

Macroeconomic Outlook and Monetary Policy in Turkey

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Governor

2018 Spring Meeting of the IMF and the World Bank Group

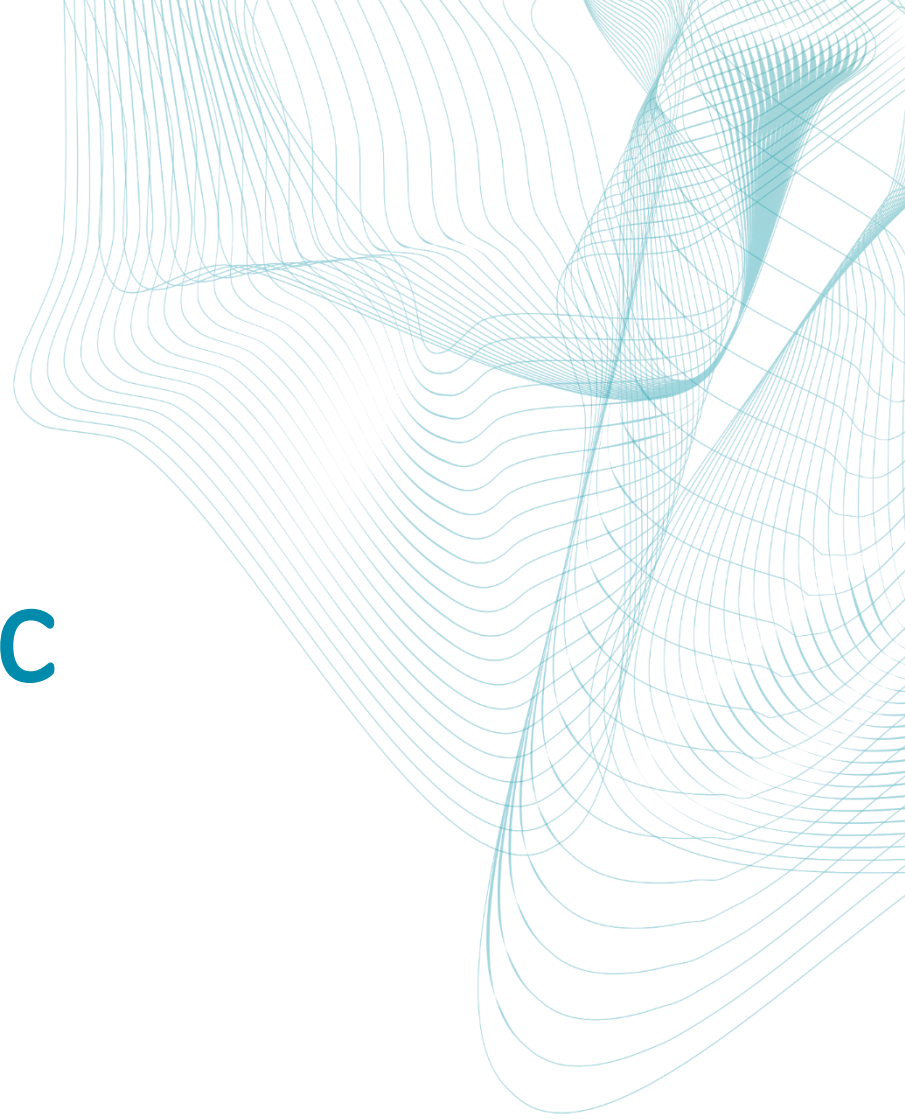
April 2018

| WASHINGTON D.C.

Outline

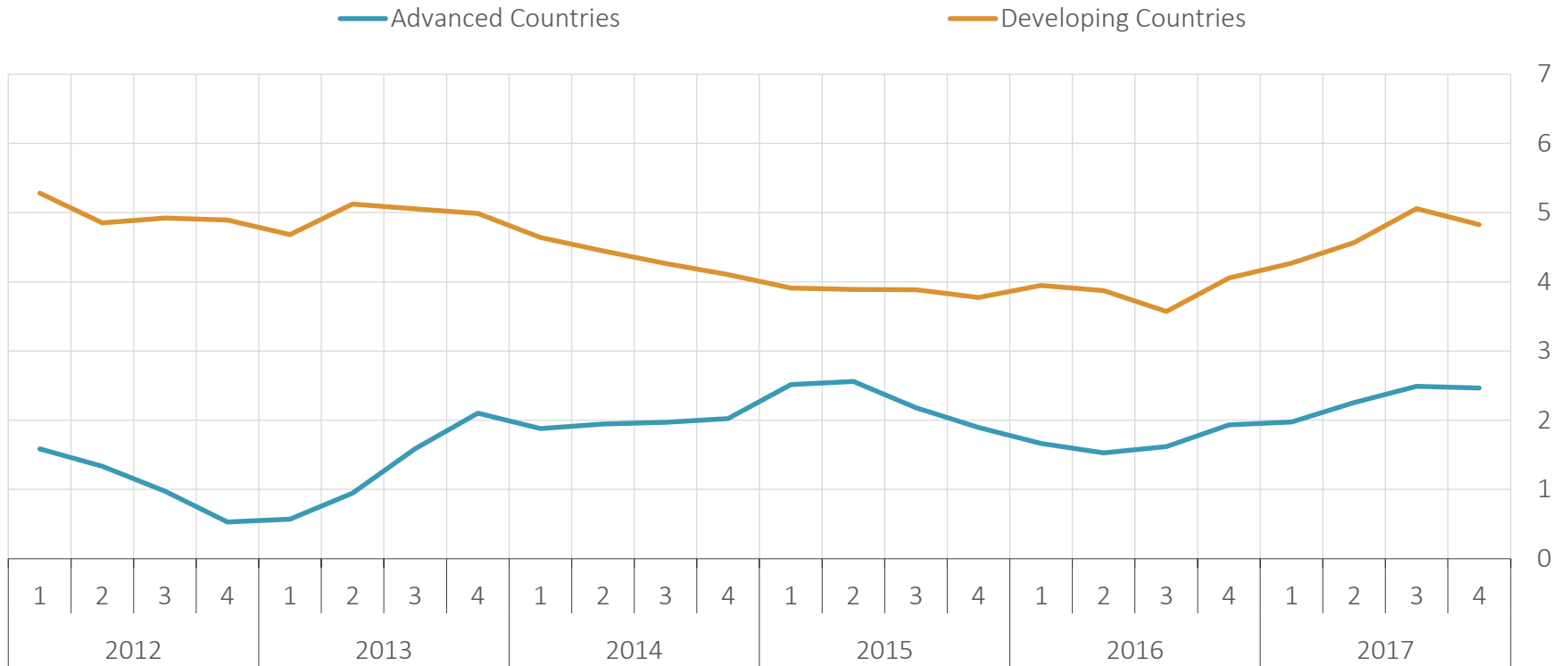
- Macroeconomic Developments
- Inflation and Monetary Policy
- Overview

Macroeconomic Developments



Synchronized global growth continues.

Growth Rates (Annual % Change)



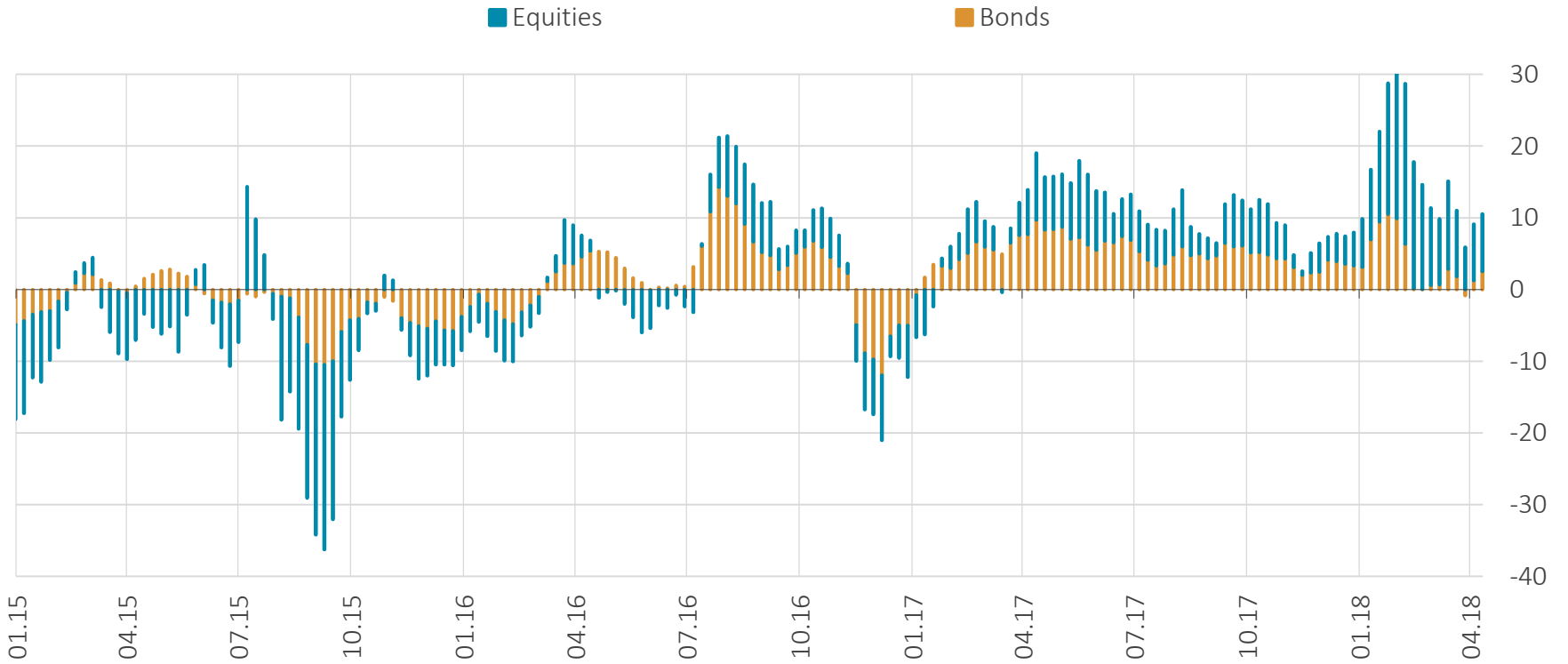
Source: Bloomberg, CBRT

Last Observation: 2017 Q4



Portfolio flows follow a volatile course.

