

Macroeconomic Outlook and Monetary Policy in Turkey

Murat Çetinkaya
Governor

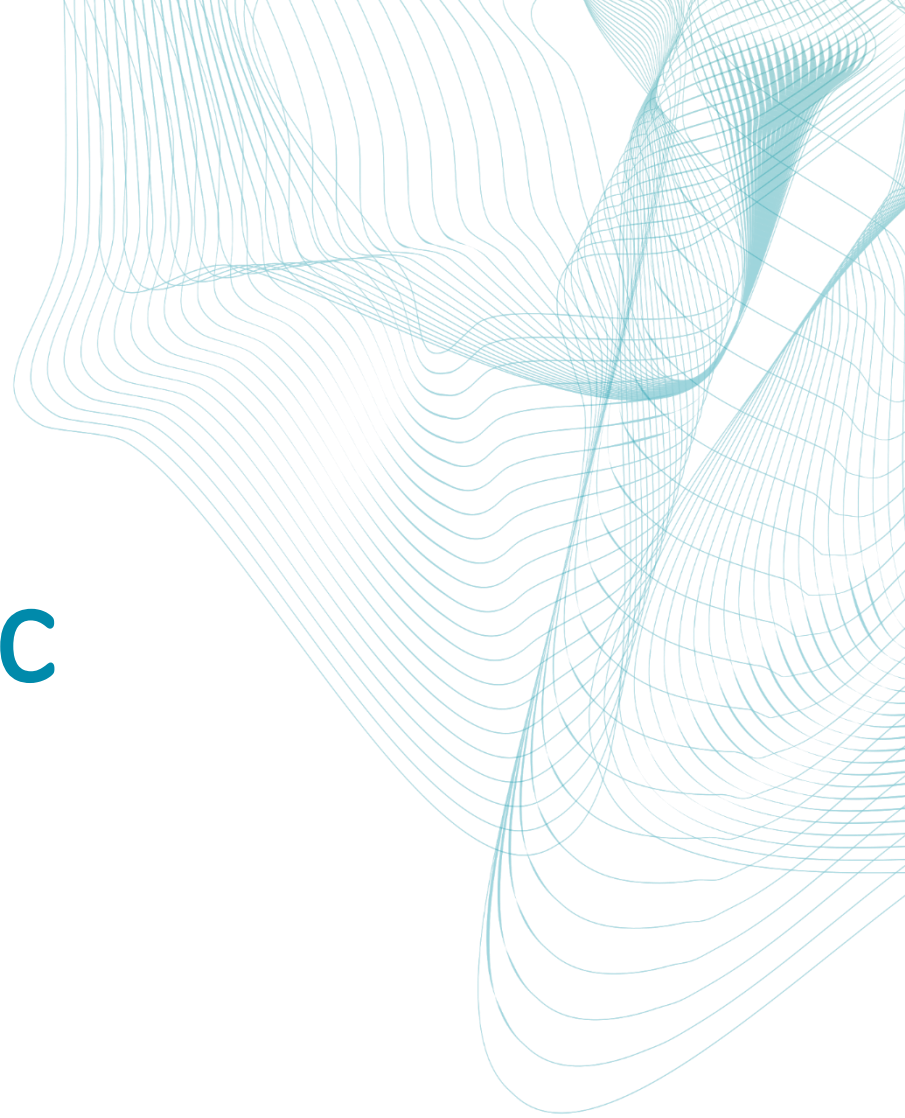
2018 Annual Meeting of the IMF and the World Bank Group

October 2018 | BALI, INDONESIA

Outline

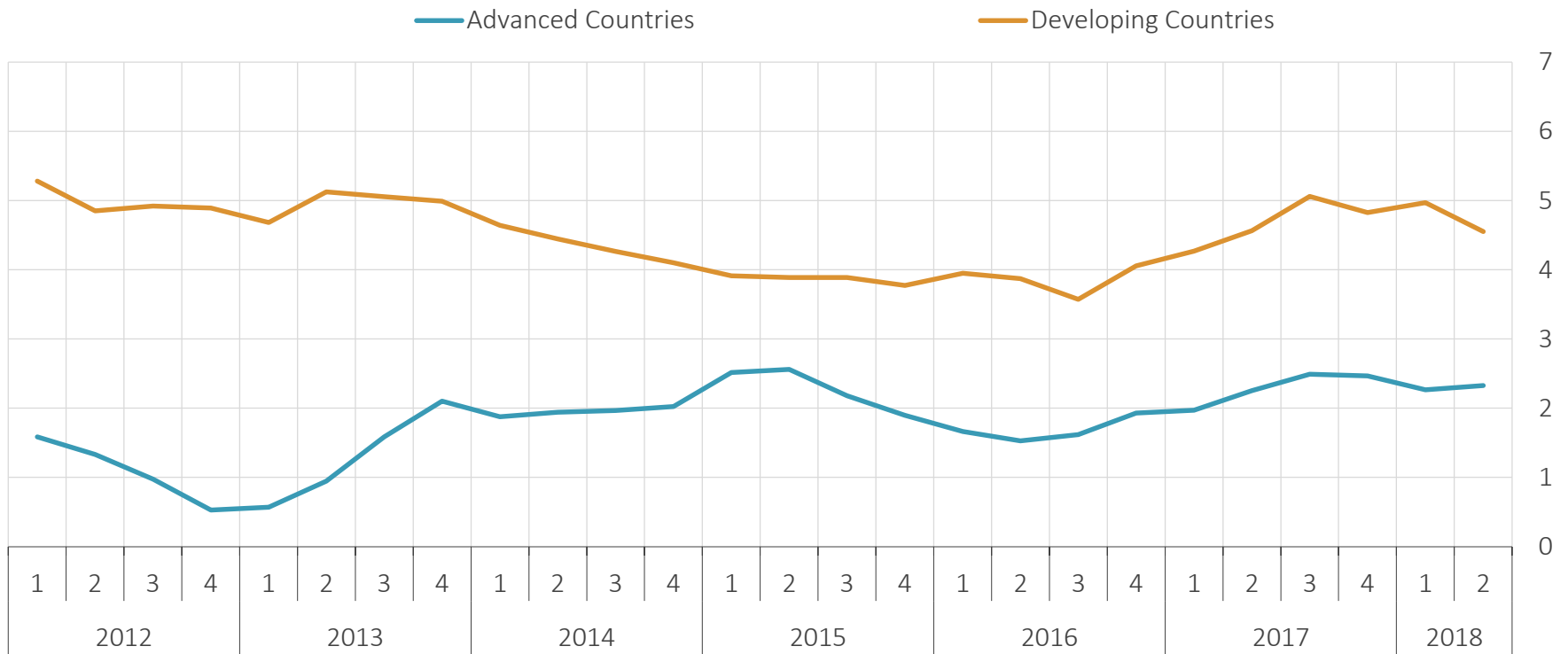
- Macroeconomic Developments
- Inflation and Monetary Policy
- Overview

Macroeconomic Developments



Global growth has remained strong in the first half of 2018.

(Annual % Change)



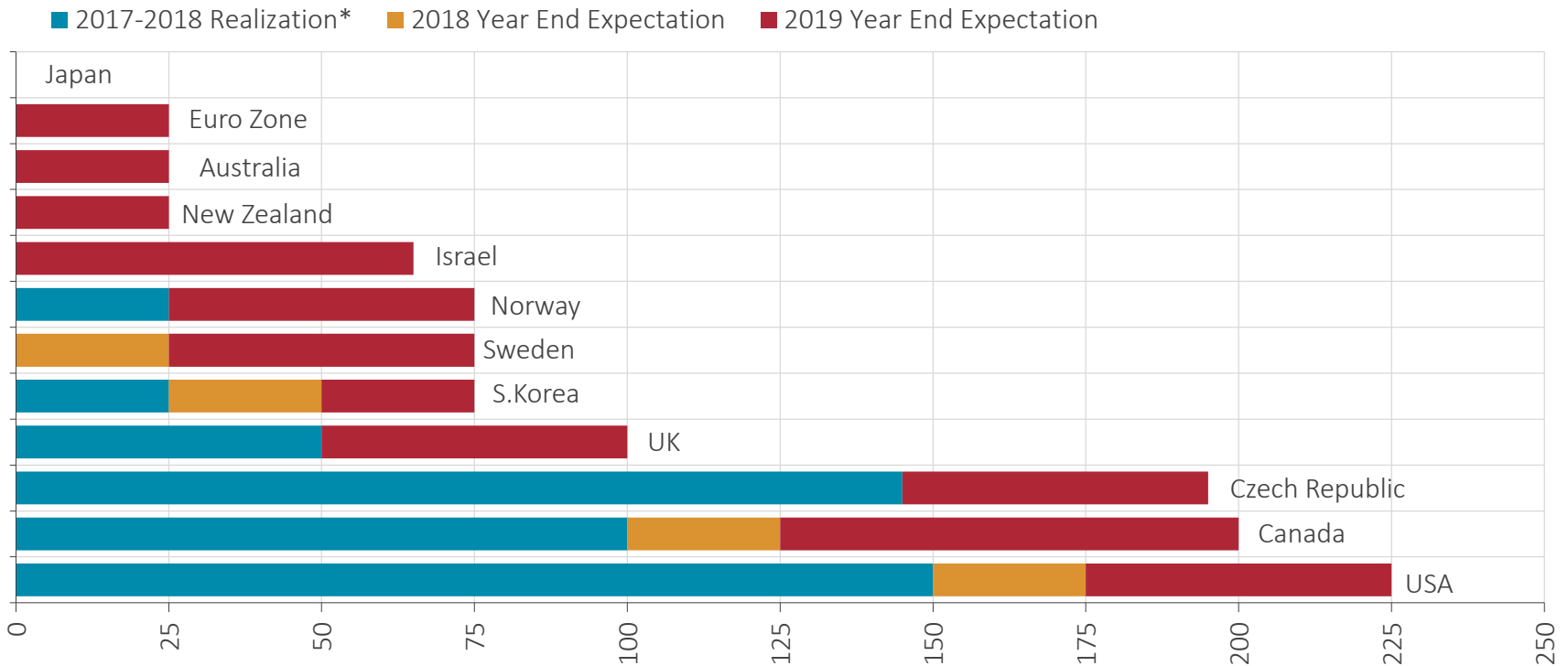
Source: Bloomberg, CBRT.

