



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Eskişehir Chamber of Industry

Durmuş YILMAZ

Governor

20 October 2009



Presentation Outline

- I. The Global Financial Crisis and Recovery Signs
- II. Recent Developments in the Turkish Economy
- III. Monetary Policy Stance



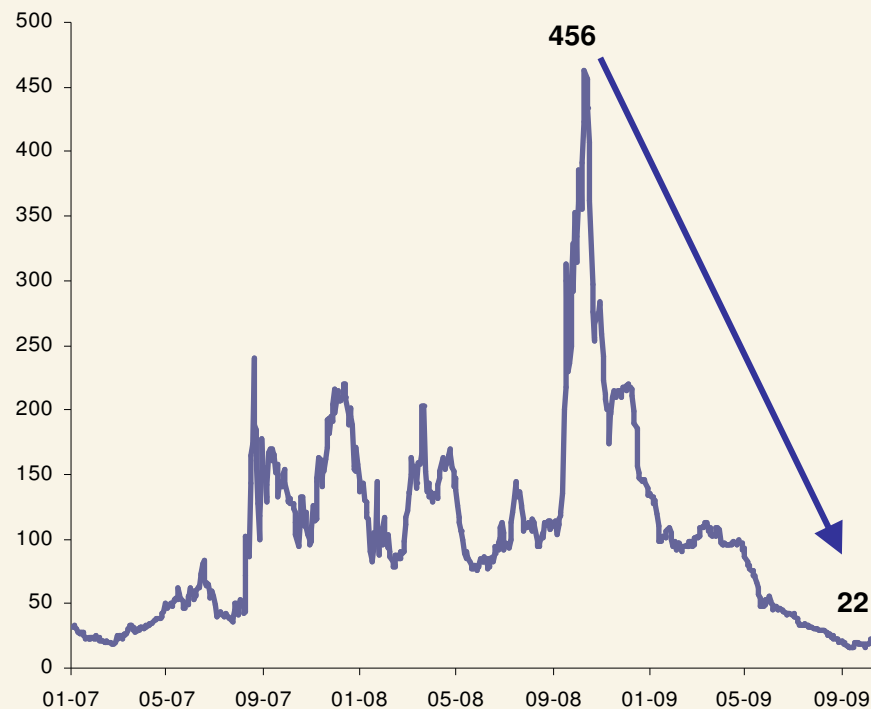
I. The Global Financial Crisis and Recovery Signs



Recovery in Global Financial Markets

A notable recovery is observed in global financial markets compared to the height of the crisis.

***Difference Between 3-Month LIBOR Rate and
3-Month US Treasury Bill (TED Spread)***
(2 January 2007 – 13 October 2009, basis points)



Source: Bloomberg, CBT

VIX Volatility Index
(1 August 2008 – 14 October 2009)



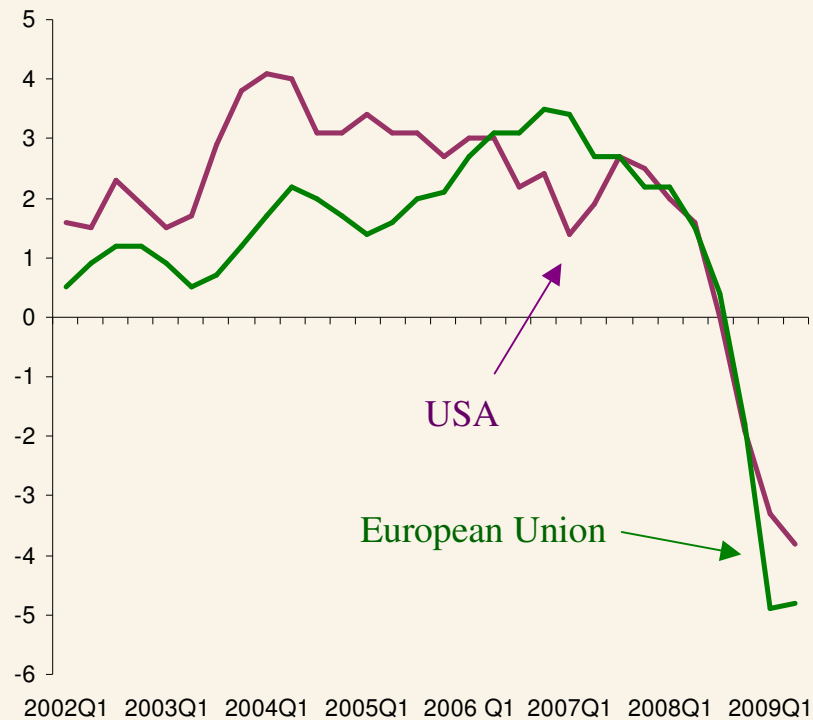
Source: Bloomberg, CBT



Weak Course of the Global Real Economy

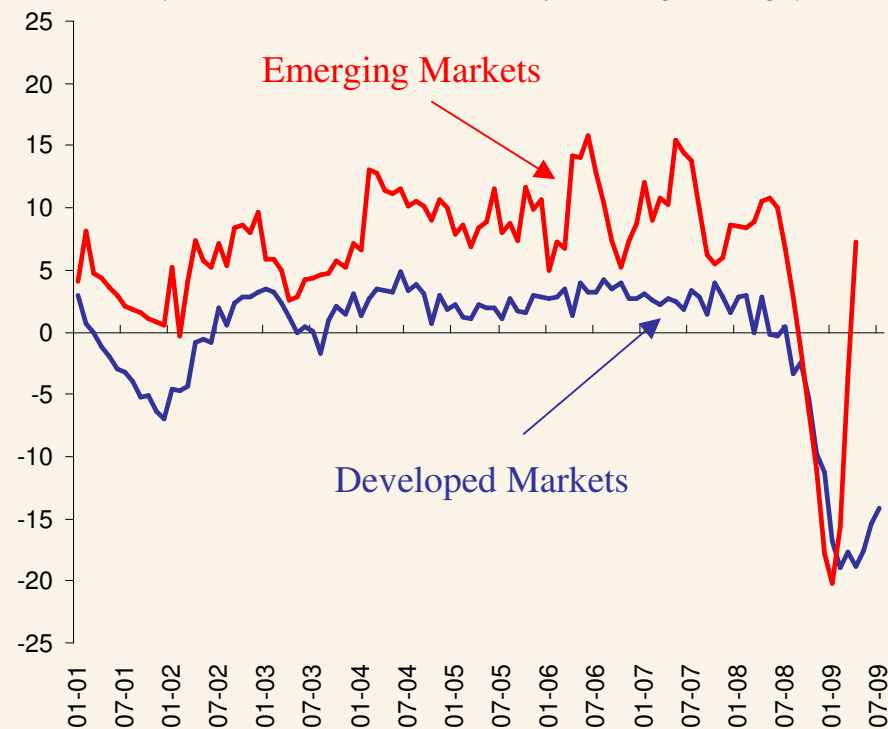
The global economic slump prevailing since the last quarter of 2008 has been replaced by a modest recovery.

Growth Rates by Regions
(2002 Q1 – 2009 Q2, percent)



Source: OECD, CBT

Industrial Production in Developed and Emerging Markets
(Jan 2001 – Jul 2009, annual percentage change)



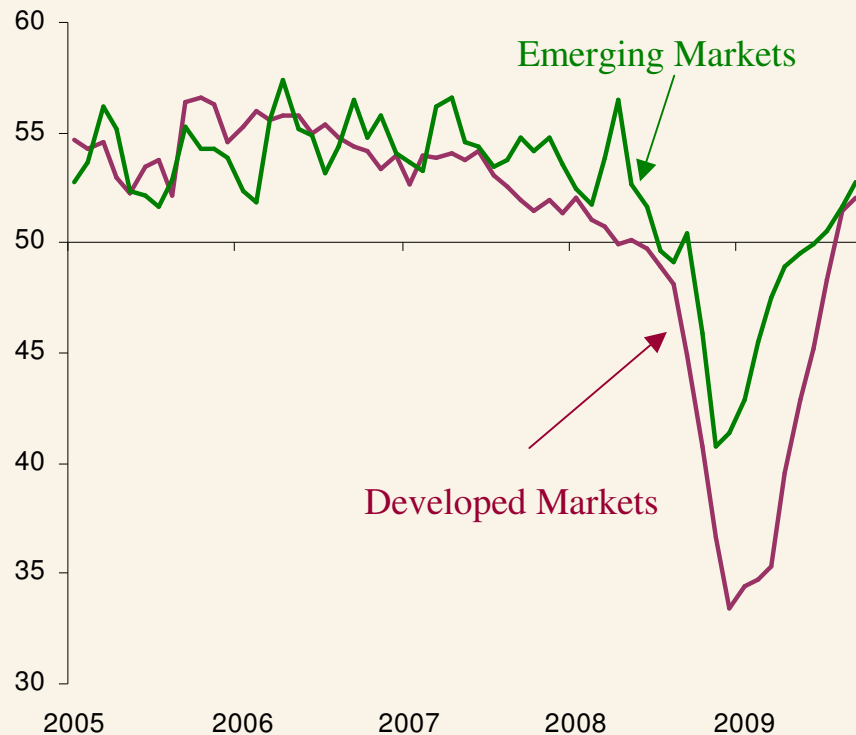
Source: Bloomberg, CBT



Weak Course of the Global Real Economy

Turkey, along with China and India, ranks among the countries that have shown early recovery in economic activity.

PMI in Developed and Emerging Markets
(Jan 2005 – Sep 2009)



Source: Bloomberg, CBT

PMI in Emerging Markets
(Jun 2009 – Sep 2009)

	June	July	August	Sept.
India	55.3	55.3	53.2	55.0
China	53.2	53.3	54.0	54.3
Turkey	53.9	54.0	53.7	53.3
Brasil	48.1	48.0	50.6	52.3
Russia	47.3	48.4	49.6	52.0
Mexico	48.2	50.0	51.5	51.6
Czech R.	41.9	43.4	47.0	49.5
Hungary	45.8	49.2	45.8	49.0
S.Africa	39.3	37.3	39.3	48.0

Source: Bloomberg, CBT

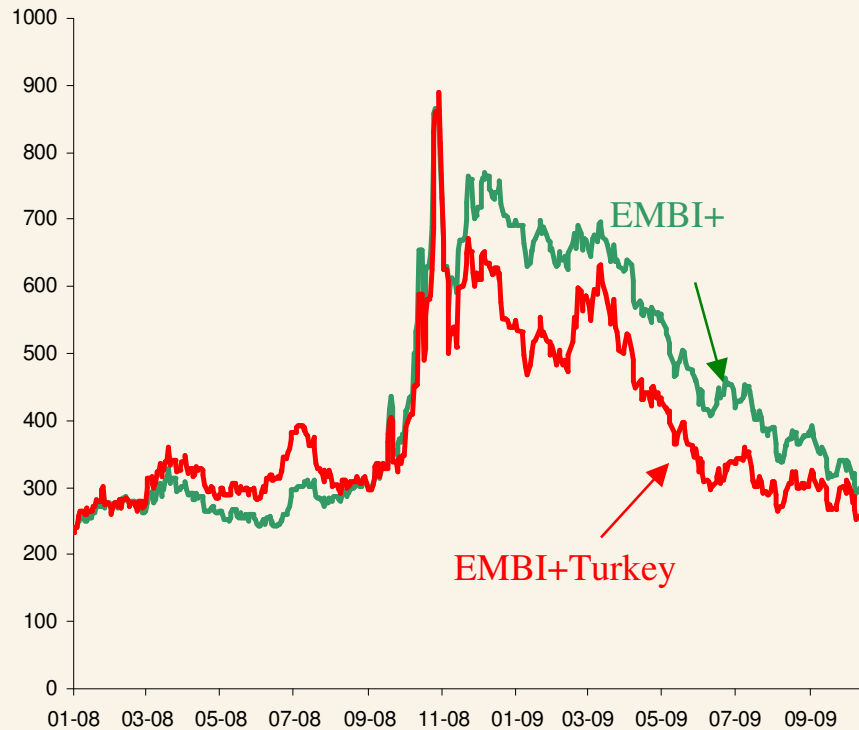


Financial Stability in Turkey

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

Risk Indicators

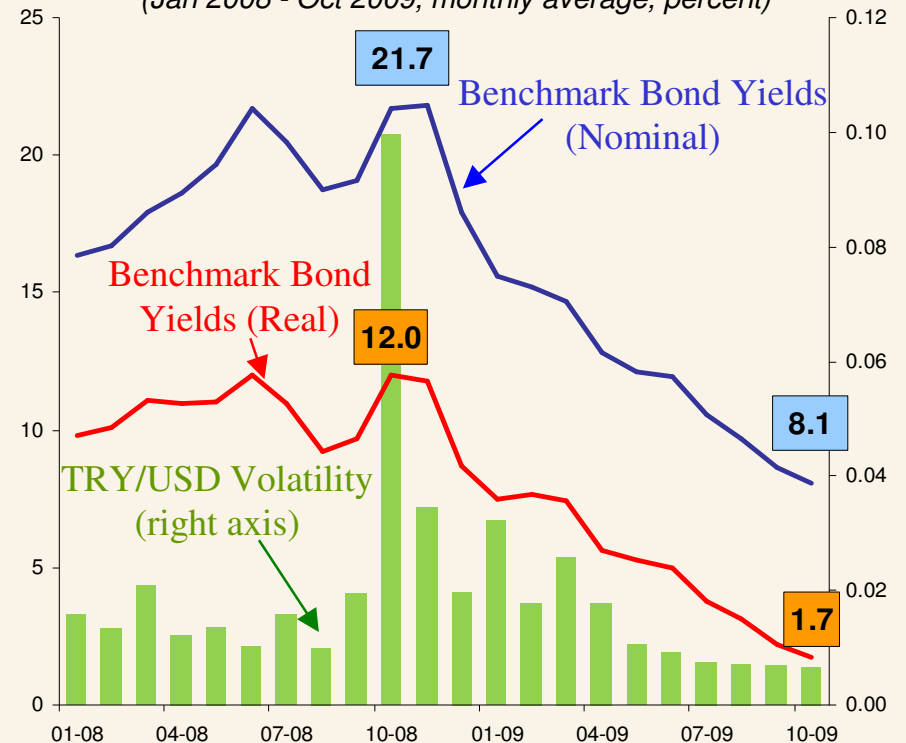
(1 Jan 2008 - 15 Oct 2009, basis points)



Source: Bloomberg, CBT

Exchange Rate Volatility and Benchmark Bond Yields

(Jan 2008 - Oct 2009, monthly average, percent)



* Based on the inflation expectations for the next 12 months

Source: BRSA, CBT

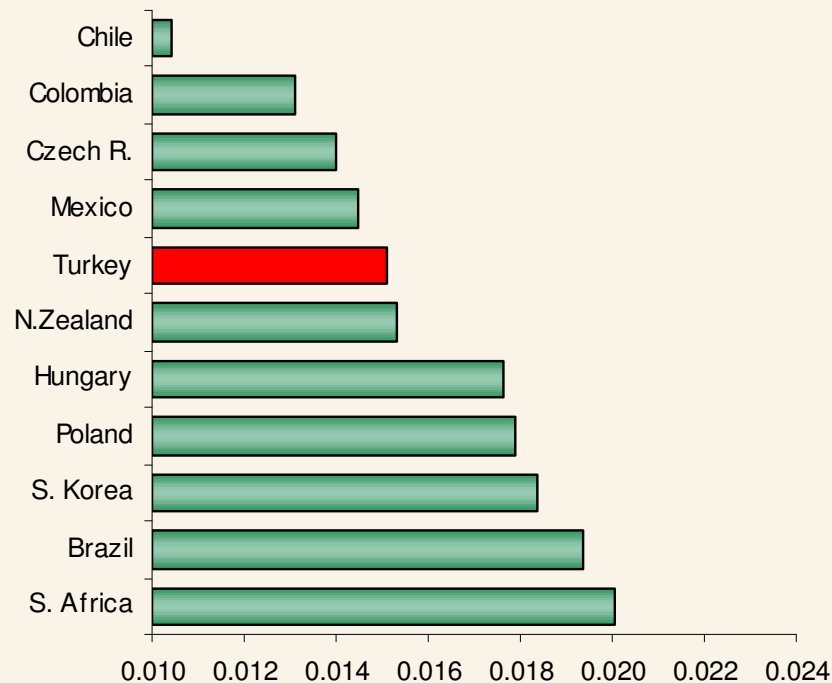


Financial Stability in Turkey

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.

Exchange Rate Volatility

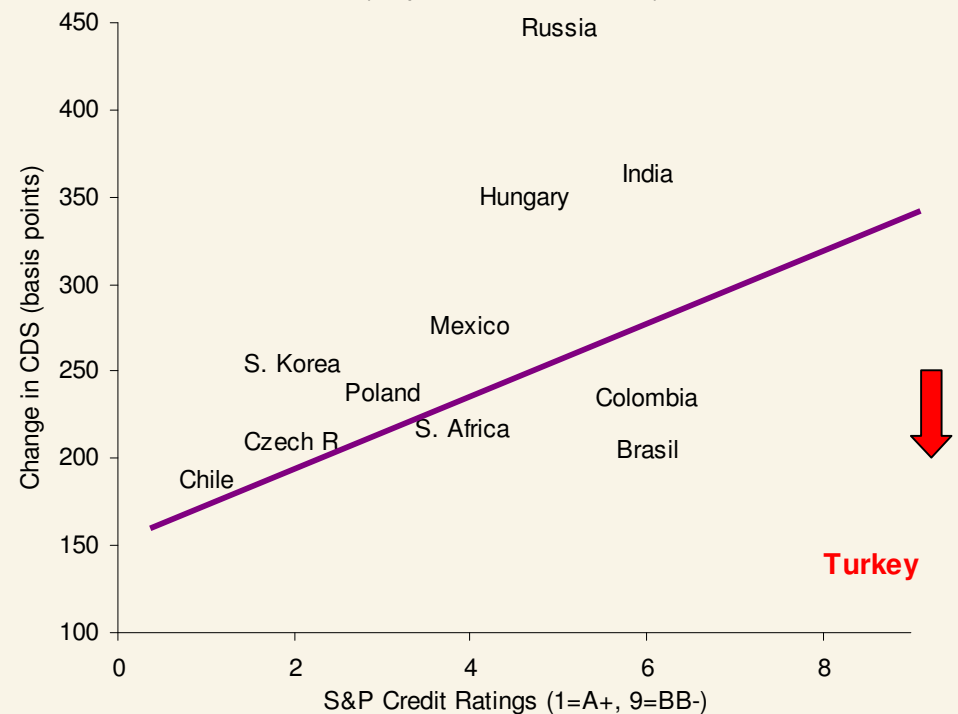
(Sep 2008 - Oct 2009, standard deviation of daily changes in exchange rates)



Source: Bloomberg, CBT

Change in Credit Ratings and Risk Premia of Countries

(Sep 2008 - Mar 2009)



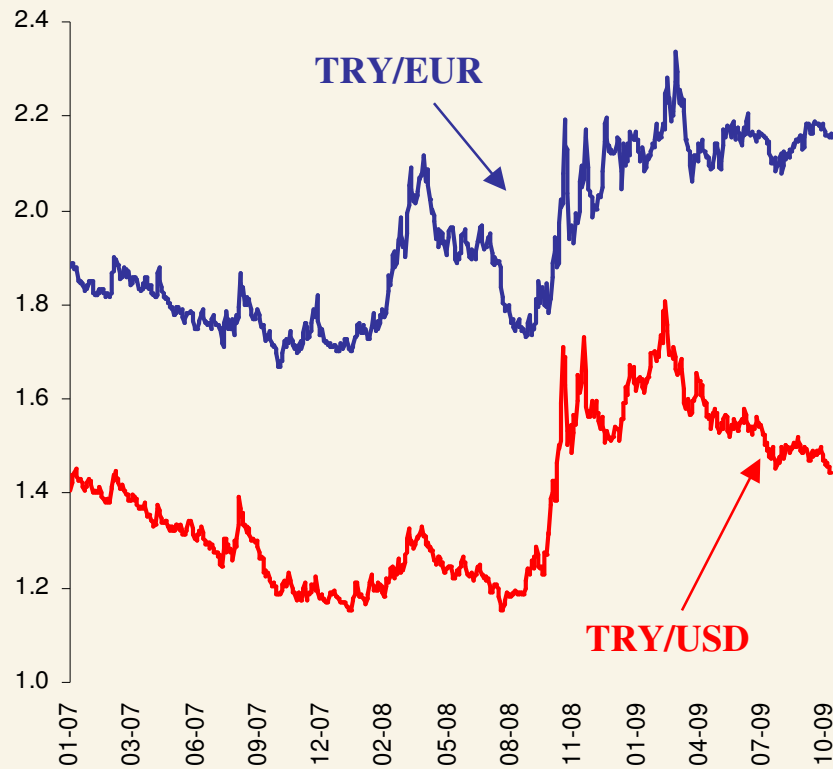
Note: Trend line includes countries other than Turkey
Source: Bloomberg, CBT



Financial Stability in Turkey

The appreciation in Turkish Lira against US Dollar in the recent period is mainly attributable to change in Euro-USD parity.

