



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**RECENT DEVELOPMENTS IN TURKISH ECONOMY
AND MONETARY POLICY**

September 4, 2013

Ankara

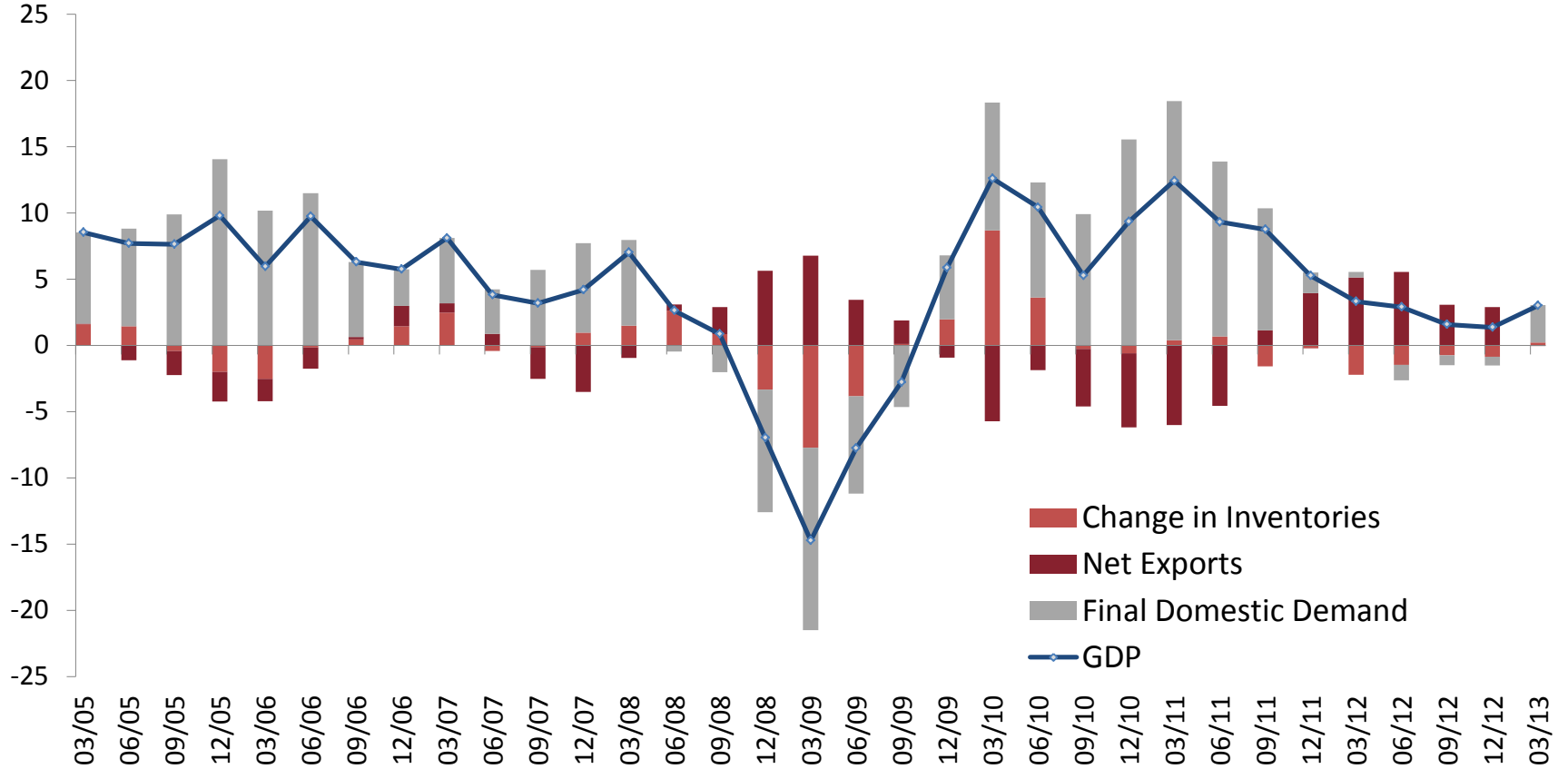
Outline

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

ECONOMIC ACTIVITY

Economic Activity

Contribution to Annual GDP Growth (Percentage Points)

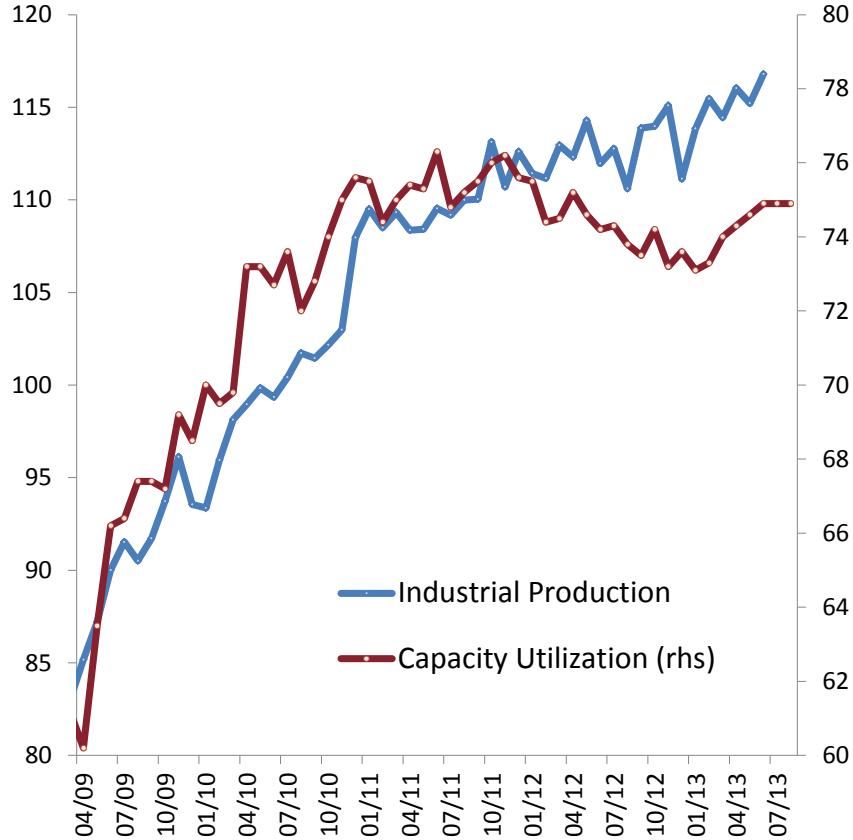


Source: TURKSTAT.

Last Observation: 2013Q1

Economic Activity

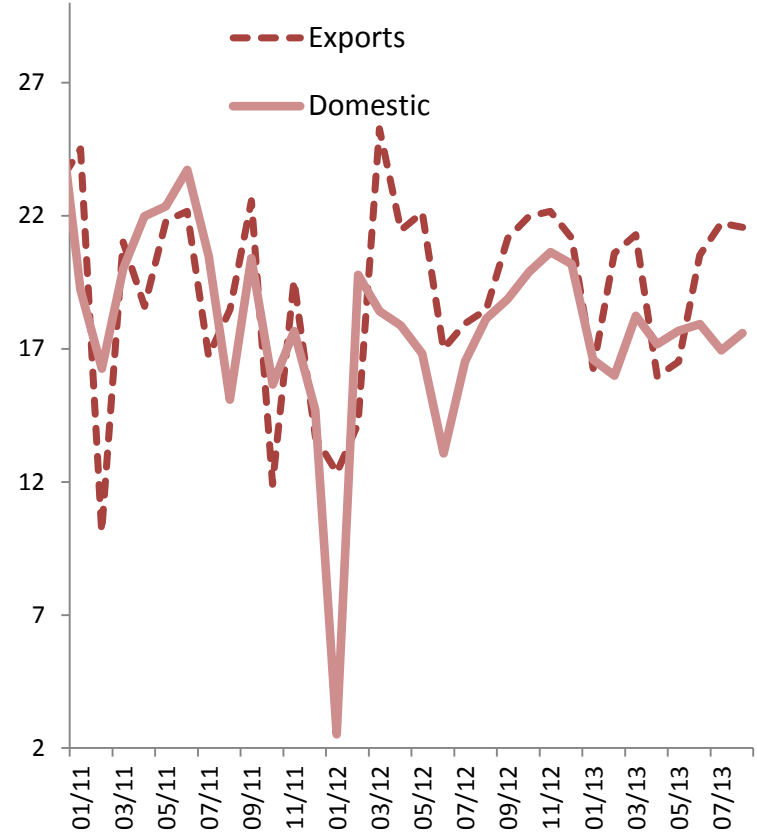
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Last Observation: June for Industrial Production,
August for Capacity Utilization.

New Orders (Seasonally Adjusted)



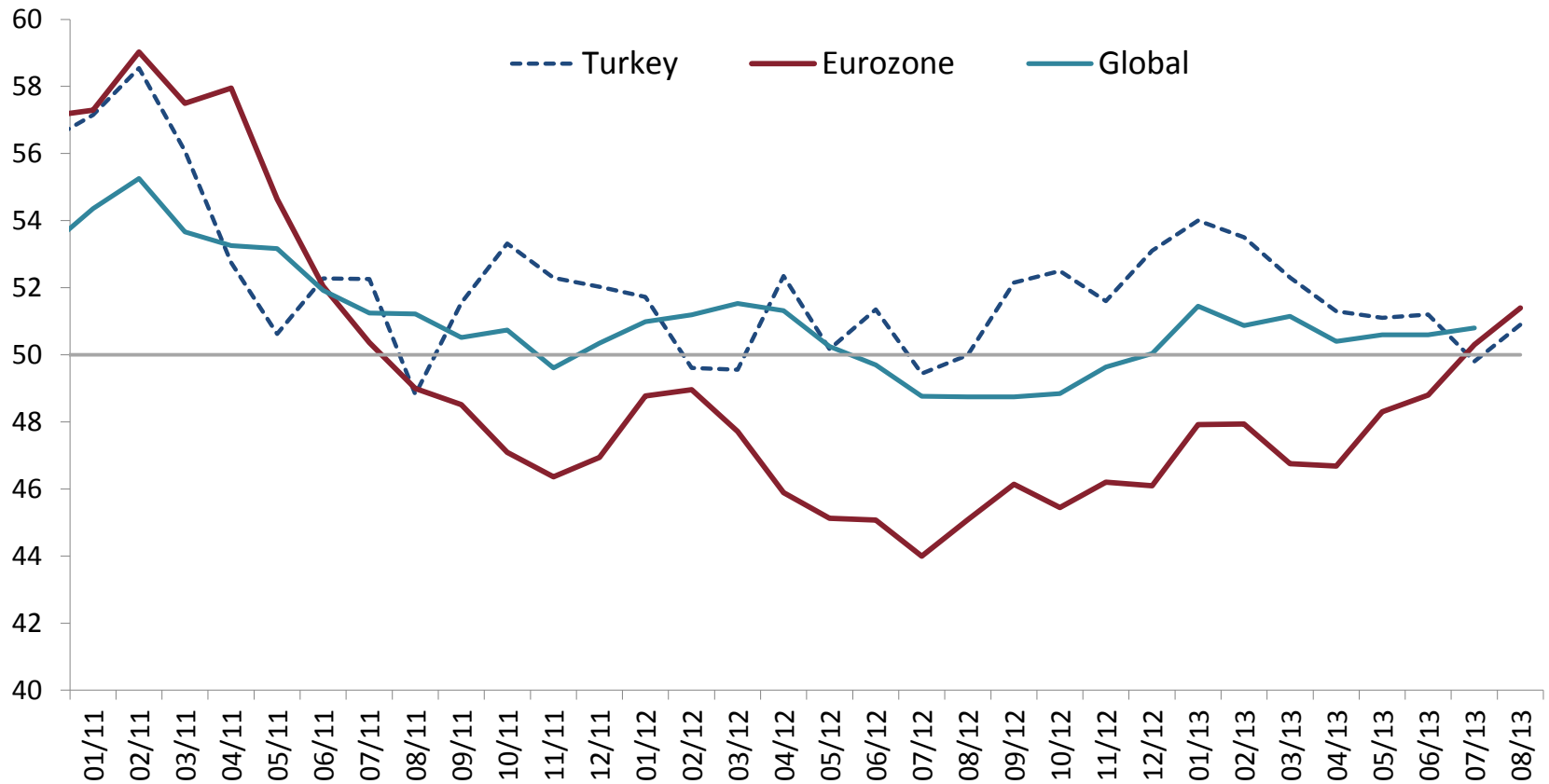
Source: CBRT Business Tendency Survey.

Last Observation: August 2013.

Question Number 12 and 21 for exports and domestic orders, respectively: How do you expect your orders to develop over the next three months.

PMI: Turkey, Eurozone, and Global

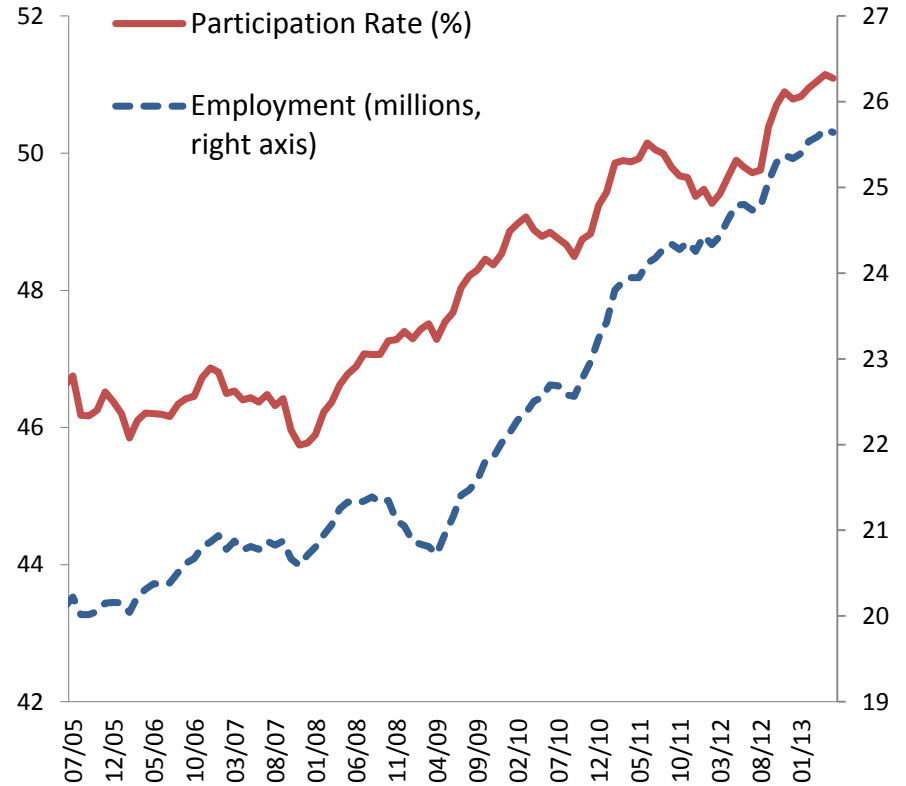
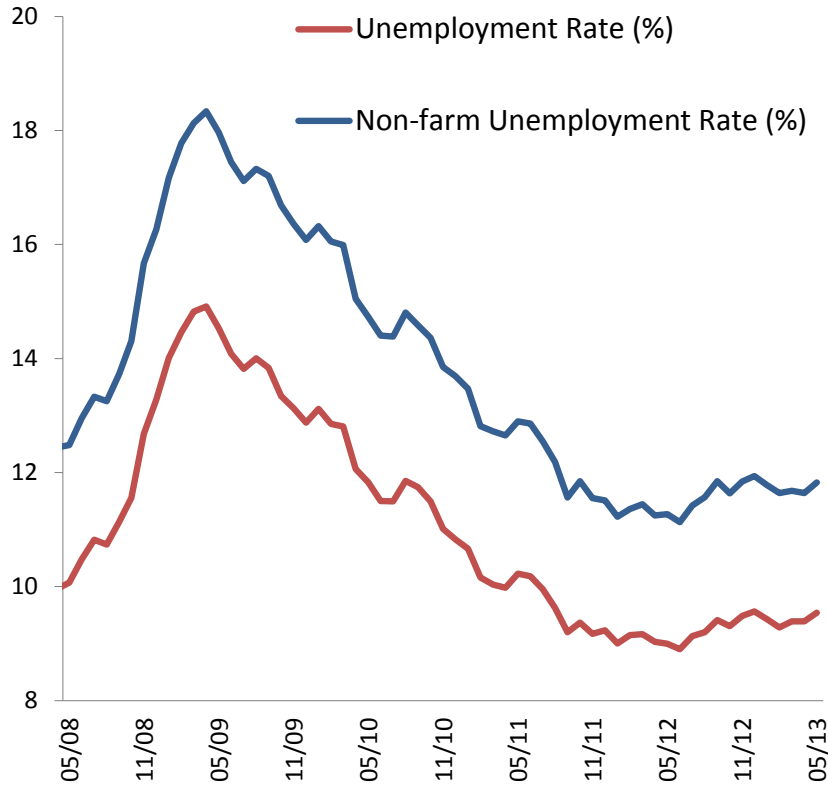
Manufacturing PMIs (Seasonally Adjusted)



Source: MARKIT.

Last Observation: July 2013 for Global PMI,
August 2013 for Turkey PMI and Eurozone PMI.

