



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Briefing on Inflation Report 2015-II

Erdem BAŞÇI
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İstanbul

Inflation Report: Main Sections

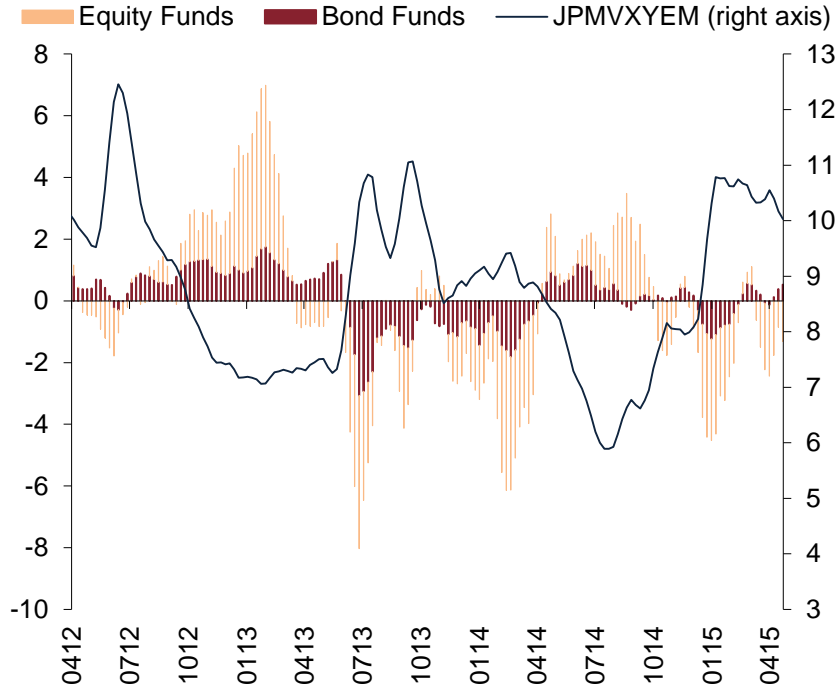
- Overview
- International Economic Developments
- Inflation Developments
- Supply and Demand Developments
- Financial Markets and Financial Intermediation
- Public Finance
- Medium Term Projections

2015 April Inflation Report: Boxes

- The Effect of Supply Chain Measures on Fresh Fruits and Vegetables Prices
- The Effect of Fuel Prices on Fresh Fruits and Vegetables Prices Through Transportation Cost Channel
- Firm Cost Structure and Cost Push-Factors of Inflation
- The Effect of Parity and Energy Prices on Export and Import Prices Excluding Gold
- Minimum Wage and Wage Distribution
- Some Observations on Turkey's Convergence Experience
- Unobserved Firm Heterogeneity and Uncertainty on Firms' Export Decisions
- Flow Dynamics of Unemployment in Turkey

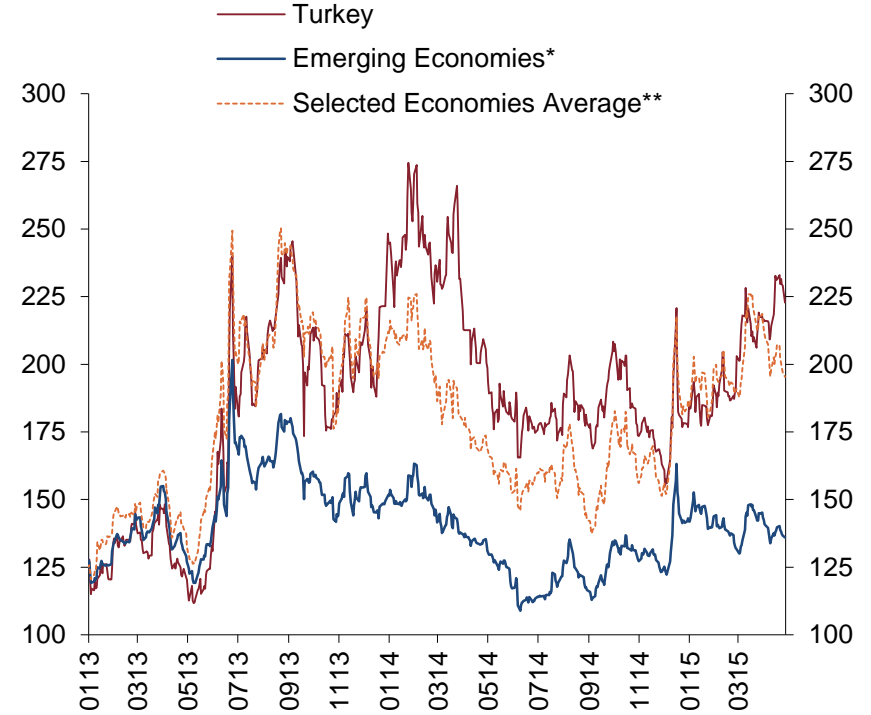
Portfolio Flows and Risk Premium

Portfolio Flows to Emerging Economies
(4-Week Moving Average, Billion USD)
and Currency Volatility Index (JPMVXYEM) (Percent)



Source: EPFR, Bloomberg.

CDS for Emerging Economies and Turkey
(Basis points)



*Brazil, Czech Rep., Indonesia, S. Africa, Colombia, Hungary, Mexico, Poland, Romania ve Chile.

