



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Balanced Growth Prospects in Turkey

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**IMF – World Bank Annual Meetings
Presentation to Investors
October 9, 2015
Lima, Peru**

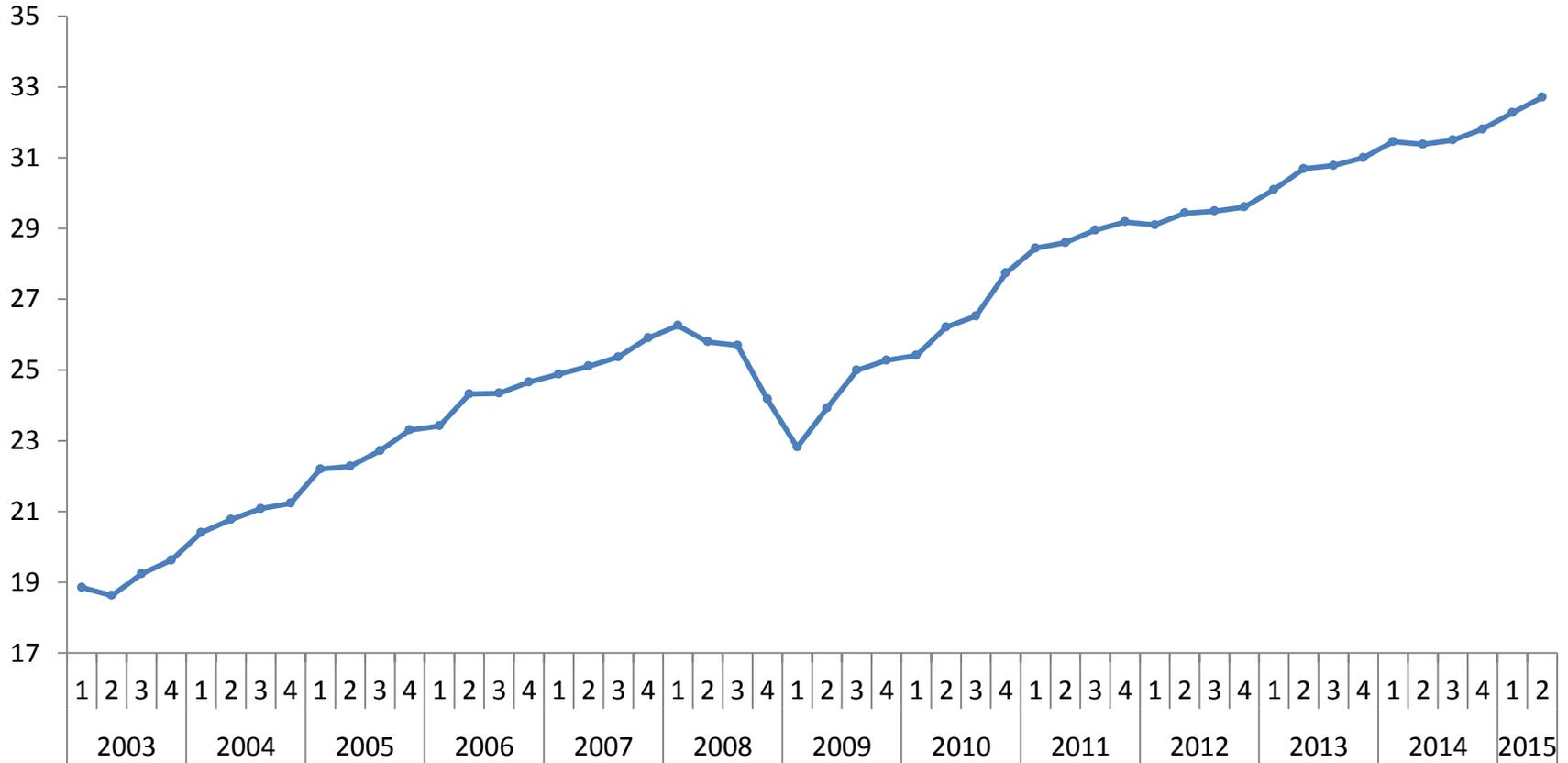
Overview: Balanced Growth Prospects

- The improvement in the current account balance will become more pronounced with the August figure and is expected to continue throughout the year.
- The contribution of net exports to growth is expected to pick up in the second half with support from the rising demand of the European Union economies.
- The CBRT maintains a tight policy stance to address inflationary risks from the exchange rate pass-through and higher inflation expectations.
- Recently, the CBRT has taken a broad set of measures in the context of the “road map during the normalization of global monetary policies”.
- Overall, CBRT policies are tight for the inflation outlook, stabilizing for FX liquidity, and supportive for financial stability.

The Turkish economy continues to grow at a stable pace.

GDP

(Seasonally Adjusted, Constant Prices, Billion TL)



Source: TURKSTAT.

Last Observation: 2015 Q2.

Drivers of Balanced Growth

1. Prudence
2. European Recovery
3. Low 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
Target	35	20	12	8	5	4	4	7.5	6.5	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	-	-

Source: TURKSTAT, CBRT.

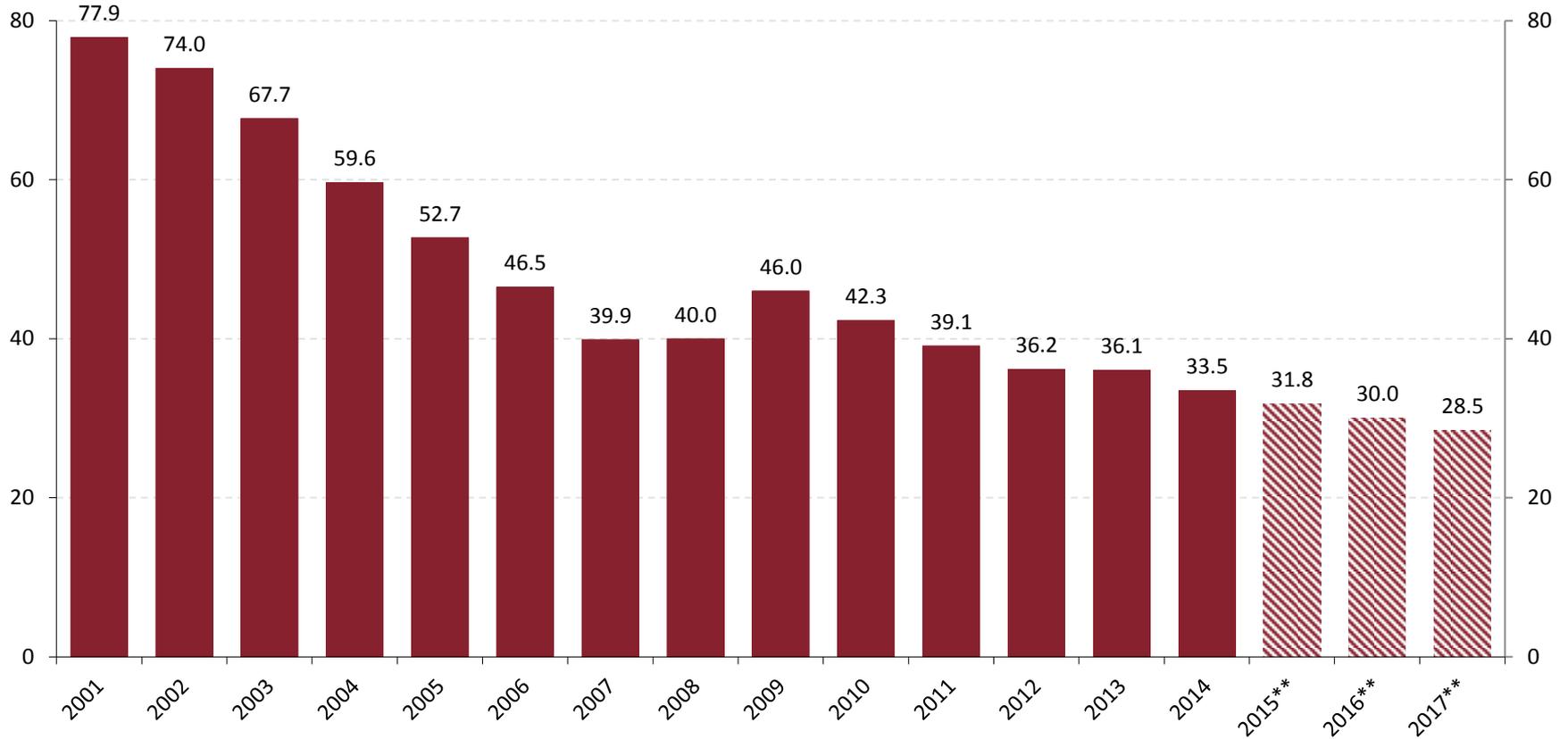
January 2002: 73.16, March 2003: 33.41, July 2006: 11.69, July 2008: 12.06, April 2010: 10.19, April 2012: 11.44, May 2014: 9.66

