



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Durmuş YILMAZ
Governor

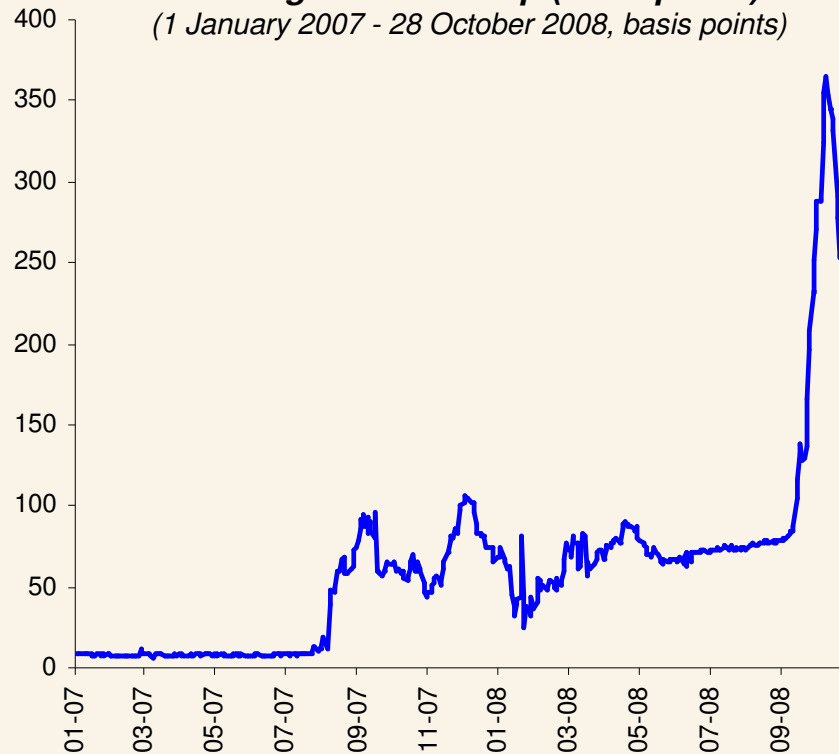
30 October 2008



Global Liquidity Problem - 1

Global liquidity conditions are going through a period of extraordinary fluctuations.

Difference Between 3 Month LIBOR and Overnight Index Swap (OIS Spread)
(1 January 2007 - 28 October 2008, basis points)



* Note: Difference between OIS with low credit risk premium and LIBOR with default risk is an indicator of the level of confidence between banks.
Source: Bloomberg

Difference between 3-month LIBOR rate and 3-month US Treasury bills (TED Spread)
(1 January 2007 - 28 October 2008, percent)