** Brazil, Indonesia, and S.Africa.

Source: Bloomberg

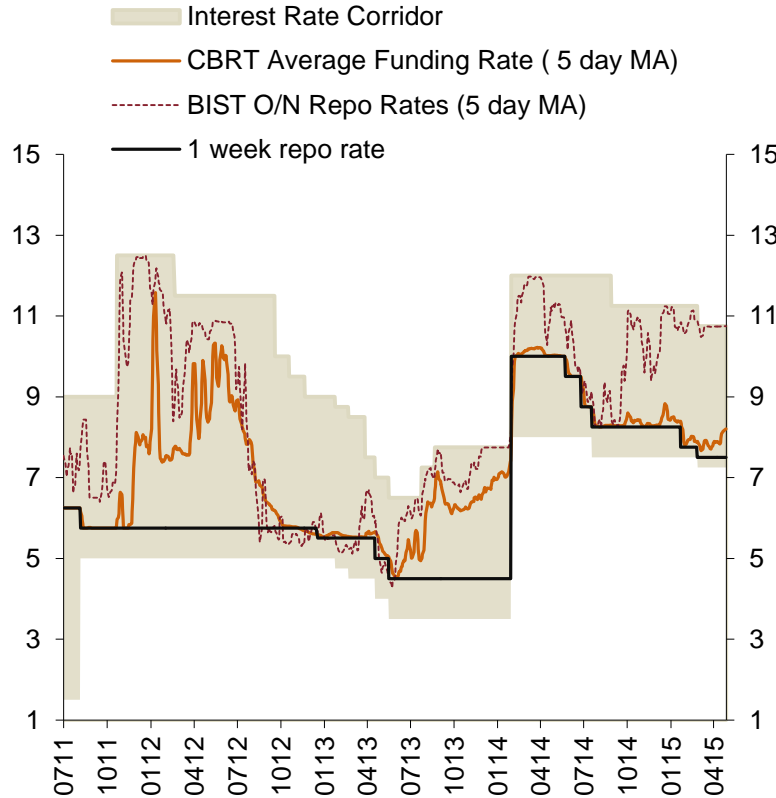
➤ Recently, risk premia and portfolio flows to emerging market economies followed a volatile course .

Monetary Policy and Financial Conditions

Monetary Policy

CBRT Rates and BIST Interbank O/N Repo Rates

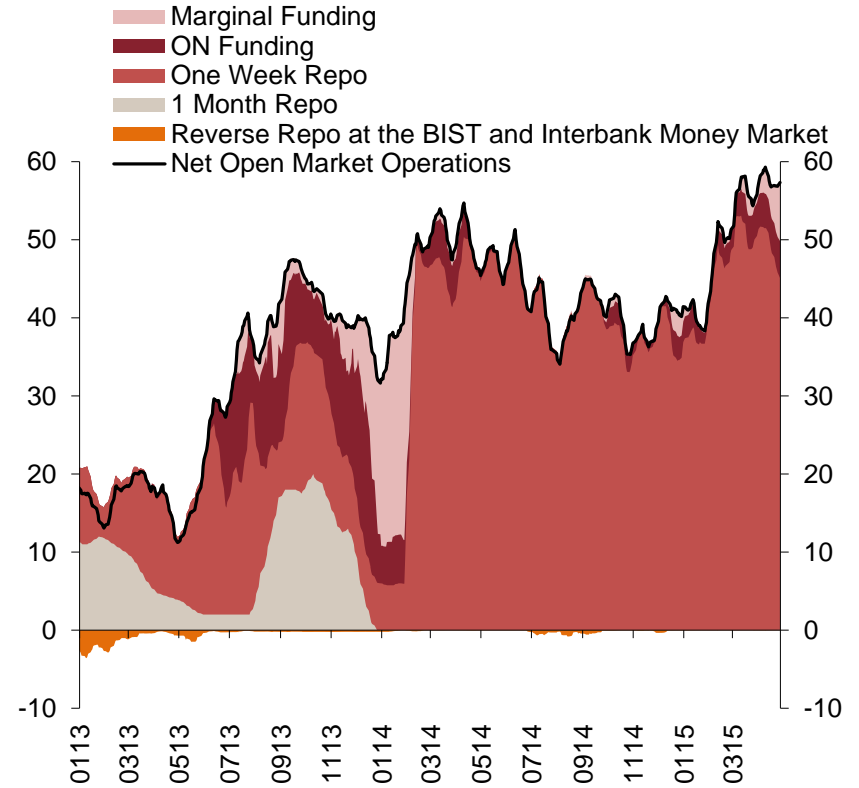
(Percent)



Source: BIST, CBRT.

