



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

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

December 18, 2013

Ankara

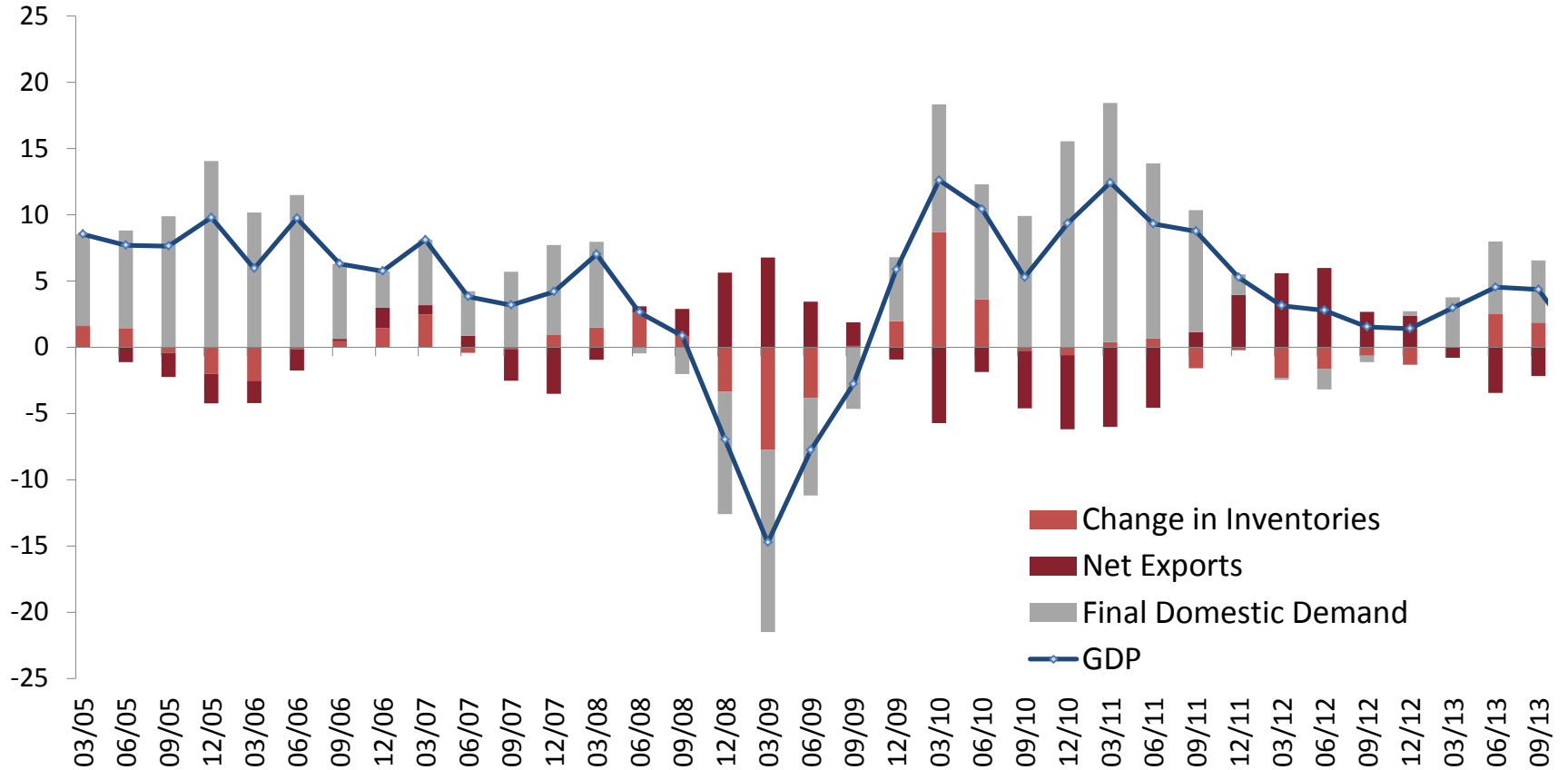
Outline

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

ECONOMIC ACTIVITY

Economic activity continues its moderate course.

Contribution to Annual GDP Growth
(Percentage Points)

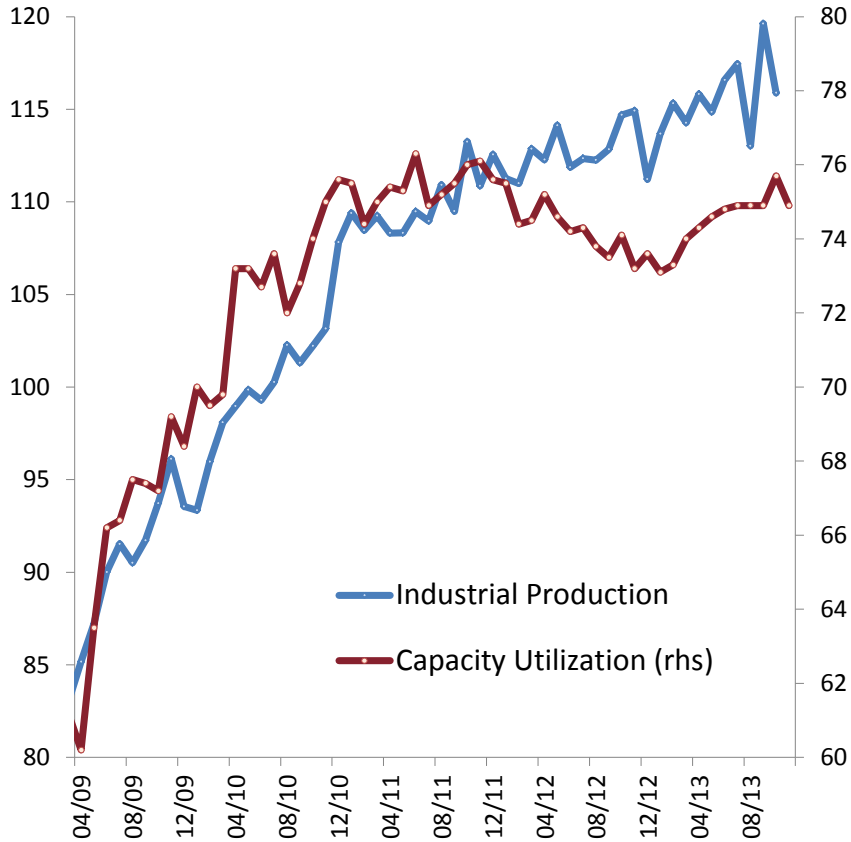


Source: TURKSTAT.

Last Observation: 2013Q3

Leading indicators point that economic growth and the rebalancing process will continue.

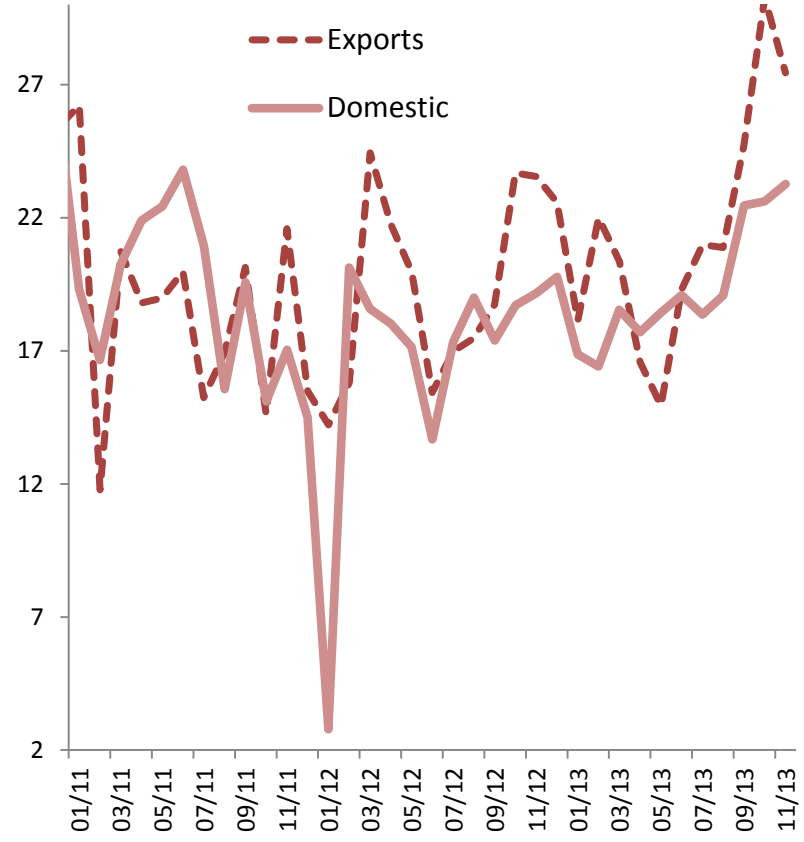
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Last Observation: October for Industrial Production,
November for Capacity Utilization.

New Orders (Seasonally Adjusted)

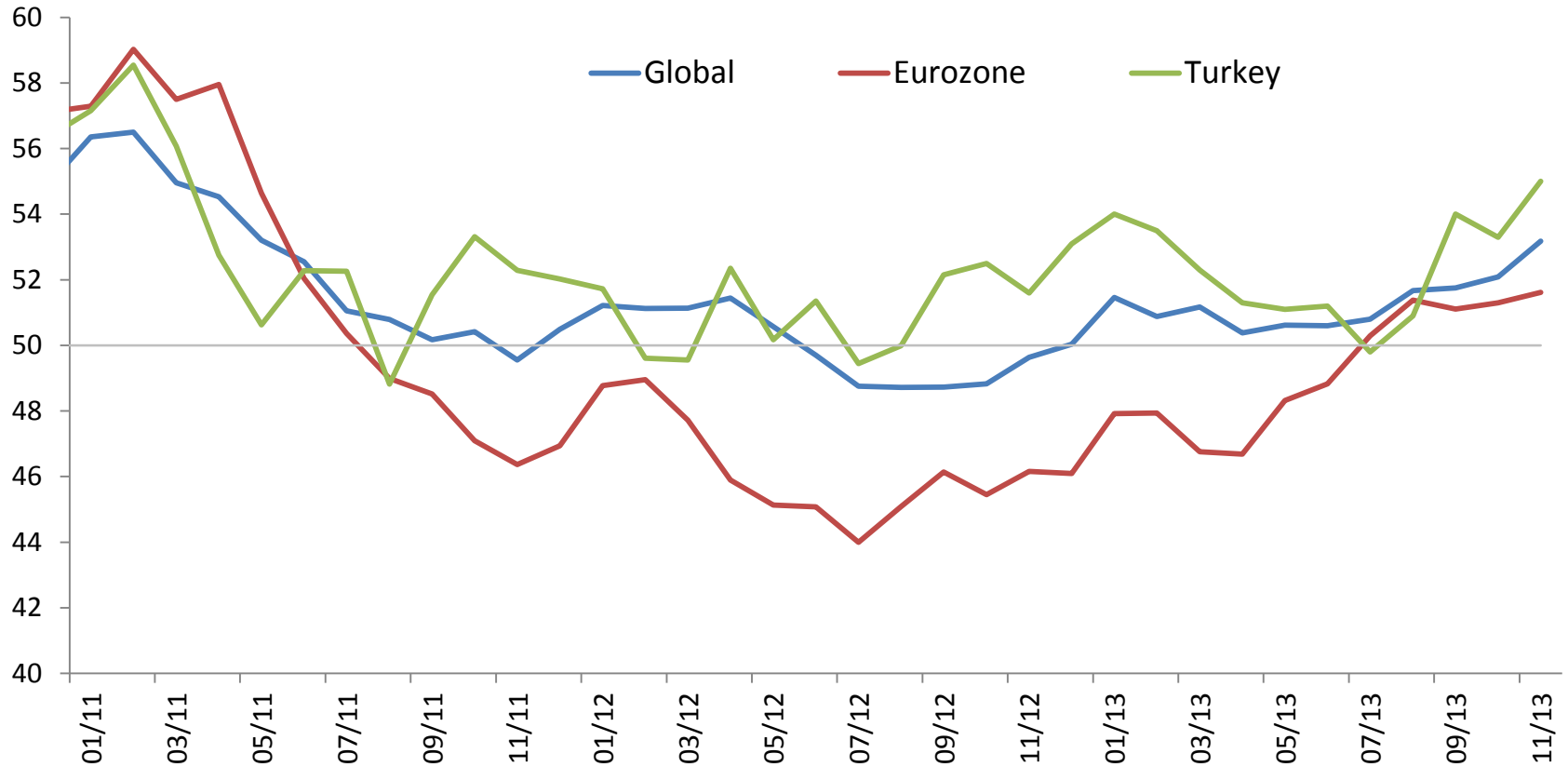


Source: CBRT Business Tendency Survey.

Last Observation: November 2013.

External demand is also expected to support domestic growth and the rebalancing process.

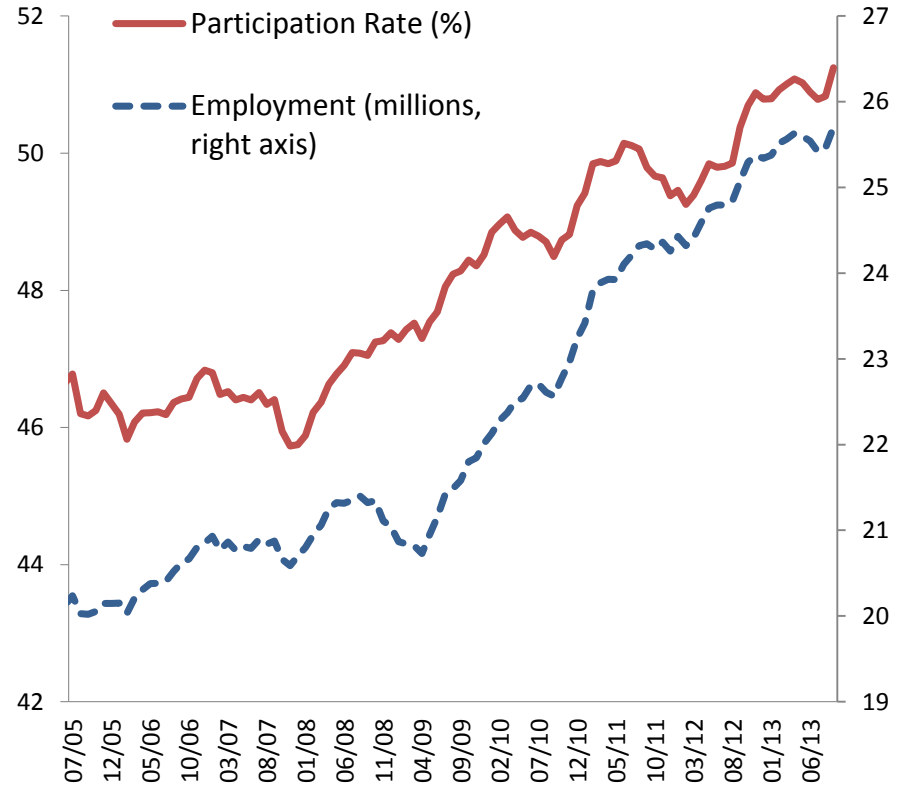
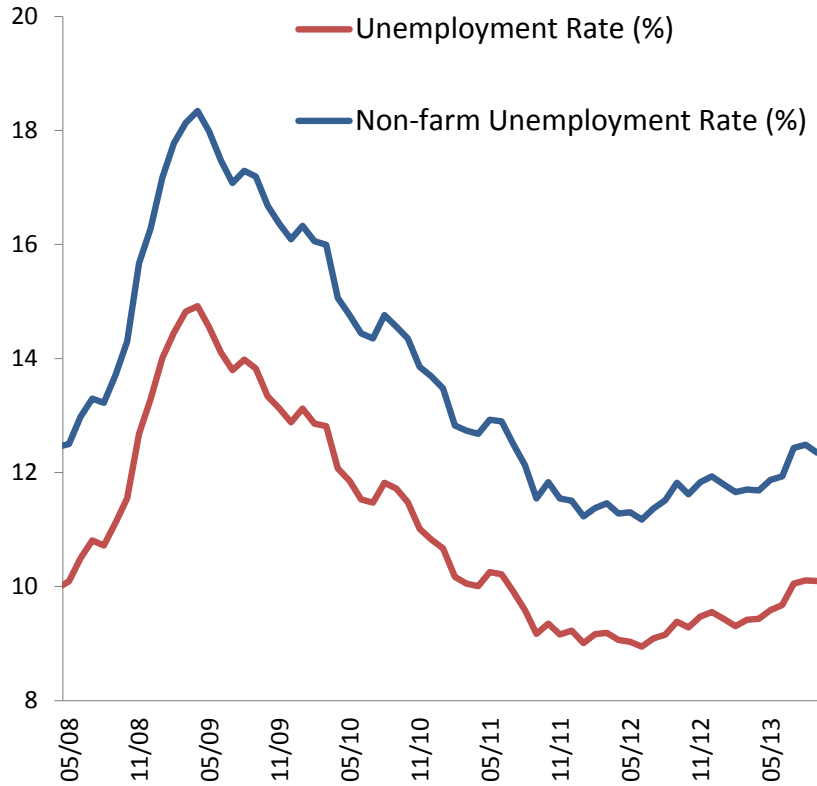
Manufacturing PMIs
(Seasonally Adjusted)



Source: MARKIT.

