



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

# **Inflation Outlook and Monetary Policy**

**Turalay Kenc  
Deputy Governor**

**September 26, 2013**

**Fitch Ratings Turkey Credit Outlook Conference  
İstanbul**

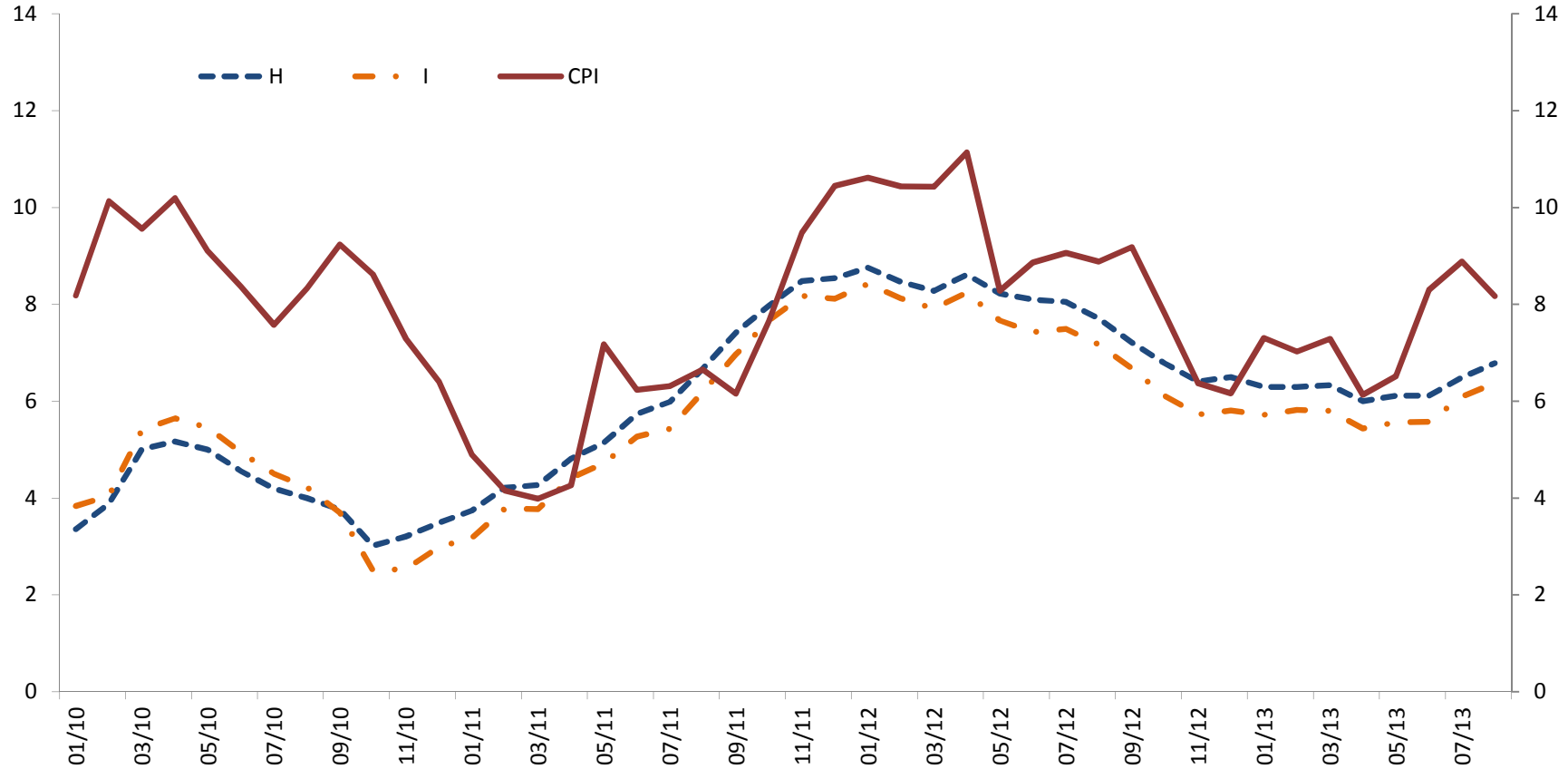
# Main Points

- ✓ **Price stability: priority**
  - Monetary policy stance is tight
- ✓ **Financial stability: maintained**
  - Policy framework in place contains risks
- ✓ **External balances and associated safety nets:  
manageable and sufficient, respectively**

# INFLATION OUTLOOK

# Inflation peaked in July due to food price inflation...

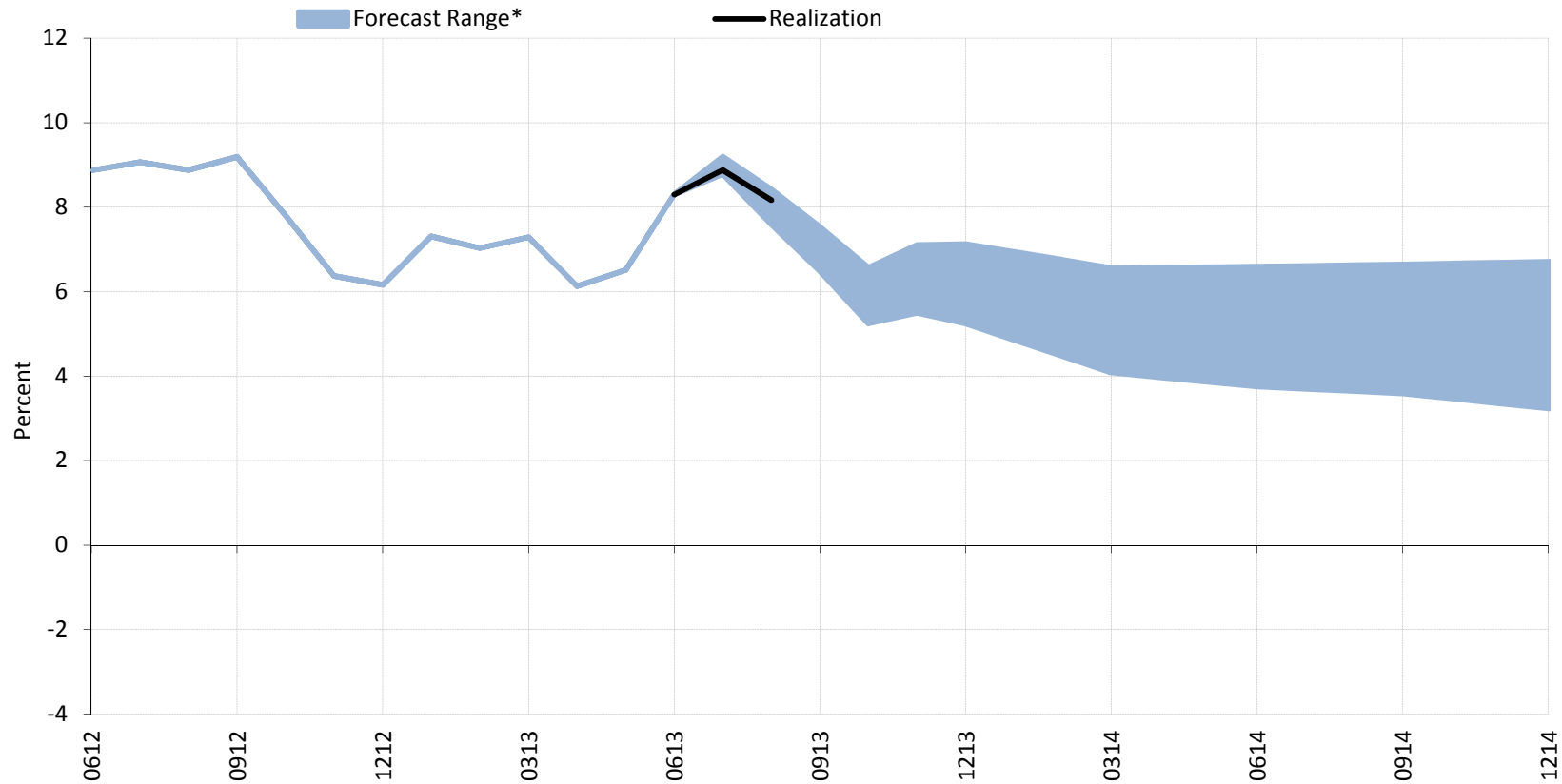
CPI and Core Indices  
(Annual % Change)



Source: TURKSTAT.

Last Observation: August 2013.

...but it declined in August and will continue so.

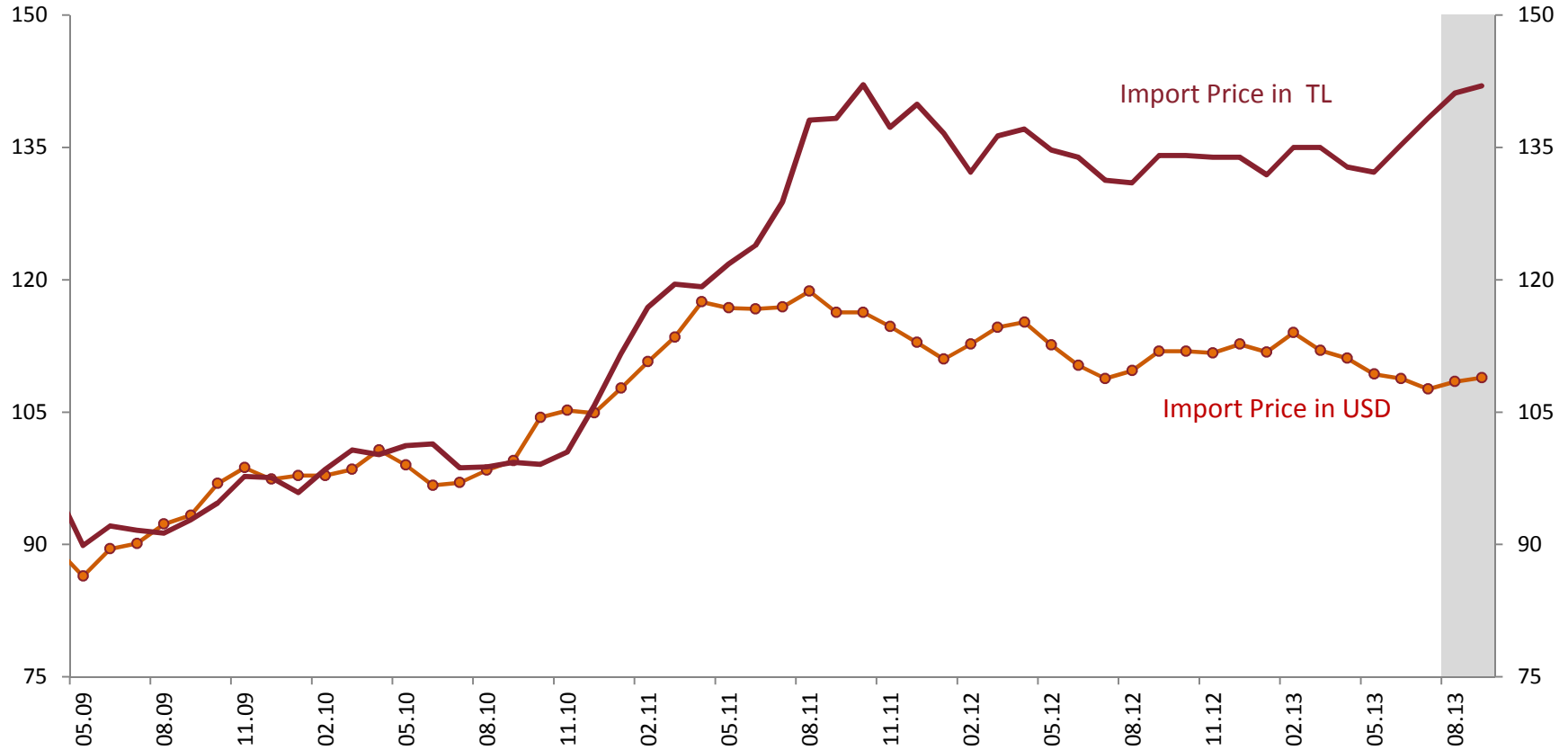


\* Shaded region indicates the 70 percent confidence interval for the forecast

Last Observation: August 2013.

The ERPT of the recent TL depreciation is contained by the benign course of import prices and below-potential economic activity.

### Import Price Indices (2010=100)

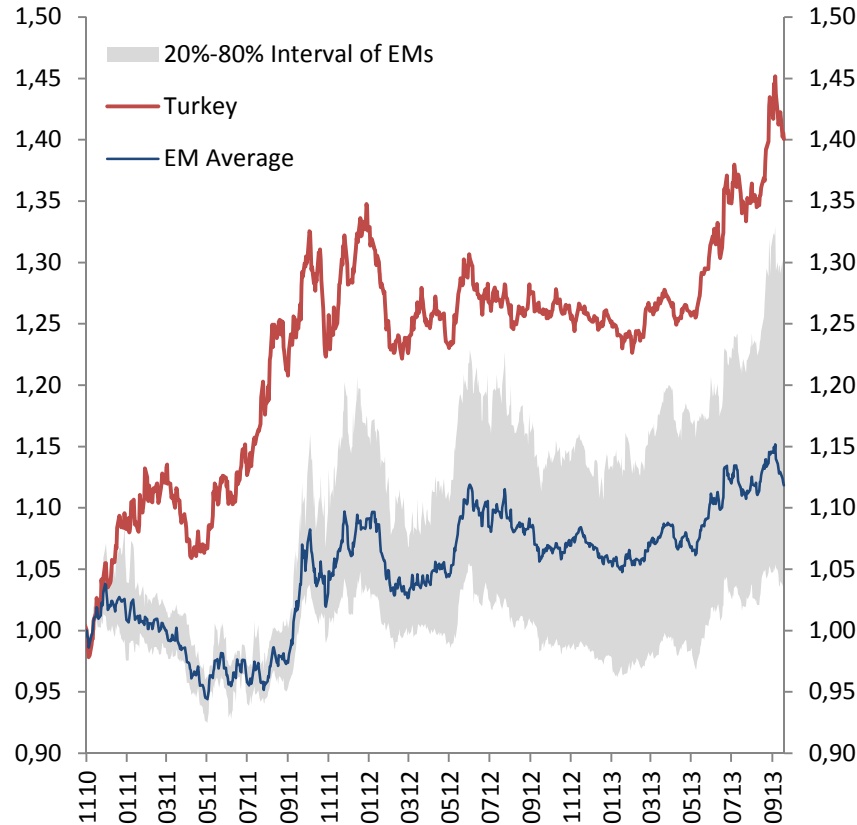


Source: TURKSTAT.

Last Observation: July 2013.

