

Macroeconomic Outlook and Monetary Policy in Turkey

Murat Çetinkaya Governor

2018 Spring Meeting of the IMF and the World Bank GroupApril 2018WASHINGTON D.C.

Outline

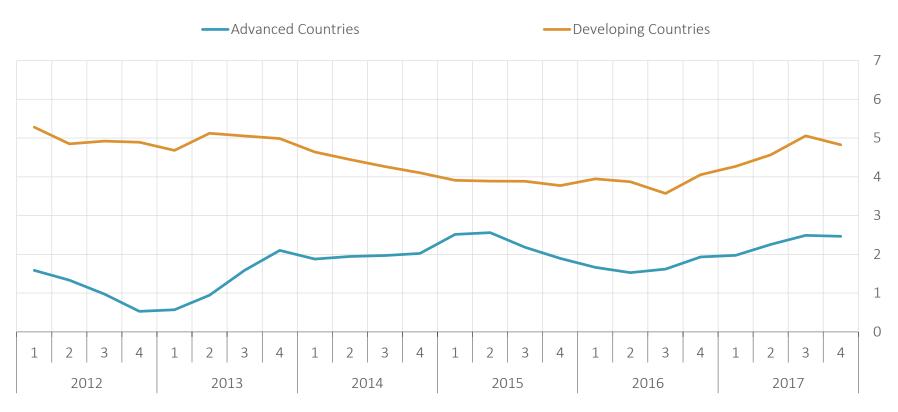
- Macroeconomic Developments
- Inflation and Monetary Policy
- Overview



Macroeconomic Developments

Synchronized global growth continues.

Growth Rates (Annual % Change)



Source: Bloomberg, CBRT

Last Observation: 2017 Q4

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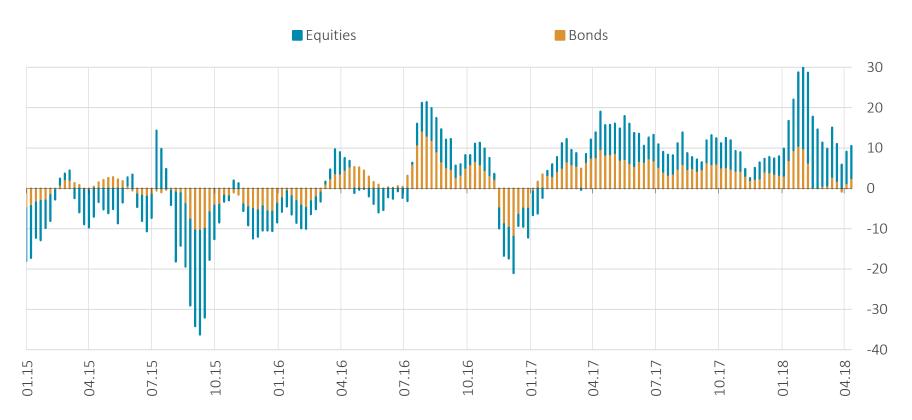
Advanced Countries: USA, Euro Area, Japan, UK, Canada, S.Korea, Switzerland, Sweden, Norway, Denmark, Israel.

URIYET Developing Countries: China, Brazil, India, Mexico, Russia, Turkey, Poland, Indonesia, S.Africa, Argentina, Thailand, Malaysia, Czechia, KASI Colombia, Hungary, Romania, Philippines, Ukraine, Chile, Peru, Morocco.

Portfolio flows follow a volatile course.

Fund Flows to Developing Countries

(Billion US Dollars, 4-Week Cumulative)

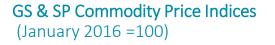


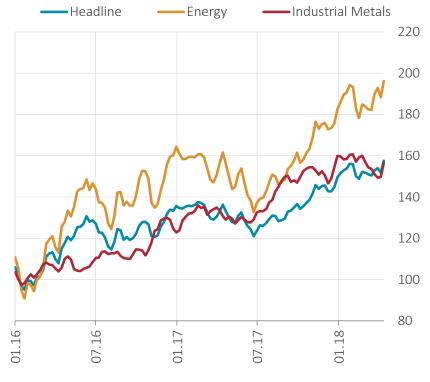
Source: EPFR

Last Observation: April 11, 2018



Commodity and oil prices are trending upwards.

