

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation before the Council of Ministers

Durmuş YILMAZ
Governor

24 June 2010

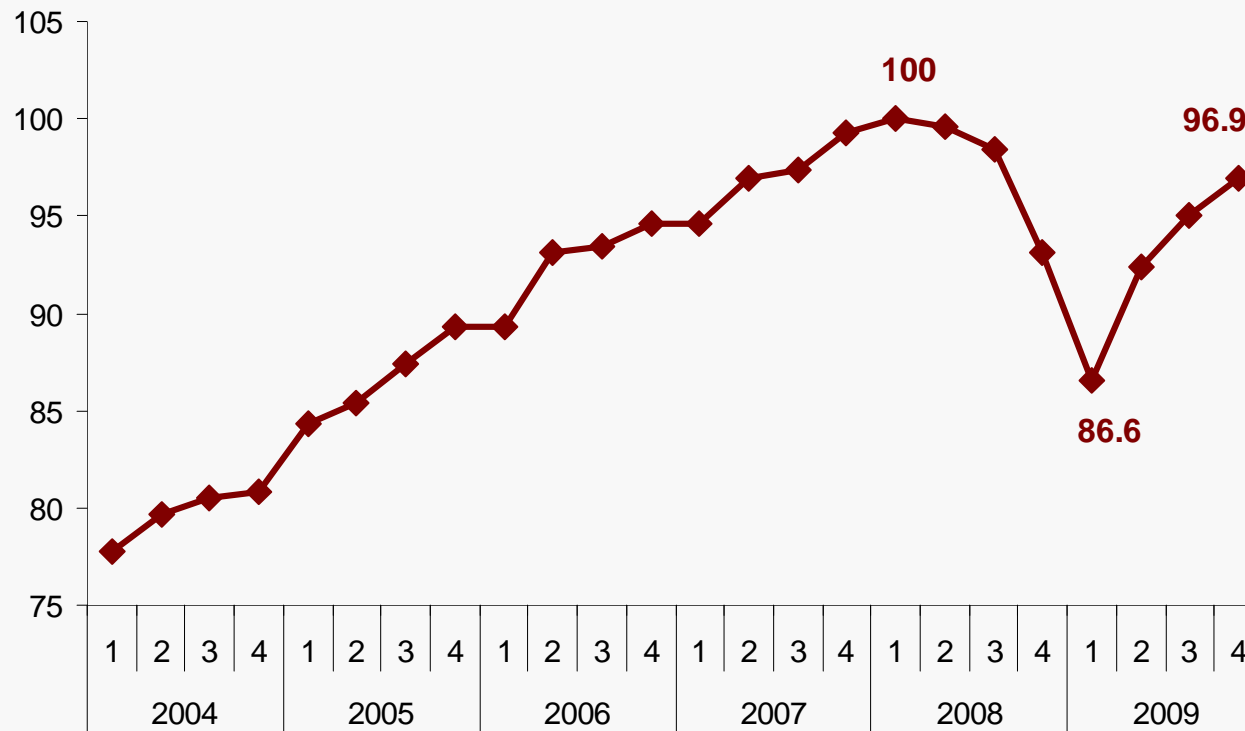
Presentation Outline

- I. Overall Assessment**
- II. Global Crisis and its Impact on Turkey**
- III. Latest Developments in the Turkish Economy**
- IV. Monetary Policy**
- V. Fiscal Policy**
- VI. Inflation Outlook**

