



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **THE ECONOMIC OUTLOOK AND MONETARY POLICY**

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**Governor, CBRT**

**Kayseri Chamber of Industry**

**7 April 2014**

# Overview

- Retail loan growth continues to slow down in response to the tight monetary policy stance, recent macroprudential measures, and weak capital flows.
- The impact of monetary tightening on inflation will be observed with some lag, thereby the decline in inflation is expected to start after June.
- Exports will support growth while private final domestic demand will lose momentum.
- The current account deficit will improve substantially in 2014.

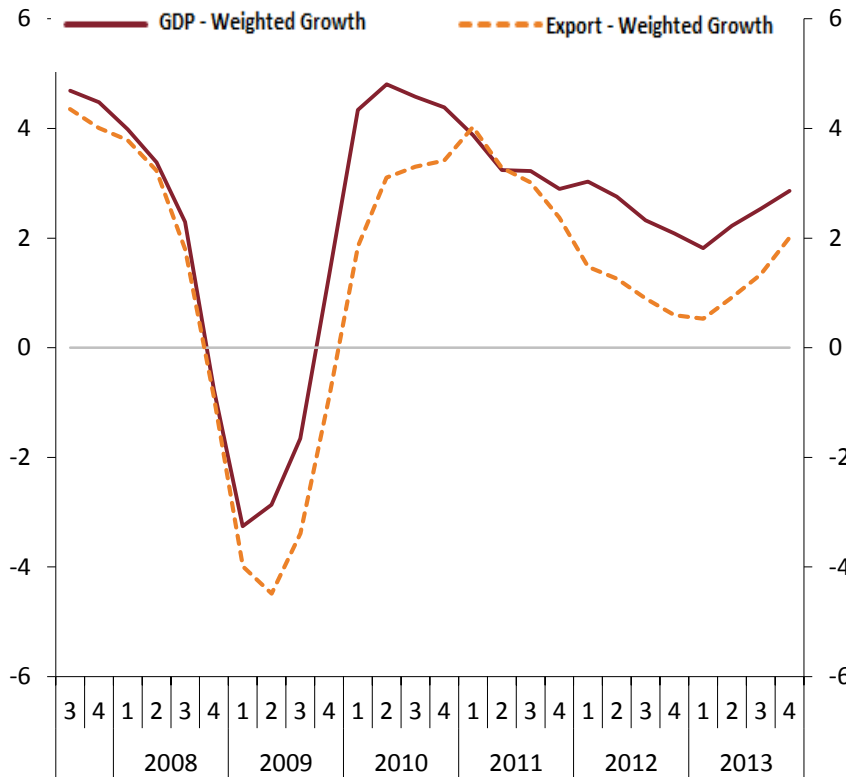
# Outline

- I. Growth
- II. External Balance
- III. Inflation
- IV. Monetary Policy

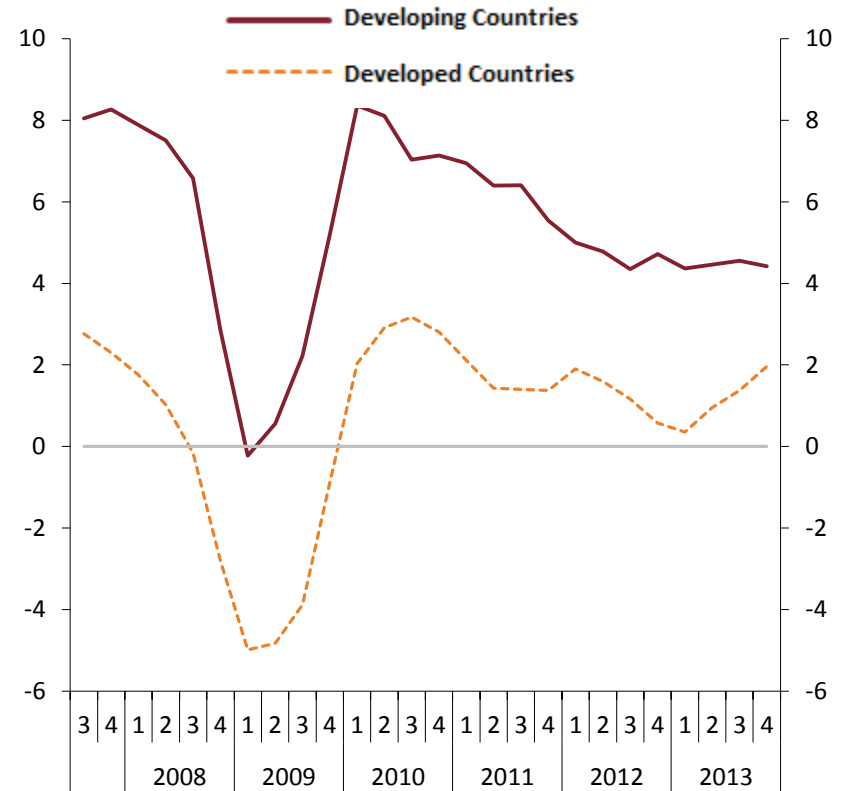
# GROWTH

# Global growth rates increase on account of advanced economies.

## Global Growth Rates (Annual, Percent)



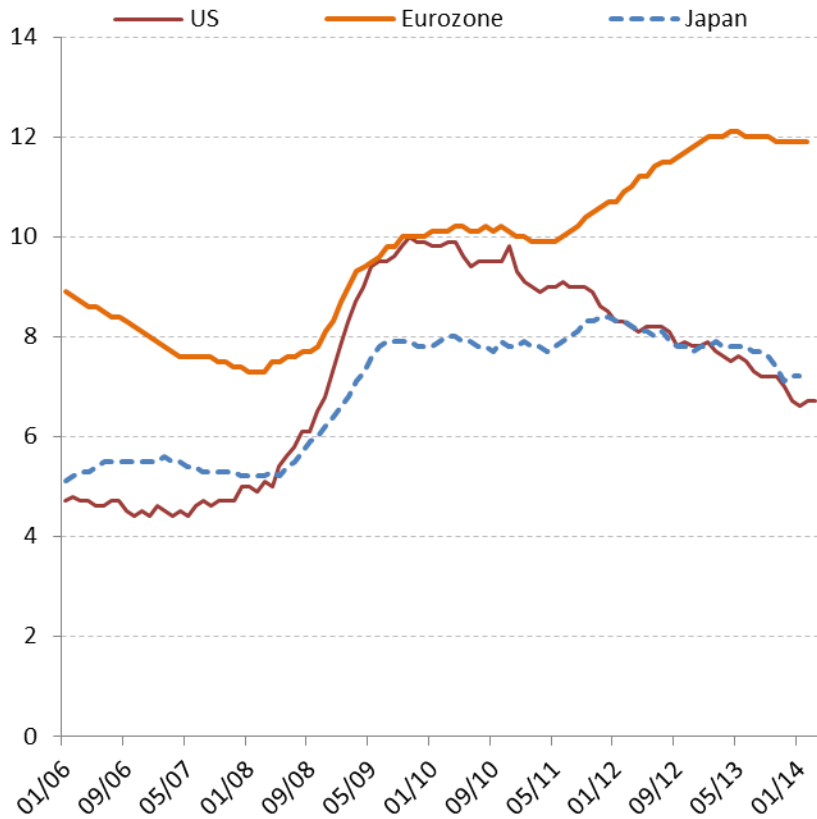
## Growth Rates per Country Groups (Annual, Percent)



Source: Bloomberg, CBRT.

# Increases in employment in the US and the UK account for the decline in unemployment.

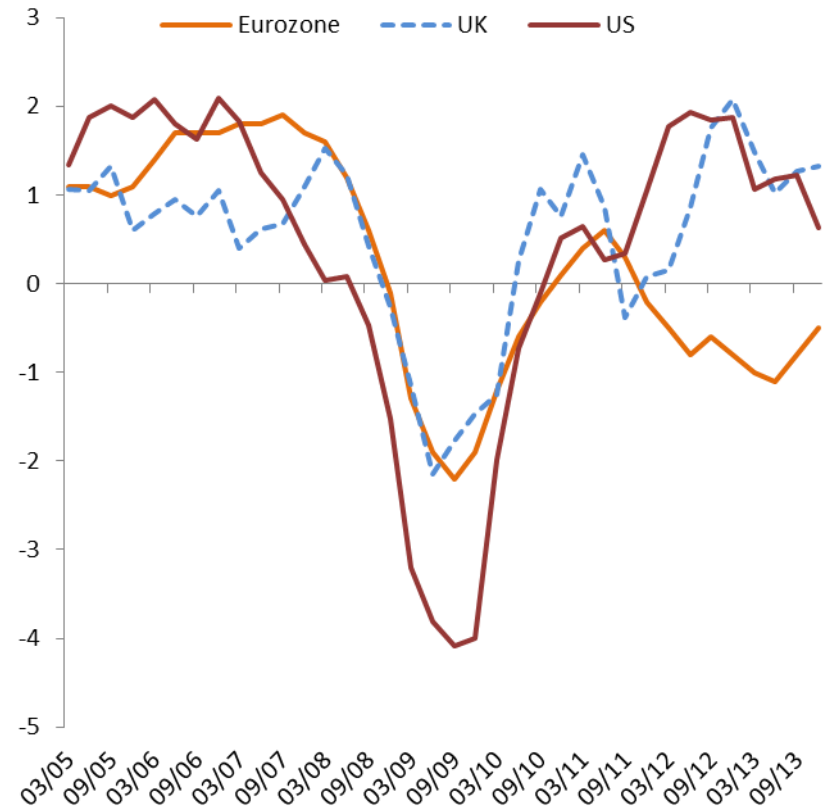
**Unemployment Rates in Advanced Economies  
(Percent)**



Source: Bloomberg.

Latest Data: January for the UK, February for the Eurozone, March for the US.

**Employment in Advanced Economies  
(Annual Percentage Change)**

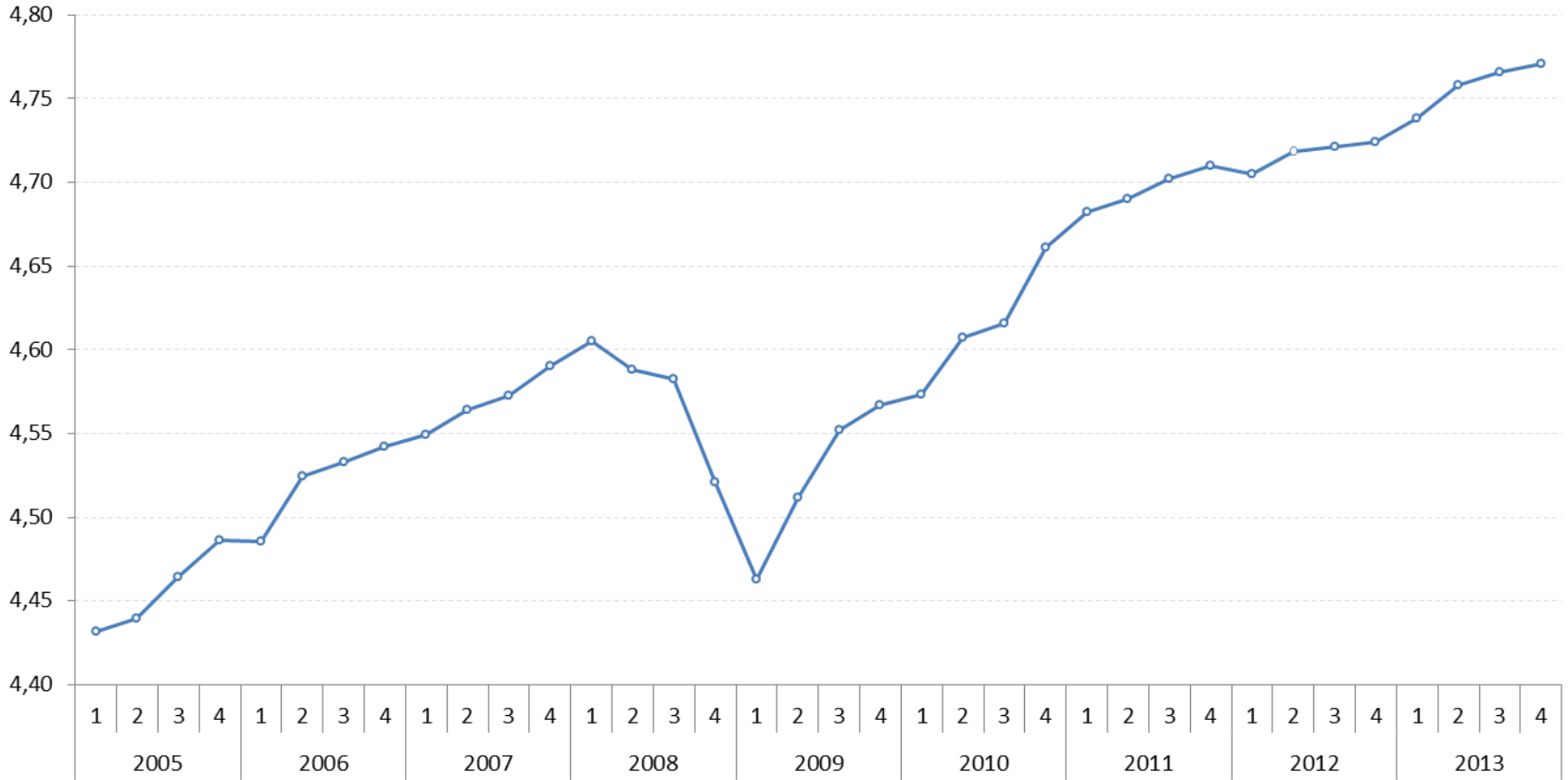


Source: Bloomberg.

Latest Data: 2013 Q4

## Economic growth displays a moderate increase.

### GDP\* (Seasonally Adjusted)

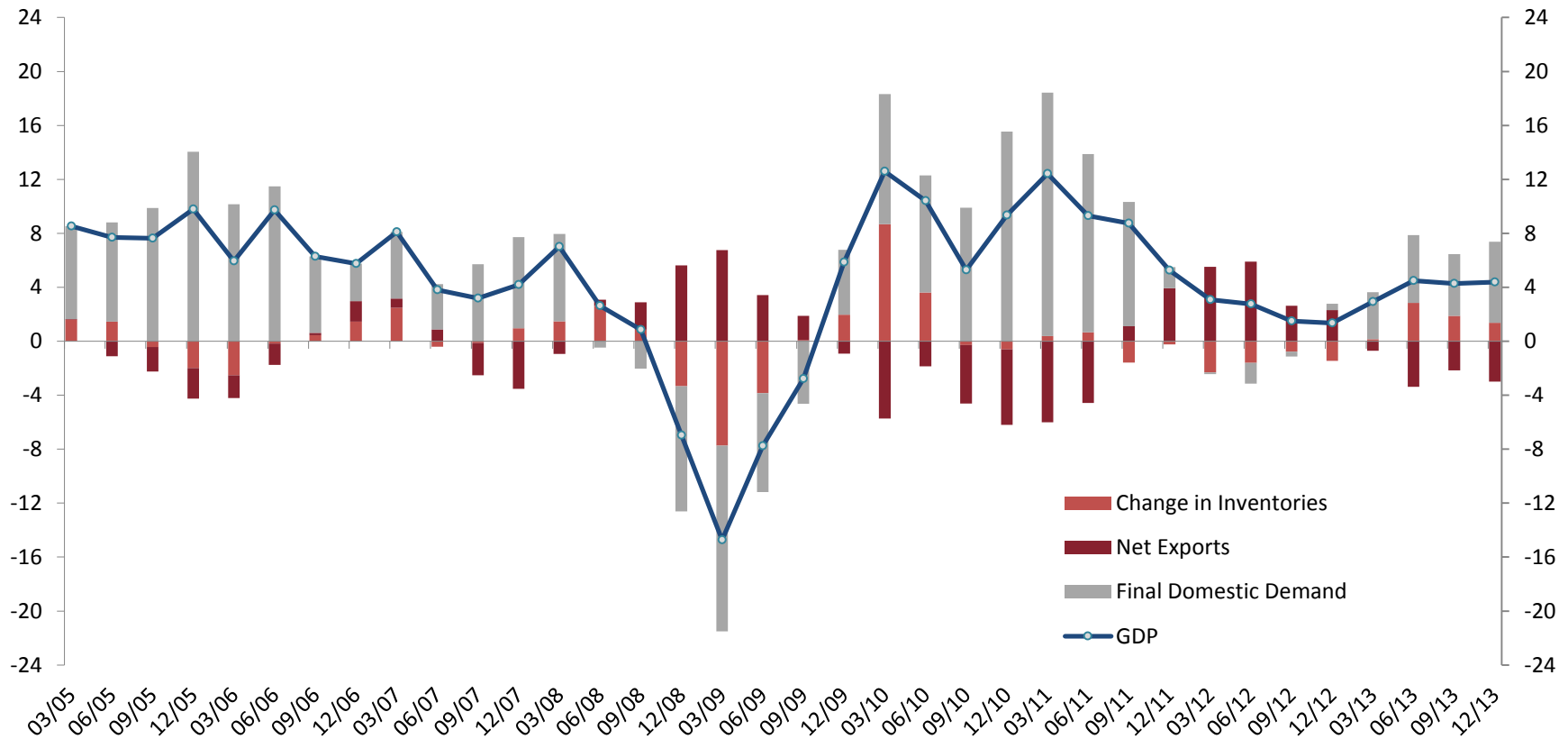


Source: TURKSTAT, CBRT.

\*Natural logarithm

# Economic activity continued to expand throughout 2013, with the final domestic demand being the determinant.

## Contributions to Annual GDP Growth (Percentage Points)



Source: TURKSTAT.

Latest Data: 2013 Q4



# Unemployment declined due to the increase in employment.

## Unemployment Rate (Seasonally Adjusted, Percent)



Source: TURKSTAT

Latest Data: December 2013

## Employment (Seasonally Adjusted, Million People)

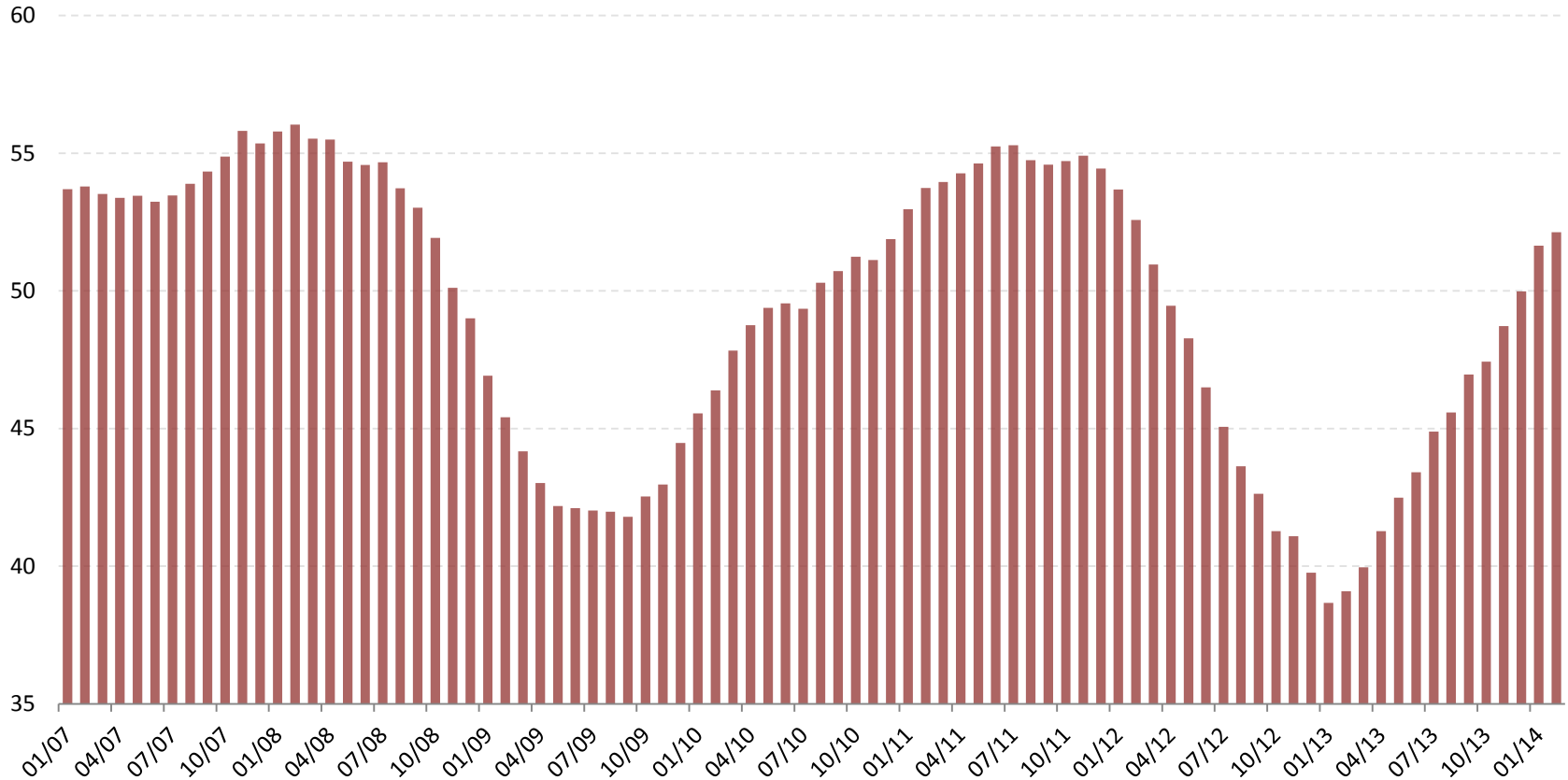


Source: TURKSTAT

Latest Data: December 2013

**The number of newly established firms continue to increase from early-2013 onwards.**

## **The Number of Newly Established Firms (12-Month Cumulative, Thousands)**

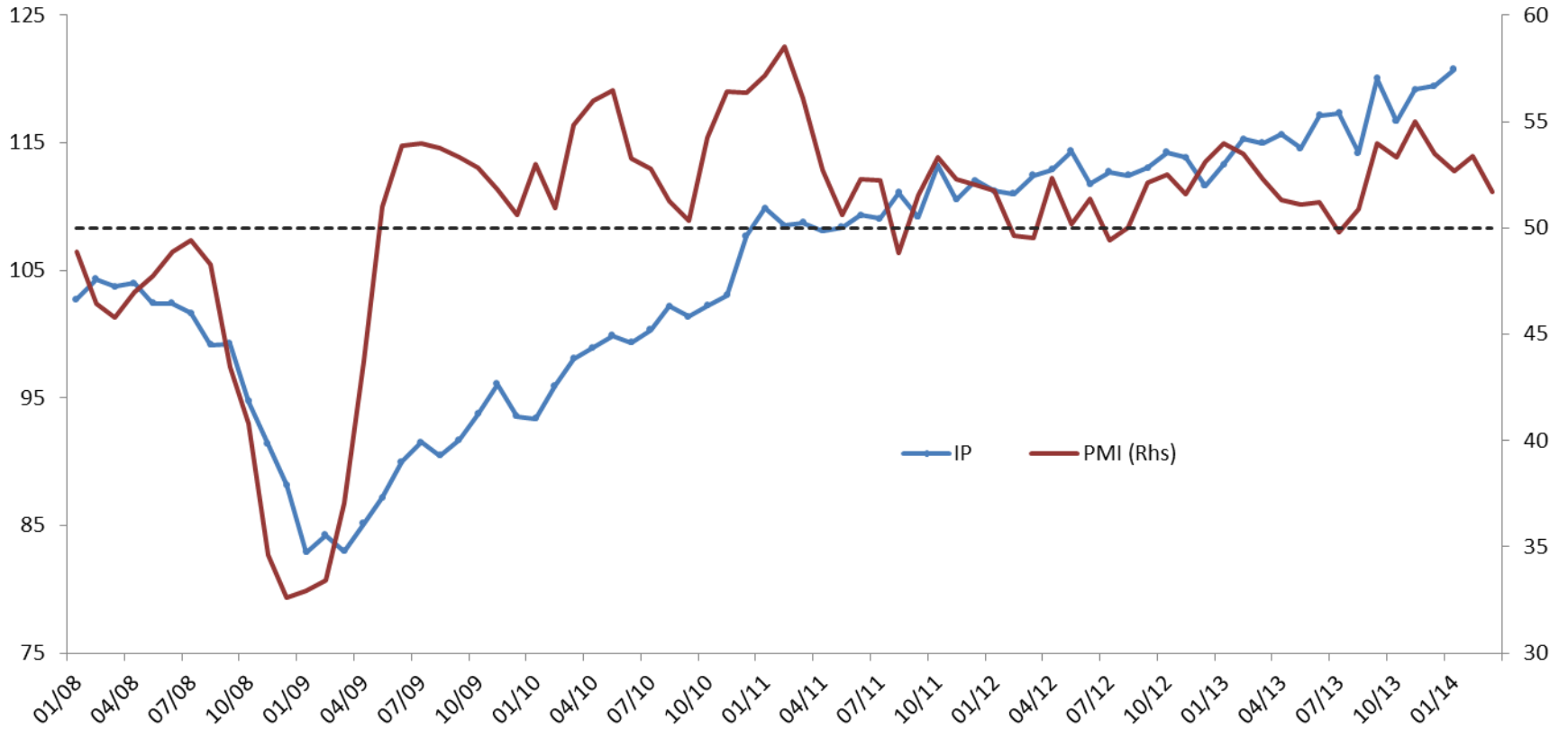


Source: The Union of Chambers and Commodity Exchanges of Turkey (TOBB).

