



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

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

**Erdem Başçı  
Governor**

**April 2012**

# Contents

- I. The New Policy Framework
- II. Rebalancing
- III. Growth
- IV. Inflation

# THE NEW POLICY FRAMEWORK

# A Different Sort of Problem

**EU:** Deleveraging

**Turkey:** Excessive Credit Growth

# Against Excessive Credit Growth

## Predominant Policy

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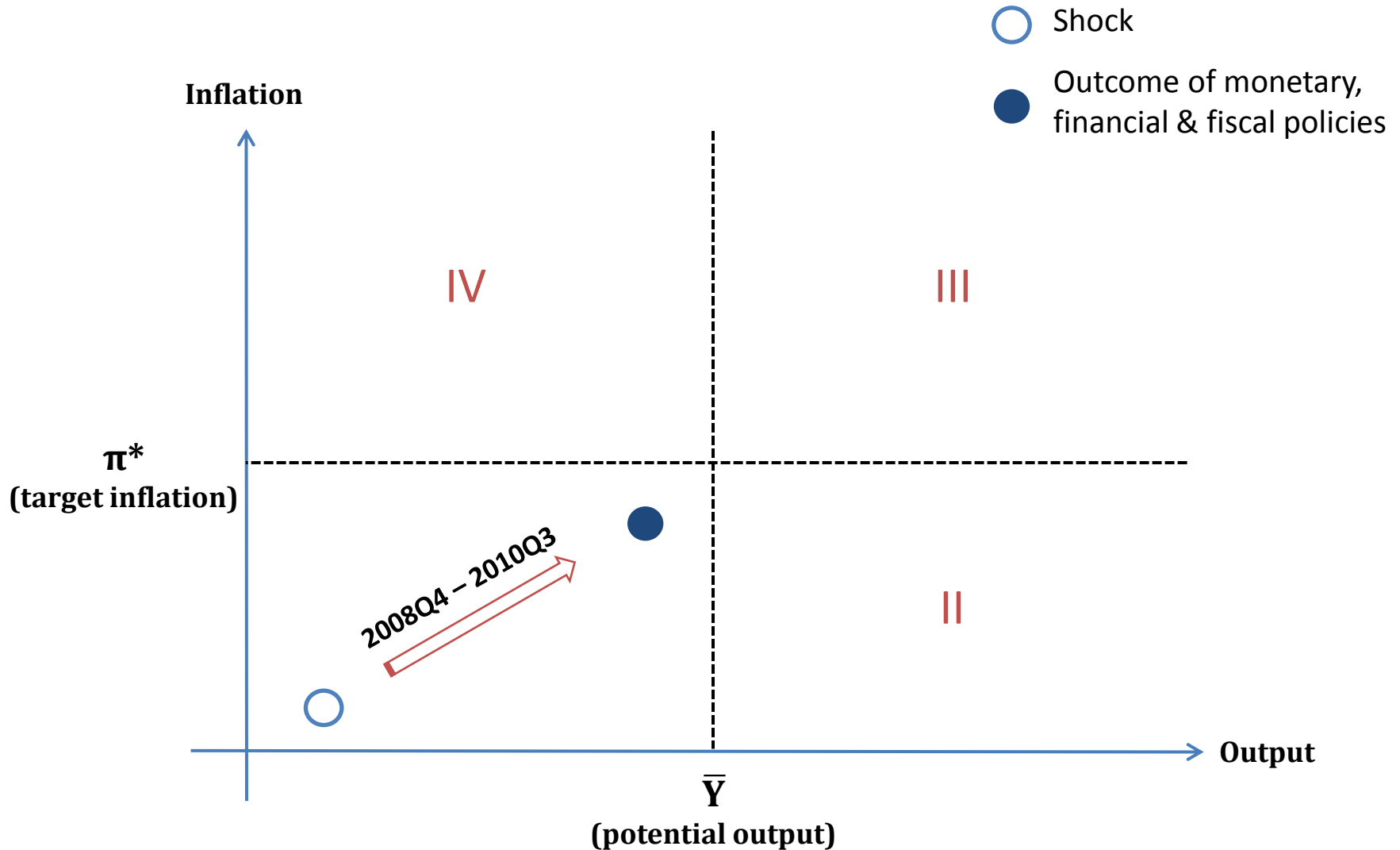
**Before August 2011**

