



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**Briefing on
October 2016 Inflation Report**

27 October 2016
İstanbul

October 2016 Inflation Report: Main Sections

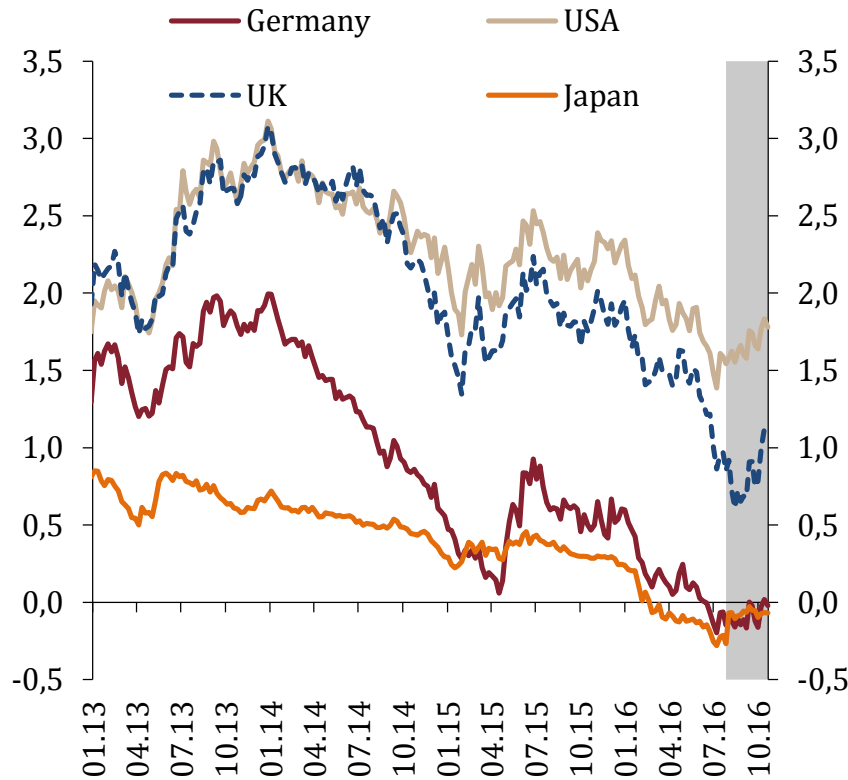
- Overview
- International Economic Developments
- Inflation Developments
- Supply and Demand Developments
- Financial Markets and Financial Intermediation
- Public Finance
- Medium Term Projections

October 2016 Inflation Report: Boxes

- Inflation Dynamics Over the Past Decade: A Historical Accounting
- The Impact of Tourism on Food Inflation
- The Impact of Tourism on the Main Macro Aggregates
- An Evaluation of Turkey's Competitiveness in the European Union Market
- The Impact of Agricultural Banking on Agricultural Productivity
- FX Collateral Deposits and Impact on Cross-Currency Swap Market
- Recent Credit Developments: Some Indicators Regarding Credit Supply and Demand
- Main Features of the Incentive Systems Recently Implemented in Turkey

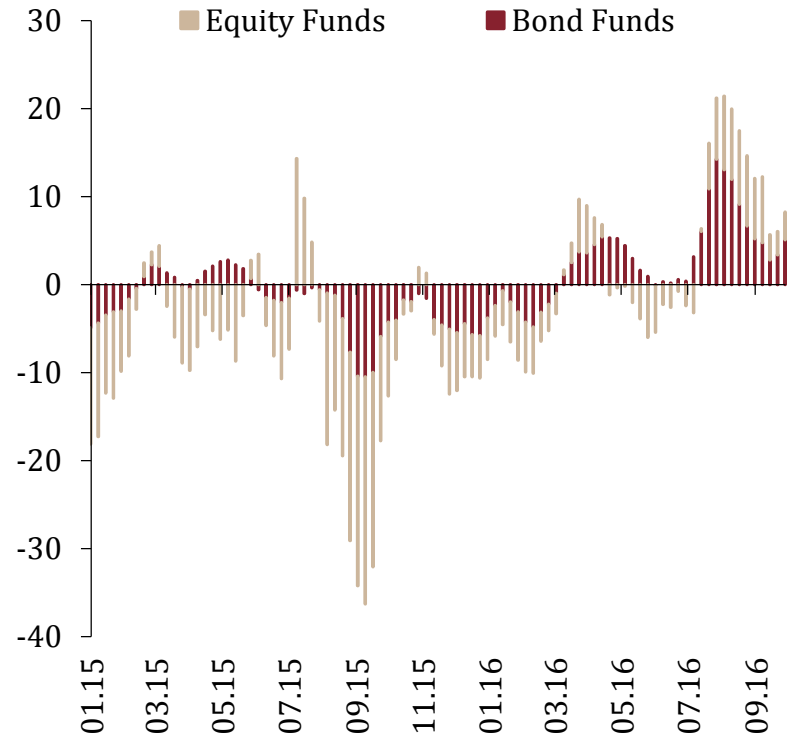
Global Uncertainties and Portfolio Flows

10-Year Bond Rates (Percent)



Source: Bloomberg.

