



2010 GLOBAL ECONOMIC SYMPOSIUM: THE WORLD SEEKS SOLUTIONS IN ISTANBUL

Since 2008 The Global Economic Symposium (GES) has been organized by the Kiel Institute, which is one of the leading research institutes in Germany. At the symposium, the most significant challenges facing global economy, politics, society and environment are analyzed in depth; a common vision is developed for the future; and innovative strategies are determined to achieve this vision. Addressing leading decision makers from all over the world, the GES, with its research-based and solution-focused structure, aims at ensuring global cooperation against these challenges on a natural and creative platform free from political pressures, lobby groups and institutional obstacles.

The GES has an advisory board that assembles leading academicians, businessmen, politicians and senior bureaucrats such as the Turkish Finance Minister Mehmet Şimşek, the Central Bank of the Republic of Turkey (CBT) Governor Durmuş Yılmaz, Nobel prize-winning economists, former German chancellor Helmut Schmidt, former First Deputy Managing Director of the IMF Anne Krueger and former Chief Economist of the IMF Kenneth Rogoff. Jointly held by the advisory board, the Kiel Institute and German National Library of Economics, the third of these symposiums was hosted by the Central Bank of the Republic of Turkey (CBT).

The GES 2010 took place at the Istanbul Congress Center on September 28 and 29, 2010. In the inaugural speech, President Abdullah Gül stated that decision makers of various fields from all over the world should gather to seek solutions to world issues with a global viewpoint. President Gül underlined that pooling the intellectual knowledge of different cultures is of the utmost importance for generating a fruitful intellectual atmosphere. He added that holding this symposium in Istanbul would significantly contribute to this process.

At the symposium, which featured over five hundred sessions in two days, Deputy Prime Minister and State Minister in Charge of Economy Ali Babacan, Finance Minister Mehmet Şimşek, Minister of Labor and Social Security Ömer Dinçer also participated as speakers. In the closing session, the CBT Governor Durmuş Yılmaz, Deputy Governor Dr. M.



İbrahim Turhan, Kiel Institute President Prof. Dennis Snower and GES Executive Director Alessio Brown shared their evaluations of the basic opinions and suggestions of solutions that emerged from the symposium.

In the closing session, Governor Yılmaz stated that one of the major issues on the agenda was the change to be made in the mandate of central banks in the post-crisis period. He added that with regard to the conclusions reached at the symposium, there was no indecision about the duty concerning price stability, while central banks should definitely assume more responsibility for financial stability at

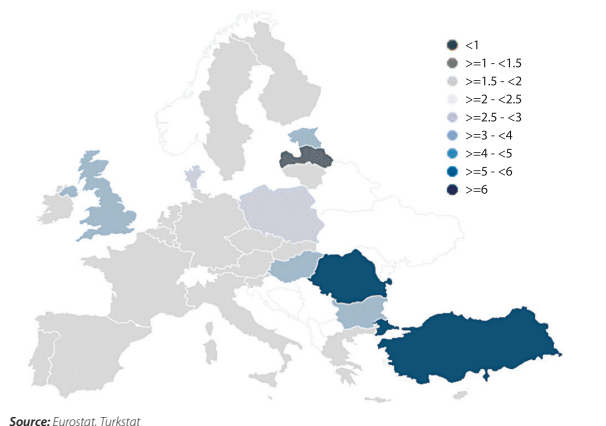
macro level even if they do not do so at micro level. Yılmaz also said that there is a broad agreement on the need for intense cooperation with other supervisory authorities.

Sharing his views on the symposium and evaluations regarding global problems, Deputy Governor Turhan mentioned that whereas the current crisis was a global one, there are no international institutions that can introduce global measures. He said that the conventional economic policies fell short of being a solution and growth pressure on the system led to financial crises, distorted income distribution as well as environmental destruction and famine. Pointing to the need for a global order focusing on the humanistic and moral dimensions of the economy as a pathway to exiting the crisis, Turhan underlined that competition in this order should be replaced by cooperation at global scale and this cooperation should include people of various income groups and cultures.

