



CENTRAL BANK OF THE REPUBLIC OF TURKEY

**PRESENTATION BEFORE THE COUNCIL OF MINISTERS /
THE PLANNING AND BUDGET COMMISSION OF THE
GREAT NATIONAL ASSEMBLY OF TURKEY**

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Governor

21 April 2009



Presentation Outline

- I. International Developments
- II. Effects of the Global Financial Crisis on the Turkish Economy
- III. Financial Stability in Turkey
- IV. Inflation Outlook
- V. Monetary Policy Stance



I. International Developments



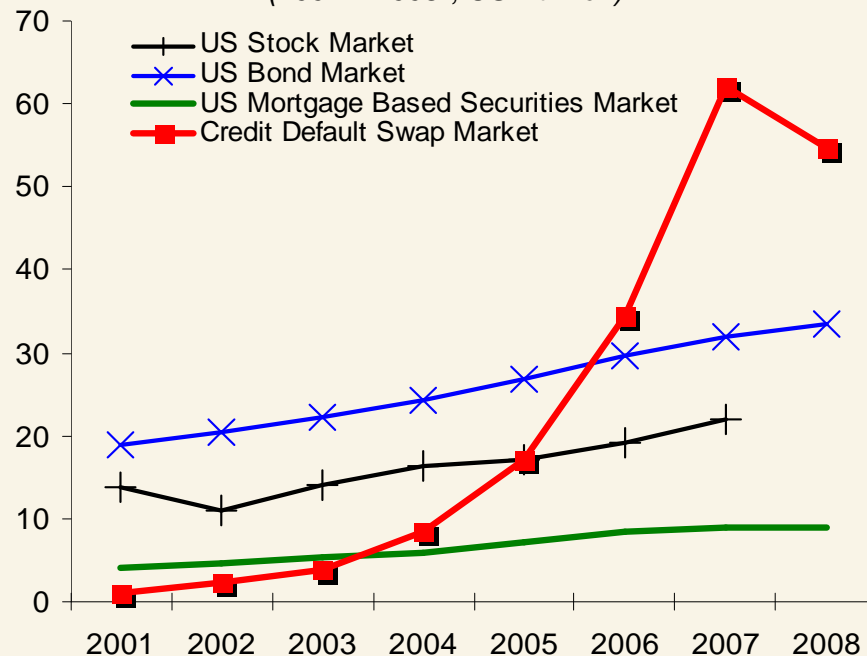
Global Crisis

The turmoil in the global markets that broke out in July 2007 has not yet come to an end.

What differs this crisis from previous banking crises is that it is not a “classical banking crisis”; it covers complex and large-volume derivative products.

Market Capitalization

(2001 – 2008*, USD trillion)



* CDS data as of the first half of 2008

Source: ISDA, WFE, SIFMA

Risk Appetite Index

(Jan 2005 – Apr 2009)



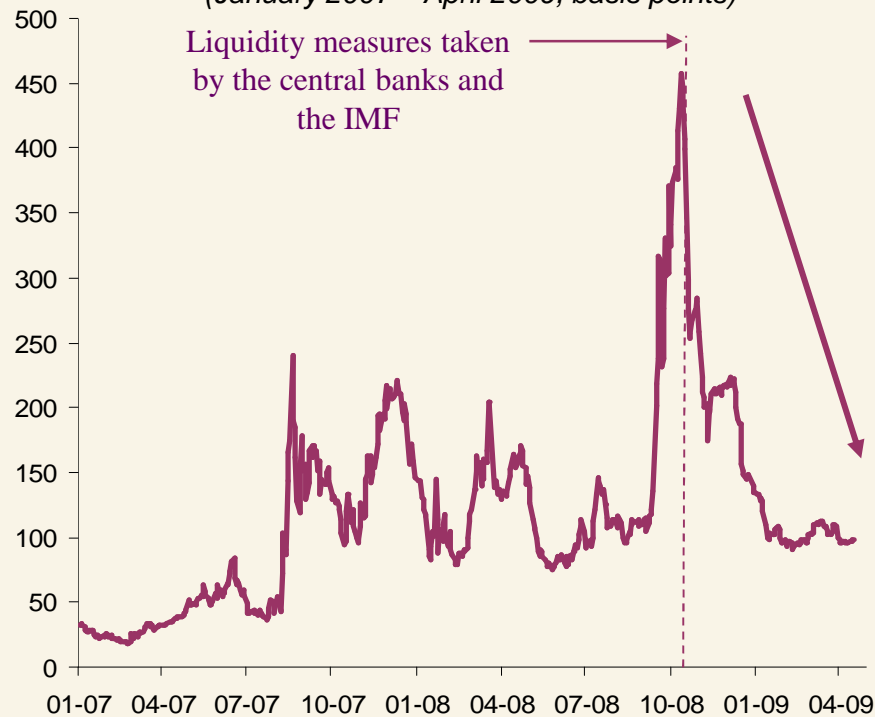
Source: Credit Suisse, CBT



Global Crisis

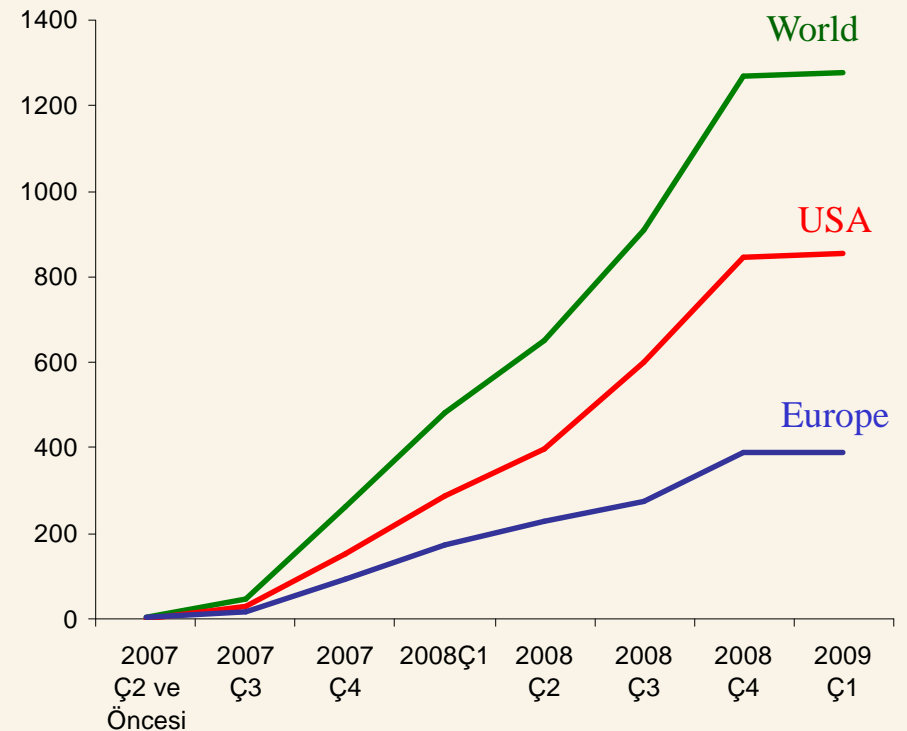
The liquidity crunch has been eliminated to a large extent as a result of monetary policy measures. Nevertheless, asset write-downs and other losses incurred in this period eroded the capitals of financial institutions and caused massive damage on balance sheets.

The Difference Between 3-Month LIBOR Rate and 3-Month US Treasury Bills (TED Spread)
(January 2007 – April 2009, basis points)



Source: Bloomberg, CBT

Losses Incurred by the Global Banking Sector
(2007 Q2 – 2009 Q1, billion US Dollars, cumulative)



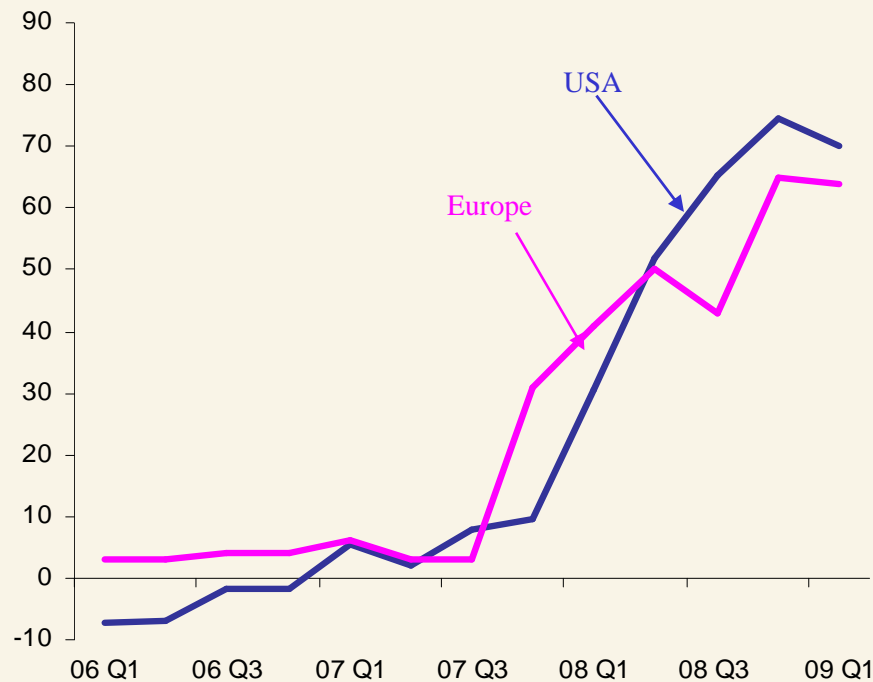
Source: Bloomberg, CBT



Global Crisis

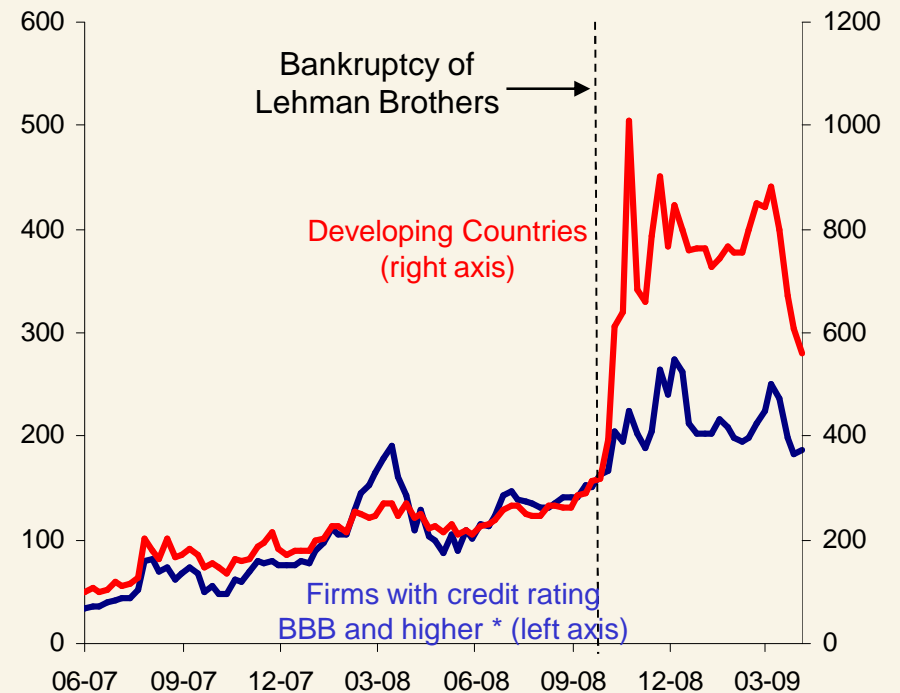
Financial institutions that managed to survive are still reluctant to extend credits to the non-financial sector. As a consequence, credit conditions remain tight.

Shares of the Banks Tightening Credit Conditions
(2006 Q1 – 2009 Q1, percent)



Source: Federal Reserve and European Central Bank, CBT

Credit Default Swap (CDS) Premia
(June 2007 - April 2009, basis points)



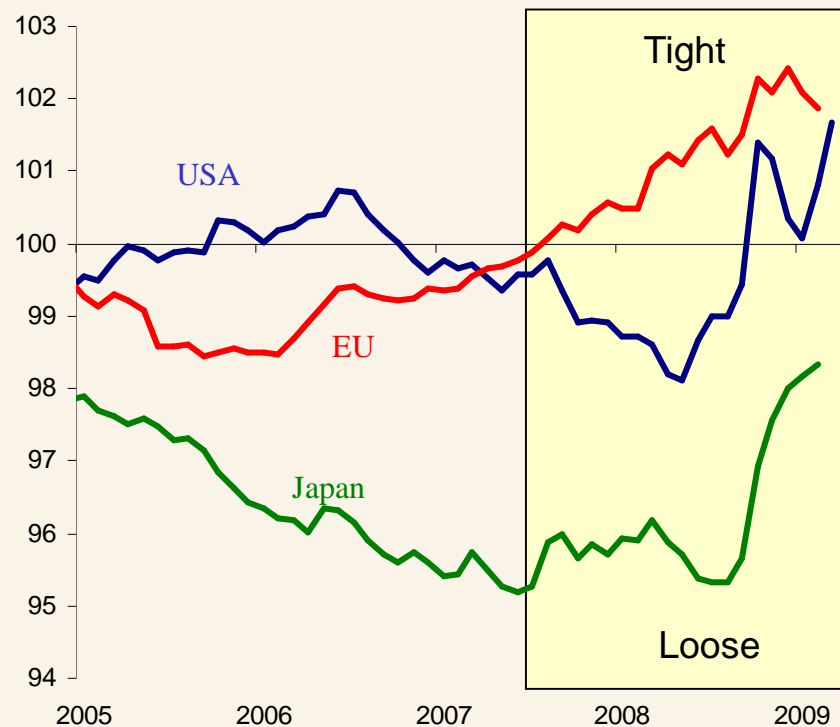
* Firms with BBB or higher credit ratings in the USA
Source: JP Morgan, CBT



Global Crisis

Extreme tightness in financial conditions still persists despite measures taken by monetary and fiscal authorities.

Financial Conditions Index
(January 2005 – February 2009)



Source: Goldman Sachs, CBT

Size of Financial Rescue Packages*
(2008 - 2010, relative to 2007 GDP baseline, percent)

	2008	2009	2010
China	0.4	3.2	2.7
S. Korea	1.1	2.3	1.3
Russia	0.0	2.3	1.6
USA	1.1	2.0	1.8
S. Africa	1.7	1.8	-
Canada	0.0	1.5	1.3
Germany	0.0	1.5	2.0
Mexico	0.0	1.5	-
Japan	0.4	1.4	0.4
France	0.0	0.7	0.7
India	0.6	0.6	-
Brazil	0.0	0.4	0.2

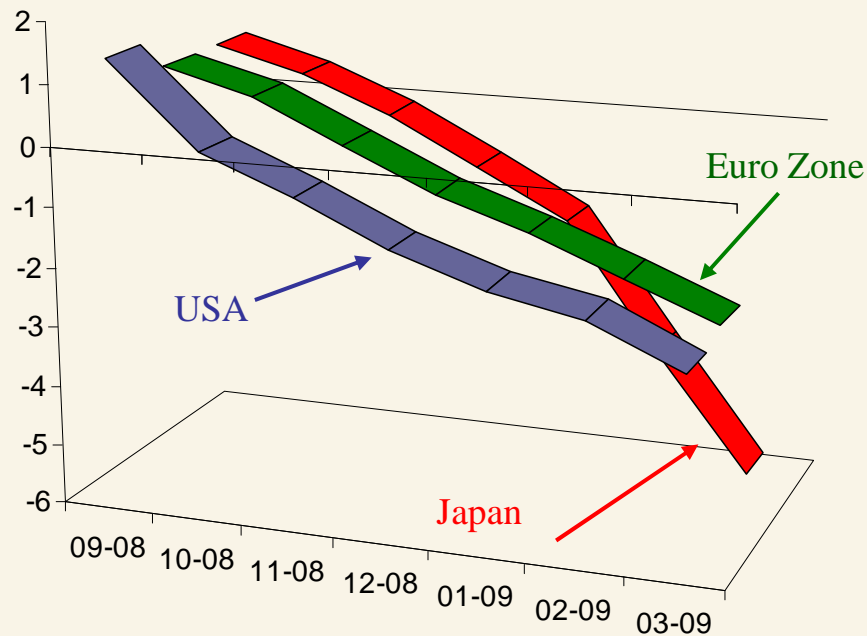
* Excluding financial sector support.
Source: IMF,CBT



Effects on the Global Economy

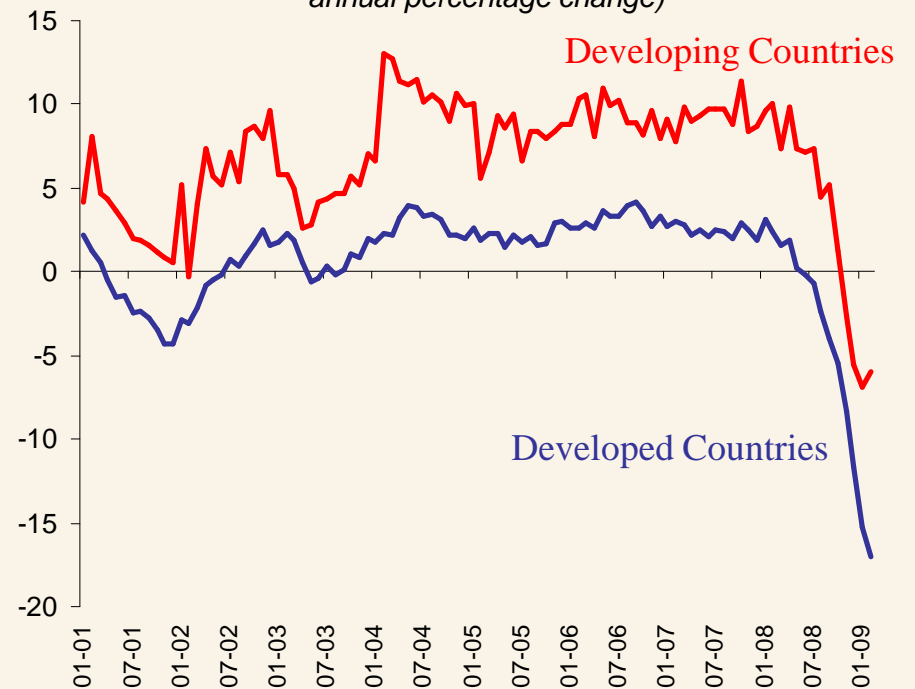
The effect of the global financial crisis on world economies has emerged in an abrupt and devastating manner since the last quarter of 2008.

GDP Growth Projections for 2009
(annual percentage change)



Source: Consensus Forecasts, CBT

Industrial Production in Developed and Developing Countries
(January 2001 – February 2009,
annual percentage change)



Source: Bloomberg, CBT

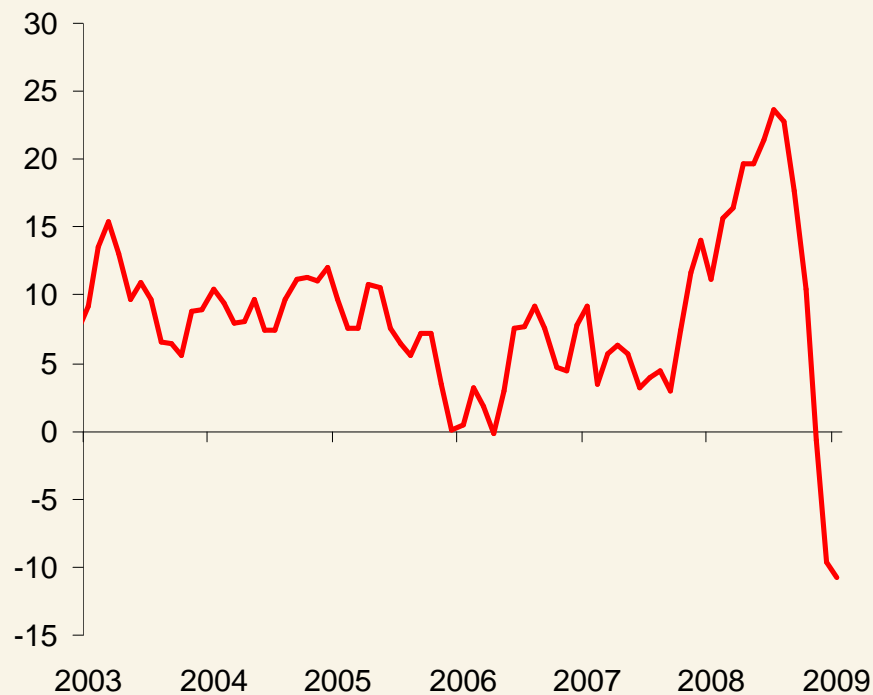


Effects on the Global Economy

Global trade displays a sharp downturn on quantity and value bases owing to the deterioration in financing conditions and the decline in aggregate demand.

Global Trade Unit Value Index

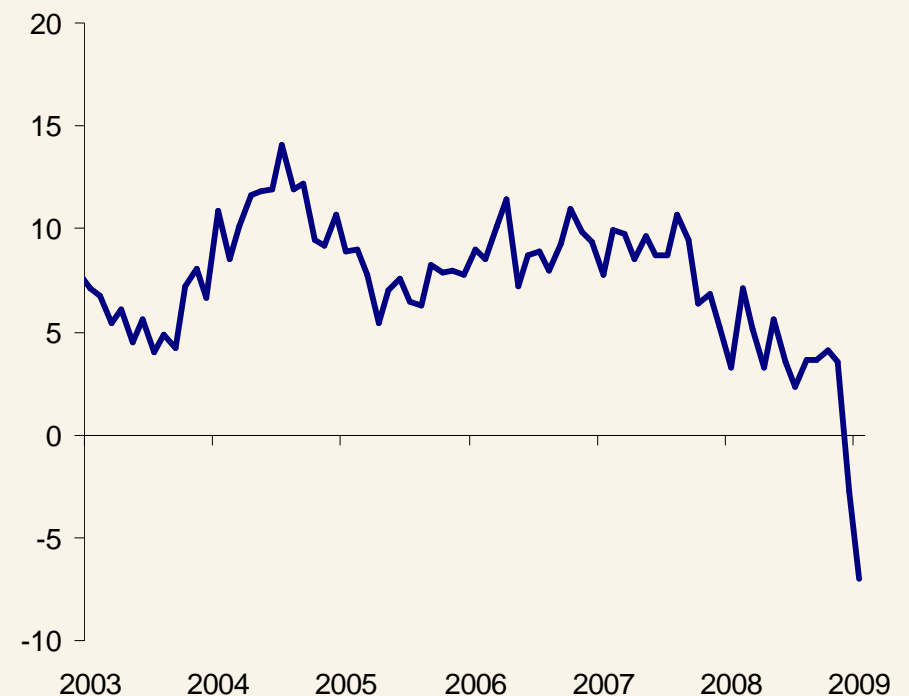
(January 2003 – January 2009, annual percentage change)



Source: CPB, CBT

Global Trade Quantity Index

(January 2003 – January 2009, annual percentage change)



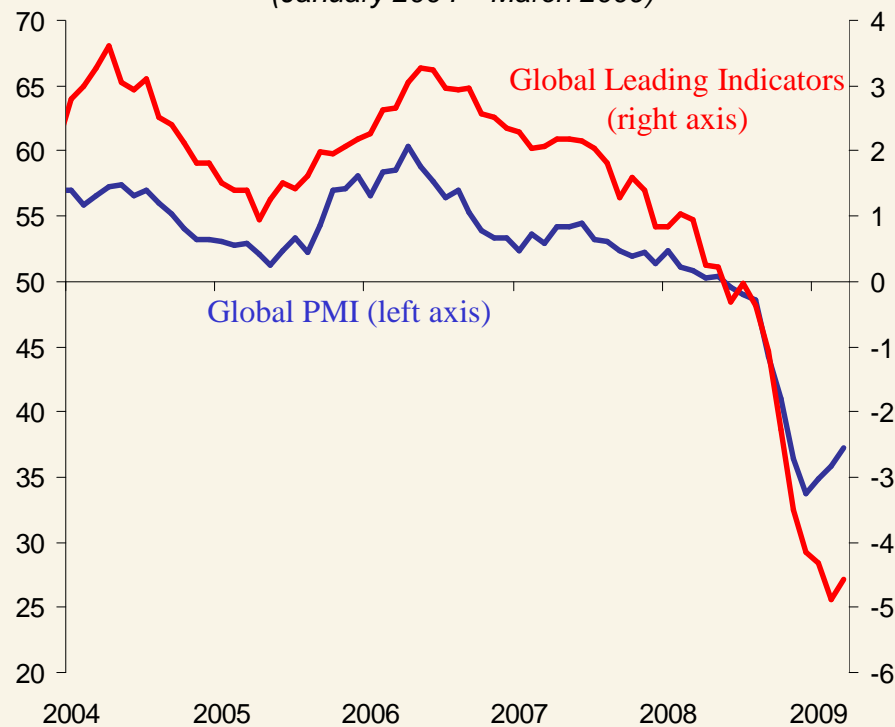
Source: CPB, CBT



Confidence Indices and Leading Indicators

The downward trend in leading indicators and confidence indices led by malfunctioning of the credit mechanism in the last quarter of 2008 has recently been replaced by a partial recovery.

**Global Purchasing Managers' Index (PMI)
And Leading Indicators**
(January 2004 – March 2009)



Source: Bloomberg, Goldman Sachs, CBT

Baltic Dry Index
(January 2002 – April 2009)



Source: Bloomberg, CBT



II. Effects of the Global Financial Crisis on the Turkish Economy

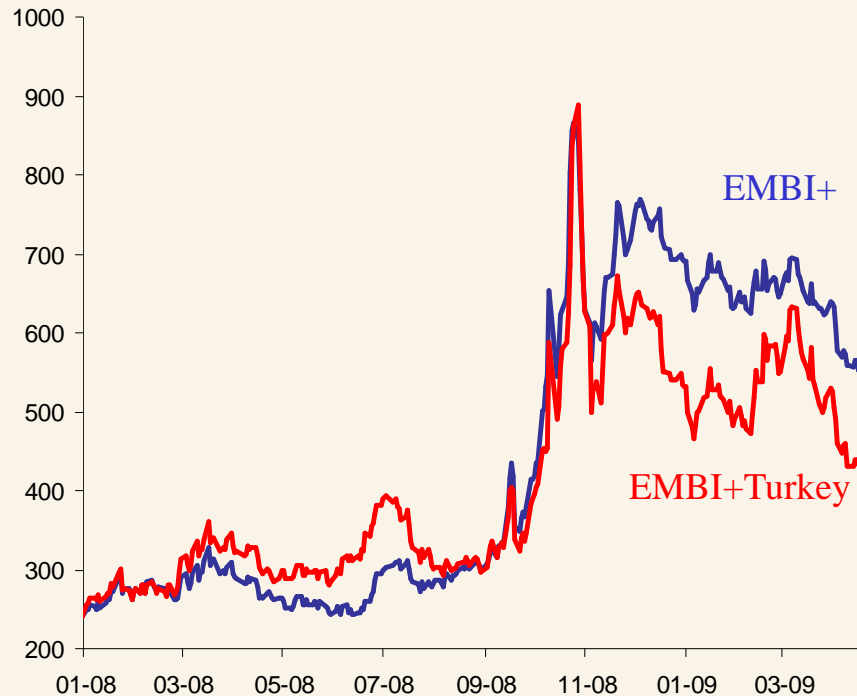


Financial Developments in Turkey

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

Risk Indicators

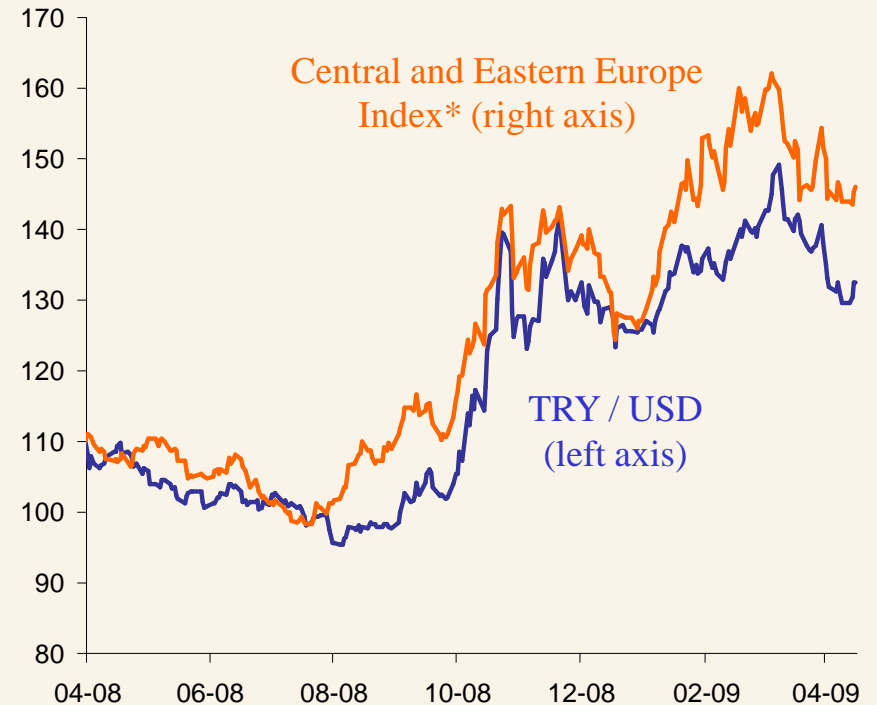
(1 January 2008 - 17 April 2009, basis points)



Source: Bloomberg, CBT

Foreign Exchange Rates

(1 July 2008 – 17 April 2009, Value of the US Dollar in Terms of Various Currencies, July 2008=100)



* Central and Eastern Europe Index: Equally-weighted average of the national currencies of the Czech Republic, Croatia, Hungary, Lithuania, Poland, Romania, Slovakia and Ukraine.