Macroprudential Tightening

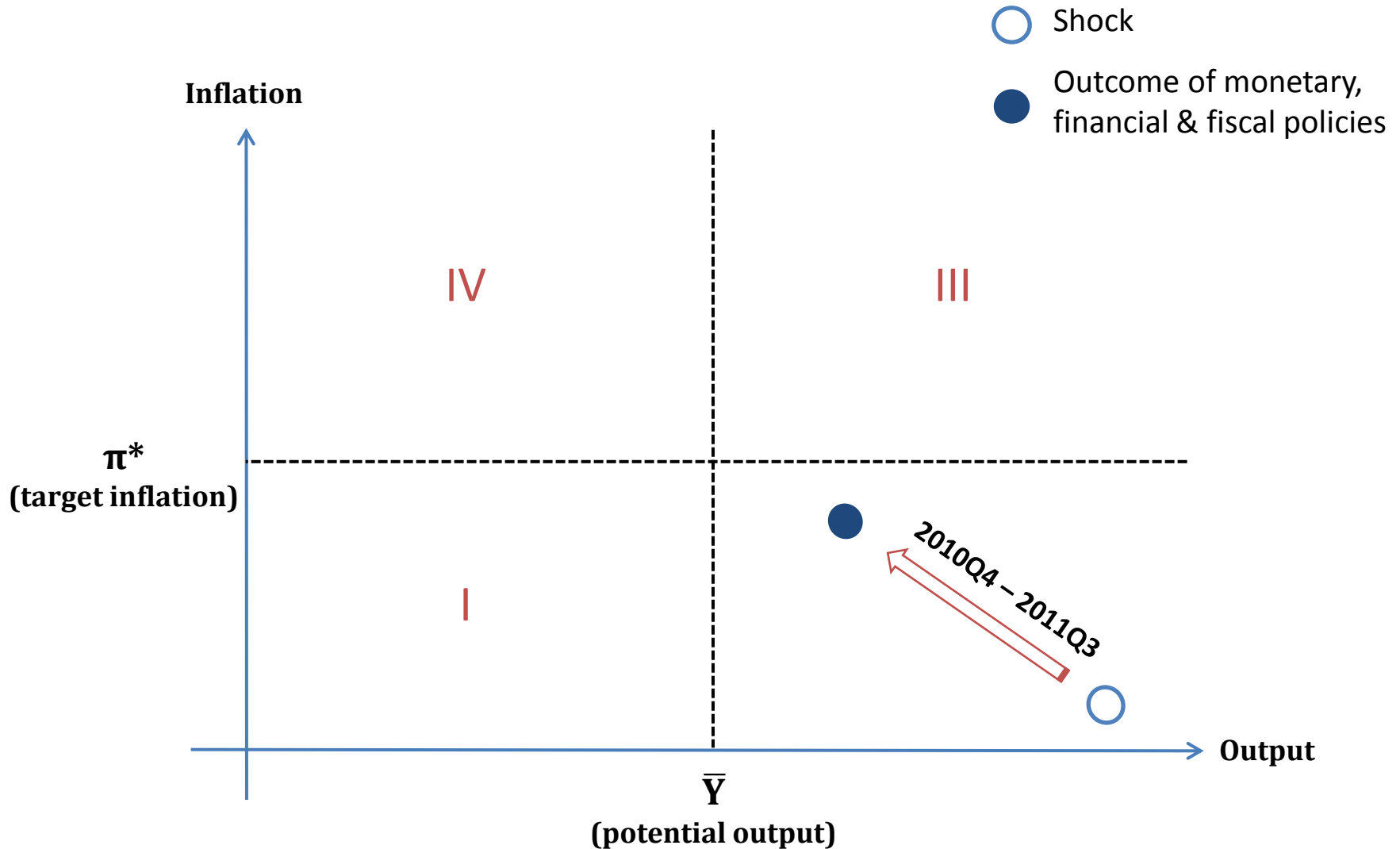
**After October 2011**

Monetary Tightening

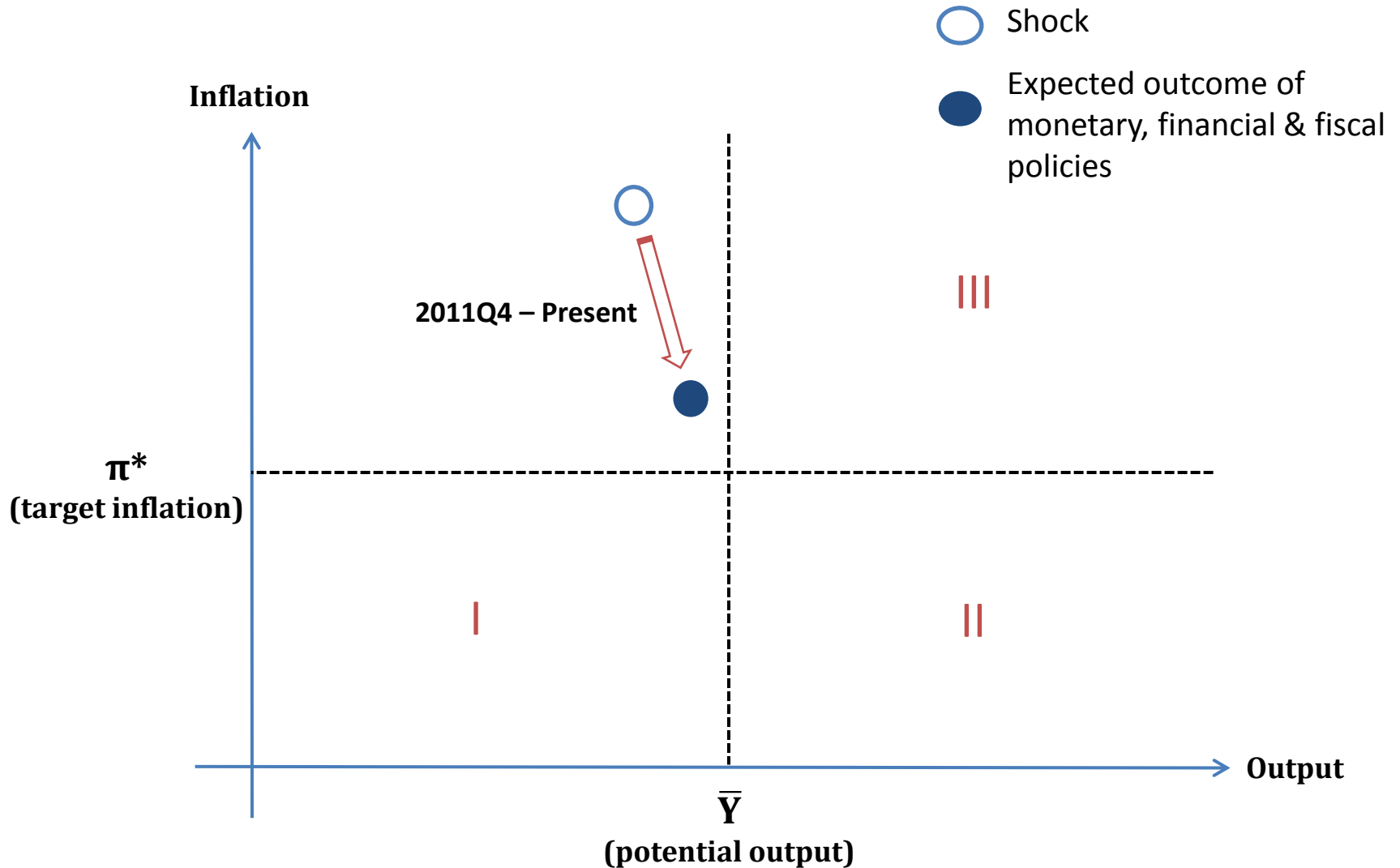
# Policies: Post-Lehman



# Policies: Global Monetary Expansion



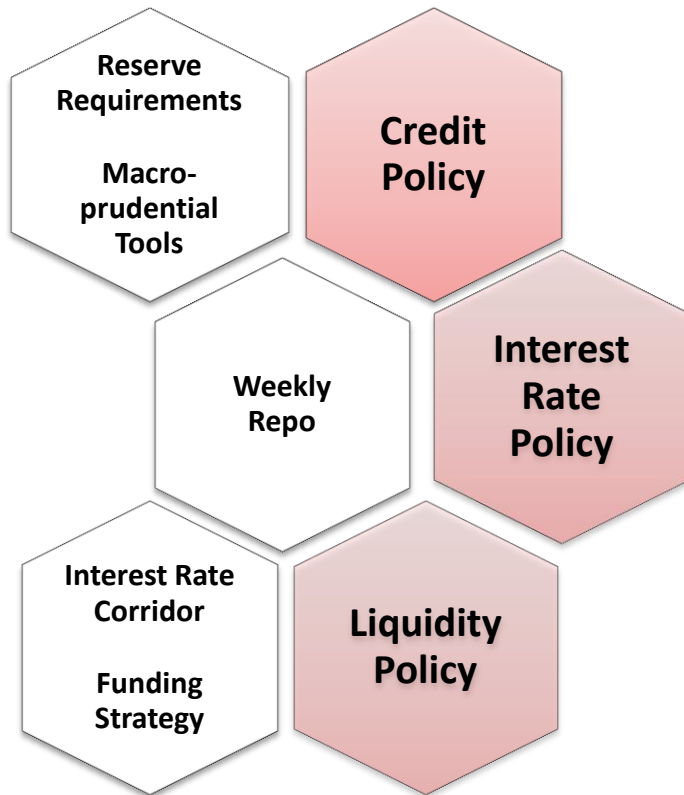
# Policies: Eurozone Crisis



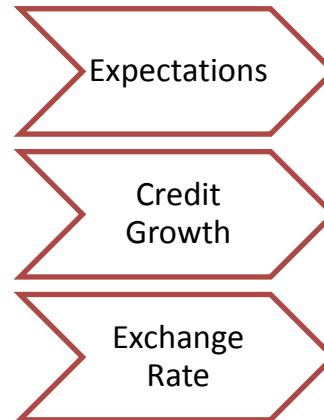


# Multiple Instruments, Multiple Objectives

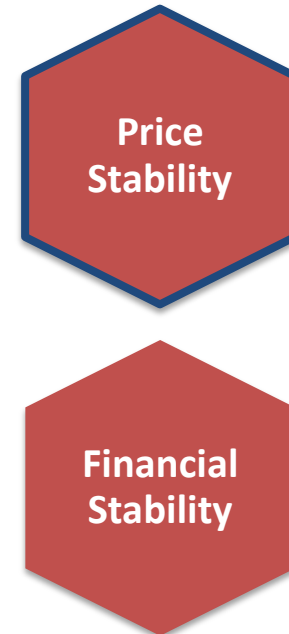
## INSTRUMENTS



## KEY INDICATORS

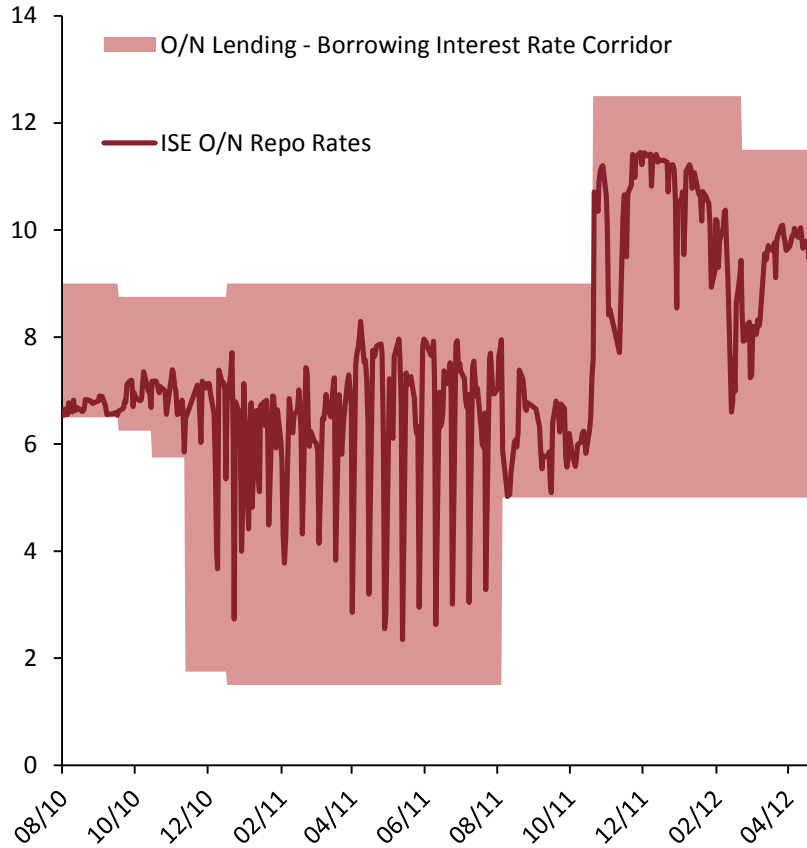


## OBJECTIVES



# Liquidity Policy

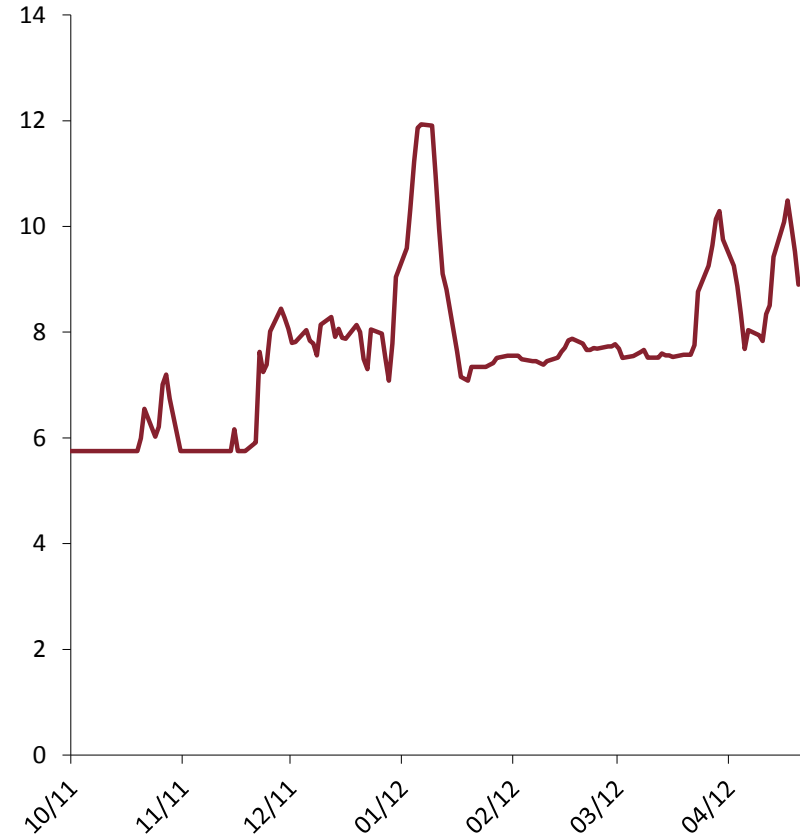
## CBRT Policy Rates (Percent)



Source: CBRT.

Latest Observation: April 20, 2012.

## The Average Cost of CBRT Funding (Percent)

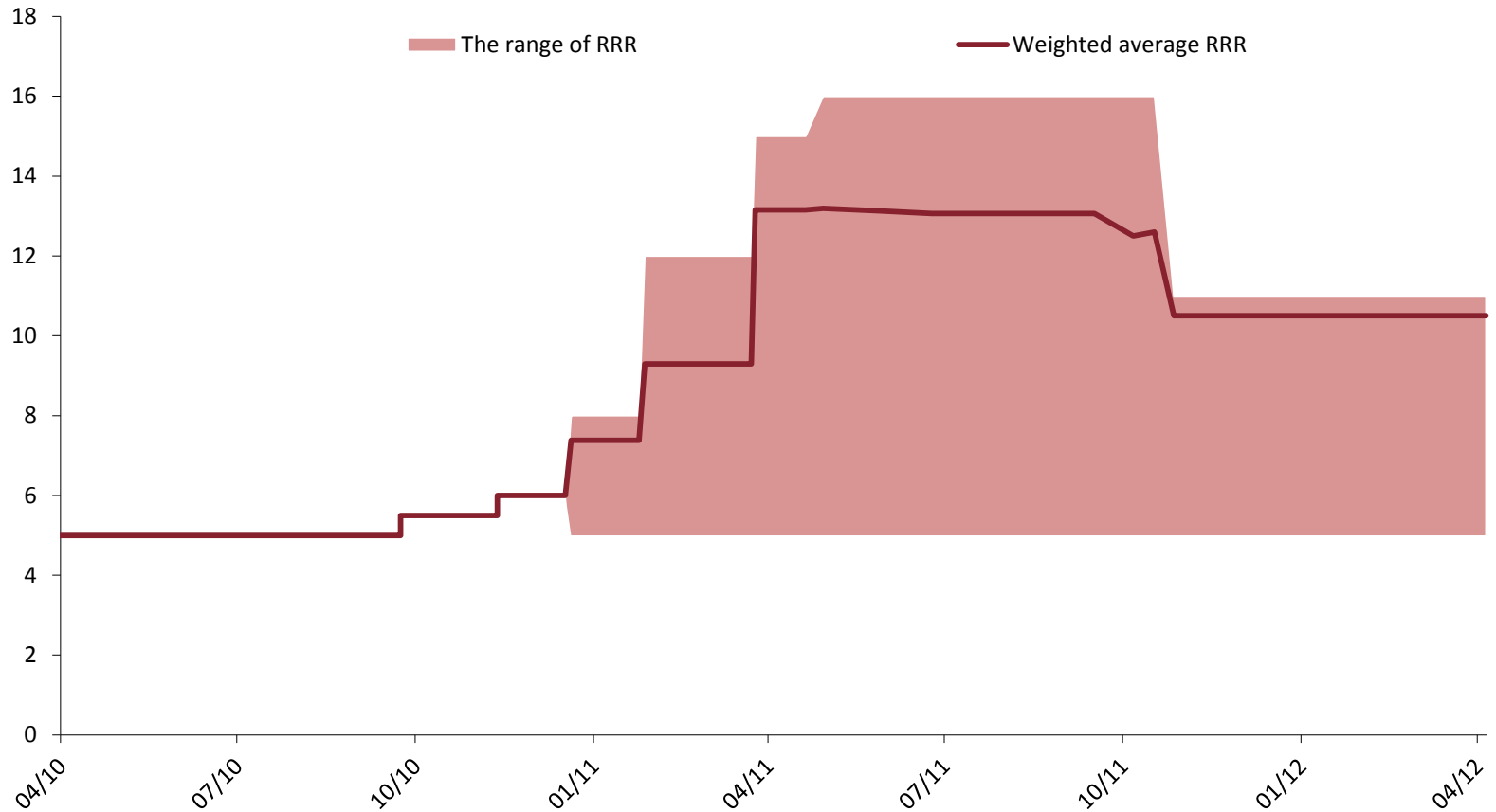


Source: CBRT.

