

GOVERNOR YILMAZ'S PRESENTATION BEFORE THE COUNCIL OF MINISTERS, AND THE PLANNING AND BUDGET COMMISSION

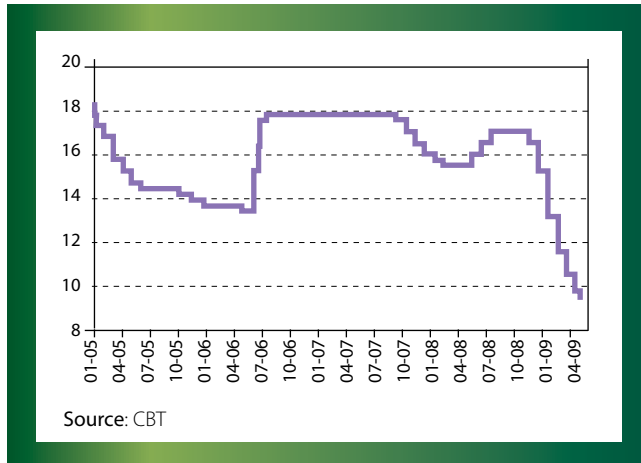
In accordance with the Law on the Central Bank of Turkey (CBT) and the principle of accountability, twice a year the Governor submits report to the Council of Ministers and the Planning and Budget Commission of the Great National Assembly of Turkey on operations of the CBT and current and future monetary policy actions. In this context, Governor Durmuş Yılmaz delivered presentations to the Council of Ministers and the Planning and Budget Commission on 20-21 April 2009 respectively. The Governor provided information about the impact of the global financial crisis on the Turkish economy, financial stability in Turkey, the inflation outlook and the monetary policy stance.

The main points of the presentations are as follows:

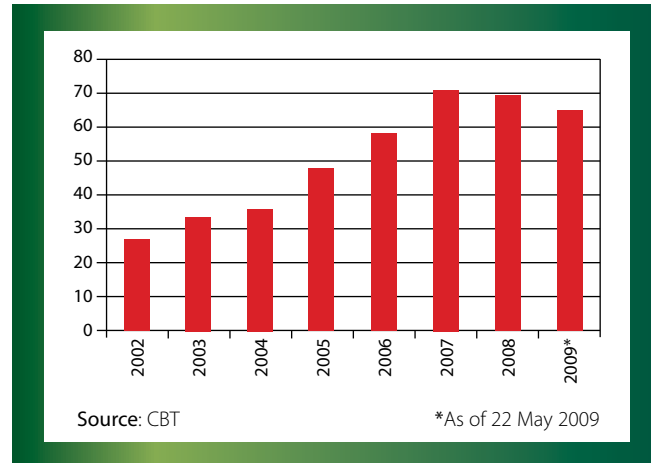
- ▶ A global financial crisis has been experienced since the second half of 2007. Although the most severe effects of this financial crisis has emerged in developed economies since the second quarter of 2008, tightness in global credit conditions deteriorate the financial conditions of developing countries.
- ▶ The stable and sound structure of the financial system in Turkey is the main element which enhances the resilience of our economy against the global crisis. Furthermore, the strong foreign exchange reserve position of the CBT helps eliminate the unfavorable effects of potential shocks and contributes to increasing confidence in the economy.
- ▶ An important effect of this global financial crisis on the Turkish economy is the sharp decline in economic activity. Domestic demand indicators maintain their weak course, albeit a limited recovery has been observed recently. The downward trend in bank loans has continued, and the decline in industrial production and capacity utilization have become more apparent since December 2008.
- ▶ The CBT has taken the necessary measures to ensure the smooth functioning of liquidity channels in financial markets during this period. Moreover, with the disappearance of global factors that were driving the inflation rate up, the CBT started a rapid easing cycle. As the latest data about inflation rates are supportive of the rate cuts.
- ▶ It is forecasted that a recovery in economic activity will take time, downward pressure on inflation will continue and the decline in inflation rates will increase in the short run.