I. Overall Assessment

Ongoing Recovery in Economic Activity

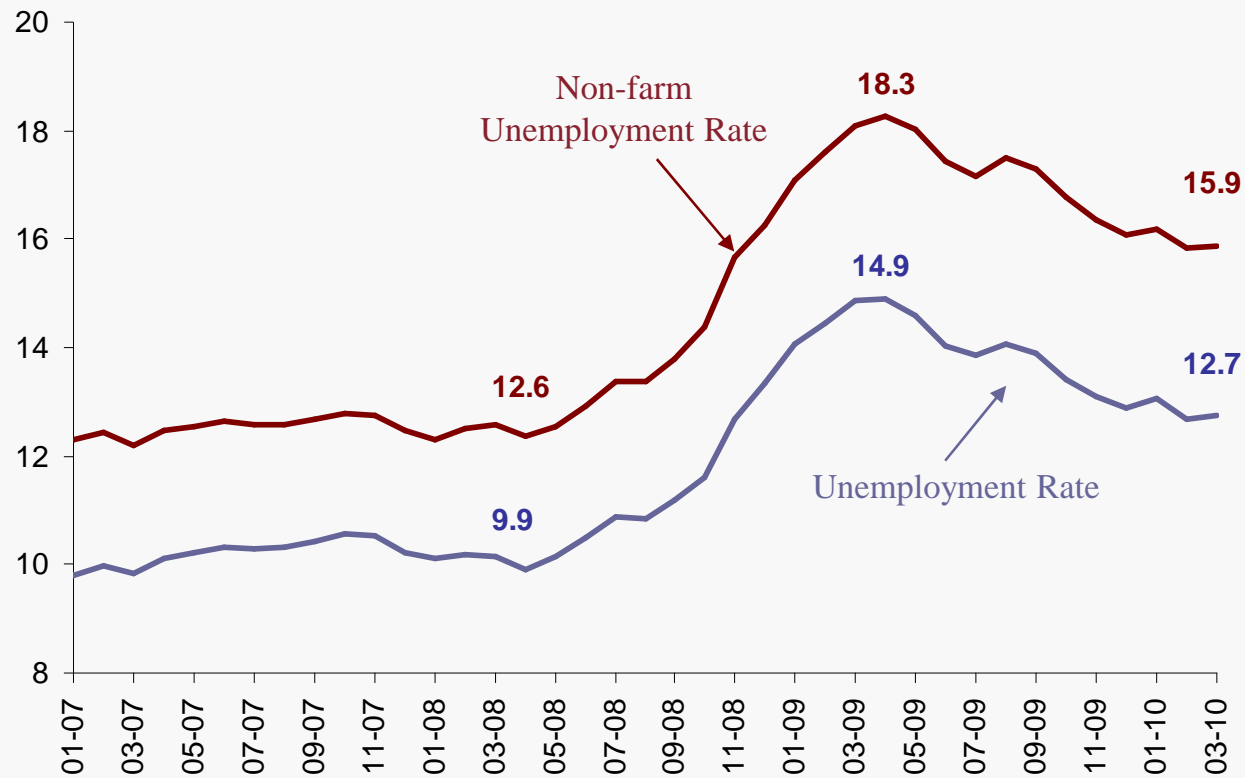
Seasonally Adjusted Real GDP
(2004 Q1 – 2009 Q4, 2008 Q1=100)



Source: TurkStat, CBT

Signs of Recovery in Employment

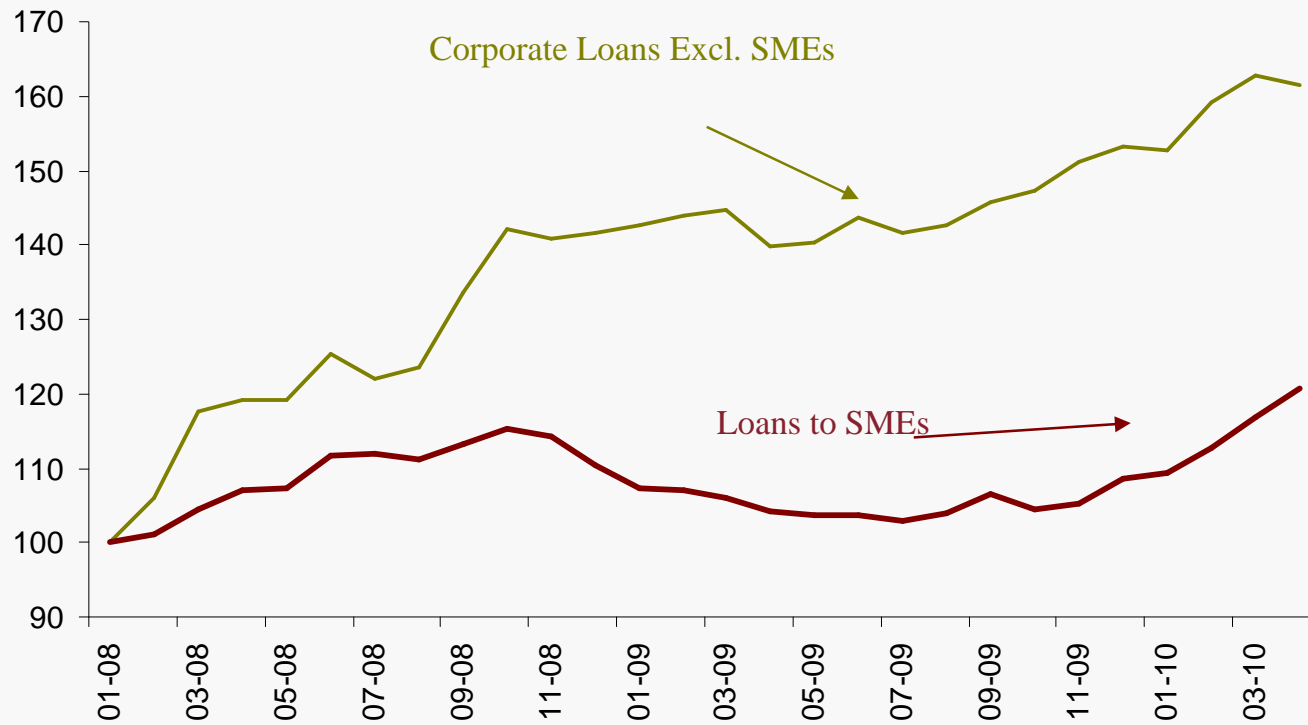
Seasonally Adjusted Unemployment Rates
(Jan 2007 - Mar 2010, percent)



