



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Prudence as a Fuel of Balanced Growth

Erdem BAŞÇI

Governor

Central Bank of the Republic of Turkey

Budapest, September 30, 2015

**Conference of the Hungarian Economic Association and
the Magyar Nemzeti Bank**

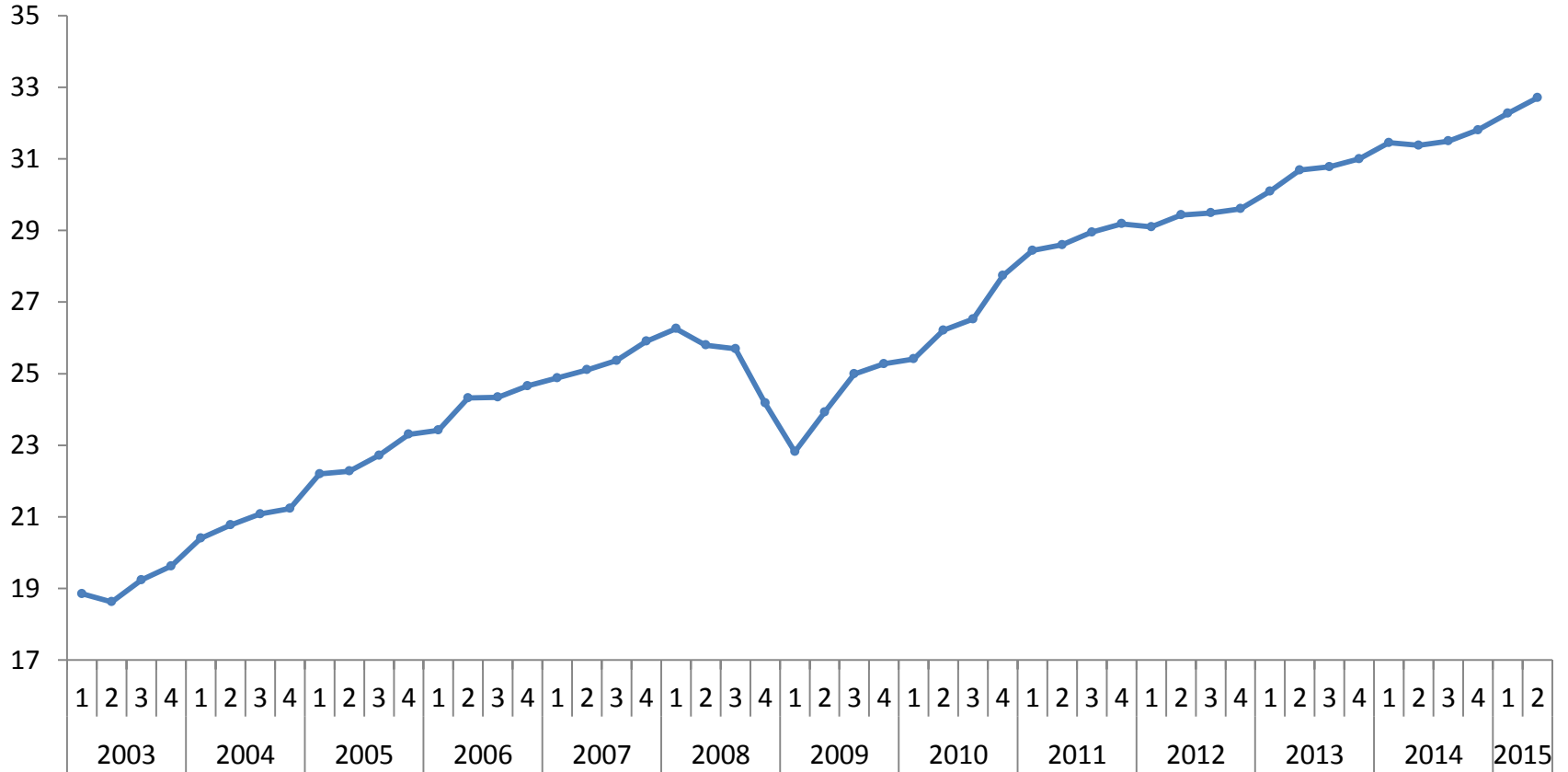
Overview: Prudence as a Fuel of Balanced Growth

- Economic convergence to the European Union is on track.
- Global interest rates have been falling since 1980s.
- Real interest rates in Turkey have been falling since 2001 thanks to prudential policies.
- Macroprudential policies have improved both the pace and the composition of credit.
- Macroprudential policies have been essential in containing the current account deficit.
- The improvement in the current account balance is expected to continue in the forthcoming period.