Last Observation: November 2013.

Unemployment shows signs of stabilization while moderate employment growth is expected to continue.

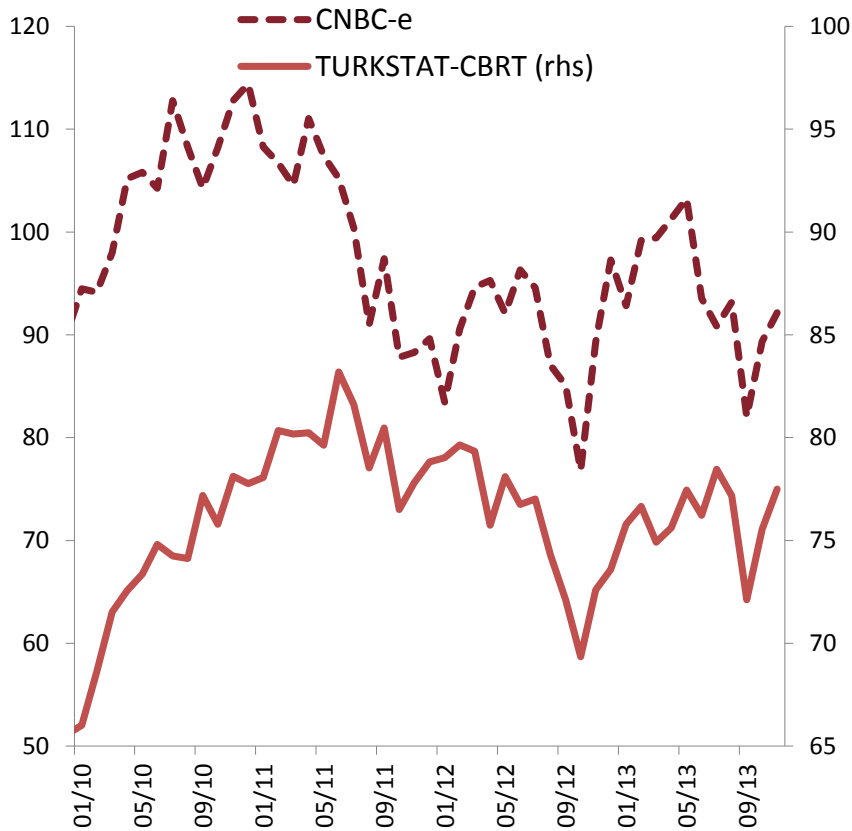


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: September 2013.

Key lead indicators of demand suggest a moderation in consumption growth and recovery in investment demand

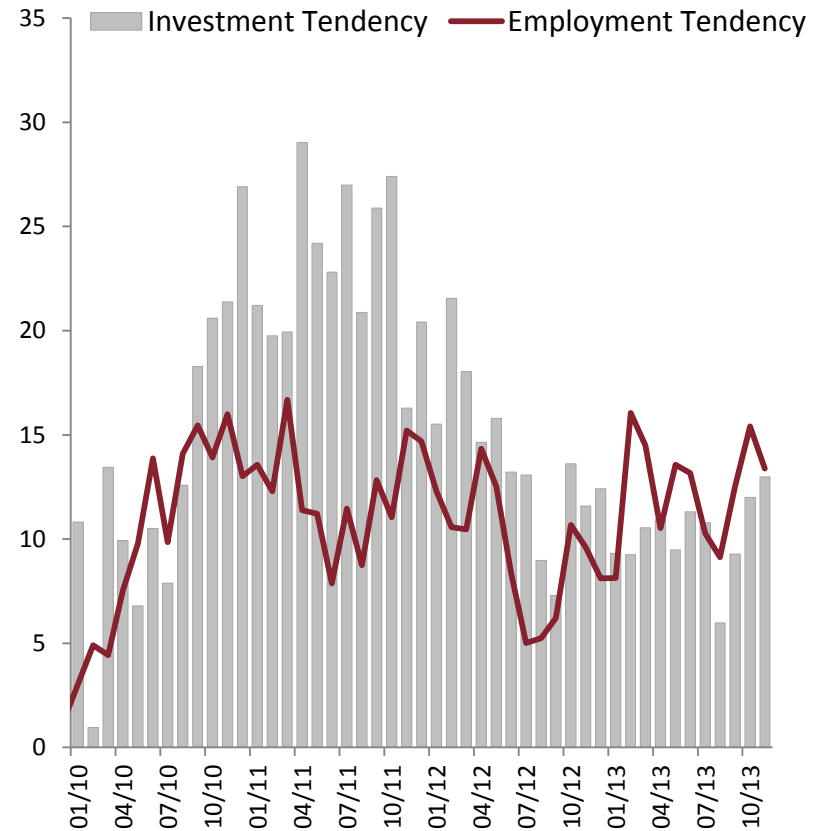
Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: November 2013.

Investment and Employment Prospects (Seasonally Adjusted)



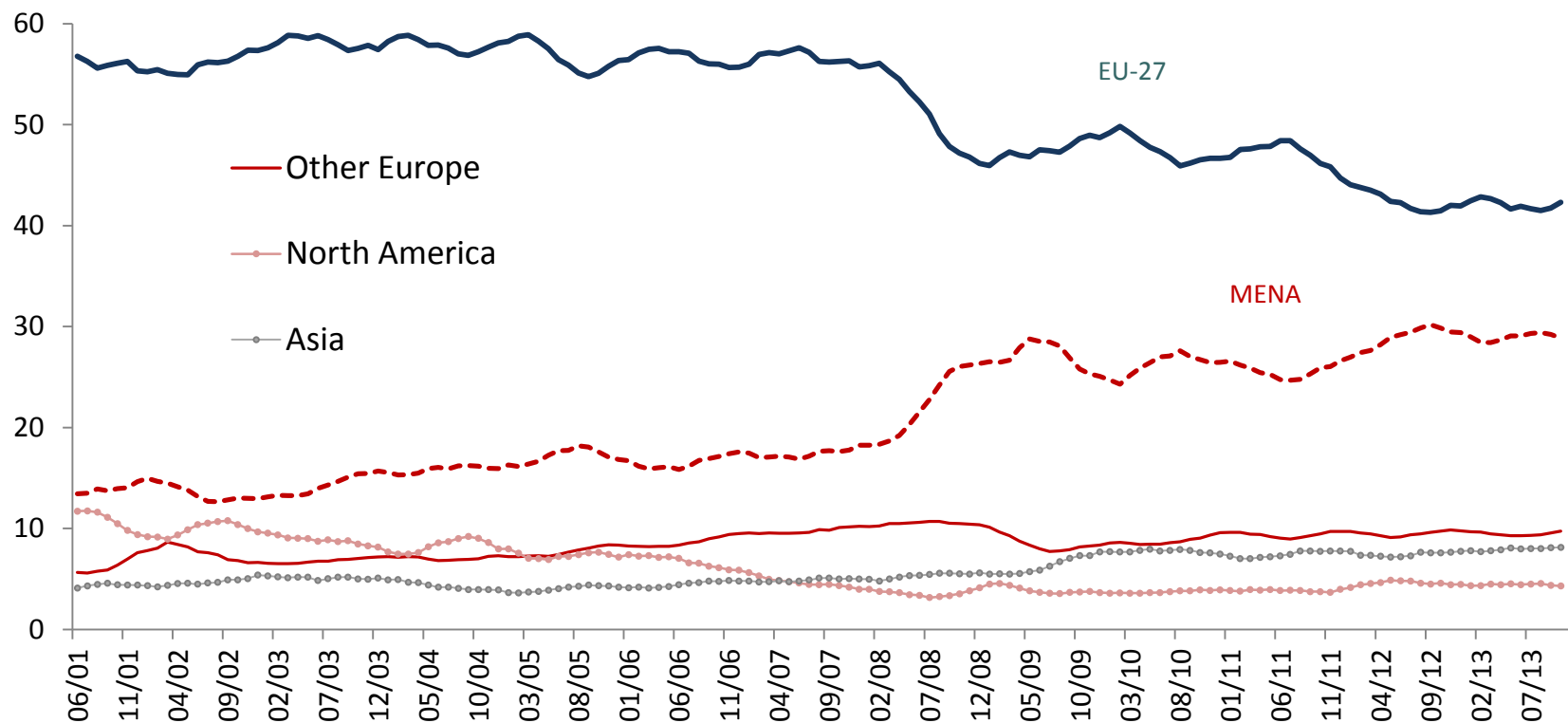
Source: TURKSTAT, CBRT.

Last Observation: November 2013.
Business Tendency Survey

EXTERNAL BALANCE

Europe's recovery has already been reflected in export market shares.

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

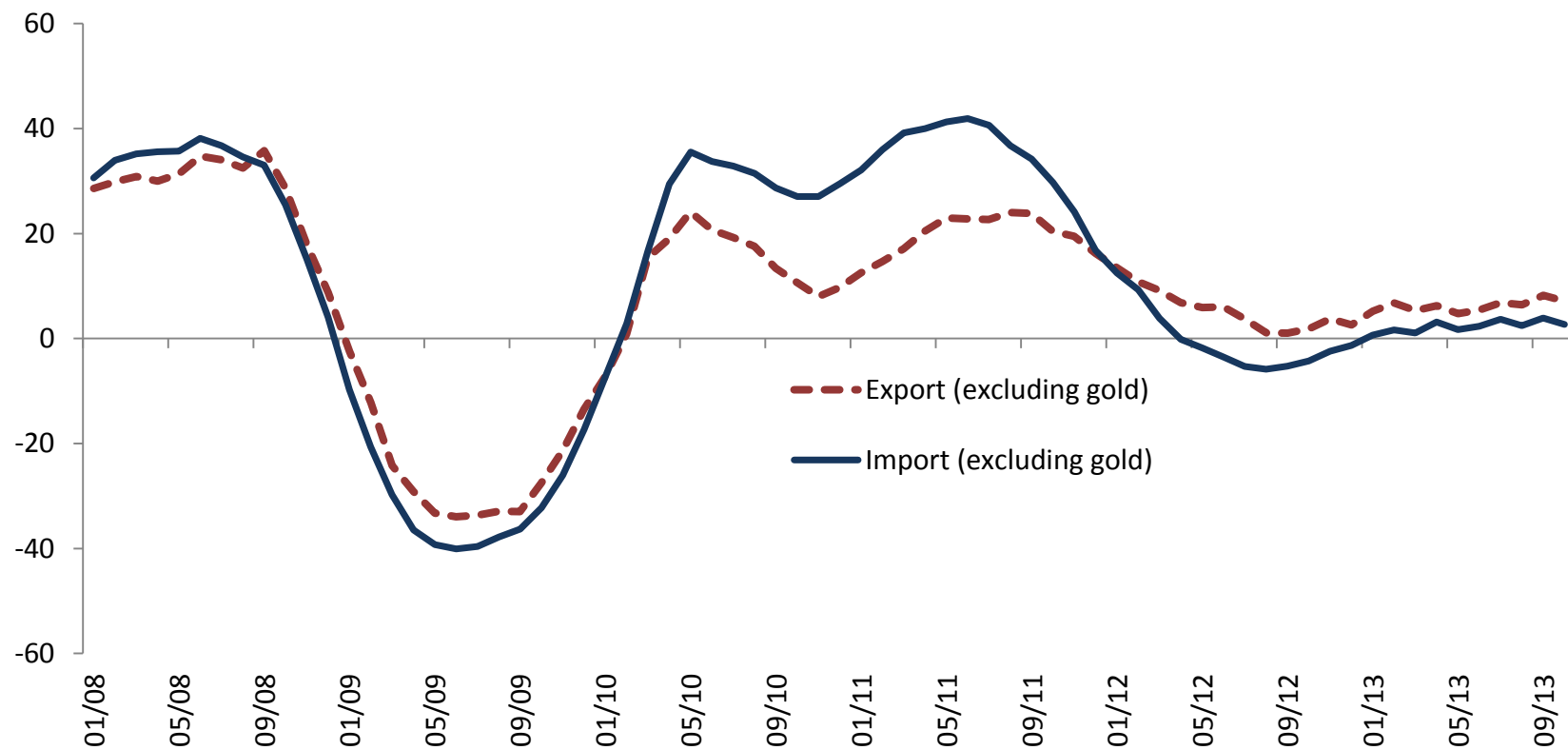


Source: TURKSTAT.

Last Observation: October 2013.

Excluding gold trade, exports continue to grow faster than imports...

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

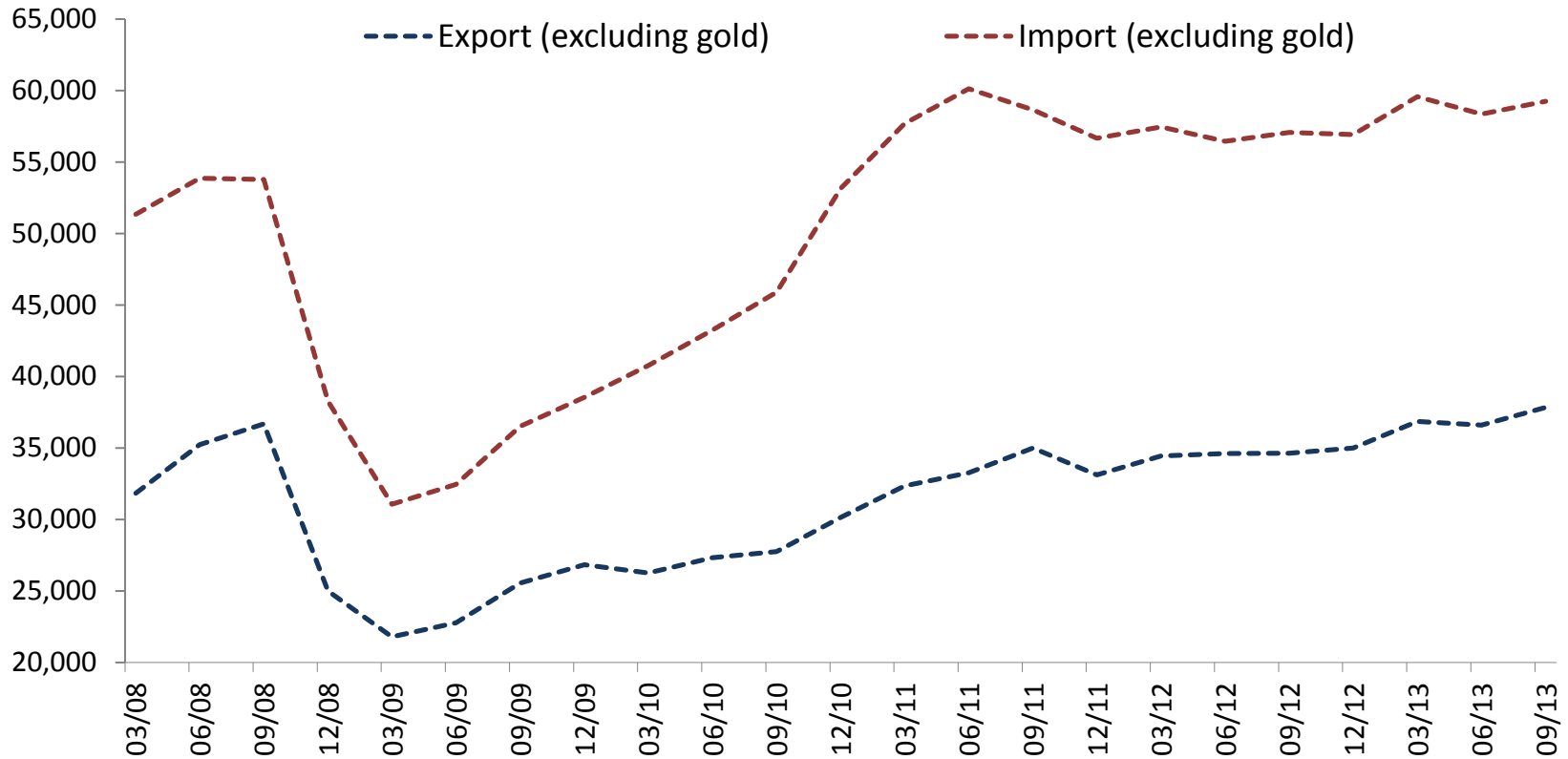


Source: TURKSTAT.

Last Observation: October 2013.

... and rebalancing can also be seen in recent levels.