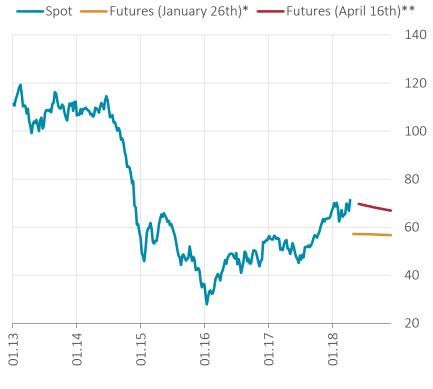




Source: Bloomberg

Last observation: April 13, 2018

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



Source: Bloomberg

Last observation: April 16, 2018



* Average of future contract prices between 1-26 January 2018.

** Average of future contract prices between 2-16 April 2018.

Risks remain amid global recovery.

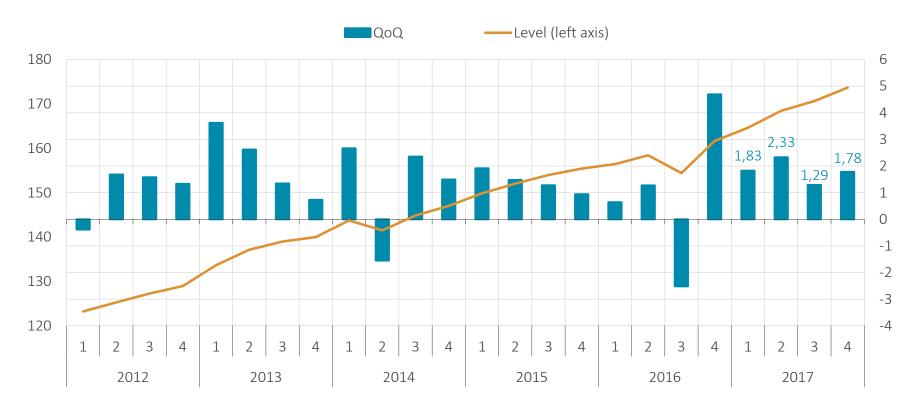
- Protectionism trends in global trade
- Normalization in monetary policies of advanced economies
- Increase in commodity prices
- Geopolitical risks



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

Gross Domestic Product

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



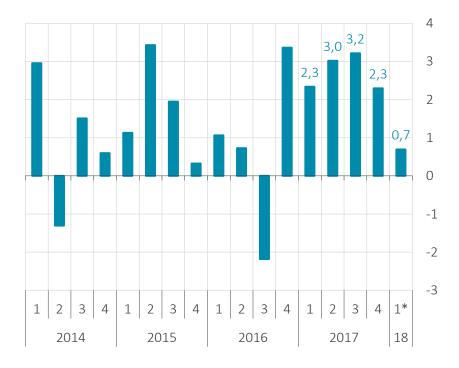
Source: TURKSTAT

Last Observation: 2017 Q4



Industrial production grows at a robust pace.

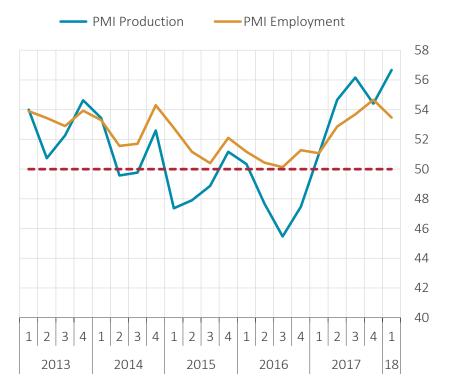
Industrial Production Index (Seasonally Adjusted, Quarterly % Change)



Source: TURKSTAT

*Last Observation: February 2018

PMI (Seasonally Adjusted)



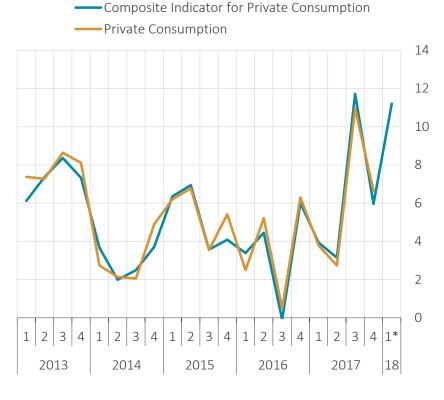
Source: PMI Markit

Last Observation: 2018 Q1



Domestic demand has continued to support growth.

