



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Briefing on Inflation Report 2015-I

Erdem BAŞÇI
Governor

27 January 2015
Ankara

Inflation Report: Main Sections

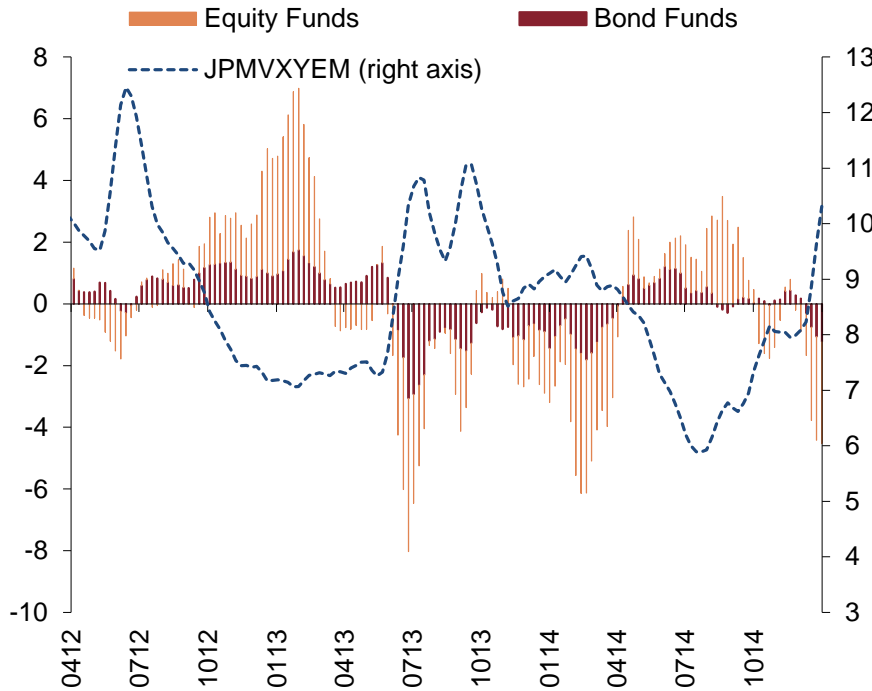
- Overview
- International Economic Developments
- Inflation Developments
- Supply and Demand Developments
- Financial Markets and Financial Intermediation
- Public Finance
- Medium Term Projections

Inflation Report: Boxes

- Effects of Crude Oil Prices on Consumer Prices
- Relationship Between International and Domestic Grain Prices
- Role of Base Effects on Consumer Prices in 2015
- Liability Dollarization and Growth Performance of Non-Financial Firms in Turkey
- Macroeconomic Effects of International Energy Prices
- Interest Payments on Required Reserves
- Sources of Revisions to end-2014 Inflation Forecasts

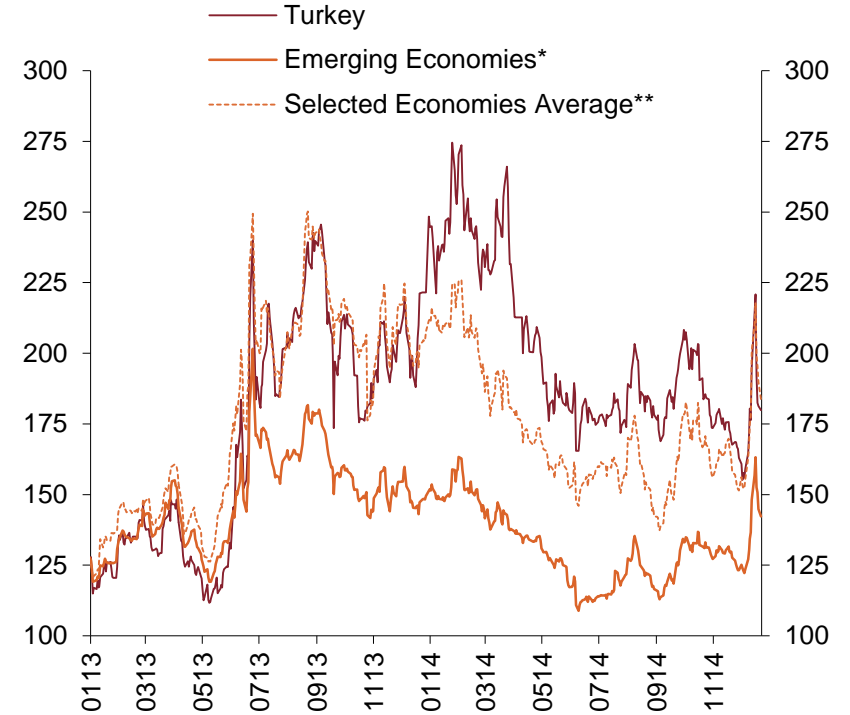
Portfolio Flows and Risk Premium

Portfolio Flows to Emerging Economies
(4-Week Moving Average, Billion USD)
and Currency Volatility Index (JPMVXYEM) (Percent)



Source: EPFR, Bloomberg.

CDS for Emerging Economies and Turkey
(Basis points)



*Brazil, Czech Rep., Indonesia, S. Africa, Colombia, Hungary, Mexico, Poland, Romania ve Chile.

