



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

Building Istanbul as a Key Financial Center

**Erdem Başçı
Governor**

May 2012

Contents

- I. Reforms & Policies
- II. Countercyclical Policies
- III. Rebalancing
- IV. Growth
- V. Inflation
- VI. Istanbul as a Financial Center

REFORMS & POLICIES

Reforms & Policies

- i. Private Pension Reform
- ii. Investment and Employment Incentives
- iii. Countercyclical Policies

COUNTERCYCLICAL POLICIES

A Different Sort of Problem

EU: Deleveraging

Turkey: Excessive Credit Growth

Against Excessive Credit Growth

Predominant Policy

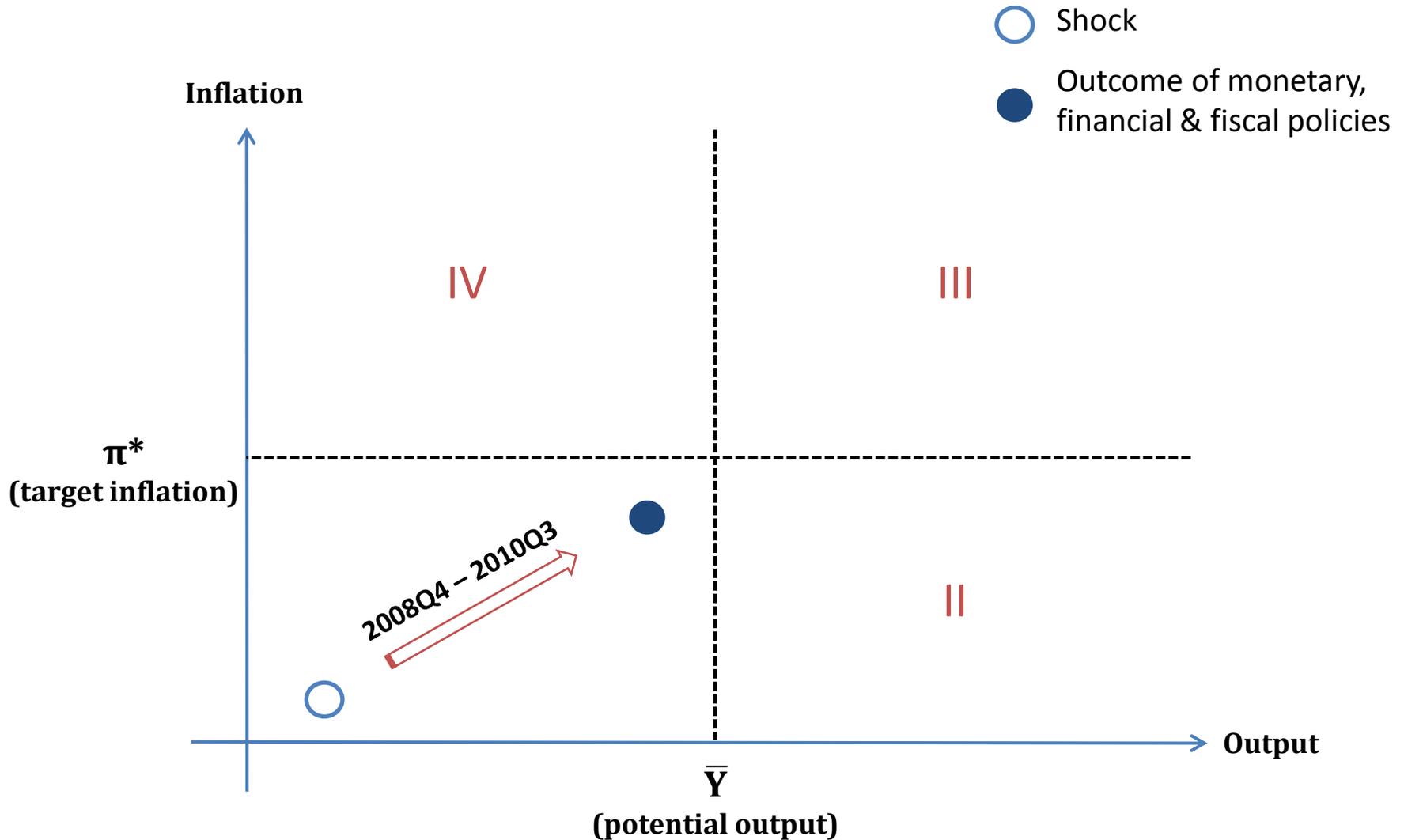
Before August 2011

Macroprudential Tightening

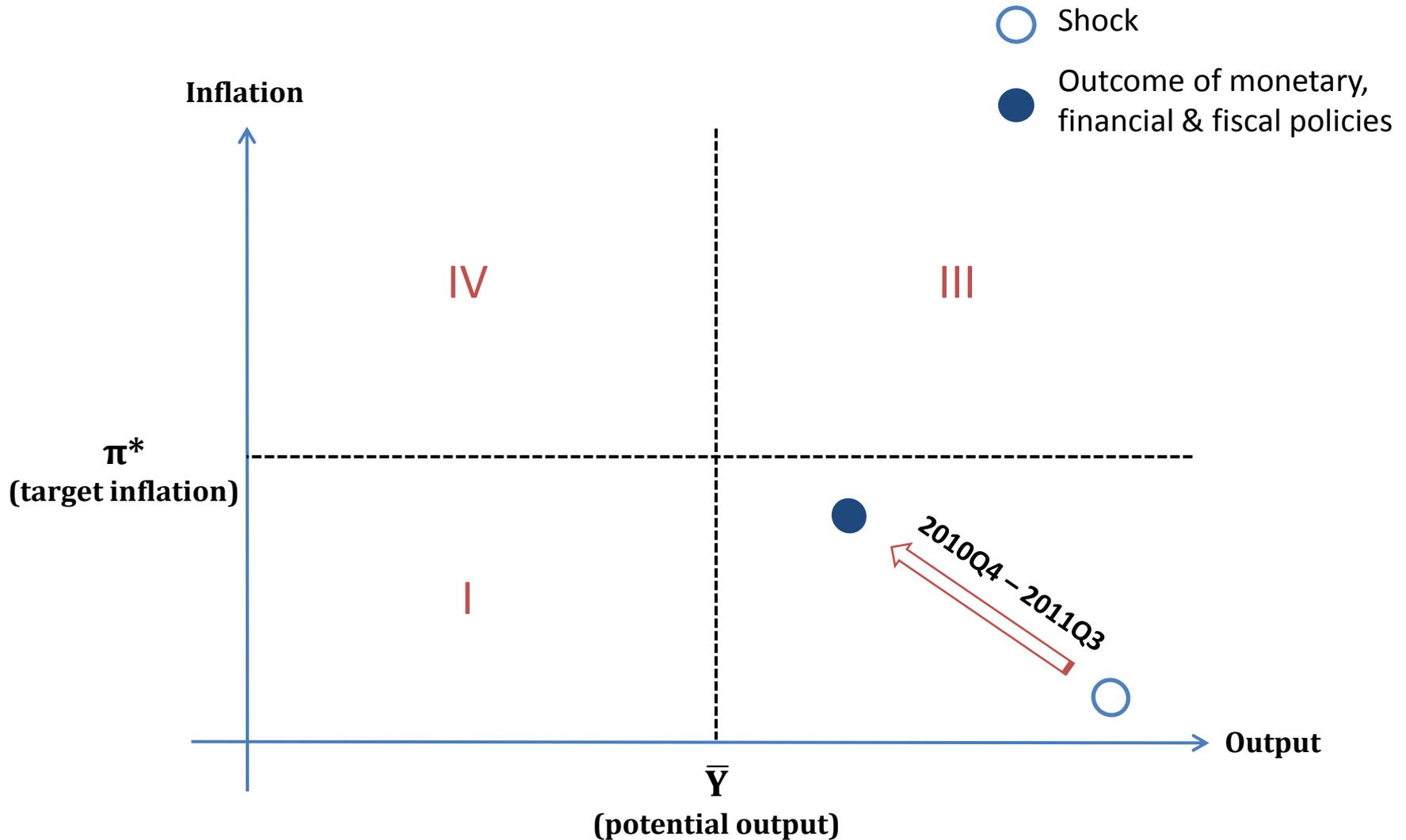
After October 2011

Monetary Tightening