Source: Bloomberg

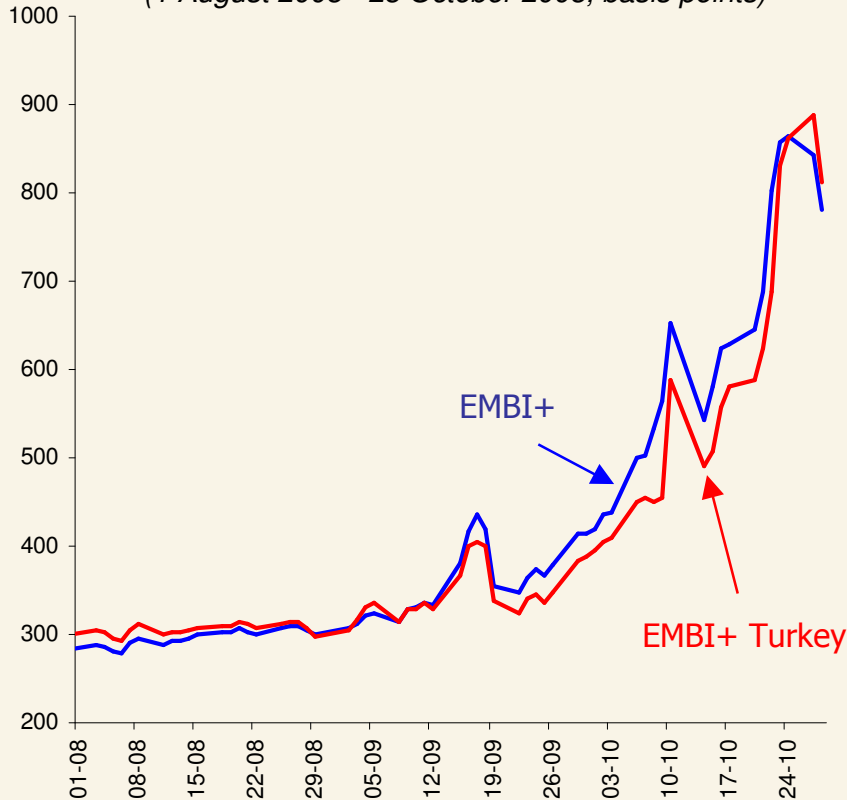


Global Liquidity Problem - 2

This situation affects Turkey like other countries sensitive to global liquidity conditions.

Risk Indicators

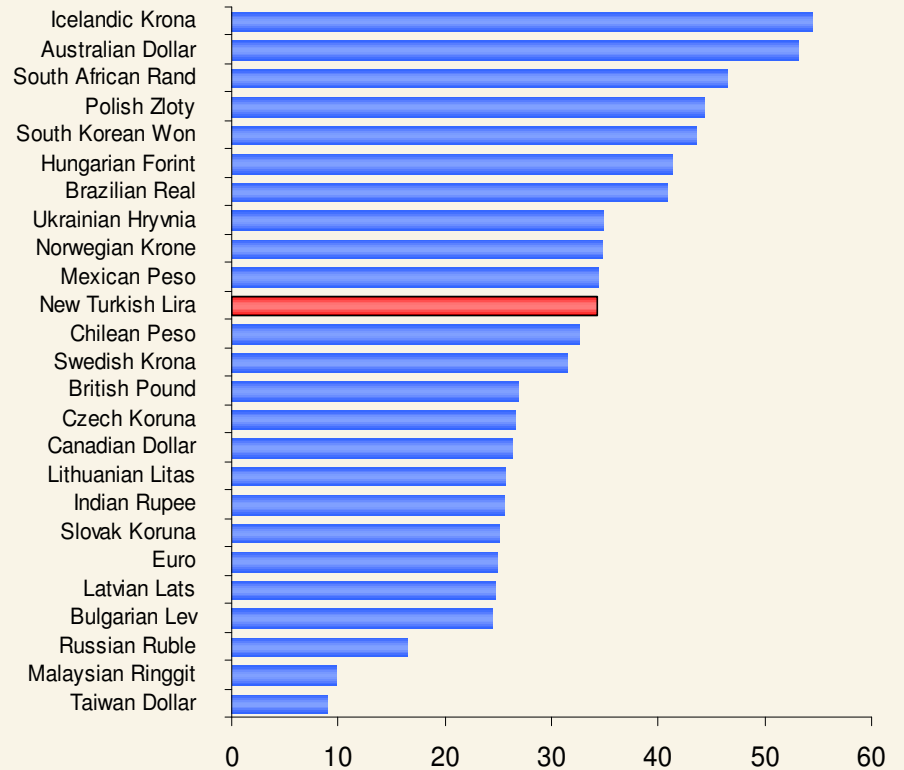
(1 August 2008 - 28 October 2008, basis points)



Source: Bloomberg

Change in the Spot FX Rates vs USD

(between 1 August 2008 and 29 October 2008, percent)

