



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**THE ECONOMIC OUTLOOK AND
MONETARY POLICY**

September 23, 2015

Overview: Macroeconomic Outlook and Monetary Policy

- In the first half of the year, domestic demand contributed moderately to growth while external demand remained weak.
- The contribution of net exports is expected to pick up in the second half with the support of rising demand from the European Union economies.
- The improvement in the current account balance will resume with the August figure and will most likely continue throughout 2015.
- Inflation is expected to rise further in September due to exchange rate effects and the volatility in unprocessed food prices.
- The CBRT maintains a tight policy stance to address the inflationary risks from the exchange rate pass-through and higher inflation expectations.
- Recently, the CBRT has taken a broad set of measures in the context of the “road map during the normalization of global monetary policies”.
- Overall, CBRT policies are tight for the inflation outlook, stabilizing for FX liquidity, and supportive for financial stability.

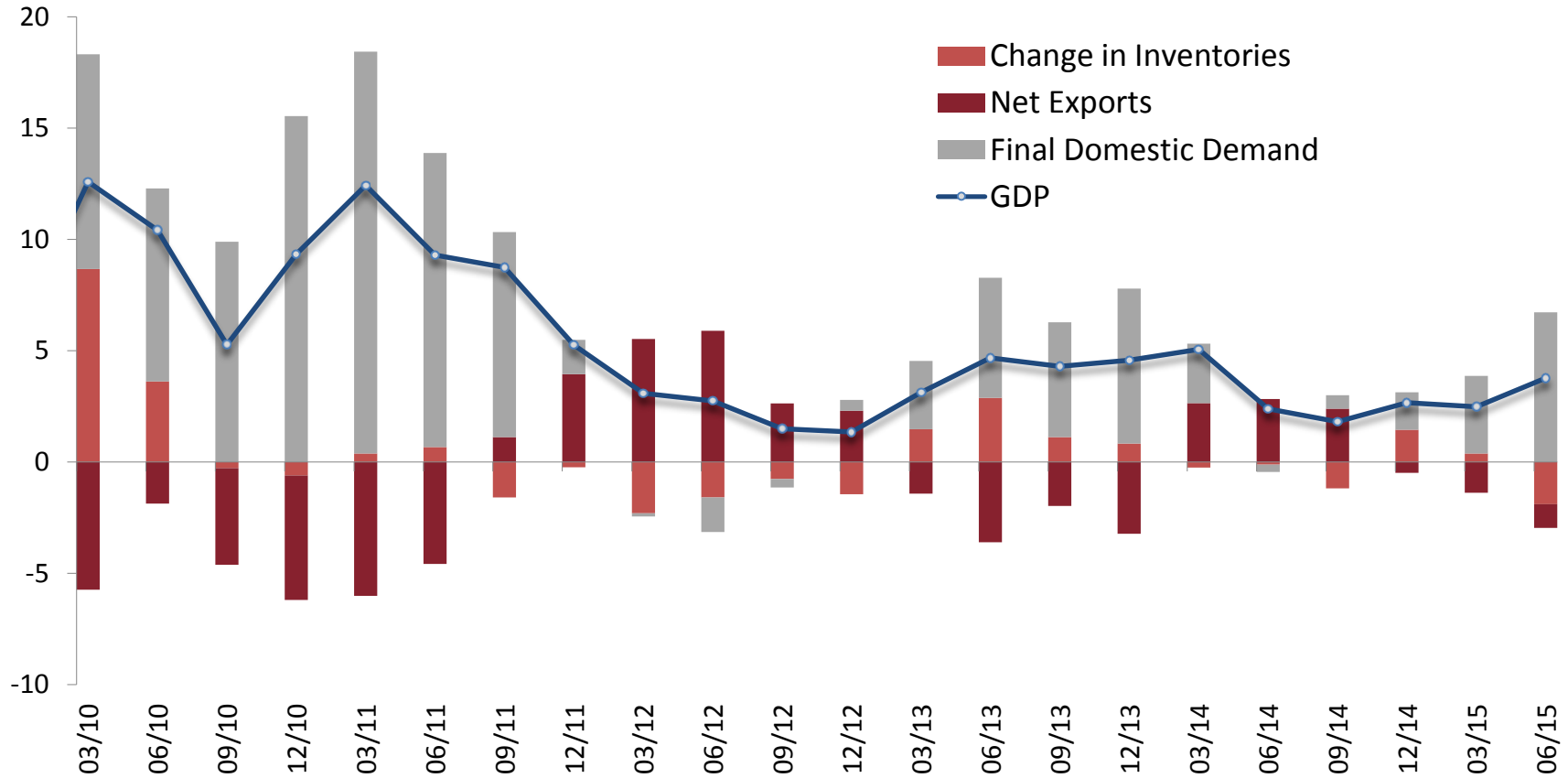
Outline

1. Economic Activity
2. External Balance
3. Inflation
4. Monetary and Financial Conditions
5. Recent Policy Measures

ECONOMIC ACTIVITY

External demand remained weak in the first half of the year, while domestic demand contributed to growth moderately.

Contribution to Annual GDP Growth (Percentage Points)

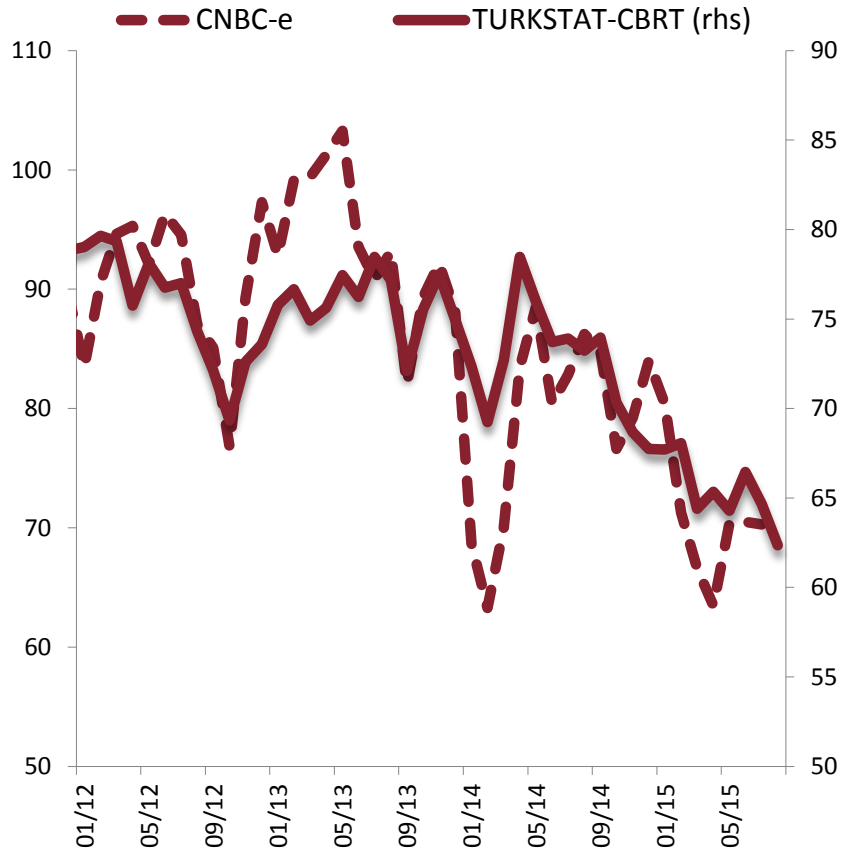


Source: TURKSTAT.

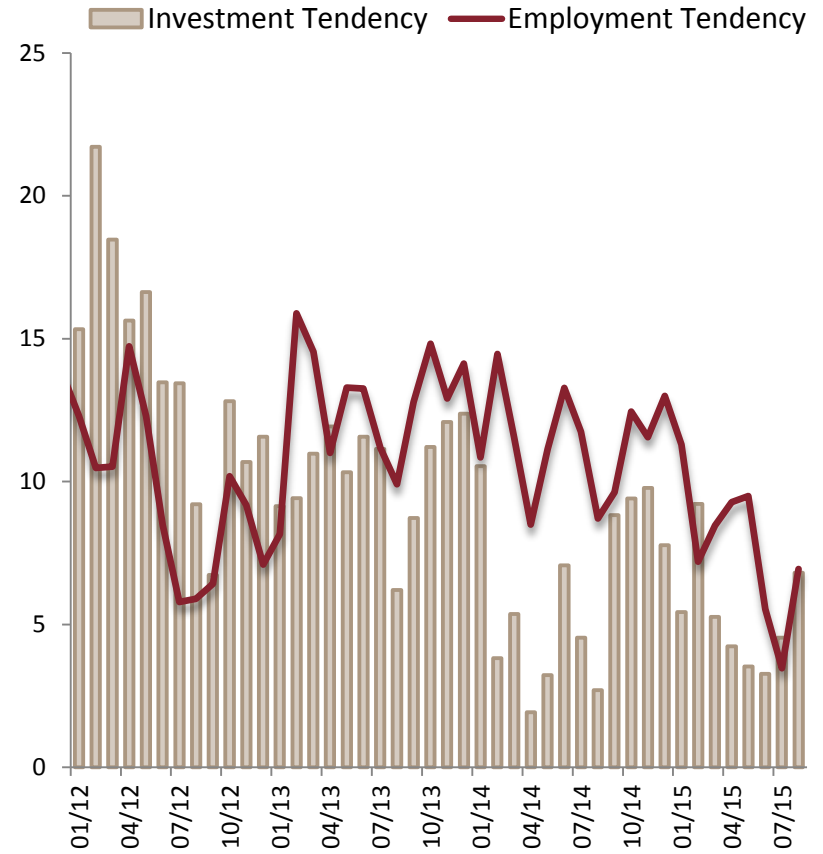
Last Observation: 2015 Q2

Consumer confidence indicators point to a deceleration in the private consumption for the second half.

Consumer Confidence



Investment and Employment Prospects (Seasonally Adjusted)



Source: CNBC-e, TURKSTAT, CBRT.

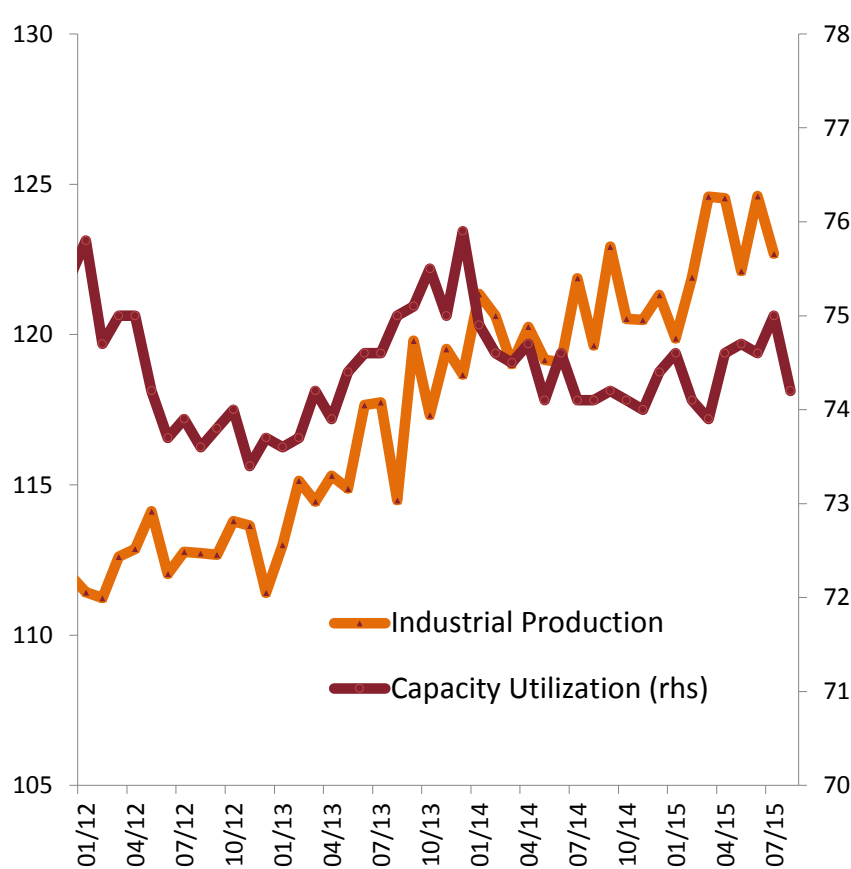
Last Observation: July 2015 for CNBC-e Survey,
August 2015 for TURKSTAT-CBRT Survey.

Source: CBRT Business Tendency Survey

Last Observation: August 2015.

The recovery in export orders is expected to limit the slowdown in the economic activity.

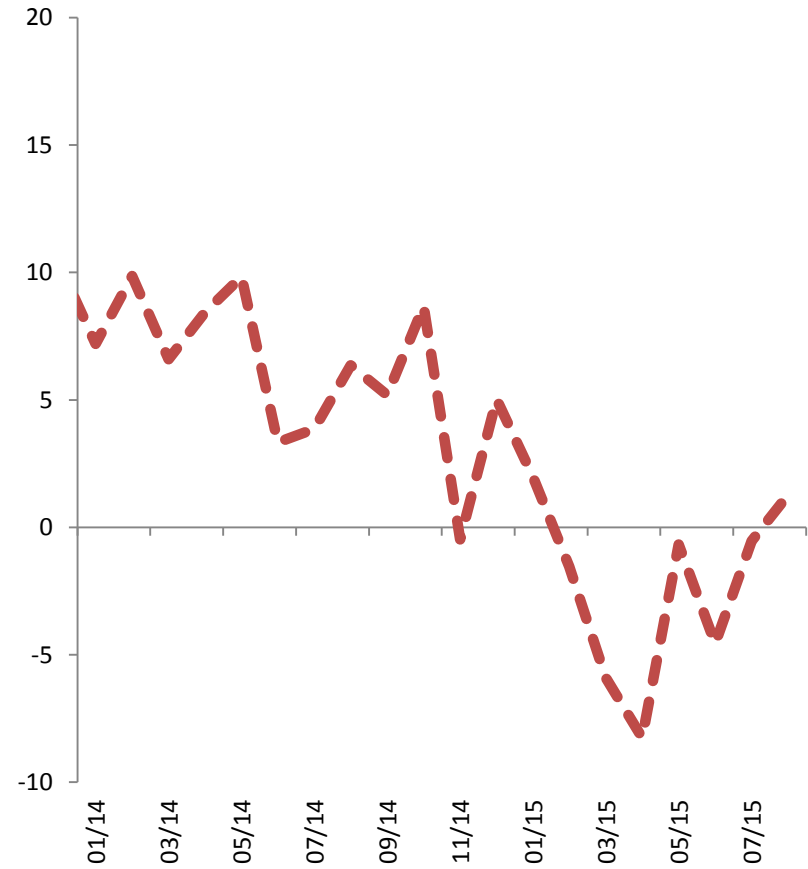
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Last Observation: July 2015 for Industrial Production,
August 2015 for Capacity Utilization.