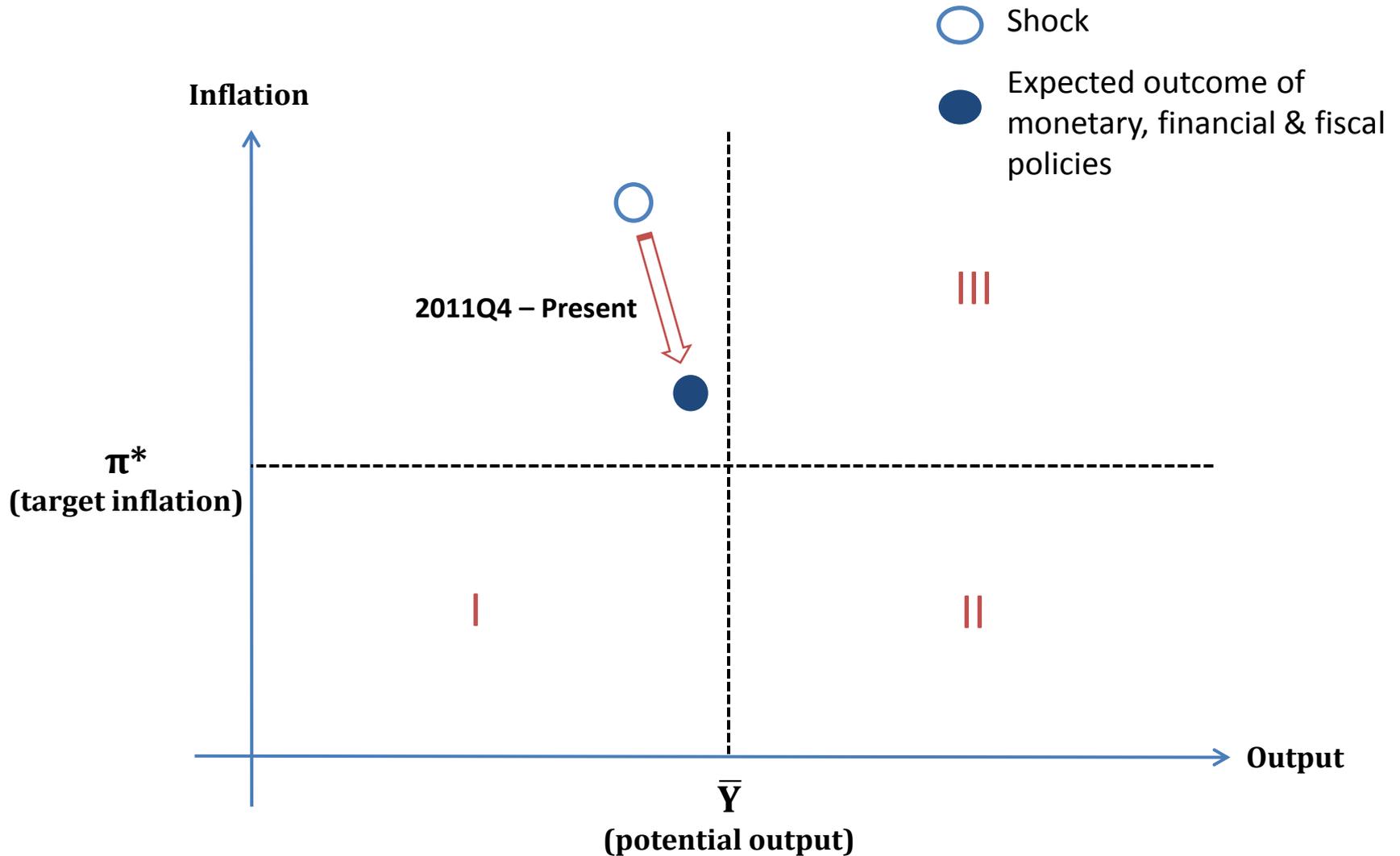
Policies: Post-Lehman



Policies: Global Monetary Expansion

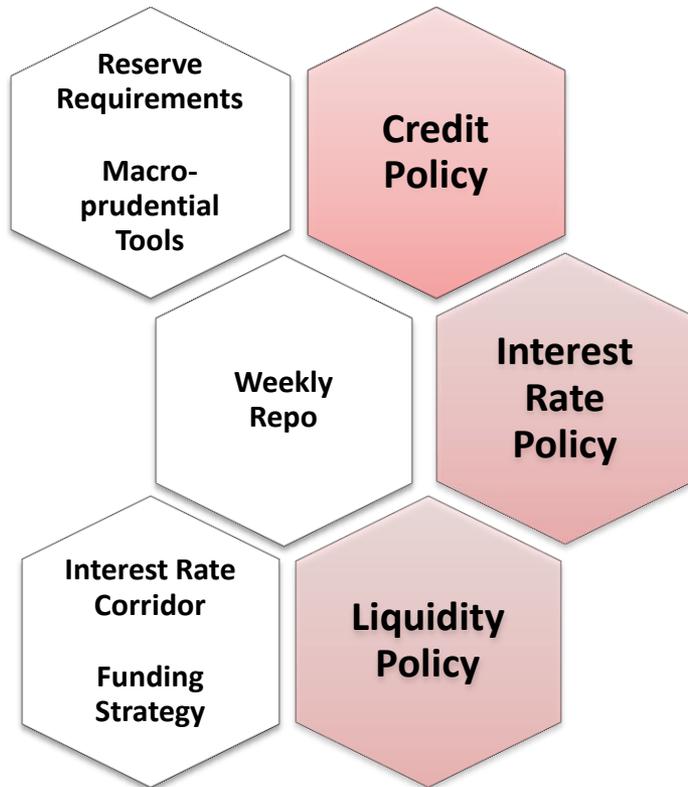


Policies: Eurozone Crisis

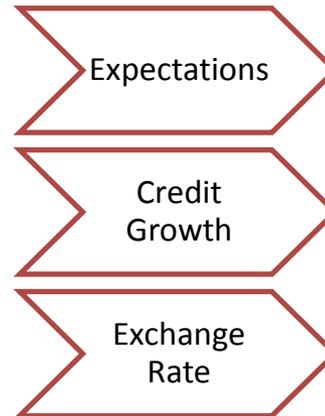


Multiple Instruments, Multiple Objectives

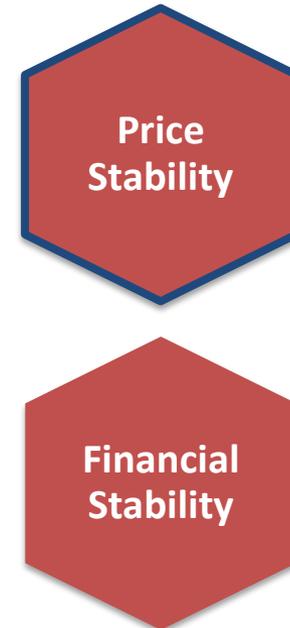
INSTRUMENTS



KEY INDICATORS

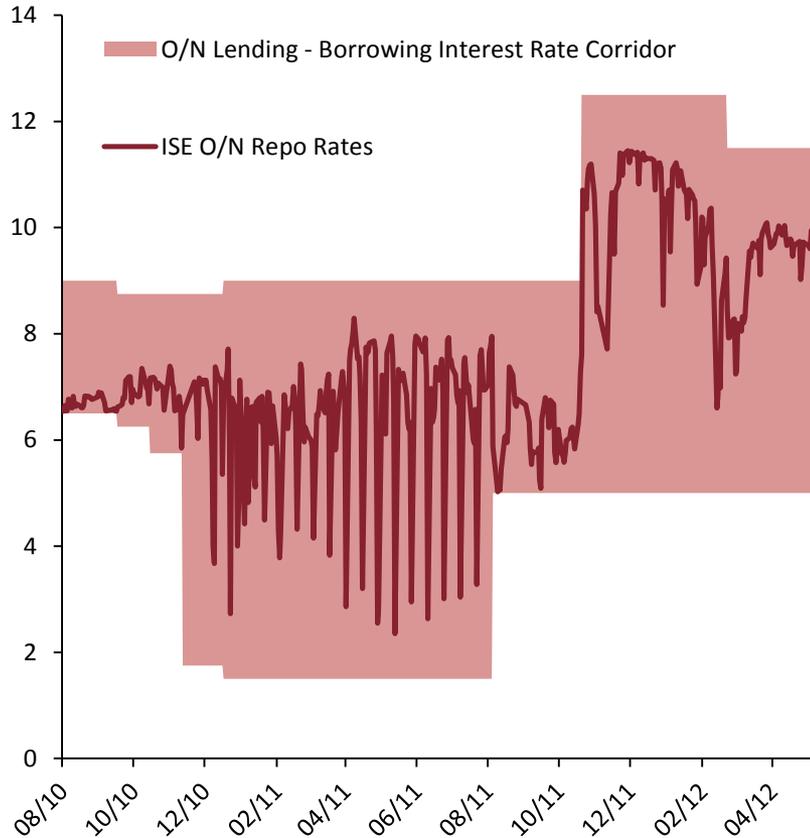


OBJECTIVES



Liquidity Policy

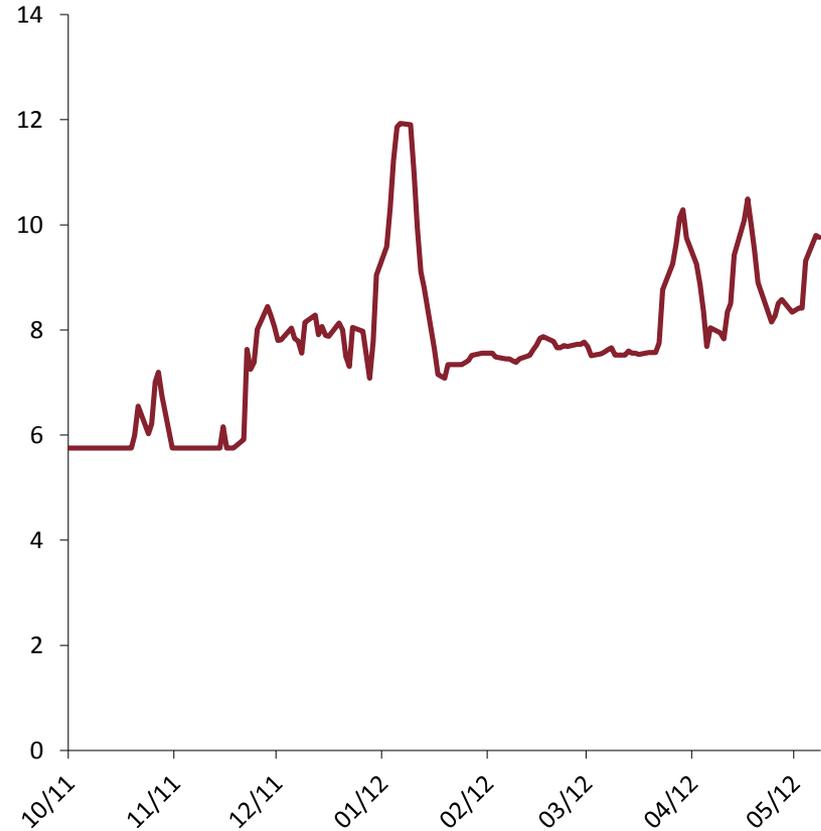
CBRT Policy Rates (Percent)



Source: ISE, CBRT.

Latest Observation: May 08, 2012.

The Average Cost of CBRT Funding (Percent)

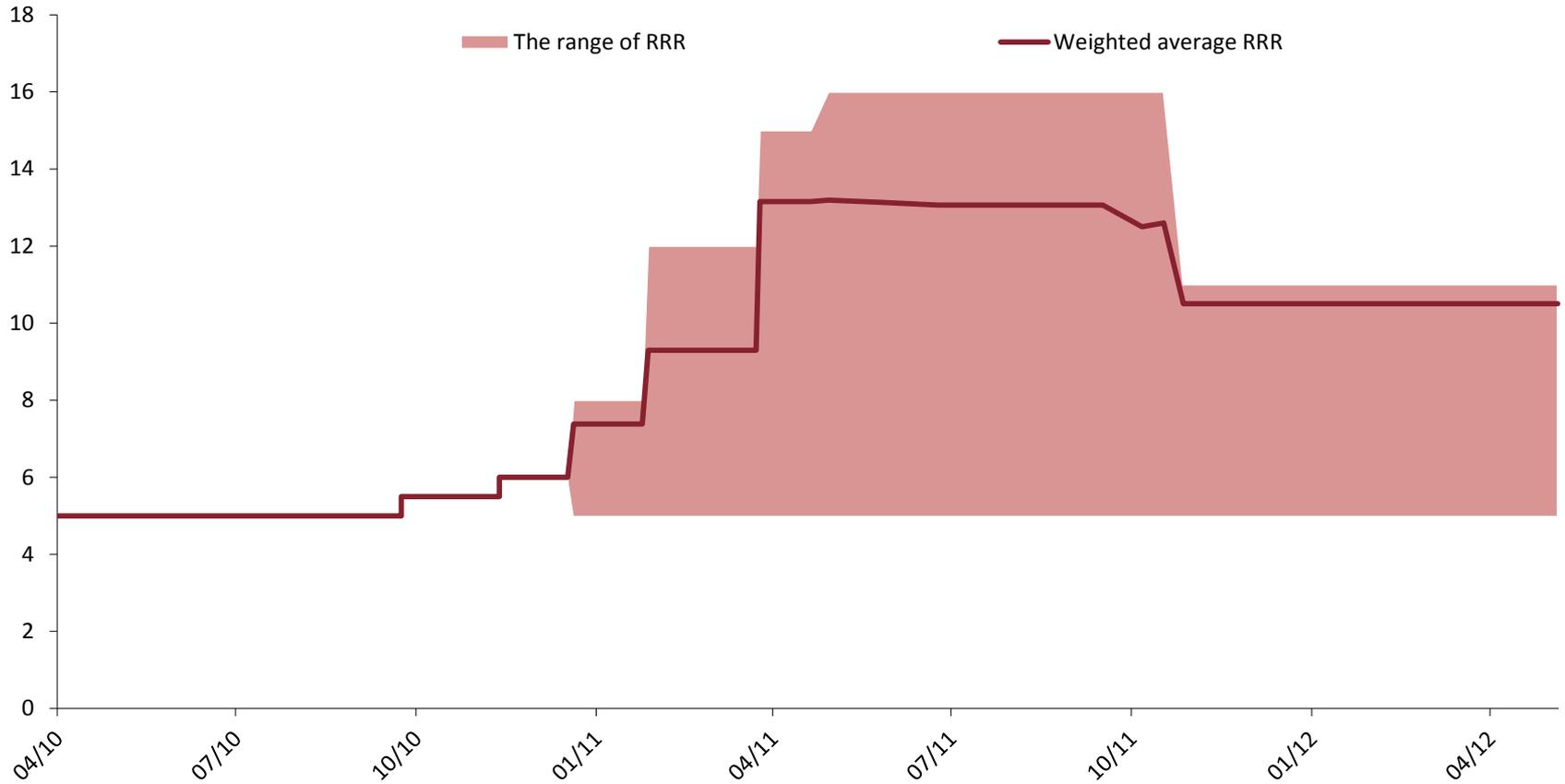


Source: CBRT.

Latest Observation: May 08, 2012.

Credit Policy

Reserve Requirements



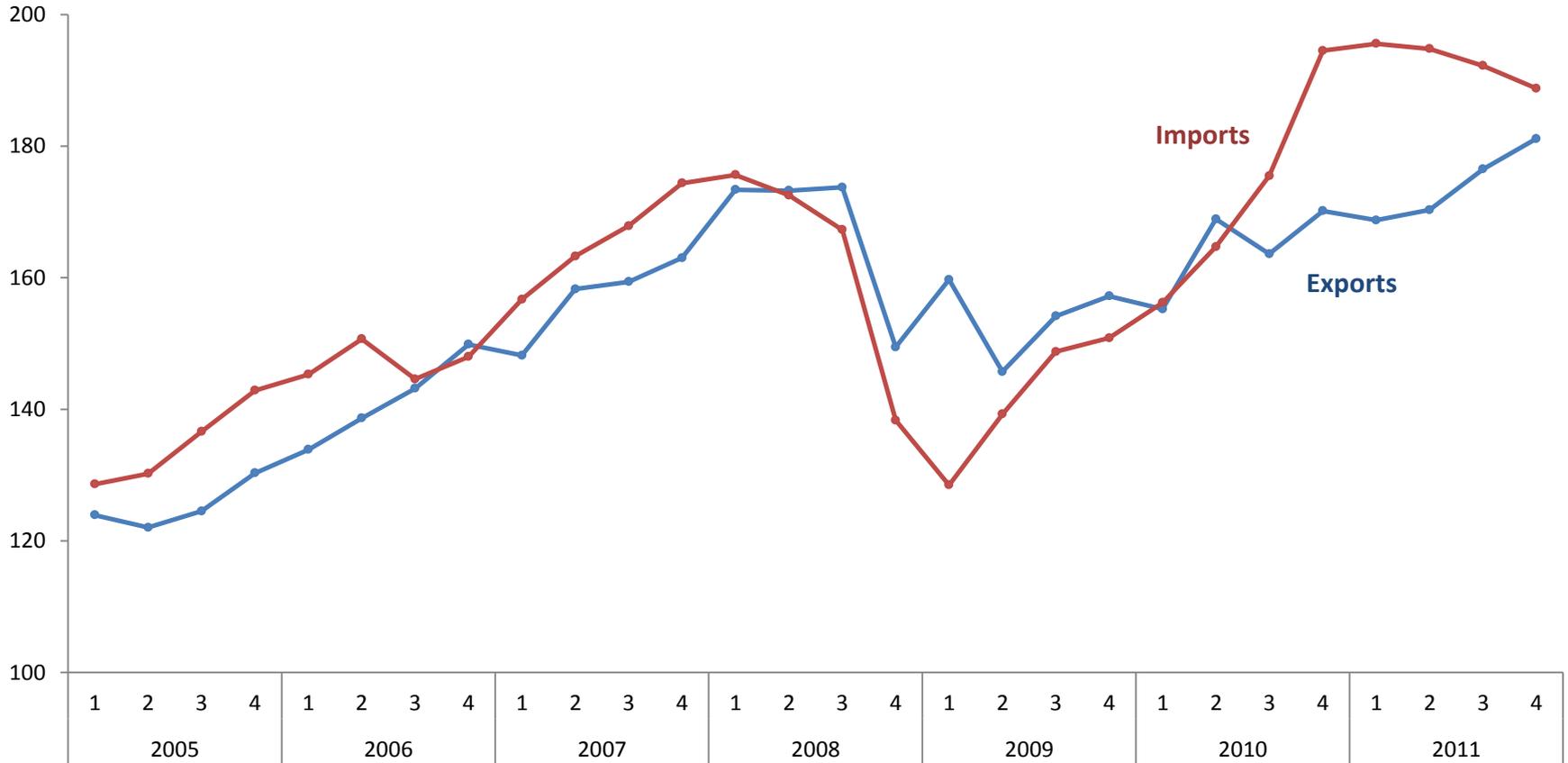
Source: CBRT.

