



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

THE ECONOMIC OUTLOOK AND MONETARY POLICY

February 25, 2015

Ankara

Overview: Macroeconomic Outlook and Monetary Policy

- Favorable developments in terms of trade and the moderate course of consumer loans contribute to the improvement in the current account balance. External demand remains weak, while domestic demand contributes to growth moderately.
- The ongoing cautious monetary policy along with prudent fiscal and macroprudential policies are having a favorable impact on inflation, especially inflation excluding energy and food (core inflation indicators), and inflation expectations.
- A more persistent reduction in inflation necessitates a cautious approach in monetary policy. Taking into account the elevated volatility in food and energy prices, the Committee decided to cut the interest rates at a measured scale.
- Future monetary policy decisions will be conditional on the improvements in the inflation outlook. Inflation expectations, pricing behavior and other factors that affect inflation will be monitored closely and the cautious monetary policy stance will be maintained, by keeping a flat yield curve, until there is a significant improvement in the inflation outlook.

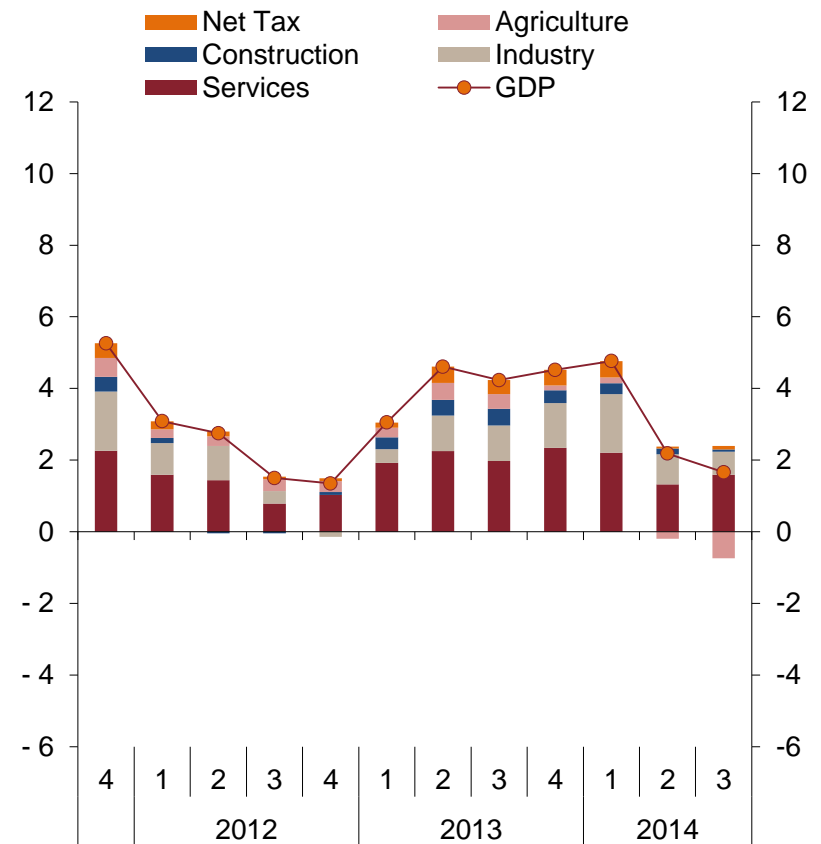
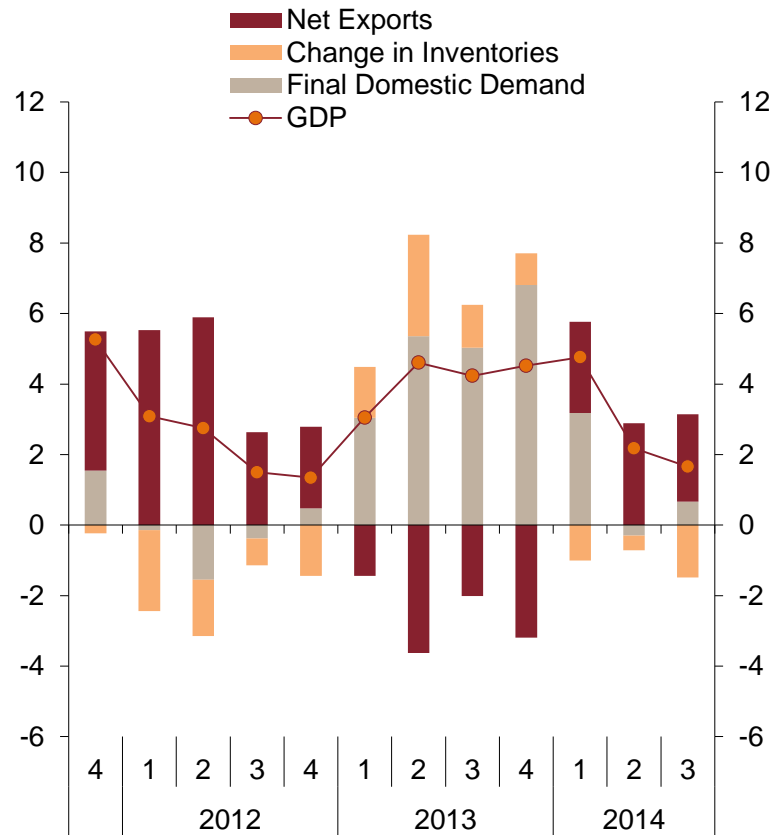
Outline

1. Economic Activity and Rebalancing
2. Inflation
3. Monetary and Financial Conditions

ECONOMIC ACTIVITY AND REBALANCING

There is some deceleration in economic activity after the first quarter of 2014 due to supply side developments in agriculture, ...

Contribution to Annual GDP Growth (Percentage Points)

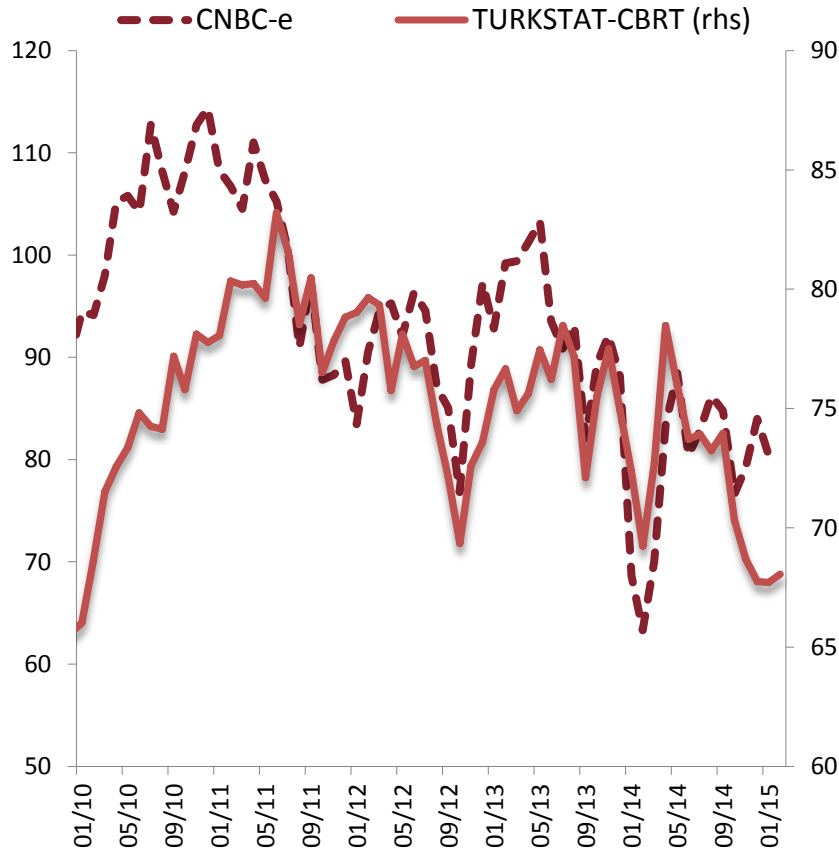


Source: TURKSTAT.

Last Observation: 2014 Q3.

...weak consumer confidence, investment tendency and external demand.

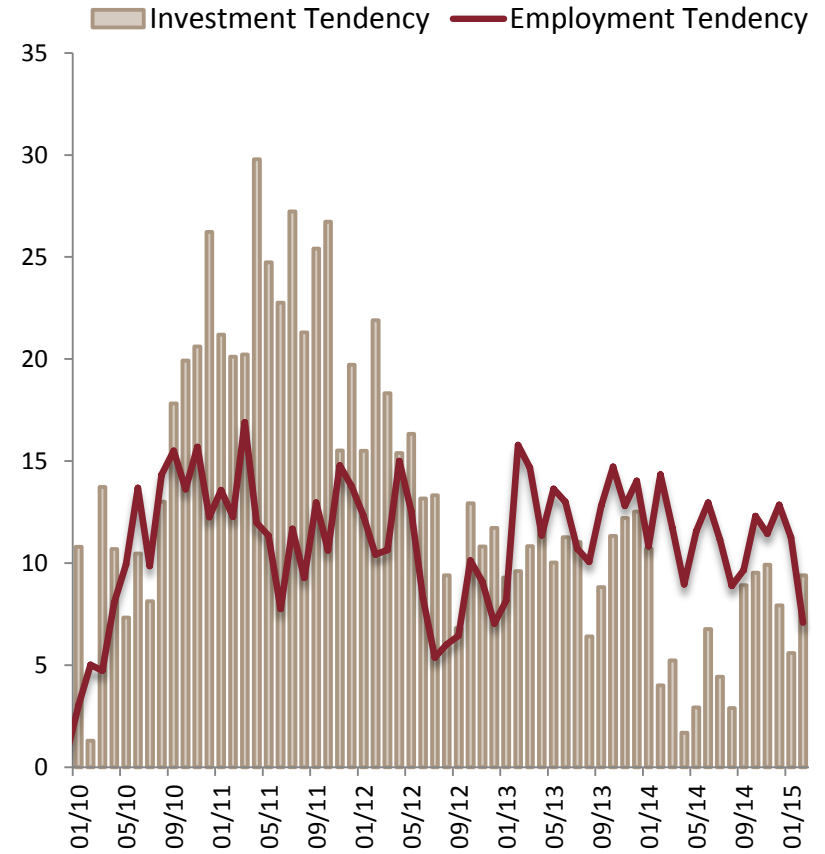
Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: January 2015 for CNBC-E,
February 2015 for TURKSTAT-CBRT.