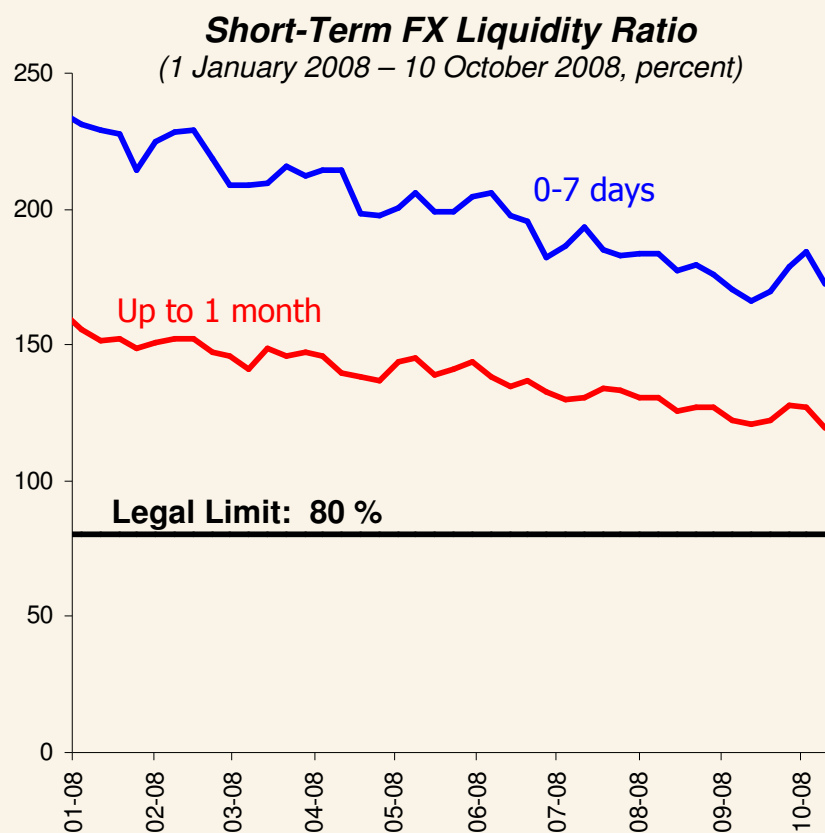


Source: Bloomberg

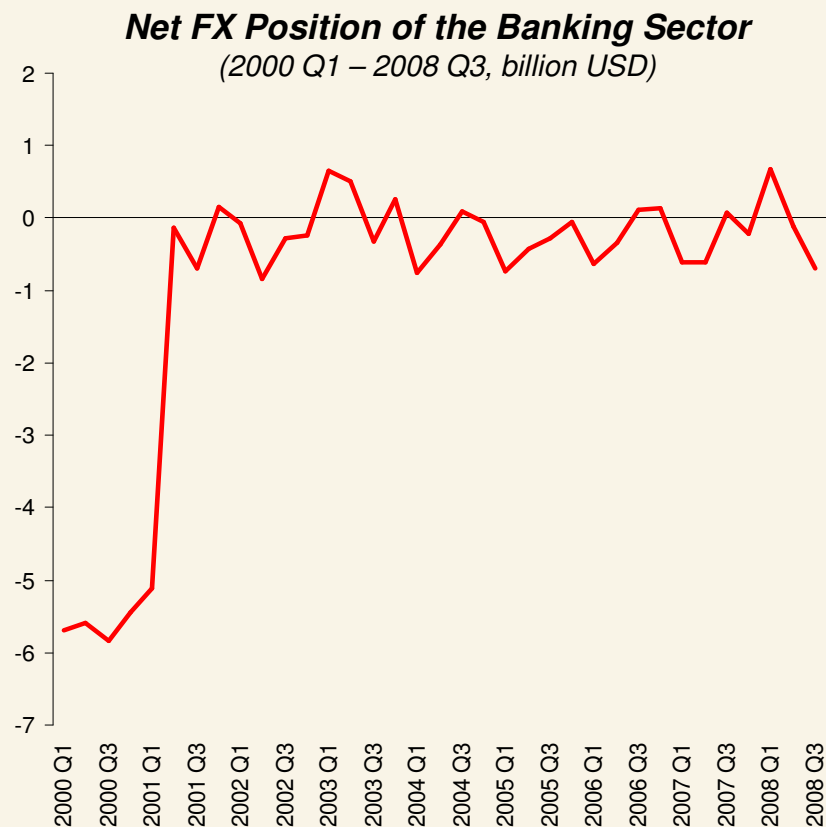


Banking System

In Turkey, the banking system has been relatively prepared in terms of foreign exchange liquidity for the current crisis.