Source: TurkStat, CBT

Increased Access to Loans

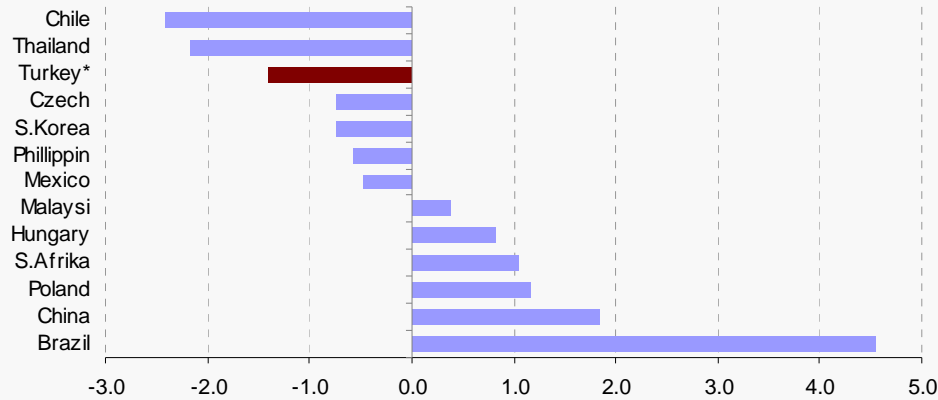
Corporate Loans and Loans to SMEs
(Jan 2008 – Apr 2010, Jan 2008=100)



Source: BRSA, CBT

Low Interest Rate Environment Continues

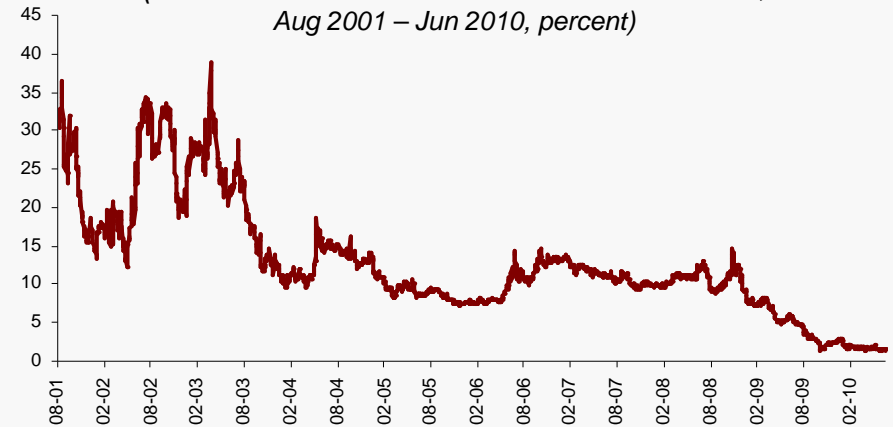
Real Policy Rates
(Jun 2010, percent)



Source: Bloomberg, CBT

Real Market Rate

(Benchmark Interest Rate on Government Securities, Aug 2001 – Jun 2010, percent)



* Based on 12-month inflation expectations.
Source: Undersecretariat of Treasury, CBT

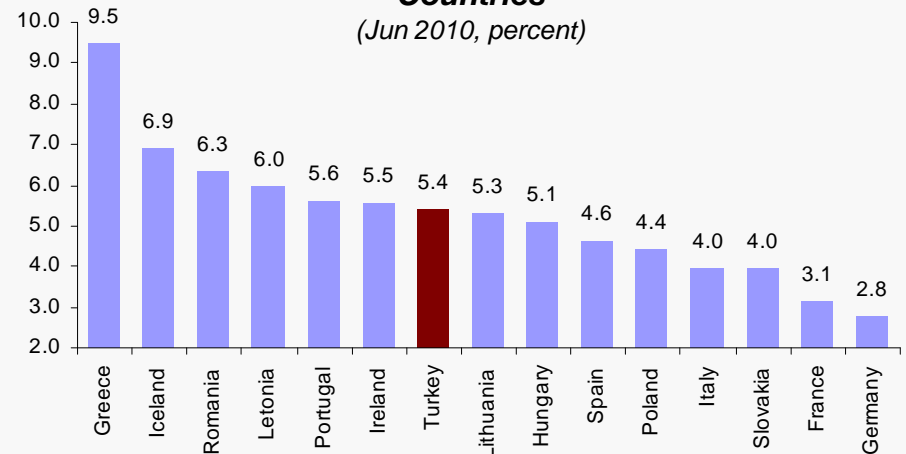
5-year CDS Premia in Turkey and Greece
(Apr 2009 – Jun 2010)



Source: Bloomberg, CBT

10-Year Euro-denominated Bond Returns in Selected Countries

(Jun 2010, percent)