Last Observation: 2018 Q2



Global monetary policy normalization is expected to continue.

Policy Rate Changes and Year-end Policy Rate Expectations in Advanced Economies (Basis Points)*

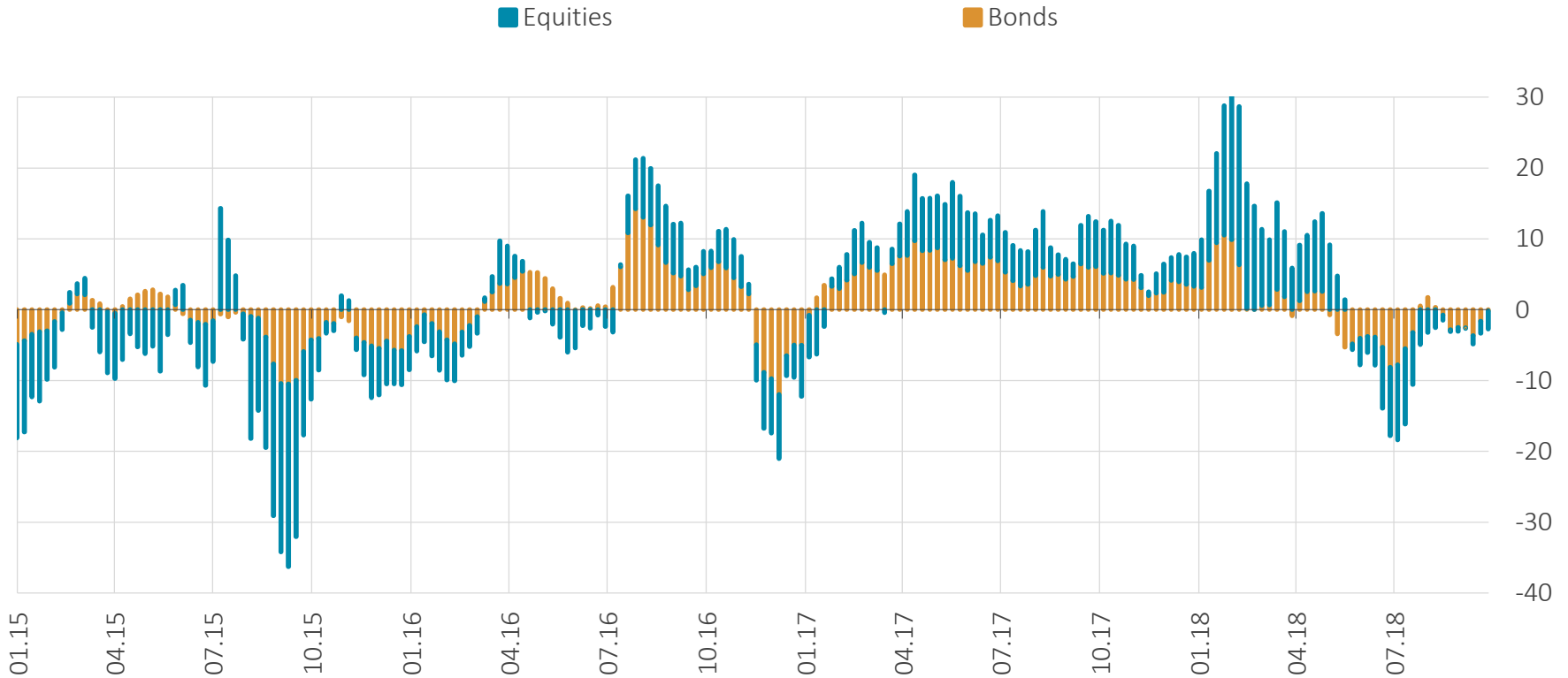


Source: Bloomberg

Last Observation: October 4, 2018

Portfolio flows have weakened in 2018.

Developing countries, weekly fund flows (Billion US dollars, 4-week cumulative)

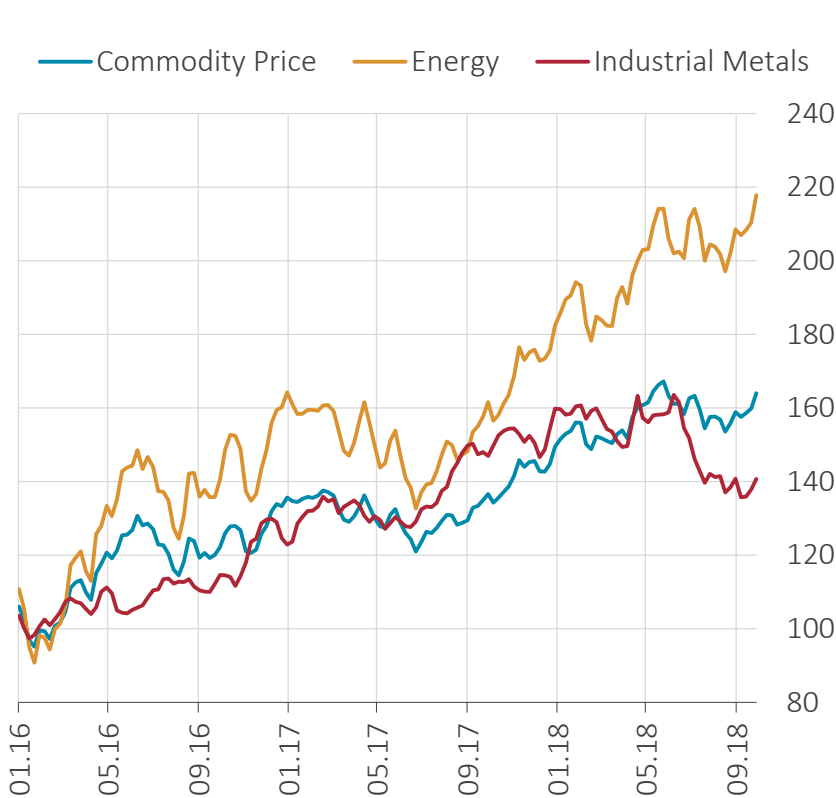


Source: EPFR

Last Observation: September 26, 2018

Oil and commodity prices have trended upwards.

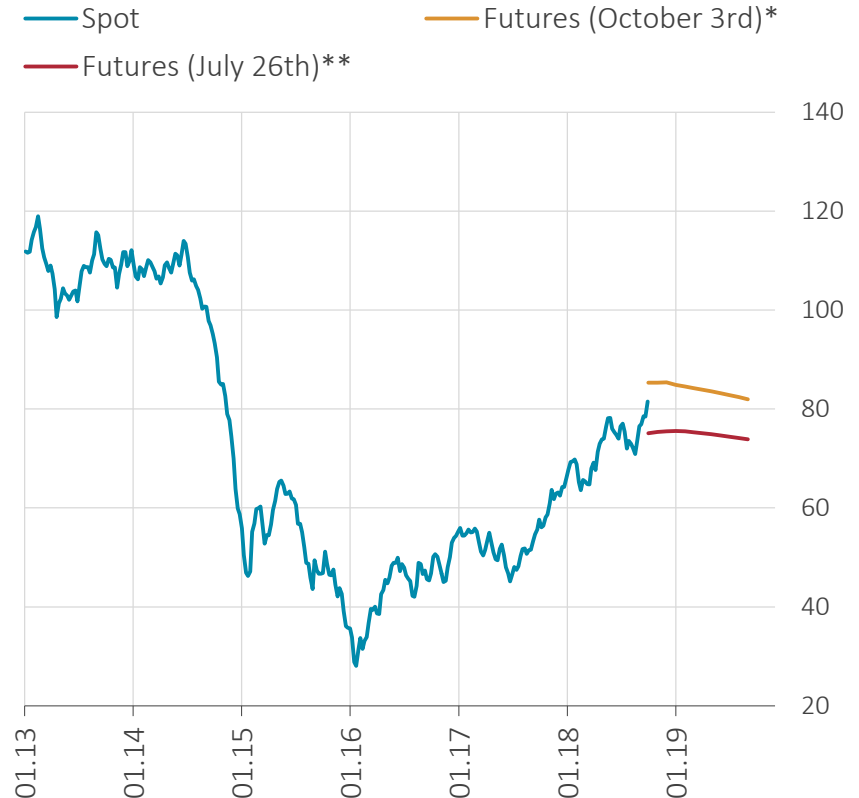
GS & SP Commodity Price Indices (January 2016 =100)



Source: Bloomberg

Last observation: September 28, 2018

Oil Prices and Futures (Oil Price (Brent), US Dollar/Barrel)