CBRT Funding*

(2-Week Moving Average, Billion TL)



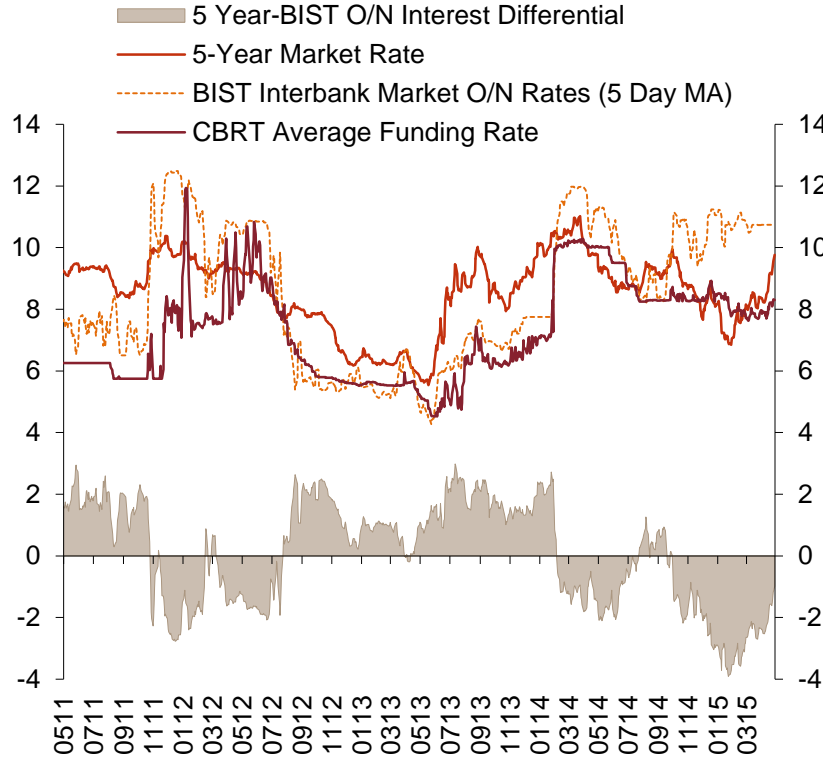
*Marginal funding is O/N funding quoted at the upper limit of the corridor.

Source: BIST, CBRT.

➡ CBRT maintains a cautious monetary policy stance to achieve the price stability objective.

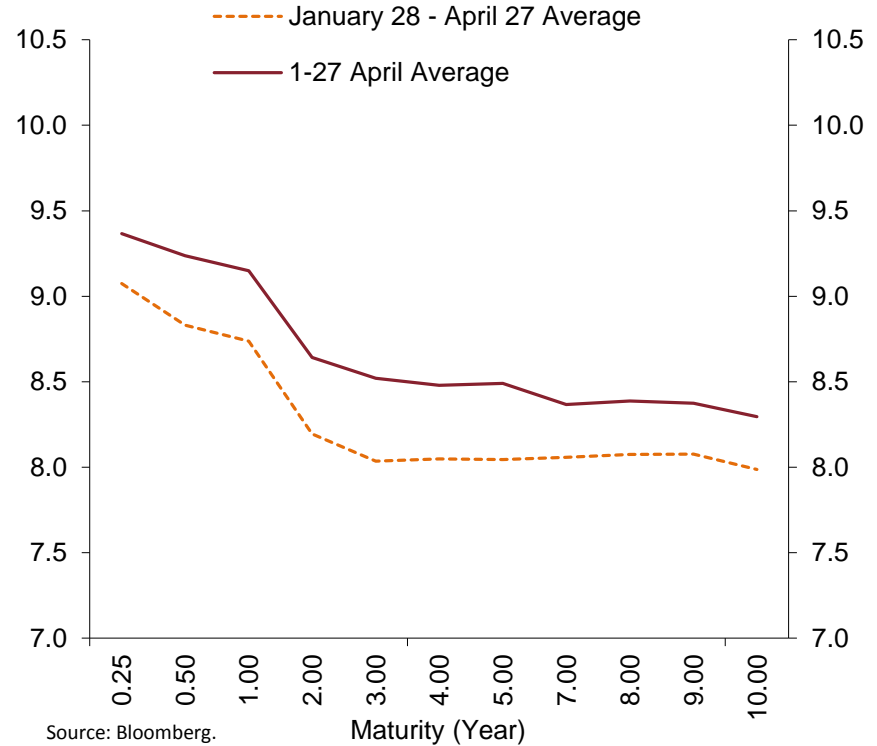
Monetary Conditions

Money Market and CBRT Funding Rates
(Percent)



Source: BIST, CBRT, Bloomberg.

Yield Curve
(Percent)



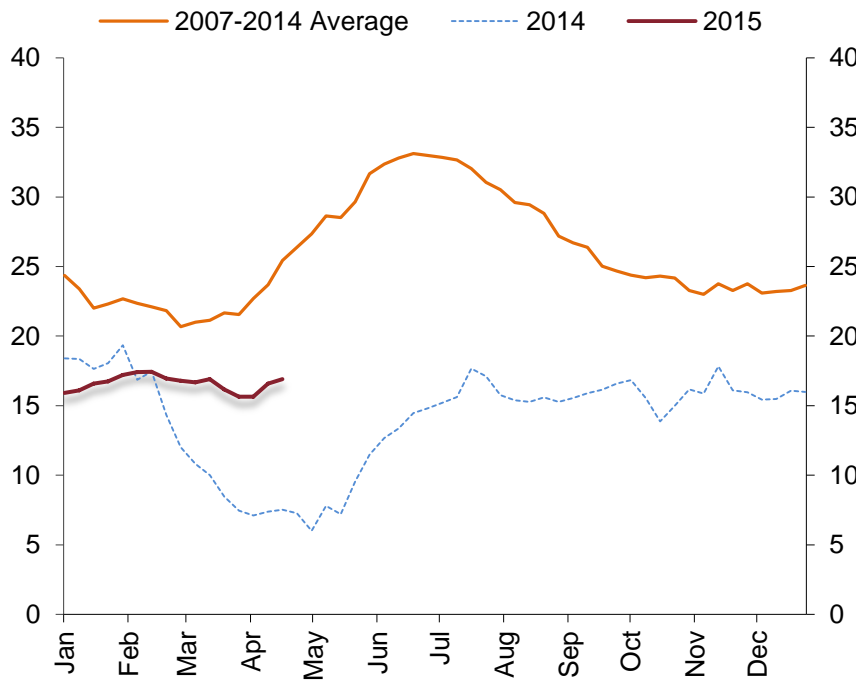
Source: Bloomberg.

