



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**Briefing on 2015 October
Inflation Report**

**Erdem BAŞÇI
Governor**

**28 October 2015
İstanbul**

2015 October Inflation Report: Main Sections

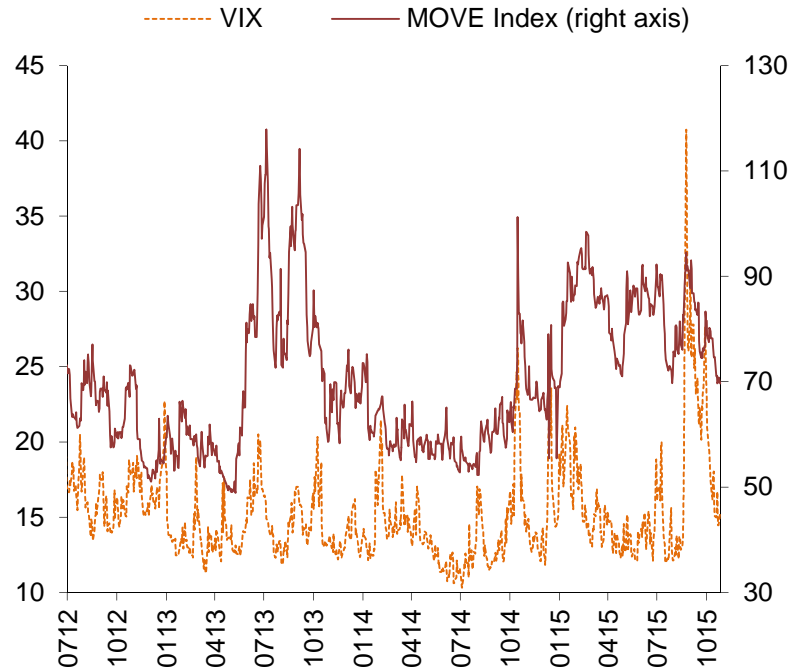
- Overview
- International Economic Developments
- Inflation Developments
- Supply and Demand Developments
- Financial Markets and Financial Intermediation
- Public Finance
- Medium Term Projections

2015 October Inflation Report: Boxes

- The Drivers of Consumer Confidence Indices in Turkey
- Estimating Income and Price Elasticity of Turkish Exports with Heterogeneous Panel Time-Series Methods
- Usage of Leading Indicators in Forecasting Unemployment Rate
- Labor Force Participation Rate Projections
- Relationship between Loans and Private Saving
- The Relationship of Consumer and Commercial Credits with Current Account Deficit: Findings for Turkey and Other Countries
- Public Debt and Budget Deficit: An International Comparison

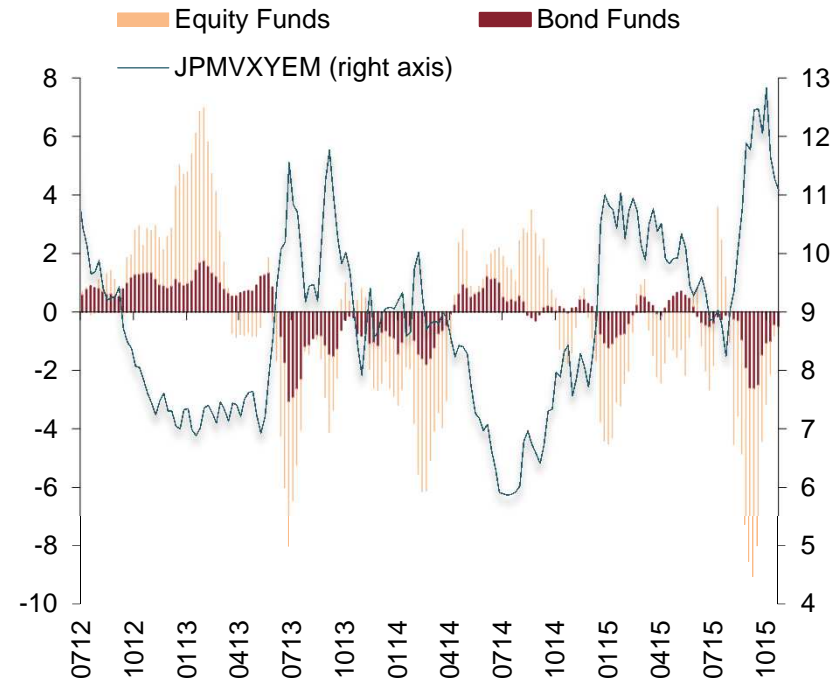
Global Uncertainties and Portfolio Flows

VIX and US Interest Rate Volatility Index
(MOVE Index) (Basis Points)



Source: Bloomberg.