Last Observation: September 2015.

Fiscal Prudence

Fiscal prudence has kept risk premia at low levels.

Gross Public Debt* (Percent of GDP)



Source: Undersecretariat of Treasury, Medium Term Program (2015-2017).

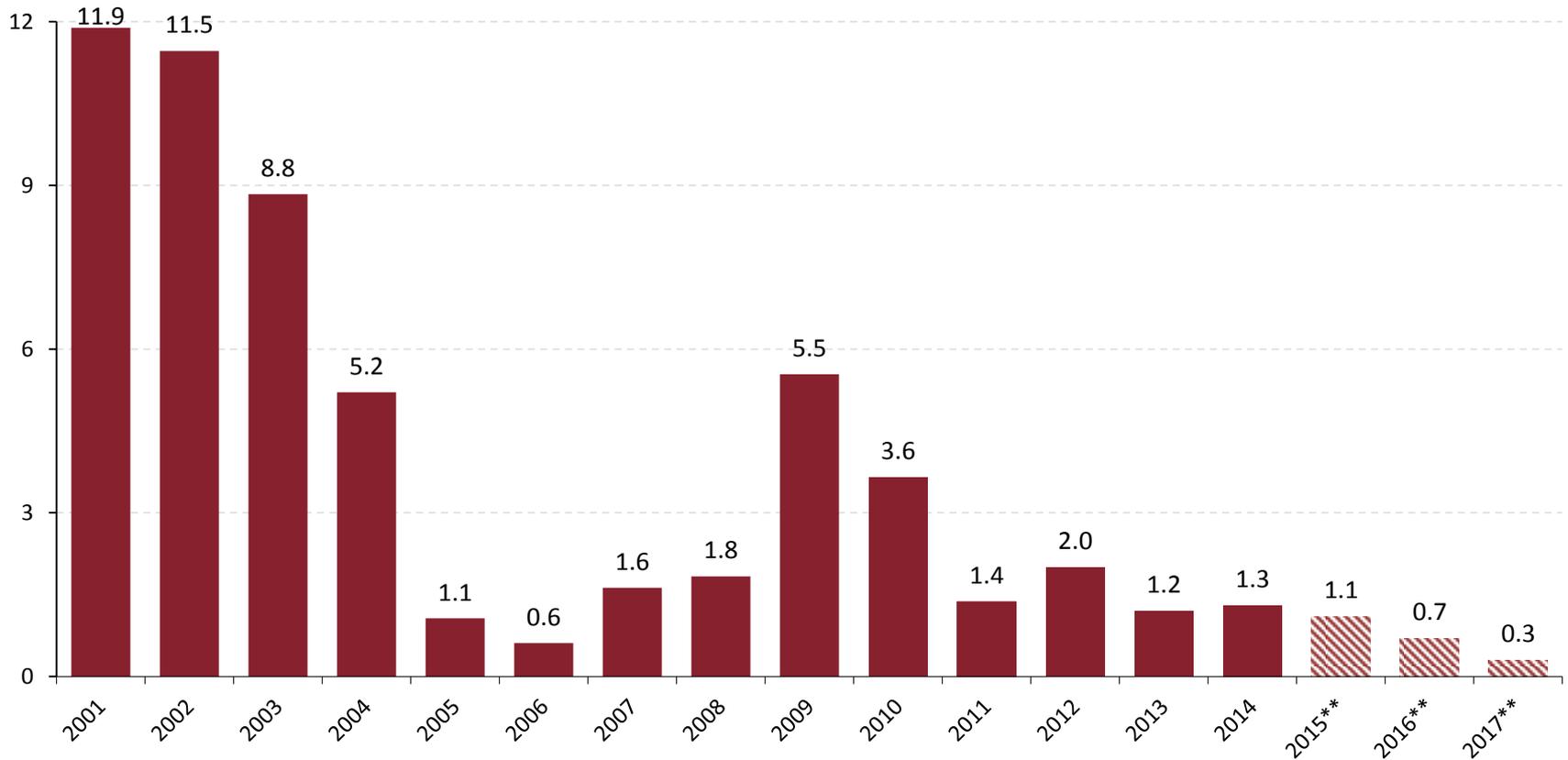
*EU defined general government debt stock/GDP.

**Medium Term Program (2015-2017) target.

Last Observation: 2014.

Fiscal prudence has kept risk premia at low levels.

Budget Deficit* (12-Month Cumulative, Percent of GDP)



Source: Ministry of Finance, Medium Term Program (2015-2017).

*Central government budget deficit/GDP.

** Medium Term Program (2015-2017) target.

Last Observation: 2014.

Fiscal prudence has kept risk premia at low levels.