** Brazil, Indonesia, and S.Africa.

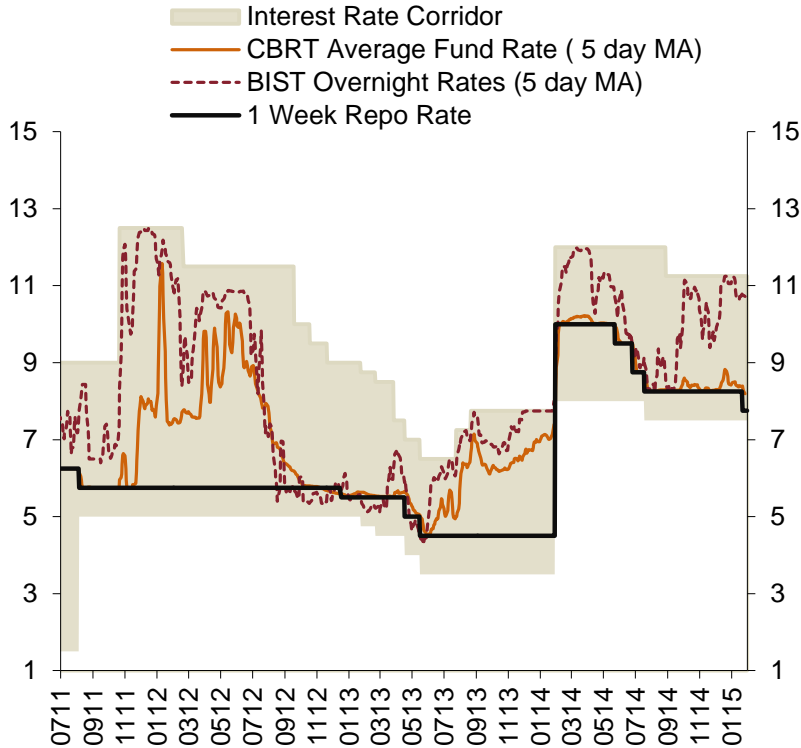
Source: Bloomberg

➤ Recently, risk premia and portfolio flows to emerging market economies followed a volatile course .

Monetary Policy and Financial Conditions

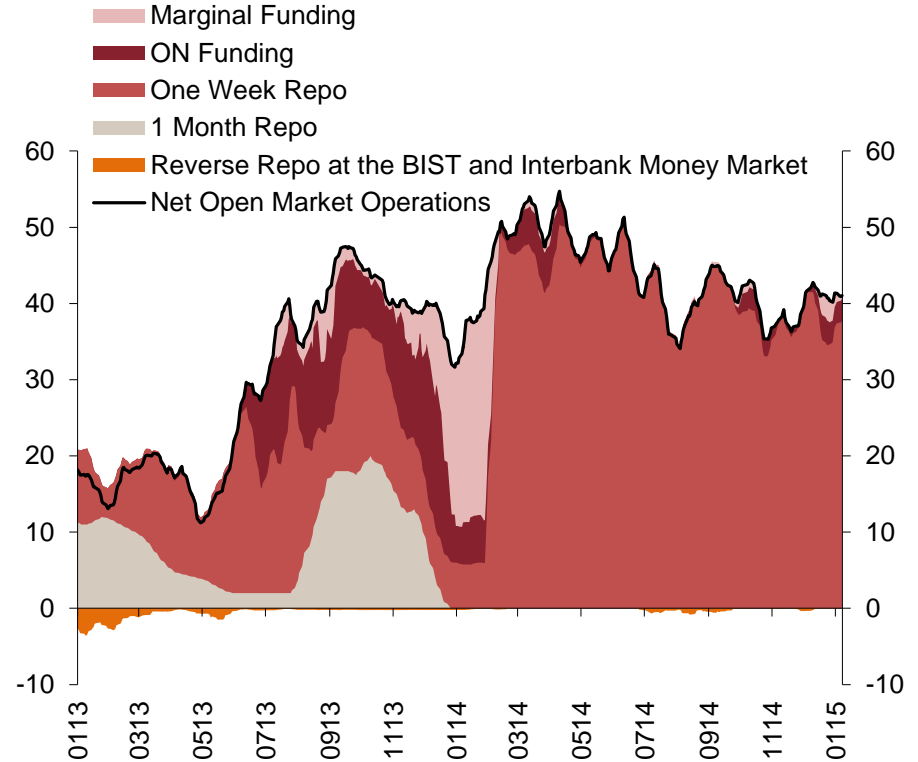
Monetary Policy

CBRT Rates and BIST Interbank O/N Repo Rates
(Percent)



Source: BIST, CBRT.

