TÜRKİYE CUMHURİYET
MERKEZ BANKASI

THE ECONOMIC OUTLOOK AND MONETARY POLICY

March 18, 2015

Ankara

Overview: Macroeconomic Outlook and Monetary Policy

- The favorable developments in the 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 core inflation indicators. Yet, uncertainty in global markets and elevated food prices necessitates maintaining the cautious stance in monetary policy. Accordingly, the Committee decided to keep the interest rates at current levels.
- 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.

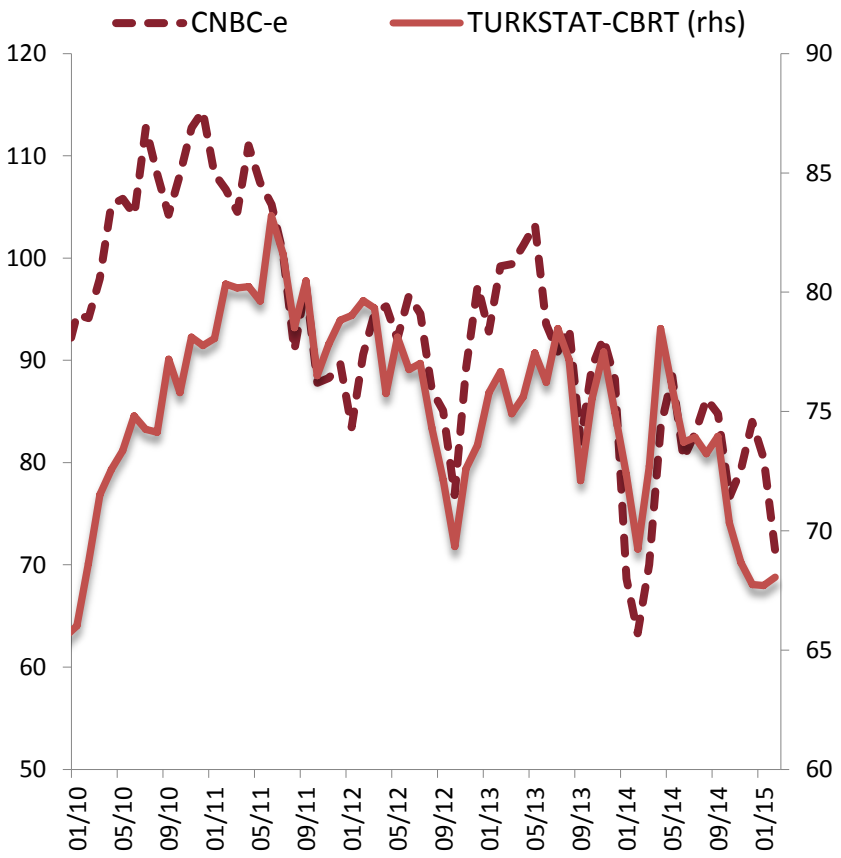
Outline

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

ECONOMIC ACTIVITY AND REBALANCING

Leading indicators do not point to a recovery in the economic activity during the first quarter.

Consumer Confidence

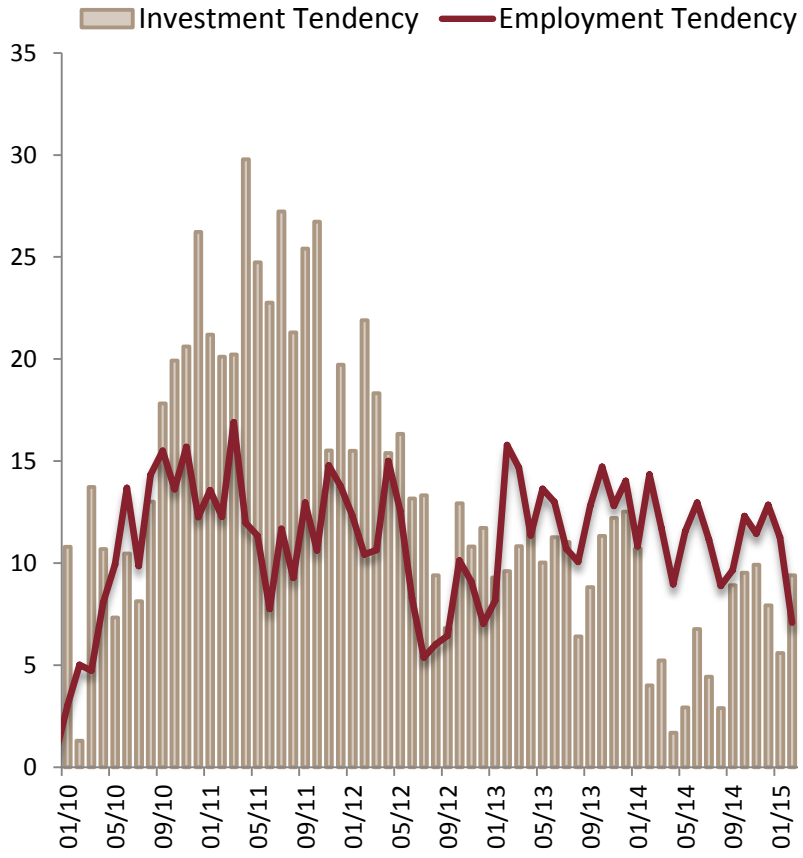


Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: February 2015.

Investment and Employment Prospects

(Seasonally Adjusted)

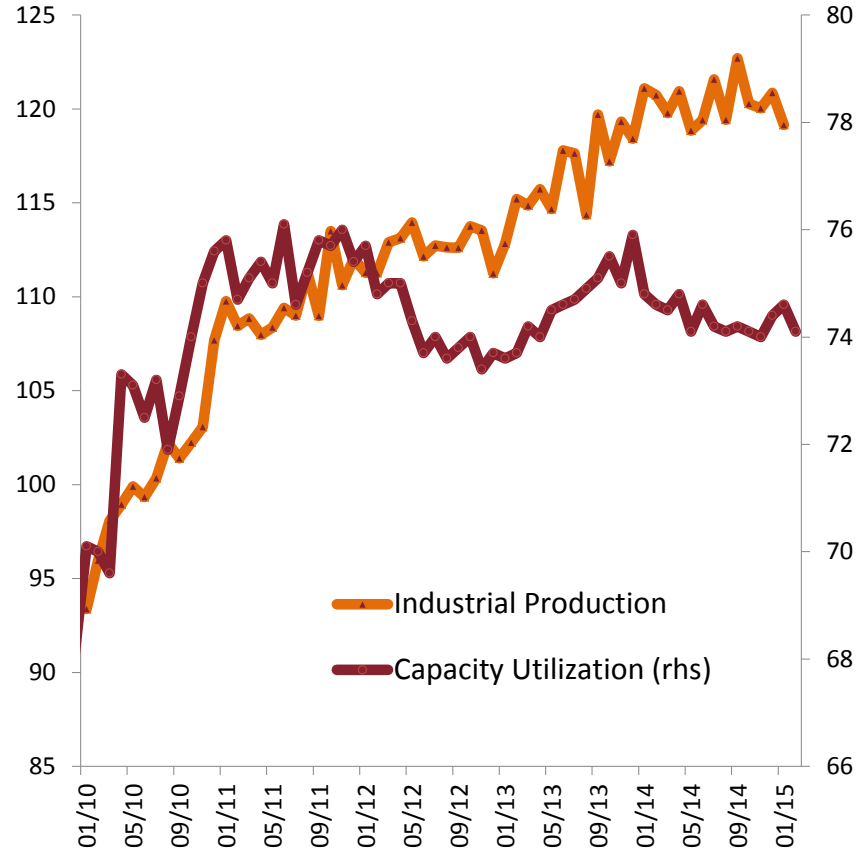


Source: CBRT Business Tendency Survey

Last Observation: February 2015.

Recently, export orders remain weak, while domestic orders show some softening, partly reflecting adverse weather conditions.

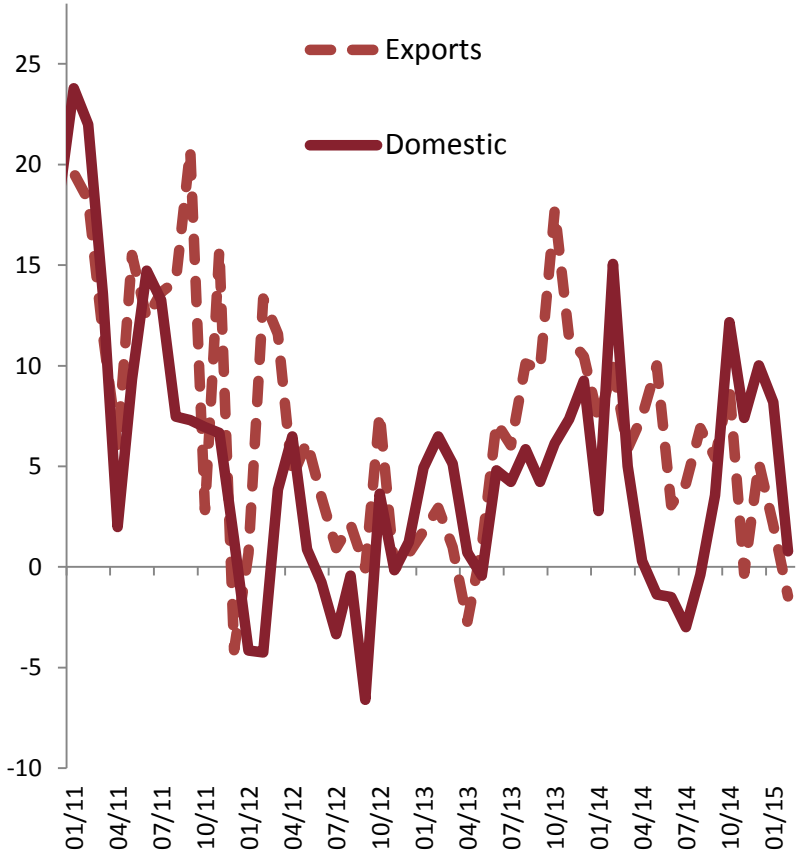
Industrial Production and Capacity Utilization
(Seasonally Adjusted)



Source: TURKSTAT, CBRT.

