



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Balanced Growth Prospects in Turkey**

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Governor**

**IMF – World Bank Autumn Meetings  
Presentation to investor meetings  
October 10, 2014  
Washington DC**

# Overview

- Exports remain supportive of balanced growth in spite of weakening global demand.
- Tight monetary policy stance and macroprudential measures are keeping loan growth rates at reasonable levels.
- Macroprudential measures taken at the beginning of the year and the tight monetary policy stance started to have favorable impact on the core inflation trend. However, elevated food prices continue to delay the improvement in the inflation outlook.
- Declining commodity prices are expected to limit upside risks on inflation.
- Inflation expectations, pricing behavior and other factors that affect inflation will be closely monitored and the tight monetary policy stance will be maintained, by keeping a flat yield curve, until there is a significant improvement in the inflation outlook.

# Outline

- 1) Balanced Growth Policies
- 2) Balanced Growth Prospects

# BALANCED GROWTH POLICIES

## Structural reforms will be the main driver of growth.

- G20 Sydney: +2 pp by year 2018, Global
- 10<sup>th</sup> Development Plan, Turkey
- Medium Term Program (2015-2017), Turkey

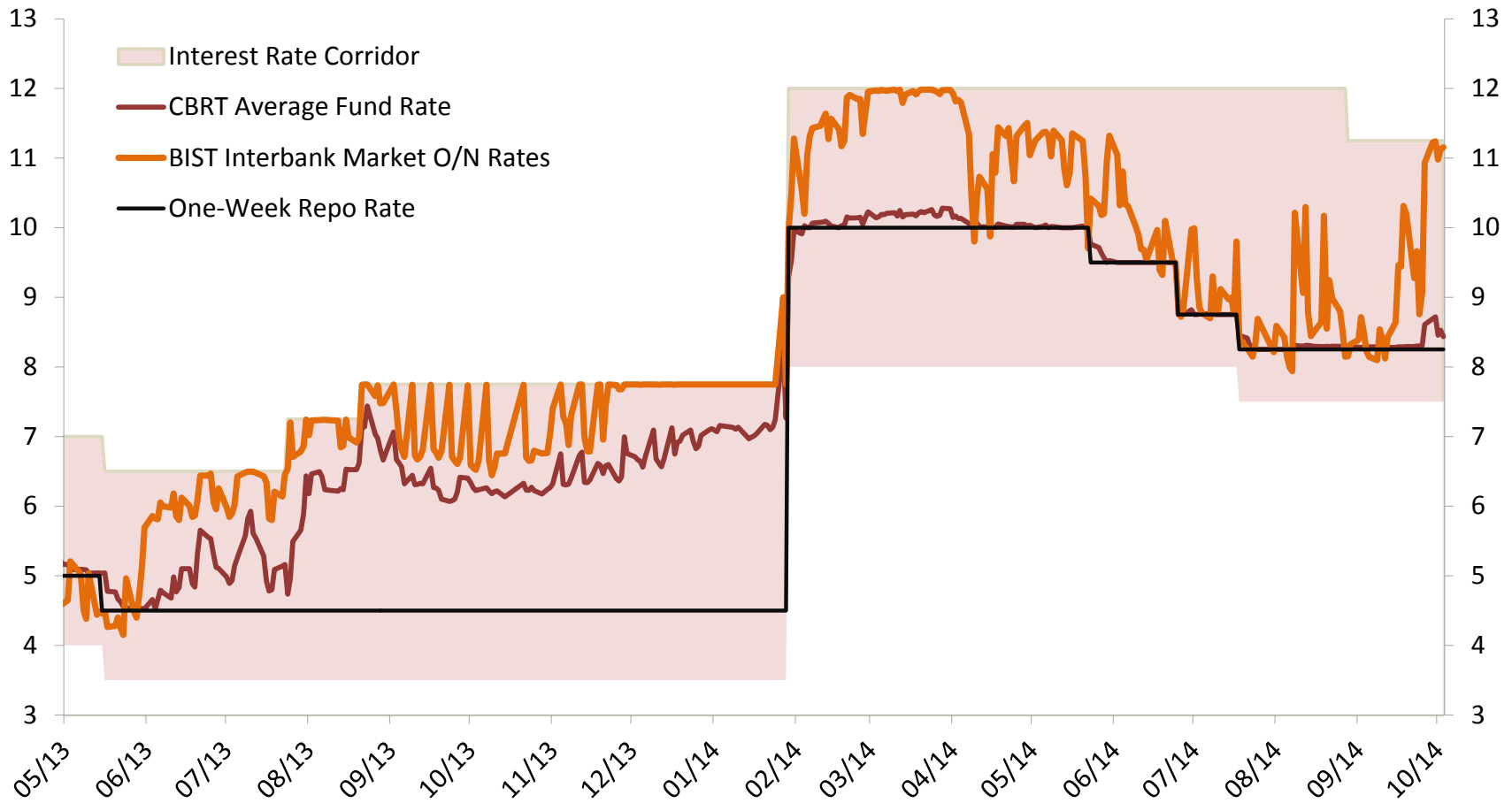
## Policies in Turkey are geared towards a more balanced growth.

- Structural Reforms: Action Plans (1200 Actions)
- Central Bank Contribution: Price Stability, Balanced Growth Policies
- FSC Contribution: Financial Stability, Macroprudential Policies

# Monetary Policy Stance

- “[...] tight monetary policy stance will be maintained, by keeping a flat yield curve, until there is a significant improvement in the inflation outlook.”

# The CBRT maintains a tightening bias in liquidity policy.



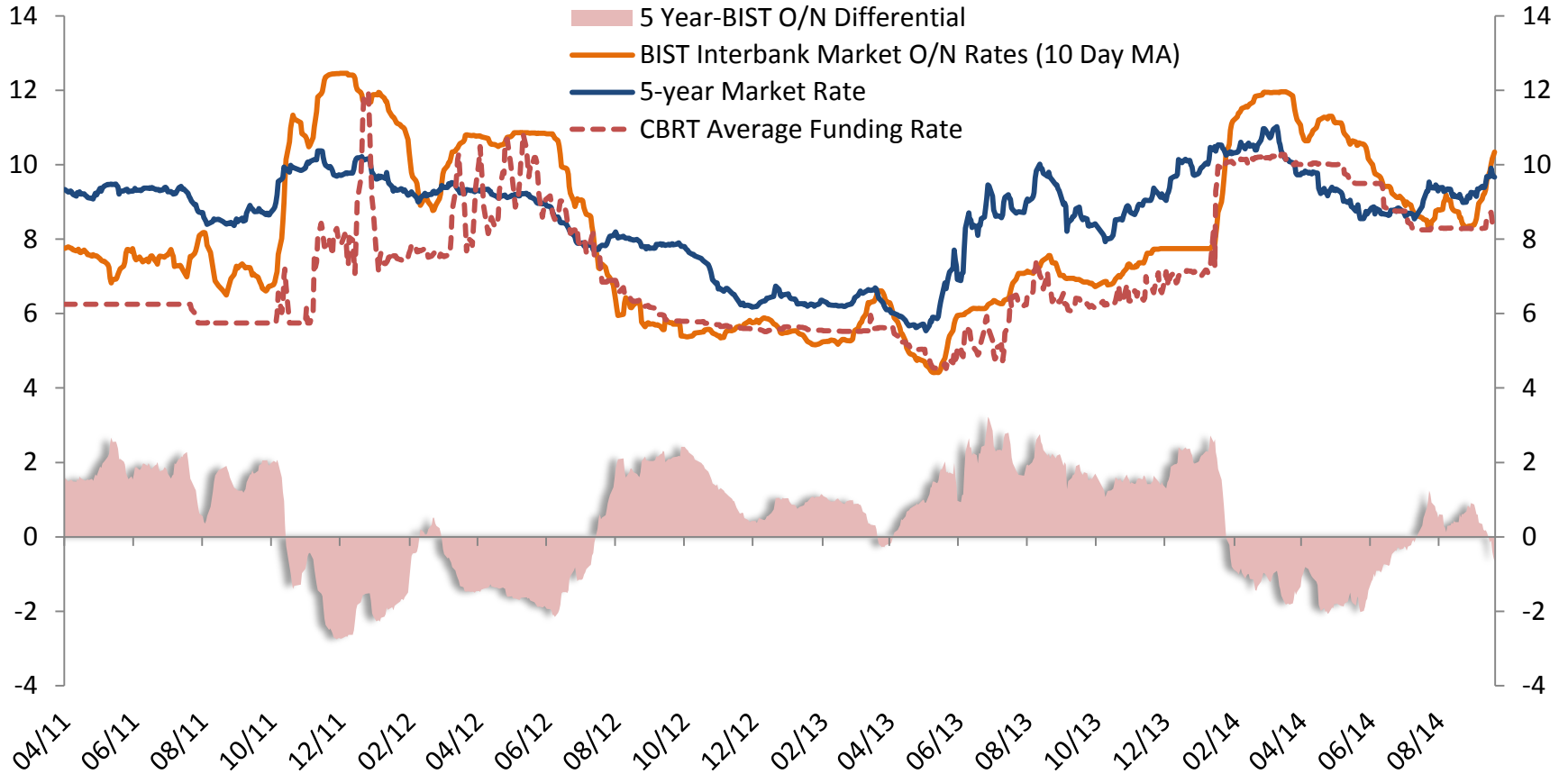
Source: TCMB.

Last Observation: 03 October 2014



Since the January tightening, slope of the yield curve has remained low compared to historical averages.

### Short Term versus Long Term Interest Rates (Percent)

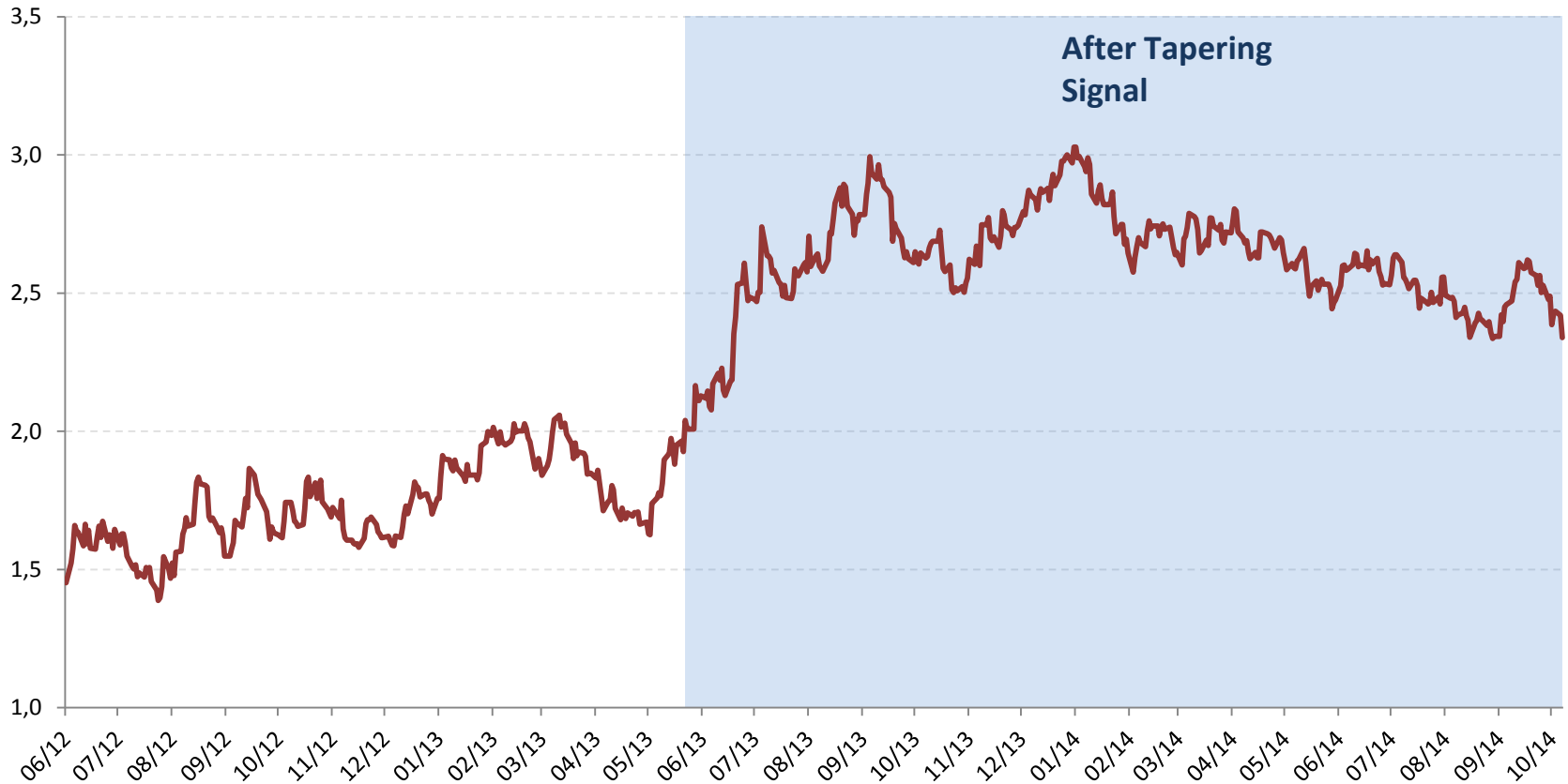


Source: CBRT, Bloomberg.

Last Observation: 03 October 2014

# The FED tapering episode has lead to increased US government bond yields.

## US 10 Year Government Bond Rate (Percent)

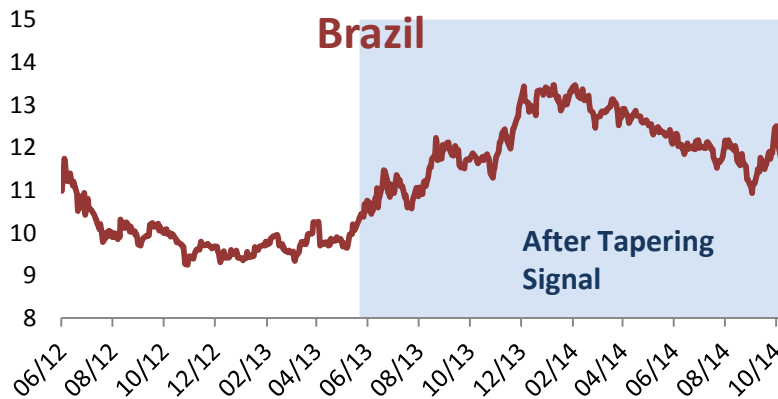
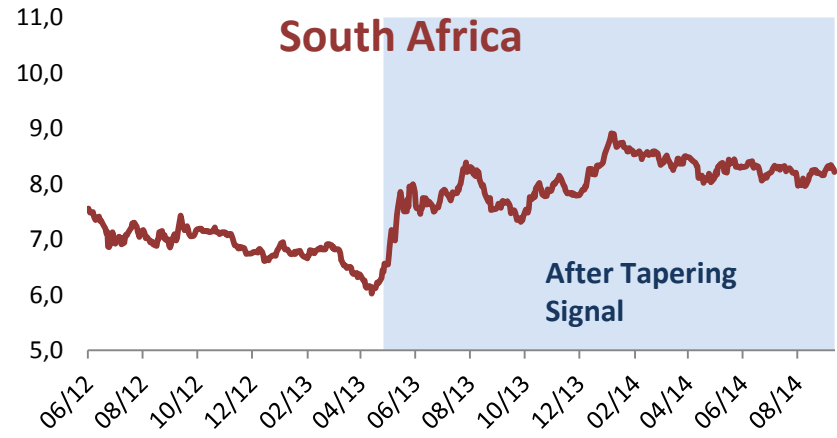


Source: Bloomberg.

Last Observation: 7 October 2014

# Long-term government bond rates have also increased in emerging countries with high current account deficits,...

## Emerging Markets Government Bond Rates\* (Percent)

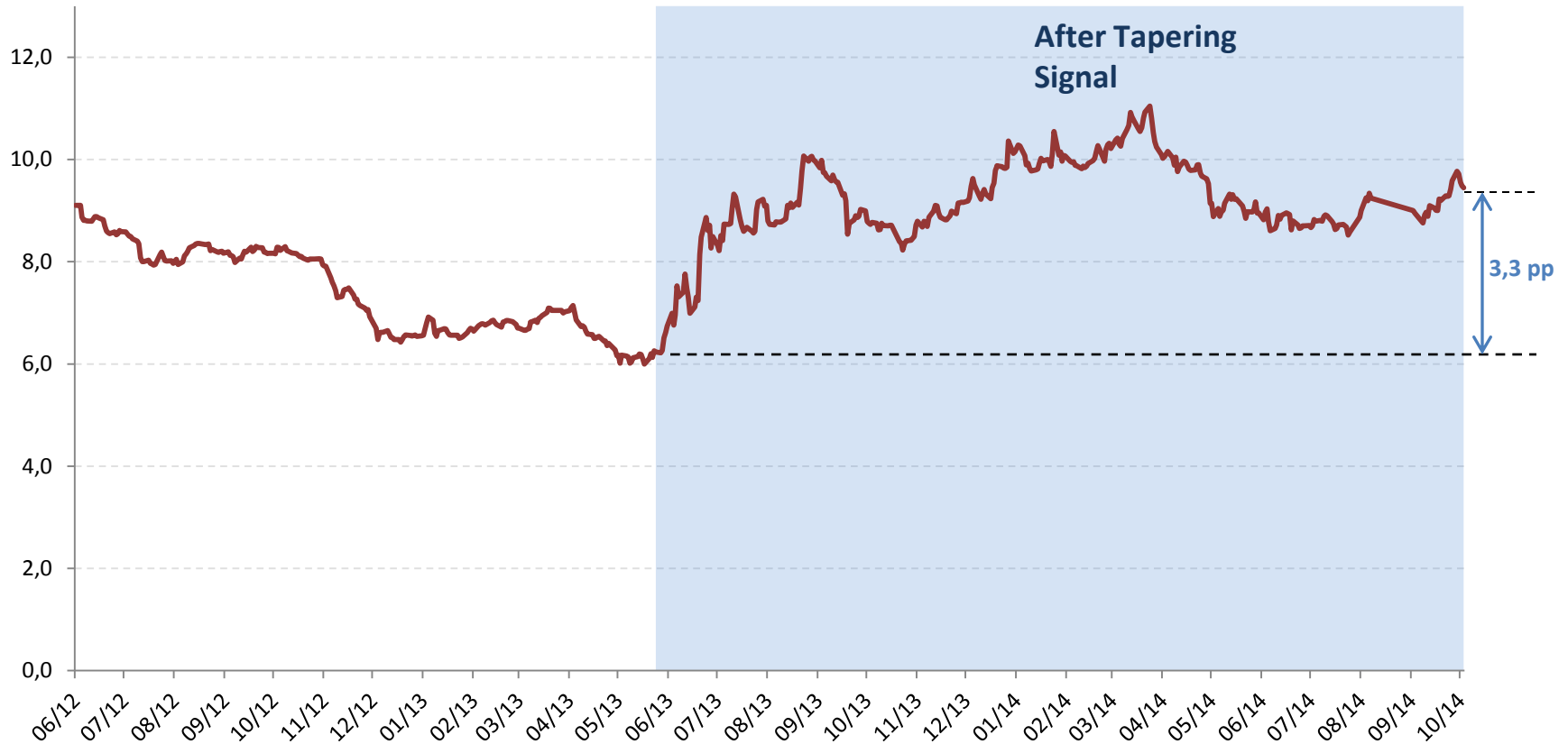


Source: Bloomberg, Reuters

\*10 year domestic government bond yields .  
Last Observation: 7 October 2014

## ... including Turkey.

### Turkey 10 Year Government Bond Rate (Percent)

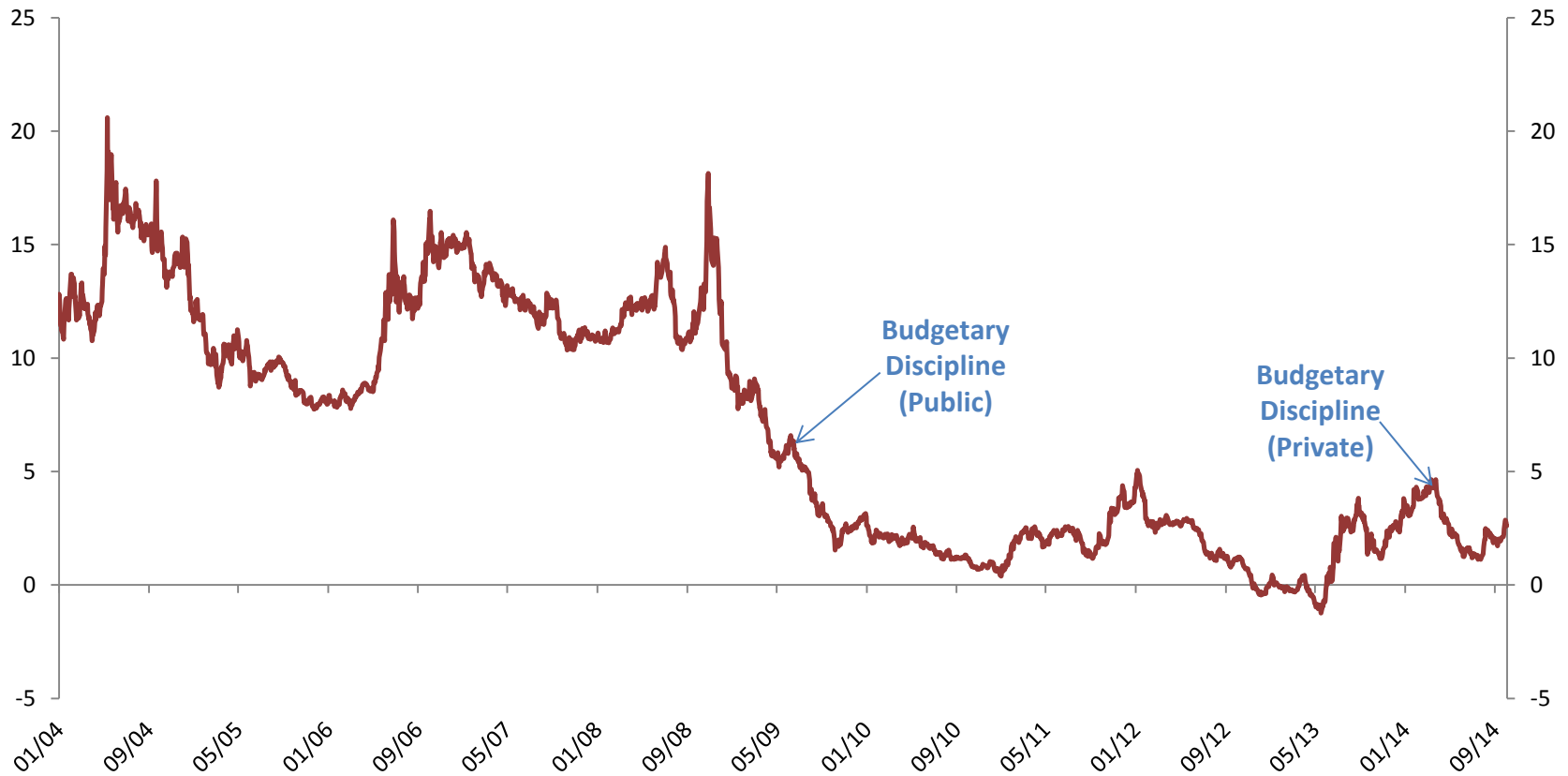


Source: Bloomberg.