CBRT Funding*
(2-Week Moving Average, Billion TL)



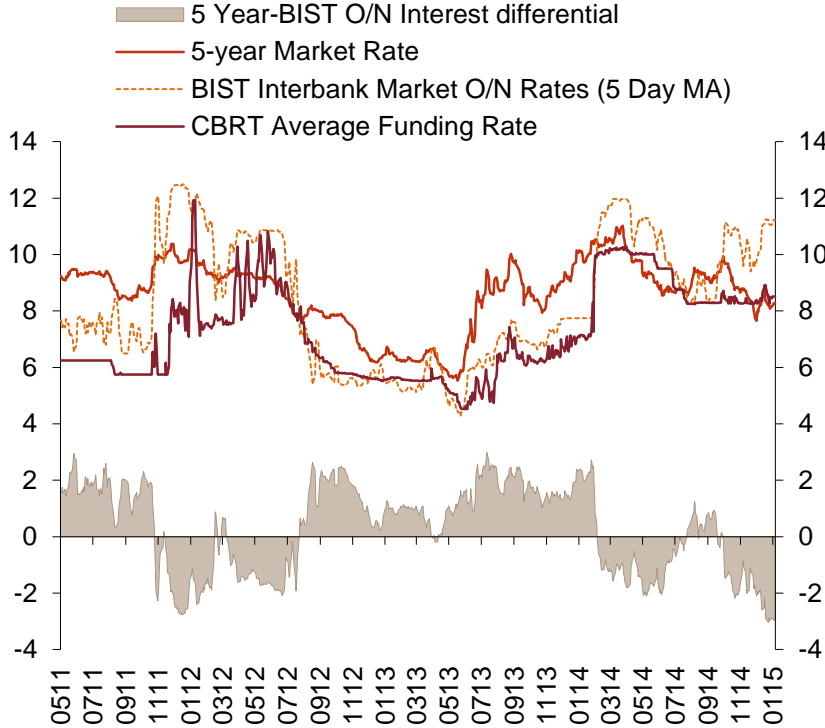
*Marginal funding is O/N funding quoted at the upper limit of the corridor.

Source: BIST, CBRT.

- Due to favorable developments regarding inflation outlook, CBRT decided on a measured cut in the one week repo rate in January.

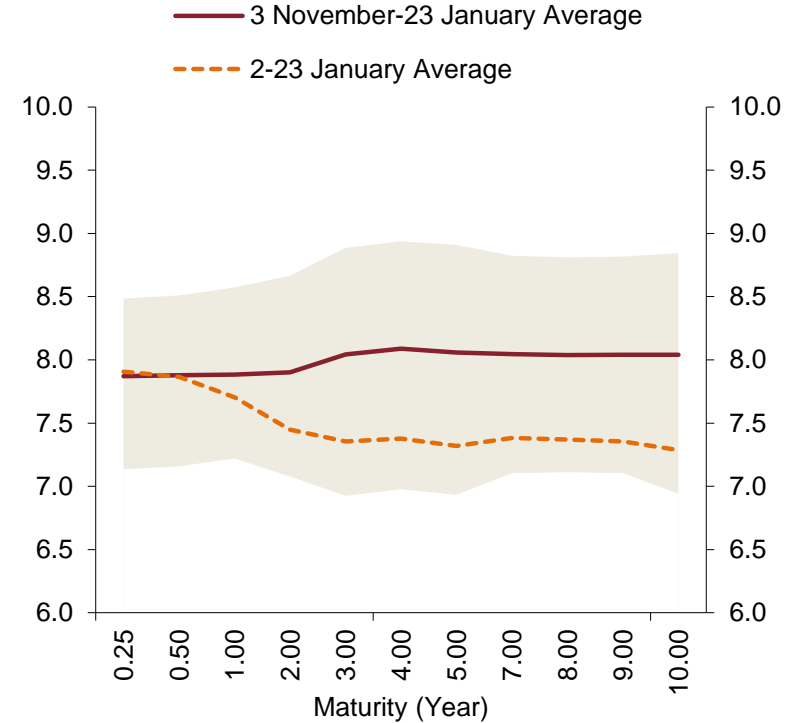
Monetary Conditions

Money Market and CBRT Funding Rates
(Percent)



Source: BIST, CBRT.

Yield Curve
(Percent)



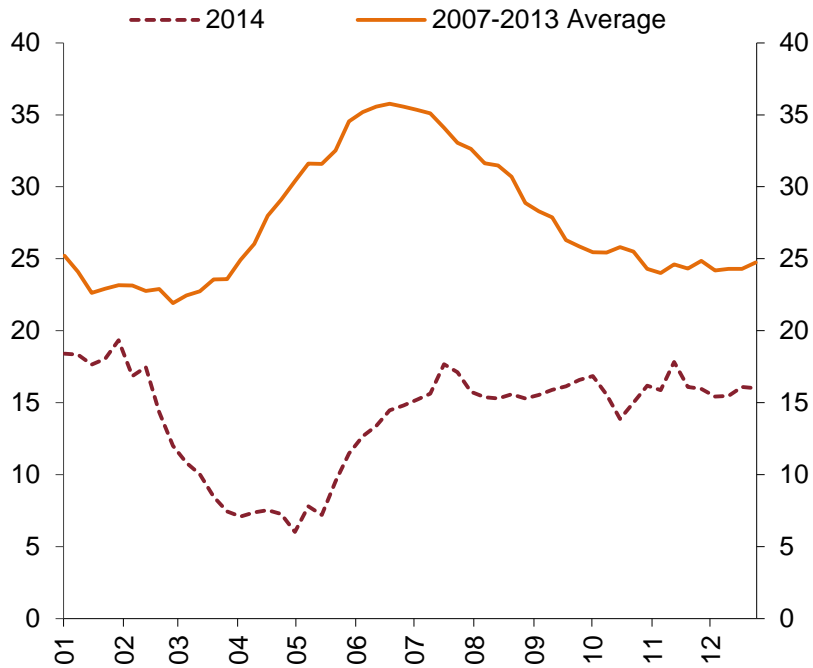
Shaded region denotes the range of yields at each maturity between 3 November-23 January. Source: Bloomberg.