Investment and Employment Prospects (Seasonally Adjusted)

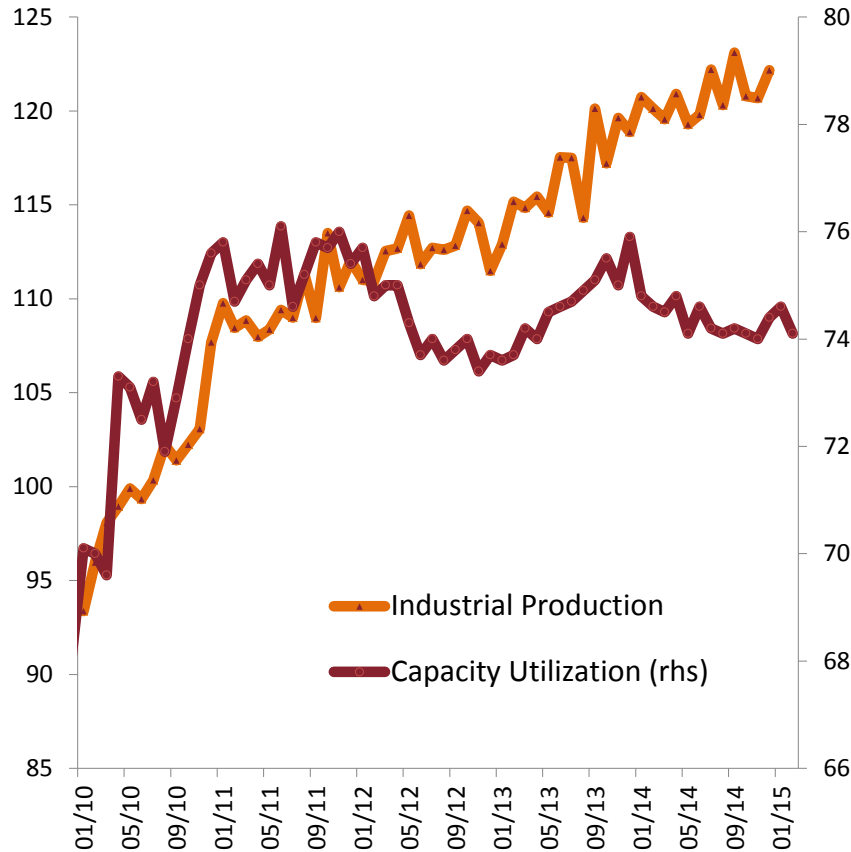


Source: CBRT Business Tendency Survey

Last Observation: February 2015.

Leading indicators point to moderate growth.

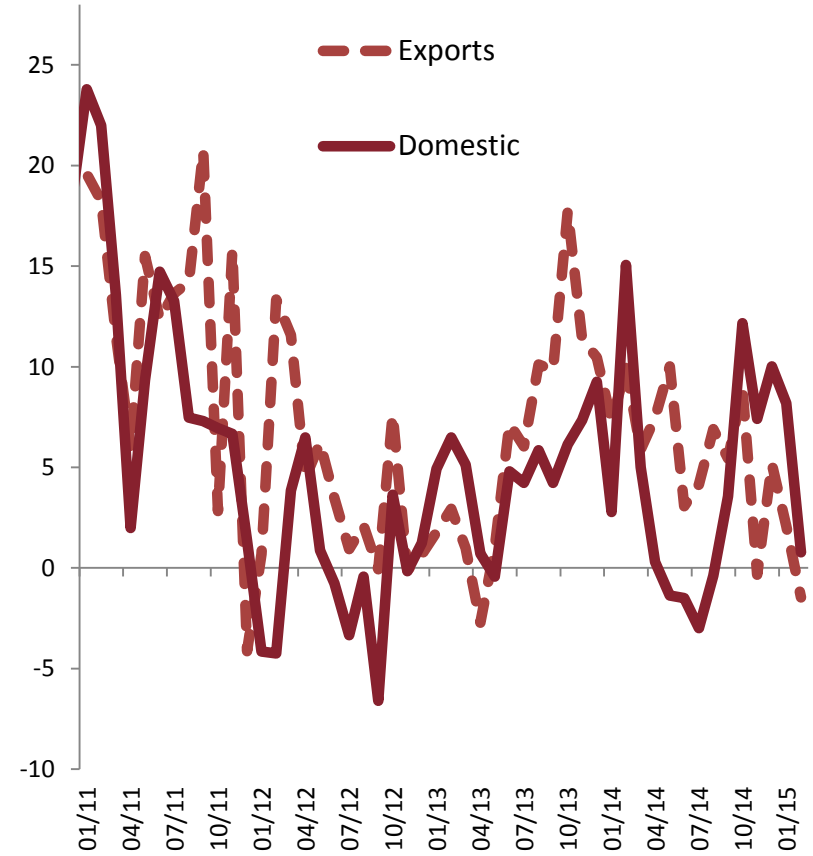
Industrial Production and Capacity Utilization
(Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Last Observation: December 2014 for Industrial Production,
February 2015 for Capacity Utilization.

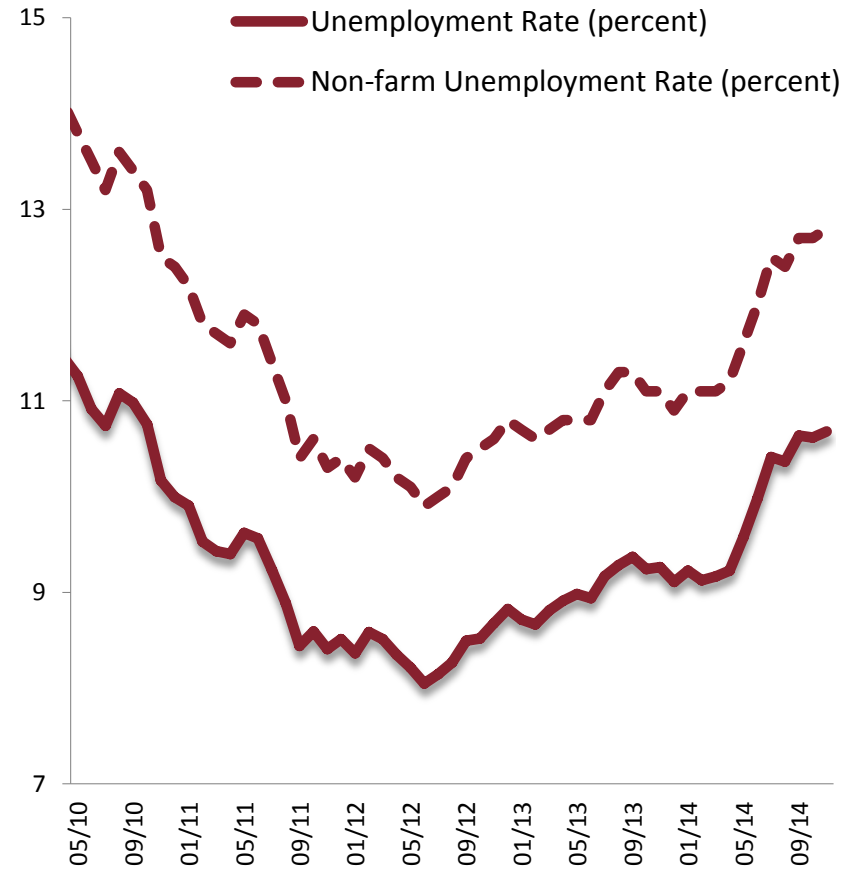
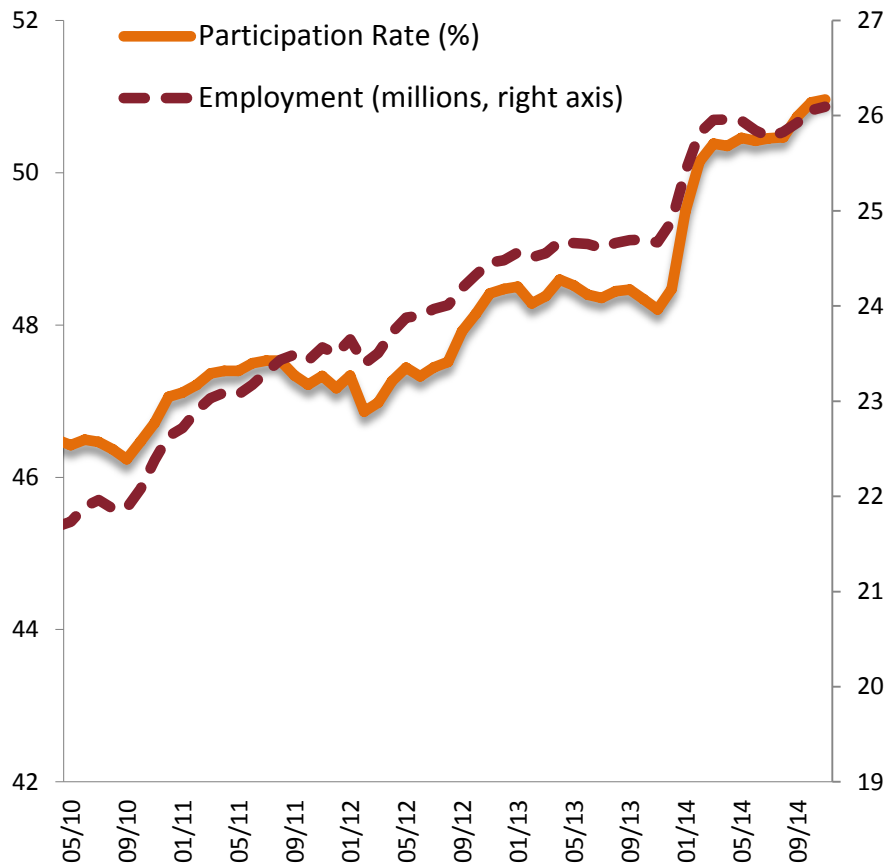
Manufacturing Orders
(Seasonally Adjusted)



Source: CBRT Business Tendency Survey.

Last Observation: February 2015.

As employment growth was weaker than participation growth, unemployment rate increased after the first quarter of 2014.

