



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**Briefing on
April 2016 Inflation Report**

**Murat ÇETİNKAYA
Governor**

**26 April 2016
İstanbul**

April 2016 Inflation Report: Main Sections

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

April 2016 Inflation Report: Boxes

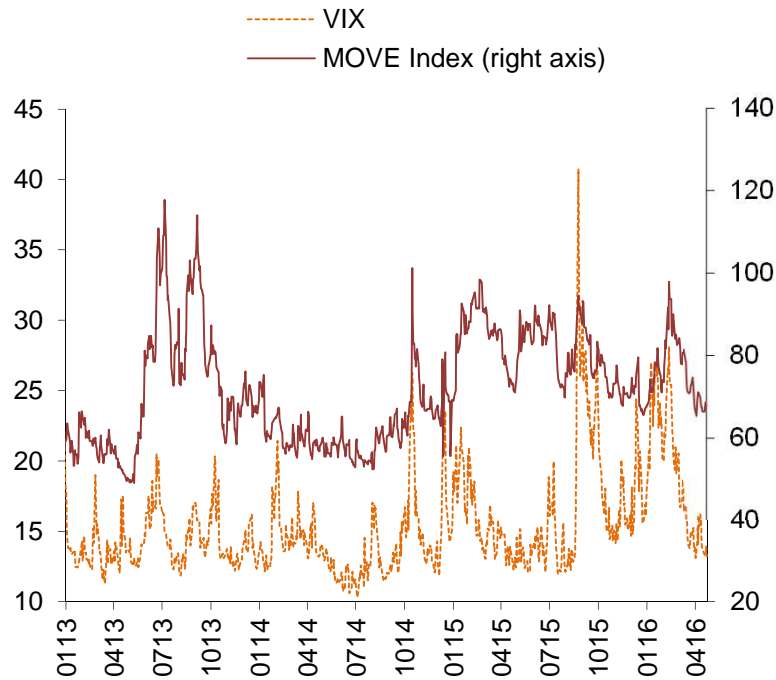
- The Factors Affecting Credit Ratings of Developed and Emerging Countries
- The Effects of Syrian Refugees on Consumer Prices
- A Hedonic House Price Index for Turkey
- The Effects of Increase in Minimum Wage on Consumer Credits
- The Relationship Between Imports of Consumption Goods and Consumer Credits Excluding Mortgages

Global Uncertainties and Portfolio Flows

VIX and US Interest Rate Volatility

(MOVE) Index

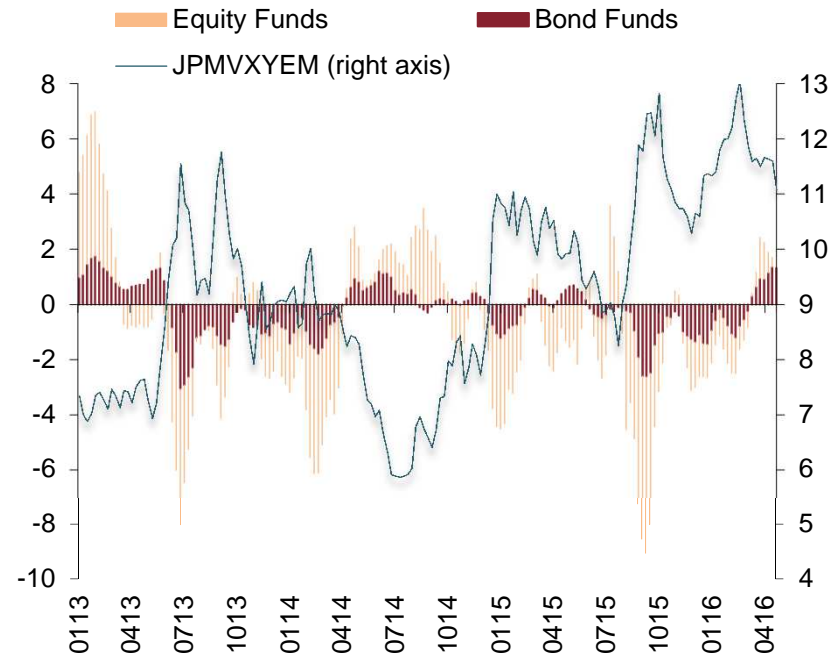
(MOVE Index, Basis Points)



Source: Bloomberg.

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

(Percent)



Source: EPFR, Bloomberg.