GDP continues to grow moderately in Turkey.

GDP

(Seasonally adjusted, constant prices, billion TL)

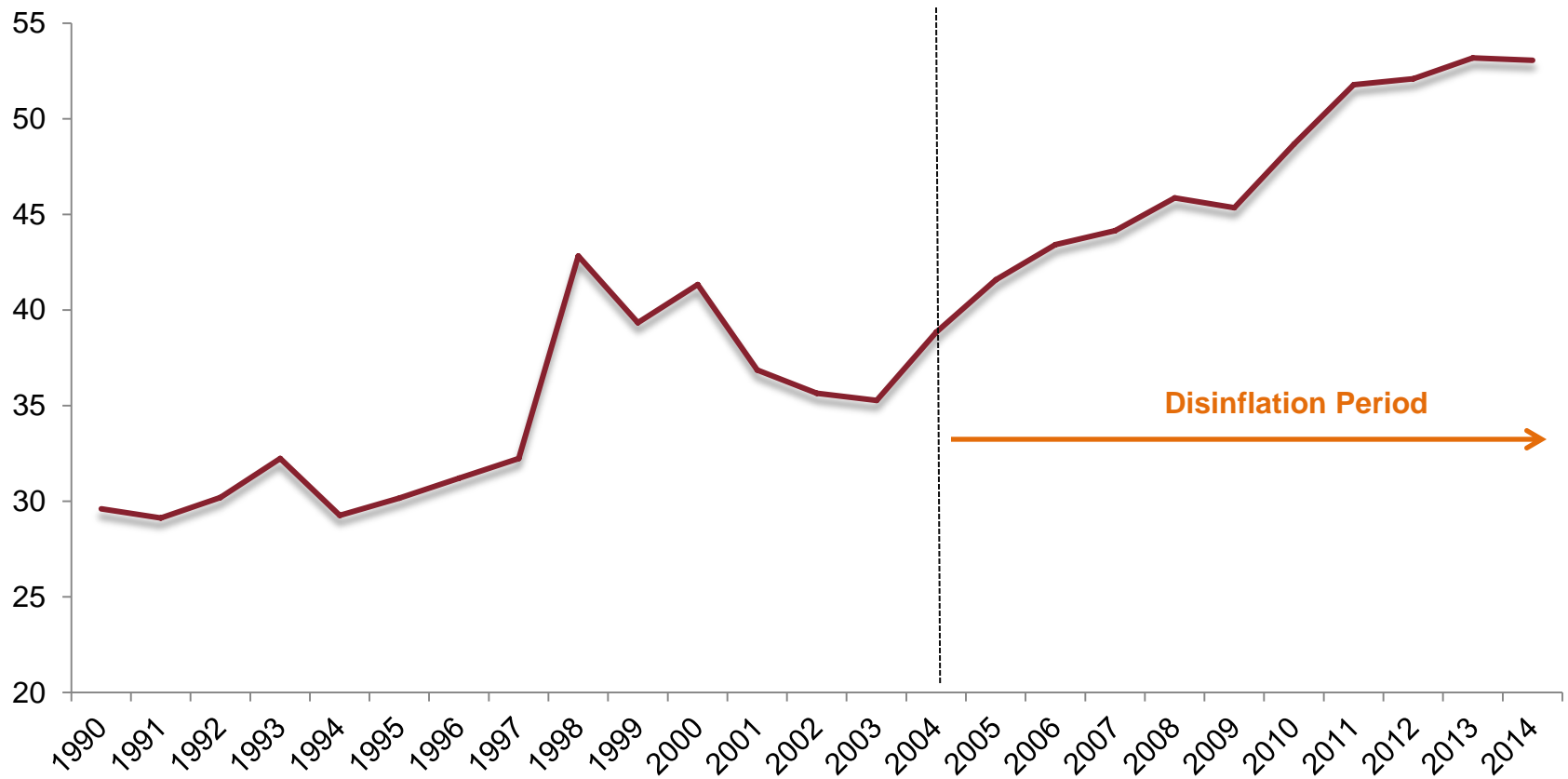


Source: TURKSTAT.