➡ Slope of the yield curve reflects the tight liquidity policy of CBRT.

Financial Stability

Consumer Loan Growth

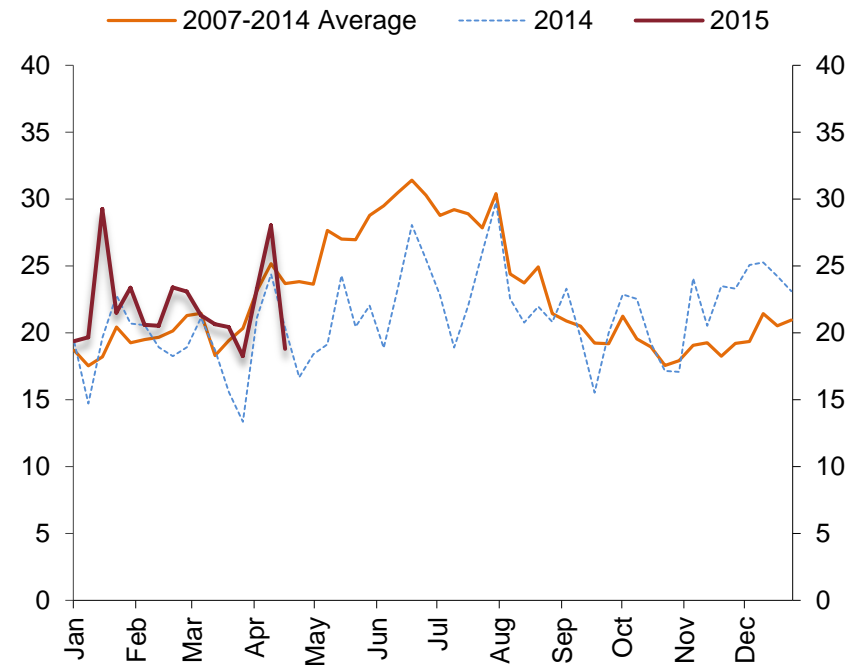
(13-Week Moving Average, Annualized, Percent)



Source: CBRT

Commercial Loan Growth

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



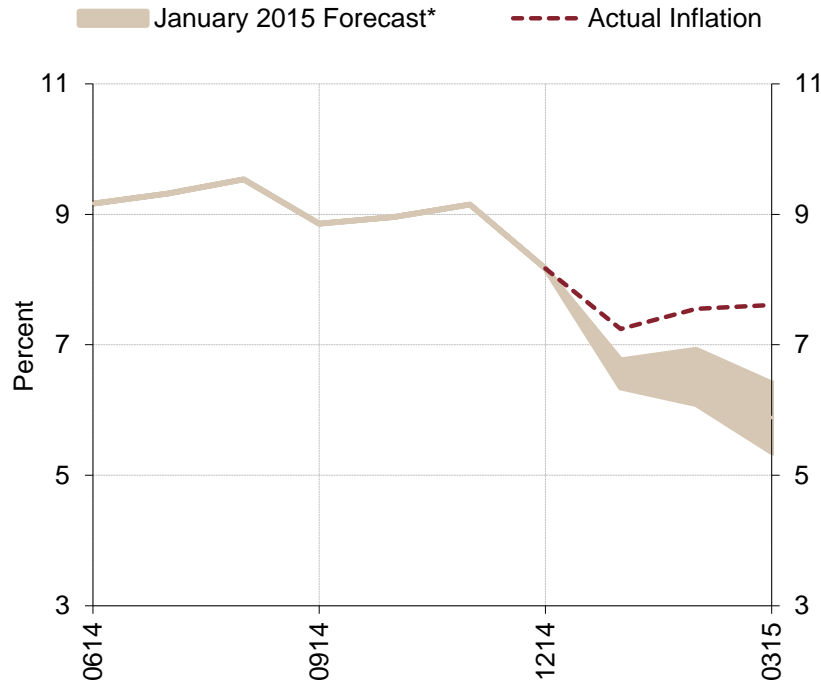
Source: CBRT.

- Commercial loans grow at a faster pace than consumer loans which has a favorable impact on price stability, financial stability and rebalancing.

