



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

MACROECONOMIC OUTLOOK AND
MONETARY POLICY IN TURKEY

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Governor

2017 Annual Meeting of the IMF and the World Bank Group
October 2017
Washington D.C.

Outline

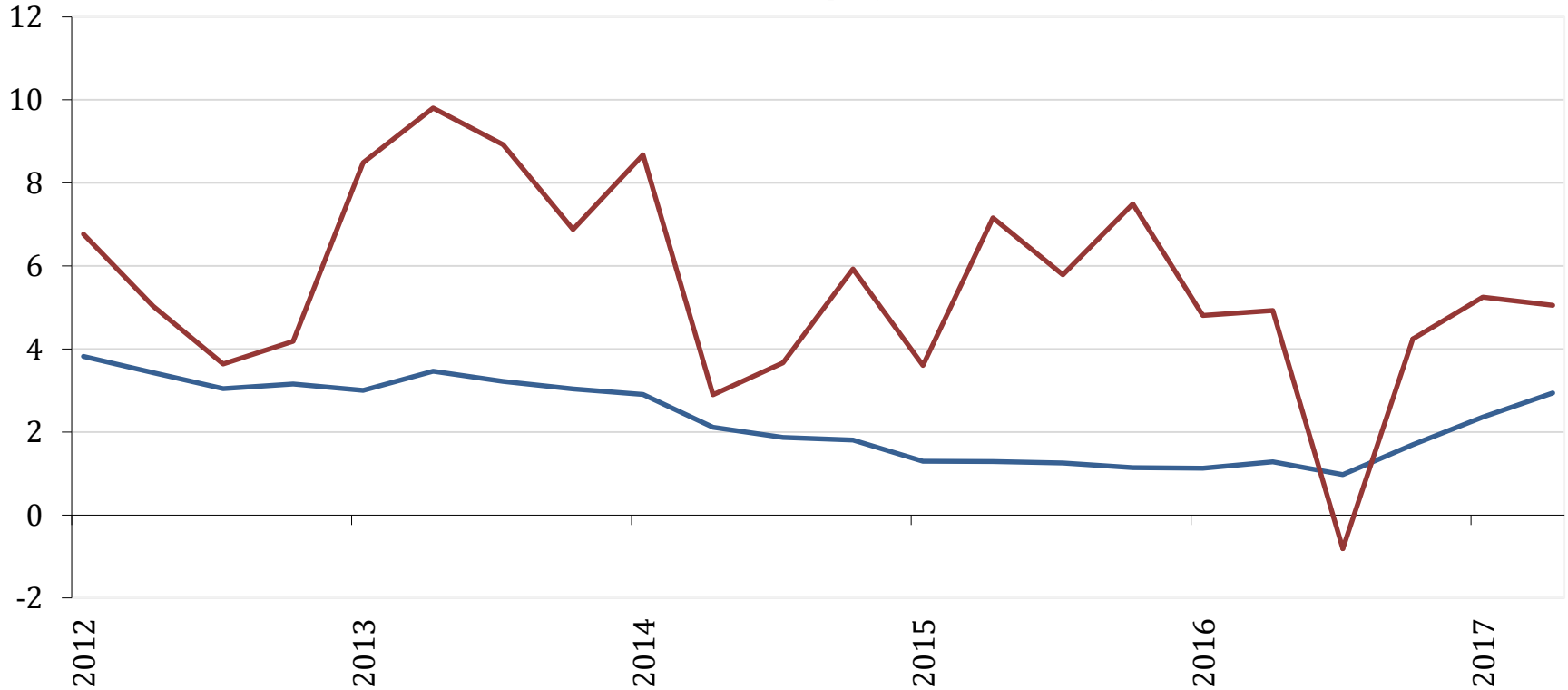
- I. Macroeconomic Outlook
- II. Inflation Outlook
- III. Monetary Policy and Financial Conditions

Macroeconomic Outlook

Turkey continues to outperform emerging economies.

Growth Rates in Turkey and Emerging Economies (Percent)

— Developing Countries excluding China and India — Turkey



Emerging Economies excluding China and India: Brazil, Chile, Colombia, Czechia, Hungary, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Romania, Russia, S. Africa, Thailand, Turkey, Ukraine.

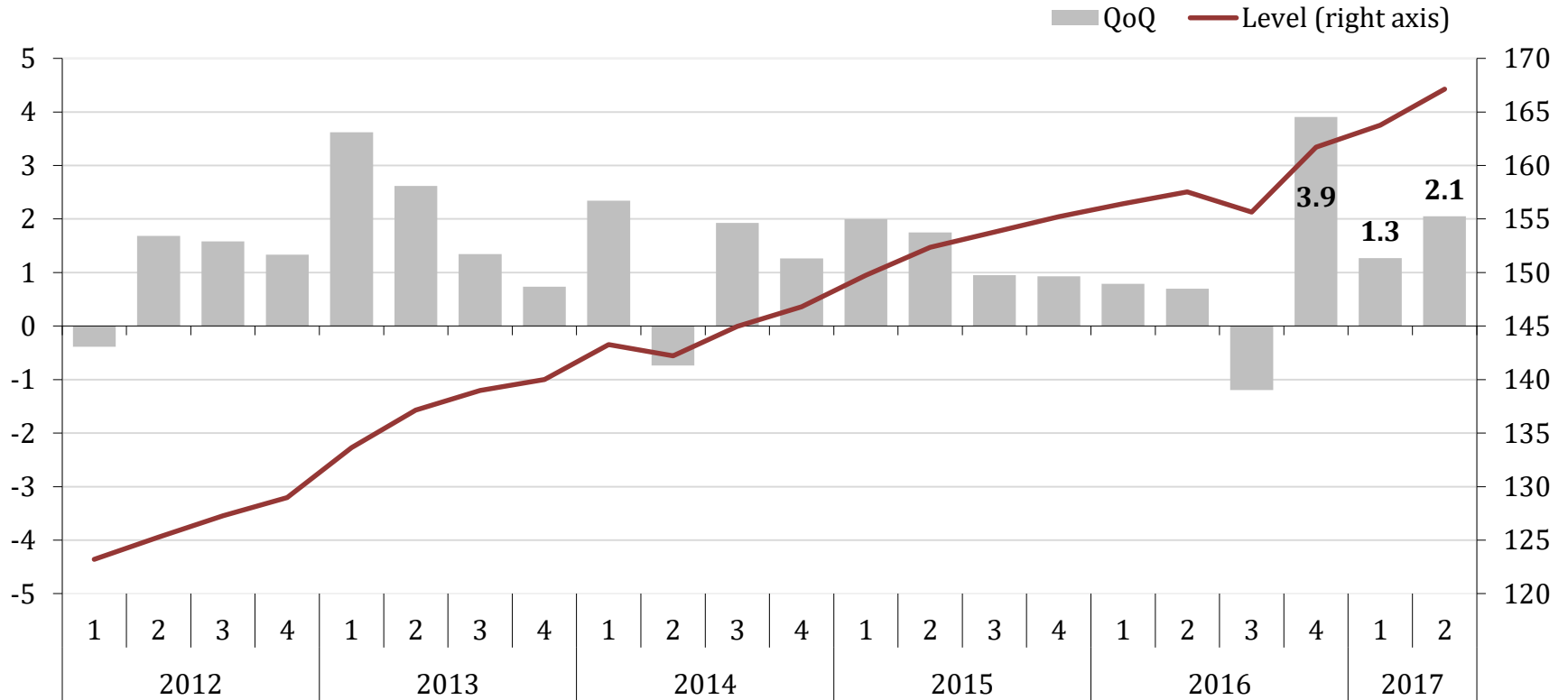
Source: Bloomberg, CBRT.

Last Observation: 2017 Q2

Economic activity has strengthened recently.

Gross Domestic Product

(Seasonally and Calendar Adjusted, Chain-Linked Volume Index, 2009=100)

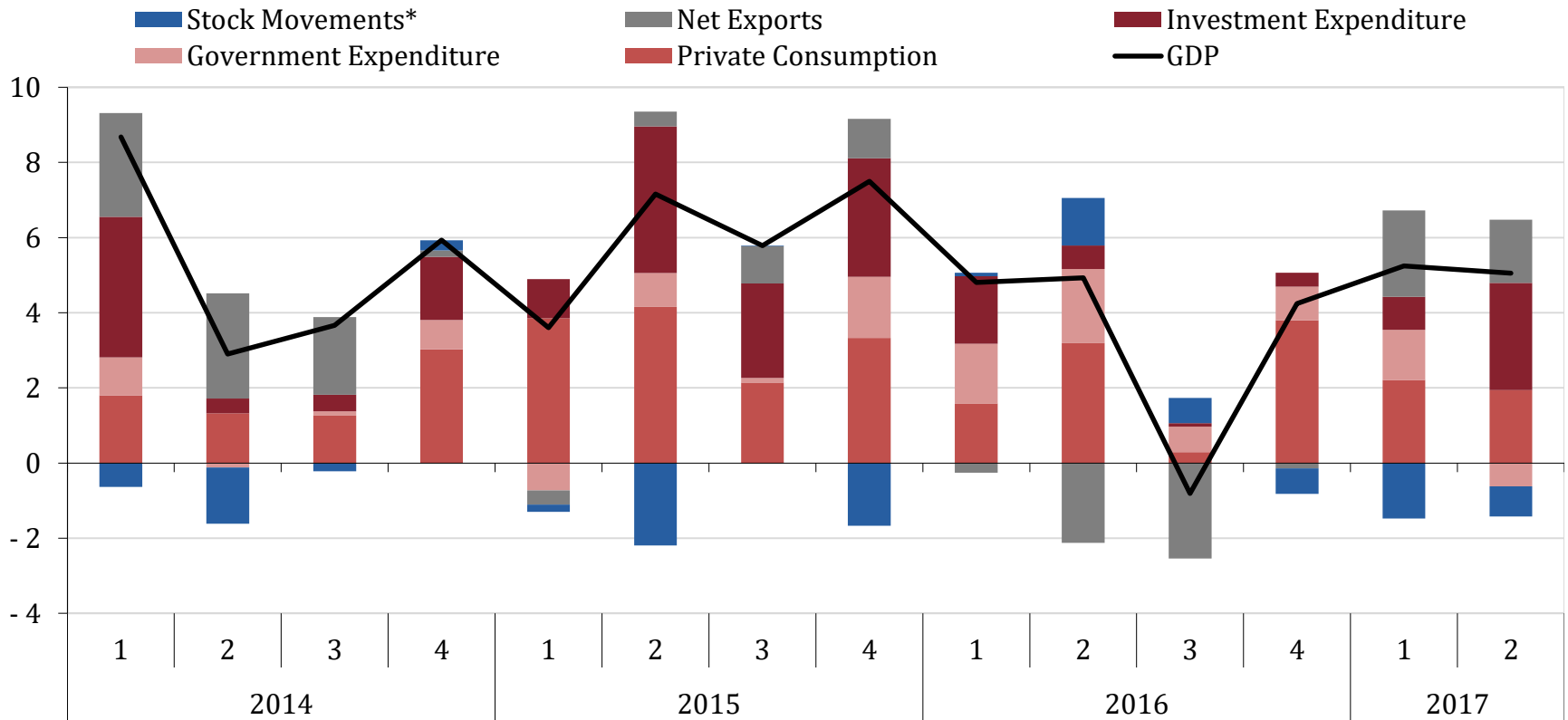


Source: TURKSTAT.