# The levels of nominal and real exchange rates will likely revert.

**TL and Other Emerging Market Currencies vs USD**  
(01.11.2010=1)

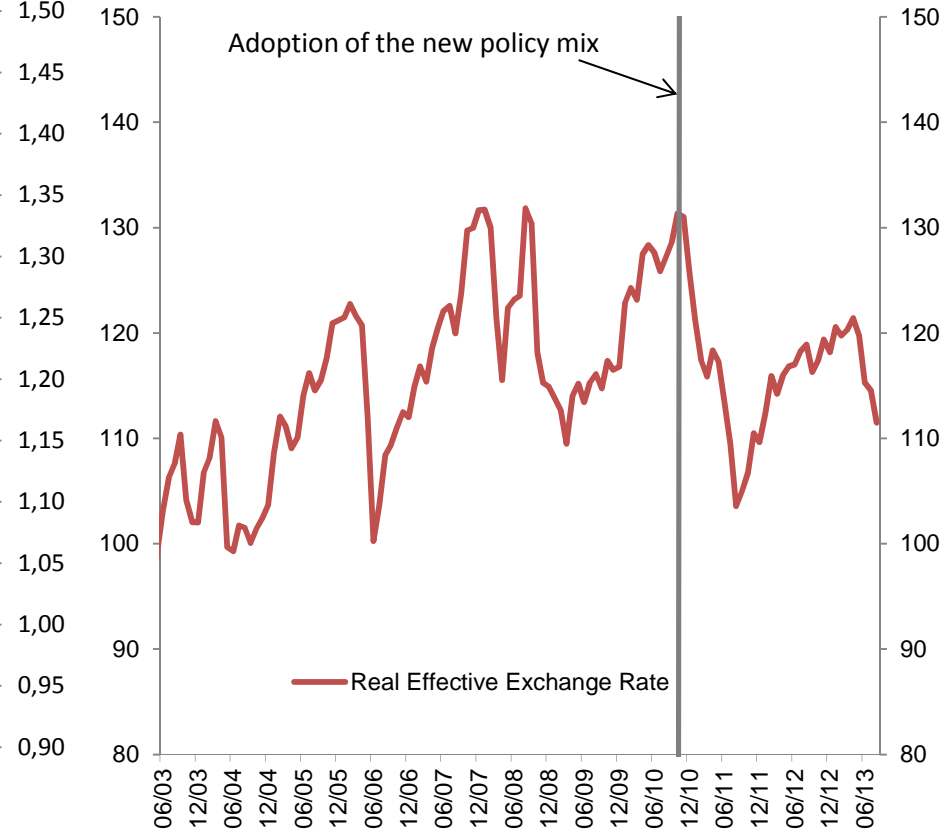


Last Observation: September 18, 2013.

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

Source: Bloomberg.

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

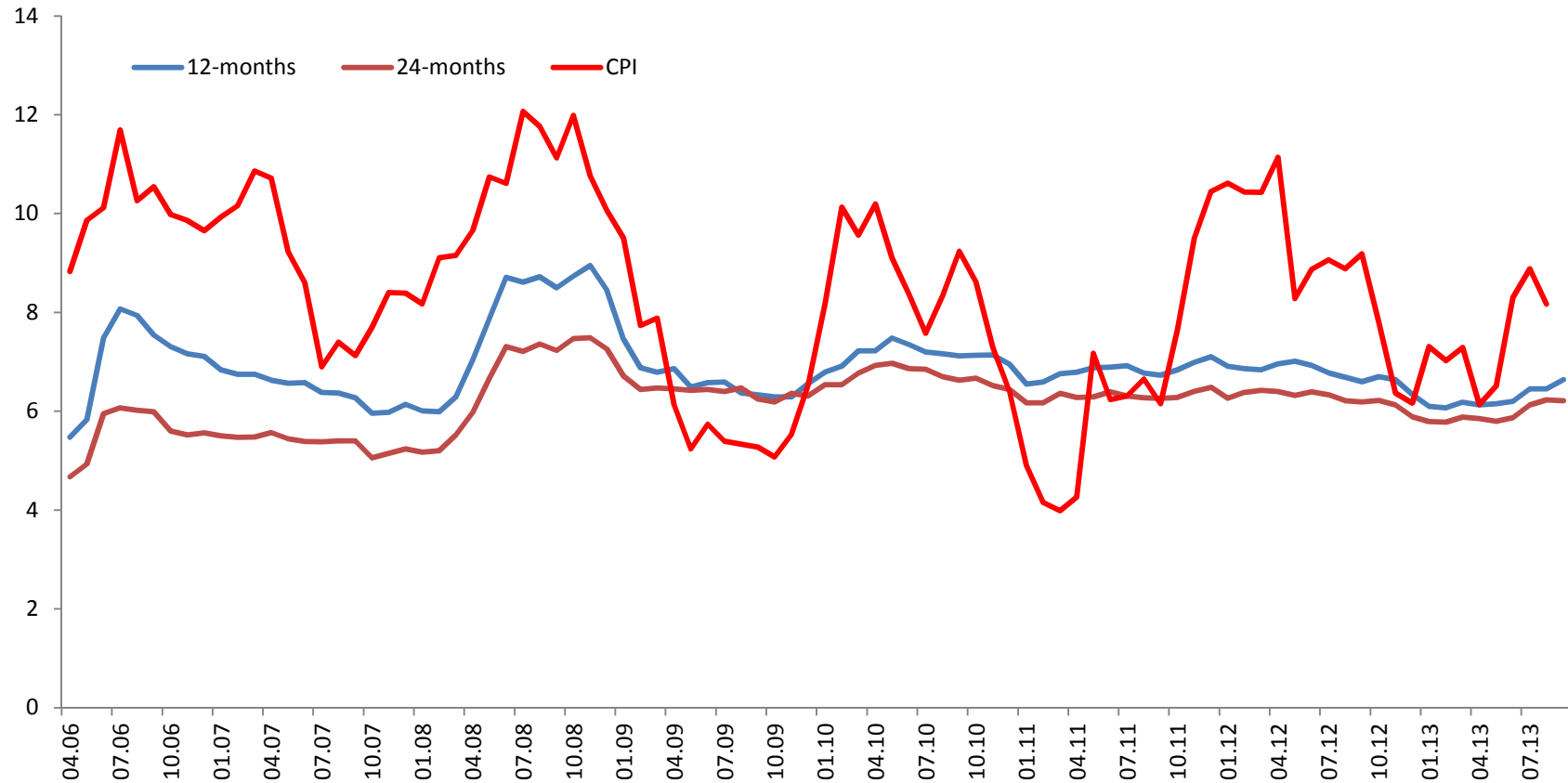


Source: CBRT.

Last Observation: August 2013.  
 An increase in index indicates an appreciation of the Turkish lira.

# Inflation expectations have shown only a mild deterioration.

## Medium term inflation indicators (%)



Source: CBRT.

Last Observation: September 2013.



# MONETARY POLICY

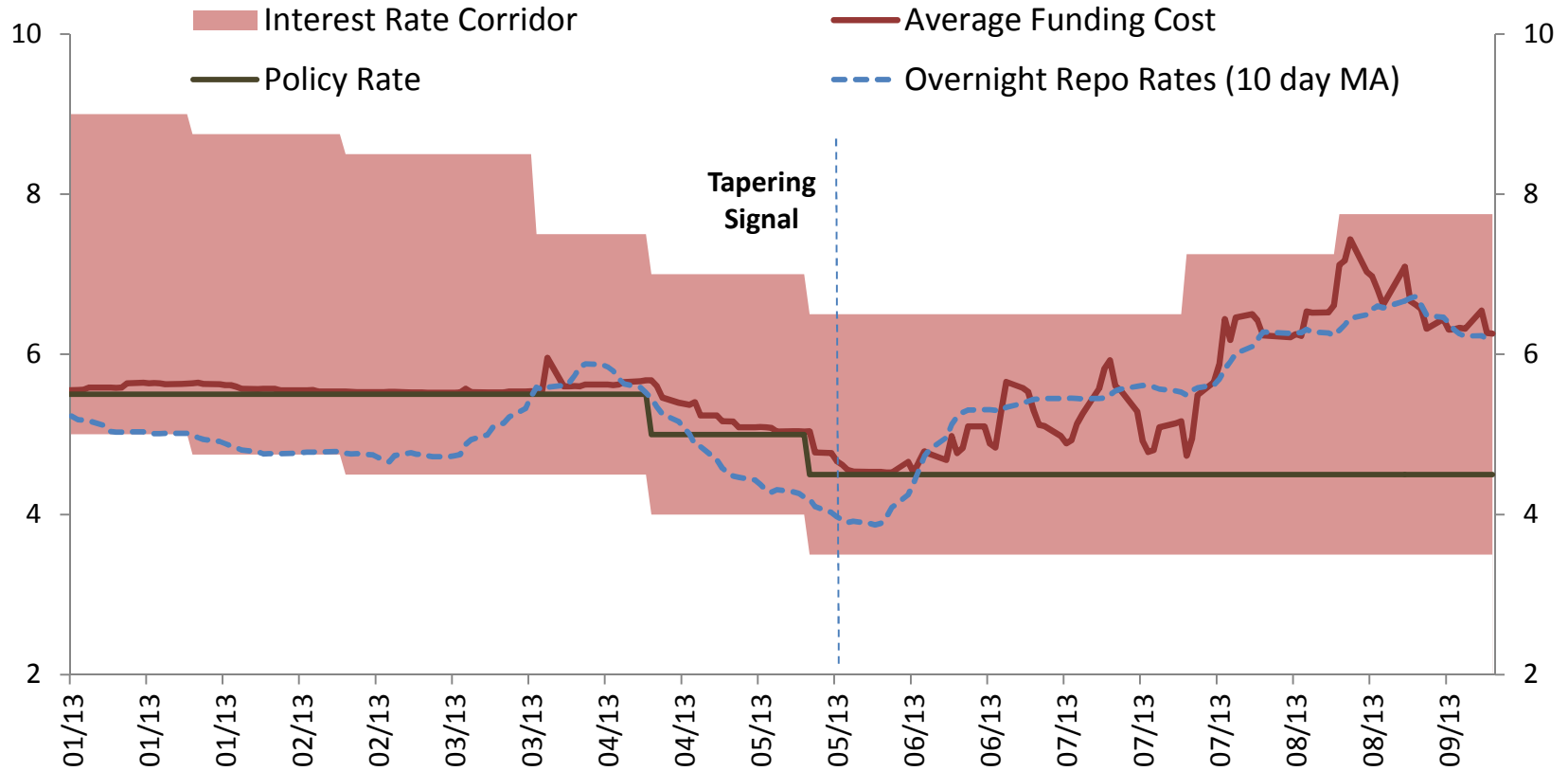
# Monetary policy stance has tightened

## ✓ Monetary policy framework

- Forward guidance on short rates
  - Rates range will be 6.75% and 7.75%
- Active liquidity management
  - Additional monetary tightening days
- Balance sheet composition
  - FX liquidity provision via FX sales

# Interest rate corridor widened and average funding rates increased...

## Interest Rate Corridor and Average Funding Rate (%)

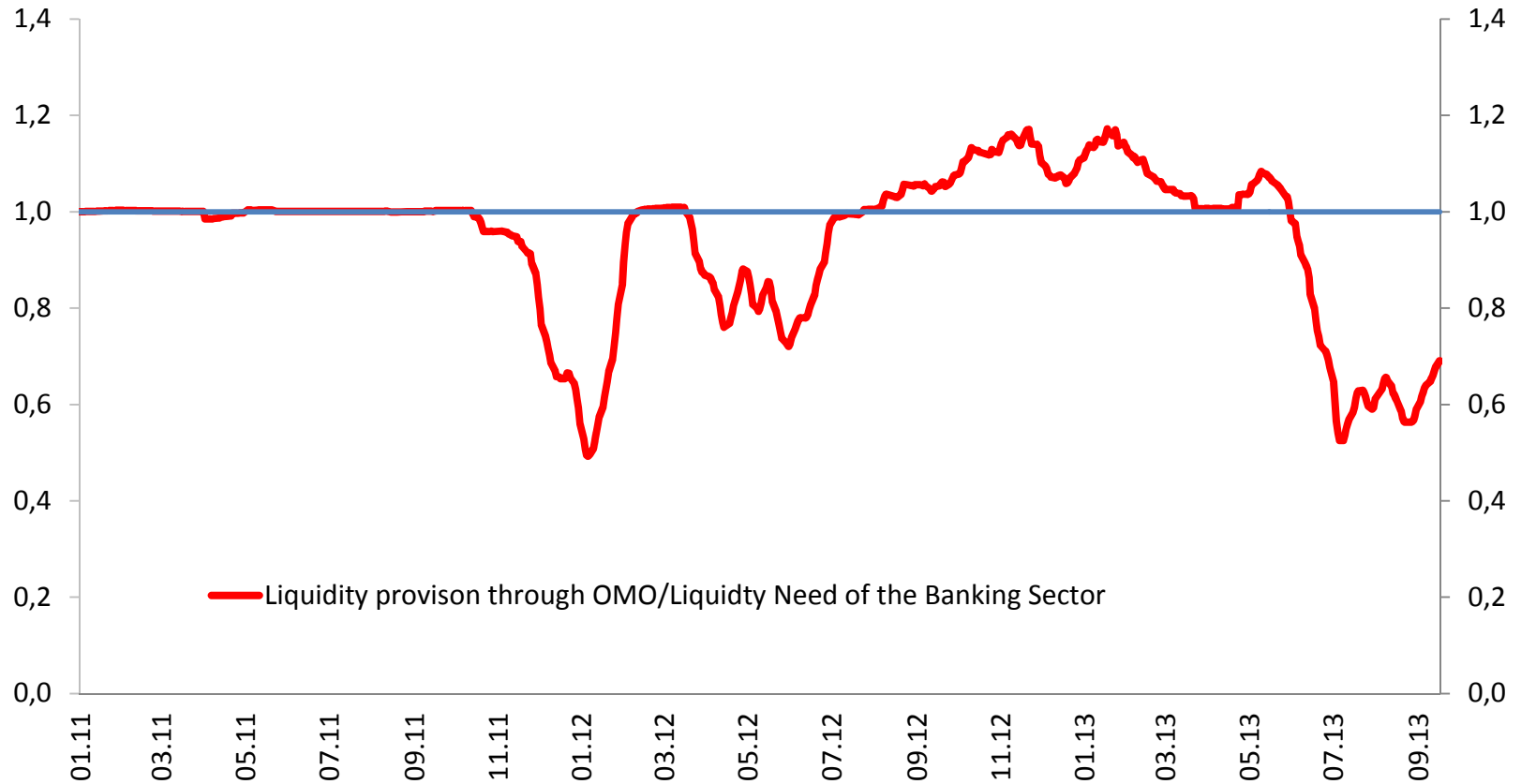


Source: ISE, CBRT.

Latest Observations: September 18, 2013

...by tightening liquidity policy stance further.