JP Morgan EMBI+ Turkey (Index Value)



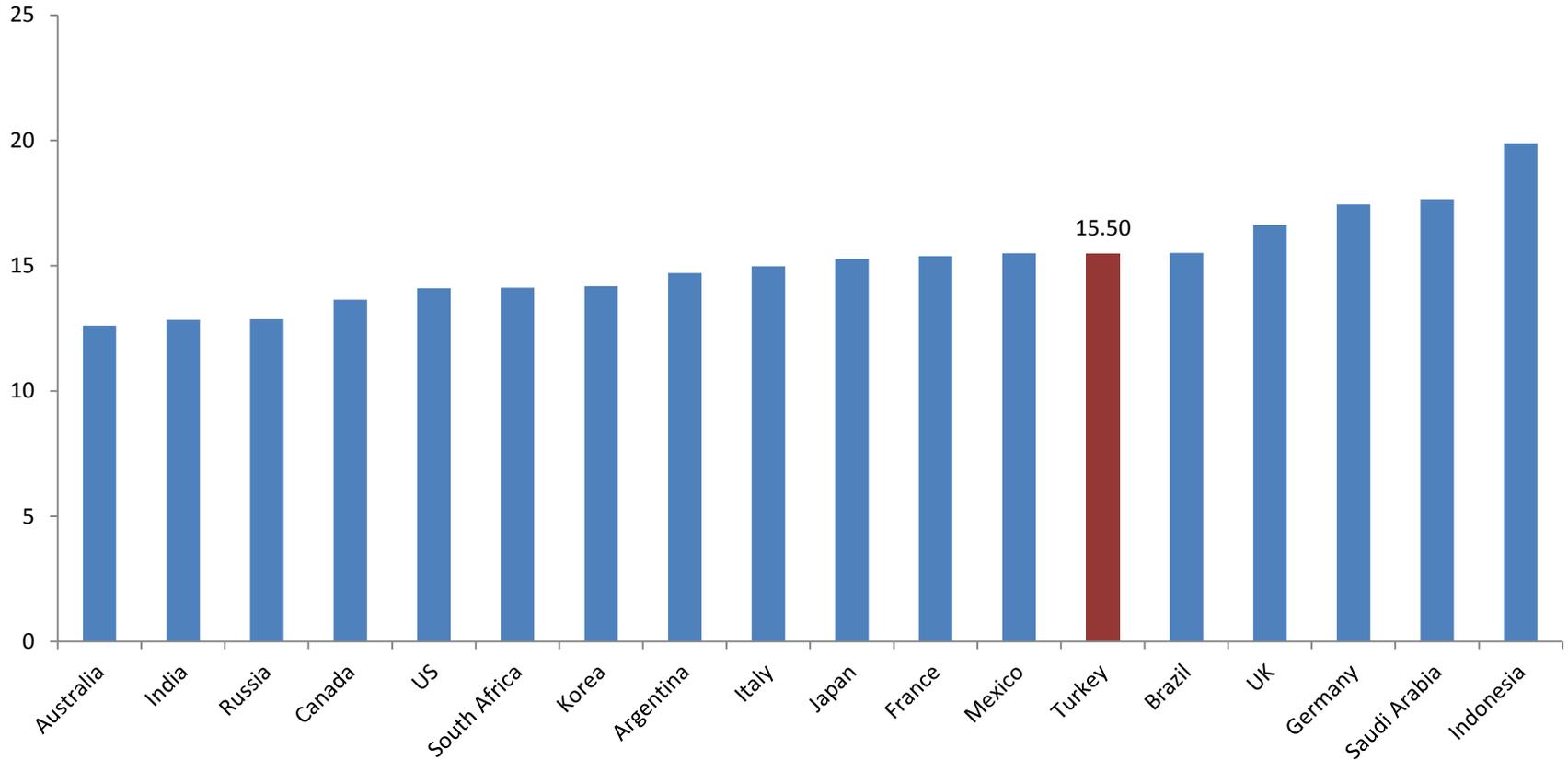
Source: Bloomberg.

Last Observation: October 8, 2015.

Financial Sector Prudence

Banks are well capitalized, liquid and profitable.

Capital Adequacy Ratios in G20 Countries (Percent)

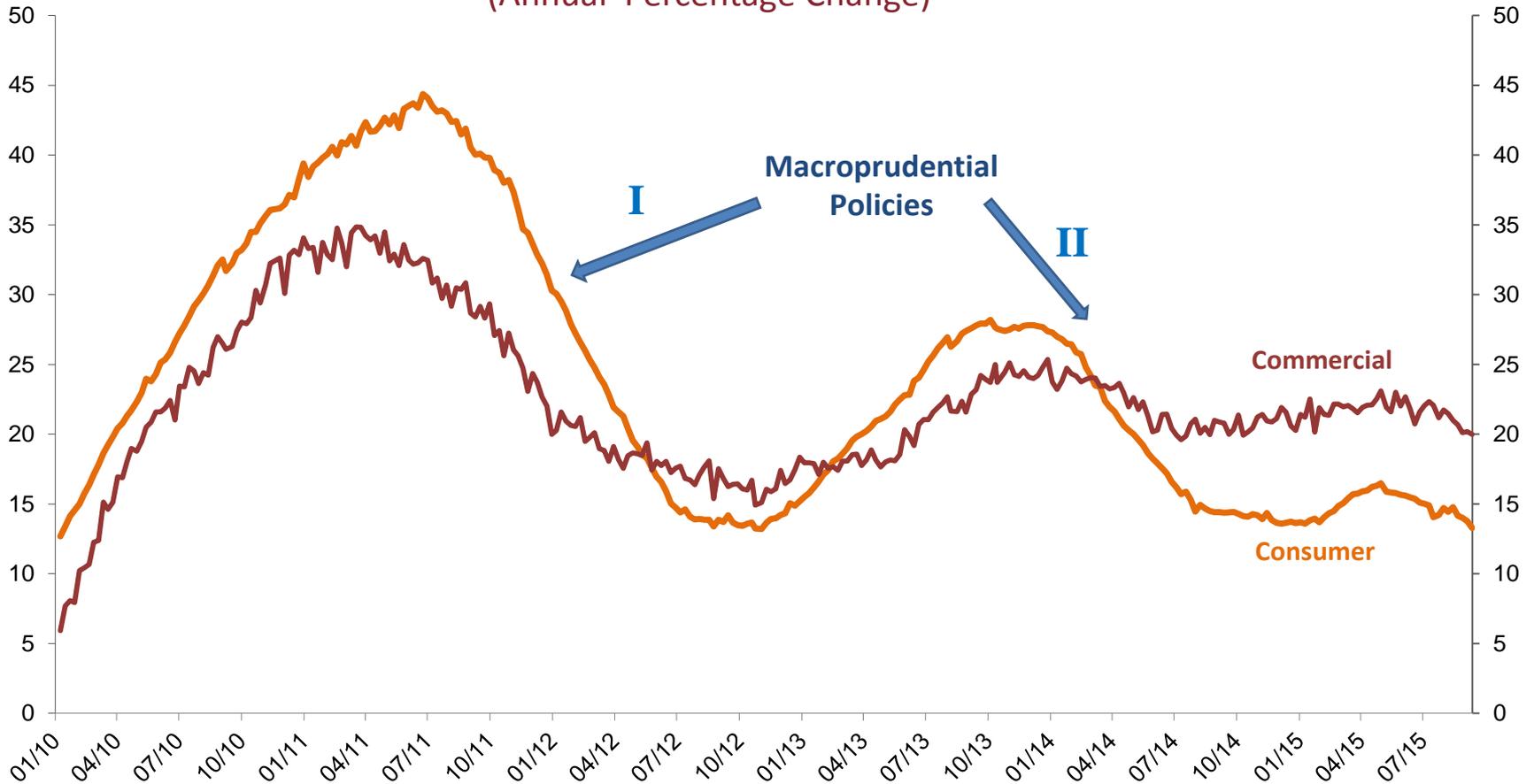


Last Observation: For France, Italy and Saudi Arabia 2014 Q2, for Japan 2014 Q3, for UK 2014 Q4 and for others 2015 Q1.

Source: IMF

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

Loan Growth Rates* (Annual Percentage Change)



Source: CBRT.

