



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

**Briefing on  
January 2016 Inflation Report**

**Erdem BAŞÇI  
Governor**

**26 January 2016  
Ankara**

# January 2016 Inflation Report: Main Sections

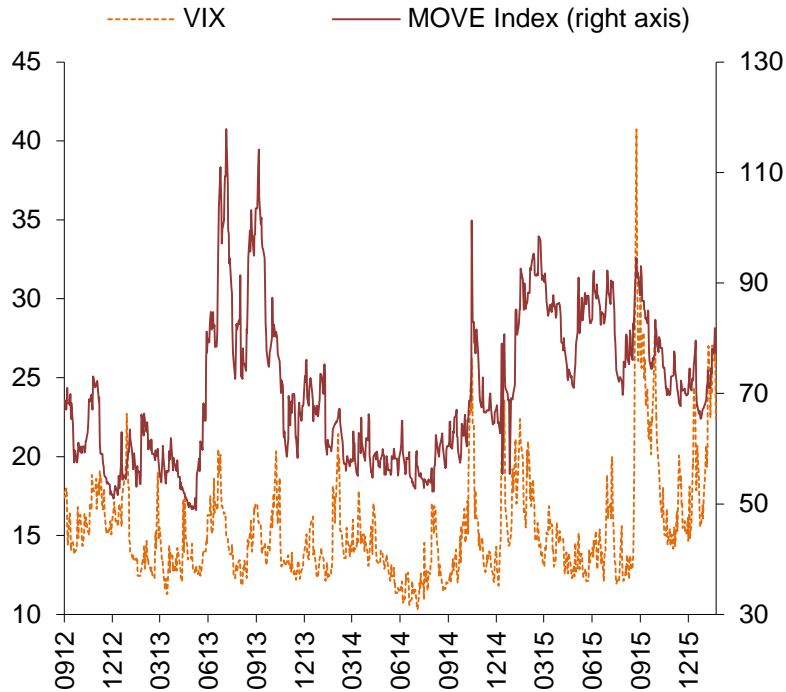
- Overview
- International Economic Developments
- Inflation Developments
- Supply and Demand Developments
- Financial Markets and Financial Intermediation
- Public Finance
- Medium Term Projections

# January 2016 Inflation Report: Boxes

- The Role of Base Effects on Consumer Inflation in 2016
- A Bayesian Approach to Inflation Dynamics in Turkey
- Recent Changes in Turkish Export Market Shares
- Consumer Confidence Indices and Financial Volatility
- The Effect of the Rise in Minimum Wages on Wages
- The Relationship Between Credit and GDP Growth at Sector Level
- Reasons for the Changes in end-2015 Inflation Forecasts

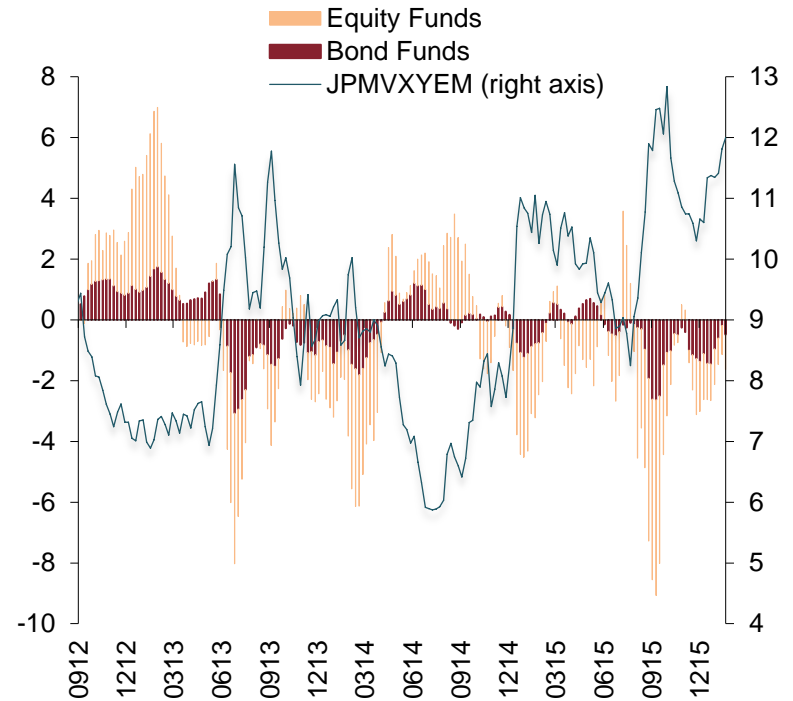
# Global Uncertainties and Portfolio Flows

VIX and US Interest Rate Volatility 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