Fund Flows to Developing Countries
(Billion US Dollars, 4-Week Cumulative)

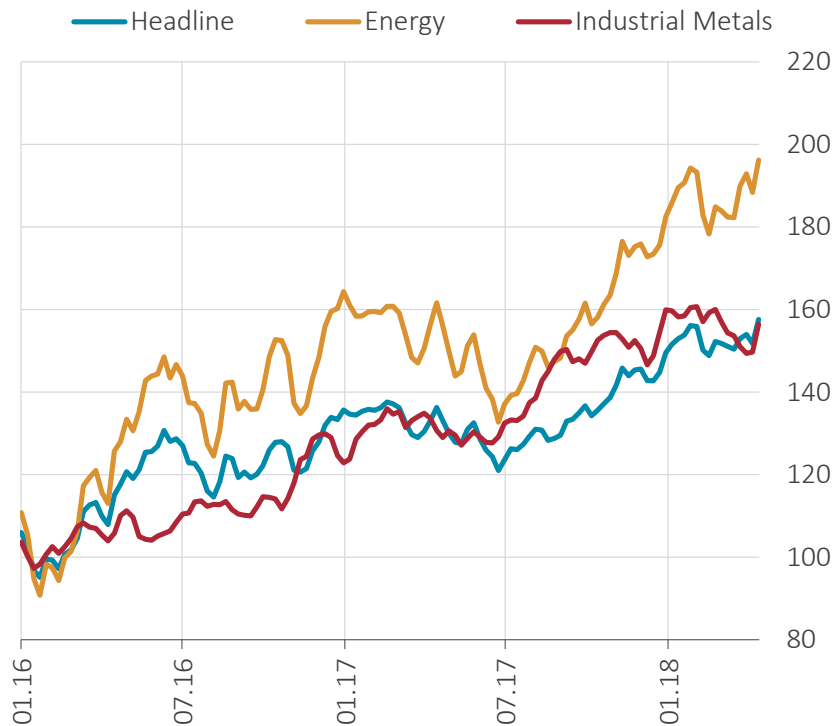


Source: EPFR

Last Observation: April 11, 2018

Commodity and oil prices are trending upwards.

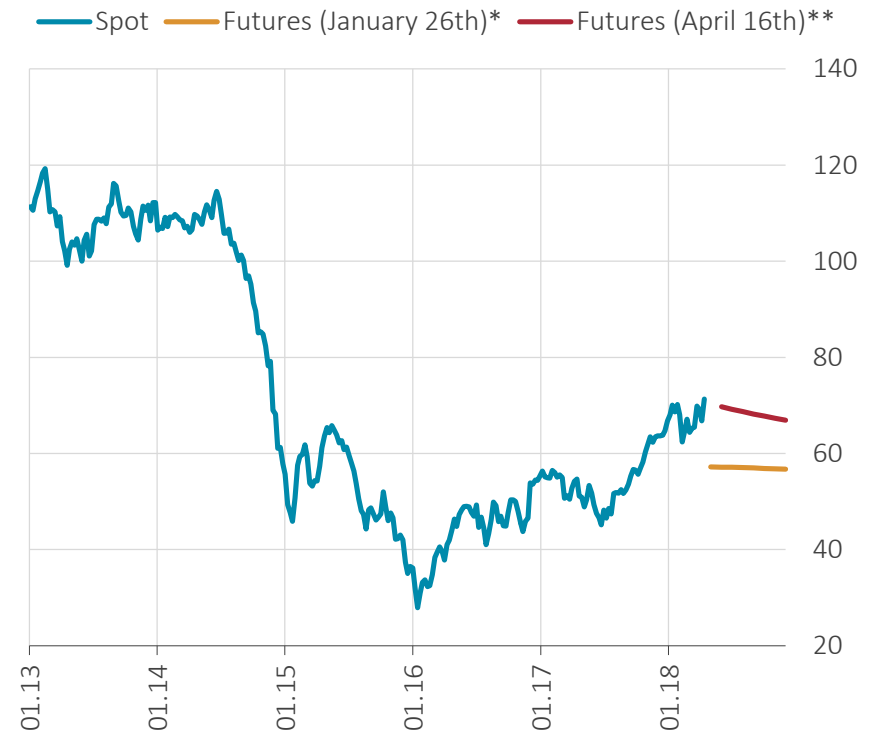
GS & SP Commodity Price Indices (January 2016 =100)



Source: Bloomberg

Last observation: April 13, 2018

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



Source: Bloomberg

Last observation: April 16, 2018

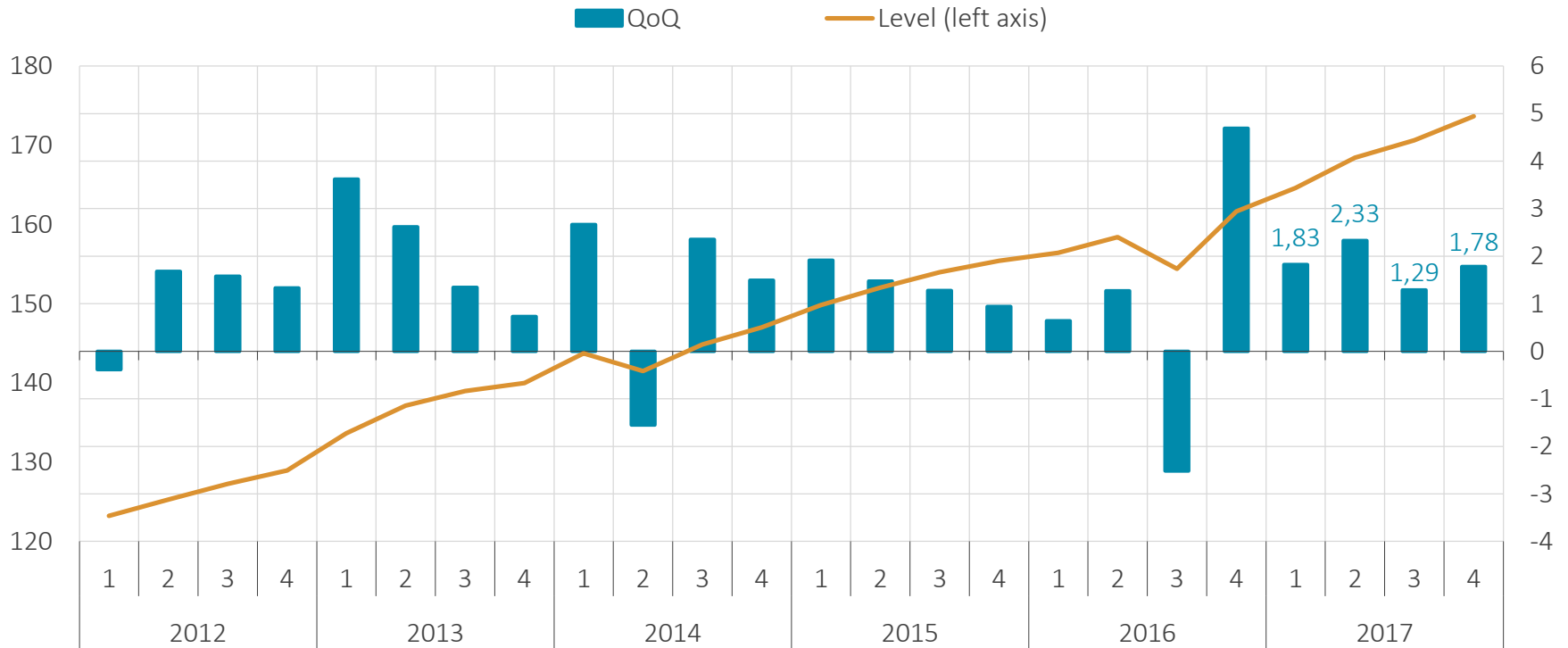
Risks remain amid global recovery.

- Protectionism trends in global trade
- Normalization in monetary policies of advanced economies
- Increase in commodity prices
- Geopolitical risks

Domestic economic activity displayed a solid pace of growth in 2017.

Gross Domestic Product

(Seasonally and Calendar Adjusted, Chain Linked Volume Index, 2009=100)



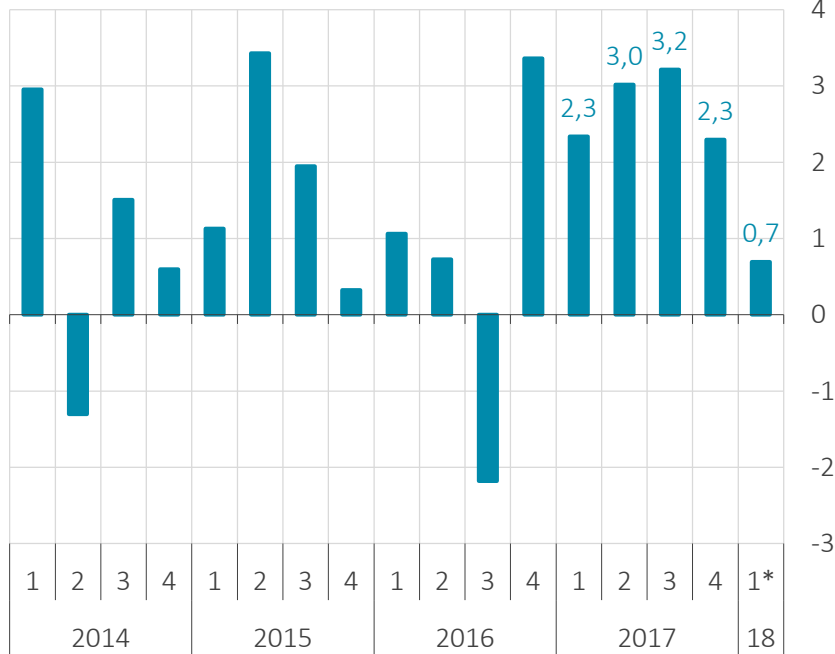
Source: TURKSTAT

Last Observation: 2017 Q4



Industrial production grows at a robust pace.

