



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Balanced Growth Prospects in Turkey

**Erdem Başçı
Governor**

**November 5, 2015
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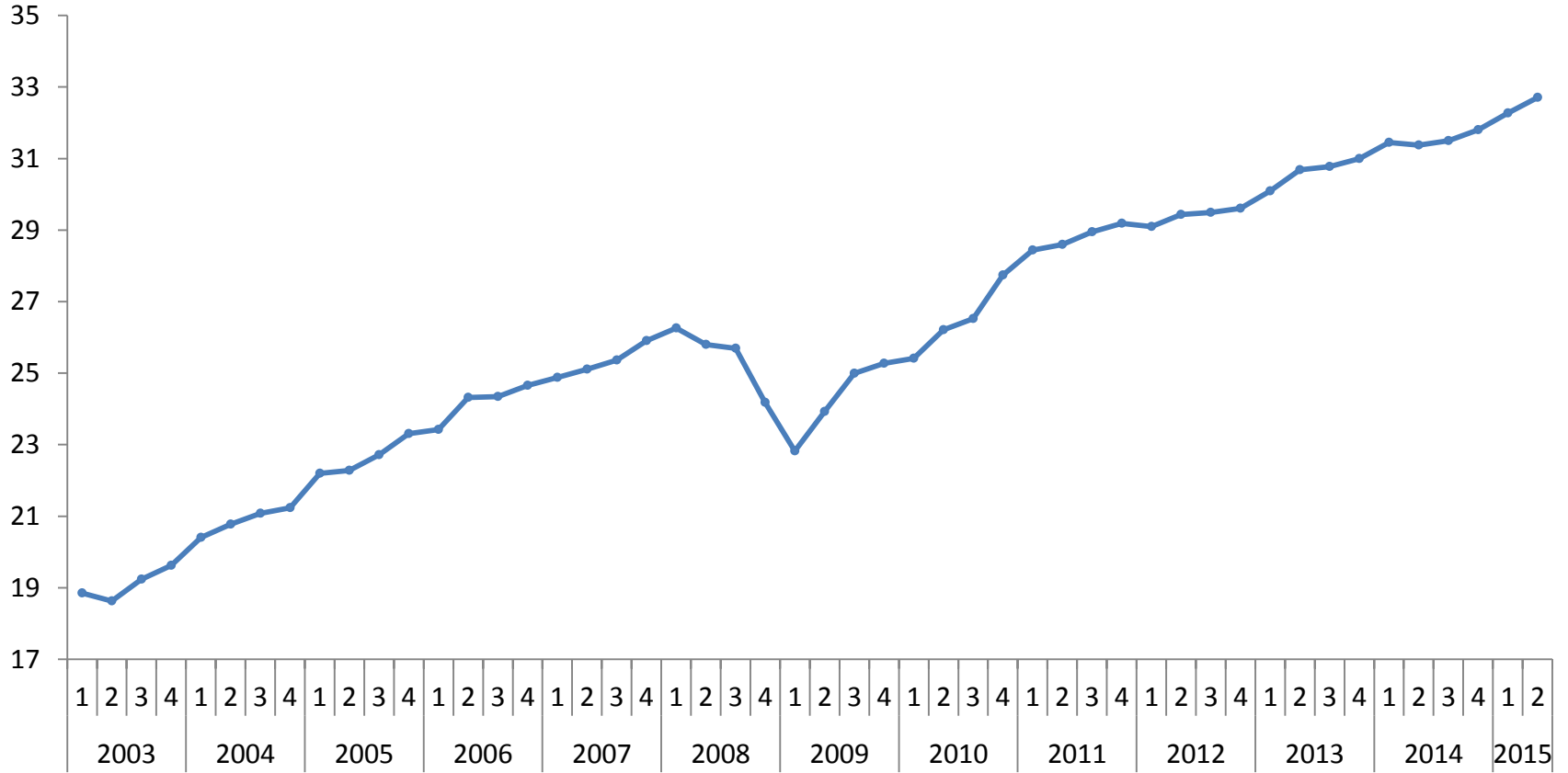
Ankara

Overview: Balanced Growth Prospects in Turkey

- The current monetary policy stance is tight against the inflation outlook, stabilizing for the FX liquidity, and supportive of financial stability.
- The tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.
- The improvement in the current account balance will continue.
- The rising demand in the Europe supports growth and rebalancing.
- The implementation of the announced structural reforms would contribute to the potential growth significantly.

GDP continues to grow at a stable pace in Turkey.

GDP
(Seasonally Adjusted, Constant Prices, Billion TL)



Source: TURKSTAT.

Last Observation: 2015 Q2.

Drivers of Balanced Growth

- ✓ Policies Implemented
- ✓ European Recovery
- ✓ Low Commodity Prices
- ✓ Structural Reforms

Policies Implemented

Policies Implemented

- i. Monetary Policy
- ii. Fiscal Policy
- iii. Financial Sector Policies

Monetary Policy

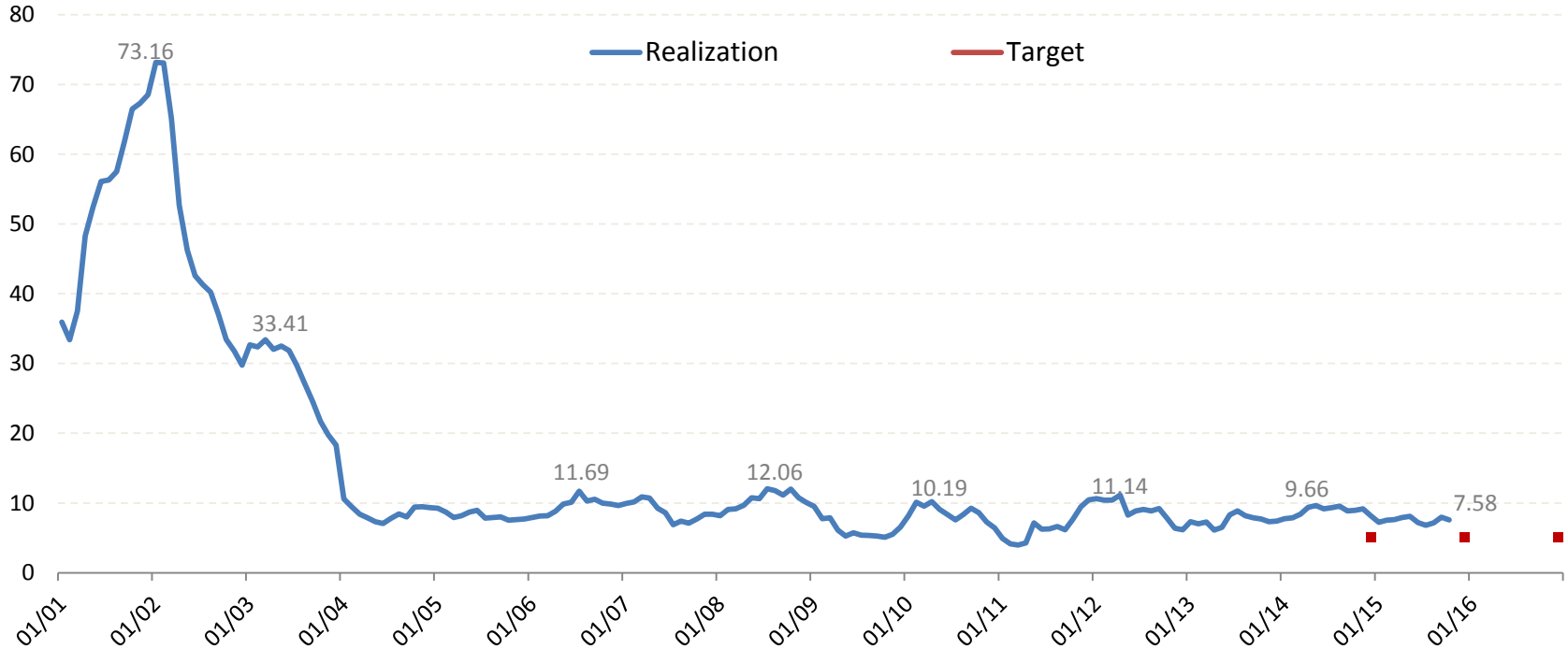
Overall, CBRT policies* are:

- ✓ Tight for the inflation outlook
- ✓ Stabilizing for FX liquidity
- ✓ Supportive for financial stability

*Roadmap during the normalization of global monetary policies, August 18, 2015.