Source: Bloomberg, CBT

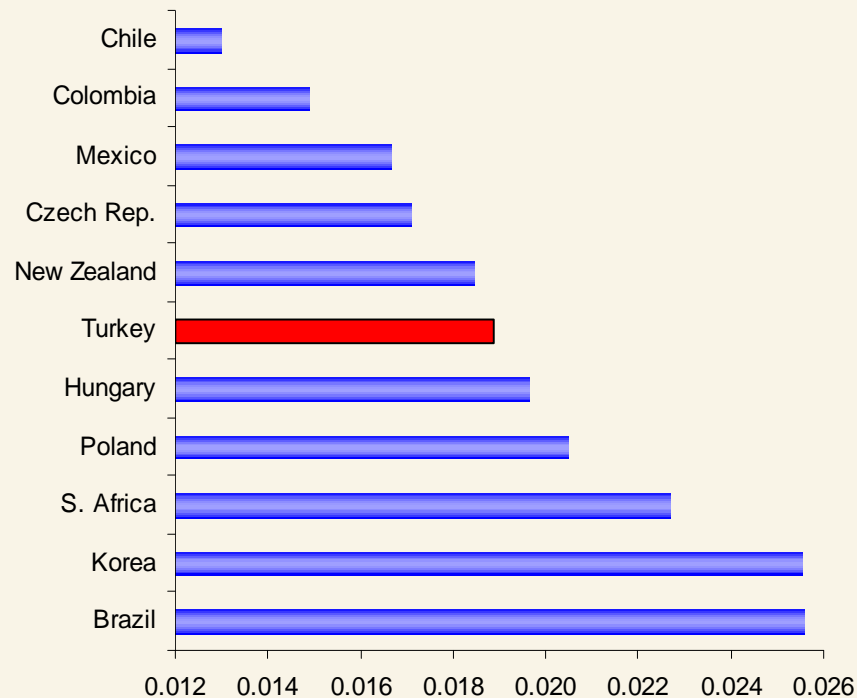


Financial Developments in Turkey

Turkey's risk indicators performed relatively better in this period. Volatility in the foreign exchange and capital markets in Turkey remained fairly restricted compared to other countries.

Exchange Rate Volatility

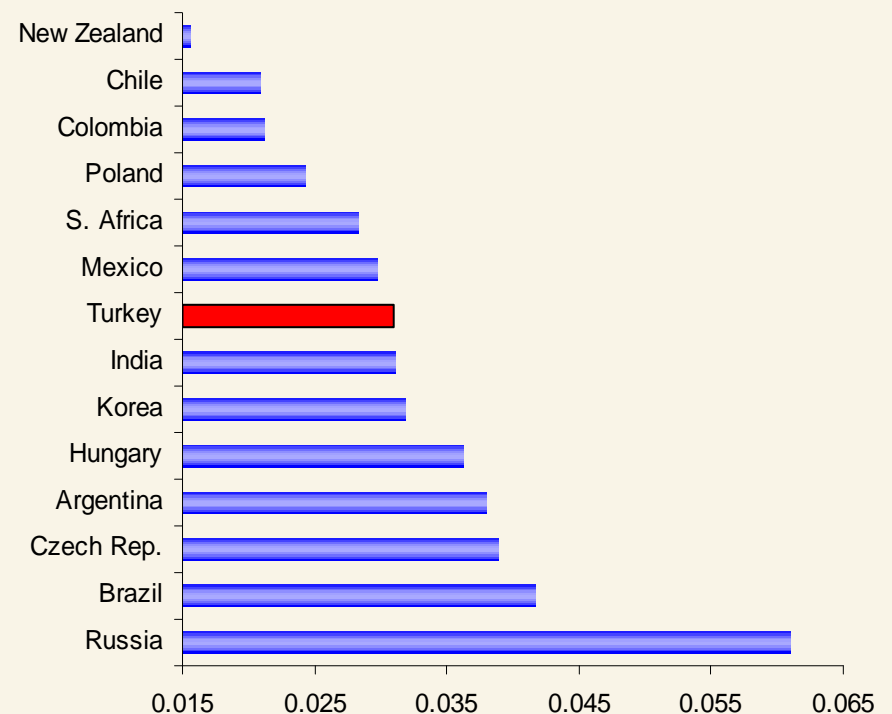
(September 2008 - March 2009, standard deviation of daily changes in foreign exchange rates)



Source: Bloomberg, CBT

Stock Market Volatility

(September 2008 - March 2009, standard deviation of daily changes in indices)



Source: Bloomberg, CBT

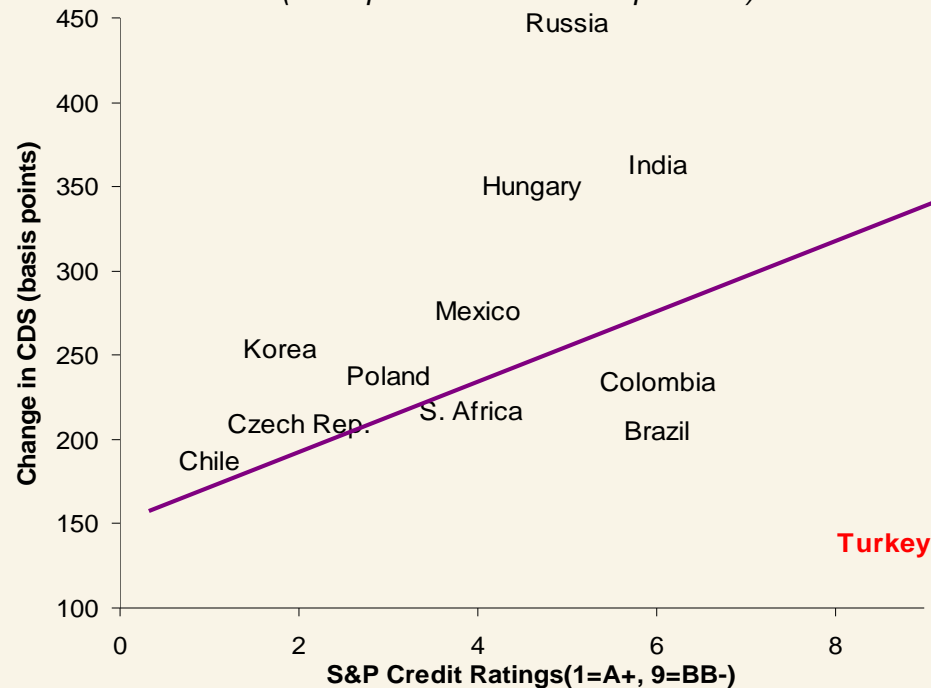


Financial Developments in Turkey

Turkey's risk premium has resisted the deterioration in global risk perceptions more than implied by her credit rating. Countries that enjoyed a decline in their risk premia, as in the case of Turkey, also enjoyed room for policy rate cuts.

Change in Credit Ratings and Risk Premiums of Countries

(12 September 2008 - 13 April 2009)

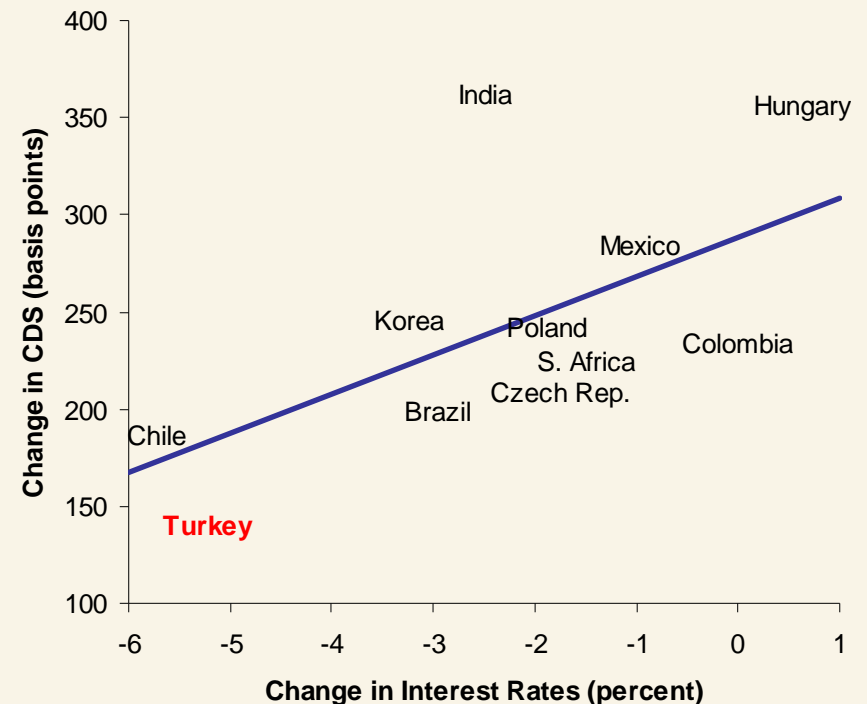


Note: Trend line includes countries other than Turkey.

Source: Bloomberg, CBT

Change in Policy Rates and Countries' Risk Premia

(12 September 2008 - 17 April 2009)



Note: Trend line includes countries other than Turkey.

Source: Bloomberg, CBT

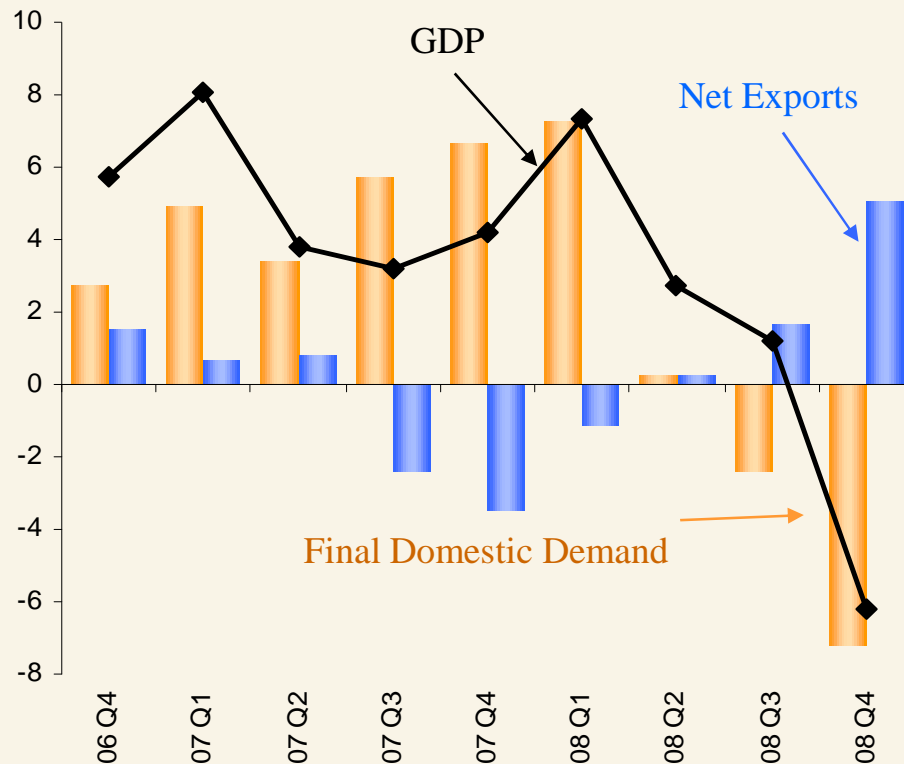


Turkish Economy

Along with other countries, Turkey is also experiencing a marked economic slowdown due to the heightened risk perceptions and adverse effects of the global crisis on the banks' funding facilities.

Growth Components

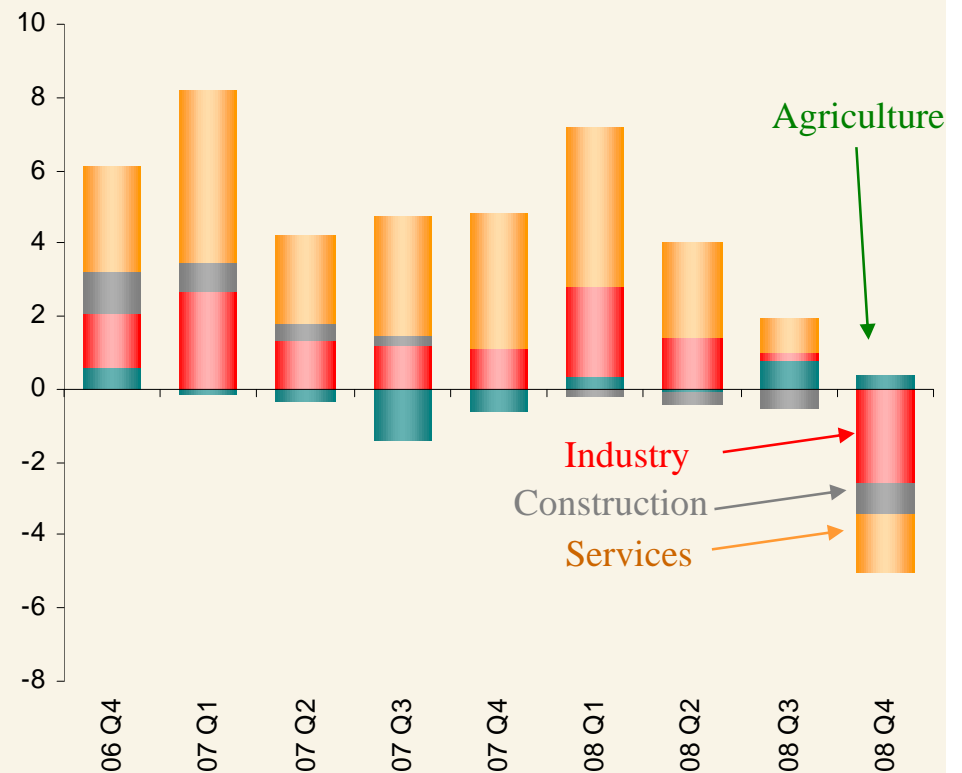
(2006 Q4 – 2008 Q4, year-on-year contribution, percent)



Source: TURKSTAT, CBT

Growth components

(2006 Q4 – 2008 Q4, year-on-year contribution, percent)



Source: TURKSTAT, CBT

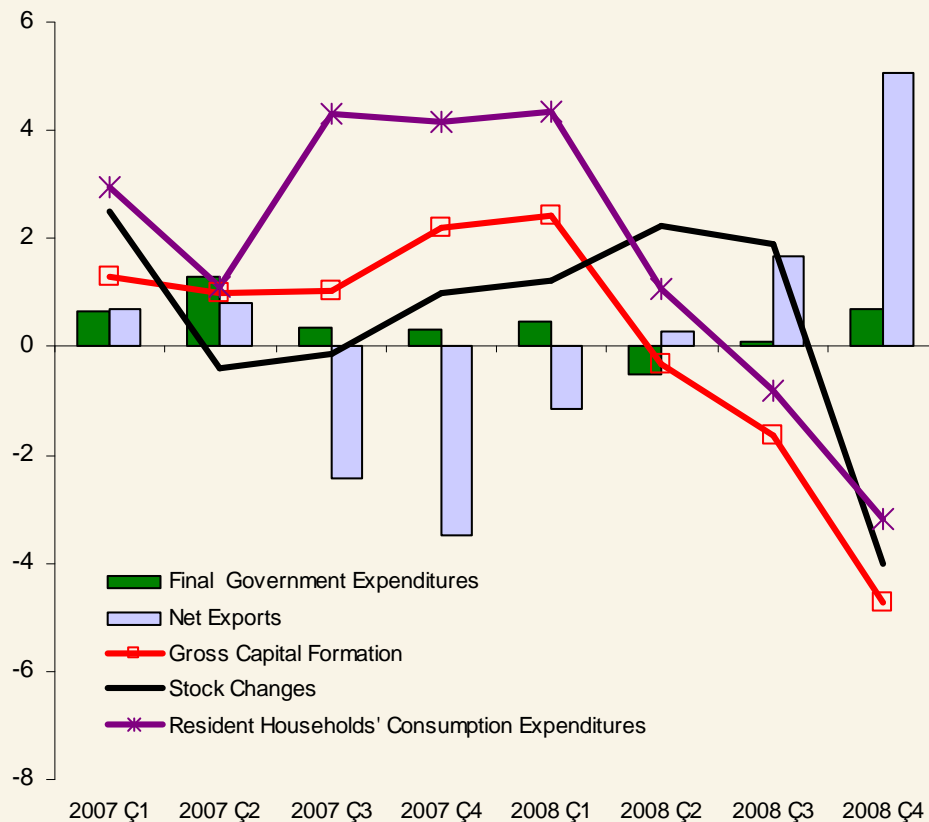


Turkish Economy

Domestic demand underwent a sharp decline mainly owing to the shrinkage in private consumption and investment expenditures.

Growth Components

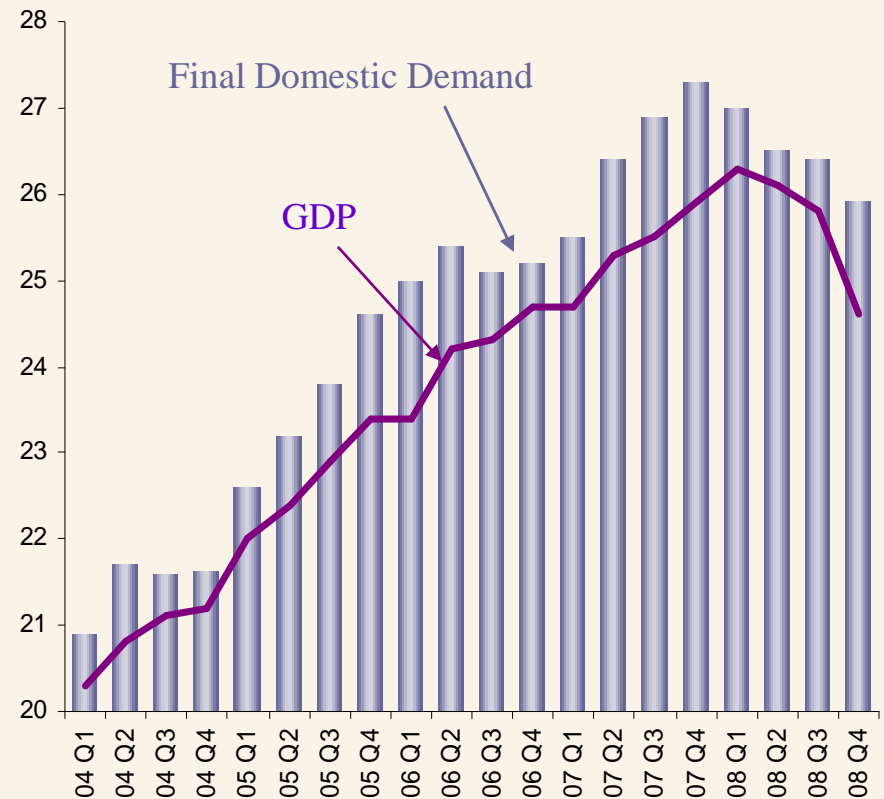
(2007 Q1 – 2008 Q4, year-on-year contribution, percent)



Source: TURKSTAT, CBT

GDP and Final Domestic Demand

(2004 Q1 – 2008 Q4, seasonally adjusted, in constant prices of 1998, billion TL)



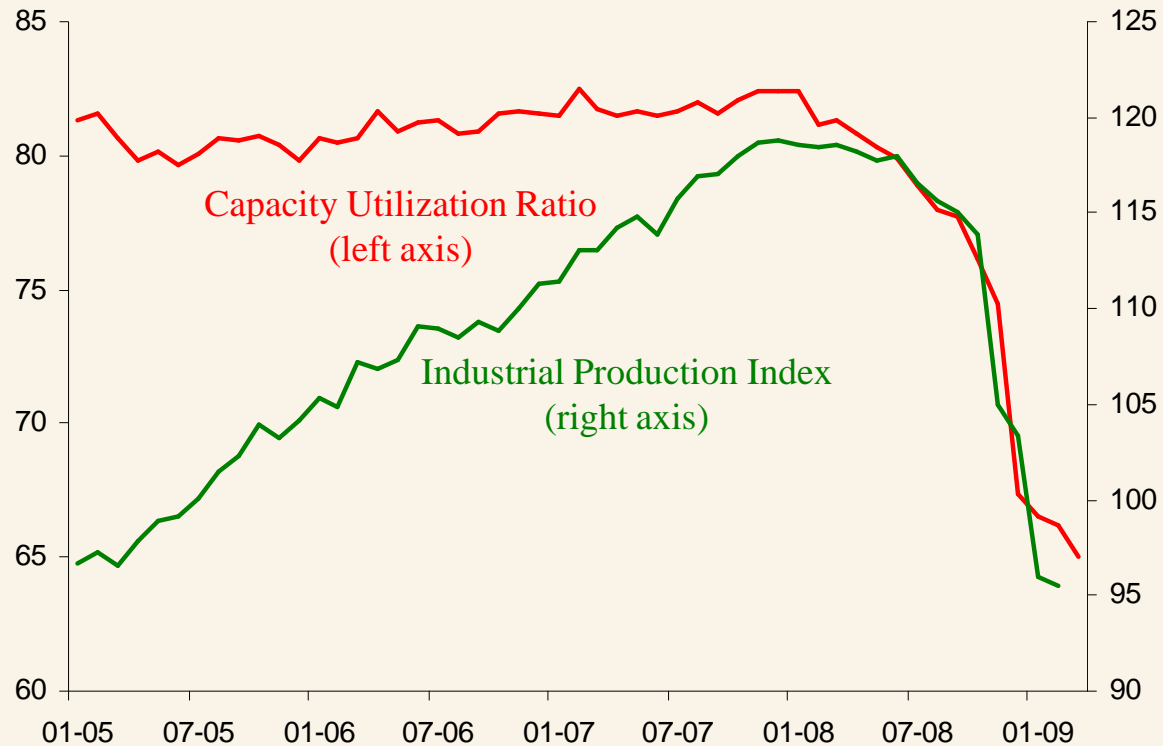
Source: TURKSTAT, CBT



Production Side

The downtrend in seasonally adjusted data for industrial production, which has been continuing since April 2008, became more apparent as of December.

Industrial Production Index* (January 2006 – February 2009)
and Capacity Utilization Ratio* (January 2006 – March 2009)



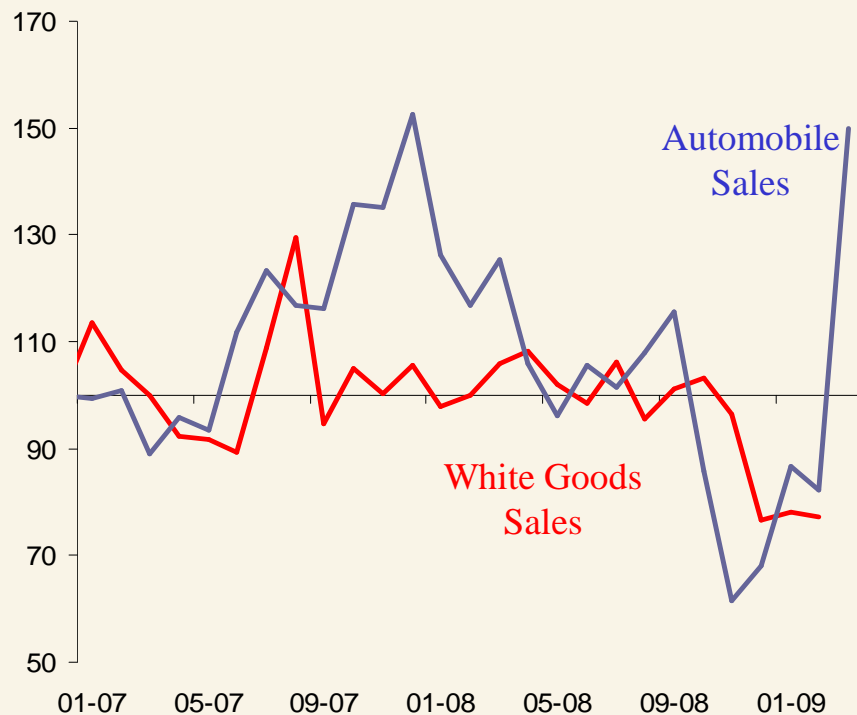
* Seasonally adjusted
Source: TURKSTAT, CBT



Domestic Demand Side

Domestic demand indicators maintain their weak course, albeit a limited recovery was observed compared to the previous quarter.

Domestic Sales of White Goods*
(January 2007 – February 2009) **and Automobiles***
(January 2007 – March 2009, December 2006=100)



* Seasonally adjusted
Source: WGS, AMA, CBT

Demand Indicators
(January 2007 – March 2009)

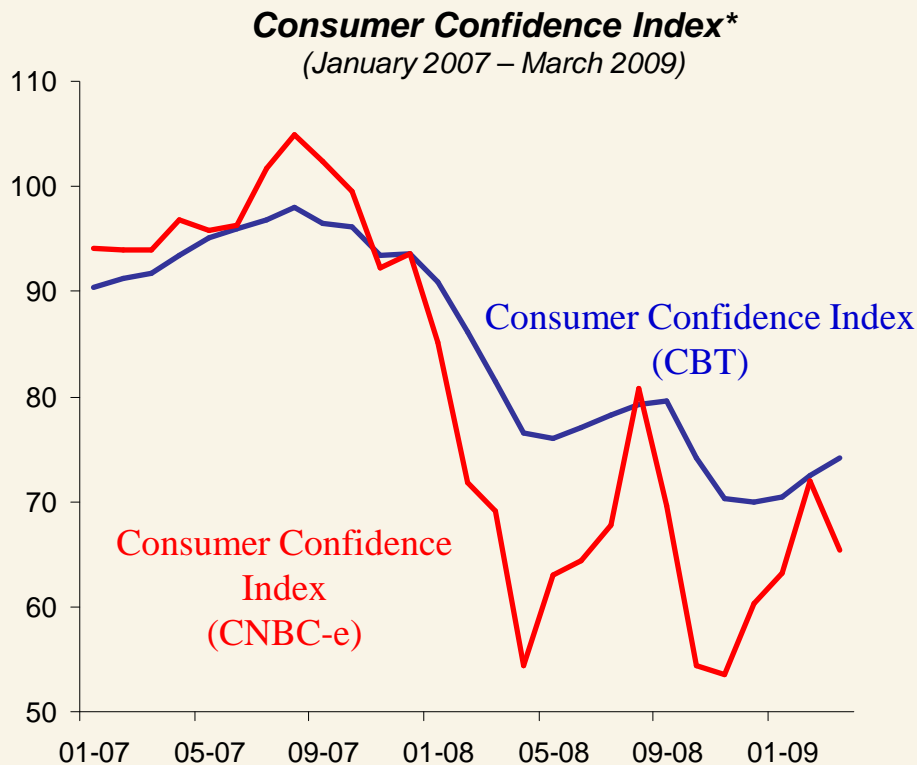


* PMI: Purchasing Managers' Index
** Business Tendency Survey
Source: ABN Amro, CBT

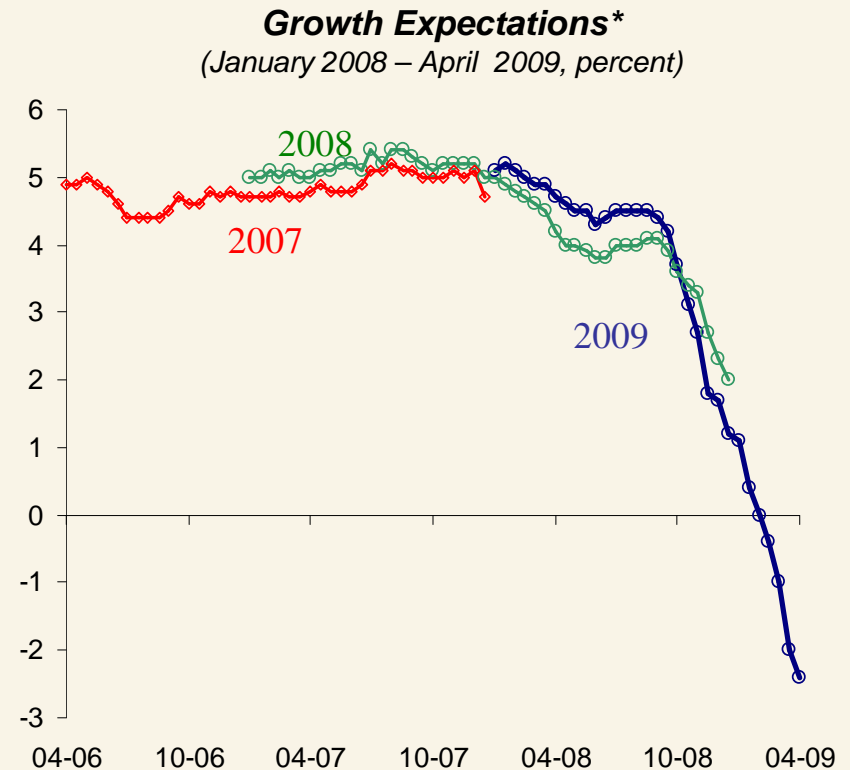


Consumer Confidence and Expectations

The deterioration in consumer confidence indices that had displayed a sharp decline due to the impact of global crisis stopped in recent period.