TRY Against Major Currencies
(Jan 2007 – Oct 2009)



Source: CBT

USD/EUR Parity
(Jan 2007 – Oct 2009)



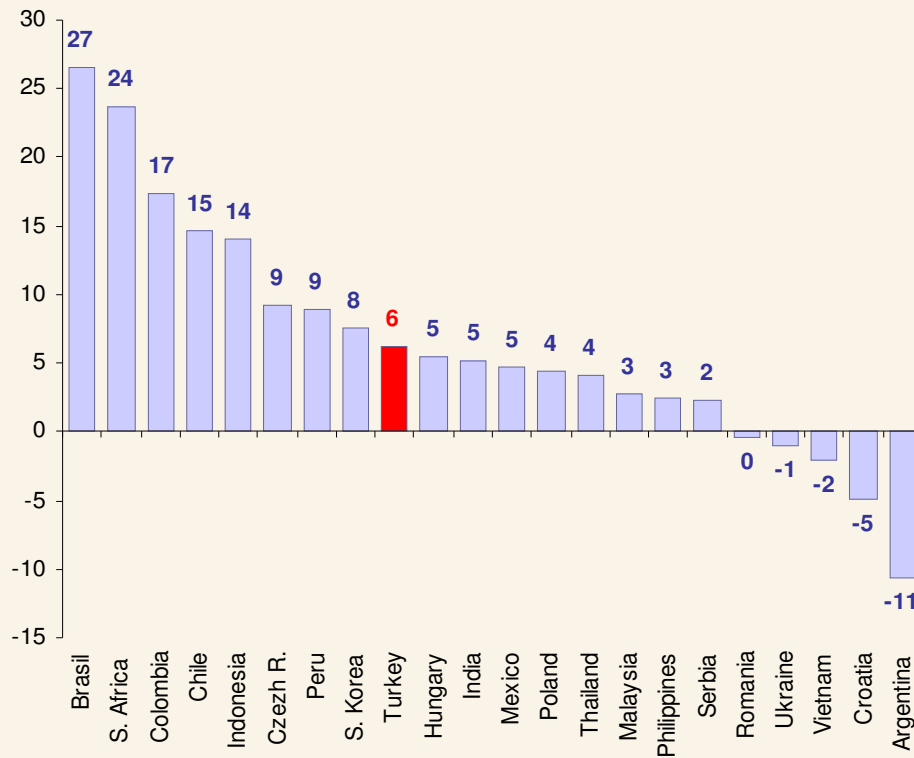
Source: CBT



Financial Stability in Turkey

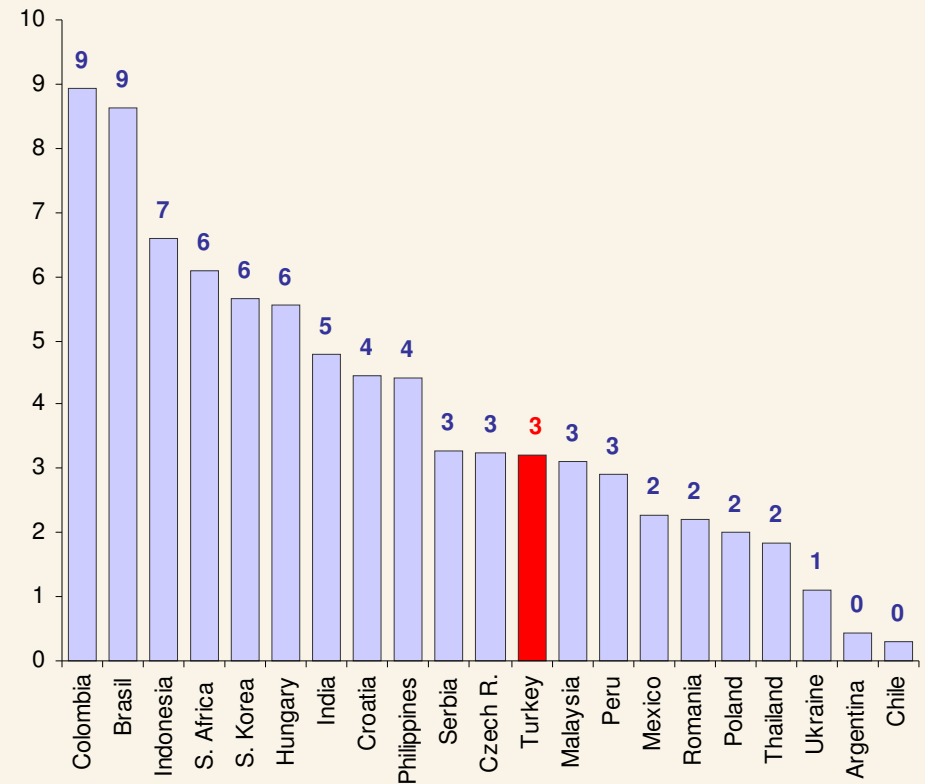
No significant appreciation is observed in Turkish Lira compared to currencies of other emerging economies.

Change in Local Currencies Against US Dollar
(Since the beginning of the year, percent)



Source: Bloomberg, CBT

Change in Local Currencies Against US Dollar
(since Sep 2009, percent)



Source: Bloomberg, CBT



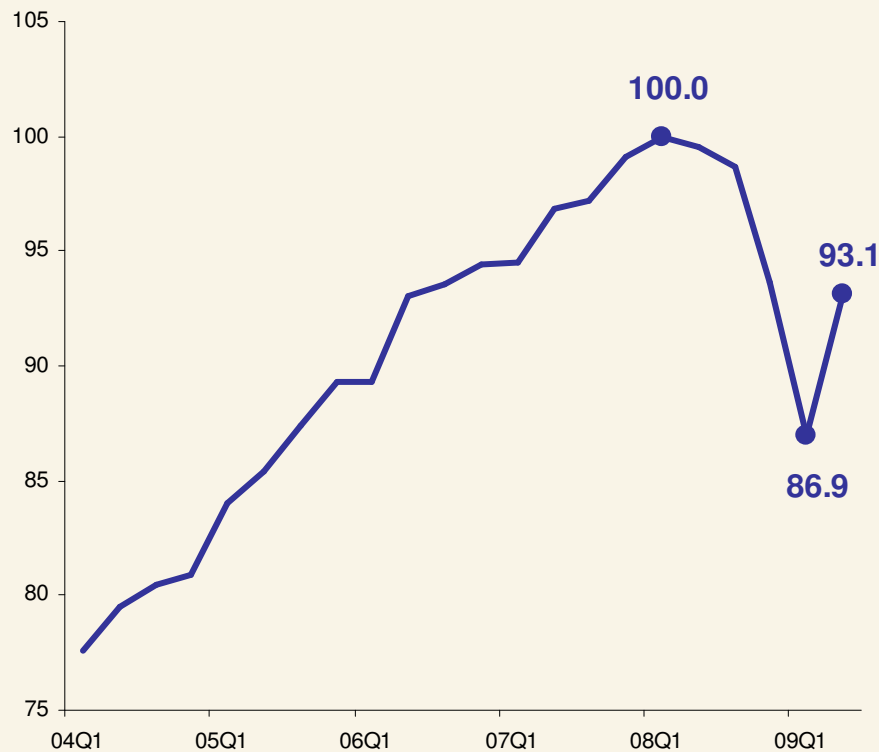
II. Recent Developments in the Turkish Economy



Turkish Economy

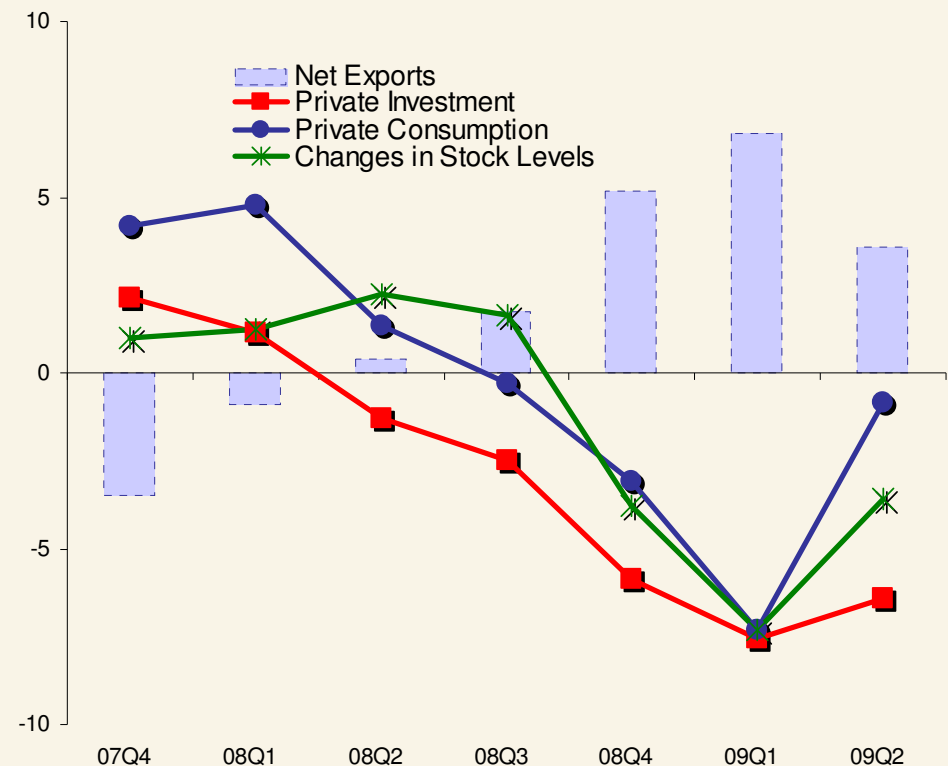
The Turkish economy exhibited a rapid recovery in the second quarter of 2009.

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

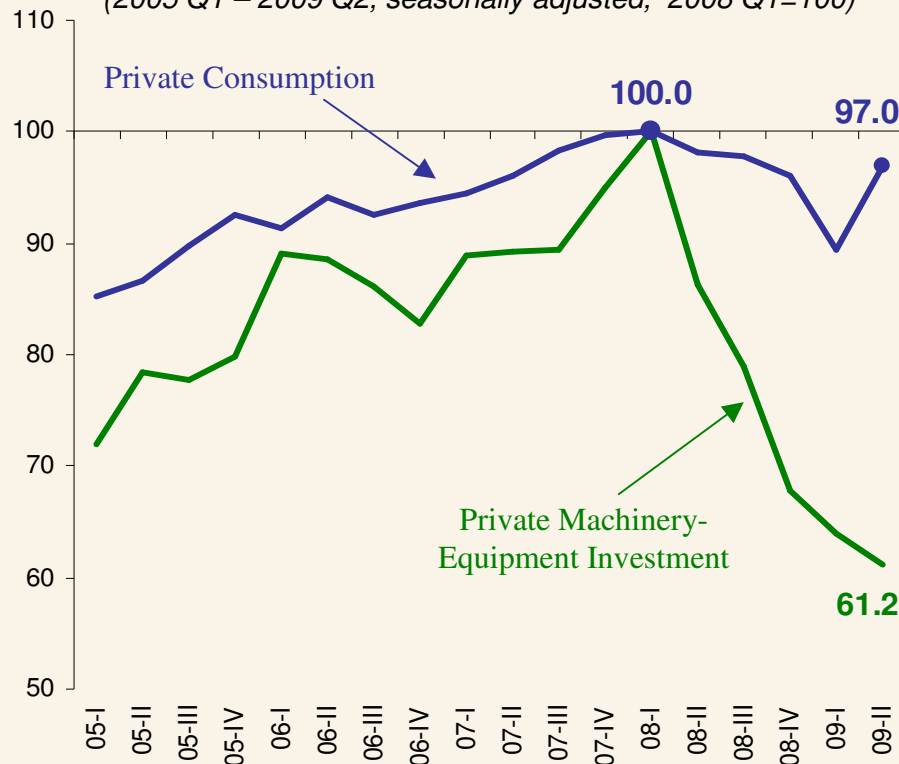


Turkish Economy

This recovery is mainly driven by domestic consumption, on the back of the stimulating effect of fiscal incentives. Private investment demand, on the other hand, is still on the decline.

GDP Sub-items: Private Consumption and Investment

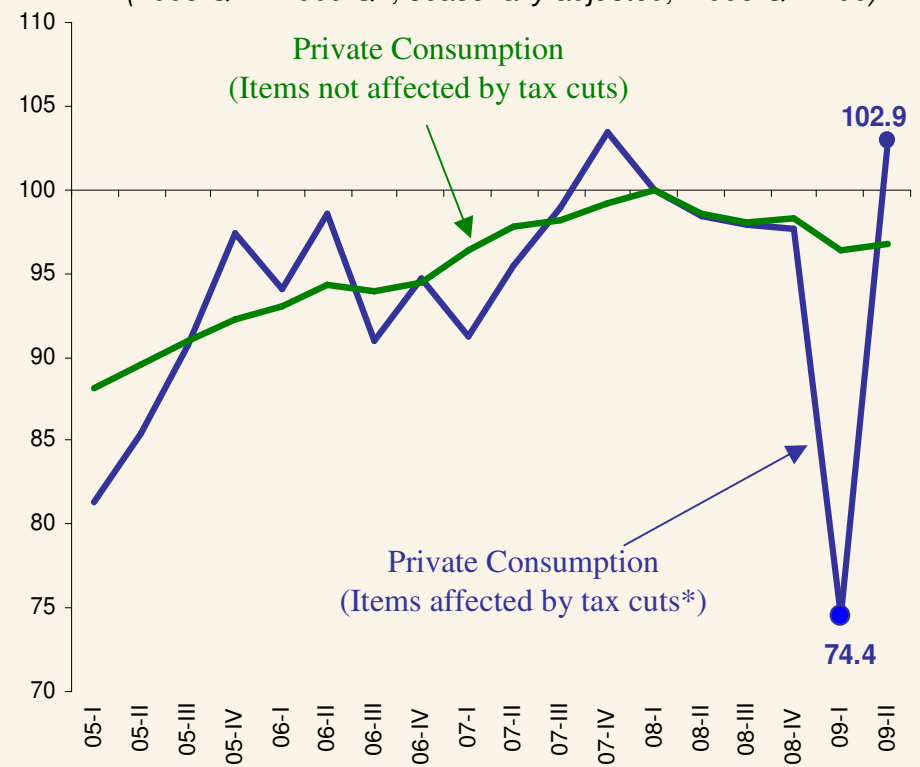
(2005 Q1 – 2009 Q2, seasonally adjusted, 2008 Q1=100)



Source: TURKSTAT, CBT

GDP Sub-items: Private Consumption and Tax Effect

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



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

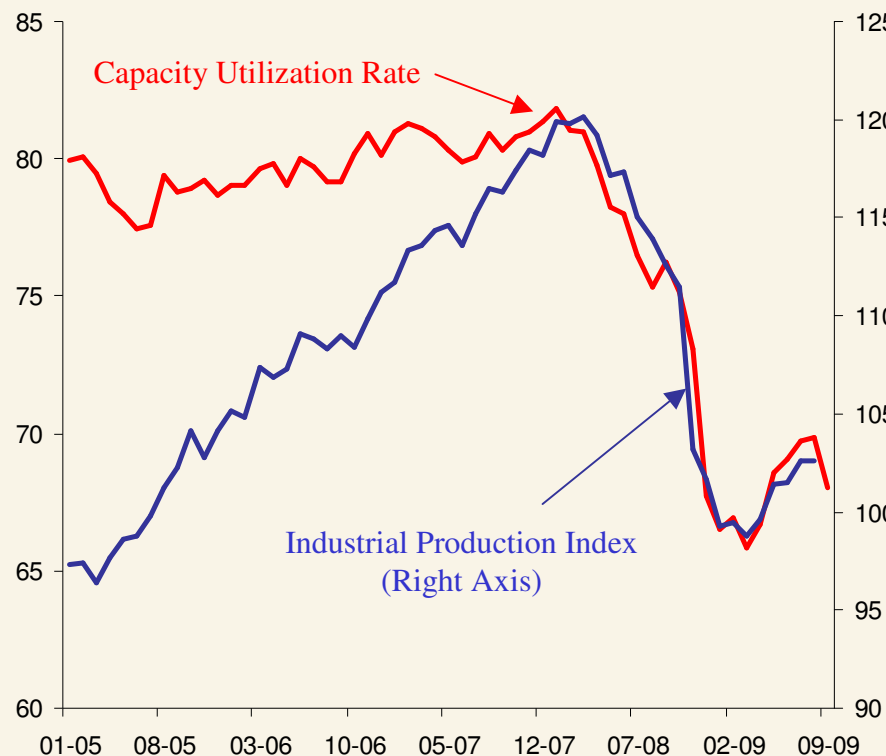
Source: TURKSTAT, CBT



Industrial Production

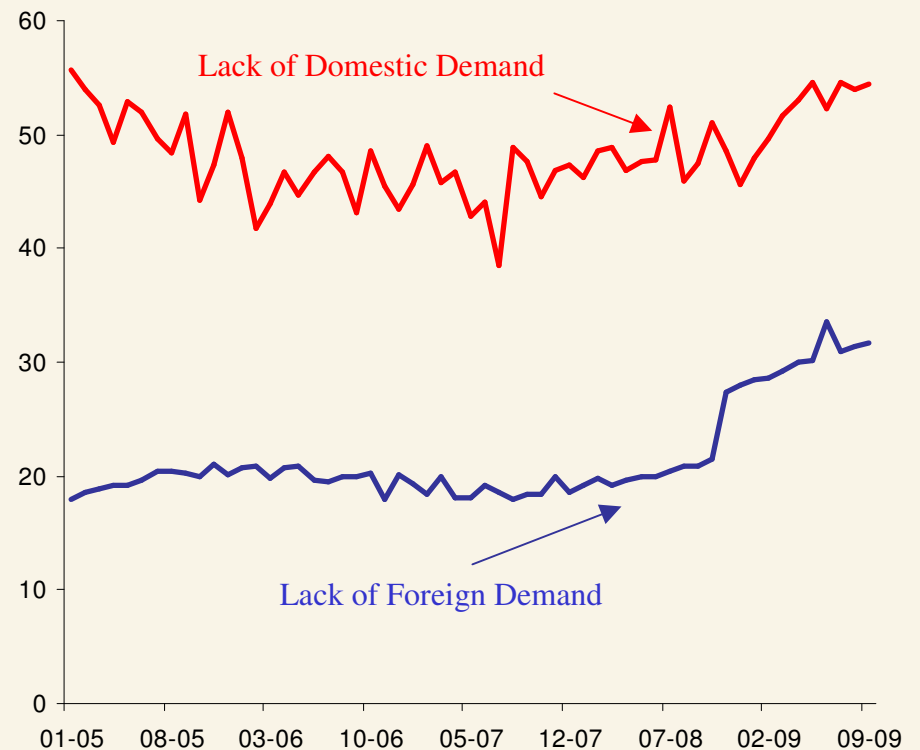
Although the industrial production and capacity utilization rate have stabilized by the 2009 Q2, softness in domestic and foreign demand continues to constrain the production of the firms.

Industrial Production Index* (Jan 2005 – Aug 2009)
Capacity Utilization Rate* (Jan 2005 – Sep 2009)



* Seasonally adjusted.
Source: TURKSTAT, CBT

Reasons for Operating Under Full Capacity
(Jan 2005 – Sep 2009, Percent Share)



Source: CBT

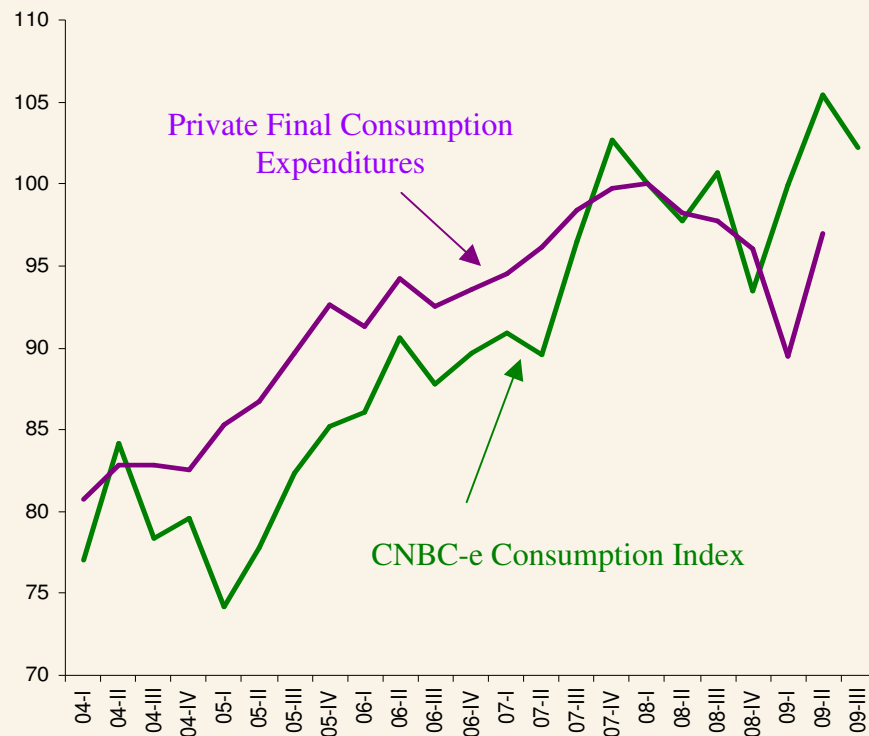


Private Consumption

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.