Latest Observation: April 20, 2012

# Credit Policy

## Reserve Requirements



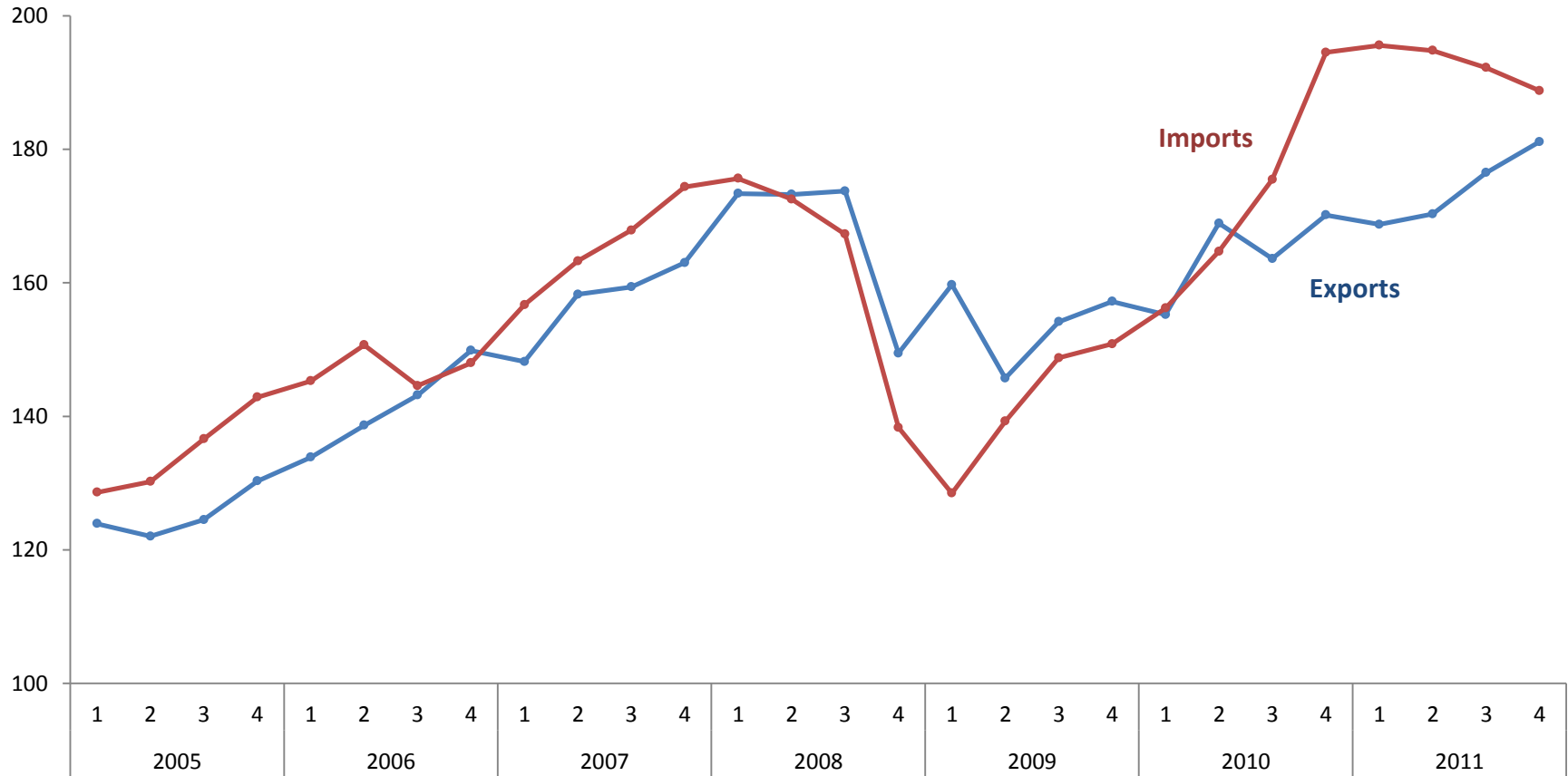
Source: CBRT.

Latest Observation: April 05, 2012

# REBALANCING

# Rebalancing

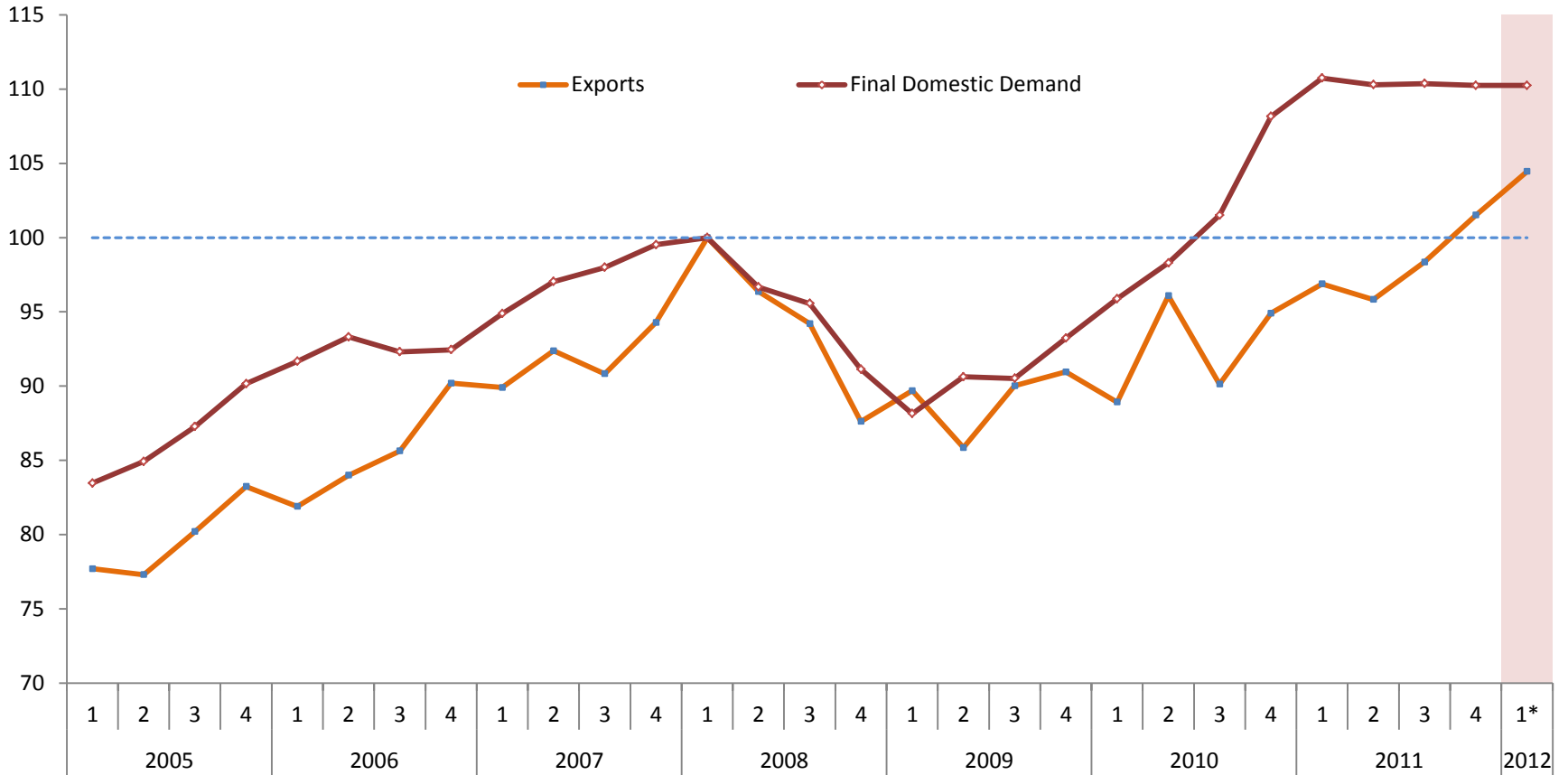
## Real Exports and Imports (2003=100, Seasonally Adjusted)



Source: TURKSTAT, CBRT.

# Rebalancing

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

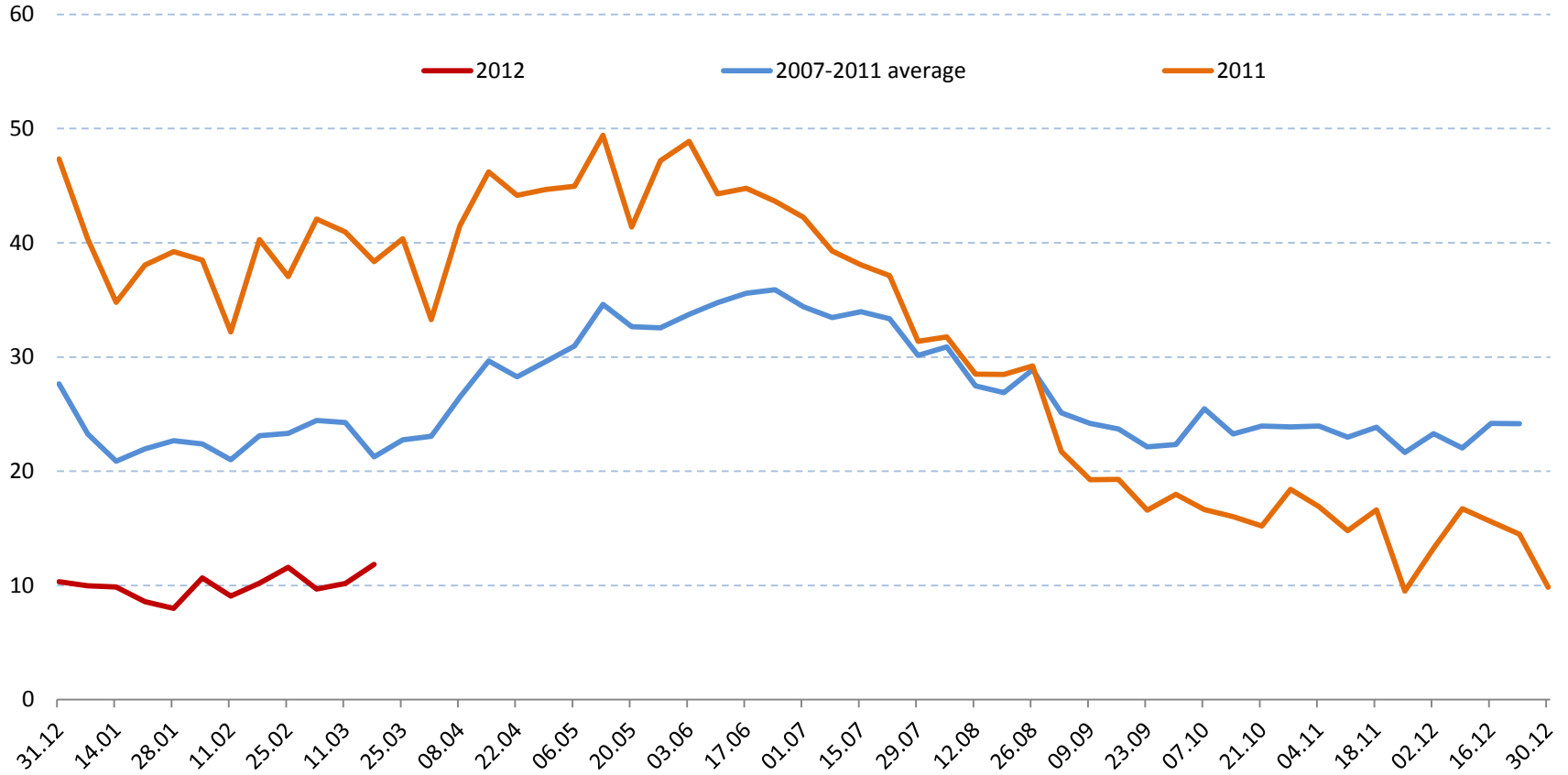


Source: CBRT.