* Seasonally adjusted
Source: CNBC-e, CBT



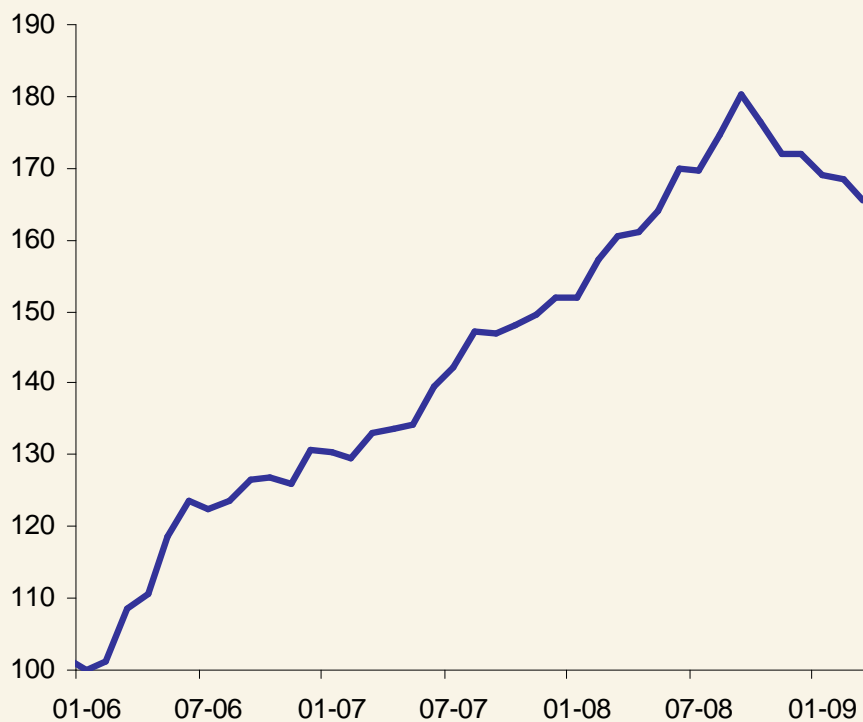
* CBT Survey of Expectations. Growth expectations for each year is indicated by adding the expectations for the next year to that of the current year.
Source: CBT



Credit Market

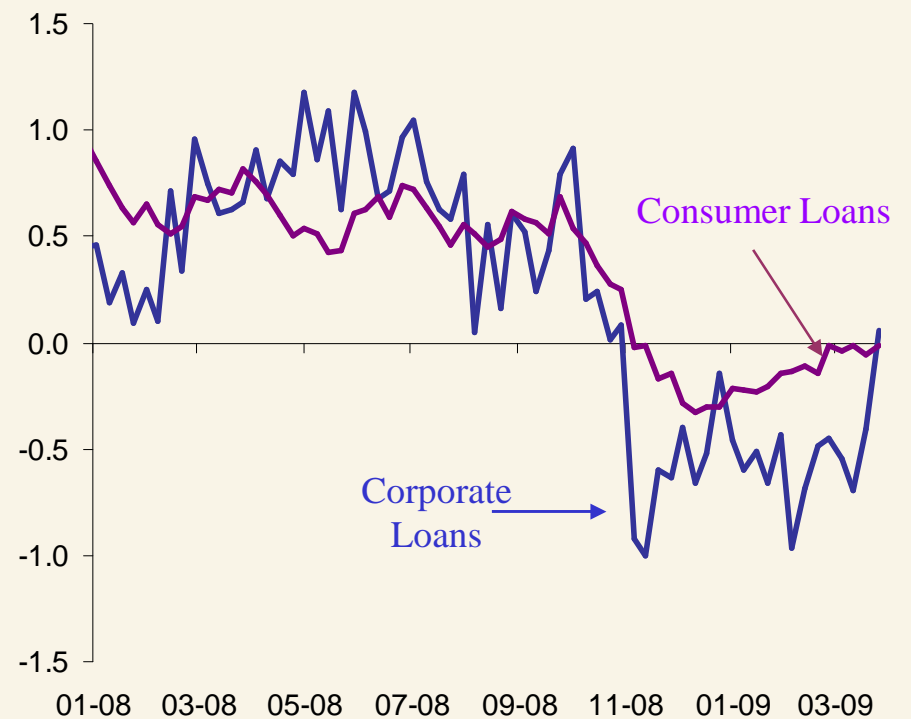
The downtrend in bank loans that started in the third quarter of 2008 continued throughout March due to the developments in supply and demand-side.

Domestic Real Credit Volume
(January 2006 – March 2009, January 2006=100)



Source: BRSA, CBT

Monthly Changes in Business and Consumer Loans
(January 2008 – March 2009, 4-week moving average, percent)



Source: BRSA, CBT

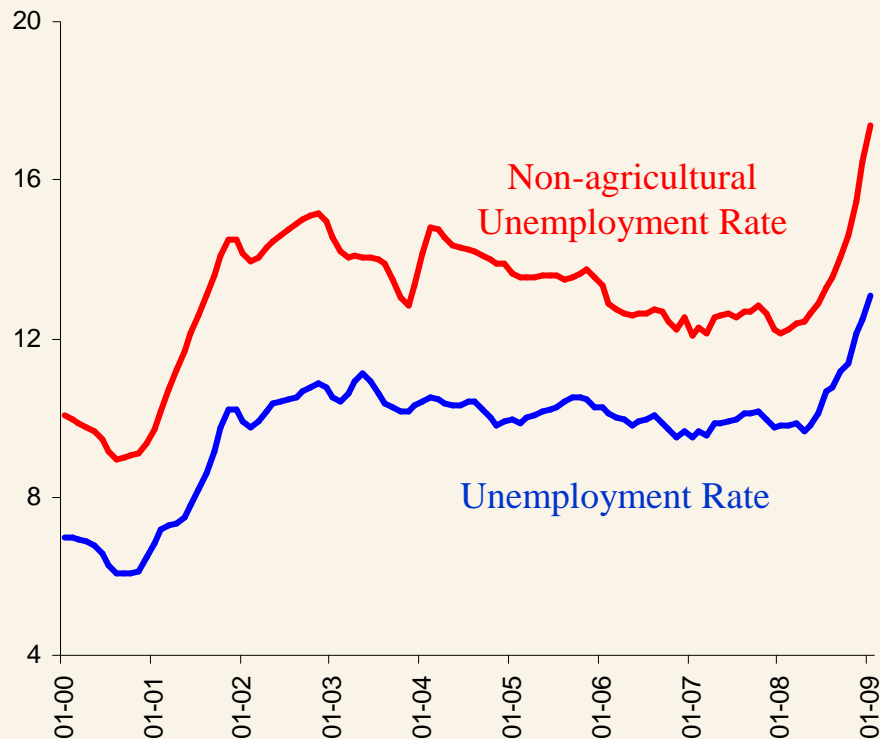


Labor Market

Data on labor market confirm the rapid slowdown in economic activity.

Unemployment Rates*

(January 2000 - January 2009, percent)

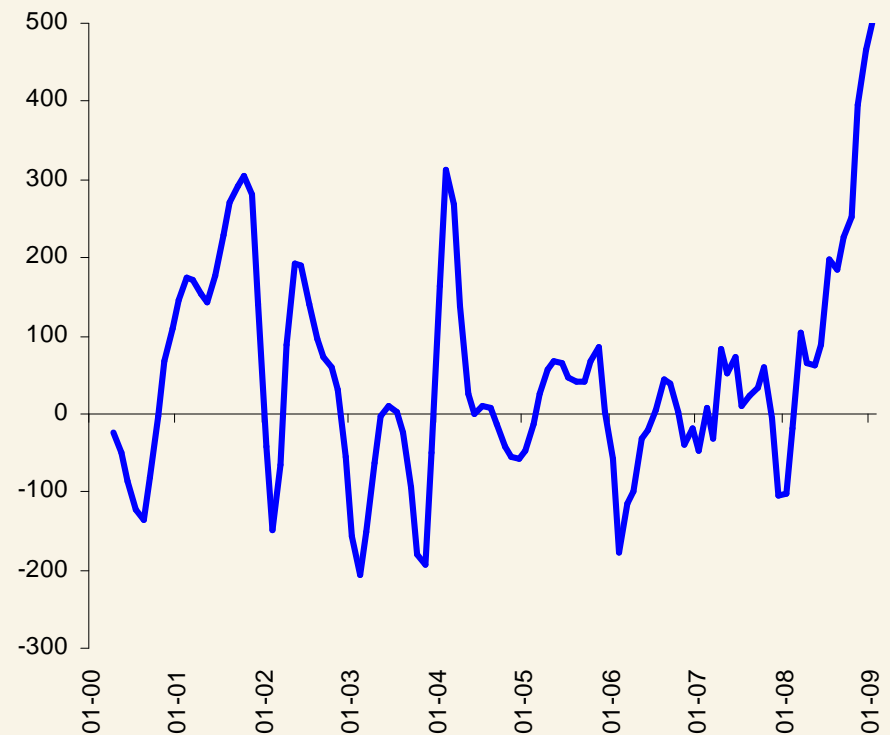


*Seasonally adjusted

Source: TURKSTAT, CBT

Change in Non-agricultural Unemployment*

(January 2000 - January 2009, quarterly change, thousand people)



*Seasonally adjusted

Source: TURKSTAT, CBT

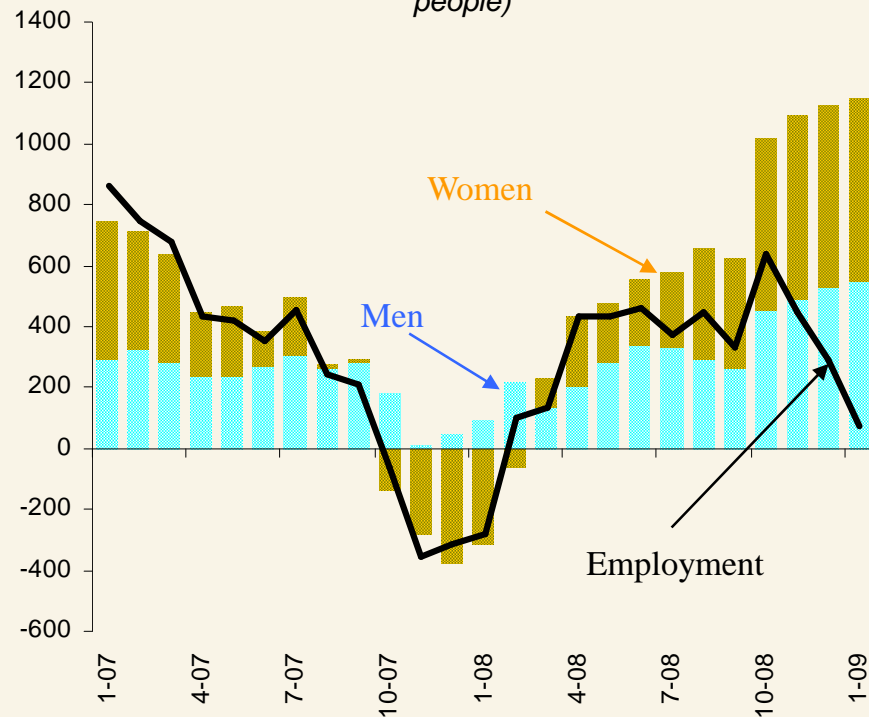


Labor Market

Though the rise in the labor force participation has been influential on the rise in the unemployment rate, albeit partly, the slowdown in employment is believed to be the main determinant.

Total Labor Force and Employment

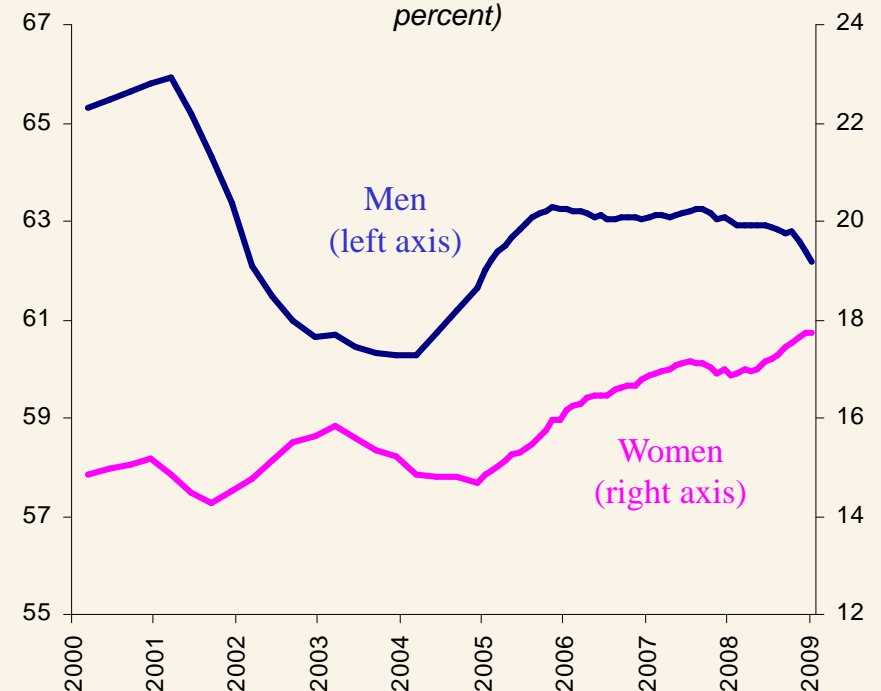
(January 2007 – January 2009, annual change, thousand people)



Source: TURKSTAT, CBT

Ratio of Urban Employed Population to Total Population Over the Age of 15

(December 2000 – January 2009, annual moving average, percent)



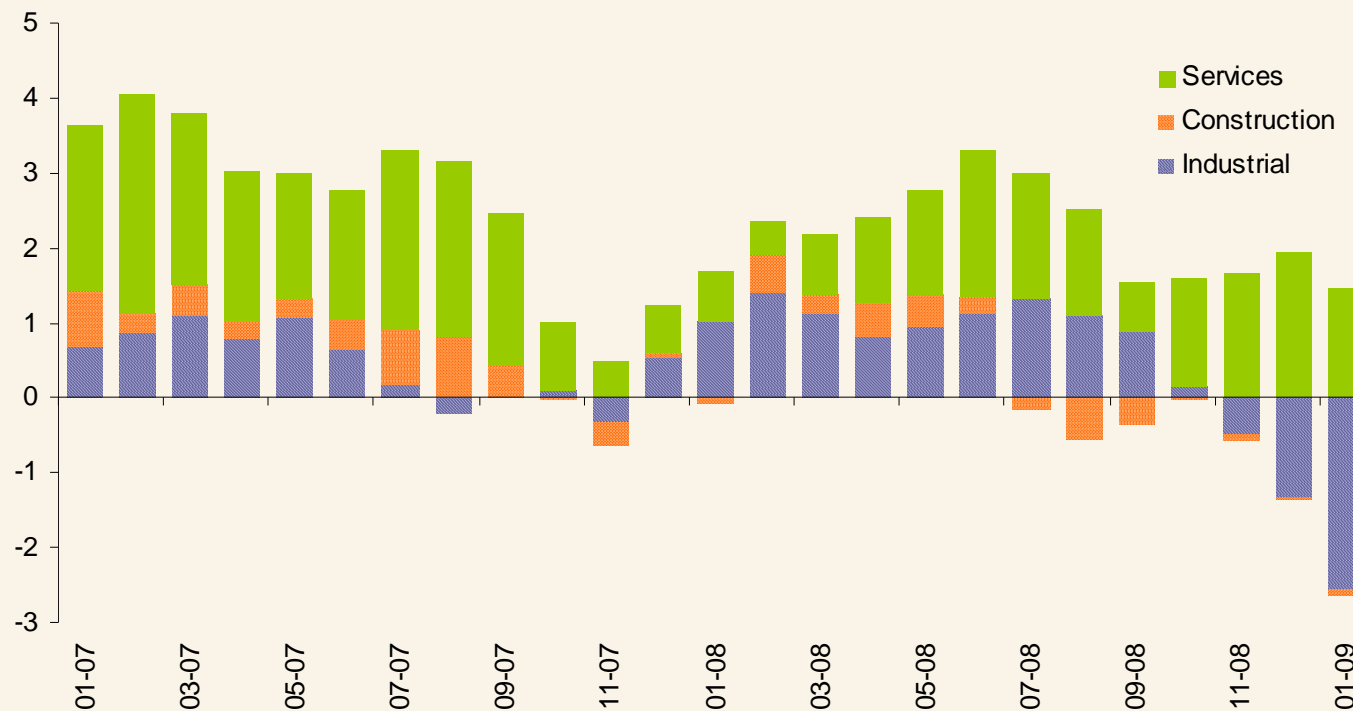
Source: TURKSTAT, CBT



Labor Market

The decline in non-agricultural employment in January 2009 on annual basis was mainly driven by the employment loss in industrial sector.

Contribution to Non-Agricultural Employment
(January 2007 - January 2009, percent contribution year-on-year)



Source: TURKSTAT, CBT



Foreign Trade

The seasonally adjusted data indicate that the deterioration in exports that started in October 2008 stabilized in early 2009. Nevertheless, in view of the global demand conditions, the recovery in exports is predicted to take a long time.

Export Volume Index * (January 2007 – February 2009) and
Expectations for Exports** (January 2007 – March 2009)

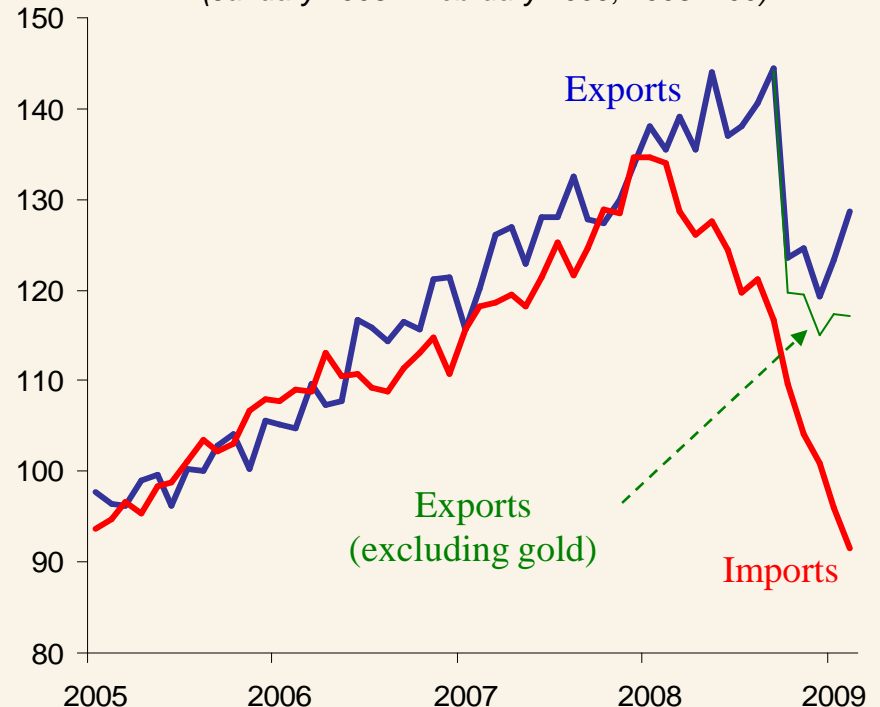


* Quarterly cumulative percentage change

** Difference between increase and decrease in expectations for exports in the Business Tendency Survey (moved one month)

Source: TURKSTAT, CBT

Real Exports and Imports*
(January 2005 – February 2009, 2005=100)



* Workday adjusted, deflated by respective price indices and seasonally adjusted.

Source: TURKSTAT, CBT

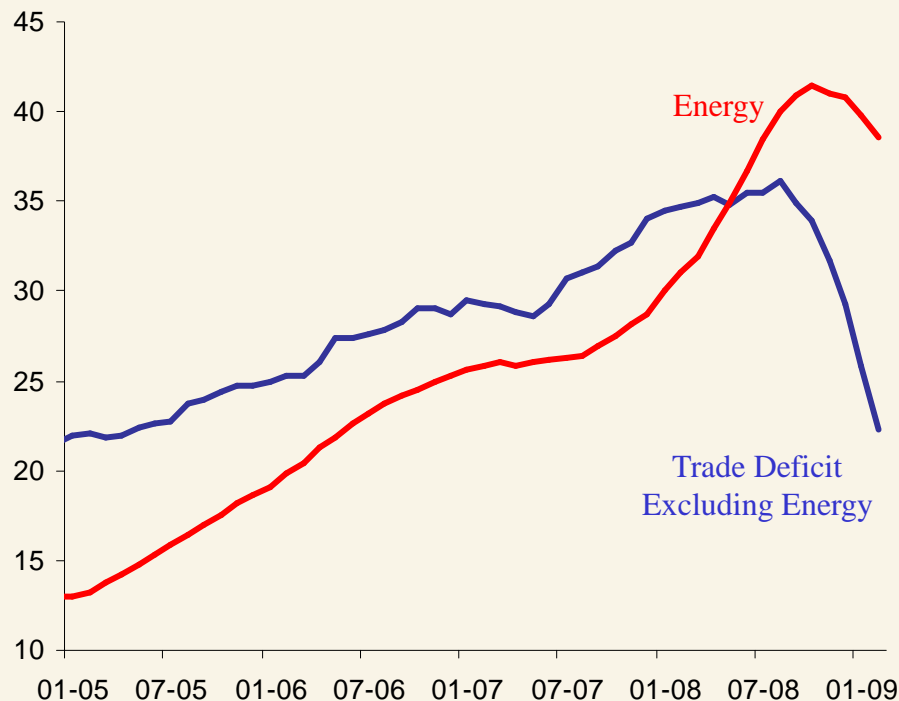


Balance of Payments

Foreign trade deficit and current account deficit have been significantly narrowing since the third quarter of 2008. The financing requirement has sharply declined owing to the recovery in current account balance.

Foreign Trade Balance

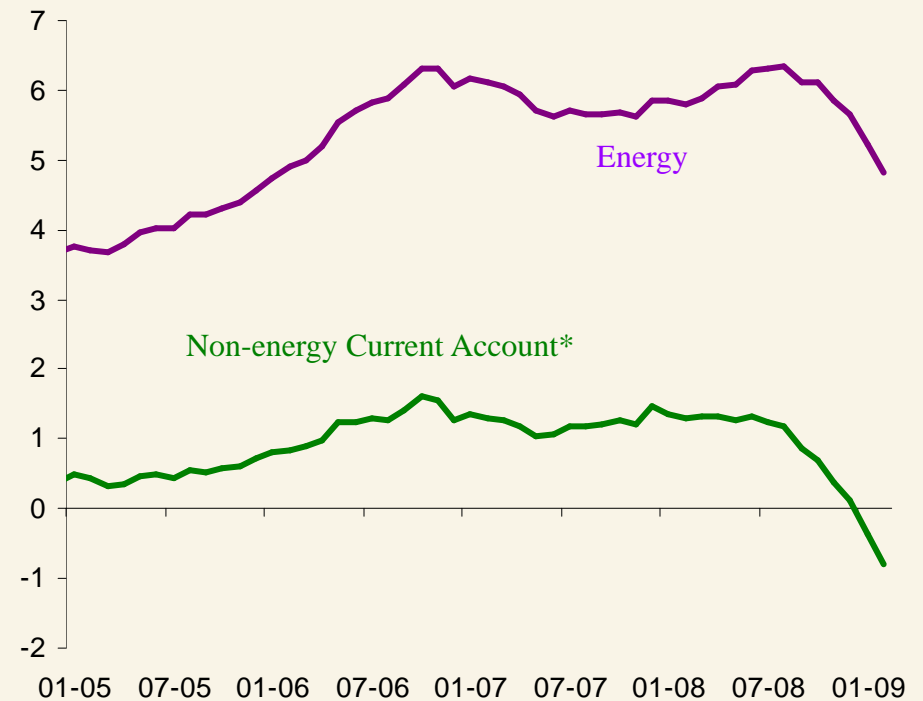
(January 2005 – February 2009, billion USD)



Source: TURKSTAT, CBT

Current Account Balance

(January 2005 – February 2009*, CAD to GDP Ratio, percent)



* Forecast
Source: TURKSTAT, CBT

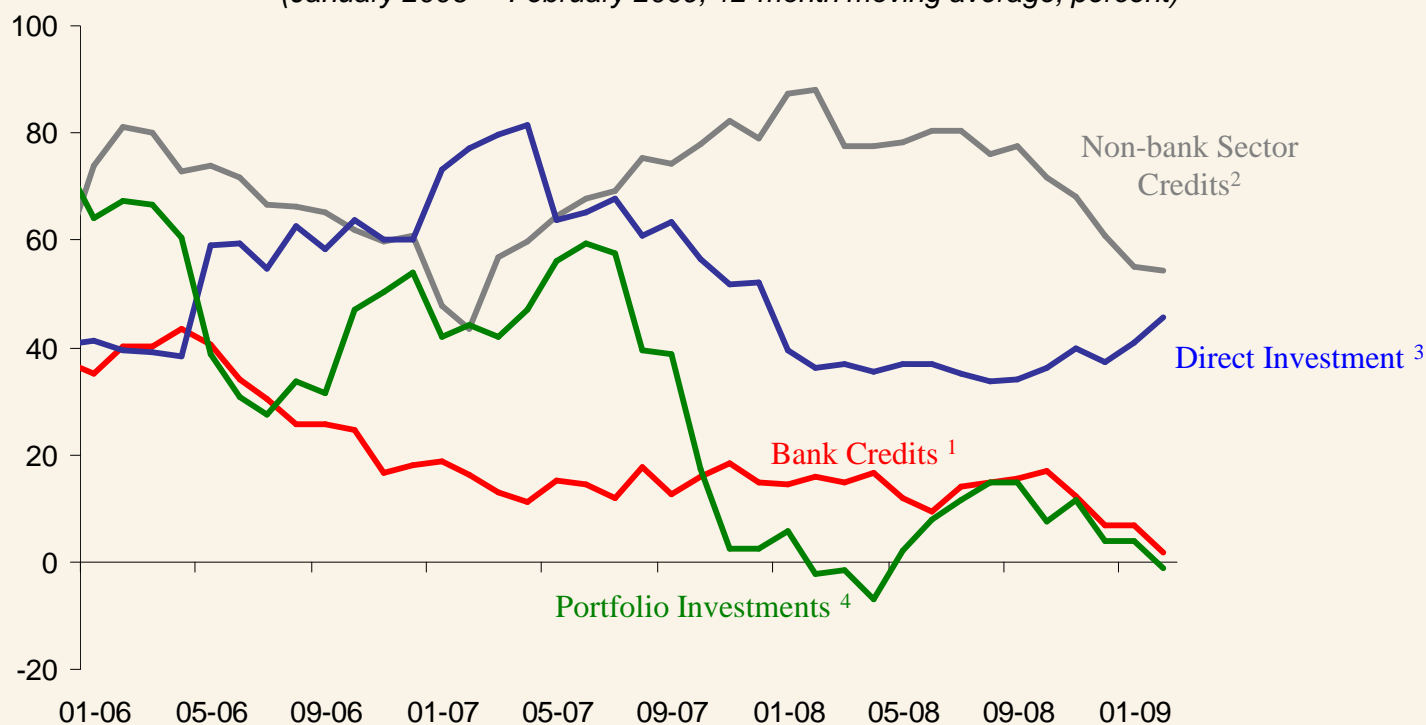


Balance of Payments

While the share of corporate sector in financing of the current account deficit narrowed, that of direct capital inflow pursued a stable course.