To find out more: <http://www.tcmb.gov.tr> (Governor's Remarks)

Central Bank Interest Rates (Overnight, Simple, Percent)



Central Bank International Reserves (Excluding Gold, Bio USD, Year-End)



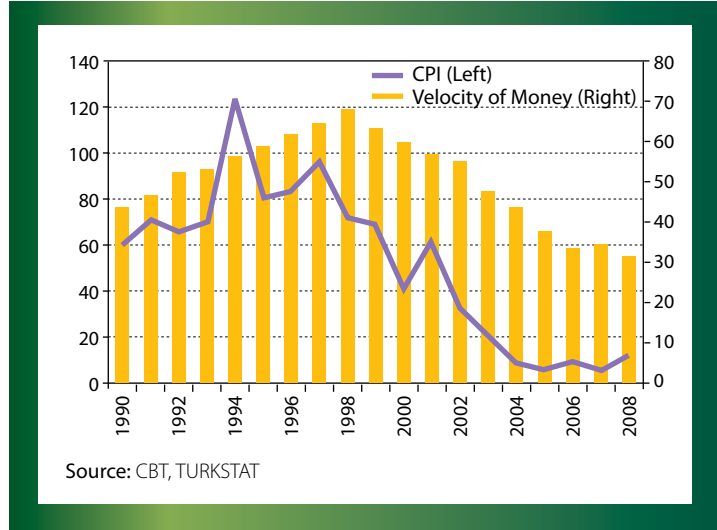
Currency Issued and Velocity of Money

The term “currency issued” refers to the total volume of banknotes issued and circulated by the central banks in the market. Central banks regulate this volume in various ways by regarding the liquidity demand in the market. In Turkey, currency issued is generally determined by money demand, open market operations and foreign exchange interventions made by the CBT.

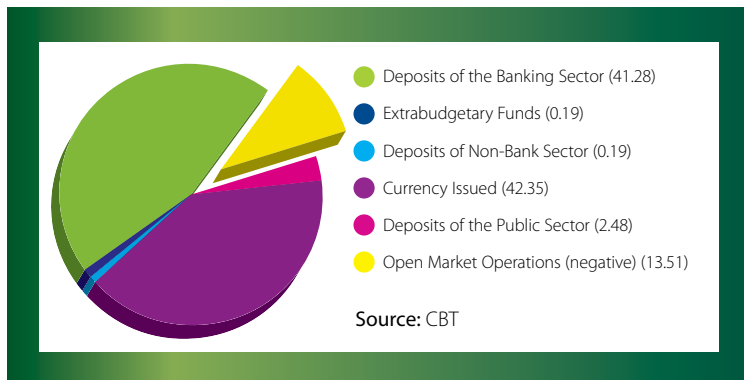
The change in the volume of currency issued has effect on the general price level and the total income in the short run depending on the velocity of money. Therefore velocity of money is an important variable due to its close relation with the output gap and general price level. The simplest way of calculating the velocity of money is done by dividing the nominal gross domestic product with the volume of currency issued.

The velocity of money also depends on the structure of production, existence of an effective financial sector and the infrastructure of payment systems in an economy. The advancements in such fields, like the wide distribution of credit and debit cards, can increase the velocity of money by replacing the traditional cash based system with digital transactions and virtual forms of payment. On the other hand, lower inflation rates reduce the cost of holding money balances and therefore decrease the velocity of money.

Velocity of Money in Turkey (GDP/Currency in Circulation, Right Axis) and CPI (Year-on-Year Percentage Change)



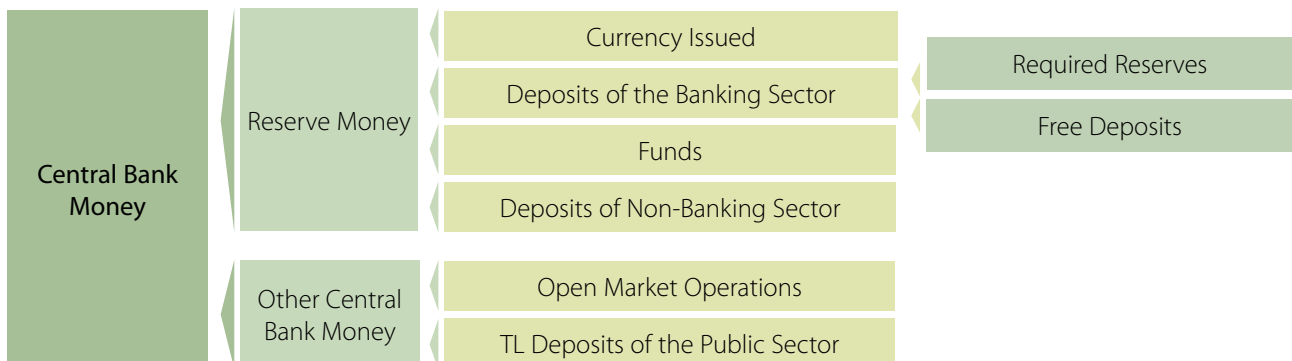
Central Bank Money (% Share, 2008)



