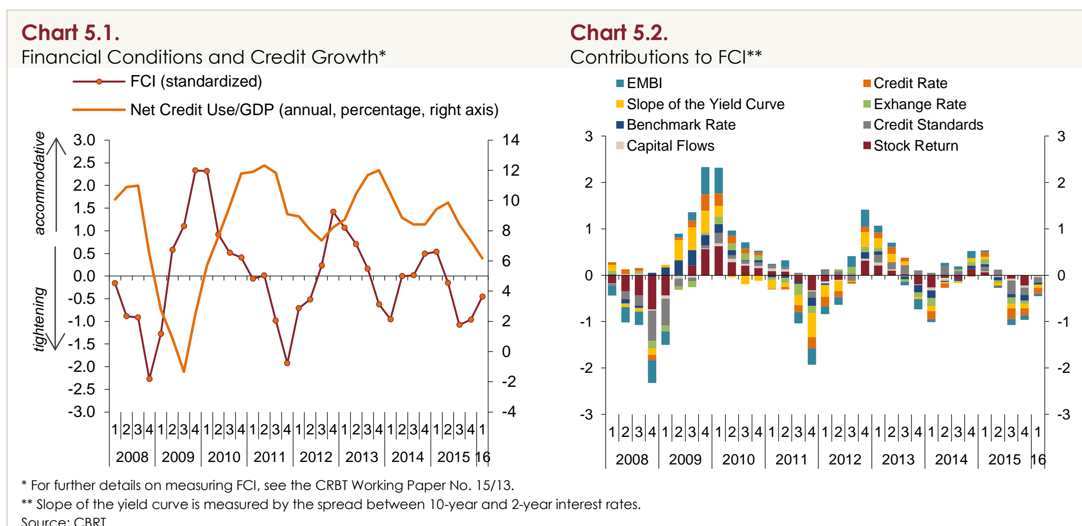
5. Financial Markets and Financial Intermediation

The first quarter of 2016 was marked by mounting concerns of a sluggish global economic recovery, which led to stronger expectations for a prolonged period of low policy rates across advanced economies. In this period, the risk appetite for emerging economies began to turn around amid expectations for fewer Fed rate hikes during 2016, further quantitative easing measures by the ECB and the Bank of Japan, alleviated concerns about China and partially recovering commodity prices. Having remained weak until recently, international capital flows to emerging economies strengthened, thus bringing down risk premiums and leading to an appreciation in emerging market currencies. After having diverged negatively for a while amid geopolitical tensions, domestic financial markets started to re-gain their losses on a par with other emerging economies. The benign macroeconomic outlook for Turkey and the new measures enforced by the CBRT within the road map announced in August 2015 helped the exchange rate volatility to fall well below that of other emerging economies.

The recently improved global risk appetite has contributed to more favorable financial conditions in Turkey. In the first quarter, capital flows accelerated notably, while the benchmark rate dropped, the Turkish lira appreciated and the stock return soared. However, the credit market is yet to experience some easing. Therefore, the FCI for Turkey still remains below zero despite the continued recovery in the first quarter of 2016 (Chart 5.1). Credit standards and credit rates were the foremost variables contributing to financial tightening in this period (Chart 5.2). Over the upcoming period, domestic credit volume is expected to start a modest uptrend amid improved financial conditions.

Chart 5.1.
Financial Conditions and Credit Growth*

Chart 5.2.
Contributions to FCI**



* For further details on measuring FCI, see the CRBT Working Paper No. 15/13.
** Slope of the yield curve is measured by the spread between 10-year and 2-year interest rates.
Source: CBRT.

5.1. Financial Markets

Global Risk Perceptions

Developments regarding monetary policy in advanced economies were the key factor affecting global markets in the first quarter of 2016. After the long-awaited rate hike in December 2015, the Fed kept its policy rate unchanged and signaled an extended period of low interest rates, fueling

expectations for fewer Fed rate hikes for the rest of 2016. As a result, the US Treasury bond rates, particularly those with longer maturities, saw a drop across all maturities, and the slope of the yield curve flattened (Chart 5.1.1). Moreover, the MOVE index, which captures the short-term volatility of US bond rates at different maturities, assumed a downtrend as of February, falling below its level from the previous quarter.

The sluggish economic recovery and mounting downside risks to the euro area inflation outlook prompted the ECB to cut policy rates and continue with quantitative easing in the first quarter of 2016. Similarly, central banks of other advanced economies continued with their accommodative monetary policies. These fueled the risk appetite for emerging economies also amid the partial recovery in commodity prices and waning concerns over the Chinese economy. Consequently, the emerging market exchange rate volatility posted a decline in the inter-reporting period (Chart 5.1.2).

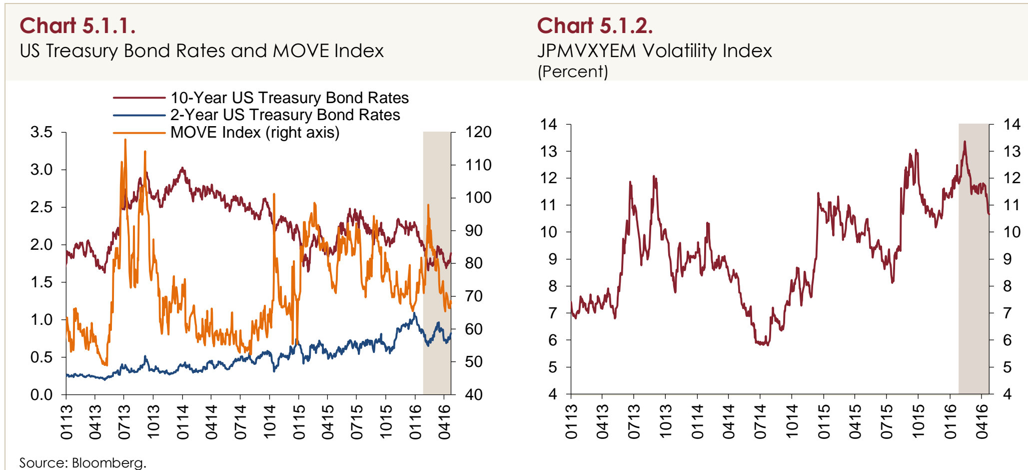


Chart 5.1.1.
US Treasury Bond Rates and MOVE Index

Chart 5.1.2.
JPMVXYEM Volatility Index
(Percent)

Source: Bloomberg.

Against this backdrop, the EMBI and the CDS spreads decreased remarkably (Charts 5.1.3 and 5.1.4). On a country basis, risk premiums were particularly lower in commodity-producing countries due to rising oil prices. On a par with peer emerging economies, risk premium indicators declined in Turkey as well.

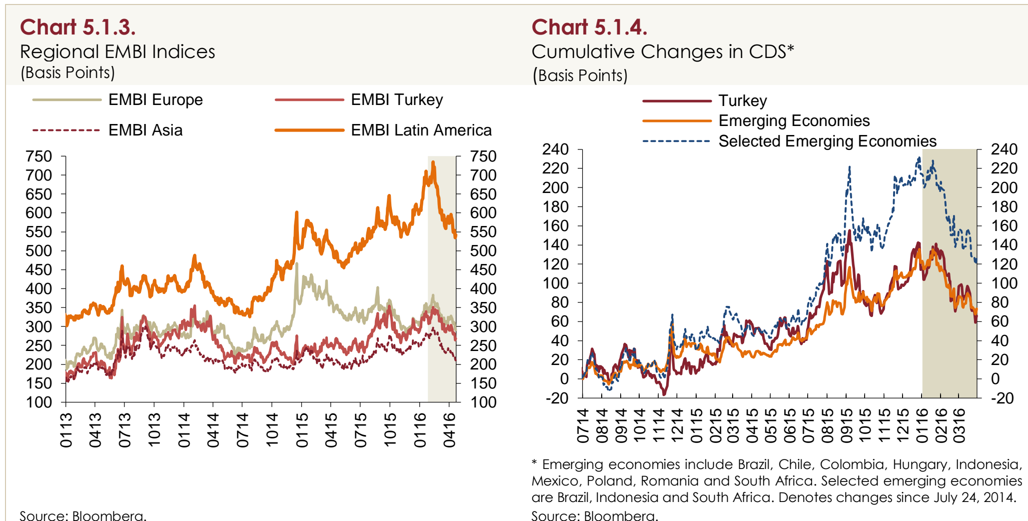


Chart 5.1.3.
Regional EMBI Indices
(Basis Points)

Source: Bloomberg.

