



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation before the Council of Ministers

Durmuş YILMAZ
Governor

16 November 2009



Presentation Outline

- I. Global Financial Crisis and Signs of Recovery
- II. Financial Stability in Turkey
- III. Recent Developments in the Turkish Economy
- IV. Inflation Outlook
- V. Monetary Policy Stance



I. Global Financial Crisis and Signs of Recovery

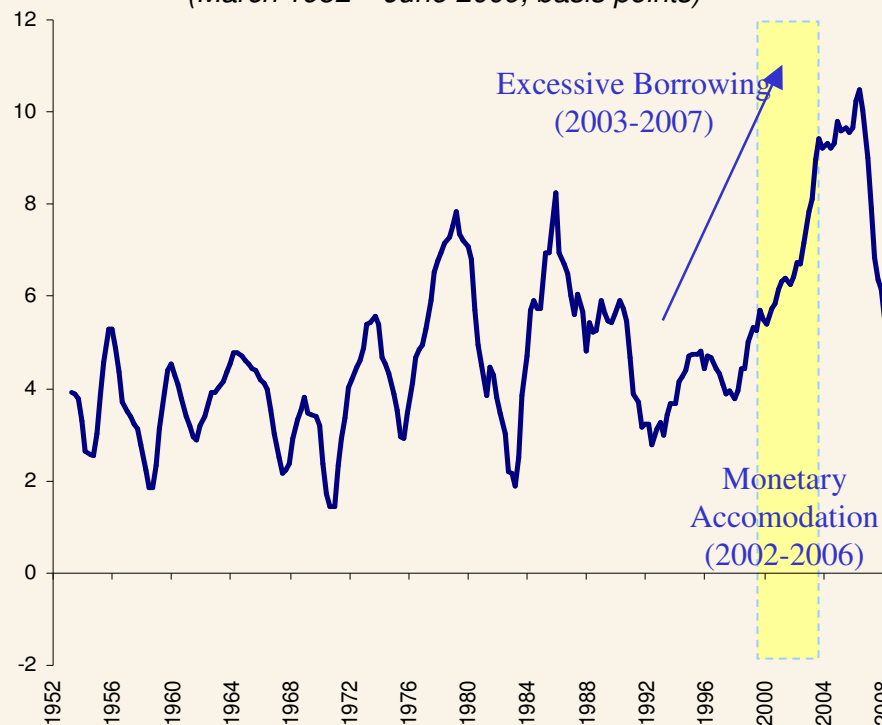


Global Financial Crisis

The excessive rise in the ratio of household indebtedness fuelled by low interest rates and liquidity surplus in the United States was one of the leading factors that aggravated the severity of the financial crisis.

Ratio of Annual Change in US Household Indebtedness to GDP

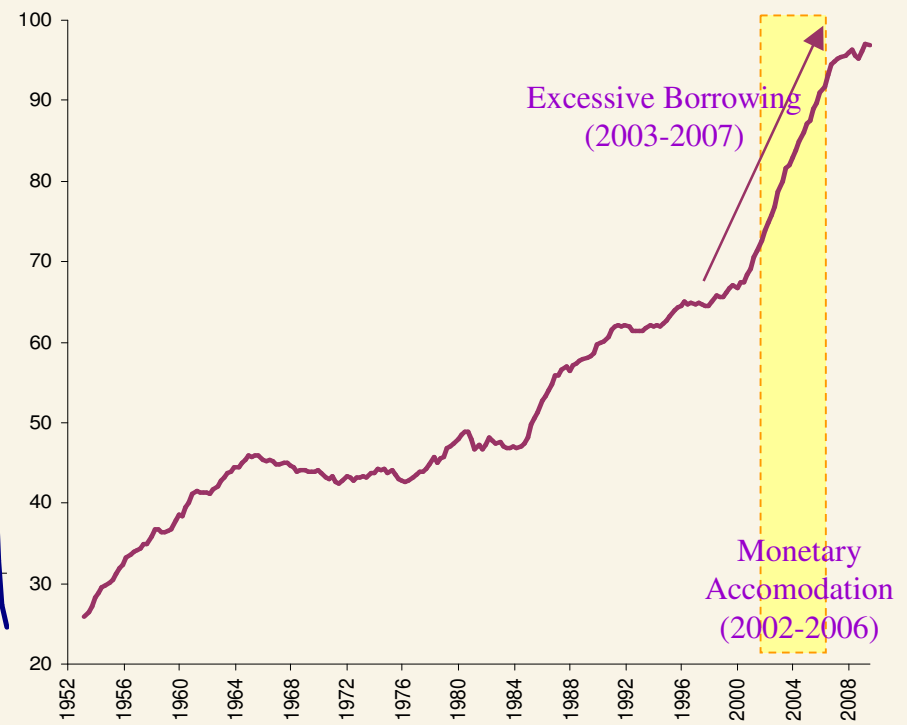
(March 1952 – June 2009, basis points)



Source: Bloomberg, CBT

US Household Indebtedness Ratio

(March 1952 – June 2009, ratio to GDP)

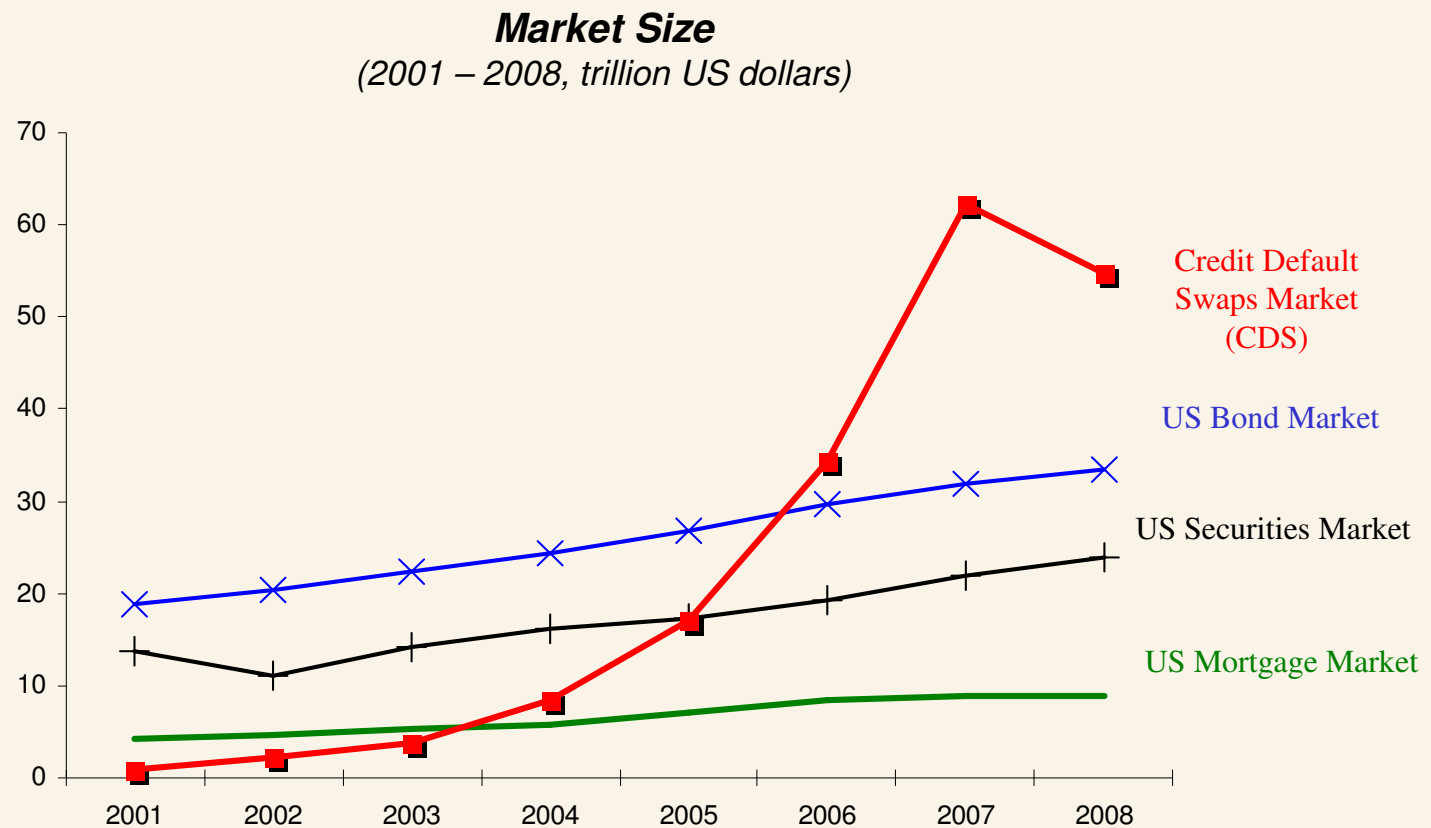


Source: Bloomberg, CBT



Global Financial Crisis

In the United States, low interest rate policies coupled with accommodative financial sector policies encouraged financial markets to search for high yields, increased the attractiveness of complex derivative products and encouraged excessive risk appetite.



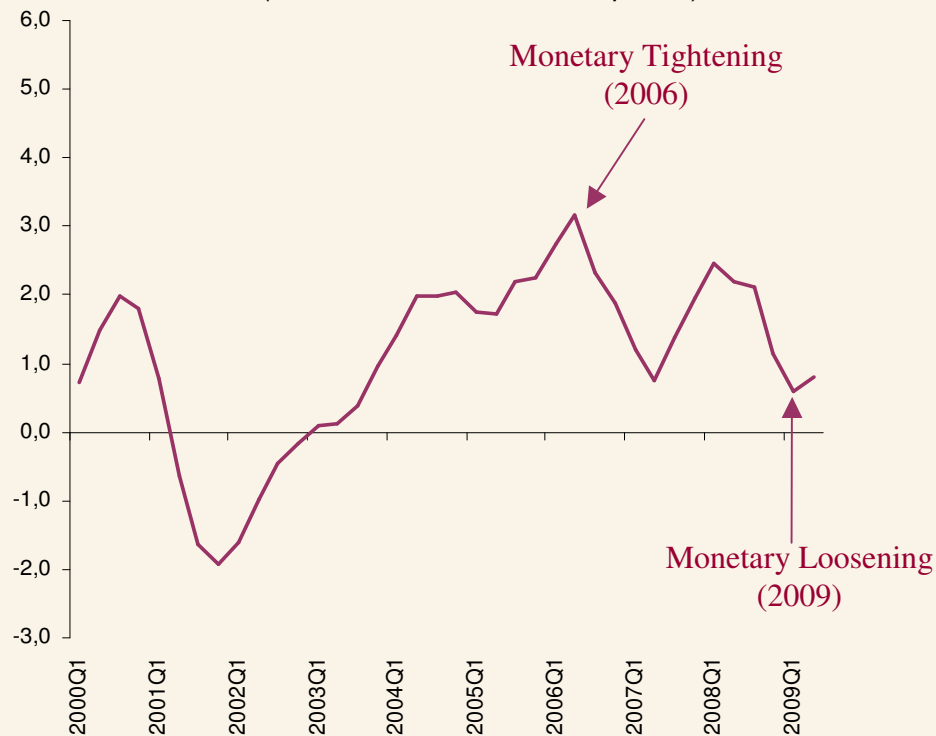
Source: ISDA, WFE, SIFMA



Global Financial Crisis

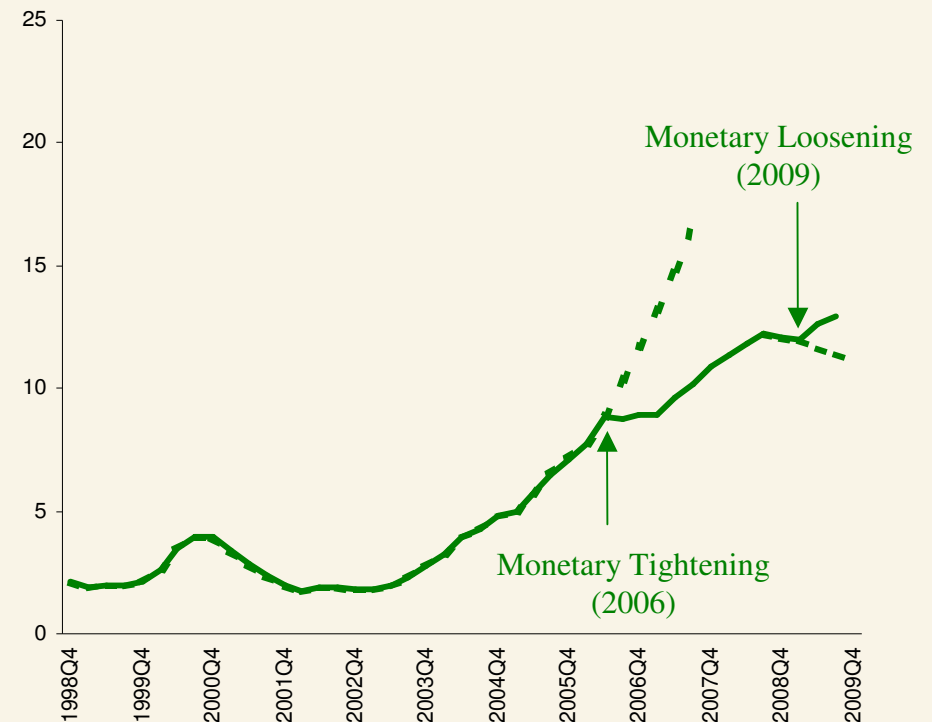
The relatively low level of household indebtedness in Turkey has supported the resilience of the Turkish economy against repercussions of the global financial crisis.

The Ratio of Annual Change in Household Indebtedness to GDP in Turkey
(2000 Q1 –2009 Q2, basis points)



Source: TURKSTAT, CBT

Household Indebtedness Ratio in Turkey
(1998 Q4 –2009 Q2, ratio to GDP)



Source: TURKSTAT, CBT



Recovery in Global Financial Markets

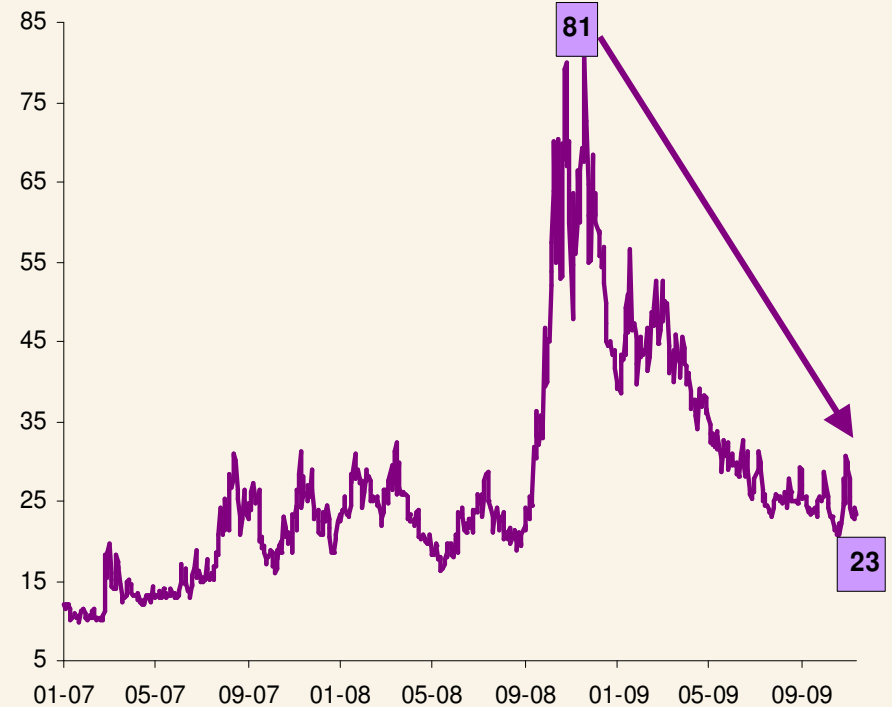
A notable recovery is observed in global financial markets compared to the peak of the crisis. Risk indicators have returned to the pre-crisis state.

***Difference Between 3-Month LIBOR Rate and
3-Month US Treasury Bill (TED Spread)***
(2 January 2007 – 10 November 2009, basis points)



Source: Bloomberg, CBT

VIX Volatility Index
(3 January 2007 – 9 November 2009)



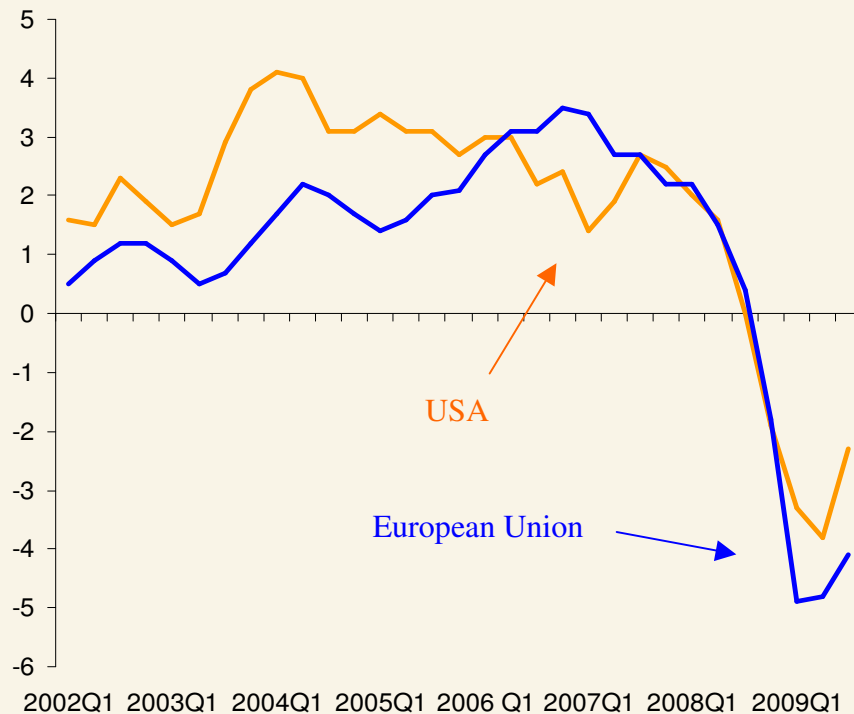
Source: Bloomberg, CBT



Weak Course of the Global Real Economy

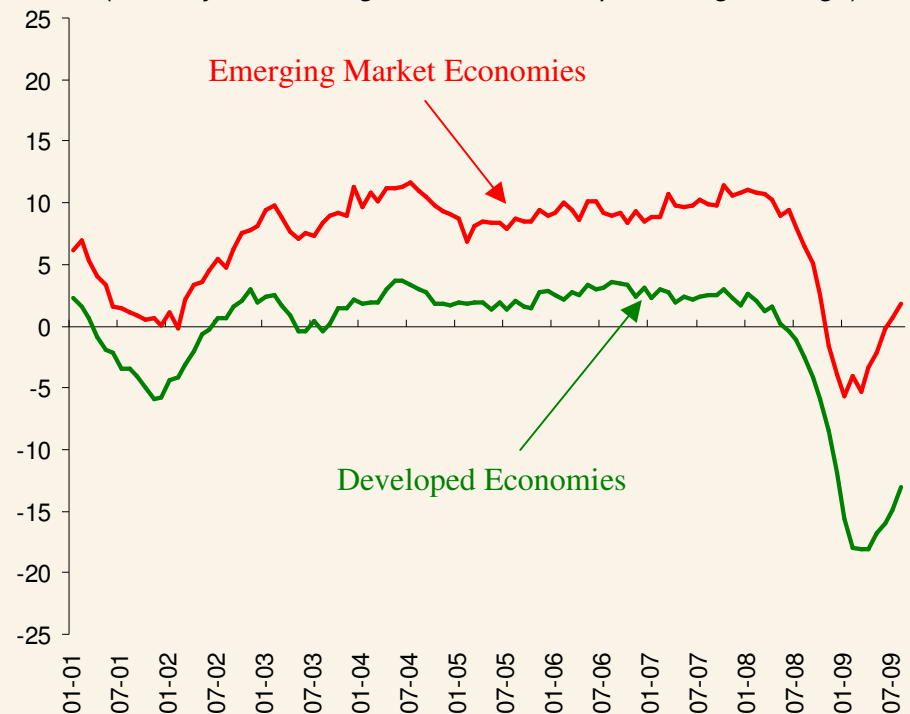
The global economic slump prevailing since the last quarter of 2008 has been replaced by a modest recovery.

Growth Rates by Regions
(2002 Q1 – 2009 Q3, percent)



Source: OECD, CBT

Industrial Production in Developed and Emerging Market Economies
(January 2001 – August 2009, annual percentage change)



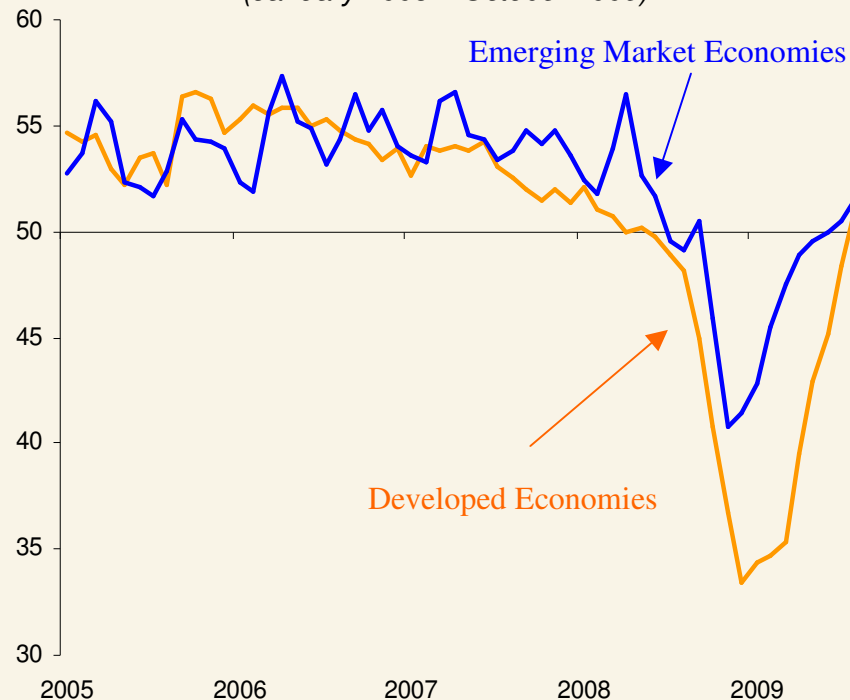
Source: CPB, CBT



Signs of Recovery

Turkey, along with China and India, is one of the countries that have shown signs of early recovery in economic activity.

PMI in Developed and Emerging Market Economies
(January 2005 – October 2009)



Source: Bloomberg, CBT

PMI in Emerging Market Economies
(June 2009 – October 2009)

	June	July	August	Sept	Oct
India	55,3	55,3	53,2	55,0	54,5
China	53,2	53,3	54,0	54,3	55,2
Turkey	53,9	54,0	53,8	53,3	52,8
Brazil	48,1	48,0	50,6	52,3	53,7
Russia	47,3	48,4	49,6	52,0	49,6
Mexico	48,1	50,2	51,1	51,7	52,9
Czech Rep.	41,9	43,4	47,0	49,5	49,8
Hungary	46,2	49,4	46,1	49,0	48,2
S. Africa	38,0	37,5	39,5	45,9	47,6

Source: Bloomberg, CBT



Signs of Recovery

Currently, the Turkish economy displays “growth below the trend”.

IMF Assessment of Global Growth Momentum *

(Seasonally adjusted, September 2008 – September 2009)

	09-08	10-08	11-08	12-08	01-09	02-09	03-09	04-09	05-09	06-09	07-09	08-09	09-09
USA	4	5	5	5	5	4	4	4	4	4	4	3	2
Canada	5	4	4	5	5	5	4	4	3	3	3	3	
Mexico	5	5	5	5	5	5	4	4	4	4	4	3	
Brazil	2	4	5	5	5	5	3	3	3	2	3	3	3
Japan	5	4	4	5	5	5	5	4	4	3	2	2	2
Korea	2	5	5	5	5	4	3	2	2	2	2	2	3
China	3	4	4	4	4	3	3	2	2	2	1	1	1
India	3	4	5	5	4	4	3	3	3	2	2	2	2
Germany	4	4	4	5	5	5	4	4	4	3	3	3	3
France	4	5	5	5	4	5	4	4	4	3	3	2	2
Italy	5	5	5	5	4	5	4	4	4	4	4	4	3
England	5	4	4	4	4	4	4	4	4	3	3	3	3
Turkey	4	5	5	5	4	4	3	4	3	2	2	2	2
Russia	3	5	5	5	5	5	4	4	4	3	3	3	3
S. Africa	4	4	5	4	4	4	4	5	4	4	4	3	3

* Data used: industrial production, retail sales, imports of goods, purchasing managers' index
Source: IMF

- 1 Expansion and level at or above trend
- 2 Expansion but level below trend
- 3 Moving Sideways
- 4 Contraction at a moderate rate
- 5 Contraction at an increasing rate

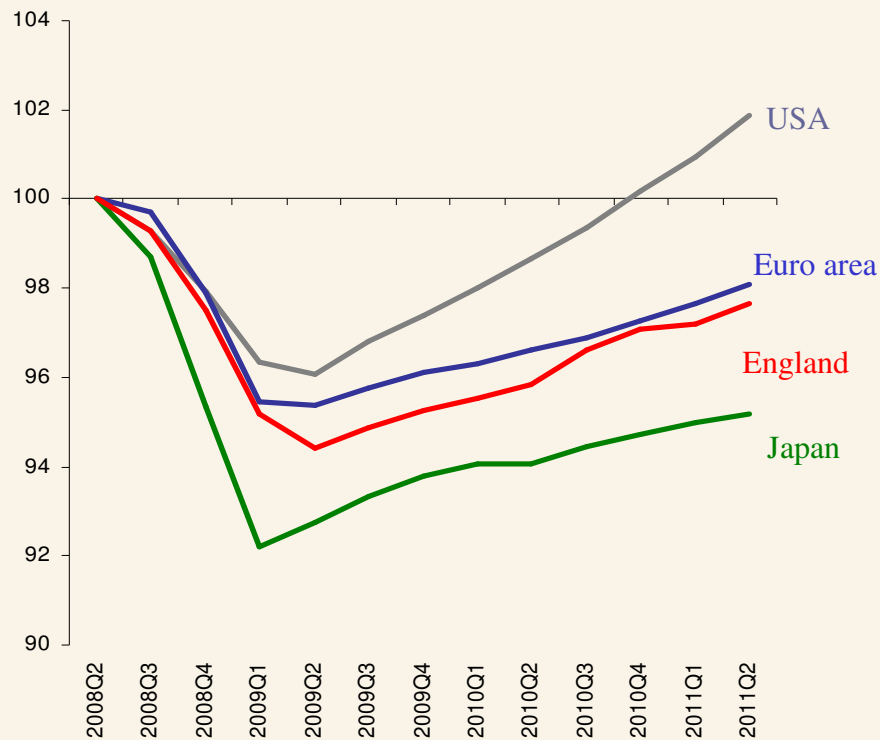


Signs of Recovery

Leading indicators indicate that green shoots have started to sprout in global economy, but uncertainties pertaining to the permanence and strength of recovery persist.

