

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation at Konya Chamber of Industry

Durmuş YILMAZ
Governor

18 December 2010

Presentation Outline

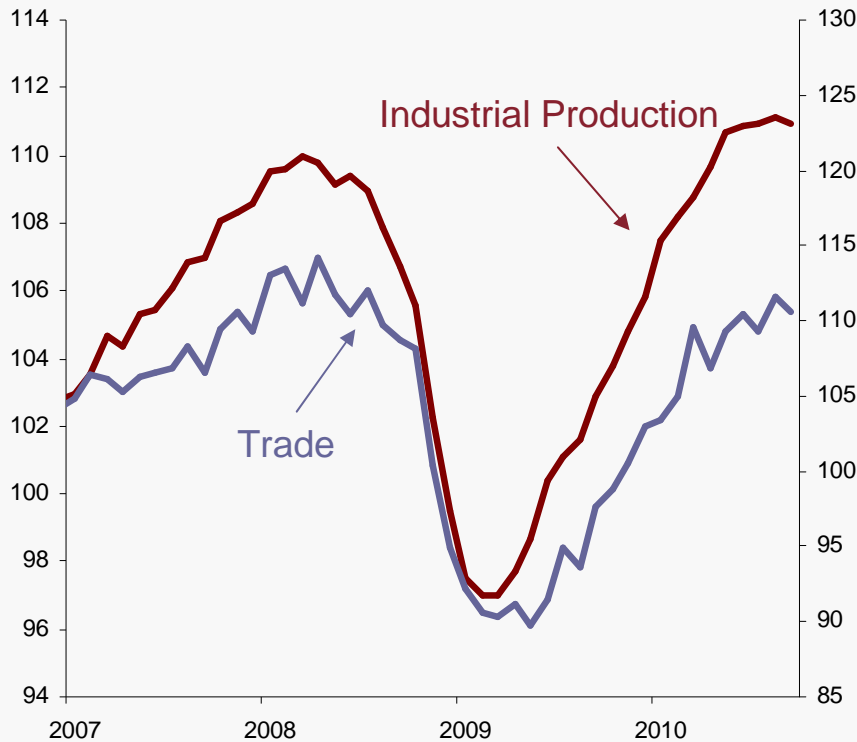
- I. Global Economic Outlook**
- II. Recent Developments in the Turkish Economy**
- III. Monetary Policy**

I. Global Economic Outlook

Global Growth and Risk Indicators

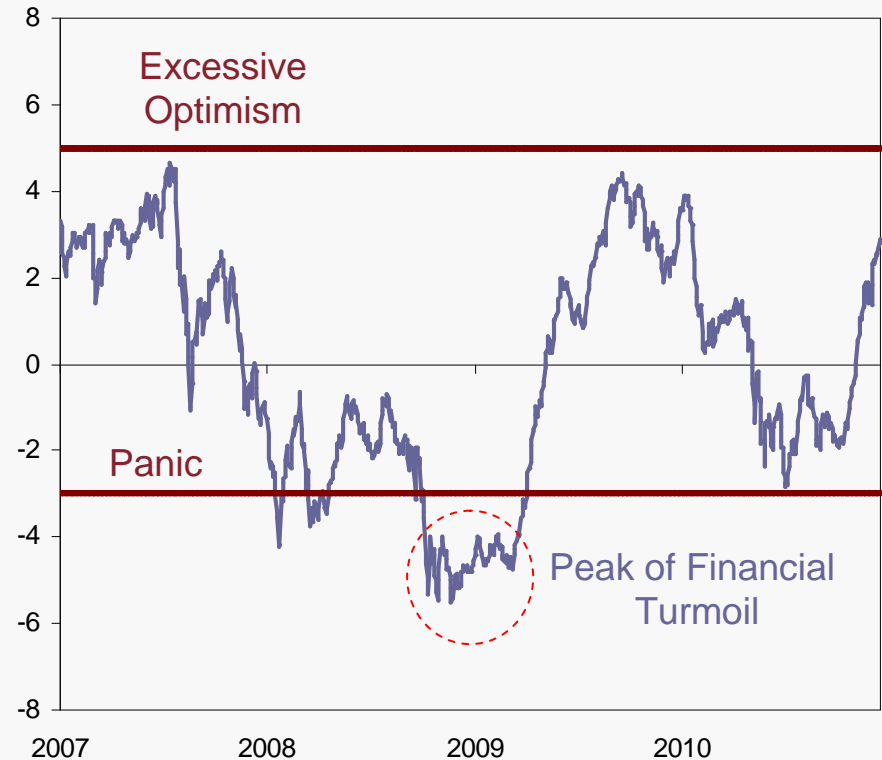
Downside risks pertaining to the pace of recovery in developed countries and vulnerabilities persist. Meanwhile, the growth performance of developing countries is relatively more favorable.

**Industrial Production and World Trade
(2006 = 100)**



Source:: Bloomberg, CBT

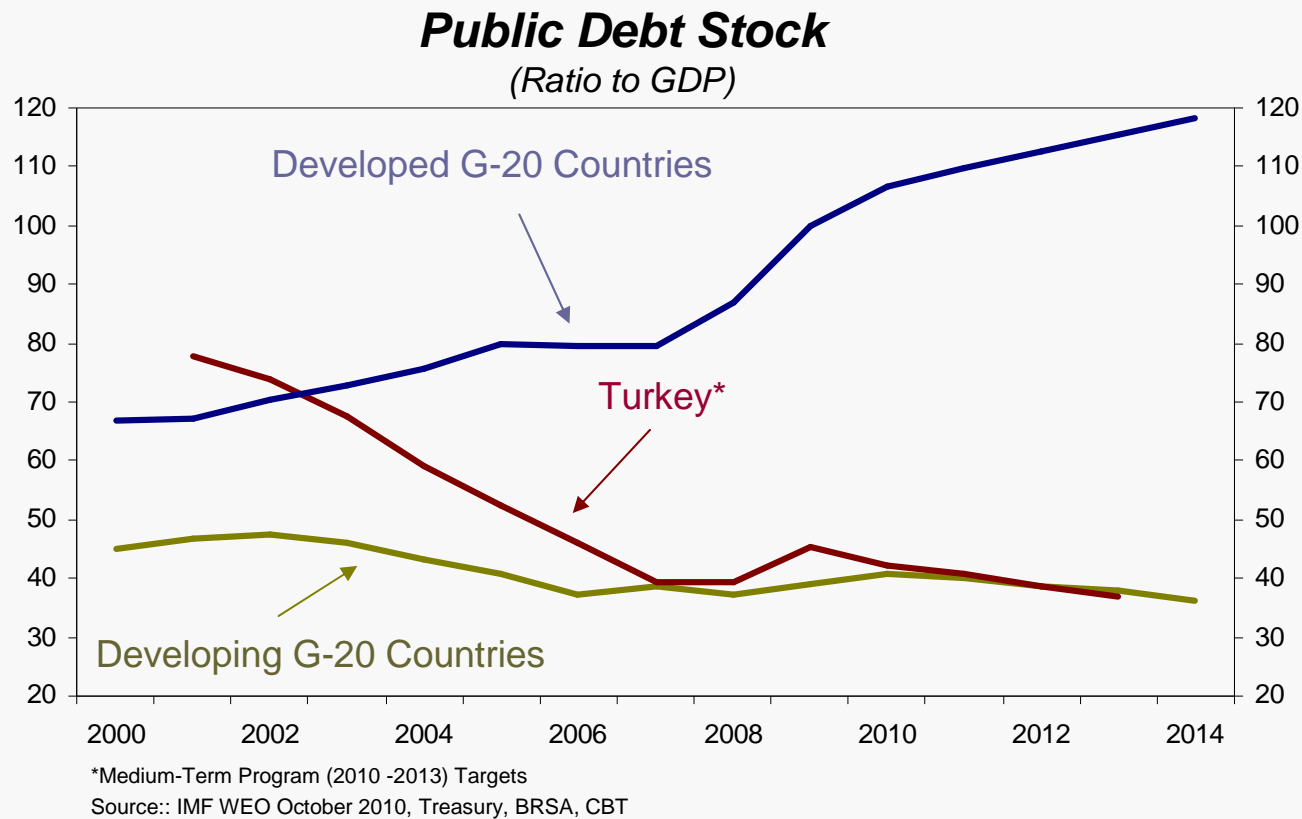
Global Risk Appetite Index



Source:: Credit Suisse, CBT

Course of Public Debts

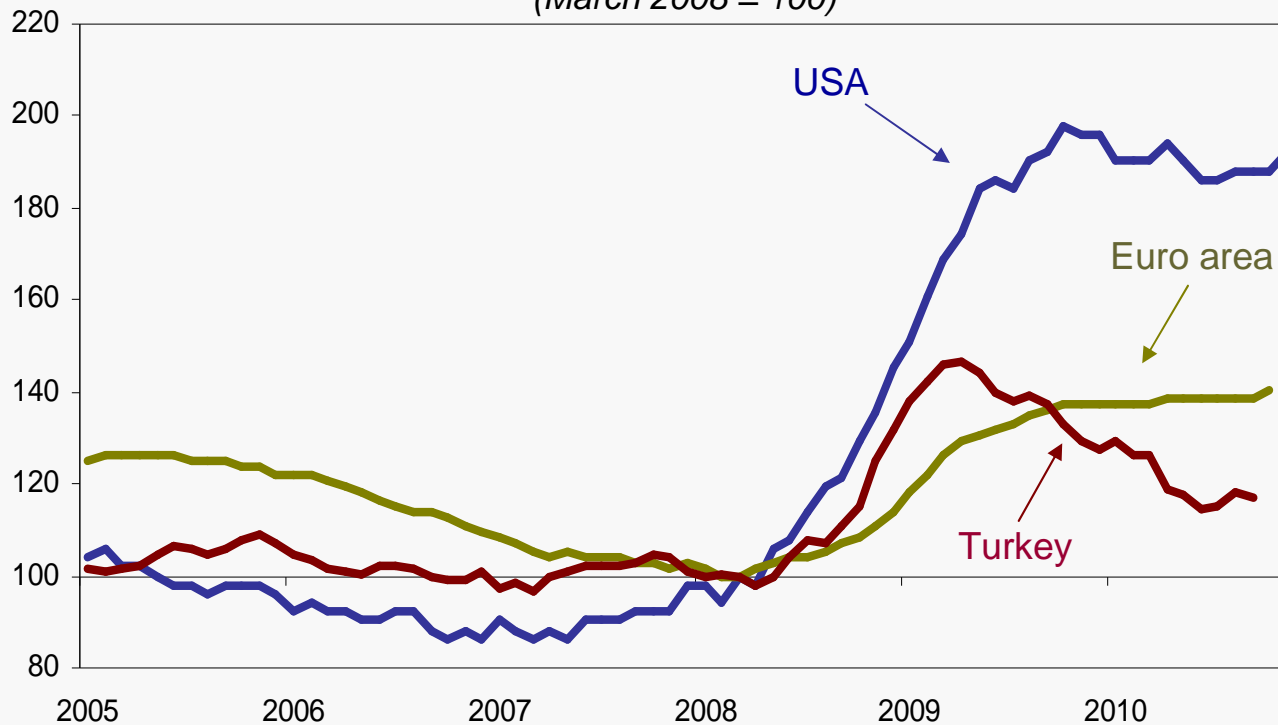
High budget deficits in peripheral countries like Ireland, Spain, Portugal and Greece fuel worries over the sustainability of debts. Turkey's low public debt stock has helped the country stand out in this respect.



The Labor Market

The unfavorable outlook in the labor markets of developed countries persists. As to Turkey, despite continued recovery in employment conditions, unemployment rates are predicted to remain higher than pre-crisis levels for some time.

Unemployment Rates in Turkey, the USA and the Euro area
(March 2008 = 100)



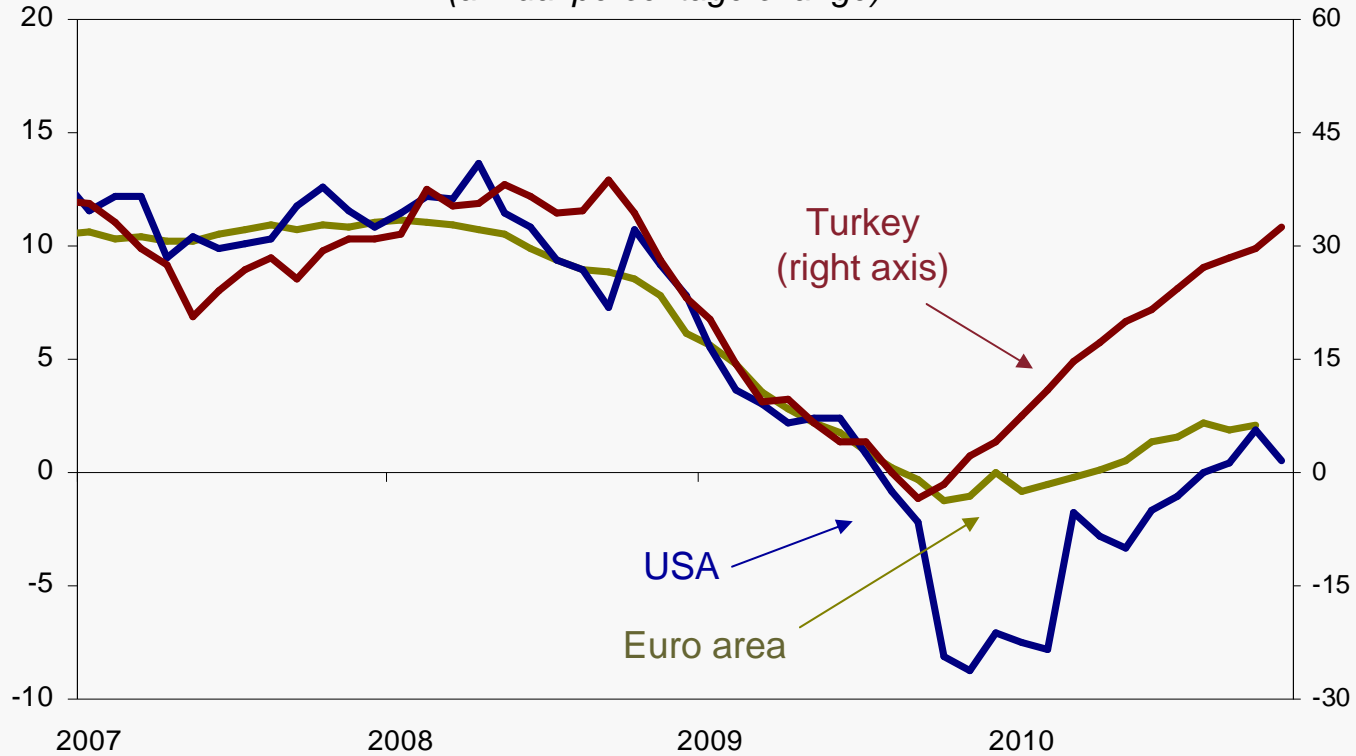
Source: Bloomberg, BRSA, CBT

Credit Developments

Global credit markets still remain stagnant. Compared to advanced economies, Turkey enjoys a rapid increase in credit volume.

