



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Durmuş Yılmaz

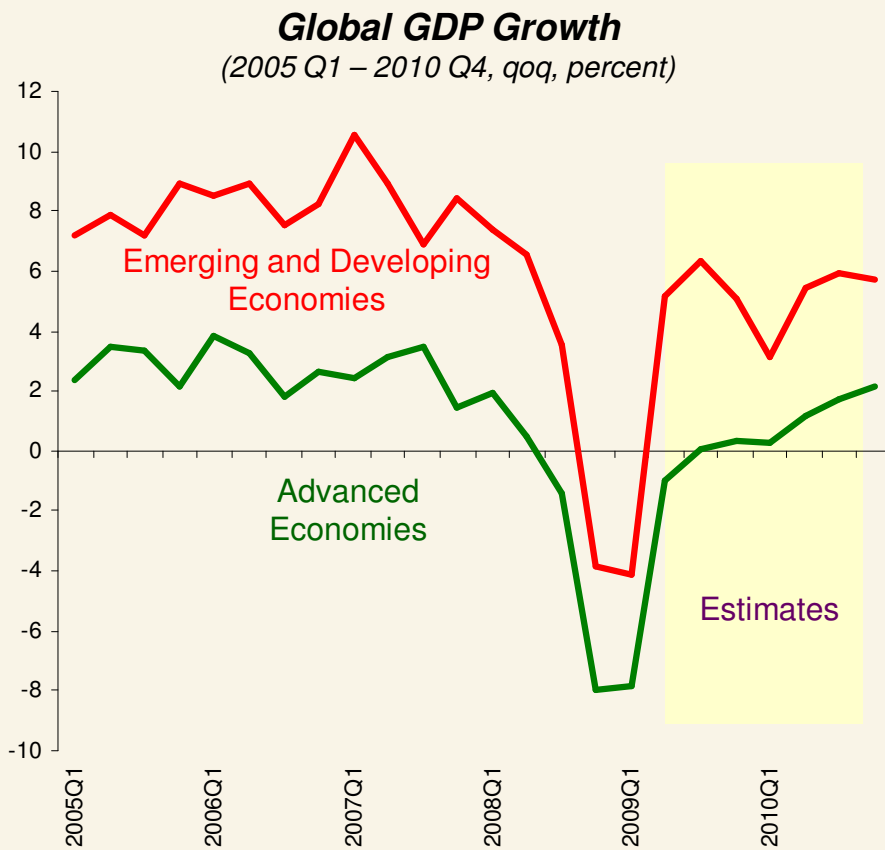
Governor

**Istanbul
October 2009**



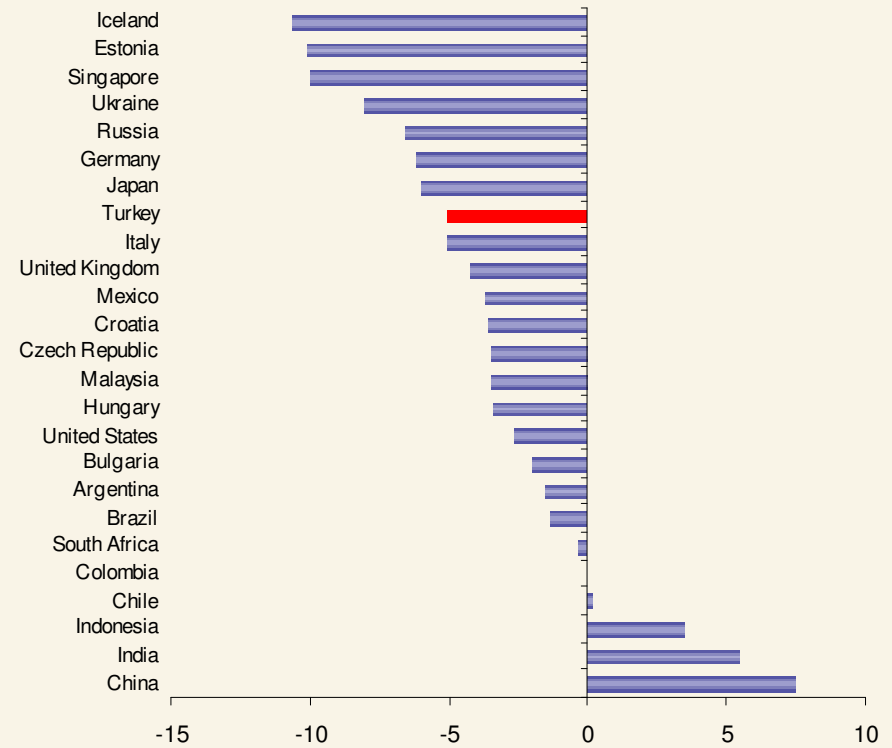
Global Financial Crisis

The effect of the global financial crisis on world economies felt in an abrupt and devastating manner in the last quarter of 2008.