Latest Data: February 2014

# Leading indicators point to an ongoing moderate growth.

## Industrial Production Index and PMI (Seasonally Adjusted)

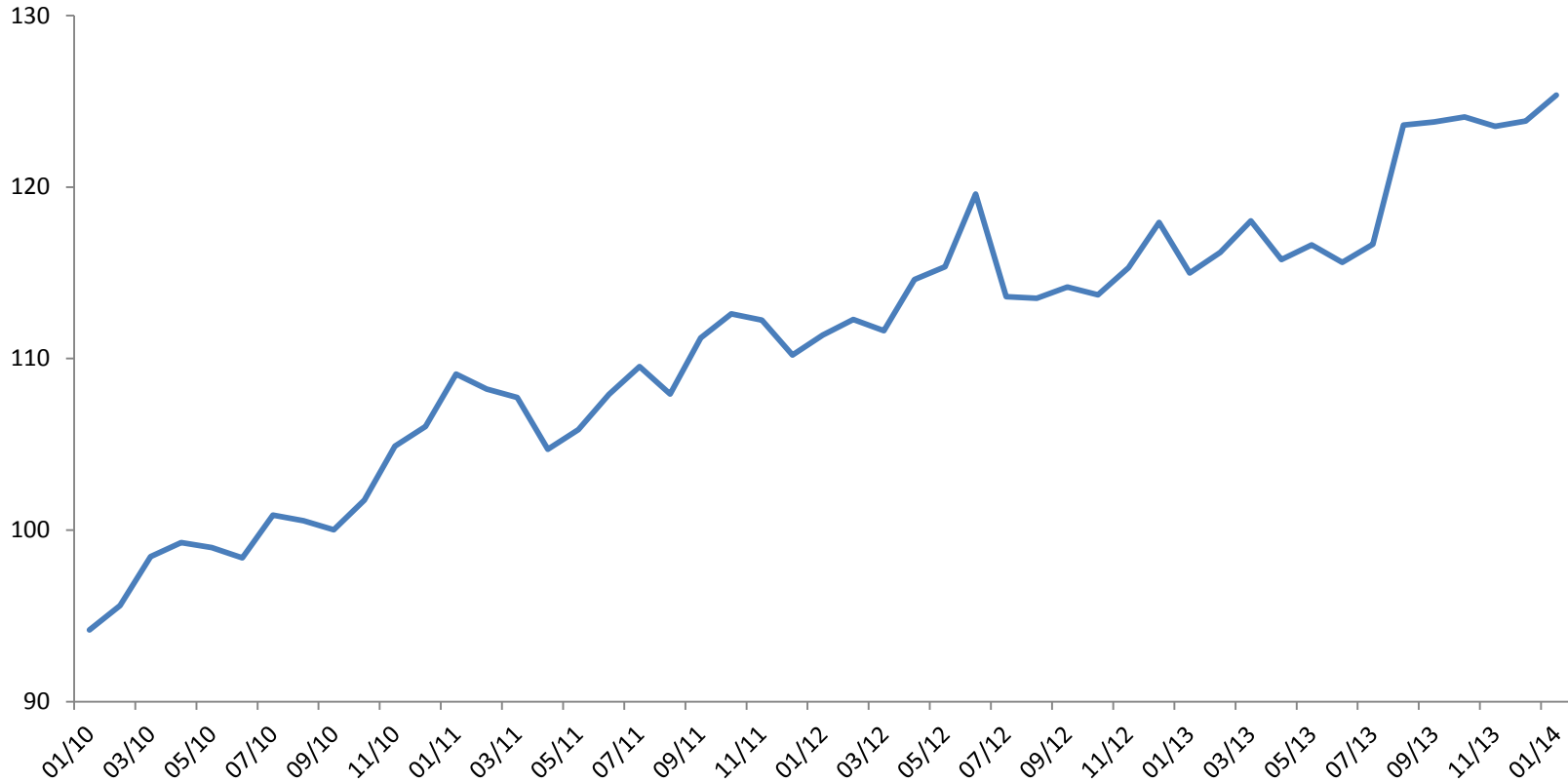


Source: Markit, TURKSTAT.

Latest Data: March 2014 for PMI,  
January 2014 for Industrial Production.

# Leading indicators point to an ongoing moderate growth.

## Retail Sales Volume Index (In Real Terms, Seasonally Adjusted, 2010=100)

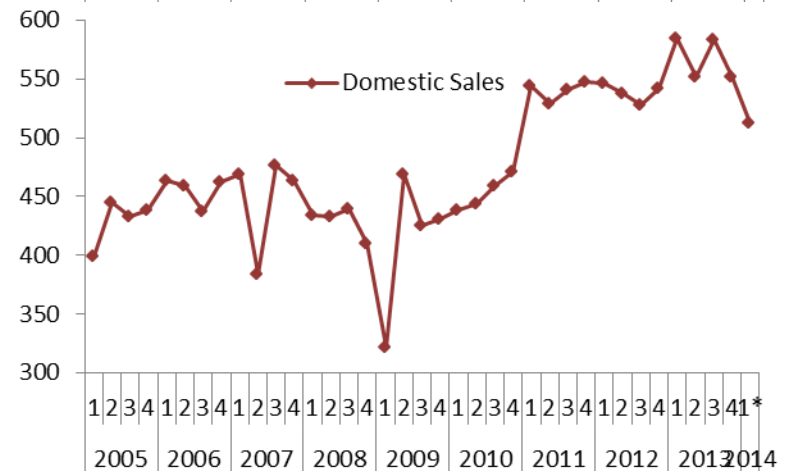
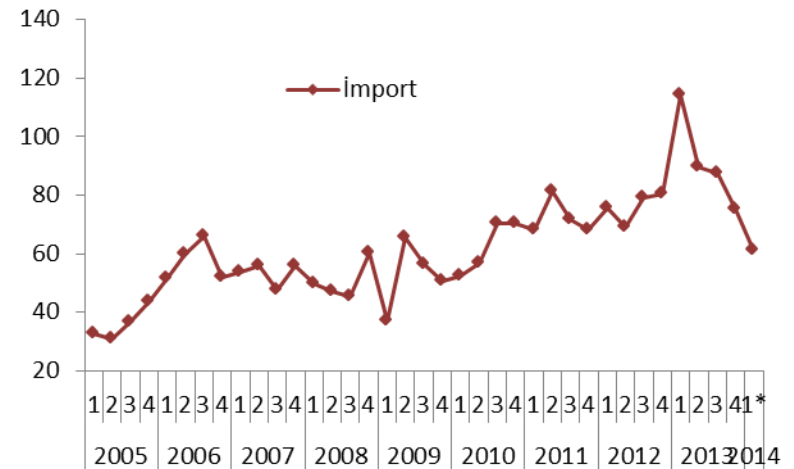


Source: TURKSTAT.

Latest Data: January 2014

# Increase in exports contains the impact of the slowdown in domestic demand on economic activity.

## White Goods (Seasonally Adjusted, Thousands)

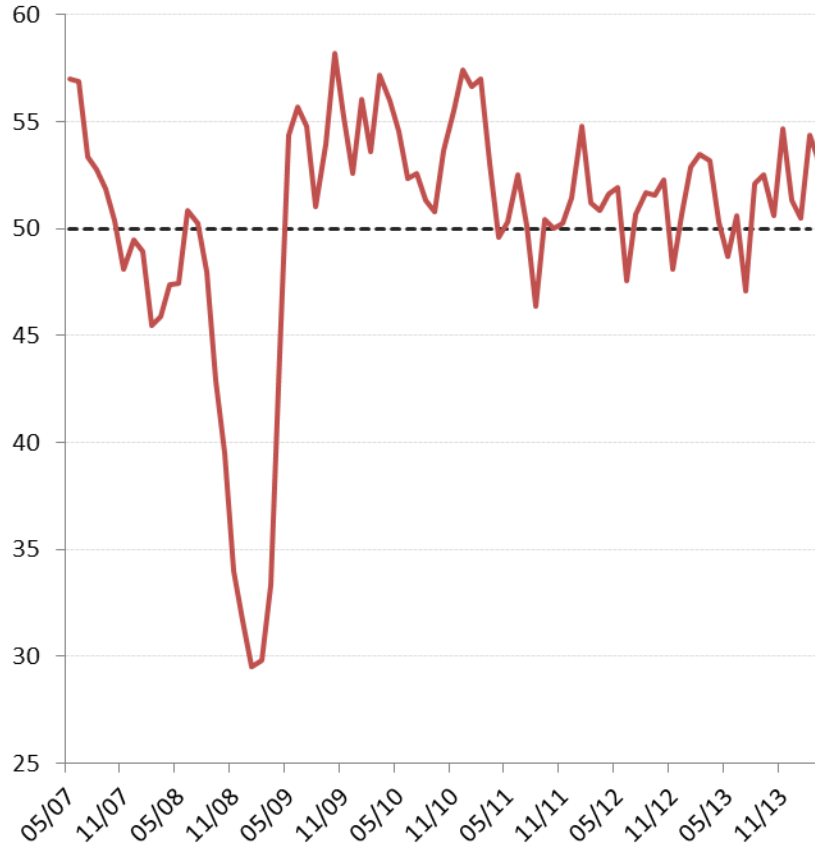


Source: White Goods Manufacturers' Association of Turkey (BESD), CBRT.

\*Average of January and February

## Exports are seen to support growth and rebalancing.

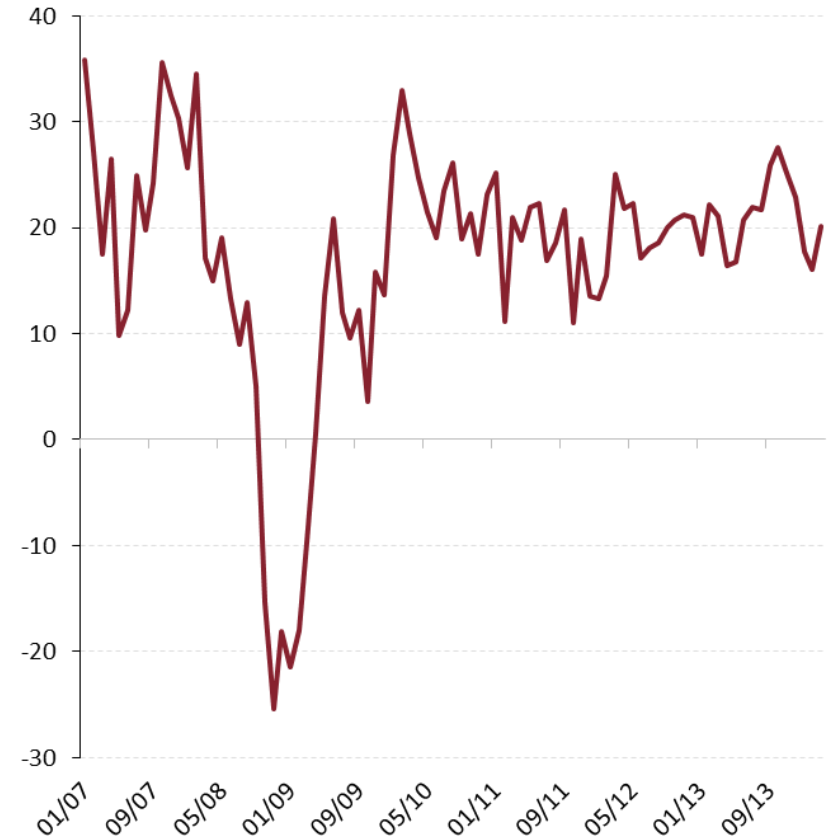
**PMI Exports Orders  
(Seasonally Adjusted)**



Source: Markit

Latest Data: March 2014

**Expectation of New Export Orders\*  
(Seasonally Adjusted)**



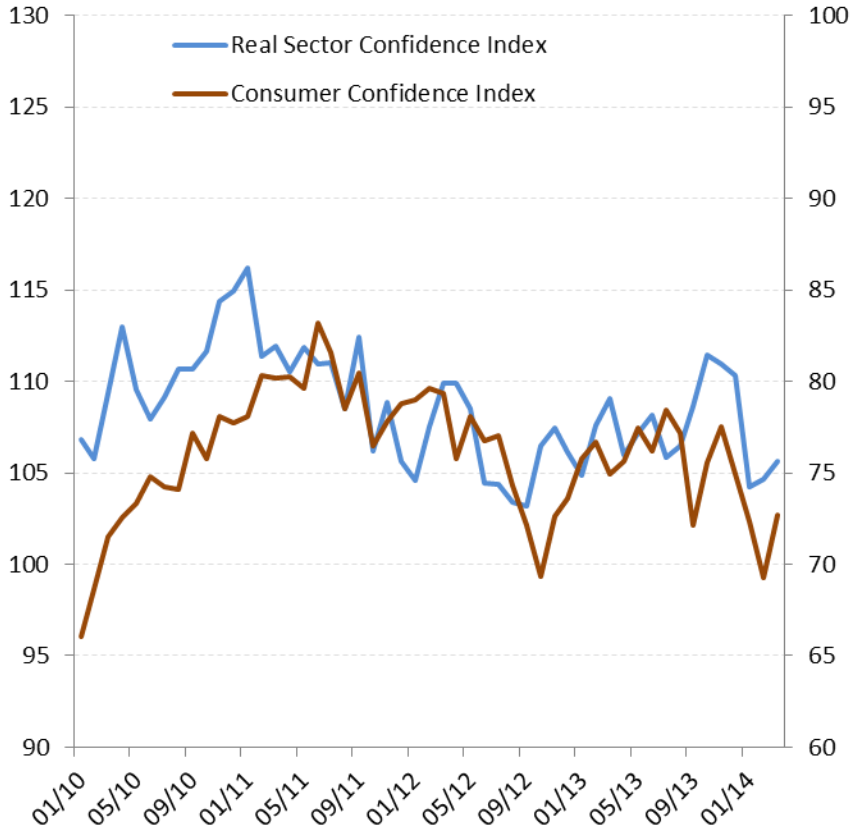
Source: TURKSTAT, CBRT.

Latest Data: March 2014

\*Business Tendency Survey: Expectation of new export orders over the next three months (increase-decrease)

# Leading indicators suggest a slowdown in the domestic demand.

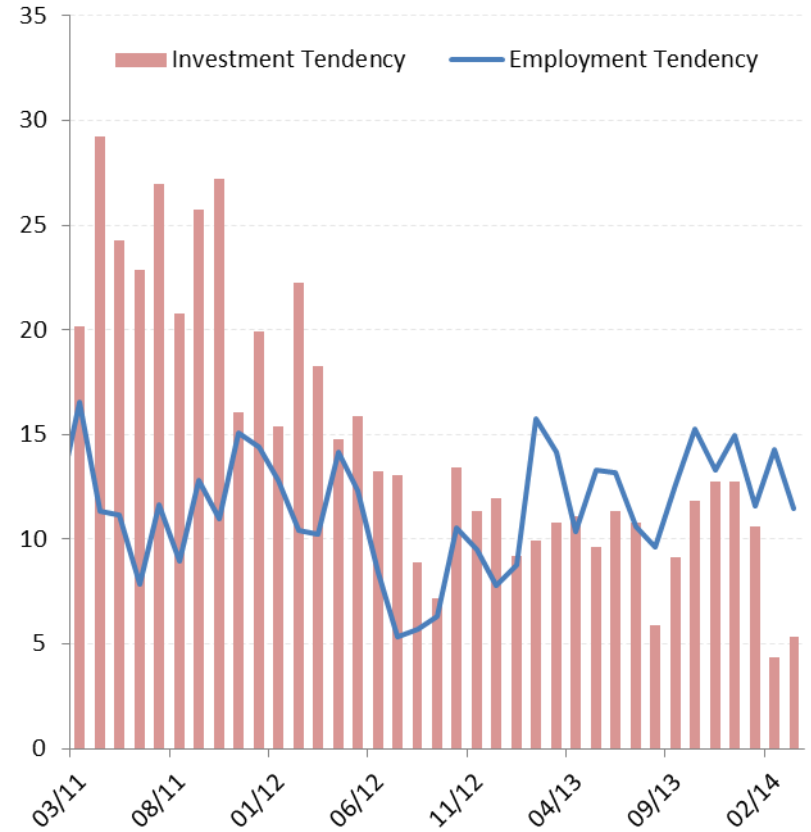
## Real Sector and Consumer Confidence Indices



Source: TURKSTAT, CBRT.

Latest Data: March 2014

## Investment and Employment Prospects (Seasonally Adjusted)



Source: CBRT.

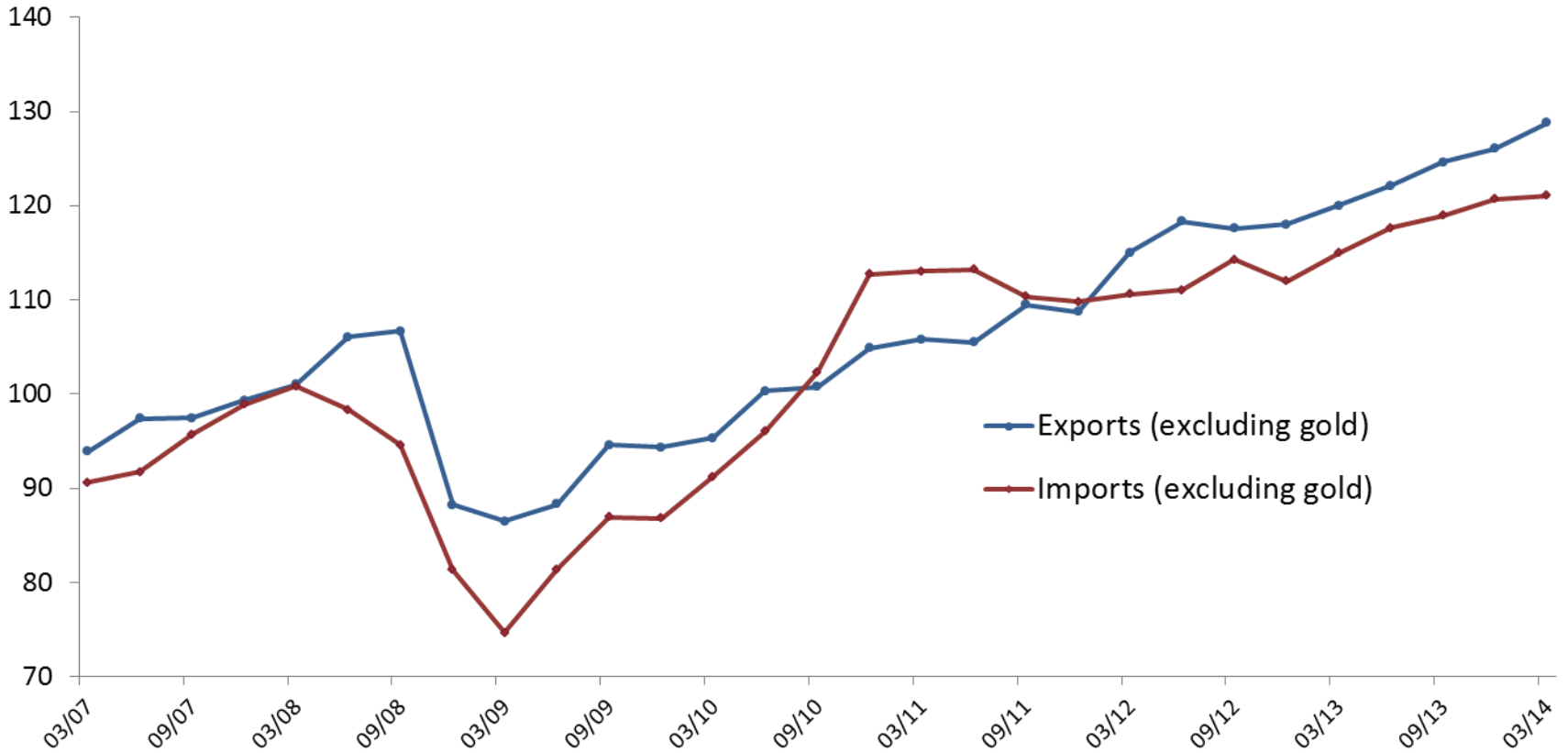
Latest Data: March 2014

# EXTERNAL BALANCE



# The rebalancing process continues as projected.

## Export and Import Quantity Indices Excluding Gold (In Real Terms, Seasonally Adjusted, 2010=100)

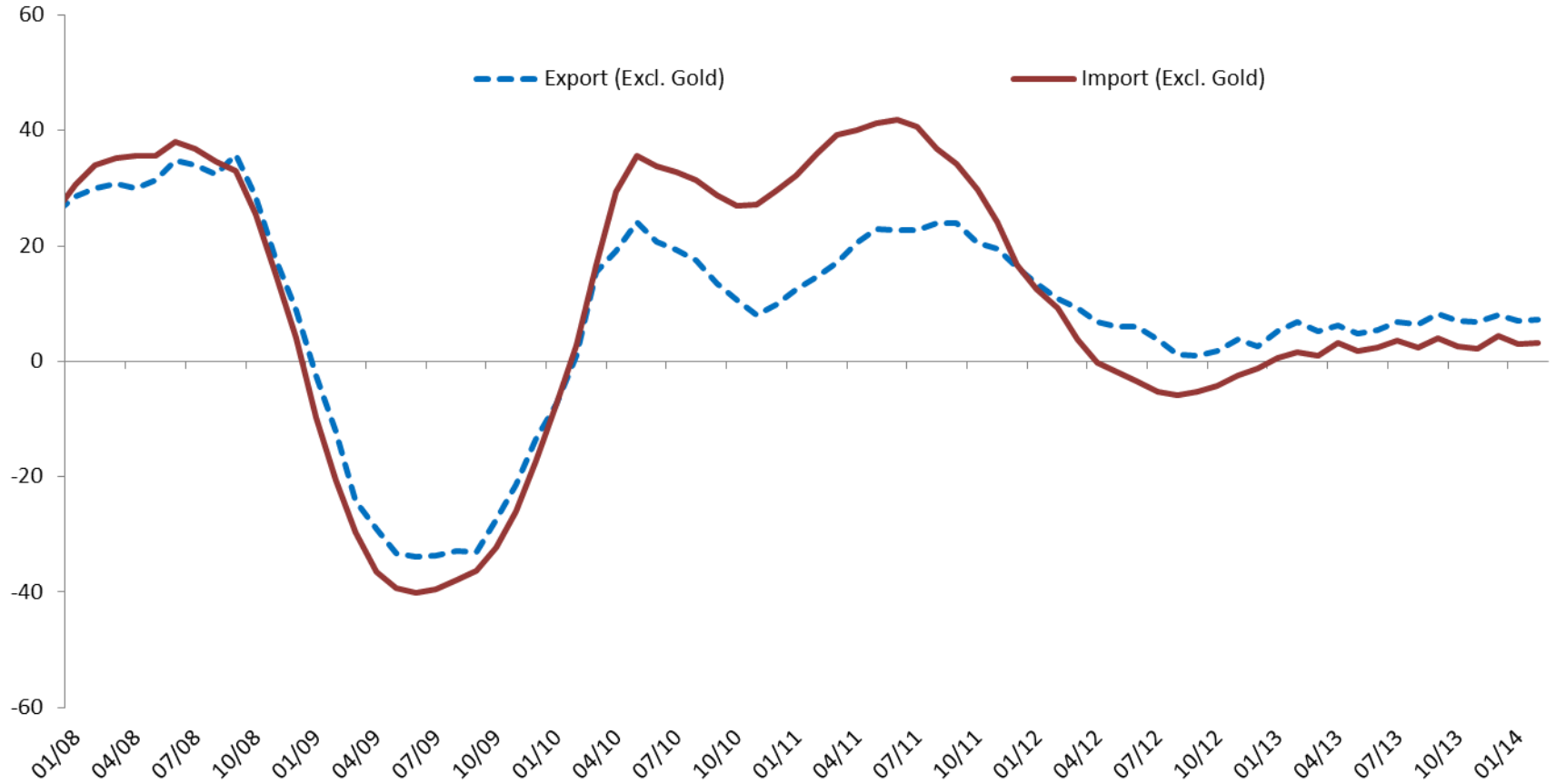


Source: TURKSTAT, CBRT.

\*Data for January 2014.