Source: BRSA,, CBT



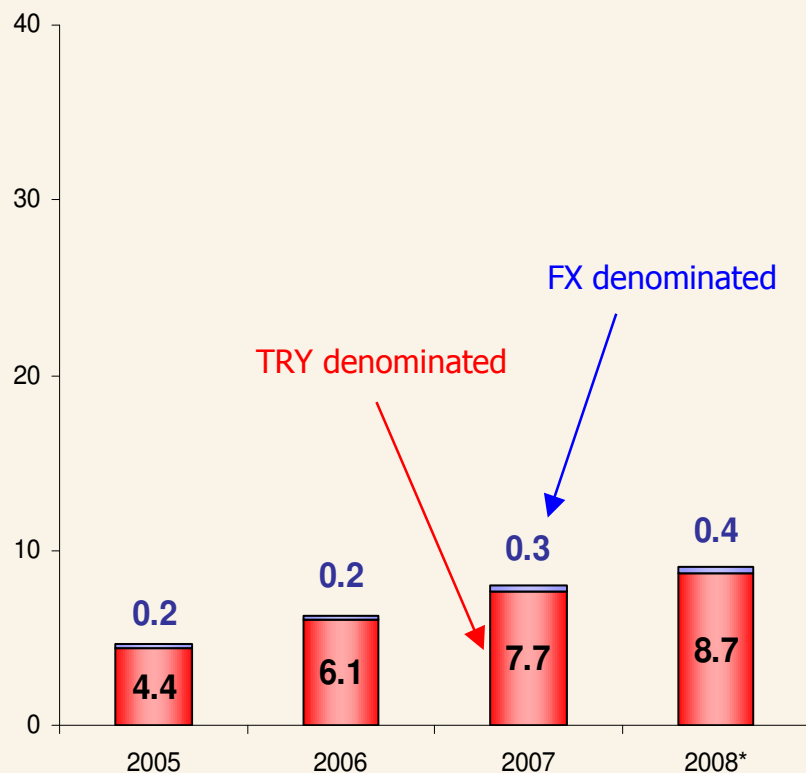
Source: BRSA,, CBT



Households

Composition of Consumer Loans

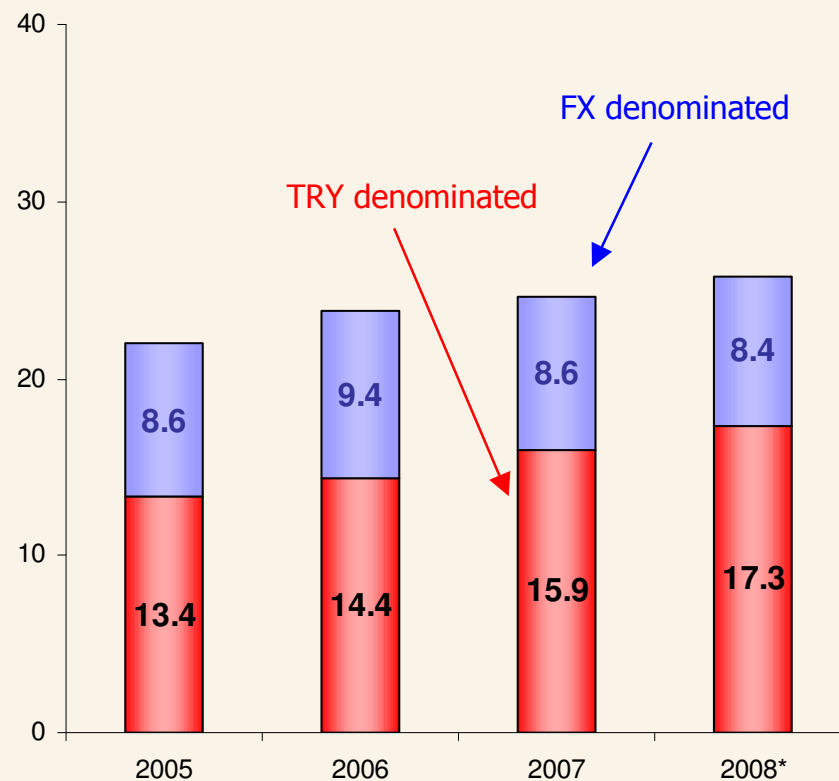
(2005-2008*, Ratio to GDP, percent)