Consumption Expenditures*

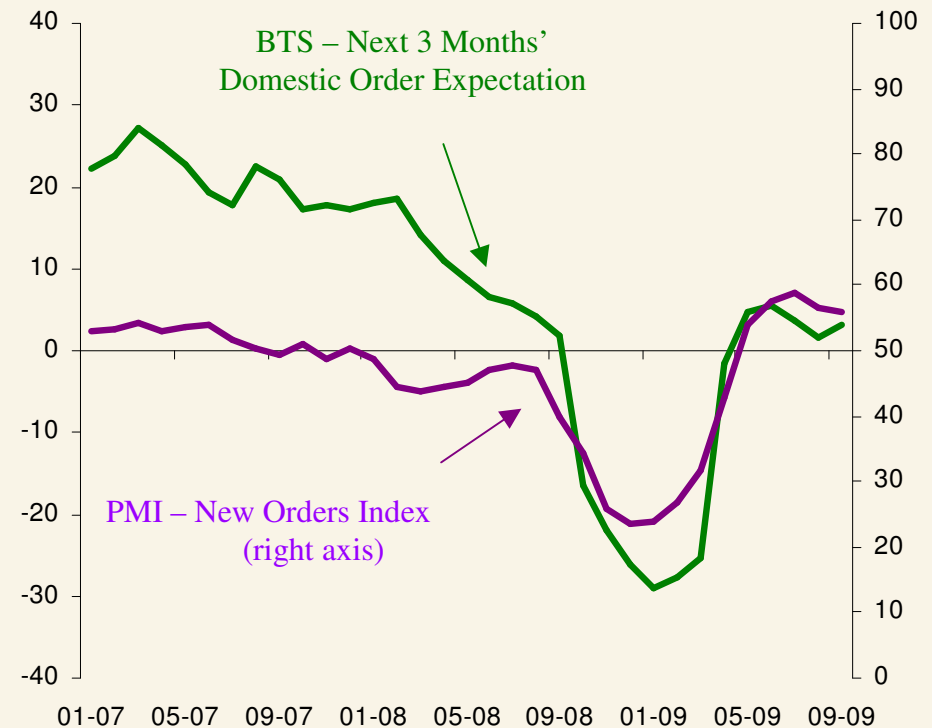
(2004 Q1 – 2009 Q3, percent, 2008 Q1 =100)



*Seasonally adjusted
Source: CNBC, TURKSTAT, CBT

Demand Indicators*

(Jan 2007 – Sep 2009)



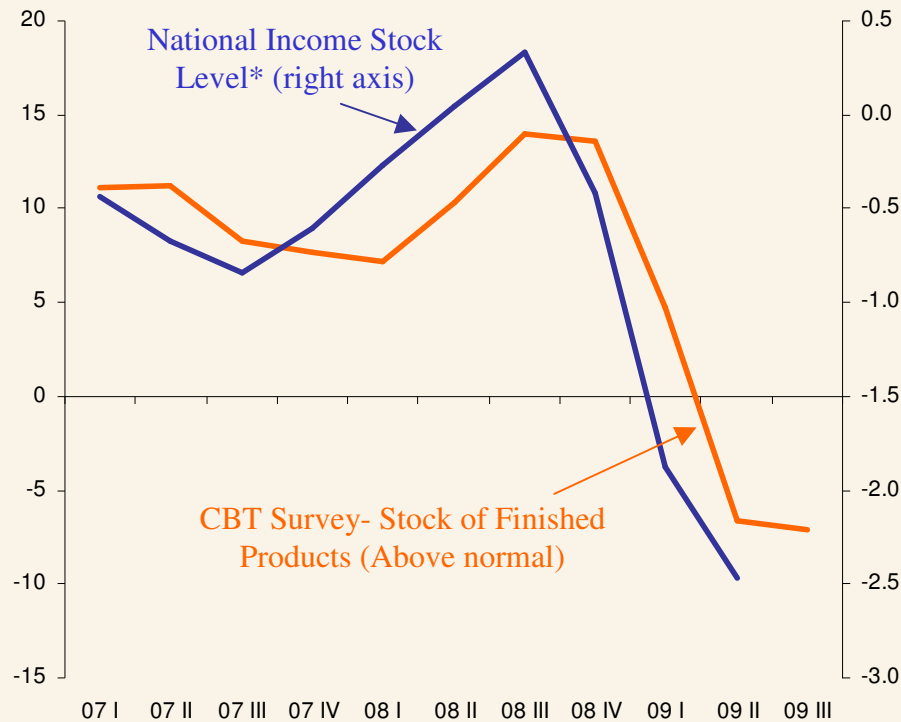
* Seasonally adjusted
Source: Bloomberg, CBT



Stocks

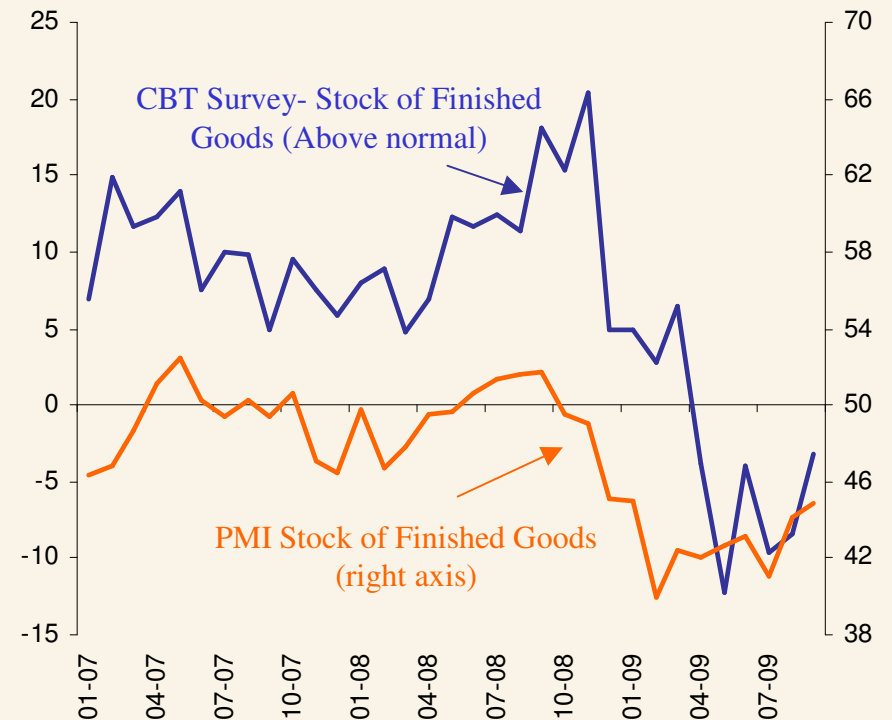
Depletion of inventories that has started in the last quarter of 2008 continues with the expectation that the recent rise in consumption demand would be temporary.

Stock Level and Expectations
(2007 Q1 – 2009 Q3)



* Seasonally adjusted
Source: TURKSTAT, CBT

Stock of Finished Goods - Outlook
(2007 Q1 – 2009 Q3)



Source: Bloomberg, CBT

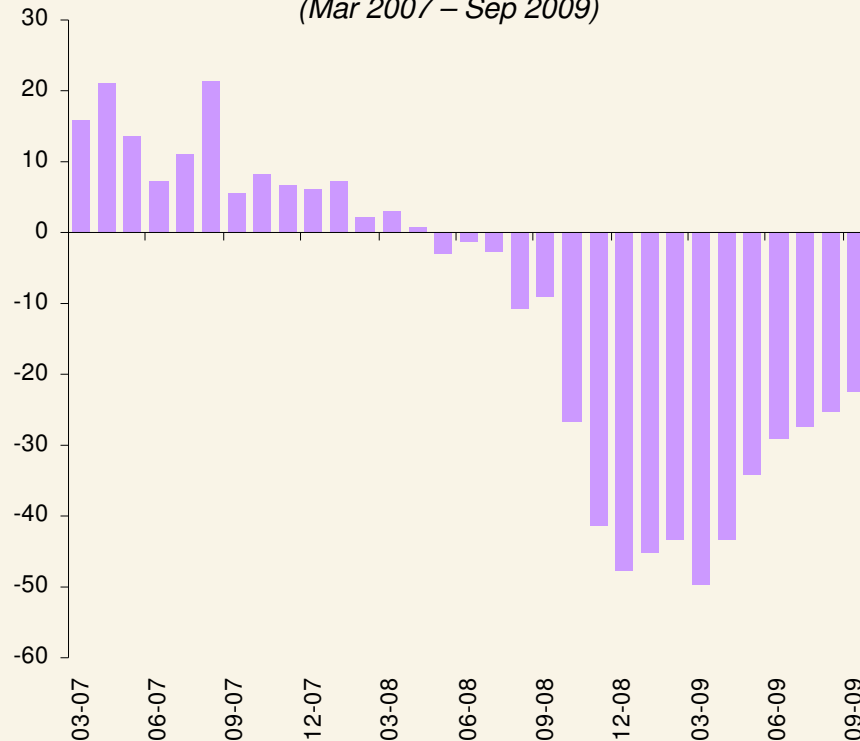


Investment

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

Expectations on Fixed Capital Investment Expenditure

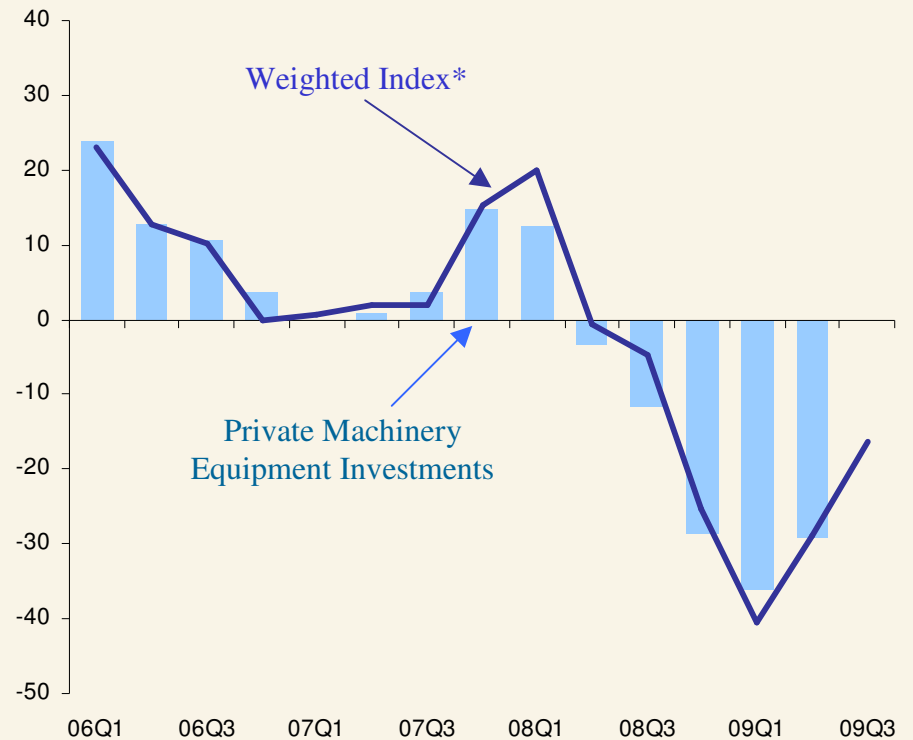
(Mar 2007 – Sep 2009)



* Seasonally adjusted
Source: TURKSTAT, CBT

Investment Indicators

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



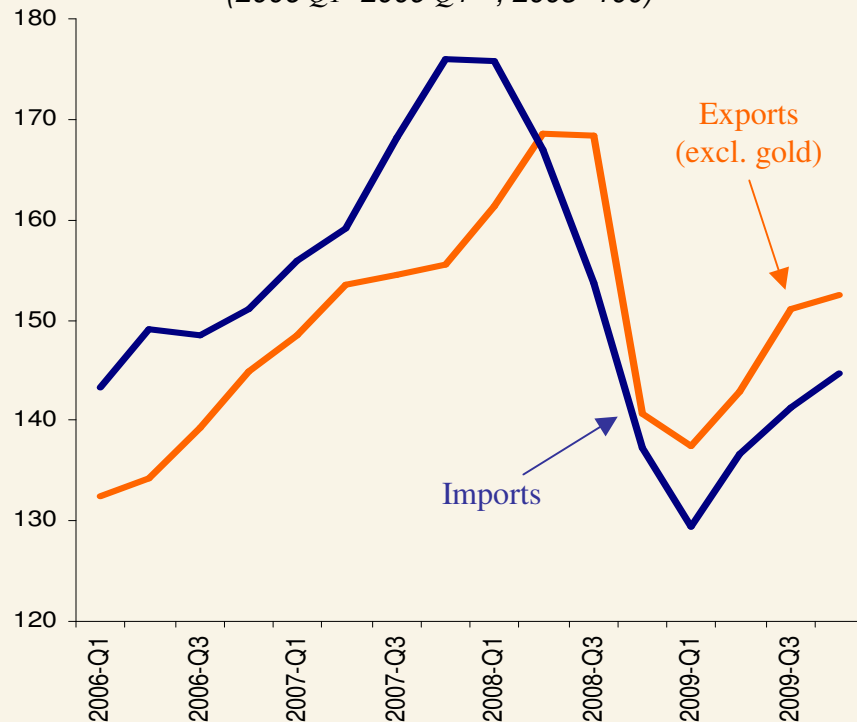
* Index components: Production, imports and exports of capital goods
Source: TURKSTAT, CBT



External Demand

Real exports have displayed a stable trend, and there has been a slight recovery in expected export orders. In line with growth expectations in the global economy, the recovery in exports is expected to be slow and gradual.

Real Exports and Imports*
(2006 Q1–2009 Q4**, 2003=100)

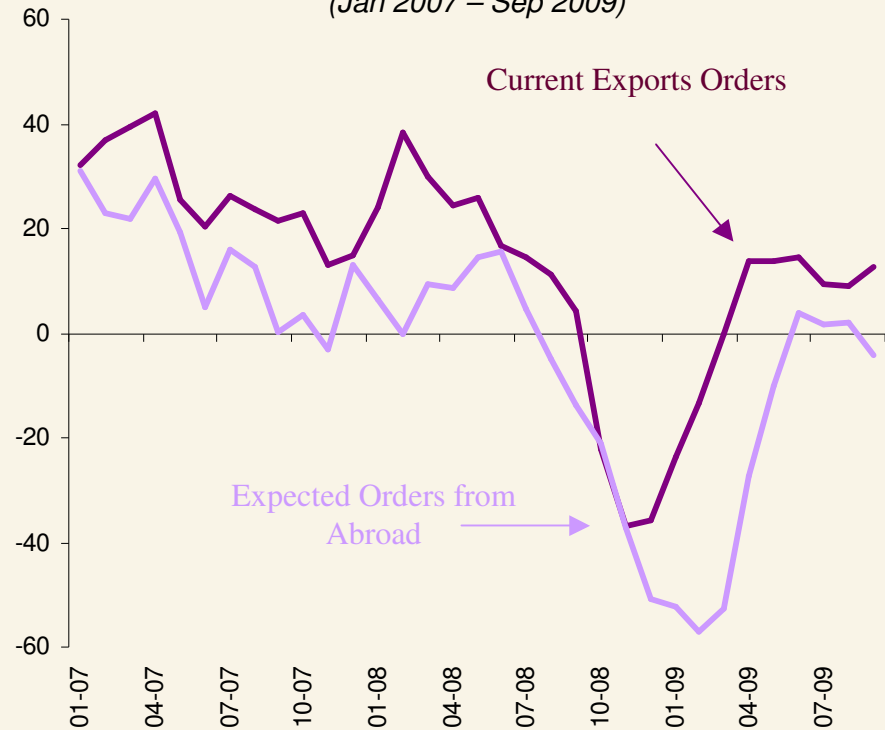


* Seasonally adjusted for working days

** As of October 2009

Source: TURKSTAT, CBT

Exports Expectations*
(Jan 2007 – Sep 2009)



* BusinessTendency Survey

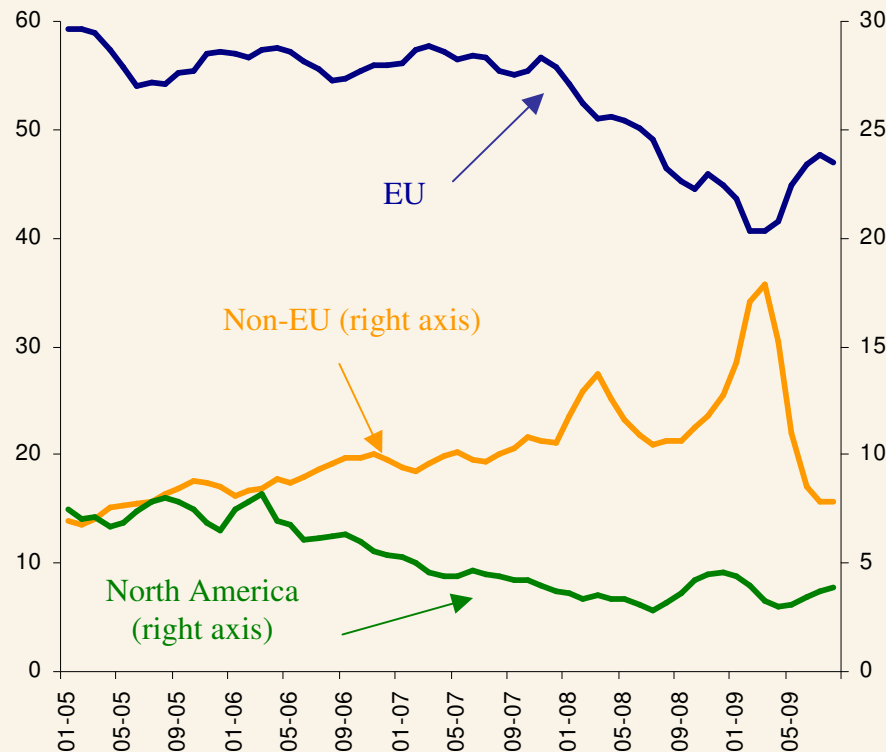
Source: TURKSTAT, CBT



External Demand

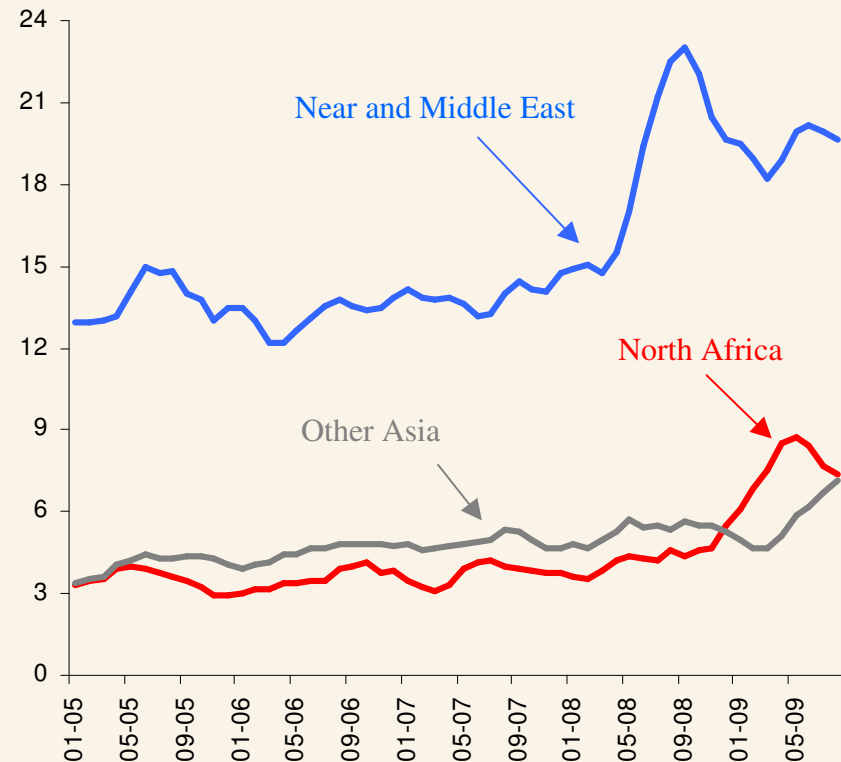
Diversity of export markets has gained pace in recent years. This has prevented further decline in exports.