Employment Conditions

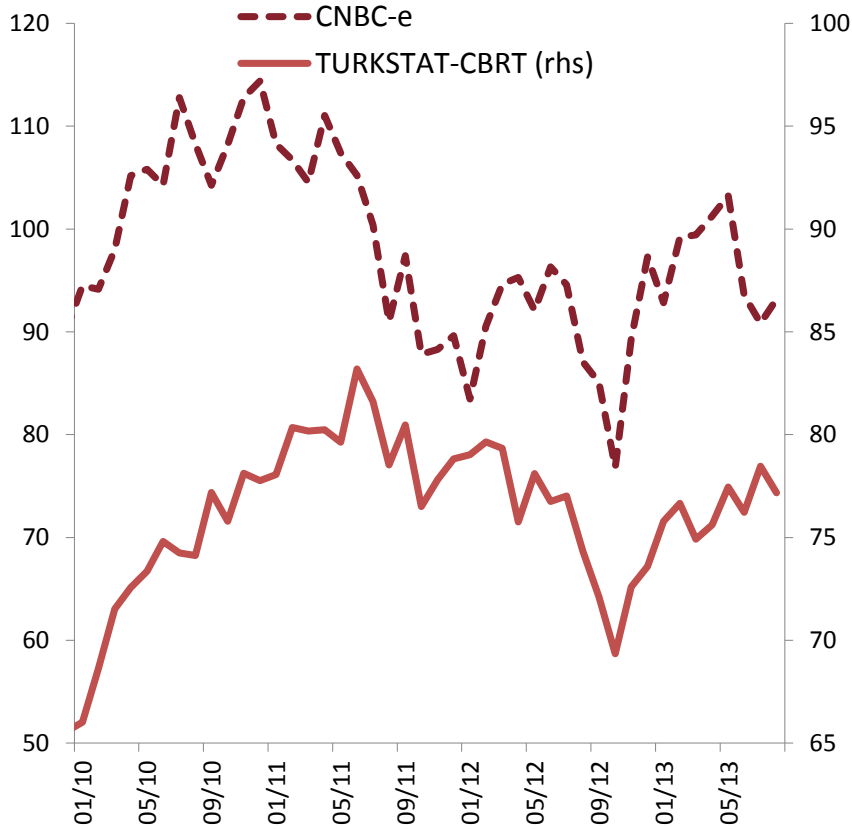


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: May 2013.

Leading Indicators for Demand

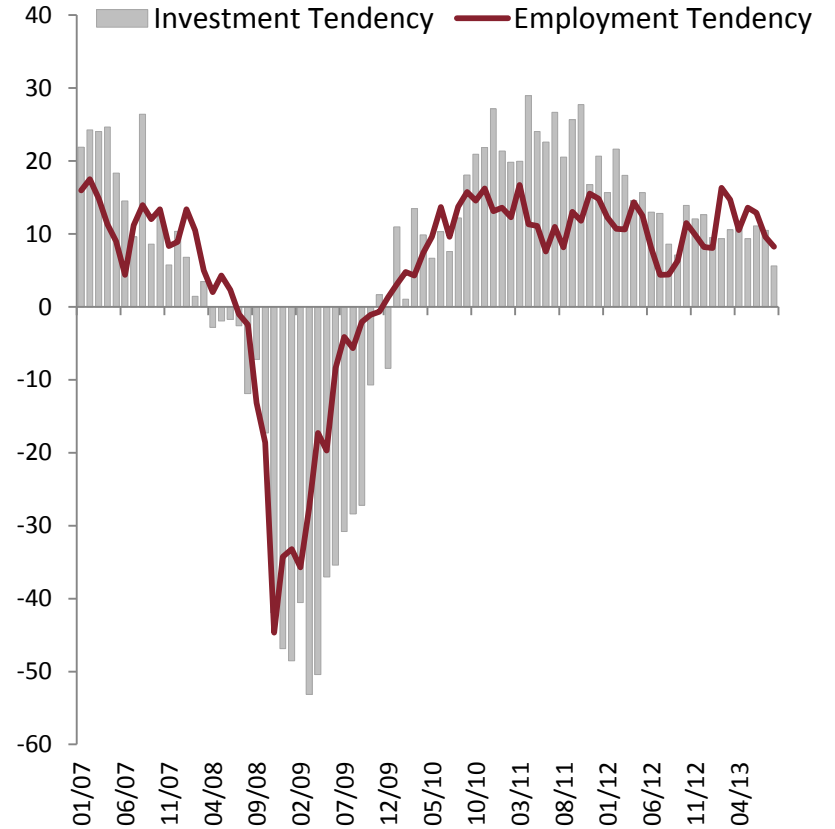
Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: August 2013.

Investment and Employment Prospects (Seasonally Adjusted)



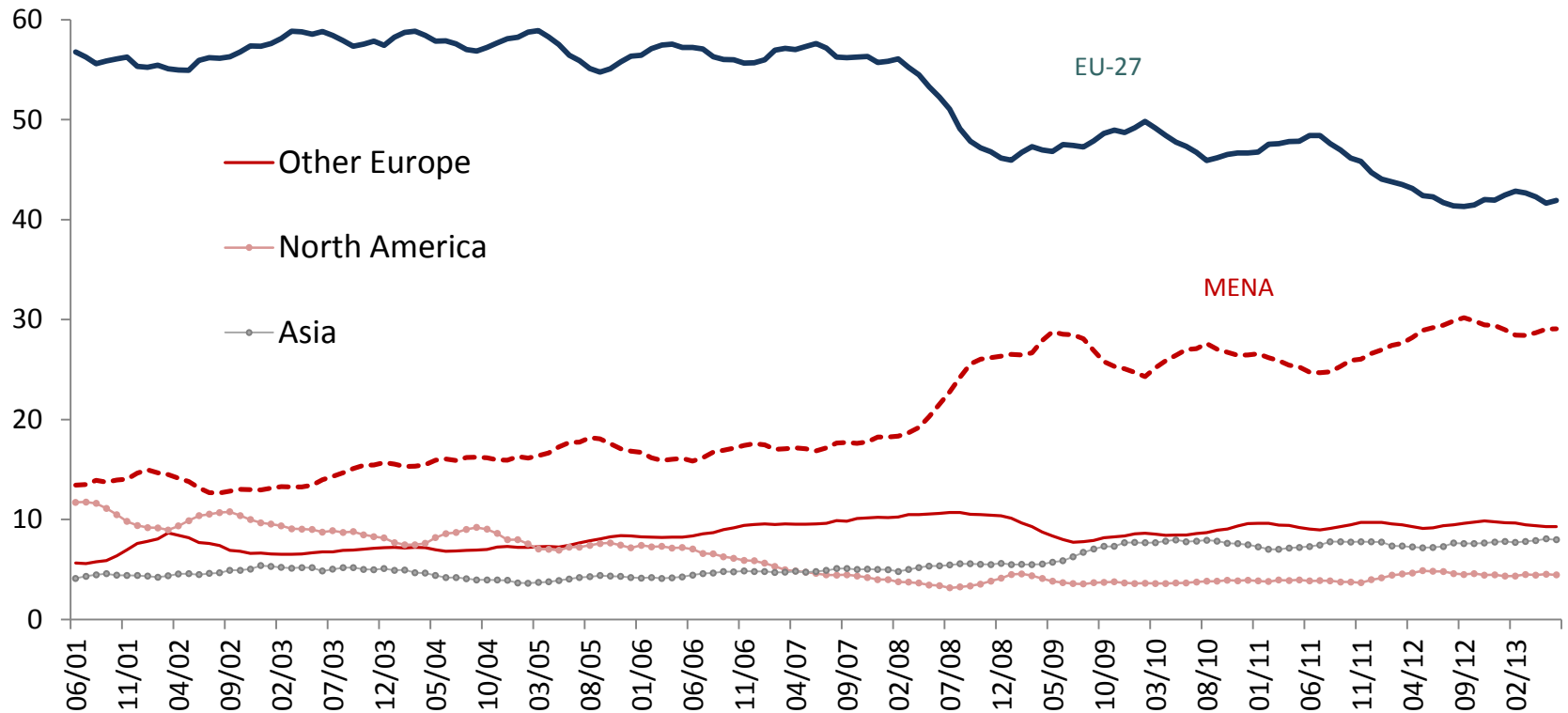
Source: TURKSTAT, CBRT.

Last Observation: August 2013.
Business Tendency Survey

REBALANCING

Market Share is expected to shift to EU

Exports (exc. gold) Market Share
(6-month cumulative, percent)

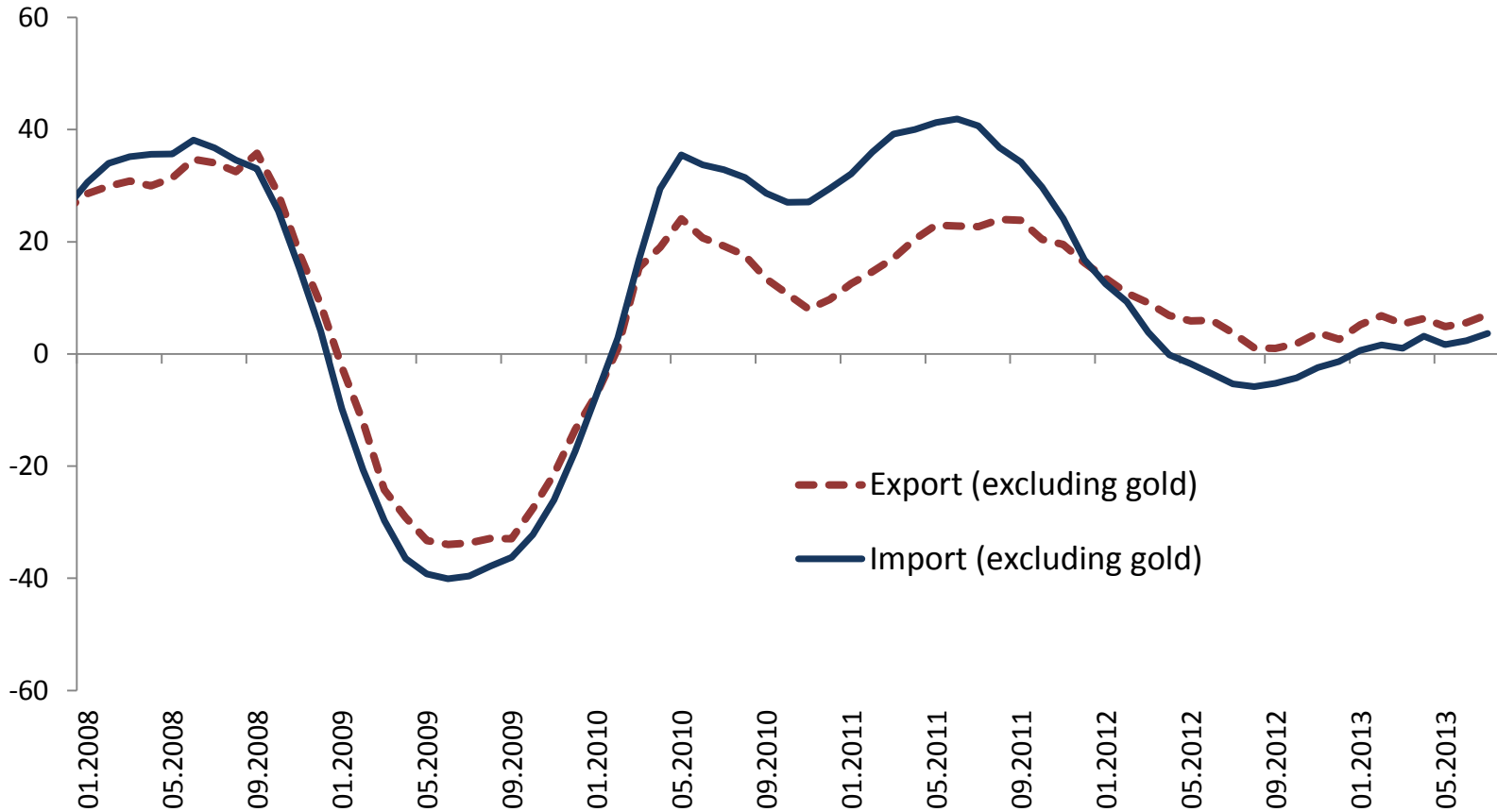


Source: TURKSTAT.

Last Observation: June 2013.

Rebalancing

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

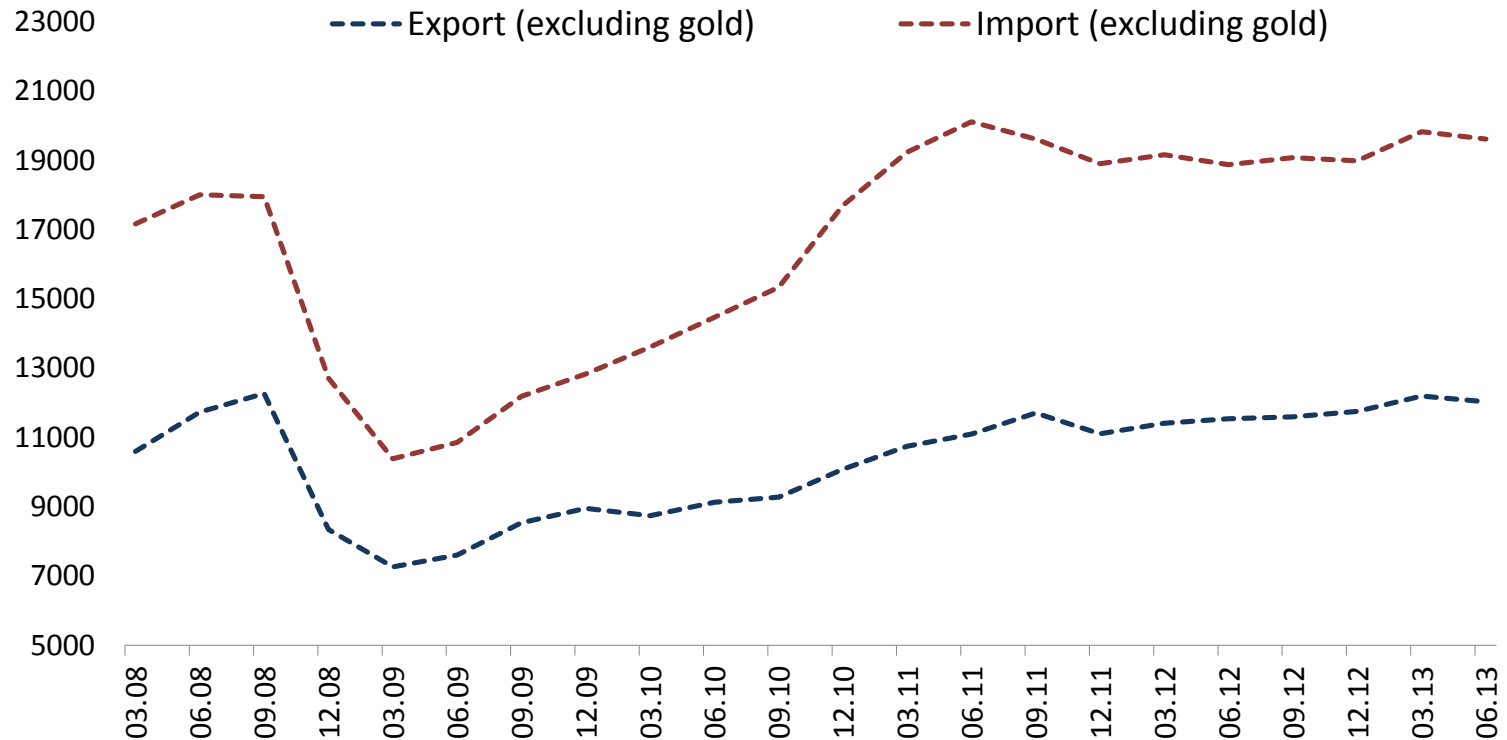


Source: TURKSTAT.

Last Observation: July 2013.

