



CENTRAL BANK OF THE REPUBLIC OF TURKEY

**Samsun Chamber of Commerce
and Industry Presentation**

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Governor

June 2009



Presentation Outline

- I. The Global Financial Crisis and Recent Developments
- II. Economic Indicators Pertaining Turkey
- III. Projections About the Near Future
- IV. Inflation Developments & Monetary Policy Stance
- V. International Bank Account Number (IBAN)
- VI. Training on Financial Matters



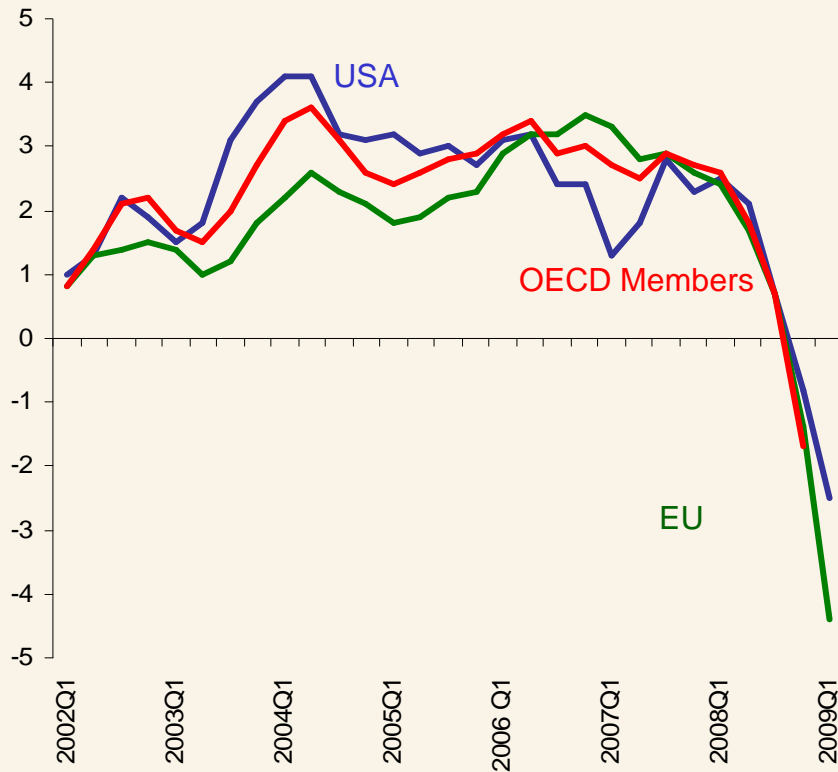
I. The Global Financial Crisis and Recent Developments



Global Financial Crisis

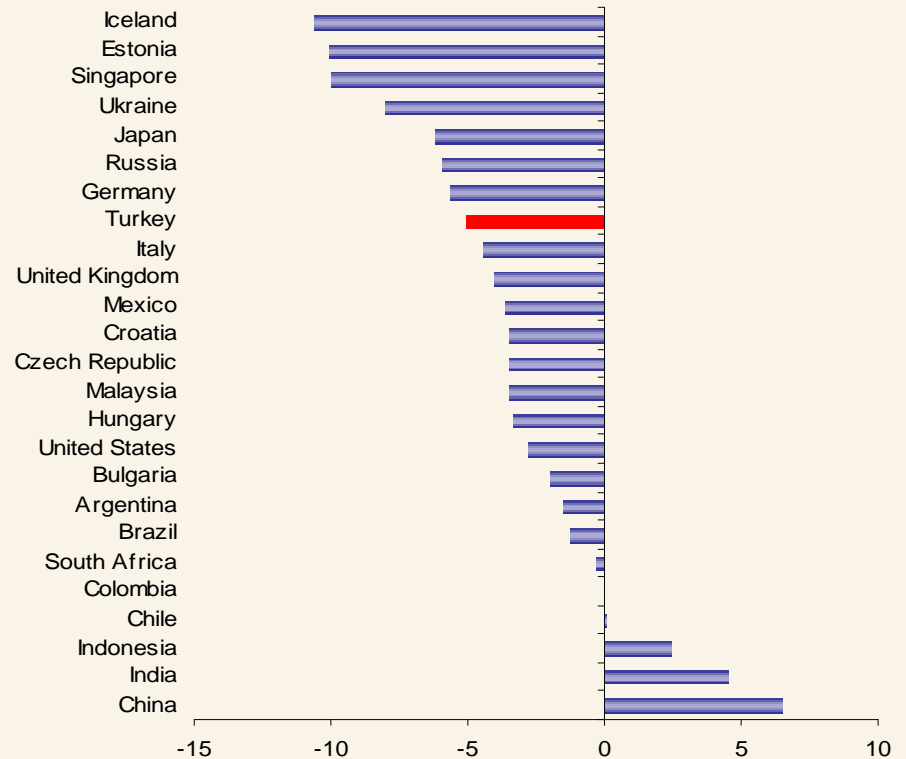
The effect of the global financial crisis on world economies has been felt in an abrupt and devastating manner since the last quarter of 2008.

Regional Growth Rates
(2002 Q1 – 2009 Q1, percent)



Source: IMF, CBT

2009 Growth Projections for Selected Countries (percent)



Source: IMF, CBT

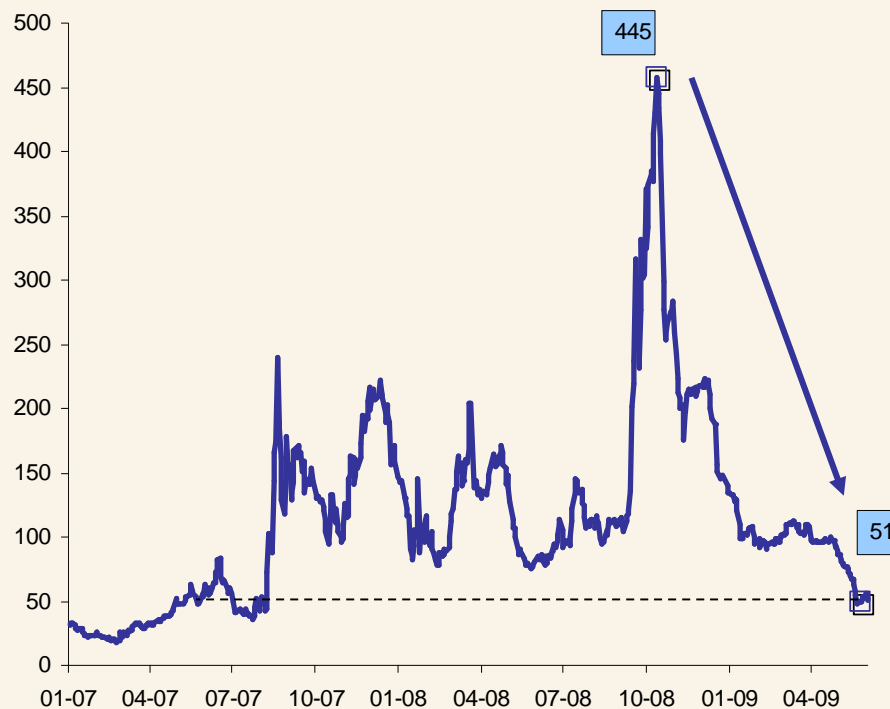


Recent Developments in Financial Markets

It is observed that a certain degree of optimism has prevailed in global financial markets recently.

The Difference Between 3-Month LIBOR Rate and 3-Month US Treasury Bills (TED Spread)

(2 January 2007 – 3 June 2009, basis points)



Source: Bloomberg, CBT

Risk Appetite Index

(2 January 2006 – 1 June 2009)



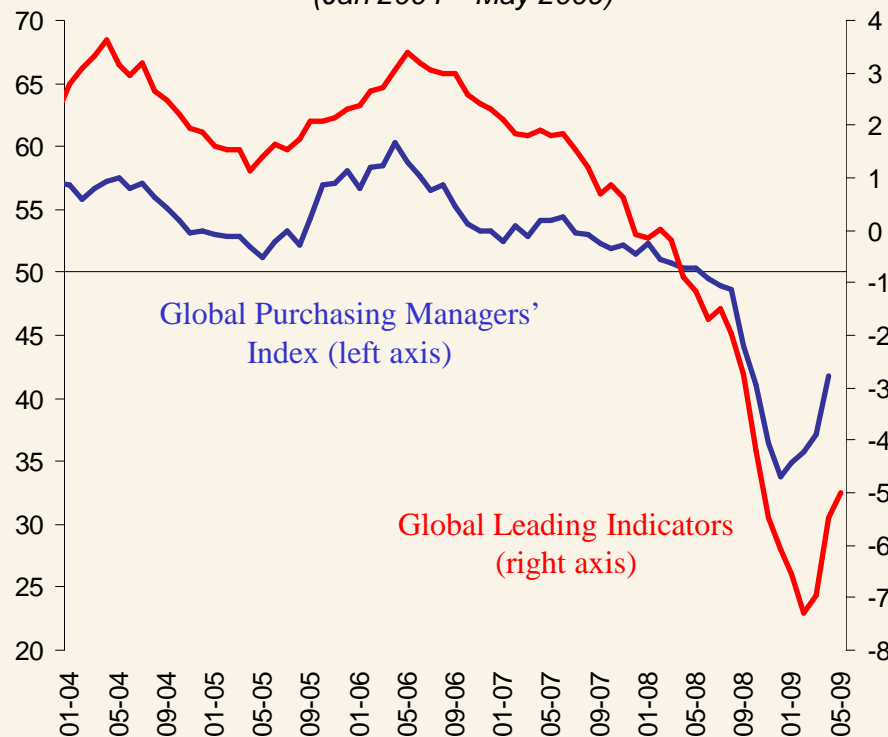
Source: Credit Suisse, CBT



Confidence Indices and Leading Indicators

This favorable atmosphere in the financial markets has implications on corporate sector indicators, too. Expectations related to the global economy have recently showed signs of recovery, albeit limited.

**Global Purchasing Managers' Index
And Leading Indicators**
(Jan 2004 – May 2009)



Source: Bloomberg, Goldman Sachs, CBT

Baltic Dry Index
(Jan 2004 – May 2009)



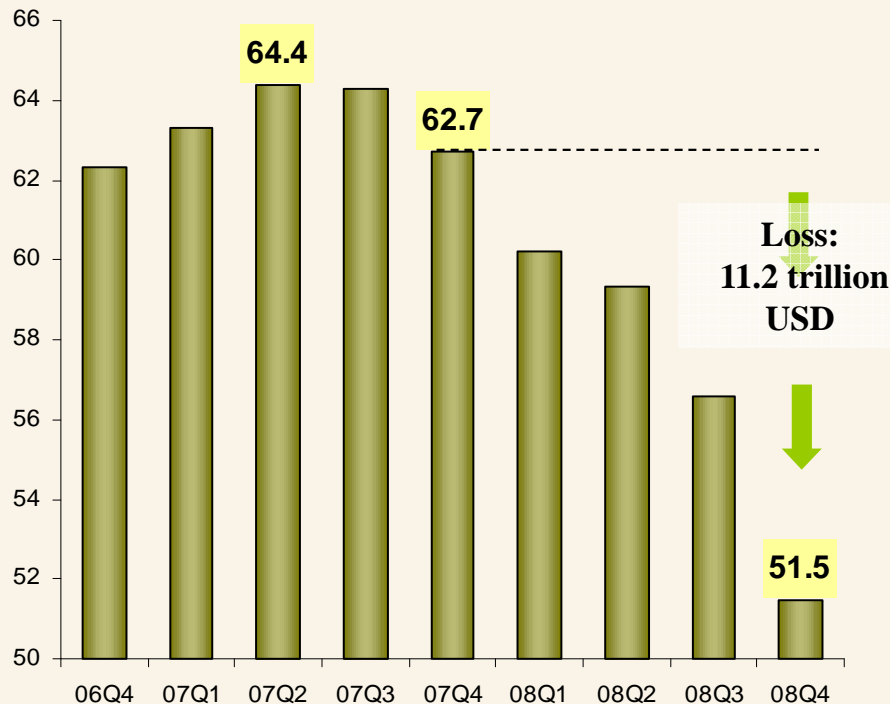
Source: Bloomberg, CBT



Effects on the Global Economy

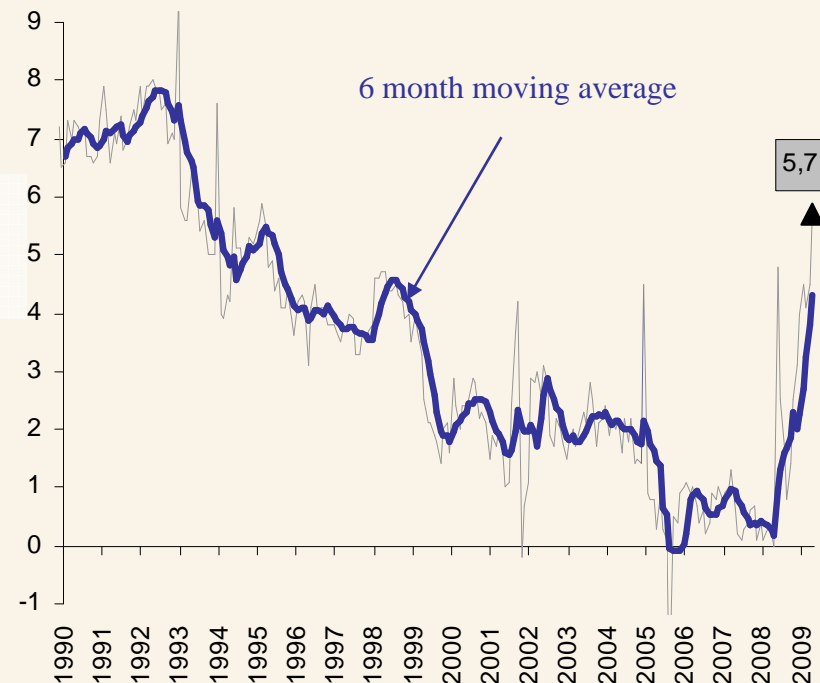
Additionally, it should not be forgotten that this crisis has brought about tremendous losses in world economies. Asset write-downs coupled with negative expectations pertaining to the future have led to an increase in precautionary saving tendency and a severe contraction in demand.

Household Assets in the USA
(2006 Q4 – 2008 Q4, trillion USD)



Source: Federal Reserve, CBT

Ratio of US Household Savings to GDP
(January 1990 – April 2009, percent)



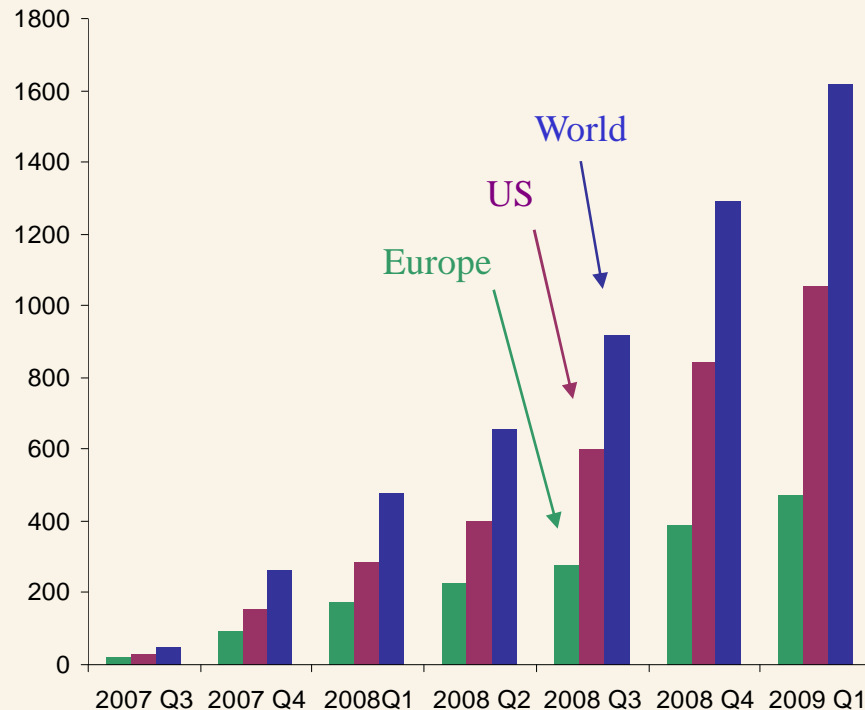
Source: Federal Reserve, CBT



Effects on the Global Economy

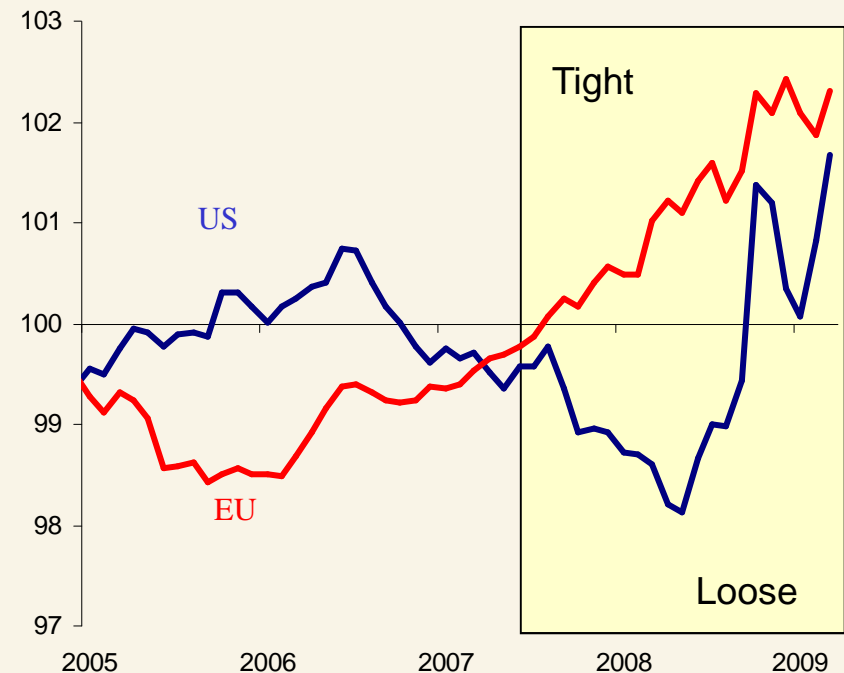
The size of the destruction indicates that it is not very probable in the short-run to eliminate the financial squeeze, restore confidence and revive global demand permanently . The Central Bank's expectation is that it will take a long time for the global economy to reach its potential production level.

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



Source: Bloomberg, CBT

Financial Conditions Index
(January 2005 – March 2009)



Source: Goldman Sachs, CBT



II. Economic Indicators Pertaining Turkey

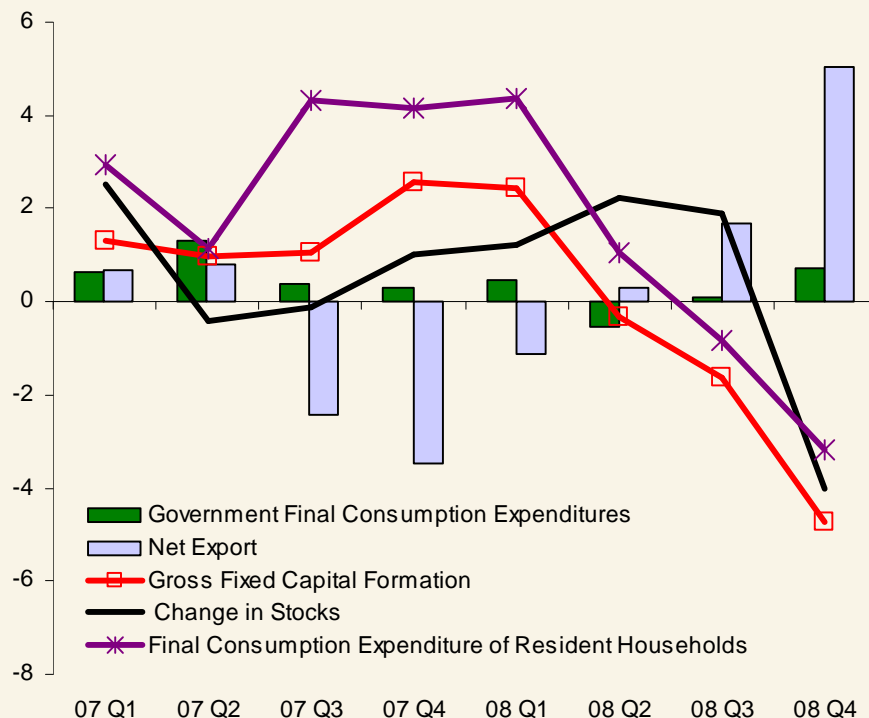


Effects of the Global Crisis on the Turkish Economy

The global turmoil, which emerged at the second half of 2007, adversely affected financing facilities and foreign demand, and led to a significant slowdown in economic activity in developing countries, and Turkey was no exception.