Last Observation: 3 October 2014

# Equilibrium real interest rates are significantly below the GFC levels, with the help of macroprudential measures.

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



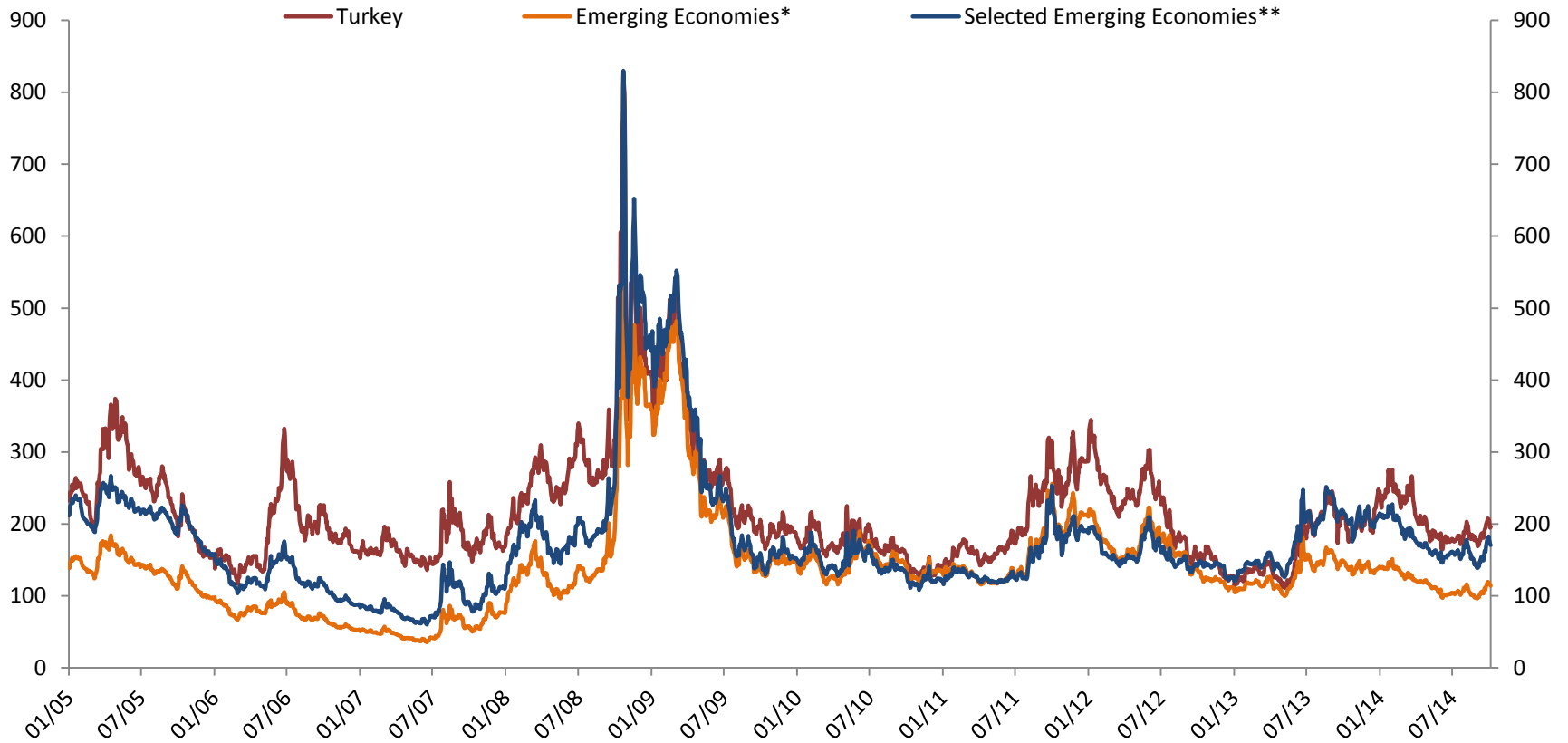
Source: CBRT, BIST.

\* Calculated as the difference between 2-year bond returns derived from the yield curve and the inflation expectations derived from the CBRT Survey of Expectations. 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.

Last Observation: 3 October 2014

# Risk premium indicators for emerging countries have fallen down to pre-GFC levels.

## CDS for Emerging Economies and Turkey (5-year, Basis Points)



Source: CBRT, Bloomberg.

\*Emerging Economies include Brasil, Chile, Colombia, Czech Rep., Hungary, Indonesia, Mexico, Poland, Romania and S. Africa.

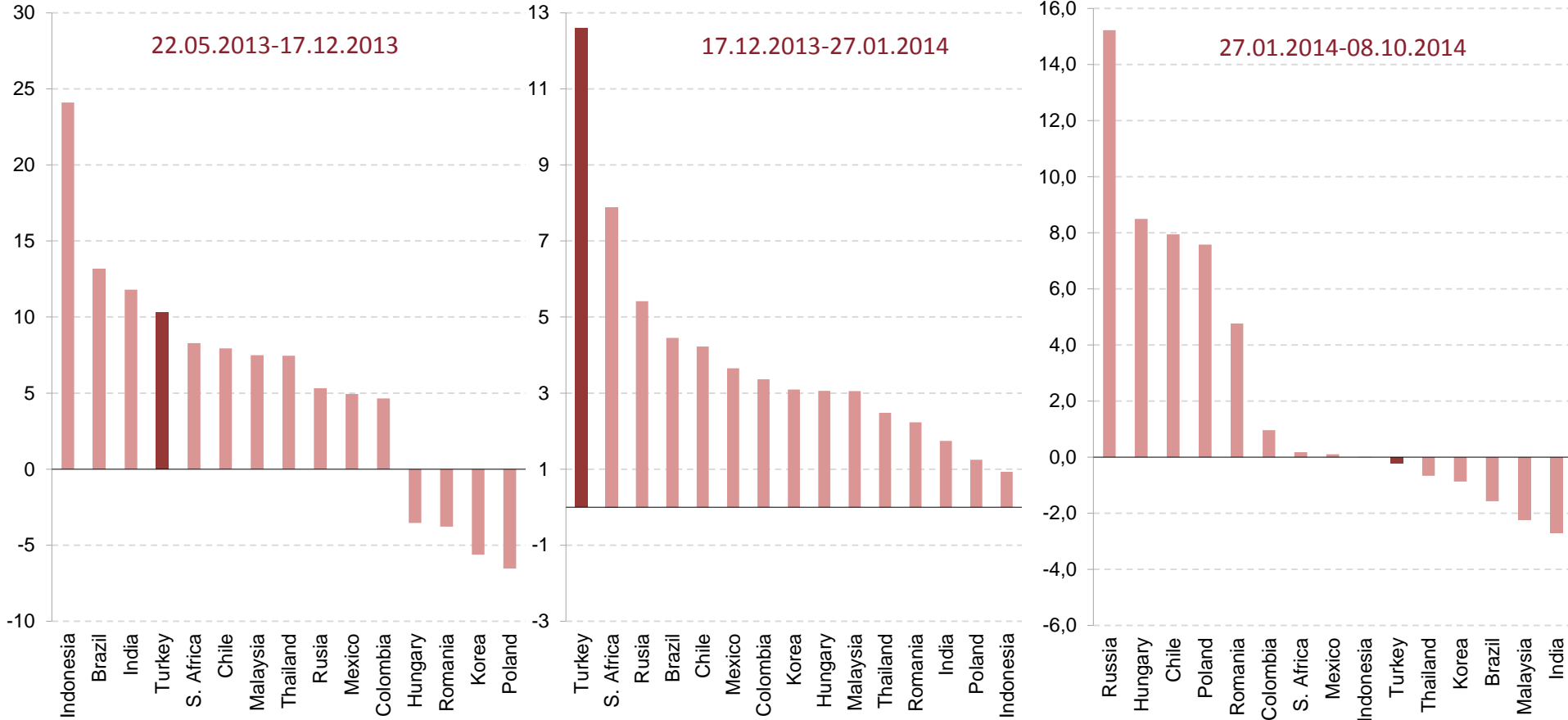
\*\* Selected Economies include Brasil, Indonesia and S. Africa.

Last Observation: 7 October 2014.

# Turkish lira performed relatively well after the front-loaded monetary tightening in January.

## Nominal FX Rates

(Percentage change against USD)

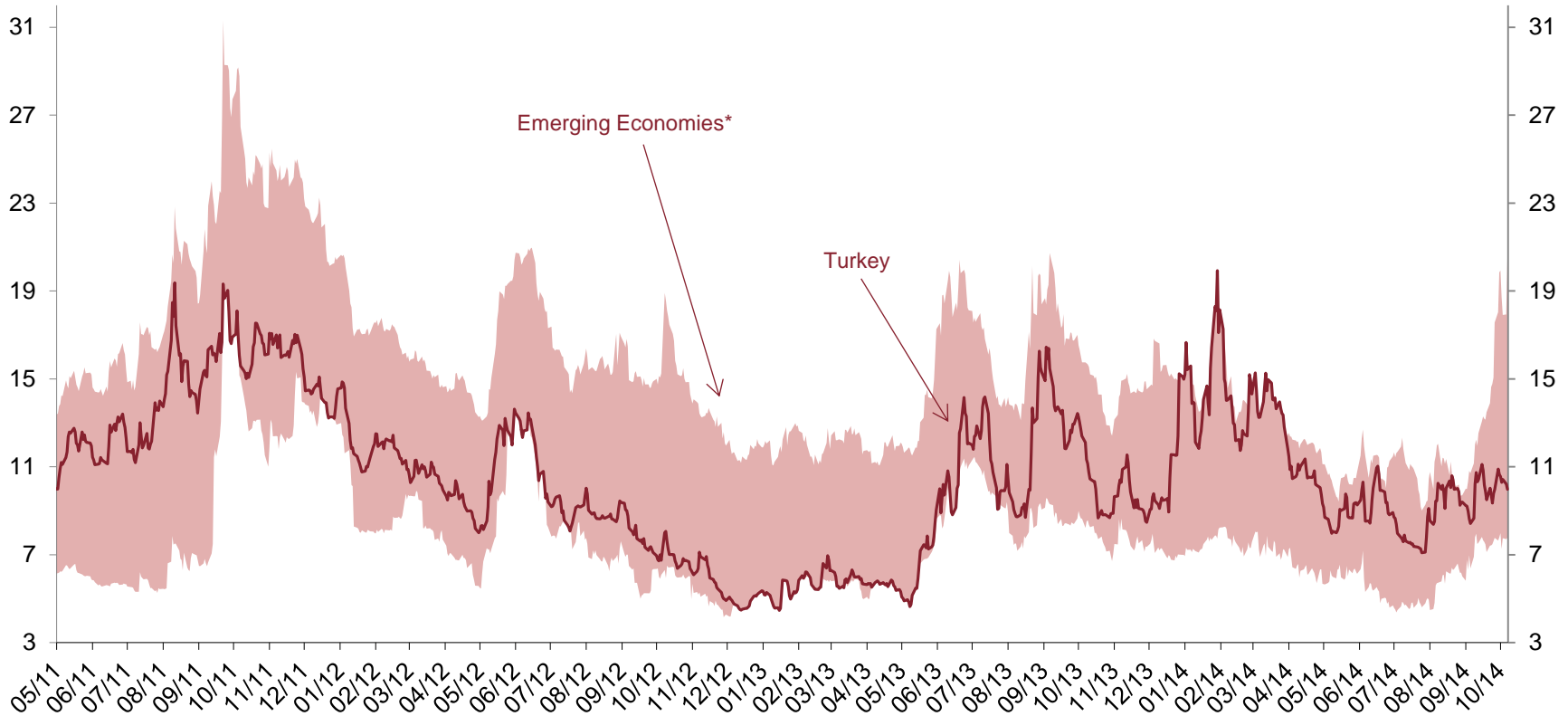


Source: Bloomberg, CBRT.

A positive value means the currency depreciates against US Dollar.

# Implied FX volatility has improved to some extent.

## Implied FX volatility (1 month, Percent)



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

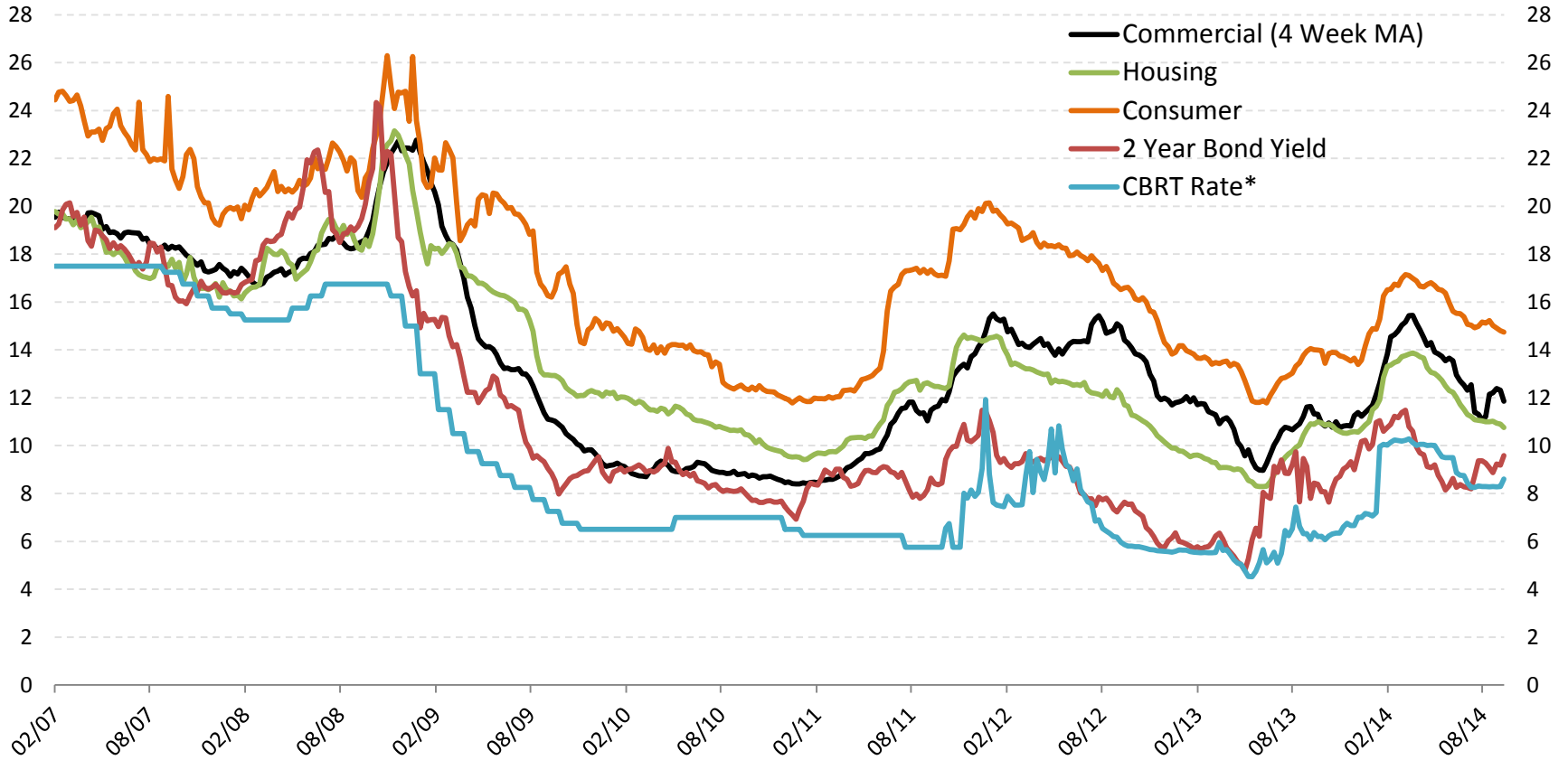
Last Observation: 7 October 2014.

Source: Bloomberg.



# Commercial loan interest rates are significantly below consumer loan rates.

## Interest Rates (Percent)

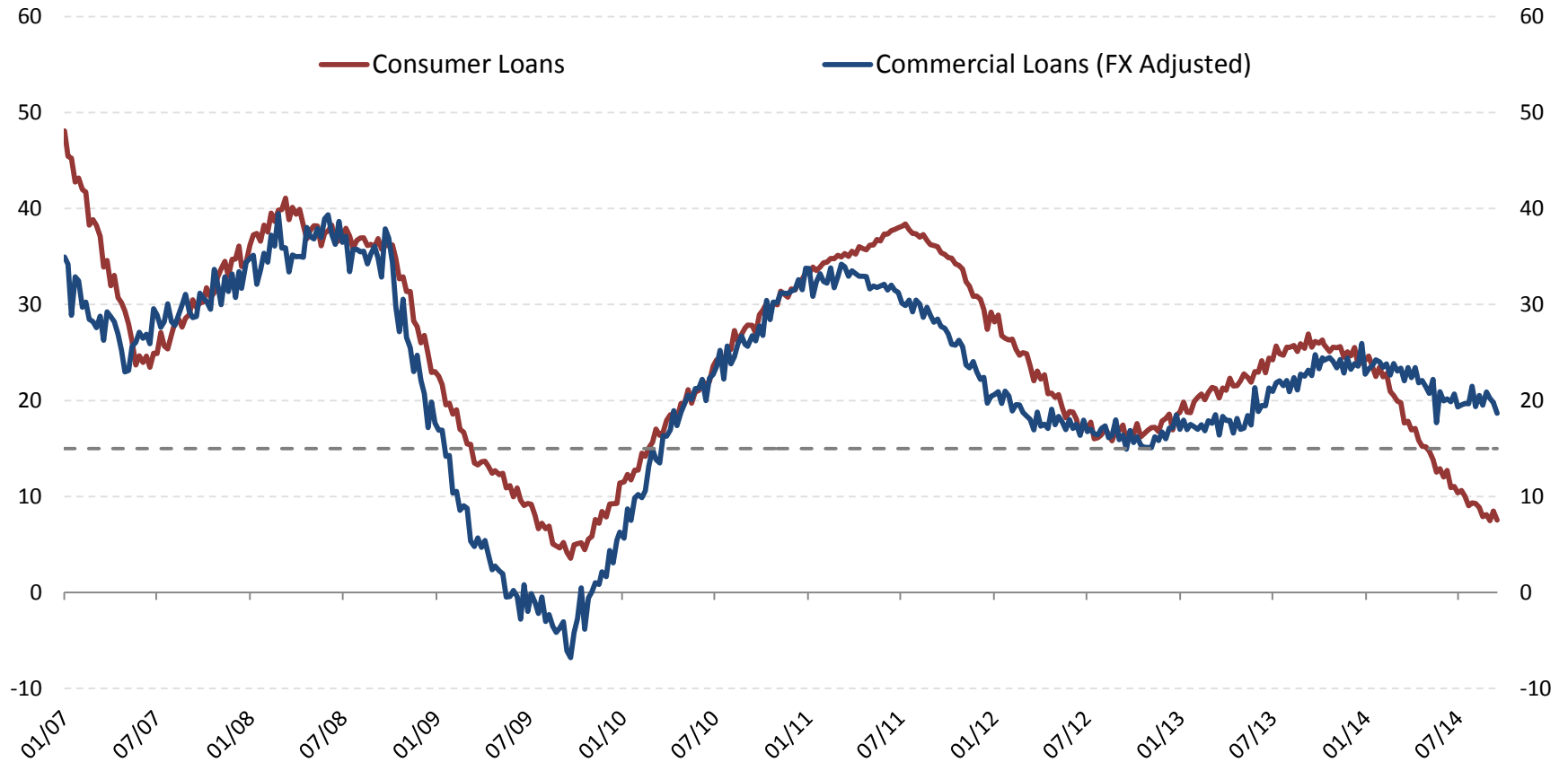


Source: CBRT.

\* Before 10.20.2011 CBRT borrowing rate, CBRT Average funding rate after.  
Last Observation: 26 September 2014

# Loan growth continues at reasonable levels in response to the tight monetary policy stance and the macroprudential measures.

## Consumer and Commercial Loan Growth Rate (YoY Change, Percent)



Source: CBRT.

Total banking sector (including participation banks, excluding NPLs)

\*Including credit card balances.

Last Observation: 19 September 2014

# Central Bank contributes to balanced growth in line with its mandate.

## 1) Price stability

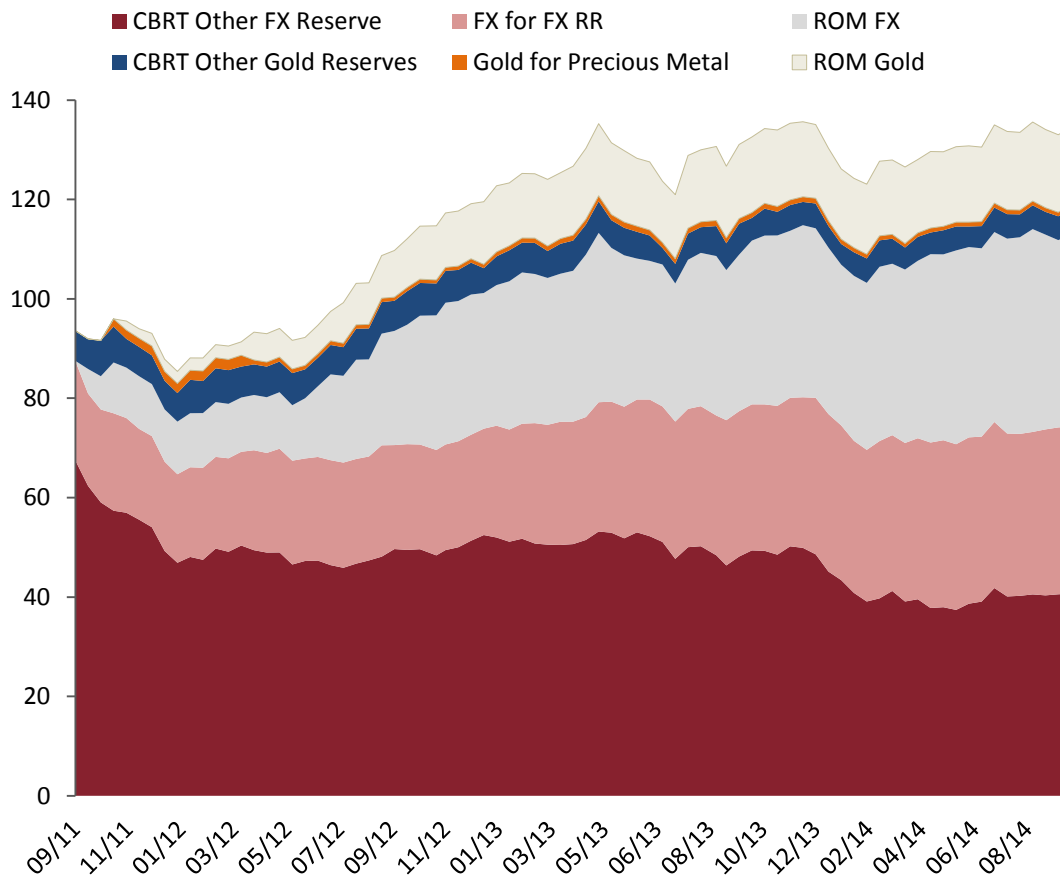
## 2) Additional support to balanced growth

- Funding for Exports ✓
- Sustainable Credit Growth ✓
- Lender of Last Resort Facilities ✓
- Support for Core Liabilities **New**

# The contribution from the funding for exports program to official reserves is expected to reach 13 billion USD in 2014.