Last Observation: 2017 Q2

Net exports have contributed positively during the first half.

Annual GDP Growth and Contributions (Percentage Points)



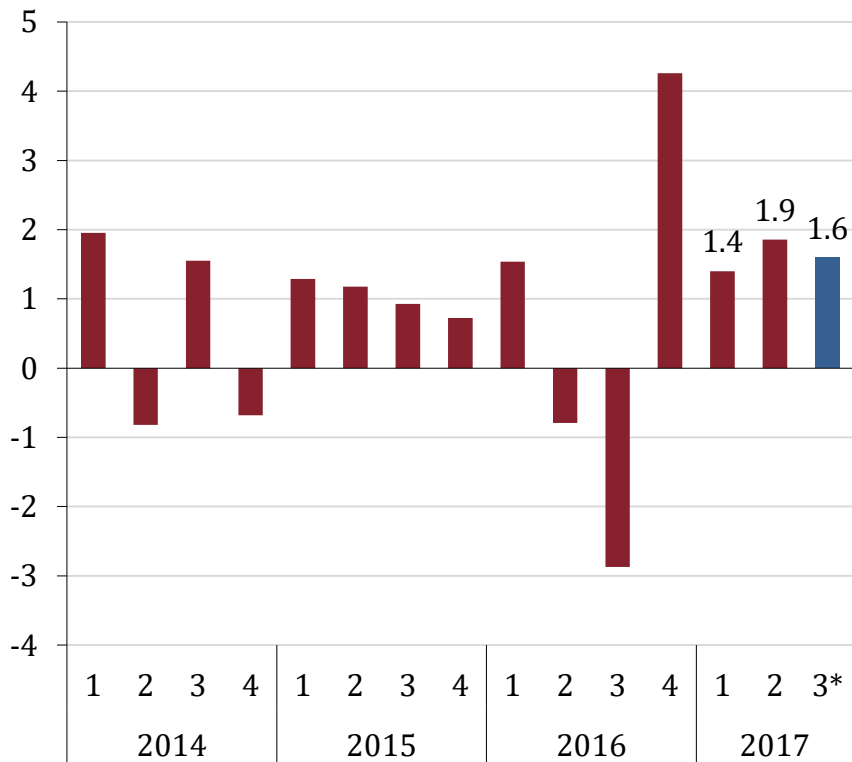
* Contains residual item.

Source: TURKSTAT.

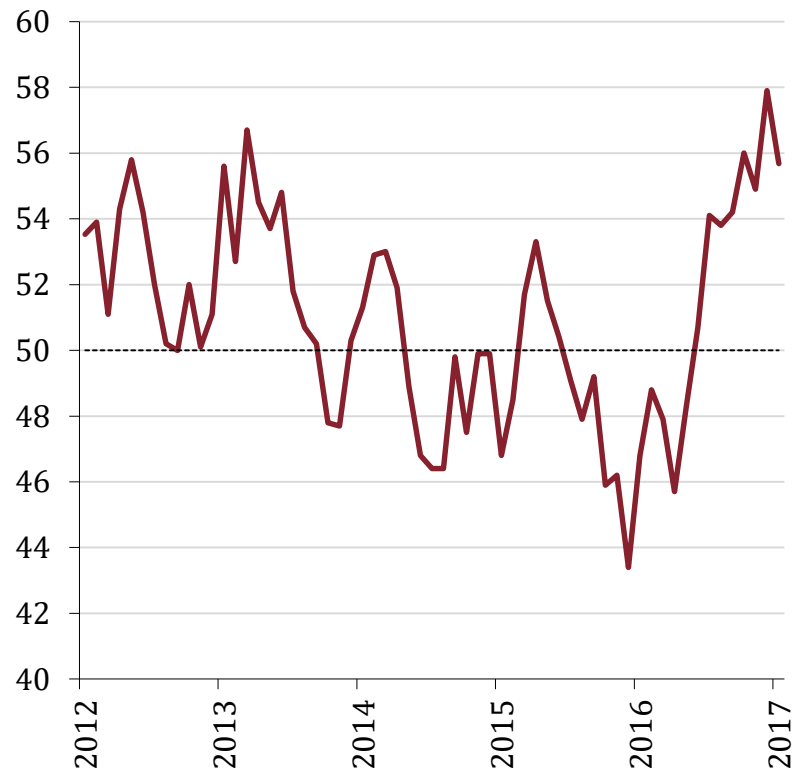
Last Observation: 2017 Q2

Leading indicators suggest strong growth in 2017 Q3.

Industrial Production (QoQ, Seasonally Adjusted)



PMI Production Index (Seasonally Adjusted)



Source: CBRT, TURKSTAT.

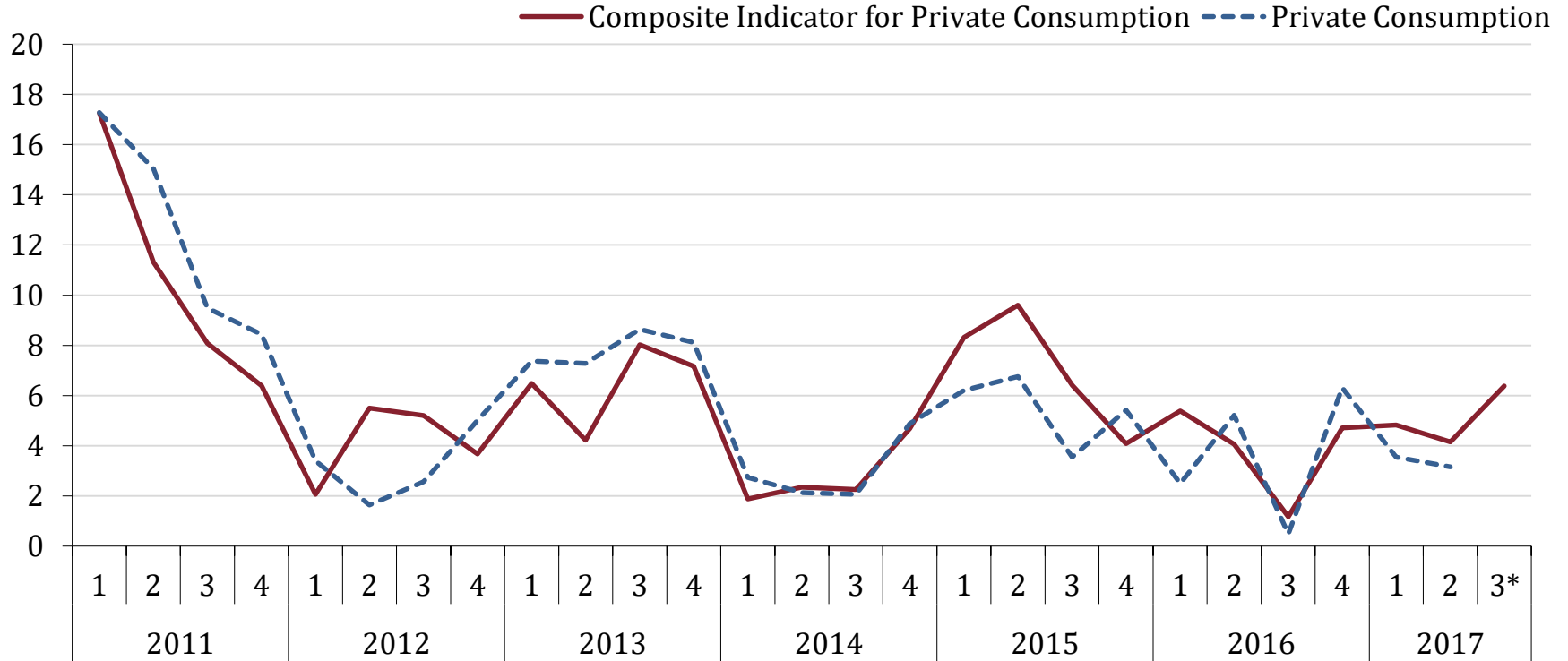
*As of August

Source: PMI Markit.

Last Observation: September 2017

Consumption demand supports economic growth.

Private Consumption and Composite Indicator⁽¹⁾ (Annual Percentage Change)



(1) Composite indicator is the weighted average of the annual percentage changes of automobile domestic sales, white goods domestic sales and sales volume index.