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



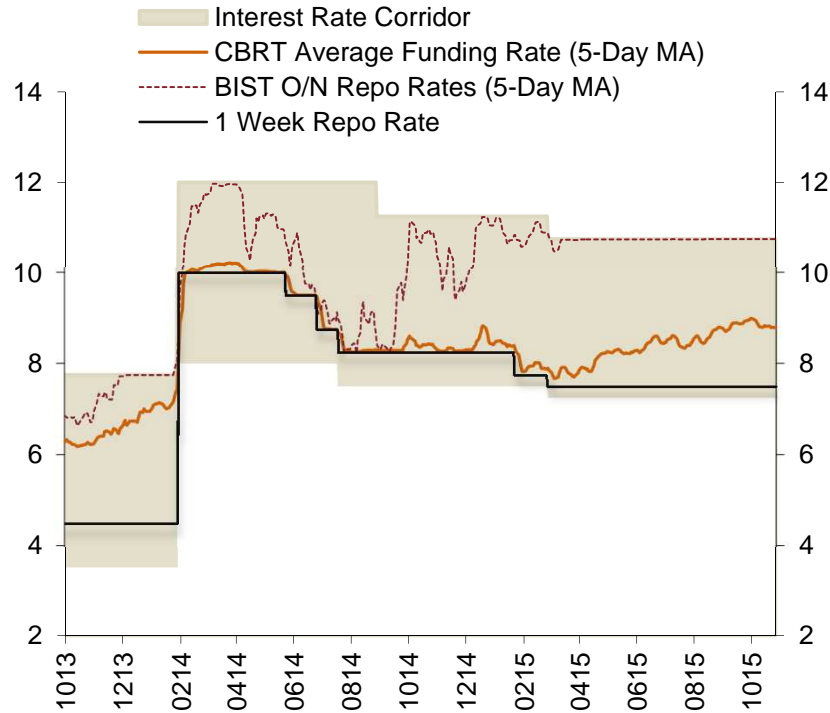
Source: EPFR, Bloomberg

➡ Volatility in global financial markets continued .

Monetary Policy and Financial Conditions

Monetary Policy

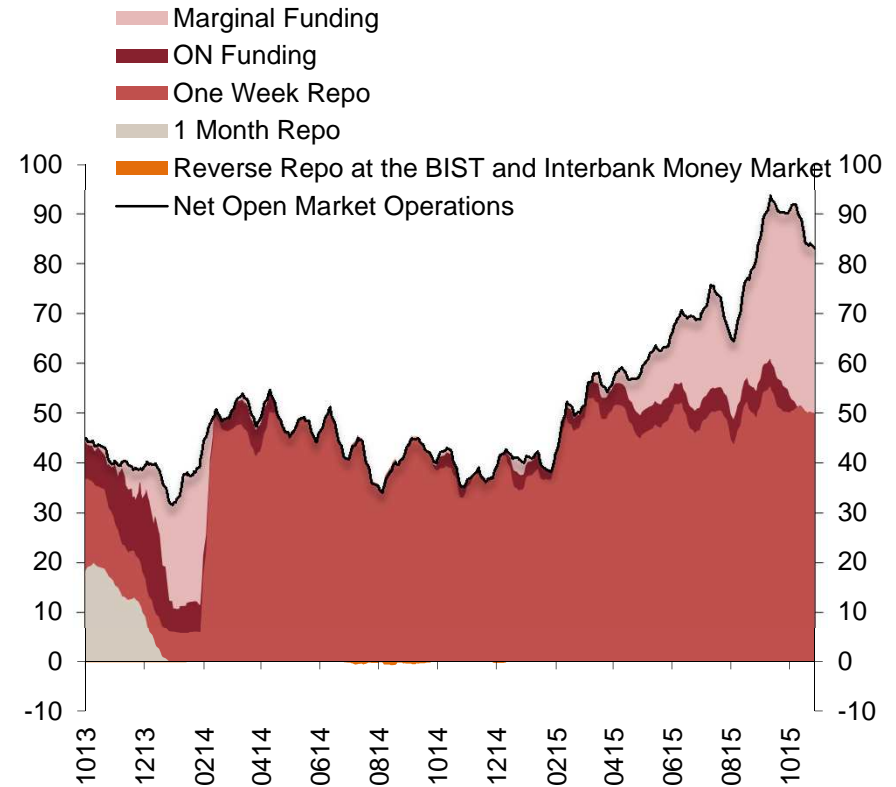
CBRT Rates and BIST Interbank O/N Repo Rates
(Percent)



Source: BIST, CBRT.

CBRT Funding*

(2-Week Moving Average, Billion TL)



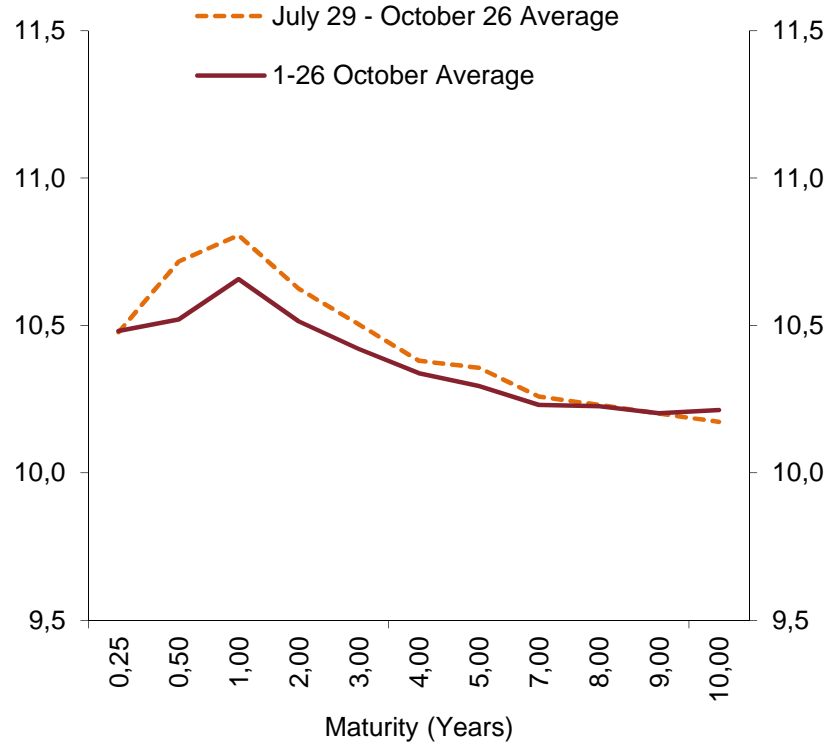
*Marginal funding is O/N funding quoted at the upper limit of the corridor.