## CBRT Reserves

(Billion USD)



Source: CBRT.  
Last Observation: 26 September 2014.

Billion USD

	FX Sales (-)	Export Credit (+)
January 2014*	5.8	0.57
February 2014	1.0	0.30
March 2014	1.05	0.48
April 2014	1.02	0.36
May 2014	0.50	2.06
June 2014	0.42	1.54
July 2014	0.38	1.46
August 2014	0.21	1.38
September 2014	0.31	1.42 <sup>+</sup>
October 2014	0,08**	1.32 <sup>+</sup>
November 2014		0.77 <sup>+</sup>
December 2014		1.27 <sup>+</sup>
<b>TOTAL</b>	<b>10,77</b>	<b>12,93</b>

Amount (Billion USD)

<b>ROM FX</b>	38.5
<b>FX Required Reserves</b>	33.6
<b>Total</b>	<b>72.1</b>

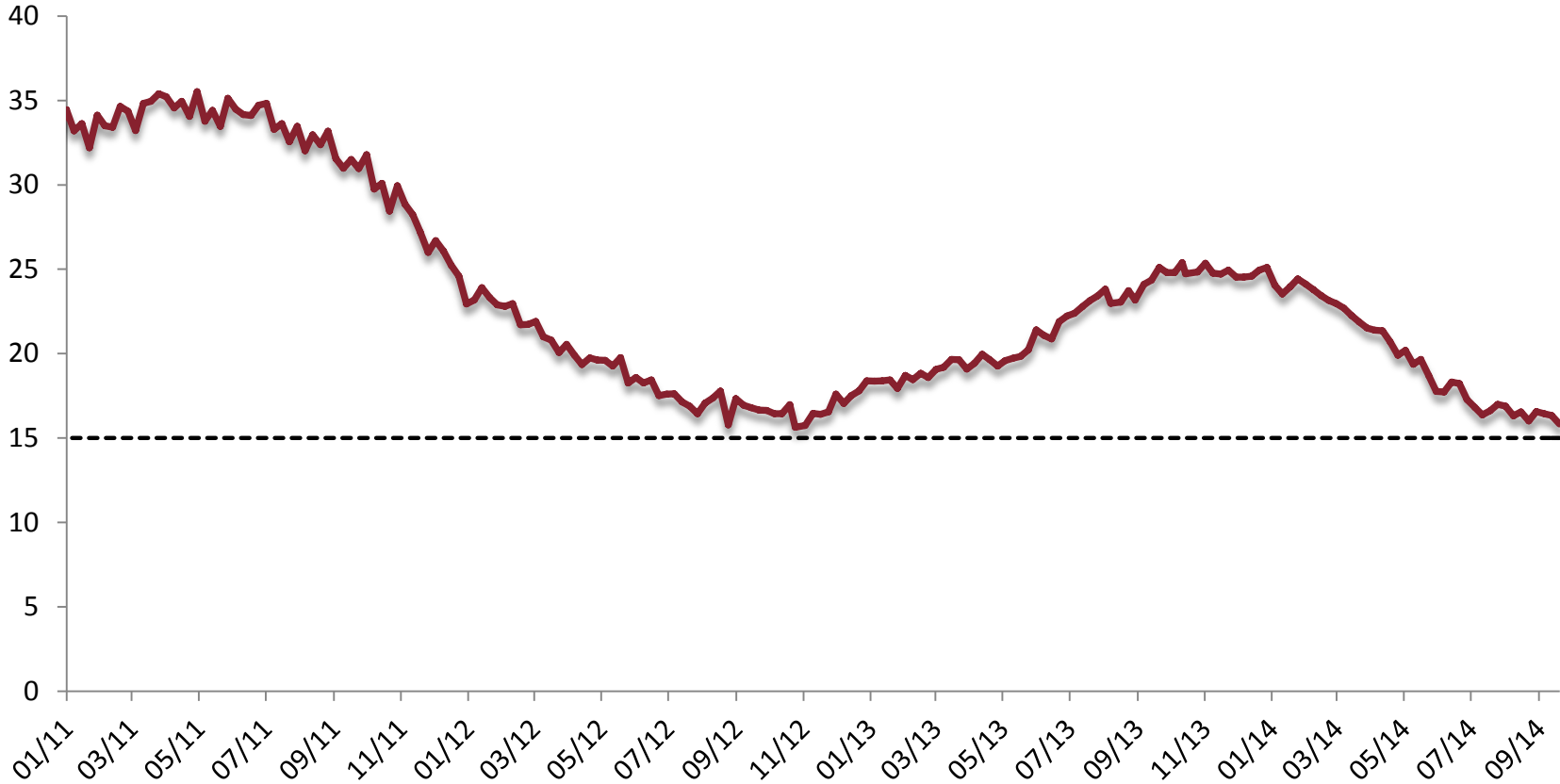
\*Includes the direct currency intervention of January 2014.

\*\* FX Sales are as of 08 October 2014.

<sup>+</sup>Provisional.

# Sustainable Credit Growth

**Total Loan Growth Rate**  
(YoY Change, Percent)



Source: CBRT.

Last Observation: September 19, 2014.

Total loan is inclusive of all types of banks (deposit banks, participation banks, and development/investment banks) and credit cards.

Adjusted for exchange rate.

# Lender of Last Resort Facilities

- While ending quantitative easing, the U.S. Federal Reserve stated that it would keep policy rates low for a considerable time.
- Moreover, the expectations of the level that policy rates will reach in the long run is lower than the pre-crisis level.
- In this context, the Monetary Policy Committee was briefed on limits, interest rates and past implementations of the Foreign Exchange Deposit Market.

Summary of the Monetary Policy Meeting on September 25, 2014

# Lender of Last Resort Facilities

- Applied to one week borrowing from the Central Bank.
- Turkish lira government bonds are accepted as collateral.
- Simultaneous use with Reserve Options will not be allowed
- Projected rates over the MTP period are:

	2015	2016	2017
USD	7.5	8.5	9.0
Euros	6.5	6.5	6.5

- Further details will be announced on the press conference on December 10, 2014.

# Support for Core Liabilities

- For the purposes of financial stability, it is important to further strengthen the current healthy state of the banking sector.
- In this context, the Monetary Policy Committee was informed about the preparations on remunerating the Turkish lira portion of required reserves, on a basis to encourage improving the deposit and equity ratios of the banking sector.

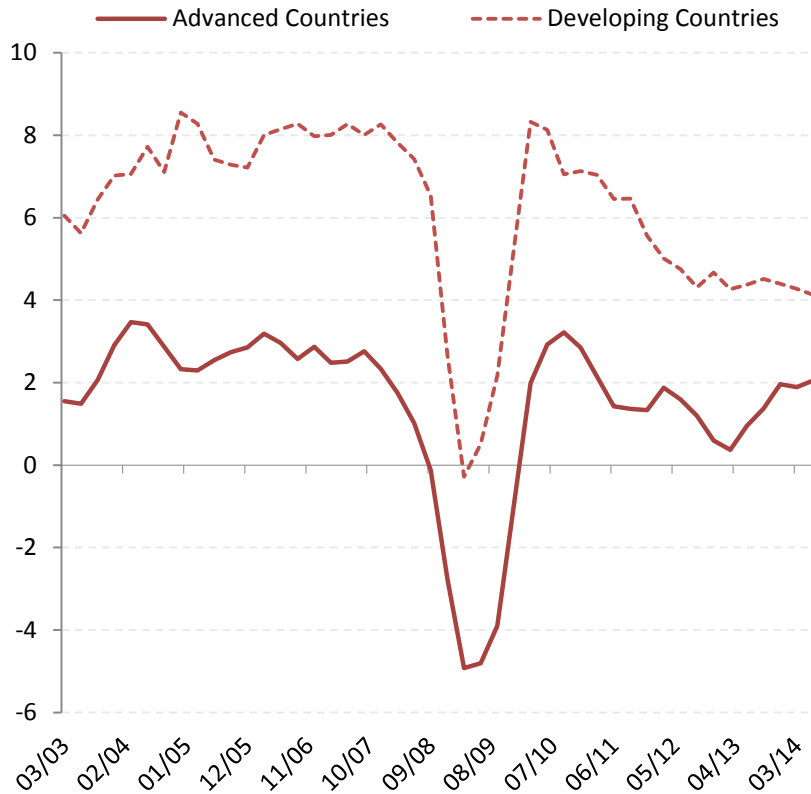
Summary of the Monetary Policy Meeting on September 25, 2014



# BALANCED GROWTH PROSPECTS

# Global growth rates are moderate.

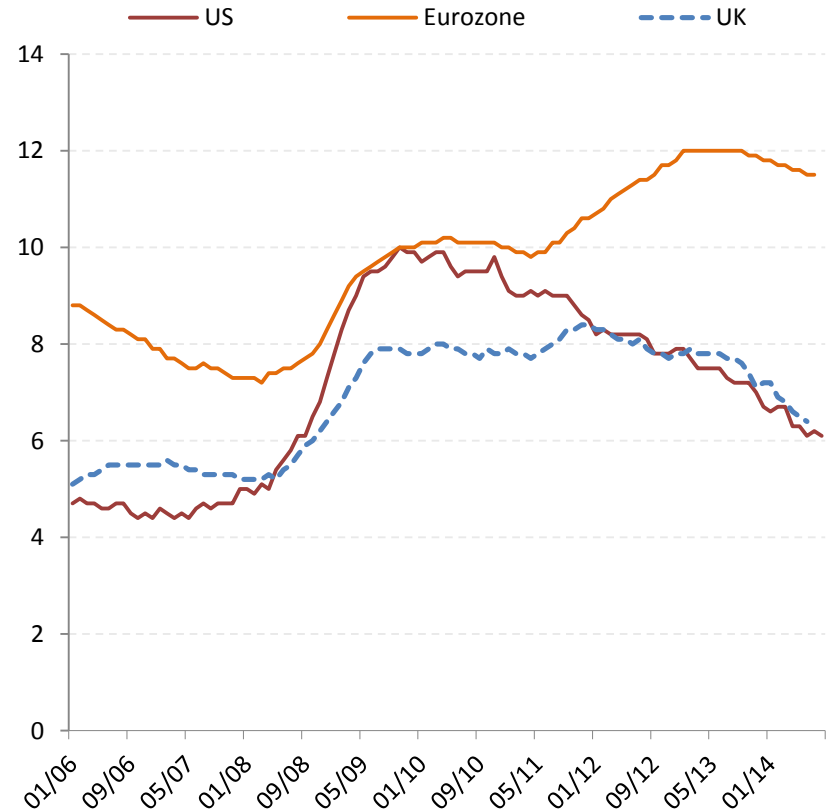
## Global Growth Rates\* (Annual Change, Percent)



Source: Bloomberg, CBRT.

\*Aggregated data is calculated according to countries' GDP weights.  
Last Observation: 2014 Q2.

## Unemployment Rates in Advanced Economies (Percent)

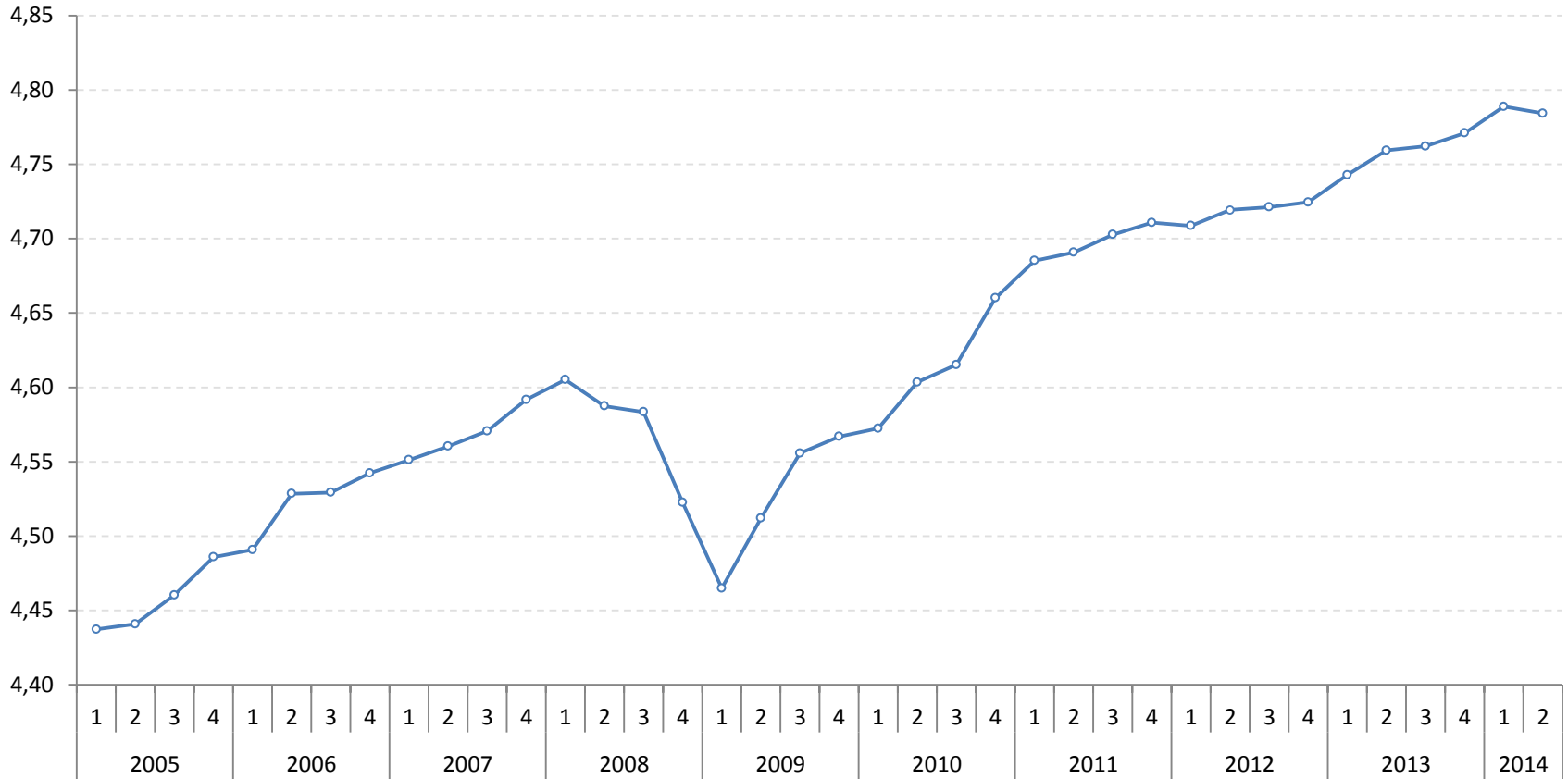


Source: Bloomberg, CBRT.

Last Observation: June 2014 for UK, July 2014 for Euro area, August 2014 for US.

# Growth in Turkey also weakened in the second quarter,...

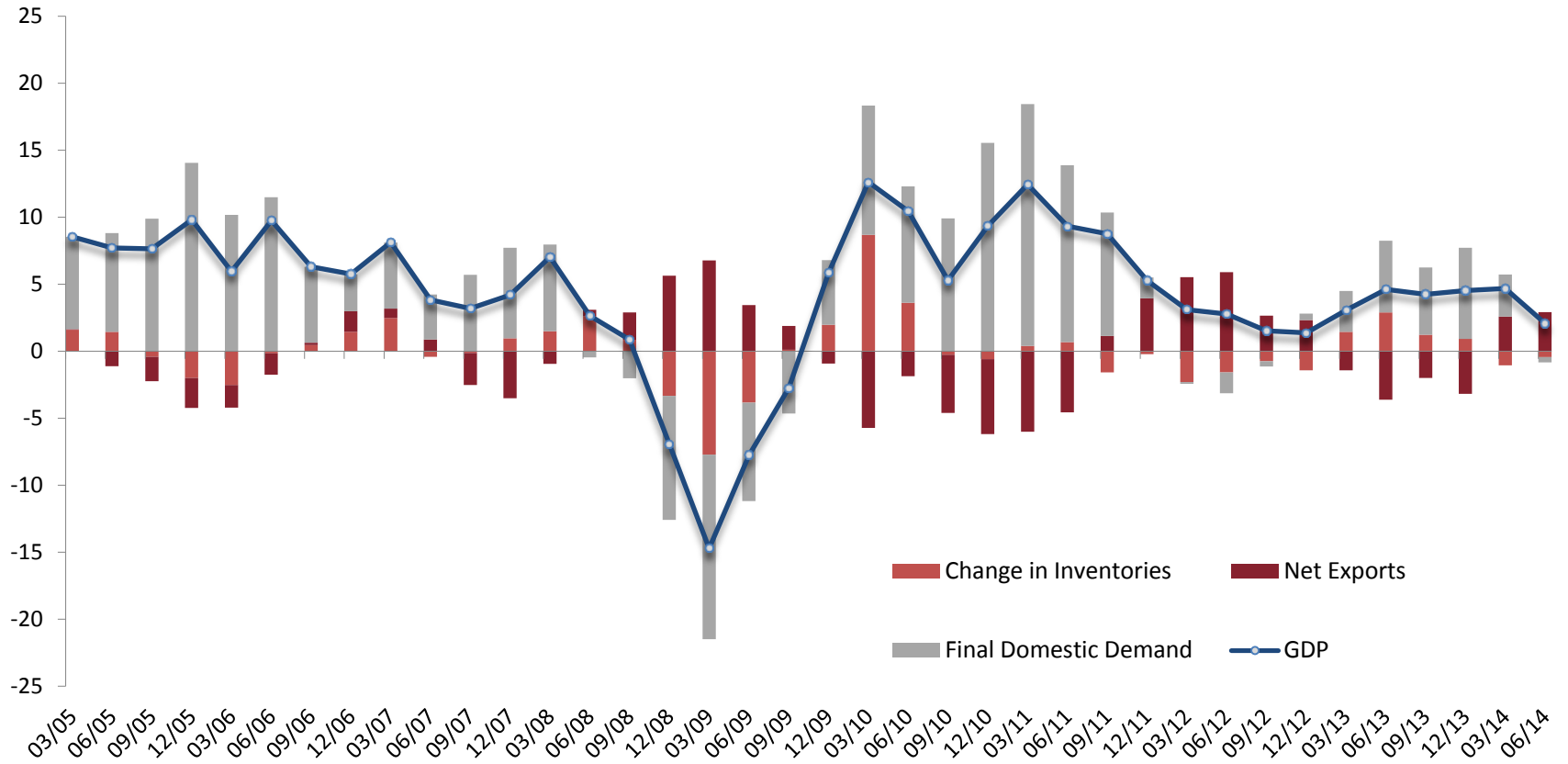
**GDP**  
(Seasonally Adjusted, Natural Logarithm)



Source: TURKSTAT, CBRT.

...but positive contribution from exports is encouraging.

### Contribution to Annual GDP Growth (Percentage Points)



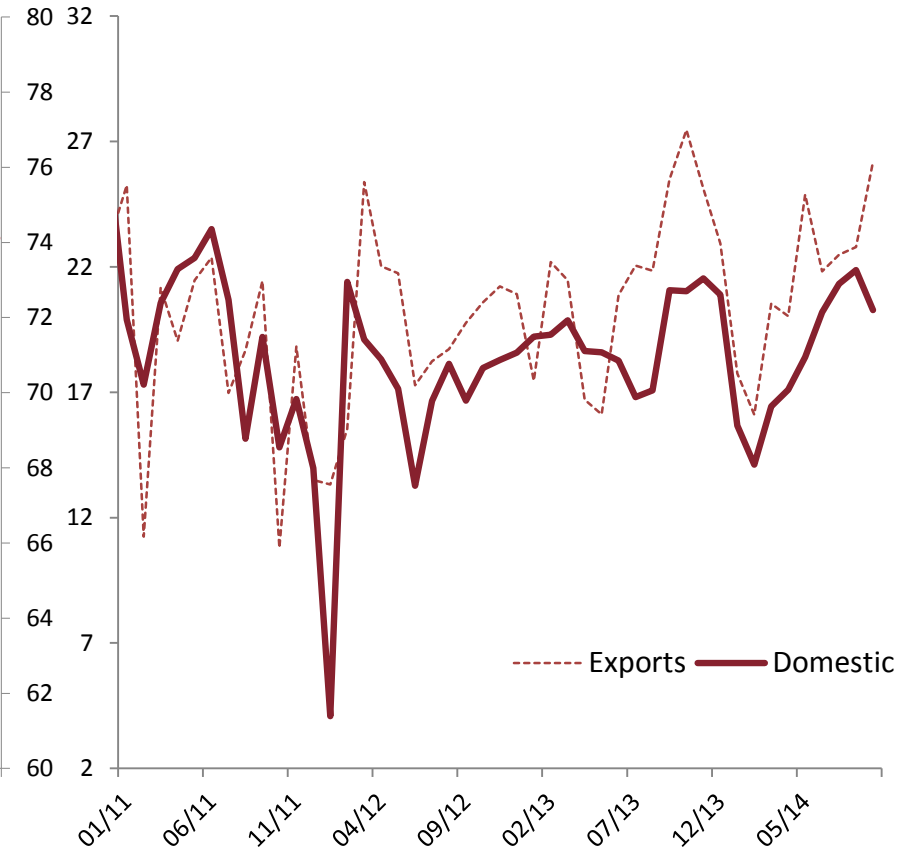
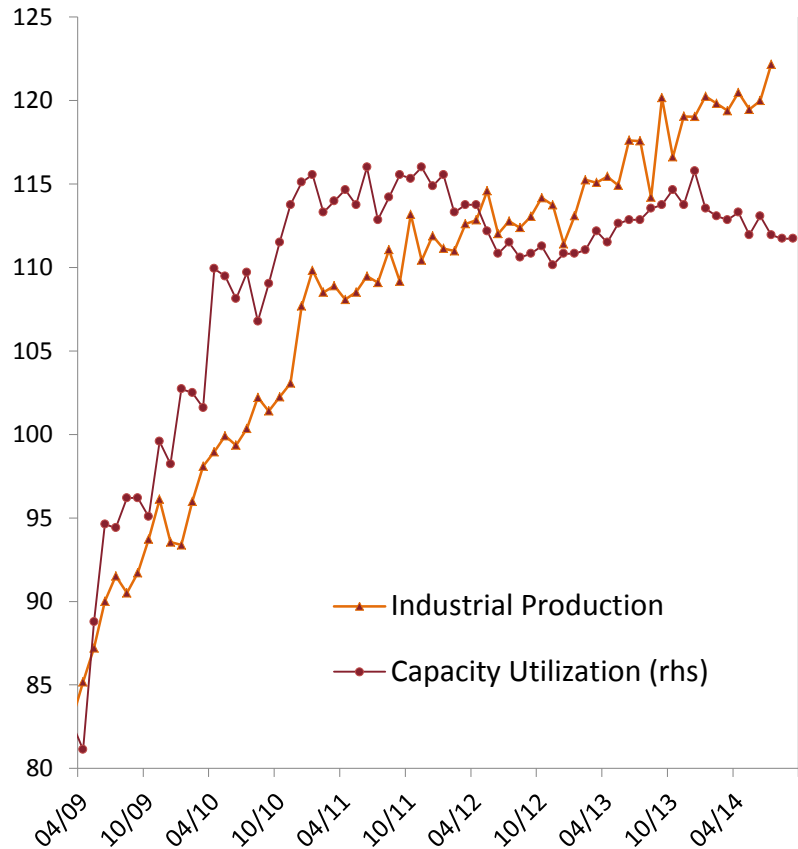
Source: TURKSTAT.