Chart 5.1.4.
Cumulative Changes in CDS*
(Basis Points)

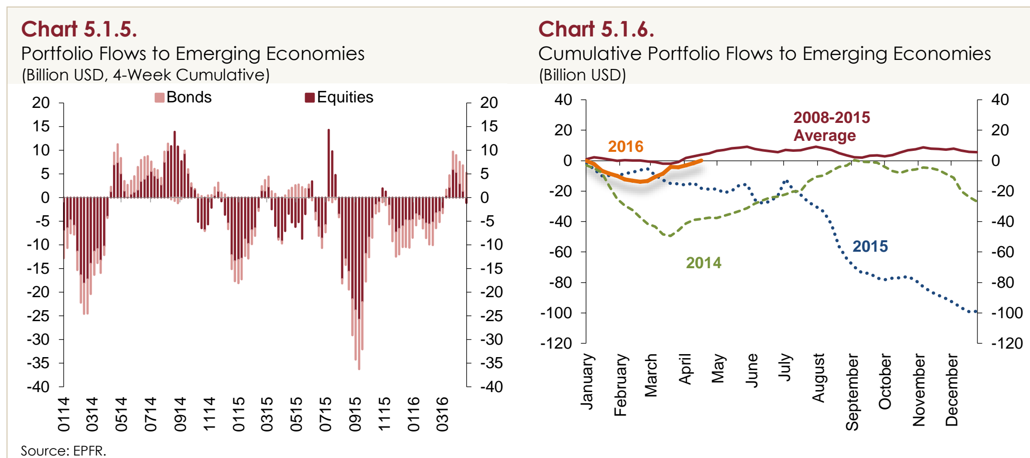
* Emerging economies include Brazil, Chile, Colombia, Hungary, Indonesia, Mexico, Poland, Romania and South Africa. Selected emerging economies are Brazil, Indonesia and South Africa. Denotes changes since July 24, 2014.
Source: Bloomberg.

Portfolio Flows

In line with the increasing global risk appetite, emerging market capital flows started to accelerate as of March, driving portfolio flows into both bonds and equities (Chart 5.1.5). As suggested by the latest data available, portfolio flows since the beginning of 2016 have neared the average of the 2008-2015 period in cumulative terms (Chart 5.1.6). An analysis of all funds invested in emerging economies suggests that these portfolio inflows exhibited a similar pattern across all emerging economies.

Chart 5.1.5.
Portfolio Flows to Emerging Economies
(Billion USD, 4-Week Cumulative)

Chart 5.1.6.
Cumulative Portfolio Flows to Emerging Economies
(Billion USD)

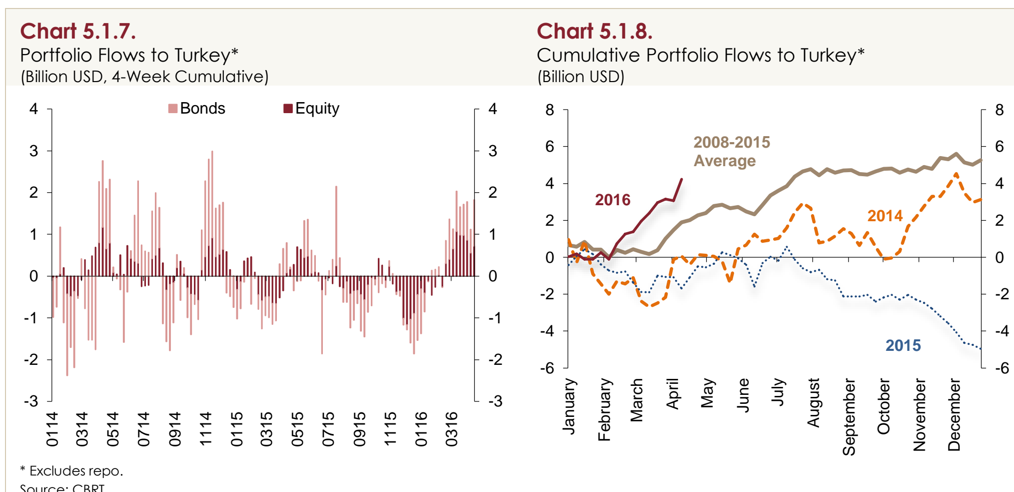


Source: EPFR.

Similar to peer emerging economies, Turkey also experienced portfolio inflows in both bonds and equities, which are above past years' averages (Charts 5.1.7 and 5.1.8).

Chart 5.1.7.
Portfolio Flows to Turkey*
(Billion USD, 4-Week Cumulative)

Chart 5.1.8.
Cumulative Portfolio Flows to Turkey*
(Billion USD)



* Excludes repo.
Source: CBRT.

Exchange Rates

The first quarter of 2016 was marked by the appreciation of emerging market currencies against the US dollar amid a higher risk appetite for emerging economies and stronger capital flows (Chart 5.1.9). After having followed a pattern similar to other emerging market currencies until the third quarter of 2015, the Turkish lira diverged positively as of the fourth quarter of 2015, depreciating by 6.5 percent over the last year. In this period, emerging market currencies depreciated by 9 percent on average, while currencies of selected emerging economies consisting of Brazil, South Africa, India and

Indonesia depreciated by 12 percent (Chart 5.1.9). Due to the heightened volatility in early 2016 caused by the Chinese economy, the Turkish lira depreciated gradually against the currency basket, while the spikes in sovereign risk spreads were relatively sharper. Starting from the midst of the first quarter, both risk premiums and exchange rates trended downward. Accordingly, the EMBI+Turkey receded to the third-quarter levels of 2015 (Chart 5.1.10).

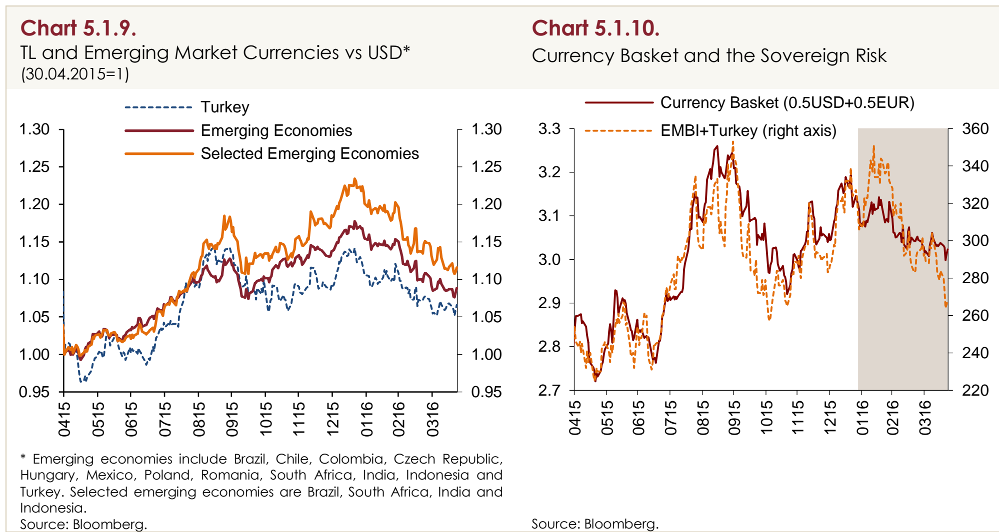


Chart 5.1.9.
TL and Emerging Market Currencies vs USD*
(30.04.2015=1)

* Emerging economies include Brazil, Chile, Colombia, Czech Republic, Hungary, Mexico, Poland, Romania, South Africa, India, Indonesia and Turkey. Selected emerging economies are Brazil, South Africa, India and Indonesia.
Source: Bloomberg.

Chart 5.1.10.
Currency Basket and the Sovereign Risk

Source: Bloomberg.

This positive Turkish lira outlook also passed through to exchange rate volatility and expectations. In the first quarter of 2016, the implied exchange rate volatility of emerging market currencies saw a wider divergence across countries, while the implied volatility of the Turkish lira returned to early 2015 levels (Chart 5.1.11). With the Turkish lira having a markedly lower volatility compared to emerging economies running current account deficits, risk reversal positions recorded a decrease in all maturities (Chart 5.1.12). The fall in risk reversals, particularly for shorter maturities, implies recently stronger expectations for appreciation than that for depreciation in the Turkish lira.