\*2012Q1 is forecast.

# Credit Growth

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

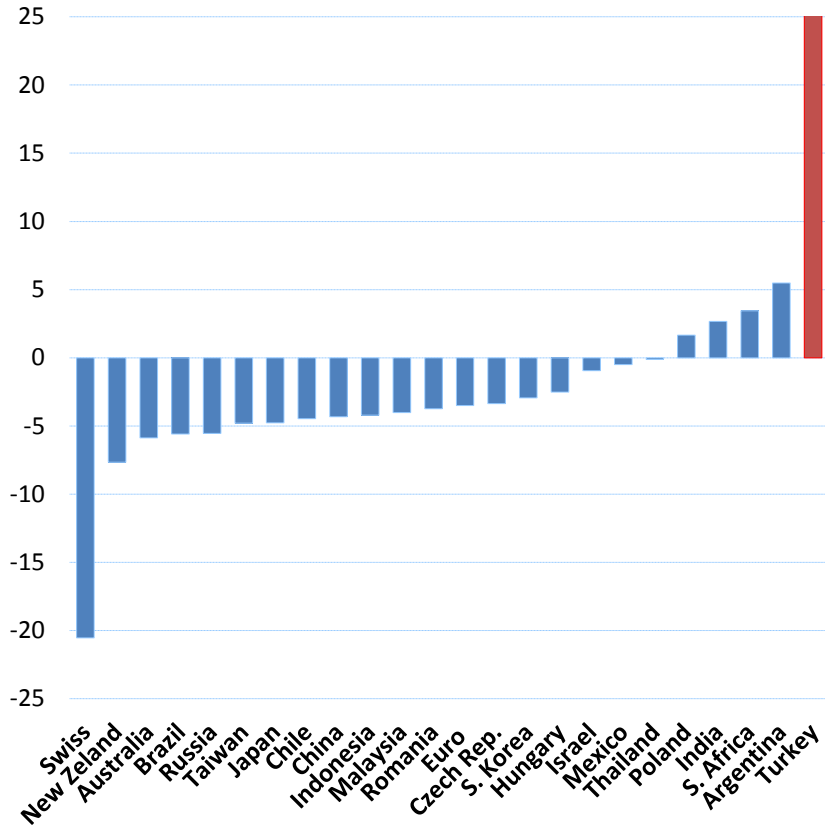


Source: CBRT.

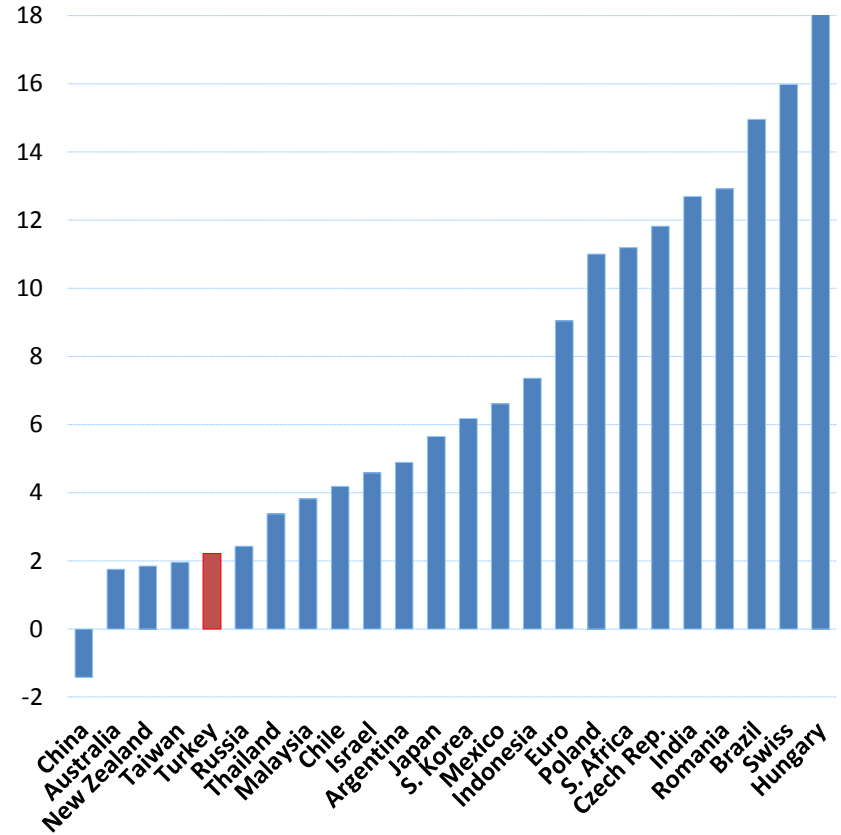
Latest Observations: March 18, 2012

# Exchange Rate

01.11.2010 – 22.08.2011



23.08.2011 – 11.04.2012



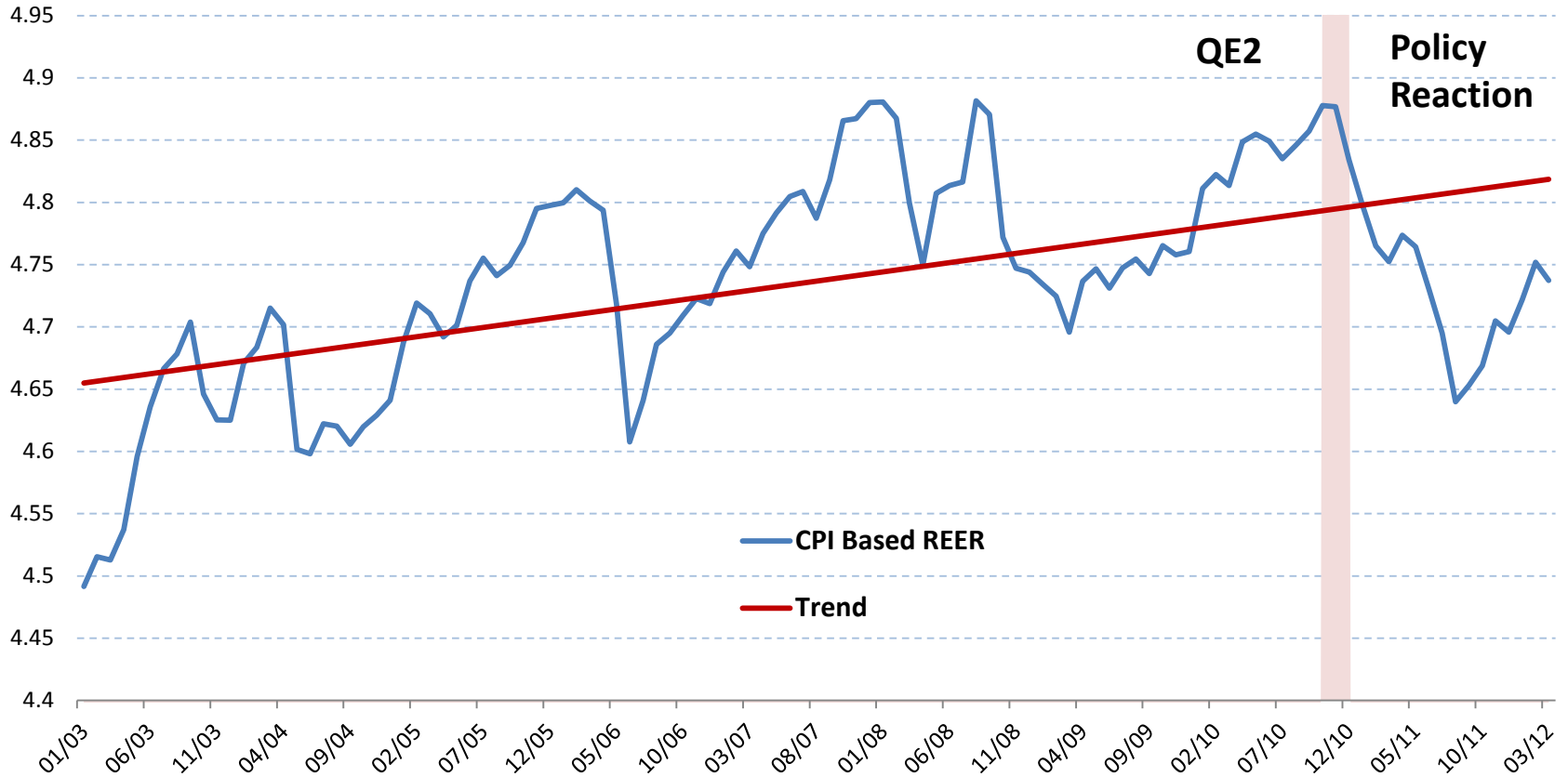
Source: Bloomberg, CBRT.

Note: Positive change means depreciation against US dollar.