Rebalancing: Main Trends

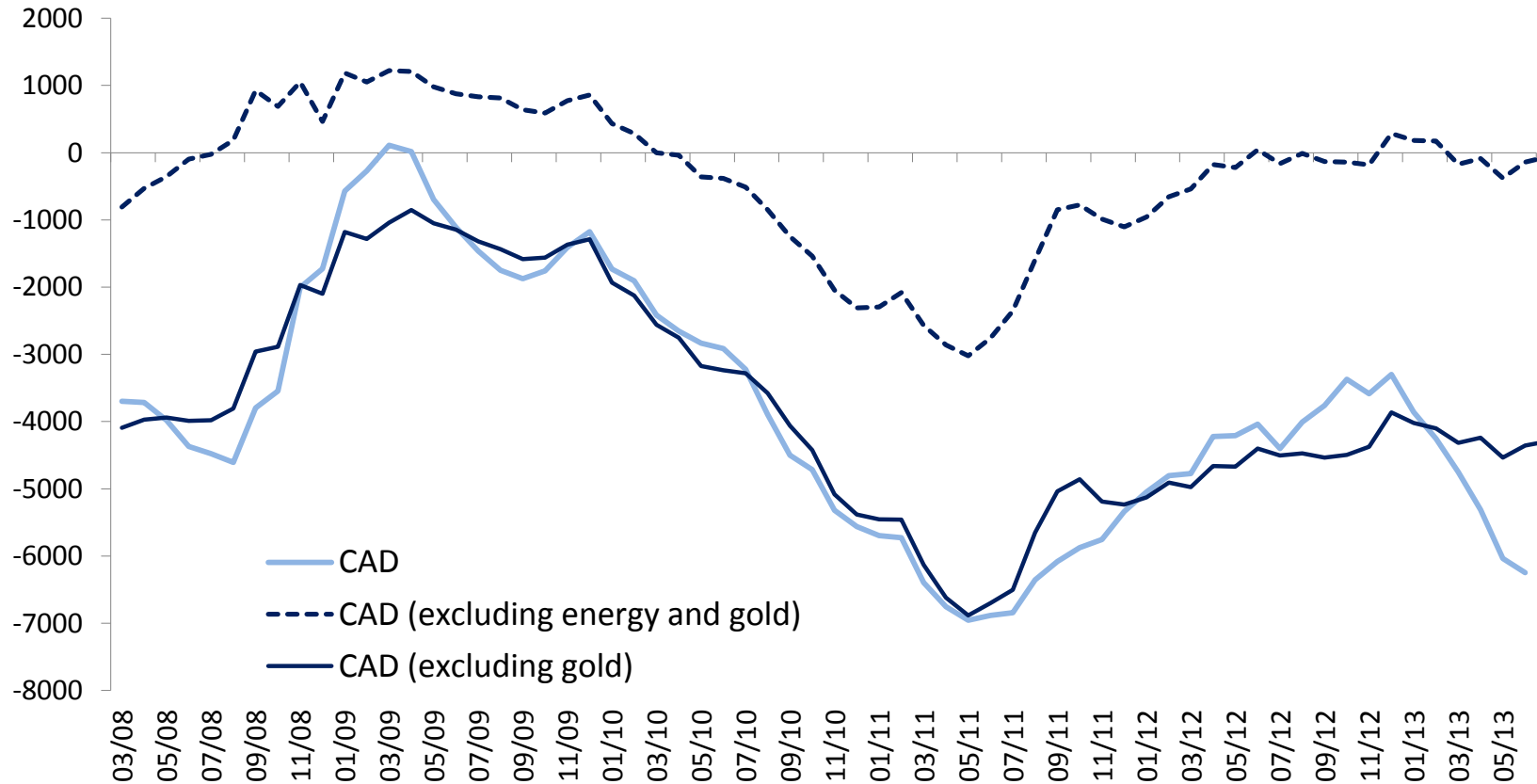
Exports and Imports
(Seasonally Adjusted, Quarterly Average, Million USD)



Source: TURKSTAT, CBRT.

Recent Trend in Current Account Balance

(Seasonally Adjusted, 3-Month Moving Average, Million USD)

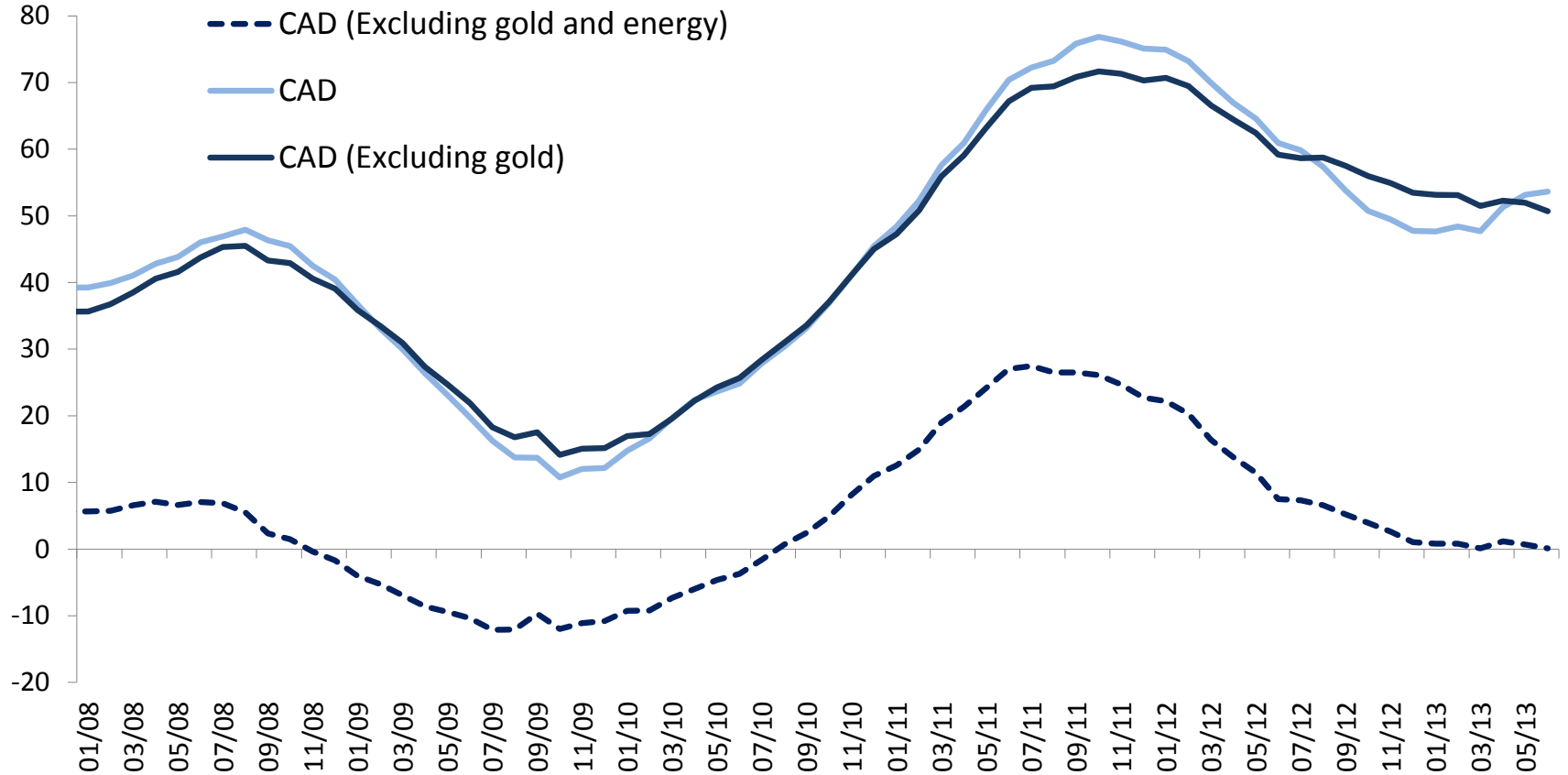


Source: CBRT.

Last Observation: June 2013.

Rebalancing

Current Account Deficit
(12-Month Rolling, Billion USD)

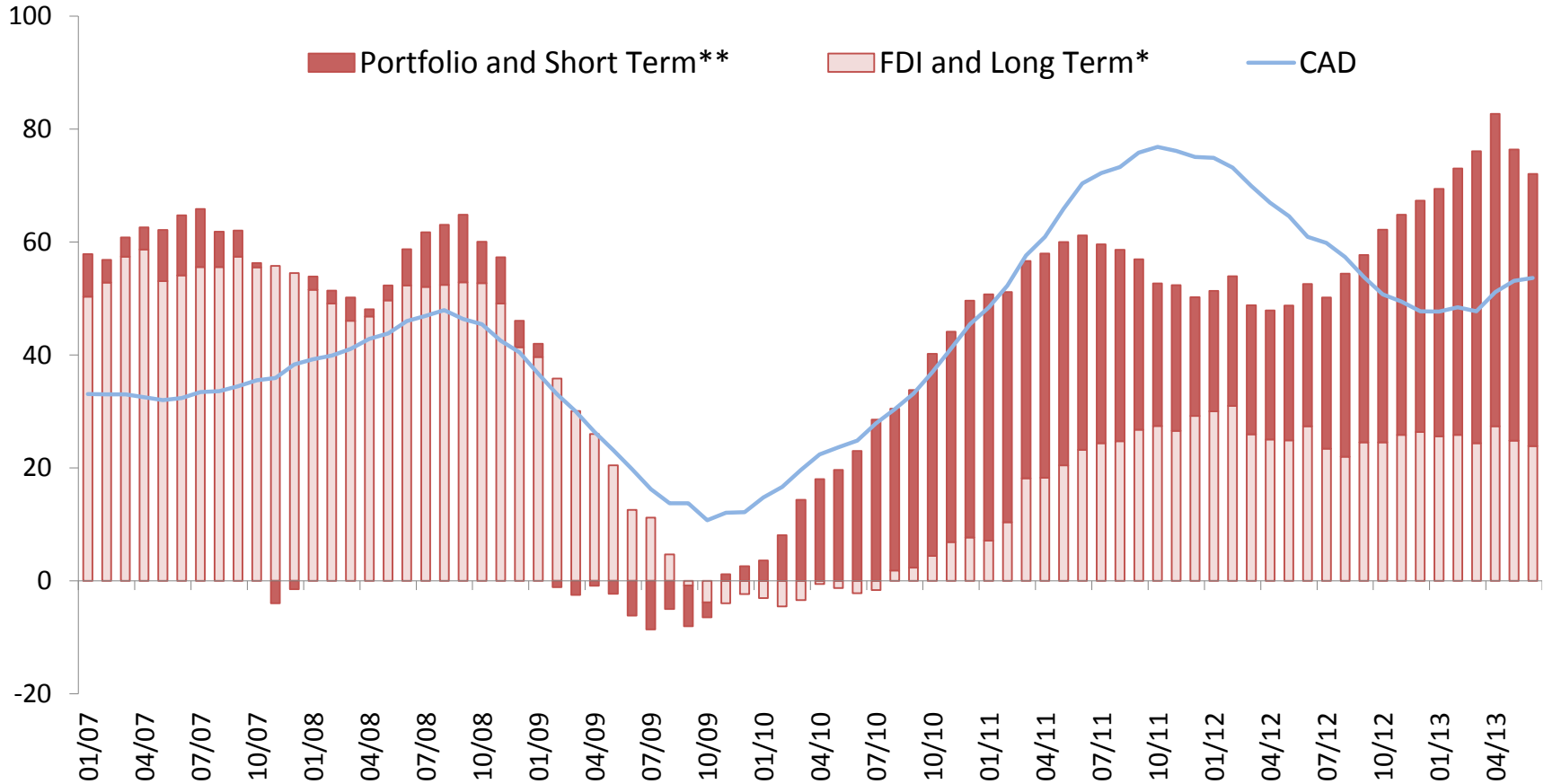


Source: CBRT.

Last Observation: June 2013.

Main Sources of External Finance

(12-months Cumulative, Billion USD)



Source: CBRT.

Last Observation: June 2013.

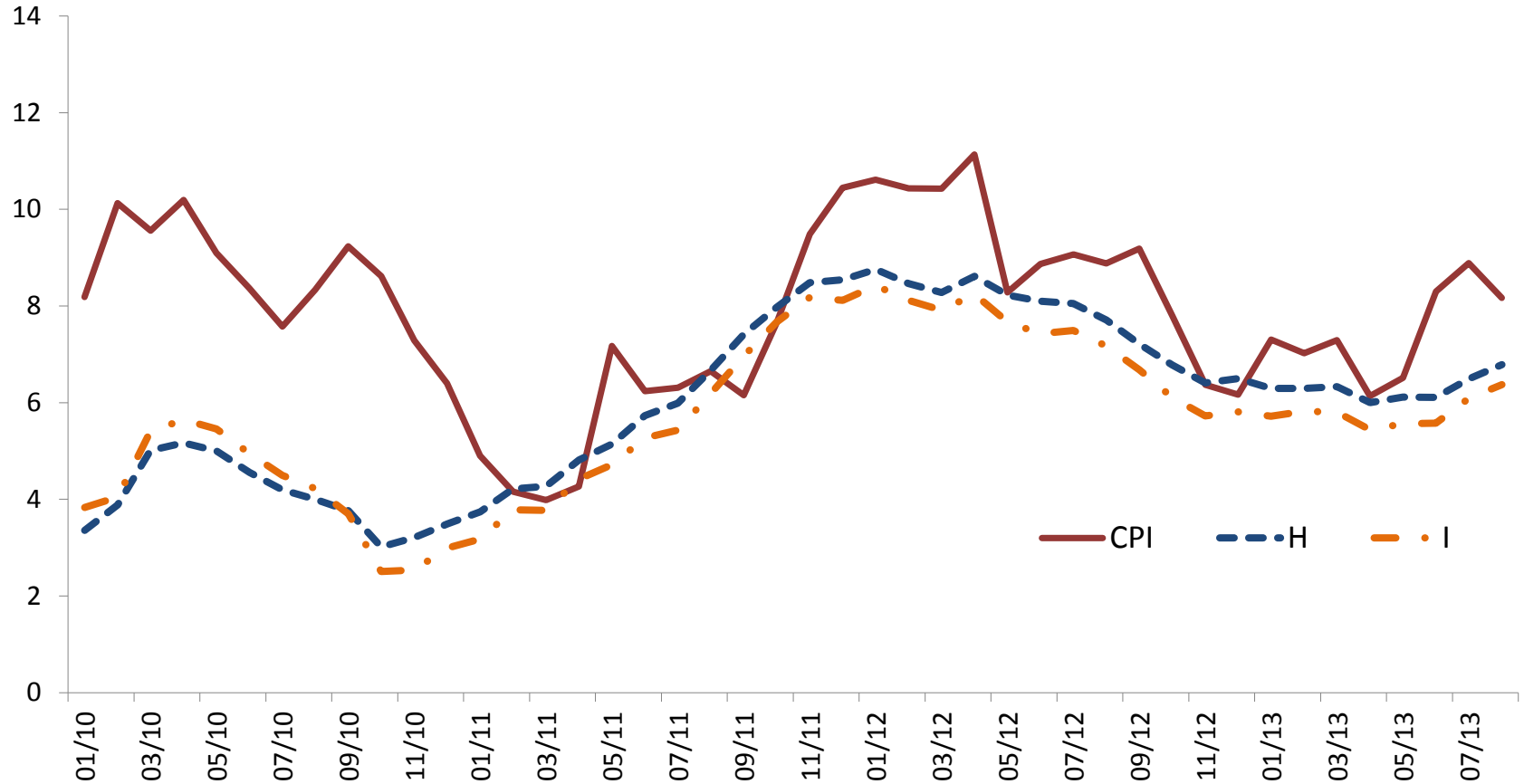
*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

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

INFLATION

Inflation: CPI and Core Indicators

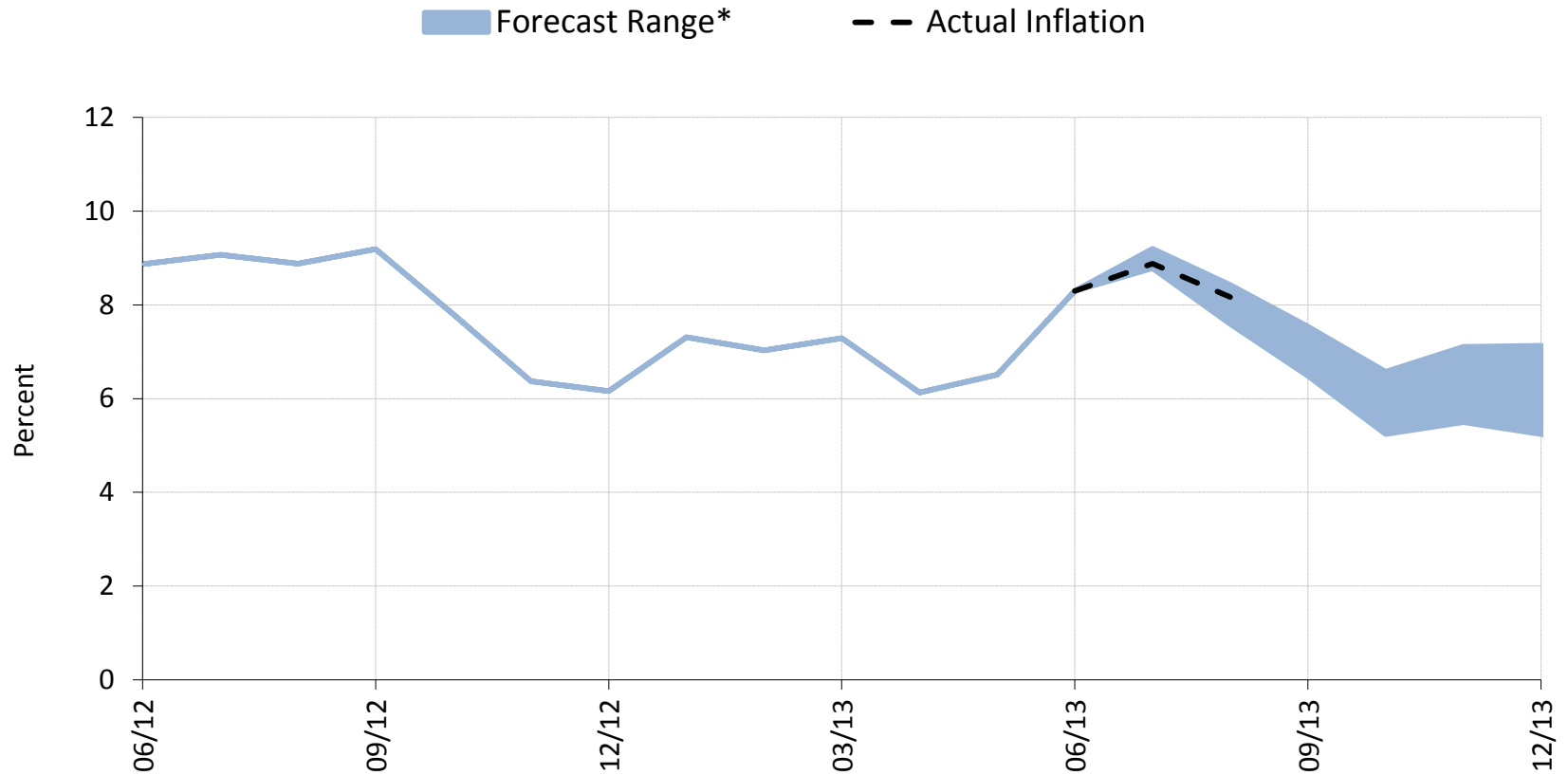
(Annual Percent Change)



Source: TURKSTAT.