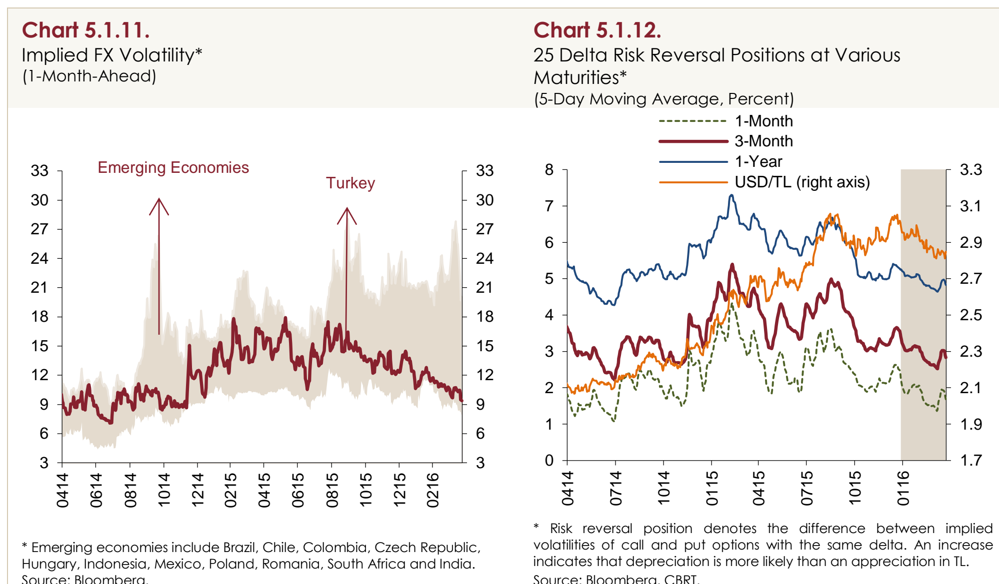


Chart 5.1.11.
Implied FX Volatility*
(1-Month-Ahead)

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

Chart 5.1.12.
25 Delta Risk Reversal Positions at Various Maturities*
(5-Day Moving Average, Percent)

* Risk reversal position denotes the difference between implied volatilities of call and put options with the same delta. An increase indicates that depreciation is more likely than an appreciation in TL.
Source: Bloomberg, CBRT.

Monetary Policy

The effective use of the policy tools announced in the road map of August 2015 has strengthened the resilience of the economy against global shocks. The introduction of these new instruments particularly helped to curb the volatility in exchange rates and credits. The falling demand for foreign currency drove the volatility even lower amid the improving current account balance and low energy prices. This favorable outlook was also supported by global economic and financial developments in the inter-reporting period. Mounting prospects of a slow global economic recovery fostered the expectations for a prolonged period of low policy rates across advanced economies. Accordingly, capital flows into emerging economies increased while risk premiums fell significantly.

The CBRT maintained its policy stance, which is tight against the inflation outlook, stabilizing for the FX liquidity and supportive of the financial stability, during the first quarter of 2016. The slightly alleviated global volatility and the effective use of the new policy instruments introduced by the road map since mid-August have reduced the need for a wide interest rate corridor. Therefore, the CBRT decided to take measured steps towards simplification by lowering the marginal funding rate by 25 basis points in March and by 50 basis points in April. The one-week repo rate and the overnight borrowing rate were kept unchanged at 7.5 and 7.25 percent, respectively. One-week repo auctions continued to be the main tool for CBRT funding in the first quarter of 2016, while the share of the marginal funding remained high (Chart 5.1.13). The weighted average funding rate, which hit 9.1 percent in February 2016, dropped to approximately 8.6 percent in April. Interbank overnight repo rates recorded a decline parallel to the 75 basis points cut in the upper band of the interest rate corridor (Chart 5.1.14). In the upcoming period, the monetary policy stance will remain dependent on the inflation outlook. Taking into account inflation expectations, the pricing behavior and other factors affecting inflation, the tight monetary policy stance will be maintained as long as deemed necessary.

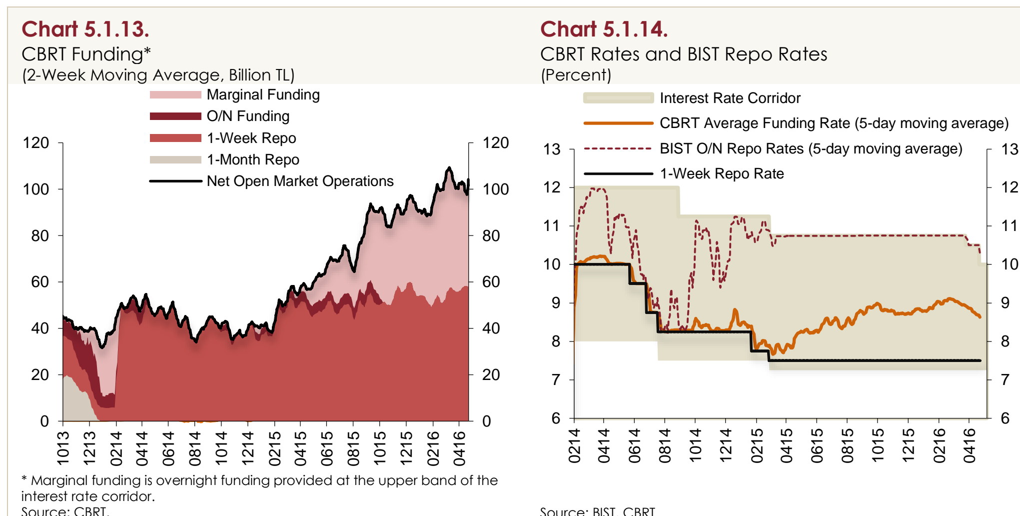


Chart 5.1.13.
CBRT Funding*
(2-Week Moving Average, Billion TL)

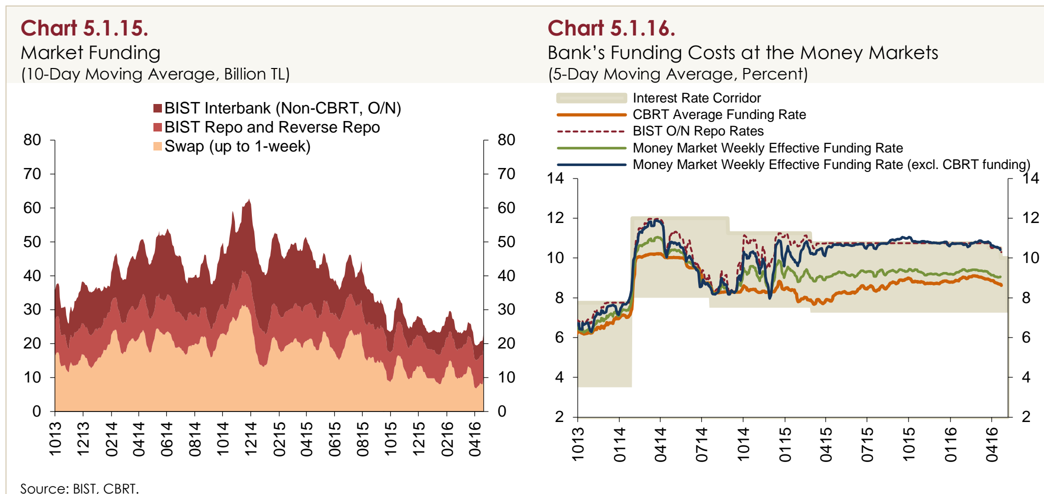
* Marginal funding is overnight funding provided at the upper band of the interest rate corridor.
Source: CBRT.

Chart 5.1.14.
CBRT Rates and BIST Repo Rates
(Percent)

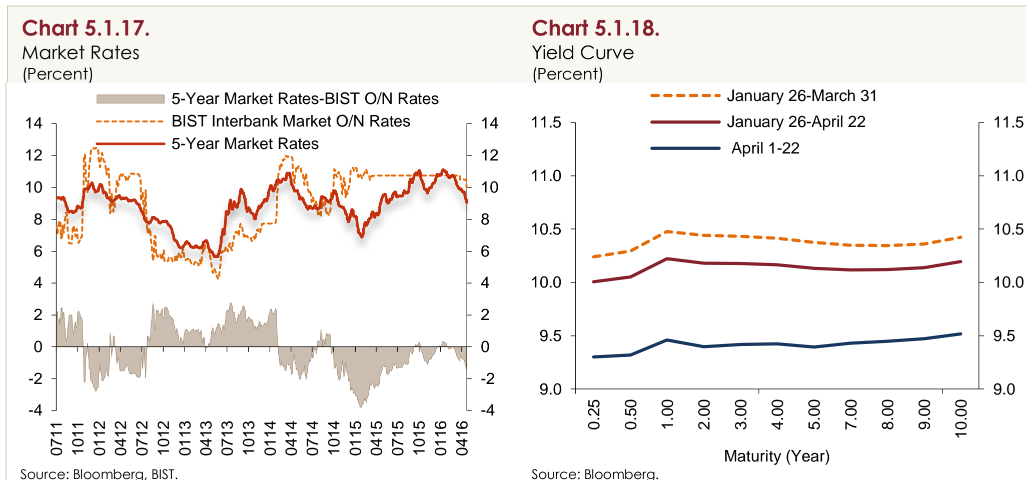
Source: BIST, CBRT.