In the closing session of the symposium, Dennis J. Snower, President of the Kiel Institute, delivered a personal summary covering five points. He stated that the solutions offered at the meeting would be published in a booklet. Snower urged that decision-makers be open to policies that would prevent their countries going bankrupt and avert the bankruptcy of financial institutions that might create systemic risks without generating public debt; impose uniform taxes on carbon dioxide emissions that would be implemented worldwide; cope with the problems regarding development and finance driven by the aging population and introduce effective incentives for continuous education.

EUROPEAN UNION (EU) CONVERGENCE CRITERIA

Inflation in EU and Turkey
(Percent, Annual, September 2010)



Source: Eurostat, Turkstat

Inflation

Low inflation rate and price stability are among the “convergence criteria” also known as the Maastricht Criteria that should be met by candidate countries for joining the EU. Accordingly, the inflation rate of an EU-member state or a candidate country should not exceed by more than one and a half percentage points that of the three best performing member states in terms of price stability over the previous year.

A slowdown is observed in economic activity in the EU in the aftermath of the global economic crisis and the lowest inflation rate in the EU was that of Ireland with -1 percent and the highest was that of Greece with 5.7 percent as of September. The average inflation rate of the EU was 2.2 percent. In the same period, Turkey’s annual inflation stood at 9.2 percent.

Public Debt and Government Deficit

The Maastricht Criteria envisage restrictions for budget deficit and public debt as well. Accordingly, the ratio of a member state’s national budget deficit to its gross domestic product (GDP) shall not exceed 3 percent and the ratio of national public debt to gross domestic product (GDP) shall not exceed 60 percent.

With the impact of the measures taken to alleviate the effects of the latest financial crisis, the ratio of budget deficit to GDP

in Turkey was realized as 6.7 percent at the end of 2009. In the same period, Ireland’s budget deficit to GDP ratio was 14.4 percent while those of the UK and Spain were 11.4 and 11.1 percent, respectively.

In Turkey, the ratio of public debt to gross domestic product, which should not exceed 60 percent as per the Maastricht Criteria, was at 45.4 percent at the end of 2009. Italy, which faced public finance problems in the aftermath of the crisis, had a public debt to GDP ratio of 116 percent. Estonia’s public debt to GDP ratio, which is the lowest of EU countries, was 7.2 percent.

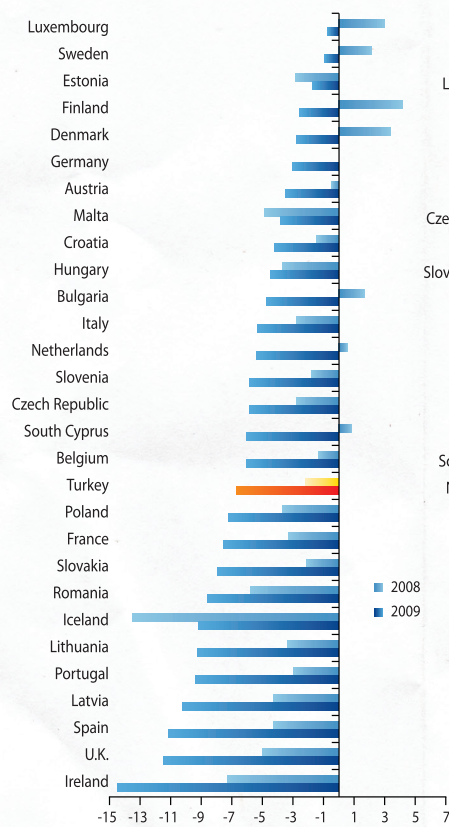
Long-term Interest Rates

As per the Maastricht Criteria, a member country’s long-term interest rates should not be more than two percentage points above the rate in the three best performing EU countries in terms of price stability. The long-term interest rates are calculated based on the annual interest rate applied to the ten-year government debt securities.