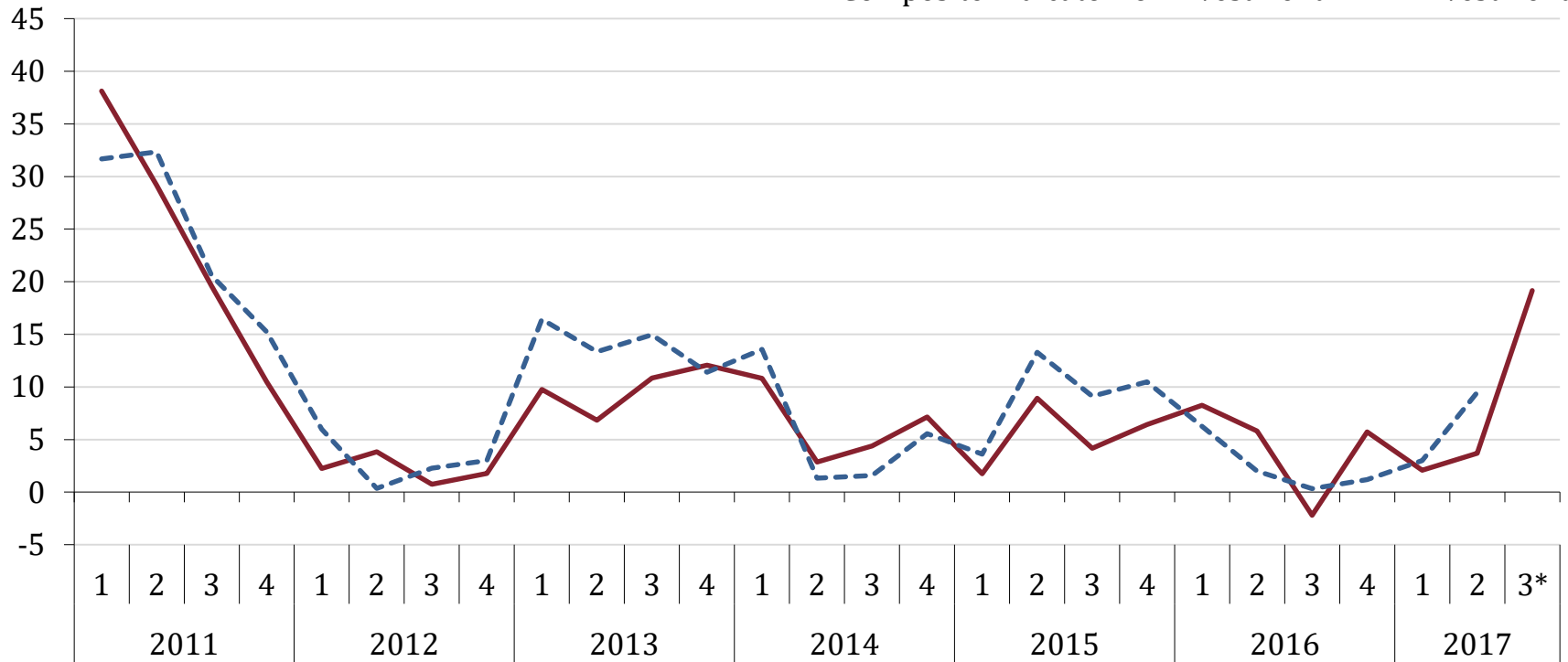
Source: ADA, CBRT, TURKBESD, TURKSTAT.

*As of August.

Investment demand shows signs of recovery.

Investment and Composite Indicator⁽¹⁾ (Annual Percentage Change)

— Composite Indicator for Investment - - - Investment



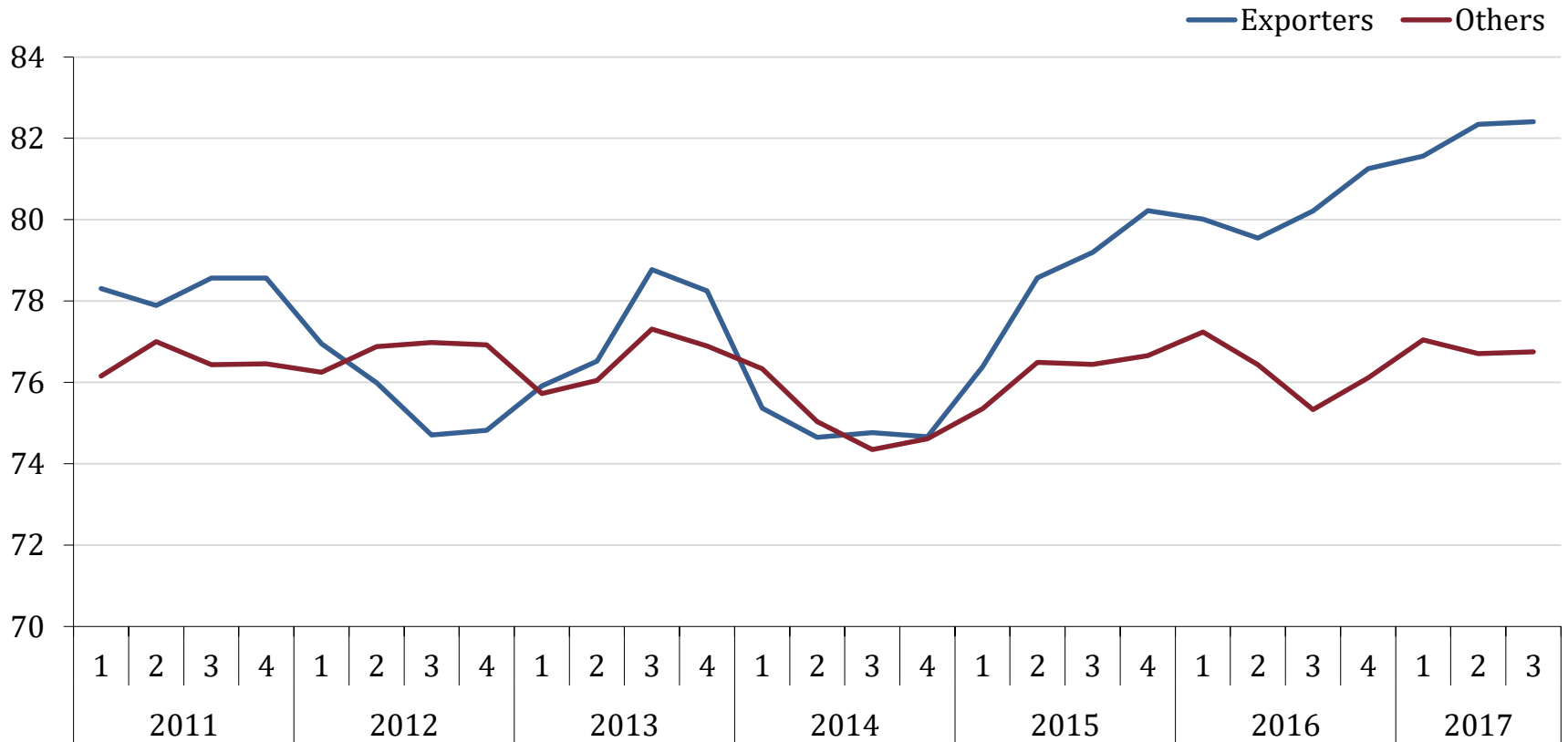
(1) Composite indicator is the weighted average of the annual percentage changes of machinery-equipment production, domestic industrial turnover in capital goods production, imports of capital goods and production of other mineral goods.

Source: CBRT, TURKSTAT.

*As of August.

Export oriented firms display stronger performance.

Capacity Utilization Rate
(Seasonally Adjusted, Percent)

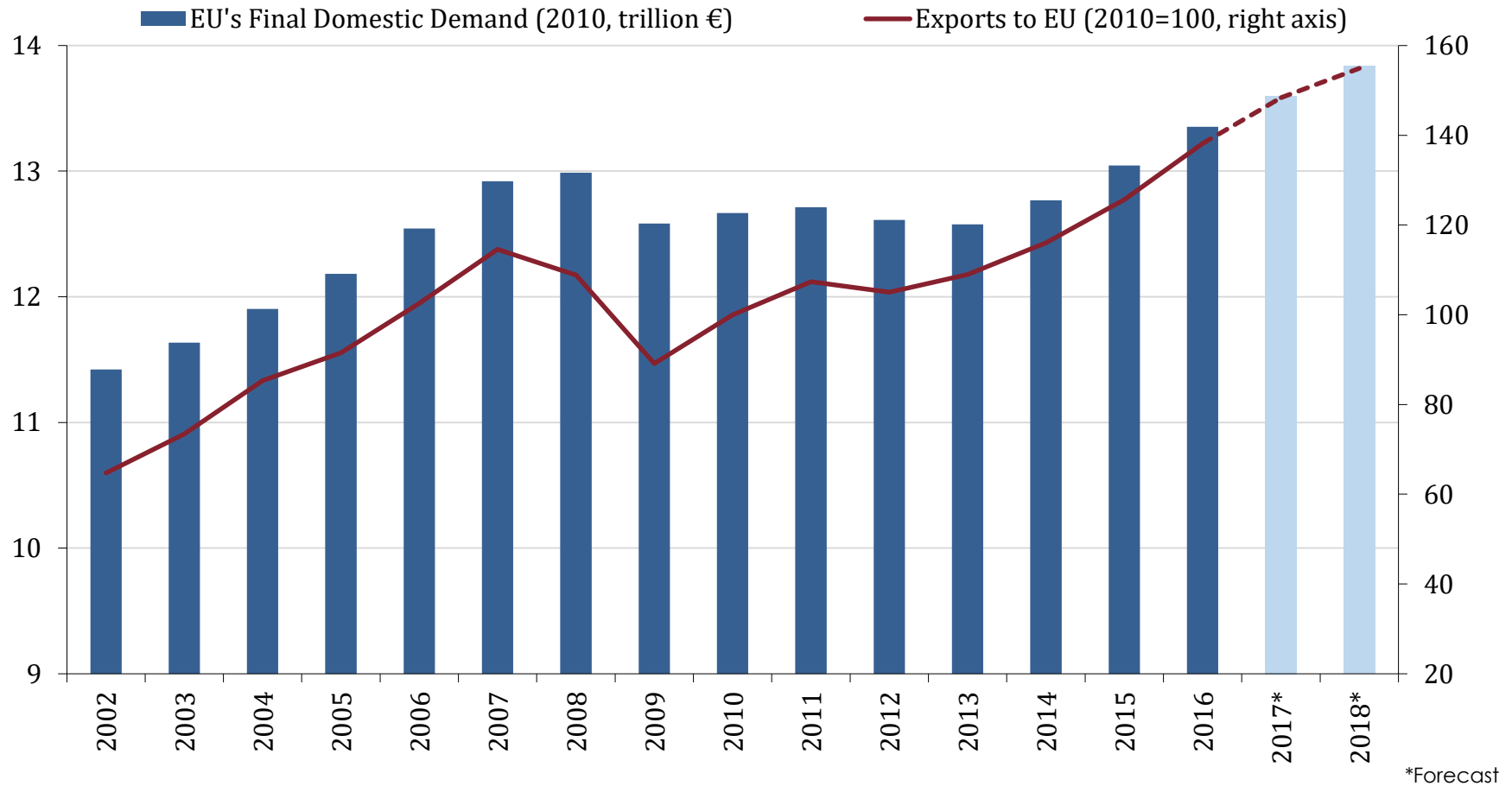


Source: CBRT.