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

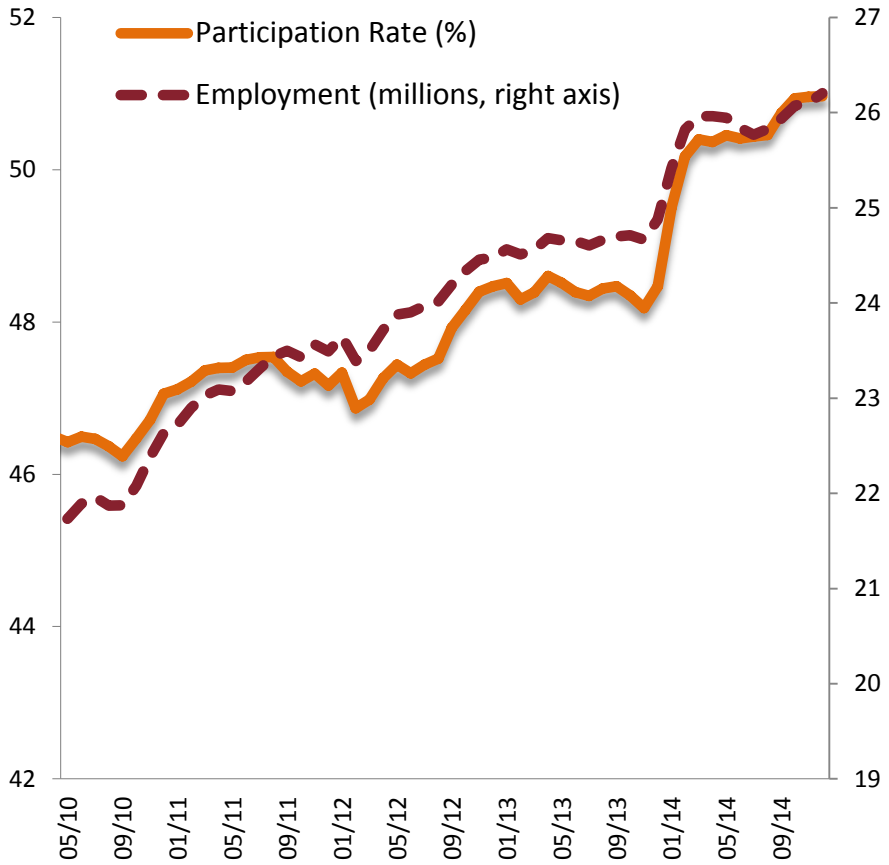
Manufacturing Orders
(Seasonally Adjusted)

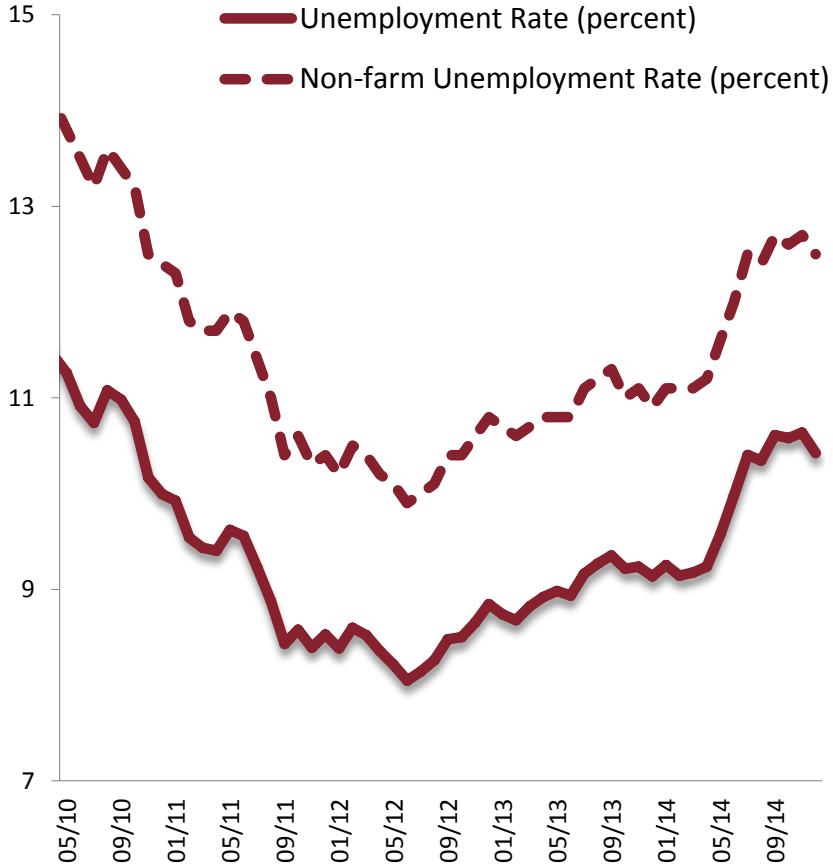


Source: CBRT Business Tendency Survey.

Last Observation: February 2015.

Unemployment rates increased significantly throughout 2014.





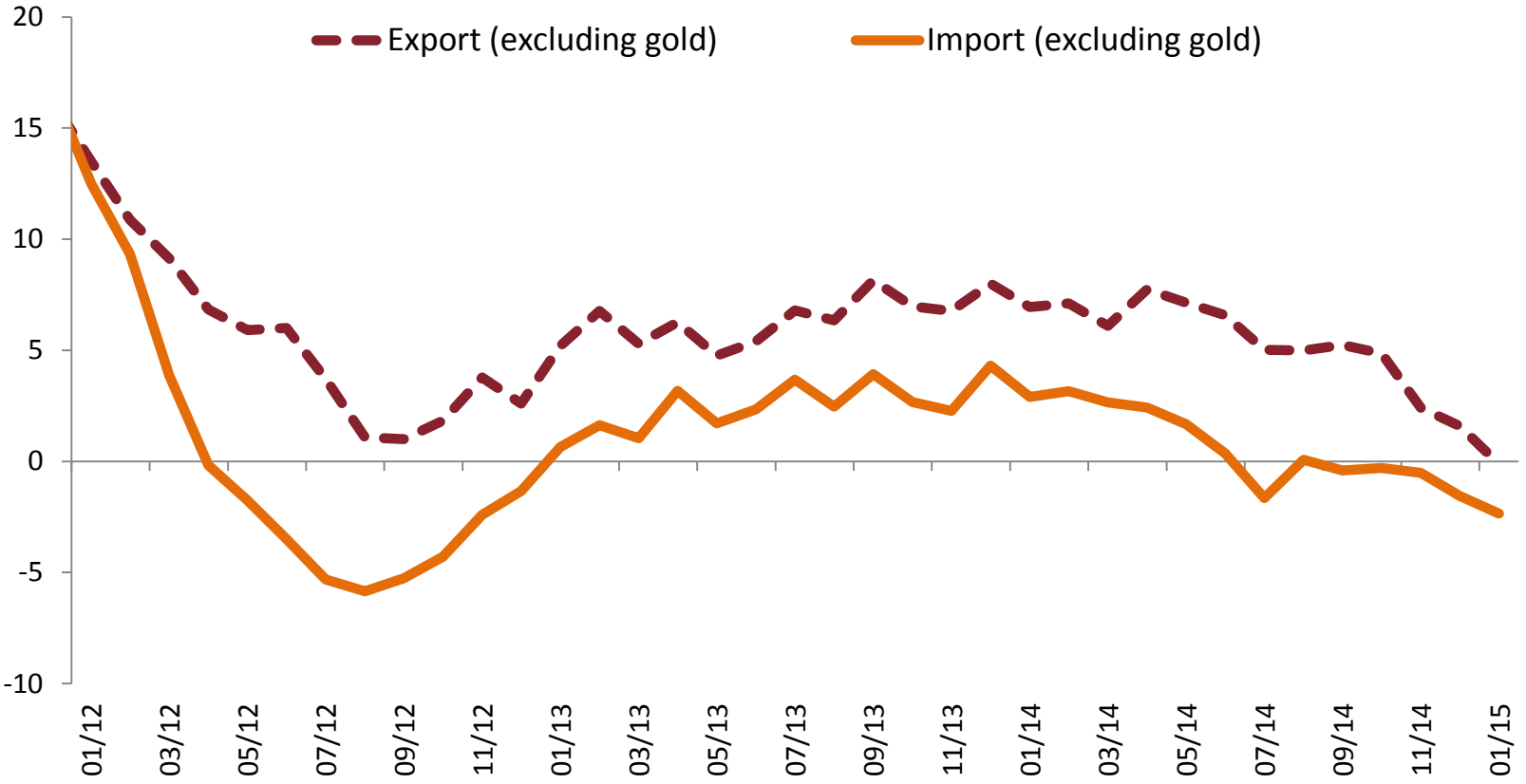
Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: December 2014.

The downward trend in trade indicators reflects geopolitical developments, price effects,...

Exports and Imports

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



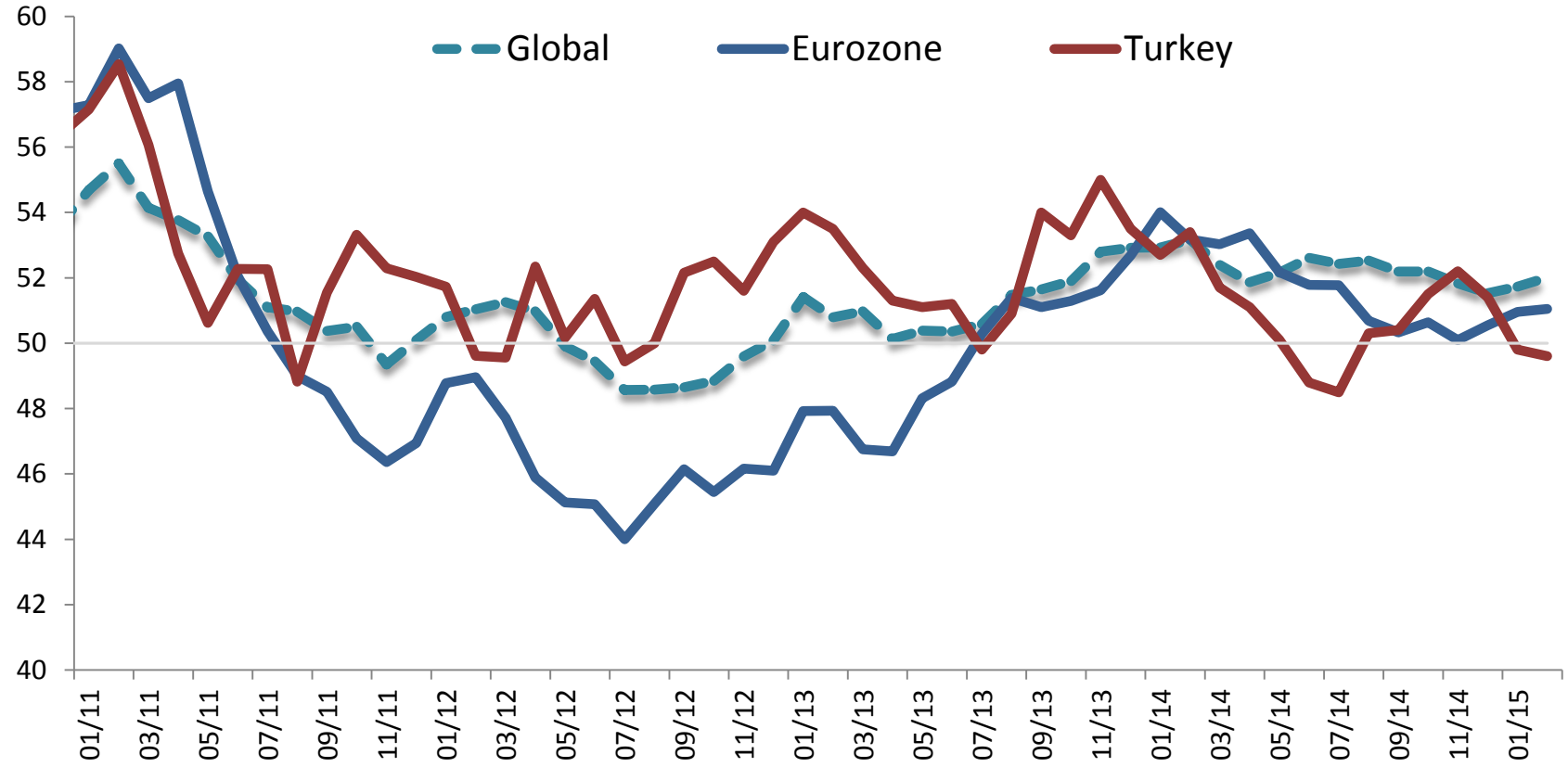
Source: TURKSTAT.