Growth Components

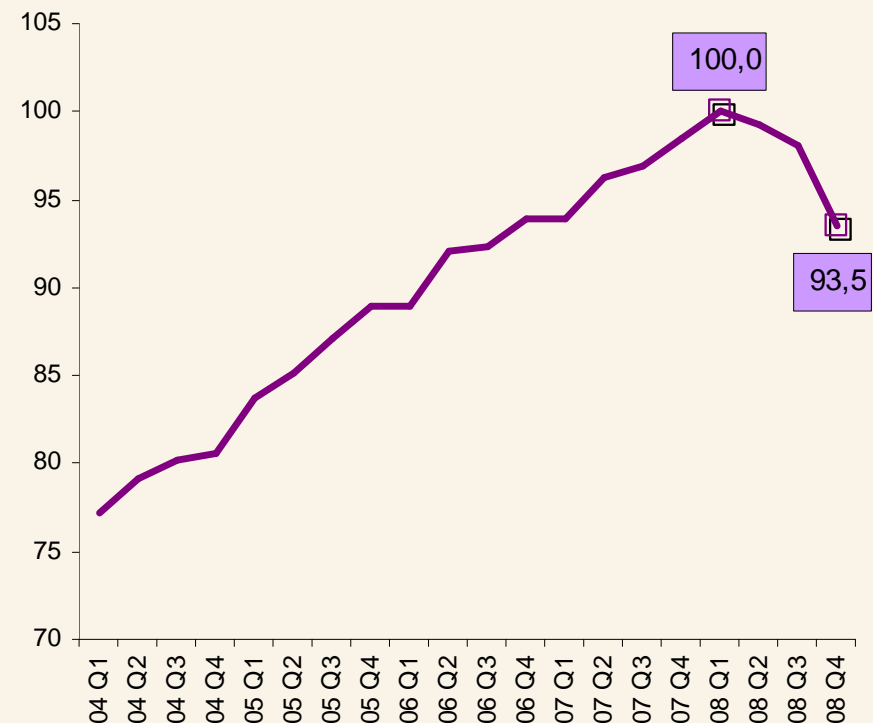
(2007 Q1 – 2008 Q4, year-on-year percentage contribution)



Source: TURKSTAT, CBT

GDP

(2004 Q1 – 2008 Q4, seasonally adjusted, with 1998 constant prices, 2008 Q1 = 100)



Source: TURKSTAT, CBT

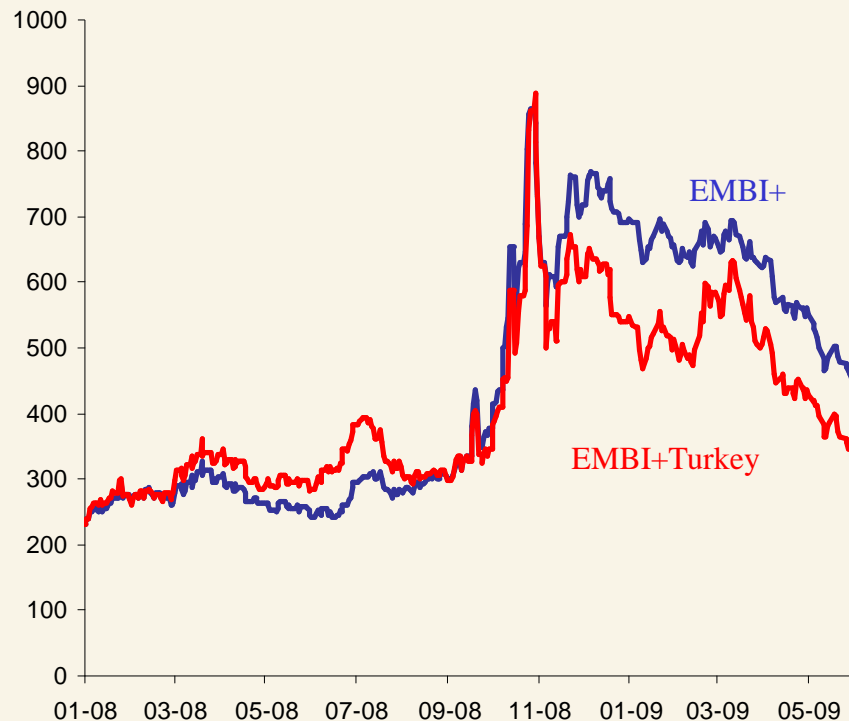


Financial Developments in Turkey

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

Risk Indicators

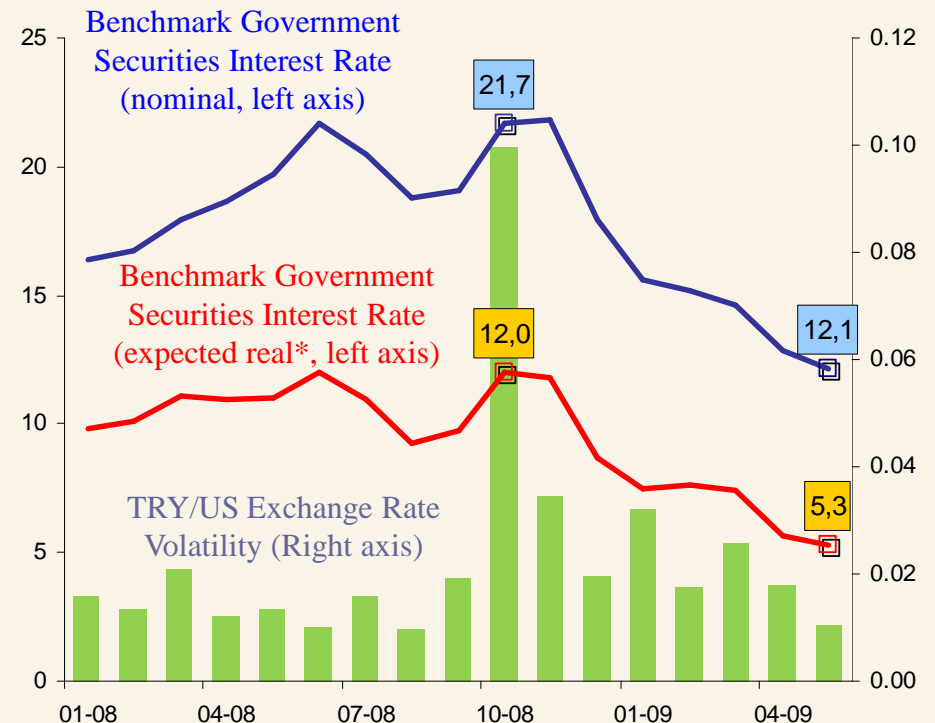
(1 January 2008 - 2 June 2009, basis points)



Source: Bloomberg, CBT

Exchange Rate Volatility and Benchmark Government Securities Interest Rate

(January 2008 - May 2009, monthly average, percent)



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

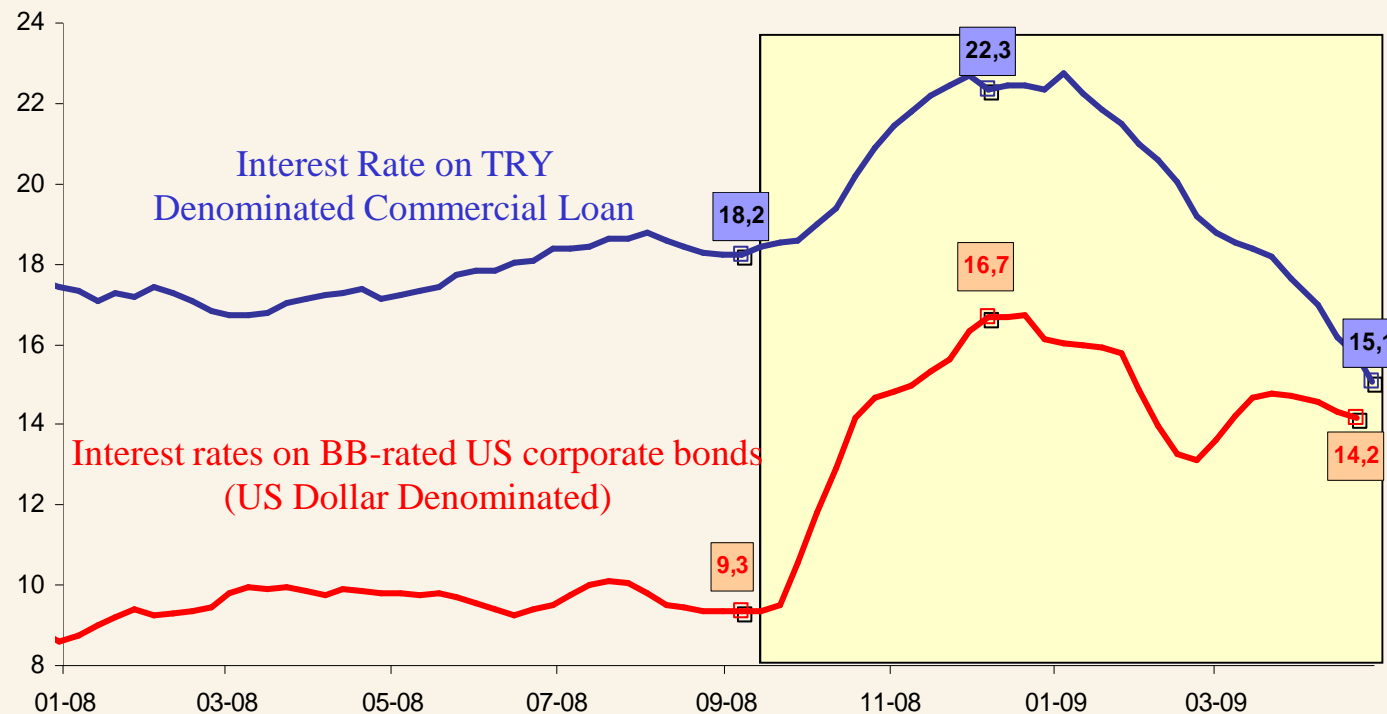


Financial Developments in Turkey

Thanks to the measures taken, the financial conditions in Turkey have recently followed a fairly moderate course compared to economies in a similar situation.

Credit Market

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



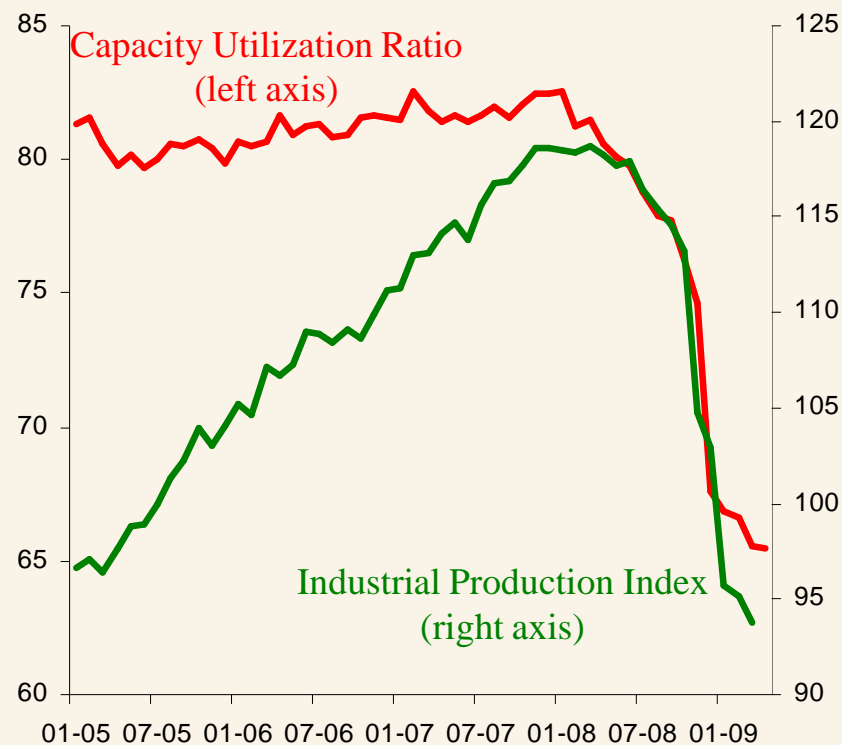
* Interest rates on bonds issued by US firms with *BB* credit rating
Source: JP Morgan, CBT



Production Developments and Expectations of Orders

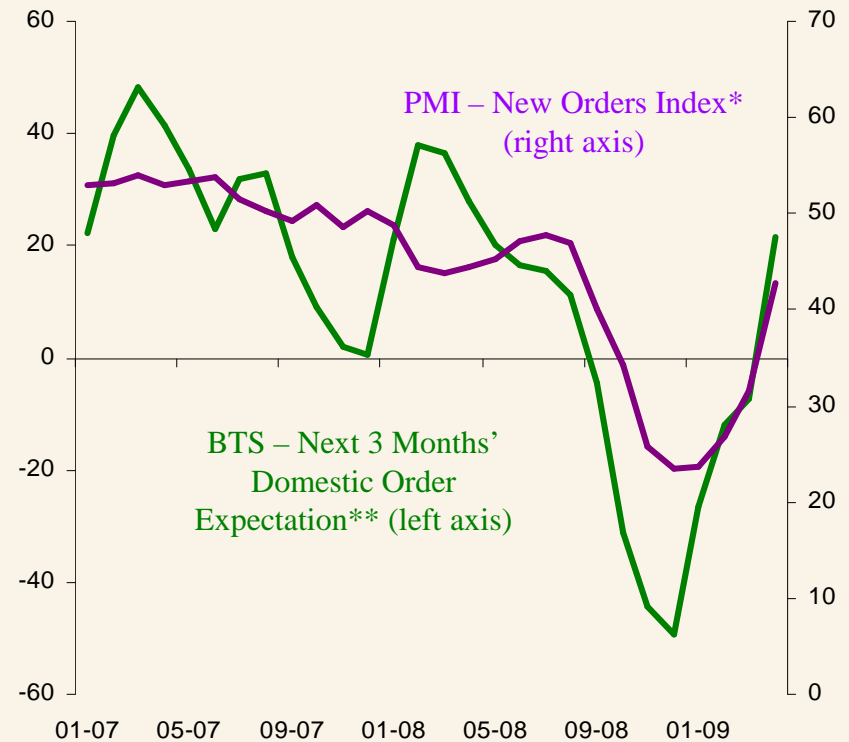
Current indicators suggest that expectations related to orders for the next three months point to a recovery and that industrial production will gain stability in the second quarter of 2009.

Industrial Production Index* (January 2006 – Mart 2009)
and Capacity Utilization Rate* (January 2006 – April 2009)



* Seasonally adjusted
Source: TURKSTAT, CBT

Demand Indicators
(January 2007 – April 2009)



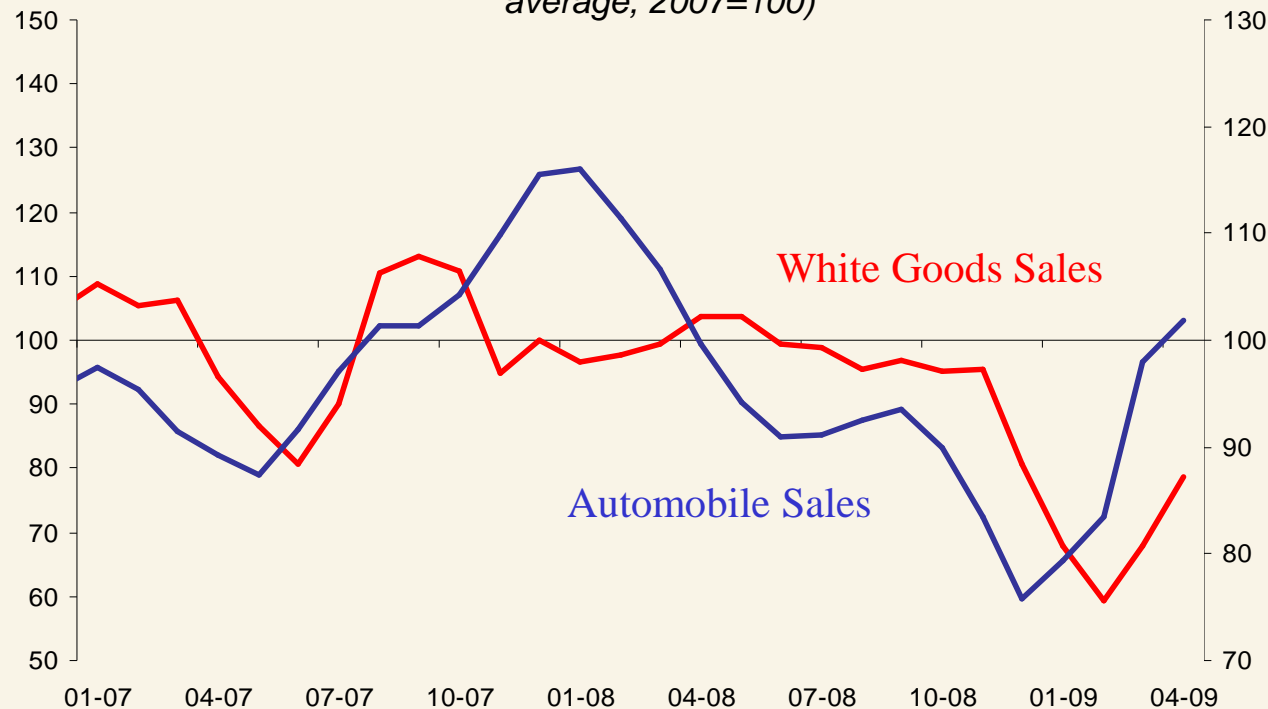
* PMI: Purchasing Managers' Index, seasonally adjusted
** Business Tendency Survey
Source: ABN Ambro, CBT



Domestic Demand Indicators

Inventory liquidation has gained pace since March due to tax reductions. However, it should be borne in mind that the revival of domestic demand is partly attributable to the advancing of future demand.

Domestic Sales of White Goods and Automobiles
(January 2007 – April 2009, seasonally adjusted 3-month moving average, 2007=100)



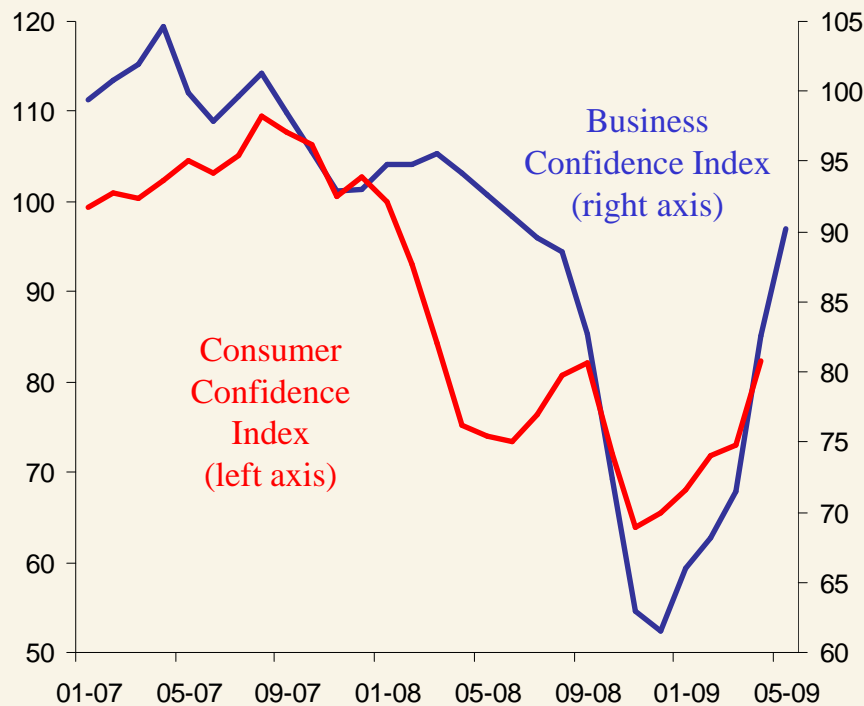
Source: WGSA, AMA, CBT



Confidence Indices and Leading Indicators

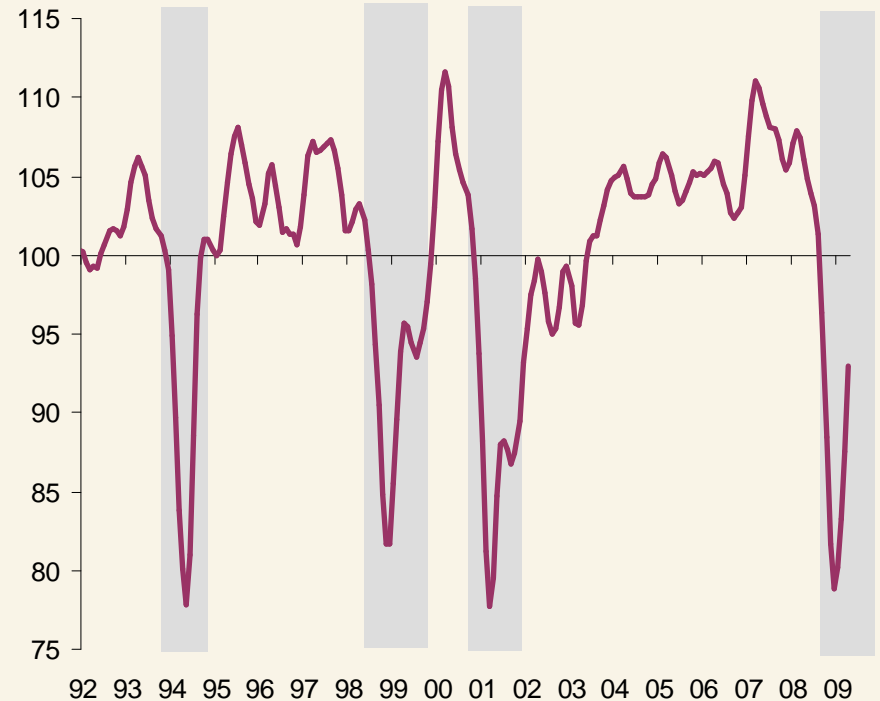
In addition, the recent rebound in business confidence and consumer confidence indices signals the possibility of a partial recovery of economic activity.