Turkey's Selected Exports Markets
(Jan 2005 – Aug 2009, percentage share)



Source: TURKSTAT, CBT

Turkey's Selected Exports Markets
(Jan 2005 – Aug 2009, percentage share)



Source: TURKSTAT, CBT

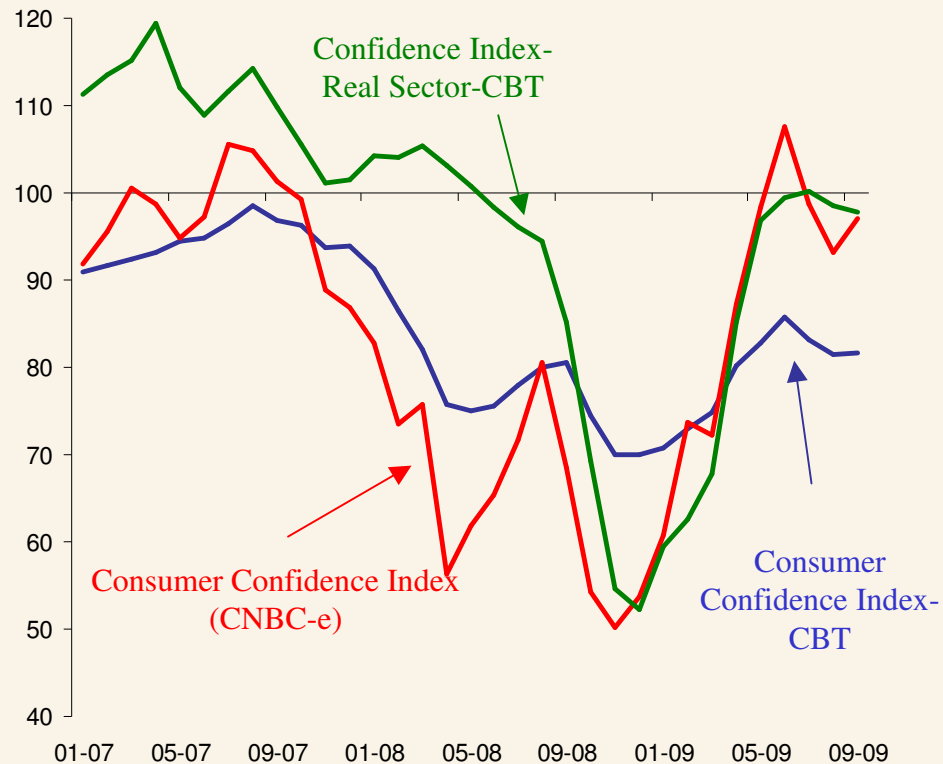


Confidence Indices and Leading Indicators

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

Confidence Indices

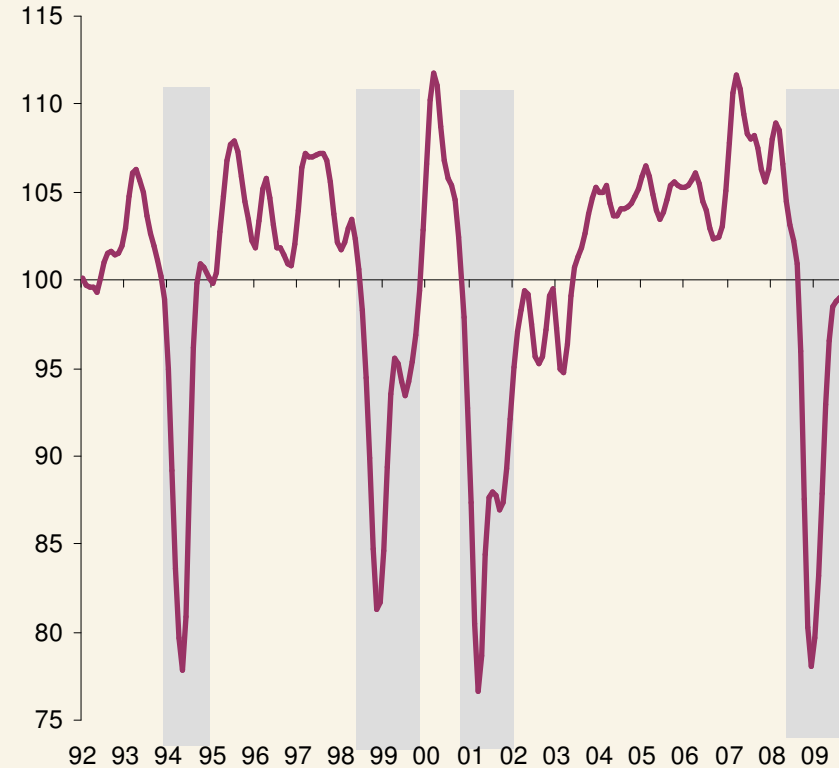
(Jan 2007 – Sep 2009)



Source: CNBC-e, TURKSTAT, CBT

Leading Indicators

(Jan 1992 – Sep 2009)

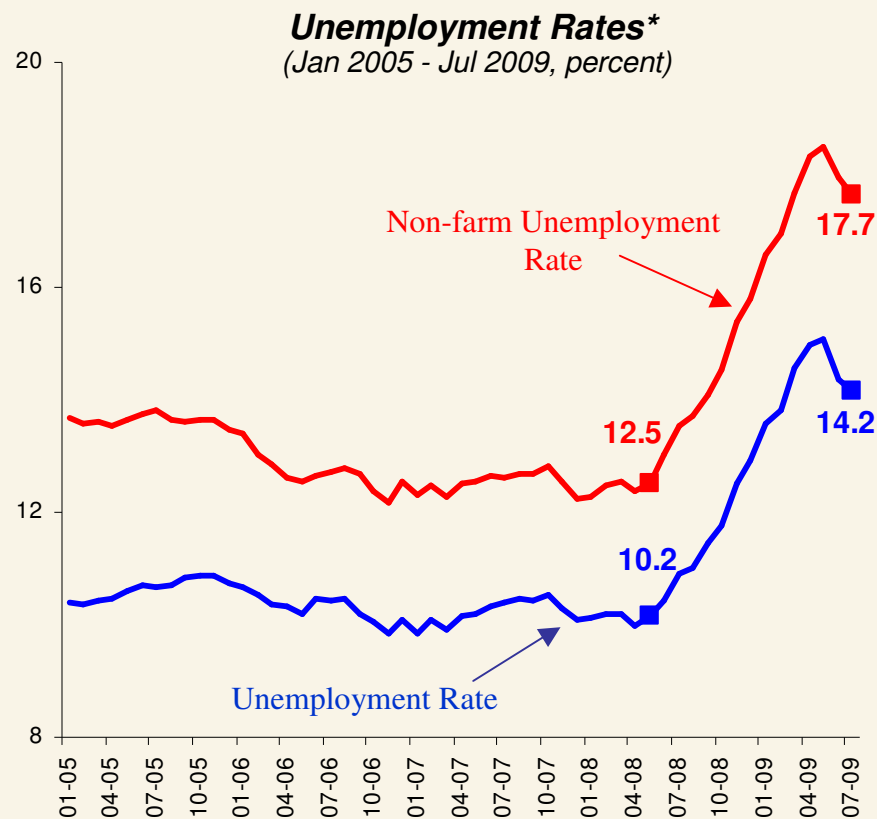


Source: CBT

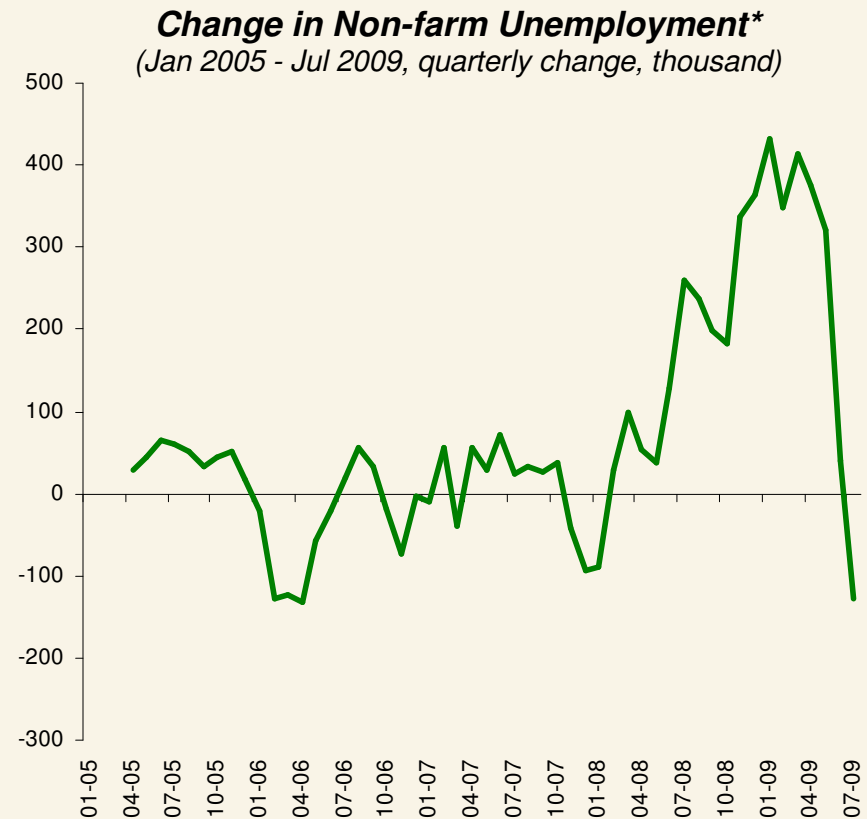


Labor Market

There has been a slight recovery in the labor market recently. However, ongoing uncertainties regarding aggregate demand and the low level of capacity utilization has continued to adversely affect investment and hirings.



*Seasonally adjusted
Source: TURKSTAT, CBT



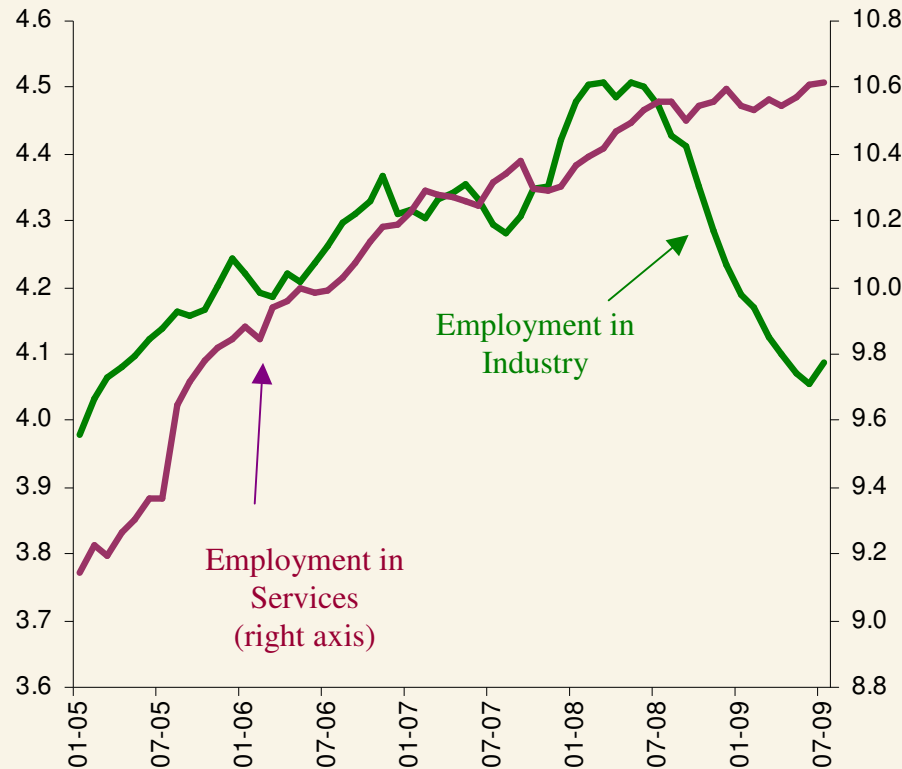
* Seasonally adjusted
Source: TURKSTAT, CBT



Labor Market

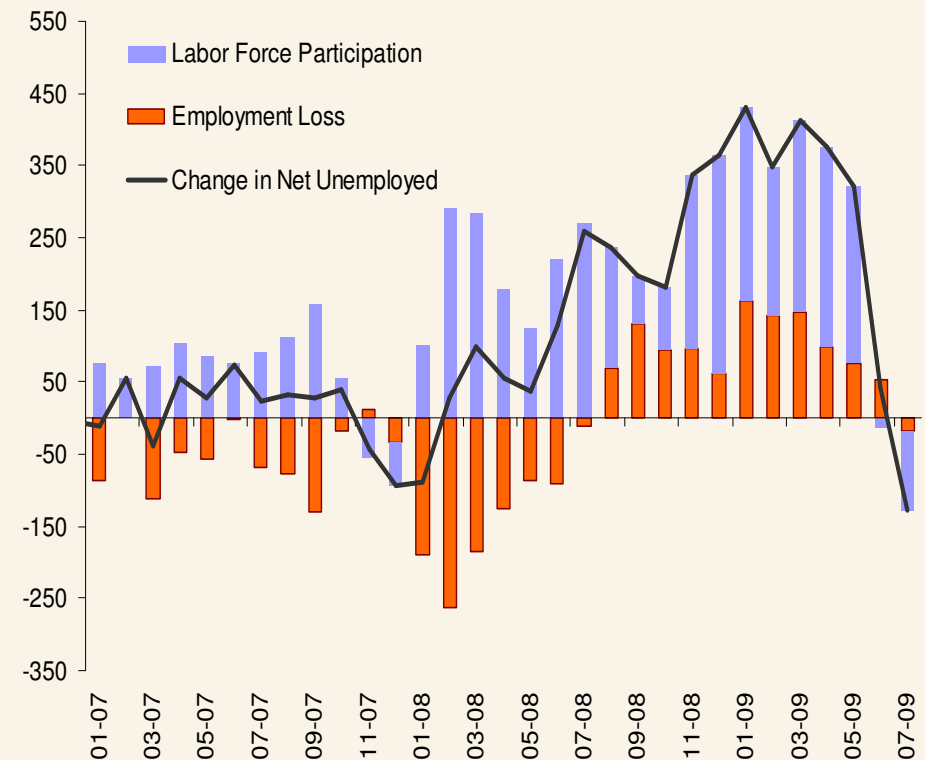
The decline in non-farm employment was mainly driven by employment loss in the industrial sector.

Employment in Industry and Services*
(Jan 2005 - Jul 2009, million people)



*Seasonally adjusted
Source: TURKSTAT, CBT

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



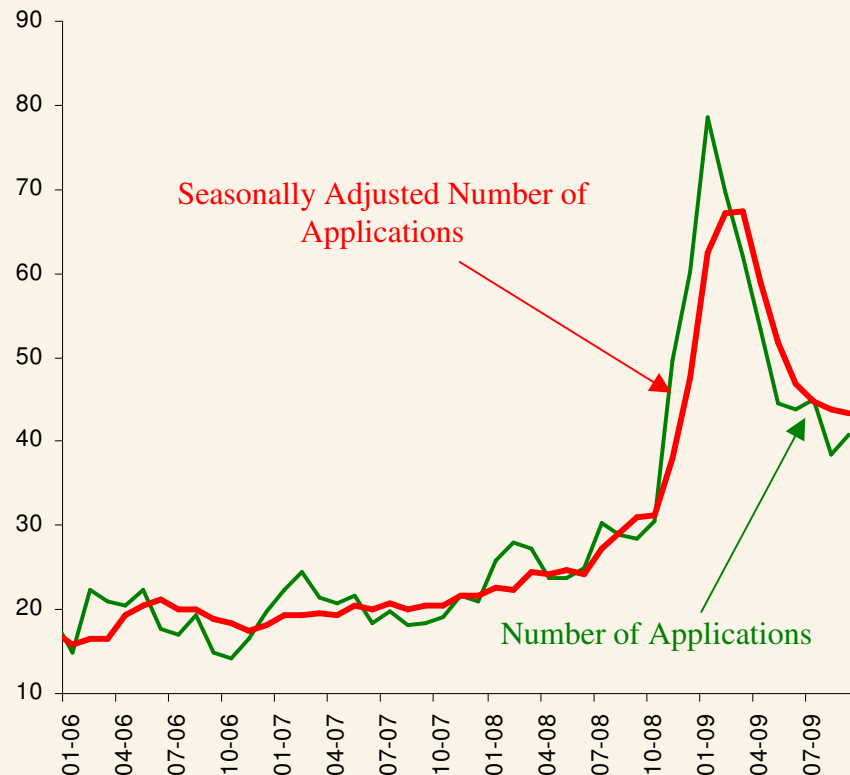
*Seasonally adjusted
Source: TURKSTAT, CBT



Labor Market

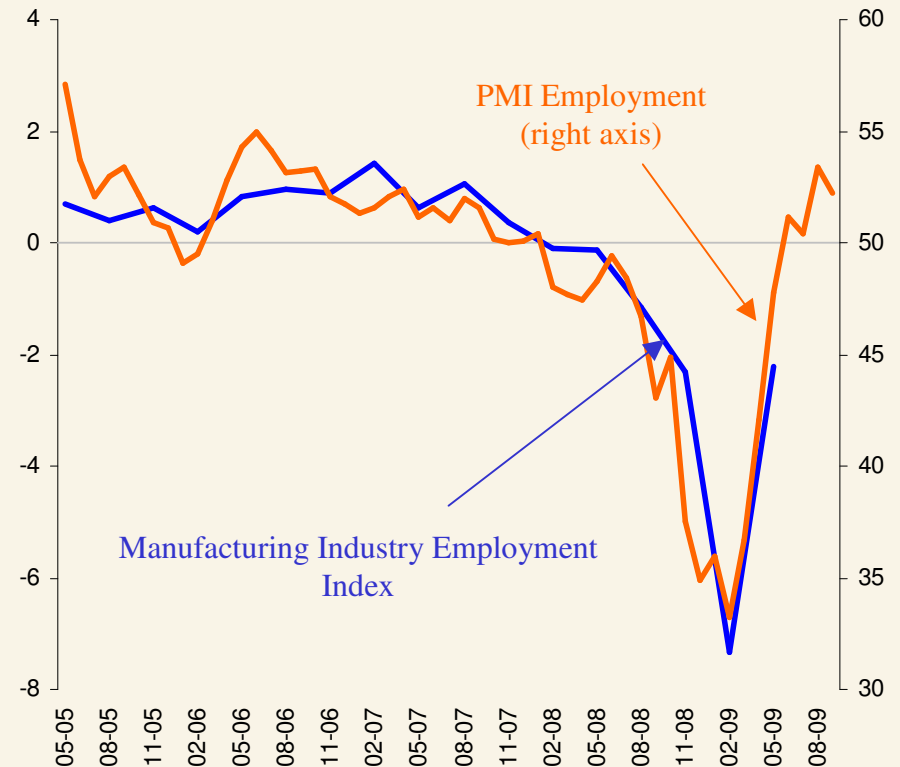
Nevertheless, recently announced data indicate a slight improvement, albeit limited, in industrial employment.

Applications for Unemployment Benefits
(Jan 2006 - Aug 2009, thousand people)



Source: TURKSTAT, CBT

Employment in Manufacturing Industry and PMI Employment
(May 2005 - Sep 2009, quarterly percentage change)



Source: Bloomberg, TURKSTAT, CBT

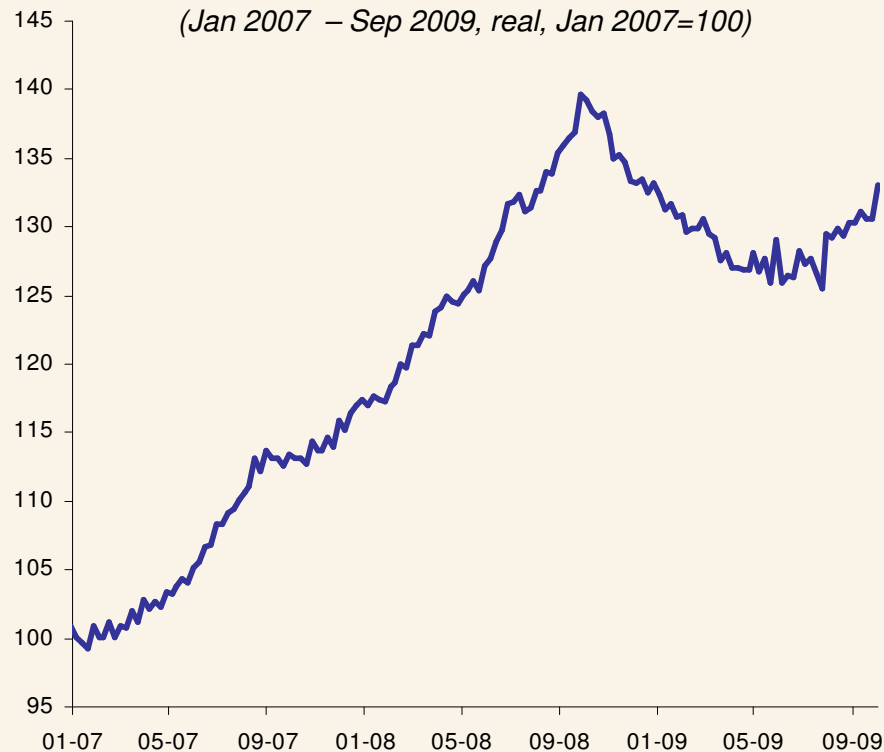


Credit Market

Cumulative policy rate cuts implemented since November 2008, and improvements in global risk perceptions started to have favorable effects on credit markets. The support of credit channel to aggregate demand will be more evident in the upcoming period.