Source: IMF

2009 Growth Projections for Selected Countries
(percent)



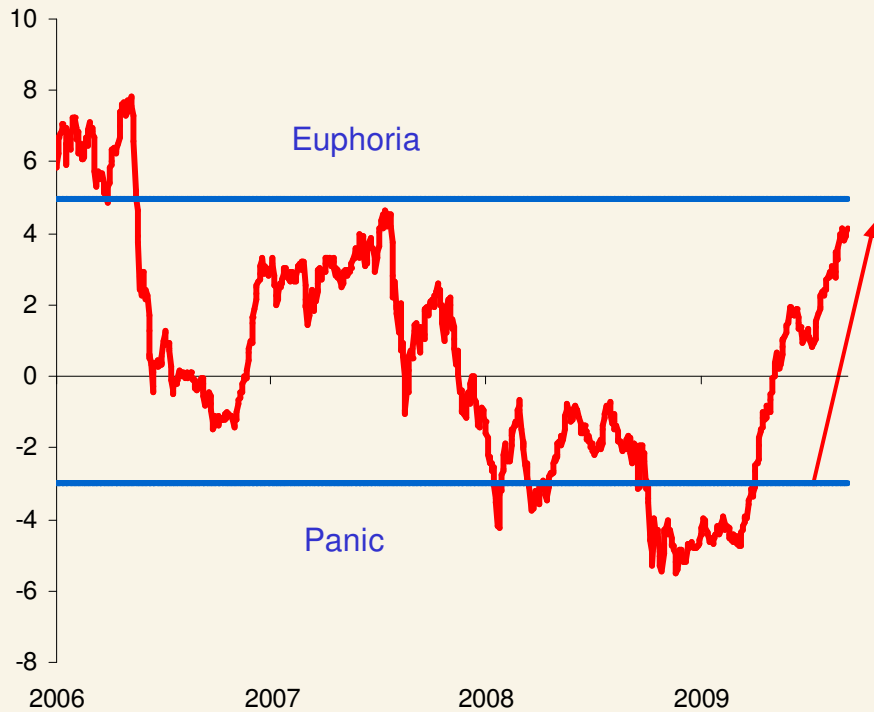
Source: IMF, CBT



Recent Developments in Financial Markets

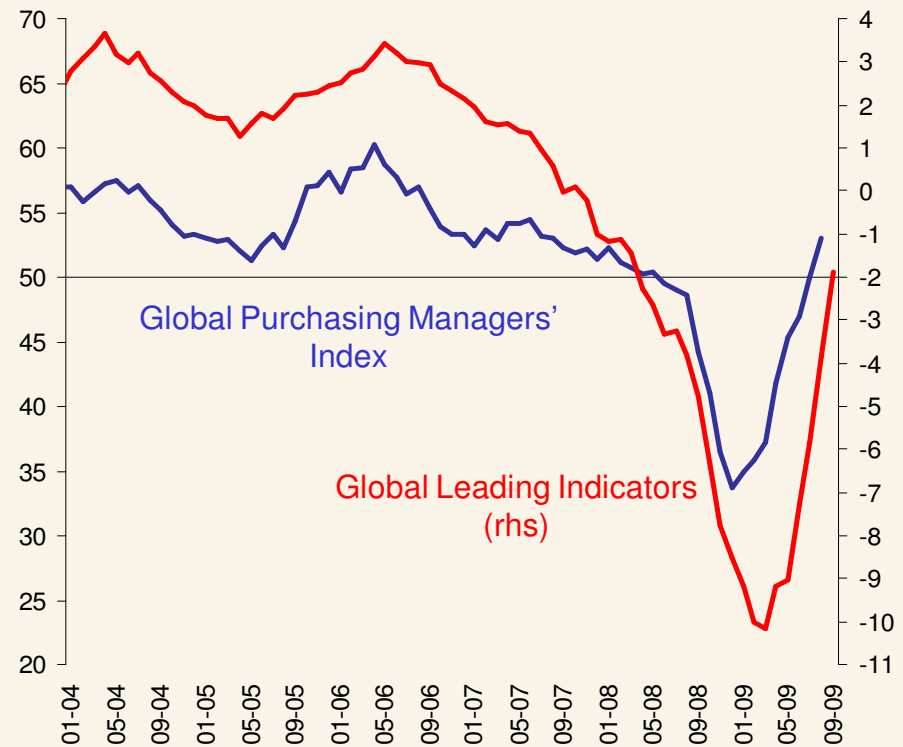
A certain degree of optimism has prevailed in global financial markets recently. This favorable atmosphere has implications on real economy, too.

Risk Appetite Index
(Jan 2006 – Sep 2009)



Source: Credit Suisse, CBT

Global Purchasing Managers' Index and Leading Indicators
(Jan 2004 – Sep 2009)



Source: Bloomberg, Goldman Sachs, CBT

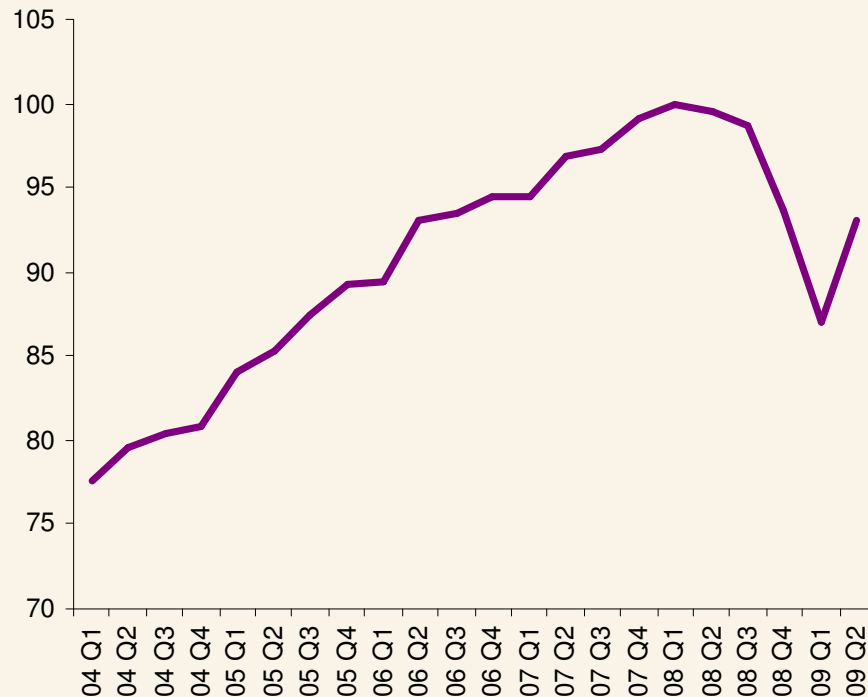


Effects of the Global Crisis on the Turkish Economy

The global turmoil led to a significant slowdown in economic activity in developing countries, and Turkey was no exception.

GDP

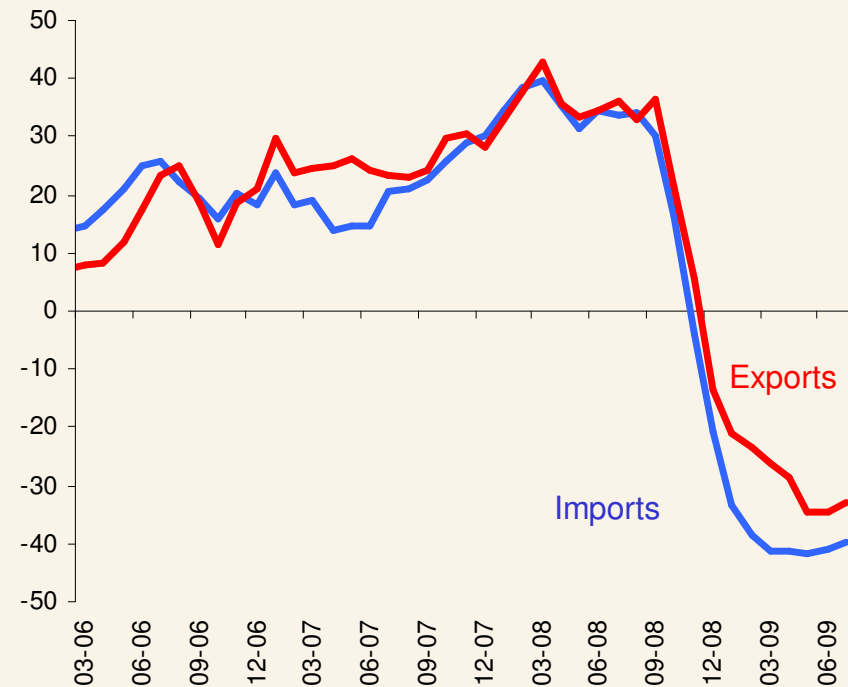
(2004 Q1 – 2009 Q2, 2008 Q1 = 100, SA)



Source: Turkstat, CBT

Change in Exports and Imports

(Mar 2006 – Jul 2009, yoy percentage change, 3-month moving average)