Latest Observation: May 04, 2012

REBALANCING

Rebalancing

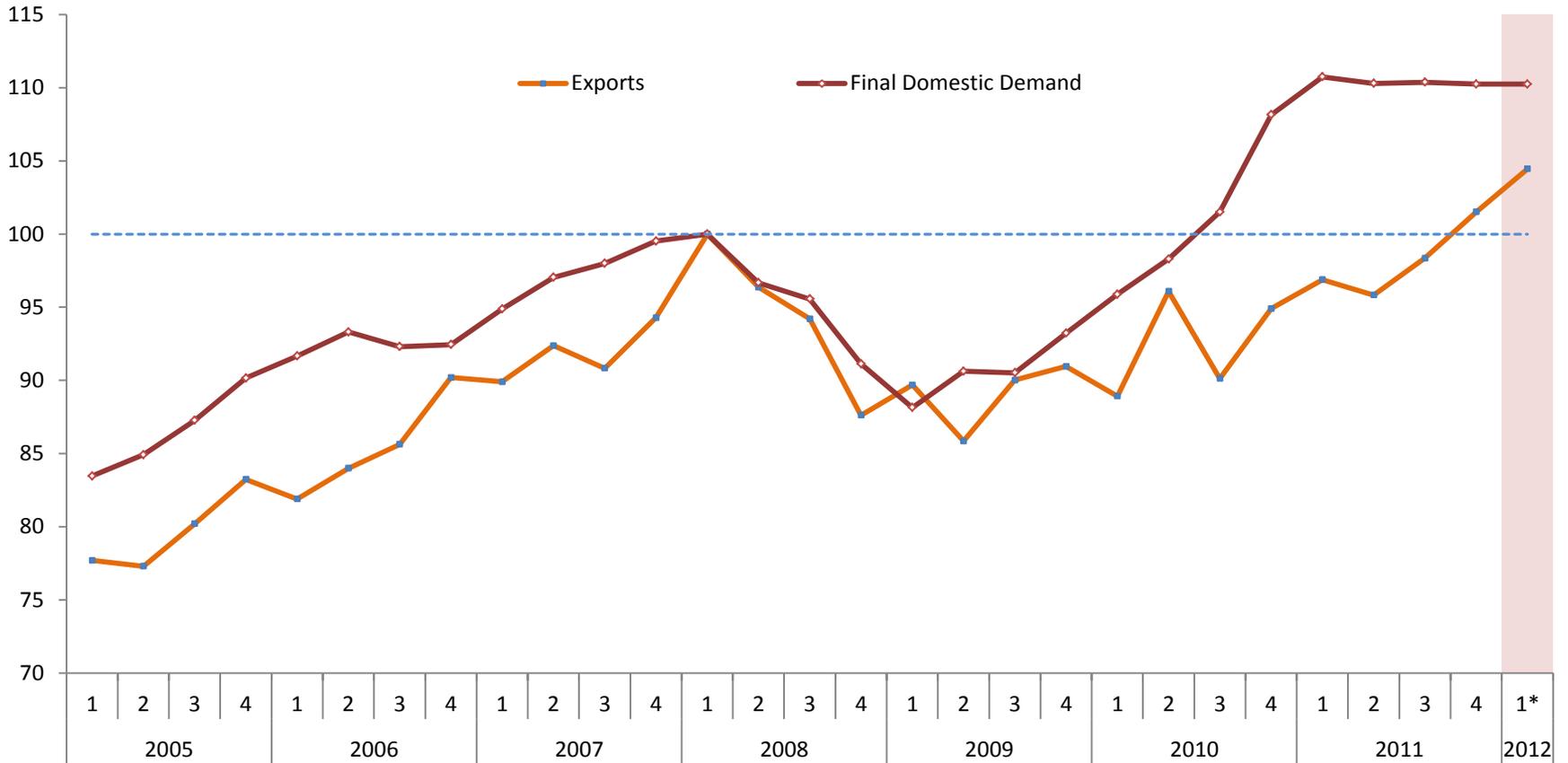
Real Exports and Imports (2003=100, Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Rebalancing

Final Domestic Demand and Exports (2008Q1=100)

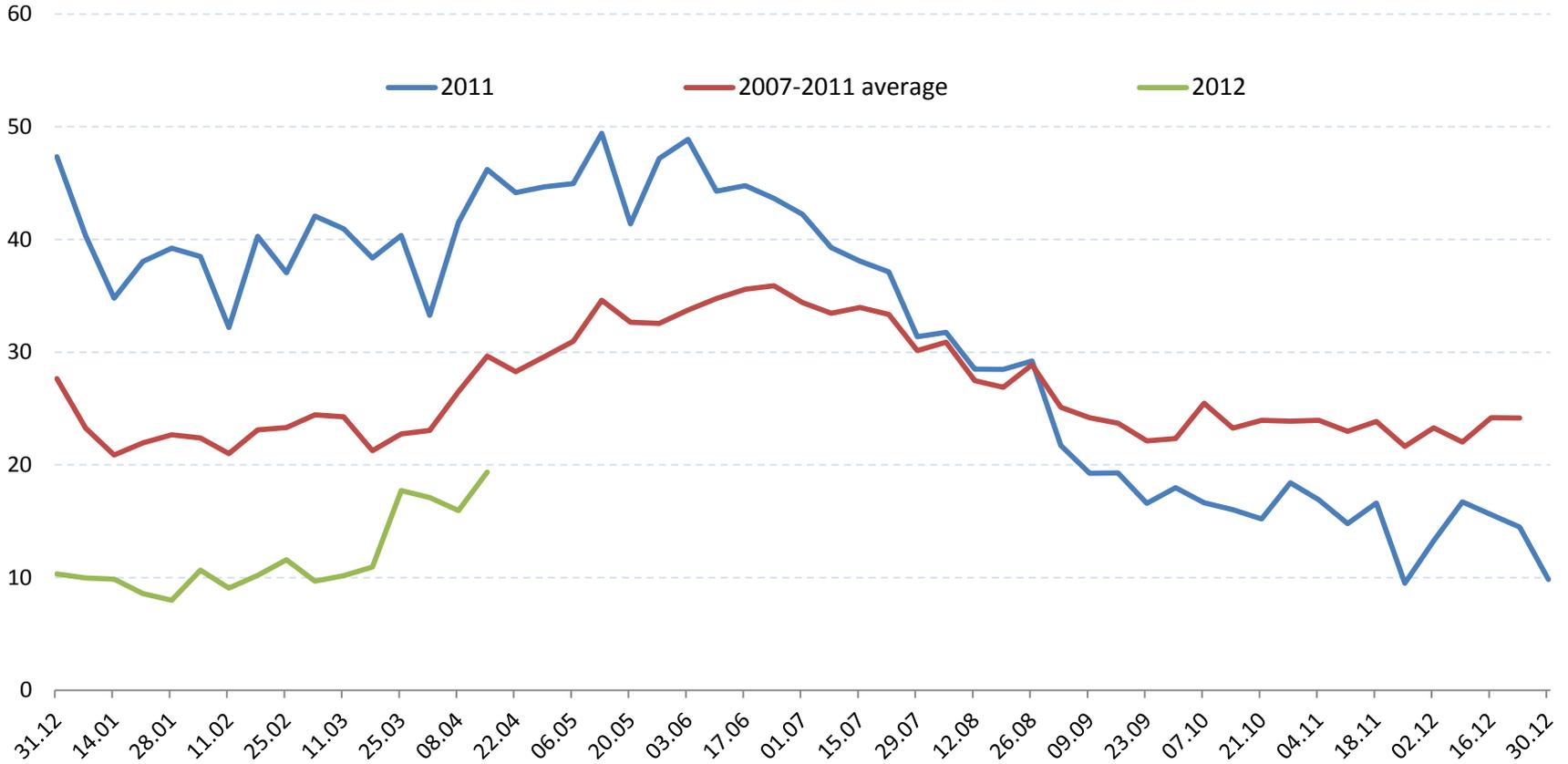


Source: CBRT.

*2012Q1 is forecast.

Credit Growth

Total Loan Growth Rates (13 Weeks Moving Average, Annualized, FX Adjusted, Percent)

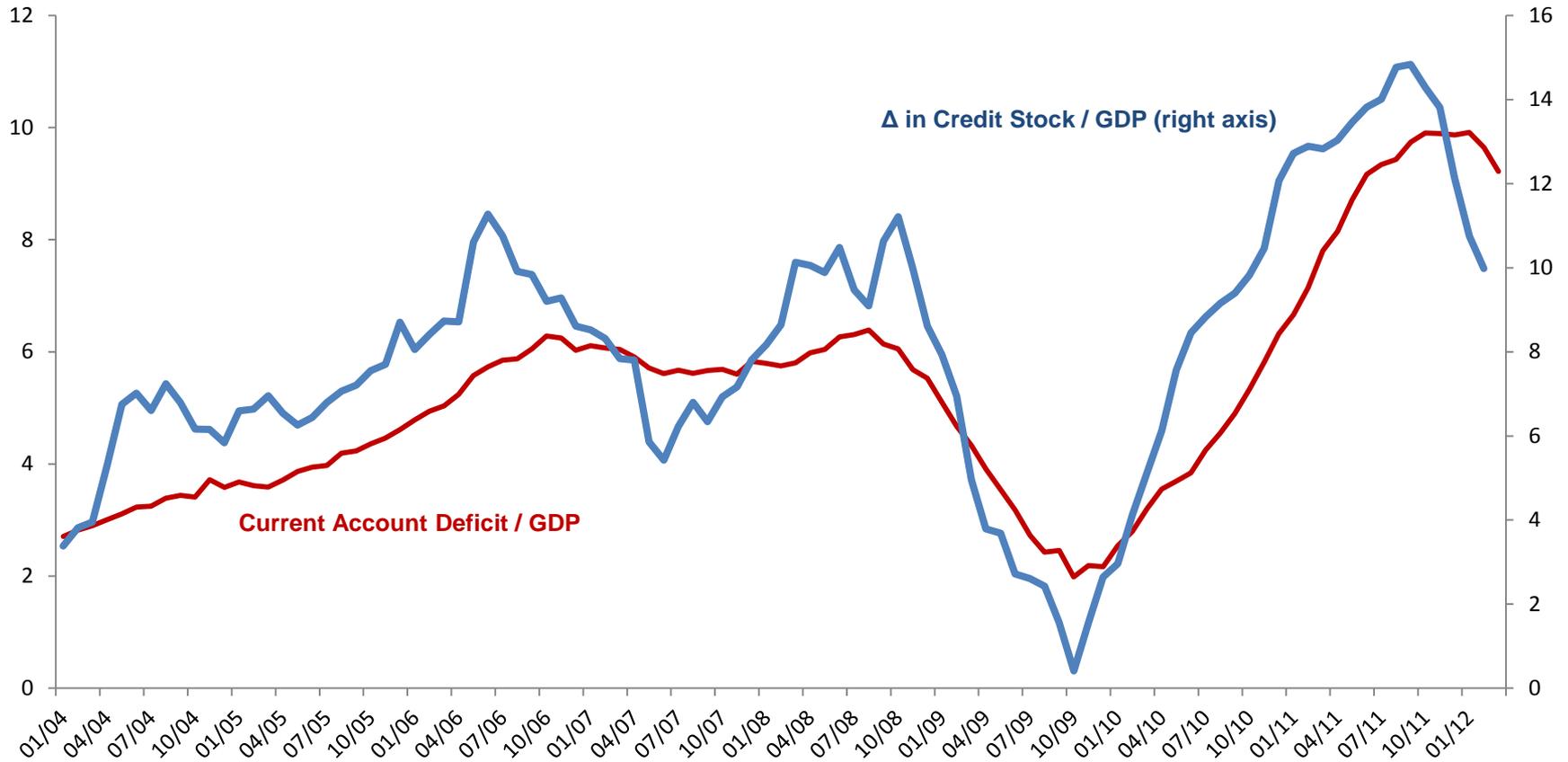


Source: CBRT.

