



CENTRAL BANK OF THE REPUBLIC OF TURKEY

PRESENTATION BEFORE THE COUNCIL OF MINISTERS

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Governor

1 December 2008



Presentation Outline

- I. International Developments
- II. Financial Stability in Turkey
- III. Inflation Developments, Forecasts and Risks
- IV. Markets
- V. Monetary Policy Stance
- VI. Economic Outlook
- VII. TL Publicity Campaign



I. International Developments



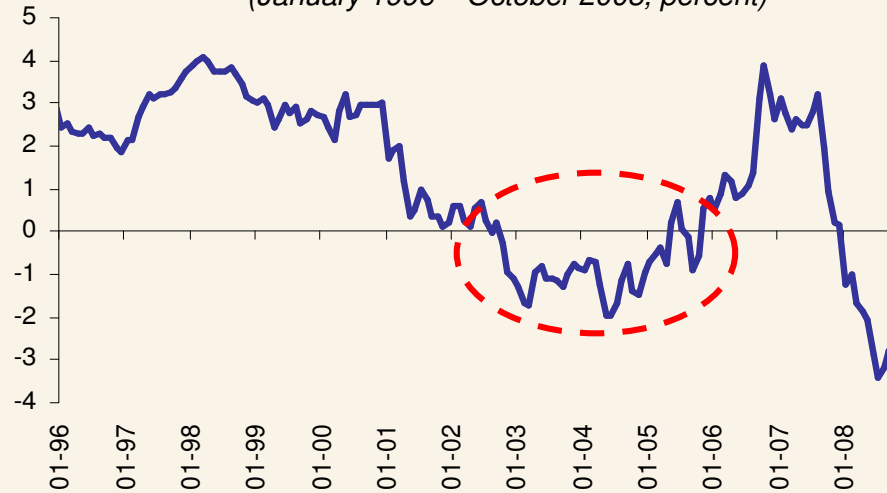
Reasons for the Turbulence

✓ **Loose Monetary Policies**: Real interest rates followed a low course between 2001 and 2005 in developed countries, mainly in the USA, which led the investors, who are in search of high yields to shift to high leveraged transactions and risky instruments.

✓ **Lack of Transparency and Supervision**: Business models relying on packaging and marketing; the use of complex instruments with the financial innovations and technological developments made the follow-up of positions and risk analysis difficult.

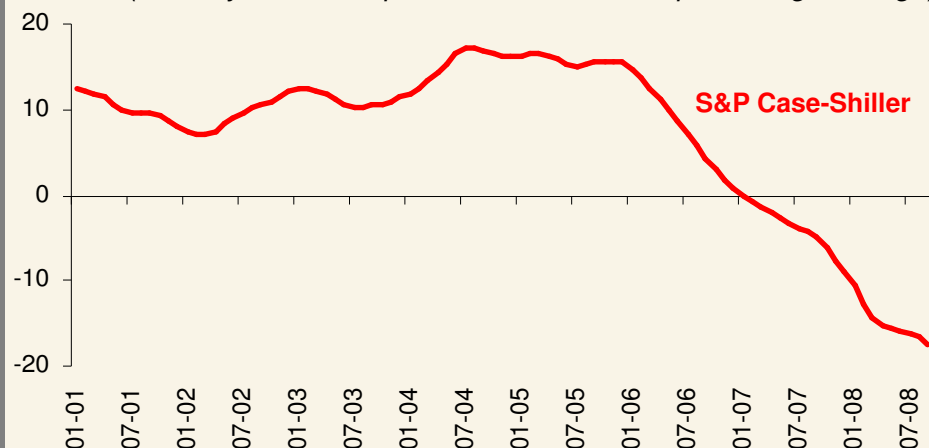
✓ **Troubles in the Housing Market**: Decline in the housing prices in the USA as of the first quarter of 2006 had an adverse effect on the consumption demand of the household and resulted in the increase of the rate of bad loans in the housing sector.

US Real Policy Interest Rate
(January 1996 – October 2008, percent)



Source: Federal Reserve, Bureau of Labor Statistics

House Price Index
(January 2001 – September 2008, annual percentage change)



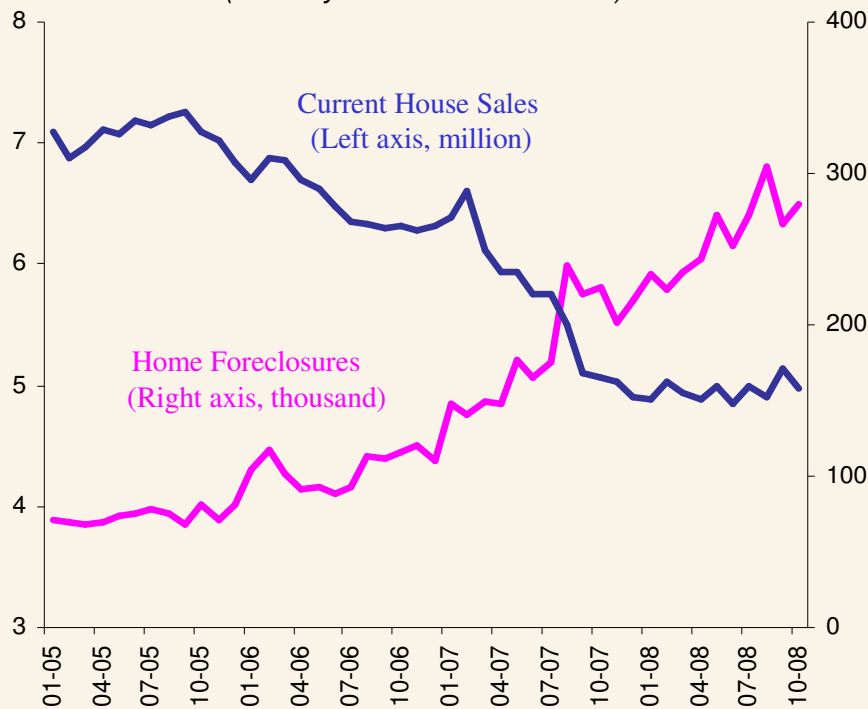
Source: Standard&Poors



Global Losses

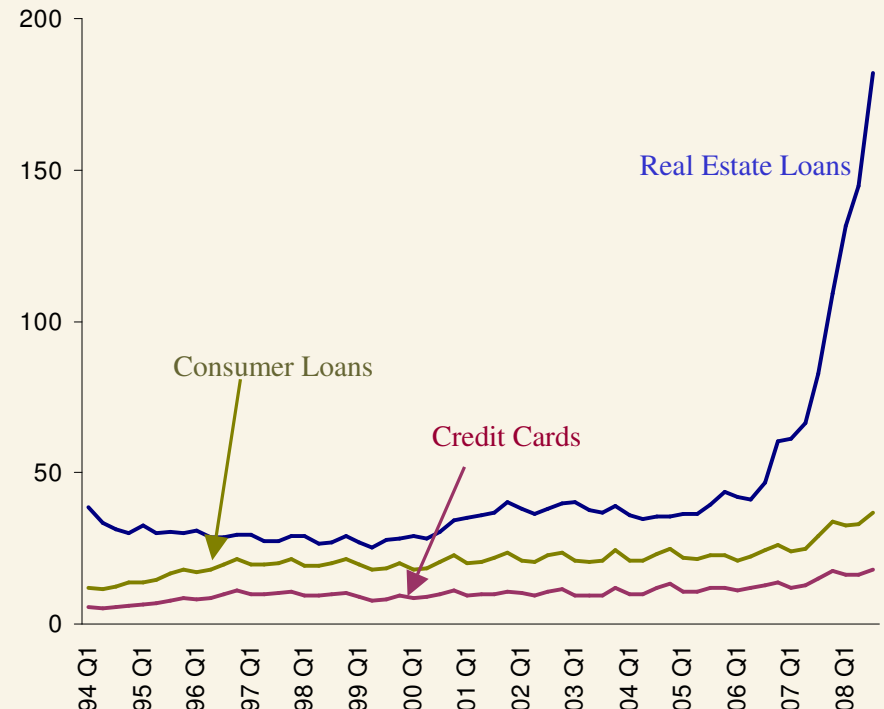
Troubles in the USA housing market lasted through 2008 and tremendous hikes were seen in delinquent consumer loans.

Number of Real Estates under Execution in the USA and Current House Sales
(January 2005 - October 2008)



Source: Bloomberg

Delinquent Credits in USA
(1994 Q1 – 2008 Q3, billion USD)



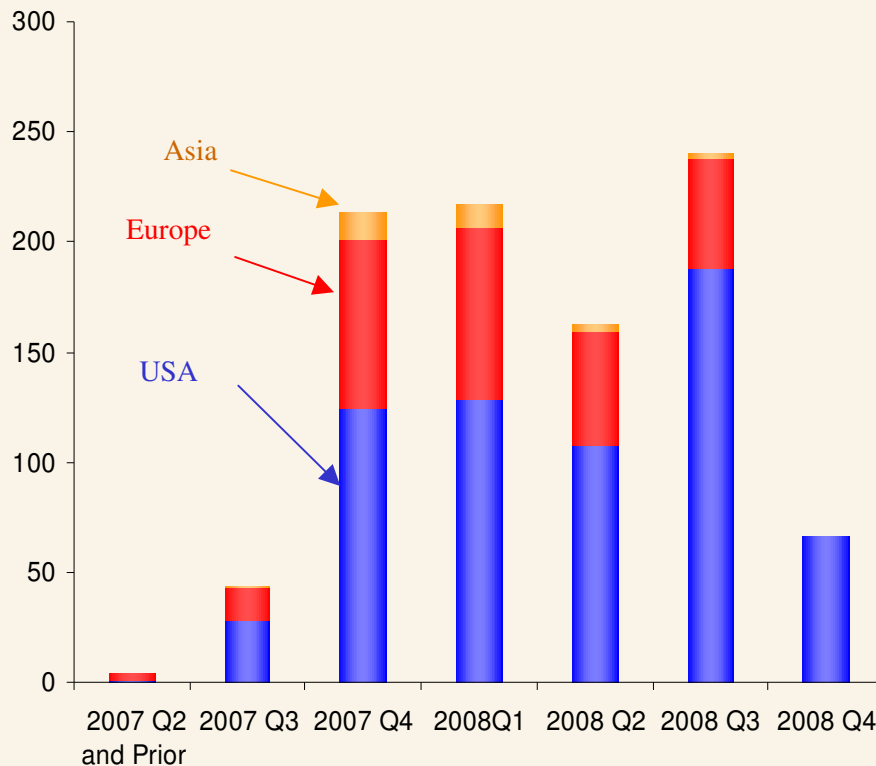
Source: Federal Reserve



Global Losses

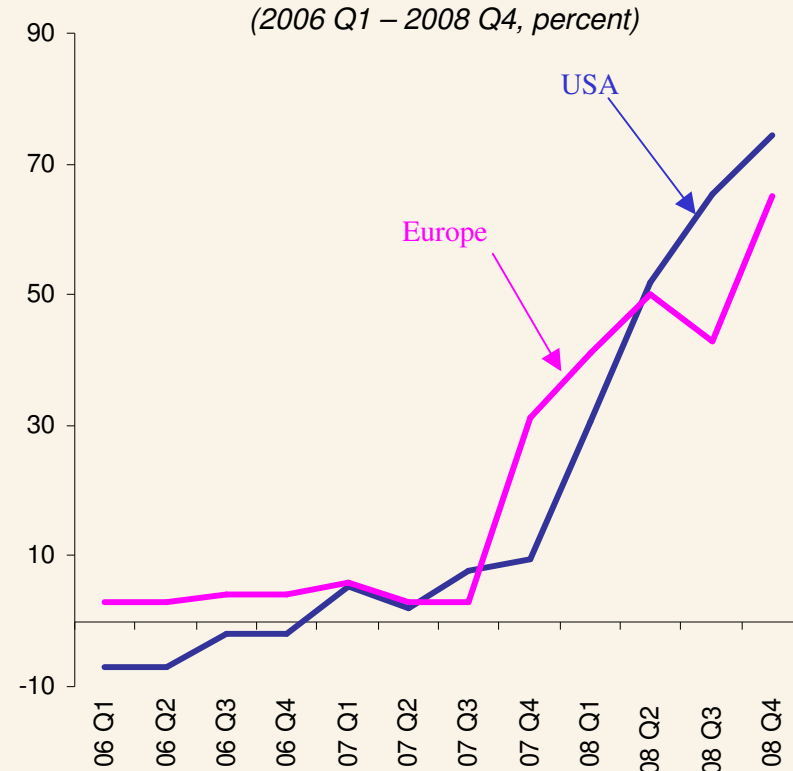
High losses posted by the financial institutions owing to the financial turbulence led the banks to tighten their conditions for lending.

Banking and Finance Sector's Losses
(2007 Q2 – 2008 Q4, billion USD)



Source: Bloomberg

Shares of the Banks Tightening Credit Conditions
(2006 Q1 – 2008 Q4, percent)



Source: Federal Reserve, European Central Bank



Effects of the Turbulence

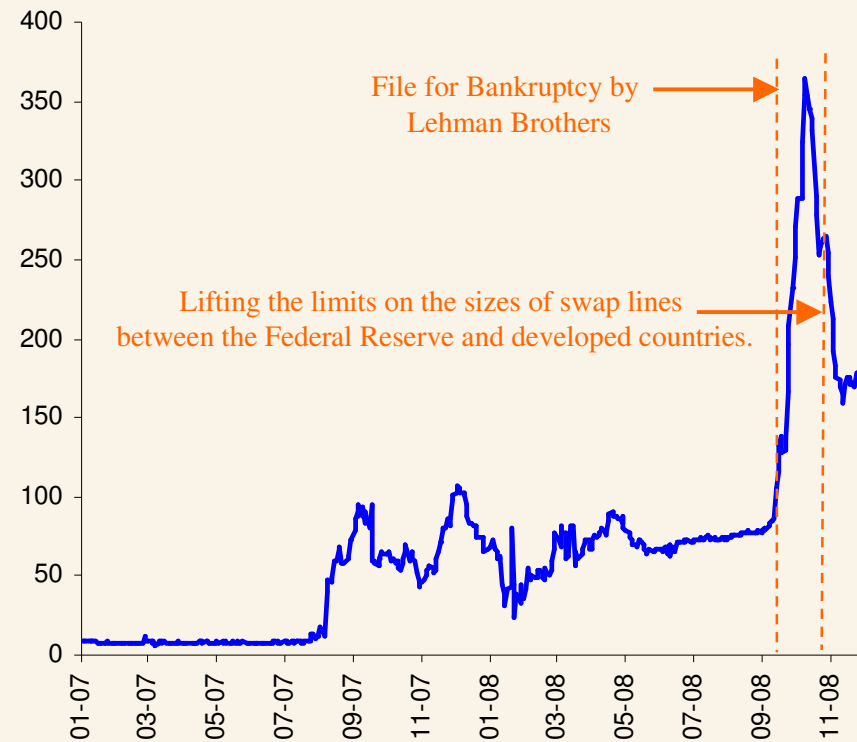
Temporary extraordinary changes are observed in the global liquidity conditions.

Difference Between 3-month LIBOR Rate and 3-month US Treasury Bills (TED Spread)
(1 January 2007 - 27 November 2008, basis points)



Source: Bloomberg

Difference Between 3-month LIBOR Rate and Overnight Index Swap (OIS)* Spread
(1 January 2007 - 27 November 2008, basis points)



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



Effects of the Turbulence

The rise in risk perceptions led to a sharp increase in the interest rates of the bonds issued by the corporates.

ITRAXX Crossover Index

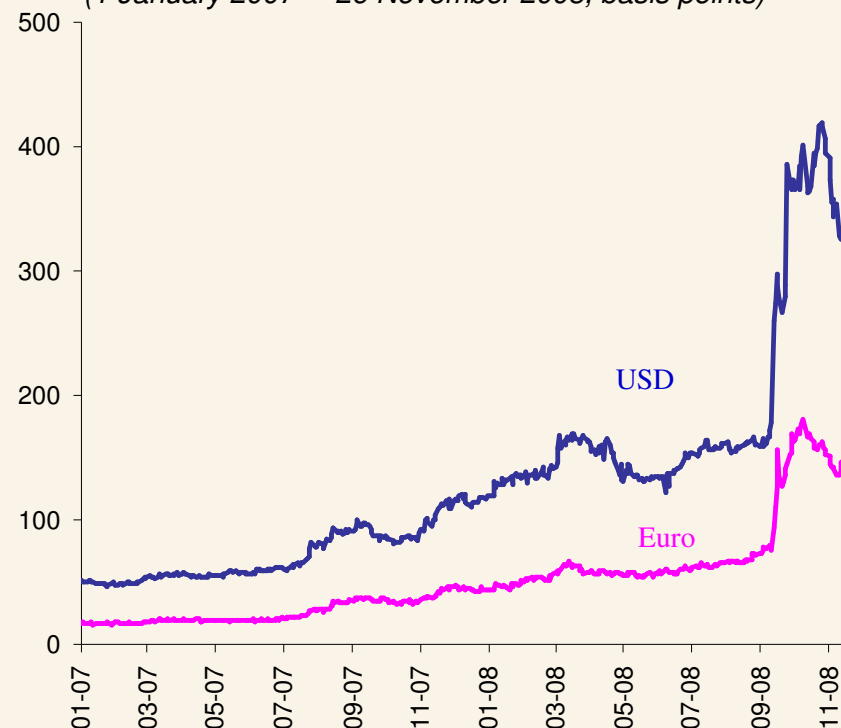
(1 January 2007 – 27 November 2008, basis points)



Source: Bloomberg

Difference Between High-Rated Firm* Bonds and State Bonds

(1 January 2007 – 26 November 2008, basis points)

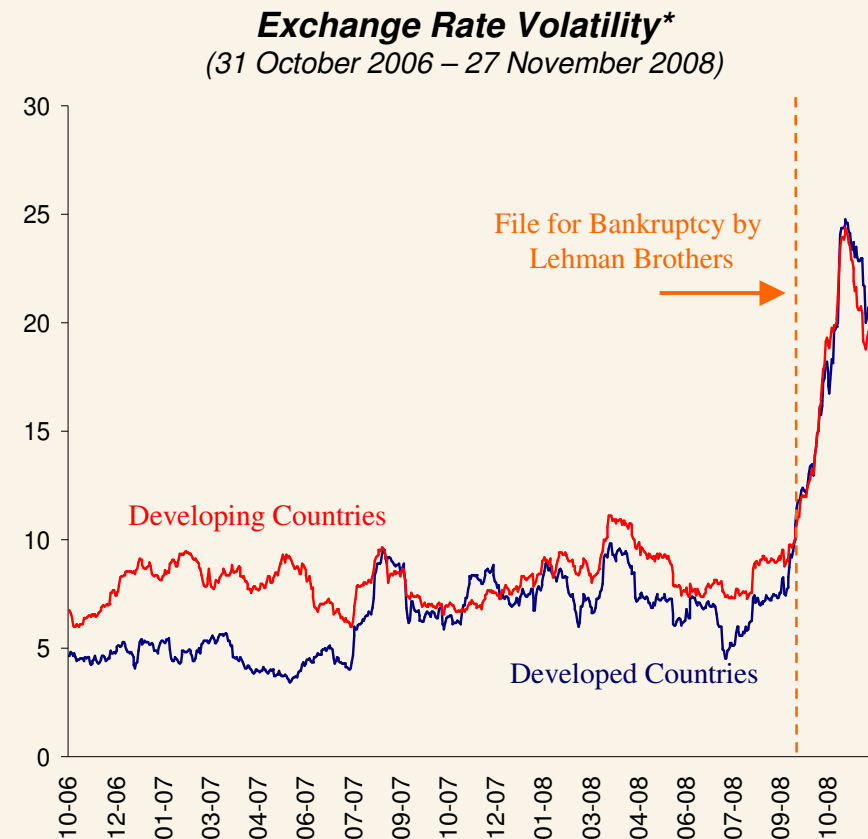
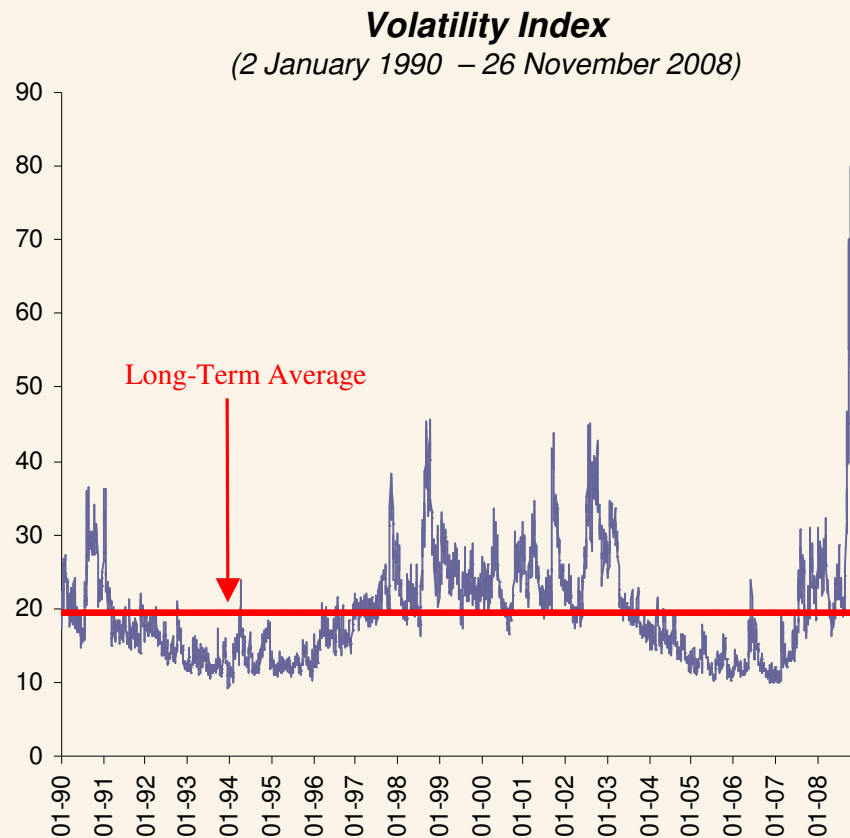


*AAA-rated firms
Source: JP Morgan



Effects of the Turbulence

The VIX index, the indicator of volatility in the markets, maintains its high level and sharp movements are observed in the volatility of foreign exchange rate.



* Simple average of the data obtained by annualizing the standard deviation of daily changes in foreign exchange rates.

Source: Bloomberg



Effects of the Turbulence

While the stock markets experience hard-landings, remarkable increases in the premium on the Credit Default Swap (CDS) of the developing countries are observed.

MSCI World and Developing Countries Stock Market Indices

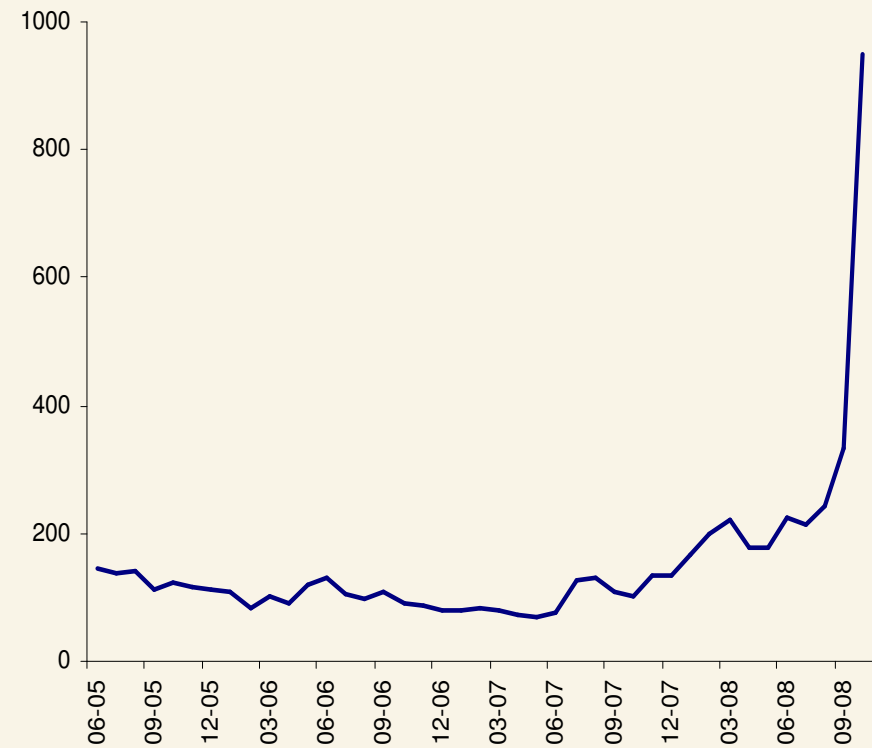
(1 January 2000 – 27 November 2008)



Source: Bloomberg

Credit Default Swap of Developing Countries*

(June 2005 – October 2008, basis points)



* Simple average of the 5- year Credit Default Swaps of 10 developing countries
Source: Bloomberg

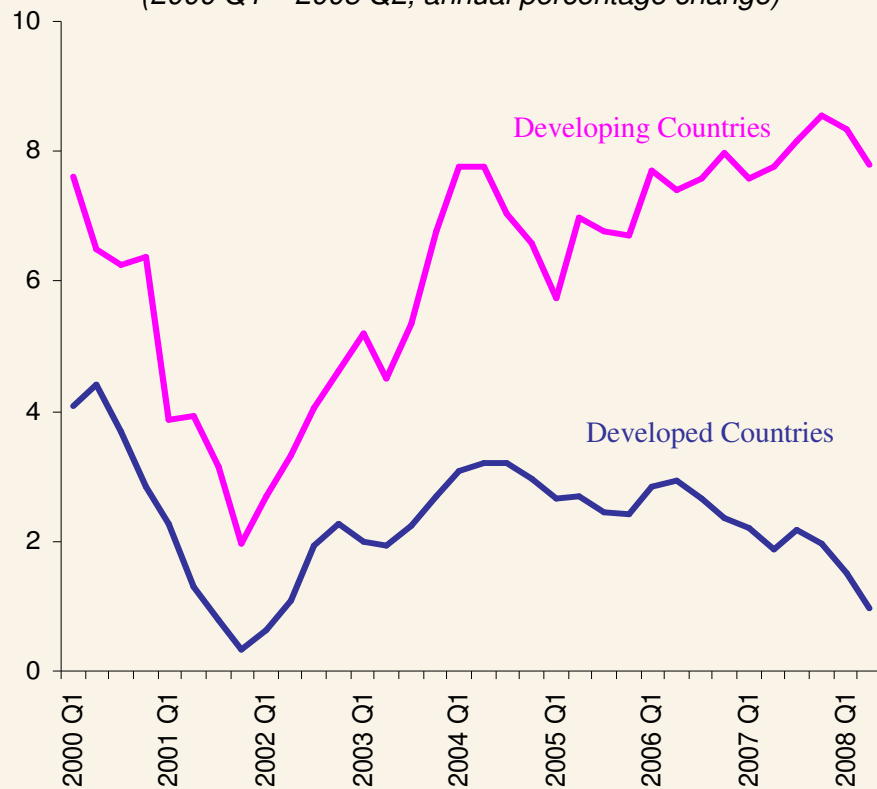


Global Growth

Adverse effects of the problems in the international financial markets on the real sector all over the world started to be felt.

Domestic Demand Growth

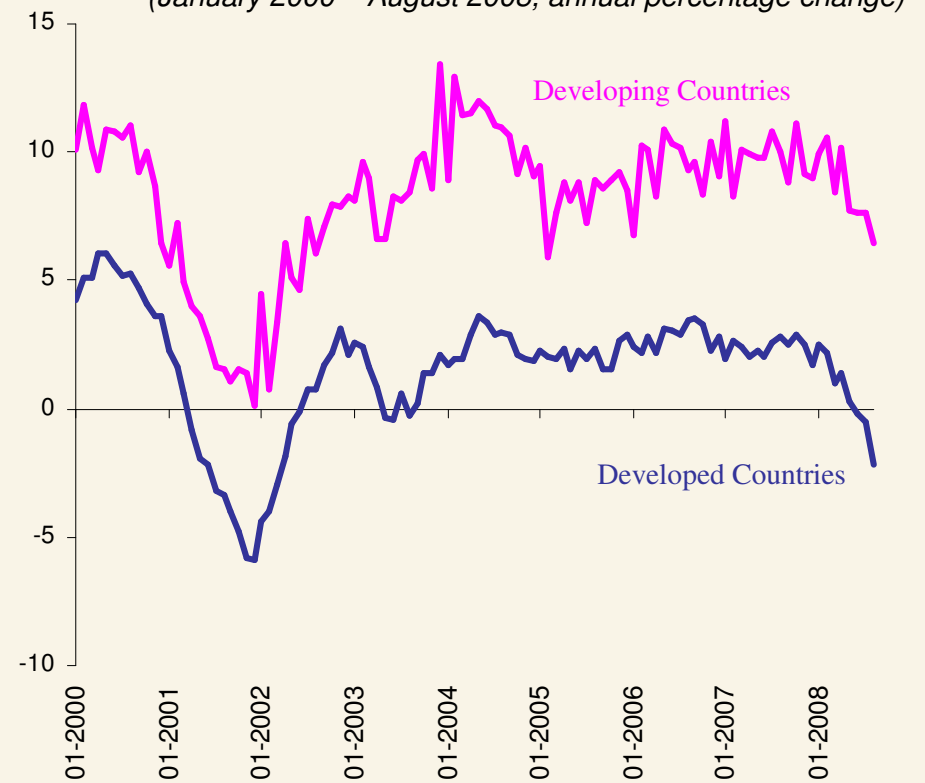
(2000 Q1 – 2008 Q2, annual percentage change)



Source: IMF

Industrial Production

(January 2000 – August 2008, annual percentage change)

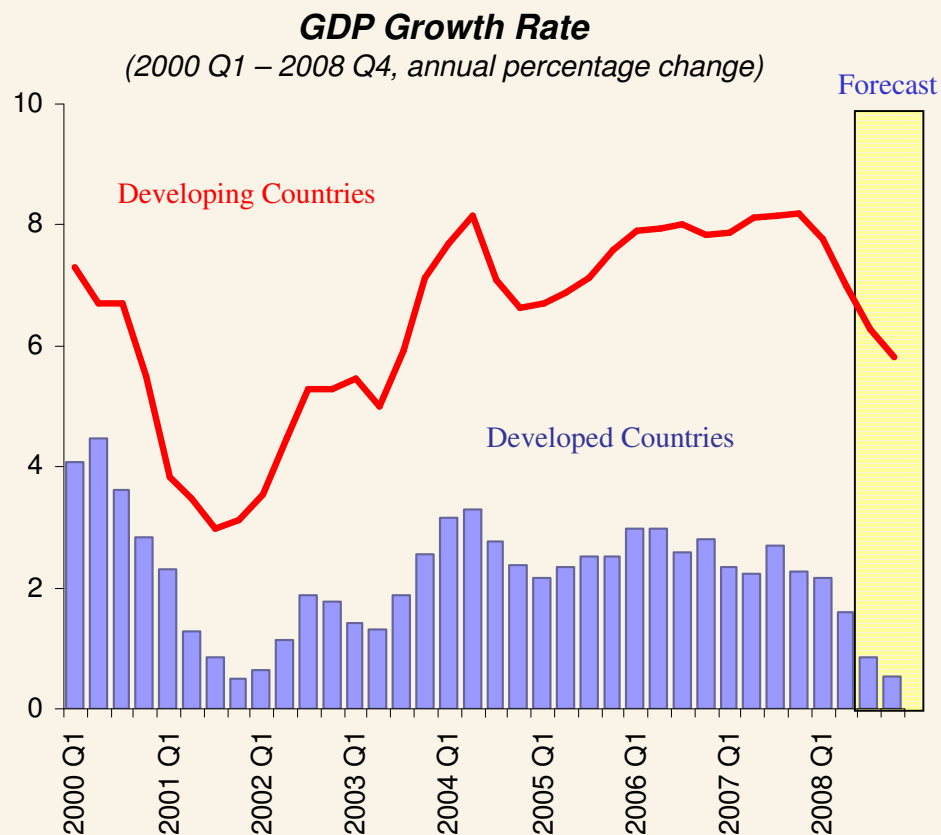


Source: IMF

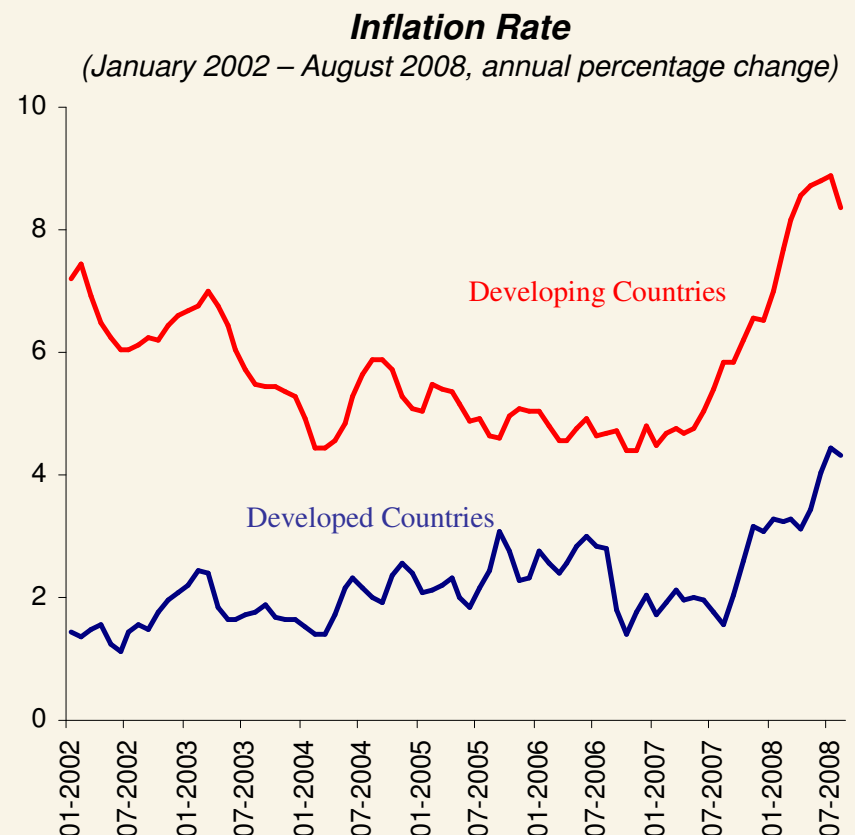


Global Growth

Due to the troubles in the international financial markets, economies of the developed countries are expected to go through a recession in 2009.



Source: IMF



Source: IMF



Risks

- ✓ Along with globalization, the number of countries affected by the financial turmoil has increased.
- ✓ Borrowing costs in the credit and interbank money markets rose sharply due to the declining positions of the investors in developing countries, and extraordinary movements in a number of financial indicators, mainly the foreign exchange rates, interest rates and stocks indices were observed.
- ✓ Federal Reserve, the Banco Central do Brasil, the Banco de Mexico, the Bank of Korea, and the Monetary Authority of Singapore established of temporary reciprocal currency arrangements (swap lines). IMF signed loan agreements with Iceland, Ukraine and Hungary and introduced a new program facilitating short-term borrowing. Moreover, thanks to the measures taken by the governments of the developed countries, a slight recovery has been observed in the markets recently.