Last Observation: September 11, 2015.

*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.

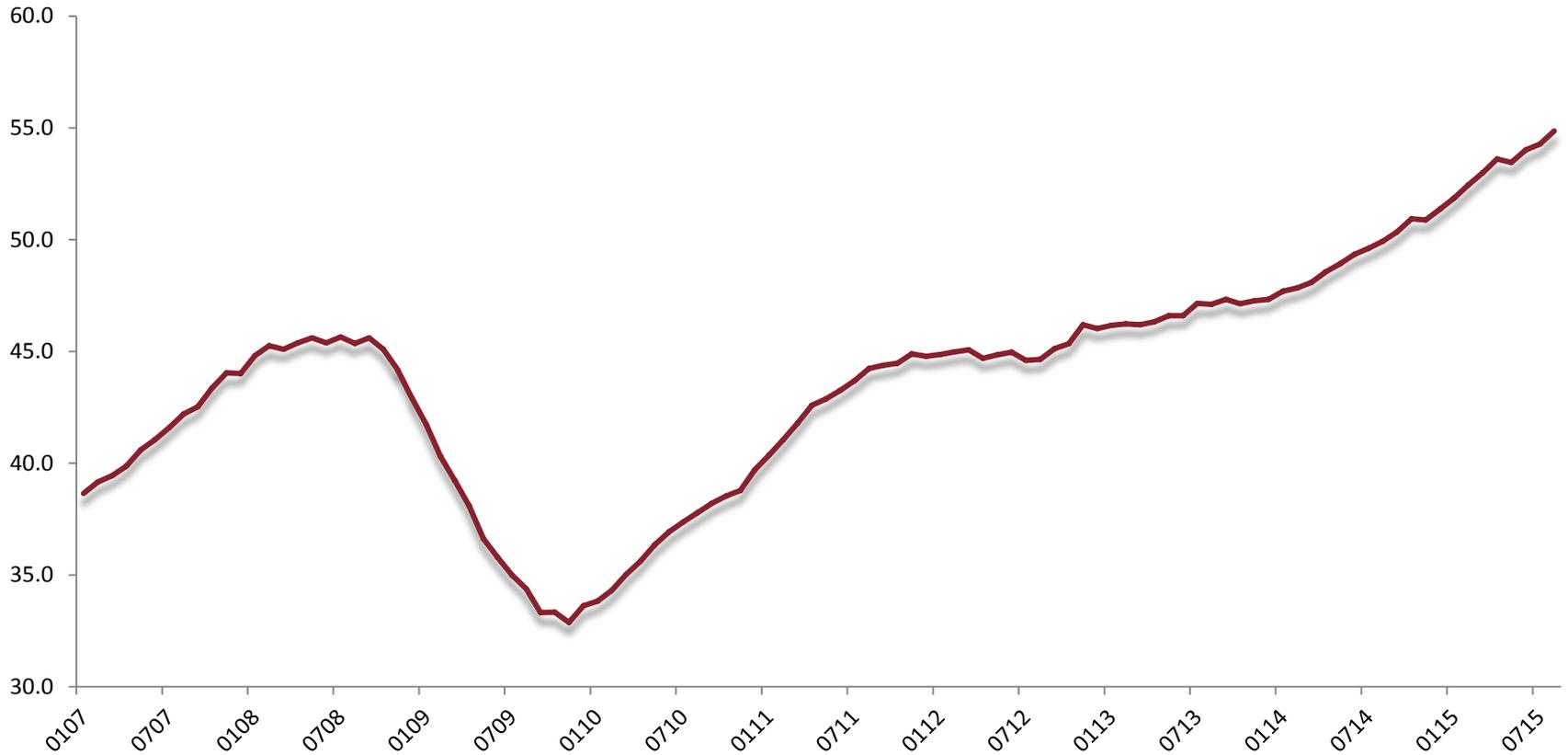
Last Observation: October 7, 2015

Source: CBRT, BIST.

European Recovery

Recovery in the European economies will support growth and rebalancing in the upcoming period.

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



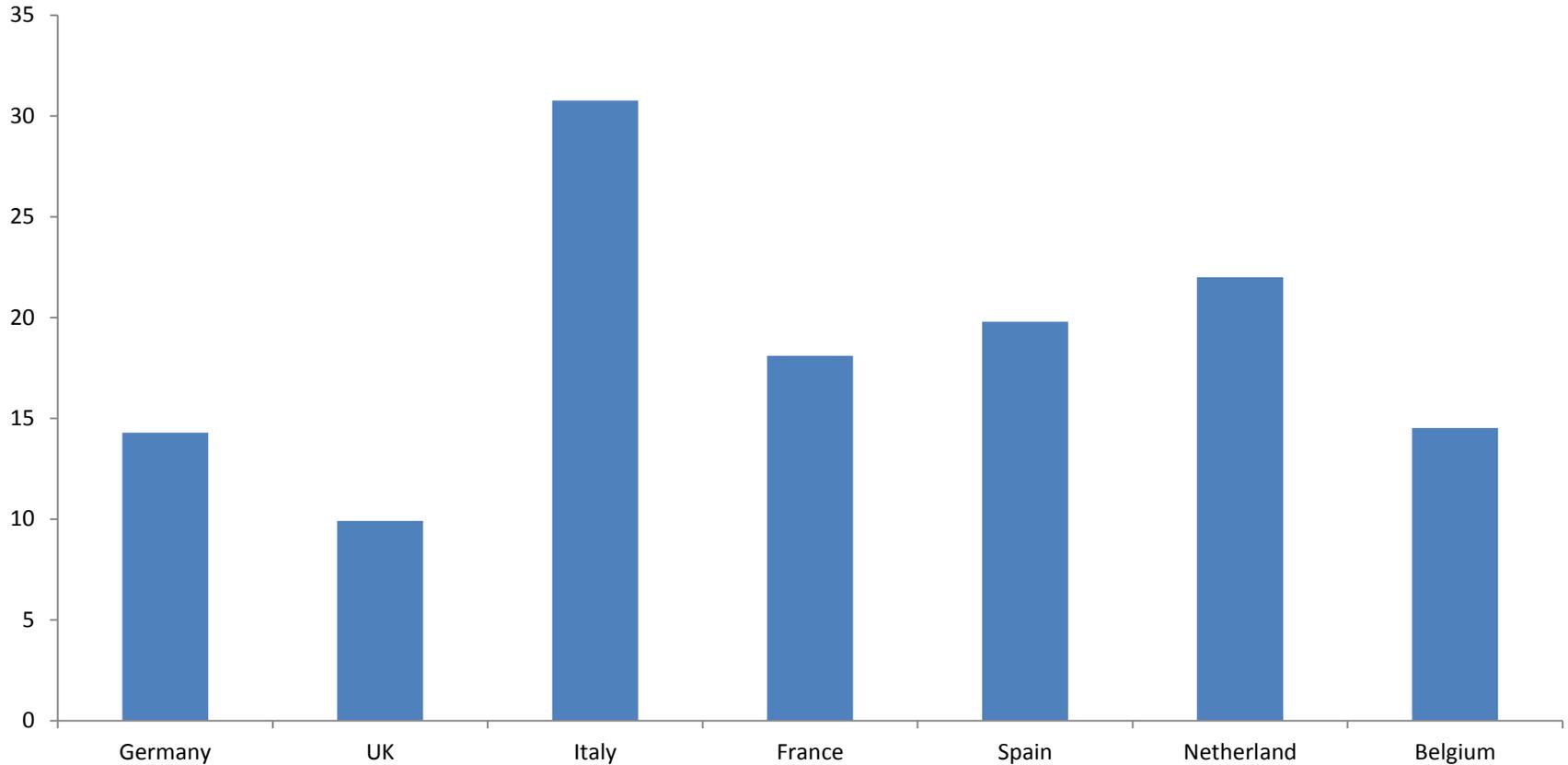
Source: TURKSTAT.