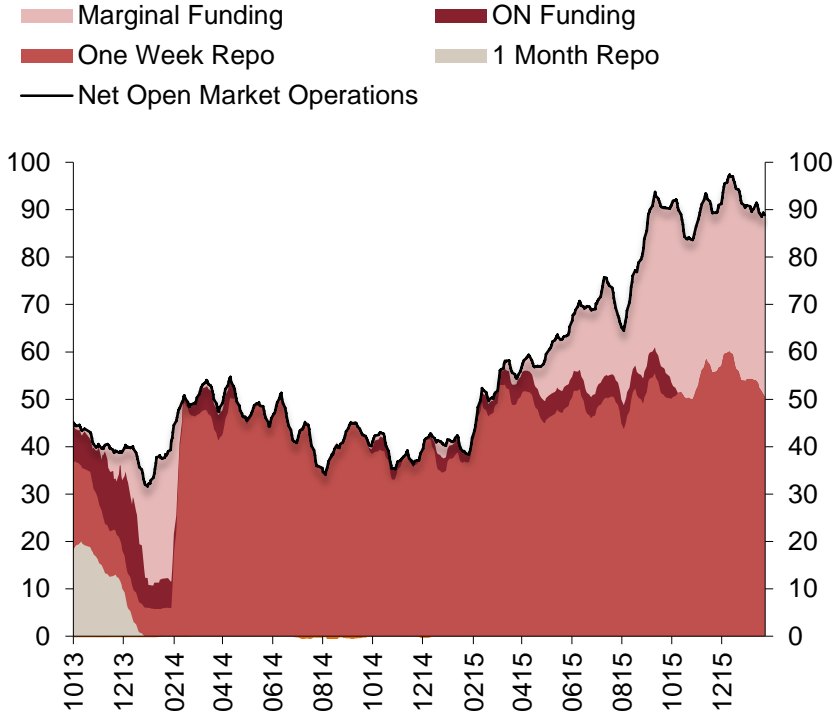
➤ Volatility in global financial markets continued.

# Monetary Policy and Financial Stability

# Monetary Policy

## CBRT Funding\*

(2-Week Moving Average, Billion TL)

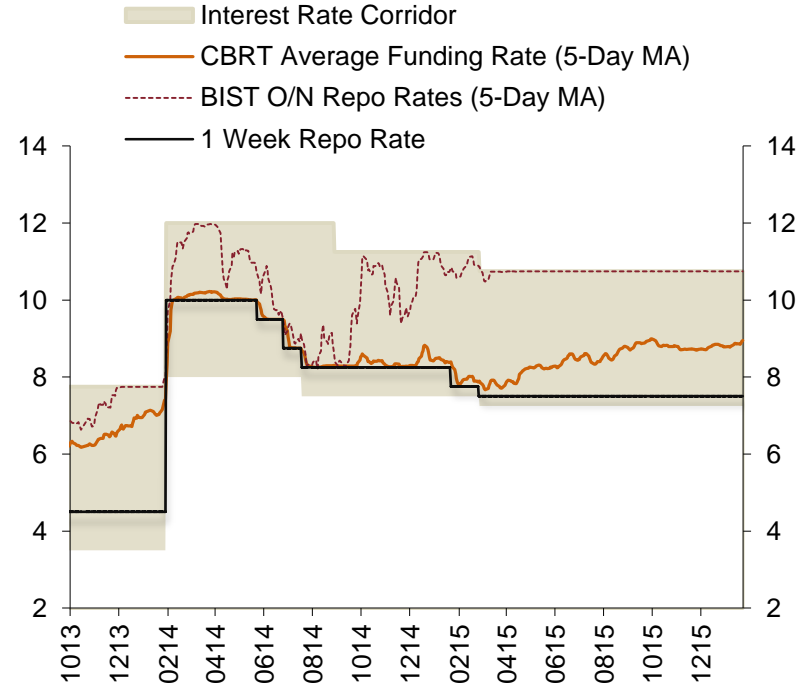


\*Marginal funding is O/N funding quoted at the upper limit of the corridor.

Source: BIST, CBRT.

## CBRT Rates and BIST Interbank O/N Repo Rates

(Percent)



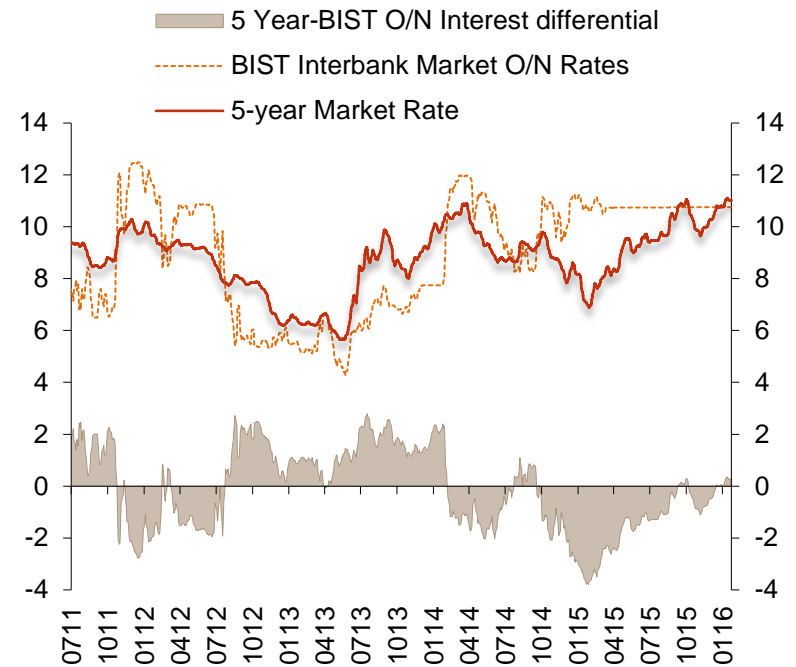
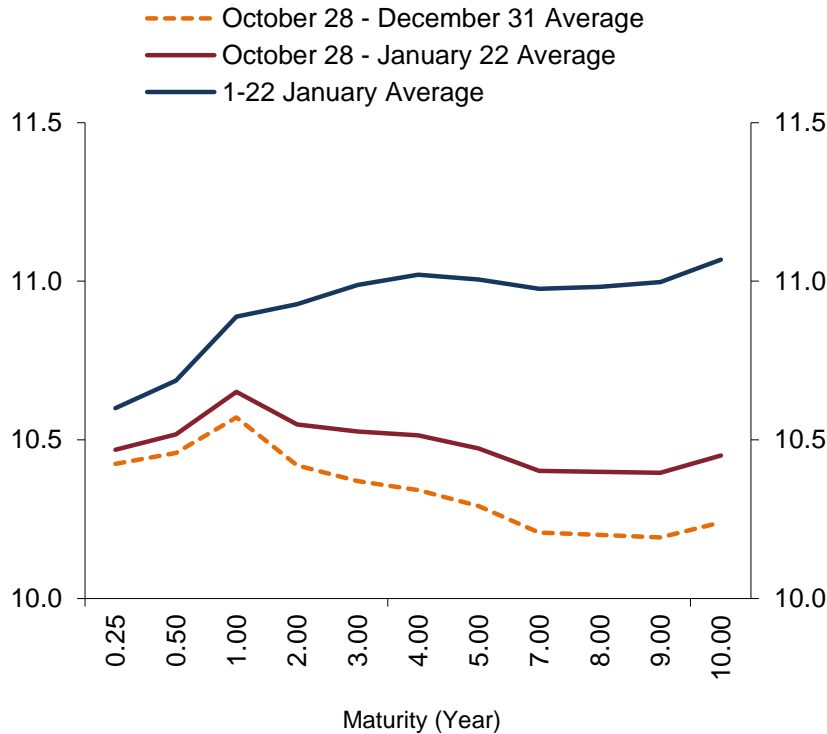
Source: BIST, CBRT.