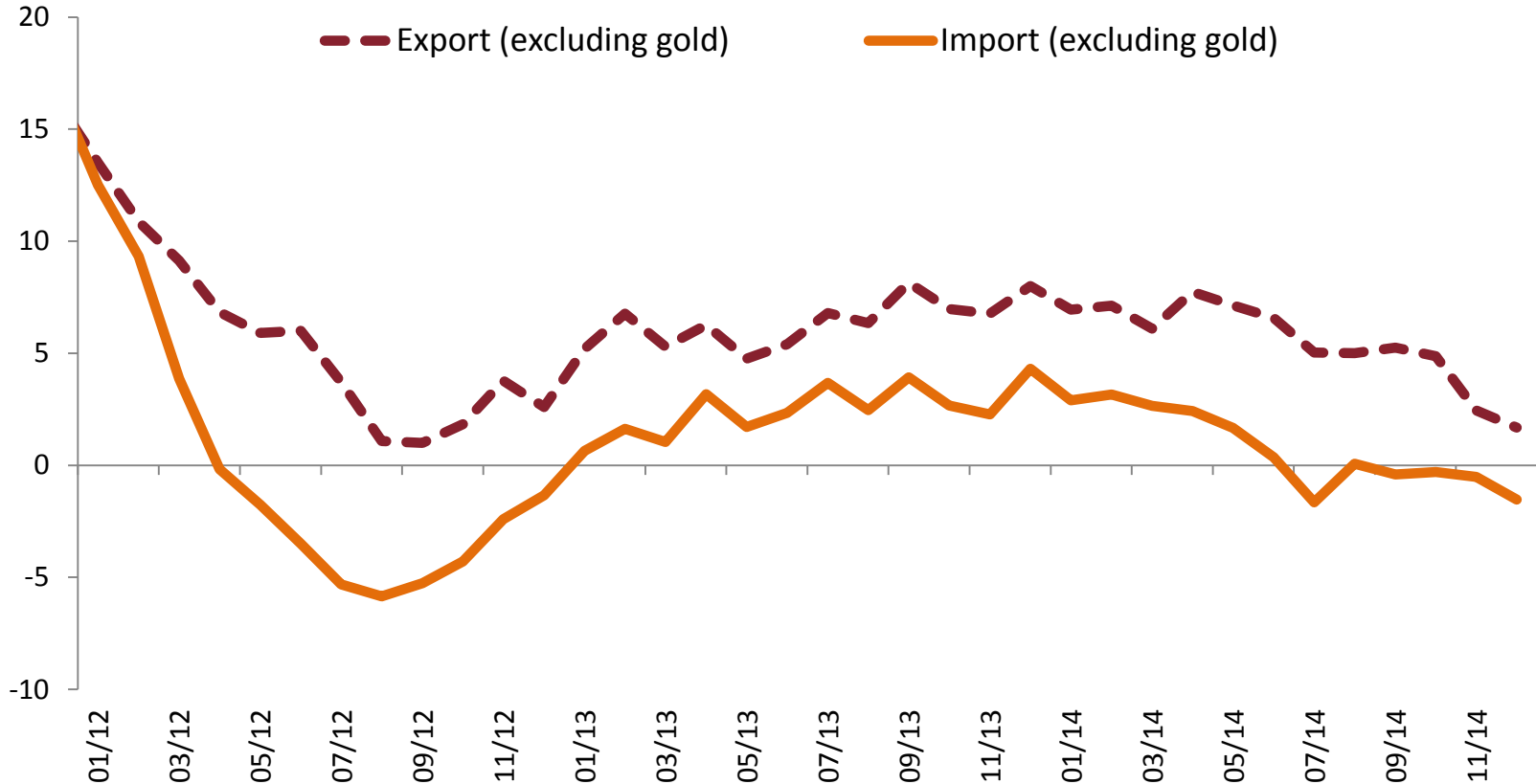


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: November 2014.

Export growth is constrained by geopolitical developments and...

Exports and Imports
(Nominal y-o-y percentage change, 6-month MA)

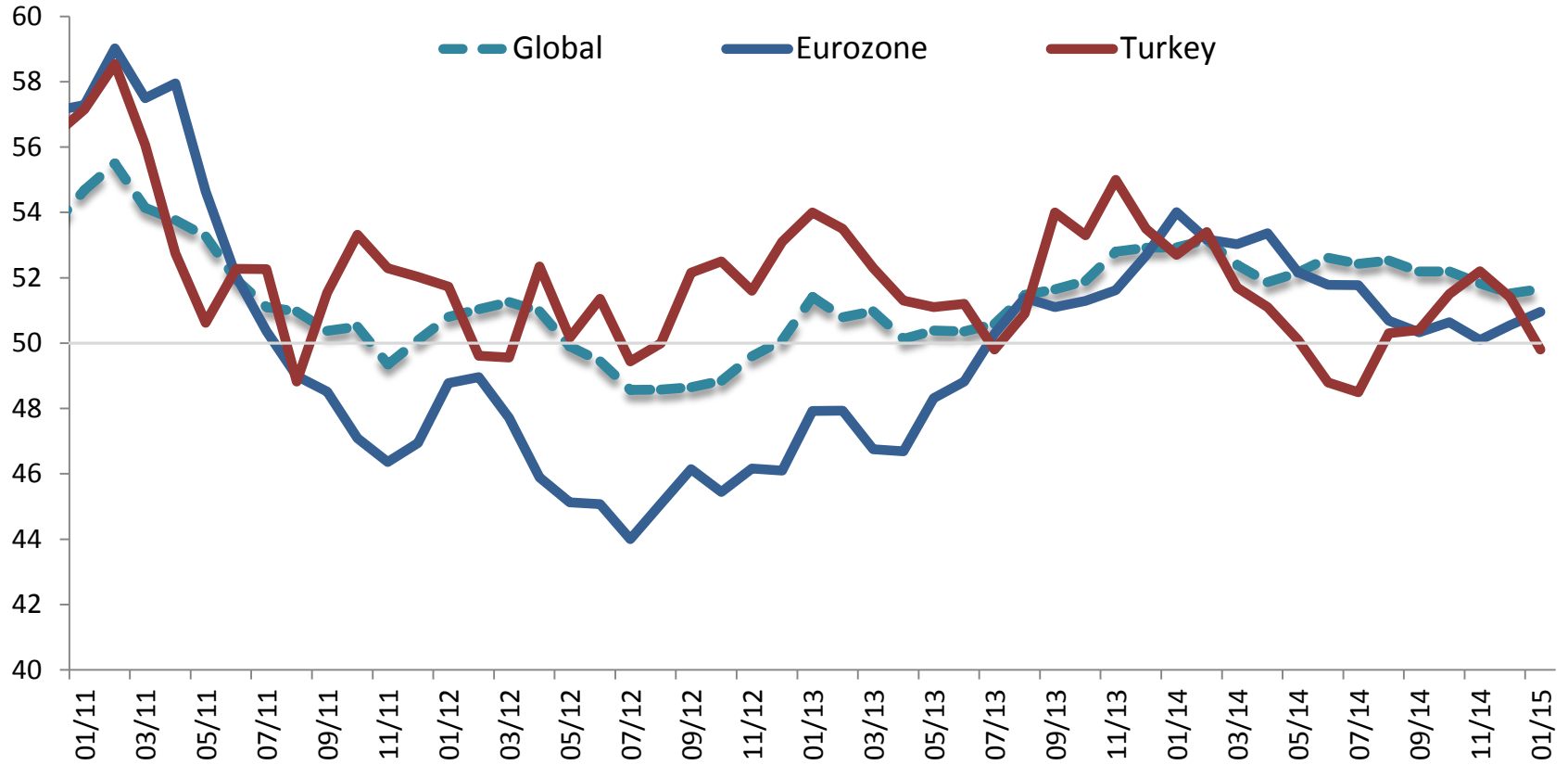


Source: TURKSTAT.

Last Observation: December 2014.

...weak external demand.

Manufacturing PMIs (Seasonally Adjusted)

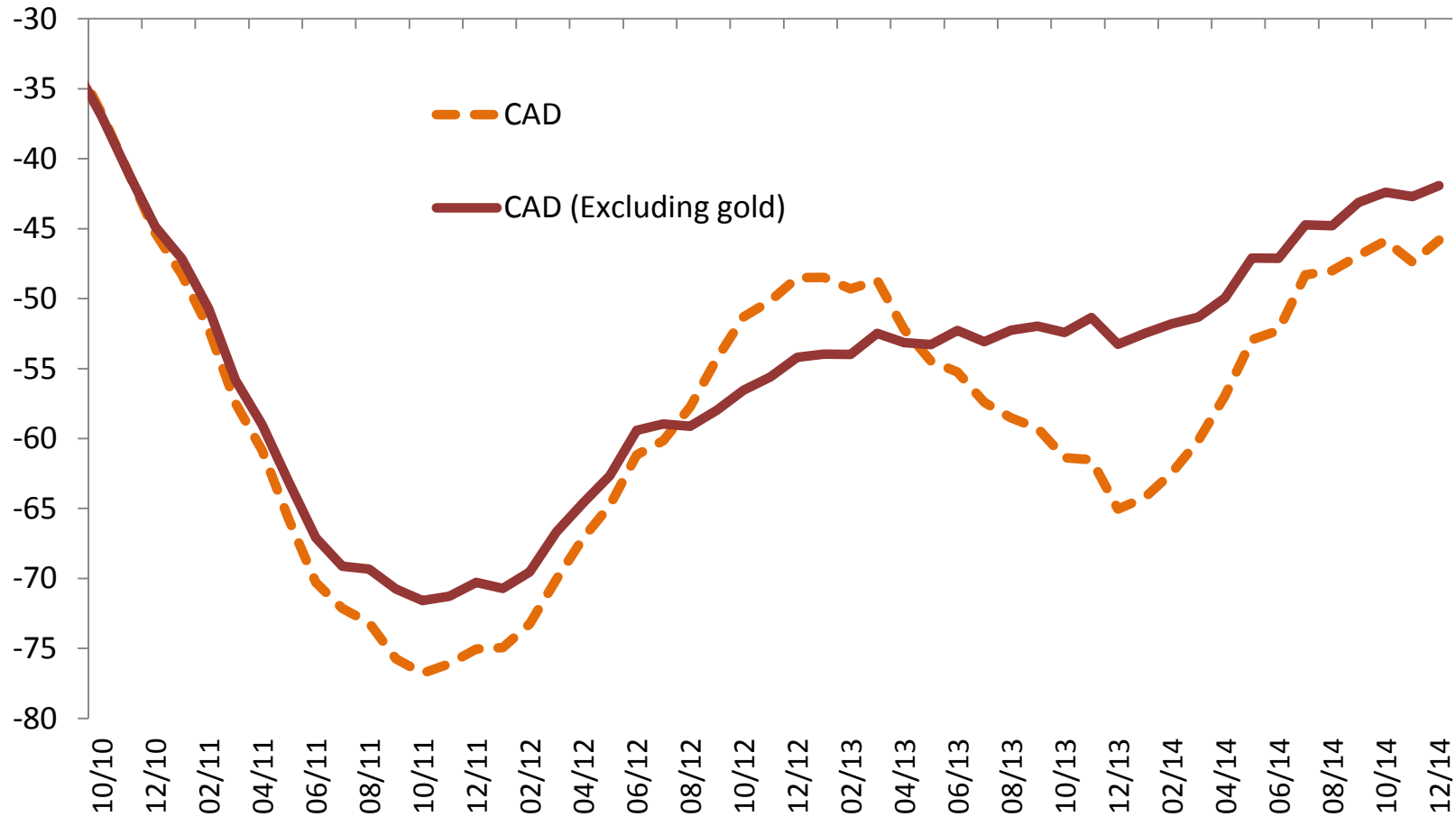


Source: MARKIT.

Last Observation: January 2015.

Current account balance have improved steadily since 2011 and a further significant improvement is expected in 2015.