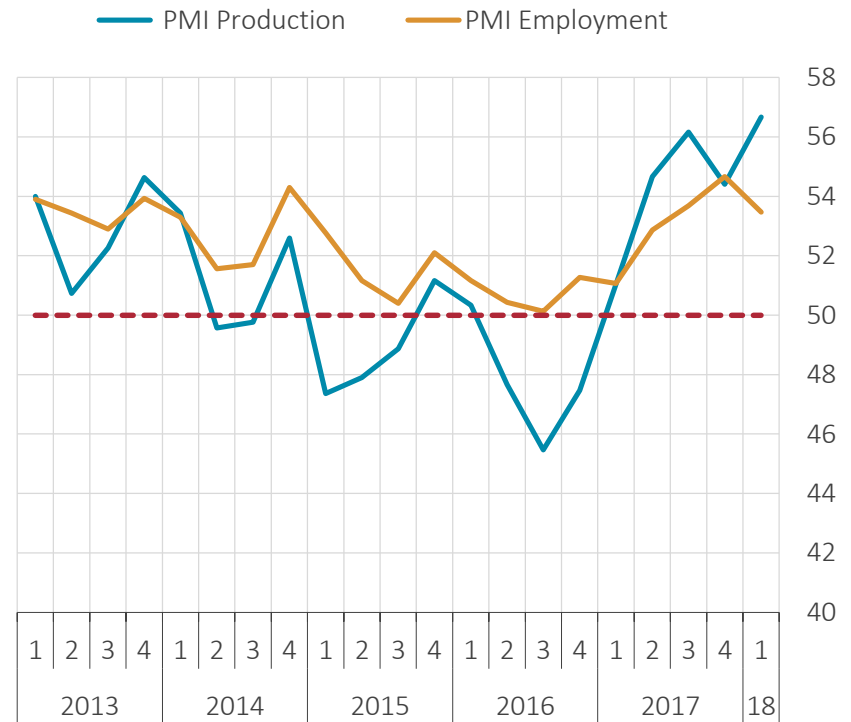
Industrial Production Index
(Seasonally Adjusted, Quarterly % Change)



Source: TURKSTAT

*Last Observation: February 2018

PMI
(Seasonally Adjusted)

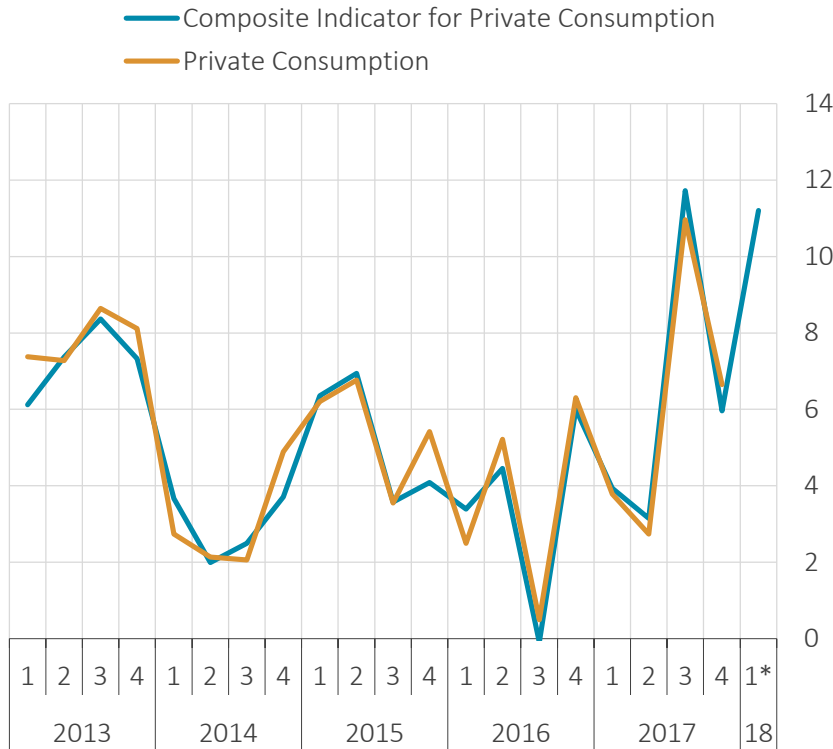


Source: PMI Markit

Last Observation: 2018 Q1

Domestic demand has continued to support growth.

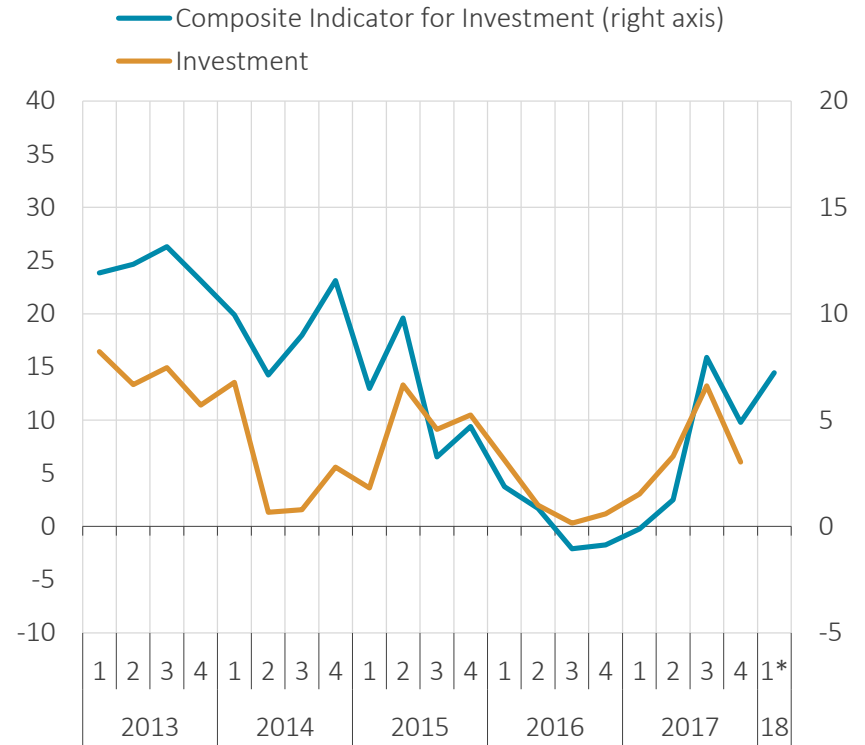
The Composite Indicator for Private Consumption**
(Annual % Change)



Source: CBRT, TURKSTAT

*Last Observation: February 2018

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



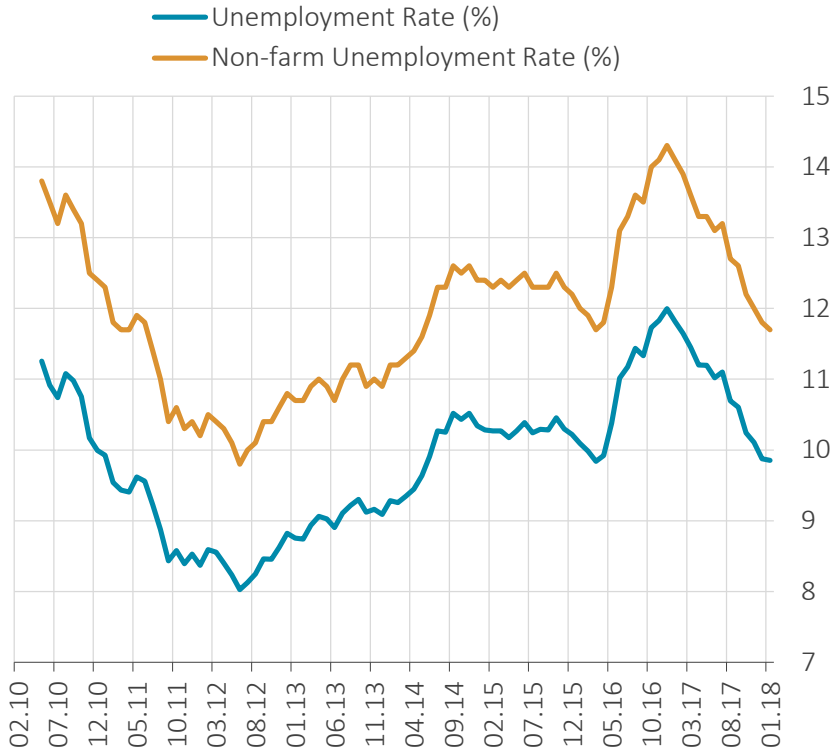
Source: CBRT, OSD, TURKSTAT

*Last Observation: February 2018



Employment growth has been strong.