Decisive monetary implementation has been the main driver of disinflation.

Inflation Realizations and Targets (Percent)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Target	35	20	12	8	5	4	4	7.5	6.5	5.5	5	5	5	5	5
Realization	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2	-	-

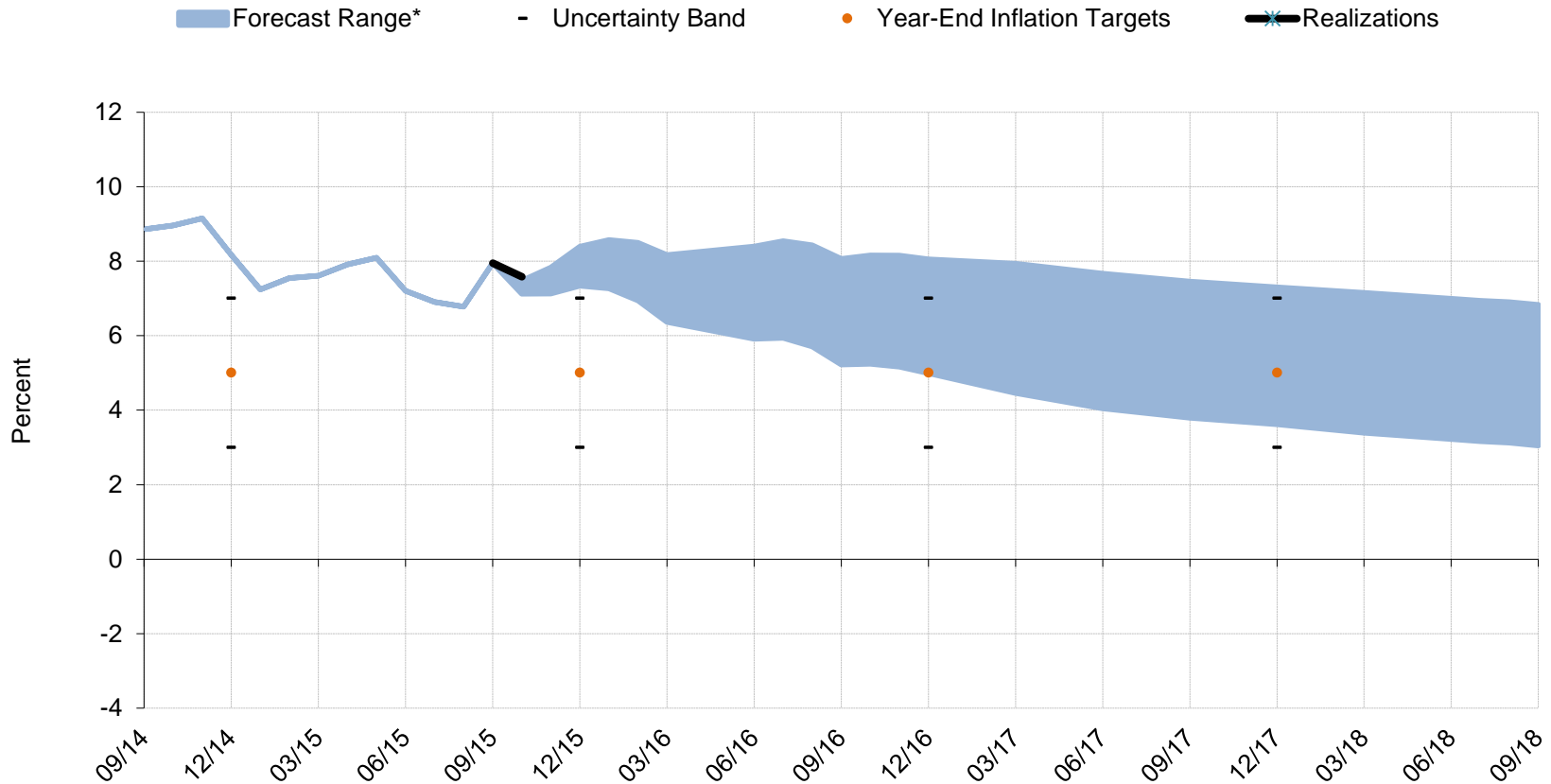
Source: TURKSTAT, CBRT.

January 2002: 73.16, March 2003: 33.41, July 2006: 11.69, July 2008: 12.06, April 2010: 10.19, April 2012: 11.44, May 2014: 9.66

Last Observation: October 2015.

The tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.

CPI Forecasts and Realizations (Percent)

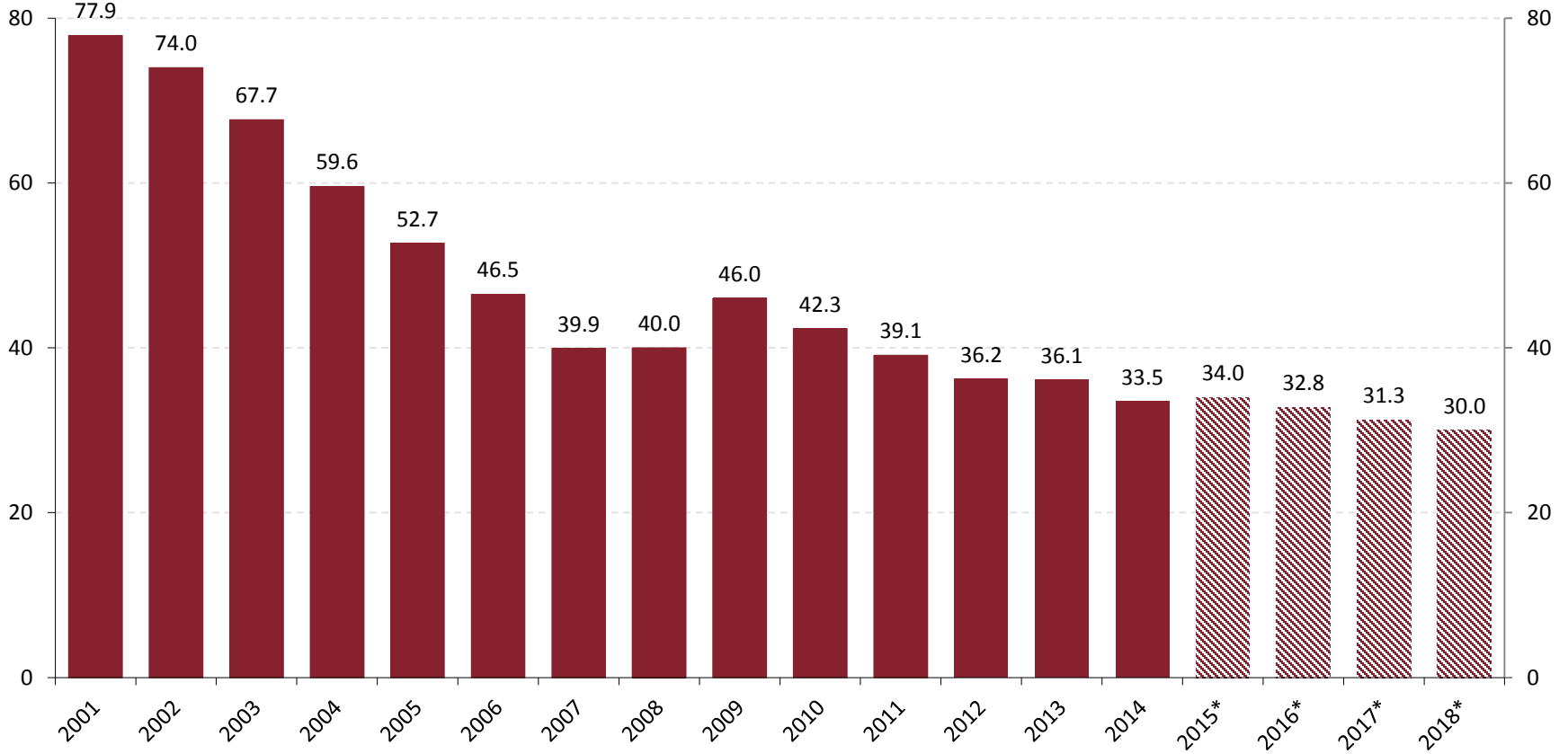


Source: TURKSTAT.