Last Observation: January 2015.

...as well as weak domestic and external demand.

Manufacturing PMIs

(Seasonally Adjusted)



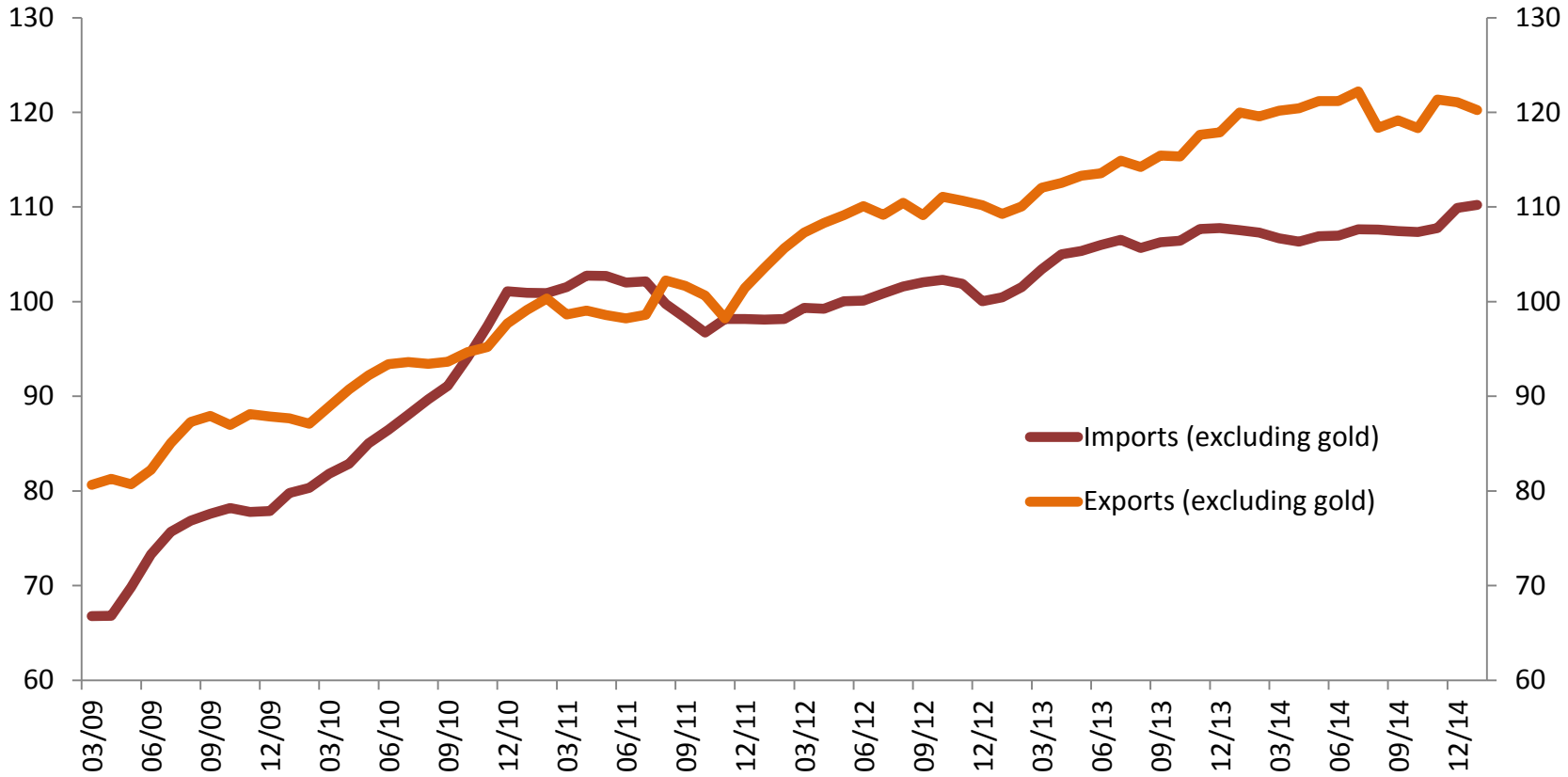
Source: MARKIT.

Last Observation: February 2015.

The decline in exports is less pronounced in real terms.

Real Exports and Imports

(Seasonally Adjusted, 3 Months MA)



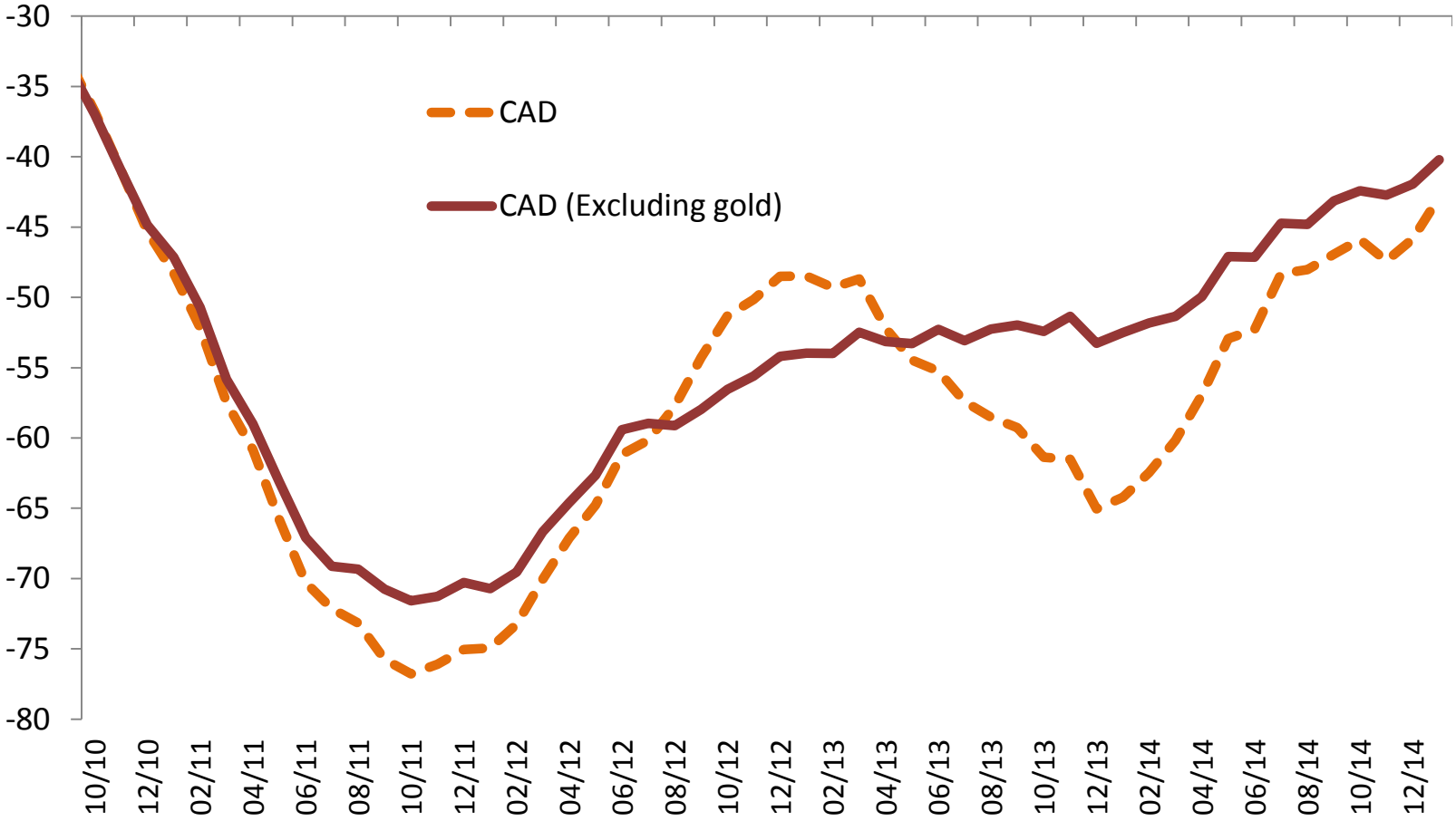
Source: TURKSTAT

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)