Portfolio Flows to Emerging Economies (4-Week Cumulative, Billion USD)



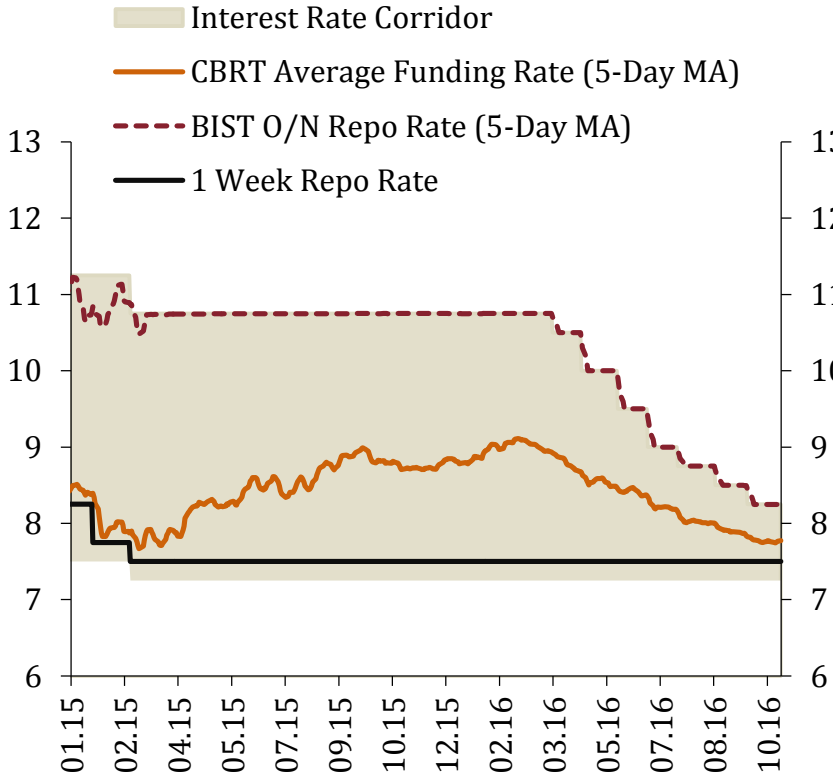
Source: EPFR, Bloomberg.

- Growing expectations of a possible Fed rate hike and uncertainties surrounding monetary policies of other advanced market central banks, portfolio flows into emerging economies have recently started to slow down.

Monetary Policy and Financial Stability

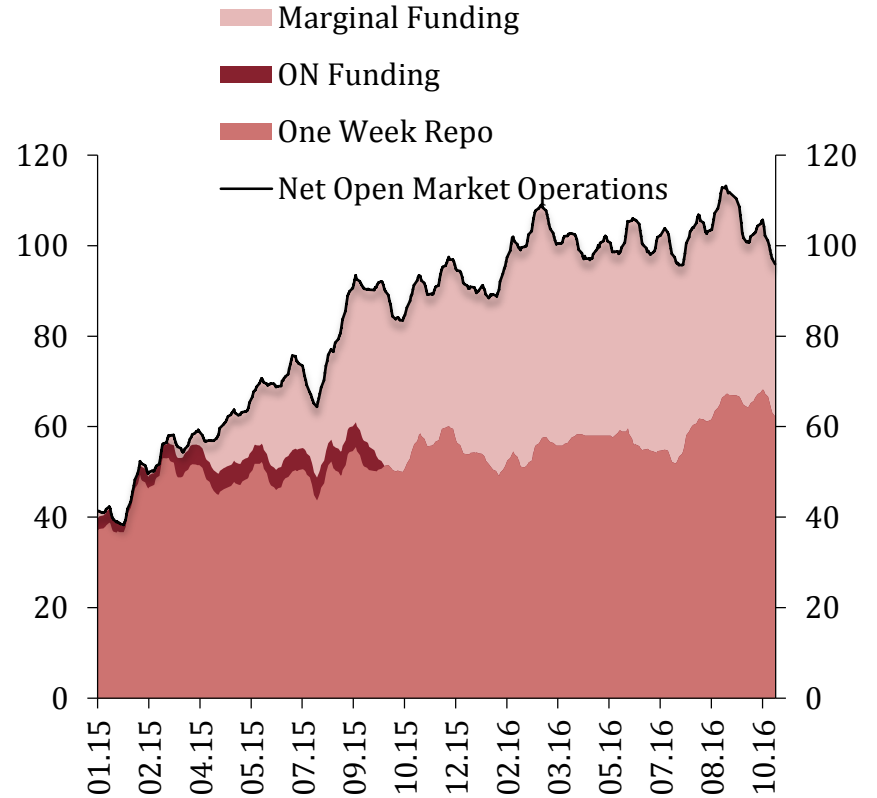
Monetary Policy

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



Source: BIST, CBRT.

CBRT Funding (2-Week MA, Billion TL)

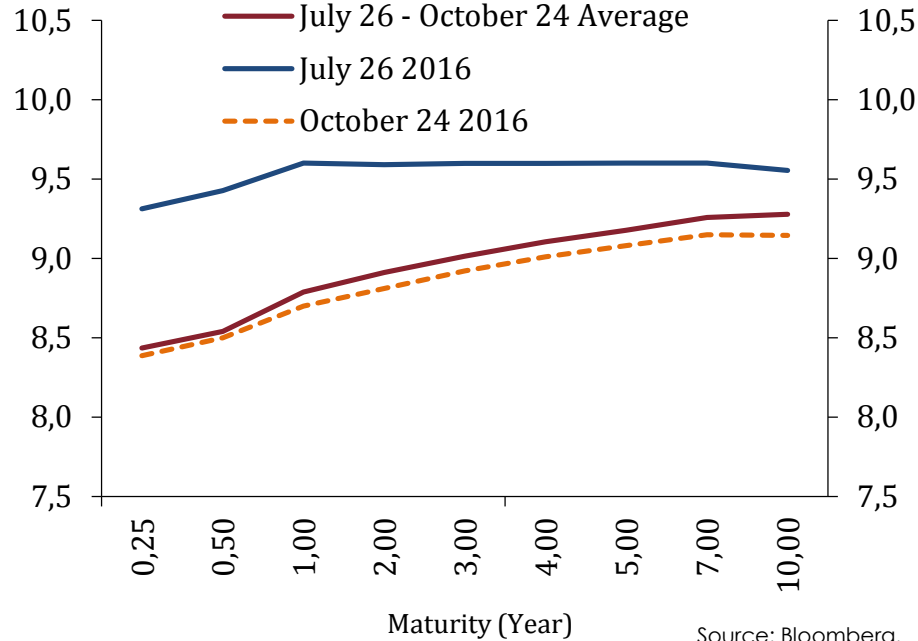


Source: CBRT.