*Shaded region indicates the 70 percent confidence interval for the forecast
Last Observation: October 2015.

Fiscal discipline has kept risk premia at low levels.

EU Defined Gross Public Debt* (Percent of GDP)



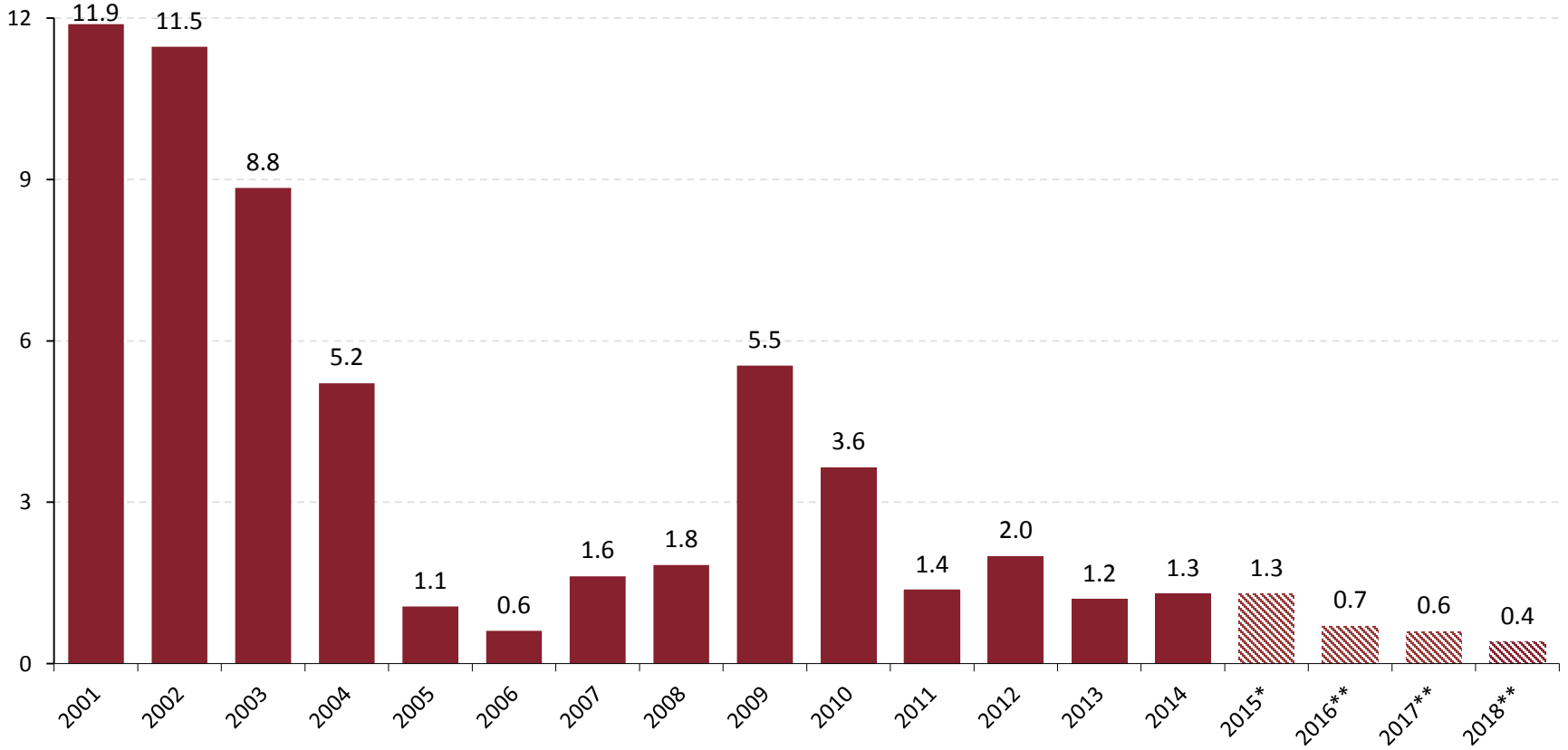
Source: Undersecretariat of Treasury, Medium Term Program (2016-2018).

Last Observation: 2014.

*Medium Term Program (2016-2018) target.

Fiscal discipline has kept risk premia at low levels.

Central Government Budget Deficit (12-Month Cumulative, Percent of GDP)



Last Observation: 2014.

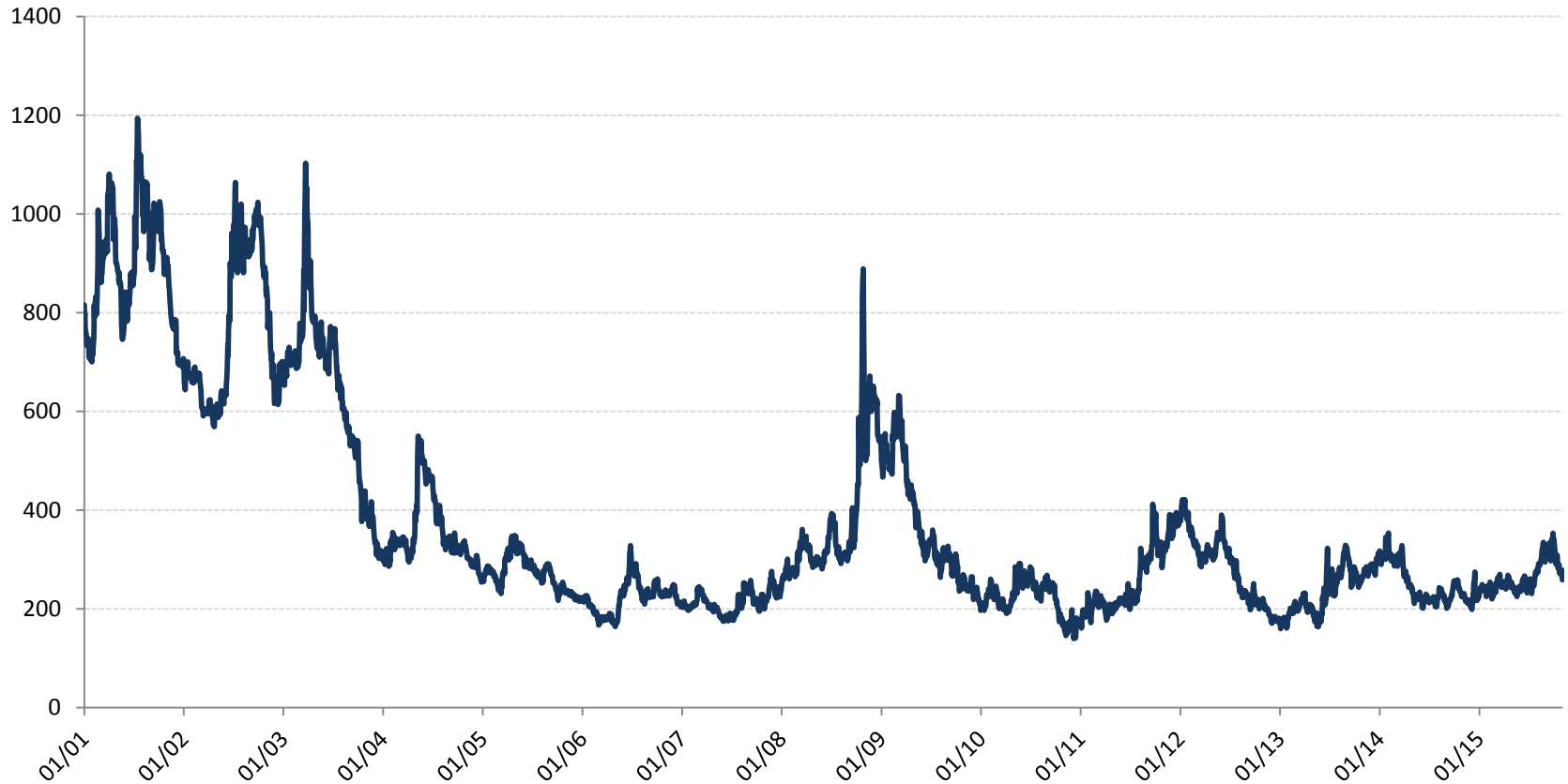
Source: Ministry of Finance, Medium Term Program (2016-2018).