Last Observation: August 2013.

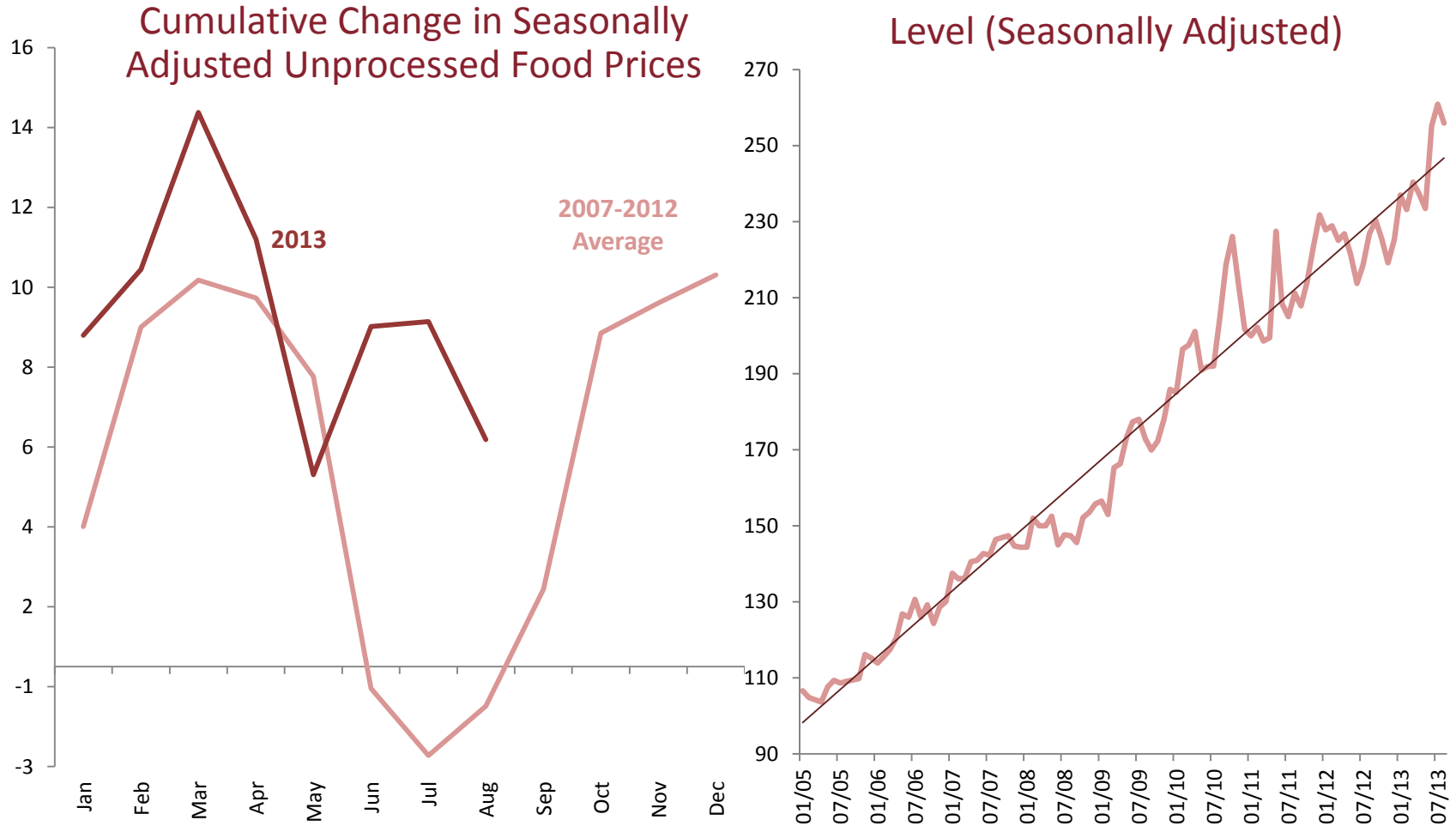
July 2013 Inflation Report Projections and Realizations



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

Last Observation: August 2013.

Unprocessed Food Prices

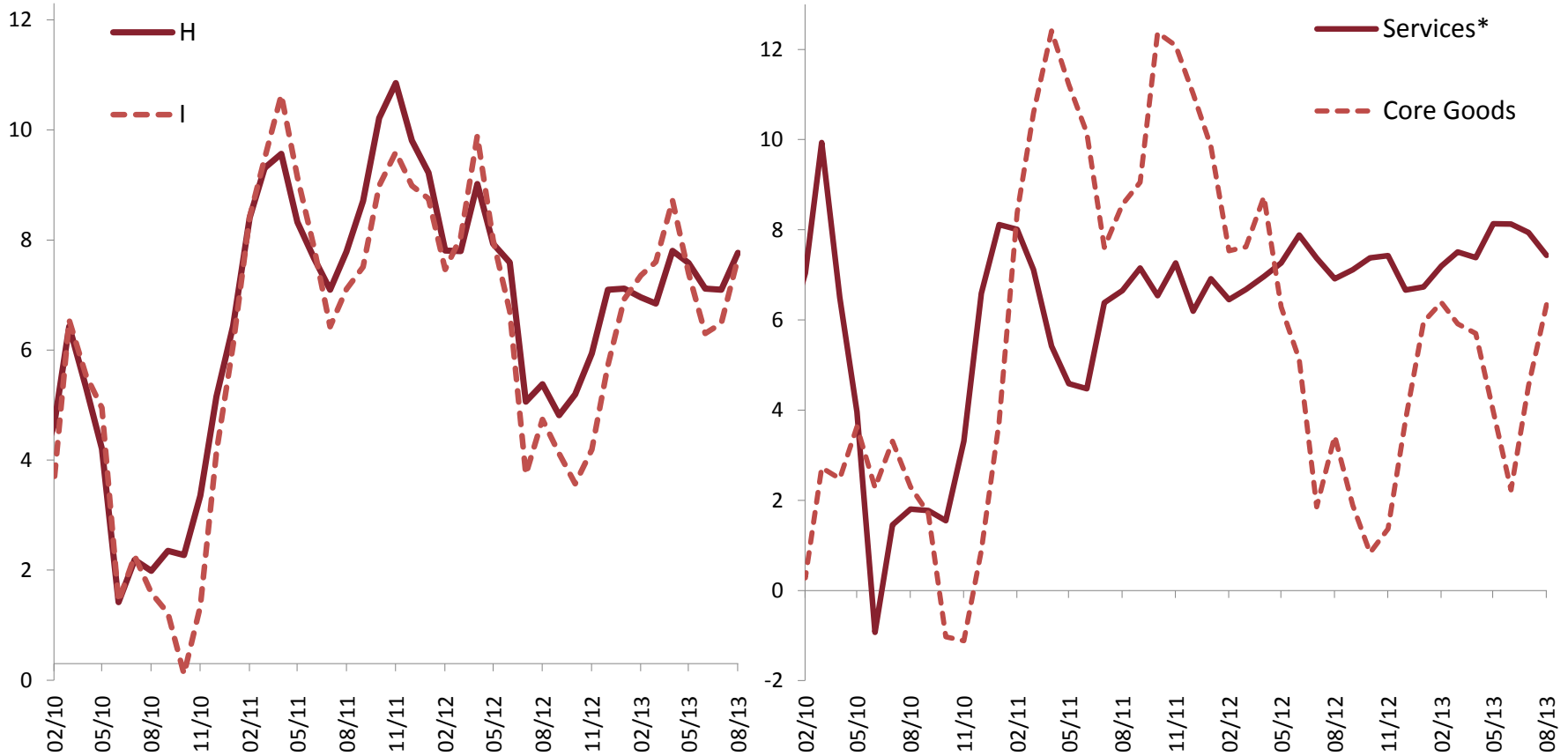


Source: TURKSTAT, CBRT.

Last Observation: August 2013.

Trend Inflation

(Seasonally Adjusted, Monthly Percent Change,
3-Month Average, Annualized)



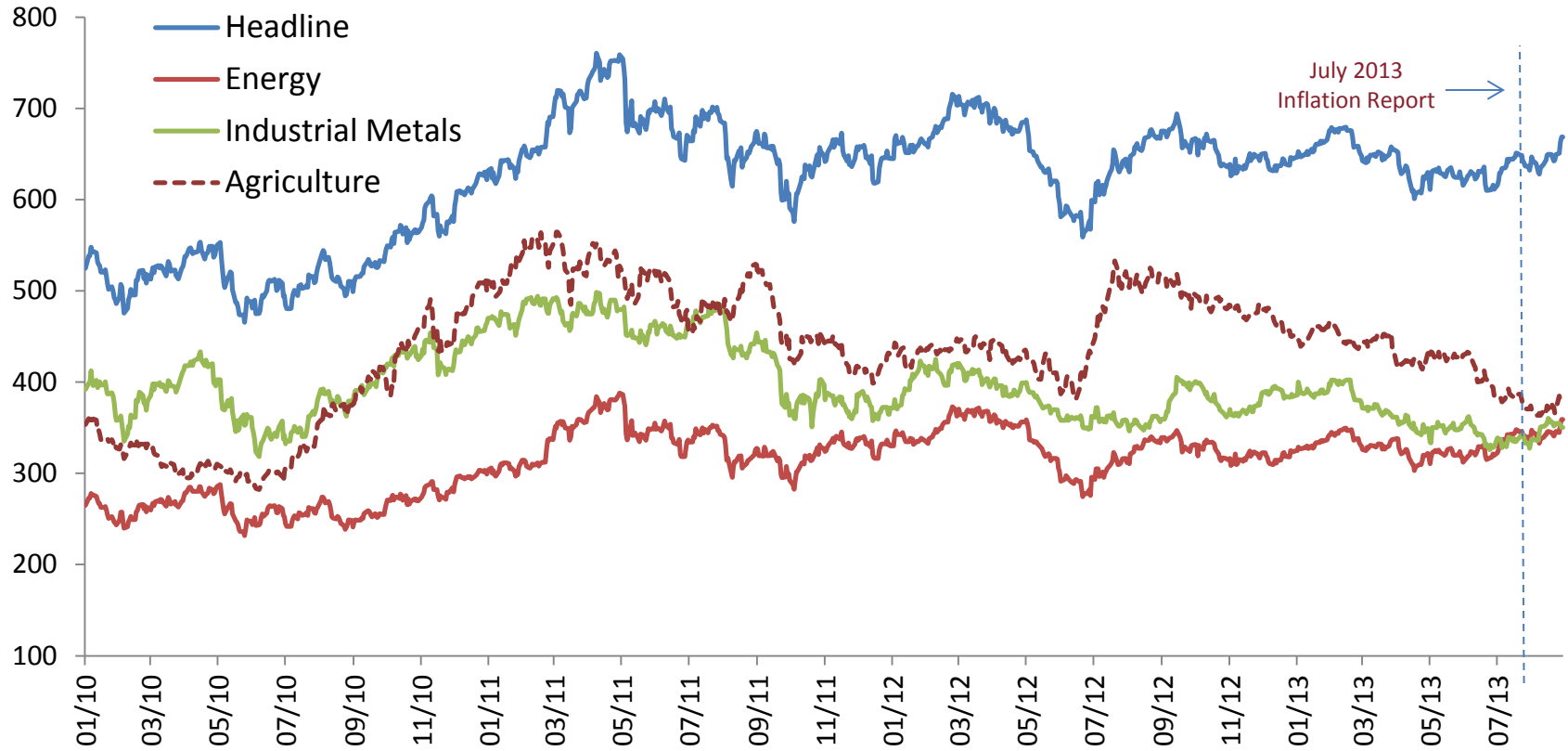
Source: TURKSTAT, CBRT.

Last Observation: August 2013.

* Services excluding driving course fees.

Commodity Prices

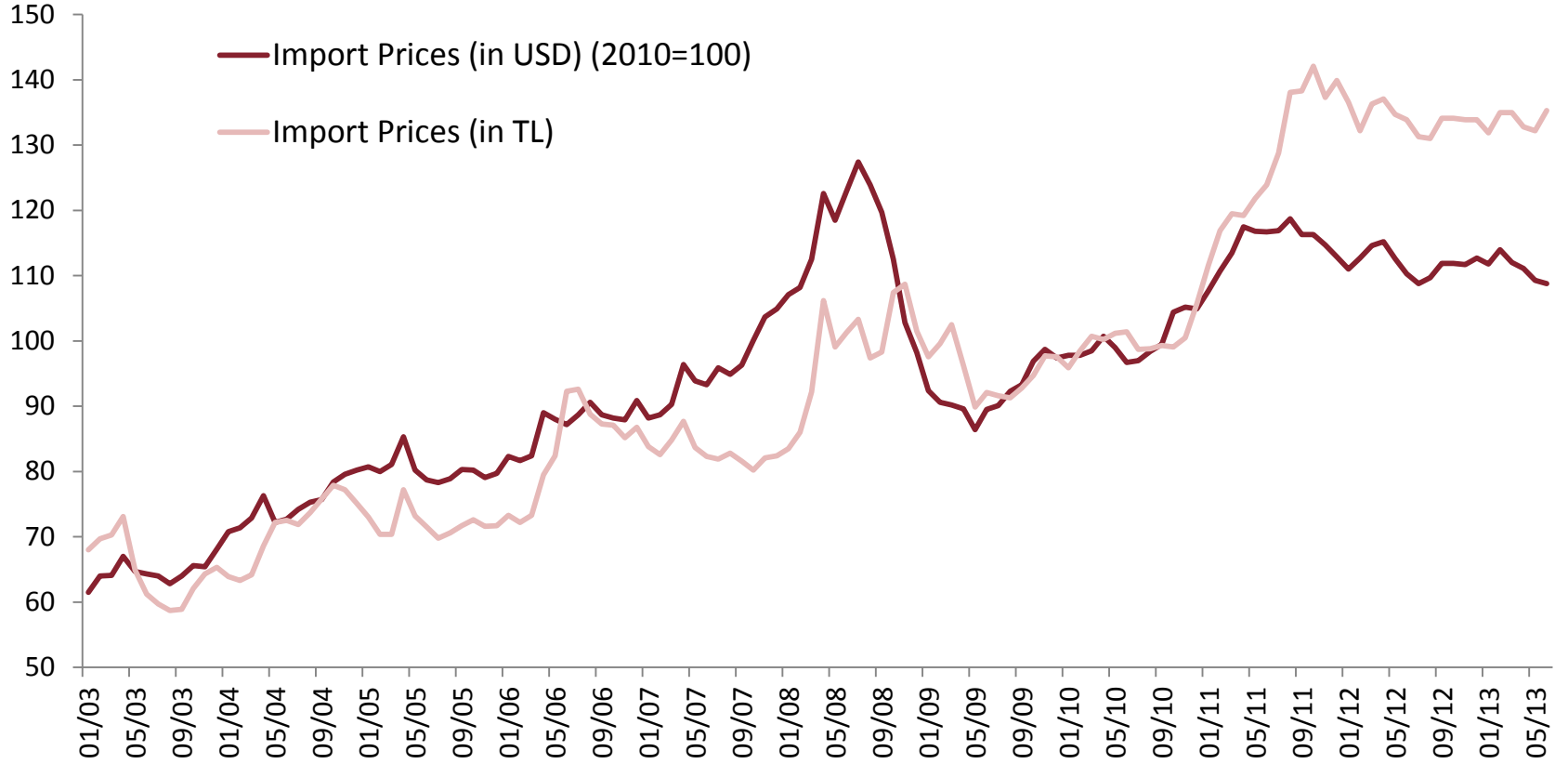
S&P GS Indices



Source: Bloomberg.

Last Observation: August 29, 2013.

Import Prices

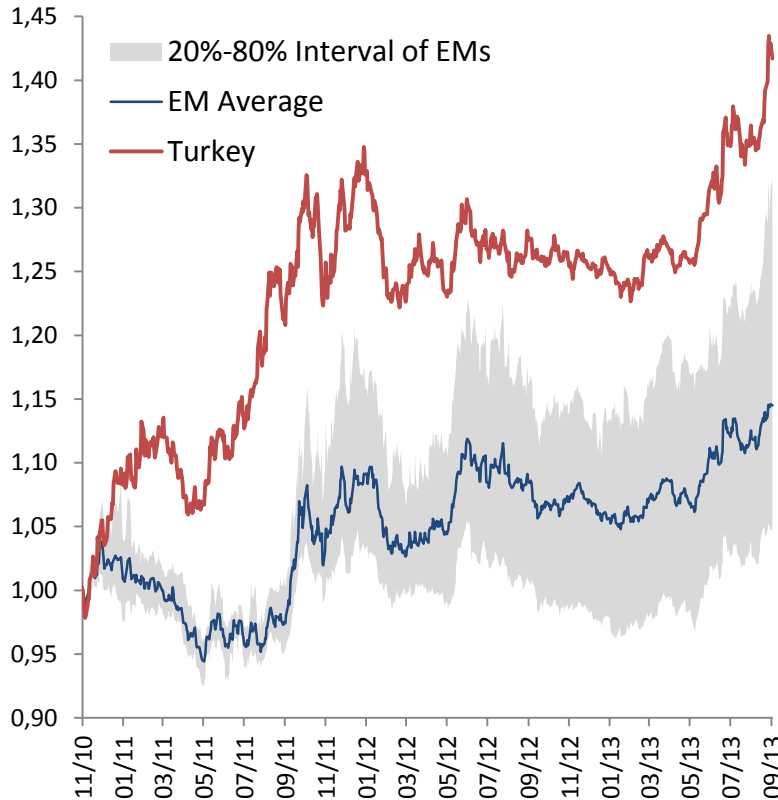


Source: TURKSTAT.