Last Observation: September 2017

Demand from the EU economies will continue to provide significant contribution to export growth.

Exports to EU and EU's Final Domestic Demand

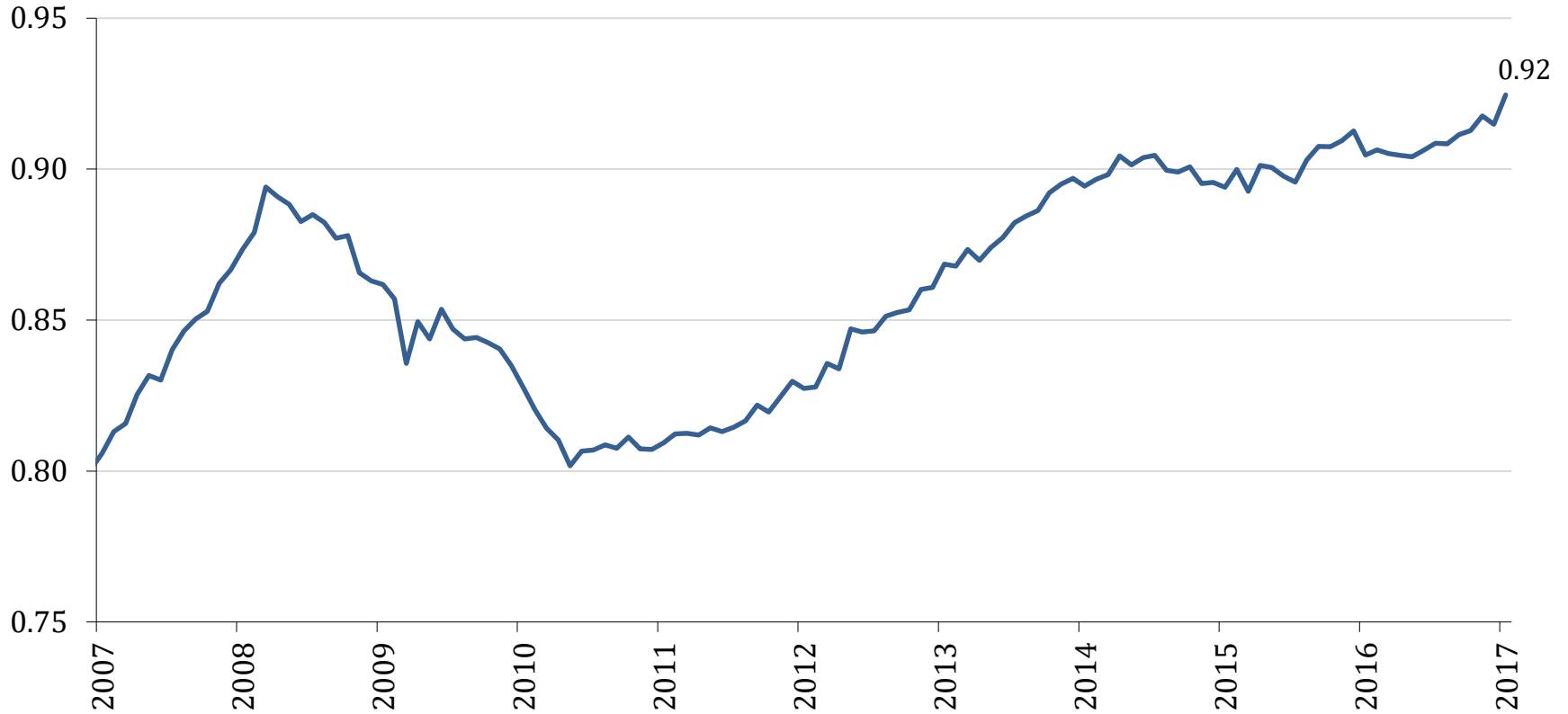


Source: CBRT, Eurostat, IHS.

Last Observation: 2016

Turkey's share in world exports has been rising steadily.

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



Source: TURKSTAT, WTO.

Last Observation: July 2017

Real exchange rate hovers at historically low levels.

Real Effective Exchange Rate
(CPI-Based, 2003=100)



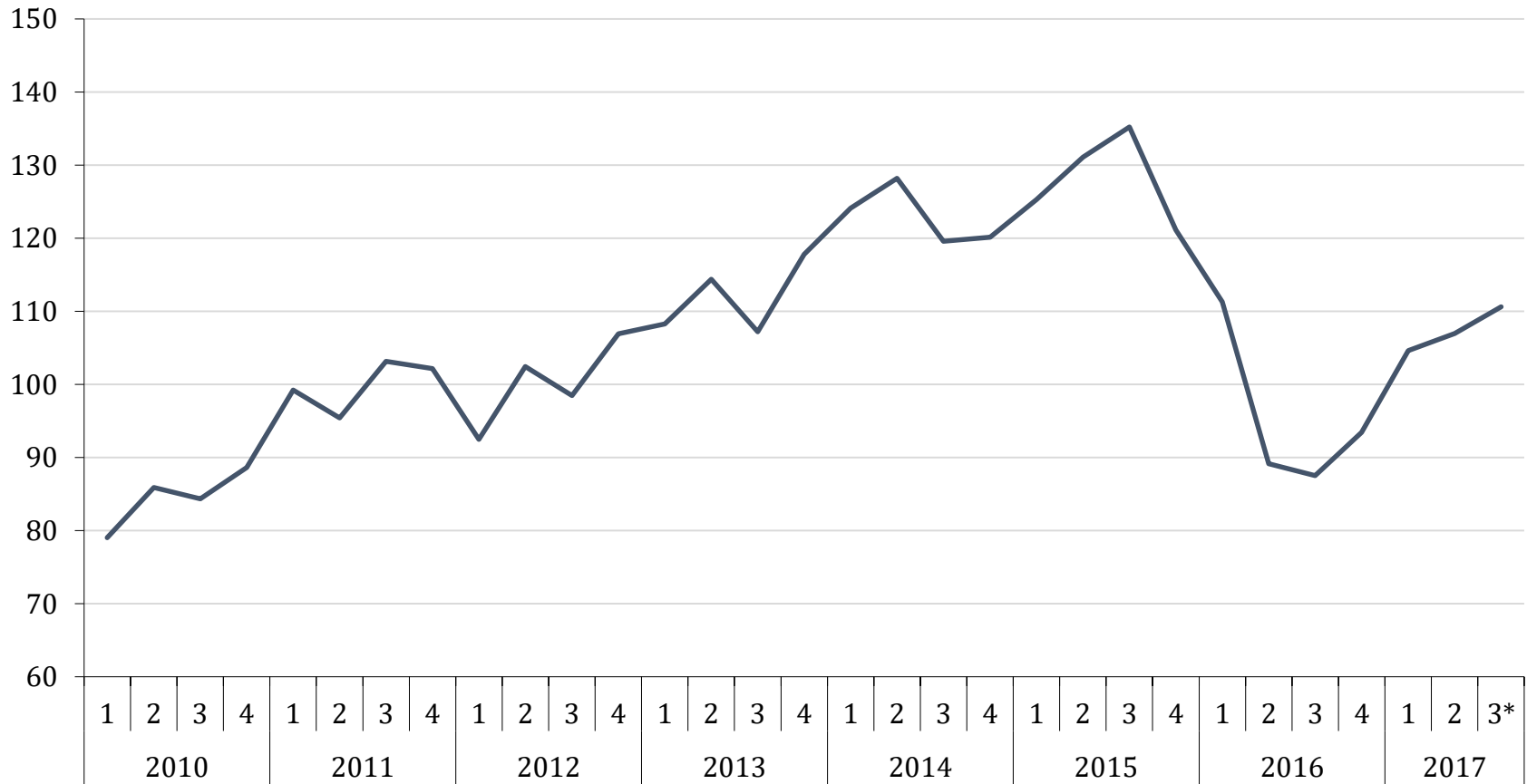
Source: CBRT.

Last Observation: September 2017

The ongoing recovery in tourism will support economic growth and external balance.

Tourism Revenues

(Real, Seasonally Adjusted, 2011=100)