Source: Bloomberg, CBT

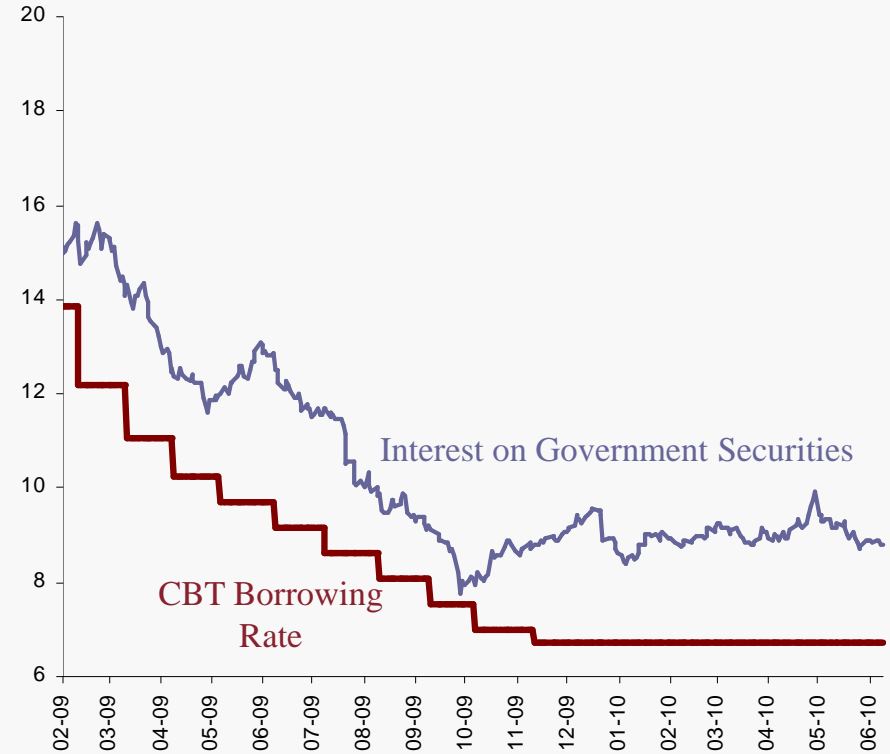
Low Interest Rate Environment Continues

**Interest on Government Securities in Greece*
and European Central Bank Policy Rate**
(Feb 2009 – Jun 2010, percent)



* With 2-year maturity
Source: Bloomberg, CBT

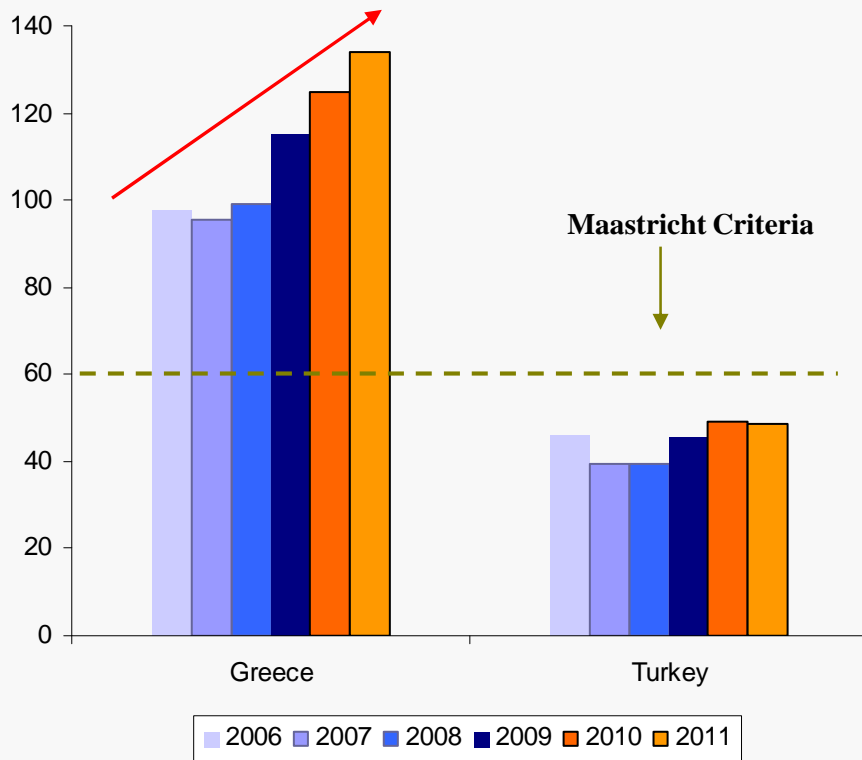
**Interest on Government Securities in Turkey*
and CBT Borrowing Rate**
(Feb 2009 – Jun 2010, percent, compound)



* With 2-year maturity
Source: BRSA, CBT

How Have We Come This Far?