- The CBRT continued with monetary policy simplification in the third quarter on the back of improved core inflation indicators and the favorable course of the global risk appetite.

Monetary Conditions

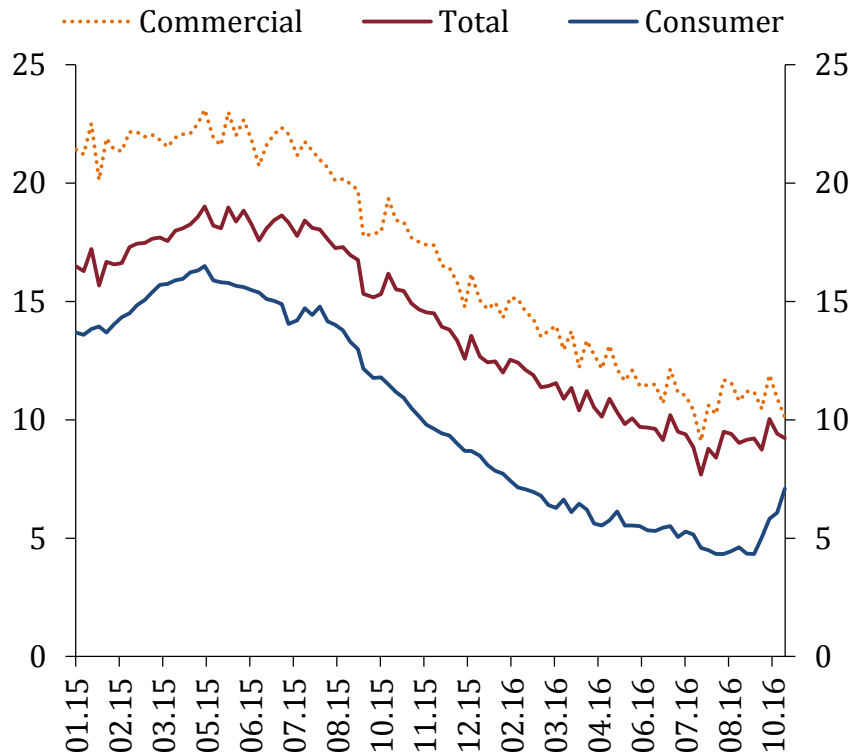
**Yield Curve on Cross Currency Swaps
(Percent)**



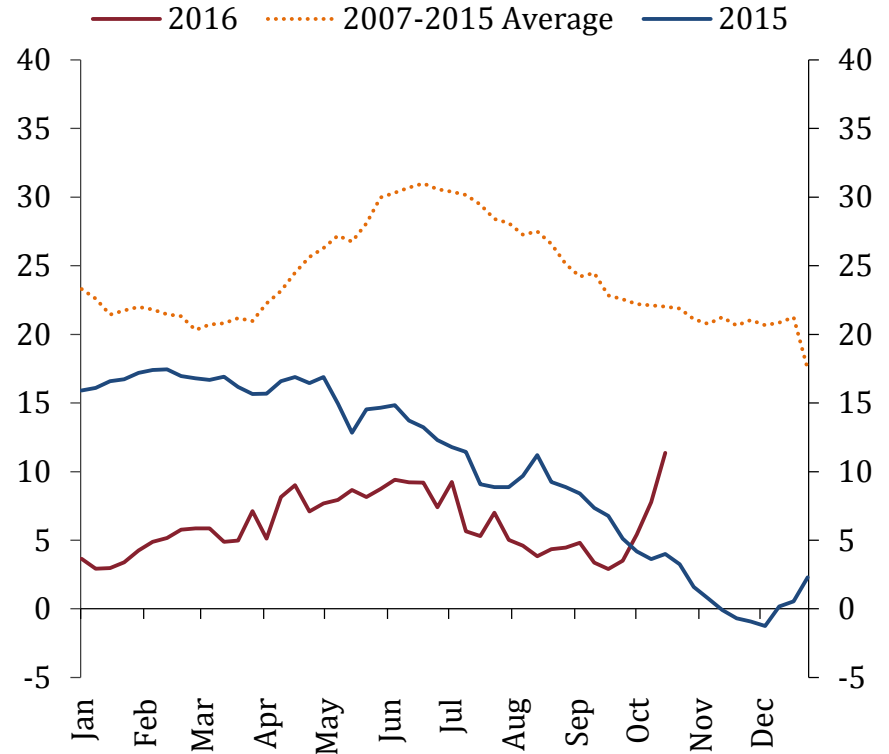
- Amid continued expectations for a prolonged low interest rate environment across advanced economies as well as the favorable course of domestic macroeconomic indicators and monetary policy simplification, the yield curve shifted downwards in all maturities.

