



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

External Impact of US Monetary Policy on Emerging Markets

Central Banking Seminar, The Implications of Divergent Monetary Policies

Federal Reserve Bank of New York

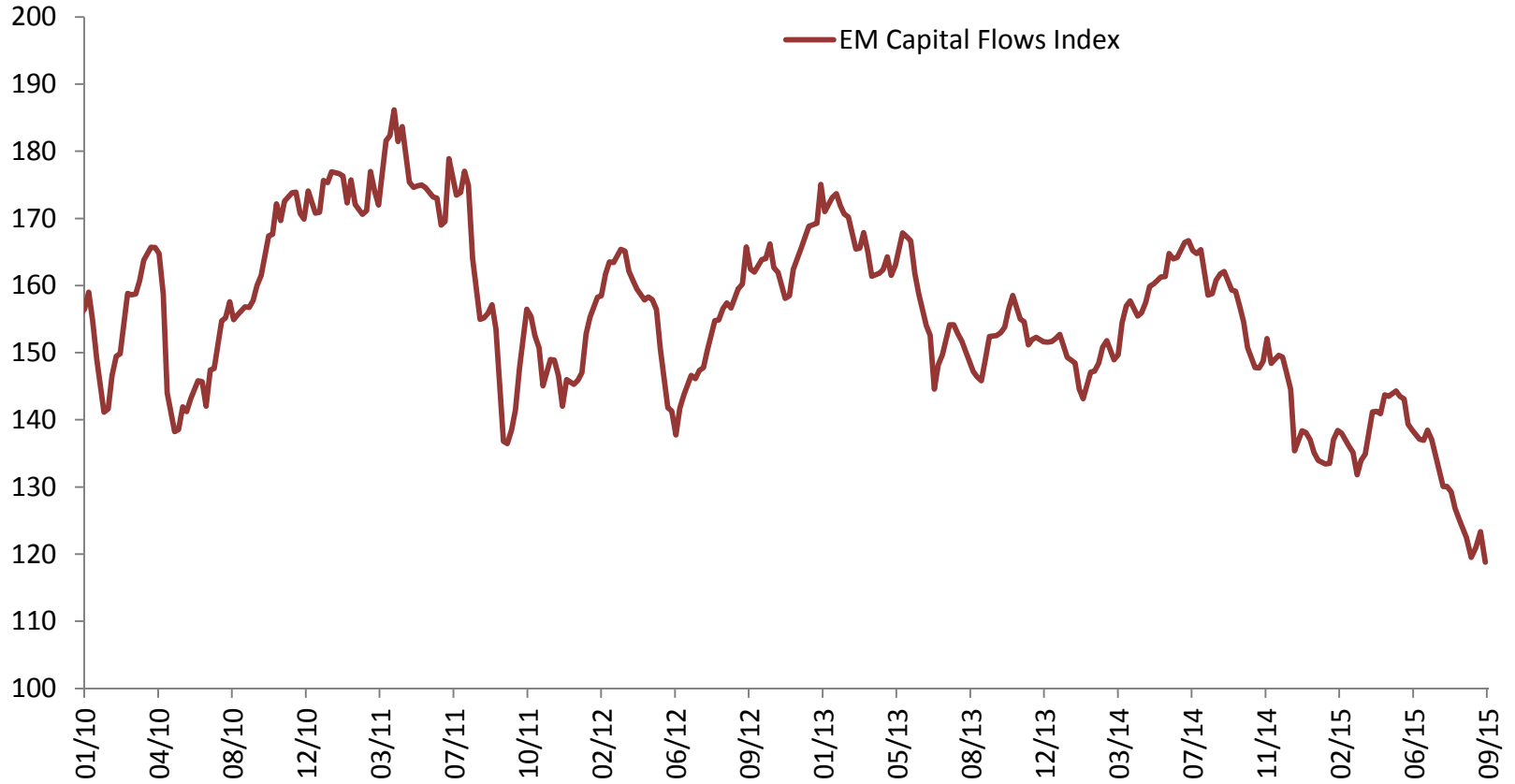
October 07, 2015

Heightened Uncertainties

- The global economy and financial markets currently face heightened uncertainties:
 - 1) growth prospects of different regions and economies
 - 2) impact of the prospective normalization of global monetary policies
 - 3) volatile commodity prices

Portfolio Outflows from Emerging Markets

Capital Flow Proxy



Source: Bloomberg, CBRT Calculations

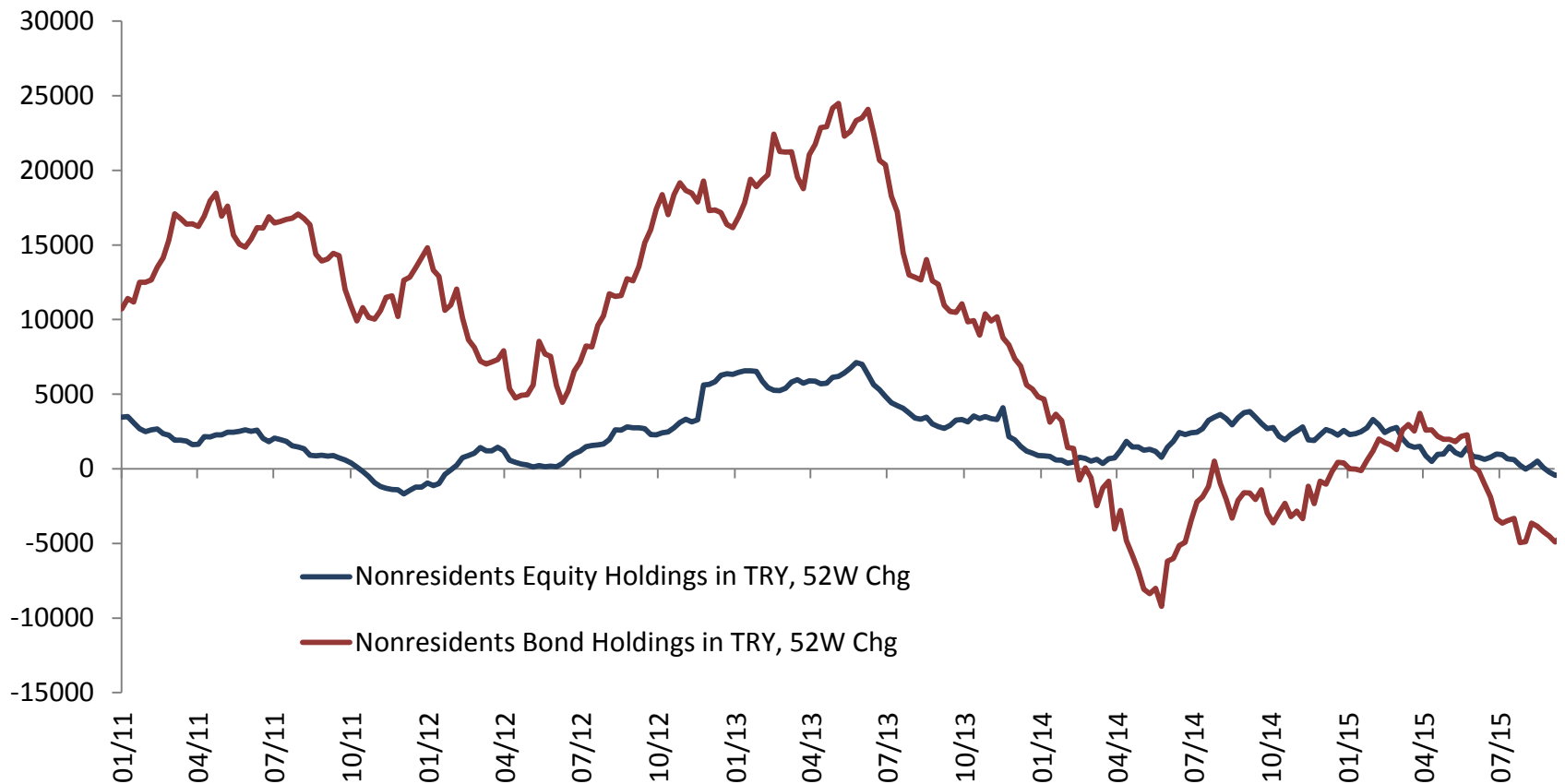
(*) Emerging markets : Brazil, India, South Africa, Indonesia, Mexico, Poland, Hungary and Turkey

Bloomberg Capital Inflow Index: $0.1 \times \text{SPGSCI Index} + 0.3 \times \text{MSCIEM Index} + 0.3 \times \text{EMBI Index} + 0.3 \times \text{FX CarryTrade Index}$

Last Observation: September 29, 2015.

Turkey has mainly experienced bond outflows.

Change in Nonresidents Bond and Equity Holdings
(US\$ million)

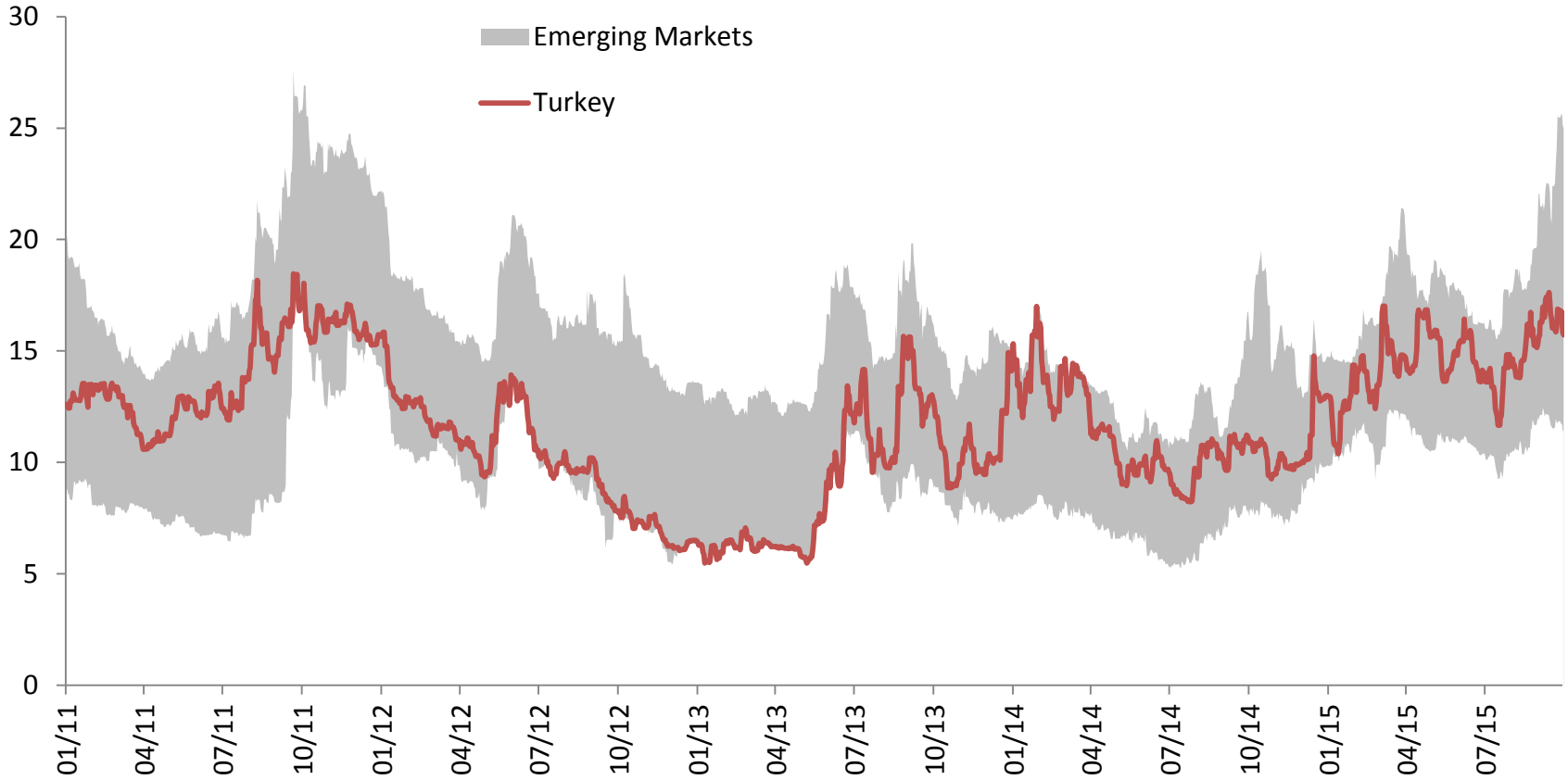


Source: CBRT

Last Observation: September 2015.

Volatility of EM currencies has recently increased.

Currency Volatility
(3M Implied Volatility)



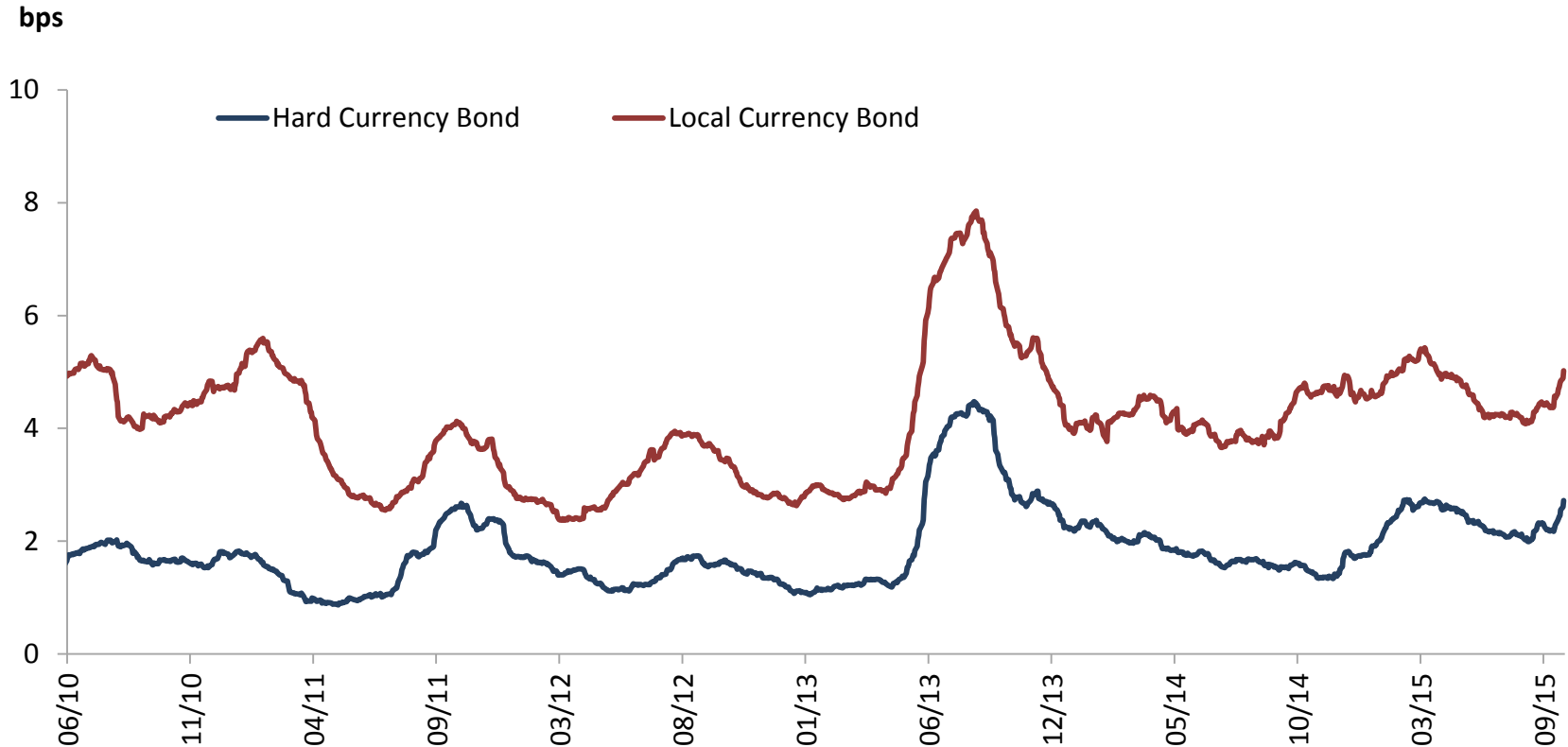
Source: Bloomberg

Emerging Economies: Turkey, South Africa, Brazil, Indonesia, Mexico, Colombia,, Poland, Czech Republic, Romania

Last Observation: September 29, 2015.