Currency issued plays only a partial role in the CBT’s ability to regulate money supply. Another parameter to monitor monetary policy applications is central bank money. Central bank money reflects all Turkish Lira (TL) liabilities of the CBT to all other parties in the economy. There are two important points to bear in mind about this issue. First, since central bank money only consists of TL liabilities, just foreign exchange purchase or selling for TL affects its magnitude. Secondly, the change in components of central bank money has the same effect on the money supply regardless

of their differences in terms of their creation or their way of entering the financial system. This means all changes in the items consisting the central bank money have the same multiplier effect on the economy.

The values of central bank money in 2008 show a sum of 54.1 billion TL. The two major items consisting of the central bank money are currency issued and the deposits of the banking sector. The other items are open market operations, TL deposits of the public sector, funds, and deposits of the non-banking sector.



WORKING VISITS OF THE CENTRAL BANK OF AZERBAIJAN AND THE BANK OF ALBANIA

Upon the request of the Central Bank of Azerbaijan Republic and the Bank of Albania, the CBT organized training programs on human resources activities of the CBT for these Banks on March 9-12 and March 16-18, respectively. Programs include information about personnel recruiting, retirement process, performance management, in-service training, training programs, postgraduate education and information technology operations in human resources management in the CBT.

THE 77th GENERAL ASSEMBLY OF SHAREHOLDERS OF THE CBT

The 77th General Assembly of Shareholders of the CBT was held on April 14, 2009 in the Head Office Conference Hall. At the meeting, the balance sheet, profit and loss statement and proposed profit distribution of the year 2008 were approved. In addition, Prof. Dr. Turalay Kenç was appointed as member of the Board to complete the membership period of the former member until April 30, 2010. Prof.Dr.Necdet Şensoy and Prof.Dr.Mustafa İlker Parasız, whose terms of office were to expire on April 30, 2009, were reappointed to serve three-year terms. Also, Mehmet Tüfekçi, Prof. Dr. Ekrem Yıldız, Abdullah Yalçın and Mustafa Saim Uysal were reappointed as members of the Auditing Committee.



INDEPENDENT AUDIT REPORT

Since 2000, the balance sheet and income and expenditure accounts of the CBT have been audited and the results have been shared with the public as part of the accountability and transparency principles of the Bank. The last independent audit report was released and announced to the public in April 2009 through the website of the CBT.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)

INFLATION REPORT 2009-II

The Inflation Report 2009-II was released via a press conference with the participation of Governor Yılmaz on April 30, 2009. The Report examines the recent macroeconomic developments on a local and global scale, and presents updated medium-term inflation forecasts in the framework of the economic developments in the last three months. The Report also includes six boxes which focus on recent monetary policy decisions and economic developments regarding these decisions.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)



NEW MEMBER OF THE MONETARY POLICY COMMITTEE

According to the CBT Law Article 22/A, board member Prof. Dr. Turalay Kenç was elected as the new member of the Monetary Policy Committee on May 8, 2009.

To find out more: <http://www.tcmb.gov.tr> (General Information)

FINANCIAL STABILITY REPORT

The eighth issue of the biannual Financial Stability Report was released on 28 May 2009. The Report evaluates international developments within the framework of the monetary and financial measures taken to lessen the continuing negative effects of the global crisis including tightening credit channels and worsening demand conditions on growth rates, unemployment rates and expectations. The Report also examines the current macroeconomic developments in the Turkish economy and the financial sector, including profitability, capital adequacy, credit and liquidity risks of the banking sector and the financial infrastructure.