Source: BIST, CBRT.

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

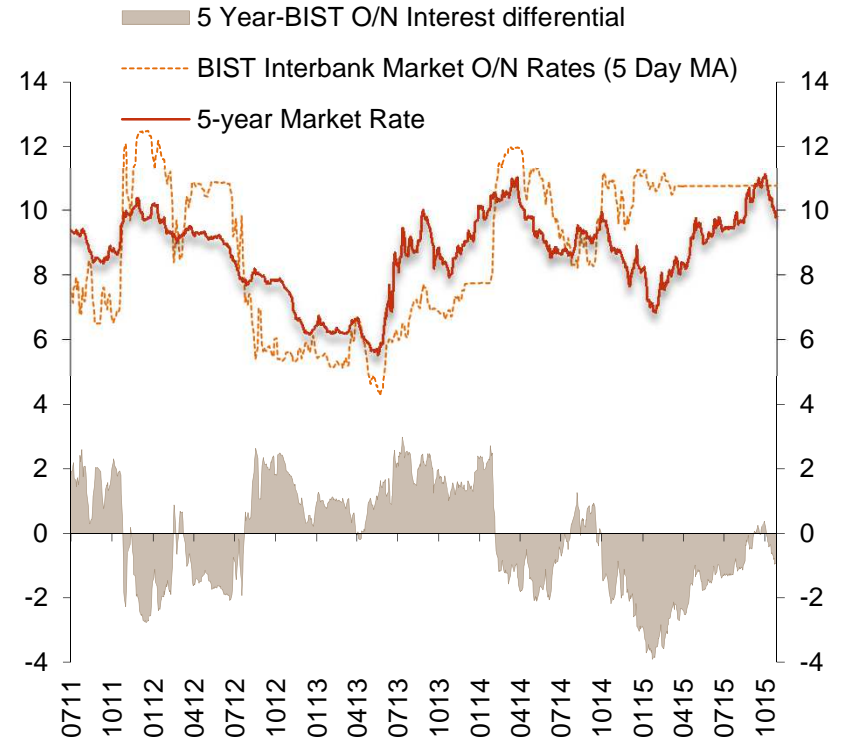
Monetary Conditions

Yield Curve
(Percent)



Source: Bloomberg.

Money Market Rates
(Percent)

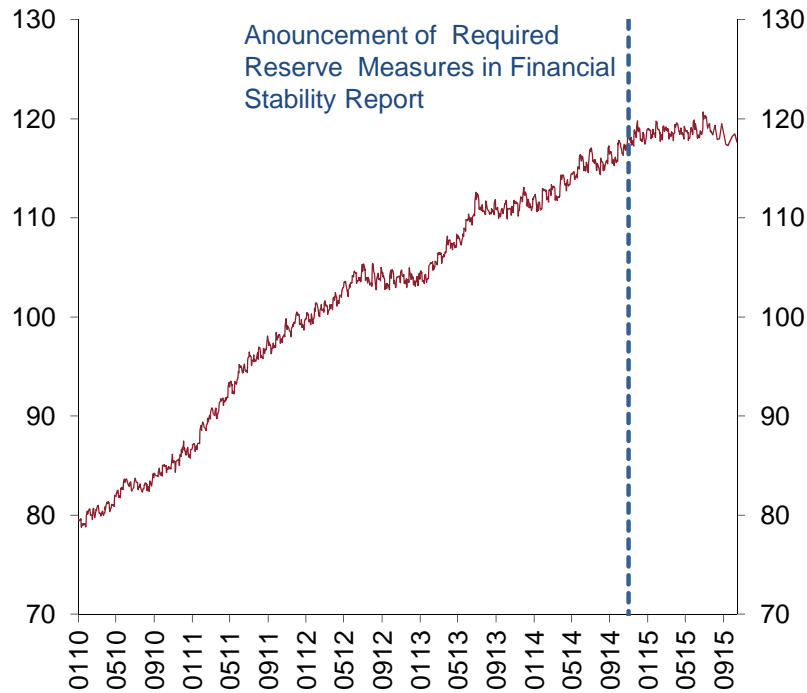


Source: BIST, CBRT, Bloomberg.

➡ The yield curve remained almost flat in this quarter as well.

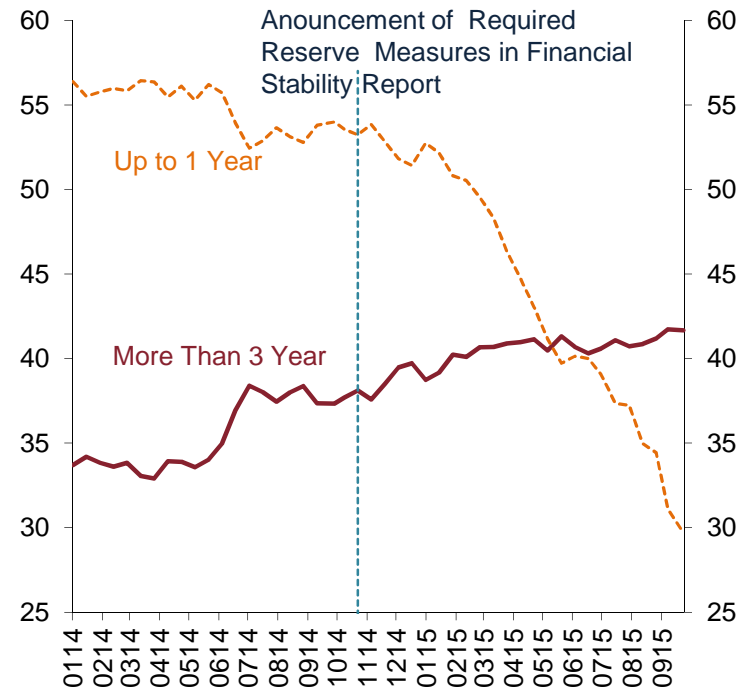
Financial Stability

Credit/Deposit
(Percent)



Source: CBRT.