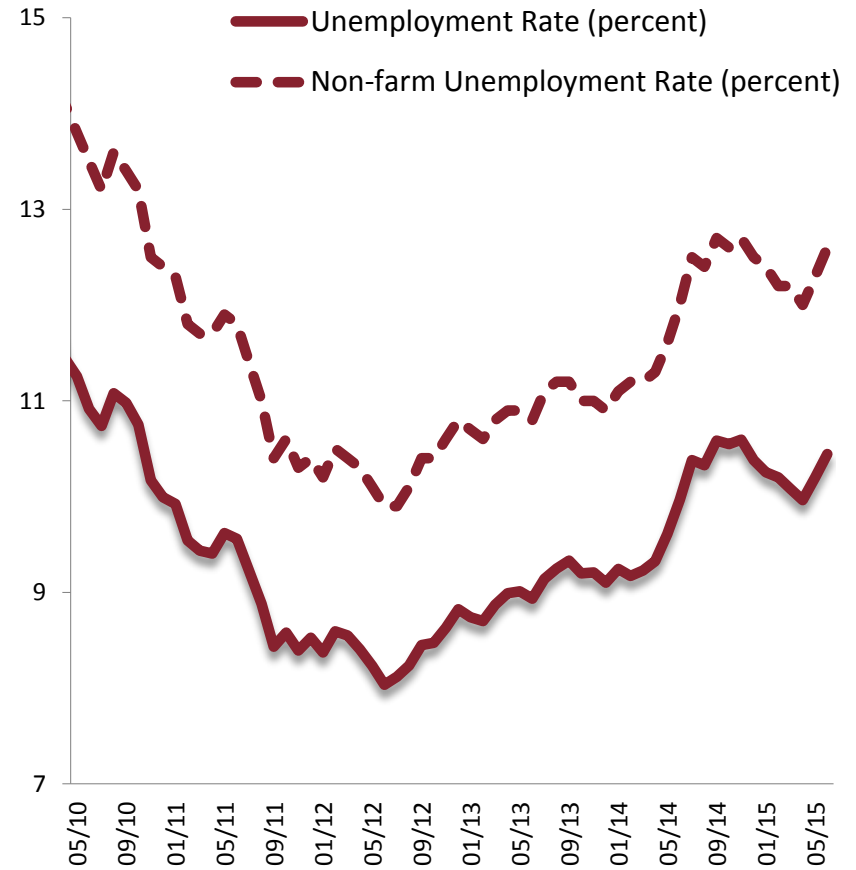
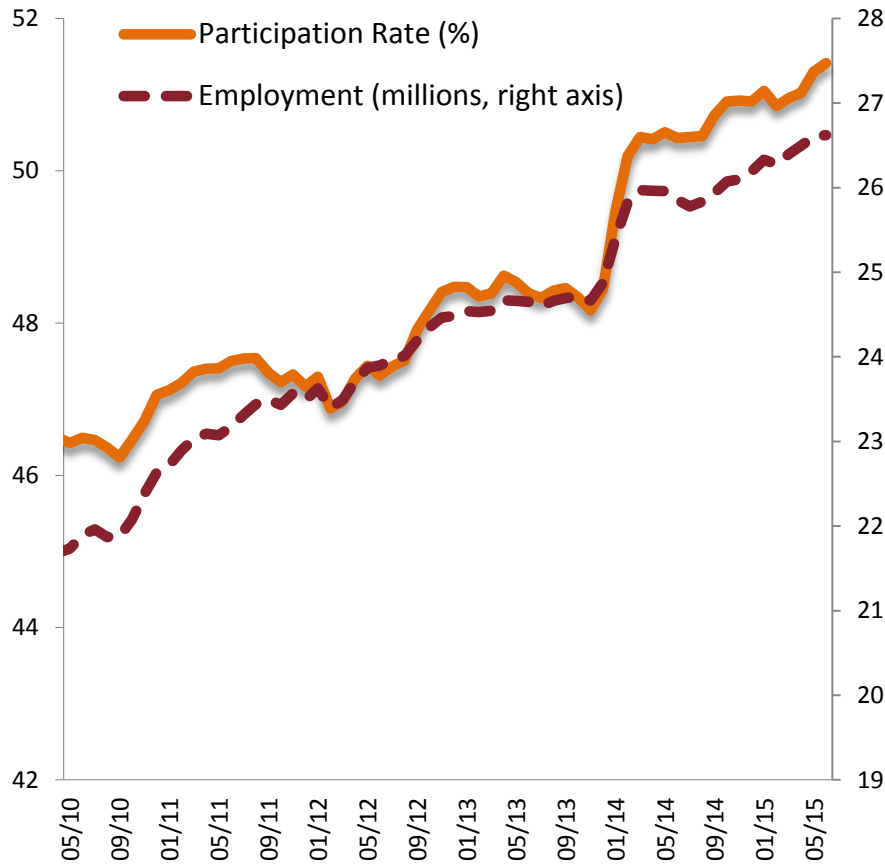
Export Orders (Seasonally Adjusted)



Source: CBRT Business Tendency Survey.

Last Observation: August 2015.

Employment continued to increase at a steady pace during the first half of the year; though some deceleration is expected in the second half.



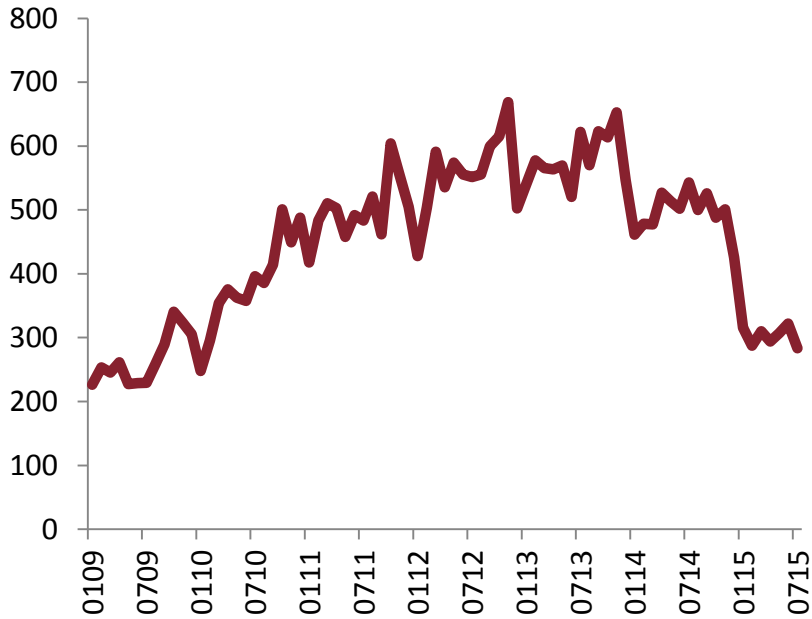
Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: June 2015.

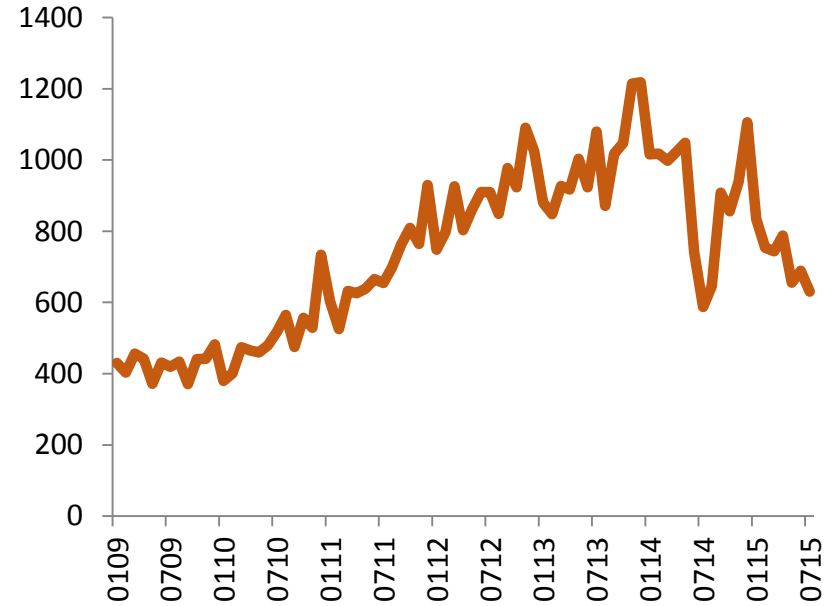
EXTERNAL BALANCE

Geopolitical tensions have weighed on exports during the past year.

Exports to Russia (Monthly, Million USD)



Exports to Iraq (Monthly, Million USD)

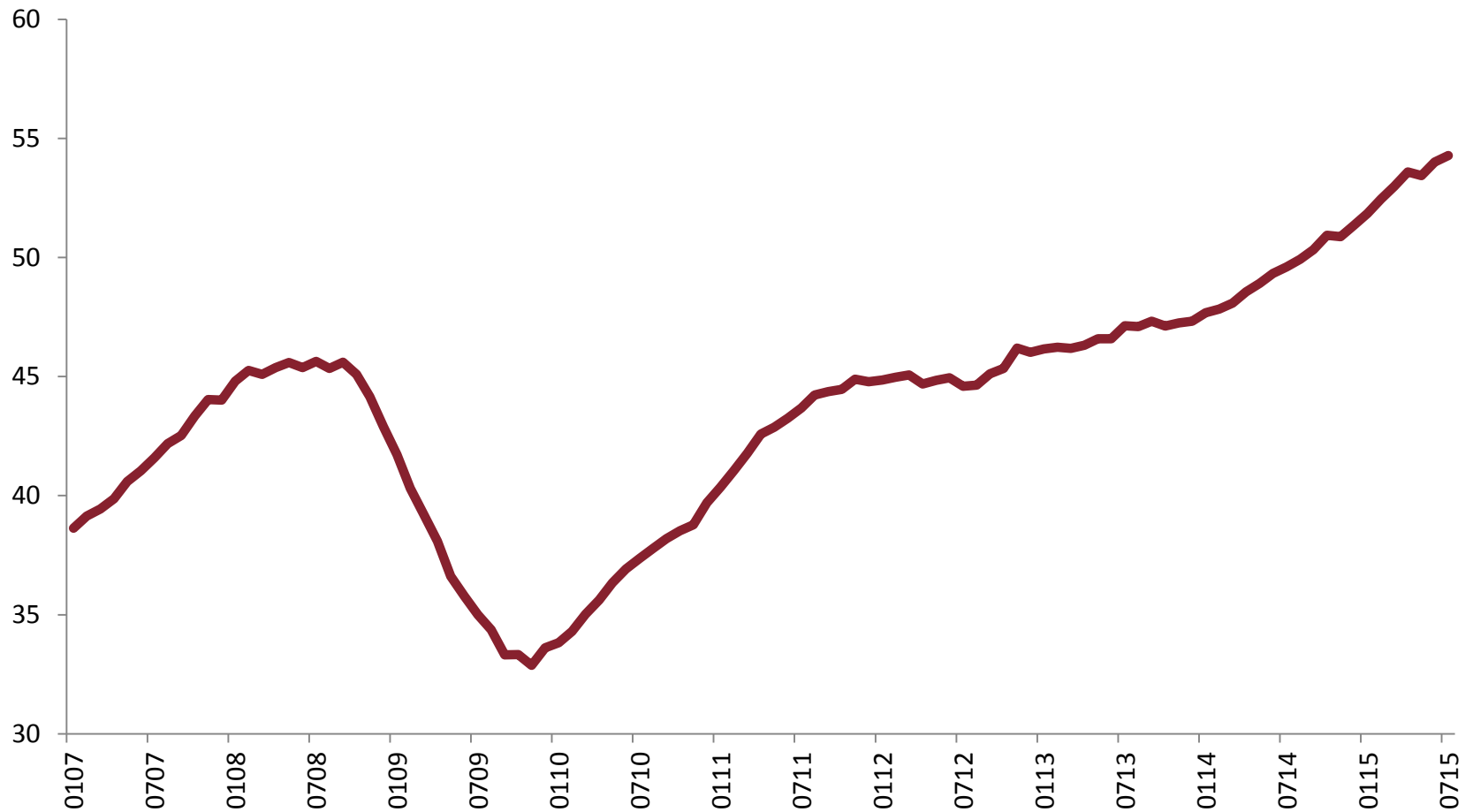


Source: TURKSTAT

Last Observation: July 2015.

The recovery in European economies will support growth and rebalancing in upcoming quarters.