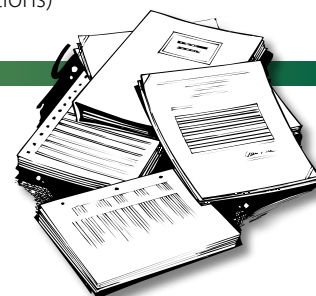
To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)



WORKING PAPERS

- ▶ Financial Market Participation and the Developing Country Business Cycle (Hüseyin Murat Özbilgin, Working Paper No. 09/04, April 2009)
- ▶ Design and Evaluation of Core Inflation Measures for Turkey (Oğuz Atuk, Mustafa Utku Özmen, Working Paper No. 09/03, March 2009)

To find out more: <http://www.tcmb.gov.tr> (Publications/Research Papers)



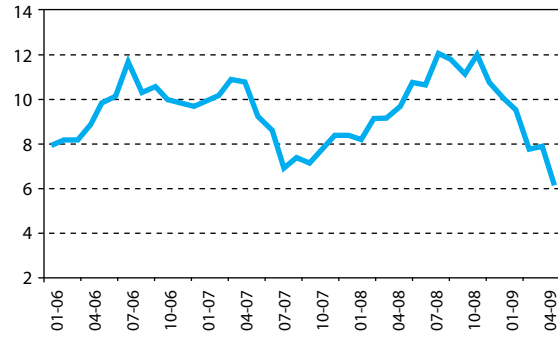
AT A GLANCE

Current Account Deficit (Quarterly, 12-Month Rolling Sum, Billion USD)



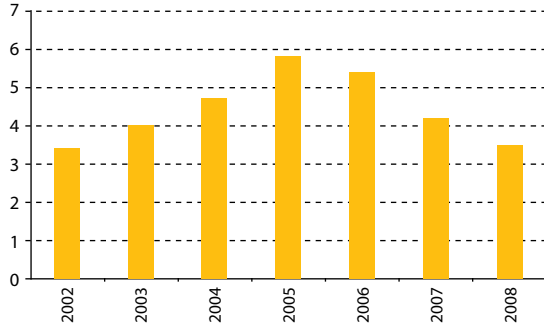
Source: CBT

CPI (Year-on-Year Percentage Change)



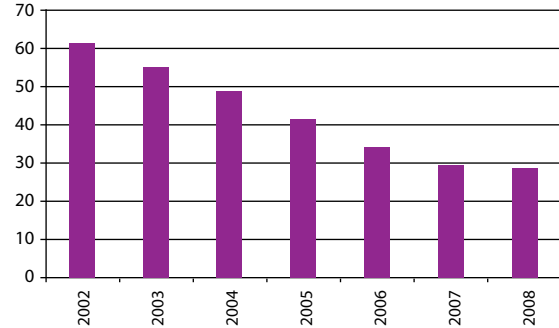
Source: TURKSTAT, CBT

Primary Surplus / GDP (Percent)



Source: Treasury

Total Public Net Debt Stock / GDP (Percent)



Source: Treasury



THE ANNUAL REPORT

The Annual Report is submitted to the General Assembly of Shareholders of the CBT. In the first chapter of the Report the governing bodies and the organizational structure of the CBT take place. In the second chapter of the Report, the CBT's operations are shared with the public. This chapter includes issues such as price stability and monetary policy, financial stability developments, payment and settlement systems, foreign exchange reserves and risk management, European Union harmonization activities and communications policy, in the context of the strategic plan of the CBT.

The Report also examines the comparative financial statements and profit and loss statement of the CBT. Audit reports, activity based cost accounting at the CBT and Turkey-IMF monetary relations are the other issues presented in the Annual Report.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)

| CBT Interest Rates* | Borrowing | Lending |
|---------------------|-----------|---------|
| Overnight (%) | 9.25 | 11.75 |

* As of 15 May 2009.

| | |
|---|-------|
| Central Bank Foreign Exchange Reserves (As of 22 May 2009, Billion USD) | 66.74 |
| CPI (Annual % Change, April 2009) | 6.13 |

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