Global Growth Outlook

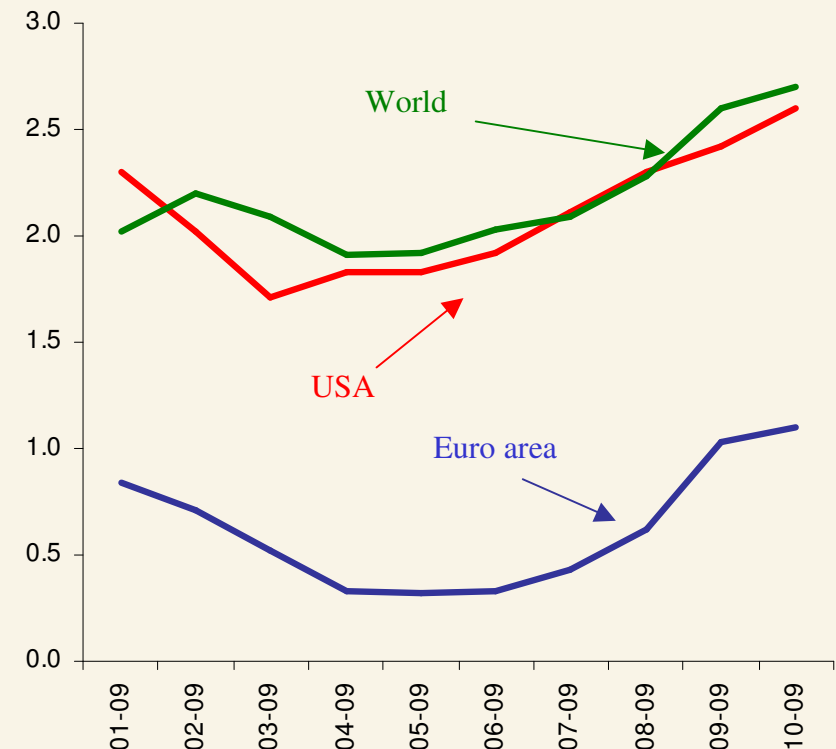
(2008 Q2 – 2011 Q2, Seasonally adjusted GDP, 2008 Q2 = 100)



Source: CPB, CBT

Global Growth Prospects for 2010

(January 2009 – October 2009)



Source: Consensus Forecast



II. Financial Stability in Turkey



Financial Developments in Turkey

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

Risk Indicators

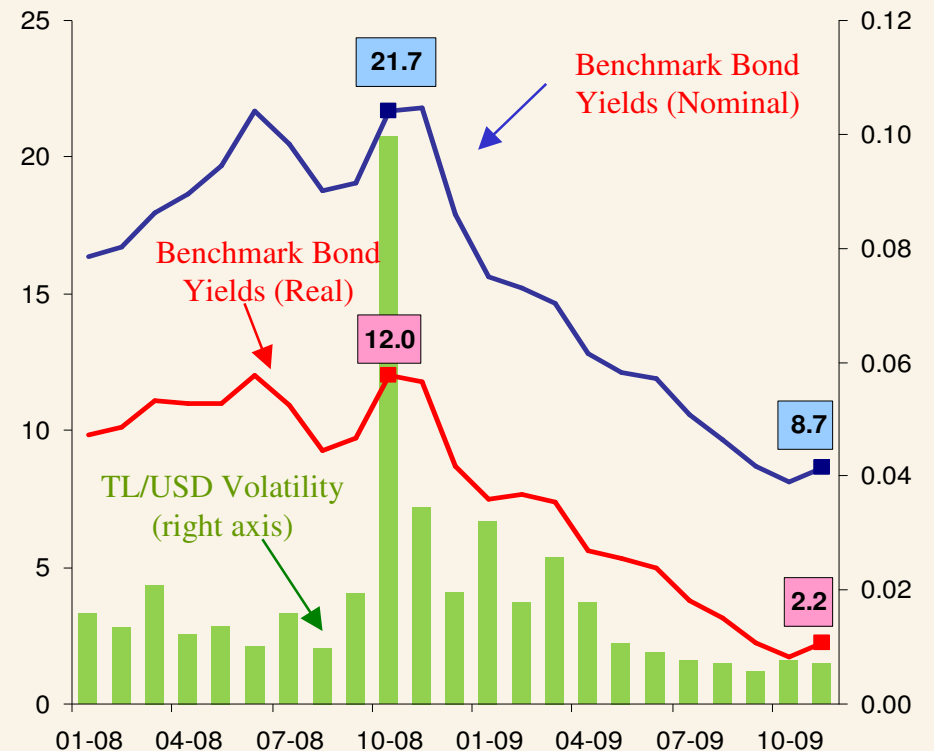
(1 January 2008 – 10 November 2009, basis points)



Source: Bloomberg, CBT

Exchange Rate Volatility and Benchmark Bond Yields

(January 2008 - November 2009, percent)



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

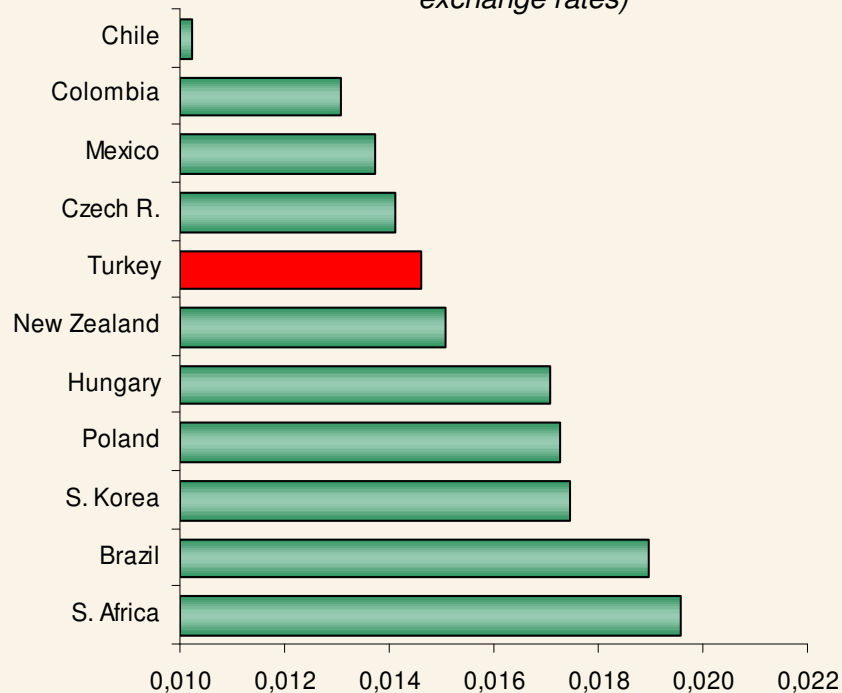


Financial Stability in Turkey

Throughout the global crisis, volatility in Turkey's financial markets and the rise in the 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

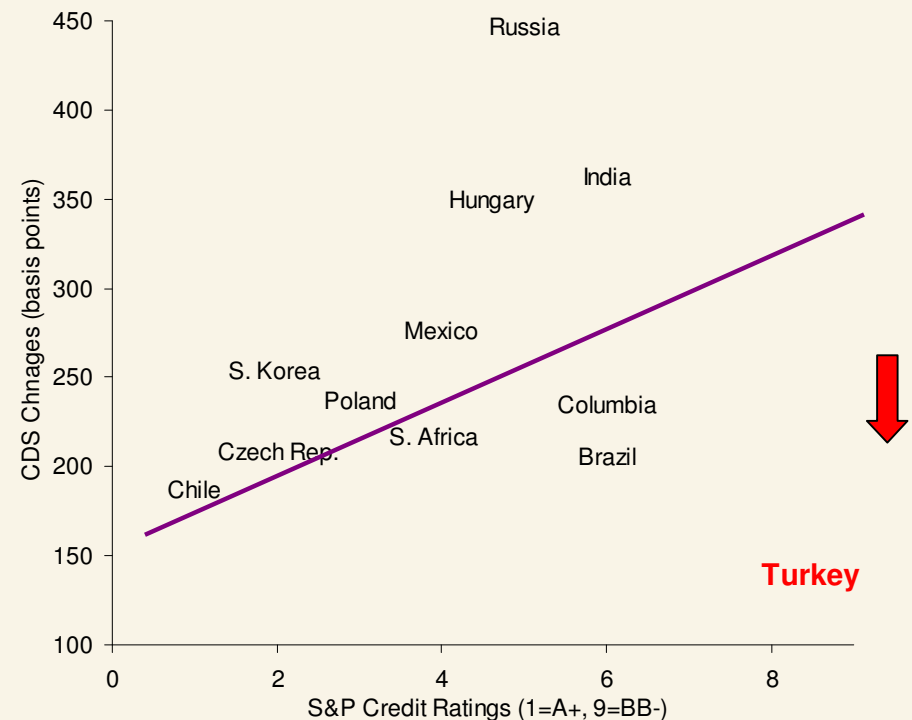
(Sep 2008 - Oct 2009, standard deviation of daily changes in exchange rates)



Source: Bloomberg, CBT

Change in Credit Ratings and Risk Premia

(September 2008 – March 2009)



Not: Trend line includes countries other than Turkey.

Source: Bloomberg, CBT

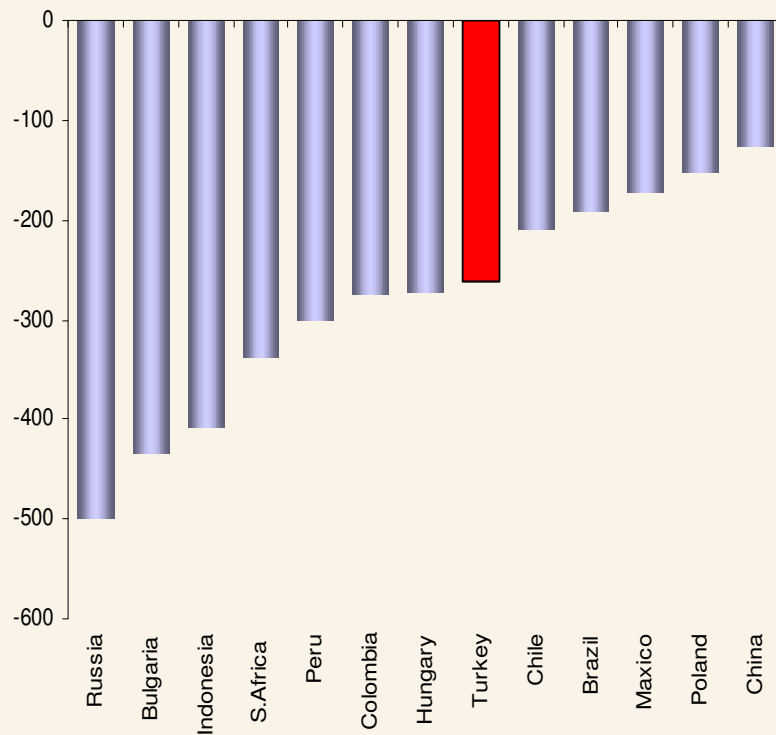


Financial Developments in Turkey

Recovery in the risk perceptions of Turkey also has been observed in EMBI and CDS premia.

Change in EMBI+

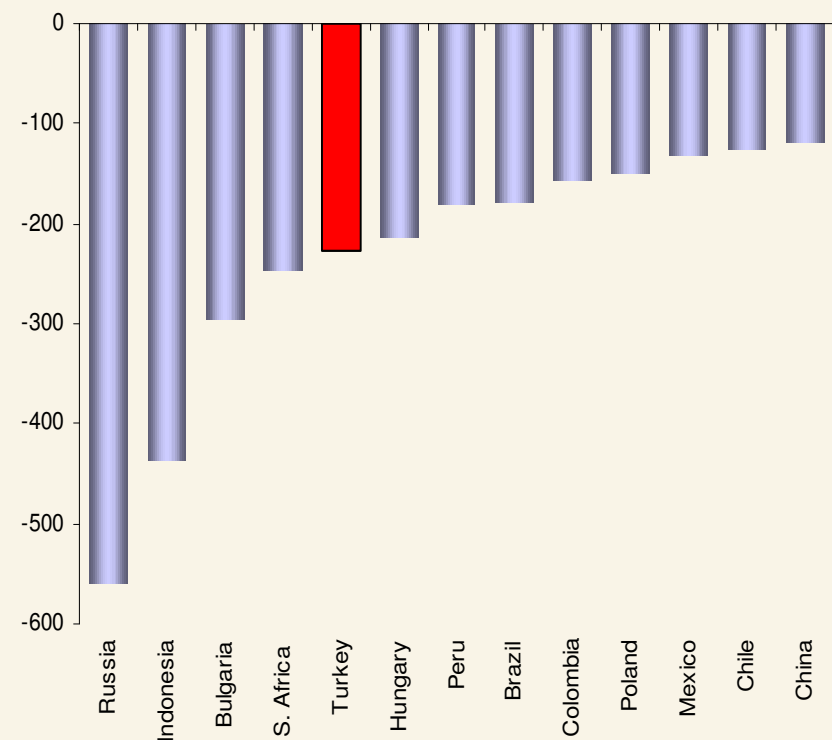
(January– November 2009, basis points)



Source: Bloomberg, CBT

Change in CDS

(January– November 2009, basis points)



Source: Bloomberg, CBT

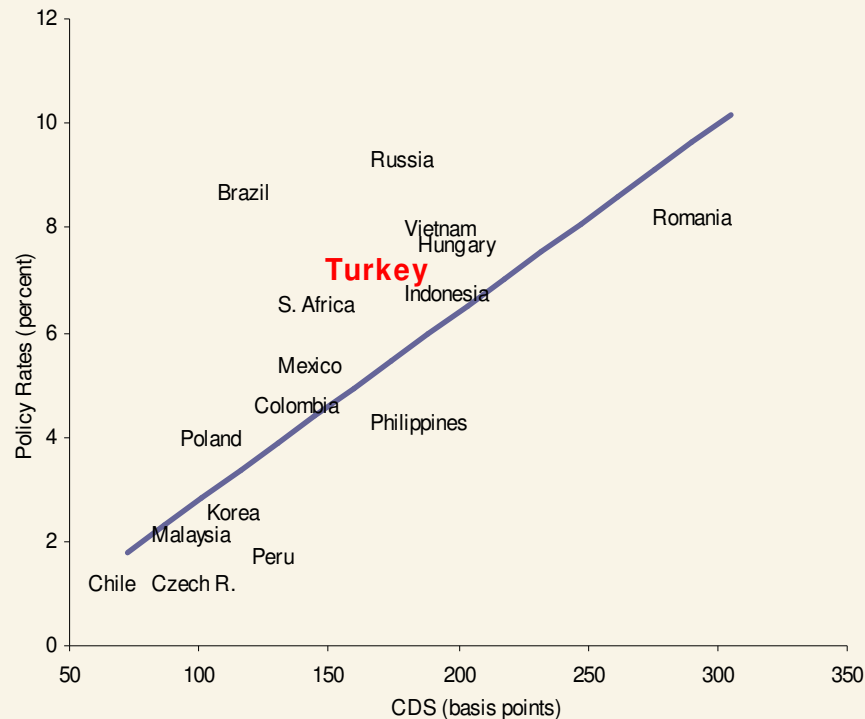


Financial Developments in Turkey

In countries with lower deterioration in risk premia like Turkey, monetary authorities were able to make larger policy rate reductions.

Change in Policy Rates and Countries' Risk Premia

(November 2009)

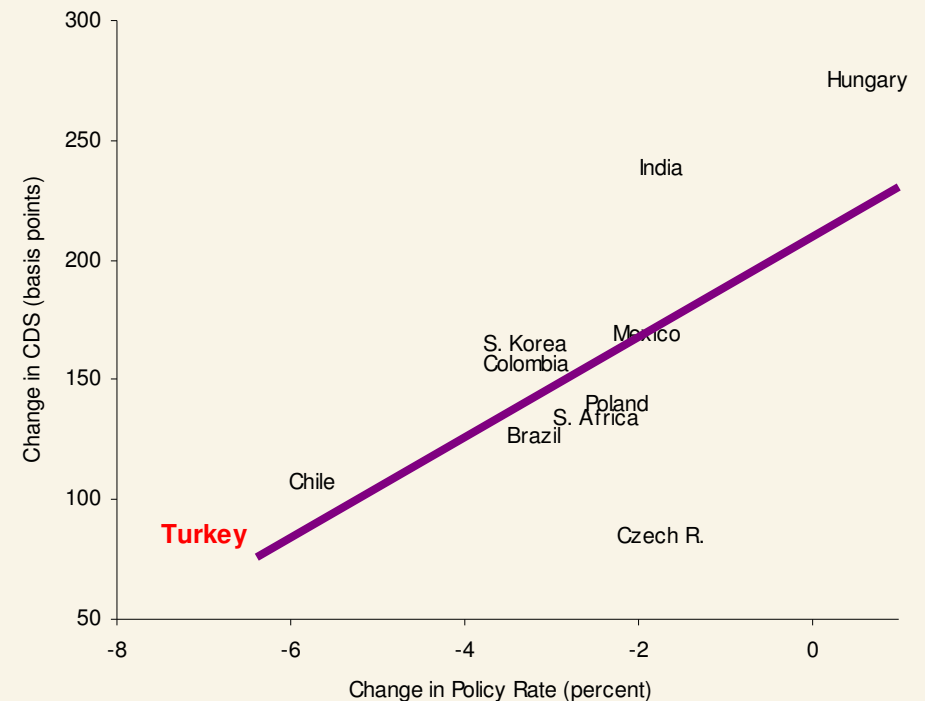


Note: Trend line includes countries except Turkey.

Source: Bloomberg, CBT

Change in Policy Rates and Countries' Risk Premia

(between 12 September 2008 - 17 April 2009)



Note: Trend line includes countries except Turkey.

Source: Bloomberg, CBT

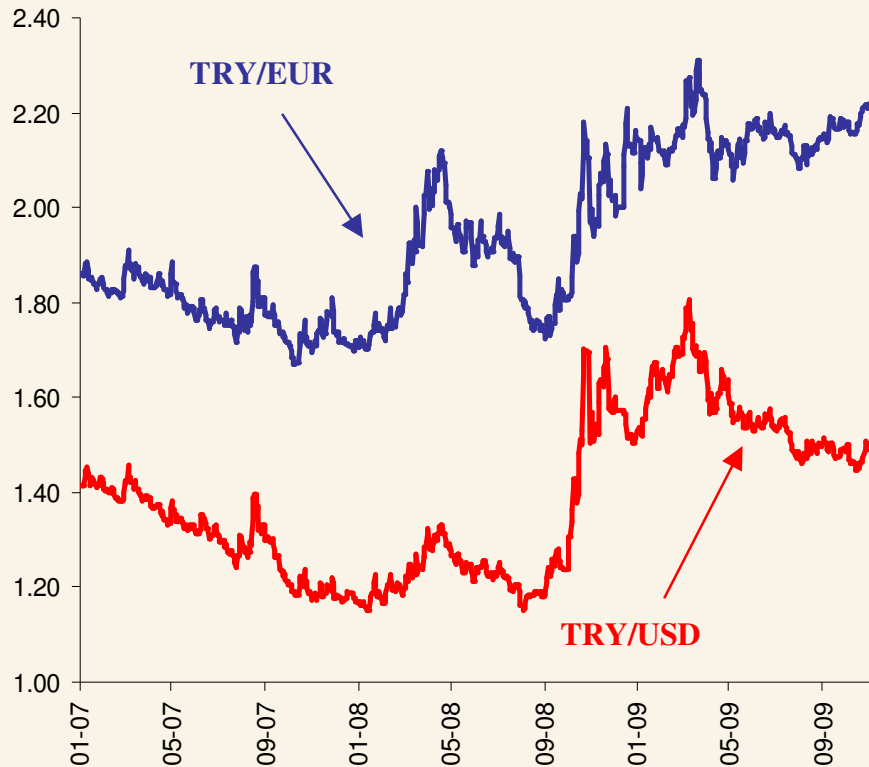


Financial Stability in Turkey

Recent appreciation of TL against US Dollar is mainly attributable to the change in Euro-USD parity.

Exchange Rates

(January 2007 – November 2009)



Source: CBT

Euro-Dollar Parity

(January 2007 – November 2009)



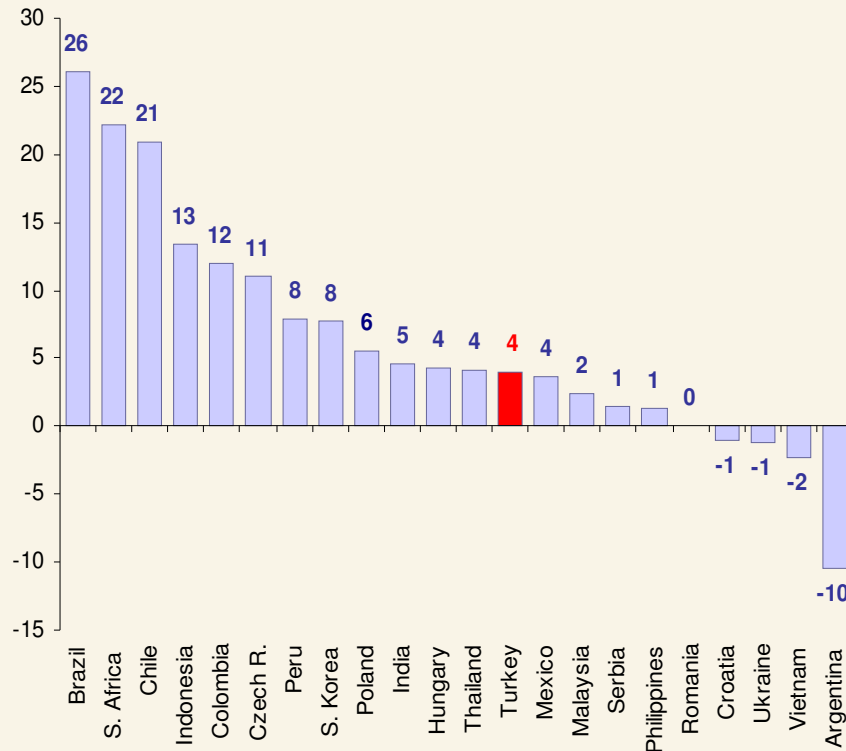
Source: CBT



Financial Developments in Turkey

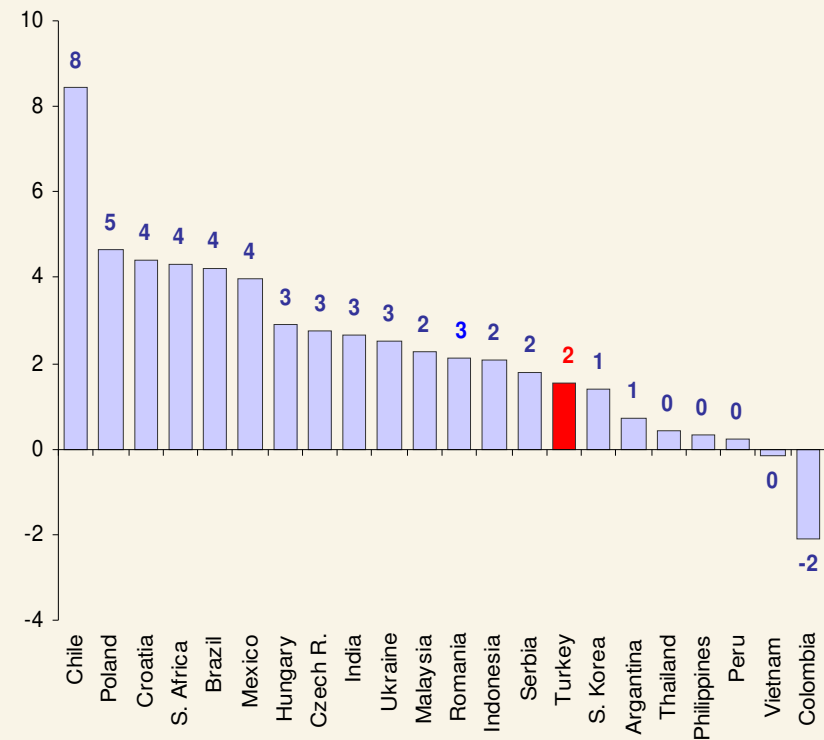
Compared to other countries' currencies, no notable change is observed in the value of Turkish lira.

Change in Local Currencies Against US Dollar
(Since 2009 January, percent)



Source: Bloomberg, CBT

Change in Local Currencies Against US Dollar
(Since October 2009, percent)



Source: Bloomberg, CBT



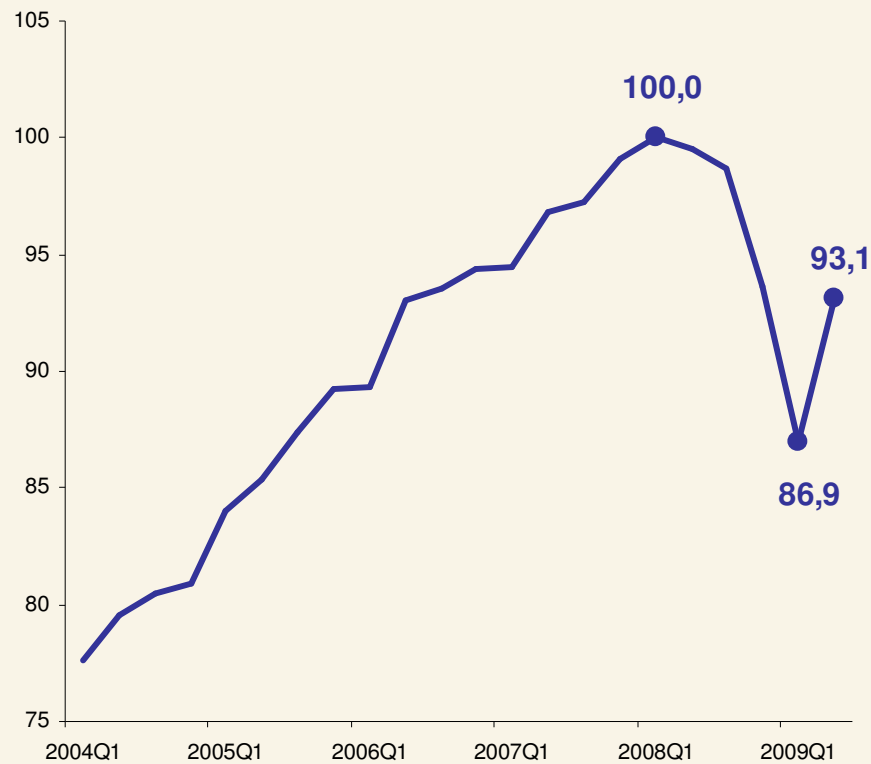
III. Recent Developments in the Turkish Economy



Turkish Economy

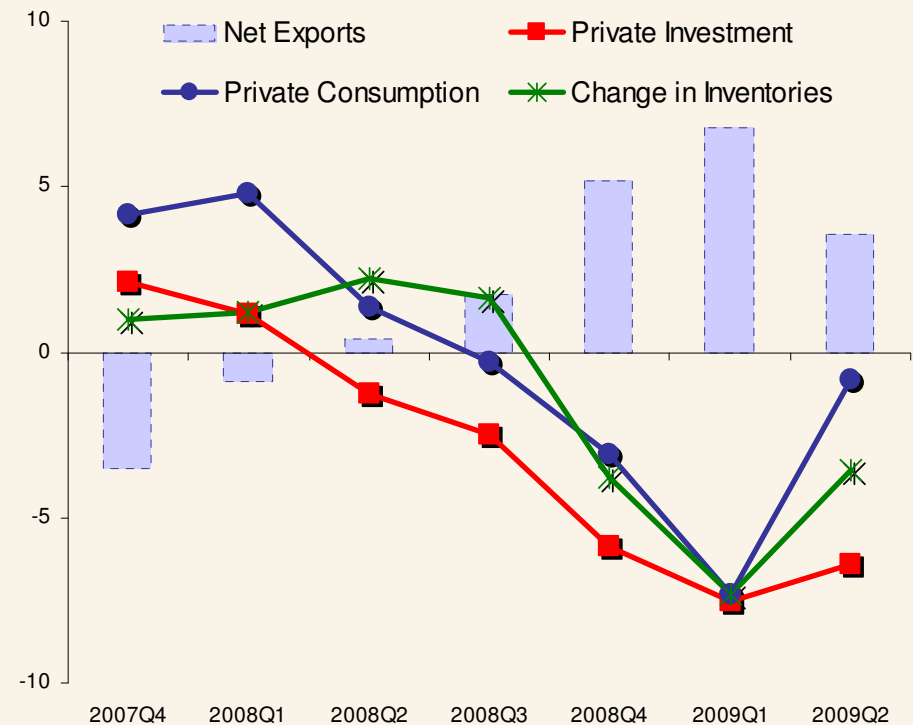
The Turkish economy improved rapidly in the second quarter of 2009.

Seasonally Adjusted Real GDP
(2004 Q1 – 2009 Q2, 2008 Q1=100)



Source: TURKSTAT, CBT

Growth Components
(2007 Q4 – 2009 Q2, year-on-year, percent contribution)



Source: TURKSTAT, CBT

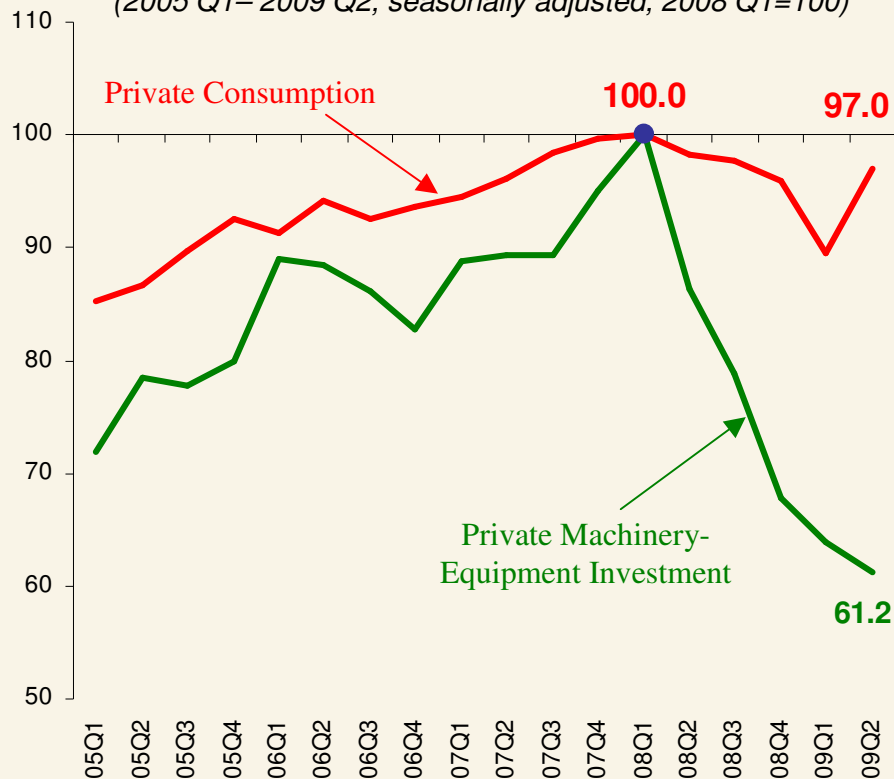


Turkish Economy

This recovery was mainly driven by advanced private demand stipulated by temporary tax reductions. However, the decline in private investment demand continued.