Last Observation: 2015 Q2

Economic convergence to the European Union is on track.

Turkey/European Union GDP Per Capita
(Purchasing power parity adjusted, percent)



Source: World Bank.

Last Observation: 2014.

Global interest rates have been falling since 1980s.

US 10 Year Government Bond Yield (Percent)



Source: Bloomberg.

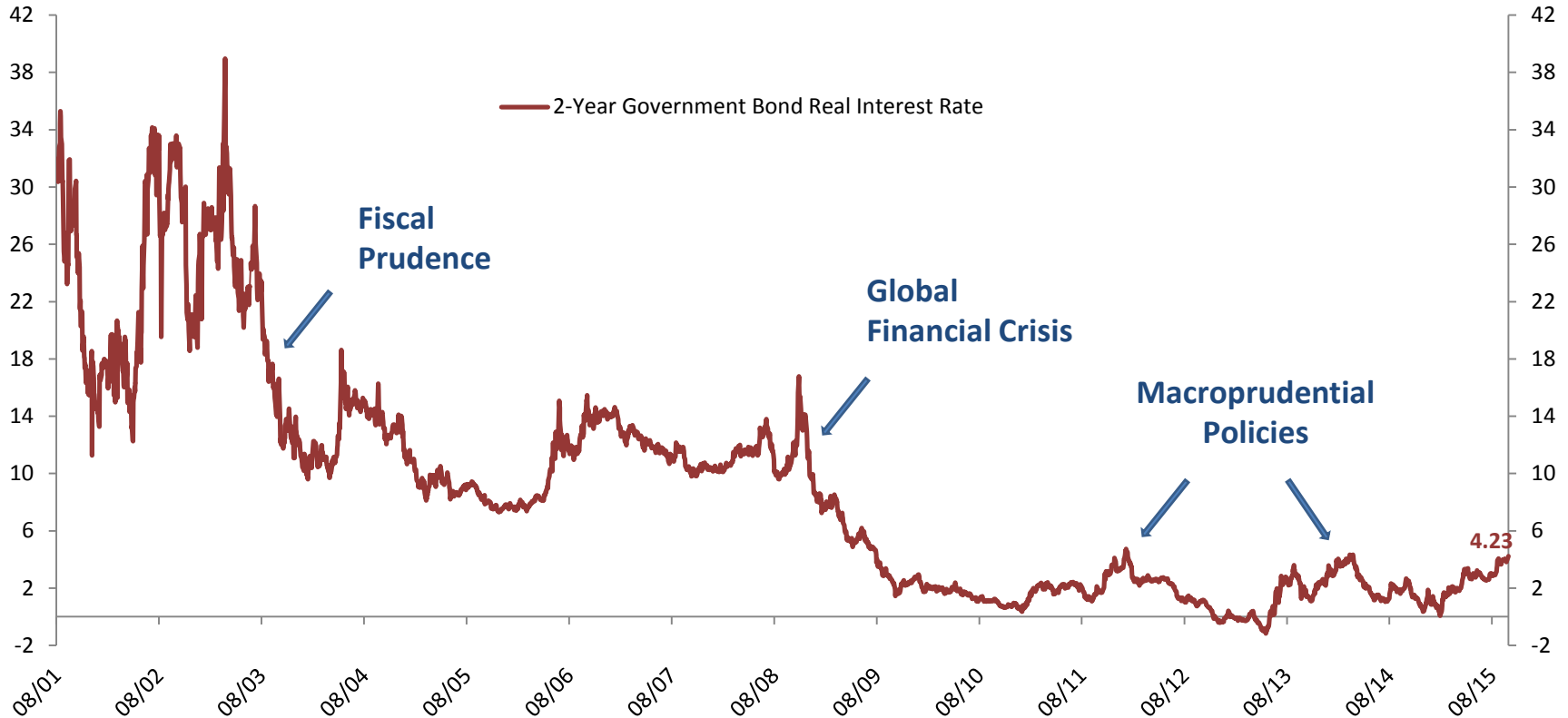
Last Observation: September 2015.

Determinants of Equilibrium Real Interest Rates

1. Real growth expectations
2. Prudential policies:
 - Fiscal
 - Financial

Real interest rates in Turkey have been falling since 2001...