Domestic Credit Volume

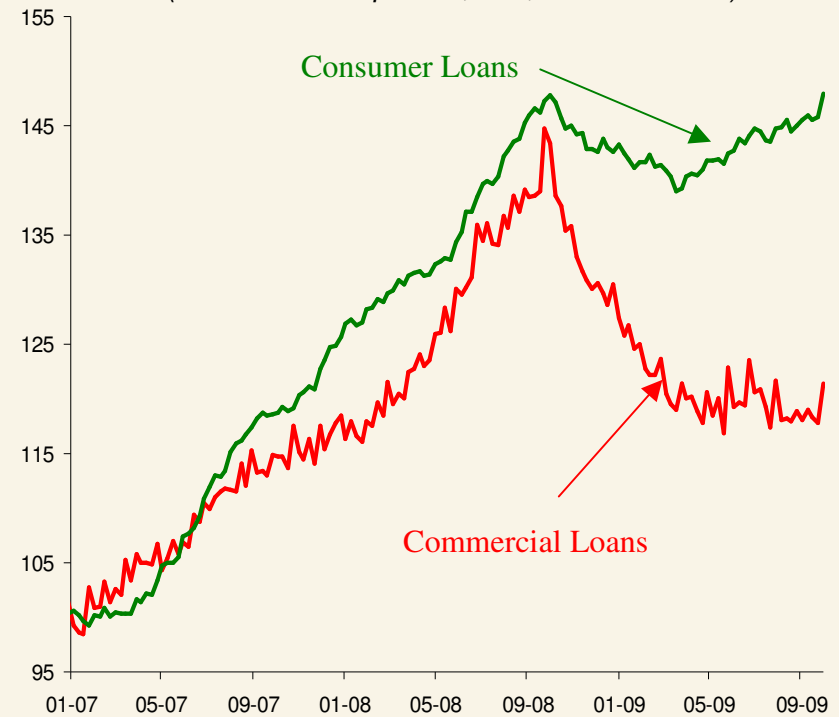
(Jan 2007 – Sep 2009, real, Jan 2007=100)



Source: BRSA, CBT

Volume of Commercial and Consumer Loans

(Jan 2007 – Sep 2009, real, Jan 2007=100)



Source: BRSA, CBT

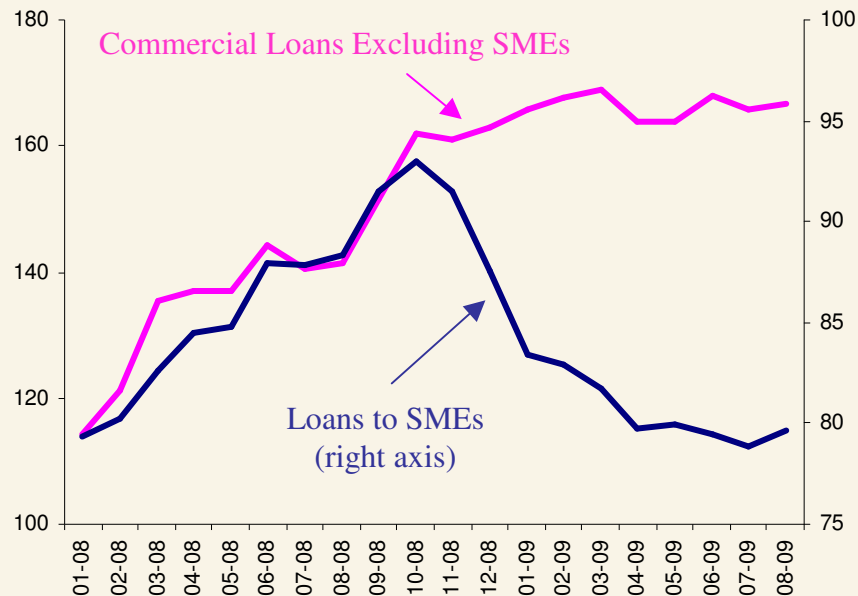


Commercial Loans

The slowdown in loans extended to small and medium size enterprises (SMEs) continues on the back of the global liquidity squeeze and tighter loan standards.

Commercial Loans

(Jan 2008 – Aug 2009, billion TL)

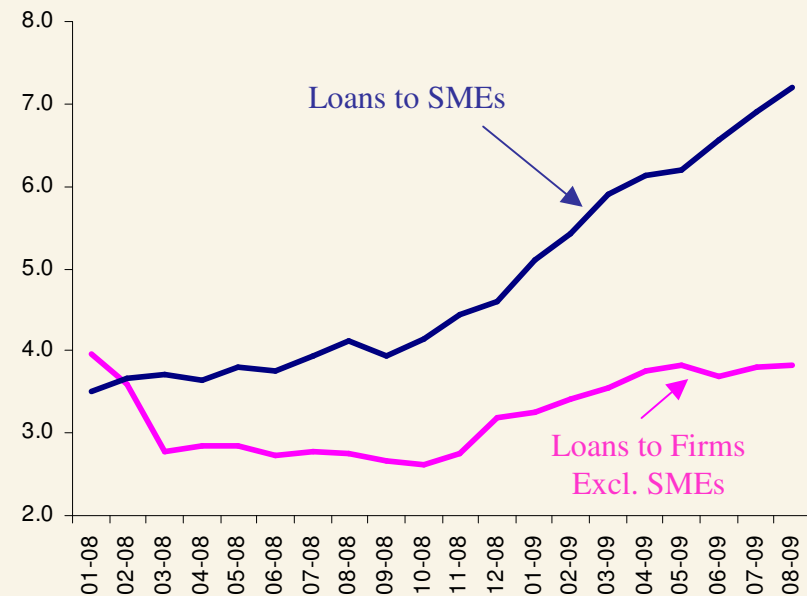


billion TL	Loans to SMEs	Commercial Loans Excl. SMEs
08/08	88.3	141.4
08/09	79.7	166.9

Source: BRSA, CBT

Nonperforming Loans

(Jan 2008 – Aug 2009, percent)



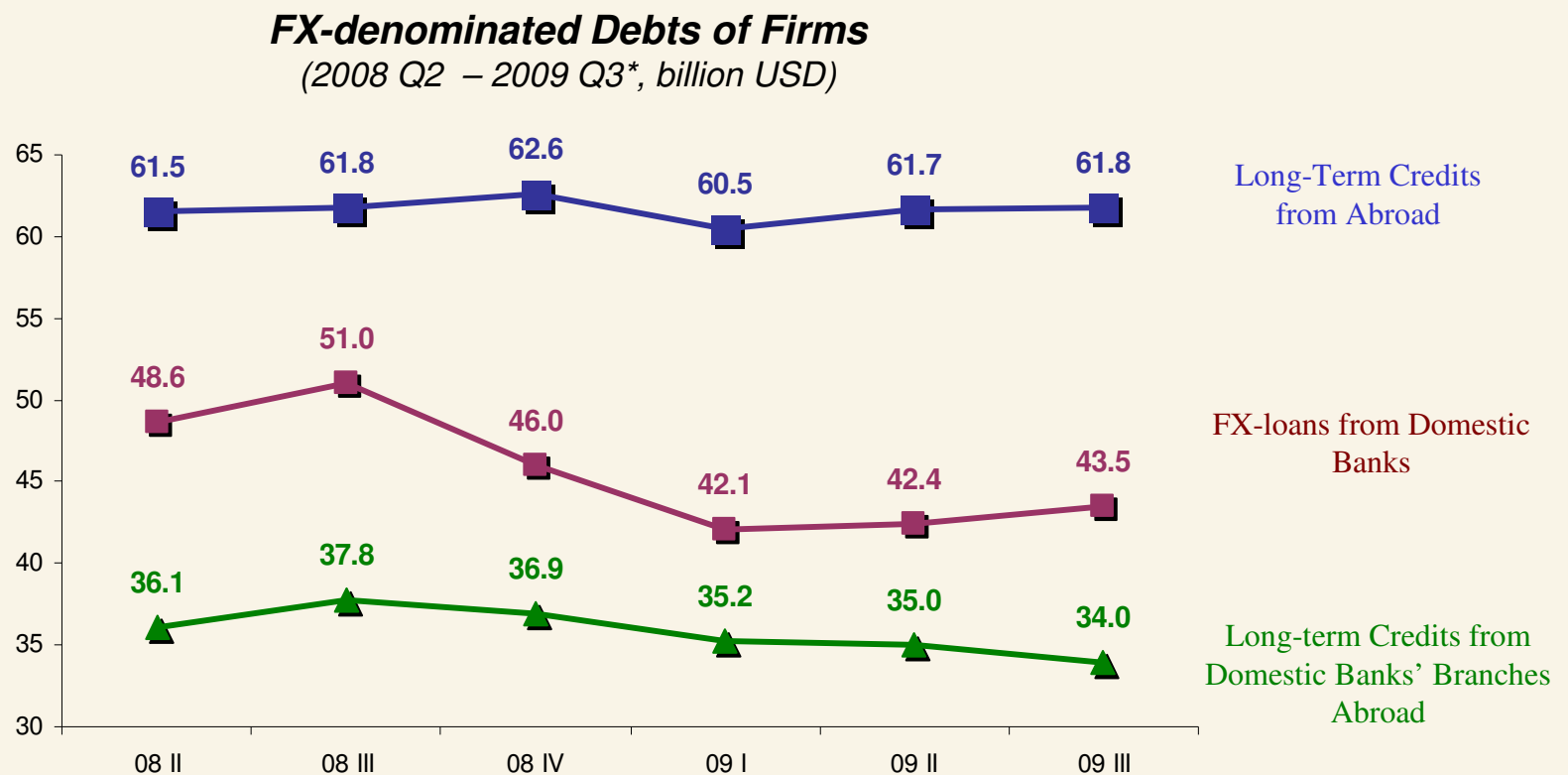
percent	Loans to SMEs	Commercial Loans Excl. SMEs
08.08	4,1	2,8
08.09	7,2	3,8

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.



* As of August 2009
Source: BRSA, CBT



Credit Default Rates

The number of firms defaulted on their bank loans increased significantly during the last year.

	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

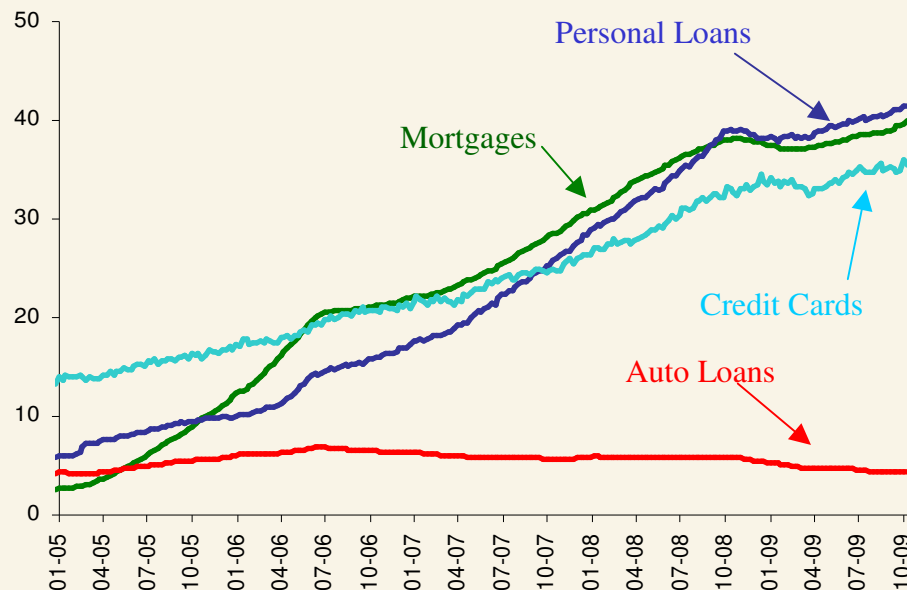
(1) The default rate has been calculated as the ratio of the number of firms that have non-performing loans to the total number of firms that have non-performing cash loans.



Consumer Loans

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

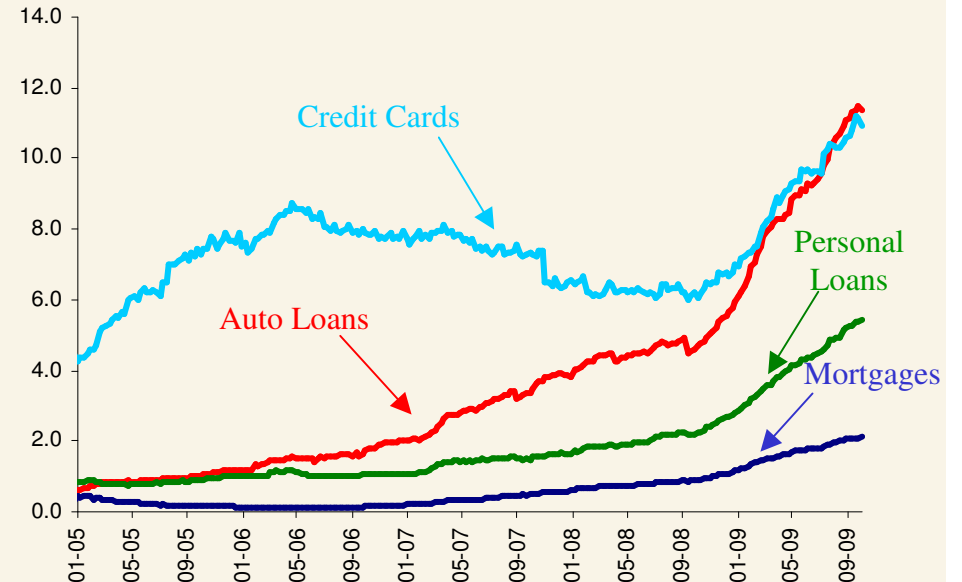
Sub-items of Consumer Loans
(Jan 2005 – Oct 2009, billion TL)



Billion TL	TOTAL	Mortgages	Automobiles	Personal Loans	Credit Cards
10/07	86.1	29.0	5.7	26.5	24.9
10/08	115.3	38.2	5.7	39.1	32.3
10/09	120.3	39.9	4.3	41.5	34.5

Source: BRSA, CBT

Ratio of Non-Performing Consumer Loans
(Jan 2005 – Oct 2009, percent)



Percent	TOTAL	Mortgages	Automobiles	Personal Loans	Credit Cards
10/07	3.0	0.5	3.5	1.6	7.3
10/08	3.1	0.9	4.7	2.3	6.2
10/09	6.3	2.1	11.6	5.6	11.3

Source: BRSA, CBT

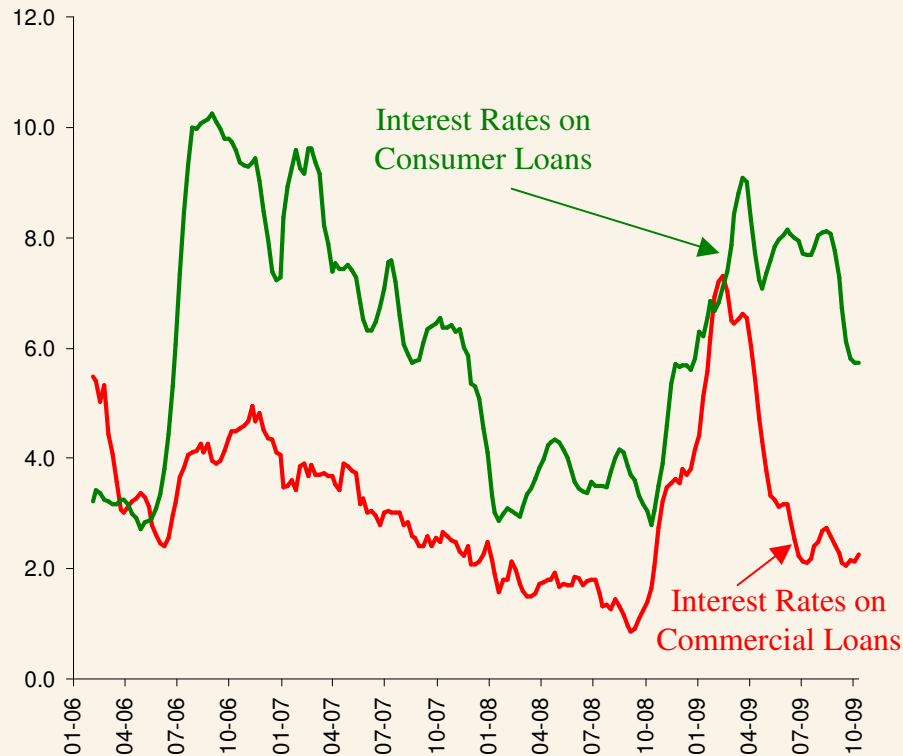


Financial Tightness

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

Difference between Interest Rates Applied on Loans Deposits*

(Jan 2006 – Oct 2009, 4-week moving average, percent)

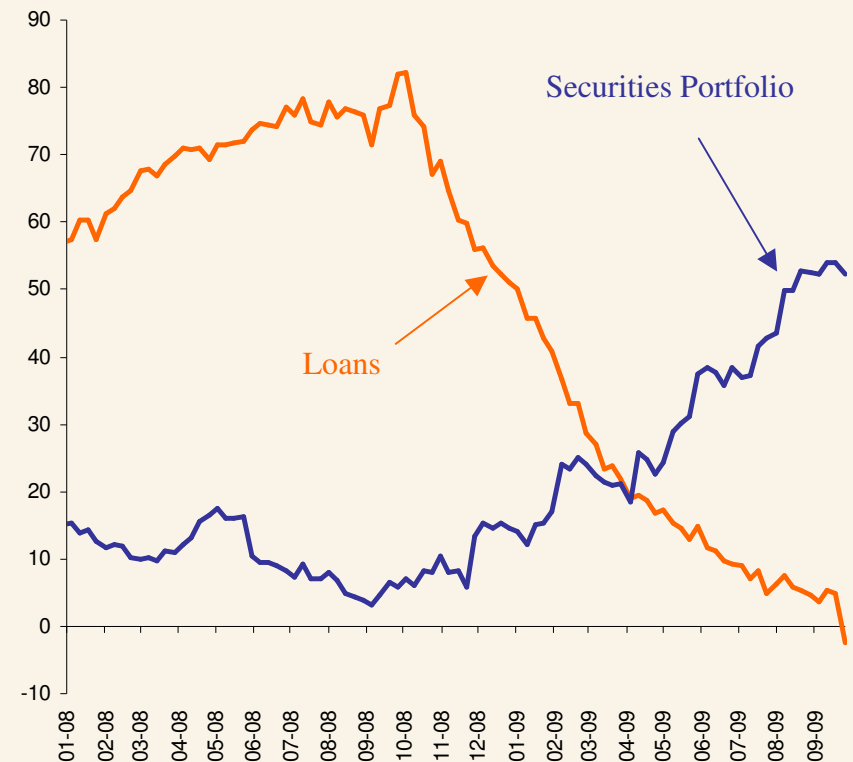


* Weighted average, flow interest rates.

Source: BRSA, CBT

Annual Change in Bank Loans and Securities*

(Jan 2008 – Oct 2009, billion TL)



* FX-loans and securities have been calculated based on fixed exchange rate.

(1 USD = 1.5 TL)

Source: BRSA, CBT

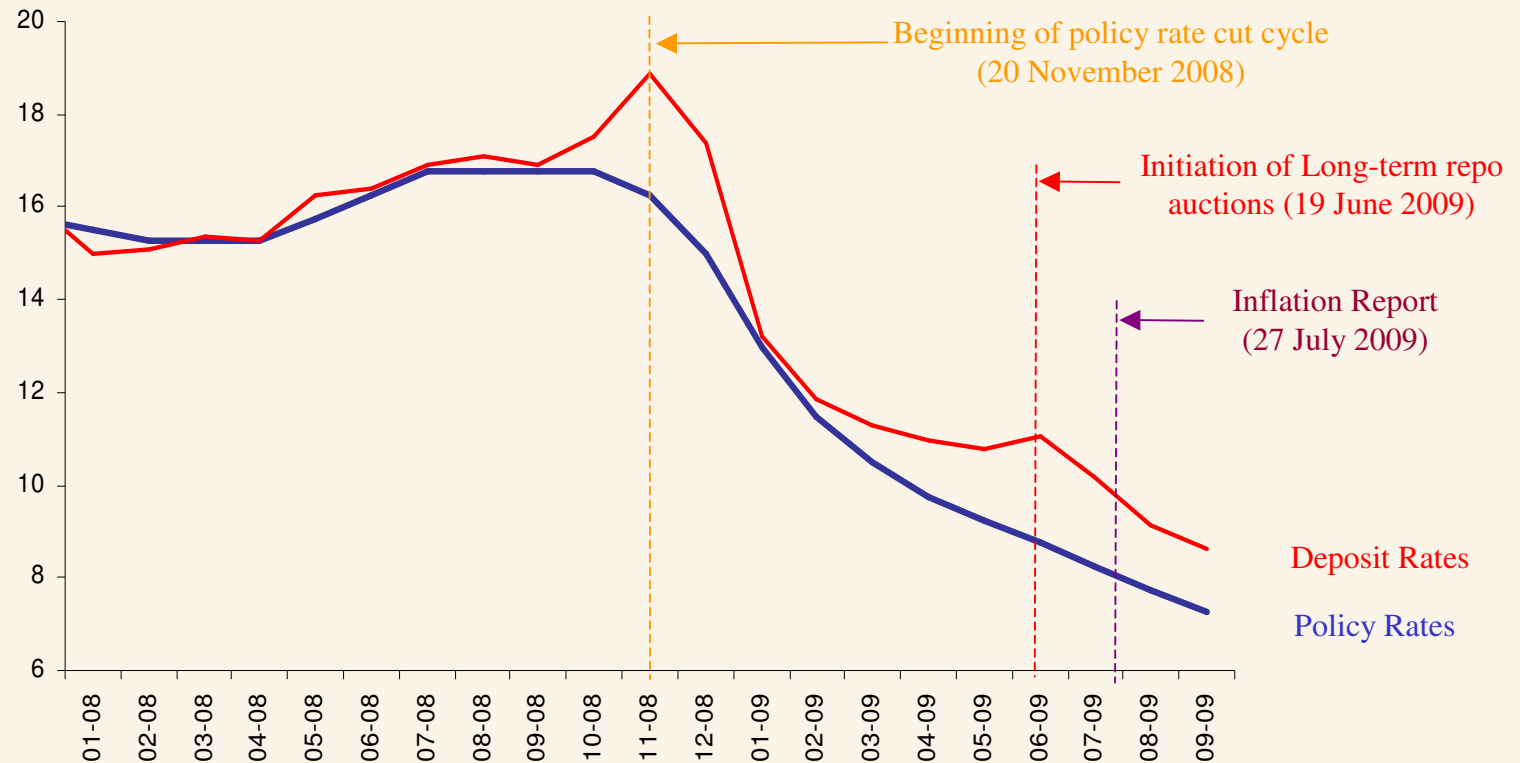


Change in Deposit Rates

The easing cycle initiated in November 2008, introduction of new long-term repo facility, and messages conveyed regarding the medium-term outlook of policy rates have all eased pressure on banks' funding costs.