# Exports continue to grow faster than imports.

## Exports and Imports (Excluding Gold, In Nominal Terms, Annual % Change, 6-Month MA)



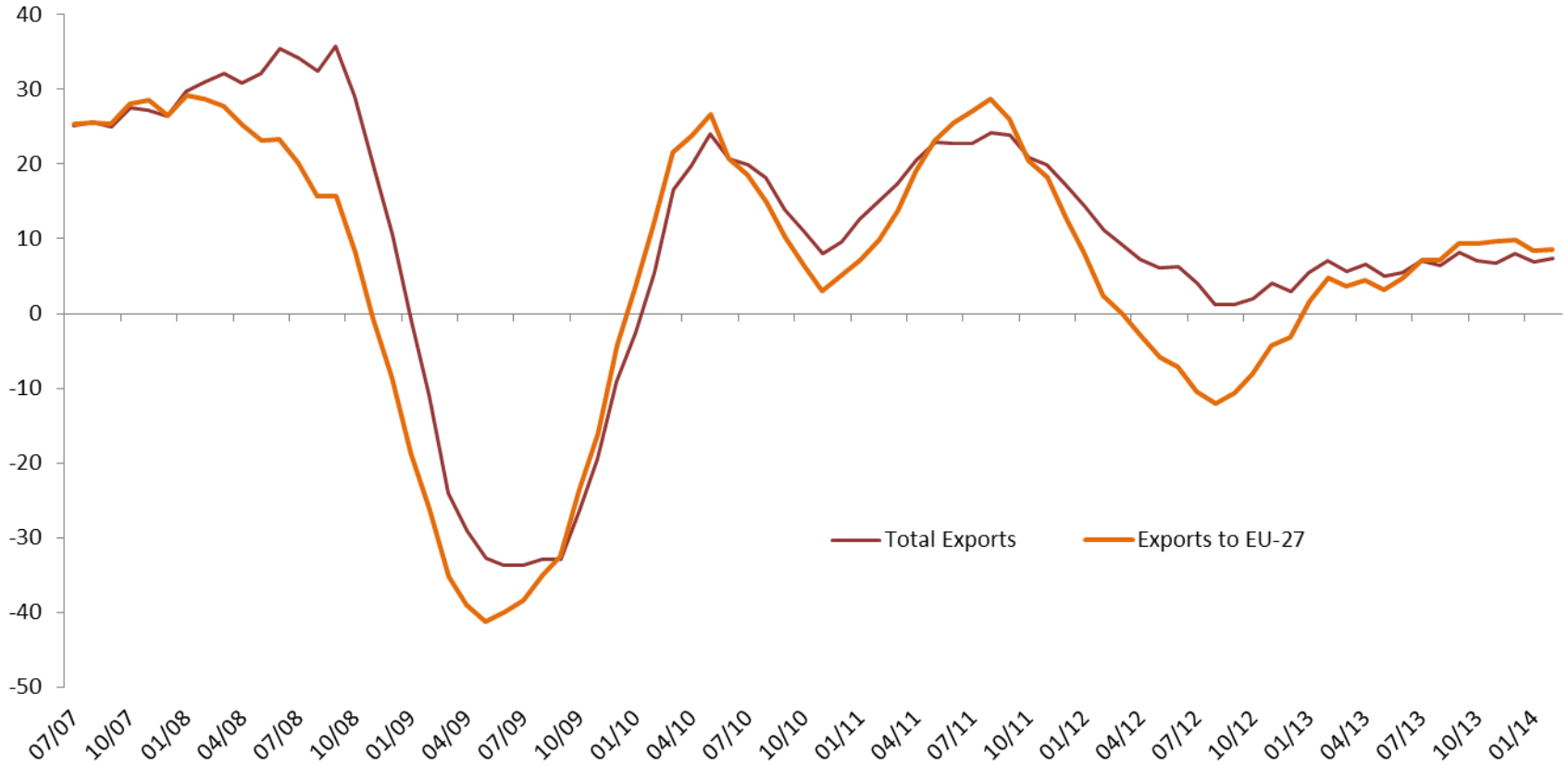
Source: TURKSTAT.

Latest Data: February 2014

# Export growth tracks the European recovery quite closely.

## Exports

(Excluding Gold, In Nominal Terms, Annual % Change, 6-Month MA)

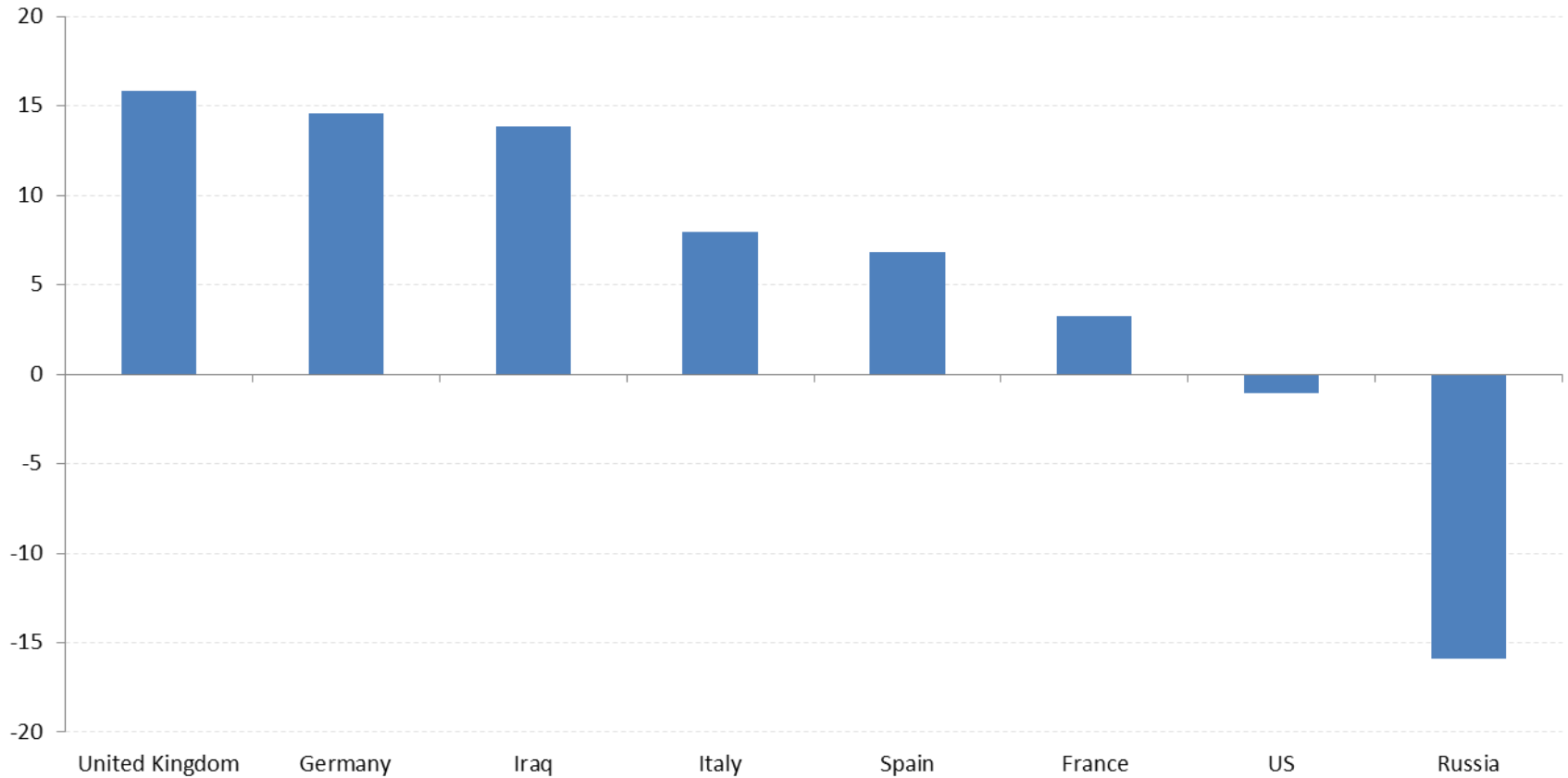


Source: TURKSTAT.

Last Observation: February 2014.

## The EU countries account for a significant part of the export growth.

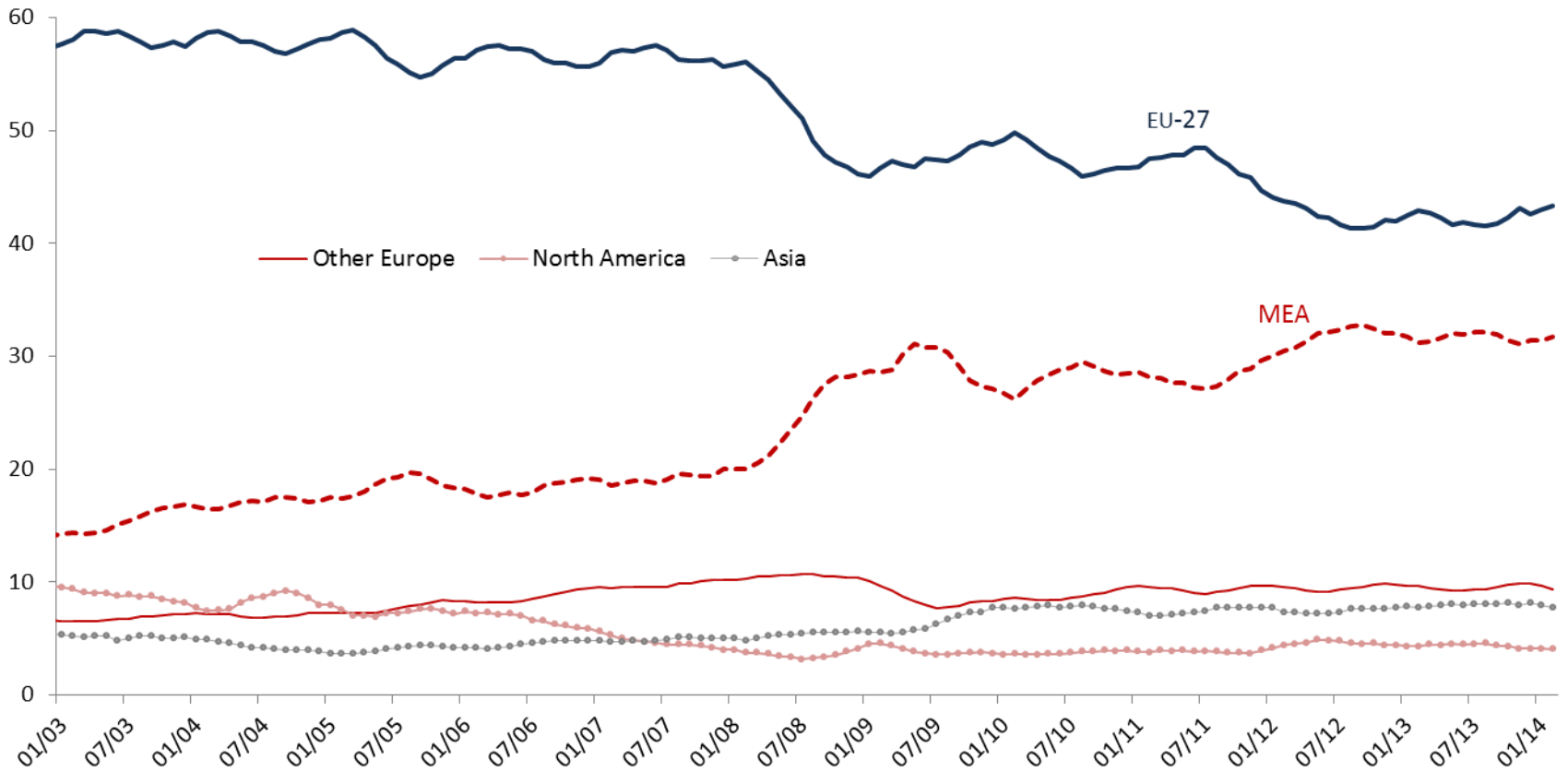
### Exports to Trade Partners (Sum of last three months as of March 2014, Annual Change, %)



Source: Turkish Exporters Assembly (TİM), CBRT.

# Recovery in the EU-27 is mirrored in the exports market share.

## Exports Market Share\* (6-Month Moving Average, Percent)

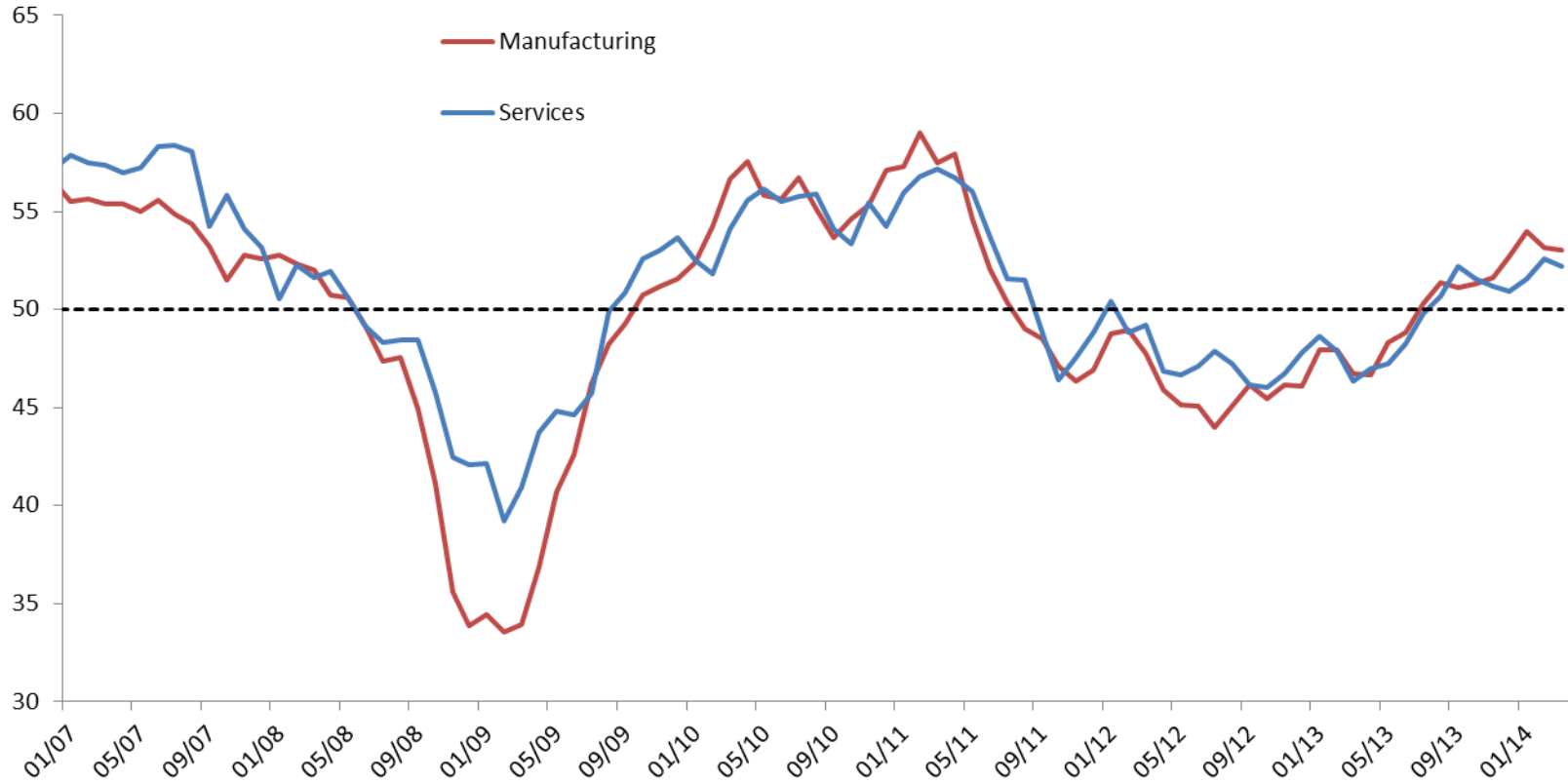


Source: TURKSTAT.

\*Excluding gold.  
Latest Data: February 2014

# Leading indicators suggest that the recovery in the euro area will continue.

## Euro Area Manufacturing Industry and Services PMI (Seasonally Adjusted)

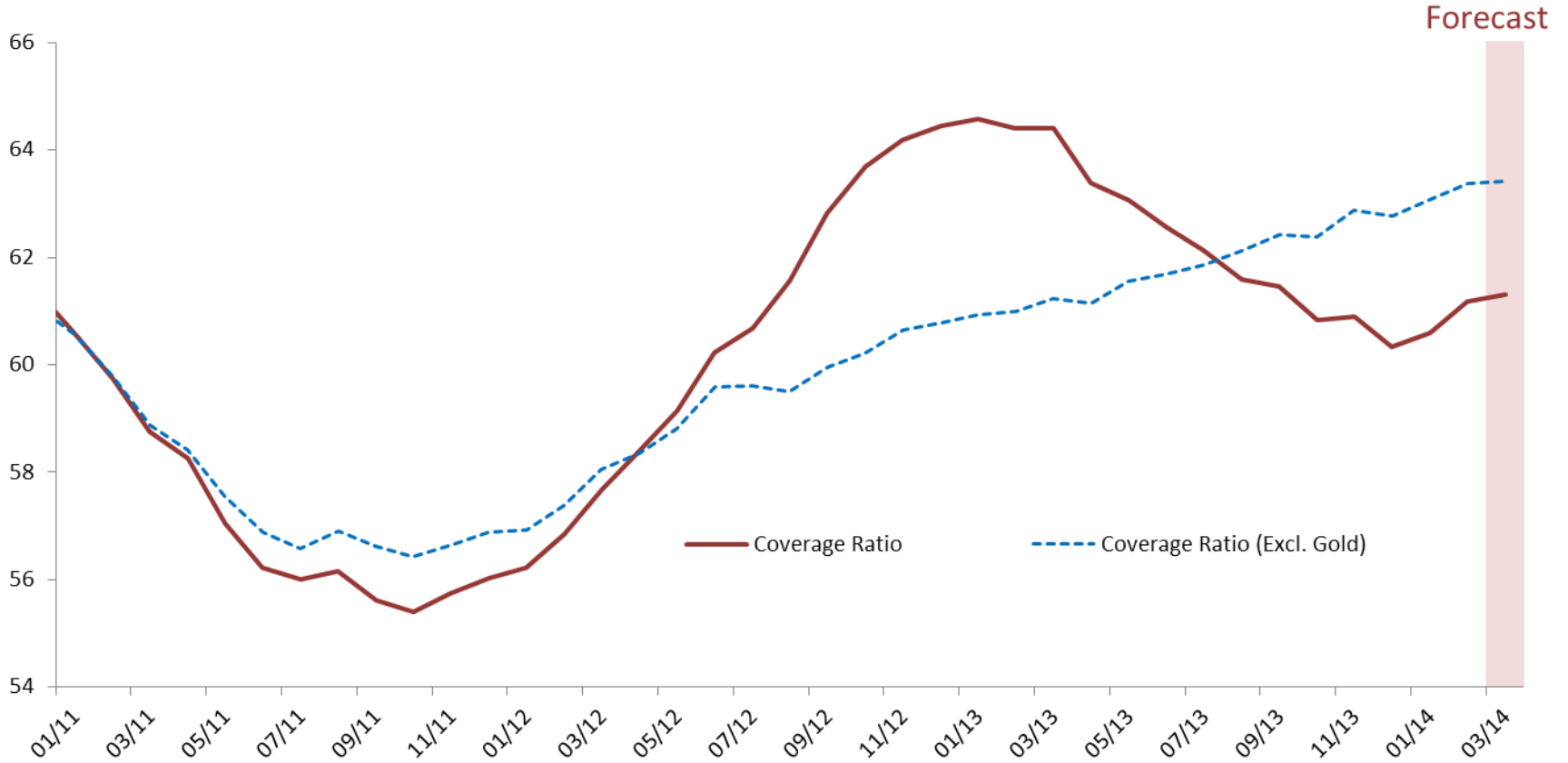


Source: Markit.

Latest Data: March 2014

# The uptrend in the export/import coverage ratio is expected to continue.

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



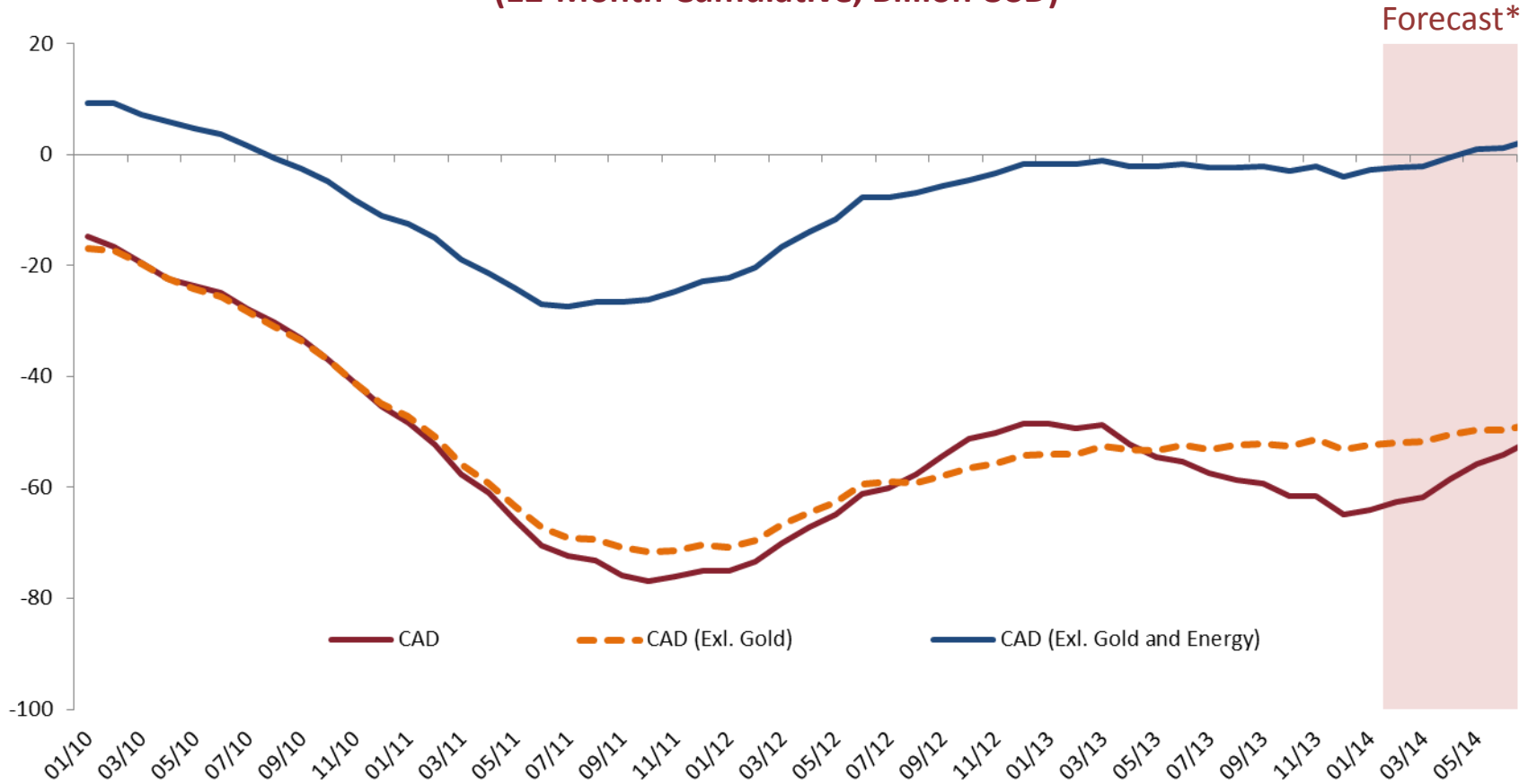
Source: TURKSTAT, CBRT.

\* March values are estimates

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

# A significant improvement is expected in the current account deficit in 2014.

## Current Account Deficit (CAD) (12-Month Cumulative, Billion USD)



Source: CBRT.

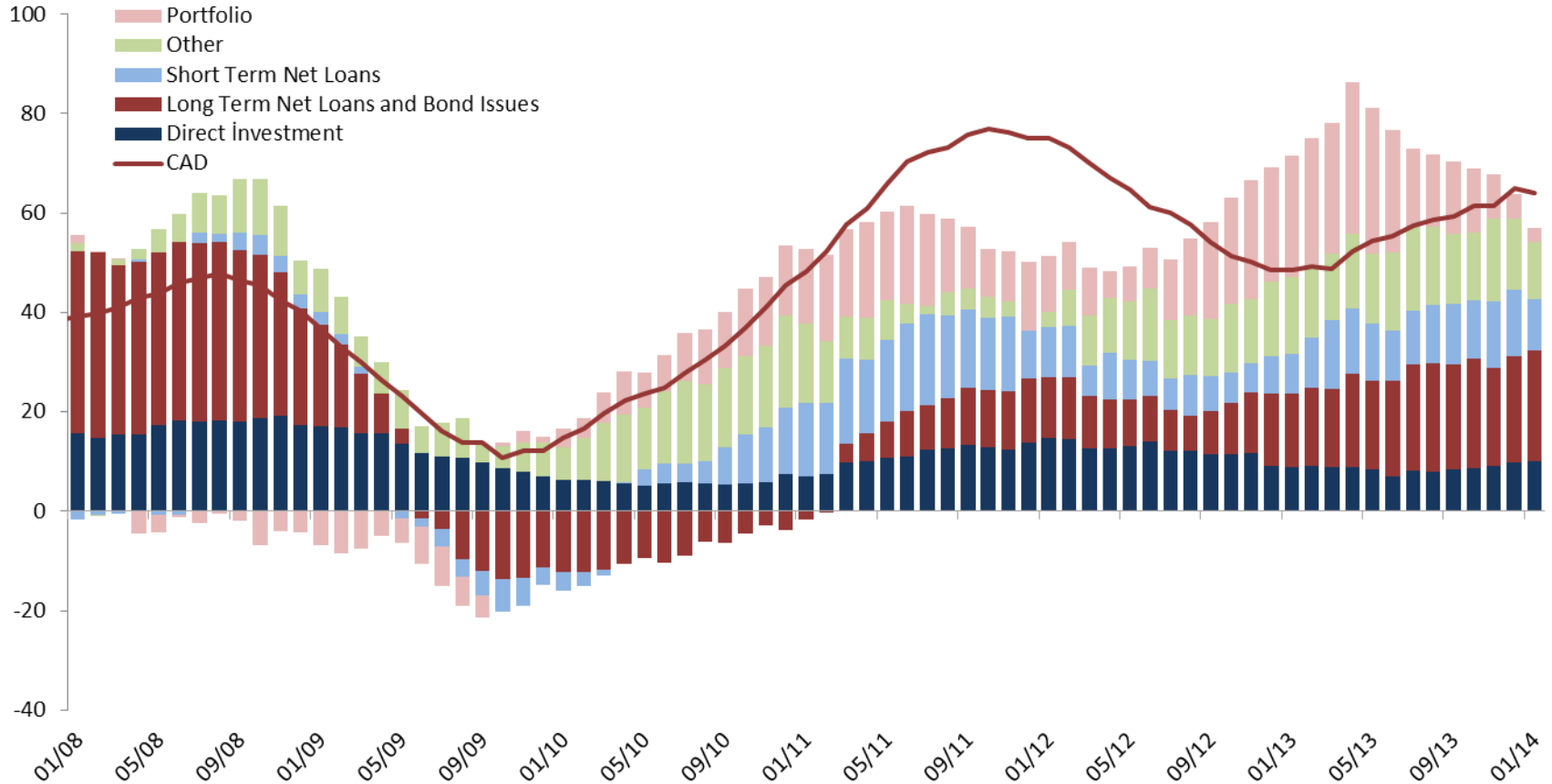
Last Observation: January 2014

\*Forecasts are based on the 2014 GDP growth projection of Medium Term Plan (MTP).