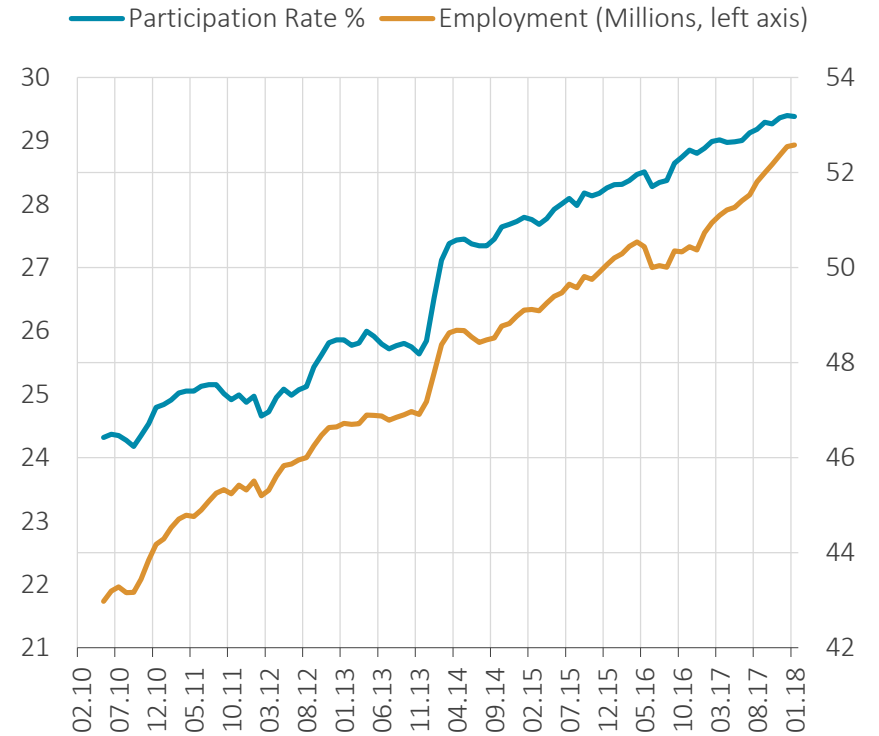
Unemployment Rates
(Seasonally Adjusted)



Source: TURKSTAT

Last Observation: January 2018

Labor Force Participation Rate and Employment
(Seasonally Adjusted)

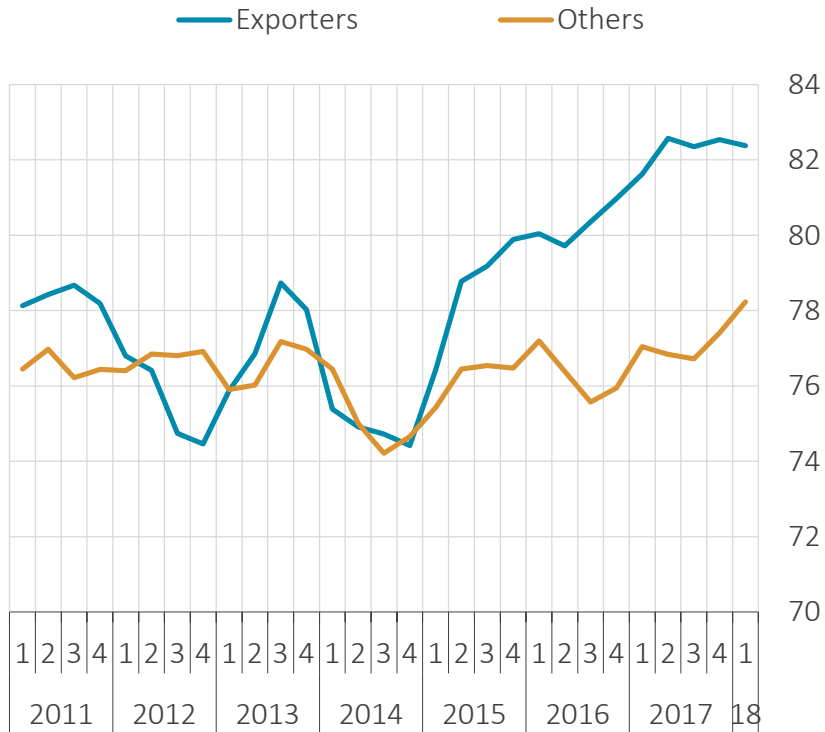


Source: TURKSTAT

Last Observation: January 2018

Capacity utilization rates support investment demand.

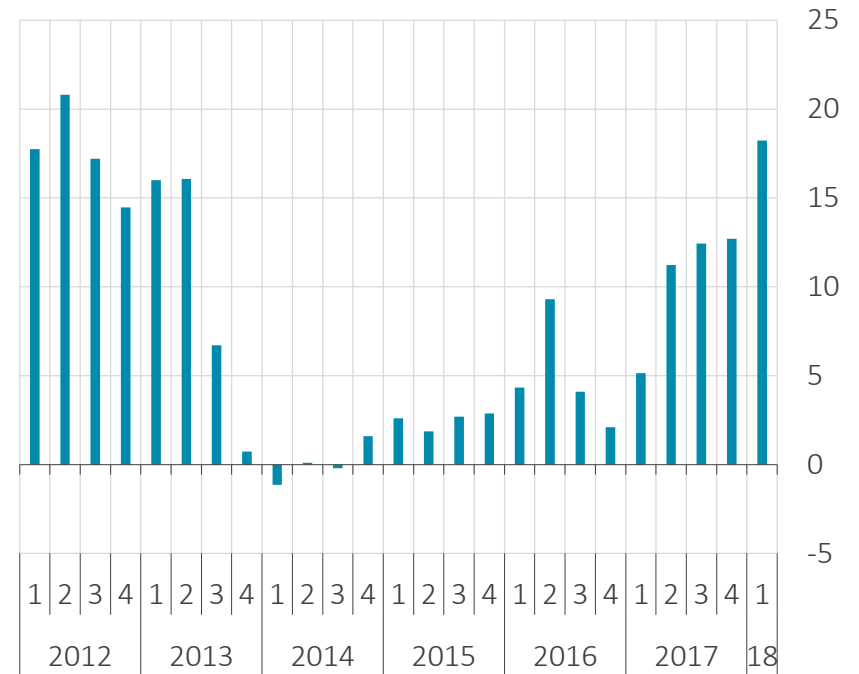
Capacity Utilization Rate
(Seasonally Adjusted, %)



Source: TURKSTAT

Last Observation: 2018 Q1

Investment Tendency of Manufacturing Firms for the Next 12 Months
(Seasonally Adjusted, Increase-Decrease, %)

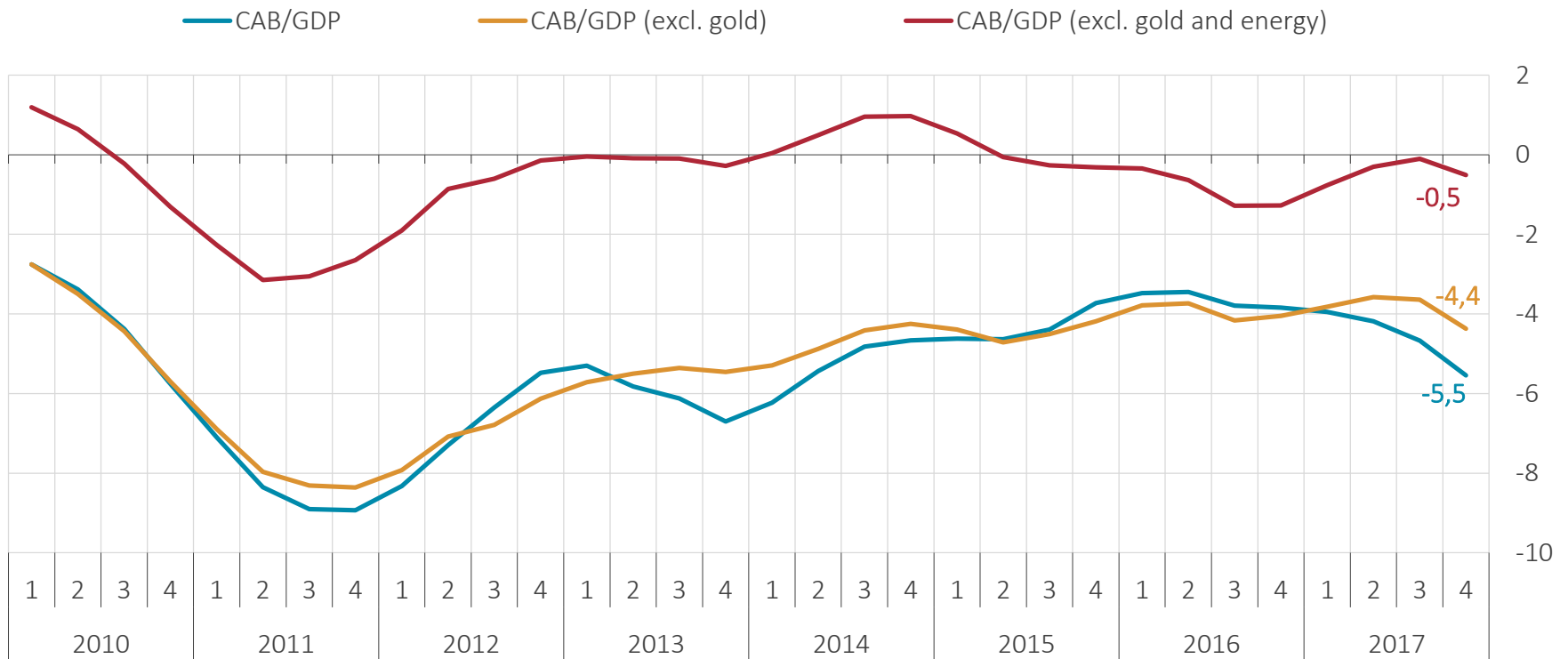


Source: TURKSTAT

Last Observation: 2018 Q1

Current account deficit has widened.