EM sovereign and local currency bond yields have been relatively stable.

EM 10 Year Bond Yields (3M Rolling Average of Absolute Daily Changes)



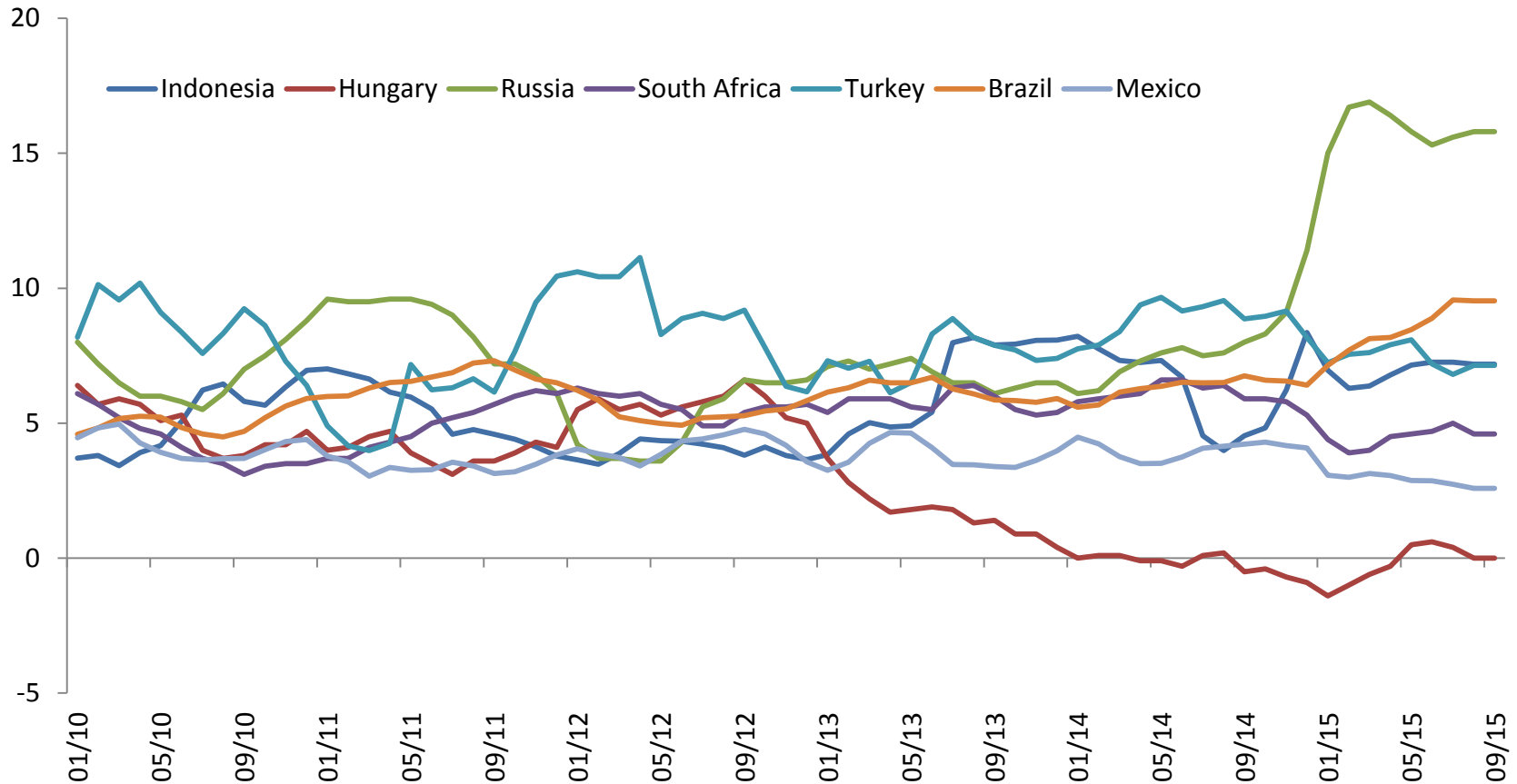
Source: Bloomberg.

(*) Emerging markets : Brazil, India, South Africa, Indonesia, Chile, Colombia, Mexico, Poland, Czech Republic, Romania and Turkey

Last Observation: September 29, 2015.

Inflation rates in EMEs have been diverging.

Inflation Rates in EMEs

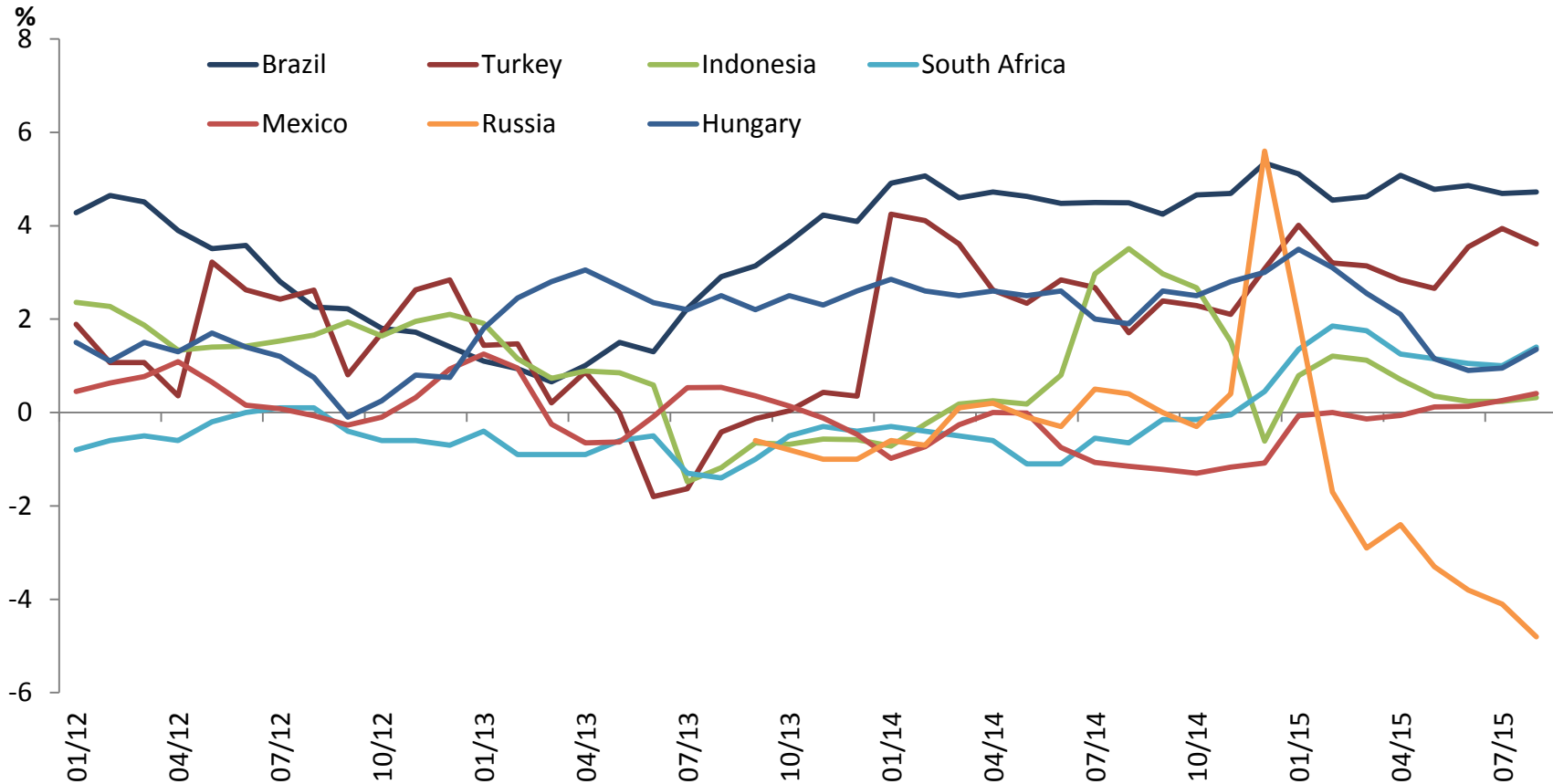


Source: Bloomberg

Last Observation: September 2015.

Real policy rates in EMEs have been diverging.

Real Policy (Effective) Rates in EMEs



Source: Bloomberg

Last Observation: August 2015.

Fundamentals and Policies Required During the Normalization of Global Monetary Policies

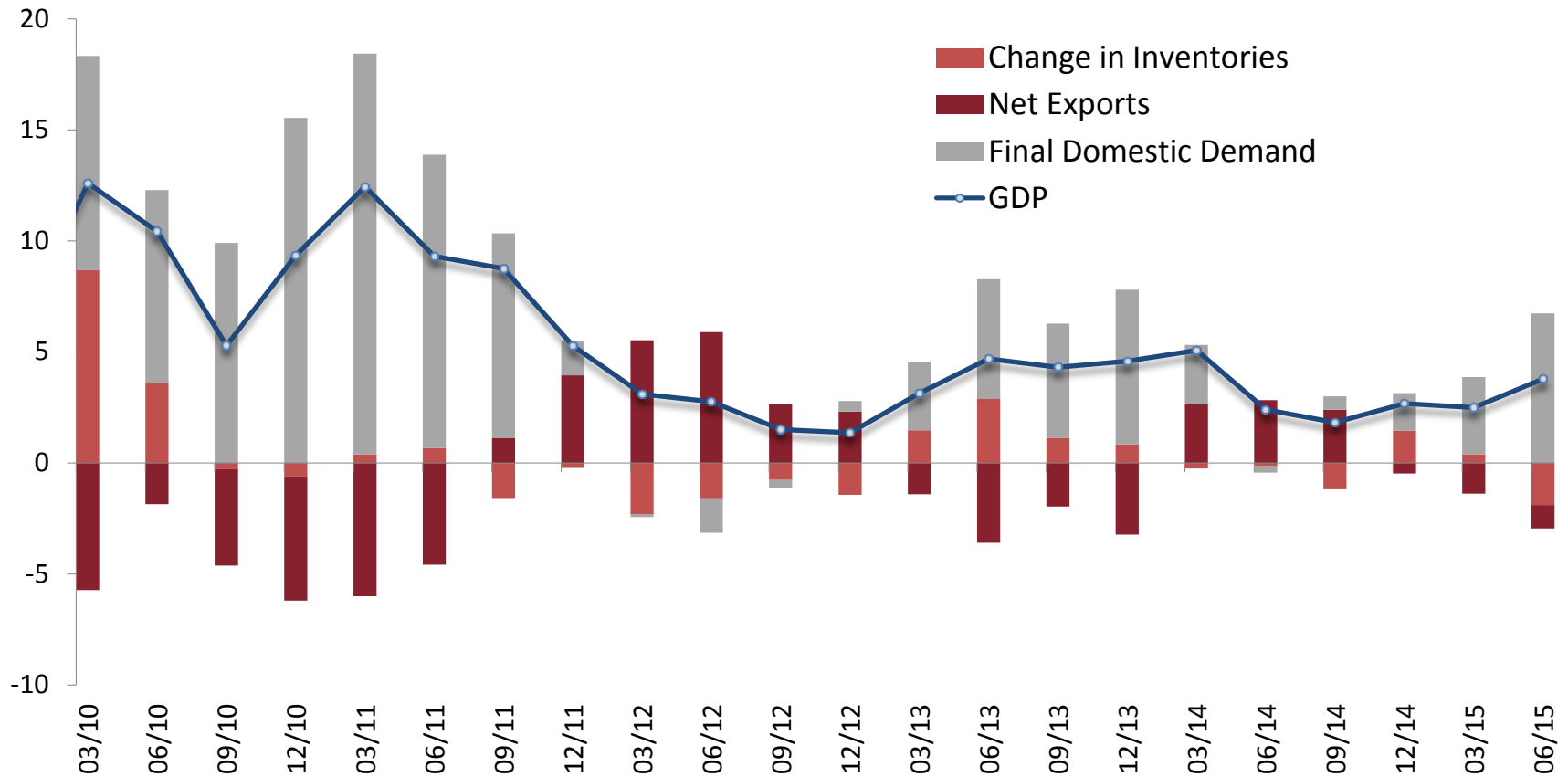
- Sound growth outlook
- Stable inflation outlook
- Repairing imbalances
- Adequate external safety net
- Policy buffers
- A rich set of policy tools

Fundamentals and Policies Required During the Normalization of Global Monetary Policies

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GDP continues to grow at a moderate pace.

Contribution to Annual GDP Growth
(Percentage Points)

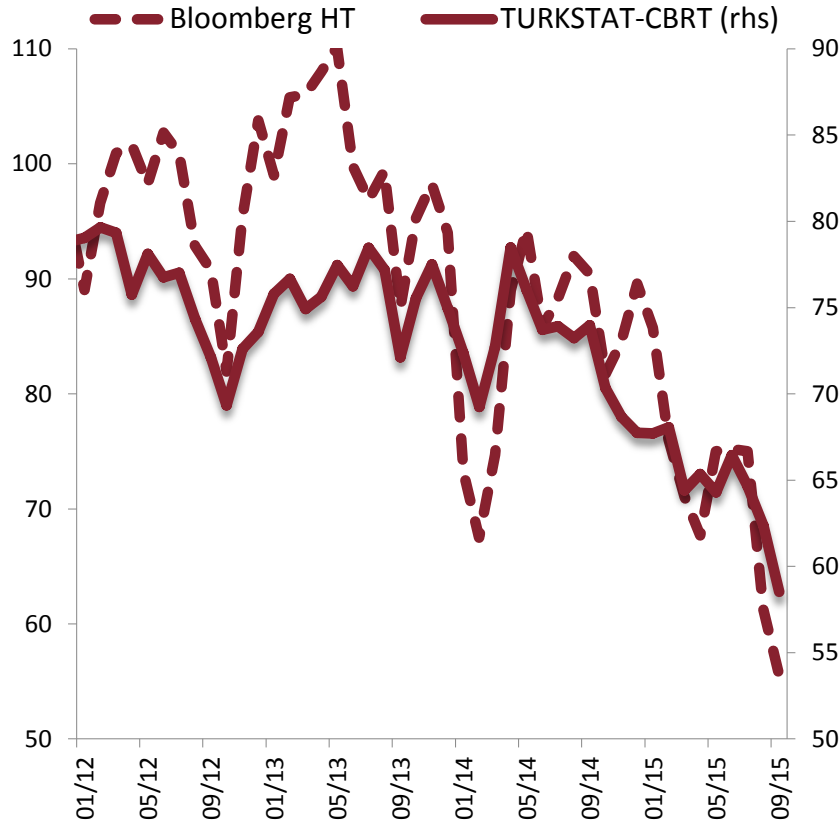


Source: TURKSTAT

Last Observation: 2015 Q2

Consumer confidence indicators point to a deceleration in the private consumption for the second half.