Measures Taken

Measures Taken (USA)

- ✓ Treasury purchases Government Supported Enterprises Mortgage Based Securities in the open market to help improve the availability of mortgage credit to American home buyers and alleviate pressures on mortgage rates
- ✓ Distressed assets were decided to be purchased under the Troubled Assets Relief Program developed within the scope of Emergency Economic Stabilization Act, which was USD 700 billion in sum.
- ✓ In the scope of Capital Purchase Program to mitigate the nervous in the stocks market, it was decided to shore up capital of U.S banks to regain market confidence through purchase of preferred shares of USD 250 billion for the financial institutions, USD 125 billion of which to be allocated to nine large banks.
- ✓ In order to avoid a “run” on money market funds, guarantees were granted share price of any publicly offered eligible money market mutual fund for amounts.
- ✓ The amount of collaterals against deposits in the USA was increased to USD 250.000.



Measures Taken

Measures Taken (Europe)

- ✓ Various bailout plans were designed to abate the fluctuations in the financial markets (Germany Euro 400 billion, France Euro 320 billion, Spain Euro 100 billion and Italy Euro 20-30 billion). Government of the United Kingdom granted guarantee to the new debt issuance by large financial institutions.
- ✓ European Union Finance Ministers agreed to increase the deposit guarantee from Euro 20.000 to a minimum of Euro 50.000.
- ✓ Ukraine, Hungary and Iceland signed stand-by agreements with the IMF costing USD 16.4, 12.3 and 2.1 billion respectively.
- ✓ A bailout plan of Euro 200 billion was introduced, Euro 170 and 30 billion of which was to be met by the Member States and the European Union Fund, respectively.



Measures Taken

Measures Taken by the Central Banks

- ✓ From the start of the crisis, namely August 2007, up to now the Federal Reserve (FED), the European Central Bank (ECB), the Bank of Japan (BoJ) and the Bank of England (BoE) have lowered their policy rates by 425, 75, 20 and 275 basis points respectively.
- ✓ The FED diversified the types of securities accepted as collateral, thereby tried to decrease the amount of the securities leading to liquidity squeeze and loss of confidence in the market.
- ✓ With a view to providing liquidity to the financial markets, the FED enforced Primary Dealer Credit Facility, Term Securities Lending Facility and lastly the Commercial Paper Funding Facility programs.
- ✓ Additionally, the FED's temporary reciprocal currency arrangements (swap lines) were increased by USD 330 billion to USD 620 billion in order to provide resource for the USD liquidity transactions of the ECB, BoE, BoJ and the Swiss National Bank (SNB) and then the mentioned limit was completely lifted.
- ✓ The FED established temporary reciprocal currency arrangements (swap lines) for Brasil, Mexico, South Korea and Singapore Central Banks. Thereby, the FED was able to provide the respective country's central bank with a liquidity of USD 30 billion approximately.



II. Financial Stability in Turkey

Banking sector	Real Sector
Household	Public Sector



Banking Sector- General Outlook

Some Financial Ratios of the Turkish Banking Sector

	12-2003	12-2004	12-2005	12-2006	12-2007	09-2008
Asset Structure						
Total Cash Loans / Total Deposit (%)	42.74	52.12	65.74	74.33	83.24	89.23
Total Securities / Total Deposit (%)	68.79	64.73	56.88	51.66	46.16	42.61
Off- Balance Sheet Transaction Ratios						
(Off-Balance Sheet Risks - Derivative Financial Instruments) / Total Assets (%)	35.50	37.72	34.47	34.43	38.70	39.76
Asset Quality						
Non-Performing Loans / Total Cash Loans	11.50	6.00	4.72	3.74	3.48	3.11
Capital Ratios						
Shareholders's Equity / Total Risk-Weighted Items (%)	30.93	28.80	23.73	21.90	18.94	17.36
Foreign Assets / Total Shareholders's Equity (ratio)	5.92	5.57	6.30	7.25	6.54	7.04
Profitability Ratios						
Pre-Tax Profit / Average Total Assets (%)	3.63	3.32	2.68	3.31	3.41	2.91
Net Incomet / Average Shareholders' Equity (%)	18.15	15.76	12.14	21.01	24.77	20.58

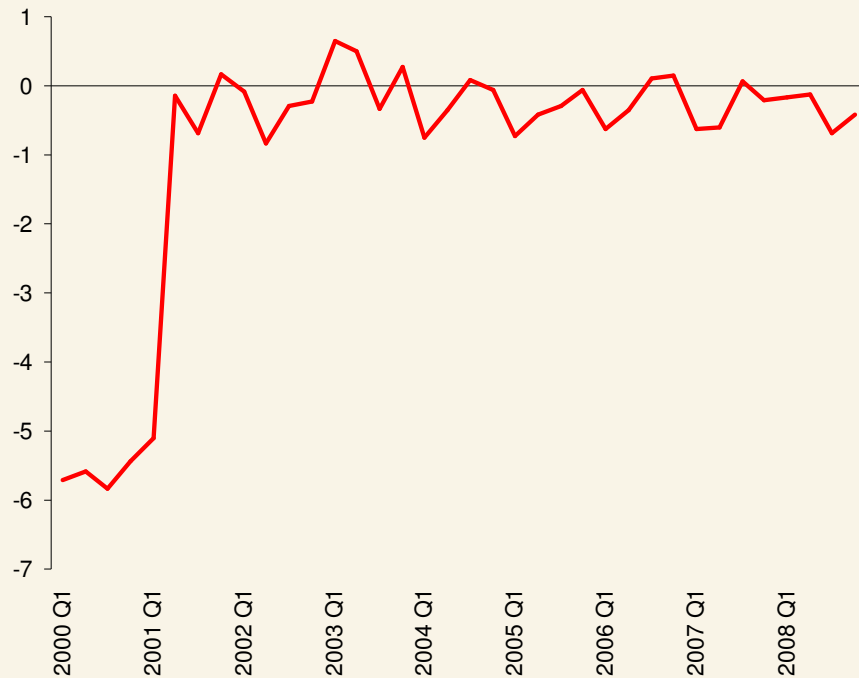
Source: BRSA, CBT



Banking Sector

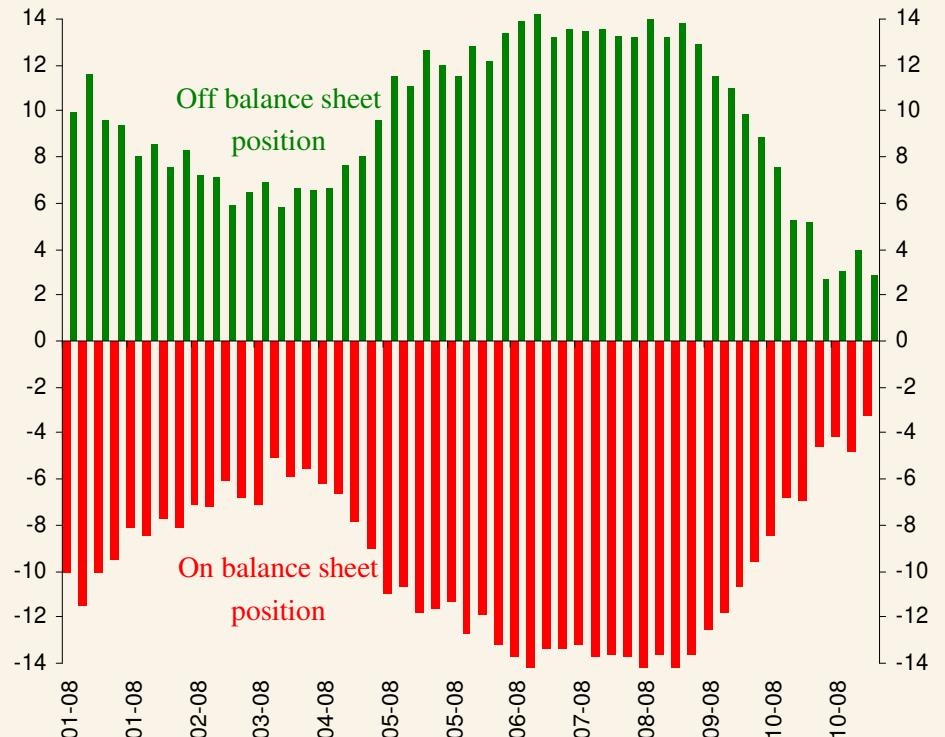
Turkish banking sector does not hold a noteworthy FX short position. Net FX positions of the banks are at a low level compared to their equity.

Net FX Position of the Banking Sector
(2000 Q1 – 2008 Q4*, billion USD)



* As of 14 November 2008
Source: BRSA, CBT

FX Position
(January 2008 – November 2008, billion USD)

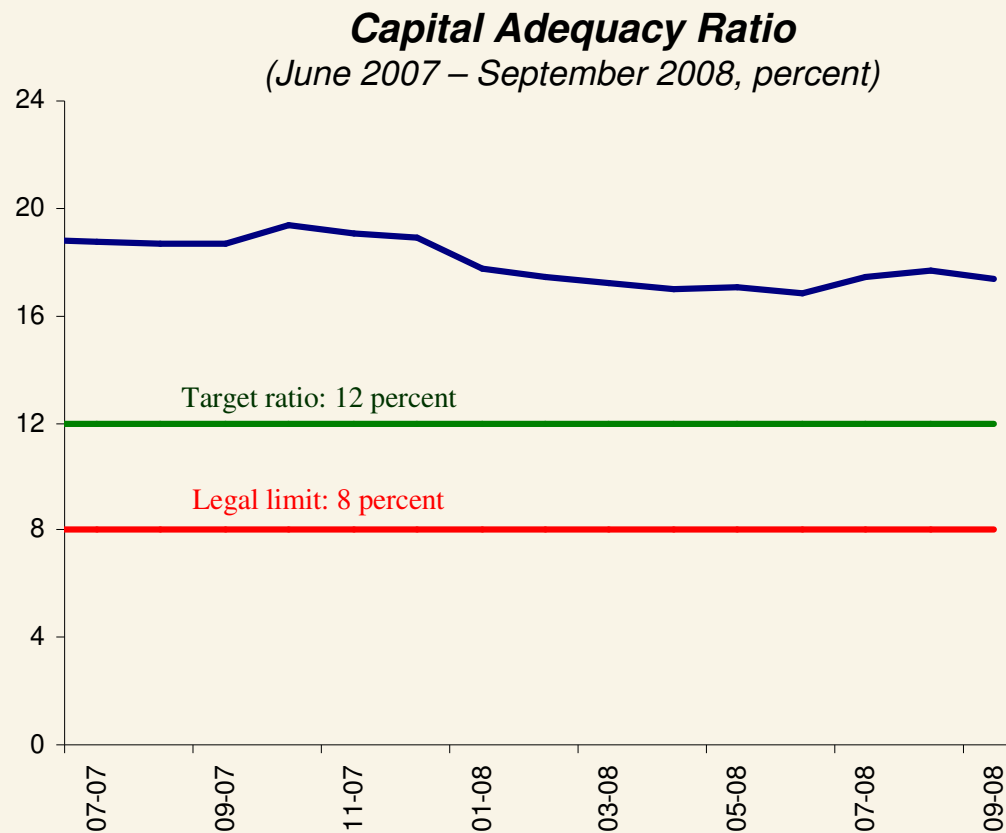


Source: BRSA, CBT



Banking Sector

The capital adequacy ratio is well above the legal limit and the EU average.



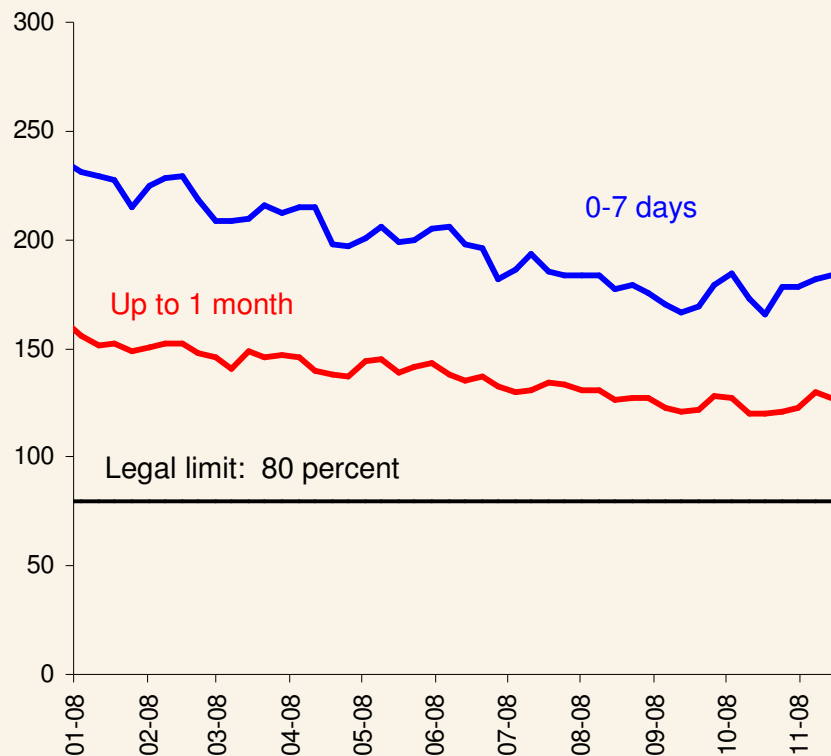
Source: BRSA, CBT



Banking Sector

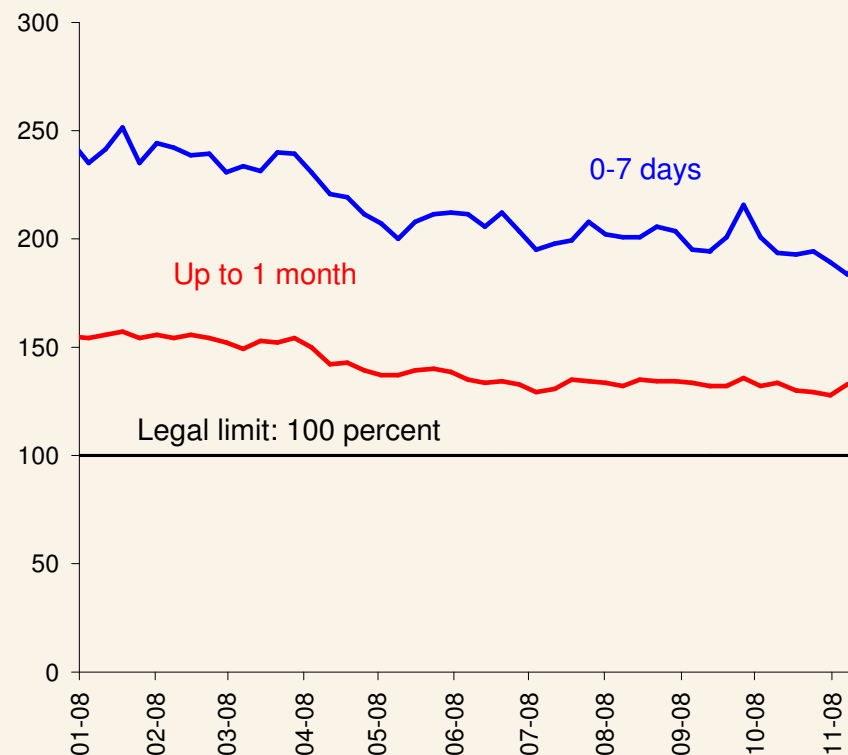
Turkish banking system was relatively prepared for the crisis in terms of FX liquidity. Total short-term liquidity adequacy ratios remain at high levels.

Short-term FX Liquidity Adequacy Ratios
(1 January 2008 – 14 November 2008, percent)



Source: BRSA, CBT

Total Short Term Liquidity Adequacy Ratios
(1 January 2008 – 14 November 2008, percent)



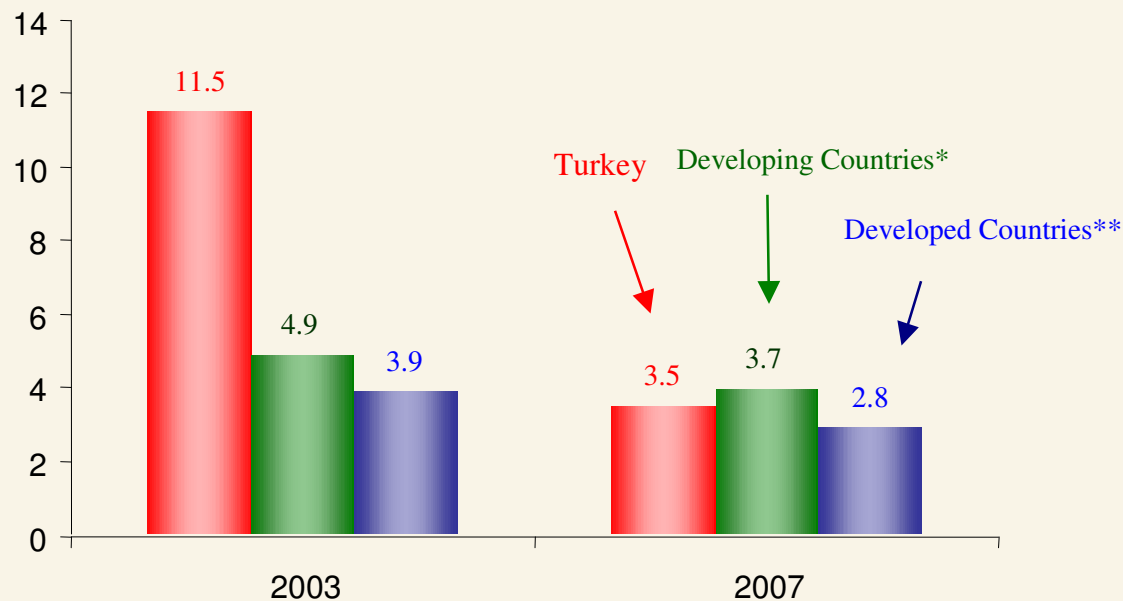
Source: BRSA, CBT



Banking Sector

The ratio of non-performing loans to total loans is below the average of other developing countries.

Ratio of Non-Performing Loans to Total Loans
(2003 and 2007, percent)



* Developing countries: Argentina, Brazil, Bulgaria, Czech Republic, Croatia, Hungary, Latvia, Lithuania, Poland, Romaina, Russia, Slovakia, Ukraine

** Developed countries: France, Germany, Italy, United Kingdom, USA

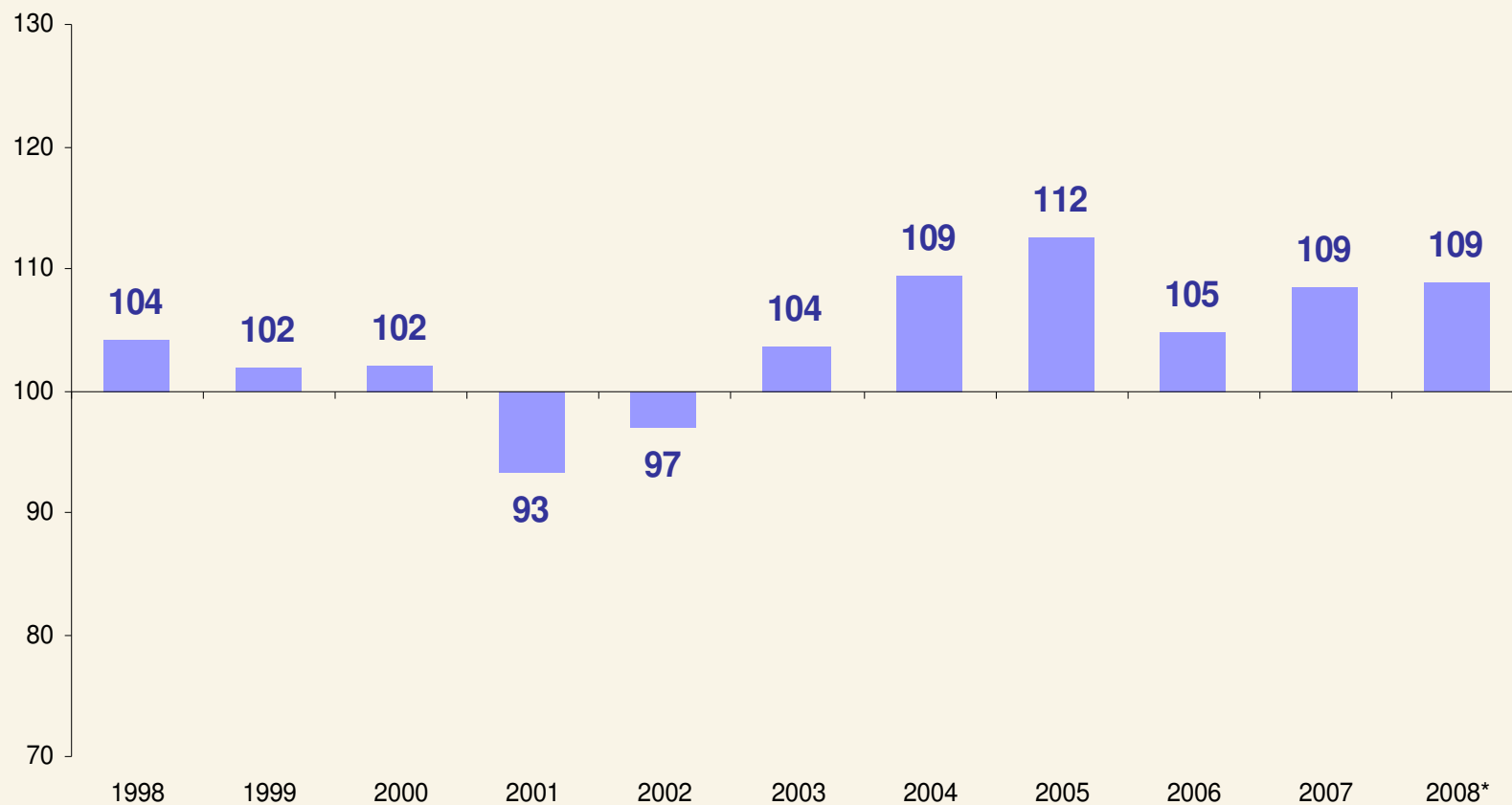
Source: IMF, CBT



Banking Sector

Debt Rollover Ratio of the Banking Sector

(1998-2008*, Ratio of Short and Long-Term Foreign Debt Usage to Principle Payments, percent)



* January - September 2008
Source: CBT

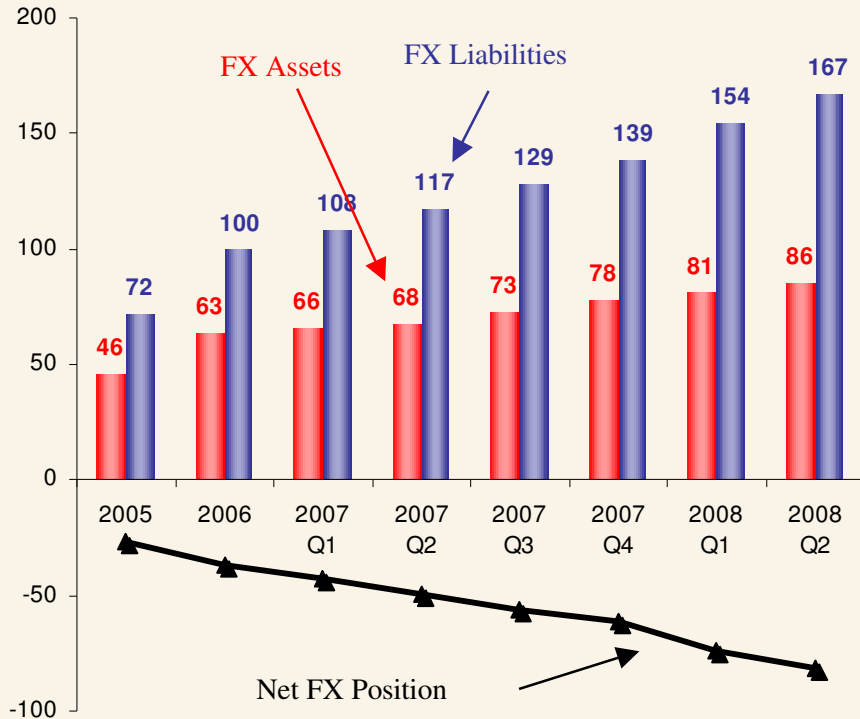


Corporate Sector

The FX short position of the non-banking sector was USD 4.4 billion as of the second quarter of 2008. The maturity structure of the corporate sector's debt has improved significantly.

Firms' FX Assets and Liabilities

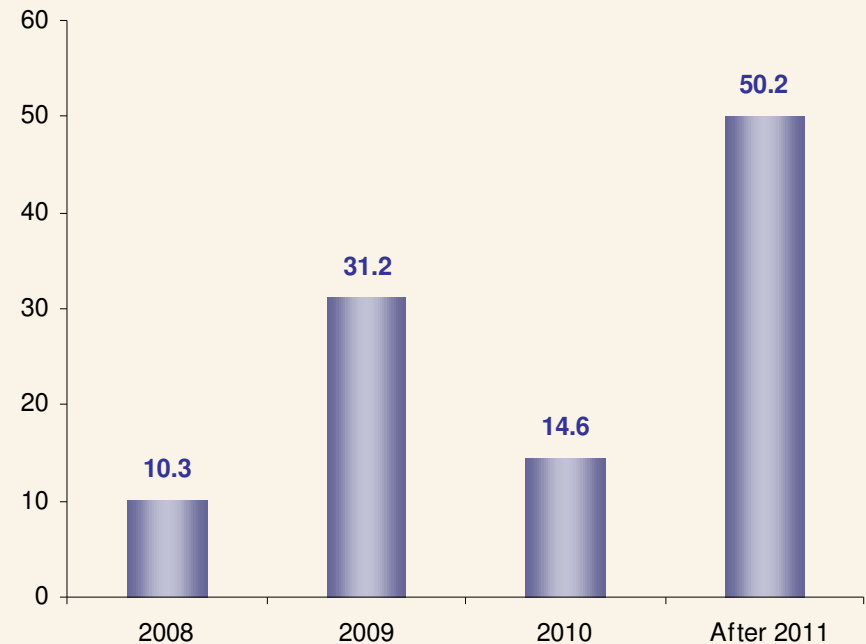
(2005 – 2008 Q2, billion USD)



Source: CBT

Maturity Composition of Firms' Long Term FX-Denominated Foreign Debt *

(August 2008, billion USD)



*Number of days to maturity

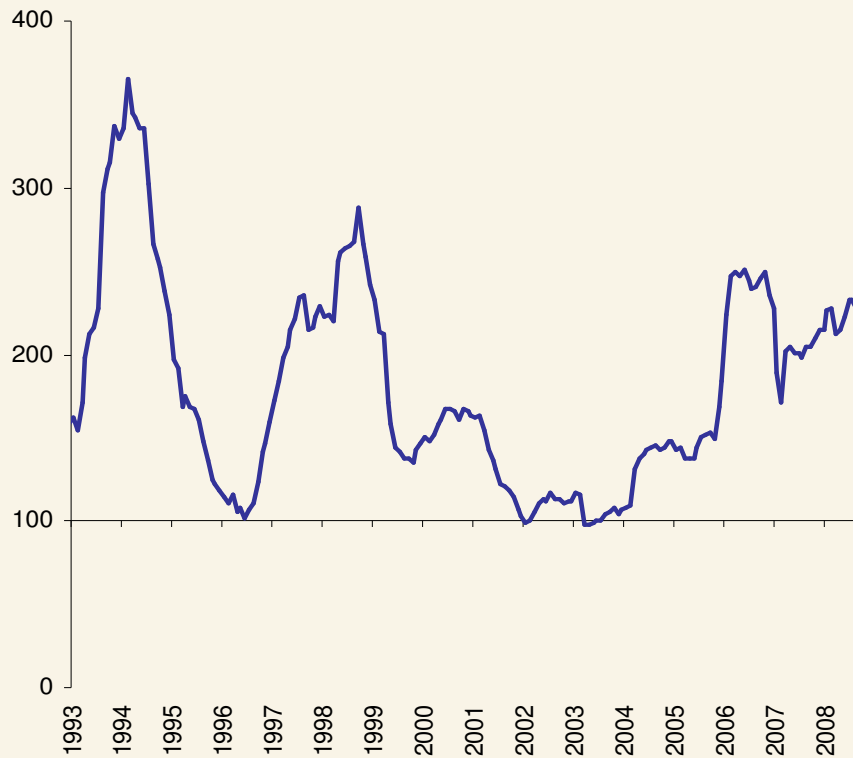
Source: CBT



Corporate Sector

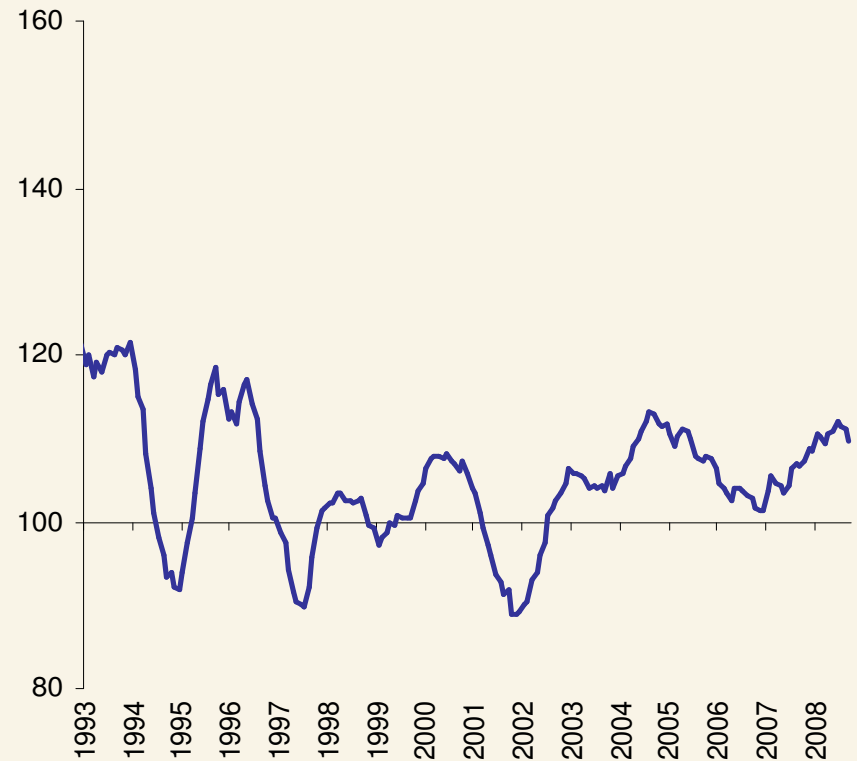
Long-term debt rollover ratios of the real sector remained historically above 100 percent.

Long Term Debt Rollover Ratio of the Real Sector
(January 1993 – September 2008, Ratio of Foreign Debt Usage to Principle Payments, 12-month moving average, percent)



Source: CBT

Short Term Commercial Debt Rollover Ratio
(January 1993 – September 2008, Ratio of Foreign Debt Usage to Principle Payments, 12-month moving average, percent)



Source: CBT

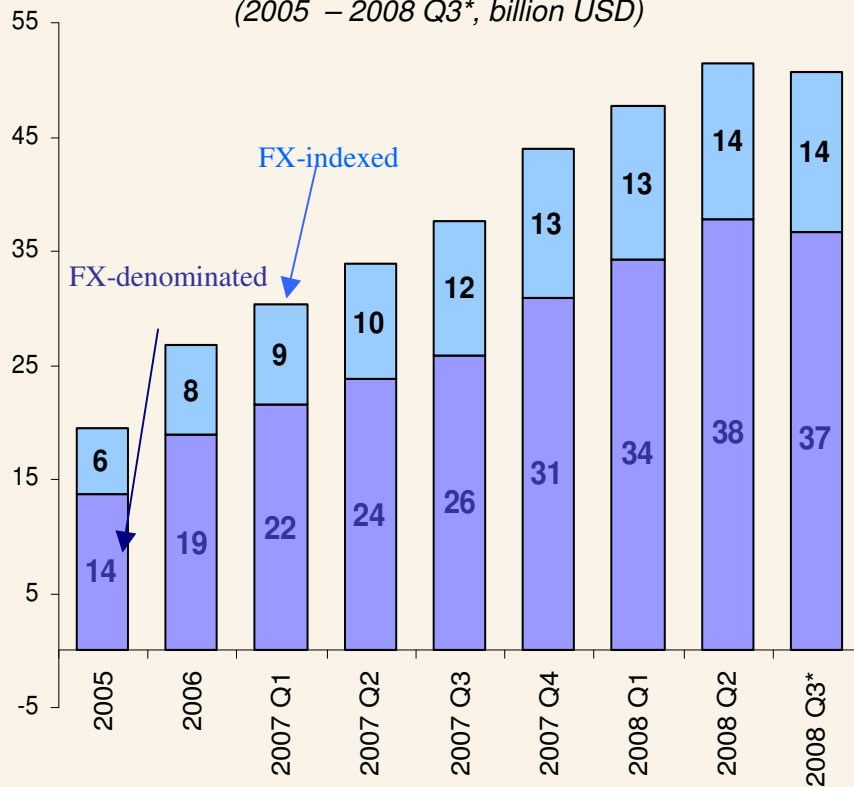


Corporate Sector

A considerable amount of the foreign debt of the real sector is composed of the loans extended by domestic banks to the sector through their branches abroad.