Consumer Confidence Index (January 2007 – April 2009)
and Business Confidence Index (January 2007 – May 2009)



Source: CBT

Leading Indicators
(January 1992 – April 2009)



Source: CBT

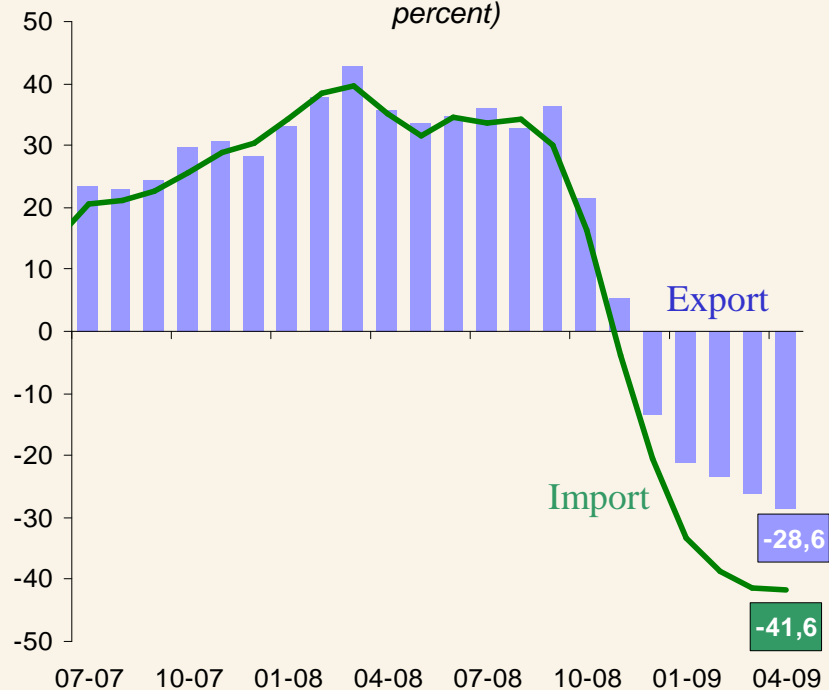


Foreign Demand Expectations

Both exports and imports have experienced slumps in nominal terms. However, seasonally-adjusted figures indicate that exports in quantity (real) have displayed a stable course recently and that expectations pertaining to foreign demand have improved.

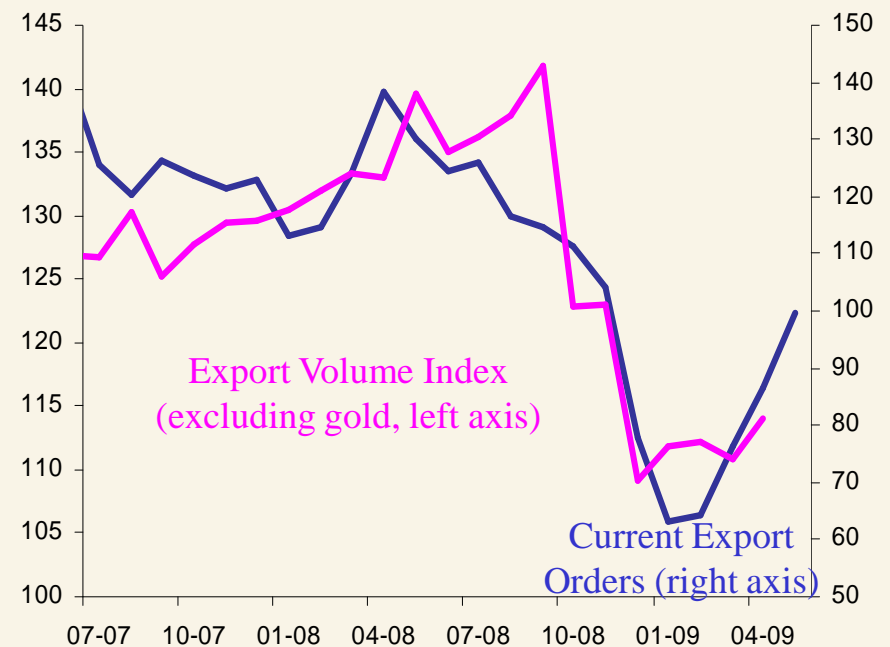
Change in Exports and Imports in USD

(July 2007 – April 2009, year-on-year 3-month moving average, percent)



Source: TURKSTAT, CBT

Export Volume Index* (July 2007 – Mart 2009) and Current Export Orders** (July 2007 – April 2009)



* Workday adjusted and seasonally adjusted

** The difference between increase and decrease in expectations for exports in the Business Tendency Survey (moved two months)

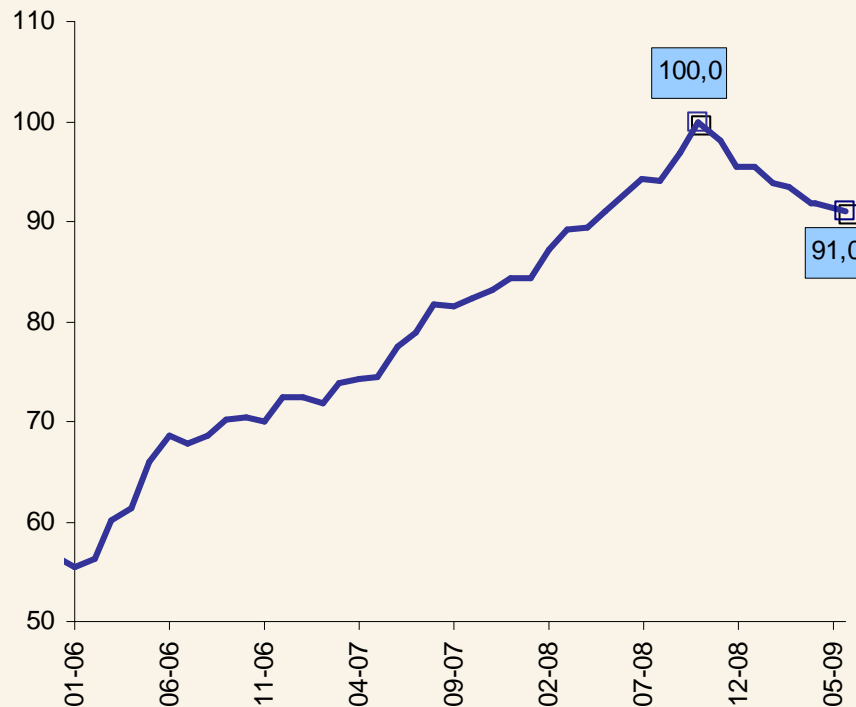
Source: TURKSTAT, CBT



Credit Developments

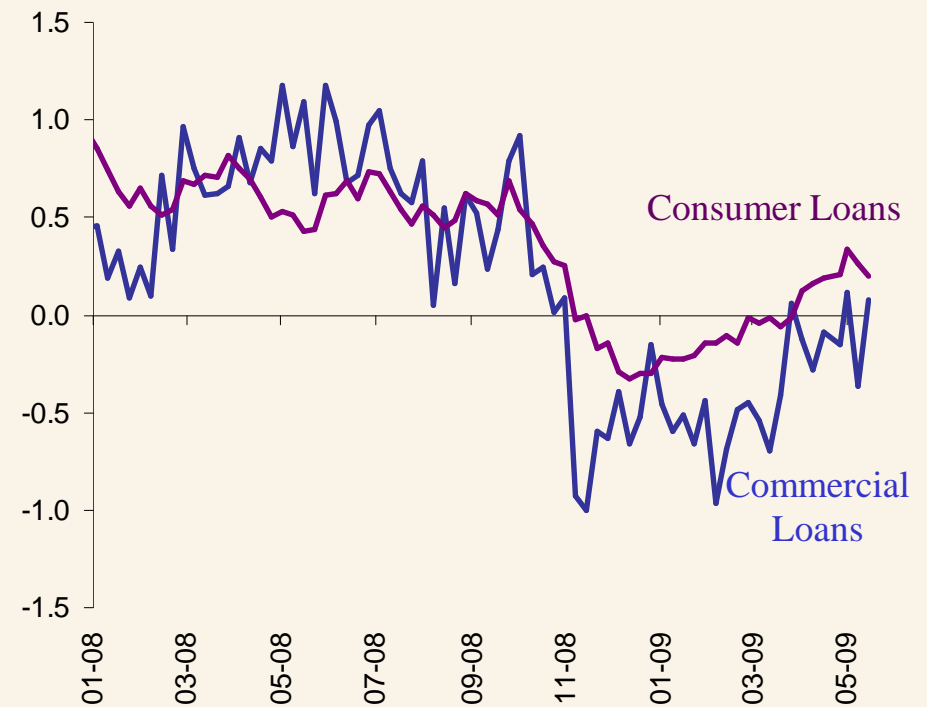
Consumer loans, which have been declining since November 2008, have slightly increased in recent weeks. Nevertheless, due to the weak course of investment, commercial loans continued to decrease and the decline in the total volume of loans persisted through May.

Domestic Real Credit Volume
(January 2006 – May 2009, September 2008=100)



Source: BRSA, CBT

Monthly Changes in Commercial and Consumer Loans
(January 2008 – May 2009, 6-week moving average, percent)



Source: BRSA, CBT



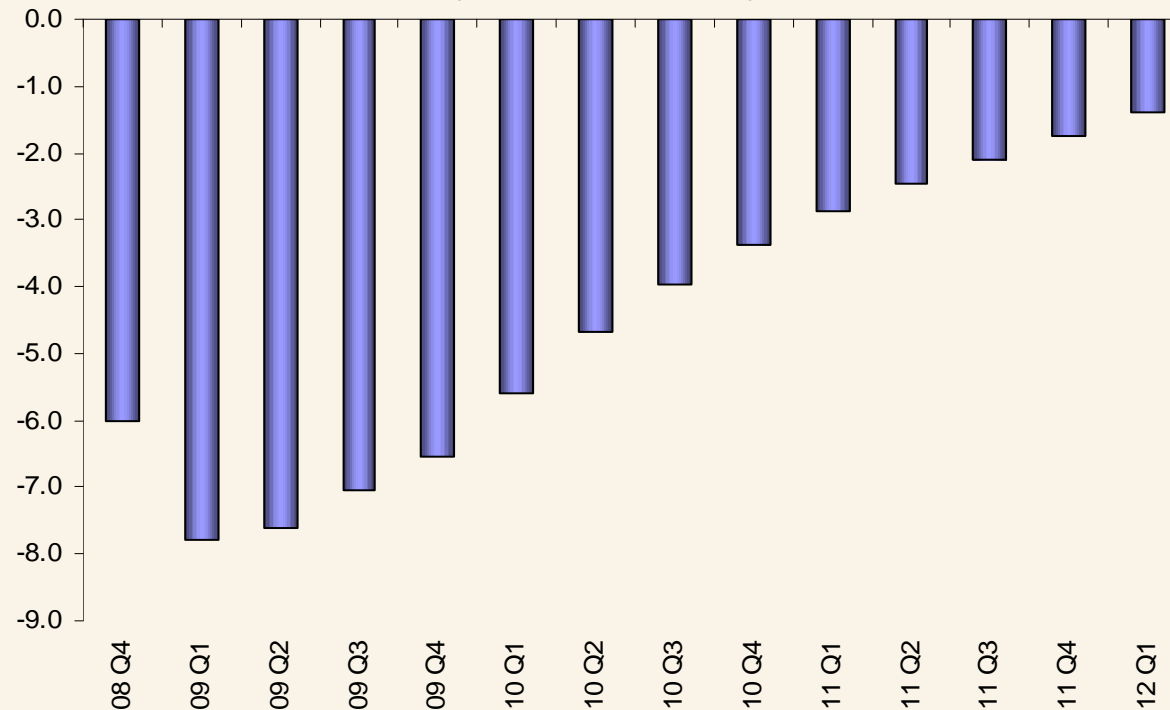
III. Projections About the Near Future



Recovery in Economic Activity

Following recent rate cuts and fiscal measures, we anticipate that domestic demand in Turkey might gain relative stability in the second quarter of 2009 and growth will post positive figures from the last quarter onwards.

Central Bank's Output Gap Forecasts
(2008 Q4–2012 Q1)



Source: CBT

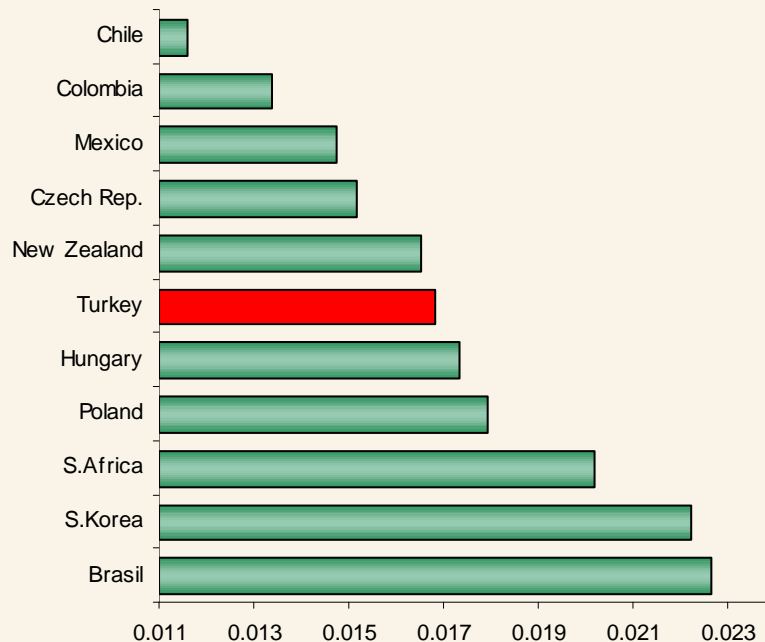


Banking Sector

Fluctuations in Turkey's financial markets remained limited during the crisis and the hikes in Turkey's risk premium lagged behind those of many other emerging market economies, and Turkey has shown significant resistance to the crisis at a higher degree than implied by her credit rating.

Exchange Rate Volatility

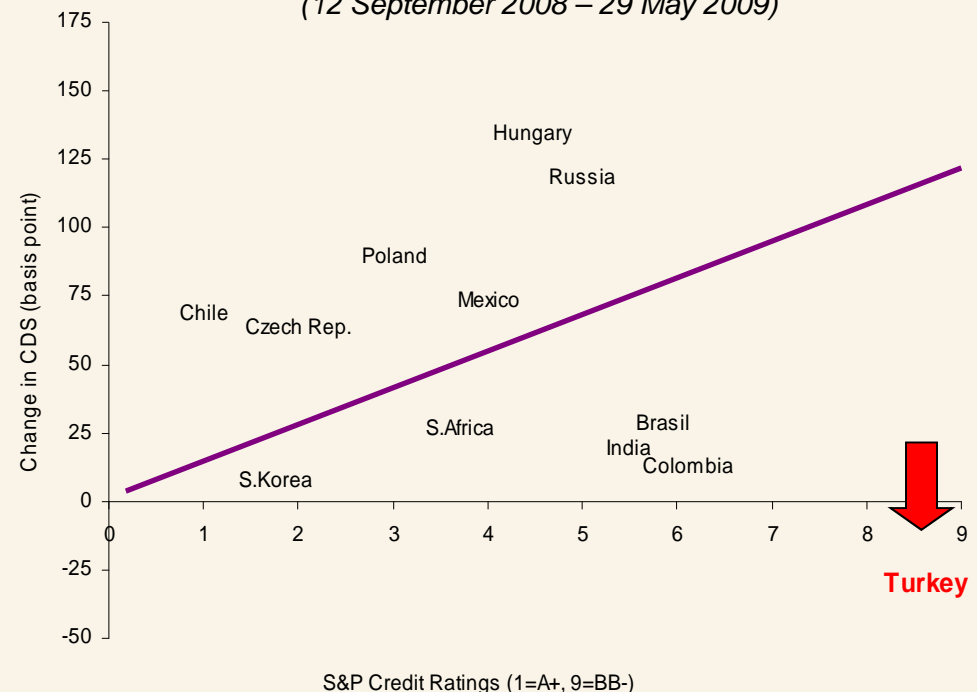
(September 2008 – May 2009, standard deviation of daily changes in exchange rates)



Source: Bloomberg, CBT

Change in Credit Ratings and Risk Premia of Countries

(12 September 2008 – 29 May 2009)



Note: Trend line includes countries other than Turkey

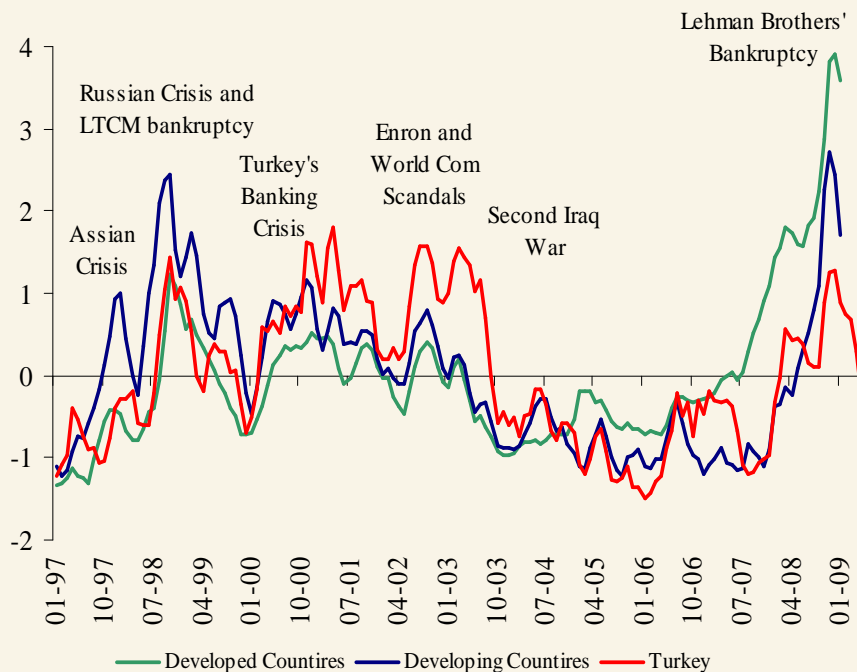
Source: Bloomberg, CBT



Financial Stress Indices

The deterioration in Turkey's Financial Stress Index remained limited compared to other emerging market economies. While banking sectors in many countries exerted pressure on their financial systems, this pressure was quite low in Turkey.

Financial Stress Indices*
(January 1997 – May 2009)

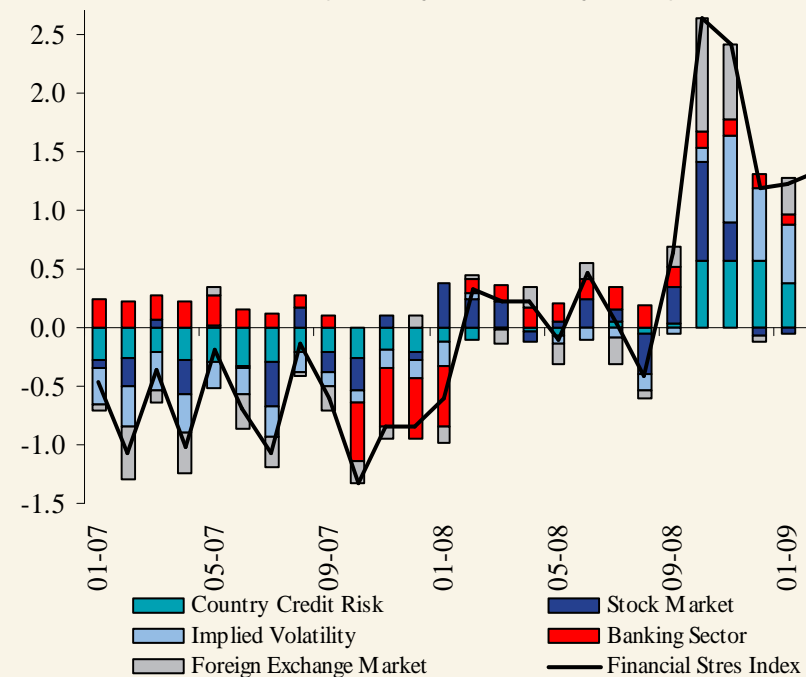


Source: CBT, IMF

*Standardized quarterly moving averages of Indices.

Turkey's Index was updated on 20 May.

