



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Erdem Başçı
Deputy Governor

12 November 2008



Global Crisis, Global Response - 1

G-20 Communiqué, Brazil, November 8-9, 2008

- ✓ “We affirmed our determination to take all necessary steps to foster non-inflationary growth in a stable and sustainable manner according to the needs and available instruments in our respective countries, including through monetary and fiscal policy.”

<http://www.g20.org/G20/>



Global Crisis, Global Response - 2

G-20 Communiqué, Brazil, November 8-9, 2008 (cont.)

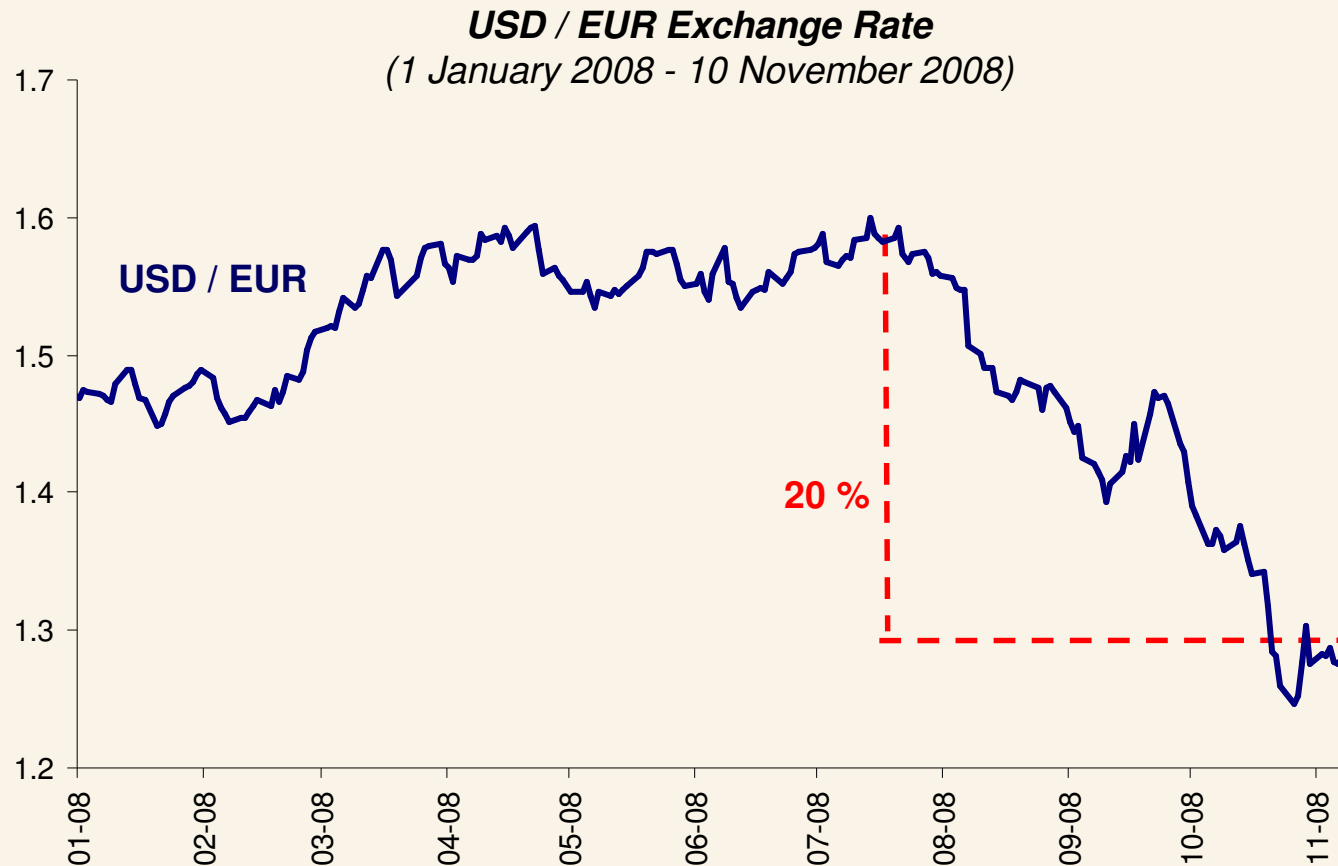
- ✓ “One of the most deleterious aspects of the current crisis is the freeze in the private credit and equity markets and the tendency of capital to flow back to where the current crisis originated.”
- ✓ “We should explore ways to restore emerging and developing countries’ access to credit and resume capital flows which are critical for sustainable growth and development, including ongoing infrastructure investment.”

<http://www.g20.org/G20/>



Global Liquidity Problem - 1

USD has appreciated nearly 20 percent against EUR since late July.



Source: ECB



Global Liquidity Problem - 2

Global liquidity conditions are going through a period of extraordinary fluctuations.

Difference Between 3 Month LIBOR and Overnight Index Swap (OIS Spread)
(1 January 2007 – 7 November 2008, basis points)



* Note: Difference between LIBOR with default risk and OIS with low credit risk premium is an indicator of the level of confidence between banks.
Source: Bloomberg

Difference between 3-month LIBOR rate and 3-month US Treasury bills (TED Spread)
(1 January 2007 – 7 November 2008, basis points)