Credit Developments in the USA, the Euro area and Turkey

(annual percentage change)



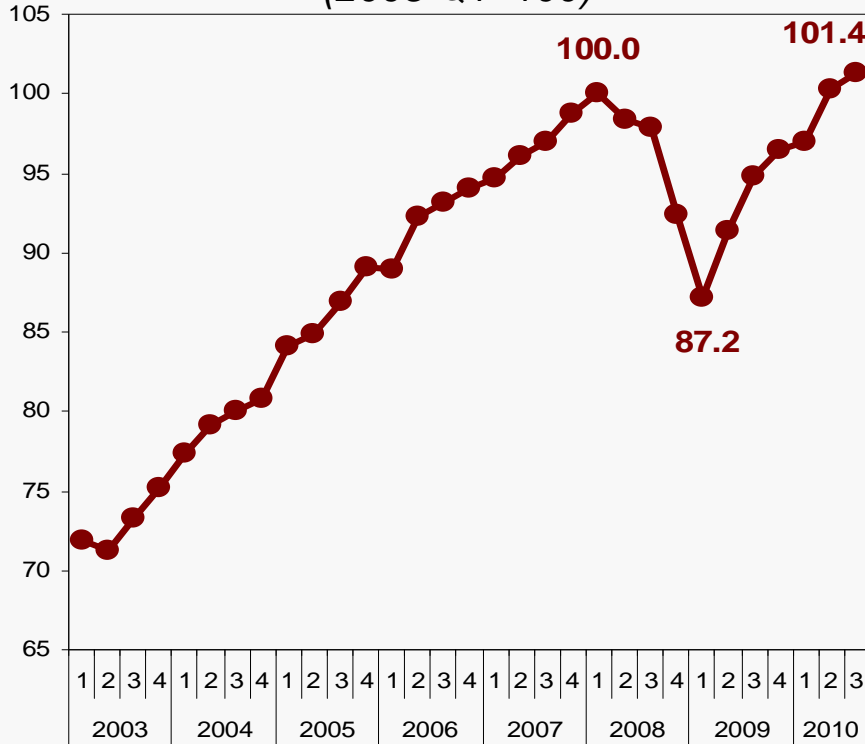
Source: Bloomberg, BRSA, CBT

II. Latest Developments in the Turkish Economy

GDP is above the Pre-crisis Level

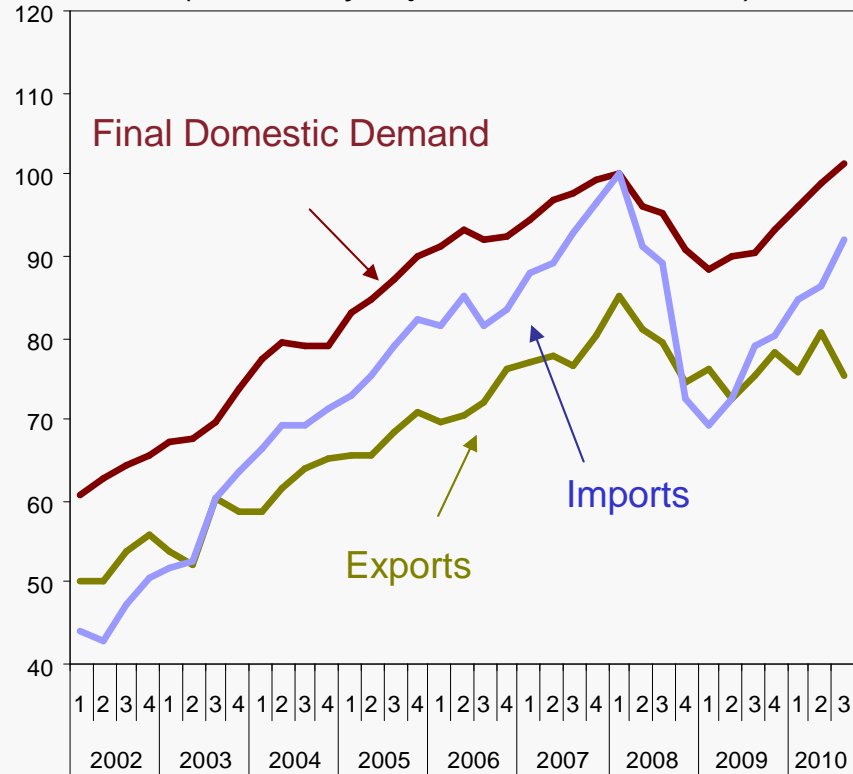
Following rapid growth in the second quarter, a limited slowdown was observed in economic activity in the third quarter due to the lagged effects of financial problems in Europe; the divergence between domestic and external demand became more apparent.

Seasonally Adjusted GDP
(2008 Q1=100)



Source: TURKSTAT, CBT

Trend in Demand Factors
(Seasonally adjusted, 2008 Q1=100)

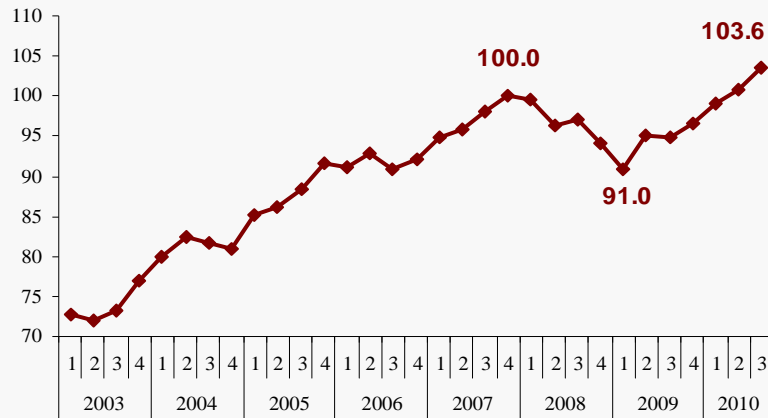


Source: TURKSTAT, CBT

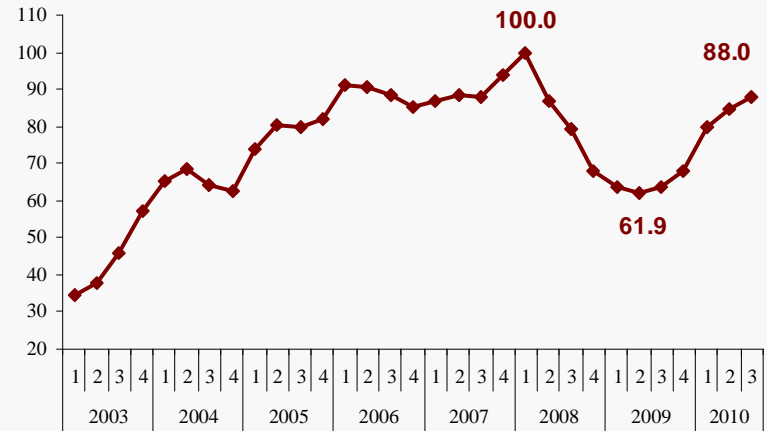
GDP Components

Private consumption and investment expenditures are steadily rising.

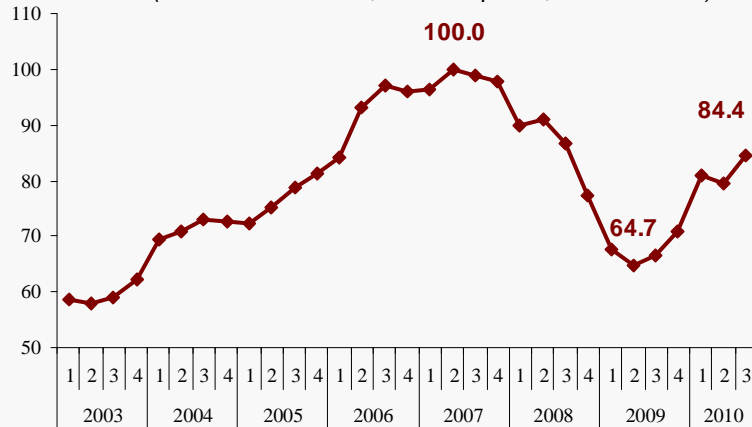
Private Consumption Expenditures*
(2003 Q1 – 2010 Q3, constant prices, 2008 Q1=100)



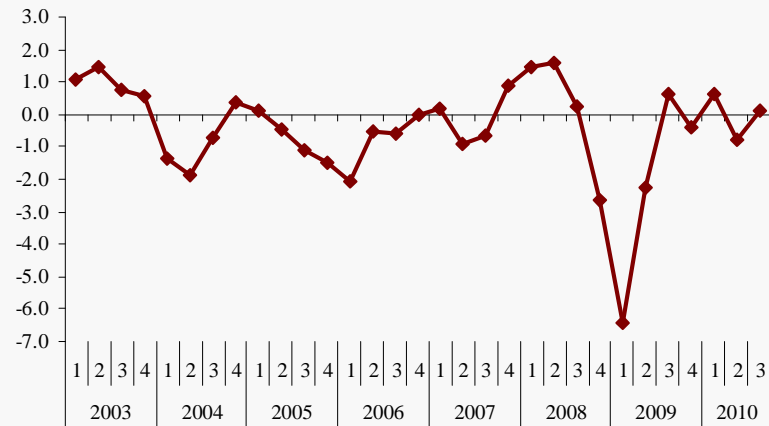
Private Machinery-Equipment Expenditures*
(2003 Q1 – 2010 Q3, constant prices, 2008 Q1=100)



Private Construction Investments*
(2003 Q1 – 2010 3Q, constant prices, 2008 Q1=100)



Stock Expenditures*
(2003 Q1 – 2010 Q3, Ratio to GDP, percent)



* Seasonally adjusted

Source: TURKSTAT, CBT

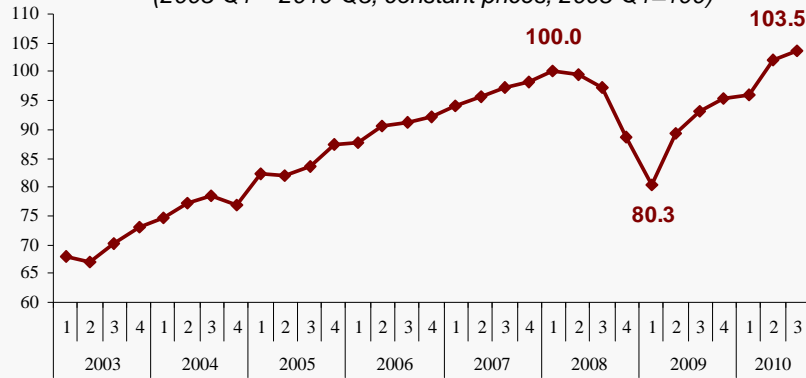
* Seasonally adjusted

Source: TURKSTAT, CBT

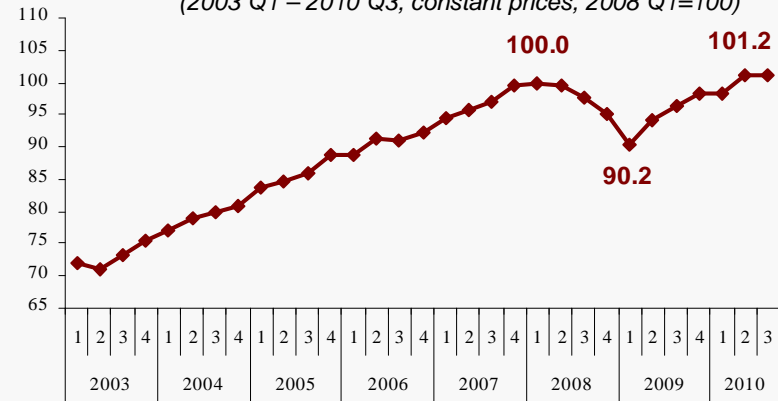
GDP Components

While the value added of the industrial and services sectors surpassed pre-crisis levels, the stable recovery in the value added of the construction sector continued.

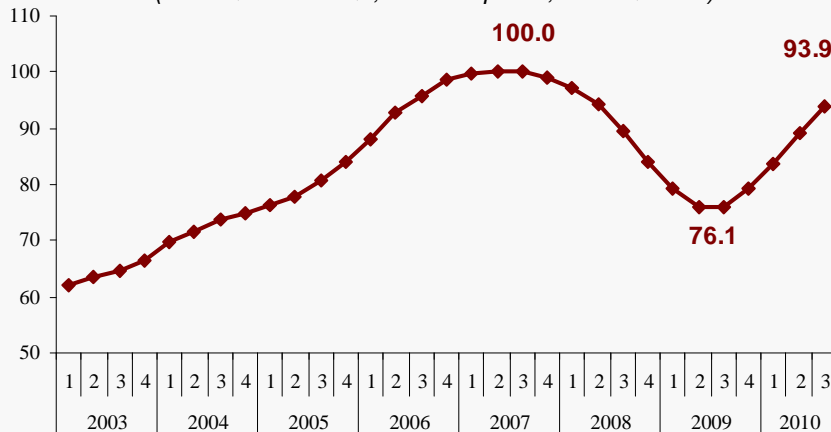
Value Added of Industrial Sector*
(2003 Q1 – 2010 Q3, constant prices, 2008 Q1=100)



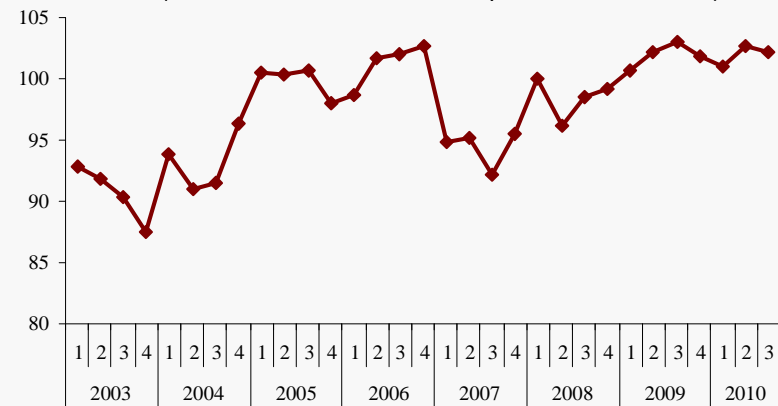
Value Added of Services Sector*
(2003 Q1 – 2010 Q3, constant prices, 2008 Q1=100)



Value Added of Construction Sector*
(2003 Q1 – 2010 Q3, constant prices, 2008 Q1=100)



Value Added of Agriculture Sector*
(2003 Q1 – 2010 Q3, constant prices, 2008 Q1=100)



* Seasonally adjusted

Source: TURKSTAT, CBT

* Seasonally adjusted

Source: TURKSTAT, CBT

Production Indicators are Upwards

Leading indicators pertaining to the final quarter of 2010 suggest that the slowdown in the third quarter was not permanent and recovery in economic activity would accelerate again.

Industrial Production Index
(March 2008=100)



Source:: TURKSTAT, CBT

Capacity Utilization Rate

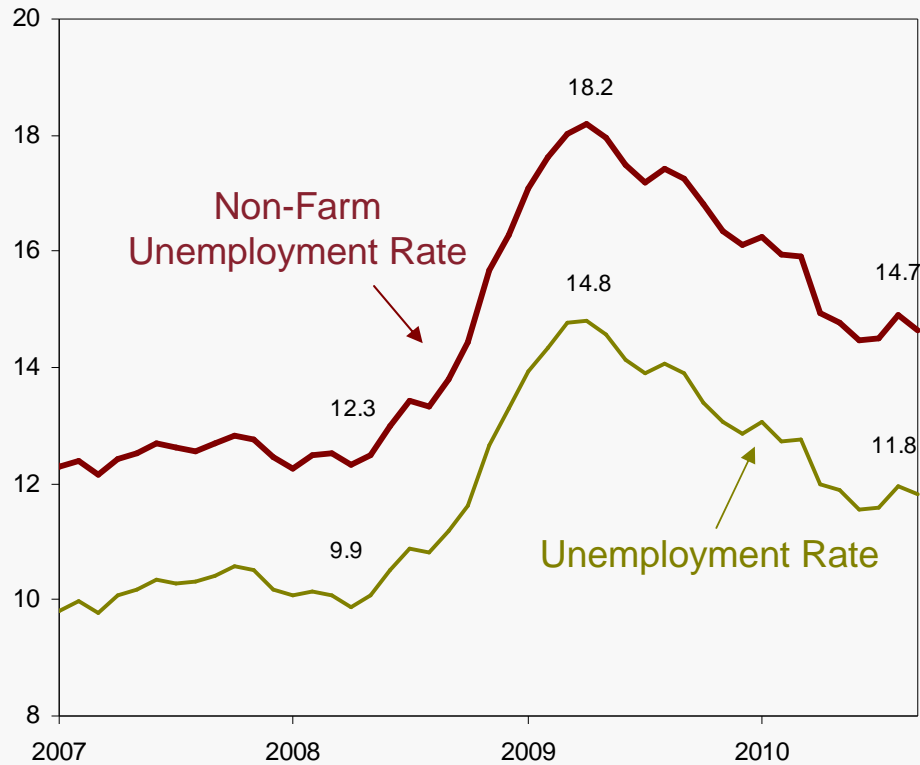


Source:: CBT

Recovery in Employment Conditions

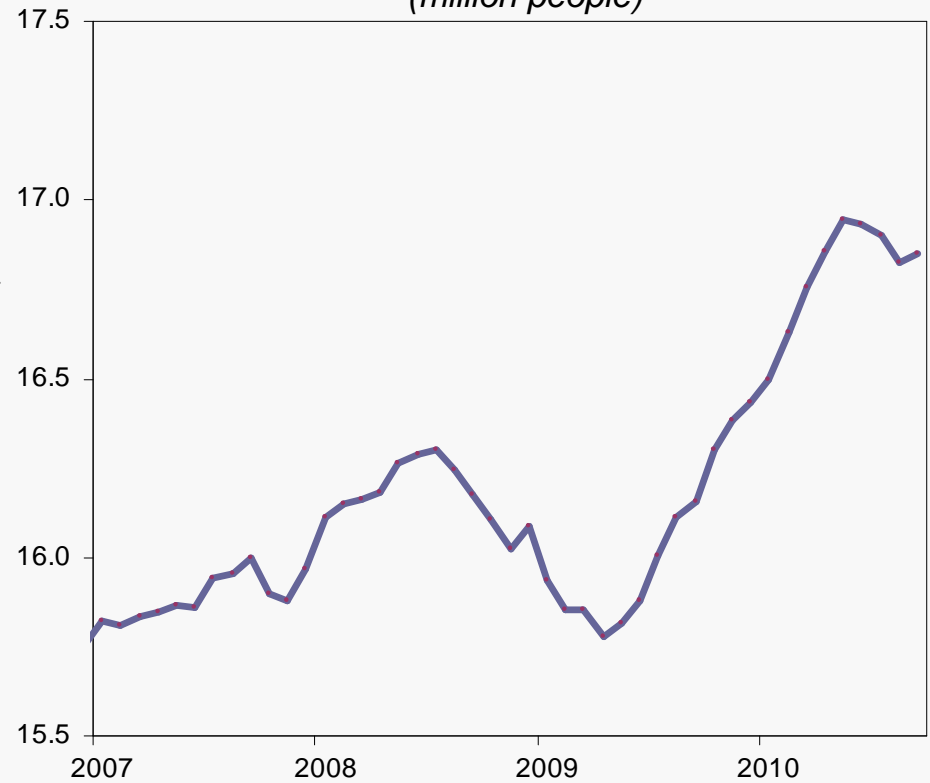
The slowdown in production in the third quarter led to an interruption in the rise in non-farm employment. Nevertheless, the rise in employment is expected to continue on the back of the recovery in economic activity in the final quarter.