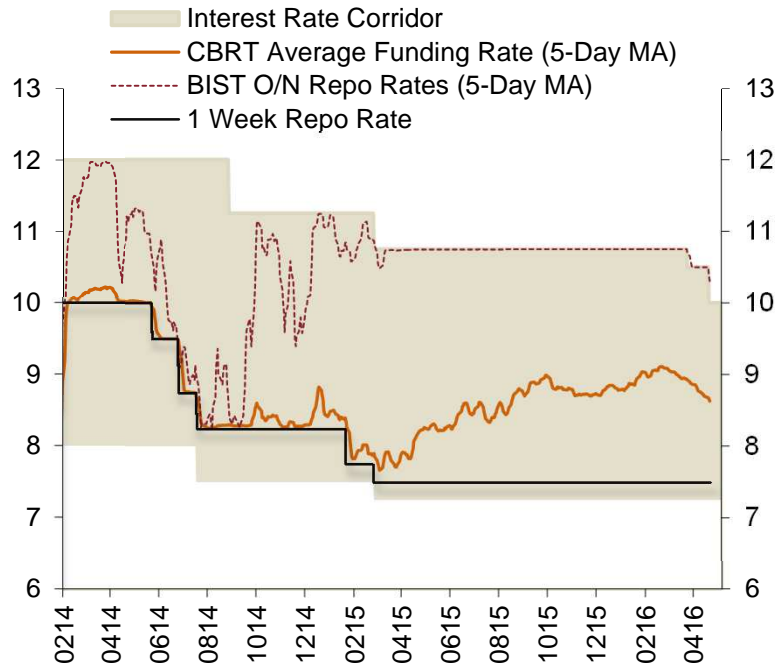
- Recently, decline in the global volatility has continued and global financial conditions have improved.

Monetary Policy and Financial Stability

Monetary Policy

CBRT Rates and BIST Interbank O/N Repo Rates

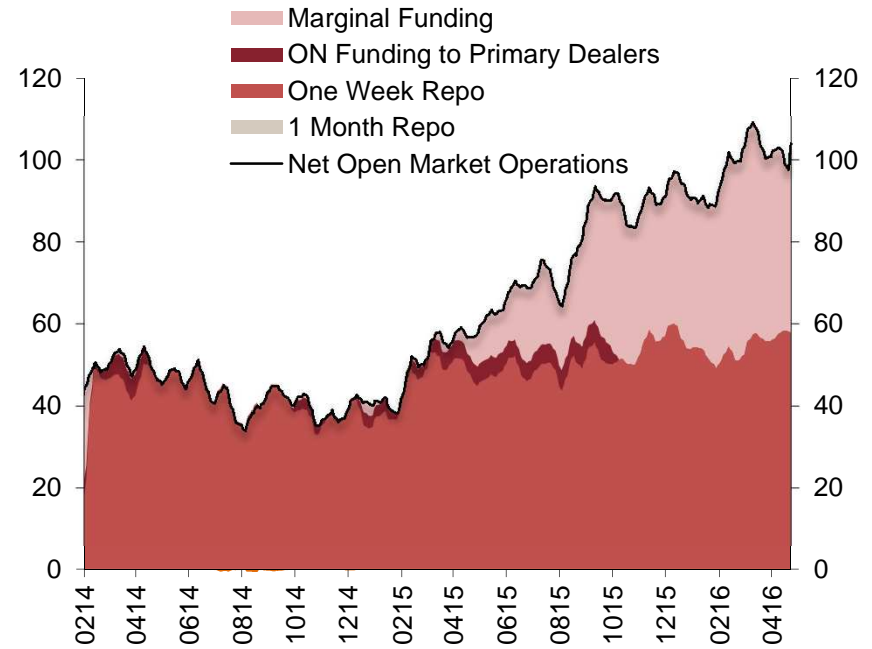
(Percent)



Source: BIST, CBRT.

CBRT Funding*

(2-Week Moving Average, Billion TL)



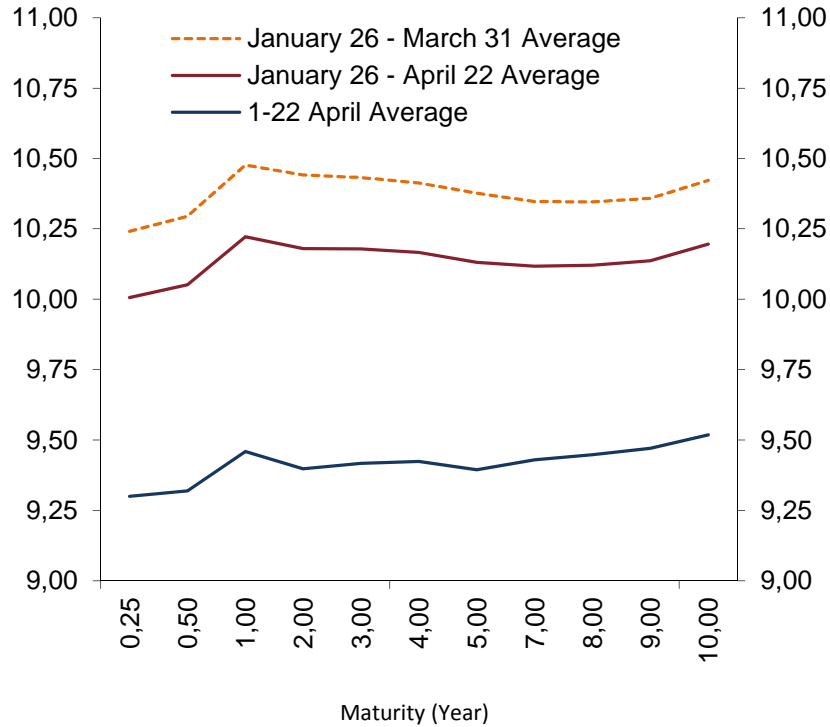
*Marginal funding is O/N funding quoted at the upper limit of the corridor.