- CBRT maintains a tight monetary policy stance to achieve the price stability objective.

# Monetary Conditions

**Yield Curve**  
(Percent)

**Money Market Rates**  
(Percent, 5-Day MA)



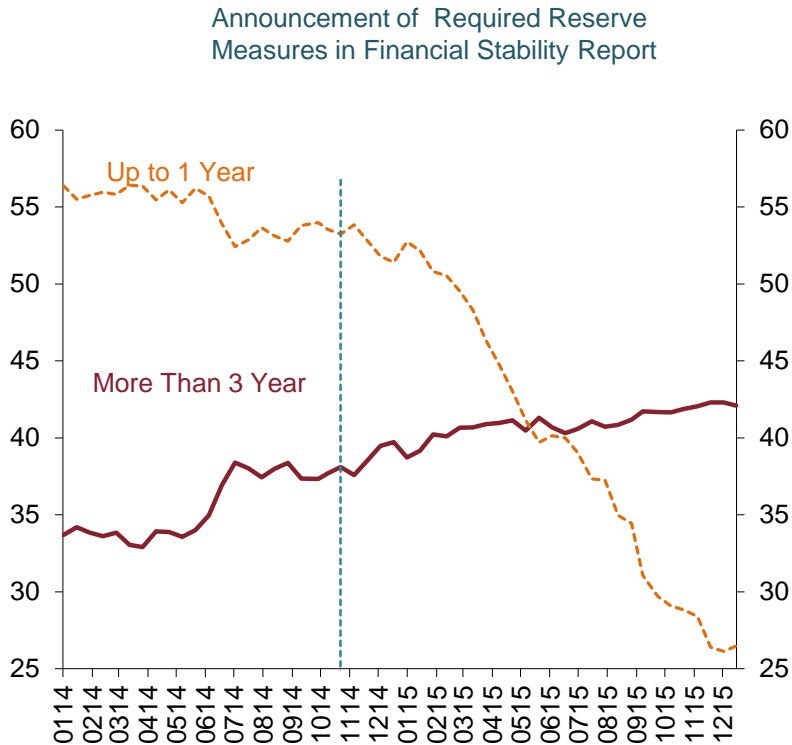
Source: Bloomberg.

Source: BIST, Bloomberg.

- The recent tightening in global financial conditions has had effects on domestic financial conditions as well.