Macroeconomic Developments and Main Assumptions

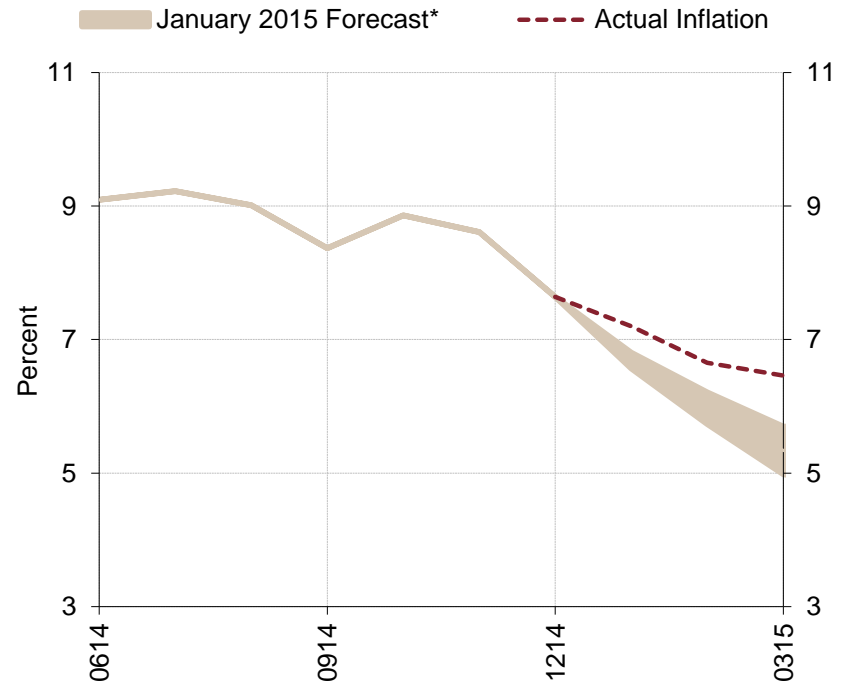
January Inflation Report Forecasts and Realizations

January Inflation Forecasts and Realizations
(Percent)



* Shaded region indicates the 70 percent confidence interval for the forecast.
Source: TURKSTAT, CBRT.

January Inflation Forecasts and Realizations
Excluding Unprocessed Food and Tobacco
(Percent)

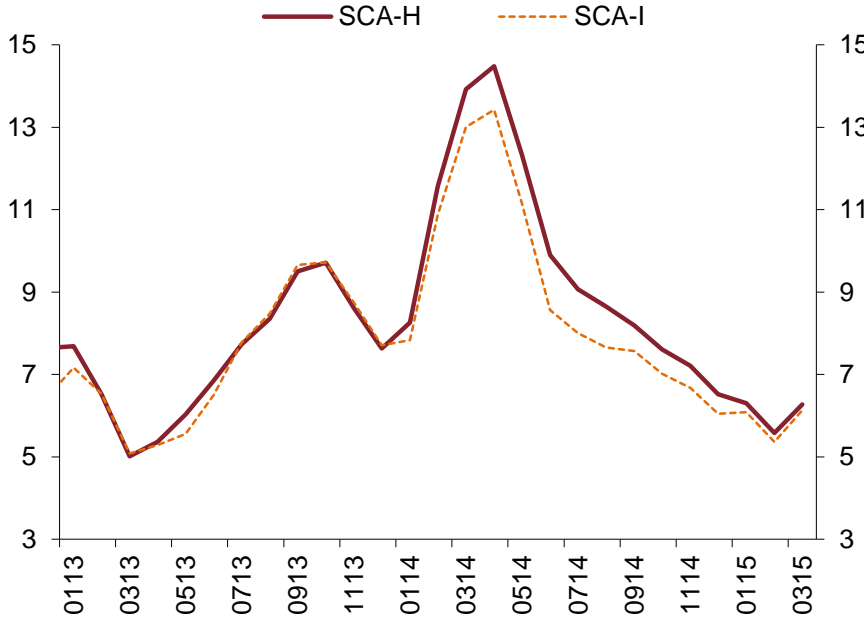


➤ In the end of first quarter of 2015, inflation was realized higher than January Inflation Report forecast.

Inflation

Core Inflation Indicators SCA-H and SCA-I

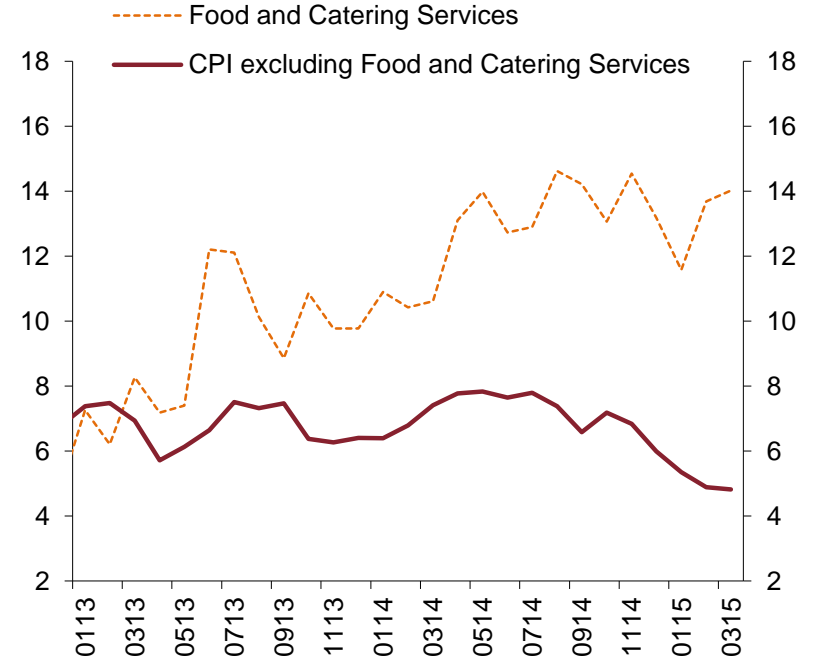
(Seasonally Adjusted, Annualized 3 Month Average,
Annual Percentage Change)



Source: TURKSTAT, CBRT.