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

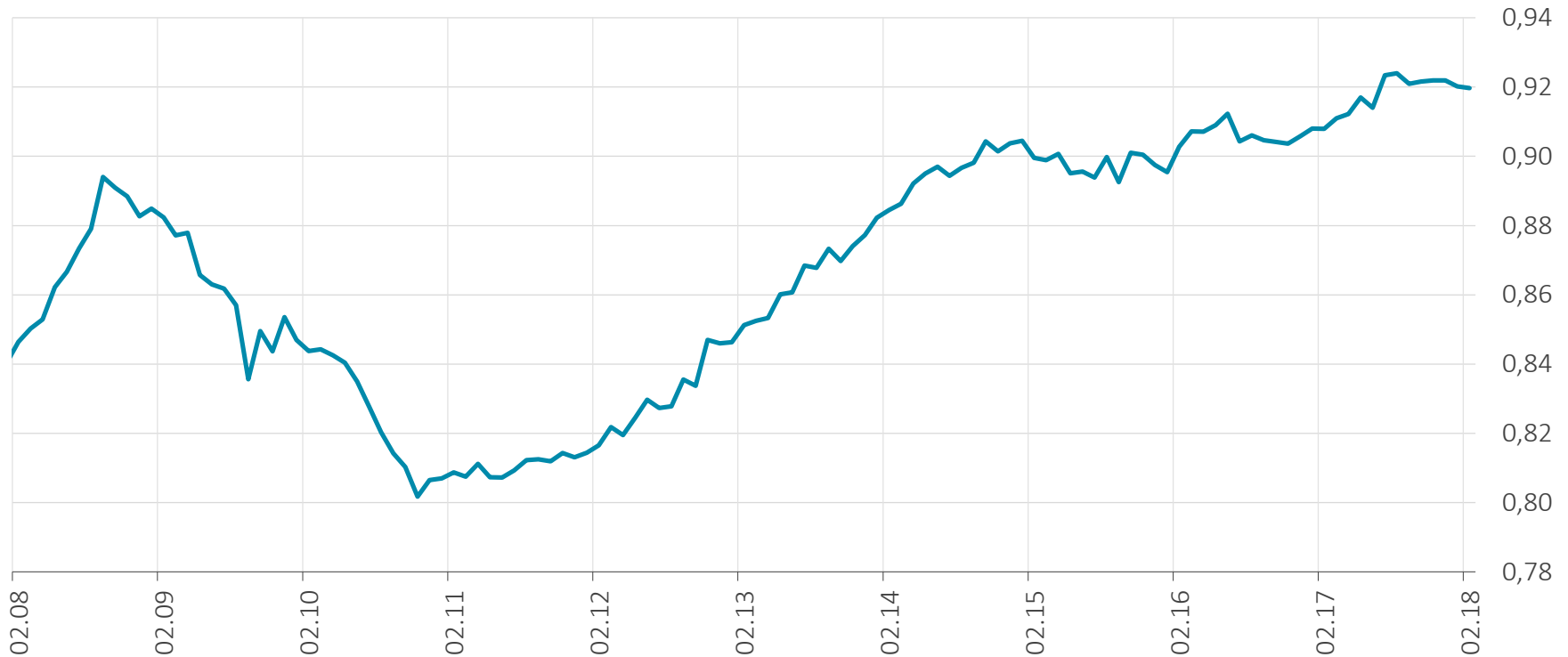


Source: CBRT

Last Observation: December 2017

Turkey's share in world exports has been rising steadily.

Share of Turkey in World Exports
(Excluding Gold, 12 Month Moving Average, %)

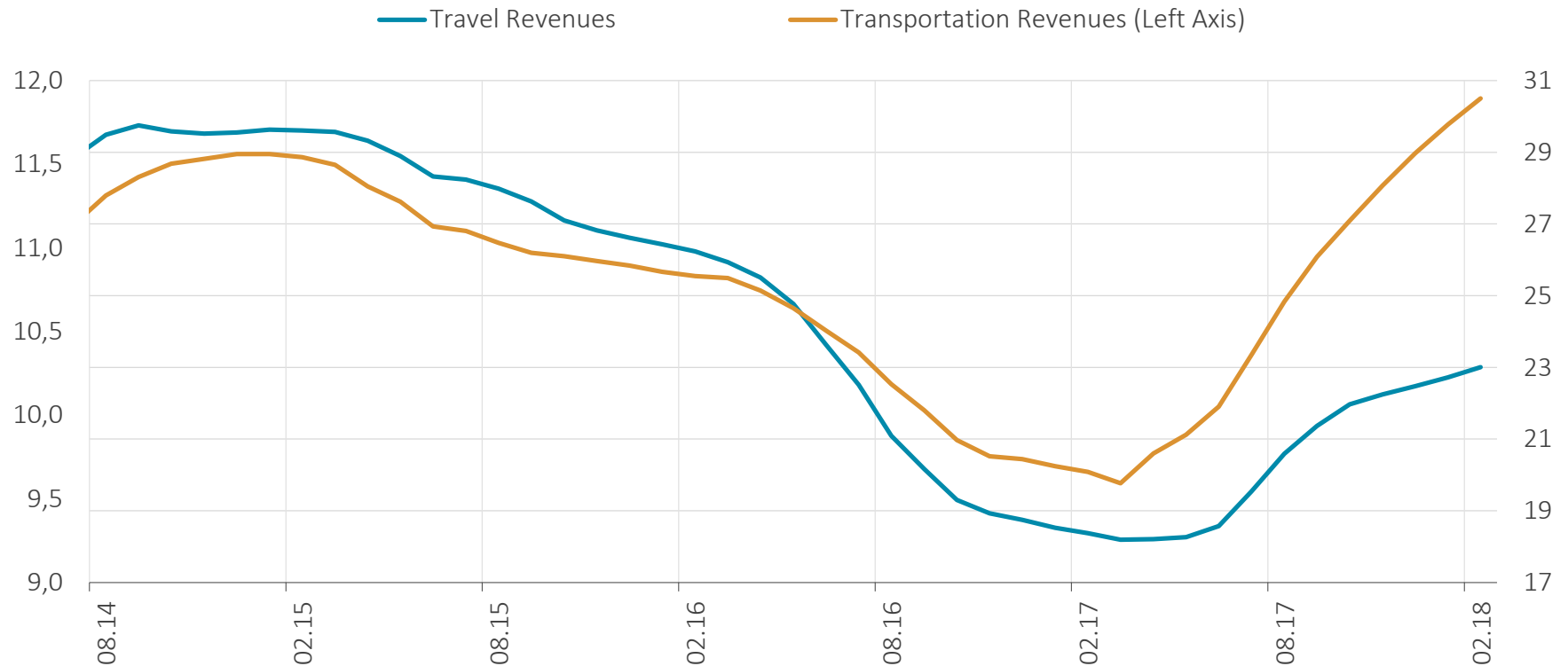


Source: WTO

Last Observation: February 2018

Tourism revenues continue to recover.

Tourism Revenues* (12-Month Cumulative, Billion US Dollars)

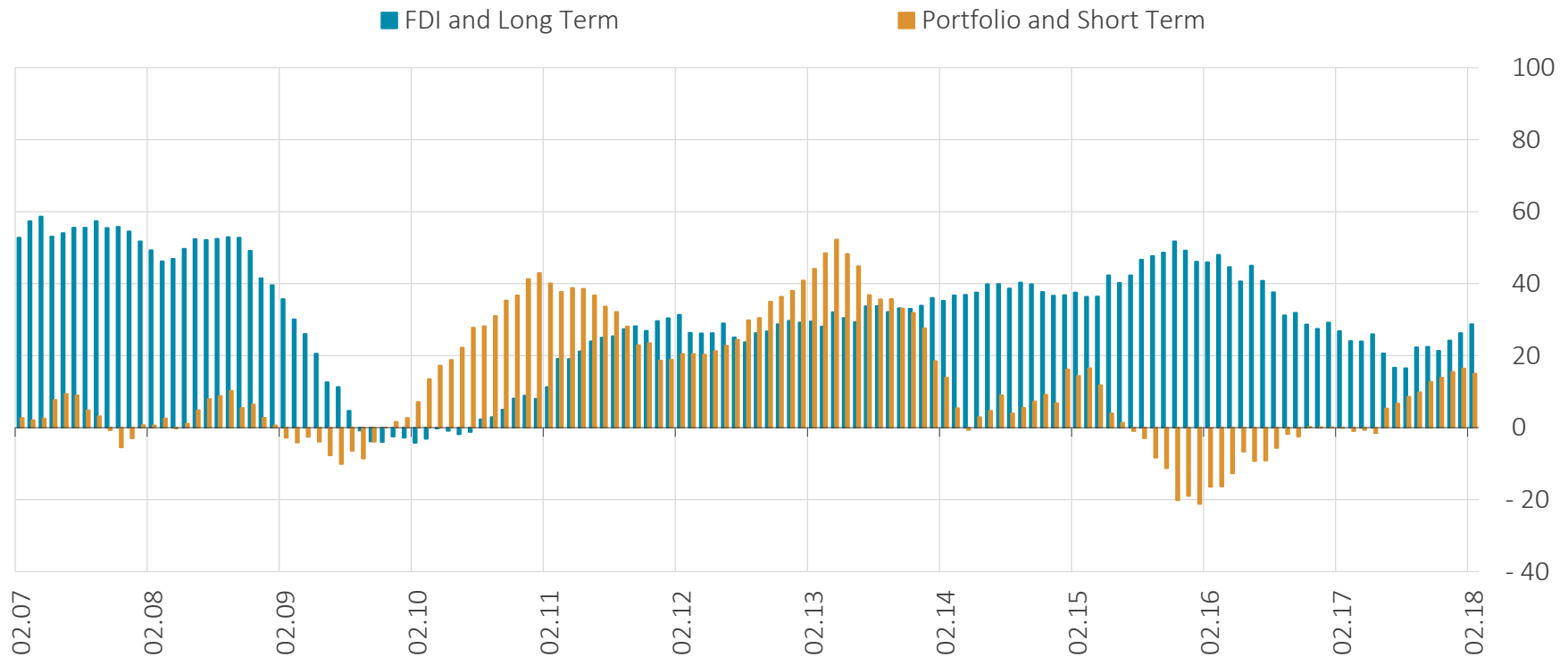


Source: CBRT

Last Observation: February 2018

The share of portfolio investments rises while long term capital inflows have a stable course.