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

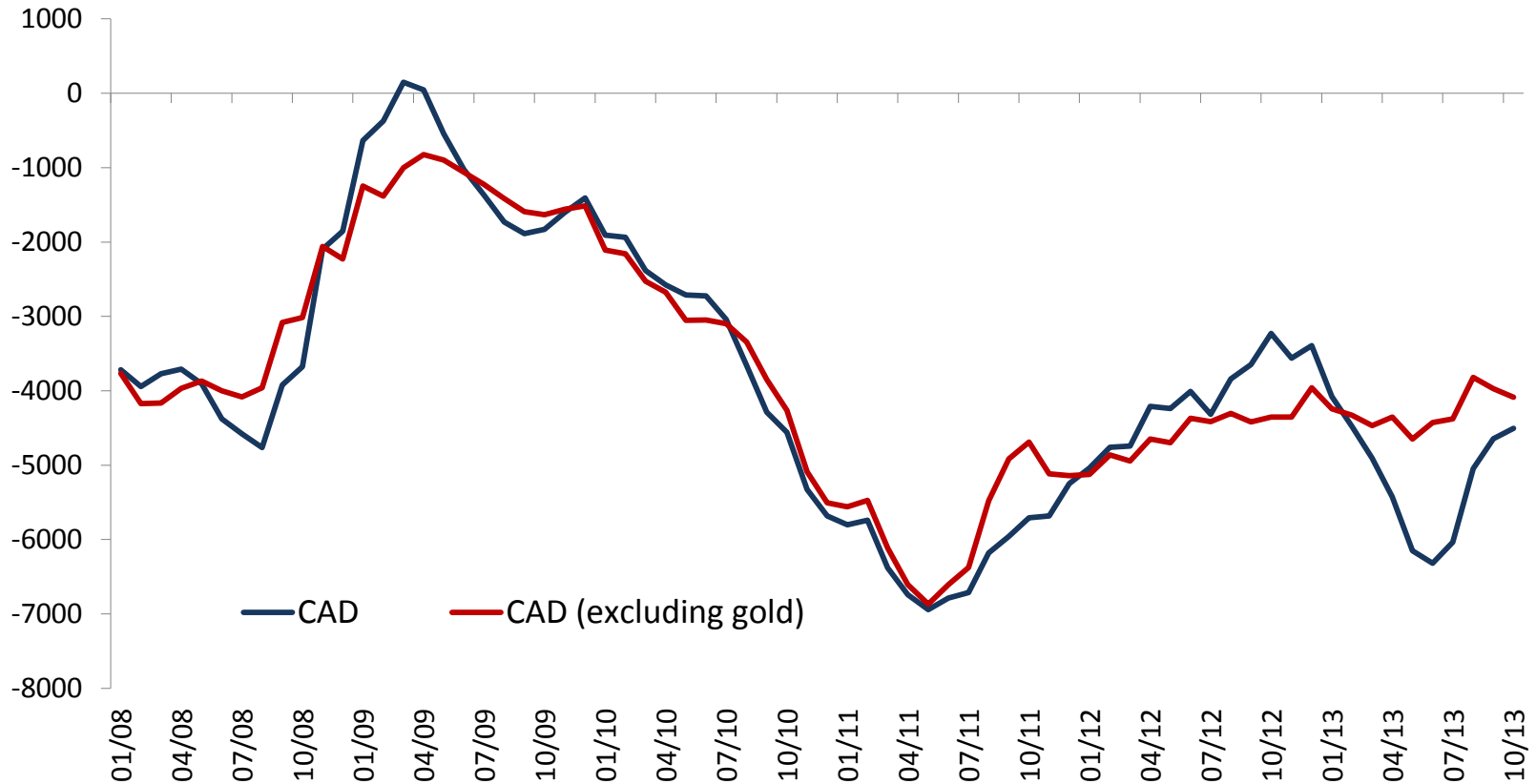


Source: TURKSTAT, CBRT.

Last Observation: 2013Q3.

As a result, current account deficit excluding gold has maintained its improvement in recent months.

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

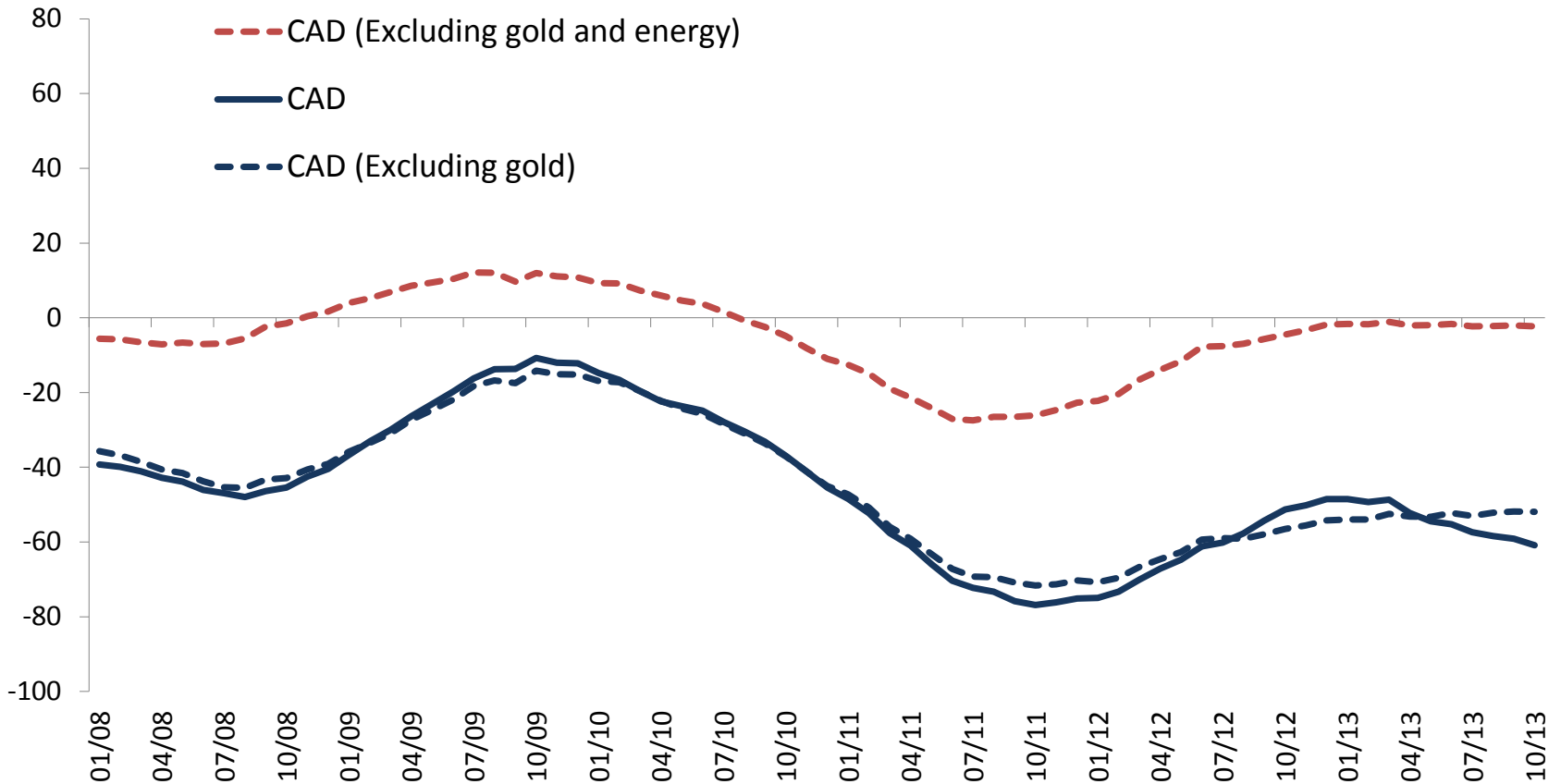


Source: CBRT.

Last Observation: October 2013.

Furthermore, moderate decline in the current account deficit excluding gold is expected to continue.

(12-Month Rolling, Billion USD)

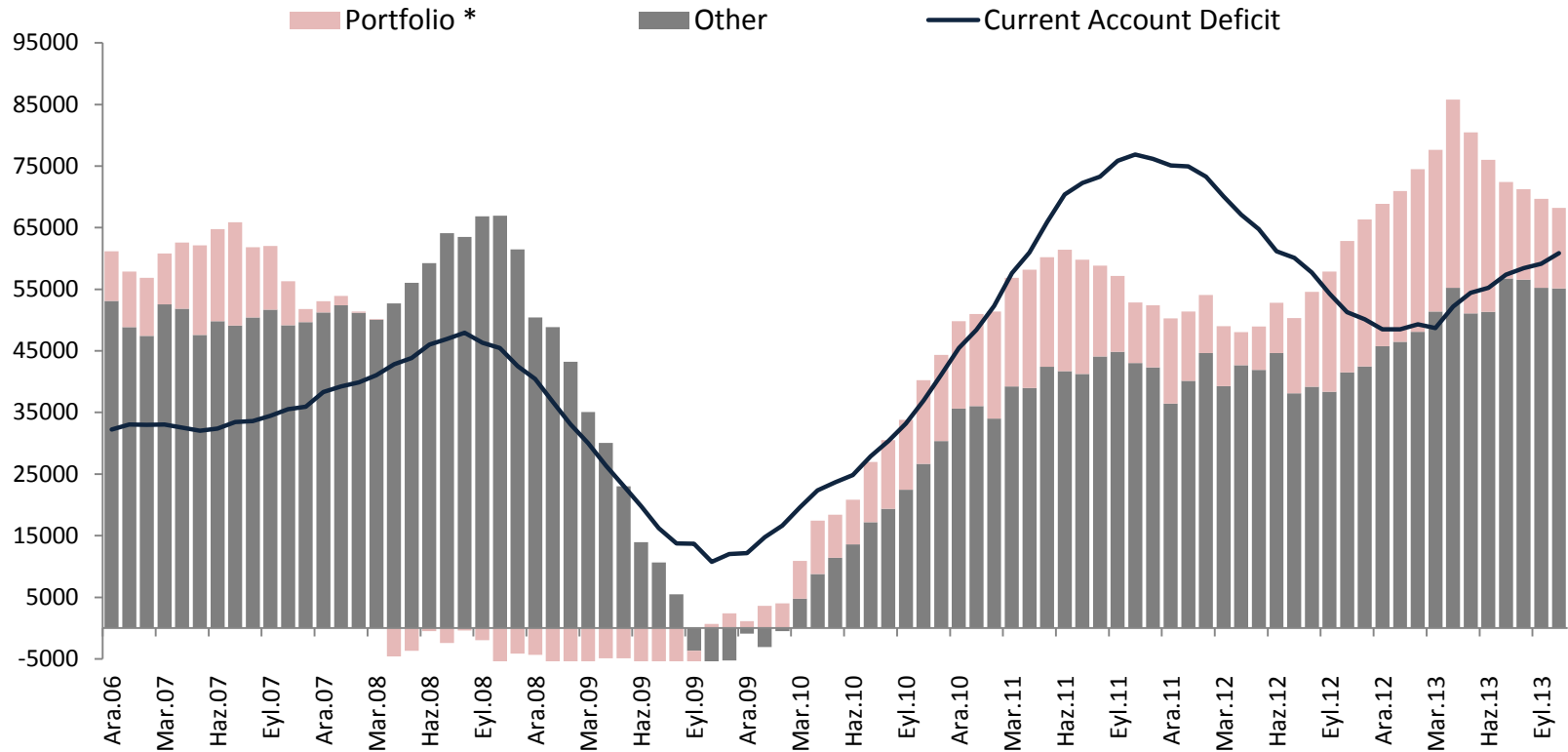


Source: CBRT.

Last Observation: October 2013.

Major source of current account financing maintains its stable outlook despite volatile portfolio flows

(12-months Cumulative, Million USD)



Source: CBRT.

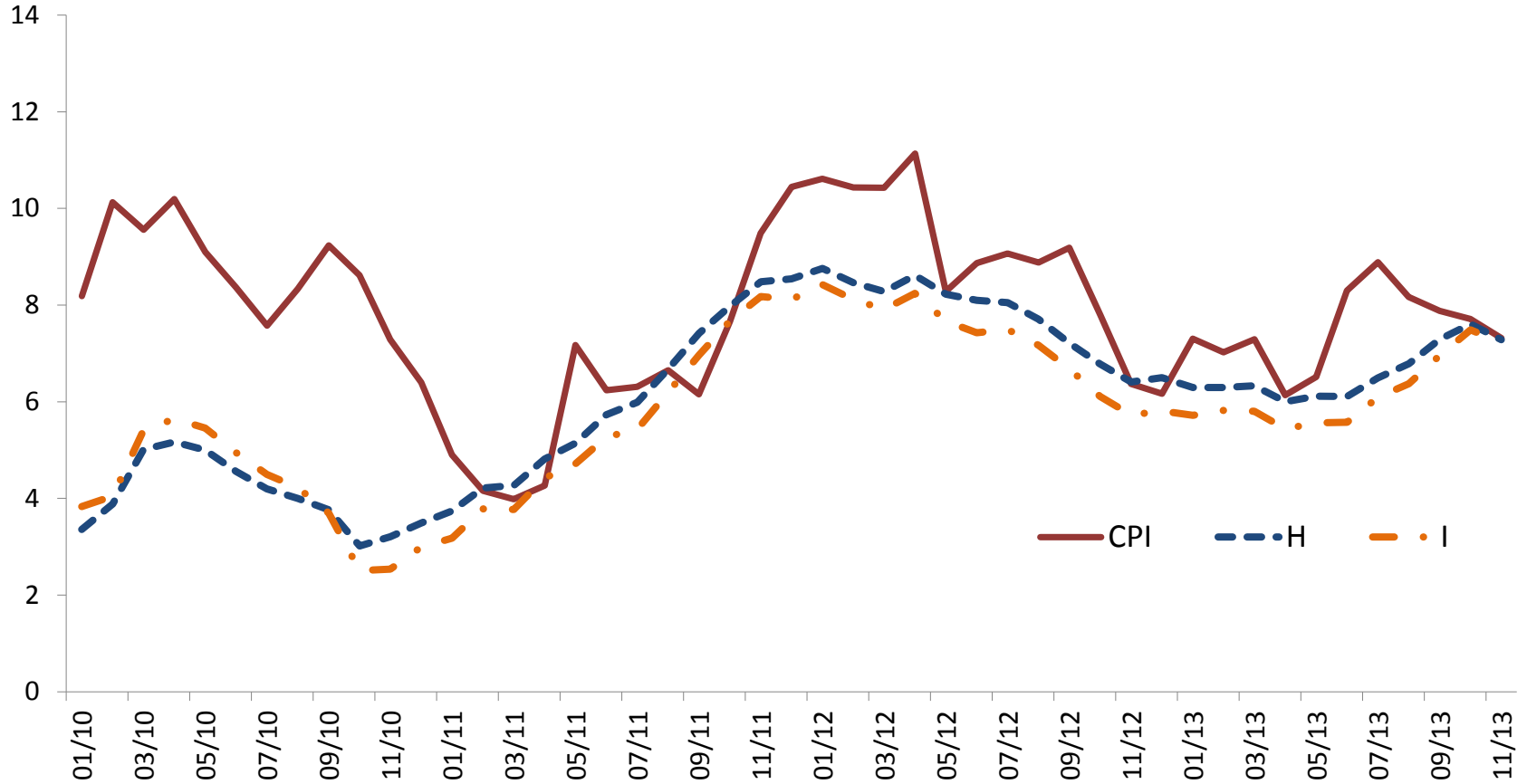
Last Observation: October 2013.

*Portfolio includes equities and domestic government bonds

INFLATION

Both CPI and core inflation declined in November.