Food and Non-Food Prices

(Annual Percentage Change)

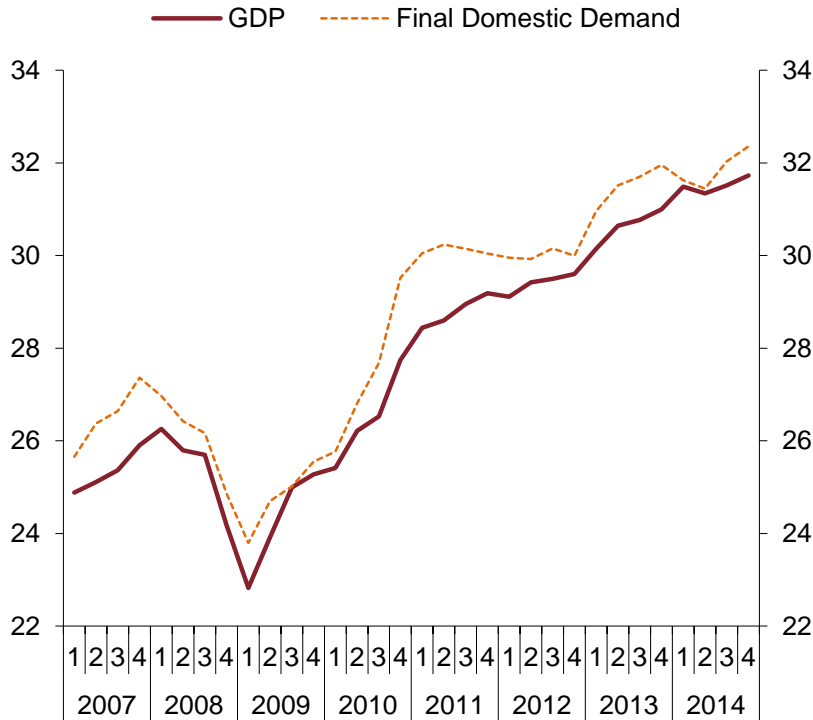


- While cautious monetary policy stance has a favorable impact on core inflation indicators, high course of food prices delays the decline in the consumer inflation.

Aggregate Demand Developments

GDP and Final Domestic Demand

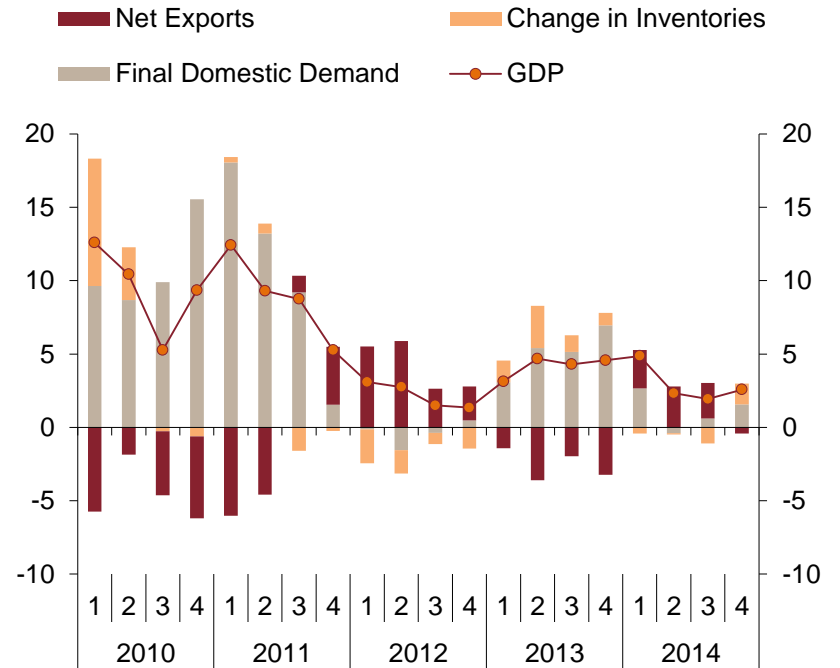
(Seasonally Adjusted, Billion TL, 1998 Prices)



Source: TURKSTAT, CBRT.