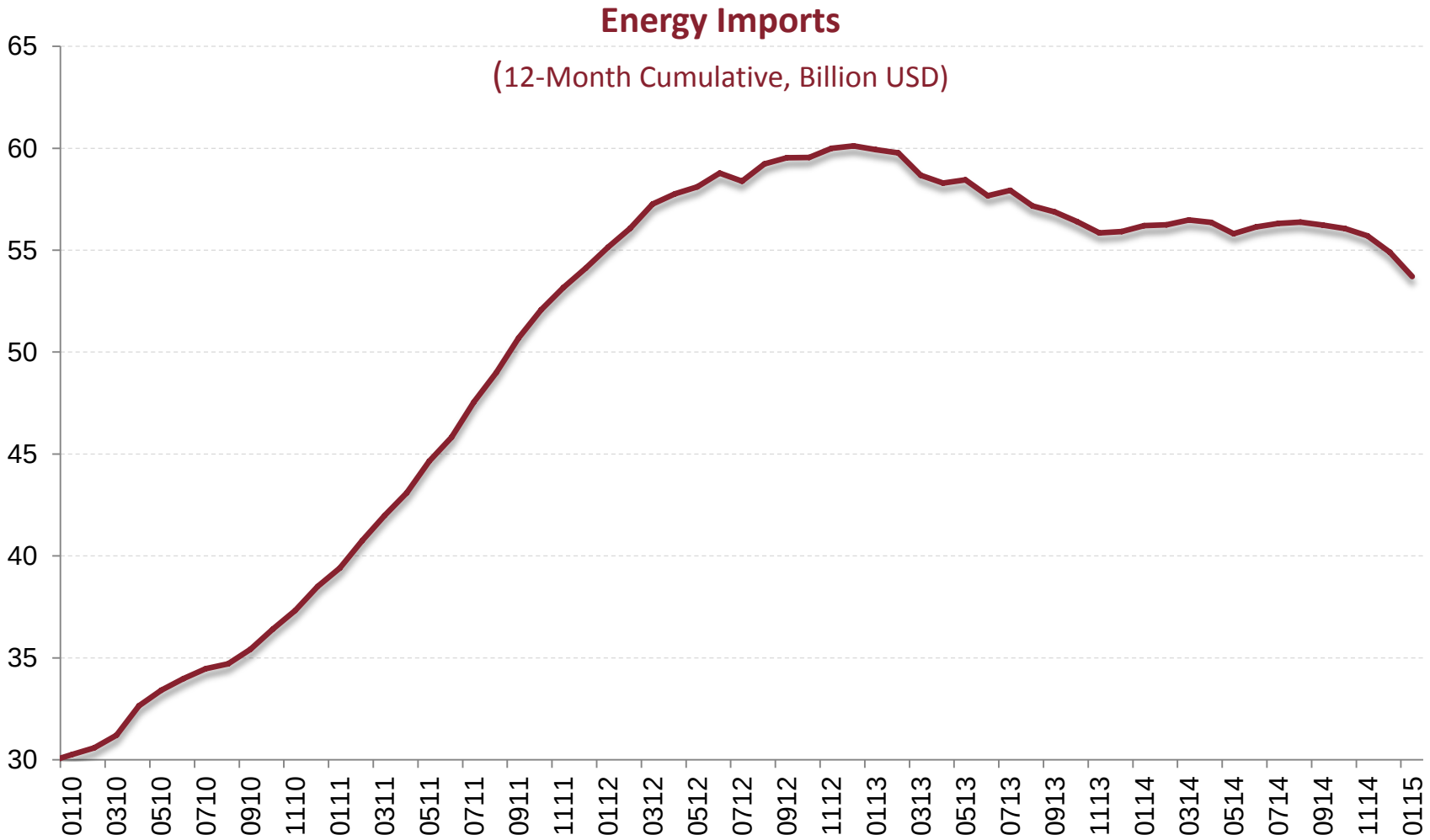
(12-Month Cumulative, Billion USD)



Source: CBRT.

Last Observation: January 2015.

The impact of lower oil prices has started to become visible on the current account balances.

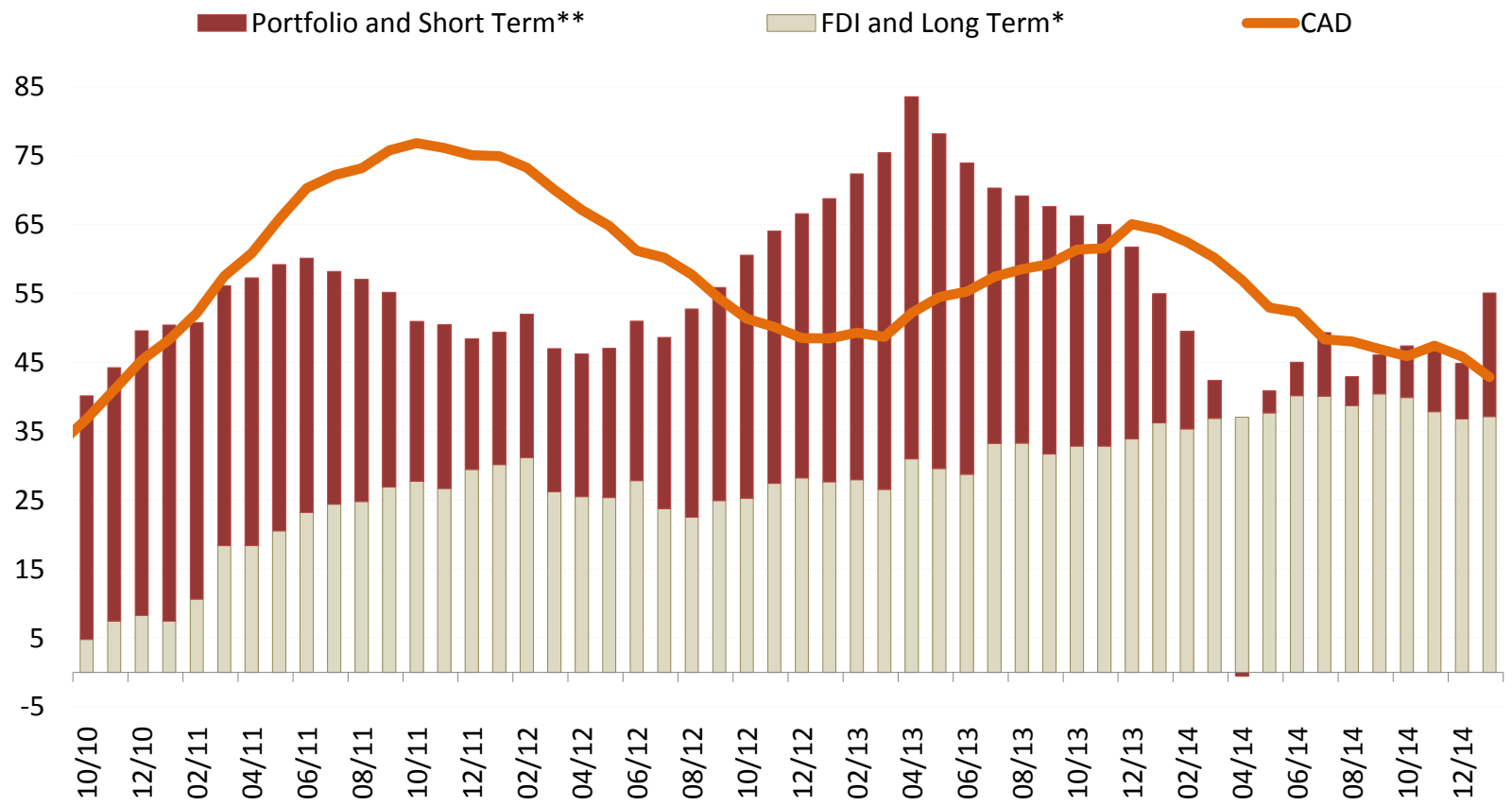


Source: TURKSTAT

Last Observation: January 2015.

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

(12-Months Cumulative, Billion USD)



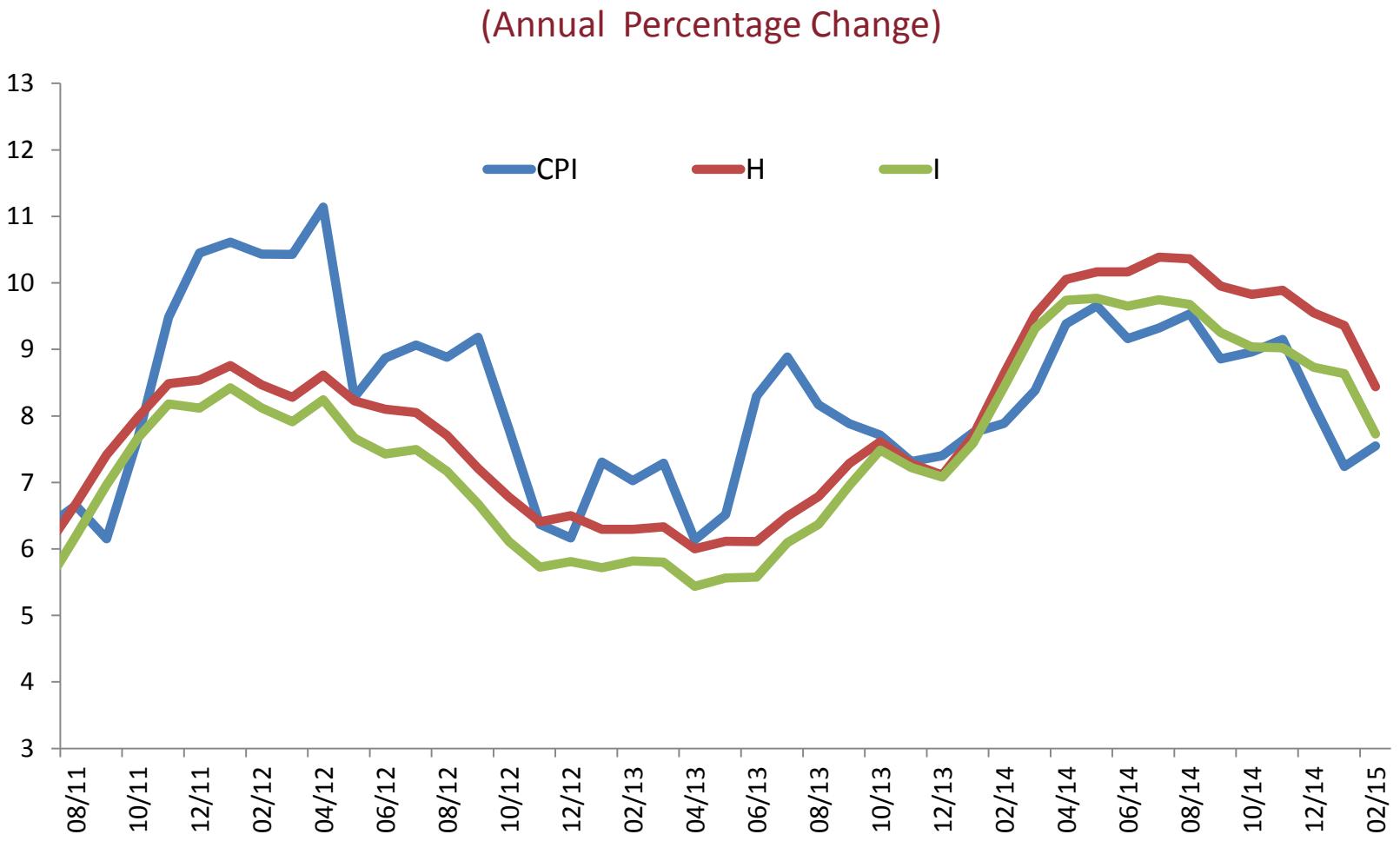
Source: CBRT.

