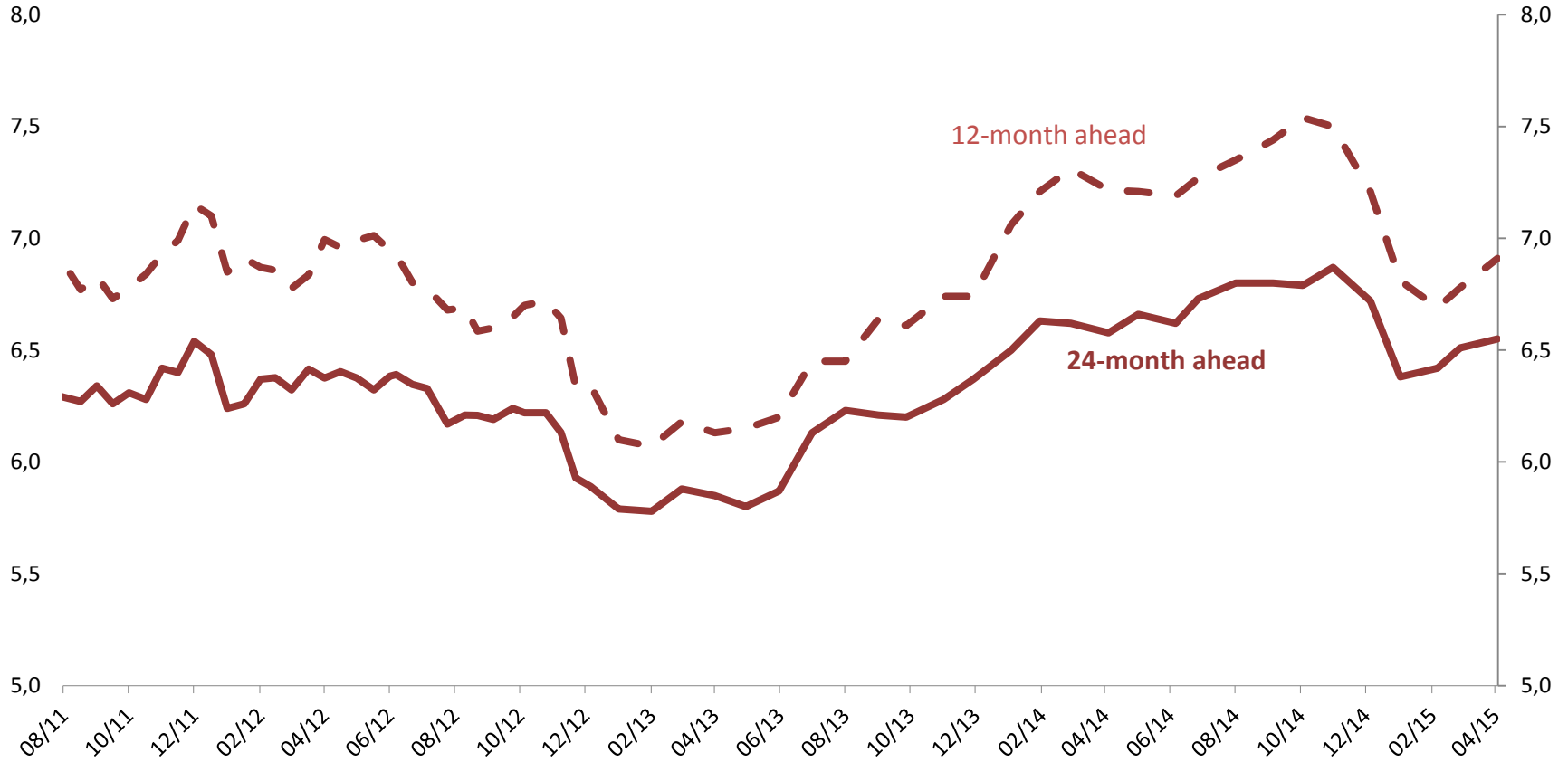
Last Observation: March 2015.

**We expect a partial correction in food prices in the second half of the year.**

- Weather conditions are more favorable this year compared to 2014.
- Food Committee is established and began working.