Unemployment Rates*
(percent)



*Seasonally adjusted
Source: TURKSTAT, CBT

Non-Farm Employment*
(million people)

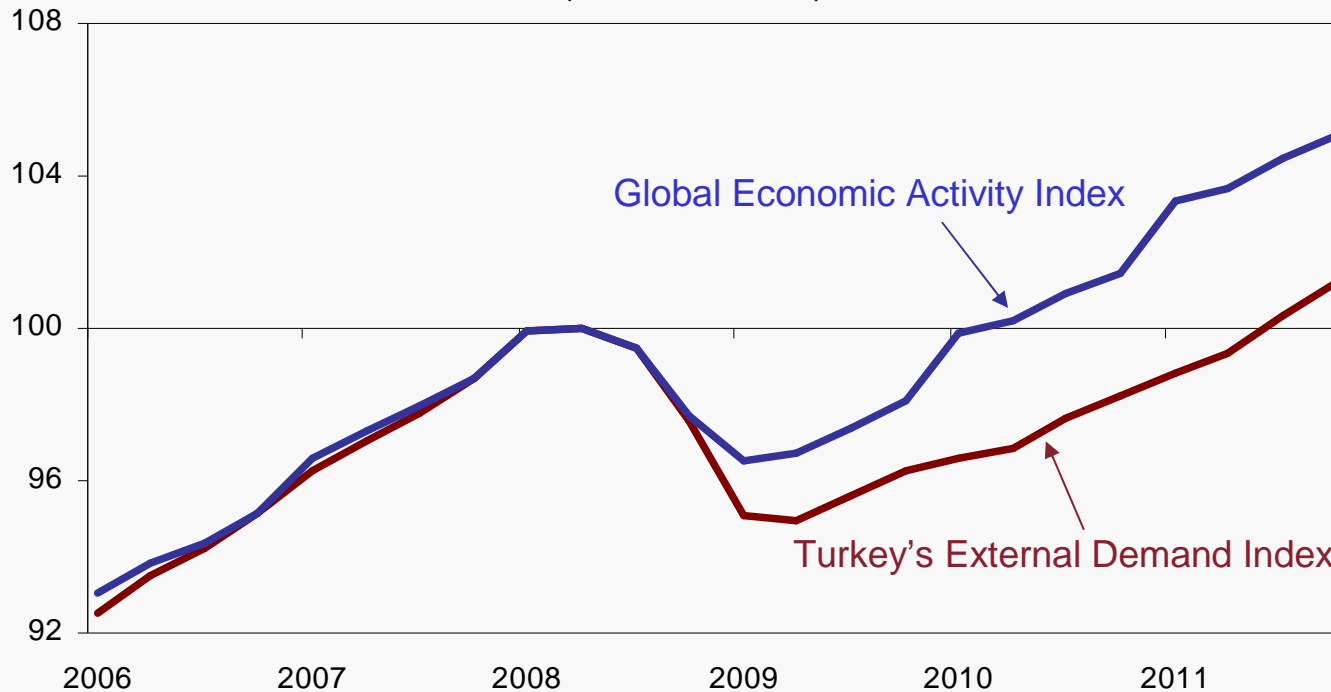


*Seasonally adjusted
Source: TURKSTAT, CBT

Slow and Gradual Recovery in External Demand

The slow and gradual course of recovery in European economies, which have a significant share in Turkey's exports, affects the external demand for goods and services produced by Turkey.

Turkey's External Demand Index*
(June 2008=100)



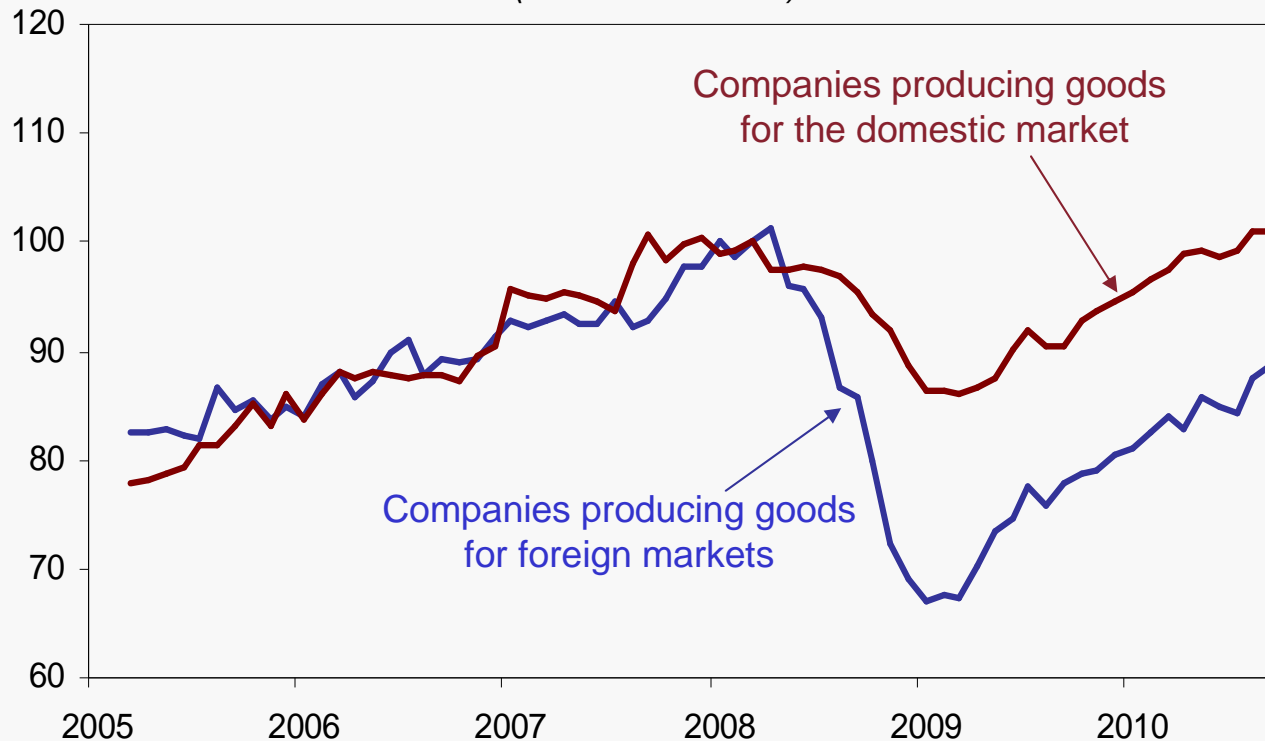
* The shares of countries within the exports of Turkey and weighted GDP data are employed in the calculation of the external demand index of Turkey.

Source: Bloomberg, Consensus Forecasts, IMF WEO, TURKSTAT, CBT

Decoupling in Domestic and External Demand

Due to weak external and strong domestic demand, a significant divergence is observed between the production performance of companies producing goods for foreign markets and those producing for the domestic market.

Industrial Production Index
(March 2008=100)

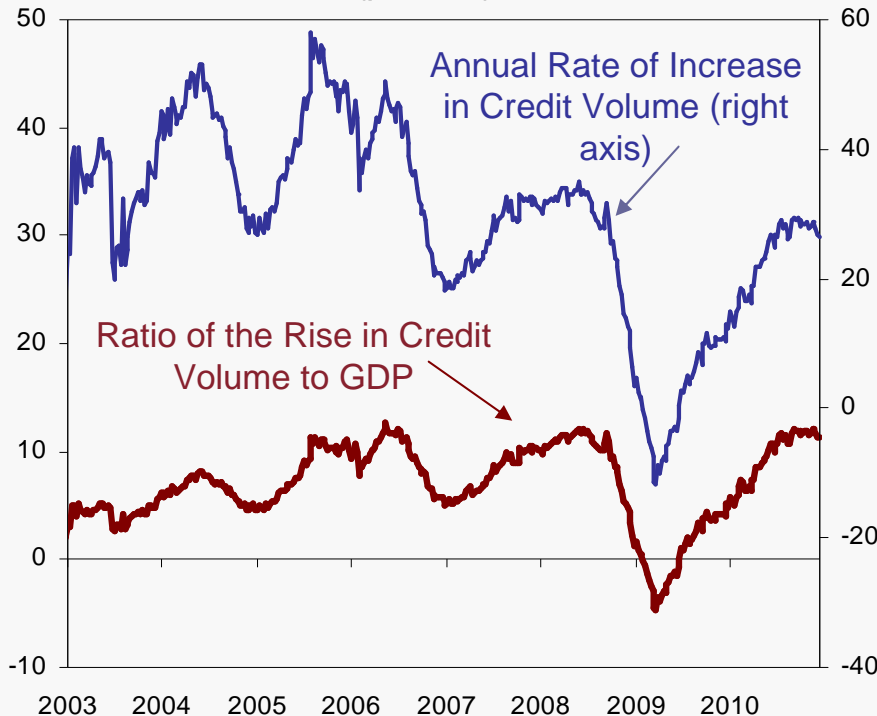


Source: CBT

Expansion in Credit Volume

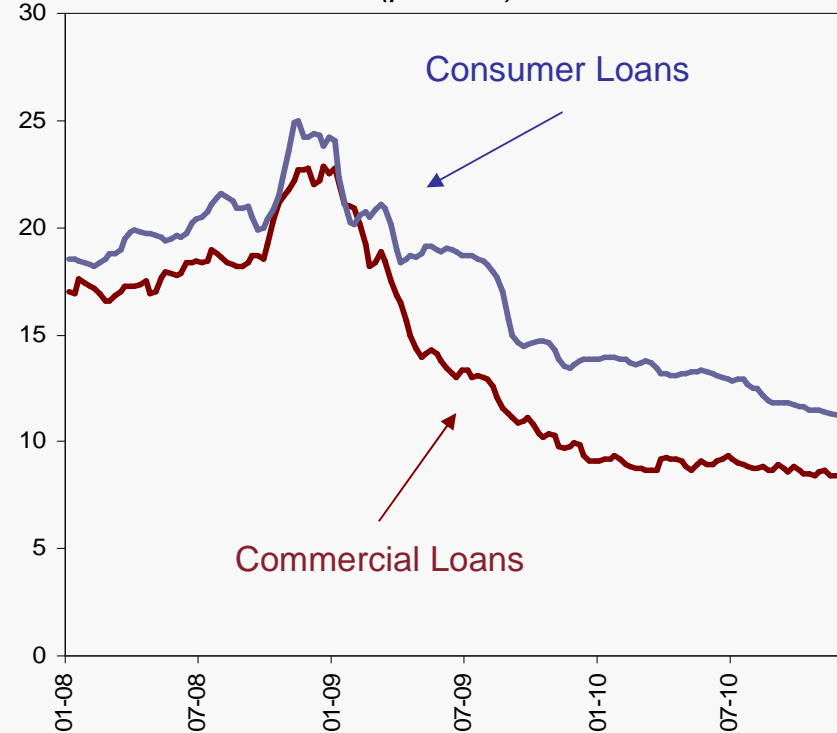
Interest rates of loans remain low, while expansion in the credit volume of banks is above pre-crisis levels in comparison with the size of the economy.

Change in Total Credit Volume*
(percent)



2003 2004 2005 2006 2007 2008 2009 2010
*Total credits extended by deposit, development and investment banks along with consumer financing firms; based on constant exchange rates.
Source:: BRSA, CBT

Interest Rates of Loans*
(percent)

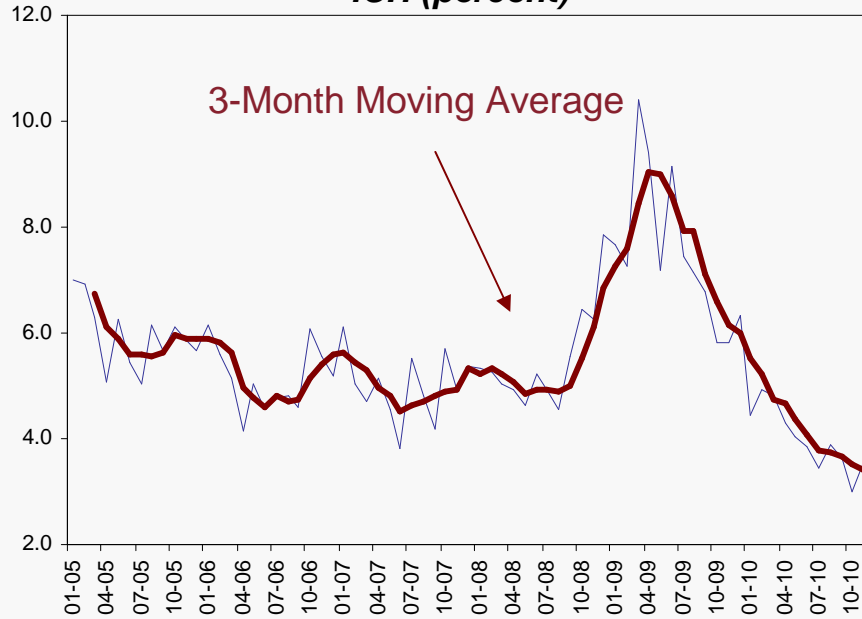


*Two-week moving average
Source:: BRSA, CBT

Commercial Activities

In line with the recovery in economic activity, the number of overdrawn cheques and non-performing loans are decreasing; the increase in the number of new firms is continuing.