Last Observation: June 2013.

Nominal and Real Exchange Rates

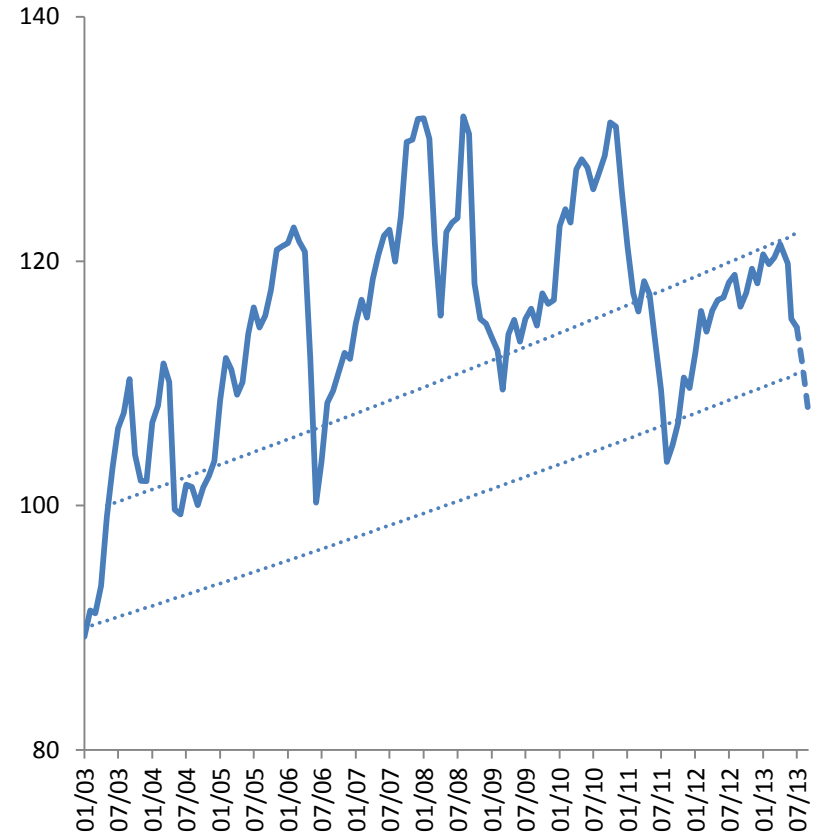
**TL and Other Emerging Market Currencies vs USD
(01.11.2010=1)**



Last Observation: September 02, 2013.
Emerging economies include Brazil, Chile, Colombia, Czech Republic, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Philippines, Poland, Romania, South Africa, South Korea and Thailand.

Source: Bloomberg.

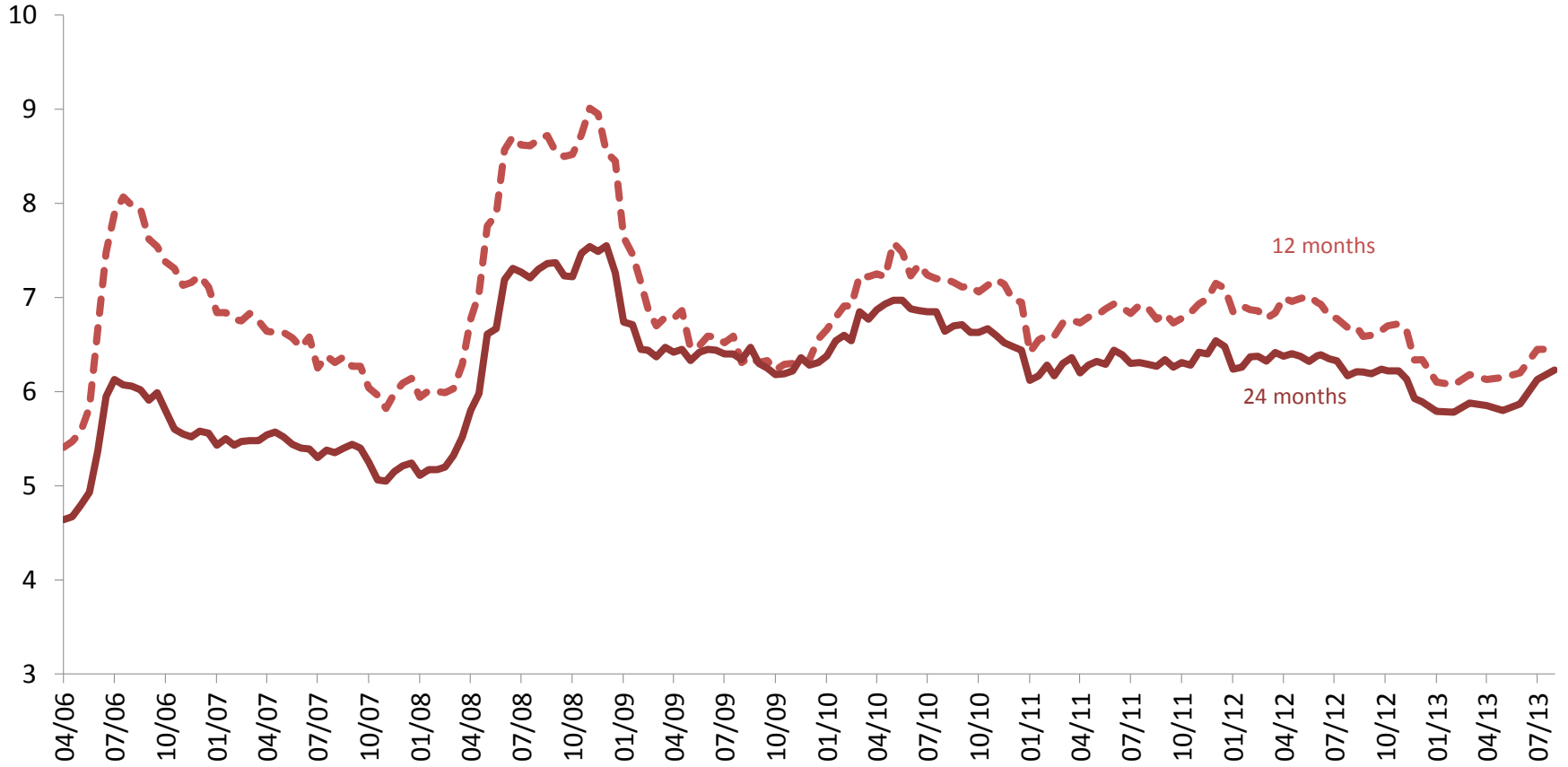
**Real Effective Exchange Rates
(2003=100)**



September is estimated with the September 3, 2013 exchange rates. An increase in index indicates an appreciation of the Turkish lira. Dotted lines represent 2 percent trends for May 2003=100 or January 2003=90.

Source: CBRT.

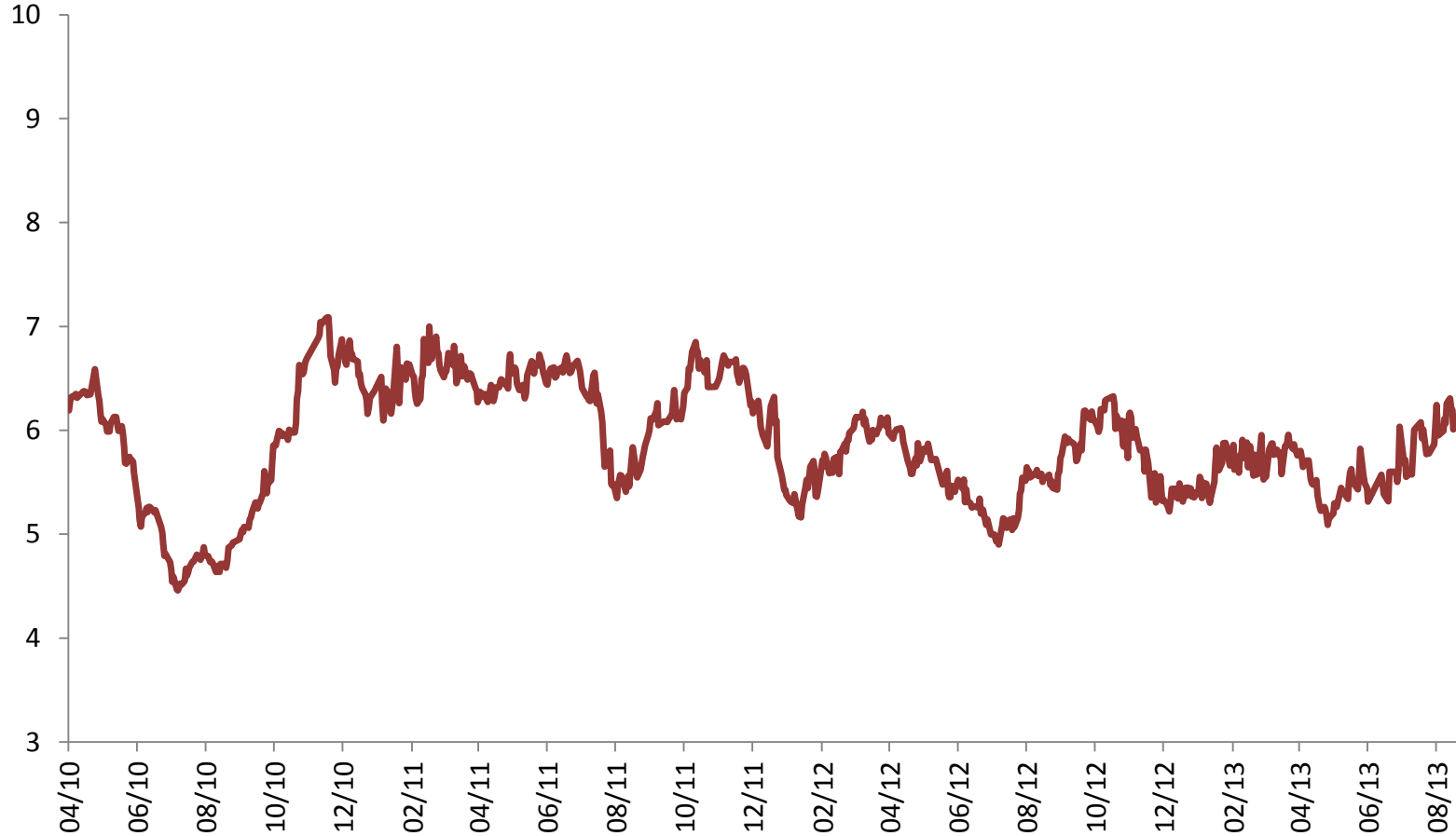
Inflation Expectations



Source: CBRT.

Last Observation: August 2013.

Break-even Inflation



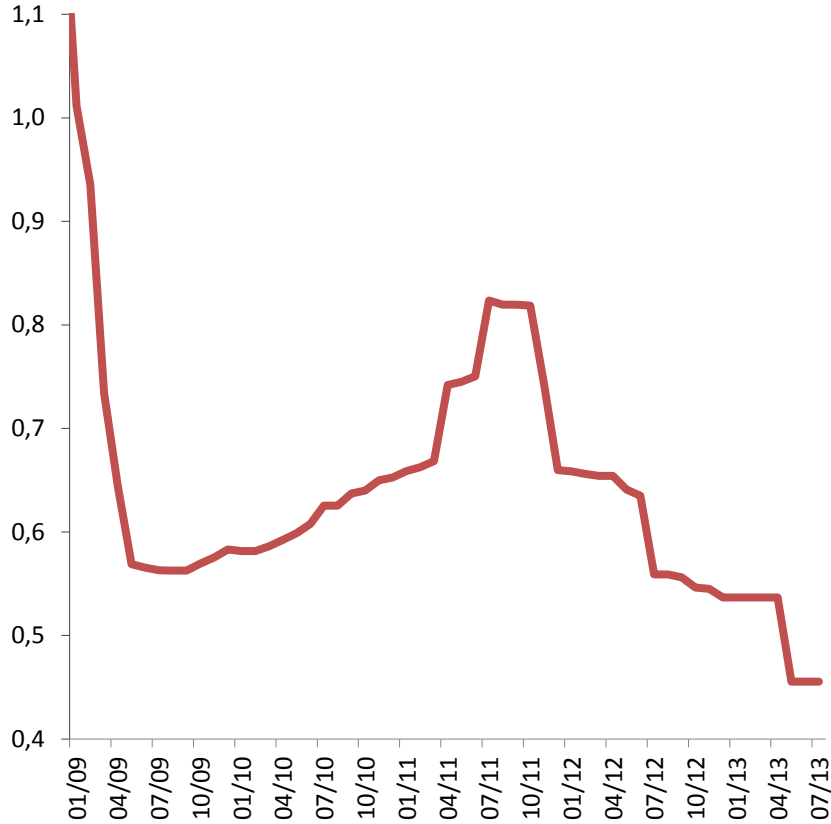
Source: CBRT.

Last Observation: September 2, 2013.
Estimated as the difference between the returns of
10 year maturity fixed and CPI-indexed bonds.

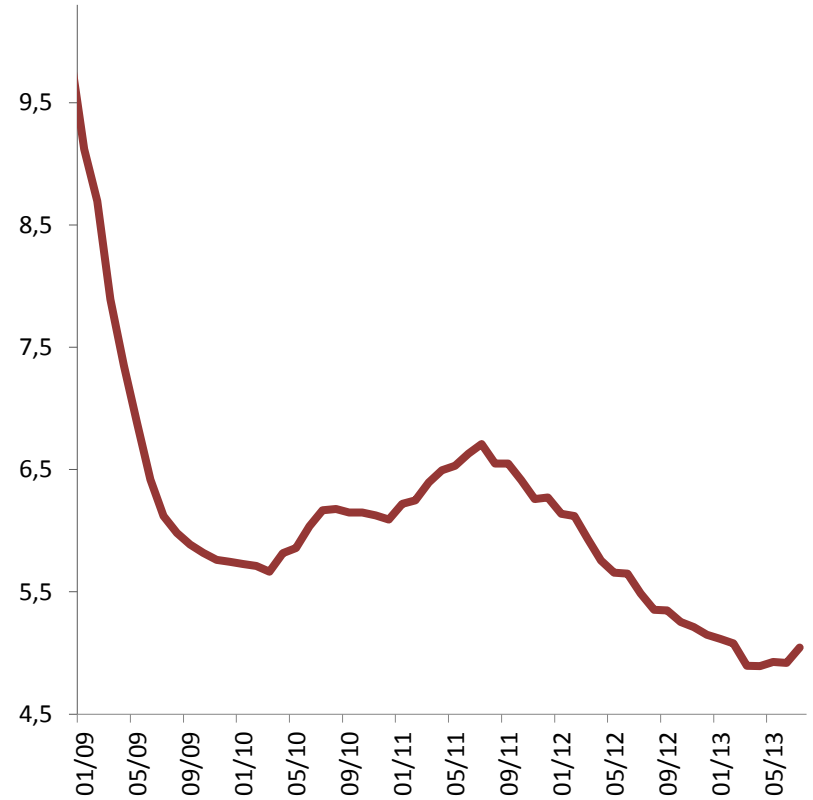
Monetary and Financial Conditions

Global Policy Rates

Advanced Countries



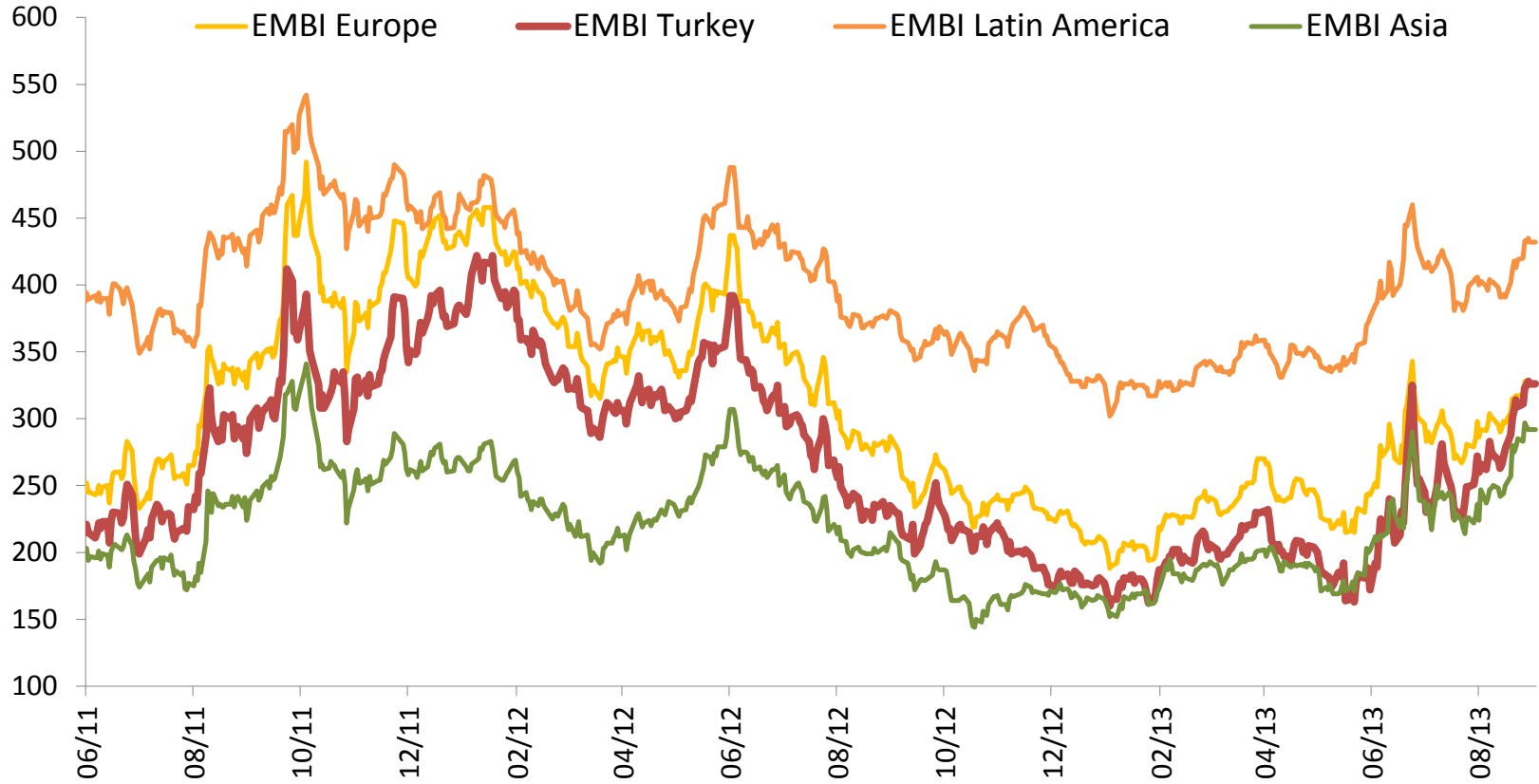
Emerging Countries



Source: Bloomberg.