Financial Stability

Annual Credit Growth
(Adjusted for Exchange Rate, Percent)



Annualized Consumer Credit Growth
(13-Week MA, Percent)



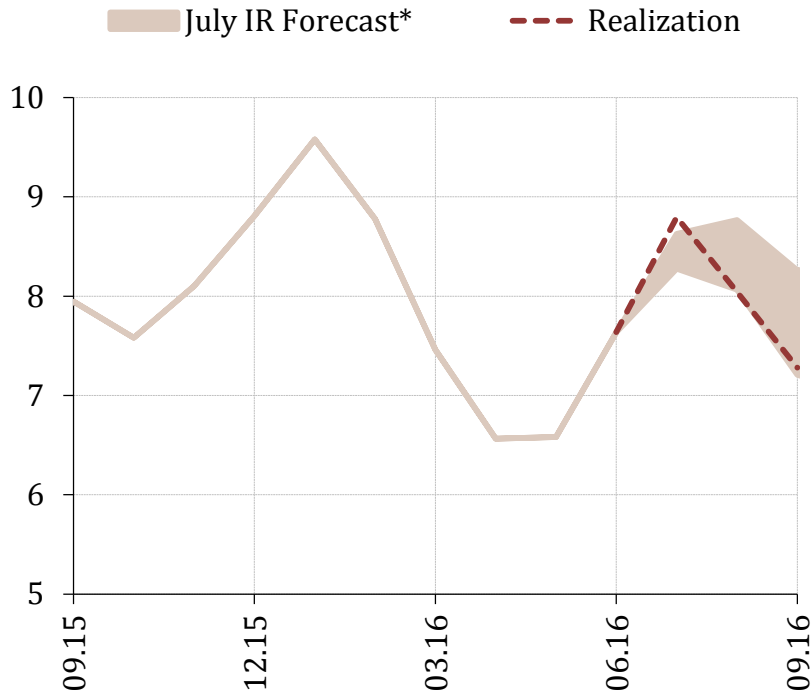
Source: CBRT.

- Consumer loans have recently rebounded due to accommodative monetary conditions and macroprudential measures.

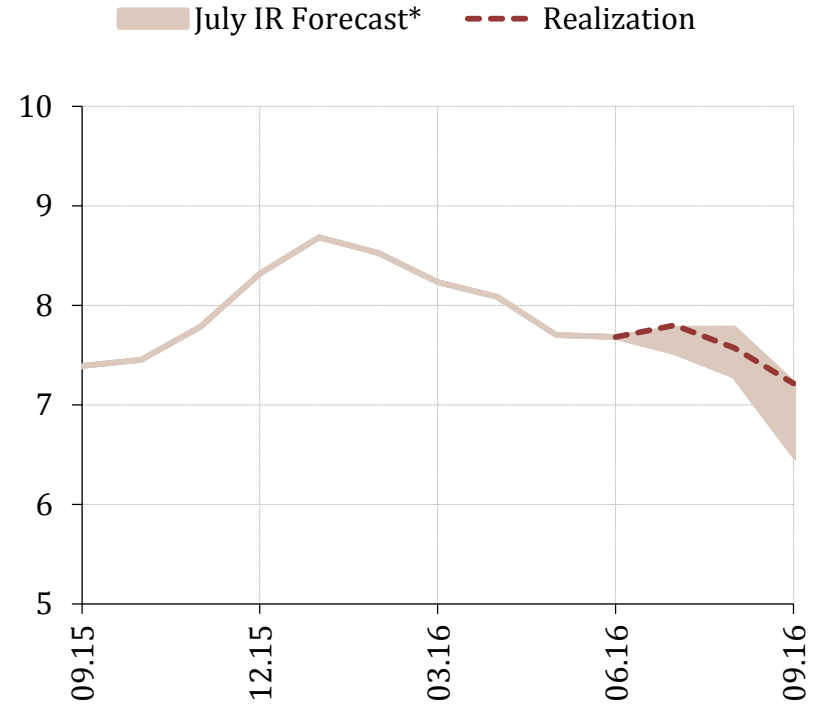
Macroeconomic Developments and Main Assumptions

October 2016 Inflation Report Forecasts and Realizations

Consumer Inflation (Percent)



Inflation Excluding Unprocessed Food and Tobacco (Percent)



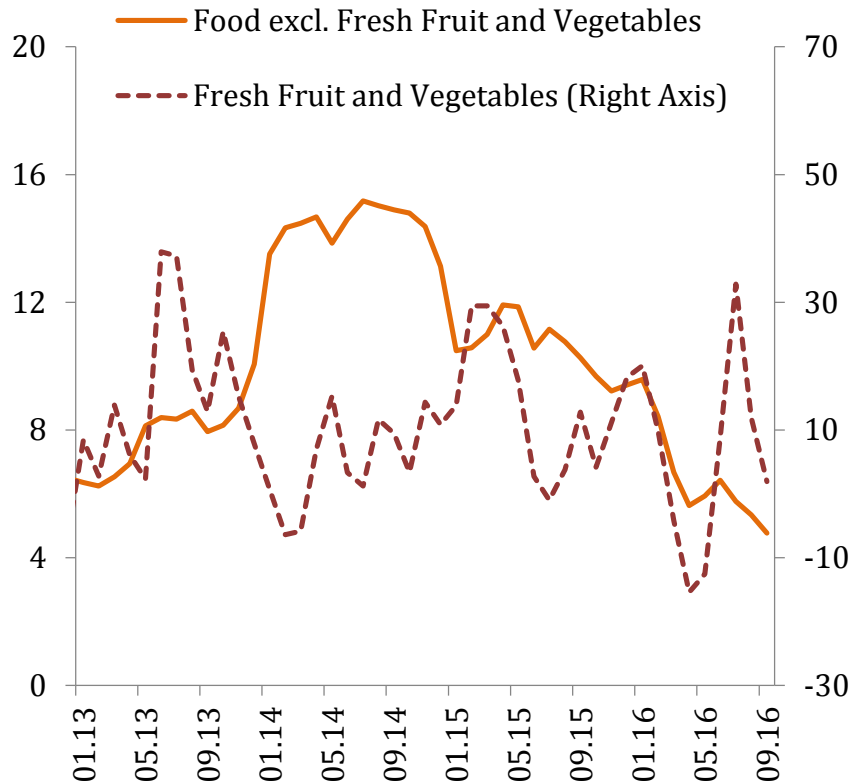
* Shaded region indicates the 70 percent confidence interval for the forecast.