2-Year Real Interest Rates of Turkish Treasury Securities* (Percent)



*Calculated by using the formula $[(1 + \text{benchmark interest rate}) / (1 + \text{inflation expectations}) - 1]$.

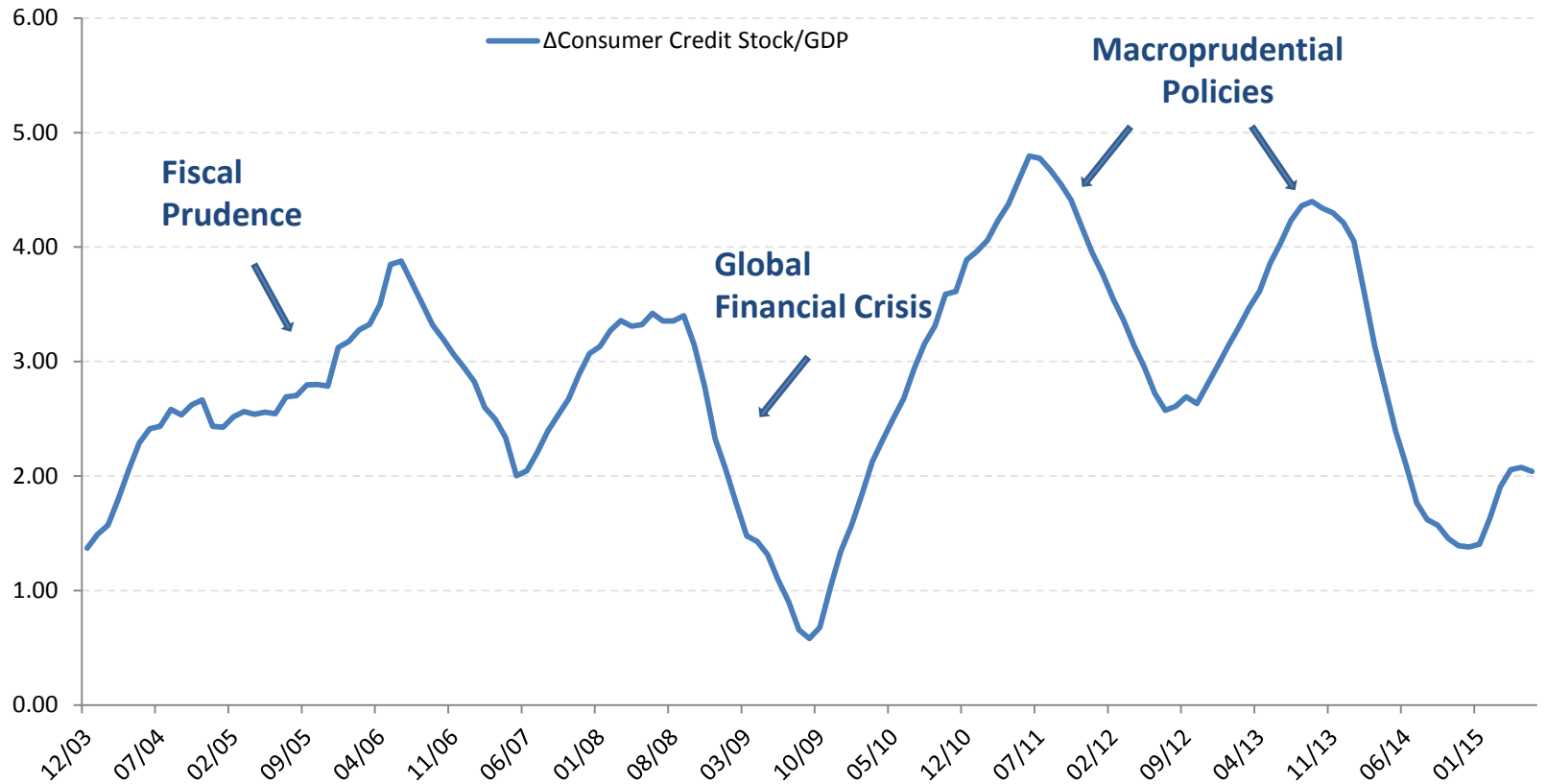
Inflation expectation is 12-months ahead inflation expectation before April 2006. Thereafter, inflation expectation is the compound value of 12-months ahead and 24-months ahead inflation expectations for 24 months.