Current Account Finance* (12-Month Cumulative, Billion US Dollars)

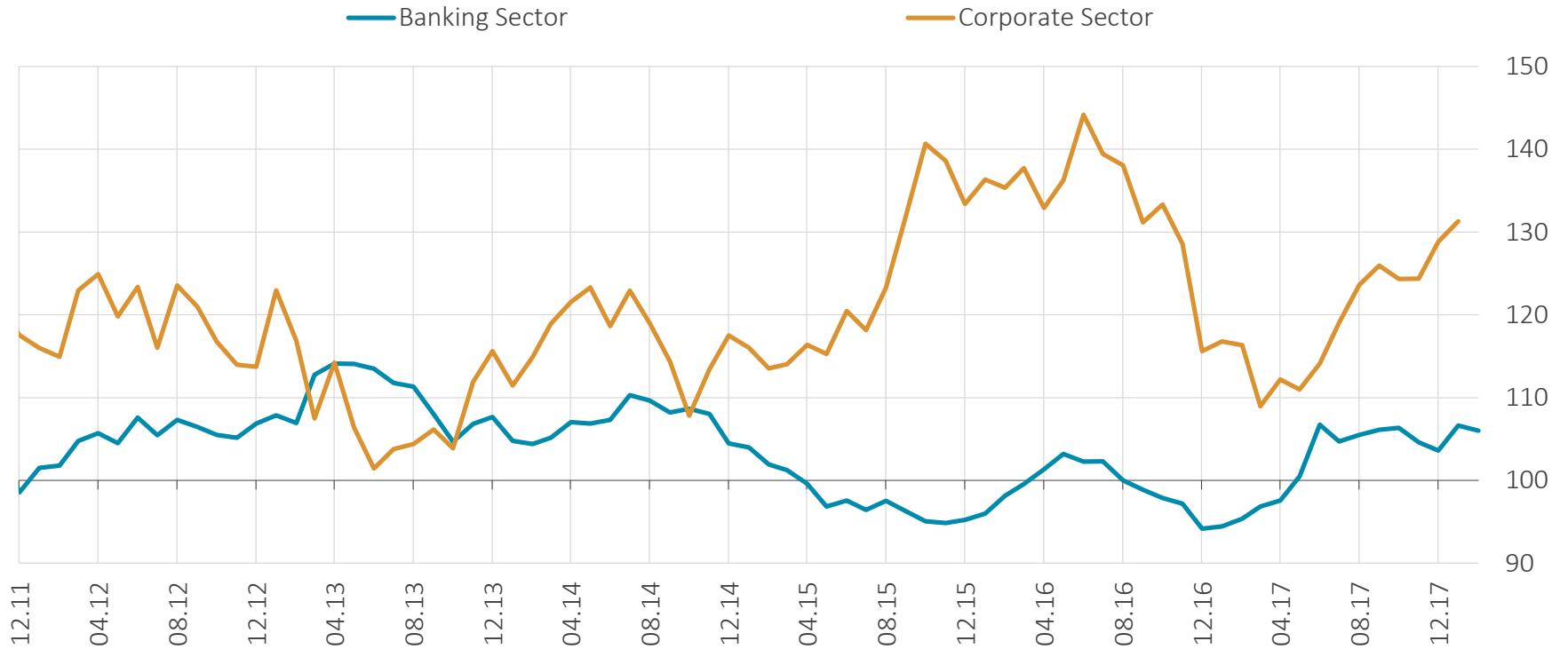


Source: CBRT

Last Observation: February 2018

External debt roll-overs remain robust.

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



Source: CBRT

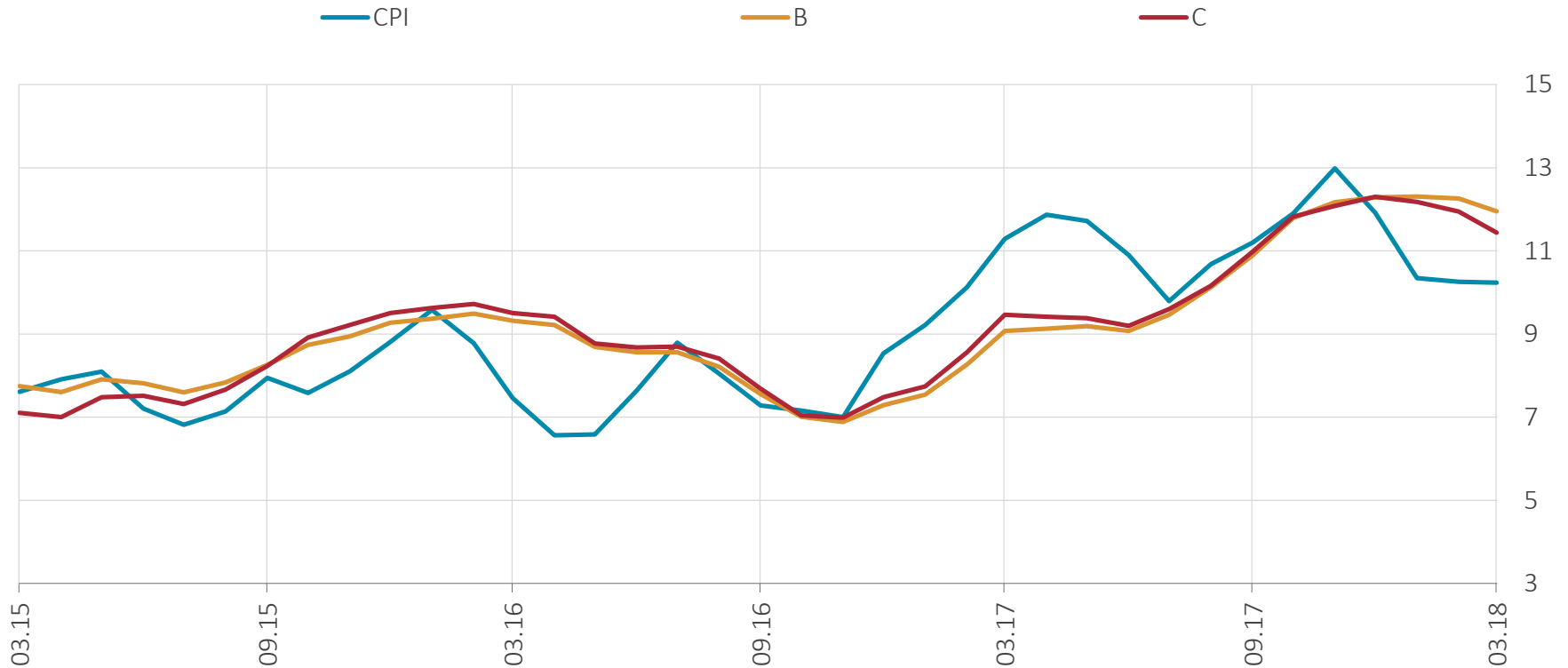
Last Observation: February 2018 for Banking sector; January 2018 for Corporate sector.

Inflation and Monetary Policy



CPI inflation and core indicators remain at elevated levels.

Inflation and Core Inflation Indicators (Annual % Change)



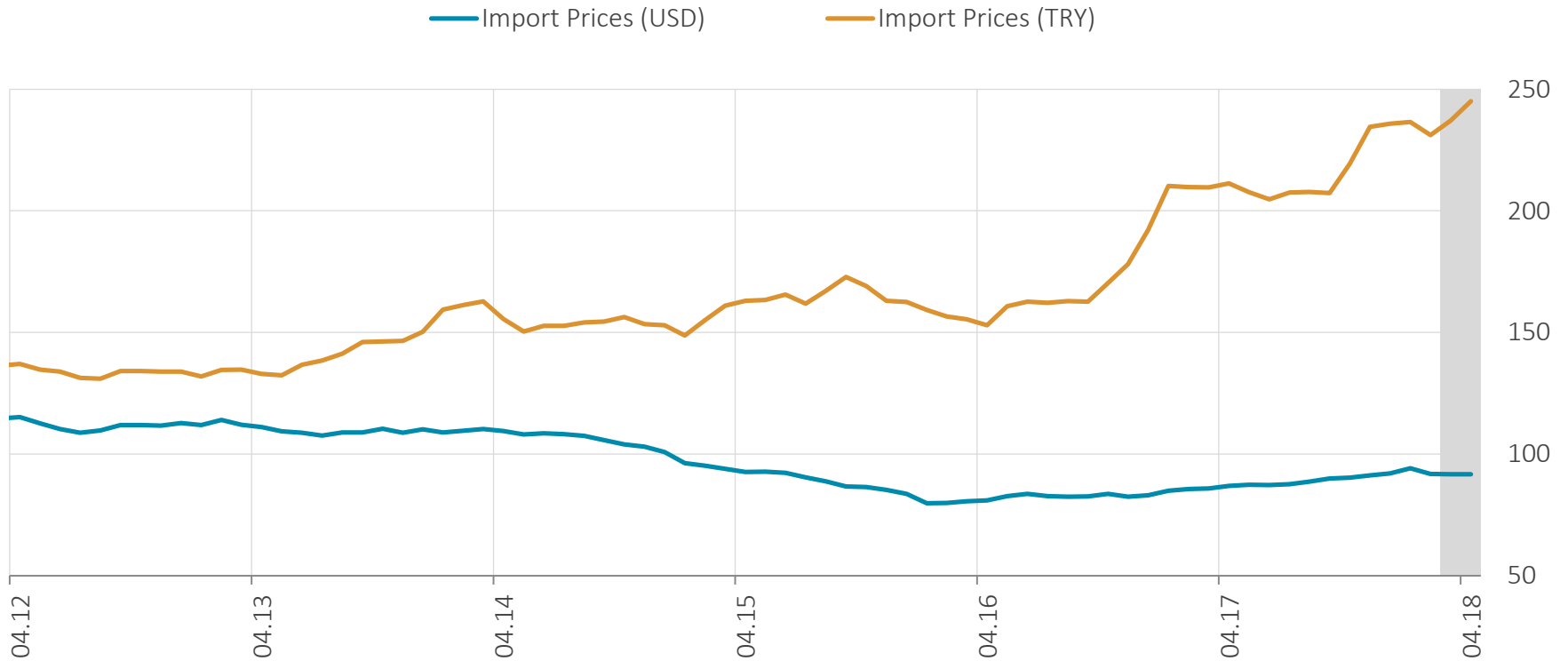
Source: TURKSTAT

Last Observation: March 2018



Import prices and exchange rate have been major drivers of inflation.