Among EU countries, those three with the lowest long-term interest rates as of end-2009 were Germany, Sweden and the UK. Long-term interest rates in relatively new member countries such as Lithuania, Latvia and Romania increased compared to previous years, on the back of the latest global turmoil.

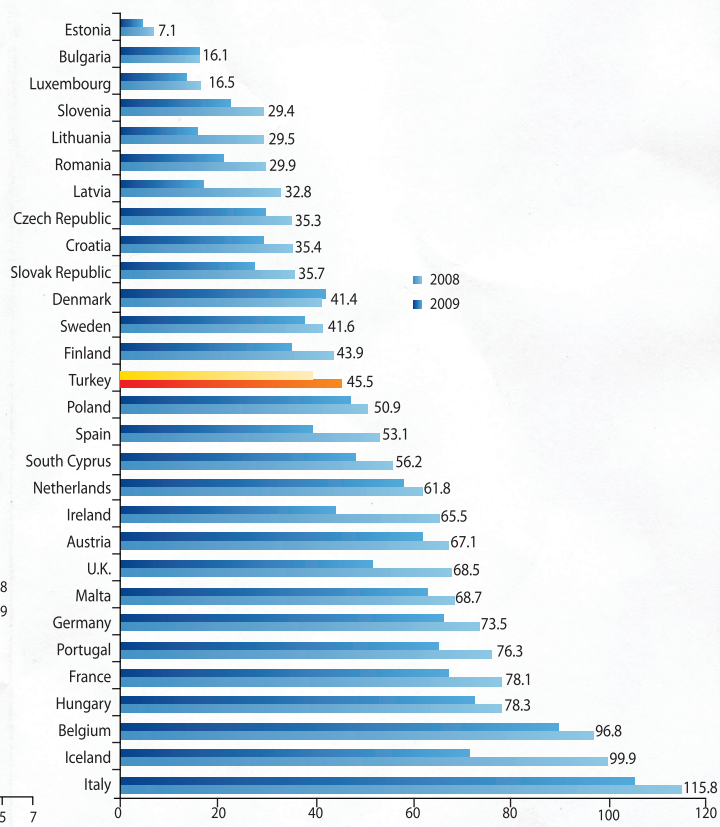
Whereas in Turkey, as government bonds with ten year maturities were first issued in early 2010, it is not possible to make a sound comparison with EU members in terms of the Maastricht Criteria on long-term interest rates.

Budget Deficit/ GDP Ratio in EU and Turkey
(Percent, Annual, 2008 - 2009)



Source: Eurostat, IMF

Public Debt/GDP ratio in EU and Turkey
(Percent, Annual, 2008 - 2009)



OPEN LETTER

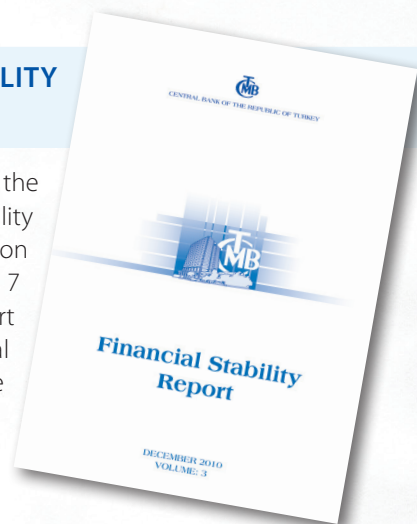
As of September, the inflation was 9.24 percent, breaching the upper limit of the uncertainty band, which was set at 8.5 percent. As a result, the accountability process was triggered as stipulated by Article 42 of the CBT Law. Accordingly, the CBT submitted an "Open Letter" to the Government and announced it to the public.