FX-Indexed Corporate Loans of Domestic Banks and Loans Extended to Firms by Domestic Banks Through Their Branches Abroad

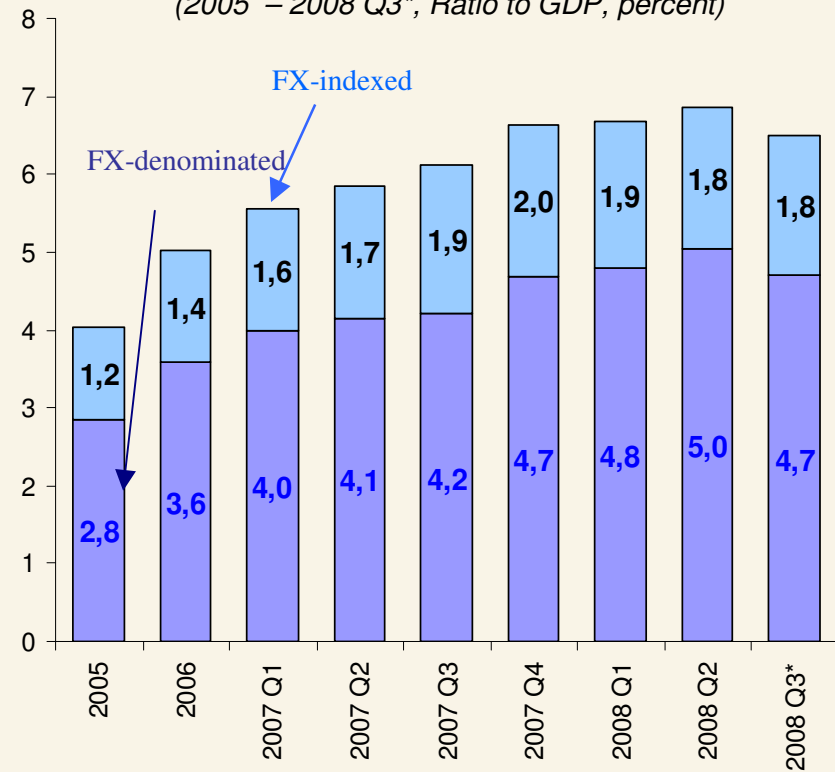
(2005 – 2008 Q3, billion USD)*



*As of August 2008
Source: CBT

FX-Indexed Corporate Loans of Domestic Banks and Loans Extended to Firms by Domestic Banks Through Their Branches Abroad

(2005 – 2008 Q3, Ratio to GDP, percent)*



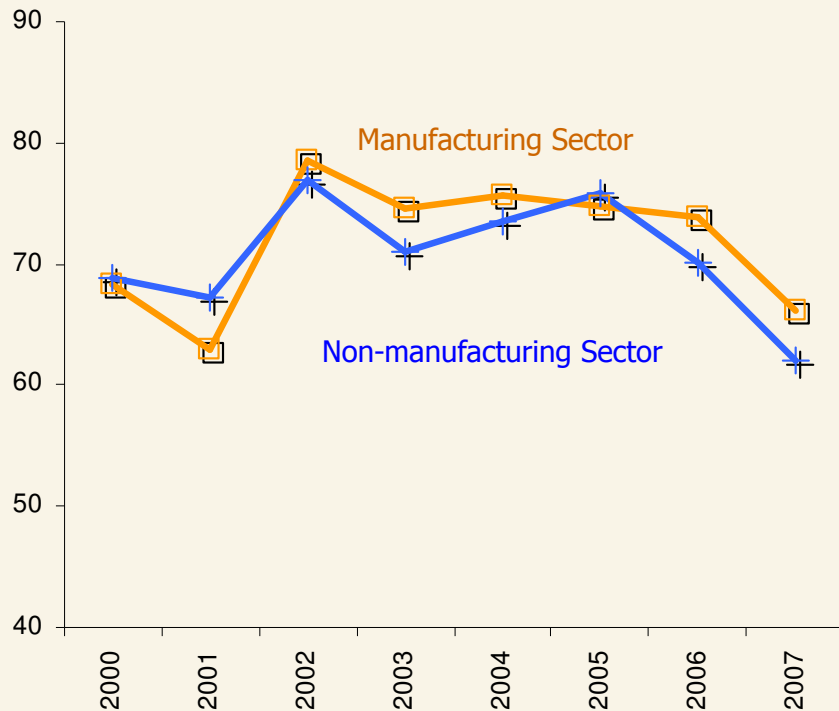
*As of August 2008
Source: CBT



Corporate Sector

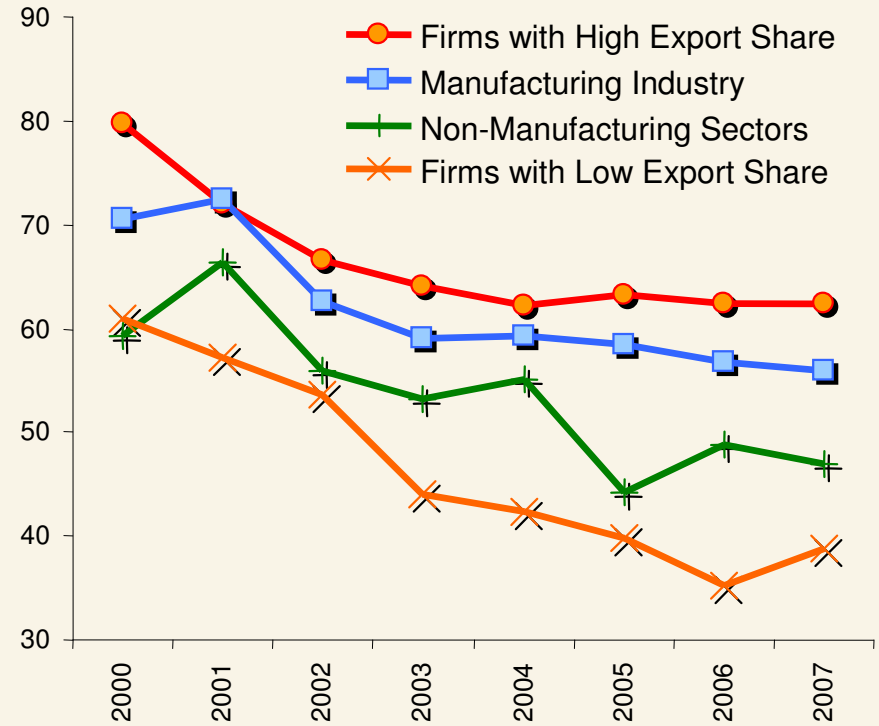
A significant amount of the debt of the real sector displayed a trend towards the Turkish lira and its maturity extended in recent years.

Ratio of Short Term Debt of the Real Sector to Total Debt *
(2000-2007, percent)



* According to days to maturity
Source: CBT

Debt Dollarization of the Real Sector
(2000-2007, percent)



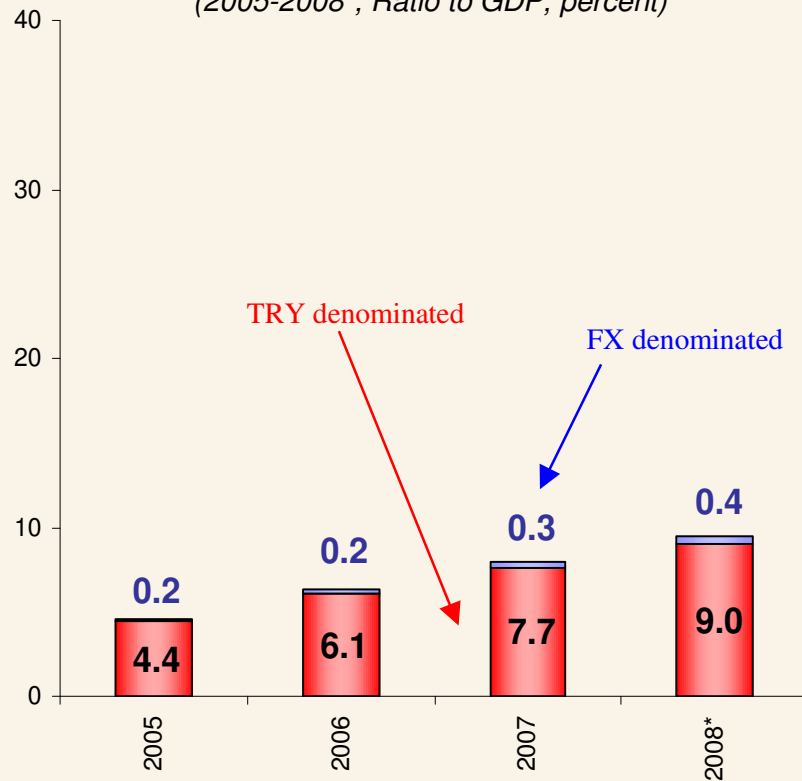
Source: CBT



Households

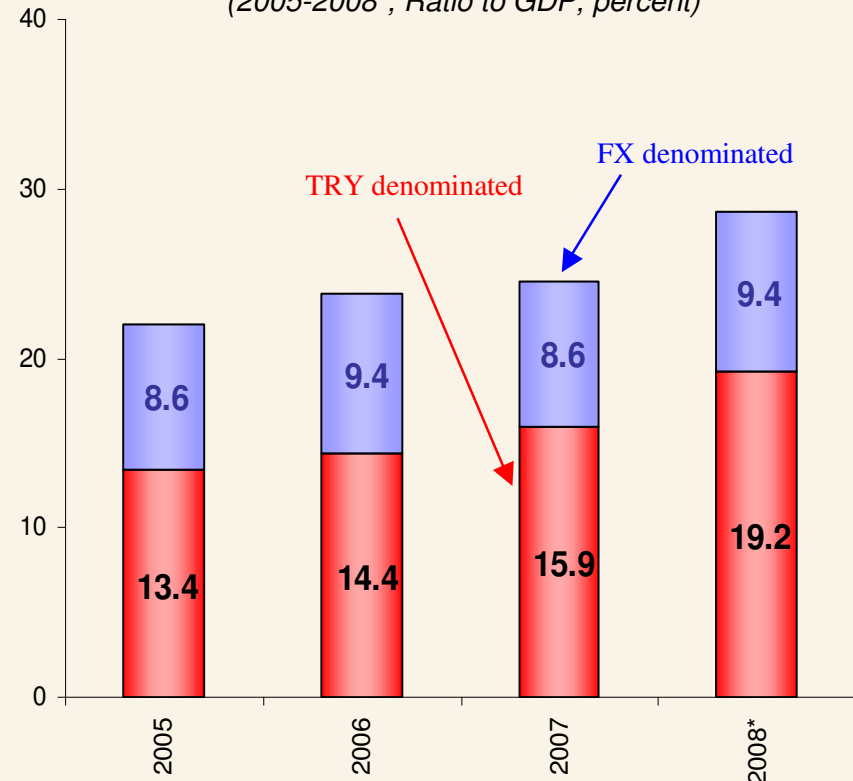
The ratios of household indebtedness and FX-denominated consumer loans to total consumer loans are at low levels.

Composition of Consumer Loans
(2005-2008*, Ratio to GDP, percent)



*As of 14 November 2008
Source: CBT

Composition of Savings Deposits
(2005-2008*, Ratio to GDP, percent)



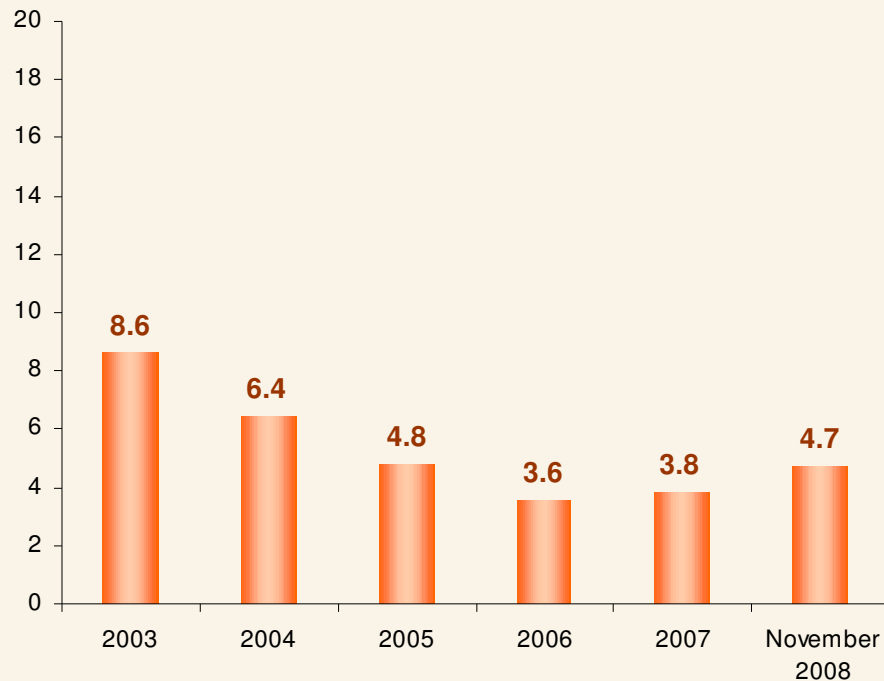
*As of 14 November 2008
Source: CBT



Households

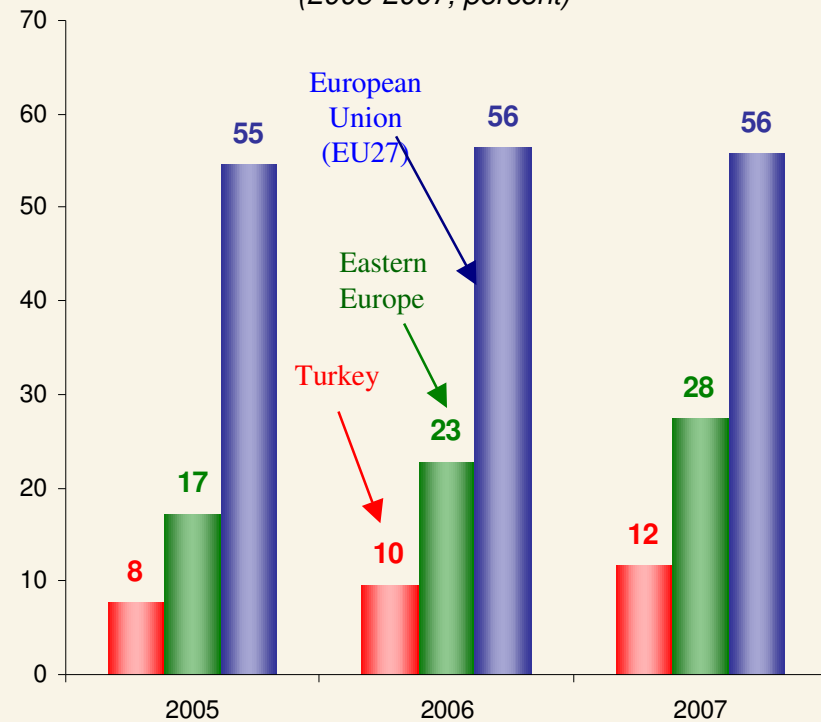
**FX-indexed consumer loans constitute 4.7 percent of total consumer loans.
Household indebtedness ratio is at a low level compared to the EU and Eastern European countries.**

Ratio of FX-Indexed Consumer Loans to Total Consumer Loans
(2003 – November 2008, percent)



Source: CBT

Ratio of Household Liabilities to GDP
(2005-2007, percent)



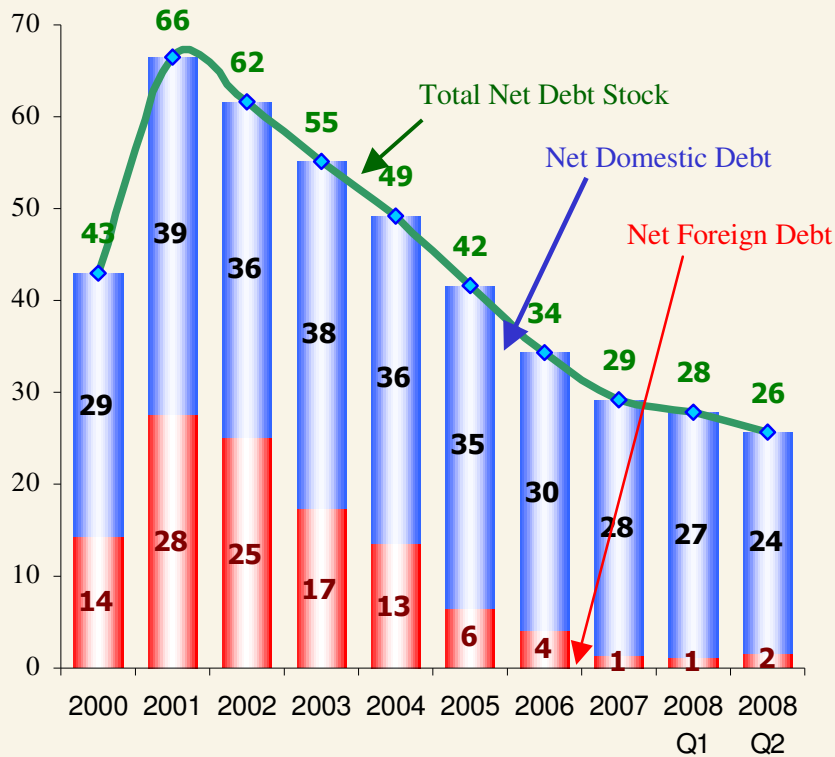
Source: European Central Bank, CBT



Public Sector

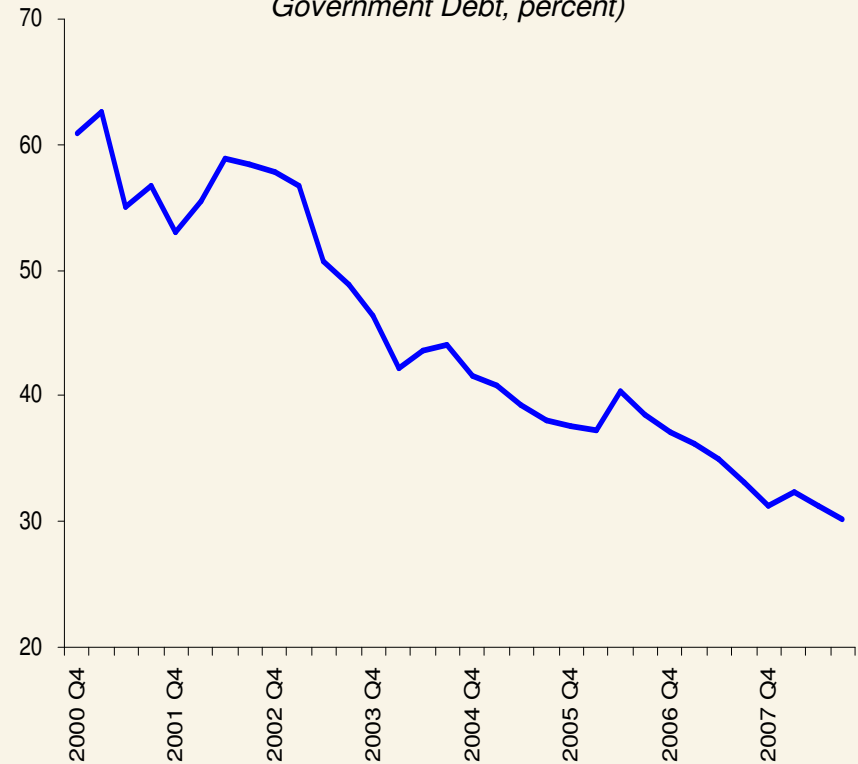
Thanks to robust fiscal policy implemented since 2001, public sector has become more resilient to external shocks.

Public Sector Net Debt Stock
(2000 – 2008 Q2, Ratio to GDP, percent)



Source: Treasury

Central Government FX-Denominated and FX-Indexed Debt Stock
(2000 Q4 – 2008 Q3, Ratio to Total Central Government Debt, percent)

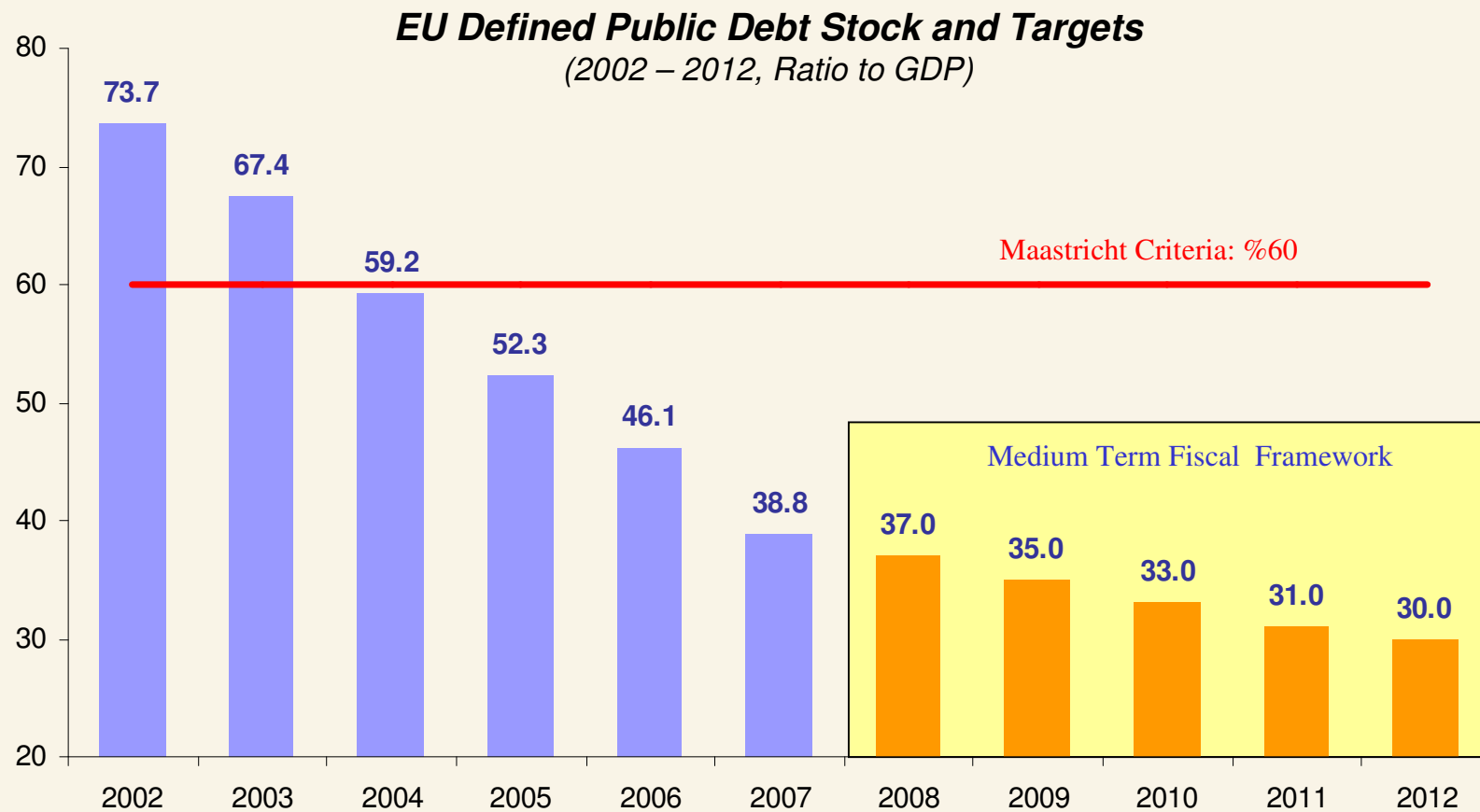


Source: Treasury, CBT



Public Sector

Since 2004, Turkey's public debt stock to GDP ratio has stood well below the Maastrich criteria which is 60 percent



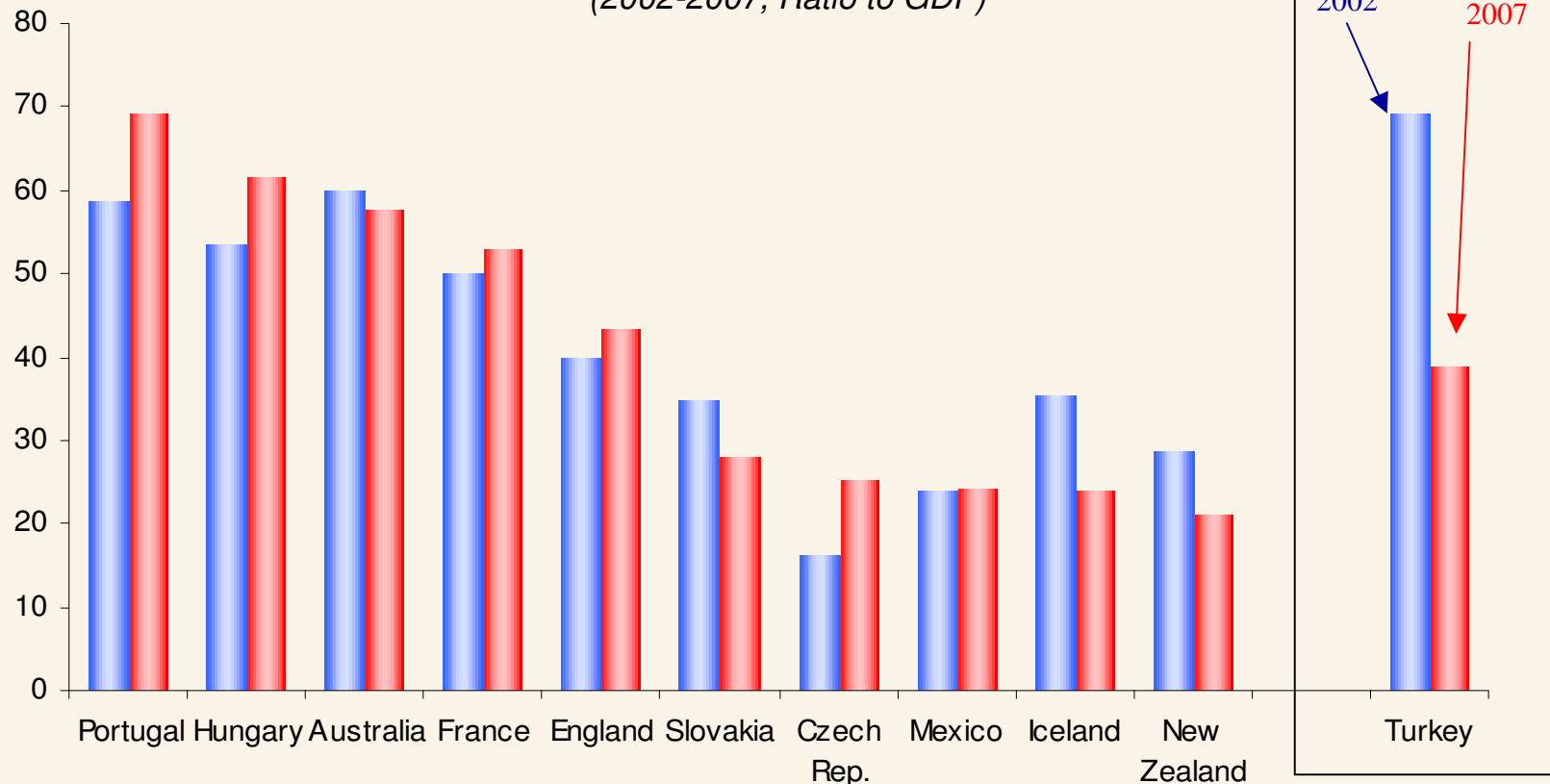
Source: Treasury



Public Sector

In the 2002-2007 period, Turkey has been one of the best performers among OECD economies in reducing Central Government Debt.

Total Central Government Debt
(2002-2007, Ratio to GDP)



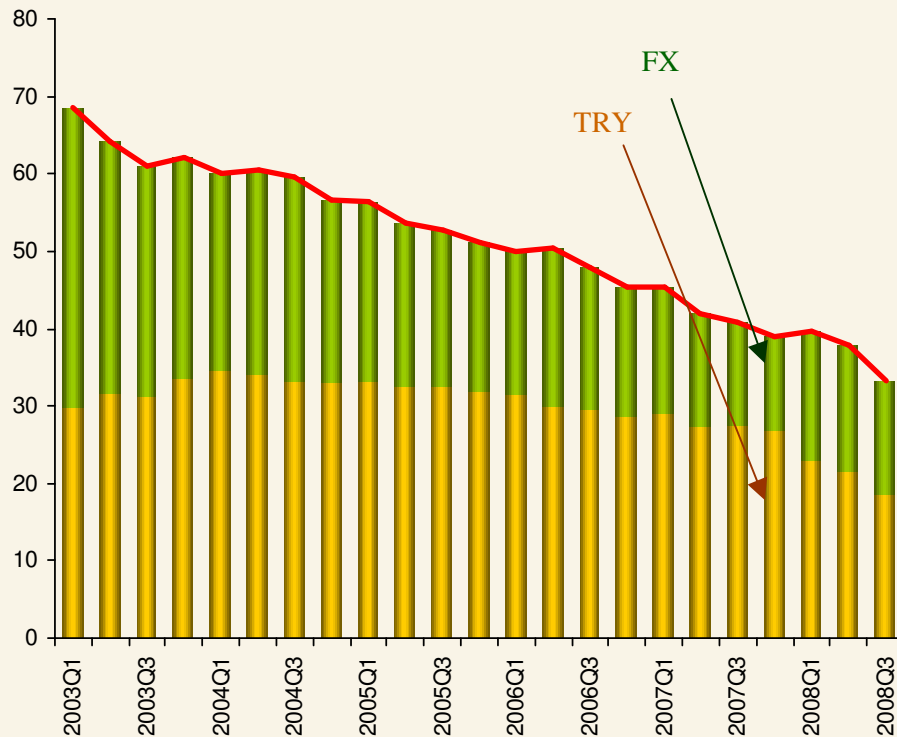
Source: Treasury, Ministry of Finance, IMF, World Bank, CBT



Public Sector

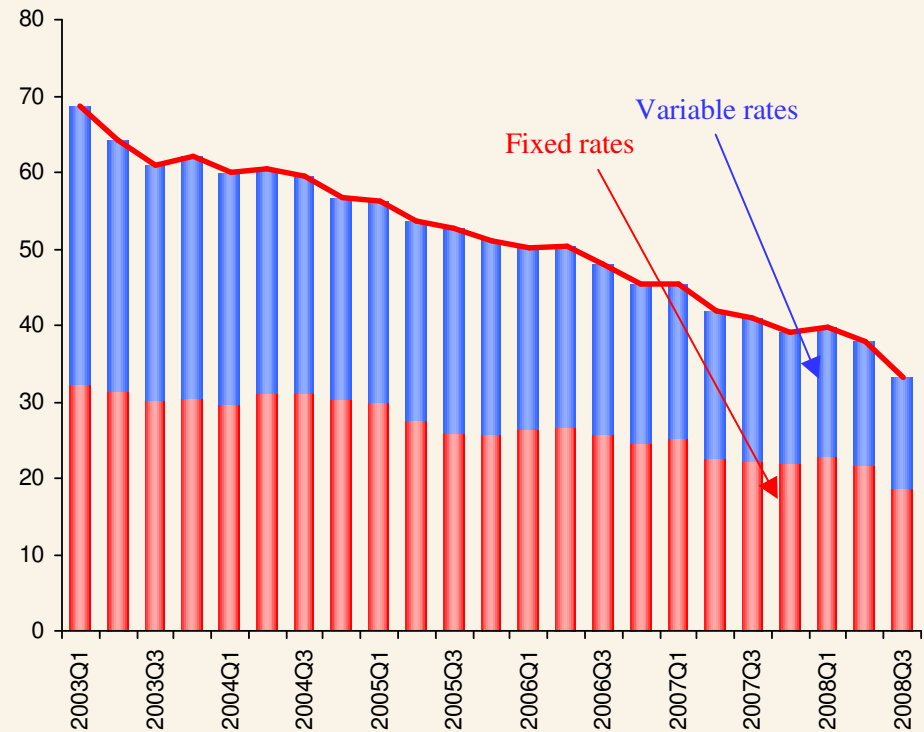
The fact that public sector borrows in domestic currency at fixed rates reduces the risk exposure of the budget.

Composition of Central Government Debt
(2003 Q1-2008 Q3*, ratio to GDP, percent)



* Provisional
Source: Treasury, CBT

Composition of Central Government Debt
(2003 Q1-2008 Q3*, ratio to GDP, percent)



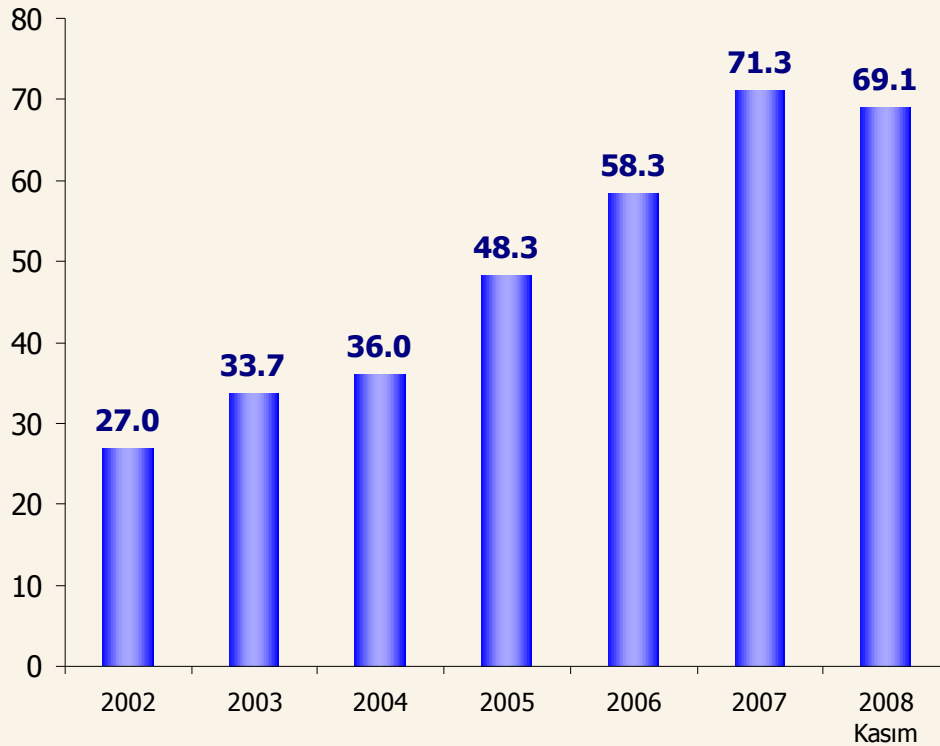
* Provisional
Source: Treasury, CBT



Central Bank Foreign Exchange Reserves

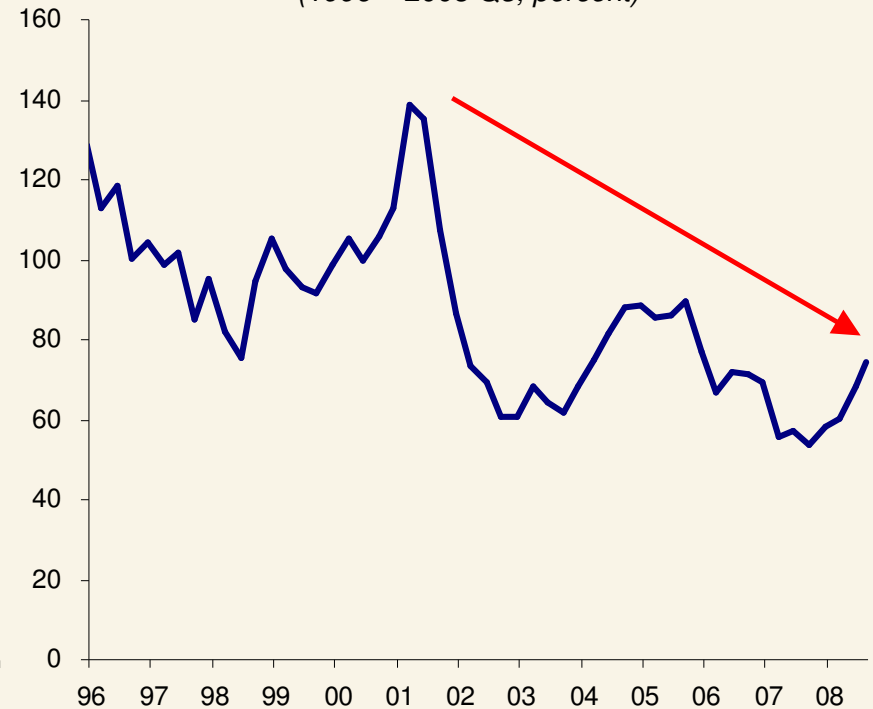
Strong foreign exchange reserve position helps eliminate the unfavorable effects of potential shocks and contribute to boost the confidence in the economy.