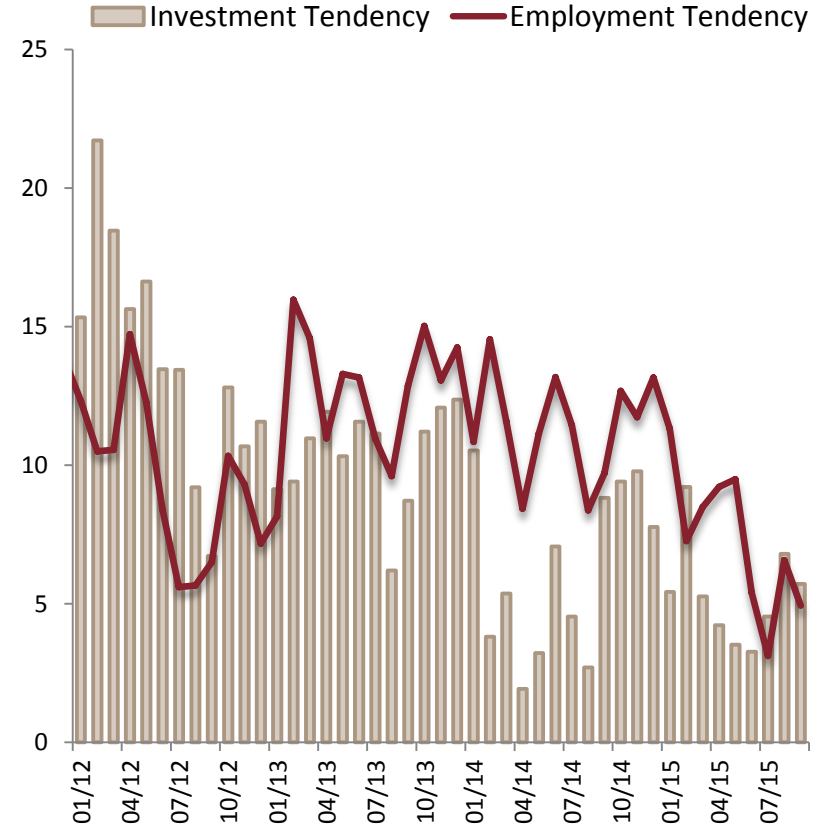
Consumer Confidence



Source: Bloomberg HT, TURKSTAT, CBRT.

Last Observation: September 2015 for CNBC-e Survey, September 2015 for TURKSTAT-CBRT Survey.

Investment and Employment Prospects (Seasonally Adjusted)

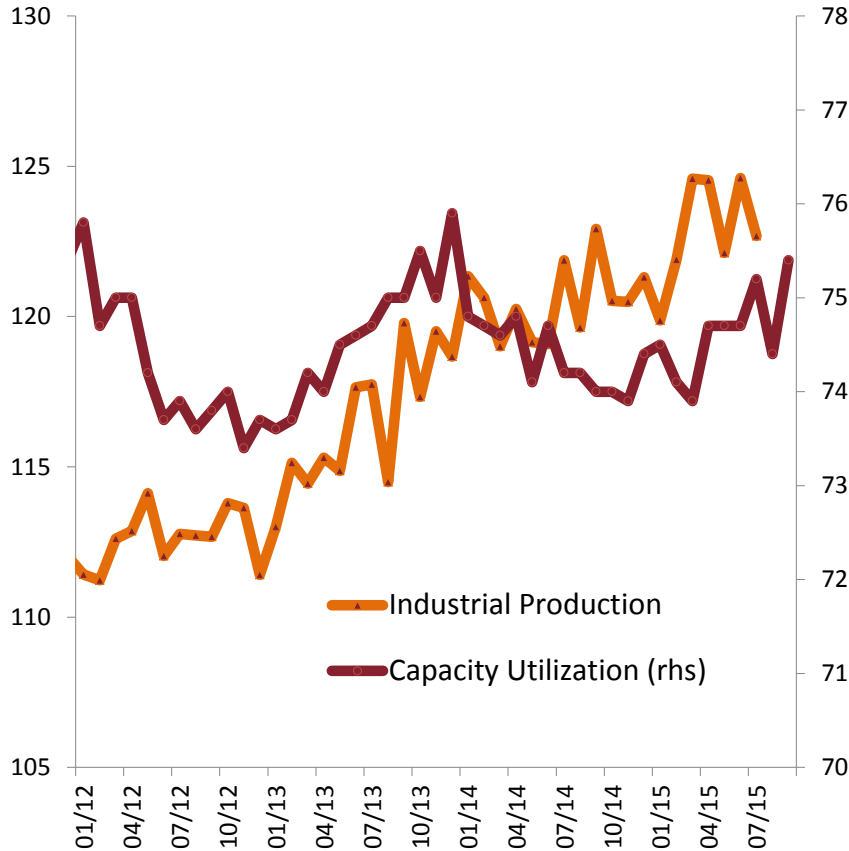


Source: CBRT Business Tendency Survey

Last Observation: September 2015.

The recovery in export orders is expected to limit the slowdown in the economic activity.

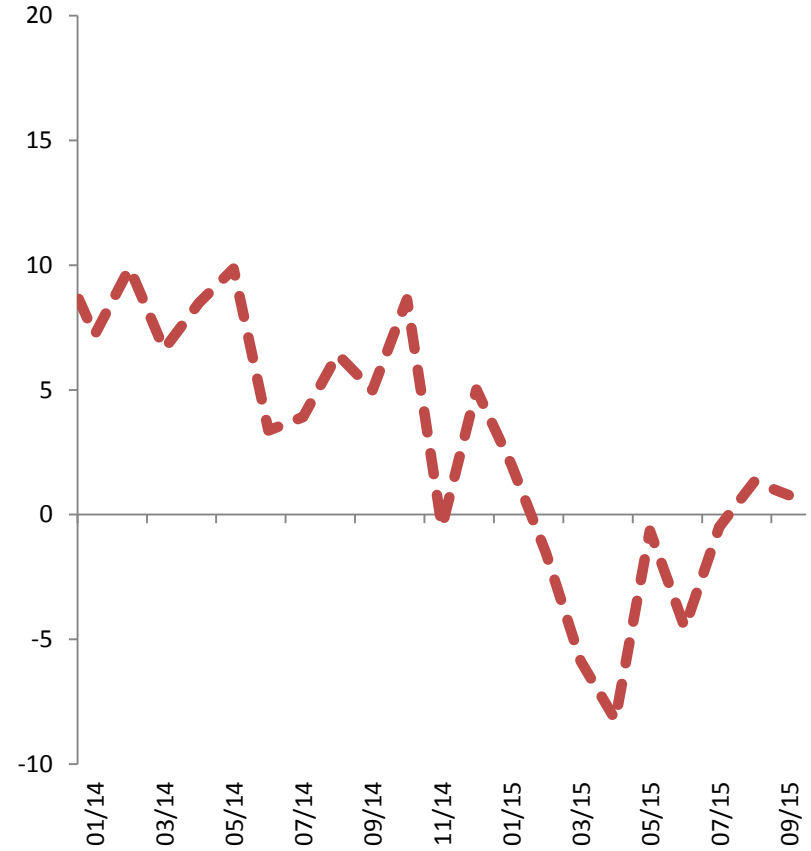
Industrial Production and Capacity Utilization (Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Last Observation: July 2015 for Industrial Production,
September 2015 for Capacity Utilization.

Export Orders (Seasonally Adjusted)

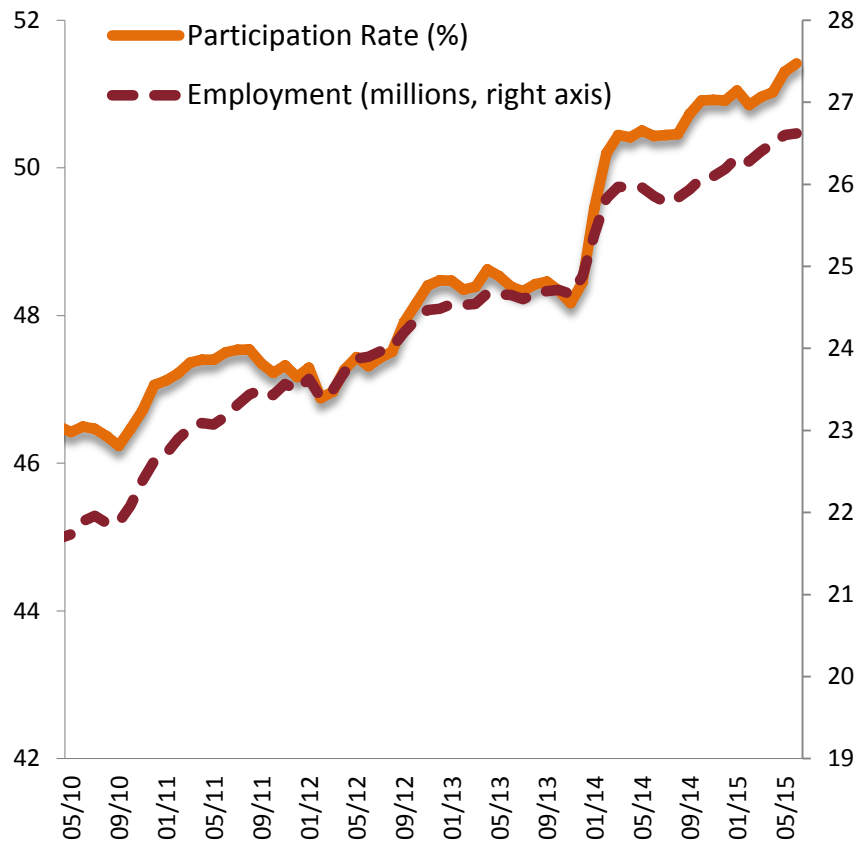


Source: CBRT Business Tendency Survey.

Last Observation: September 2015.

Employment continued to increase at a steady pace during the first half of the year; though some deceleration is expected in the second half.

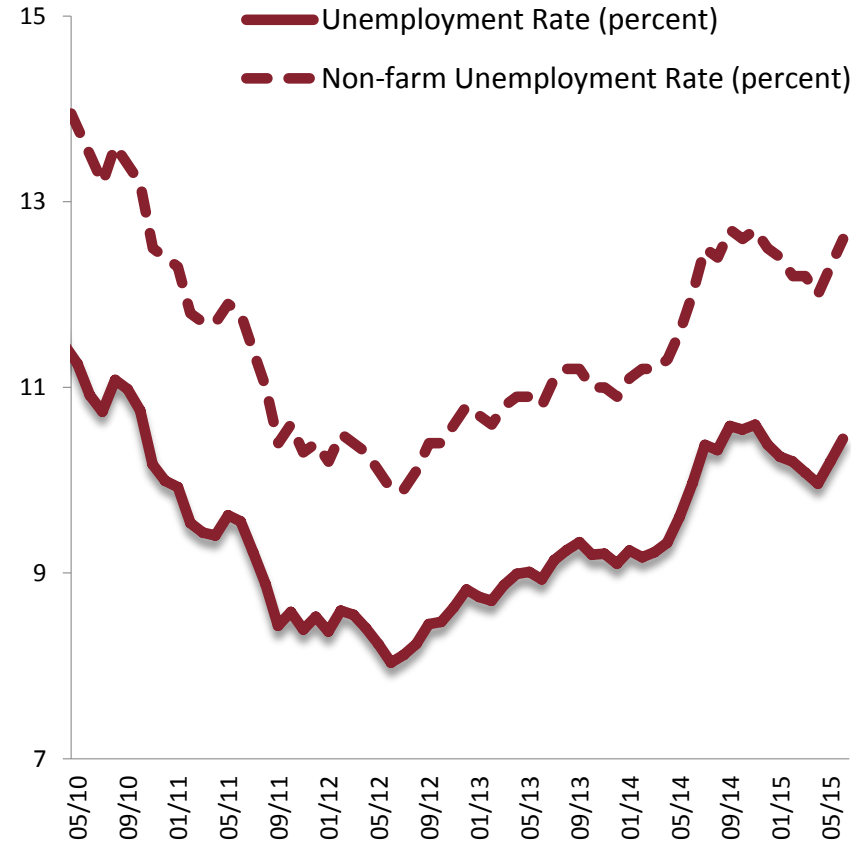
LFPR and Employment Rate



Source: TURKSTAT, Household Labor Force Survey, CBRT.

Last Observation: June 2015.

Unemployment Rates



Source: TURKSTAT, Household Labor Force Survey, CBRT.