# The current account deficit is mainly financed by long term loans and bond issues.

## Main Sources of Financing for the Current Account Deficit (12-Month Cumulative, Billion USD)

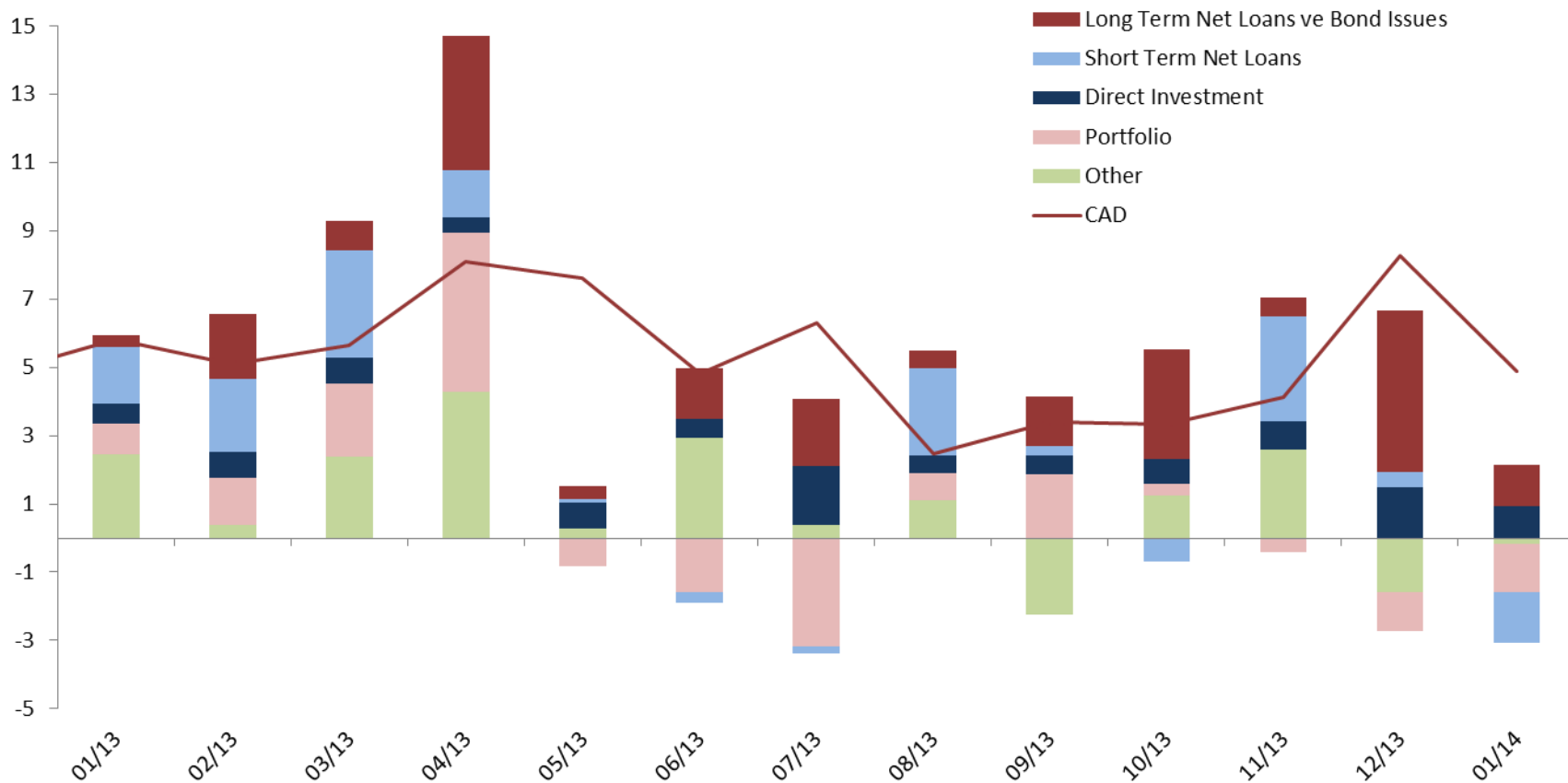


Source: CBRT.

Latest Data: January 2014

**While portfolio flows remain volatile and weak, long term net borrowings display a more stable course.**

### Main Sources of Financing for the Current Account Deficit (Monthly, Billion USD)

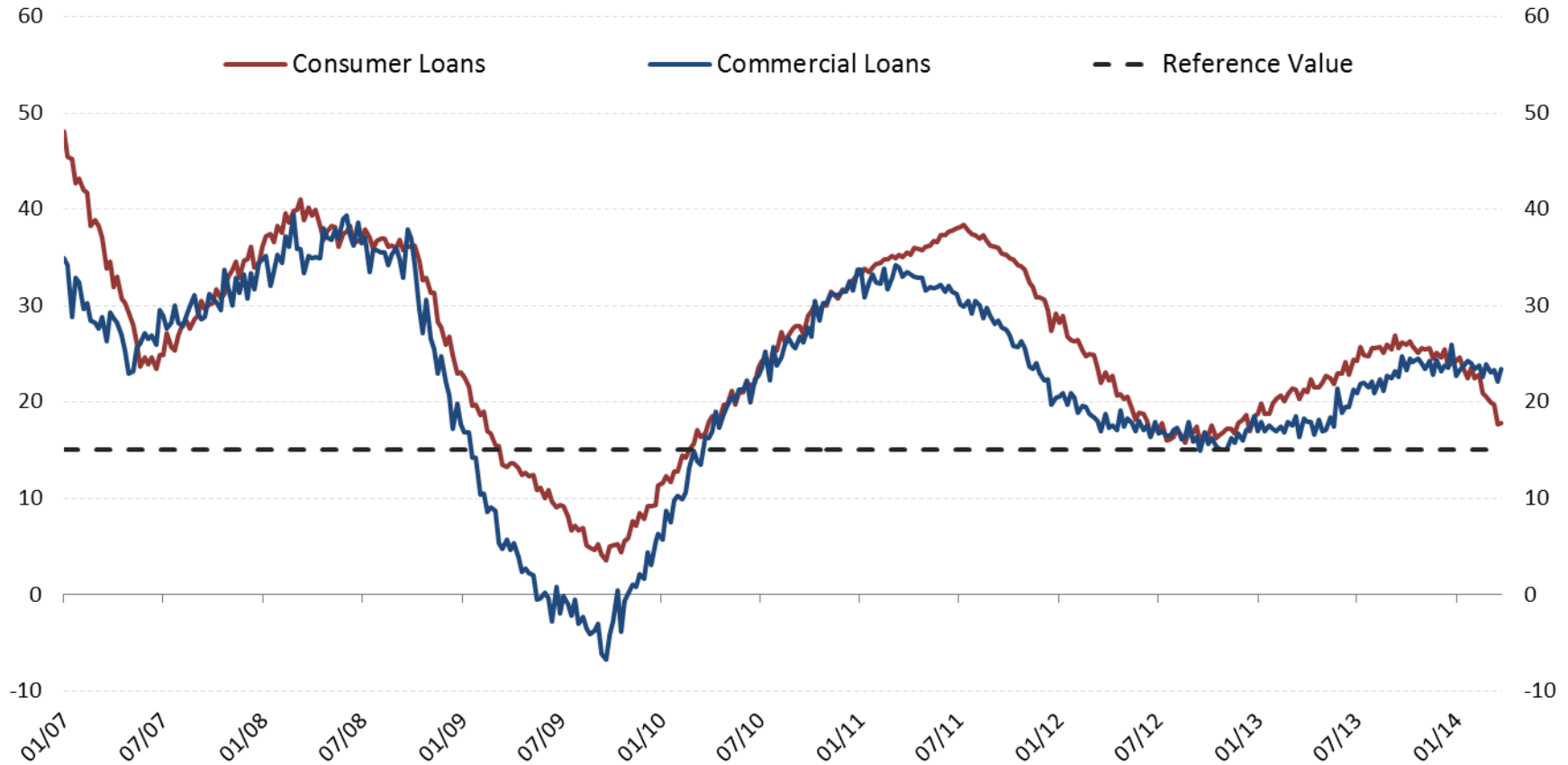


Source: CBRT.

Latest Data: January 2014

**Loan growth rates are approaching the reference value of 15%.**

## Consumer Loans\* and Commercial Loans (Annual Change, Percent)



Source: CBRT.

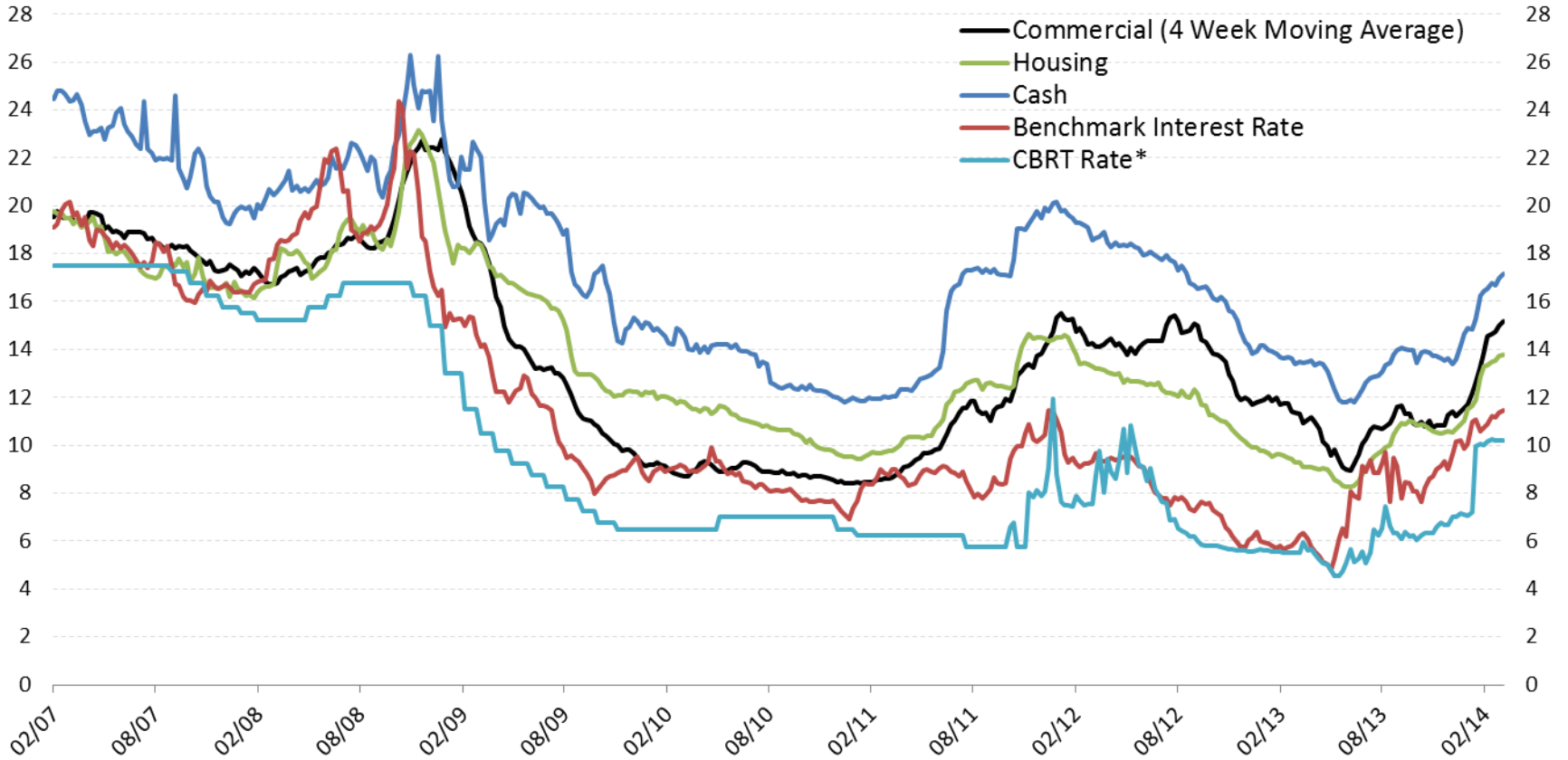
Total banking sector (Participation banks included, NPL excluded)

\*Credit cards included

Latest Data: 28 March 2014

# Lending rates have gradually increased.

(Annual Interest Rates, Percent)



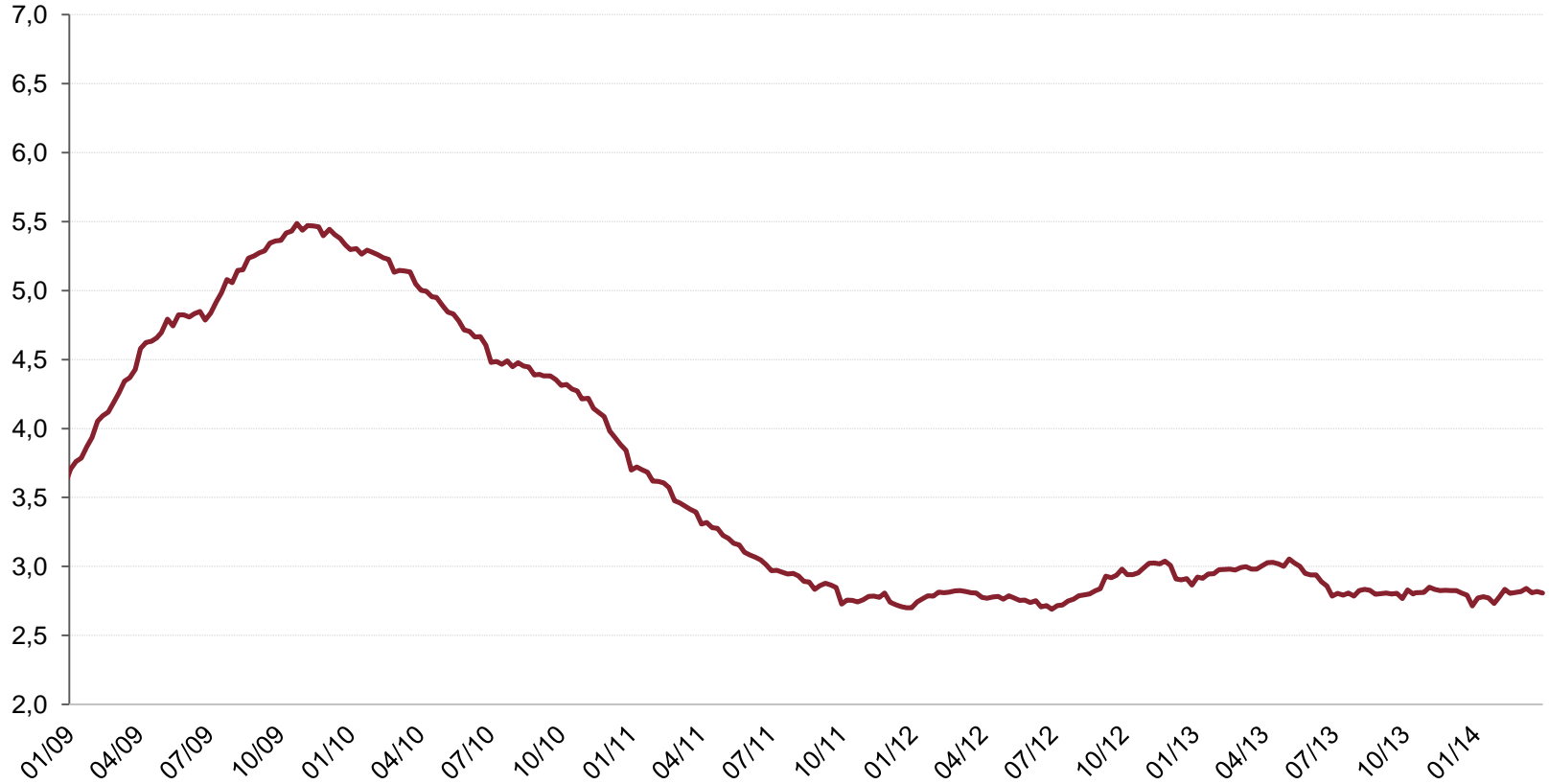
Source: CBRT.

\*Data prior to 20.10.2011 shows the CBRT borrowing rate and data after this date shows the average funding rate.

Latest Data: 21 March 2014

## NPL ratios continue to be at low levels.

Ratio of Total NPL  
(Percent)

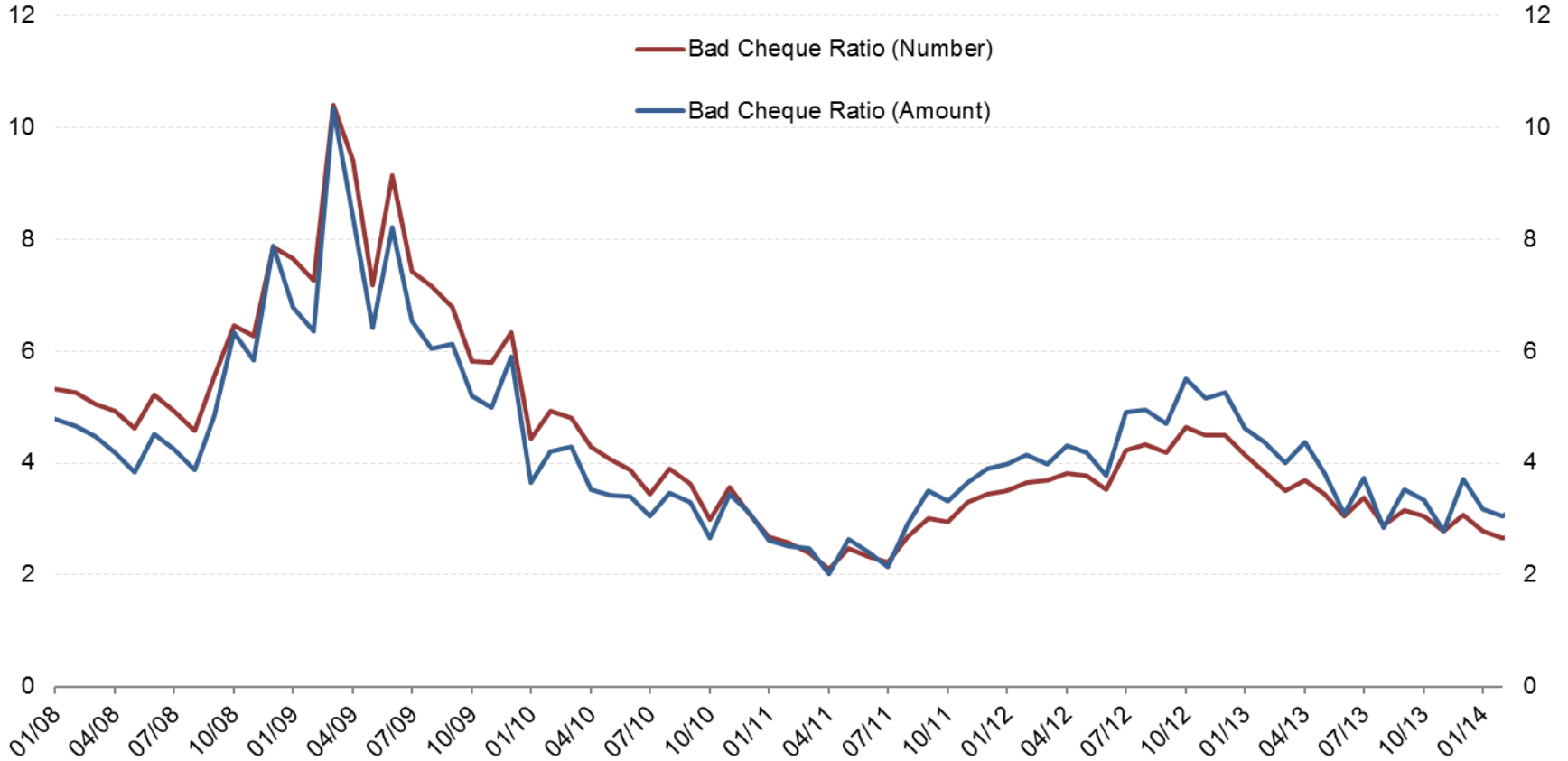


Source: CBRT.

Latest Data: 28 March 2014

# Bad cheque ratios are on the decline.

## Bad Cheque Ratios\*



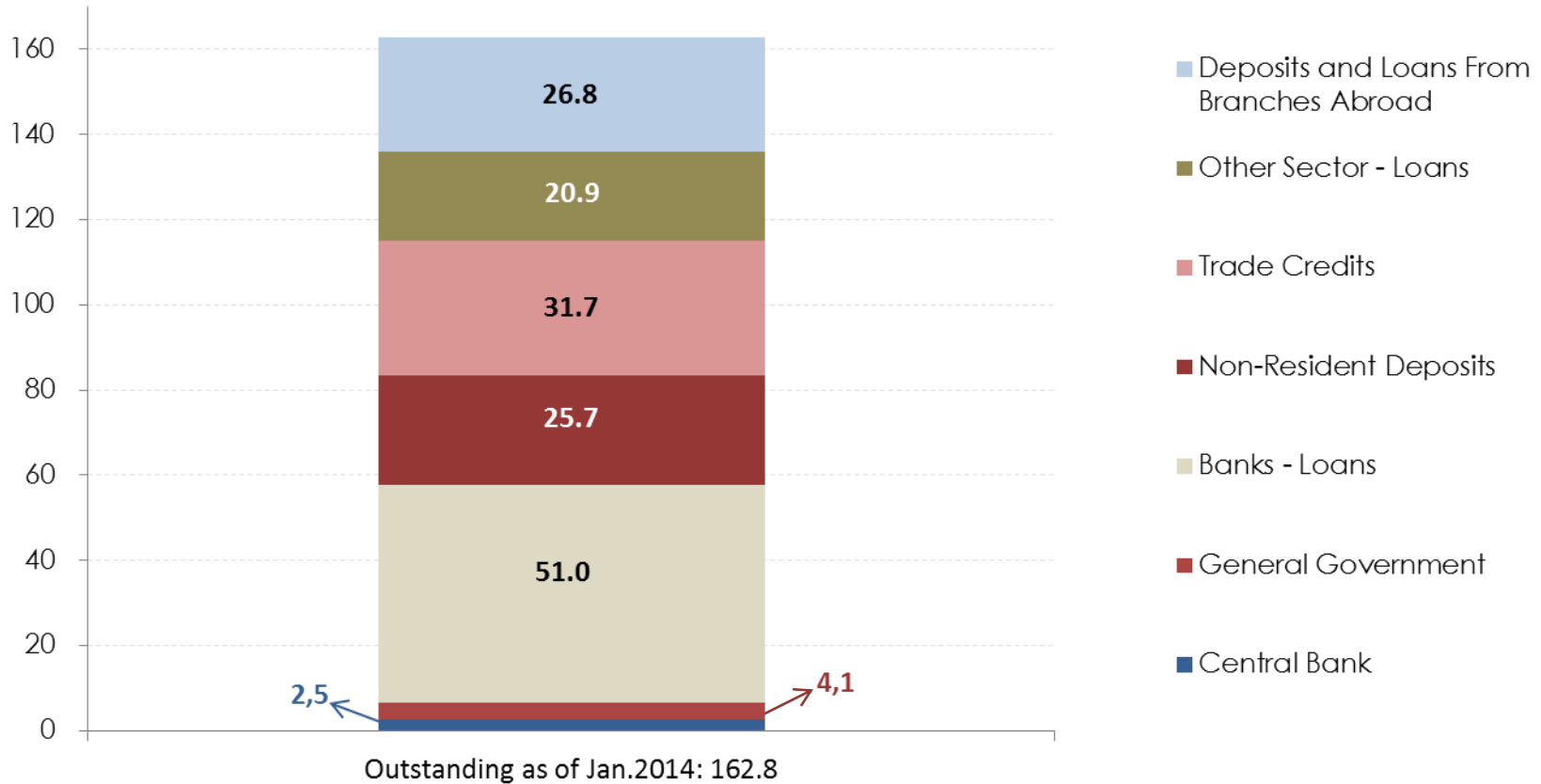
Source: CBRT.

\*The ratio of bad cheques is the ratio of the number and value of the bad cheques presented to the ICH to the number and value of the total cheques presented to the ICH.