Central Bank FX Reserves
(2002 – November 2008, billion USD)



Source: CBT

Ratio of Short Term Foreign Debt to Central Bank FX Reserves
(1996 – 2008 Q3, percent)



Source: CBT



III. Inflation Developments, Forecasts and Risks

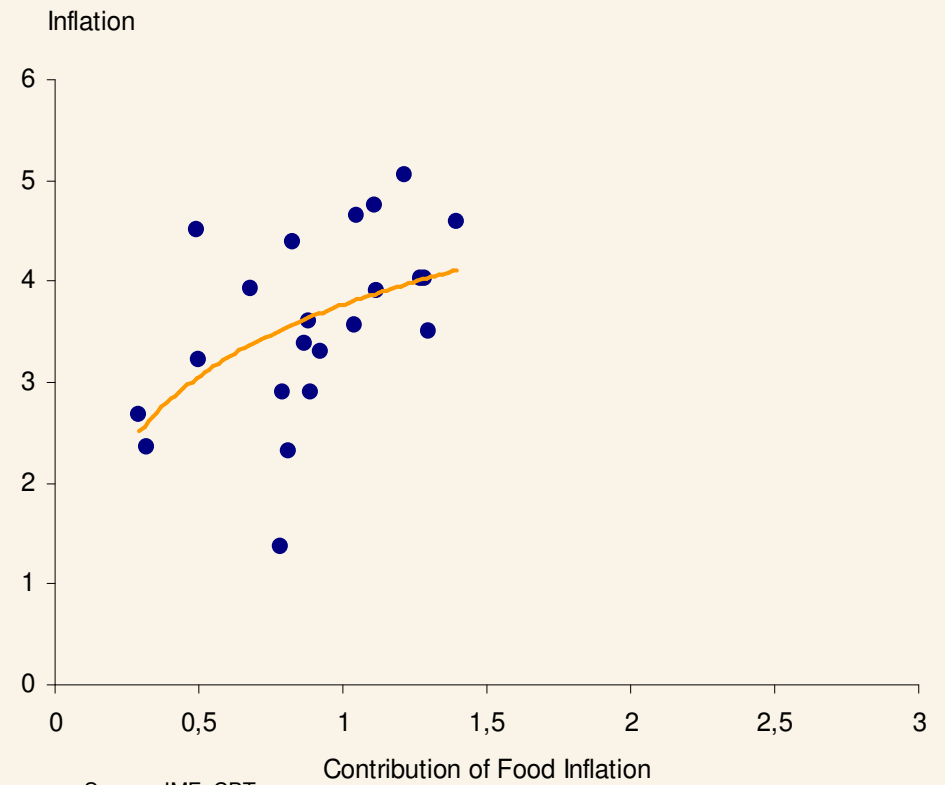
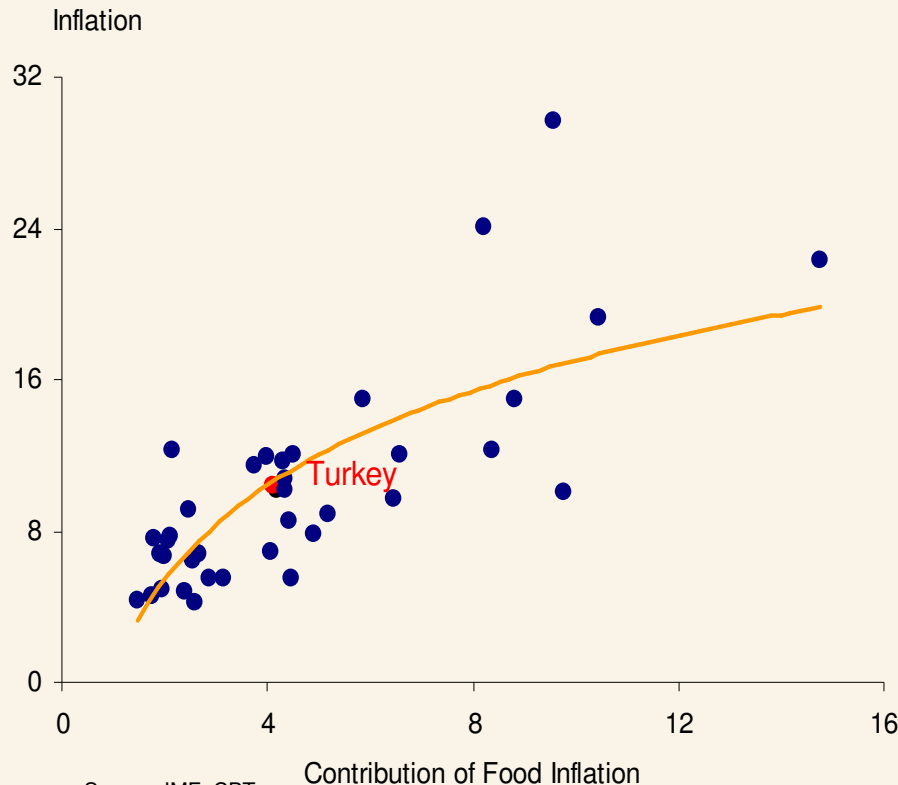


World Food Inflation

The pass-through from food prices to inflation is higher in developing countries compared to that in developed countries.

Contribution of Food Prices to Inflation in Developing Countries
(2007 Q2- 2008 Q2, percentage change)

Contribution of Food Prices to Inflation in Developed Countries
(2007 Q2 - 2008 Q2, percentage change)



Source: IMF, CBT

Source: IMF, CBT

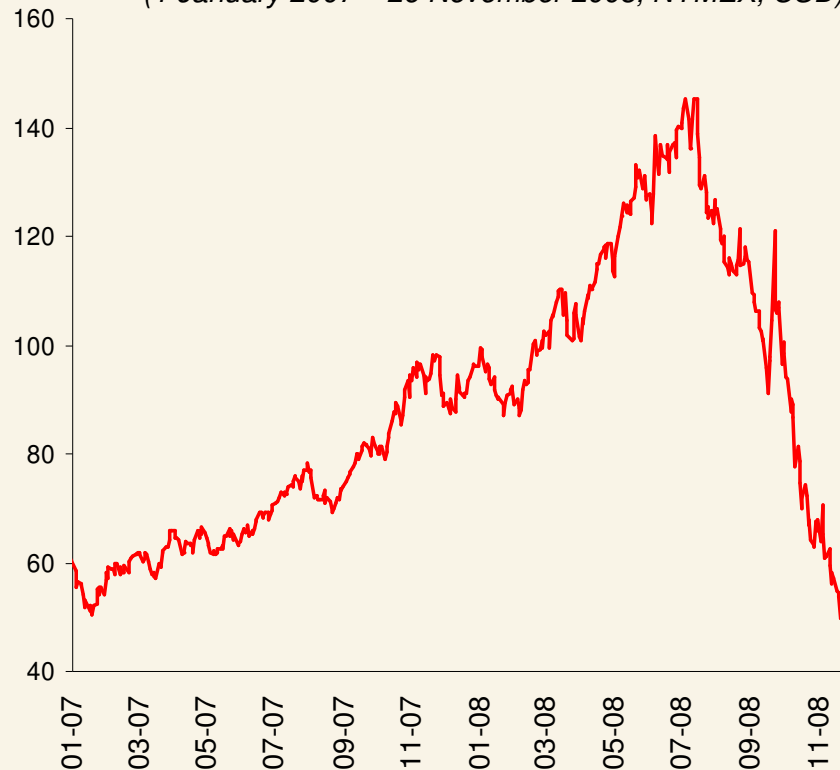


Global Oil and Food Prices

High increases observed in the commodity prices until mid-2008 have ceased recently, giving way to a rapid decline.

Crude Oil Prices

(1 January 2007 – 26 November 2008, NYMEX, USD)



Source: Bloomberg

Wheat Prices

(1 January 2007 – 26 November 2008, USD)

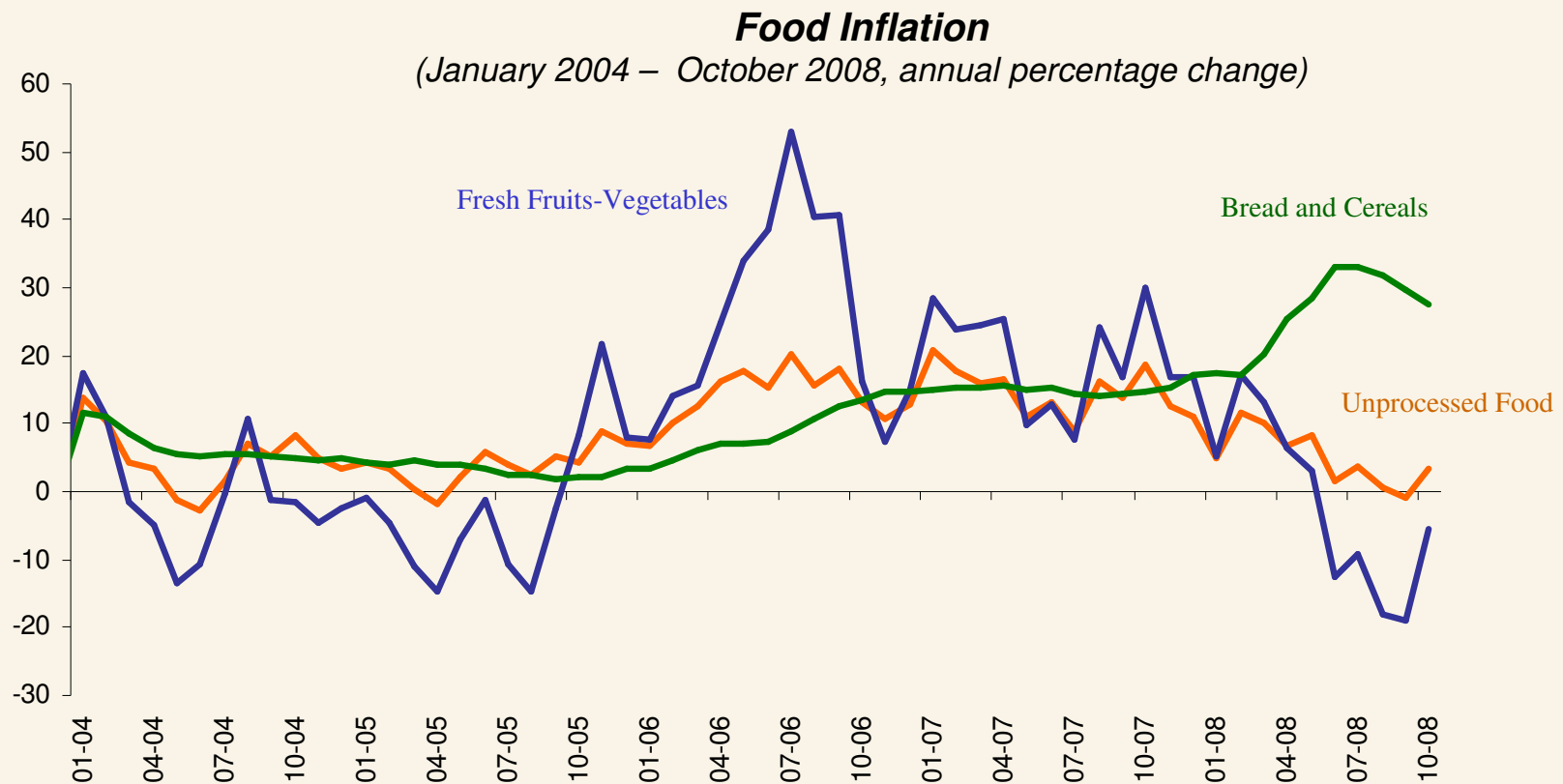


Source: Bloomberg



Food Inflation in Turkey

It suggests that the downward tendency in the annual food inflation rate since mid-2008 will continue during the rest of the year.

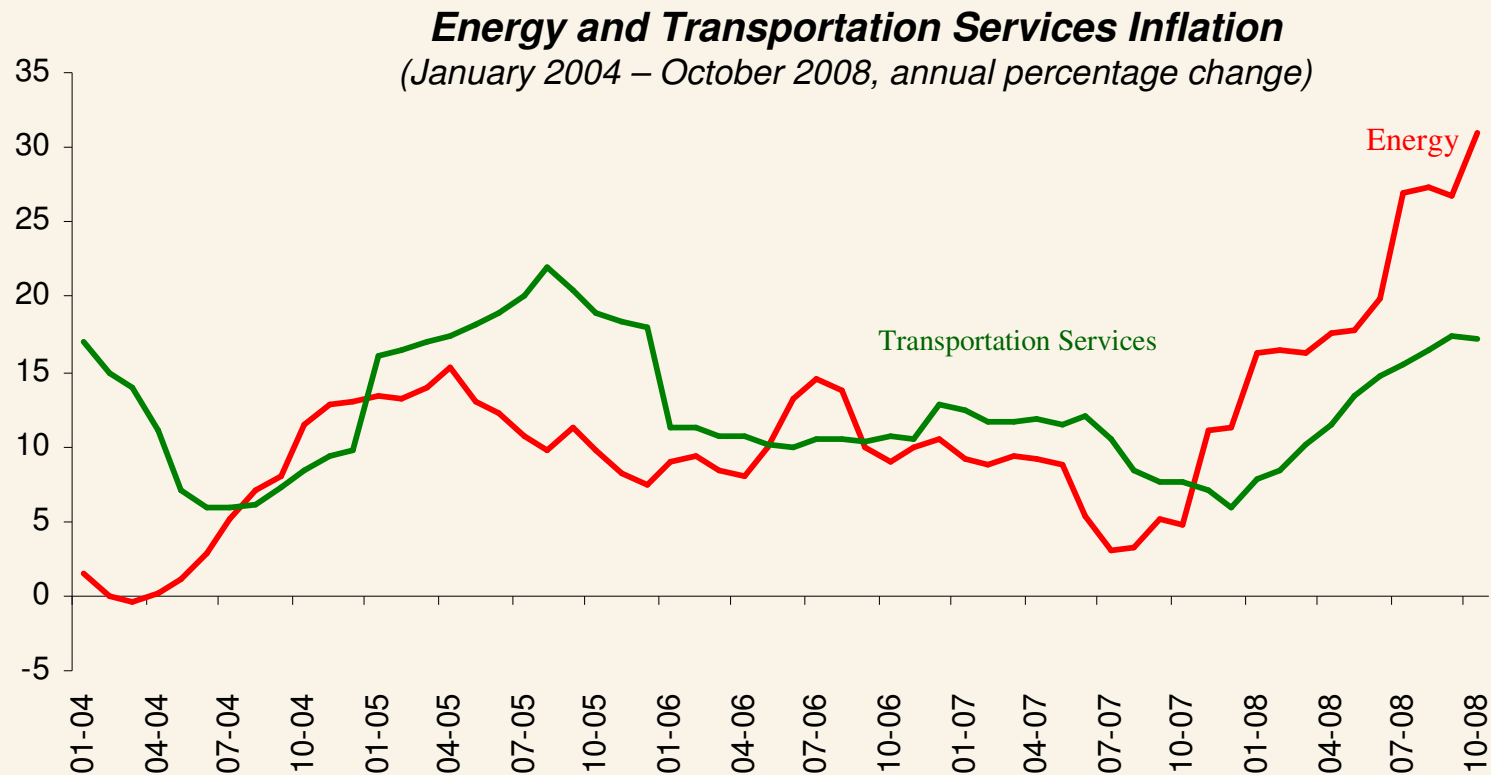


Source: TURKSTAT, CBT



Energy Inflation in Turkey

Increases in oil and other energy prices, which reached record high levels in 2008, led energy inflation to rise to 30%.



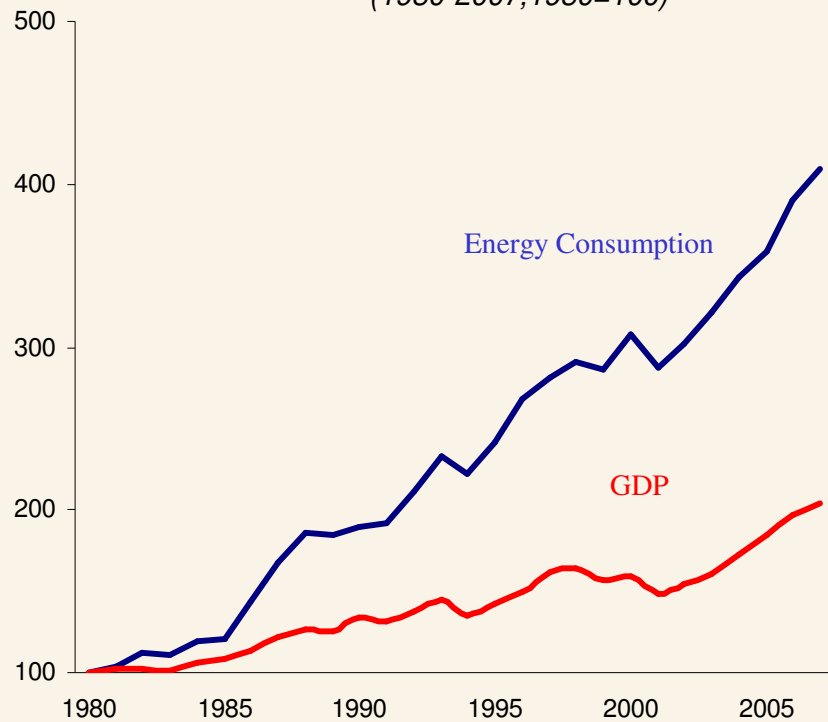
Source TURKSTAT, CBT



Energy Consumption Efficiency

Turkish economy depends on the supply of energy in foreign countries, therefore efficiency in energy consumption is crucial.

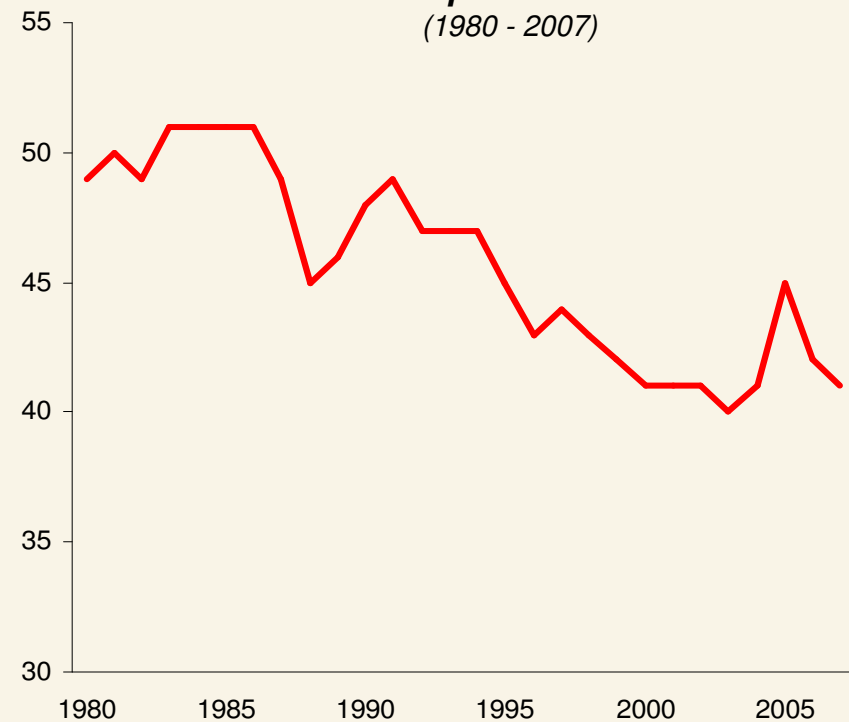
Energy Consumption* and GDP Growth rate
(1980-2007, 1980=100)



* Total energy consumption comprises of natural gas, coal, hydroelectric and nuclear energy.

Source: BP Statistical Review 2008, IMF, CBT

Turkey's Rank in the World Energy Consumption/GDP List*
(1980 - 2007)



*The countries have been listed according to their energy consumption in descending order.

Number of Countries: 56

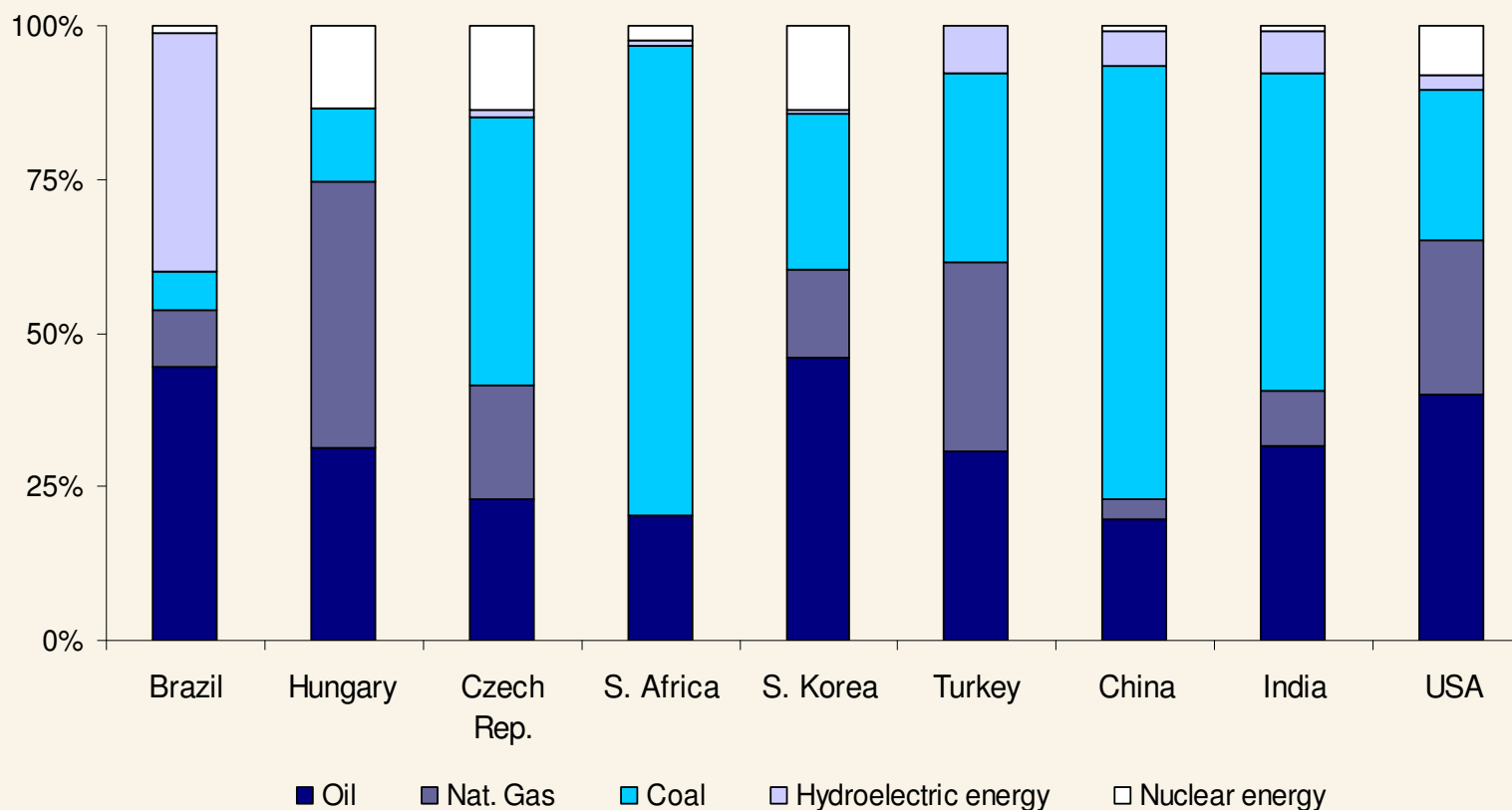
Source: BP Statistical Review 2008, IMF, CBT



Composition of Energy Consumption

Distribution of Energy Consumption According to Energy Sources in Selected Countries

(As of 2007, million ton oil equivalent)



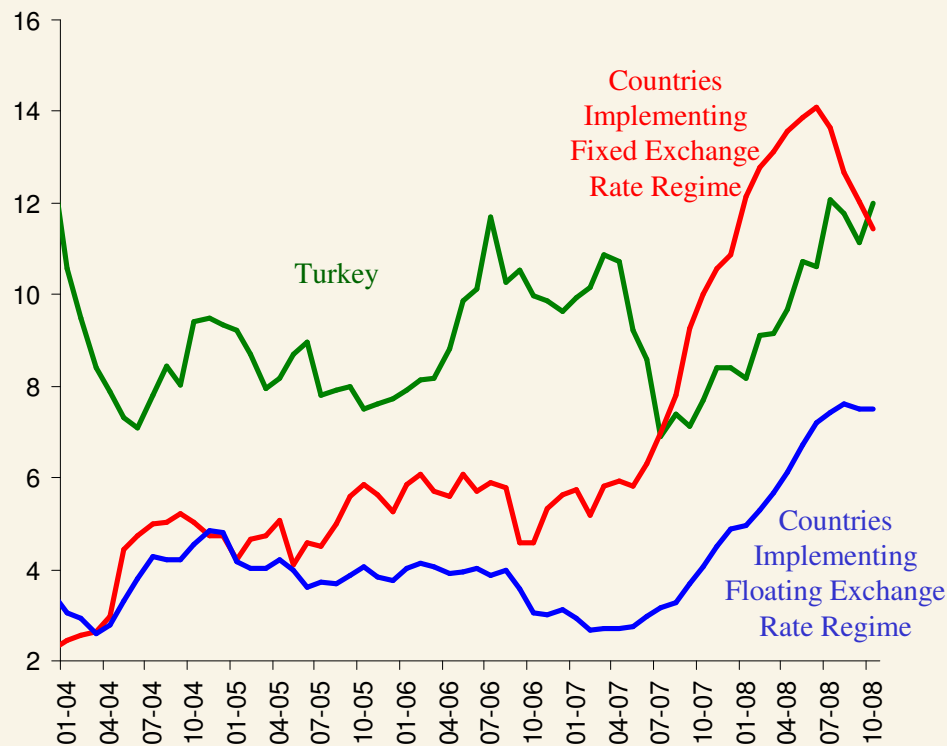
Source: BP Statistical Review 2008, CBT



Comparative Inflation Developments

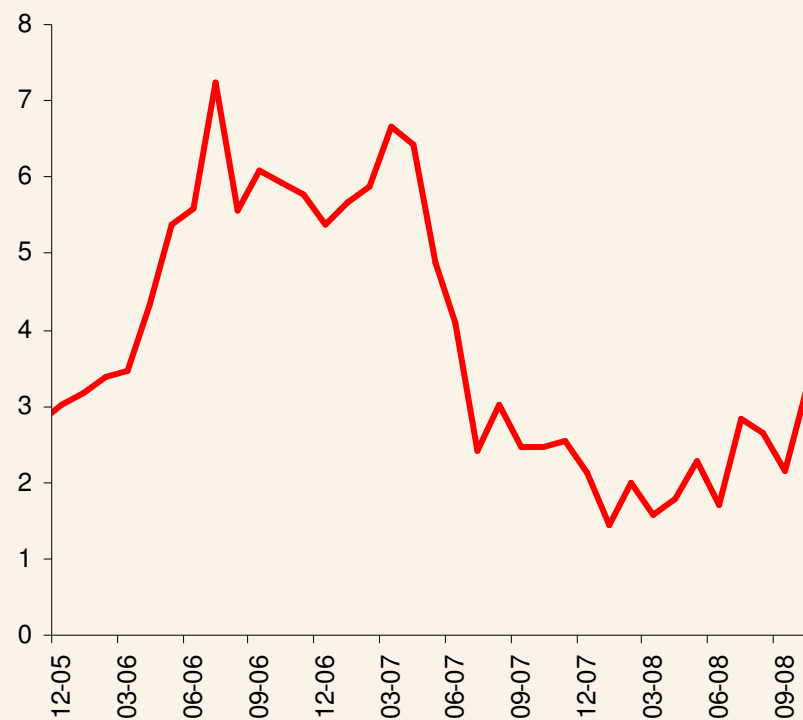
Supply-side shocks observed in commodity prices, particularly in energy and food prices, led to hikes in inflation rates around the world throughout 2008. These increases are most obvious in countries implementing fixed exchange rate regime.

Exchange Rate Regime and Inflation Developments
(January 2004 – October 2008, annual percentage change)



Source: Central Banks, TURKSTAT, CBT

Inflation Difference Between the Developing Countries Implementing Inflation Targeting and Turkey
(December 2005 - October 2008, annual percentage change)



Source: Central Banks, TURKSTAT, CBT

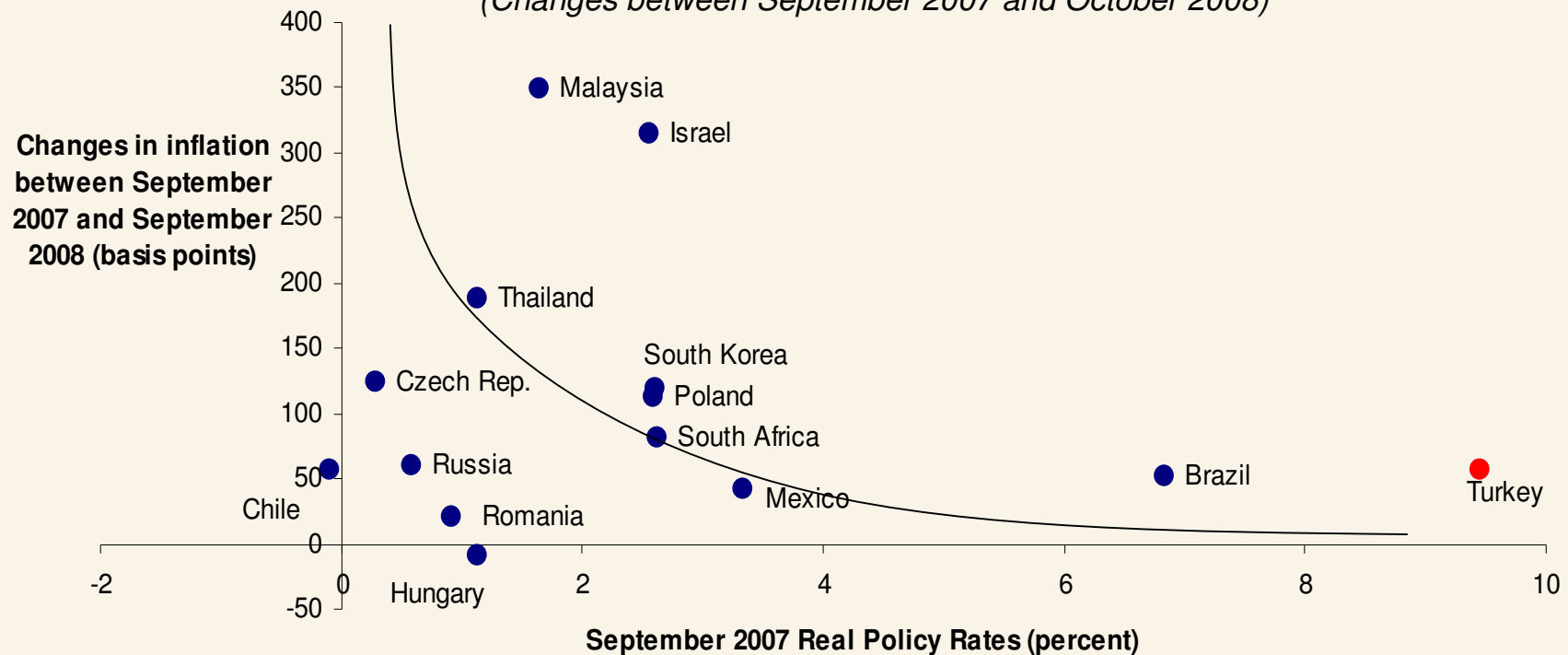


Inflation and Policy Rates

Developing countries that followed a tight monetary policy in 2007 were in better position to resist inflationary pressures in 2008 as compared to countries that followed accomodative monetary policies.

Changes in the Inflation and Policy Rates of Developing Countries

(Changes between September 2007 and October 2008)



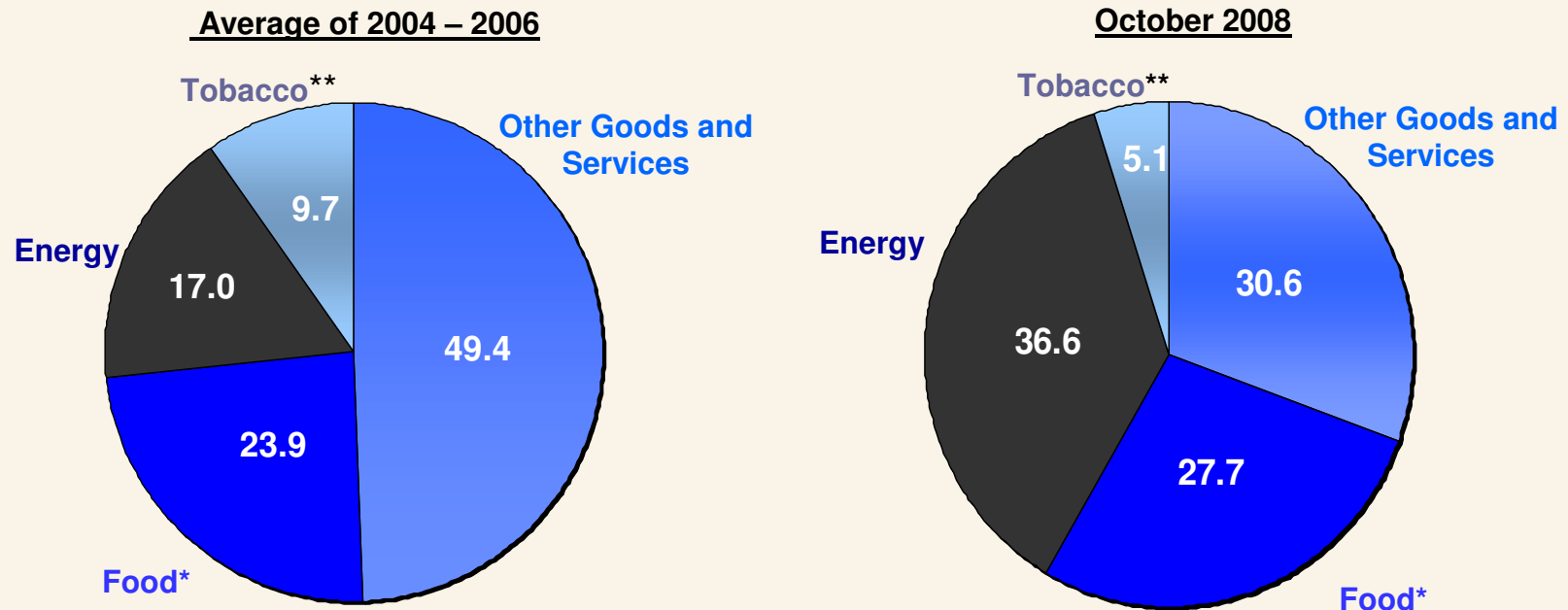
Source: Central Banks, CBT



Inflation Developments in Turkey

The items outside the domain of monetary policy such as food prices, energy prices and administered prices contributed to annual inflation by 51% in 2004-2006 period, whereas their contribution rose to 69% in October 2008.

