



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Balanced Growth Prospects in Turkey

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**IMF – World Bank Spring Meetings
Presentation to Investors
April 15, 2016
Washington DC**

Overview: Balanced Growth Prospects

- ✓ The improvement in the external balance is on track.
- ✓ Disinflation is expected to continue.
- ✓ Measures taken so far have improved the resilience of the economy.
- ✓ Implementation of the announced structural reforms would contribute to the potential growth significantly.

The Turkish economy is expected to continue on its balanced growth path.

GDP

(Seasonally Adjusted, Constant Prices, Billion TL)



Source: TURKSTAT.

Last Observation: 2015 Q4.

Drivers of Balanced Growth

1. Prudence
2. European Recovery
3. Commodity Prices
4. Structural Reforms

Prudence

Drivers of Balanced Growth: Prudence

1. Monetary Prudence
2. Fiscal Prudence
3. Financial Sector Prudence

Monetary Prudence

Monetary Prudence

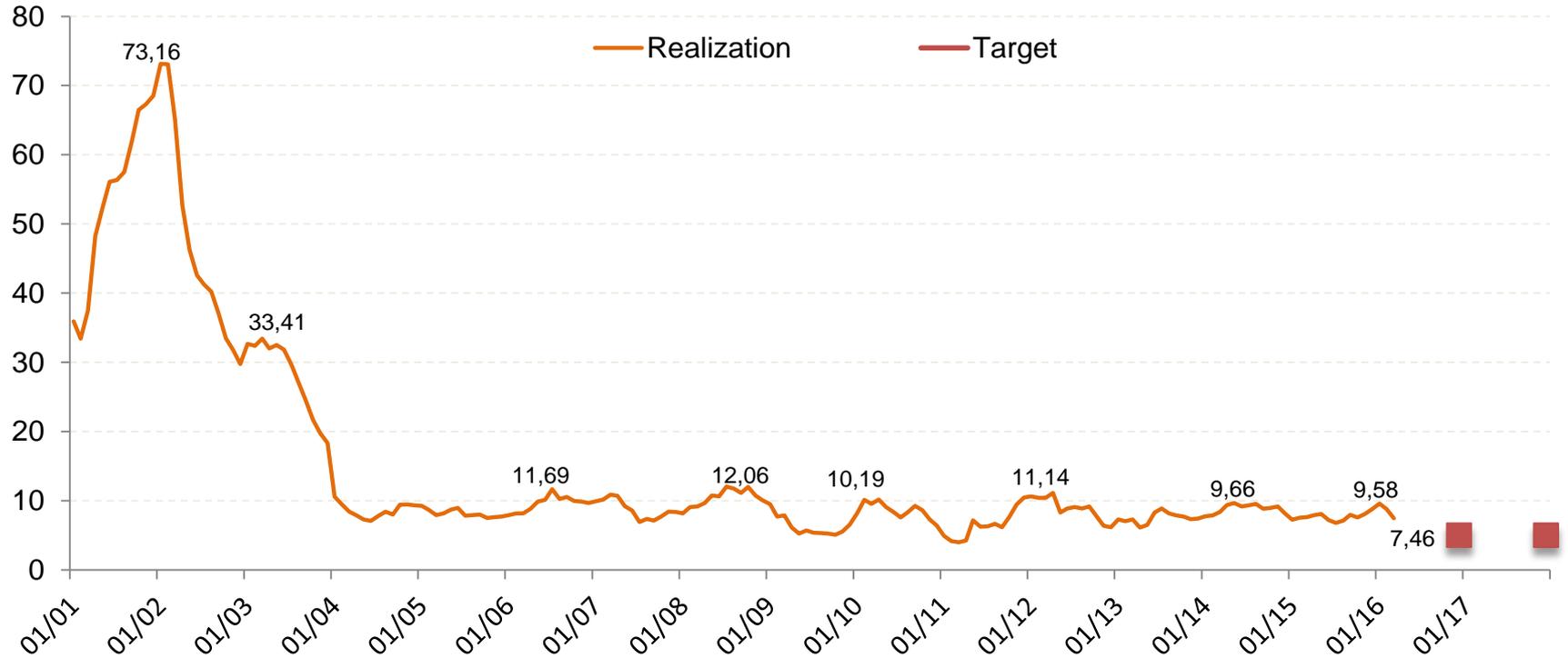
Overall, CBRT policies* are:

- ✓ Tight for the inflation outlook
- ✓ Stabilizing for FX liquidity
- ✓ Supportive for financial stability

*Roadmap during the normalization of global monetary policies, August 18, 2015.

Monetary prudence has kept disinflation on track.

Inflation Realizations and Targets (Percent)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Target	35	20	12	8	5	4	4	7,5	6,5	5,5	5	5	5	5	5	5
Realization	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2	8.8	-	-

Source: TURKSTAT, CBRT.

Numbers in the graph shows peak inflation rates during the rising inflation period.

Last Observation: March 2016.

Money and Credit developments are compatible with internal and external rebalancing.

M2 and Total Credit* (Annual Percentage Change)



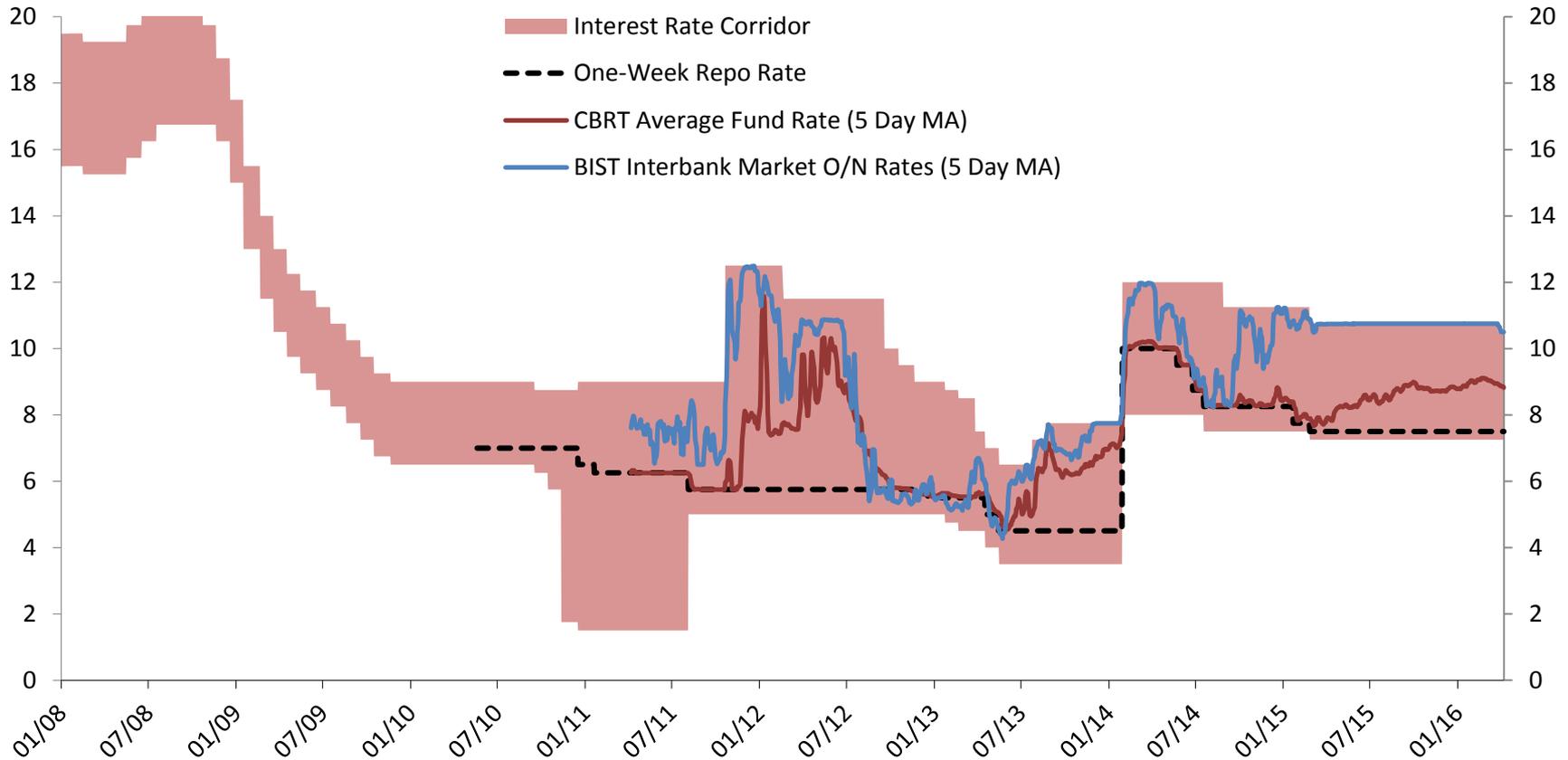
Source: CBRT.