➡ Tight monetary policy stance is maintained by keeping the yield curve flat.

Financial Stability

Consumer Loan Growth

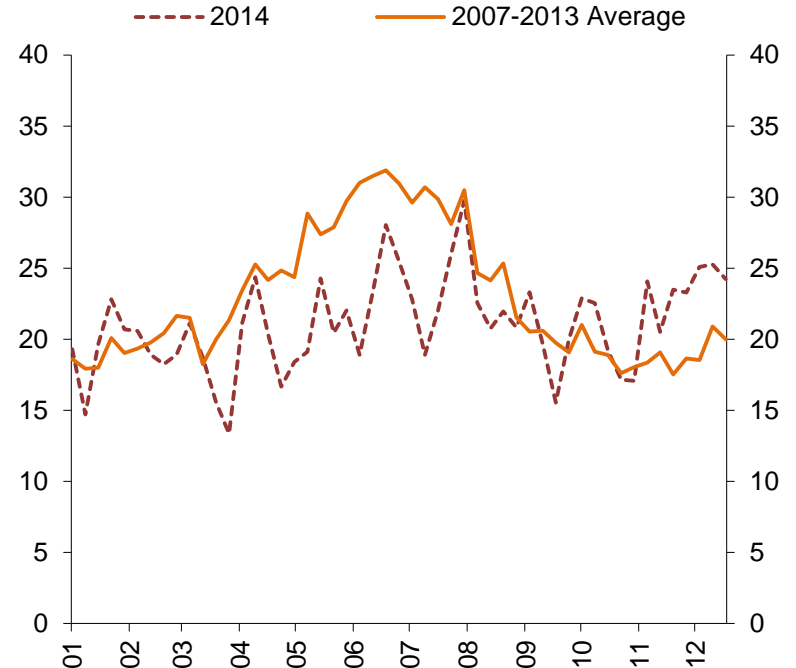
(13-Week Moving Average, Annualized, Percent)



Source: CBRT

Commercial Loan Growth

(13-Week Moving Average, Adjusted for Exchange Rate, Annualized, Percent)



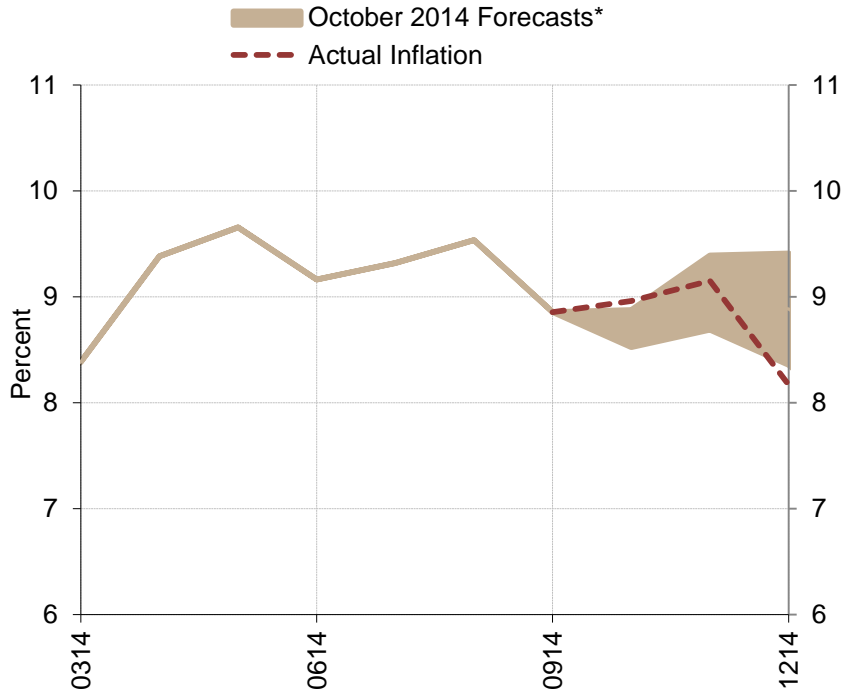
Source: CBRT.

➡ Commercial loans grow at a faster pace than consumer loans.