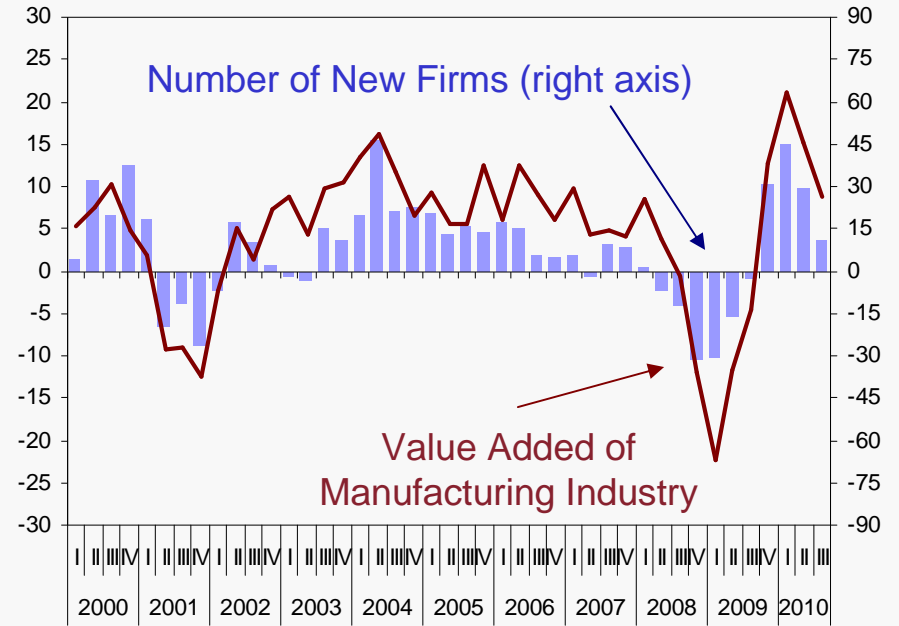
The Ratio of Overdrawn Cheques Presented to the ICH to the total Cheques Presented to the ICH (percent)



2009	2010-I	2010-II	2010-III	2010-IV*
7.66	4.82	3.87	3.63	3.56

*As of November 2010
Source: BTOM (Interbank Clearing Houses Center), CBT

Number of New Firms and GDP Manufacturing Industry (percentage change compared to the same quarter last year)



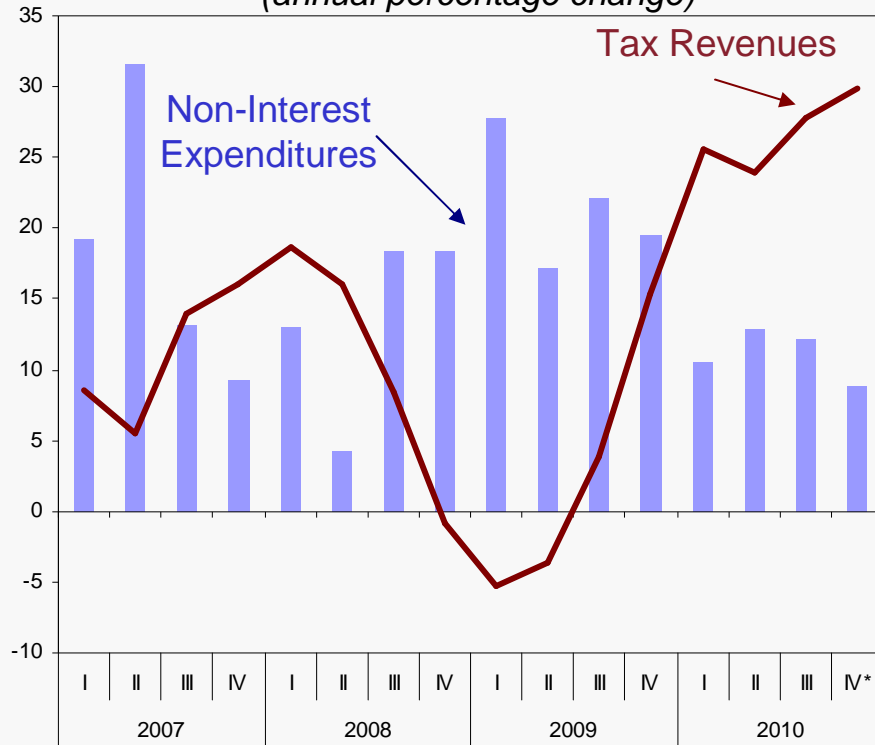
Manufacturing Industry	-11.7	-4.5	12.8	21.2	15.2	8.7
New Firms	-15.8	-2.8	30.5	45.1	29.1	10.7

Source: TOBB, TURKSTAT, CBT

Improvement in Budget Balances

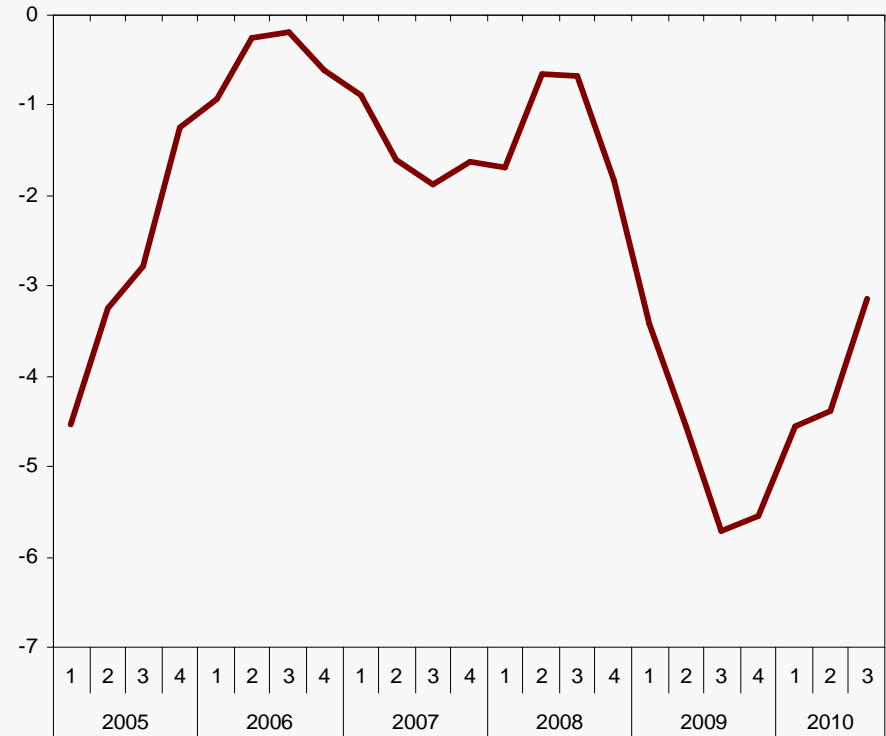
The additional increase in income owing to the stronger-than-expected recovery in economic activity is mainly used to lower public debt.

Central Government Tax Revenues and Non-Interest Expenditures
(annual percentage change)



Source:: Ministry of Finance, CBT

Central Government Budget Balances
(Ratio to GDP, percent)



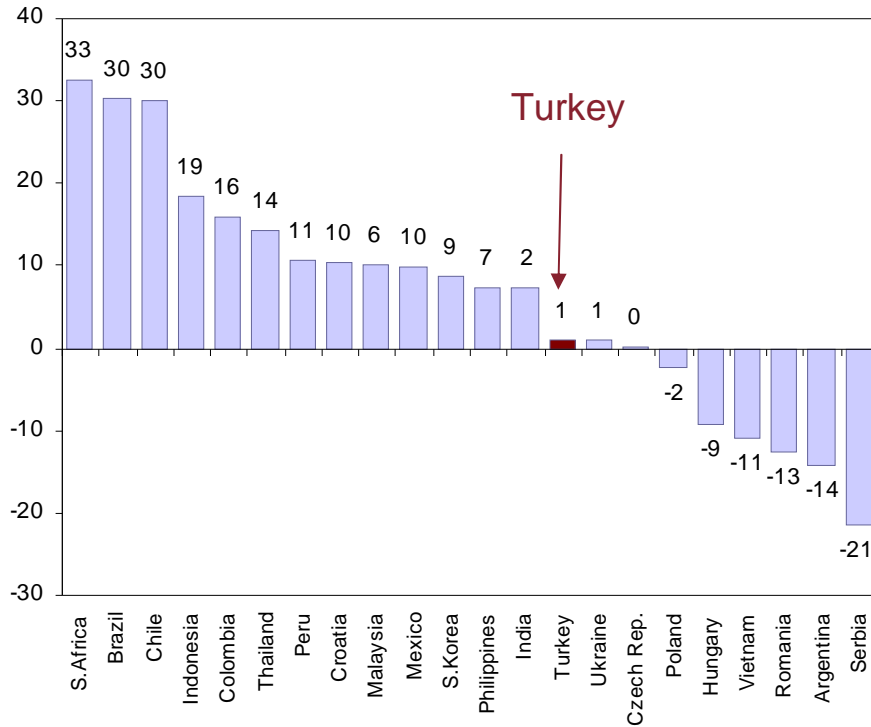
Source:: Ministry of Finance, TURKSTAT, CBT

Exchange Rate Developments

There has been no decoupling between the Turkish lira and national currencies of other developing countries during the recovery process.

Appreciation of National Currencies Against US dollar

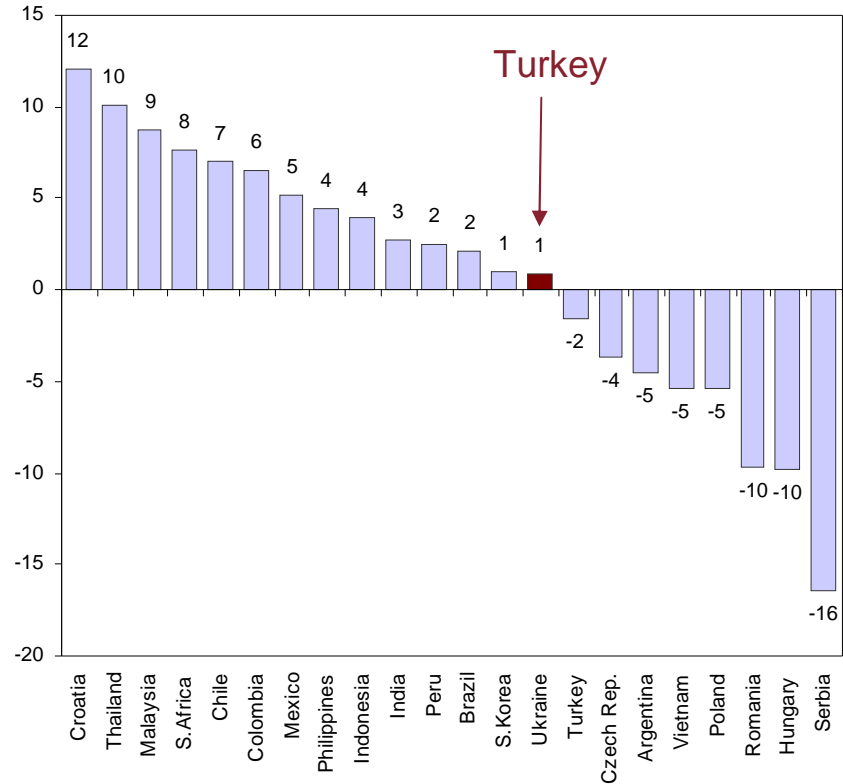
(Starting from January 2009, percentage change)



Source:: Bloomberg, CBT

Appreciation of National Currencies Against US dollar

(Starting from January 2010, percentage change)

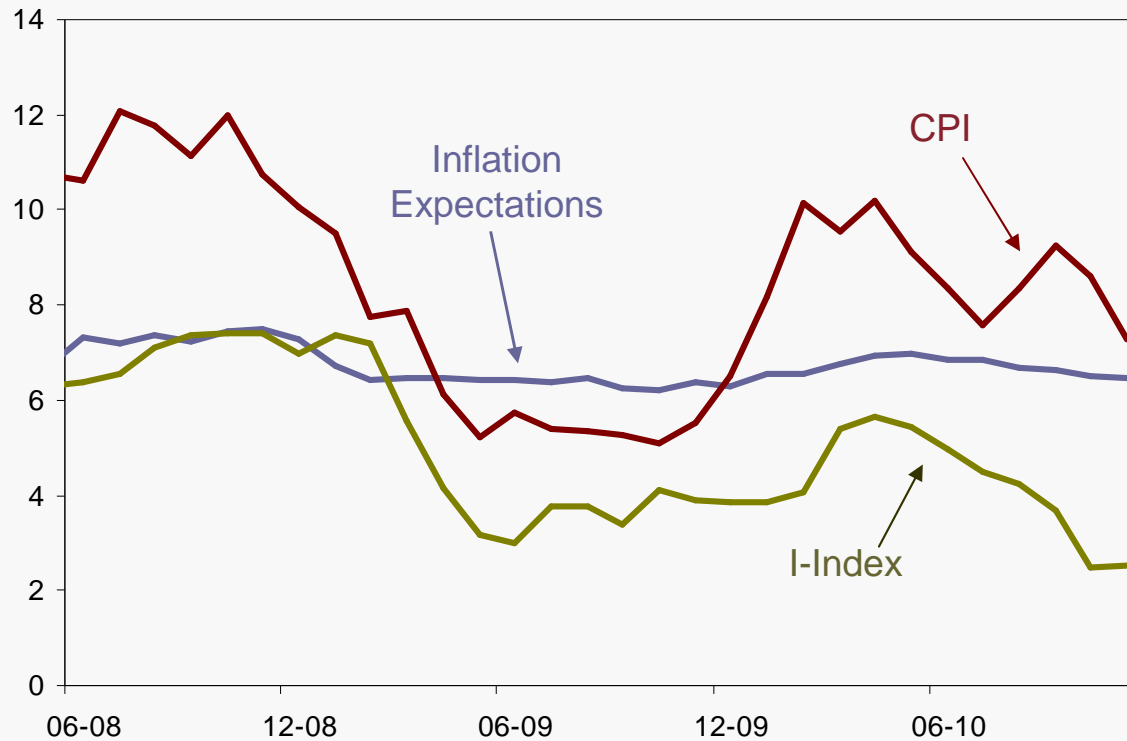


Source:: Bloomberg, CBT

Inflation Developments

Despite the supply-side shocks in food prices, there is no deterioration in pricing behavior; core inflation indicators remain consistent with medium-term targets.

Inflation and Expectations
(annual percentage change)

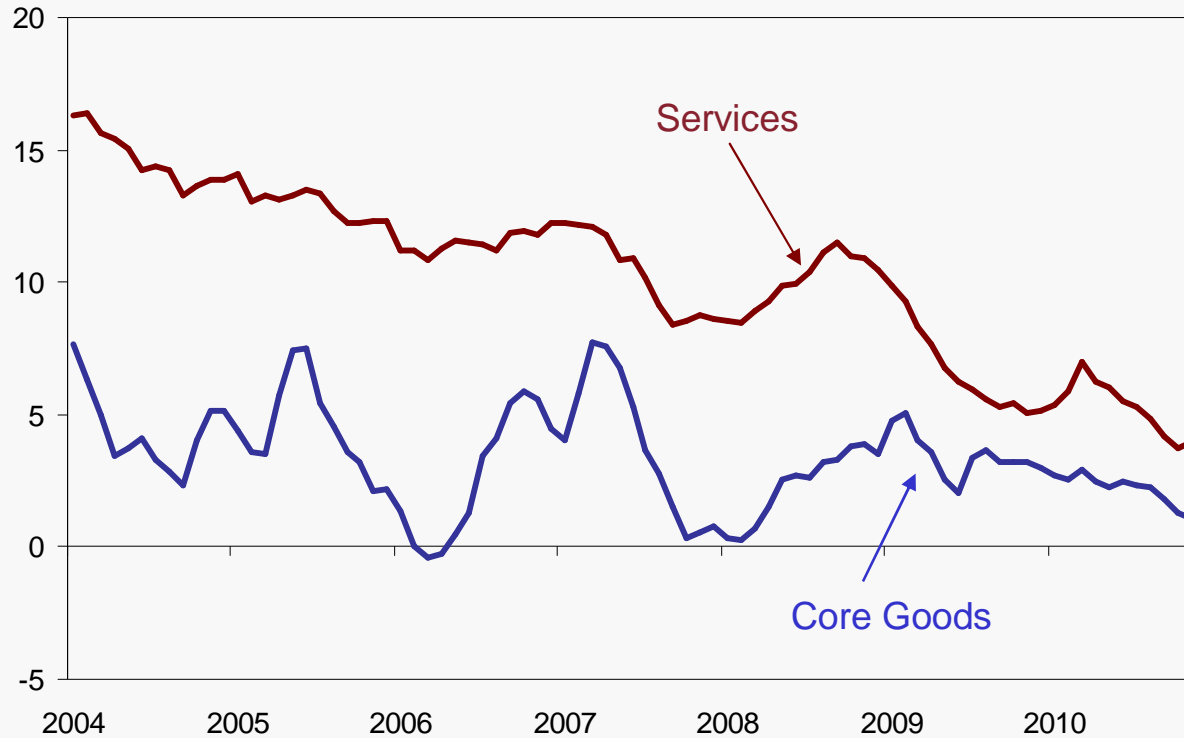


Source:: TURKSTAT, CBT

Inflation Developments

The benign course of annual services inflation and the positive outlook in prices of core goods continue.