Last Observation: April 1, 2016.

*Total banking credits excluding credit cards and NPLs (Including participation banks).

CBRT maintains a sufficiently tight liquidity policy stance against inflationary risks by taking into account the global financial conditions.

Interest Rate (Percent)



Source: CBRT.

Last Observation: April 6, 2016

Foreign Currency Liquidity Instruments*

1)	Flexible FX selling auctions	Neutral for the commercial loans, moderately tightening for consumer loans and supportive for Turkish Lira through increasing funding need of system.
2)	Increase in limits of collateral FX deposits	Increase in utilization of USD/EUR collateral deposit limits, stabilizing for Turkish Lira through reducing need for FX swap and moderately expansionary for loans
3)	Increase in interest rates of collateral FX deposits	Increase in utilization of USD/EUR collateral deposit limits, stabilizing for Turkish Lira through reducing need for FX swap and moderately expansionary for loans
4)	Increase in the ratio of the FX collateral that can be pledged against borrowings from the CBRT Interbank Money Market.	Stabilizing for credit risk pricings through boosting the demand for FX denominated bonds issued abroad by the Treasury, supportive for Turkish Lira through increase in utilization of FX collateral deposit facility
5)	Favourable funding against foreign currency denominated collateral	Stabilizing for credit risk pricings through boosting the demand for FX denominated bonds issued abroad by the Treasury
6)	Adjusting the remuneration rates on EUR/USD denominated required reserves in accordance with global market conditions.	Supportive for the Turkish Lira through convergence between global markets rates and domestic FX deposit accounts interest rates
7)	Decrease in FX deposit lending interest rates	Supportive for Turkish Lira through lower interest rates for domestic USD/EUR loans

* CBRT Presentation at the Primary Dealer Consultation Board Meeting (İstanbul, February 1, 2016)

Stabilizers

1. Automatic Stabilizers

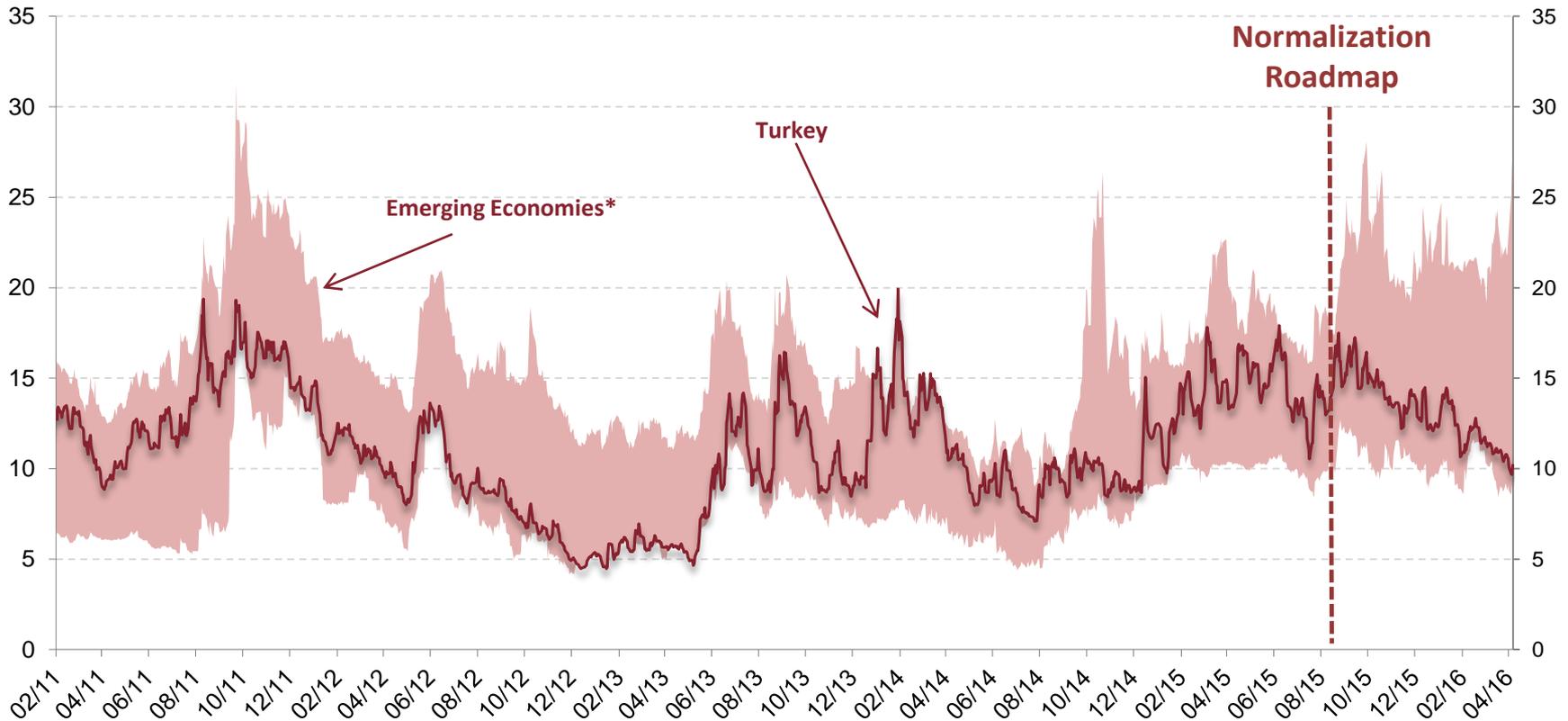
- Reserve Options Mechanism (ROM)
- FX Collateral Facility (FCF)

2. Rule Based Stabilizers

- TL Liquidity Policy (TLP)
- Flexible FX Auctions (FXA)

Volatility of the Turkish lira has come down since the implementation of the August 2015 roadmap.

Implied FX Volatility (1 month, Percent)



Source: Bloomberg.

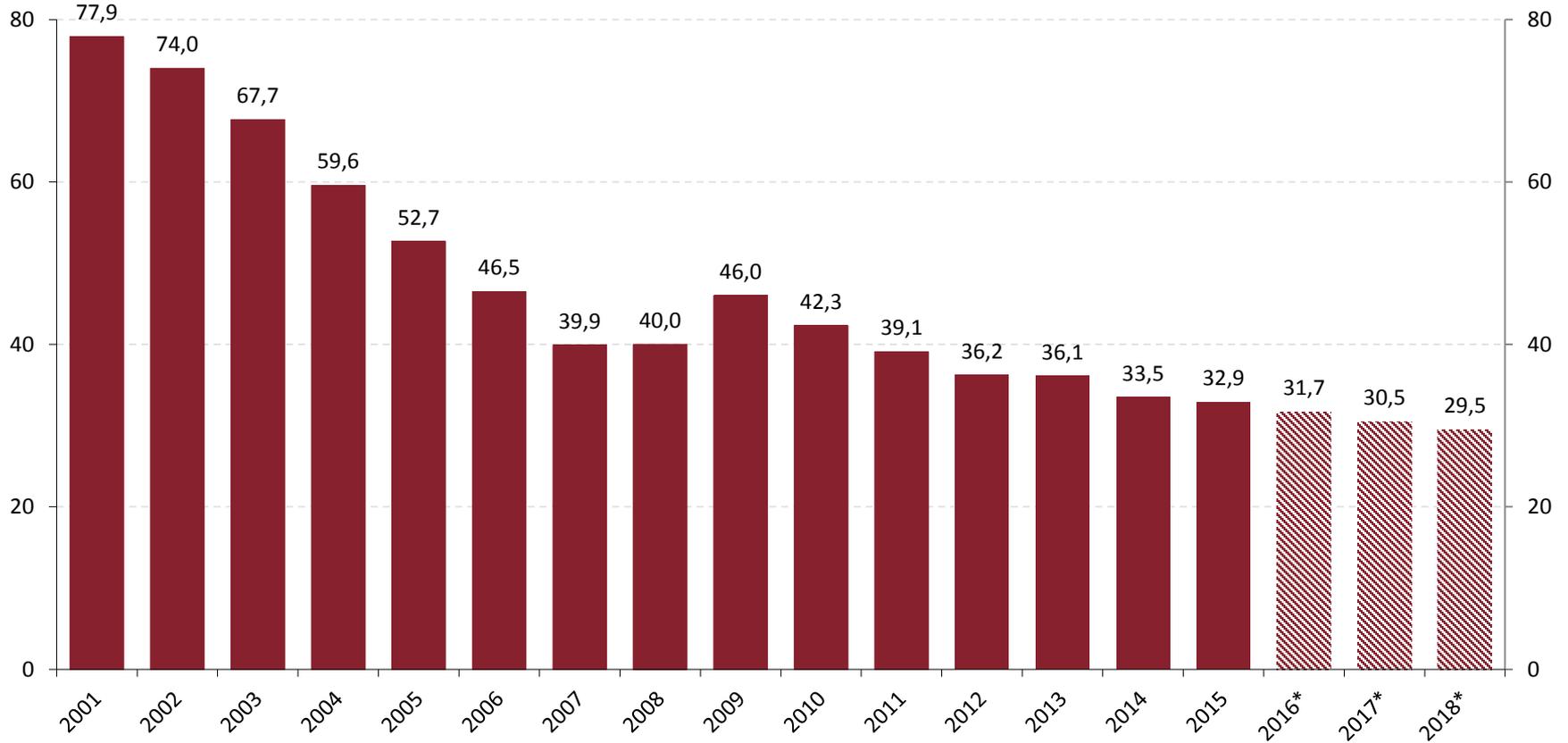
*Emerging market currencies include Brazil, Chile, Colombia, Mexico, Poland, Czech Republic, South Africa, Indonesia, Romania against USD.