# Real Exchange Rates

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

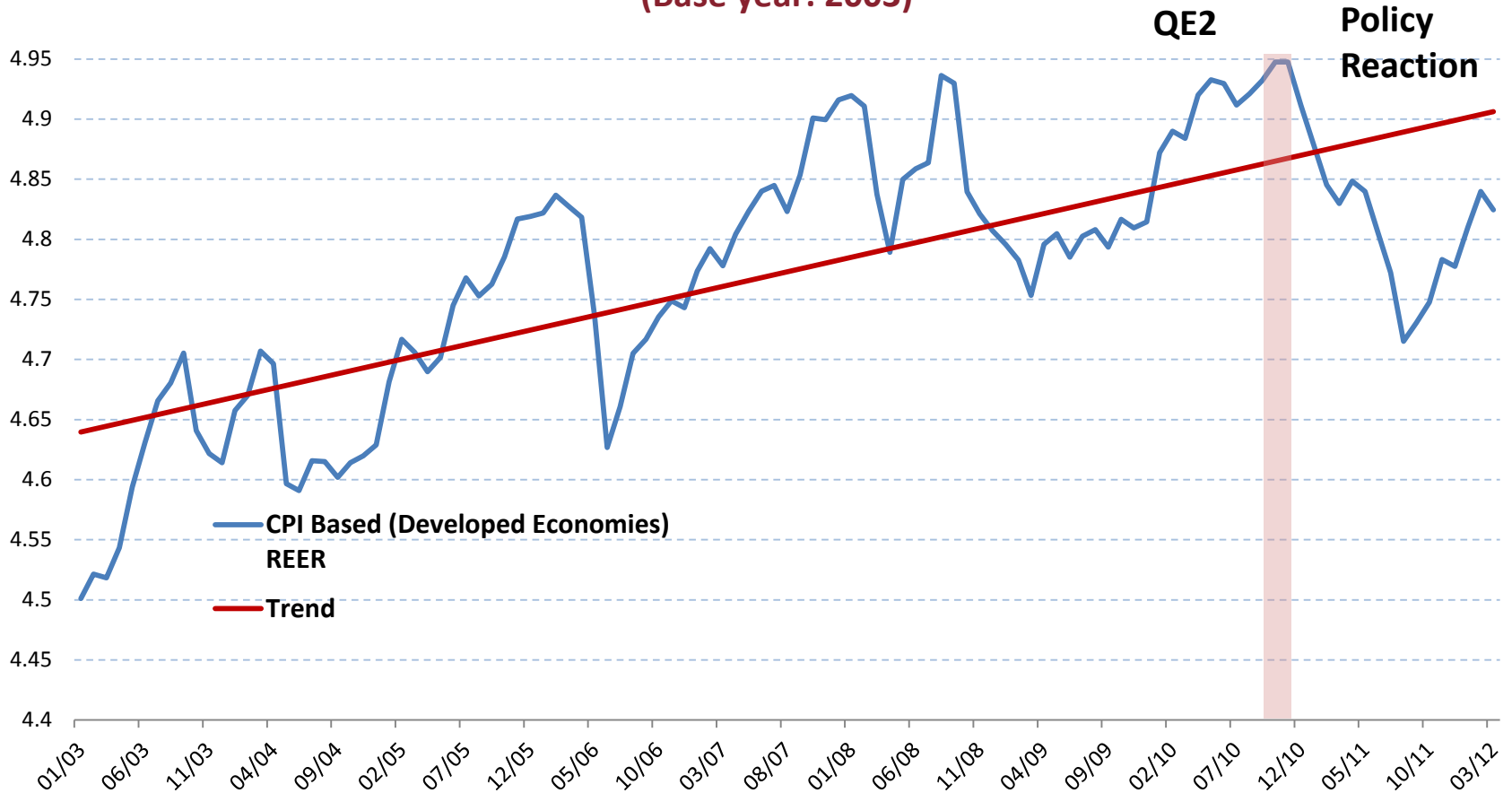


Source: CBRT.

\*Real effective exchange rate, Natural logarithms.

# Real Exchange Rates

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

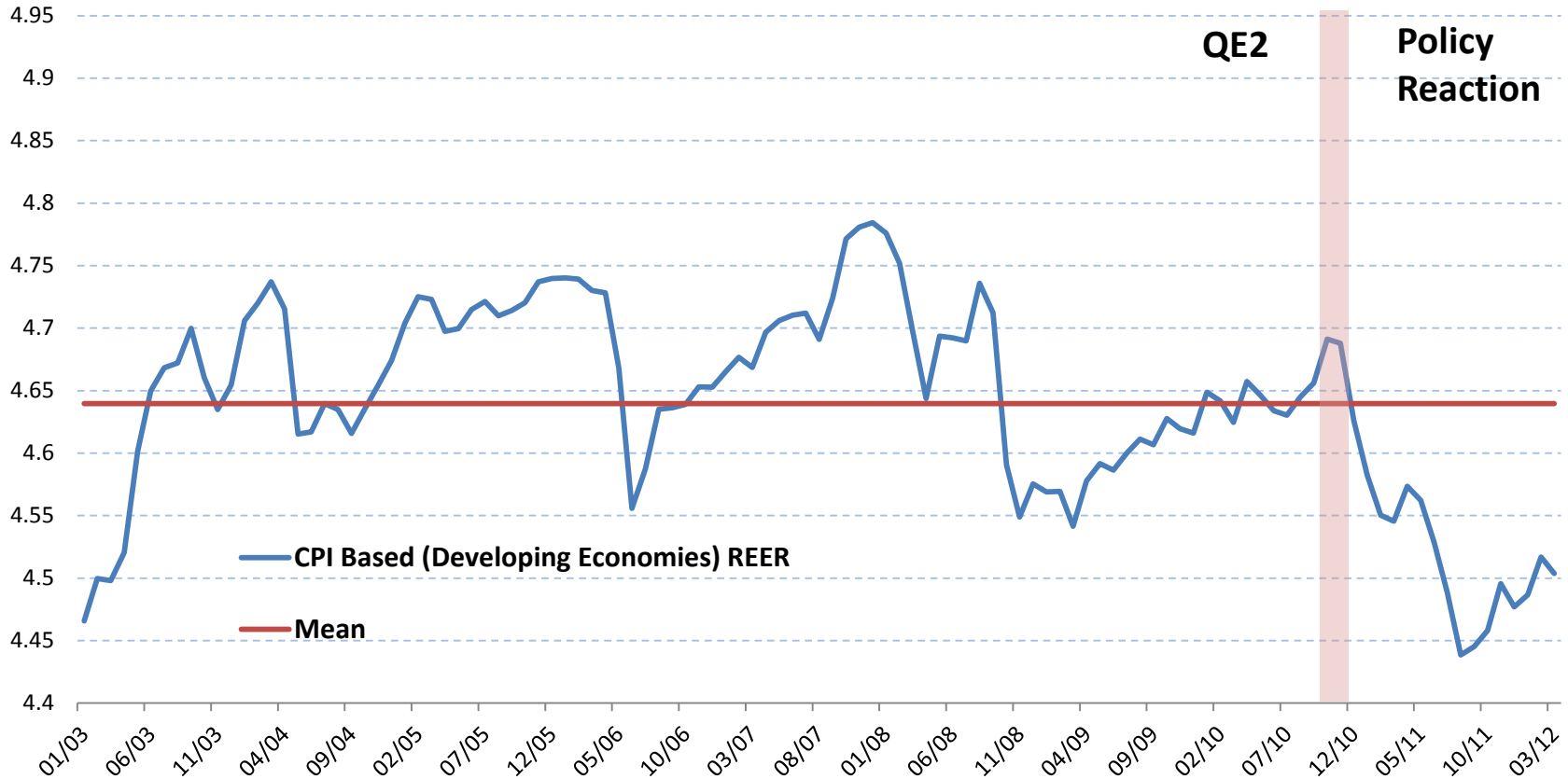


Source: CBRT.

\*Natural logarithms.

# Real Exchange Rates

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

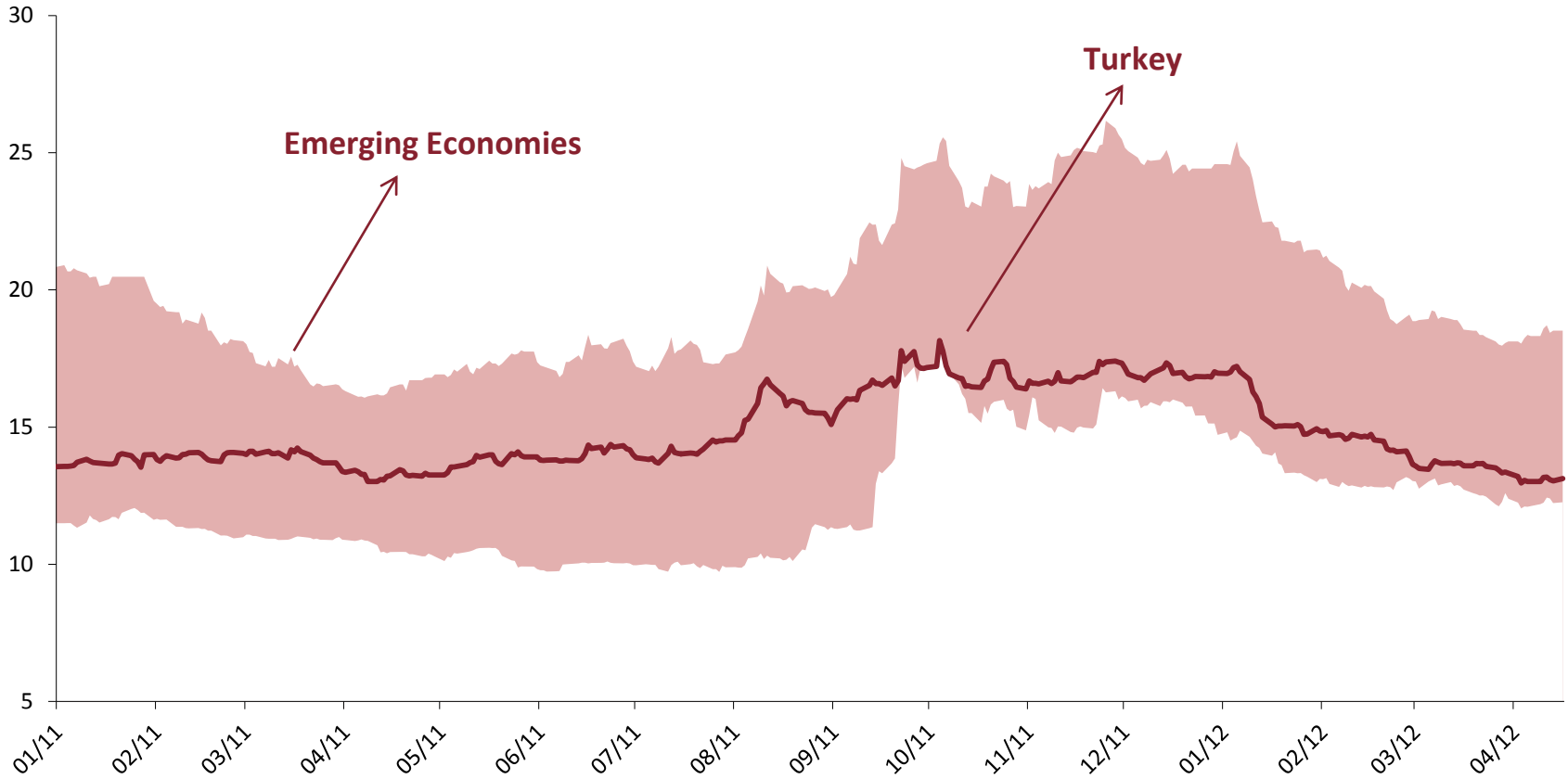


Source: CBRT.

\*Natural logarithms.