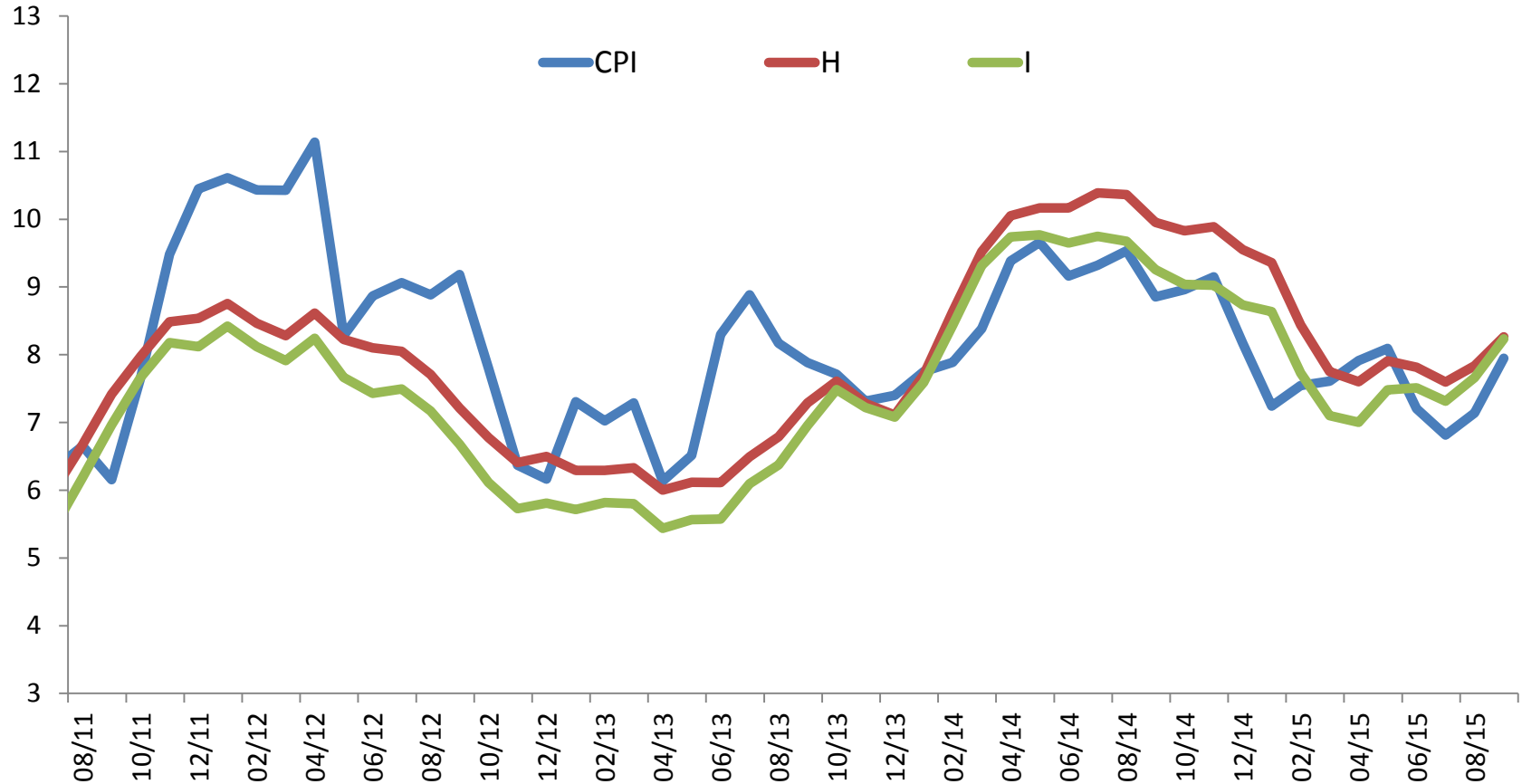
Last Observation: June 2015.

Fundamentals and Policies Required During the Normalization of Global Monetary Policies

- Sound growth outlook
- **Stable inflation outlook**
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Energy price developments support disinflation, while exchange rate movements delay the improvement in the core indicators.

Inflation Indicators (Annual Percentage Change)

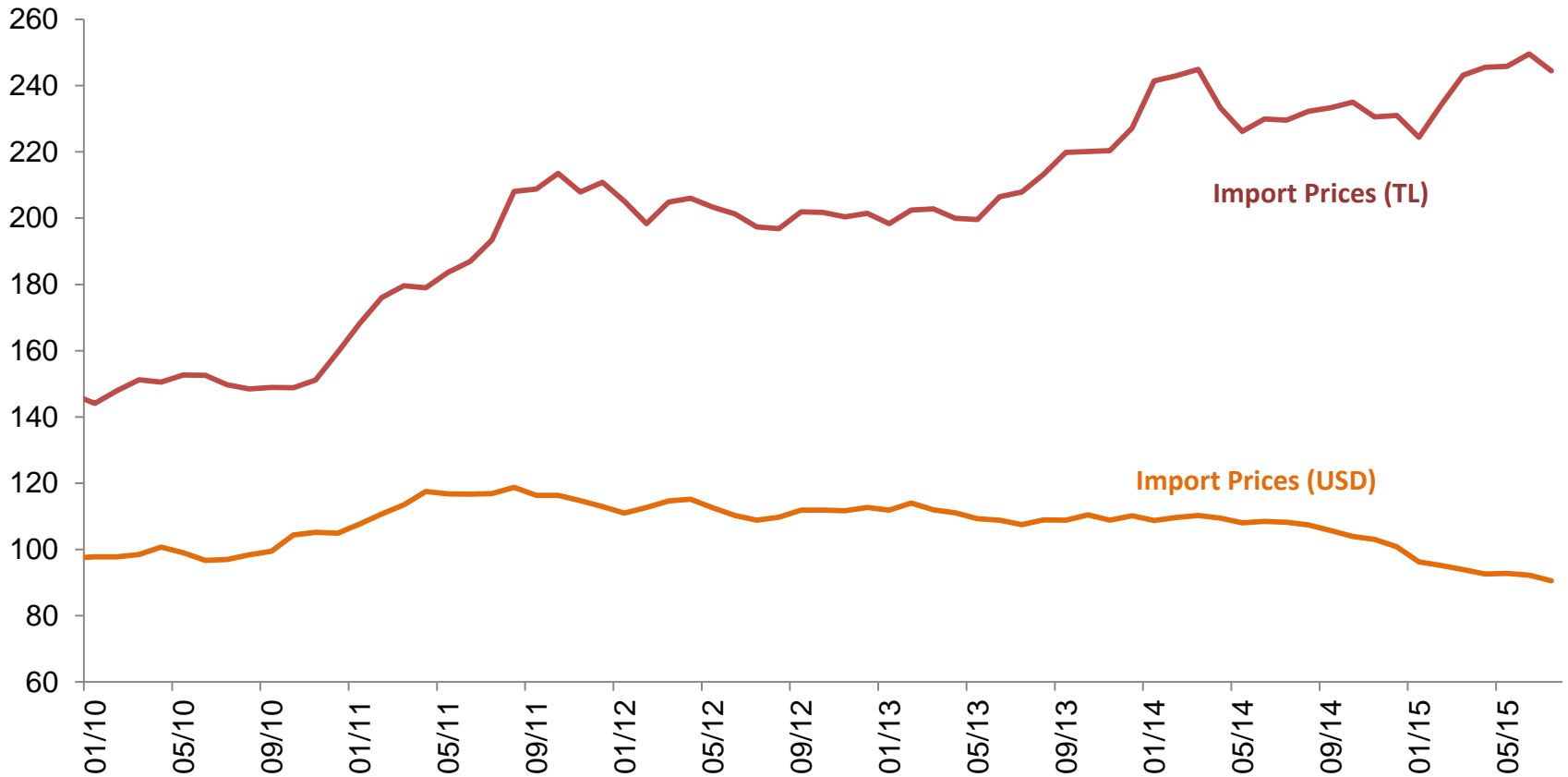


Source: TURKSTAT.

Last Observation: September 2015.

The decline in import prices partly offsets the pass-through effect from exchange rates.

Import Price Index
(2010=100)

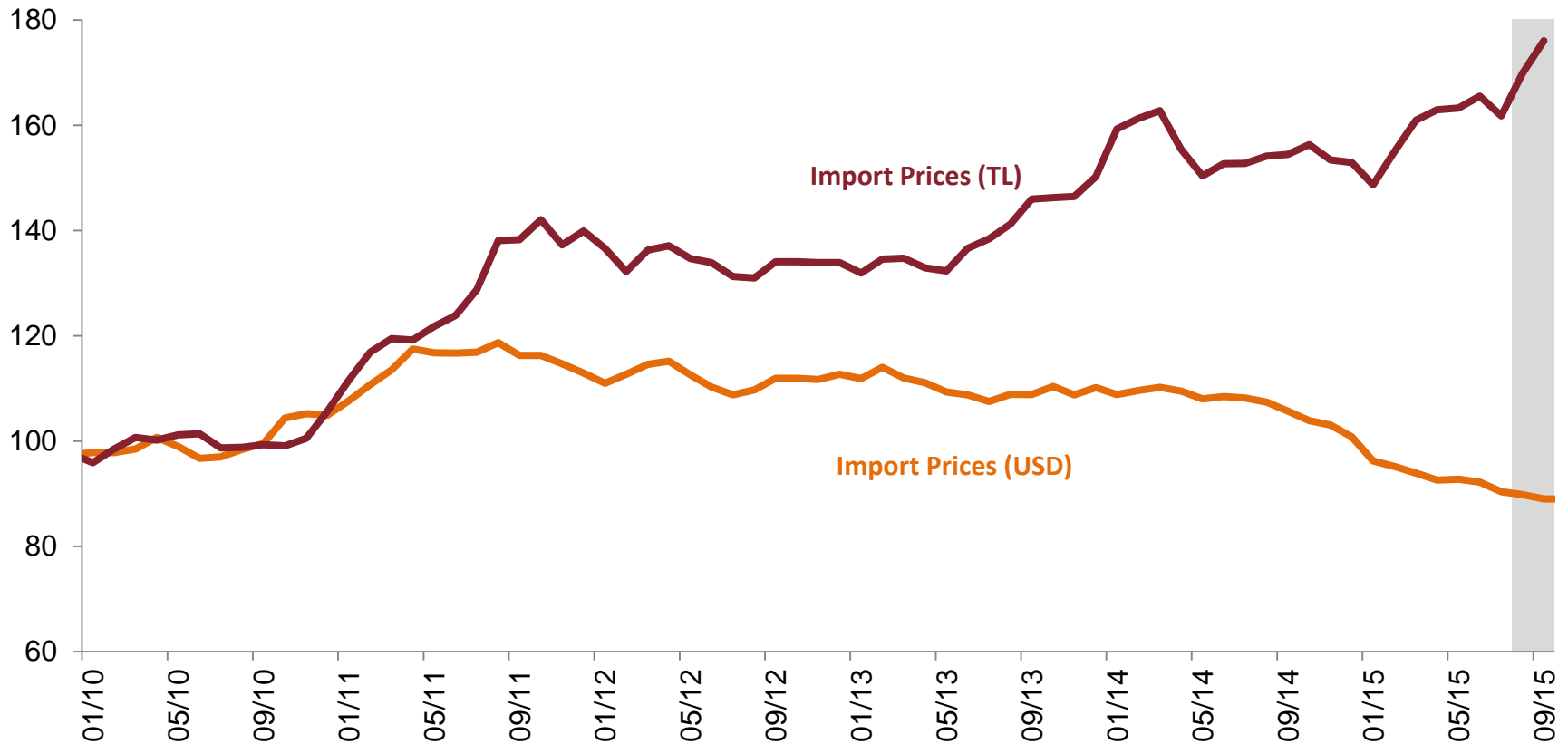


Source: TURKSTAT, CBRT.

Last Observation: July 2015.

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(2010=100)



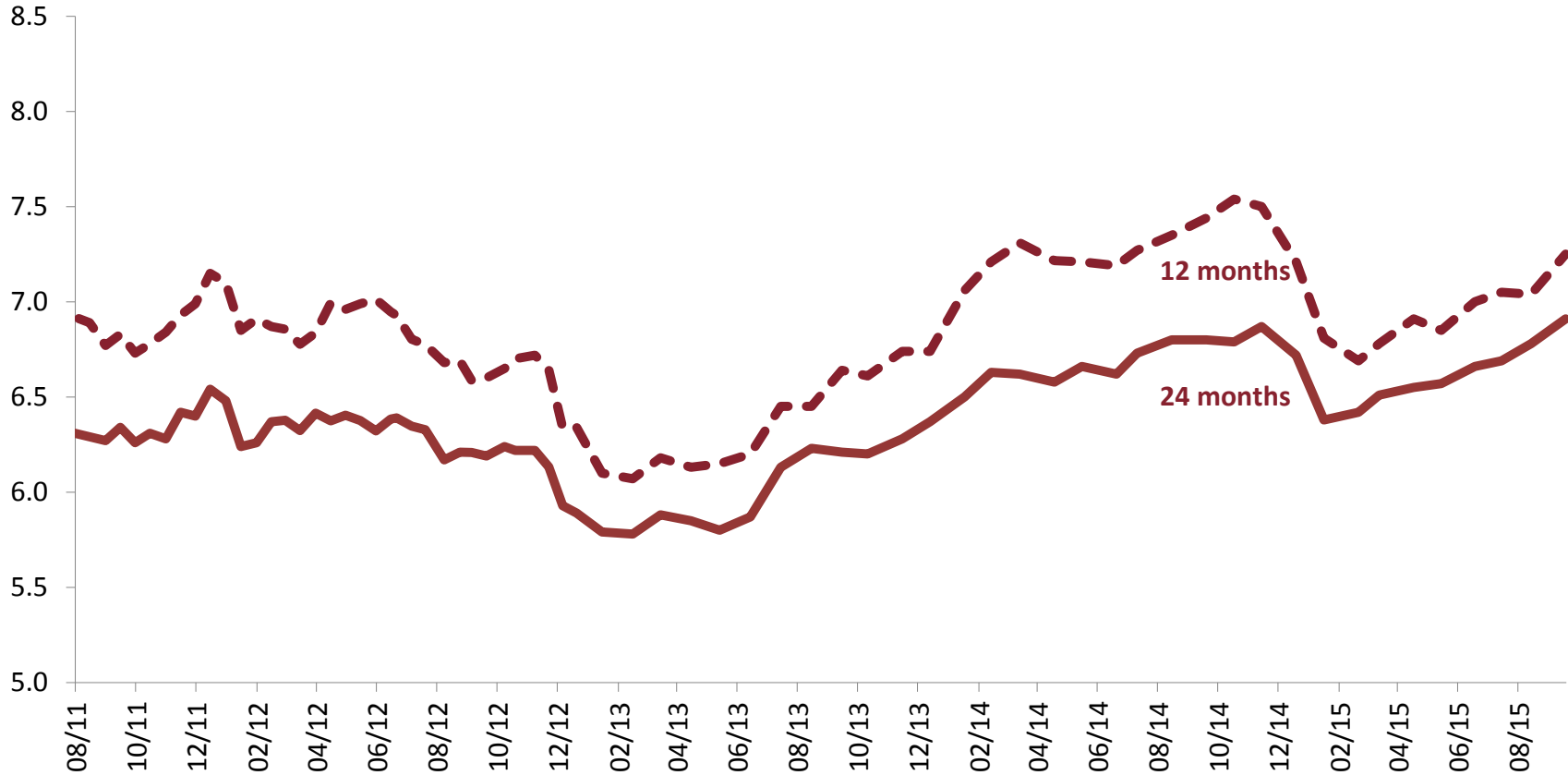
Source: TURKSTAT, CBRT.

Last Observation: September 2015.

*The values for September and August are forecasts

Inflation expectations have edged up recently due to the impact of the uncertainty in domestic and global markets.

Inflation Expectations (Percent)



Source: CBRT.