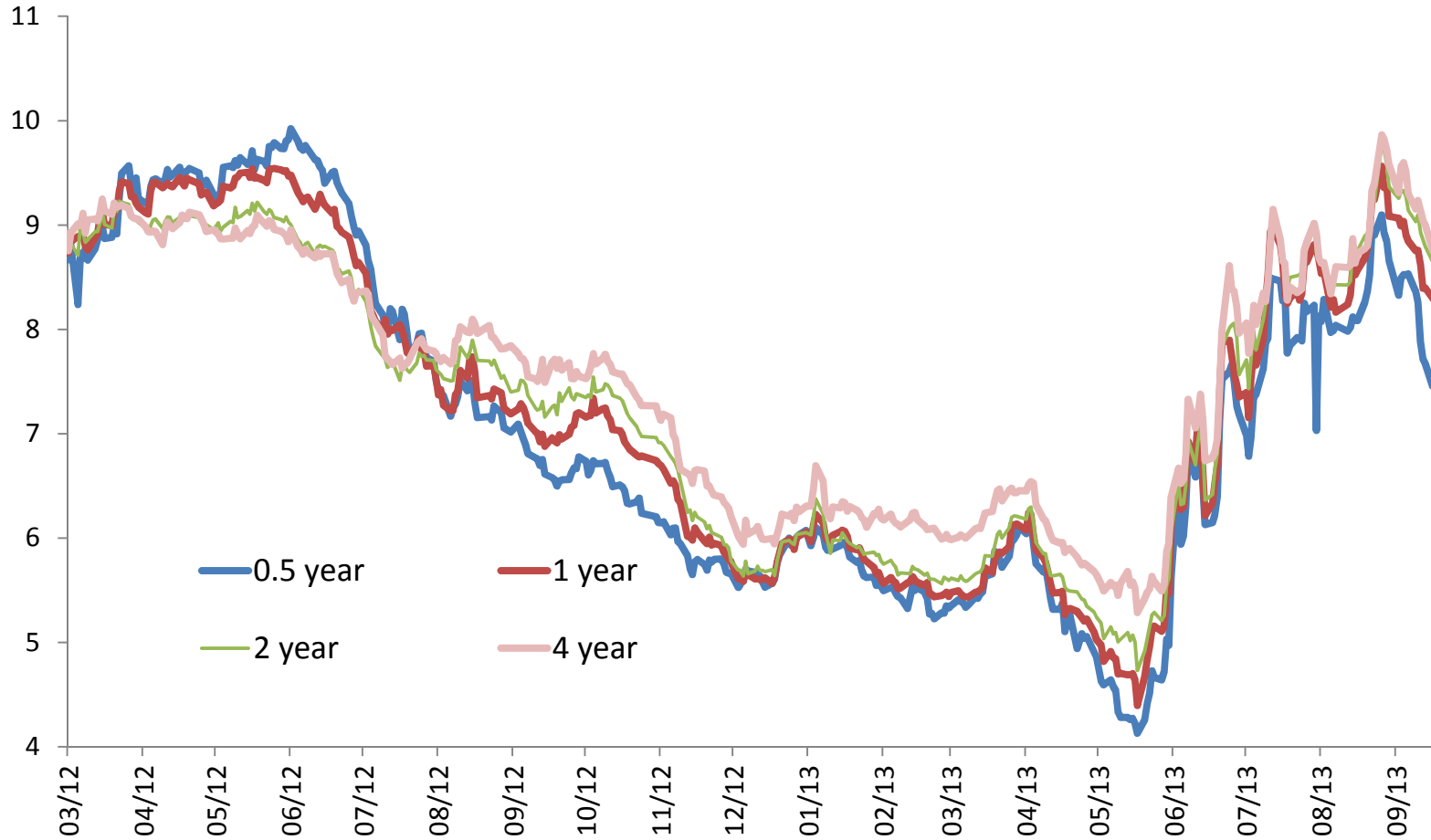
### Liquidity Stance of the CBRT



Source CBRT.

Last Observation: September 23, 2013.

## Tightened policy stance has moved the yield curve up.

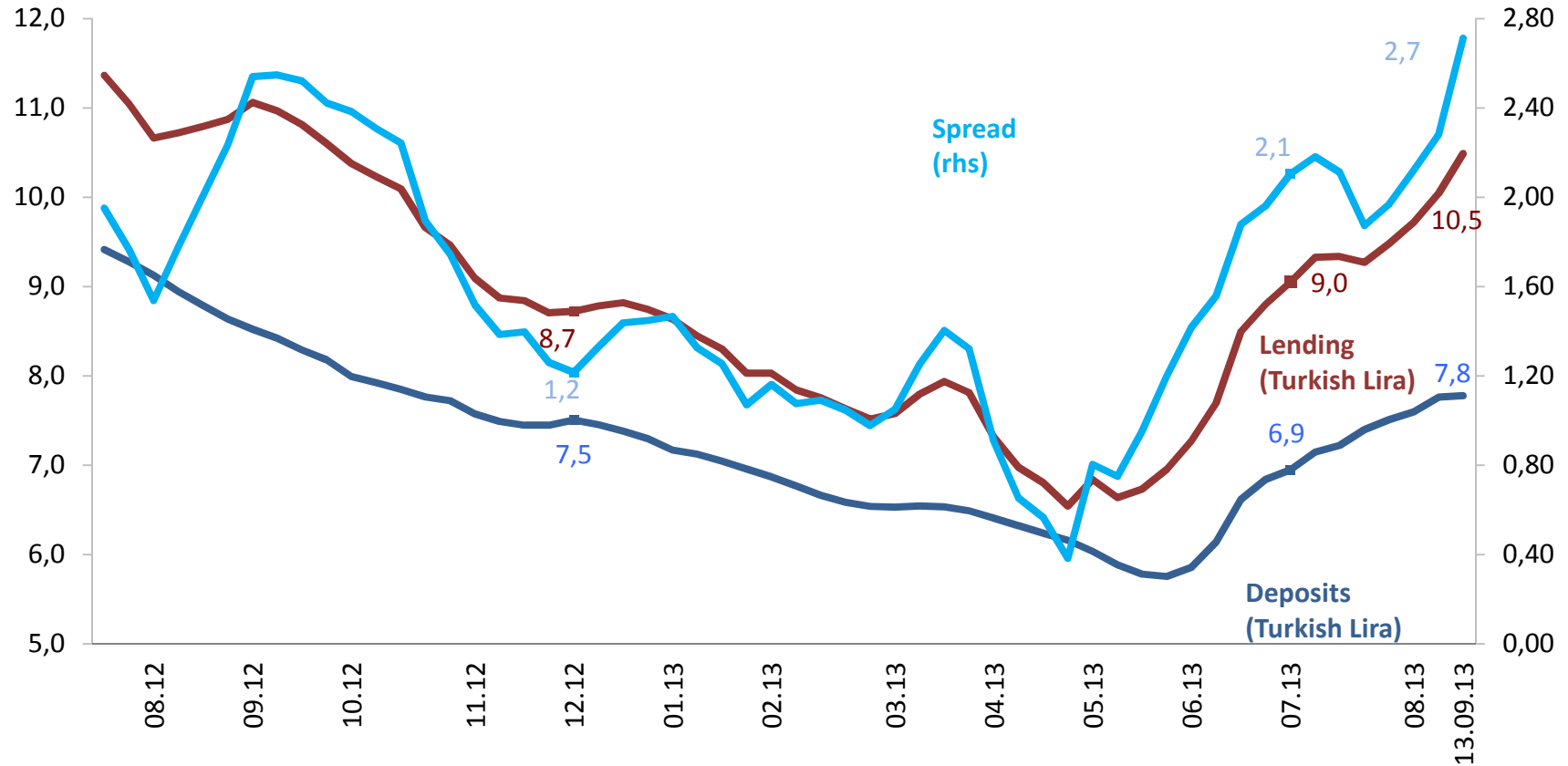


Source: BIST, CBRT.

Last Observation: September 18, 2013.

# Lending - deposit rate spread has in turn widened.

## Lending – deposit rate spread (pps)



Source: CBRT.

Last Observation: September 13, 2013.

4 Weeks MA

**Rates for consumer loans - main loan growth driver - have also increased significantly.**

### Consumer Loan Rates (%)



Source: CBRT.

Last Observation: September 6, 2013.

## BRSA will too introduce policy tightening through macroprudential measures.

### Measures to Curb Retail Loan Growth

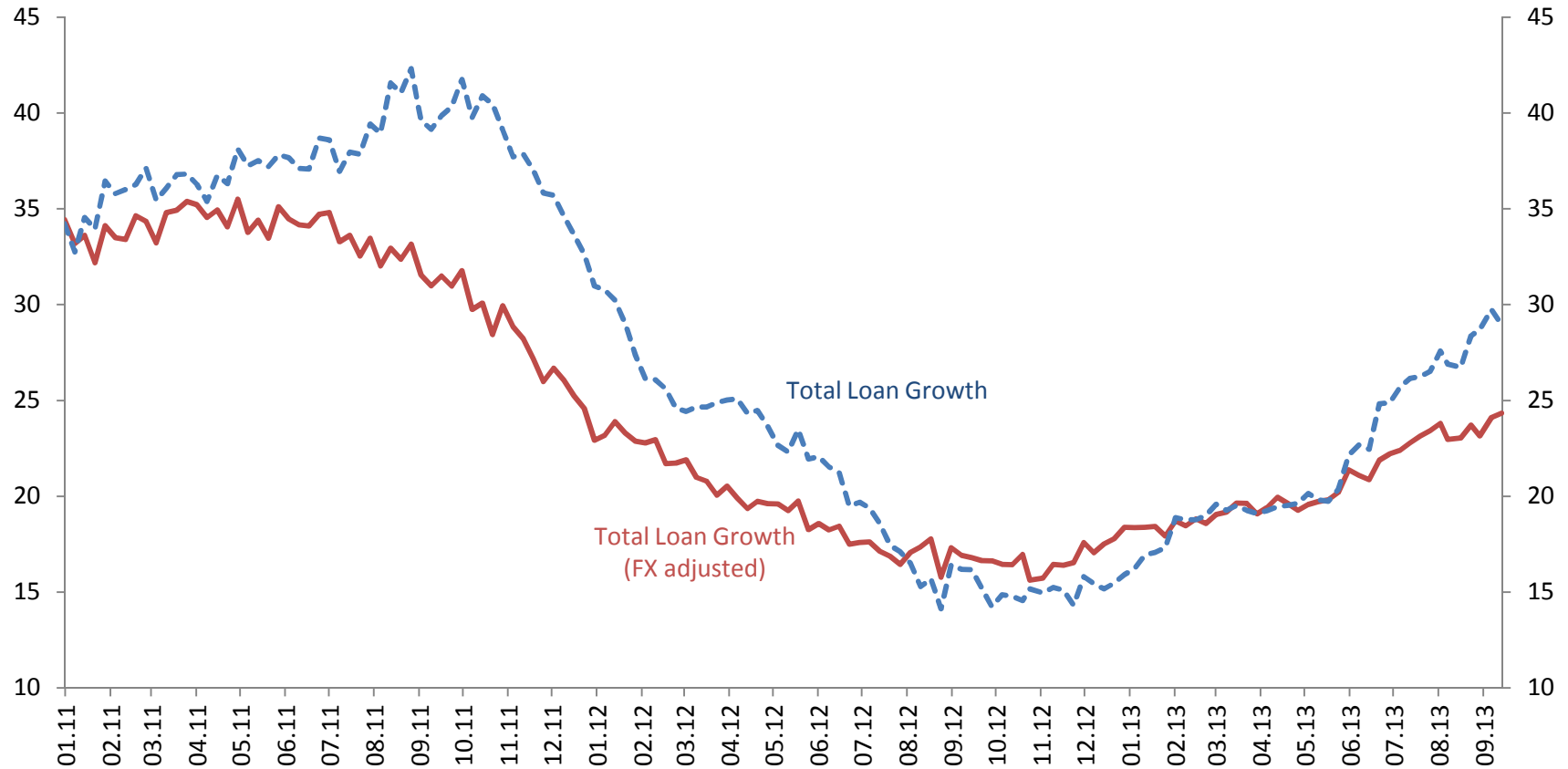
- Broaden the definition of consumer loans by including personal credit cards and overdraft accounts.
- Four times higher general provisioning for personal credit cards and overdraft accounts.
- Increase the capital requirements for installment credit cards, the fastest growing portion of the credit card balances.

Remaining Maturity	Current Risk Weight (%)	Proposed Risk Weight (%)
1-6 Months	75	100
6-12 Months	150	200
12 + Months	200	250



# Loan growth rate is currently high...

**Total loan growth rate**  
(Year on Year Change, %)



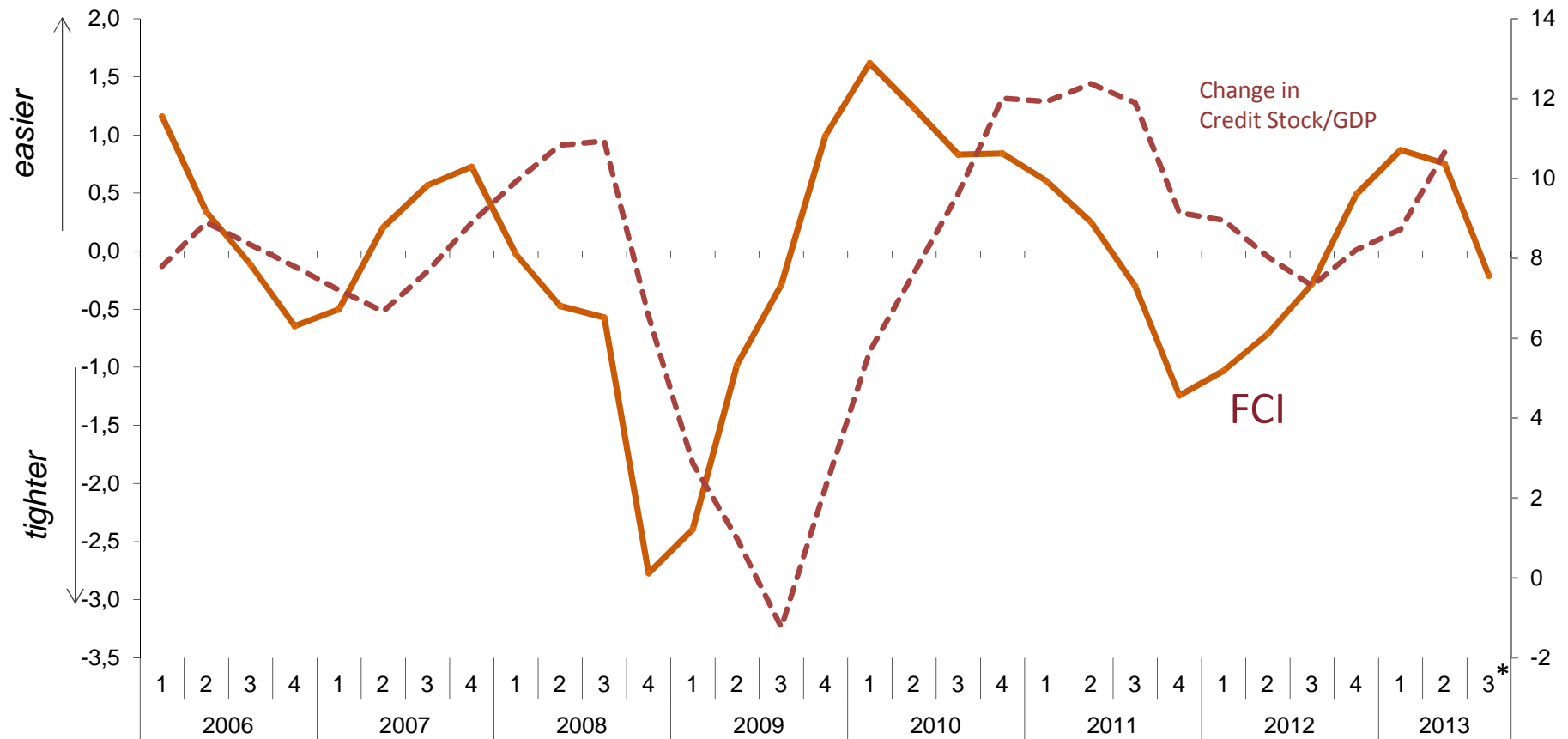
Last Observation: September 13, 2013.