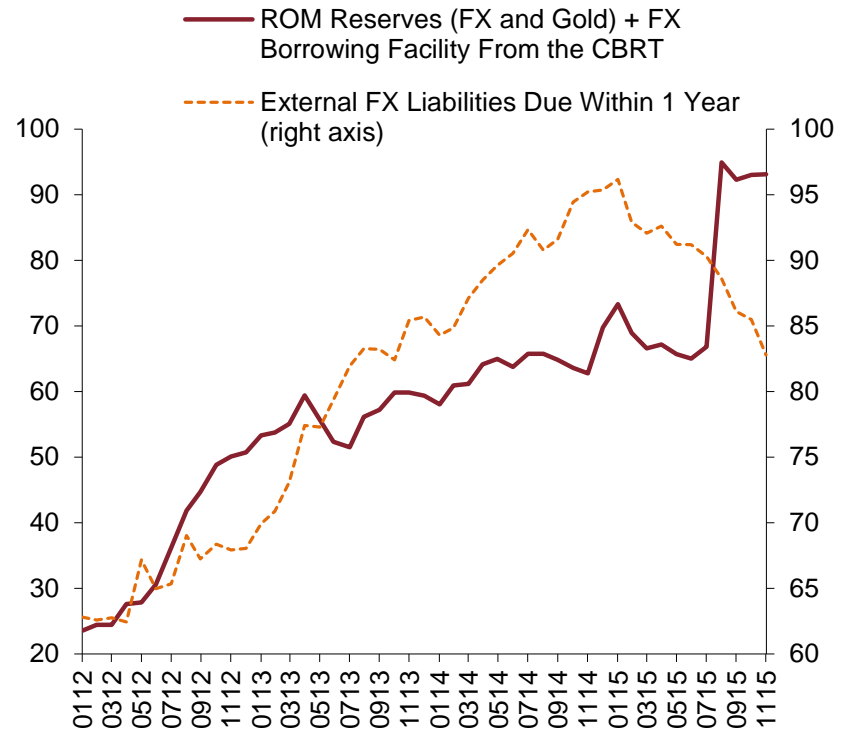
# Financial Stability

**Maturities of Non-Deposit FX Liabilities  
(Percent)**



Source: CBRT.

**ROM Reserves+ FX Borrowing Facility and External FX Liabilities of Banking Sector Due Within 1 Year  
(Billion USD)**



Source: CBRT.

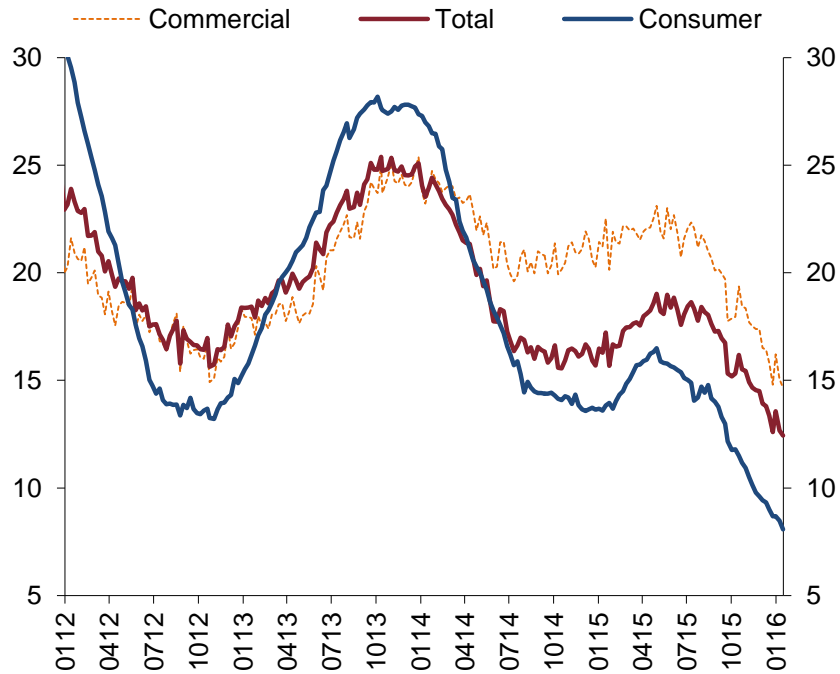
- The measures implemented recently to support the FX liquidity, core liabilities, and long-term borrowing have enhanced the resilience of the economy.



# Financial Stability

## Annual Loan Growth

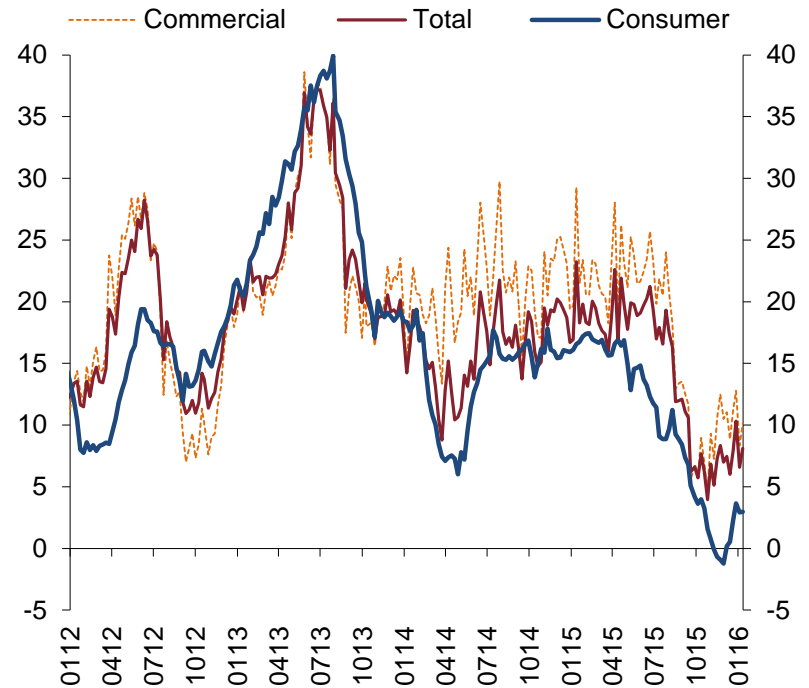
(Adjusted for Exchange Rate, Percent)