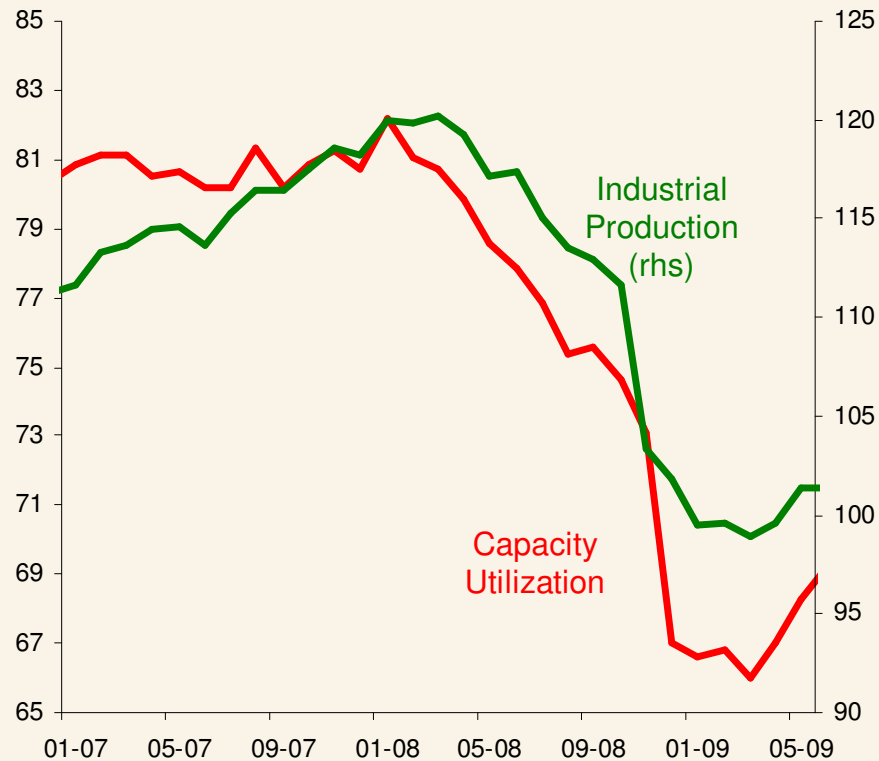
Source: Turkstat, CBT



Production Developments and Orders Expectations

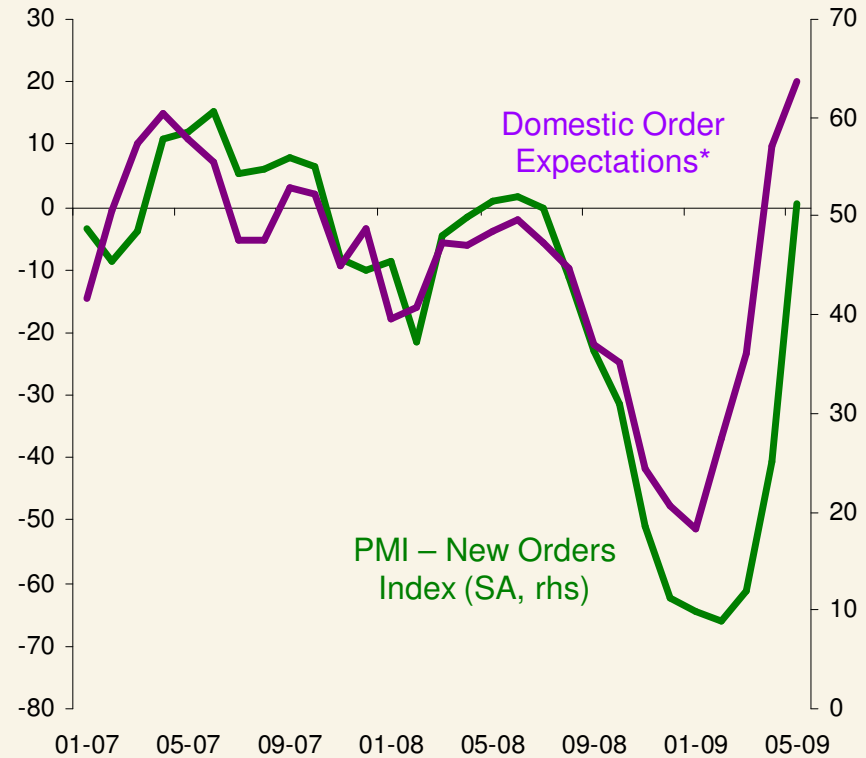
Industrial production gained stability in the second quarter of 2009. Recent indicators point to a gradual recovery.

Industrial Production Index (Jan 2006 – Aug 2009,sa)
Capacity Utilization Rate (Jan 2006 – Aug 2009,sa)



Source: Turkstat, CBT

Demand Indicators
(Jan 2007 – Aug 2009)



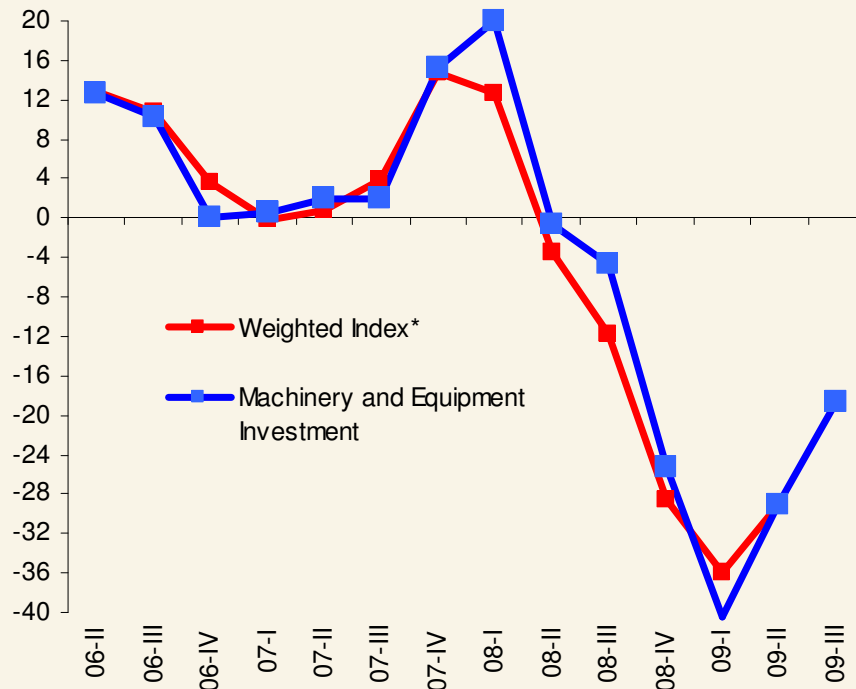
*Business Tendency Survey (Next 3 months)
Source: ABN Ambro, CBT



Investment and Employment Forecasts

A significant acceleration in aggregate demand is not expected in the foreseeable future.

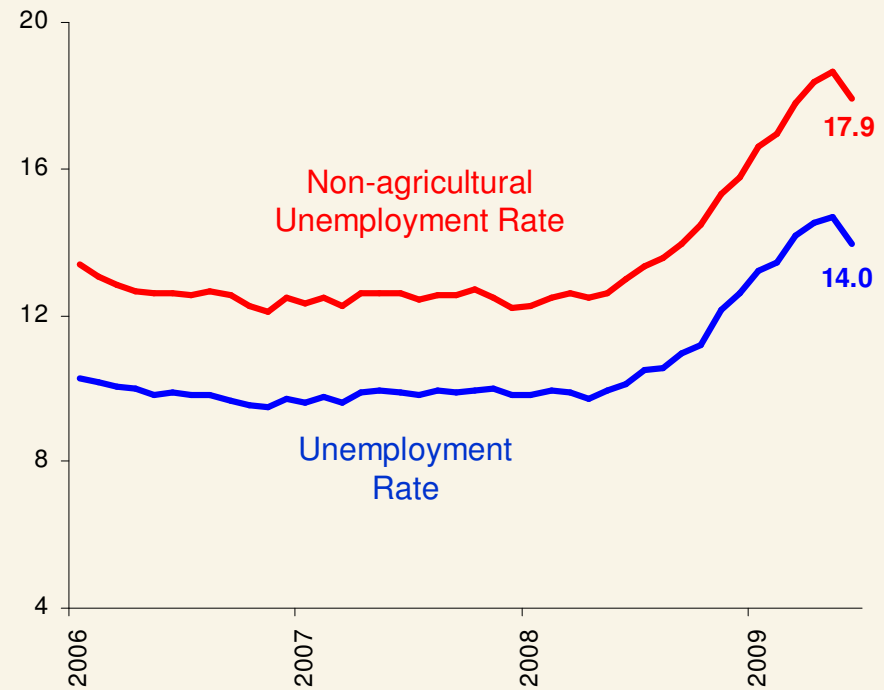
Investment Expenditures
(2006 Q1 – 2009 Q3, percent)



* An Index compiled by using data pertaining to production and imports of investment goods

** Source: TURKSTAT, CBT

Unemployment Rates
(Jan 2006 - June 2009, sa, percent)