Maturities of Non-Deposit Liabilities
(Percent)



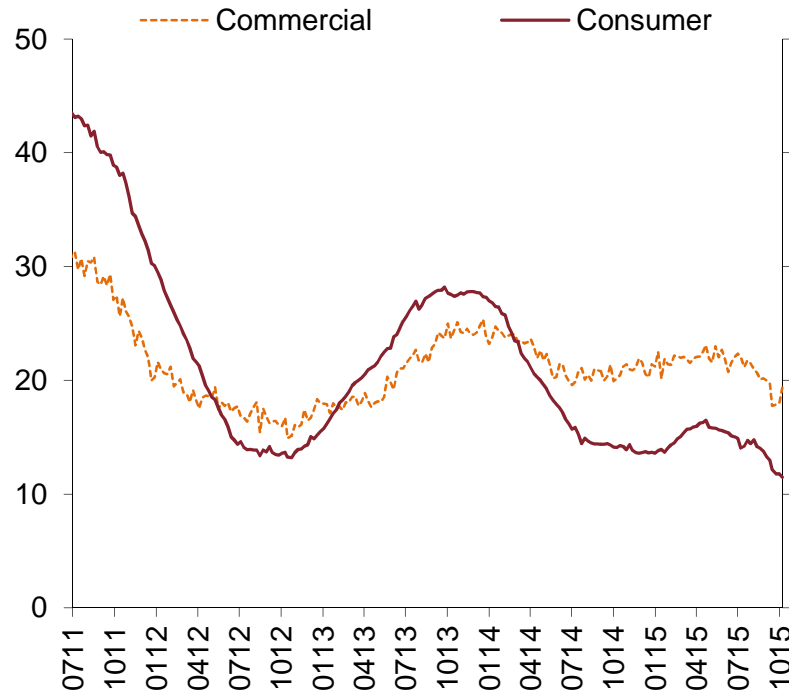
Source: CBRT.

- The measures implemented recently to support the FX liquidity, core liabilities, and long-term borrowing have enhanced the resilience of the economy.

Financial Stability

Annual Loan Growth

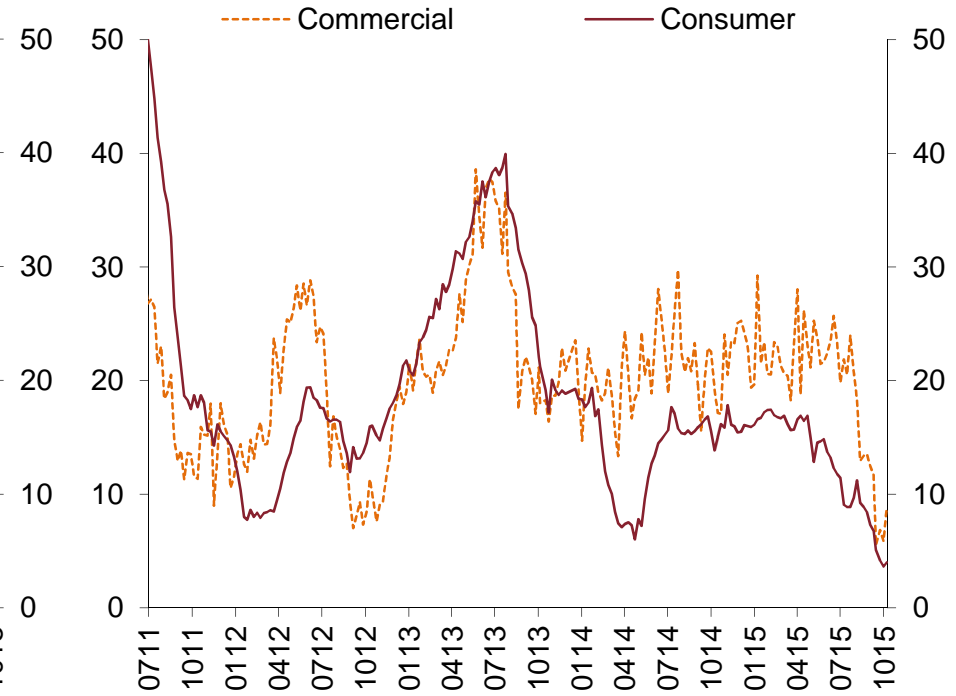
(Adjusted for Exchange Rate, Annual Percent Change)