Last Observation: August 2015.

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

Export Growth

(September 2015, Annual Percentage Change, WDA, Million Euro*)

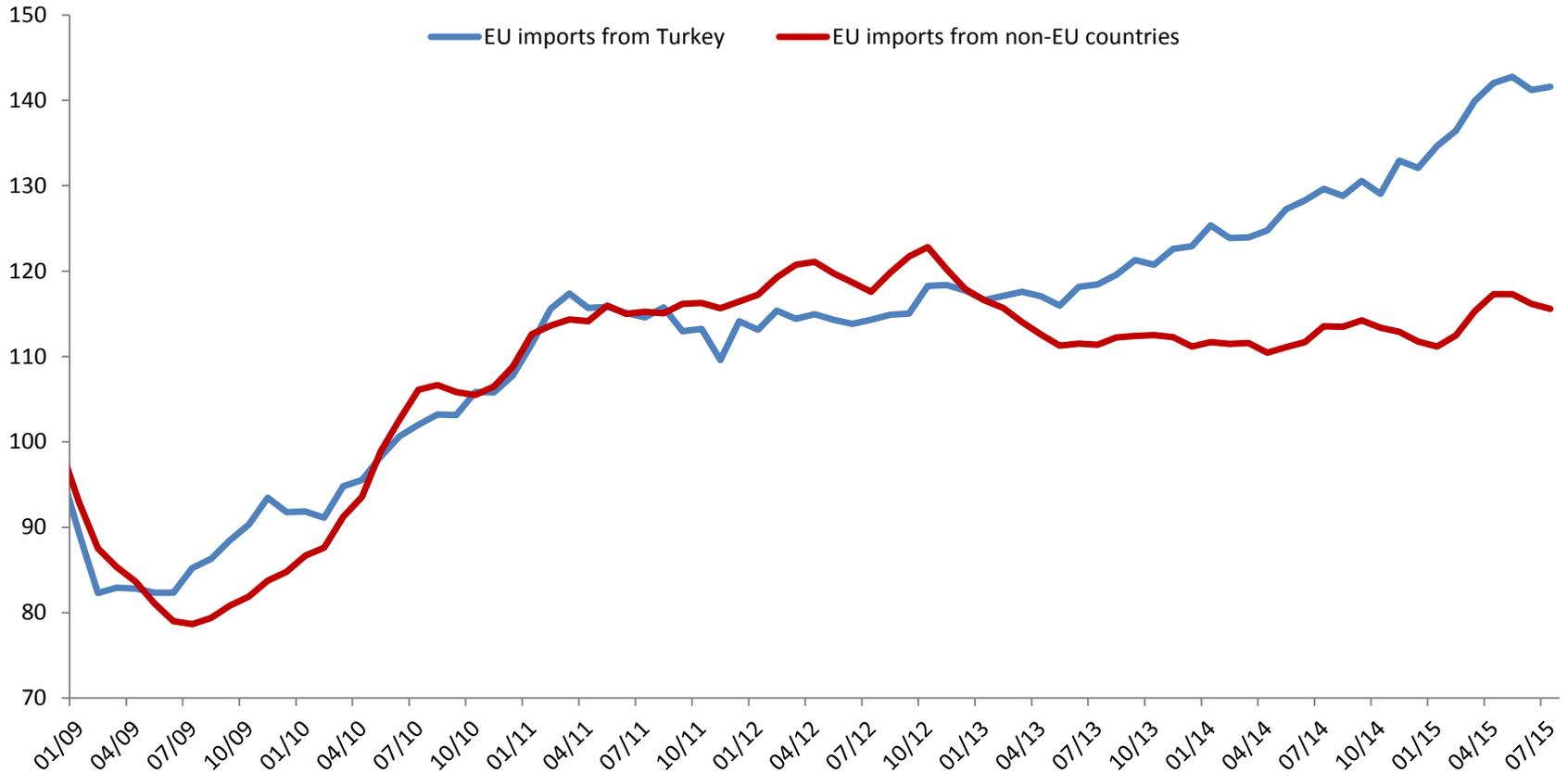


Source: Turkish Exporters Assembly.

* British Pound is used for UK.

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

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



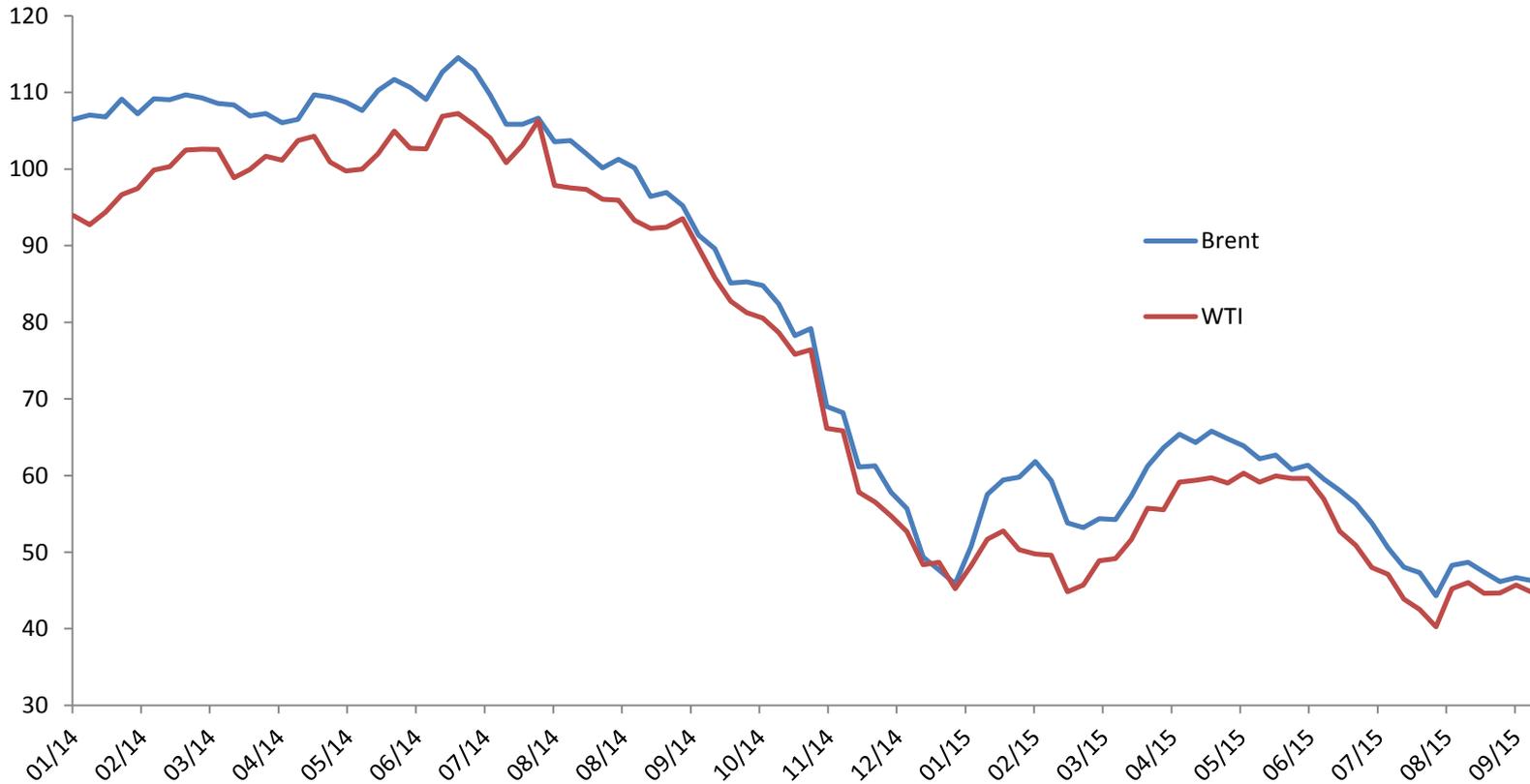
Source: EUROSTAT.