Latest Observations: April 20, 2012

Credit Growth

Credit Growth and Current Account Deficit (Percent, 12 month cumulative)



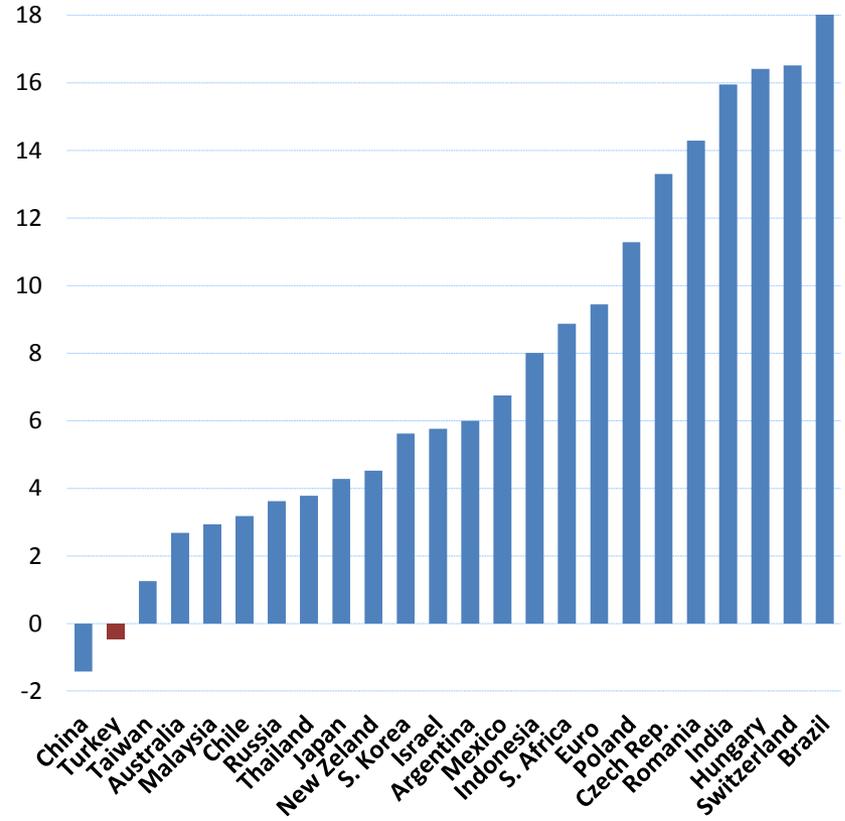
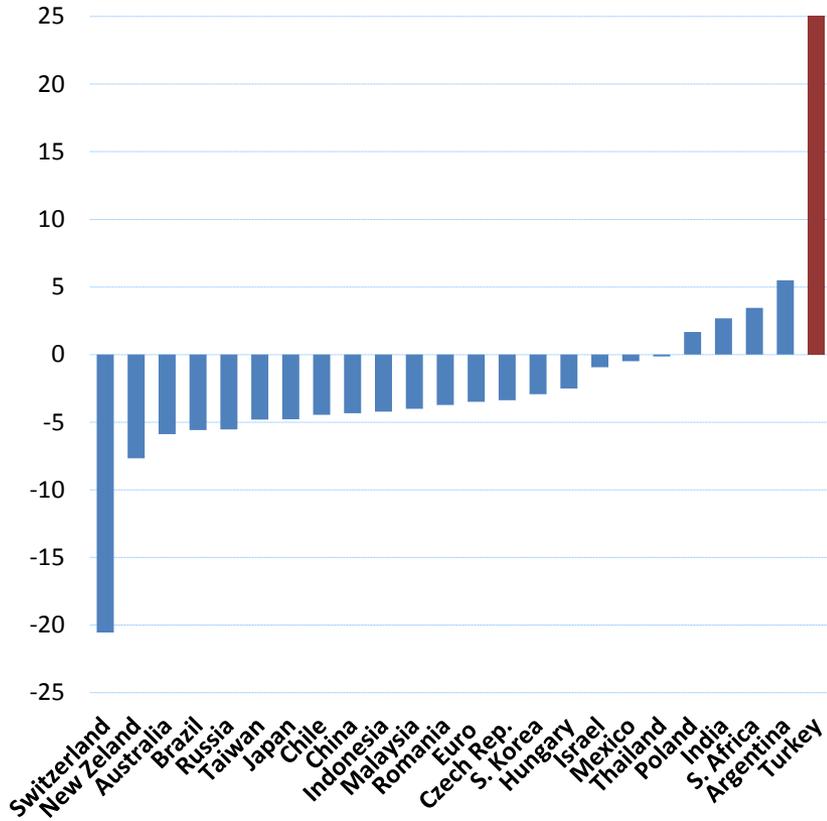
Source: CBRT.

Latest Observation: February 2012

Nominal Exchange Rates

01.11.2010 – 22.08.2011

23.08.2011 – 07.05.2012

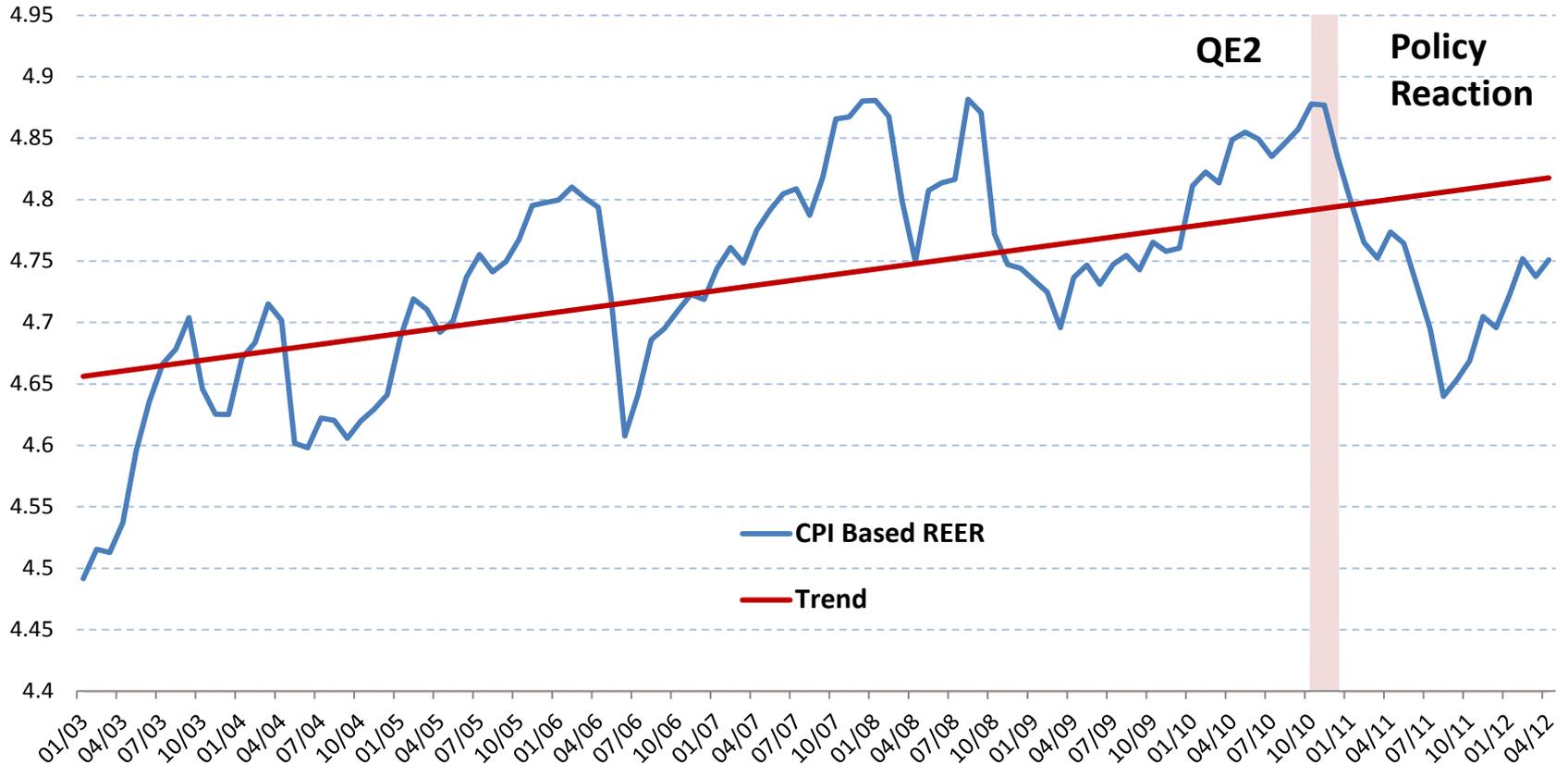


Source: Bloomberg, CBRT.

Note: Positive change means depreciation against US dollar.

Real Exchange Rates

CPI Based REER* (Base year: 2003)

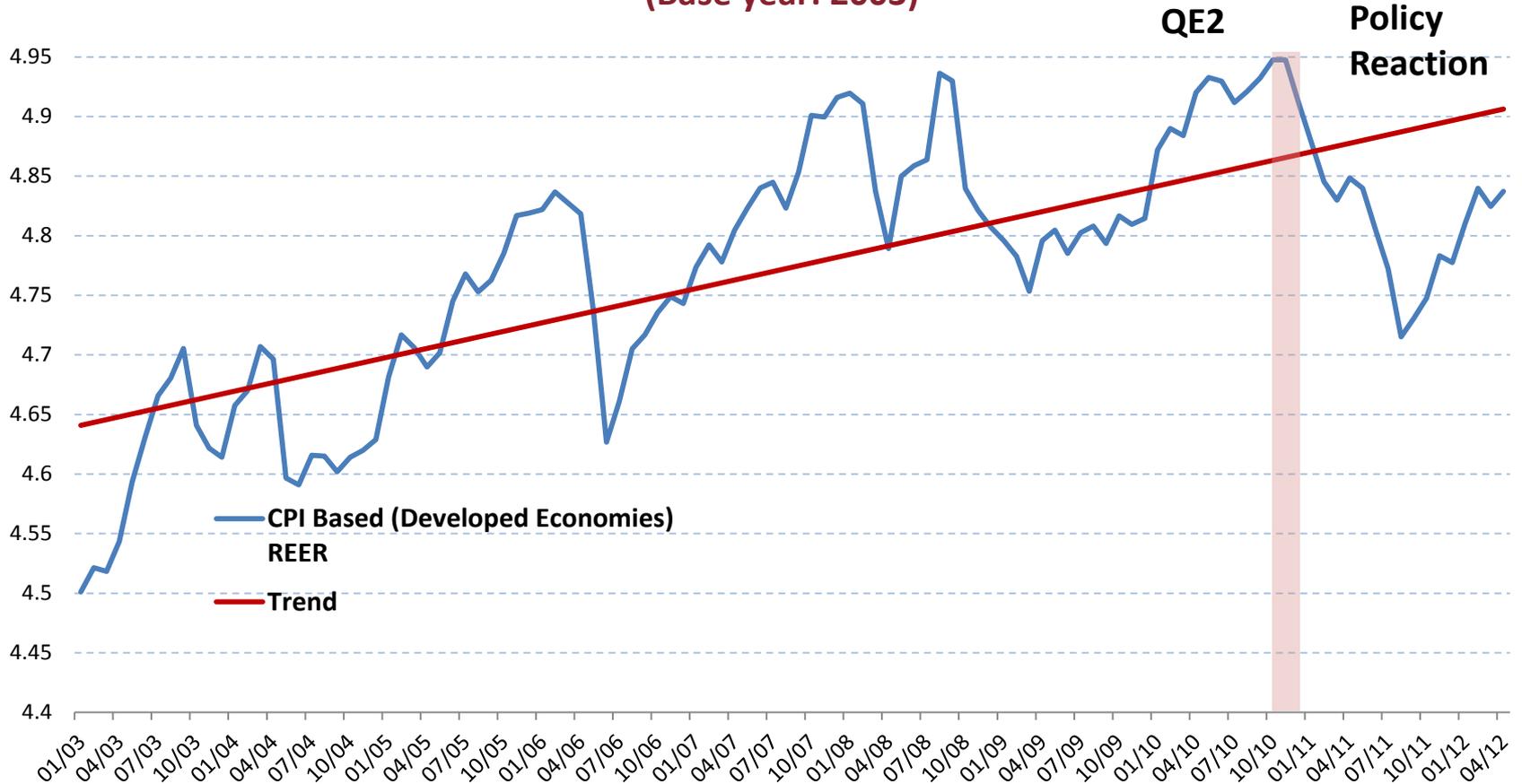


Source: CBRT.

*Real effective exchange rate, Natural logarithms.