GDP Sub-items: Private Consumption and Investments

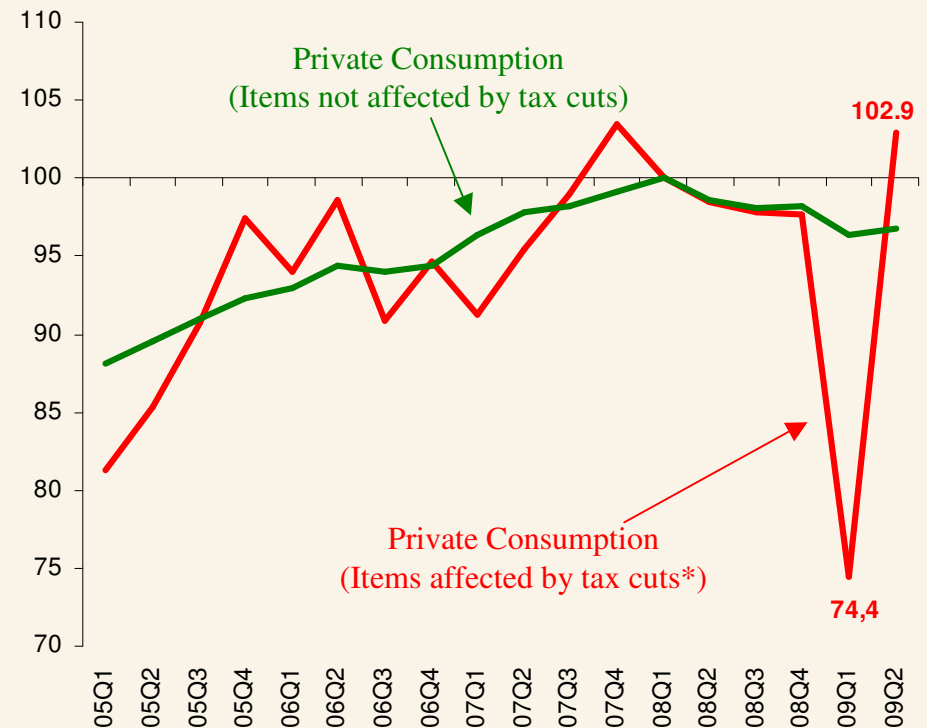
(2005 Q1– 2009 Q2, seasonally adjusted, 2008 Q1=100)



Source: TURKSTAT, CBT

GDP Sub-items: Private Consumption and Tax Effect

(2005 Q1 – 2009 Q2, seasonally adjusted, 2008 Q1=100)



* Furniture, Household Appliances, Home Improvement Services and Transport and Communications

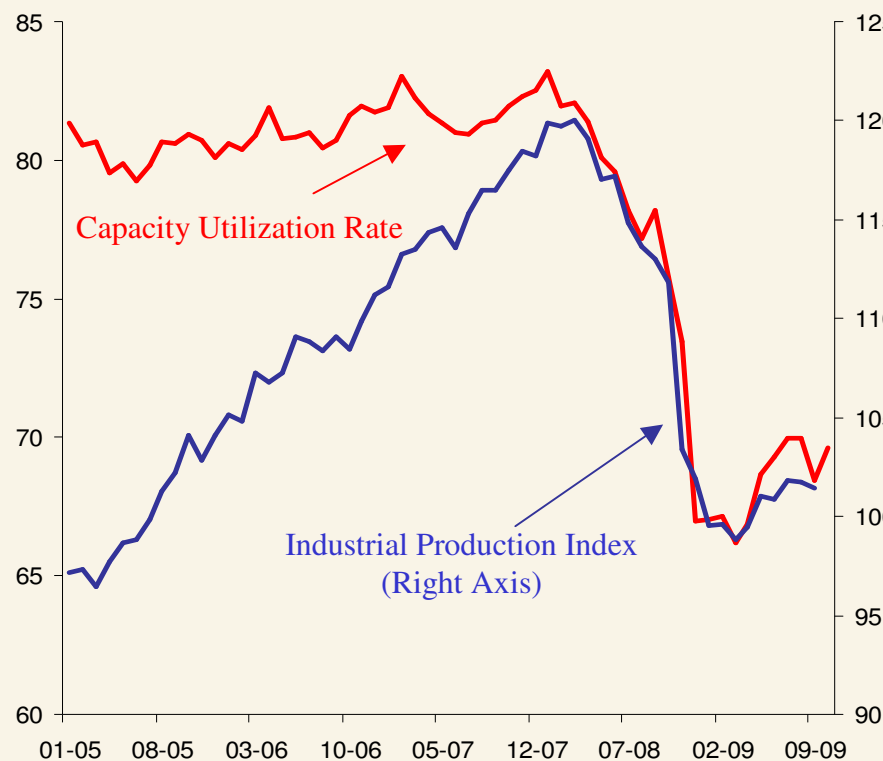
Source: TURKSTAT, CBT



Production Developments

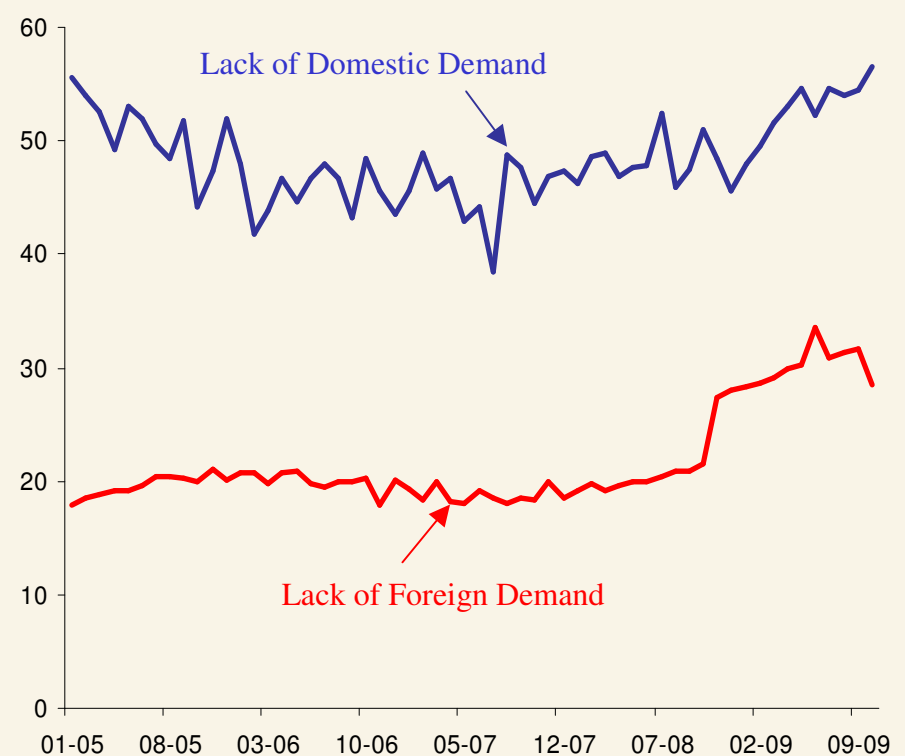
Although the industrial production and capacity utilization rate stabilized by 2009 Q2, weakness in domestic and foreign demand continued to constrain production levels.

Industrial Production Index* (January 2005 – September 2009)
Capacity Utilization Rate* (January 2005 – October 2009)



* Seasonally adjusted
Source: TURKSTAT, CBT

Reasons for Not Working at Full Capacity
(January 2005- October 2009, percent)



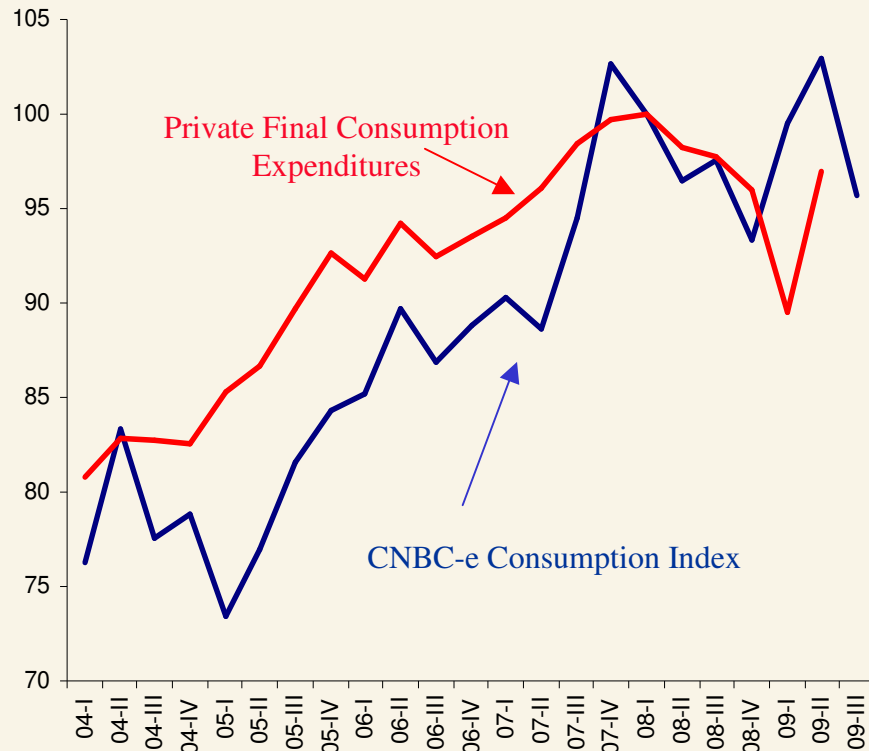
Source: TURKSTAT, CBT



Private Consumption

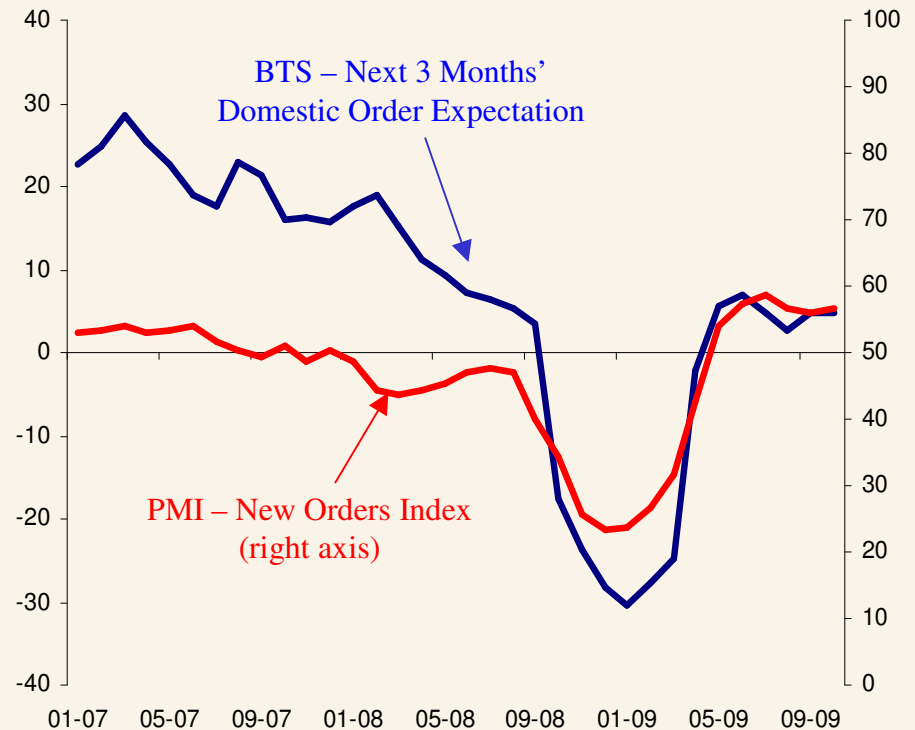
Private consumption increased markedly during the second quarter, but it is expected to display a weaker course in the second half of the year due to the expiration of tax cuts.

Seasonally Adjusted Consumption
(2004 Q1 – 2009 Q3, 2008 Q1 =100)



Source: CNBC-e, TURKSTAT, CBT

Demand Indicators*
(January 2007 – October 2009)



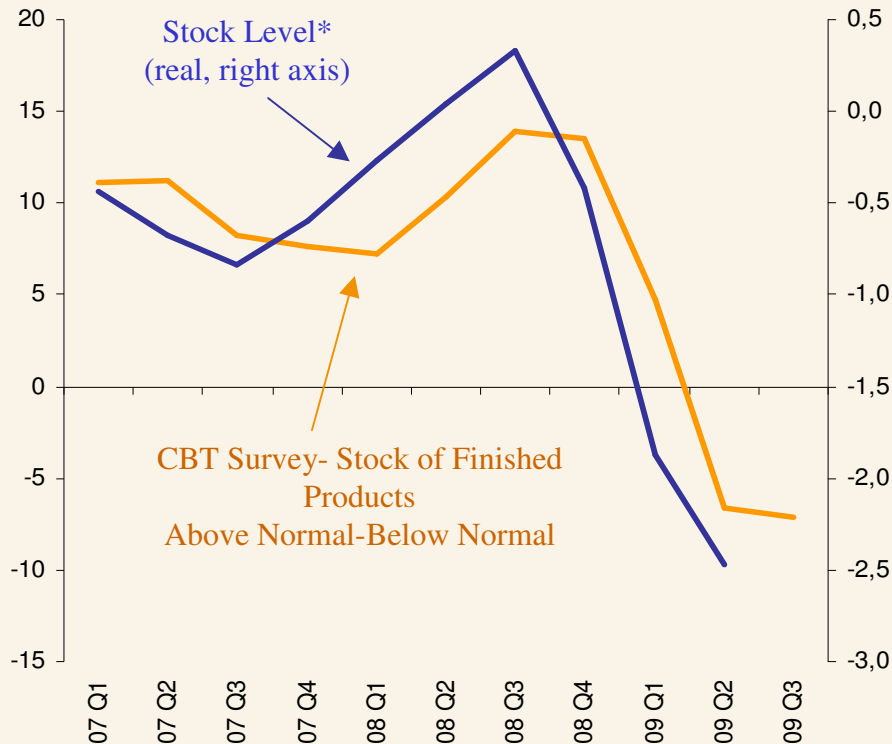
* Seasonally adjusted
Source: Bloomberg, CBT



Inventories

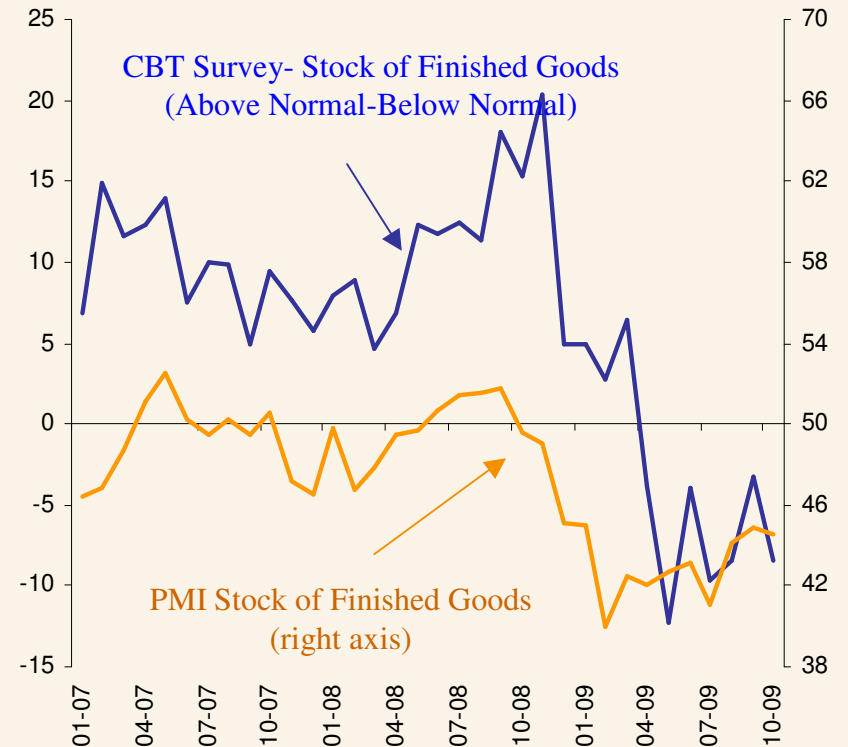
The depletion of inventories that has started in the last quarter of 2008 continues with the expectation that the recent rise in consumption demand will be temporary.

Stock Level and Expectations
(2007 Q1 – 2009 Q3)



* Seasonally Adjusted
Source: TURKSTAT, CBT

Outlook for Stock of Finished Goods
(January 2007 – October 2009)



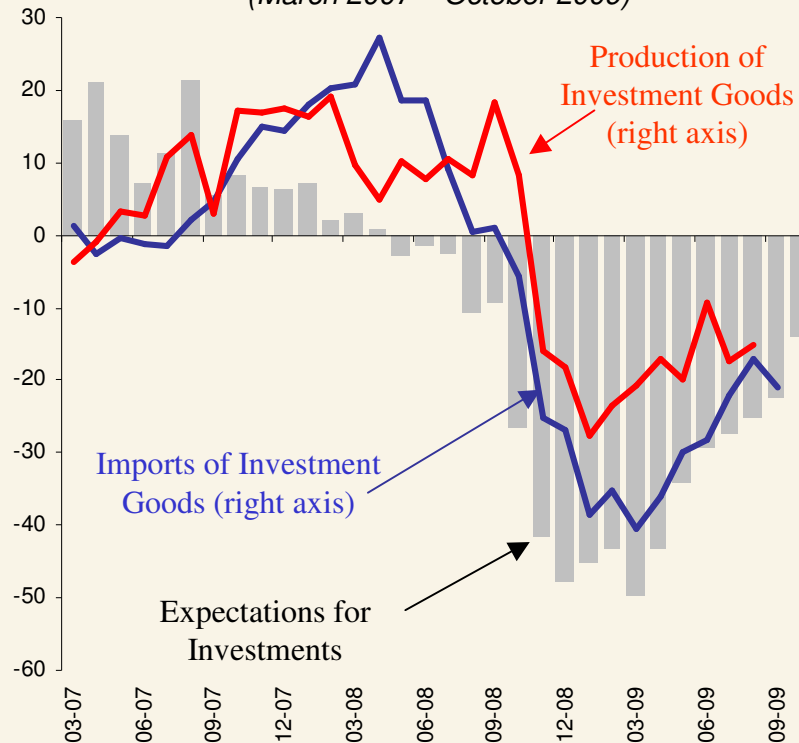
Source: Bloomberg, CBT



Investment Expectations

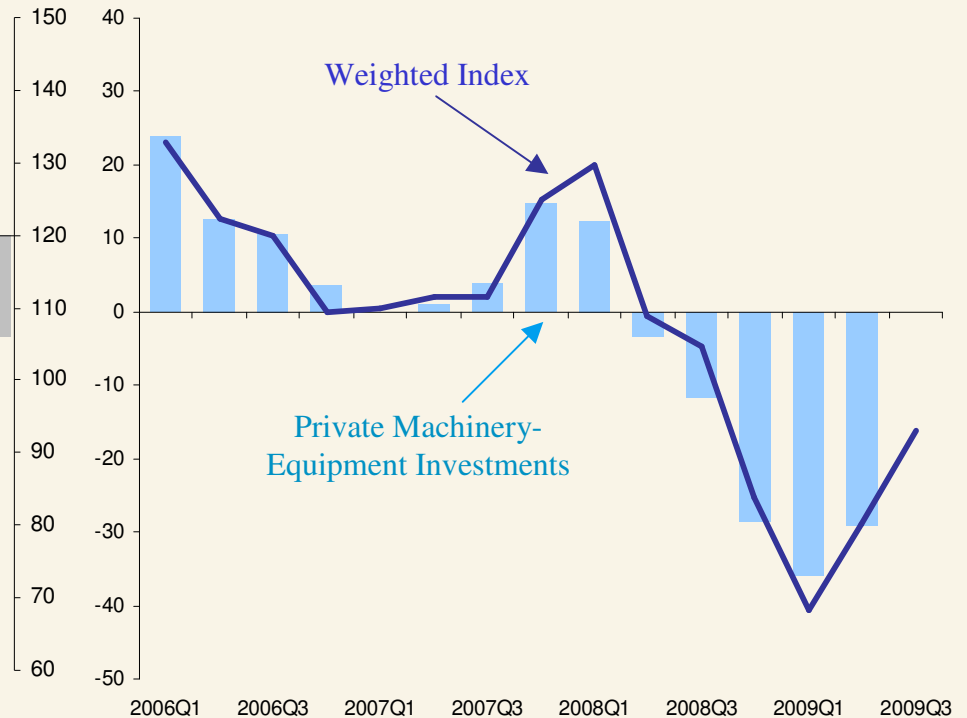
Investment indicators do not indicate a notable rebound in investment demand in the forthcoming period.

Production of Capital Goods, Imports of Capital Goods and Expectations for Fixed Capital Investment Expenditures*
(March 2007 – October 2009)



* Seasonally Adjusted
Source: TURKSTAT, CBT

Investment Indicators
(2006 Q1 – 2009 Q3, year-on-year percentage change)



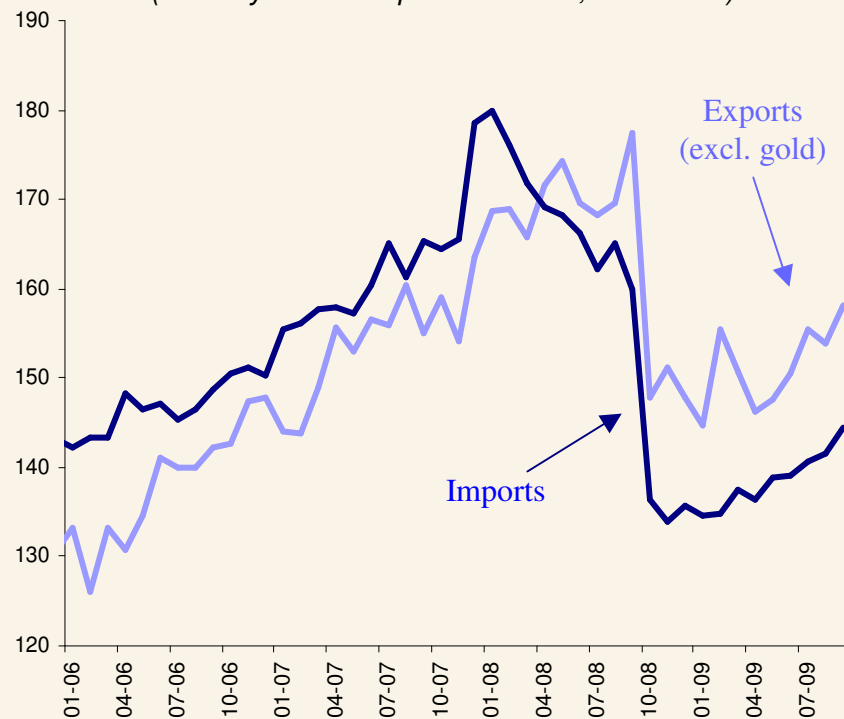
* Index Components: Production, imports and exports of capital goods
Source: TURKSTAT, CBT



External Demand

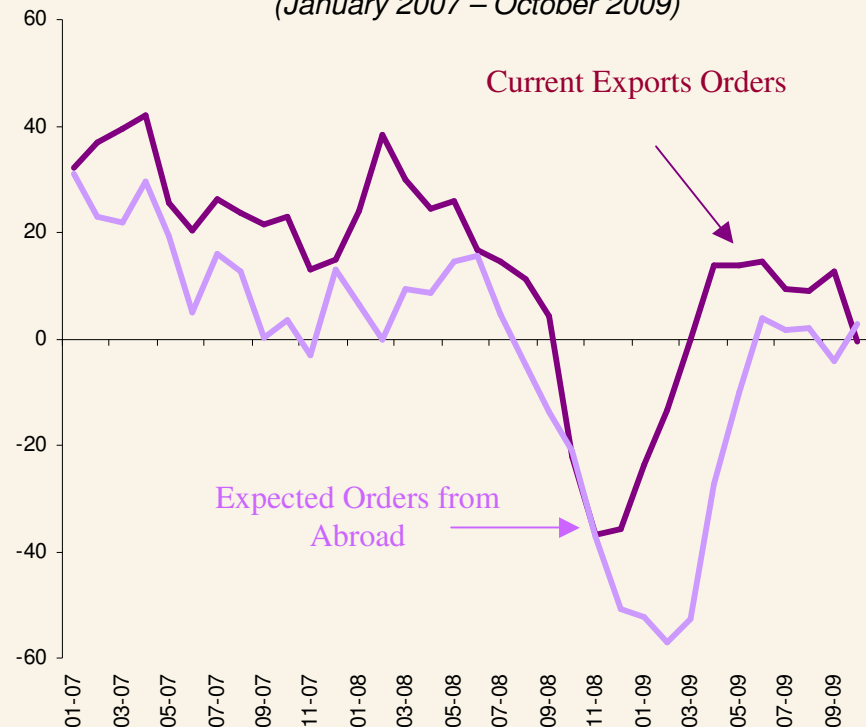
Real exports have displayed a stable trend, and there has been a slight recovery in expected export orders.

Real Exports and Imports*
(January 2006 – September 2009, 2003=100)



- Seasonally adjusted for working days
- Source: TURKSTAT, CBT

Exports Expectations*
(January 2007 – October 2009)



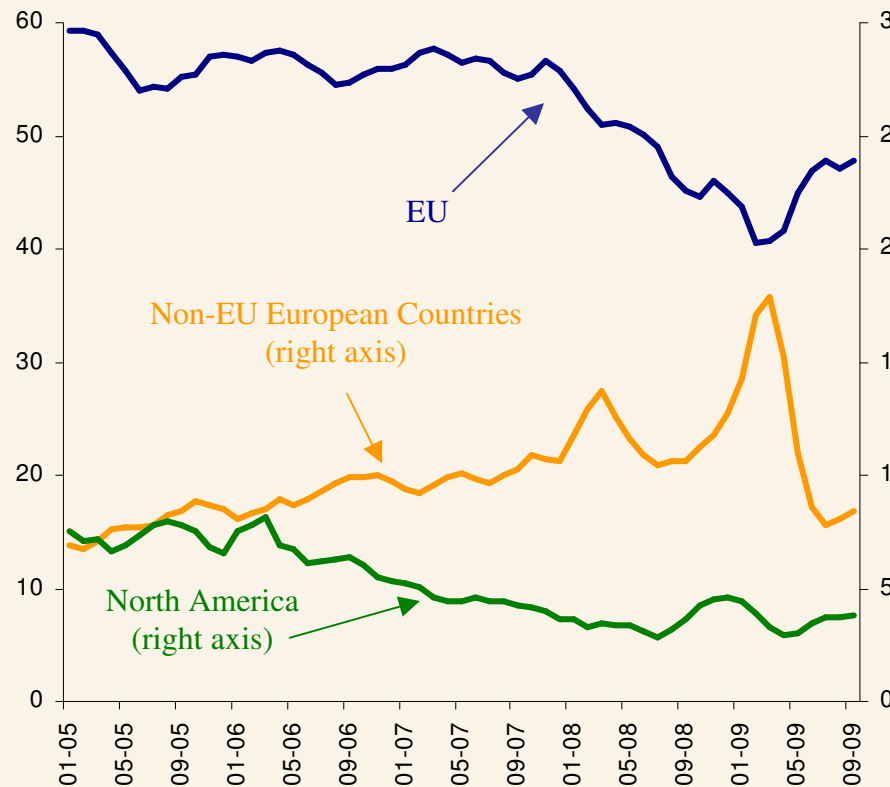
- * Business Tendency Survey
- Source: TURKSTAT, CBT



External Demand

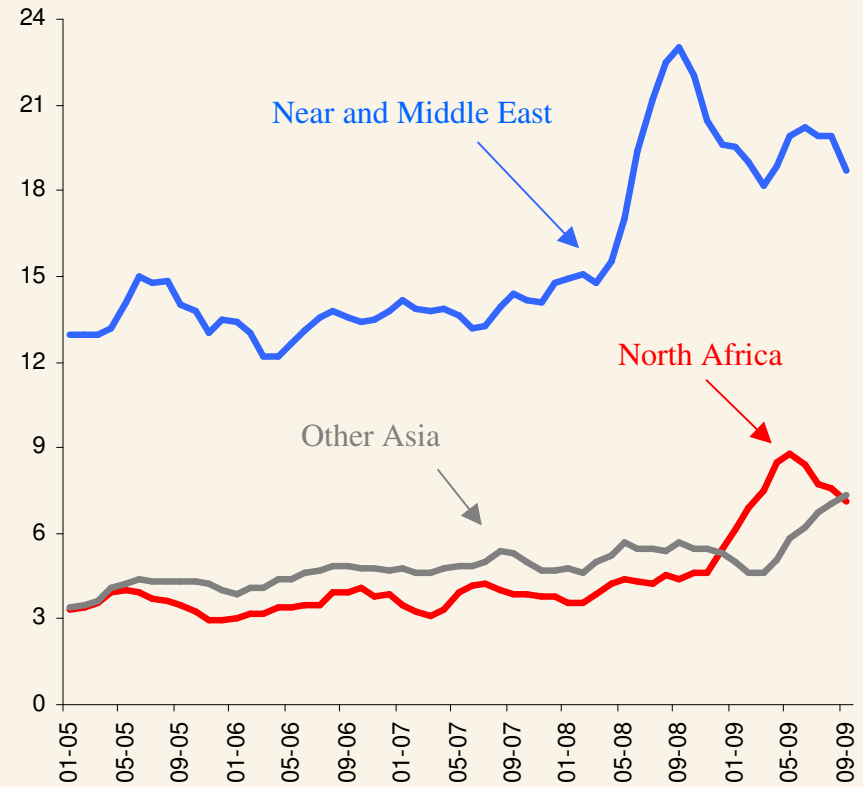
Diversity of export markets has gained pace in recent years, preventing a sharper decline in exports.