Macroeconomic Developments and Main Assumptions

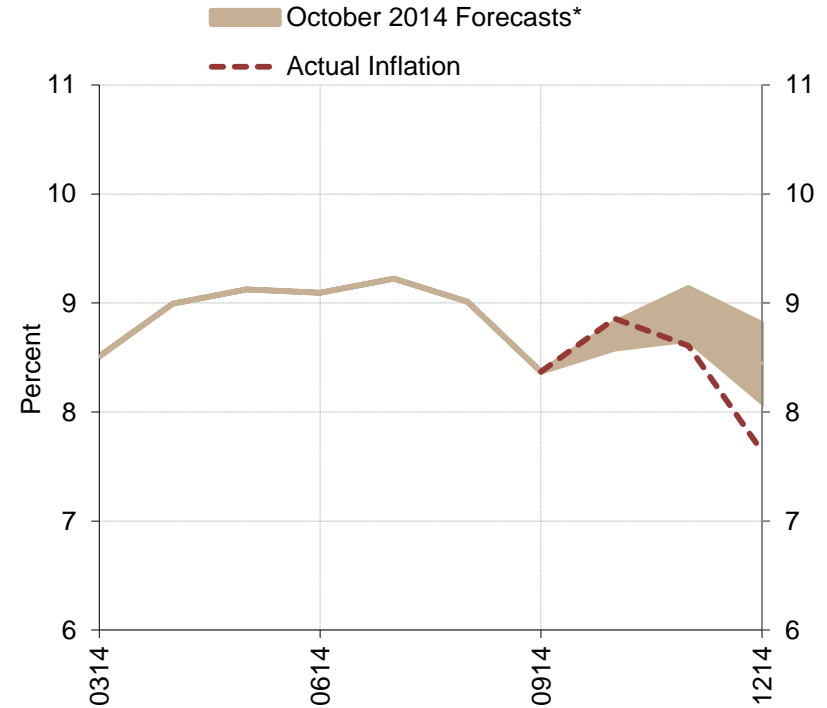
October Inflation Report Forecasts and Realizations

October Inflation Forecasts and Realizations
(Percent)



* Shaded region indicates the 70 percent confidence interval for the forecast.
Source: TURKSTAT, CBRT.

October Inflation Forecasts and Realizations
Excluding Unprocessed Food and Tobacco
(Percent)

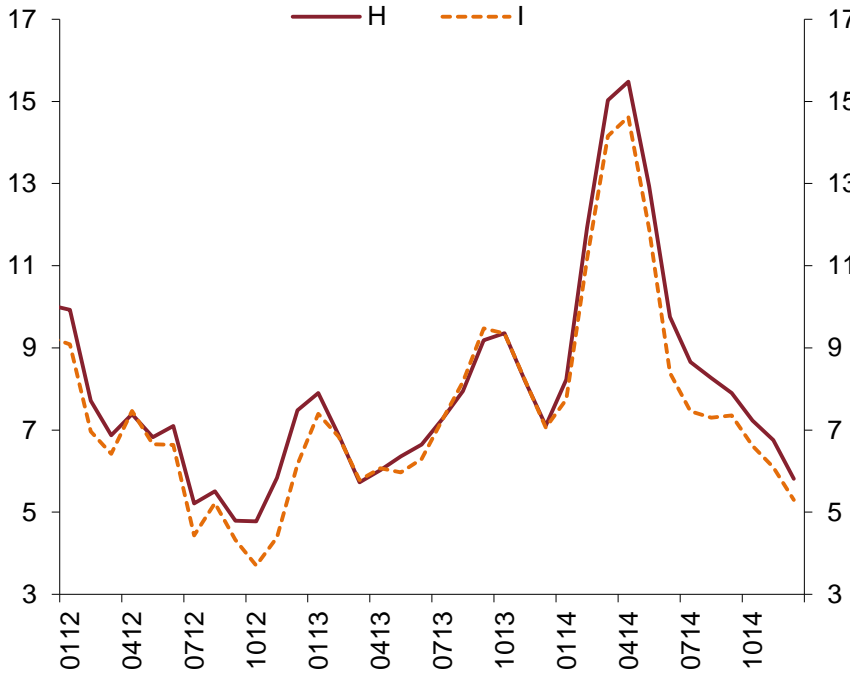


➤ At the end of 2014, inflation was realized lower than October Inflation Report forecast.

Inflation

Core Inflation Indicators SCA-H and SCA-I

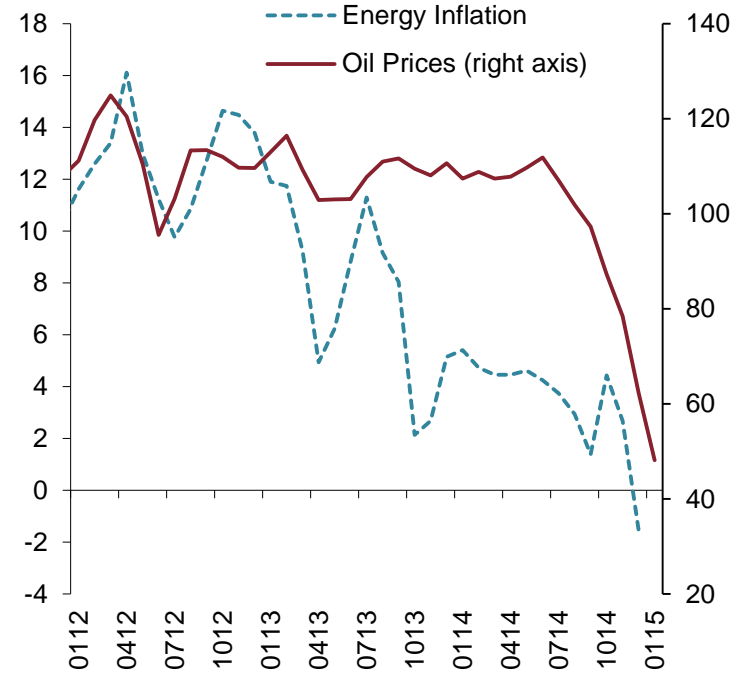
(Seasonally Adjusted, Annualized 3 Month Average Percent Change)



Source: TURKSTAT, CBRT.