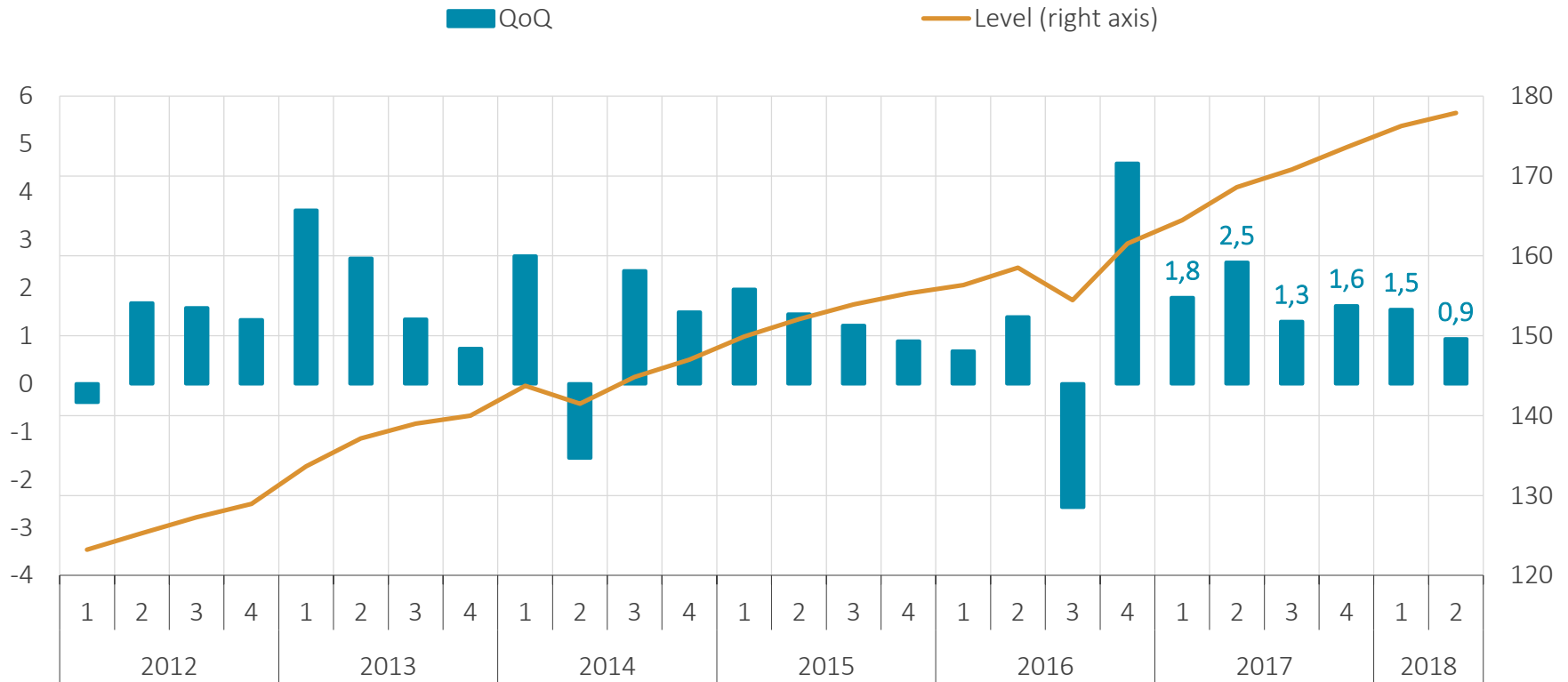


Source: Bloomberg

Last observation: October 3, 2018

Domestic economic activity has decelerated in the second quarter.

Gross Domestic Product (Seasonally and Calendar Adjusted, Chain-Linked Volume Index, 2009=100)

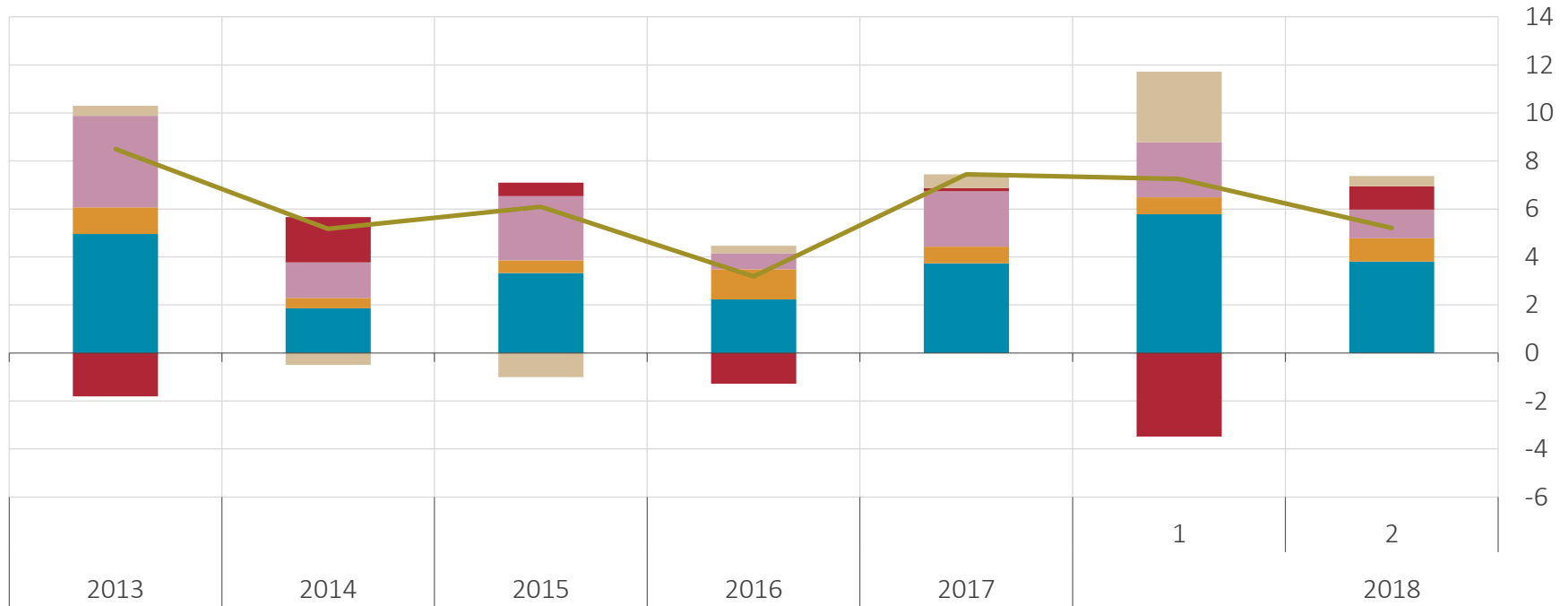
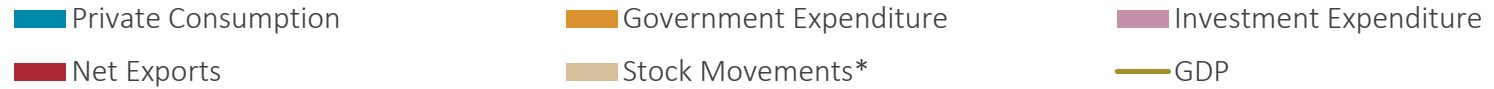


Source: TURKSTAT.

Last Observation: 2018 Q2

Contribution of net exports has turned positive.

Annual GDP Growth and Contributions (% Points)

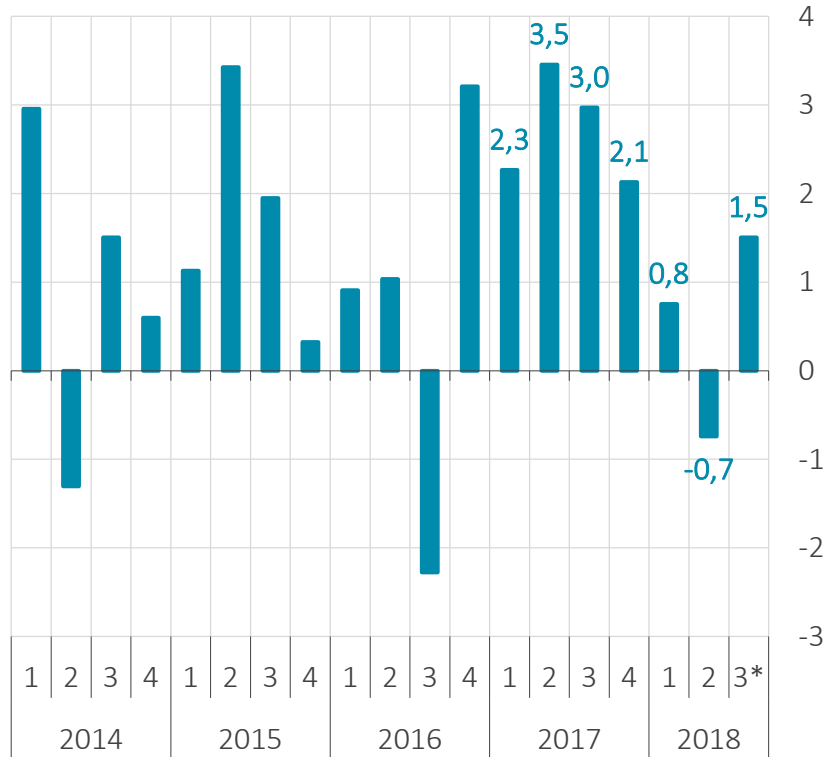


Source: TURKSTAT.

Last Observation: 2018 Q2

Recent data indicate a deceleration in economic activity.

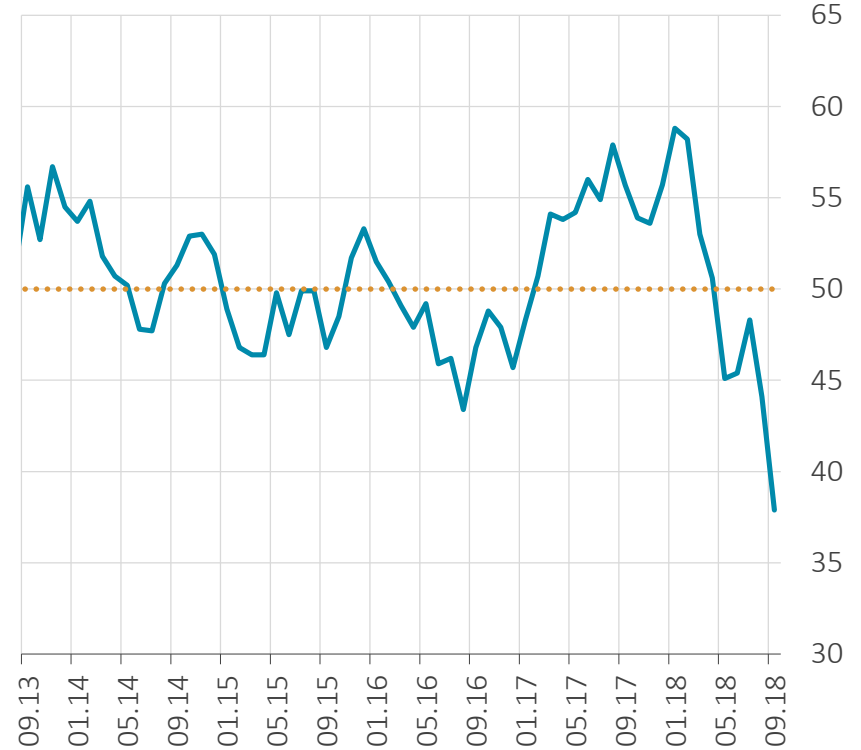
Industrial Production (QoQ, Seasonally Adjusted)



Source: CBRT, TURKSTAT.