Selected Capital Account Figures in Relation to Current Account

(January 2006 – February 2009, 12-month moving average, percent)



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

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

³ **Direct Investment:** Direct Investment Flows

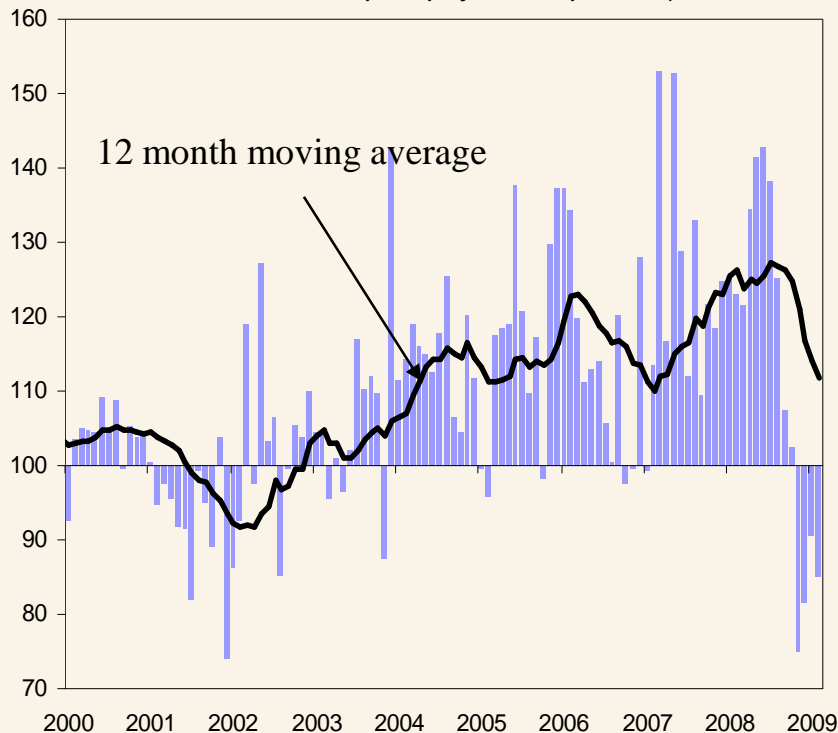
⁴ **Portfolio Investments:** Equity and treasury bill purchases of foreign residents



Balance of Payments

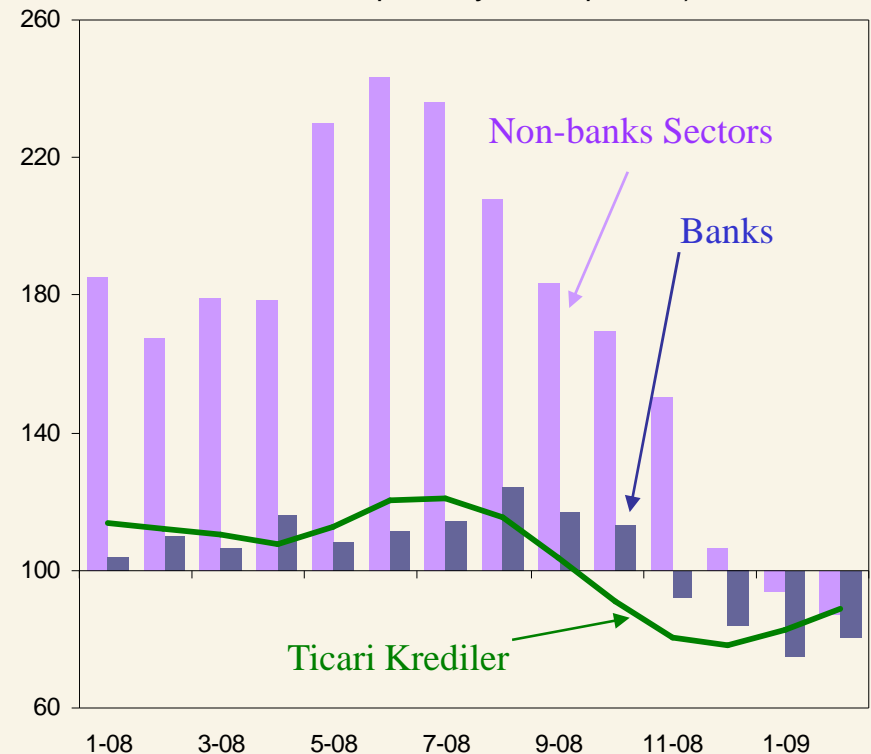
The private sector debt rollover ratio, which decreased to 75 percent in November 2008, stood at 88 percent in the first two months of 2009.

Private Sector Debt Rollover Ratio*
(January 2000 – February 2009, Ratio of External Debt Utilization to capital 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 – February 2009, Ratio of External Debt Utilization to Capital Payments, percent)



* Total of short and long-term credits
Source: TURKSTAT, CBT



Balance of Payments

Balance of Payments Developments in October 2008- February 2009 period

USAGE	Billion USD
Current Account Balance	-5.3
Portfolio Investments (Equity, Debt instruments, Currency and Deposits)	-8.8
Credits (Trade, Banks, Government, Other Business Services)	-9.7

SOURCE	Billion USD
Net Errors and Omissions	14.9
FDI	5.2
Other	2.0
Reserve Assets (Official Reserve, FX Deposit in Banks)	1.7

Net Errors and Omissions

- ✓ Residents in Turkey have transferred FX deposits from abroad to banks in Turkey due to the certain reasons like Repatriation Amnesty.
- ✓ Savings not registered in the banking sector have been sold in exchange for Turkish Lira.
- ✓ Foreign currency losses/gains realized during the accounting of the FX transactions.



III. Financial Stability in Turkey

Banking Sector	Corporate Sector
Household	Public Sector

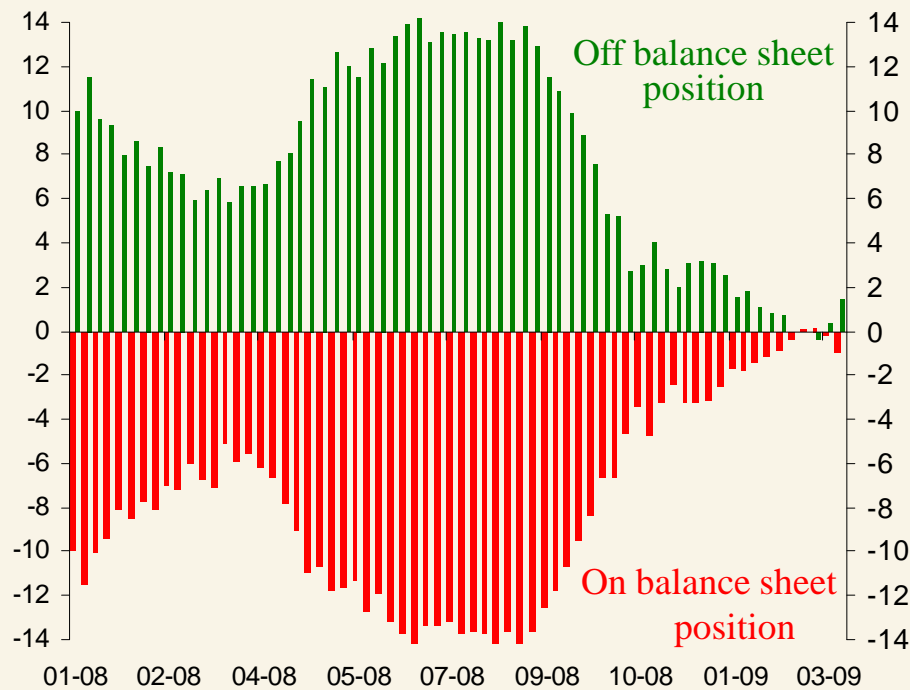


Banking Sector

The banking system in Turkey entered the global crisis with a relatively strong position. The main factor reinforcing the resilience of our economy in the face of the global crisis is the sound and stable structure of our financial system.

FX Position

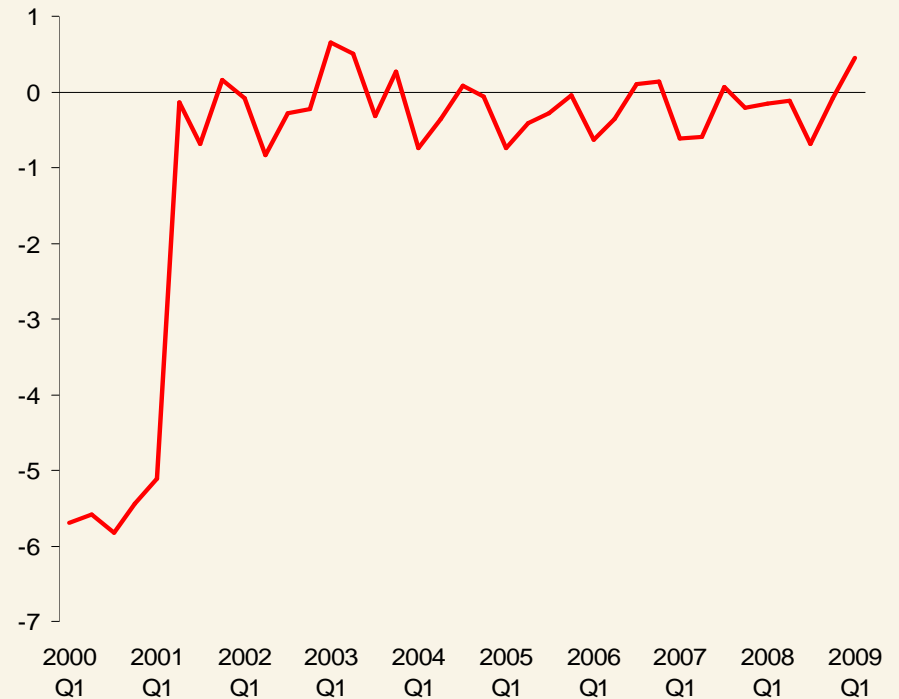
(January 2008 – April 2009, billion USD)



Source: BRSA, CBT

Net FX Position

(2000 Q1 – 2009 Q1*, billion USD)



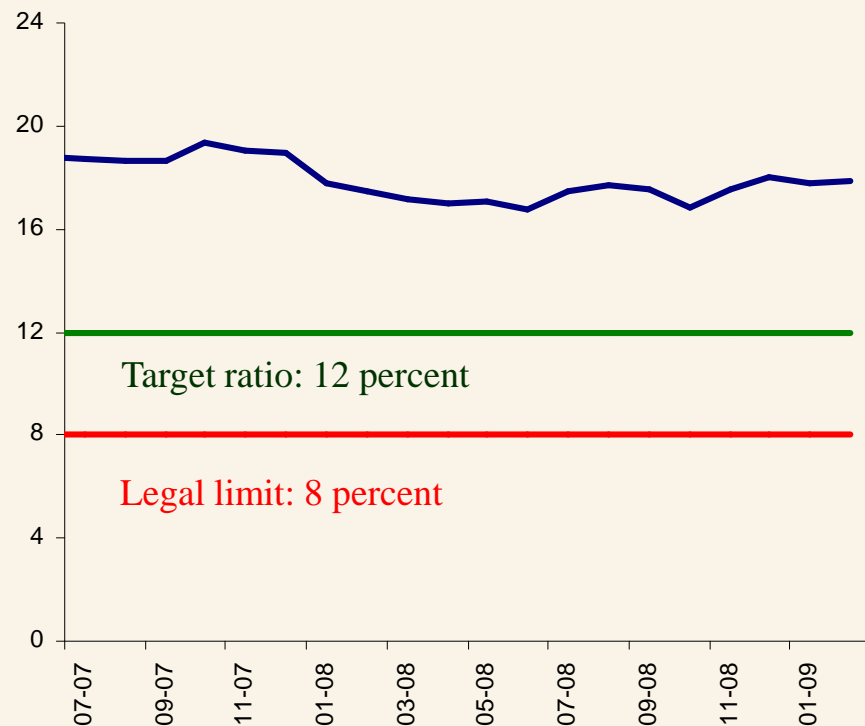
* As of 4 February 2009
Source: BRSA, CBT



Banking Sector

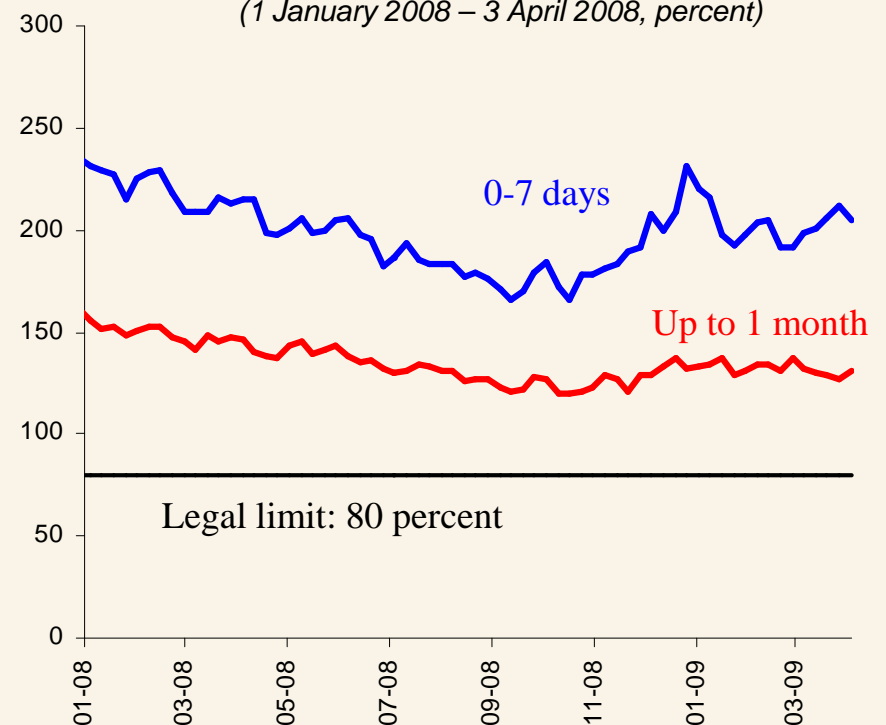
High level of capital adequacy ratio and short-term liquidity adequacy ratio and low level of FX positions have enhanced resilience of our financial system.

Capital Adequacy Ratio
(July 2007 – February 2009, percent)



Source: BRSA, CBT

Short-term FX Liquidity Adequacy Ratios
(1 January 2008 – 3 April 2008, percent)



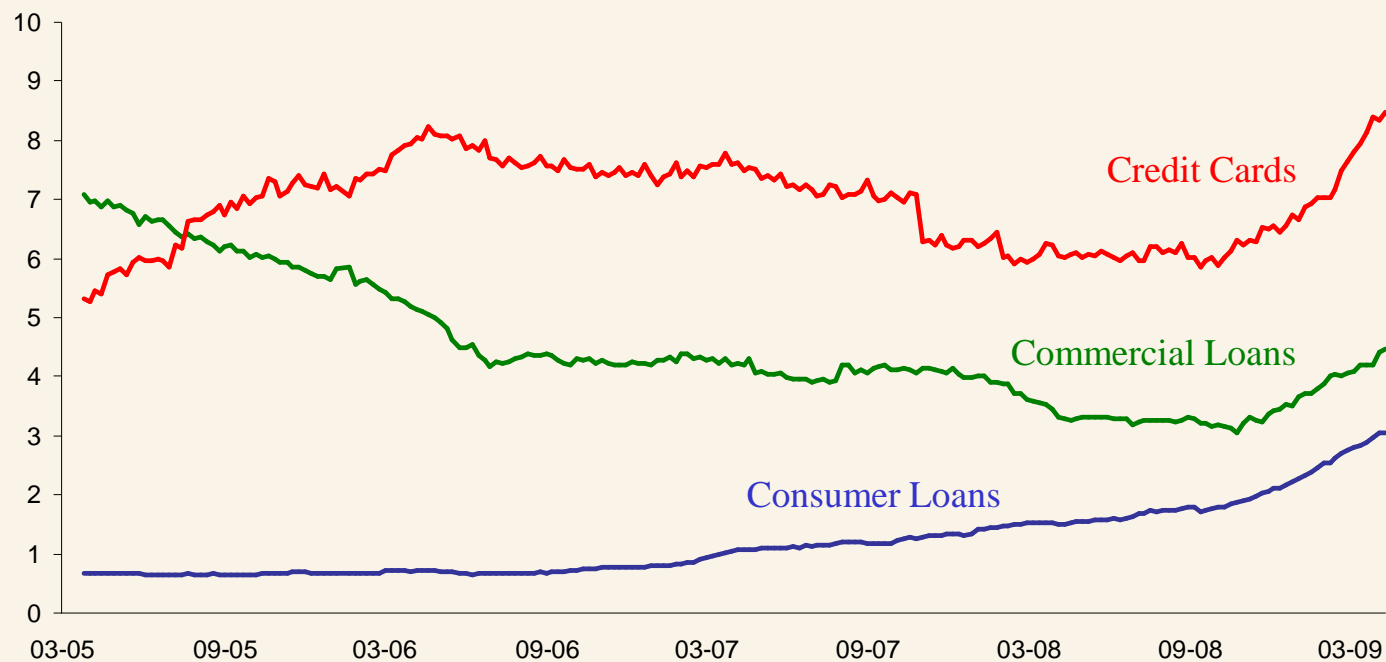
Source: BRSA, CBT



Banking Sector

Non-performing loan ratio has been increasing since September 2009.

Non-Performing Loan Ratio
(March 2005 – April 2009, percent)



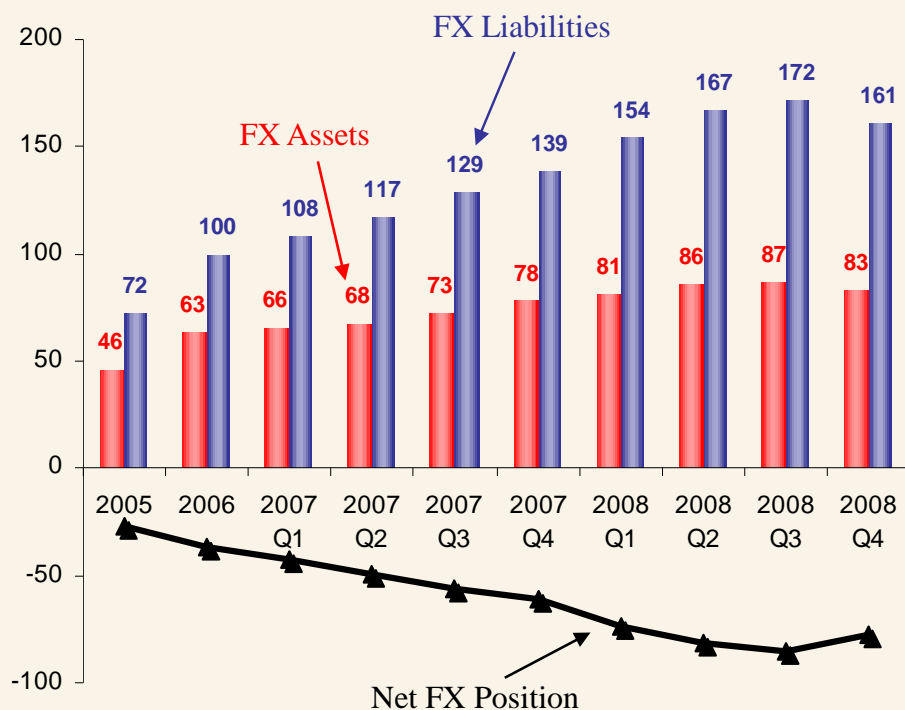
Source: BRSA, CBT



Corporate Sector

The FX position of the non-banking sector reached USD 78 billion by the last quarter of 2008.

Firms' FX Assets and Liabilities
(2005 – 2008 Q4 billion USD)



Source: CBT

Maturity Composition of Firms' Outstanding Long-Term FX Denominated Foreign Debt*
(February 2009, billion USD)



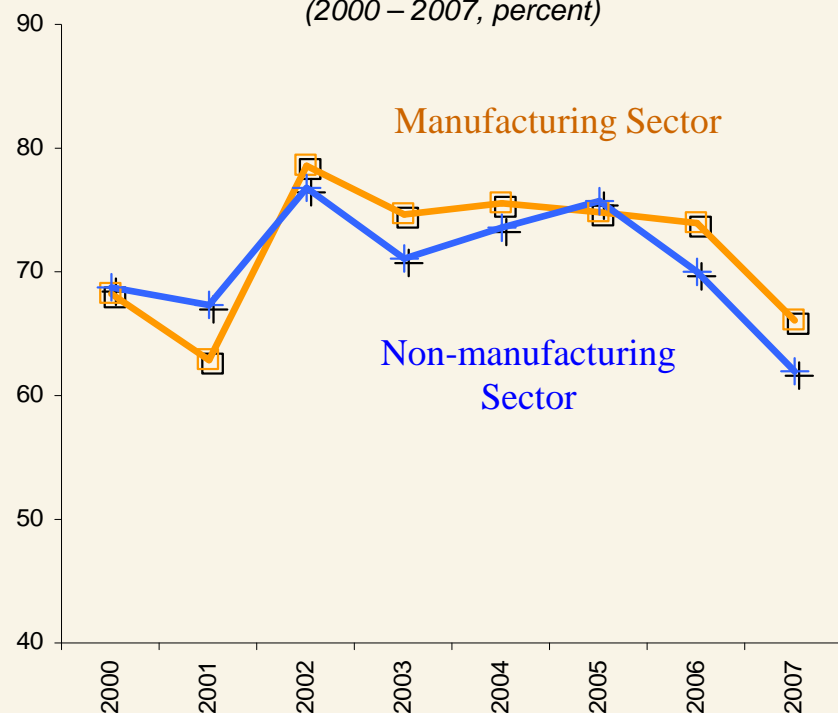
* Number of days to maturity
Source: CBT



Corporate Sector

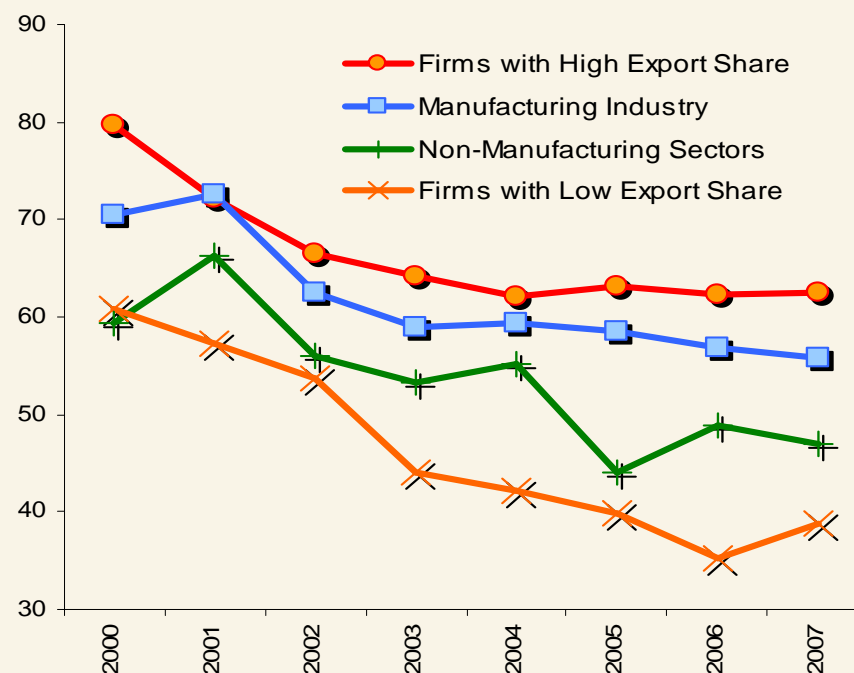
75 percent of small and medium-scale enterprises does not have FX-denominated debt. The FX-denominated loans are used mostly by large-scale enterprises and export-oriented manufacturing companies.

Ratio of Corporate Sector's Short Term Debt to Total Debt*
(2000 – 2007, percent)



* According to days to maturity
Source: CBT

Debt Dollarization of the Real Sector
(2000 – 2007, percent)

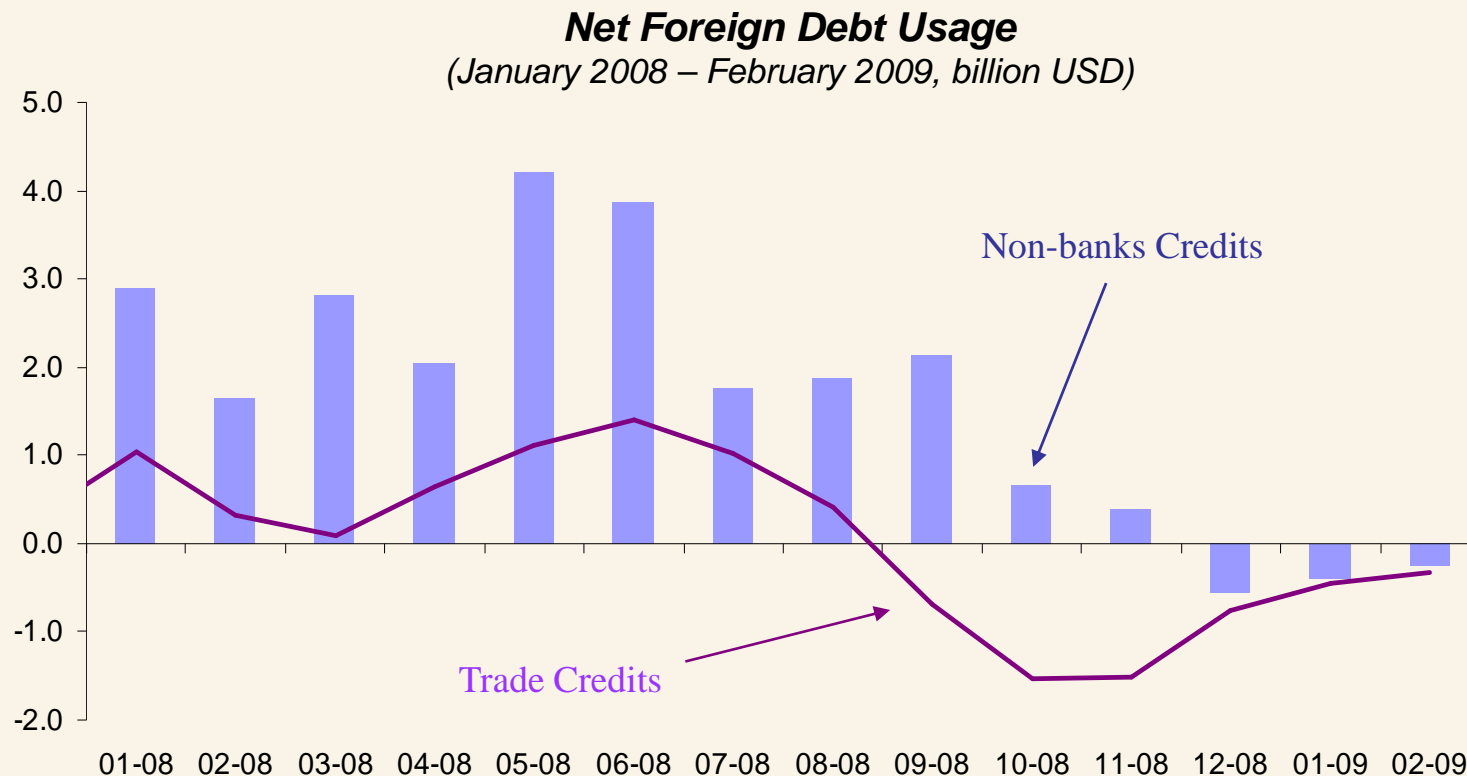


Source: CBT



Corporate Sector

Funding conditions of the corporate sector have deteriorated sharply as of the last quarter of 2008 . However, it is observed that rollover ratios of corporate sector have gone into a stable course recently.



Source: CBT



Households

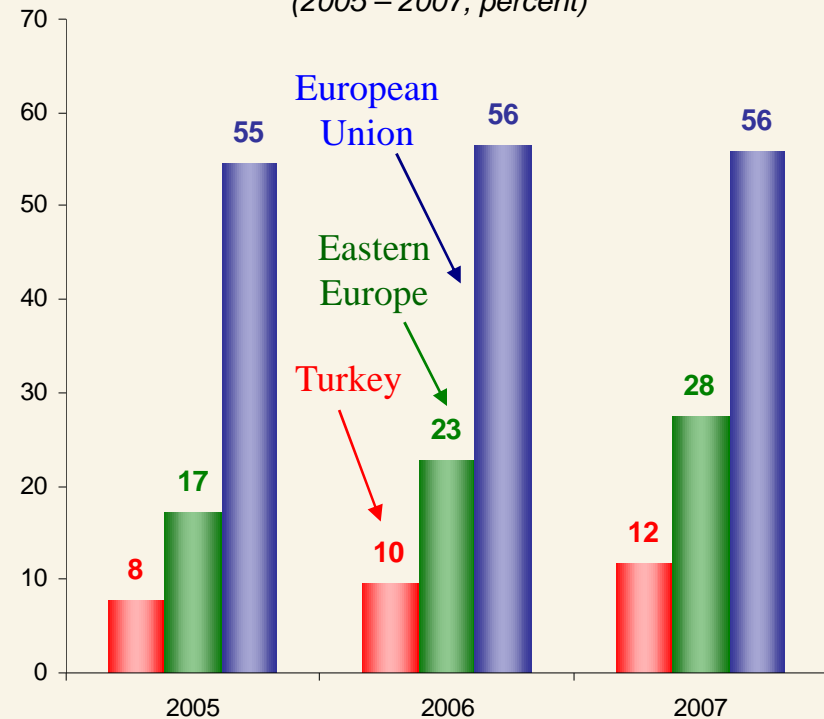
The ratio of household indebtedness is at a low level compared to the EU and Eastern European countries. The share of FX loans in total consumer loans is quite limited and this curbs households' exchange rate exposure.