Source: CBRT, BIST.

Last Observation: September 28, 2015

...thanks to the use of prudential policies.

Consumer Loans (Change YoY, % of GDP)

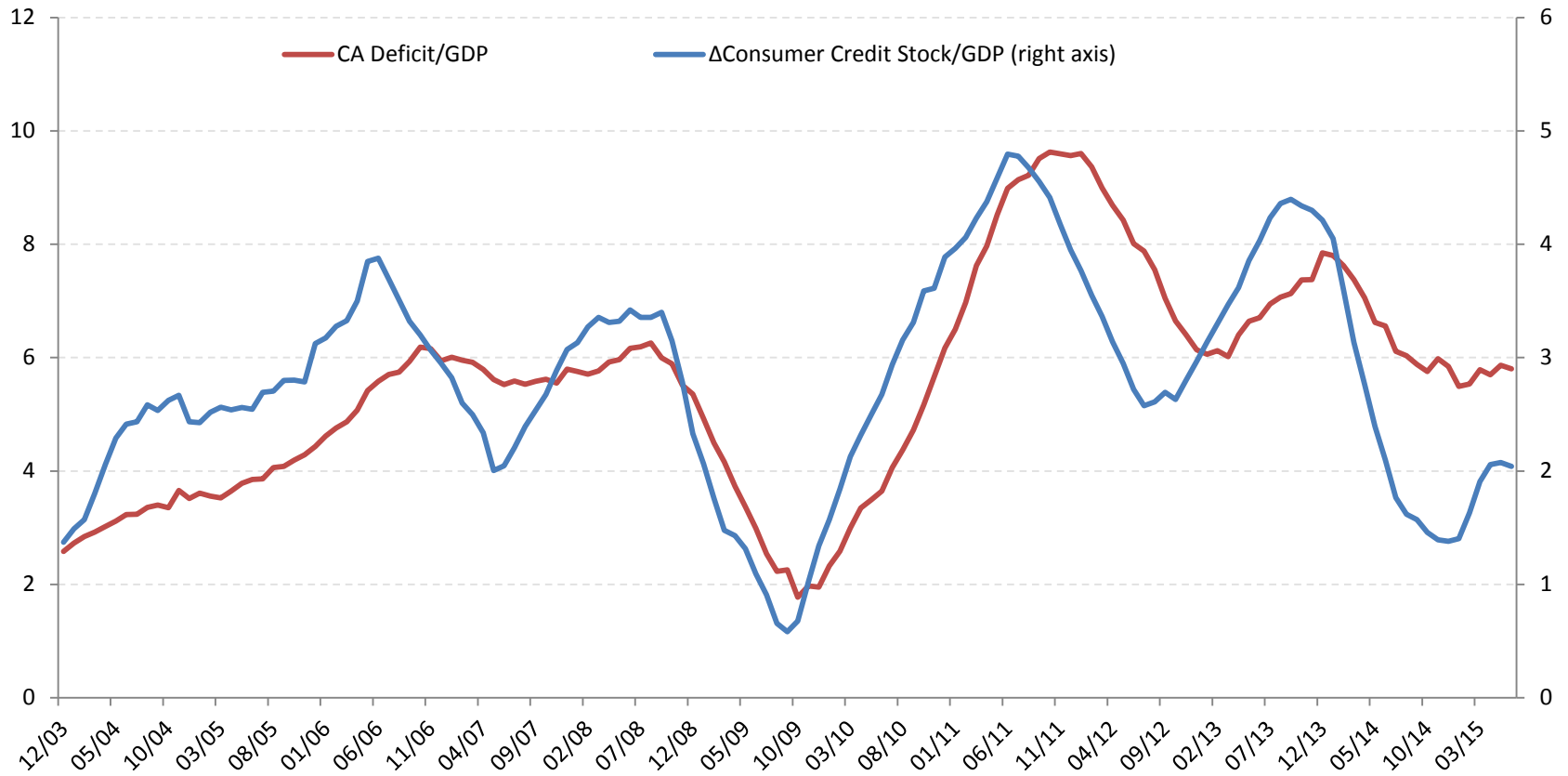


Source: BRSA, TURKSTAT, CBRT.