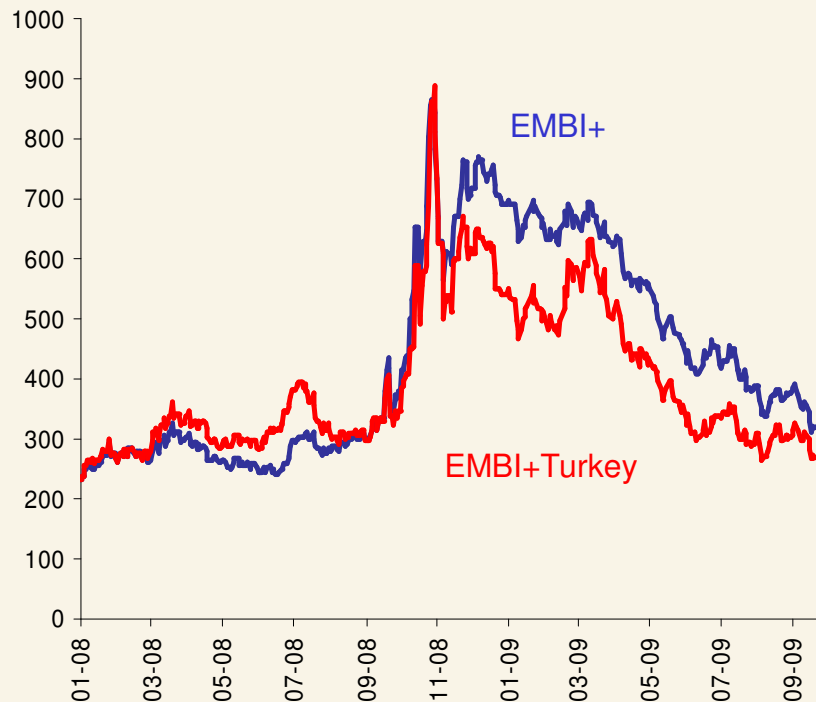
Source: TURKSTAT, CBT



Financial Developments in Turkey

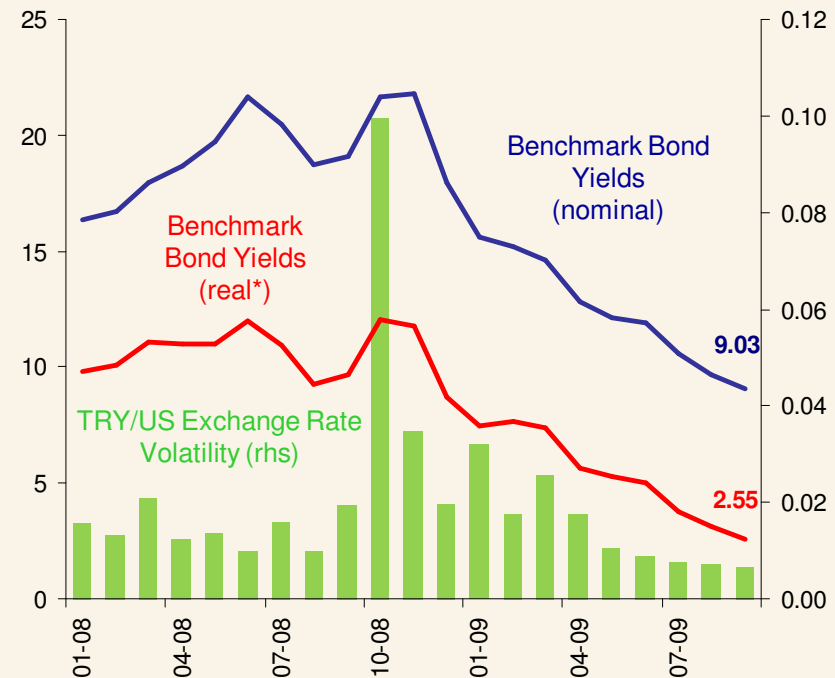
The recent recovery in global risk perceptions has favorably affected Turkey's risk premium, domestic market interest rates and volatility in exchange rates.

Risk Indicators
(Jan 2008 – Sep 2009, bps)



Source: Bloomberg, CBT

Exchange Rate Volatility and Benchmark Bond Yields
(Jan 2008 – Sep 2009, monthly average, percent)



* Based on the inflation expectations for the next 12 months
Source: BRSA, CBT

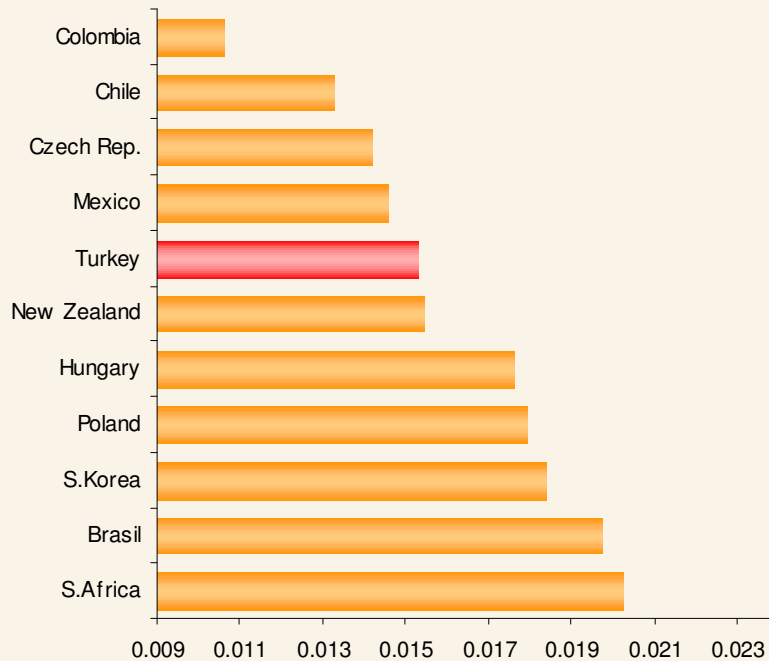


Financial Stability in Turkey

Rise in Turkey' risk premium lagged behind those of many other emerging market economies. Turkey has shown significant resistance to the crisis --- more than implied by her credit rating.

Exchange Rate Volatility

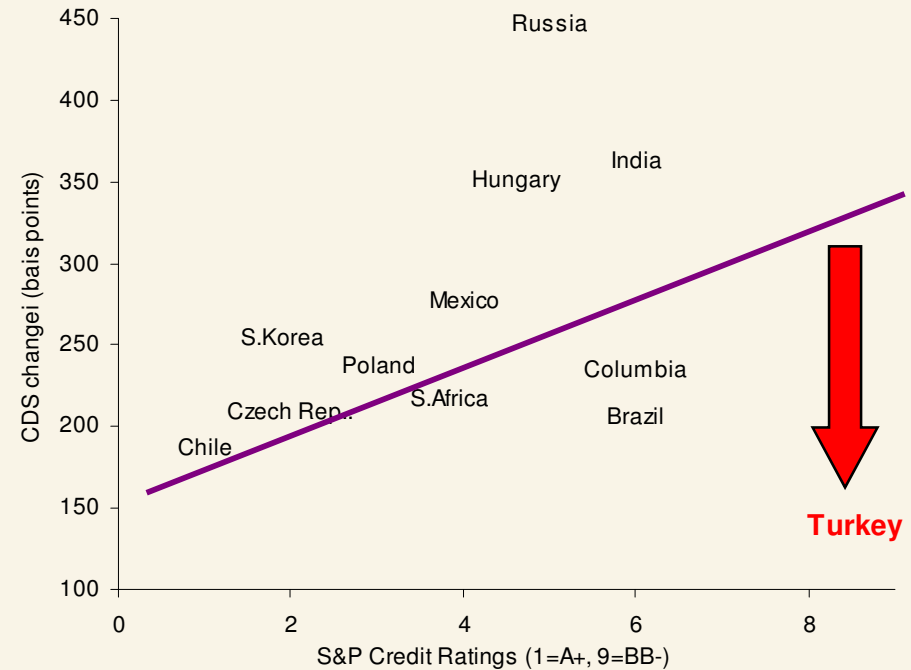
(Sep 2008 – Aug 2009, standard deviation of daily changes in exchange rates)



Source: Bloomberg, CBT

Change in Credit Ratings and Risk Premia of Countries

(Sep 2008 – Mar 2009)