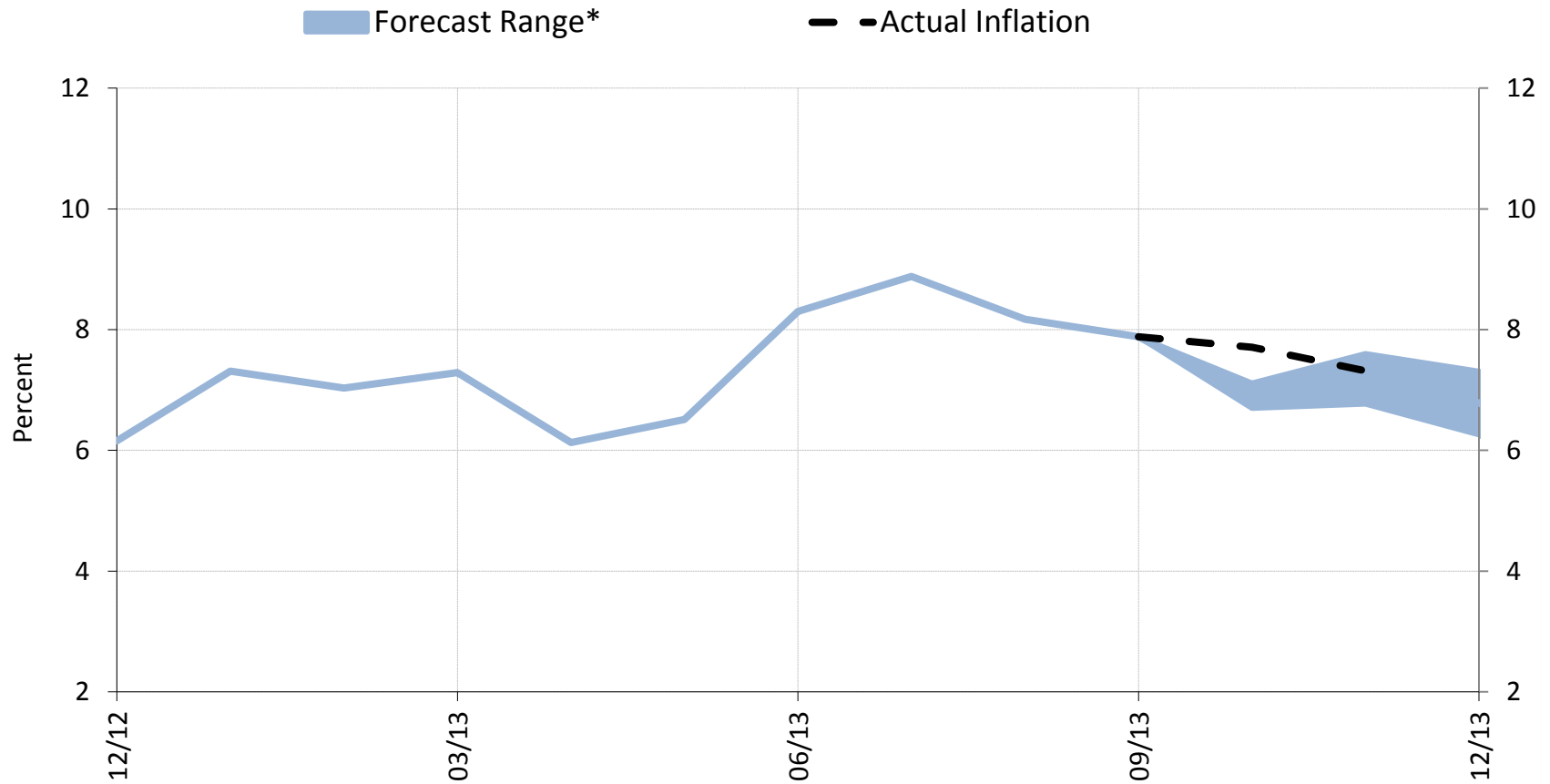
(Annual Percent Change)



Source: TURKSTAT.

Last Observation: November 2013.

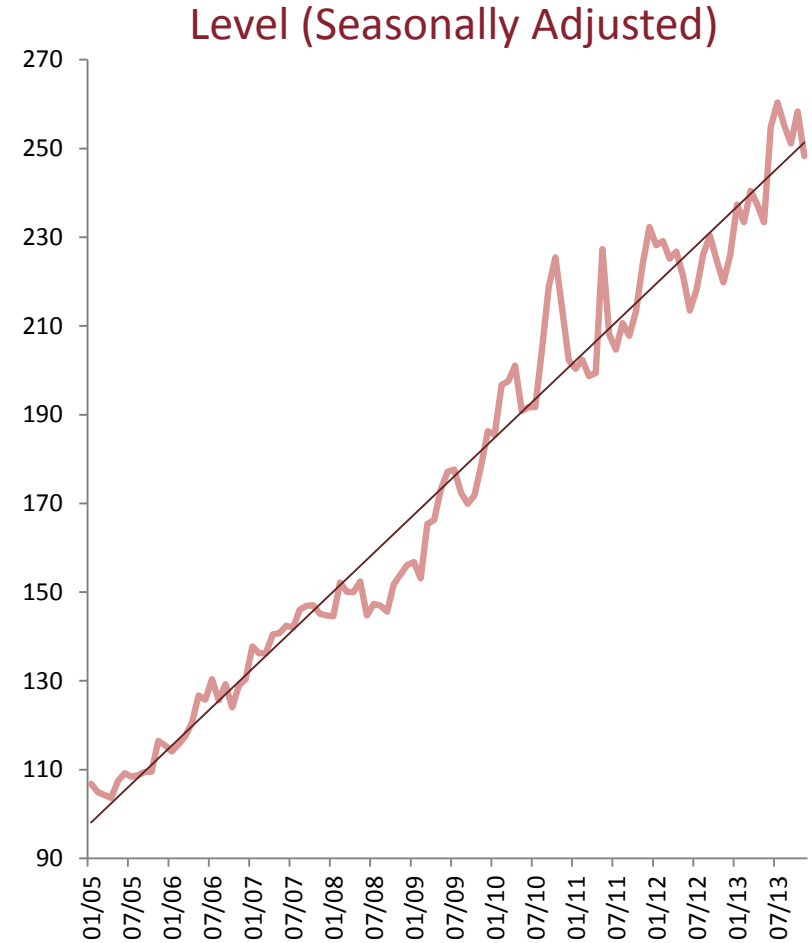
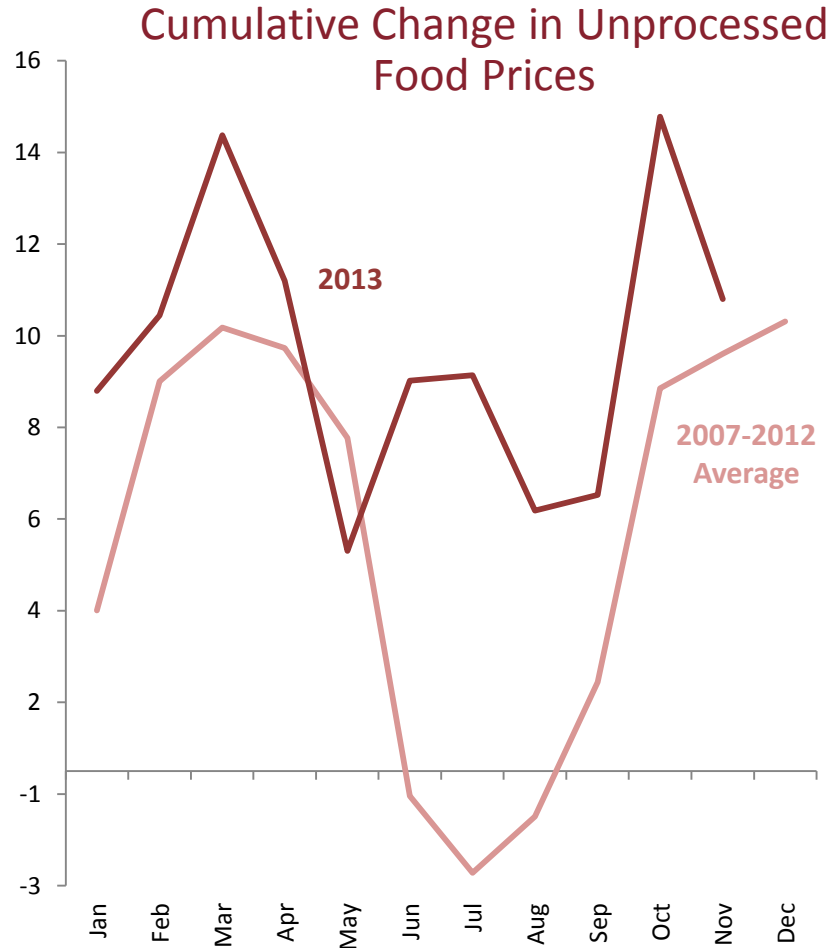
Inflation is now close to the mid-point of inflation report forecast...



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

Last Observation: November 2013.

... owing to the correction in unprocessed food prices.



Source: TURKSTAT, CBRT.

Last Observation: November 2013.

Underlying inflation trends also show improvements.

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

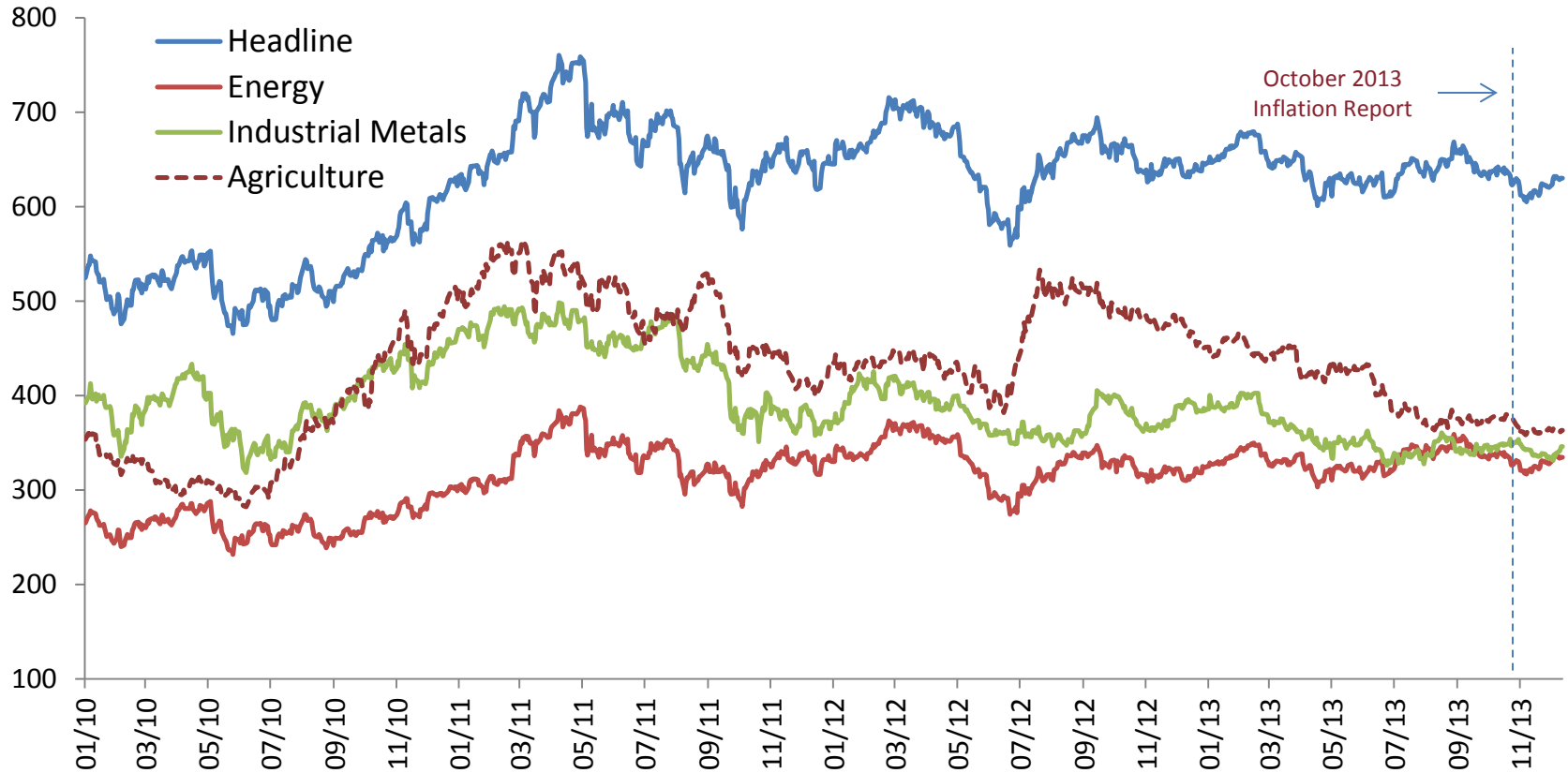


Last Observation: November 2013.

Source: TURKSTAT, CBRT.

Commodity price indices do not point to cost pressures.

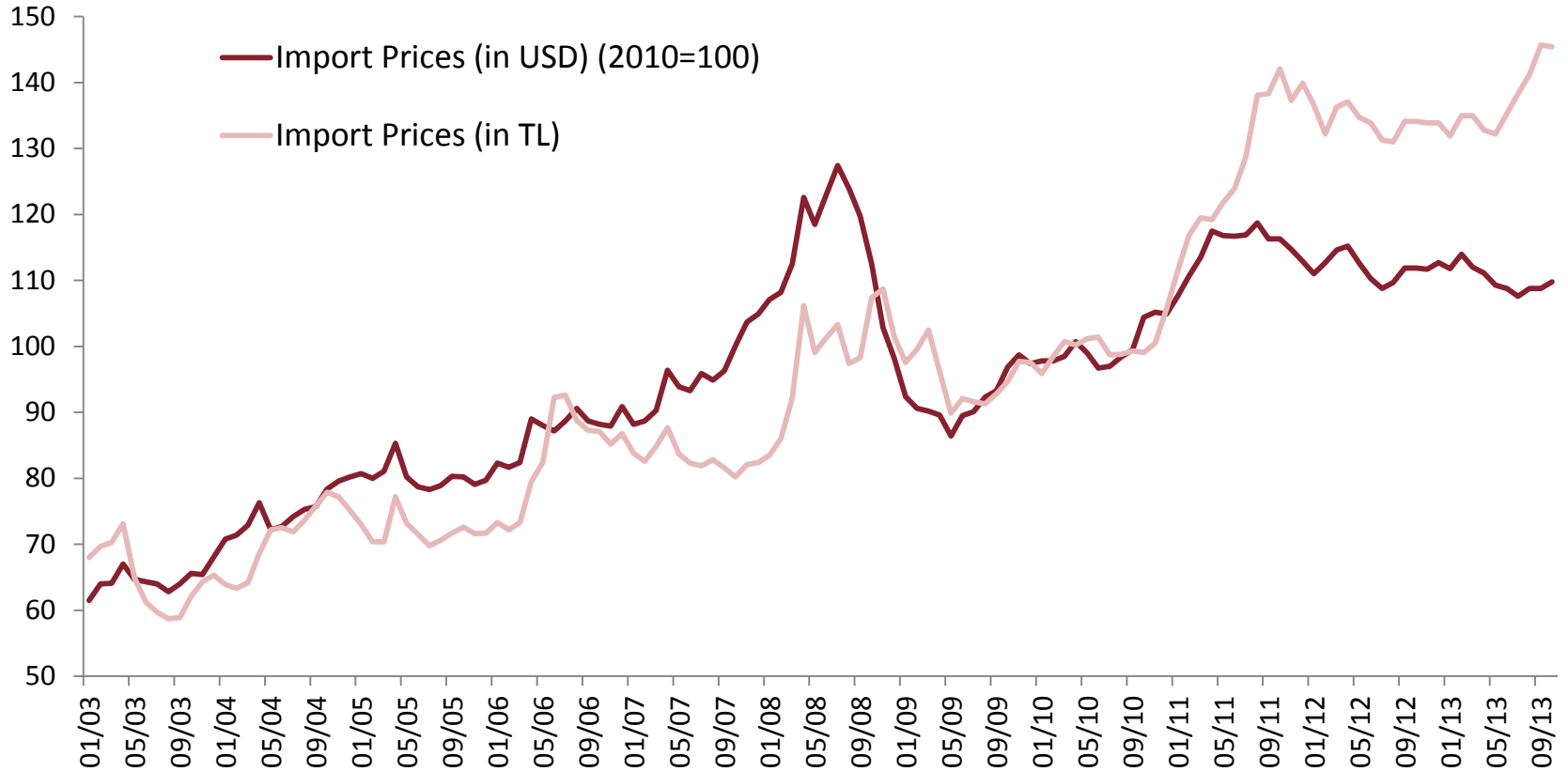
S&P GS Indices



Source: Bloomberg.

Last Observation: December 12, 2013.

Exchange rate pass-through is partly contained by the stable course of import prices.

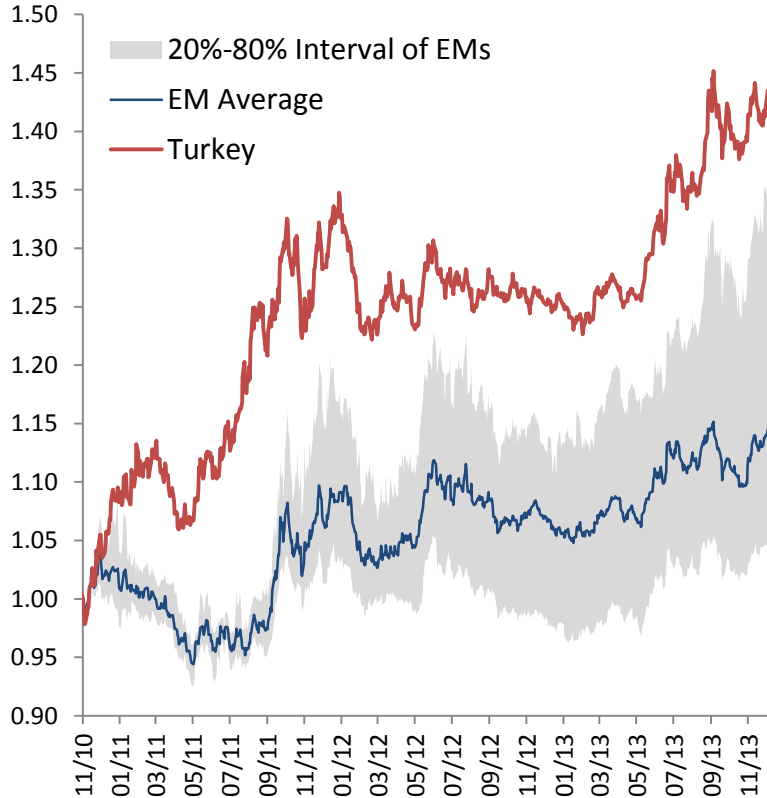


Source: TURKSTAT.