In addition to funds provided by the CBRT, short-term funds provided by various markets also play a significant role in meeting the Turkish lira liquidity requirement of the banking system. In the money market, non-CBRT funding with up to one-week maturity is mostly provided via swap markets. This is followed by funds transacted under the BIST Interbank Repo and Reverse Repo Market and those which are exchanged by intermediaries under the BIST Repo and Reverse Repo Market. Following the

release of the road map, arrangements regarding the use of FX deposits against collateral were amended. The need for exchange rate swap declined in this period (Chart 5.1.15). The effective funding rate calculated by the weights of the CBRT and non-CBRT funds in total funds remained on a par with the average funding rate in the first quarter of 2016, amounting to 9.06 percent as of April 20 (Chart 5.1.16).



The spread between 5-year market rates and the BIST overnight repo rates continued to hover at negative near-zero values in the first quarter of 2016. The waning global market uncertainty, the benign macroeconomic outlook for Turkey and the marginal funding rate cut of a total of 75 basis points amid mounting prospects for an extended period of low policy rates across advanced economies caused the yield curve to shift downward in all maturities (Chart 5.1.18).



Besides interest rate and liquidity policies, the CBRT employed other policy instruments to support financial stability in 2015. These measures aimed at limiting macrofinancial risks and contributing to a balanced growth by promoting prudential borrowing. Thanks to the measures taken by the CBRT, maturities of non-core short-term FX liabilities continued to extend in the first quarter of 2016 (Charts 5.1.19 and 5.1.20). The extended maturity of banks' external borrowings helped to alleviate the

external debt rollover risk and also strengthened the resilience of banks against global shocks. Moreover, these measures increased the ratio of core liabilities in bank liabilities as well.

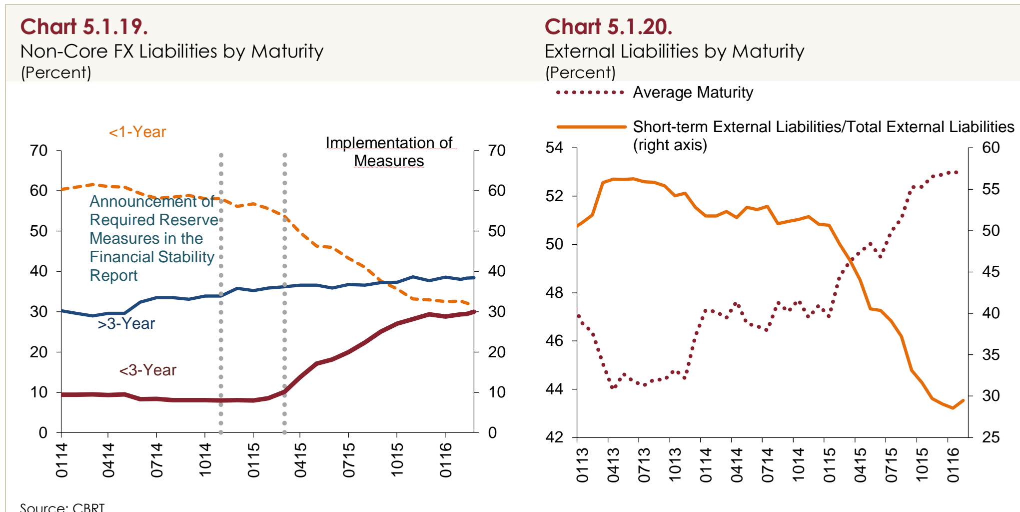


Chart 5.1.19. Non-Core FX Liabilities by Maturity (Percent)

Chart 5.1.20. External Liabilities by Maturity (Percent)

In the second half of 2015, the CBRT took some measures to enhance the flexibility of the foreign exchange liquidity management. To this end, the sum of FX deposit limits allocated to banks and gold and foreign exchange assets held at the CBRT under the ROM were brought to a level considerably above the external debt payments of banks due within a year (Chart 5.1.21). The CBRT's gross FX reserves recorded an increase as of April 2016 compared to the previous reporting period (Chart 5.1.22). Meanwhile, banks' reserves maintained against FX reserve requirements posted a notable growth whereas the CBRT's other FX reserves fell slightly. FX selling auctions that support FX liquidity continued into the first quarter of 2016, and the amount maintained by banks under the ROM rose modestly. The ROM utilization rates of financial institutions remained high in the first quarter and reached 85.5 percent (51.3/60) for FX and 89.7 percent (26.9/30) for gold as of the maintenance period of April 22, 2016. The CBRT sold 5.3 billion USD through FX selling auctions and direct FX sales to energy-importing SEEs in the first quarter of 2016. The FX amount obtained by re-discount credits equaled 3.3 billion USD in this period.

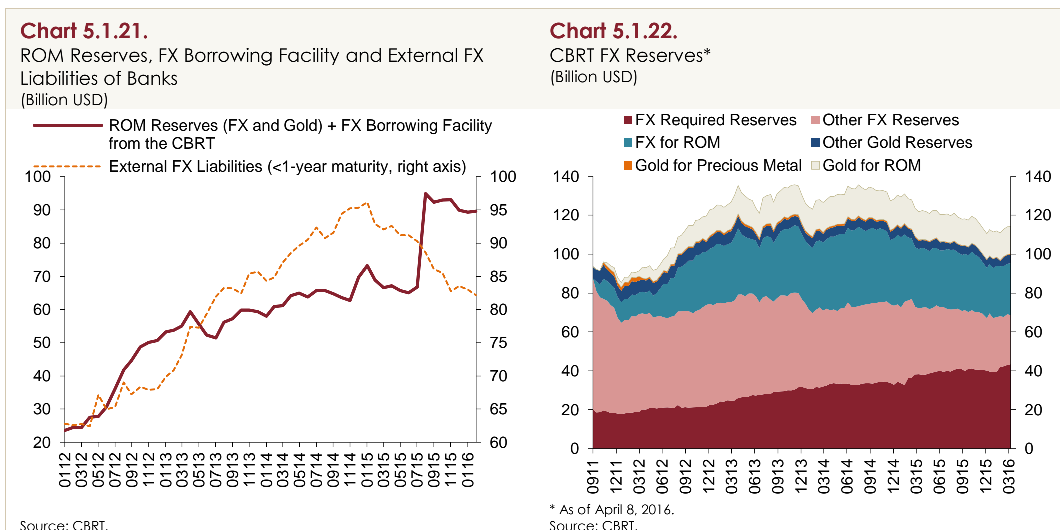


Chart 5.1.21. ROM Reserves, FX Borrowing Facility and External FX Liabilities of Banks (Billion USD)

Chart 5.1.22. CBRT FX Reserves* (Billion USD)

Market Rates

In the first quarter of 2016, thanks to accommodative global financial conditions, market rates in emerging economies either remained flat or trended downward (Charts 5.1.23 and 5.1.24). On a country basis, market rates were particularly down in Brazil, Indonesia and Turkey, and remained almost horizontal in South Africa and India by falling only modestly in these countries. The market rates in Turkey dropped remarkably at all maturities in the first quarter due to falling risk premiums and favorable exchange rate developments. Accordingly, both 5-year and 6-month market rates decreased by around 185 basis points from the previous reporting period (Charts 5.1.25 and 5.1.26). Among emerging economies, the largest drop in 5-year market rates was recorded in Brazil due to the base effect, while the sharpest fall in 6-month market rates was registered in Turkey.