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



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



Source: CBRT, TURKSTAT

*Last Observation: February 2018

Source: CBRT, OSD, TURKSTAT



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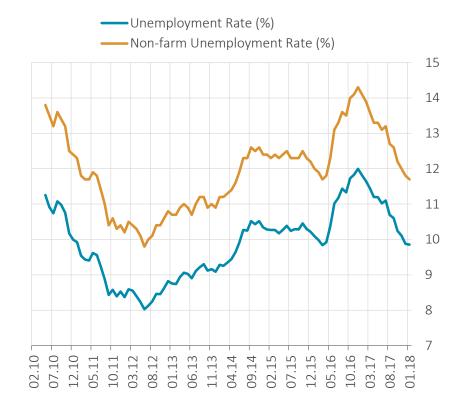


**Composite indicator is the weighted average of the annual percentage changes of real turnover in nondurable goods, durable goods import quantity index, passenger car sales and retail sales volume index.

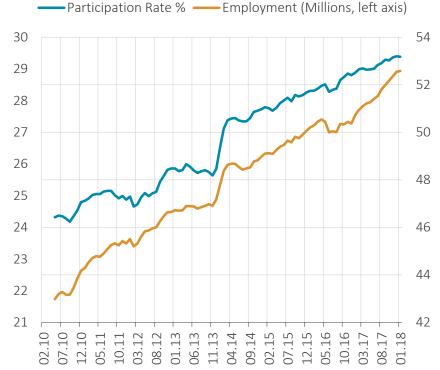
***Composite indicator for investment shows the average of the annual percentage changes in production and imports of capital goods and mineral products as well as commercial vehicle sales, housing sales and FX-denominated loans, construction sector orders, commercial loan rate and capacity utilization rate (manufacturing, services, trade, construction).

Employment growth has been strong.

Unemployment Rates (Seasonally Adjusted)



Labor Force Participation Rate and Employment (Seasonally Adjusted)



Source: TURKSTAT

Last Observation: January 2018

Source: TURKSTAT

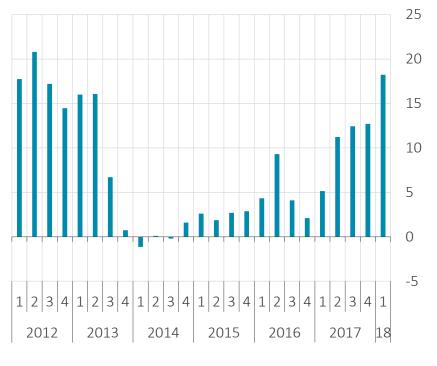
Last Observation: January 2018



Capacity utilization rates support investment demand.

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





Source: TURKSTAT

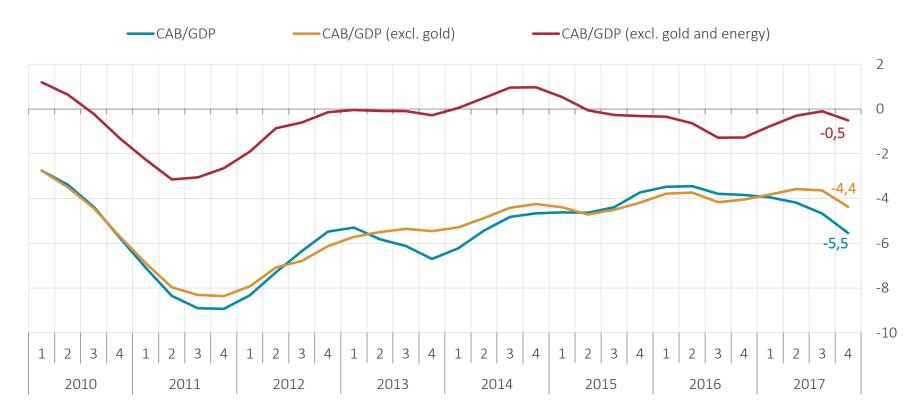
Last Observation: 2018 Q1



Last Observation: 2018 Q1

Current account deficit has widened.