Source: CBRT

## Annualized Loan Growth

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



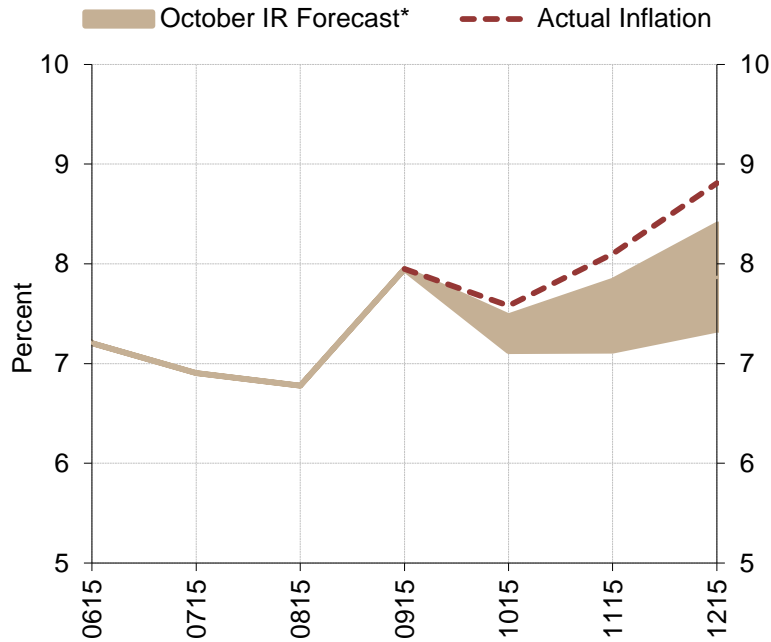
Source: CBRT.

- Commercial loans grow at a faster pace than consumer loans which has a favorable impact on price stability, financial stability and rebalancing.

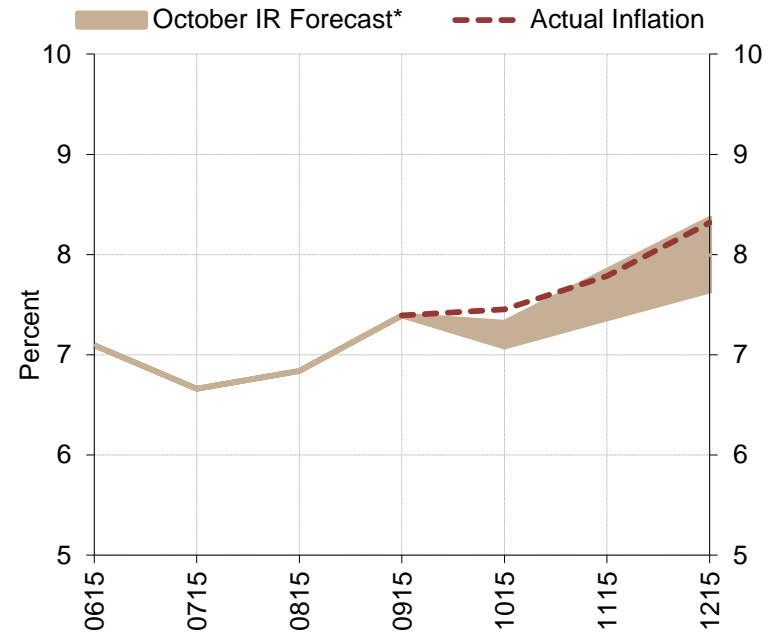
# Macroeconomic Developments and Main Assumptions

# October 2015 Inflation Report Forecasts and Realizations

October 2015 Inflation Forecasts and Realizations  
(Percent)



October 2015 Inflation Forecasts and Realizations  
Excluding Unprocessed Food and Tobacco  
(Percent)



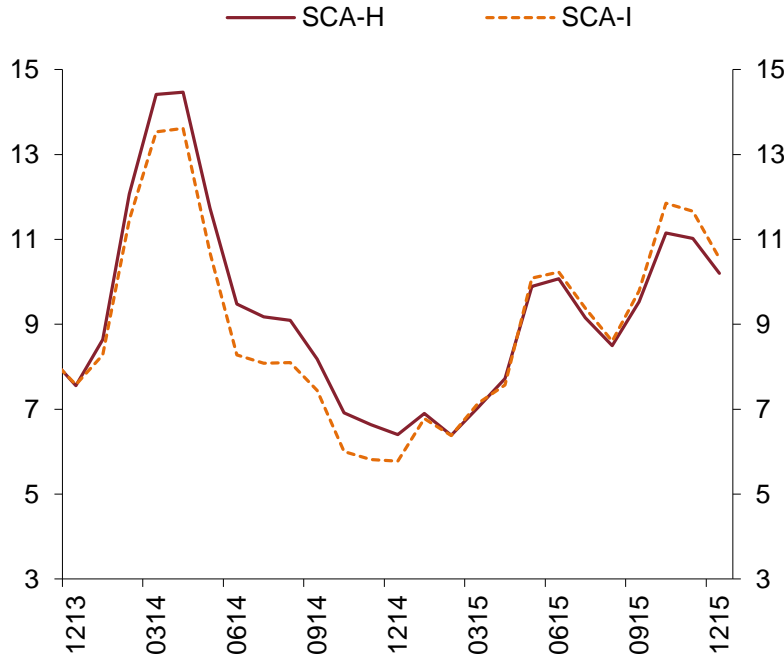
\* Shaded region indicates the 70 percent confidence interval for the forecast.  
Source: TURKSTAT, CBRT.

- Inflation at the last quarter of 2015 was higher than the October Inflation Report forecast due to developments in unprocessed food prices.