Last Observation: July 2013.

Risk Premium

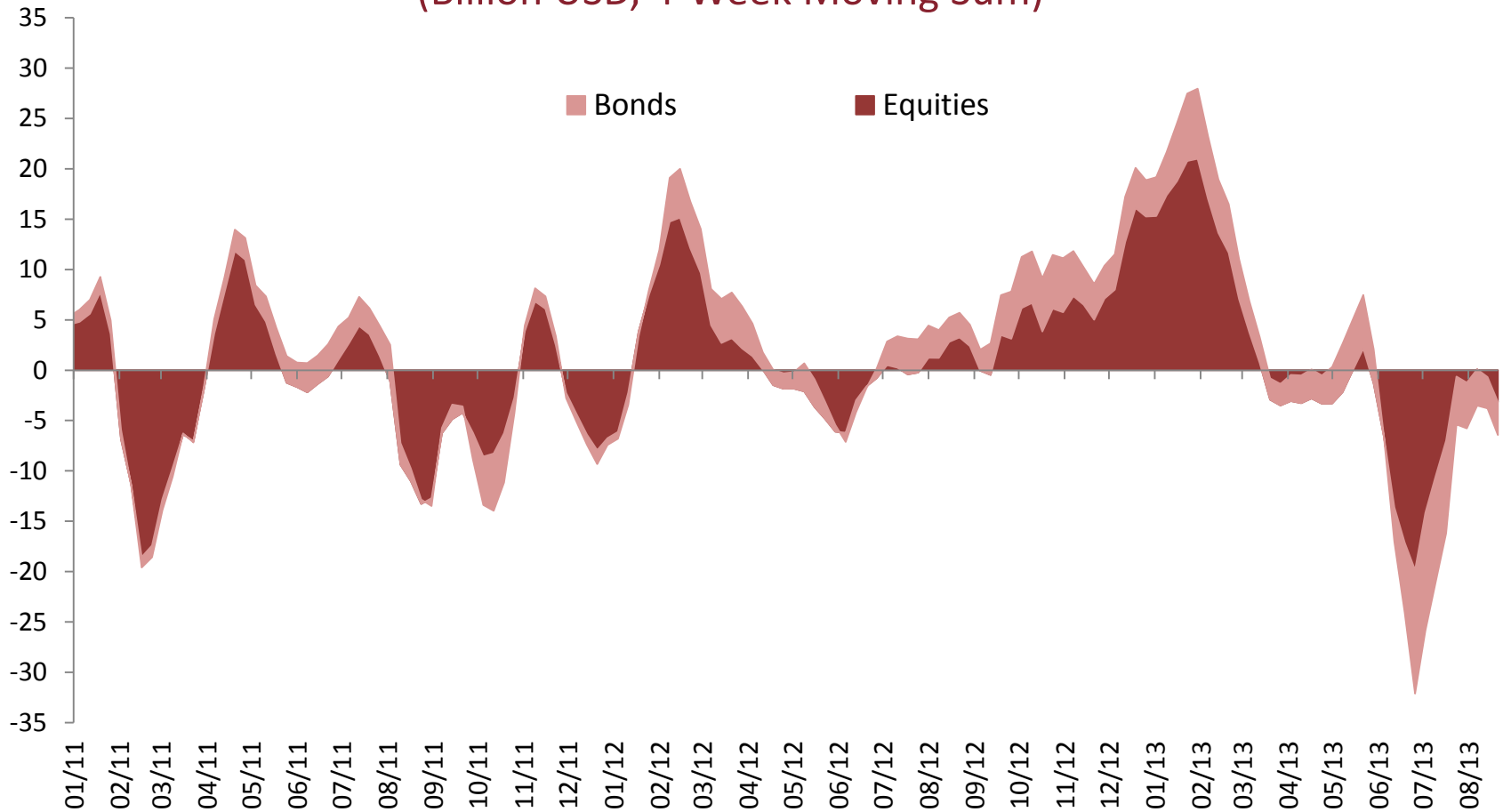


Source: Bloomberg.

Last Observation: September 02, 2013.

Capital Flows

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

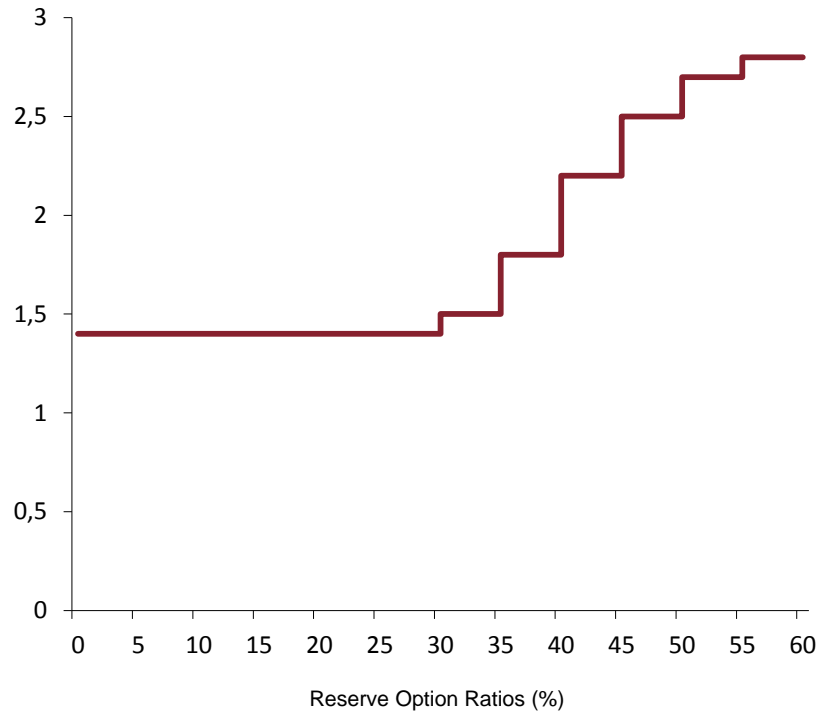


Source: EPFR.

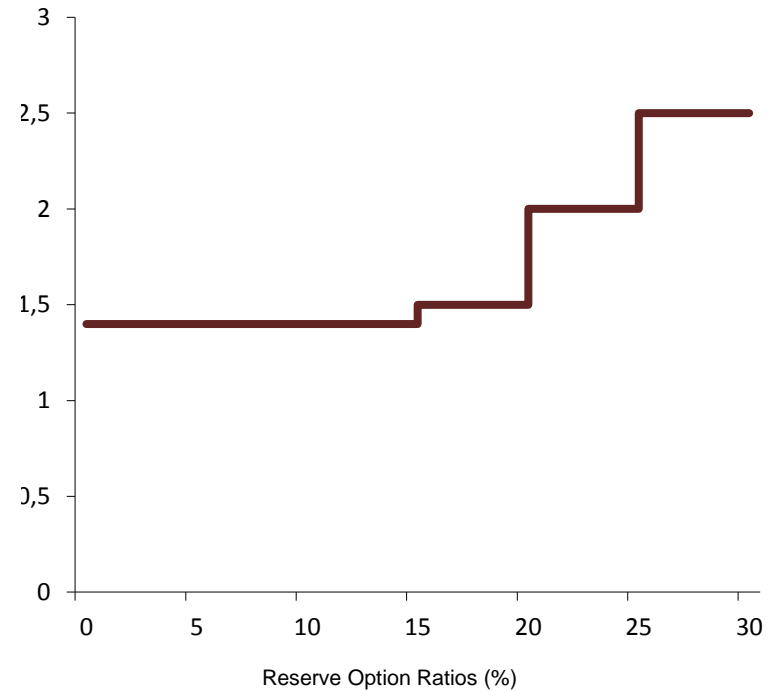
Last Observation: August 21, 2013.

Reserve Options Coefficients (ROC)

Reserve Option Coefficients for FX



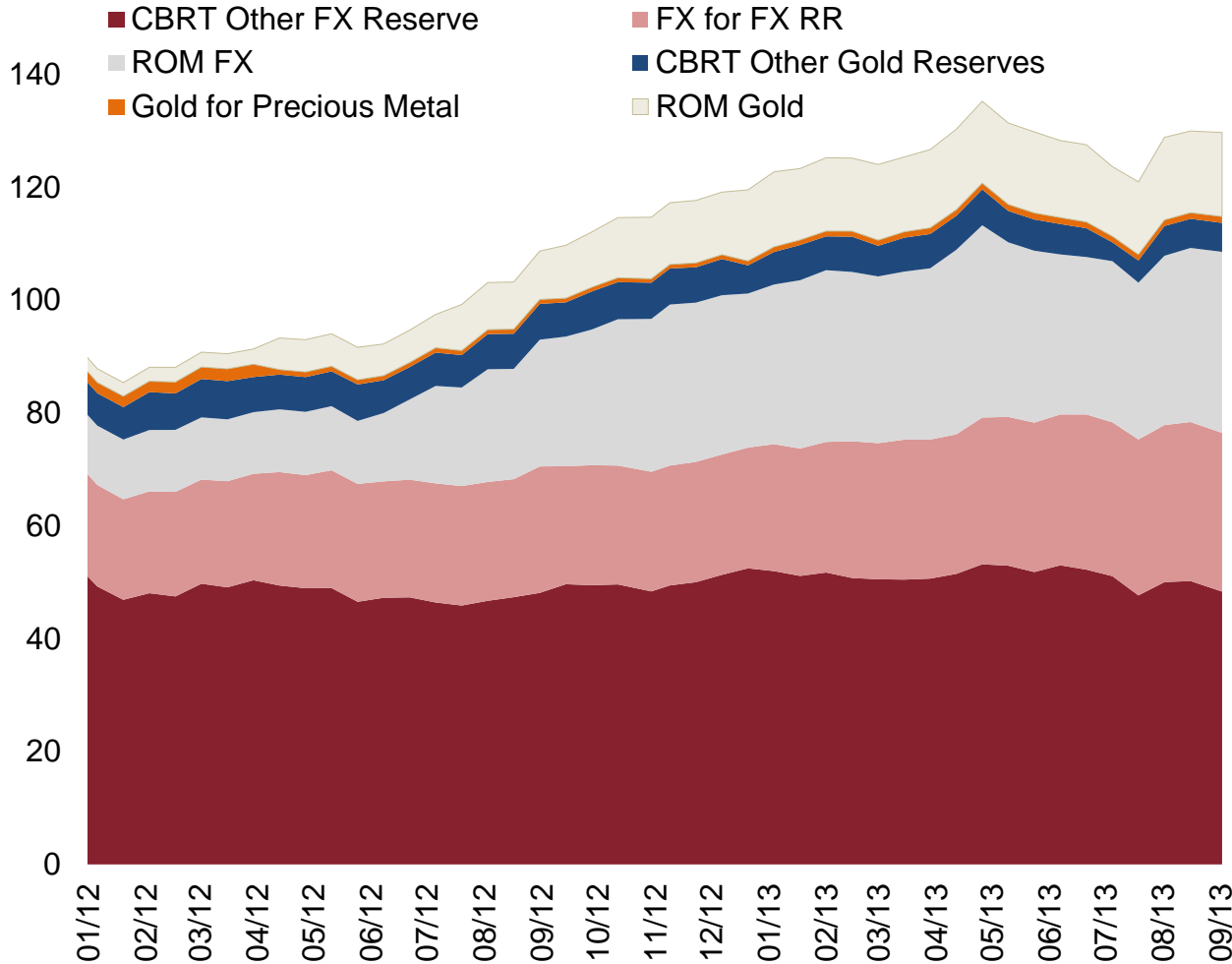
Reserve Option Coefficients for Gold



Source: CBRT.

Source: CBRT.

Central Bank Reserves (Billion \$)



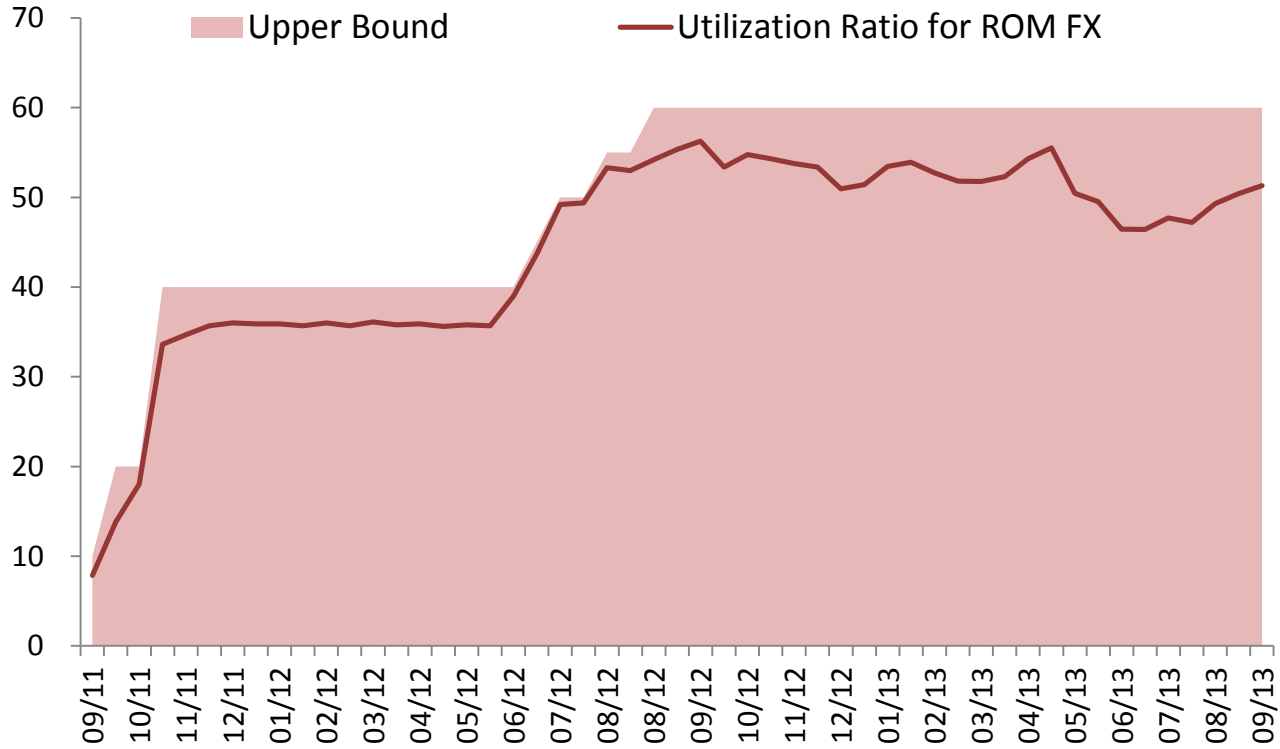
Source: CBRT.

	FX Sales (Billion \$)
June 2013	1.70
July 2013	5.15
August 2013	1.95

	Amount (Billion \$)
ROM FX	32.1
FX Required Reserves	28.1
Total	60.2

Last Observation: Sept 2, 2013.