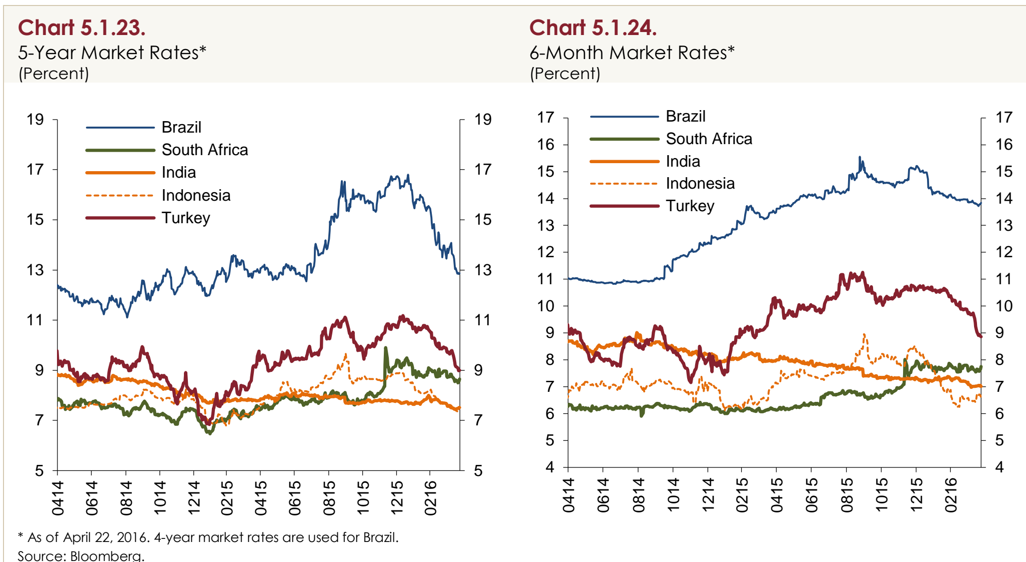


Chart 5.1.23.
5-Year Market Rates*
(Percent)

Chart 5.1.24.
6-Month Market Rates*
(Percent)

* As of April 22, 2016. 4-year market rates are used for Brazil.
Source: Bloomberg.

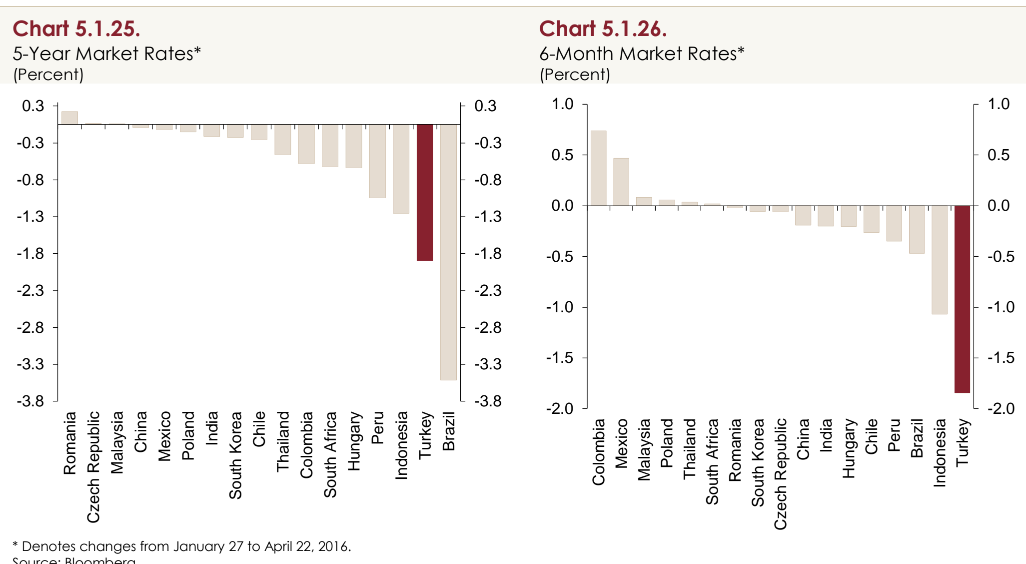


Chart 5.1.25.
5-Year Market Rates*
(Percent)

Chart 5.1.26.
6-Month Market Rates*
(Percent)

* Denotes changes from January 27 to April 22, 2016.
Source: Bloomberg.

Following the MPC decisions of March 24 and April 20, the CBRT cut the marginal funding rate by a total of 50 basis points amid waning global volatility and took measured steps towards monetary simplification. Nevertheless, the CBRT stated that the limited improvement in the underlying core inflation trend necessitated the maintenance of the tight liquidity policy stance. Accordingly, the expected overnight rate distribution at the BIST Repo and Reverse Repo Market implied relatively lower expectation volatility compared to the previous reporting period, whereas the mid-point of the distribution shifted leftward by about 40 basis points to around 10 percent (Chart 5.1.27). Inflation expectations, which are influential in long-term market rates, fell moderately by about 30 basis points for the current year-end compared to January. This fall affected 12-month-ahead expectations only slightly, while 24-month-ahead expectations hardly changed (Chart 5.1.28).

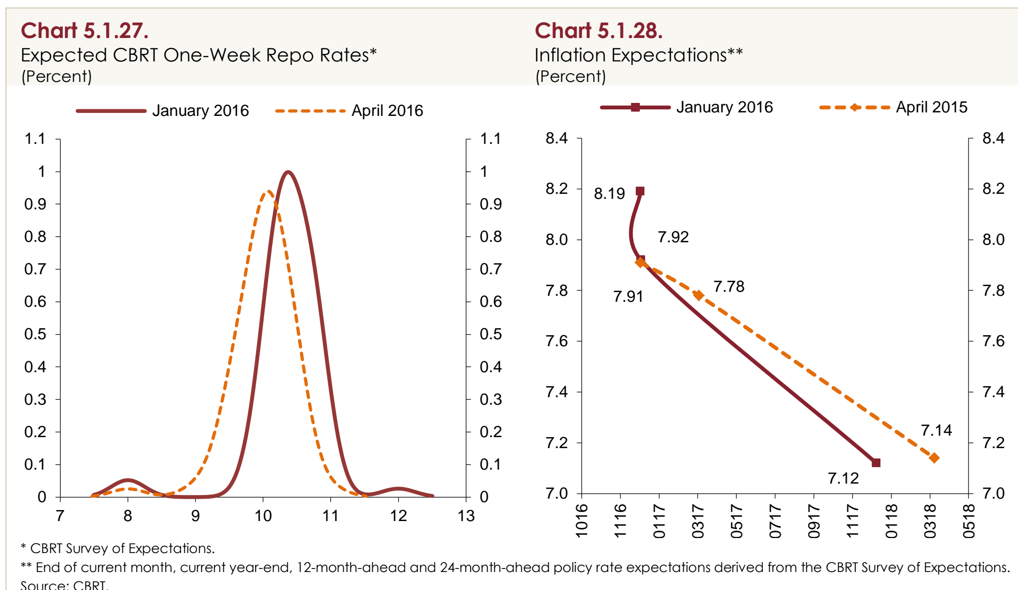


Chart 5.1.27.
Expected CBRT One-Week Repo Rates*
(Percent)

Chart 5.1.28.
Inflation Expectations**
(Percent)

* CBRT Survey of Expectations.
** End of current month, current year-end, 12-month-ahead and 24-month-ahead policy rate expectations derived from the CBRT Survey of Expectations.
Source: CBRT.

After remaining on a fluctuating uptrend since the third quarter of 2015, the benchmark interest rate dropped substantially in the inter-reporting period on the back of the improving global risk appetite and falling risk premiums in the first quarter (Chart 5.1.29). Nominal rates on 2-year bonds decreased by around 190 basis points from the previous reporting period, while the moderate rise in average 24-month-ahead inflation expectations brought 2-year real interest rates down by about 215 basis points. Across emerging economies, Turkey's 2-year real interest rates hovered around 1.3 percent, on a par with other economies dominated by low interest rates (Chart 5.1.30).

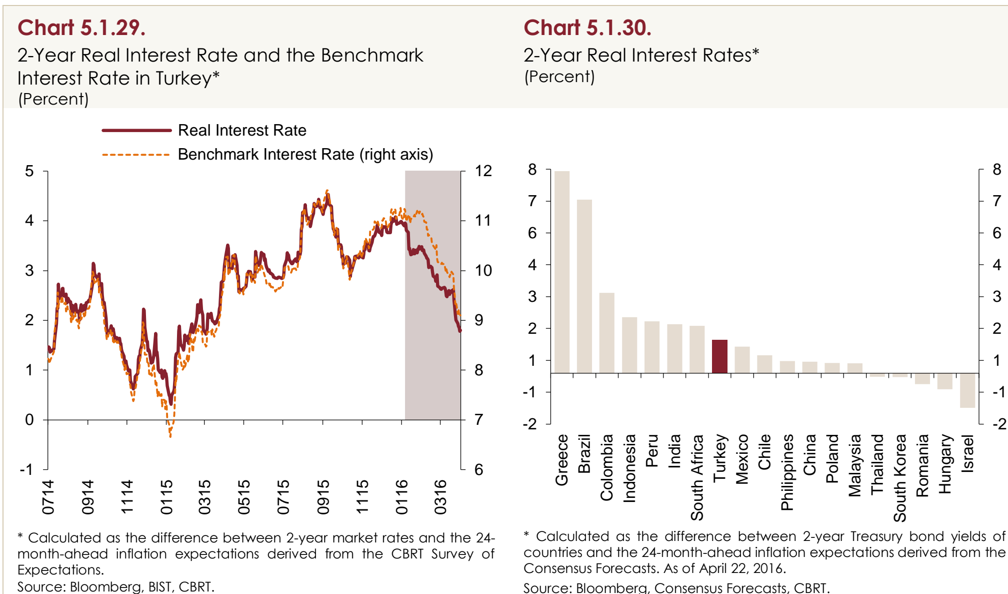


Chart 5.1.29.
2-Year Real Interest Rate and the Benchmark Interest Rate in Turkey*
(Percent)

* Calculated as the difference between 2-year market rates and the 24-month-ahead inflation expectations derived from the CBRT Survey of Expectations.
Source: Bloomberg, BIST, CBRT.