Source: BIST, CBRT.

➡ CBRT took measured steps towards simplification of monetary policy framework.

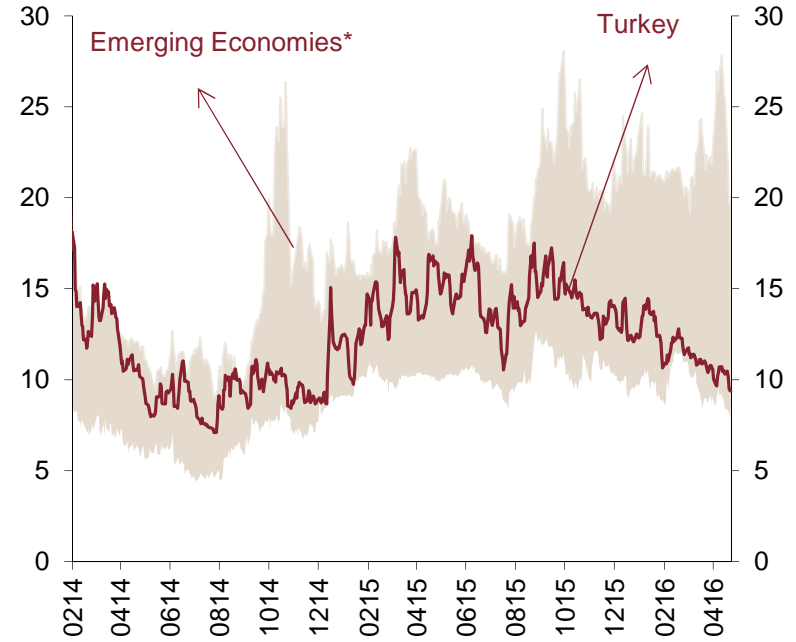
Monetary Conditions and FX Volatility

Yield Curve
(Percent)



Source: Bloomberg.

Implied FX Volatility
(1 Month)



Emerging economies include Brazil, Chile, Czech Republic, Hungary, India, Mexico, Poland, South Africa, Indonesia, Romania and Colombia.

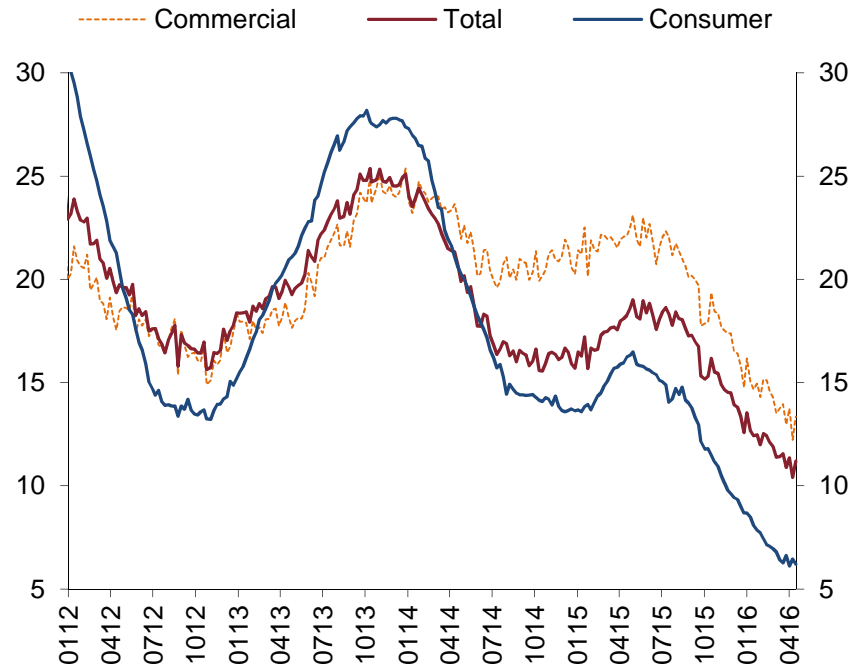
Source: Bloomberg.

- Recently, the yield curve shifted downwards in all maturities and implied FX volatility continued to decline.