Components of Year-on-year Inflation (percent share)



Source: TURKSTAT, CBT

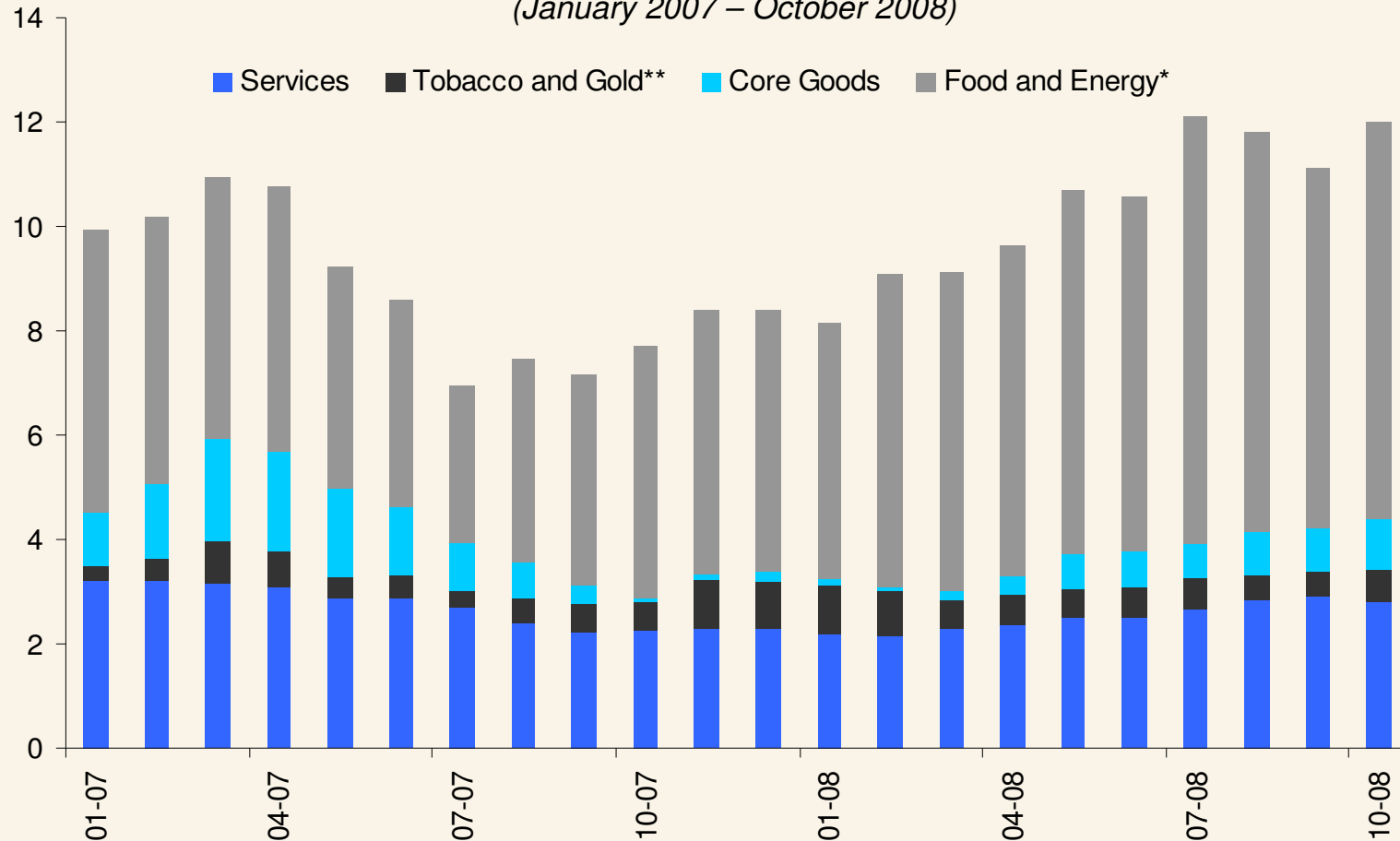
* Food: Food and soft drinks group

** Tobacco: Tobacco products and alcoholic beverages



Inflation Developments in Turkey

Contribution to Year-on-year Inflation
(January 2007 – October 2008)



* Food: Food and soft drinks group

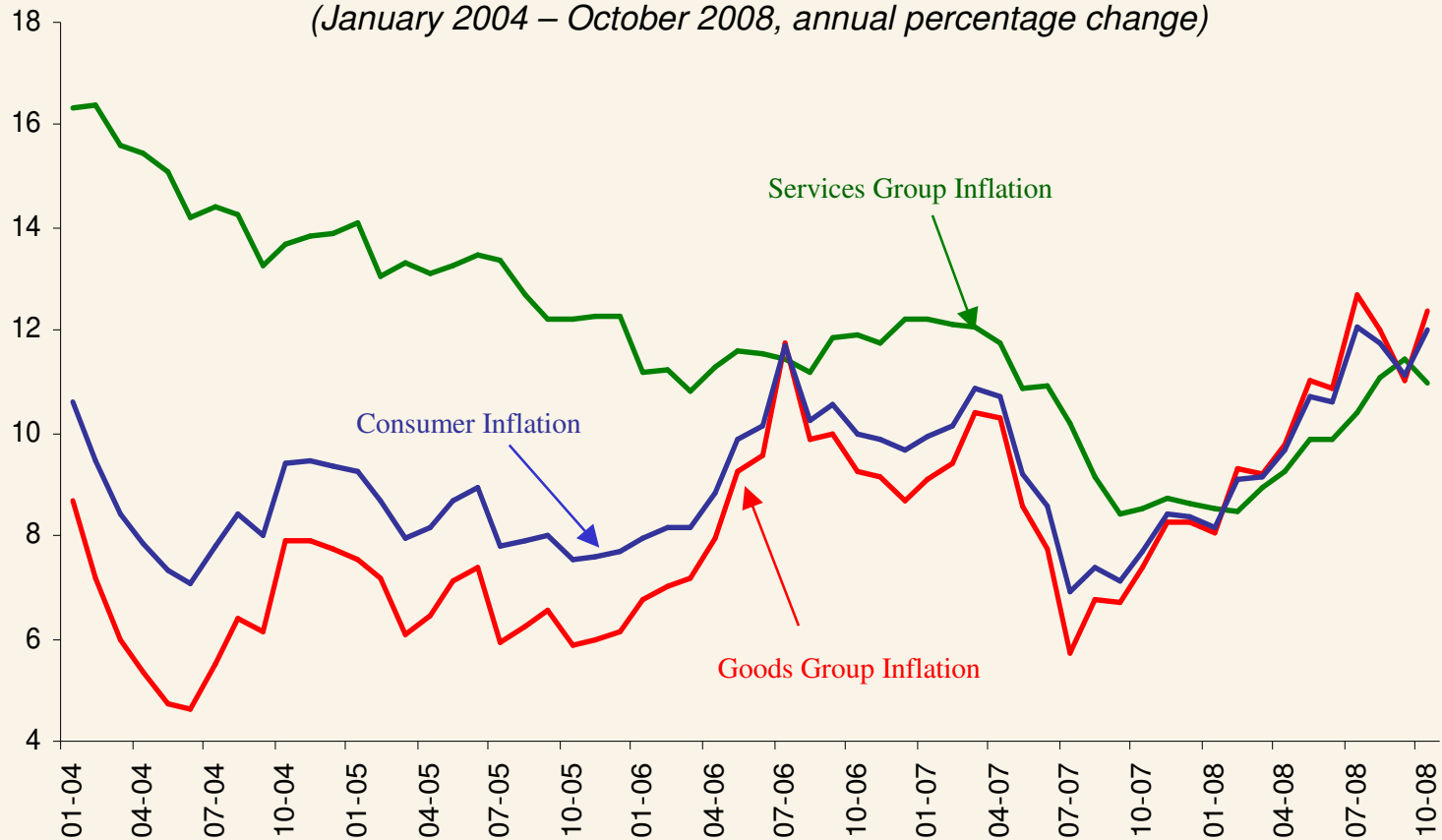
** Tobacco: Tobacco products and alcoholic beverages

Source: TURKSTAT, CBT



Inflation Developments in Turkey

Consumer, Services and Goods Group Inflation
(January 2004 – October 2008, annual percentage change)



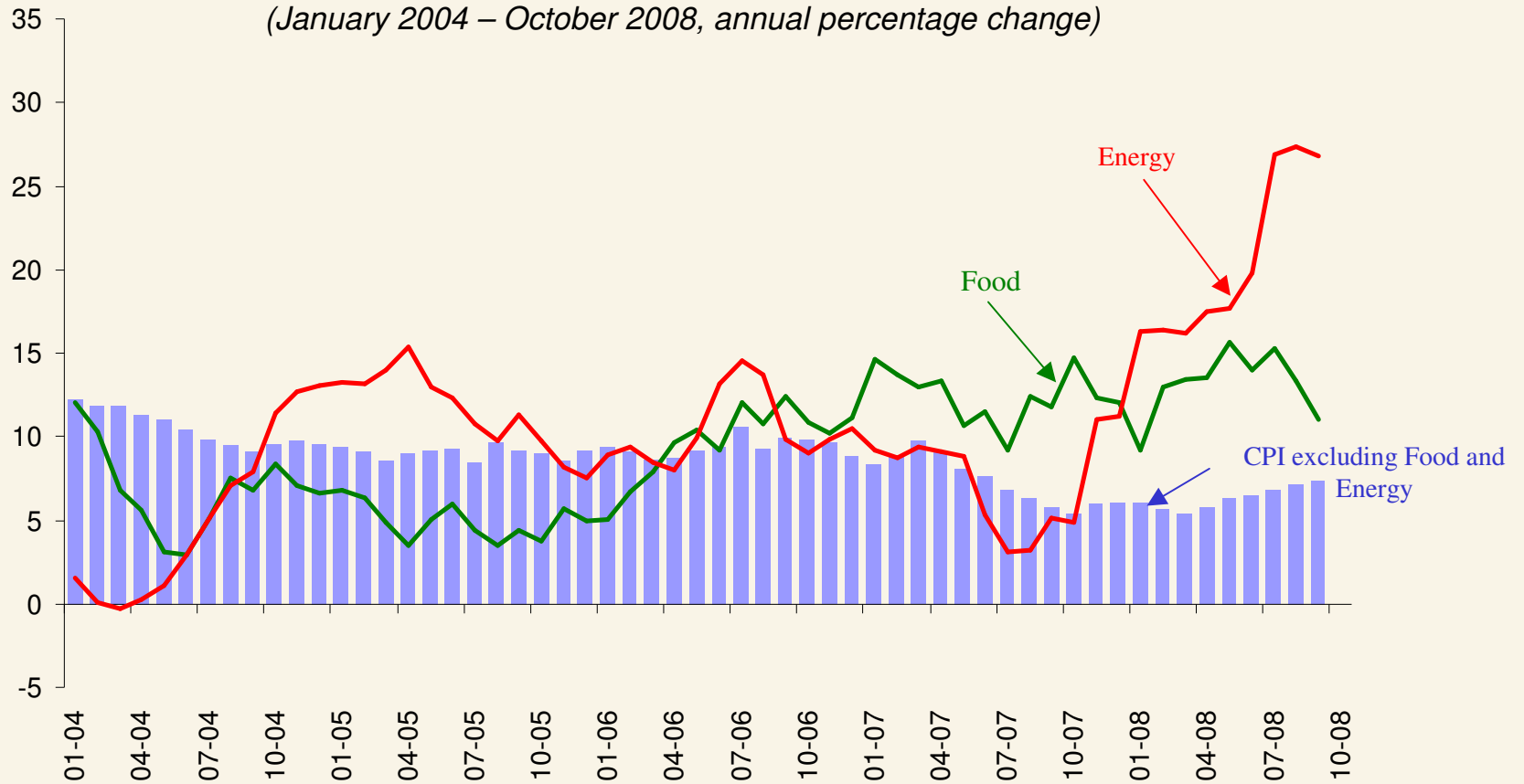
Source: TURKSTAT, CBT



Inflation Developments in Turkey

Food, Energy, and Core Inflation

(January 2004 – October 2008, annual percentage change)

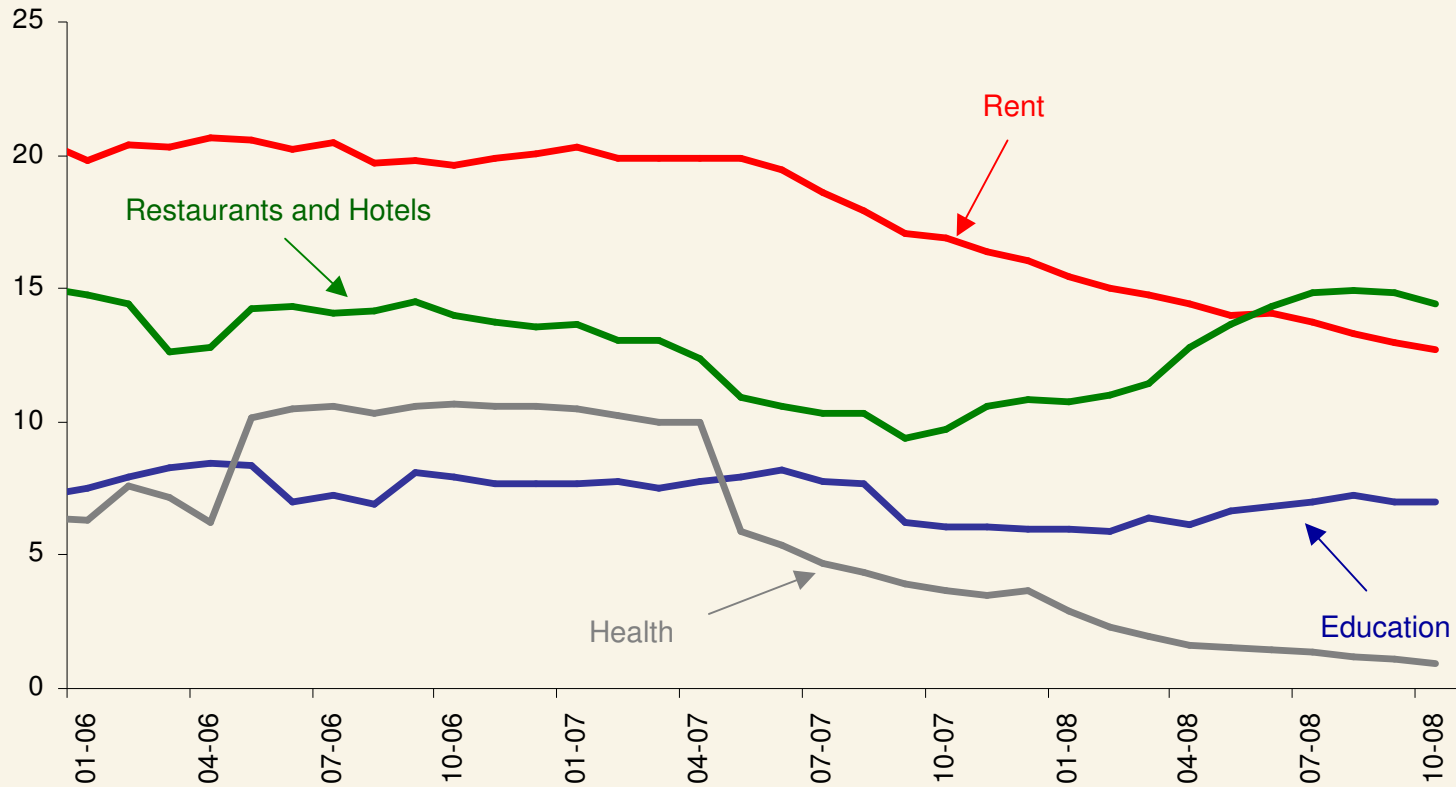


Source: TURKSTAT, CBT



Inflation Developments in Turkey

Services Group Inflation and Selected Sub-Items
(January 2006 – October 2008, annual percentage change)



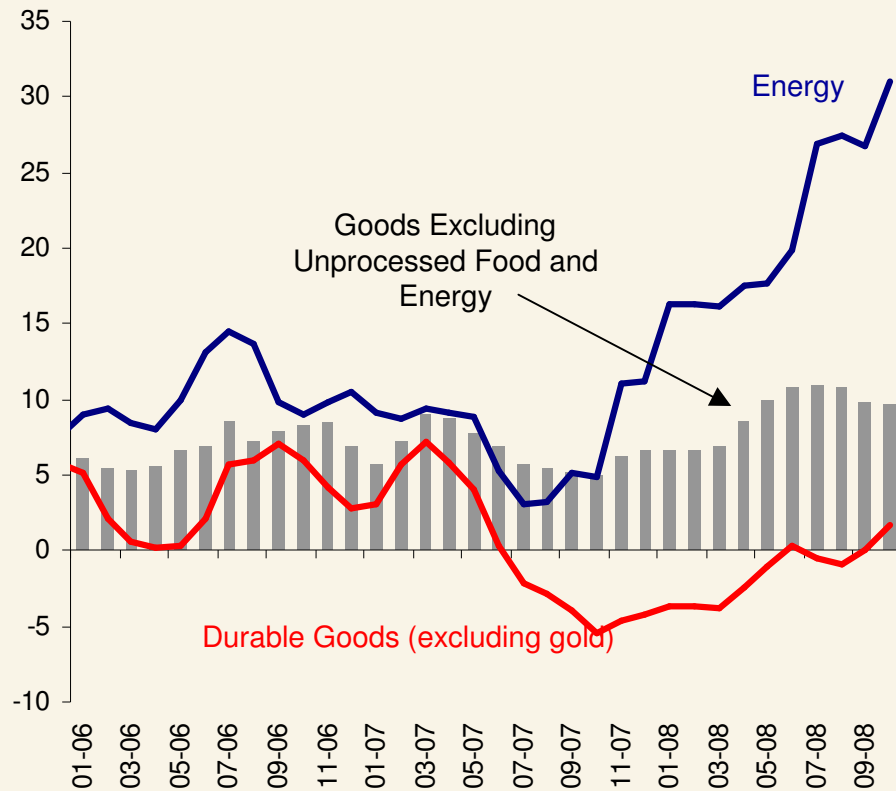
Source: TURKSTAT, CBT



Inflation Developments in Turkey

Goods Group Inflation and Selected Sub-Items

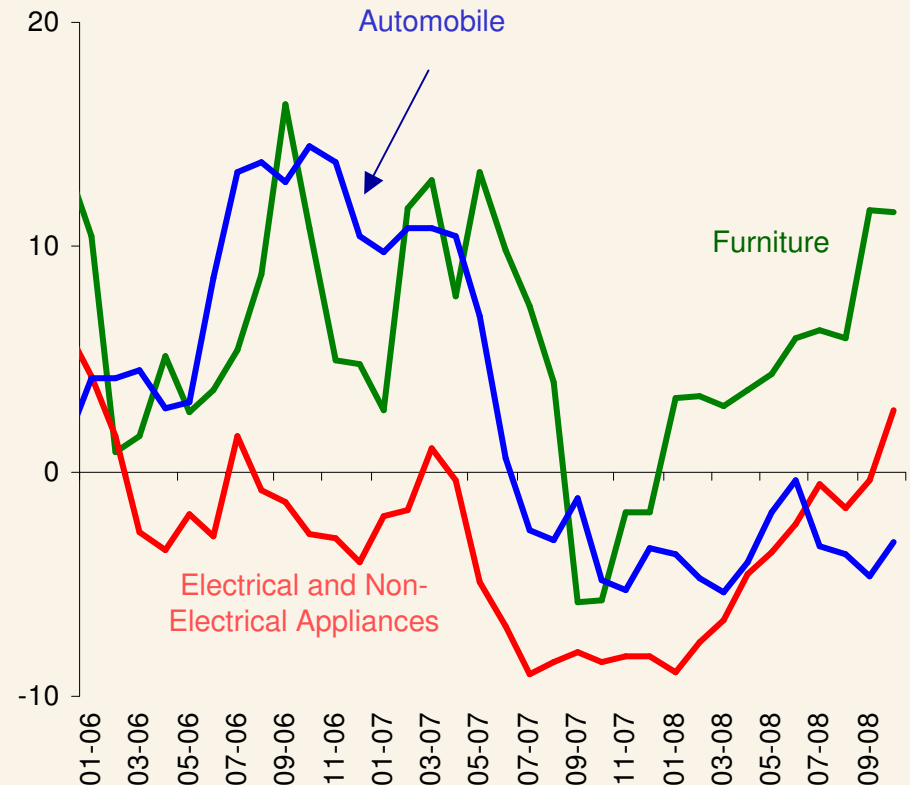
(January 2006 – October 2008, annual percentage change)



Source: TURKSTAT, CBT

Selected Durable Goods

(January 2006 – October 2008, annual percentage change)

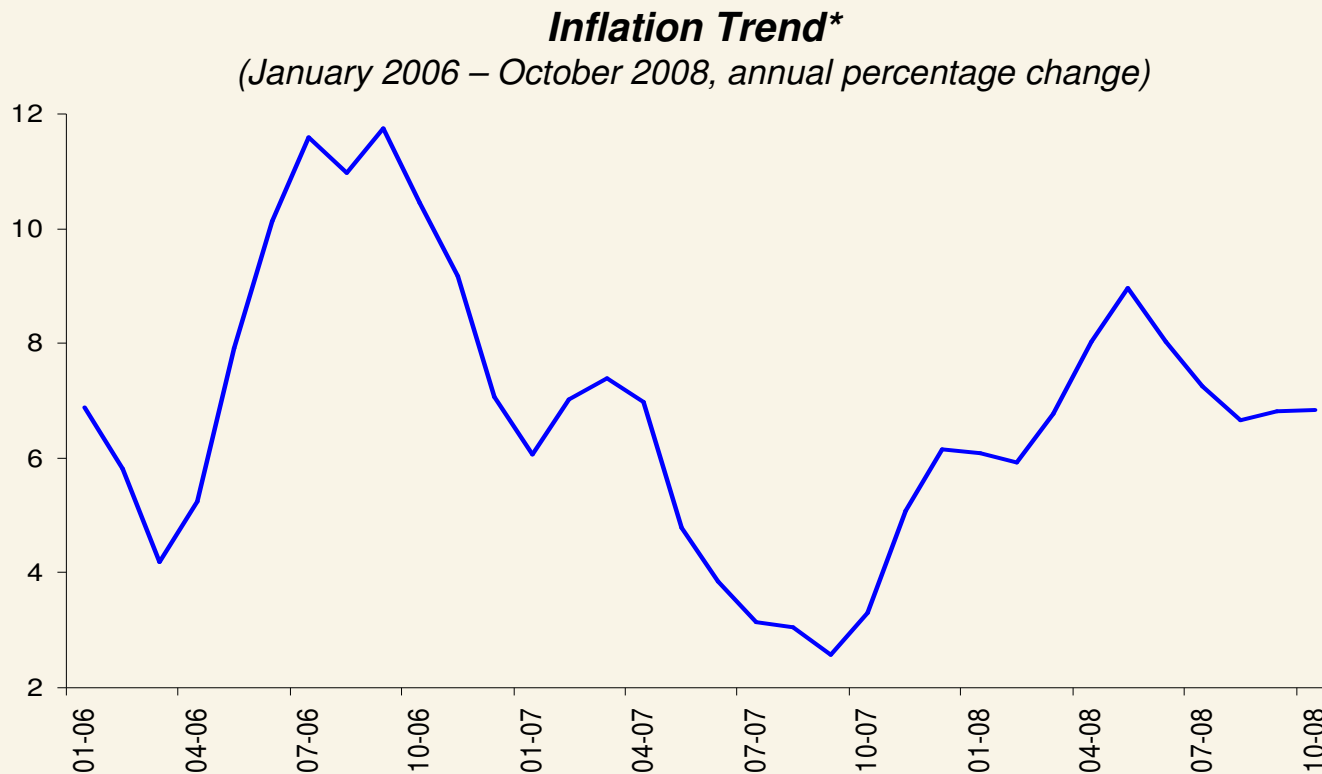


Source: TURKSTAT, CBT



Inflation – Trend

Seasonally adjusted data indicate that the trend of inflation excluding food and energy has moderated in the last period.

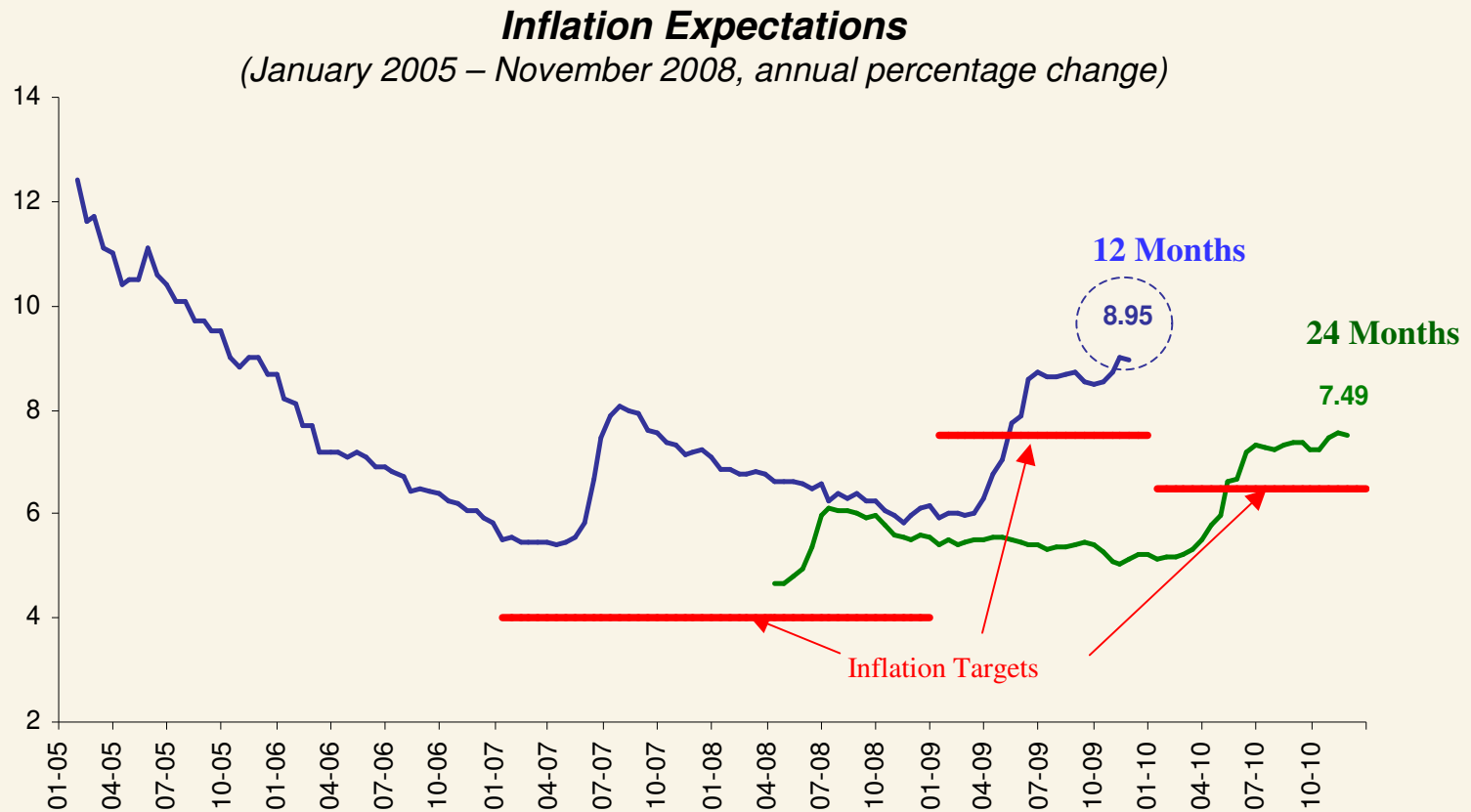


•Annualized 3 –month moving average of the monthly change of the seasonally adjusted index
Source: TURKSTAT, CBT



Inflation Expectations

The tightening in monetary policy, which was implemented jointly with the change in inflation targets, was effective in controlling expectations.



Source: TURKSTAT, CBT



Inflation – Forecasts

The adverse impact of the recent exchange rate movements on inflation is expected to be compensated by the favorable outlook of food prices and declining oil prices.

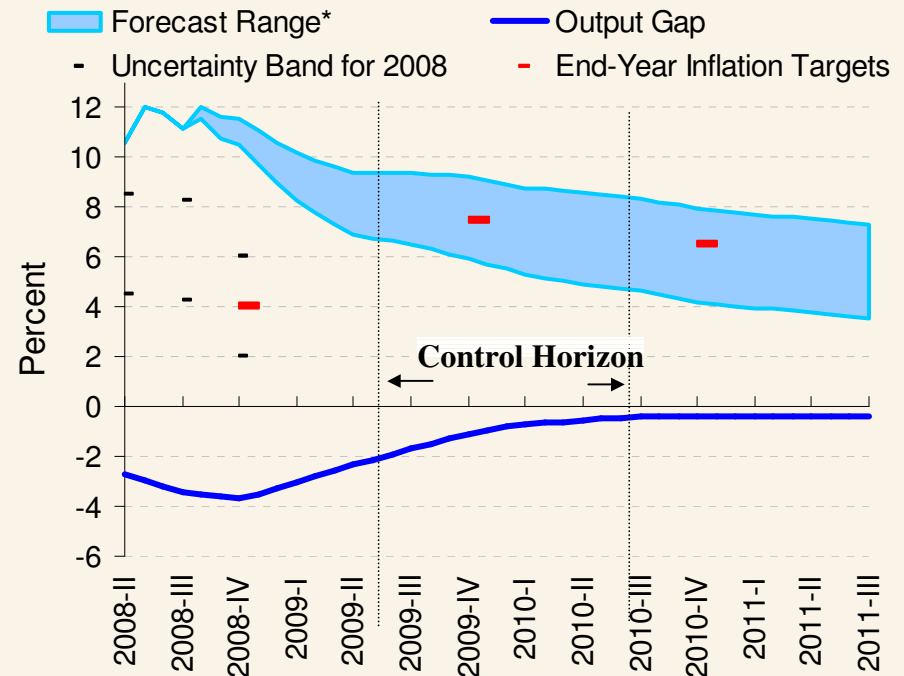
Baseline scenario assumptions:

	2008	2009	2010
Oil Prices	80 \$	80 \$	80 \$
Food Prices	% 11	% 7.5	% 6

Inflation forecasts :

2008	% 11.1
2009	% 7.6
2010	% 6.1
2011 Q3	% 5.4

Inflation and Output Gap Forecast



*The shaded region indicates the 70 percent confidence interval for the forecast.
Source: CBT



Inflation – Risks

First scenario forecasts:

	2008	2009	2010
Oil Prices	110 \$	110 \$	110 \$
Food Prices	% 12.5	% 10	% 9

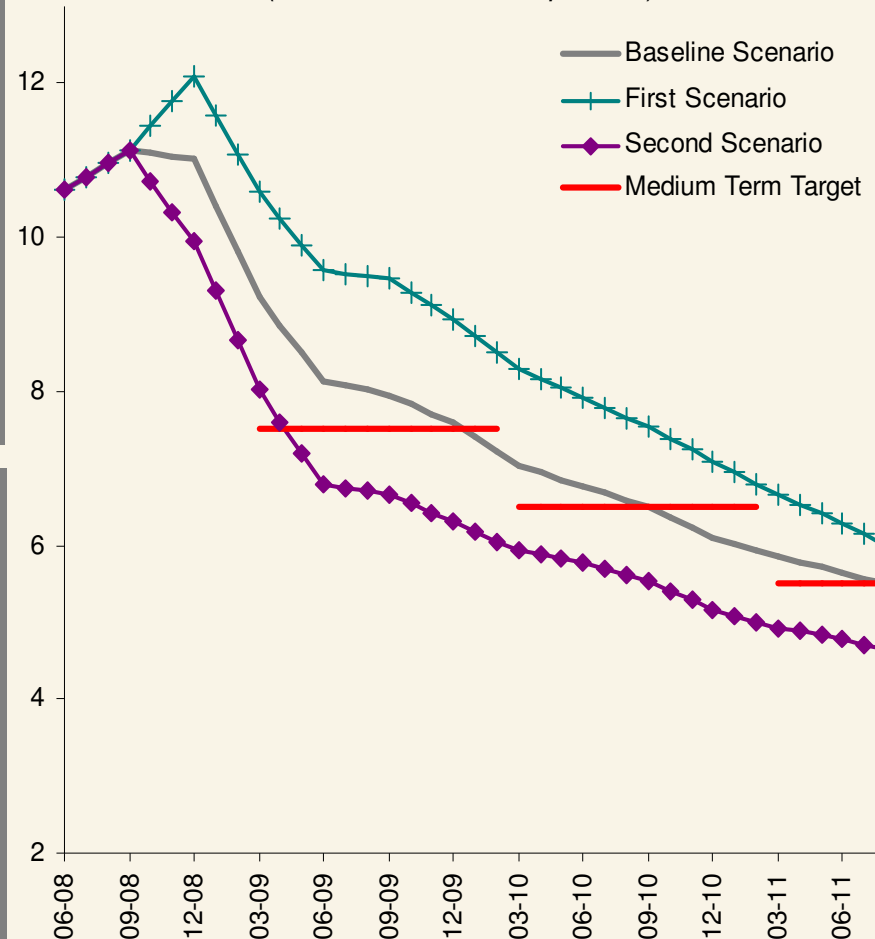
✓ Assuming an appropriate monetary policy response, the forecasts under this scenario suggest that inflation will be 8.9 percent at the end of 2009 and around 7.1 percent at the end of 2010.

Second scenario forecasts:

	2008	2009	2010
Oil Prices	50 \$	50 \$	50 \$
Food Prices	% 9.5	% 5	% 3

✓ Assuming an appropriate policy response, the forecasts under this scenario suggest that inflation will be 6.3 percent at the end of 2009 and around 5.2 percent at the end of 2010.

Inflation Forecast
(2008 Q2 – 2011 Q3, percent)



Source: CBT



IV. Markets

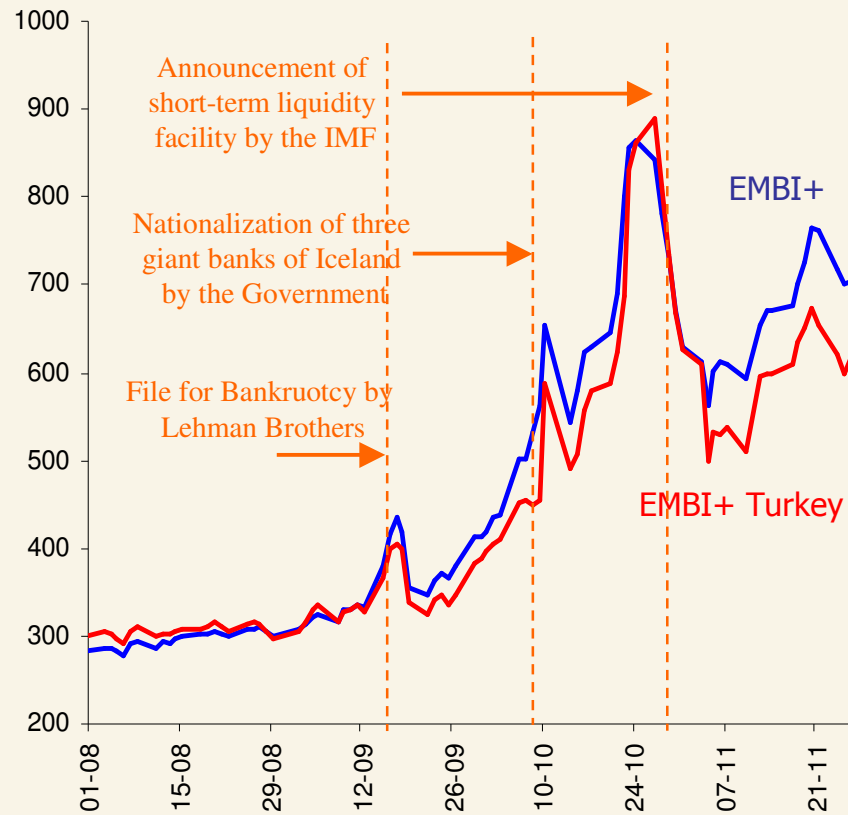


Exchange Rates and Interest Rates

Developments in global finance markets affect Turkey like other countries sensitive to international liquidity conditions.