# Exchange Rate Volatility

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



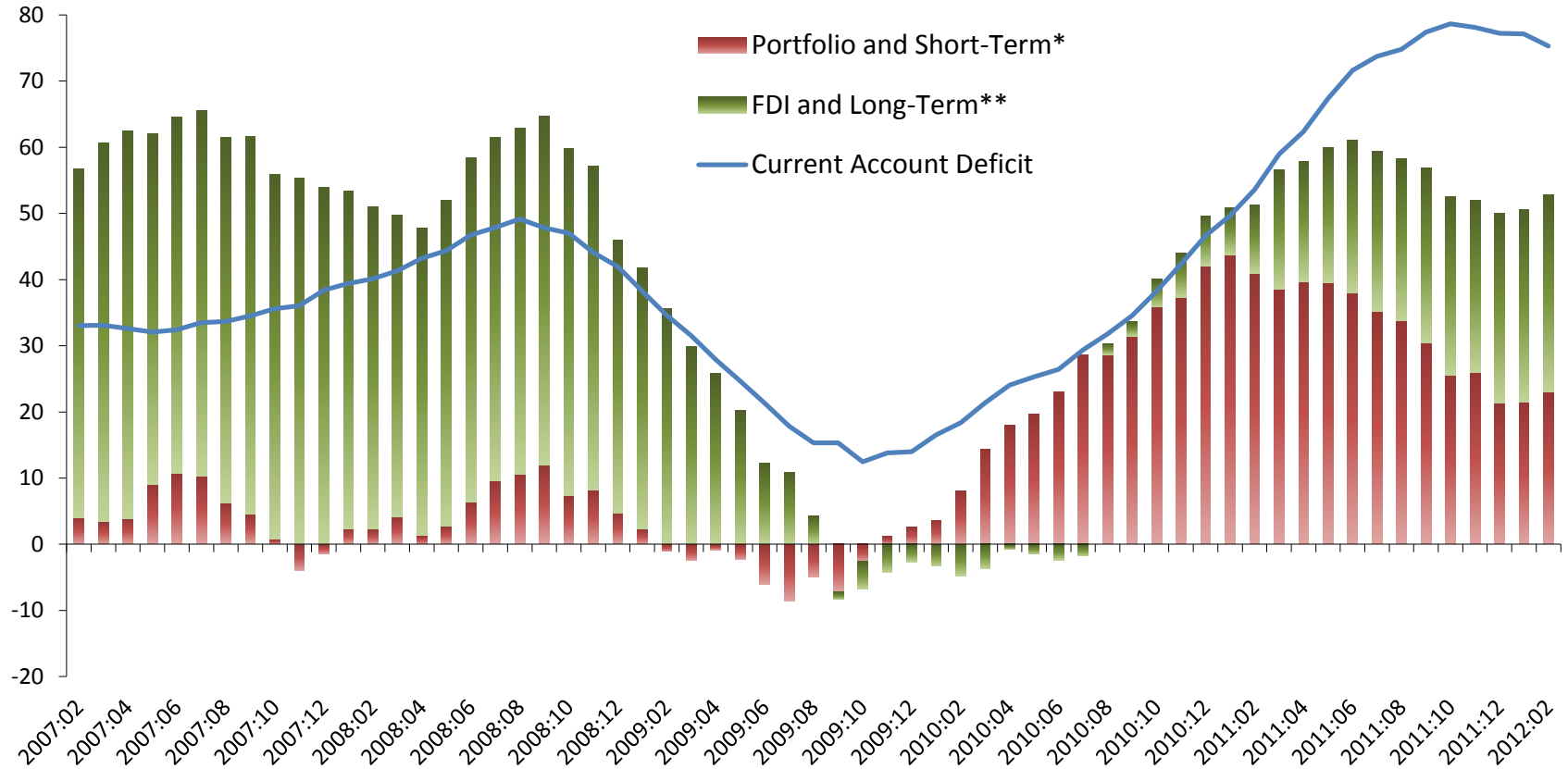
Source: Bloomberg, CBRT.

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

Latest Observations: April 16, 2012

# Quality of Capital Inflows

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



Source: CBRT.

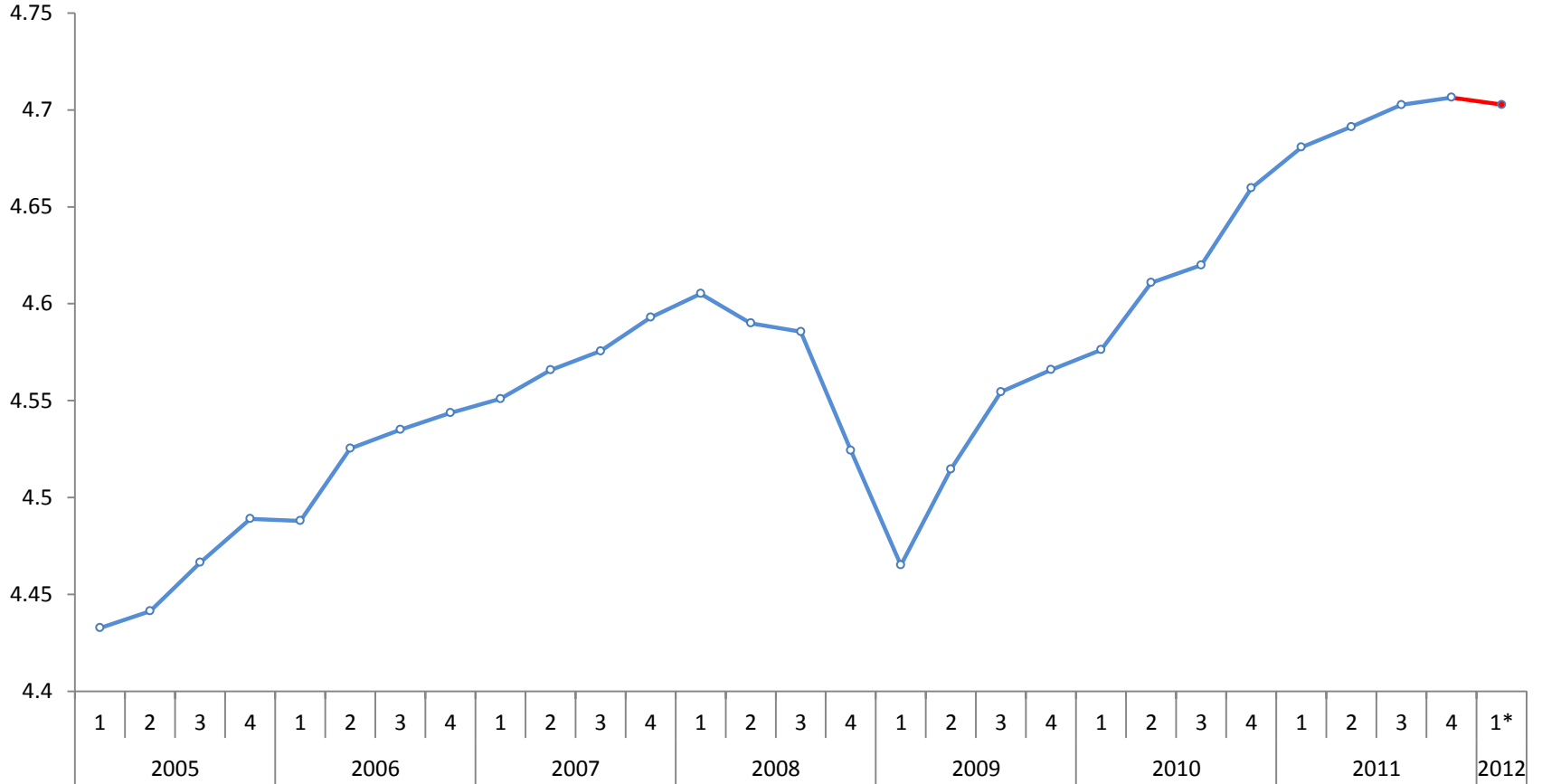
\*Short-term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

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

# GROWTH

# Gross Domestic Product

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

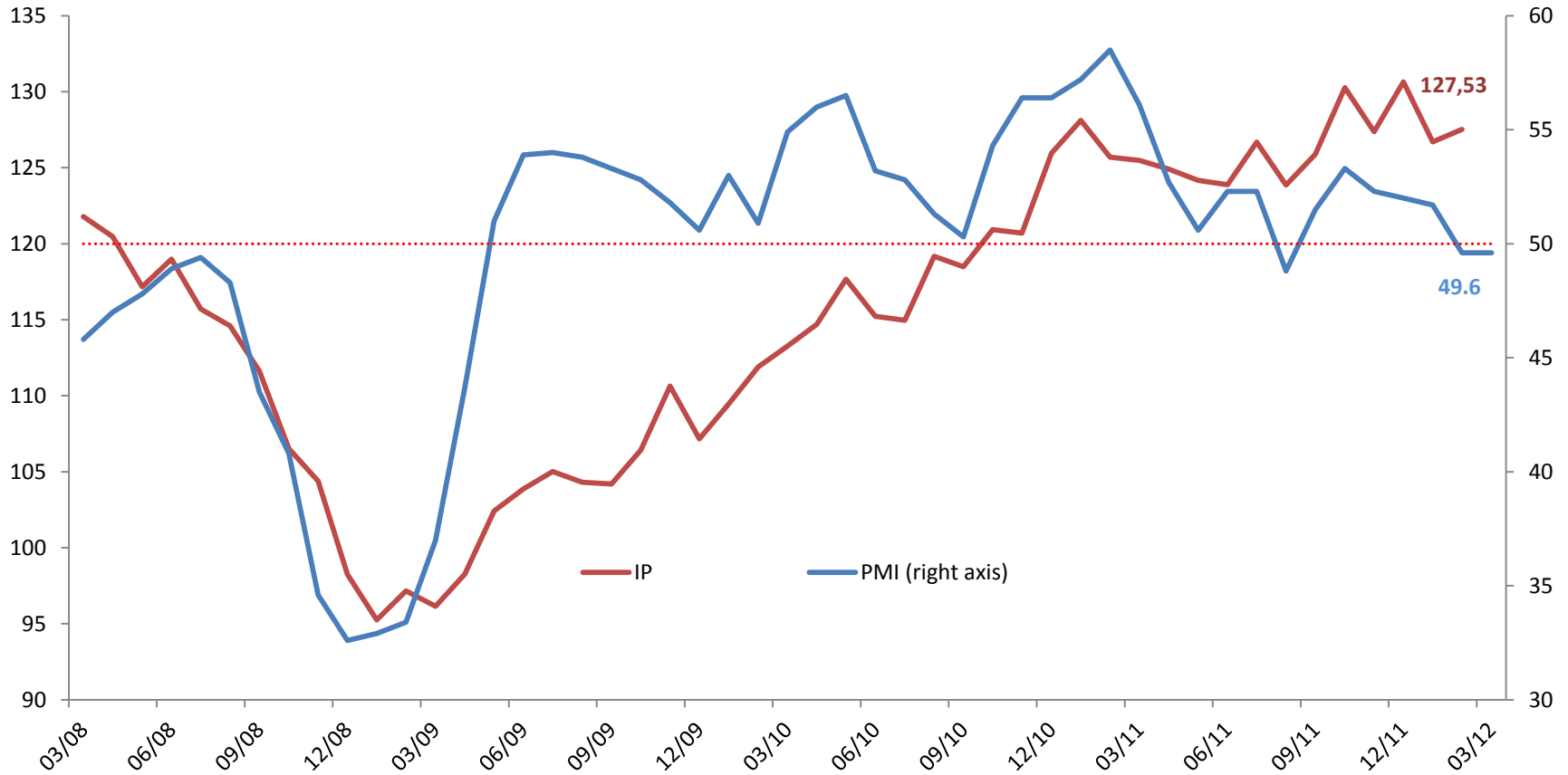


Source: CBRT.

\*2012Q1 is forecast.

# Soft Landing

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



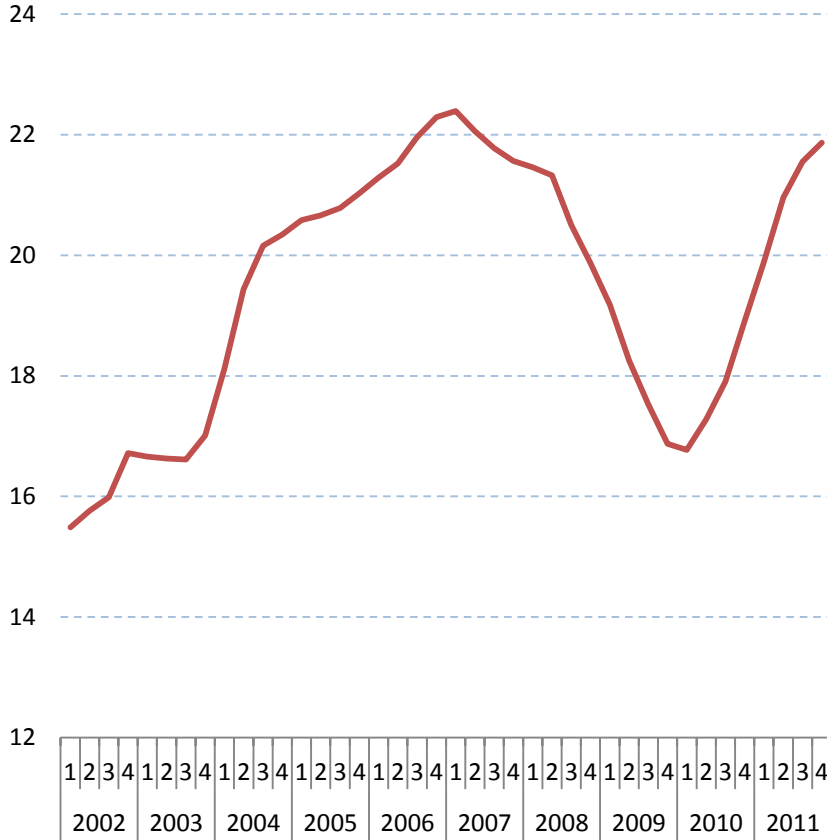
Source: MARKIT, TURKSTAT.