Last Observation: April 06, 2016.

Fiscal Prudence

Fiscal prudence has kept risk premia at low levels.

Gross Public Debt (EU Defined, Percent of GDP)



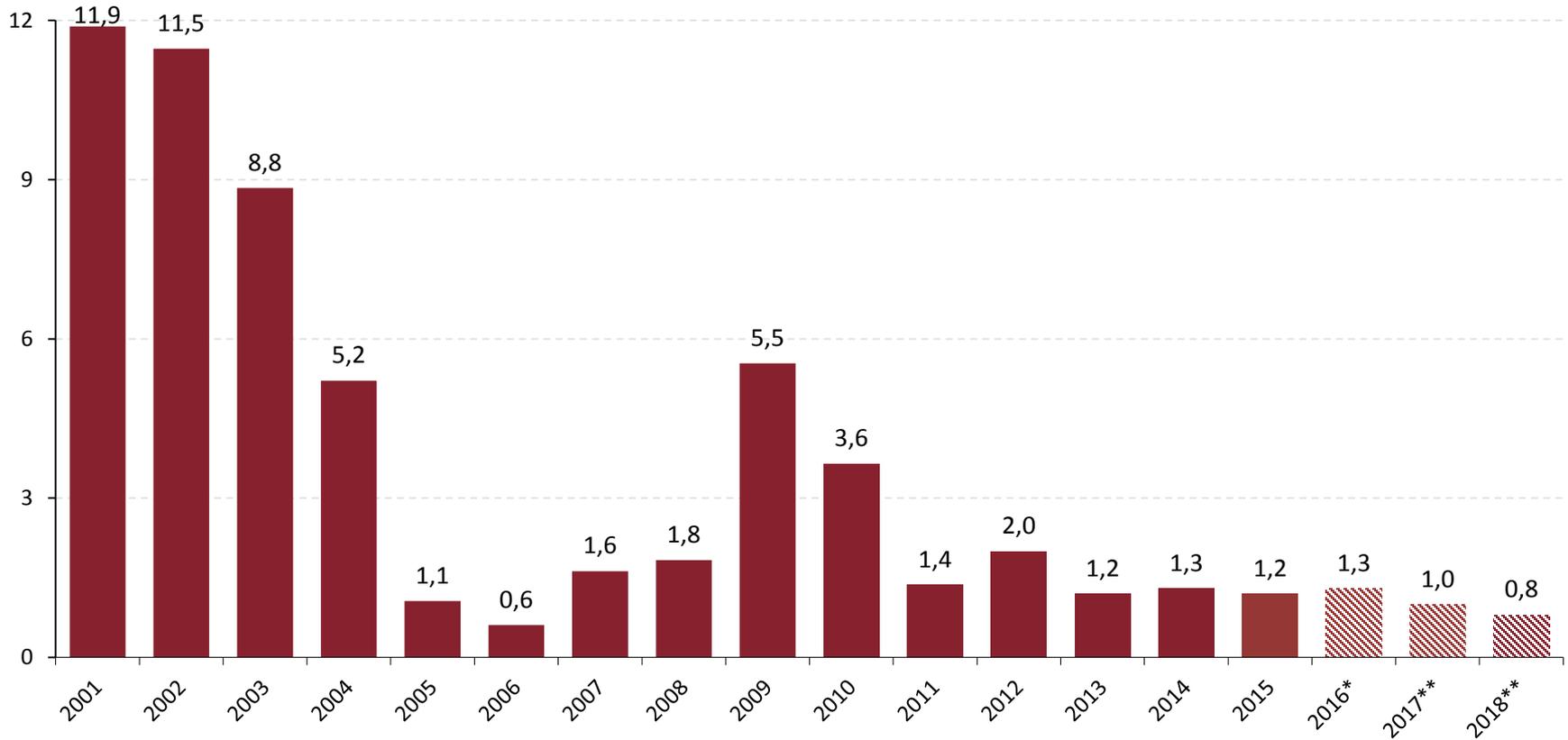
Source: Undersecretariat of Treasury, Medium Term Program (2016-2018).

*Medium Term Program (2016-2018) target.
Last Observation: 2015.

Fiscal prudence has kept risk premia at low levels.

Budget Deficit*

(12-Month Cumulative, Central Government Budget Deficit/GDP)



Source: Ministry of Finance, Medium Term Program (2016-2018).

* Medium Term Program (2016-2018) target.
Last Observation: 2015.

Fiscal prudence has kept risk premia at low levels.

JP Morgan EMBI+ Turkey (Index Value)



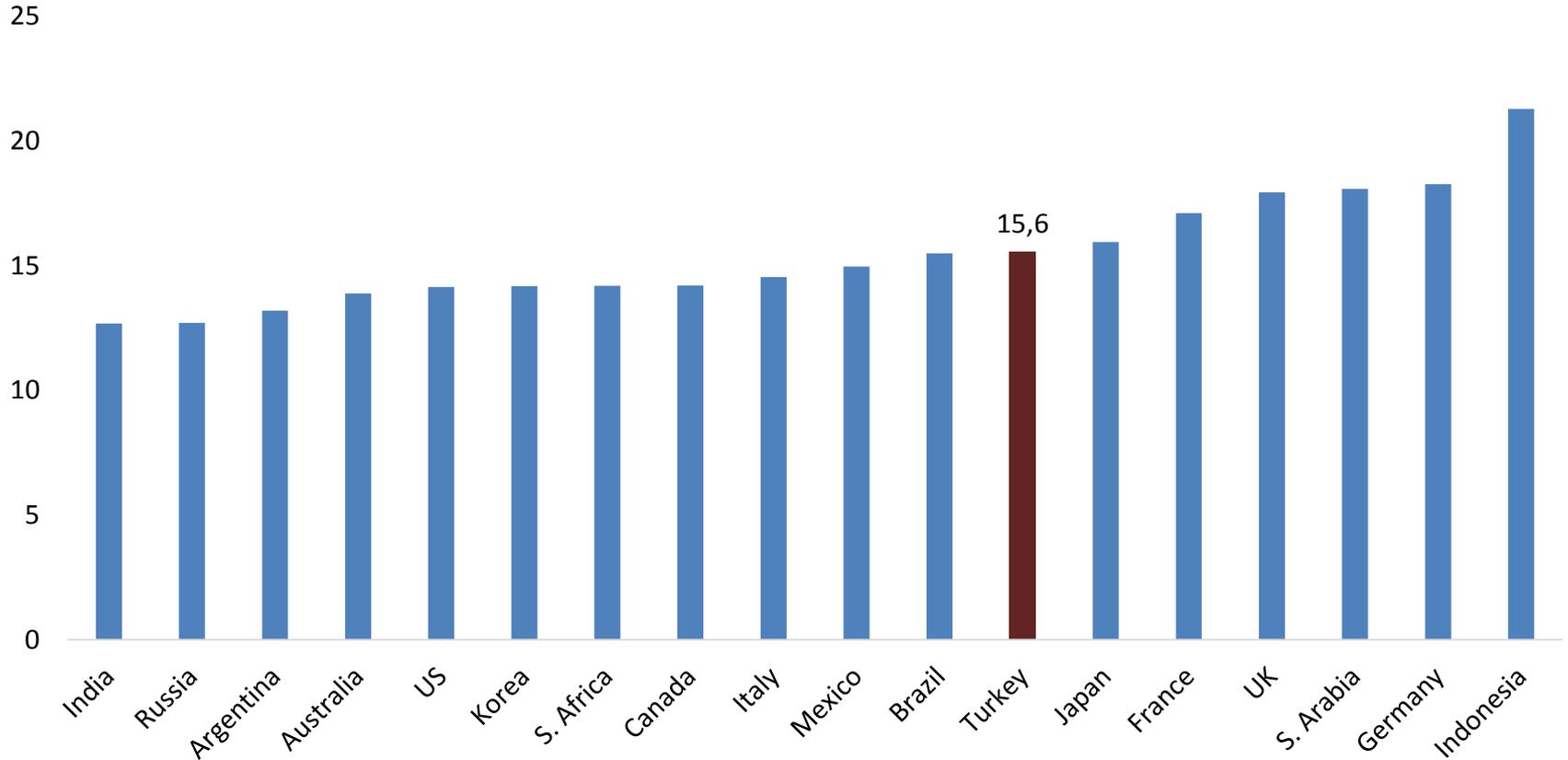
Source: Bloomberg.