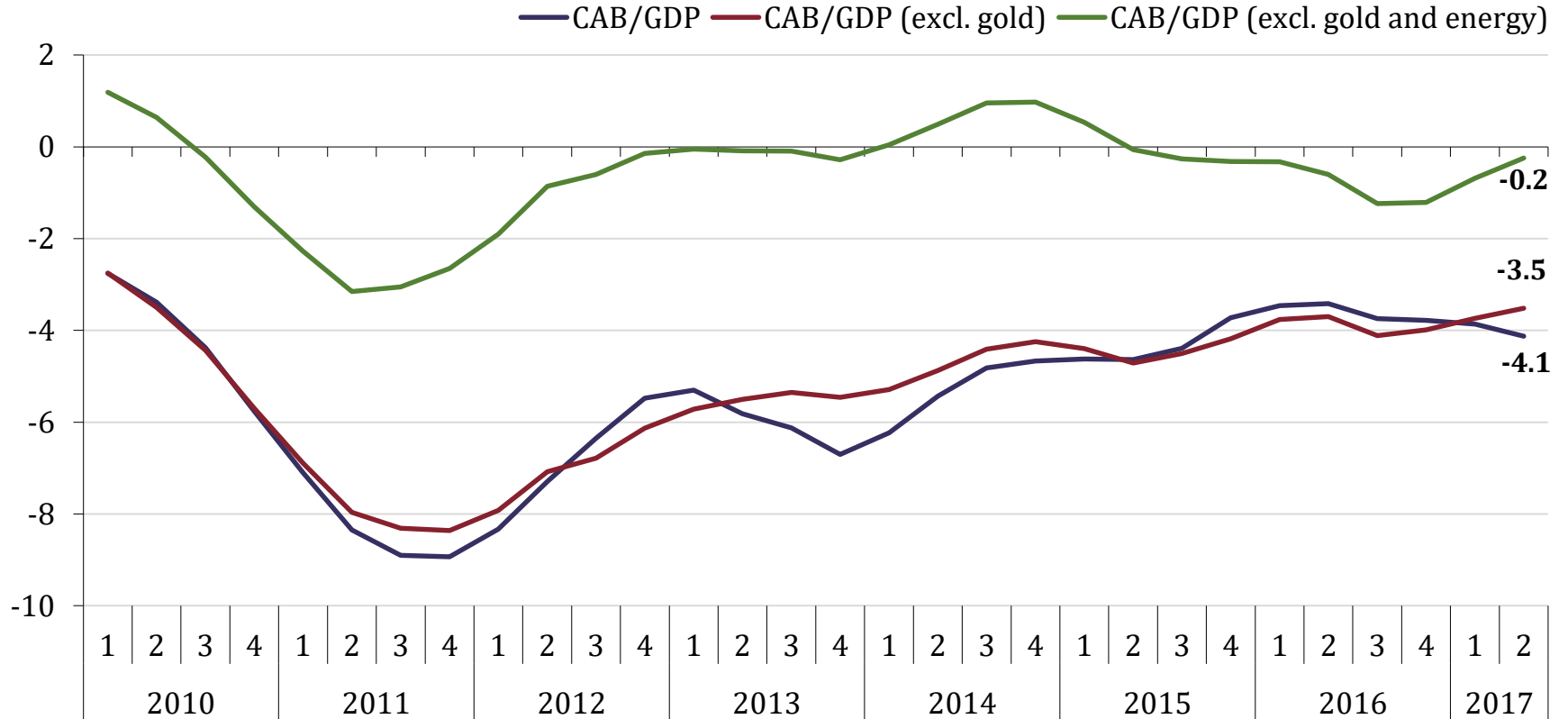


Source: CBRT, TURKSTAT.

* Forecast.

Core current account indicators continue to improve.

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

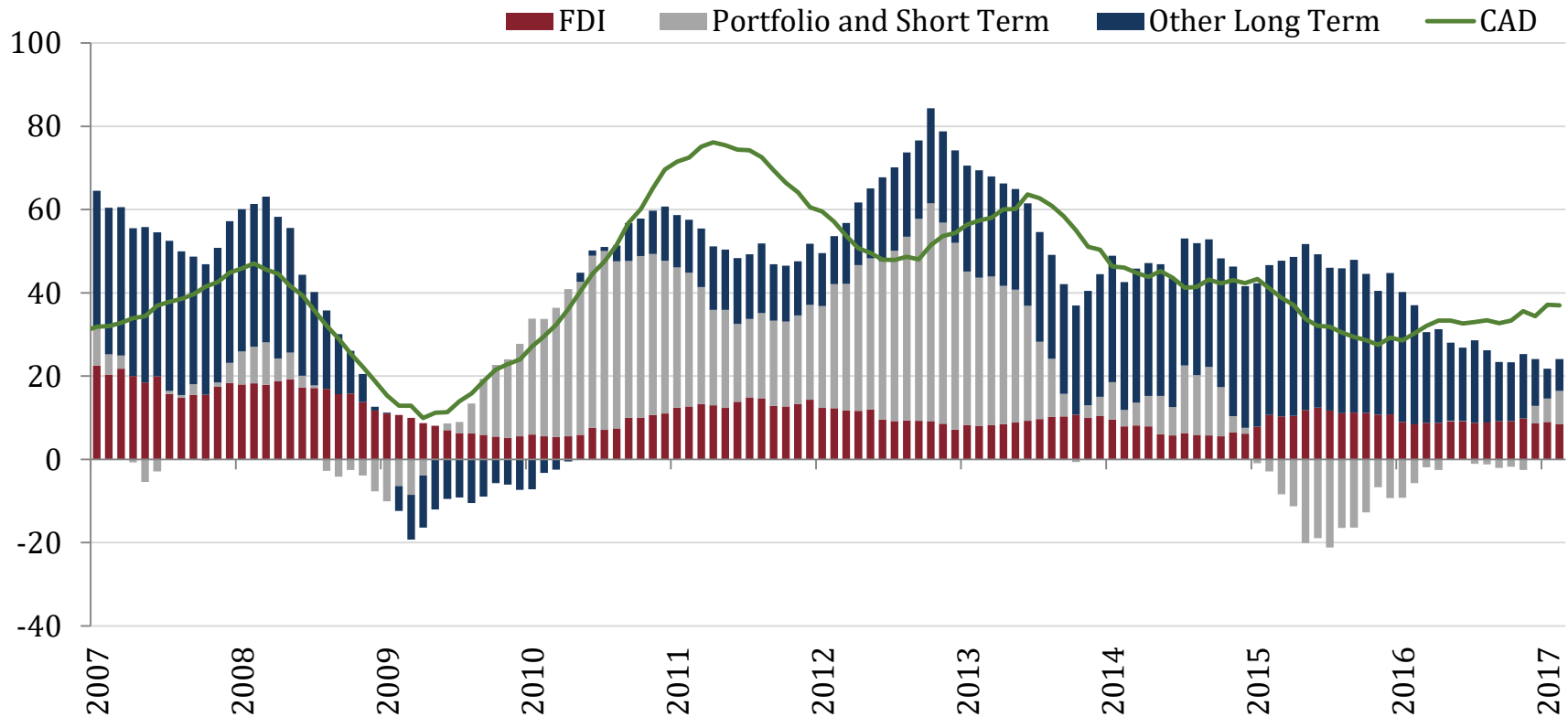


Source: CBRT.

Last Observation: 2017 Q2

Current account deficit is financed mainly through long term borrowing and FDI flows.

Financing Composition of Current Account Deficit (12-Month Cumulative, Billion USD)



*Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury. Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

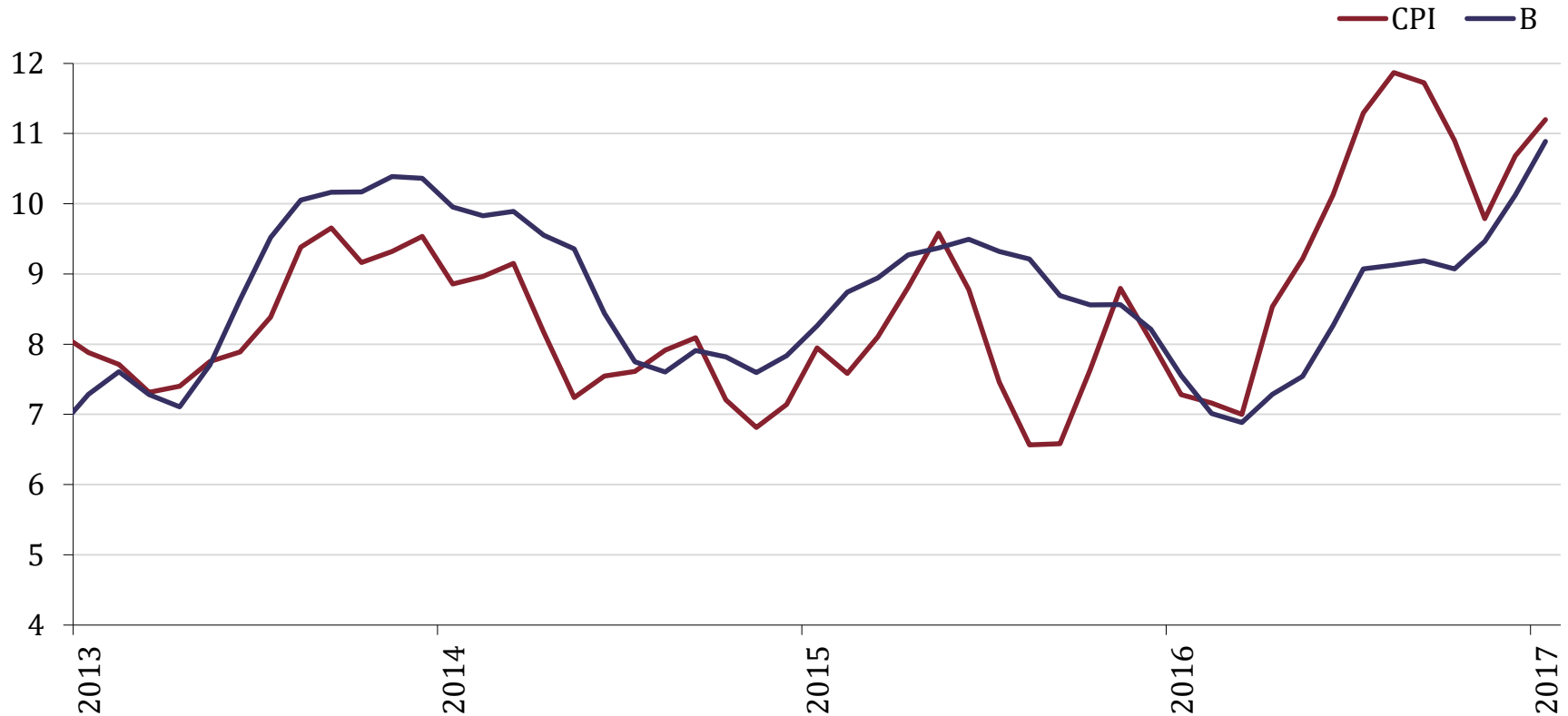
Source: CBRT.

Last Observation: August 2017

Inflation Outlook

CPI inflation and core indicators remain at elevated levels.

CPI and Core Price Index (B)*
(Annual Percentage Change)



*B index, among special indicators, which are newly released by the TURKSTAT, is the successor of the H index released before 2017.