*Last Observation: July 2018

PMI Production Index (Seasonally Adjusted)

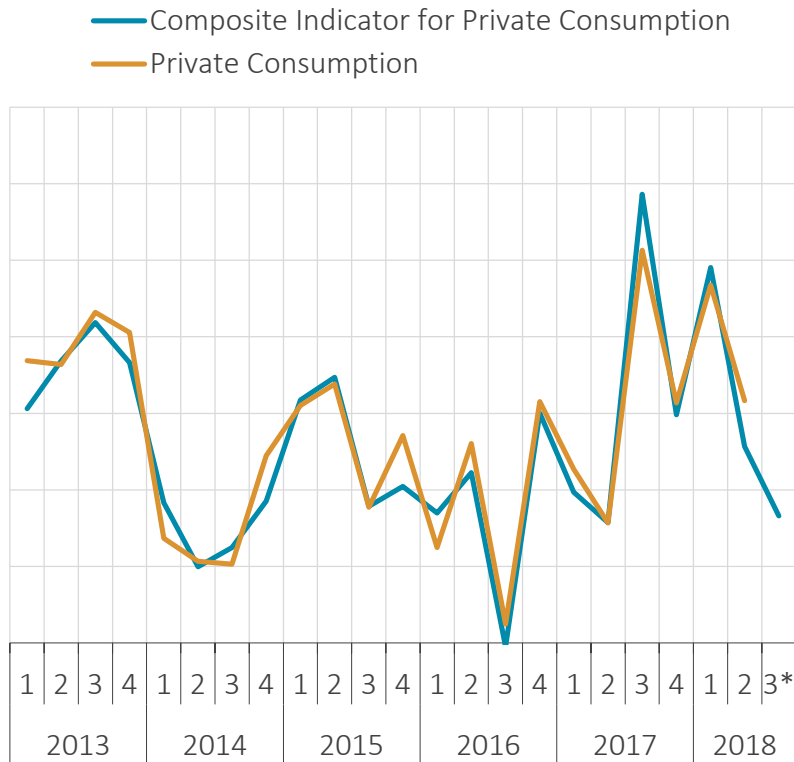


Source: PMI Markit.

Last Observation: September 2018

Economic slowdown is domestic demand-driven.

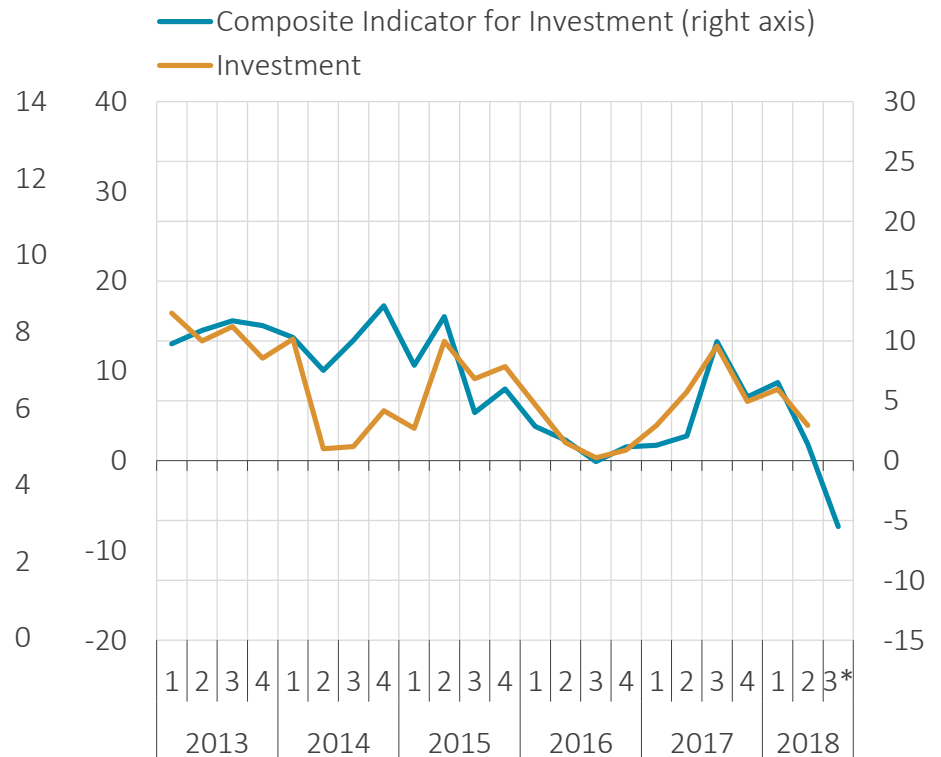
The Composite Indicator for Private Consumption** (Annual % Change)



Source: CBRT, TURKSTAT.

*Last Observation: July 2018

Composite Indicator for Investments*** (Annual % Change)



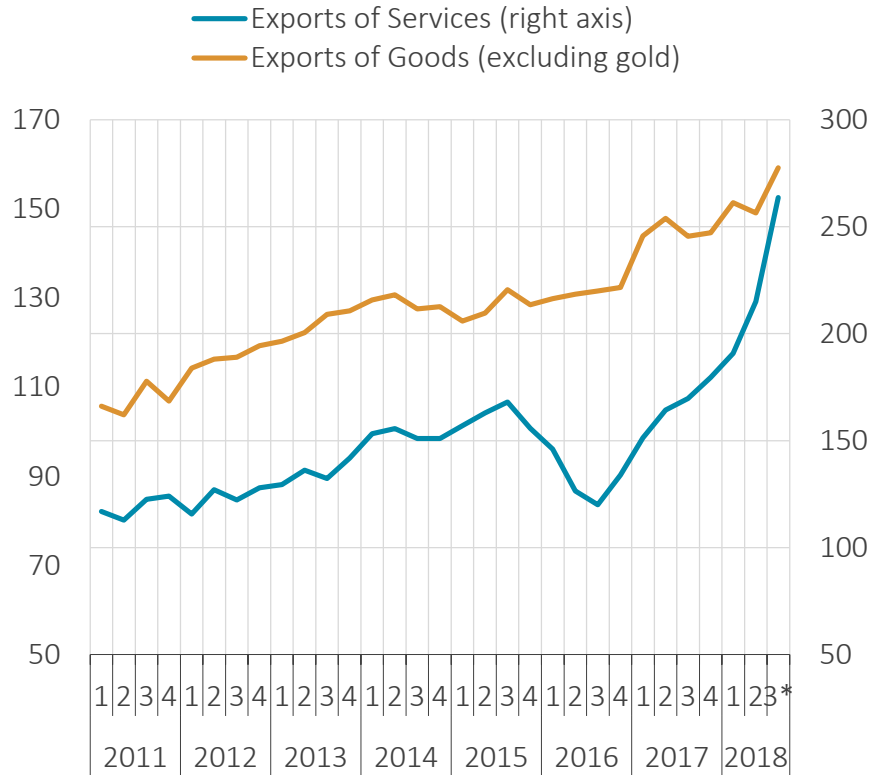
Source: CBRT, OSD, TURKSTAT.

*Last Observation: August 2018



Net exports continue to support economic activity.

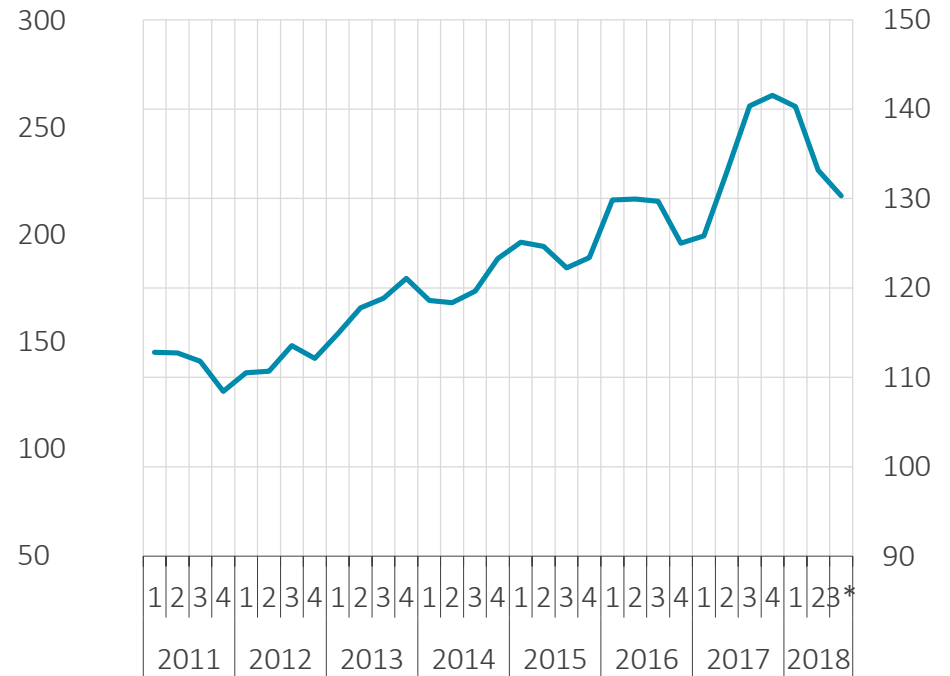
Net Exports (Real, Seasonally Adjusted, 2010=100)



Source: CBRT, Ministry of Trade.

*Last Observation: July 2018

Imports of Goods (excluding gold)