Real Exchange Rates

CPI Based (Developed Economies) REER* (Base year: 2003)

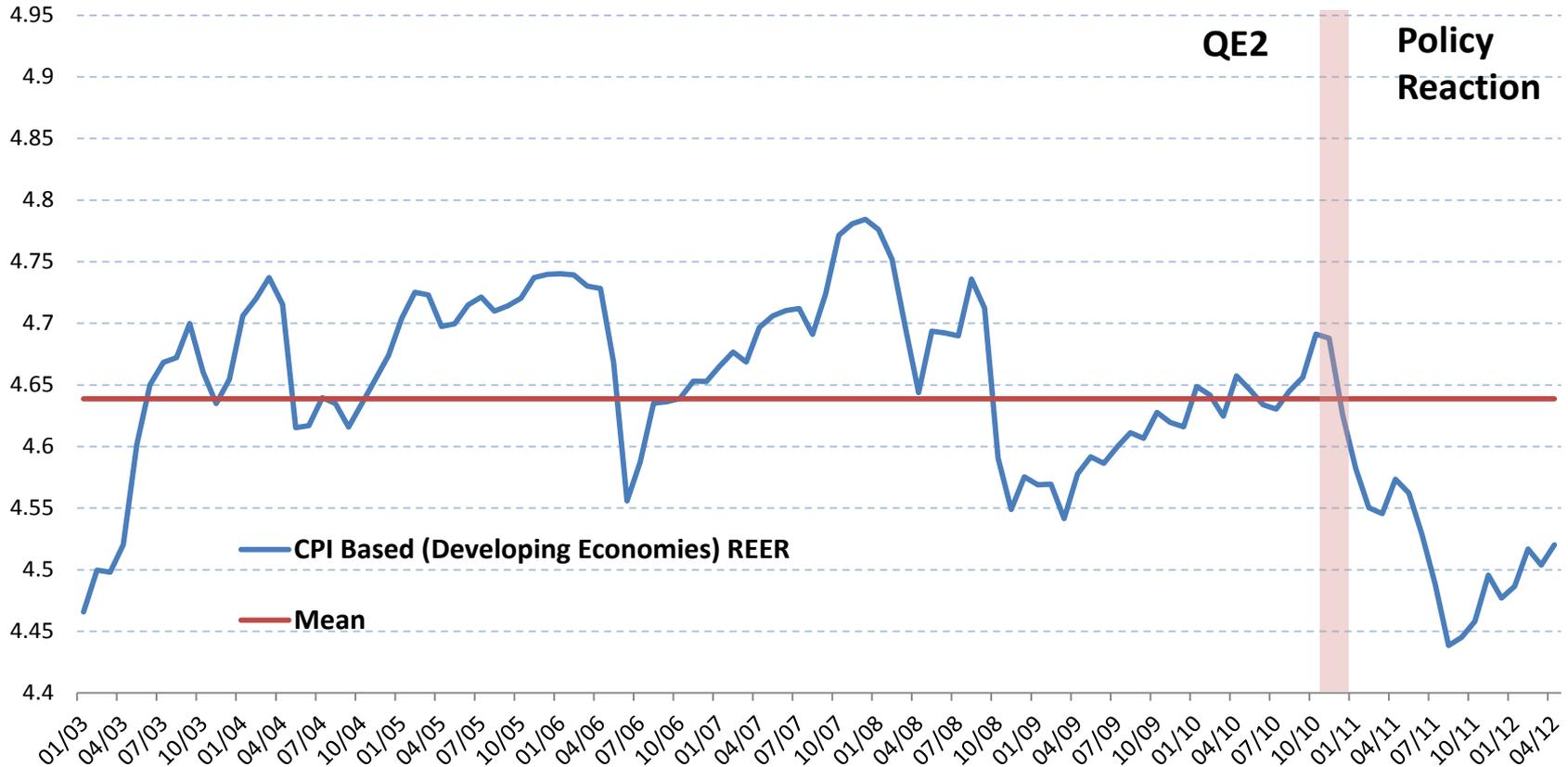


Source: CBRT.

*Reel effective exchange rate, Natural logarithms.

Real Exchange Rates

CPI Based (Developing Economies) REER* (Base year: 2003)

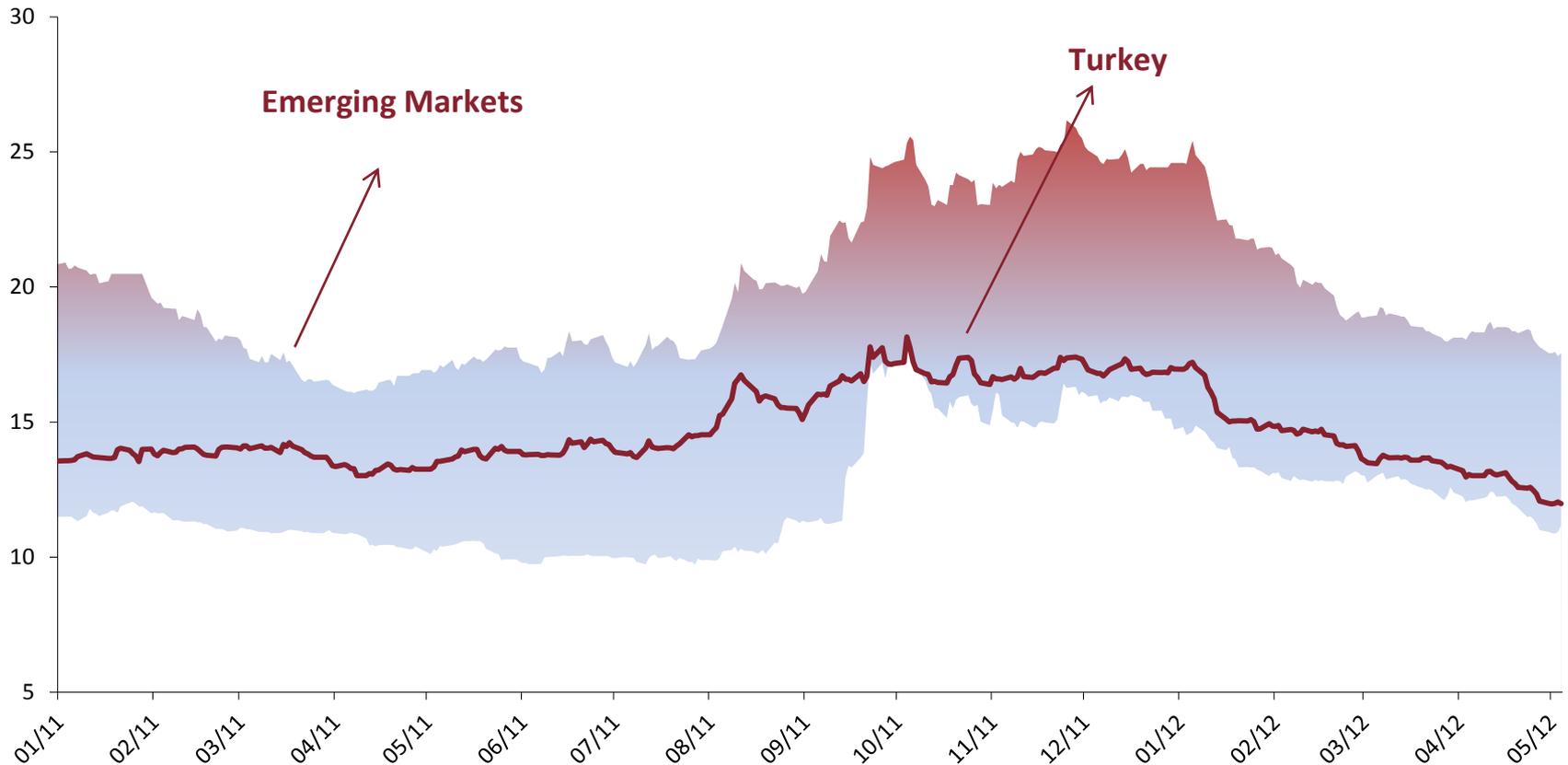


Source: CBRT.

*Reel effective exchange rate, Natural logarithms.

Exchange Rate Volatility

Volatility in Emerging Market Currencies (Percent, Implied for the next 12 months)



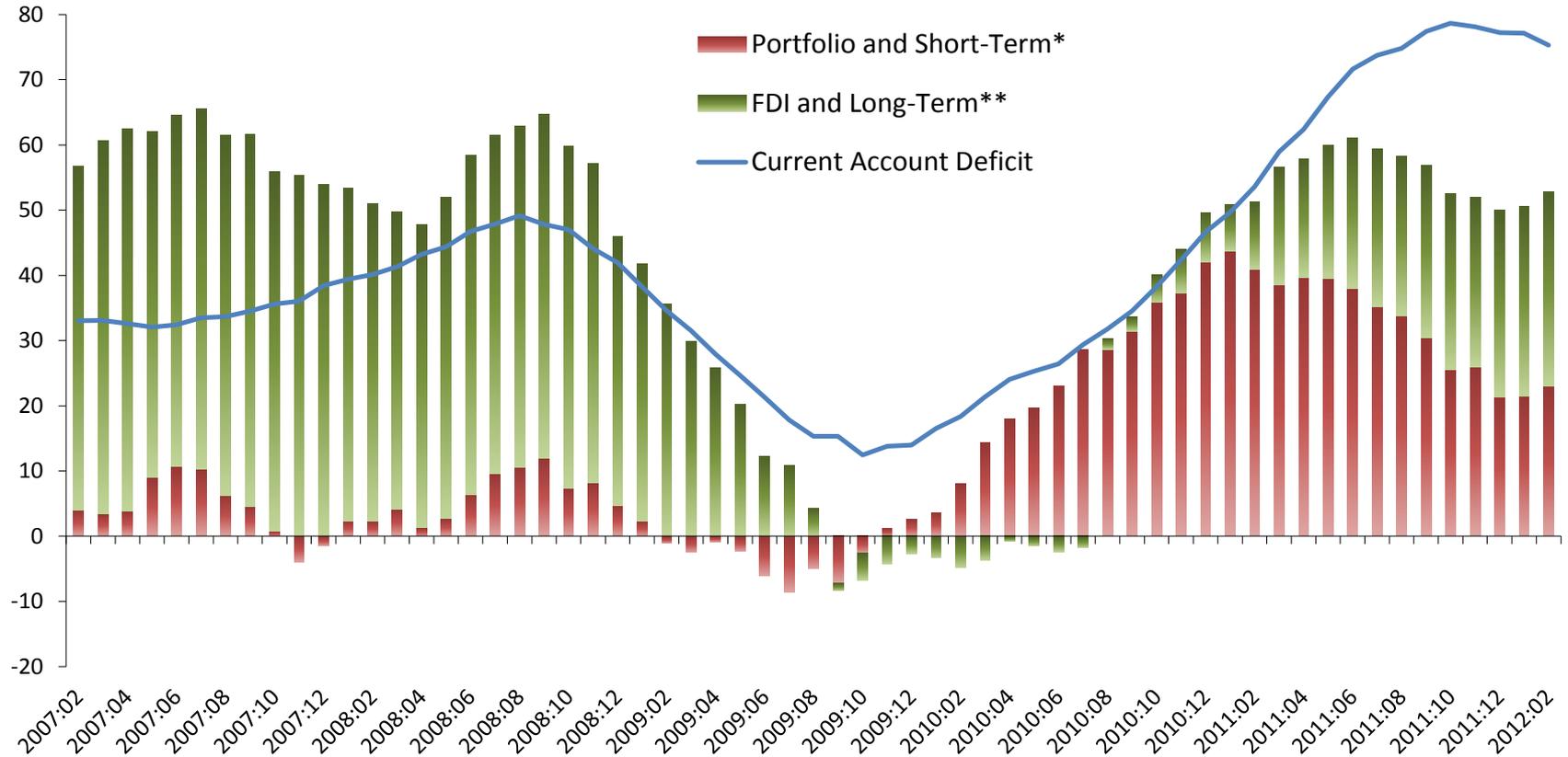
Source: Bloomberg, CBRT.

*Emerging market currencies include Brazil, Chile, Czech Republic, Hungary, Mexico, Poland, South Africa, Indonesia, South Korea and Colombia.

Latest Observations: May 4, 2012

Quality of Capital Inflows

Main Sources of Current Account Deficit Finance (12-months Cumulative, Billion USD)



Source: CBRT.

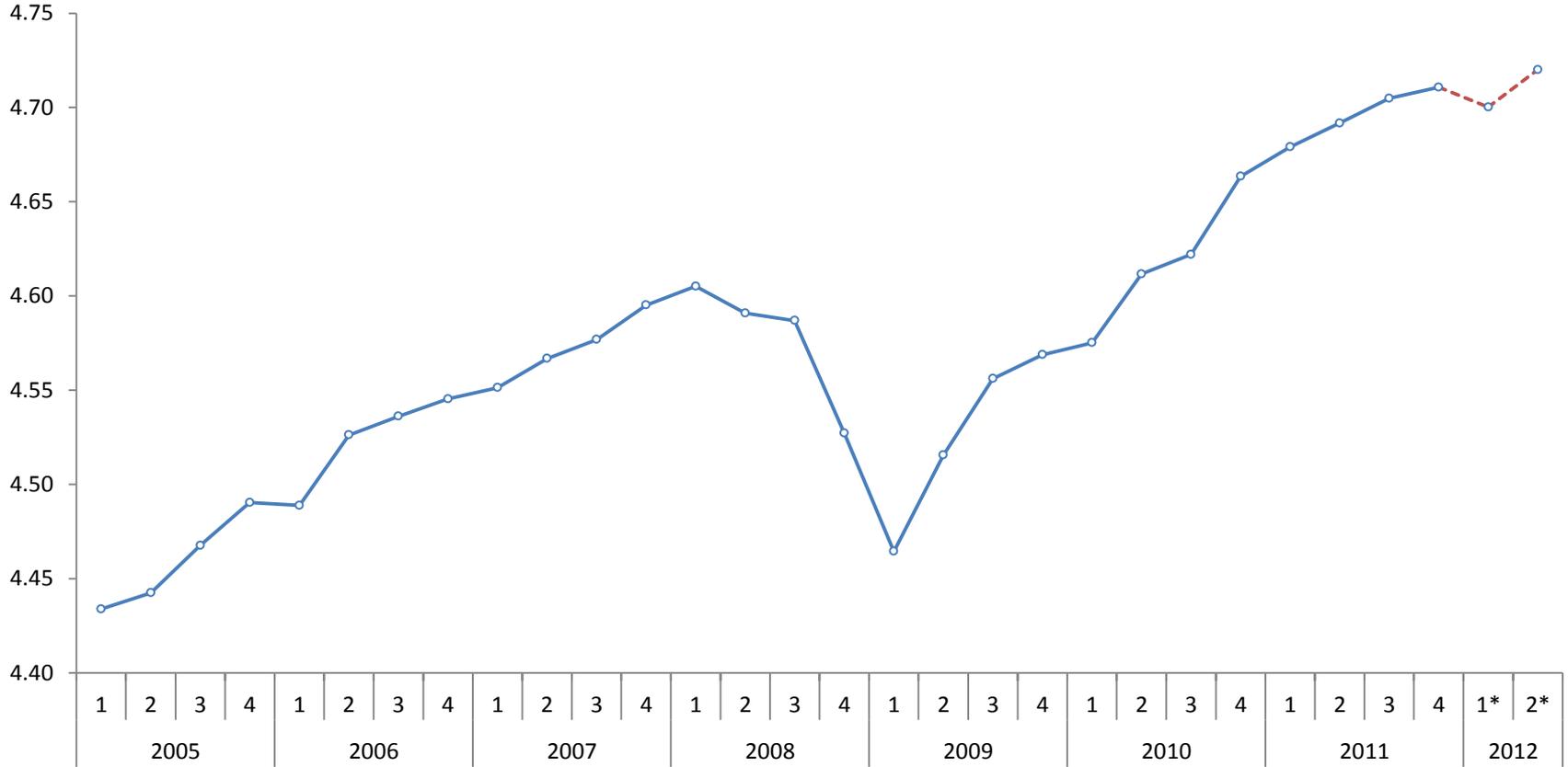
*Short-term capital movements are sum of banking and real sectors' short term net credit and deposits in banks.