# Inflation

## Core Inflation Indicators SCA-H and SCA-I

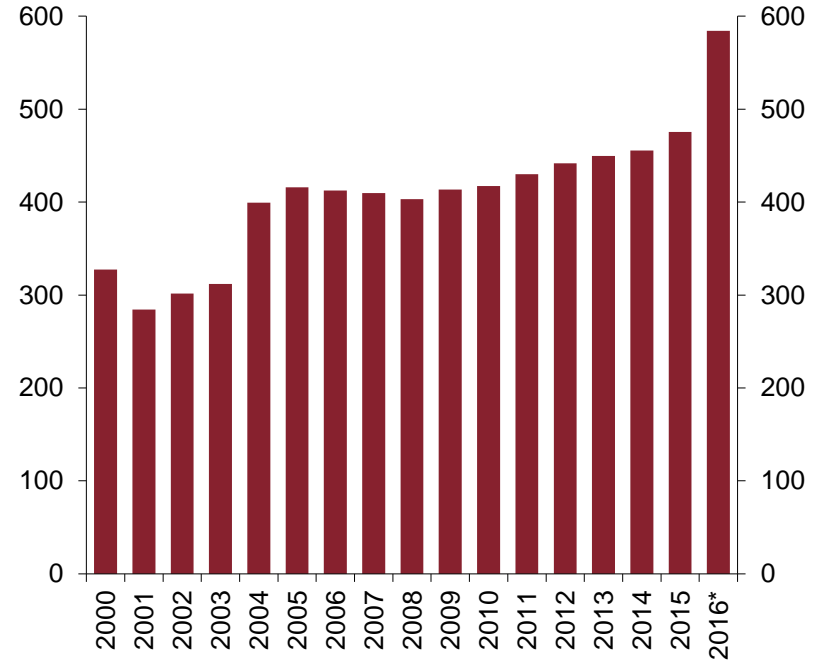
(Seasonally Adjusted, Annualized 3 Month Average,  
Annual Percentage Change)



Source: TURKSTAT, CBRT.

## Real Gross Minimum Wage

(2003 Prices, TL)



Source: MLSS; TURKSTAT, CBRT.

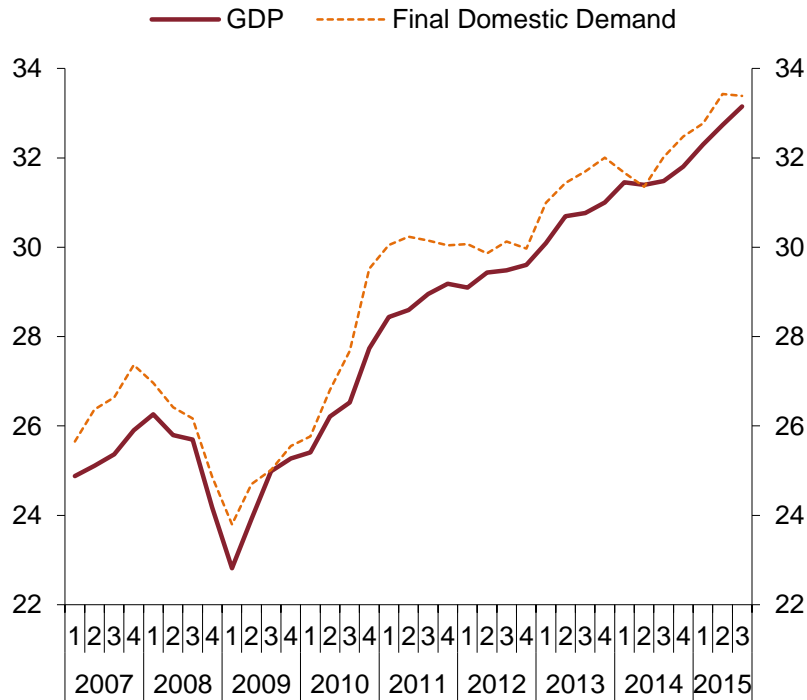
Obtained via dividing current price minimum wage to average consumer price index. For CPI, 2003=1.  
January 2016 Inflation Report forecasts are used for 2016 prices.

- Cost factors limit the improvement in the core inflation trend. The effects of the minimum wage change on overall wages and inflation will be closely monitored.

# Aggregate Demand Developments

## GDP and Final Domestic Demand

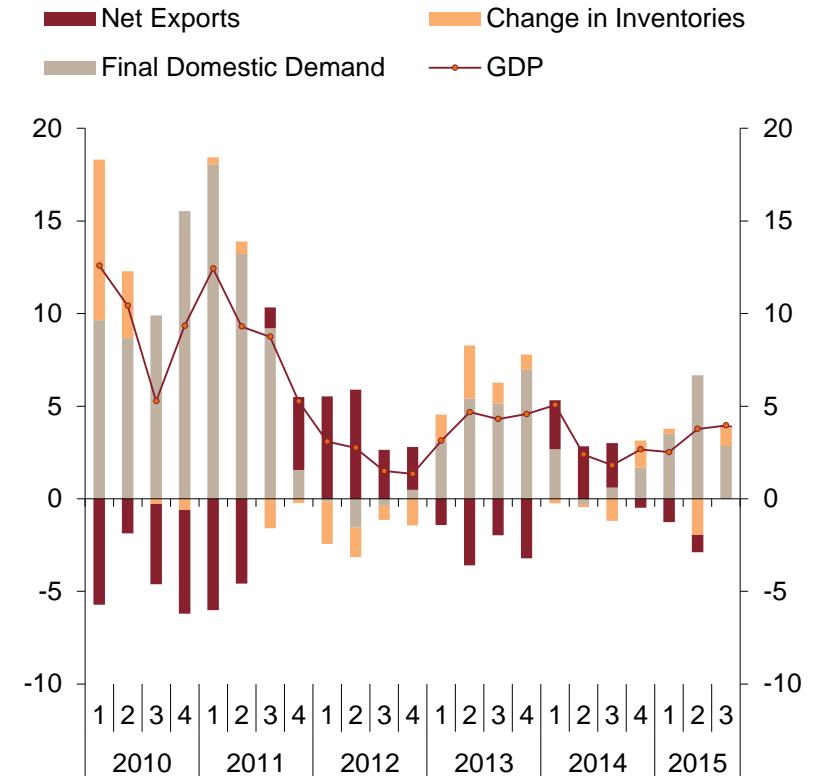
(Seasonally Adjusted, Billion TL, 1998 Prices)