Exports to European Union
(12 months cumulative, billion Euros)



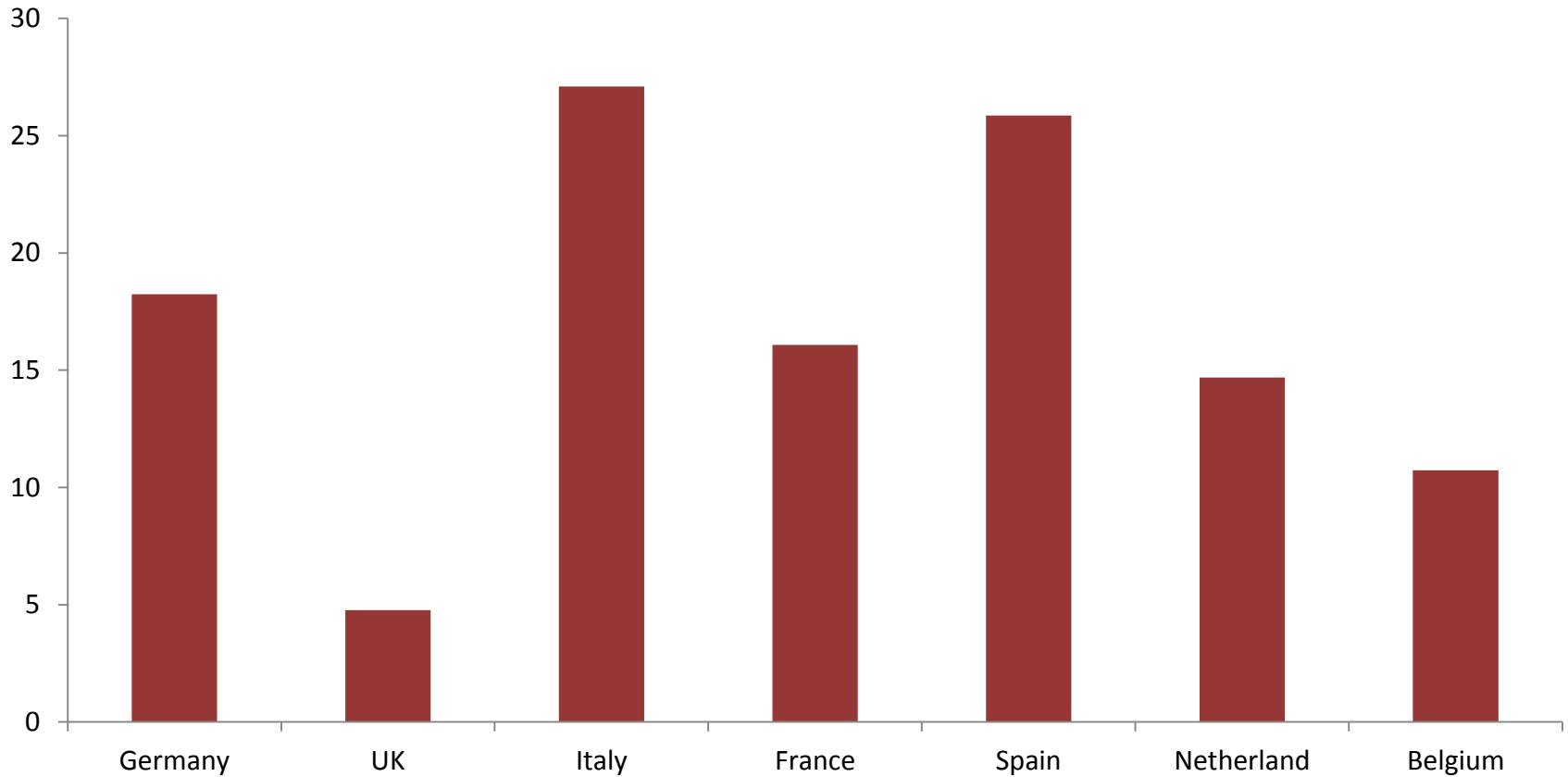
Source: TURKSTAT.

Last Observation: July 2015.

Most recent data show that Turkey's exports to major EU trade partners continue to grow at a solid pace.

Export growth (1-20 September)

Annual Percentage Change over the Previous Year, WDA, Million Euro*



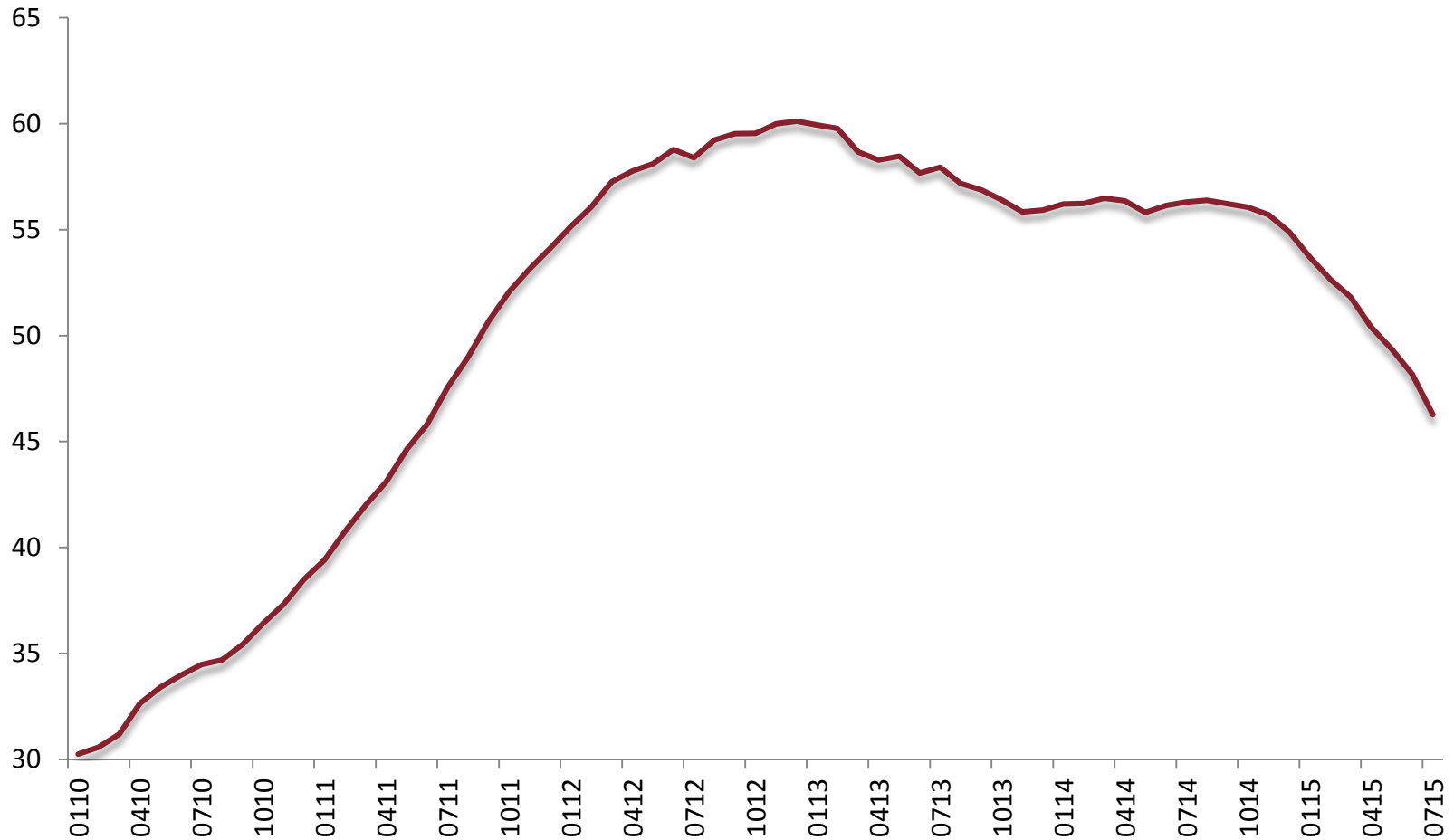
Source: Ministry of Customs and Trade.

* British Pound is used for UK.

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

Energy Imports

(12-Month Cumulative, Billion USD)

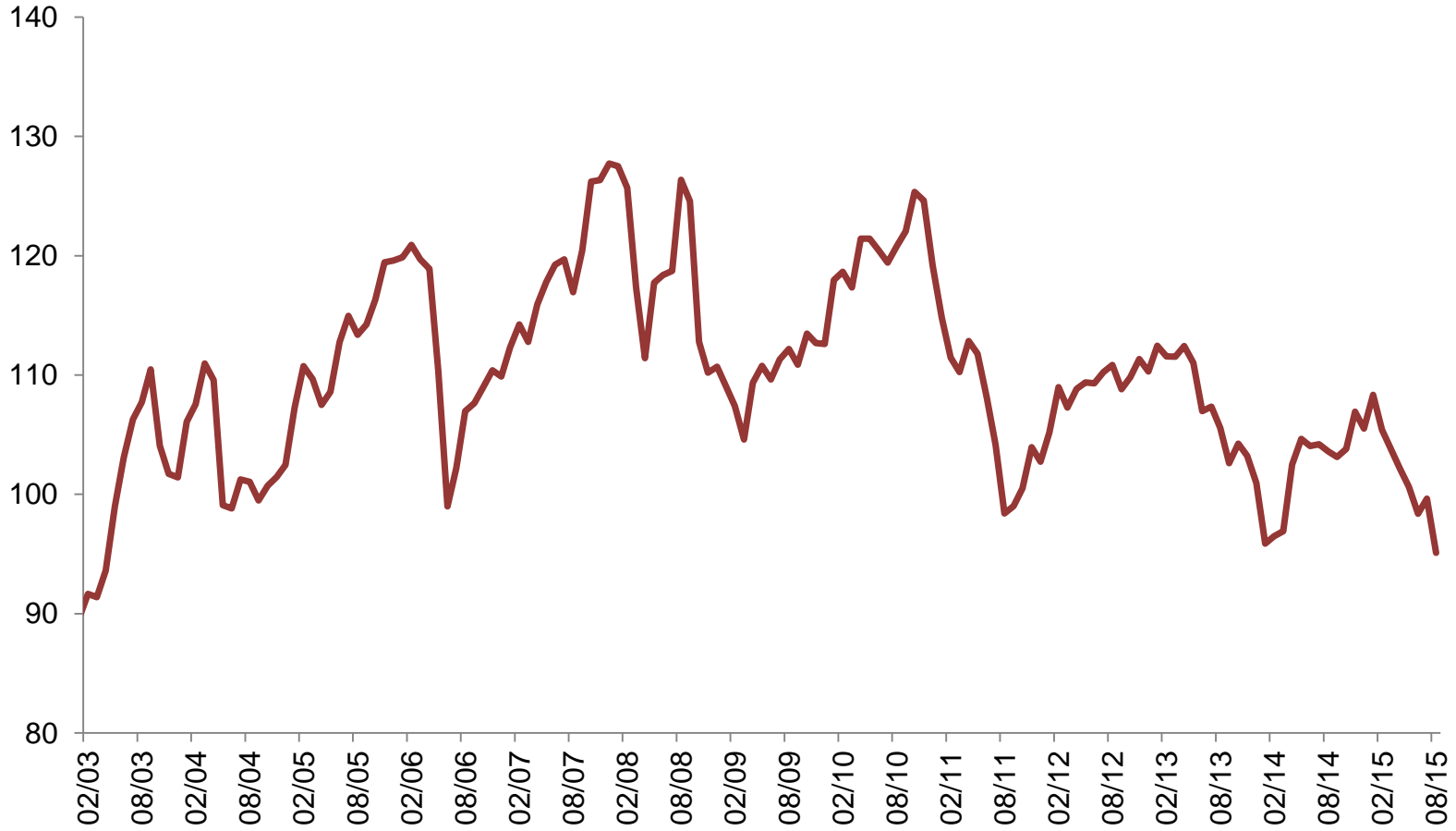


Source: TURKSTAT

Last Observation: July 2015.

Real Effective Exchange Rates have reached historically low levels.

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

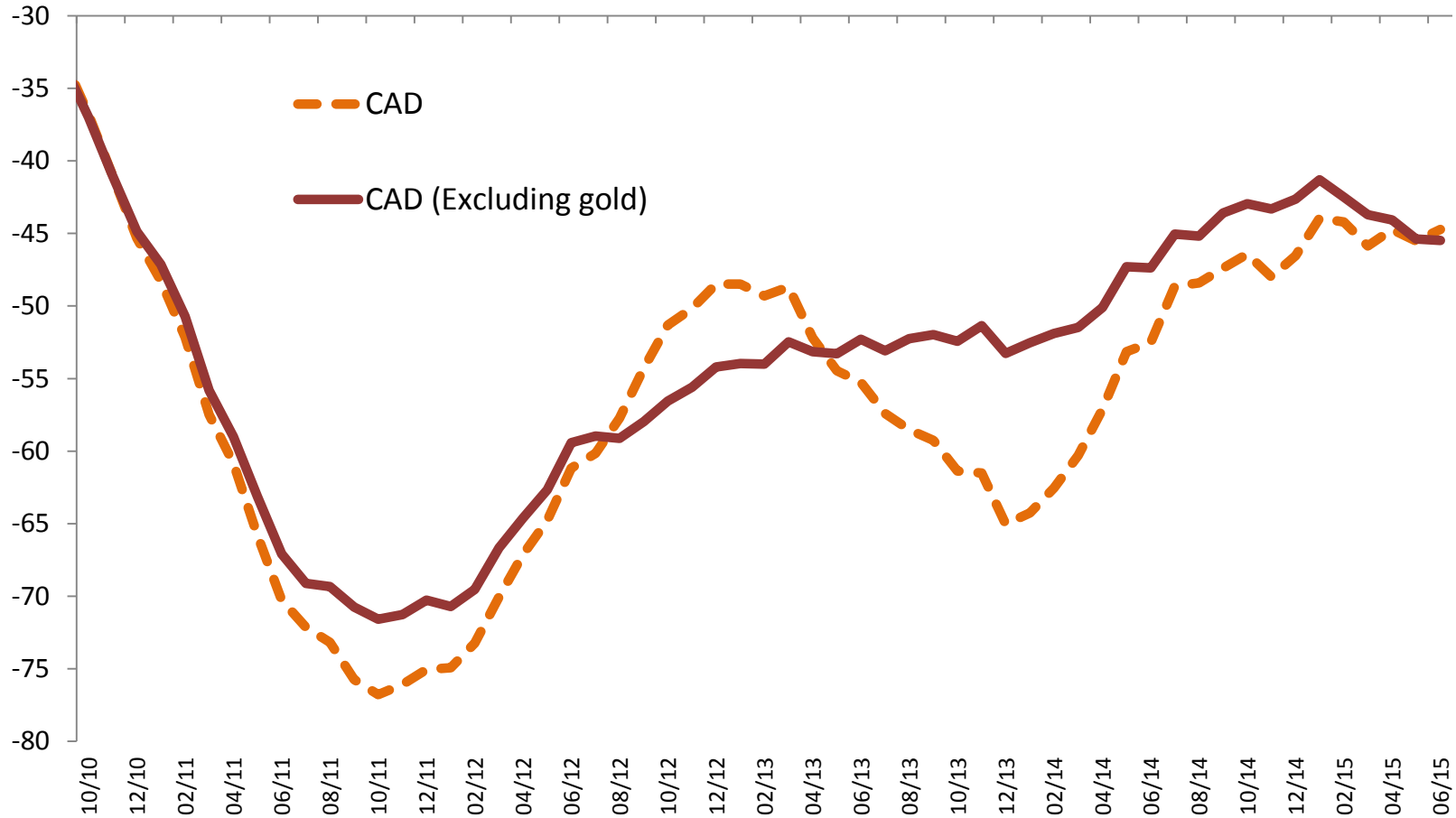


Source: CBRT.