Ratio of FX-Indexed Consumer Loans to Total Consumer Loans
(2003 – April 2009, percent)



Source: CBT

Ratio of Household Liabilities to GDP
(2005 – 2007, percent)



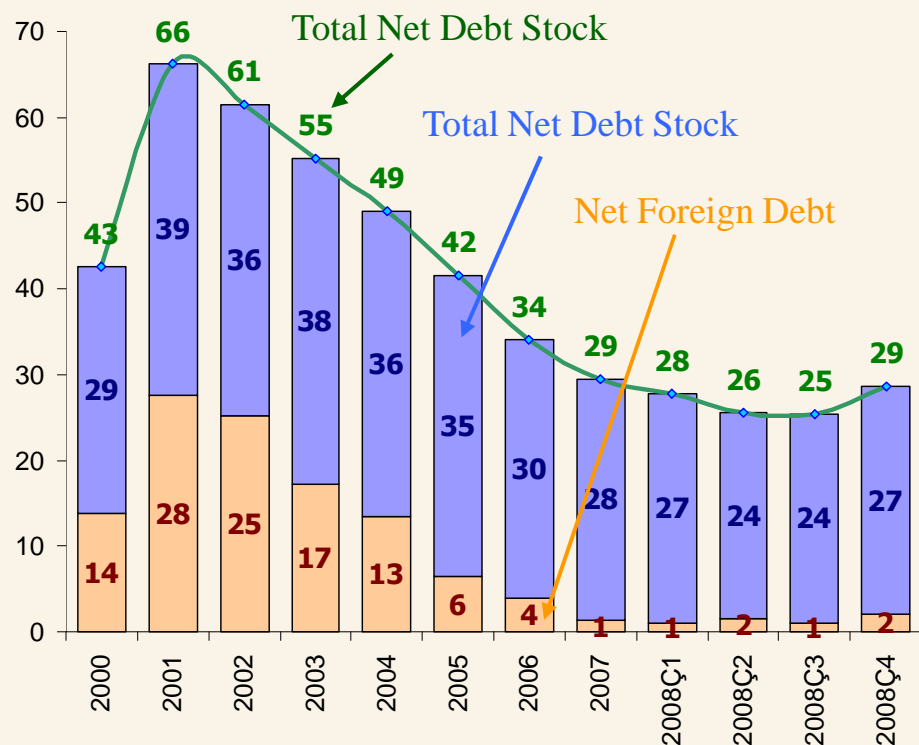
Source: European Central Bank, CBT



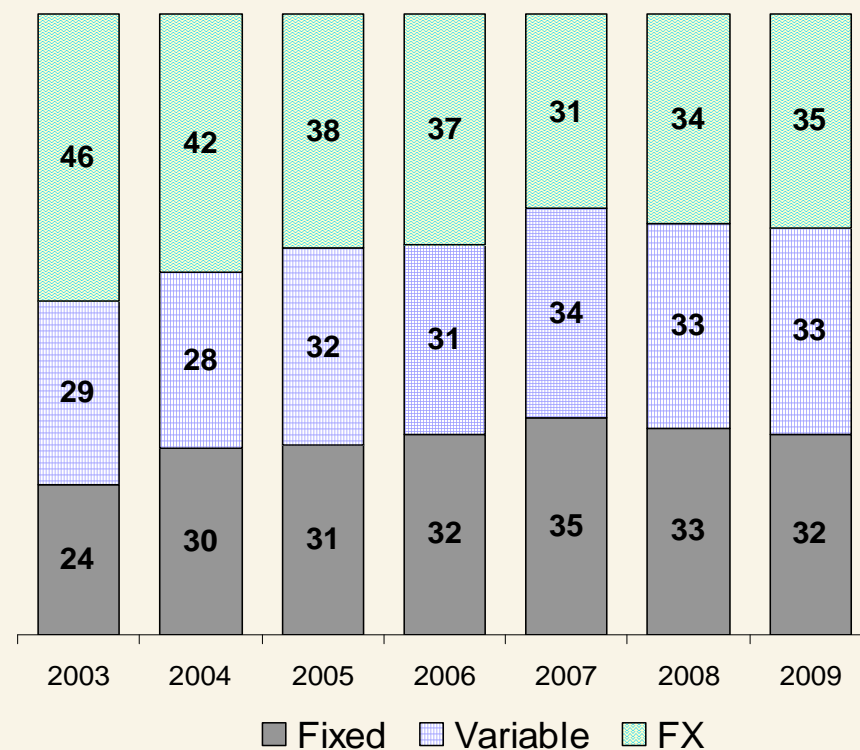
Public Sector

The public sector has become more resilient to external shocks in time.

Public Sector Net Debt Stock
(2000 – 2008 Q4, ratio to GDP, percent)



Composition of Central Government Debt
(2003 – 2009*)



Source: Undersecretariat of Treasury, CBT

* As of February 2009.

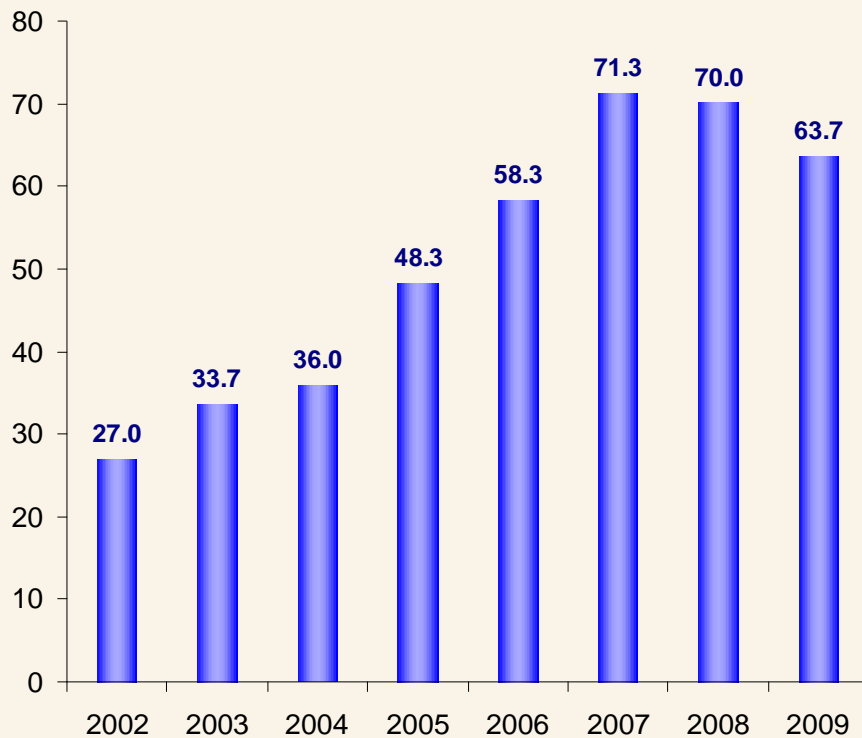
Source: Undersecretariat of Treasury, CBT



Central Bank FX Reserves

The strong foreign exchange reserve position helps eliminate the unfavorable effects of potential shocks and contributes to increasing confidence in the economy.

Central Bank FX Reserves
(2002 – April 2009, billion USD)



Source: CBT

Ratio of Short-term Foreign Debt to Central Bank FX Reserves
(1996 – 2008 Q4, percent)



Source: Undersecretariat of Treasury, CBT

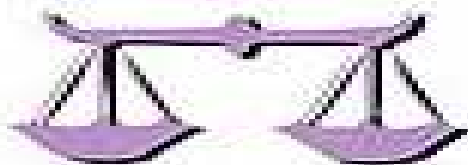


IV. Inflation Outlook



Price Stability and Monetary Policy

Price Stability



Deflation Risk

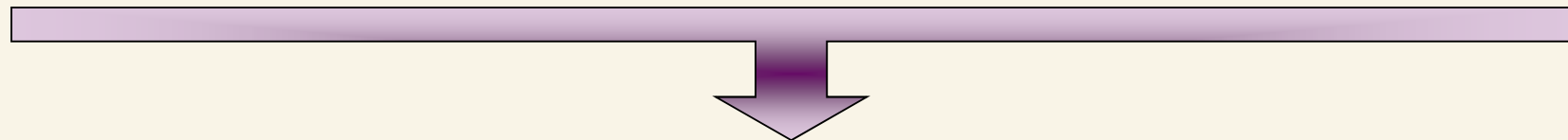
- Steep increase in the global unemployment rate.
- Loss of confidence in investors and consumers.
- Weakening of the global demand.
- Shrinkage of domestic demand in economies.
- Delay in recovery of global growth.

...may lead to persistent declines in price.

Inflation Risk

- Excessively low policy rates in real terms.
- Excessive funding of the markets by central banks
- Global expansionary fiscal policies.
- Recovery of global growth earlier than expected.
- Failure to tighten fiscal and monetary policies on time.

... may cause inflationary effect in the medium term

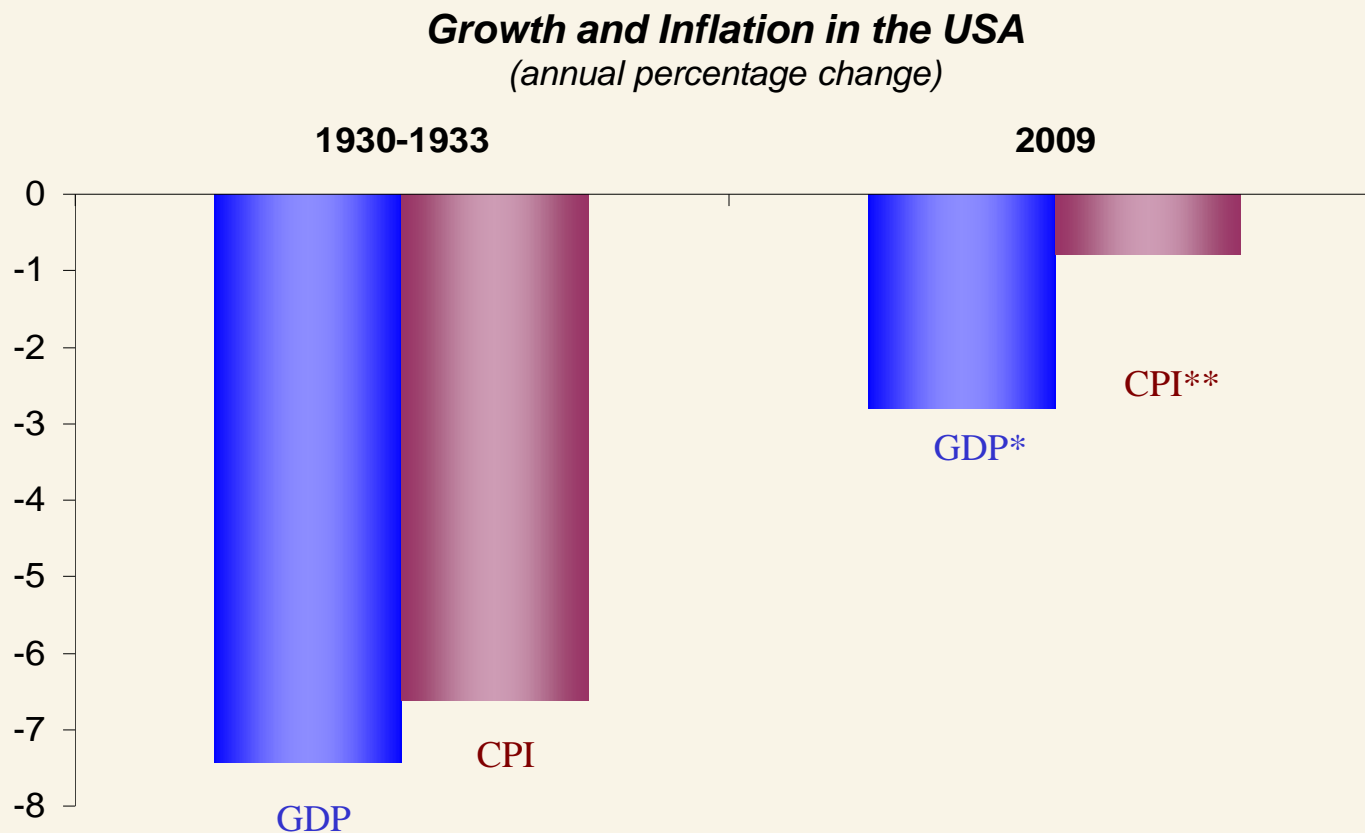


Monetary Policy Stance of Central Banks



Deflation Risk

Deflation, which is accompanied by contraction in the domestic demand and concerns over financial stability, may have devastating effects on growth.



* Forecast (Consensus Forecast)

** Forecast (The Economist)

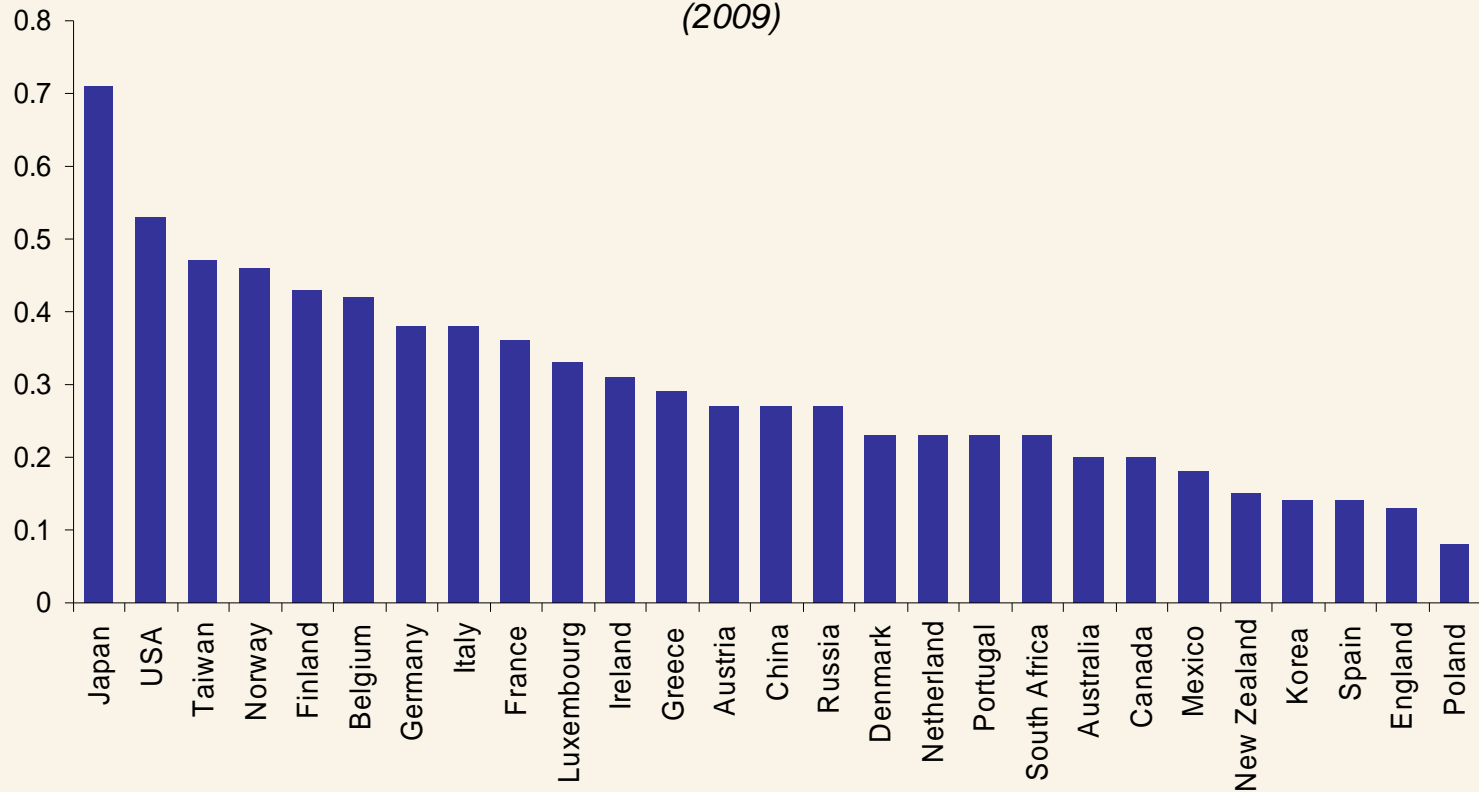
Source: BEA, BLS, CBT



Deflation Risk

The global economy faces an apparent risk of deflation for the first time since the 1930s.

*Deflation Vulnerability Index
(2009)*

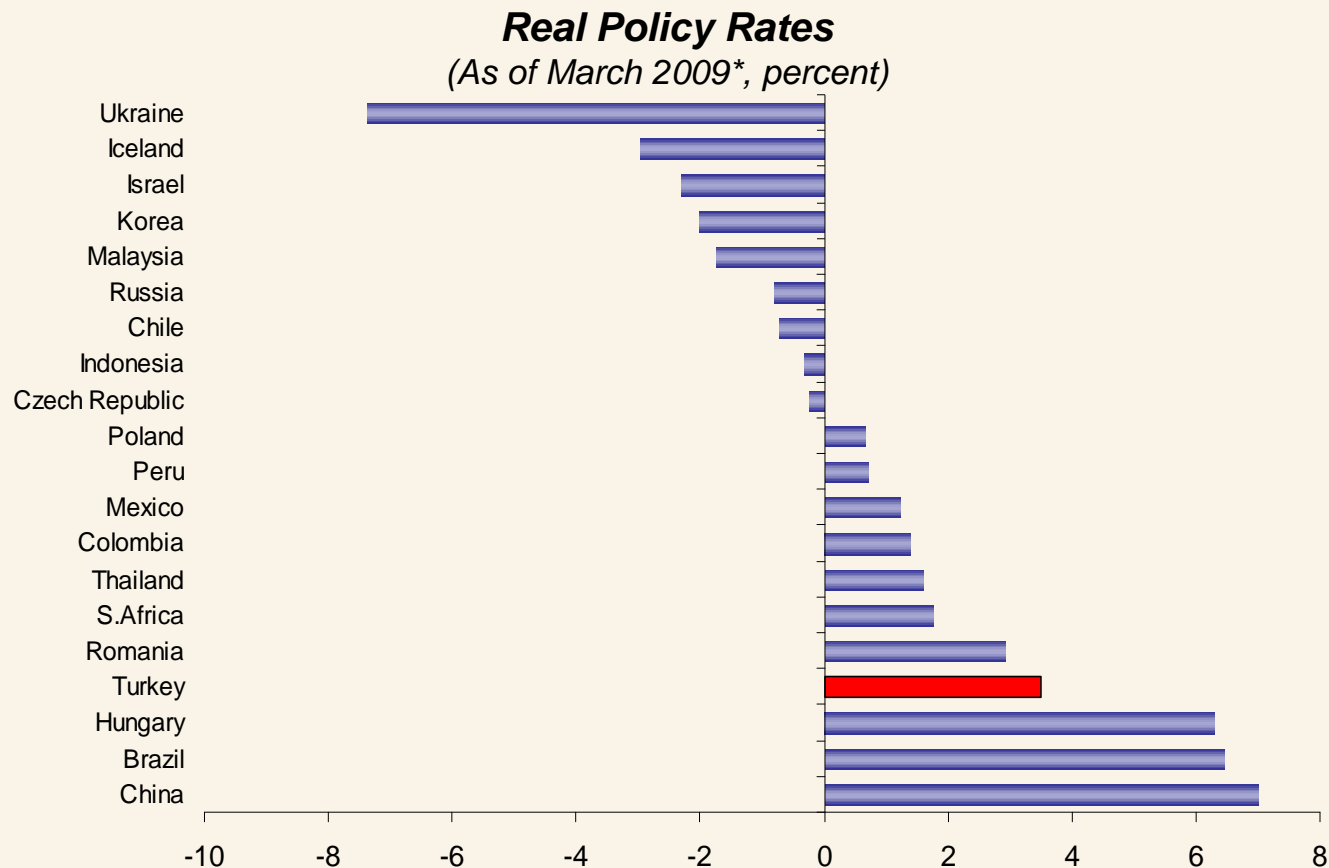


Source: IMF



Monetary Policy Against Deflation Risk

In the forthcoming period, the level of flexibility of economies vis-à-vis deflationary pressures will play a significant role in the decoupling of the economies. In this context, the course of real interest rates is believed to be an important indicator.



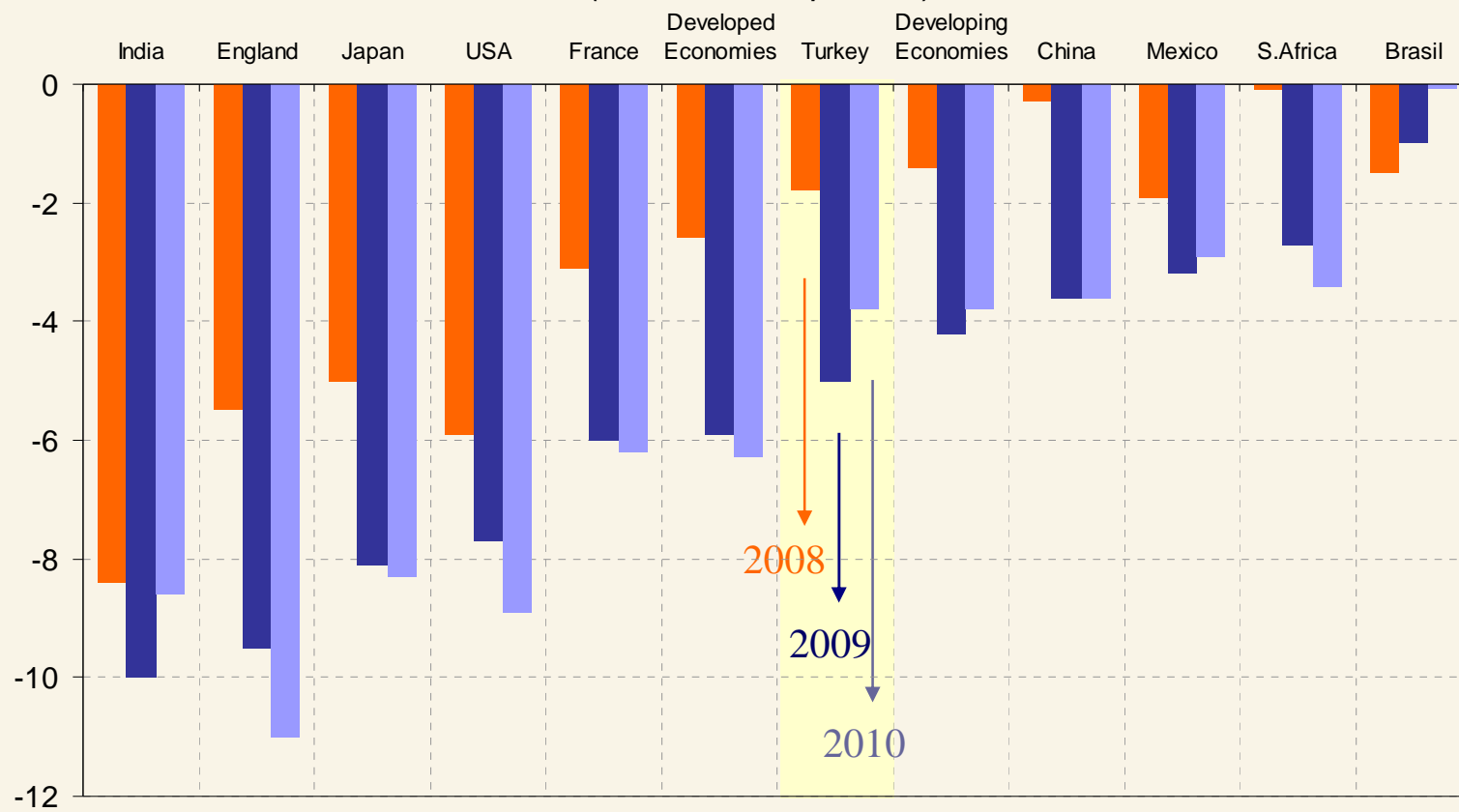
Source: CBT, Central Banks and Statistical Offices



Fiscal Policy Against Deflation Risk

Slowdown in economic activities and counter-cyclical fiscal policies have led to rise in budget deficits in many countries.

2008 Budget Deficit and 2009-2010 Budget Deficit Forecasts*
(Ratio to GDP, percent)

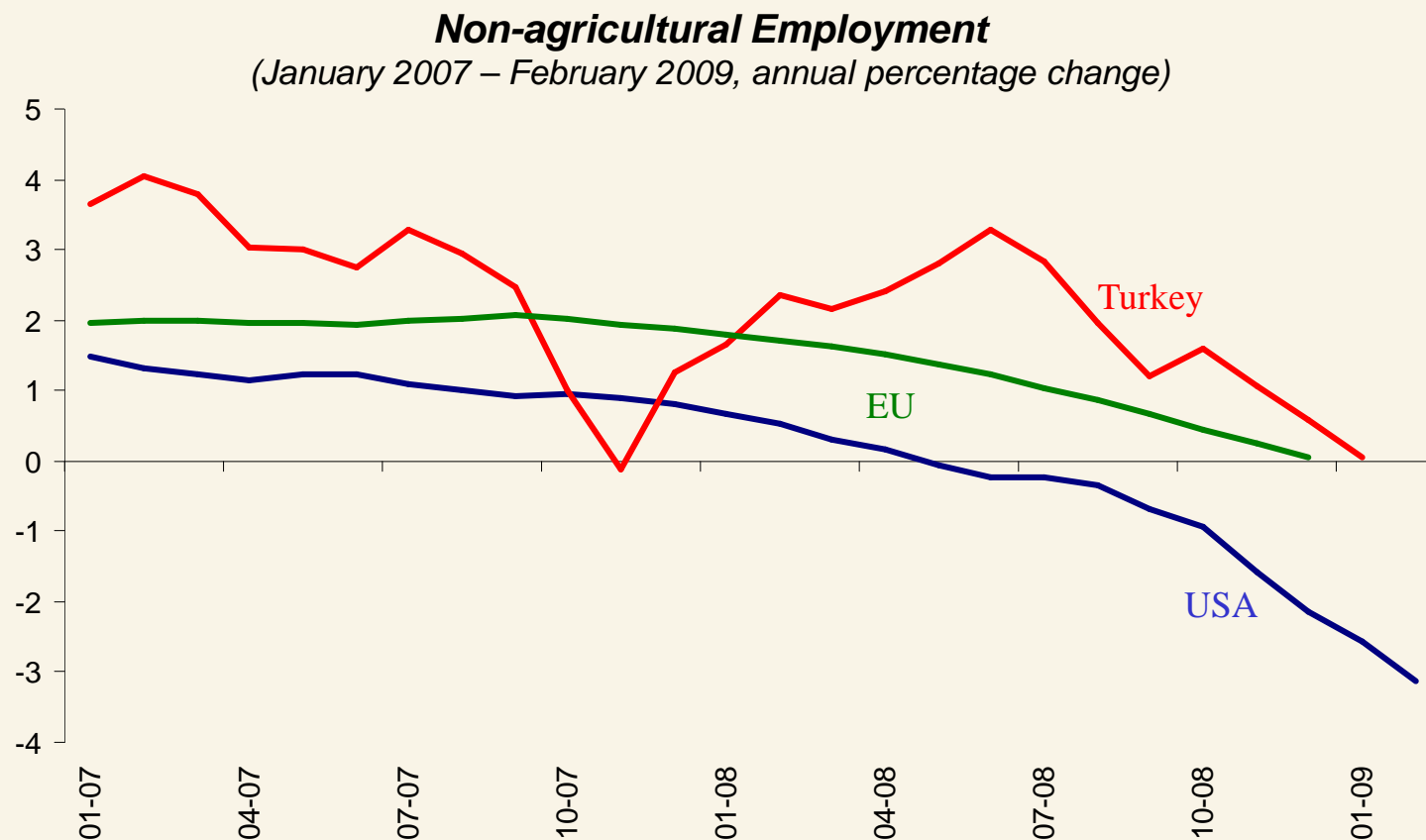


- KEP forecasts are used for Turkey and IMF forecasts for the rest.
- Source: IMF, KEP, CBT



Deflation Risk and Labor Market

Decline in non-agricultural employment driven by the dwindling consumption and investment expenditures is a factor increasing deflationary risks.