Source: TURKSTAT, CBRT.

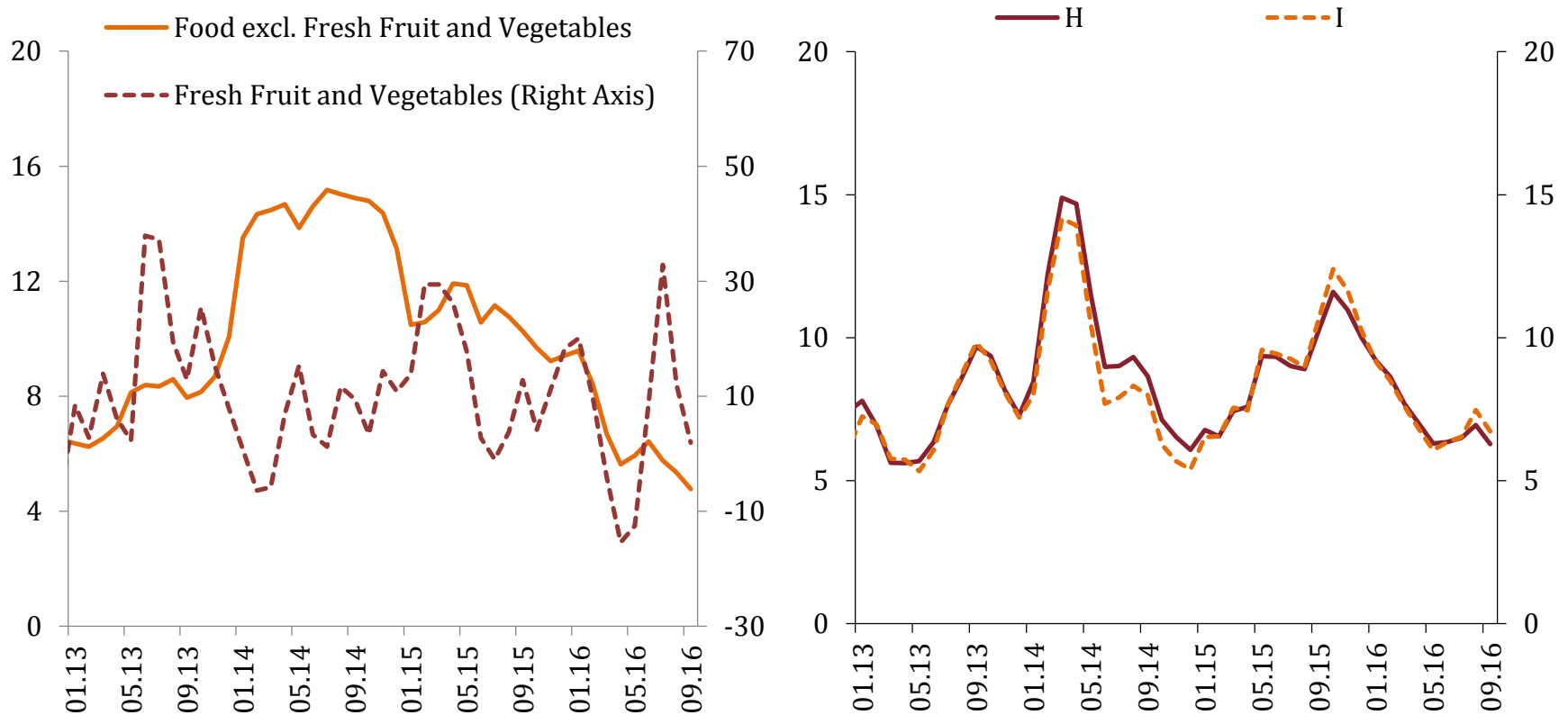
- Consumer inflation fluctuated while annual core inflation remained on a downward track through the third quarter of 2016.

Inflation

Food Prices (Annual Percent Change)



Core Inflation Indicators (SA, 3-Month MA, Annualized, Percent)

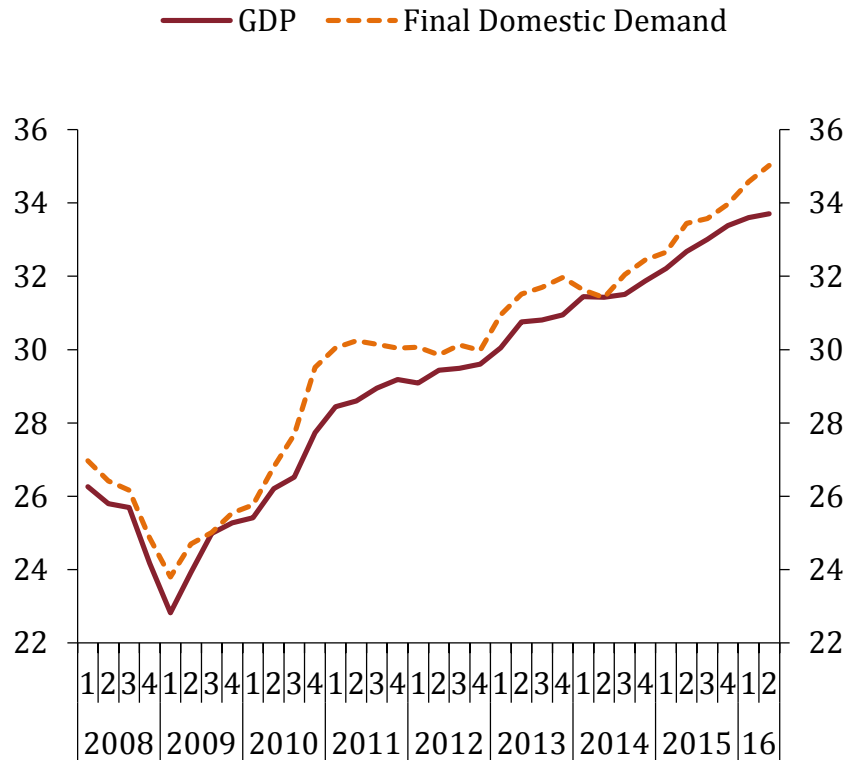


Source: TURKSTAT, CBRT.