Turkey's Selected Exports Markets
(January 2005 – September 2009, percentage share)



Source: TURKSTAT, CBT

Turkey's Selected Exports Markets
(January 2005 – September 2009, percentage share)



Source: TURKSTAT, CBT

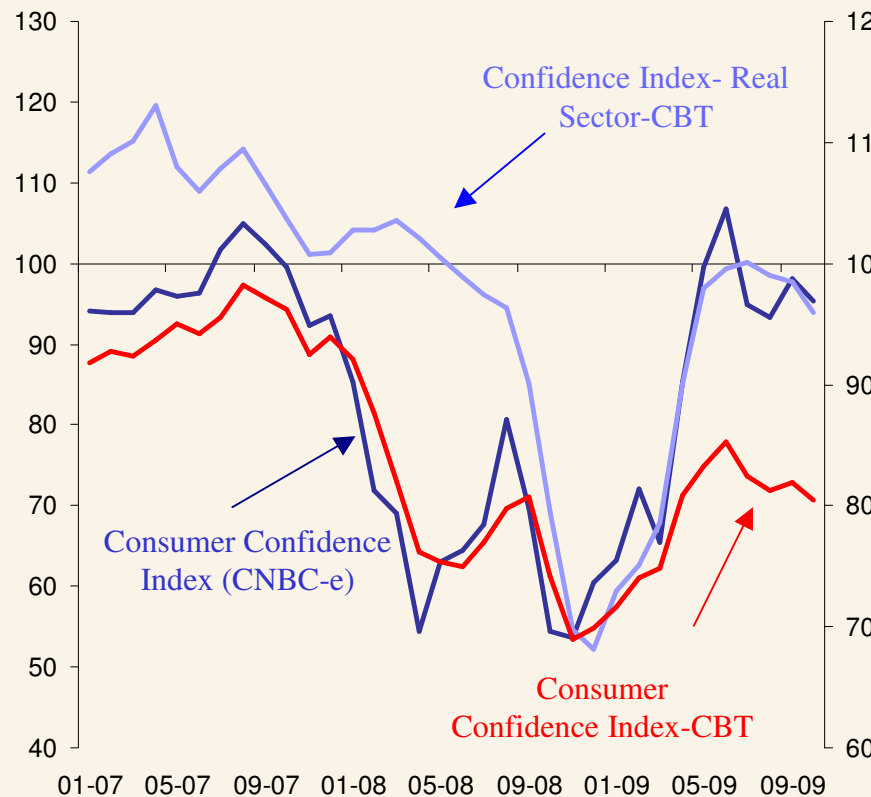


Confidence Indices and Leading Indicators

Confidence indices and leading indicators signal a partial recovery in economic activity in the near future.

Confidence Indices

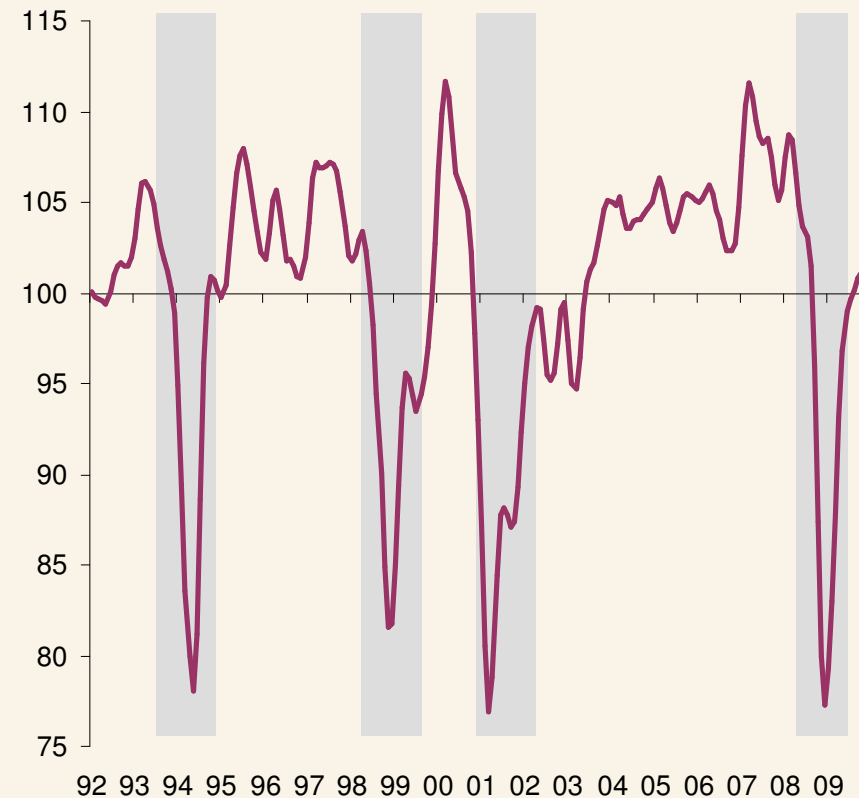
(January 2007 – October 2009)



Source: CNBC-e, CBT

Leading Indicators

(January 1992 – October 2009)



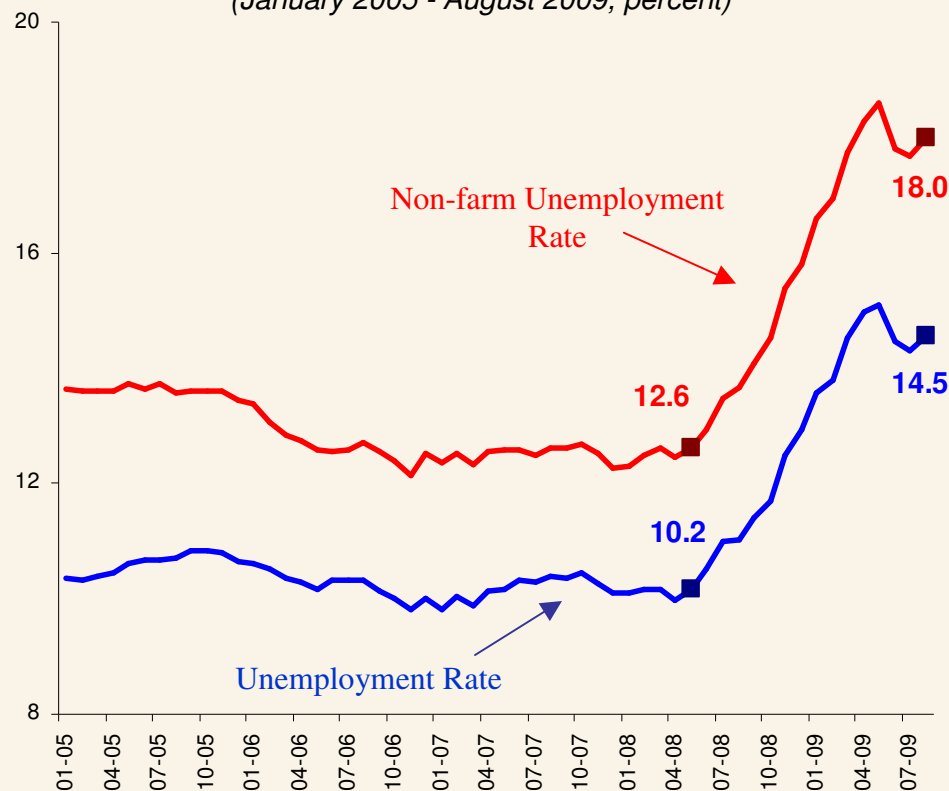
Source: CBT



Labor Market

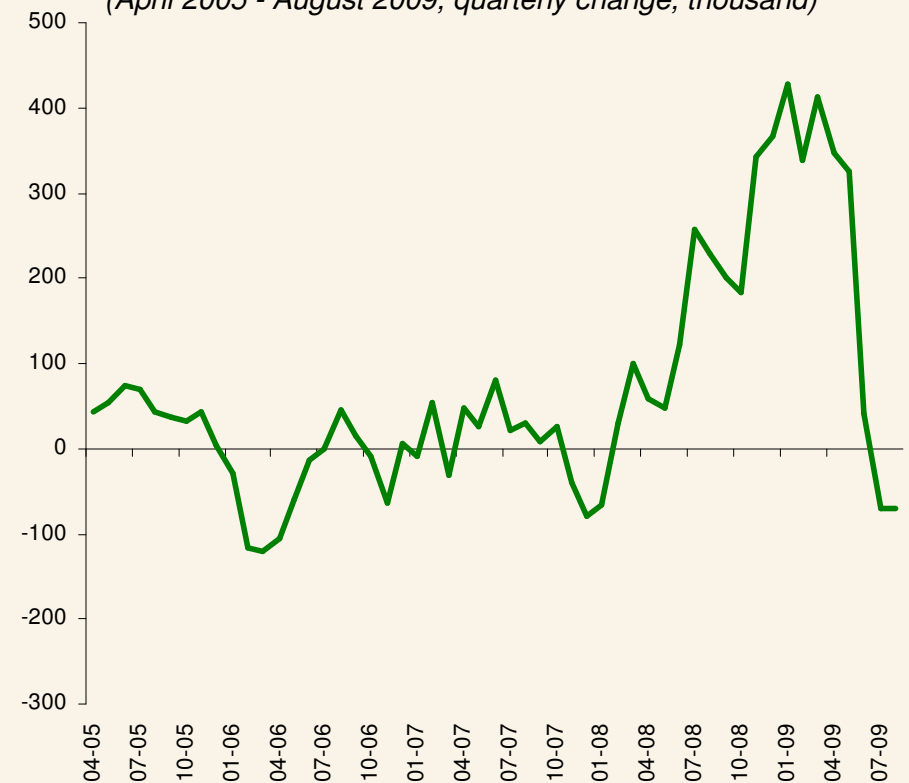
Recently, there has been a slight recovery in the labor market. However, ongoing uncertainties regarding aggregate demand and the low level of capacity utilization have continued to adversely affect investment and hiring decisions.

Seasonally Adjusted Unemployment Rates
(January 2005 - August 2009, percent)



Source: TURKSTAT, CBT

Change in Non-farm Unemployment*
(April 2005 - August 2009, quarterly change, thousand)



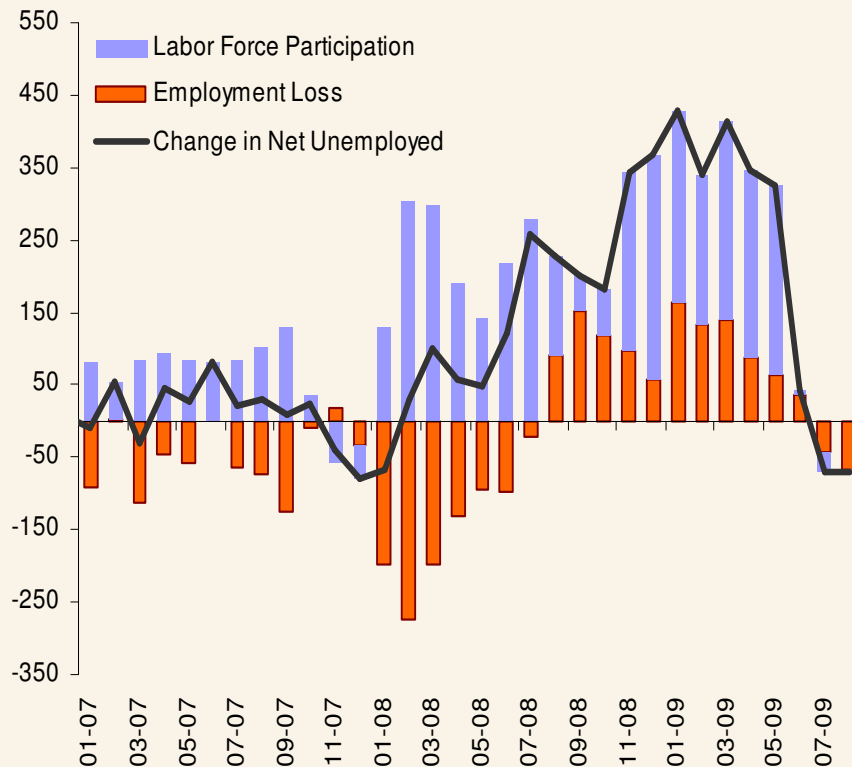
*Seasonally adjusted
Source: TURKSTAT, CBT



Labor Market

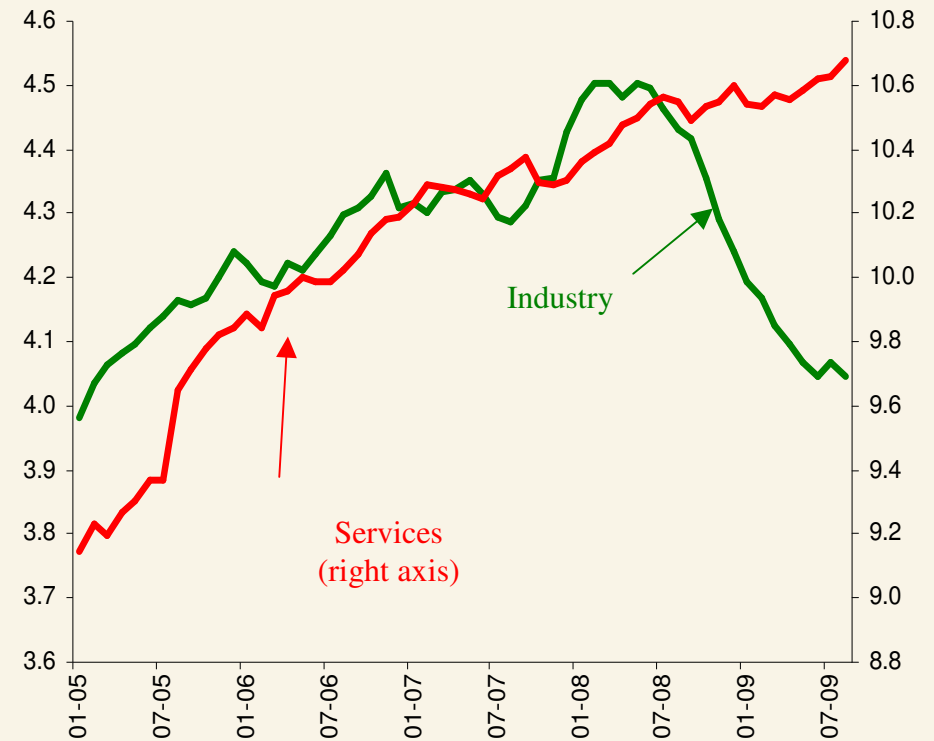
The decline in non-farm employment was mainly driven by employment loss in the industrial sector.

Change in Non-Farm Unemployment*
(January 2007 - August 2009, quarterly change, thousand people)



* Seasonally Adjusted
Source: TURKSTAT, CBT

Employment in Industry and Services*
(January 2005 - August 2009, million people)



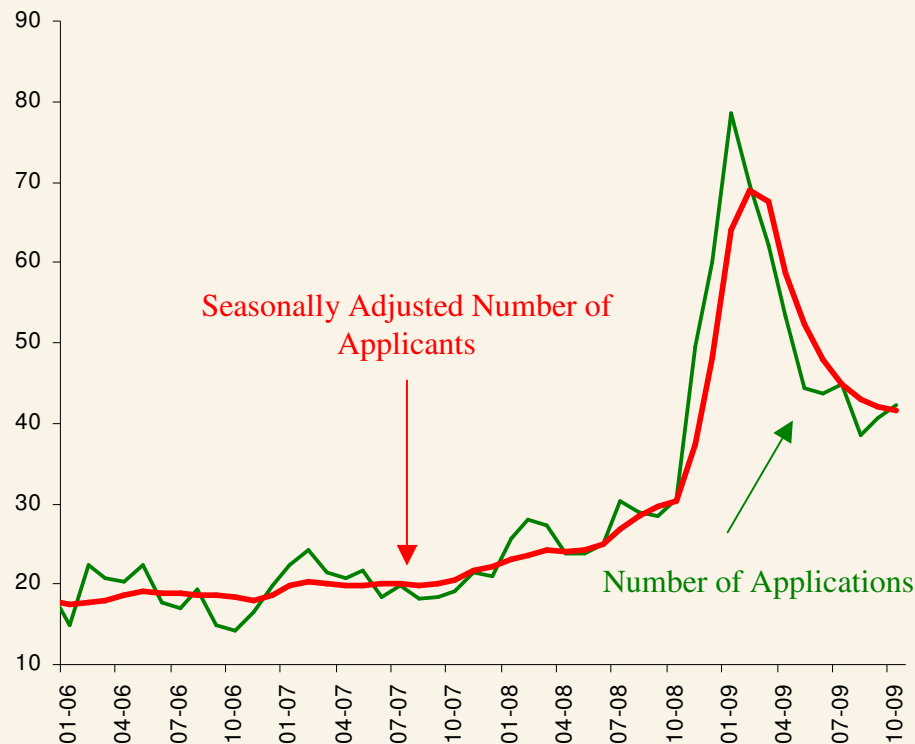
*Seasonally Adjusted
Source: TURKSTAT, CBT



Labor Market

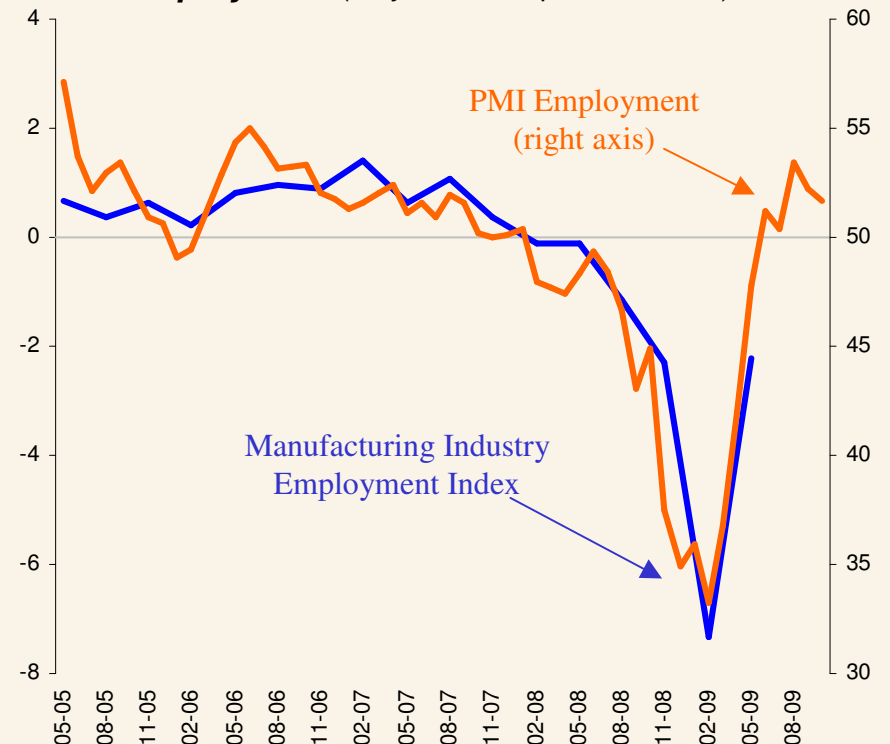
Nevertheless, recently announced data indicate a slight improvement, albeit limited, in industrial employment.

Applications for Unemployment Benefits
(January 2006 – October 2009, thousand people)



Source: TURKSTAT, CBT

Employment in Manufacturing Industry (y-o-y percentage change, May 2005 - June 2009) **and PMI Employment** (May 2005 - September 2009)



Source: TURKSTAT, CBT

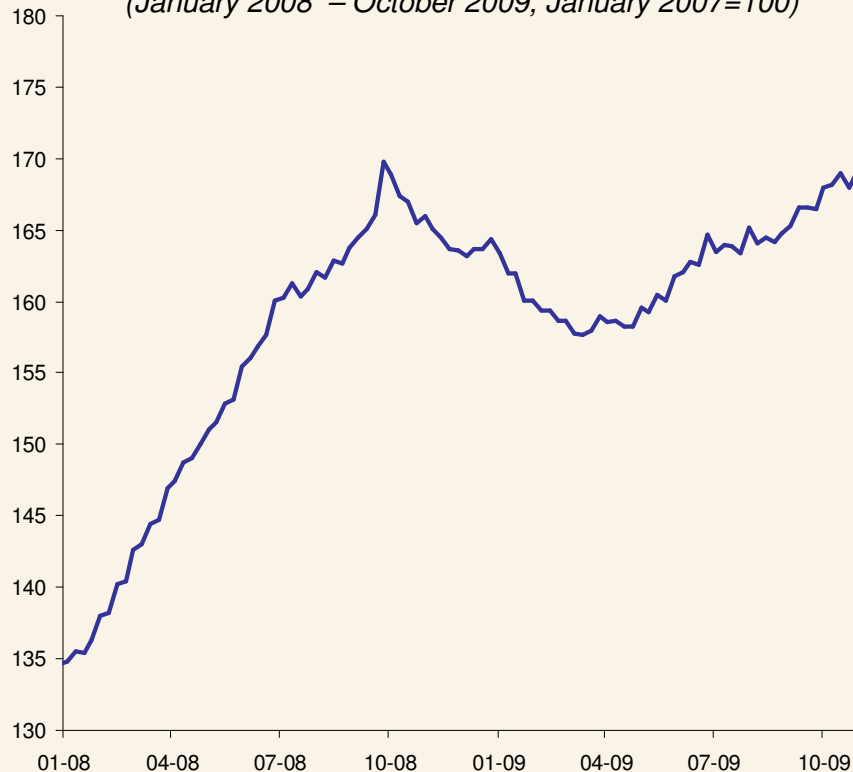


Credit Market

Cumulative policy rate cuts implemented since November 2008 and improvements in global risk perceptions have started to have a favorable effect on credit markets.

Total Credit Volume

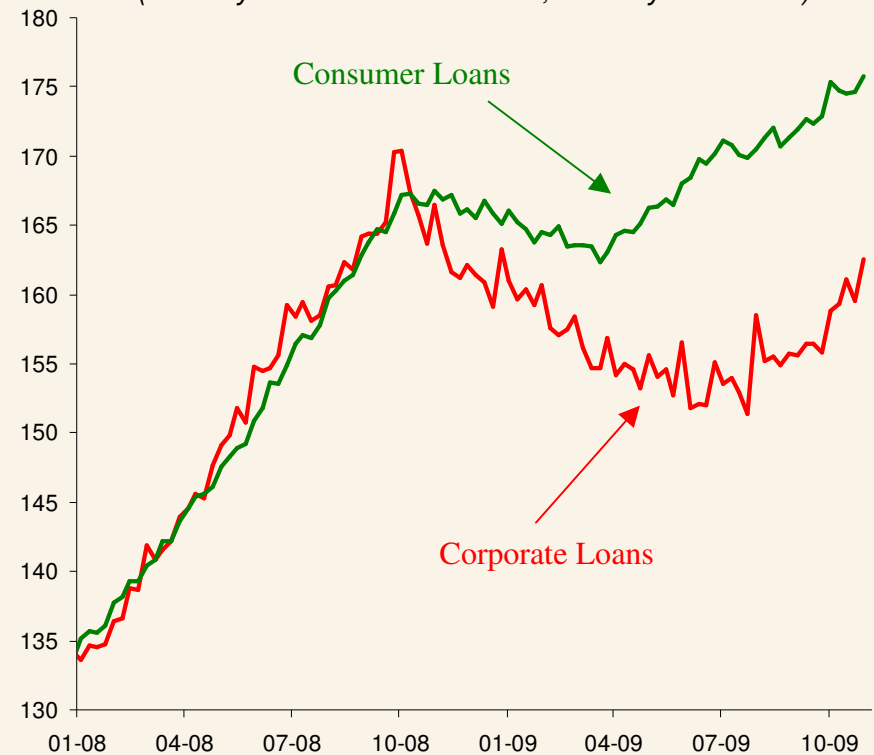
(January 2008 – October 2009, January 2007=100)



* Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted
Source: CBT

Volume of Corporate and Consumer Loans

(January 2008 – October 2009, January 2007=100)



* Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted, 4-week moving average
Source: CBT



Credit Market

The support of the credit channel to aggregate demand will be more evident in the upcoming period.

Weekly Change in Total Credit Volume*
(January 2006 – October 2009, 13-week moving average, percent)



* Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted
Source: CBT

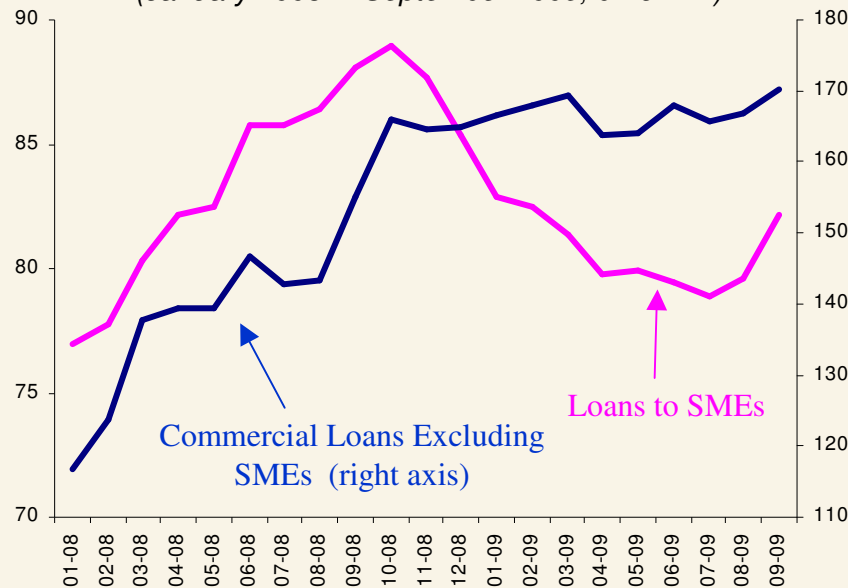


Commercial Loans

The downward trend in commercial lending, mainly in loans to small and medium size enterprises (SMEs), arising from the global liquidity squeeze and tighter loan standards has recently been replaced by a partial recovery.

Commercial Loans

(January 2008 – September 2009, billion TL)

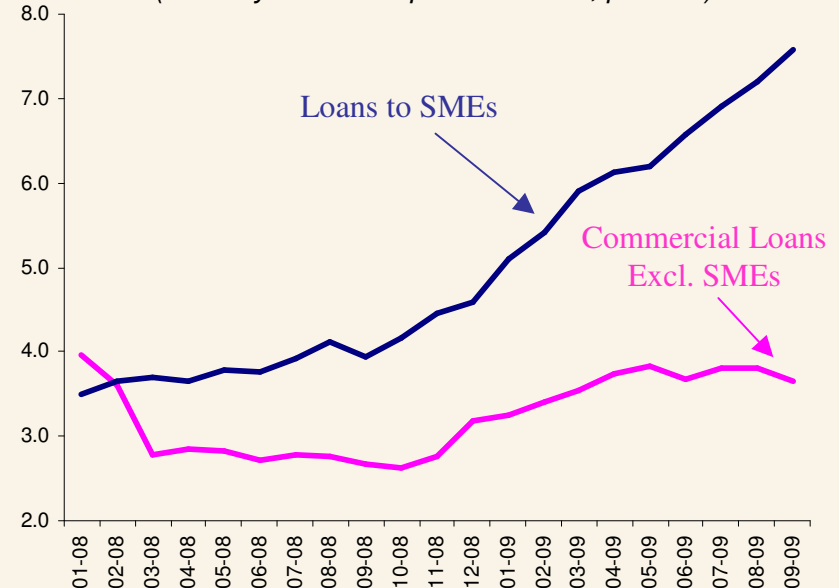


billion TL	Loans to SMEs	Commercial Loans Excl. SMEs
09.2008	88.1	155.0
09.2009	82.1	172.3

Source: BRSA, CBT

Non-performing Loans

(January 2008 – September 2009, percent)



percent	Loans to SMEs	Commercial Loans Excl. SMEs
09.2008	4,1	2,7
09.2009	7,6	3,7

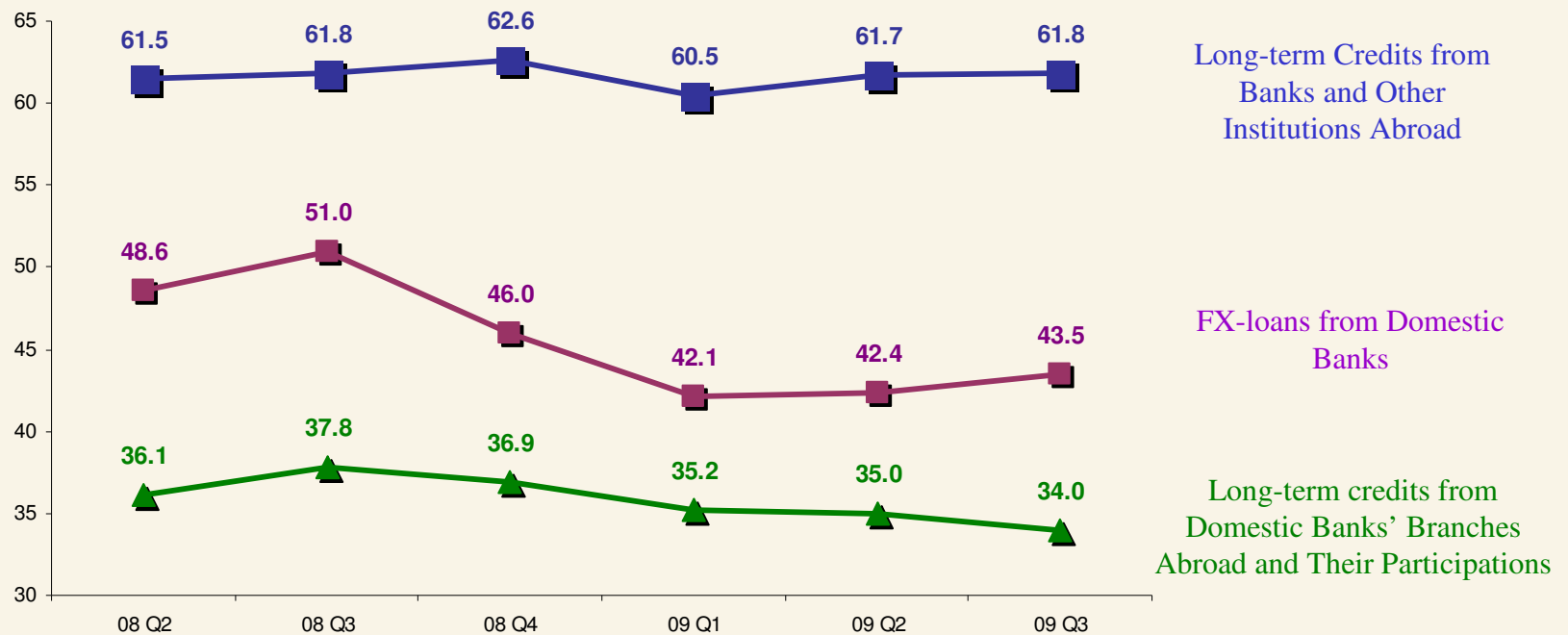
Source: BRSA, CBT



FX-denominated Debts of Firms

While long-term credits extended to domestic firms from abroad displayed a stable trend in the last 12 months, FX-loans from domestic banks and credits from domestic banks' branches abroad declined in the same period.