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



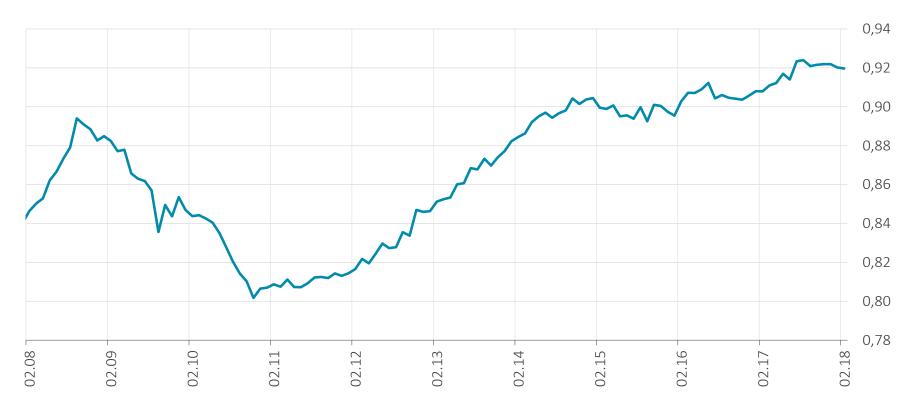
Source: CBRT

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, %)



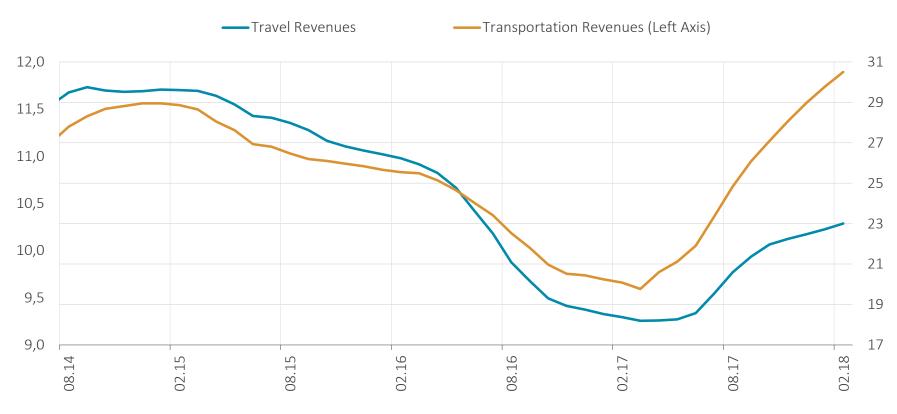
Source: WTO

Last Observation: February 2018



Tourism revenues continue to recover.

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



Source: CBRT

Last Observation: February 2018

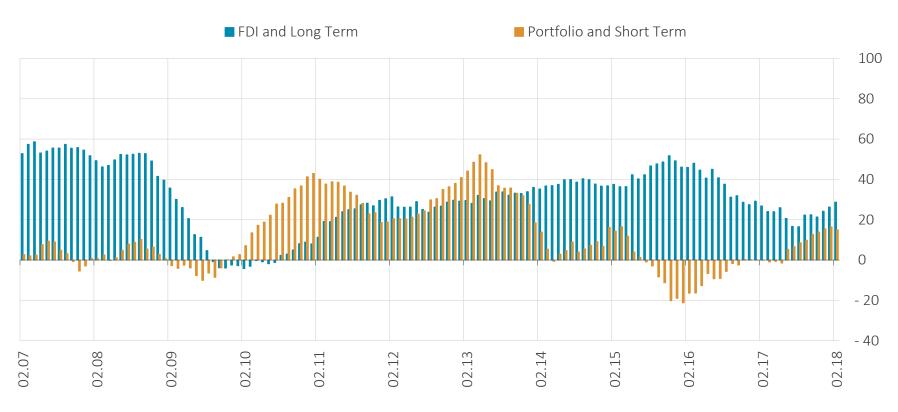


(*) Transportation revenues consist of gross revenues from international passenger and baggage transport and postal and courier services.

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



*Portfolio and short term capital movements are sum of the non-residents' bond and equity purchases, banking and real sectors' short term net credit and deposits in banks. Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

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External debt roll-overs remain robust.