Source: Bloomberg

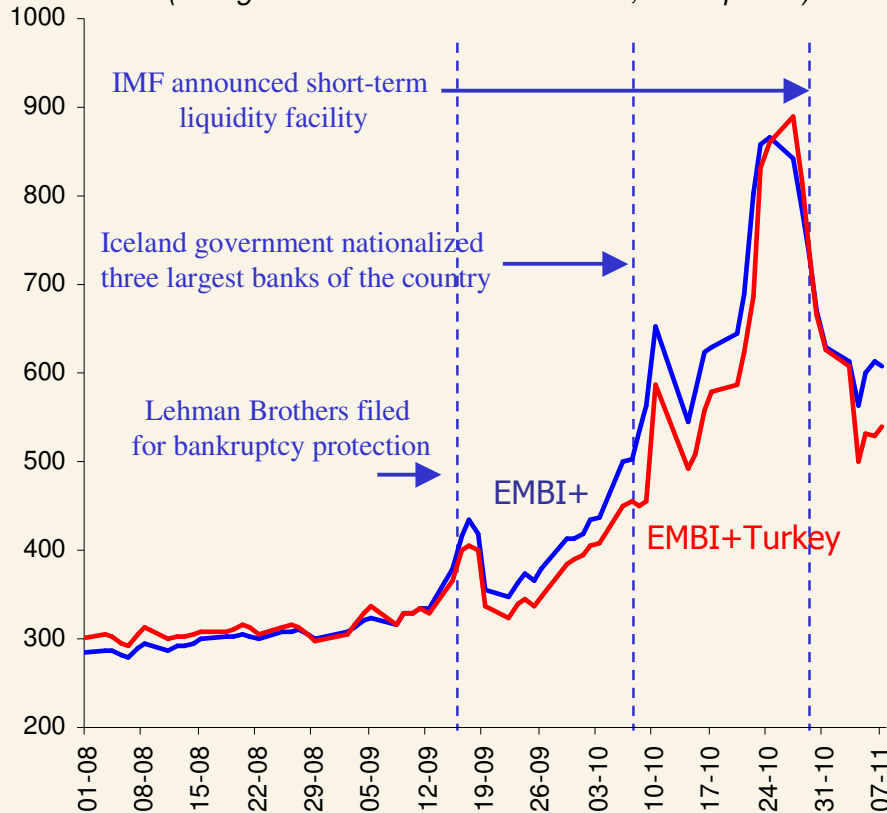


Global Liquidity Problem - 3

This situation affects Turkey like other countries sensitive to global liquidity conditions.

Risk Indicators

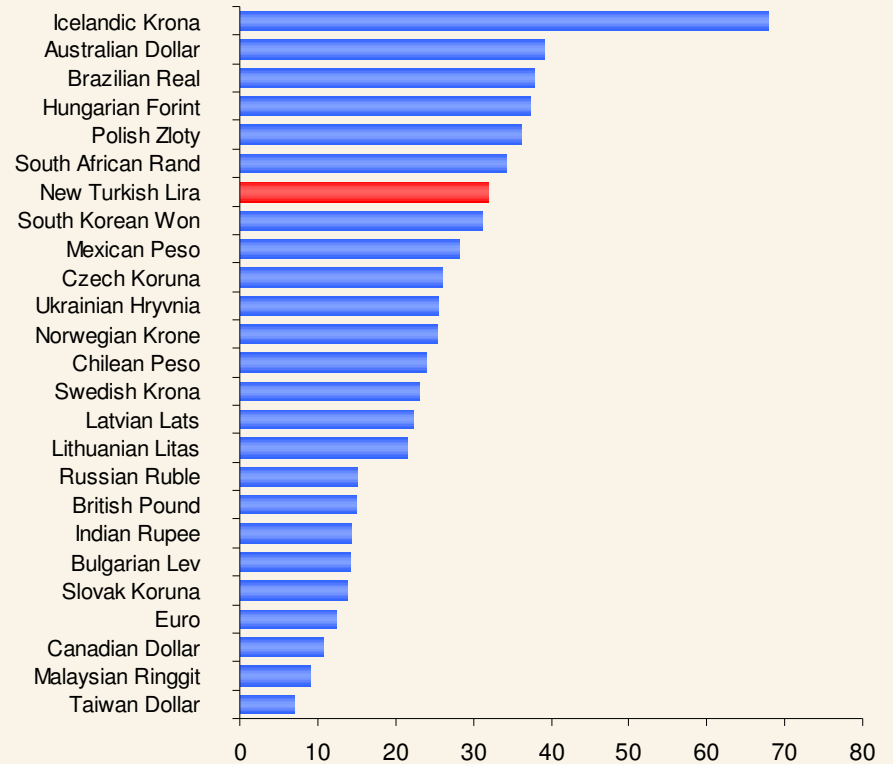
(1 August 2008 – 7 November 2008, basis points)



Source: JP Morgan

Change in the Spot FX Rates vs USD

(between 1 August 2008 and 7 November 2008, percent)



Source: Bloomberg



Global Liquidity Problem - 4

Global Response to the Liquidity Problem in the Emerging Markets:

1. The International Monetary Fund established the Short-Term Liquidity Facility, which is designed to help member countries that are facing temporary liquidity problems in the global capital markets (October 29, 2008).
2. The U.S. Federal Reserve, the Banco Central do Brasil, the Banco de Mexico, the Bank of Korea, and the Monetary Authority of Singapore announced the establishment of temporary reciprocal currency arrangements (swap lines). These new facilities would support the provision of U.S. dollar liquidity to each central bank up to \$30 billion (October 29, 2008).