Note: Trend line includes all countries except Turkey

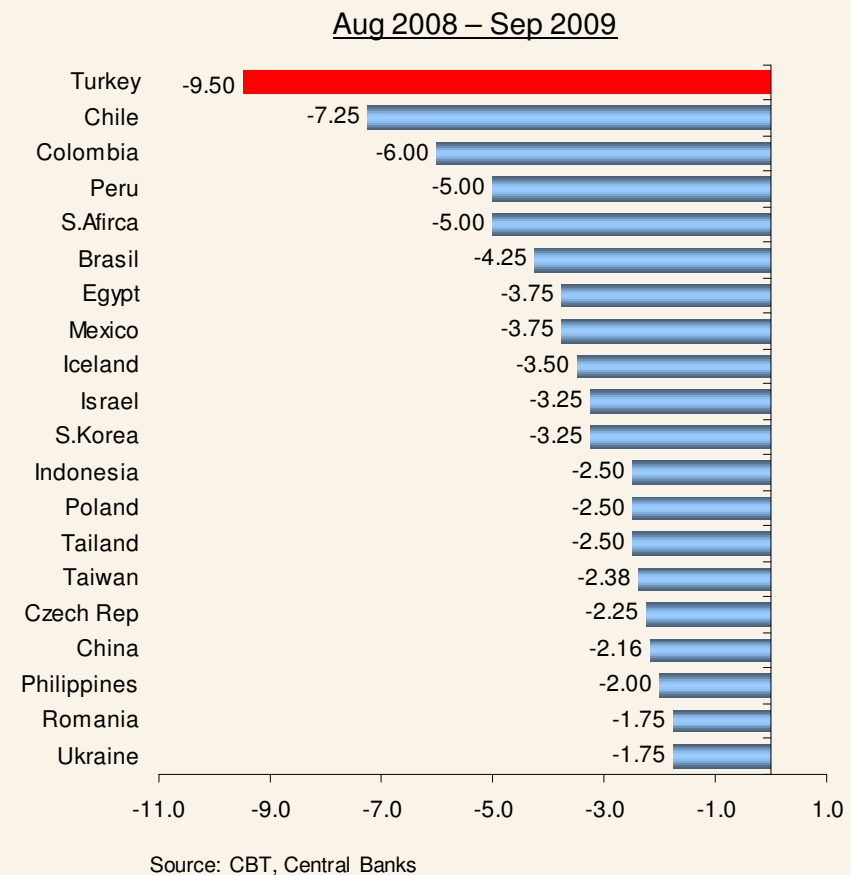
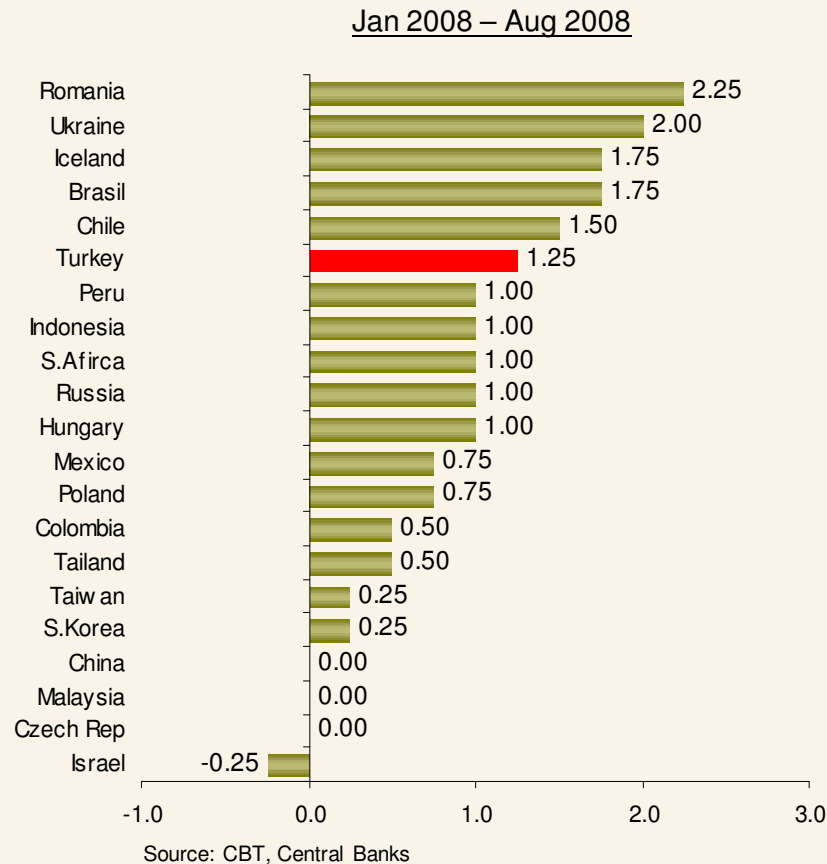
Source: Bloomberg, CBT



Monetary Policy Stance

With the disappearance of factors that were driving the inflation rate up, CBT started monetary easing and thereby assumed a leading role amongst the emerging markets.

Policy Rate Change in Emerging Market Economies
(percent)



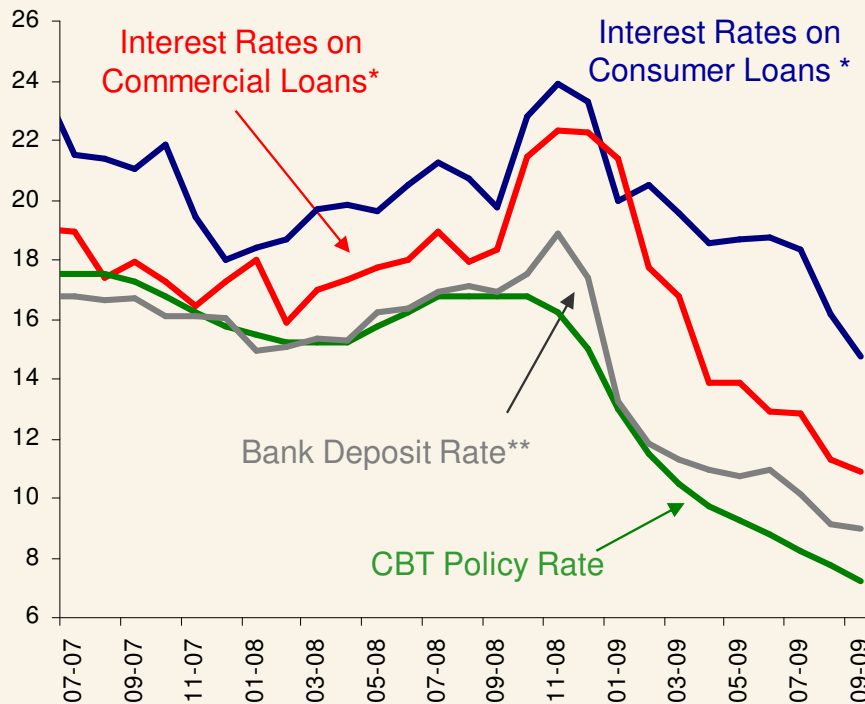


Financial Tightness Indicators

The tightness in financial conditions has come down, but it still persists to some degree despite policy rate cuts since Nov 2008.

Interest Rates

(Apr 2007 – Sep 2009, annual, percent)



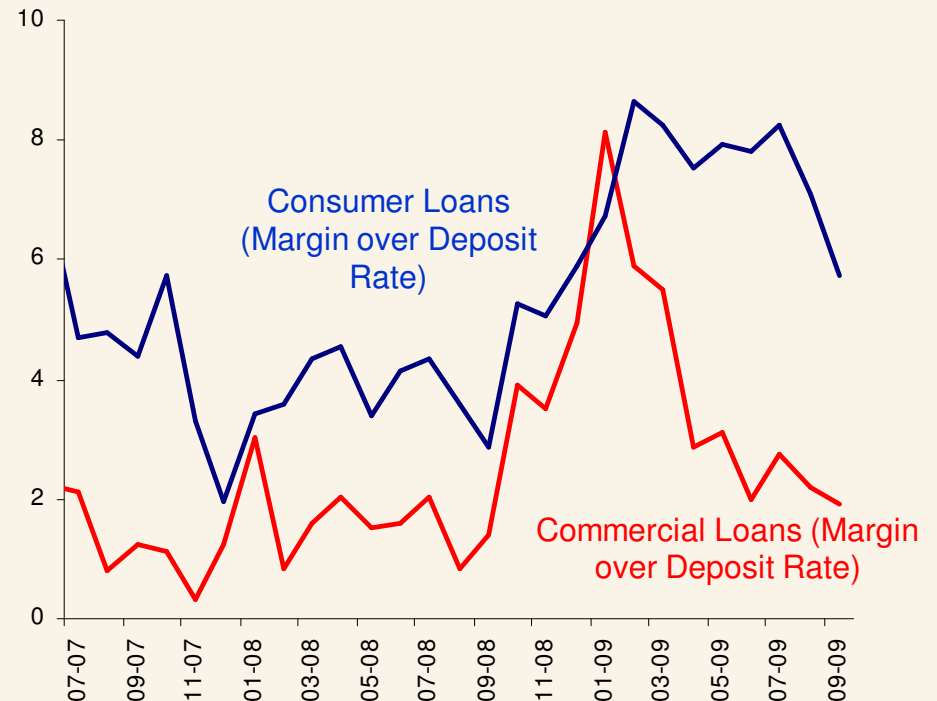
Weighted average flow interest rates.

