



CENTRAL BANK OF THE REPUBLIC OF TURKEY



FINANCIAL STABILITY REPORT

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This report, which aims to inform the public, is based mainly on May 2005 data. However, the report also includes the developments and evaluations until the publishing date of the Report in Turkish. This text is fully available at the CBRT web site. The CBRT cannot be held accountable for decisions taken based on the information and data provided in this report.

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In order to enable comparisons, all the figures recorded before the year 2005 are expressed in terms of New Turkish Lira.

FOREWORD

The developments in the financial markets during recent years and the acceleration of such developments, especially in the 90s, have significantly affected the core functions of central banks. Globalisation, deepening of financial markets and improved communication technology have all increased the need for independent central banks. This, in turn has highlighted the fact that more transparent, open and accountable central banks would be more successful at achieving price stability. Furthermore, due to the financial crises experienced on the road to globalisation, along with financial liberalisation and technological improvements, “financial stability” in line with the target of achieving price stability, has become one of the leading policy issues of central banks.

While most central banks have been acquiring instrumental independence in implementing monetary policy, the tendency towards assigning the duty of supervising banks to authorities other than central banks has commonly been observed. This, however, has not diminished the importance attached by central banks to assessing financial stability in order to achieve financial stability. On the contrary, the view that price stability and financial stability targets are inseparable has become widespread.

The concept of financial stability denotes resilience to shocks in the financial markets, as well as stability of the institutions operating in these markets and the payment systems. Stability in this context contributes to the health of the financial system, efficient allocation of resources and effective management and distribution of risks in the economy.

Financial instability, on the other hand, seriously disturbs the economy and the high costs of financial crises indicate just how important it is to maintain financial stability.

As observed in the international arena, central banks are reorganising themselves in order to directly and effectively monitor financial stability and to enable the continuation of their work developing new analysis techniques. A significant component of this process is the sharing of central bank findings on financial stability with the public by publishing financial stability reports. The objective of publishing a financial stability report is to make the necessary financial information available for users, thus contributing to financial stability.

Parallel to world developments and following a series of crises, some changes have been made in the core functions of the Central Bank in Turkey. Following the amendment dated April 2001 on Central Bank Law No:1211, instrumental independence of the Central Bank was provided and the primary goal of the Bank was determined to be maintaining price stability. Within the context of maintaining financial stability, the Central Bank continues to assess the main risks and vulnerabilities of the financial system. In addition, the Bank continues to develop alternative policies against these risks by monitoring the financial system as a whole.

Within this context, we aim to assess the financial system as a whole and share the findings and opinions of the Central Bank with the public in a transparent manner through the publication of the financial stability report, which will be published twice a year.



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