* As of 10 October 2008
Source: CBT

Composition of Savings Deposits

(2005-2008*, Ratio to GDP, percent)



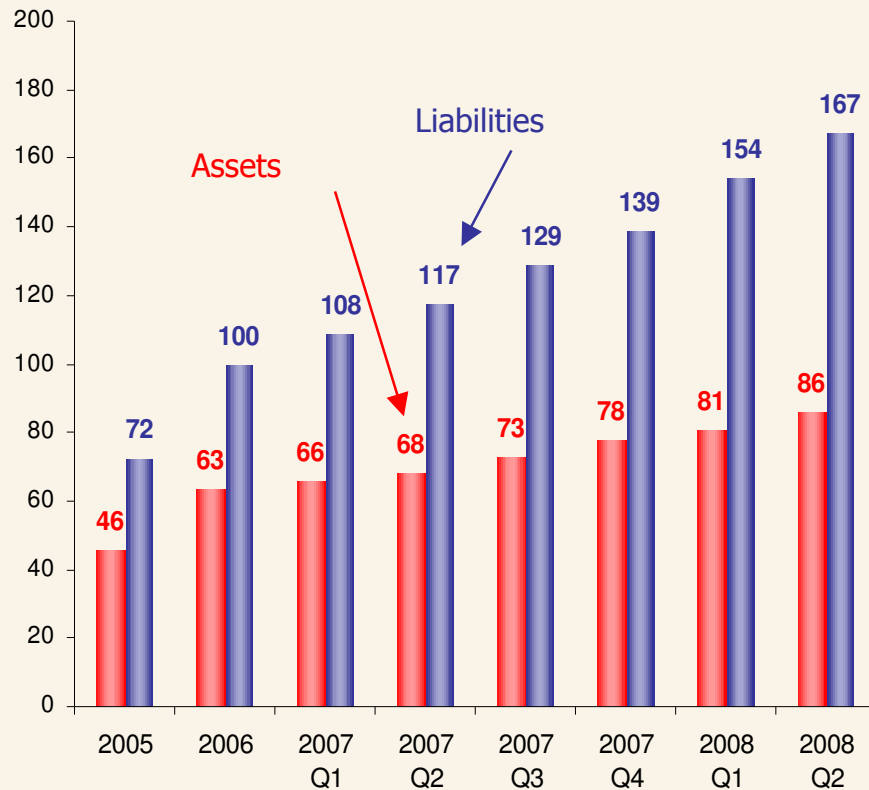
* As of 10 October 2008
Source: CBT



Firms

FX Assets and Liabilities of the Corporate Sector