Last Observation: 2014Q2.

# Leading indicators point to a continuation of balanced growth.

## Industrial Production and Capacity Utilization (Seasonally and Calendar Adjusted)

## Expected Manufacturing Orders (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

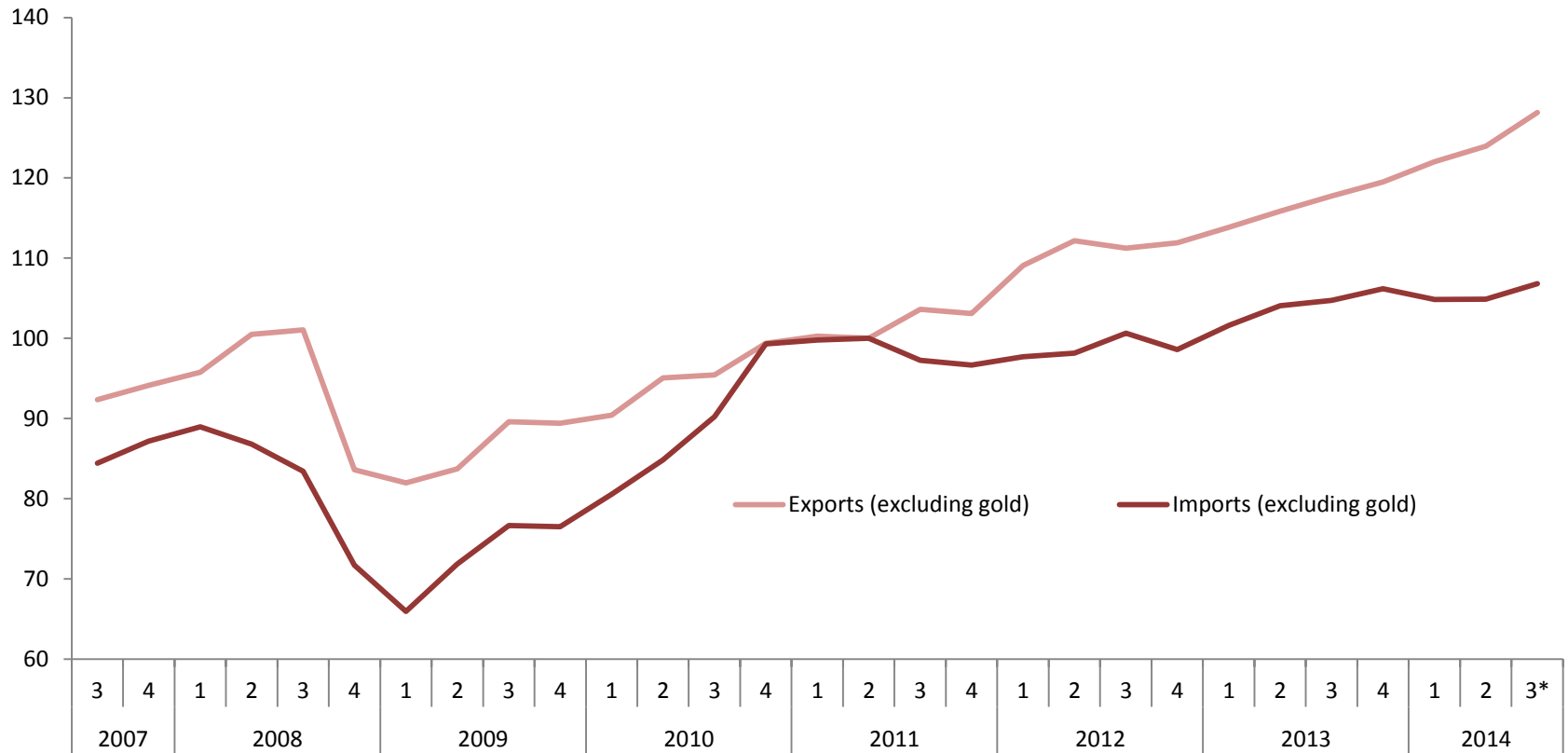
Last Observation: July 2014 for Industrial Production,  
September 2014 for Capacity Utilization.

Source: CBRT Business Tendency Survey.

Last Observation: September 2014.

# Real exports continue to increase, despite downside risks to external demand.

## Exports and Imports (Seasonally Adjusted, 2011Q1=100)

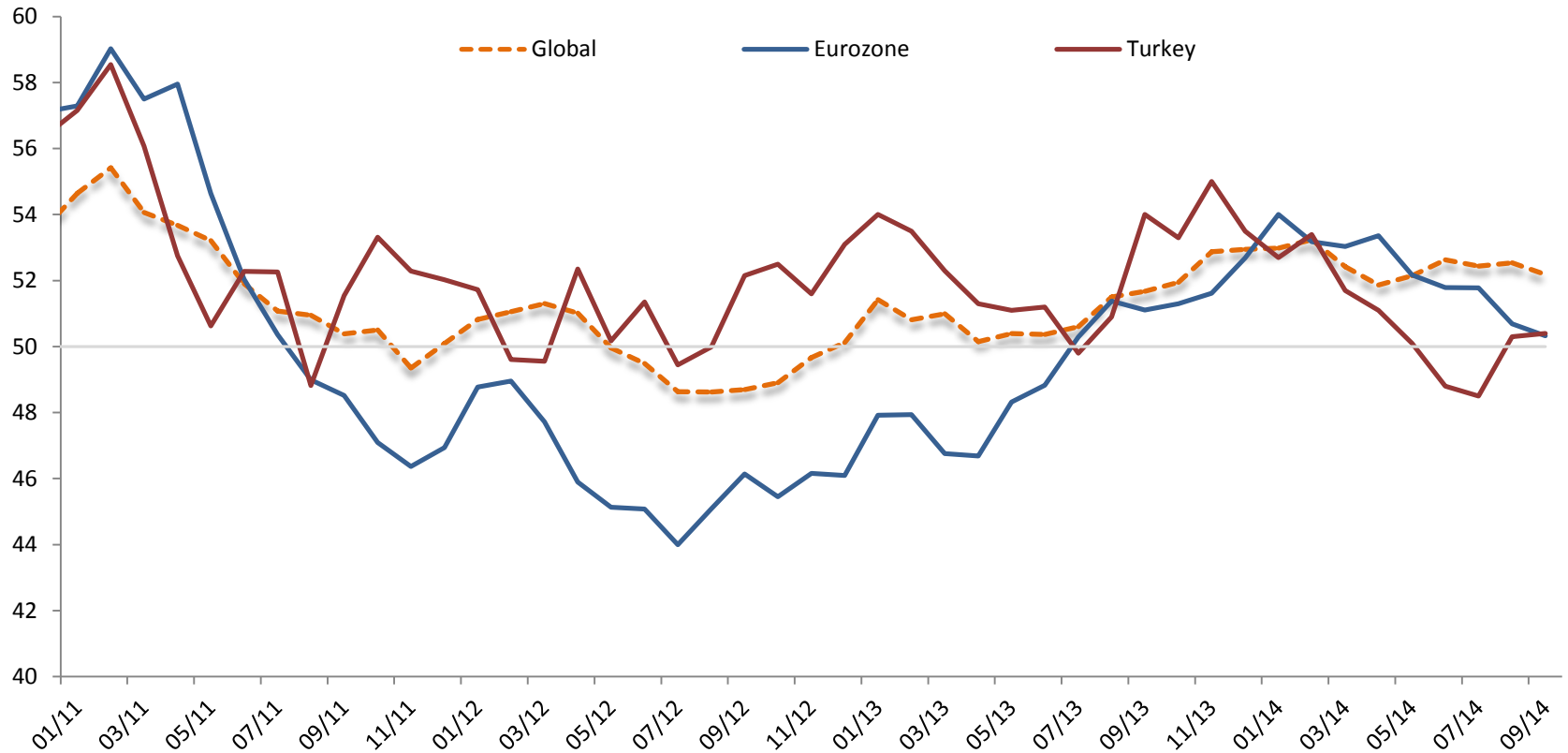


Source: TURKSTAT, CBRT.

\*Last Observation: July 2014.

# Surveys indicate a continuation of balanced growth.

## Manufacturing PMIs (Seasonally Adjusted)

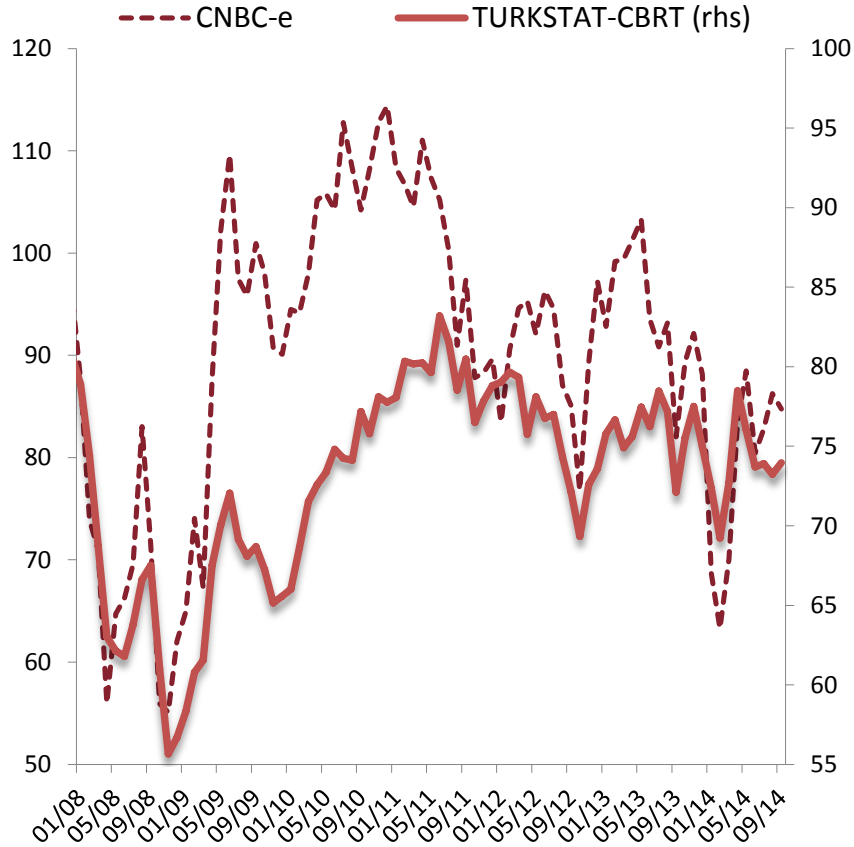


Source: MARKIT.

Last Observation: September 2014.

# Consumer confidence and investment tendency remain subdued.

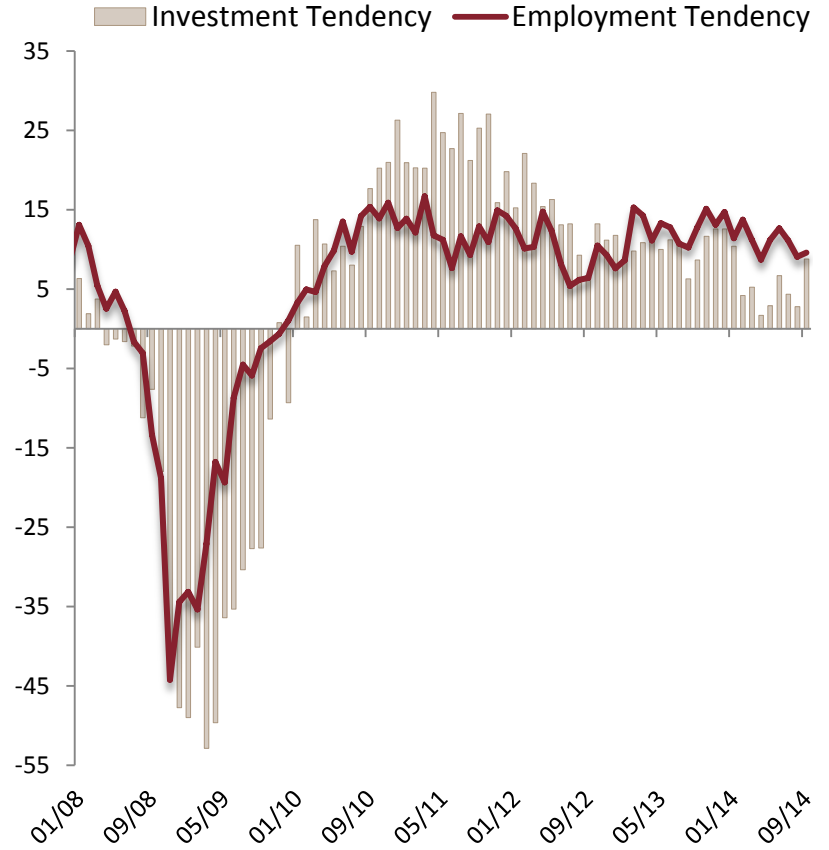
## Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: September 2014

## Investment and Employment Prospects (Seasonally Adjusted)



Source: CBRT Business Tendency Survey

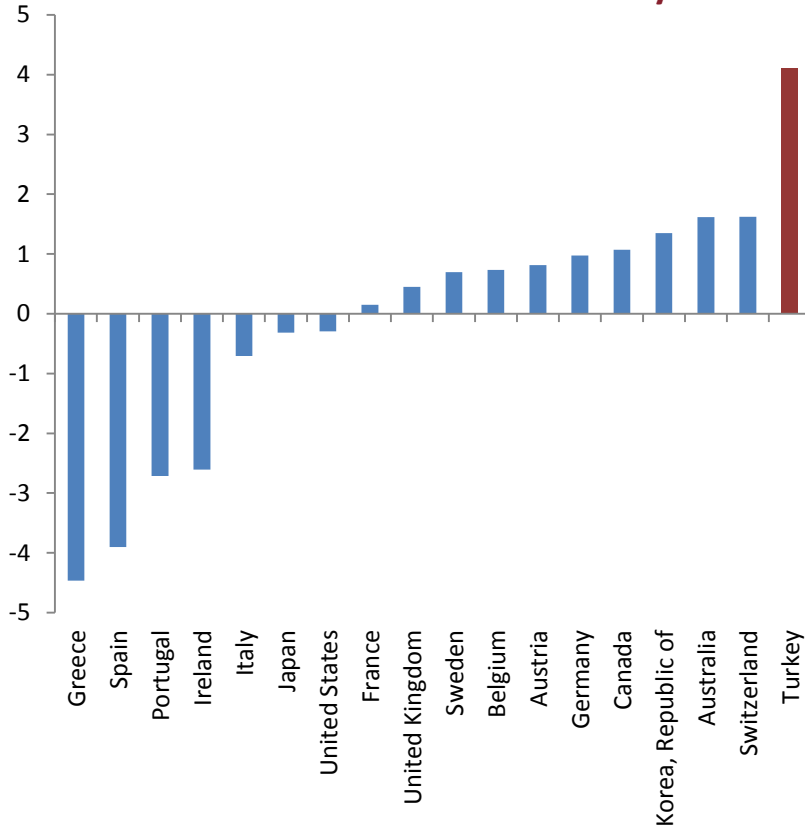
Last Observation: September 2014.



# Job creation has been remarkable.

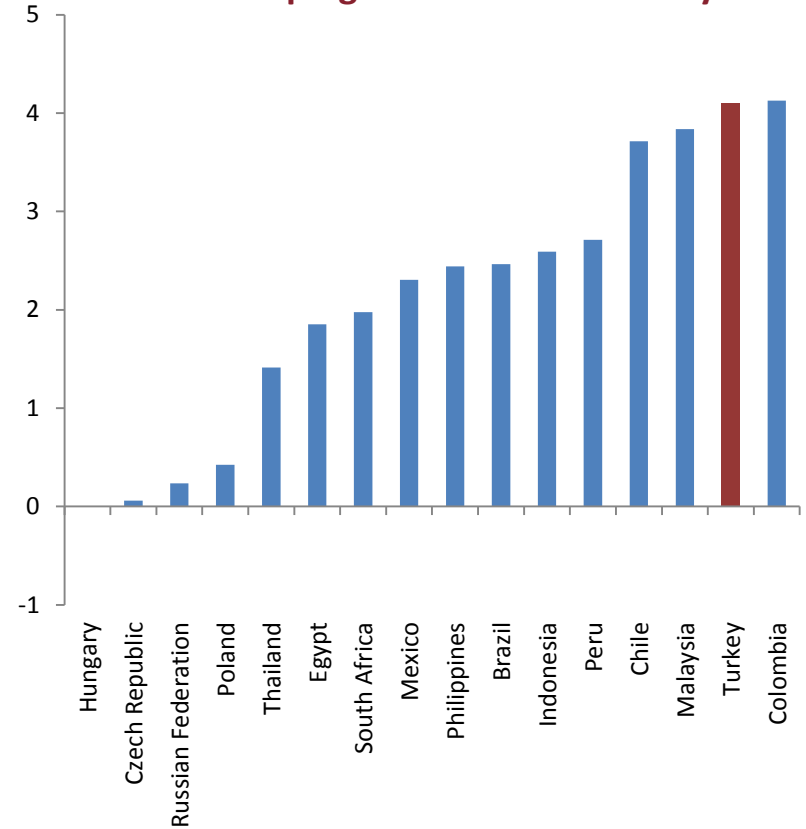
## Annual Average Growth of Employment (Percent Growth, 2007-2013)

### Advanced Countries And Turkey



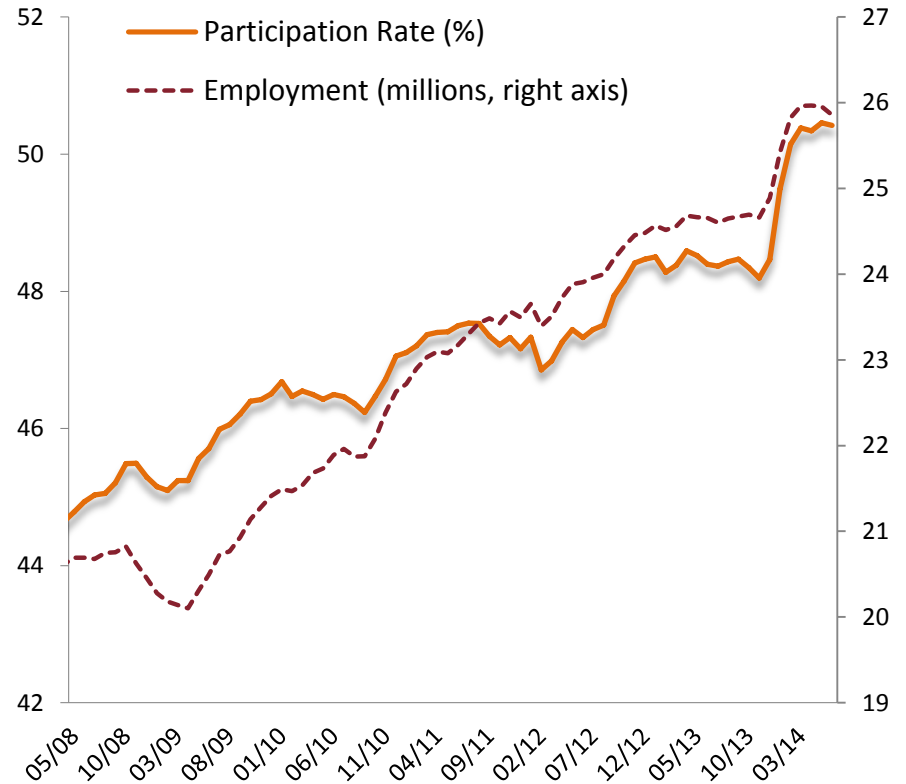
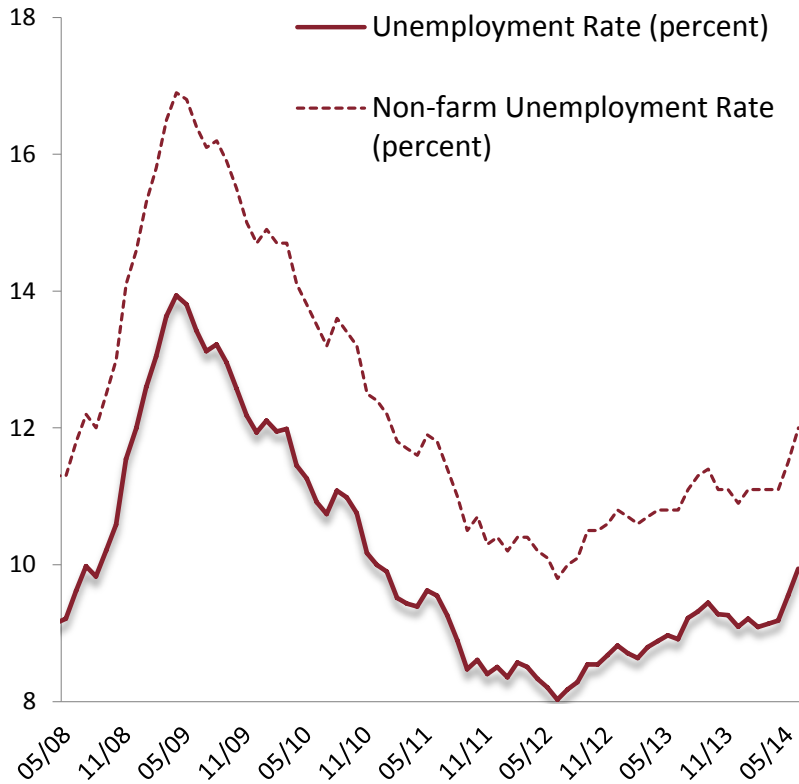
Source: IMF.

### Developing Countries and Turkey



Source: IMF.