* Medium Term Program (2016-2018) realization target.

** Medium Term Program (2016-2018) target.

Fiscal discipline has kept risk premia at low levels.

JP Morgan EMBI+ Turkey (Index Value)



Source: Bloomberg.

Last Observation: November 2, 2015.

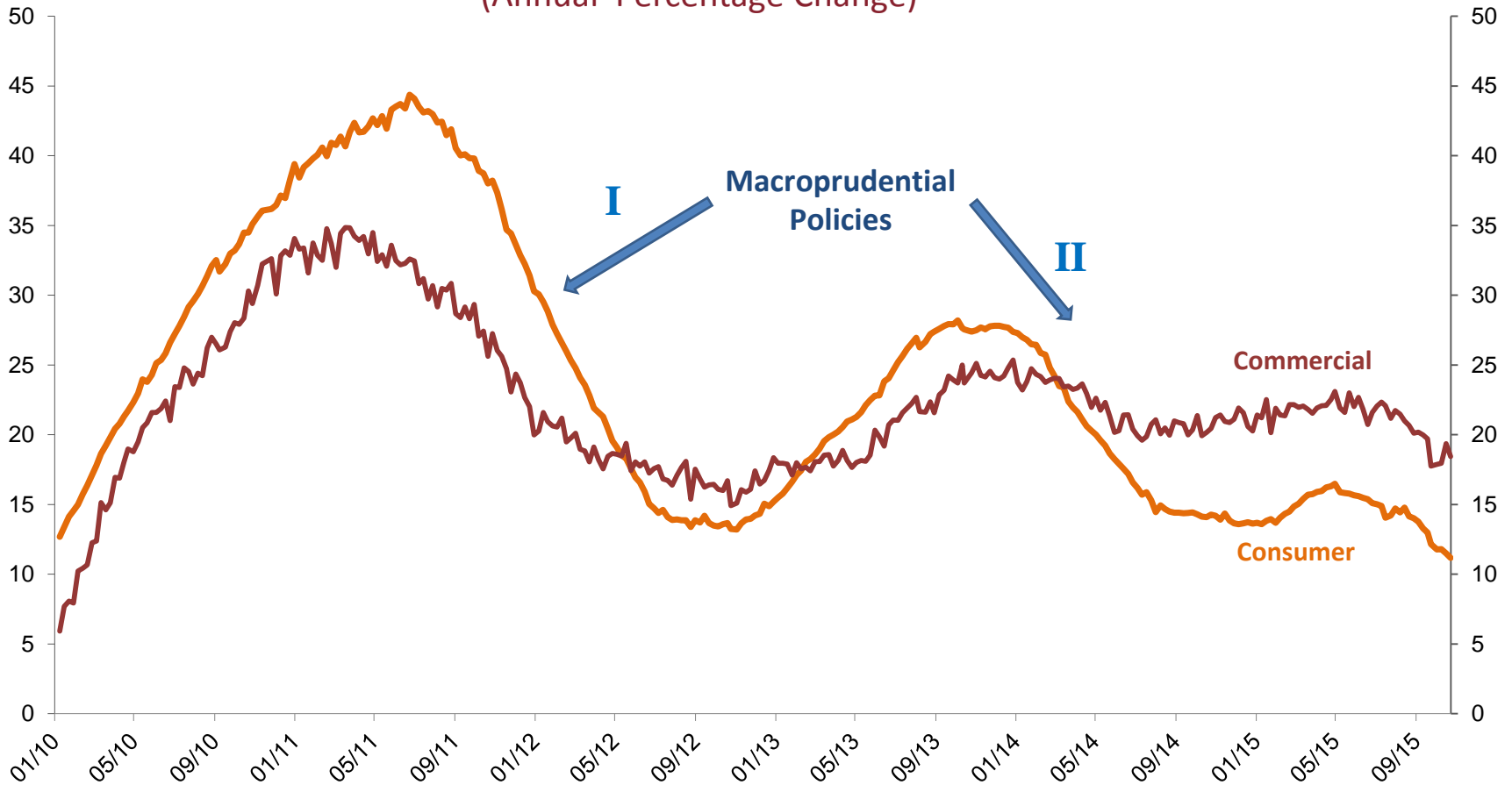
Financial Sector Policies

Sustainable household debt :

- i. Reduces current account deficit.
- ii. Supports growth and ensures its sustainability.

Macprudential policies have improved both the pace and the composition of credit.

Loan Growth Rates* (Annual Percentage Change)



Source: CBRT.