Utilization Ratio for ROM

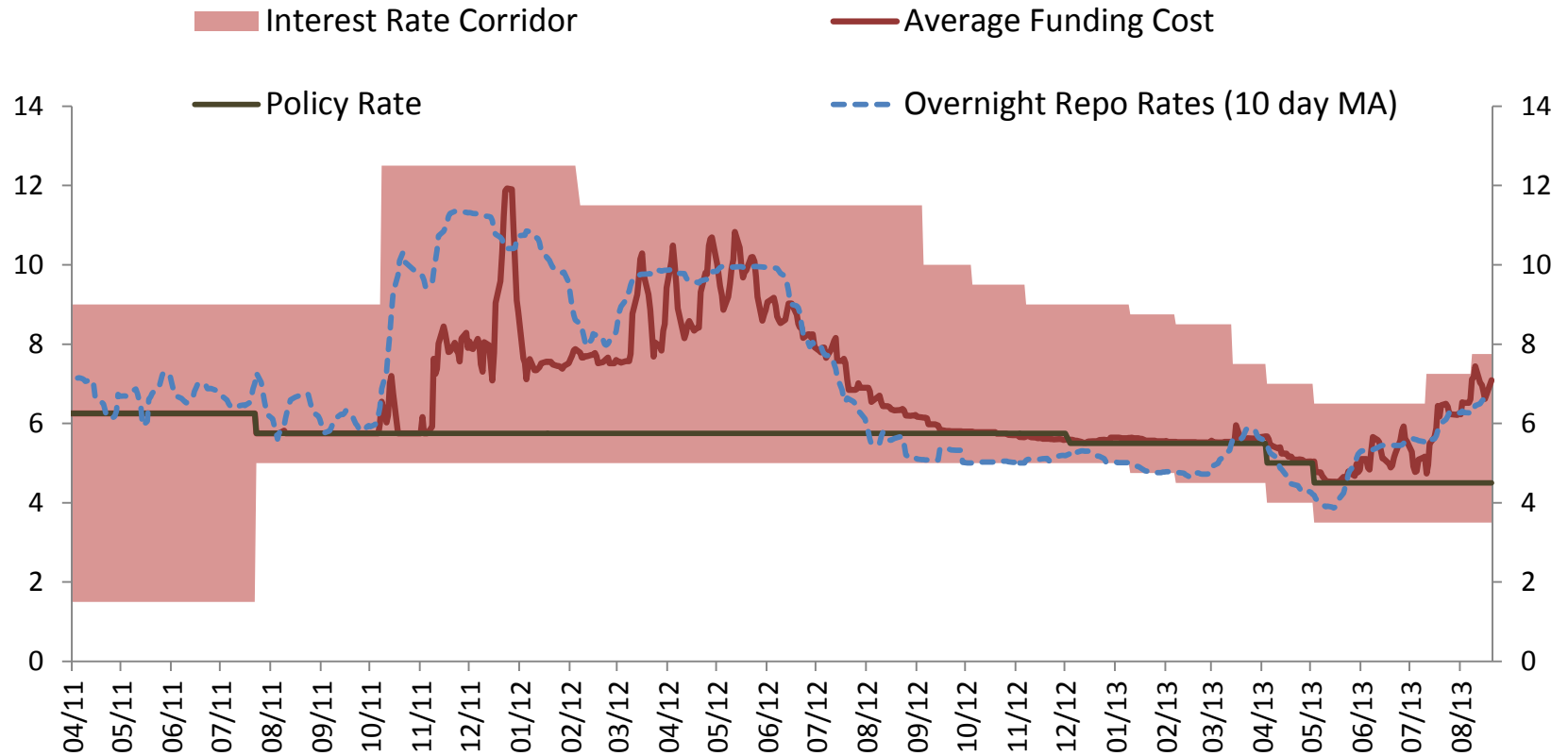


Source: CBRT.

Last Observation: Sept 2, 2013.

Monetary Policy

Interest Rate Corridor, Average Funding Rate, and O/N Repo Rates in the Money Market (Percent)

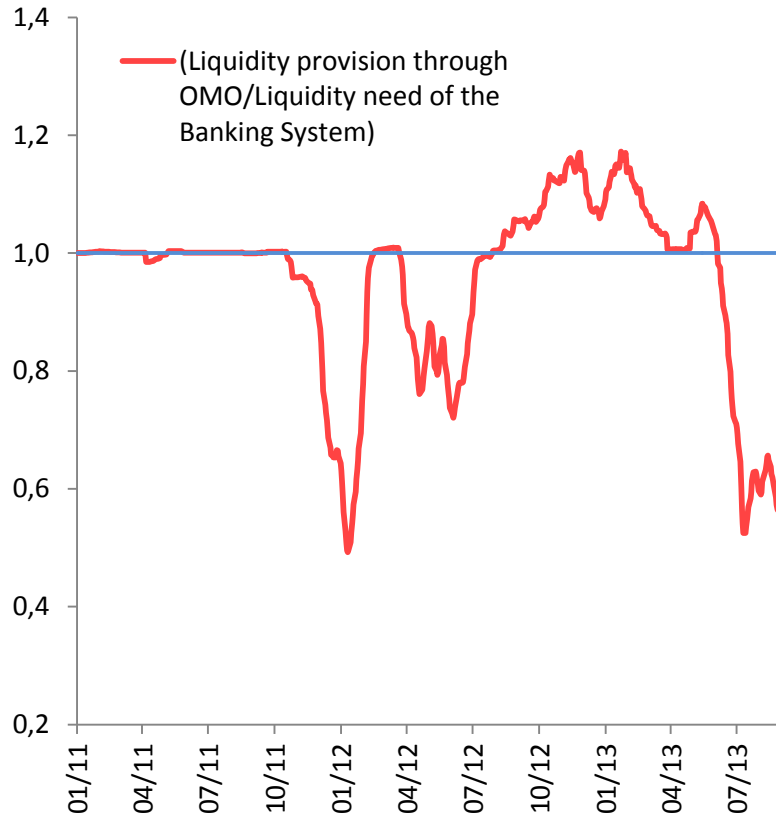


Source: CBRT.

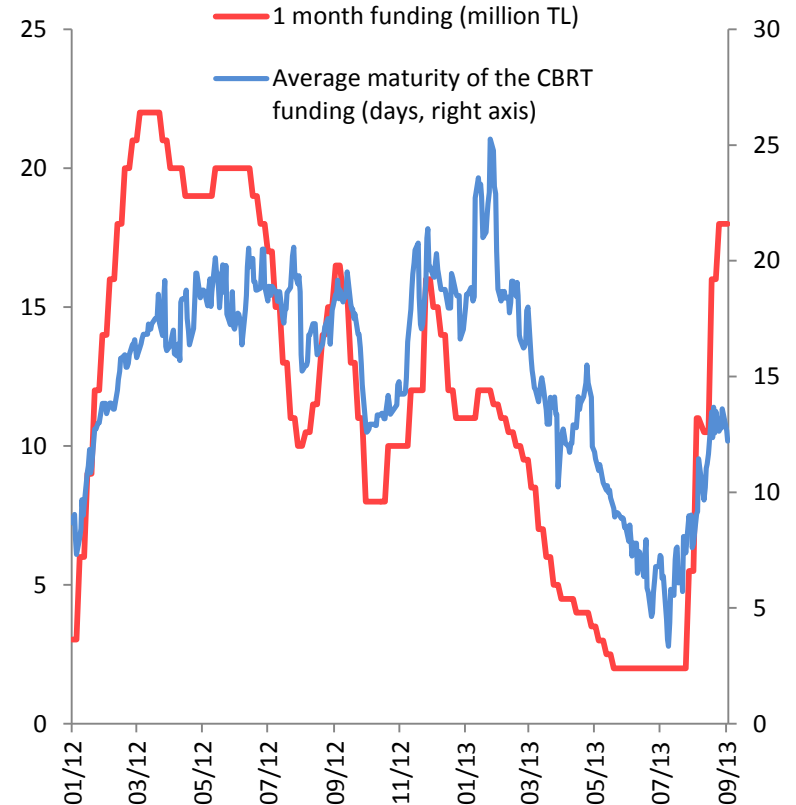
Last Observation: September 02, 2013.

Liquidity Policy

Liquidity Stance of the CBRT



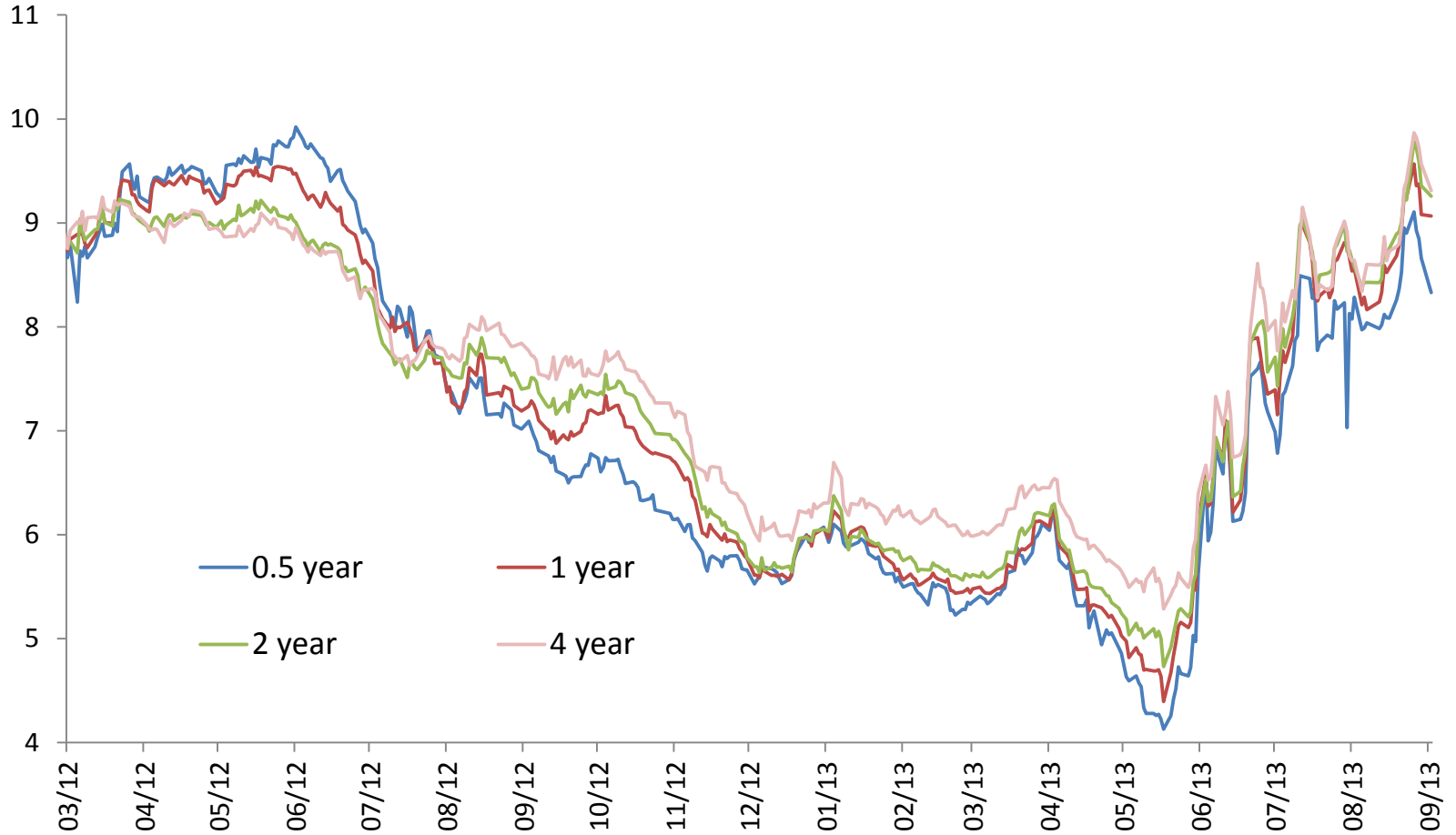
Maturity of Liquidity Provision



Last Observation: September 03, 2013.

Source: CBRT.

Interest Rates Across Different Maturities

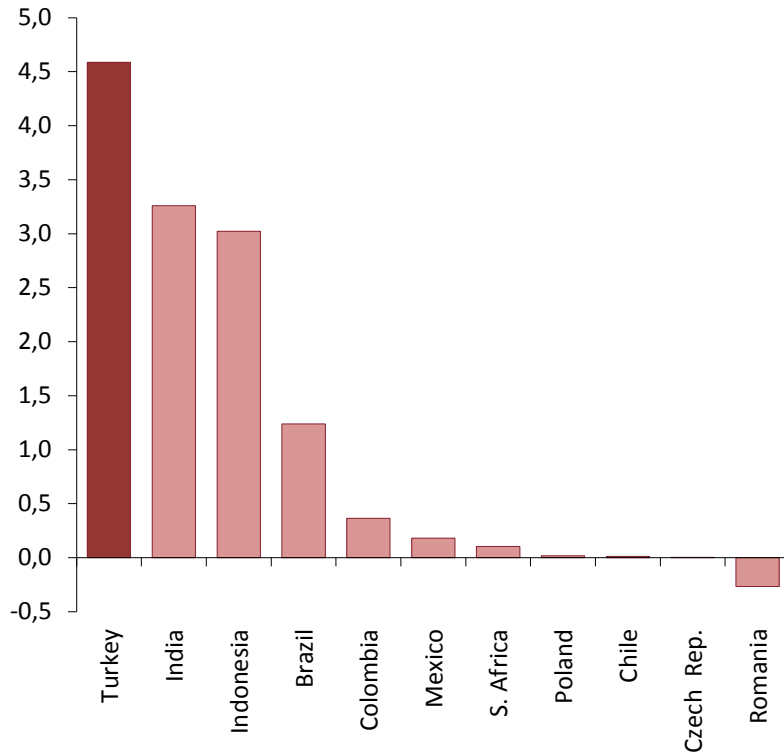


Source: BIST, CBRT.

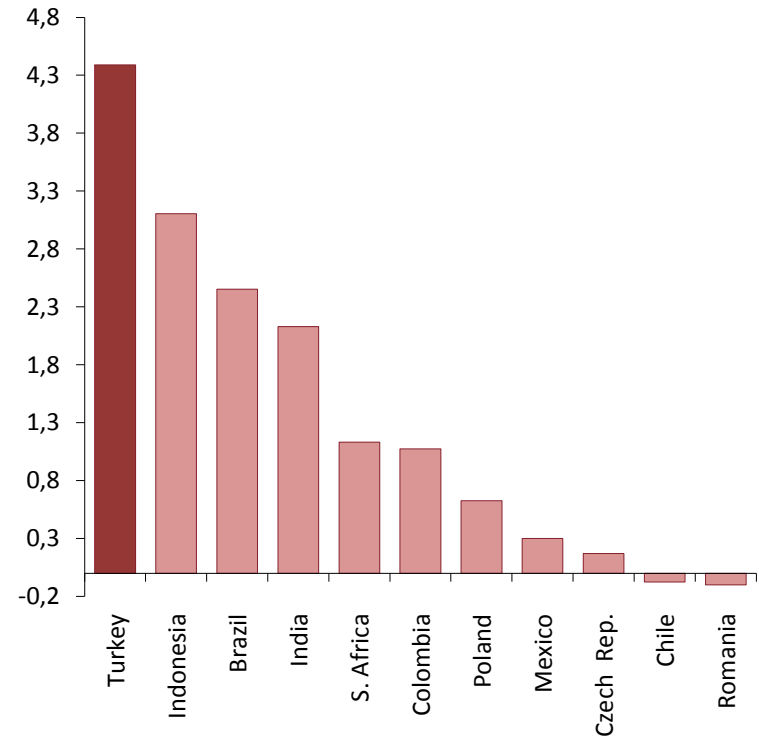
Last Observation: September 02, 2013.

Interest Rates in Emerging Markets

Change in 3-Month Market Rates
(From May 22 to September 2 , 2013)



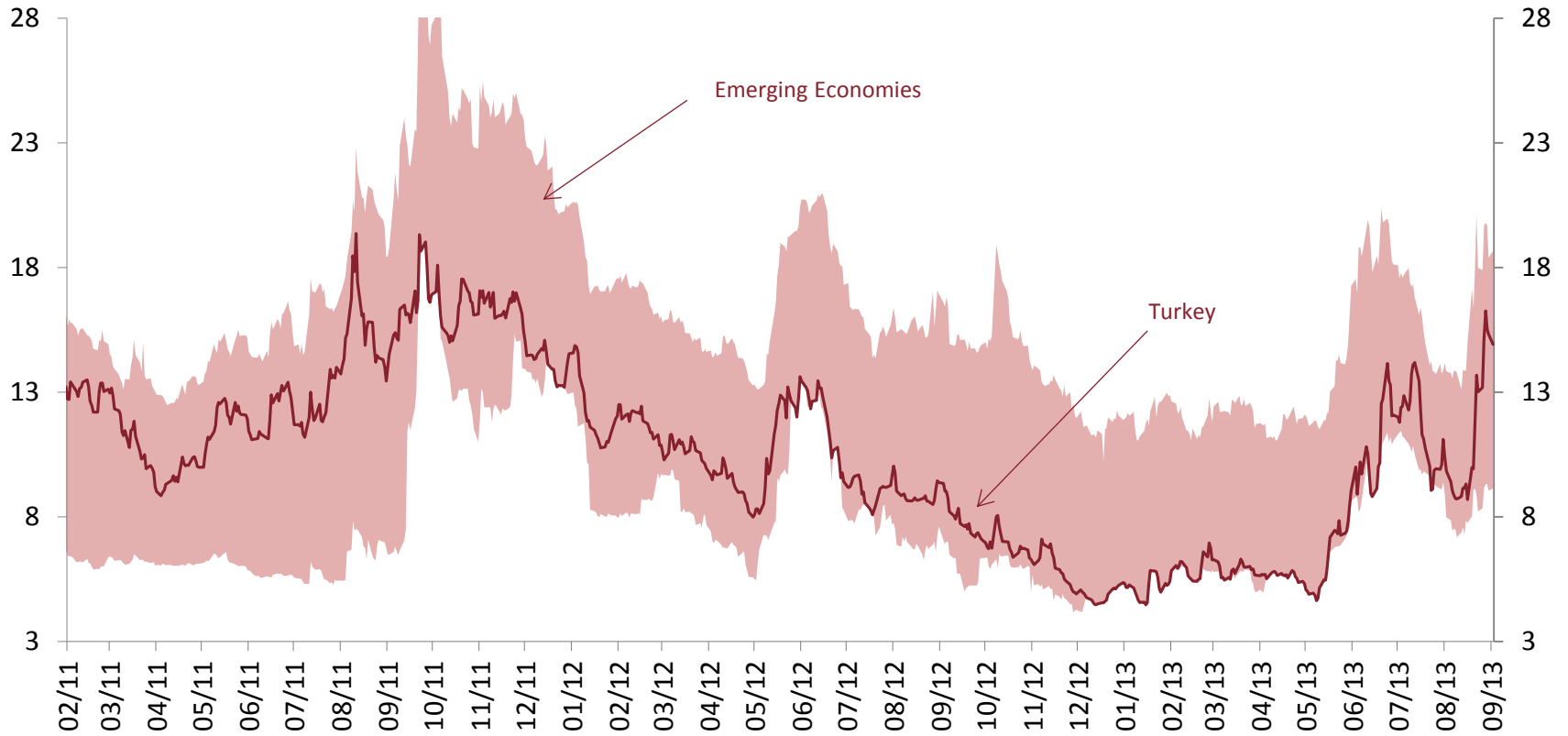
Change in 2-Year Market Rates
(From May 22 to September 2 , 2013)