Source: TURKSTAT, BLS, EUROSTAT, CBT

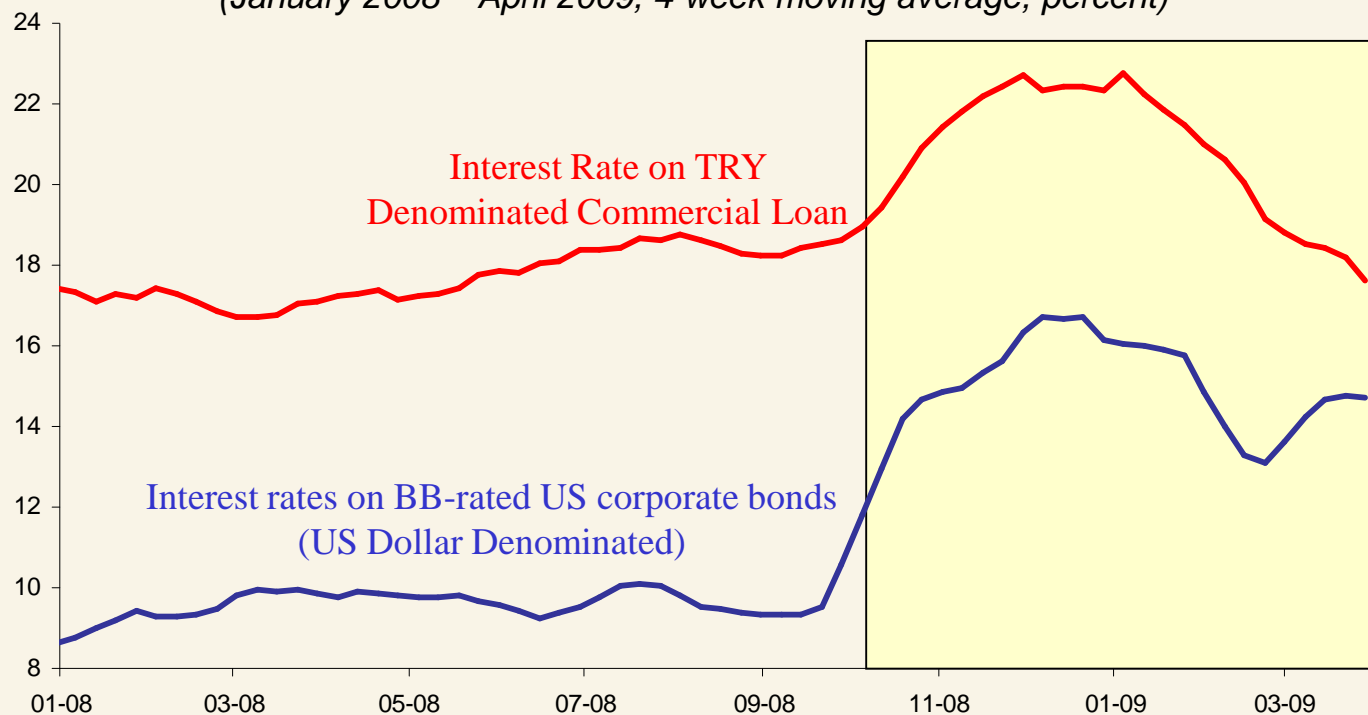


Deflation Risk and Credit Market

Failure to overcome tightness in the financial conditions, due to deterioration in risk perceptions, is another potential factor for decoupling.

Credit Market

(January 2008 – April 2009, 4-week moving average, percent)



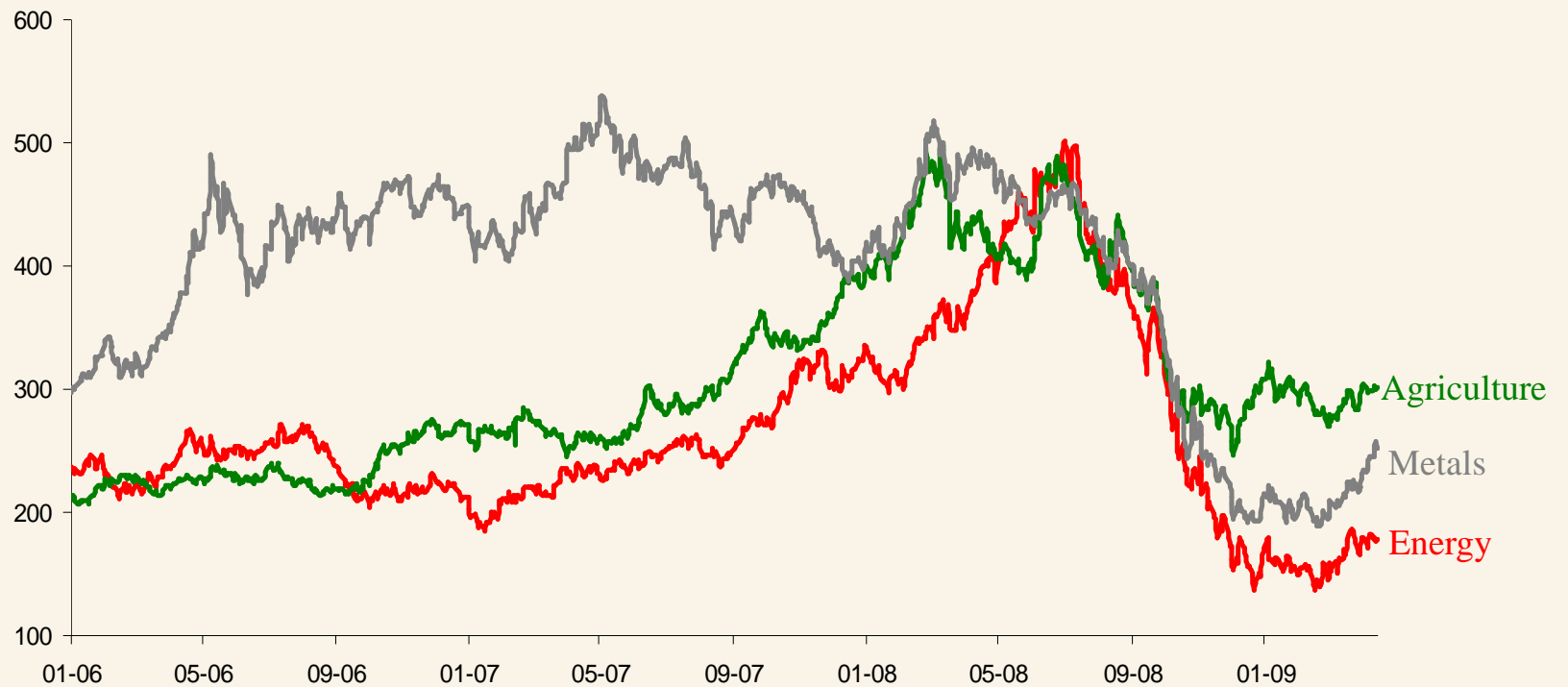
* Interest rates on bonds issued by US firms with BB credit rating.
Source: JP Morgan, CBT



Commodity Prices

Commodity prices remain low parallel to the slowdown in global growth

Commodity Price Index
(1 January 2006 – 16 April 2009)



Source: Bloomberg

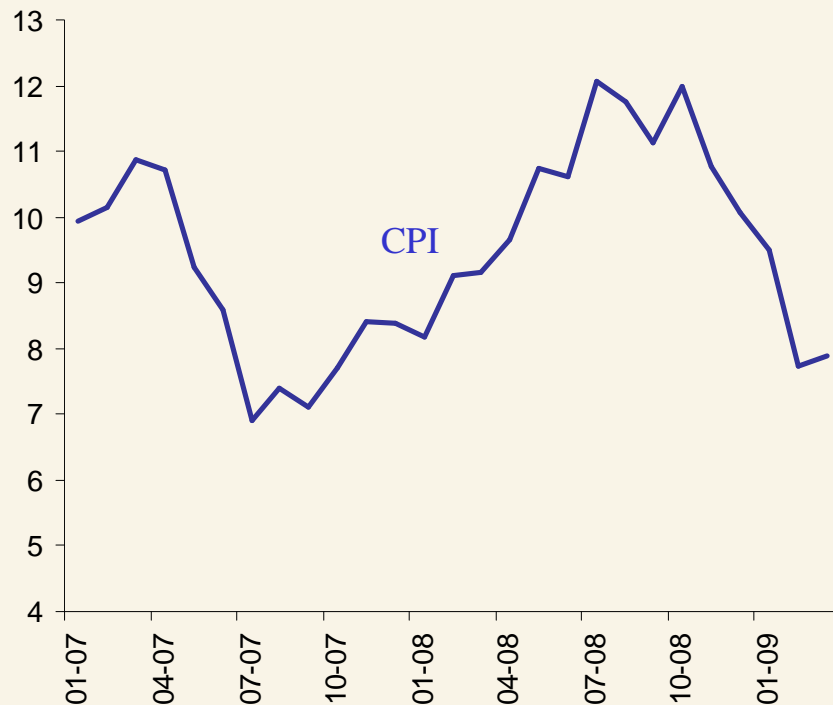


Inflation Developments in Turkey

The steady decline in annual inflation was temporarily interrupted in March owing to soaring unprocessed food prices.

Consumer Price Index

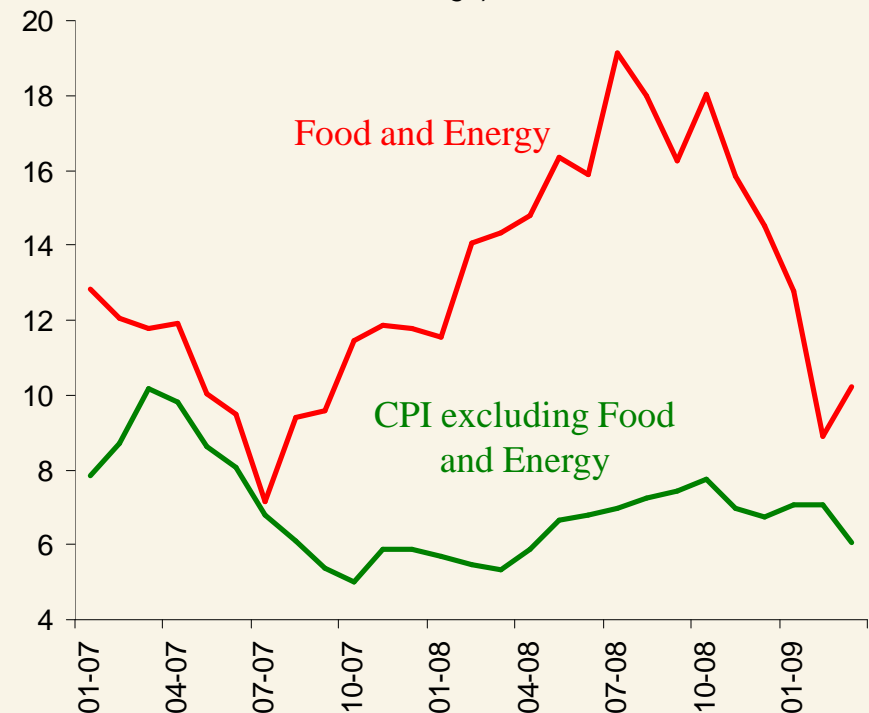
(January 2007 – March 2009, annual percentage change)



Source: TURKSTAT, CBT

Food and Energy Inflation

(January 2007 – March 2009, annual percentage change)



Source: TURKSTAT, CBT

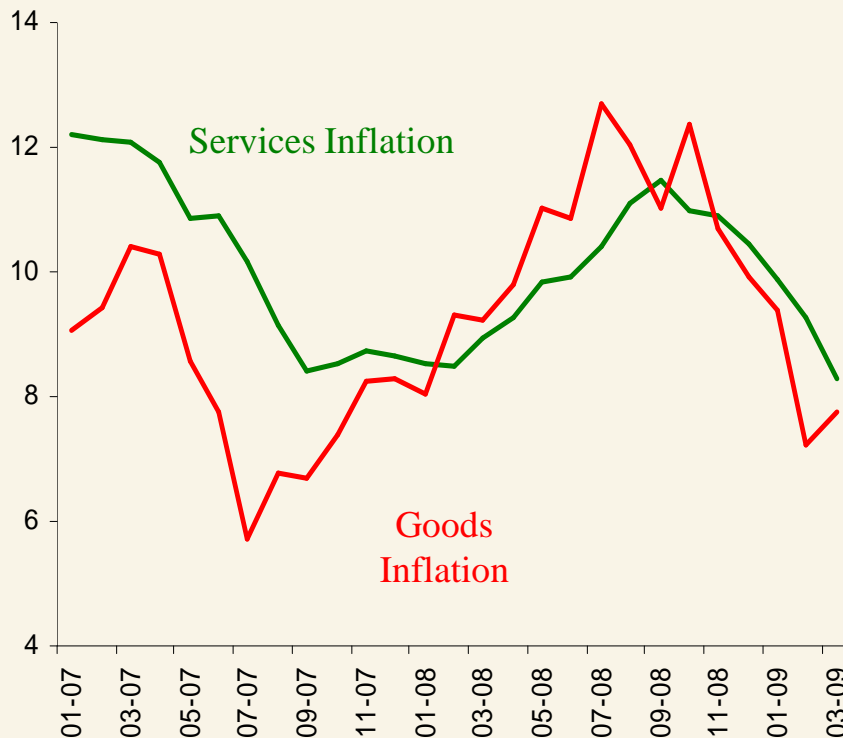


Inflation Developments in Turkey

The slowdown in services prices that started in the final quarter of 2008 on weaker economic activity and lower costs intensified in March, and annual services inflation dropped by about 1 percentage point.

Goods and Services Inflation

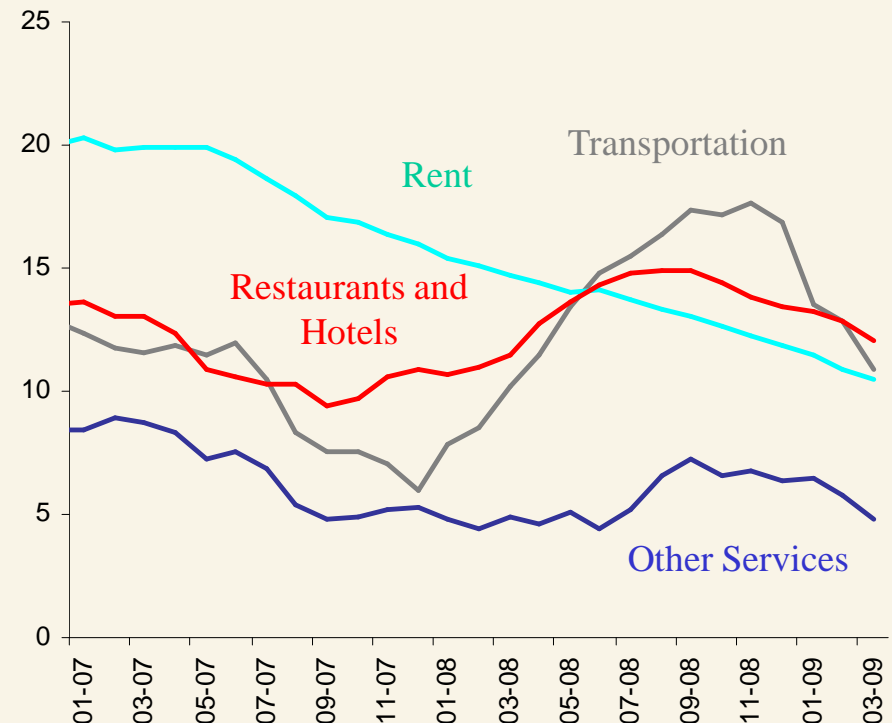
(January 2007 – March 2009, annual percentage change)



Source: TURKSTAT, CBT

Services Inflation

(January 2007 – March 2009, annual percentage change)

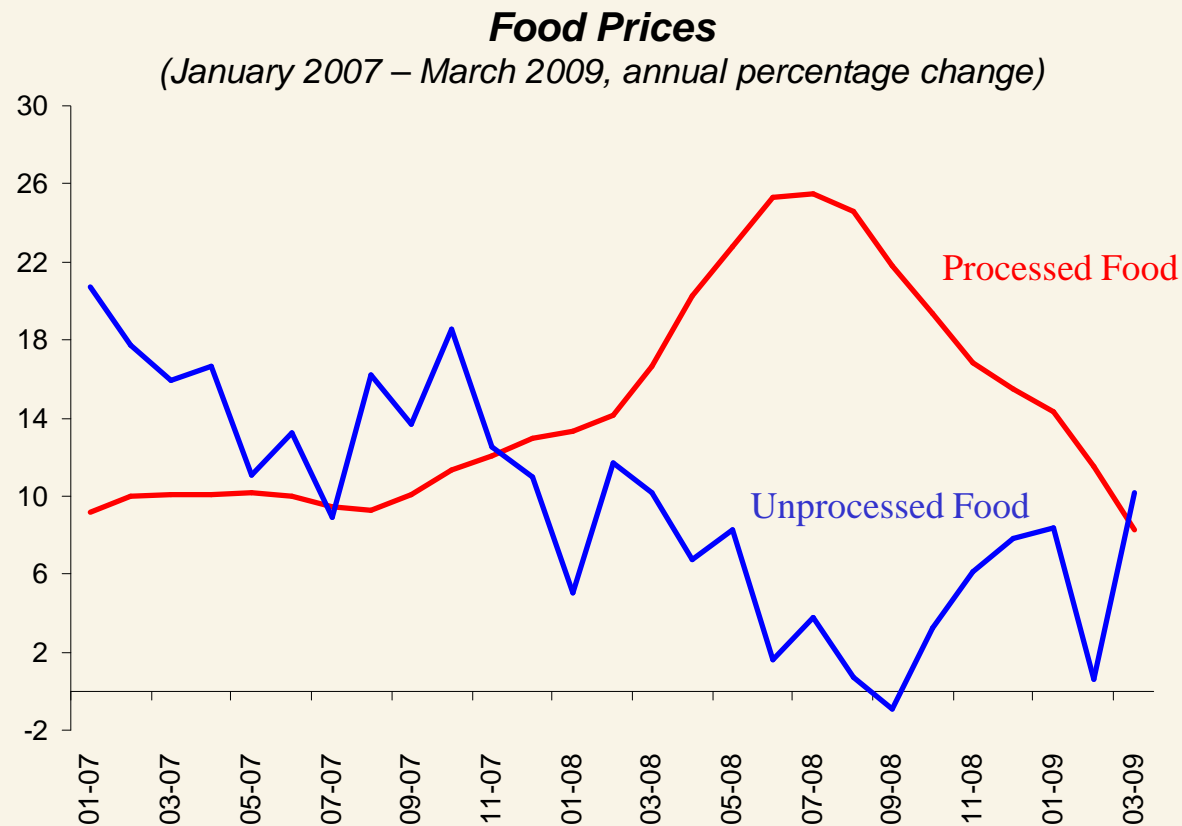


Source: TURKSTAT, CBT



Inflation Developments in Turkey

Due to the sharp increase in unprocessed food prices, contribution of food and energy prices to headline inflation soared in March 2009.



Source: TURKSTAT, CBT

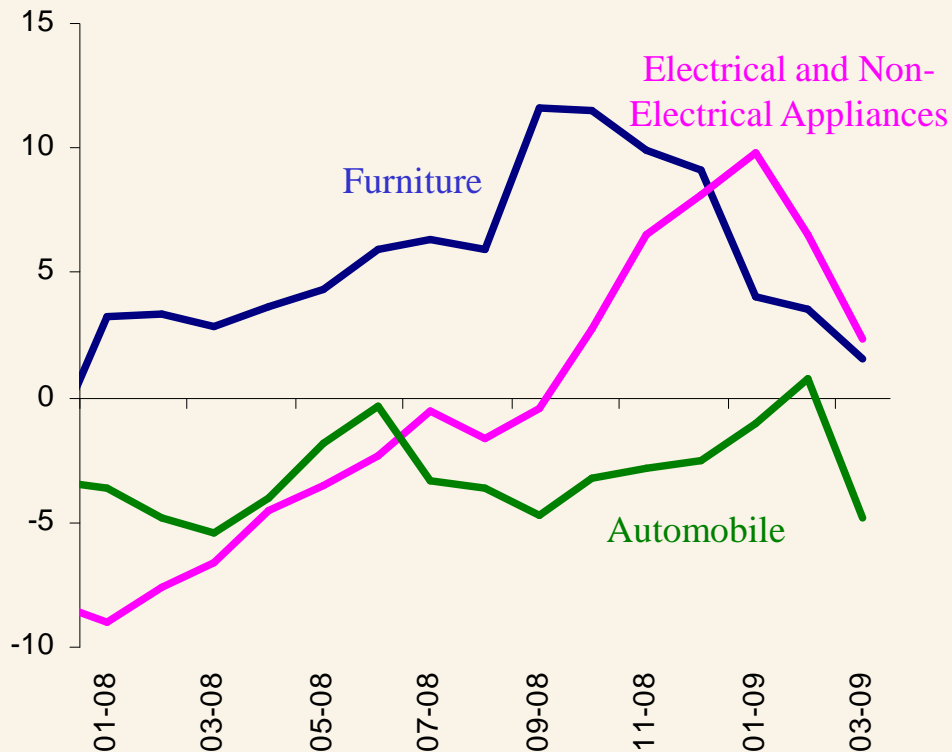


Inflation Developments in Turkey

The ongoing slowdown in economic activity continued to mitigate the exchange rate pass-through on durable goods' prices.

Durable Goods Prices

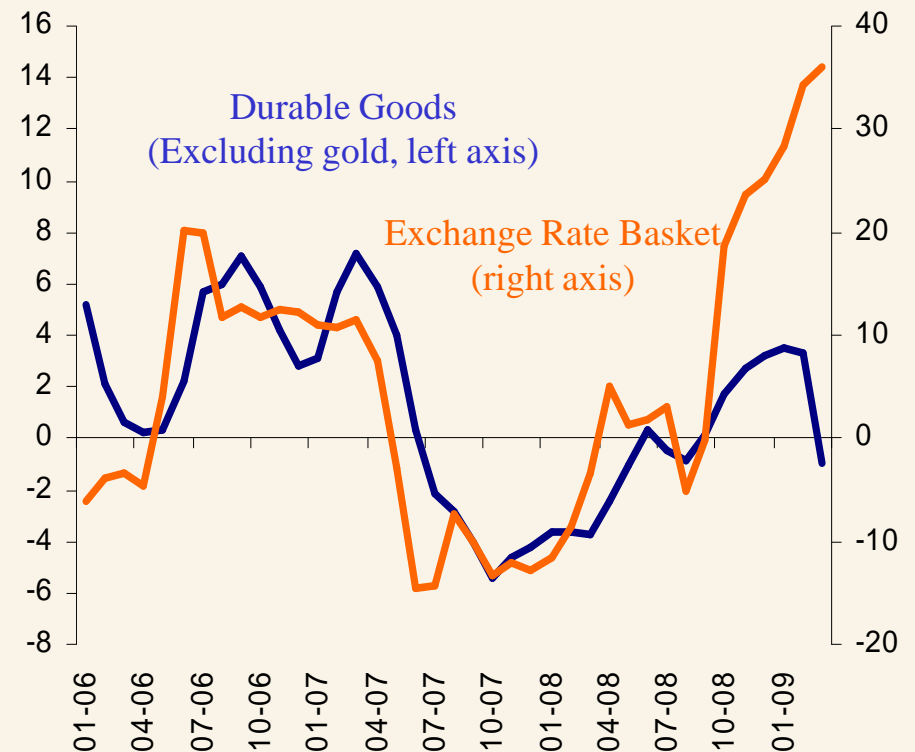
(January 2008 – March 2009, annual percentage change)



Source: TURKSTAT, CBT

Durable Goods Prices and Exchange Rate*

(January 2006 – March 2009, annual percentage change)



* Equally weighted US dollar – euro
Source: TURKSTAT, CBT

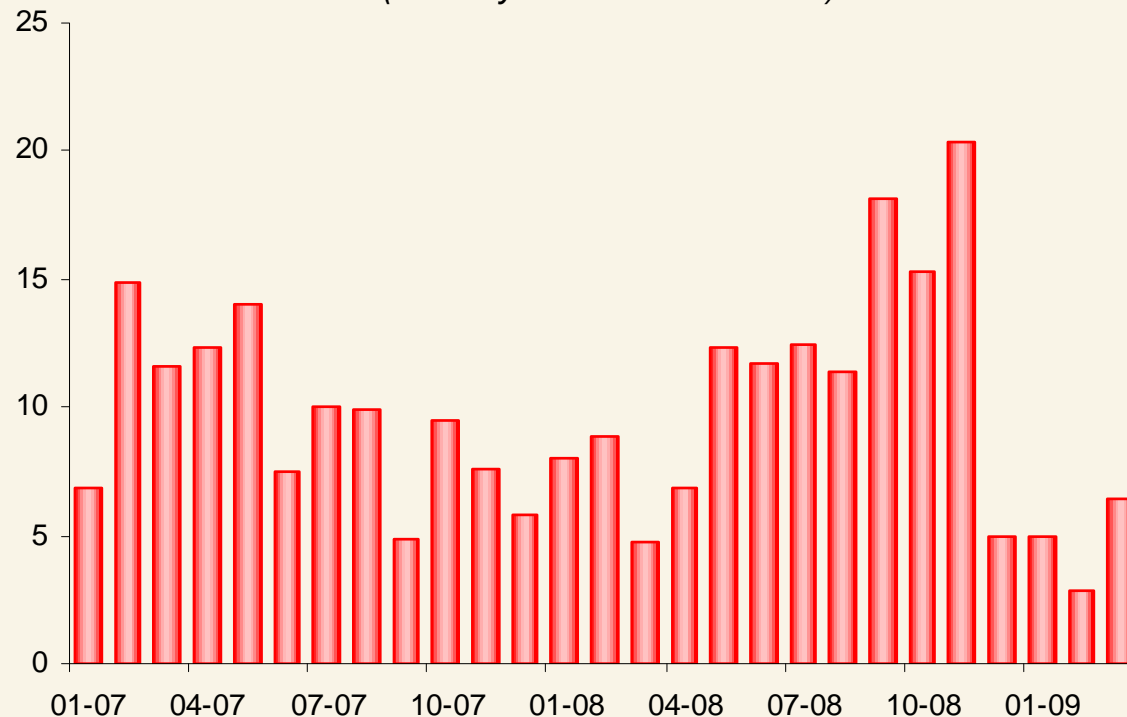


Inventory and Cost Developments

It is envisaged that there will be an acceleration in the depletion of inventories of firms, which in turn, would partially add to the exchange rate pass-through on the prices of durable goods.

Stock of Finished Products*

(January 2007 – March 2009)



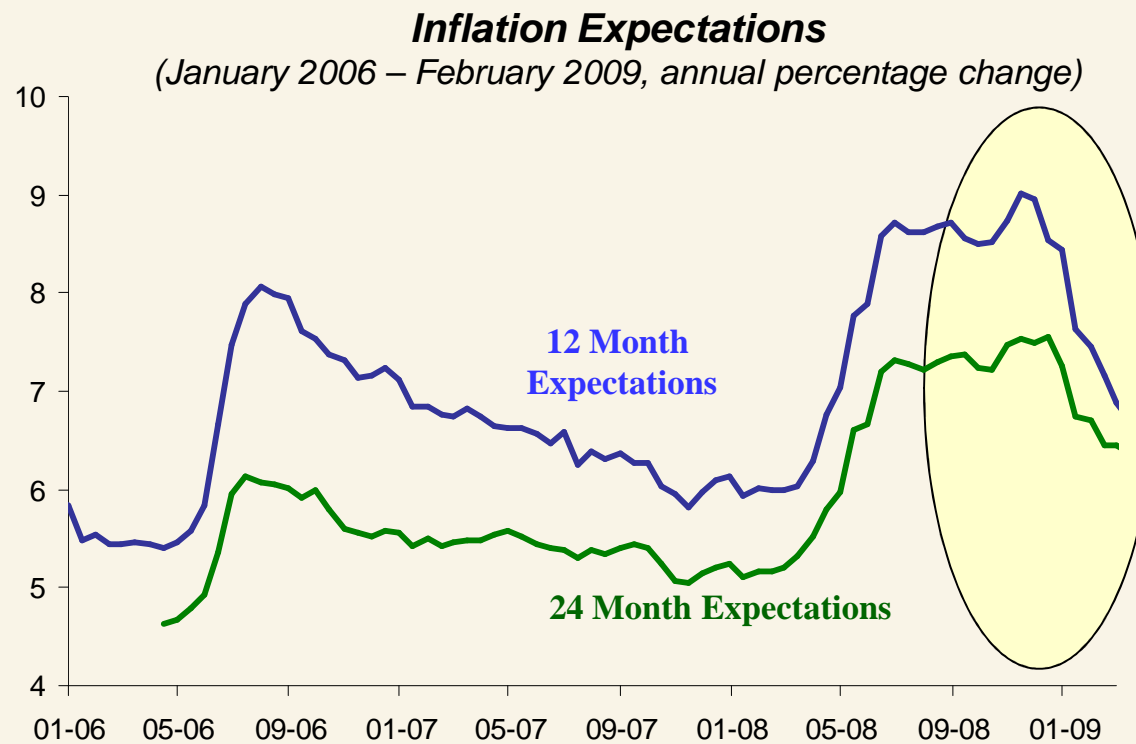
* Difference between "above the season" and "below the season" answers given to the current stock of finished goods question in the "Business Survey" conducted by CBT.

Source: CBT



Inflation Expectations

As the inflation data vindicated the policy rate cuts, inflation expectations reacted favorably. A significant improvement in medium-term inflation expectations observed particularly since January.