Last Observation: July 2015.

Low 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)

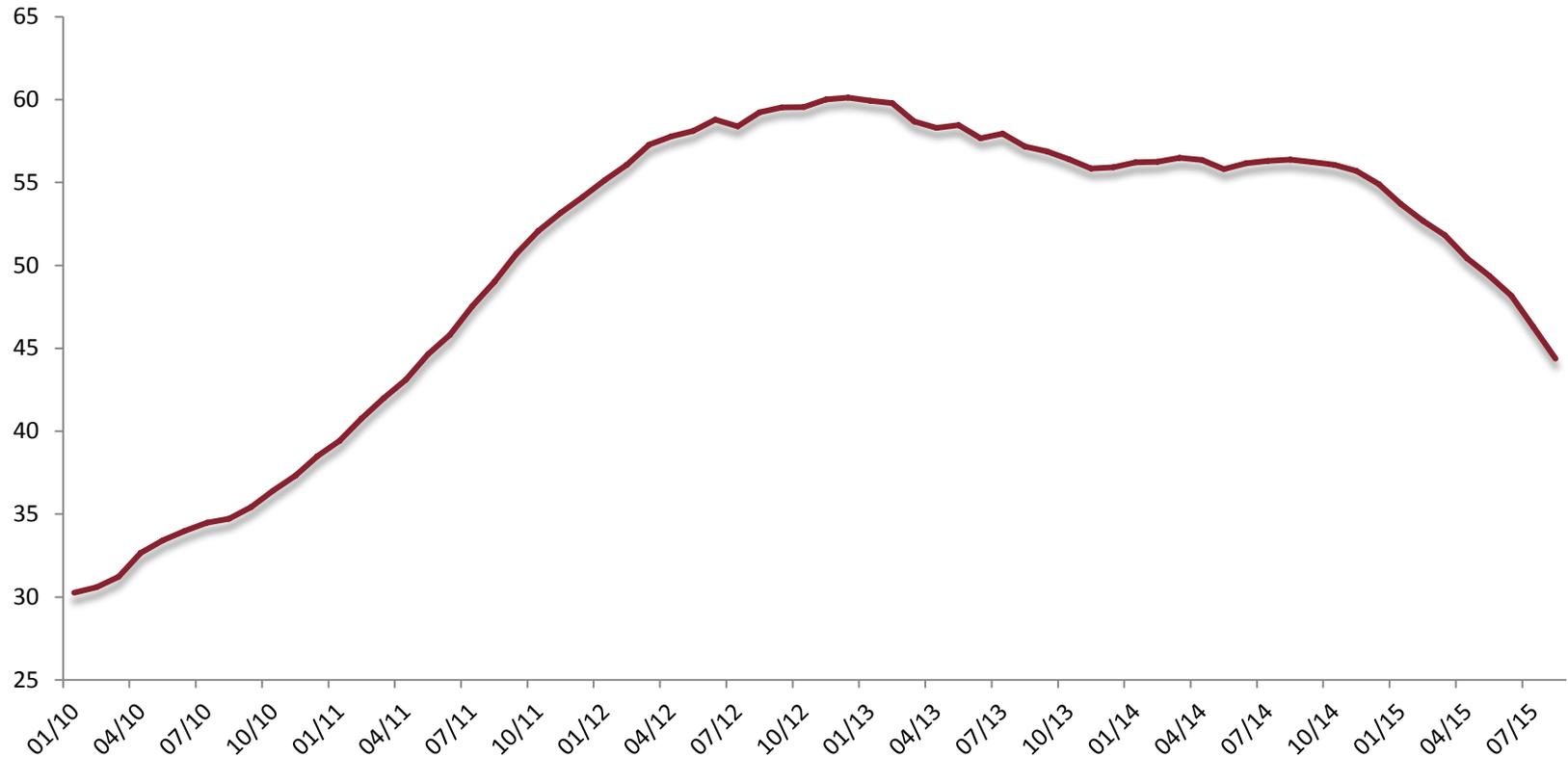


Source: Bloomberg.

Last Observation: October 2, 2015.

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: August 2015.