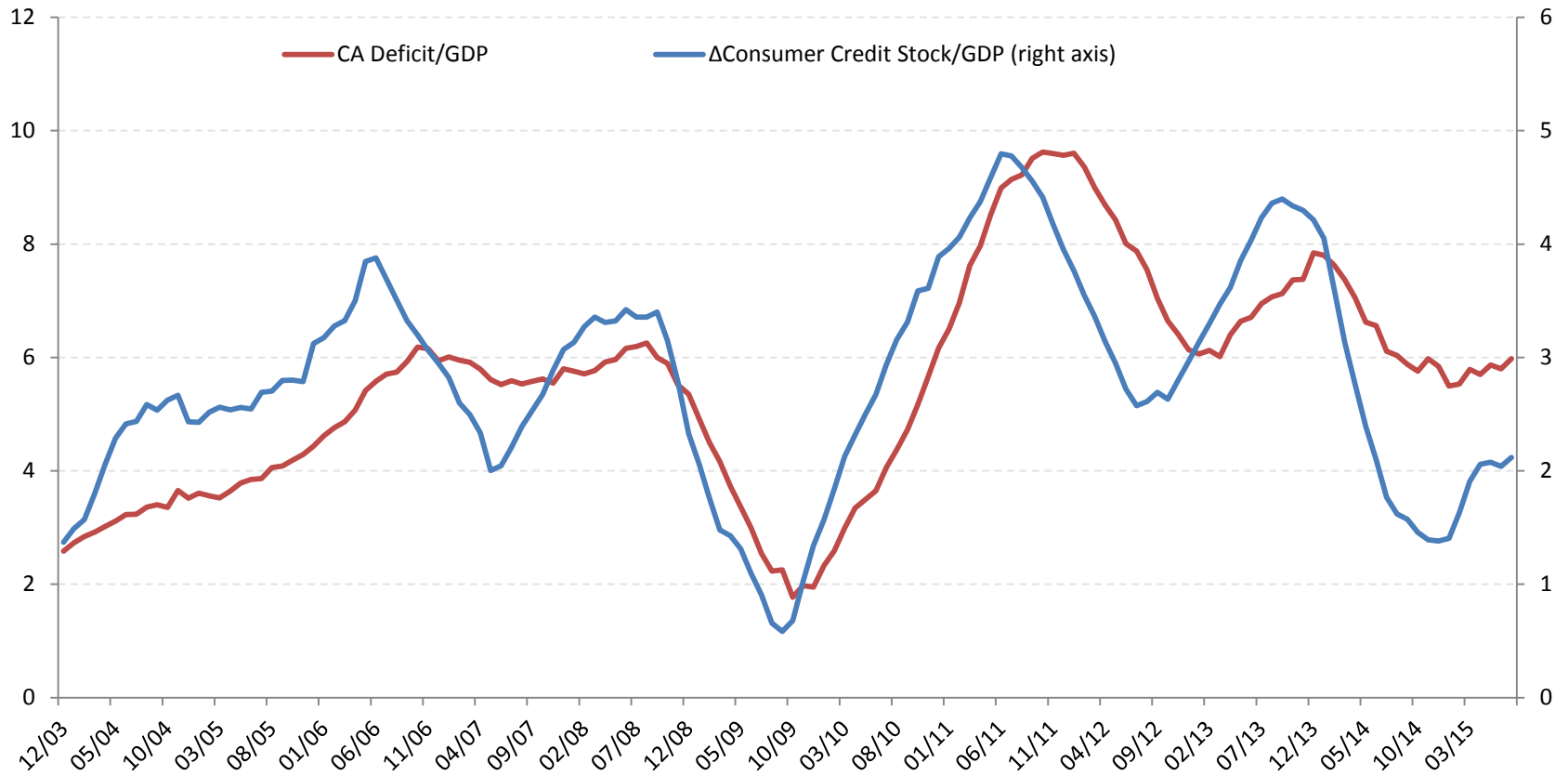
Last Observation: October 23, 2015.

*Inclusive of loans extended by all types of banks (deposit banks, Participation banks, and development/investment banks). FX adjusted.

Macprudential policies have been essential in containing the current account deficit.

Consumer Loans and the Current Account

(Change YoY, % of GDP for Consumer Loans, % of GDP for Current Account Deficit)

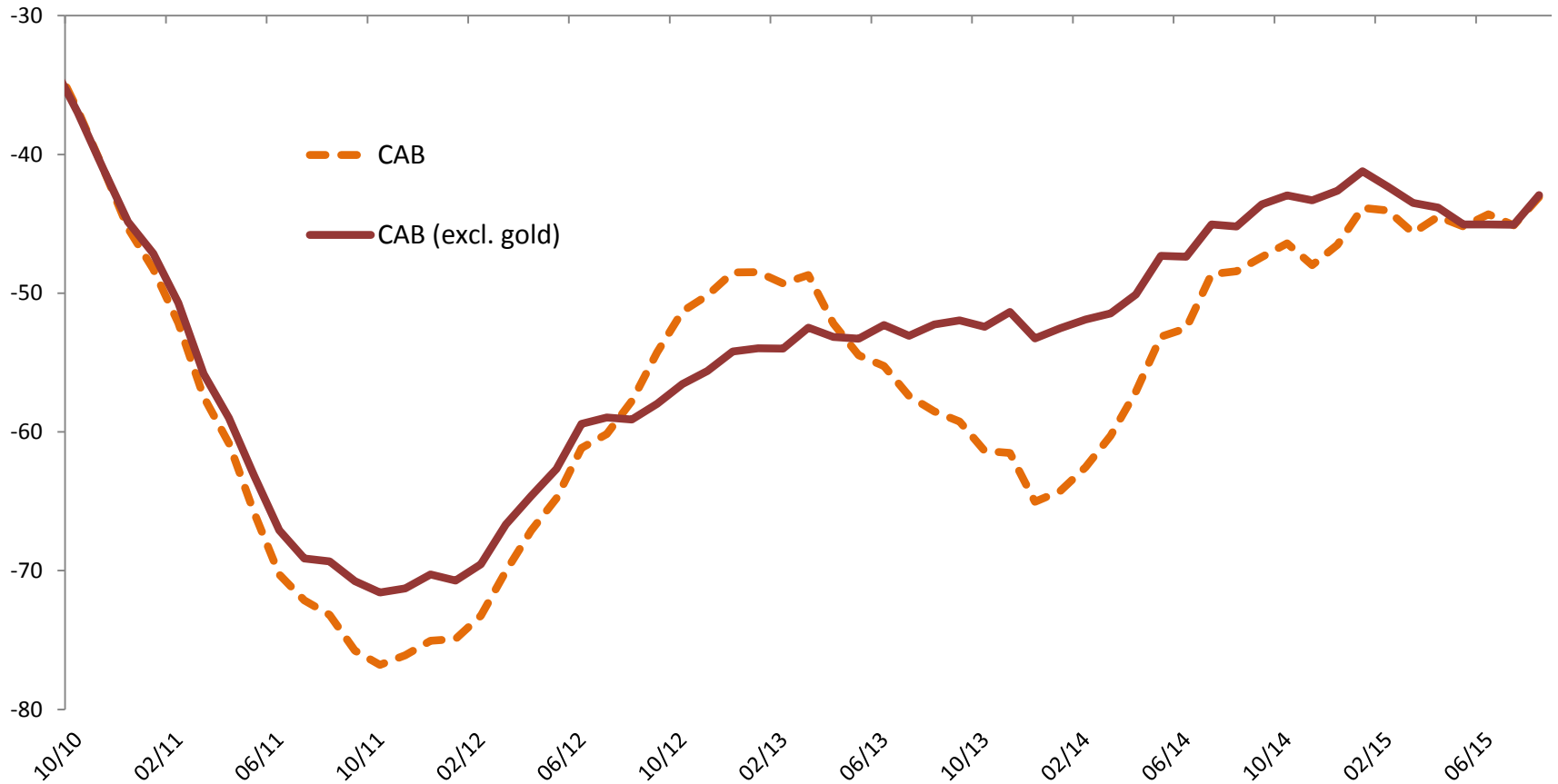


Source: BRSA, TURKSTAT, CBRT.

Last Observation: 2015 Q2.

The improvement in the current account balance is expected to continue.