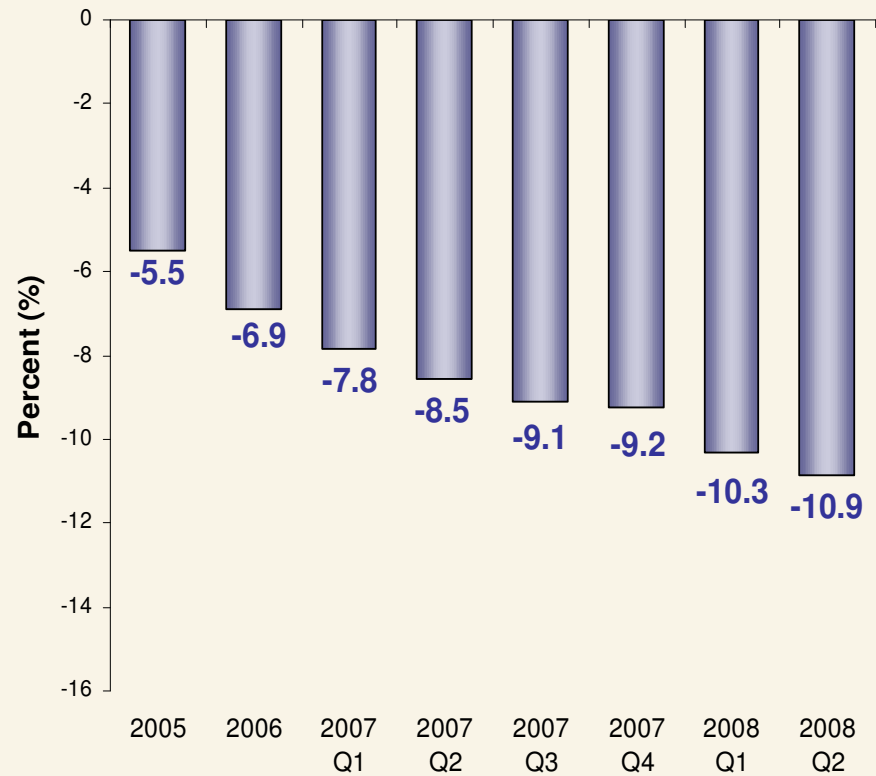
(2005 – 2008 Q2, USD billion)



Source: CBT

FX Position of the Corporate Sector

(2005 – 2008 Q2, percent of GDP)



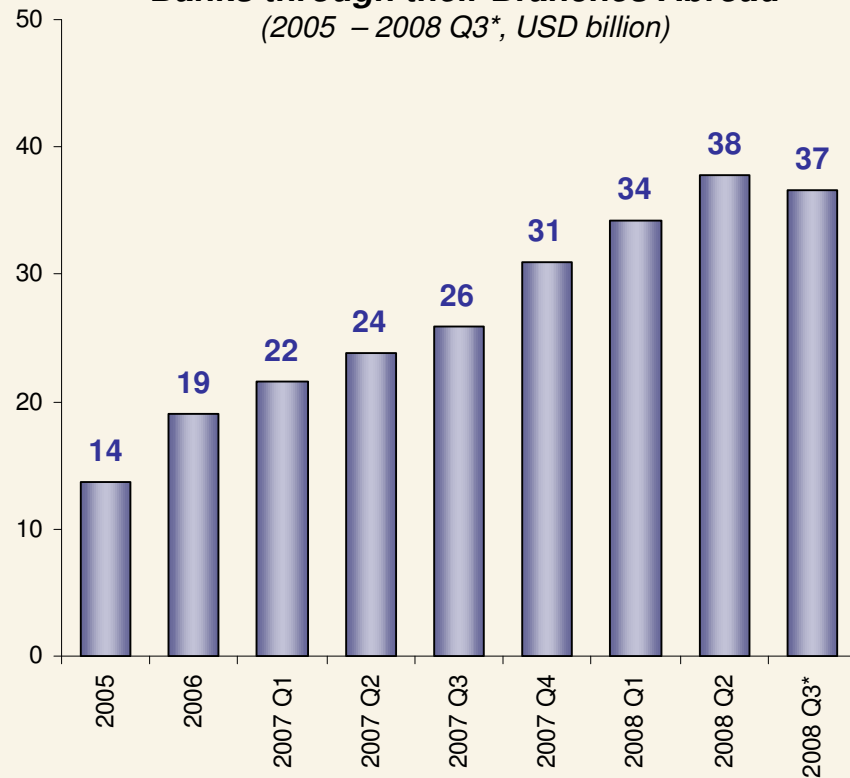
* GDP calculations are based on the annual average of US dollar.