**Long-term capital movements are sum of banking and real sectors' long term net credit and bonds issued by banks and the Treasury.

GROWTH

Gross Domestic Product

Actual GDP (Base Quarter: 2008Q1, Seasonally Adjusted, Natural Logarithms)

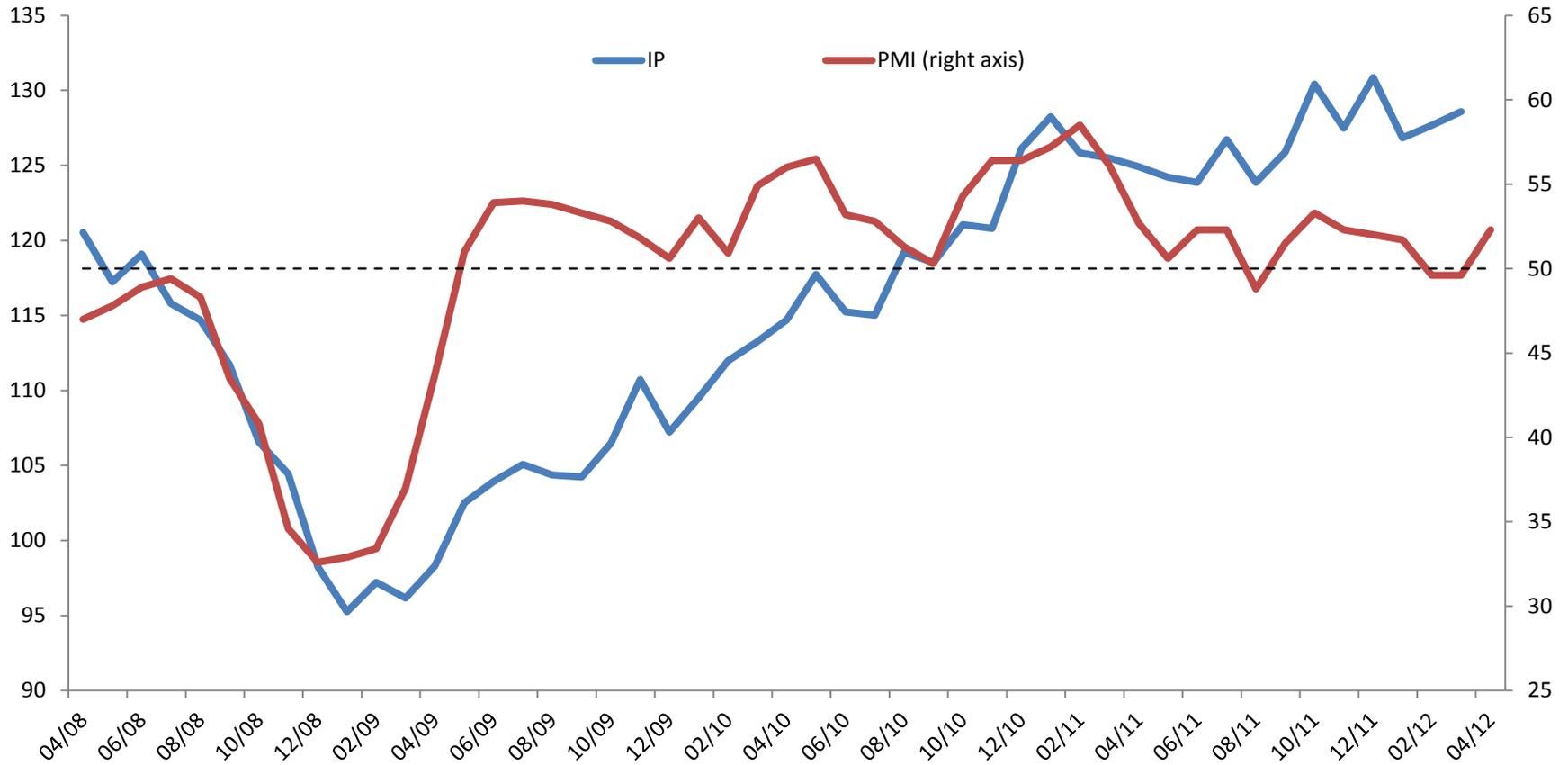


Source: CBRT.

*2012Q1 and Q2 is forecast.

Soft Landing

Industrial Production and PMI in Turkey (2005=100, Seasonally Adjusted, Monthly)

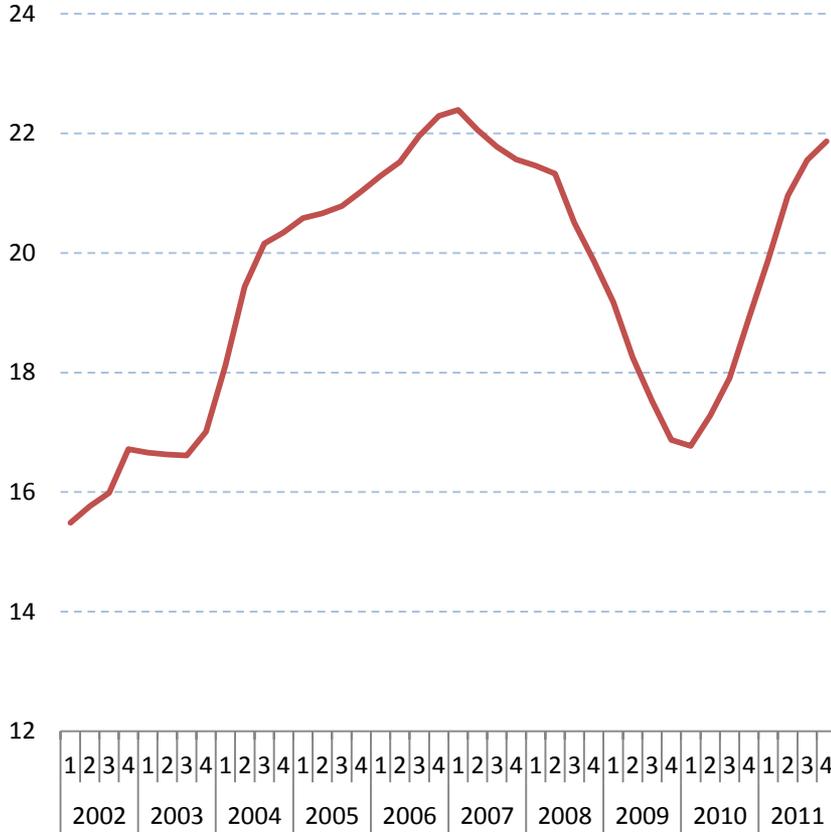


Source: MARKIT, TURKSTAT.

Latest Observations: April 2012 for PMI, March 2012 for IP.

Capital and Labor

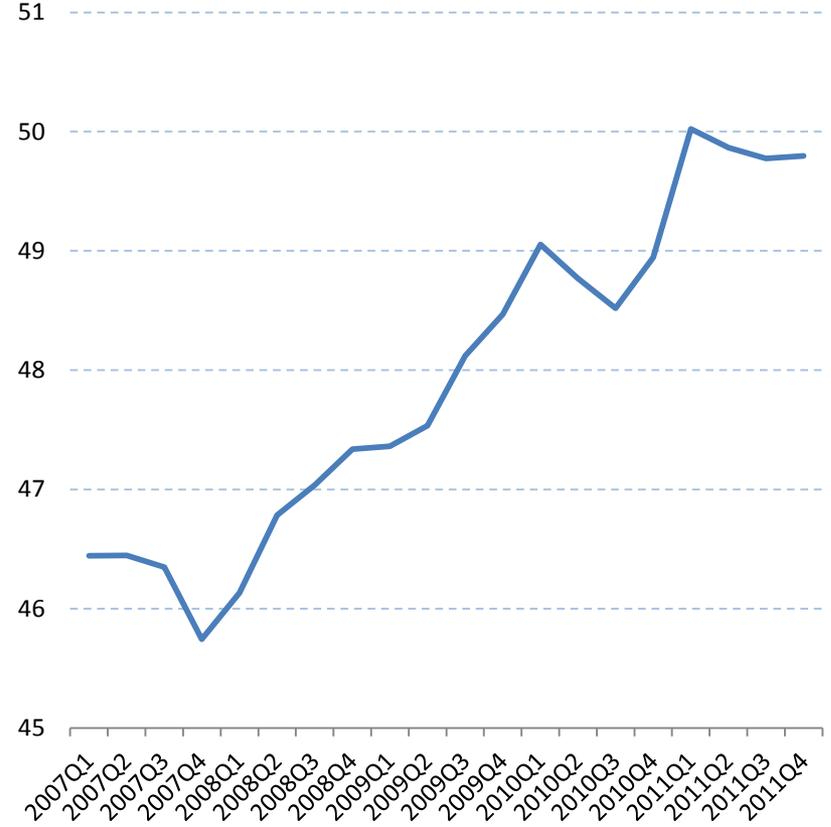
Fixed Capital Formation*
(Percent, Ratio to GDP with current prices)



Source: TURKSTAT, CBRT.

*Annualized.

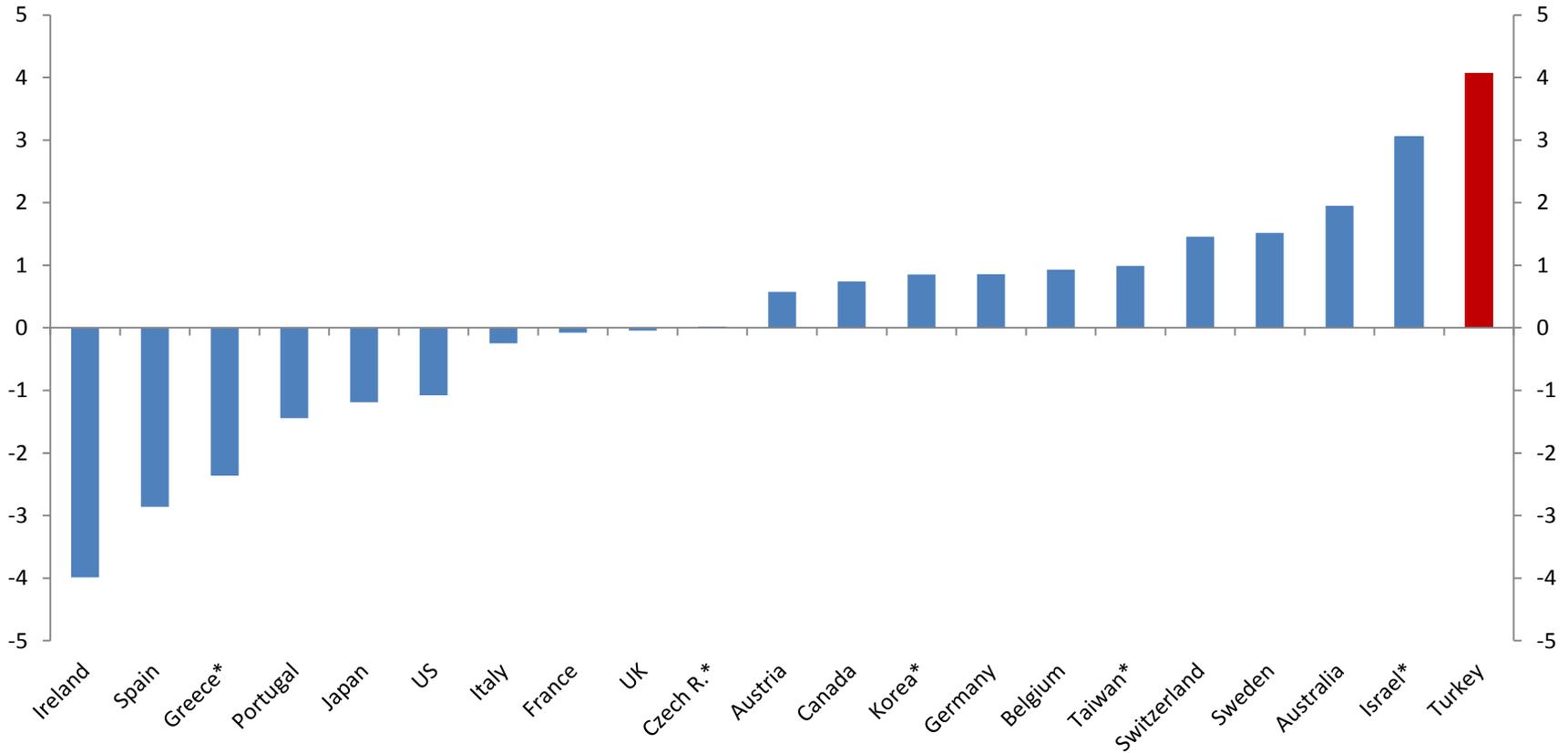
Labor Market Participation Rate
(Percent, Seasonally Adjusted)



Source: TURKSTAT, CBRT.