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

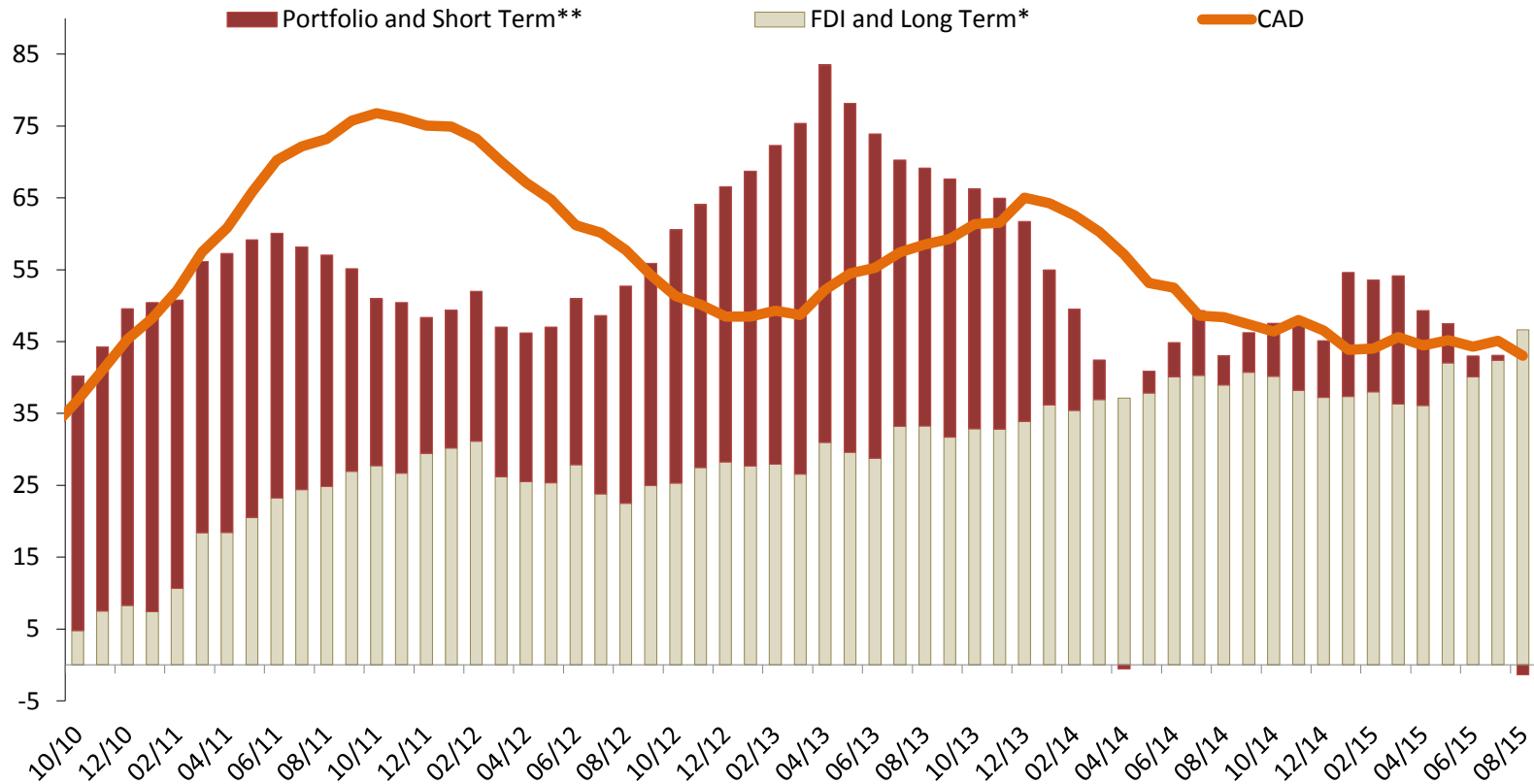


Source: CBRT.

Last Observation: August 2015.

The current account deficit is financed predominantly through long term borrowing and FDI inflows.

Main Sources of External Finance (12-Month Cumulative, Billion USD)



Source: CBRT.

*Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

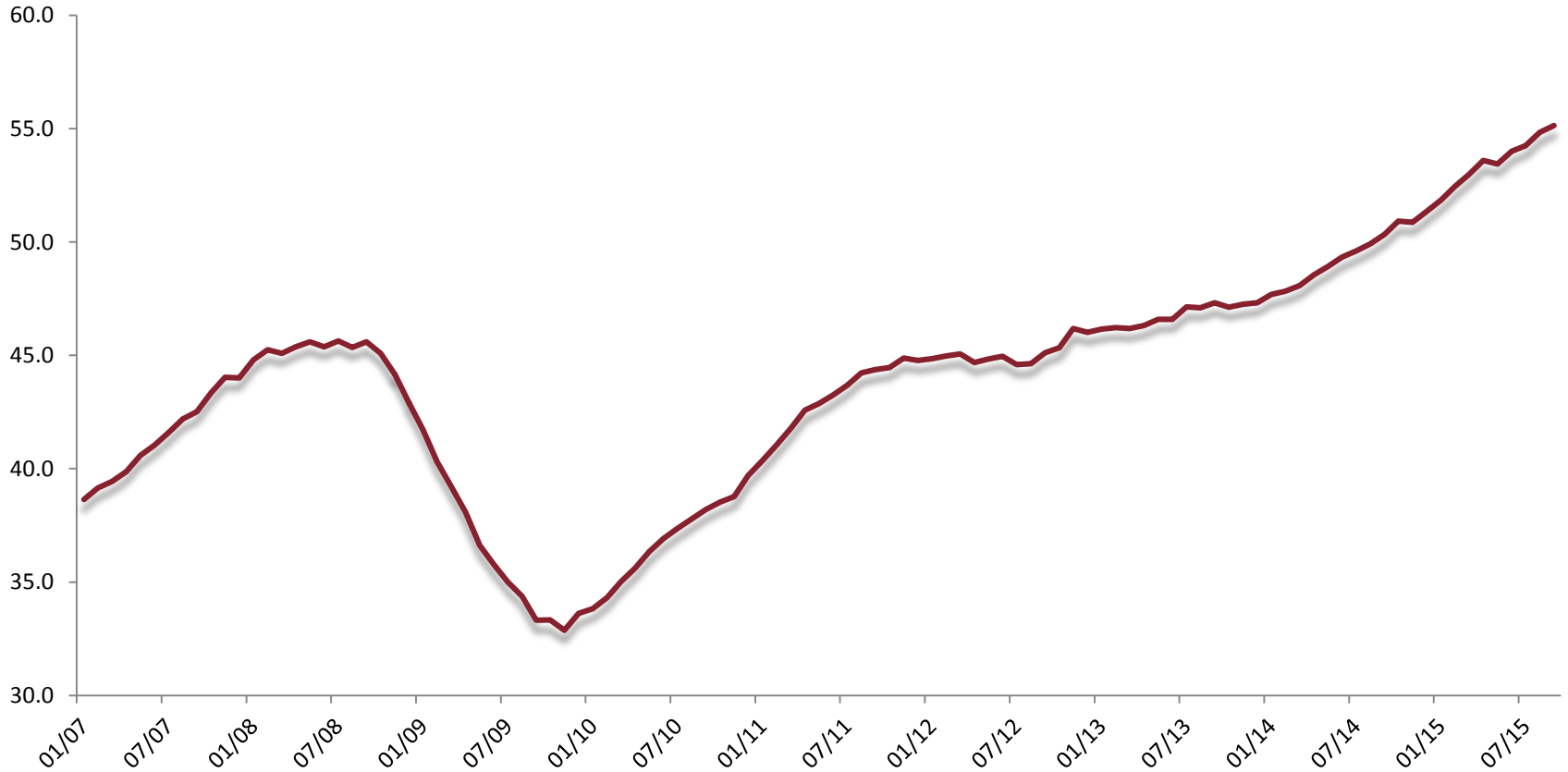
**Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

Last Observation: August 2015.

European Recovery

Recovery in the European economies will support growth and rebalancing.

Exports to European Union (12-Month Cumulative, Billion Euros)