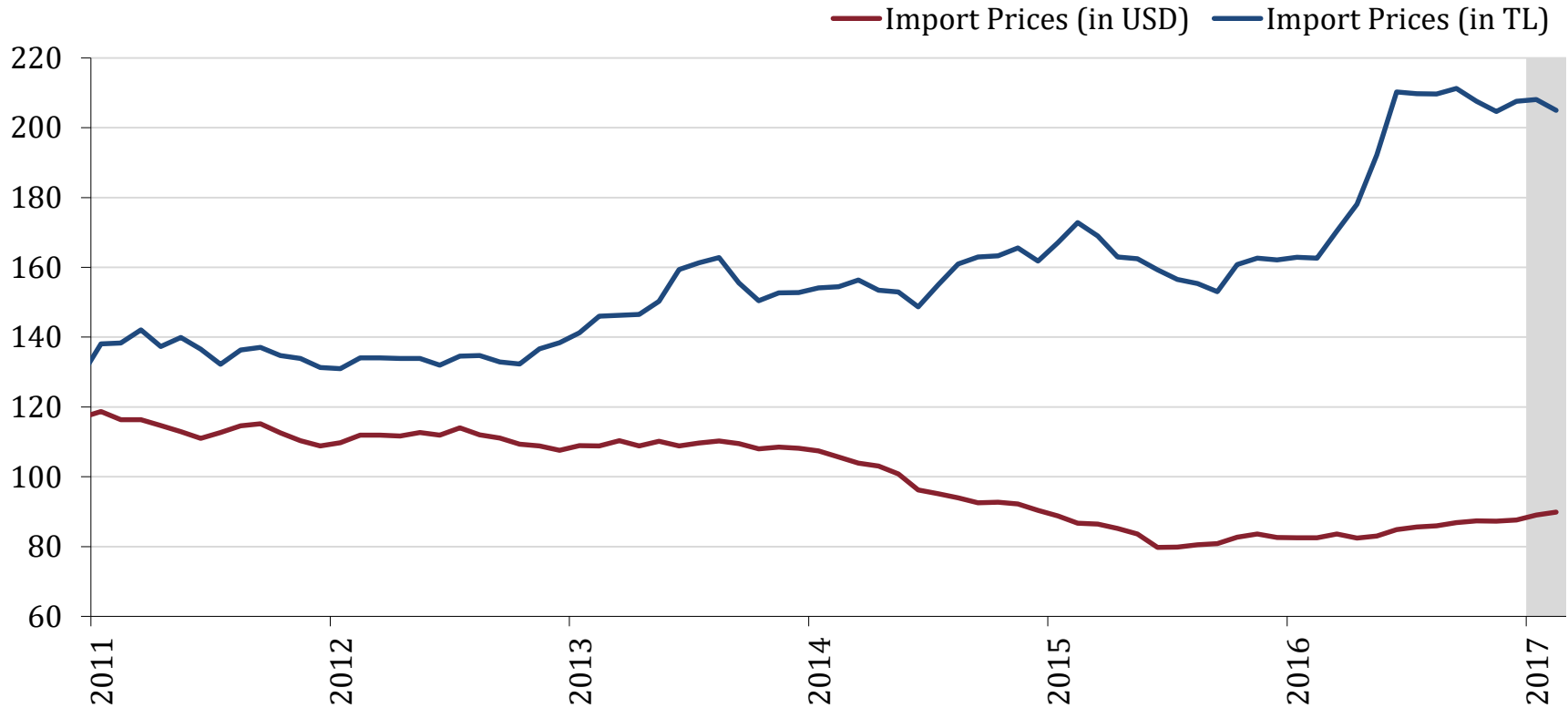
B: CPI excluding unprocessed food, energy, alcoholic beverages tobacco and gold.

Source: TURKSTAT, CBRT.

Last Observation: September 2017

The pass-through impact from cost factors has been one of the main drivers of inflation in 2017.

Import Price Index (2010=100)



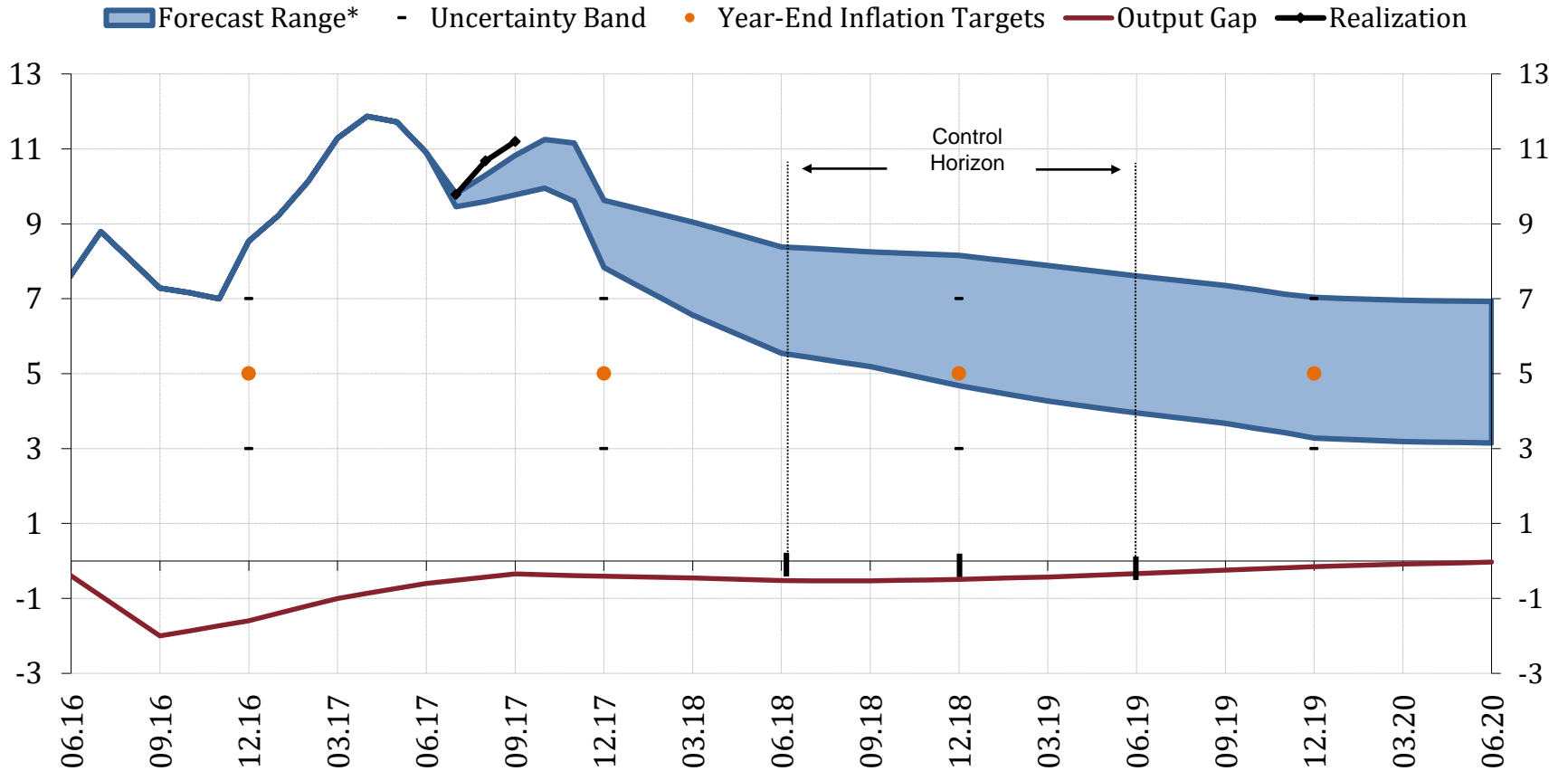
Shaded area shows the forecasts for August and September 2017.

Source: TURKSTAT, CBRT.

Last Observation: July 2017

Inflation is expected to decelerate starting from the end of the year.

July 2017 Inflation Report Forecasts



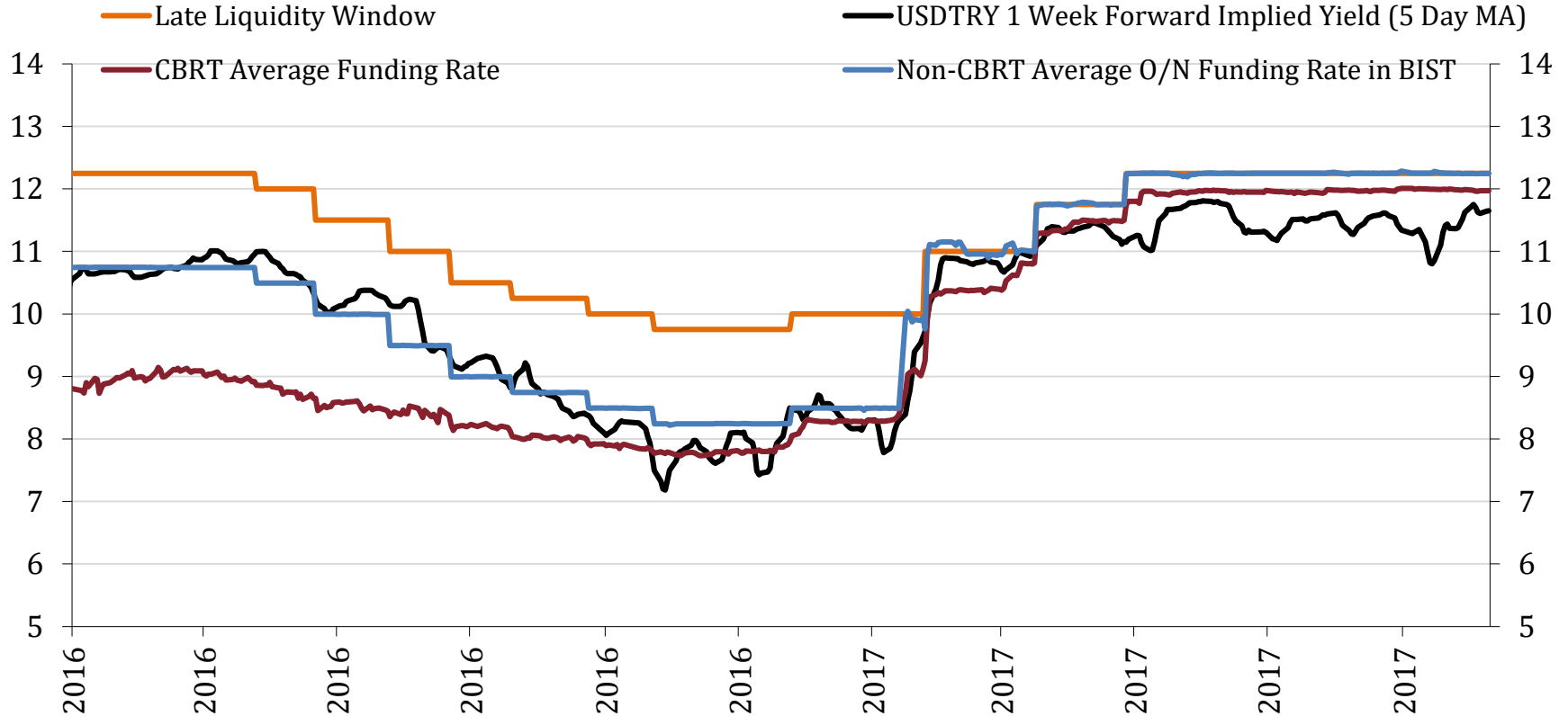
*Shaded region indicates the 70 percent confidence interval for the forecast.