Last Observation: April 14, 2016.

Financial Sector Prudence

Banks are well capitalized, liquid and profitable.

Capital Adequacy Ratios in G20 Countries (Percent)

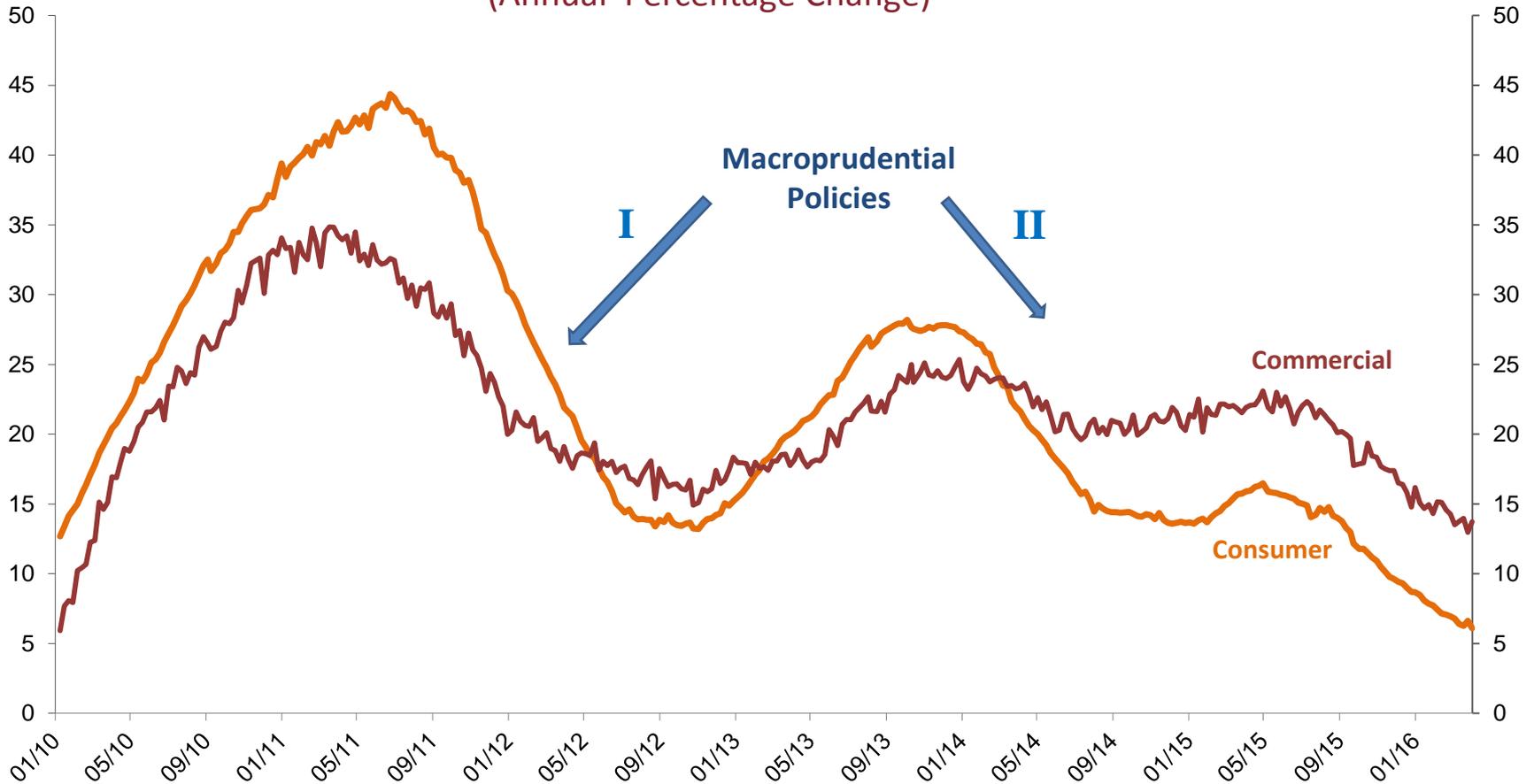


Last Observation: For Korea 2014 Q2, for Italy and UK 2015 Q2, for Brazil and Japan 2015 Q3 and for others 2015 Q4.

Source: IMF

Macprudential policies have improved both the pace and the composition of credit.

Loan Growth Rates* (Annual Percentage Change)



Source: CBRT.

Last Observation: April 1, 2016.

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

Real interest rates in Turkey have come down significantly thanks to a combination of prudent policies over the last decade.

2-Year Real Interest Rates of the 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.

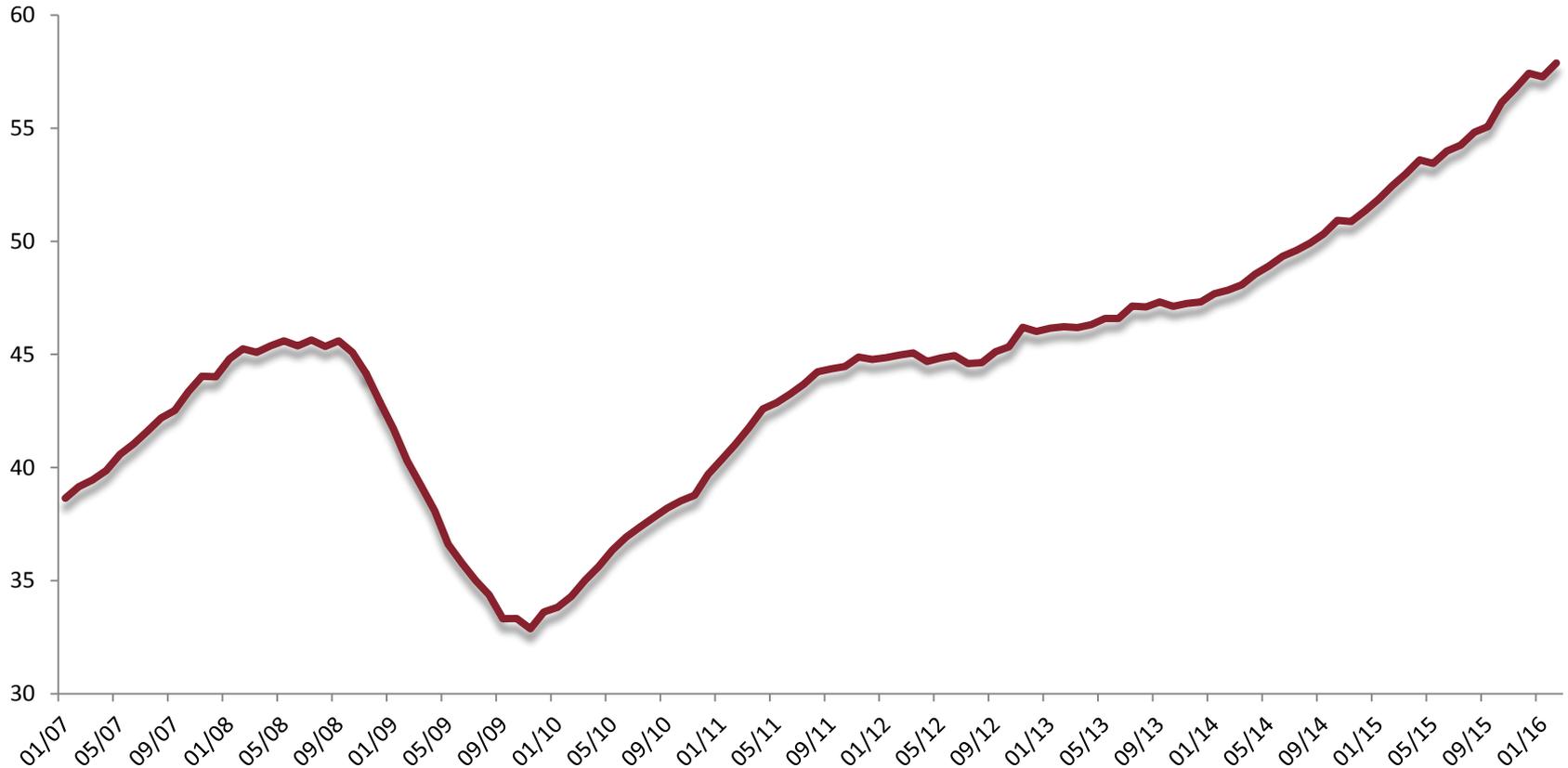
Source: CBRT, BIST.