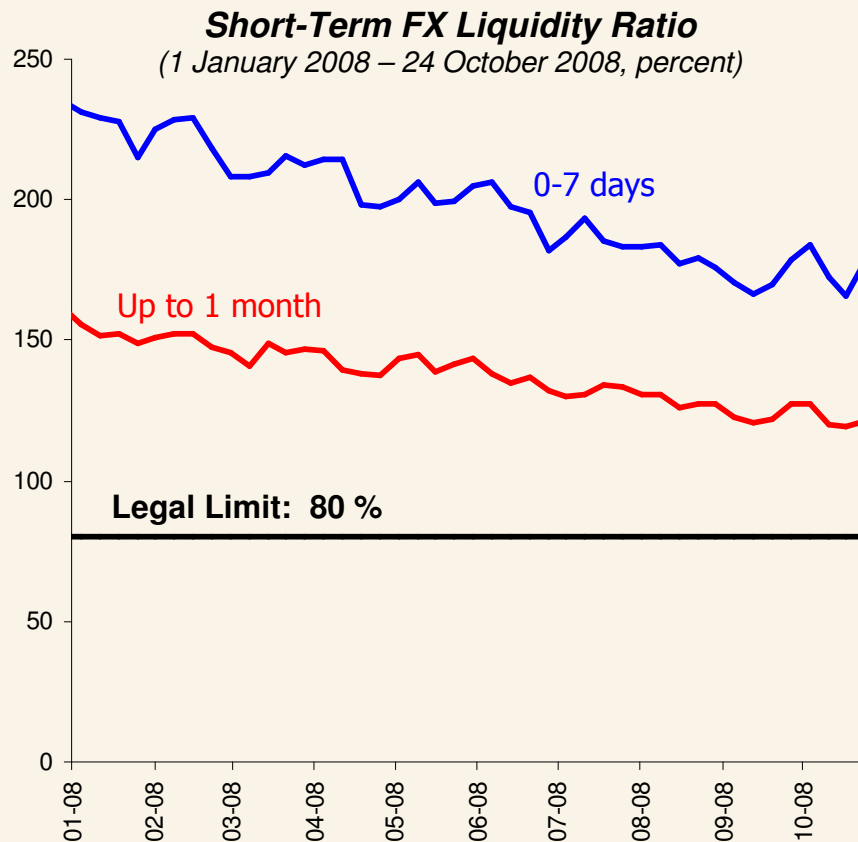
Reflections on Turkey

1. **USD liquidity**
2. **USD positions**
3. **Current Account Deficit:** *“Forecasts based on current data indicate that current account deficit will improve significantly in 2009.”* (Governor’s remark, October 31, 2008)

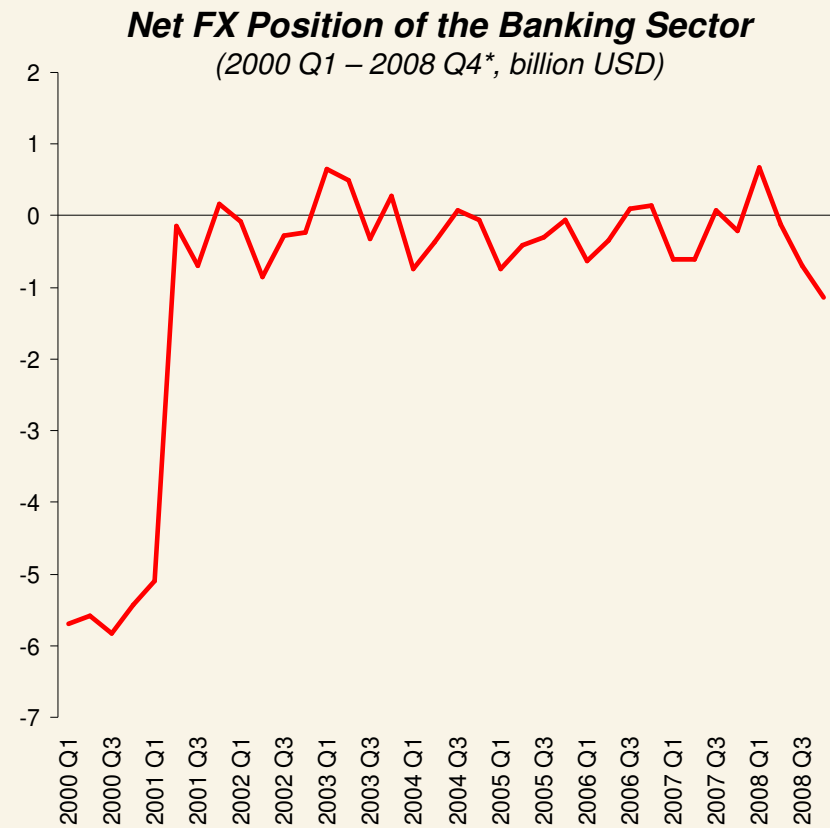


Banking System

In Turkey, the banking system has been relatively prepared for the current crisis in terms of foreign exchange liquidity.