Chart 5.1.30.
2-Year Real Interest Rates*
(Percent)

* Calculated as the difference between 2-year Treasury bond yields of countries and the 24-month-ahead inflation expectations derived from the Consensus Forecasts. As of April 22, 2016.
Source: Bloomberg, Consensus Forecasts, CBRT.

Loan Rates and Banking Sector Funding Costs

Having declined slightly during November-December 2015, rates on loans extended to the non-financial sector recorded a modest quarter-on-quarter rise in the first quarter of 2016. Among consumer loans, rates on personal loans and automobile loans soared by 64 and 139 basis points, respectively. Following a relatively horizontal pattern, mortgage loan rates were up only 37 basis points (Chart 5.1.31). The rates on commercial loans, which have a shorter maturity than consumer loans, surged by 34 basis points in this period. Similarly, commercial loan rates excluding overdraft accounts increased by 30 basis points (Chart 5.1.32). This first-quarter upturn in loan rates is consistent with the results of the Loan Tendency Survey for January-March, predicting tighter domestic financing conditions. As the survey suggests, loan rates may no longer follow the current pattern given the expectation of improved domestic and external financing conditions over the upcoming period.

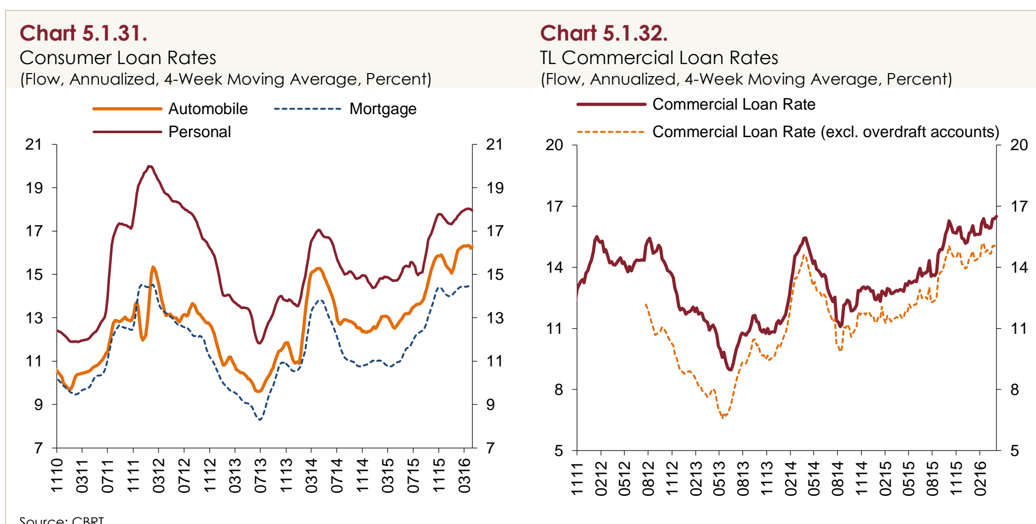


Chart 5.1.31.
Consumer Loan Rates
(Flow, Annualized, 4-Week Moving Average, Percent)

Chart 5.1.32.
TL Commercial Loan Rates
(Flow, Annualized, 4-Week Moving Average, Percent)

Source: CBRT.

Rates on deposits with maturities shorter than three months, which are the primary financing resources of the banking sector, posted a slight quarter-on-quarter increase in the first quarter of 2016.

More prevalent in January, this rise was replaced by a horizontal pattern for the rest of the quarter. Due to the moderate upturn in commercial loan rates and the relatively flat course of deposit rates, the spread between commercial loan rates and deposit rates widened by about 30 basis points to 600 basis points in the first quarter (Chart 5.1.33). Changes in fund flows towards emerging economies also affected rates on bills and bonds issued by banks. After an upsurge in the first two months of the year, bills and bonds rates dropped in March, thus decelerating by 45 basis points quarter-on-quarter (Chart 5.1.34).

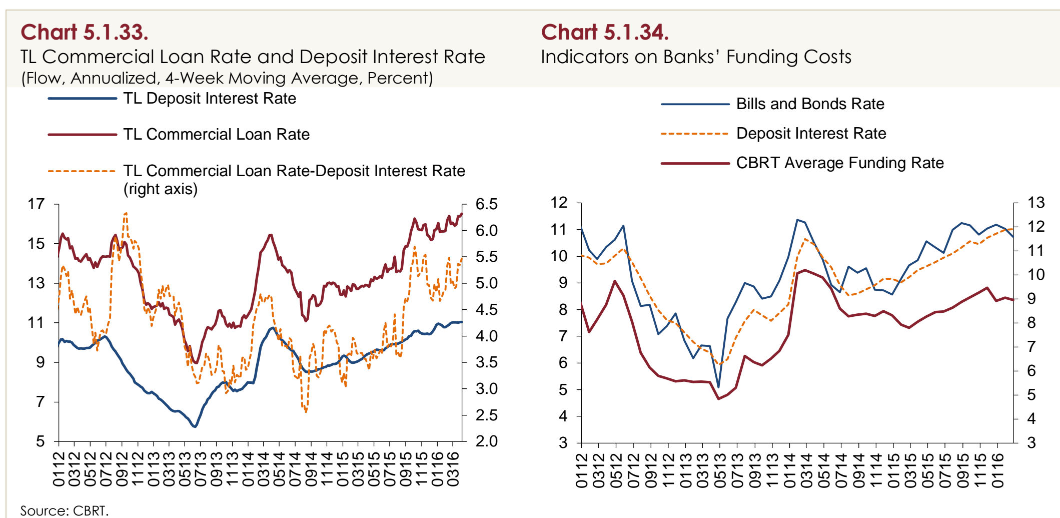


Chart 5.1.33.
TL Commercial Loan Rate and Deposit Interest Rate
(Flow, Annualized, 4-Week Moving Average, Percent)

Chart 5.1.34.
Indicators on Banks' Funding Costs

Source: CBRT.

5.2. Credit Volume and Monetary Indicators

The net credit use to the GDP ratio, which is critical to financial stability and an indicator of the relationship of credit growth with economic activity and aggregate demand, registered a quarterly decrease and reached 6.2 percent in the first quarter of 2016 (Chart 5.2.1). Firms' use of net external loans amounted to 2.5 percent in the first quarter, hinting at easy access to external borrowing (Chart 5.2.2). Moreover, firms' external credit use appears to have edged up year-on-year.

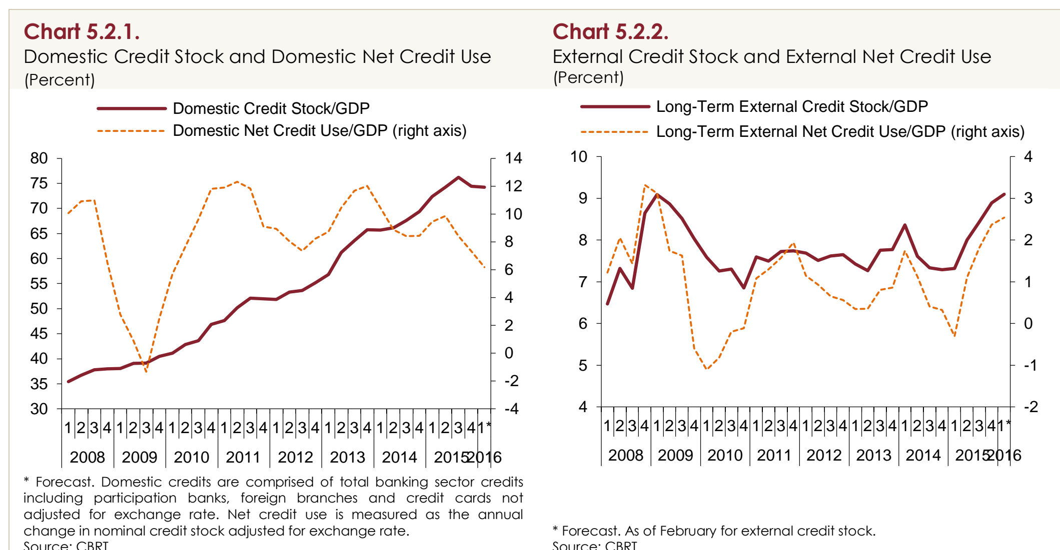


Chart 5.2.1.
Domestic Credit Stock and Domestic Net Credit Use
(Percent)

* Forecast. Domestic credits are comprised of total banking sector credits including participation banks, foreign branches and credit cards not adjusted for exchange rate. Net credit use is measured as the annual change in nominal credit stock adjusted for exchange rate.
Source: CBRT.