Macprudential policies have been essential in containing the current account deficit.

Consumer Loans and the Current Account

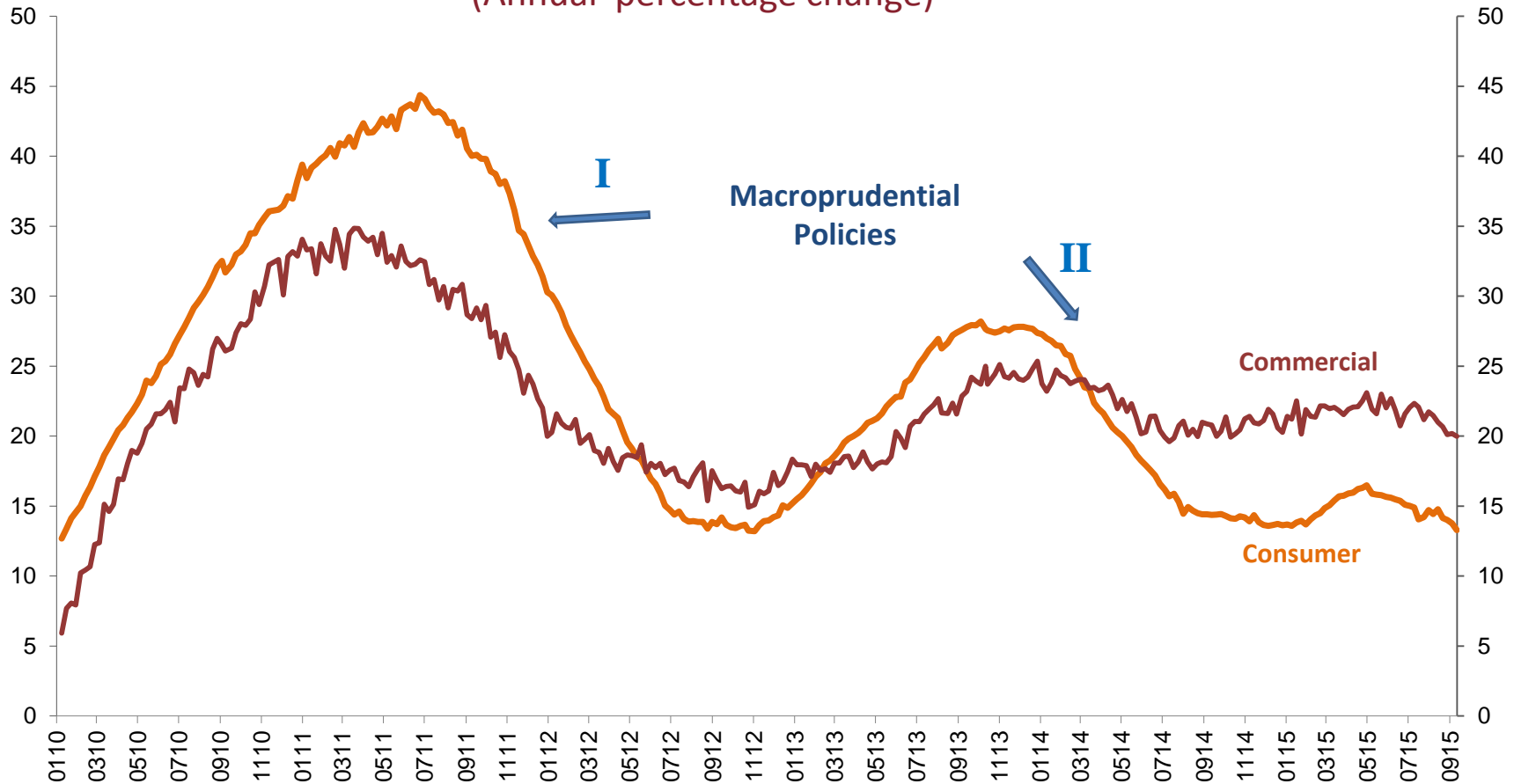
(Change YoY, % of GDP for Consumer Loans, % of GDP for Current Account Deficit)



Source: BRSA, TURKSTAT, CBRT.

The two rounds of macroprudential policies have succeeded in improving both the pace and the composition of credit.