Source: BRSA, CBT

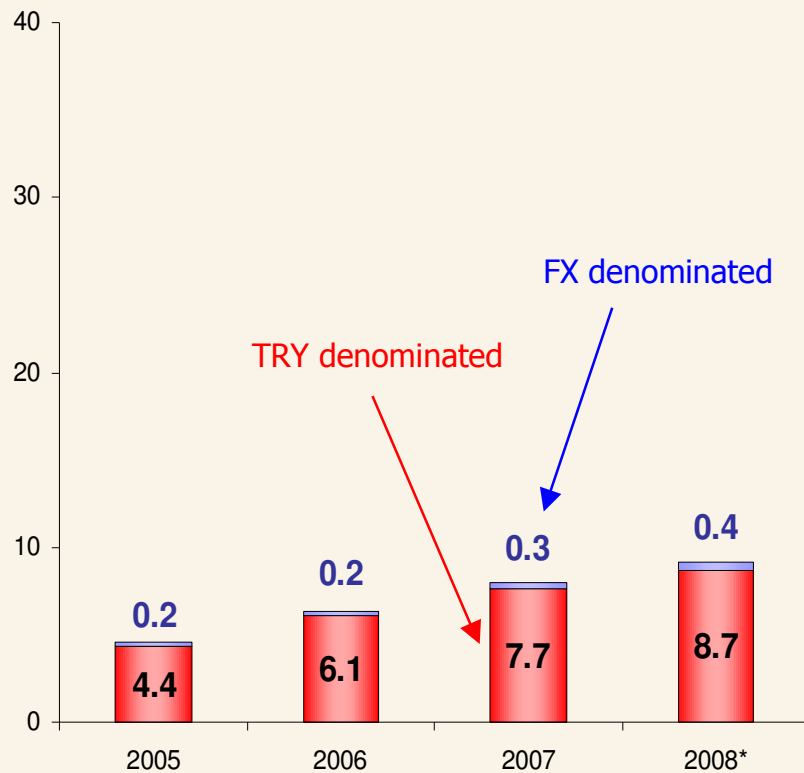


* As of October 31, 2008
Source: BRSA, CBT



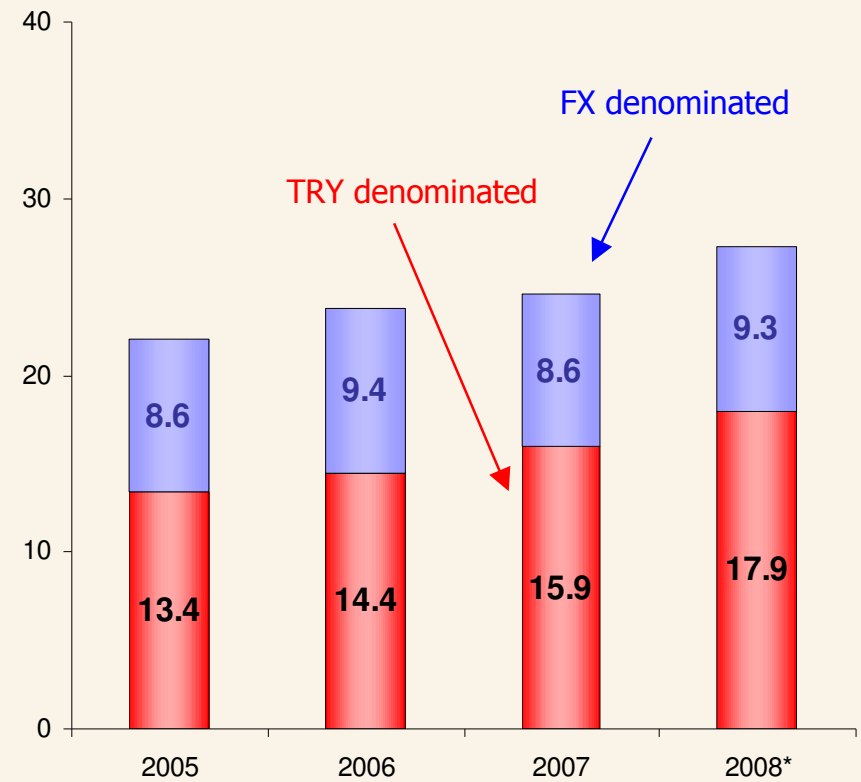
Households

Composition of Consumer Loans
(2005-2008*, percent of GDP)



* As of 24 October 2008
Source: CBT

Composition of Savings Deposits
(2005-2008*, percent of GDP)