FX-denominated Debts of Firms
(2008 Q2 – 2009 Q3*, billion USD)



* As of August 2009
Source: BRSA, CBT



Credit Default Rates

The number of firms that defaulted on their bank loans increased significantly since December 2008.

	Dec.08	July 09	Aug.09
1 Textile and Textile Products	11.6	15.1	15.6
2 Industry of Tobacco, Beverages and Food	9	12.6	12.9
3 Construction	8.5	11.2	11.3
4 Agriculture, Hunting and Forestry	10.3	11.1	11.3
5 Hotels and Restaurants (Tourism)	7.8	10.4	10.6
6 Wholesale and Retail Trade, Brokerage, Maint. Of Mot. Veh.	6.5	9.7	9.8
7 Manuf. of Basic Metal and Fabricated Metal Products	5.9	8.9	9.2
8 Electricity, Gas and Water Sources	6.1	8.3	8.6
9 Machinery and Equipment Industry	5.5	8	8.4
10 Transport, Storage and Communication	4.6	6.3	6.5
Total of All Sectors	8.1	10.6	10.8

Source: CBT

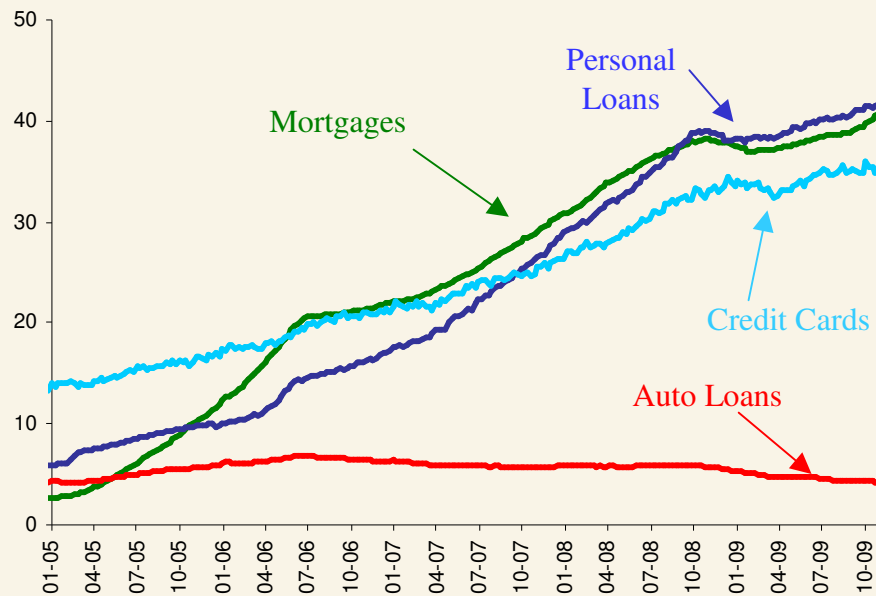
- (1) The default rate has been calculated as the ratio of the number of firms that have non-performing loans to the total number of firms that have non-performing cash loans.



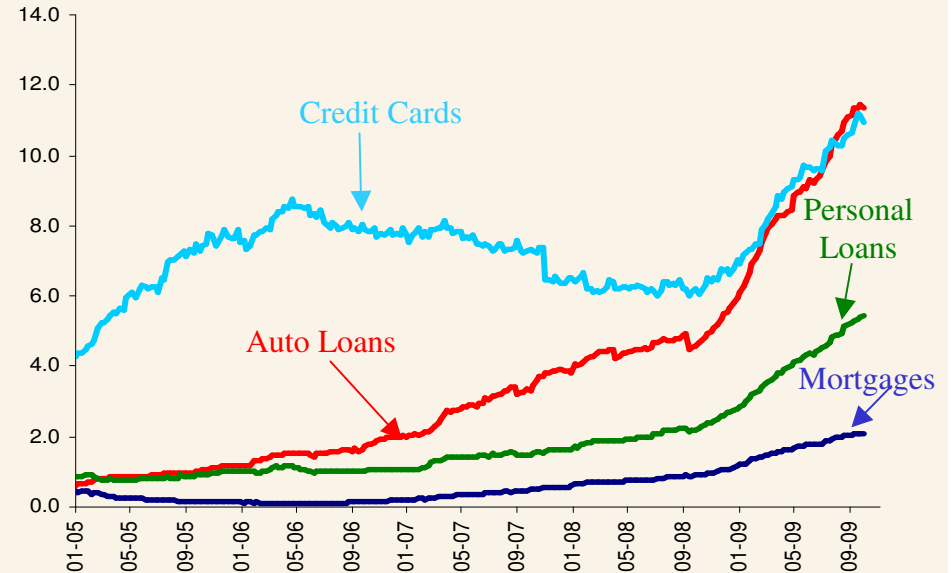
Consumer Loans

The rise in non-performing consumer loans is limited in mortgages thanks to the high quality of collateral. It is, however, more significant in auto loans partly due to credit aging.

Sub-items of Consumer Loans
(January 2005 – November 2009, billion TL)



Ratio of Non-Performing Loans
(January 2005 – November 2009, percent)



Billion TL (monthly avg.)	TOTAL	Mortgages	Auto Loans	Personal Loans	Credit Cards
11.07	87,9	29,5	5,7	27,0	25,7
11.08	115,5	38,0	5,6	38,7	33,2
11.09	122,4	40,9	4,2	41,7	35,6

* Deposit Banks
Source: CBT

Percent (monthly avg.)	TOTAL	Mortgages	Auto Loans	Personal Loans	Credit Cards
11.07	2,8	0,6	3,8	1,6	6,5
11.08	3,4	1,0	5,3	2,5	6,6
11.09	6,4	2,1	11,9	5,7	11,8

* Deposit Banks
Source: CBT



Restructured Credit Card Debts

Credit card debts restructured in line with Provisional Article 5 of Law no. 5464 reached 49 percent of total non-performing loans.

	Sum (Thousand TL)					% share in the NPL
	July	August	September	October	Total	
Credit Card Debts Subject to Restructuring Protocol	254,677	535,548	787,682	133,571	1,711,478	49.25
- Debts governed by the Protocol	251,722	532,945	730,373	83,054	1,598,094	45.98
- Debts for which the Protocol has been cancelled	2,955	2,604	57,308	50,516	113,384	3.26

Source: The Banks Association of Turkey (BAT)

* As of 31 May 2009, credit card NPLs amount to TL 3,475,349 thousand.



TOKI Loans

The ratio of TOKI loans (loans extended by the Housing Development Administration of Turkey) to total housing loans stood at 18 percent as of September 2009.

	Number of Houses with Outstanding Loans	Balance of TOKI Loans (billion TL)	Ratio of TOKI Loans to Housing Loans* (percent)
2005	28.417	1.15	9.3
2006	74.752	3.40	15.4
2007	100.810	4.62	15.0
2008	120.784	5.70	15.2
03.2009	126.683	6.00	16.1
06.2009	132.516	6.27	16.3
09.2009	140.480	6.90	17.8

* Deposit Banks

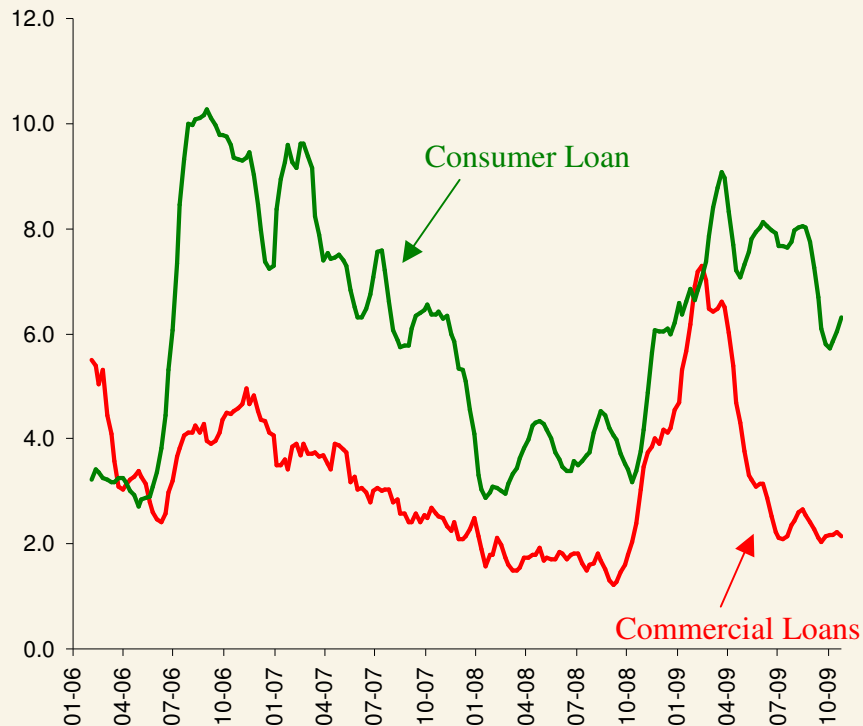
Source: Housing Development Administration of Turkey, CBT



Financial Tightness

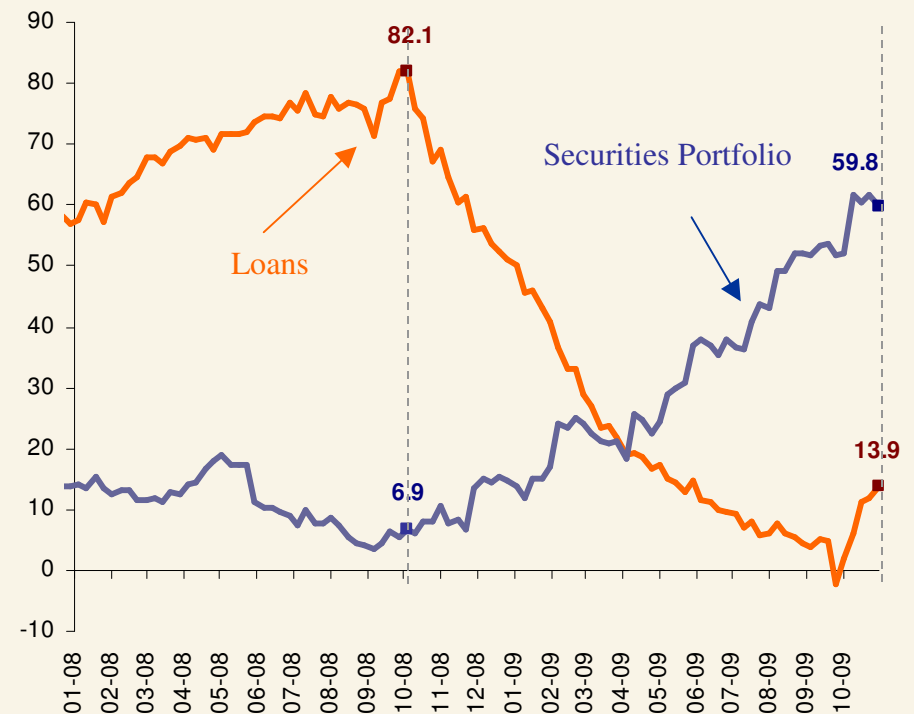
The additional tightness in financial conditions has continued despite the cumulative effect of policy rate cuts.

Interest Rate Margins (over Deposit Rates)*
(January 2006 – October 2009, 4-week moving average, percent)



* Weighted average, flow interest rates.
Source: CBT

Annual Change in Bank Loans and Securities*
(January 2008 – October 2009, billion TL)



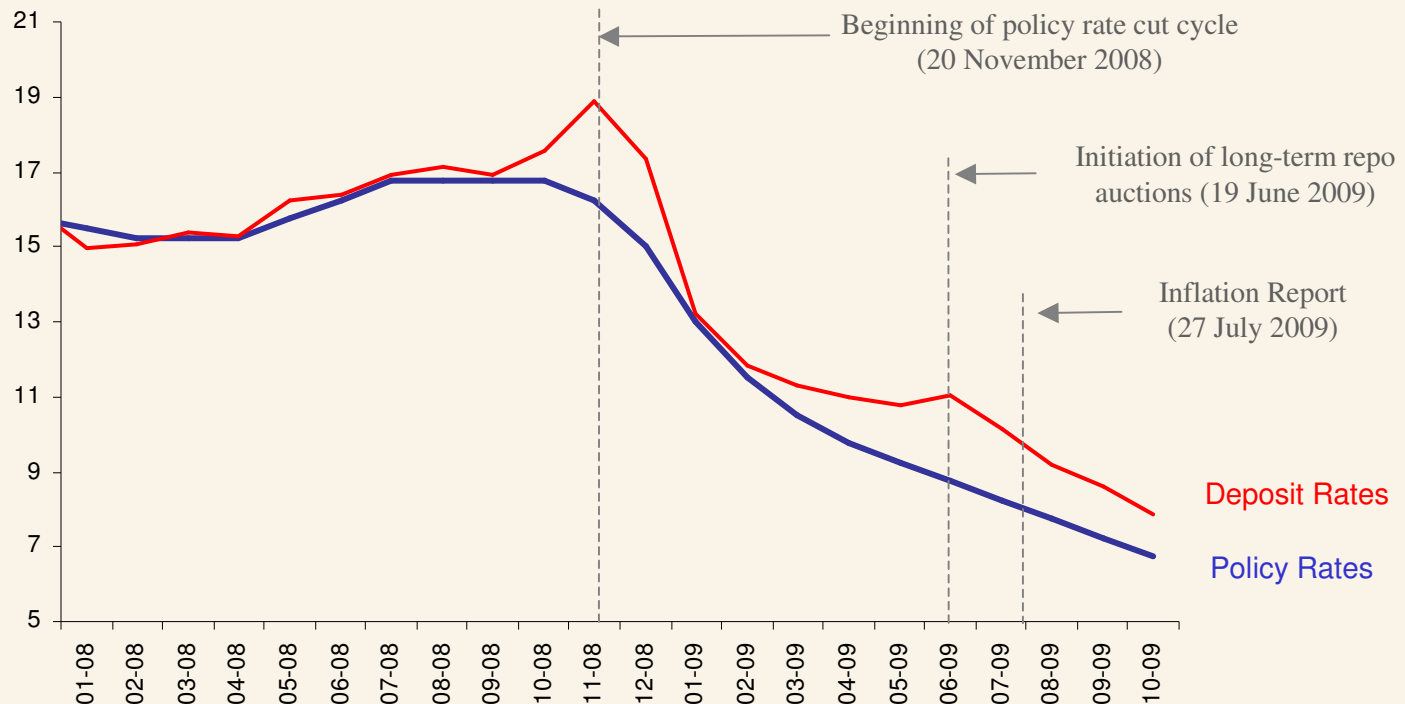
* Exchange rate adjusted
Source: CBT



Change in Deposit Rates

The monetary easing cycle, introduction of the new long-term repo facility, and signals for the medium-term outlook of policy rates have all eased pressure on banks' funding costs.

Policy Rates and Average Interest Rates on Deposits*
(January 2008 – October 2009, Percent)



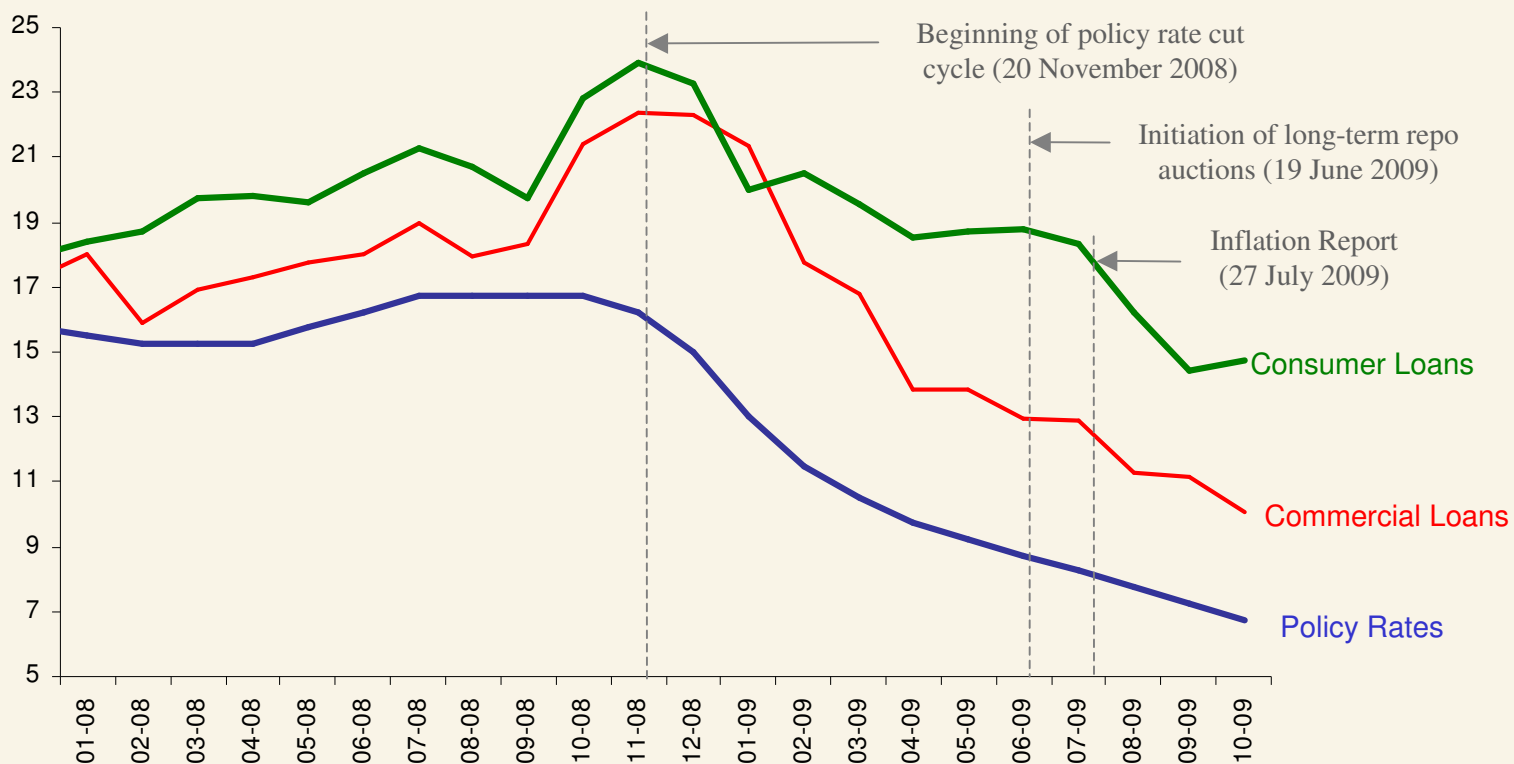
* Weighted average, flow interest rates. Excluding interbank deposits.
Source: CBT



Change in Loan Rates

A similar downward trend, albeit a more limited one, is also observed in loan rates.

Consumer Loans, Commercial Loans and Policy Rates
(January 2008 – October 2009, percent)



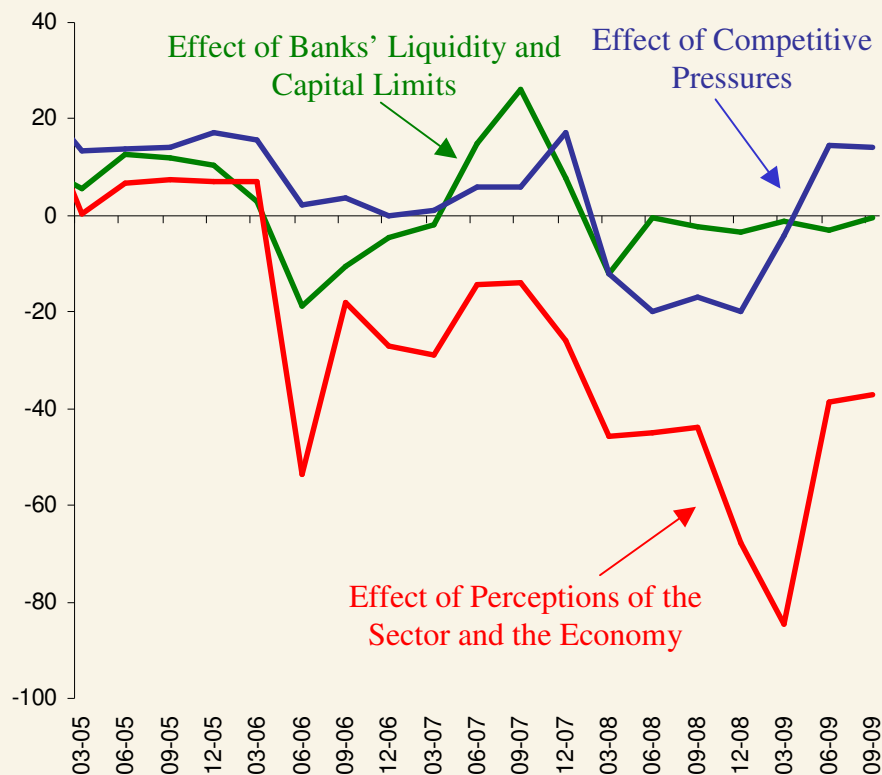
* Weighted average, flow interest rates
Source: CBT



Loan Tendency Survey

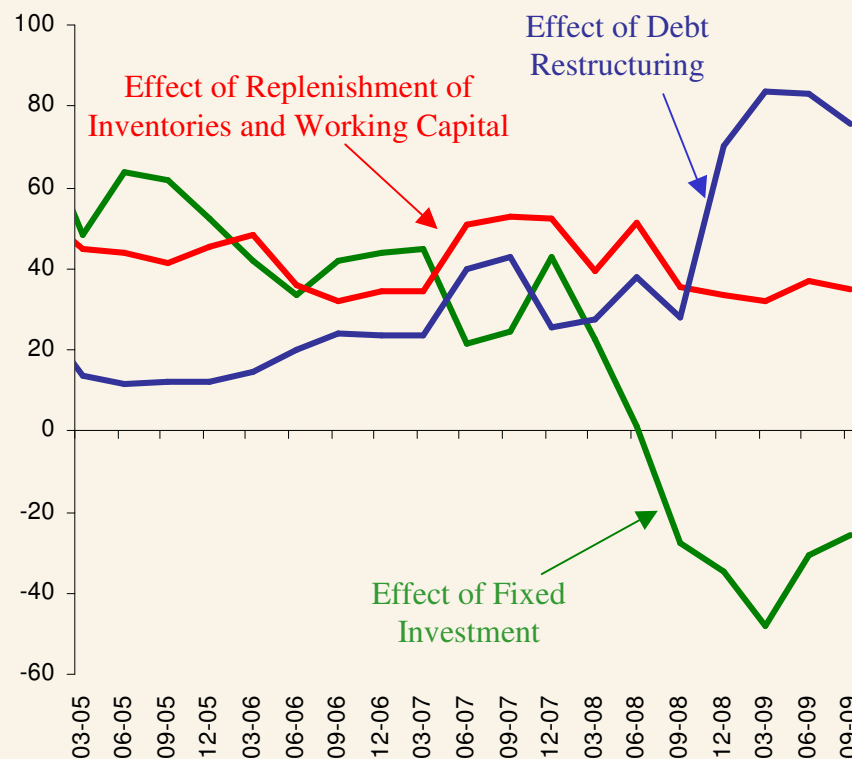
The Banks' Loan Tendency Survey results revealed that the tendency of banks to tighten credit standards has been easing and competition among banks has started to encourage banks to ease credit standards.

Factors Affecting Credit Supply
(March 2005- September 2009)



Source: CBT

Factors Affecting Credit Demand
(March 2005- September 2009)



Source: CBT

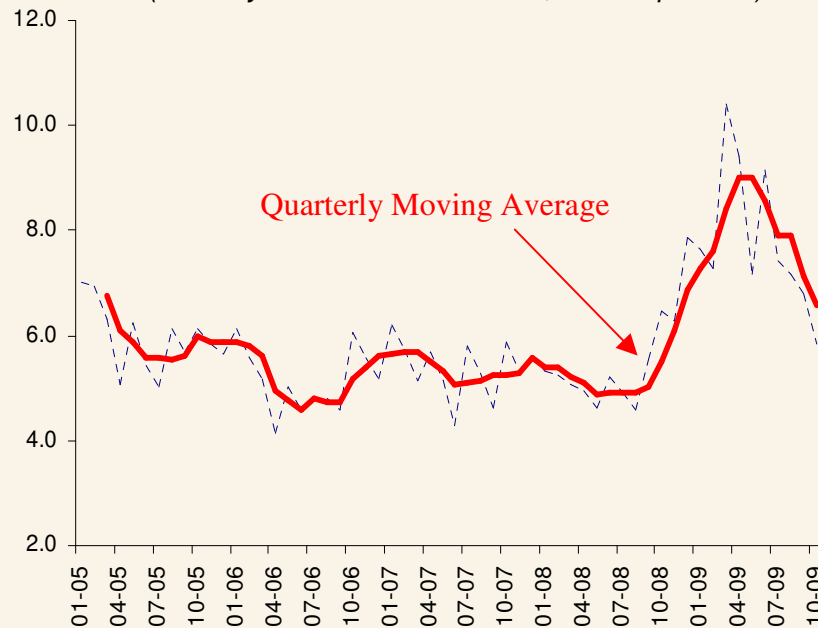


Commercial Activities

The negative outlook on bad cheques and the number of new firms persists despite slight recovery in recent months.

Ratio of the Number of Bad Cheques to Total Cheques

(January 2005 – October 2009, annual percent)

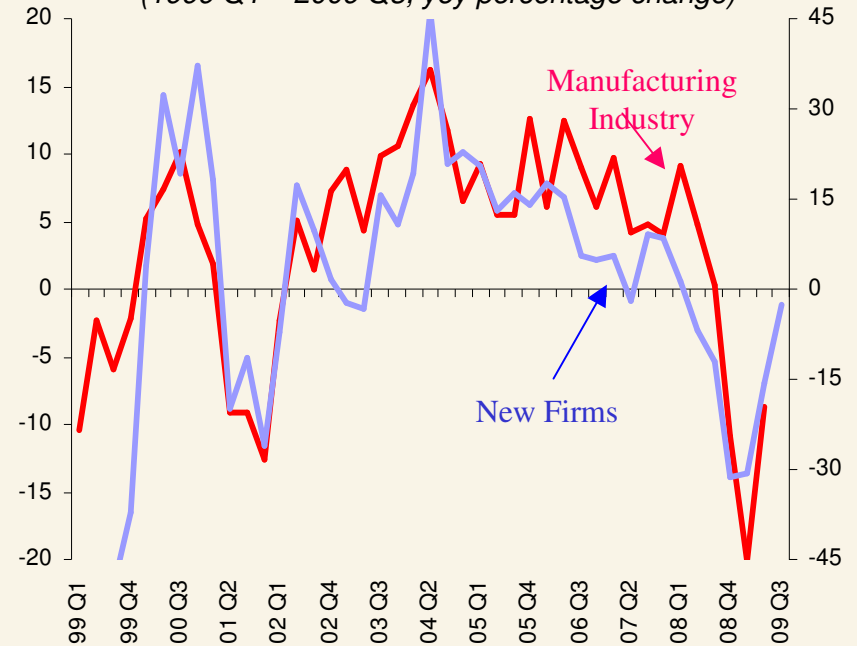


2006	2007	2008	09-I	09-II	09-III	09-IV*
5.14	5.39	5.01	8.44	8.58	7.13	5.82

*As of October 2009
Source: ICHC, CBT

Number of New Firms and GDP Manufacturing Industry

(1999 Q1 – 2009 Q3, yoy percentage change)



Percentage Change	07	08-IV	09-I	09-II	09-III
Manufacturing Industry	5,6	-10,8	-20,2	-8,7	
Newly Founded Firms	5,0	-31,4	-30,6	-15,8	-2,8

Source: TURKSTAT, CBT

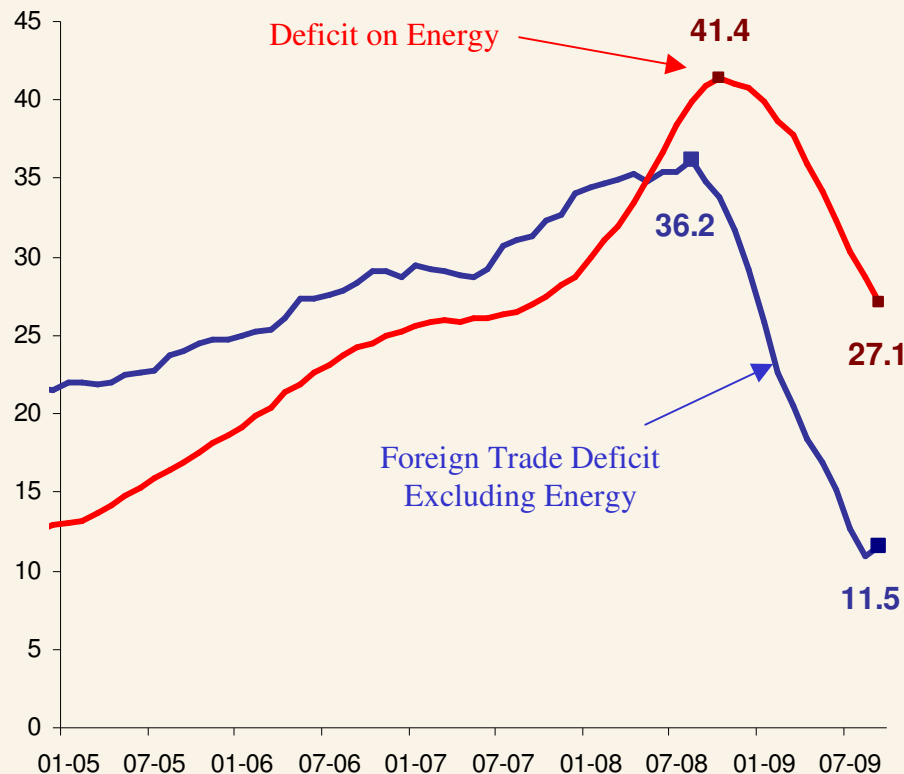


Balance of Payments

The decline in current account deficit has limited the adverse effects of the global financial crisis by reducing the financing requirement.