Goods and Services Inflation
(annual percentage change)

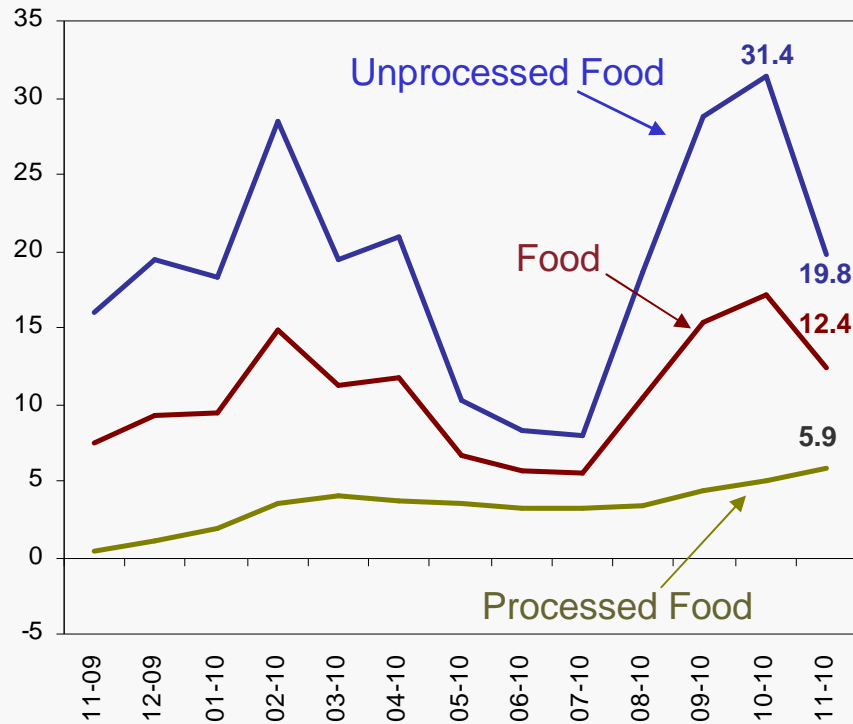


Source: TurkStat, CBT

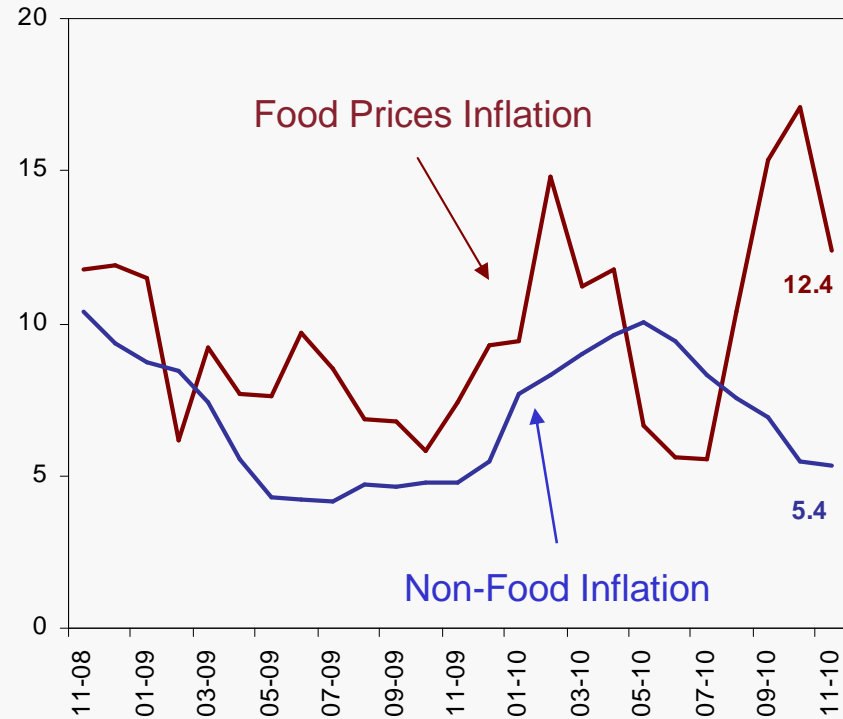
Inflation Developments

The downward revision in unprocessed food prices contributed to the downward course of inflation. It is expected that inflation will continue to fall in the upcoming period, on the back of the revision in unprocessed food prices.

Food Prices
(percent)



Source: TurkStat, CBT

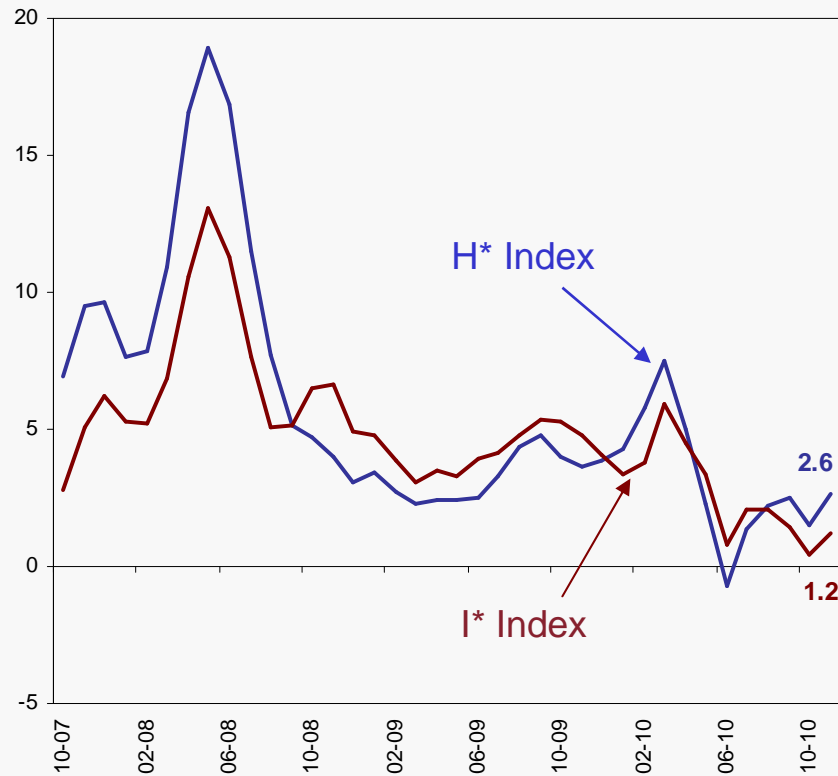


Source: TurkStat, CBT

Inflation Developments

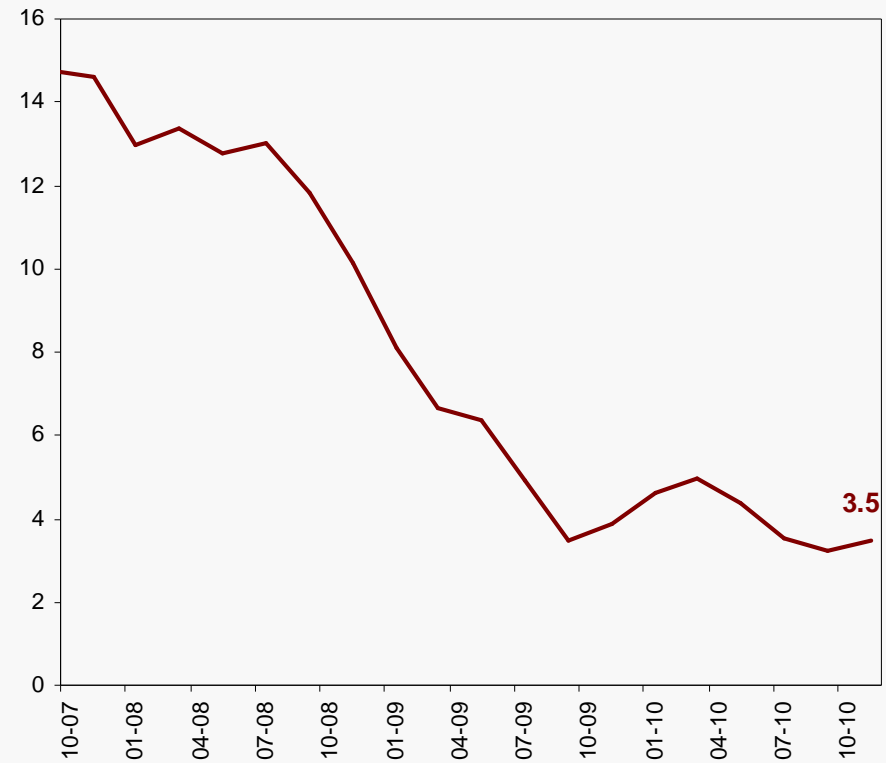
Core price indicators are consistent with medium-term inflation targets.

**Seasonally Adjusted H and I*
(Annualized, 3-Month Averages)**



Source: TurkStat, CBT

**Seasonally Adjusted Rent
(Annualized, 2-Month Averages)**



Source: TurkStat, CBT

III. Monetary Policy

Mandates of the Central Bank

- ***“The primary objective of the Bank shall be to achieve and maintain price stability” (CBRT Law, Article 4)***
- ***“To take precautions for enhancing stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets” is one of the main mandates of the Bank (CBRT Law, Article 4g)***
- **As stipulated by Law, the Central Bank is one of the institutions responsible for financial stability in Turkey.**
- **Unlike other institutions in charge of supervision and regulation, the Central Bank approaches financial stability from a macro perspective.**

The Relationship Between Price Stability and Financial Stability

- **There is no incongruity between Price Stability and Financial Stability; they are indeed complementary targets.**
- **One of the factors that fueled the global crisis is that central banks of developed countries ignored financial stability while focusing on price stability.**
- **For instance, although the Federal Reserve kept inflation at low levels with its monetary policy between 2003 and 2007, it caused an excessive increase in debt ratios and asset prices, contributing to deterioration in financial stability.**

Post-Crisis Economic Climate

- **Turkey has been able to prevent the emergence of financial risks in the country owing to the prudent monetary and fiscal policies it has implemented since 2002 as well as its regulatory and supervisory practices with regard to the banking system, and has joined the ranks of economies that have exited the global crisis rapidly.**
- **Economic policies should be designed in line with the new economic circumstances in the recovery process, as has been done during the global crisis.**

Post-Crisis Economic Climate

- The additional measures we have taken recently should be perceived as a preparation for the new economic climate which is likely to dominate the global economy in the upcoming period.
- The main feature of this new economic climate is,
 1. As a result of intensive capital inflows to reliable and dynamic emerging market economies,
 2. Emergence of the risks related to overheating, excessive indebtedness and the emergence of asset bubbles and
 3. The probability of elevated levels of current account deficits threatening financial stability.

Main Differences of the New Economic Climate

- **Main differences between the period 2003-2007 and the post-crisis economic climate should be well understood:**
 1. **Widening discrepancy between domestic and foreign demand:** Foreign demand remains weak on the back of problems experienced in developed countries and is expected to stay unchanged for some time.
 2. **Intensive capital inflows to emerging markets:** The discrepancy of growth between advanced and emerging market economies has soared significantly and this situation will persist in the medium-term.
 3. **Change in the composition of capital flows:** The uncertainty and weakness in the global economy reduces the appetite for direct investments; capital flows materialize in the direction of portfolio rather than direct investments.
 4. **Turkey's sound financial structure:** The end of fiscal dominance and a sound financial system expand the Central Bank's room for maneuver.

Risks posed by the New Economic Climate

- **In an economy, interest rate levels required for price stability and financial stability are not always congruent with each other.**
- **In case of overheating, an interest rate policy that contains inflation could fall short of preventing the emergence of financial risks.**
- **On the other hand, in case of a severe recession, a much lower level of interest rate may be required to restore financial stability.**

Solution: Diversification of Policy Instruments

- **Under the current economic conditions, it does not seem to be possible to simultaneously ensure price stability and financial stability by means of policy rates alone.**
- **Solution: Using macroprudential instruments in coordination with all the relevant public authorities.**
- **Instruments:**
 1. **Required reserve ratios**
 2. **Liquidity management of the Central Bank**
 3. **Capital reserve ratios**
 4. **Liquidity adequacy ratios**
 5. **Taxes**
 6. **Primary expenditures**

Central Bank and Emphasis on Financial Stability

The Central Bank has been emphasizing financial stability as well as price stability for quite some time and has been sharing the outlines of its prospective monetary policy of this new conjuncture with the public via various communication tools.

- **14 APRIL 2010:** “...the exit strategy will be a cautious and gradual process that safeguards financial stability”. (*Monetary Policy Exit Strategy*)
- **15 JULY 2010:** “... Should the divergence in growth rates between domestic and external demand continue in the forthcoming period, it would be necessary to utilize other policy instruments such as reserve requirement ratios and liquidity management facilities more effectively.” (*Summary of the Monetary Policy Committee Meeting*)
- **27 JULY 2010:** “The CBT will closely monitor the possible implications of credit growth on financial stability as well as asset prices, and will adjust the reserve requirement ratio if necessary.” (*Inflation Report*)

Central Bank and Emphasis on Financial Stability

- **19 AUGUST 2010:** “If this pattern of growth coexists with rapid credit expansion and a deterioration in the current account balance, consequently leading to financial stability concerns, it would be necessary to utilize other policy instruments such as reserve requirement ratios and liquidity tools more effectively.” (*Summary of the Monetary Policy Committee Meeting*)
- **16 SEPTEMBER 2010:** “The Committee noted the continuing divergence between external and domestic demand and indicated that the composition of demand should be closely monitored especially in terms of risks regarding the current account balance and financial stability.” (*Summary of the Monetary Policy Committee Meeting*)
- **17 SEPTEMBER 2010:** “The policy to be followed in the upcoming period for financial stability will have four main aspects: (1) Utilizing more equity capital, more prudent borrowing; (2) Extending the maturities of domestic and foreign borrowing and deposits; (3) Strengthening the FX positions of public and private sectors; (4) More effective risk management.” (*Presentation at Turkish Exporters Assembly*)

Central Bank and Emphasis on Financial Stability

- **4 OCTOBER 2010:** “The primary objective of the Central Bank of the Republic of Turkey is to achieve price stability. Nevertheless, the primary mandates of the Central Bank are not limited to the maintenance of price stability. The CBRT Law entrusts the Central Bank with the responsibility of taking precautions to enhance stability in the financial system and taking regulatory measures with respect to money and foreign exchange markets.” (*Presentation at the Banks Association of Turkey*)
- **13 OCTOBER 2010:** “The Committee stated that, should the disparity between domestic demand and external demand continue, it would be necessary to utilize other policy instruments such as reserve requirement ratios and liquidity management facilities more effectively, to address financial stability concerns including rapid credit expansion and a deterioration in the current account balance.” (*Summary of the Monetary Policy Committee Meeting*)
- **26 OCTOBER 2010:** “Should capital inflows continue, the divergence in growth rates between domestic and external demand is likely to intensify in the forthcoming period. Additional policy instruments other than short-term policy rates would be needed to curb the risks emanating from this channel.” (*Inflation Report*)

Central Bank and Emphasis on Financial Stability

- **11 NOVEMBER 2010:** “The surge in capital inflows exacerbates the divergence between the growth rates of domestic and external demand, widening the current account deficit through rapid credit growth and increasing import demand, thereby highlighting the risks regarding financial stability. The Committee once again underscored that, to limit such risks, other policy instruments such as reserve requirement ratios and liquidity management facilities may be used more effectively as macroprudential tools.” (*Summary of the Monetary Policy Committee Meeting*)
- **7 DECEMBER 2010:** “Monetary policy implemented by the Central Bank is shaped within a framework where price stability and financial stability complement each other... (In developed countries) The materialization of Scenario 1 has become more likely (as a result of) monetary expansion ... In this case, it would be appropriate to use macroprudential instruments effectively in the direction of tightening in order to cut the pace of credit growth alongside temporary rate cuts.” (*Financial Stability Report*)

Policy Framework

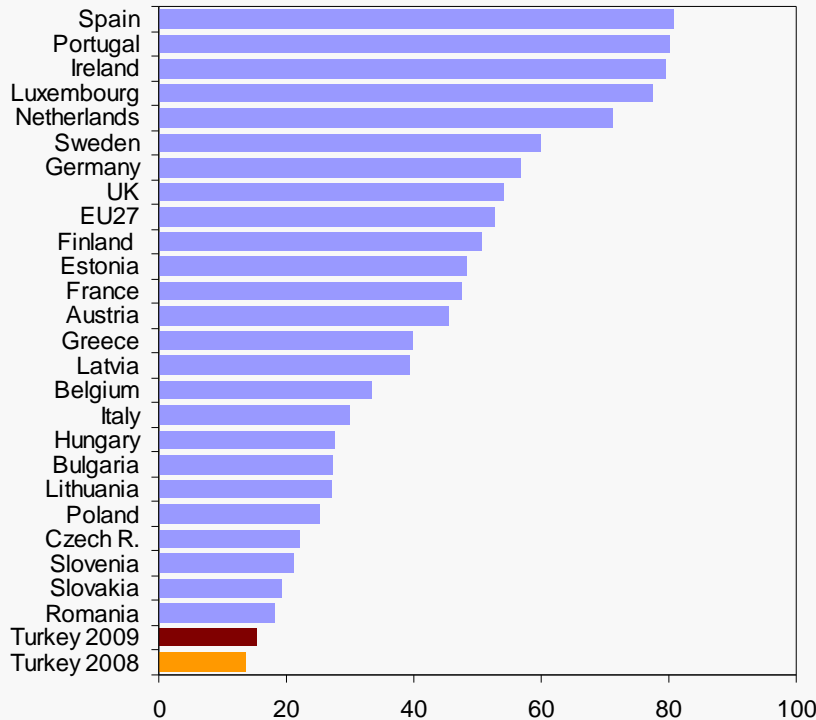
Factors to be considered for financial stability