Chart 5.2.2.
External Credit Stock and External Net Credit Use
(Percent)

* Forecast. As of February for external credit stock.
Source: CBRT.

The annual growth rate of loans extended to the non-financial sector, which decelerated due to the CBRT's tight monetary policy and the BRSA's macroprudential measures on non-mortgage consumer loans in the fourth quarter of 2015, continued to fall for the second consecutive quarter. A breakdown of total loans shows that commercial loans continued to grow faster than consumer loans on the back of the measures adopted by the BRSA and recently weakening consumer confidence. In the first quarter of 2016, loans extended to the non-financial sector were up 10.9 percent year-on-year in exchange rate adjusted terms (Chart 5.2.3). 13-week moving averages, which reflect the first-quarter developments, reveal that total loans grew by an annual 9.6 percent (Chart 5.2.4). The recent uptrend of the annualized 13-week growth rate of loans extended to the non-financial sector suggests that the downtrend of the annual growth rate may lose momentum over the forthcoming period.

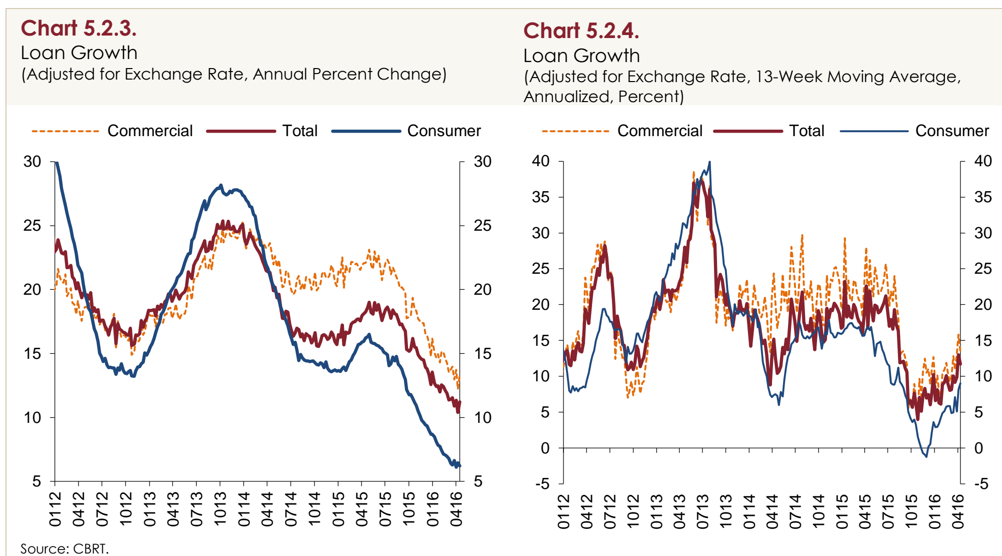


Chart 5.2.3.
Loan Growth
(Adjusted for Exchange Rate, Annual Percent Change)

Chart 5.2.4.
Loan Growth
(Adjusted for Exchange Rate, 13-Week Moving Average, Annualized, Percent)

Source: CBRT.

Having hovered below past years' averages in the second half of 2015, the annualized growth rate of consumer loans started to recover in the first quarter of 2016 (Chart 5.2.5). Thus, the consumer loan growth ended the first quarter at 7.12 percent in annualized terms. The annualized growth rate of mortgage loans with a historically consistent 5-year average maturity and higher interest rate sensitivity was greater than others, but went below past years' averages, ending the year at 9.6 percent. According to the results of the Loan Tendency Survey, the demand for mortgage loans edged down in the fourth quarter while loan standards remained virtually unchanged quarter-on-quarter. Weakening since mid-2015, personal loans remained subdued, ending the quarter at 5.39 percent. Starting 2016 at 7 percent, the annualized growth rate of automobile loans began to decline by March, ending the quarter at –4.59 percent (Chart 5.2.6). Data from the Loan Tendency Survey suggest that loan standards remained unchanged for automobile loans yet tightened slightly for personal loans in the first quarter. Meanwhile, the demand for both automobile and personal loans contracted. The ratio of non-performing loans differed across subcategories of consumer loans. The ratio of non-performing personal loans posted a mild decrease in this quarter, whereas the ratio of non-performing automobile loans remained flat. The ratio of non-performing personal loans, on the other hand, inched up to 5.91 percent. The March recovery in the consumer confidence index, the higher household income amid minimum wage adjustments and the BRSA's new risk weight arrangement regarding consumer loans

and credit cards, effective March 31, that lowered the capital requirements to be held at banks for such loans, are expected to support consumer loan growth in the upcoming period.

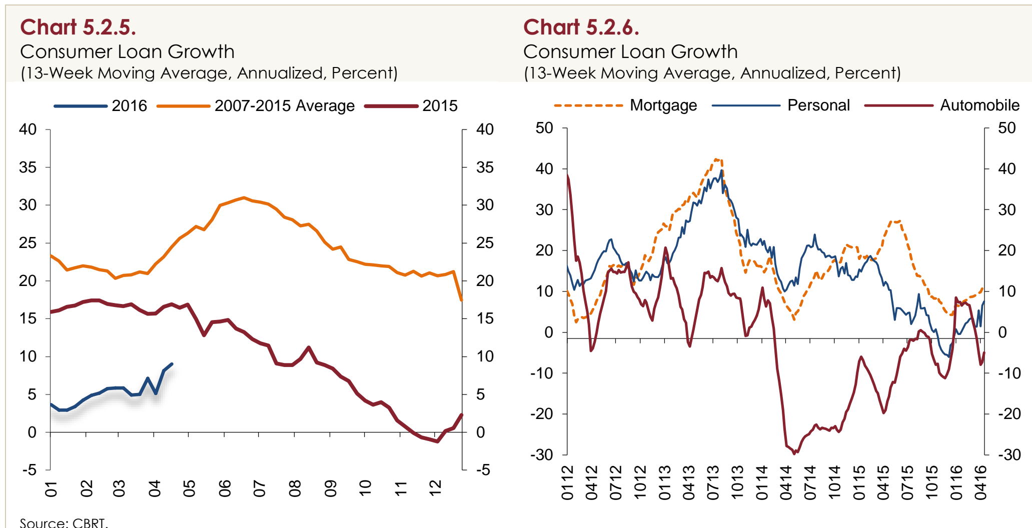


Chart 5.2.5.
Consumer Loan Growth
(13-Week Moving Average, Annualized, Percent)

Chart 5.2.6.
Consumer Loan Growth
(13-Week Moving Average, Annualized, Percent)

Source: CBRT.

In the first quarter of 2016, the annualized growth rate of commercial loans remained below the averages of past years and hit 10.93 percent (Chart 5.2.7). Among subcategories of commercial loans, FX-denominated loans recorded an annualized growth rate of 6.16 percent. Used primarily for operating capital, TL-denominated loans were more robust, ending the quarter at 13.6 percent. The growth in both TL and FX commercial loans was consistent with the changes in the Industrial Production Index. According to the Loan Tendency Survey, standards on commercial loans were slightly tighter in the first quarter of 2016 than in the previous reporting period. Meanwhile, standards on loans for both SMEs and large-sized firms tightened. Loan standards tightened for both short and long-term loans, albeit considerably more for the latter.