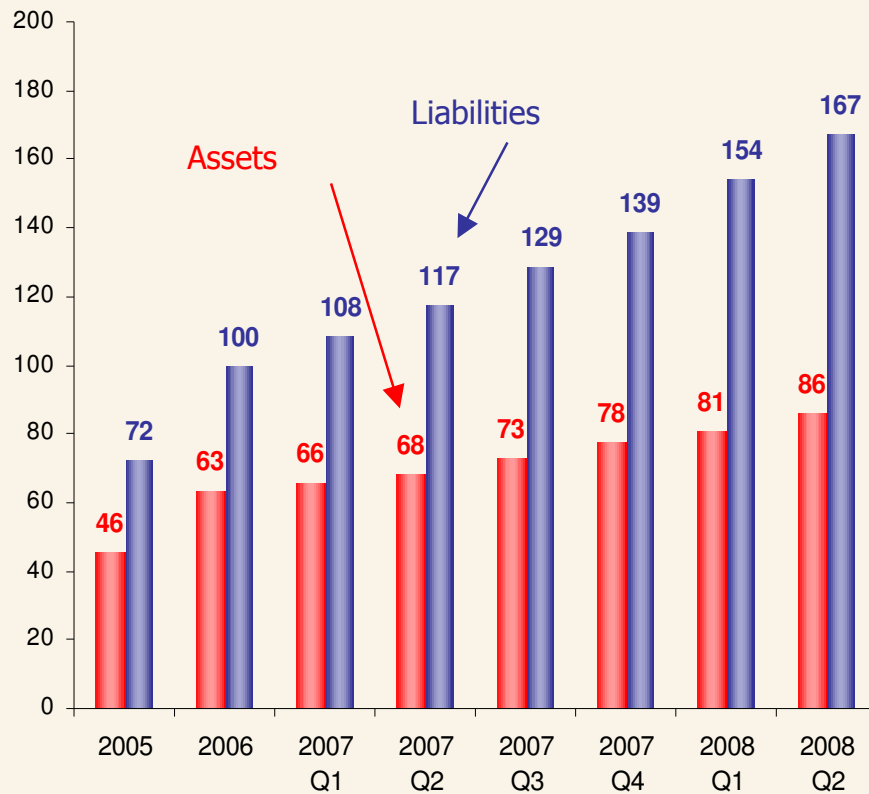
* As of 24 October 2008
Source: CBT



Firms

FX Assets and Liabilities of the Corporate Sector

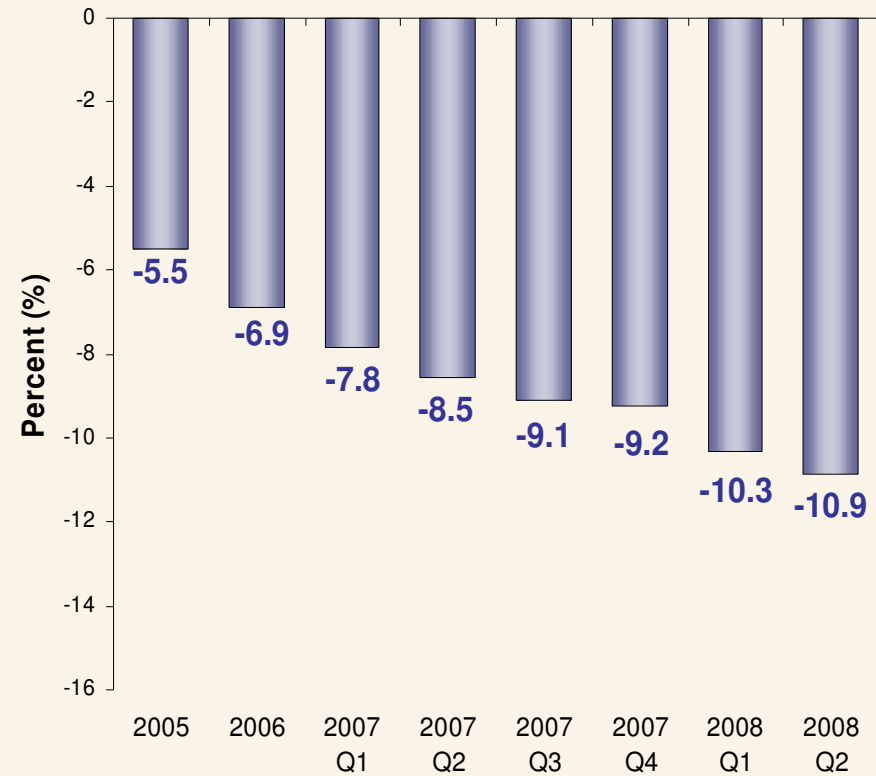
(2005 – 2008 Q2, USD billion)



Source: CBT

FX Position of the Corporate Sector

(2005 – 2008 Q2, percent of GDP)

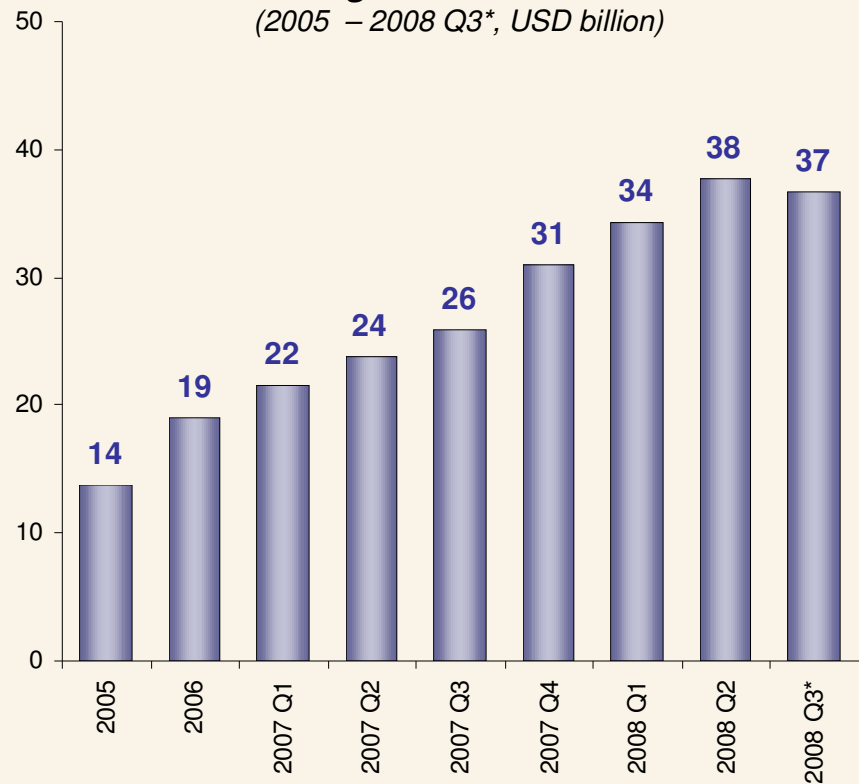


Source: CBT



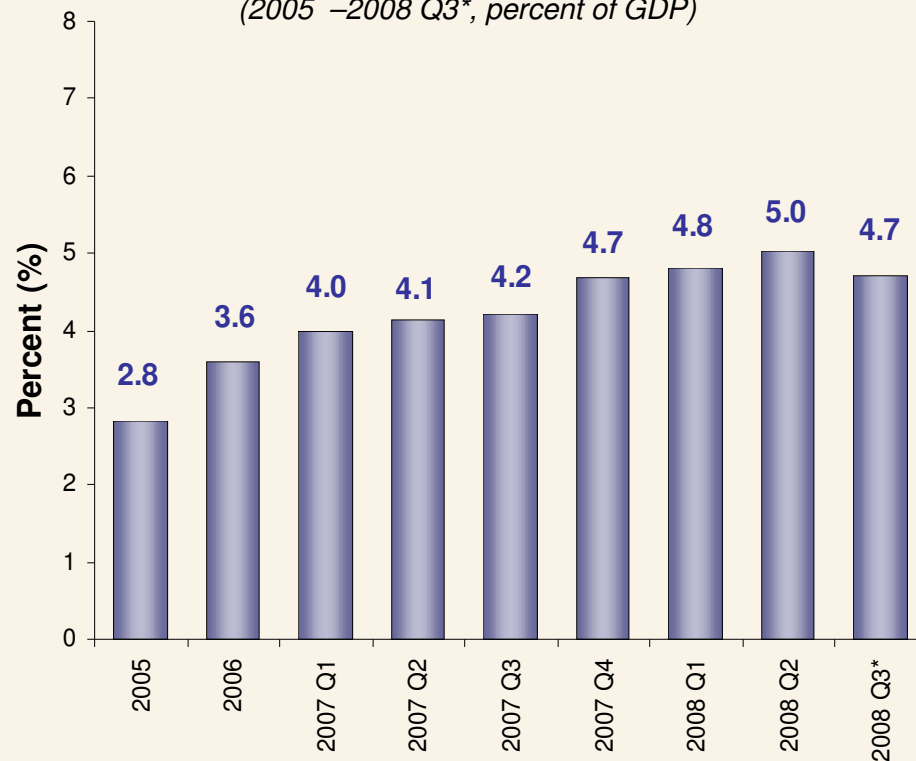
Firms

Credits Extended to Firms by Domestic Banks through their Branches Abroad
(2005 – 2008 Q3*, USD billion)



* As of August 2008
Source: CBT

Credits Extended to Firms by Domestic Banks through their Branches Abroad
(2005 – 2008 Q3*, percent of GDP)



* As of August 2008
Source: CBT



Measures on FX Liquidity - 1

The Central Bank of Turkey (CBT) is aware of the significance of FX liquidity in the banking system and progressively puts into effect necessary measures in order to get through this period with minimal damage.

