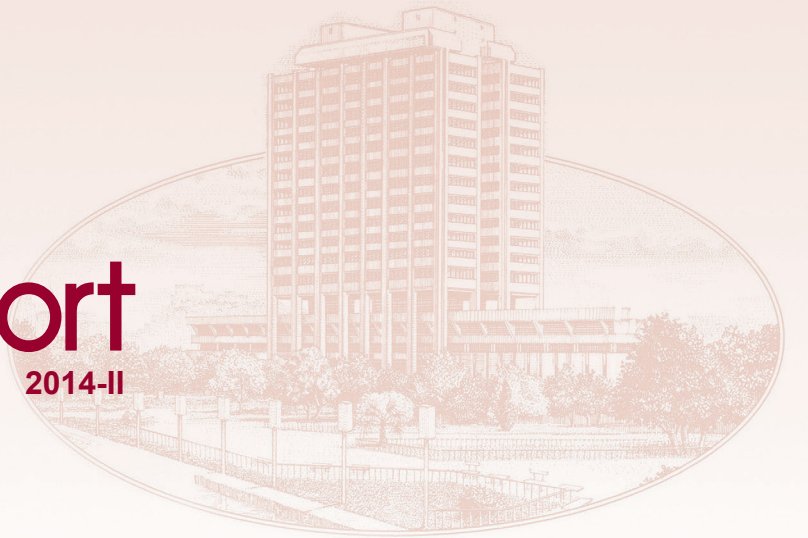


inflation report

2014-II



Contents

1. OVERVIEW	1
1.1. Monetary Policy and Financial Conditions	2
1.2. Macroeconomic Developments and Main Assumptions	5
1.3. Inflation and the Monetary Policy Outlook	8
1.4. Risks and the Monetary Policy	9
2. INTERNATIONAL ECONOMIC DEVELOPMENTS	13
2.1. Global Growth	13
2.2. Commodity Prices and Global Inflation	15
2.3. Financial Conditions, Risk Indicators and Capital Flows	17
2.4. Global Monetary Policy Developments	18
3. INFLATION DEVELOPMENTS	21
3.1. Core Inflation Outlook	22
3.2. Food, Energy and Alcohol-Tobacco Prices	25
3.3. Domestic Producer Prices	27
3.4. Expectations	28
4. SUPPLY AND DEMAND DEVELOPMENTS	31
4.1. Gross Domestic Product Developments and Domestic Demand	31
4.2. External Demand	34
4.3. Labor Market	36
5. FINANCIAL MARKETS AND FINANCIAL INTERMEDIATION	45
5.1. Financial Markets	45
5.2. Credit Volume and Monetary Indicators	55
6. PUBLIC FINANCE	69
6.1. Budget Developments	69
6.2. Developments in the Public Debt Stock	72
7. MEDIUM-TERM FORECASTS	75
7.1. Current State, Short-Term Outlook and Assumptions	75
7.2. Medium-Term Outlook	77
BOXES	
Box 4.1. Revisions to Construction Investment Expenditures	39
Box 4.2. Capital Flows Towards Turkey and Emerging Economies in 2013: Effects of the Fed's Policy Change	42
Box 5.1. Forecasting Exchange Rates Using Yield Curves	59
Box 5.2. Foreign Currency Liabilities and Exchange Rate Risk of Firms in Turkey	63