Employment

Annual Average Employment Growth** (2007-2011)

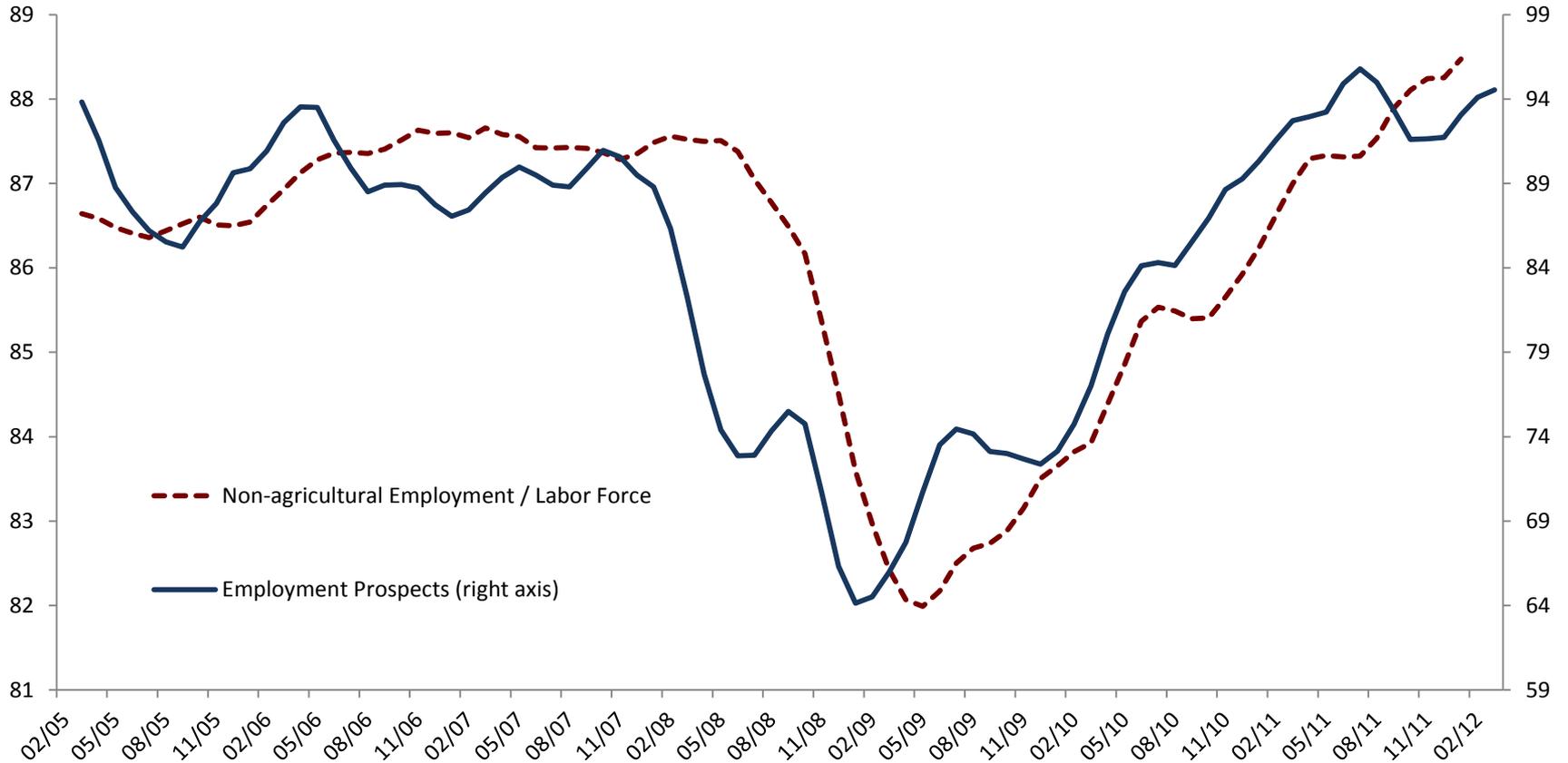


Source: WEO, Turkstat, CBRT.

*IMF Estimate for 2011
**Difference of natural logarithms.

Employment

Prospects and Employment (Percent, 3 month moving averages)

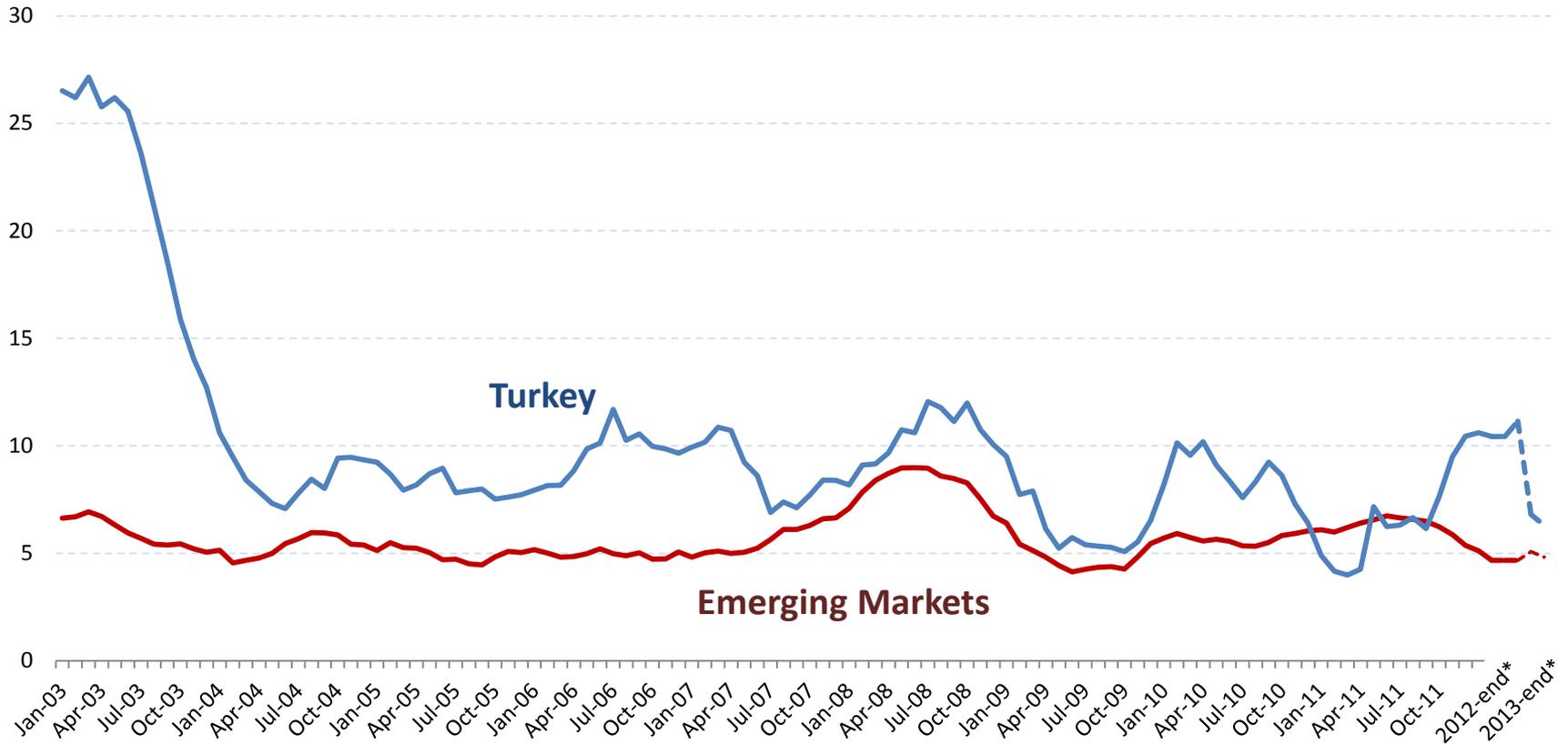


Source: CBRT

Latest Observation: March 2012 for employment prospects, Feb 2012 for employment ratio .

Inflation

Inflation in Turkey vs. Emerging Markets (Percent, Weighted Average)



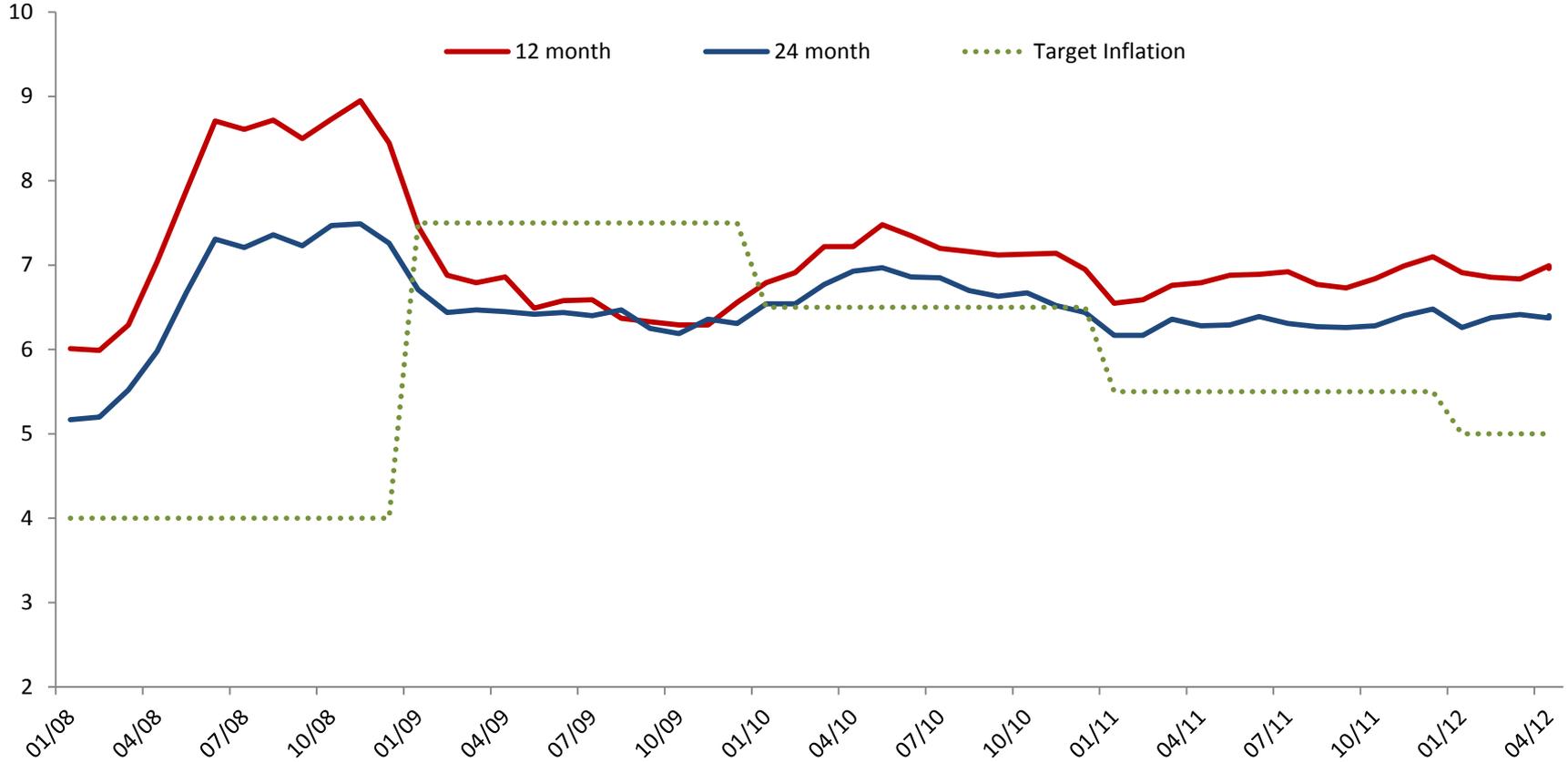
Source: CBRT and Bloomberg.