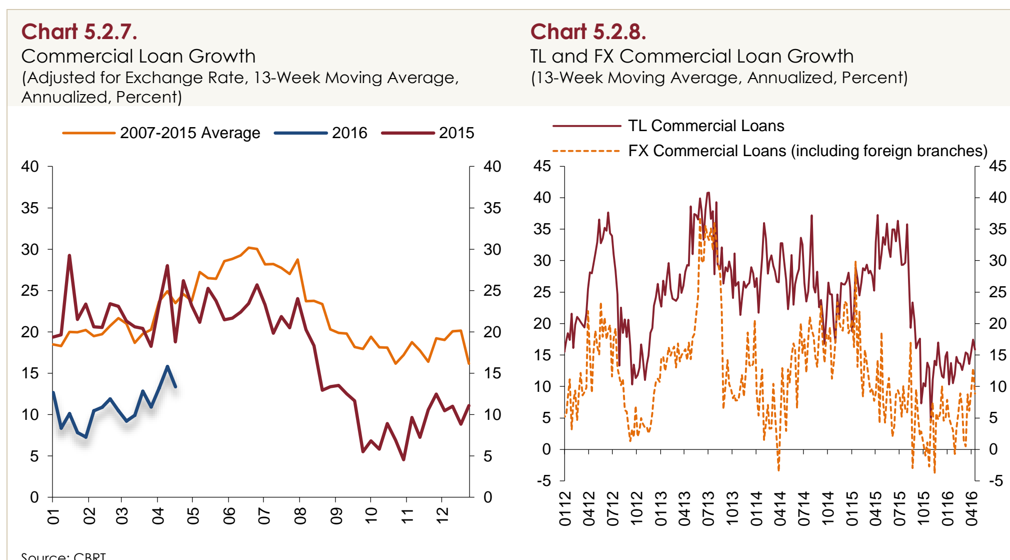


Chart 5.2.7.
Commercial Loan Growth
(Adjusted for Exchange Rate, 13-Week Moving Average, Annualized, Percent)

Chart 5.2.8.
TL and FX Commercial Loan Growth
(13-Week Moving Average, Annualized, Percent)

Source: CBRT.

As for factors affecting commercial loan standards, expectations for overall economic activity were the main determinant of the tightening in loan standards in the first quarter of 2016. Additionally,

restrictions on capital adequacy also had an adverse effect on loan standards. In this period, banks saw profit margins expand for average and riskier loans, while maturity standards tightened. According to the Loan Tendency Survey, loan standards are expected to tighten further in the second quarter of 2016. Expectations have shown no divergence in size, yet standards on long-term loans and FX-denominated loans are expected to be much tighter. On the demand front, firms' loan demand may pick up substantially. This likely upturn may not differ in firm size, but on the maturity side, shorter-term loans are expected to see a larger demand growth. On a currency basis, the demand for both TL and FX-denominated loans is expected to increase.

Annual growth rates of both consumer and commercial loans edged down in the first quarter of 2016 on a quarterly basis. Moreover, commercial loans continued to grow at a faster pace than consumer loans in this period. Macroprudential policies enforced in recent years not only brought the credit expansion rate to sustainable levels, but also directed the loan composition towards production rather than consumption. Accordingly, the faster growth of commercial loans contributed to the re-balancing process and financial stability at the same time.

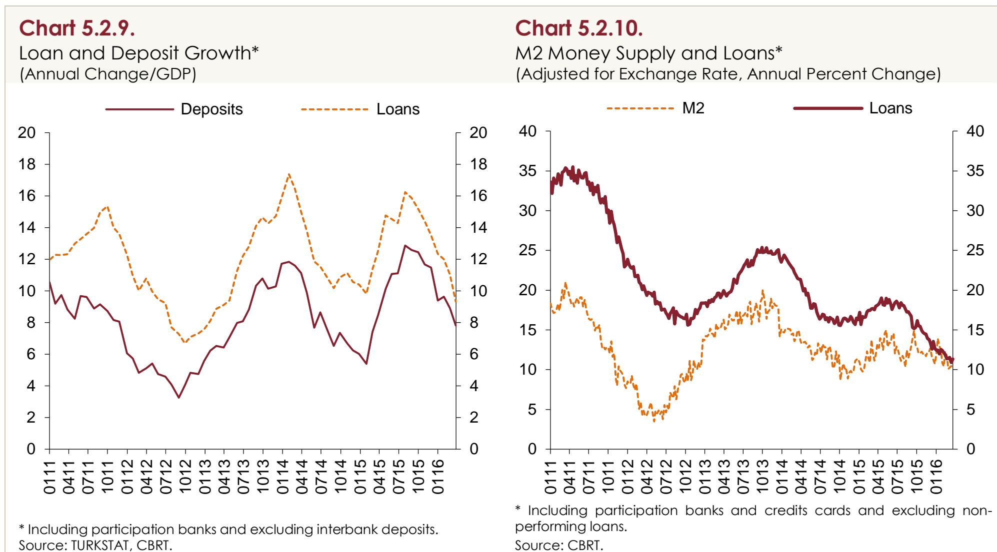


Chart 5.2.9.
Loan and Deposit Growth*
(Annual Change/GDP)

* Including participation banks and excluding interbank deposits.
Source: TURKSTAT, CBRT.

Chart 5.2.10.
M2 Money Supply and Loans*
(Adjusted for Exchange Rate, Annual Percent Change)

* Including participation banks and credits cards and excluding non-performing loans.
Source: CBRT.

In the first quarter of 2016, growth rates of deposits and loans slowed at a similar pace on a quarterly basis (Chart 5.2.9). Thus, the loan-to-deposits ratio remained on a horizontal track. The relationship between M2 and loans suggests that the growth rate of loans declined in the last quarter of 2015, while the annual M2 growth rate followed a relatively flat course (Chart 5.2.10).

Monetary Indicators

Having trended downwards in the last quarter of 2015, the annual growth of M3, the broad measure of money supply, declined further in the first quarter of 2016, down to 14.1 percent as of end-March. In terms of the decomposition of M3, this trend was determined primarily by Private Sector Claims, which mostly include credits extended by banks to non-financial private individuals and institutions. On the other hand, although declining in recent months, Net External Assets continue to put downward pressure on the M3 growth. Losing its negative effect further in the last quarter of 2015, Public Sector Claims started to contribute positively to the M3 growth as of December. Lastly, the item

Other continued with a steady course in line with bank profitability, and remained a non-deposit funding source for the banking sector (Chart 5.2.11).

After posting a year-on-year increase over the past year in seasonally adjusted terms, the currency in circulation stopped growing in the last quarter of 2015, yet picked up again in the first quarter of 2016, albeit modestly. Its annual growth rate, however, dropped remarkably on a quarterly basis. The annual growth in current consumption spending, which is closely related to the currency in circulation, recorded a quarterly decline in the fourth quarter of 2015. The sluggish first-quarter growth in the currency in circulation indicates a possible further moderation in current consumption spending for this period (Chart 5.2.12).

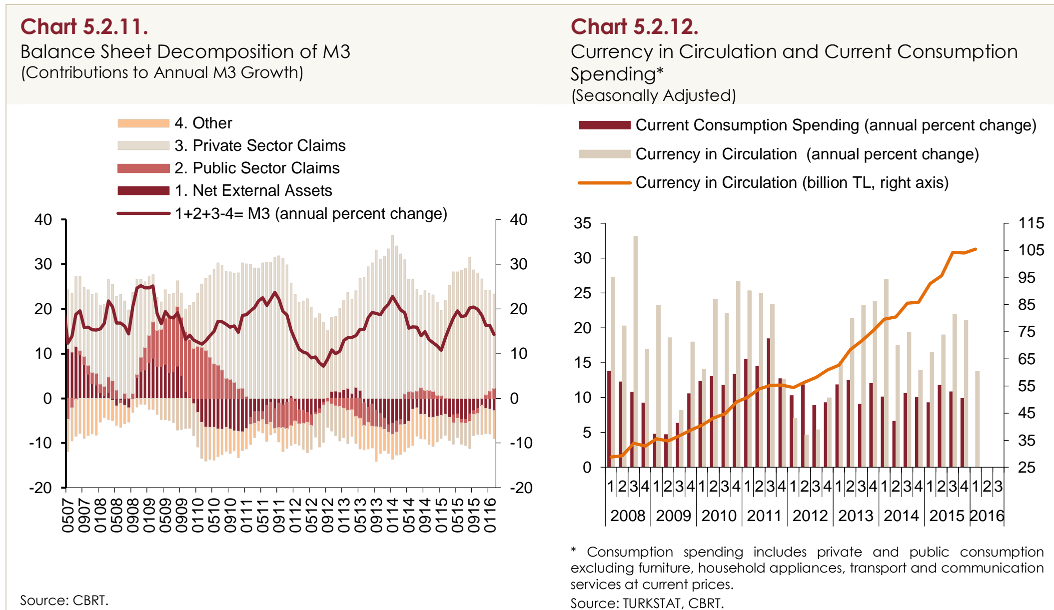


Chart 5.2.11.
Balance Sheet Decomposition of M3
(Contributions to Annual M3 Growth)

Source: CBRT.

Chart 5.2.12.
Currency in Circulation and Current Consumption Spending*
(Seasonally Adjusted)

* Consumption spending includes private and public consumption excluding furniture, household appliances, transport and communication services at current prices.
Source: TURKSTAT, CBRT.