Oil Prices (USD/Barrel) and Energy Inflation

(Annual Percentage Change)

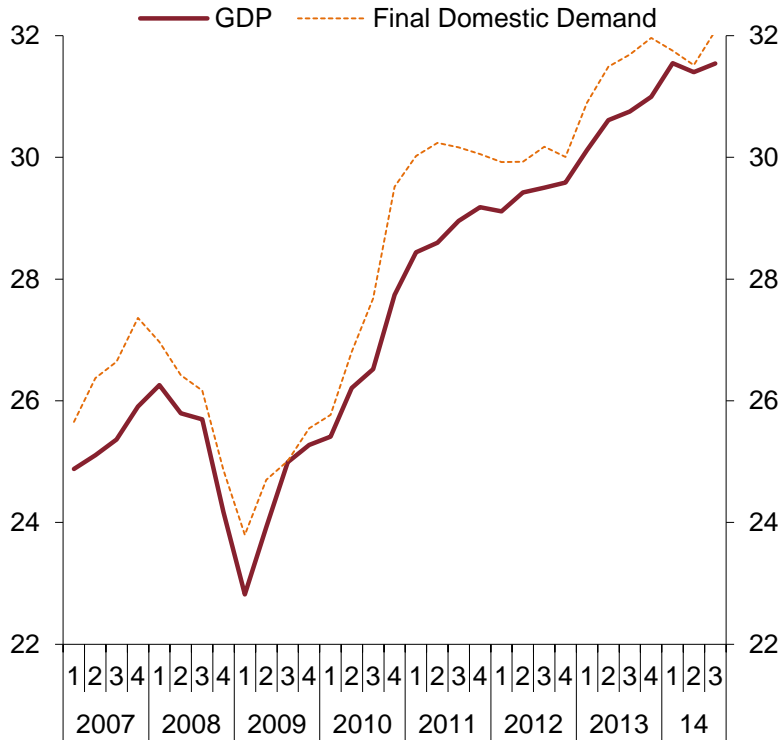


- Thanks to the positive effects of tight monetary policy stance and macro prudential measures, trend of core inflation indicators improved significantly.

Aggregate Demand Developments

GDP and Final Domestic Demand

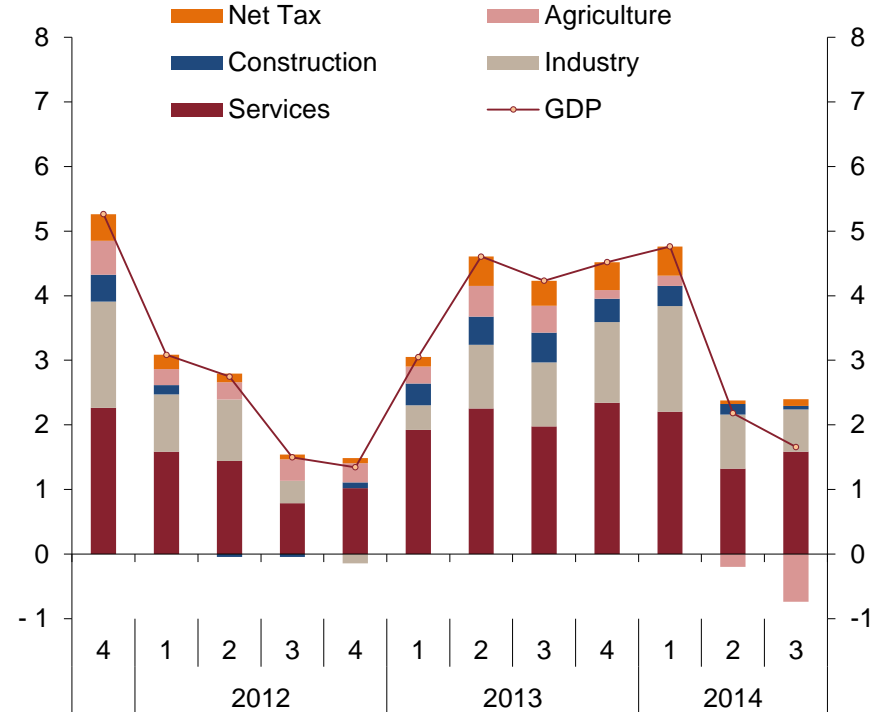
(Seasonally Adjusted, Billion TL, 1998 Prices)



Source: TURKSTAT, CBRT.

Contribution to Annual Growth from Production Side

(Percentage Point)