Source: Bloomberg

Implied FX Volatility

(1 month)



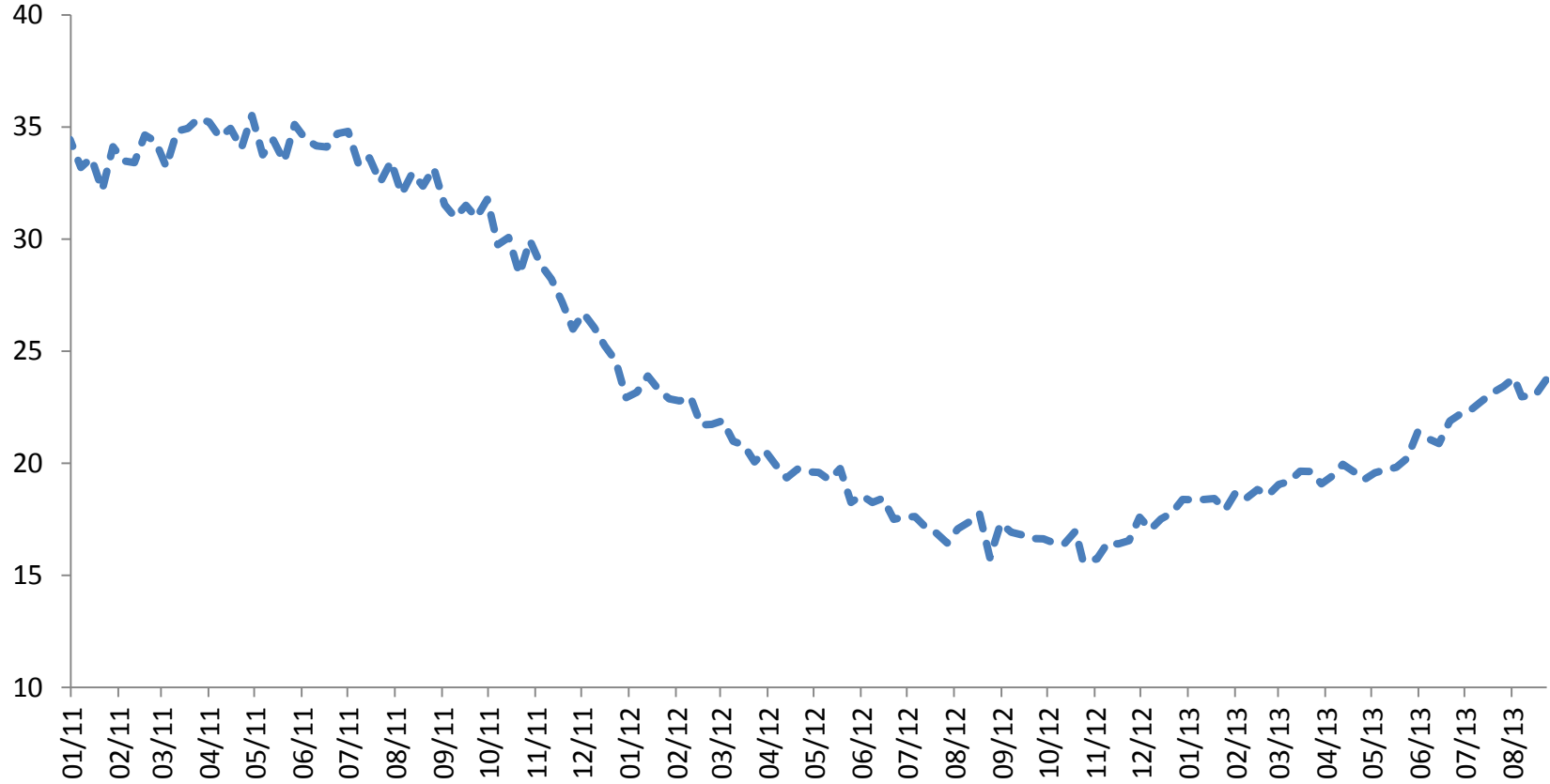
Source: Bloomberg.

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

Last Observation: September 02, 2013.

Total Loan Growth Rate

(Year on Year Change, Percent)



Source: CBRT.

Last Observation: August 23, 2013.

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

Adjusted for exchange rate.

Recent Trends in Total Loan Growth

Total Loan Growth Rates (13-Week Moving Average, Annualized, Percent)

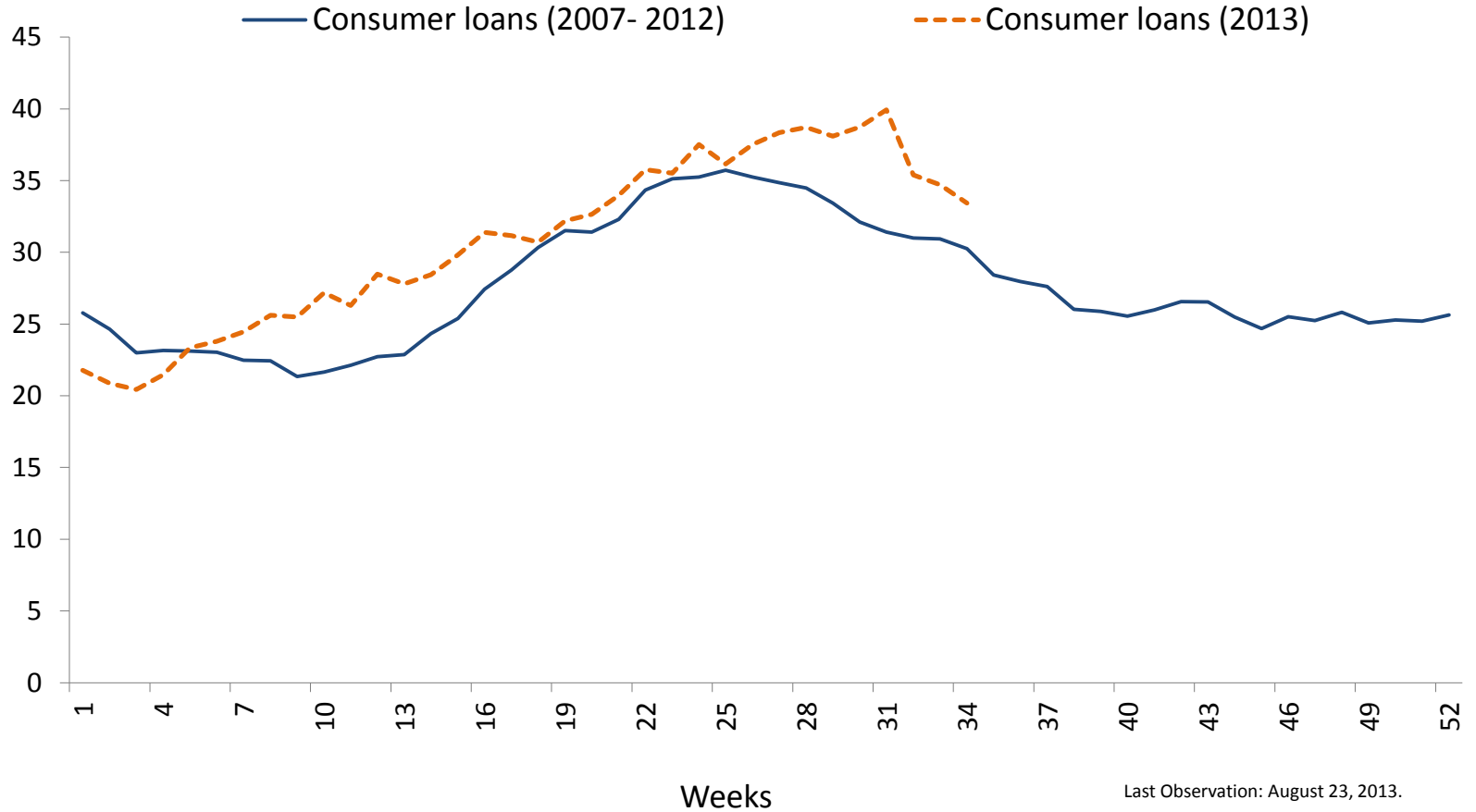


Source: CBRT.

Last Observation: August 23, 2013.
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

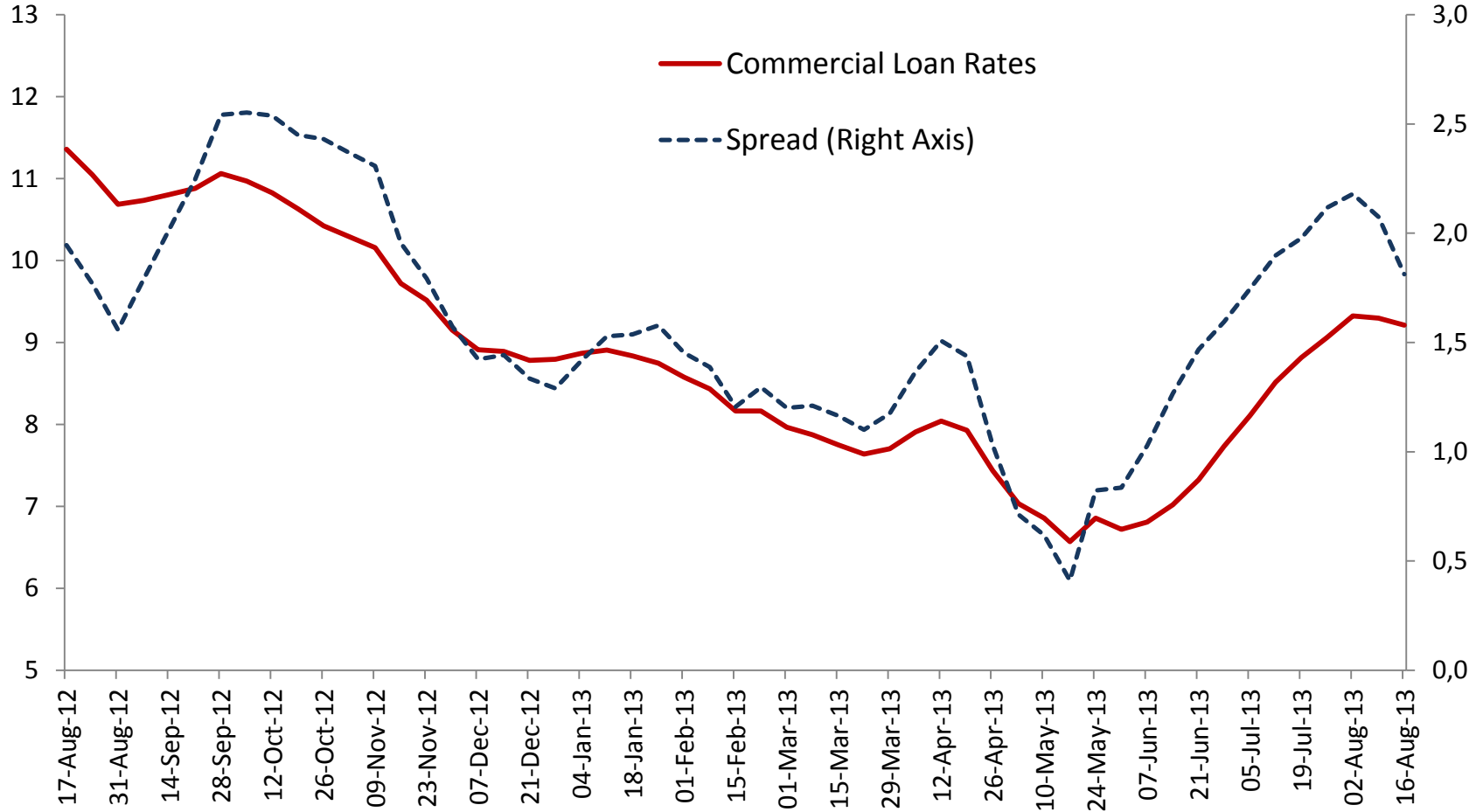
Consumer Loan Growth Rates (13-Week Moving Average, Annualized, Percent)



Source: CBRT.

Last Observation: August 23, 2013.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Lending - Deposit Rate Spread



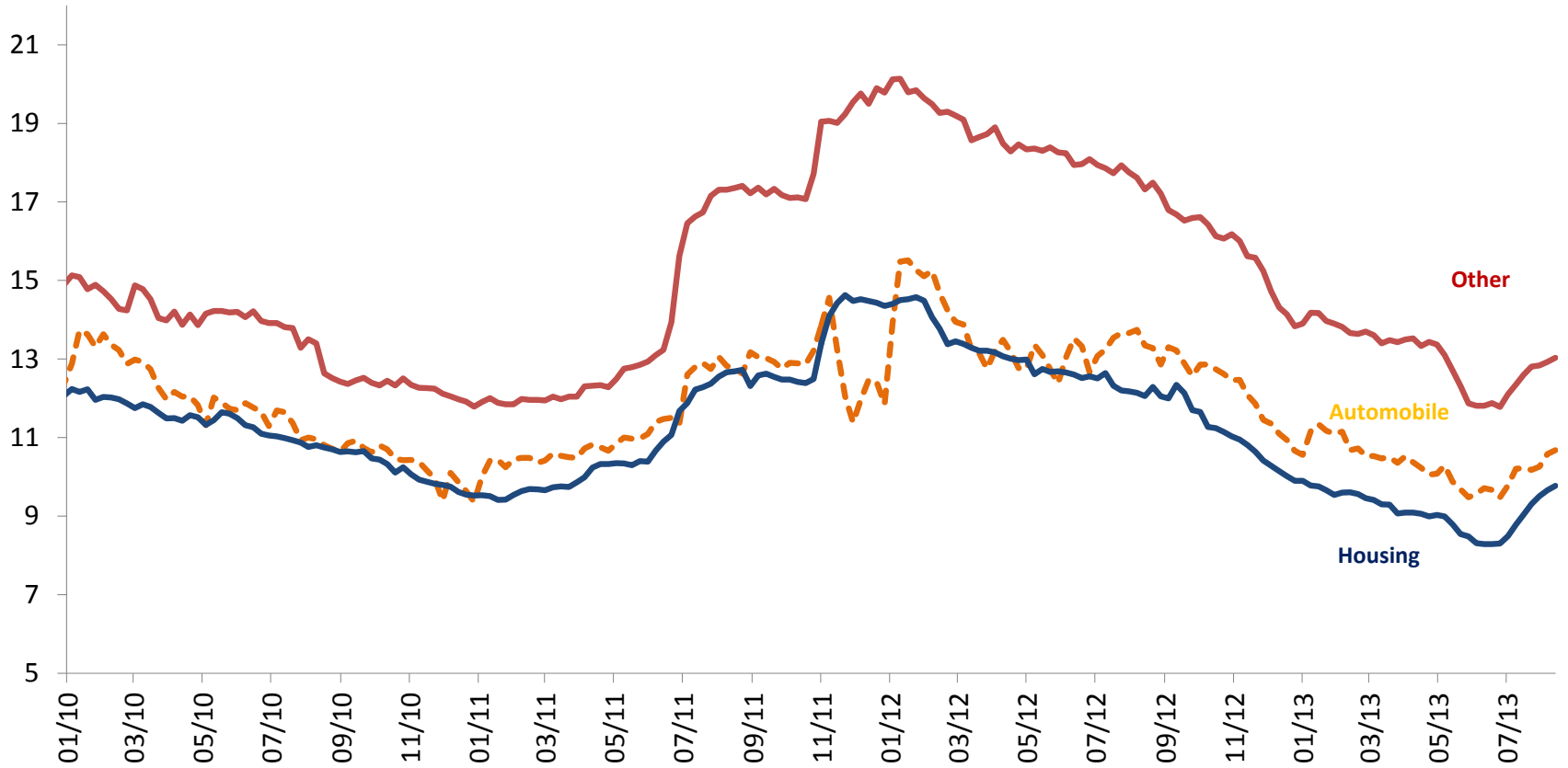
Last Data: August 16, 2013.

4 Weeks MA

Source: CBRT.

Commercial loan rates exclude corporate overdraft account rates and corporate credit card rates.

Consumer Loan Rates



Source: CBRT.

Last Observation: August 16, 2013.

Overview - Outlook

- Domestic demand and exports grow at a moderate pace.
- Gradual improvement in the current account deficit, excluding gold trade, continues. Current account deficit to GDP ratio at the end of the year is expected to be lower than the MTP forecast.
- Exchange rate movements will have a temporary impact on inflation.

Overview – Policies

- Monetary policy in Turkey is shaped by the medium and long term price stability objective.
- Predictability of Turkish lira liquidity policies is increased while dependence on high frequency data is eliminated.
- FX liquidity will also be provided from the gross reserves via ROM and FX required reserves if needed.



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