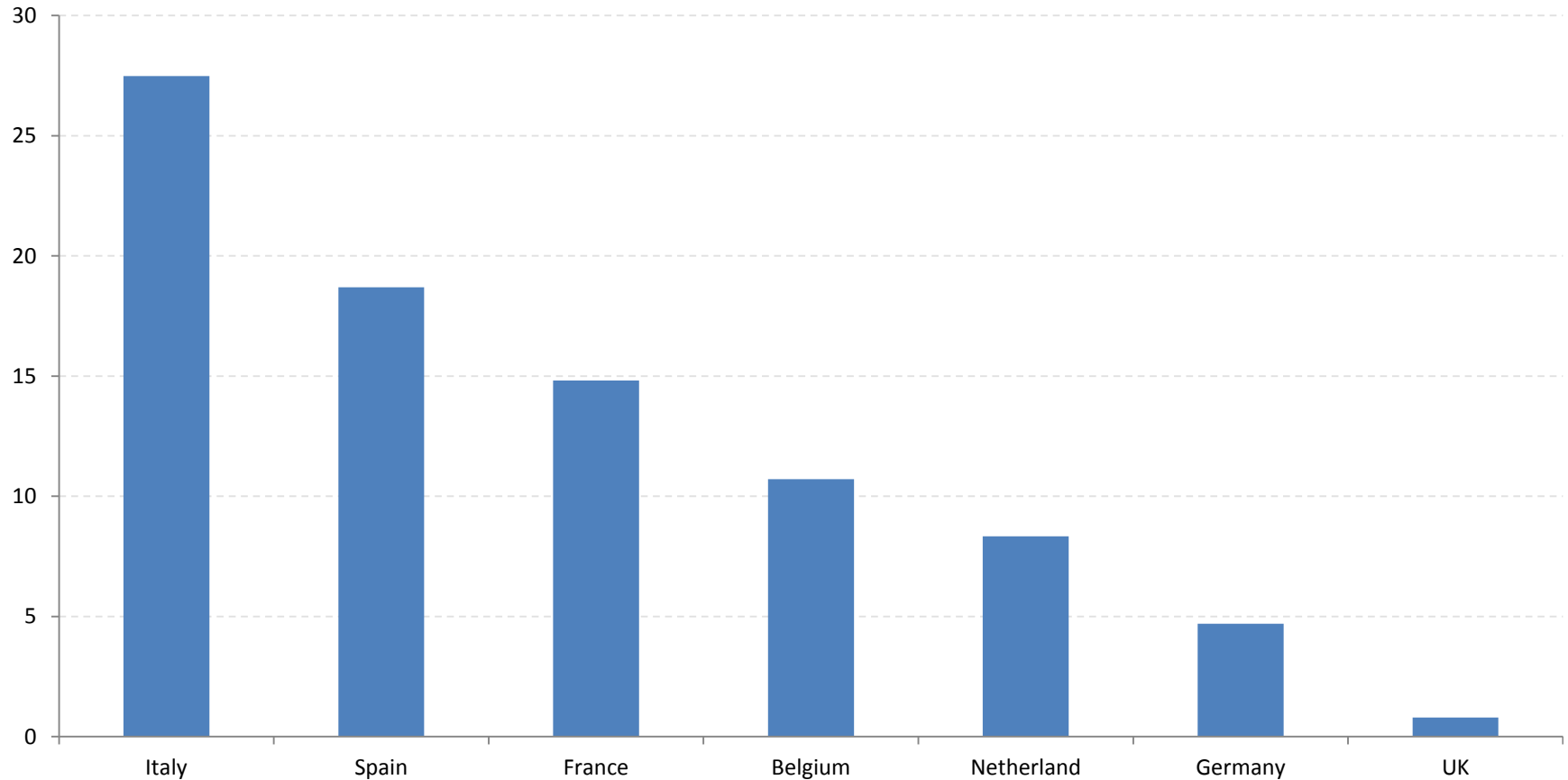
Source: TURKSTAT.

Last Observation: September 2015.

Turkey's exports to major EU trade partners continue to grow at a solid pace.

Export Growth

(October 2015, Annual Percentage Change, WDA, Euro Based*)

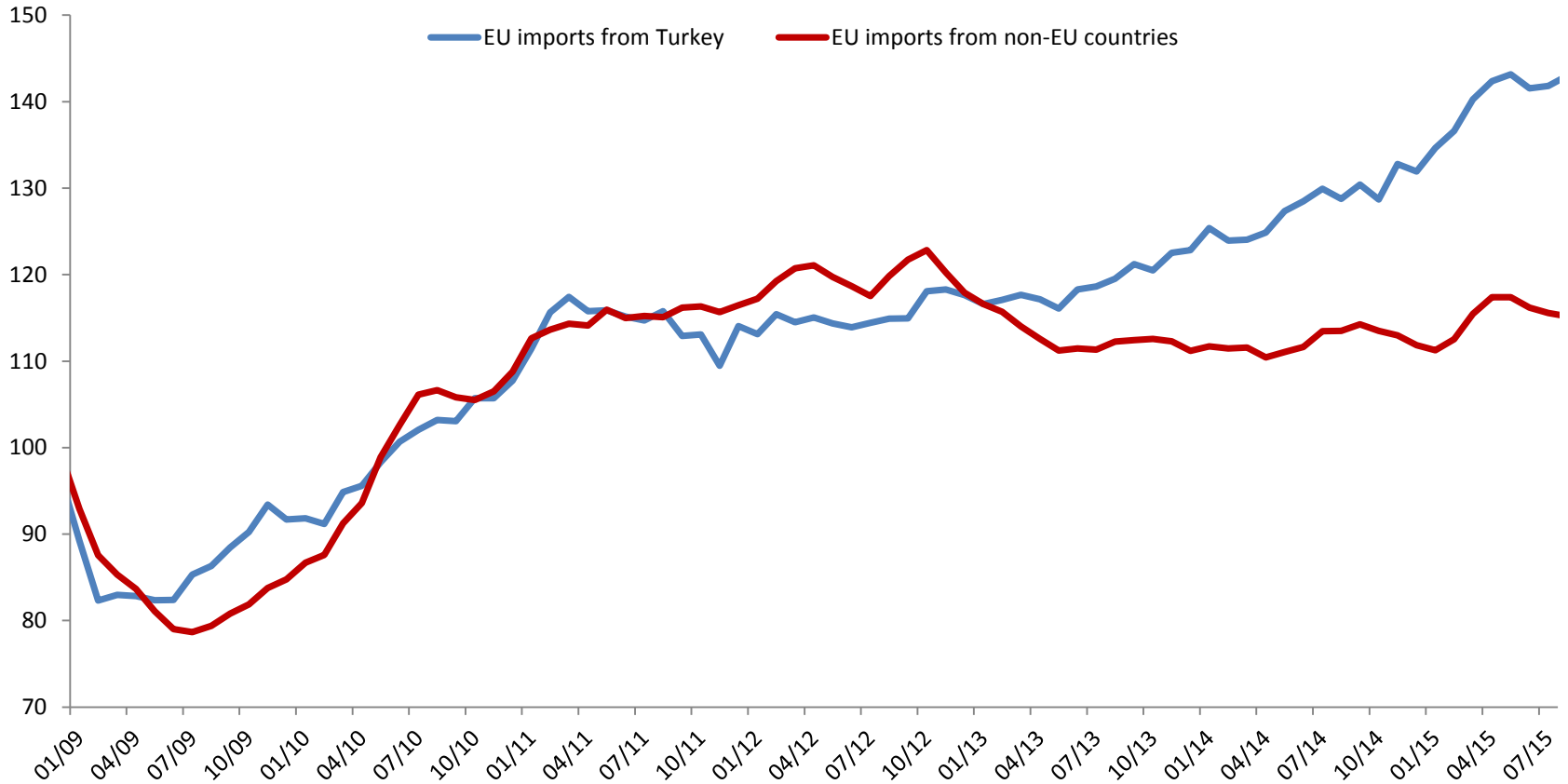


Source: Turkish Exporters Assembly.

* British Pound is used for UK.

The share of Turkey in EU imports has been on the rise.

