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Financial Stability Report

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This report, which aims to inform the public, is based mainly on September 2006 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.

FOREWORD

A sound and efficient financial system contributes to monetary policy implementation and provides flexibility in order to tackle external shocks. Within this regard, the Central Bank monitors financial fragility and risk factors representing a threat to the financial system, and shares its analysis with the public through its biannual Financial Stability Report.

Within this framework, especially focusing on the effects of the fluctuations in May-June 2006, the third Financial Stability Report, as the previous Reports, analyzes macroeconomic developments considering the interrelations between the sectors and evaluates risks embedded in the banking sector that has the major share in the financial system, by stress tests and scenario analyses.

The Report includes the results of the on-going study by the Central Bank, which aims to measure the foreign exchange risk of non-bank institutions, external borrowing of which has recently sharply increased.

In the first half of 2006, international developments such as the deterioration in global liquidity conditions and the decrease in risk appetites of foreign investors towards developing countries and the uncertainty occurring after it, adversely affected developing countries, including Turkey. However, tight monetary and fiscal policies of the current economic program, on-going structural reforms and flexible exchange rate regime increased the resilience of the system to external shocks. In addition, the strengthened legal infrastructure and improved risk culture in the banking sector hampered the adverse effects of May-June fluctuations.

Within this framework, I hope that our assessments will be beneficial to all financial market participants.



Durmuş YILMAZ
Governor
Central Bank of the Republic of Turkey