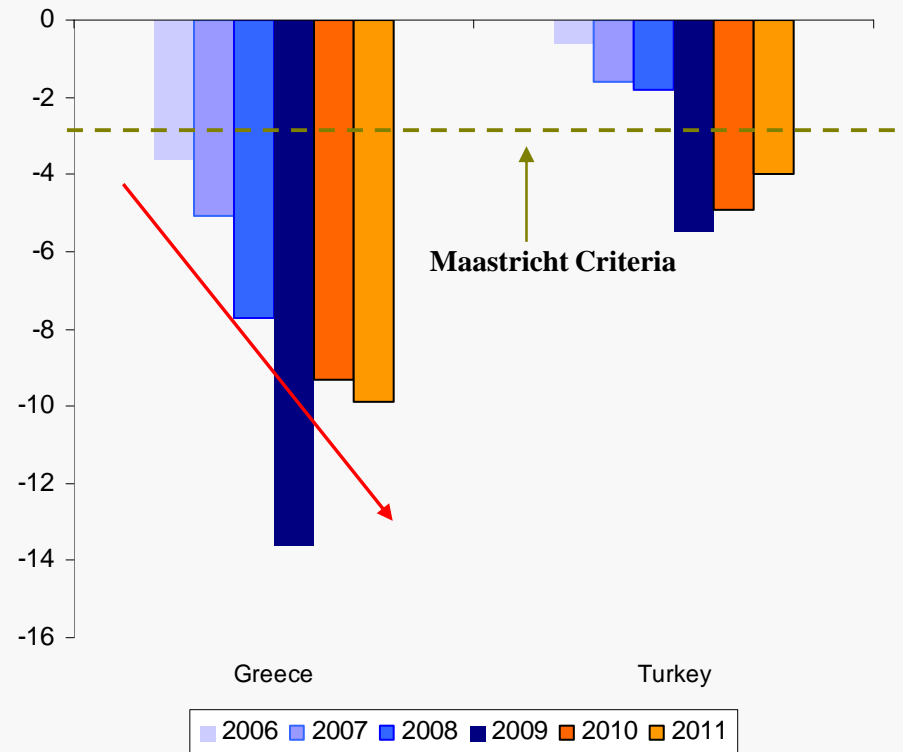
Debt Stock in Greece and Turkey
(2006 – 2011*, ratio to GDP, percent)



*Medium Term Program Targets (2010-2011) and expectations of the European Commission

Source: the European Commission, Undersecretariat of Treasury, CBT

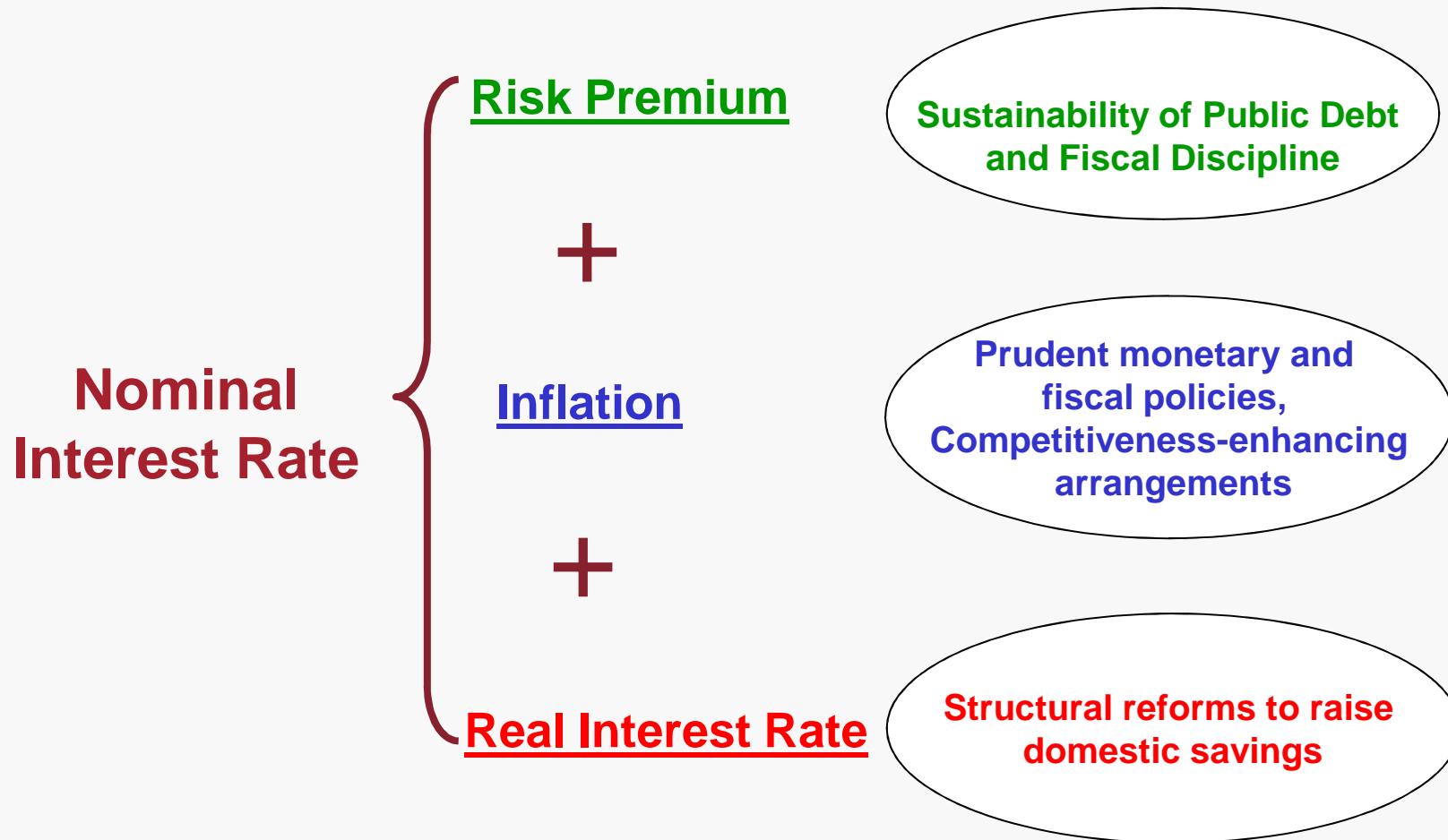
Budget Deficit in Greece and Turkey
(2006 – 2011*, ratio to GDP, percent)