Risk Indicators

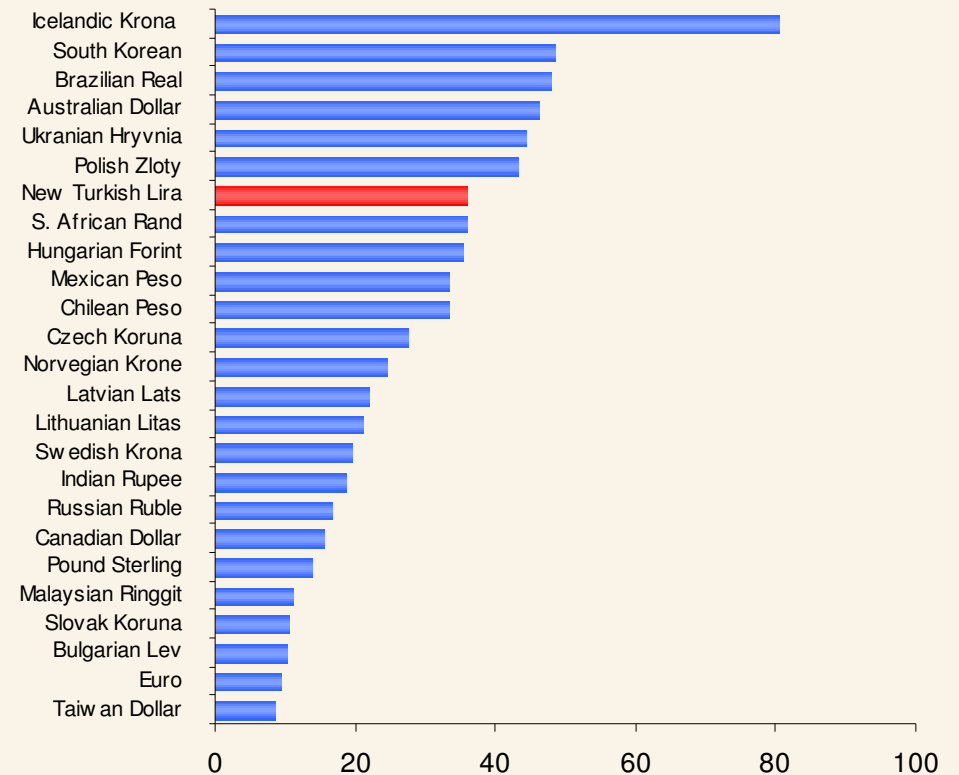
(1 August 2008 - 26 November 2008, basis point)



Source: JP Morgan

Changes in Exchange Rates vs. USD

(Between 1 August 2008 and 27 November 2008, percent)



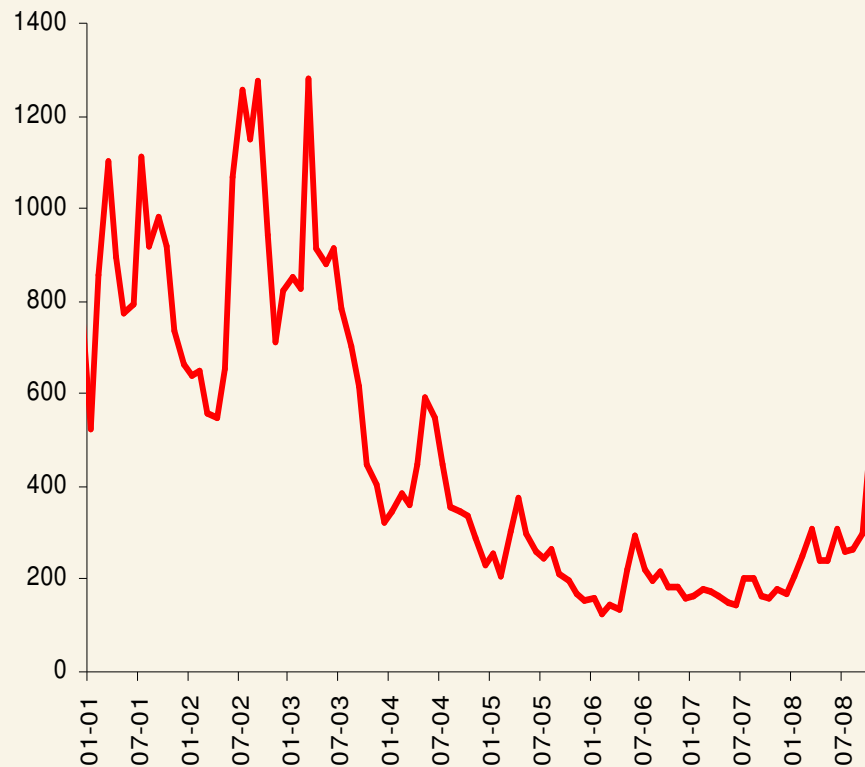
Source: Bloomberg, CBT



Interest Rates

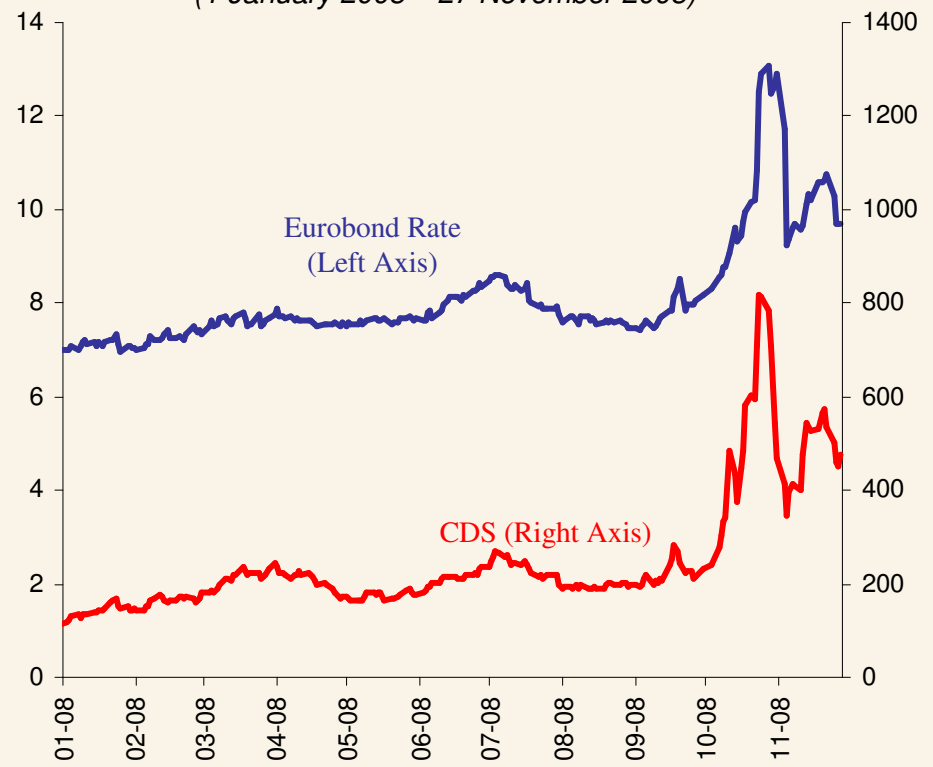
The sharp decline in global risk appetite has led to a hike in the general level of interest rates in Turkey.

5-Year Credit Default Swap Premium (CDS)
(January 2001 – October 2008, basis point)



Source: Bloomberg

**30-Year Eurobond Rate (percent) and
3-Year Credit Default Swap Premium (CDS) Ratio (basis point)**
(1 January 2008 – 27 November 2008)

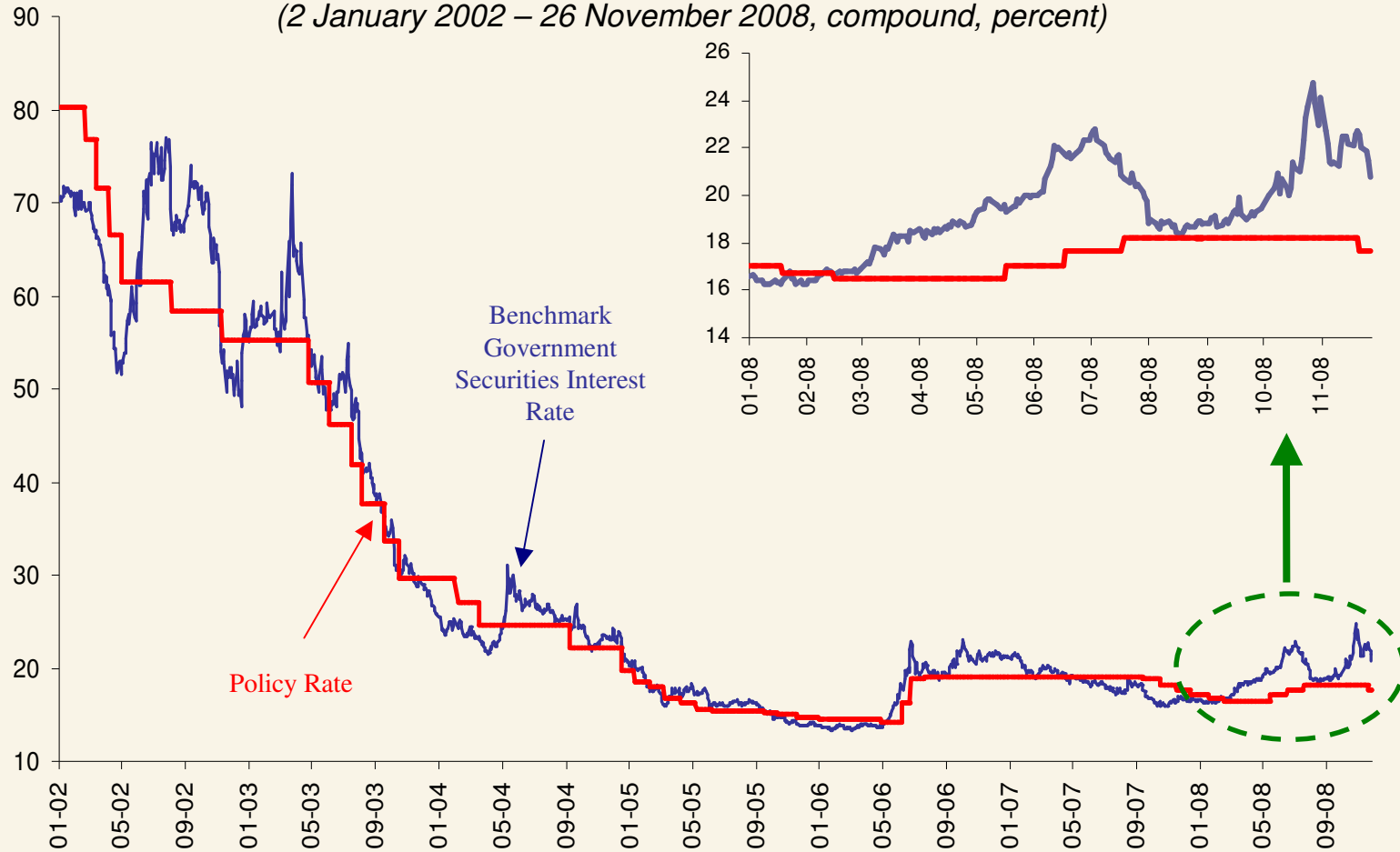


Source: Bloomberg



Interest Rates

**CBT Short-Term Interest Rates and
Benchmark Government Securities Interest Rate**
(2 January 2002 – 26 November 2008, compound, percent)

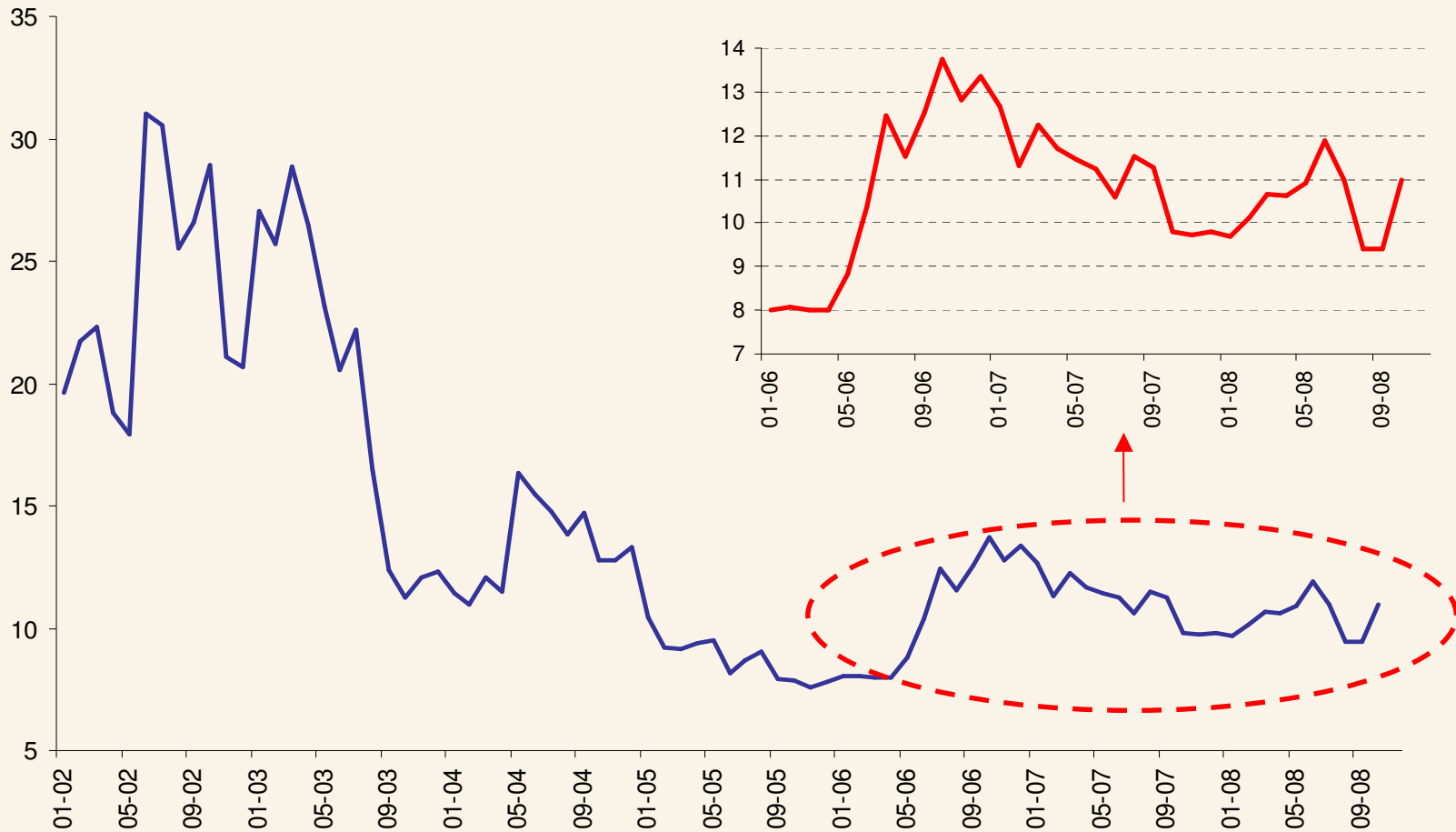


Source: Treasury, CBT



Interest Rates

Real Borrowing Interest Rate
(January 2002 – October 2008, compound, percent)



* Calculated by the borrowing interest rates of the government domestic borrowing auctions and the 12-month inflation forecasts of the Expectations Survey.
Source: Treasury, CBT



V. Monetary Policy Stance



Monetary Policy Decisions

Monetary Policy Decisions



✓ In order to halt the deterioration in inflation expectations and prevent supply shocks from affecting general pricing behaviors, the Committee made a tightening of 150 basis points in total in the May-July period, and suspended interest rate hikes in the meeting dated August 14, 2008.

✓ Judging that inflation would display a more rapid fall than envisaged before, the Committee decided to lower the overnight borrowing rates by 50 basis points and lending rates by 100 basis points in the meeting held on November 19, 2008.

Interest Rate Decisions of the Monetary Policy Committee

(June 2007 – November 2008)

Meeting Date	Policy Rate	Change
14 June 2007	17.50	0
12 July 2007	17.50	0
14 August 2007	17.50	0
13 September 2007	17.25	- 0.25
16 October 2007	16.75	- 0.50
14 November 2007	16.25	- 0.50
13 December 2007	15.75	- 0.50
17 January 2008	15.50	- 0.25
14 February 2008	15.25	- 0.25
19 March 2008	15.25	0
17 April 2008	15.25	0
15 May 2008	15.75	+ 0.50
16 June 2008	16.25	+ 0.50
17 July 2008	16.75	+ 0.50
14 August 2008	16.75	0
18 September 2008	16.75	0
22 October 2008	16.75	0
19 November 2008	16.25	- 0.50



Monetary Policy Decisions

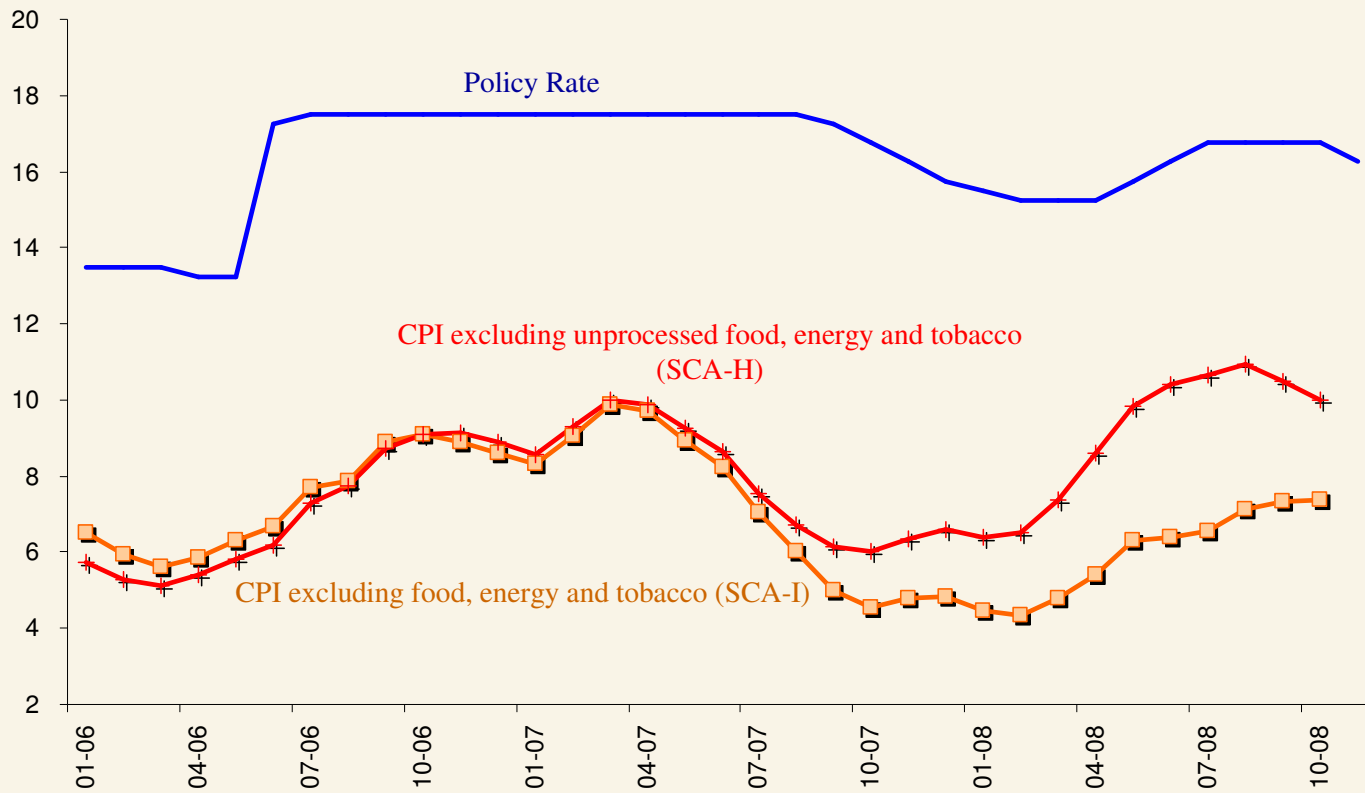
MPC Decision on November 19, 2008:

- ✓ “Recent readings indicate a significant slowdown in economic activity.”
- ✓ “Ongoing problems in international credit markets and the global economy will continue to restrain both domestic and external demand for an extended period, limiting the pass-through from exchange rates to domestic inflation.”
- ✓ “The sharp decline in oil and other commodity prices will have a favorable impact on disinflation.”
- ✓ “Judging that inflation would display a more rapid fall than envisaged before, the Committee has decided to lower the borrowing rates by 50 basis points. Moreover, the margin between the lending and borrowing rates was reduced by a further 50 basis points in order to contain the potential volatility in short term interest rates.”



Monetary Policy Decisions

Policy Rates (simple interest) and Core Inflation Indicators
(January 2006 – October 2008, percent)



Source: TURKSTAT, CBT

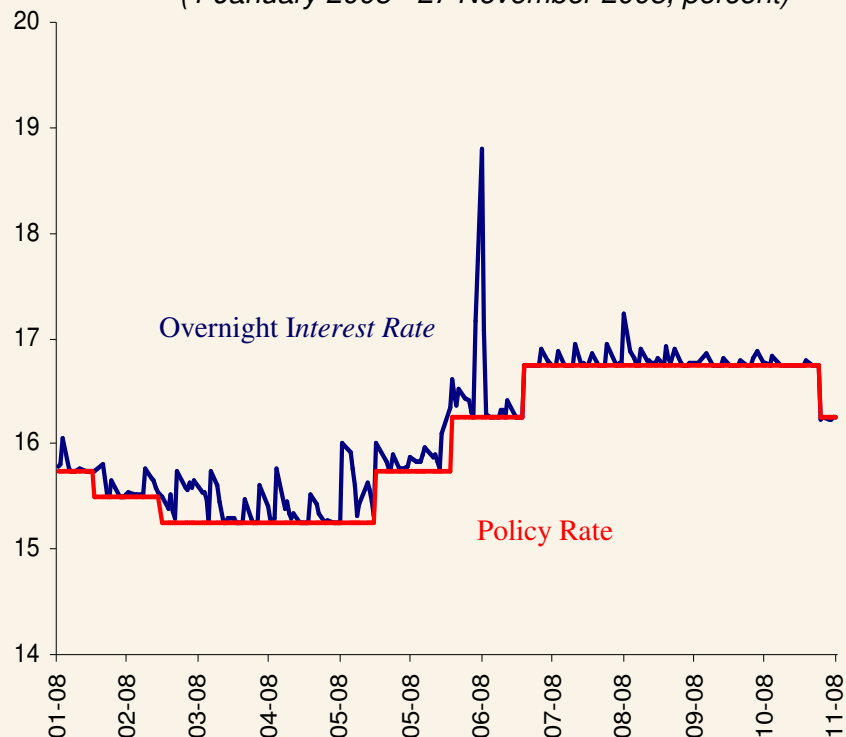


New Turkish Lira Liquidity

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.

Policy Rate and Overnight Interest Rate in the Repo-Reverse Repo Market

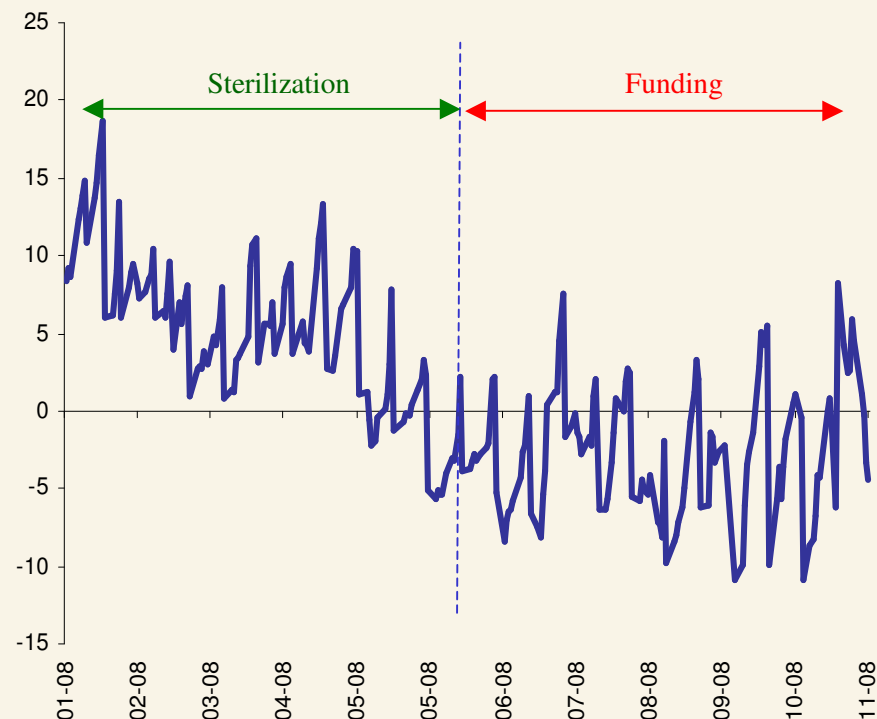
(1 January 2008 - 27 November 2008, percent)



Source: ISE, CBT

YTL Liquidity Provided by the Central Bank

(1 January 2008 - 27 November 2008, billion YTL)



Source: CBT



New Turkish Lira Liquidity

In case of an increase in YTL liquidity squeeze in the market in the upcoming period, the Central Bank will take the following measures, provided that they do not conflict with the price stability objective;

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 from the secondary market,could be considered.
3. In case the increase in liquidity squeeze becomes permanent and other measures are not sufficient, TRY-denominated required reserves may be reduced to a limited extent.



Measures on FX Liquidity

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.

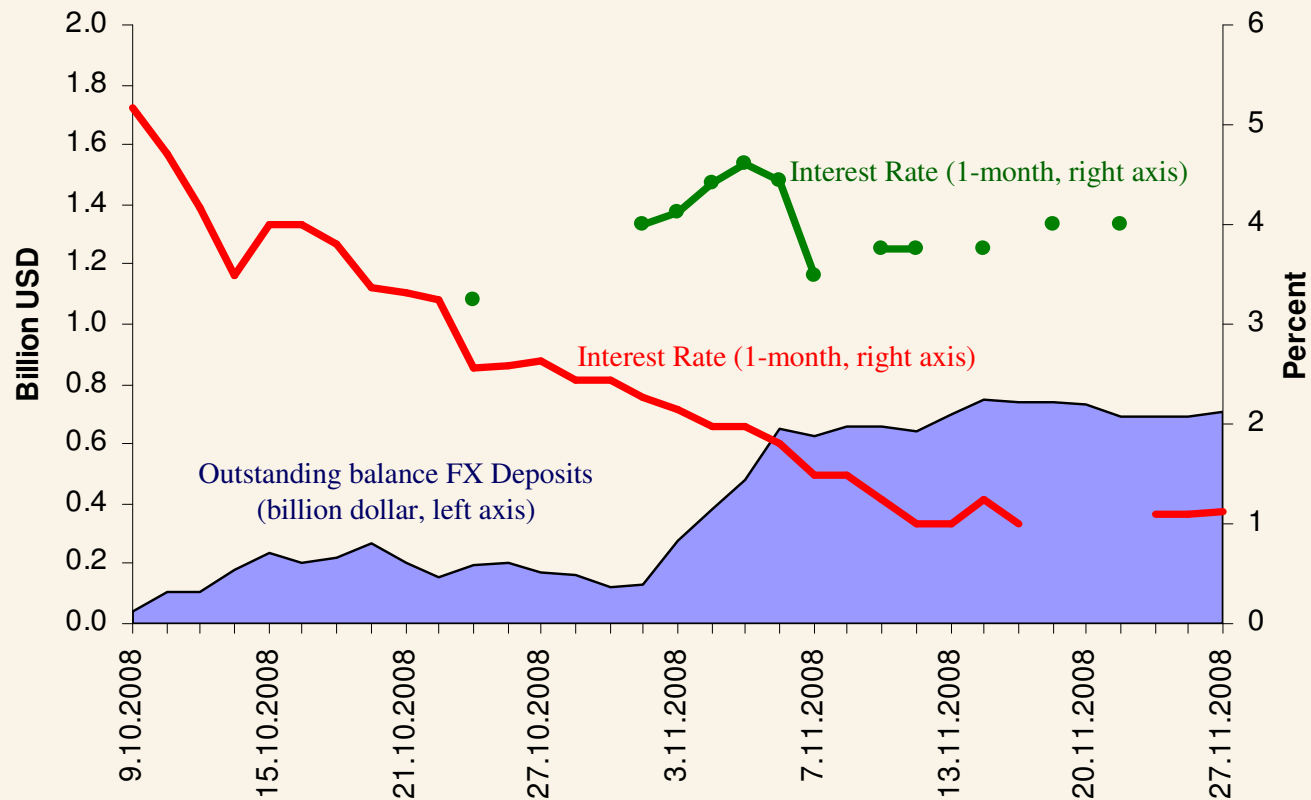
Measures Taken by the CBT:

1. *Re-opened the Foreign Exchange Deposit Market on 9 October 2008,*
2. *Suspended foreign exchange buying auctions on 15 October 2008,*
3. *Increased banks' transaction limits in the Foreign Exchange Deposit Market on 23 October 2008,*
(USD 5.4 billion → USD 10.8 billion)
4. *Launched daily foreign exchange selling auctions on 24 October 2008 in line with the floating exchange rate regime, with a view to supporting FX market liquidity (foreign exchange selling auctions were suspended on 30 October 2008),*
5. *Extended the maturity of USD and Euro-denominated FX deposits that banks could get from the Central Bank in the Foreign Exchange Deposit Market, from 1 week to 1 month, on 20 November 2008,*
6. *Lowered the 10-percent borrowing rate in the said market to 7 percent for USD deposits and 9 percent for Euro deposits.*



Measures on FX Liquidity

**Outstanding balance FX Deposits and
Interest Rates in the FX Deposit Market**
(9 October 2008 – 27 November 2008)



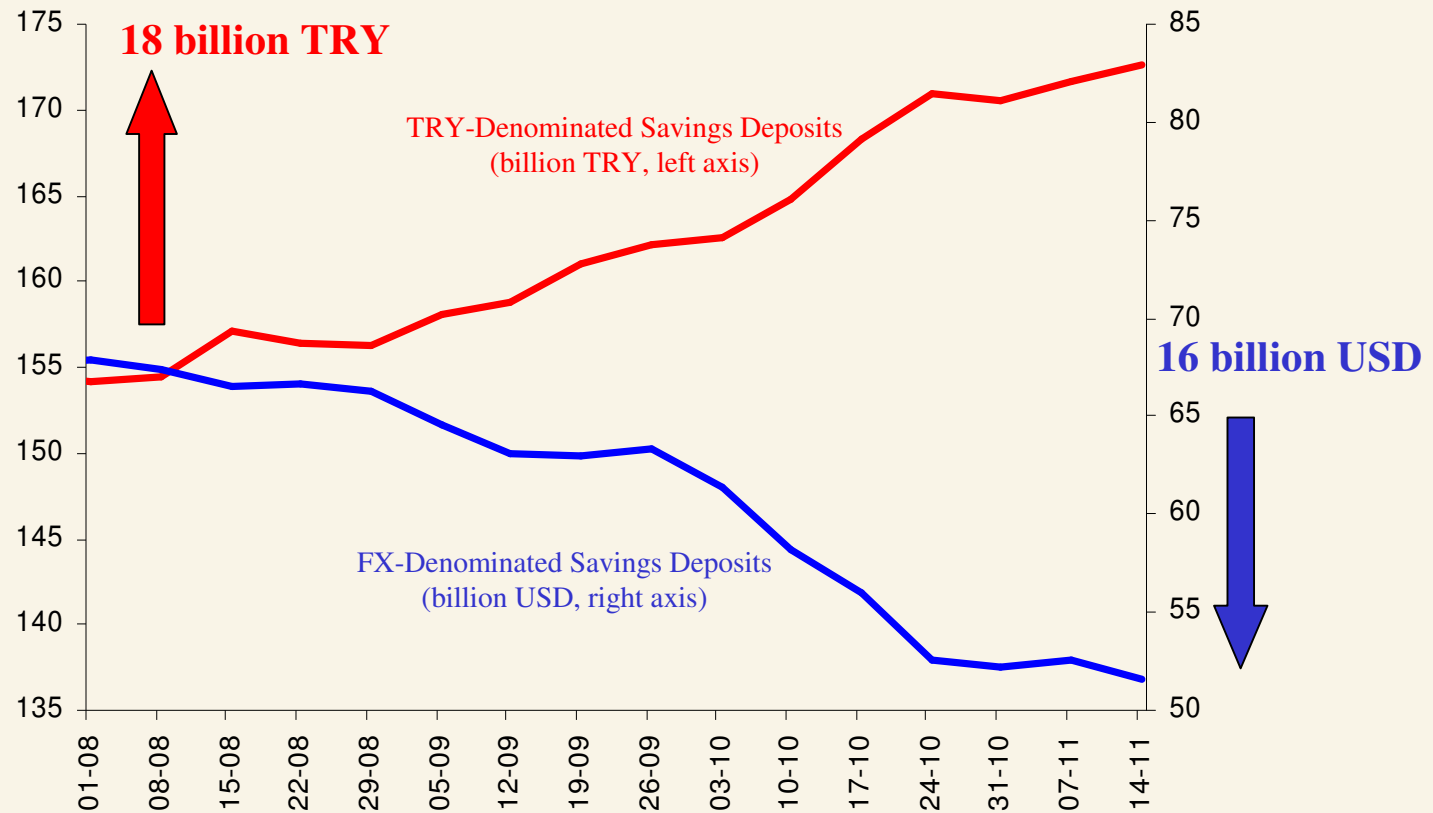
Source: CBT



Return to the New Turkish Lira

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

TRY and FX-Denominated Savings Deposits in Deposit Banks
(1 August 2008 - 14 November 2008)