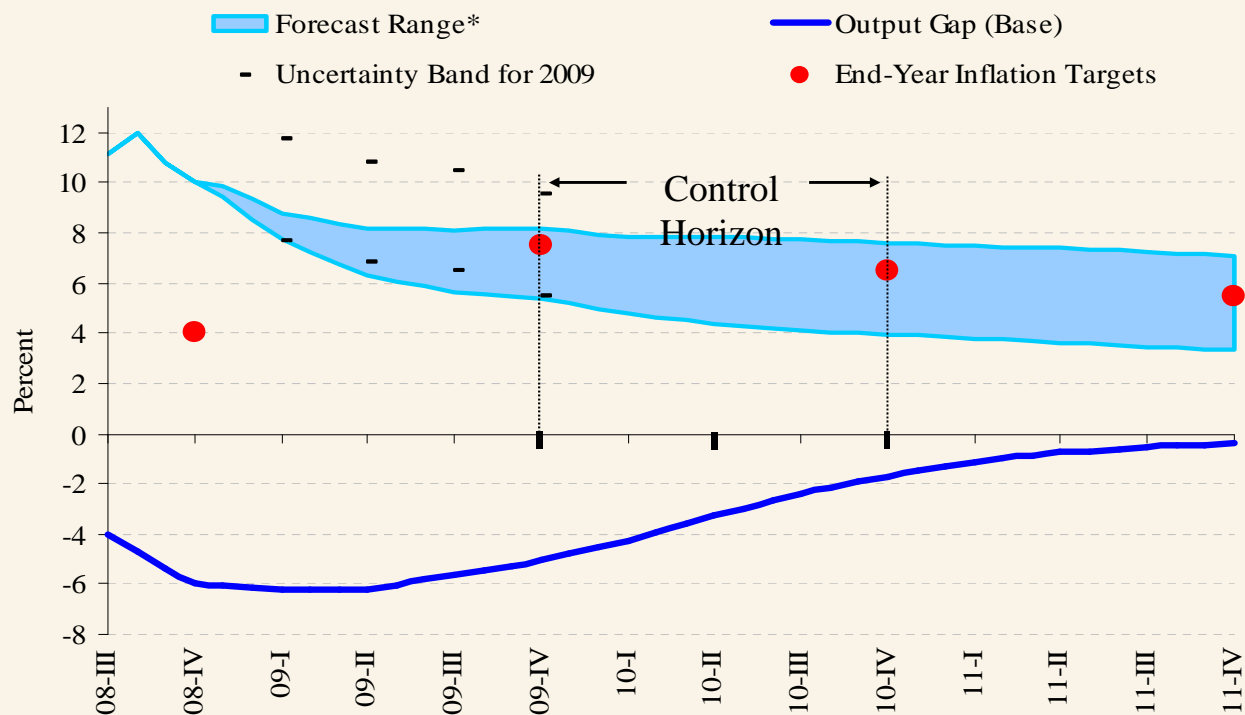
Source: TURKSTAT, CBT



Inflation and Output Gap

It is expected that it will take some time for the economic activity to recover, downward pressures on inflation will prevail and the disinflation process will gain pace in the short-term.

Inflation and Output Gap Forecasts (2008 Q3 – 2011 Q4)



Source: CBT



V. Monetary Policy Stance

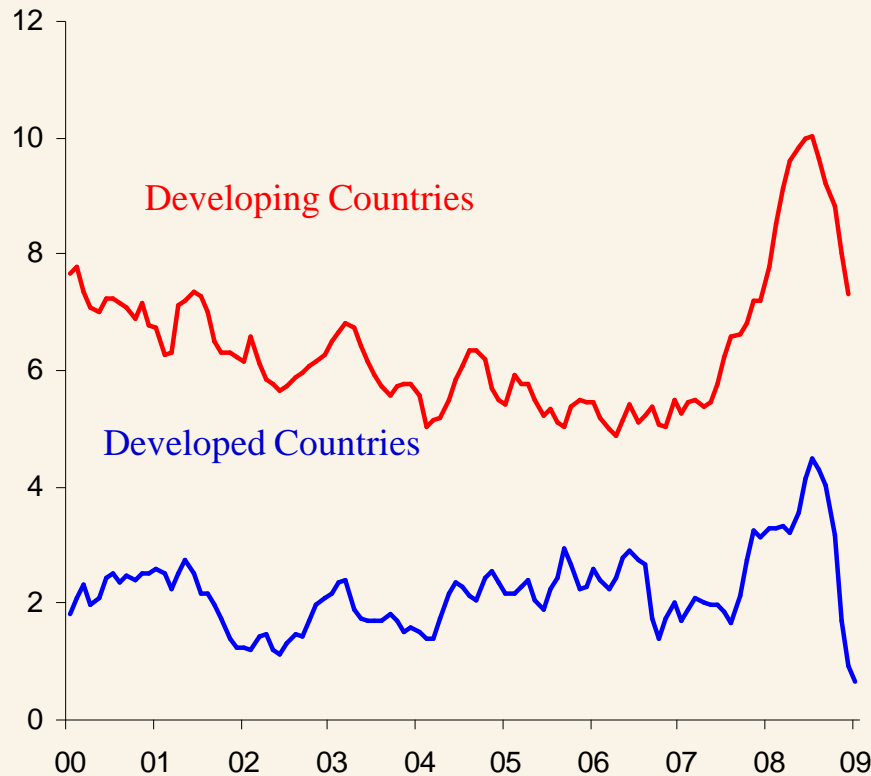


Monetary Policy

Coupled with worries related to a more-than-anticipated slowdown in economic activity due to the economic crisis, inflation concerns were replaced by deflation risk.

Inflation Rate

(January 2000 – January 2009, annual percentage change)



Kaynak: IMF

Unconventional Monetary Policy Practices

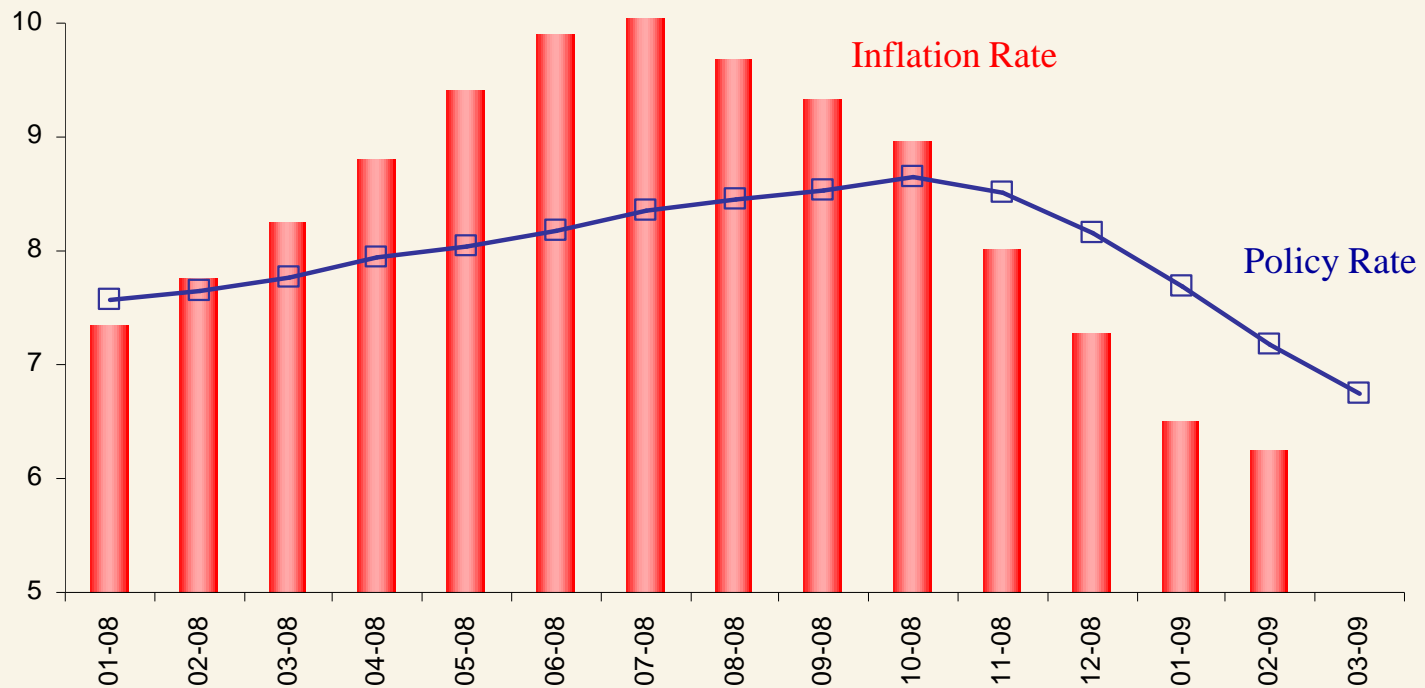
Country	Measures
USA	Purchase of Mortgage Backed Securities (MBS) worth 1.25 trillion US Dollar in 2009.
	Purchase of long-term Treasury securities worth 300 billion US Dollar.
	Purchase of toxic assets.
England	Purchase of corporate, medium and long-term Gilts, worth 75 billion Pound.
Switzerland	Purchase of CHF denominated corporate sector debt instruments.



Monetary Policy

Central banks of developing countries maintained a cautious stance in the first half of 2008 in view of the depreciation of exchange rates and concerns over financial stability.

Inflation (January 2008 – February 2009, average, annual percentage change)
and Policy Rates in Emerging Markets (January 2008 – March 2009, average, percent)



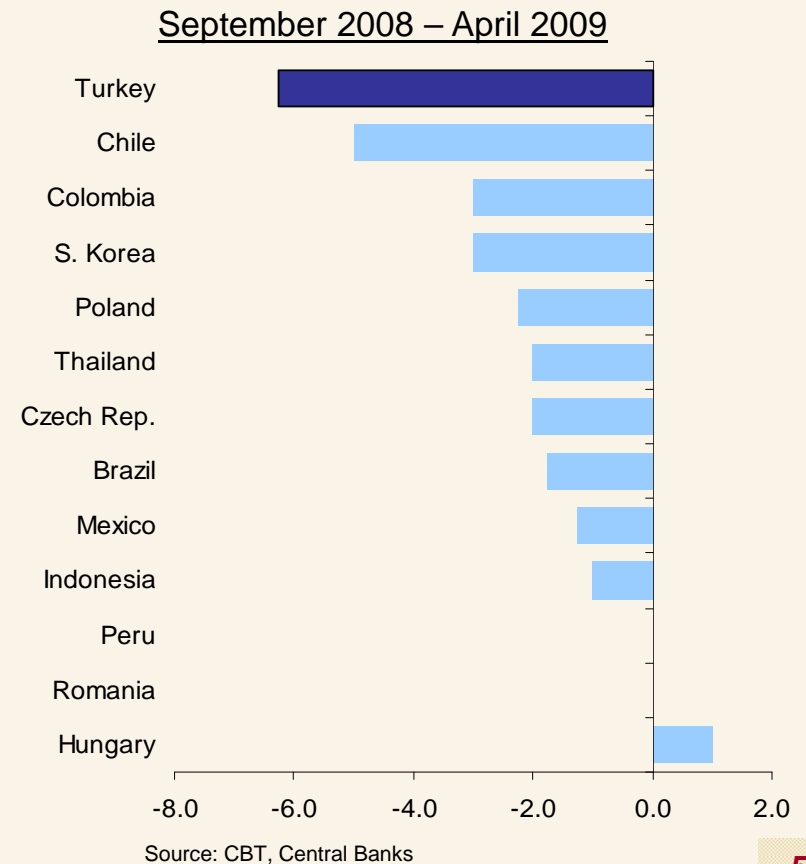
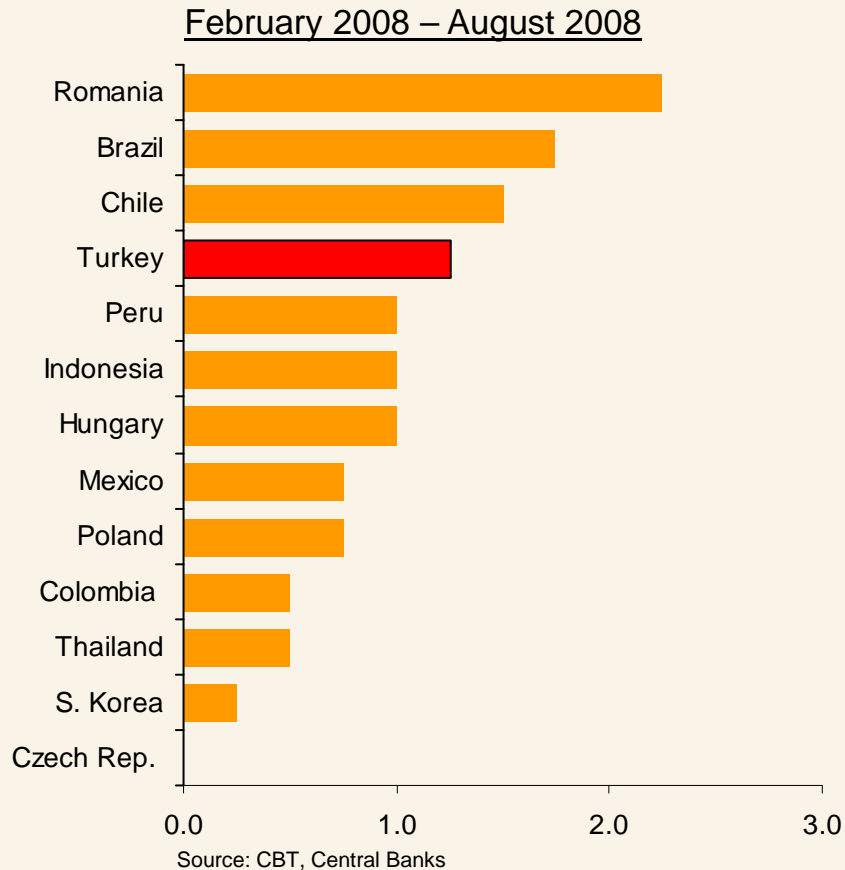
Source: CBT, Central Banks



Monetary Policy

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

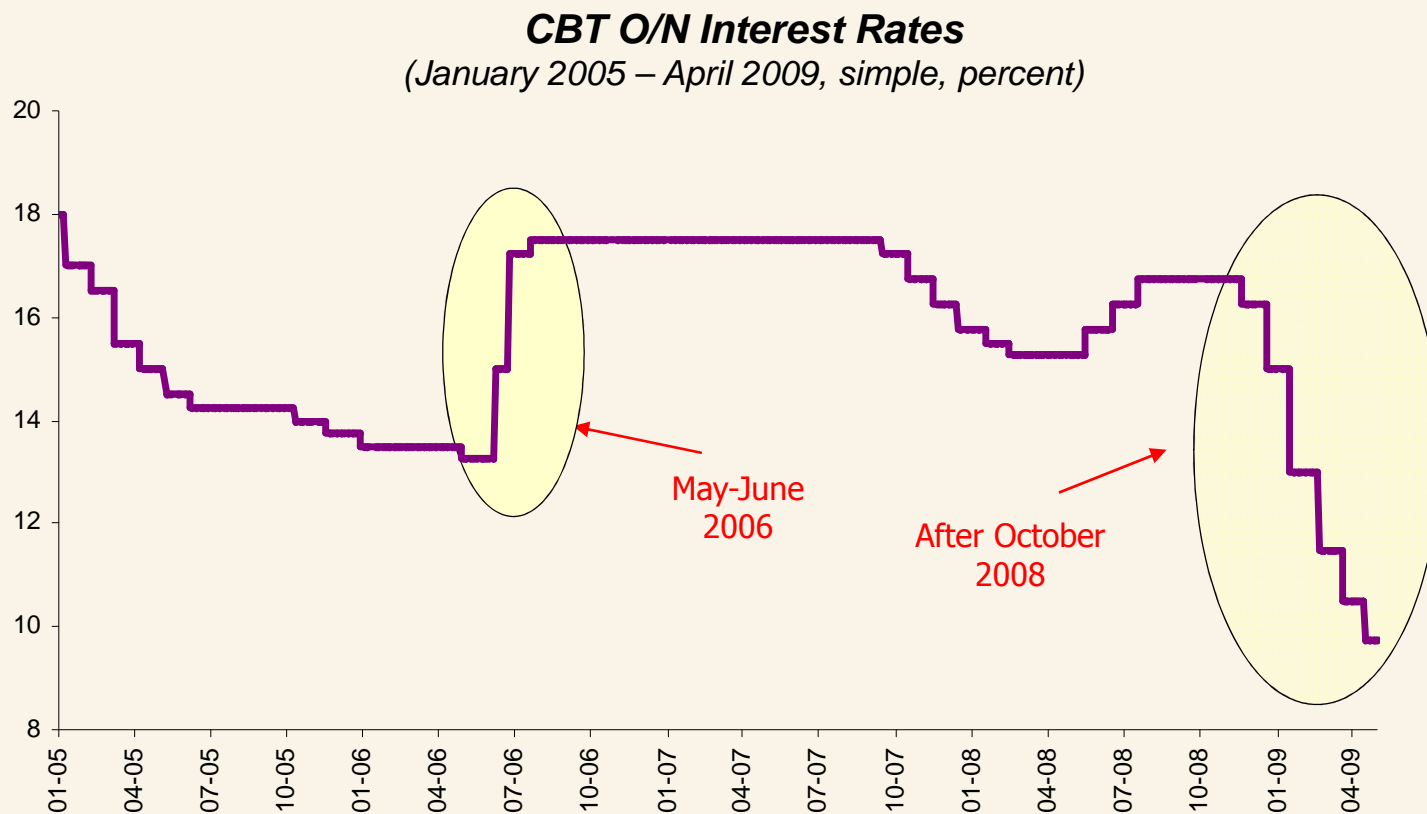
Policy Rate Change in Emerging Market Economies (percent)





Monetary Policy

To have a better understanding of the monetary policy pursued by the CBT, it is imperative to take into account global and domestic economic conditions.



Source: CBT



Monetary Policy

Key Drivers of the Monetary Policy :

Domestic and external supply-demand conditions and factors affecting them

Core inflation indicators

Financial and monetary conditions

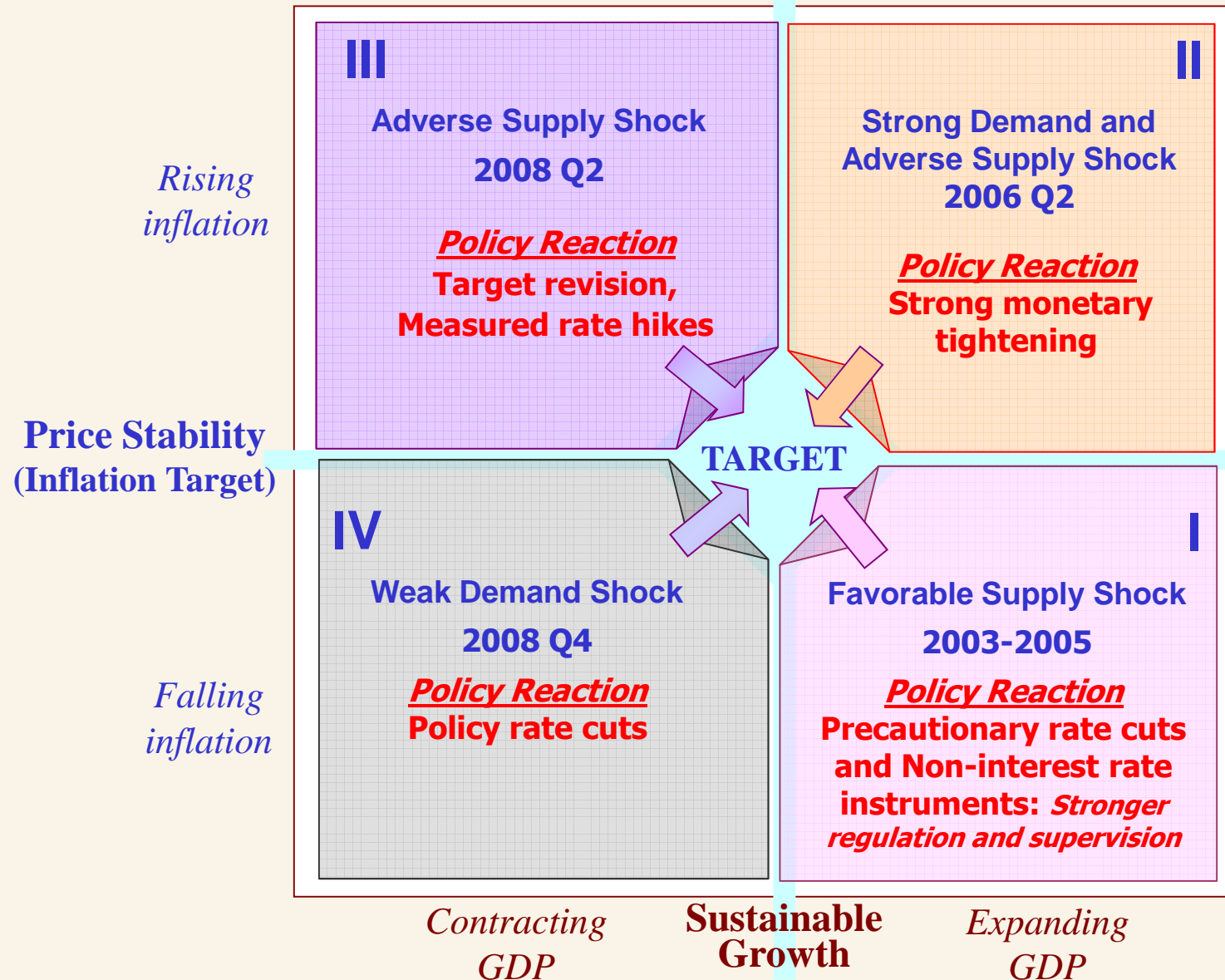
Changes in import prices, labor costs, commodity and other input prices

Central Bank's inflation forecasts and factors affecting the medium-term inflation expectations

**Monetary Policy
Stance**



How Monetary Policy Evolved After 2002?

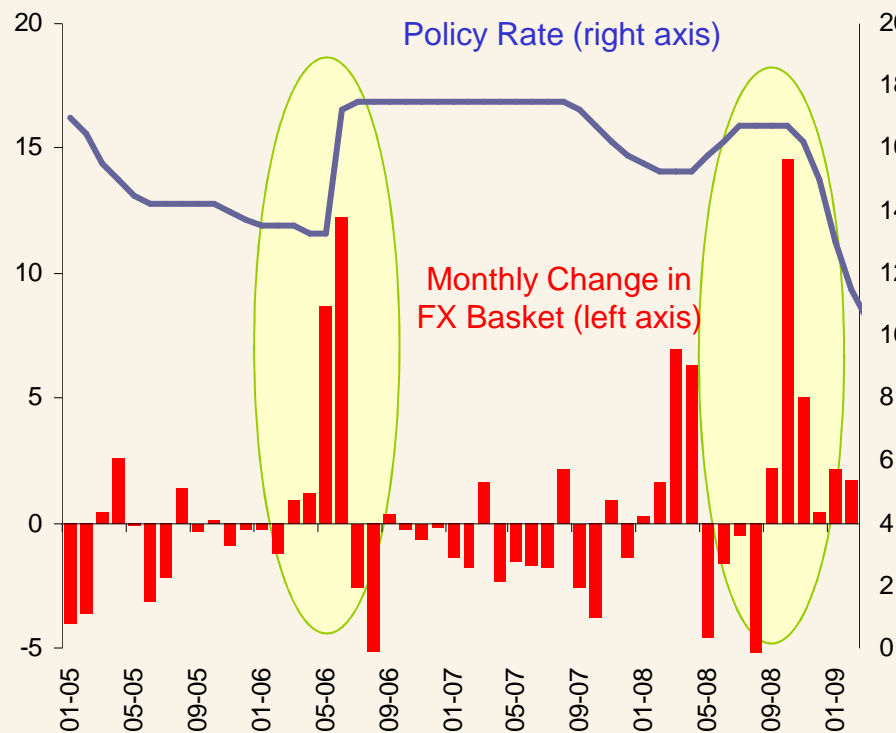




Monetary Policy

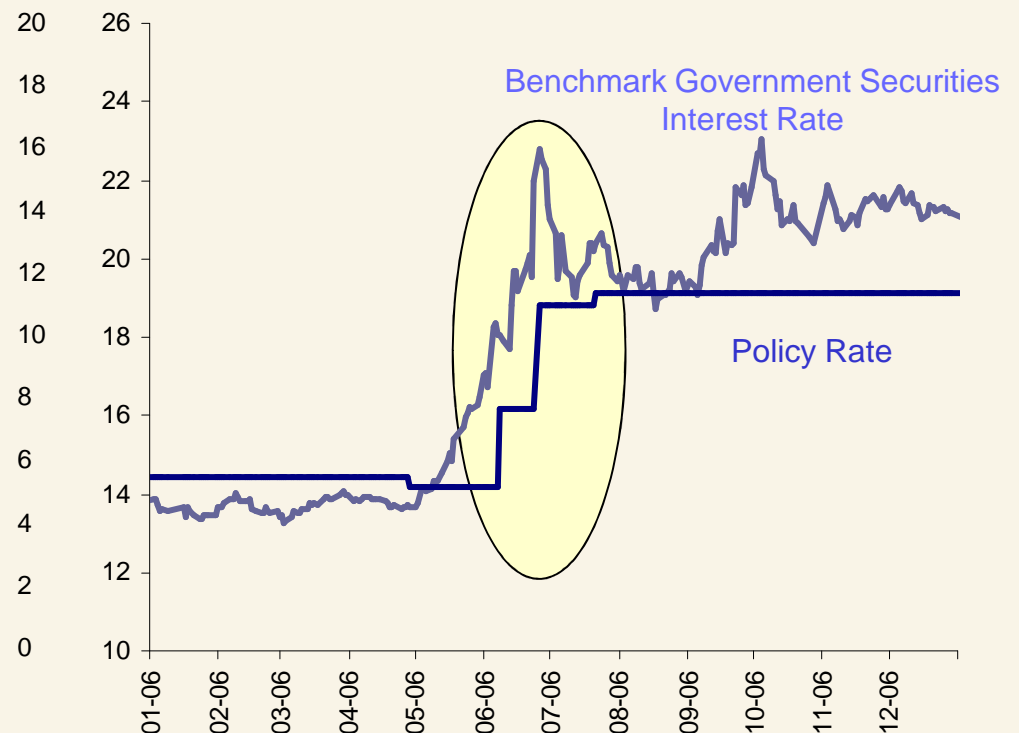
Central Bank implemented monetary tightening during the turbulence in 2006 in order to contain the effects of exchange rate depreciation on inflation expectations under strong domestic and external demand conditions.

CBT Policy Rate and Exchange Rate*
(January 2005 – February 2009)



* Equally weighted US dollar - euro basket
Source: CBT

CBT Short-Term Interest Rates and Benchmark Government Securities
(1 January 2006 – 31 December 2006, compound, percent)

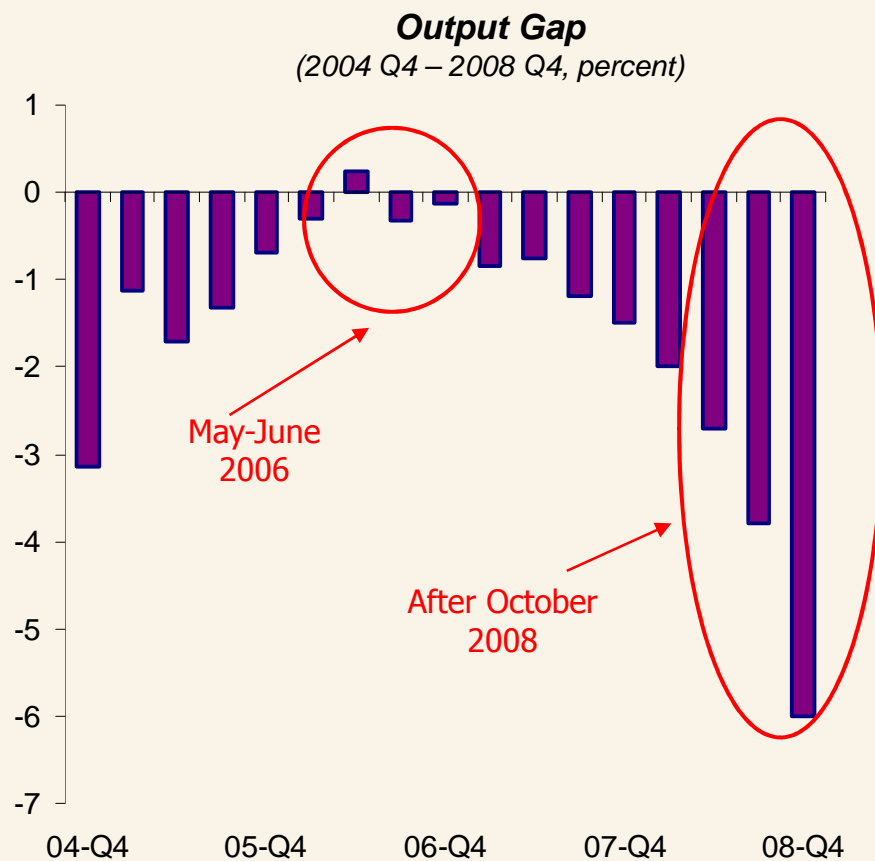


Source: Undersecretariat of Treasury, CBT



Monetary Policy

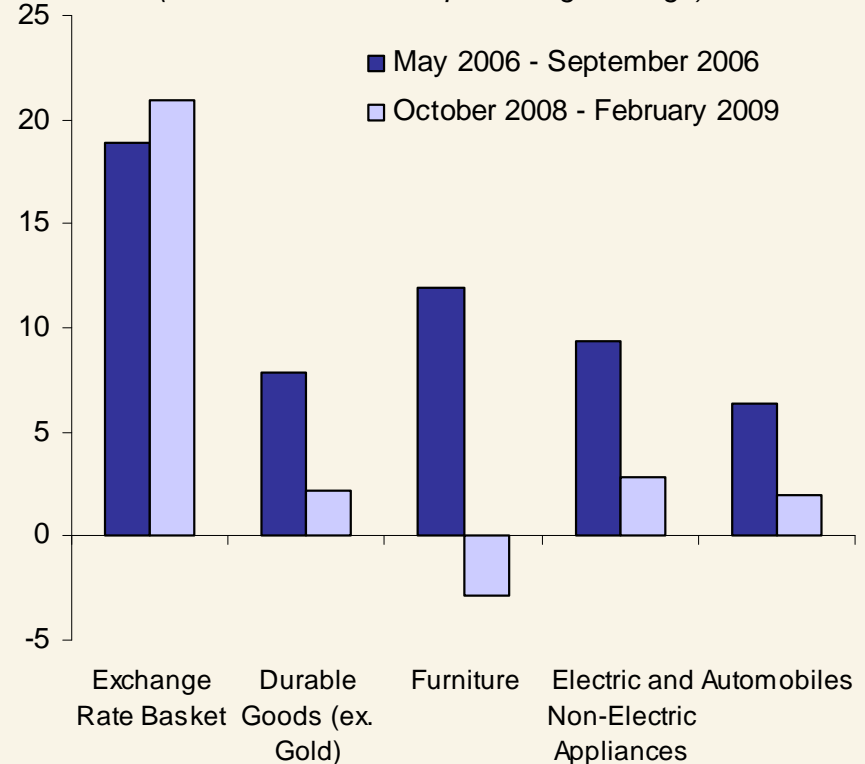
In the current juncture, economic developments not only necessitated but also made possible a “controlled but quite rapid rate cut cycle”.