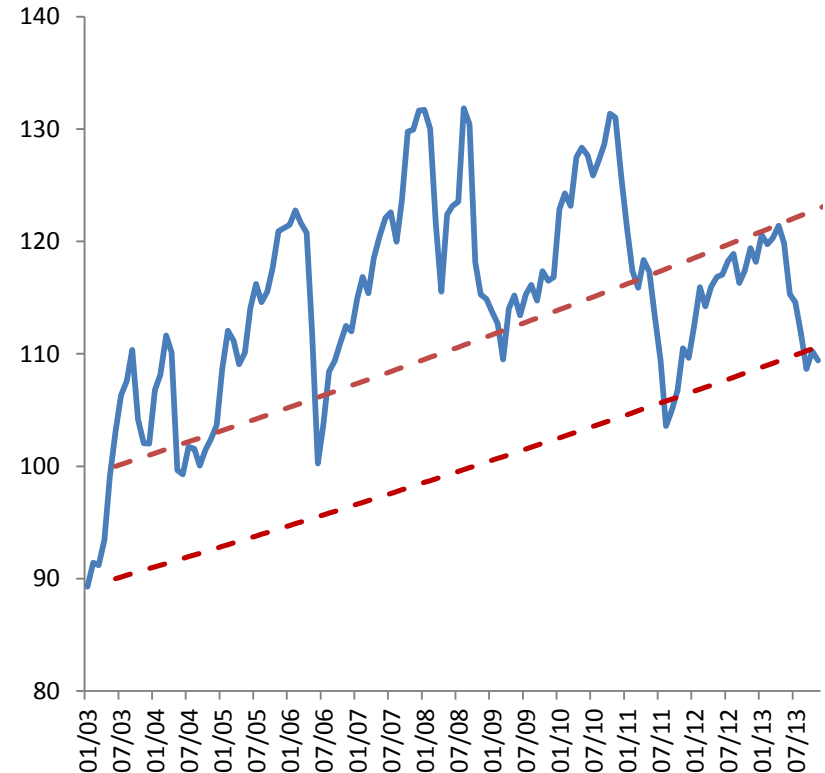
Last Observation: October 2013.

Both nominal and real exchange rates depreciated during the recent financial turmoil.

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



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



Last Observation: December 11, 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.

Source: CBRT.

Dotted lines represent 2 percent trends for May 2003=100 or May 2003=90.

Inflation expectations show signs of stabilization.



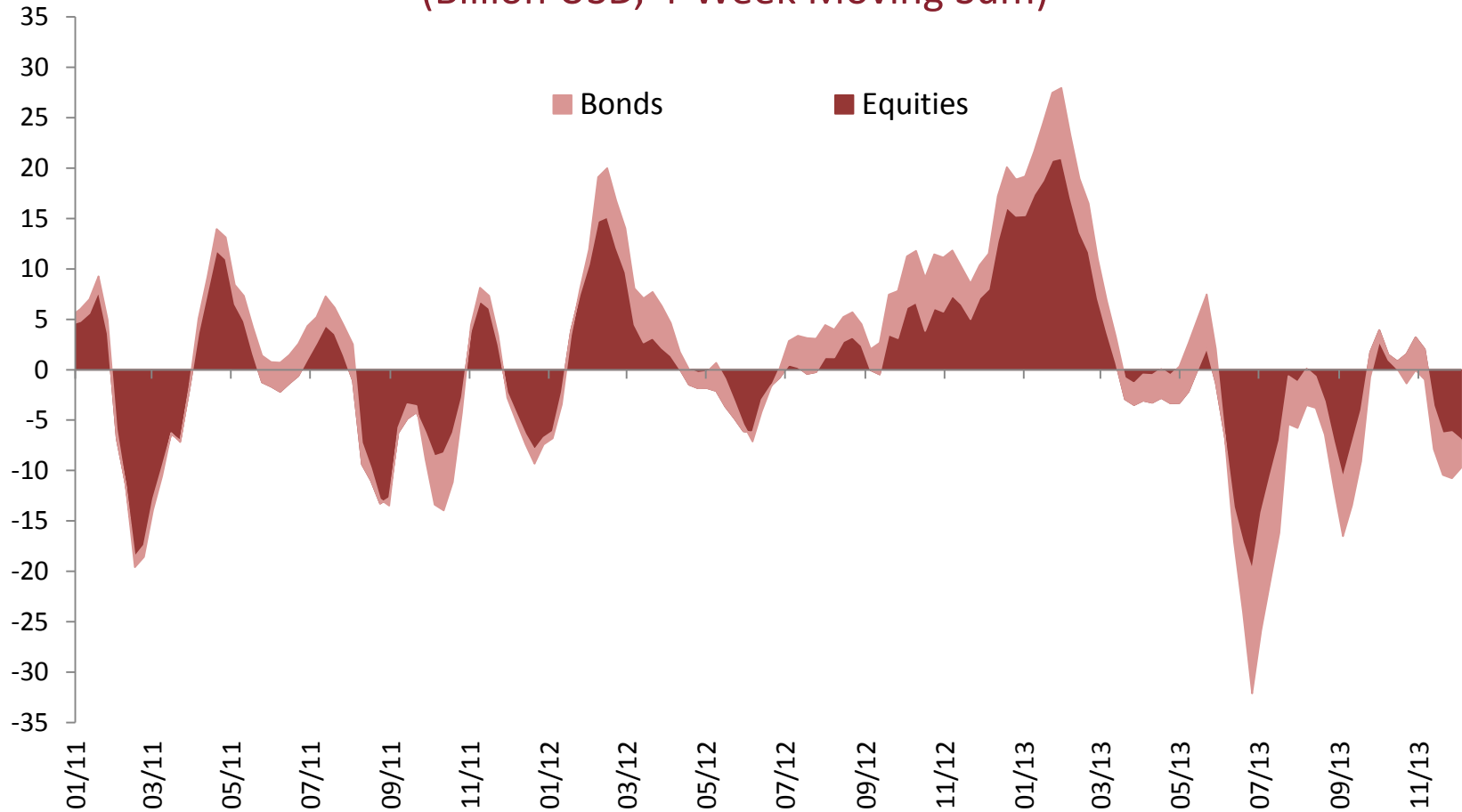
Source: CBRT.

Last Observation: December 2013.

Monetary and Financial Conditions

Capital flows to Emerging Markets continue to be weak.

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

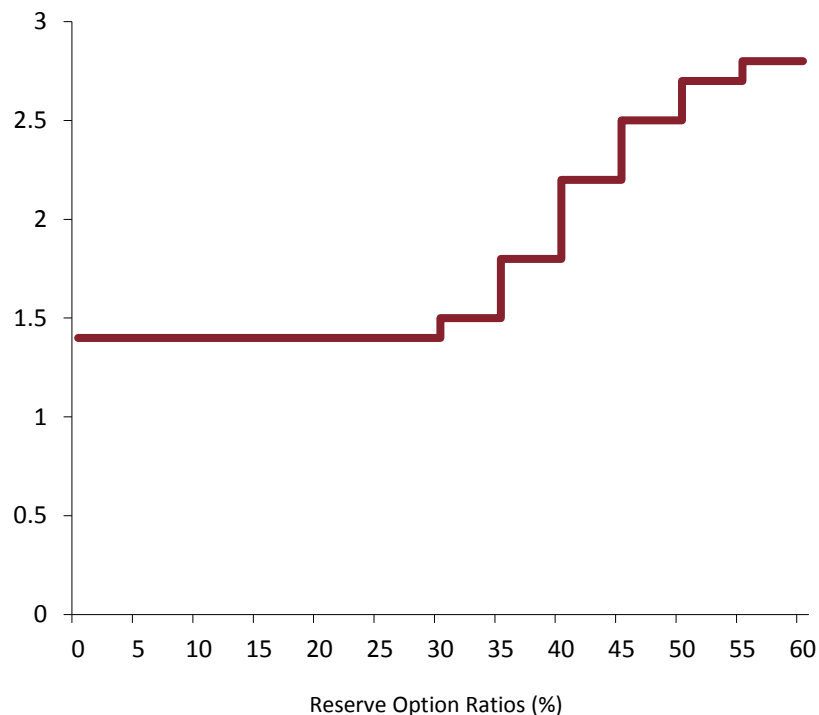


Source: EPFR.

Last Observation: December 04, 2013.

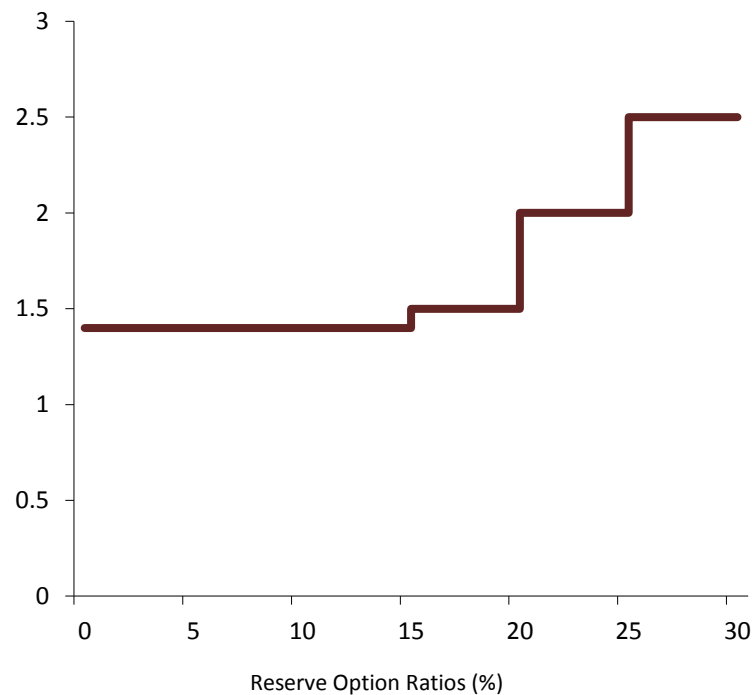
Reserve Options Coefficients (ROC) have been kept on hold since May...

Reserve Option Coefficients for FX



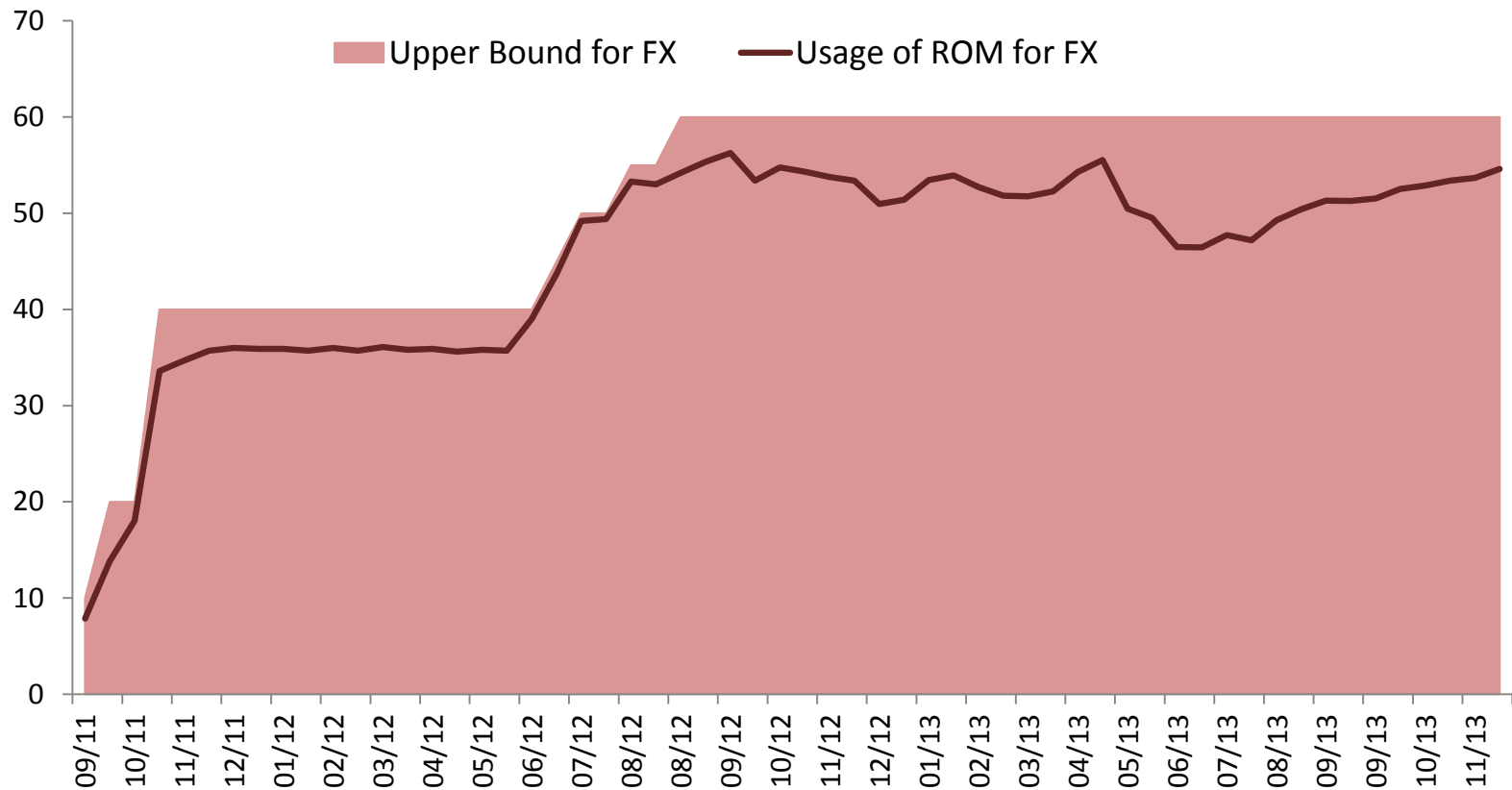
Source: CBRT.

Reserve Option Coefficients for Gold



Source: CBRT.

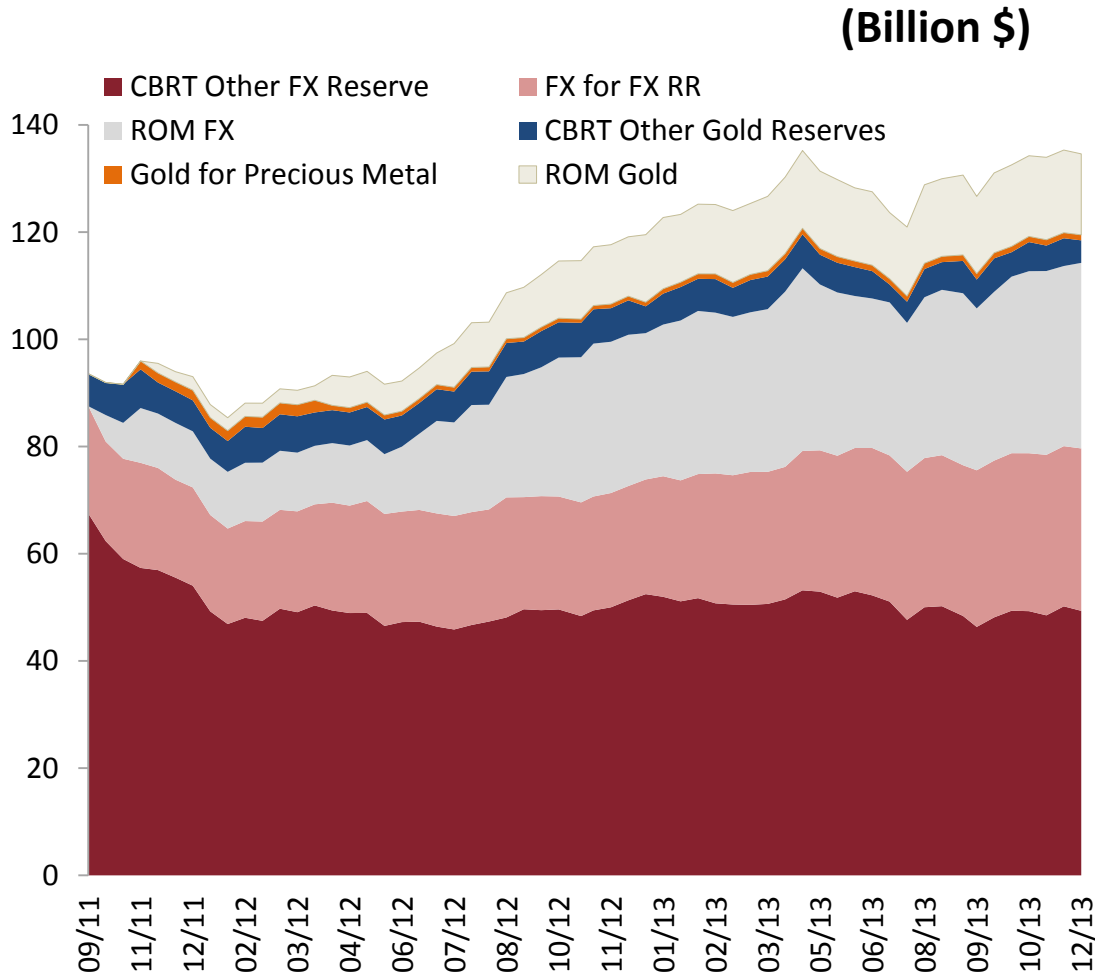
... but the utilization ratio for ROM has fluctuated.