Emerging Market Economies: China, Brazil, India, Mexico, Russia, Turkey, Poland, Indonesia, S. Africa, Argentina, Thailand, Malaysia, Czech Rep., Colombia, Hungary, Romania, Ukraine, Vietnam, Chili, Peru, Egypt, Morocco, Lebanon and S. Arabia.

*2012 and 2013 end year values are from Consensus Forecast.

Inflation Expectations

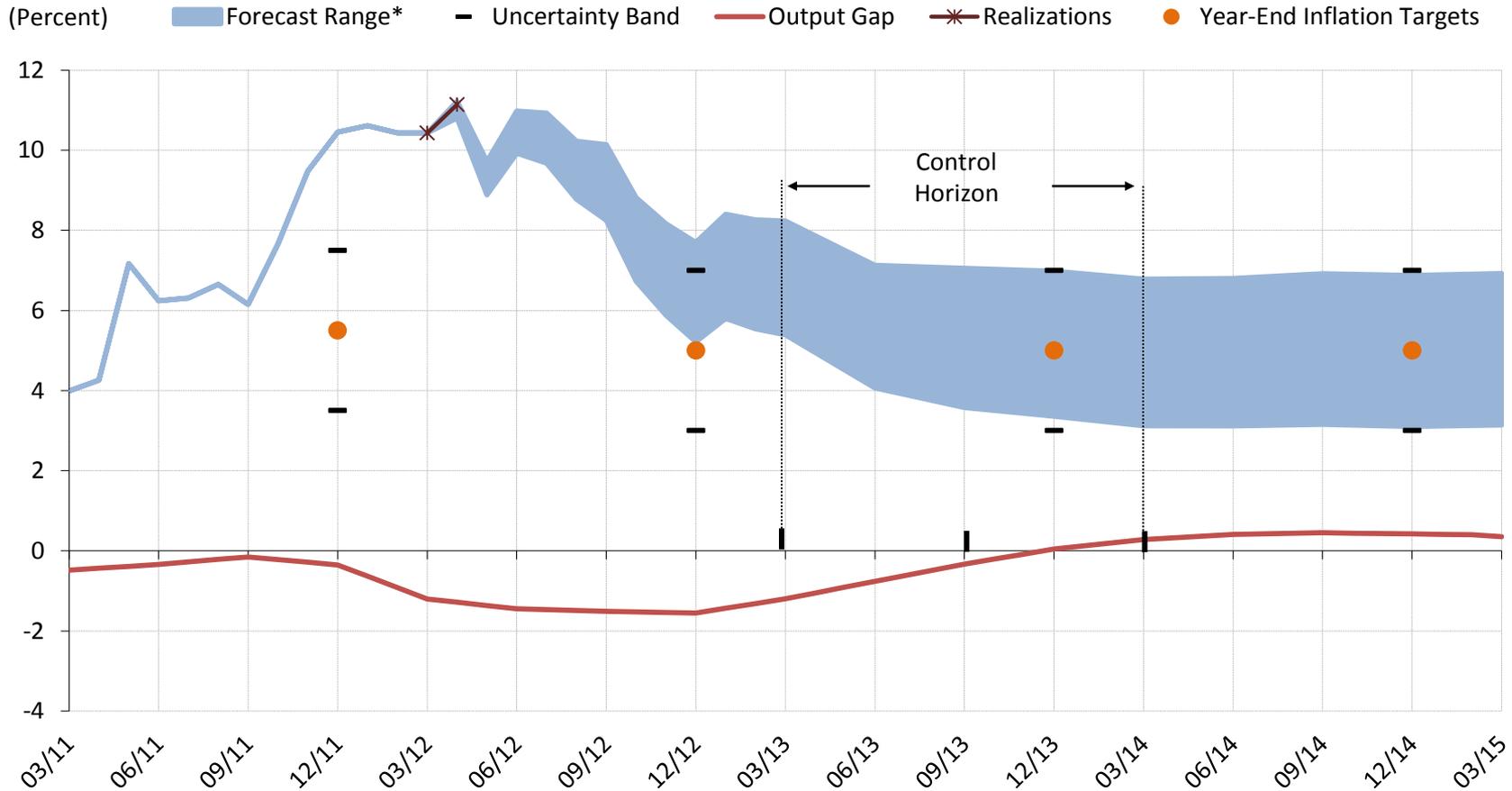
Medium Term Inflation Expectations* (Percent)



Source: CBRT.

*CBRT Survey of Expectations.

Inflation Forecasts and Realizations



Source: CBRT.

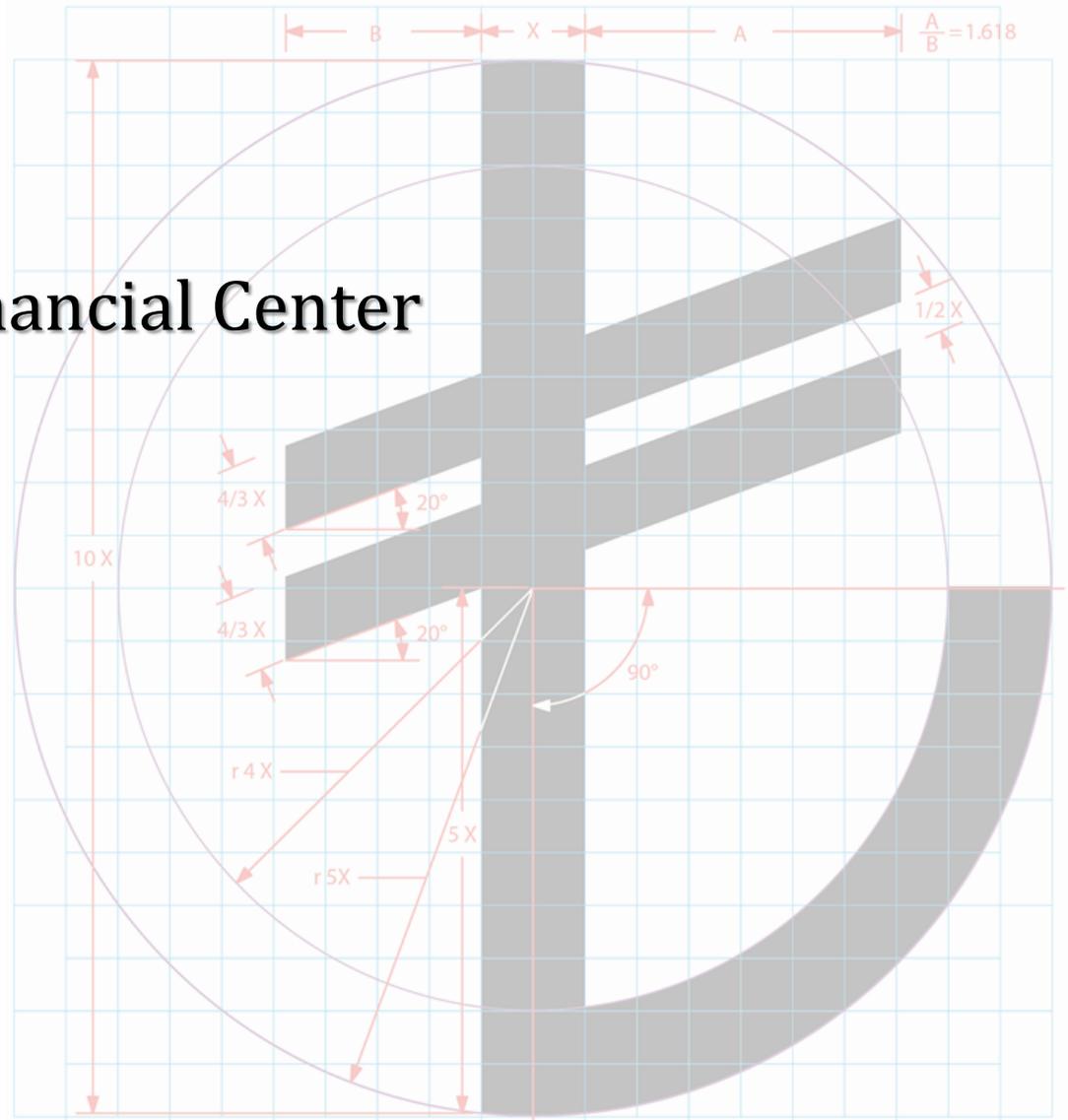
* Shaded region indicates the 70 percent confidence interval for the forecast.

ISTANBUL AS A FINANCIAL CENTER

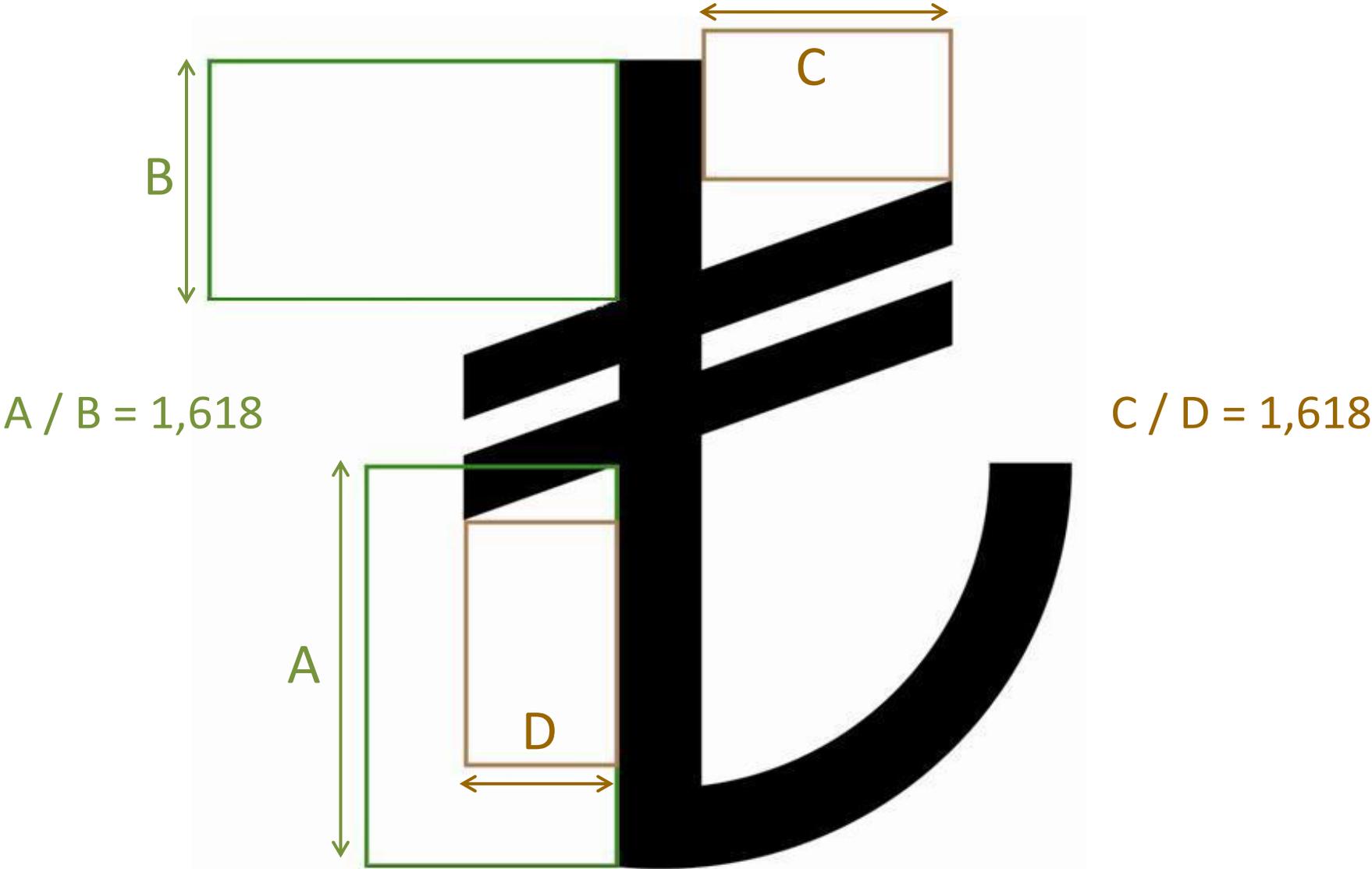
Istanbul as a Financial Center

A More Balanced Financial Center

- I. Financial Depth
- II. Financial Inclusion
- III. Financial Innovation



Golden Ratio



Istanbul as a Financial Center

Incentives for

- 1. Equity (Venture capital, private equity, business angels)*
- 2. Long-term*
- 3. Local-currency*

investments are on the agenda.

Istanbul as a Financial Center

New financial instruments by

- 1. The government*
- 2. The private sector*

need to be introduced.

Istanbul as a Financial Center

Other reform areas

1. *Transparency (The New Turkish Commercial Code)*
2. *Judicial (The New Turkish Code of Obligations)*
3. *Infrastructure (A new airport!)*

Summary

- Rebalancing between the domestic and external demand continues as envisaged.
- The highest level in current account deficit was seen in October 2011. The improvement will continue in the coming months.
- Growth will remain moderate throughout 2012.
- Inflation has peaked in April and it will fall significantly in May. The fall will resume and accelerate in the last months of the year.
- Structural reforms will enhance the status of Istanbul as a financial center.



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