Source: CBRT.

Monetary Policy and Financial Conditions

CBRT maintains a tight monetary policy stance.

Short Term Interest Rates (Percent)

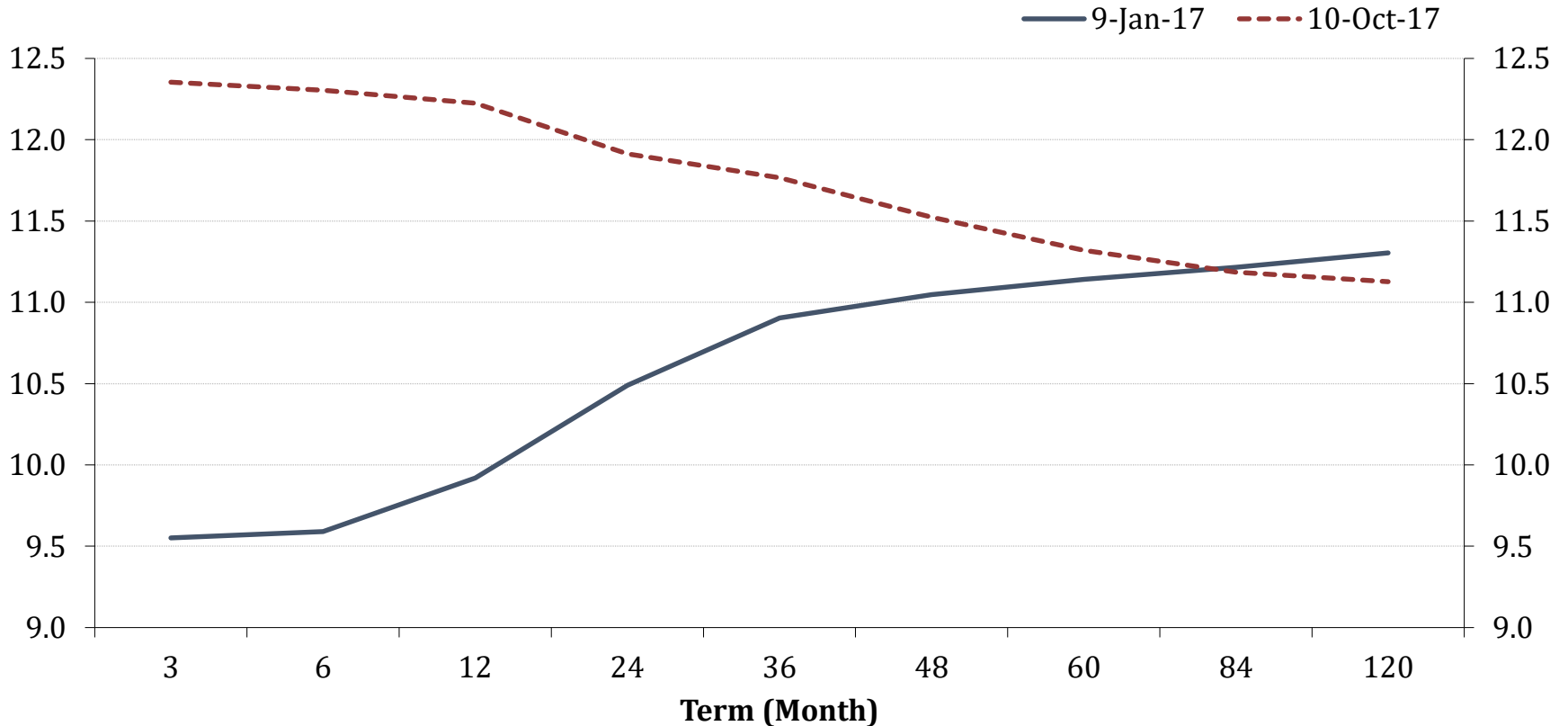


Source: BIST, Bloomberg, CBRT.

Last Observation: October 10, 2017

The yield curve confirms the tight stance of monetary policy.

Yield Curve
(Treasury Rates, Percent)

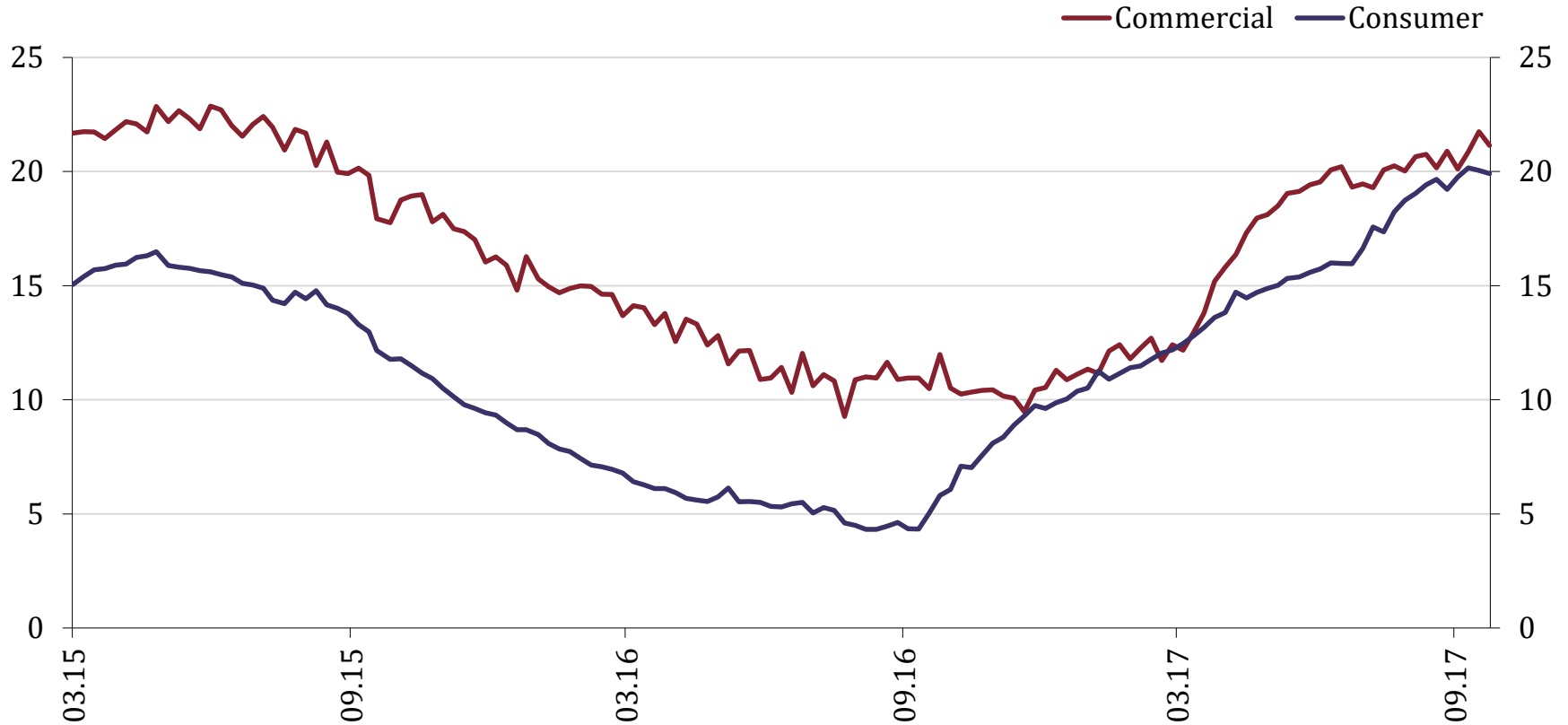


Source: Bloomberg.

Last Observation: October 10, 2017

Loan growth has accelerated due to supportive measures.