Latest Data: February 2014

## Short term external debt of the public sector is negligible.

### External Debt Stock Maturing in One Year\* (Billion USD)

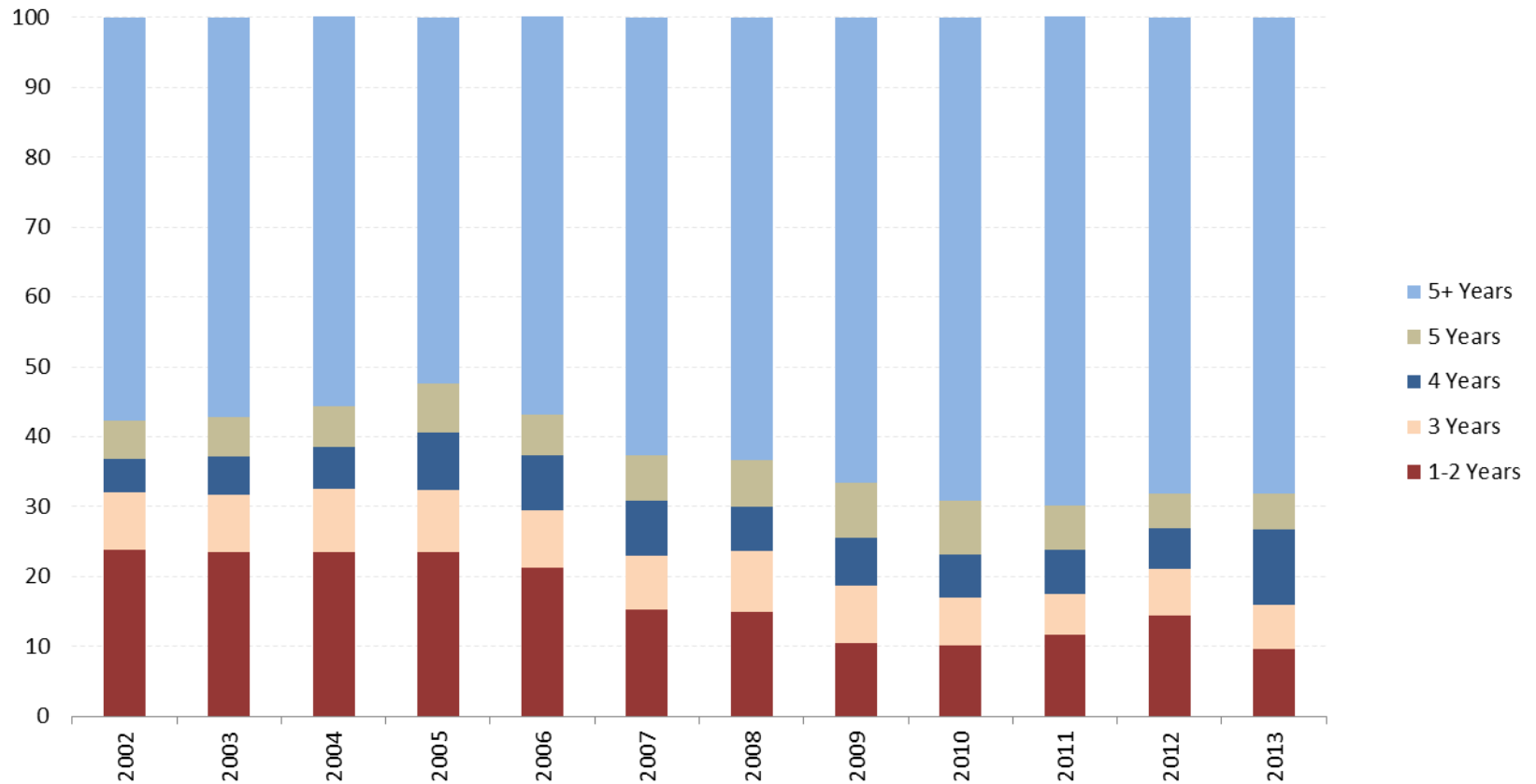


Source: CBRT.

\*External debt maturing within 1 year or less regardless of the original maturity.

# The maturity of the corporate sector's external borrowing has been extended.

## Corporate Sector External Debt Maturity (Percent)

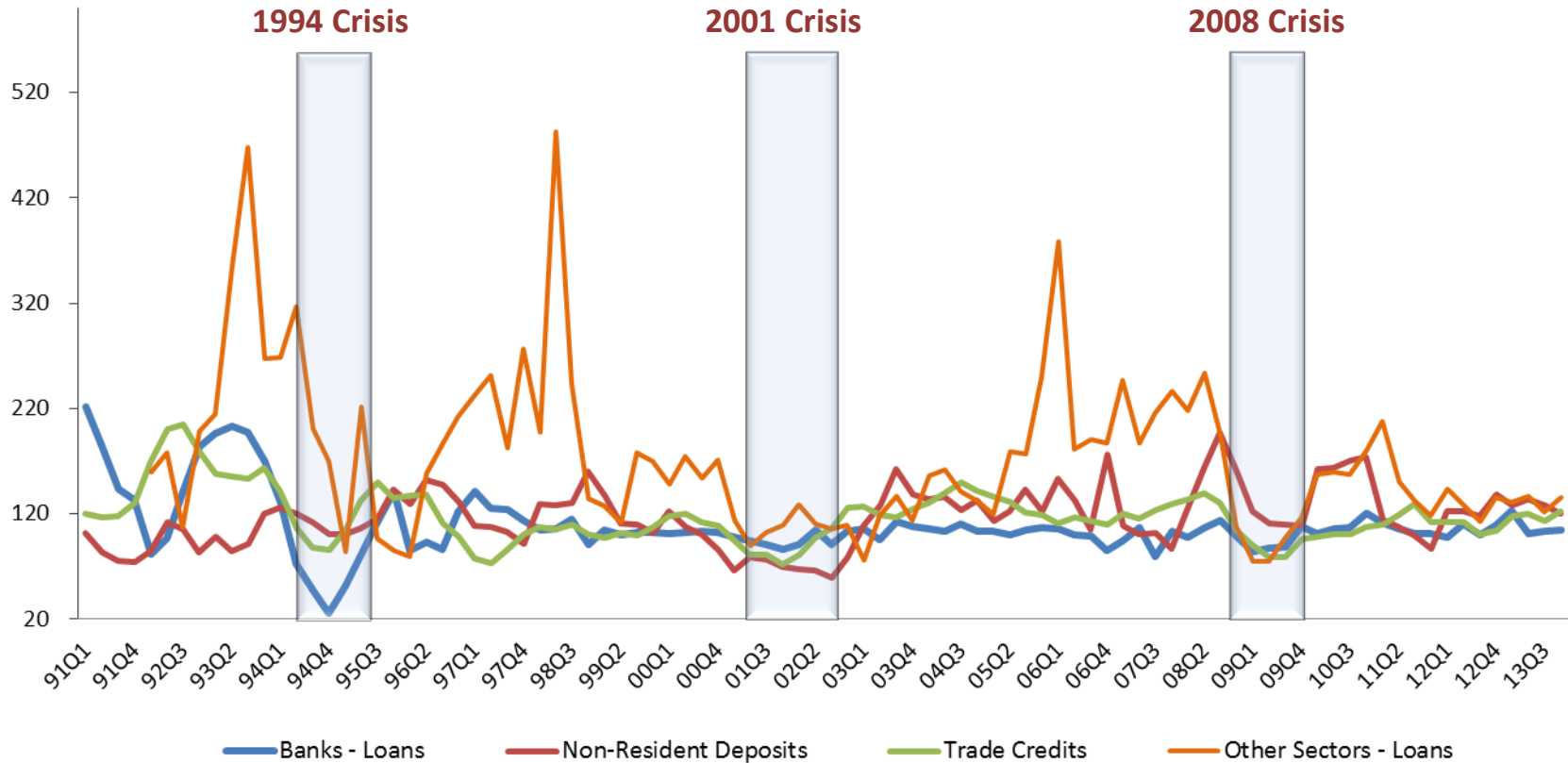


Source: CBRT.



# Roll-over risks of private sector are minimal.

## Roll-over Ratios of External Debt (Percent)

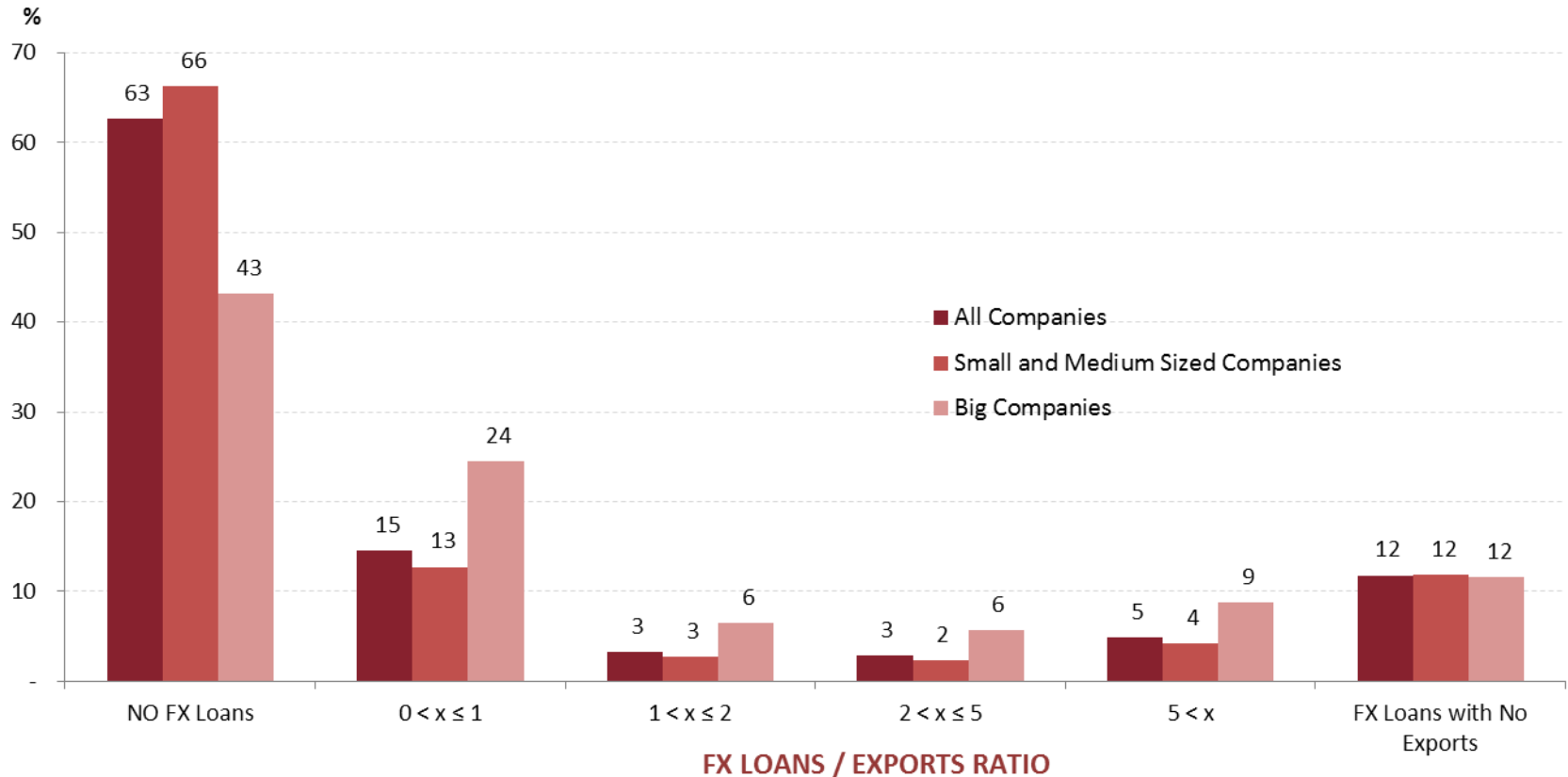


Source: CBRT.

Latest Data: 2013 Q4

# A significant portion of corporate sector firms does not bear any exchange rate risk.

**FX Debt / Export Revenue Ratio\* of the Corporate Sector**  
(As of 31.08.2013, Breakdown of the Number of Firms by Different Ratios, Percent)



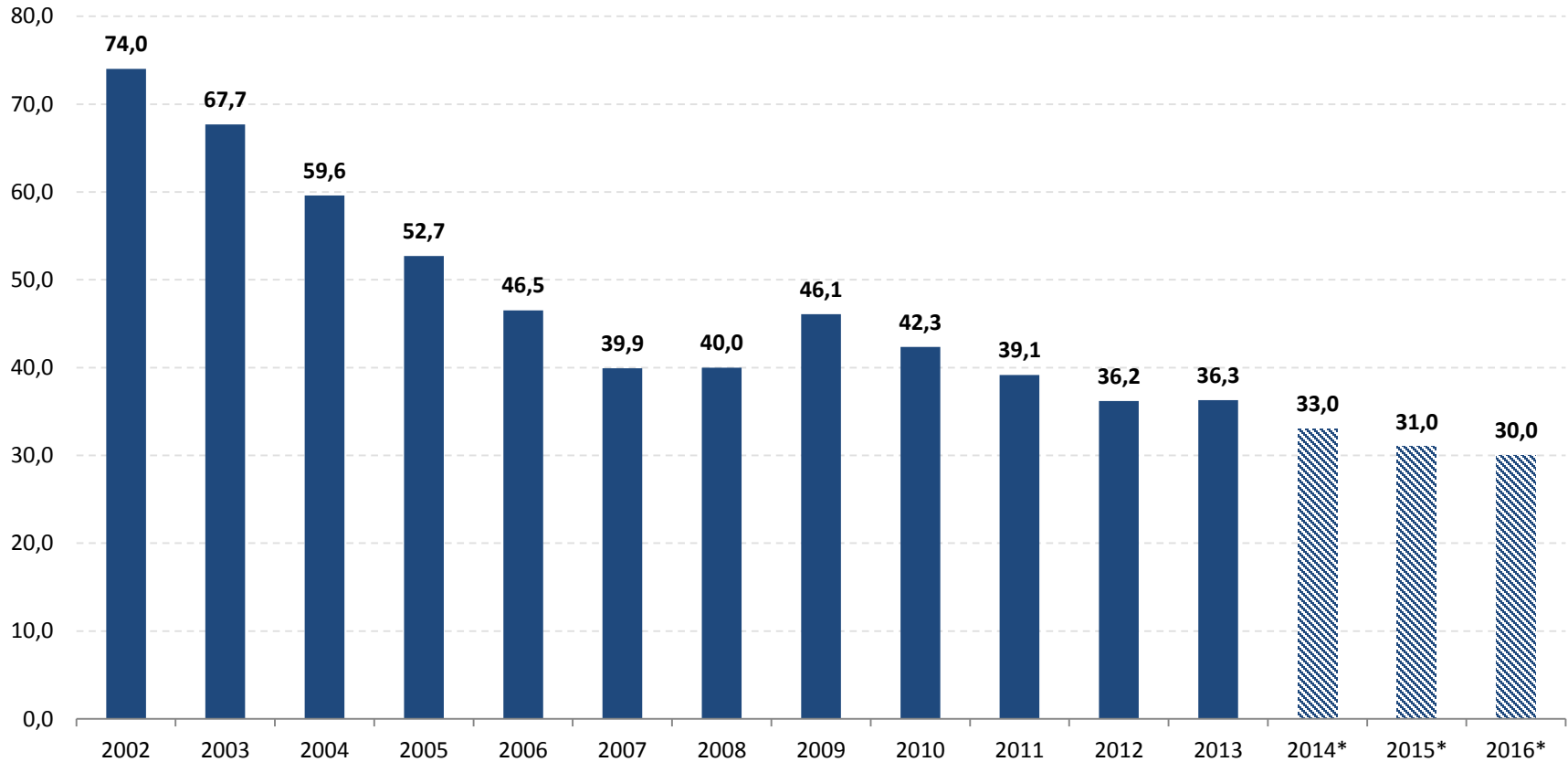
Source: CBRT.

\*'x' denotes the ratio of the FX debt of the corporate sector to its export revenue.

Number of firms: 9,468

**Fiscal discipline is expected to remain in place.**

**EU-Defined Public Debt Stock  
(Ratio of GDP, Percent)**

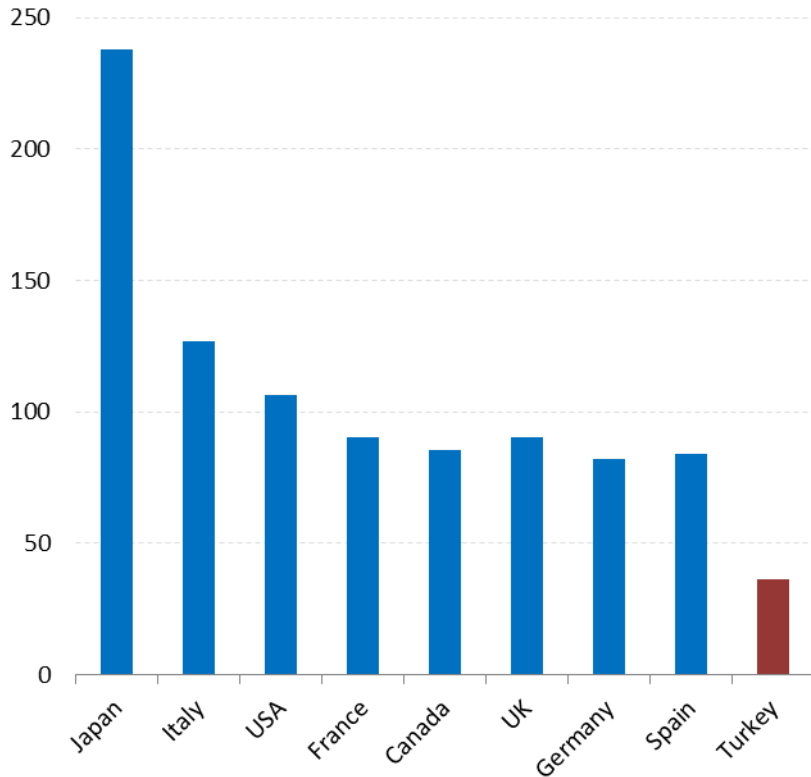


Source: Ministry of Finance, Medium Term Program (2014-2016).

\*Medium Term Program (2014-2016) forecasts.

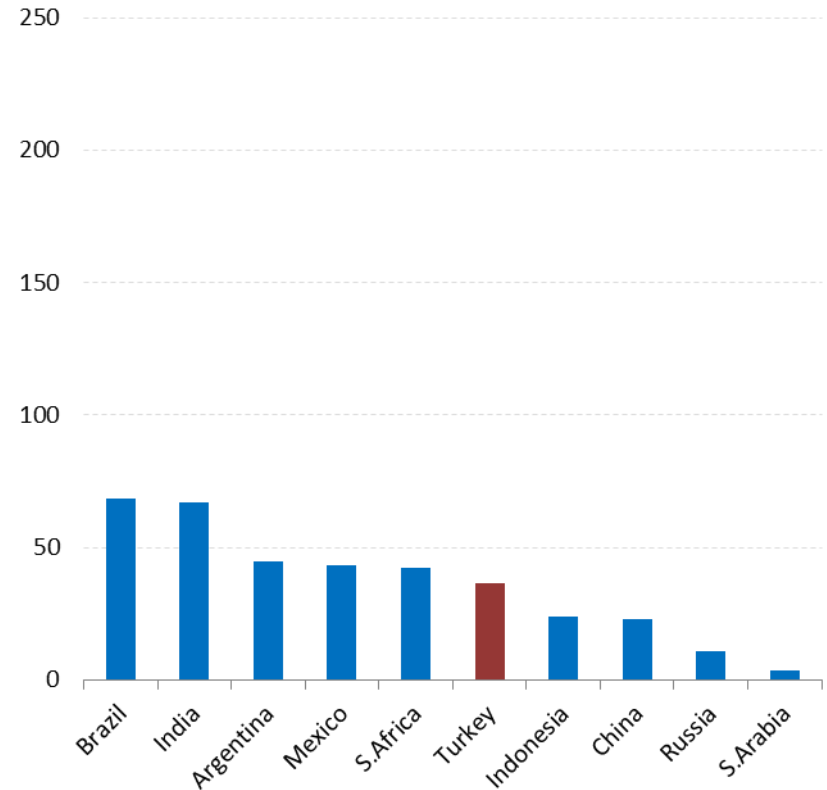
# Turkey's level of public debt is low compared to other countries.

## Developed Economies and Turkey (Ratio of GDP, Percent, 2012)



Source: IMF Fiscal Monitor

## Emerging Economies and Turkey (Ratio of GDP, Percent, 2012)

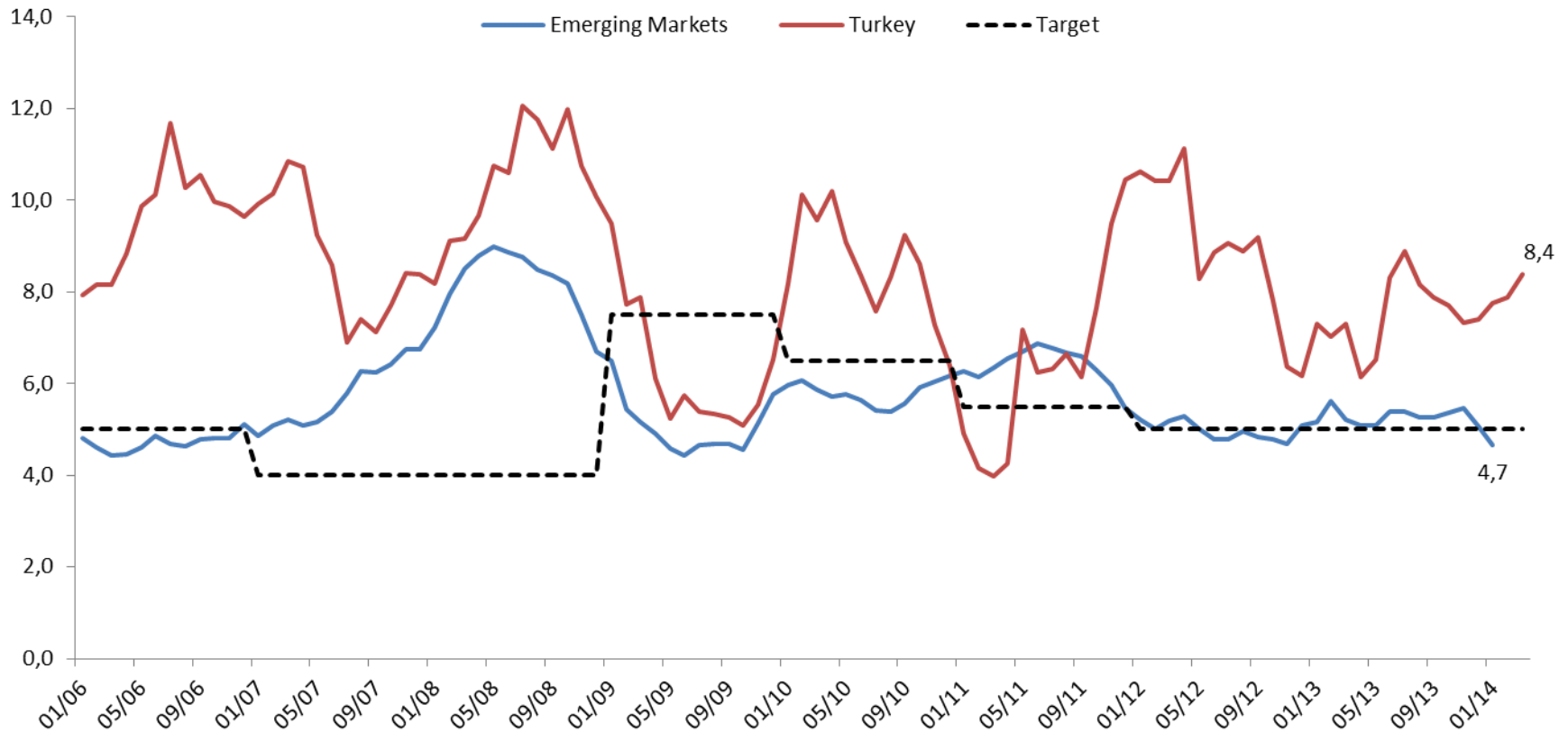


Source: IMF Fiscal Monitor

# INFLATION

# Inflation hovers well above the target.

## Turkey vs. Other Emerging Market Economies (Percent, Weighted Average)

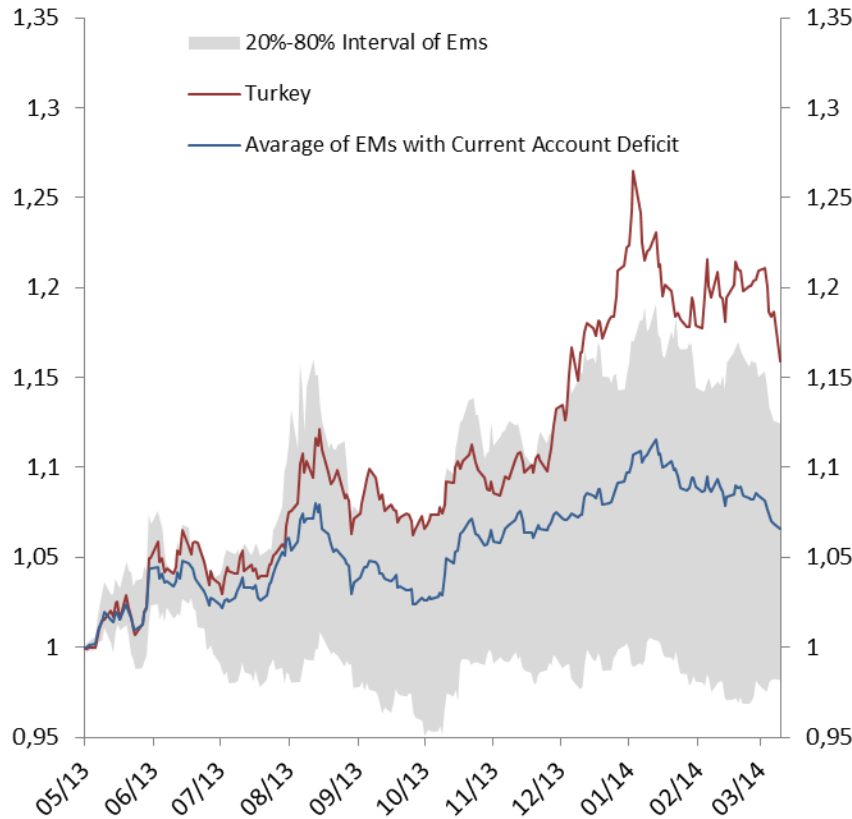


Source: TURKSTAT, Bloomberg.