Source: CBRT.

Last Observation: December 06, 2013.

FX sales are used to supply FX liquidity while increases in ROM, FX required reserves and export credits accumulated reserves.



Source: CBRT.

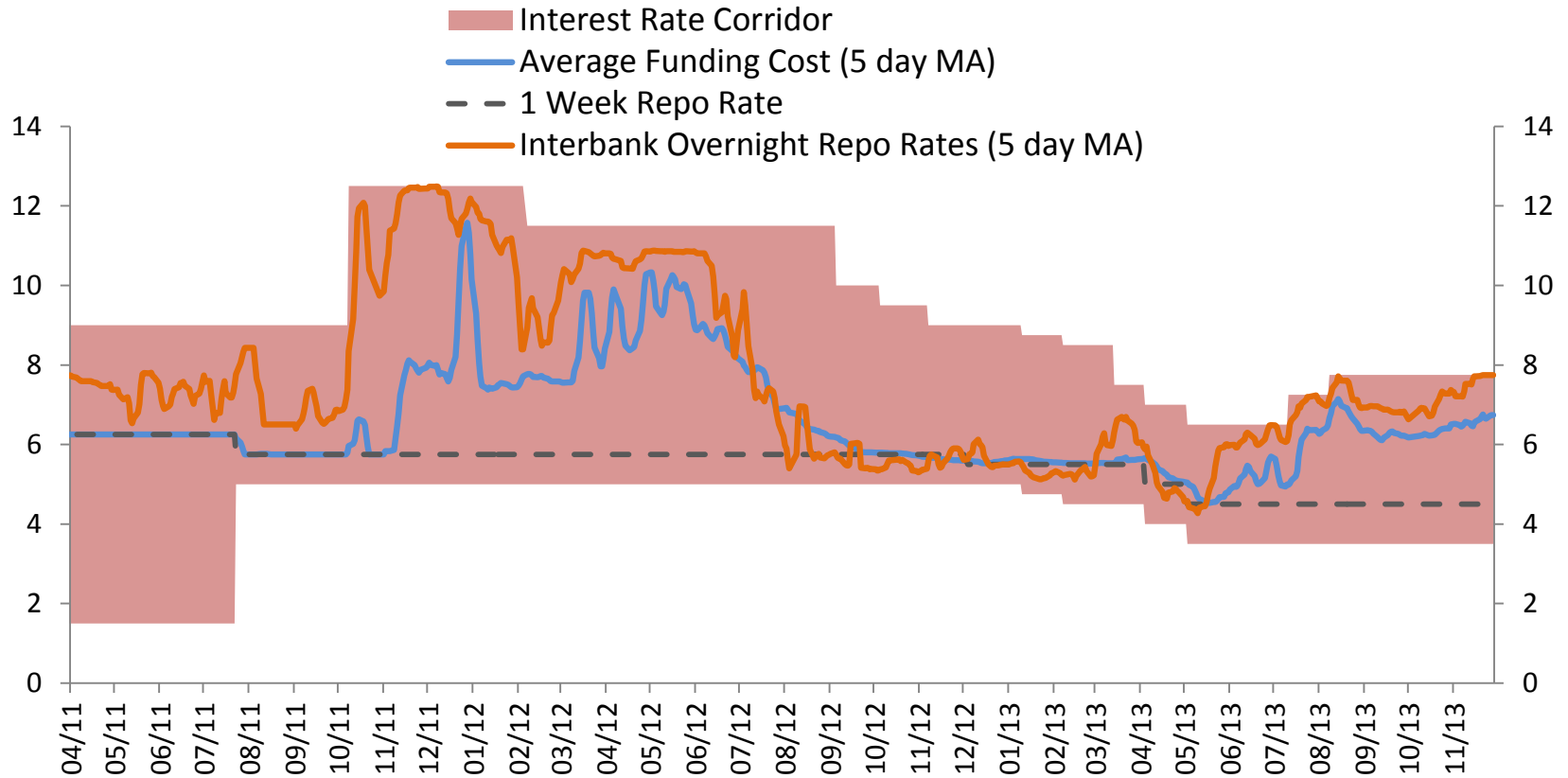
	FX Sales (-)	Export Credit Facility (+)
June 13	1.7	0.83
July 2013	5.15	0.97
August 2013	1.95	1.19
September 2013	1.86	1.15
October 2013	0.84	1.07
November 2013	1.44	1.70
December 2013*	0.67	0.52

ROM FX	34.6
FX Required Reserves	30.3
Total	64.9

*Last Observations: For Reserves December 06, 2013
and for FX Sales December 16, 2013.

Interbank overnight repo rates will materialize close to 7.75% ...

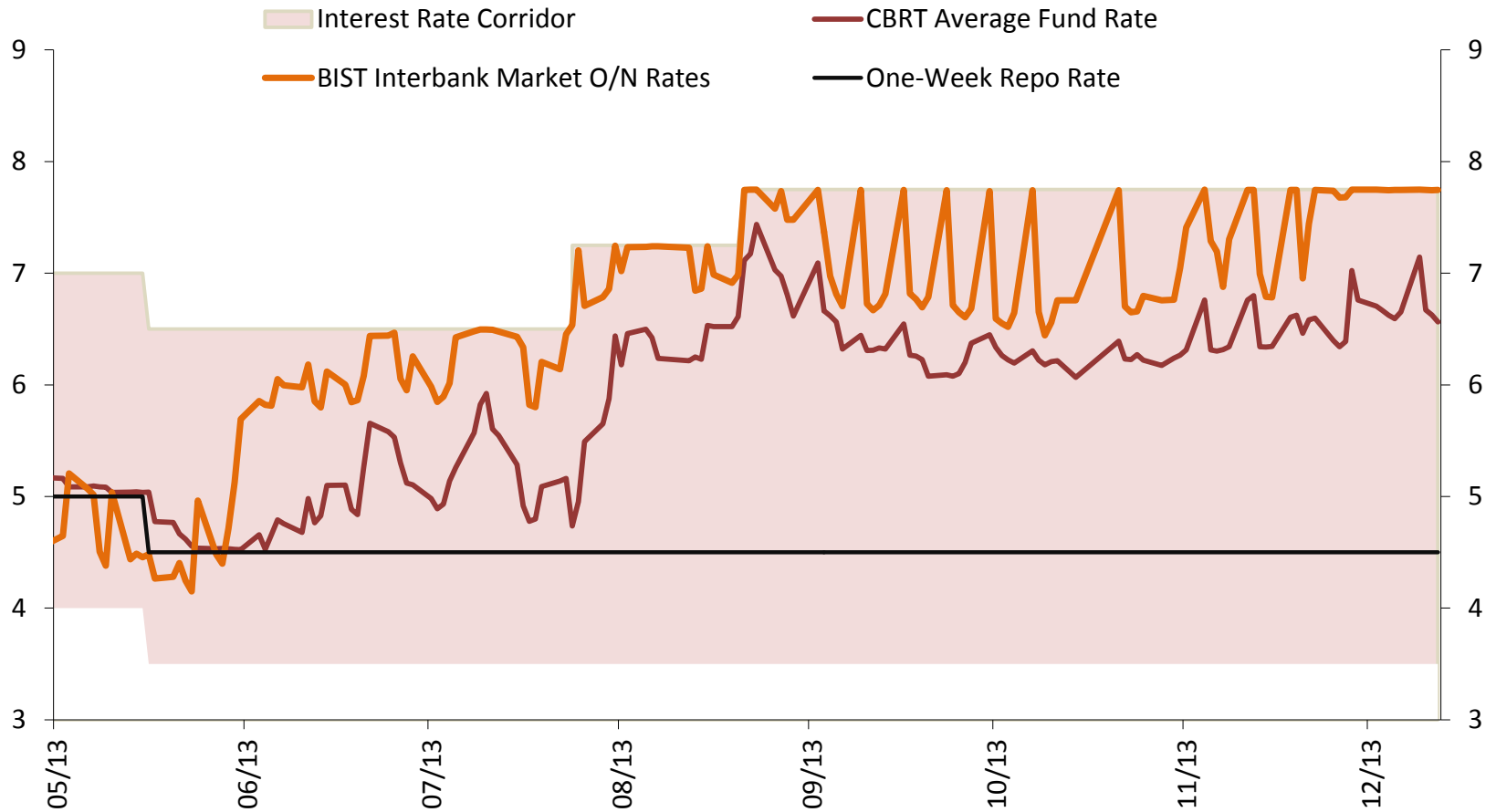
Interest Rate Corridor, Average Funding Rate, and O/N Repo Rates in the Interbank Money Market (Percent)



Source: CBRT.

Last Observation: December 11, 2013.

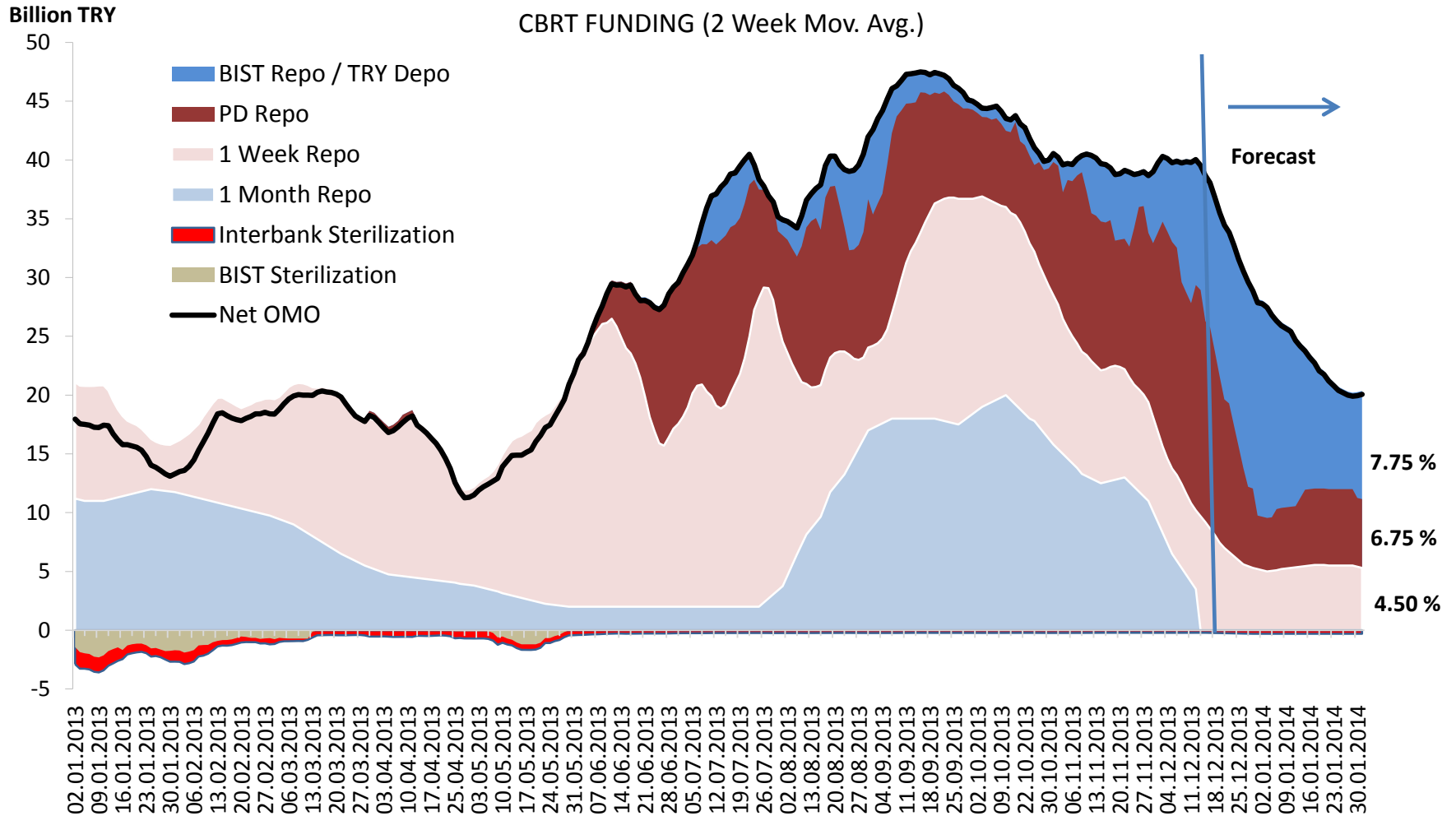
...while the weighted average will hover at 6.75 percent or above in the forthcoming period.



Source: CBRT

Last Observation: December 12, 2013.

Liquidity need of the banking system is expected to fall and a smaller proportion will be financed through primary dealers.

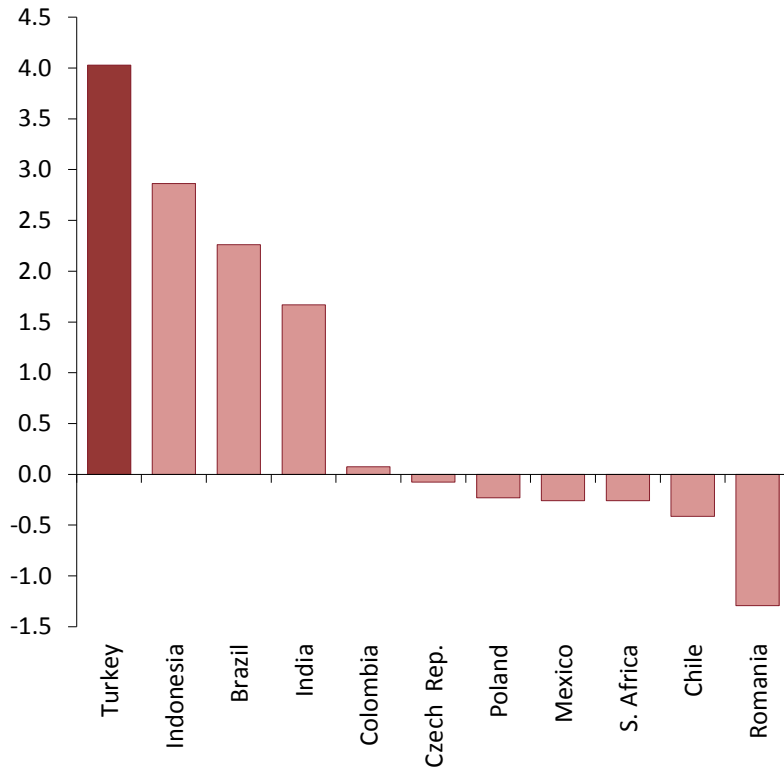


Source: CBRT

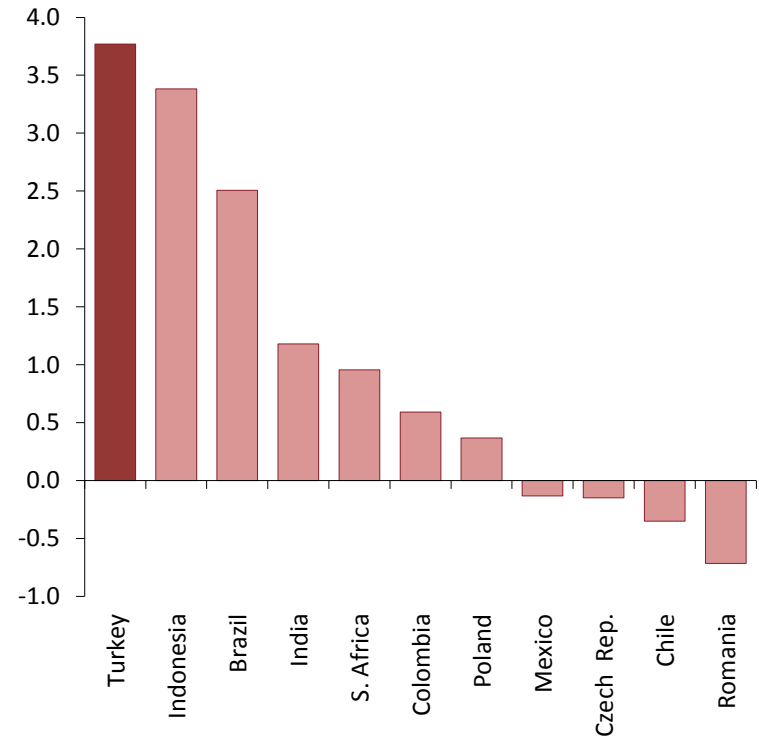
Last Observation: December 16, 2013 .