Source: CBRT

Annualized Loan Growth

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



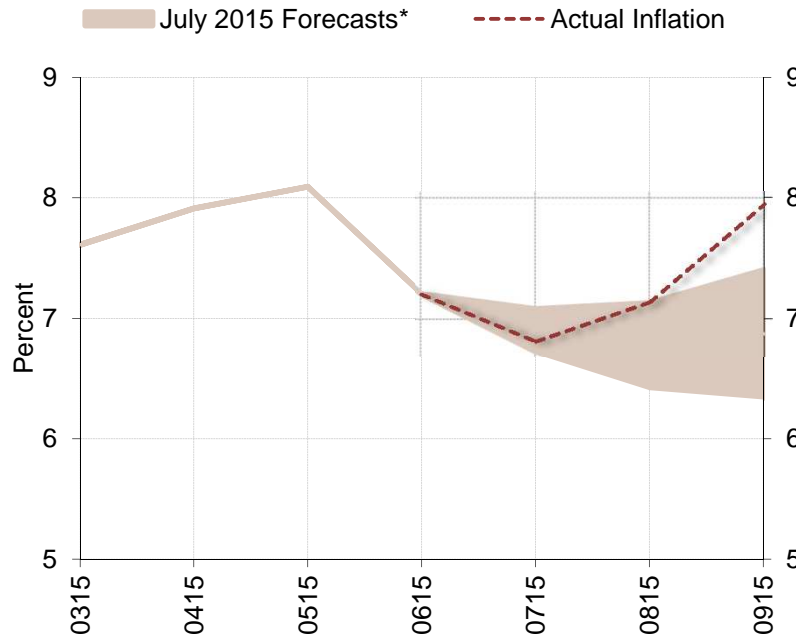
Source: CBRT.

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

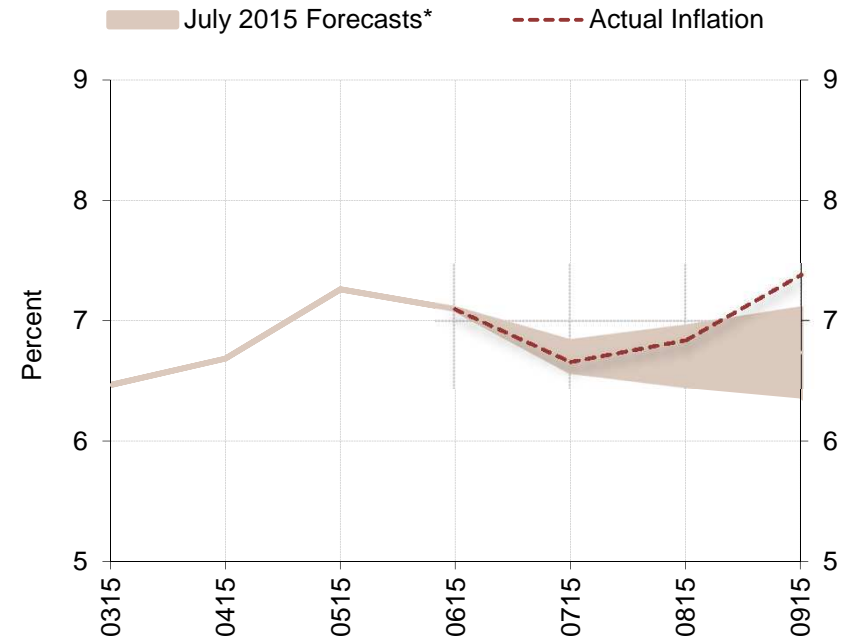
Macroeconomic Developments and Main Assumptions

July Inflation Report Forecasts and Realizations

July Inflation Forecasts and Realizations
(Percent)



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



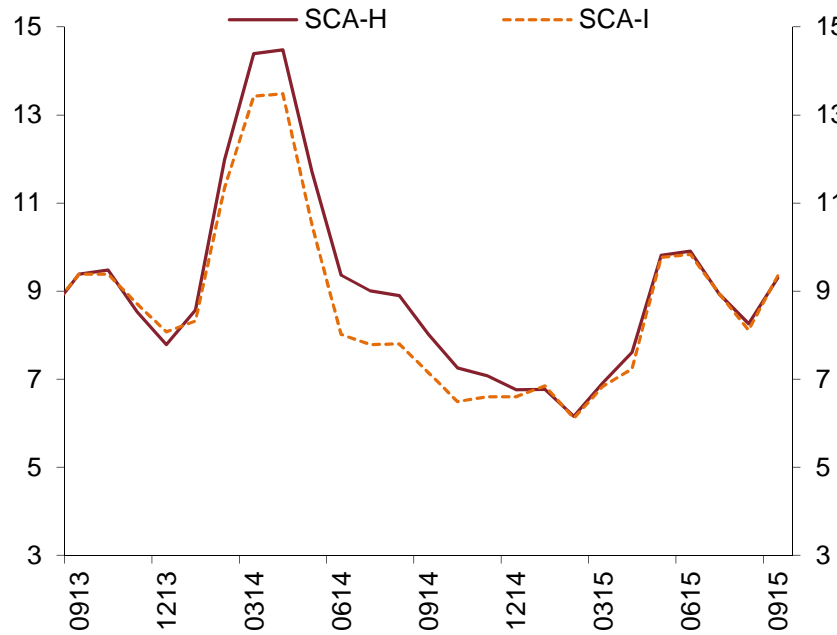
* Shaded region indicates the 70 percent confidence interval for the forecast.
Source: TURKSTAT, CBRT.

- Inflation at the end of the third quarter of 2015 was higher than the July Inflation Report forecast due to developments in food prices and exchange rate.