Latest Data: January 2014 for EMEs,  
March 2014 for Turkey.

# Both nominal and real exchange rates have depreciated significantly since May 2013.

**TL and Other Emerging Market Currencies vs USD**  
(22.05.2013=1)

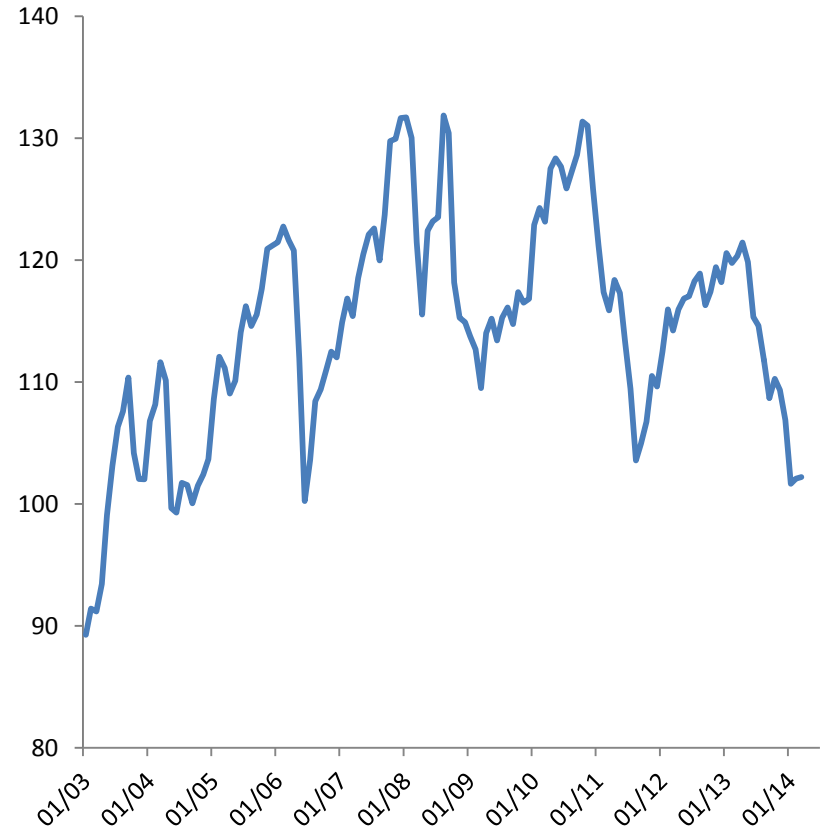


Latest Data: 31 March 2014.

Source: Bloomberg.

\*Brazil, Chile, Colombia, Czech Republic, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Philippines, Poland, Romania, South Africa, South Korea and Thailand.

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

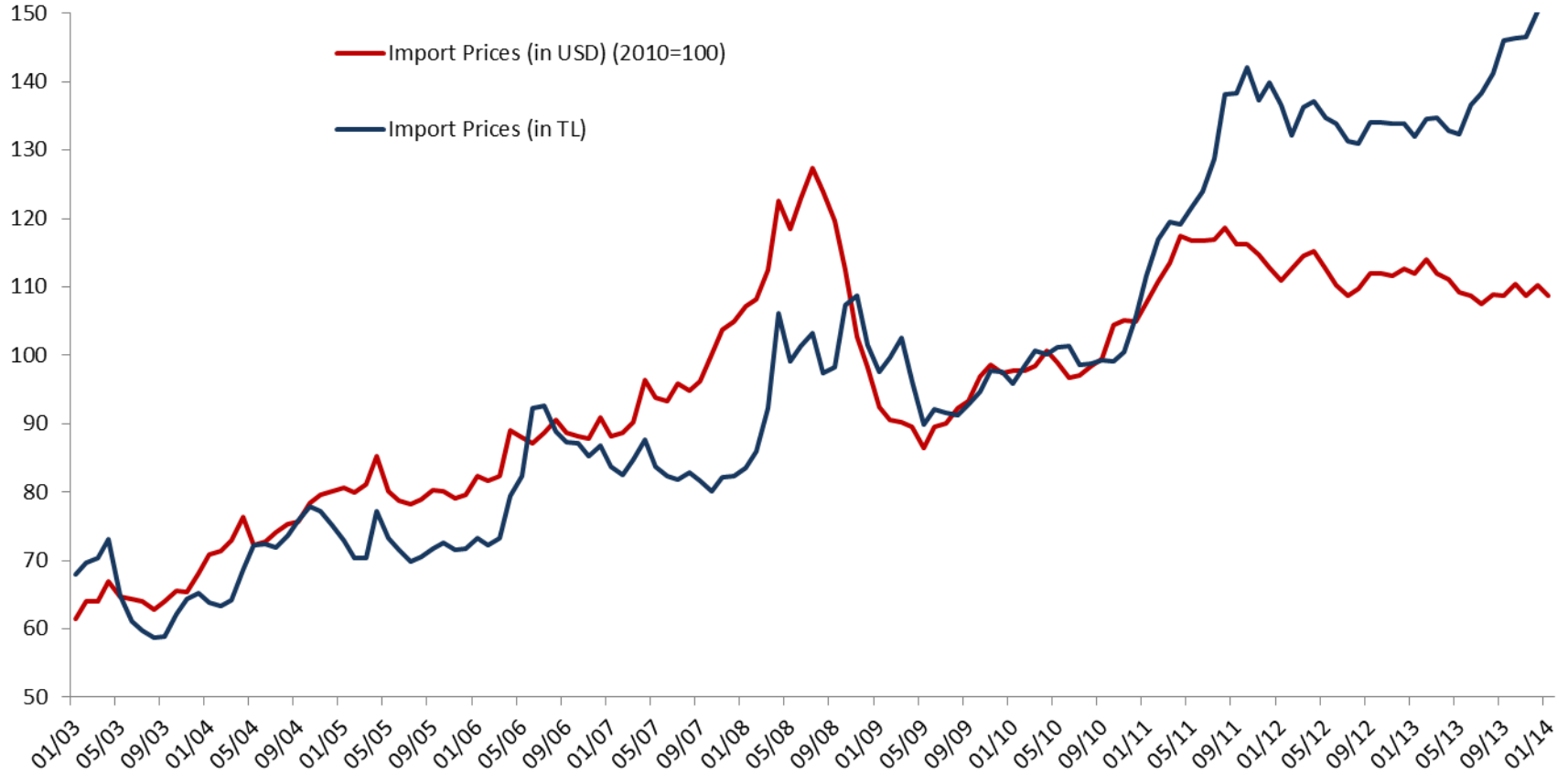


Source: CBRT.

Latest Data: March 2014

# Exchange rate developments were influential on the rise in inflation.

## Import Prices in terms of TL and USD (2010=100)



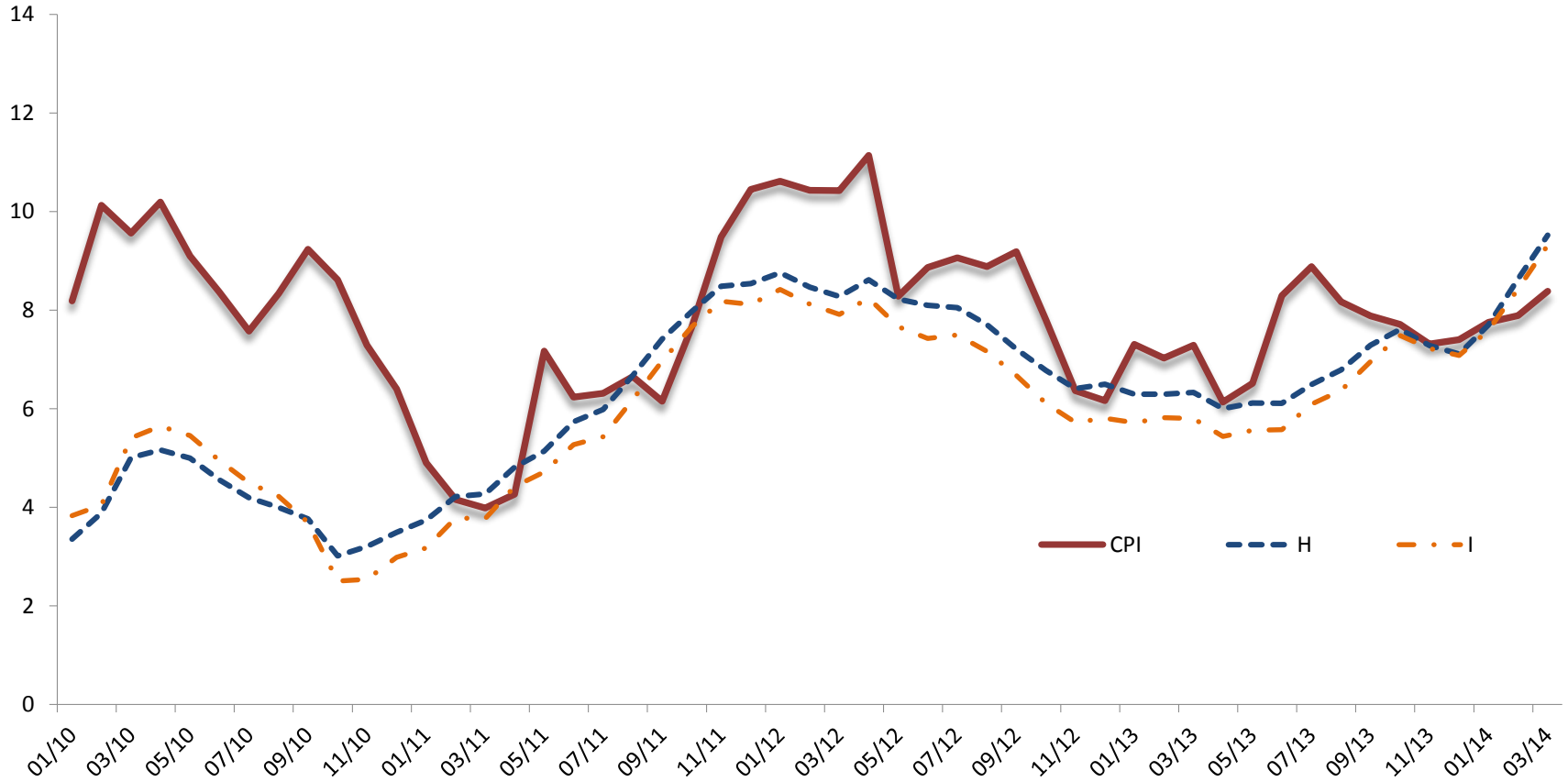
Source: TURKSTAT, CBRT.

Latest Data: January 2014.



## Exchange rate pass-through is also visible in core indicators.

CPI, H and I Index  
(Annual Percentage Change)

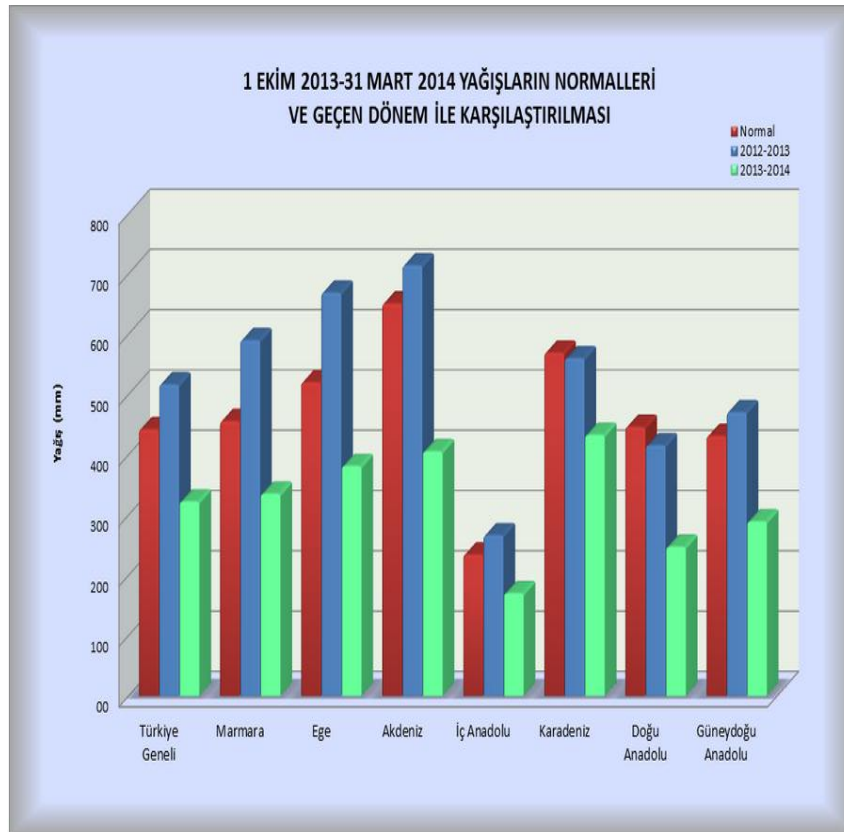


Source: TURKSTAT.

Latest Data: March 2014.

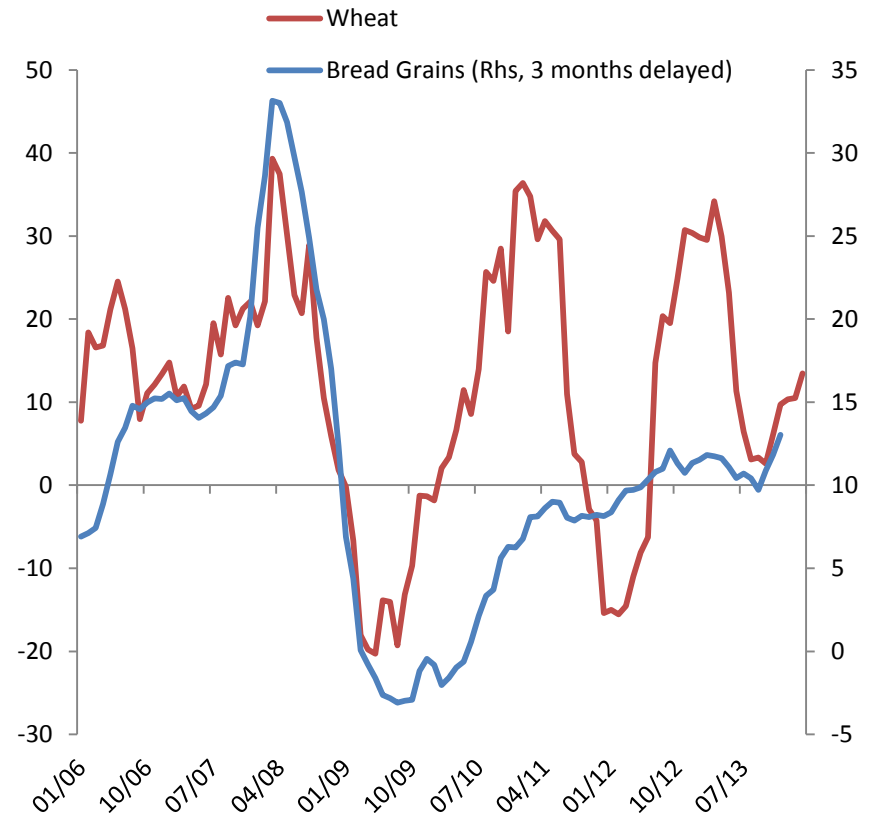
# Precipitation below seasonal normals put inflationary pressure on food prices.

Seasonal Normals for the October-March period  
vs. Average Precipitation of Oct 2012-March 2013  
and Oct 2013-March 2014



Source: Turkish State Meteorological Service

## Food Prices (Annual Percentage Change)

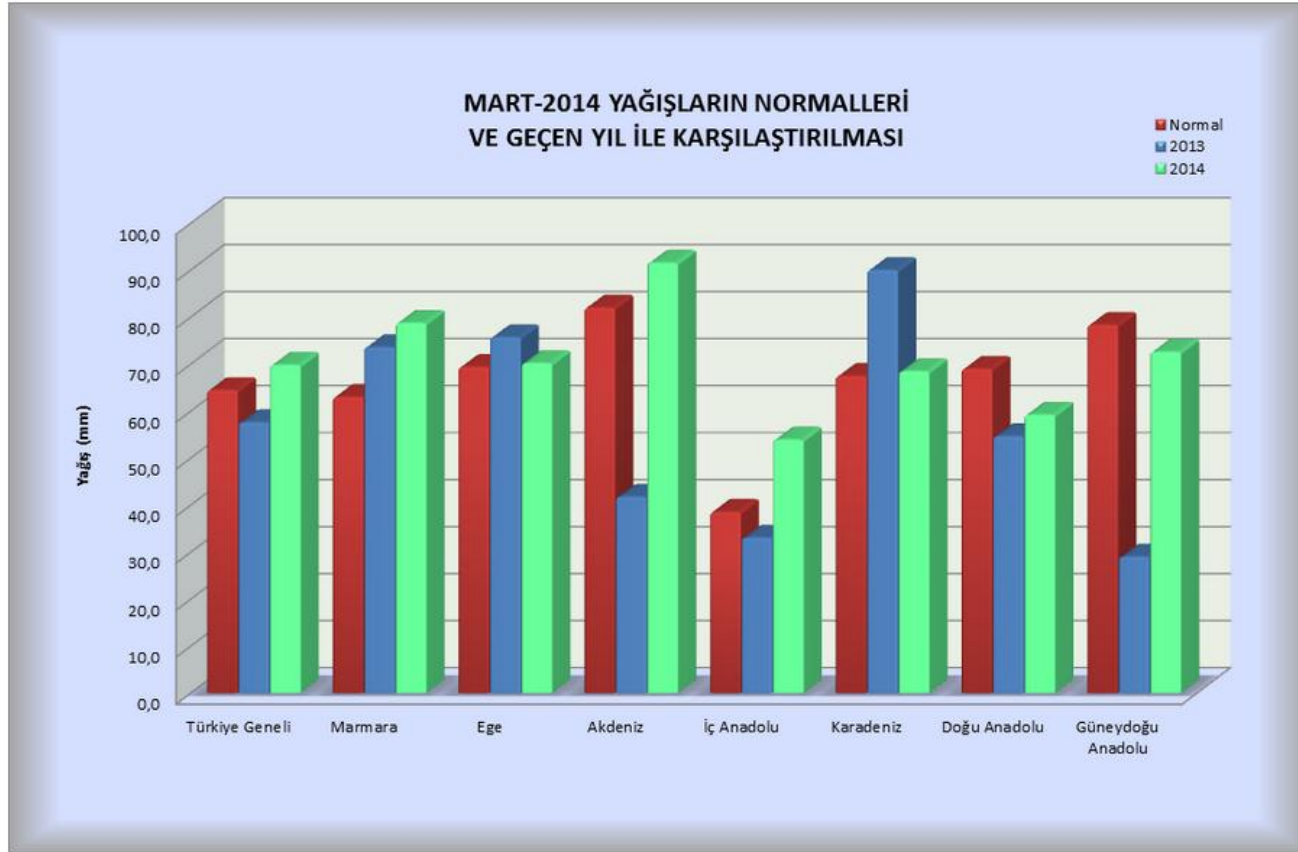


Source: TOBB, TURKSTAT, CBRT.

Latest Data : March 2014

# Drought effect subsides.

## Seasonal Normals for the month of March vs. Average Precipitation of March 2013 and March 2014



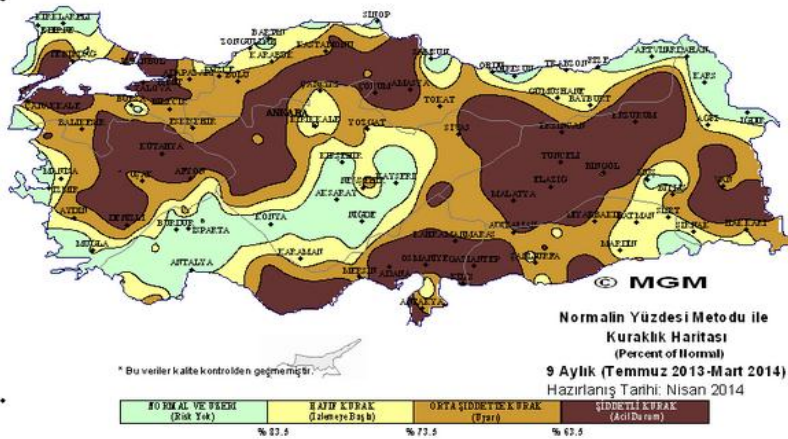
Source: Turkish State Meteorological Service

Latest Data: March 2014

# Drought-driven inflationary pressure on food prices is expected to decelerate..

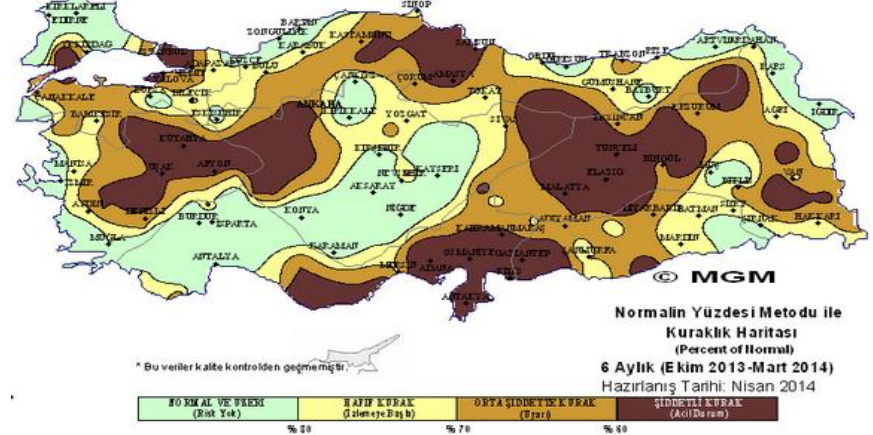
## 9-Month Period

(January 2014- March 2014, as percent of normal)



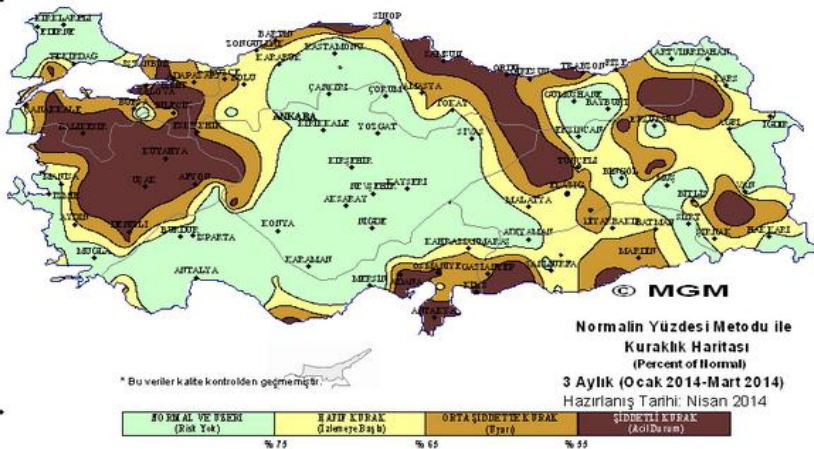
## 6-Month Period

(January 2014- March 2014, as percent of normal)



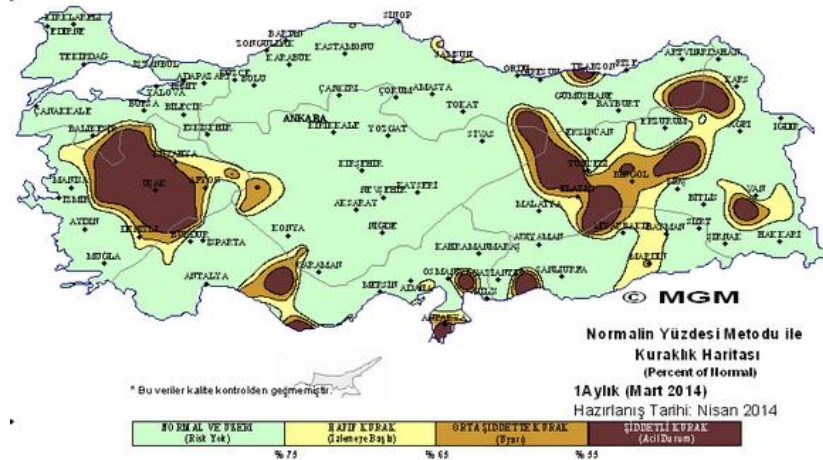
## 3-Month Period

(January 2014- March 2014, as percent of normal)