*Medium Term Program Targets (2010-2011) and expectations of the European Commission

Source: the European Commission, Undersecretariat of Treasury, CBT

How Can Market Interest Rate Remain at Low Levels?



Public Debt and Fiscal Discipline

- Implementation of projections in the Medium Term Program as well as structural reforms,
- Completion of legal arrangements regarding the Fiscal Rule,
- Other implementations to avoid concerns over the sustainability of public debt, to enhance medium and long-term predictability in fiscal policy and to reinforce the atmosphere of confidence,

will contribute to the decline of the risk premium in Turkey and will assist in keeping interest rates at low levels.

How to Raise Domestic Savings

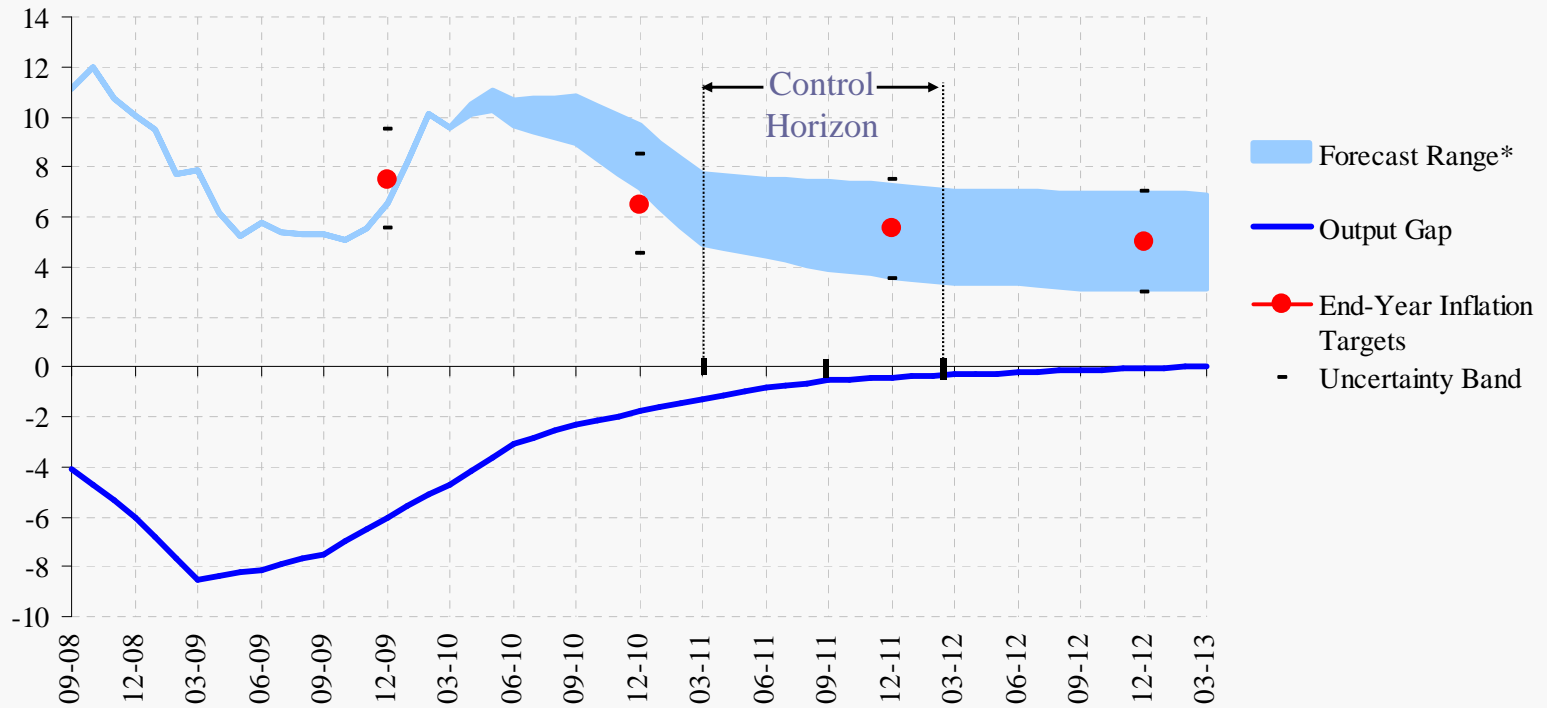
- Increasing enrollment in the individual pension system,
- Raising the age of retirement from 42 to 65,
- Improving capital markets,
- Attaching more importance to financial education

The above-mentioned steps, together with possible future initiatives will positively influence the propensity to save in Turkey.