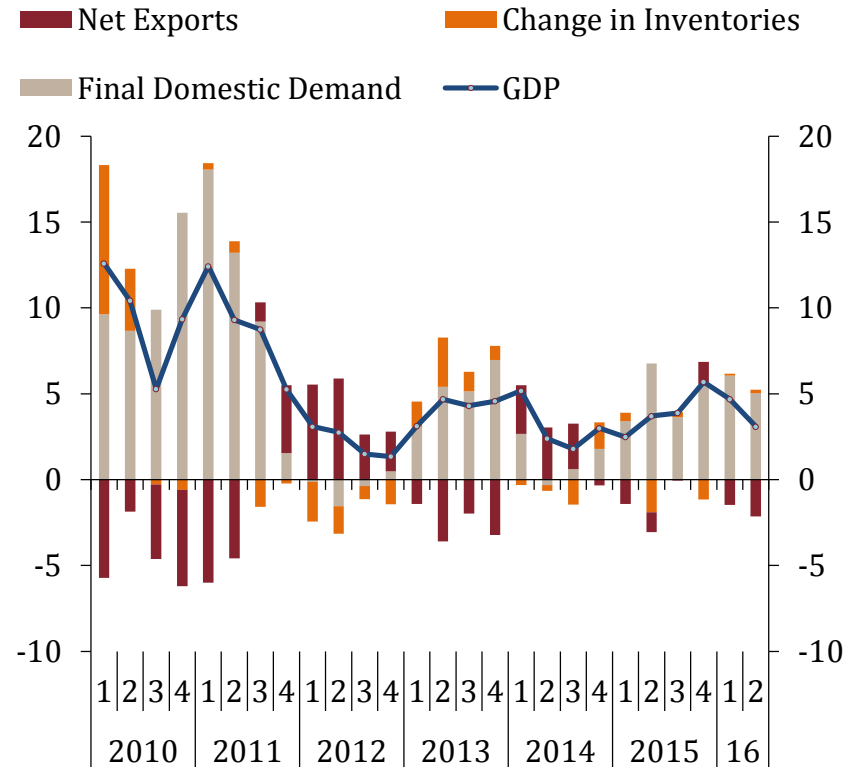
- The underlying core inflation indicators remained largely flat compared to the previous quarter.

Aggregate Demand

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



Annual GDP Growth and Contributions from the Expenditure Side
(Percentage Point)

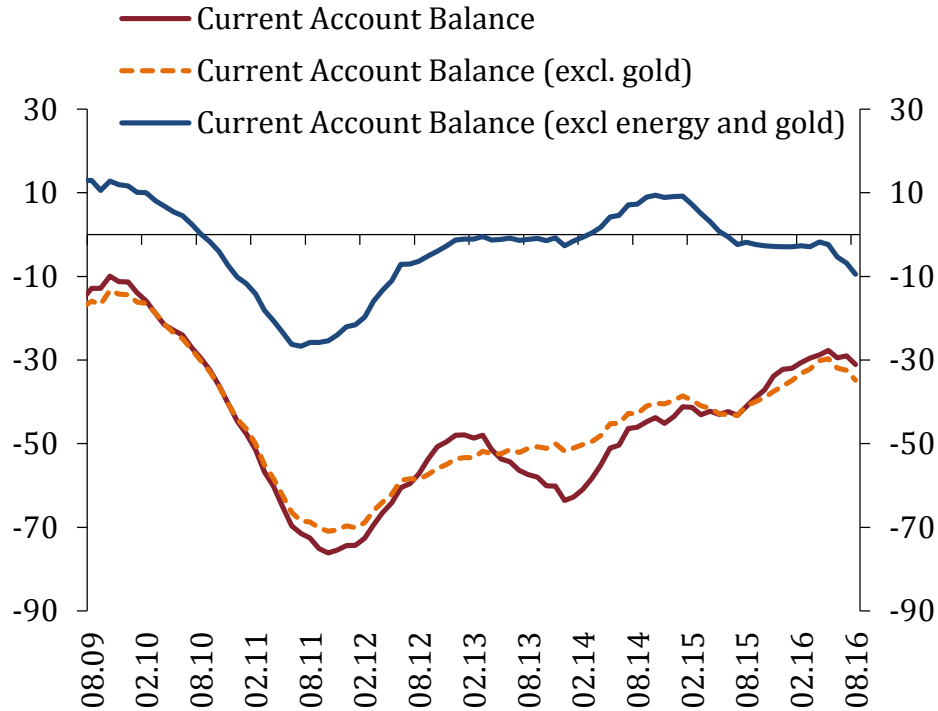


Source: TURKSTAT.

- The main driver of annual growth was final domestic demand, whereas net exports provided more negative contribution to growth due to the tourism slump.