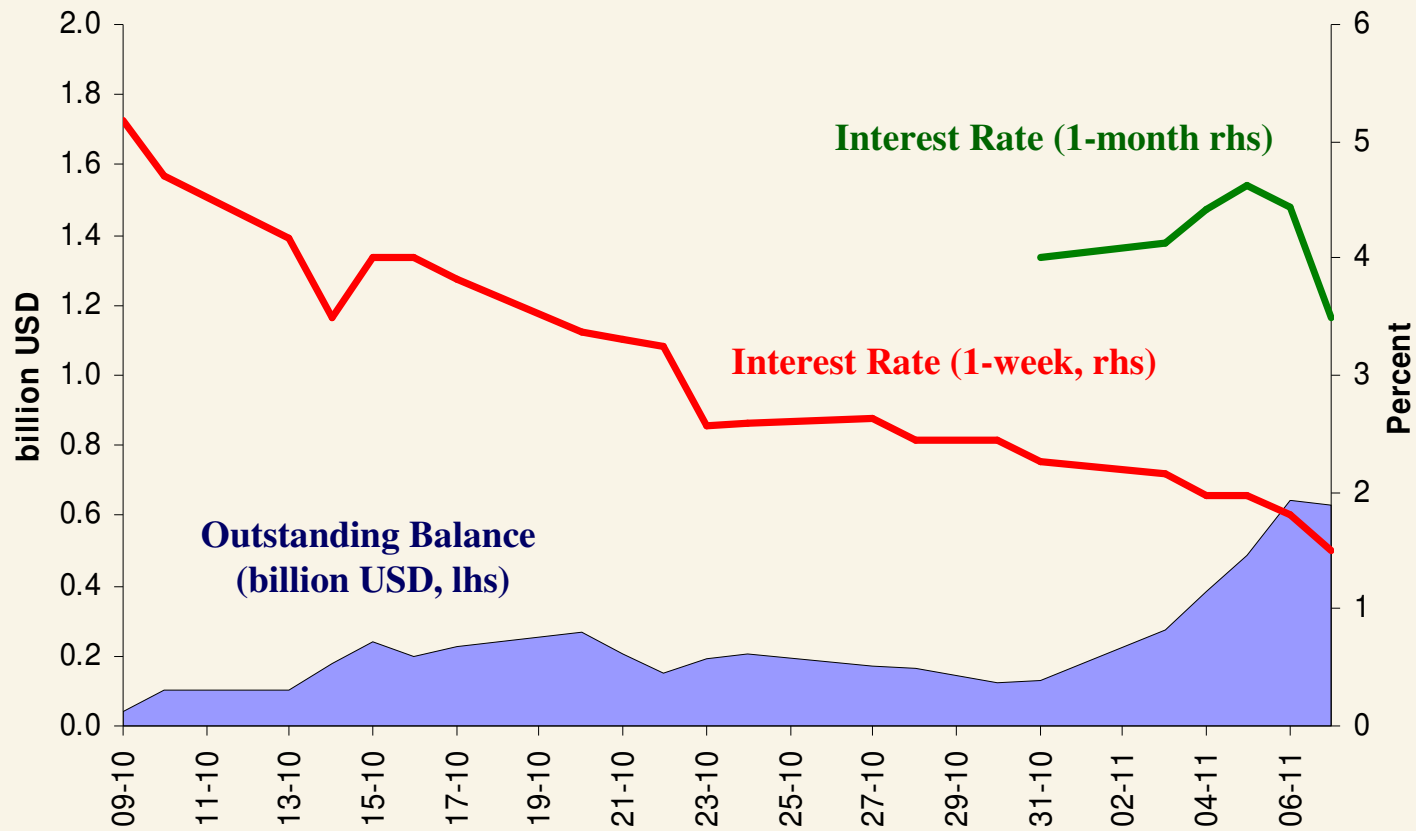
Measures taken by the CBT:

1. *Re-opened the FX Deposit Market (CBT acts as a Blind Broker),*
2. *Increased banks' transaction limits in the FX Deposit Market,
(USD 5.4 billion → USD 10.8 billion)*
3. *Launched daily FX selling auctions in line with the floating exchange rate regime with a view to support FX Market liquidity (suspended on October 30, 2008).*



FX Deposit Market

Outstanding Balance and Interest Rate in FX Deposit Market
(9 October 2008 – 11 November 2008)



Source: CBT



Measures on FX Liquidity - 2

The Central Bank, if deemed necessary, will continue to take additional measures prudently within its means in order to ensure the smooth functioning of the FX market and to support FX liquidity.

Possible Additional Measures (In the Given Particular Order):