Last Observation: April 11, 2016

European Recovery

Recovery in the European economies will support growth and rebalancing.

Exports to European Union (12-Month Cumulative, Billion Euros)



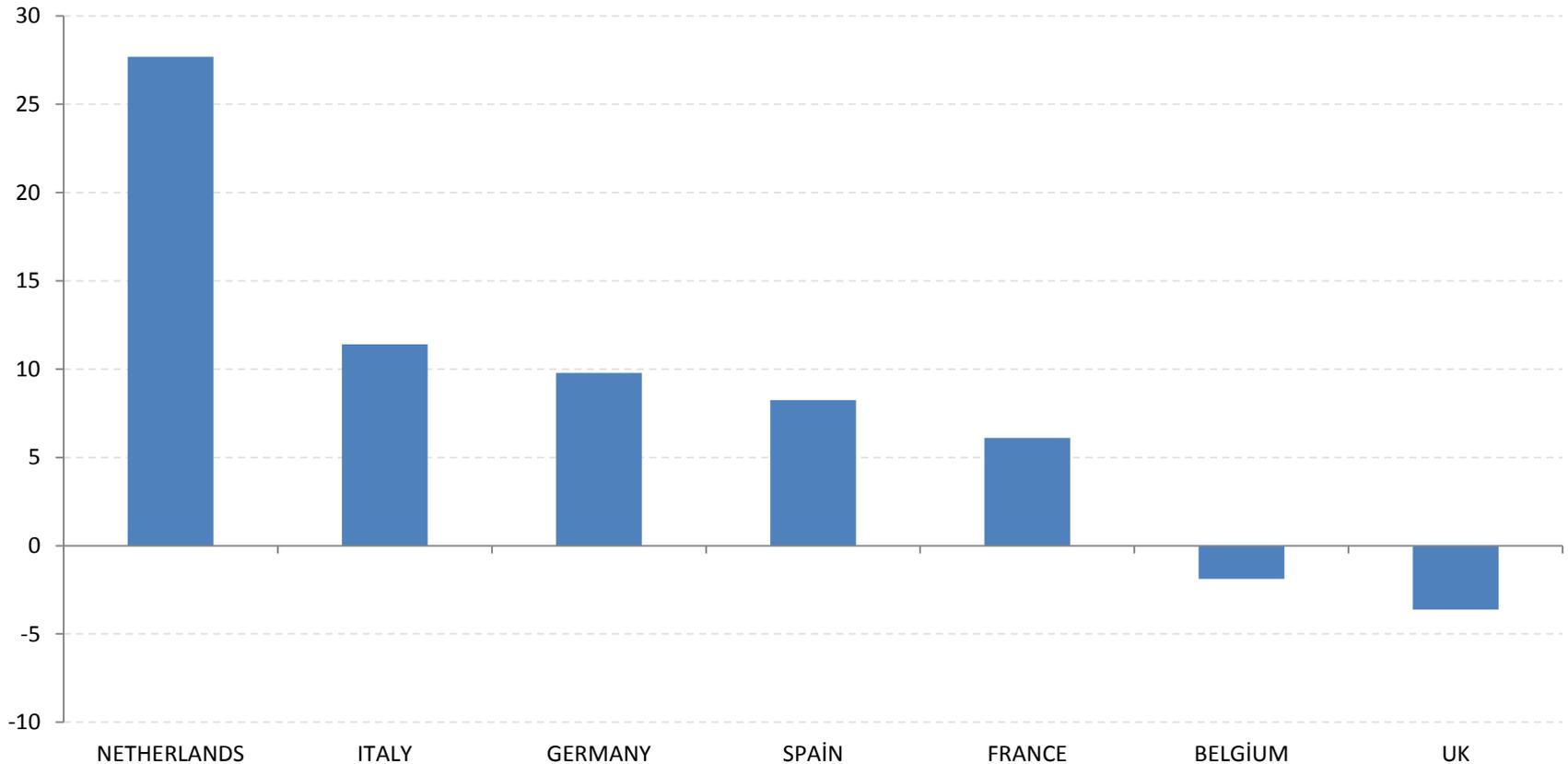
Source: TURKSTAT.

Last Observation: February 2016.

Turkey's exports to major EU trade partners continue to grow at a solid pace.

Export Growth

(3-month Cumulative, Annual Percent Change, in terms of Euro)

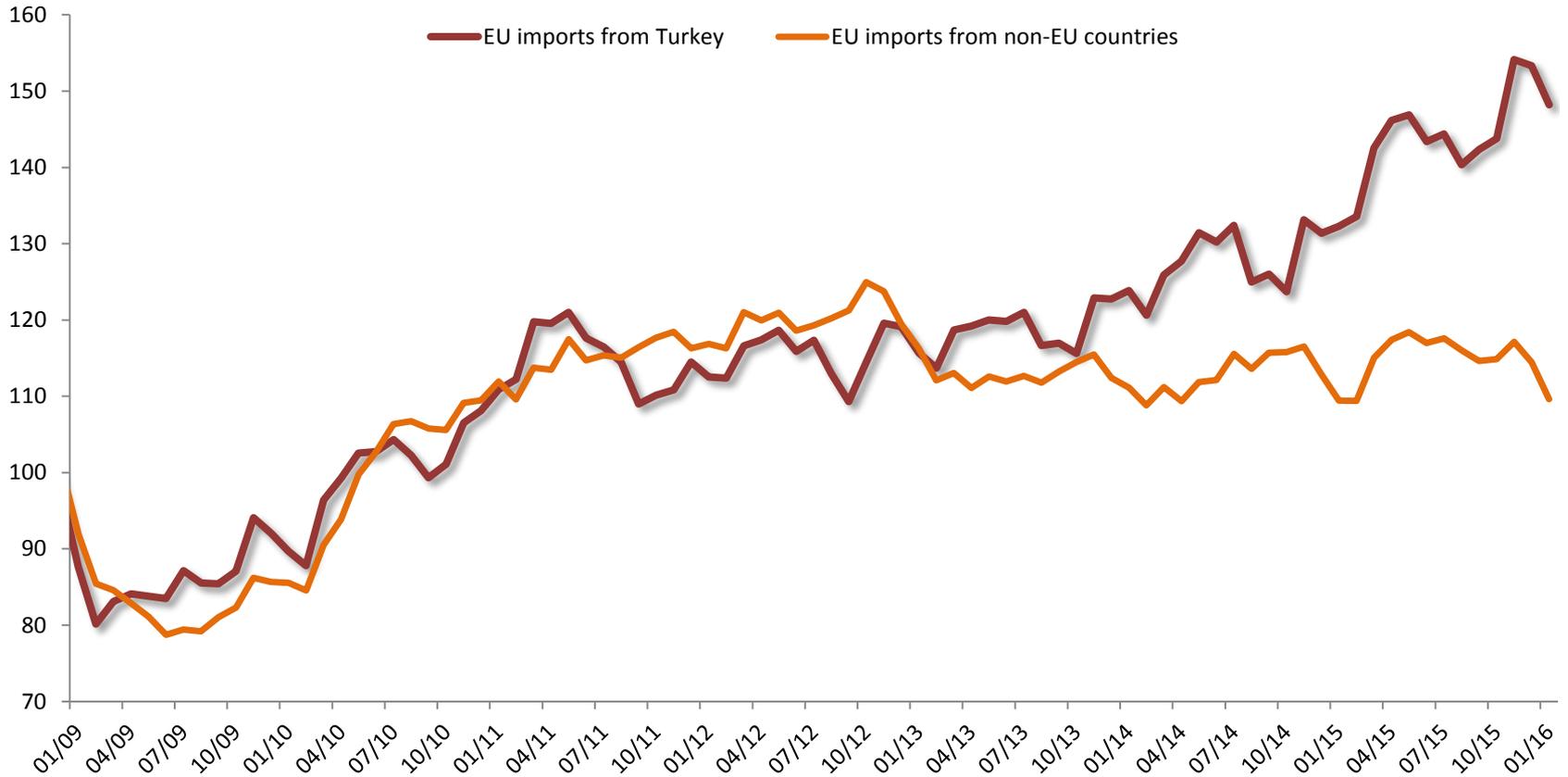


Source: TEA; January, February and March 2016 Period.