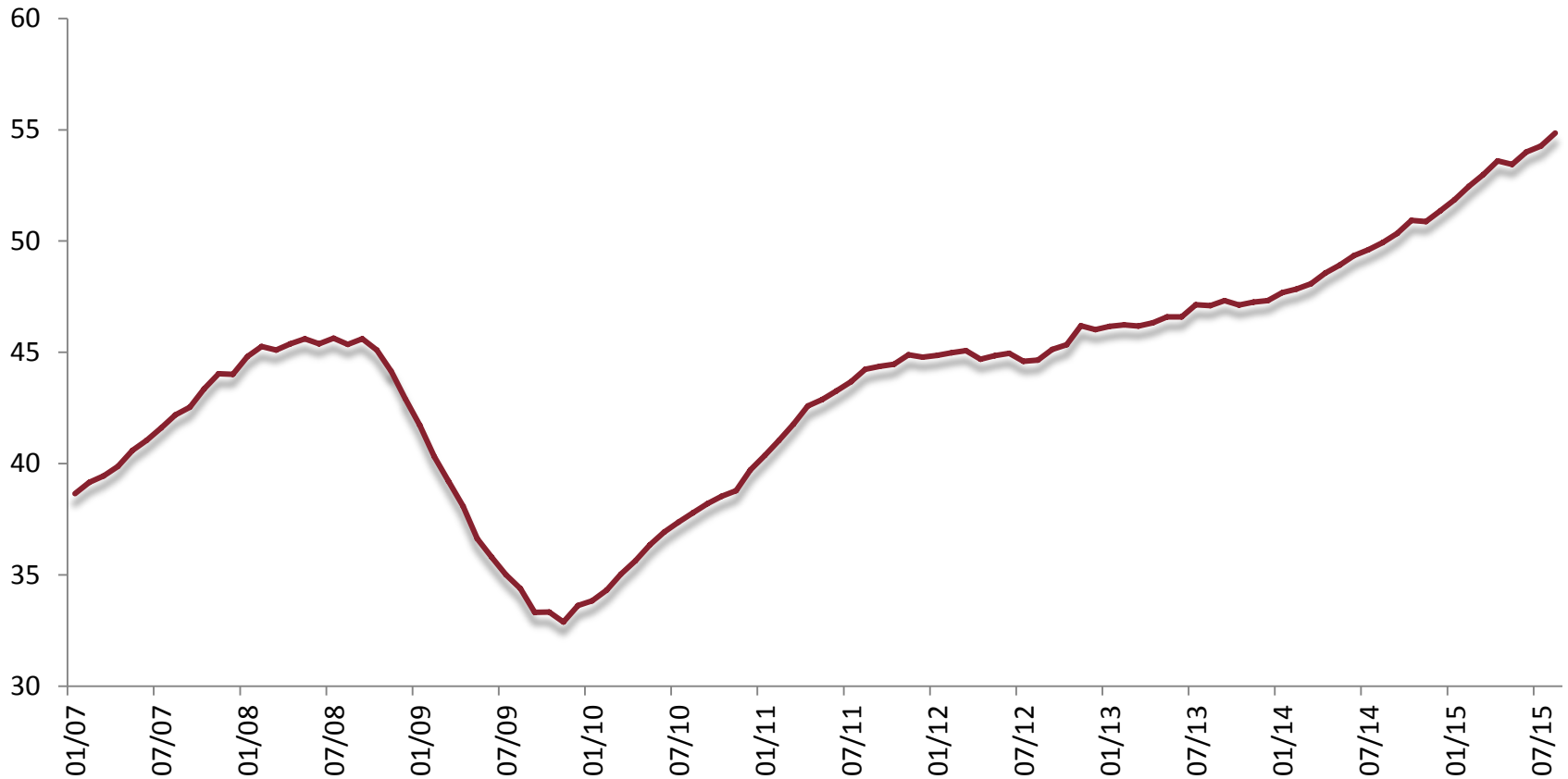
Last Observation: September 2015.

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The recovery in European economies will support growth and rebalancing in upcoming quarters.

Exports to European Union
(12 months cumulative, billion Euros)

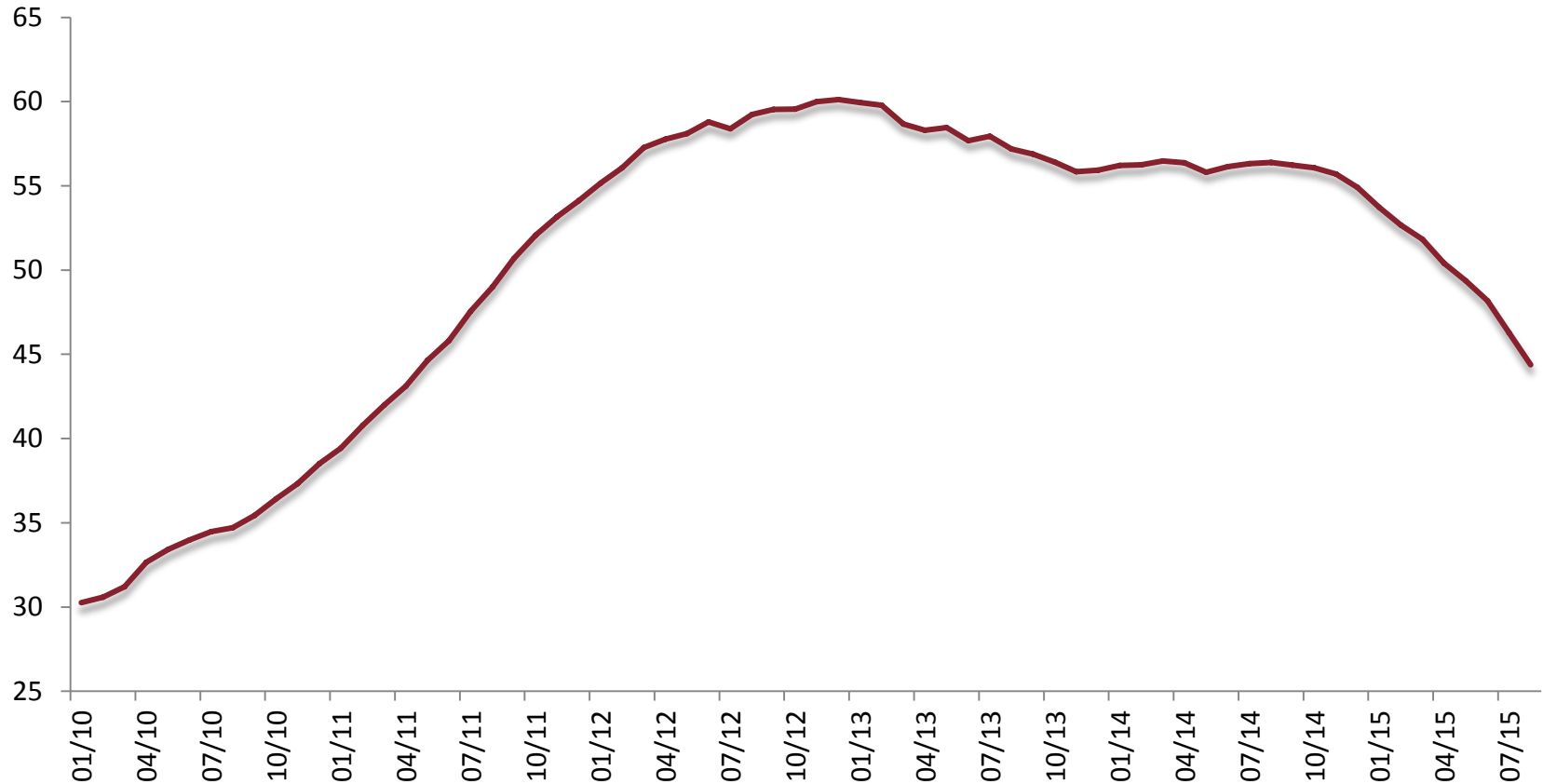


Source: TURKSTAT.

Last Observation: August 2015.

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

Energy Imports
(12-Month Cumulative, Billion USD)



Source: TURKSTAT

Last Observation: August 2015.

Real Effective Exchange Rates have reached historically low levels.

Real Effective Exchange Rate
(CPI Based, 2003=100)

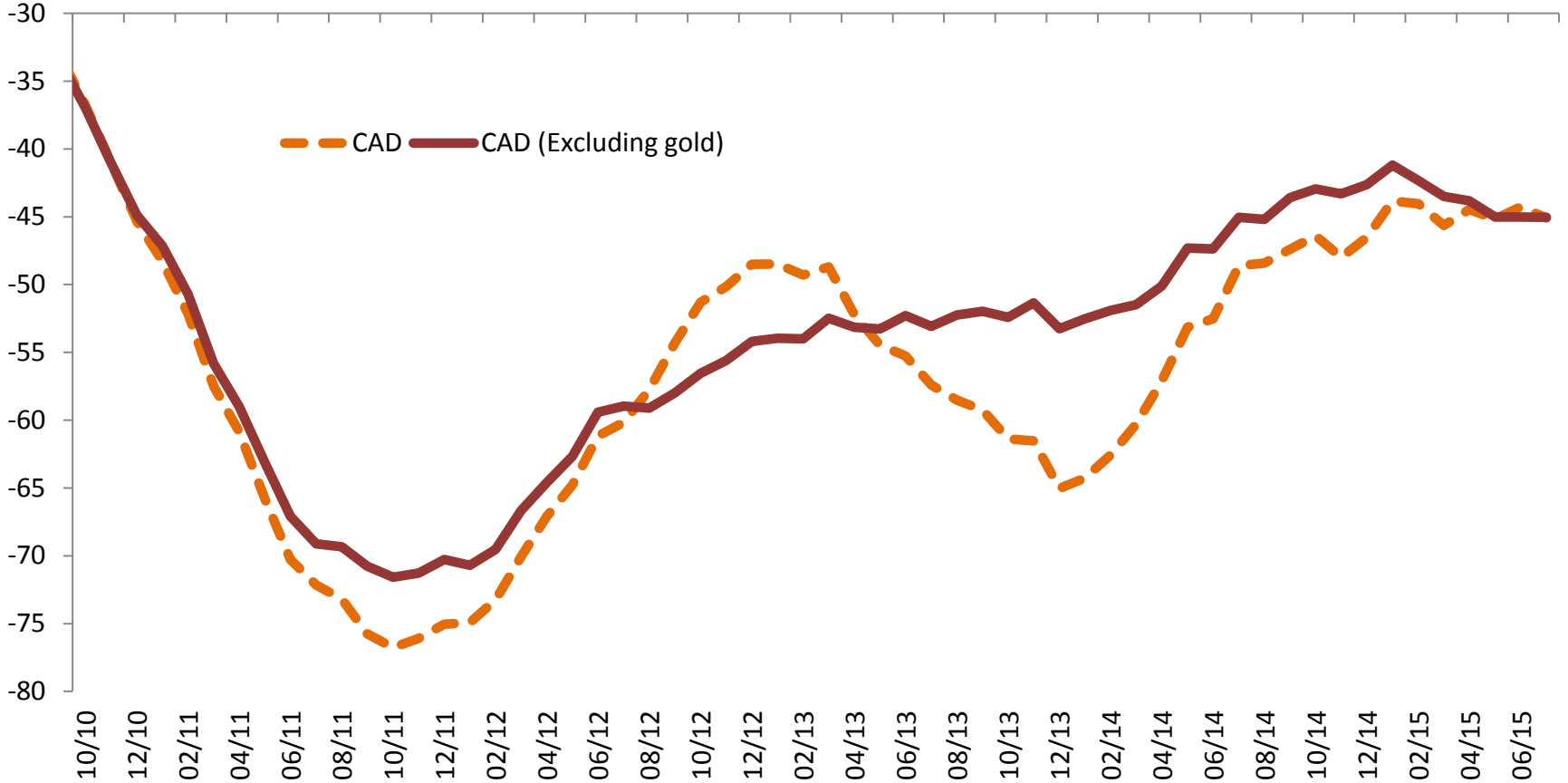


Source: CBRT.

Last Observation: August 2015.

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)

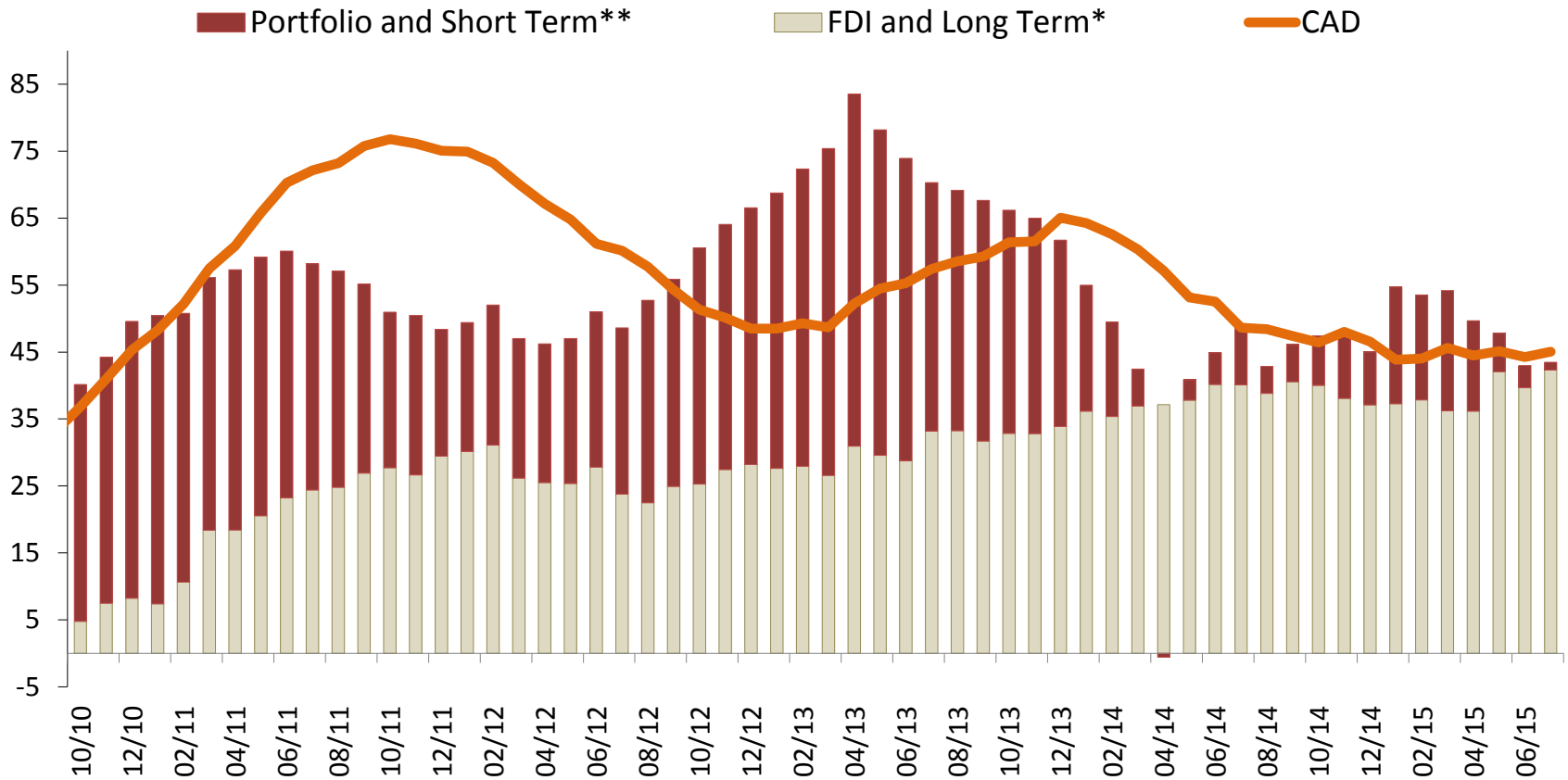


Source: CBRT.

Last Observation: July 2015.

As of July 2015, current account deficit is almost entirely financed through long term borrowing and FDI flows.