Inflation

Core Inflation Indicators SCA-H and SCA-I

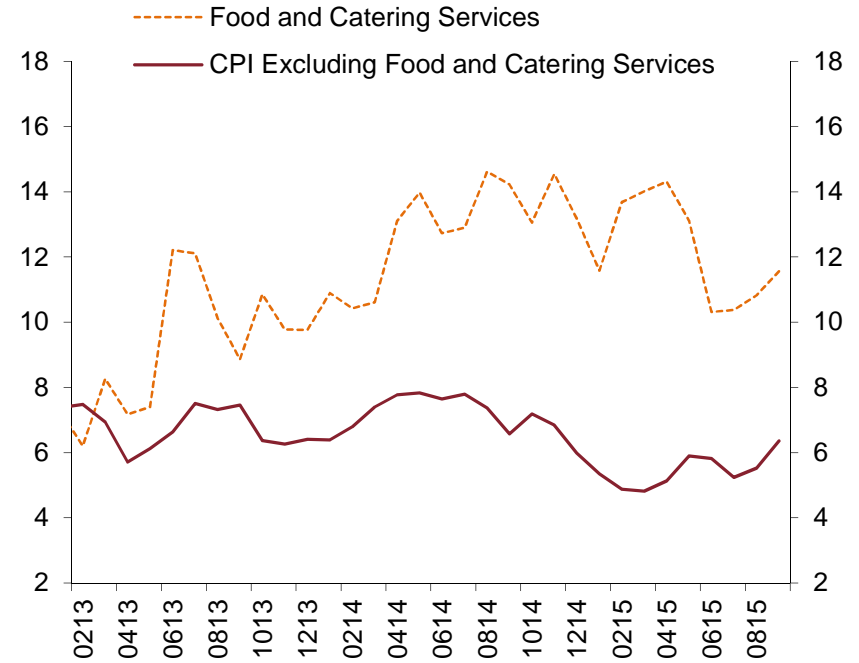
(Seasonally Adjusted, Annualized 3 Month Average,
Annual Percentage Change)



Source: TURKSTAT, CBRT.

Food and Non-Food Prices

(Annual Percentage Change)

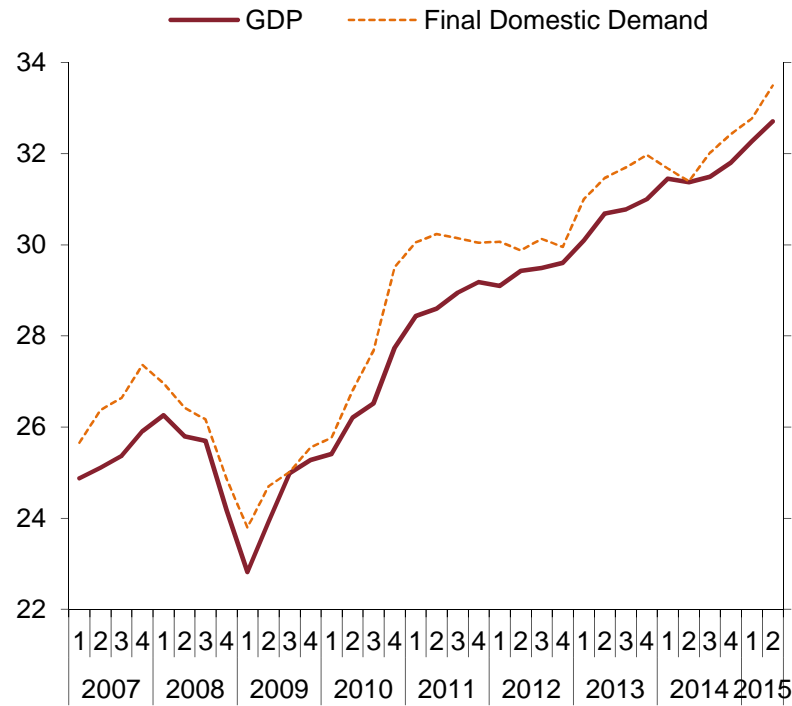


Source: TURKSTAT, CBRT.

- Exchange rate pass-through has been limited due to the tight monetary policy stance and the mild course of domestic demand.

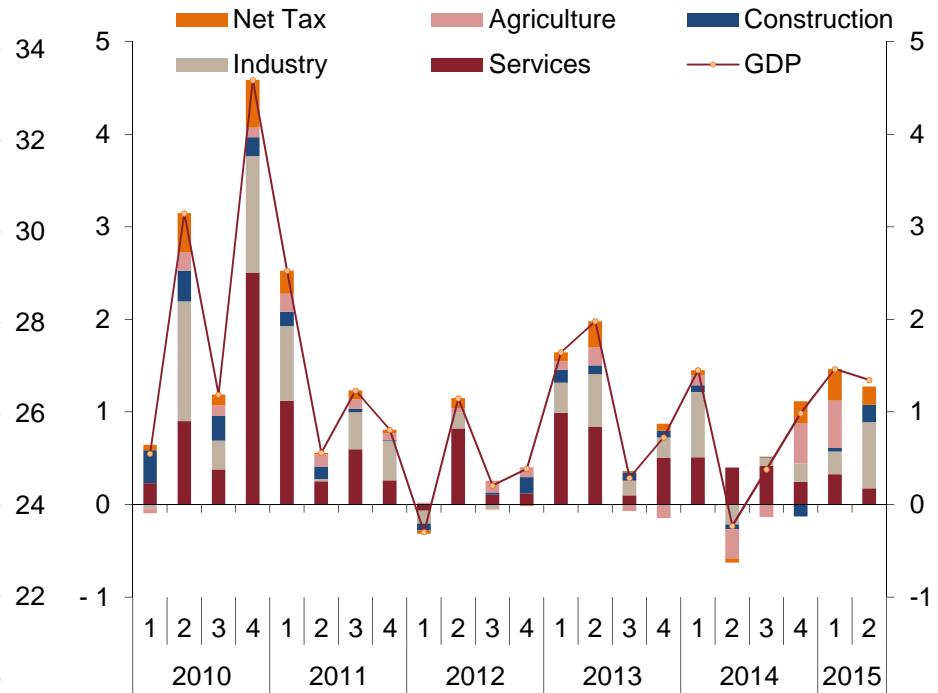
Aggregate Demand Developments

GDP and Final Domestic Demand
(Seasonally Adjusted, Billion TL, 1998 Prices)



Source: TURKSTAT, CBRT.