Structural Reforms

Real Pillars of Growth in Turkey

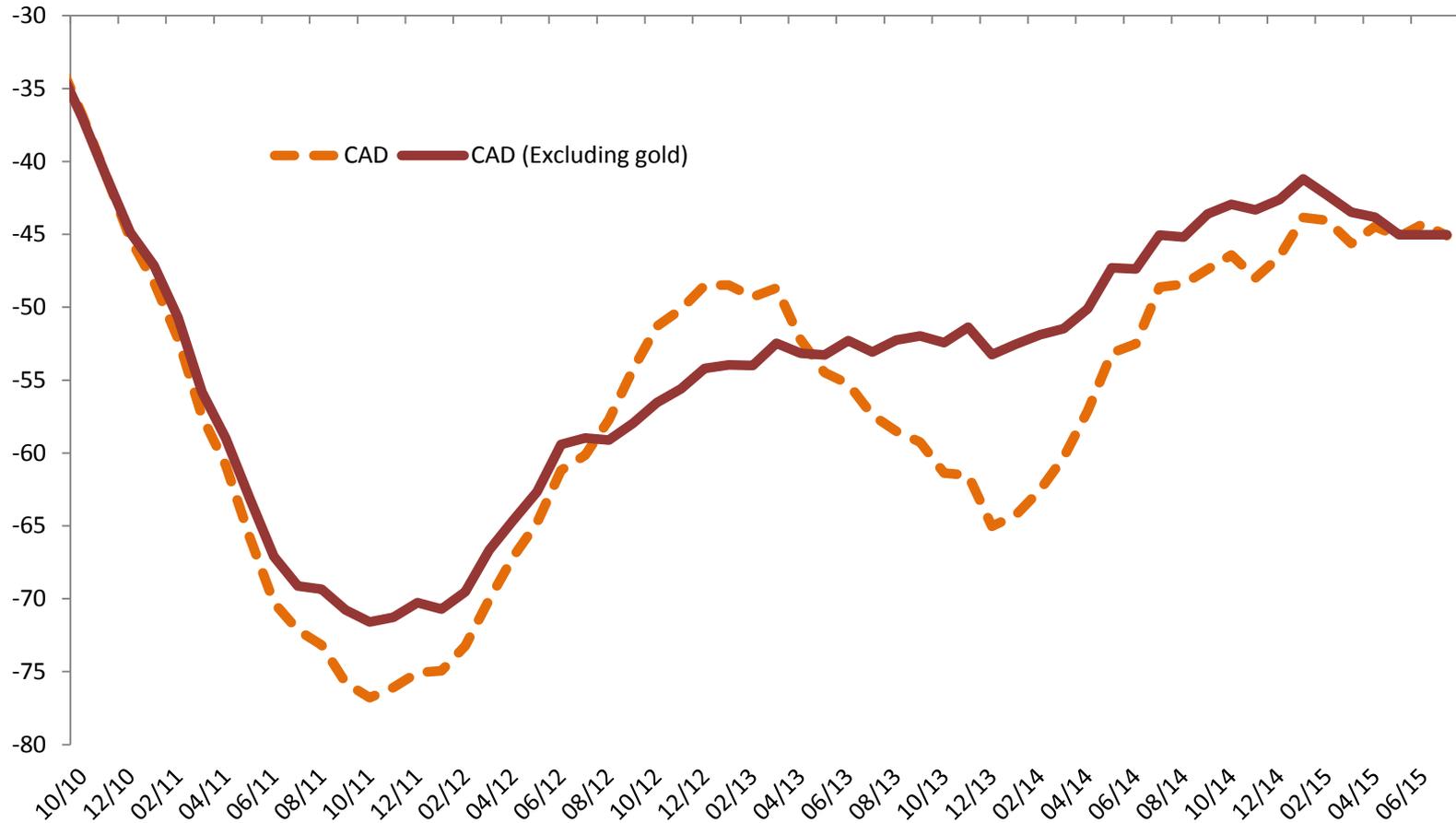
Reforms to improve:

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

Resulting Prospects

The improvement in the current account deficit will resume with the August figure and is expected to continue throughout 2015.

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

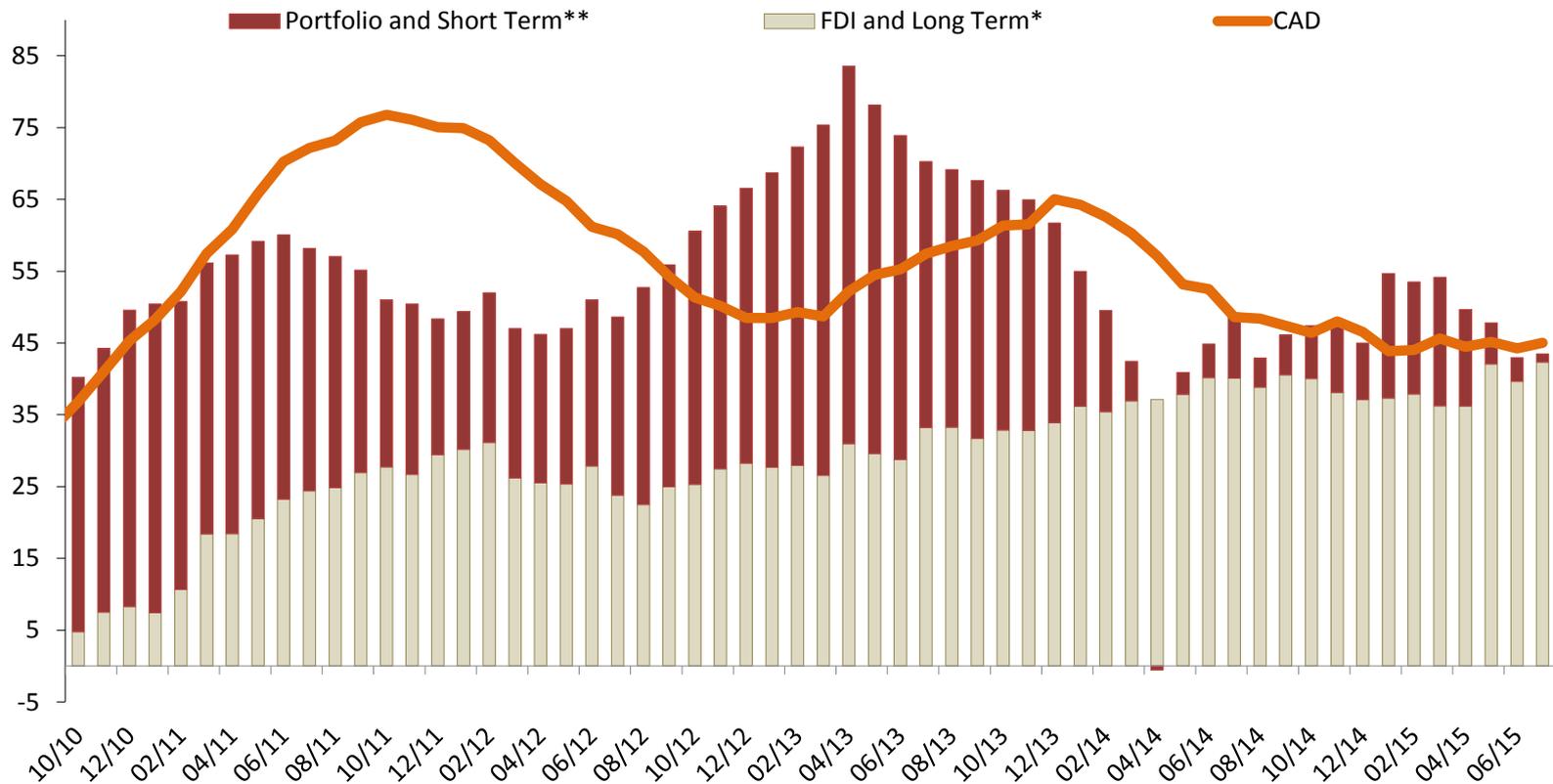


Source: CBRT.

Last Observation: July 2015.

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

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



Source: CBRT.