Source: CBT



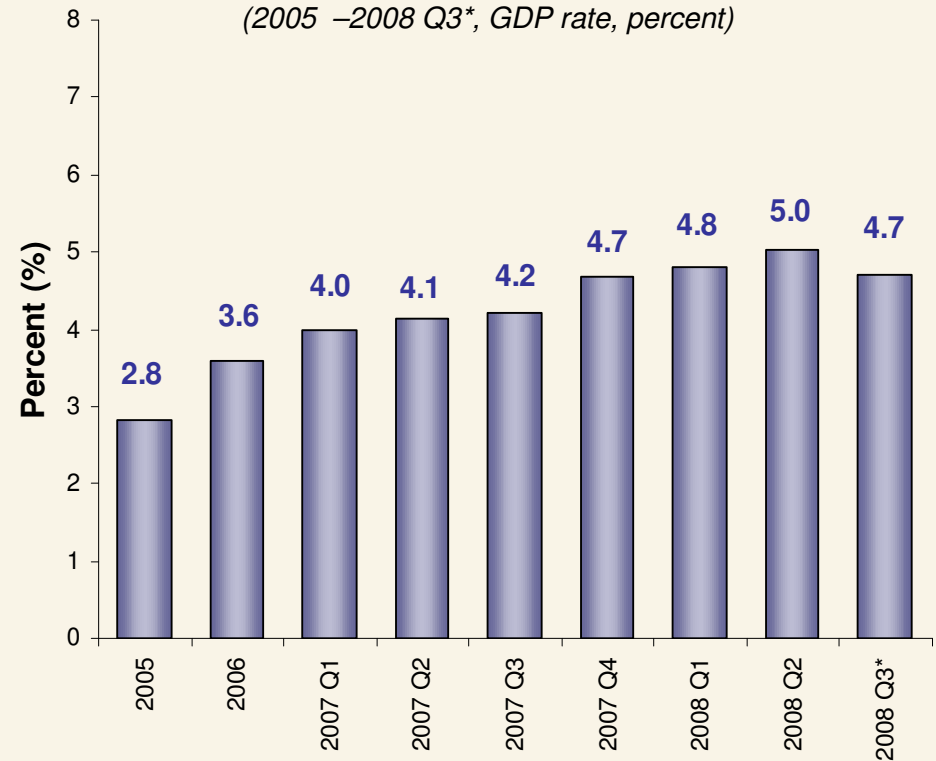
Firms

Credits Extended to Firms by Domestic Banks through their Branches Abroad
(2005 – 2008 Q3*, USD billion)



* As of August 2008
Source: CBT

Credits Extended to Firms by Domestic Banks through their Branches Abroad
(2005 – 2008 Q3*, GDP rate, percent)



* As of August 2008 . GDP calculations are based on the annual average of US dollar.
Source: CBT



Measures on FX Liquidity - 1

The Central Bank is aware of the significance of FX liquidity in the banking system and progressively puts into effect necessary measures in order to get through this period with minor damage.

Measures taken by the CBT:

1. *Re-opened the FX Deposit Market,*
2. *Increased banks' transaction limits in the FX Deposit Market,*
(USD 5.4 billion → USD 10.8 billion)
3. *Launched daily FX selling auctions in line with the floating exchange rate regime with a view to support FX Market liquidity.*



Measures on FX Liquidity - 2

The Central Bank, if deemed necessary, will continue to take additional measures prudently within its means in order to ensure the smooth functioning of the FX market and to support FX liquidity.

Possible Additional Measures (In the Given Particular Order):