Contribution of Demand Components to Year-on-Year GDP Growth

(Percentage Point)

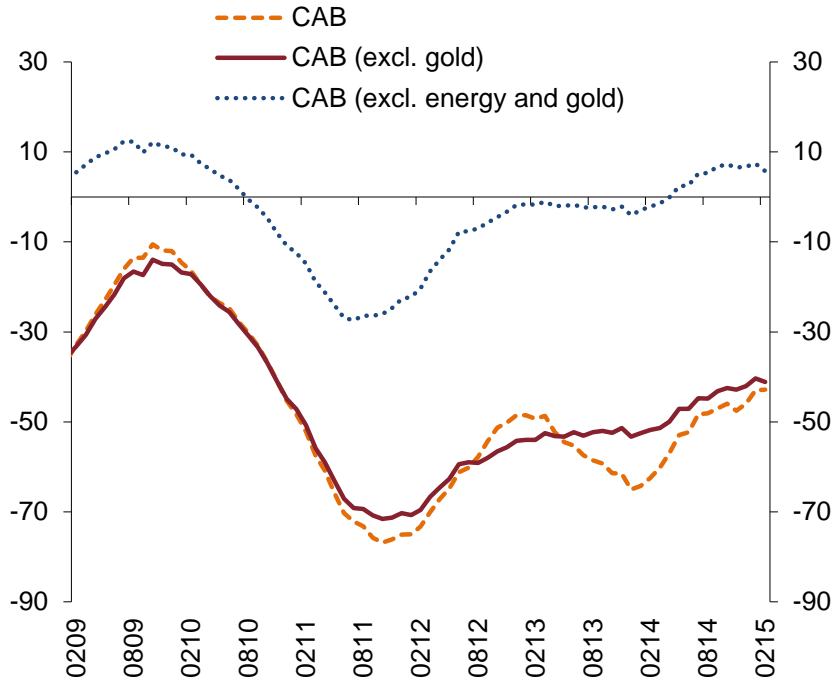


Source: TURKSTAT, CBRT.

➡ In 2014, GDP growth rate was 2.9%. Despite the weak external demand, net export provided the highest contribution to growth.

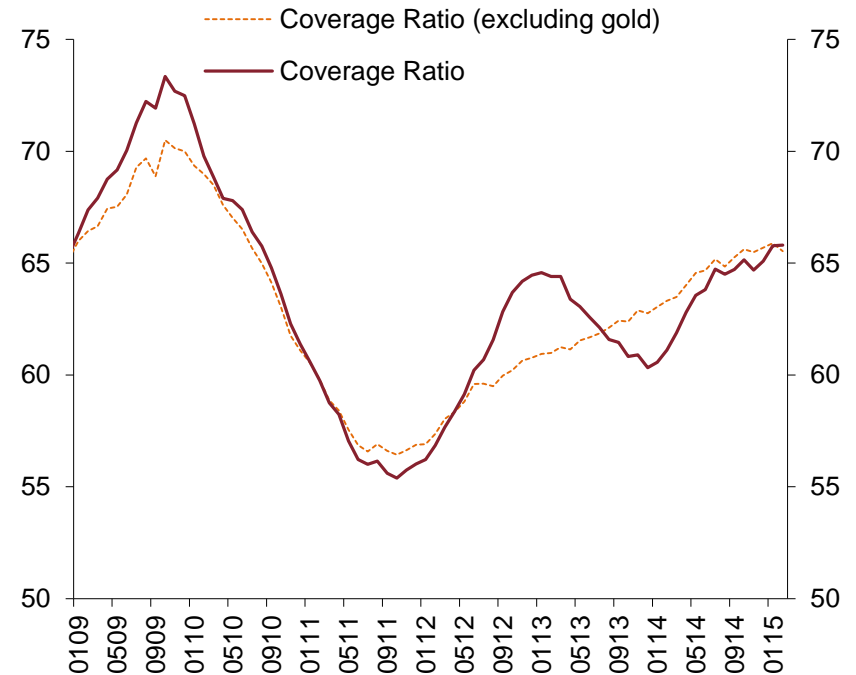
External Balance

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



Source: TURKSTAT, CBRT.

Export/Import Coverage Ratio
(12-Month Cumulative, Percent)

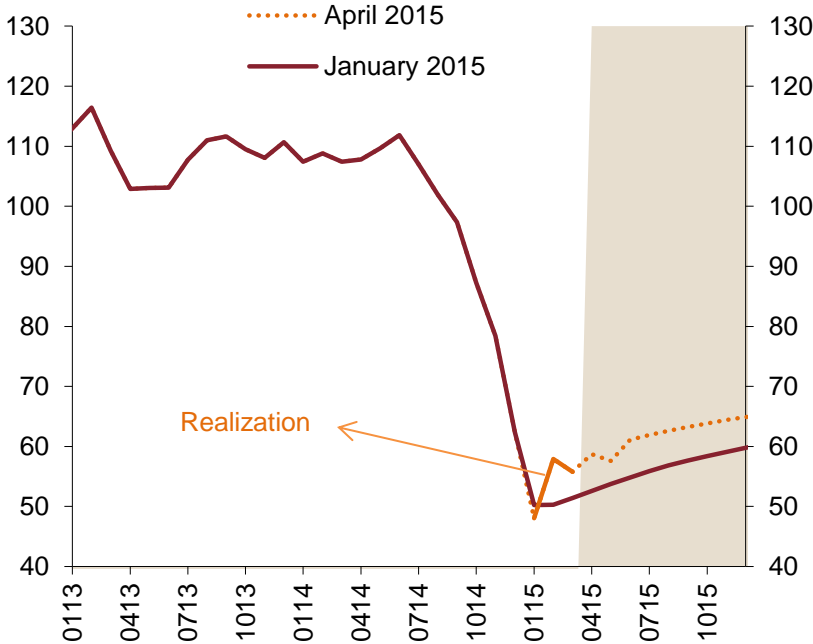


Source: CBRT.

➡ Despite the weak external demand, macroprudential measures and lower oil prices support the improvement in current account balance.