Financial Stress Index–Turkey's Components
(January 2007 – May 2009)



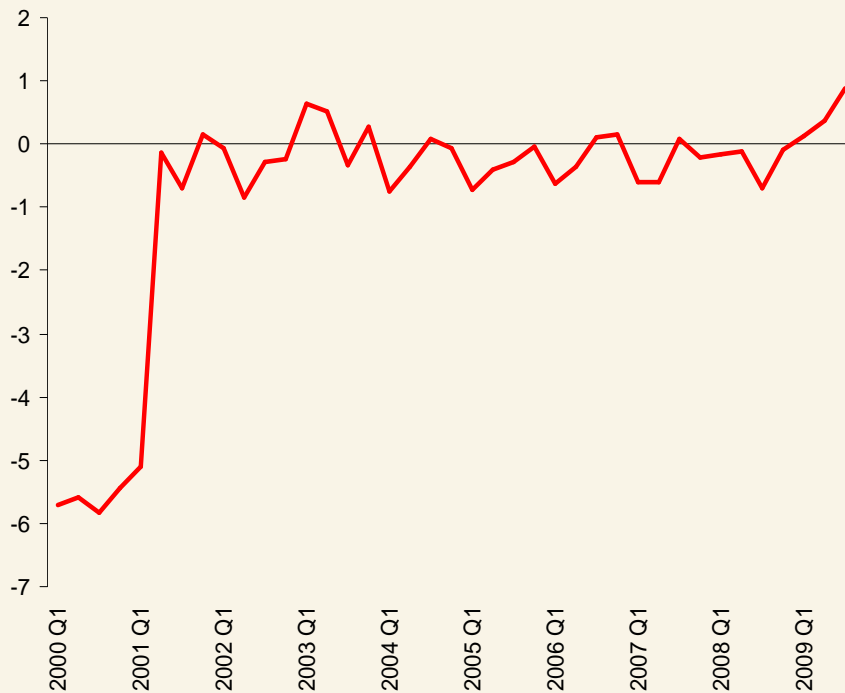
Source: CBT, IMF



Banking Sector

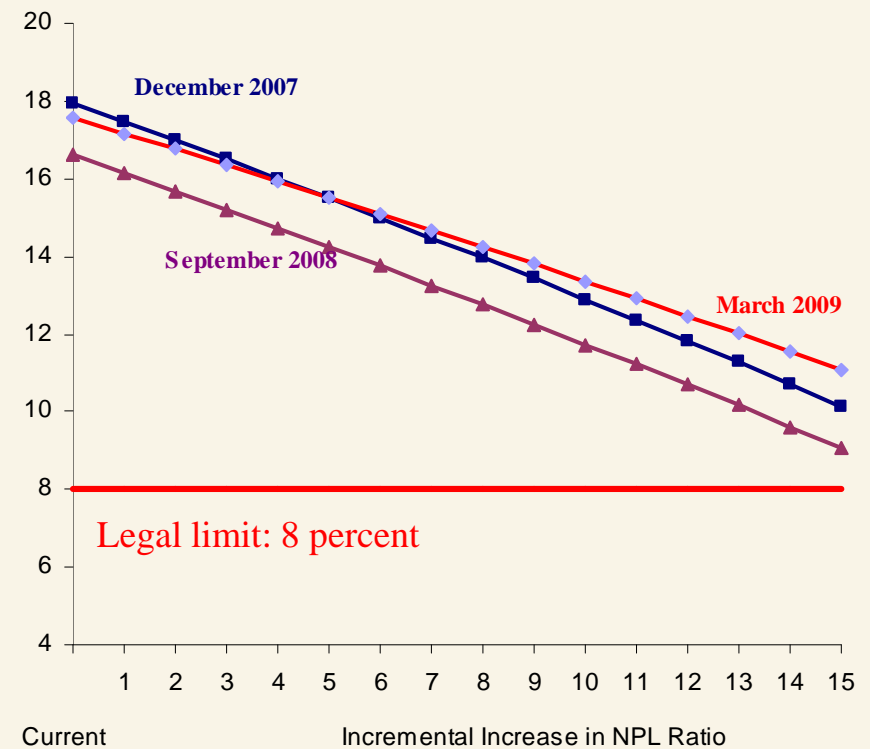
The main factor reinforcing the resilience of our economy in the face of the global crisis is the sound and stable structure of our financial system.

Net FX Position
(2000 Q1 – 2009 Q2*, billion USD)



•As of 22 May2009
Source: BRSA, CBT

Effect of Credit Shocks on CARs of the Sector

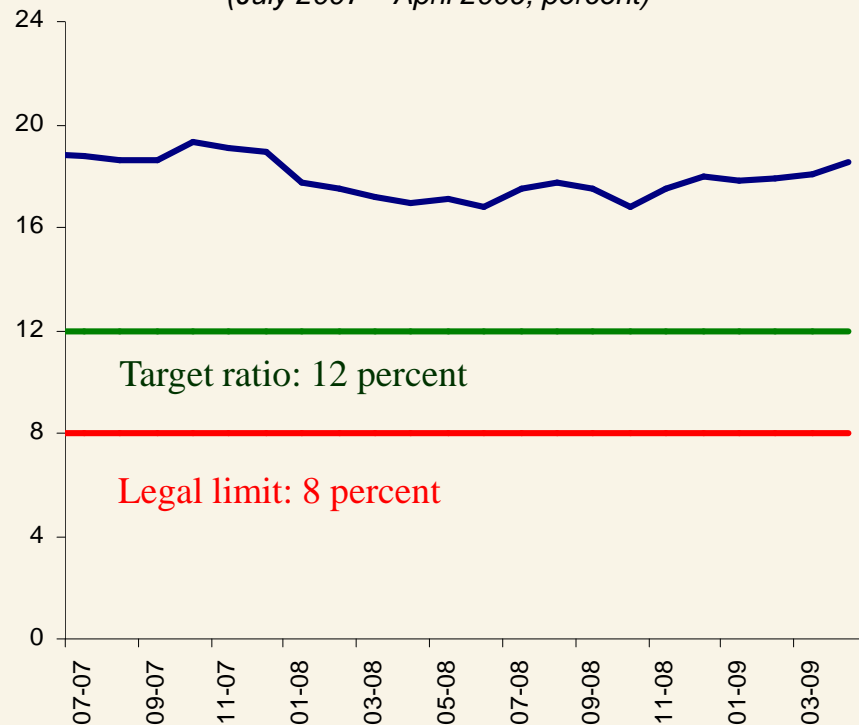




Banking Sector

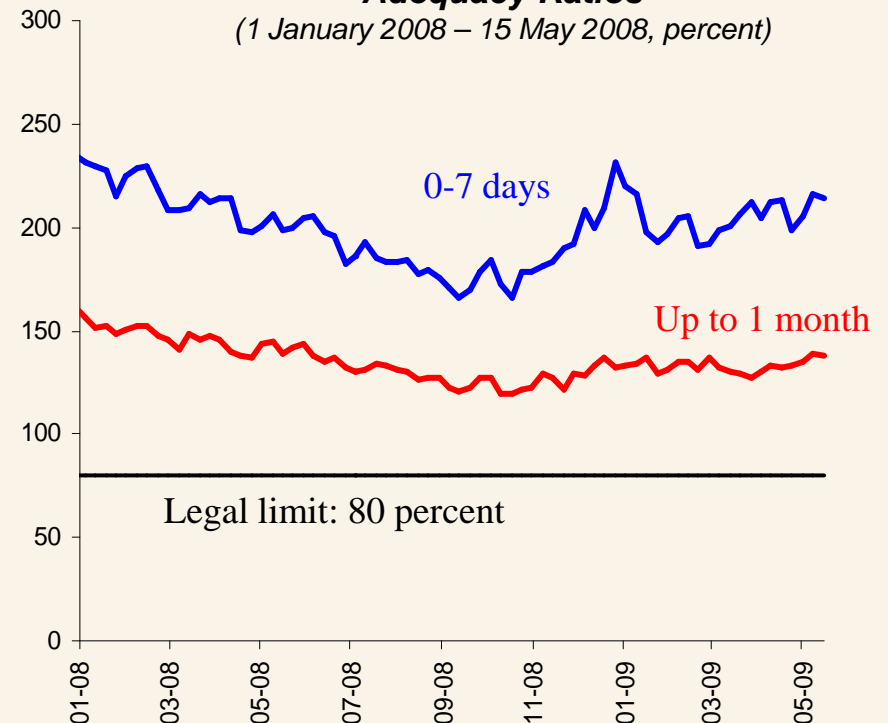
Balance sheets free of distressed foreign assets, the strong level of capital and liquidity adequacy ratios of our banks will support the normalization of the Turkish credit markets earlier than that of its peers worldwide.

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



Source: BRSA, CBT

Short-term FX Liquidity Adequacy Ratios
(1 January 2008 – 15 May 2008, percent)



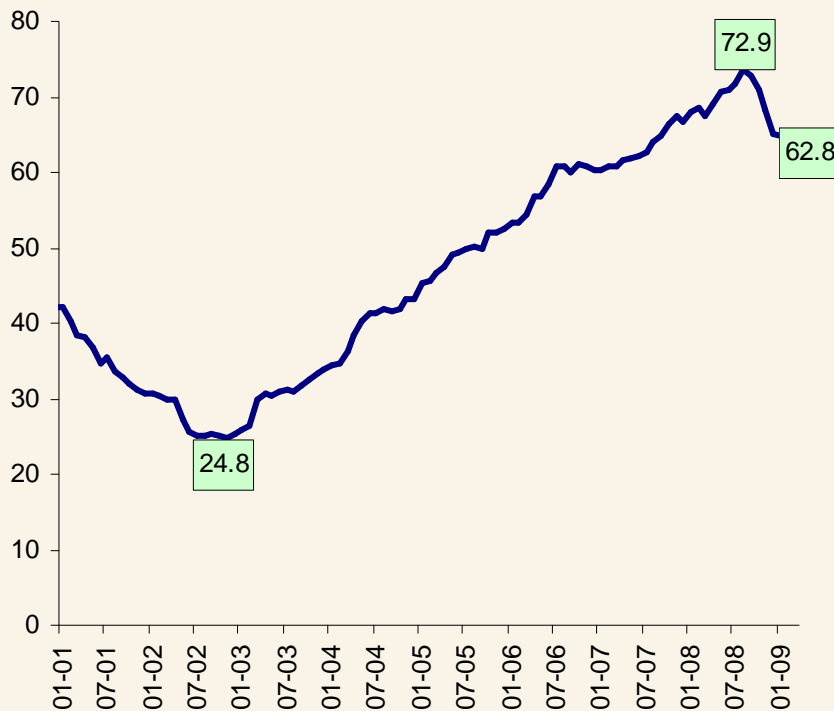
Source: BRSA, CBT



Banking Sector

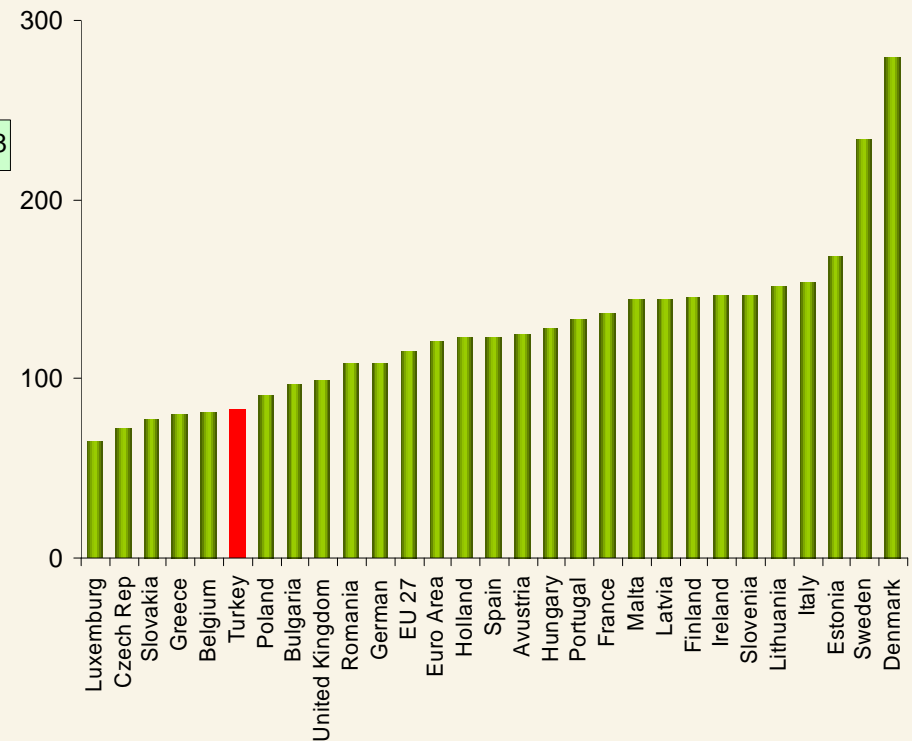
The ratio of loans to deposits, which is an indicator of the depth of the banking sector and the evolution of the intermediation function of banks, came to the forefront as a risk element during the global crisis.

Ratio of Loans to Deposits in Turkey
(January 2001 – April 2009, annual percent)



Source: BRSA, CBT

Ratio of Loans to Deposits in Selected Countries
(2007, percent)



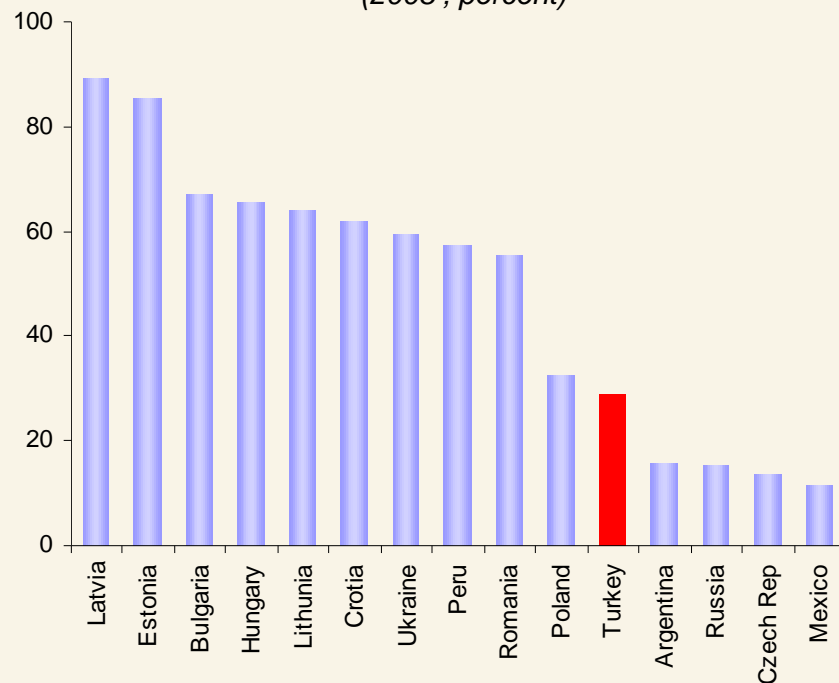
Source: IMF, BRSA, CBT



Households

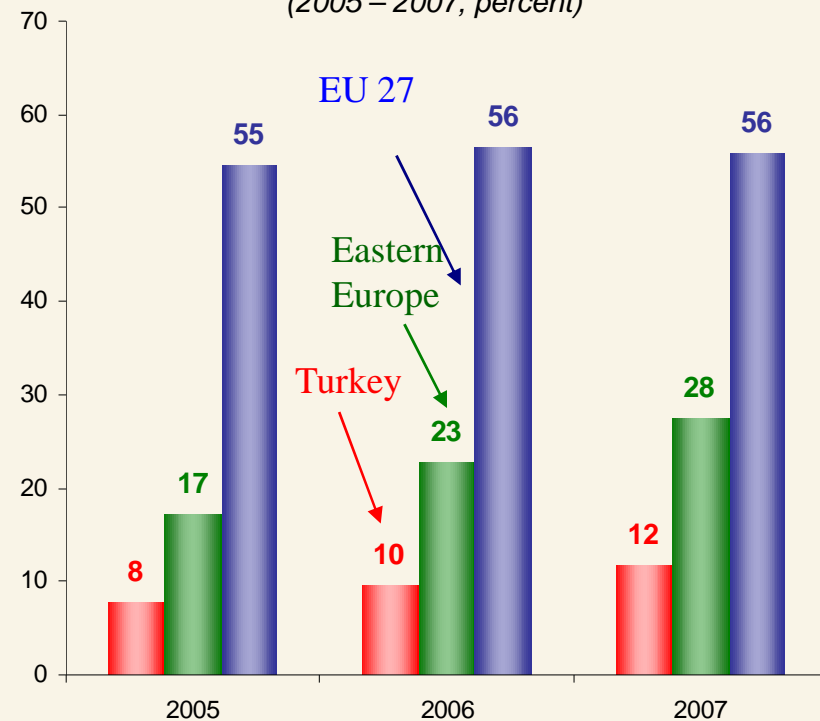
The low level, compared to many emerging market economies, of both household indebtedness and also consumer loans susceptible to exchange rates underpin a relatively faster recovery in the Turkish economy.

Share of FX Loans to Total Loans
(2008, percent)



Source: IMF, CBT

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



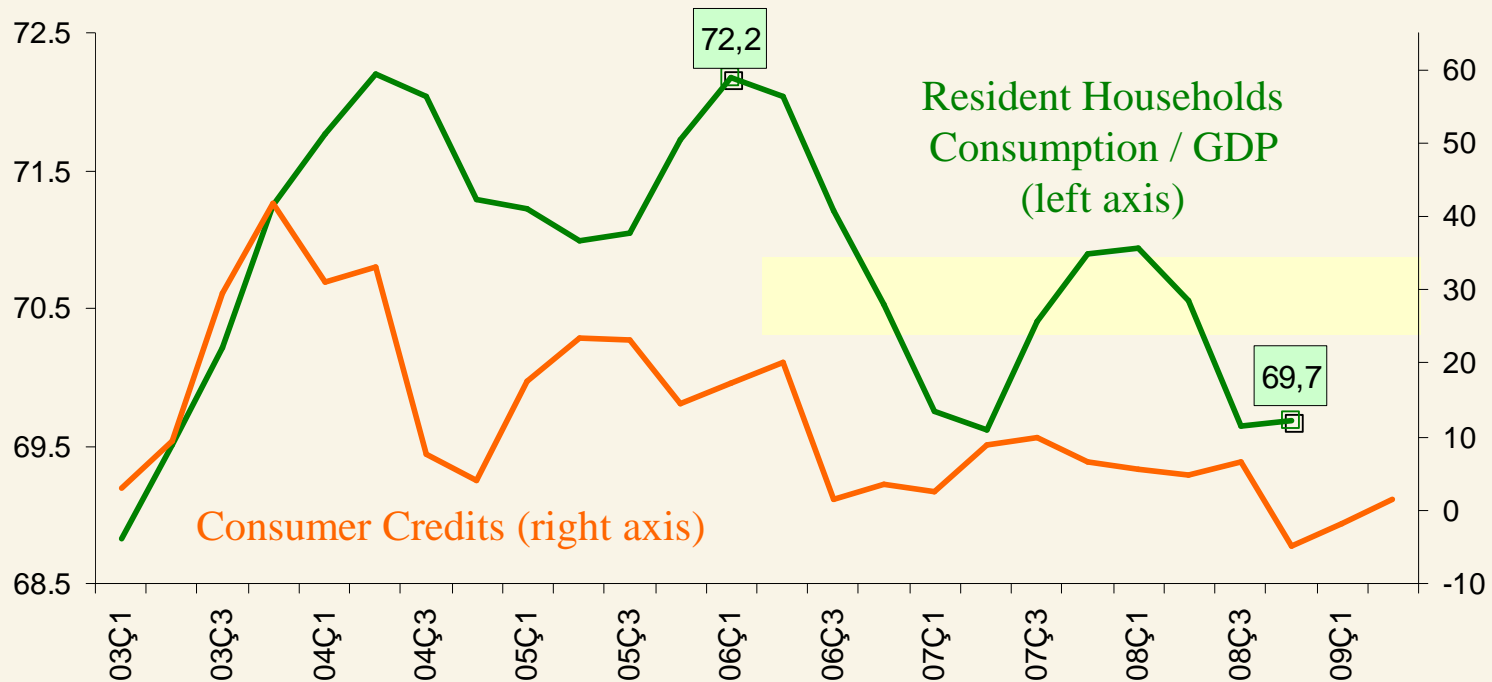
Source: European Central Bank, CBT



Households

Backed by the prudent monetary policy implemented since mid-2006, credit expansion in Turkey has been more moderate compared to other countries and this, in turn, has led households to defer their consumption demands.