*British Pound is used for UK.

The share of Turkey in EU imports has been on the rise.

Imports of European Union (6-Month Moving Average, Nominal, 2010=100)



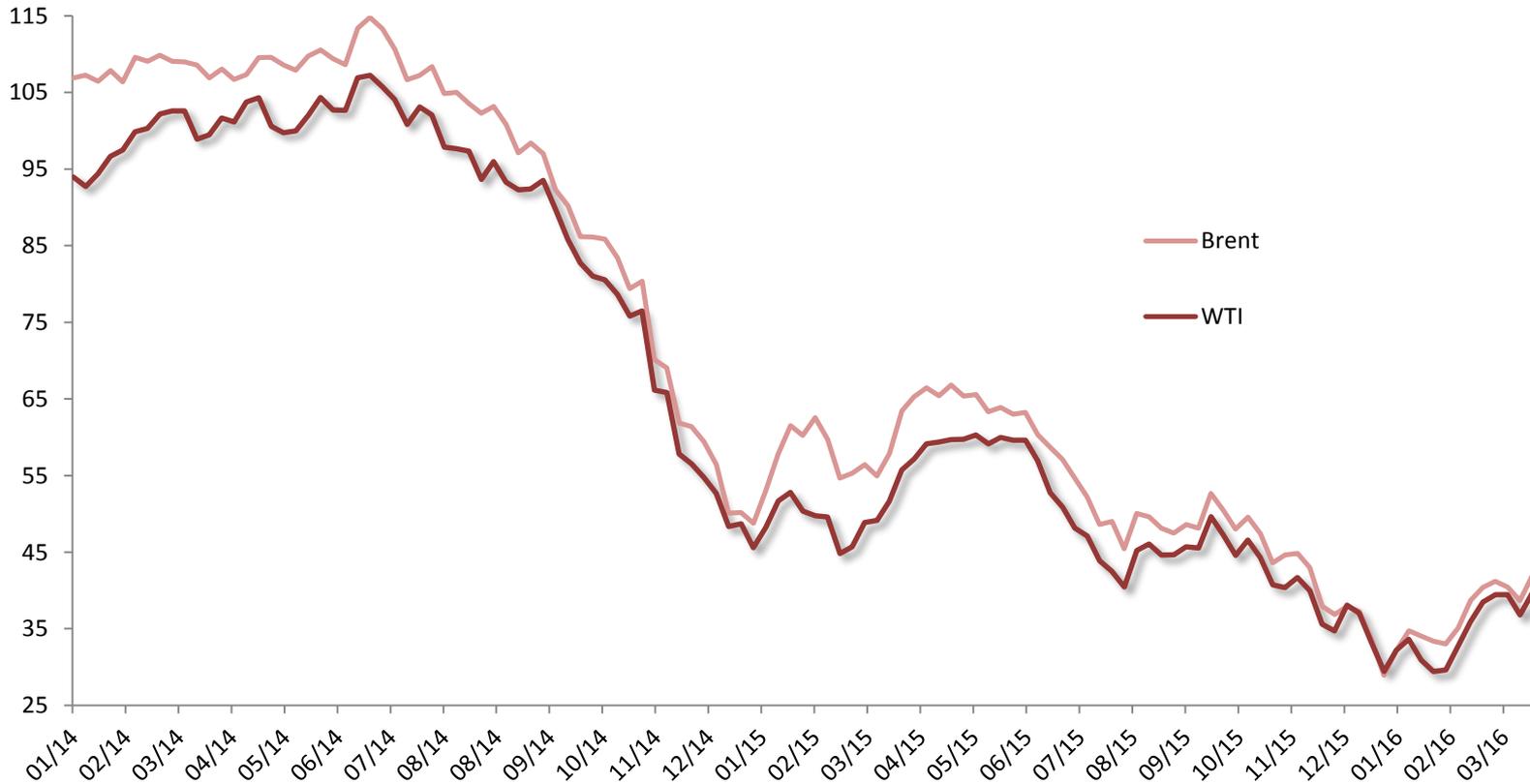
Source: EUROSTAT.

Last Observation: January 2016.

Commodity Prices

The favorable impact of lower oil prices on the current account balance will be more pronounced in the upcoming period.

Crude Oil Prices (US Dollar per Barrel, Weekly)

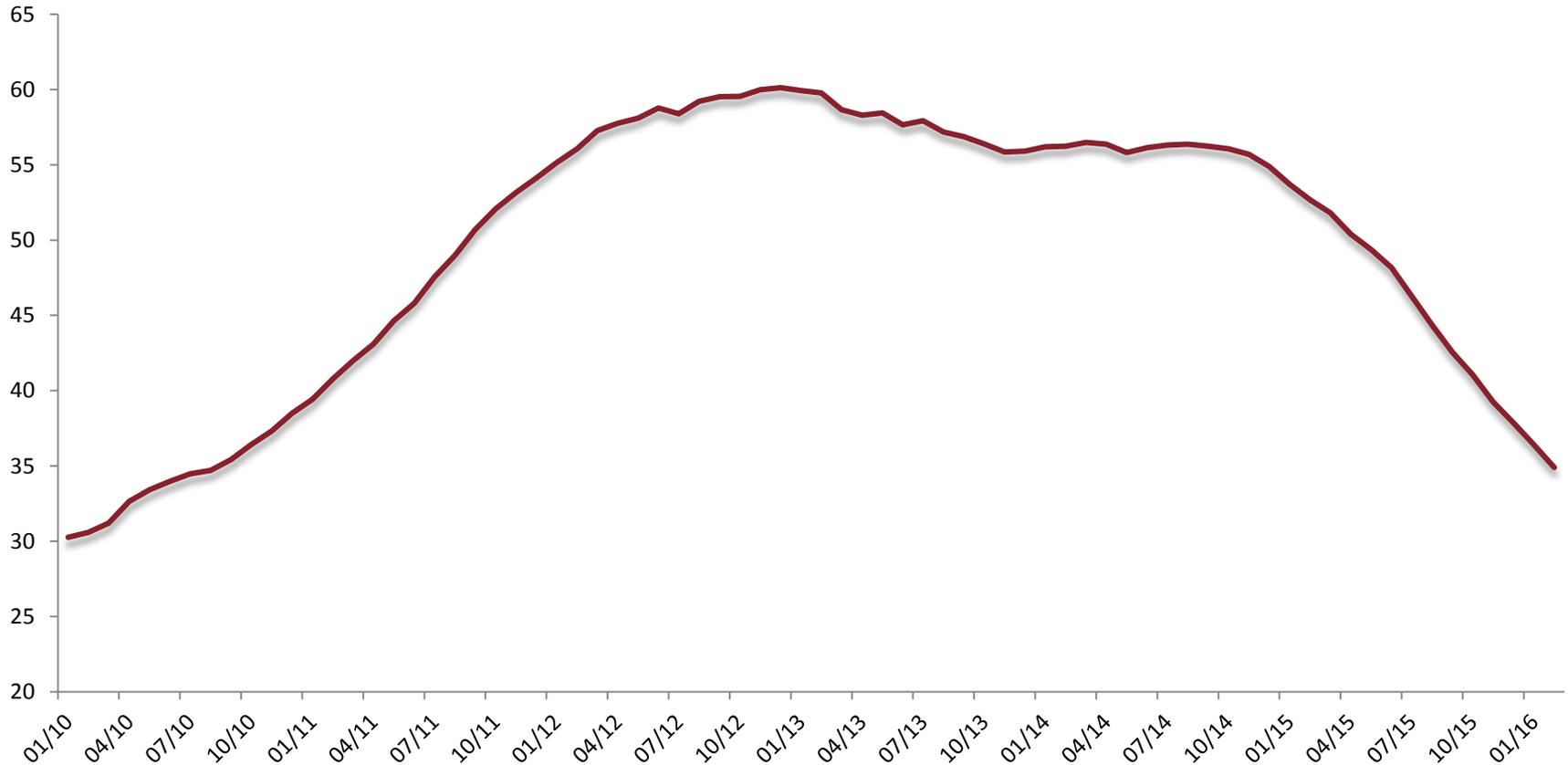


Source: Bloomberg.