For further information: <http://www.tcmb.gov.tr/yeni/eng/>
(Announcements)

FINANCIAL STABILITY REPORT

The eleventh issue of the biannual Financial Stability Report was posted on the CBT's website on 7 December 2010. The Report evaluates international developments within the framework of the ongoing post-crisis recovery process that showed variation according to country groups. The Report also examines recent macroeconomic developments such as the impact of increased capital inflows on the Turkish lira and the current account deficit, performance of the Turkish economy and profitability of banking sector, capital adequacy, credit and liquidity risks of the banking sector and financial infrastructure. In the last chapter of the Report called "Special Topics", information has been provided on "Approaches to Preventing and Resolving Systemic Risks", "Measures Taken by Developing Countries for Financial Stability During and After the Crisis", "Required Reserves as a Macro-prudential Instrument", "Financial Institutions of Systemic Importance", "Developments on Credit Rating Agencies", "Basel III Accord", "Financial Awareness and Financial Education".

For further information: <http://www.tcmb.gov.tr/yeni/eng/>
(Publications/Reports)

**INFLATION REPORT 2010-IV**

Governor Yılmaz presented the Inflation Report 2010-IV to the public at a press conference held on 26 October 2010. The Report elaborates underlying causes of the deviation of inflation from the target path as well as measures that have already been taken and the measures that will be taken to achieve mid-term targets, global and domestic macroeconomic

developments, risks and also presents the medium-term inflation forecasts, which have been revised in view of previous quarter developments. The Report also includes information boxes on Capital Flows to Emerging Market Economies, Changes in Wheat Prices and Their Effects on Consumer Prices, Ramadan Effect on Economic Activity, Uncertainty and Economic Activity, The Financial Contagion Effect in Foreign Exchange and Capital Markets, and Import Price Projections.

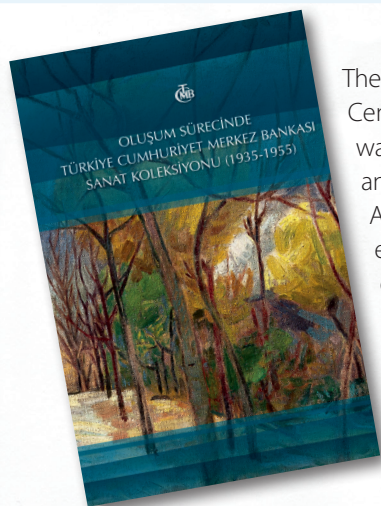
For further information: <http://www.tcmb.gov.tr/yeni/eng/>
(Publications/Reports)

WORKING PAPERS, ECONOMIC NOTES, BOOKS and RESEARCH

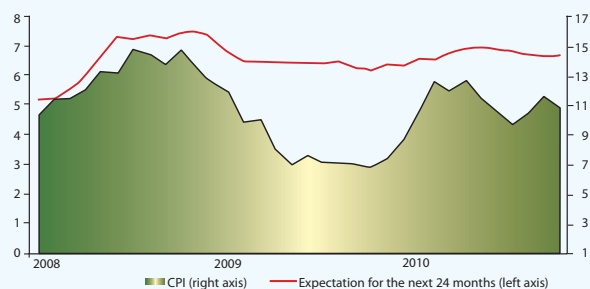
- Measuring the Impact of Monetary Policy on Asset Prices in Turkey
(Murat Duran, Gülserim Özcan, Pinar Özlü, Deren Ünalmış Working Paper No. 10/17, September 2010)
- The Trade Credit Channel of Monetary Policy Transmission: Evidence from Non-financial Firms in Turkey
(Pinar Özlü, Cihan Yalçın Working Paper No. 10/16, September 2010)
- A New Core Inflation Indicator for Turkey
(Necati Tekatlı Working Paper No. 10/19, October 2010)
- A Bayesian Generalized Factor Model with Comparative Analysis
(Necati Tekatlı Working Paper No. 10/18, October 2010)
- Ramadan Effect on Production
(Aşlıhan Atabek Demirhan Economic Notes No. 10/14, 12 October 2010)

BUILDING THE CENTRAL BANK'S ART COLLECTION (1935-1955)

The exhibition on "Building the Central Bank's Art Collection" was held between 21 October and 9 December 2010 at the Art Gallery of the CBT. In the exhibition, featured works of art from the 1935-1955 period, which were procured during the compilation of an Art Collection for the CBT, were shown.