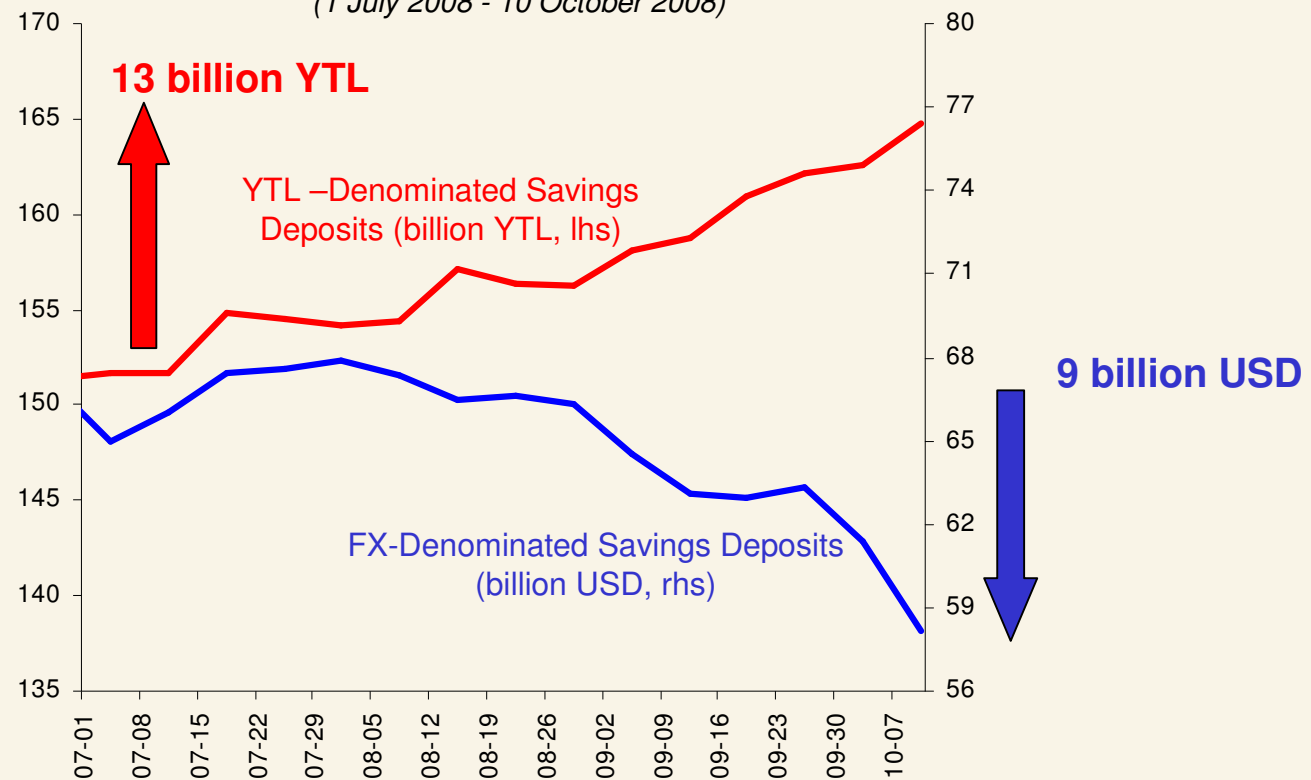
1. *Further increase the limits of FX Deposit transactions,*
2. *Reduce the FX Deposit rate without prejudice to the “the lender of last resort” aspect,*
3. *Extend the maturity of FX Deposit transactions,*
4. *Decrease FX-denominated required reserve rates to a limited extent.*



Return to the New Turkish Lira

It is a positive development that the recent shift towards local currency observed in the liability side of banks has been witnessed in credits as well.

YTL- and FX-Denominated Savings Deposits in Deposit Banks
(1 July 2008 - 10 October 2008)



Source: CBT



New Turkish Lira Liquidity - 1

- The general framework of the Central Bank's liquidity management is fairly flexible and well-structured to meet the liquidity requirement of the banking system effectively.
- The Central Bank will not allow any setback in YTL money markets and will ensure smooth operation of payment systems.



New Turkish Lira Liquidity - 2

In case of an increase in YTL liquidity squeeze in the market in the upcoming period;

1. The operational structure may be modified by bringing forward the technical interest rate cut.
2. Depending on the course of the liquidity squeeze,
 - a. Extension of the maturity of repo funding,
 - b. Direct purchases of government securities,may be put into the agenda.
3. In case the increase in liquidity squeeze becomes permanent and other measures are not sufficient, YTL-denominated required reserves may be reduced to a limited extent.



Policy Texts

- ✓ The effects of recent developments on inflation outlook will be analyzed in detail in the Inflation Report to be released on October 31, 2008.
- ✓ The general framework of the monetary policy for 2009 will be announced on December 16, 2008.



Thank you.