Share of Consumption of Resident Households in GDP (2003 Q1 – 2008 Q4, percent) and Quarterly Change of Consumer Credits (2003 Q1 – 2009 Q2*, real, percent)



•As of May 2009

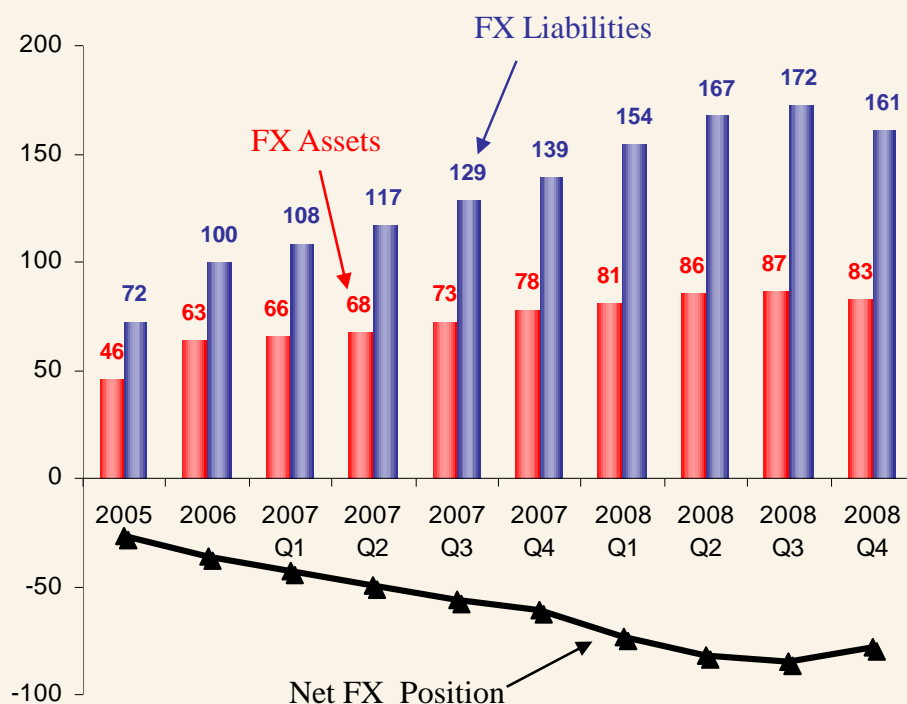
•Source: TURSTAT, CBT



Corporate Sector

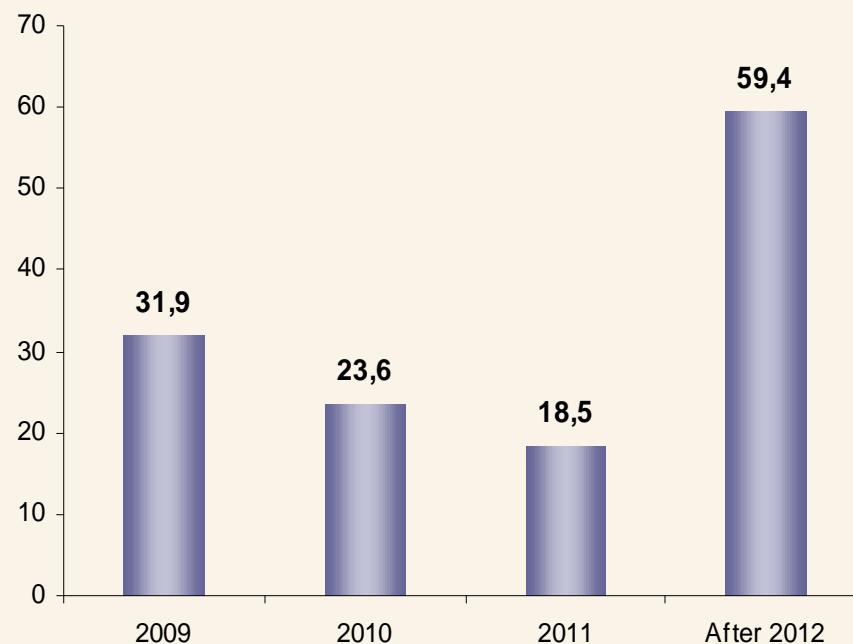
The FX short position of the non-banking sector reached USD 78 billion in the last quarter of 2008. The short-term short position of the sector became USD 5 billion in January.

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



Source: CBT

Maturity Composition of Firms' Long-term FX-denominated Foreign Debt*
(March 2009, billion USD)



* Number of days to maturity

Source: CBT

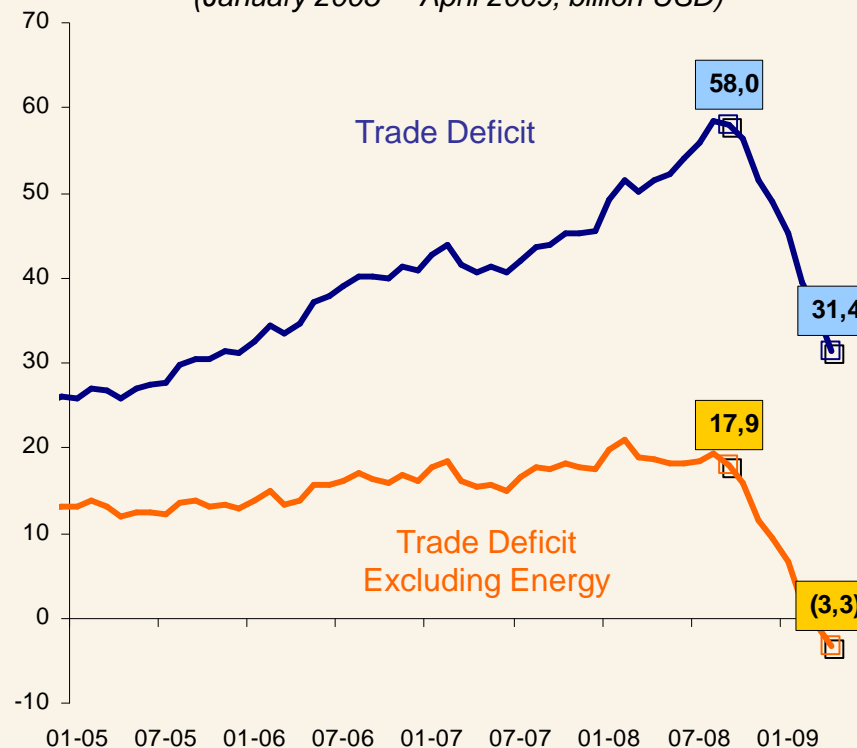


External Financing Requirement

Turkey's foreign trade deficit has been narrowing significantly since the third quarter of 2008 and thus Turkey's financing requirement has been decreasing rapidly. The level of Central Bank reserves is adequate to cover Turkey's short-term external debt.

Foreign Trade Balance

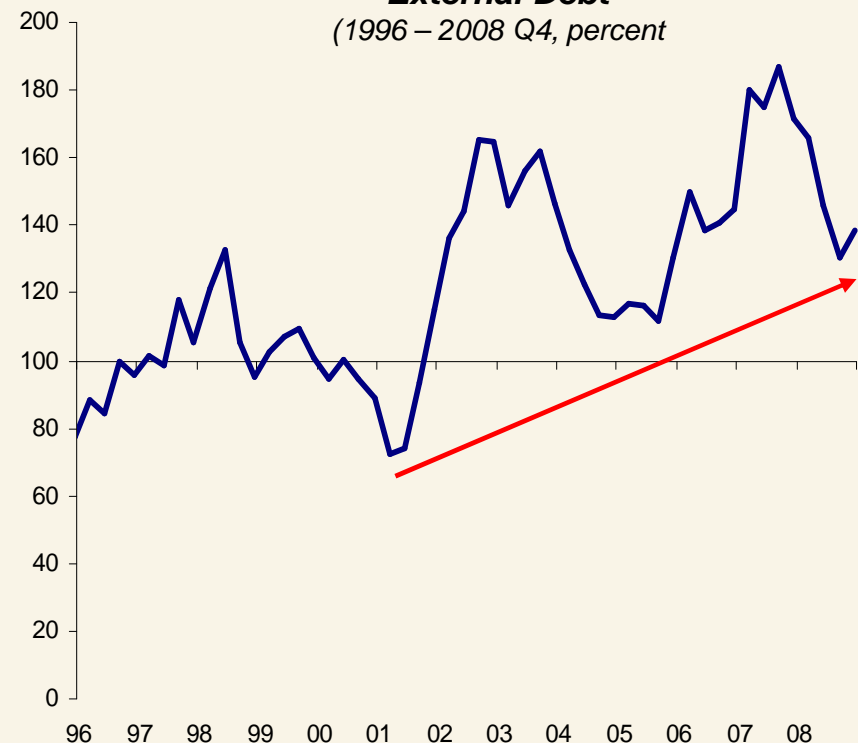
(January 2005 – April 2009, billion USD)



Source: TURSTAT, CBT

Ratio of Central Bank Reserves to Short-term External Debt

(1996 – 2008 Q4, percent)



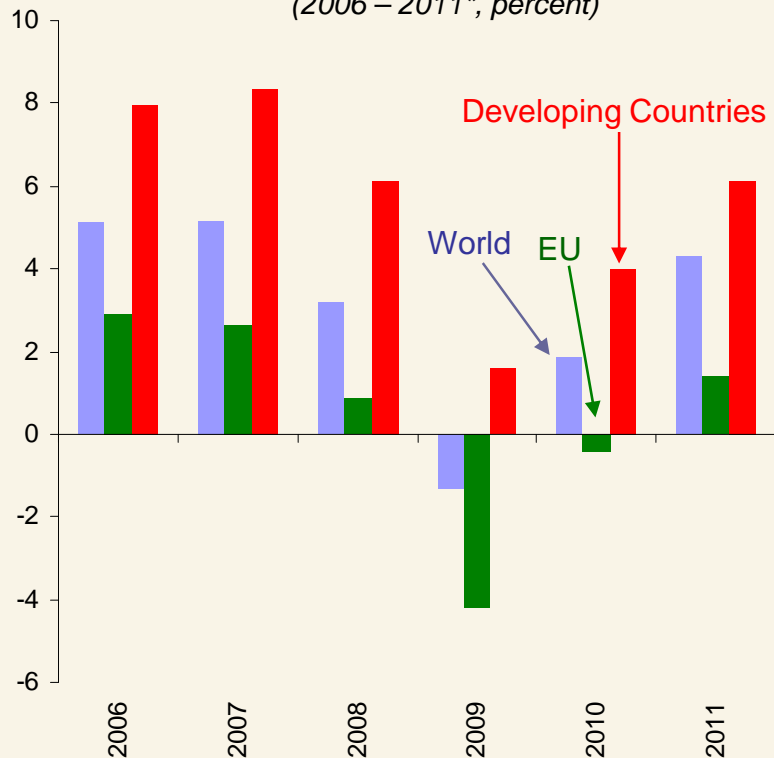
Source: Treasury, CBT



Risks

Tightness in external financing conditions, lagged and gradual recovery in our primary export markets, and the large share of durables and capital goods -sensitive to foreign demand- in exports, indicate that the recovery in the Turkish economy will be different from what we have experienced so far.

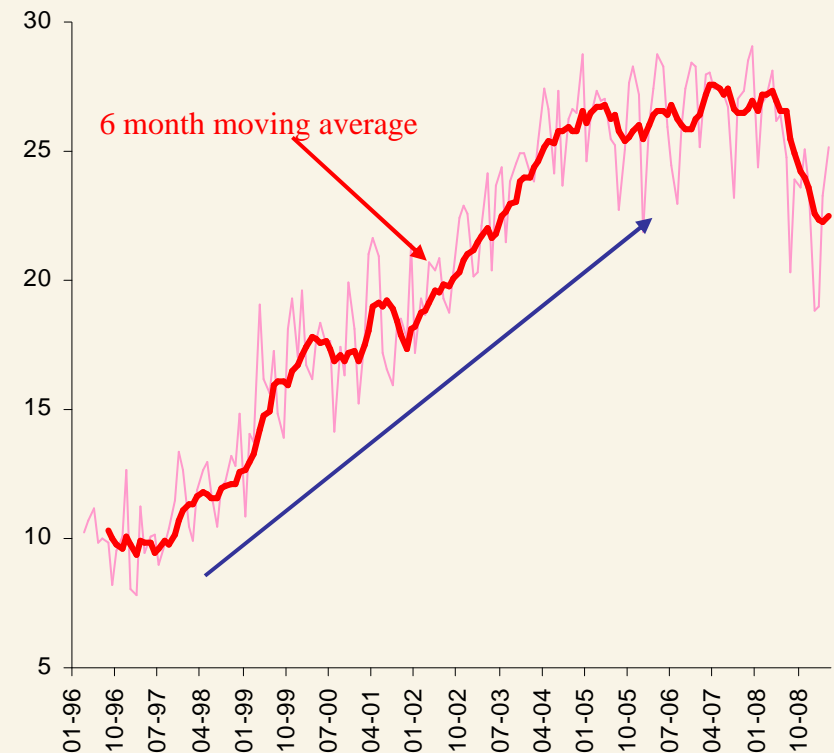
Growth Forecasts
(2006 – 2011*, percent)



Source: IMF

*Forecasts for 2009 and onwards

Share of Investment and Durable Goods in Exports
(1996 - April 2009, percent)



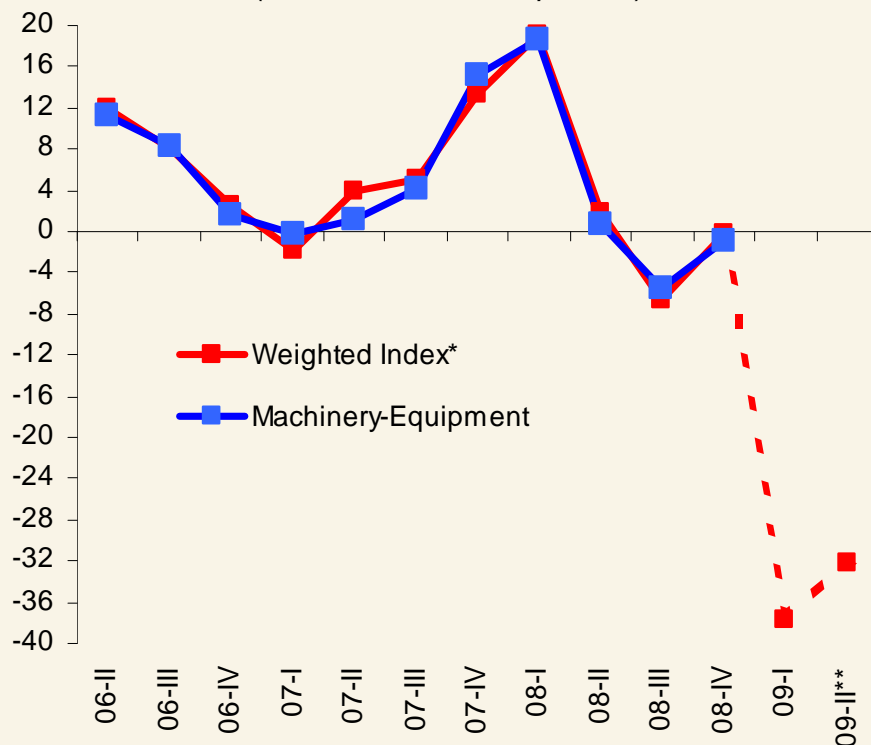
Source: TURSTAT, CBT



Investment and Employment Forecasts

Investment and employment indicators show that economic recovery is expected to be gradual and slow as opposed to the rapid recovery in economic activity after the 1994 and 2001 crises experienced by Turkey and that a significant acceleration in aggregate demand is not expected in the near future.

Investment Expenditures
(2006 Q1 – 2009 Q1, percent)

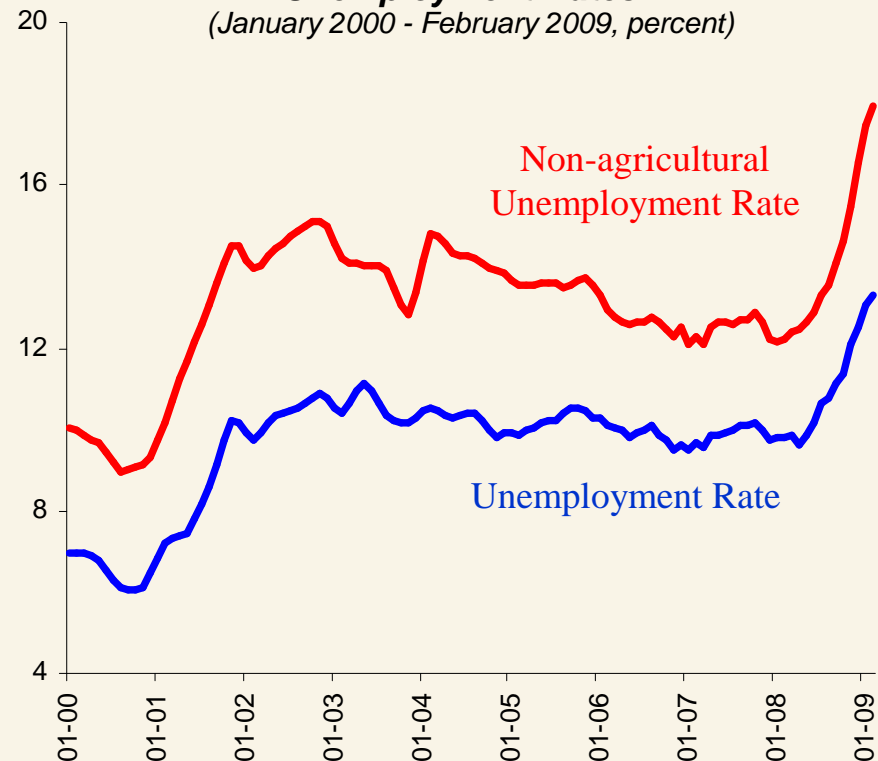


* An Index compiled by using data pertaining to production and imports of investment goods

** January-February period

Source: TURKSTAT, CBT

Unemployment Rates*
(January 2000 - February 2009, percent)



*Seasonally adjusted

Source: TURKSTAT, CBT

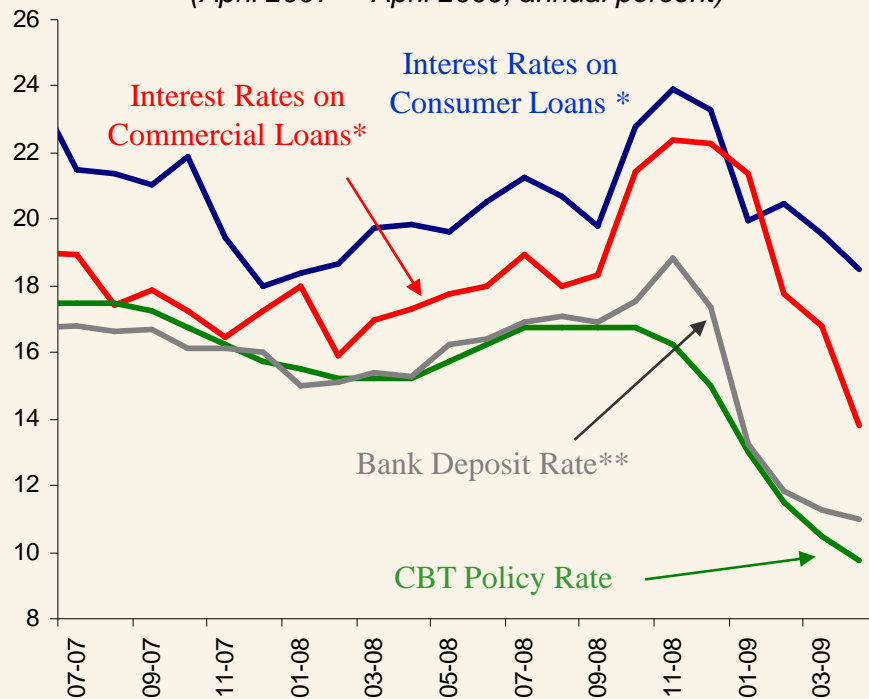


Financial Tightness Indicators

The tightness in financial conditions still persists to some degree despite recent policy rate cuts. Even if the liquidity facilities provided by the CBT alleviated the liquidity squeeze in the market; with respect to maturity, they cannot be a substitute for the financing facilities banks used to utilize.

Interest Rates

(April 2007 – April 2009, annual percent)



Weighted average flow interest rates.

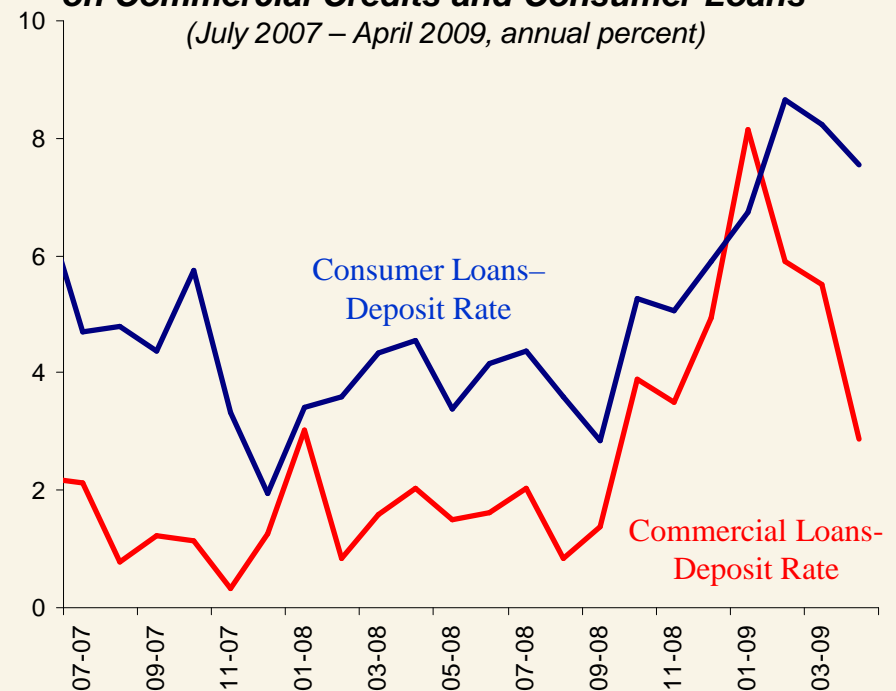
Interest rate of consumer loans is the weighted average of automobile loans, housing loans and consumer loans.

* Excluding interbank deposits.

Source: BRSA, CBT

Differential between Deposit Rate and Interest Rates on Commercial Credits and Consumer Loans *

(July 2007 – April 2009, annual percent)



* Weighted average flow interest rates.

