Macroeconomic Outlook and Monetary Policy in Turkey

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Outline

- Macroeconomic Developments
- Inflation and Monetary Policy
- Overview
Macroeconomic Developments
Synchronized global growth continues.

Growth Rates
(Annual % Change)

Source: Bloomberg, CBRT

Advanced Countries: USA, Euro Area, Japan, UK, Canada, S.Korea, Switzerland, Sweden, Norway, Denmark, Israel.
Developing Countries: China, Brazil, India, Mexico, Russia, Turkey, Poland, Indonesia, S.Africa, Argentina, Thailand, Malaysia, Czechia, Colombia, Hungary, Romania, Philippines, Ukraine, Chile, Peru, Morocco.
Portfolio flows follow a volatile course.

Fund Flows to Developing Countries
(Billion US Dollars, 4-Week Cumulative)

Source: EPFR

Last Observation: April 11, 2018
Commodity and oil prices are trending upwards.

GS & SP Commodity Price Indices
(January 2016 =100)

Oil Prices and Futures
(Oil Price (Brent), US Dollar/Barrel)

Source: Bloomberg

Last observation: April 13, 2018

Source: Bloomberg

Last observation: April 16, 2018

* Average of future contract prices between 1-26 January 2018.
** Average of future contract prices between 2-16 April 2018.
Risks remain amid global recovery.

- Protectionism trends in global trade
- Normalization in monetary policies of advanced economies
- Increase in commodity prices
- Geopolitical risks

**Gross Domestic Product**  
(Seasonally and Calendar Adjusted, Chain Linked Volume Index, 2009=100)

Source: TURKSTAT  
Last Observation: 2017 Q4
Industrial production grows at a robust pace.

**Industrial Production Index**  
(Seasonally Adjusted, Quarterly % Change)

**PMI**  
(Seasonally Adjusted)

Source: TURKSTAT  
*Last Observation: February 2018*

Source: PMI Markit  
Last Observation: 2018 Q1
Domestic demand has continued to support growth.

The Composite Indicator for Private Consumption** (Annual % Change)

- Composite Indicator for Private Consumption
- Private Consumption

Composite Indicator for Investments*** (Annual % Change)

- Composite Indicator for Investment (right axis)
- Investment

Source: CBRT, TURKSTAT
*Last Observation: February 2018

**Composite indicator is the weighted average of the annual percentage changes of real turnover in nondurable goods, durable goods import quantity index, passenger car sales and retail sales volume index.

***Composite indicator for investment shows the average of the annual percentage changes in production and imports of capital goods and mineral products as well as commercial vehicle sales, housing sales and FX-denominated loans, construction sector orders, commercial loan rate and capacity utilization rate (manufacturing, services, trade, construction).
Employment growth has been strong.

**Unemployment Rates**  
(Seasonally Adjusted)

**Labor Force Participation Rate and Employment**  
(Seasonally Adjusted)

Source: TURKSTAT  
Last Observation: January 2018
Capacity utilization rates support investment demand.

Capacity Utilization Rate
(Seasonally Adjusted, %)

Investment Tendency of Manufacturing Firms for the Next 12 Months
(Seasonally Adjusted, Increase-Decrease, %)

Source: TURKSTAT
Last Observation: 2018 Q1
Current account deficit has widened.

Current Account Balance
(12-Month Cumulative, % of GDP)

Source: CBRT

Last Observation: December 2017
Turkey’s share in world exports has been rising steadily.

Share of Turkey in World Exports
(Excluding Gold, 12 Month Moving Average, %)

Source: WTO

Last Observation: February 2018
Tourism revenues continue to recover.

Tourism Revenues*
(12-Month Cumulative, Billion US Dollars)

(*) Transportation revenues consist of gross revenues from international passenger and baggage transport and postal and courier services.
The share of portfolio investments rises while long term capital inflows have a stable course.

**Current Account Finance***
(12-Month Cumulative, Billion US Dollars)

Source: CBRT

*Portfolio and short term capital movements are sum of the non-residents’ bond and equity purchases, banking and real sectors’ short term net credit and deposits in banks. Long term inflows are sum of banking and real sectors’ long term net credit and bonds issued by banks and the Treasury.*
External debt roll-overs remain robust.

Roll-Over Ratio
(6-Months Moving Average, %)

Source: CBRT

Last Observation: February 2018 for Banking sector; January 2018 for Corporate sector.
Inflation and Monetary Policy
CPI inflation and core indicators remain at elevated levels.

Inflation and Core Inflation Indicators
(Annual % Change)

Source: TURKSTAT

Last Observation: March 2018
Import prices and exchange rate have been major drivers of inflation.

**Import Prices**
(2010=100, Index)

Source: TURKSTAT

Last Observation: February 2018
Monetary policy is committed to achieving and maintaining price stability.

CBRT Interest Rates (%)
Predictability of monetary policy improved significantly.

Difference Between BIST Interbank Repo Rate and Weighted Average Cost of Funding (%)

Source: BIST, CBRT

Last Observation: April 16, 2018
Loan and deposit rates indicate tighter financial conditions.

TL Loan and Deposit Rates
(%, 4-Week Moving Average)

Source: CBRT
Last Observation: April 6, 2018
Loan growth momentum has converged to historical trends.

Loan Growth
(%, Adjusted for Exchange Rate Effect, 13-Week Moving Average, Annualized)

Source: CBRT

Last Observation: April 6, 2018
Asset quality maintains a resilient outlook.

Non-Performing Loans (%)
Policy coordination is expected to support price stability in the medium term.

- Exchange Rate Risk Management
- Food and Agricultural Product Prices
- Administered Prices
Overview
Overview

► Recently released data indicate that economic activity maintains its strength.

► Elevated levels of inflation and inflation expectations continue to pose risks on the pricing behavior.

► Recent developments are closely monitored in terms of their effects on the inflation outlook.

► Inflation expectations, pricing behavior and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered.
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