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



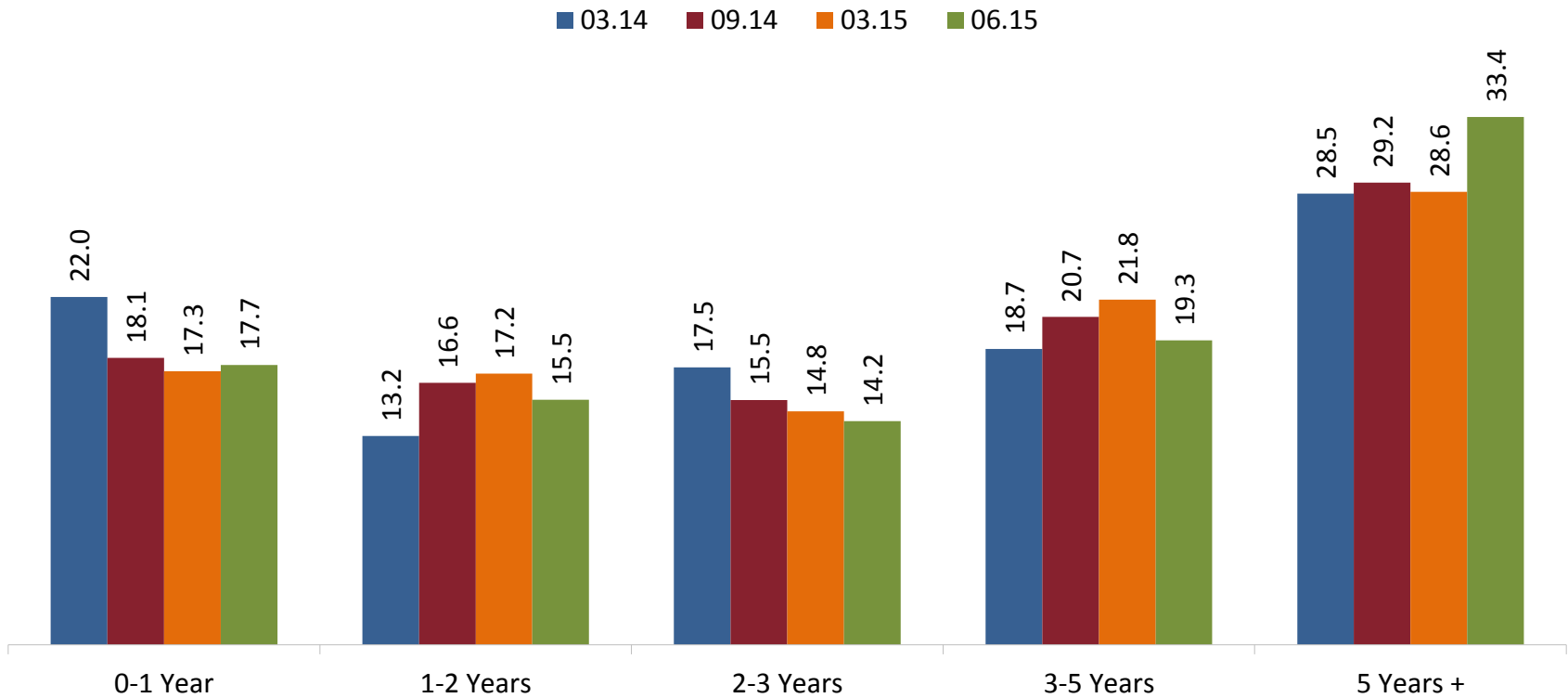
Source: CBRT.

*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.

Half of the corporate foreign currency debt has more than three-year maturity.

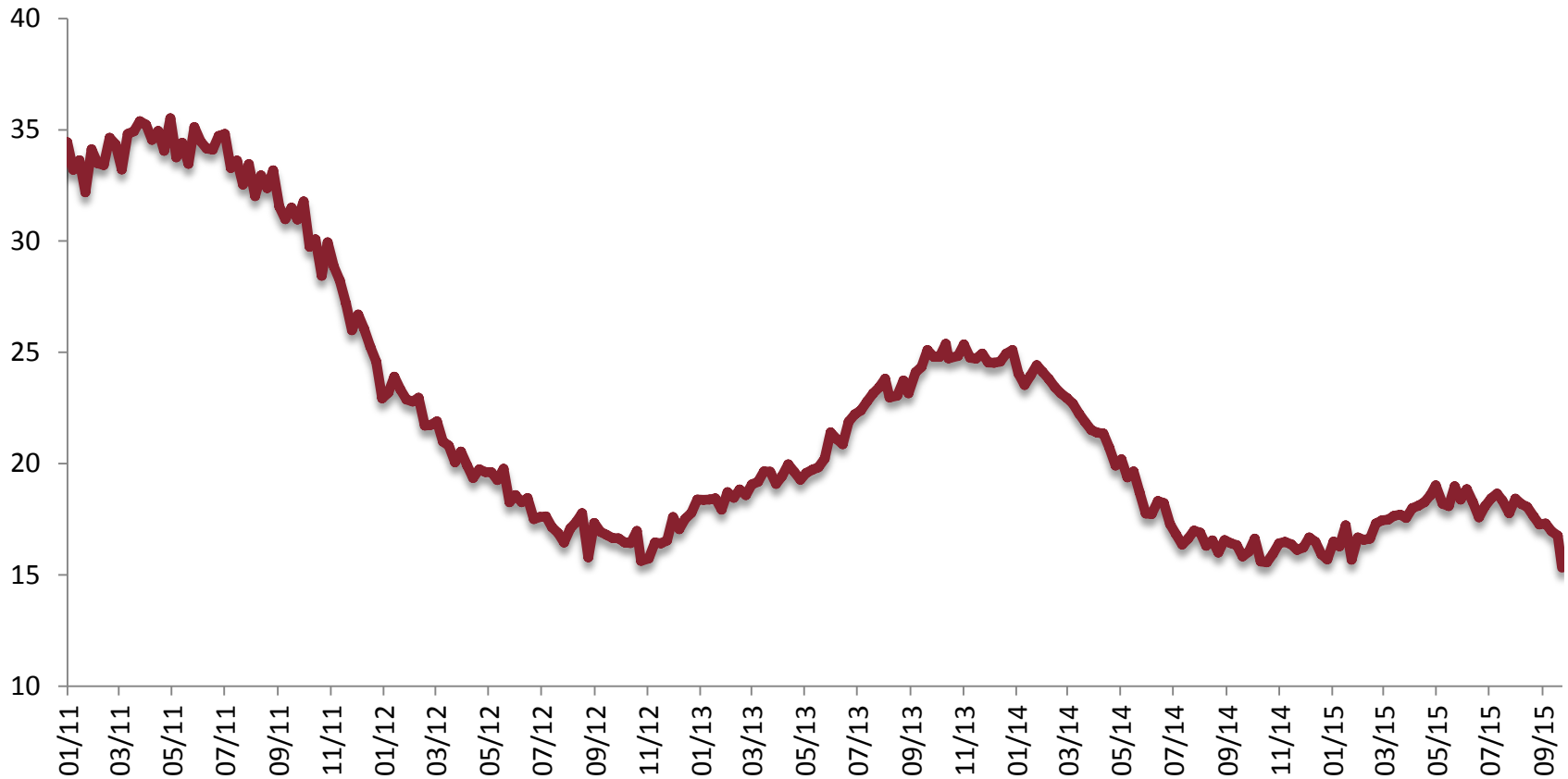
Maturity Structure of External Liabilities of the Corporate Sector (Percent Share)



Source: CBRT, External Debt Statistics of Non-Financial Corporate Sector

Loan growth has retreated to a reasonable pace due to the tight monetary policy stance and macroprudential measures.

Total Loan Growth Rate
(Year on Year Change, Percent)



Source: CBRT.

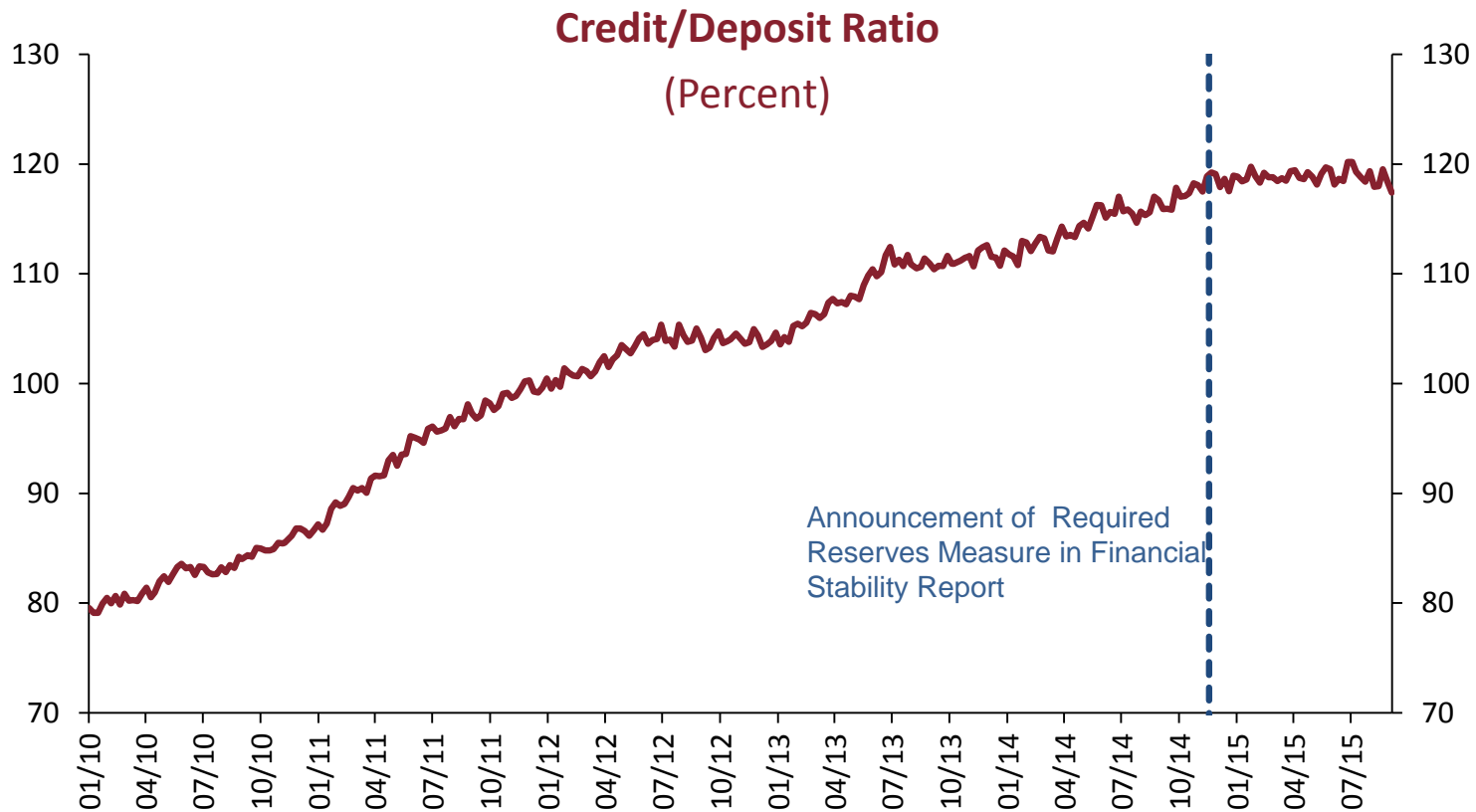
Last Observation: September 23, 2015.

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

Adjusted for exchange rate.

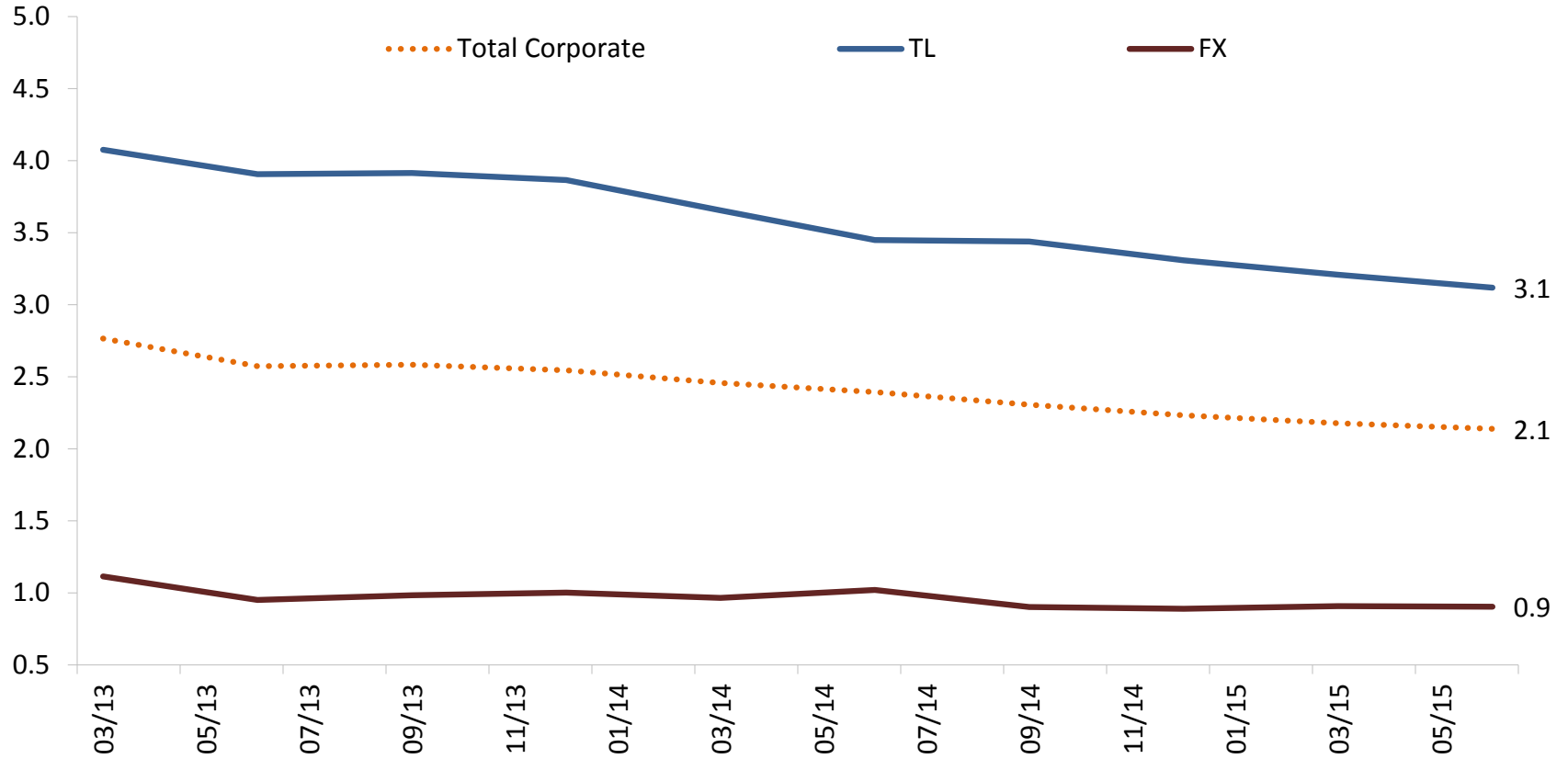
Measures to Support Financial Stability: Supporting Turkish Lira Core Liabilities

- The remuneration rate of Turkish lira required reserves may be revised to reduce the intermediation cost of banking sector and to support core liabilities.