External Balance

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

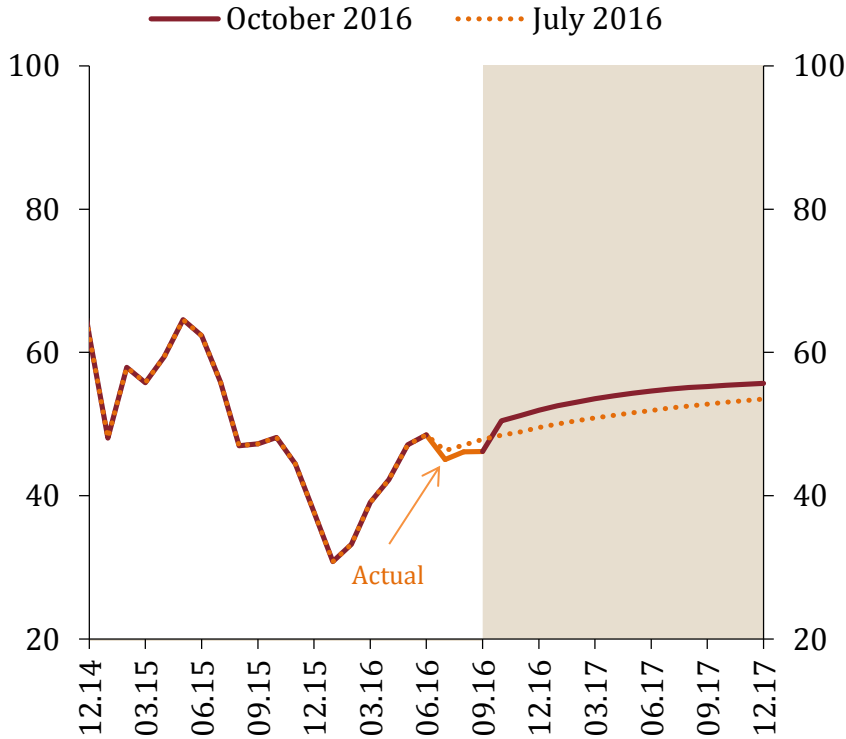


Source: CBRT.

- The persistent slump in tourism and the gradual decline in the favorable effects of commodity prices are likely to cause some increase in the current account deficit in the short term.

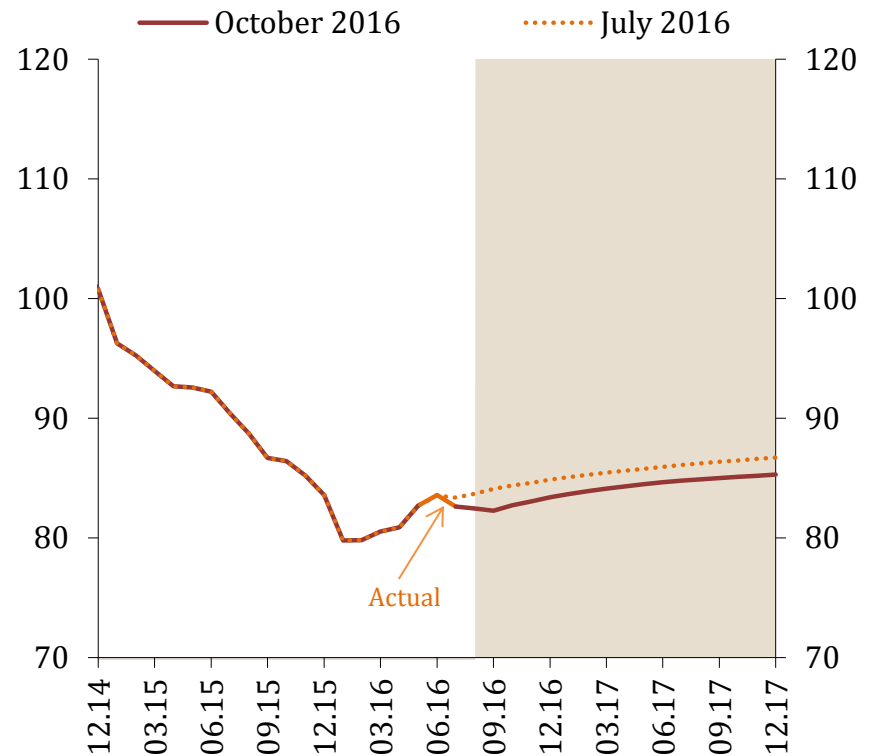
Revisions in Oil and Import Price Assumptions

Oil Prices
(USD/bbl)



Source: Bloomberg, CBRT.

Import Prices
(Index, 2010=100)



Source: TURKSTAT, CBRT.

- Owing to the recent developments, assumptions for crude oil prices were revised upwards, while those for USD-denominated import prices had some downward revision.

Revisions in Assumptions

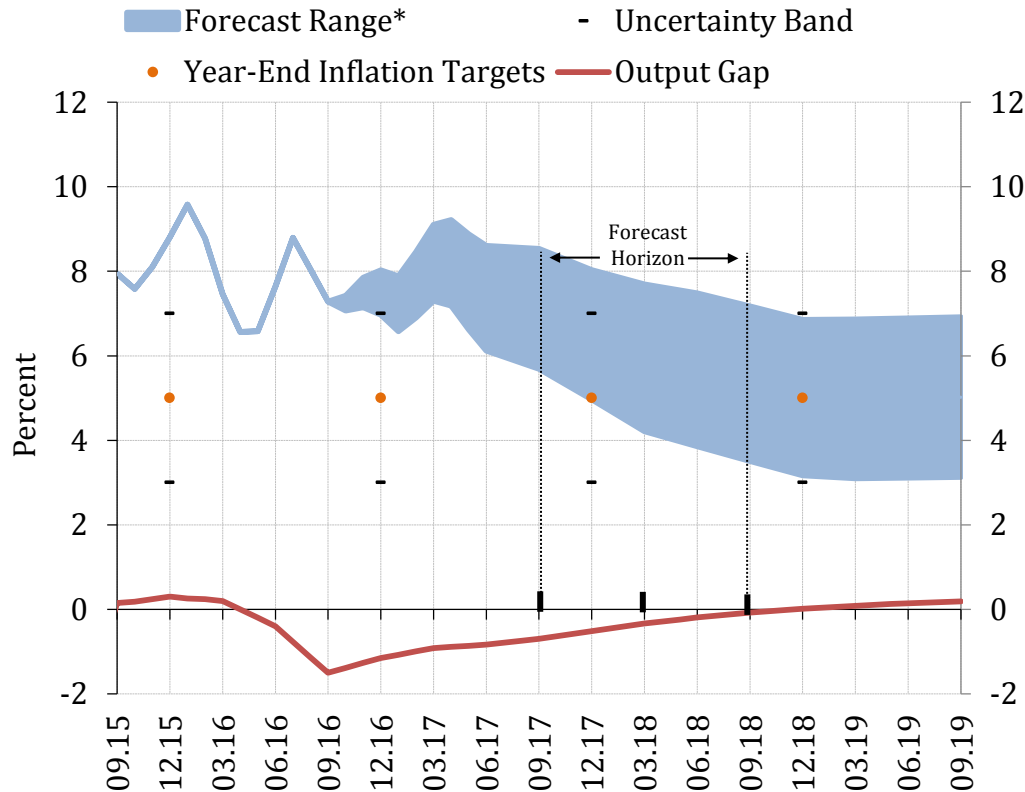
		July 2016	October 2016
Output Gap	2016 Q2	-0,2	-0,4
	2016 Q3	-0,3	-1,5
Food Prices (Year-end Percent Change)	2016	8,0	6,0
	2017	8,0	7,0
Import Prices (Average Annual Percent Change, USD)	2016	-8,5	-9,2
	2017	4,0	3,2
Oil Prices (Average, USD)	2016	44	44
	2017	52	54
Export-Weighted Global Production Index (Average Annual Percent Change)	2016	1,7	1,7
	2017	1,8	1,8