## One-Month Period

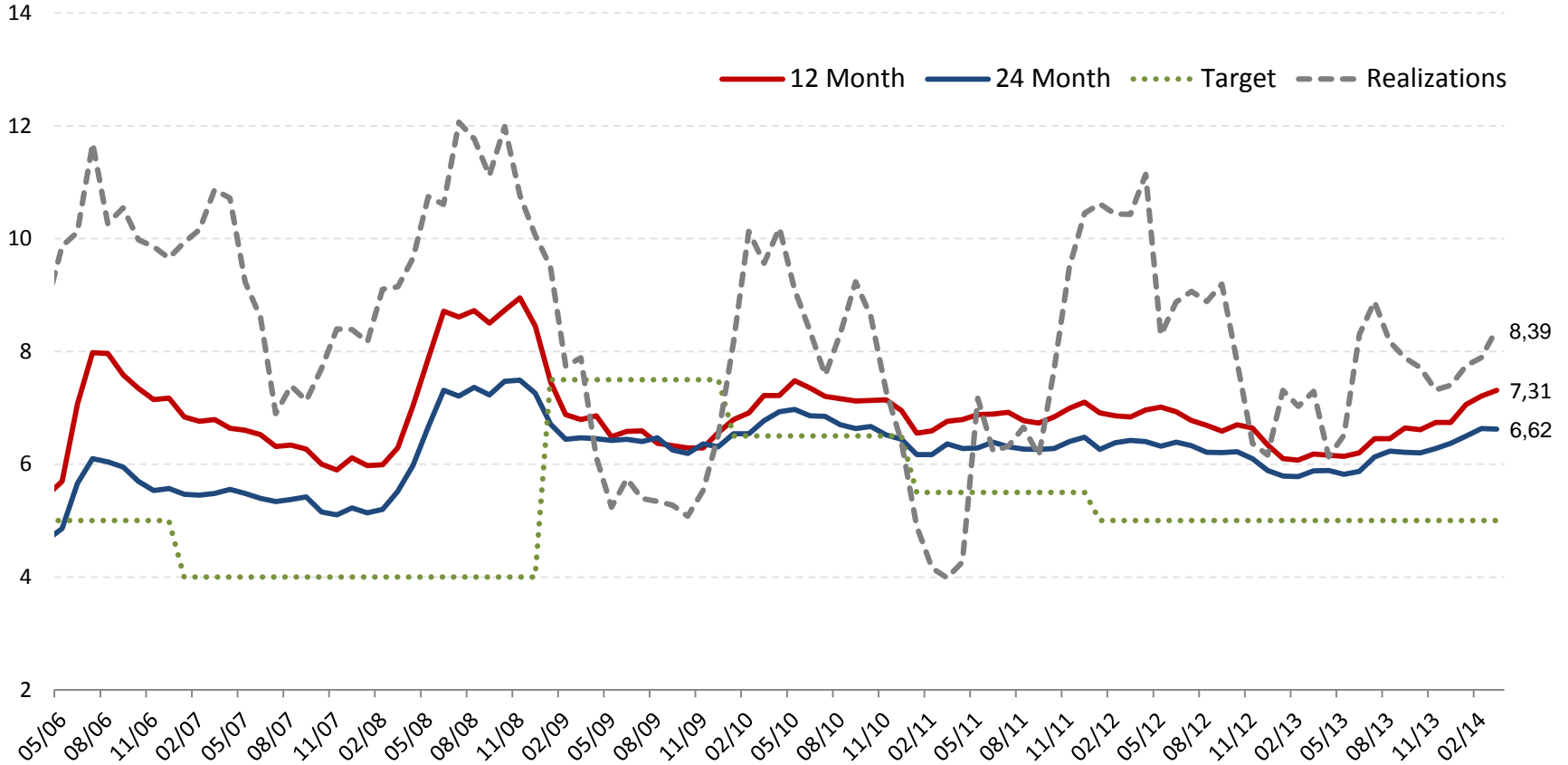
(March 2014, as percent of normal)



Source: Turkish State Meteorological Service

# Deterioration in inflation expectations is limited in longer terms.

## 12-24 Month Ahead CPI Expectations\* and Realizations (Percent)

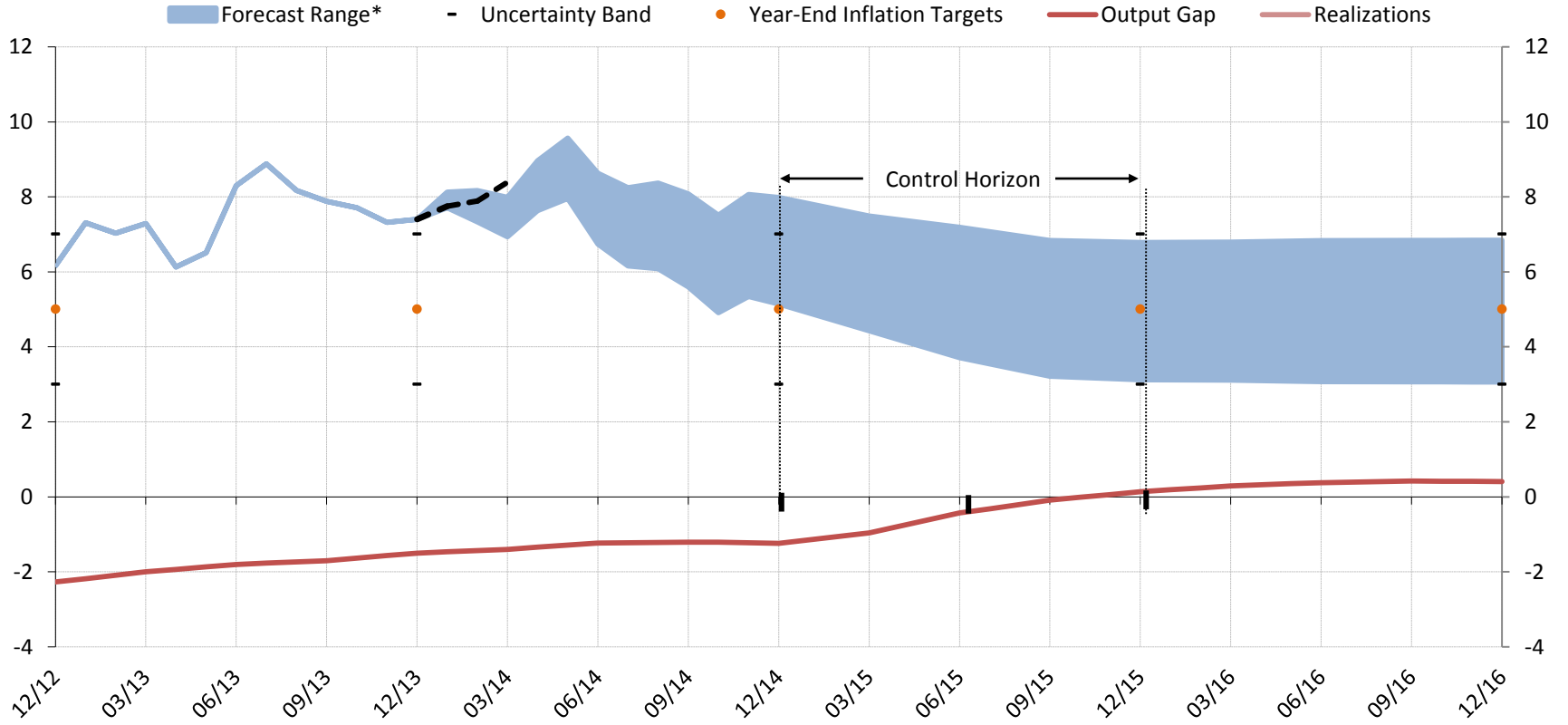


Source: TURKSTAT, CBRT.

\*CBRT Survey of Expectations.  
Latest Data: March 2014.

**The decline in inflation is expected to begin after June.**

## Inflation Report Forecast (Percent)



Latest Data: March 2014.

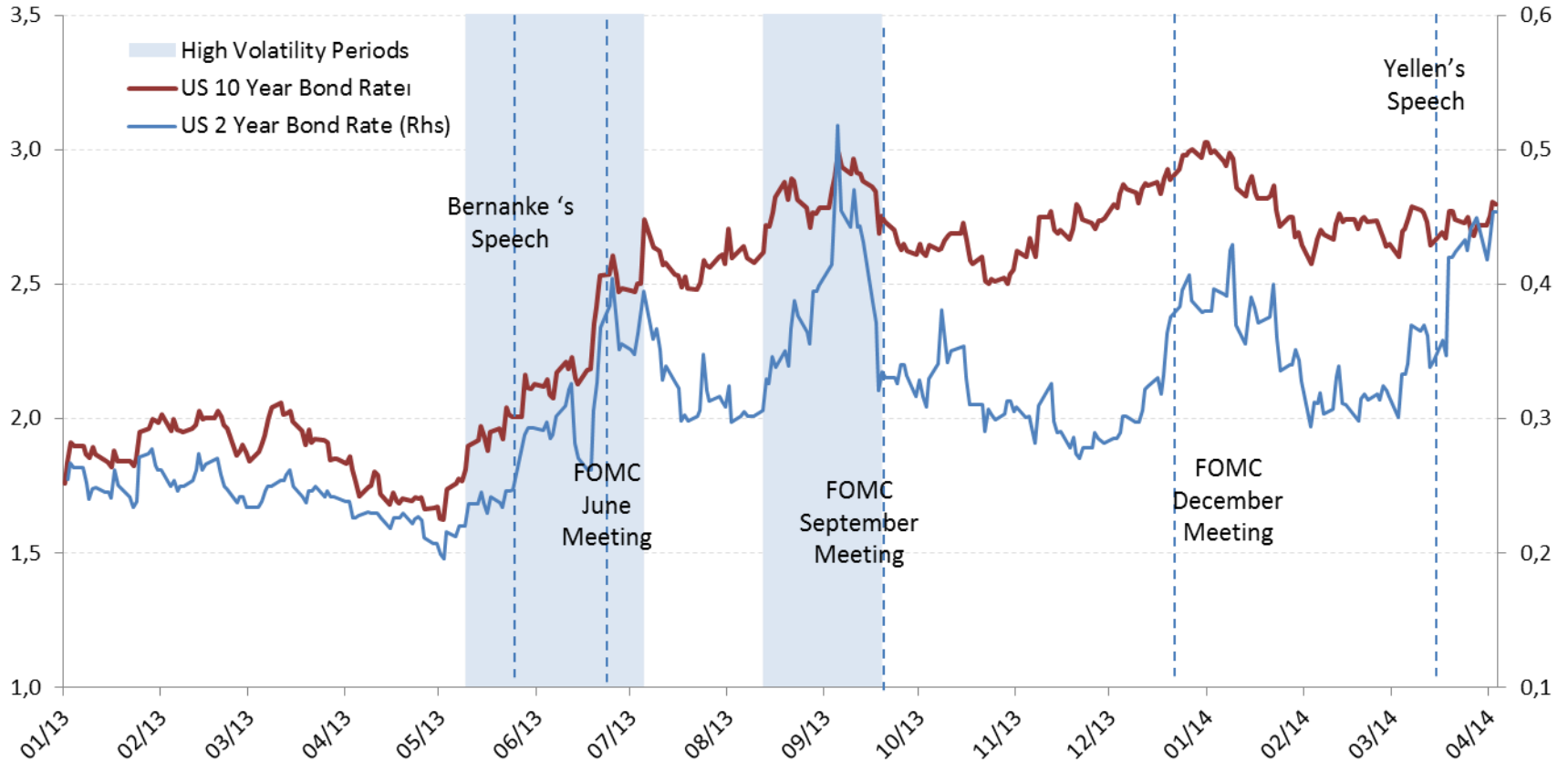
\*Shaded region indicates the 70 percent confidence interval for the forecast.

# MONETARY POLICY



# FED's exit signal increased long-term interest rates.

## Nominal Interest Rates on 10-Year and 2-Year US Bonds (Percent)



Source: Bloomberg.

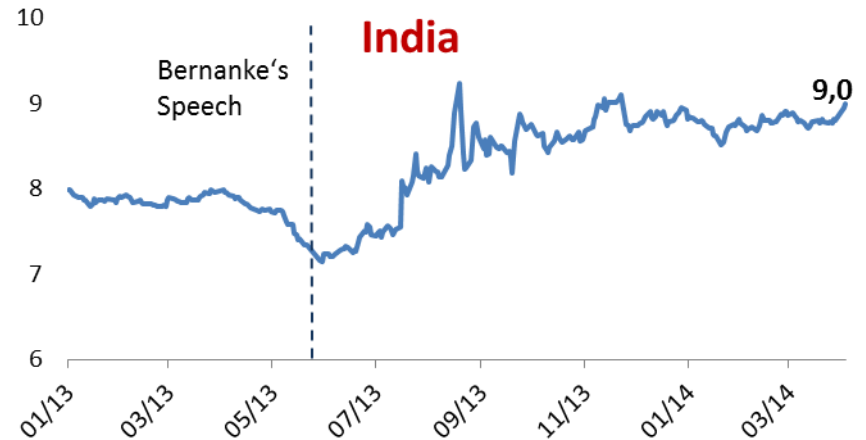
Latest Data: 3 April 2014

FOMC: : Federal Open Market Committee



# The rise in the US bond rate reflected on to the interest rates of EMEs.

## EMEs 10-Year Bond Interest Rates\* (Percent)



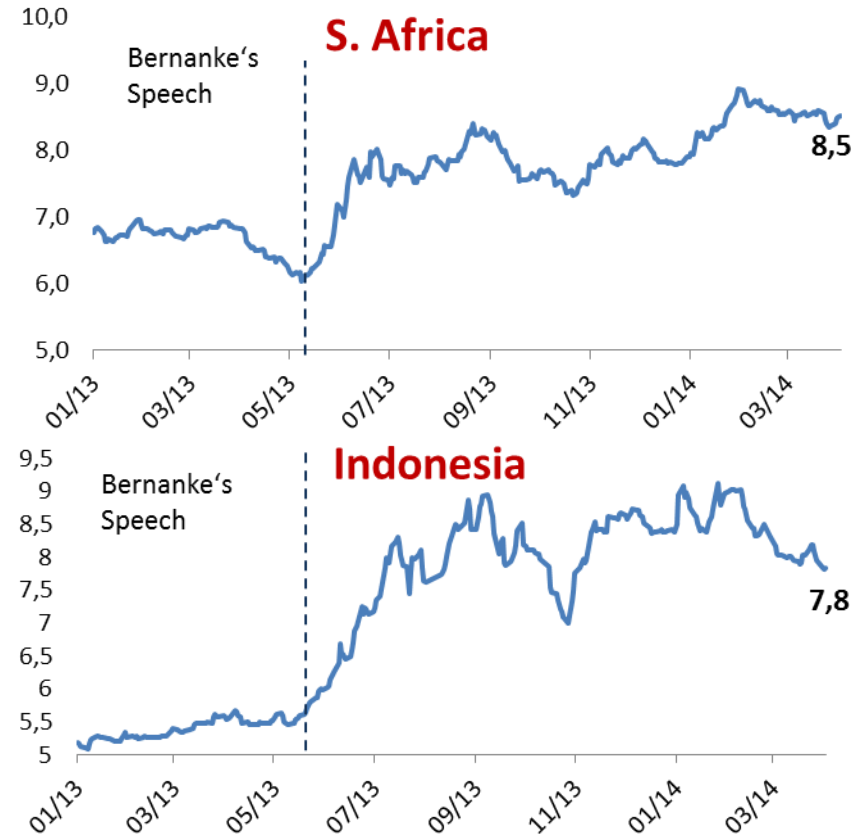
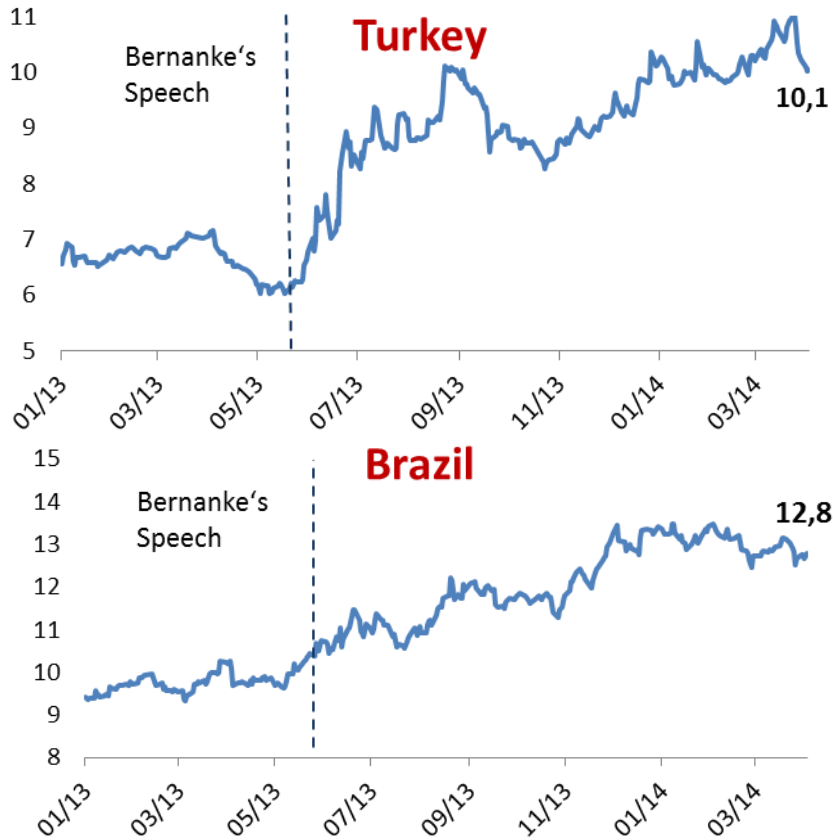
Source: Bloomberg.

\* Yield on 10-year bonds denominated in local currency.

Latest Data: 3 April 2014

# The rise in the US bond rate reflected on to the interest rates of EMEs.

## EMEs 10-Year Bond Interest Rates\* (Percent)



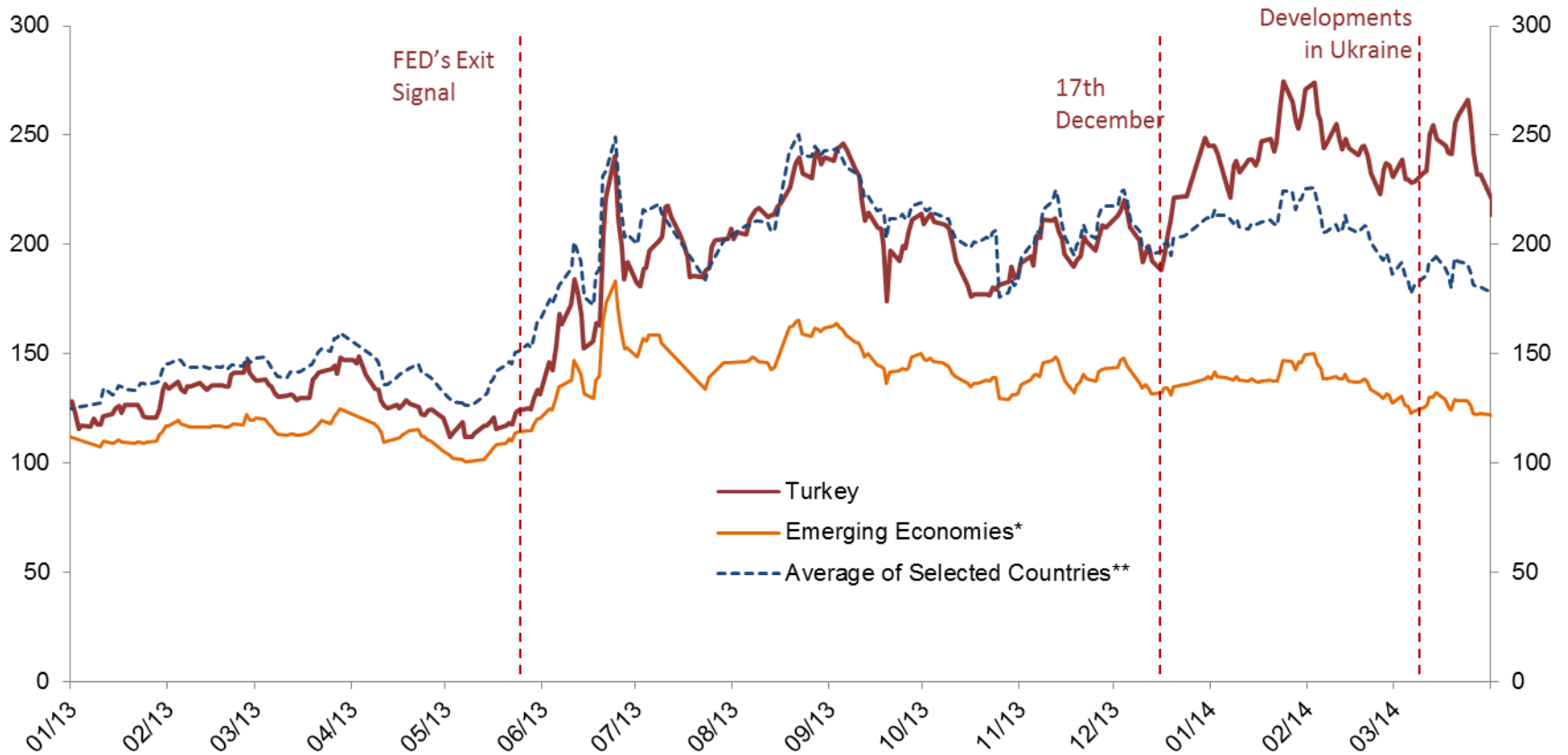
Source: Bloomberg, Reuters

\* Yield on 10-year bonds denominated in local currency.

Latest Data: 3 April 2014

# Turkey was adversely affected from recent developments.

## CDS Prices in Countries with Current Account Deficits (5-Year)



Source: Bloomberg, CBRT.

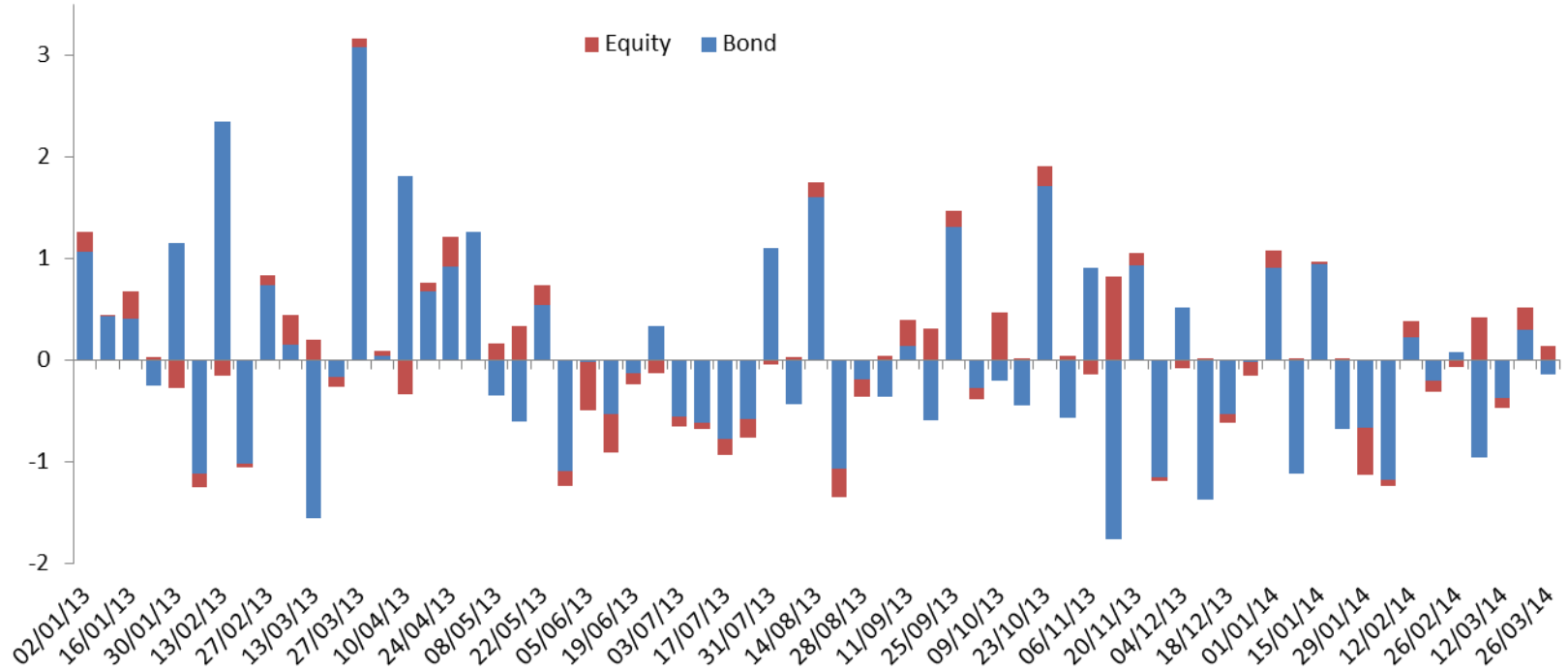
\*Brazil, Chile, Colombia, Czech R., Hungary, Indonesia, Mexico, Poland, Romania and S.Africa included.

\*\* Brazil, Indonesia and S.Africa included.