Import Prices (2010=100, Index)

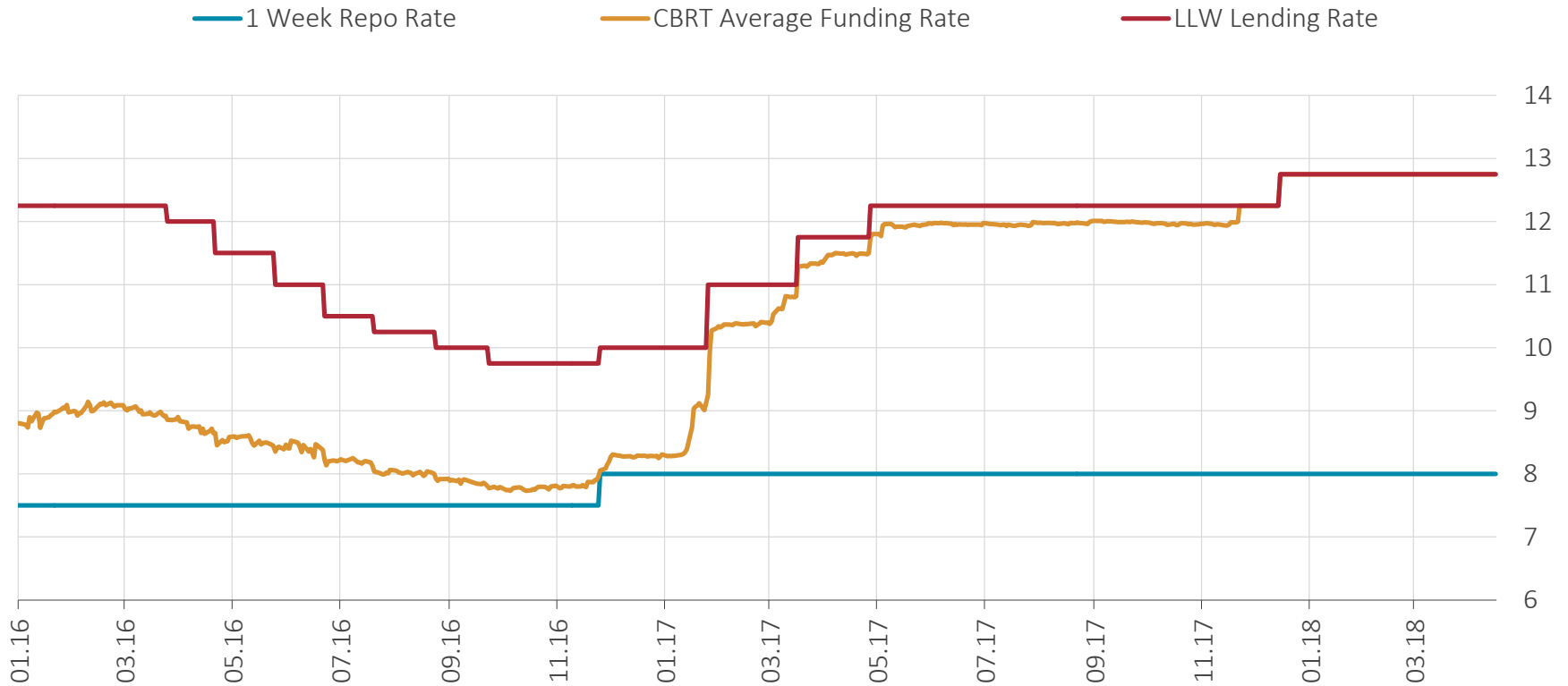


Source: TURKSTAT

Last Observation: February 2018

Monetary policy is committed to achieving and maintaining price stability.

CBRT Interest Rates (%)



Source: CBRT

Last Observation: April 16, 2018

Predictability of monetary policy improved significantly.

Difference Between BIST Interbank Repo Rate and Weighted Average Cost of Funding (%)

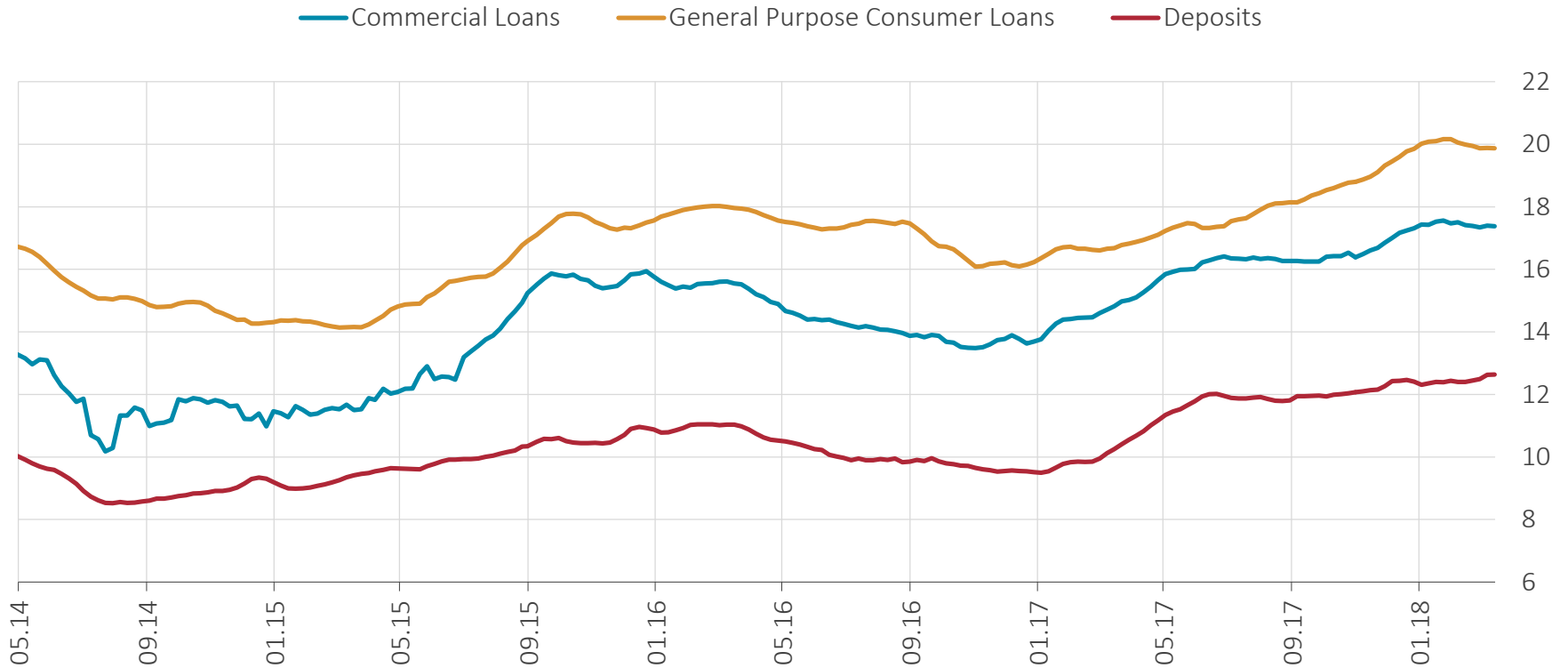


Source: BIST,CBRT

Last Observation: April 16, 2018

Loan and deposit rates indicate tighter financial conditions.