Foreign Trade Deficit

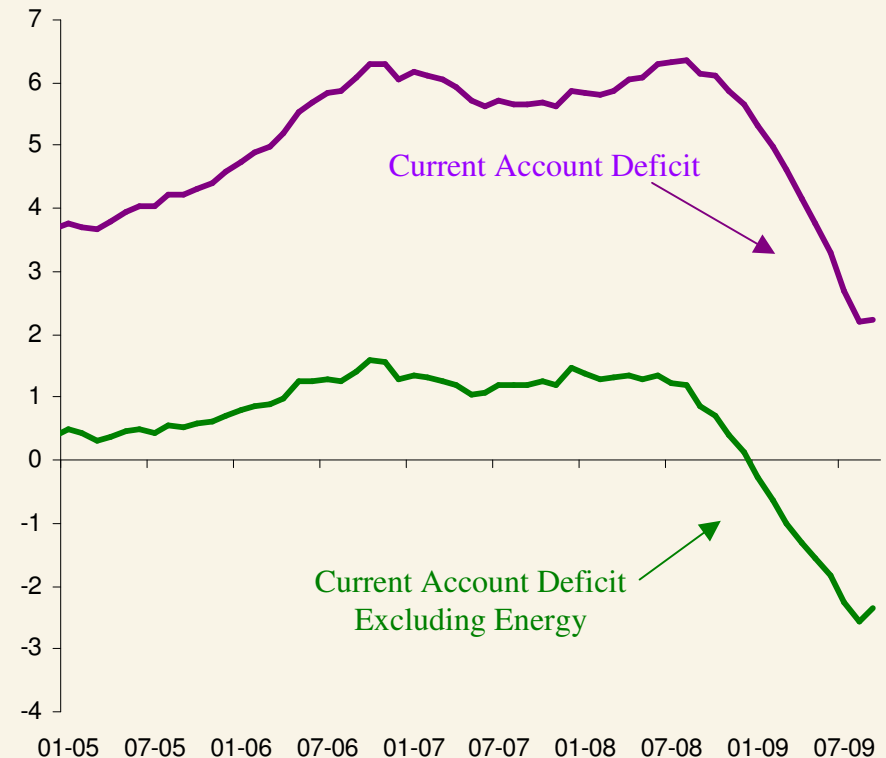
(January 2005 – September 2009, billion USD)



Source: TURKSTAT, CBT

Current Account Balance

(January 2005 – September 2009, ratio to GDP, percent)



Source: TURKSTAT, CBT

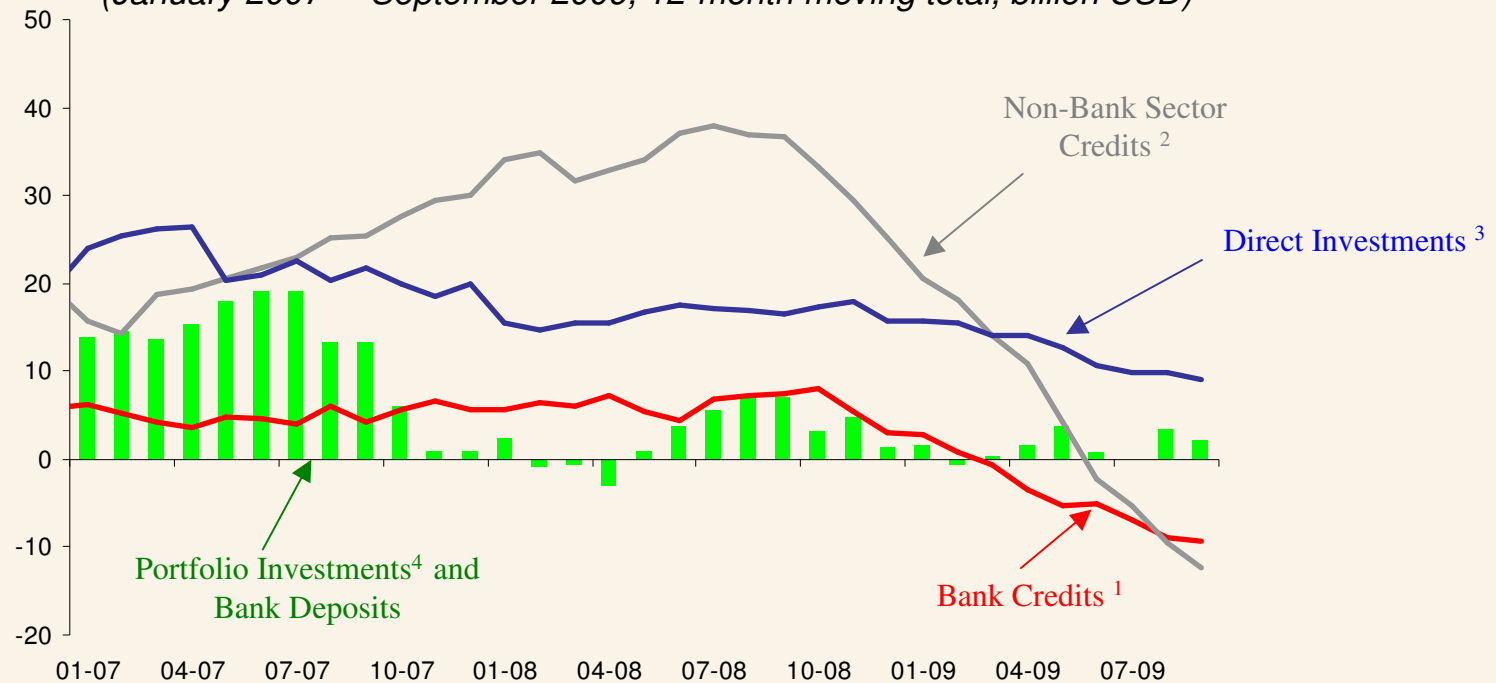


Balance of Payments

The share of direct capital inflows in the financing of the current account deficit followed a stable course. During the last 12-month period, both domestic banks and other sectors became net foreign debt payers.

Capital Movements

(January 2007 – September 2009, 12-month moving total, billion USD)



¹ **Bank Credits:** Short and long term net foreign liabilities of the domestic banking sector

² **Non-Bank Sector Credits:** Short and long term net foreign liabilities of the non-bank sector

³ **Direct Investment:** Direct investment flows

⁴ **Portfolio Investments:** Equity and treasury bill purchases of foreign residents

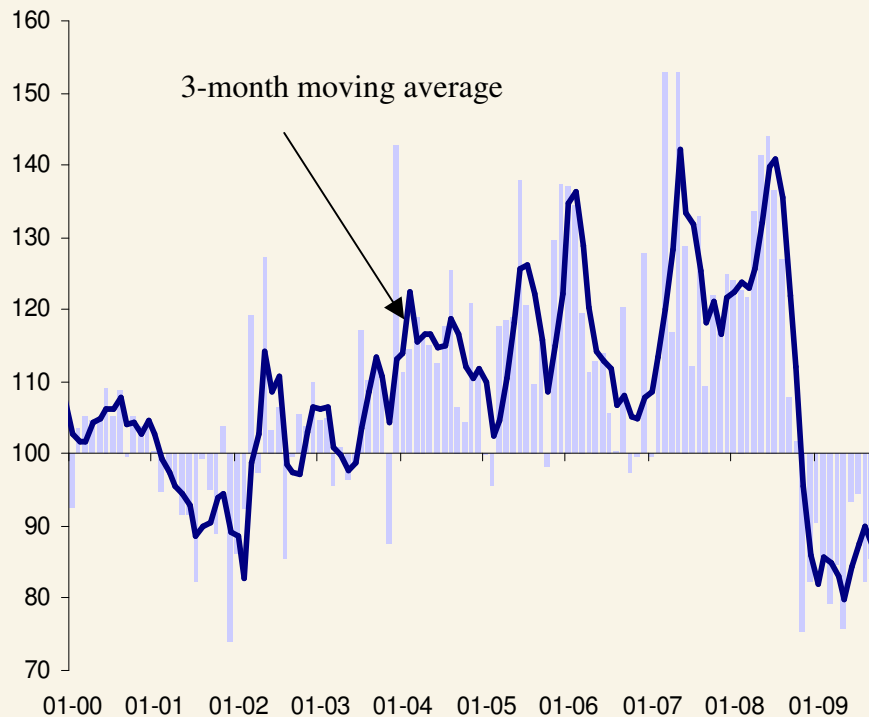
Source: TURKSTAT, CBT



Balance of Payments

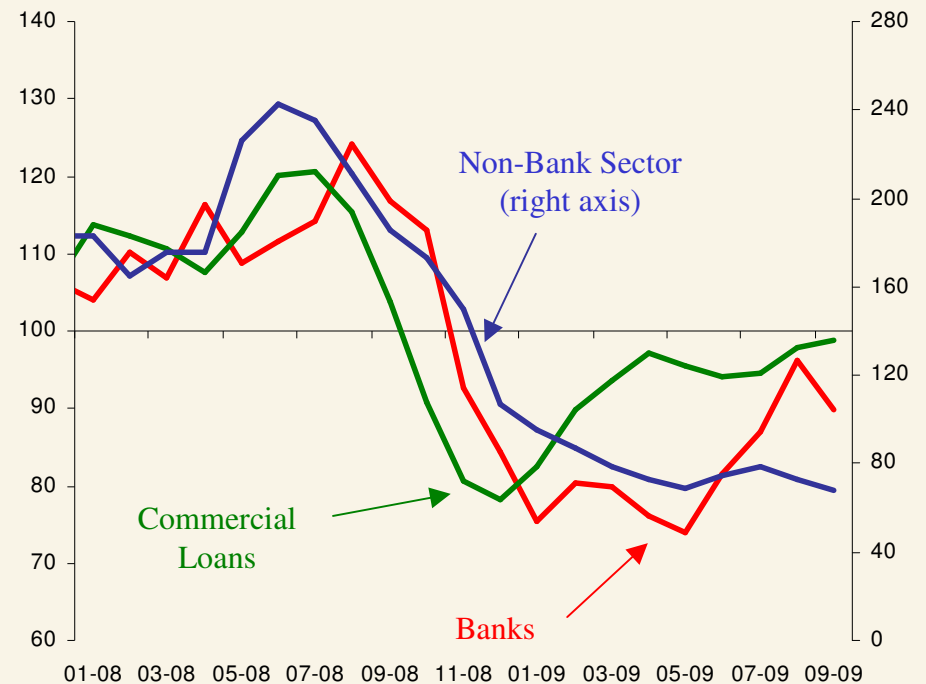
The private sector debt rollover ratio, which decreased to 75 percent in November 2008, stood at 86 percent in the first nine months of 2009.

Private Sector Debt Rollover Ratio*
(January 2000 – September 2009, Ratio of Debt Utilization to Payments, percent)



* Total of short and long-term commercial, banking sector and other sector credits.
Source: TURKSTAT, CBT

Private Sector Debt Rollover Ratio
(January 2008 – September 2009, Ratio of Debt Utilization to Payments, quarterly moving average, percent)



Source: TURKSTAT, CBT



Balance of Payments

Balance of payments between October 2008 and September 2009

UTILIZATION	Billion USD
Current Account Balance	-14.4
Loans (Commercial loans, banking sector loans, public sector loans, other sector loans)	-20.8

REASONS FOR THE INCREASE IN NET ERRORS AND OMISSIONS

- ✓ FX deposit transfers from abroad to FX accounts in Turkey due to reasons like the Repatriation Amnesty,
- ✓ Conversion of FX savings in the form of banknotes to Turkish Lira deposits in banks,
- ✓ Losses/gains in value during the accounting of FX transactions.

SOURCE	Billion USD
Net Errors and Omissions	13.1
Foreign Direct Investment	9.0
Portfolio Investments (Equity, debt instruments and bank deposits)	1.0
Other	2.3
Reserve Assets	9.8
(Official Reserves)	(5.9)
(FX assets of banks)	(-0.5)
(FX assets of other sectors)	(4.4)

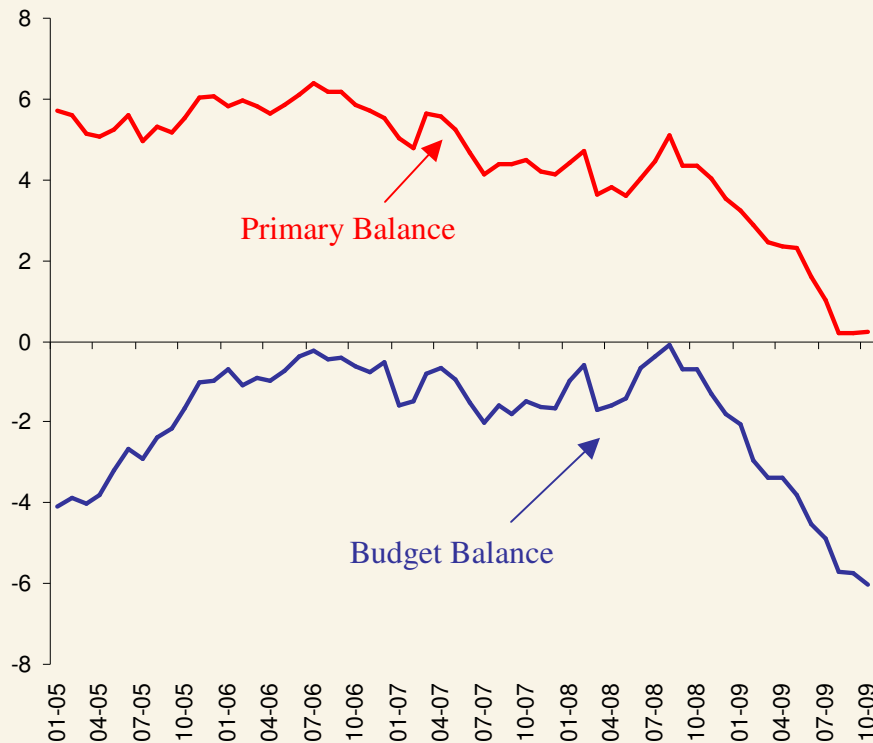
Source: TURKSTAT, CBT



Public Finance Stance

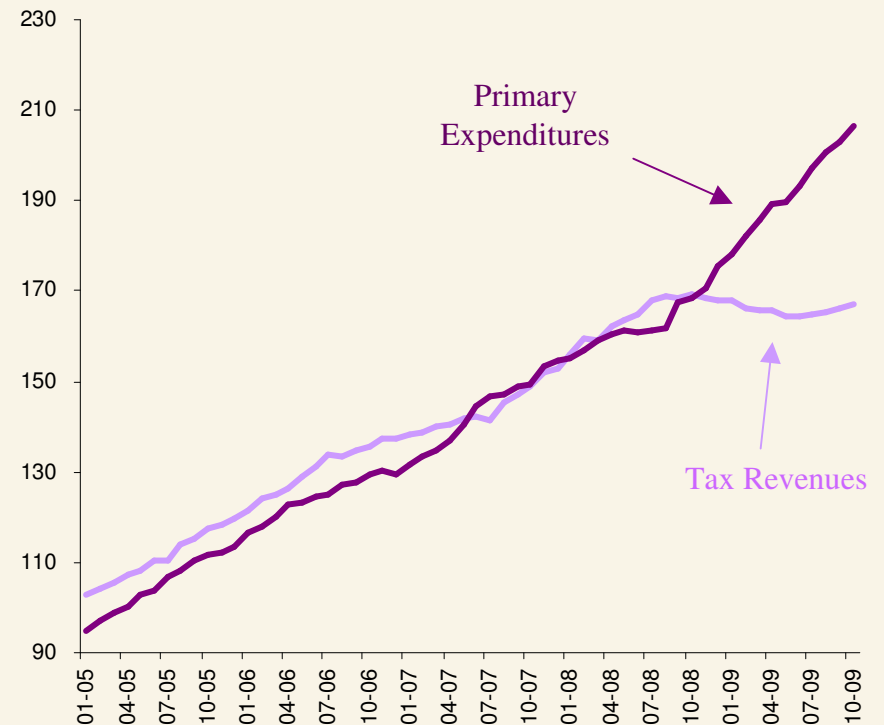
The countercyclical measures taken to mitigate the effects of global turmoil along with reduced tax collections led to a deterioration in budget balances in Turkey as was the case for the rest of the world.

Central Government Budget Balance and Primary Balance
(January 2005 – October 2009, ratio to GDP, percent)



Source: Ministry of Finance, CBT

Central Government Tax Revenues and Primary Expenditures
(January 2005 – October 2009, 12-month rolling sum, billion TL)



Source: Ministry of Finance, CBT

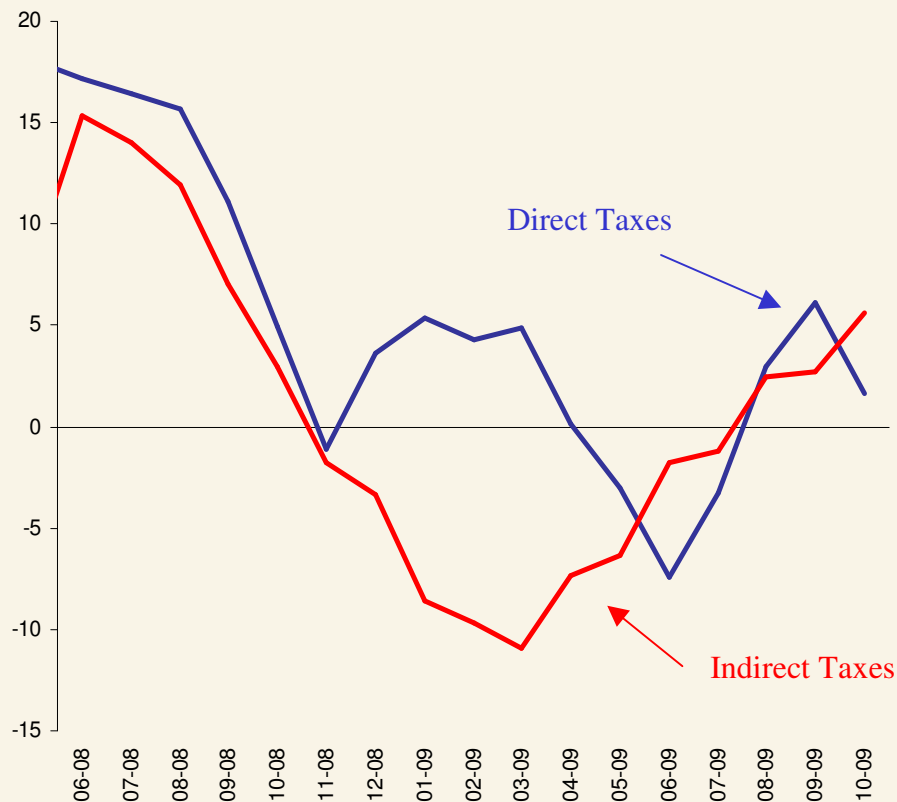


Public Finance Stance

Indirect taxes have recovered slightly since April owing to tax cuts and the relative improvement in economic expectations.

Change in Tax Revenues

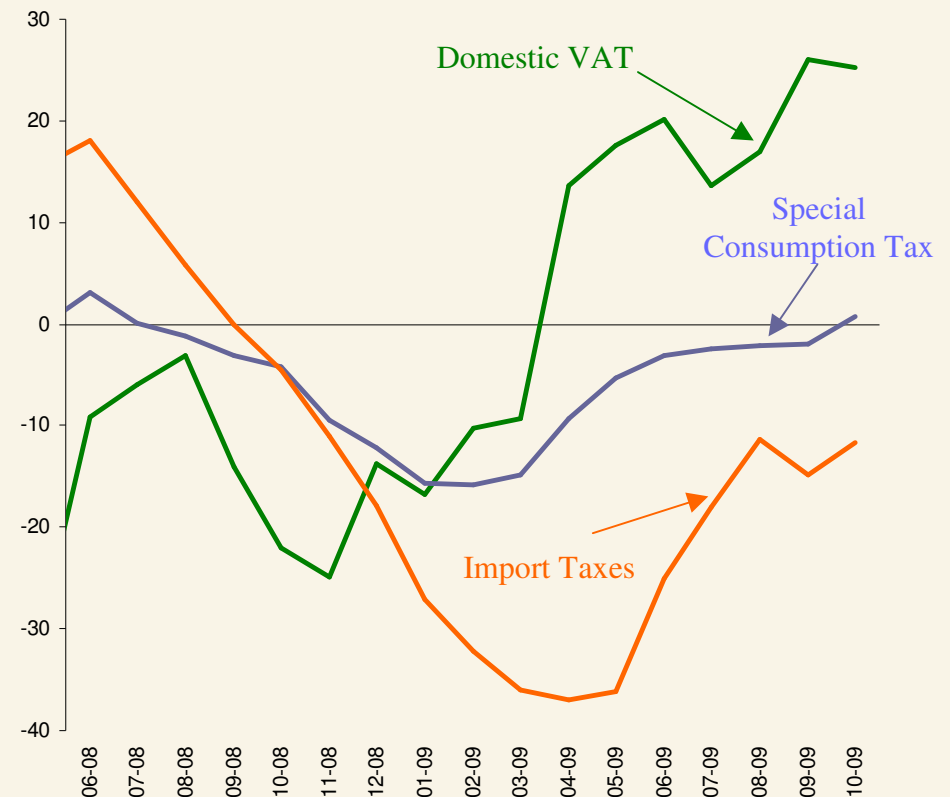
(June 2008 - October 2009, y-o-y percentage change)



Source: Ministry of Finance, CBT

Change in Indirect Tax Revenues

(June 2008 - October 2009, y-o-y percentage change)



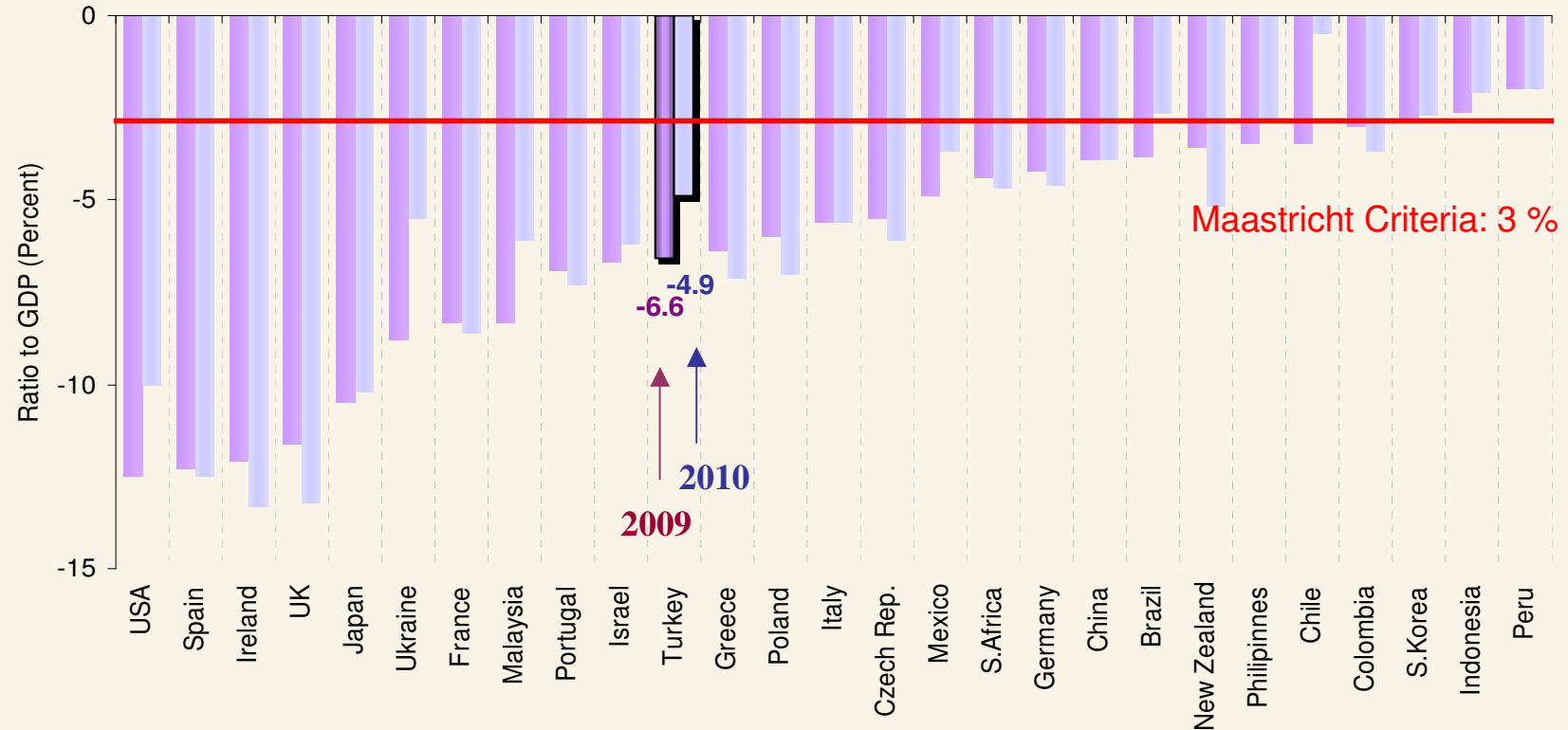
Source: Ministry of Finance, CBT



Public Finance Stance

The upsurge in budget deficits worldwide poses upside risks to global inflation expectations and thus to global market interest rates in the long term.

Budget Balance Forecasts in Selected Countries*
(2009 and 2010, Ratio to GDP)



•Data pertaining to Turkey has been obtained from the Medium Term Program.

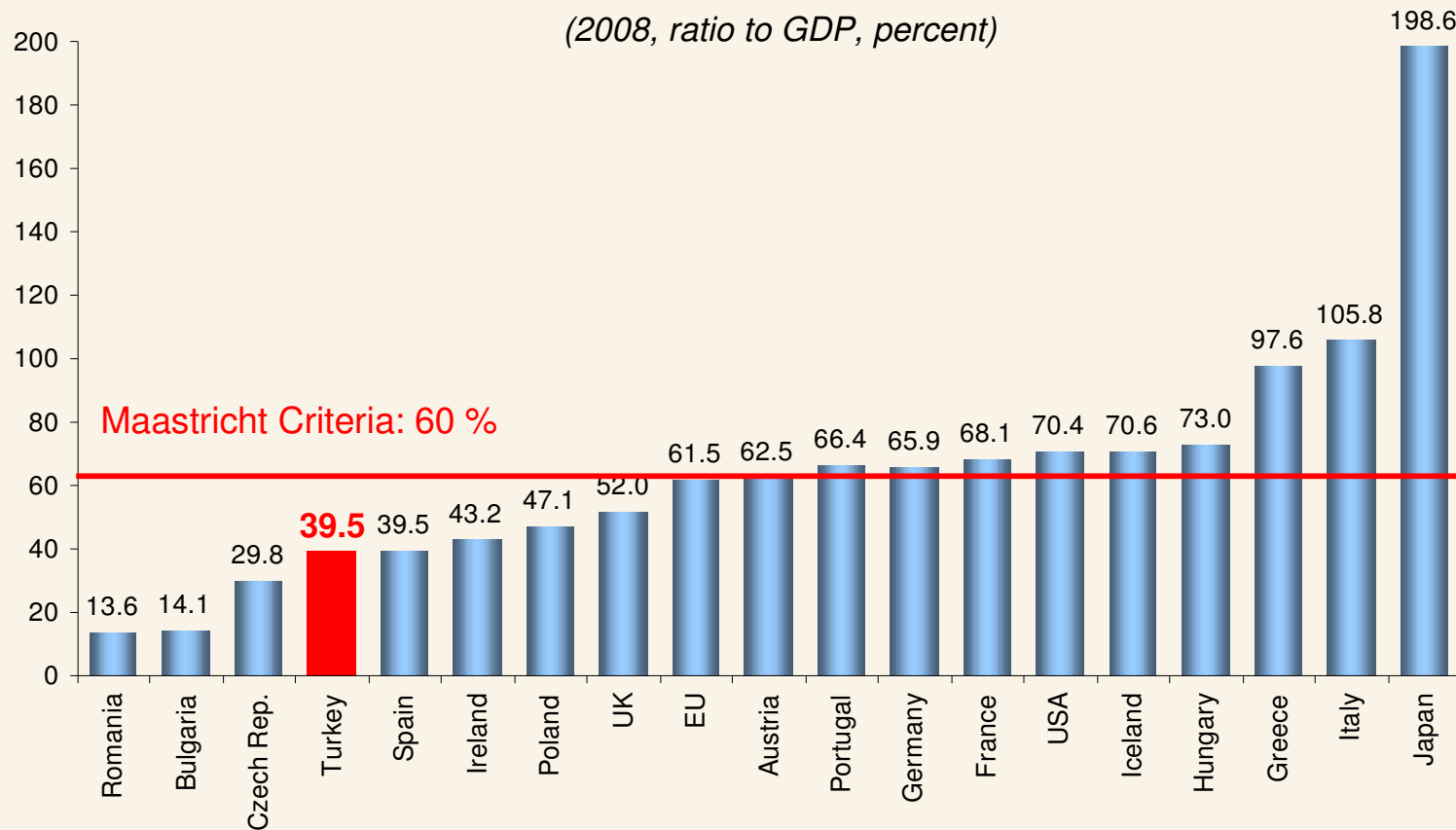
•Source: IMF, GS, Undersecretariat of Treasury, CBT



Public Finance Stance

Accordingly, in many countries, the ratio of public debt to national income exceeds 60 percent, the level which is considered sustainable. This exacerbates concerns over public finance due to its potential to create upward pressure on market interest rates.