Financial Stability

Annual Loan Growth

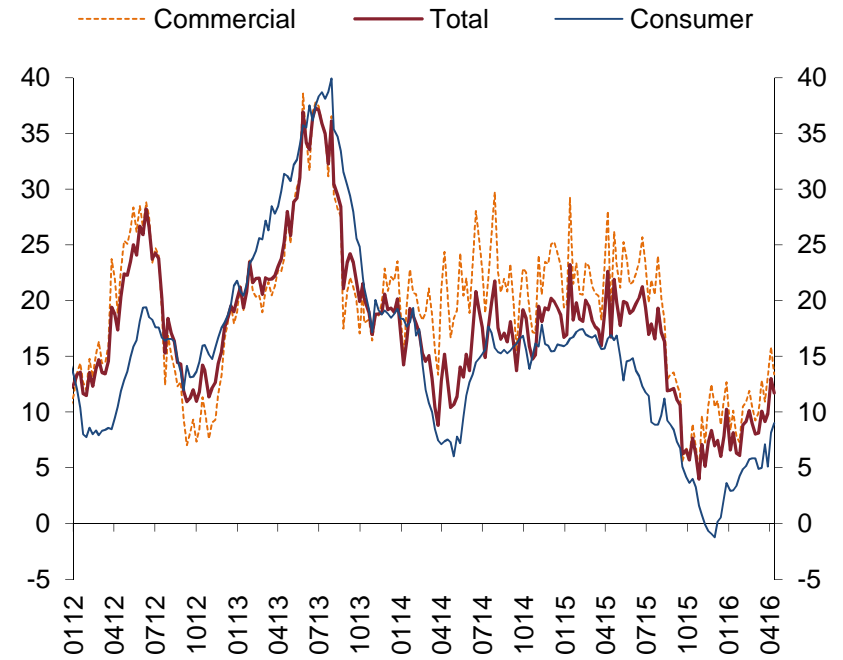
(Adjusted for Exchange Rate, Percent)



Source: CBRT.

Annualized Loan Growth

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



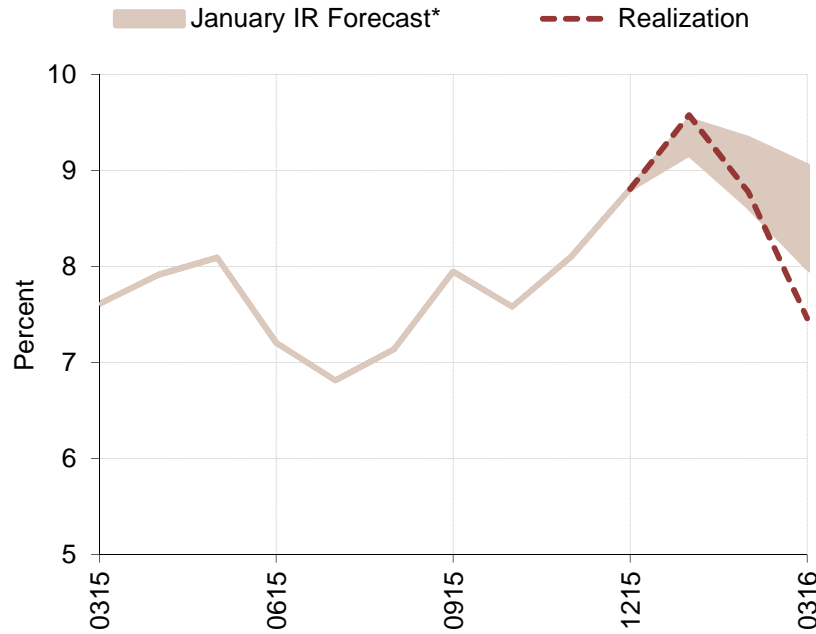
Source: CBRT.

➤ Credit growth trends increased in the first quarter of 2016.

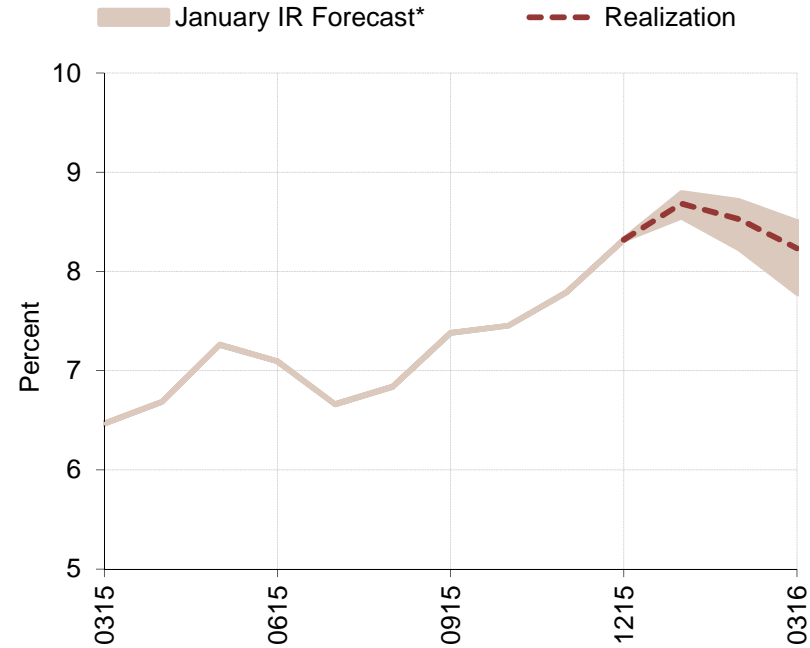
Macroeconomic Developments and Main Assumptions