# Inflation expectations have not yet reached desired levels.

## Inflation Expectations (Percent)

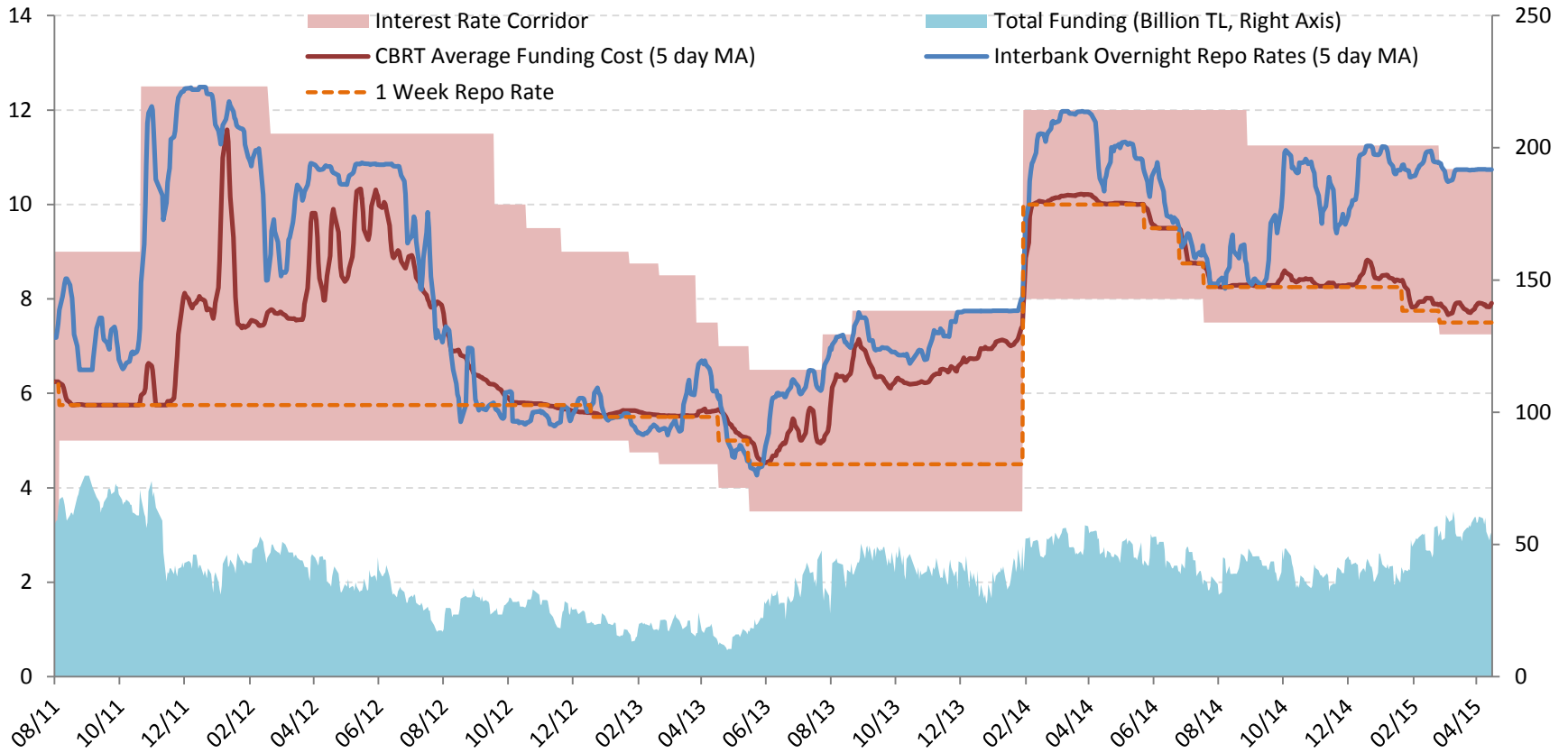


Source: CBRT.

Last Observation: April 2015.