Public Debt in Selected Countries
(2008, ratio to GDP, percent)



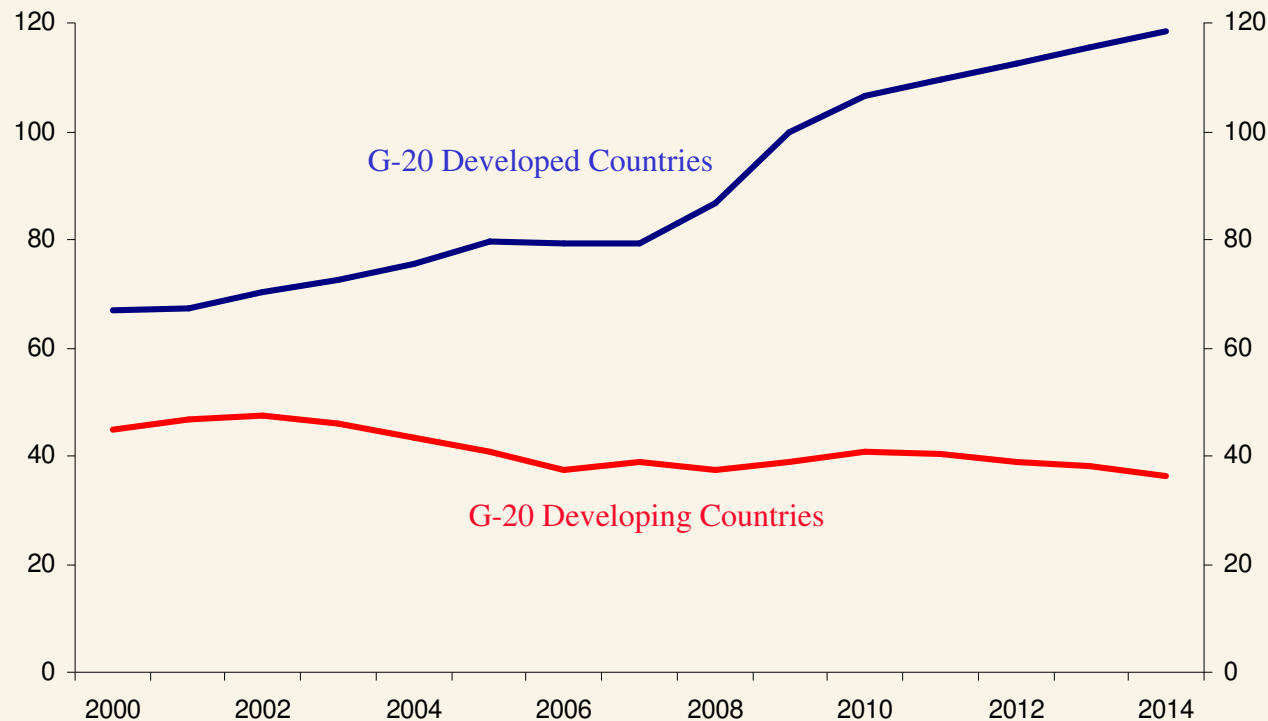
Source: Eurostat, IMF, CBT



Public Finance Stance

This risk is more evident in developed countries where public resources are used for capital injection to banks and where social security expenditures like health care expenses and pension funds display high increases due to the aging population.

Public Debt in G-20 Countries
(2000-2014, ratio to GDP, percent)

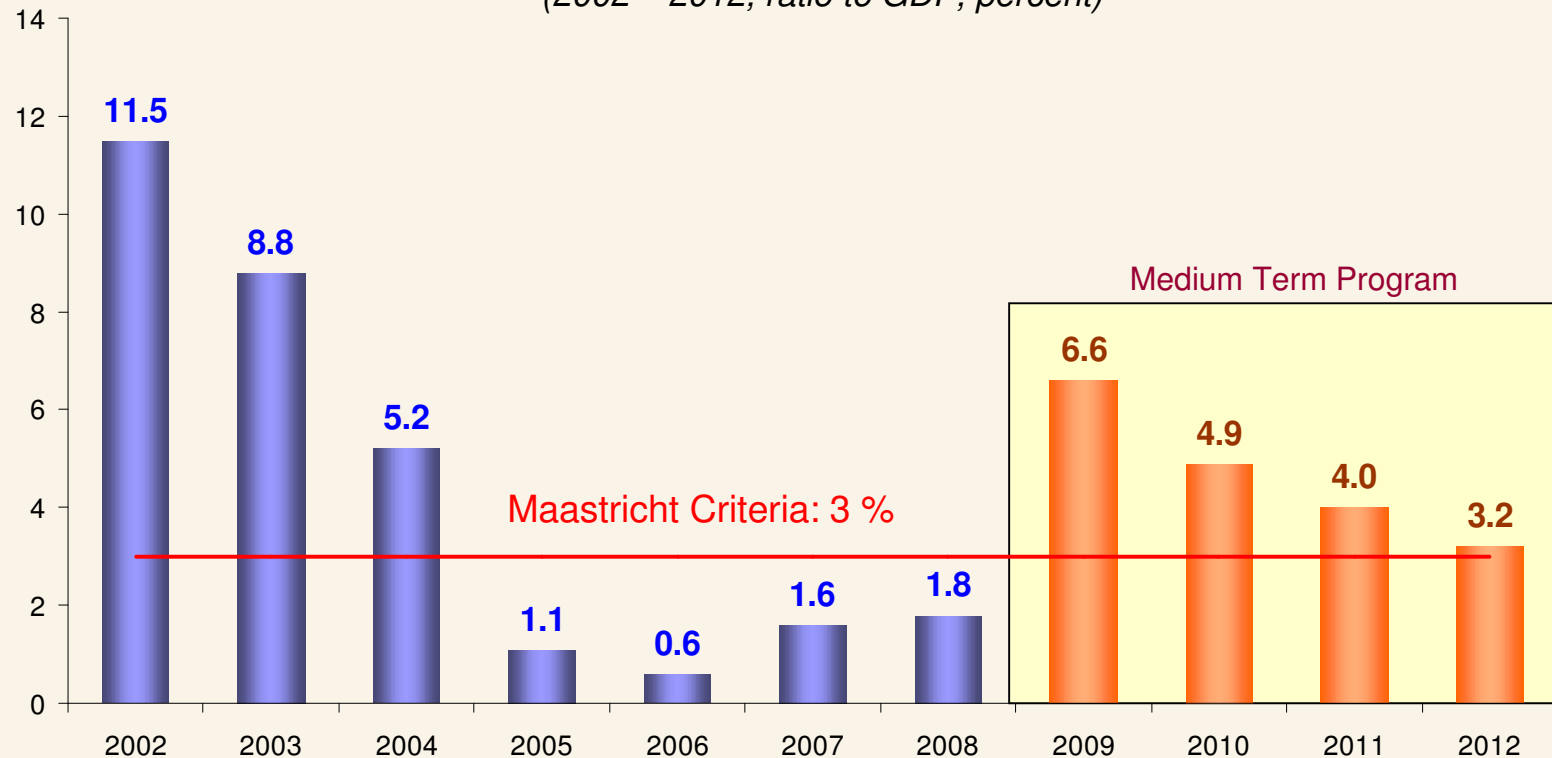




Public Finance Stance

The Medium Term Program has been perceived as a consistent framework in the markets. This has underpinned low levels in long-term interest rates.

Central Government Budget Deficit and Medium-Term Targets
(2002 – 2012, ratio to GDP, percent)



Source: Undersecretariat of Treasury, CBT

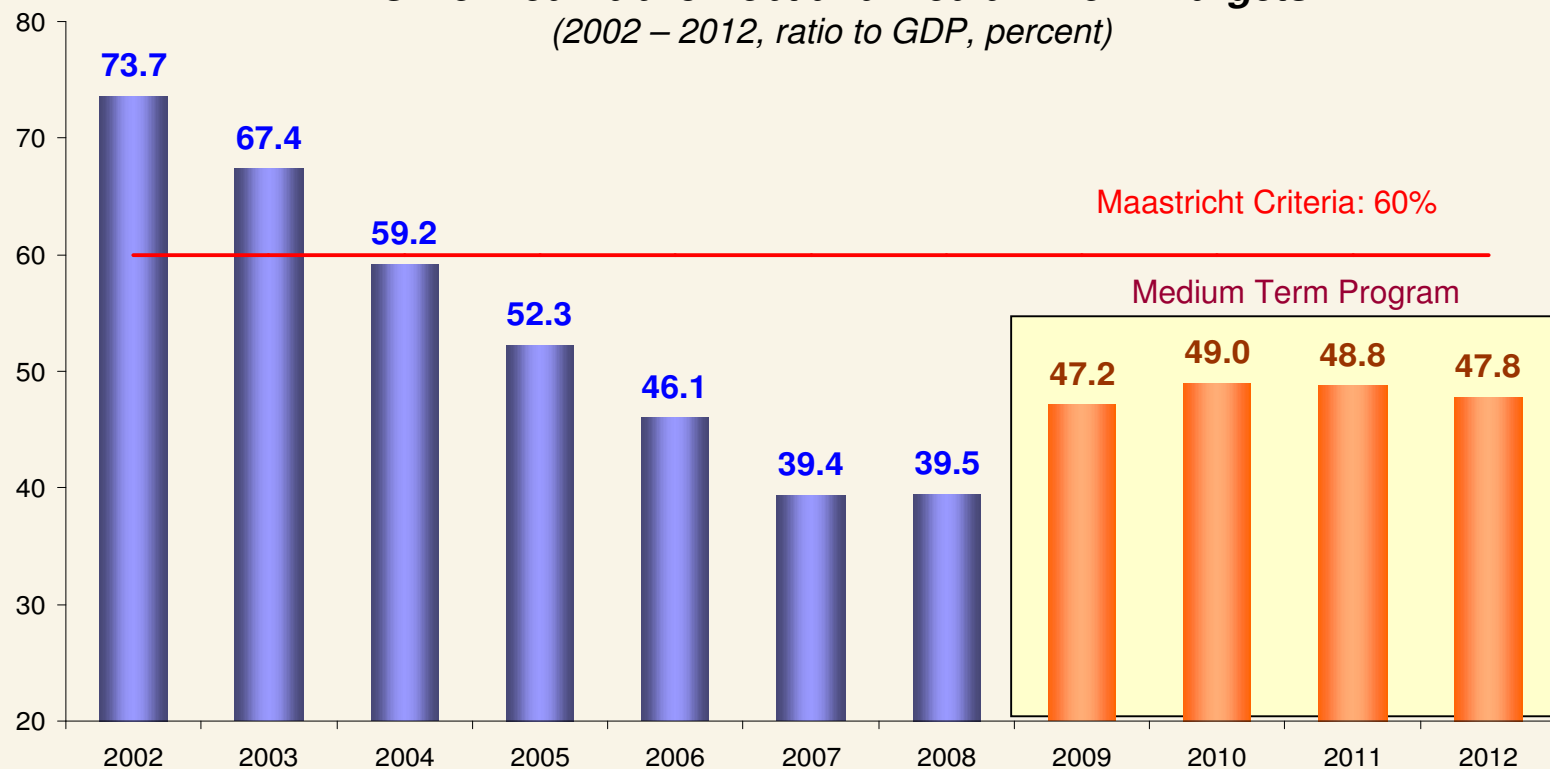


Public Fiscal Stance

Commitment to fiscal discipline and the structural reform agenda is critical for supporting the effectiveness of monetary policy decisions and for keeping long-term policy rates in single digits.

EU-Defined Public Debt and Medium-Term Targets

(2002 – 2012, ratio to GDP, percent)



Source: Undersecretariat of Treasury, CBT



IV. Inflation Outlook

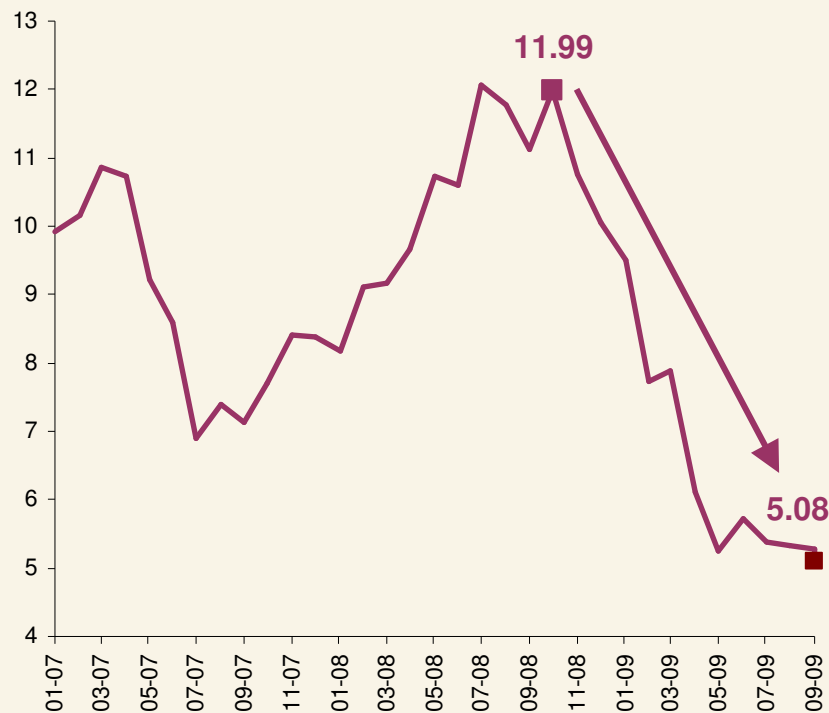


Inflation Developments in Turkey

Annual CPI inflation stood at 5.08 percent in October.

Consumer Inflation

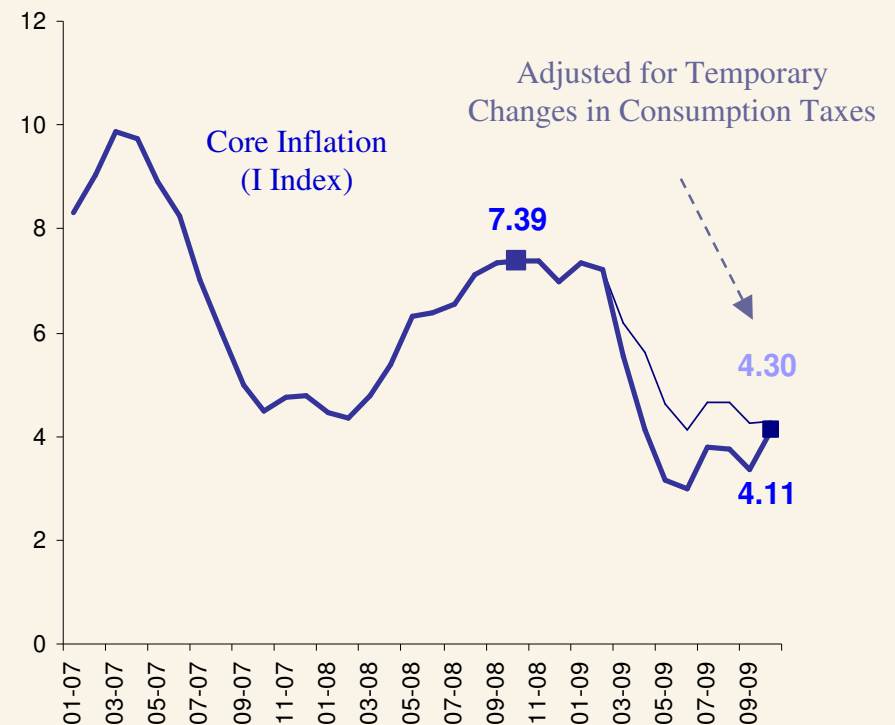
(January 2007 – October 2009, annual percentage change)



Source: TURKSTAT, CBT

Core Inflation Indicators

(January 2007 – October 2009, annual percentage change)



Source: TURKSTAT, CBT

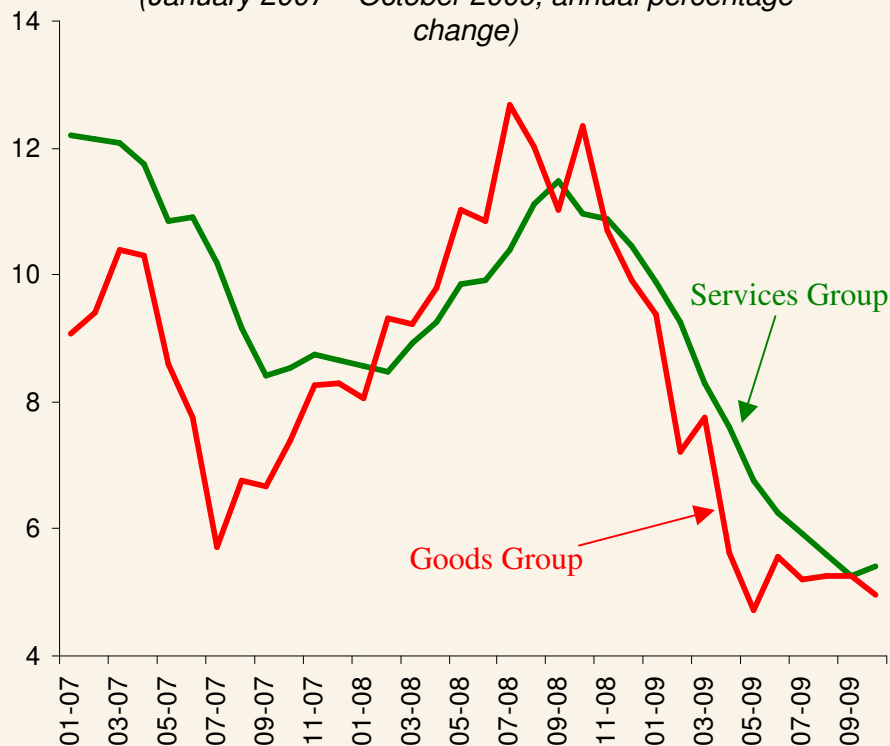


Inflation Developments in Turkey

Annual inflation in October went down to 4.96 percent in the goods group, while it rose to 5.42 percent in the services group.

Goods and Services Prices

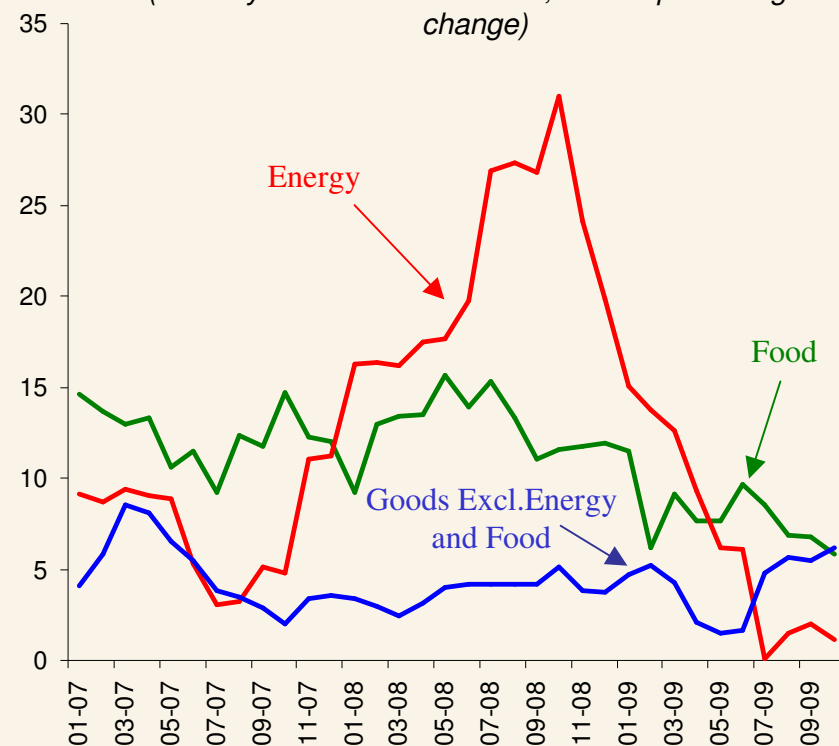
(January 2007 – October 2009, annual percentage change)



Source: TURKSTAT, CBT

Goods Prices

(January 2007 – October 2009, annual percentage change)



Source: TURKSTAT, CBT

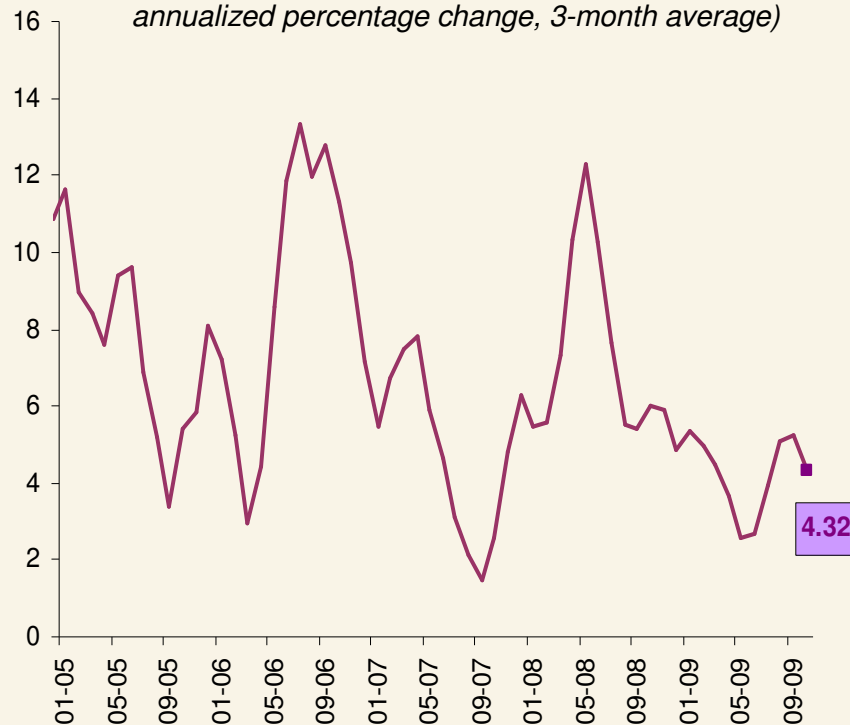


Inflation Developments in Turkey

Seasonally-adjusted core inflation indicators that are also corrected for temporary reductions in consumption taxes show that the main trend of inflation maintains its low level.

Special I Index (Corrected for temporary Tax Adjustments)

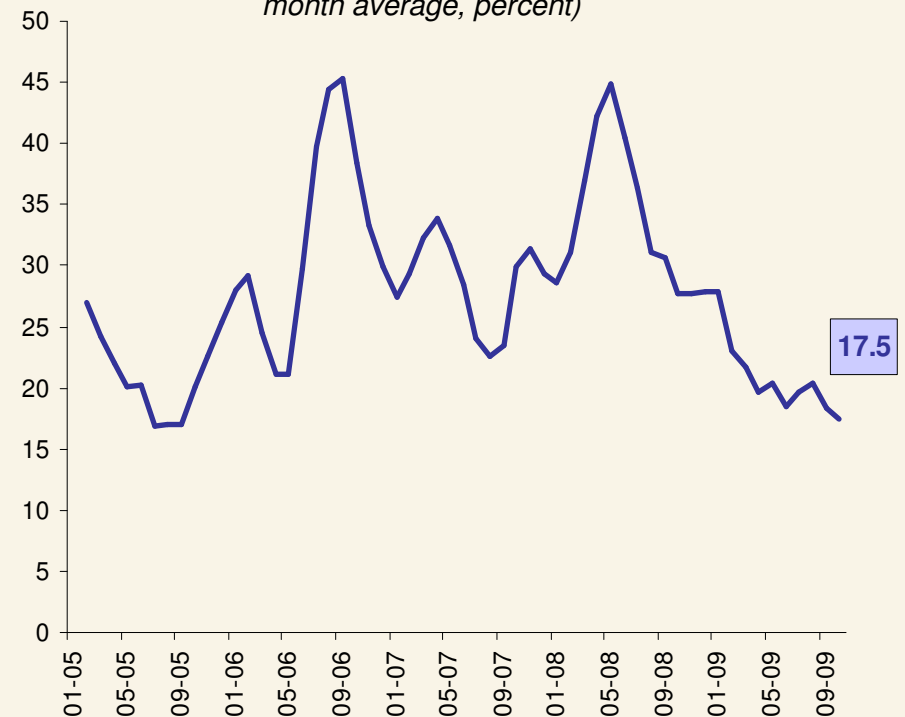
(May 2003 – October 2009, seasonally-adjusted and annualized percentage change, 3-month average)



Source: TURKSTAT, CBT

Ratio of Those with Price Increases – Decreases

(January 2005 – October 2009, seasonally-adjusted 3-month average, percent)



Source: TURKSTAT, CBT

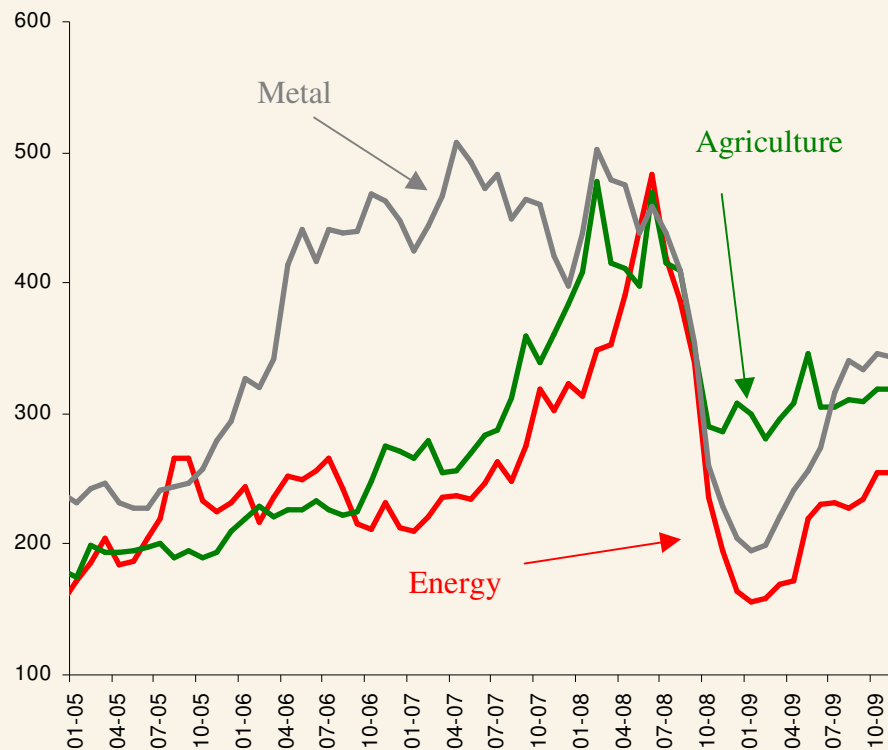


Import Prices

Despite the recent partial recovery, commodity prices maintain their low levels due to the global recession.

Commodity Prices

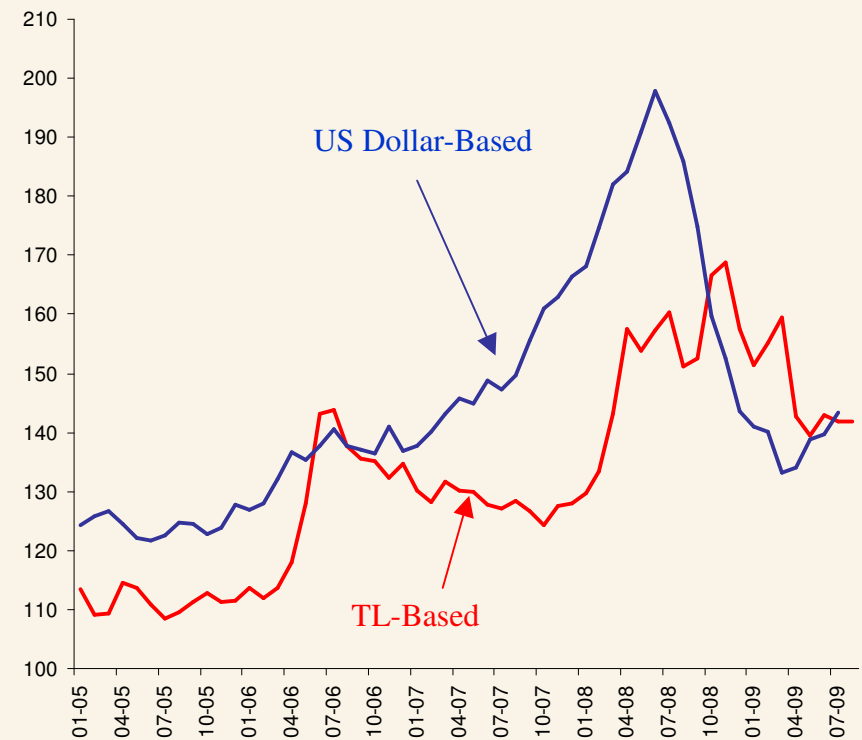
(January 2005 – November 2009, in US Dollars)



Source: Goldman Sachs, CBT

Import Prices

(January 2005 – August 2009, 2003 = 100)

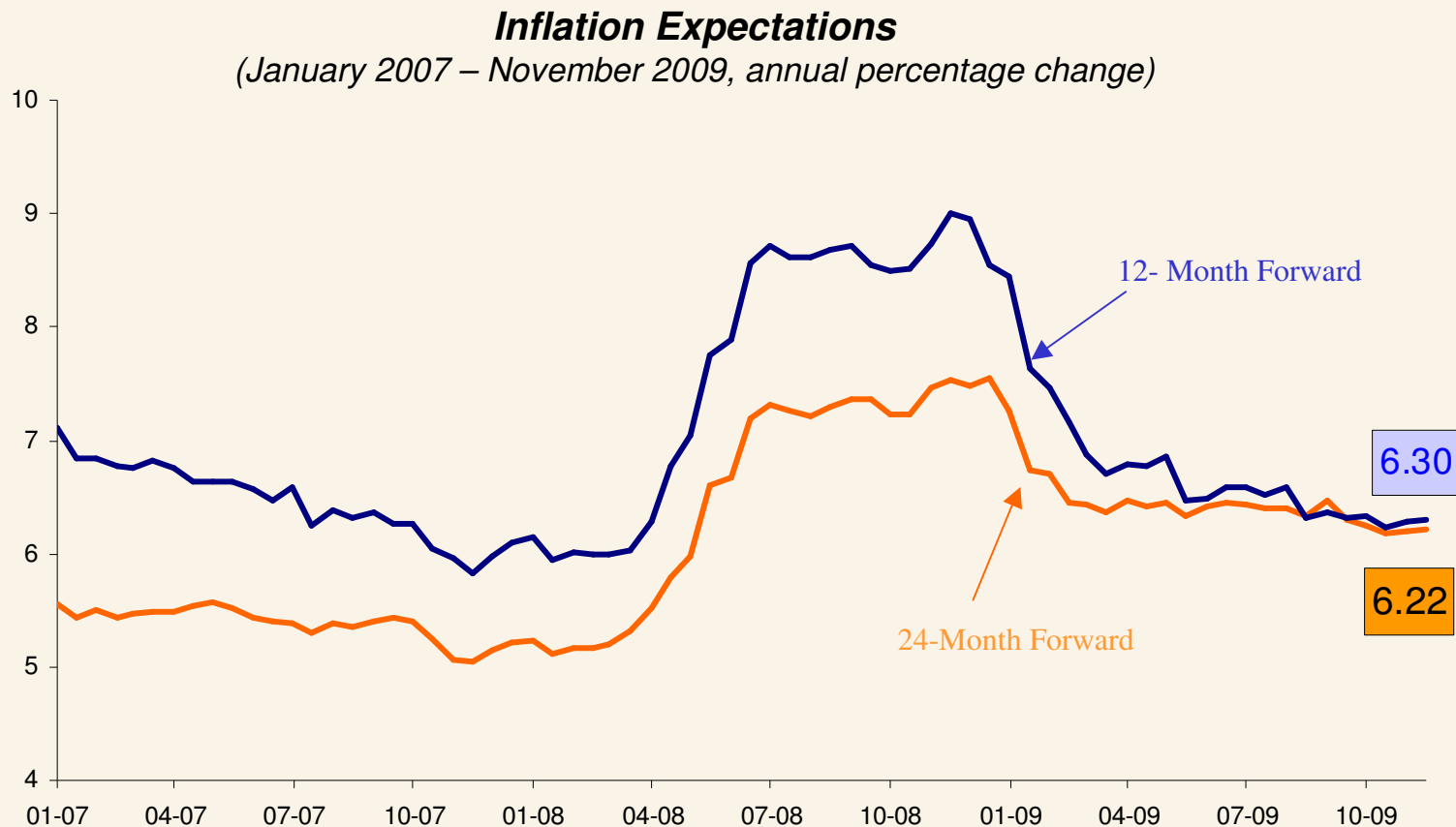


Source: TURKSTAT, CBT



Inflation Expectations

Inflation realizations consistent with the Central Bank's projections favorably affect expectations and support the improvement of the medium-term inflation outlook.