January 2016 Inflation Report Forecasts and Realizations

January 2016 Inflation Forecasts and Realizations
(Percent)



January 2016 Inflation Forecasts and Realizations Excluding Unprocessed Food and Tobacco
(Percent)



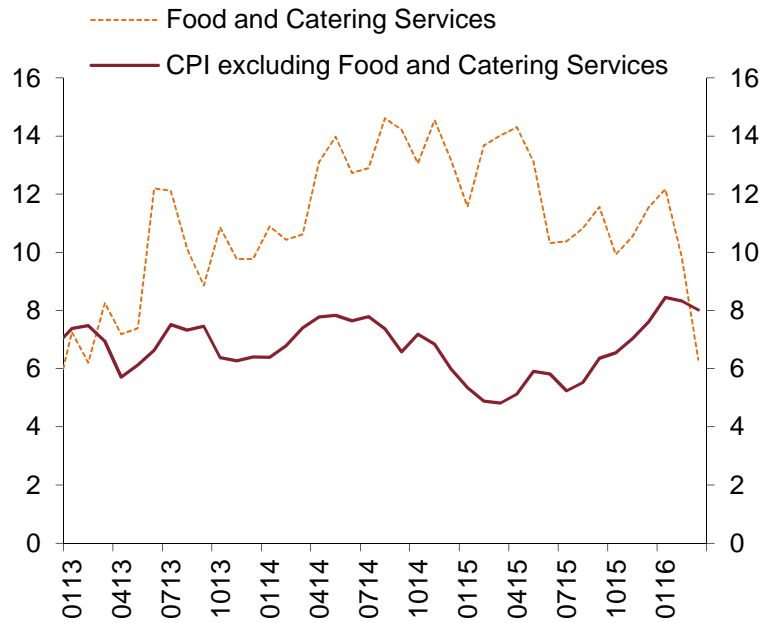
* Shaded region indicates the 70 percent confidence interval for the forecast.
Source: TURKSTAT, CBRT.

- In the first quarter of 2016, inflation displayed a marked decline, which was mainly due to unprocessed food prices.

Inflation

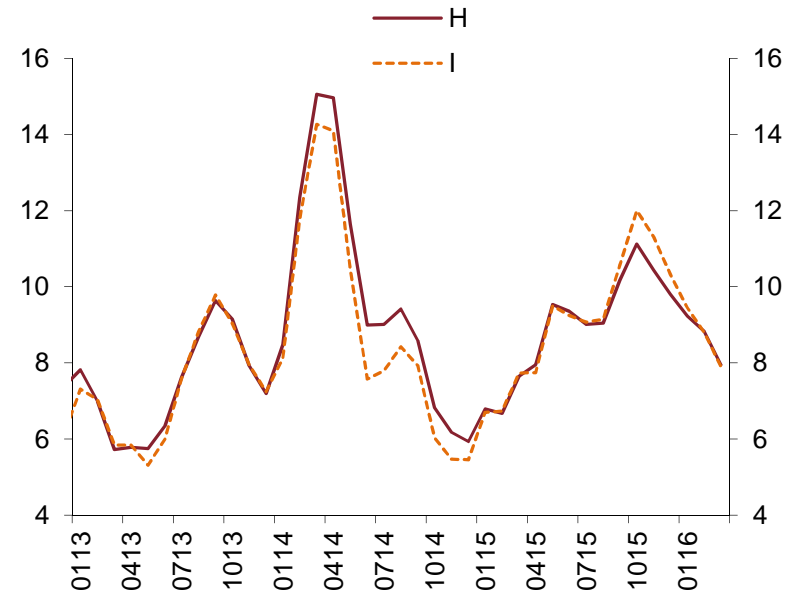
Food and Non-Food Prices

(Annual Percent Change)



Core Inflation Indicators SCA-H and SCA-I

(Seasonally Adjusted, Annualized 3 Month Average, Annual Percentage Change)