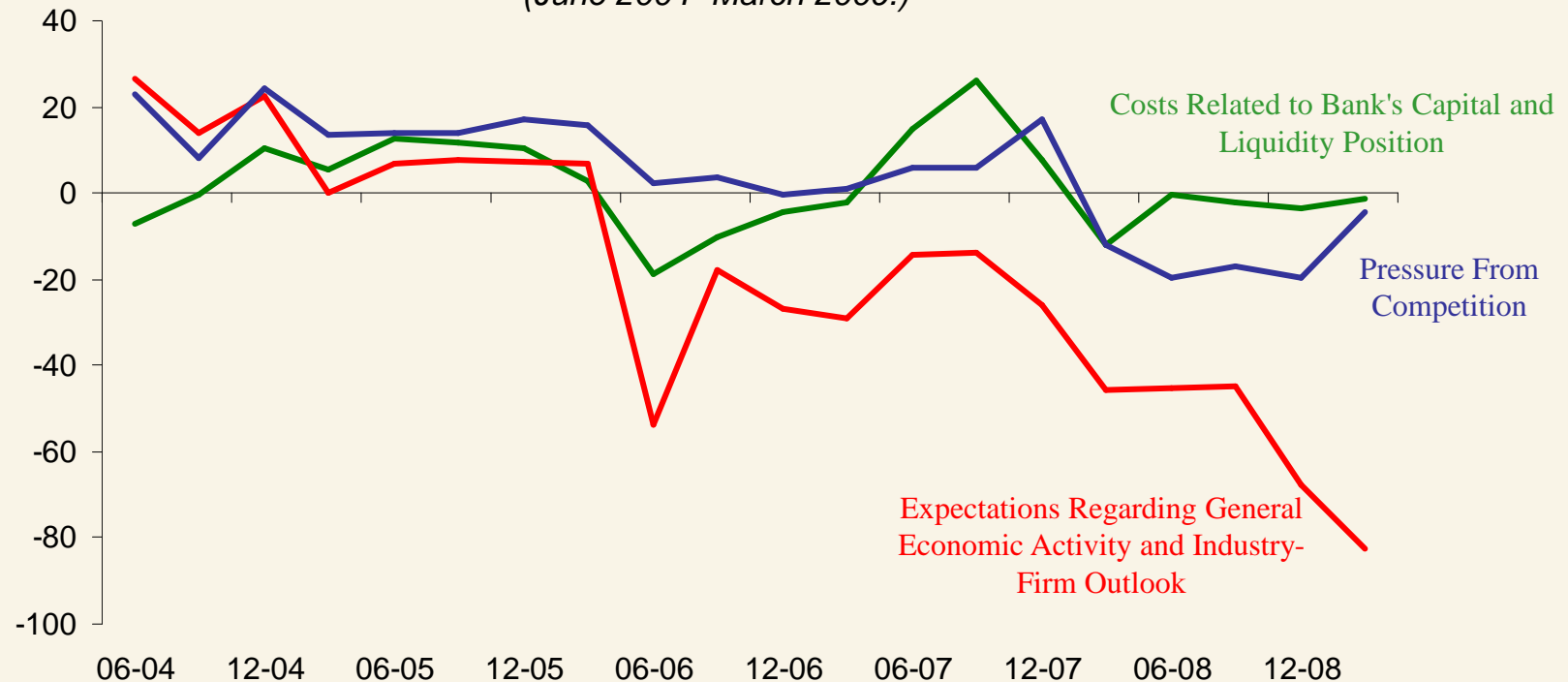
Source: CBT



Bank Loans' Tendency Survey

The Bank Loans' Tendency Survey conducted by the CBT indicates that the investment-driven credit demand has significantly decreased recently; a large portion of the credit demand stems from the intention of companies to restructure their corporate credits and the fact that the risk perceptions of banks play an important role in banks' tightening their credit conditions.

Factors Affecting Credit Supply
(June 2004- March 2009.)



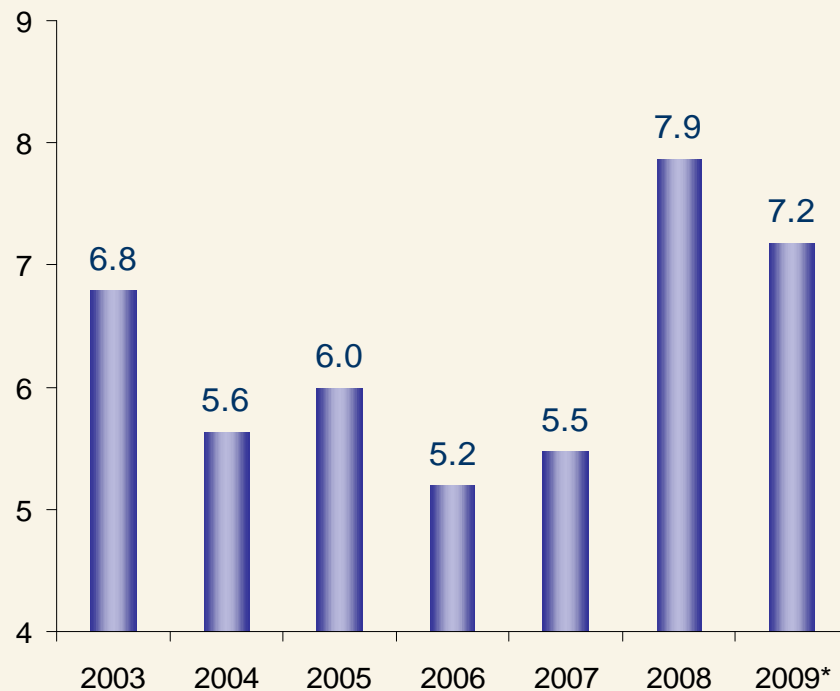
Source: CBT



Non-Performing Loans

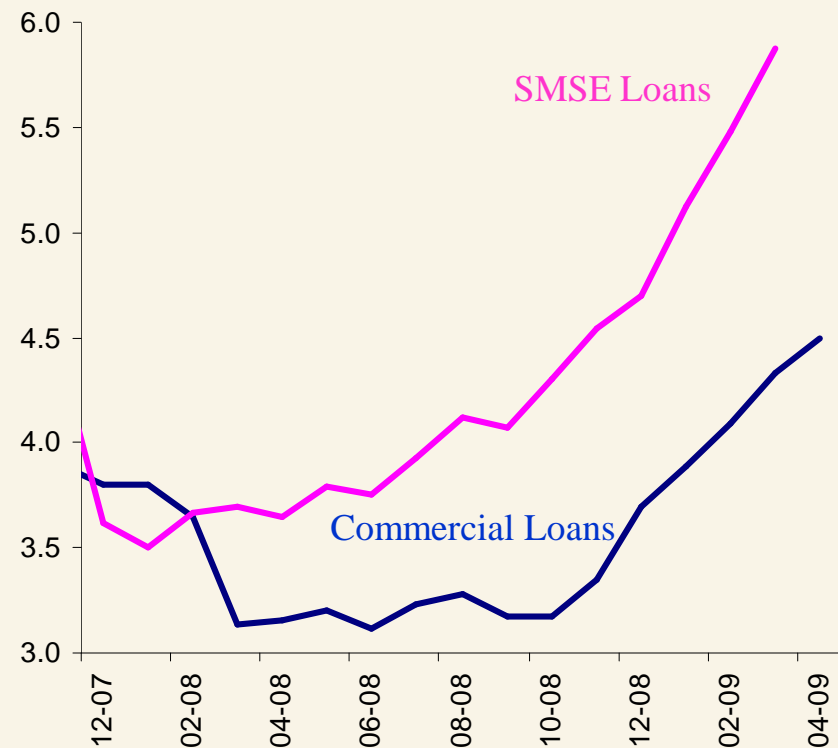
The rise in the non-performing loan ratio, which started in September 2008, continues.

**Ratio of Bad Checks to the Total Amount of Checks
Submitted to the Clearing House**
(2003 – April 2009, annual percent)



* As of April 2009.
Source: ICHC, CBT

**Ratio of Commercial Loans to
Non-Performing Loans and SMSE Loans**
(December 2007 – April 2009)



Source: CBT

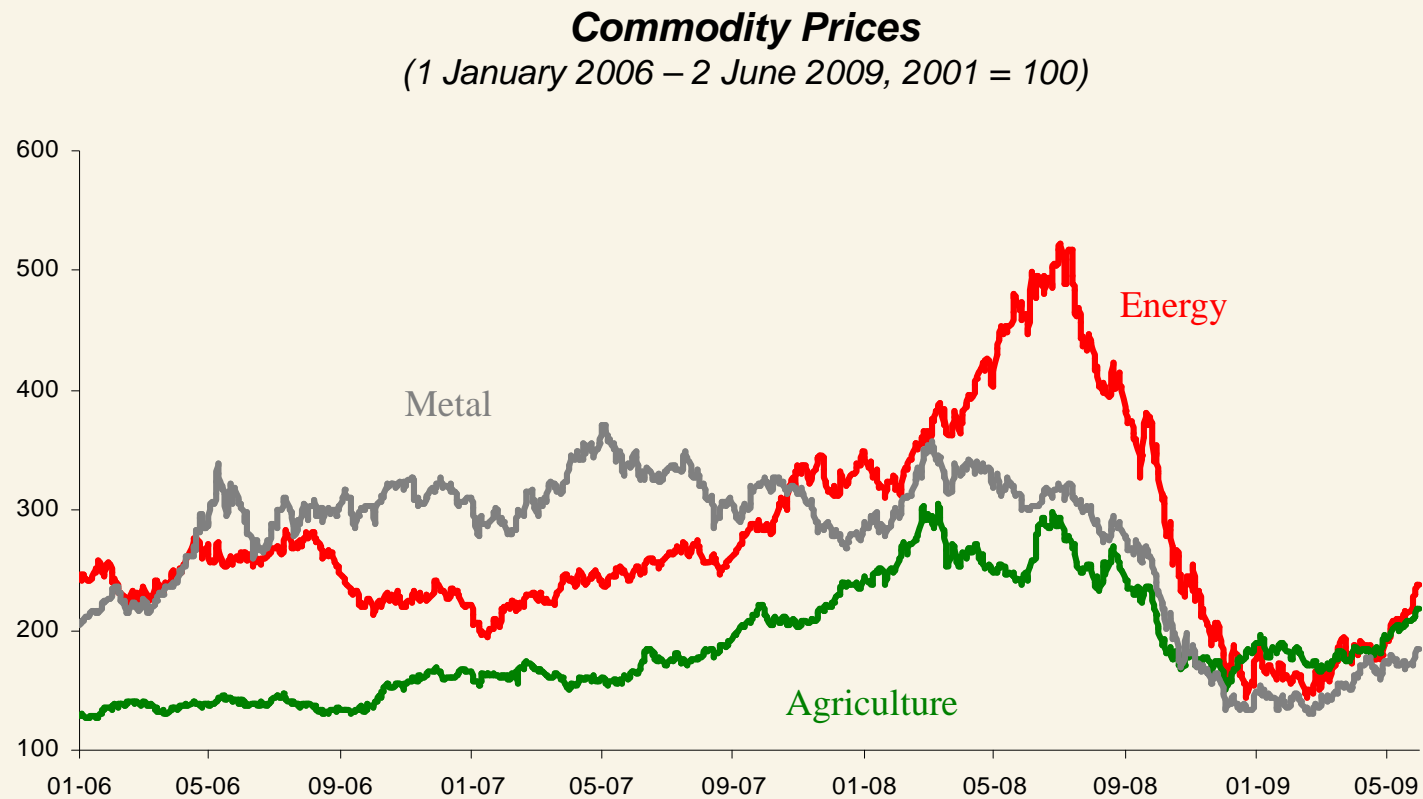


IV. Inflation Developments & Monetary Policy Stance



Commodity Prices

Commodity prices remain low parallel to the slowdown in global growth.



Source: Bloomberg

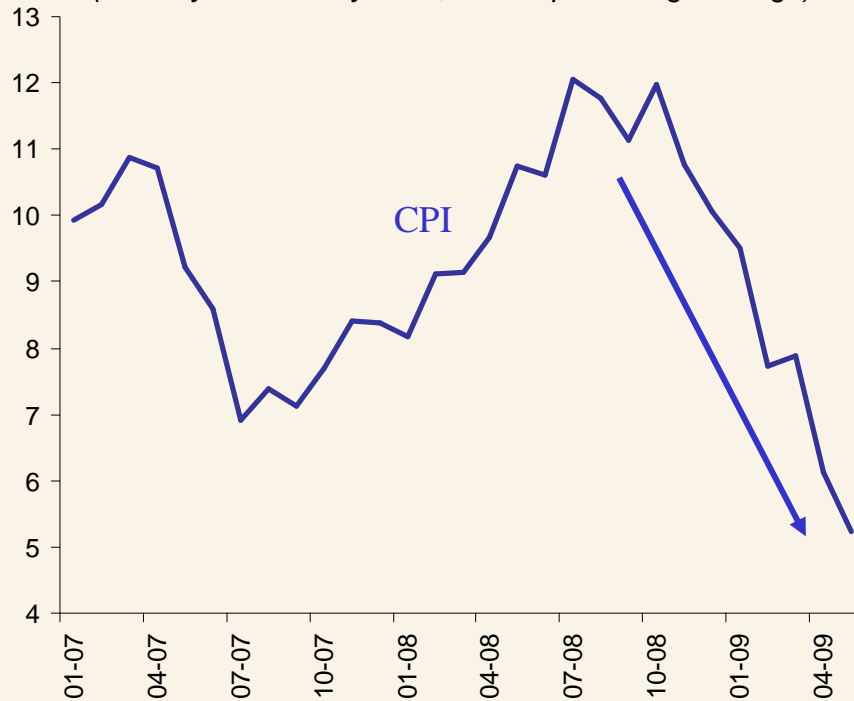


Inflation Developments in Turkey

In May, inflation fell to 5.24 percent year-on-year

Consumer Inflation

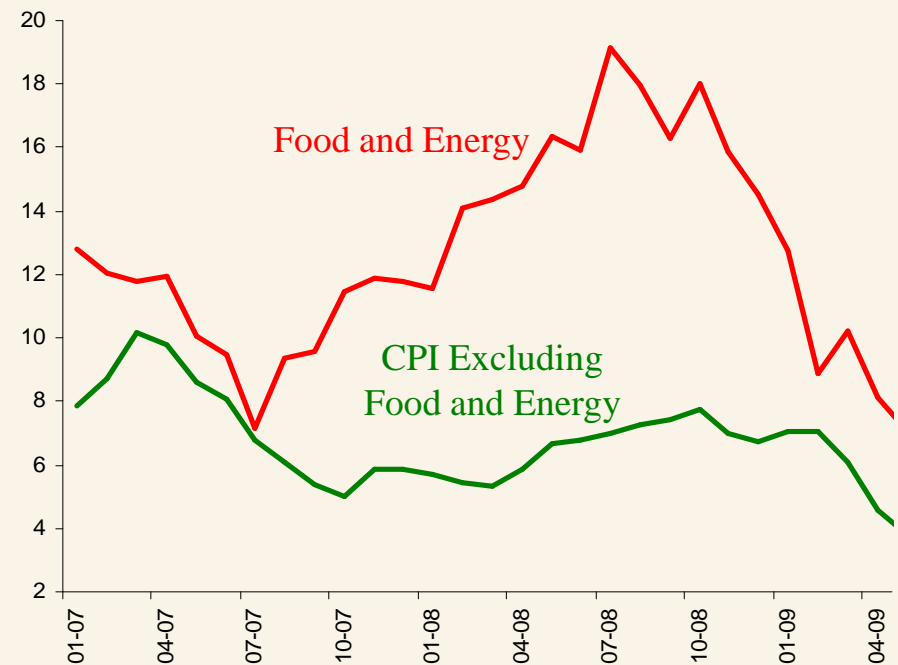
(January 2007 – May 2009, annual percentage change)



Source: TURKSTAT, CBT

Food and Energy Inflation

(January 2007 – May 2009, annual percentage change)



Source: TURKSTAT, CBT

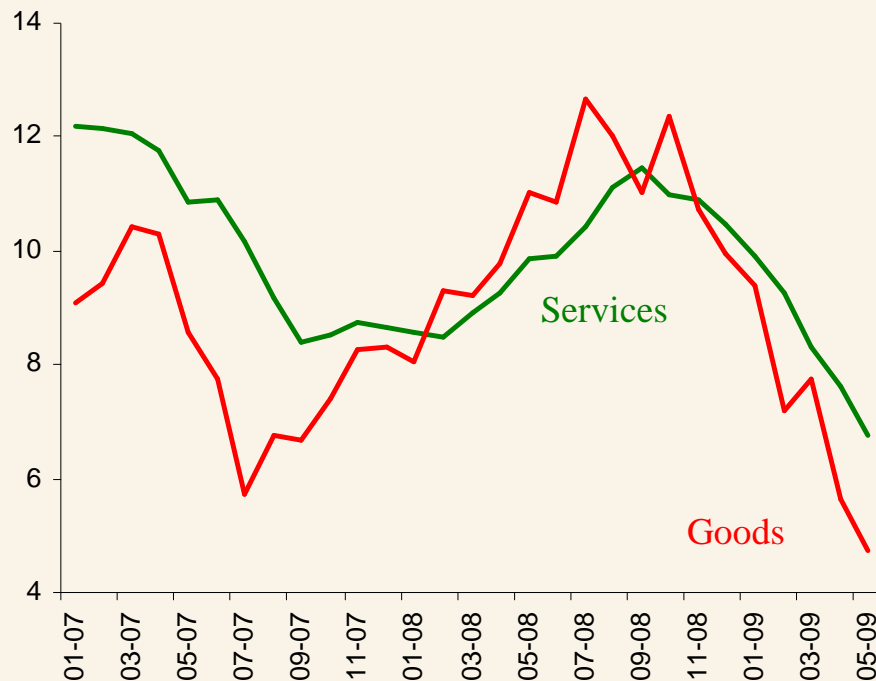


Inflation Developments in Turkey

The slowdown, which has been observed in annual services inflation in the last two quarters, continued in May. The slowdown in the rate of increase in prices is observed in all subcategories.

Prices of Goods and Services

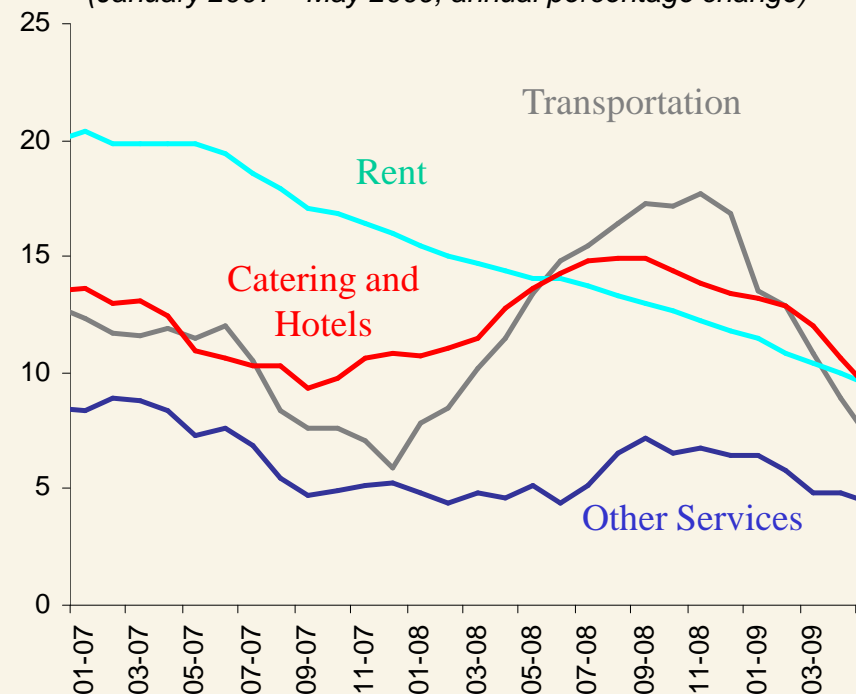
(January 2007 – May 2009, annual percentage change)



Source: TURKSTAT, CBT

Services Prices

(January 2007 – May 2009, annual percentage change)



Source: TURKSTAT, CBT

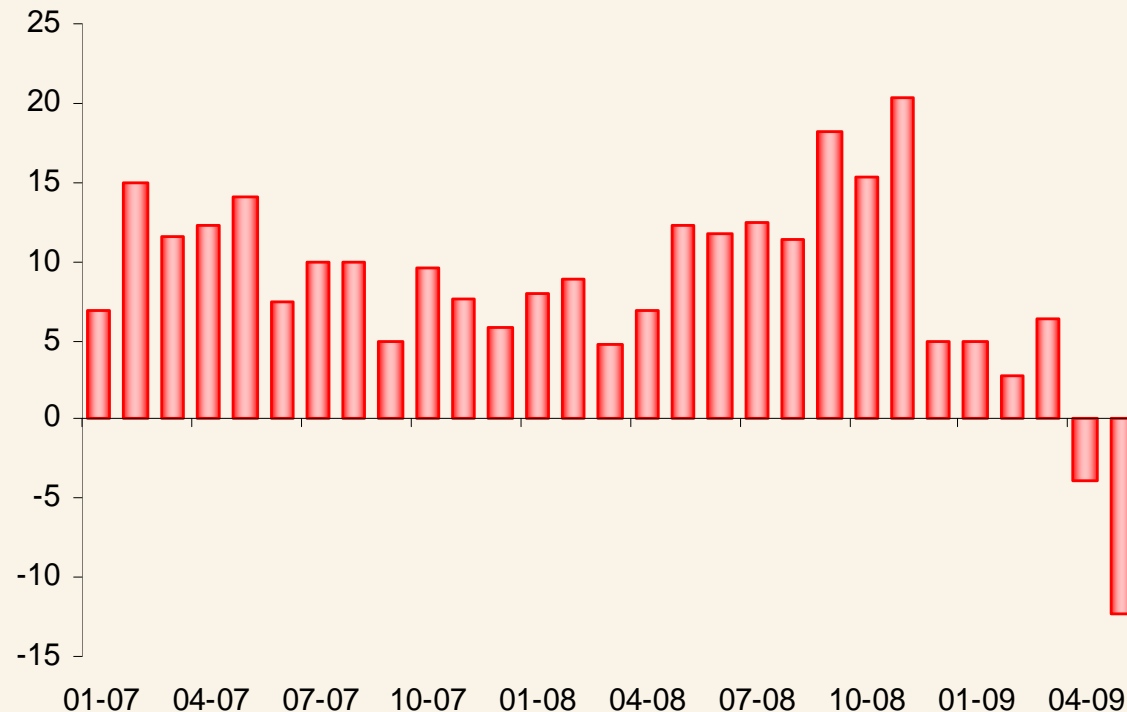


Inventory and Cost Developments

It is thought that firms are on the verge of depleting their inventories, which might have positive implications on production in case demand continues to rise in the upcoming period.