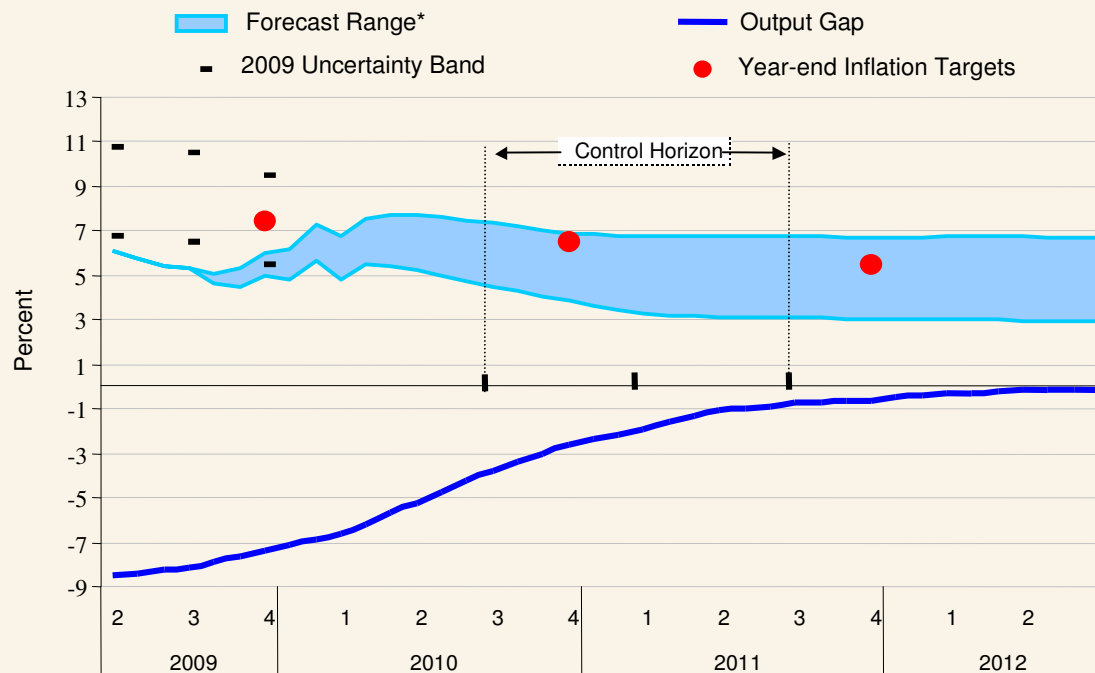
Source: TURKSTAT, CBT



Inflation

Year-end inflation is estimated to realize close to the lower limit of the uncertainty band in 2009. Fluctuations in inflation may occur in the first half of 2010 due to the base effect.

Inflation Realizations, Forecasts and Targets
(January 2009 – June 2012, percent)



*The possibility for inflation to remain within the marked area is 70 percent .

Source: CBT.



V. Monetary Policy Stance



Monetary Policy Stance

The relative soundness of the financial system in Turkey has enabled the Central Bank of Turkey to focus on restraining the adverse effects of the financial crisis on the Turkish economy without conflicting with the primary objective of maintaining price stability.

Policy Rates in Inflation-Targeting Emerging Market Economies and in Turkey

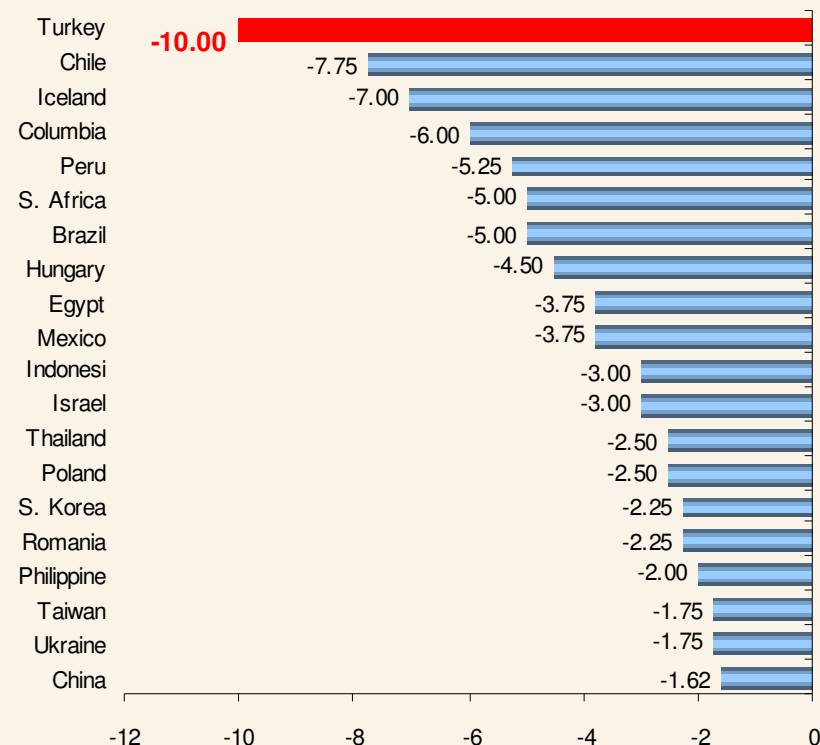
(January 2007– October 2009, percent)



Source: Central banks, CBT

Change in Policy Rates of Emerging Market Economies

(October 2008 – November 2009, percentage points)



Source: Central banks, CBT

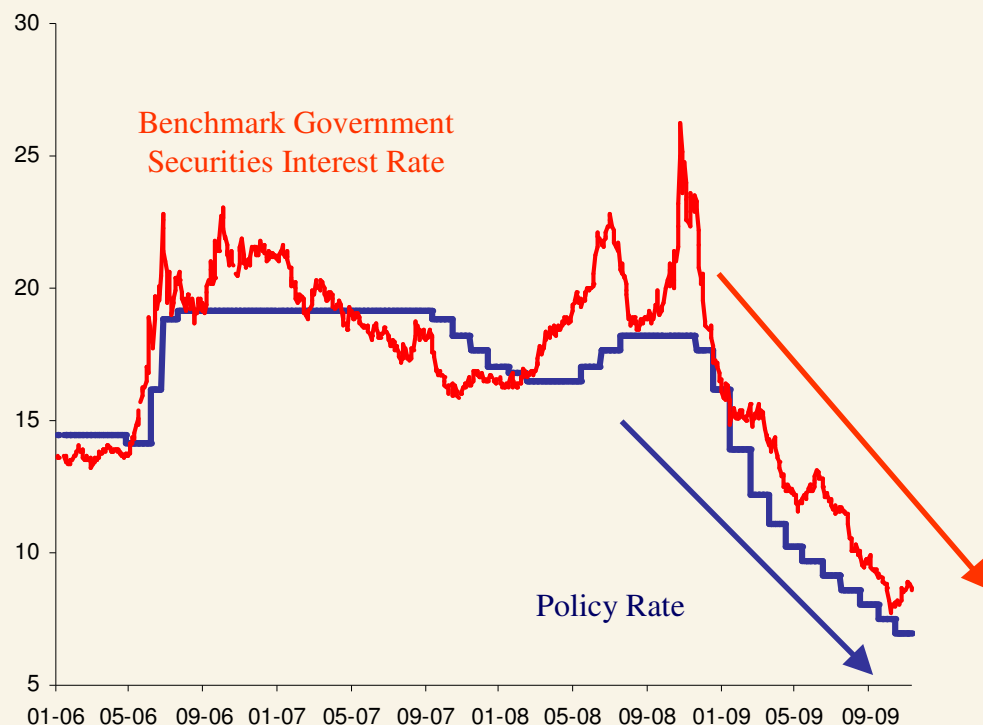


Monetary Policy Stance

The modest improvement in risk perceptions, CBT rate cuts and inflation realizations have supported the downward trend in market interest rates.

CBT Policy Rate and Benchmark Government Securities Interest Rate

(1 January 2006 – 10 November 2009, compound, percent)



Source: BRSA, CBT

	Policy Rate	Change
October 08	16,75	0,00
November 08	16,25	-0,50
December 08	15,00	-1,25
January 09	13,00	-2,00
February 09	11,50	-1,50
March 09	10,50	-1,00
April 09	9,75	-0,75
May 2009	9,25	-0,50
June 09	8,75	-0,50
July 09	8,25	-0,50
August 09	7,75	-0,50
September 09	7,25	-0,50
October 09	6,75	-0,50



Monetary Policy Stance

In terms of real policy rates, Turkey ranks in the middle.

Inflation and Policy Rate in Selected Countries
(October 2009, percent)

	Policy Rate	2010 Inflation Expectations	Real Policy Rate
Chile	0.50	2.70	-2.14
Thailand	1.25	2.75	-1.46
Korea	2.00	2.80	-0.78
Czech Rep.	1.25	1.60	-0.34
Philippines	4.00	4.00	0.00
Malaysia	2.00	1.80	0.20
Turkey	6.75	6.30	0.42
Mexico	4.50	3.77	0.70
Poland	3.50	2.60	0.88
S.Africa	7.00	5.80	1.13
China	5.31	2.70	2.54
Hungary	7.00	4.00	2.88
Brazil	8.75	4.40	4.17

Source: Bloomberg, CBT

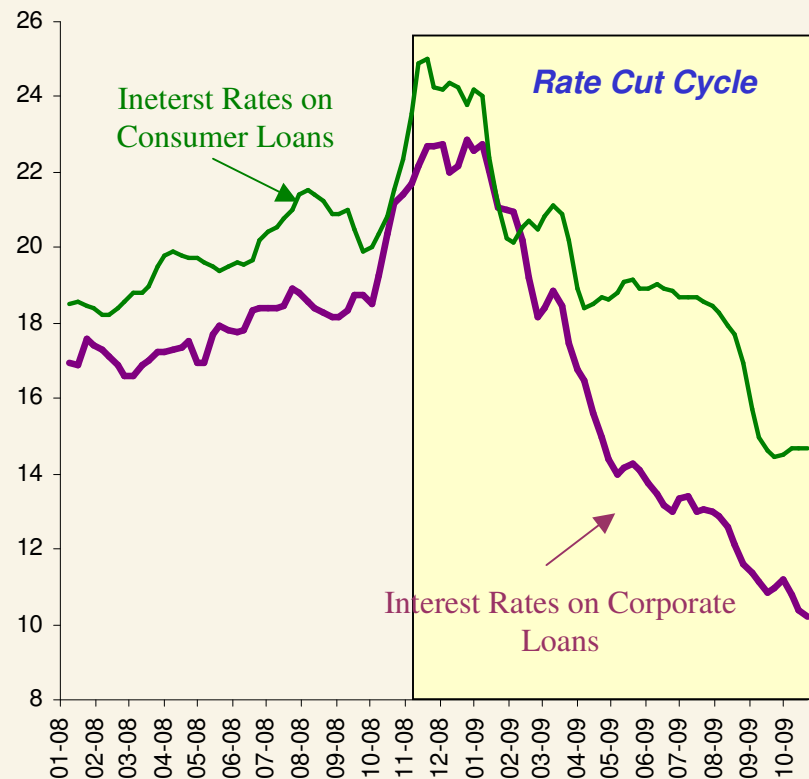


Monetary Policy Stance

It is noteworthy that lending rates have recently declined below levels observed in October 2008, when global financial turmoil peaked.

Loan Rates*

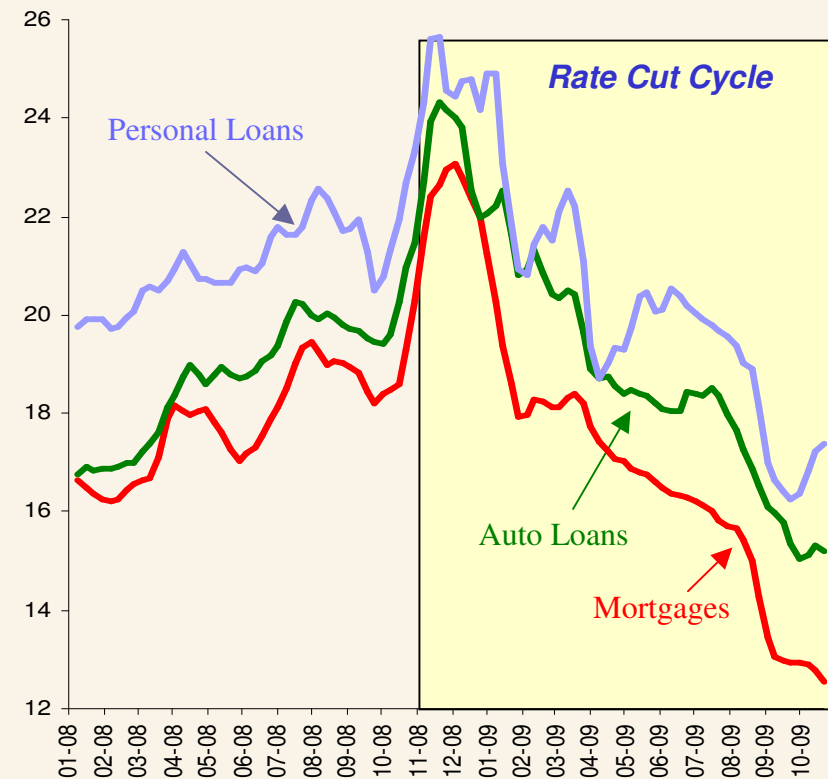
(January 2008 – October 2009, annual percentage)



* 2-week moving average
Source: BRSA, CBT

Consumer Loan Rates*

(January 2008 – October 2009, annual percentage)



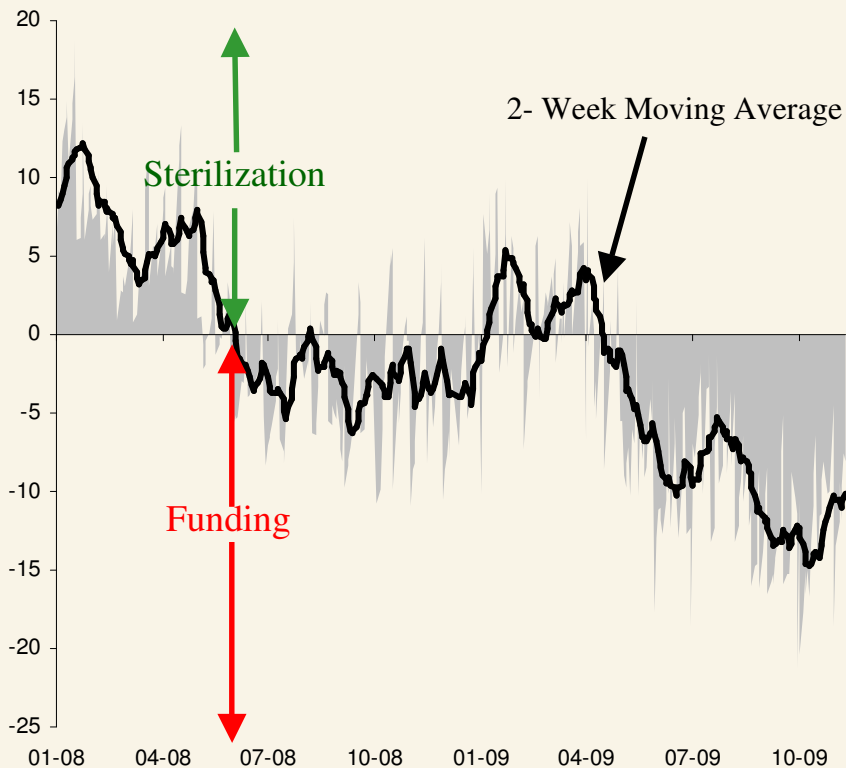
* 2-week moving average
Source: BRSA, CBT



Monetary Policy Stance

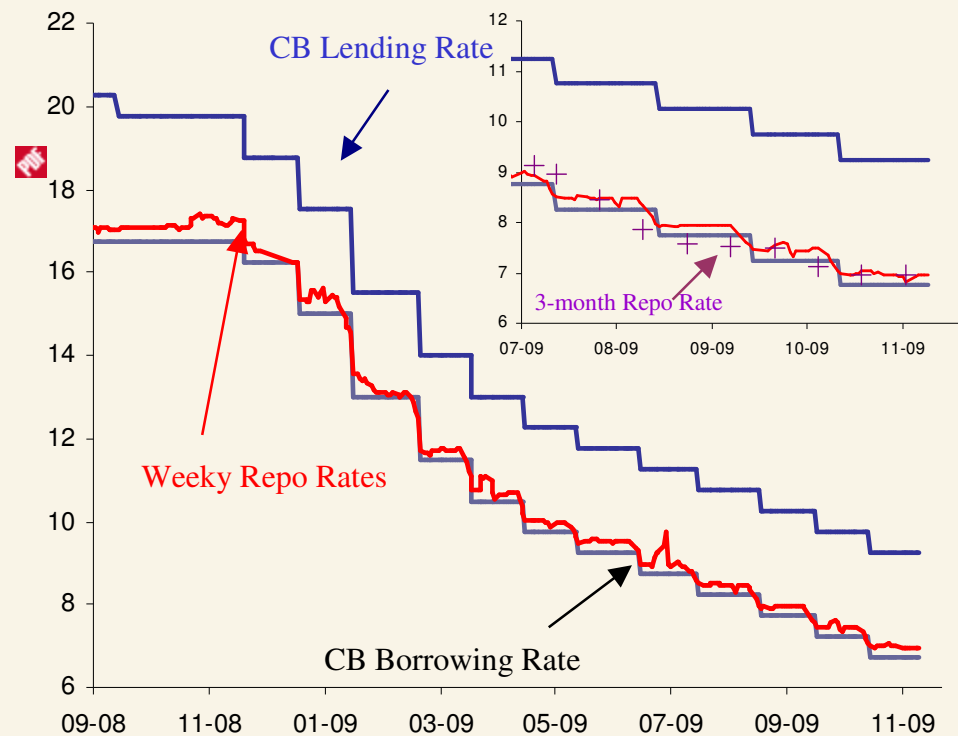
The Turkish Lira liquidity need of the market was met via regular auctions and interest rates in money markets were kept close to Central Bank *borrowing rates*.

TL Liquidity Provided by the Central Bank
(1 January 2008 – 10 November 2009, billion TL)



Source: CBT

Policy Rate and Repo Rate
(September 2008 – November 2009, percent)



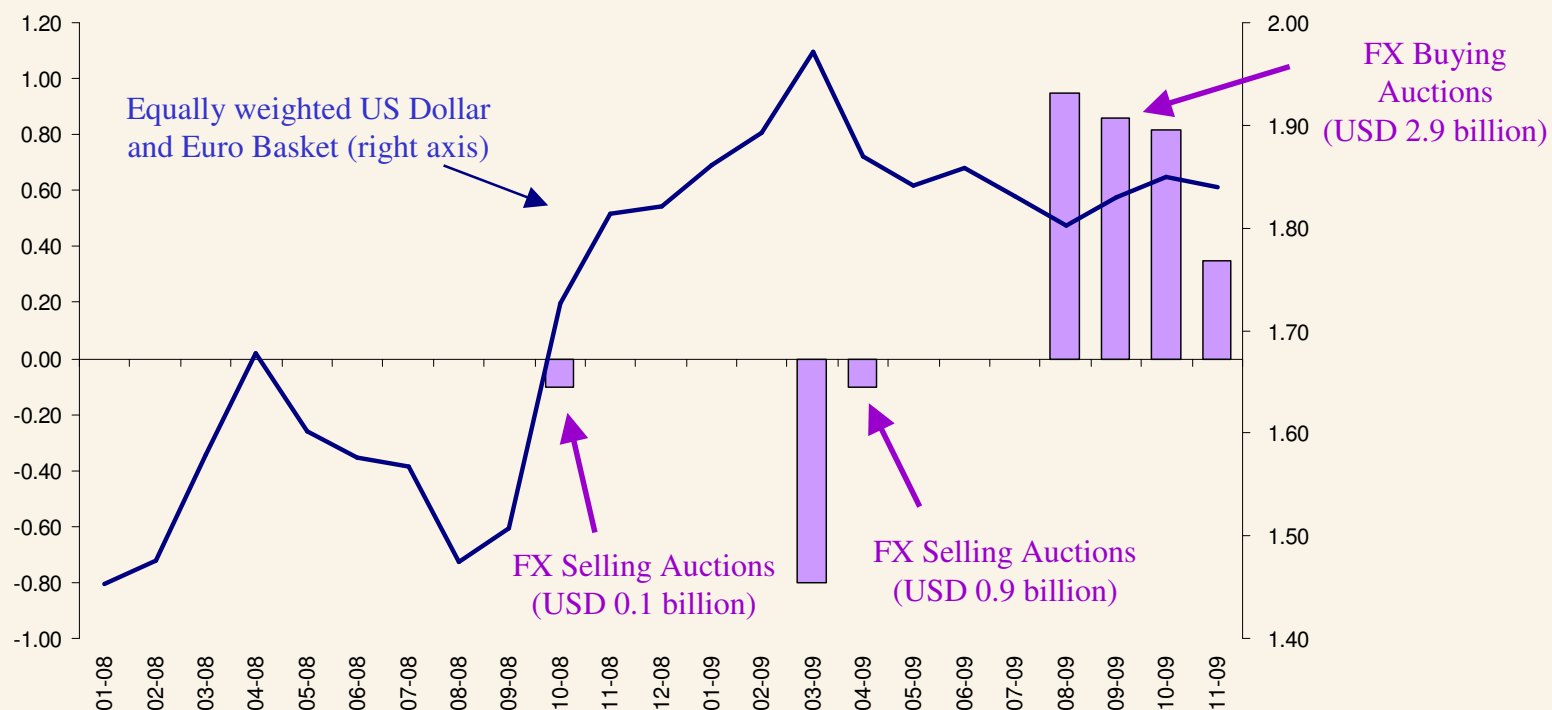
Source: CBT



FX Liquidity Measures

Since the current period has provided a suitable environment for the CBT to build FX reserves, buying auctions were resumed as of 4 August 2009.

**FX Buying and Selling Auctions against TL (monthly sum, billion USD) and
FX Basket (January 2008 – November 2009*)**



* As of 10 November 2009
Source: CBT

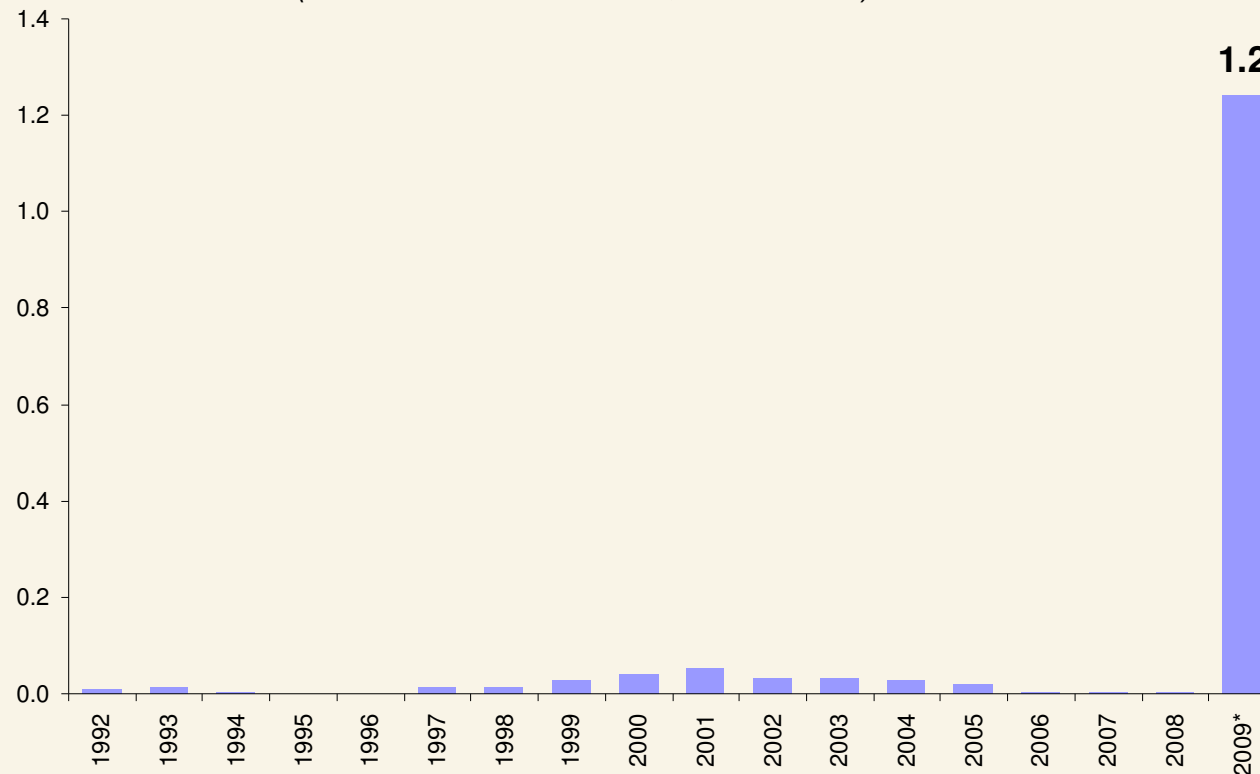


Export Rediscount Credits

In order to mitigate the adverse effects of global financial turmoil on the corporate sector, the limit for export rediscount credits was increased from USD 500 million to USD 2.5 billion and the utilization of these credits was eased.

Export Rediscount Credit Utilization

(1992 – November 2009, billion USD)



* As of 12 November 2009
Source: CBT



General Outlook

- Optimism in global financial markets and signs of improvement prevail in global economic activity. Nevertheless, uncertainties pertaining to 2010, when the effect of monetary and fiscal measures will fade, still remain significant.
- Recent data confirm a recovery in economic activity in Turkey. There is a notable increase in the lending appetite of banks; the tightness in financial conditions has been moderated and the labor market has exhibited signs of recovery, albeit limited.
- Cumulative policy rate cuts implemented since November 2008, and the recovery in global risk perceptions have started to have favorable effects on credit markets. The support of the credit channel to aggregate demand is expected to grow in the upcoming period.



General Outlook

- Still, recovery in economic activity is expected to be slow and gradual.
- The notable increase in private consumption demand is likely to be transitory, as it reflects the effects of temporary cuts in consumption taxes. Both external demand and domestic investment demand have continued to remain weak. Private consumption expenditures, after increasing markedly during the second quarter, is expected to display a weaker course.
- Capacity utilization in the economy is anticipated to stay below its potential for an extended period, and inflation is expected to remain at low levels.
- Consequently, it is foreseen that monetary policy will maintain its easing bias for a long period of time.



Transition from YTL to TL

The transition process that started with removing six zeros from the Turkish currency and putting New Turkish lira banknotes and coins into circulation was completed on 1 January 2009 with the removal of the prefix “New” from the currency.

	Value (%)
Conversion Rate for Banknotes	93
Conversion Rate for Coins	45

* As of 3 November 2009



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation before the Council of Ministers

Durmuş YILMAZ
Governor

16 November 2009