Last Observation: August 2015.

The improvement in the current account deficit will resume with the August figure and is expected to continue throughout 2015.

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

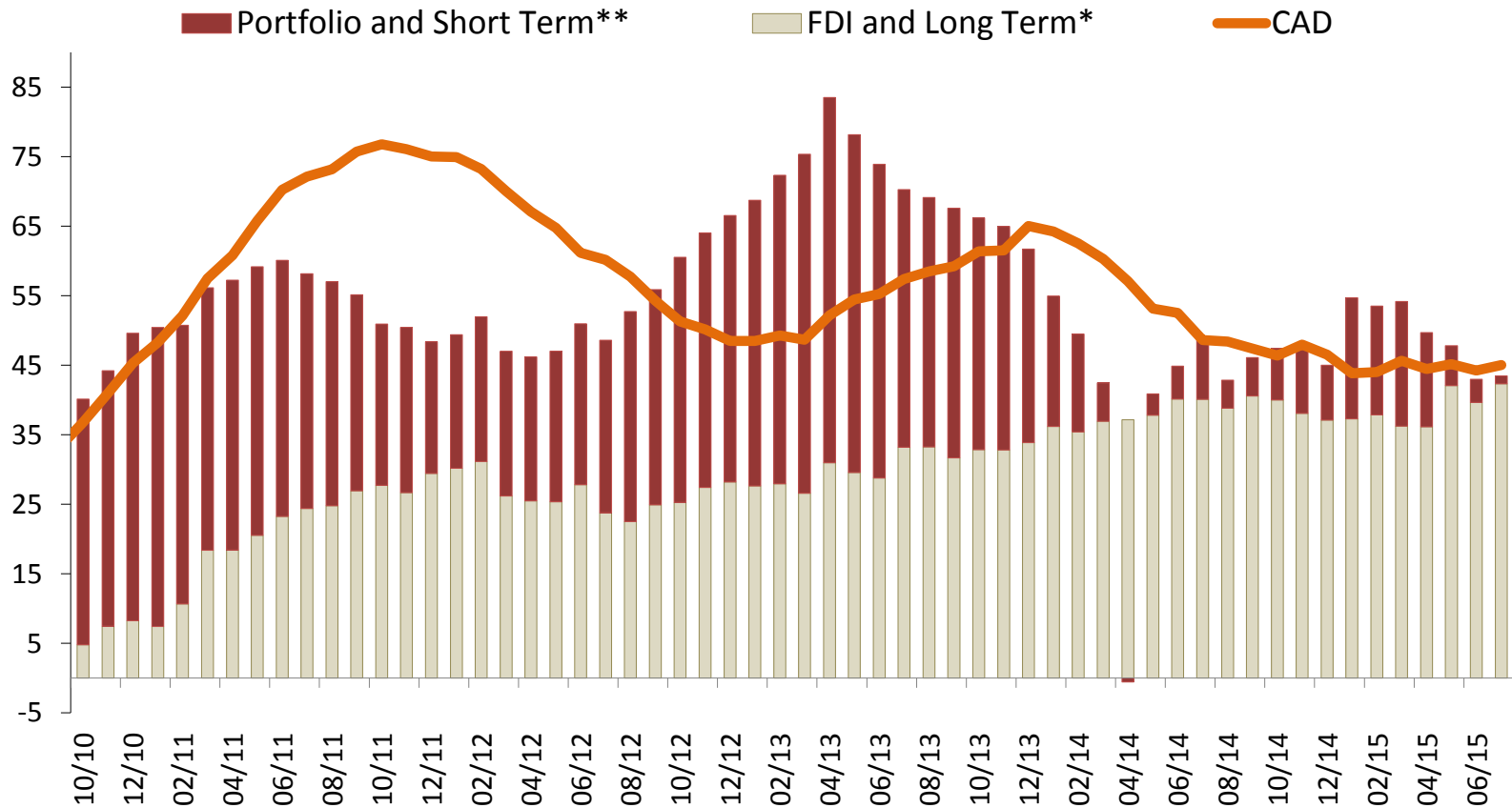


Source: CBRT.

Last Observation: June 2015.

As of July 2015, current account deficit is almost entirely financed through long term borrowing and FDI flows.

(12-Months Cumulative, Billion USD)



Source: CBRT.

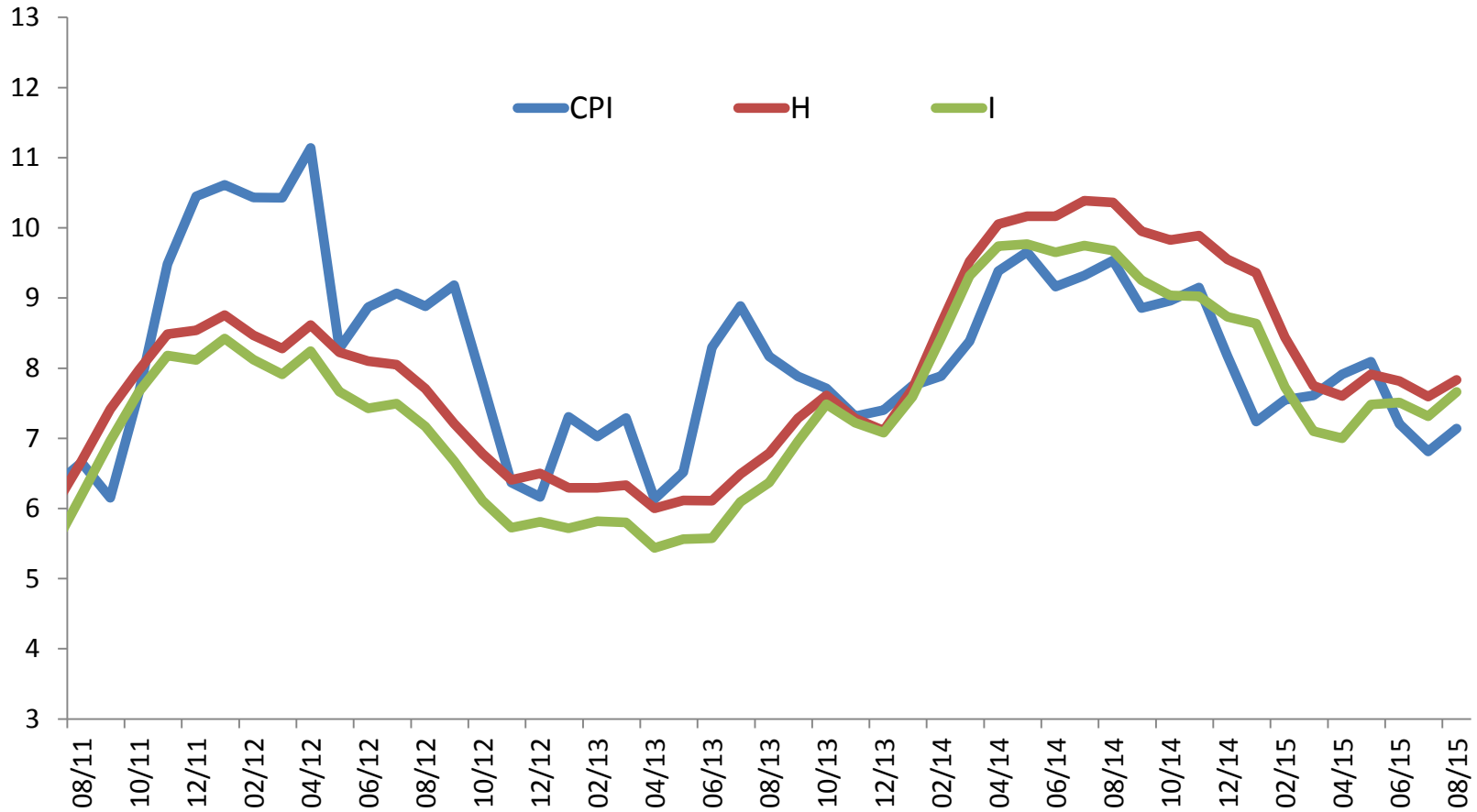
*Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury. Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

Last Observation: July 2015.

INFLATION

Energy price developments support disinflation, while exchange rate movements delay the improvement in the core indicators.

(Annual Percentage Change)

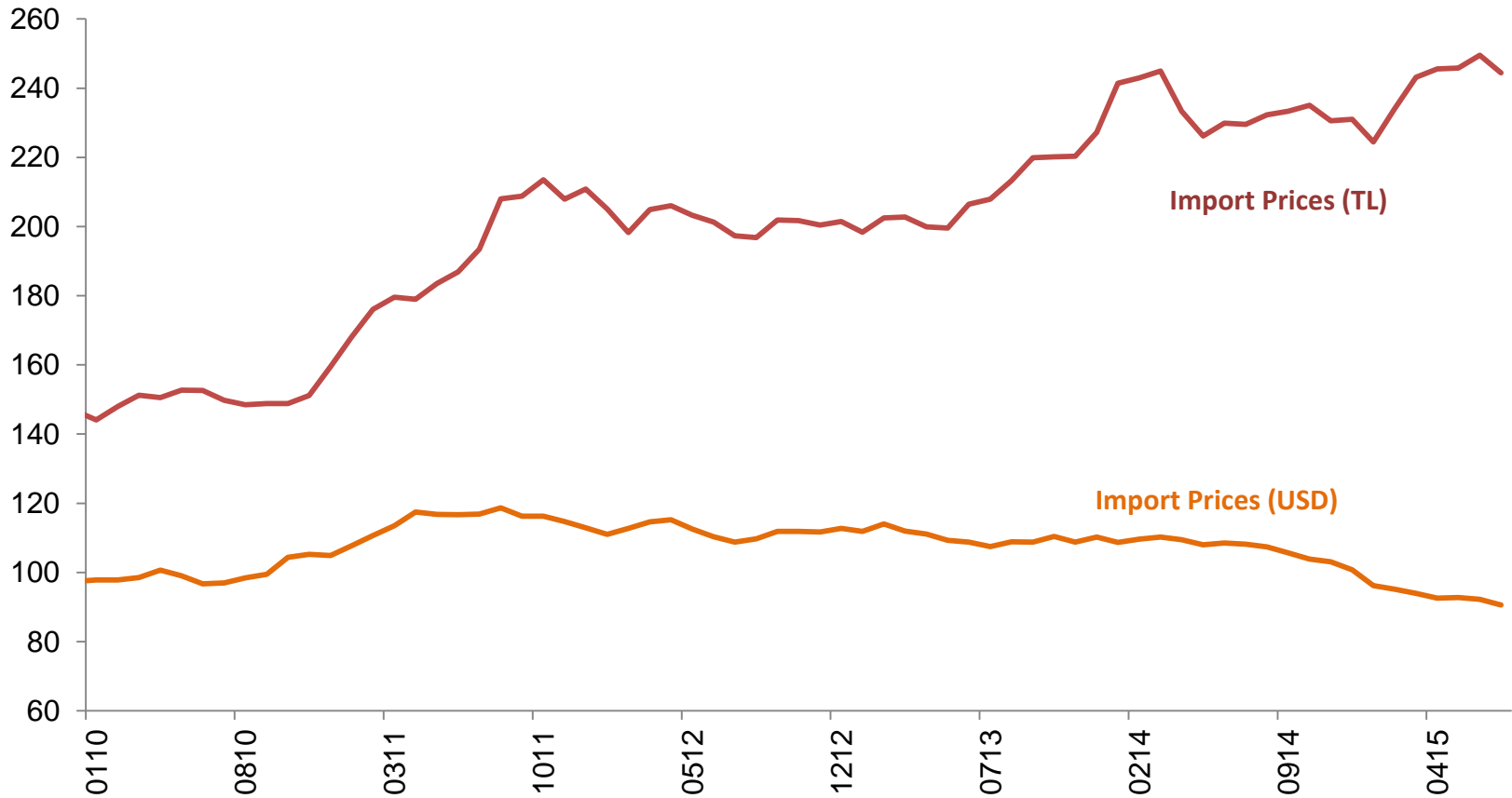


Source: TURKSTAT.

Last Observation: August 2015.

The decline in import prices partly offsets the pass-through effect from exchange rates.