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

Source: CBRT.

...but tightening these policy stances together with worsening global financial conditions will likely slow down loan growth.

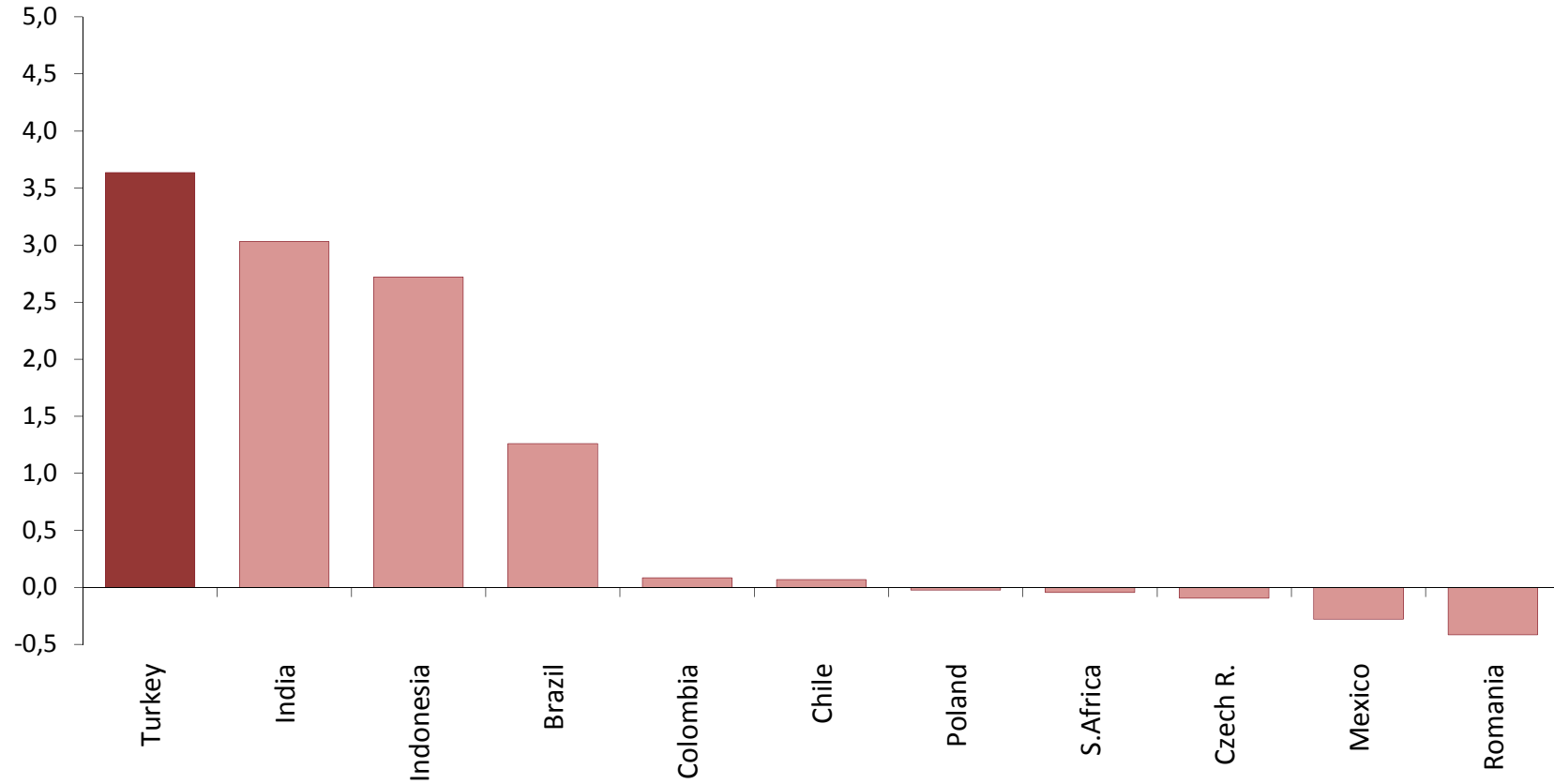
Financial Condition Index and Credit Stock (rhs) (%)



Source: CBRT.

## Highest rises in short rates among peers.

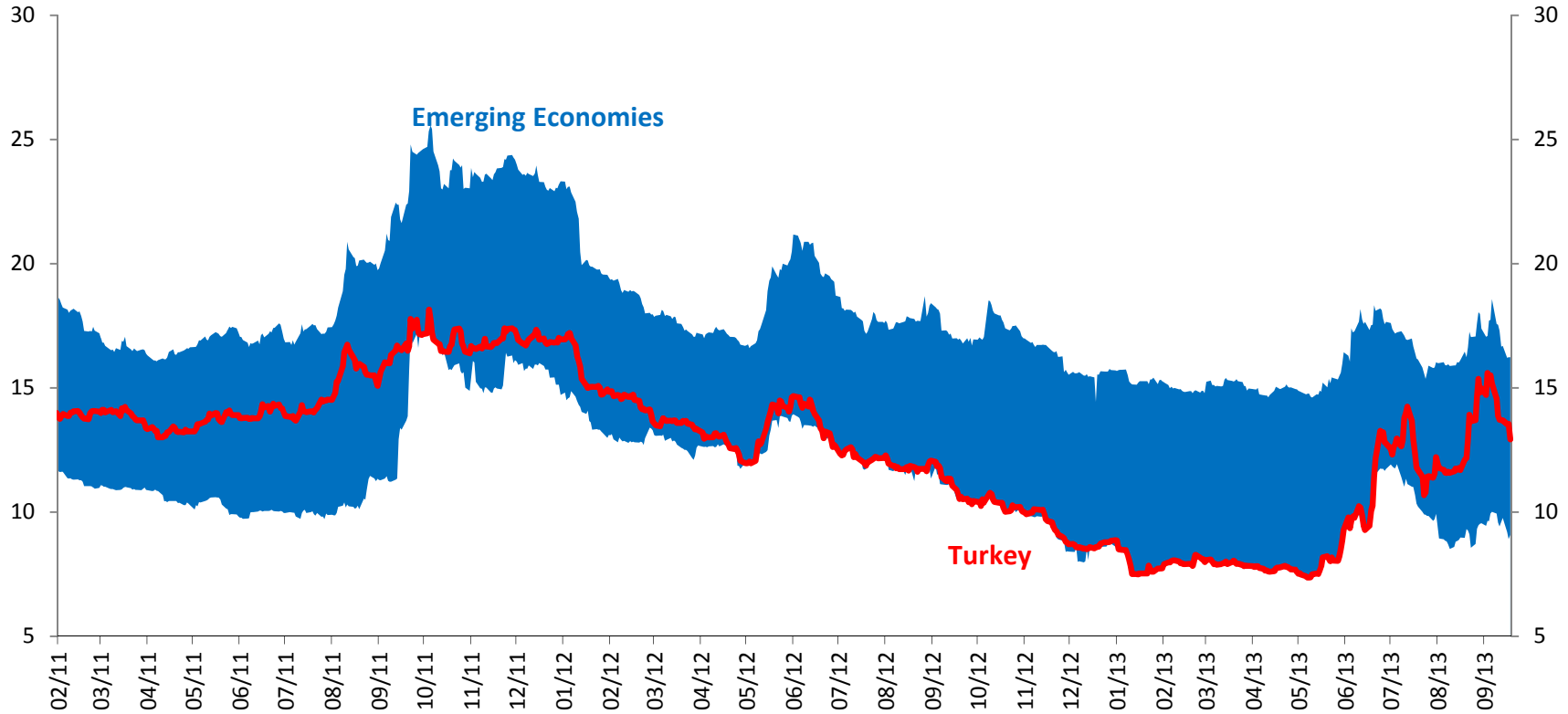
Change in 3-Month Market Rates  
(From May 22 to September 18, 2013 )



Source: Bloomberg.

# FX volatility is still comparable with peers.

**Volatility in Emerging Market Currencies (\*)**  
(%, Implied for the next 12 months)



Source: Bloomberg, CBRT.

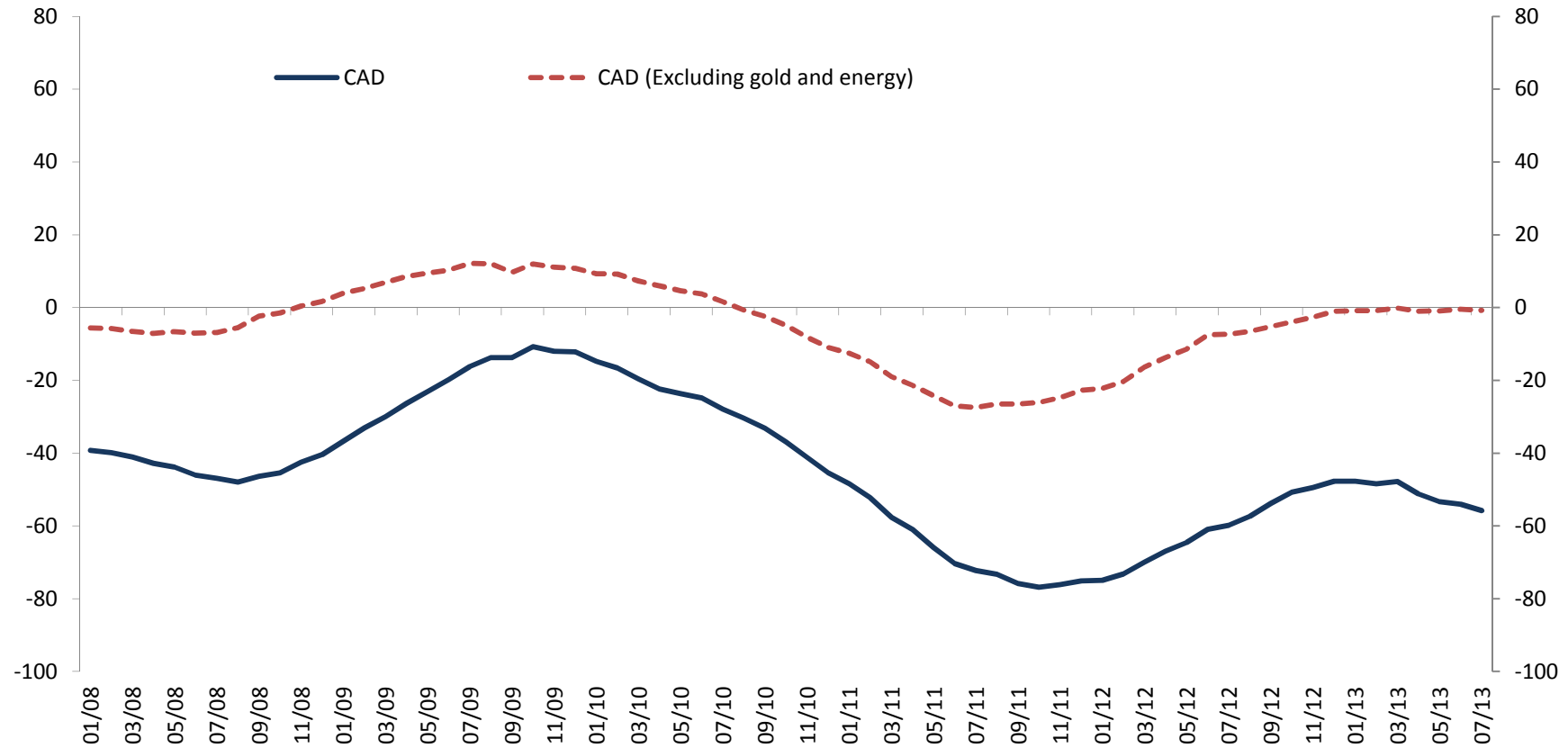
(\*) Emerging markets facing current account deficit: Brazil, Chile, Colombia, Mexico, Poland, Czech Republic, South Africa, Indonesia, Romania and Turkey.