# However, employment growth has slowed down somewhat in recent months.

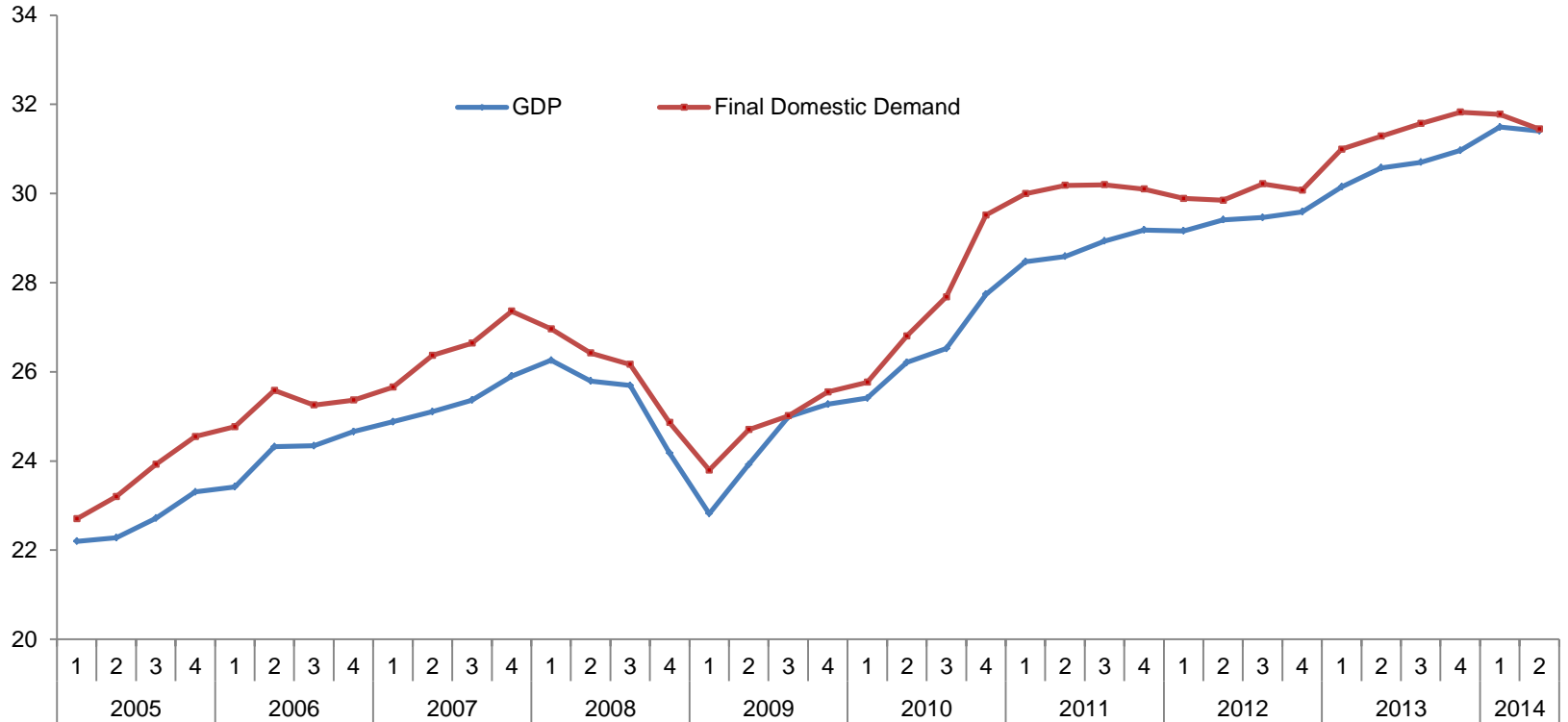


Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: June 2014.

# Rebalancing process has been continuing as expected.

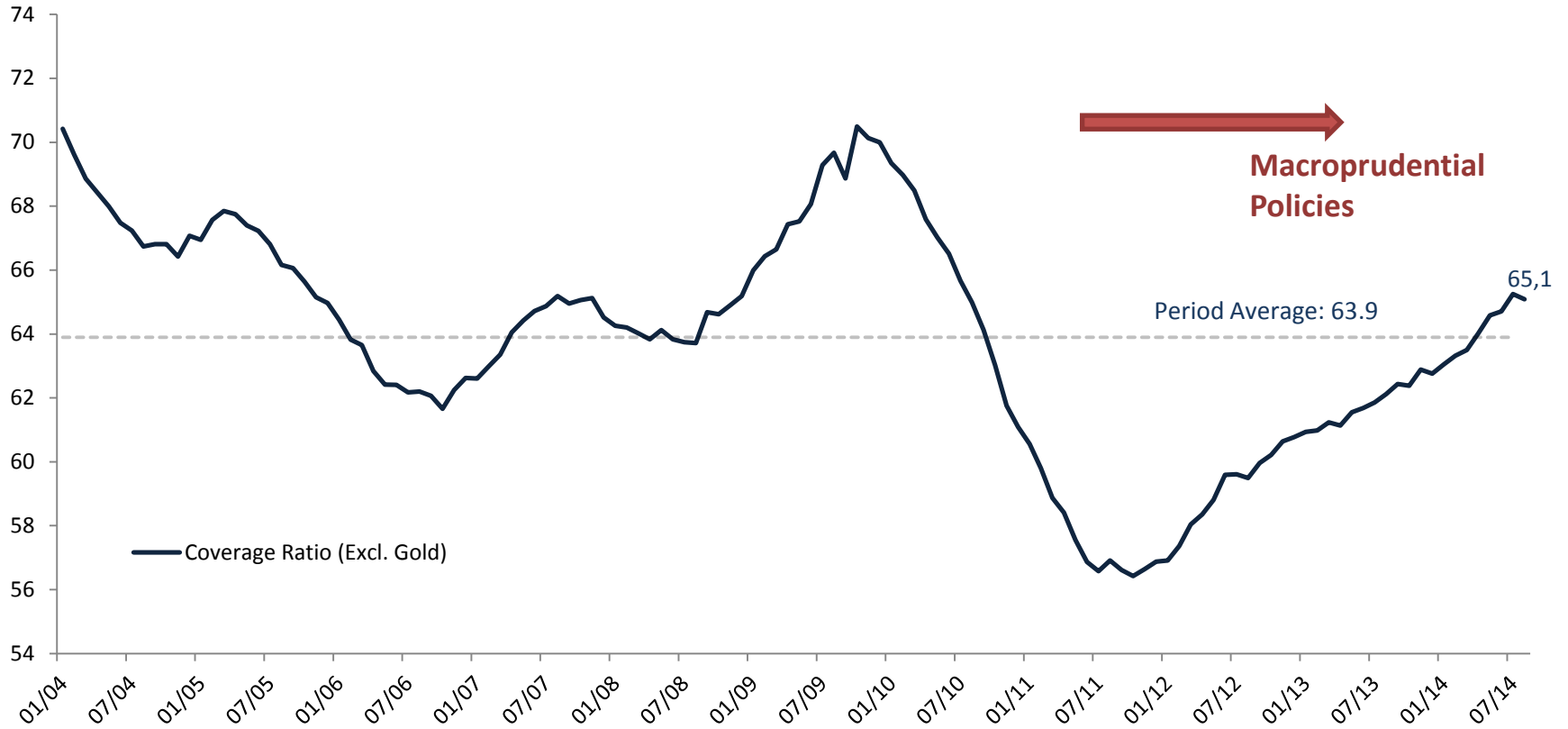
## GDP and Final Domestic Demand (Seasonally Adjusted, 1998 Constant Prices)



Source: TURKSTAT, CBRT

# The improvement of the export - import coverage ratio continues.

## Export/Import Coverage Ratio (12-Month Rolling\*, Percent)



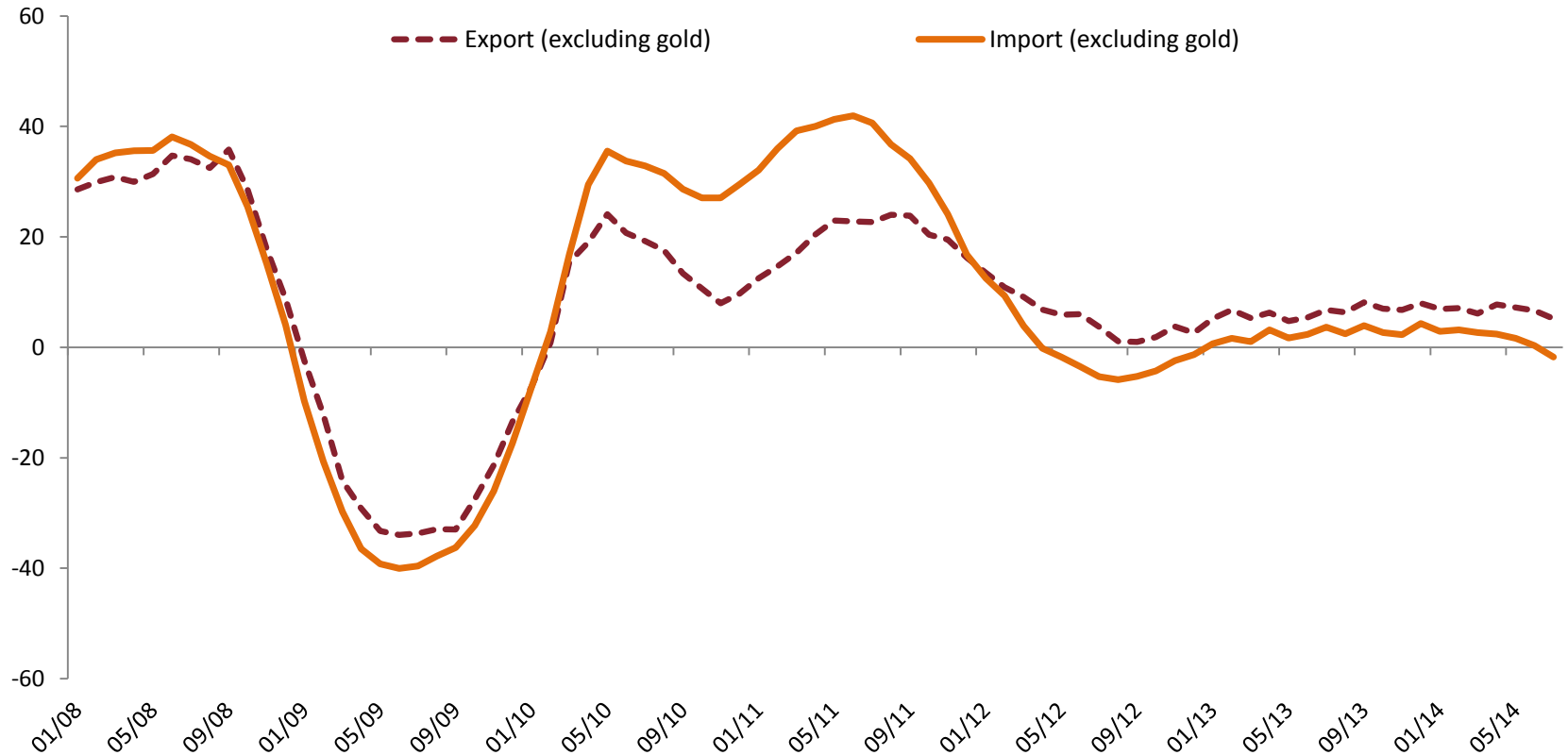
Source: TURKSTAT, CBRT.

\* 12-month cumulative exports /12-month cumulative imports.

Last Observation: August 2014

# Exports grow faster than imports.

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

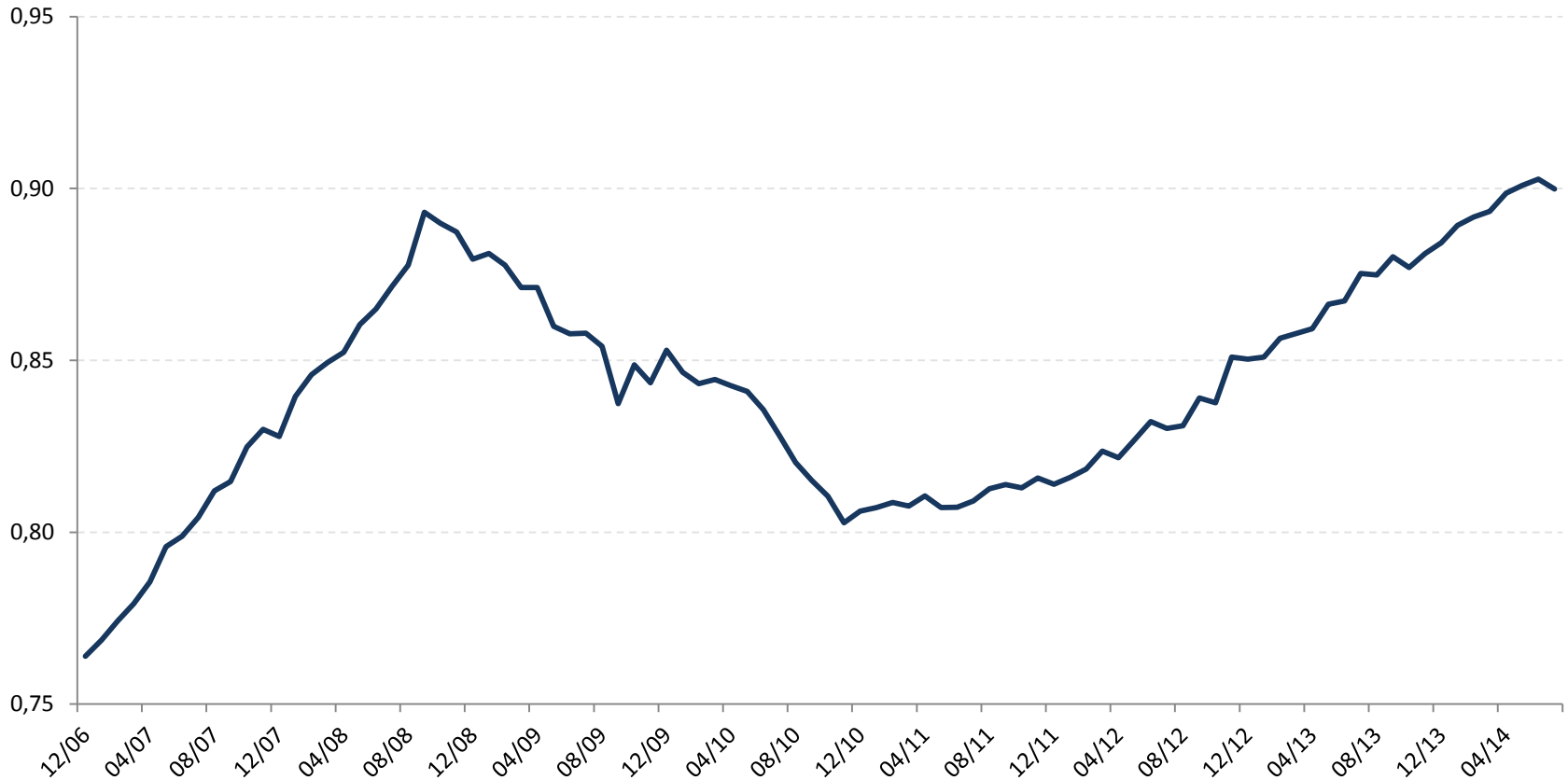


Source: TURKSTAT.

Last Observation: July 2014.

## ...which is also visible in the global market share of Turkish exports,...

**Global Market Share of Turkish Exports**  
(Excluding Gold, 12-month Moving Average, Percent)

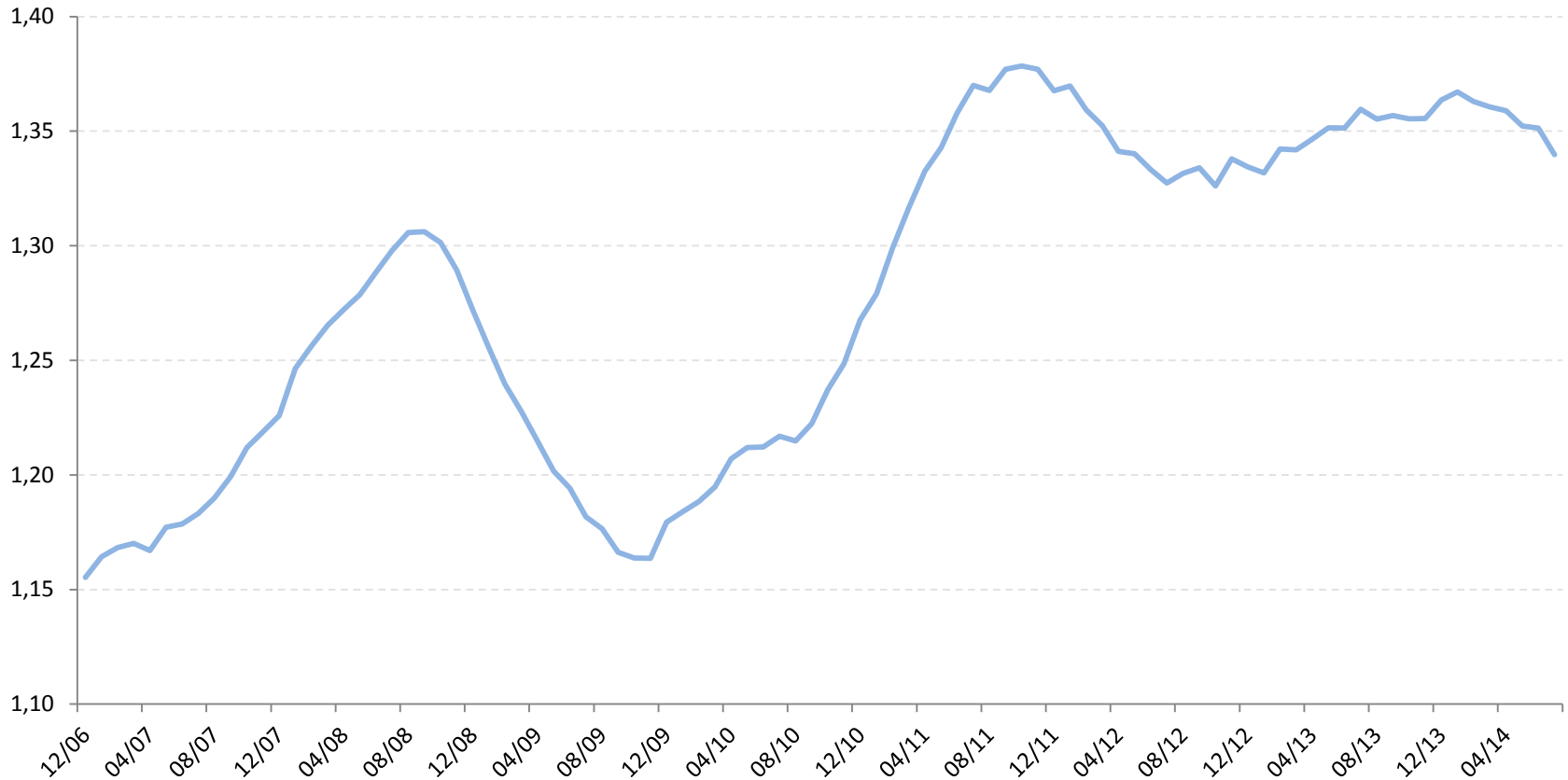


Source: Turkstat, World Trade Organization.

Last Observation: July 2014

## ...and the global market share of Turkish imports.

**Global Market Share of Turkish Imports**  
(Excluding Gold, 12-month Moving Average, Percent)

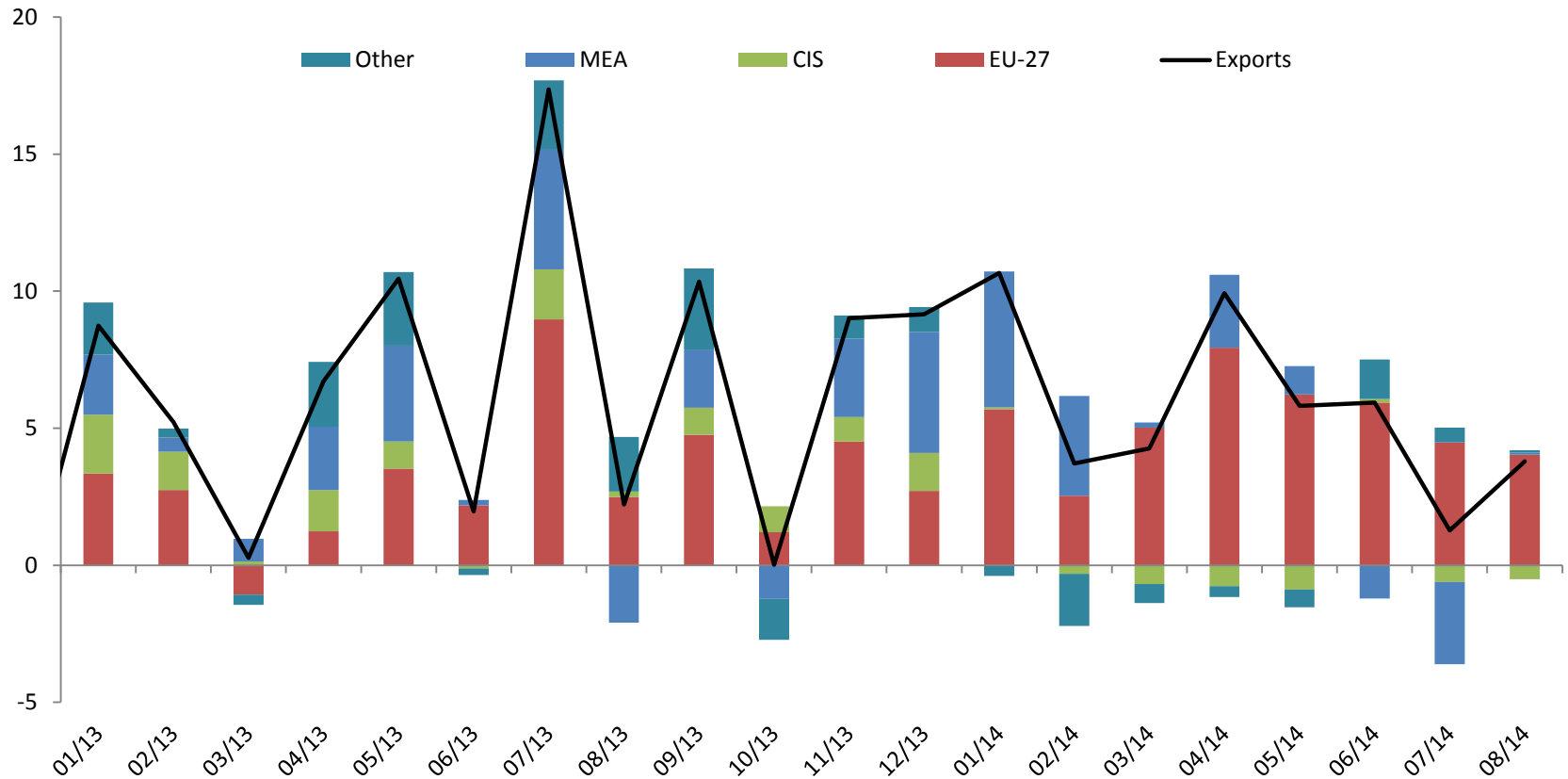


Source: Turkstat, World Trade Organization.

Last Observation: July 2014

# EU-27 has been consistently contributing to export growth.

## Contribution to Export Growth (Percent)



Source: TURKSTAT.