1. **Debt ratios: *Use of more equity capital and more prudent borrowing***
2. **Borrowing maturities: *Extending maturities of domestic and foreign borrowing and deposits***
3. **FX Positions: *Strengthening FX positions of public and private sectors***
4. **Risk management processes and method: *More effective management of exchange rate risk via instruments such as the Turkish Derivatives Exchange***

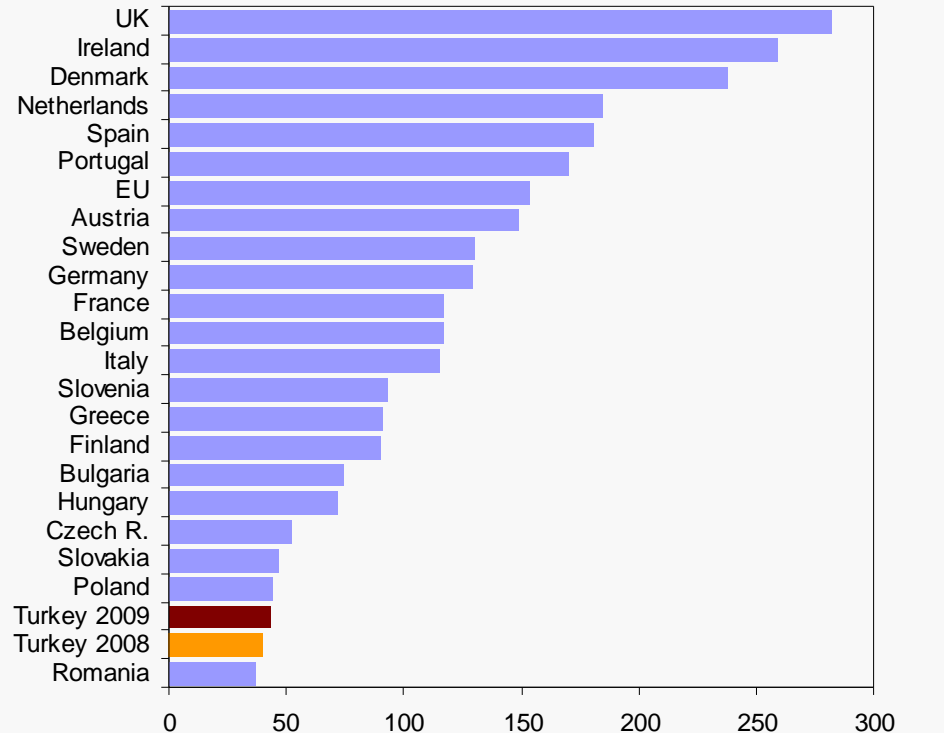
Low Debt Ratios

The low debt ratio of Turkey has been the determinant of the country's rapid recovery following the global financial crisis. Debt ratios of the private sector are expected to be kept at modest levels in the upcoming period as well.

Household Liabilities
(ratio to GDP, percent)



Bank Loans
(ratio to GDP, percent)



*Parallel to the data for the EU, non-performing loans and financial leasing receivables are also included in the data for credits in Turkey.

Source: Eurostat, ECB, TurkStat, BRSA, CBT

Source: ECB, TurkStat, CBT

Policy Framework

Factors to be considered for financial stability

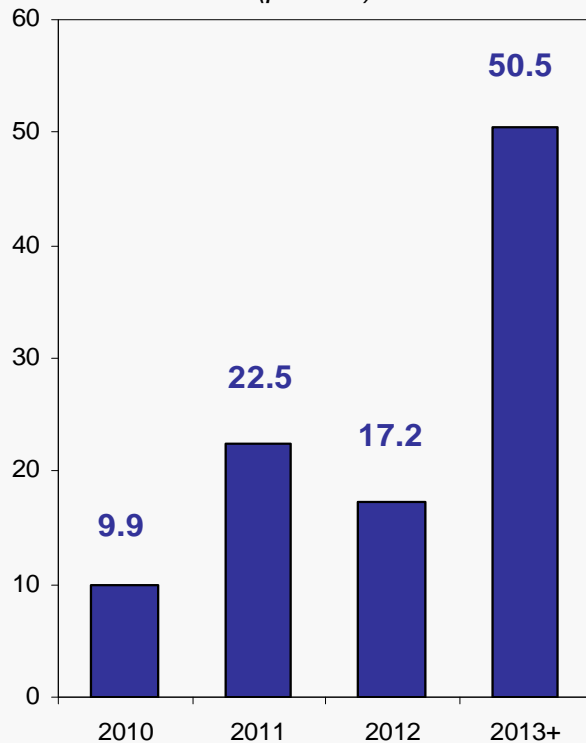
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Maturity Structure of Borrowing

While the maturity structure of corporate and public borrowing has been extended, that of deposits remains quite short. Extending the maturities of borrowing and deposits will enhance the resilience of our financial system.

Maturity of Long-Term Foreign Borrowing of Firms

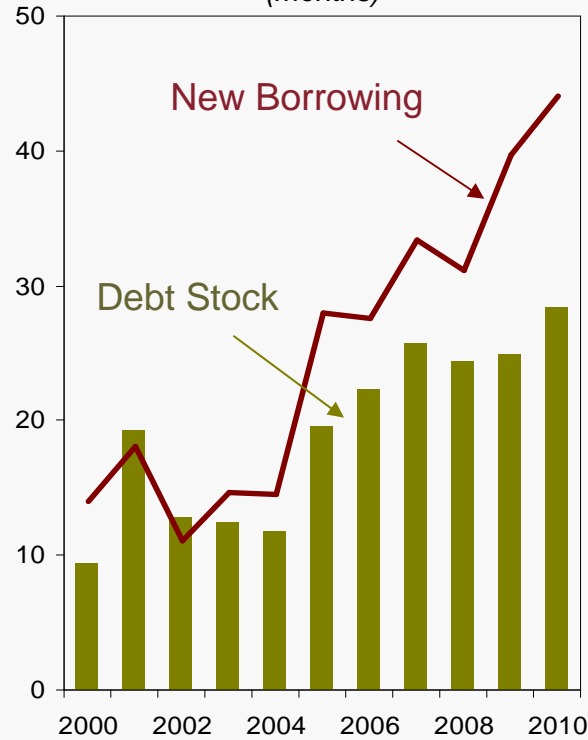
(percent)



Source: CBT

Maturity Structure of Domestic Public Borrowing

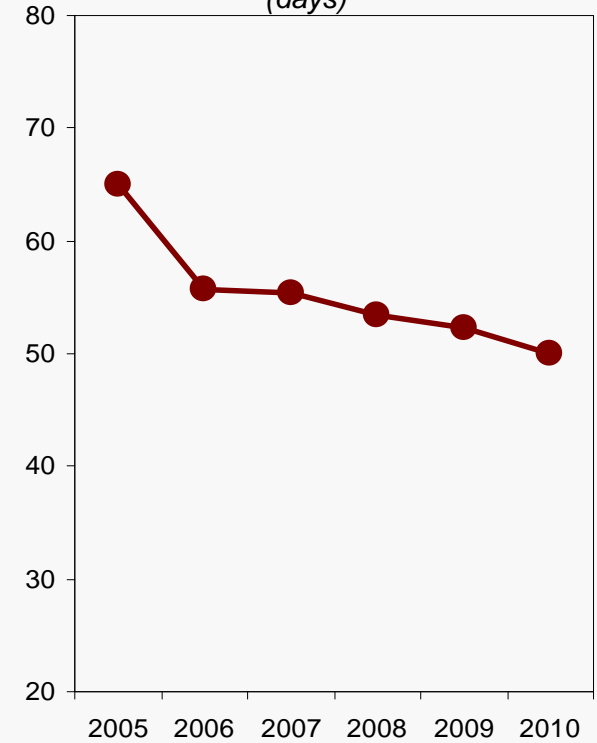
(months)



Source: Undersecretariat of Treasury, CBT

Maturity Structure of Deposits

(days)



Source: BRSA, CBT

Policy Framework

Factors to be considered for financial stability

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FX Positions

Foreign exchange positions of the public sector and financial sector are balanced; while that of households is long and firms is short. Opting to borrow in Turkish lira in the forthcoming period will contribute to financial stability.

<u>Public Sector</u> ~ Balanced (ratio to GDP - 1%)	<u>Household</u> Long (ratio to GDP + 8%)
<u>Financial Sector</u> ~ Balanced (ratio to GDP + 0%)	<u>Firms</u> Short (ratio to GDP - 12%) (Short term net position: less than 1%)

Policy Framework

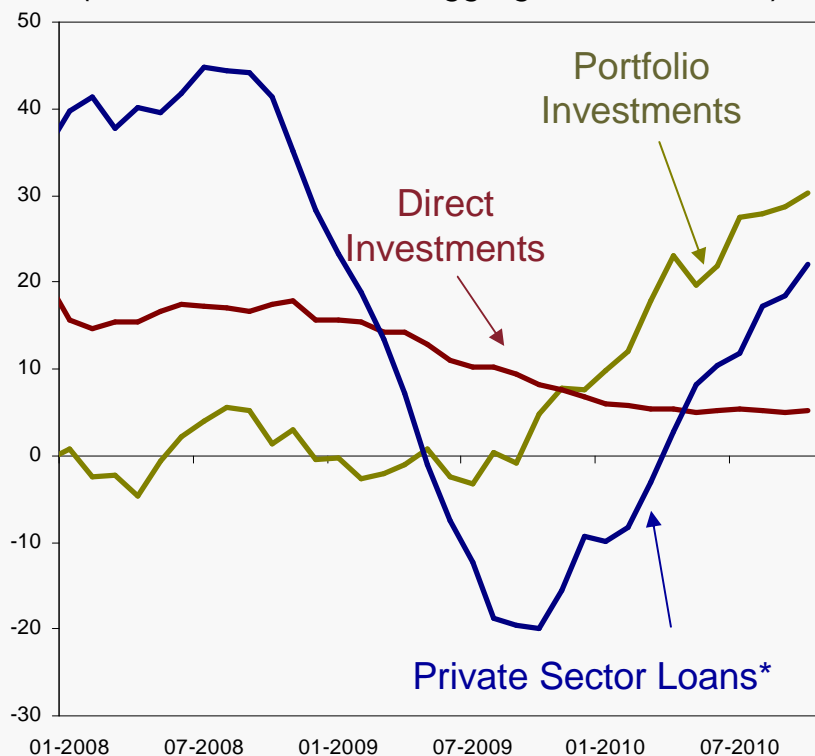
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Current Account Deficit and Financial Stability

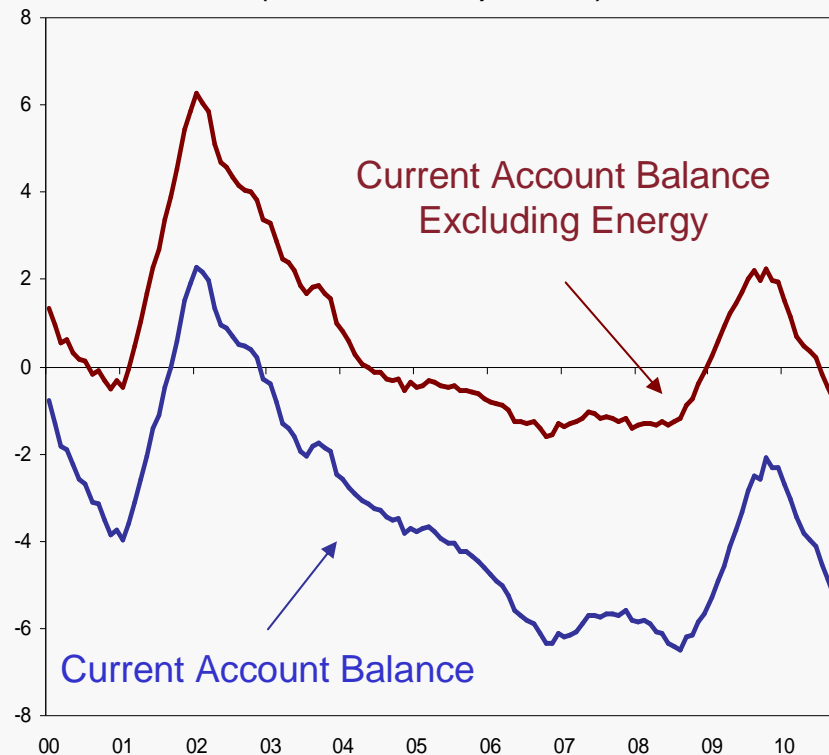
Both the capital inflow to Turkey and the current account deficit have recently displayed significant increases. The shares of direct investments and the private sector's loans decreased; while portfolio investments increased compared to pre-crisis levels.

Sub-categories of Balance of Payments
(12-month cumulative aggregate, billion USD)



* Adjusted for the amendment made to the Decree No.32
Source: TurkStat, CBT

Current Account Balance
(ratio to GDP, percent)



Source: TurkStat, CBT

Current Account Deficit and Financial Stability

The current account deficit may widen through two channels.

- 1) An acceleration of credit, domestic demand and demand for imported goods, due to the increased availability of ample low-cost borrowing opportunities,
- 2) An acceleration of demand for imported goods due to the current real appreciation trend of TRY reaching levels that are inconsistent with economic fundamentals.

Ideal Policy Mix To Curb the Rising Current Account Deficit

- **An increase in the policy rate would put downward pressure on the current account deficit through the credit channel, while it would tend to increase the current account deficit through the exchange rate channel.**
- **It is not possible to curb the expansion of the current account deficit merely by using short-term interest rates, the main policy instrument of the Central Bank.**
- **Therefore, tightening via macroprudential tools to prevent an acceleration in credit, while reducing short-term interest rates in a controlled fashion to decelerate the appreciation trend in the exchange rate would be the ideal policy mix against the widening of the current account deficit.**

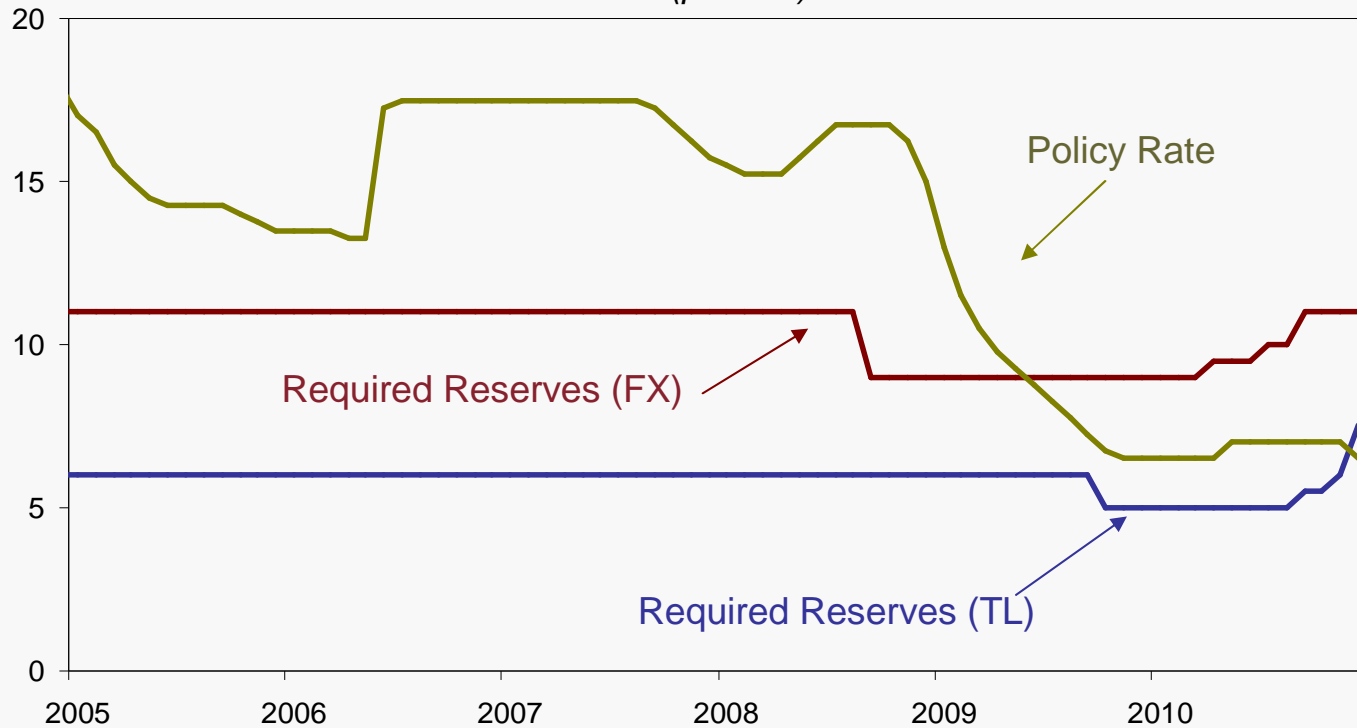
CBT Policy Measures

1. **The technical rate adjustment and corridor system for better liquidity management (*18 September 2010*)**
2. **A rise in required reserve ratios (*23 September 2010*)**
3. **No interest payments on required reserves (*23 September 2010*)**
4. **A more flexible mechanism for reserve accumulation (*4 October 2010*)**
5. **End of 3-month repo auction facility (*14 October 2010*)**
6. **The reduction of the CBT borrowing rate by 5.0 points (*16 September, 14 October, 12 November, 16 December 2010*)**
7. **The reduction of policy rates by 50 basis points (*16 December 2010*)**
8. **Differentiation of required reserve ratios according to maturity structure and expansion of the coverage (*17 December 2010*)**

Monetary Policy Stance

With its decisions of the last period, the Central Bank has begun to use, besides policy rates, additional policy instruments such as reserve requirement ratios and liquidity management facilities more effectively.