Interest rate of consumer loans is the weighted average of automobile loans, housing loans and consumer loans.

* Excluding interbank deposits. Source: BRSA, CBT

Difference between Deposit Rate and Interest Rate on Commercial Credits and Consumer Loans *

(Jul 2007 – Sep 2009, annual, percent)



* Weighted average flow interest rates.

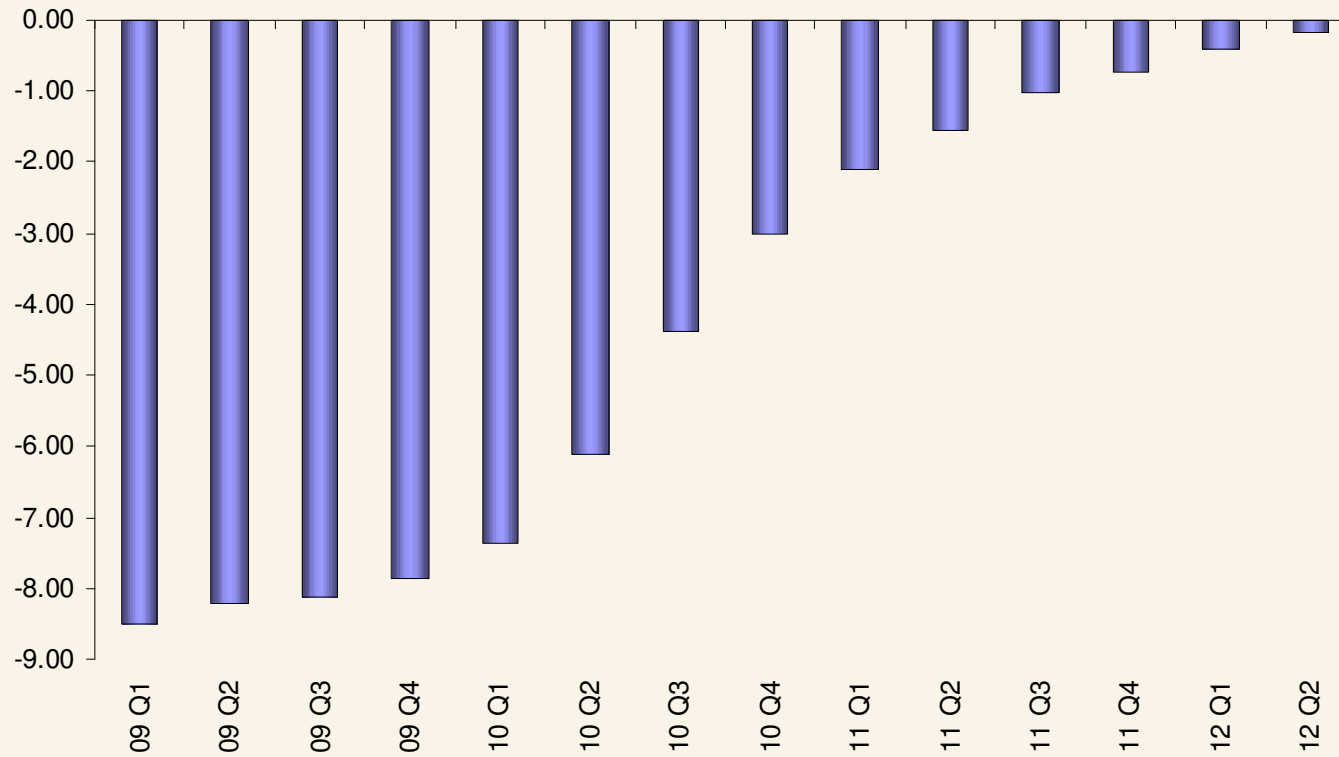
Source: CBT



Recovery in Economic Activity

Following recent rate cuts and fiscal measures, we anticipate that growth will post positive figures from the last quarter onwards.

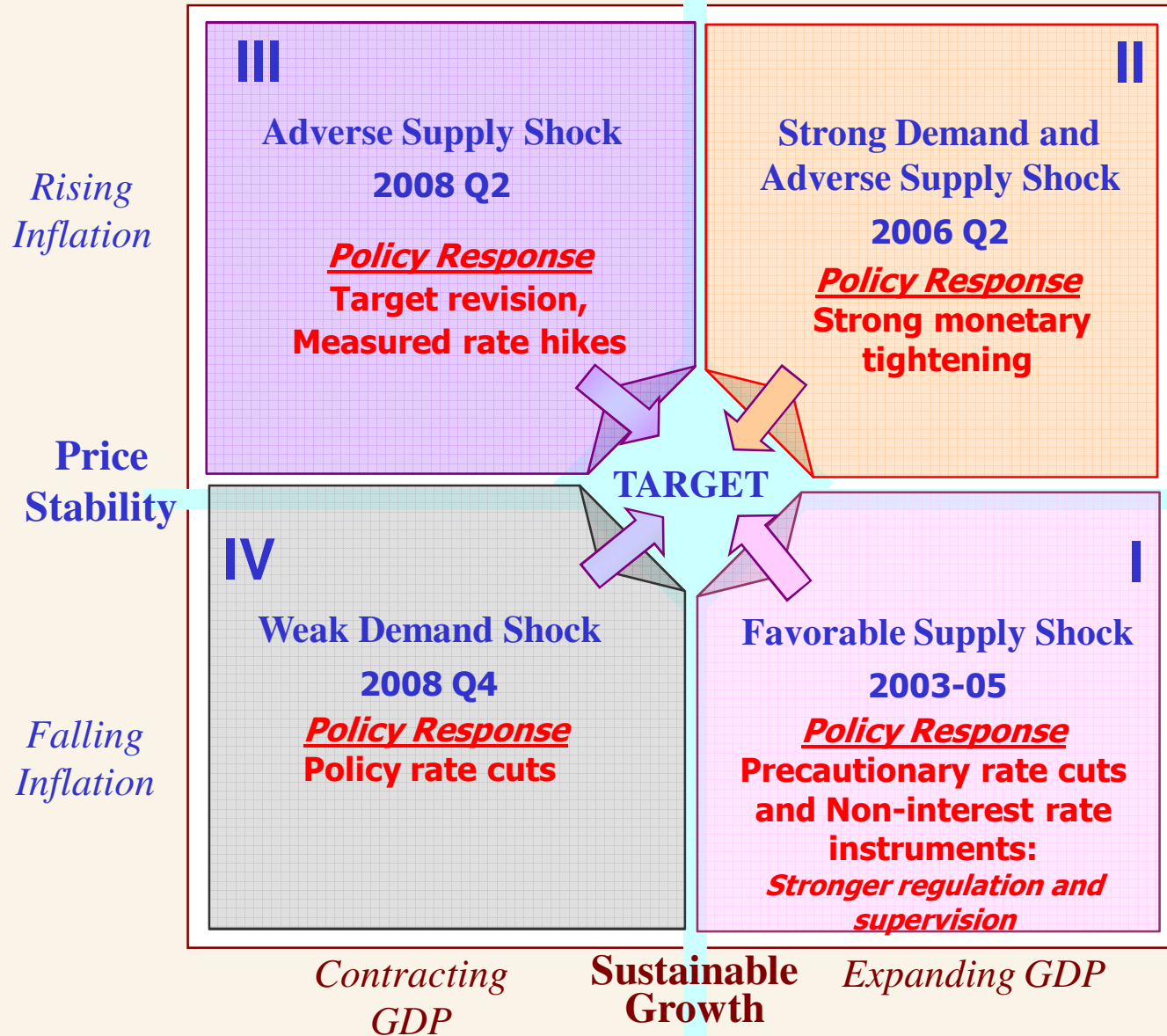
Central Bank's Output Gap Forecasts
(2009 Q1–2012 Q2)



Source: CBT



How Monetary Policy Evolved After 2001?