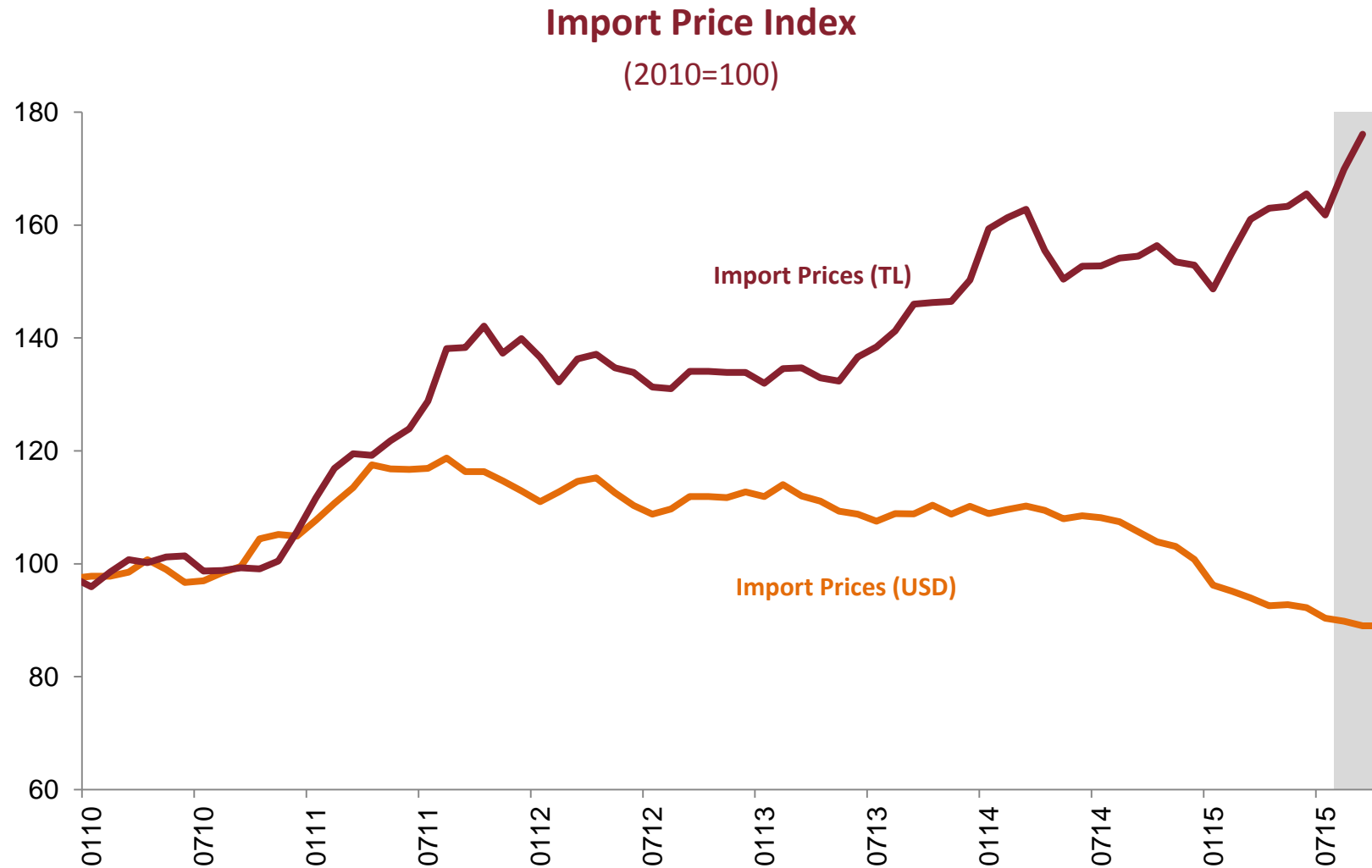
Import Price Index
(2010=100)



Source: TURKSTAT, CBRT.

Last Observation: July 2015.

The decline in import prices partly offsets the pass-through effect from exchange rates.

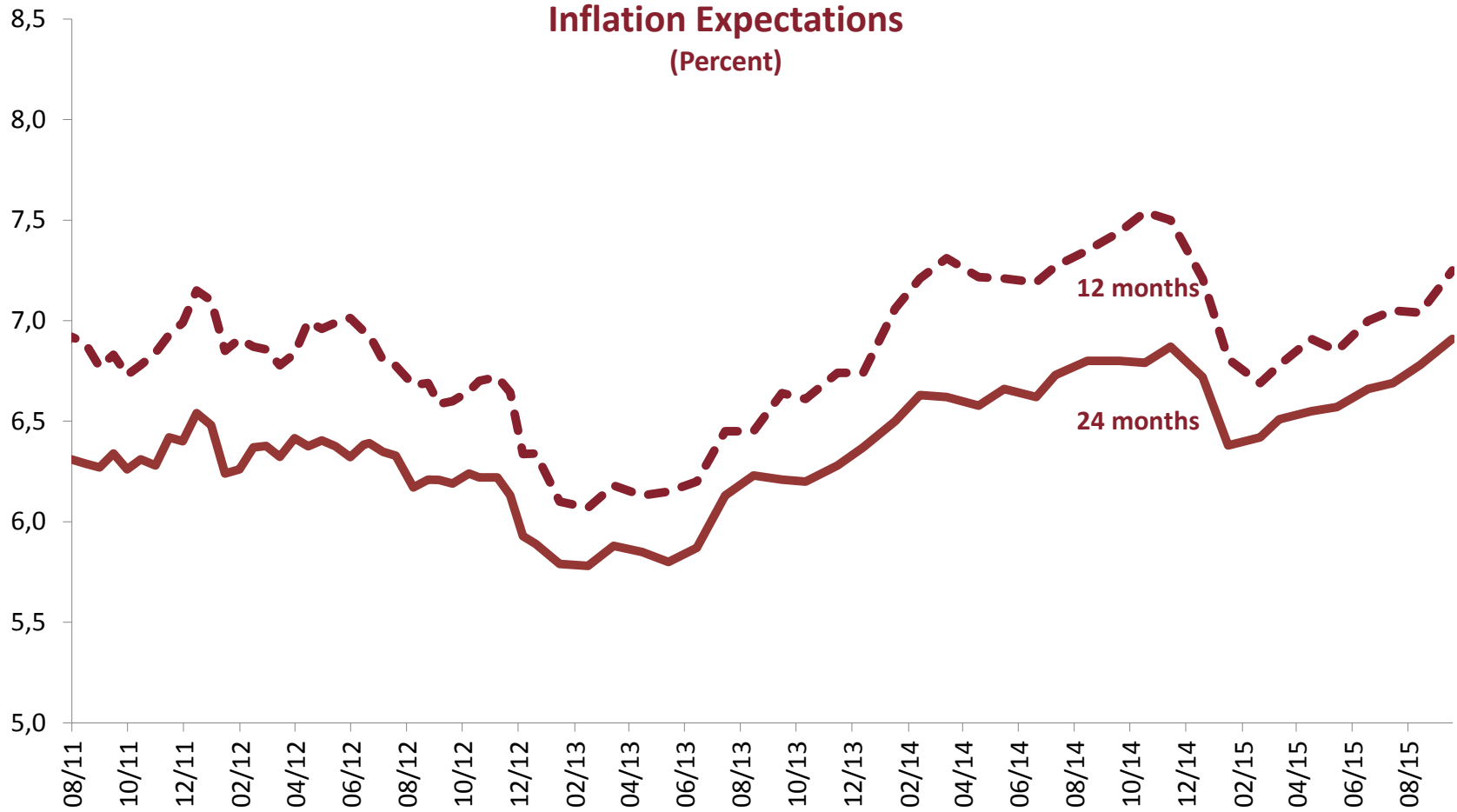


Source: TURKSTAT, CBRT.

Last Observation: August 2015.

*The values for August are forecasts

Inflation expectations have edged up recently due to the impact of the uncertainty in domestic and global markets.



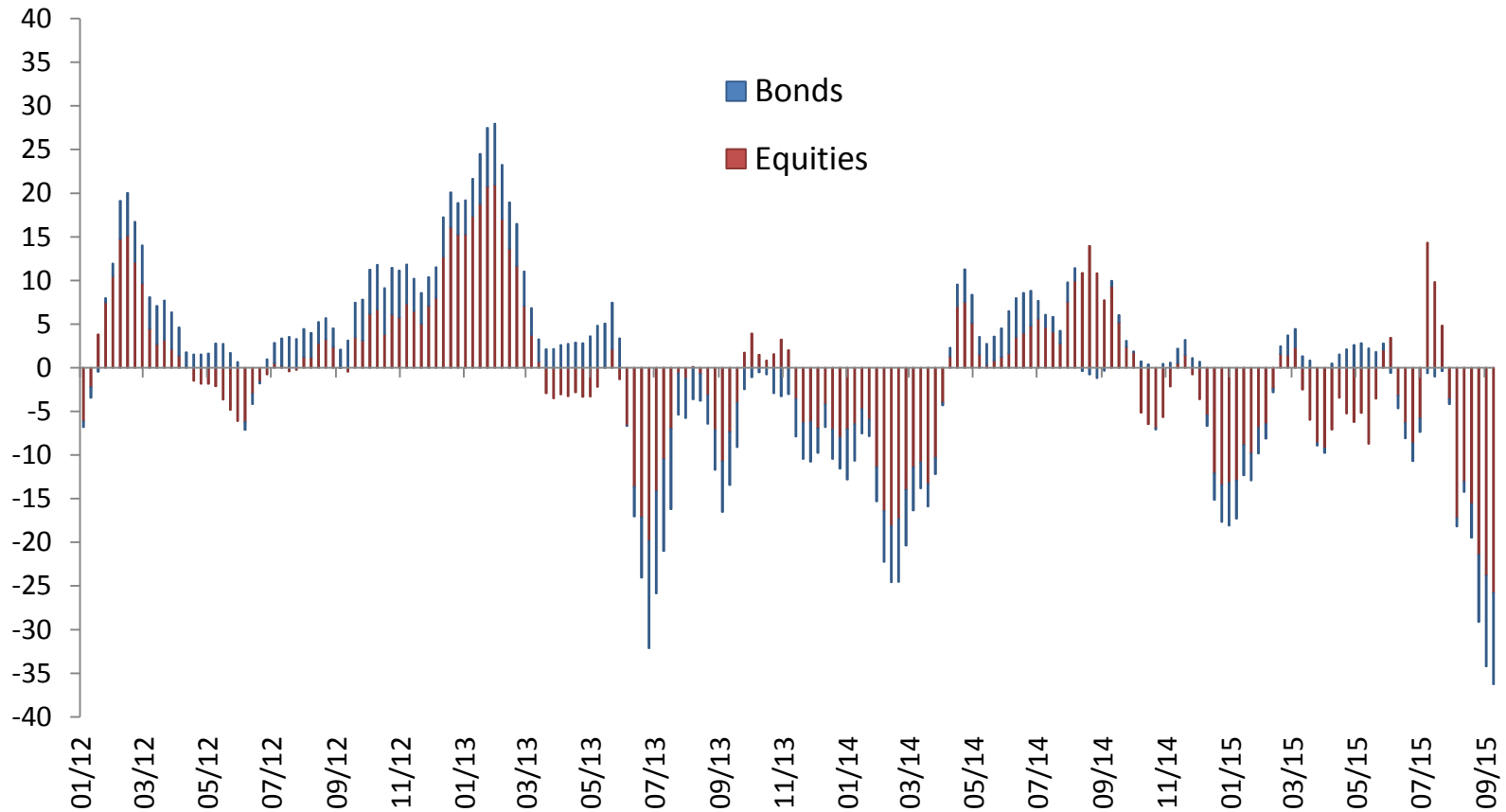
Source: CBRT.

Last Observation: September 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)

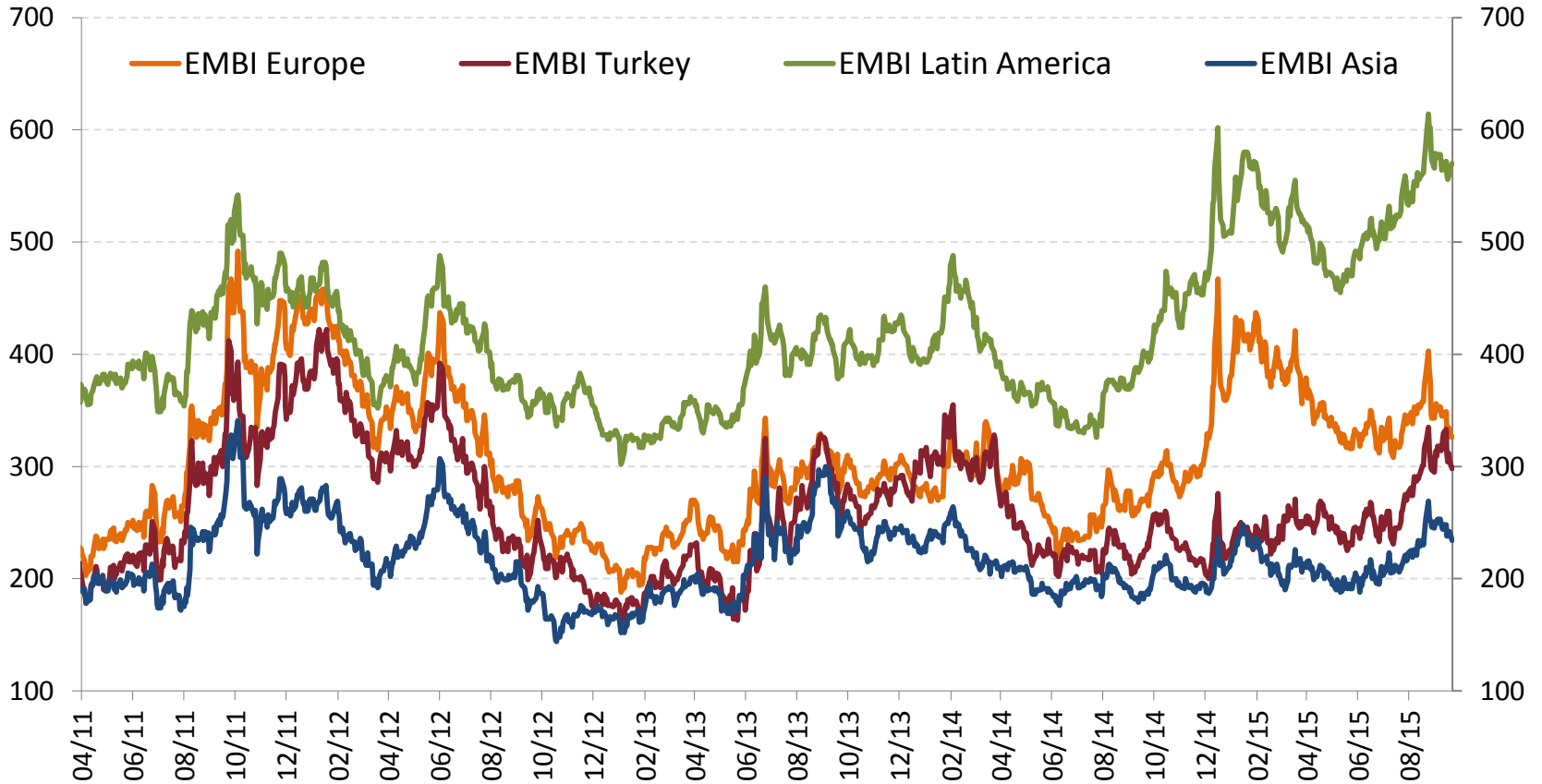


Source: EPFR.