Contribution of Production Components to Year-on-Year GDP Growth
(Percentage Point)

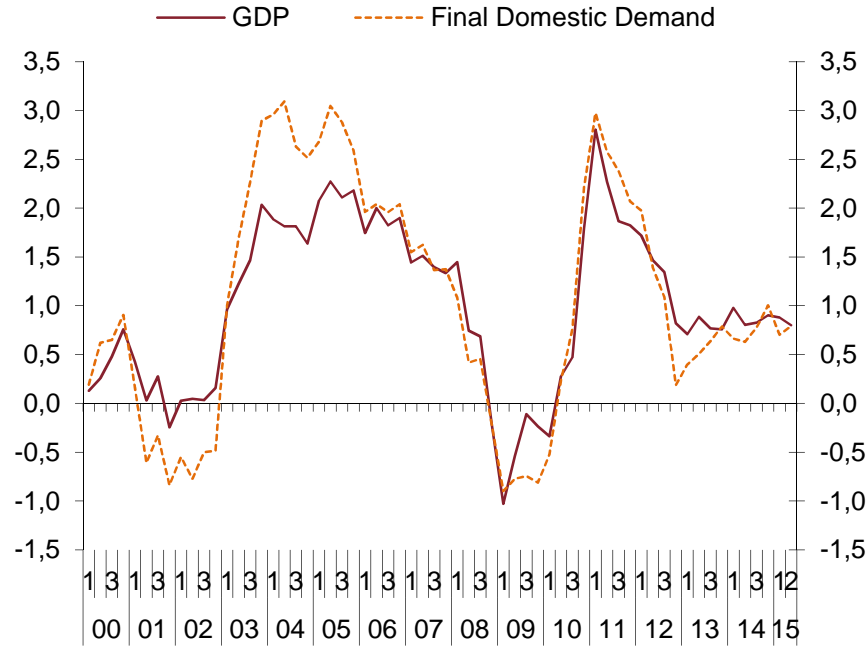


Source: TURKSTAT, CBRT.

➡ Economic activity continues to grow at a moderate pace.

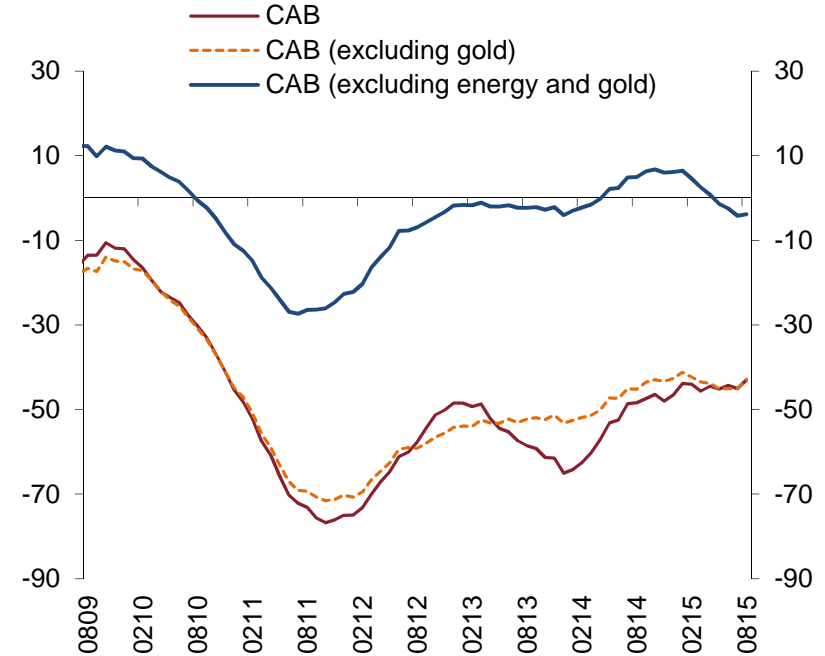
External Balance

Average Growth of National Product and Final Domestic Demand
(8-Quarter Moving Average)*



*X axis shows last quarter of moving average period. Source: TURKSTAT .

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

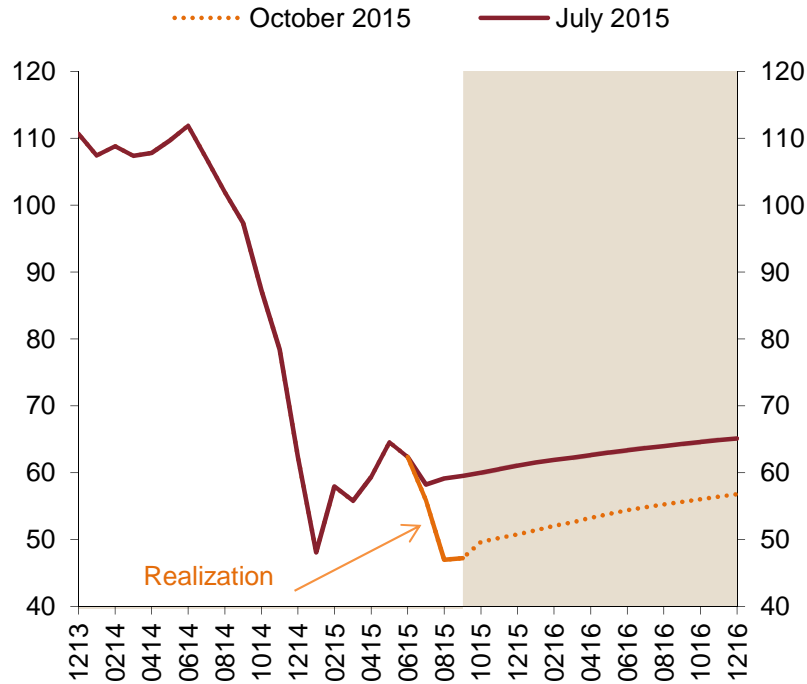


Source: TURKSTAT , CBRT.