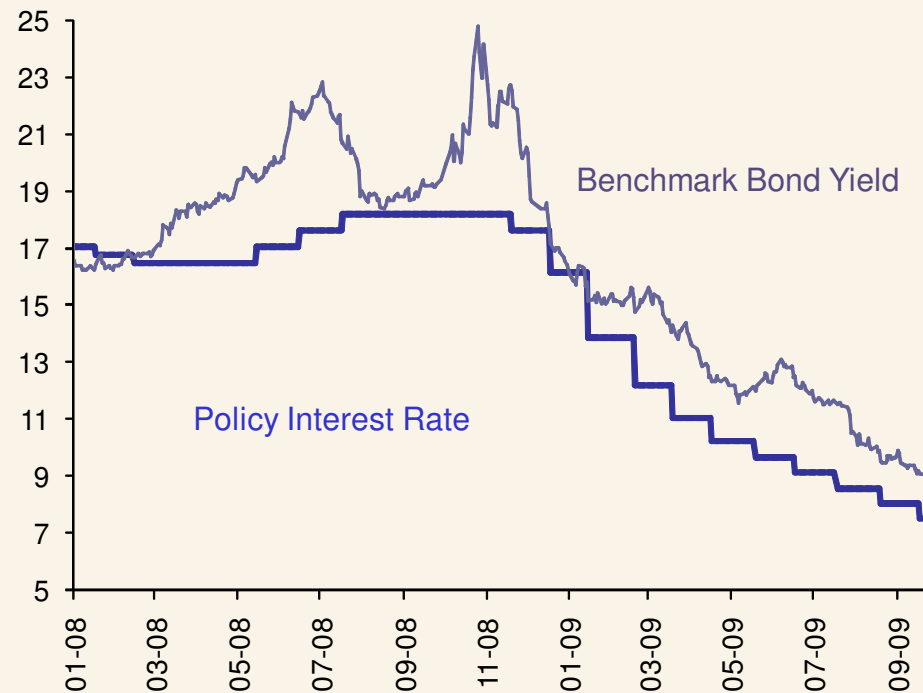


Monetary Policy Stance

Bond yields fell down to single digits for the first time since 1980s thanks to moderate recovery in risk perceptions, the Central Bank's rate cuts, and downward trend in inflation that confirmed the Central Bank's projections.

CBT Short-Term Interest Rates and Benchmark Bond Yield

(Jan 2008 – Sep 2009, compound, percent)



Source: Undersecretariat of Treasury, CBT

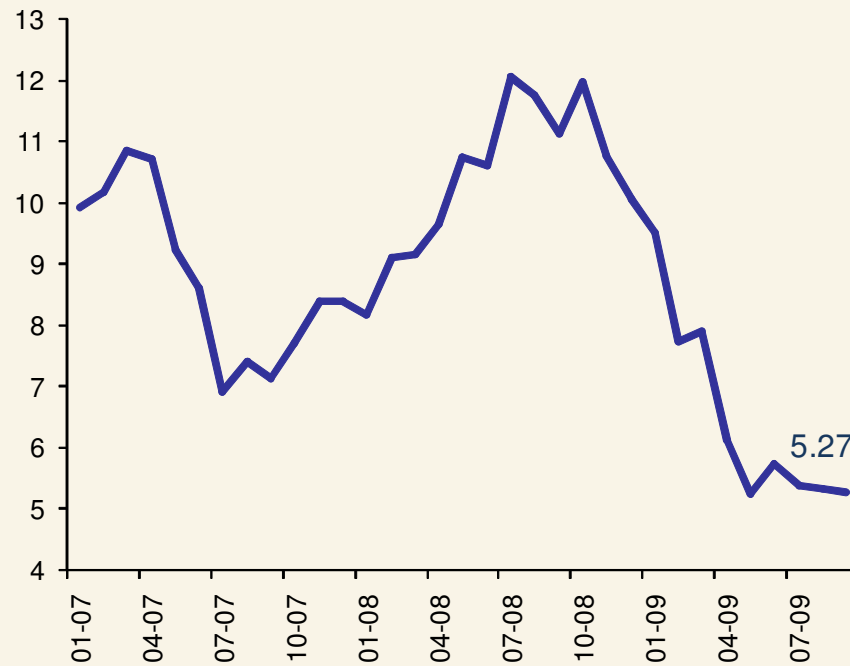


Inflation Developments in Turkey

In September, year-on-year inflation fell to 5.27 percent, whereas inflation excluding food and energy stood at 2.44 percent.

Consumer Inflation

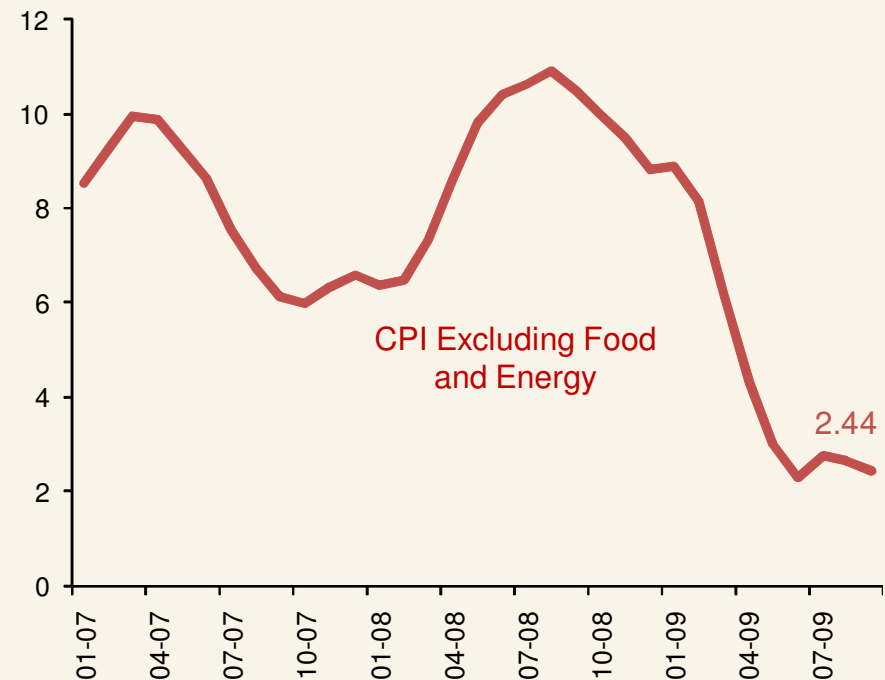
(Jan 2007 – Sep 2009, annual percentage change)



Source: TURKSTAT, CBT

Core Inflation (SCA-I)

(Jan 2007 – Sep 2009, annual percentage change)