Interest rates in Turkey increased more than most other emerging countries...

Change in 3-Month Market Rates
(From May 22 to December 12, 2013)

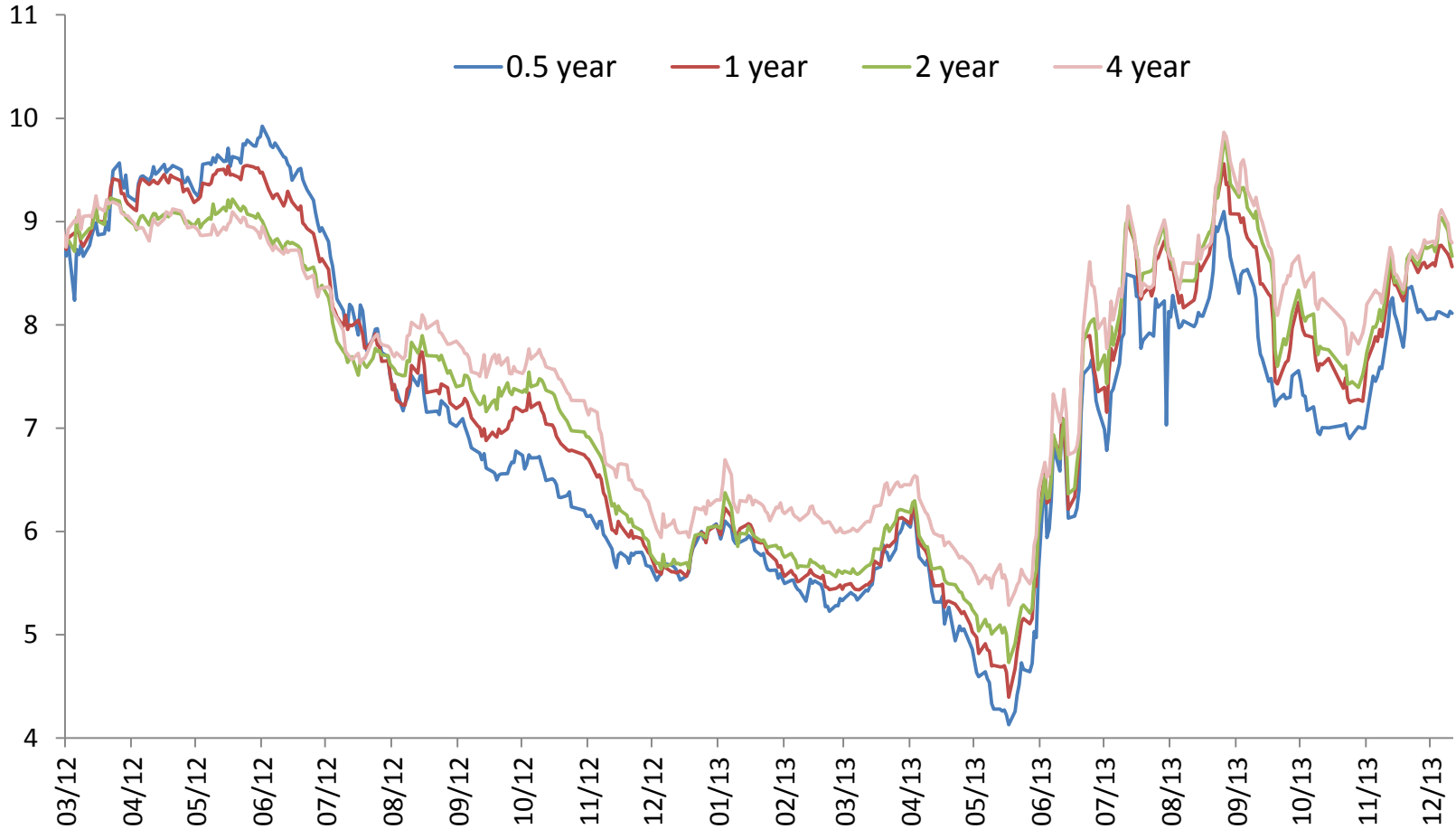


Change in 2-Year Market Rates
(From May 22 to December 12, 2013)



Source: Bloomberg

... and also in a front-loaded manner in all maturities.

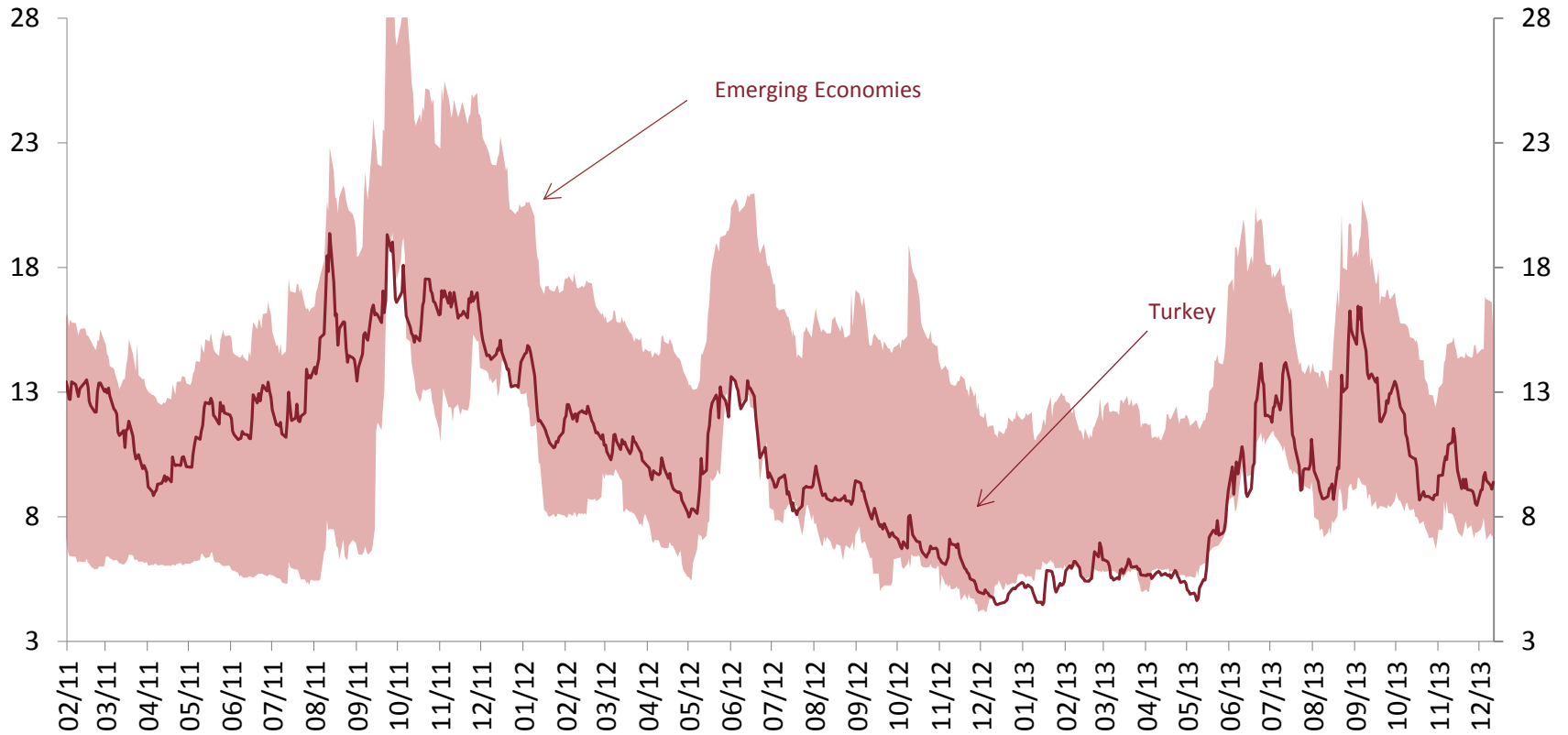


Source: BIST, CBRT.

Last Observation: December 11, 2013.

Implied FX volatility both in absolute and relative terms has improved recently.

(1 month)

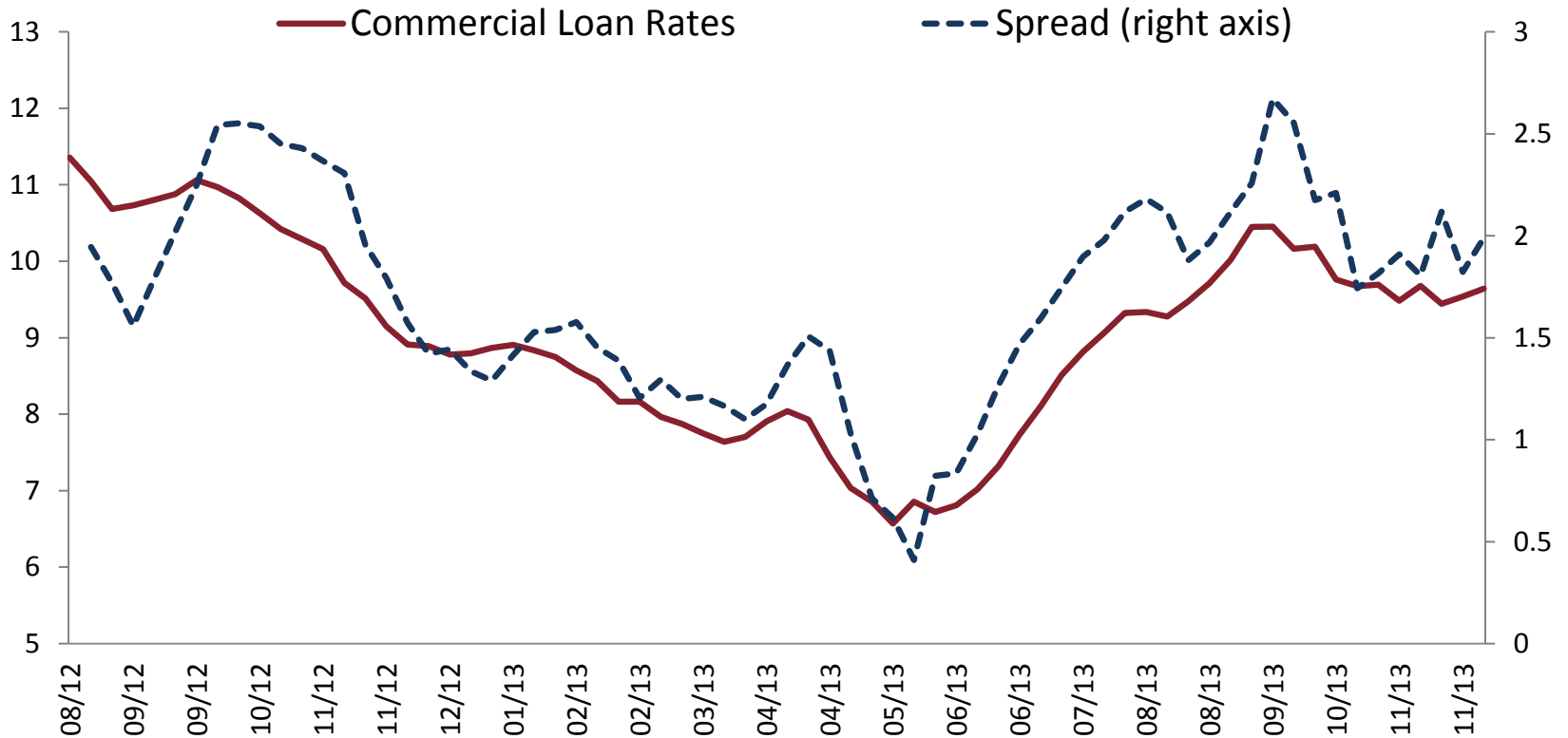


Source: Bloomberg.

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

Last Observation: December 11, 2013.

Commercial loan rates and (commercial loan–deposit) spreads stabilized at higher levels.



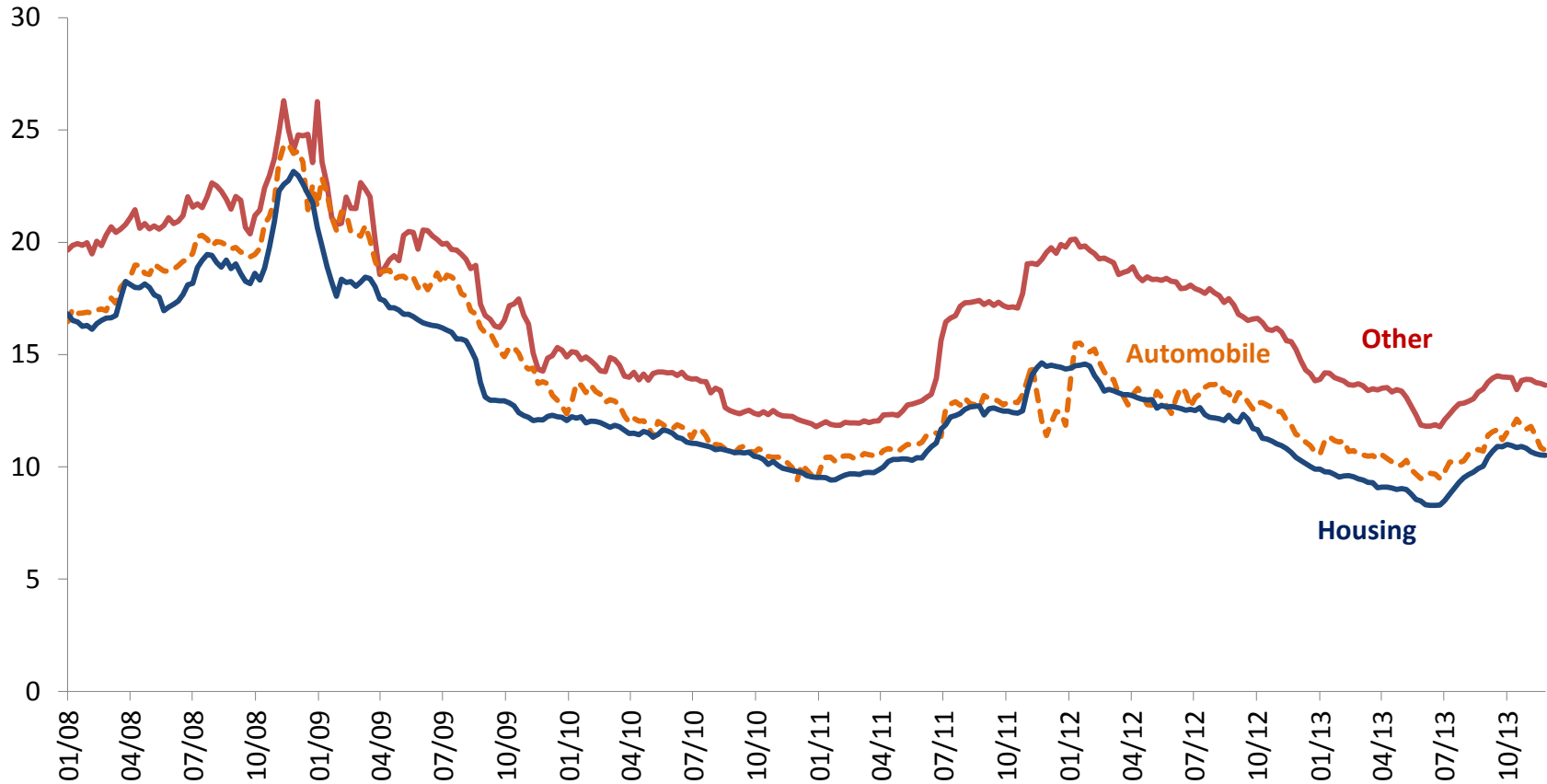
Last Data: November 29, 2013.

4 Weeks MA

Source: CBRT.

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

Consumer loan rates have also increased, thereby tightening the financial conditions.