*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: January 2015.

INFLATION

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



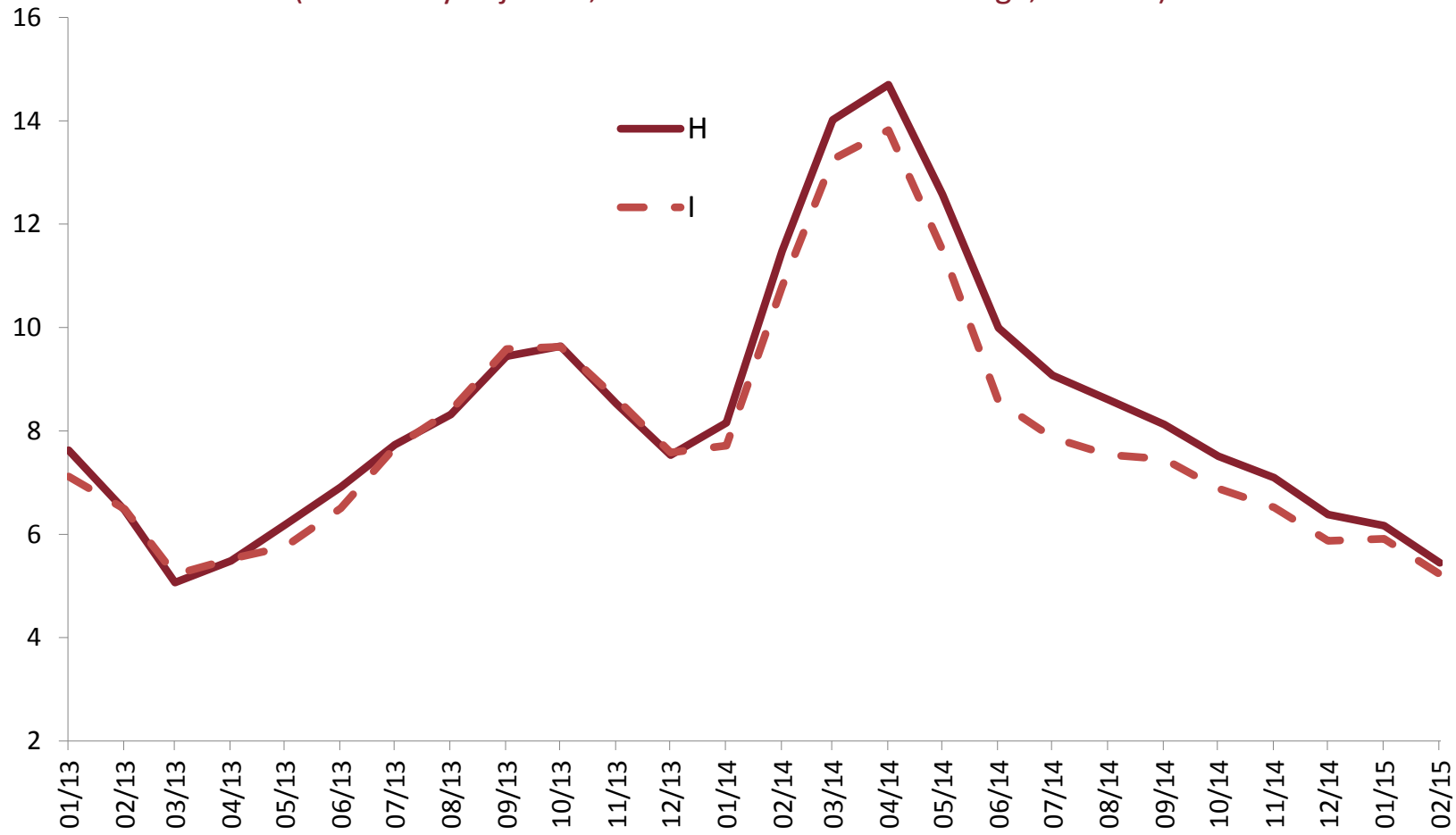
Source: TURKSTAT.

Last Observation: February 2015.

Cautious monetary policy along with prudent fiscal and macroprudential policies are having a favorable impact on core inflation trends.

Core Inflation Indicators H and I

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

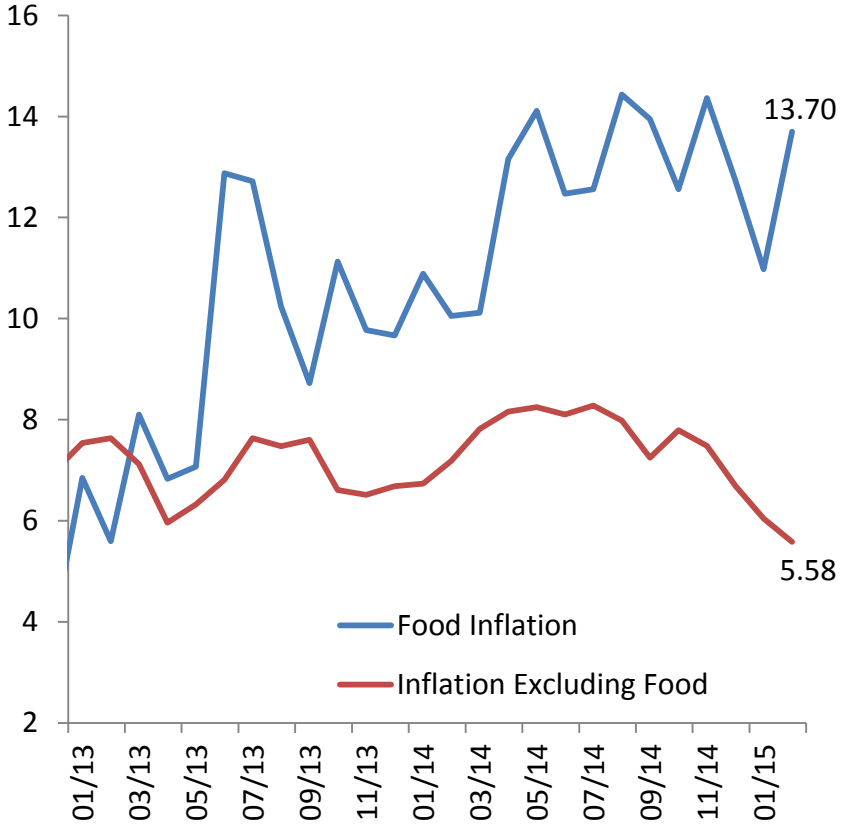


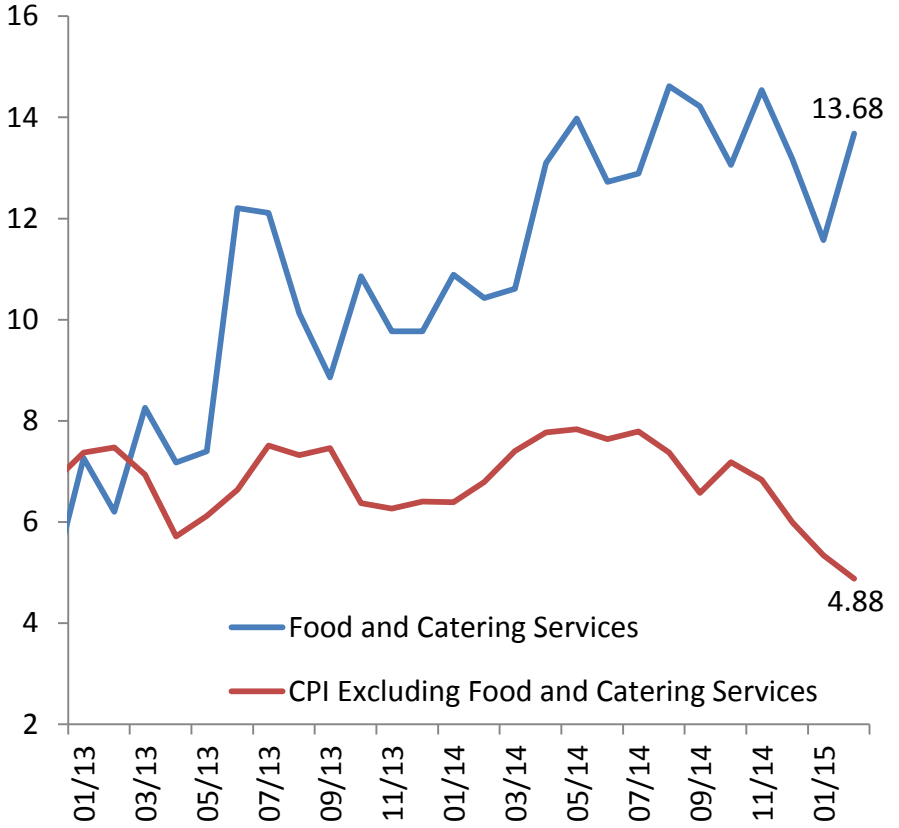
Source: TURKSTAT, CBRT.

Last Observation: February 2015.

Yet, elevated levels and high volatility in food prices continue to weigh on headline CPI inflation.

Annual Inflation
(Percent)





Source: TURKSTAT, CBRT.

Last Observation: February 2015.

Recently, inflation expectations have edged up slightly.

Source: CBRT.