Current Account Balance (CAB)
(12-Month Cumulative, Billion USD)

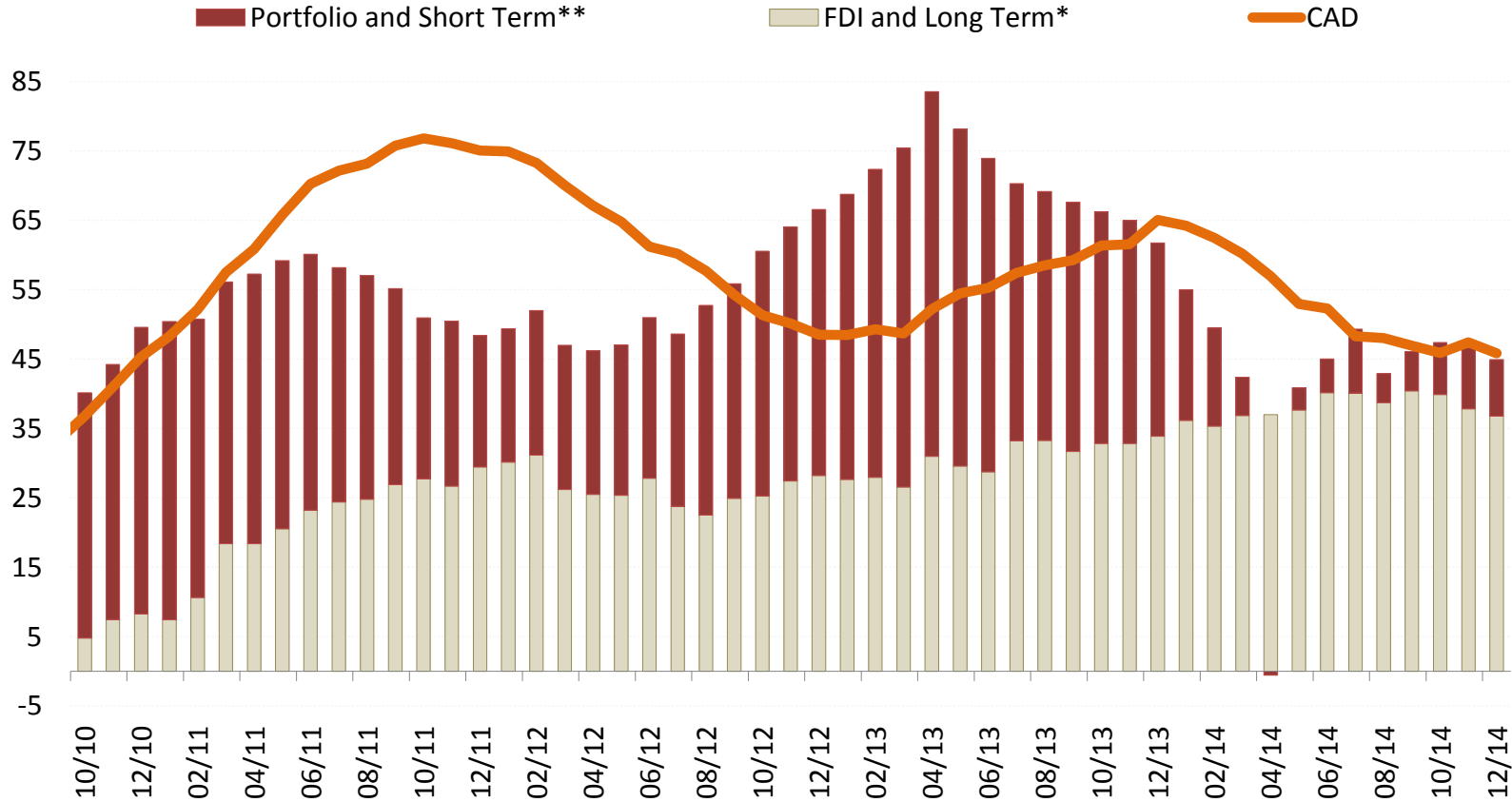


Source: CBRT.

Last Observation: December 2014.

The financing quality of the current account deficit has improved as well.

(12-Months Cumulative, Billion USD)



Source: CBRT.

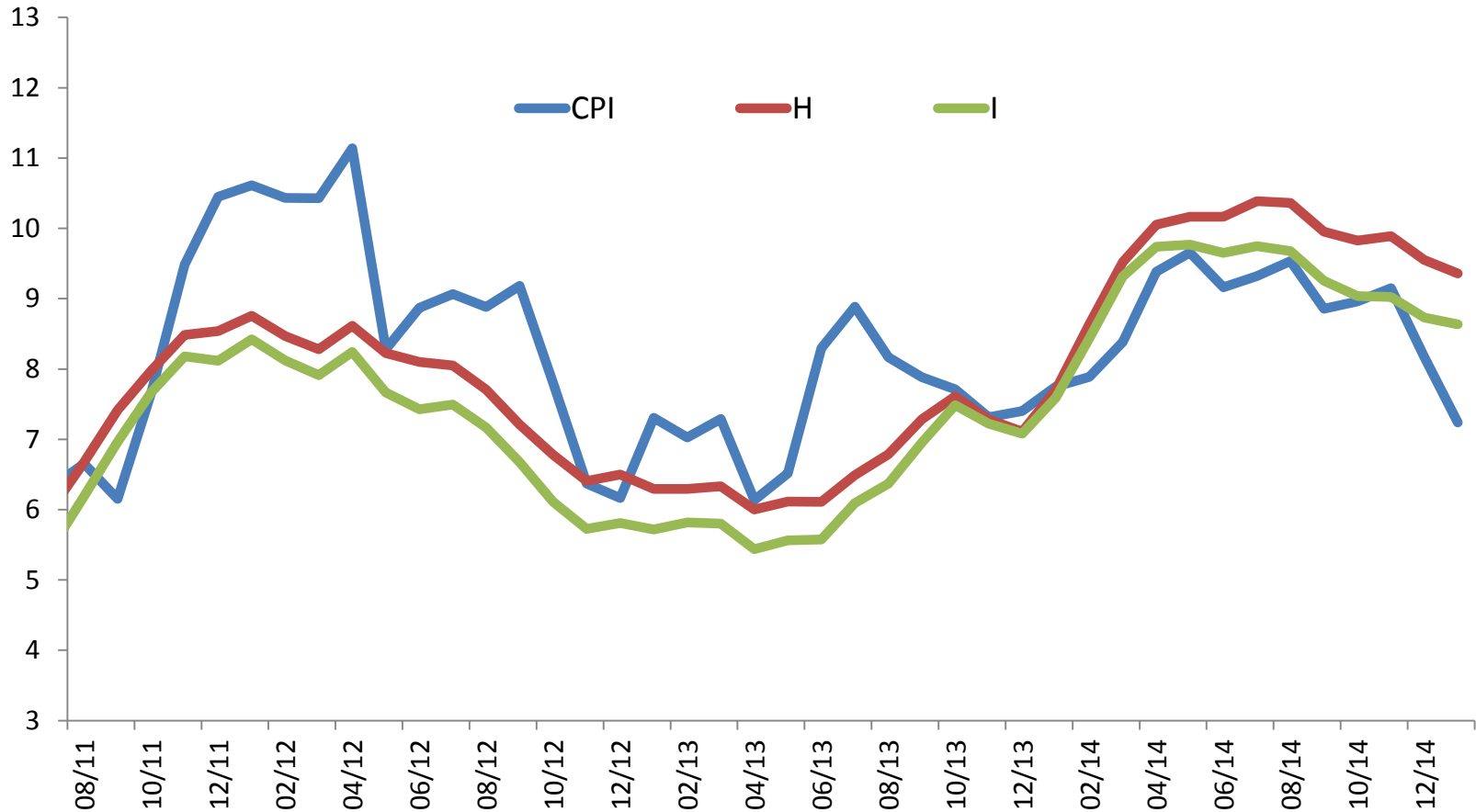
*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury. Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

Last Observation: December 2014.

INFLATION

The improvement in CPI and core inflation indicators has continued in recent months.

(Annual Percentage Change)



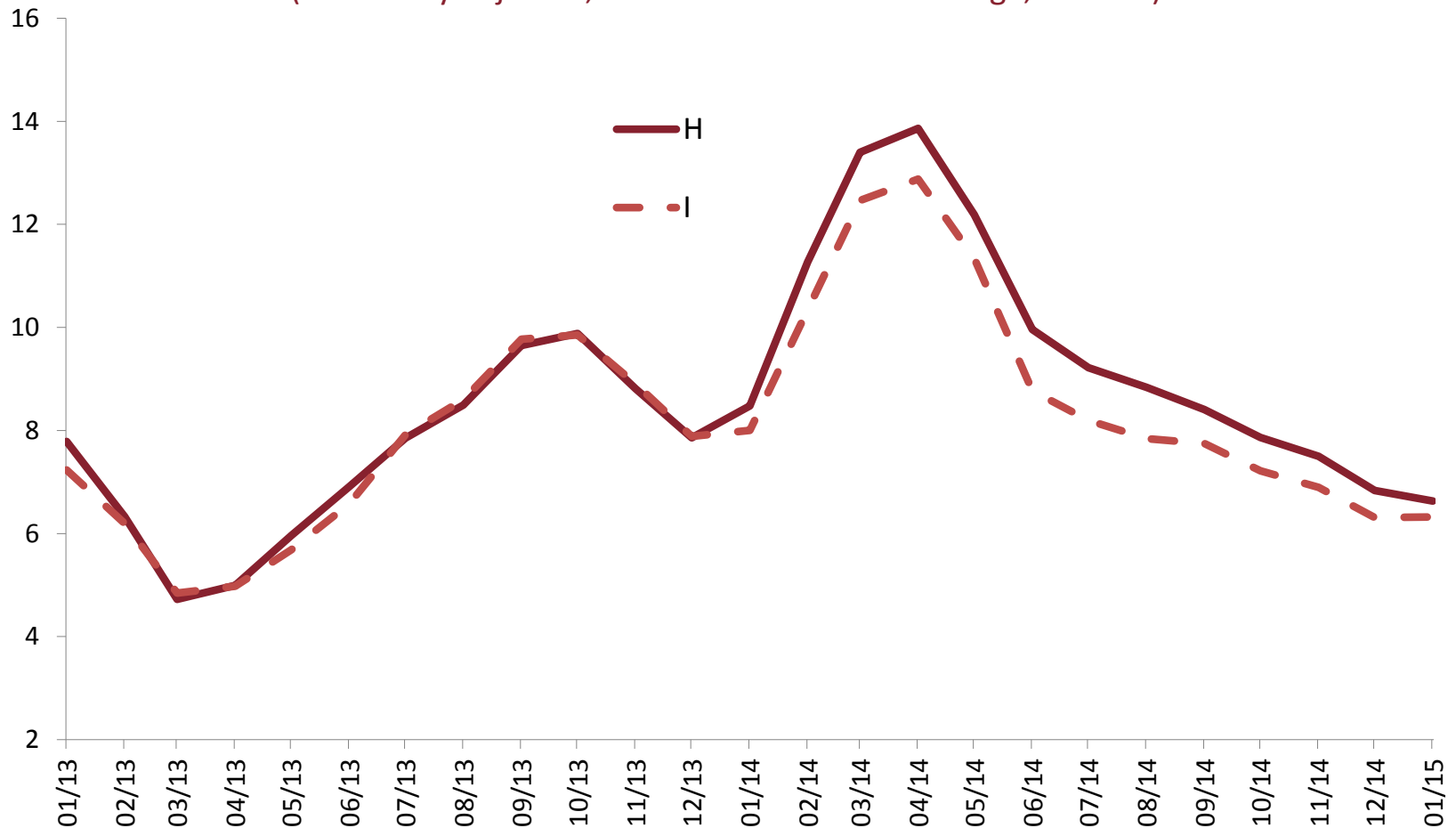
Source: TURKSTAT.