Monetary Policy Stance

- Given a cautious policy stance that focuses on bringing inflation down, inflation is estimated to converge gradually to the 5% target.
- Inflation is likely to be 7.5% in 2016, falling to 6.5% in 2017 and stabilizing around 5% in 2018.

Inflation Outlook

Inflation and Output Gap Forecasts

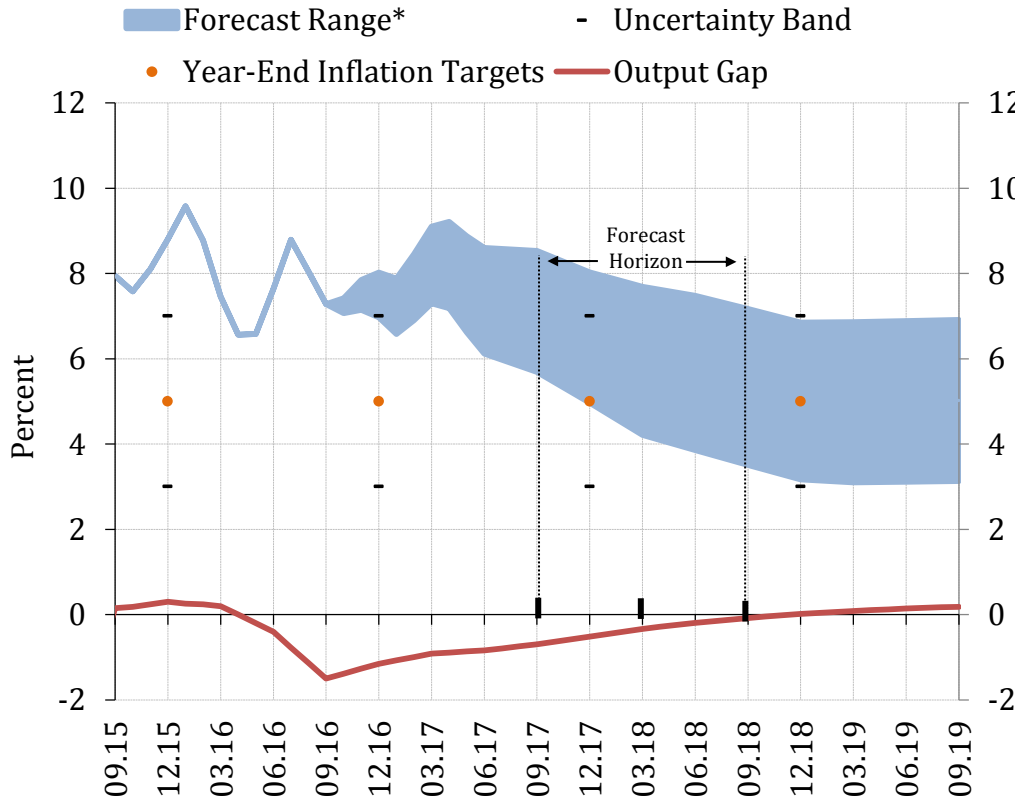


*Shaded region indicates the 70 percent confidence interval for the forecast.

- Accordingly, inflation is expected to
 - be between 7% and 8% (mid-point of 7.5%) at end-2016,
 - be between 5% and 8% (mid-point of 6.5%) at end-2017with 70 percent probability.

Inflation Outlook

Inflation and Output Gap Forecasts



- Latest domestic developments are envisaged to curb domestic demand particularly in the short term. Accordingly, output gap forecasts were revised downwards.
- The downward revision in the output gap and food inflation is expected to partially compensate for the upside effects driven by import prices.

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

Steps Taken on Structural Areas

■ Food Committee

- Secretarial affairs of the Food Committee were entrusted to the CBRT.
- From now on, the Committee will be headed by the Deputy Prime Minister and measures regarding food prices will be evaluated efficiently.
- The Committee held its first meeting under the new setup and commenced work.
- Within the agenda of the Committee, technical studies and prudential guidelines are negotiated for various areas.

Food Prices and Other Structural Topics

- It should be emphasized that food is only one of the structural factors that slow down the disinflation process.
- Our work on other structural issues that cause persistence in inflation will soon be announced.



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