Policy Rate and Required Reserve Ratio
(percent)

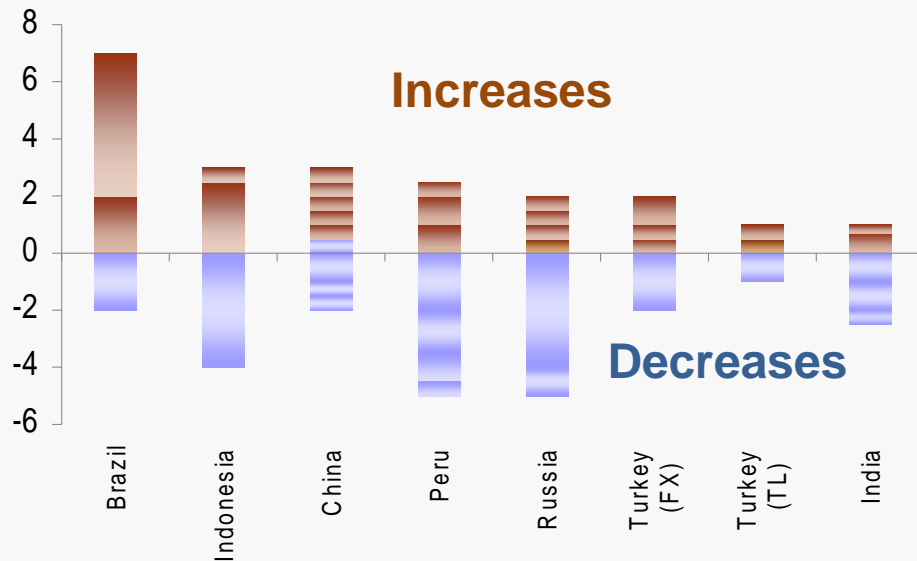


Source: CBT

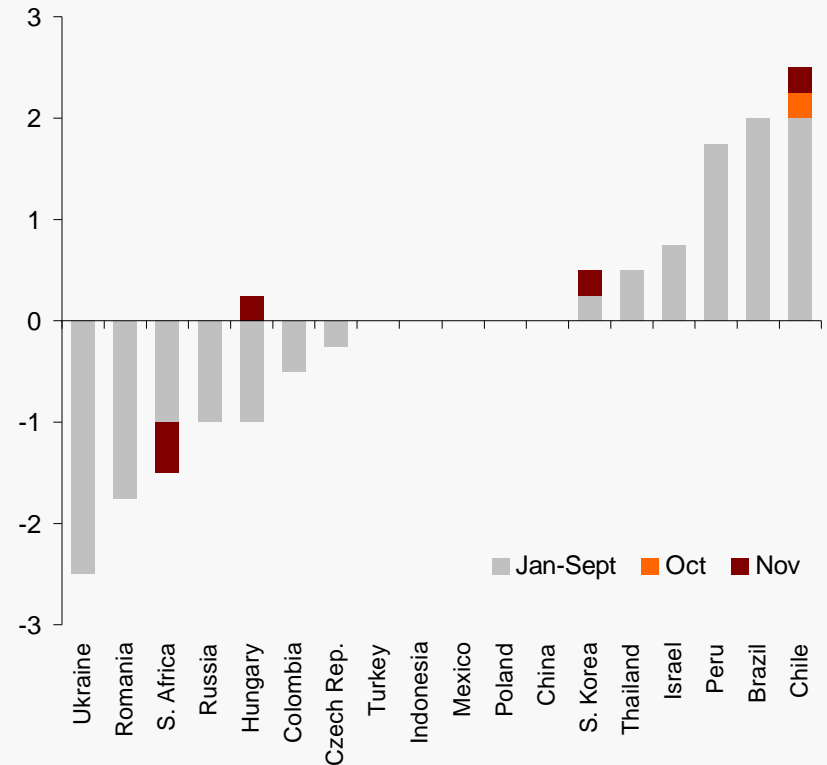
Policy Rate and Required Reserve Ratios

Currently, many countries use required reserve ratios as an active policy tool with a view to maintaining price and financial stability at the same time, while they do not opt for making significant changes in policy rates.

Required Reserves as a Policy Instrument



Changes in Policy Rates



Source: Central banks and CBT.

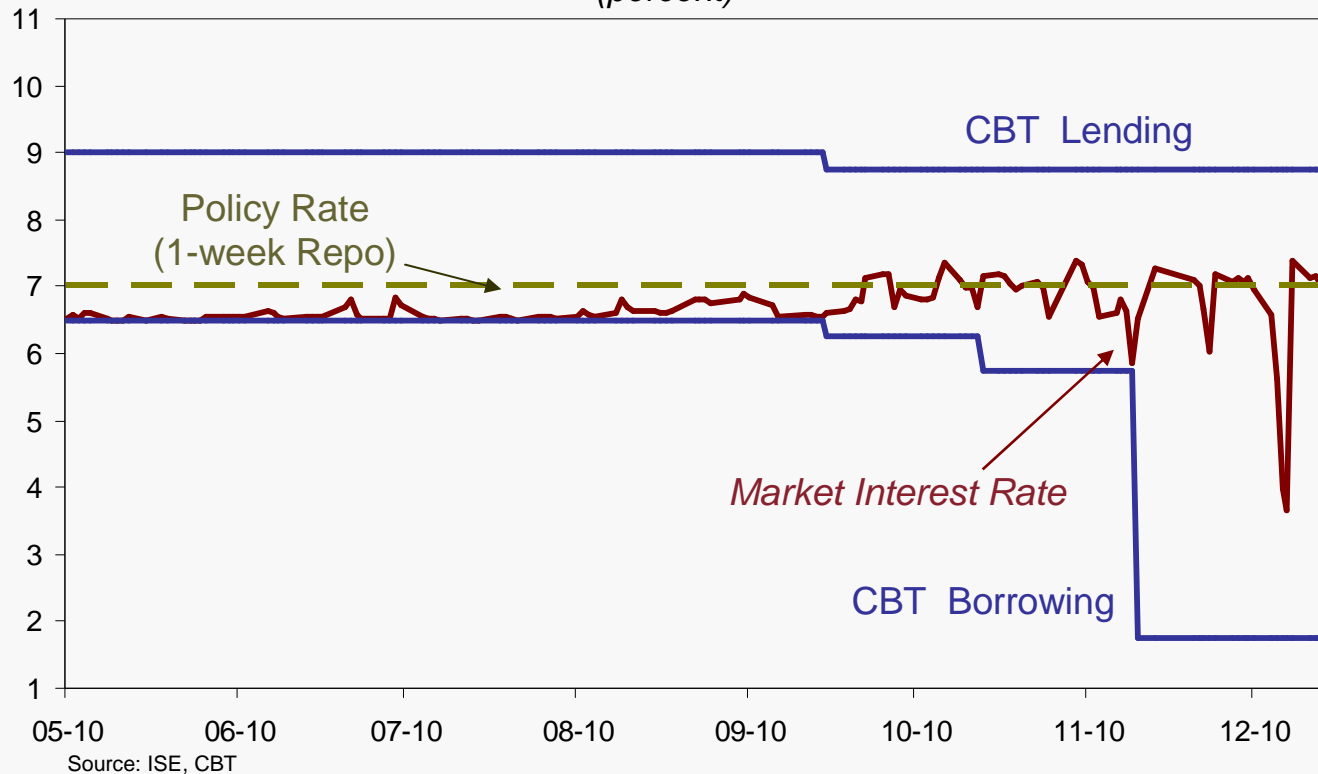
Financial Stability Measures: Maturity Extension

- **Maturity extension in both deposits and foreign capital inflows is targeted.**
- **In this regard, with the recent decisions**
 1. **The formation of short term interests at a much lower rate than long term interests and**
 2. **The extension of maturities for TL deposits are encouraged.**
- **According to recent arrangements, required reserve ratios were differentiated as per the maturity structure of deposits; and some items of liabilities, which had not been subject to reserve requirement previously, were also included.**

Liquidity Management

With the corridor system, in order to encourage maturity extension in TL market operations, overnight market rates are temporarily allowed to deviate from the policy rate in both directions to the extent required by economic conditions.

Corridor System and Overnight Interest Rates
(percent)

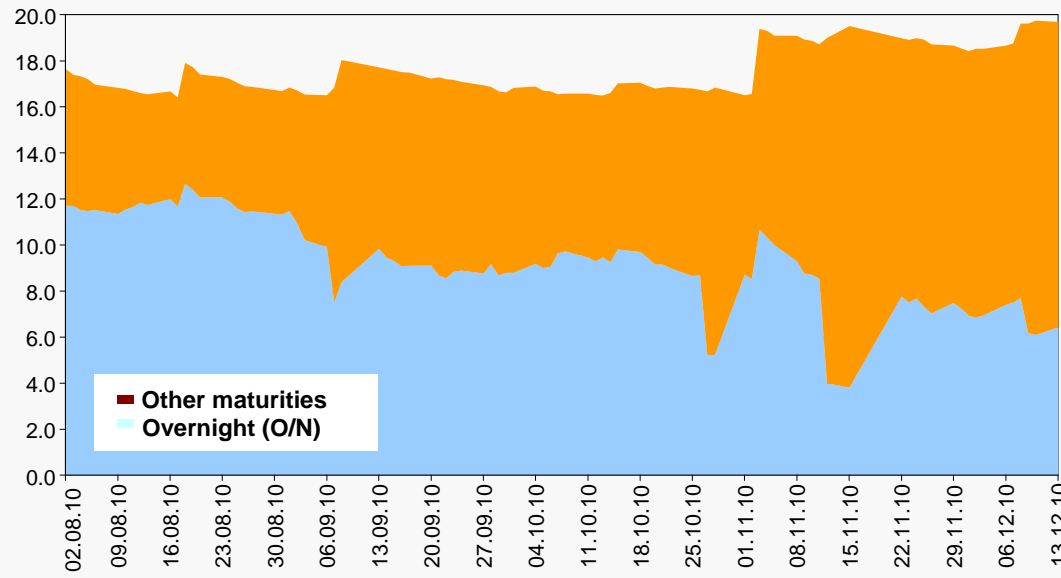


Financial Stability Measures: Maturity Extension

Similarly, it is aimed to extend the maturity of all funding (excluding funding from the CBT) available to banks operating in Turkey.

Example: While the share of transactions with maturities longer than one night was 49% on average in the ISE repo-reverse repo market in the period before 11 November, it went up to 64% in the period after 11 November.

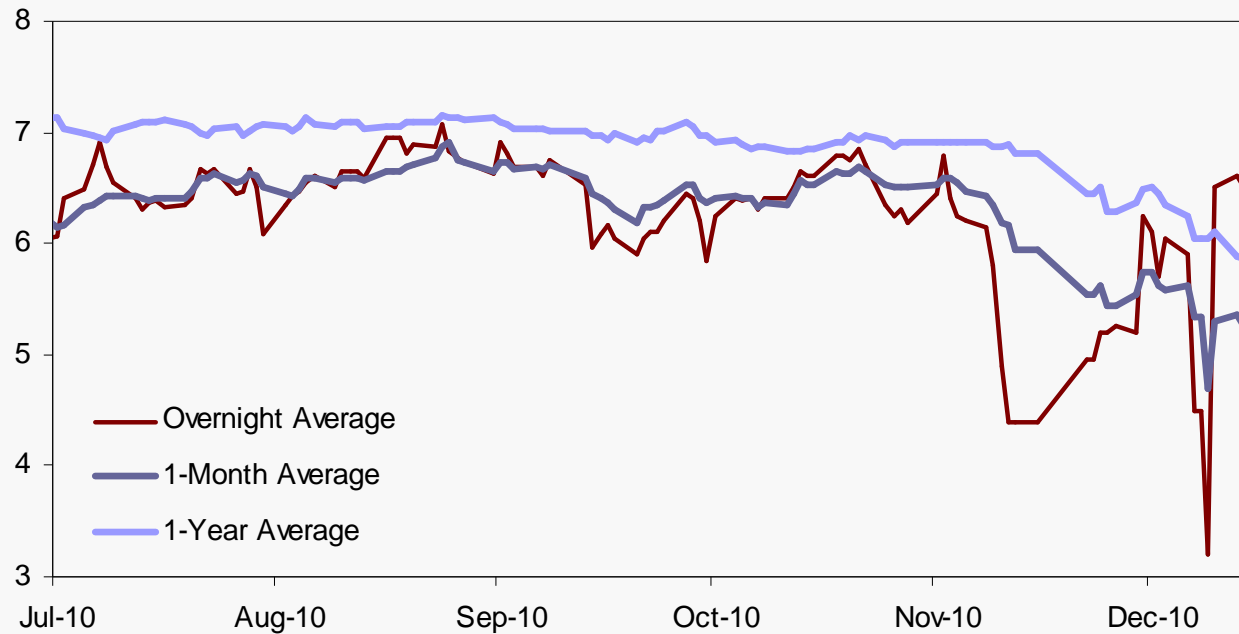
ISE Outstanding Repo Transactions Volumes
(billion TL)



Financial Stability Measures: Maturity Extension

The necessary steps will be taken so that the average level of the short-term swap rates will be below long-term swap rate averages, while the volatility of short-term swap rates will materialize above those of the long-term rates.