Last Observation: September 9, 2015.

... as well as the risk premium indicators ...

Regional EMBI Indices (Basis Points)

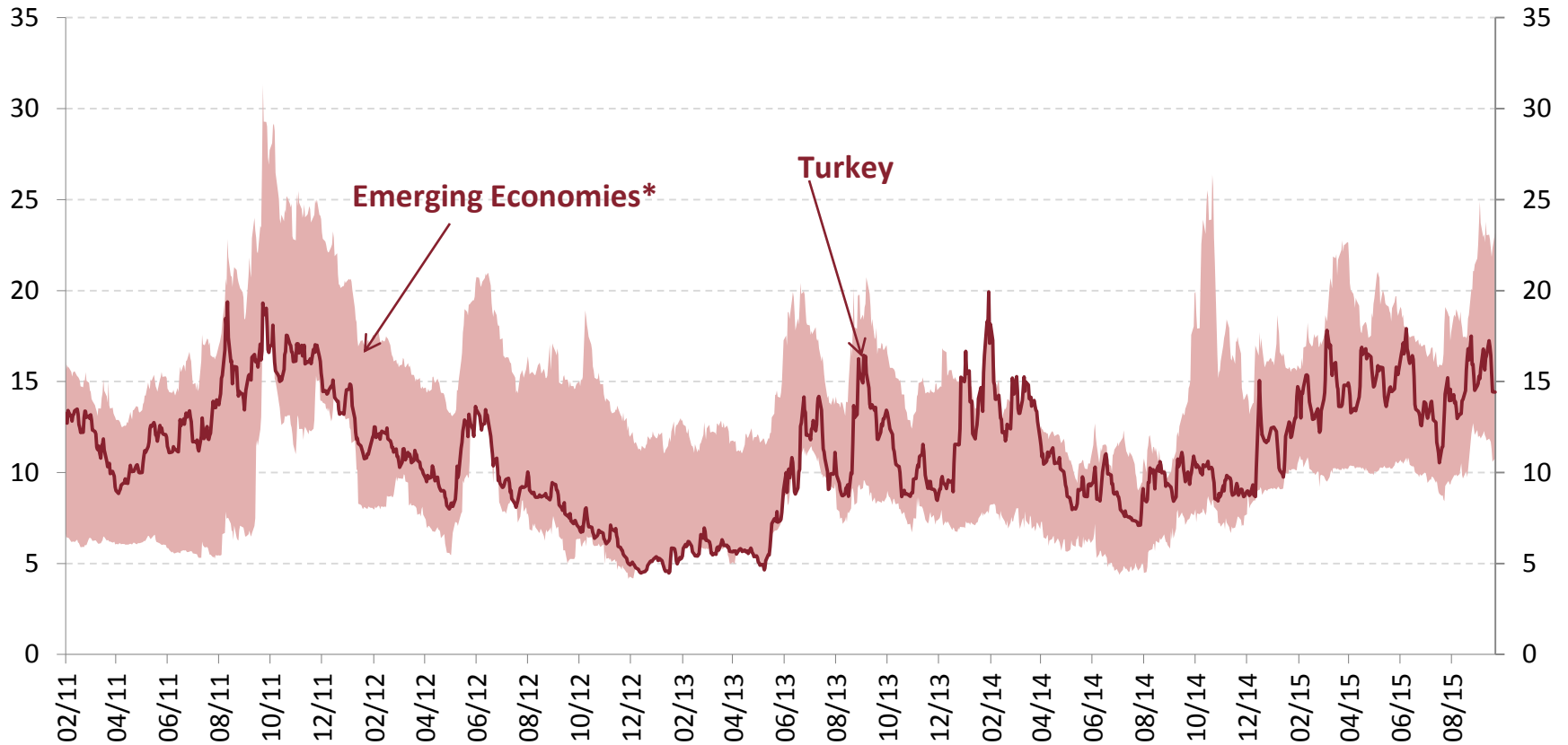


Source: Bloomberg.

Last Observation: September 21, 2015.

... and the exchange rates.

Implied FX volatility (1 month, Percent)



Source: Bloomberg

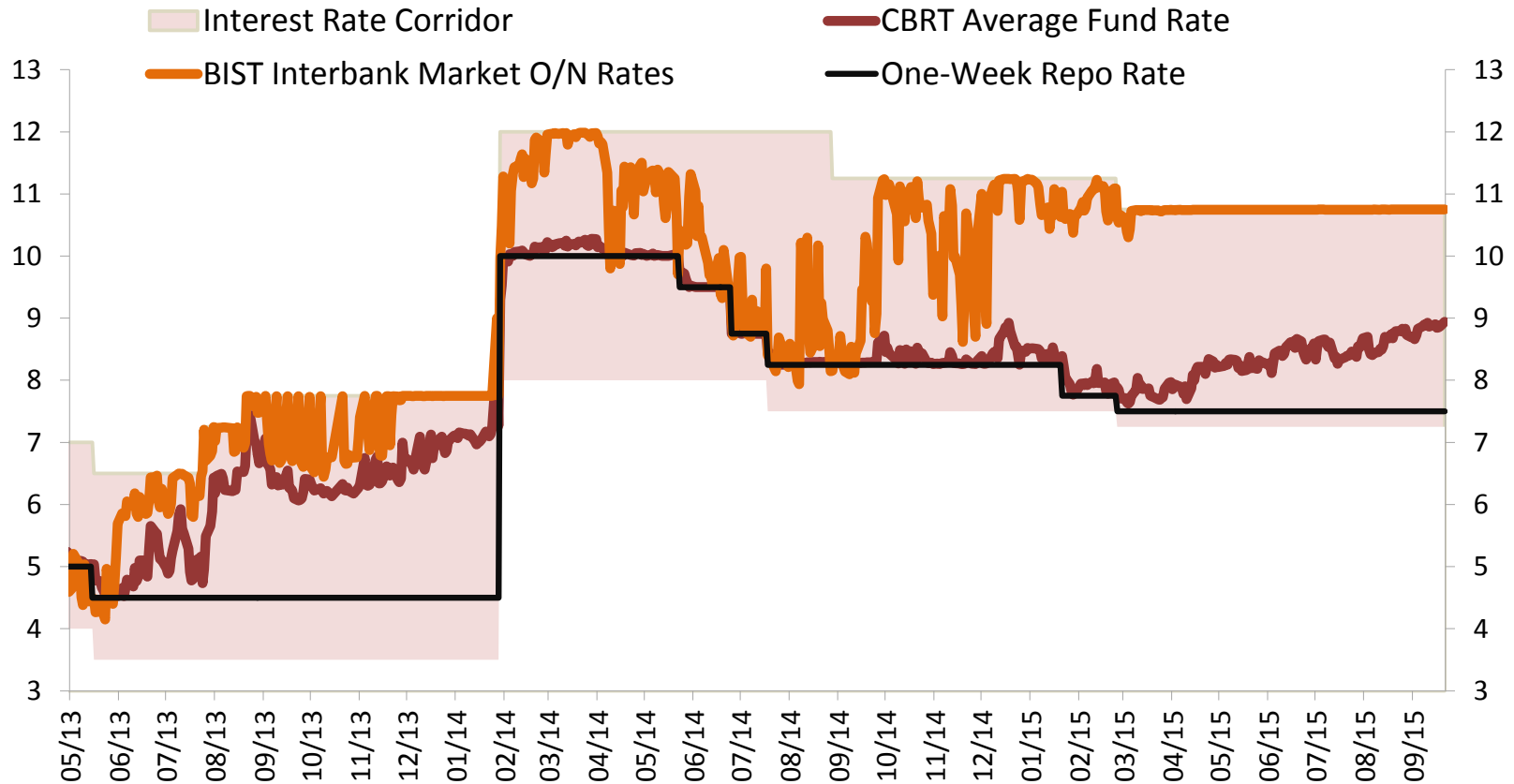
*Emerging market currencies include Brazil, Chile, Colombia, Mexico, Poland, Czech Republic, South Africa, Indonesia, Romania against USD.

Last Observation: September 21, 2015.

The liquidity policy has been tight and will remain tight as long as deemed necessary.

Interest Rates

(Percent)

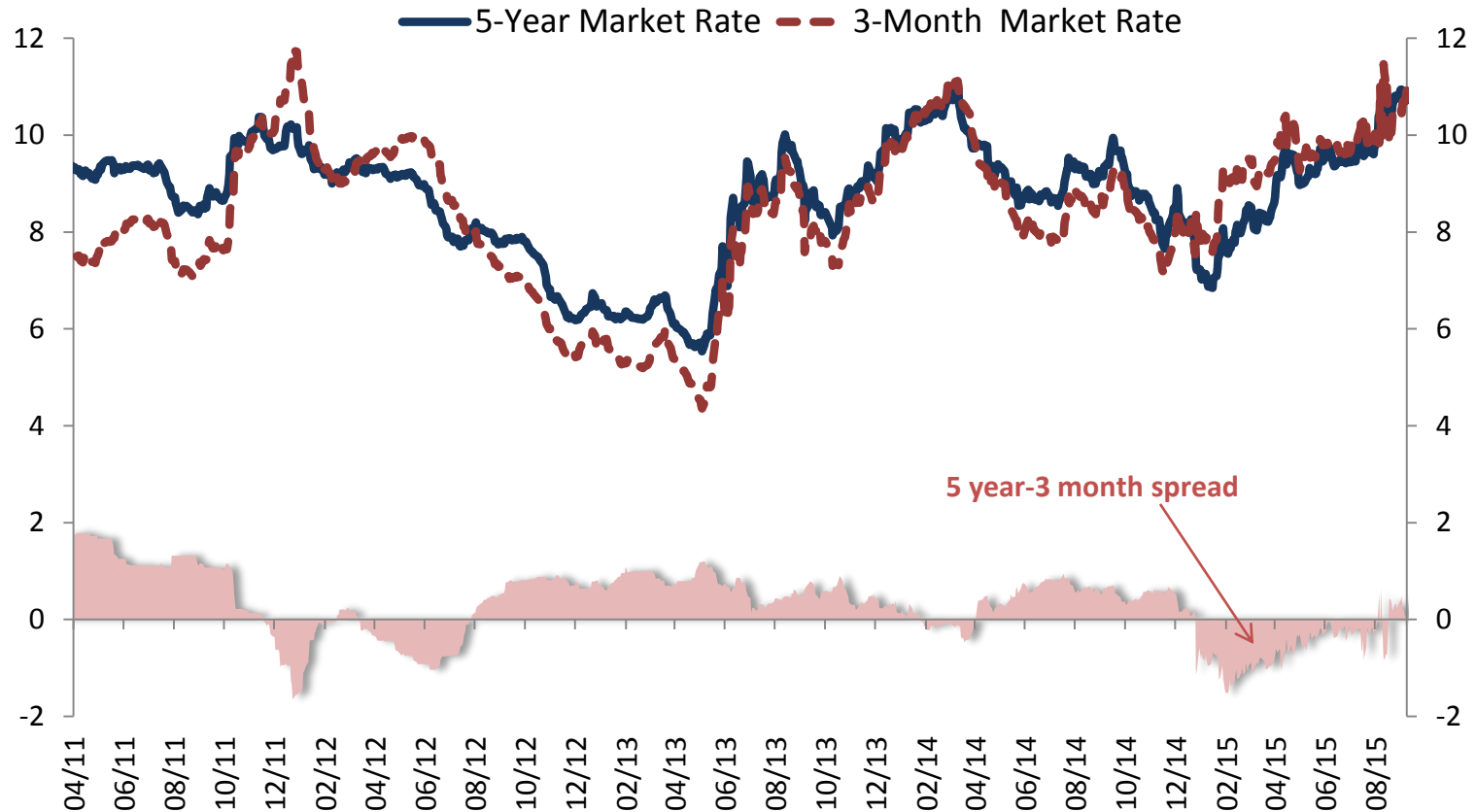


Source: CBRT

Last Observation: September 21, 2015.

Yield curve is flat due to the tight liquidity policy.

Interest Rates (Percent)



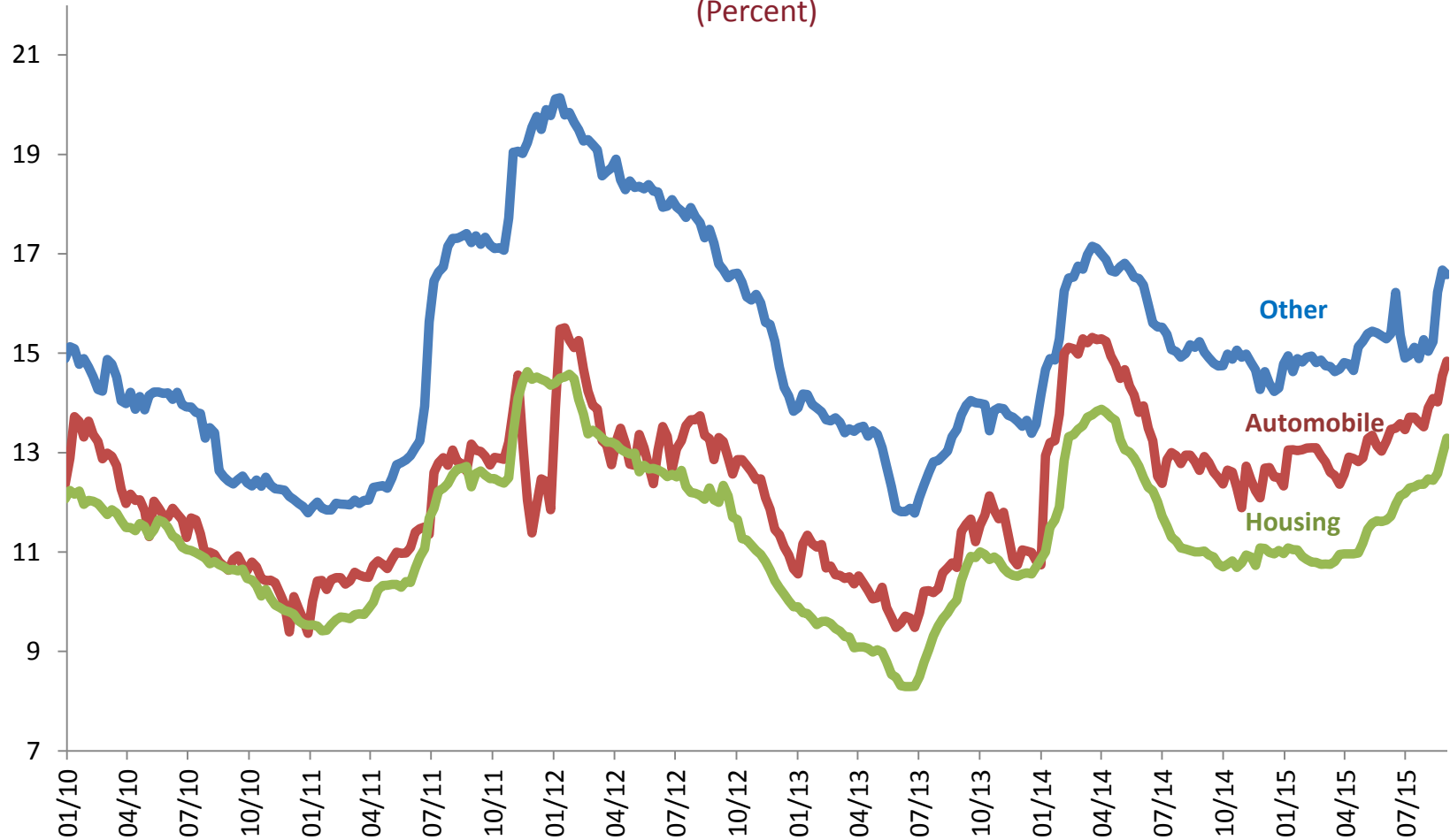
Source: CBRT.