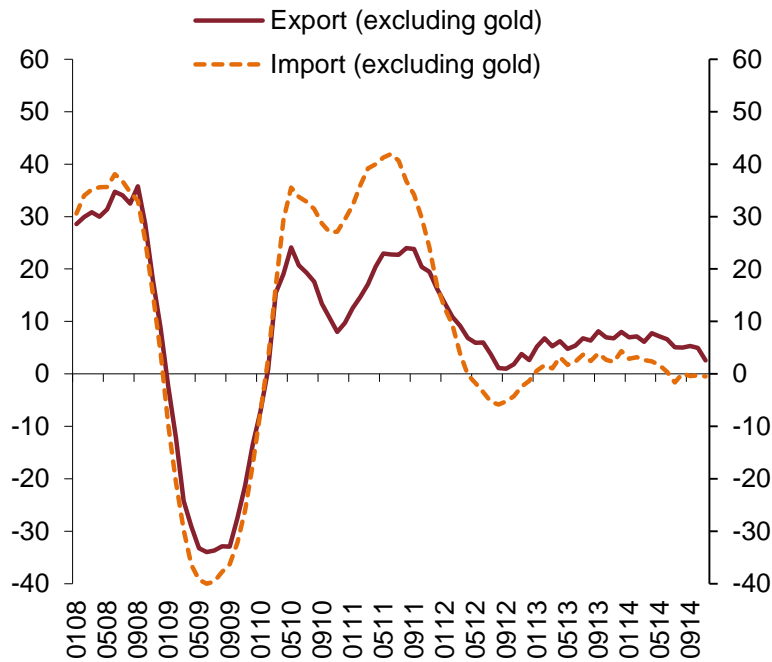


Source: TURKSTAT, CBRT.

➡ After first quarter of 2014, there was some deceleration in growth rates.

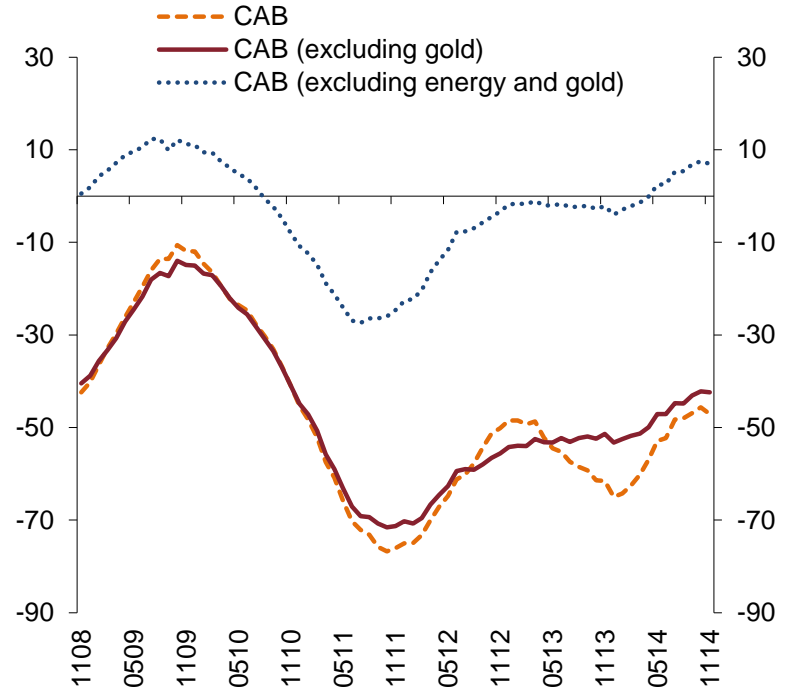
External Balance

Export and Import
(Yearly Change, 6-Month Average)



Source: TURKSTAT, CBRT.

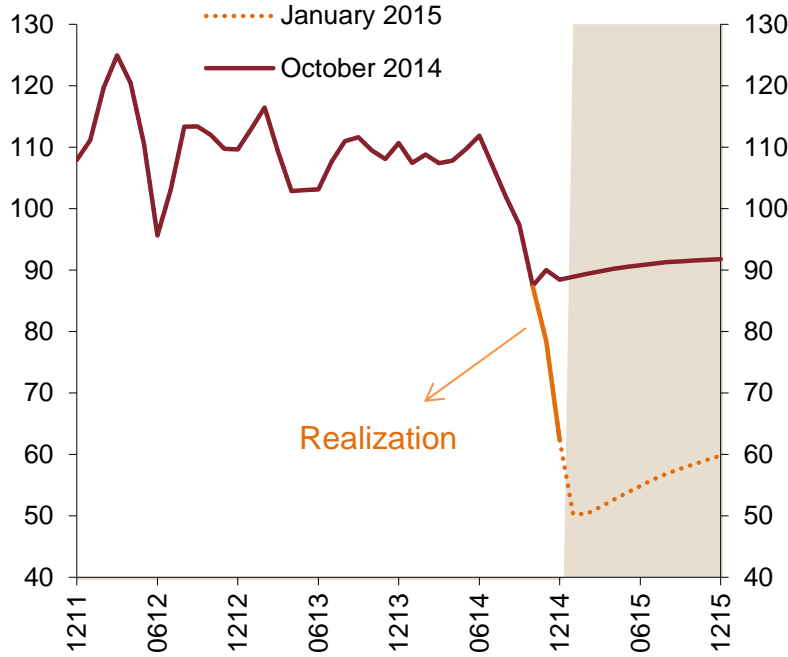
Current Account Balance
(12-Month Cumulative, Billion USD)



- Despite the weak external demand, macroprudential measures and declining oil prices support the improvement in current account balance.