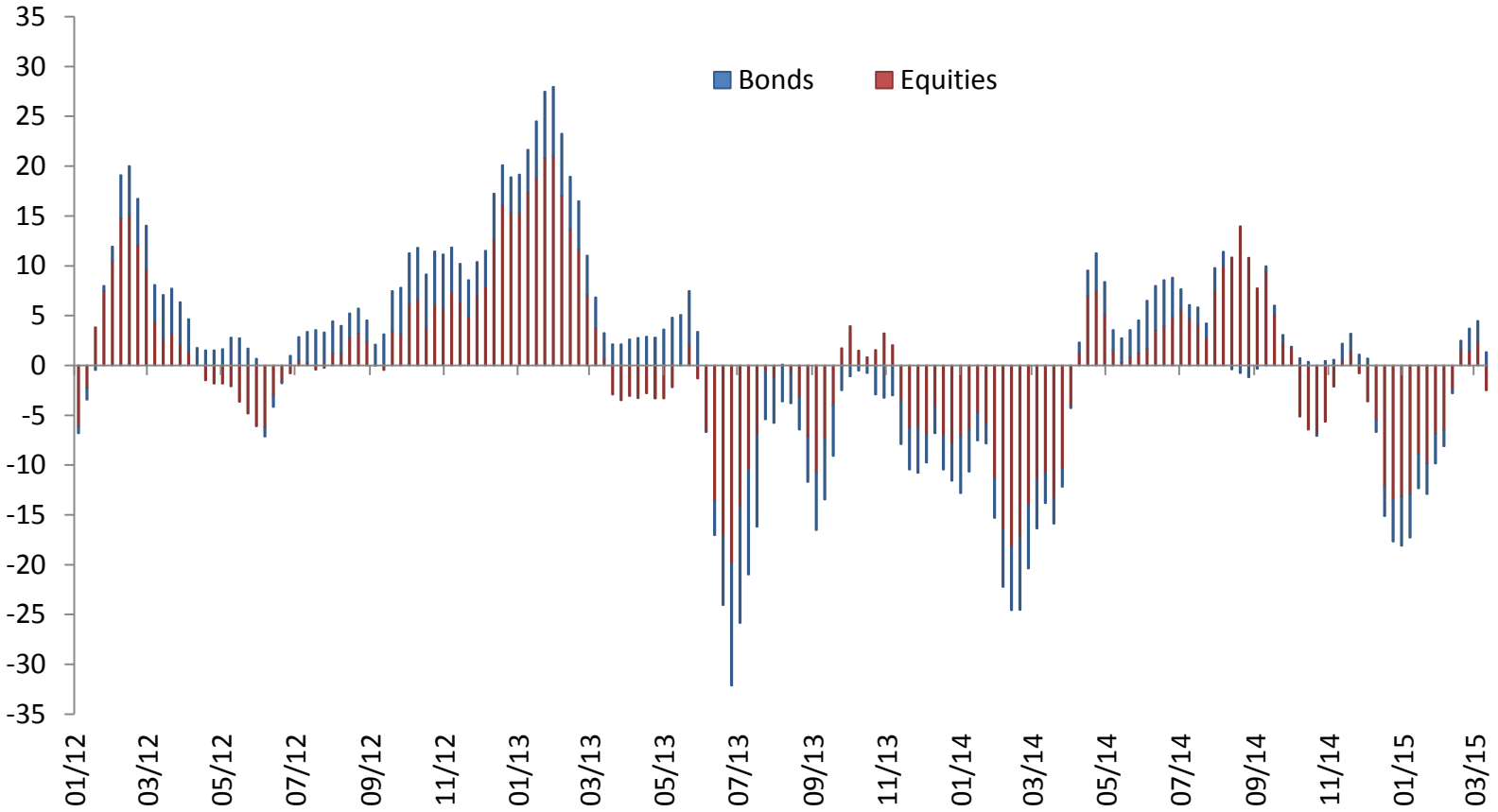
Last Observation: March 2015.

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)



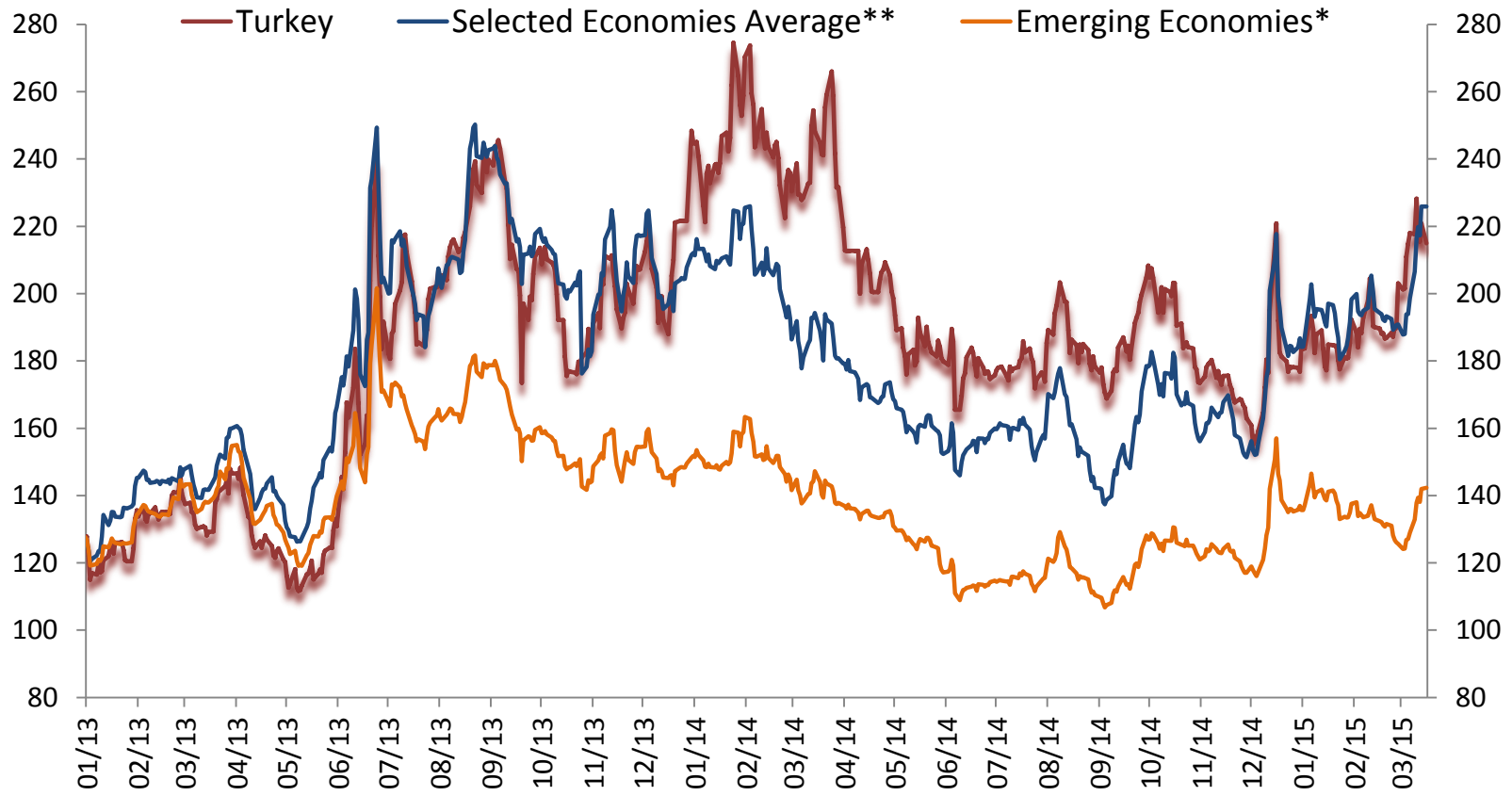
Source: EPFR.

Last Observation: March 11, 2015.

… as well as the risk premium indicators.

CDS for Emerging Economies and Turkey

(5-year, Basis Points)



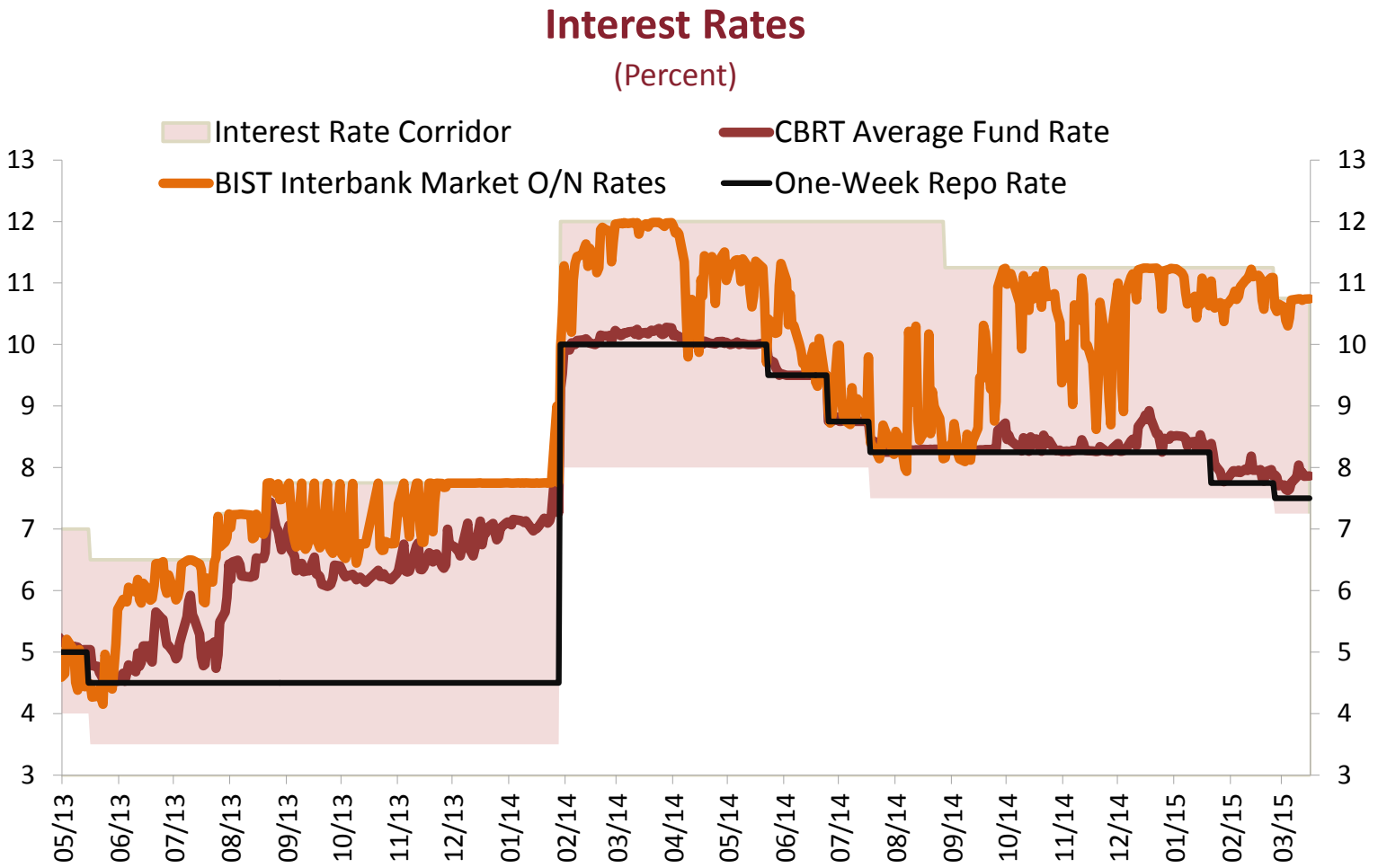
Source: CBRT, Bloomberg.

*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: March 16, 2015.