NPL ratios for FX corporate loans have been declining.

NPL Ratios For Corporate Loans
(Percent)



Source: CBRT Financial Stability Report, No:20

Last Observation: June 2015.

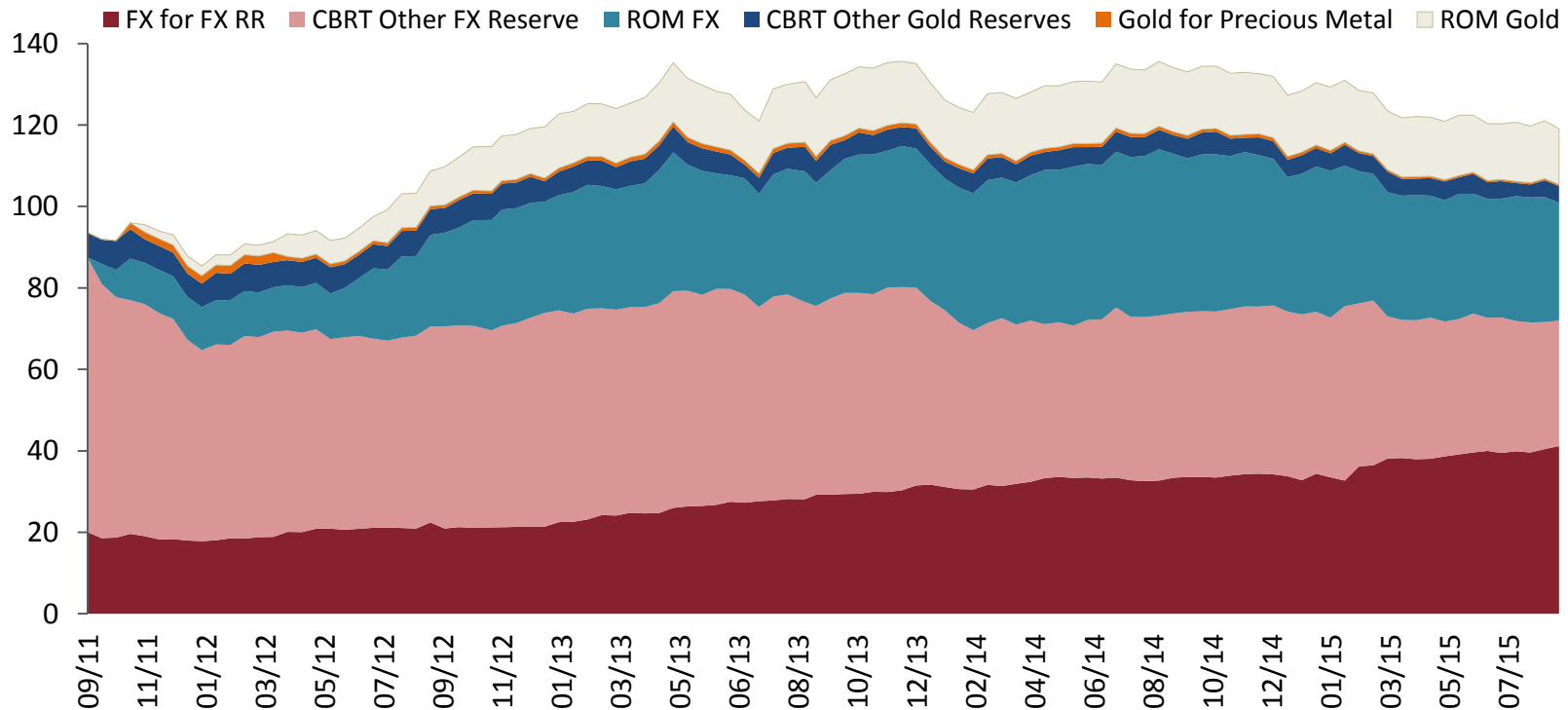
Fundamentals and Policies Required During the Normalization of Global Monetary Policies

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Reserve Requirement Policies

- FX liquidity will be released via reserve requirement policies (before and during normalization).

CBRT Reserves (Billion USD)

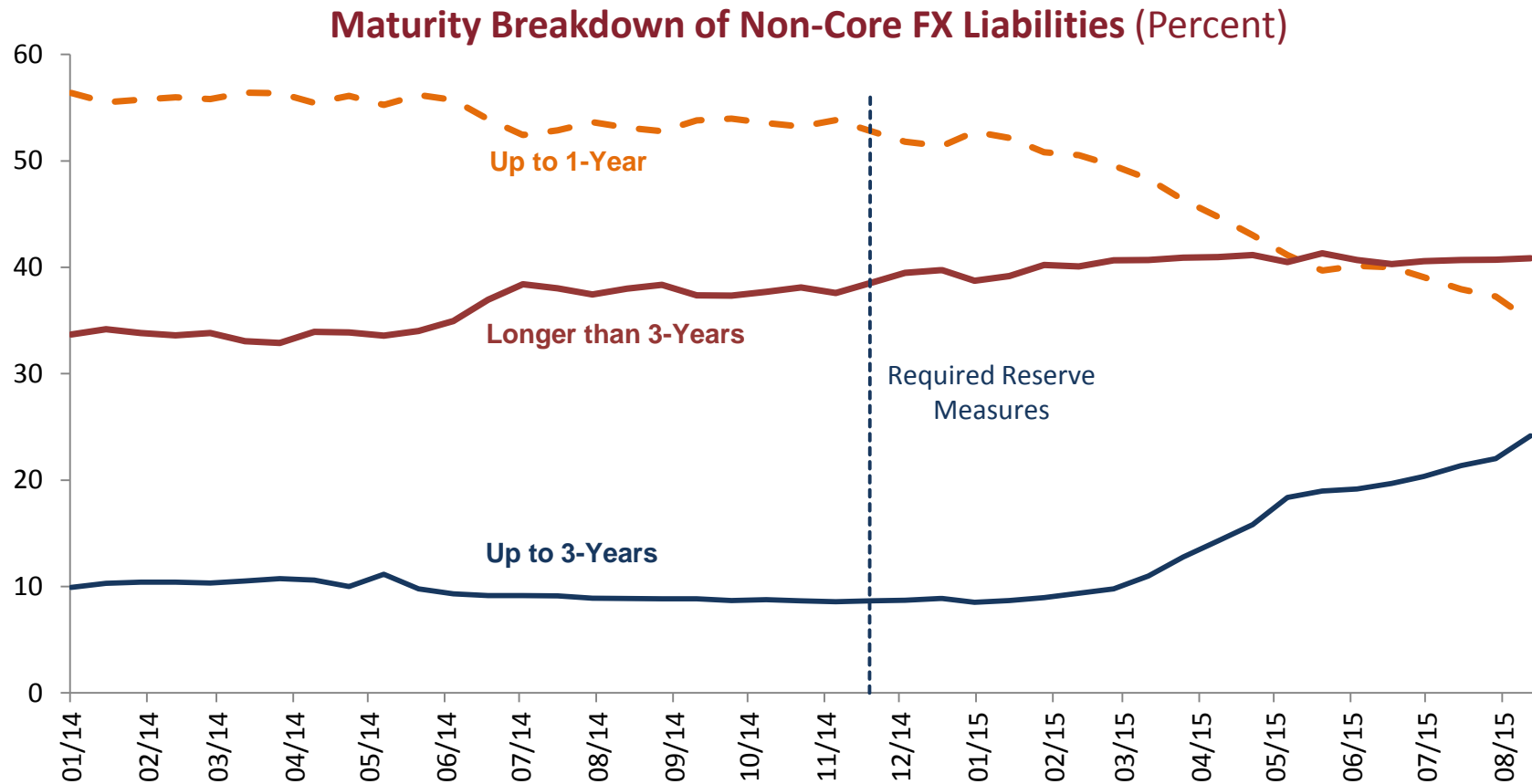


Source: CBRT

Last Observation: September 11, 2015.

Measures to Support Financial Stability: Lengthening the Maturity of Noncore FX Liabilities

- FX required reserve ratios for the newly originated FX noncore liabilities of the financial institutions are adjusted to encourage further maturity extension.

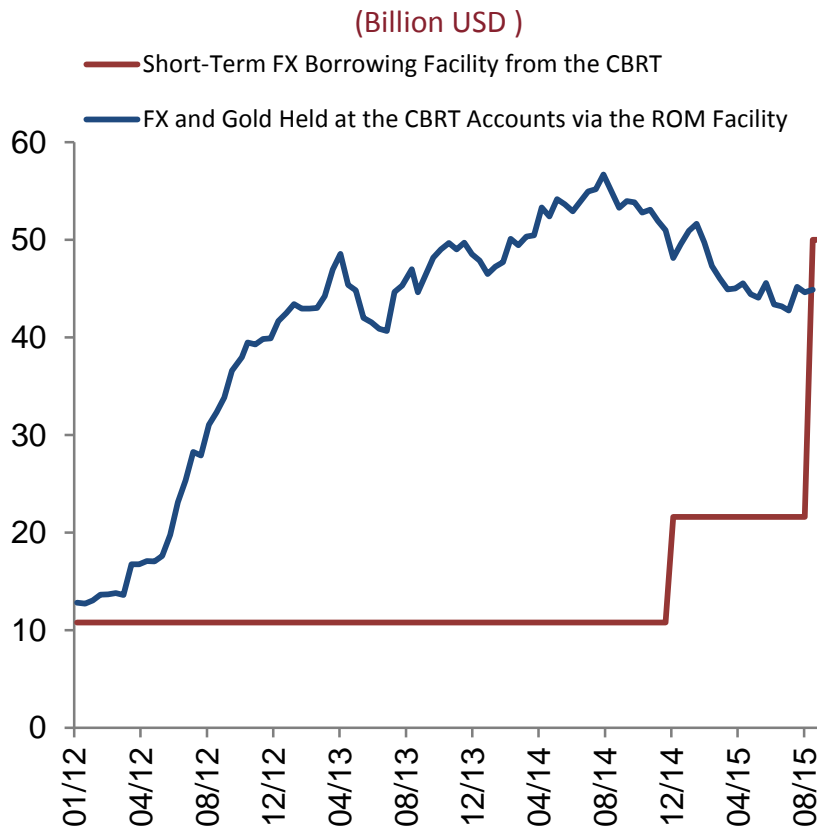


Source: CBRT

Last Observation: August 28, 2015.

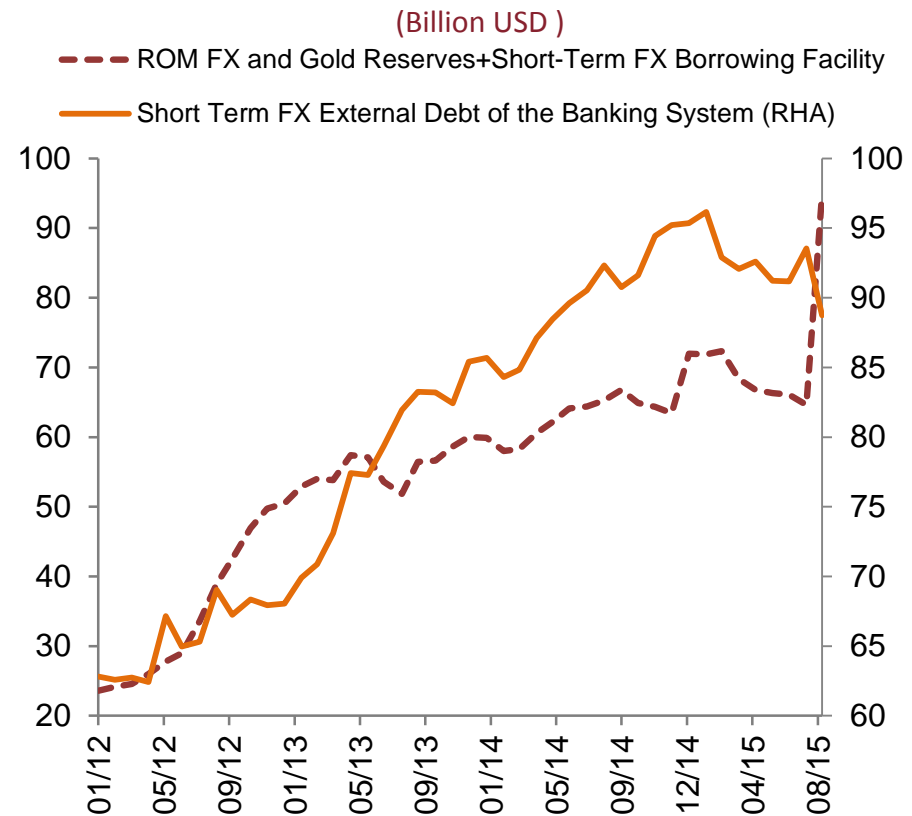
FX Liquidity Measures: Foreign Exchange Deposit Market

- The CBRT has expanded the safety net facility by increasing the transaction limits at the CBRT Foreign Exchange and Banknotes Markets.
- FX liquidity readily available to the financial system through ROM and foreign exchange deposit market is now considerably above the short term debt stock of the banks.



Source: CBRT

Last Observation: September 11, 2015.



Source: CBRT

Last Observation: August 28, 2015.