Last Observation: September 18, 2013

# EXTERNAL BALANCES

# Deterioration in CAB is moderate.

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

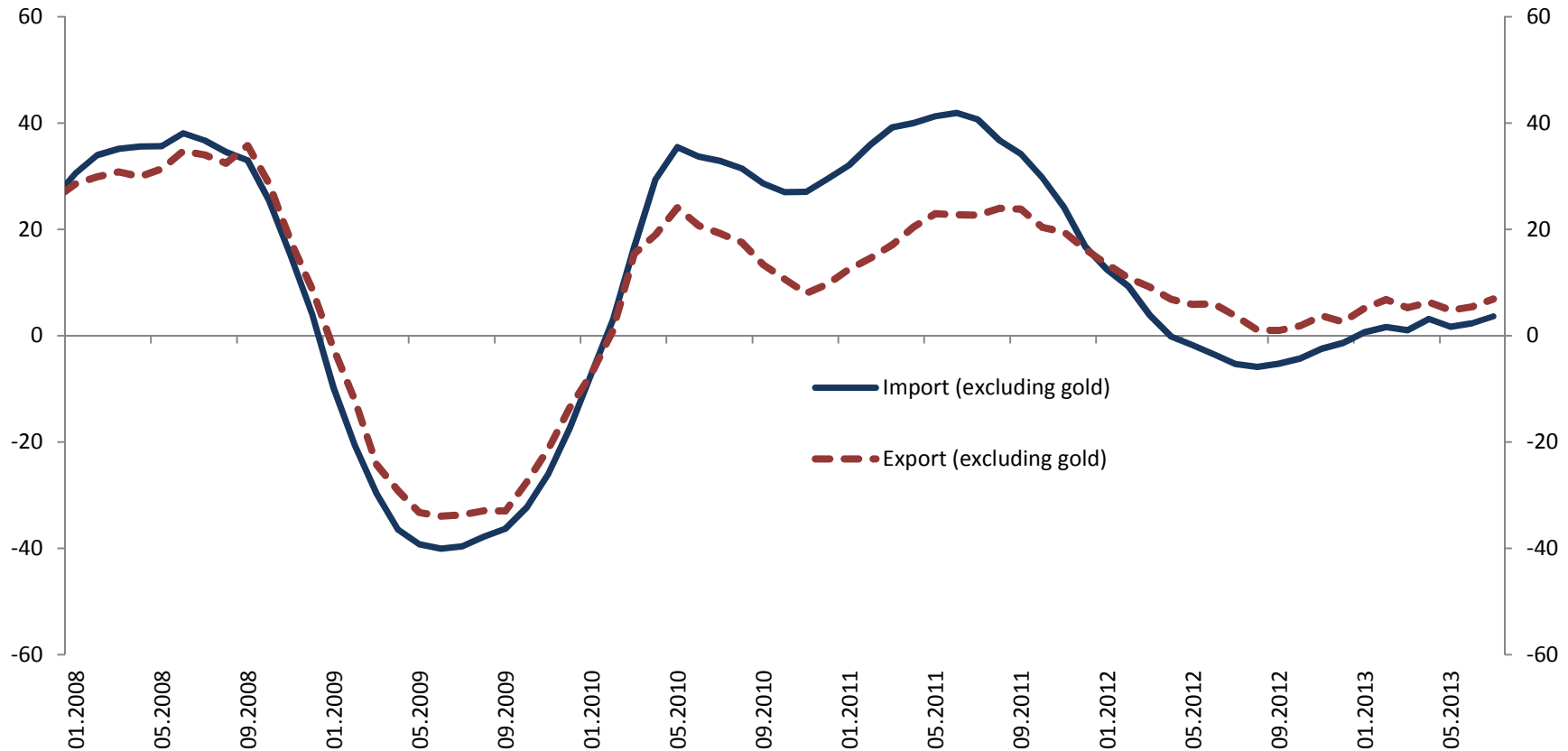


Source: CBRT.

Last Observation: July 2013.

# In fact, rebalancing excluding gold still continues.

**Exports and Imports**  
(Nominal y-o-y % change, 6-month MA)

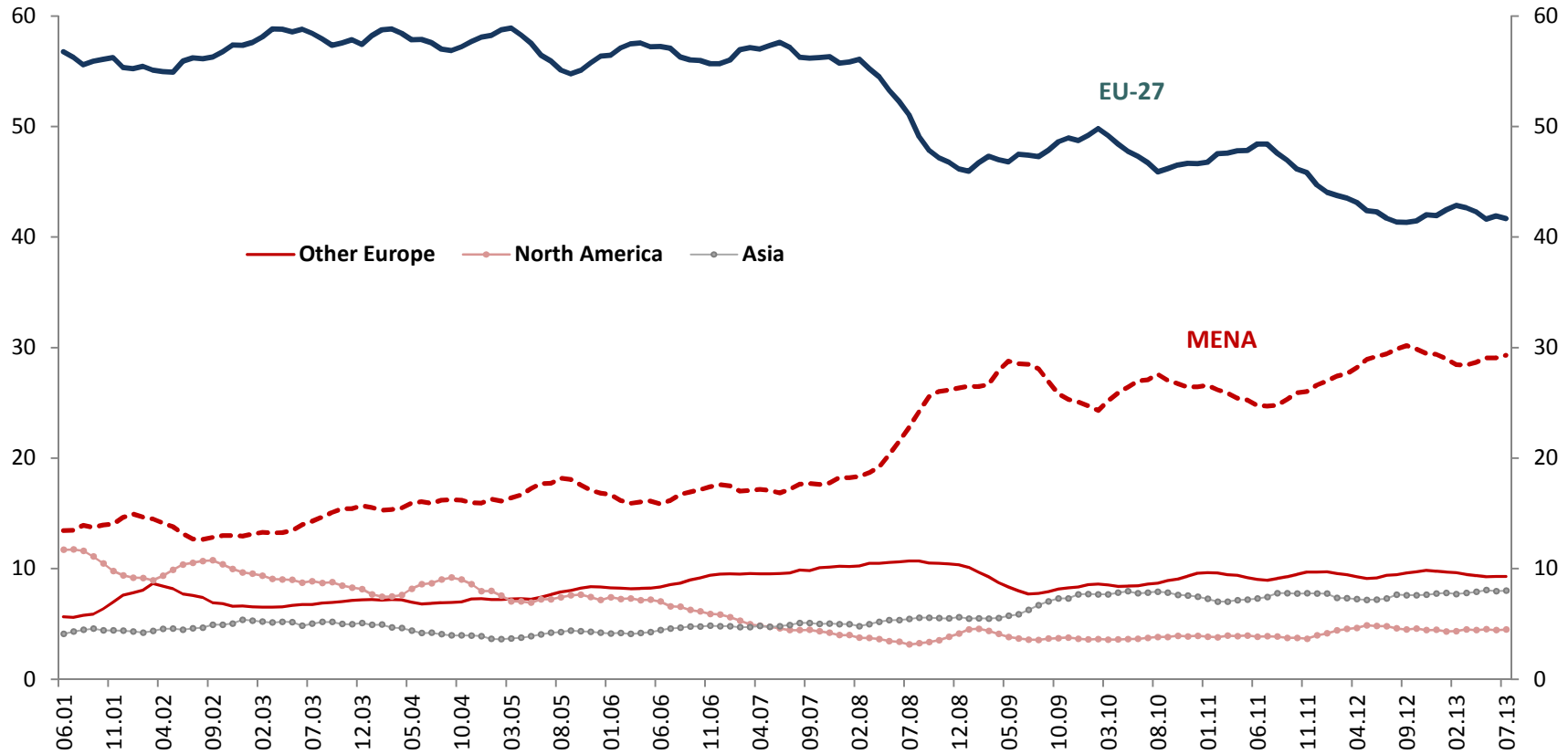


Source: TURKSTAT.

Last Observation: July 2013.

# Well-diversified export markets.

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



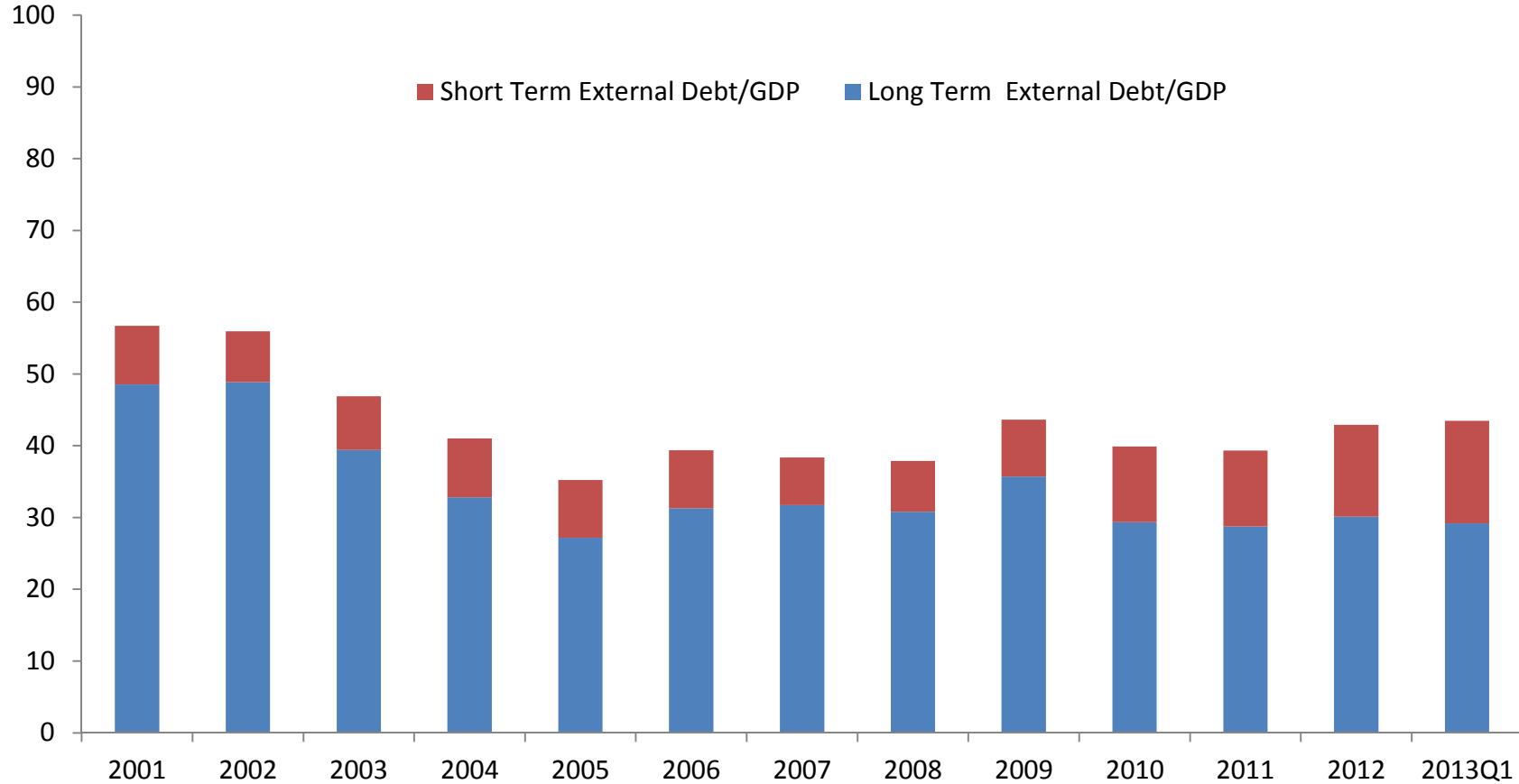
Source: TURKSTAT.

Last Observation: July 2013



# External debt to GDP ratio is not that high.

## External Debt/GDP (%)

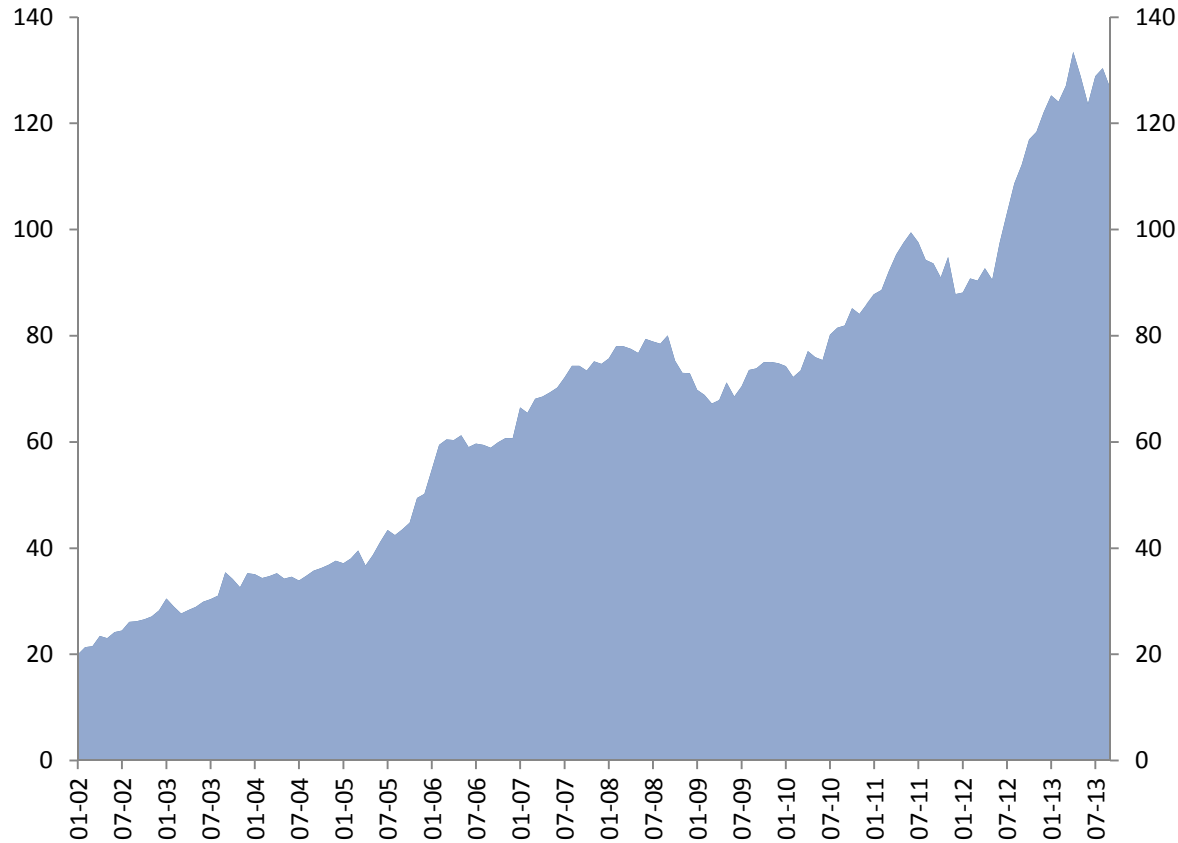


Source: Treasury.

Last Observation: 2013 Q1.

# Significant reserves accumulation recently.

**Central Bank Reserves (\*)**  
(FX and gold, USD billion)



Source: CBRT.