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



Source: CBRT

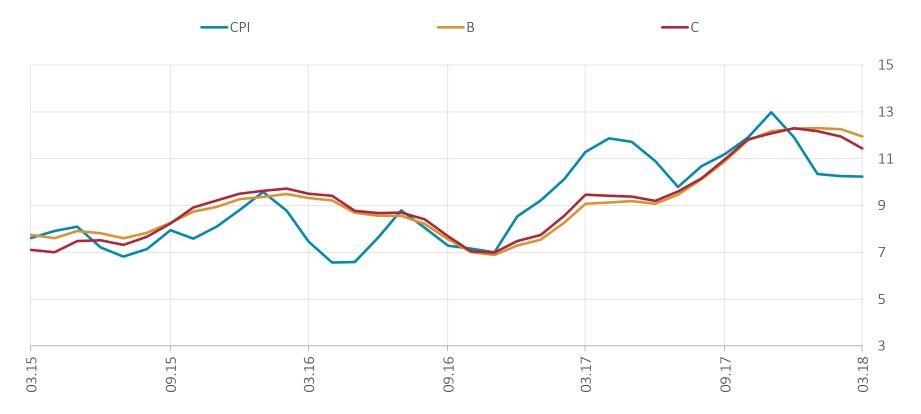
Last Observation: February 2018 for Banking sector; January 2018 for Corporate sector.



Inflation and Monetary Policy

CPI inflation and core indicators remain at elevated levels.

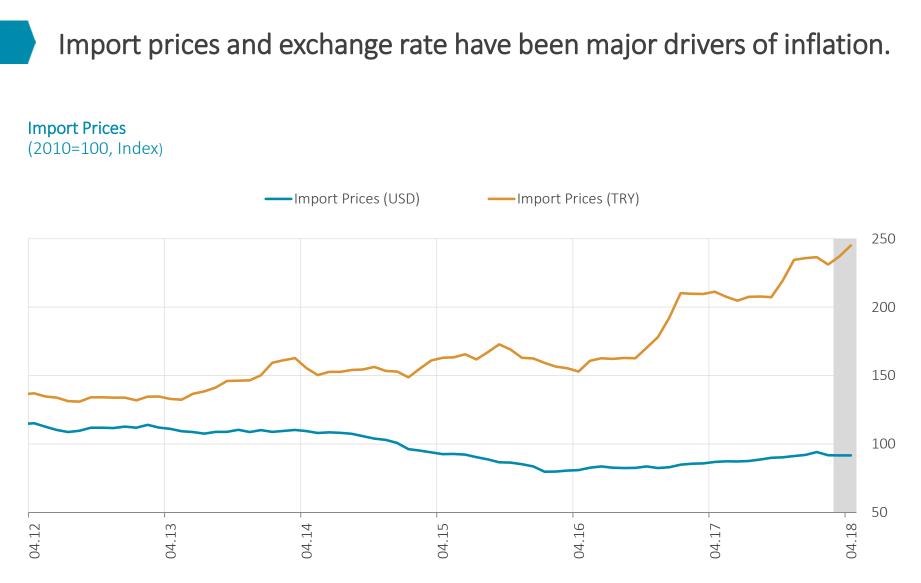
Inflation and Core Inflation Indicators (Annual % Change)



Source: TURKSTAT

Last Observation: March 2018





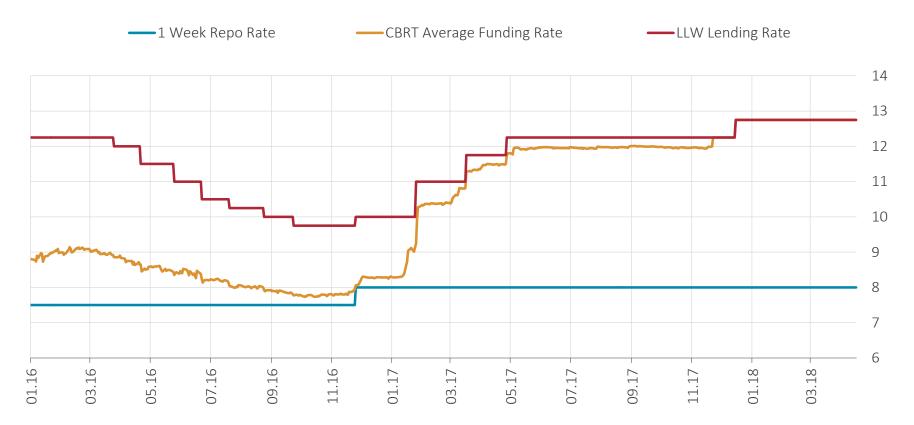
Source: TURKSTAT

Last Observation: February 2018



Monetary policy is committed to achieving and maintaining price stability.