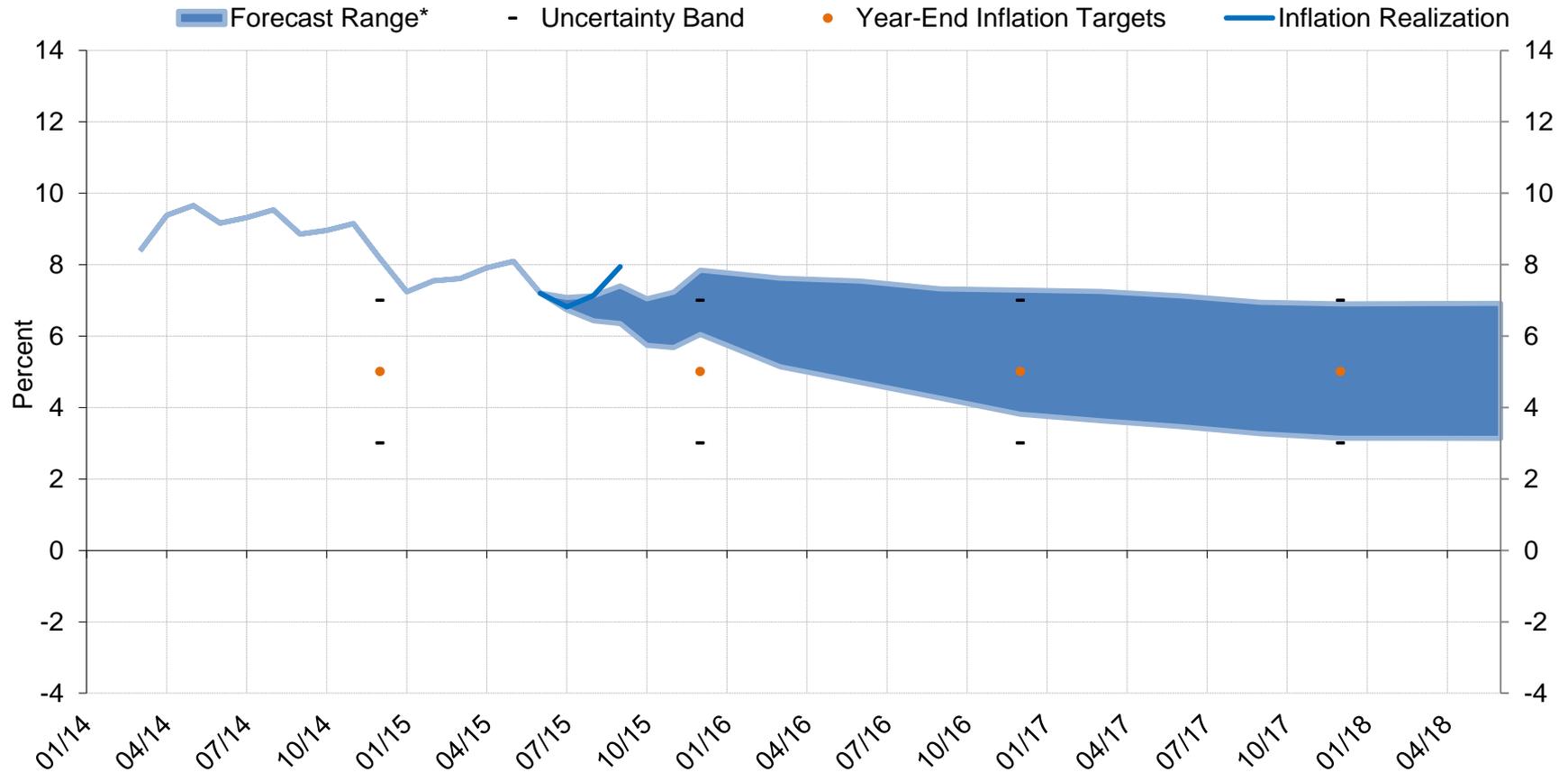
*Long term inflows are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

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

Last Observation: July 2015.

The CBRT maintains a tight policy stance to address inflationary risks from the exchange rate pass-through and higher inflation expectations.

CPI Forecasts and Realizations (Percent)



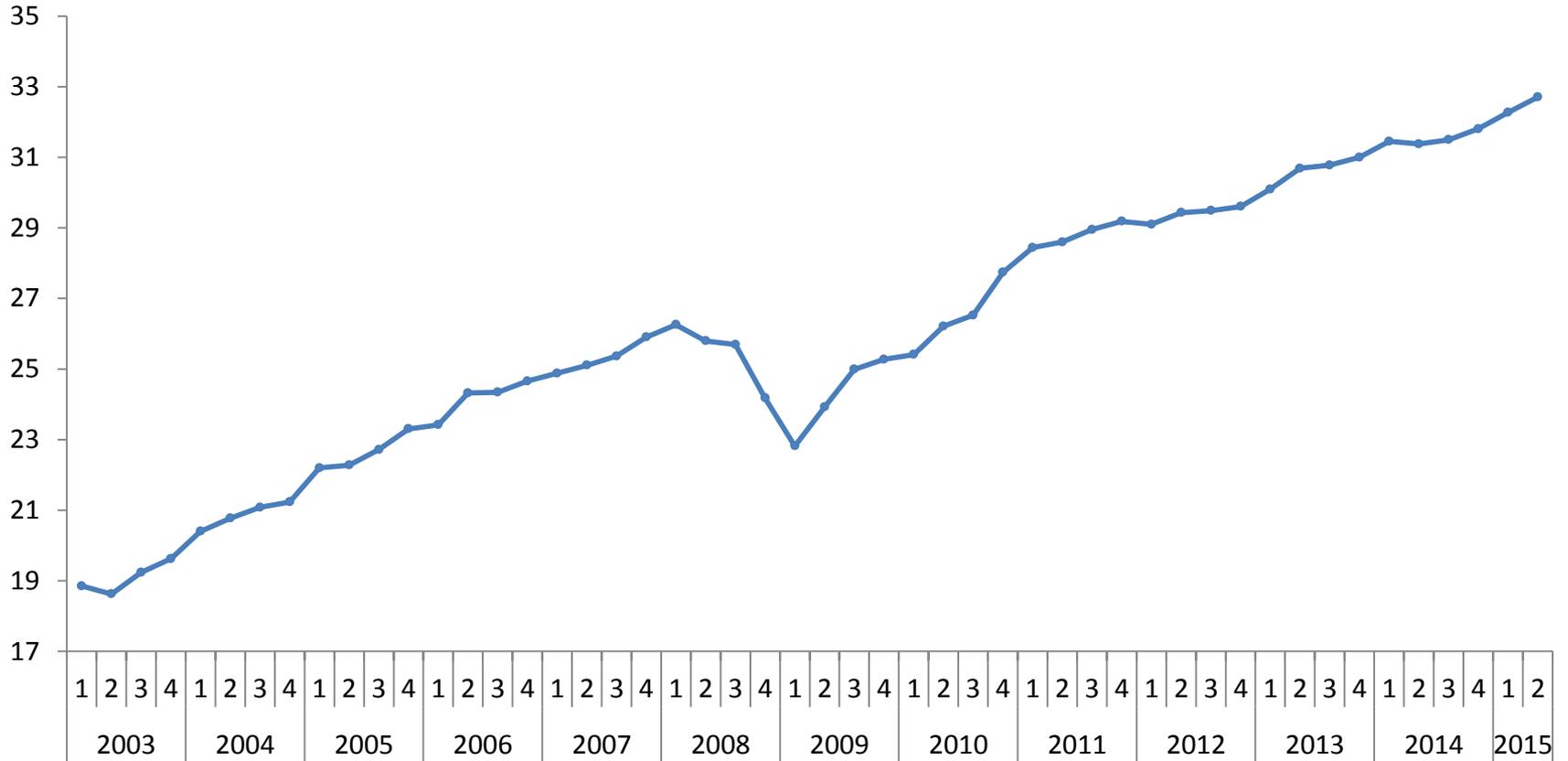
Source: TURKSTAT.

* Shaded region indicates the 70 percent confidence interval for the forecast
Last Observation: September 2015.

The Turkish economy is expected to follow its balanced growth path in upcoming periods.

GDP

(Seasonally Adjusted, Constant Prices, Billion TL)



Source: TURKSTAT.

Last Observation: 2015 Q2.

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