Inflation Outlook

Inflation is expected to assume a decreasing trend as the temporary factors taper off.

Inflation Realizations, Projections and Targets
(Sep 2008 – Mar 2013, percent)



*the possibility of inflation staying within the forecast range is 70 percent.

Source: CBT

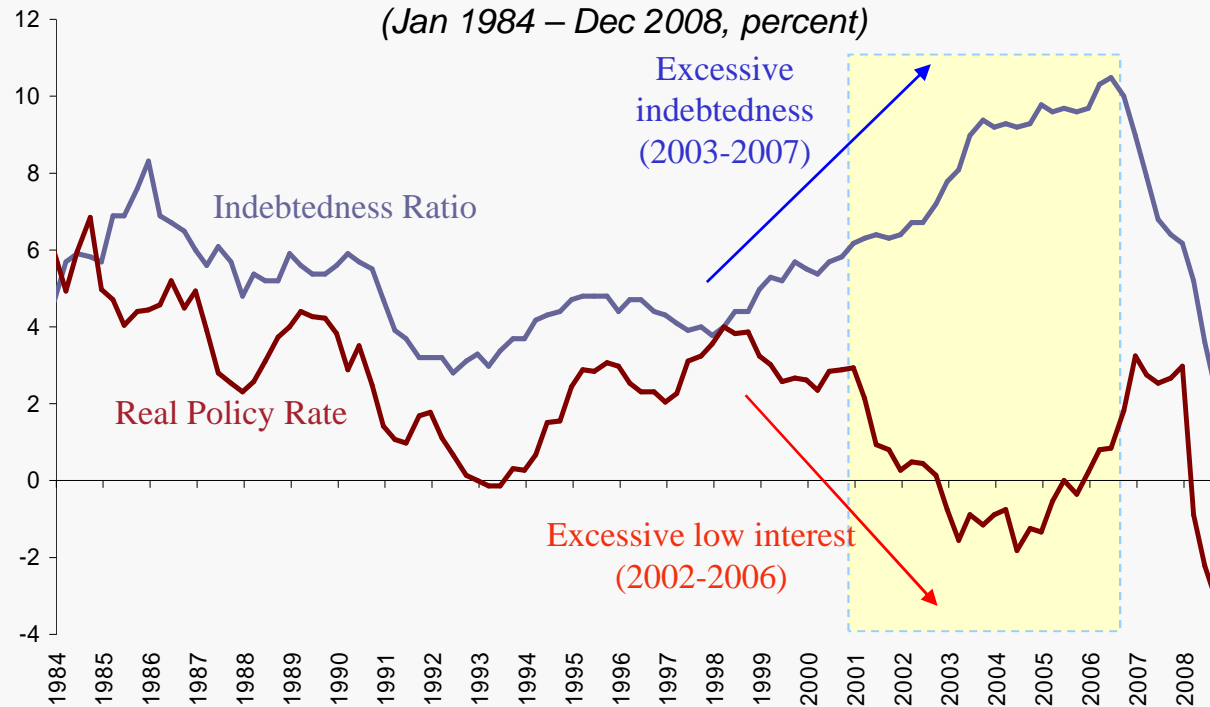
II. Global Crisis and its Impact on Turkey

Reasons for the Global Crisis

As keeping real policy rates at low levels for a prolonged time during periods of rapid growth can lead to excessive increases in indebtedness ratios, it emerges as a risk factor against financial stability.

Ratio to GDP of the Annual Change in Real Policy Rate and Household Indebtedness Ratio in the US

(Jan 1984 – Dec 2008, percent)