# CBRT maintains a cautious monetary policy stance to achieve the price stability objective as early as possible.

## Interest Rates and Total Funding (Percent, Billion TL)

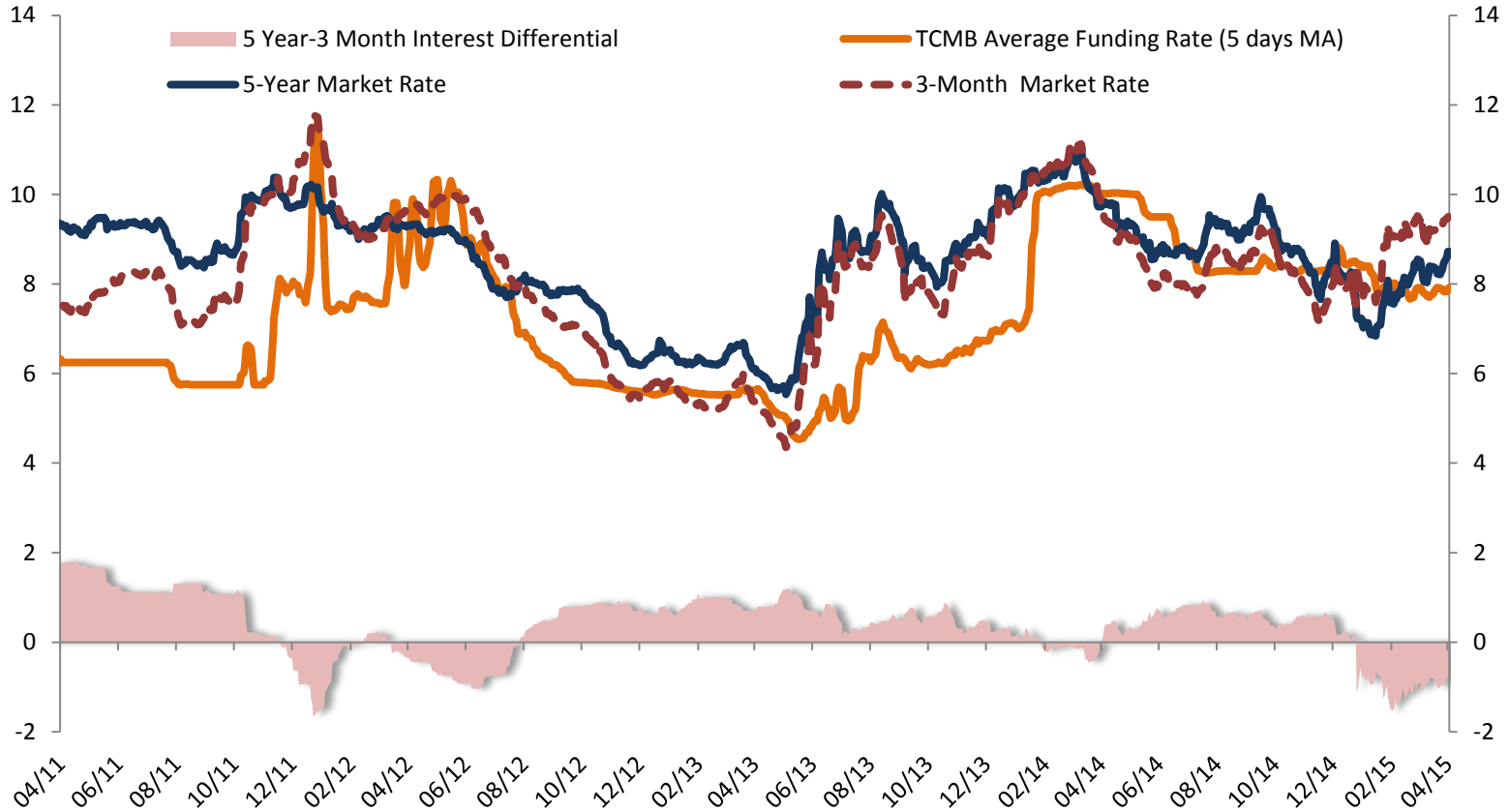


Source: CBRT.

Last Observation: April 15, 2015.