Swap Interest Rates
(percent)

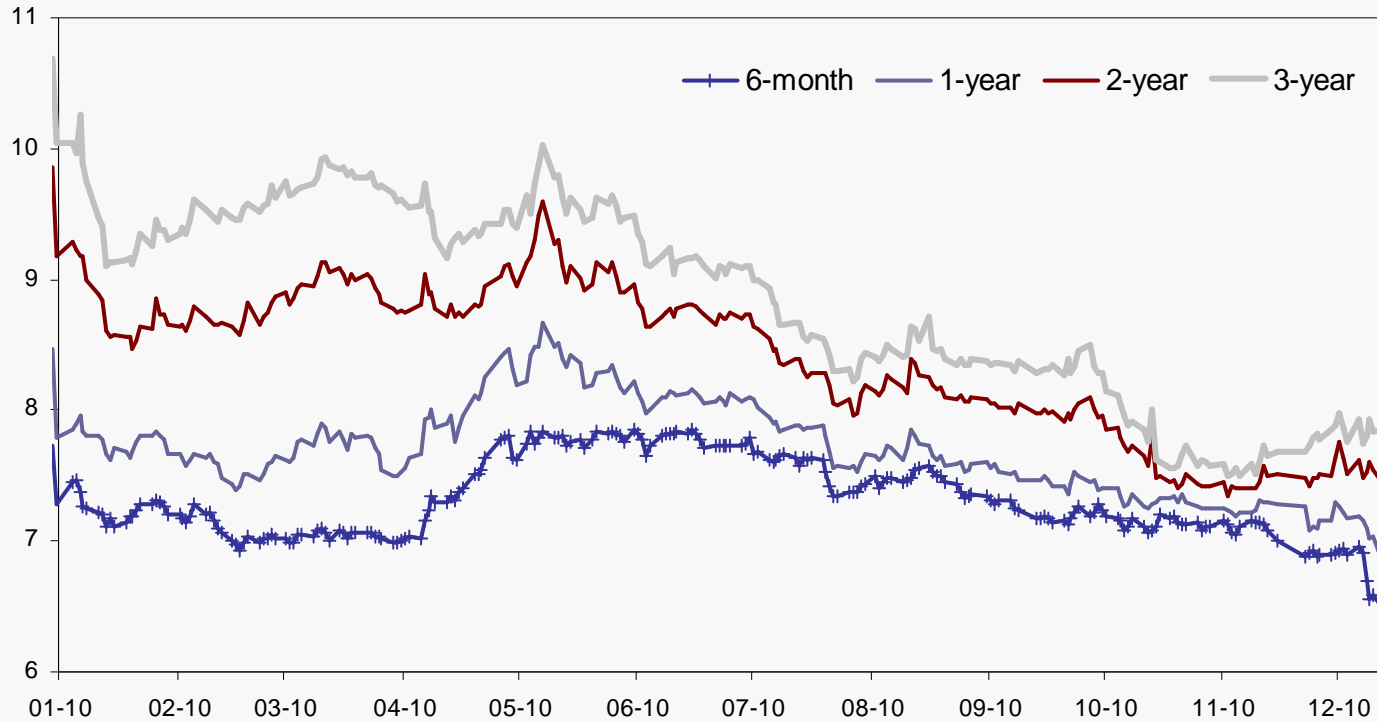


Source: ISE, CBT

Financial Stability Measures: Monetary and Credit Growth

The decline in long-term interest rates should be much more limited compared to the one in short-term interest rates.

Return on Government Securities with Different Maturities
(percent)

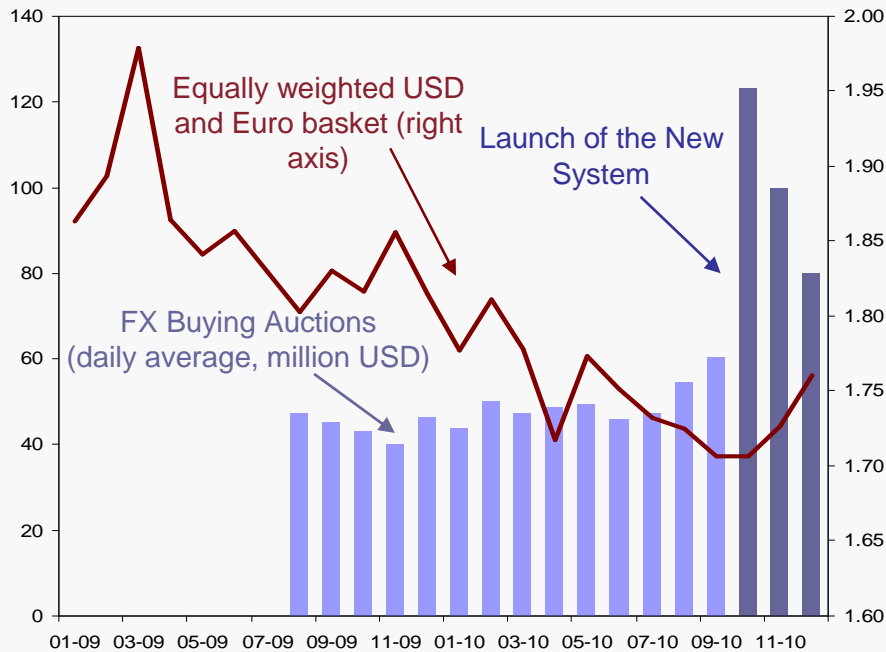


Source: Treasury, CBT

Central Bank FX Buying Auctions

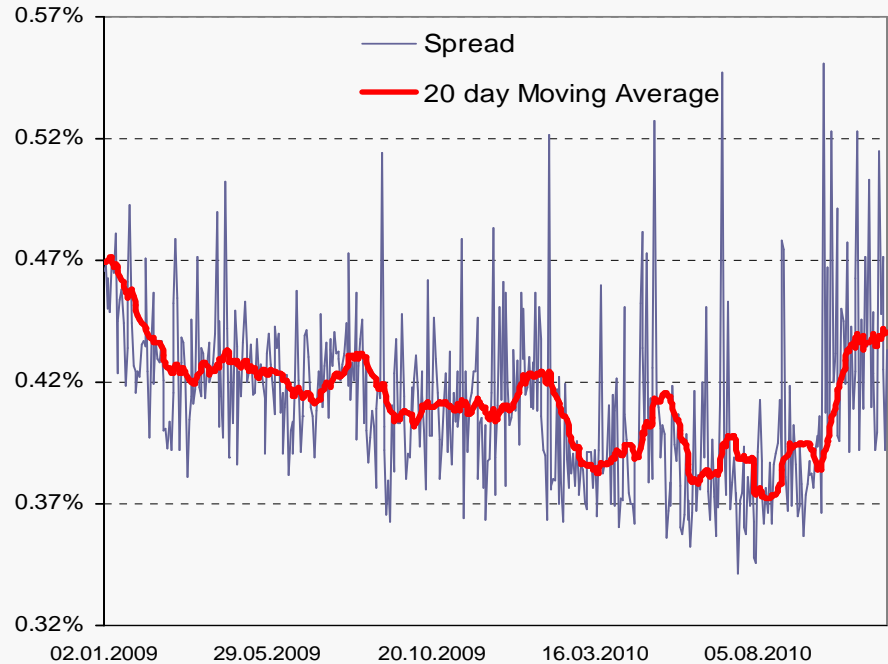
In order to benefit from capital inflows more effectively and to enhance resilience against volatile capital flows, the method of foreign exchange buying auctions was altered to be effective as of 4 October 2010.

FX Buying Auctions
(million USD)



Source: CBT

USD Dealing Spread
(percent)



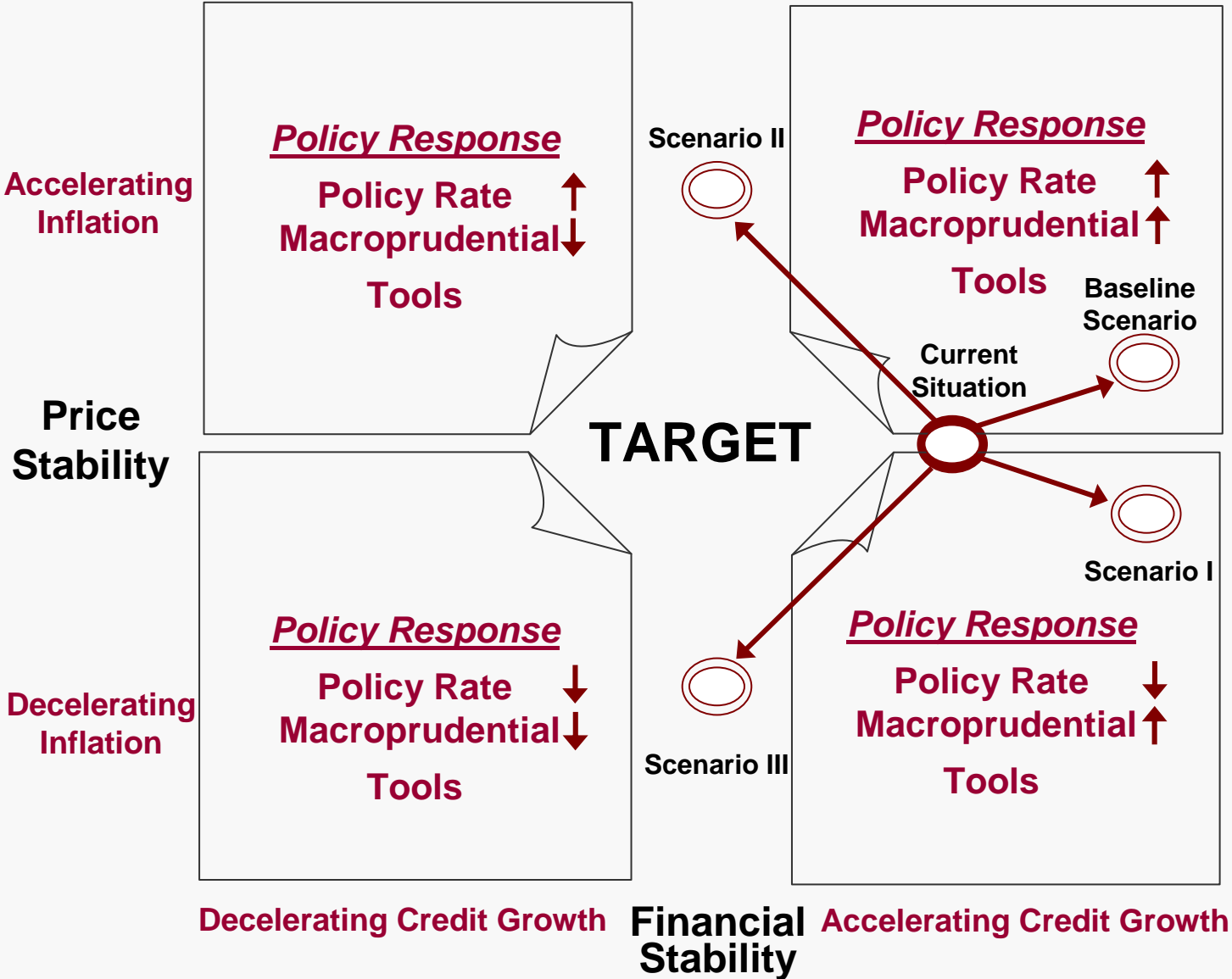
Source: ISE, CBT

Other Policy Measures

Parallel to the measures taken by the Central Bank, the moderate and gradual tightening of macroprudential tools by all institutions, and the encouragement of maturity extension of all types of funding contribute to financial stability.

1. Declaring a Medium Term Program framework in harmony with the fiscal discipline,
2. Limiting the extension of FX-indexed loans to real persons within Turkey,
3. Allowing banks to issue TL-denominated bonds in the domestic market,
4. Setting the maximum loan/value ratio as 0.75 in housing loans and house-collateralized consumer loans,
5. Increasing the Resource Utilization Support Fund deductions imposed on some consumer loans,
6. Raising the minimum payment ratios on credit cards,
7. Implementing a capital adequacy ratio of 12 percent, which was previously 8 percent.

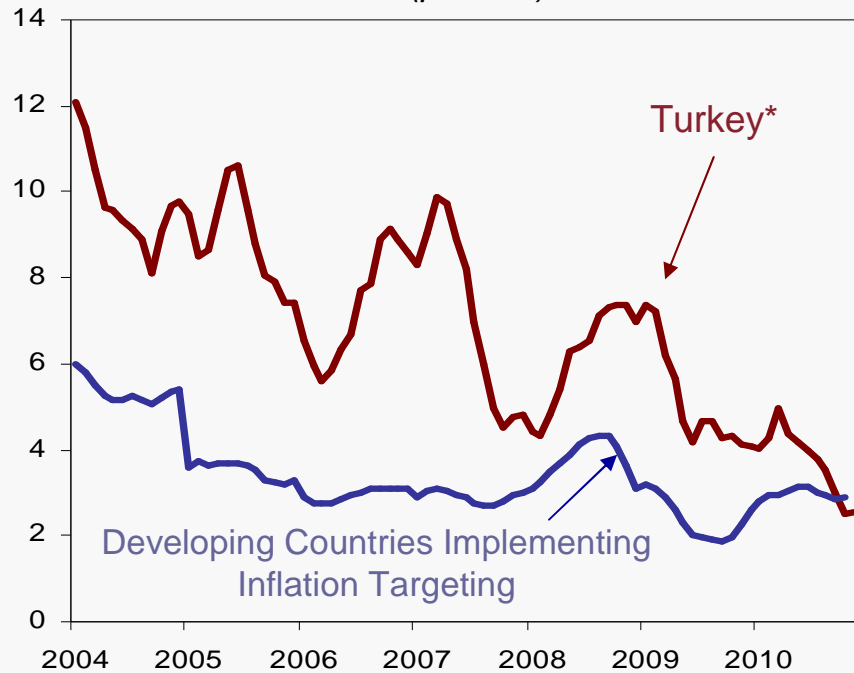
Current Economic Policy



Has Price Stability Been Established?

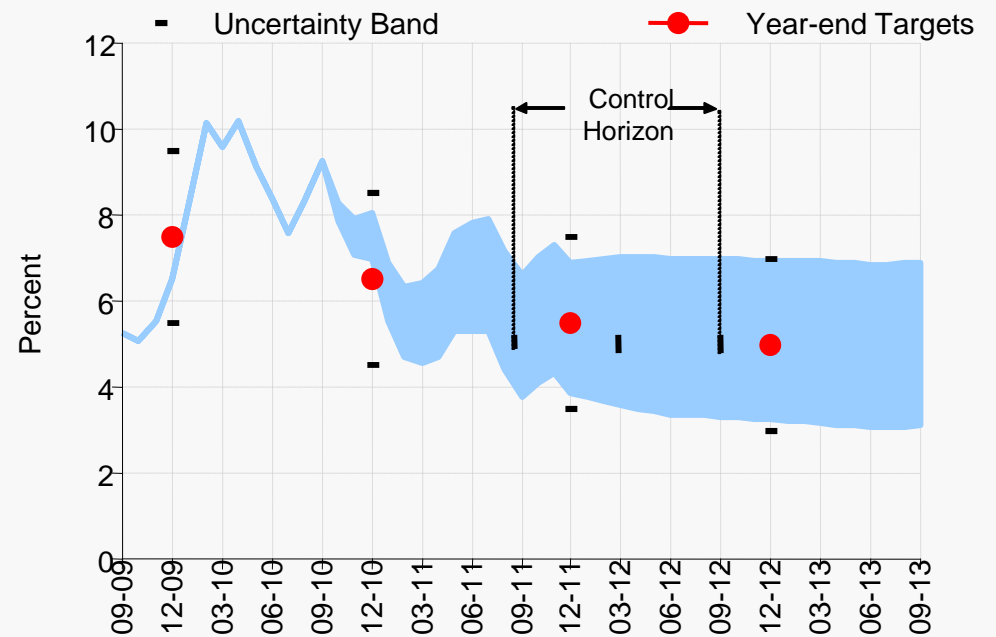
The Turkish economy sacrificed a great deal for the sake of price stability; however, it has not completely been established yet despite all the achievements. Implementation of moderate cuts - provided that this does not have a net loosening effect - in short term interest rates alongside the tightening of financial sector policies is a requisite of the policy framework that safeguards financial stability without compromising the target of price stability.

Core Inflation
(percent)



*Adjusted for temporary tax effect
Source: Central banks, TurkStat, CBT

October Inflation Report – Targets and Forecasts
(percent)



Source: CBT

Overall Assessment

- Economic activity continues to improve on the back of the robust increase in domestic demand. Meanwhile, the capacity utilization rate of the manufacturing industry is expected to take time to return to pre-crisis levels due to the weak course of external demand.
- Despite the ongoing improvement in employment conditions, unemployment figures still remain high.
- Therefore, with the contribution of the adjustment in unprocessed food prices, inflation is expected to keep falling in the upcoming period and to realize at a level close to our target of 6.5 percent by the end of the year.

Overall Assessment

- The primary objective of the Central Bank is to achieve and maintain price stability. Nevertheless, taking the necessary measures to achieve stability in the financial system is also among the fundamental duties of the Central Bank.
- The current decoupling in rates of increase in domestic and external demand accompanied by the rapid credit expansion widens the current account deficit.
- Additionally, the recent developments experienced and decisions taken in European and US economies has led to global monetary expansion and increased the likelihood of the current account deficit exceeding projections made in the Medium Term Program (MTP).

Overall Assessment

- In its latest meeting, the Monetary Policy Committee, assessing that a lower policy rate, wider interest rate corridor and higher required reserve ratios would be an appropriate policy mix, decided accordingly.
- Besides, to support financial stability, required reserve ratios were varied according their maturity structures and coverage was expanded so as to encourage maturity extension of TL deposits.
- These measures coupled with the new ones declared yesterday by the Banking Regulation and Supervision Agency aligned the macroeconomic outlook for 2011 with the current account deficit forecast in the MTP.
- The effects of the decisions on price and financial stability will be closely monitored and additional measures will be taken when necessary.

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation at Konya Chamber of Industry

Durmuş YILMAZ
Governor

18 December 2010