Last Observation: January 2015.

The ongoing cautious monetary policy along with prudent fiscal and macroprudential policies are having a favorable impact on core inflation indicators.

Core Inflation Indicators H and I

(Seasonally adjusted, Annualized 3-Month-Average, Percent)

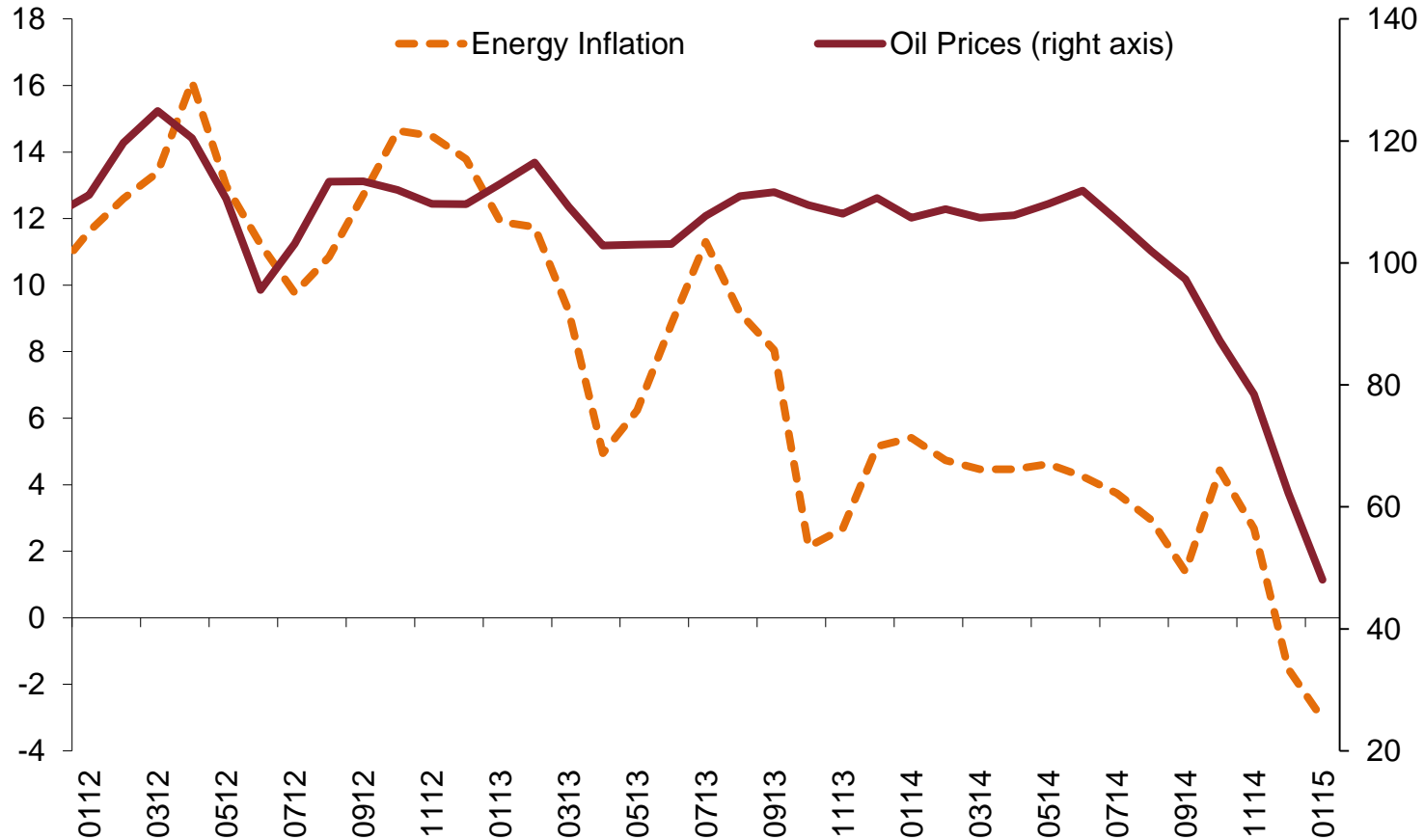


Source: TURKSTAT, CBRT.

Last Observation: January 2015.

While the lower level of commodity prices still supports the decline in inflation...

Energy Inflation and Oil Prices
(Annual Percent Change and USD/bbl)

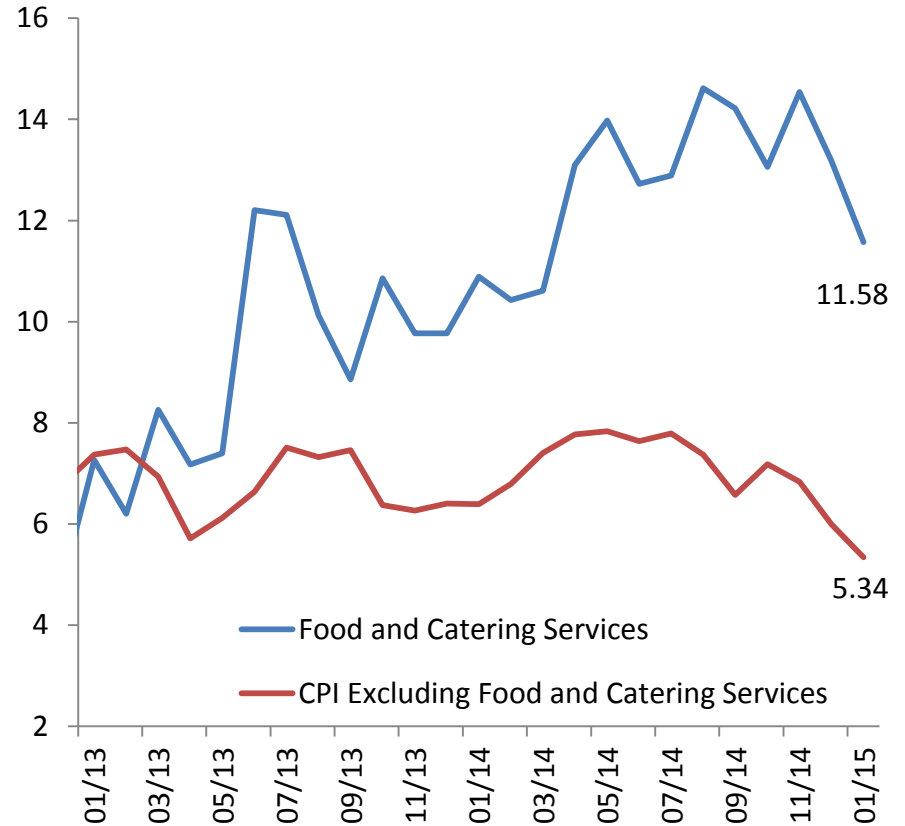
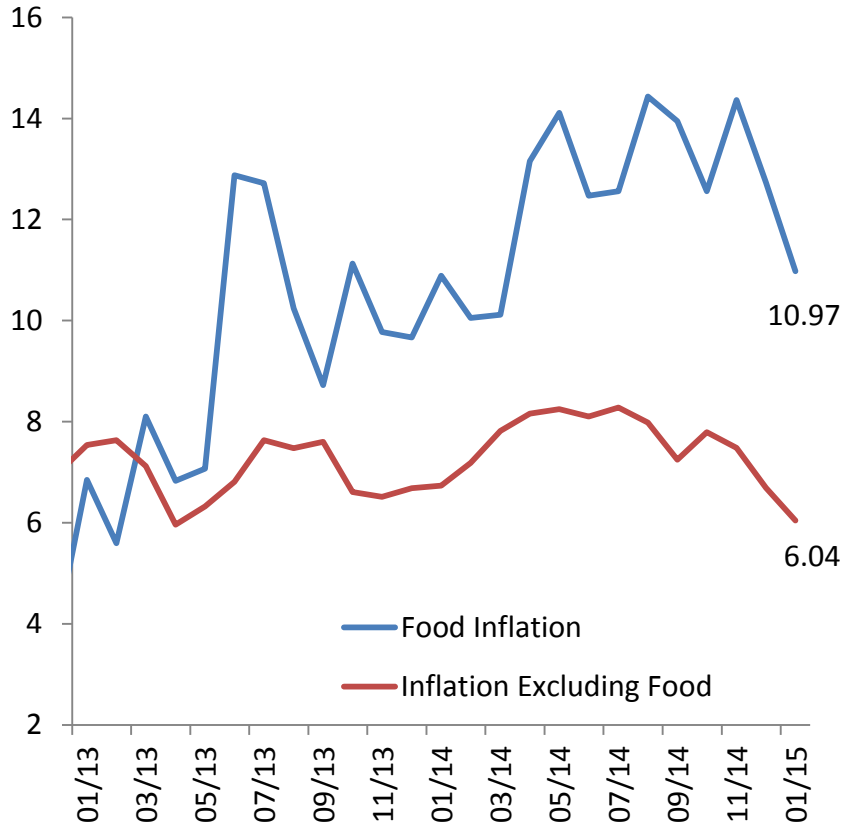


Source: TURKSTAT, Bloomberg.

Last Observation: January 2015.

...elevated volatility in food and energy prices can affect headline inflation adversely.