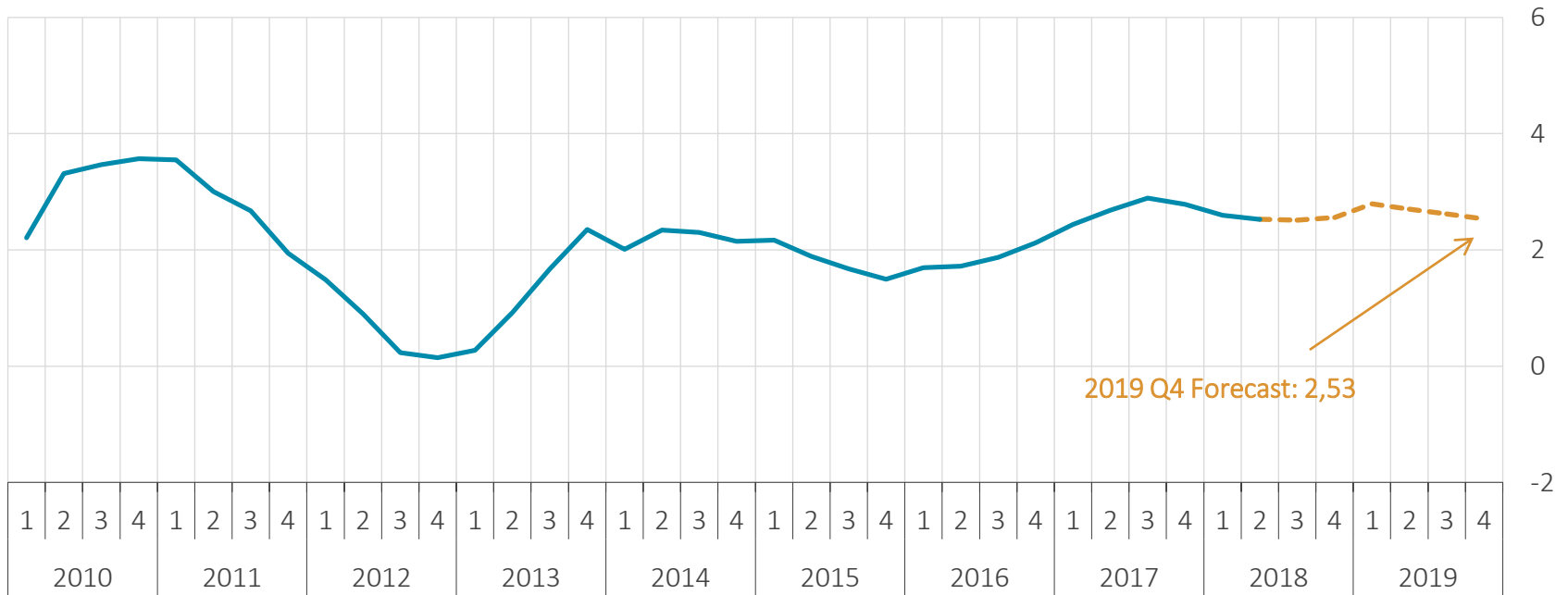


Source: CBRT, Ministry of Trade.

*Last Observation: July 2018

External demand contributes to export growth.

Export-Weighted Global GDP Index* (Annual % Change)



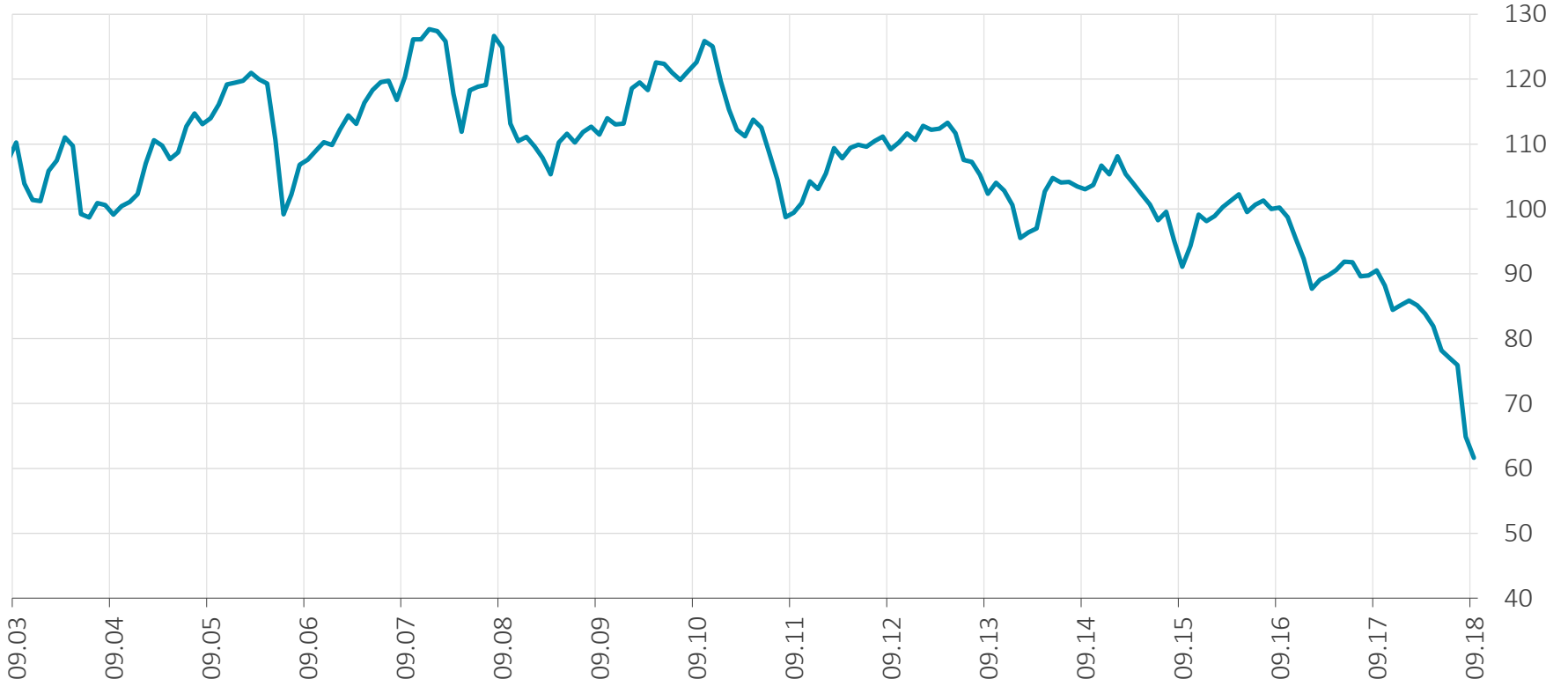
Source: Bloomberg, CBRT

Last Observation: 2018 Q2



Real exchange rate is at historically low levels.

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

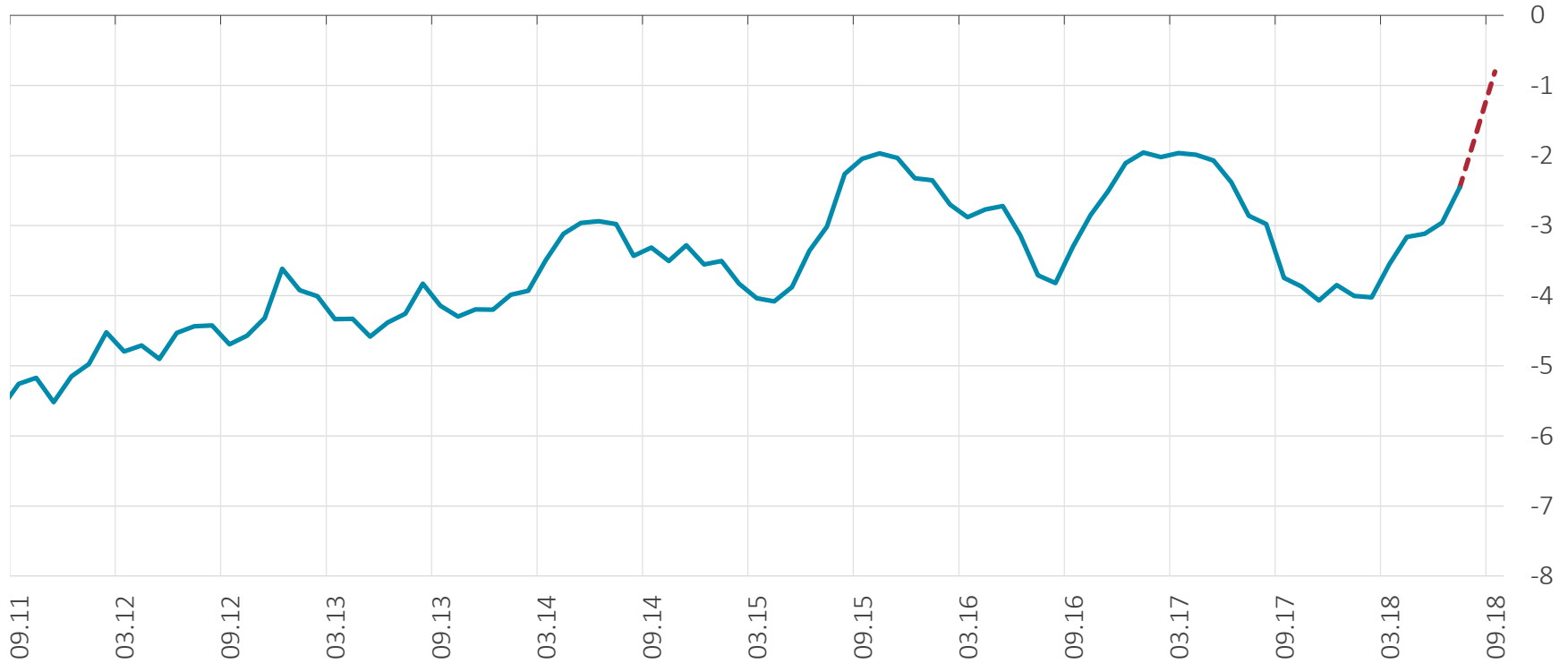


Source: CBRT.

Last Observation: September 2018

Recent data indicate a sharp improvement trend in external balance.

Current Account Balance (Excluding Gold, Seas. Adj., 3-Month MA, Annualized, Billion USD)