Latest data: 1 April 2014

# Portfolio inflows have been observed in the past weeks.

## Net Portfolio Inflows to Turkey (Billion USD)

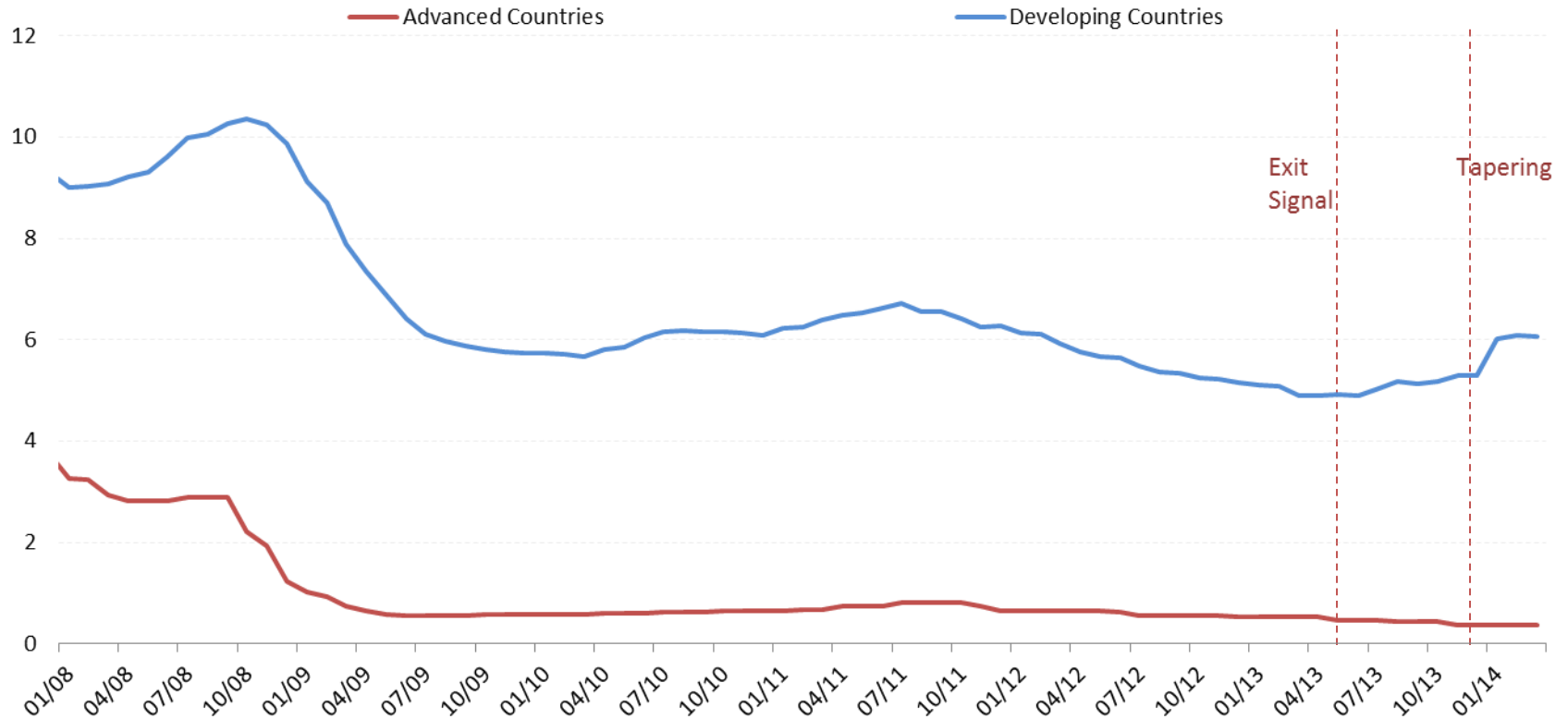


Source: CBRT.

Latest Data: 26 March 2014

# FED's exit strategy led the EMEs to adopt monetary tightening.

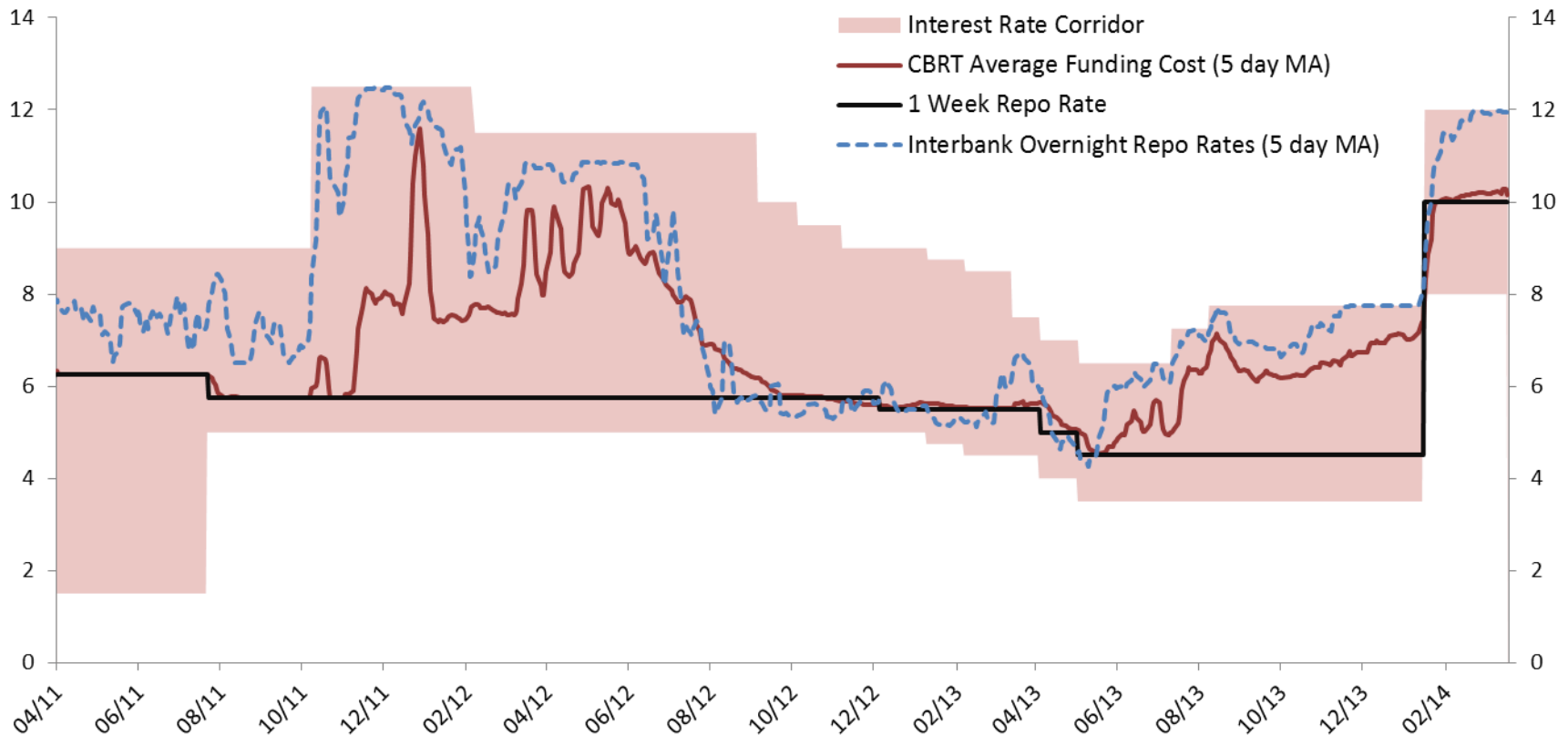
## Global Policy Rates (2007=100)



Source: Bloomberg, CBRT.

**The Central Bank implemented a strong and frontloaded monetary tightening to prevent any deterioration in inflation expectations and pricing behaviour.**

### Monetary Policy Rates (Percent)

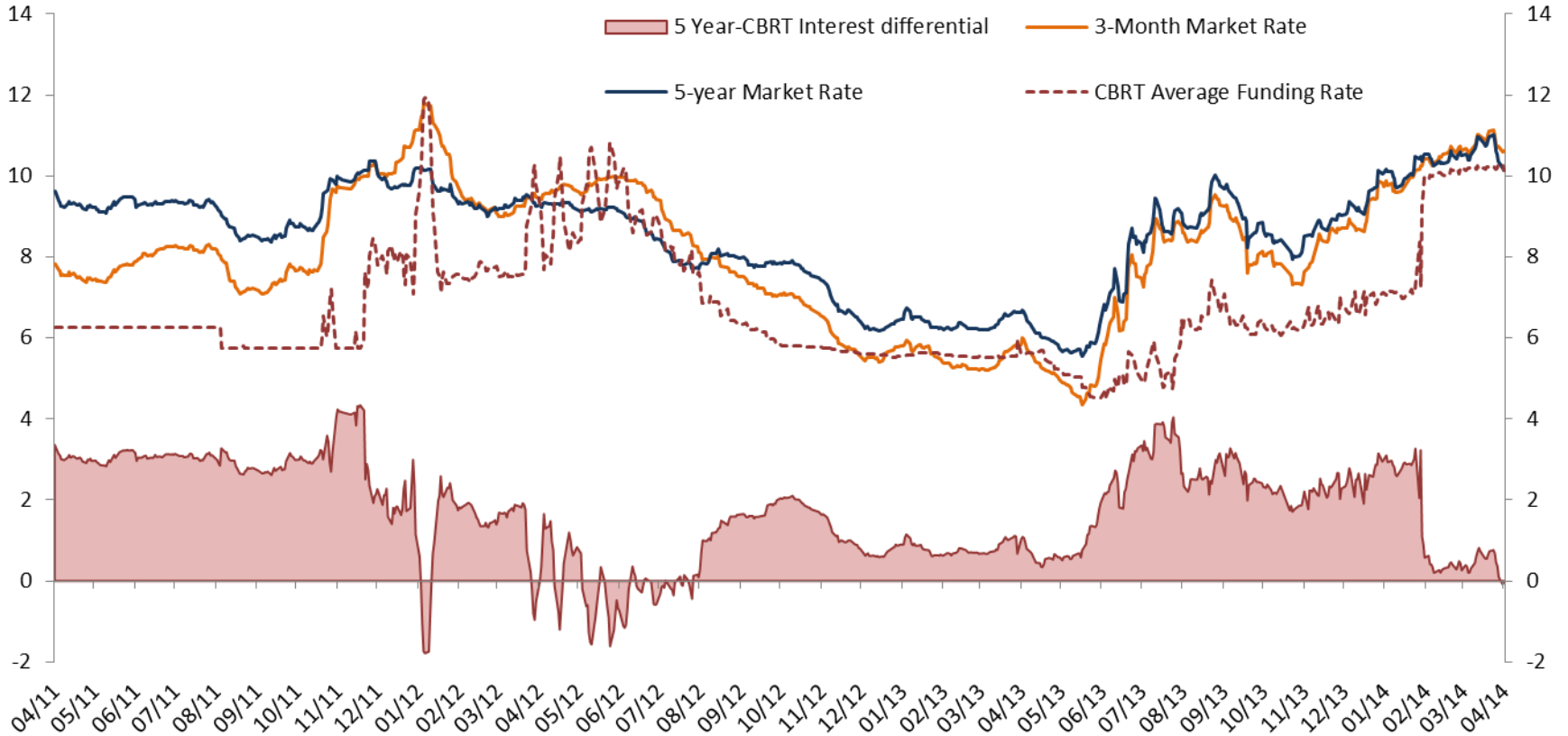


Source: CBRT.

Latest Data: 1 April 2014

# The interest rate differential between market rates and CBRT average funding rate diminished.

## Policy Rate and Funding Rate (Percent)



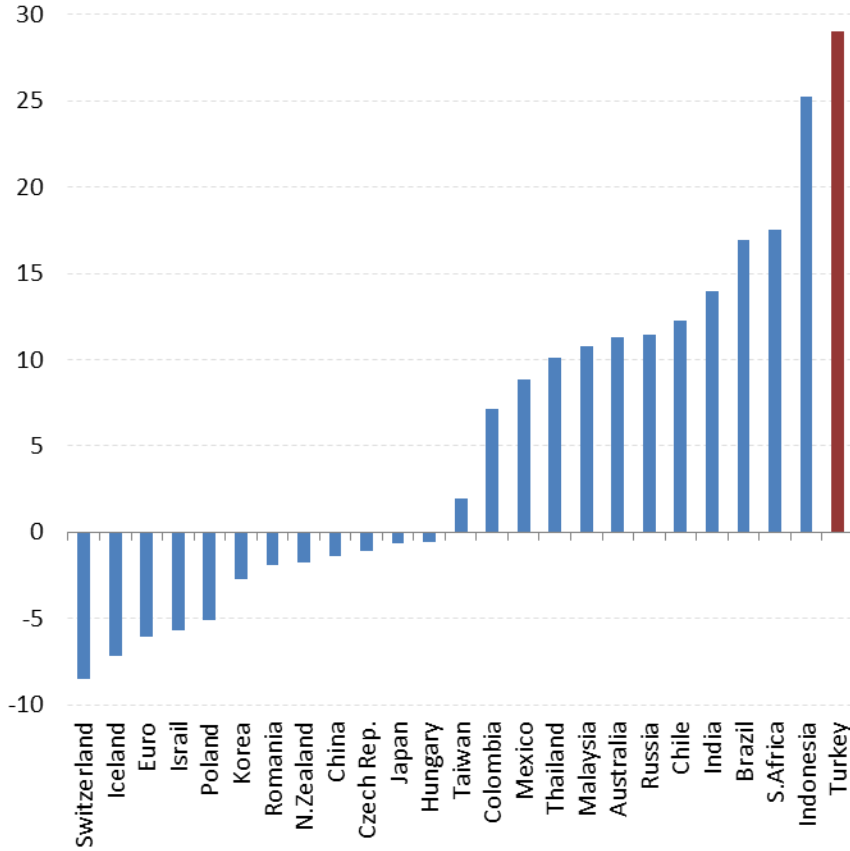
Source: CBRT.

\*Data prior to 20.10.2011 shows the CBRT borrowing rate and data after this date shows the average funding rate.

Latest Data: 1 April 2014

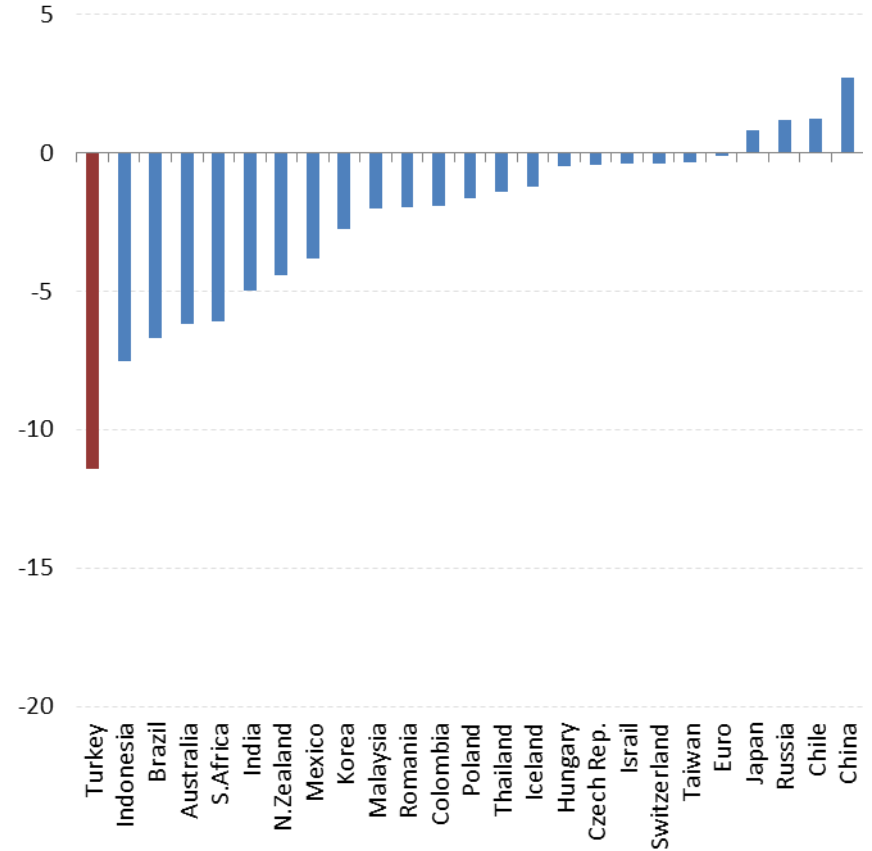
# Depreciation trend of TL reversed after the monetary tightening.

22.05.2013-27.01.2014



Source: Bloomberg.

27.01.2014-04.04.2014



Source: Bloomberg.

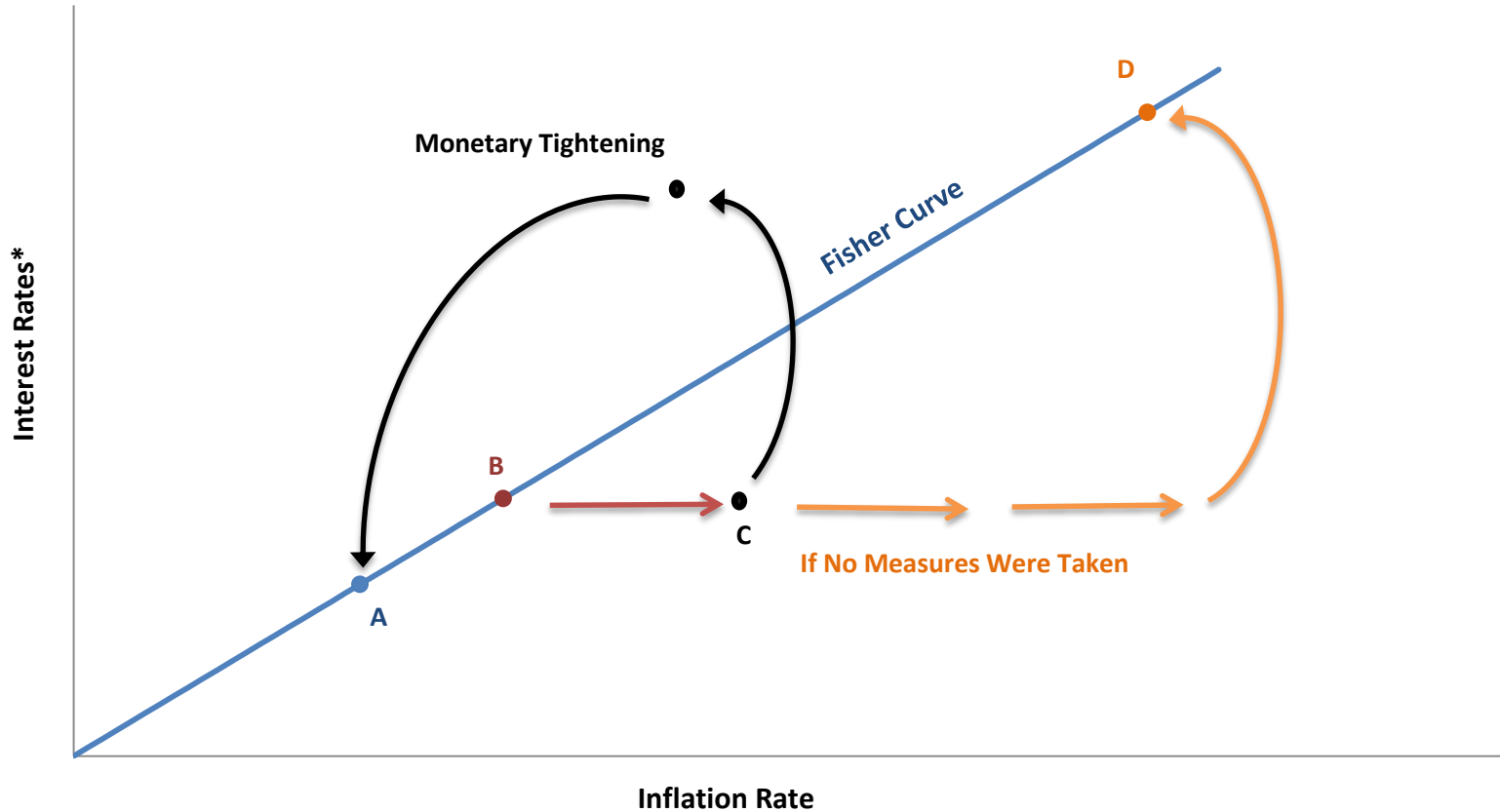


# Monetary tightening had a visible impact on the exchange rate.



Source: Bloomberg, CBRT.

# Monetary tightening delivered expected results.



A: Inflation Target, B: Pre-shock Case, C: Inflation Shock

D: In Case of Delayed and Weak Policy Response.

\*It represents long-term interest rates for Fisher curve, short-term interest rates for dynamic curves.

Maturity premium and risk premium are assumed to be zero.

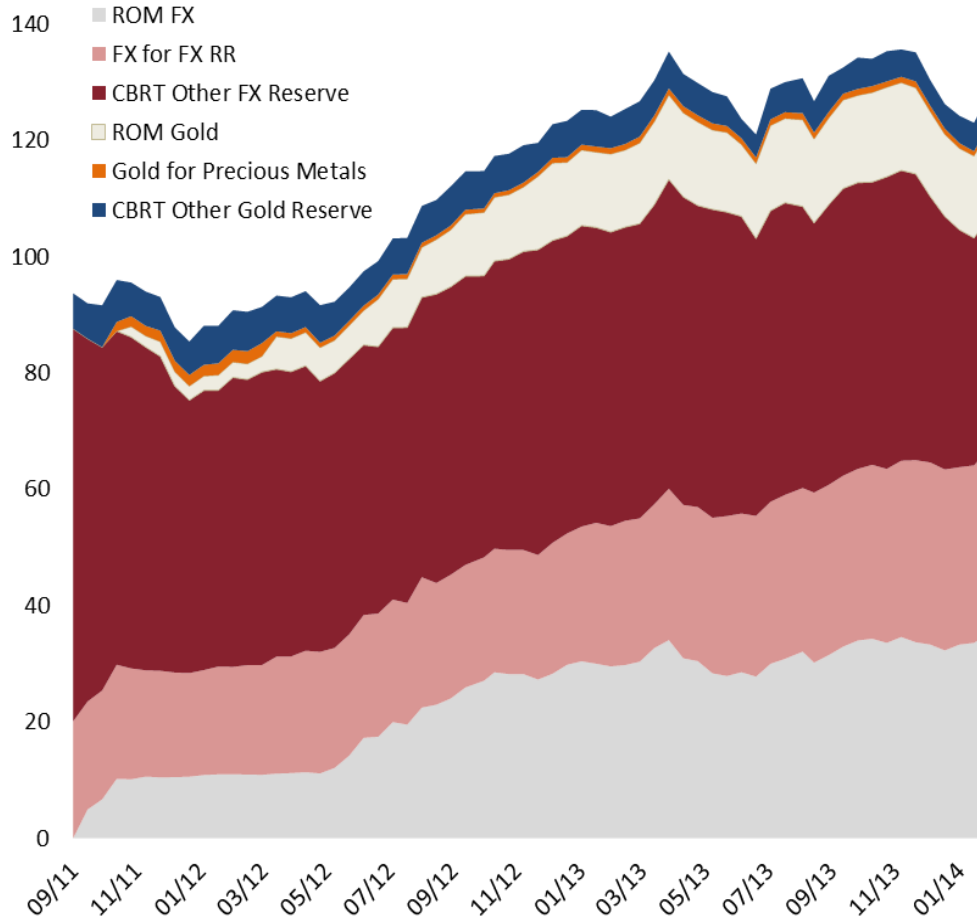
Source: Stephen Williamson Blog, CBRT.

# Macprudential Dimension

- The Central Bank may utilize reserve requirements, reserve options mechanism and liquidity policies against the risk of a slowdown in the economic activity.
- Remuneration of Turkish lira required reserves could be considered at a future date if deemed necessary.
- The remuneration decision will be measured and limited.

## FX reserves were used against excessive volatility.

(Billion USD)



Source: CBRT.

|                                 | FX<br>Selling<br>(-) | Export<br>Rediscount<br>Credits<br>(+) |
|---------------------------------|----------------------|--|
| 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                   | 4,67                 | 1,02                                   |
| January 2014*                   | 5,75                 | 0,57                                   |
| February 2014                   | 1,00                 | 0,30                                   |
| March 2014                      | 1,05                 | 0,48                                   |
| <b>ROM FX</b>                   |                      | 34,9                                   |
| <b>FX Required<br/>Reserves</b> |                      | 31,9                                   |
| <b>Total</b>                    |                      | 66,8                                   |

\*Outright FX selling of 23 January 2014 included.

## Additional measures by EMEs to accompany monetary tightening.

|                  |   |
|------------------|---|
| <b>India</b>     | Monetary policy was tightened.<br>FX intervention was effected.<br>Liquidity policy was tightened.<br>Cap and tax were imposed on gold imports.<br>Expat Indians were extended high interest rate swap facility.  |
| <b>Brazil</b>    | Monetary policy was tightened.<br>FX intervention was effected.   |
| <b>S. Africa</b> | Monetary policy was tightened.  |
| <b>Russia</b>    | Monetary policy was tightened.  |
| <b>Indonesia</b> | Monetary policy was tightened.<br>FX intervention was effected.<br>Current account deficit reducing structural measures were taken.   |
| <b>Turkey</b>    | Monetary policy was tightened.<br>FX intervention was effected.<br>Fiscal discipline was maintained.<br>Export facilitating measures were taken.<br>Loans to SMEs, export credits, and commercial credits were facilitated.<br>Measures to curb excessive borrowing were taken. |

# Overview

- Retail loan growth continues to slow down in response to the tight monetary policy stance, recent macroprudential measures, and weak capital flows.
- The impact of monetary tightening on inflation will be observed with some lag, thereby the decline in inflation is expected to start after June.
- Exports will support growth while private final domestic demand will lose momentum.
- The current account deficit will improve substantially in 2014.



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **THE ECONOMIC OUTLOOK AND MONETARY POLICY**

**Erdem Başçı**  
**Governor, CBRT**

**Kayseri Chamber of Industry**

**7 April 2014**