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



# Capital and Labor

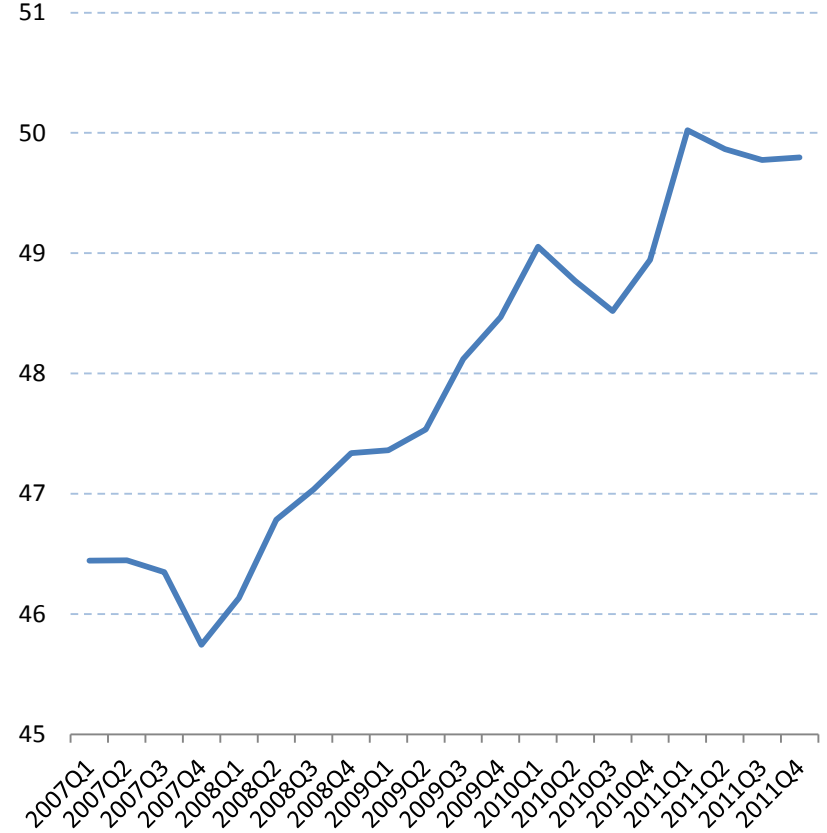
**Fixed Capital Formation\***  
(Percent, Ratio to GDP with current prices)



Source: TURKSTAT, CBRT.

\*Annualized.

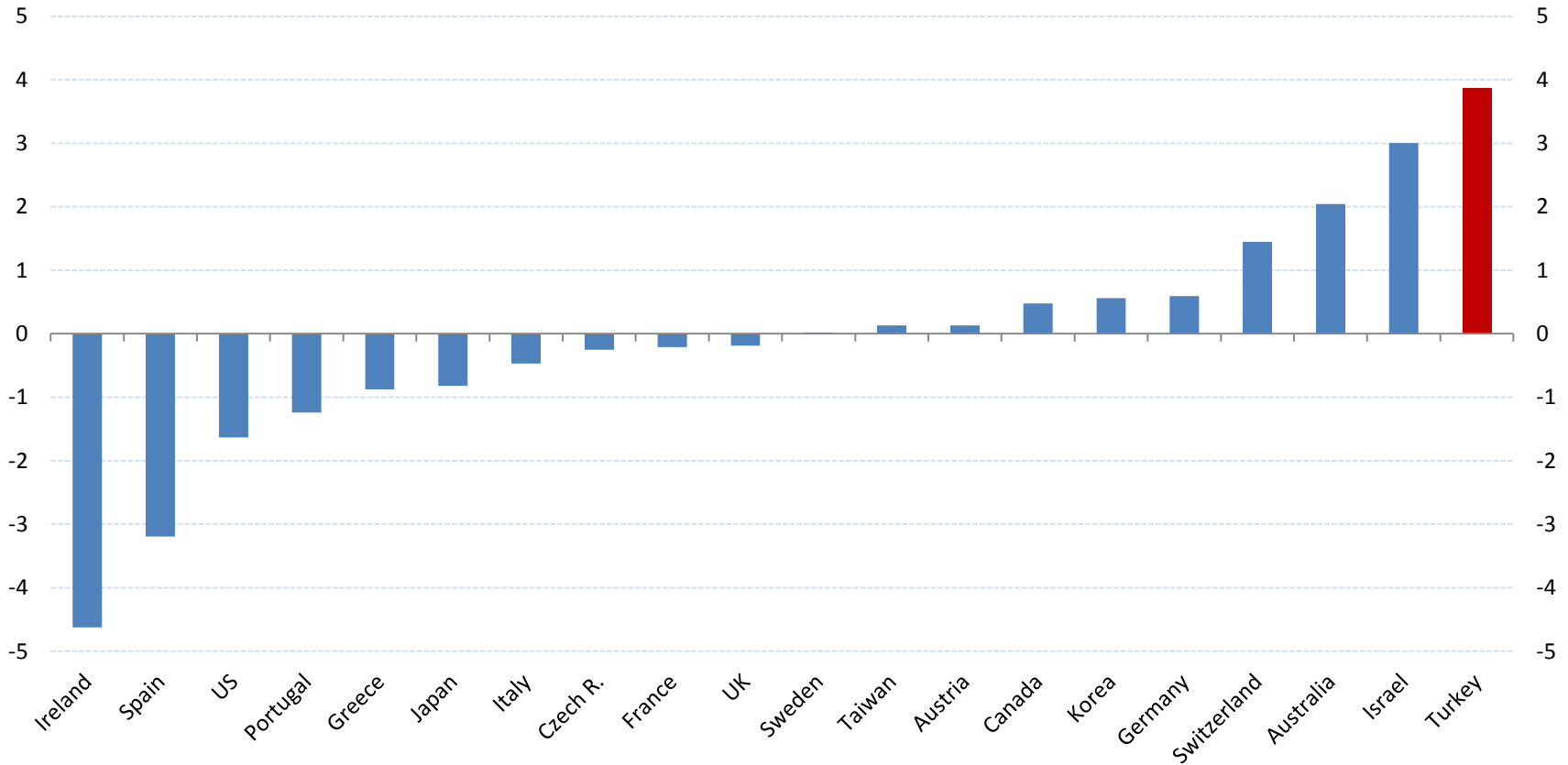
**Labor Market Participation Rate\***  
(Percent, Seasonally Adjusted)



Source: TURKSTAT, CBRT.

# Employment

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

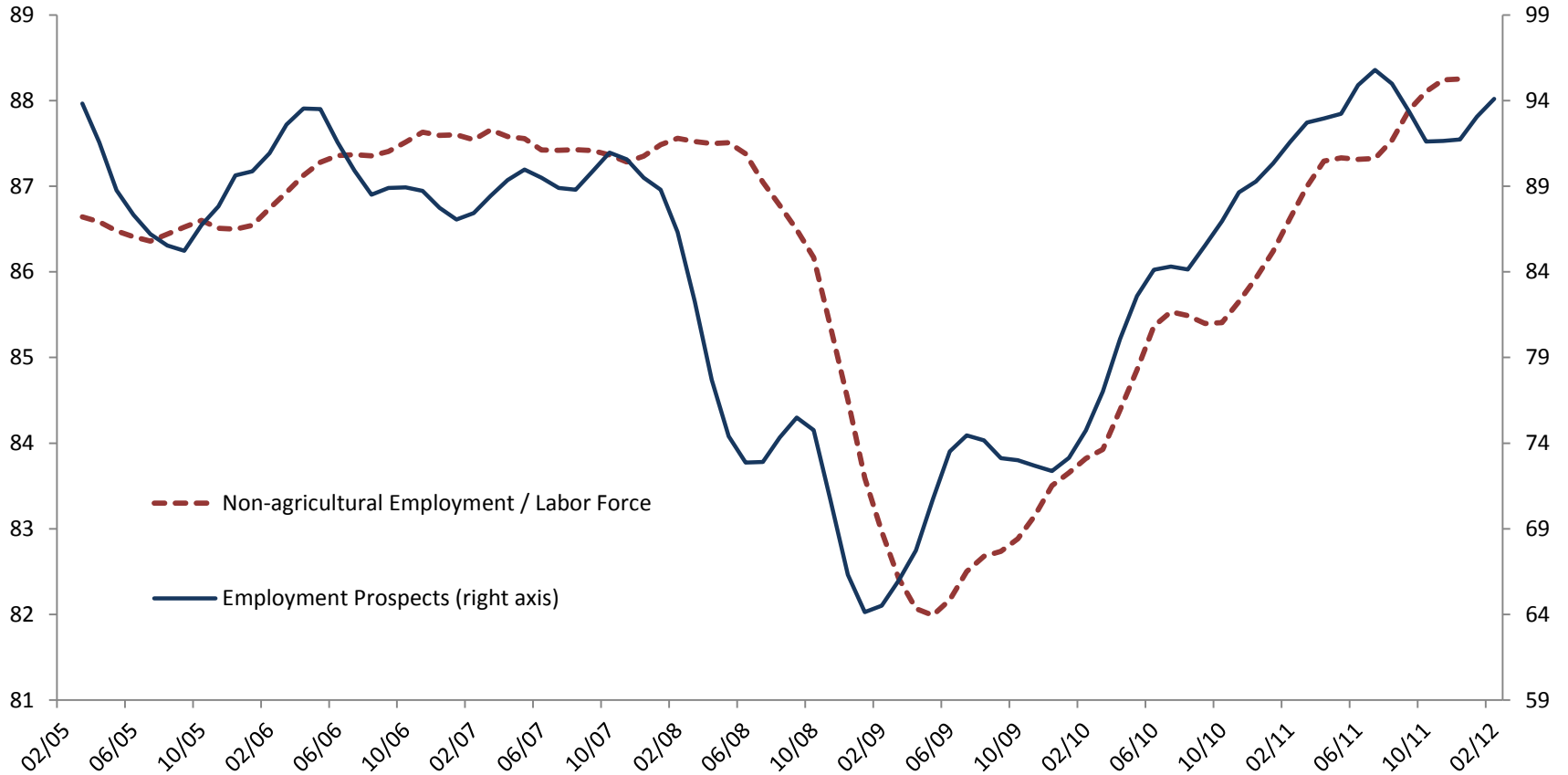


Source: WEO, Turkstat, CBRT.

\*Difference of natural logarithms.