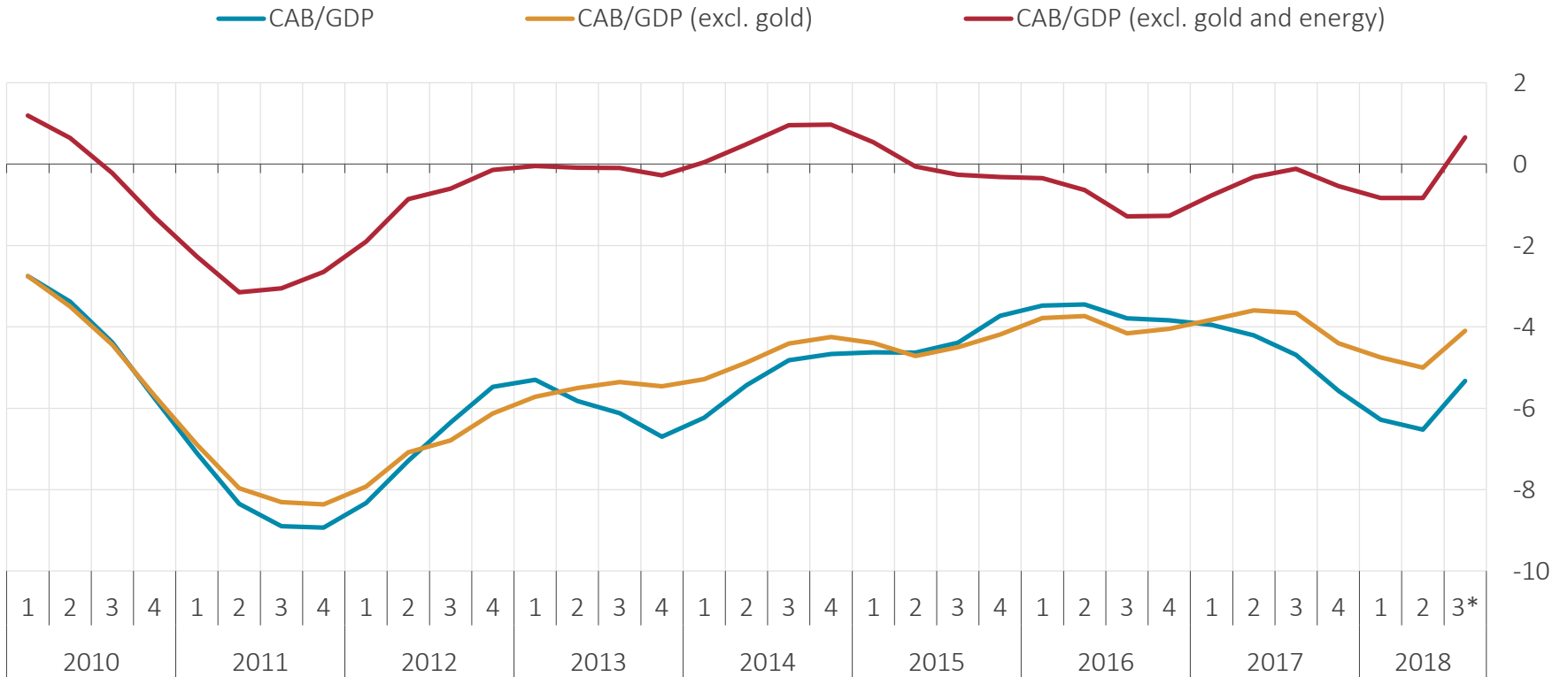


Source: CBRT

Last Observation: July 2018
(*) August-September period is forecast.

Current account deficit will continue to narrow.

Current Account Balance (12-Month Cumulative, % of GDP)

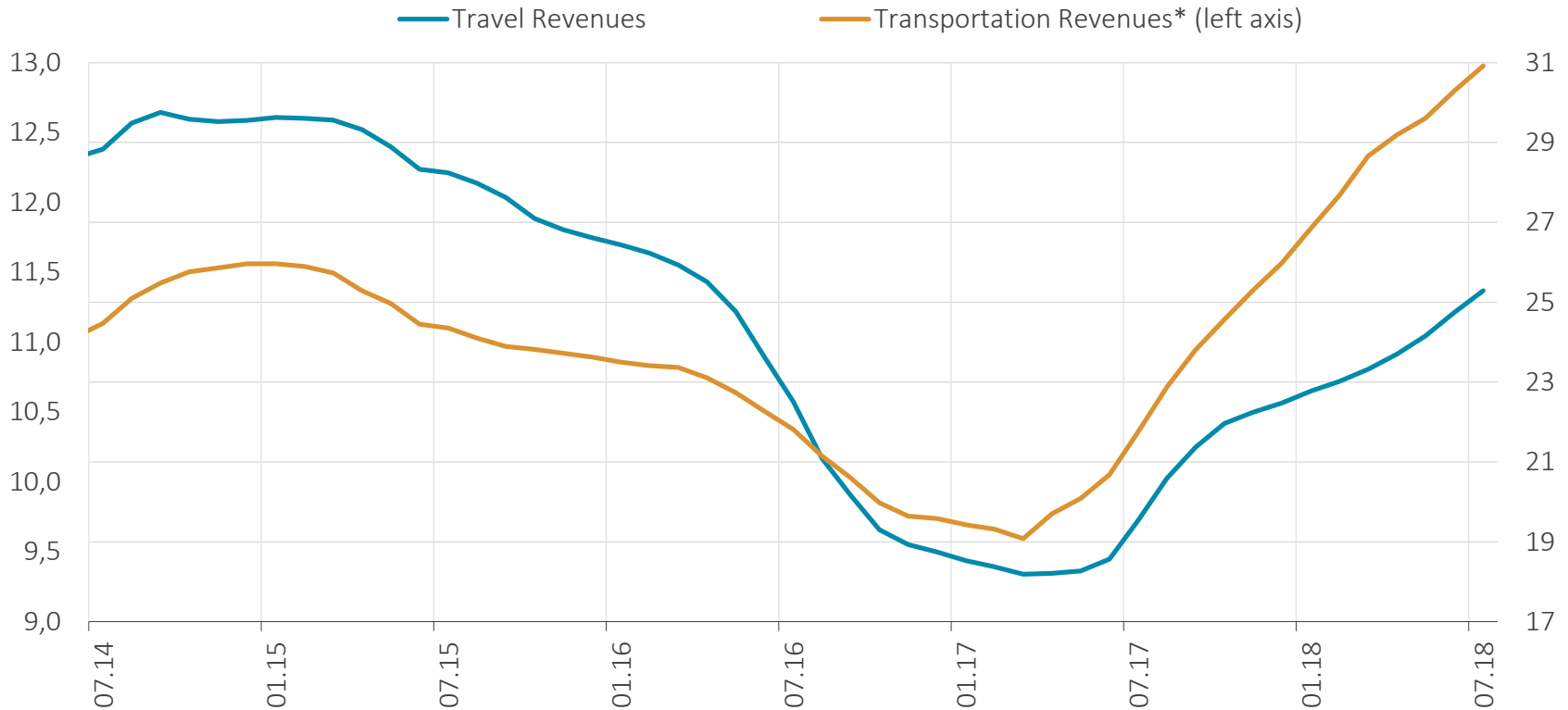


Source: CBRT.

(*) 2018 Q3 is forecast.
Last Observation: 2018 Q2

Tourism revenues have posted a strong rebound.

Tourism Revenues (12-Month Cumulative, Billion USD)



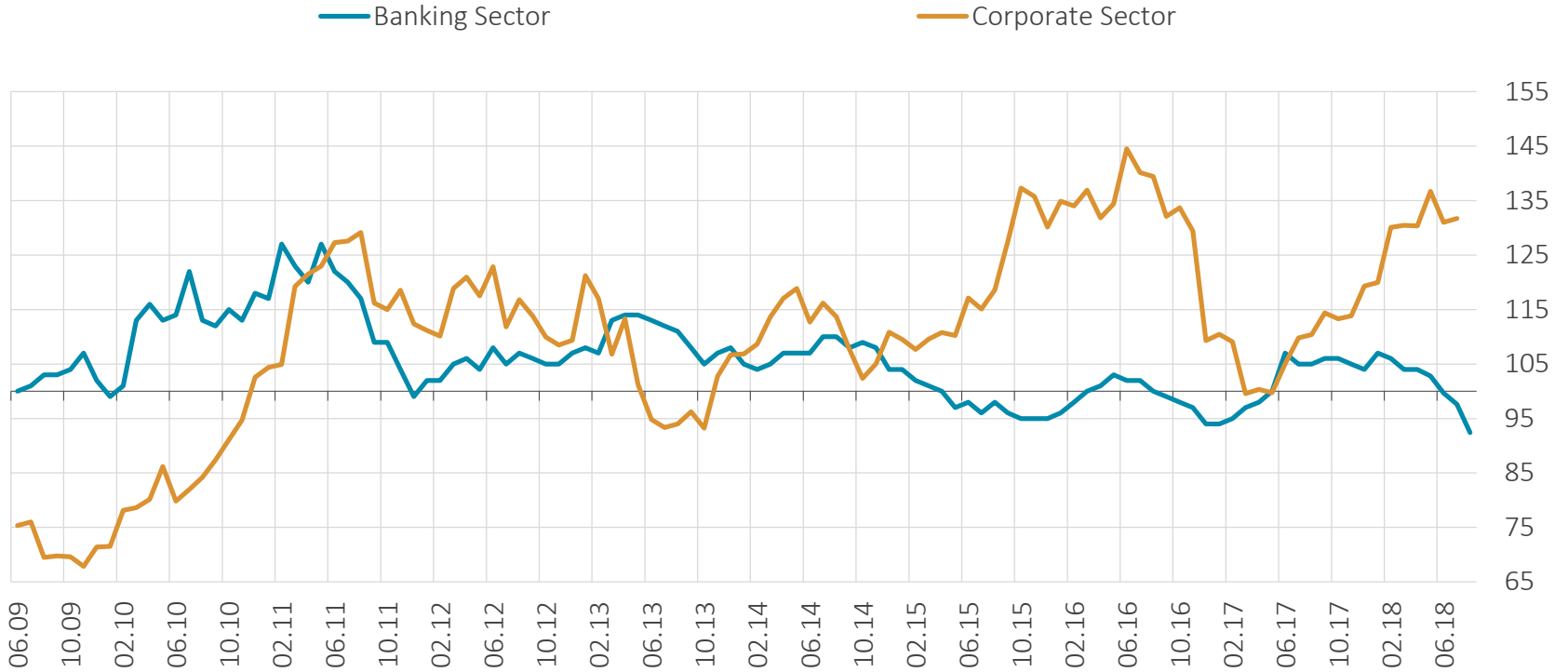
Source: CBRT.

Last Observation: July 2018



External debt roll-over ratios have remained stable.

Roll-Over Ratio* (6 Months Moving Average, %)



Source: CBRT.