Source: TURKSTAT, CBRT.

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

(Percentage Point)



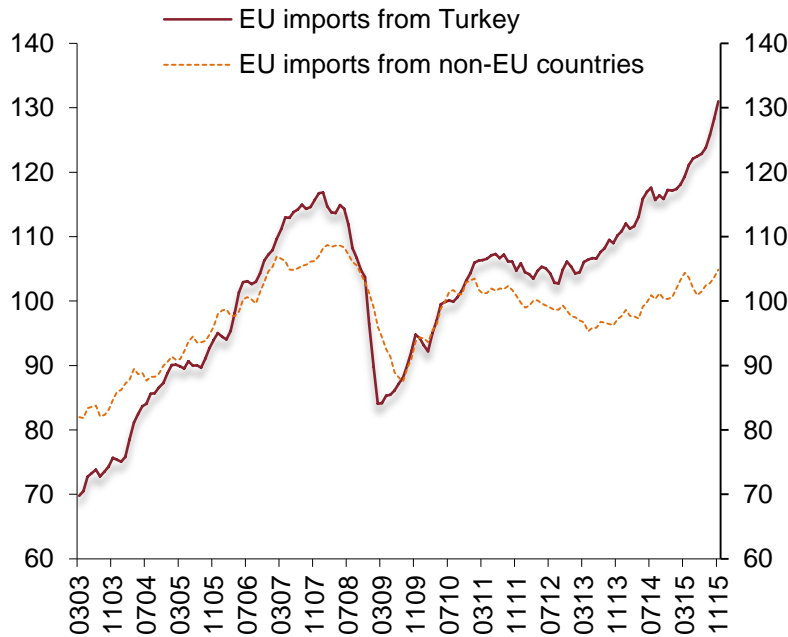
Source: TURKSTAT, CBRT.

➤ Economic activity continues to grow at a moderate pace.

# External Balance

## EU Imports from Turkey

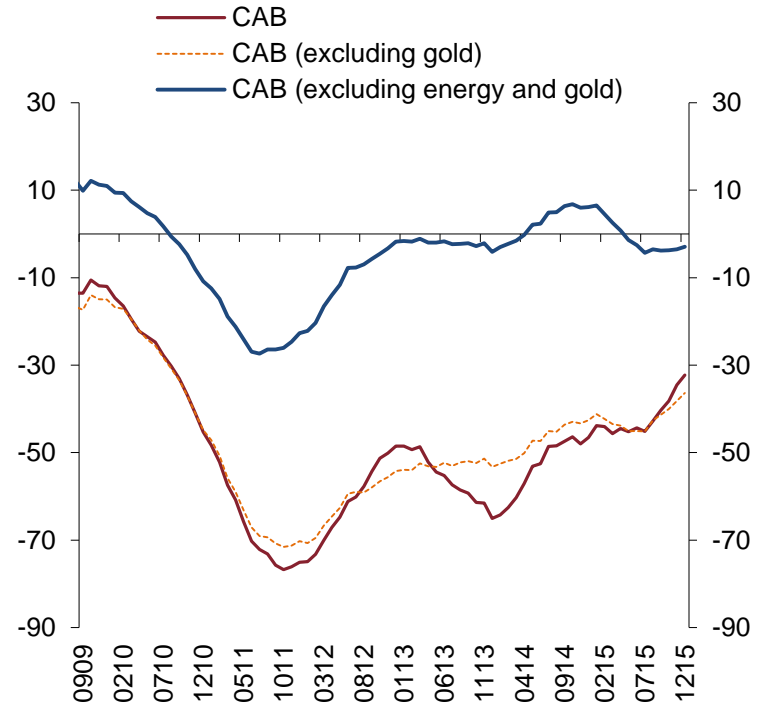
(Real, Seasonal Adj., 3-Month Average, 2010=100)



Source: Eurostat.

## Current Account Balance (CAB)

(12-Month Cumulative, Billion USD)