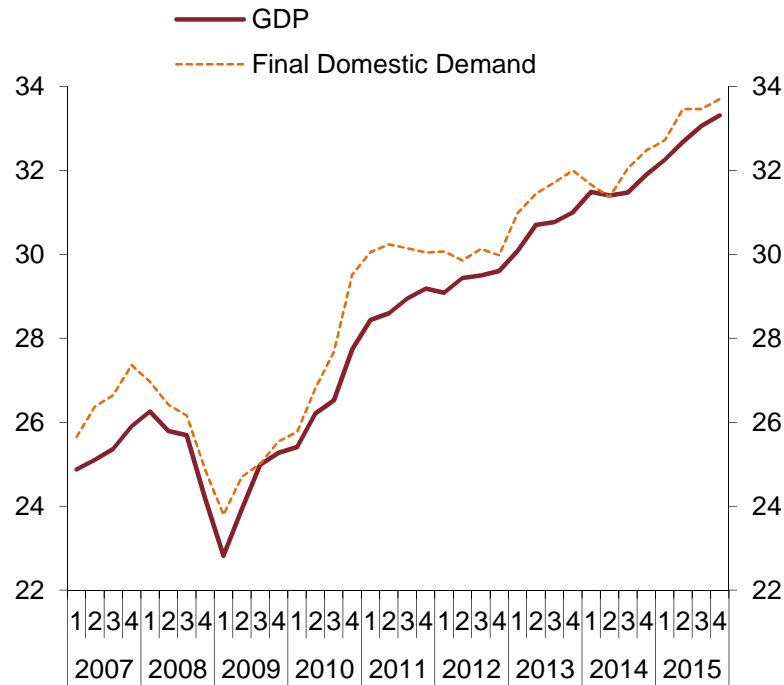
Source: TURKSTAT, CBRT.

➡ Core inflation trends slowed down thanks to core goods.

Aggregate Demand Developments

GDP and Final Domestic Demand

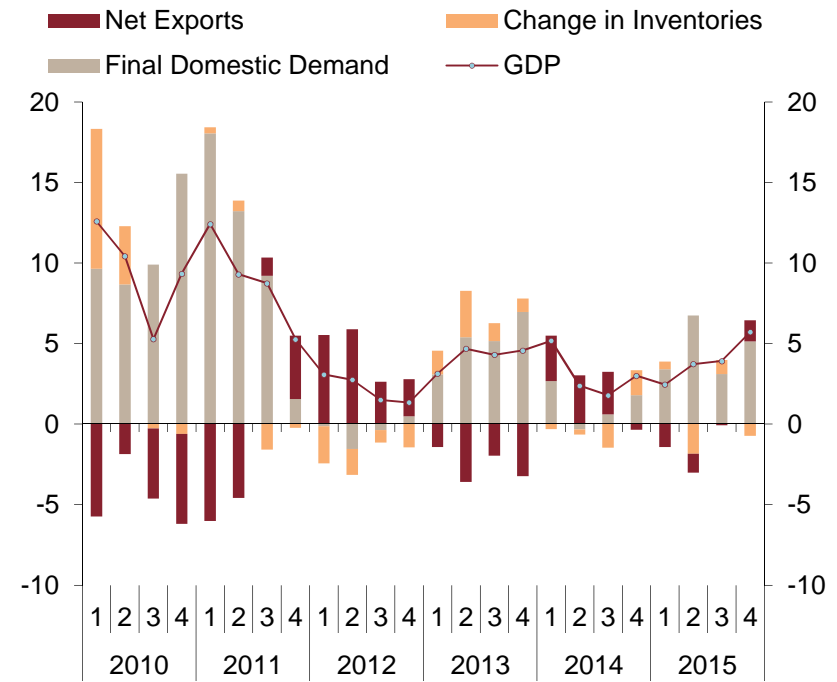
(Seasonally Adjusted, Billion TL, 1998 Prices)



Source: TURKSTAT, CBRT.

Contribution of Demand Components to Year-on-Year GDP Growth

(Percentage Point)