# Yield curve remains inverted, reflecting tight liquidity policy.

## Interest Rate (Percent)

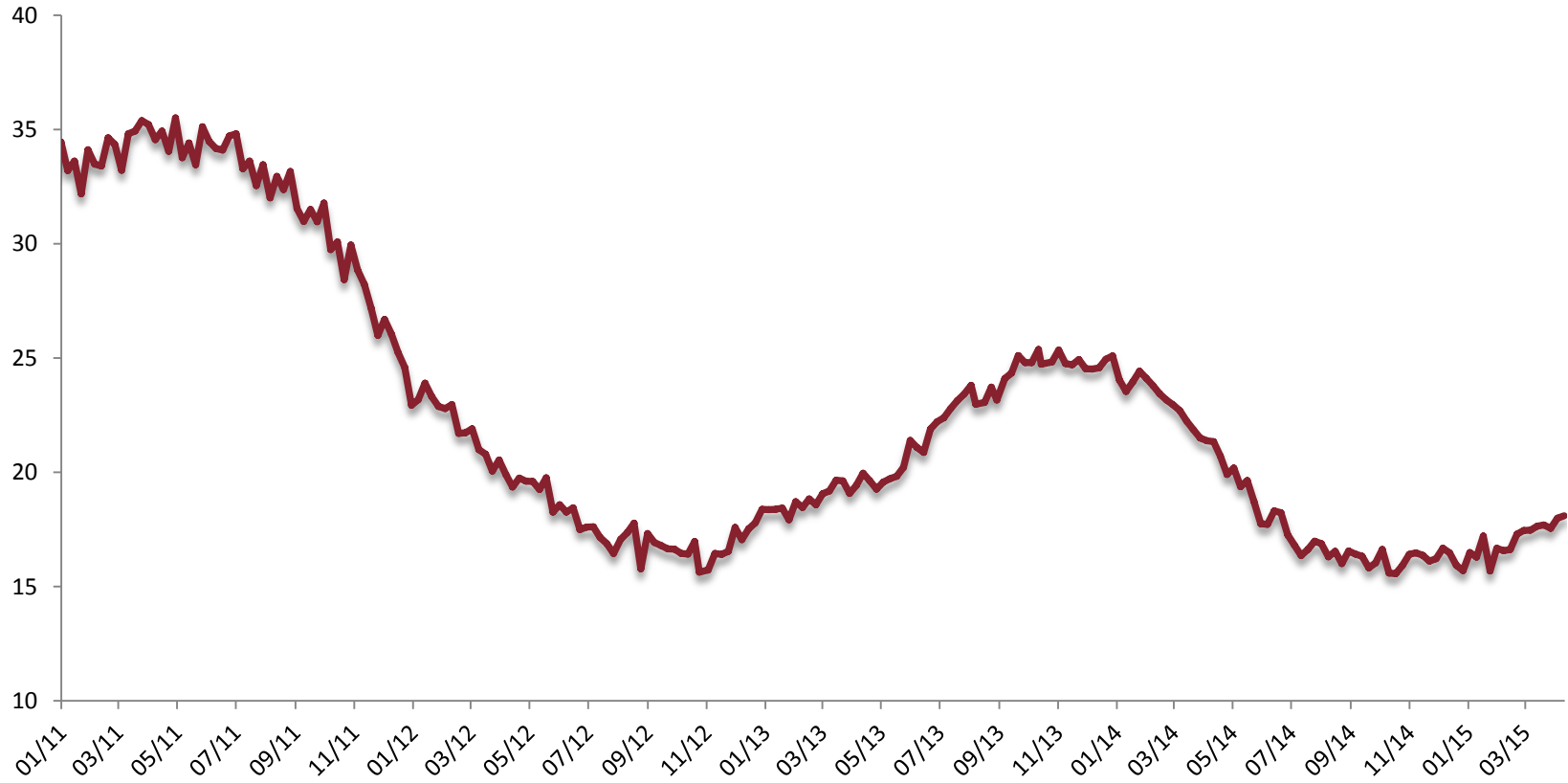


Source: CBRT.

Last Observation: April 15, 2015.