*Policy Rates and Average Interest Rates on Deposits**

(Jan 2008 – Sep 2009, percent)



* Weighted average, flow interest rates. Excluding Interbank deposits.

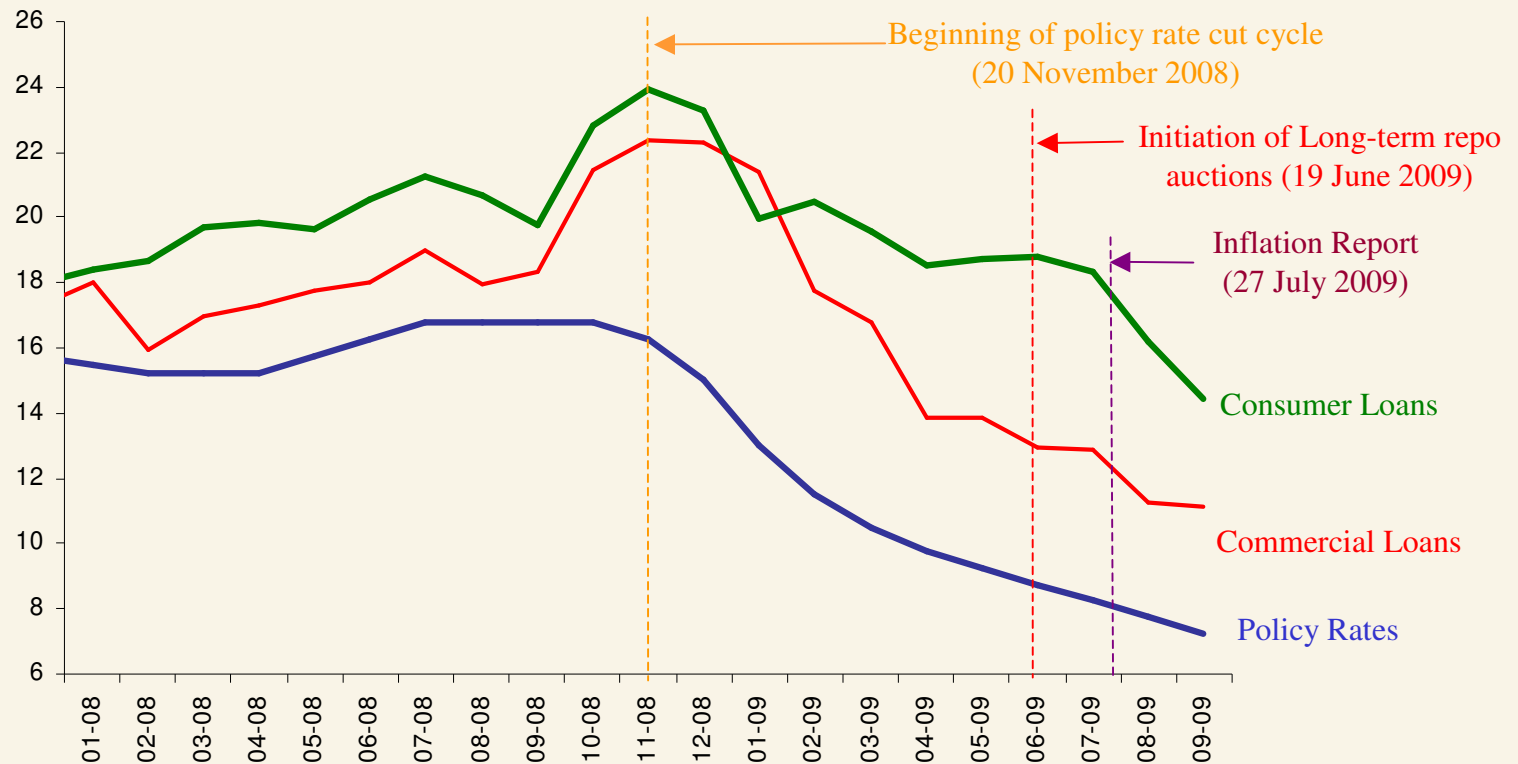
Source: BRSA, CBT



Change in Loan Rates

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

Consumer Loans, Commercial Loans and Policy Rates
(Jan 2008 – Sep 2009, percent)



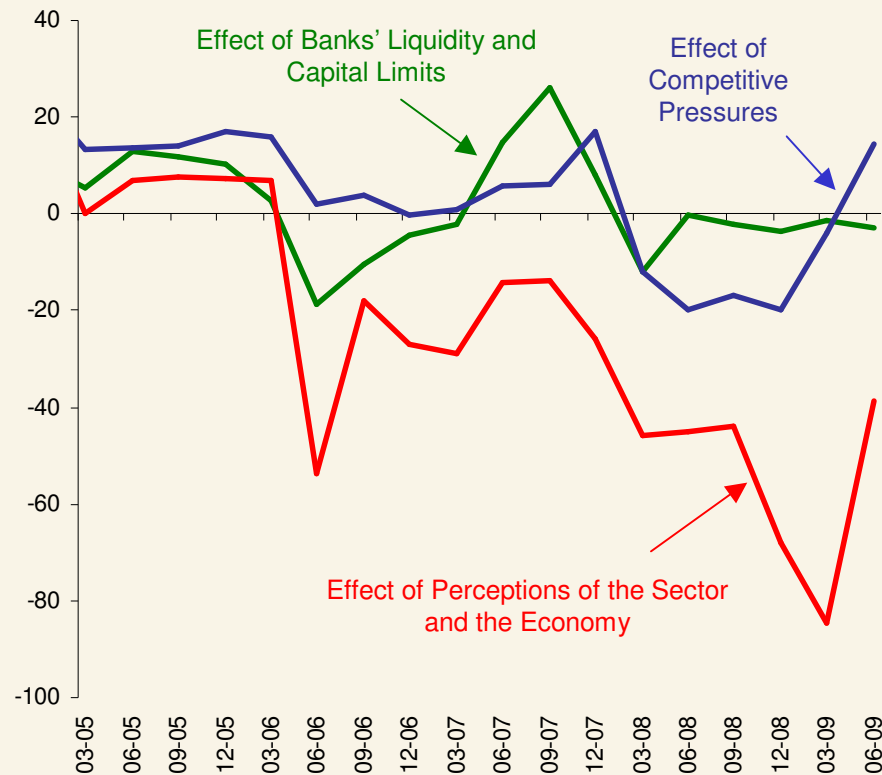
Source: CBT



Loan Tendency Survey

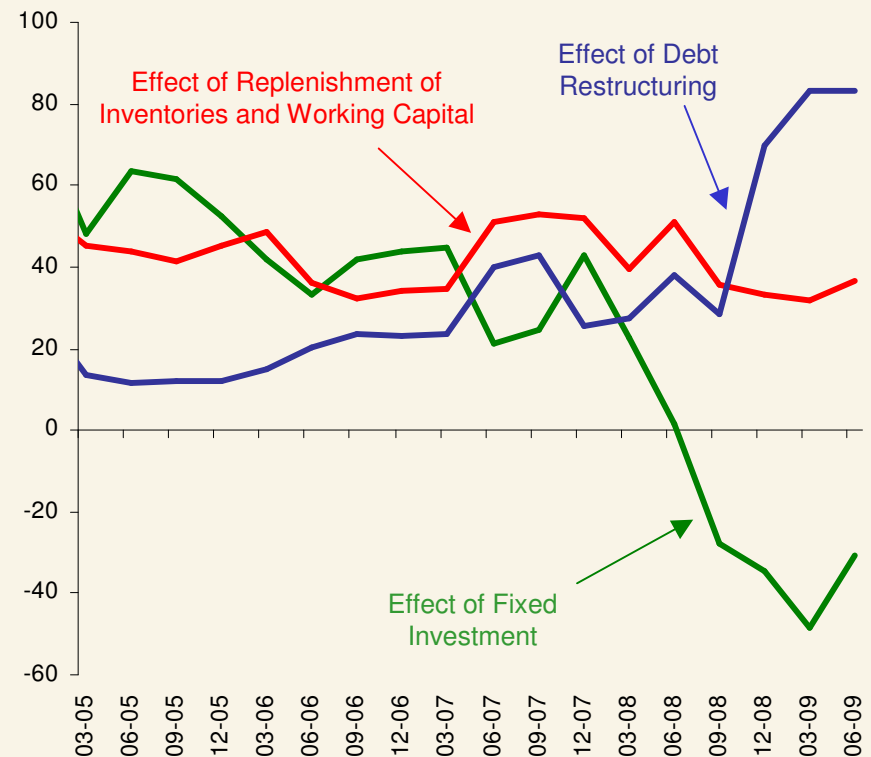
The Banks' Loan Tendency Survey results revealed that the tendency of banks to tighten credit standards has been easing and competition among banks started to encourage banks to ease credit standards.

Factors Affecting Credit Supply
(Mar 2005- Jun 2009)



Source: CBT

Factors Affecting Credit Demand
(Mar 2005- Jun 2009)



Source: CBT

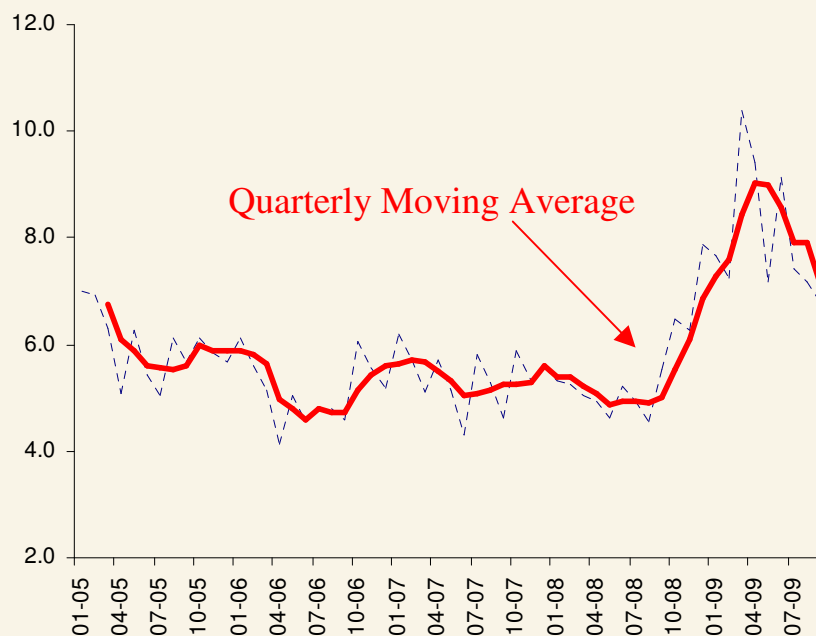


Commercial Activities

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

Ratio of the Number of Bad Cheques to Total Cheques

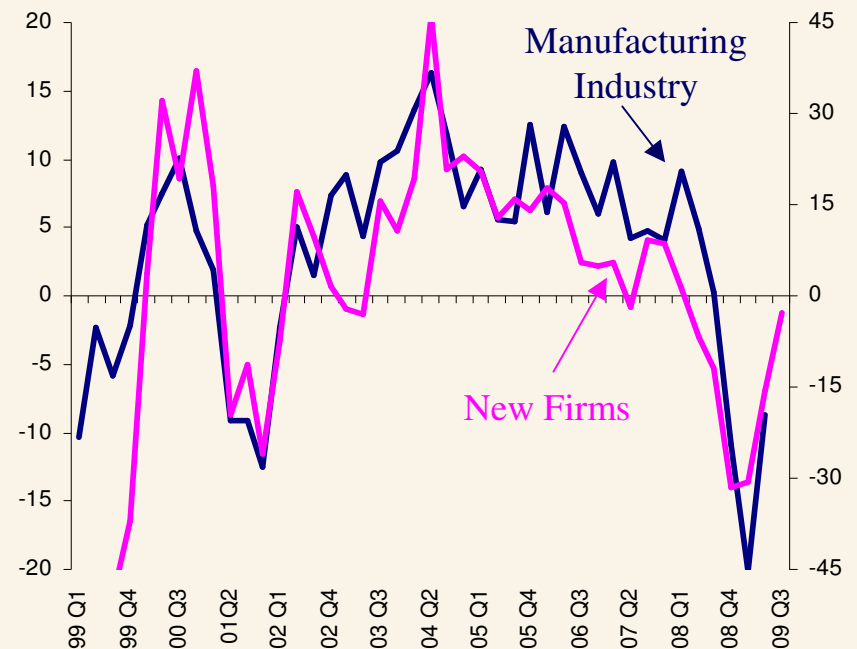
(Jan 2005 – May 2009, percent)



Source: ICHC, CBT

Number of New Firms and GDP Manufacturing Industry

(1999 Q1 – 2009 Q3, yoy percentage change)



Source: TURSTAT, CBT

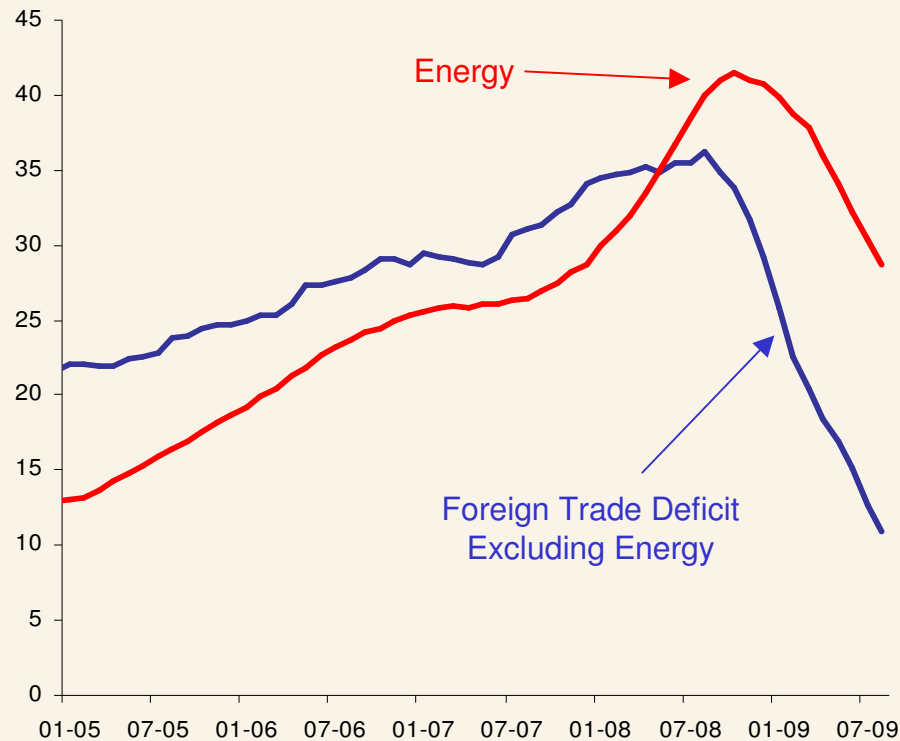


Balance of Payments

The relative improvement in current accounts has limited the adverse effects of the global financial crisis by reducing the financing requirement.

Foreign Trade Deficit

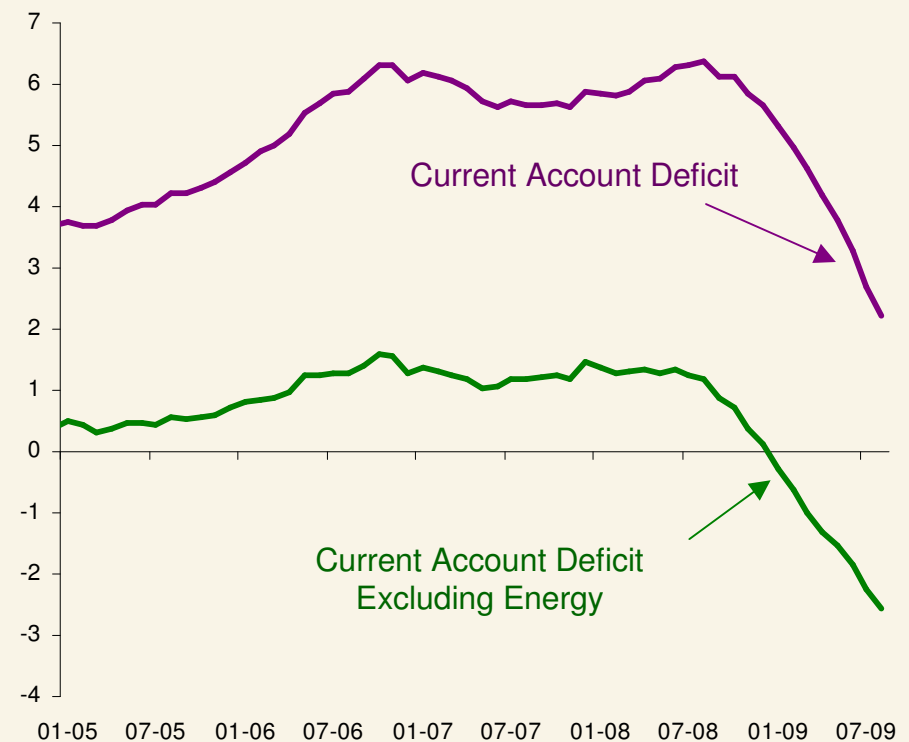
(Jan 2005 – Aug 2009, billion USD)



Source: TURKSTAT, CBT

Current Account Balance

(Jan 2005 – Aug 2009, ratio to GDP, percent)



Source: TURKSTAT, CBT



Balance of Payments

Balance of payments between October 2008 and August 2009

UTILIZATION	Billion USD
Current Account Balance	-12.3
Portfolio Investments (Equity, debt instruments and bank deposits)	0.0
Loans (Commercial loans, banking sector loans, real sector loans, public sector loans)	-19.1

Source: TURKSTAT, CBT

SOURCE	Billion USD
Net Errors and Omissions	12.6
Foreign Direct Investment	8.8
Other	2.3
Reserve Assets	7.7
(Official reserves)	(5.9)
(FX deposits in banks)	(-2.6)
(FX assets of other sectors)	(4.4)

NET ERRORS AND OMISSIONS ITEM

- ✓ FX deposit transfers from abroad to FX accounts in Turkey due to reasons like the Repatriation Amnesty.
- ✓ Conversion of FX savings not registered in the banking sector to Turkish Lira.
- ✓ Foreign currency losses/gains realized during the accounting of FX transactions.

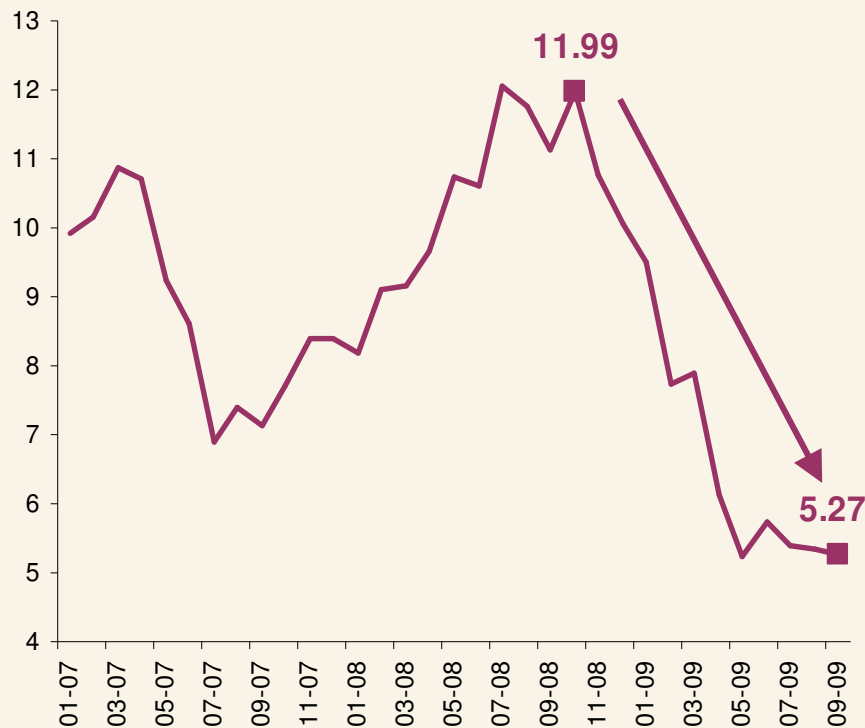


Price Stability in Turkey

Annual CPI inflation stood at 5.27 percent as of September 2009.