Source: TURKSTAT, CBT

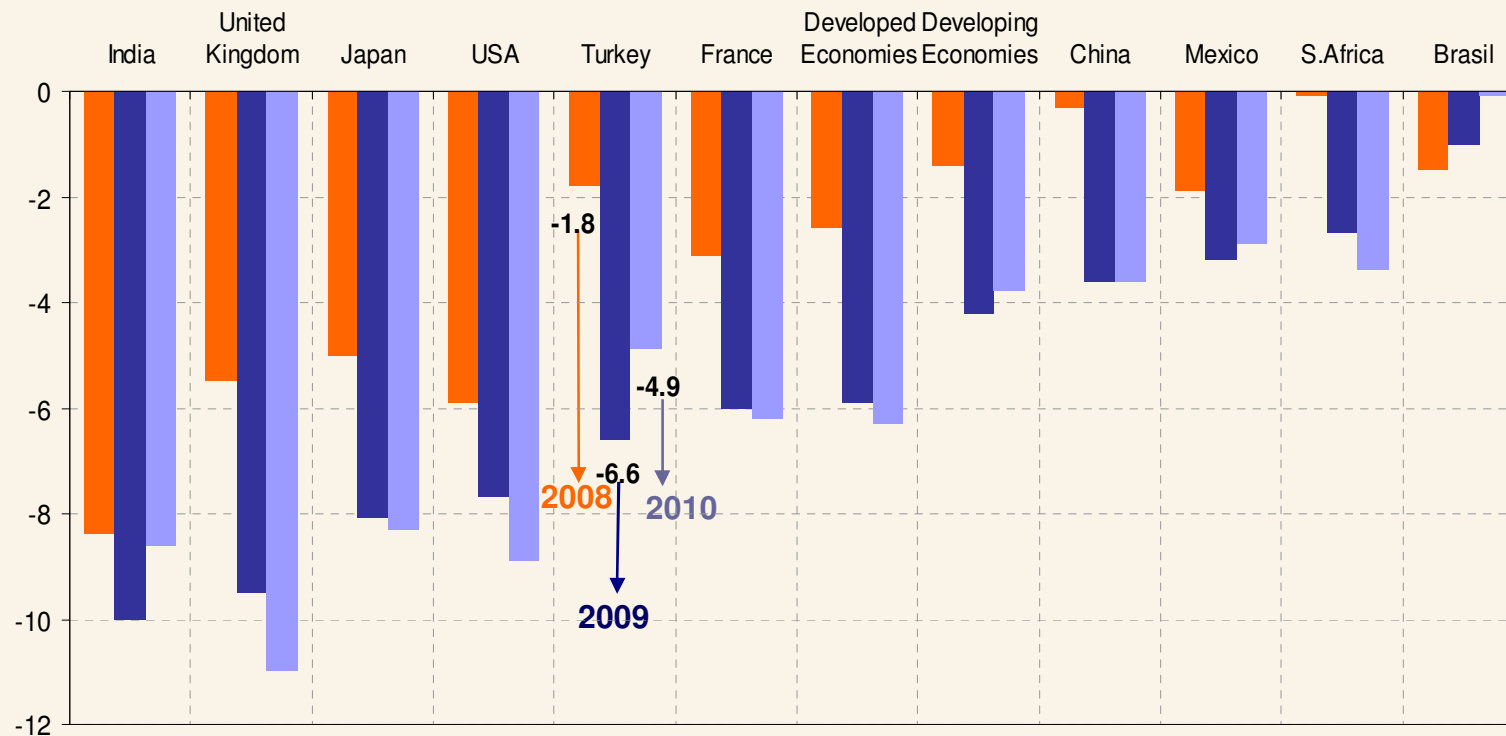


Counter-Cyclical Public Finance

One of the major factors determining the effectiveness of monetary policy in this period is developments in fiscal policy. Many countries are increasing their public expenditures within their means in order to revive domestic demand.

2008 Budget Deficit and 2009-2010 Budget Deficit Forecasts*

(Ratio to GDP, percent)



* MTFE forecasts are used for Turkey and IMF forecasts for the rest.

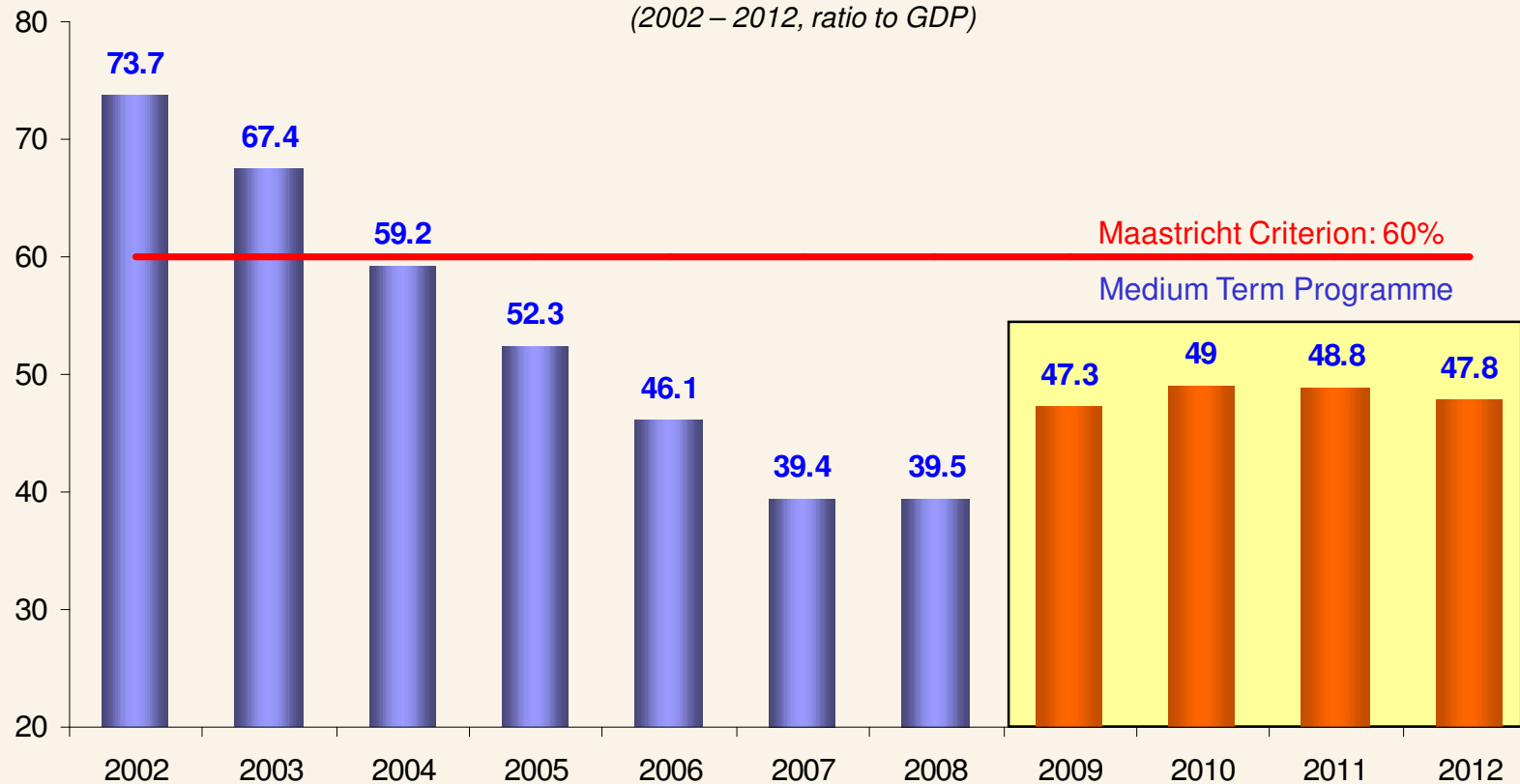
* Source: IMF, MT, CBT



Medium Term Fiscal Framework

Short-term fiscal expansion should be backed by a credible medium term fiscal framework that would ensure fiscal discipline and debt sustainability.

EU-Defined Public Debt Stock and Targets
(2002 – 2012, ratio to GDP)



Source: Medium Term Programme , Undersecretariat of Treasury, CBT



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Durmuş Yılmaz

Governor

**Istanbul
October 2009**