Last Observation: April 8, 2016.

The favorable impact of lower oil prices on the current account balance will be more pronounced in the upcoming period.

Energy Imports of Turkey (12-Month Cumulative, Billion USD)



Source: TURKSTAT

Last Observation: February 2016.

Structural Reforms

Real Pillars of Growth in Turkey

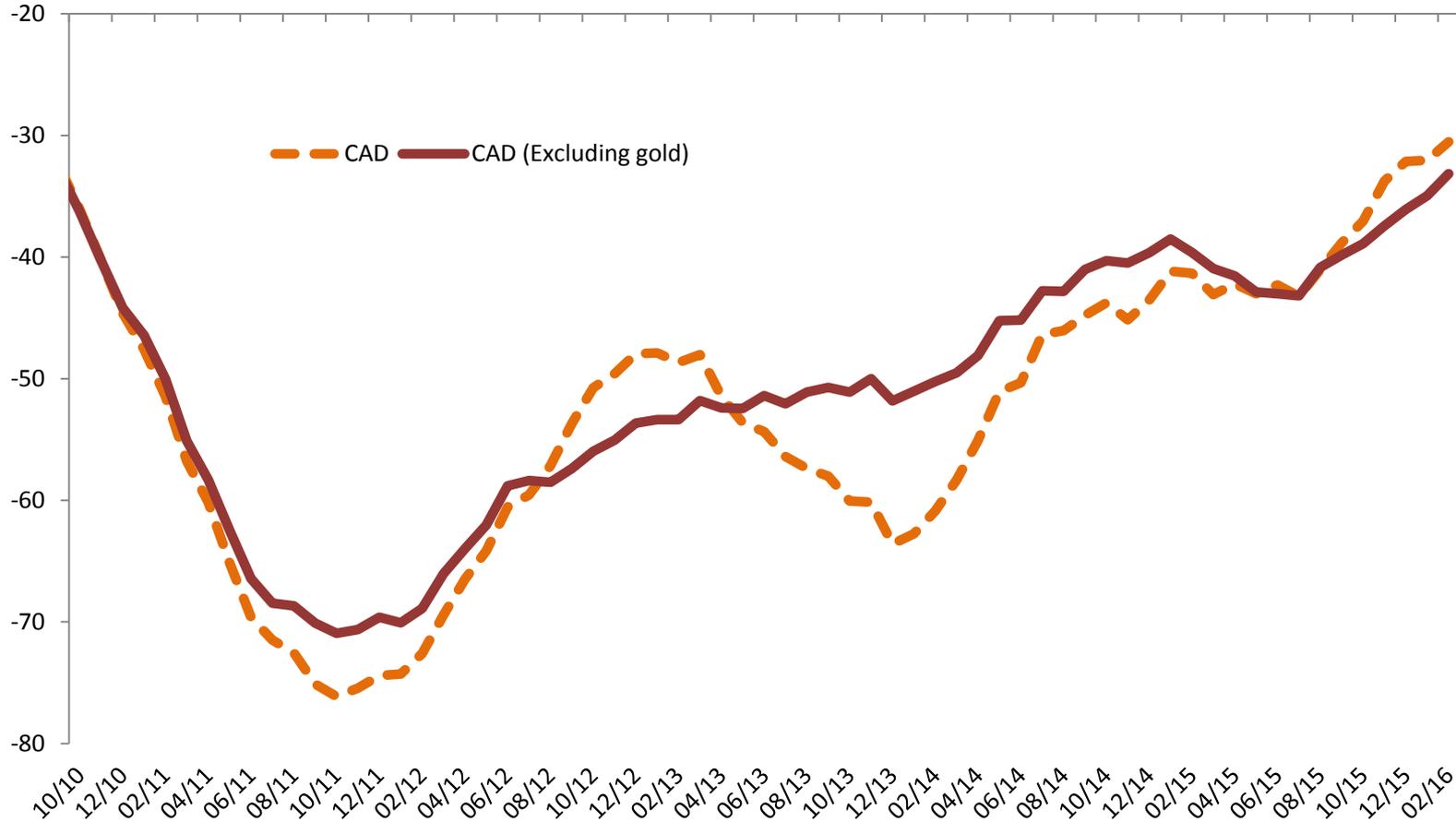
Reforms to improve:

- i. Human capital and the labor market
- ii. Technology and innovation
- iii. Physical infrastructure
- iv. Domestic savings

Resulting Prospects

The improvement in the external balance is on track.

Current Account Balance (CAB) (12-Month Cumulative, Billion USD)

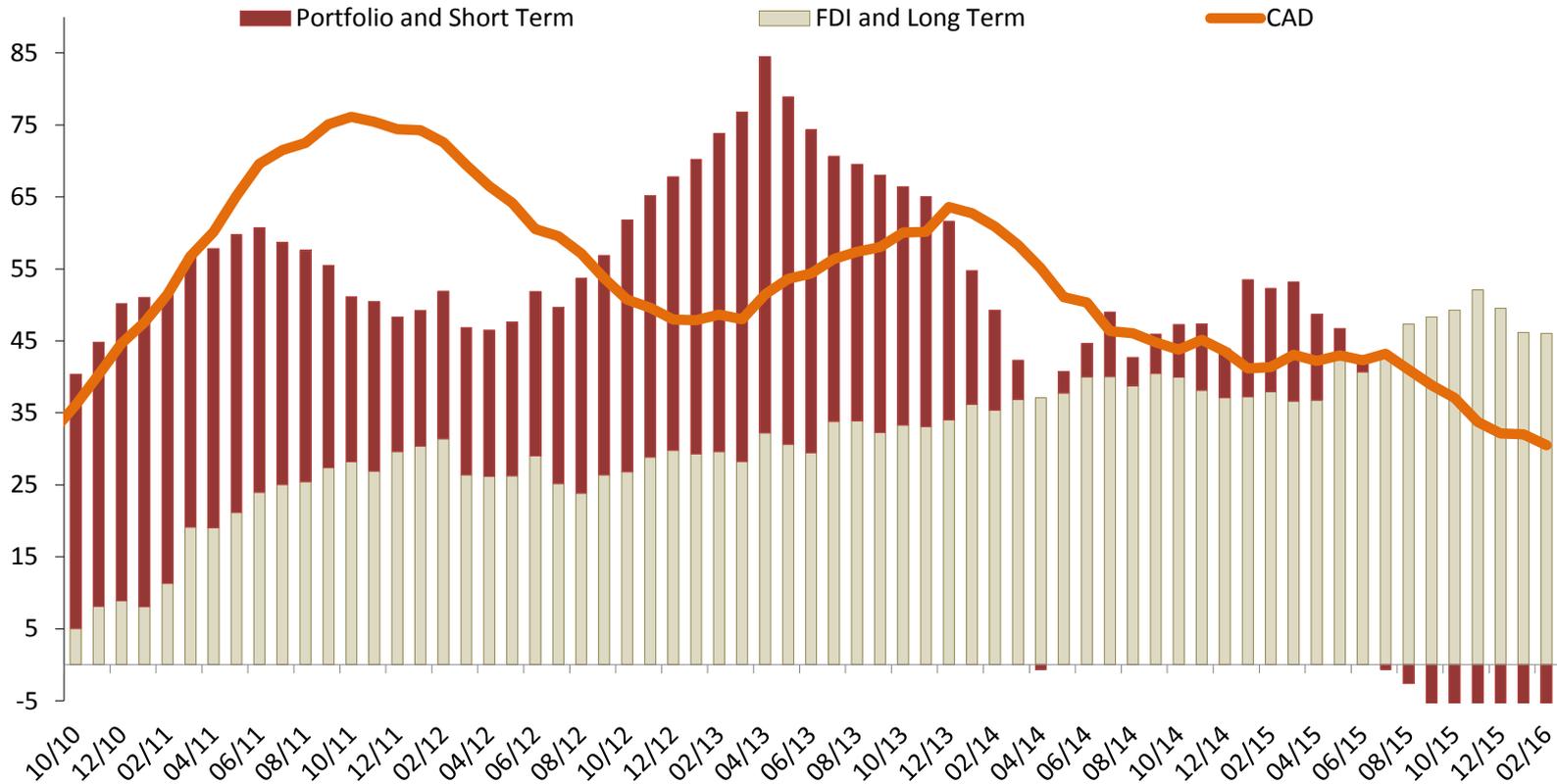


Source: CBRT.