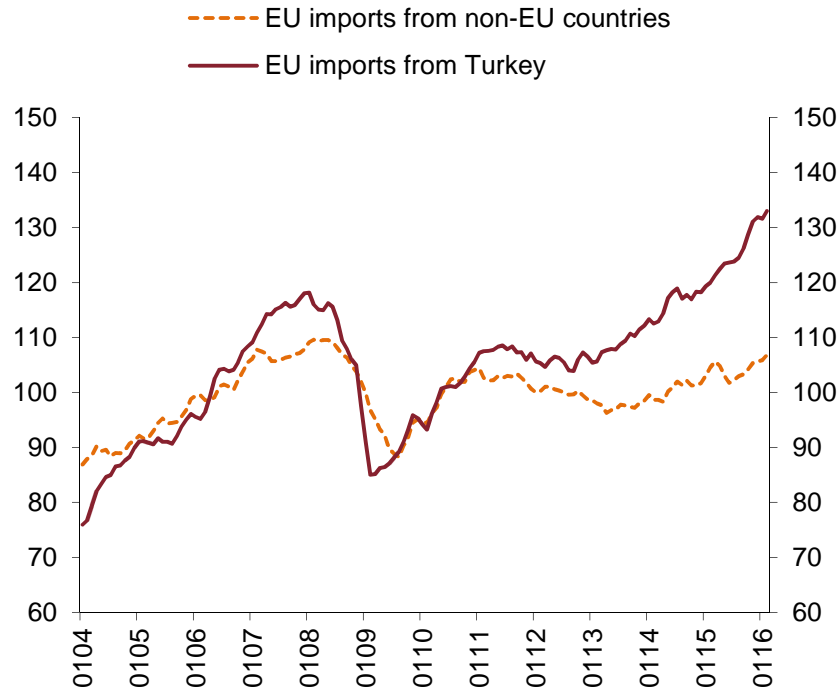


➤ Economic activity displays a moderate and stable course of growth.

External Balance

EU Imports from Turkey

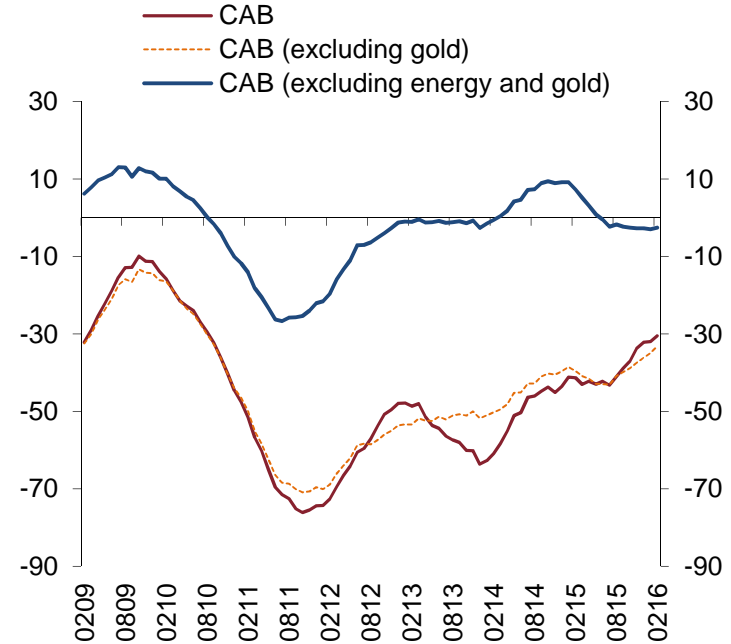
(Real, Seasonal Adj., 3-Month Average, 2010=100)



Source: Eurostat.

Current Account Balance (CAB)

(12-Month Cumulative, Billion USD)

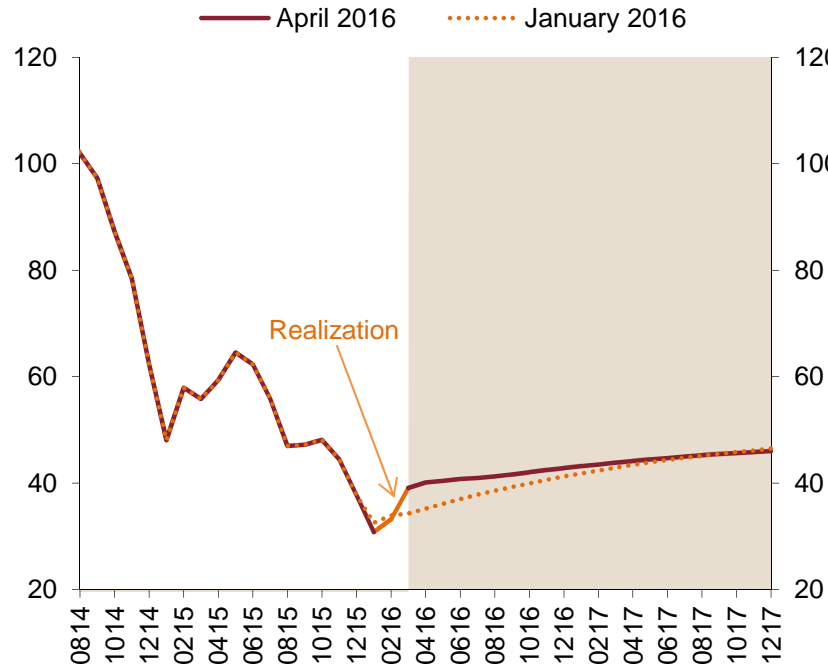


Source: TURKSTAT, CBRT.