Annual Percentage Change (Adjusted for Exchange Rate Effect)



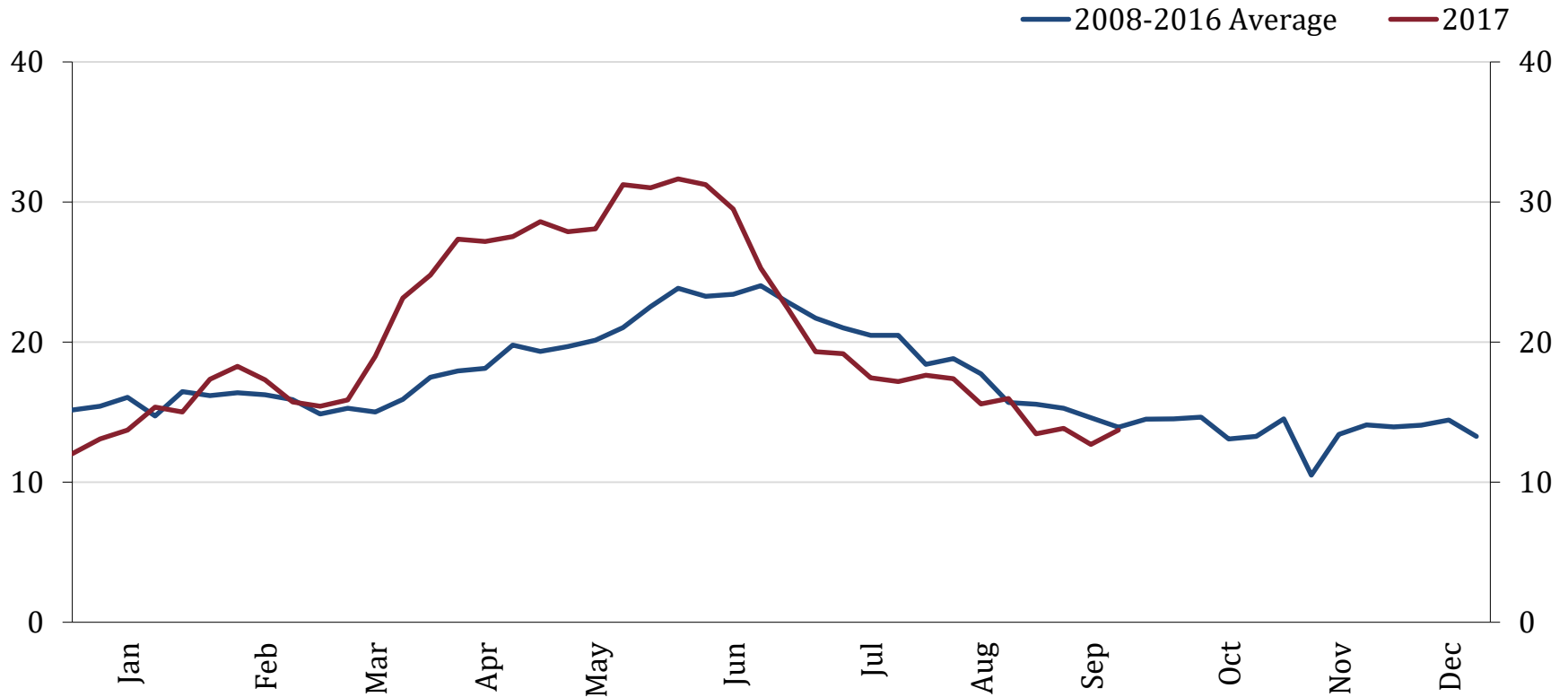
Source: CBRT.

Last Observation: September 29, 2017

Recently, loan growth momentum has converged to historical trends.

Loan Growth

(Adjusted for Exchange Rate Effect, 13 Week MA, Annualized)

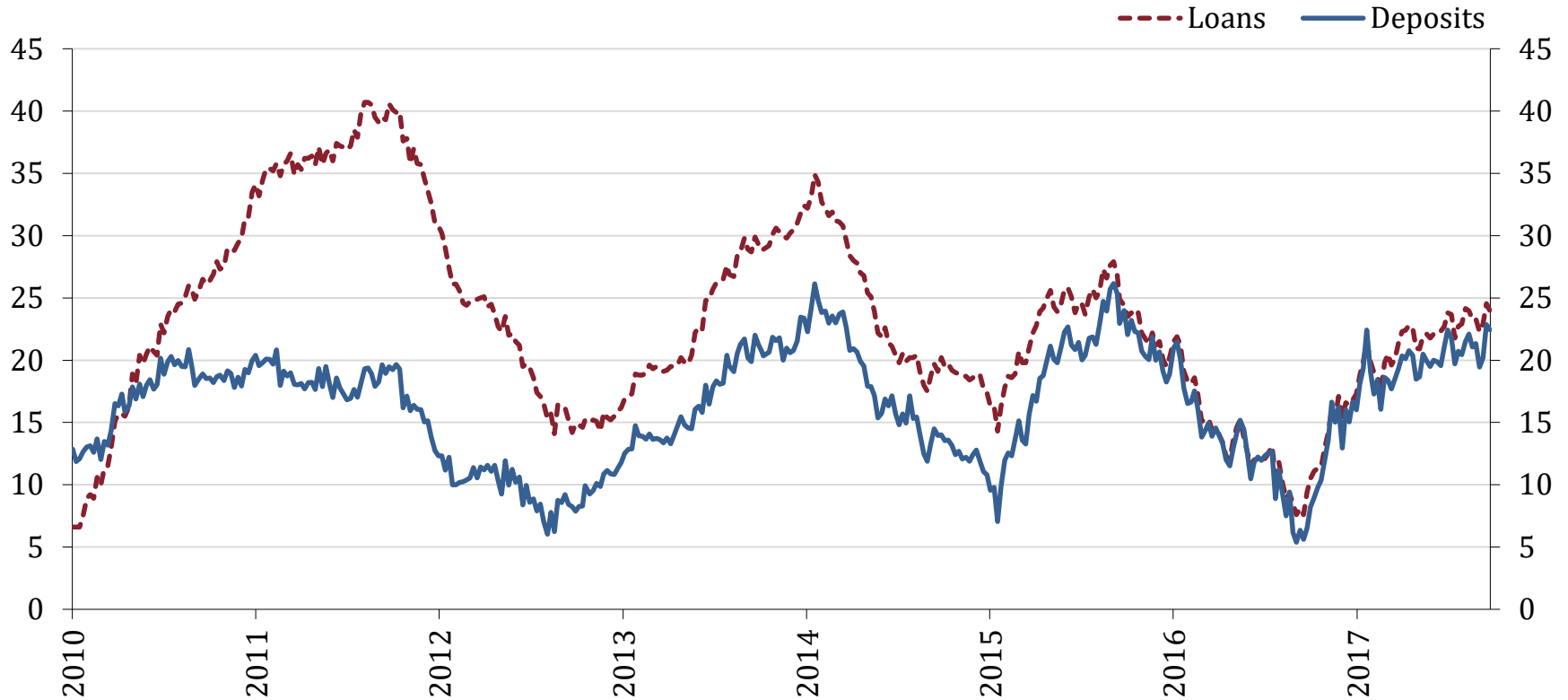


Source: CBRT.

Last Observation: September 29, 2017

Loans and deposits grow at similar pace since 2016.

Loan and Deposit Growth Rate (Nominal, Percentage Change Over Previous Year)



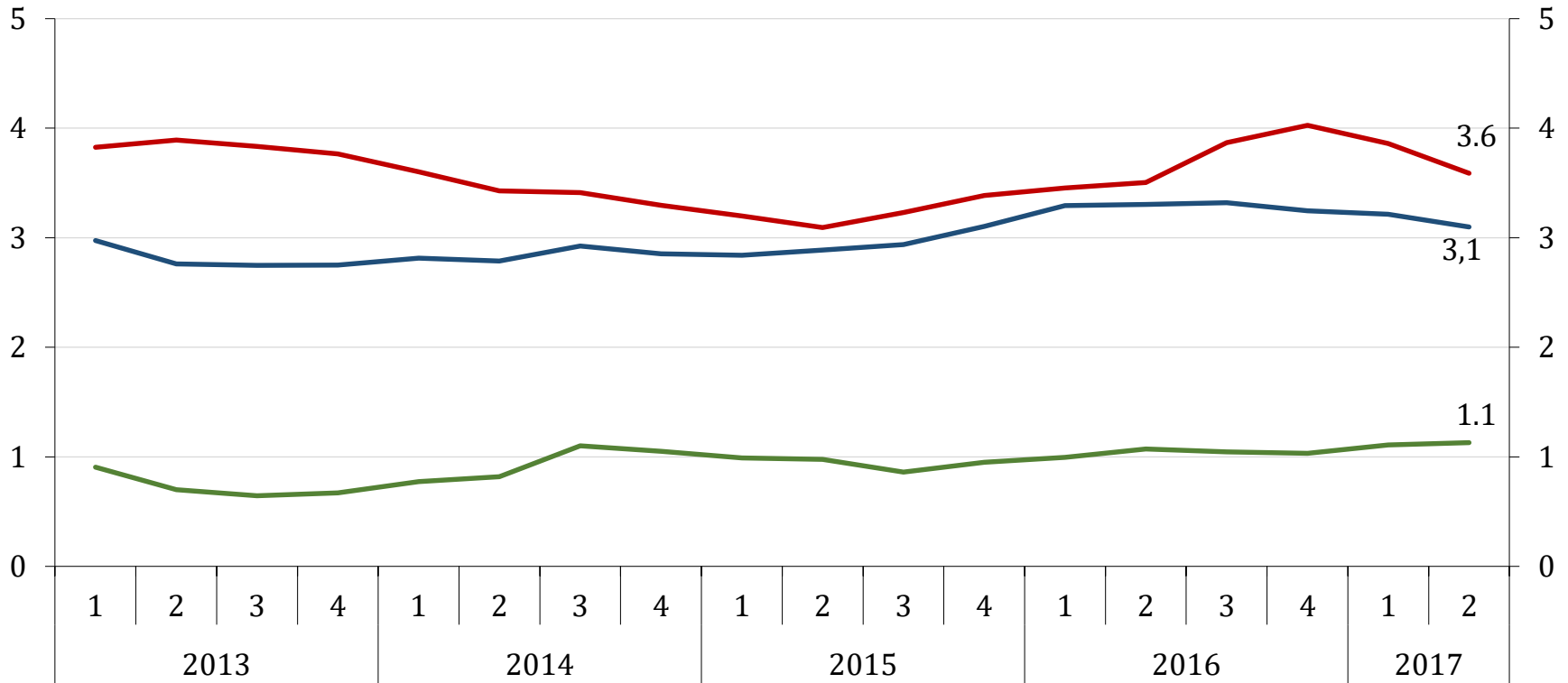
Source: CBRT.

Last Observation: September 29, 2017

Asset quality confirms the resilience of firms against shocks.

NPL Ratios* (Percent)

— FX Corporate — TL Corporate — Total



* FX and TL corporate NPL ratios are calculated by taking into account of 10 banks' data which have 78% share in total FX loans. Total NPL ratio is sector average.

Source: CBRT.

Last Observation: 2017 Q2

Overview

- Recent data indicate that economic activity has gained strength.
- Elevated levels of inflation and inflation expectations pose upside risks on the pricing behavior.
- Tight policy stance will be maintained decisively to ensure the alignment of inflation outlook with the targets.
- Factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered.



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