CBRT Interest Rates (%)



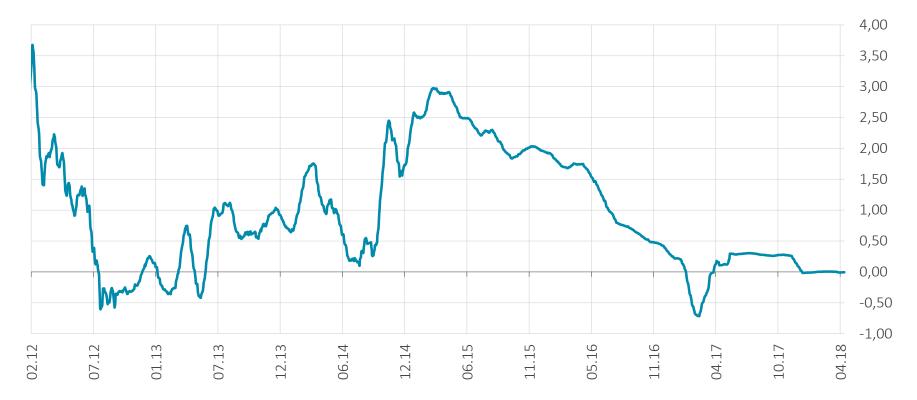
Source: CBRT

Last Observation: April 16, 2018



Predictability of monetary policy improved significantly.

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



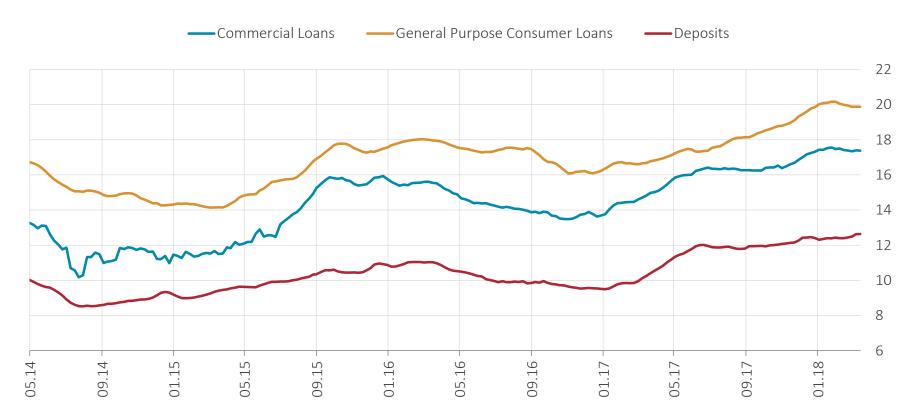
Source: BIST,CBRT

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)



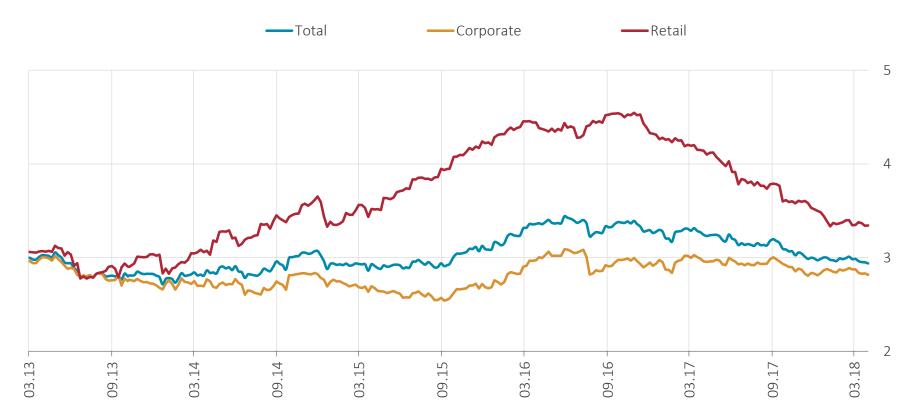
Source: CBRT

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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