Last observation: September 13, 2013

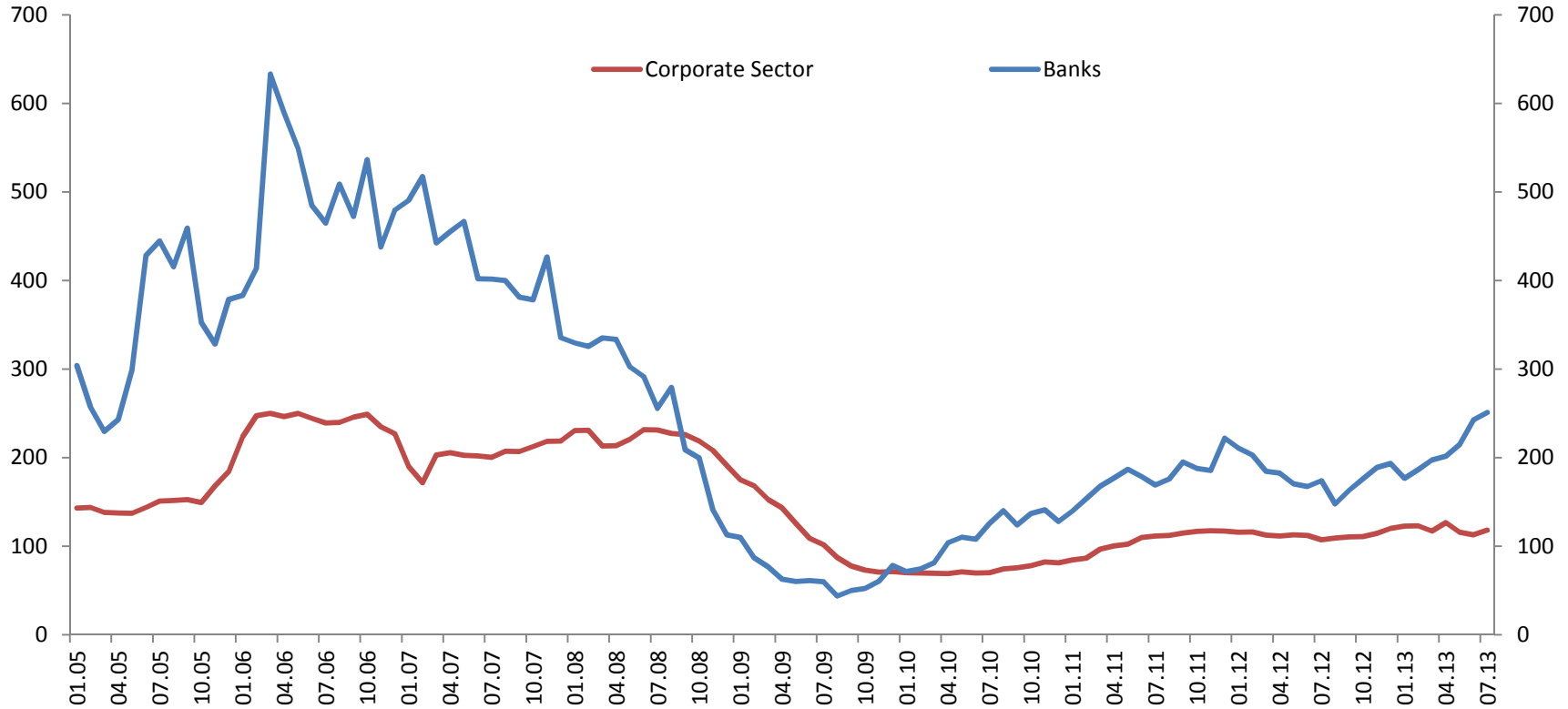
Last Observation: September 02, 2013.

FX Sales (Billion \$)	
June 2013	1.70
July 2013	5.15
August 2013	1.95

Amount (Billion \$)	
ROM FX	30.2
FX Required Reserves	29.2
<b>Total</b>	<b>59.4</b>

# Private sector do not face external borrowing difficulties.

**Foreign Debt Rollover Ratio**  
(%, annualized, including bonds)

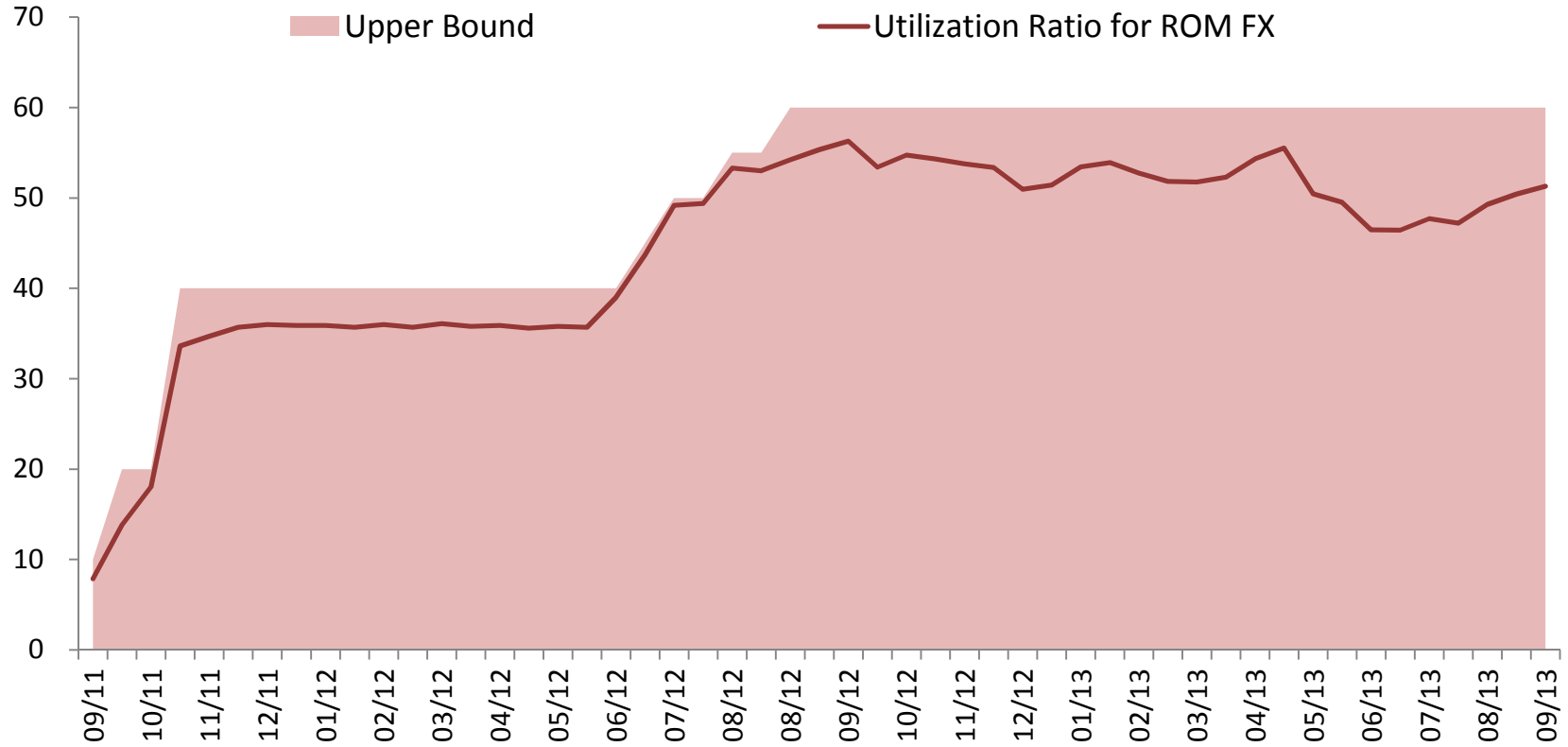


Source: CBRT.

Last observation: July 2013

## Utilization ratio for ROM confirms this external funding ease.

### Utilization Ratio for ROM (%)

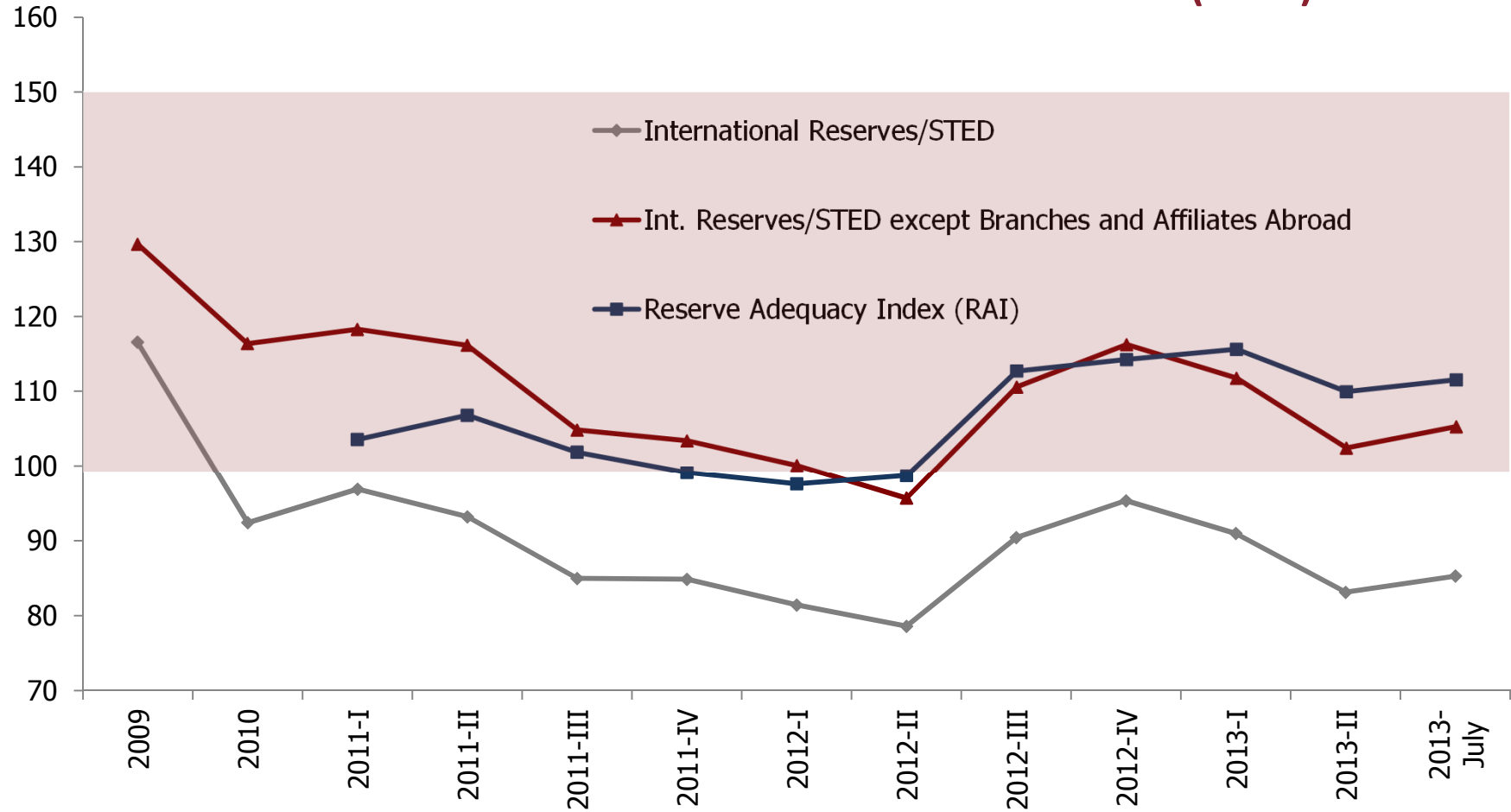


Source: CBRT.

Last Observation: September 2, 2013.

# Reserve adequacy ratios are sufficient.

## Ratio of Reserves to Short-Term External Debt Stock (STED)



Source: TURKSTAT, CBRT.

RAI: IMF Reserve Adequacy Indicator For floating exchange rate regimes: %30 Short-Term Debt, %10 Other Portfolio Liabilities, %5 Broad Money, %5 Exports divided by NIR of the Central Bank plus the Banking Sector. STED: Short Term external debt stock on a remaining maturity basis.

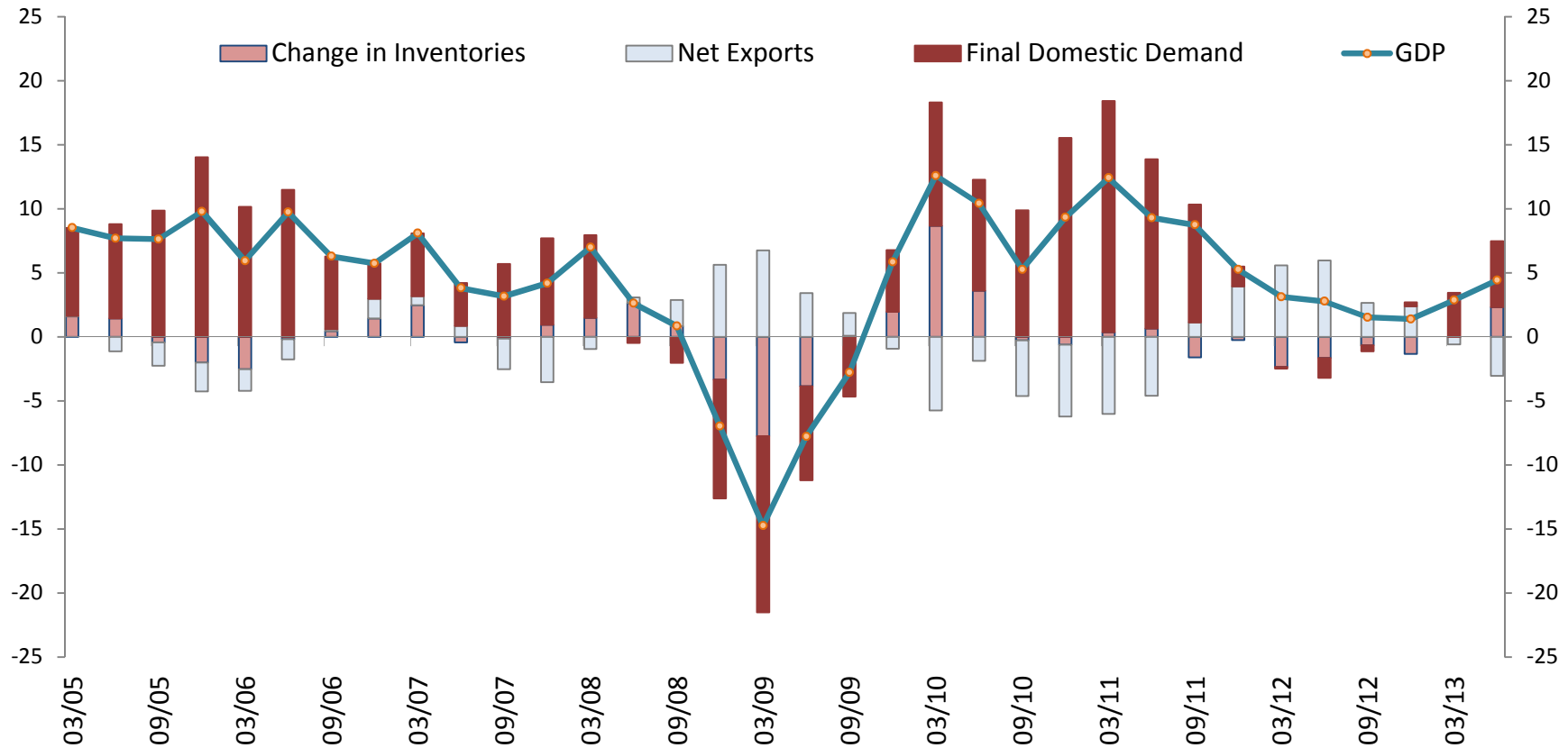
# Recent measures to strengthen external stability.