Source: CBT



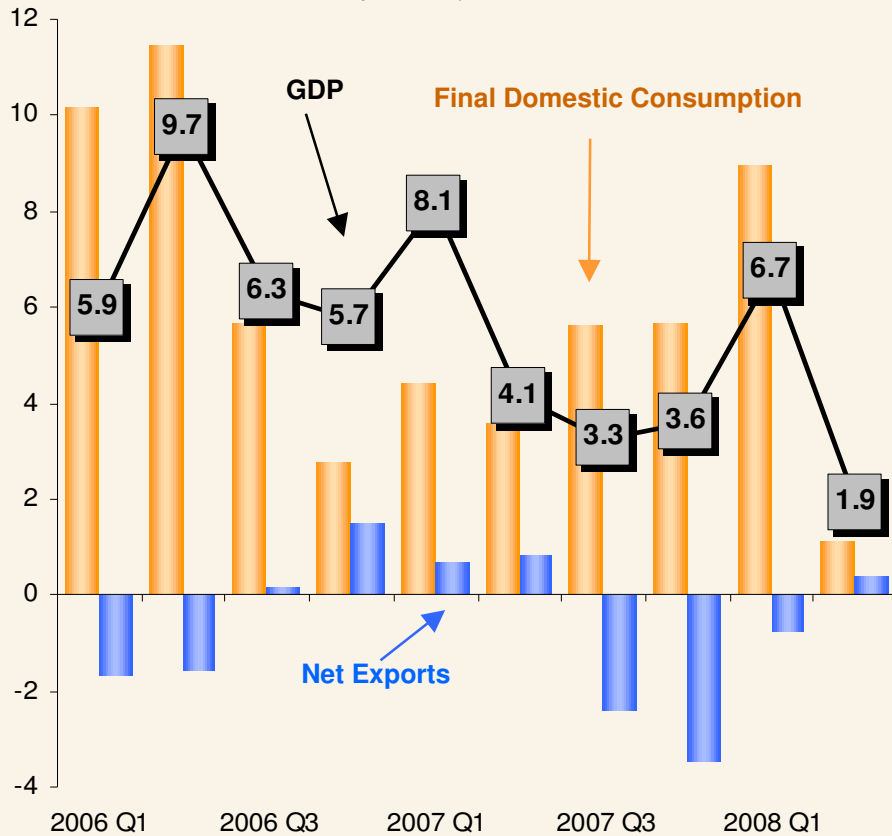
VI. Economic Outlook



Growth

Growth Components

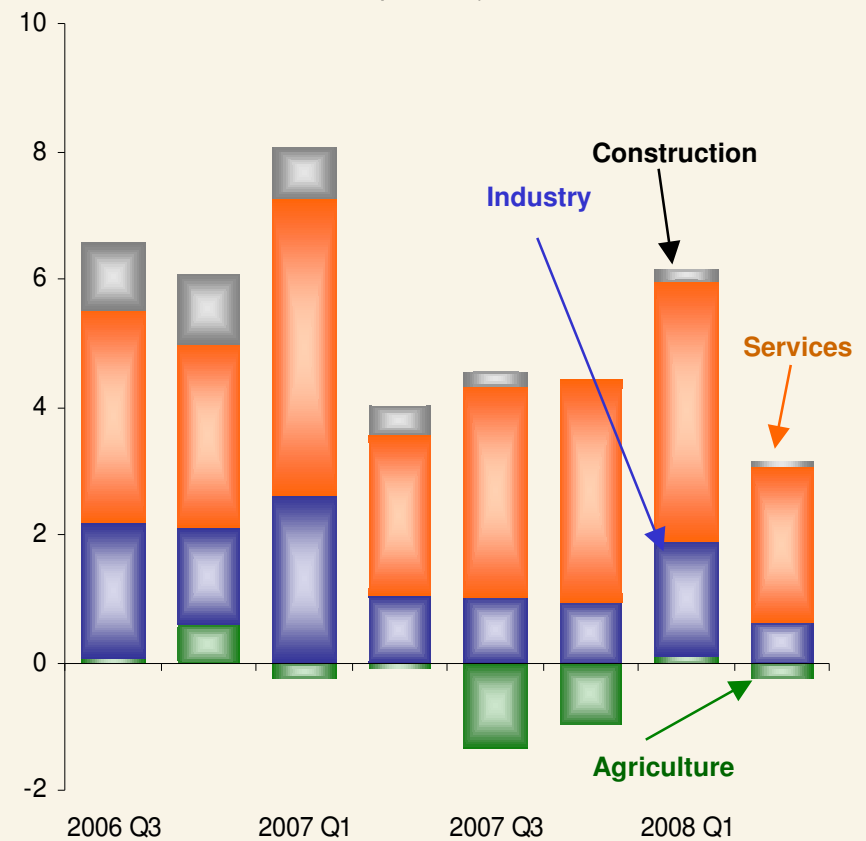
(2006 Q1 – 2008 Q2, year-on-year contribution, percent)



Source: TURKSTAT, CBT

Growth Components

(2006 Q3 – 2008 Q2, year-on-year contribution, percent)



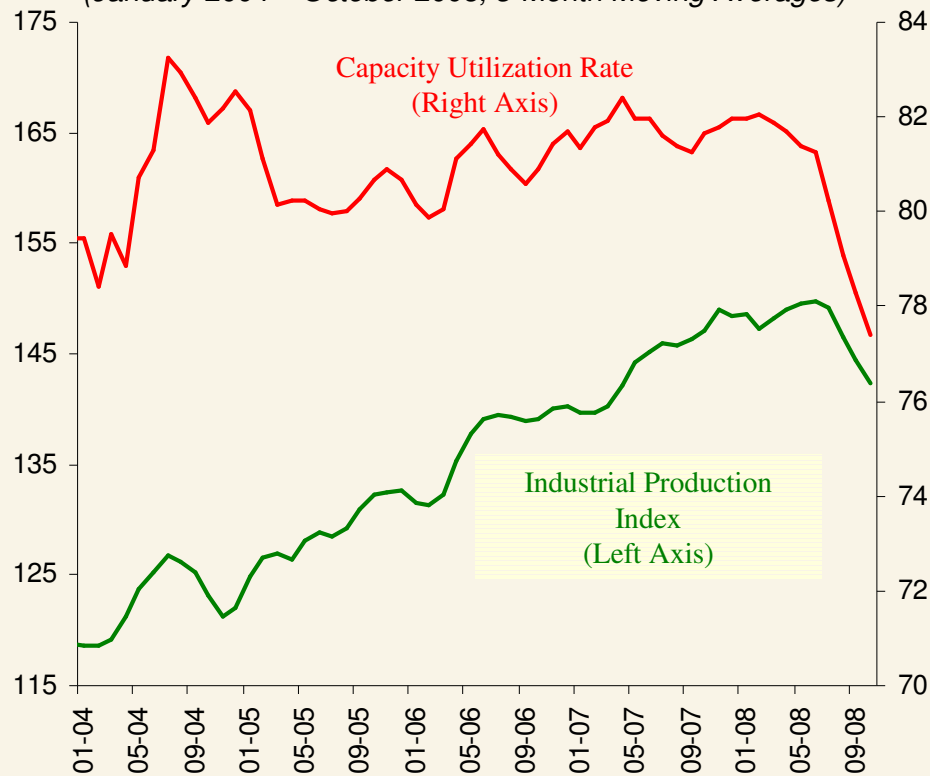
Source: TURKSTAT, CBT



Production

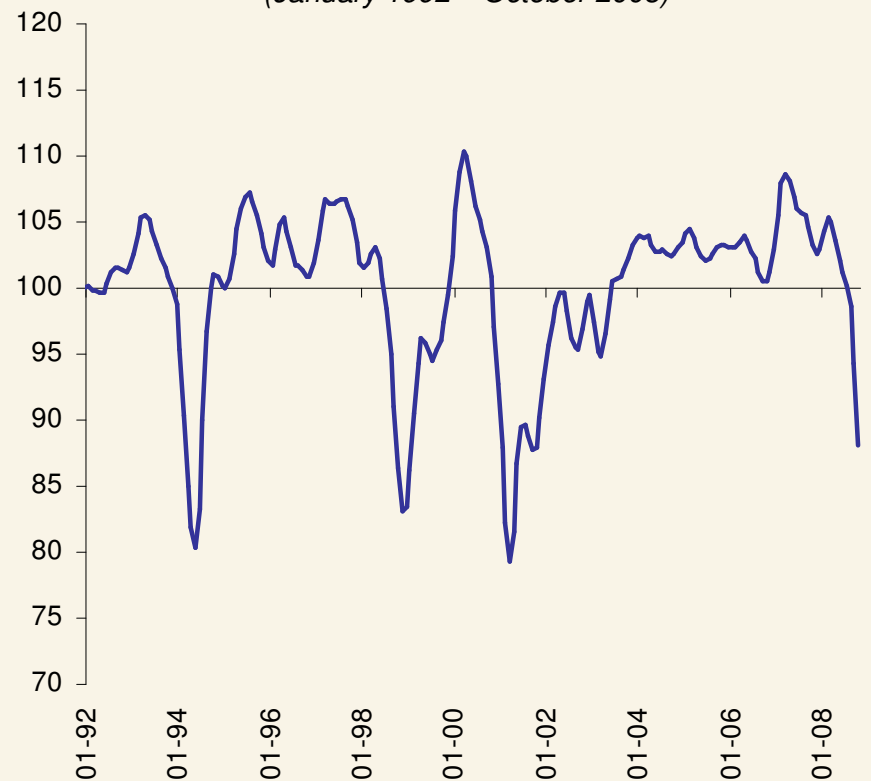
Increased risk perception and adverse effects of the global crisis on financing facilities of banks have led to a marked slowdown in economic activity.

Industrial Production Index* and Capacity Utilization Rate*
(January 2004 – October 2008, 3-Month Moving Averages)



*Seasonally Adjusted
Source: TURKSTAT, CBT

CBT Composite Leading Indicators Index*
(January 1992 – October 2008)



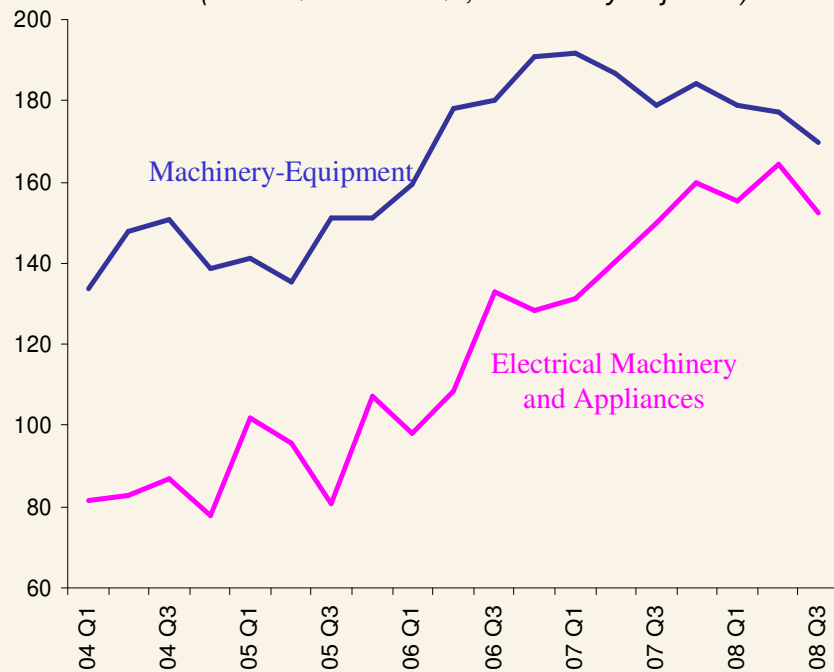
* Composed of 7 leading economic indicators that show supply and demand conditions in the economy and the factors affecting these conditions.
Source: CBT



Investment Demand

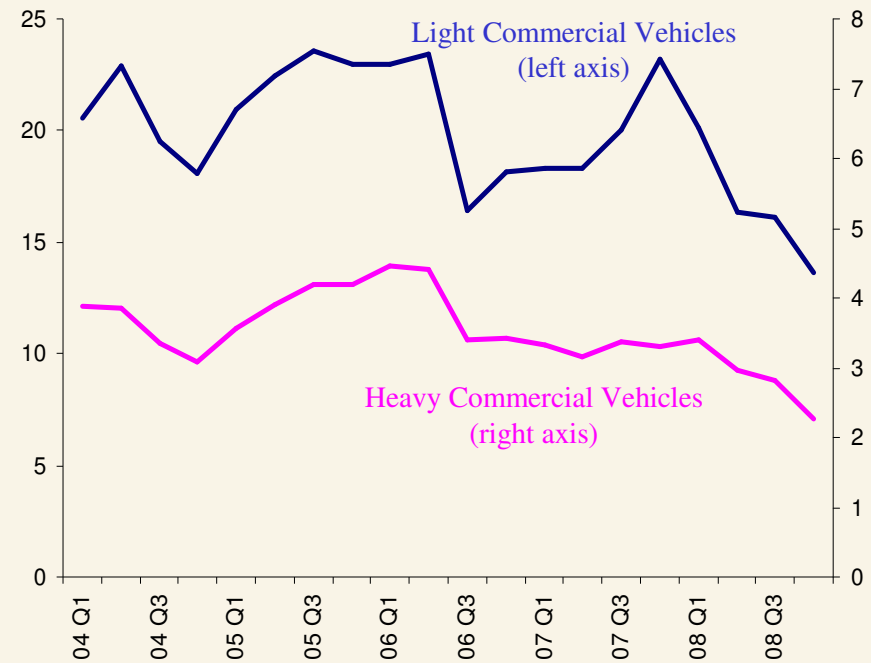
Leading indicators of private investment expenditures displayed a decline compared to the previous quarter. It is estimated that private investment expenditures will continue to moderate in the last quarter of the year.

Indices of Machinery-Equipment Production and Electrical Machinery and Appliances Production
(2004 Q1 – 2008 Q3, seasonally adjusted)



Source: CBT

Sales of Commercial Vehicles
(2004 Q1 – 2008 Q4*, seasonally adjusted, thousand pieces)



* As of October 2008

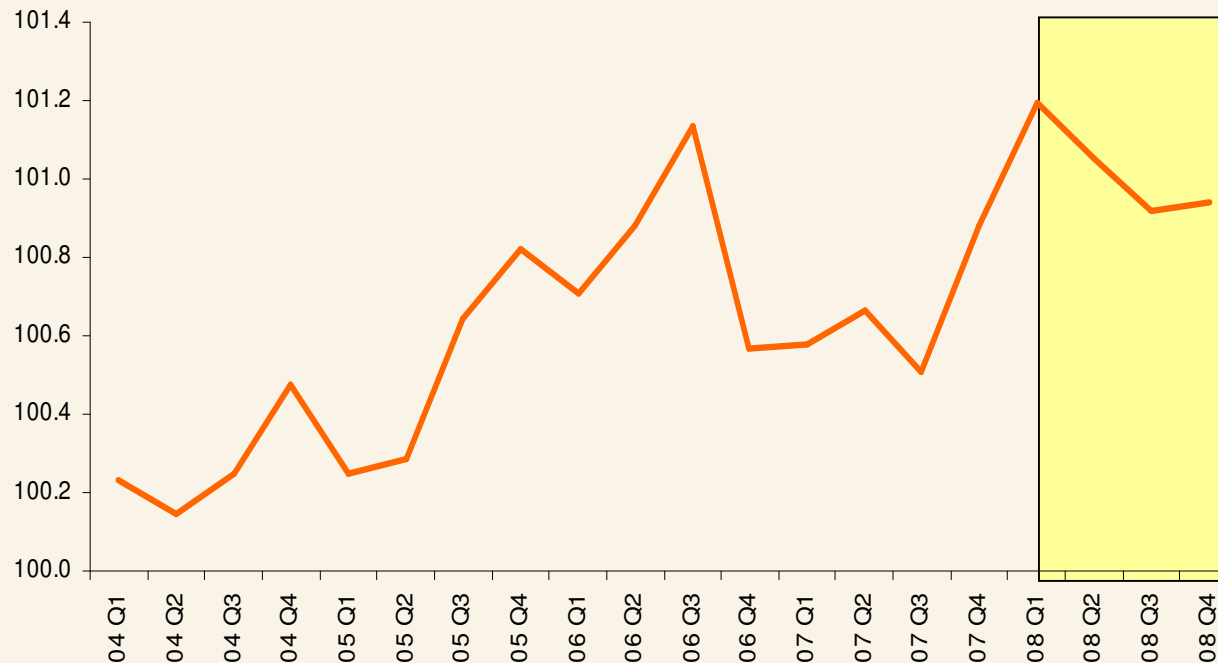
Source: AMA, CBT



Private Consumption Expenditures

Private consumption expenditures remained flat in the last quarter of the year.

CBT Private Consumption Index
(2004 Q1 – 2008 Q4)



Series making up Private Consumption Index: Seasonally adjusted imports of consumption goods, seasonally adjusted real domestic taxes on goods and services, seasonally adjusted total domestic sales of white goods, seasonally adjusted domestic sales of automobiles.

Source: TURKSTAT, CBT

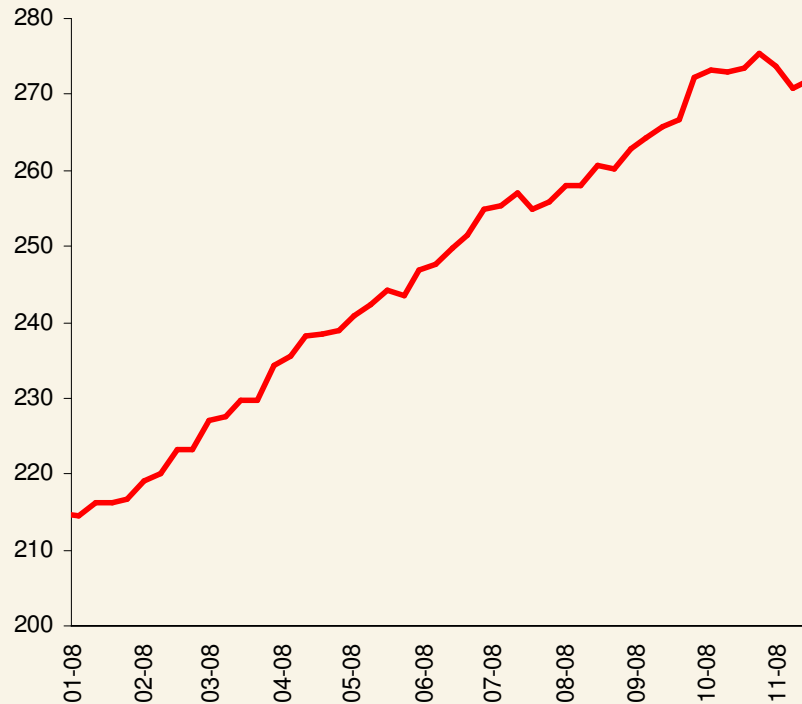


Bank Credits

Parallel to tightening credit conditions, rate of increase in household and company borrowings slowed down in the third quarter of the year.

Deposit Banks Total Domestic Loans

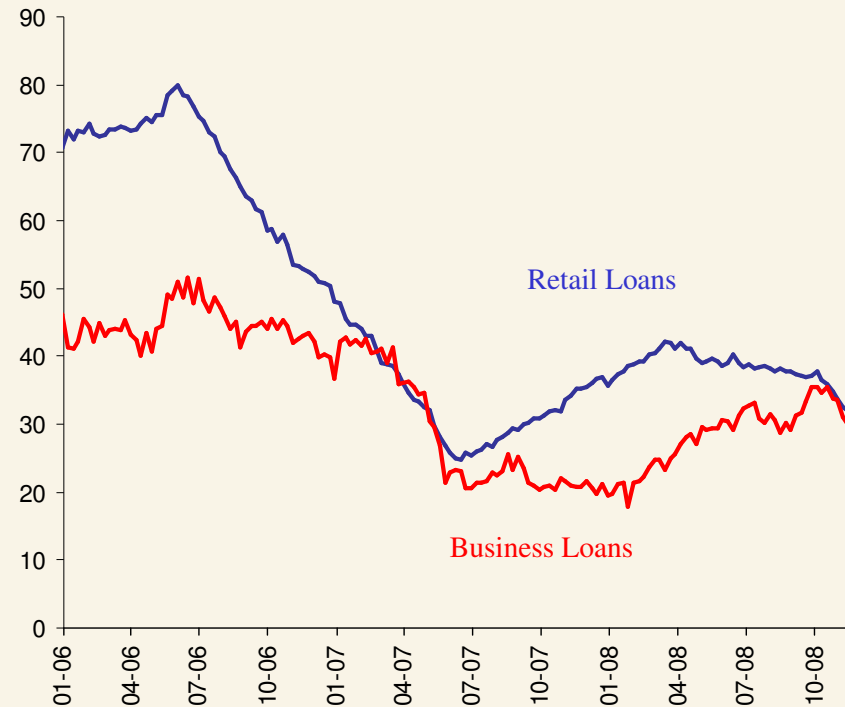
(1 January 2008 – 14 November 2008, TRY billion)



Source: CBT

Business Loans and Retail Loans

(1 January 2006 – 14 November 2008, annual percentage change)



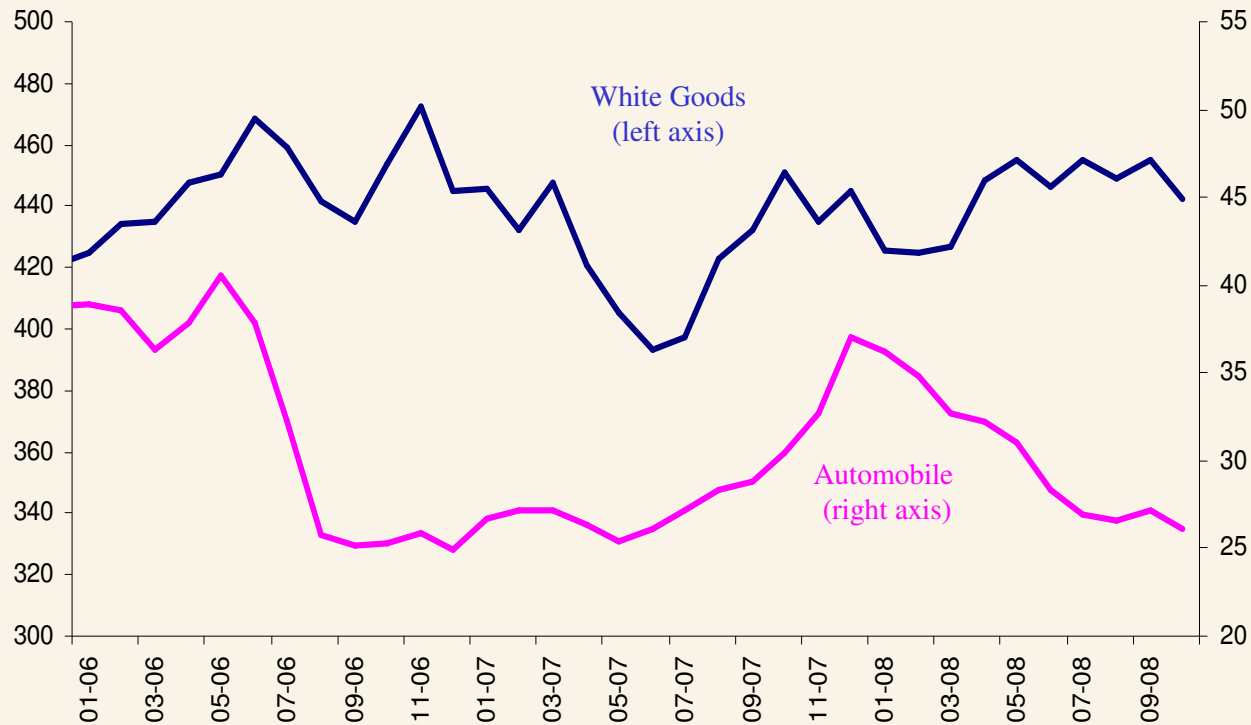
Source: CBT



Domestic Demand Developments

Seasonally adjusted data indicate a contraction in the domestic sale of automobiles and white goods.

Domestic White Goods and Automobile Sales
(January 2006 – October 2008, seasonally adjusted,
3-month moving average, thousand)



Source: White Goods Manufacturers Association (WGMA), Automotive Manufacturers Association (AMA), CBT

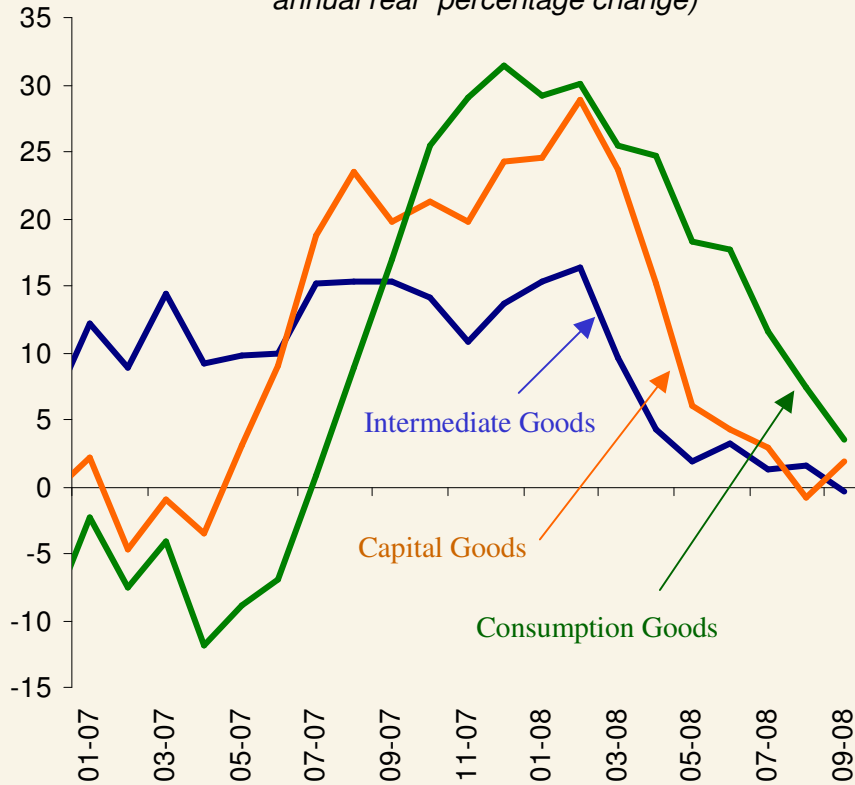


Domestic Demand Developments

A similar trend is also observed in imports data, primarily in those related to capital and consumption.

Sub-components of Imports

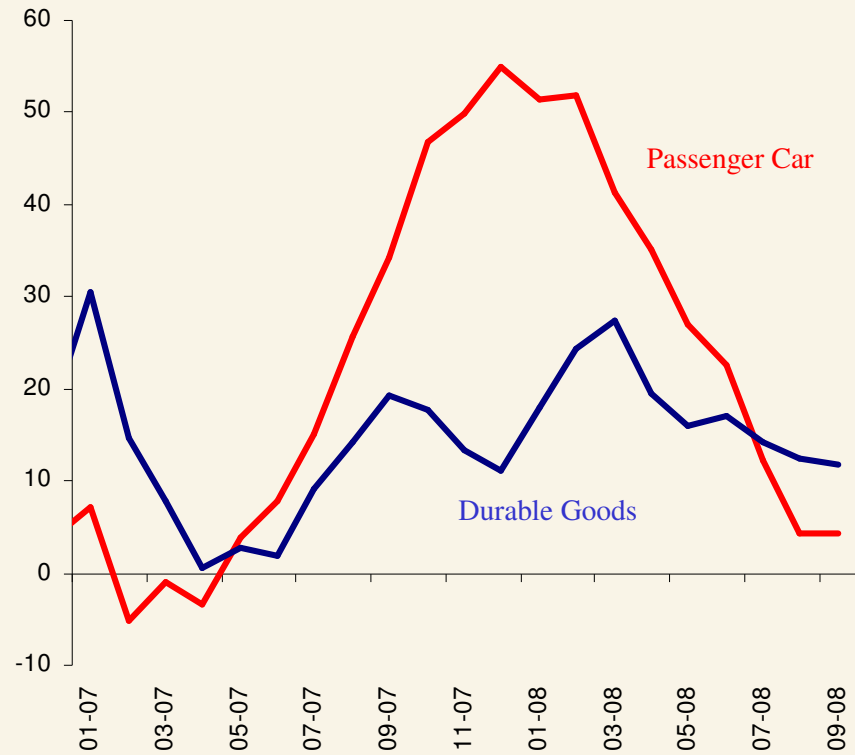
(January 2007 – September 2008, 3-month average, annual real* percentage change)



* Quantity index
Source: TURKSTAT, CBT

Sub-components of Consumption Imports

(January 2007 – September 2008, 12-month rolling, annual real* percentage change)



* Quantity Index
Source: TURKSTAT, CBT



External Demand Developments

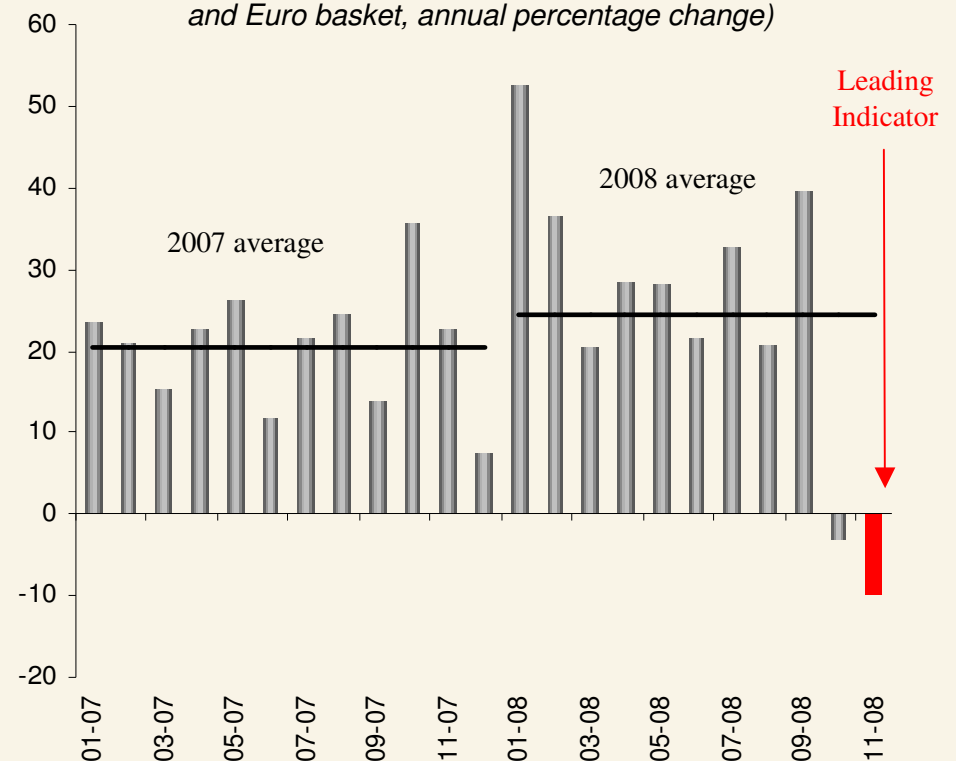
The slowdown in global economic activity has adverse effects on Turkey's export markets, too. Turkey's export growth is expected to decelerate with respect to both price and quantity in the upcoming period.