Loan Growth Rates (Annual percentage change)



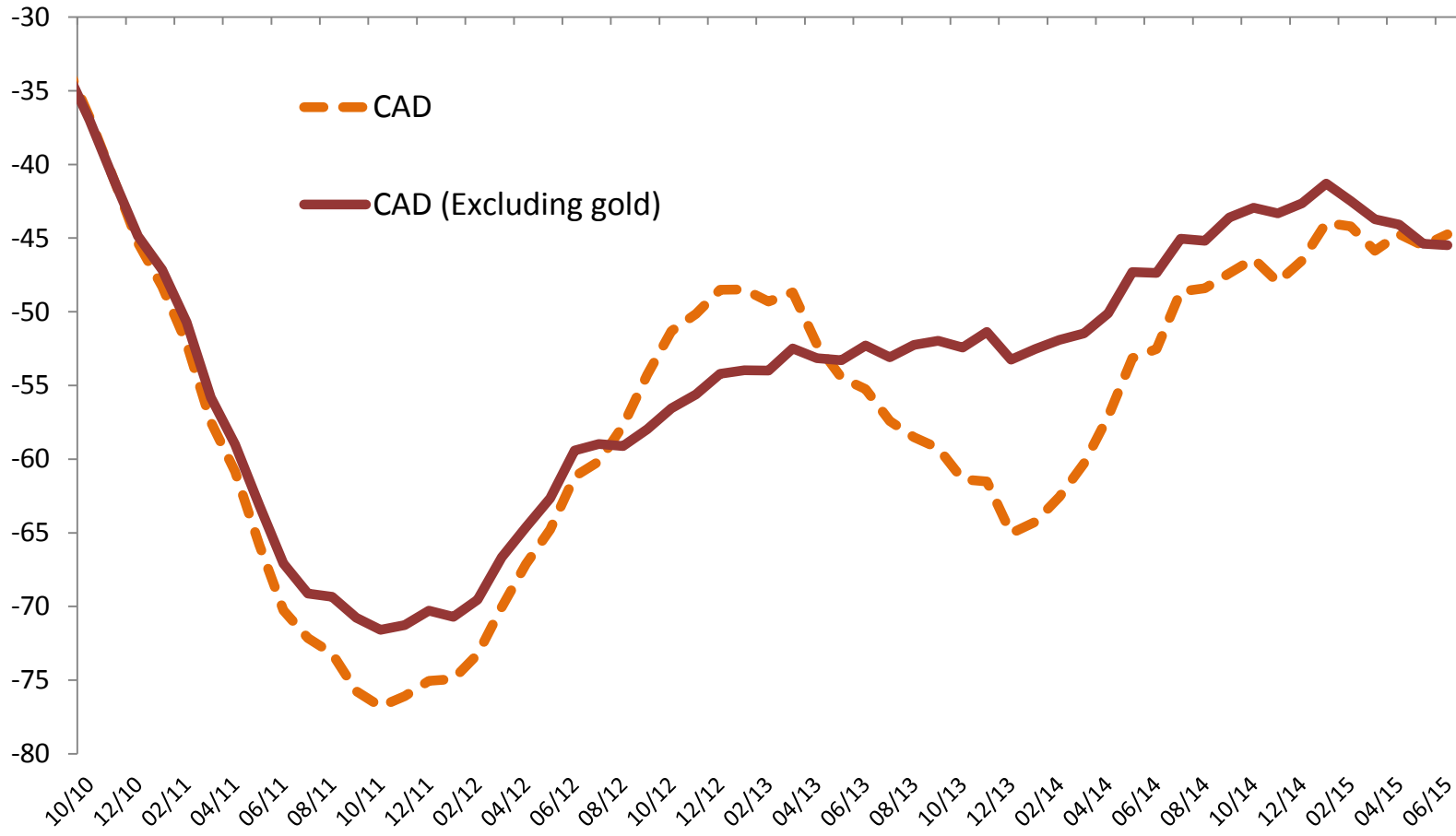
Source: CBRT.

Last Observation: September 11, 2015.

Inclusive of loans extended by all types of banks (deposit banks, Participation banks, and development/investment banks). FX adjusted.

The improvement in the current account balance will become more pronounced with the August figure and is expected to continue throughout the year.

Current Account Balance (CAB) (12-Month cumulative, billion USD)



Source: CBRT.

Last Observation: June 2015.

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