- ✓ **Export rediscount loans increased**
  - ... will increase net fx reserves
  - ... will boost exports

# GROWTH

# GDP growth has increased due to mainly final domestic demand.

(pps)



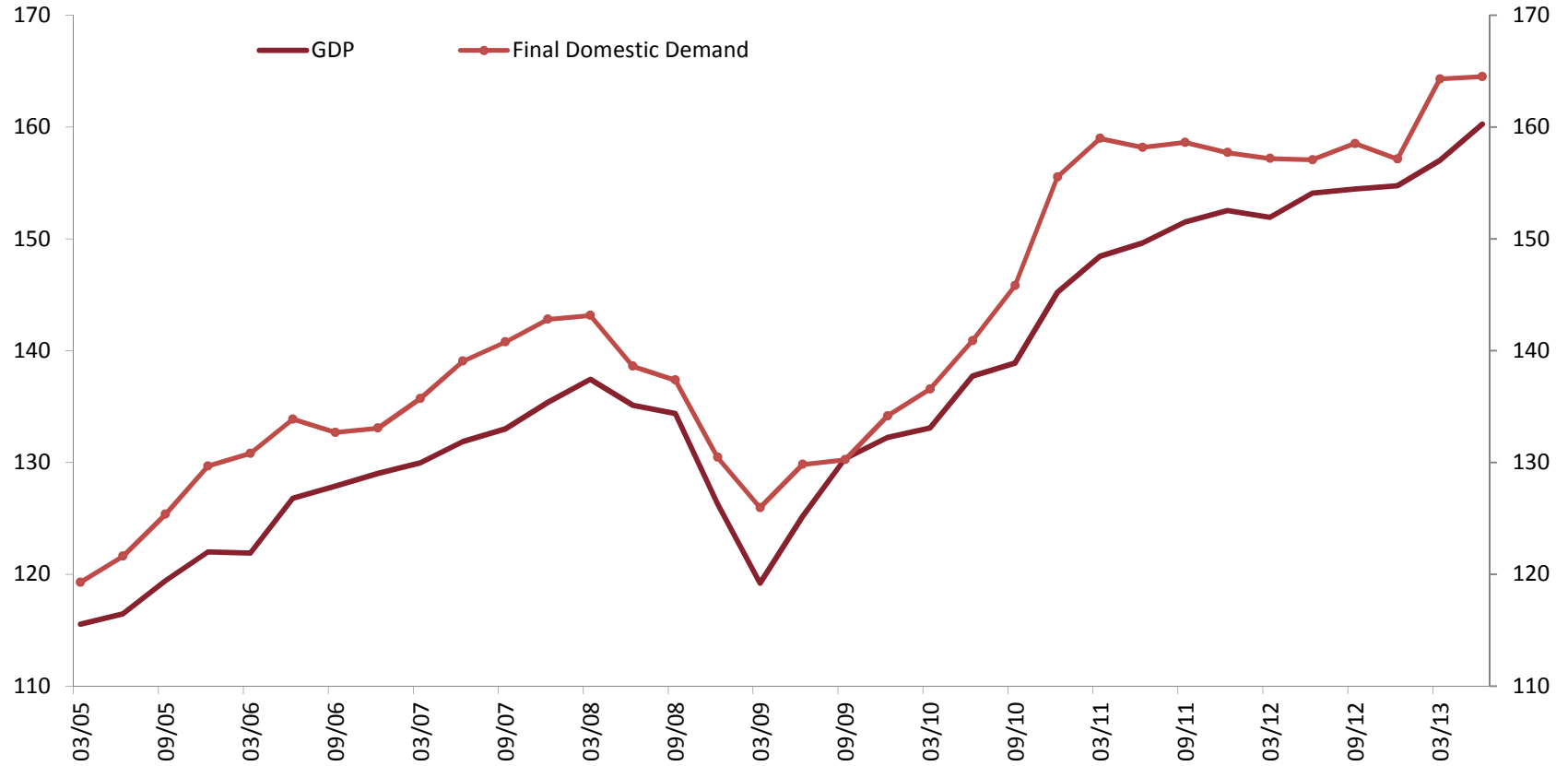
Source: TURKSTAT.

Last Observation: 2013Q2



But the rebalancing of final domestic demand still continues.

### Final Domestic Demand and GDP (Seasonally Adjusted, 2003Q1=100)

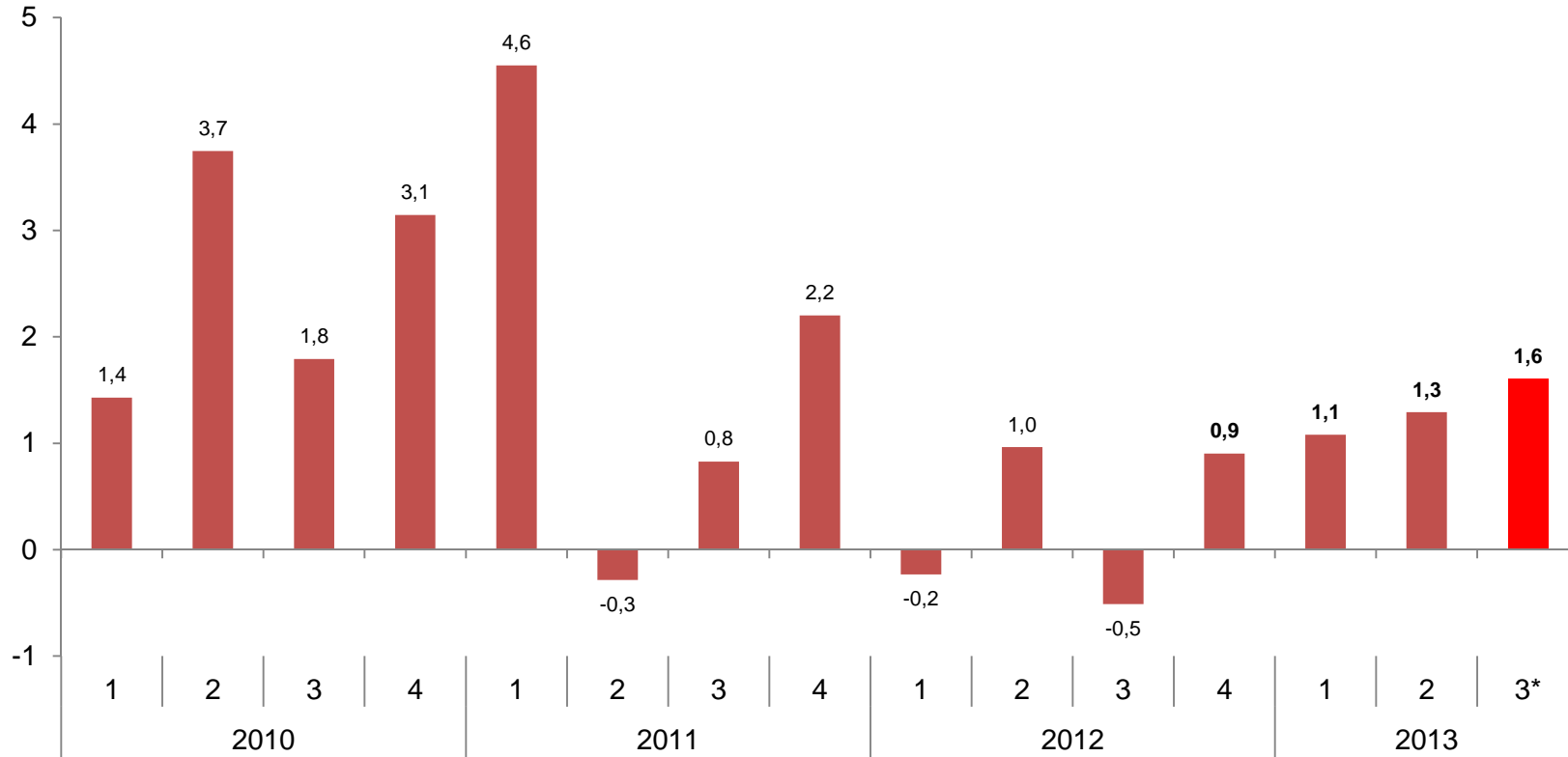


Source: TURKSTAT, CBRT.

Last Observation: 2013Q2

# Industrial production has continued on rising.

## Quarterly Growth (%, Seasonally Adjusted)

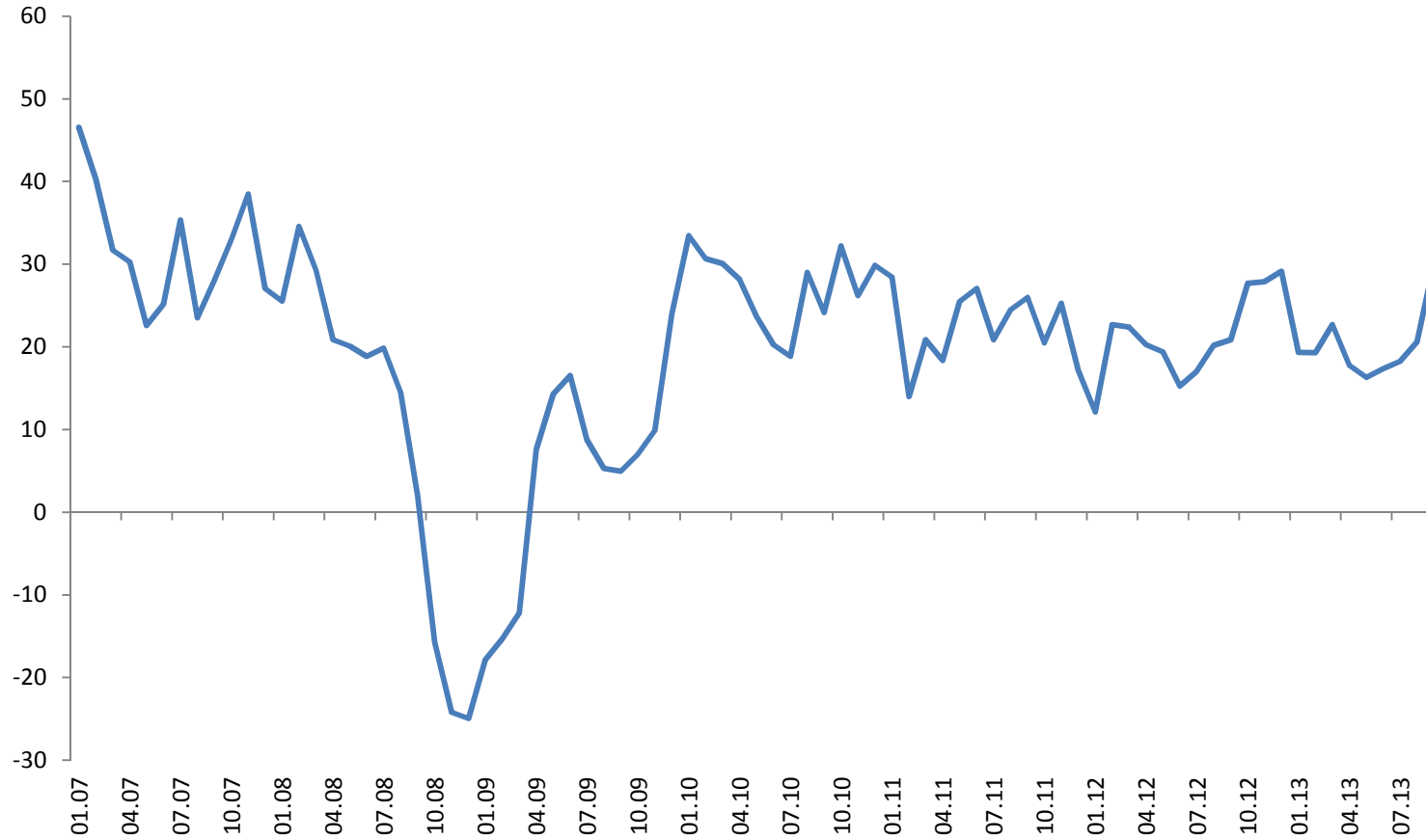


\* Quarterly change implied by the industrial production as of July 2013 .

Source: TURKSTAT and CBRT.

Recent pick up in new orders indicates further rises in activity.

## New Orders

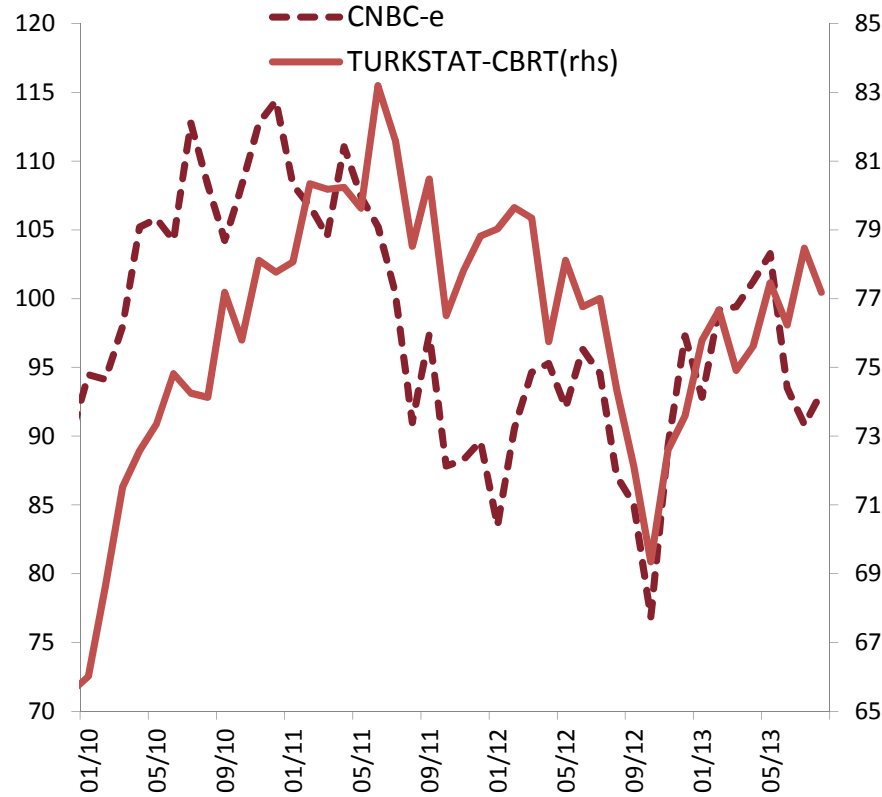


Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: September 2013 for new orders, July 2013 for IP