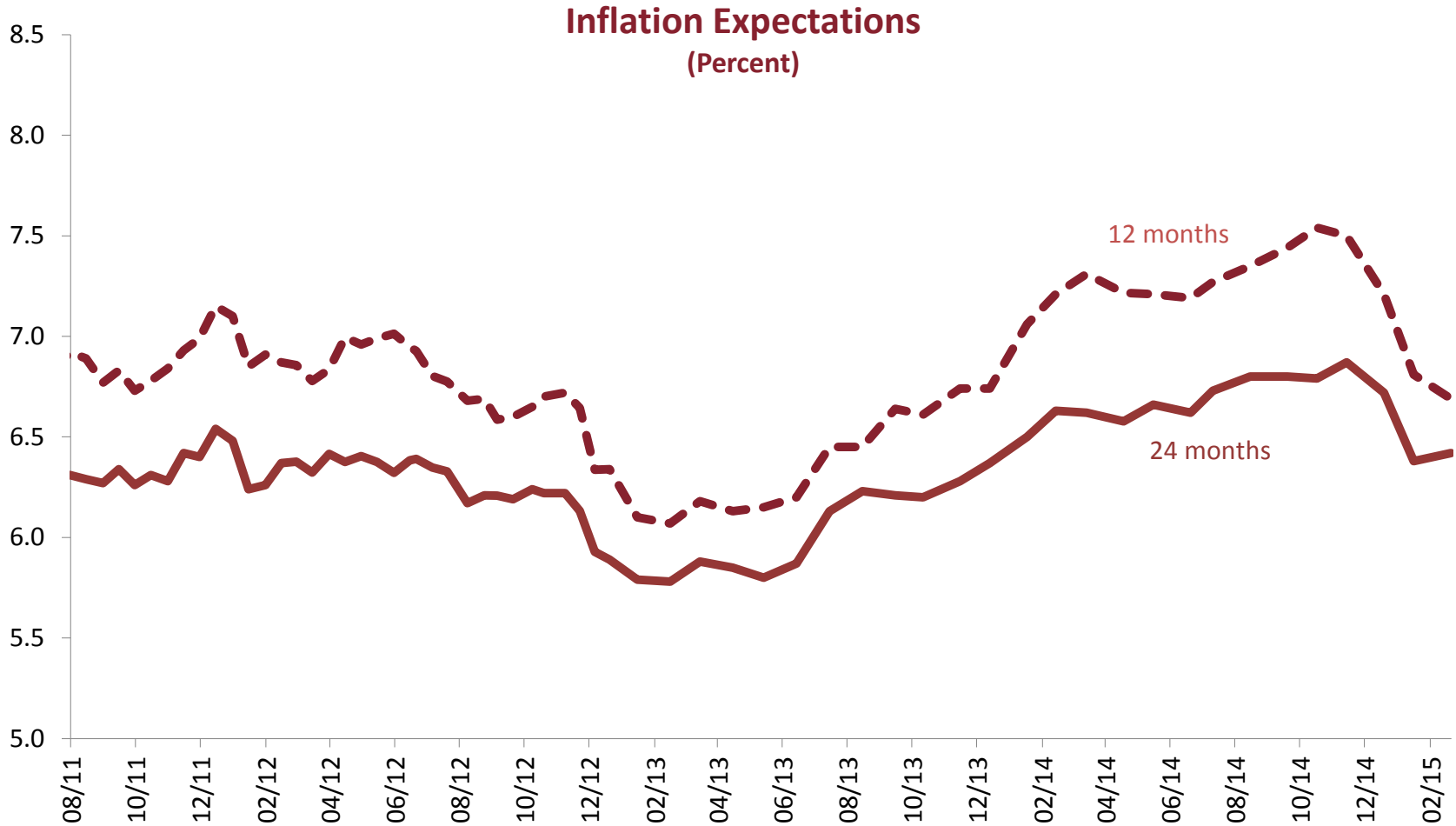
**Annual Inflation
(Percent)**



Source: TURKSTAT, CBRT.

Last Observation: January 2015.

With favorable developments in inflation outlook, inflation expectations improved recently as well.



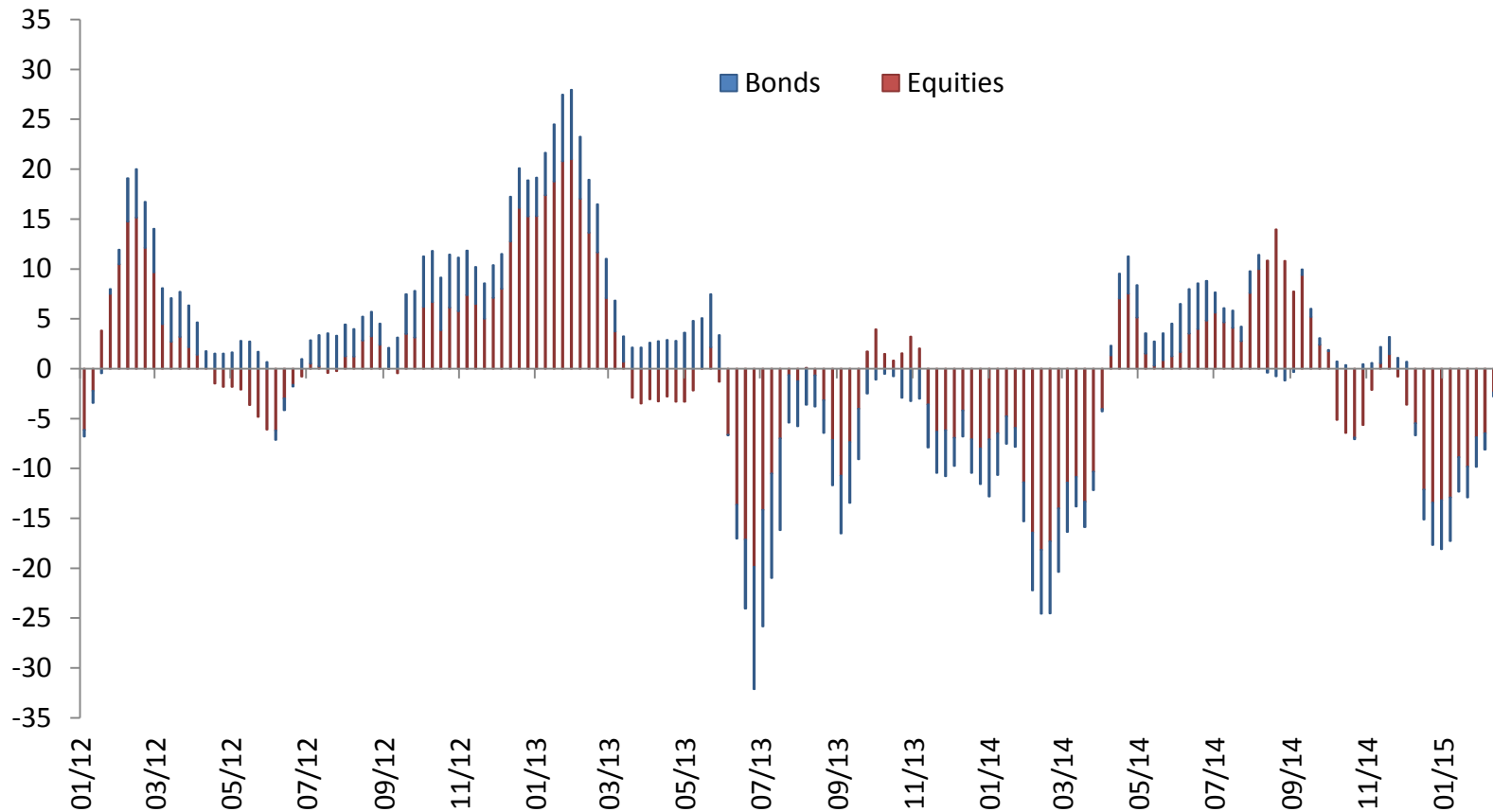
Source: CBRT.

Last Observation: February 2015.

Monetary and Financial Conditions

Portfolio flows to emerging countries have been volatile ...

Equity and Bond Flows to Emerging Markets (Billion USD, 4-Week Moving Sum)

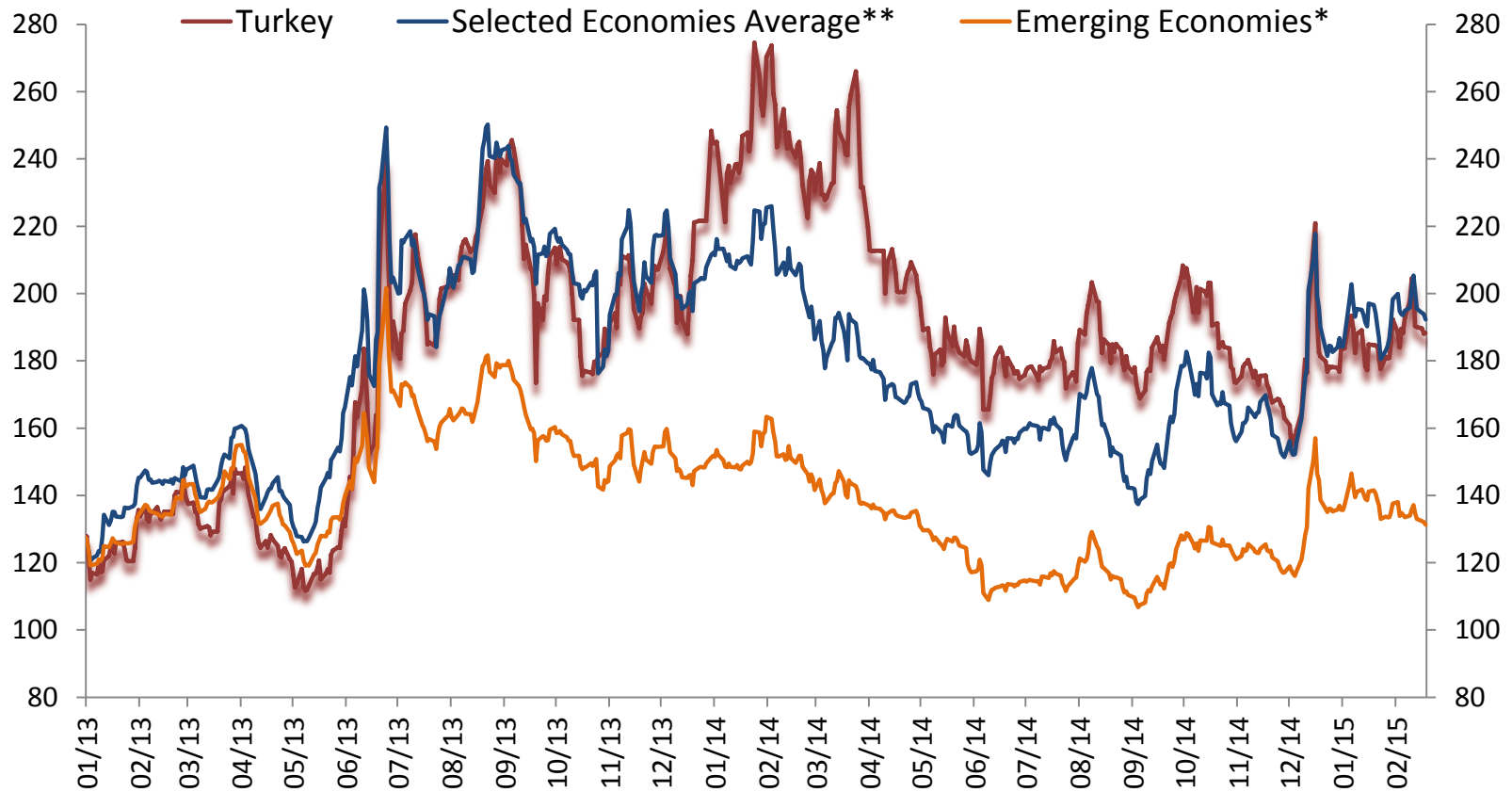


Source: EPFR.