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Policy Buffers

- Ample fiscal policy space:
 - very low budget deficit, as well as primary surplus
 - low public debt to GDP ratio
- Ample monetary policy space
- Ample macroprudential policy space

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The Road Map During the Normalization of Global Monetary Policies

Liquidity Management Simplification

- More narrow, more symmetric interest rate corridor
- Restriction on funding to primary dealers
- More simplified collateral conditions

FX Liquidity Measures

- Flexible FX selling auctions
- Adjustments in required reserve and Reserve Options Mechanism conditions
- Measures on FX deposit market

Measures to Support Financial Stability

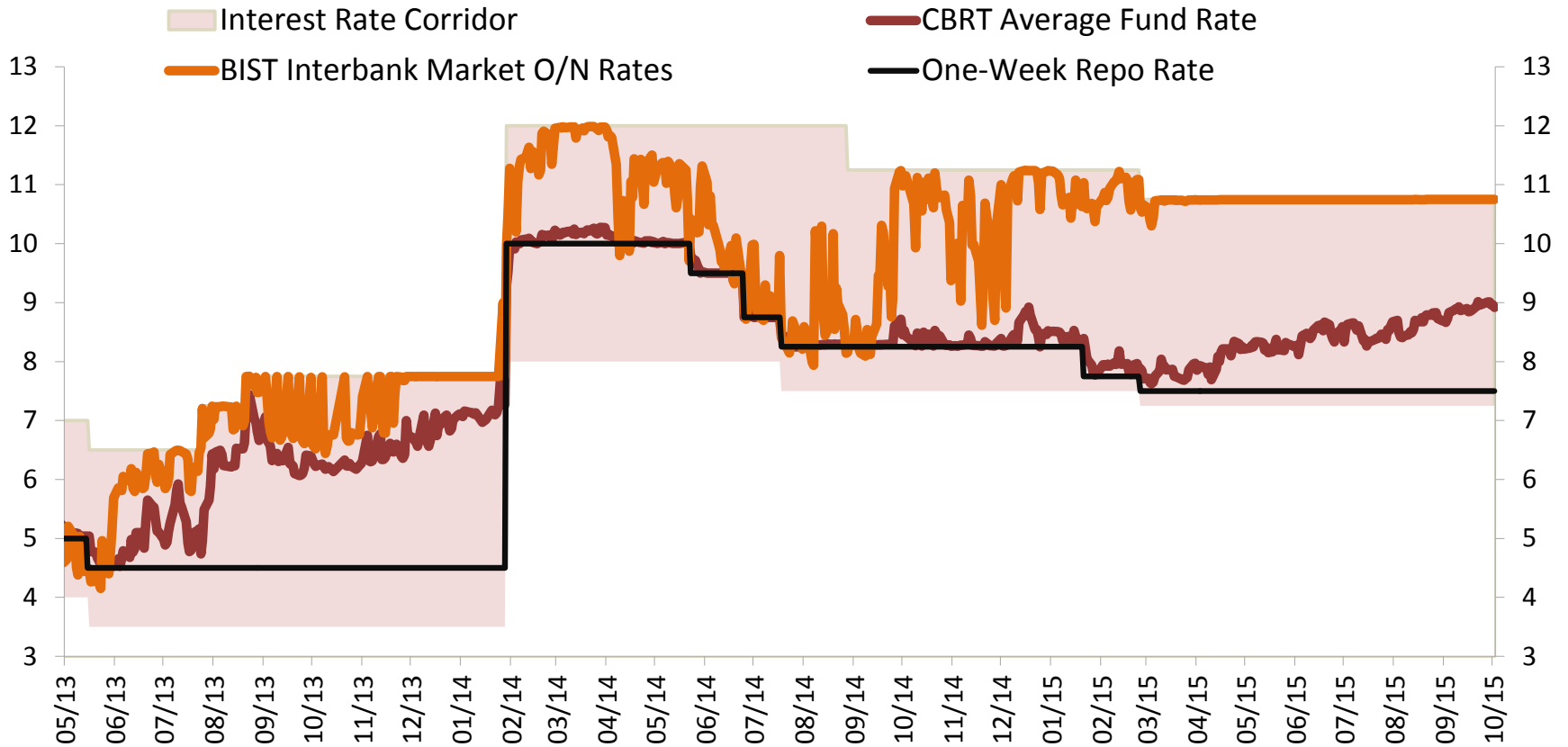
- Lengthening the maturity of noncore FX liabilities
- Supporting core liabilities in Turkish Lira
- Remuneration of FX required reserves

The Road Map During the Normalization of Global Monetary Policies

Policy Measure	Timing
Interest Rate Corridor	During Normalization
Funding	Before Normalization
Collateral Conditions	Before and During Normalization
Flexible FX Selling Auctions	Before Normalization
Reserve Options	Before and During Normalization
Measures on FX Deposit Market	Before Normalization
Lengthening the Maturity of Noncore FX Liabilities	Before Normalization
Supporting TL Core Liabilities	Before and During Normalization
Remuneration of FX Required Reserves	Before and During Normalization

The liquidity policy has been tight and will remain tight as long as deemed necessary.

Interest Rates (Percent)

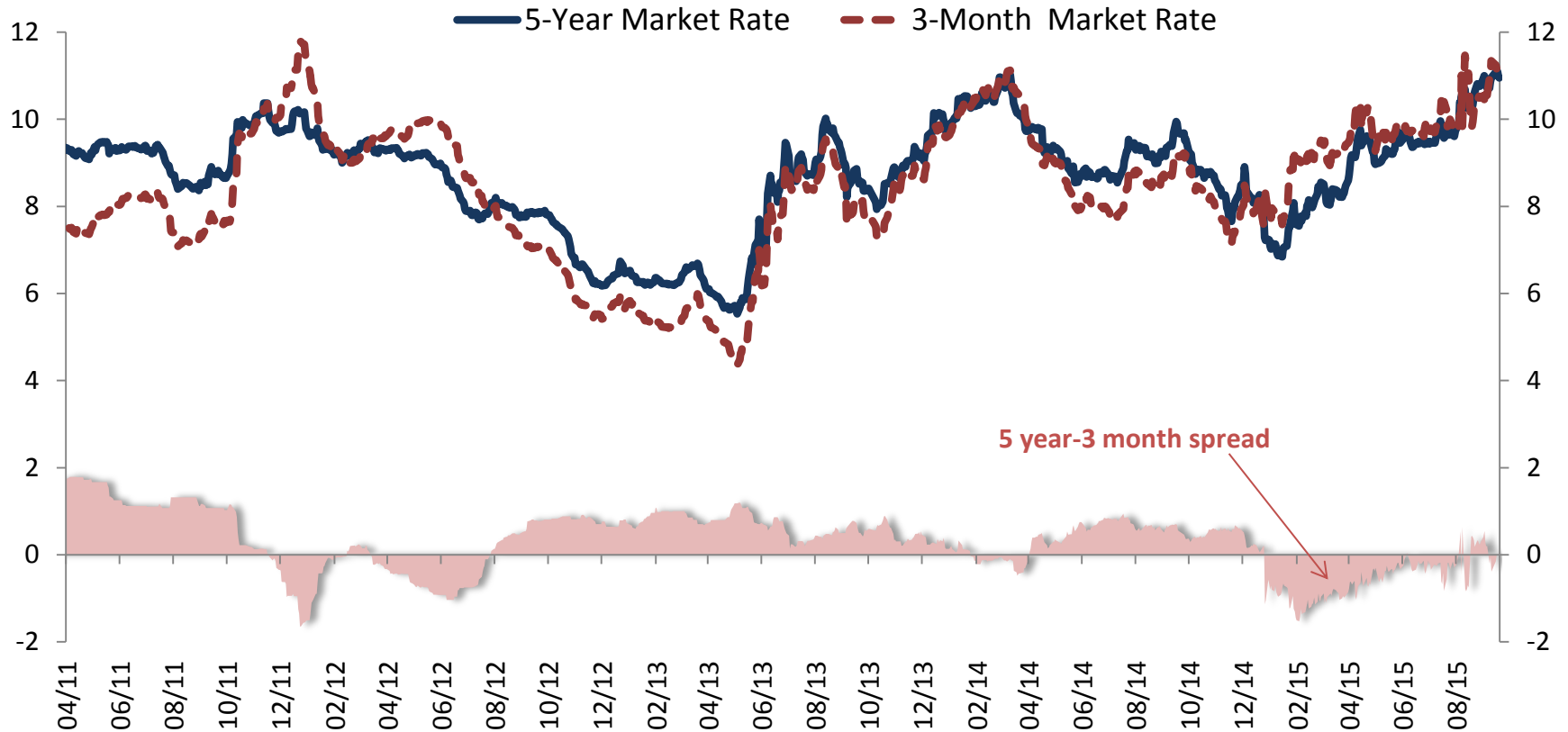


Source: CBRT

Last Observation: October 02, 2015.

Yield curve is flat due to the tight liquidity policy.

Interest Rates (Percent)

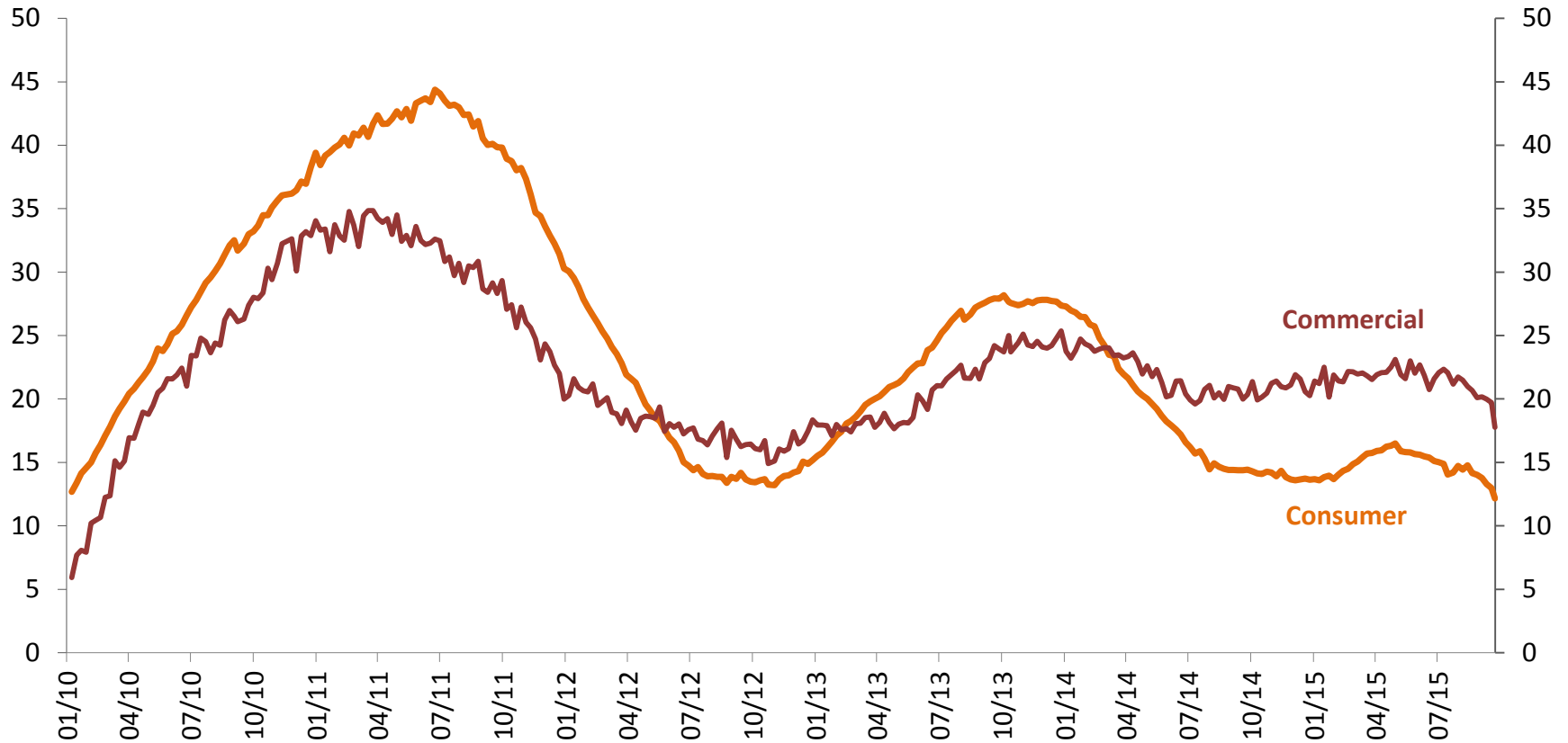


Source: CBRT.

Last Observation: October 02, 2015.

Commercial loans grow at a faster pace than consumer loans, contributing to price stability, financial stability, and the rebalancing process.

Loan Growth Rates
(Annual Percentage Change)



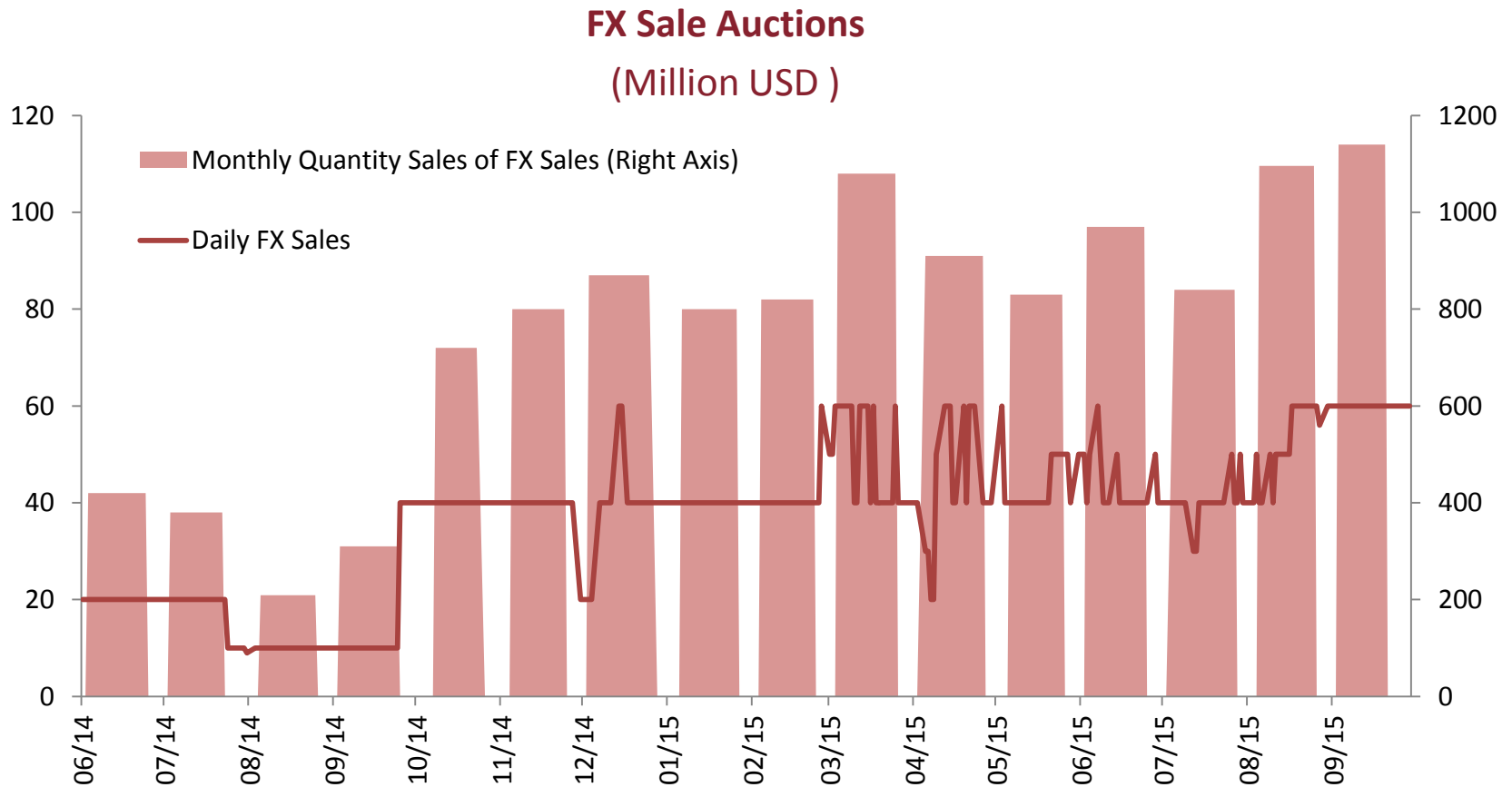
Source: CBRT.

Last Observation: September 23, 2015.

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

FX Liquidity Measures: Flexible FX Sale Auctions

- Flexibility of FX sale auctions is increased to contain exchange rate volatility.



Source: CBRT

Last Observation: September 30, 2015.



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Thank you!

Central Banking Seminar, The Implications of Divergent Monetary Policies

Federal Reserve Bank of New York

October 07, 2015