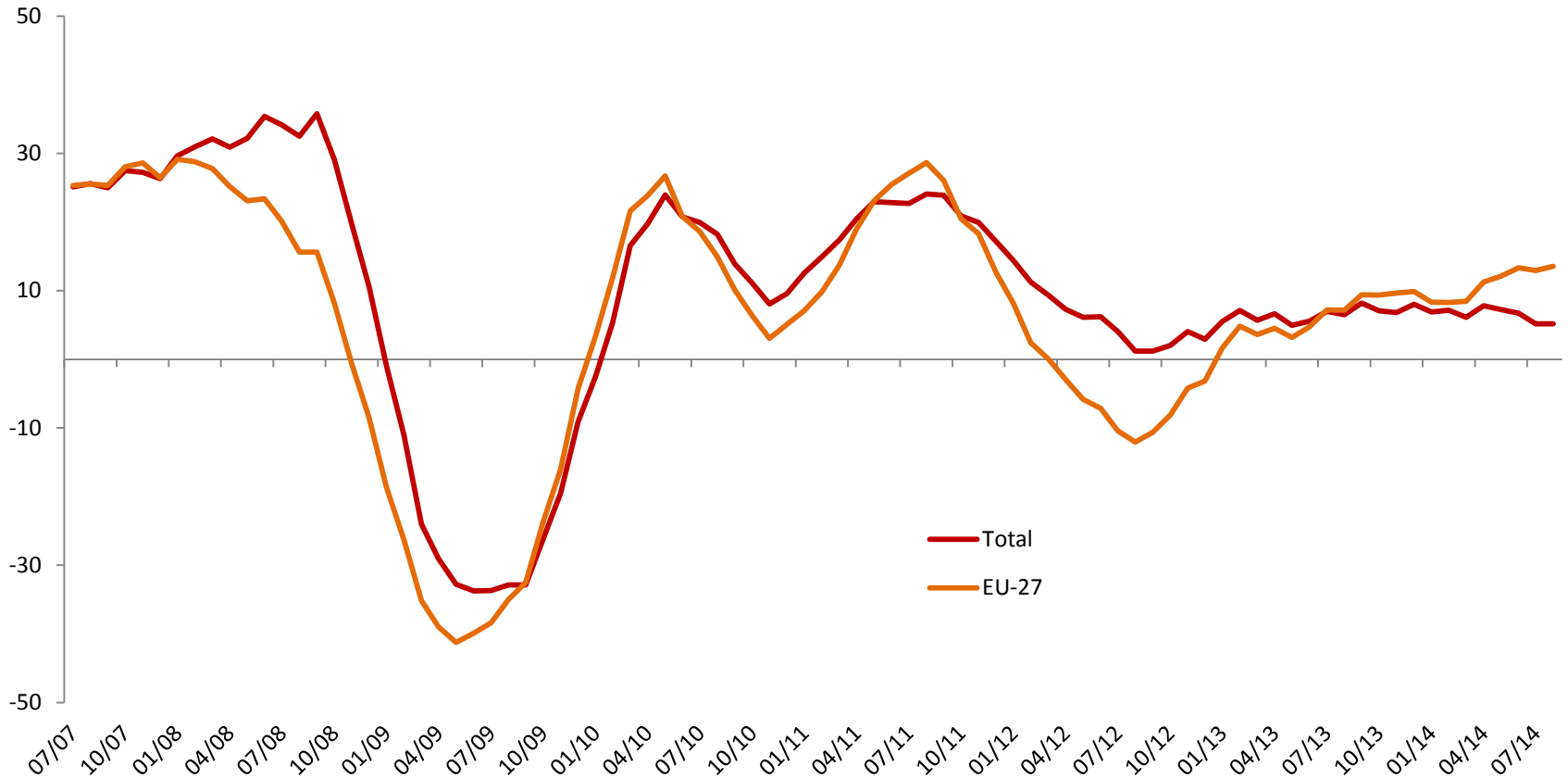
Last Observation: August 2014.



# Export growth is mainly driven by demand from the European Union, ...

## Total Exports and Exports to EU-27

(Excluding gold, Nominal y-o-y percentage change, 6-month MA)

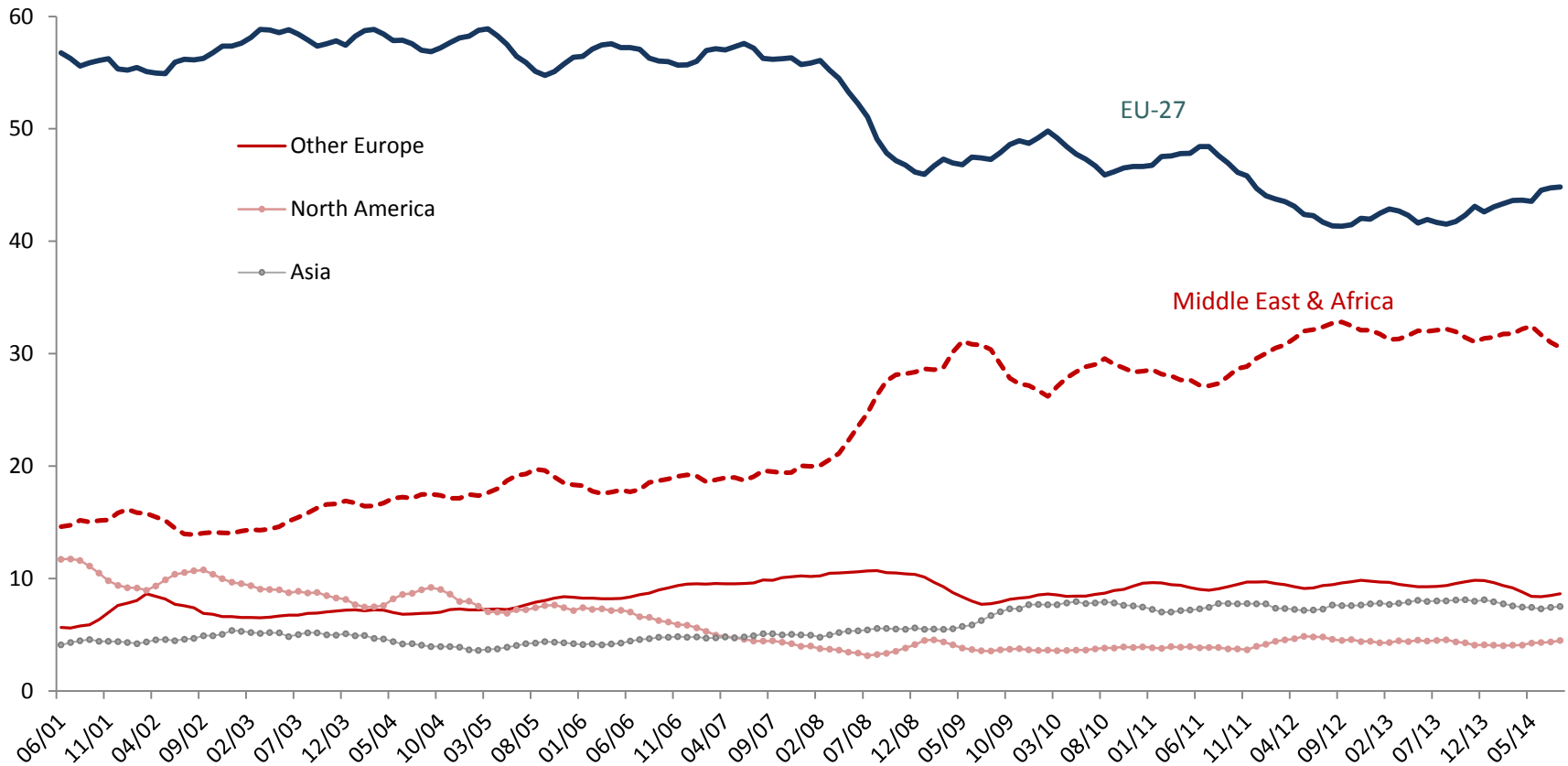


Source: TURKSTAT, CBRT.

Last Observation: August 2014.

... which is also reflected in the market shares.

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



Source: TURKSTAT.

Last Observation: August 2014.

# Geopolitical developments have changed the ranking of major trade partners.

## Exports\*

(3 Months Cumulative, Thousand USD)

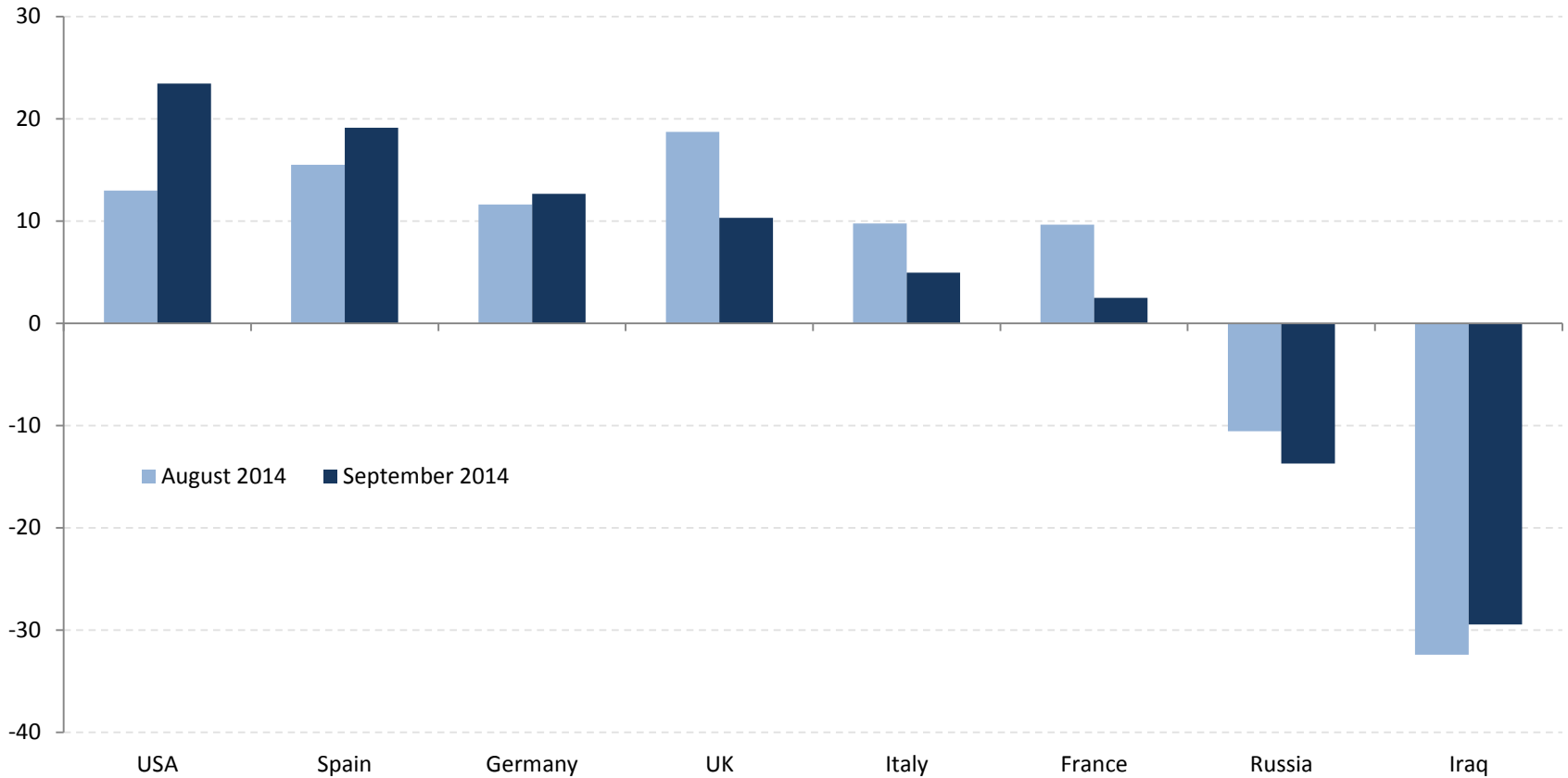
	September 2013		September 2014		
1	Germany	3.308.896	Germany	3.727.764	1
2	Iraq	2.939.880	UK	2.508.581	2
3	UK	2.274.199	Iraq	2.074.384	3
4	Russia	1.815.612	USA	1.604.840	4
5	France	1.516.362	Italy	1.580.113	5
6	Italy	1.505.824	Russia	1.566.768	6
7	USA	1.300.079	France	1.554.171	7
8	Spain	1.013.544	Spain	1.207.322	8
9	China	922.839	Iran	1.092.954	9
10	Azerbaijan	816.798	Egypt	864.711	10
11	Nederlands	785.796	Nederlands	800.656	11
12	Egypt	777.049	Azerbaijan	765.275	12
13	UAE	765.104	Romania	758.388	13
14	Saudi Arabia	677.729	Saudi Arabia	731.736	14
15	Romania	665.221	Belgium	709.377	15
16	Iran	657.177	China	704.923	16
17	Israil	656.543	UAE	670.445	17
18	Belgium	576.672	Israil	659.277	18
19	Libya	555.582	Turkmenistan	627.733	19
20	Ukrain	543.493	Poland	583.798	20

Source: TIM.

\* Turkish Exporters Assembly (TIM) Data.

# Share of the US in total exports is on the rise in recent months.

## Exports to Trade Partners\* (3-months Cumulative, Annual Change, Percent)

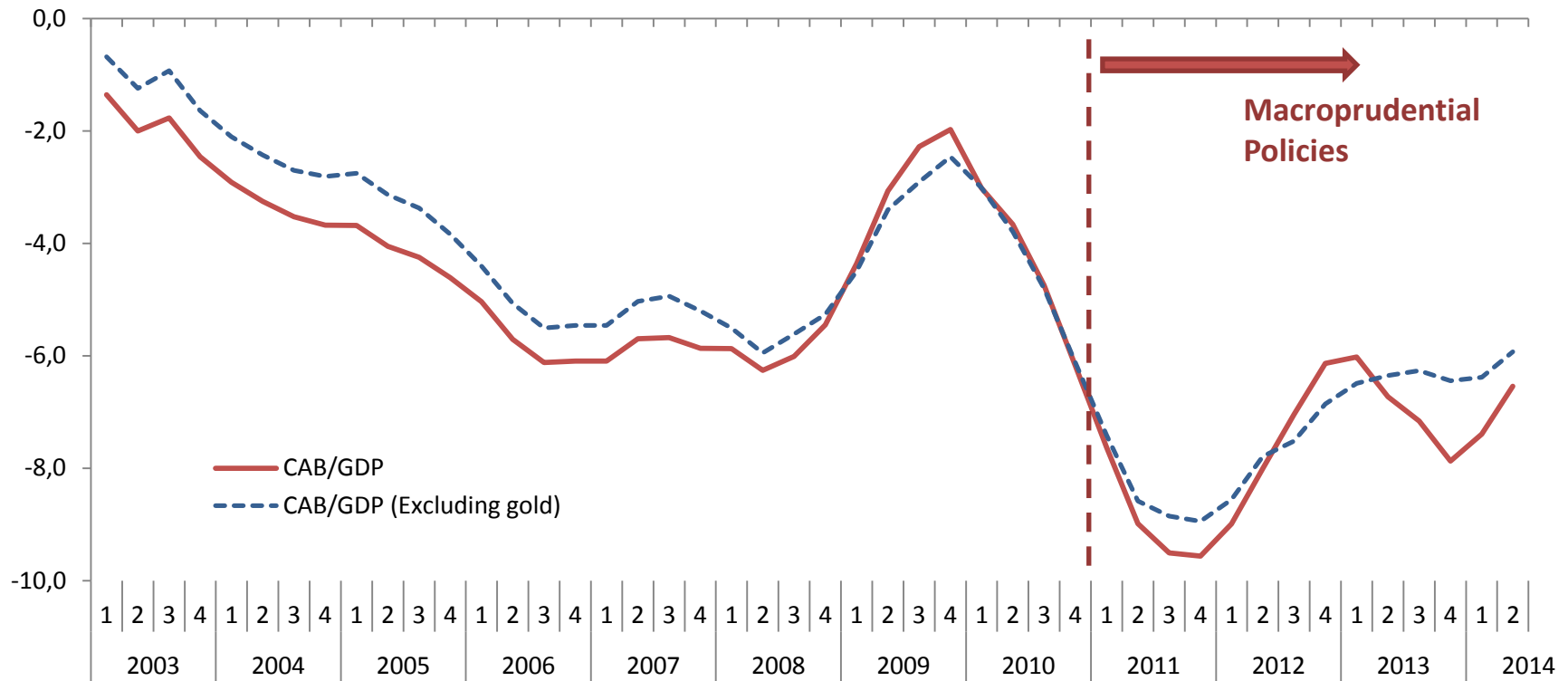


Source: TIM, CBRT.

\*Turkish Exporters Assembly (TIM) Data.  
Last Observation: September 2014.

# Current account deficit is expected to improve further.

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



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Current Account Deficit (Billion USD)</b>	0.6	7.6	14.2	21.4	31.8	37.8	40.4	12.2	45.4	75.1	48.5	65.0	46.0
<b>Current Account Deficit/GDP (Percent)</b>	0.3	2.5	3.6	4.5	6.0	5.7	5.4	2.0	6.2	9.7	6.2	7.9	5.7

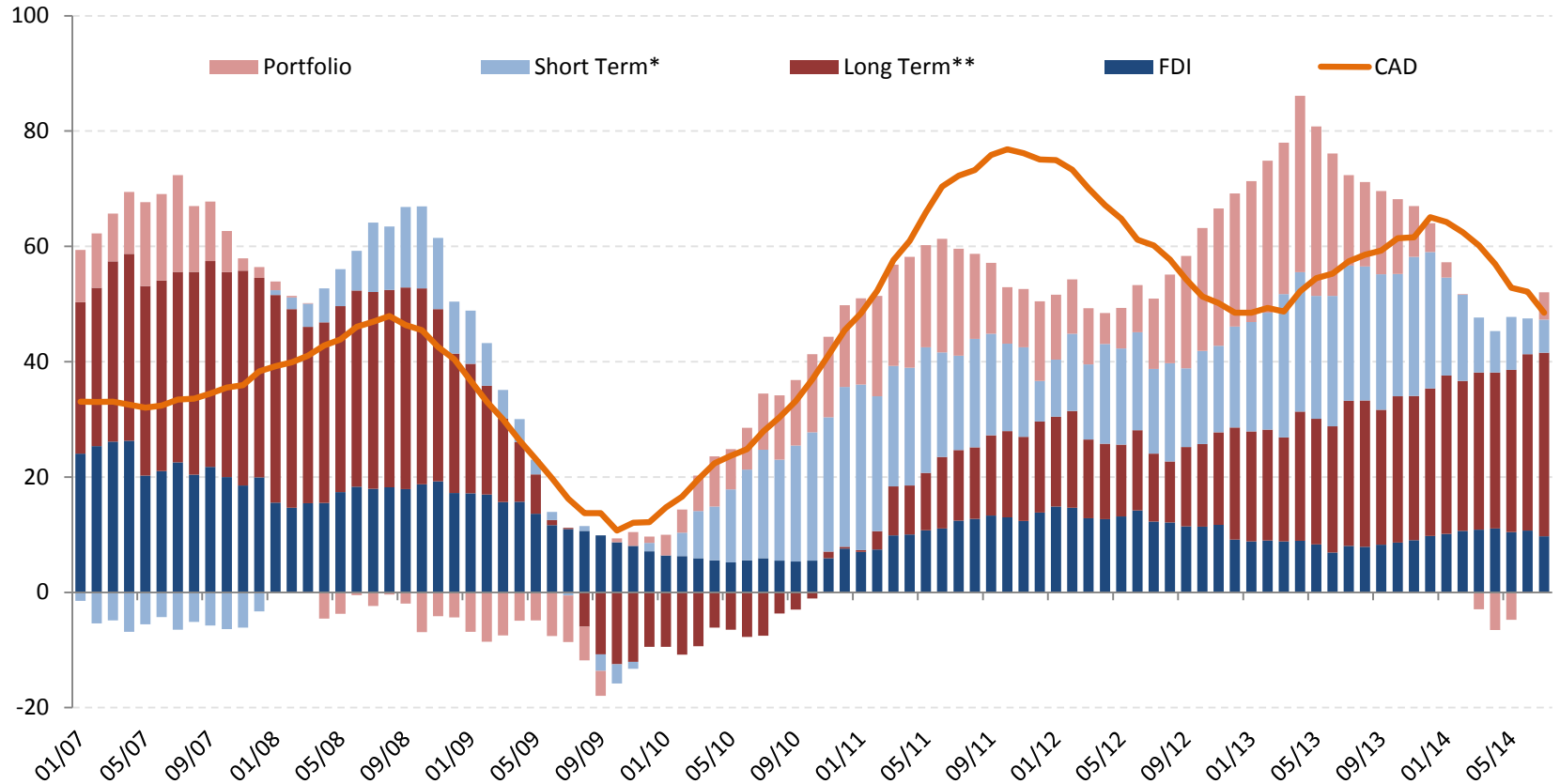
Source: CBRT.

Last Observation: 2014 Q2.

\* Medium Term Program (2015-2017) projection.

# Quality of external finance is improving,...

## Current Account Deficit Financing Sources (12-Months Cumulative, Billion USD)



Source: CBRT.

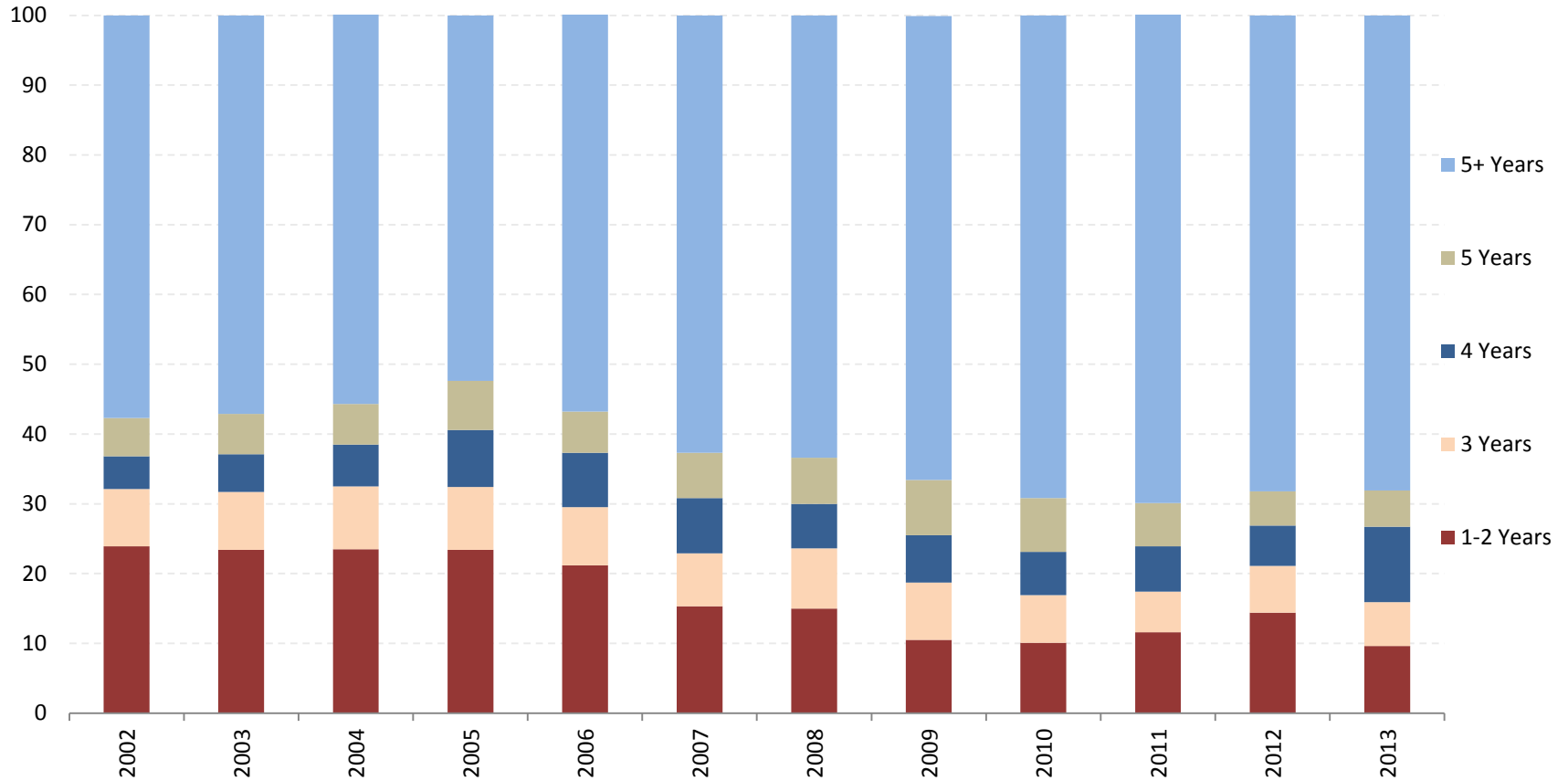
\* Short term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

\*\*Long term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

Last Observation: July 2014.