Last Observation: February 11, 2015.

... as well as the risk premium indicators.

CDS for Emerging Economies and Turkey (5-year, Basis Points)



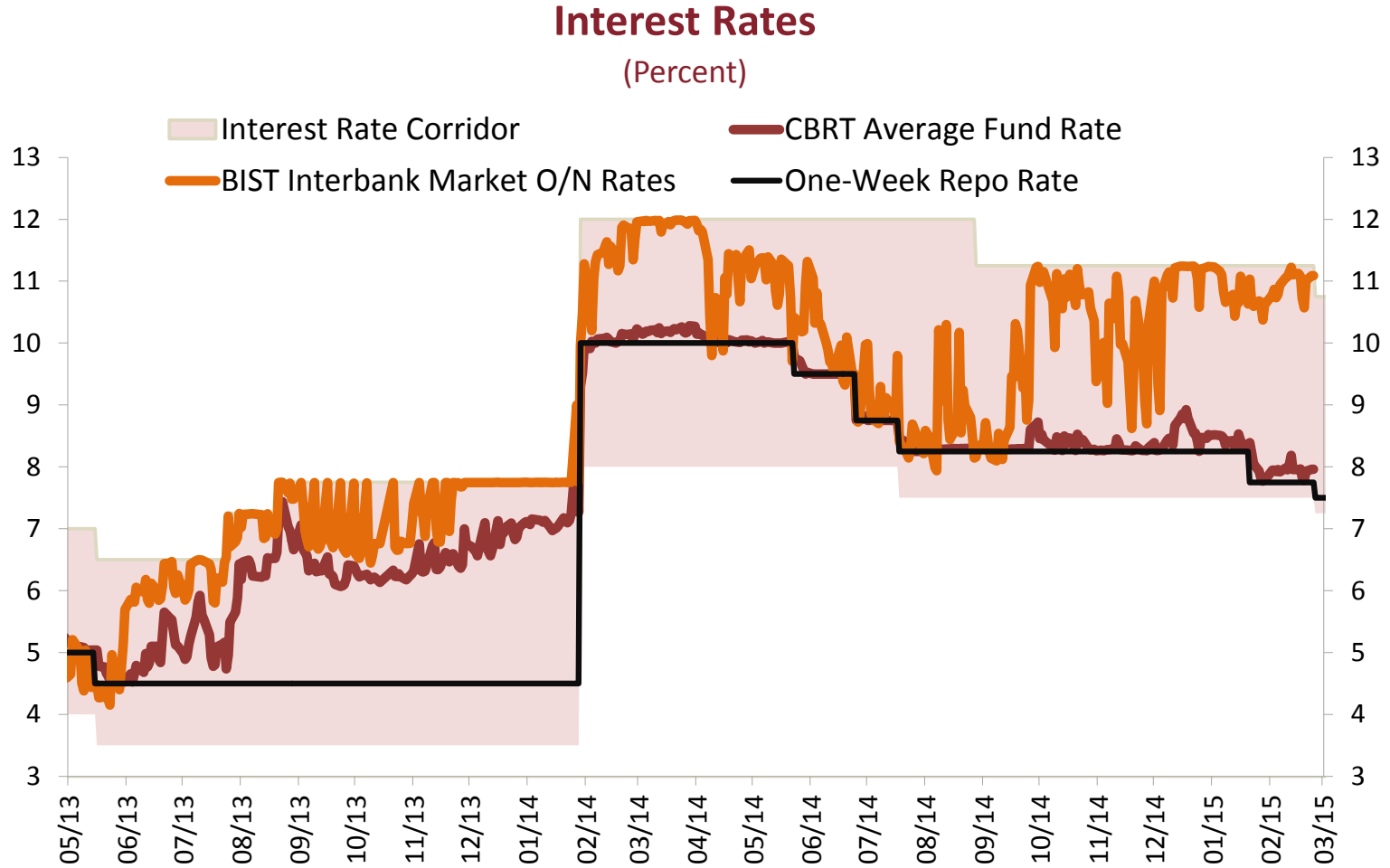
Source: CBRT, Bloomberg.

*Emerging Economies include Brasil, Czech Rep., Indonesia, S. Africa, Colombia, Hungary, Mexico, Poland, Romania and Chili.

** Selected Economies include Brasil, Indonesia and S. Africa.

Last Observation: February 18, 2015.

In light of positive developments regarding inflation outlook and with the need for a cautious approach to have more persistent reduction in inflation, the CBRT decided on measured cuts in interest rates.



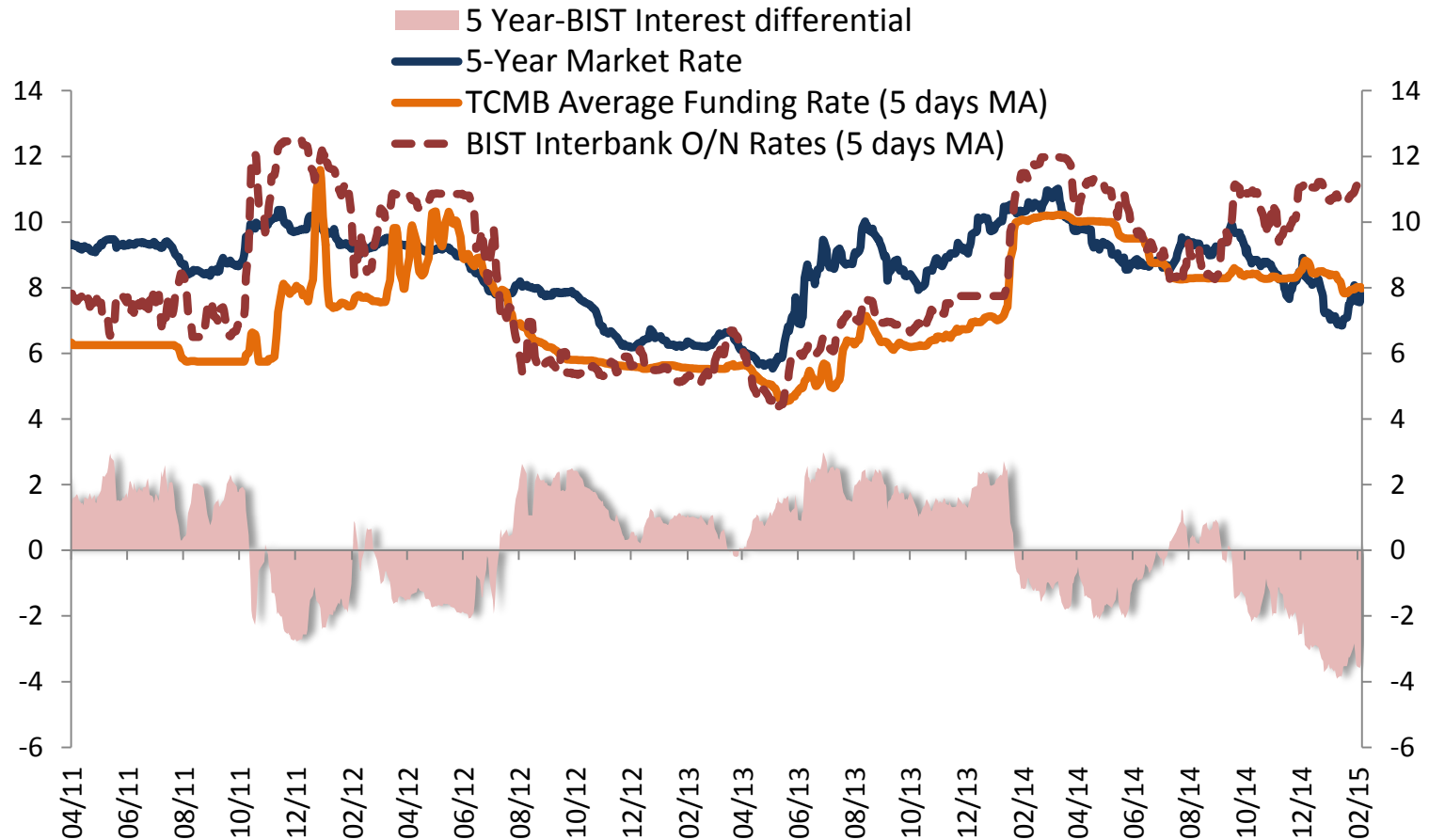
Source: CBRT

Last Observation: February 25, 2015.

CBRT maintains a tight liquidity policy and keeps the yield curve flat...

Interest Rates

(Percent)



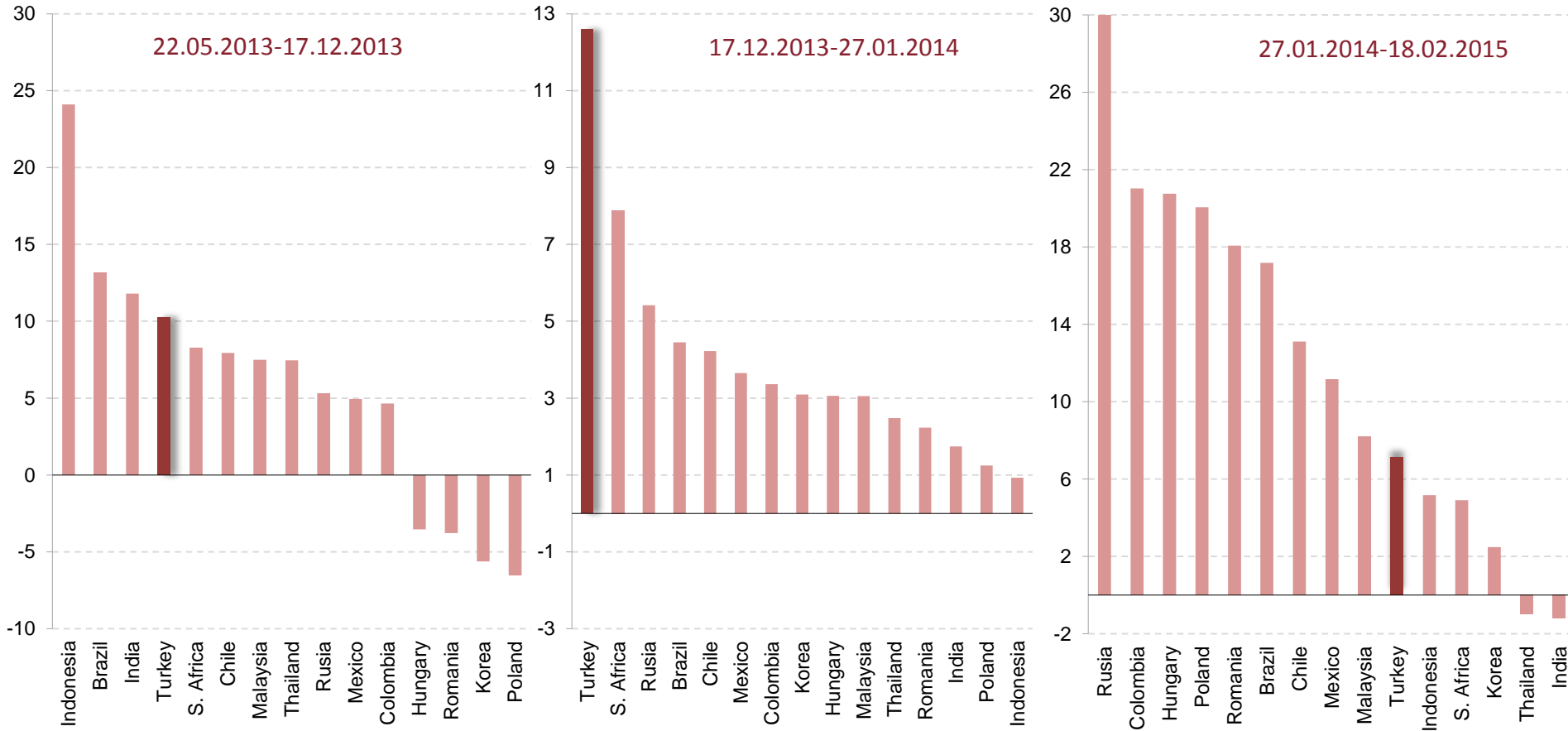
Source: CBRT.