# Loans continue to expand at a reasonable pace due to cautious monetary policy stance and macroprudential measures...

## Total Loan Growth Rate (Annual Change, Percent)



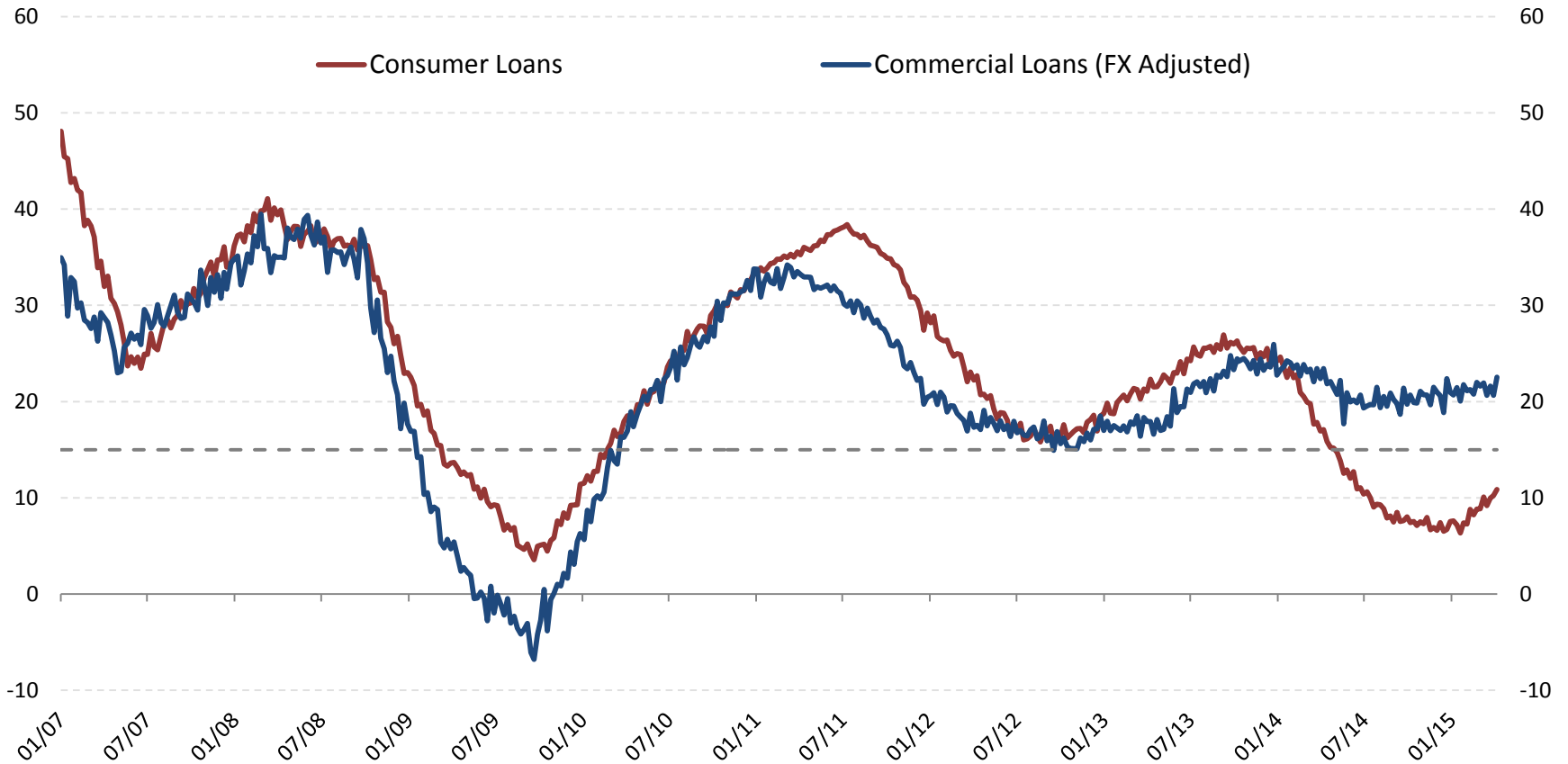
Source: CBRT.

Last Observation: April 10, 2015.  
Total Banking Sector (including participation banks), excluding NPLs  
FX adjusted.



... which helps disinflation by favoring production over consumption.

## Consumer\* and Commercial Credit Growth Rates in Turkey (YoY Change, Percent)



Source: CBRT.

\* Total banking sector (including participation banks, excluding NPLs), including credit cards, FX adjusted.

Last Observation: April 10, 2015

# Overview: Macroeconomic Outlook and Monetary Policy

- The global low growth environment brings both opportunities and challenges for the Turkish economy.
- Structural reforms, business dynamism and a sustained European recovery will support exports and the prospects for balanced growth.
- Thanks to prudent policies, disinflation is visible in core indicators.
- Disinflation in the headline CPI will become more pronounced during the second half of the year after a likely partial correction in food prices.



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