# Leading indicators for demand have been stable.

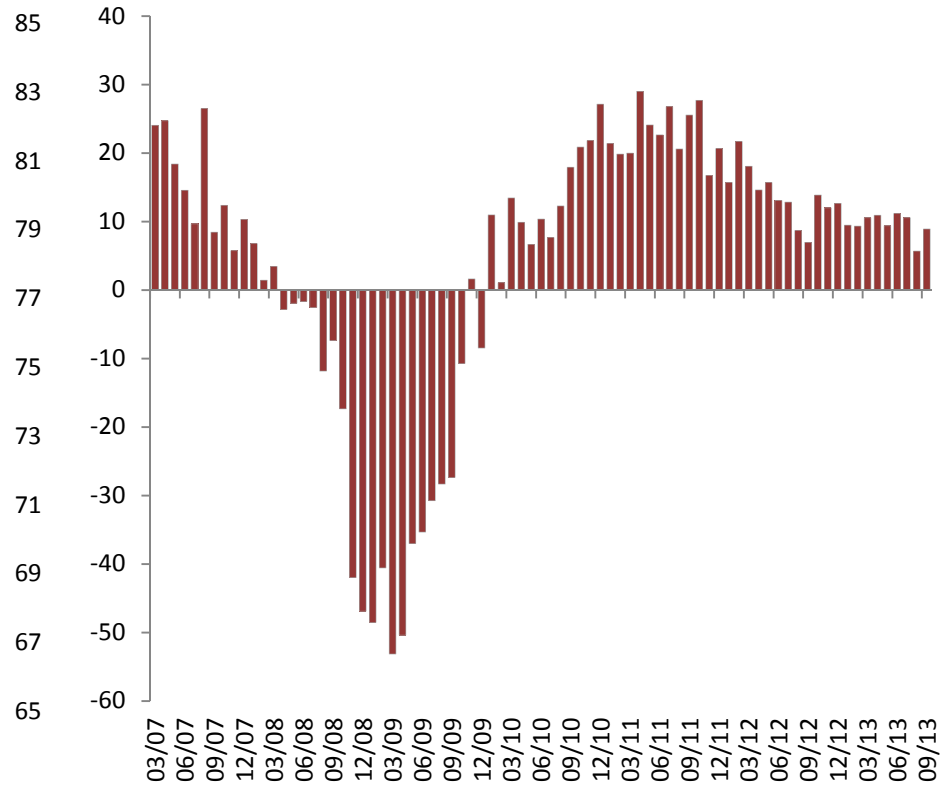
## Consumer Confidence



Source: CNBC-e, TURKSTAT, CBRT.

Last Observation: August 2013

## Investment Prospects\* (Seasonally Adjusted)



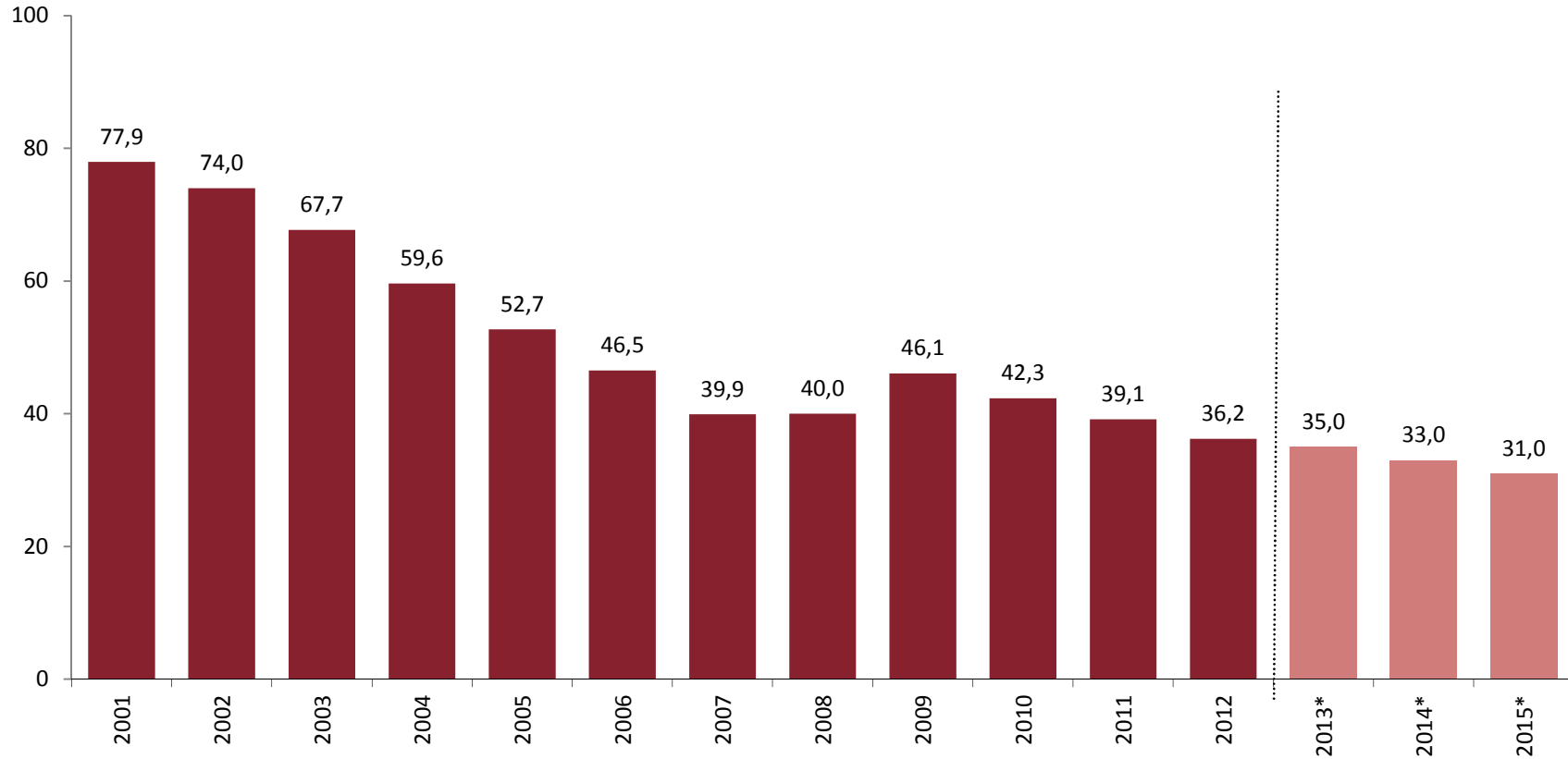
Source: TURKSTAT, CBRT.

\*Investment Tendency: How do you expect your fixed investment expenditure to change over the next 12 months?  
Last Observation: September 2013.

# FISCAL POLICY

Public debt stock remains low and is projected to decline further.

EU Defined Public Debt Stock\*  
(% of GDP)

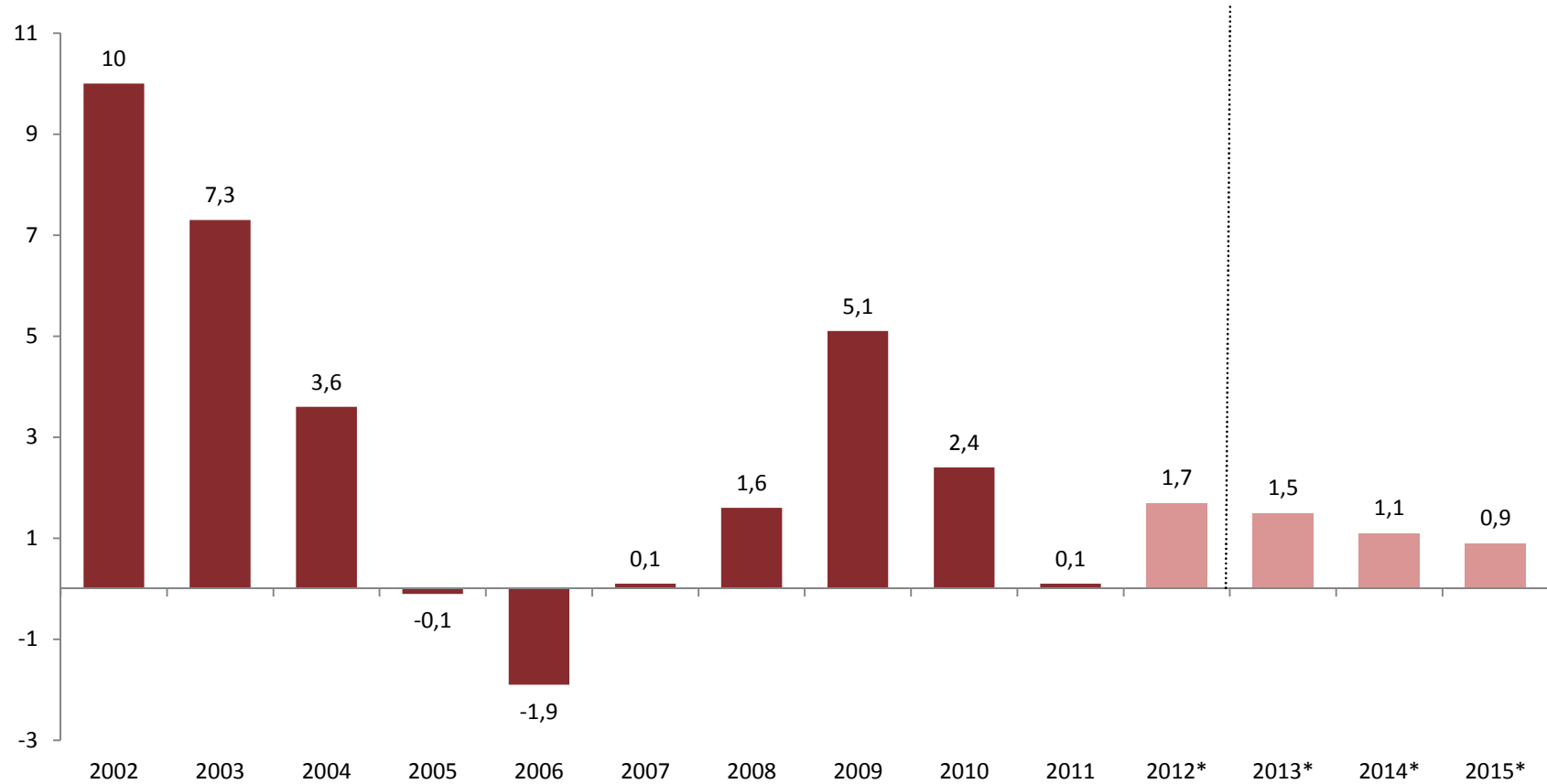


Source: Treasury.

\*MTP forecasts (2013-2015)

# Low public sector deficit.

## Public Sector Borrowing Requirement (% of GDP)

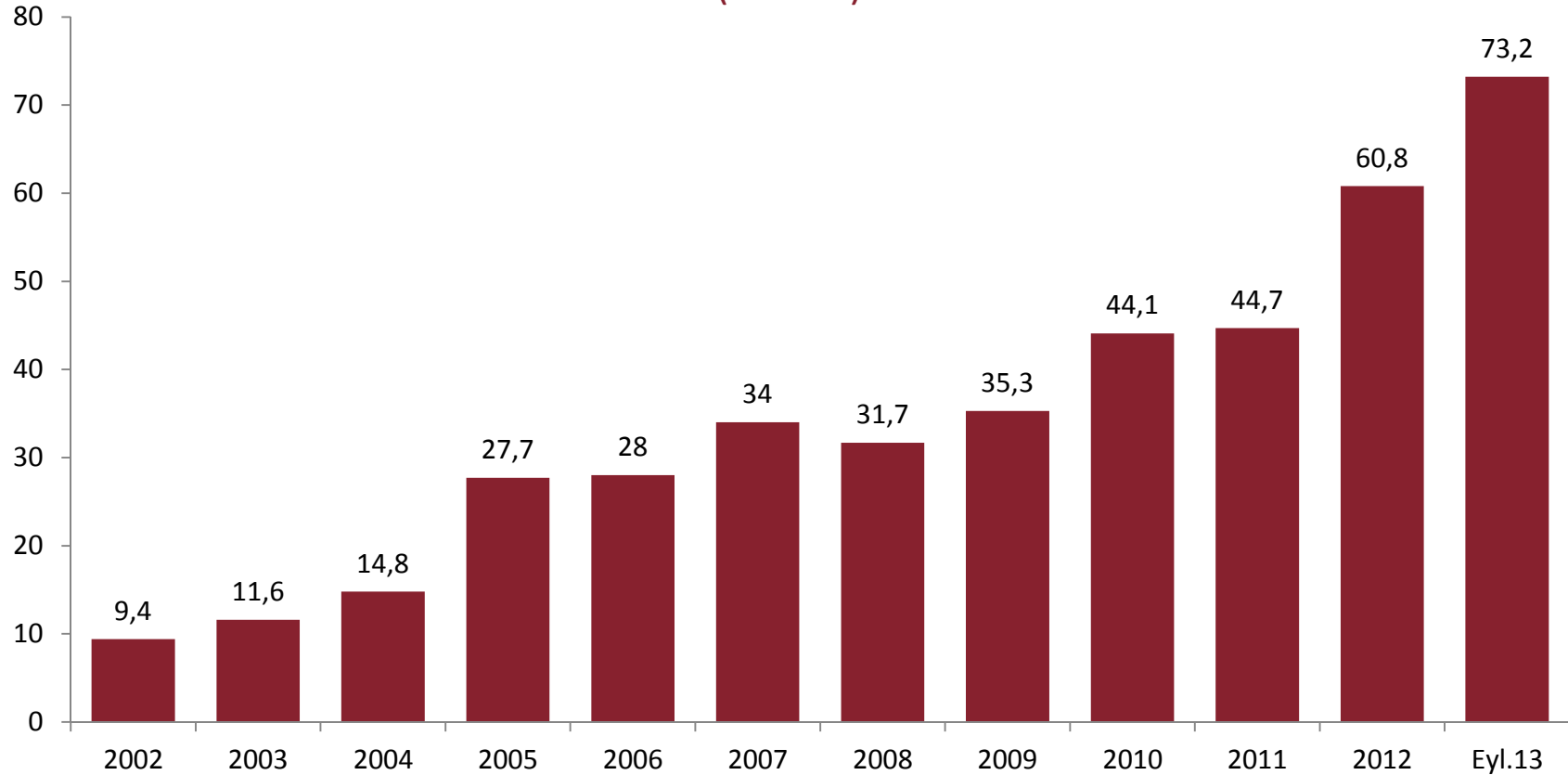


Source: Treasury.

\*MTP forecasts (2013-2015)

## Improved maturity structure.

### Average Maturity of Turkey's Domestic Borrowing (month)



Source: Treasury.

Last observation: September 2013





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Deputy Governor**

**September 26, 2013**