...as well as the external debt maturity of non-financial corporations.

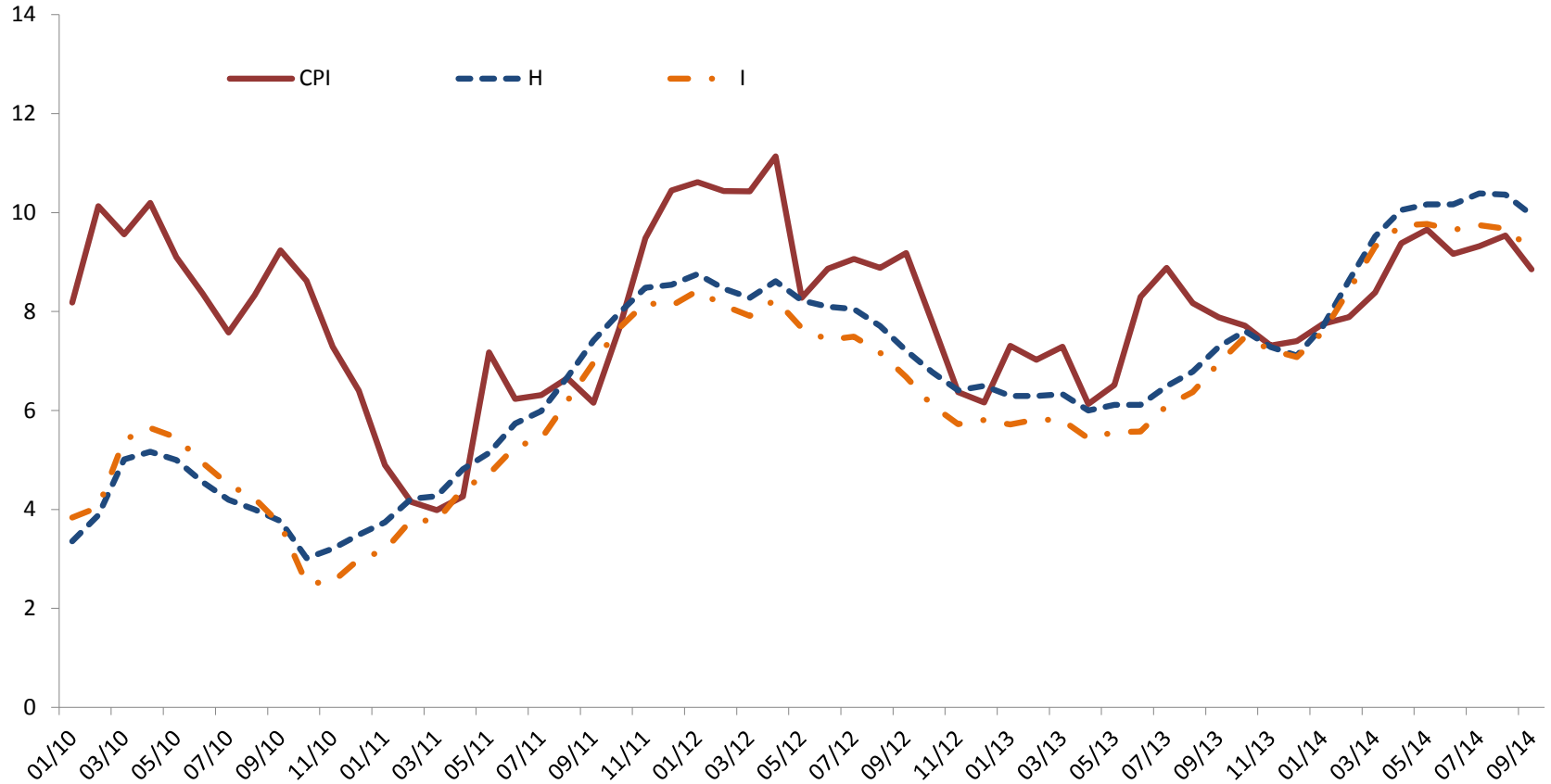
### Real Sector External Debt Maturity (Percent)



Source: CBRT.

# Headline and core inflation are significantly above the target.

## Headline and Core Inflation (Annual Percentage Change)



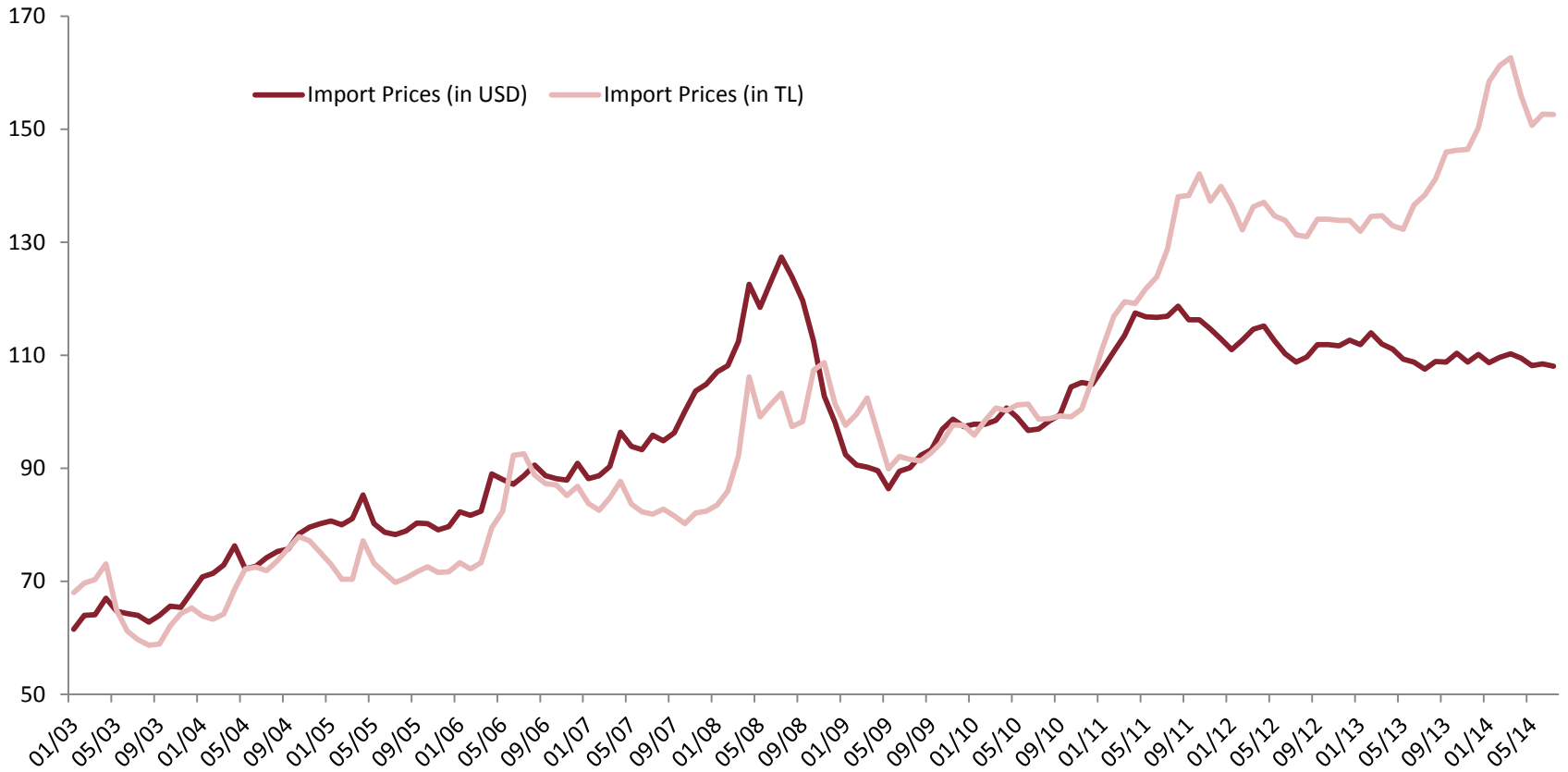
Source: TURKSTAT.

Last Observation: September 2014.



# Exchange rate pass-through has been the main driver of inflation in the past year.

## Import Price Indices (2010=100)

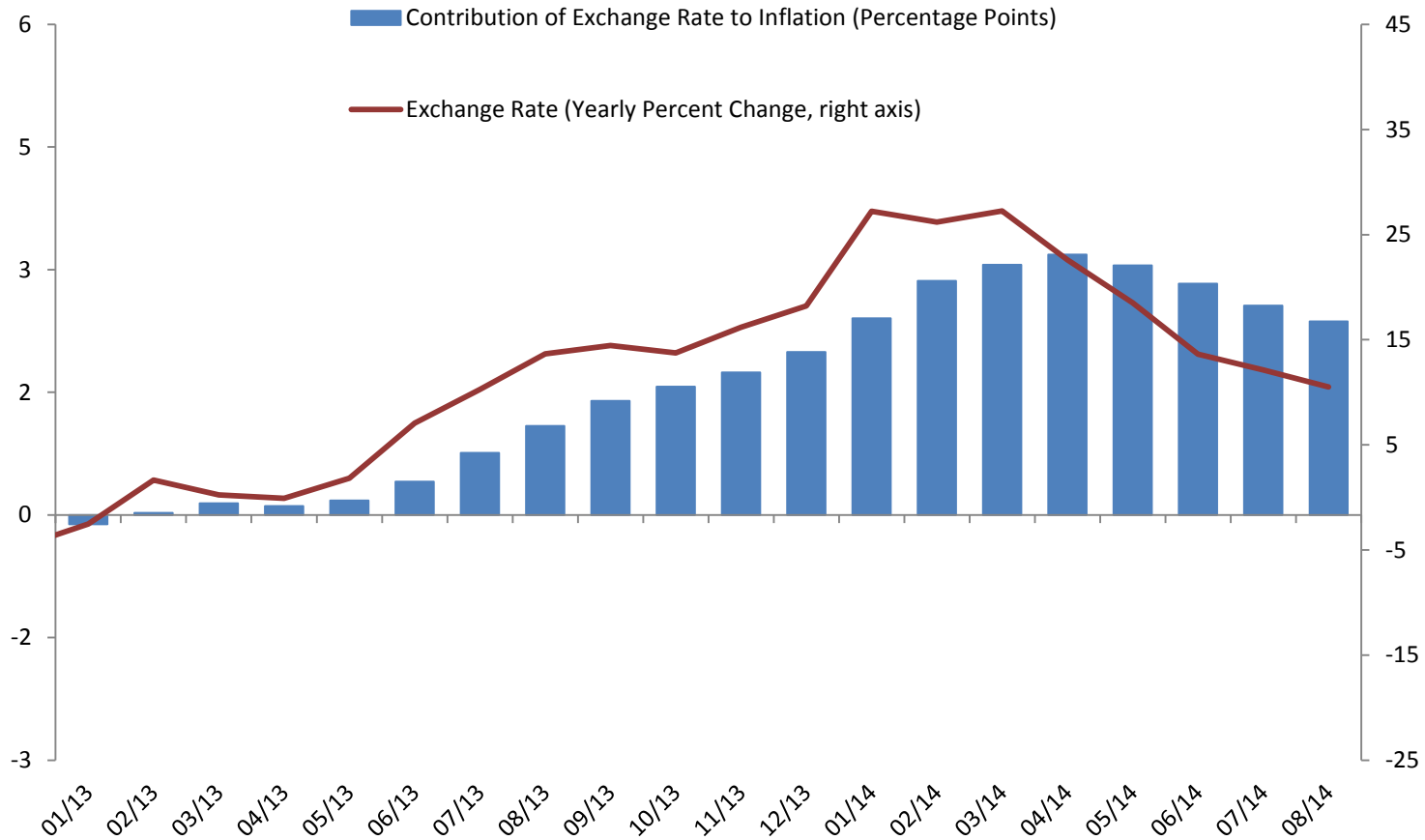


Source: TURKSTAT.

Last Observation: July 2014.

# The adverse impact of past exchange rate developments on annual inflation is gradually tapering off.

## Contribution of Exchange Rate to Consumer Prices



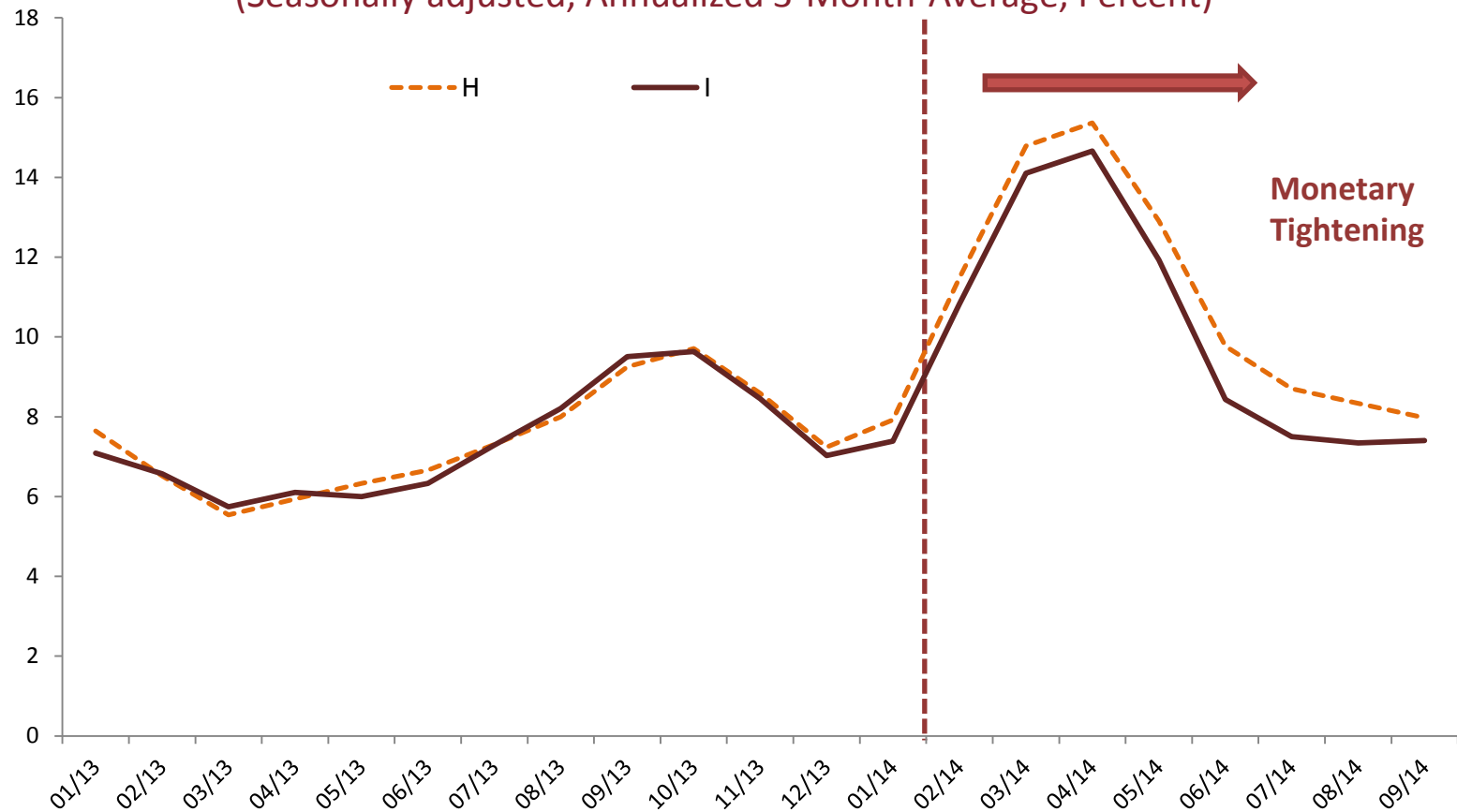
Source: CBRT.

Last Observation: August 2014.

**Macroprudential measures taken at the beginning of the year and the tight monetary policy stance started to have favorable impact on the core inflation trend.**

### Core Inflation Indicators H and I

(Seasonally adjusted, Annualized 3-Month-Average, Percent)

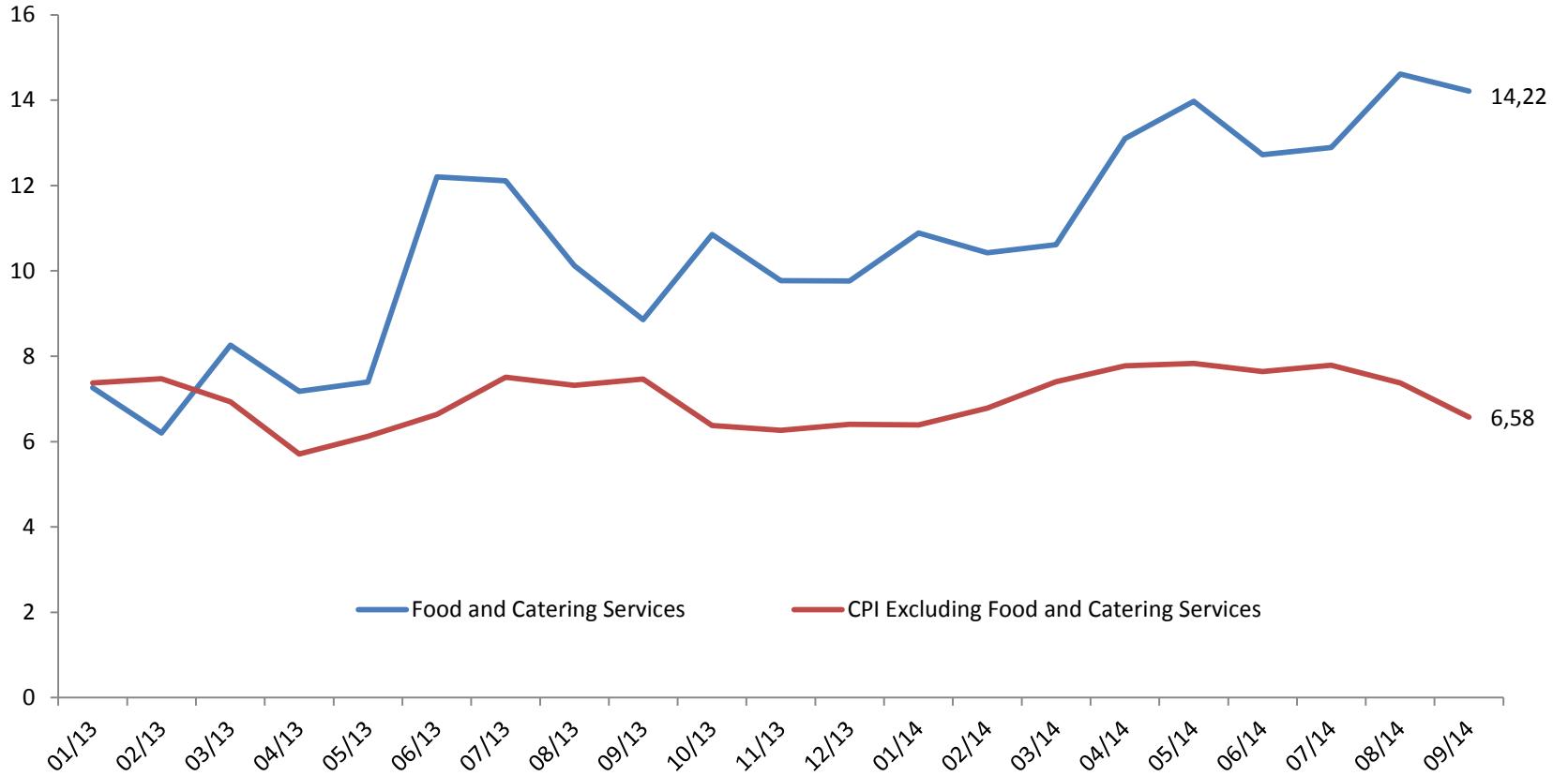


Source: TURKSTAT, CBRT.

Last Observation: September 2014.

# Elevated food prices delayed the improvement in the inflation outlook.

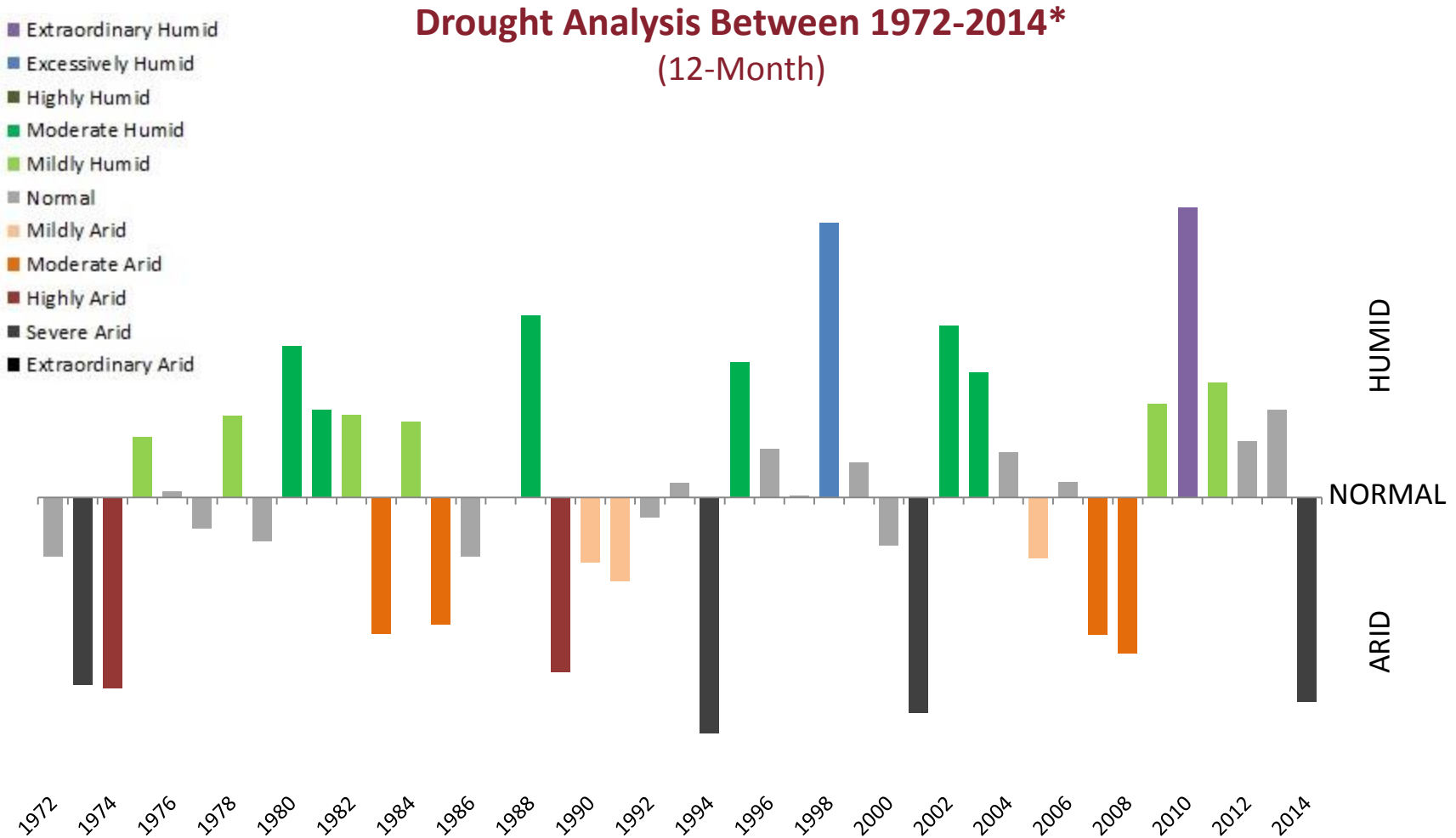
## Annual Inflation (Percent)



Source: TURKSTAT, CBRT.