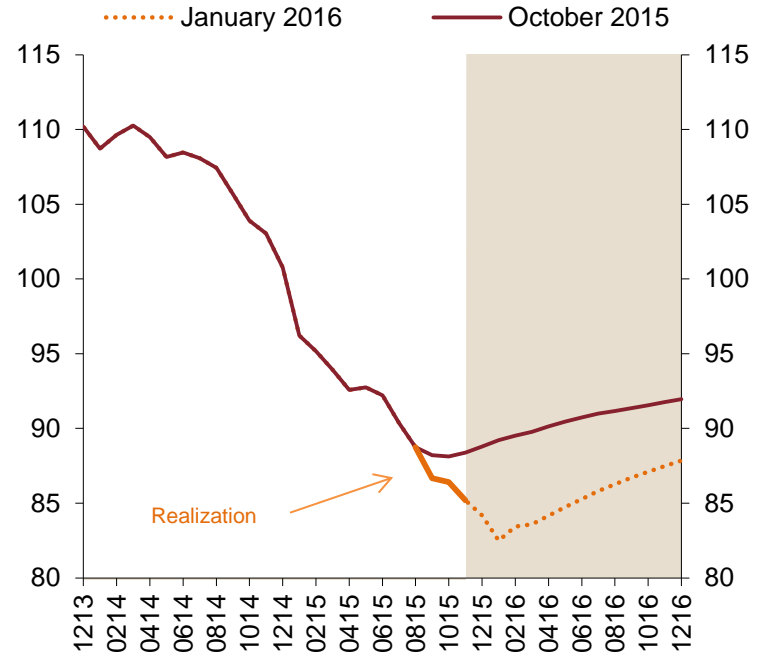
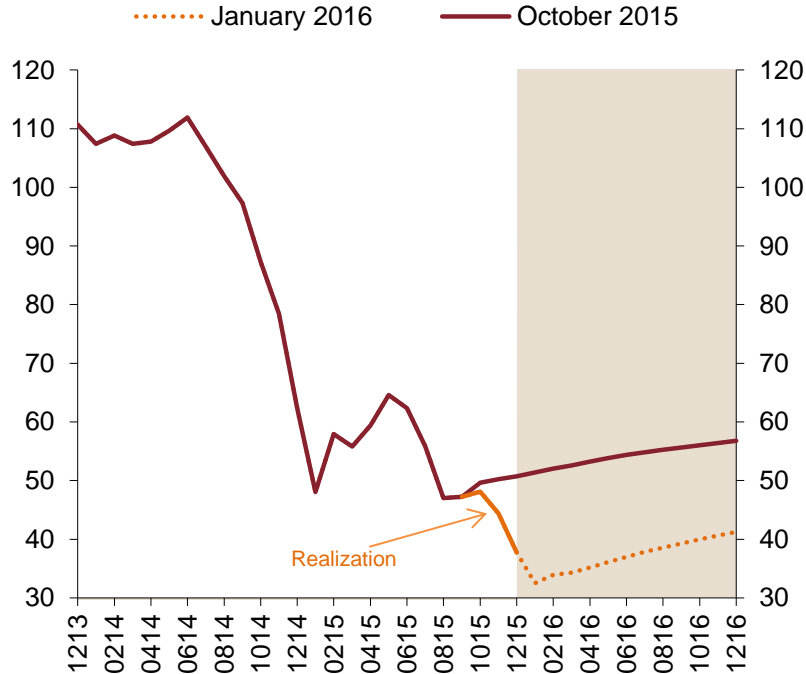
Source: TURKSTAT, CBRT.

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

# Oil and Import Prices

**Oil Prices\***  
(USD/barrel)

**Import Prices\***  
(USD, 2010=100)



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

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

- Assumptions for crude oil prices and USD-denominated import prices were revised downward.

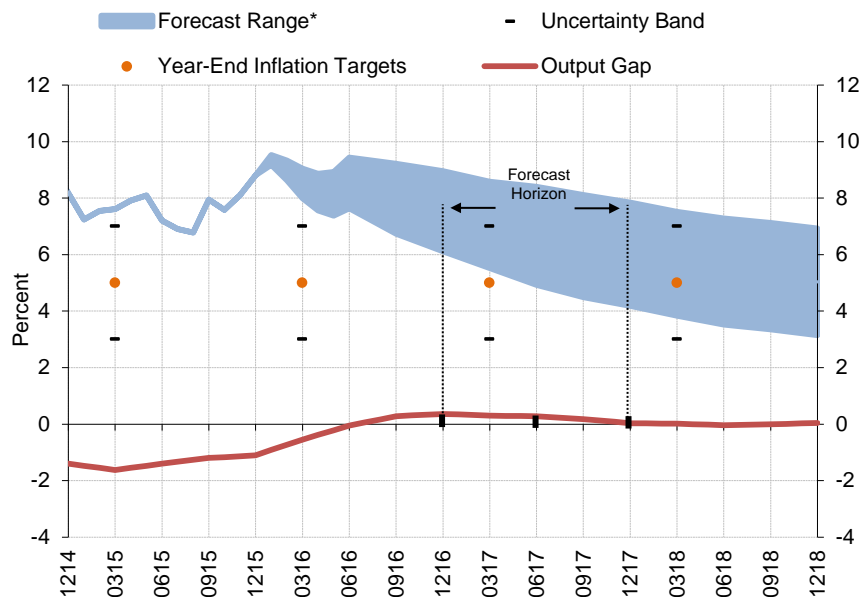
# Monetary Policy Stance

- 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 6.1 % and 8.9 % (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.

# Inflation Outlook

## Revision to end-2016 Inflation Forecast and the Sources of the Revision

	2016
Revision in End-Year Inflation Forecast Compared to October Inflation Report (percentage point)	+1,0
<b>Sources of Revisions</b>	
Increase in Minimum Wage(Total Effect)	+1,0
Effect on Food Inflation	+0,3
Effect on Consumer Inflation excl. Unprocessed Food and Tobacco Items	+0,7
Turkish lira Denominated Import Prices	-0,6
Underlying Inflation (Including the Effects of the Exchange Rate)	+0,2
Administrated Prices	+0,4

Source: CBRT



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