Last Observation: February 19, 2015.

...as a result Turkish lira performed relatively well among EM currencies.

Nominal FX Rates

(Percentage change against USD)



Source: Bloomberg, CBRT.

A positive value means the currency depreciates against US Dollar.

Loan growth remains at reasonable levels due to tight monetary policy stance and macroprudential measures.

Total Loan Growth Rate
(Year on Year Change, Percent)



Source: CBRT.

Last Observation: February 13, 2014.

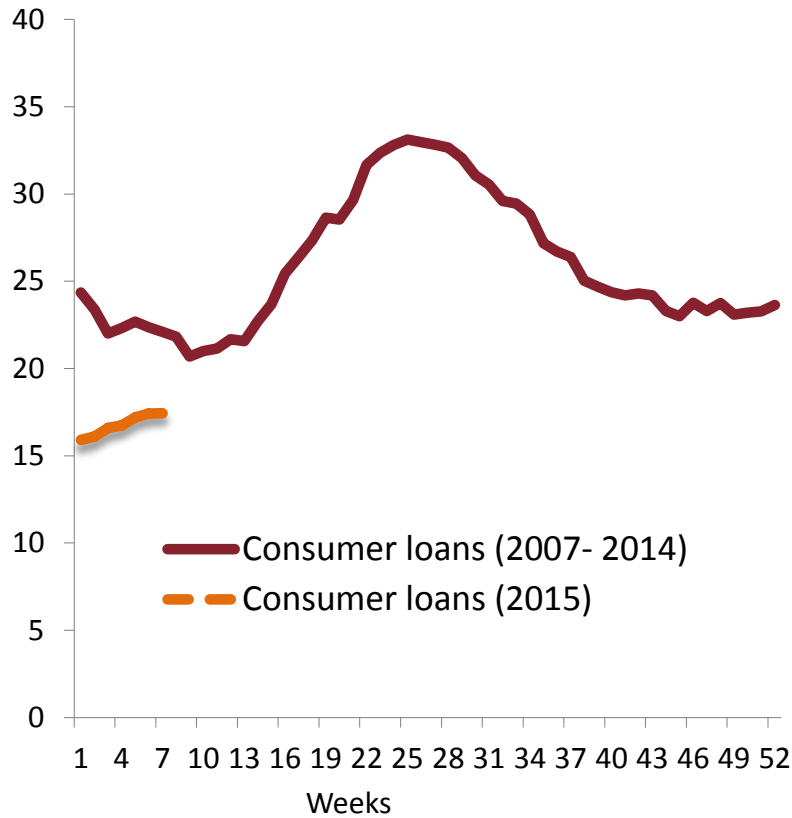
Total loan is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

Adjusted for exchange rate.

Consumer loans grow at a slower pace than commercial loans contributing to rebalancing process and financial stability.

Consumer Loan Growth Rates

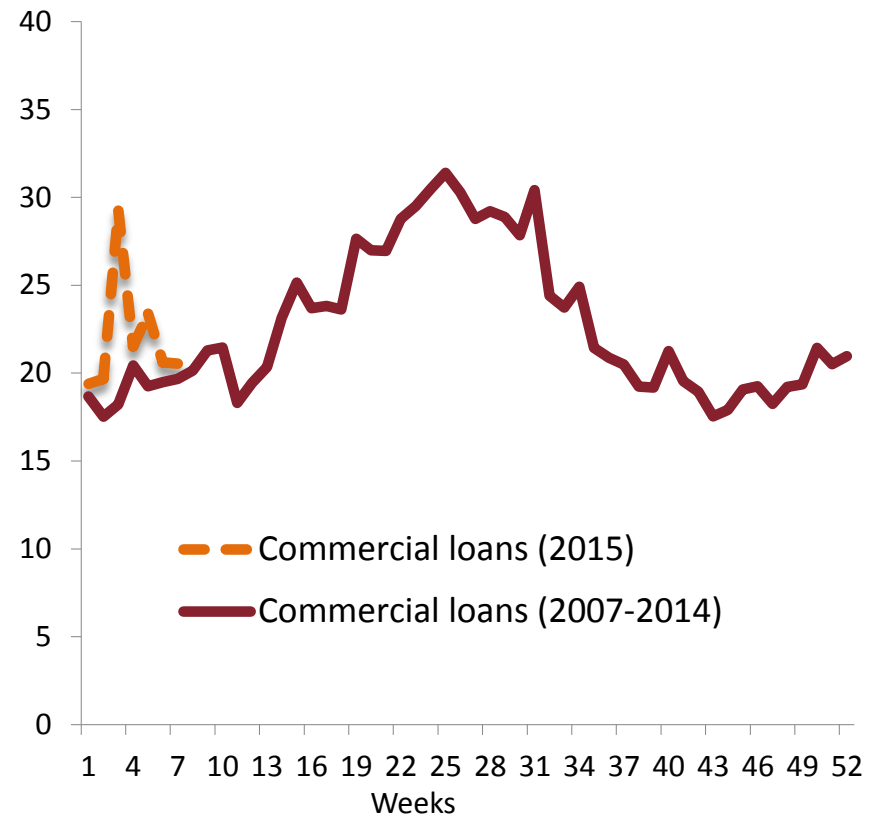
(13-Week Moving Average, Annualized, Percent)



Source: CBRT.

Commercial Loan Growth Rates*

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

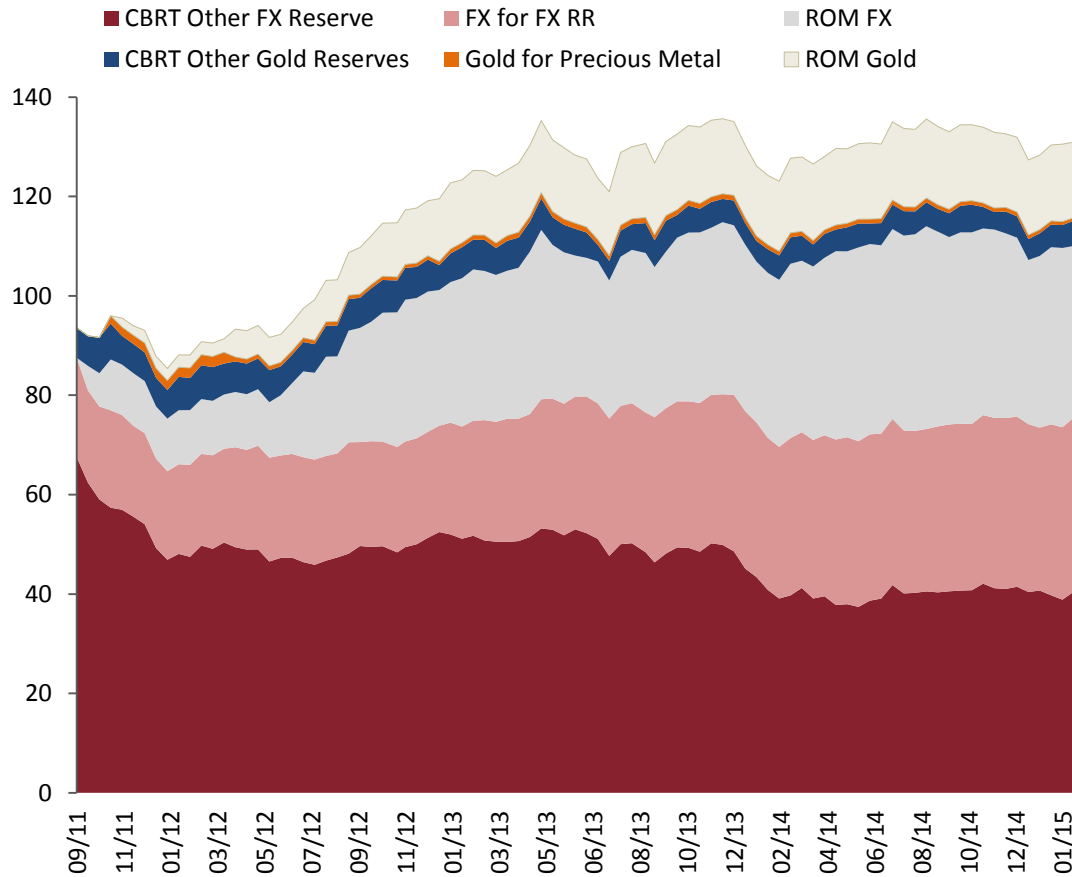


Last Observation: February 13, 2014.
Inclusive of consumer loans extended by all
types of banks (deposit banks, participation banks, and development/investment banks).

Export credits continue to contribute to Central Bank reserves.

CBRT Reserves

(Billion USD)



Source: CBRT.
Last Observation: February 13, 2015.

Billion USD

	FX Sales (-)	Export Credit (+)
May 2014	0.50	2.06
June 2014	0.42	1.54
July 2014	0.38	1.46
August 2014	0.21	1.38
September 2014	0.35	1.42
October 2014	0.72	1.32
November 2014	0.80	0.79
December 2014*	2.19	1.34
January 2015*	1.92	2.04
February 2015*	1.13**	1.33†
March 2015		1.28†
April 2015		1.37†
May 2015		1,03†

Amount (Billion USD)

ROM FX	34.5
FX Required Reserves	35.0
Total	69.5

* Includes FX sales to Public Energy Companies

** FX Sales are as of February 18, 2015.

†Provisional.

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