Last Observation: February 2016.

The current account deficit is financed mainly through long term borrowing and FDI inflows.

Main Sources of External Finance (12-Month Cumulative, Billion USD)



Source: CBRT.

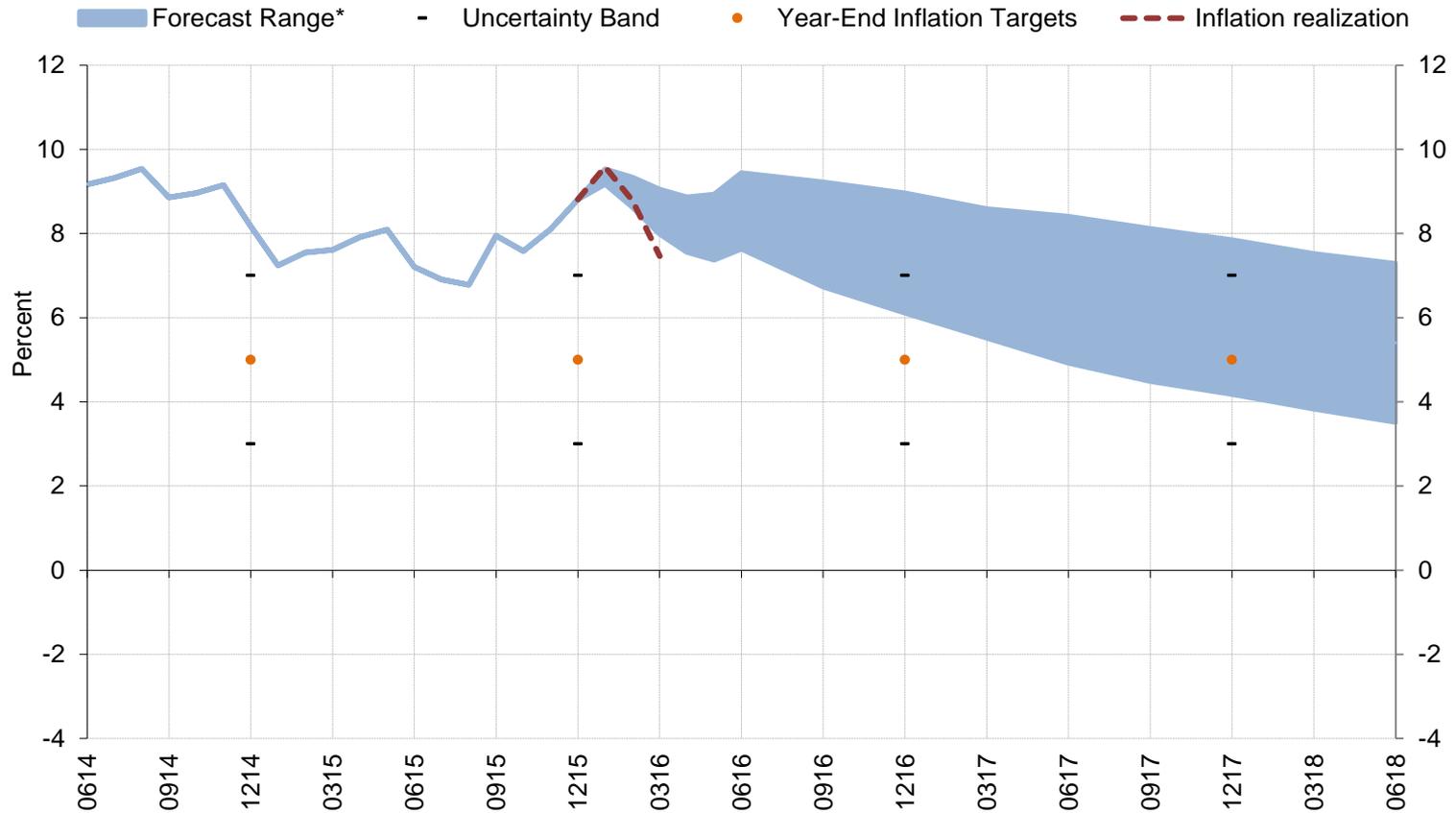
*Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

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

Last Observation: February 2016.

Disinflation is expected to continue.

CPI Forecasts and Realizations (Percent)



Source: TURKSTAT, CBRT.

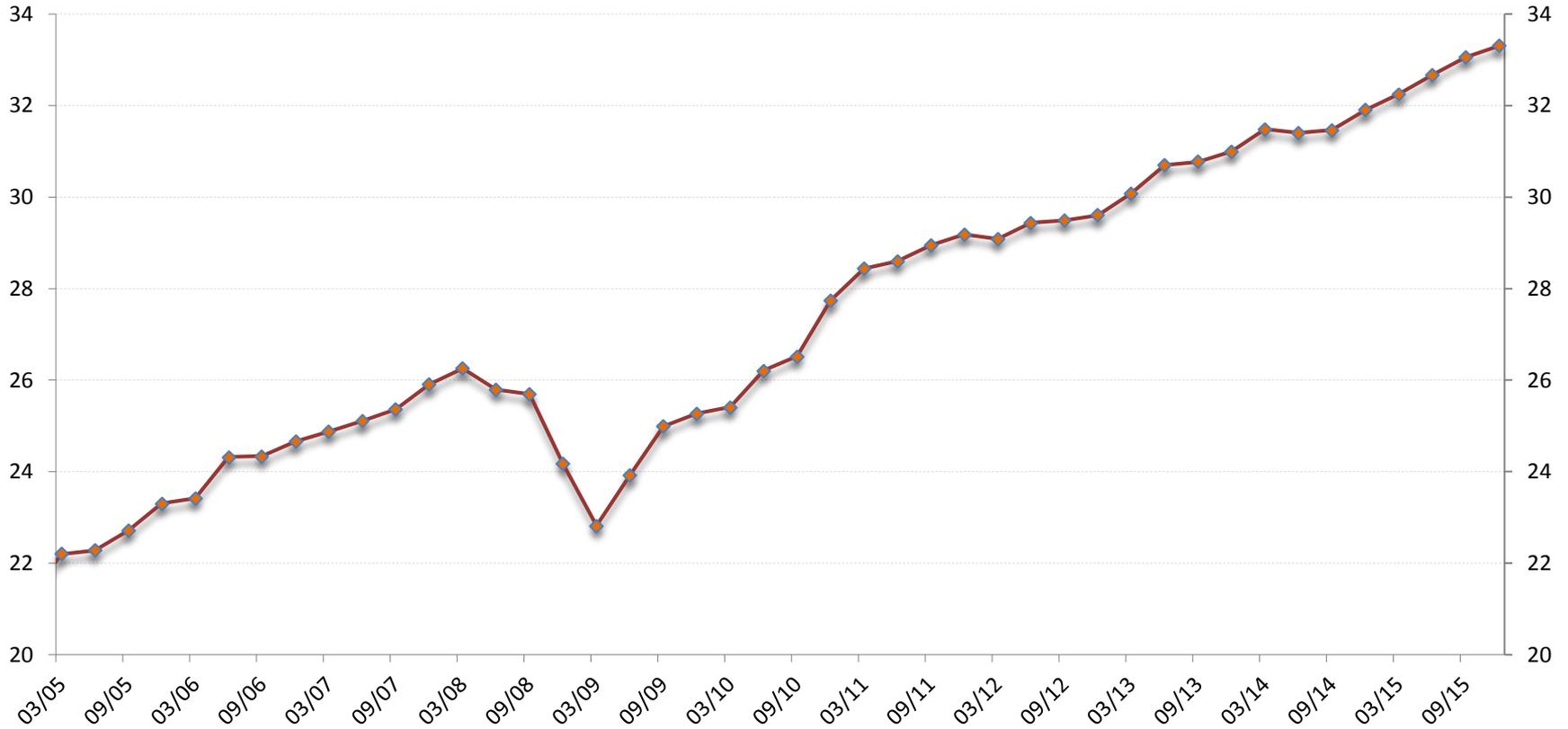
* Shaded region indicates the 70 percent confidence interval for the forecast

Last Observation: March 2016

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GDP

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