Stock of Finished Products*

(January 2007 – May 2009)



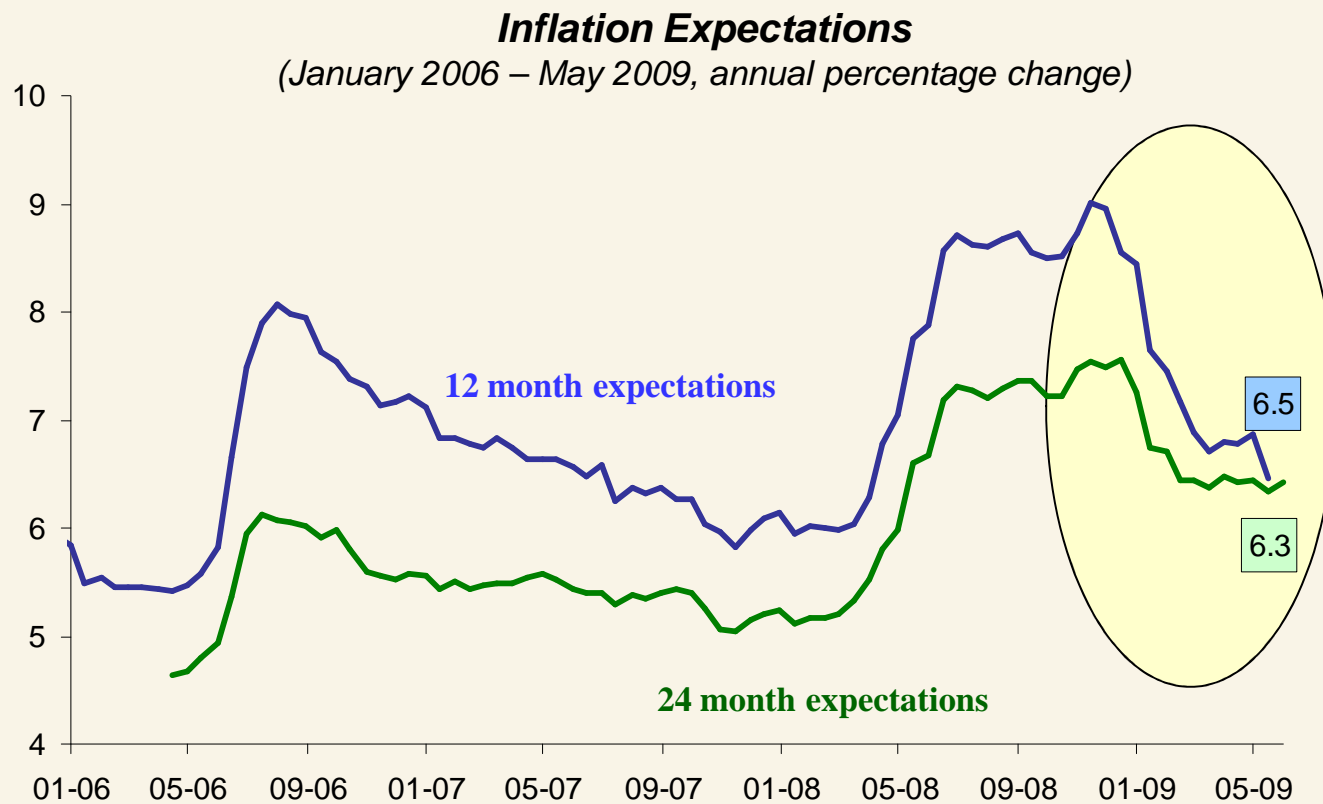
* Difference between "above the season" and "below the season" answers given to the current stock of finished goods question in the "Business Survey" conducted by CBT.

Source: CBT



Inflation Expectations

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



Source: TURKSTAT, CBT

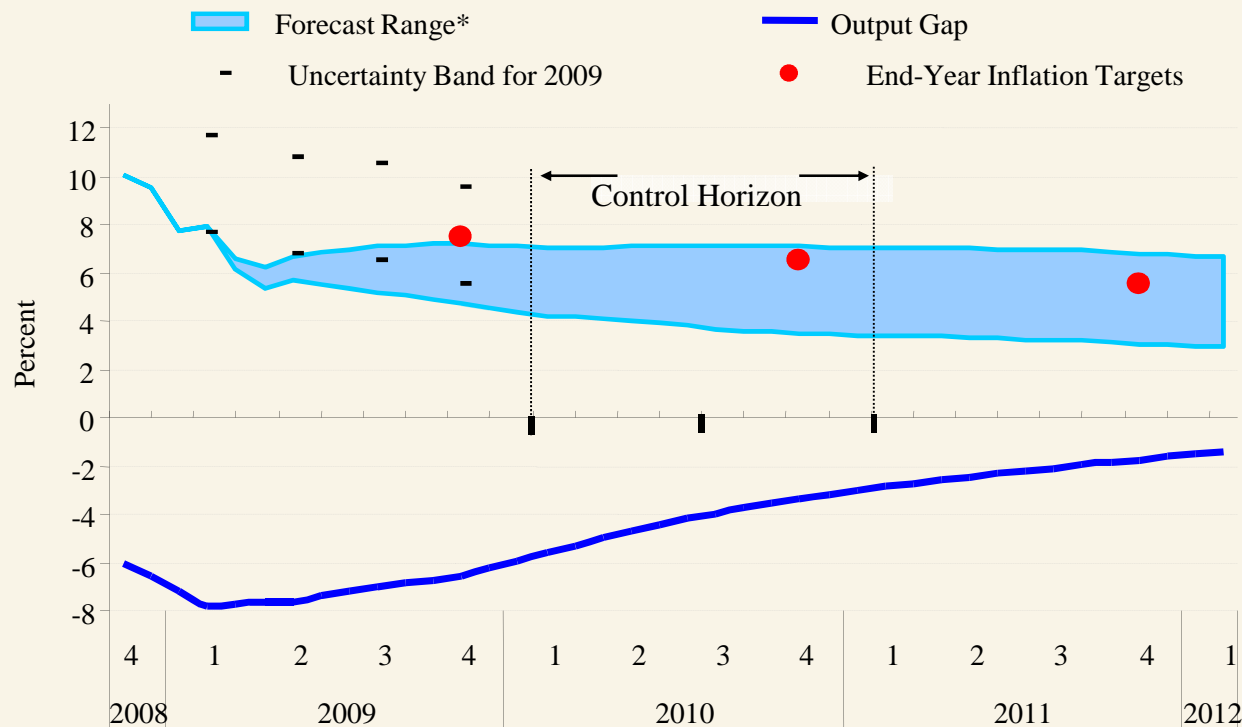


Inflation and Output Gap

It is expected that it will take some time for 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 Q4 – 2012 Q1)



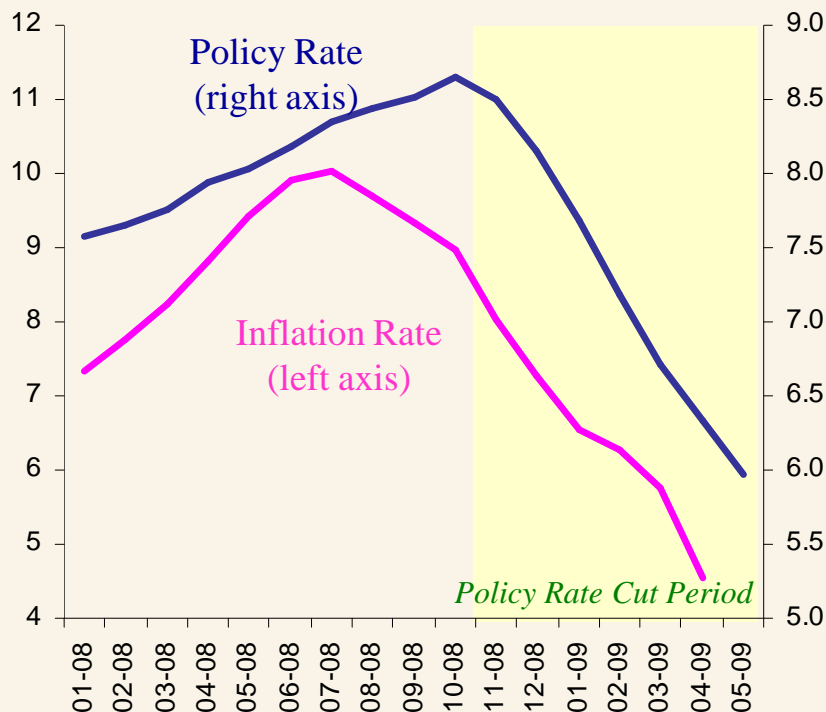
Source: CBT



Monetary Policy Stance

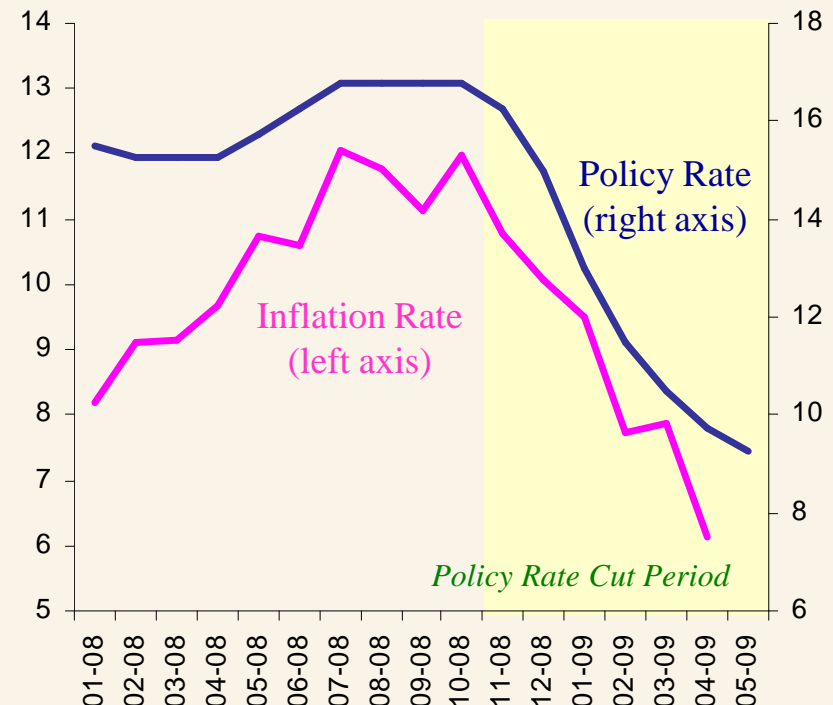
Central banks of developing countries maintained a cautious stance in the first half of 2008 in view of depreciation of exchange rates and concerns over financial stability.

Inflation and Policy Rates in Emerging Markets
(January 2008 – May 2009, average percent)



Source: Central Banks, CBT

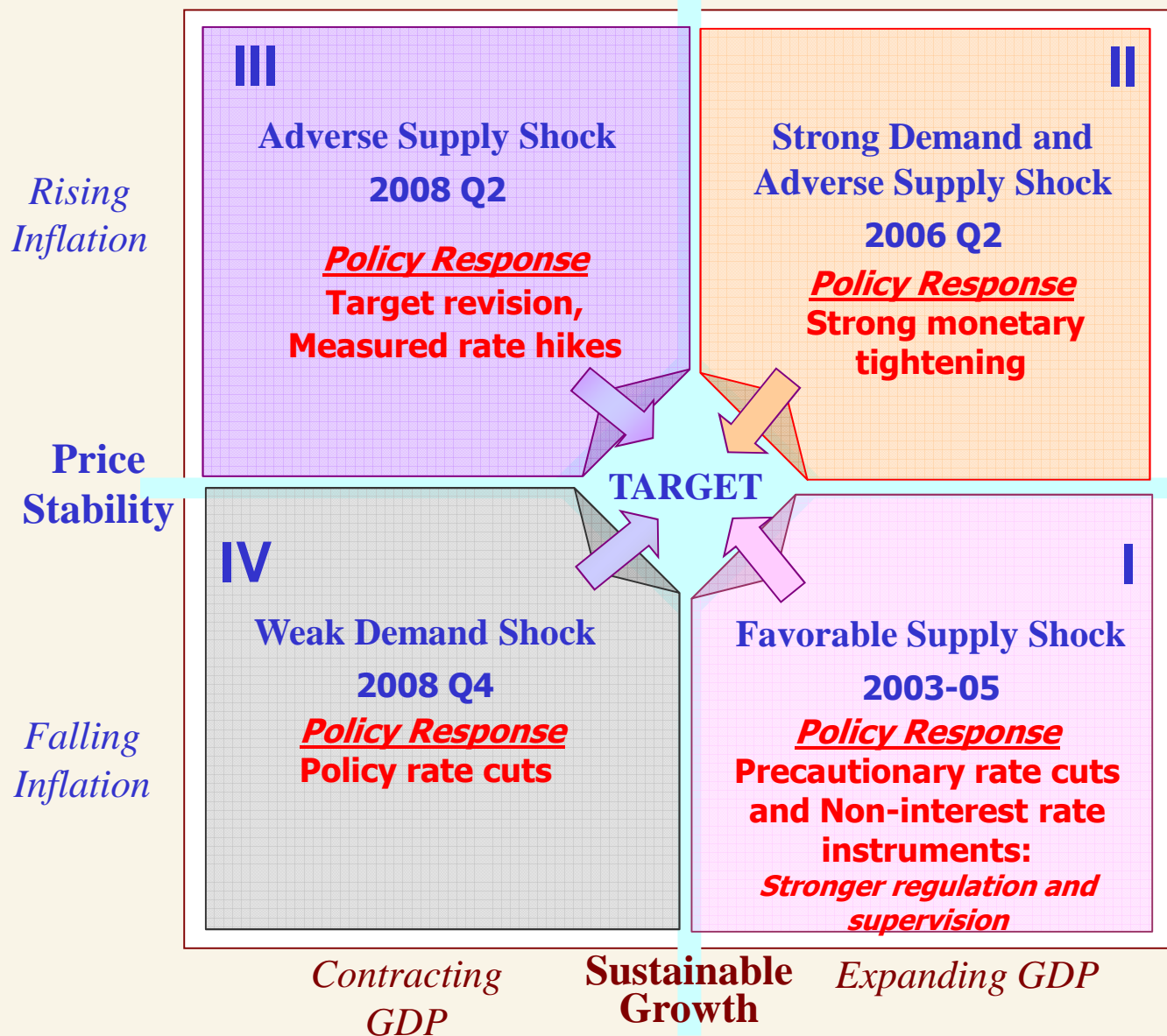
Inflation and Policy Rates in Turkey
(January 2008 – May 2009, average percent)



Source: Central Banks, CBT



How Monetary Policy Evolved After 2001?



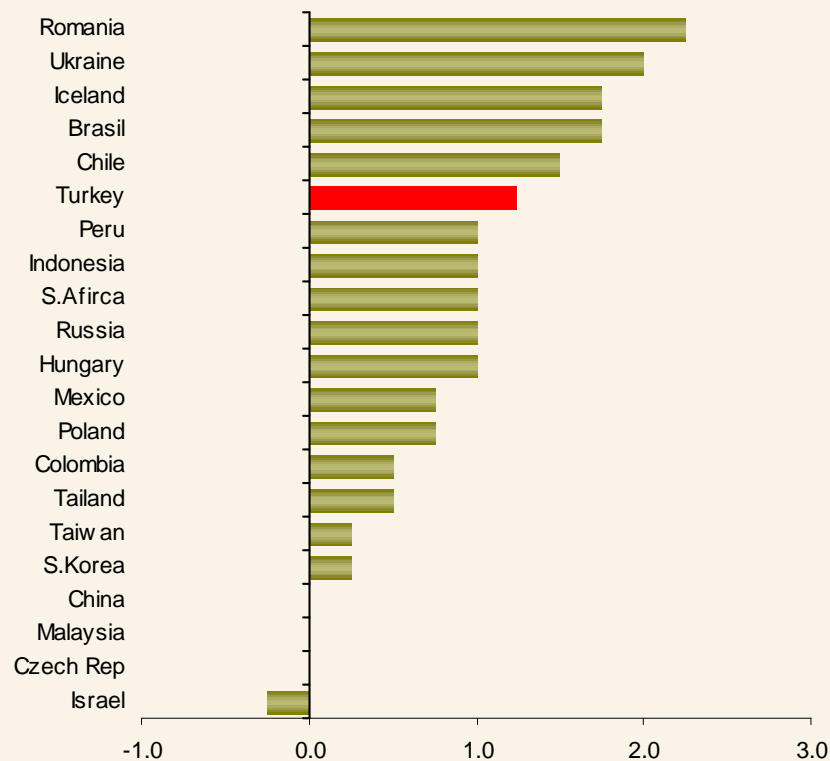


Monetary Policy Stance

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

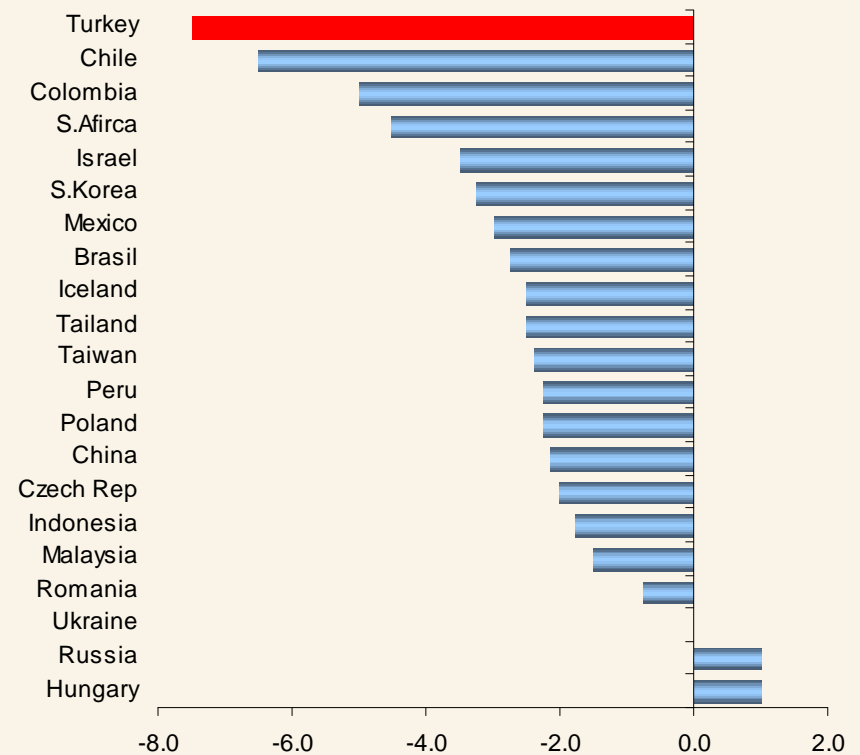
Policy Rate Change in Emerging Market Economies (percent)

January 2008 – August 2008



Source: CBT, Central Banks

August 2008 – May 2009



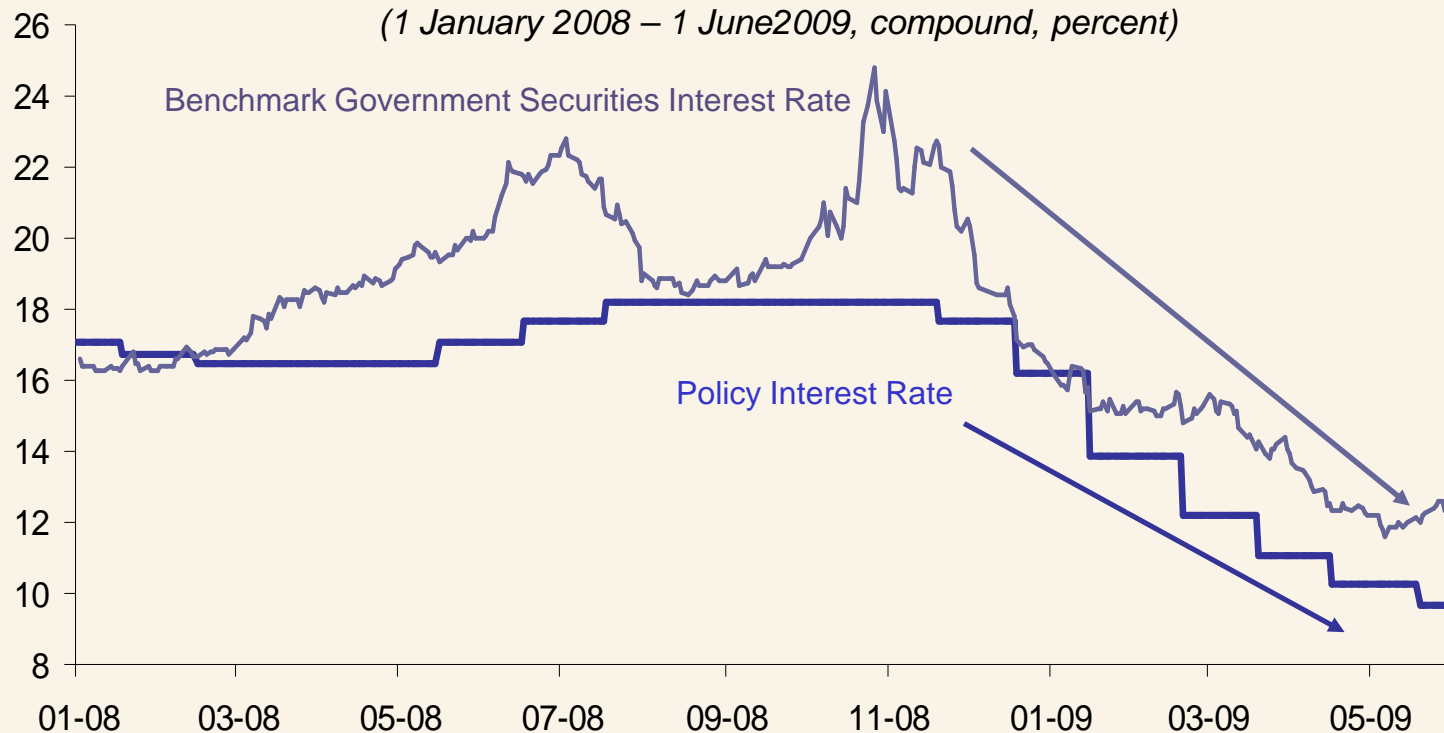
Source: CBT, Central Banks



Monetary Policy Stance

Market interest rates 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 – 1 June 2009, compound, percent)