Consumer Inflation

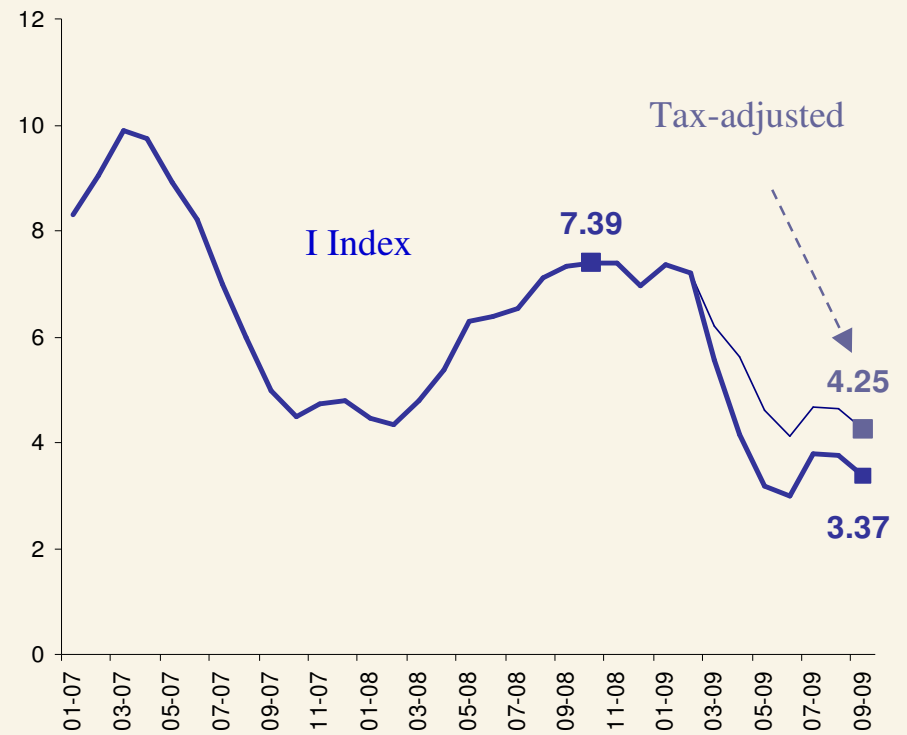
(Jan 2007 – Sep 2009, annual percentage change)



Source: TURKSTAT, CBT

Core Inflation Indicators

(Jan 2007 – Sep 2009, annual percentage change)



Source: TURKSTAT, CBT

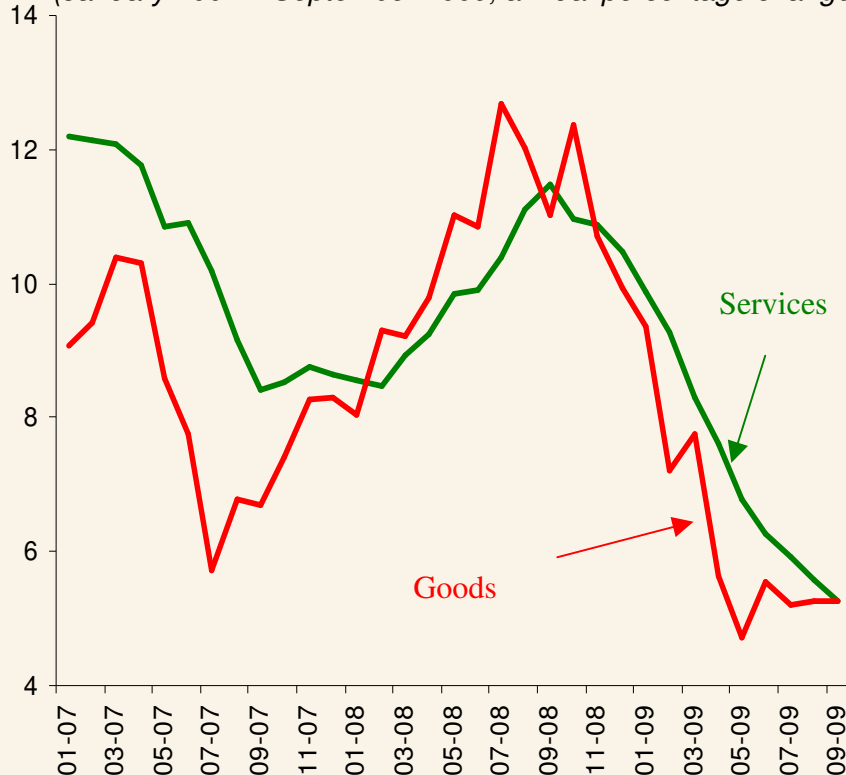


Price Stability in Turkey

The gradual expiration of tax cuts in September led to a limited increase in the inflation of commodity prices (excluding energy and food), while disinflation in services has continued.

Goods and Services Inflation

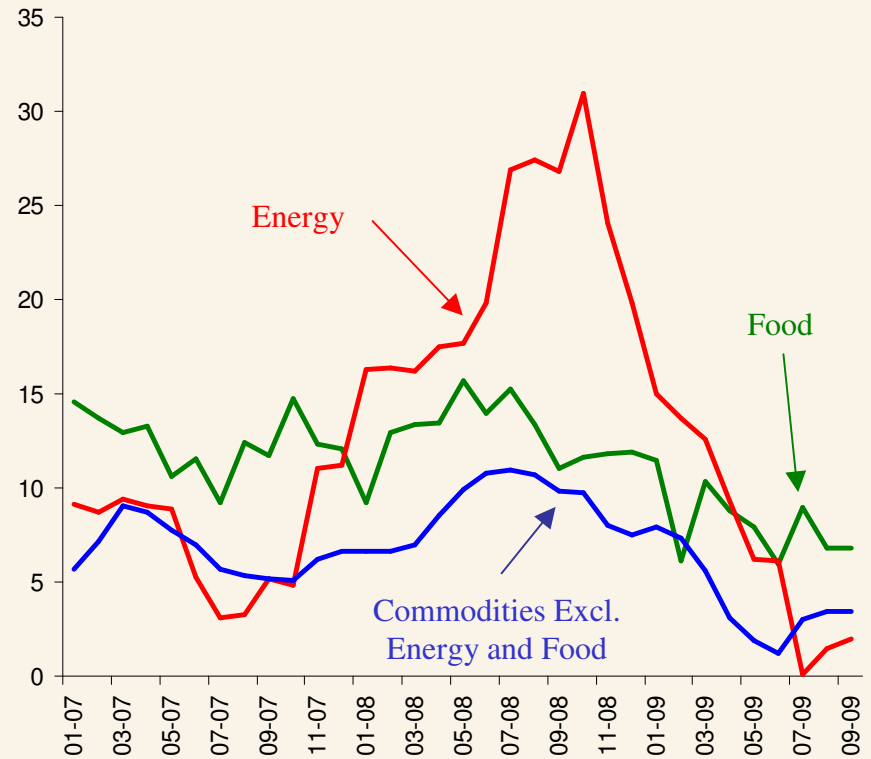
(January 2007 – September 2009, annual percentage change)



Source: TURKSTAT, CBT

Goods Inflation –Components

(January 2007 – September 2009, annual percentage change)



Source: TURKSTAT, CBT

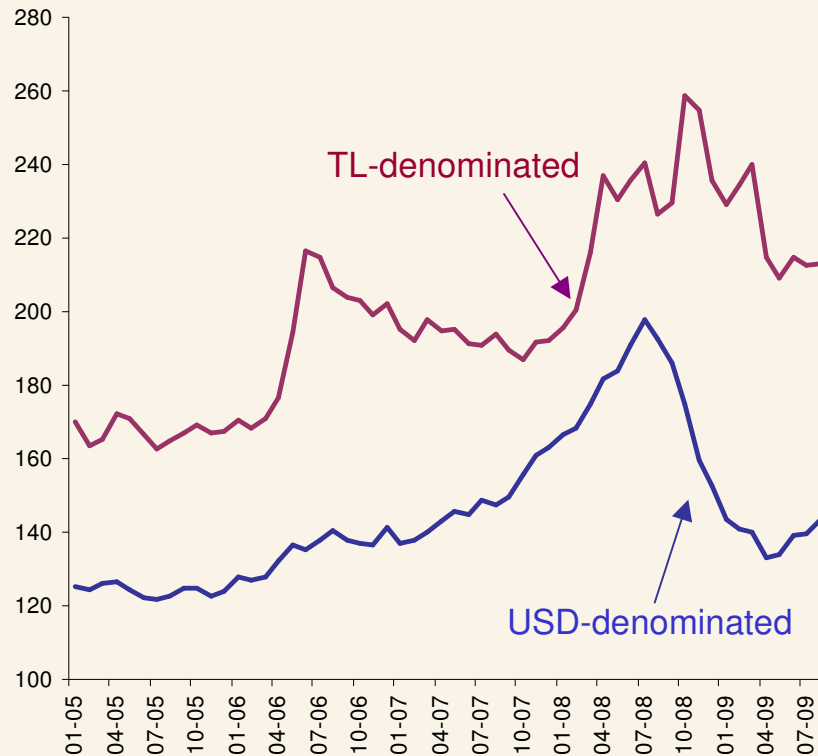


Import Prices

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

Import Prices

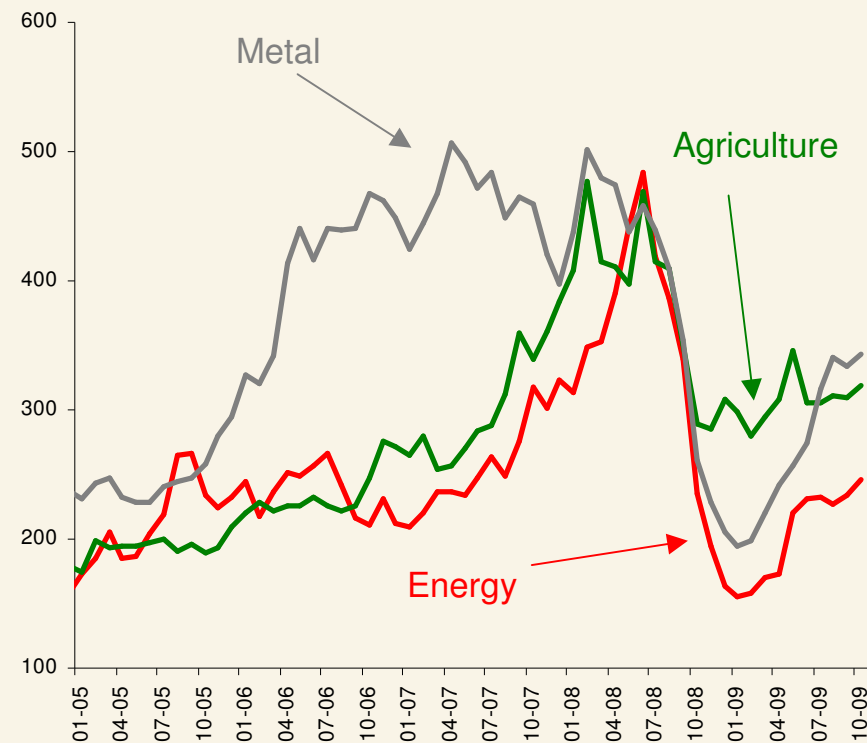
(Jan 2005 – Aug 2009, 2001 = 100)



Source: TURKSTAT, CBT

Commodity Prices

(Jan 2005 – Oct 2009, USD, 2001 = 100)



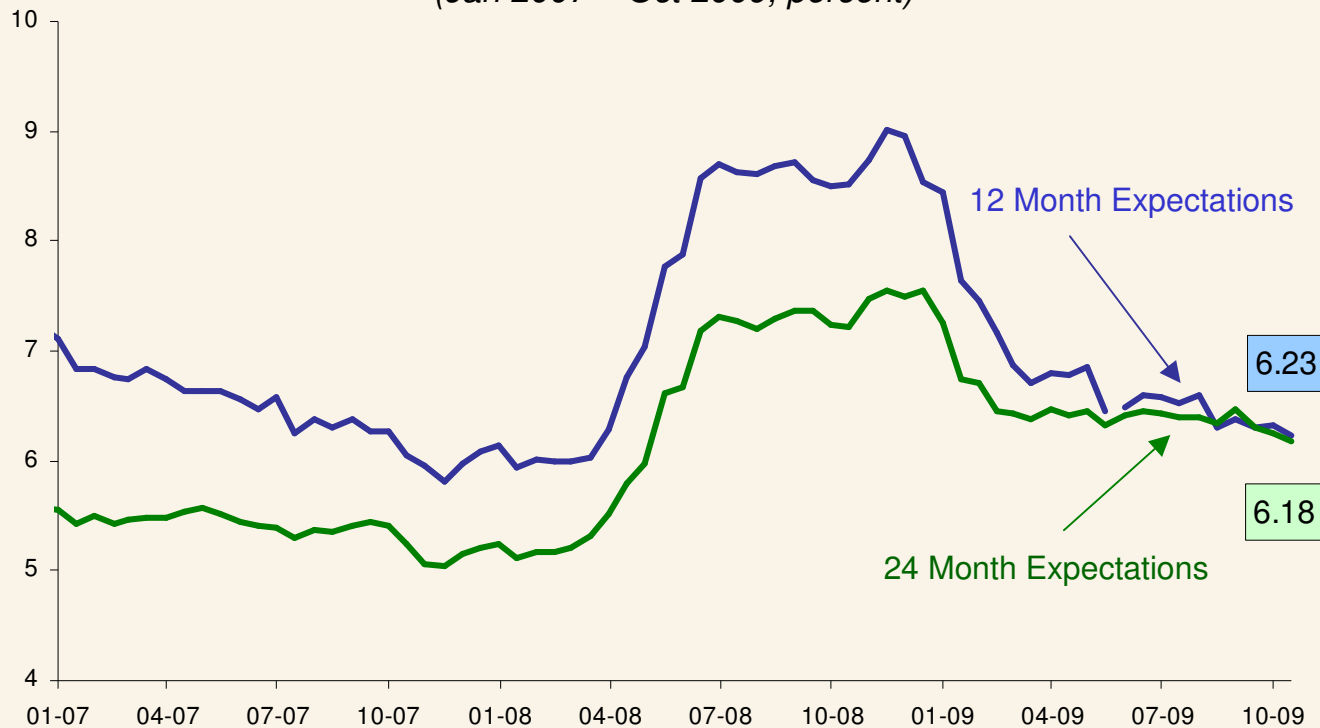
Source: TURKSTAT, CBT



Inflation Expectations

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

Inflation Expectations
(Jan 2007 – Oct 2009, percent)



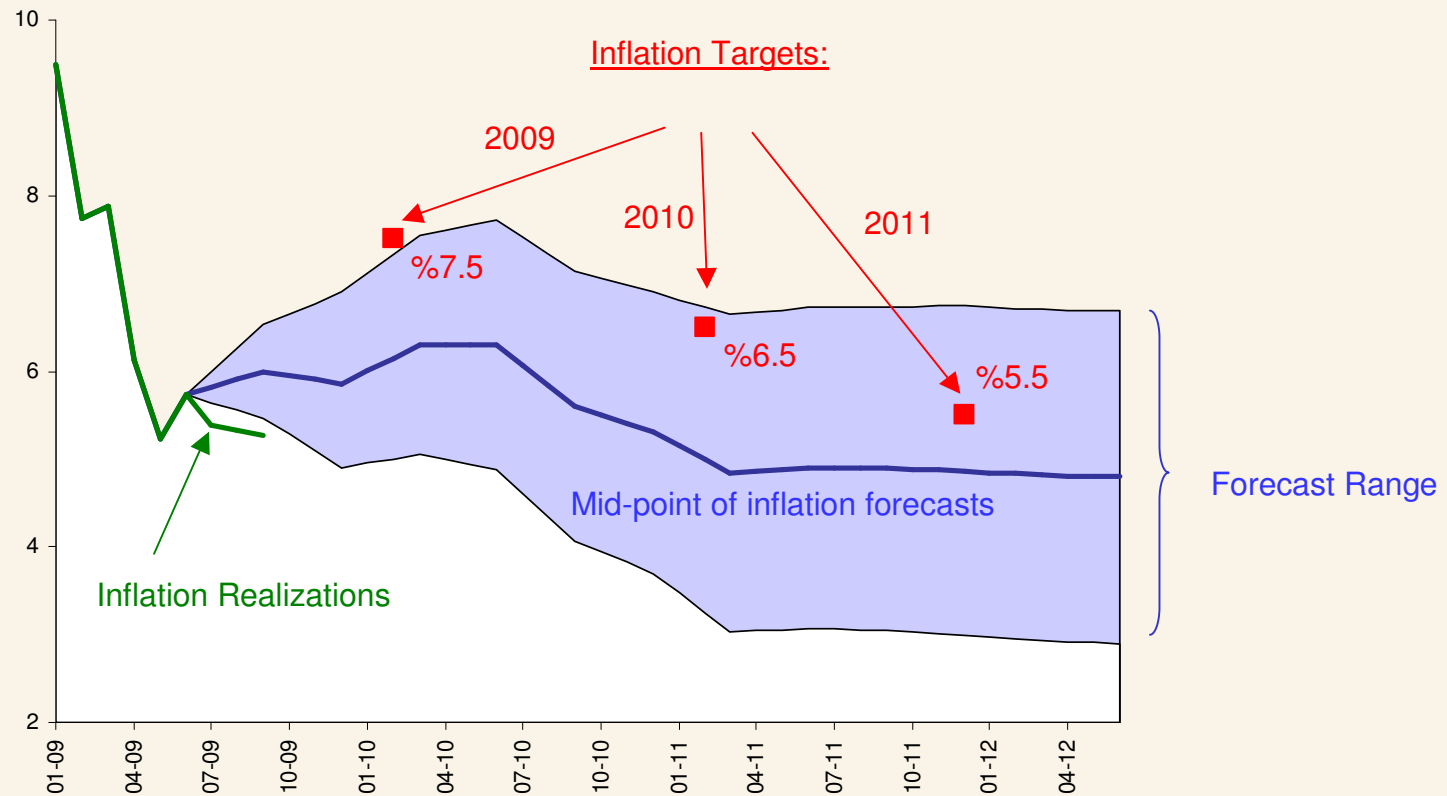
Source: TURKSTAT, CBT



Inflation Outlook

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

Inflation, Forecasts and Targets
(2009 Q1 – 2012 Q3, percent)



Source: CBT



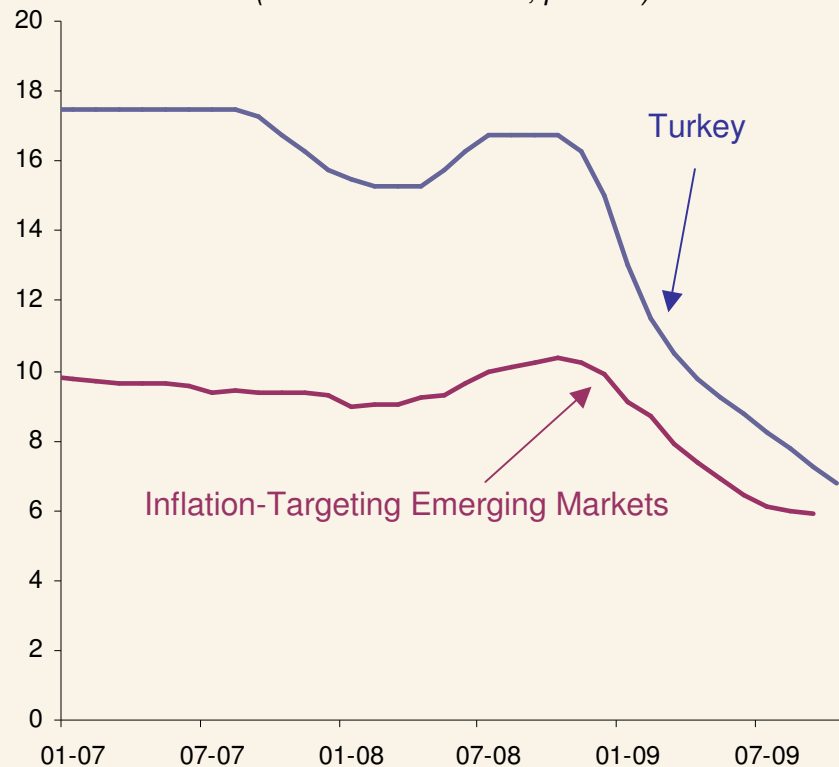
III. Monetary Policy Stance



Monetary Policy Stance

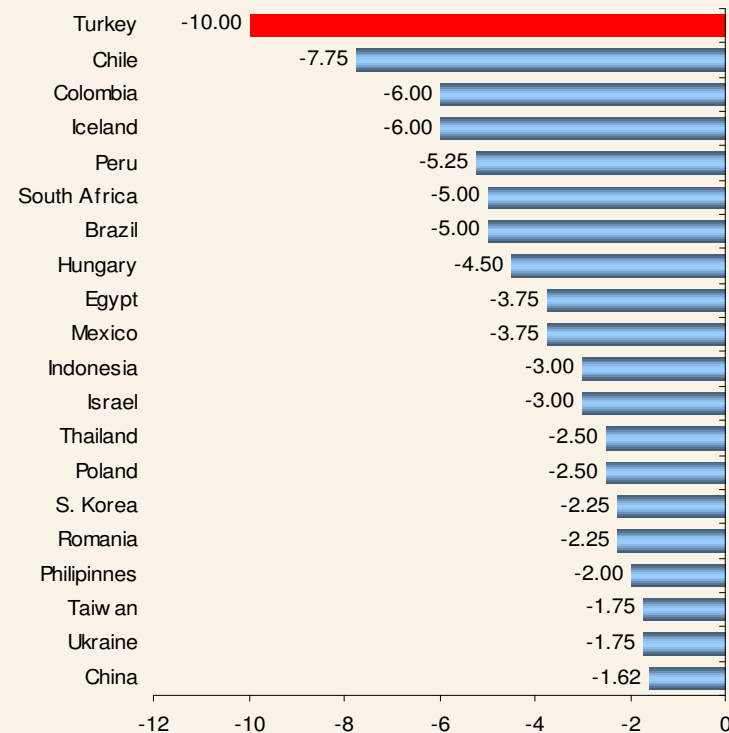
The relative soundness of the financial system in Turkey has enabled the Central Bank of Turkey to focus on restraining the adverse effects of the financial crisis on the Turkish economy without conflicting with the primary objective of maintaining price stability.