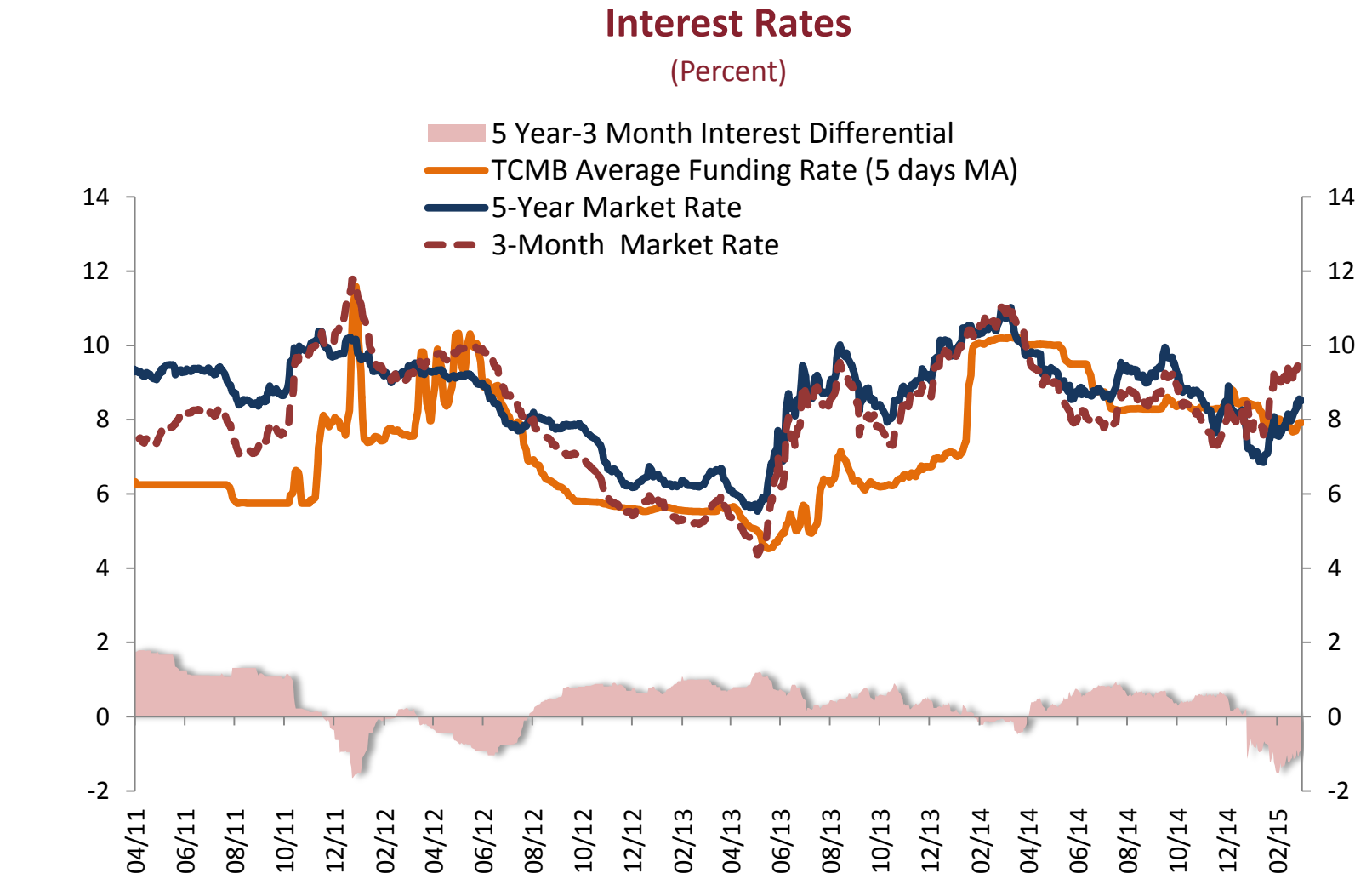
CBRT has decided to keep the interest rates on hold due to uncertainty in financial markets and elevated food prices.



Source: CBRT

Last Observation: March 16, 2015.

Yield curve remains inverted, reflecting tight liquidity policy.



Source: CBRT.

Last Observation: March 16, 2015.

Loans continue to expand at a reasonable pace due to cautious monetary policy stance and macroprudential measures.

Total Loan Growth Rate

(Year on Year Change, Percent)

Last Observation: March 06, 2015.

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

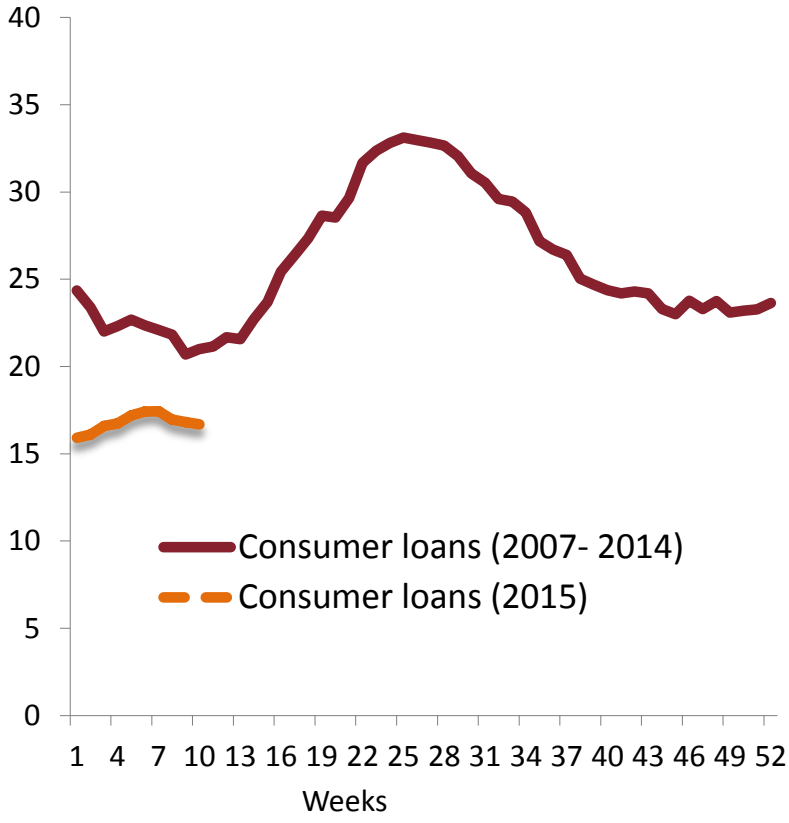
Adjusted for exchange rate.

Source: CBRT.

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

Consumer Loan Growth Rates

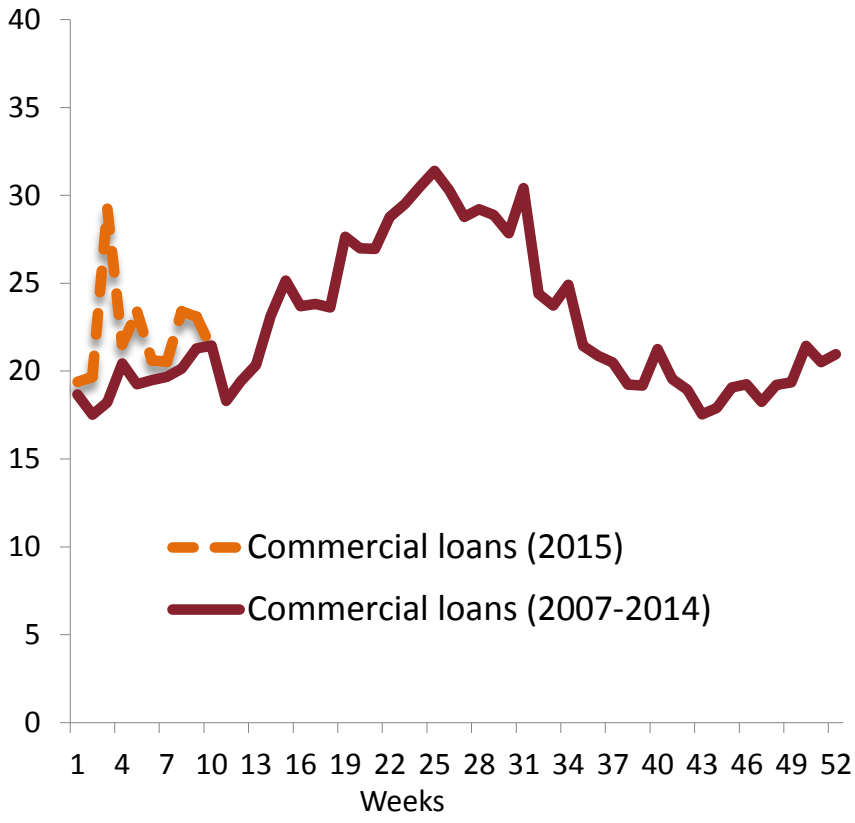
(13-Week Moving Average, Annualized, Percent)



Source: CBRT.