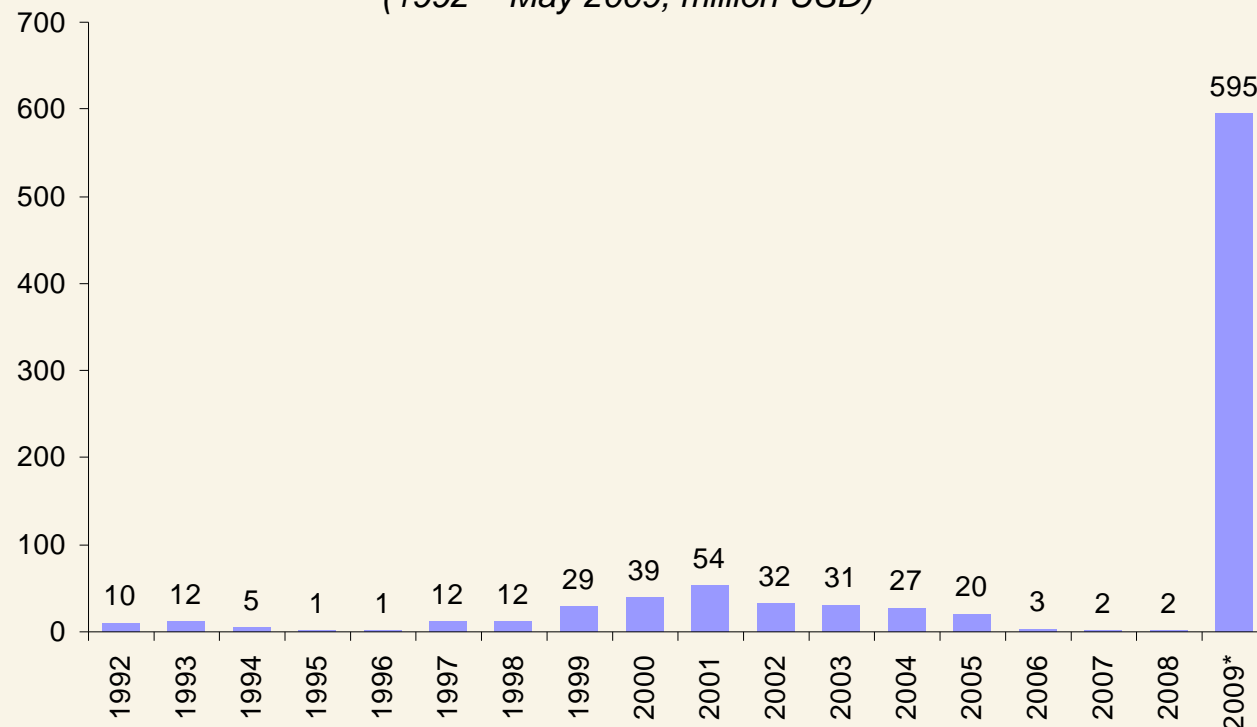
Source: Undersecretariat of Treasury, CBT



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 facilitated.

Export Rediscount Credit Utilization
(1992 – May 2009, million USD)



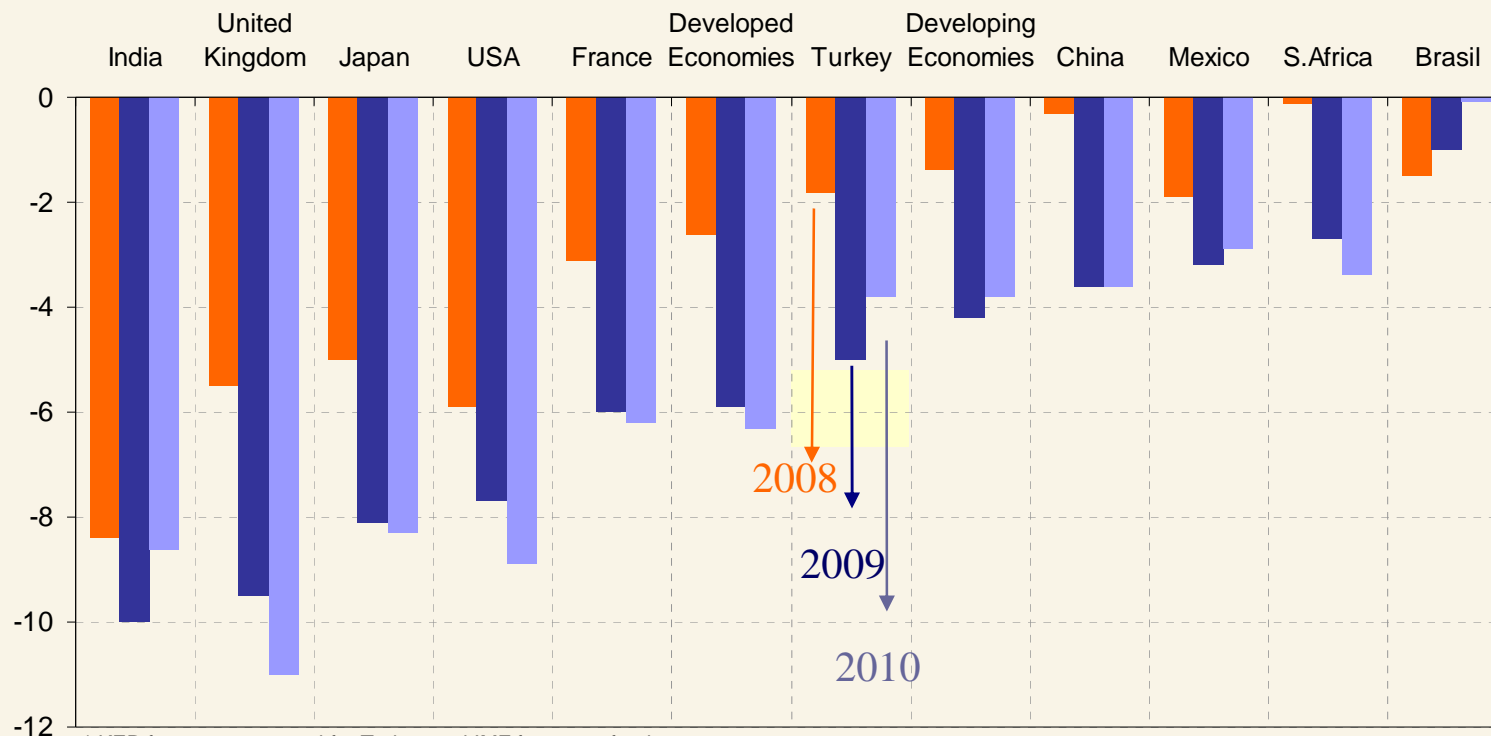
* As of 17 April 2009
Source: CBT



Counter-Cyclical Public Finance

One of the major factors determining the effectiveness of monetary policy in this period is developments in fiscal policy. Many countries are increasing their public expenditures within their means in order to revive domestic demand. Those that have gotten through this period with a moderate rise in their public debt stocks will be able to regain, in the aftermath of the crisis, their potential growth rates earlier.

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



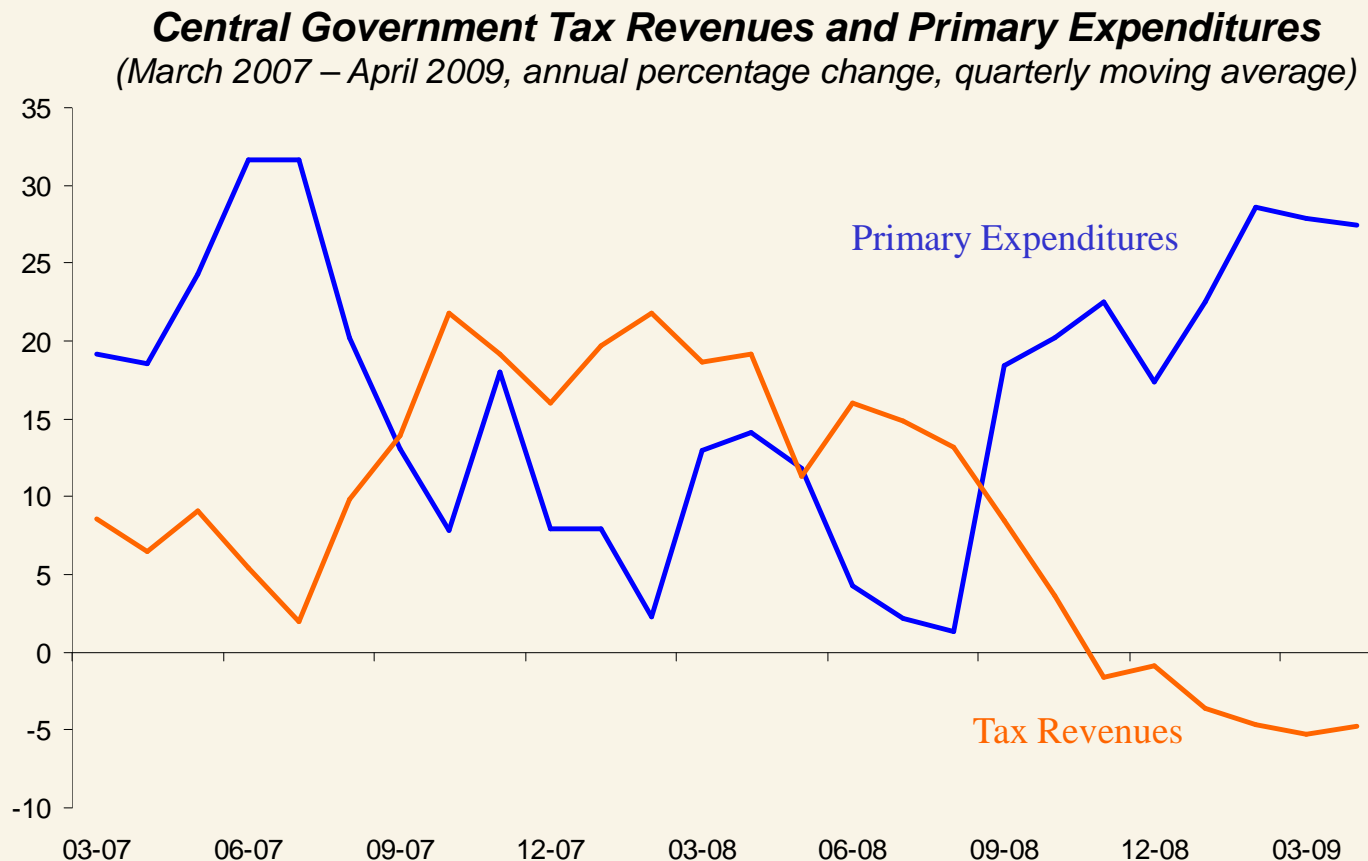
* KEP forecasts are used for Turkey and IMF forecasts for the rest.

* Source: IMF, KEP, CBT



Need for a Medium Term Fiscal Framework

Under current economic conditions, the higher financing requirement of the government might weaken the favorable impact of monetary policy decisions on economic activity.

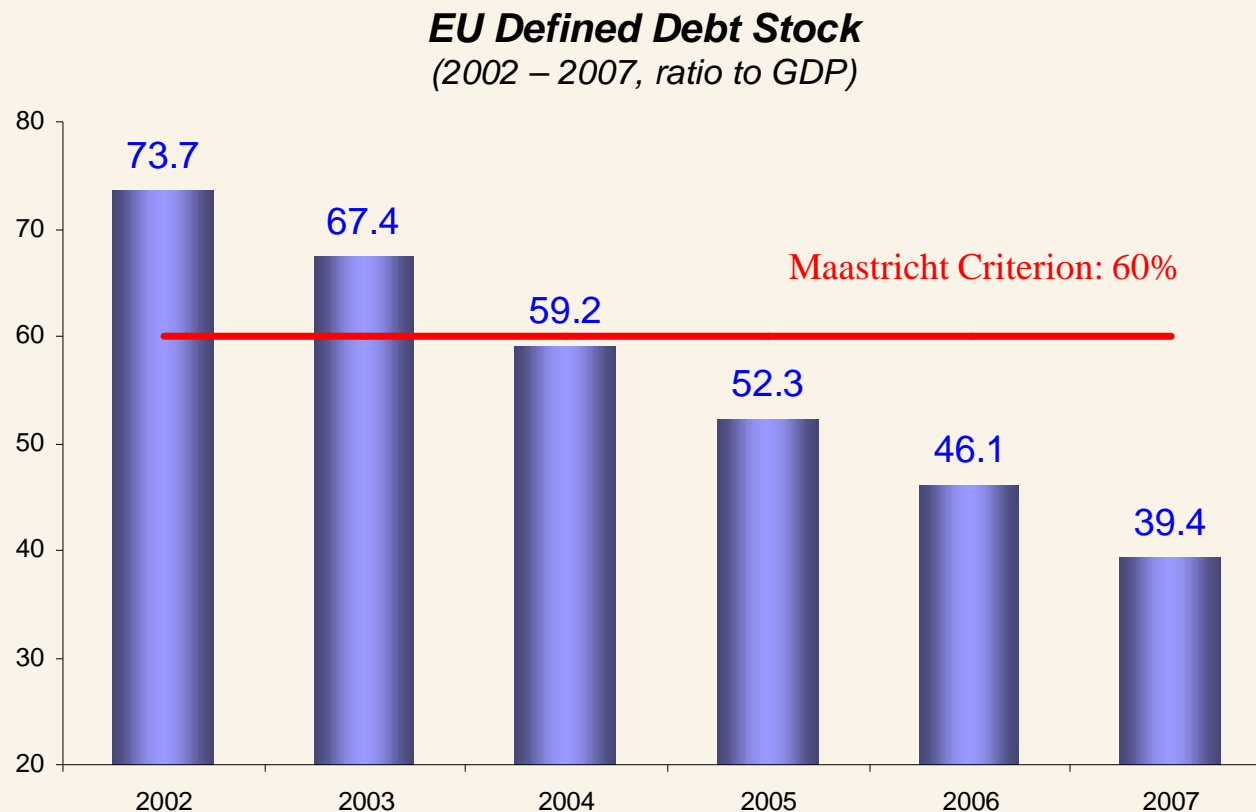


Source: Ministry of Finance, CBT



Need for a Medium Term Fiscal Framework

It is probable that short term policy rates will hover around single digits for quite some time. However, how sooner the long term interest rates will drop to single digits depends on the quality of the fiscal discipline in medium term.

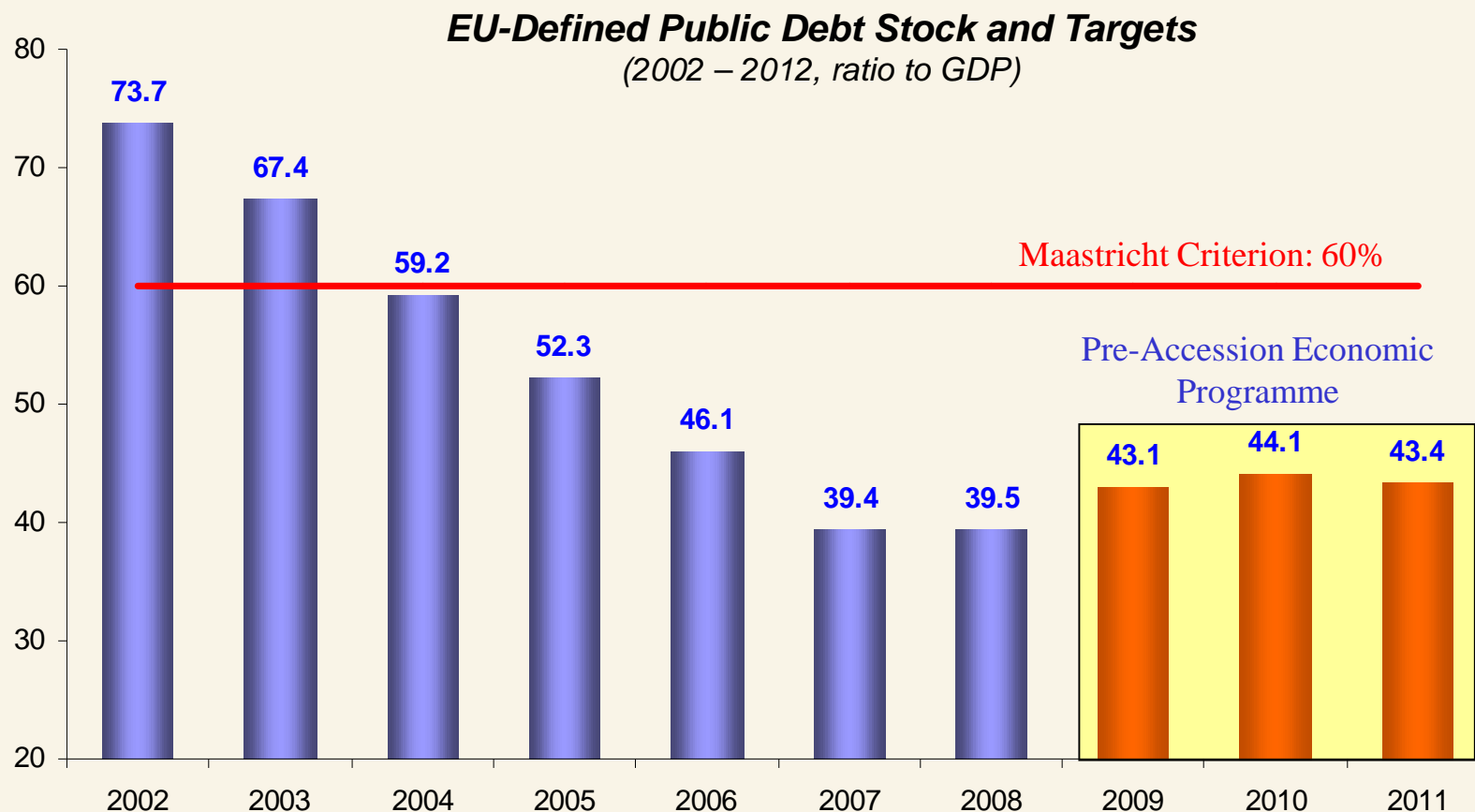


Source: Undersecretariat of Treasury, CBT



Need for a Medium Term Fiscal Framework

Short-term fiscal expansion should be backed by a credible medium term fiscal framework that would ensure fiscal discipline and debt sustainability.



Source: Pre-Accession Economic Programme , Undersecretariat of Treasury, CBT



V. International Bank Account Number (IBAN)



International Bank Account Number

- The Communiqué on International Bank Account Number (IBAN) was published in the Official Gazette of 10 October 2008.
- IBAN stands for international bank account number generated in accordance with certain standards to be used in the place of an existing bank account number.

**Existing Bank
Account Numbers**
142005787XYZ



Converted into IBAN

TR08 0006 4000 0014 2005 787X YZ

- Money transfers will be conducted rapidly and accurately with IBAN.
- Harmonization is achieved with the European Union legislation.



International Bank Account Number

- IBAN is being used by many countries including the European Union.
 - As of 1 January 2010, IBAN will be used in money transfers.
-
- IBAN will be required for money transfers.
 - Citizens can obtain their IBANs from the branches and/or the websites of the banks where they hold accounts.



VI. Training on Financial Matters



Training on Financial Matters

- ✓ **Financial services and products are becoming more diverse and complex.**
- ✓ **Accordingly, it is now more important for individuals to be informed about financial matters while making investment and credit decisions and to use financial products purposefully.**
- ✓ **Within this scope, importance should be attached and priority given to training activities in order to raise financial awareness.**
- ✓ **In relation to this;**
 - ✓ **Consumer Protection Law No. 4077, Article 20 regulates training of consumers.**
 - ✓ **The Ministry of National Education is responsible for making necessary additions to the curriculum, pertaining to training of consumers .**



Training on Financial Matters

- **The Ministry of Industry and Trade, upon the recommendation of the Consumer Council, has been authorized to set principles related to broadcasting relevant programs.**
- **The Central Bank is ready to fulfill its role with respect to training on financial matters.**



CENTRAL BANK OF THE REPUBLIC OF TURKEY

**Samsun Chamber of Commerce
and Industry Presentation**

Durmuş Yılmaz

Governor

June 2009