➡ The improvement in current account balance is expected to continue.

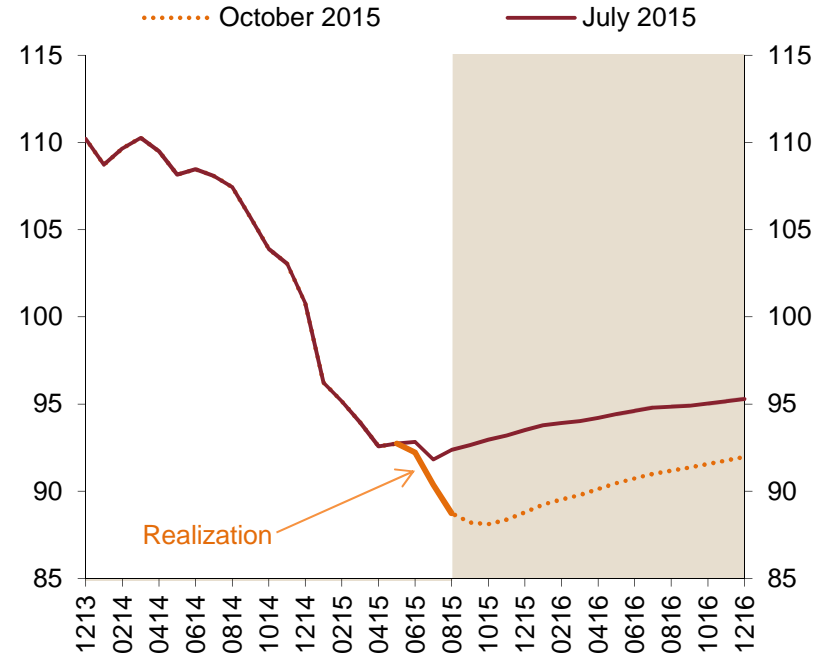
Oil and Import Prices

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.

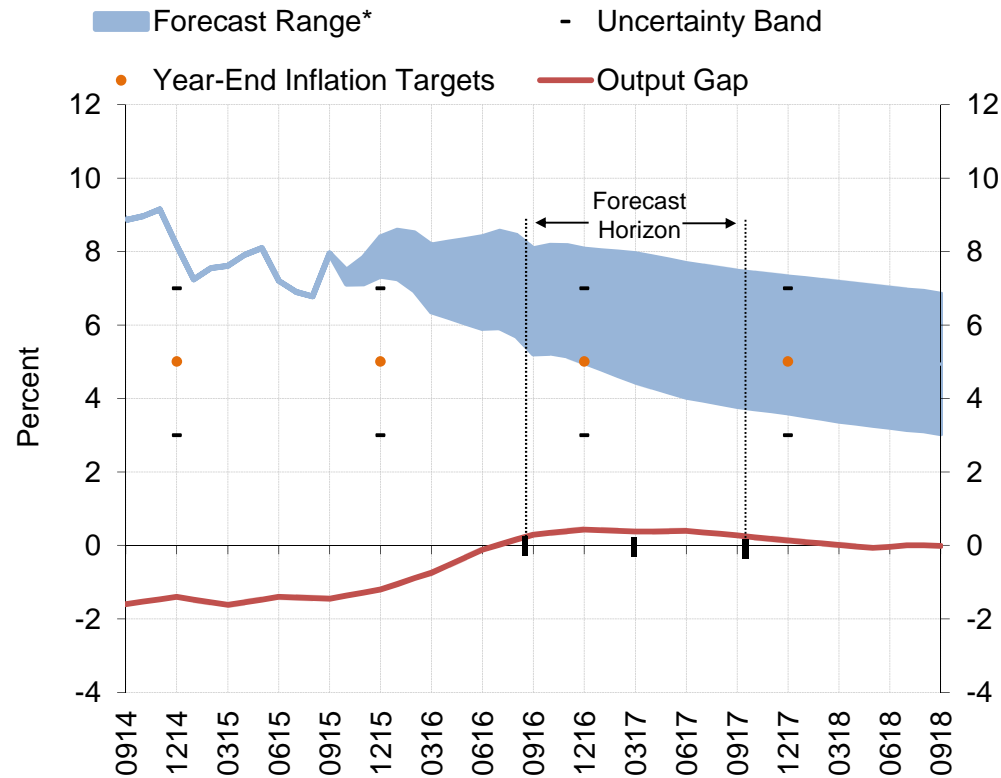
➡ Assumptions for crude oil prices and USD-denominated import prices were revised downward.

Monetary Policy Stance

- Medium-term forecasts are based on the framework that tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.
- It is assessed that the annual loan growth rate will continue to hover around reasonable levels thanks to the tight 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 7.4 % and 8.4 % (mid-point of 7.9 %) by the end of 2015,**
 - **be between 5.0 % and 8.0 % (mid-point of 6.5 %) by the end of 2016,**
- with 70 percent probability.

Inflation is expected to

- **be close to 5 % by the end of 2017,**
- **stabilize at 5 % in the medium term.**



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