Last Observation: September 2014.

# Drought had a negative impact on food prices.

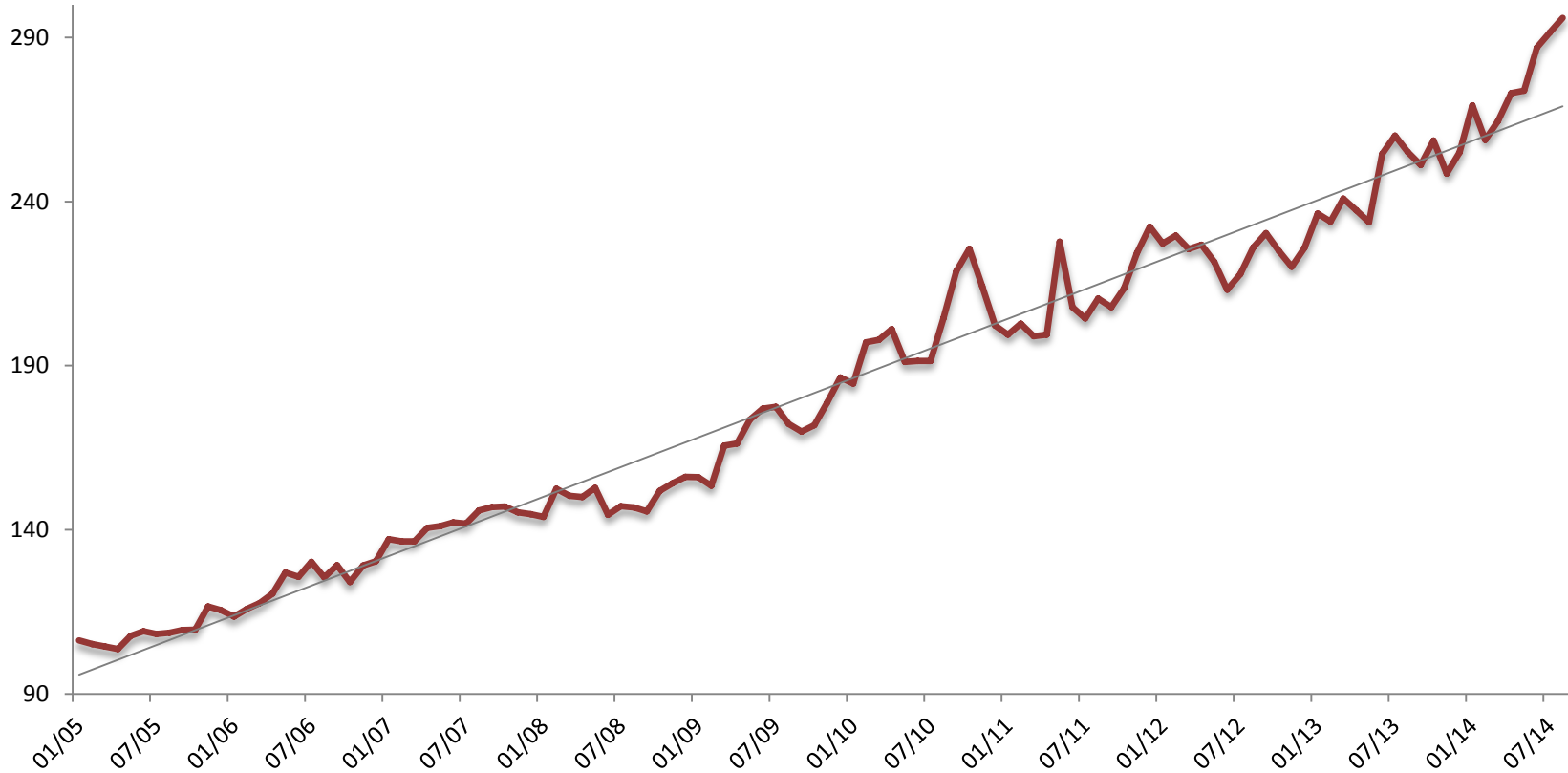


Source: Turkish State Meteorological Service

\*It shows the deviation of last 12 months' cumulative precipitation from the period average as of June.

# Unprocessed food prices have diverged from historic trends since the beginning of the year.

## Unprocessed Food Price Index (Level, Seasonally Adjusted)

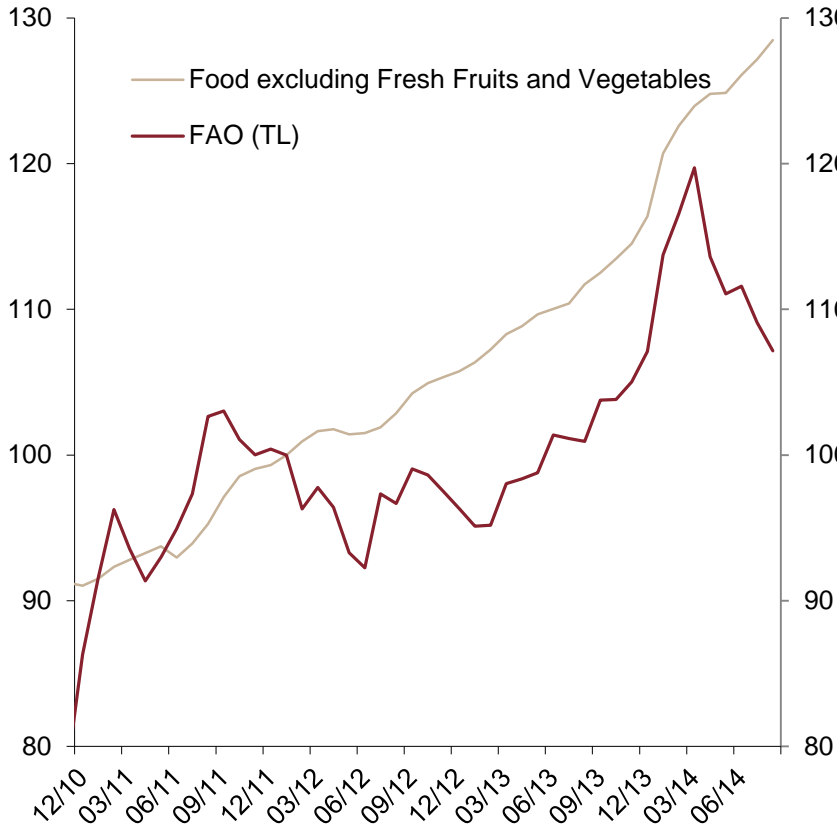


Source: TURKSTAT, CBRT.

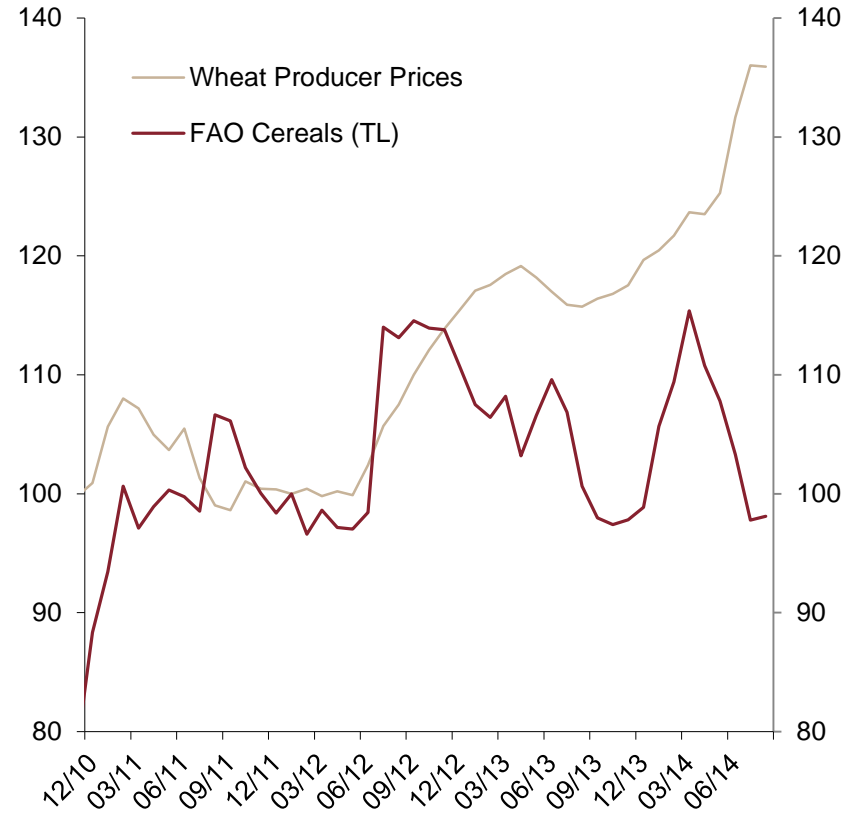
Last Observation: August 2014.

# Domestic food prices differed significantly from the international food prices.

**Domestic and International Food Prices**  
(Indices, January 2012=100)



**Domestic and International Wheat Prices**  
(Indices, January 2012=100)

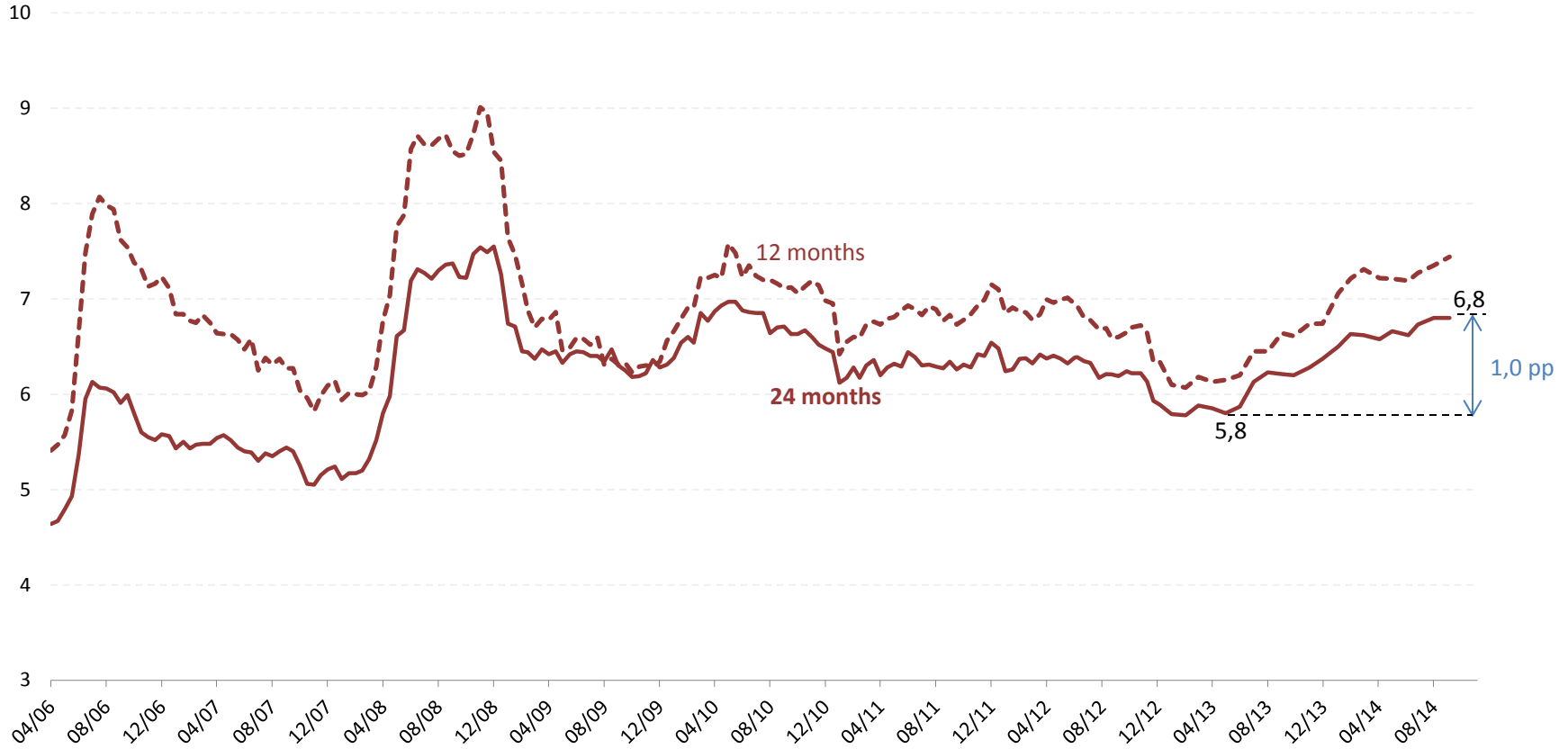


Source: FAO, TURKSTAT, CBRT.

Last Observation: August 2014.

# Inflation expectations have worsened recently due to high level of realized inflation.

## Inflation Expectations (Percent)



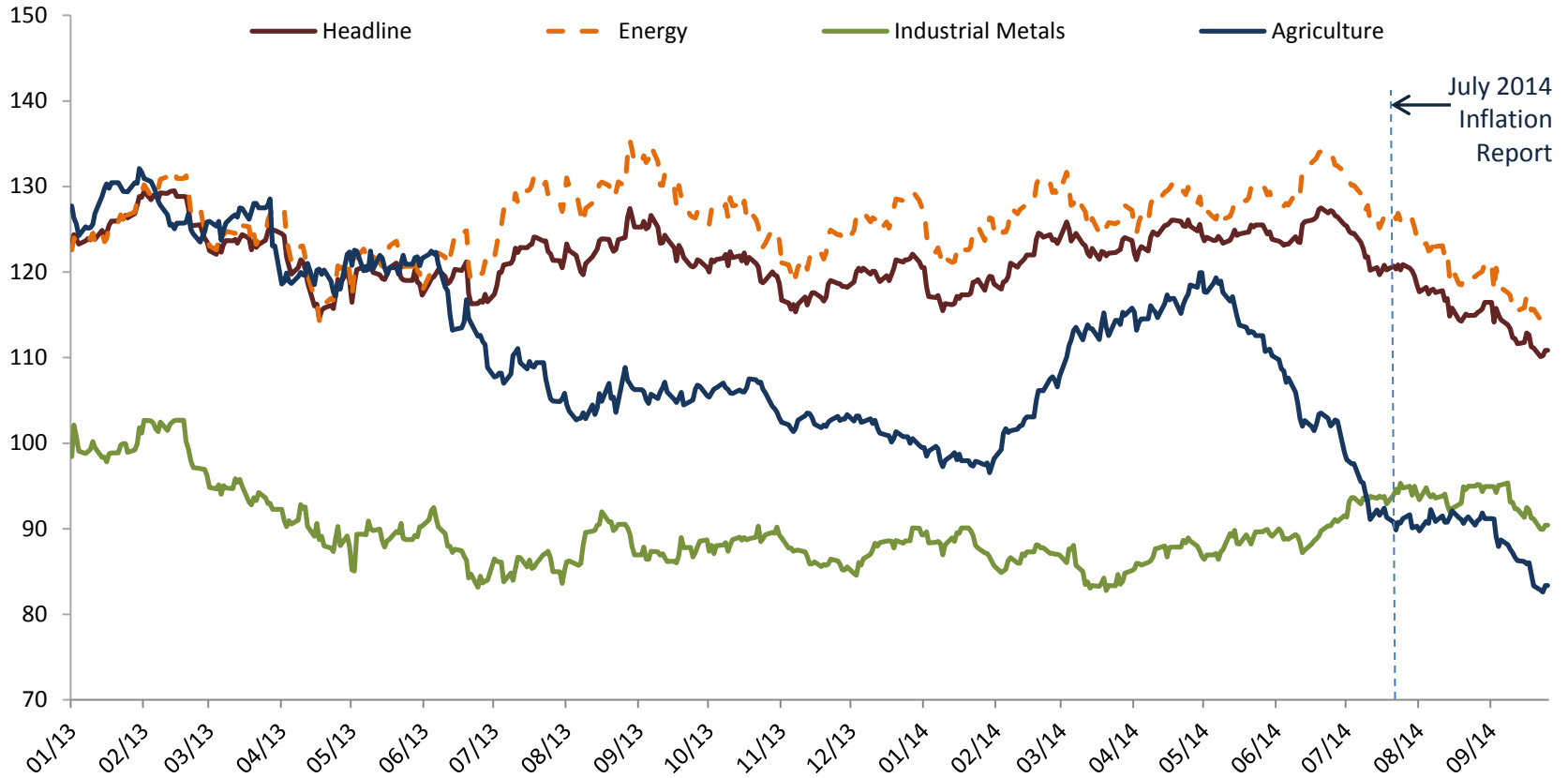
Source: CBRT.

Last Observation: September 2014.



# Declining commodity prices are expected to limit upside risks on inflation.

## S&P GS Indices (01.01.2010=100)

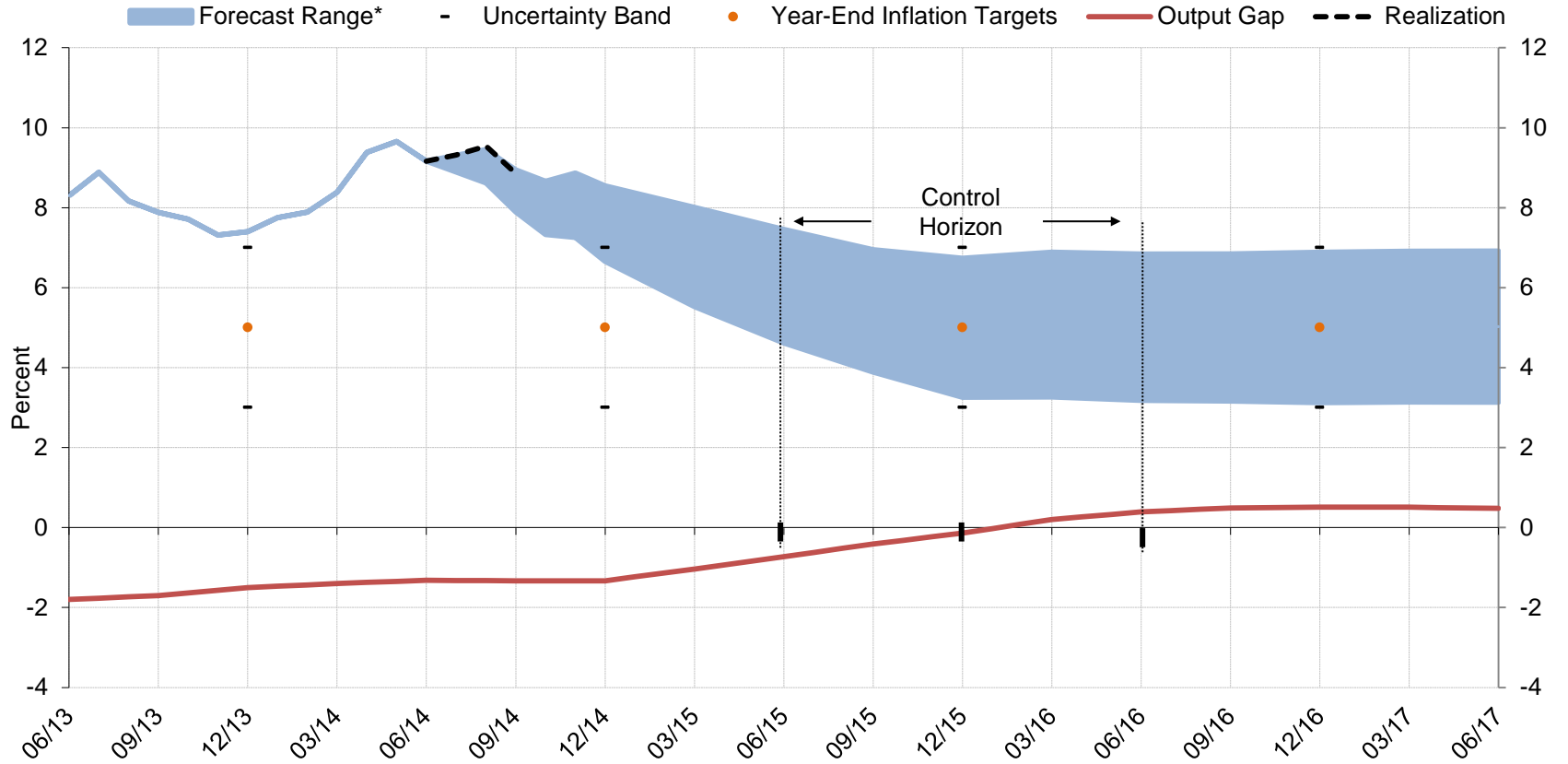


Source: Bloomberg.

Last Observation: September 25, 2014.

# Upside risks to the inflation outlook are monitored closely.

## Inflation Report Forecasts (Percent)



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

Last Observation: September 2014.

# Overview

- Exports remain supportive of balanced growth in spite of weakening global demand.
- Tight monetary policy stance and macroprudential measures are keeping loan growth rates at reasonable levels.
- Macroprudential measures taken at the beginning of the year and the tight monetary policy stance started to have favorable impact on the core inflation trend. However, elevated food prices continue to delay the improvement in the inflation outlook.
- Declining commodity prices are expected to limit upside risks on inflation.
- Inflation expectations, pricing behavior and other factors that affect inflation will be closely monitored and the tight monetary policy stance will be maintained, by keeping a flat yield curve, until there is a significant improvement in the inflation outlook.



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Balanced Growth Prospects in Turkey**

**Erdem Başçı  
Governor**

**IMF – World Bank Autumn Meetings  
Presentation to investor meetings  
October 11, 2014  
Washington DC**