TL Loan and Deposit Rates
(%, 4-Week Moving Average)



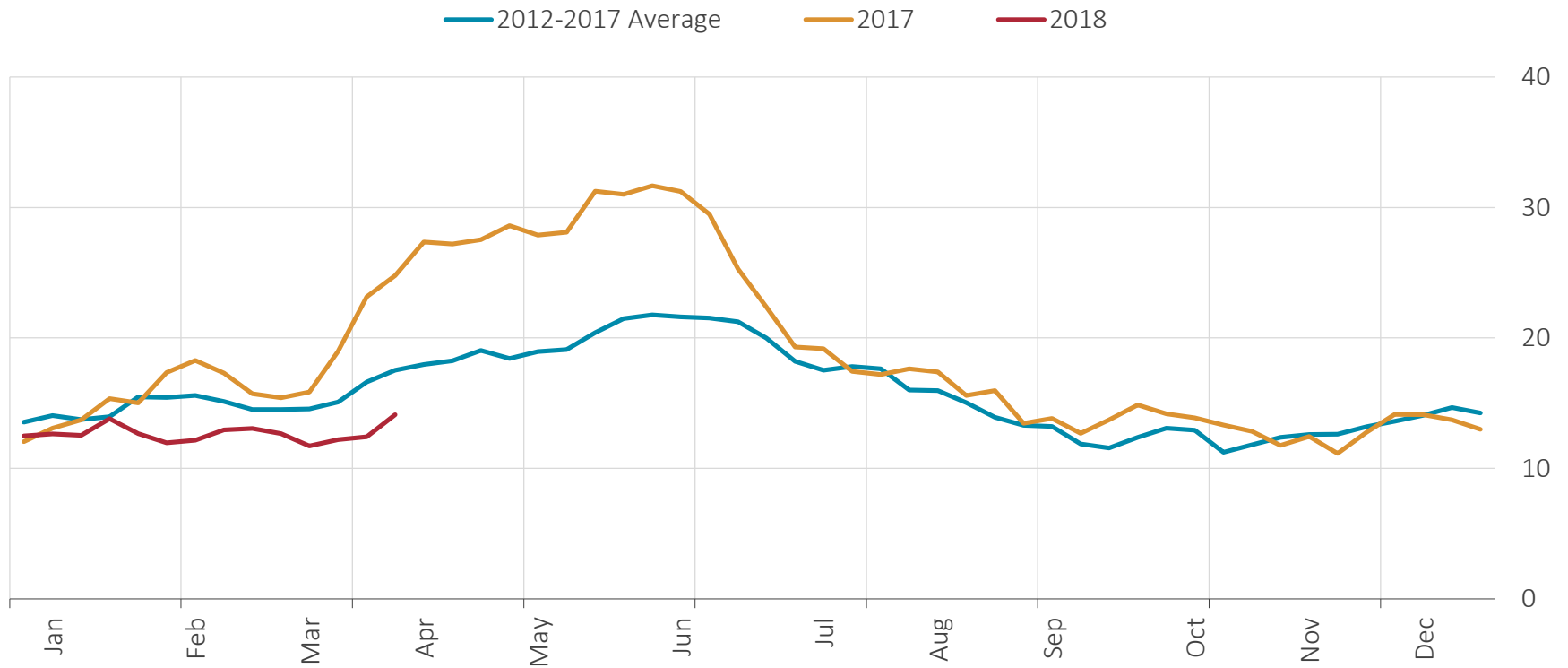
Source: CBRT

Last Observation: April 6, 2018

Loan growth momentum has converged to historical trends.

Loan Growth

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

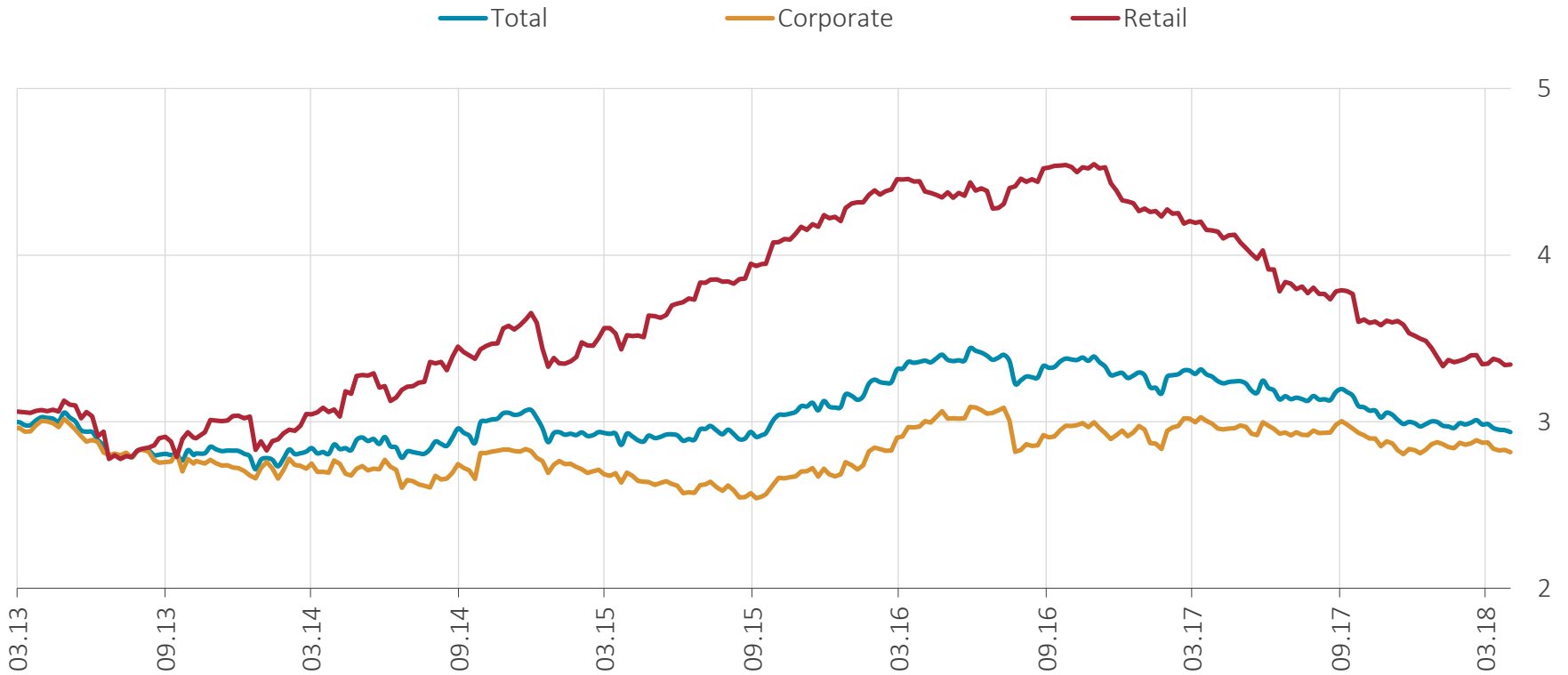


Source: CBRT

Last Observation: April 6, 2018


Asset quality maintains a resilient outlook.

Non-Performing Loans (%)



Source: CBRT

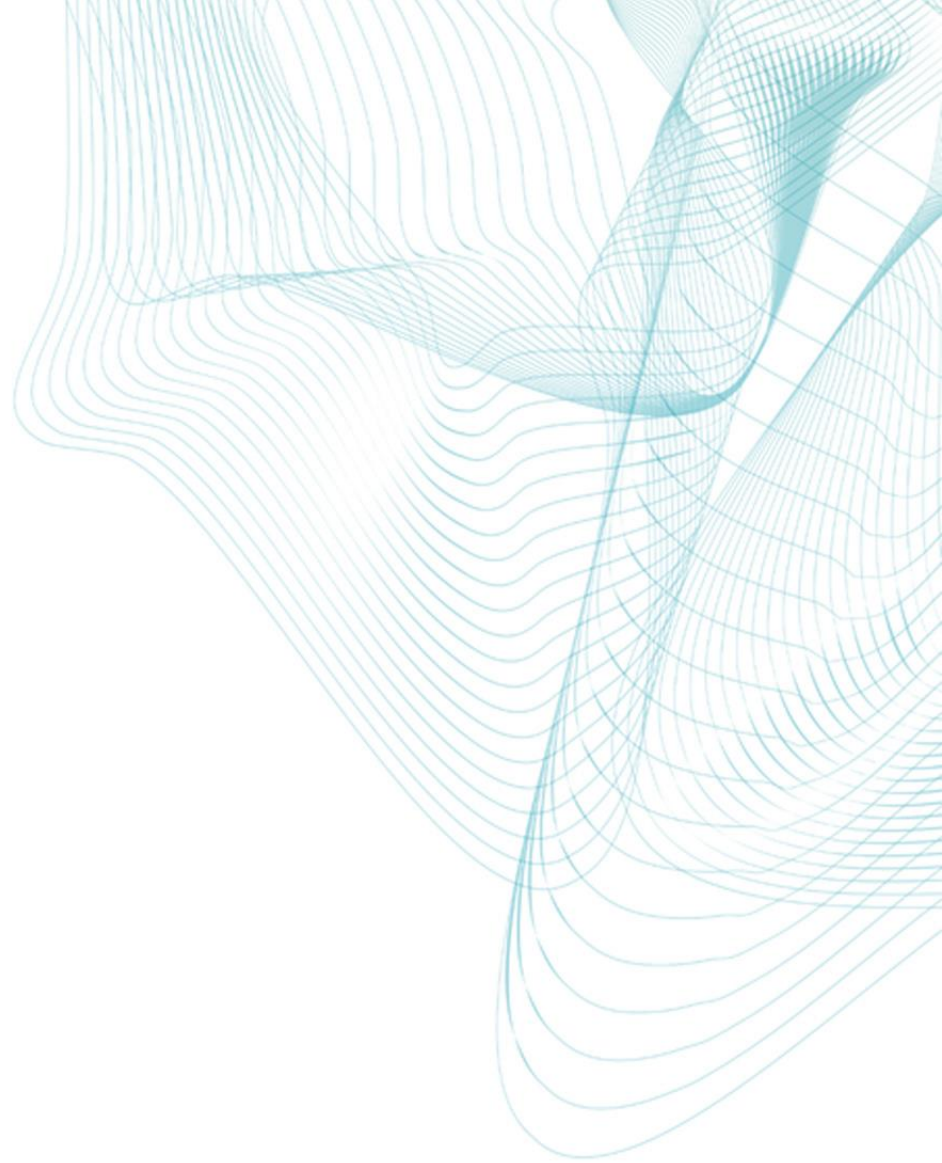
Last Observation: April 6, 2018



Policy coordination is expected to support price stability in the medium term.

- Exchange Rate Risk Management
- Food and Agricultural Product Prices
- Administered Prices

Overview



Overview

- ▶ Recently released data indicate that economic activity maintains its strength.
- ▶ Elevated levels of inflation and inflation expectations continue to pose risks on the pricing behavior.
- ▶ Recent developments are closely monitored in terms of their effects on the inflation outlook.
- ▶ Inflation expectations, pricing behavior and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered.

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