Policy Rates in Inflation-Targeting Emerging Market Economies and Turkey
(Jan 2007– Oct 2009, percent)



Source: Central Banks, CBT

Change in Policy Rates of Emerging Market Economies (Change as of Oct 2008, percentage points)



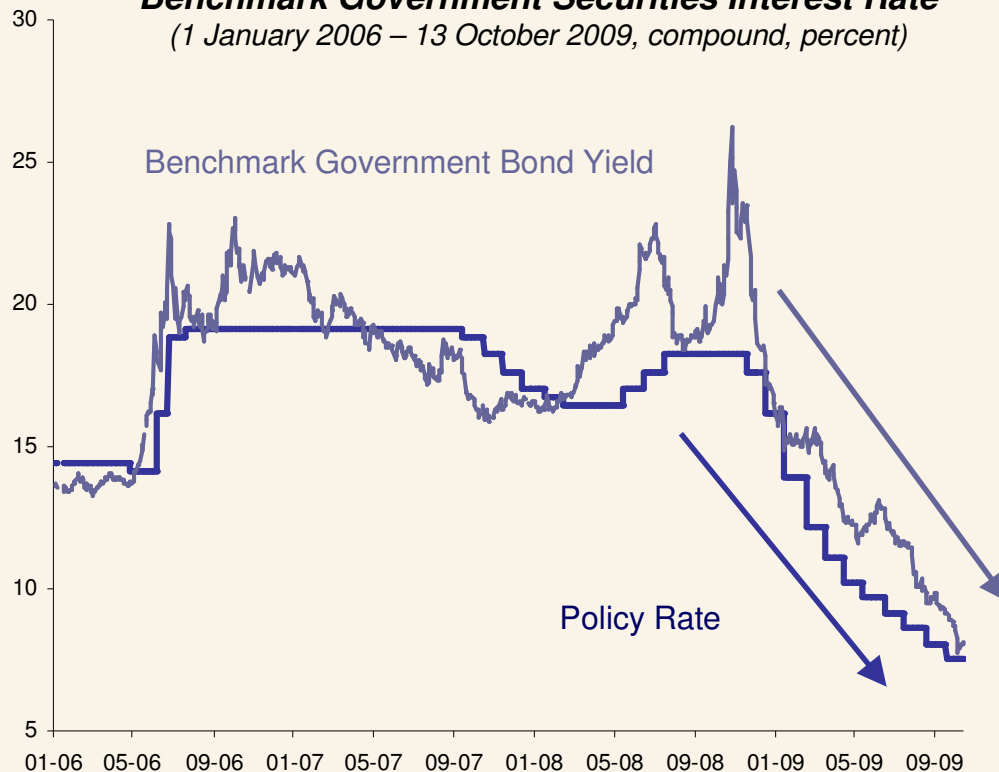
Source: Central Banks, CBT



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 – 13 October 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 09	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

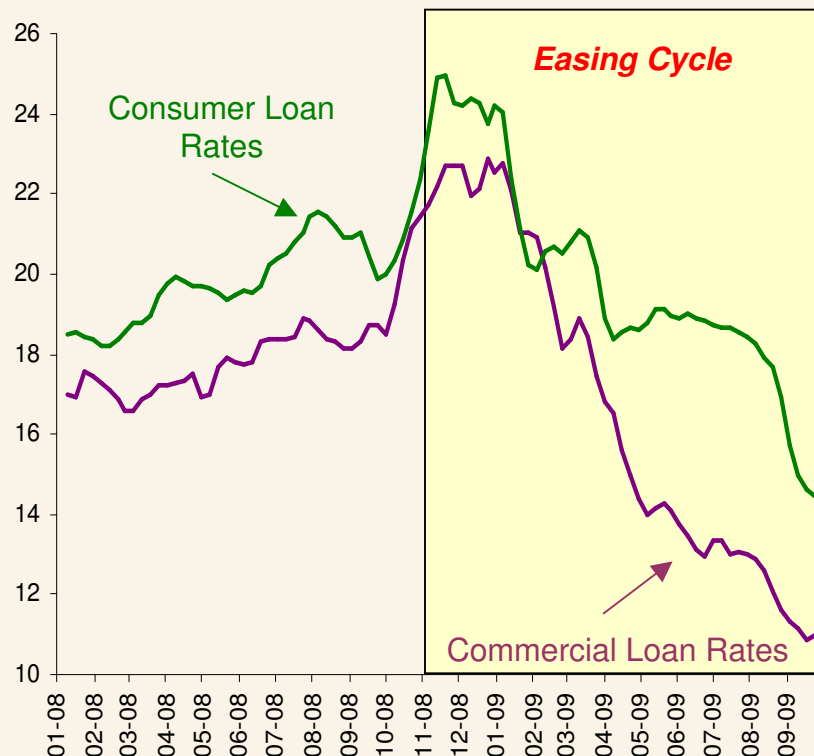


Monetary Policy Stance

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

Loan Rates

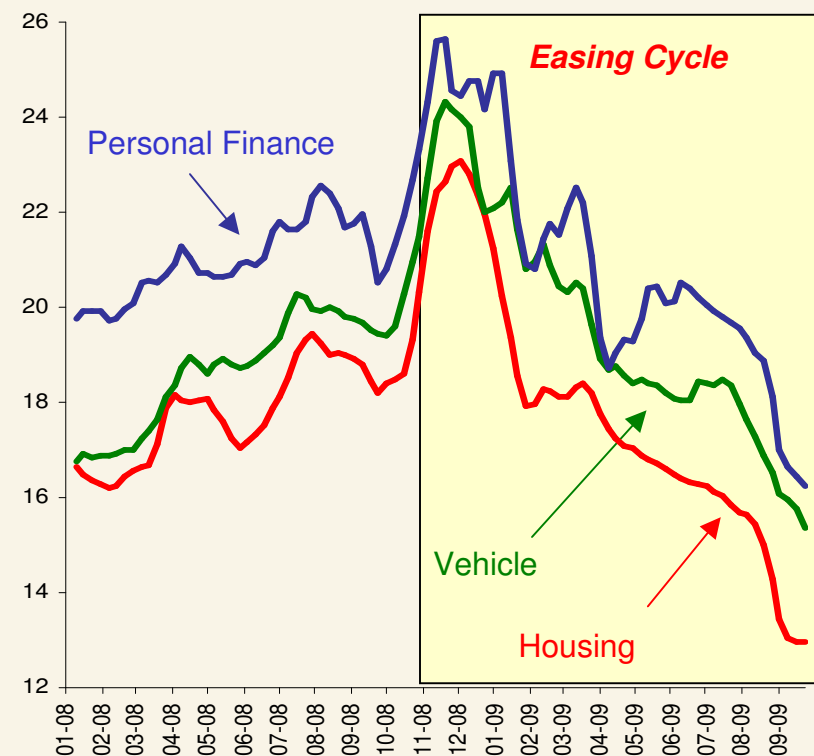
(Jan 2008 – Sep 2009, percent)



* 2-week moving average
Source: BRSA, CBT

Consumer Loan Rates

(Jan 2008 – Sep 2009, percent)



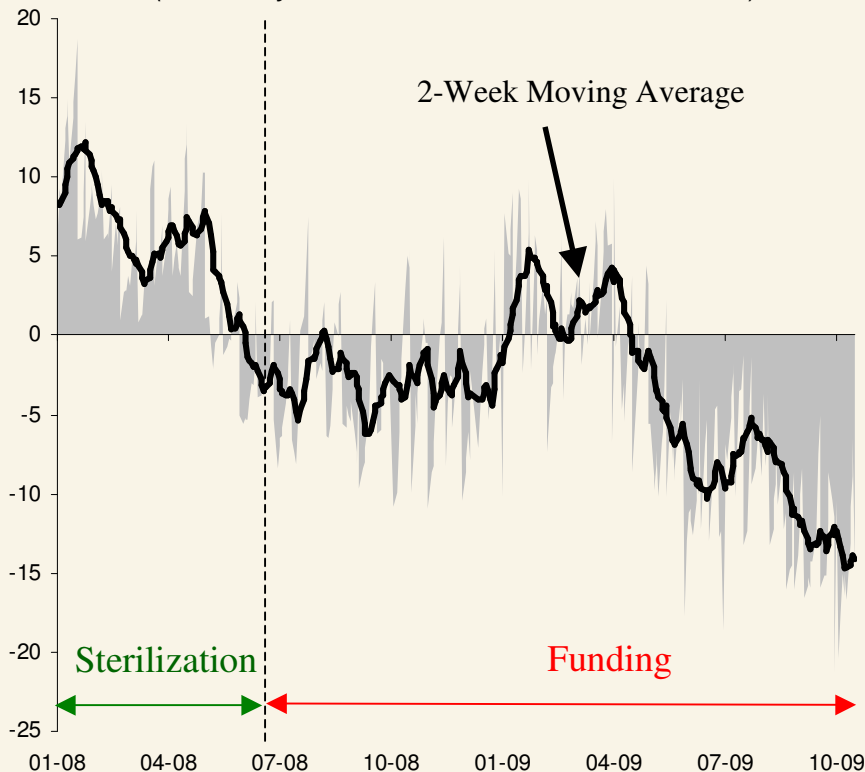
* 2-week moving average
Source: BRSA, CBT



Monetary Policy Stance

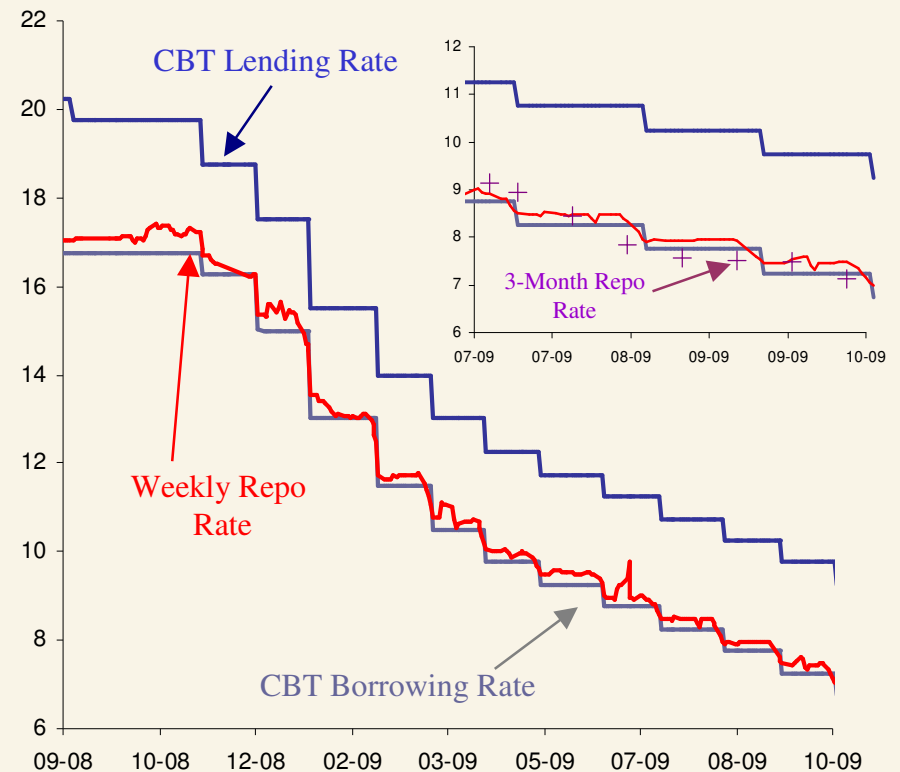
Turkish Lira liquidity need of the market was met via regular auctions and interest rates in money markets were kept close to Central Bank borrowing rates.

TL Liquidity Provided by the Central Bank
(1 January 2008 – 16 October 2009, billion TL)



Source: CBT

Policy Rate and Repo Rate
(Sep 2008 – Oct 2009, percent)



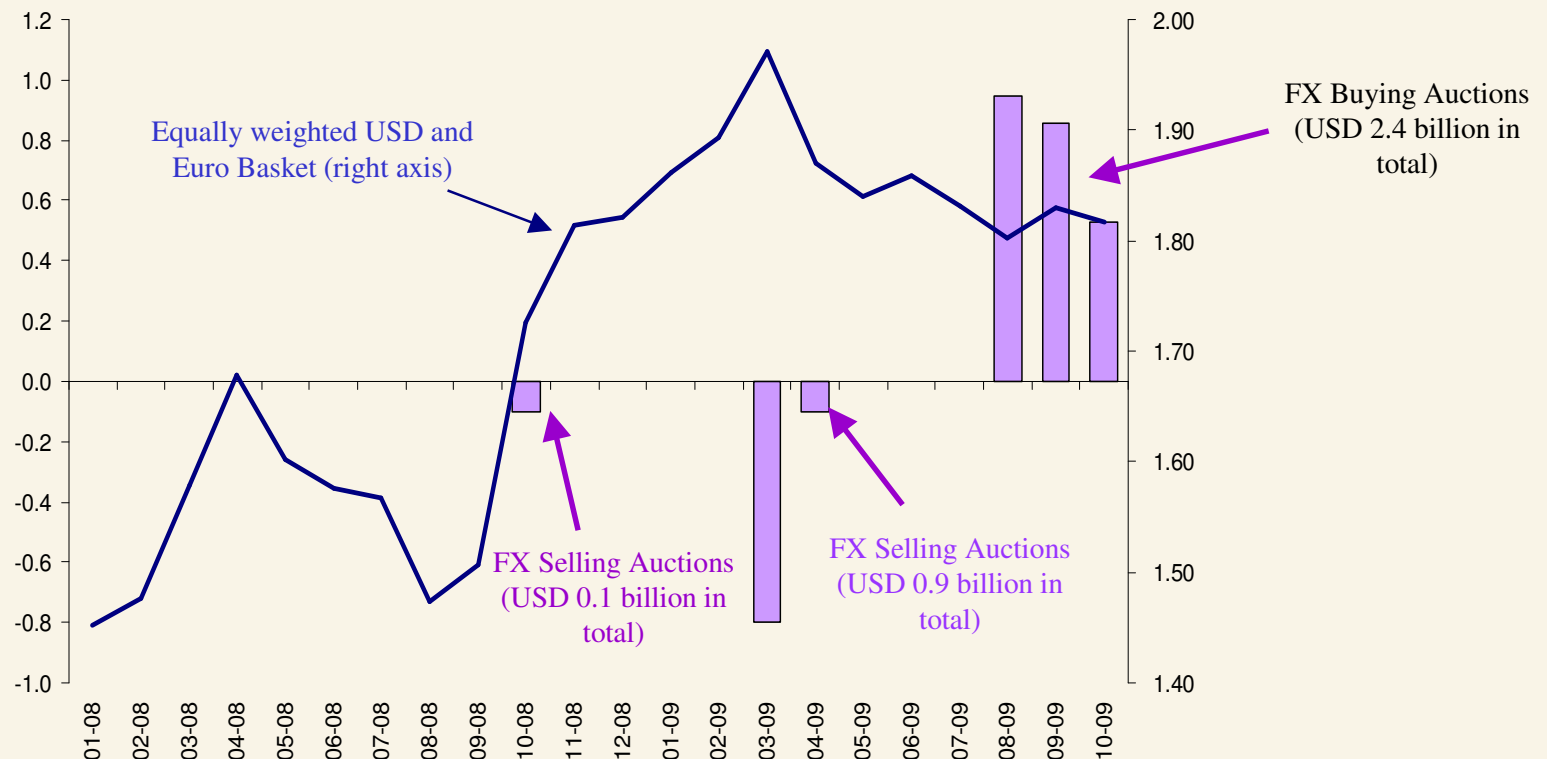
Source: CBT



FX Liquidity Measures

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

**FX Buying and Selling Auctions against TL (monthly cumulative, billion USD)
and FX Basket (equally weighted, Jan 2008 – Oct 2009*)**



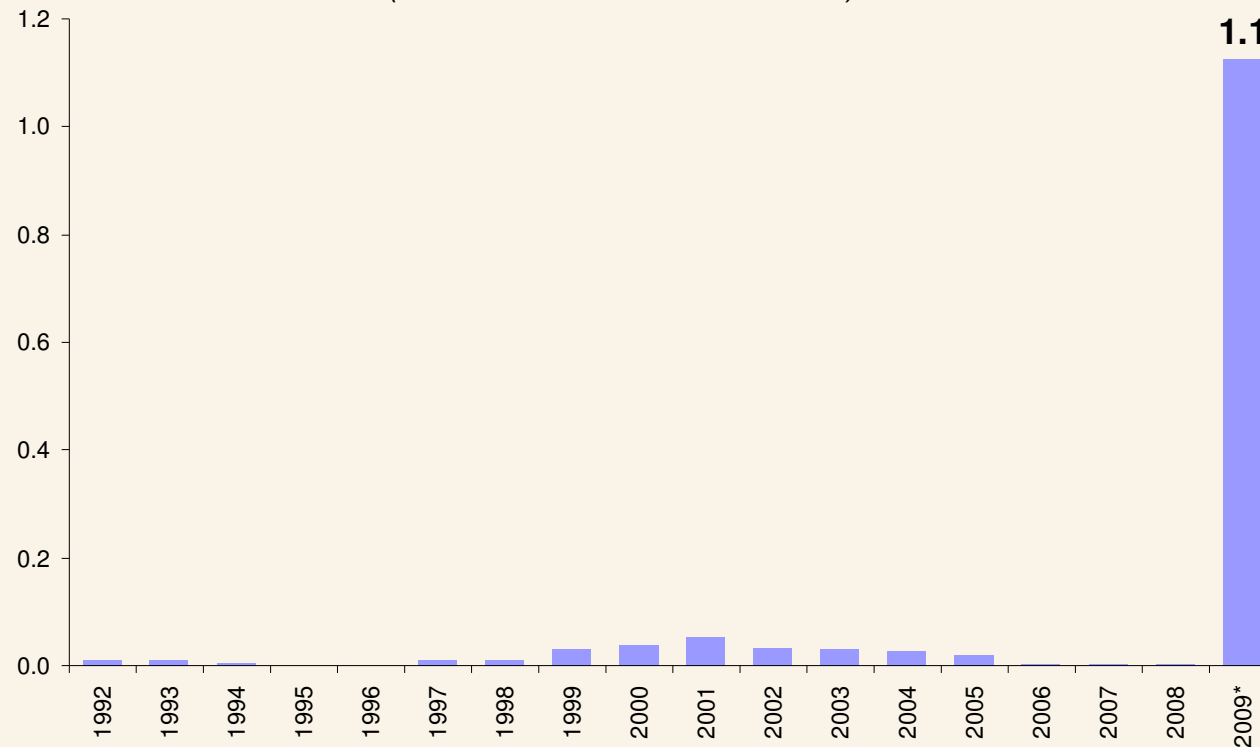
* As of 16 October 2009
Source: CBT



Export Rediscount Credits

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

Use of Export Rediscount Credits
(1992 – Oct 2009, billion USD)



* As of 15 October 2009
Source: CBT



General Outlook

- Optimism in global financial markets continues 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.
- The cumulative policy rate cuts implemented since November 2008, and the recovery in global risk perceptions have started to have favourable effects on credit markets. The support of the credit channel to the aggregate demand is expected to grow in the upcoming period.



General Outlook

- Still, the recovery in economic activity is expected to be slow and gradual.
- The notable increase in private consumption 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.



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Eskişehir Chamber of Industry

Durmuş YILMAZ

Governor

20 October 2009