Source: CBT

Pass-through from Exchange Rates to Goods and Services' Prices

(5-month cumulative percentage change)



* Equally weighted, US dollar – euro basket
Source: TURKSTAT, CBT

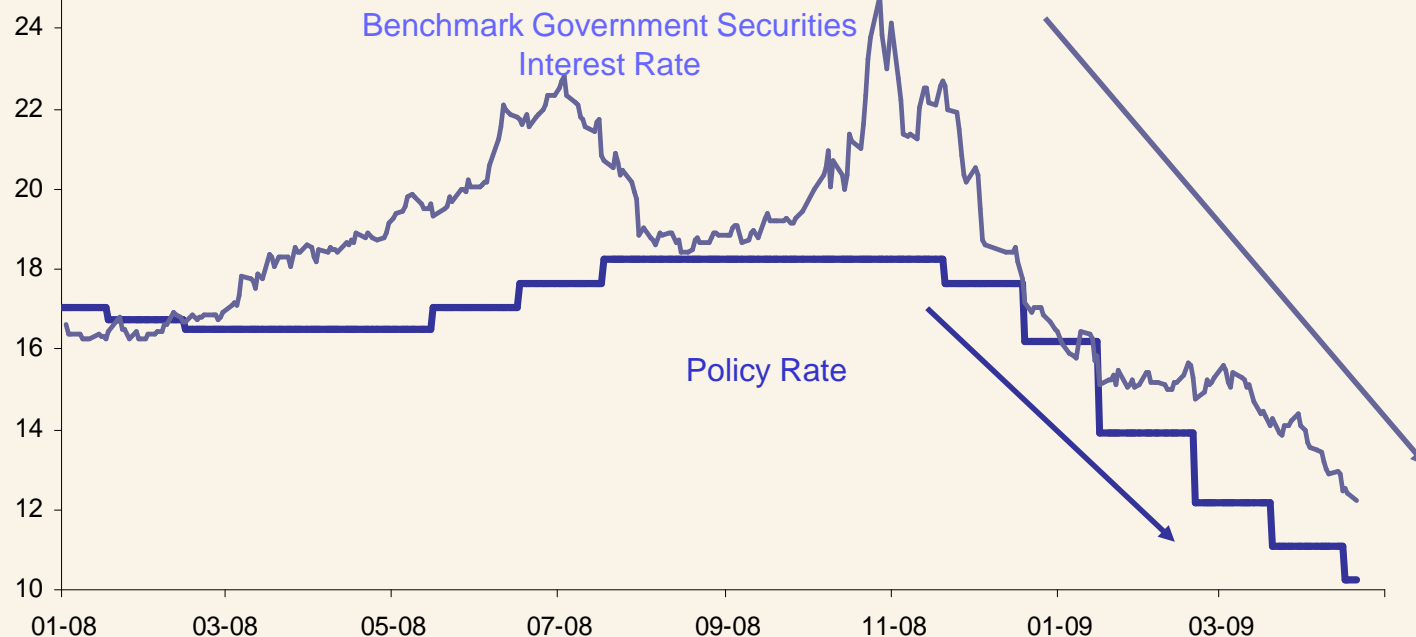


Monetary Policy

Interest rates on benchmark government securities adopted a sharp downward course in view of the moderate recovery in risk perceptions and the Central Bank's rate cuts backed by the announced inflation data.

CBT Short-Term Interest Rates and Benchmark Government Securities Interest Rate

(1 January 2008 – 18 April 2009, compound, percent)



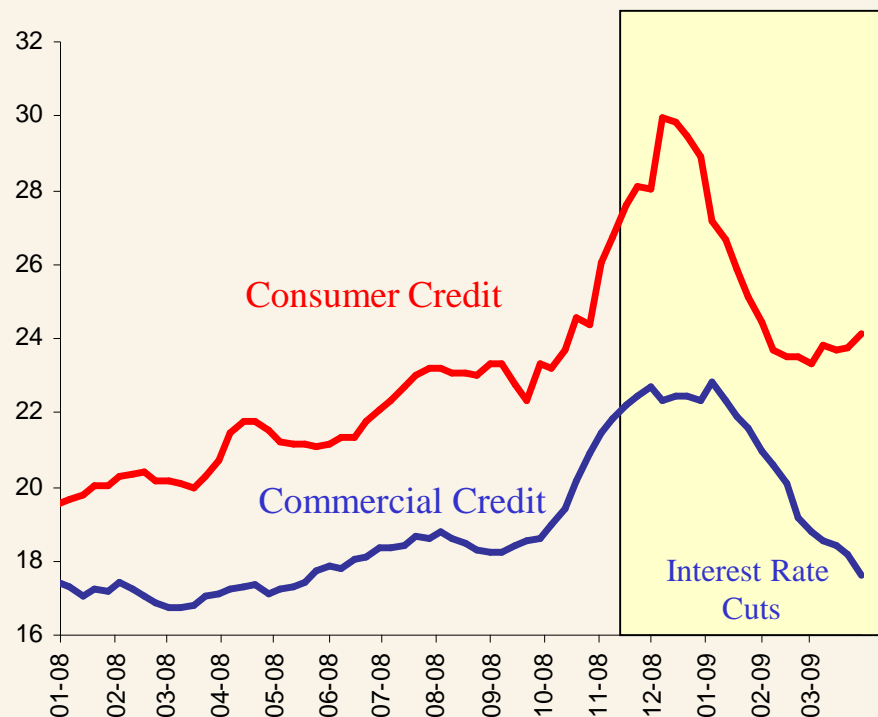
Source: Undersecretariat of Treasury, CBT



Monetary Policy Stance

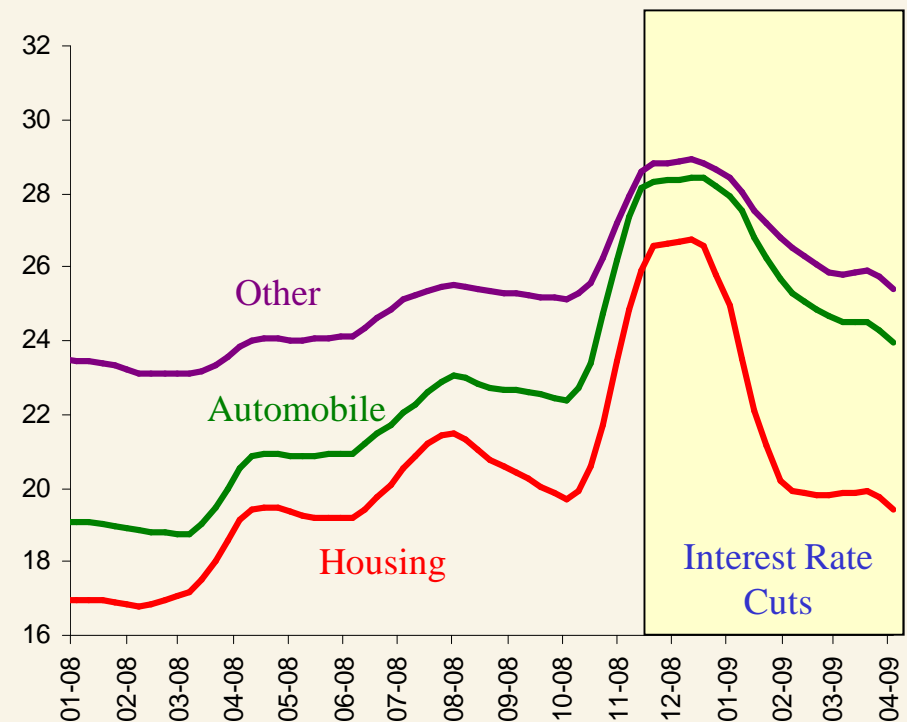
The tightness of financial conditions still persists to some degree despite recent policy rate cuts. Nevertheless, it is noteworthy that lending rates have recently declined below the levels observed in October 2008, when the global financial turmoil reached its peak.

Commercial Loan Interest Rates
(January 2008 – April 2009, annual percentage)



* 4-week moving average
Source: BRSA, CBT

Consumer Loan Interest Rates
(January 2008 – April 2009, annual percentage)



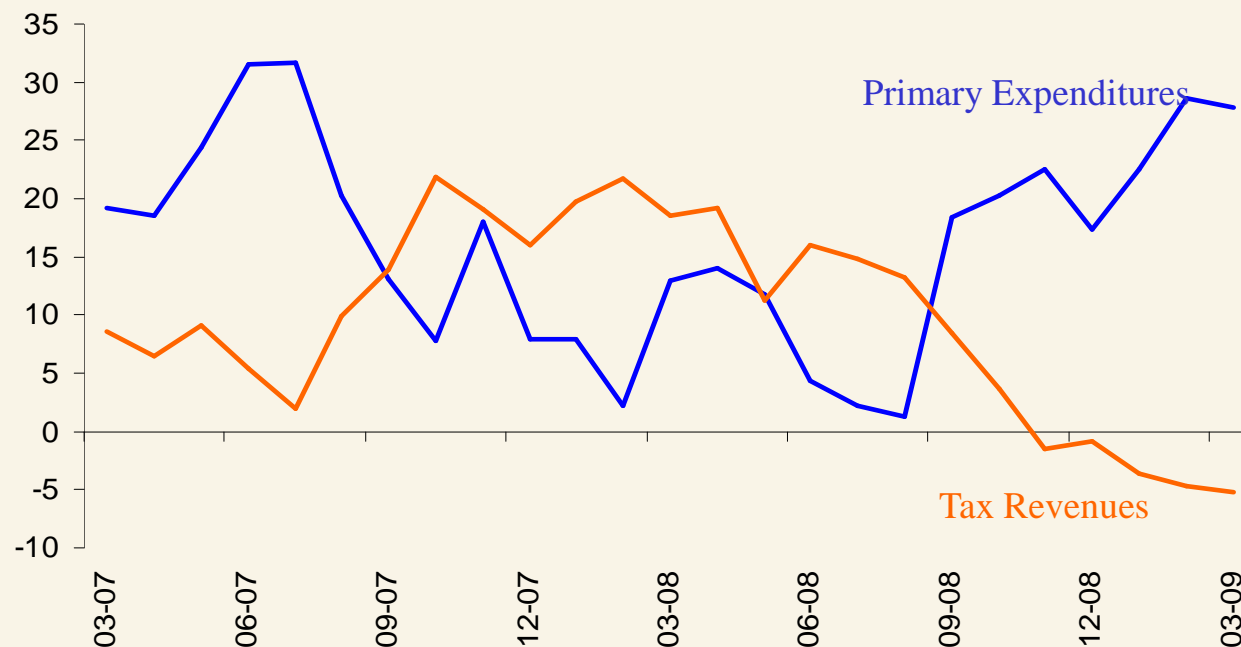
* 4-week moving average
Source: BRSA, CBT



Monetary Policy Stance

In 2009, rise in the public sector borrowing requirement may impair monetary policy decisions' impact on the economic activity. Short-term expansion in the fiscal policy should be supported by a fiscal framework that would ensure the medium-term sustainability of the debt dynamics.

Central Government Tax Revenues and Primary Expenditures
(March 2007 – March 2009, annual percentage change, quarterly moving average)



Source: Undersecretariat of Treasury, CBT

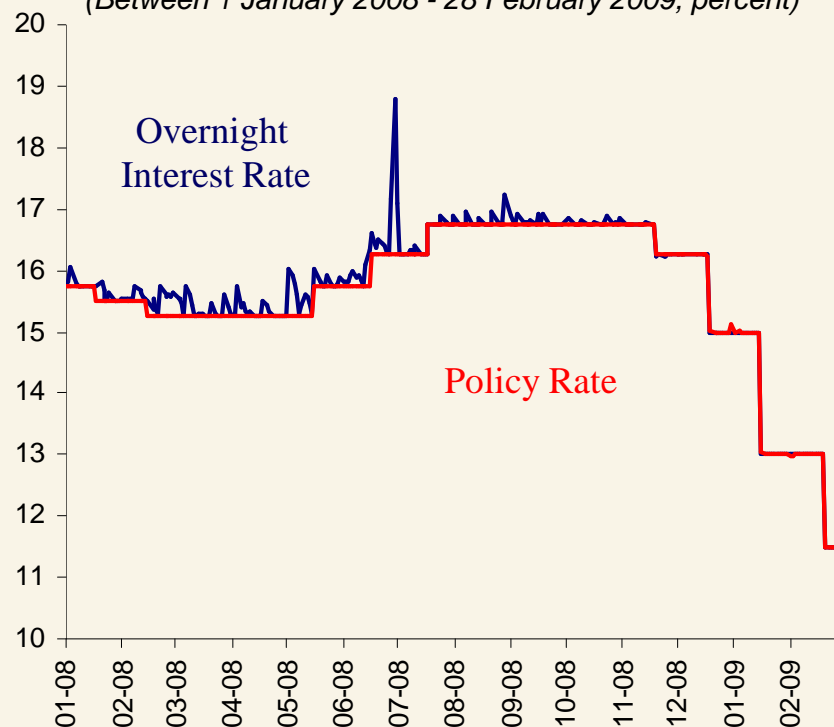


Measures on Turkish Lira Liquidity

The general framework of the Central Bank's liquidity management is fairly flexible and well-structured to effectively meet the liquidity requirement of the banking system.

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

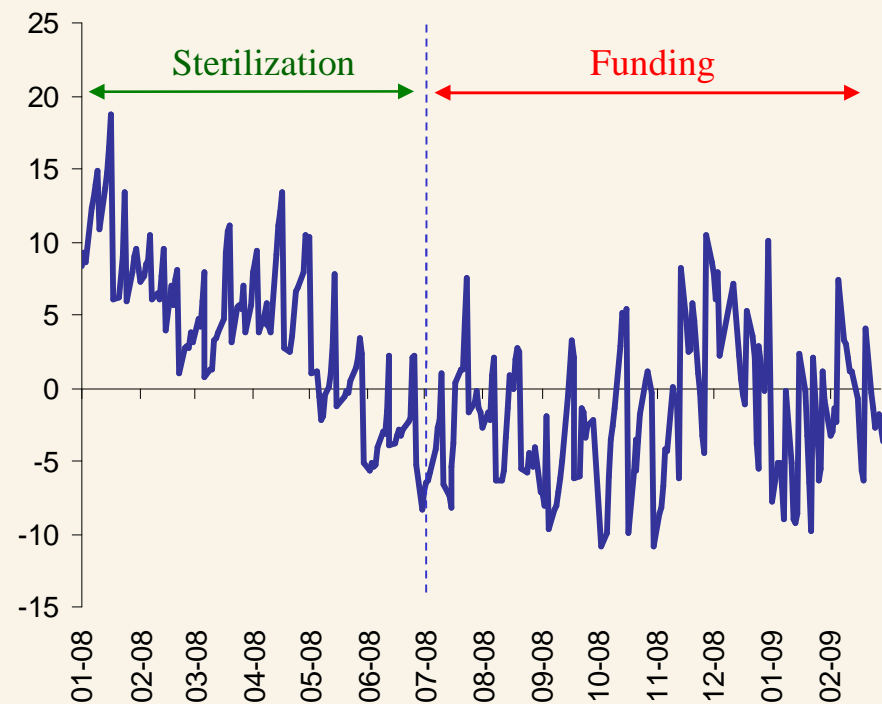
(Between 1 January 2008 - 28 February 2009, percent)



Source: ISE, CBT

TL Liquidity Provided by the Central Bank

(1 January 2008 – 28 February 2009, billion TL)



Source: CBT



Potential Measures on TL Liquidity

In case of an increase in TL liquidity squeeze in the market in the upcoming period, the Central Bank will take the following measures, provided that they do not conflict with the price stability objective;

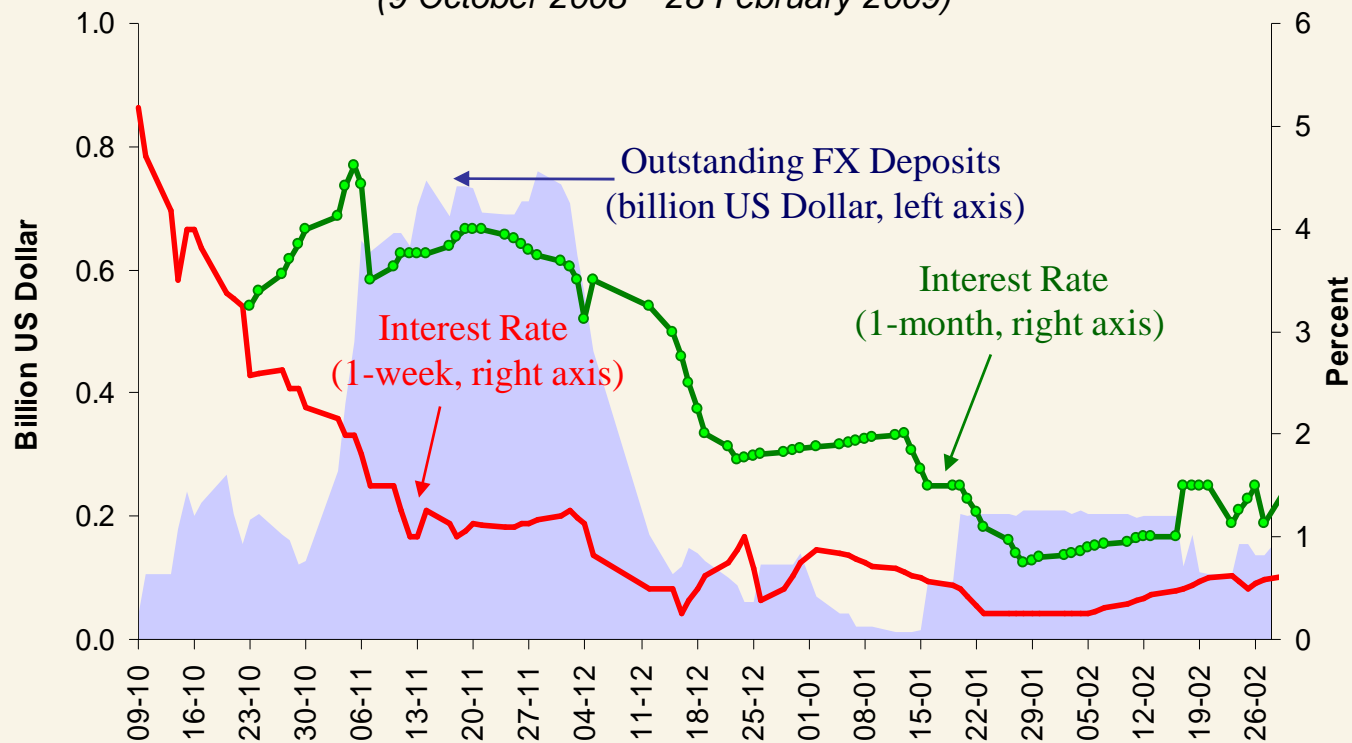
1. The operational structure may be modified by bringing forward a technical interest rate cut,
2. Depending on the course of the liquidity squeeze,
 - a. extension of the maturity of repo funding,
 - b. direct purchases of government securities from the secondary marketcould be considered.
3. If the liquidity squeeze becomes permanent and other measures fall short of being sufficient, TL required reserves may be reduced moderately.



Measures on FX Liquidity

The Central Bank is well 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 minimum damage.

***Outstanding Balance for FX Deposits and
Interest Rates in the FX Deposit Market***
(9 October 2008 – 28 February 2009)

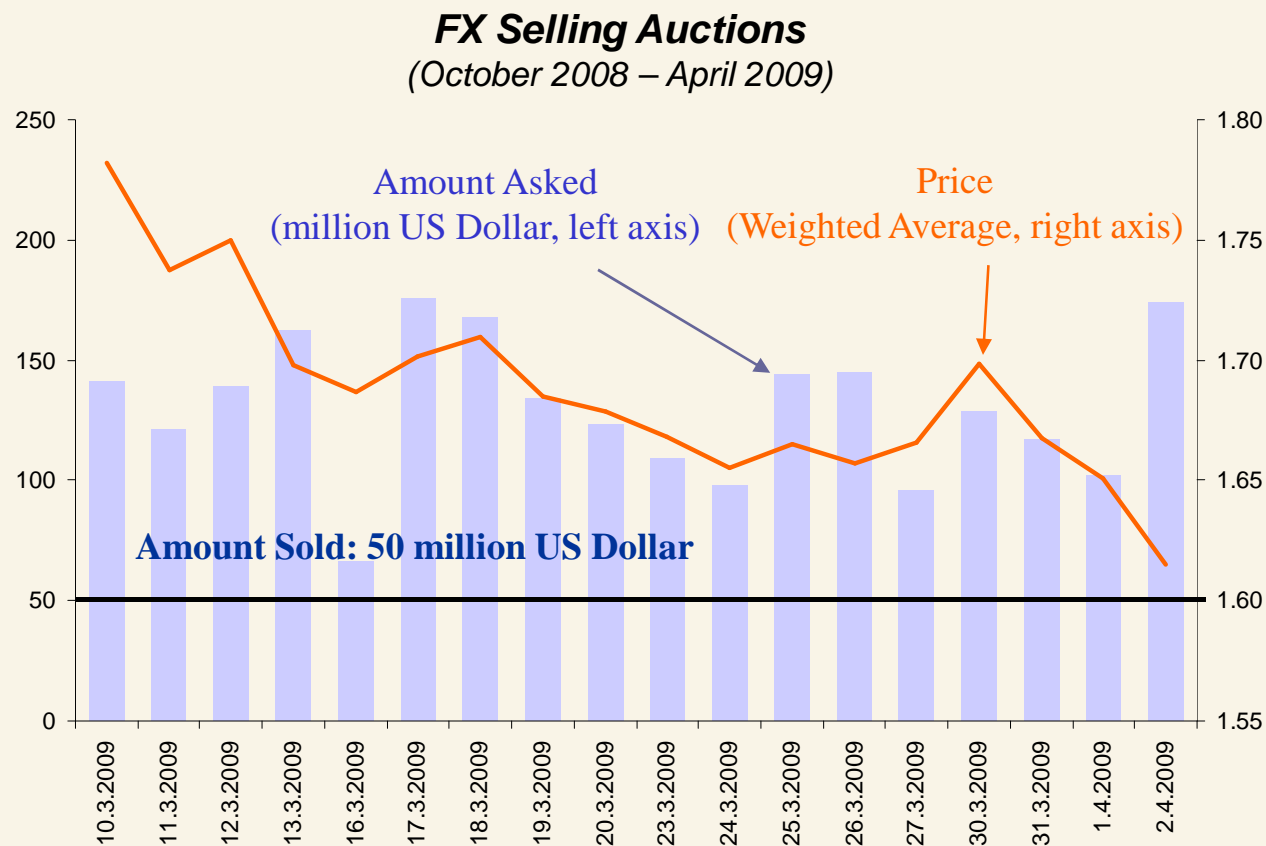


Source: CBT



Measures on FX Liquidity

In response to speculative price formation due to a decrease in the depth of the foreign exchange market, the CBT resumed foreign exchange selling auctions on 10 March 2009. After 18 auctions, they were suspended on 3 April.

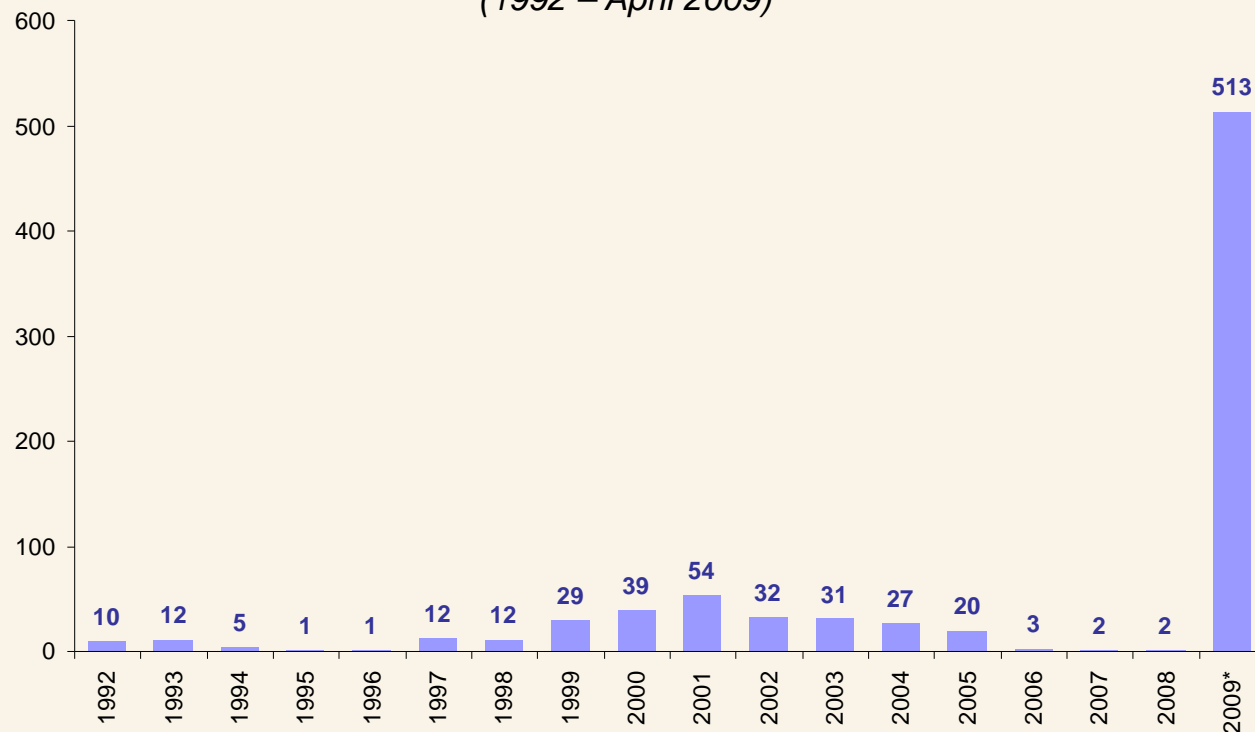




Export Rediscount Credits

In order to mitigate the adverse effects of the 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 facilitated.

Export Rediscount Credit Utilization
(1992 – April 2009)



* As of 17 April 2009
Source: CBT



Potential Measures on FX Liquidity

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

Measures That May Be Taken:

1. *Directly intervening in the foreign exchange market under the basic principles of the floating exchange rate regime in the event of further intensifying of the financial turmoil in global markets that might have negative impacts on the Turkish economy,*
2. *Increasing transaction limits for banks in the Foreign Exchange and Banknotes Markets,*
3. *Extending borrowing maturities and reducing lending rates in the Foreign Exchange Deposit Markets,*
4. *Further reducing the FX required reserve ratio to a limited extent could be considered.*



Transition from YTL to TL

The transition process that started with the removal of six zeros from the Turkish currency and putting the 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 (%)	Amount (%)
Banknotes	75	73
Coins	20	15

* As of 17 April 2009



CENTRAL BANK OF THE REPUBLIC OF TURKEY

**PRESENTATION BEFORE THE COUNCIL OF MINISTERS /
THE PLANNING AND BUDGET COMMISSION OF THE
GREAT NATIONAL ASSEMBLY OF TURKEY**

Durmuş YILMAZ
Governor

21 April 2009