Last Observation: September 21, 2015.

Tighter monetary conditions have been passing through consumer loan rates since the beginning of the year.

Interest Rates on Consumer Loans

(Percent)

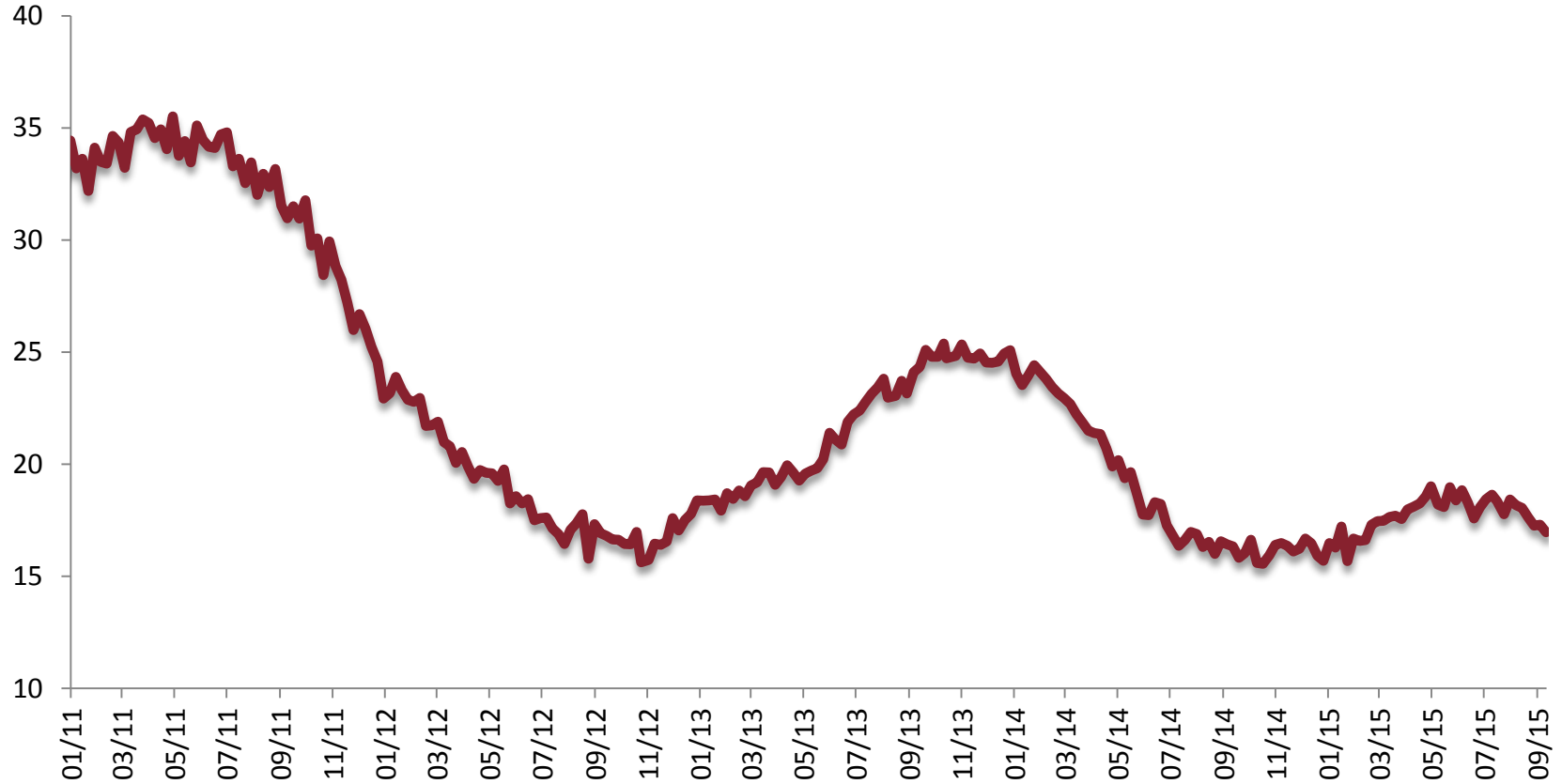


Source: CBRT.

Last Observation: September 4, 2015.

Loan growth has retreated to a reasonable pace due to the tight monetary policy stance and macroprudential measures.

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



Source: CBRT.

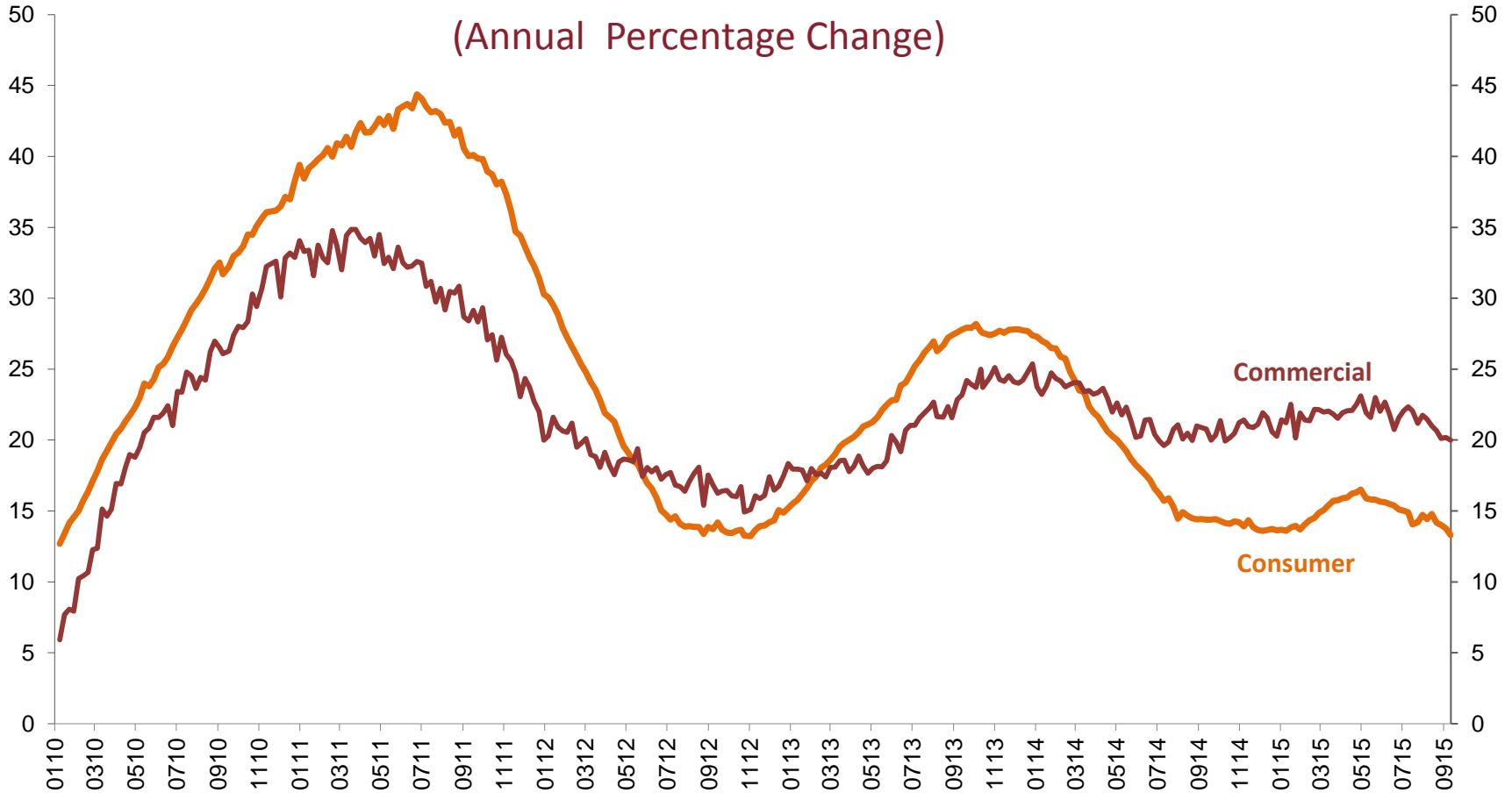
Last Observation: September 11, 2015.

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

Adjusted for exchange rate.

Commercial loans grow at a faster pace than consumer loans, contributing to price stability, financial stability, and the rebalancing process.

Loan Growth Rates (Annual Percentage Change)



Source: CBRT.

Last Observation: September 11, 2015.

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

PREPARATIONS FOR THE NORMALIZATION OF GLOBAL MONETARY POLICIES: RECENT MEASURES

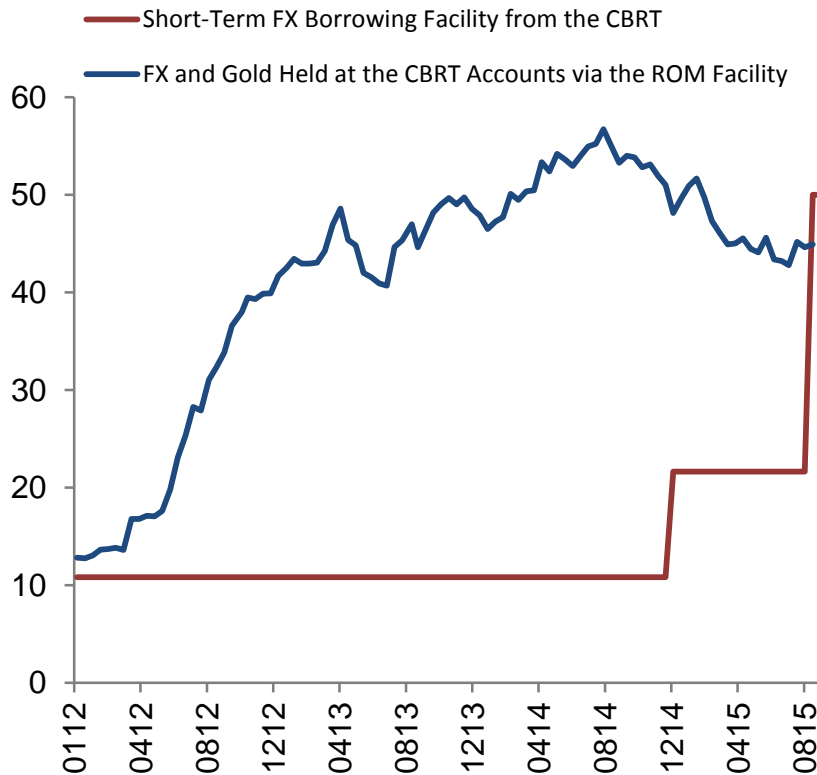
Simplifying the Operational Framework of the TL Liquidity Management

- The quotation on the lending to primary dealers via repo transactions have been terminated without changing the funding cost of primary dealers from the CBRT.
 - Primary dealers will have higher bid limits at 1-week quantity repo auctions instead of having more favorable interest rate on O/N borrowing facilities.
- Collateral conditions have been simplified.
 - Simplification in tranches, discount rates, and haircuts
 - FX Deposits as collateral for TL operations.

FX Liquidity Measures: Foreign Exchange Deposit Market

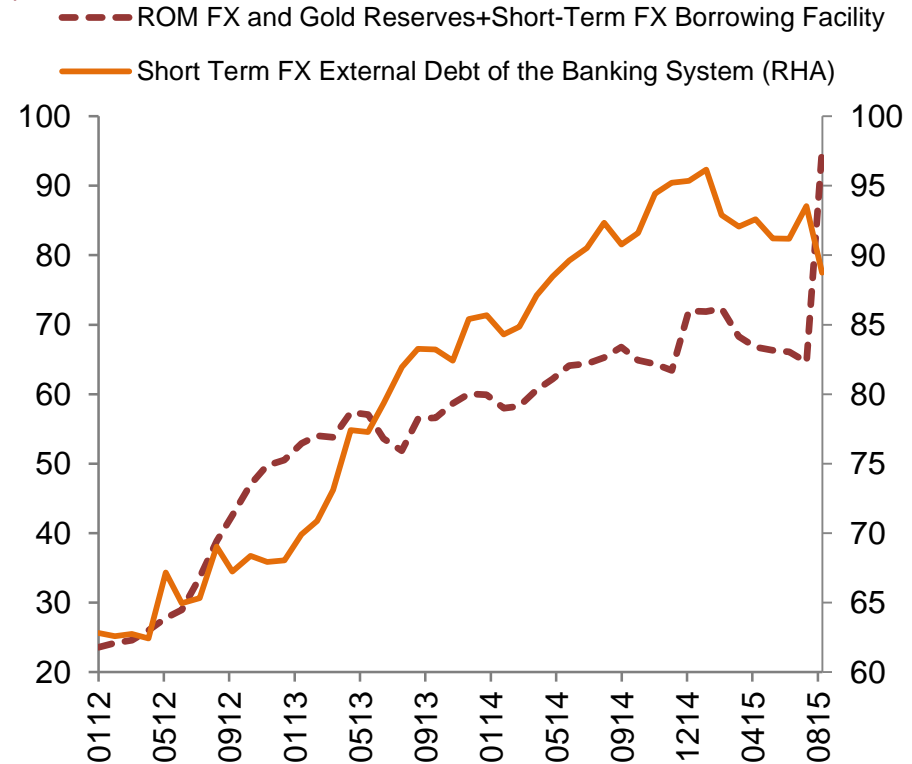
- The CBRT has expanded the safety net facility by increasing the transaction limits at the CBRT Foreign Exchange and Banknotes Markets.
- FX liquidity readily available to the financial system through ROM and foreign exchange deposit market is now considerably above the short term debt stock of the banks.