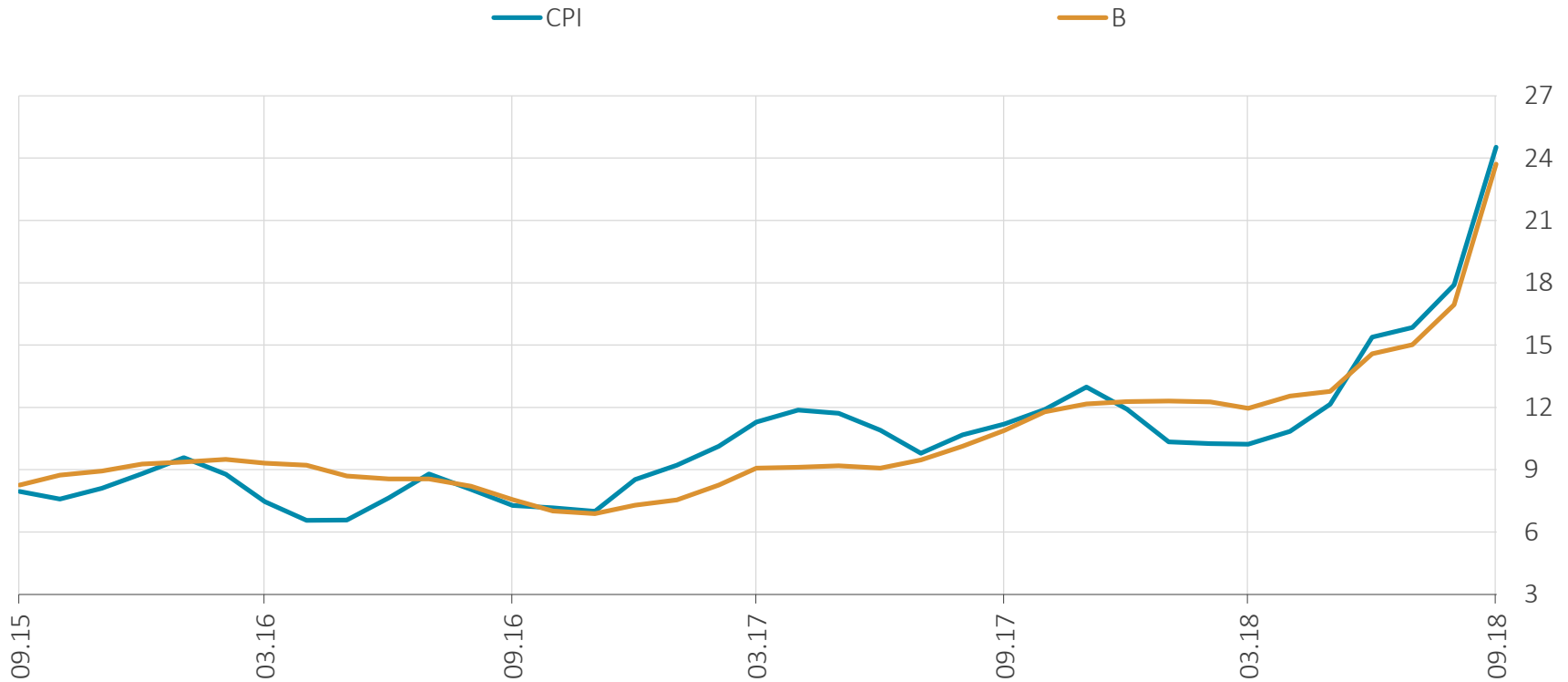
Last Observation: August 2018 (Banking Sector), July 2018 (Corporate Sector)



Inflation and Monetary Policy

CPI inflation and core indicators recorded significant increases.

CPI and Core Price Index (B)* (Annual % Change)



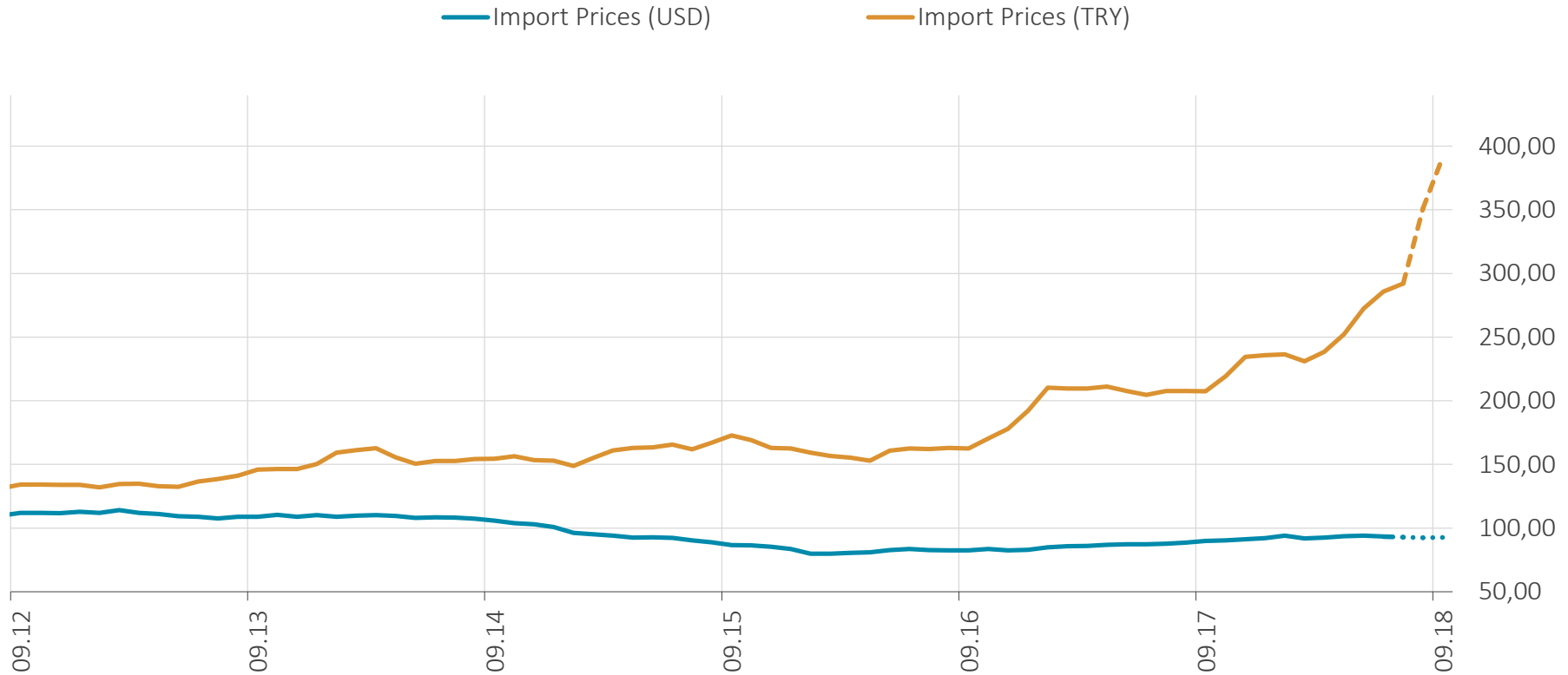
Source: CBRT, TURKSTAT

Last Observation: September 2018



Exchange rate depreciation has increased inflationary pressures.

Import Price Index in USD and TRY (2010=100)



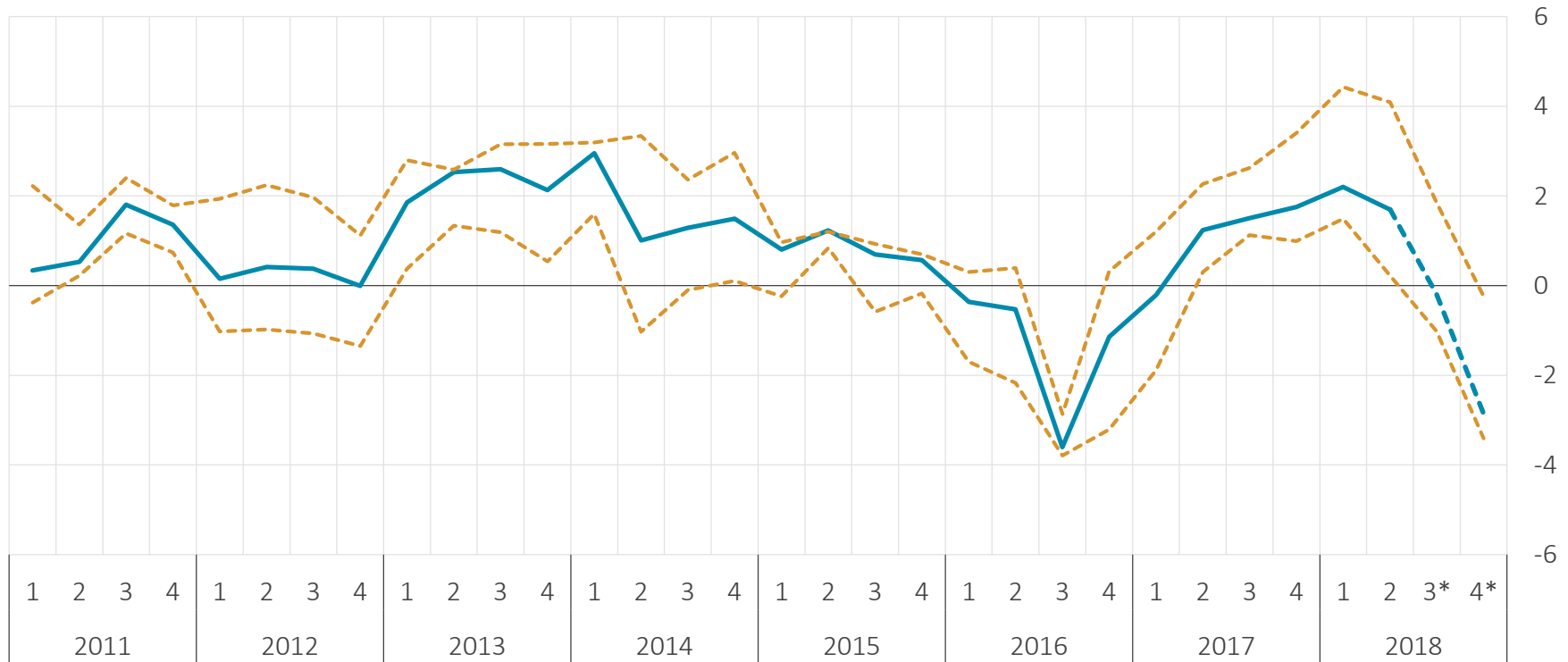
Source: CBRT, TURKSTAT.

Last Observation: July 2018

Dotted lines show the forecasts for August and September 2018.

Demand conditions are expected to limit upside risks on inflation.