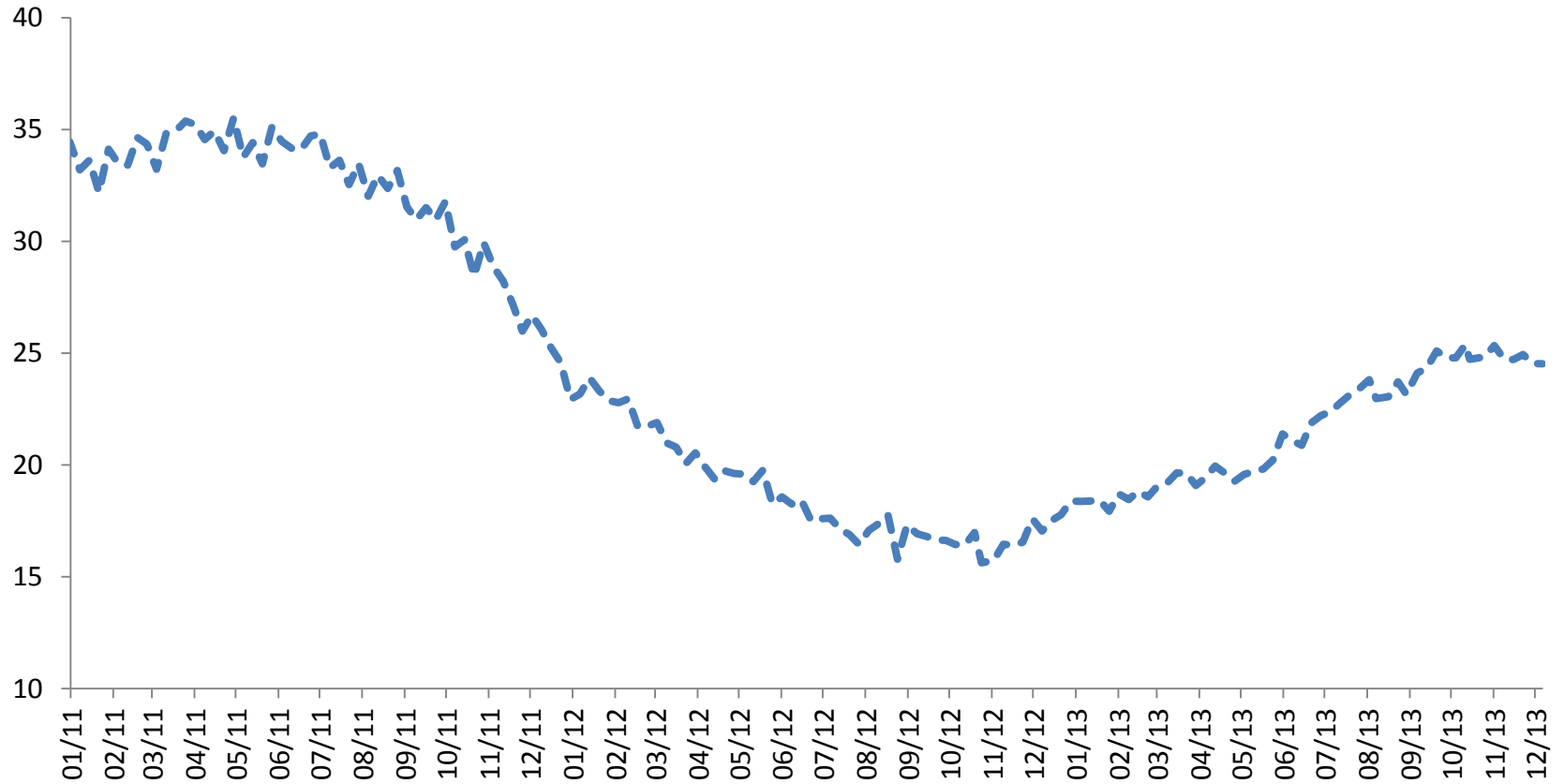


Source: CBRT.

Last Observation: November 29, 2013.

Total loan growth rate has stabilized and is expected to decrease to more reasonable levels...

(Year on Year Change, Percent)



Source: CBRT.

Last Observation: December 06, 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.

... thanks to the cautious monetary policy stance, the announced macroprudential measures , and weak capital flows.

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

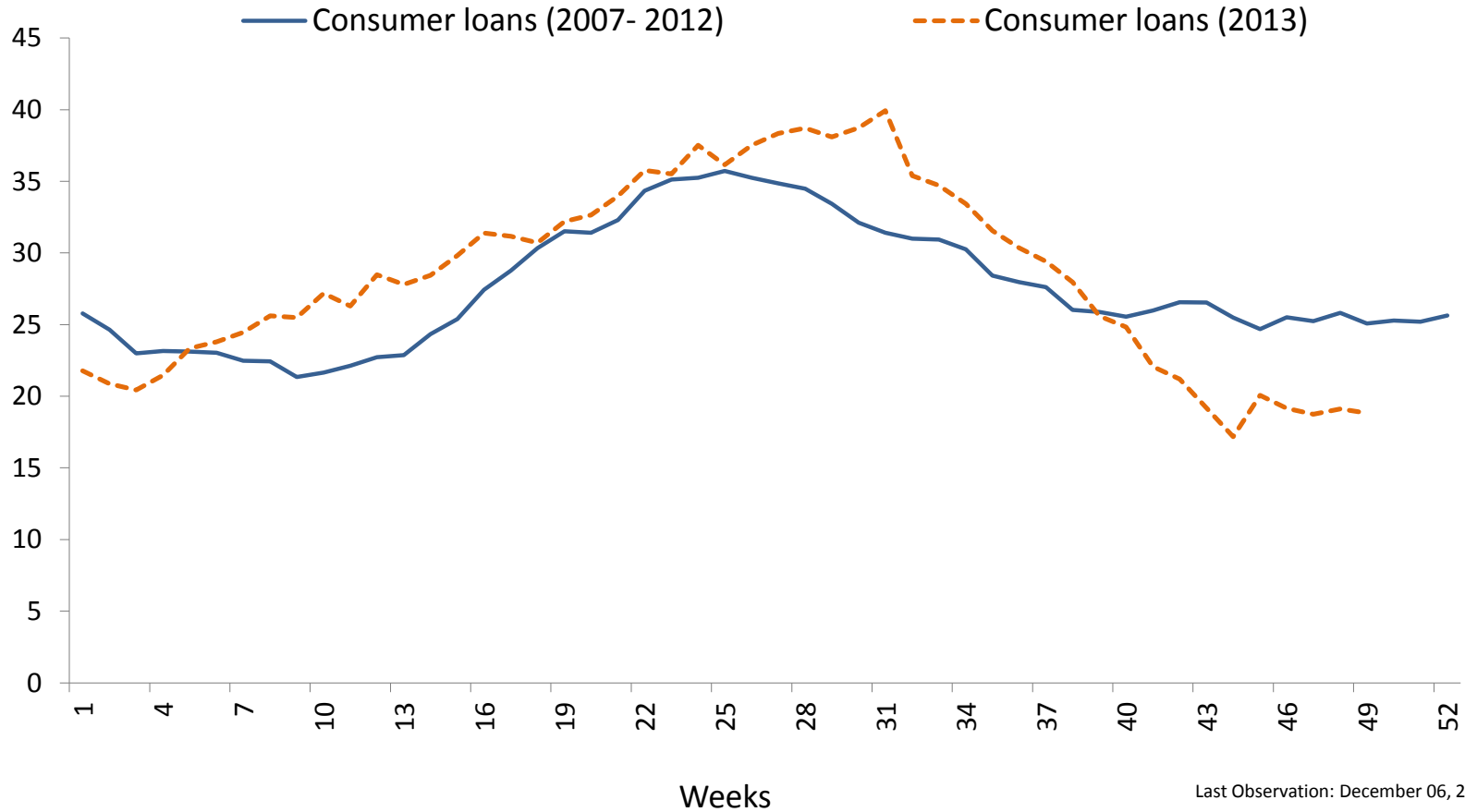


Source: CBRT.

Last Observation: December 06, 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.

The announced macroprudential measures are especially expected to affect the consumer loans.

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



Source: CBRT.

Last Observation: December 06, 2013.
Inclusive of consumer loans extended by all types of banks (deposit banks, participation banks, and development/investment banks).

Overview: Inflation and Monetary Policy

- Inflation is expected to fall further in the forthcoming period. However, core inflation indicators are likely to hover above the target for some time.
- The Committee assessed that the current stance of the monetary policy is appropriate to contain inflationary risks.
- Accordingly, it is indicated that interbank money market rates will materialize close to 7.75 percent and the weighted average cost of funding will materialize at 6.75 percent or above in the forthcoming period.
- The cautious monetary policy stance will be maintained until the inflation outlook is in line with the medium term targets.



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

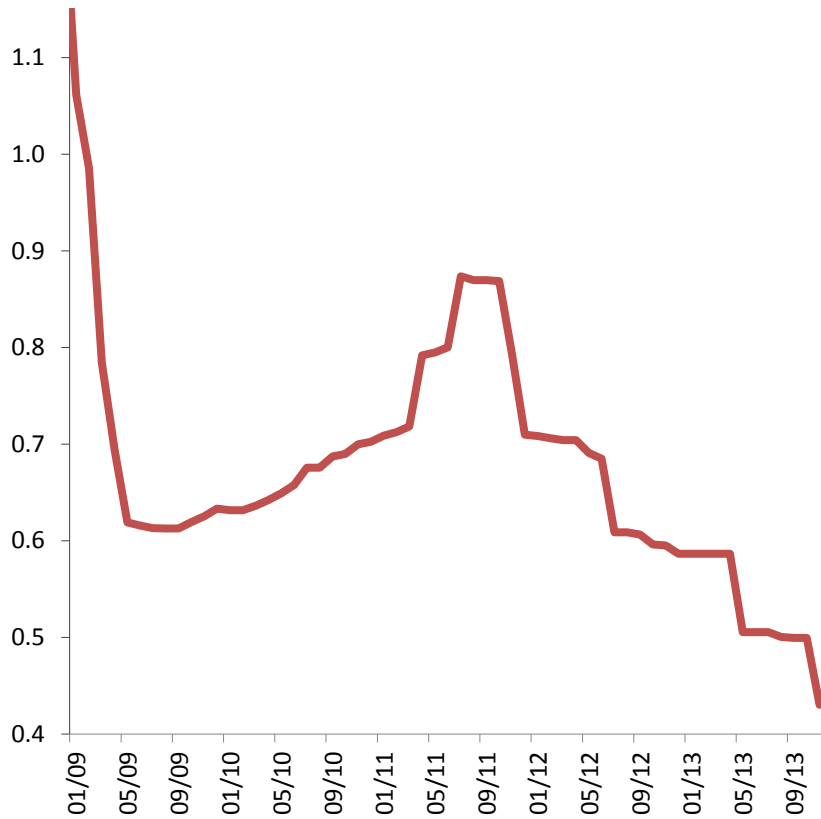
**RECENT DEVELOPMENTS IN TURKISH ECONOMY
AND MONETARY POLICY**

December 18, 2013

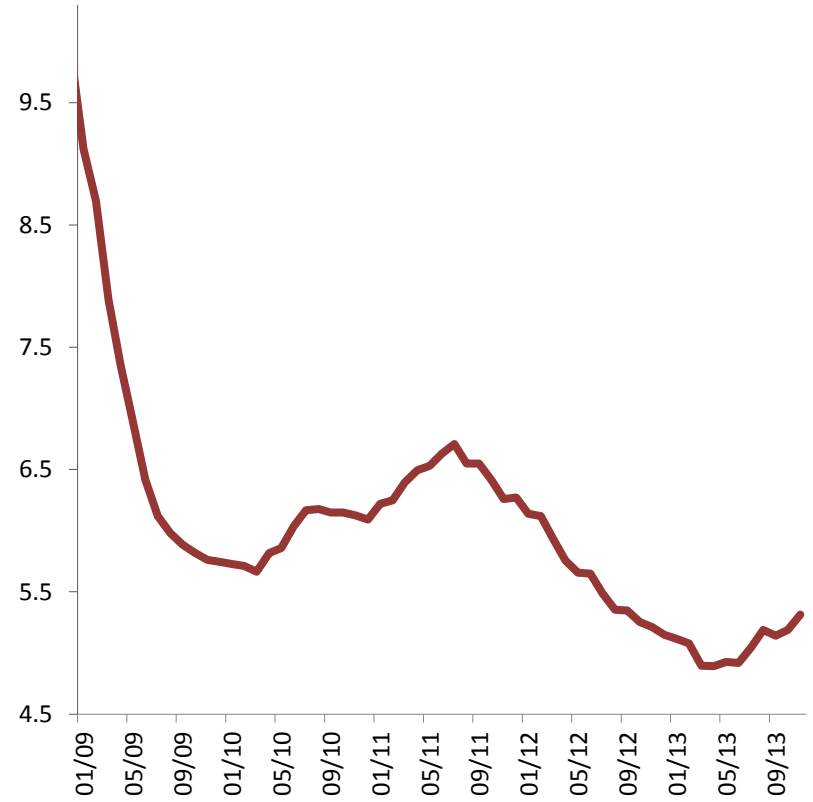
Ankara

Global Policy Rates

Advanced Countries



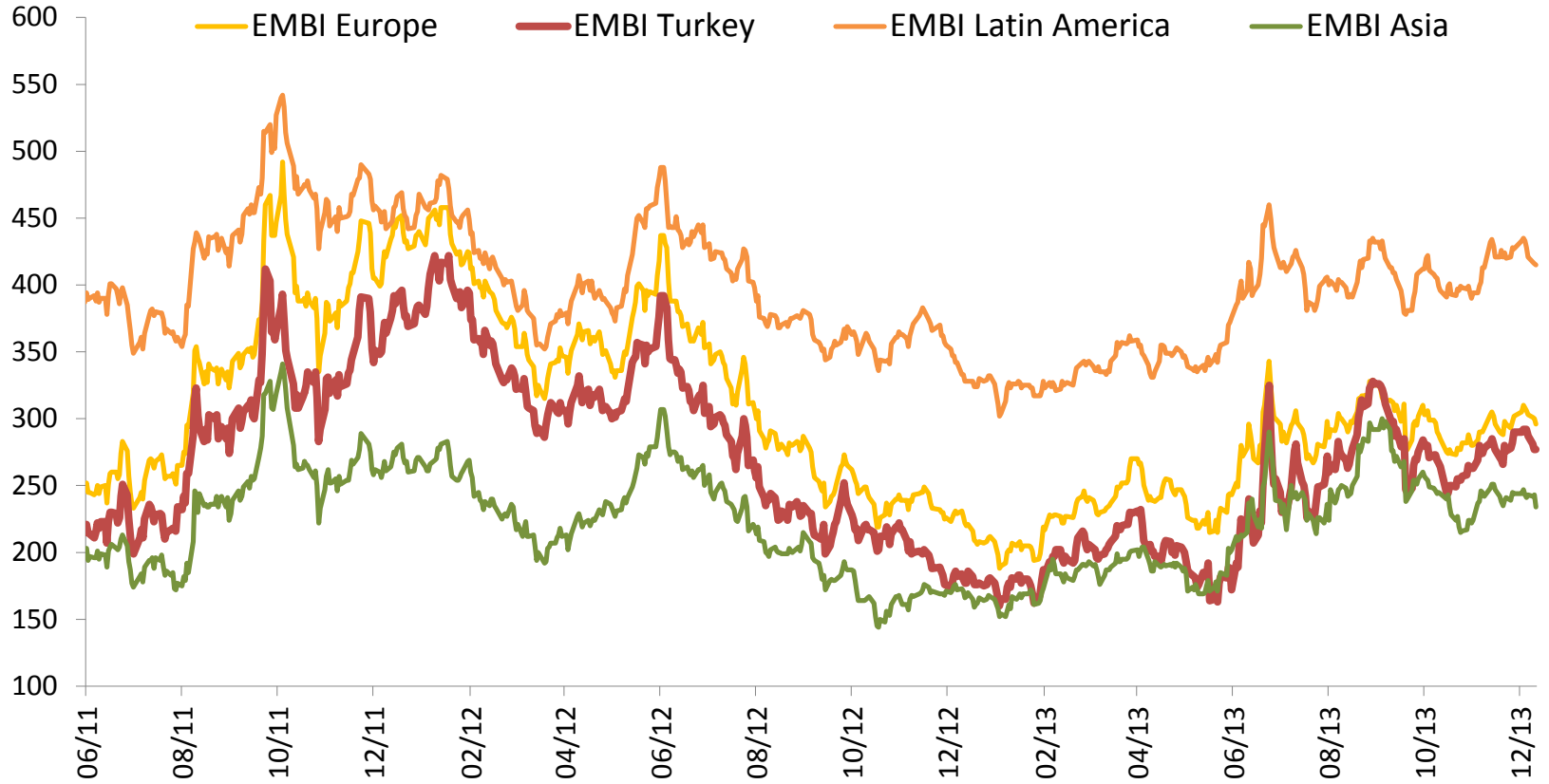
Emerging Countries



Source: Bloomberg.

Last Observation: November 2013.

Risk Premium



Source: Bloomberg.

Last Observation: December 11, 2013.