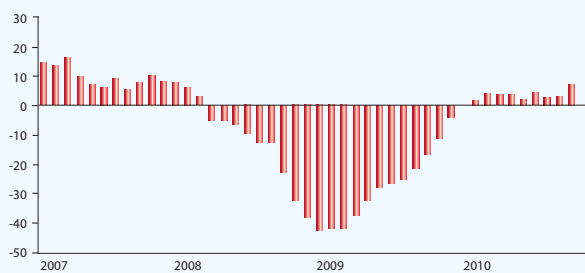


Inflation Expectations
(January 2008 - November 2010, annual change %)



Source: TURKSTAT, CBT

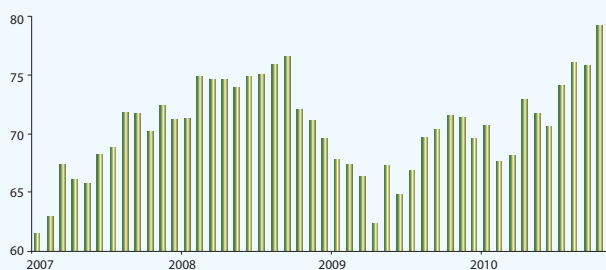
Fixed Investment Expenditure Expectations*
(February 2007 - October 2010)



* For the next 12 months, percentage change

Source: CBT

CBT Foreign Exchange Reserves
(January 2007 - October 2010, billion USD)



Source: CBT

Real Interest Rates* (%)



* Interest on benchmark government securities and 12 months inflation expectations are used between January 2002 and September 2010 period.

Source: Treasury, BRSA, CBT



CAPACITY UTILIZATION RATE OF MANUFACTURING INDUSTRY

Being one of the leading indicators of manufacturing industry output, the capacity utilization rate is an important reference for decision-makers. With the survey on the Capacity Utilization Rate

of Manufacturing Industry, it is aimed to find out the actual capacity utilized by manufacturing industry enterprises in proportion to their current physical capacities during the survey period.

Between 1991 and 2009, data on capacity utilization were compiled and published by the Turkish Statistical Institute (TurkStat) based on results of the "Tendencies in Manufacturing Industry TMI" survey. In line with the studies carried out with TurkStat within the scope of Official Statistics Program (OSP), some amendments were made in the scope and methodology of the Business Tendency Survey (BTS), which was published by the CBT in 2007, whereby the Capacity Utilization Rate

started to be weighted and calculated in a way to represent Turkey as a whole. Accordingly, the scope of the questions was fully harmonized with the European Union's "Industry Survey".

Following these amendments and arrangements, the capacity utilization rate series released by TurkStat on the basis of the TMI survey findings started to be prepared and announced by the CBT, based on the BTS results, as of January 2010, in line with a protocol signed between the two institutions.

Aggregate results are disseminated within the surveyed month with a monthly report on the CBT website, under the title "Data/ Surveys/Capacity Utilization Rate of Manufacturing Industry". In addition, they are available as time series under "Data/Statistical Data-Electronic Data Delivery System (EDDS)".

For further information: <http://www.tcmb.gov.tr/yeni/eng/>
(Data/Surveys)

CBT Policy Rate*		Central Bank Foreign Exchange Reserves (As of 26.11.2010, Billion USD)	79.41
One Week Repo	7.00	CPI (Annual % Change, November 2010)	7.28

* As of November 2010

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