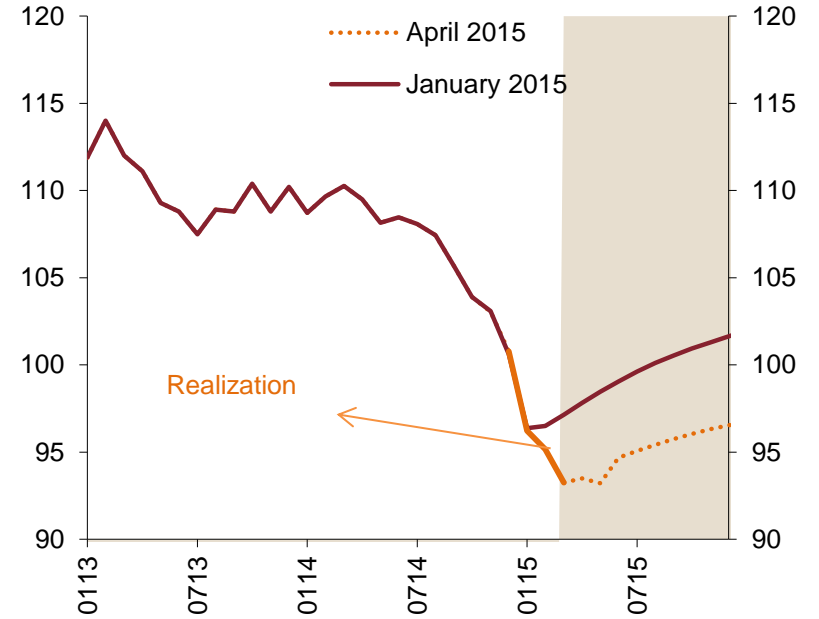
Oil and Import Prices

Oil Prices*
(USD/barrel)



* Shaded area indicates the forecast horizon.
Source: Bloomberg, CBRT.

Import Prices*
(USD, 2010=100)



* Shaded area indicates the forecast horizon.
Source: TURKSTAT, CBRT.

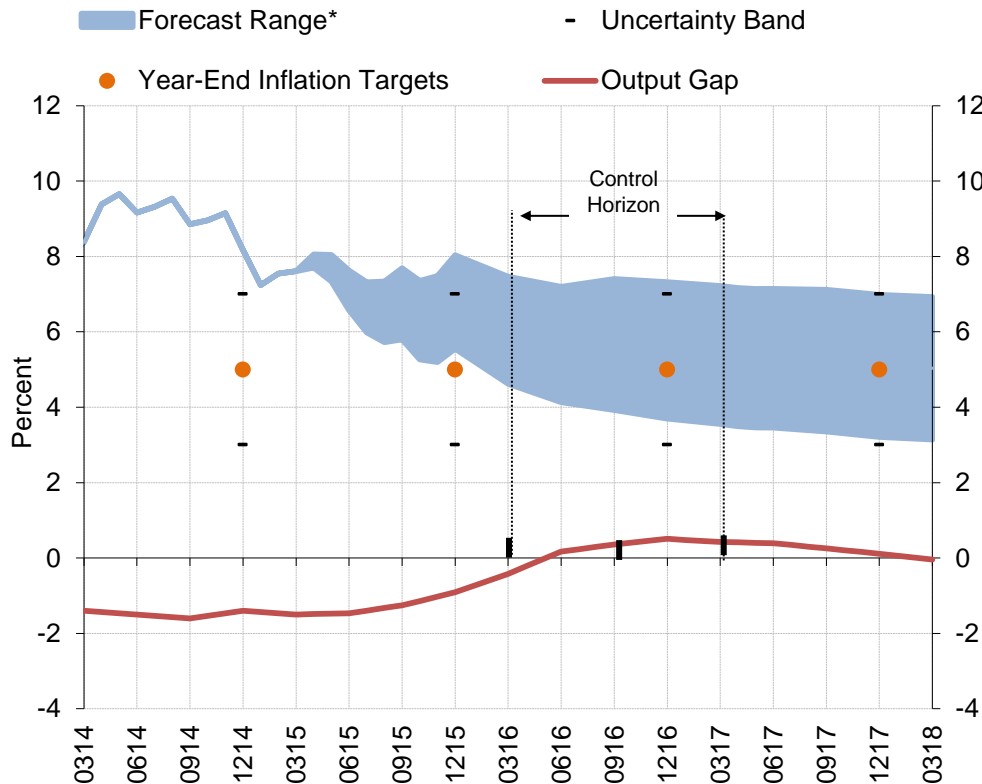
➡ In the first quarter of the year, oil prices remained above and the import prices remained below the path envisaged in the January Inflation Report.

Monetary Policy Stance

- Medium-term forecasts are based on the framework that cautious monetary policy stance will be maintained by keeping the yield curve flat until there is a significant improvement in the inflation outlook.
- It is assessed that the annual loan growth rate will continue to hover around its recent reasonable level in 2015, also thanks to the macroprudential measures.

Inflation Outlook

Inflation and Output gap Forecasts



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

Accordingly, inflation is expected to

- be between 5.6 % and 8.0 % (mid-point of 6.8 %) by the end of 2015,
- be between 3.7 % and 7.3 % (mid-point of 5.5 %) by the end of 2016,
- stabilize at 5 % in the medium term

with 70 percent probability.



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