# Employment

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

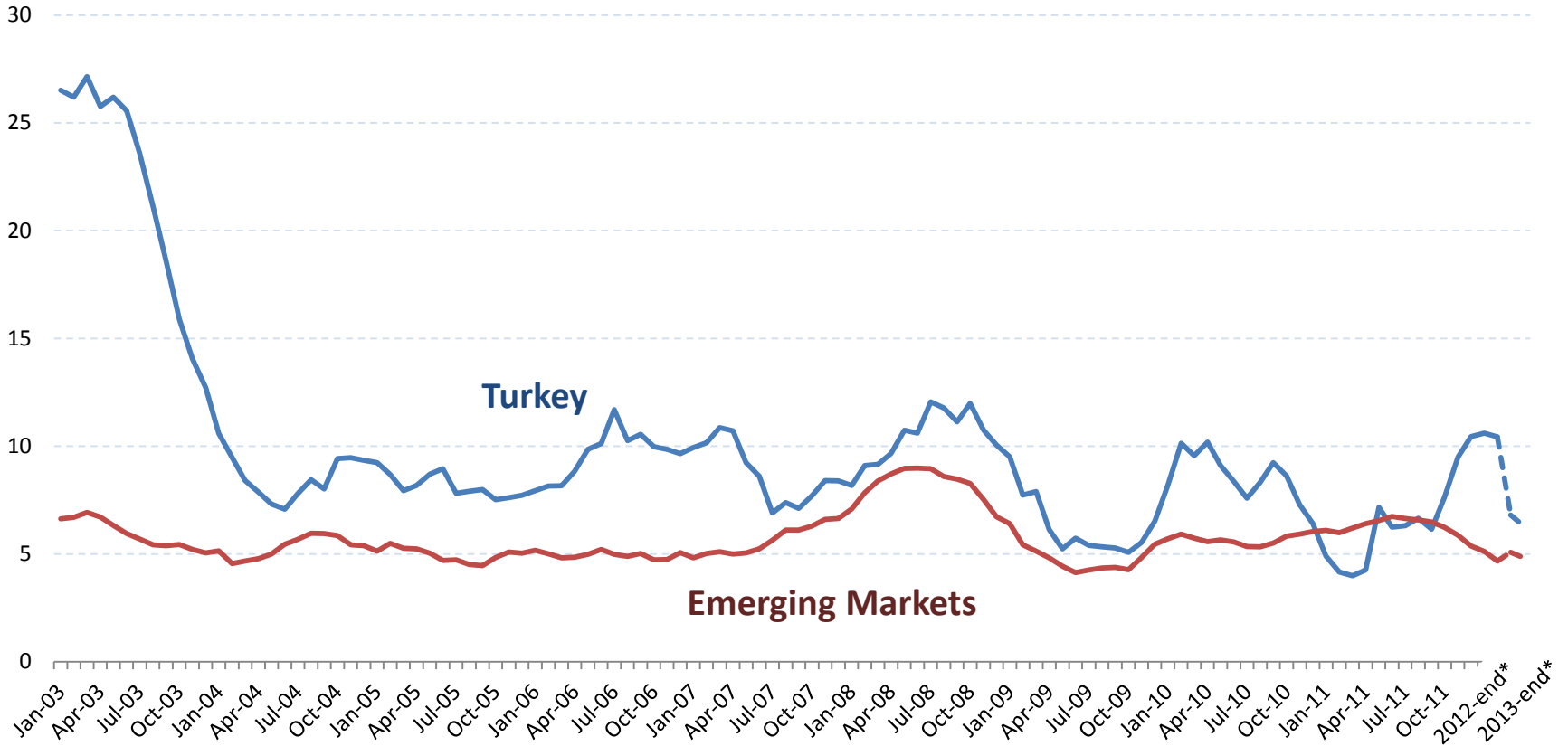


Source: CBRT

# INFLATION

# Inflation

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



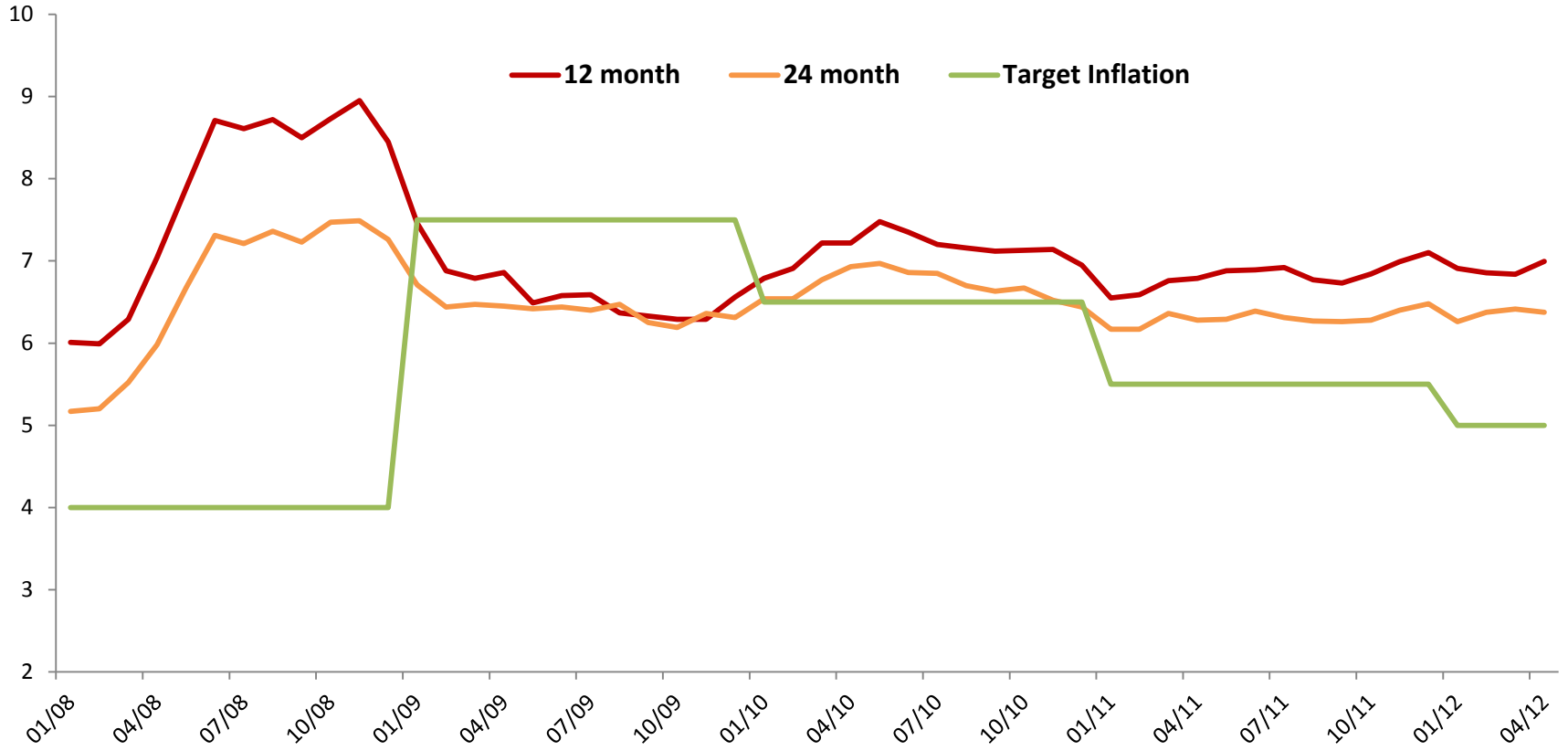
Source: CBRT and Bloomberg.

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 Expectations

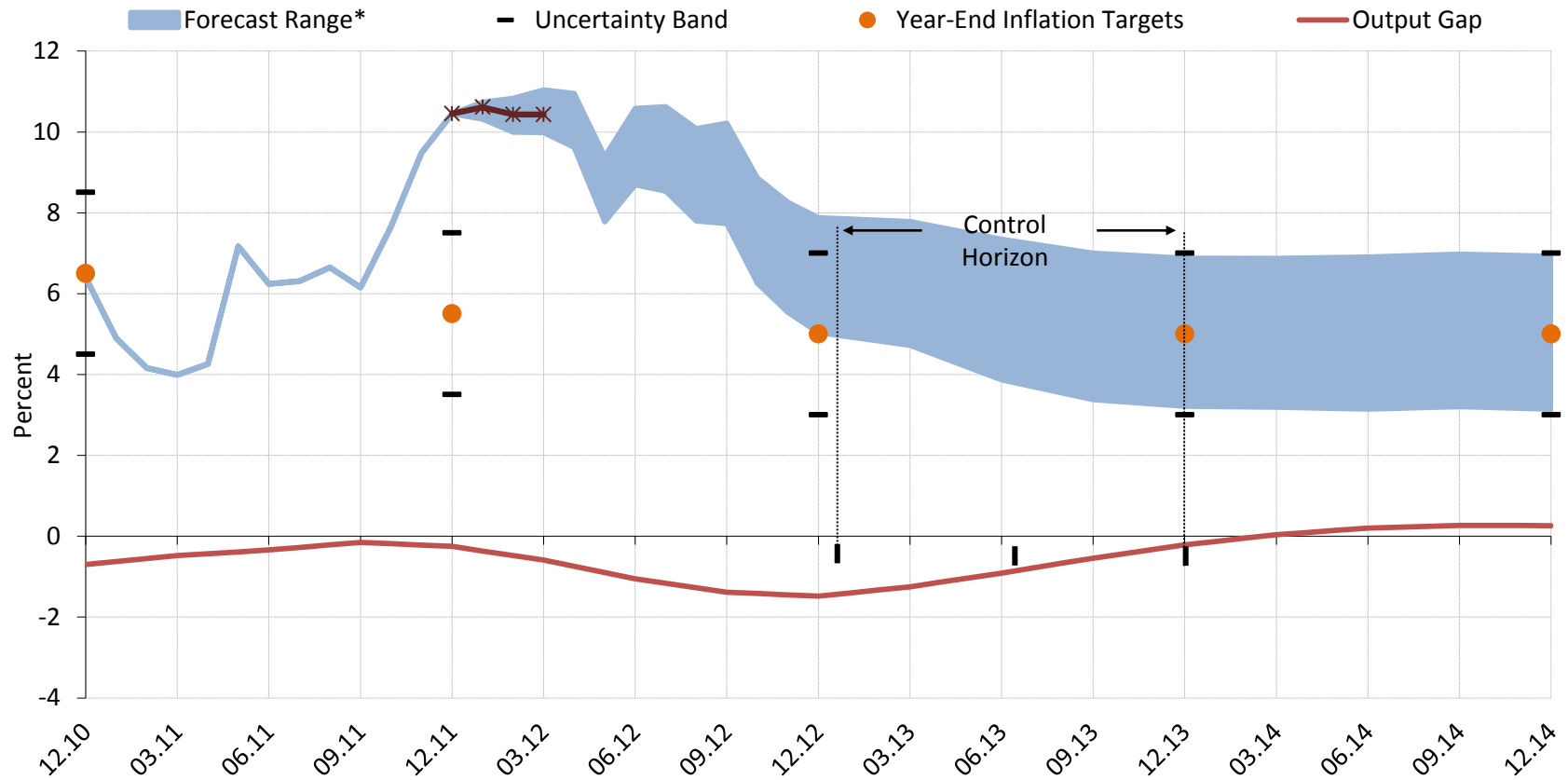
## Medium Term Inflation Expectations



Source: CBRT.

\* CBRT Survey of Expectations.

# Inflation Forecasts and Realizations



Source: CBRT.

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

# Summary

- 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.





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