(Billion USD)



Source: CBRT

Last Observation: September 11, 2015.

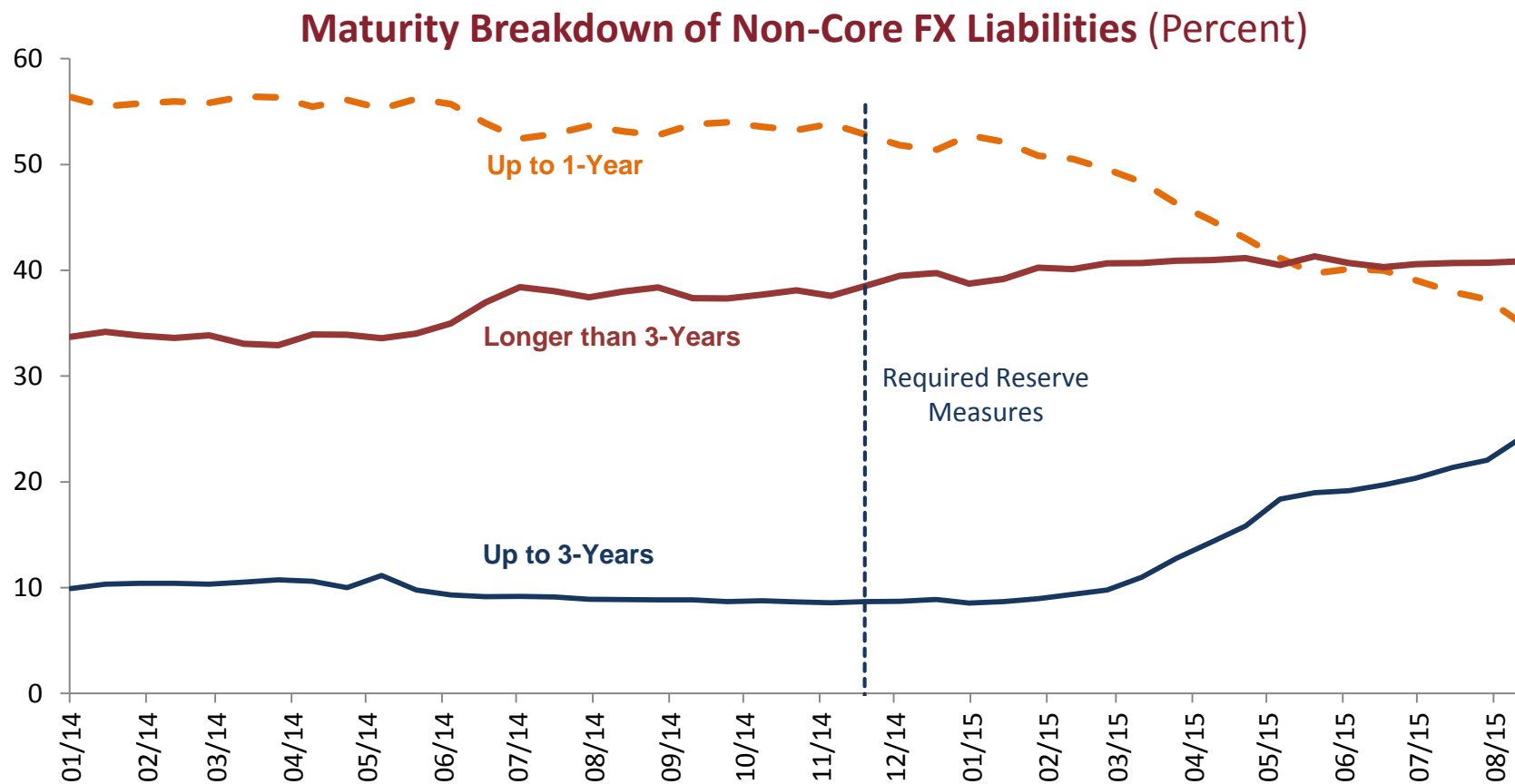


Source: CBRT

Last Observation: August 28, 2015.

Measures to Support Financial Stability: Lengthening the Maturity of Noncore FX Liabilities

- FX required reserve ratios for the newly originated FX noncore liabilities of the financial institutions are adjusted to encourage further maturity extension.

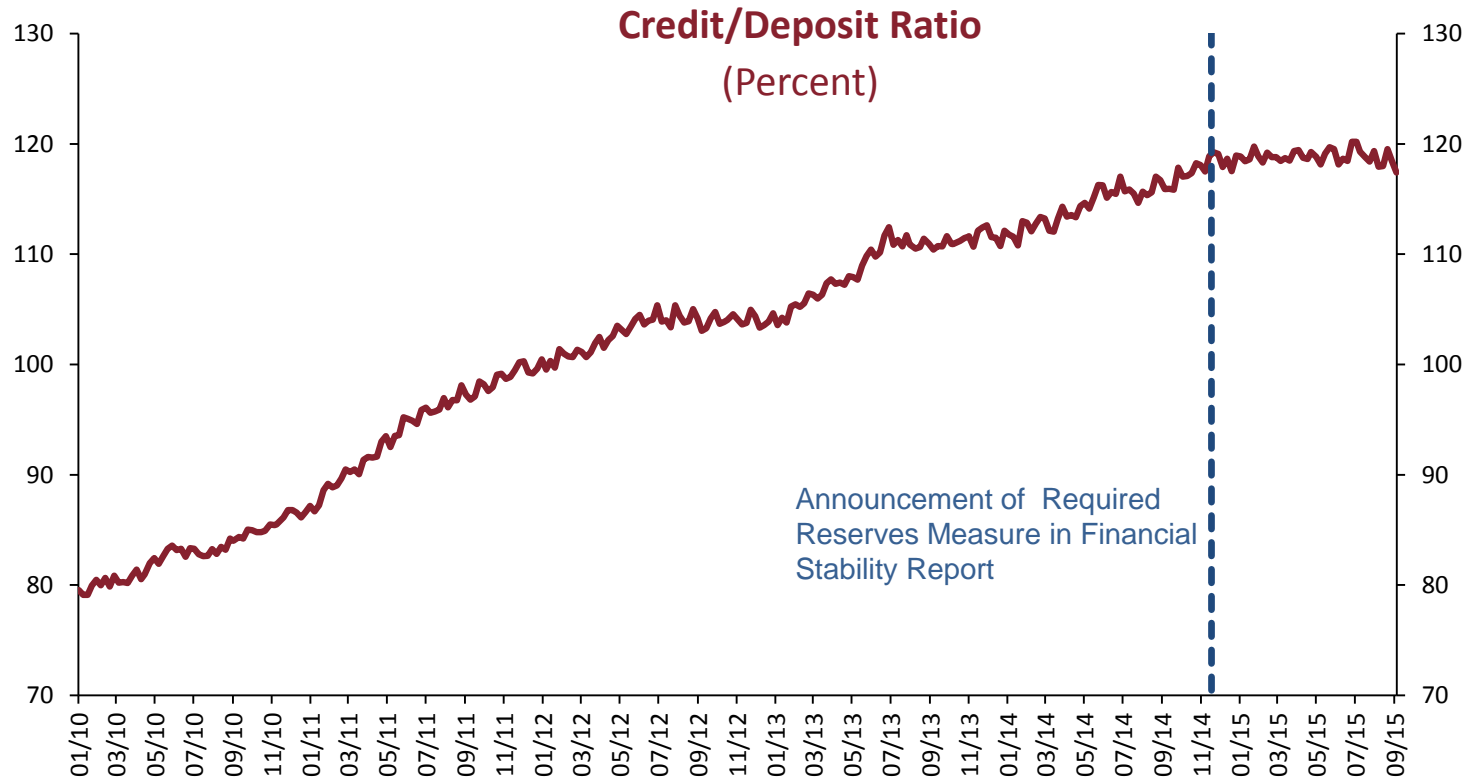


Last Observation: August 28, 2015.

Source: CBRT

Measures to Support Financial Stability: Supporting Turkish Lira Core Liabilities

- Remuneration rate for TL reserve requirements will be increased by 150 basis in three steps until the end of the year to reduce the intermediation costs of the banking sector and to support core liabilities,



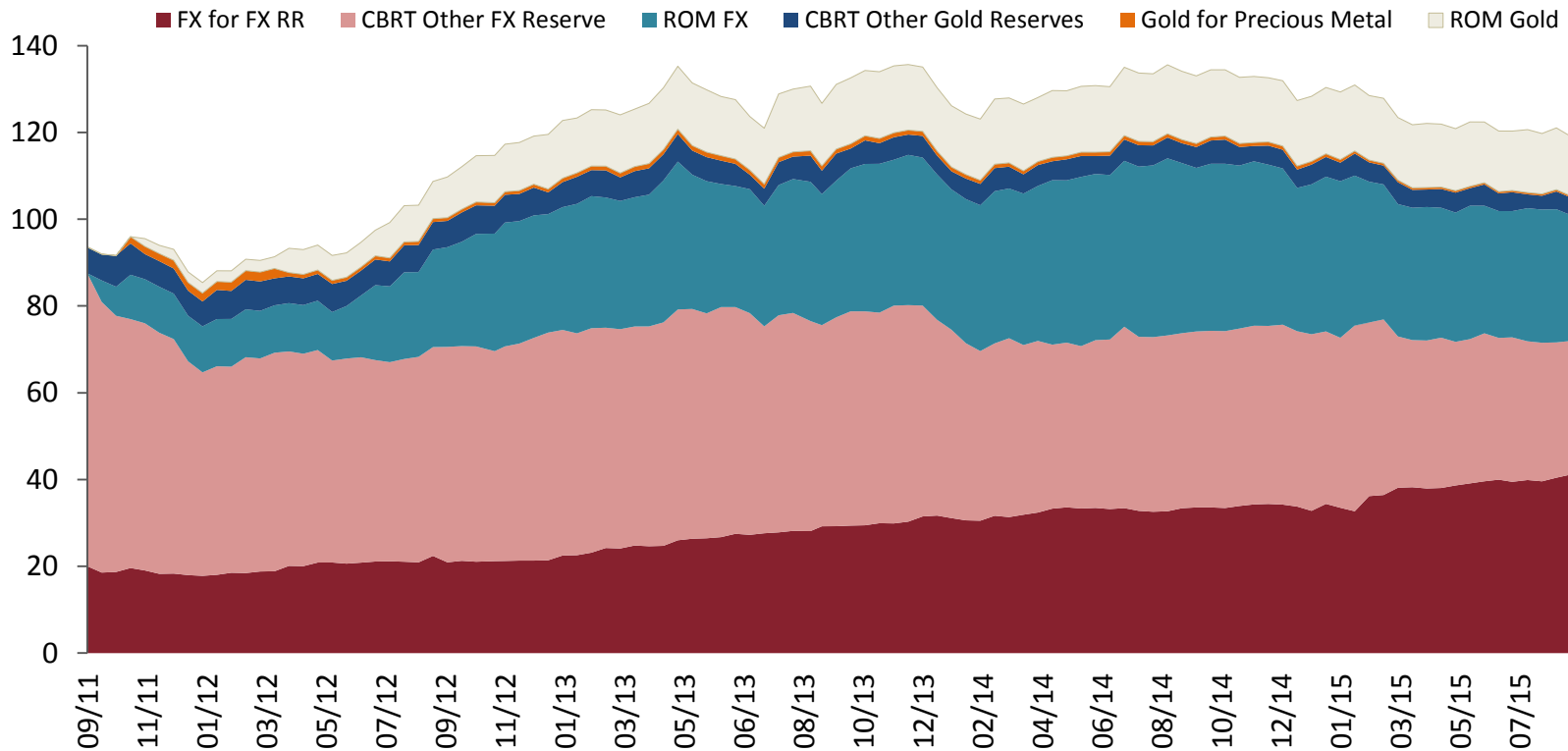
Source: BRSA

Last Observation: September 11, 2015.

The impact of recent RR measures on CBRT reserves

- The adjustment in the remuneration rates will release FX liquidity to the financial system via ROM mechanism, while the increase in reserve requirements for non-core FX liabilities will add to reserves.

CBRT Reserves (Billion USD)



Source: CBRT

Last Observation: September 11, 2015.

Overview: Macroeconomic Outlook and Monetary Policy

- In the first half of the year, domestic demand contributed moderately to growth while external demand remained weak.
- The contribution of net exports is expected to pick up in the second half with the support of rising demand from the European Union economies.
- The improvement in the current account balance will resume with the August figure and will most likely continue throughout 2015.
- Inflation is expected to rise further in September due to exchange rate effects and the volatility in unprocessed food prices.
- The CBRT maintains a tight policy stance to address the inflationary risks from the exchange rate pass-through and higher inflation expectations.
- Recently, the CBRT has taken a broad set of measures in the context of the “road map during the normalization of global monetary policies”.
- Overall, CBRT policies are tight for the inflation outlook, stabilizing for FX liquidity, and supportive for financial stability.



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**THE ECONOMIC OUTLOOK AND
MONETARY POLICY**

September 23, 2015