Growth Expectations

Regions	2007	2008	2009
World	5.0	3.7	2.2
USA	2.0	1.4	-0.7
EU	2.6	1.2	-0.5
Russia-Central Asia	8.6	6.9	3.2
Central and Eastern Europe	5.7	4.2	2.5
Middle East	6.0	6.1	5.3

Exports

(January 2007 – November 2008, equally weighted US Dollar and Euro basket, annual percentage change)



Source: IMF

Source: TURKSTAT, TEA, CBT

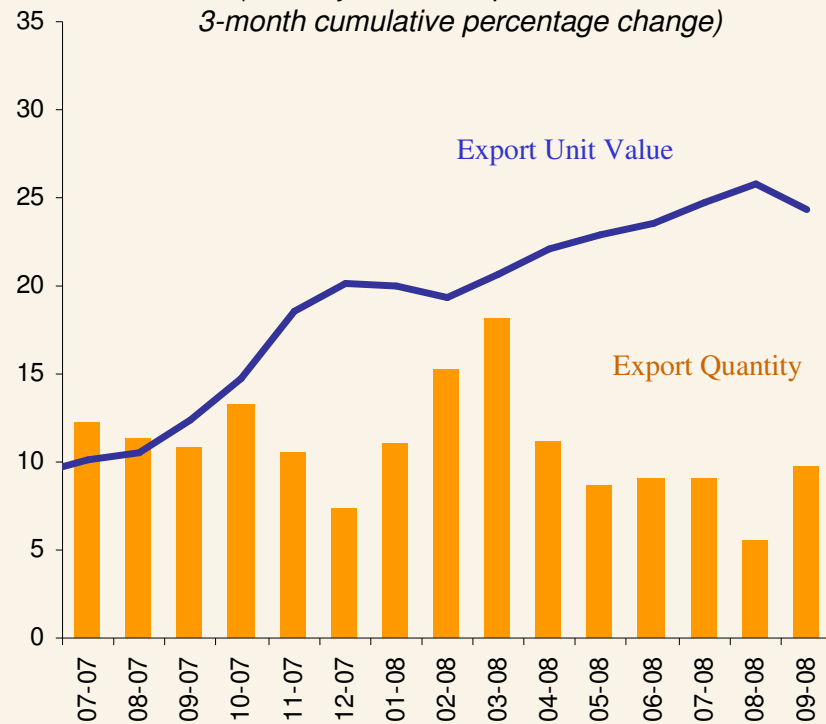


Foreign Trade Developments

Due to the slowdown in domestic demand and depreciation of the YTL, a similar development manifests itself as a sharper deceleration in import prices, quantity and volumes

Export Quantity and Unit Value Indices

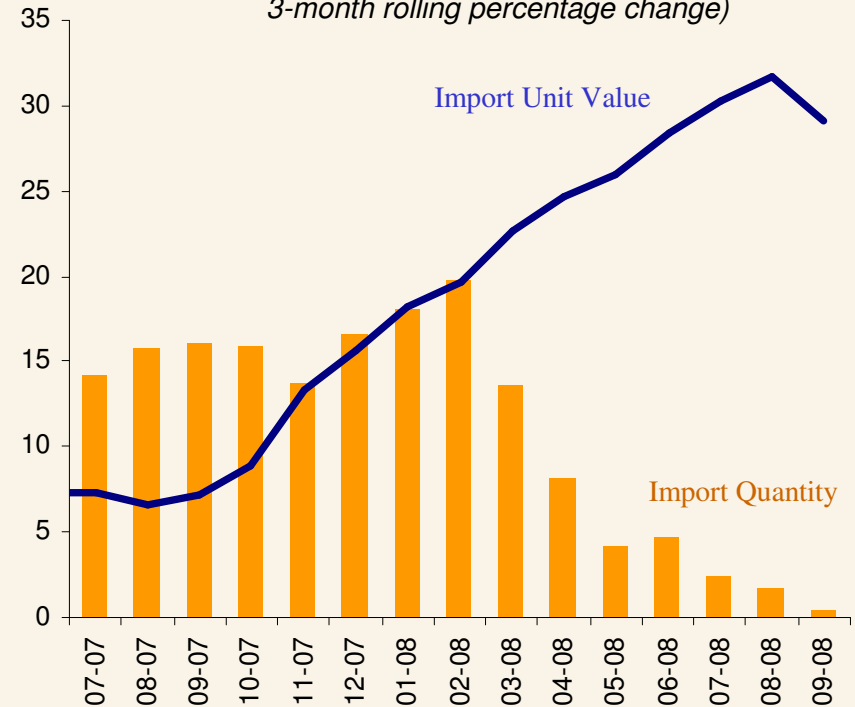
(January 2007 – September 2008,
3-month cumulative percentage change)



Source: TURKSTAT, CBT

Import Quantity and Unit Value Indices

(January 2007 – September 2008,
3-month rolling percentage change)



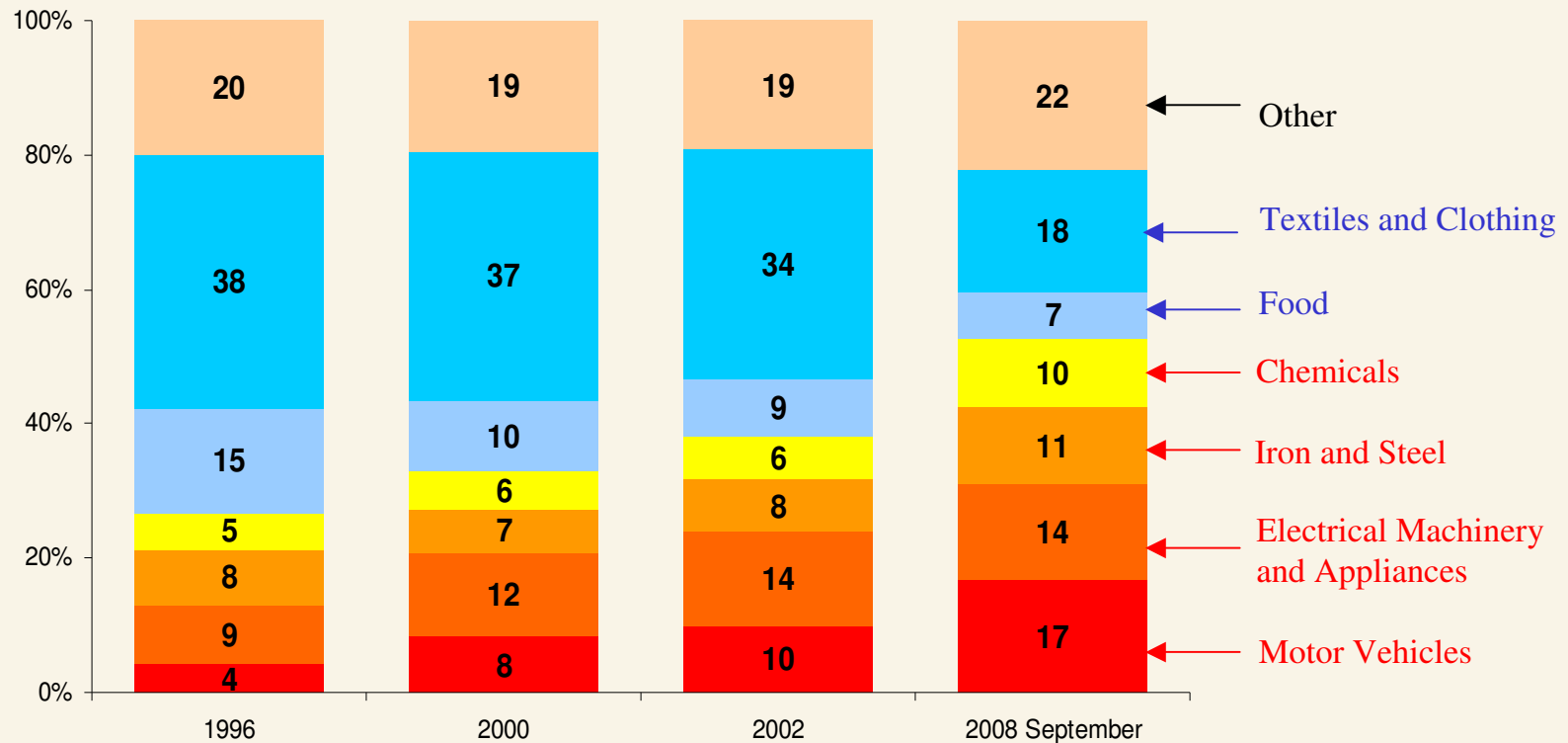
Source: TURKSTAT, CBT



External Demand Developments

Turkey's enriching export composition is one of the major factors to support the export performance in a period of slowdown in global economy

Turkey's Export Composition
(Shares in Total Exports)



Source: TURKSTAT, CBT

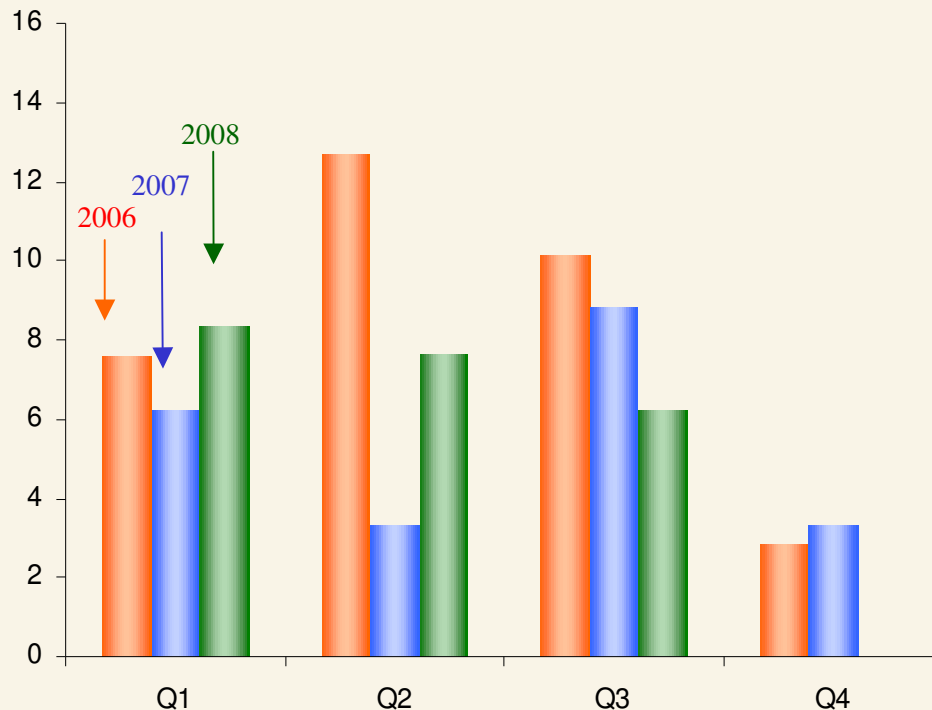


Public Finance

Although tax revenues will possibly decline in the last quarter of the year due to the acceleration of budget expenditures and the slowdown in domestic demand, it is believed that central government budget targets will be achieved.

Central Government Primary Balance

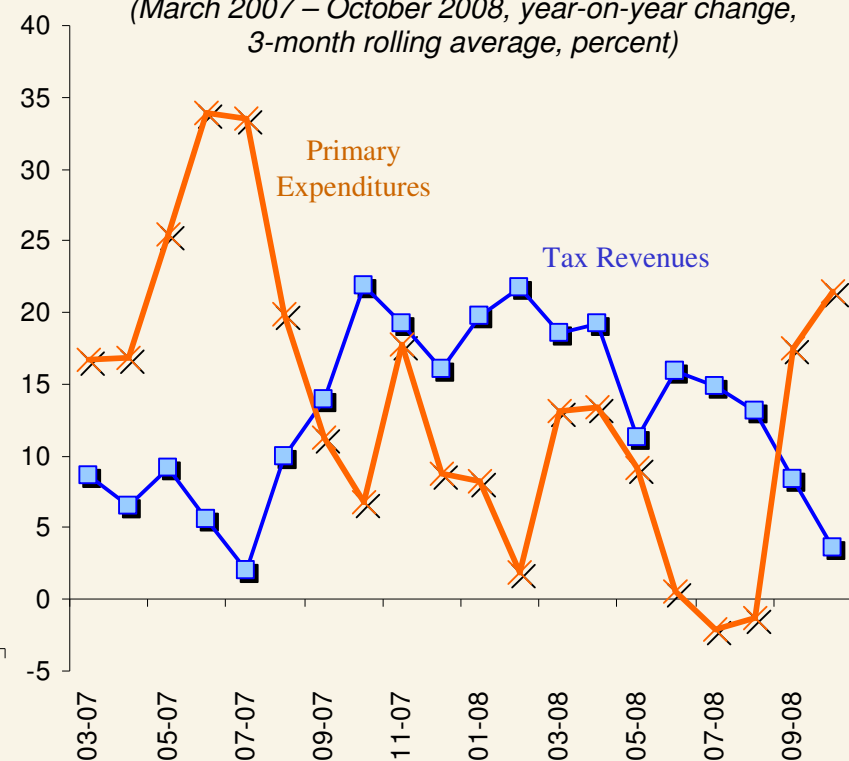
(Program defined, quarterly total, 2006 Q1 - 2008 Q3, TRY billion)



Source: Undersecretariat of Treasury, CBT

General Budget Primary Expenditures and Tax Revenues

(March 2007 – October 2008, year-on-year change, 3-month rolling average, percent)



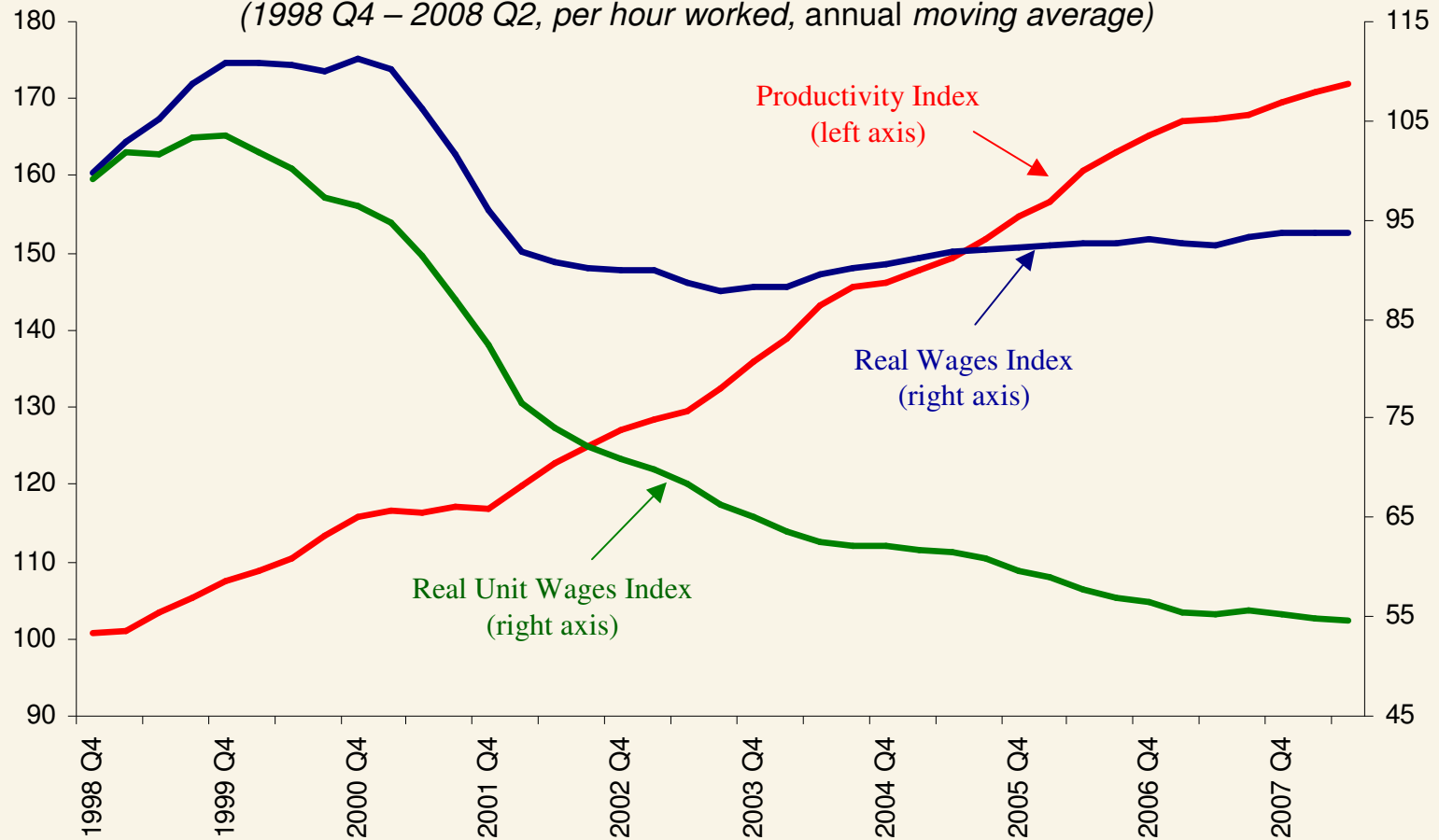
Source: Ministry of Finance, CBT



Productivity and Wages

Productivity, Real Wages and Real Unit Wages Index in the Manufacturing Industry

(1998 Q4 – 2008 Q2, per hour worked, annual moving average)



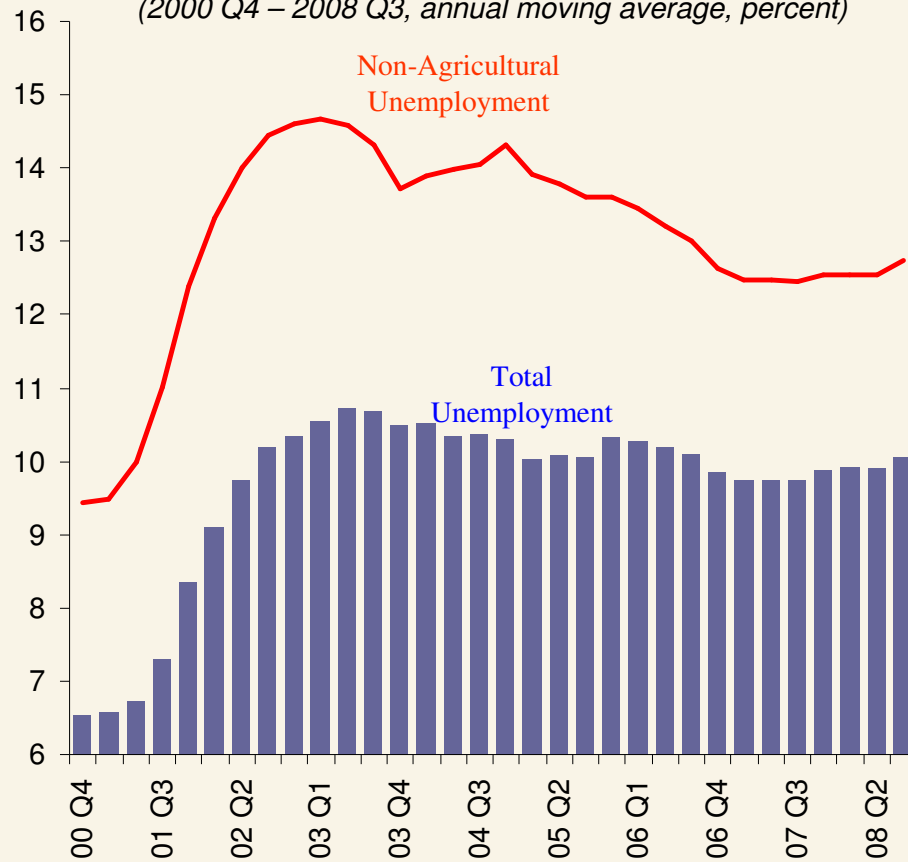
Source: TURKSTAT, CBT



Employment

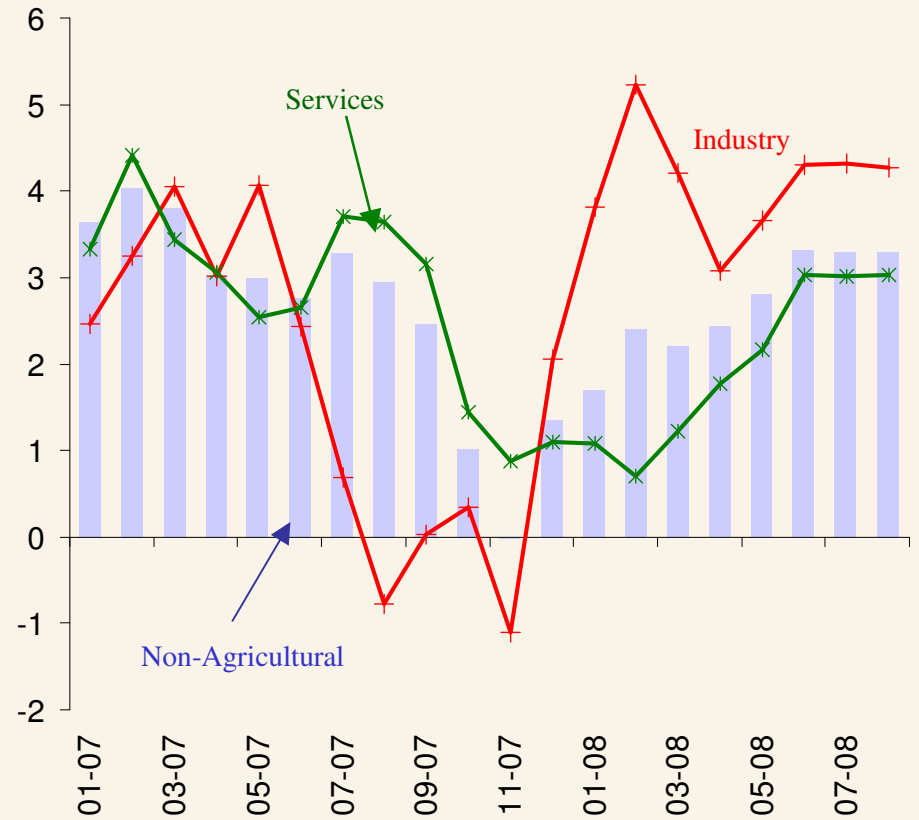
Unemployment and Non-Agricultural Unemployment Rates

(2000 Q4 – 2008 Q3, annual moving average, percent)



Source: TURKSTAT, CBT

Employment Developments by Sectors
(January 2007 – August 2008, annual percentage change)



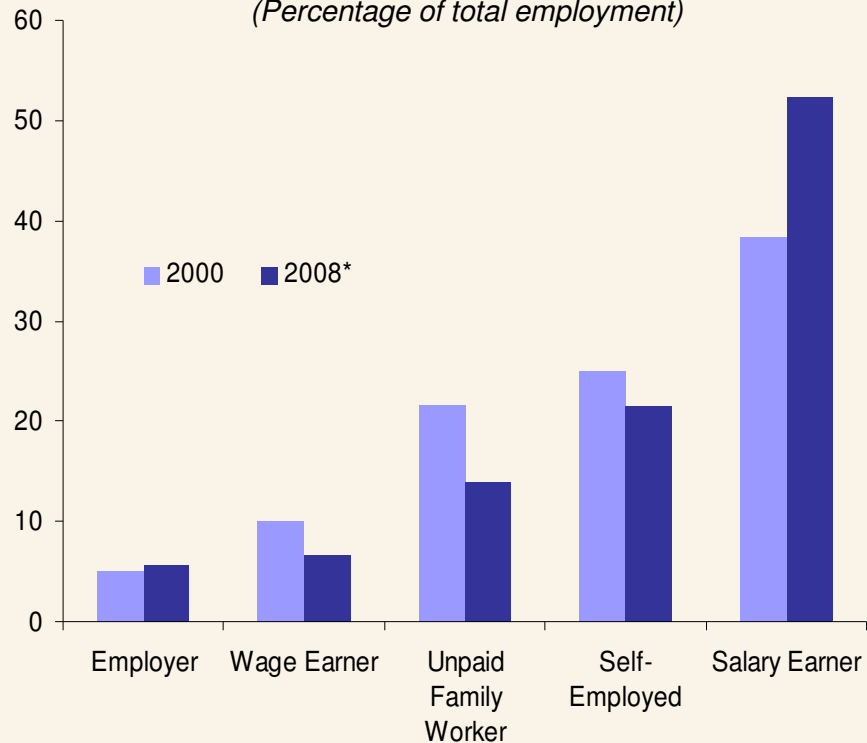
Source: TURKSTAT, CBT



Employment

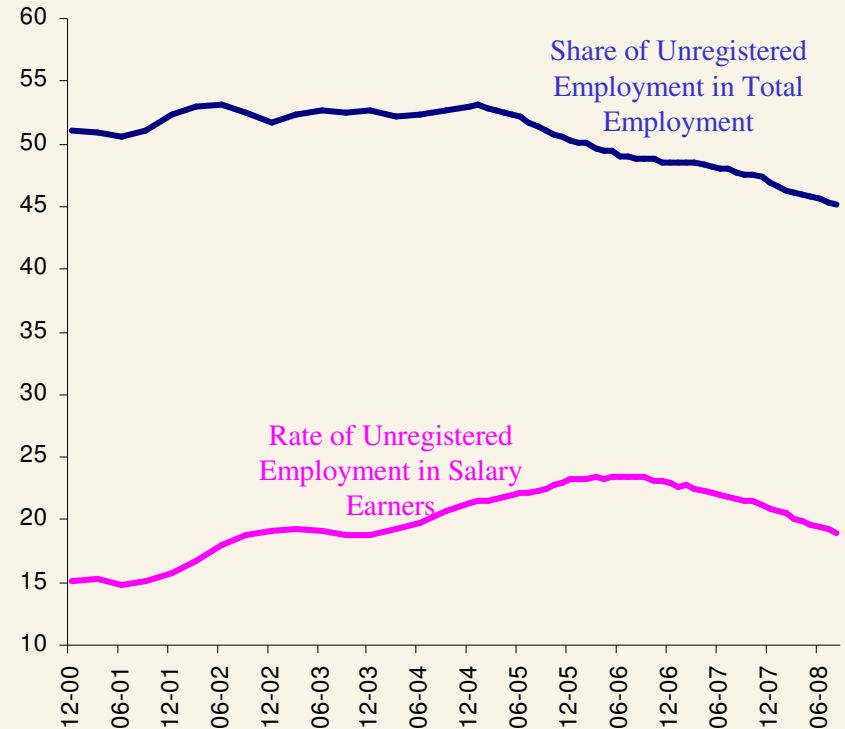
The share of salary earners in employment is increasing. This contributes to the decline of unregistered employment.

Composition of Employment According to Professional Status
(Percentage of total employment)



•12-month average as of August 2008
•Source: TURKSTAT, CBT

Ratio of Unregistered Employment
(2000 Q4 – 2008 Q3, annual moving average)

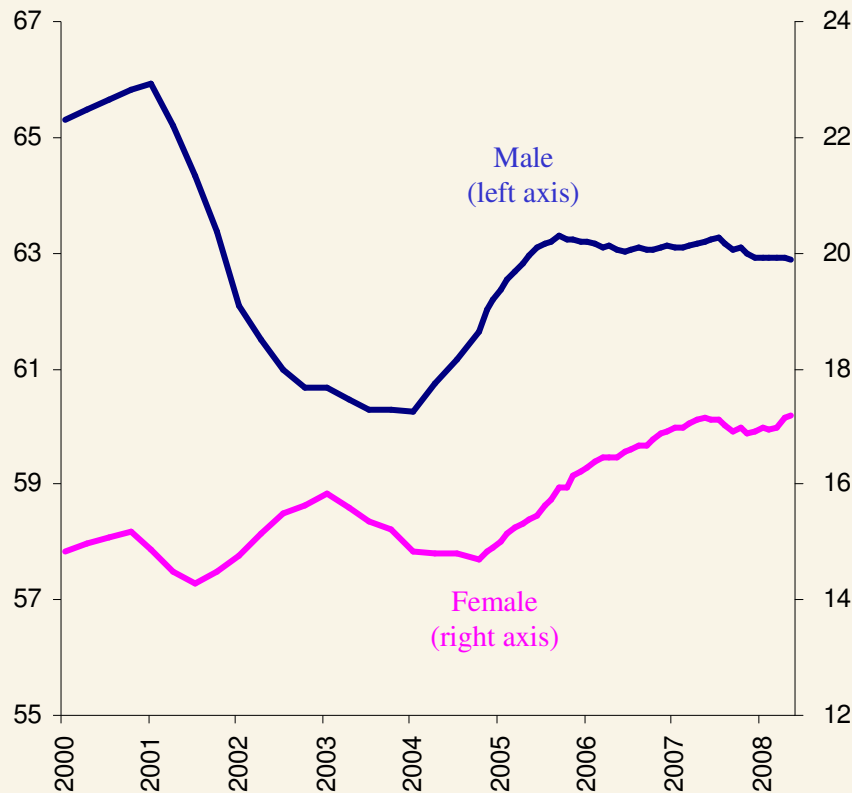


Source: TURKSTAT, CBT



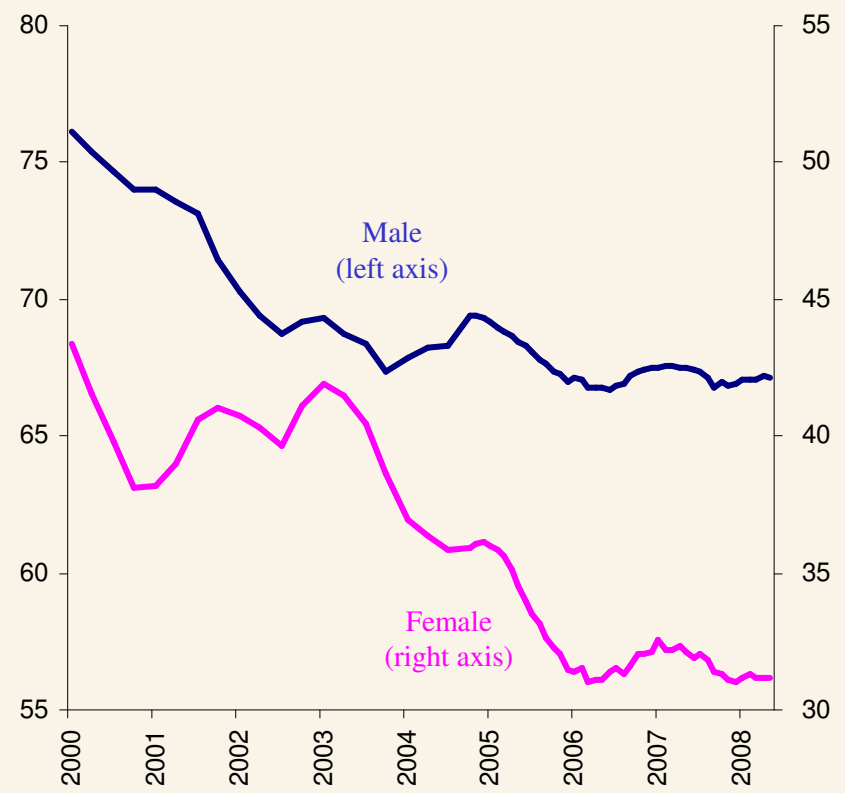
Employment

Ratio of the Urban Employment to the Population Aged 15 and Above
(2000 Q4 – 2008 Q3, annual moving average, percent)



Source: TURKSTAT, CBT

Ratio of the Rural Employment to the Population Aged 15 and Above
(2000 Q4 – 2008 Q3, annual moving average, percent)



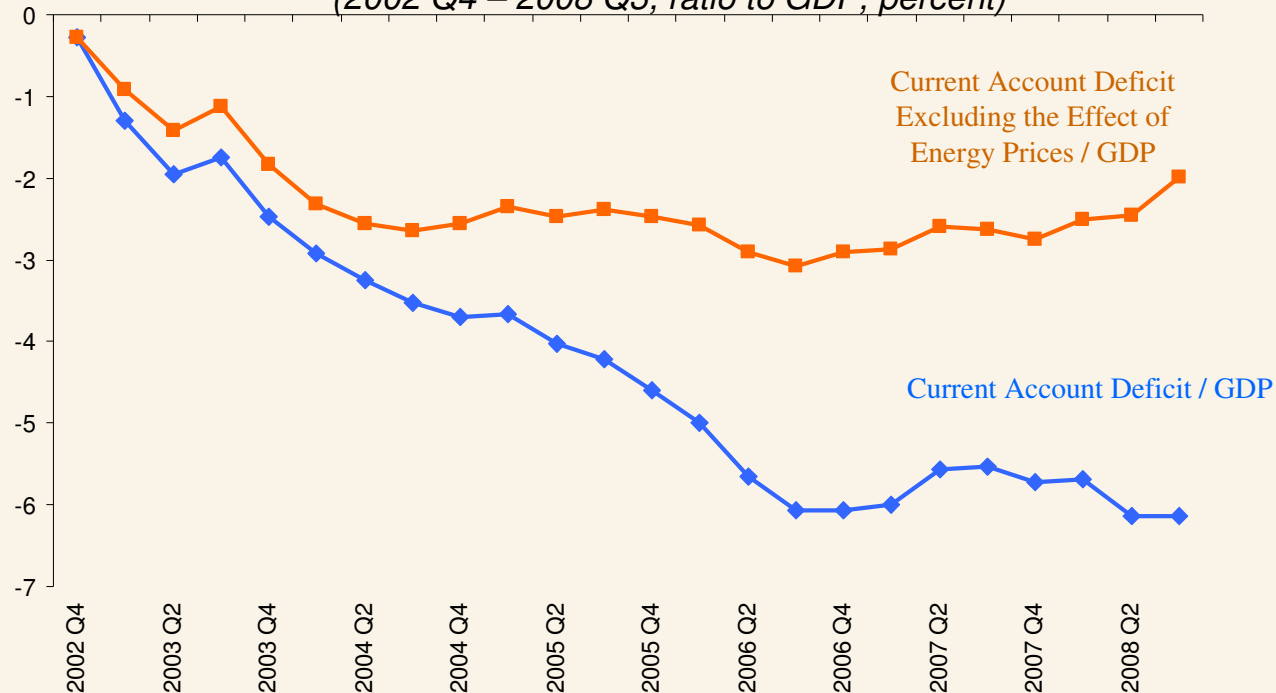
Source: TURKSTAT, CBT



Current Account Balance

Current account deficit is likely to experience a drop due to high-rated decline in commodity prices, slowdown in economic activity and depreciation in New Turkish Lira.

Current Account Balance and The Effect of Energy Prices on the Current Account Deficit
(2002 Q4 – 2008 Q3, ratio to GDP, percent)



* The effect of energy price increases on the current account in the 2003-2007 period was calculated by keeping the prices of 2002 constant. Energy Sub-items: Stone coal and lignite, crude oil and natural gas under the mining and quarrying sector, and coke coal, refined petroleum products and nuclear fuels under the manufacturing industry.

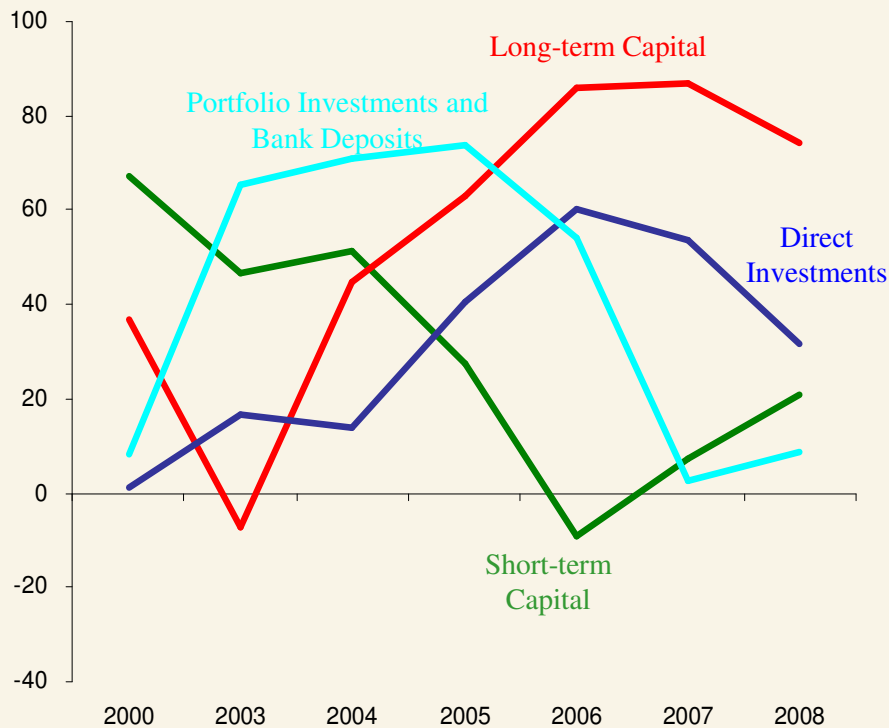
Source: TURKSTAT, CBT



Capital Flows

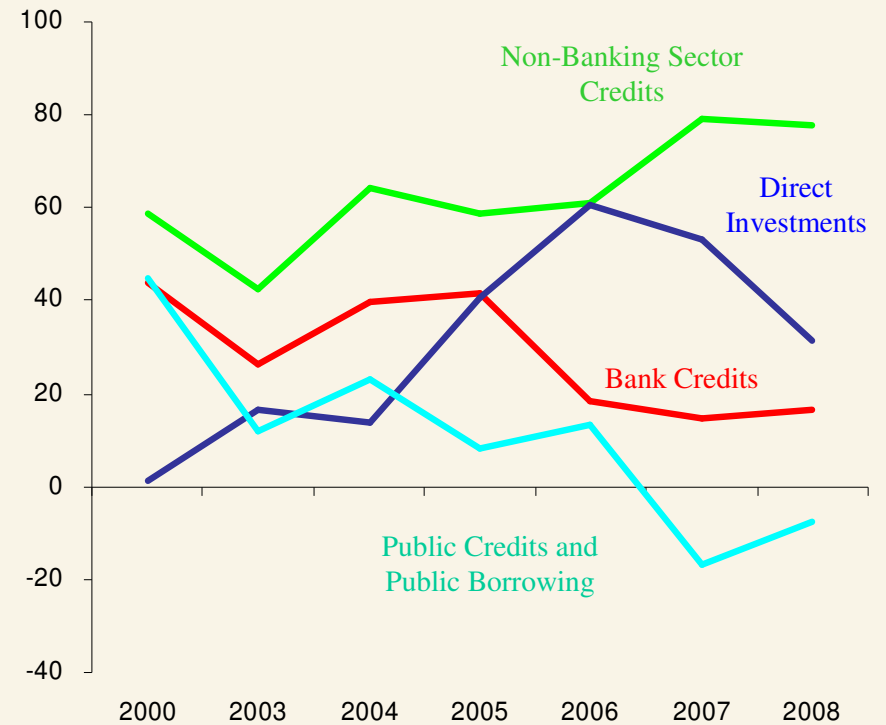
While the share of long-term capital and non-banking sector credits remains high, that of portfolio investments declines.

Ratio of the Financing Items of the Current Account Deficit to Current Account Deficit
(2000 – 2008*, percent)



* The last 12 months as of September 2008
Source: CBT

Ratio of the Financing Items of the Current Account Deficit to Current Account Deficit
(2000 – 2008*, percent)



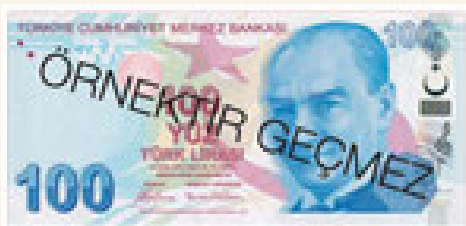
* The last 12 months as of September 2008
Source: CBT



VII. Transition to the TL Publicity Campaign



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CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation before the Council of Ministers

Durmuş YILMAZ
Governor

1 December 2008