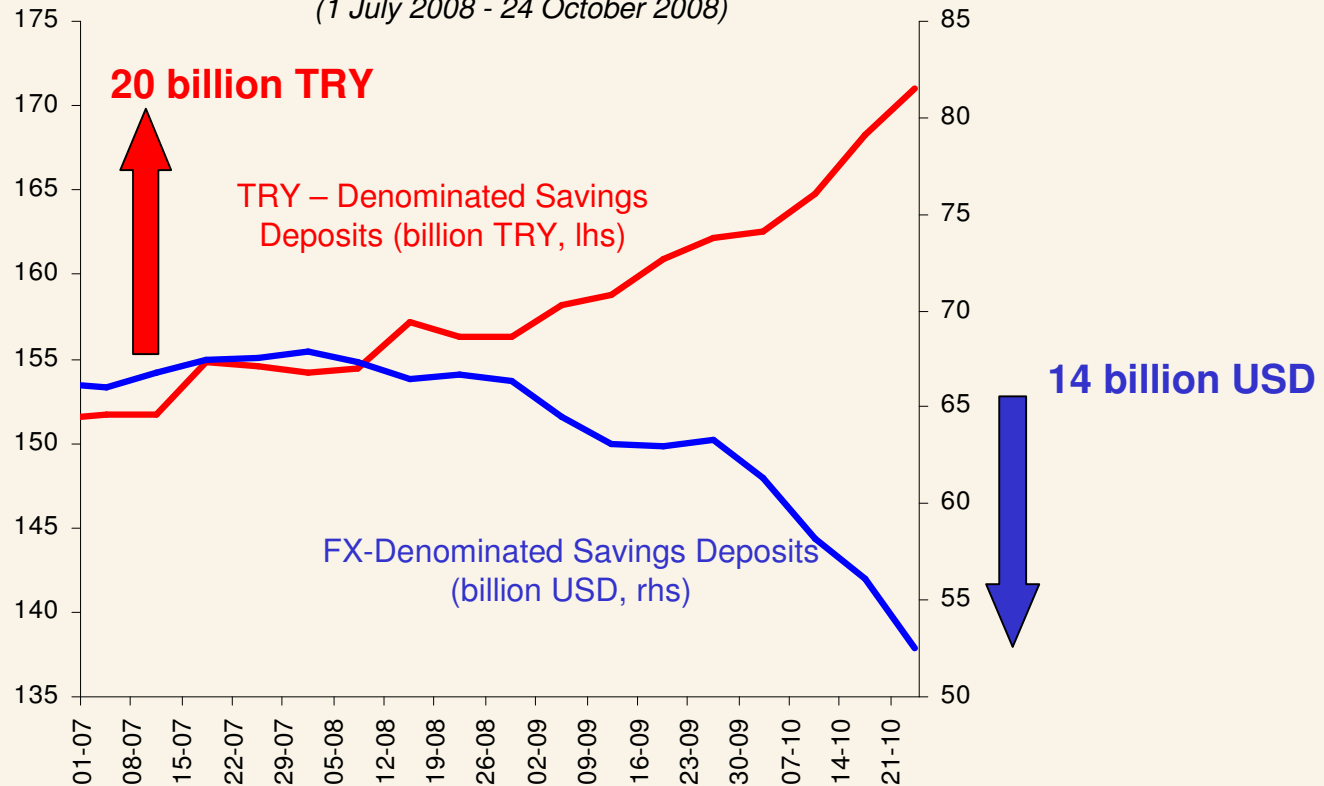
1. *Further increase the limits of FX Deposit transactions,*
2. *Reduce the FX Deposit rate without prejudice to the “the lender of last resort” aspect,*
3. *Extend the maturity of FX Deposit transactions,*
4. *Decrease FX-denominated required reserve rates to a limited extent.*



Return to the New Turkish Lira

It is a positive development that the recent shift towards local currency observed on deposits of banks has been witnessed on the credit side as well.

TRY- and FX-Denominated Savings Deposits in Deposit Banks
(1 July 2008 - 24 October 2008)



Source: CBT



New Turkish Lira Liquidity - 1

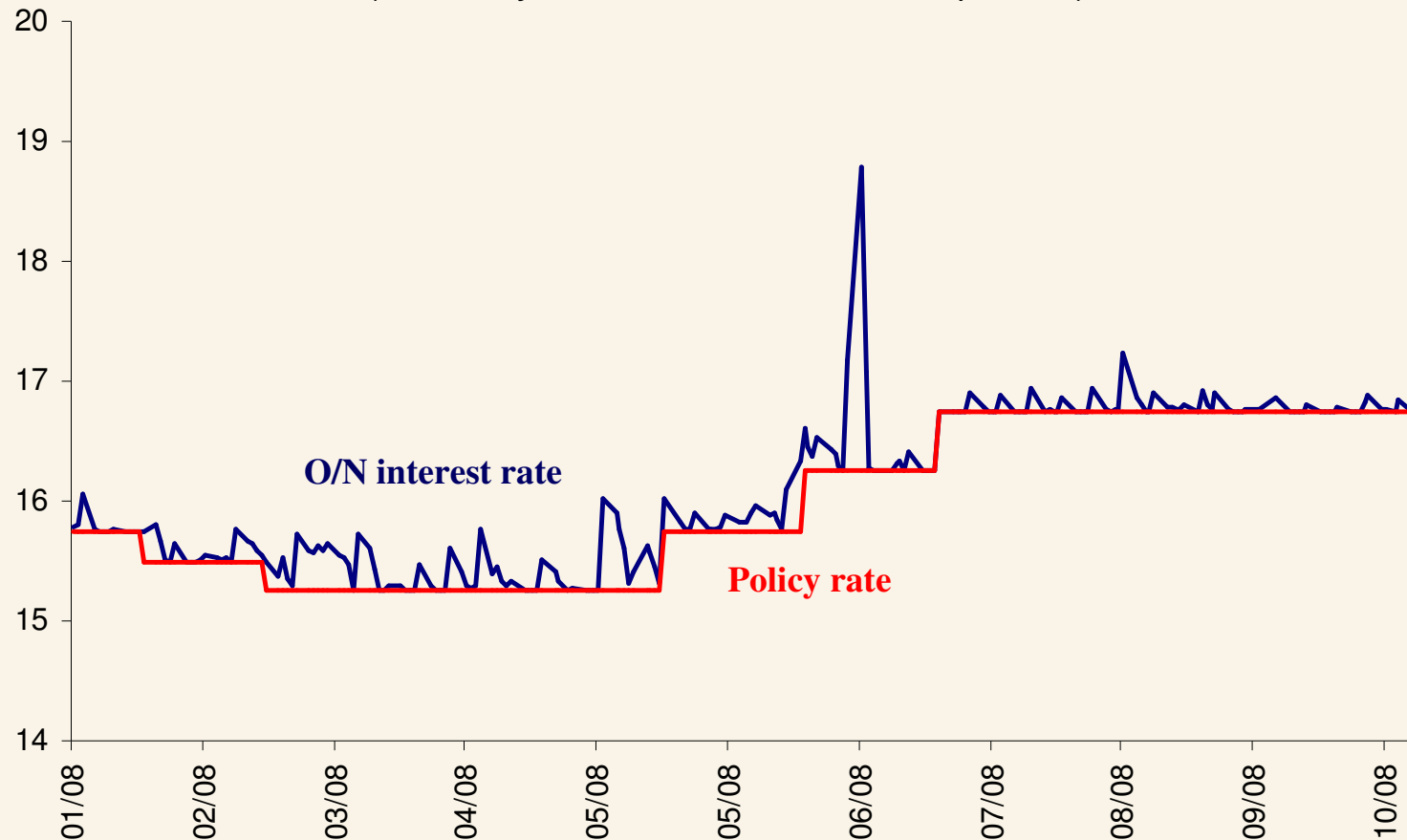
- The general framework of the Central Bank's liquidity management is fairly flexible and well-structured to meet the liquidity requirement of the banking system effectively.
- The Central Bank will not allow any setback in TRY money markets and will ensure smooth operation of payment systems.