- Demand from the European Union economies continues to support exports, despite elevated geopolitical risks in other export markets. The improvement in the current account balance is expected to continue.

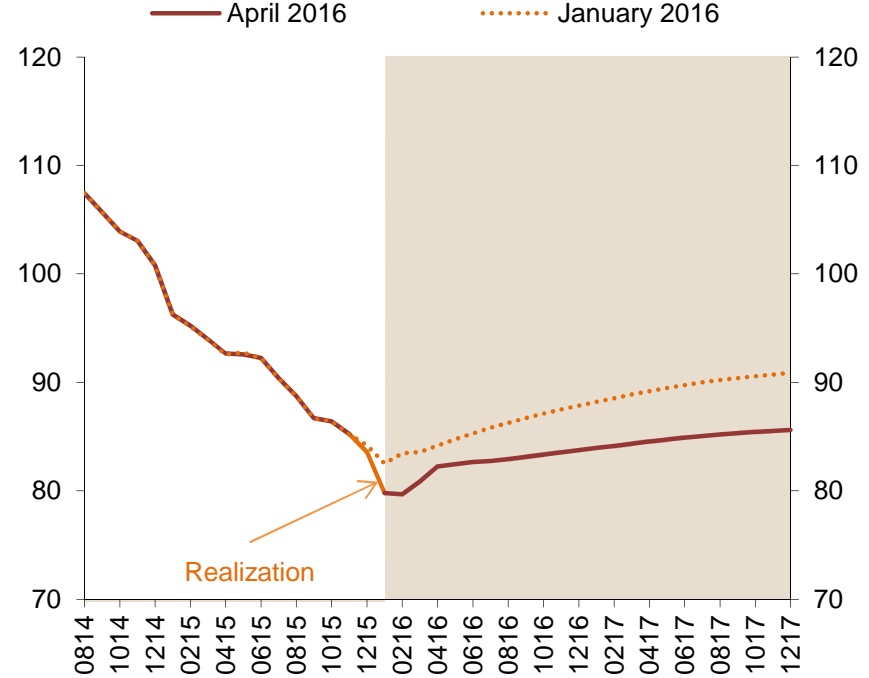
Oil and Import Prices

Oil Prices*
(USD/barrel)



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

Import Prices*
(USD, 2010=100)

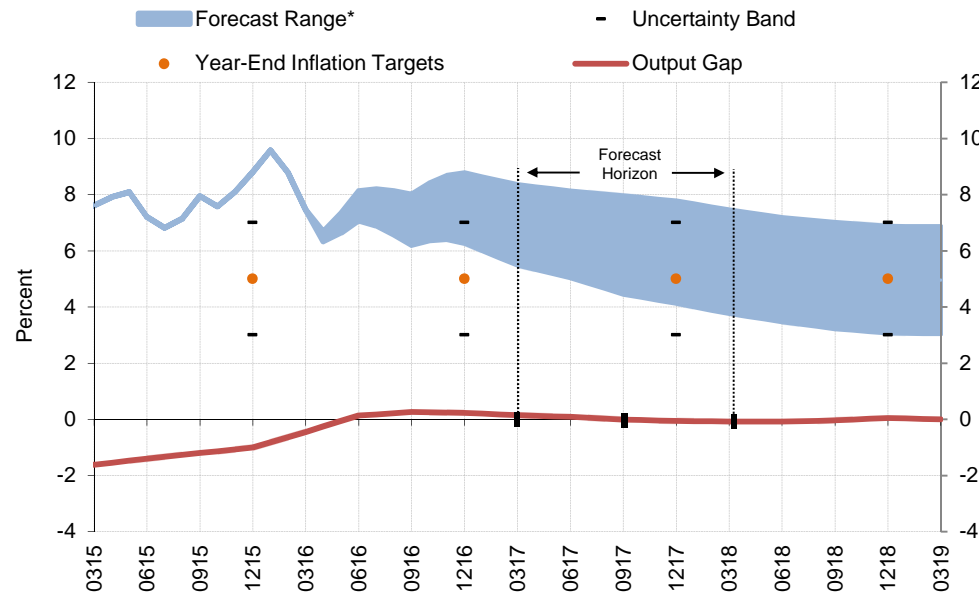


Monetary Policy Stance

- Given a decisive policy stance that focuses on bringing inflation down, the 5-percent target is expected to be achieved gradually;
- Inflation is likely to stabilize around 5 percent as of 2018 after falling to 7.5 percent in 2016 and to 6 percent in 2017.

Inflation Outlook

Inflation and Output Gap Forecasts



Accordingly, inflation is expected to

- **be between 6.3 % and 8.7 % (mid-point of 7.5 %) by the end of 2016,**
- **be between 4.2 % and 7.8 % (mid-point of 6 %) by the end of 2017,**
- **stabilize at 5 % in the medium term**

with 70 percent probability.

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



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