Commercial Loan Growth Rates*

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

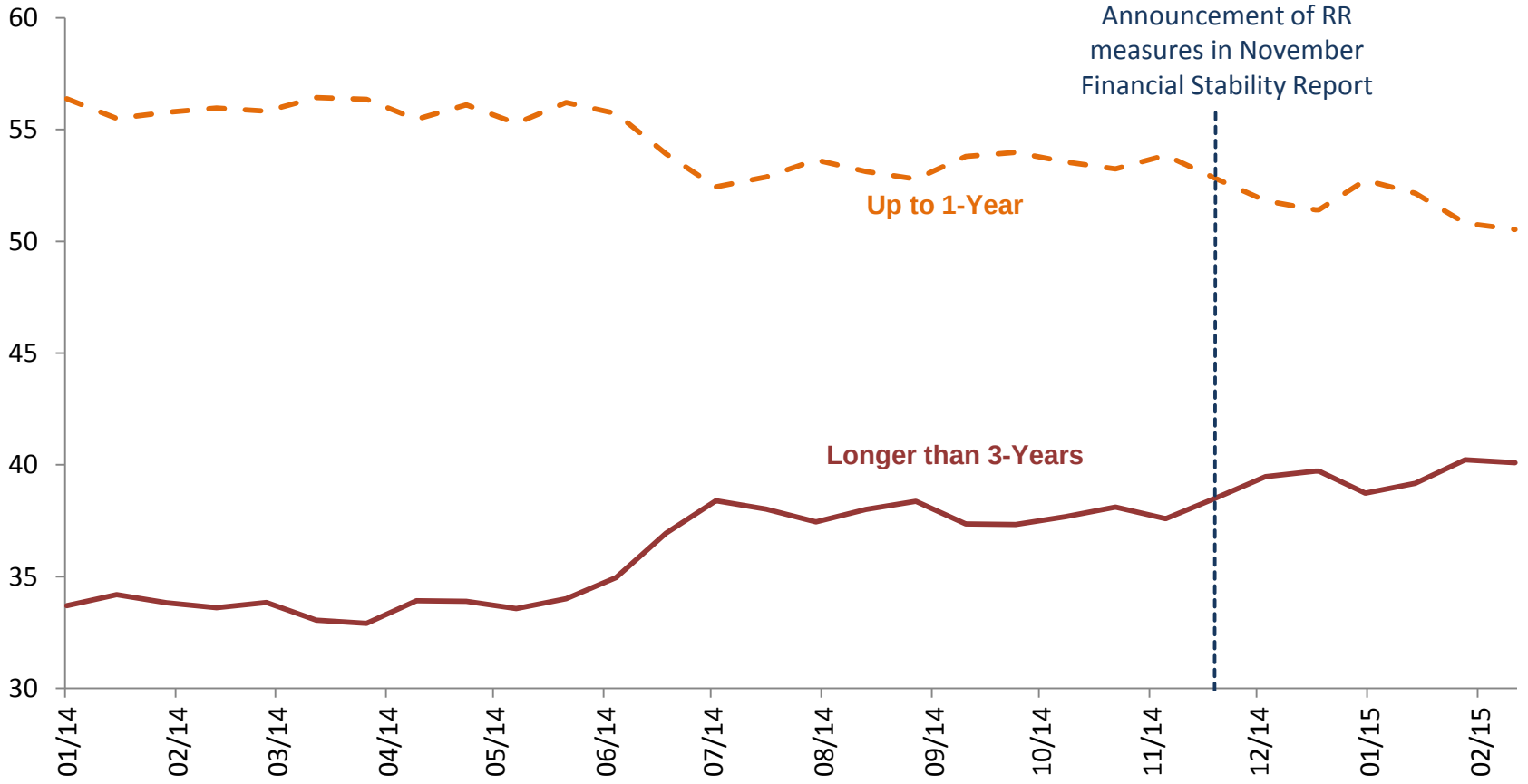


Last Observation: March 06, 2015.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Non-core liabilities of the financial institutions have been shifting towards longer maturities since the announcement of the RR measures.

Maturity Structure of FX Non-core Liabilities

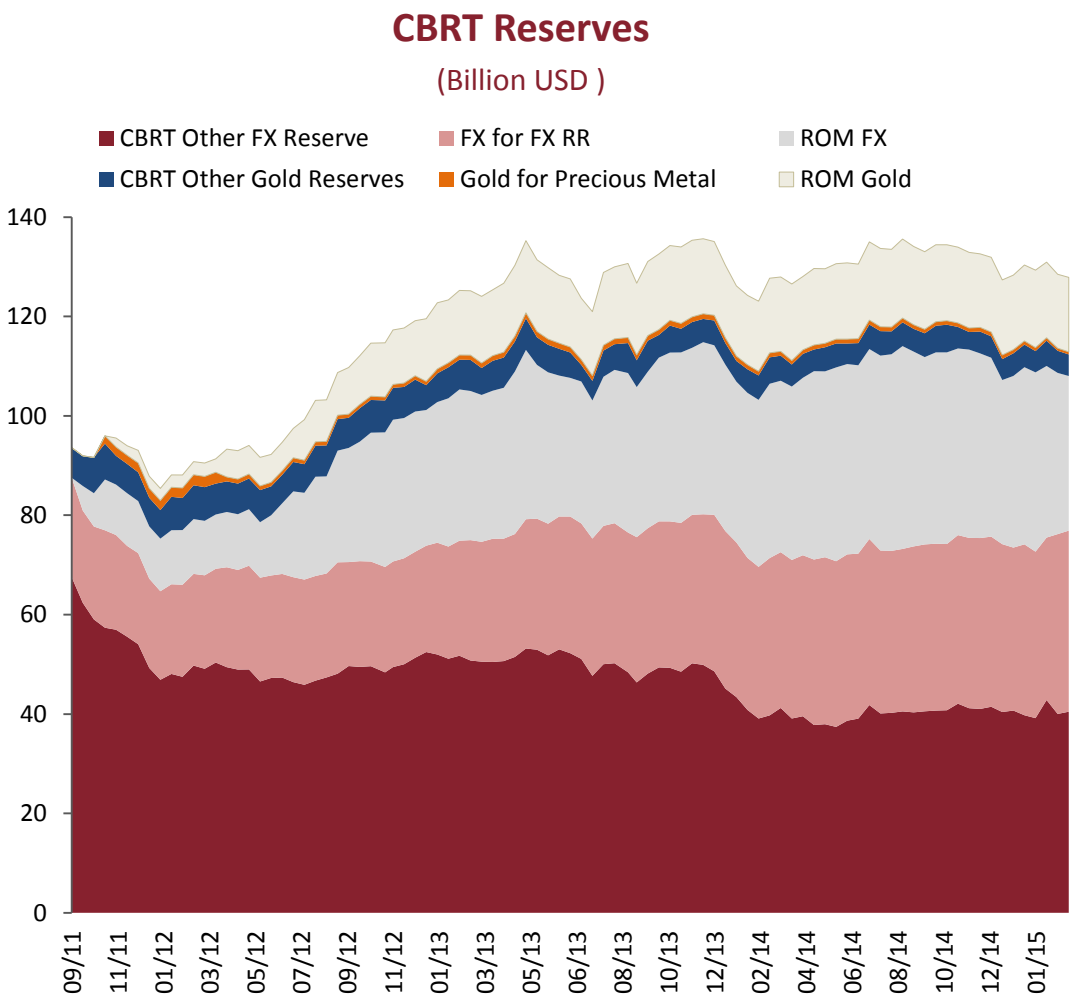
(Percent share in total non-core liabilities)



Source: CBRT.

Last Observation: February 27, 2015.

Export credits continue to contribute to CBRT reserves.



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

Billion USD

	FX Sales (-)	Export Credit (+)
June 2014	0.42	1.54
July 2014	0.38	1.46
August 2014	0.21	1.38
September 2014	0.31	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*	2.34**	1.35
March 2015*	0.62**	1.26†
April 2015		1.38†
May 2015		1.04†
June 2015		0.81†

	Amount (Billion USD)
ROM FX	31.1
FX Required Reserves	36.4
Total	67.5

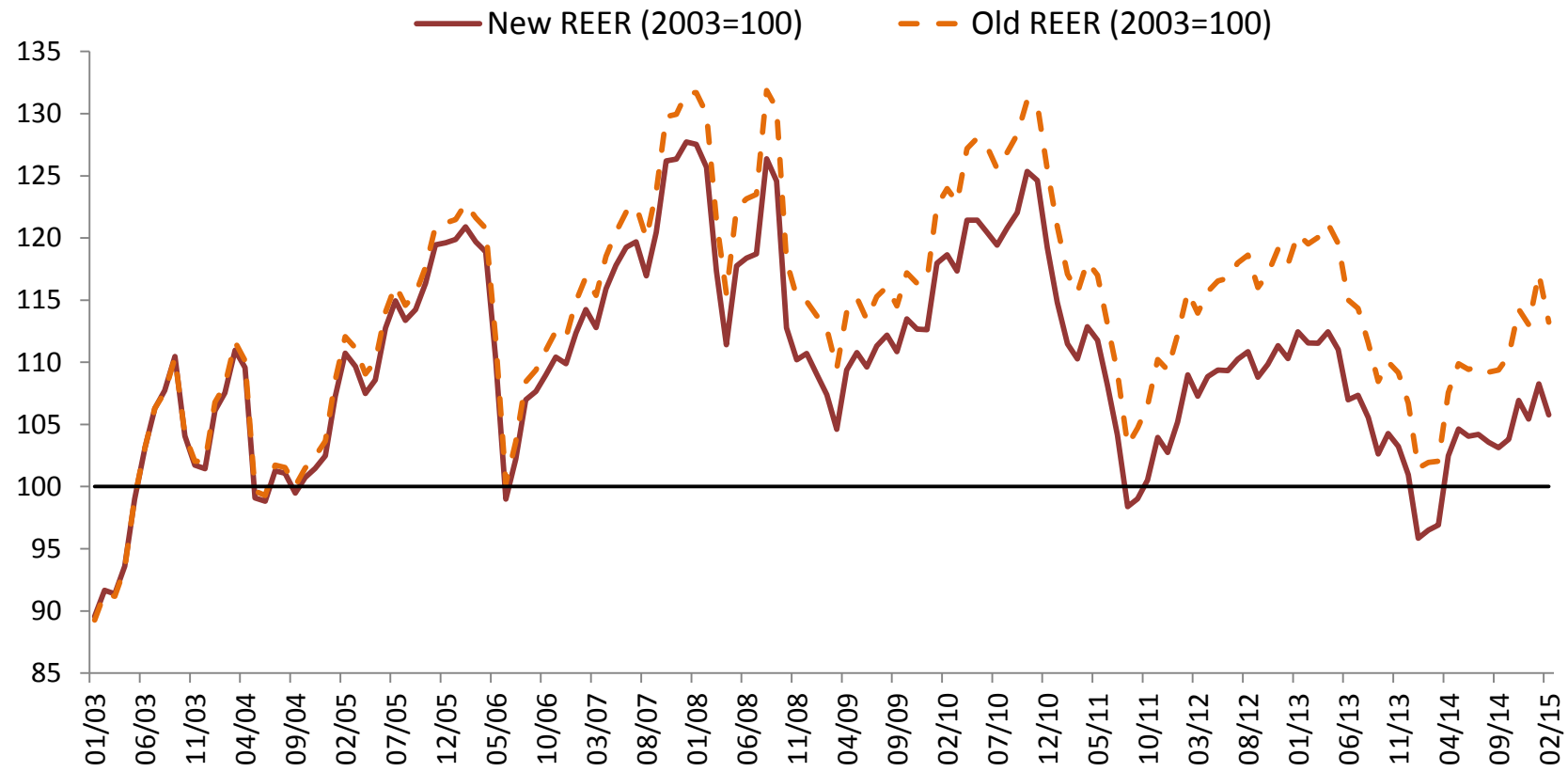
* Includes FX sales to Public Energy Companies
** FX Sales are as of March 11, 2015.
†Provisional.

Recent FX Liquidity Measures

- More flexible FX sale auctions
  - Smoothing FX volatility
- Adjustments in Reserve Option Coefficients
  - Meet the temporary FX liquidity needs of the banking system
  - Reduce TL intermediation costs
- Increase in reserve requirements for non-core short-term FX liabilities
  - Encourage maturity extension of non-core liabilities and support core liabilities
  - Compensate for the loss of reserves by the ROM adjustment
- Reduce interest rates on CBRT direct FX lending facility to banks
  - Consistency with global interest rates

Revised Real Effective Exchange Rate indices with the expanded coverage and chain-weighted methodology will be officially published starting from April 6, 2015.

Reel Effective Exchange Rates with the Old vs. New Methodologies



Source: CBRT.

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