New Turkish Lira Liquidity - 1

Policy Interest Rate and Overnight Interest Rate in the Repo-Reverse Repo Market

(1 January 2008 - 3 November 2008, percent)

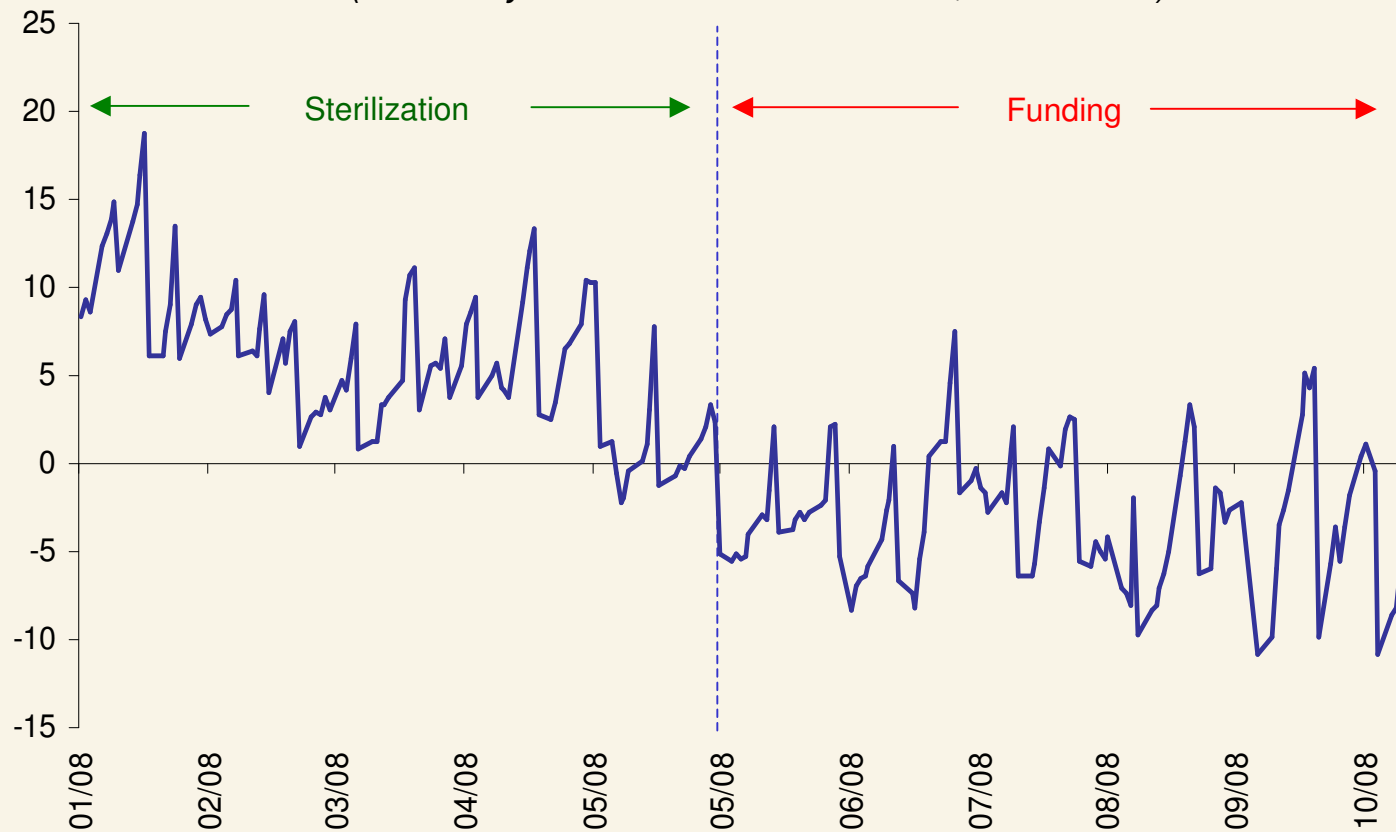


Source: Istanbul Stock Exchange, CBT



New Turkish Lira Liquidity - 1

New Turkish Lira Funding by the CBT
(1 January 2008 – 7 November 2008, billion TRY)



Source: CBT



New Turkish Lira Liquidity - 2

In case of an increase in TRY liquidity squeeze in the market in the upcoming period;

1. The operational structure will be modified by bringing forward the technical interest rate cut.
2. Depending on the course of the liquidity squeeze,
 - a. Extension of the maturity of repo funding,
 - b. Direct purchases of government securities,could be considered.
3. In case the increase in liquidity squeeze becomes permanent and other measures are not sufficient, TRY-denominated required reserves may be reduced to a limited extent.



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Deputy Governor

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