Imports of European Union
(3-Month Moving Average, Seasonally Adjusted, Nominal, 2010=100)



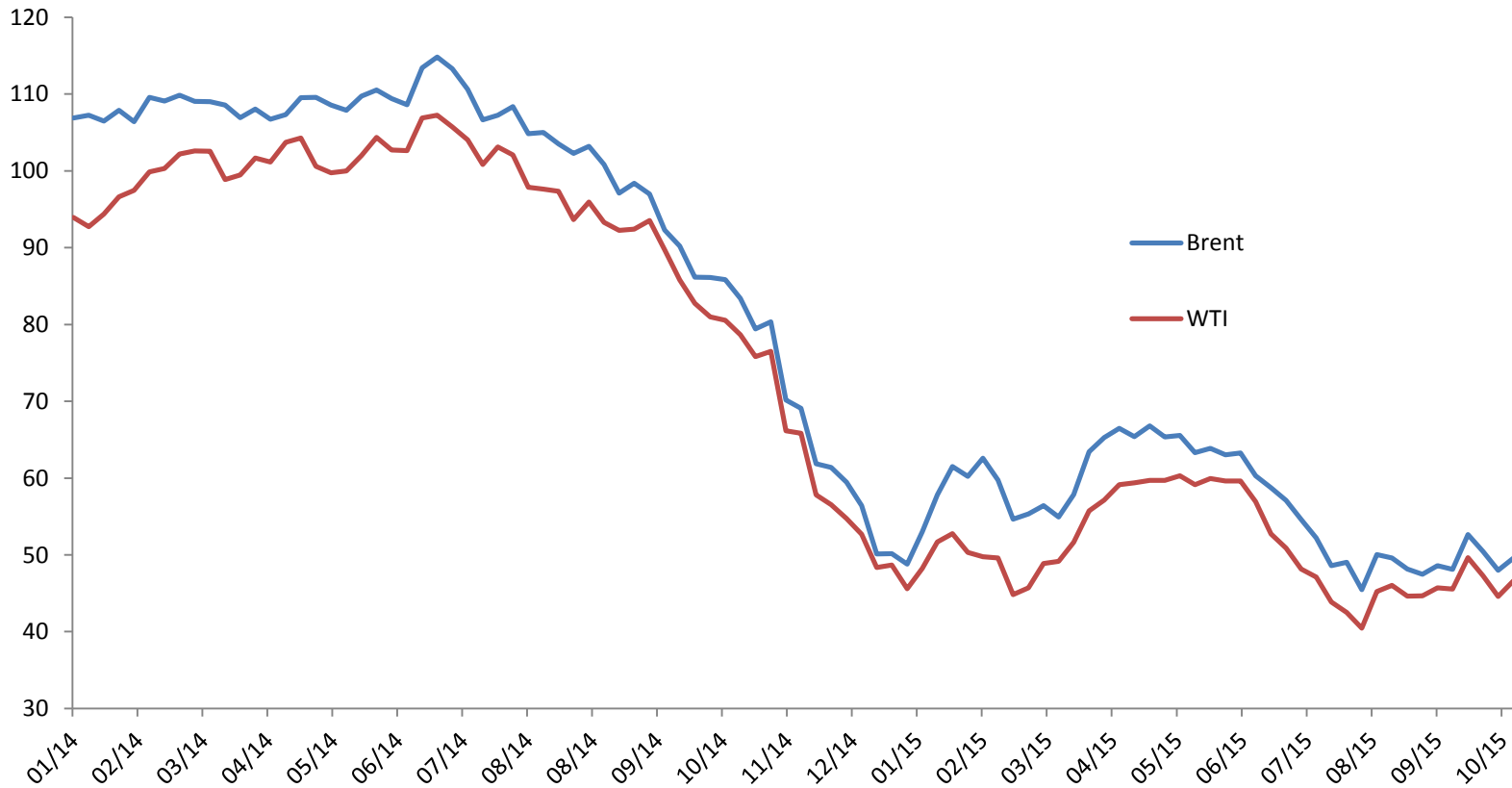
Source : EUROSTAT.

Last Observation: August 2015.

Low Commodity Prices

The favorable impact of lower oil prices on the current account balance will be more pronounced in the upcoming period.

Crude Oil Prices (US Dollar per Barrel, Weekly)

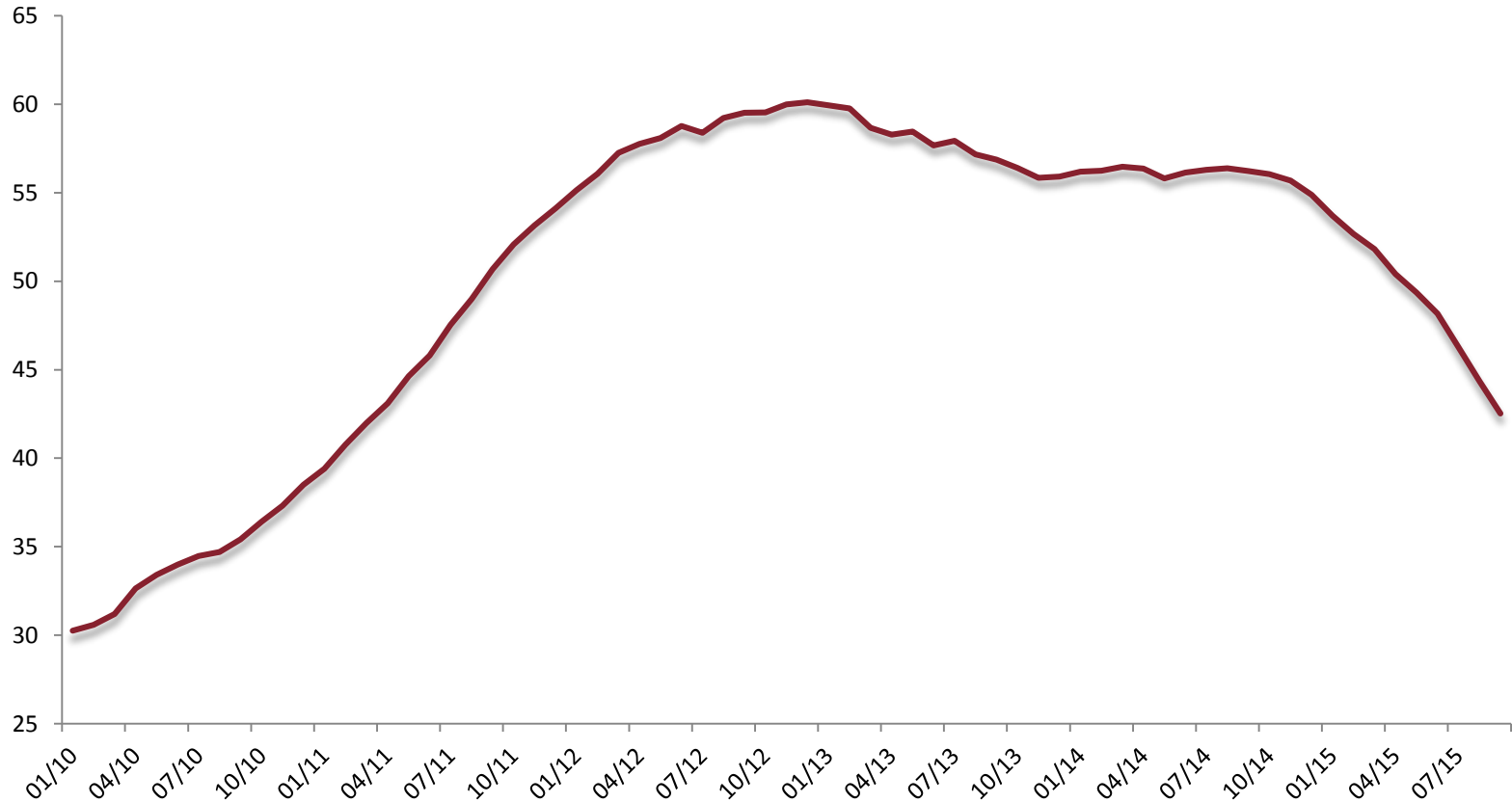


Source: Bloomberg.

Last Observation: October 30, 2015.

The favorable impact of lower oil prices on the current account balance will be more pronounced in the upcoming period.

Energy Imports of Turkey
(12-Month Cumulative, Billion USD)



Source: TURKSTAT

Last Observation: September 2015.

Structural Reforms

Real pillars of growth in Turkey

Reforms to improve:

- i. Domestic savings
- ii. Human capital and the labor market
- iii. Technology and innovation
- iv. Physical infrastructure

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