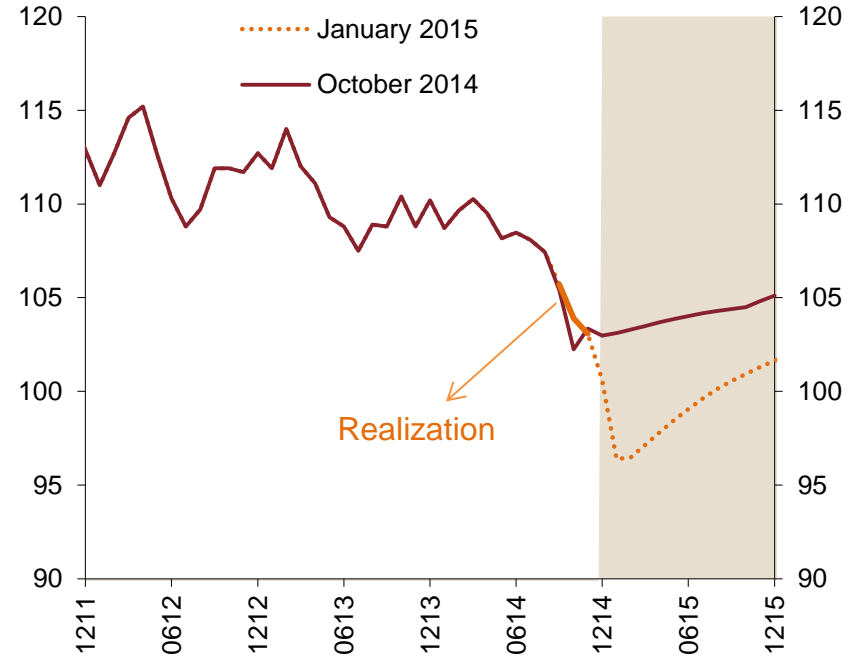
Oil and Import Prices

Oil Prices*
(USD/barrel)



* Shaded area indicates the forecast horizon.
Source: Bloomberg, CBRT.

Import Prices*
(USD, 2010=100)



* Shaded area indicates the forecast horizon.
Source: TURKSTAT, CBRT.

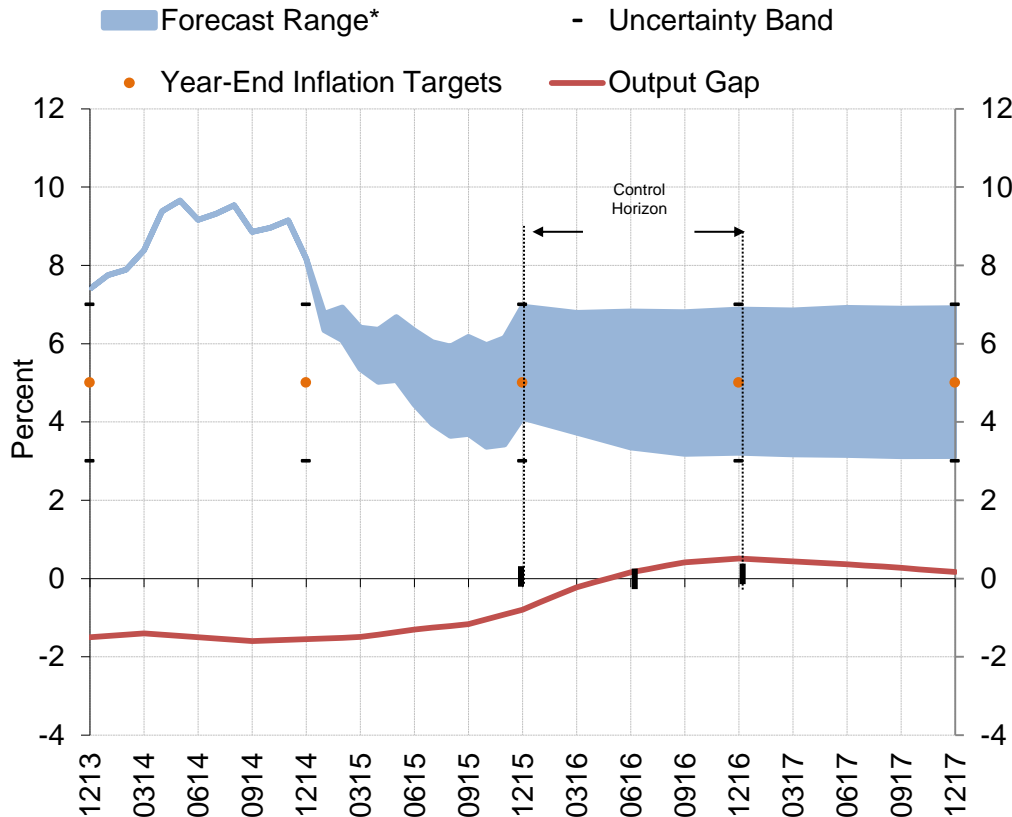
➡ In the fourth quarter of the year, outlook of oil and import prices remained significantly below the path envisaged in the October Inflation Report.

Monetary Policy Stance

- Medium-term forecasts are based on the framework that a cautious approach will be adopted to make the improvement in inflation outlook permanent and the tight monetary policy stance will be maintained by keeping the yield curve flat.
- It is assessed that the annual loan growth rate will continue to hover around the recent reasonable levels in 2015, also thanks to the macroprudential measures.

Inflation Outlook

Inflation and Output gap Forecasts



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

Accordingly, inflation is expected to

- be between 4.1 % and 6.9 % (mid-point of 5.5 %) by the end of 2015,
- be between 3.2 % and 6.8 % (mid-point of 5 %) by the end of 2016,
- stabilize at 5 % in the medium term

with 70 percent probability.



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