Output Gap Indicators* (%)



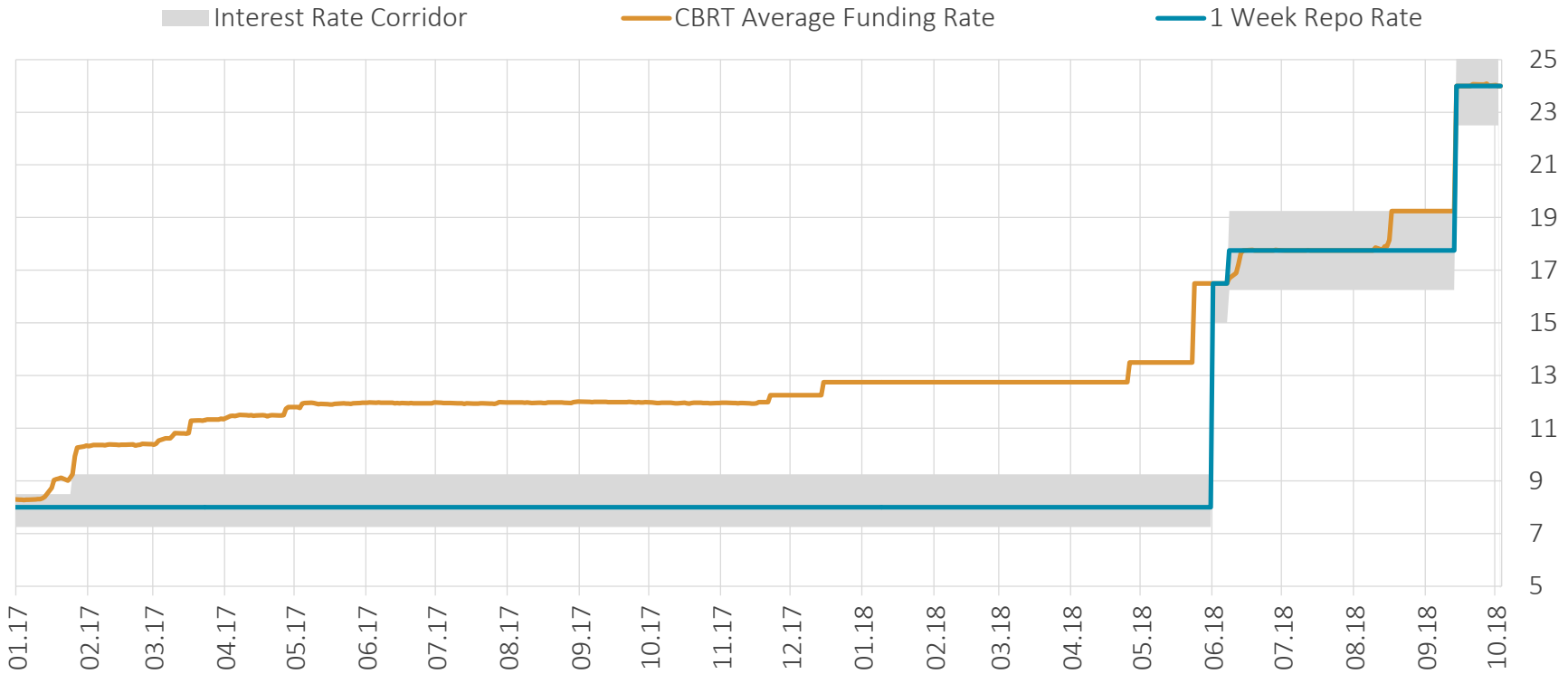
Source: CBRT, TURKSTAT.

* Based on growth forecasts.



A strong monetary tightening has been implemented to support price stability.

Short Term Interest Rates (%)

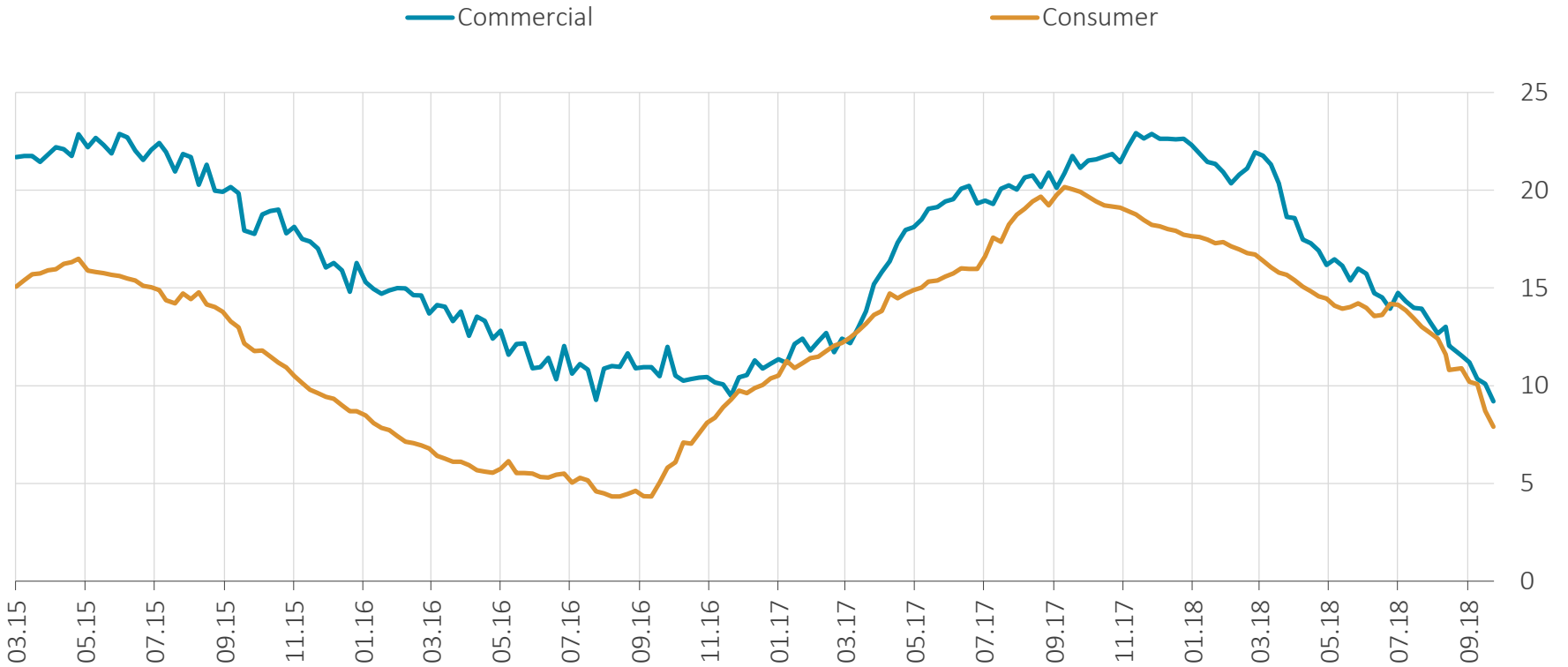


Source: CBRT.

Last Observation: October 3, 2018

Loan growth has continued to decelerate.

Annual % Change (Adjusted for Exchange Rate Effect)

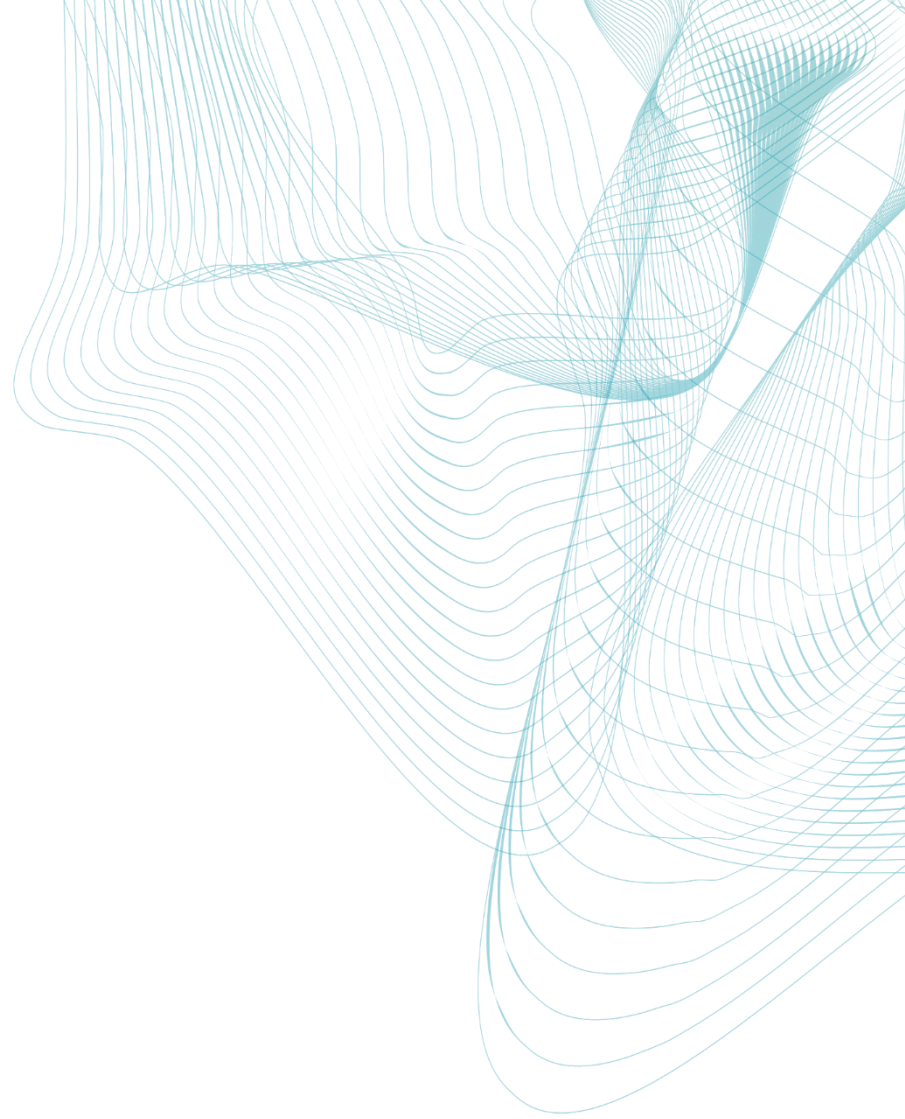


Source: CBRT

Last Observation: September 28, 2018



Overview



Overview

- ▶ Rebalancing in the economic activity has become more significant.
- ▶ External demand maintains its strength, while slowdown in domestic demand accelerates.
- ▶ Deterioration in the pricing behavior poses upside risks on the inflation outlook, despite weaker domestic demand conditions.
- ▶ A strong monetary tightening has been delivered to support price stability.
- ▶ The Central Bank will continue to use all available instruments in pursuit of the price stability objective.

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