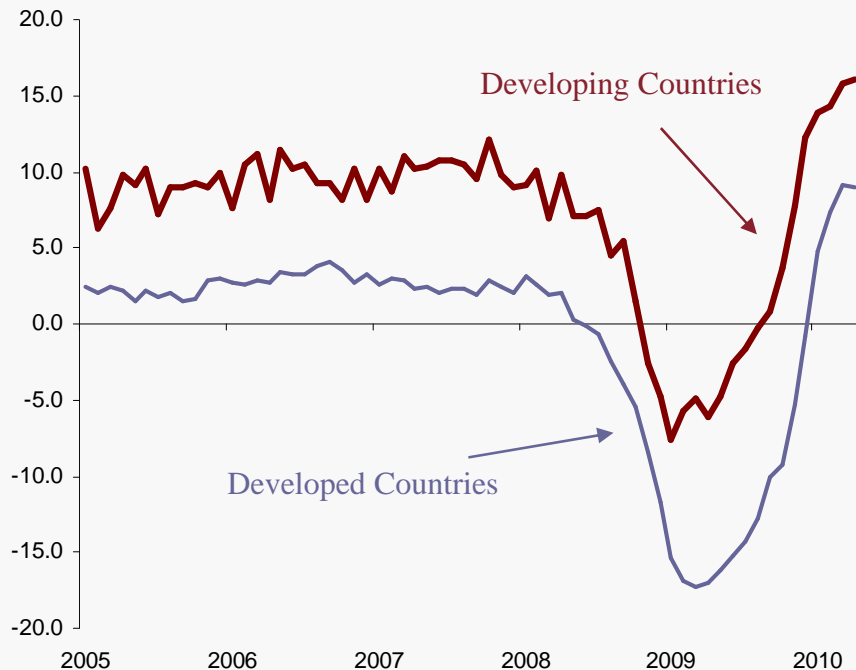
Source: Bloomberg, CBT

Signs of Recovery in Global Economy

The recovery trend in the global economy, which became pronounced in the last quarter of 2009, continued in the first quarter of 2010.

Industrial Production in Developed and Developing Countries

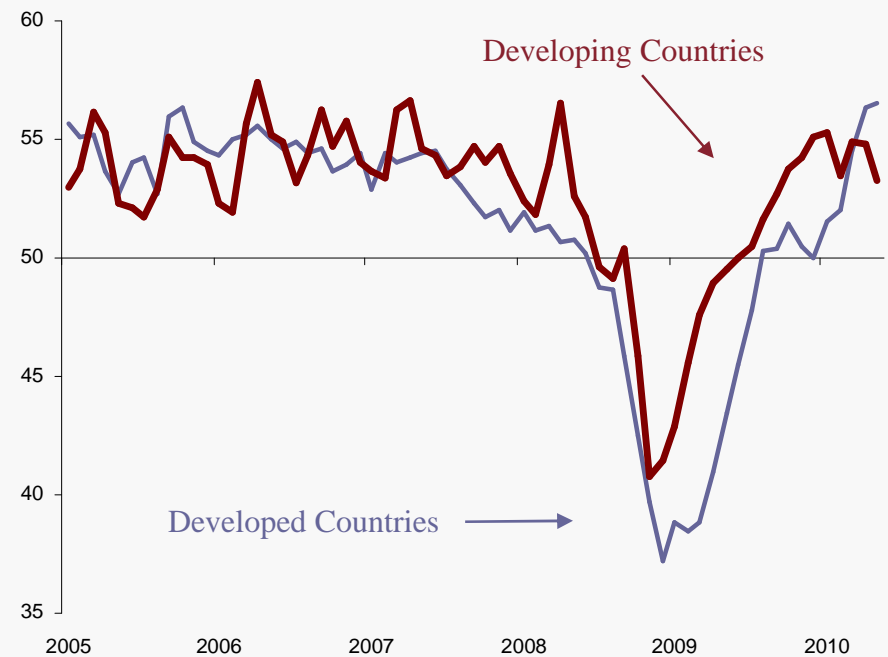
(Jan 2005 – Apr 2010, annual percentage change)



Source: Bloomberg, CBT

PMI Realizations in Developed and Developing Countries

(Jan 2005 – May 2010)

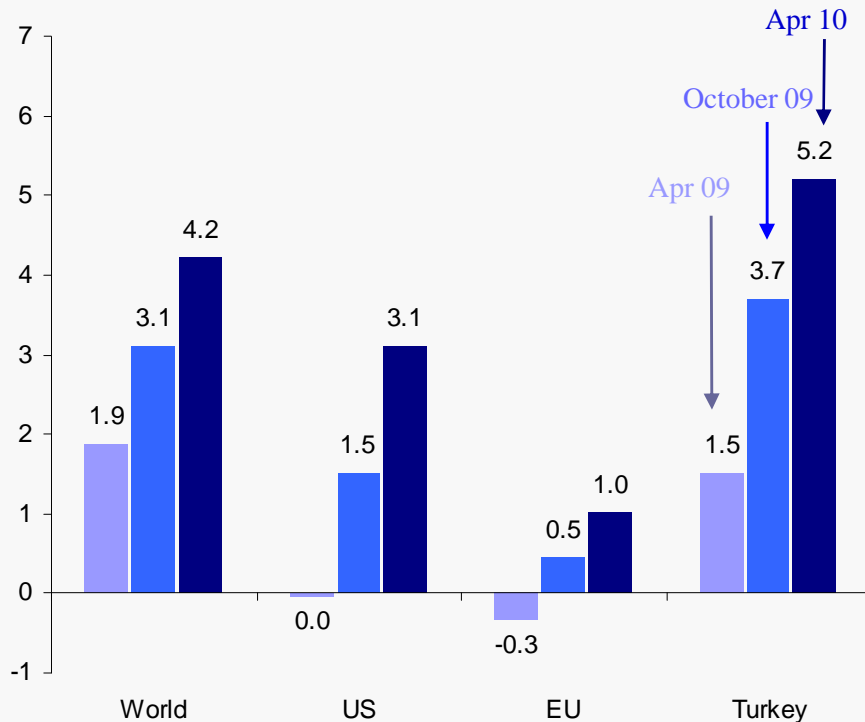


Source: Bloomberg, CBT

Signs of Recovery in the Global Economy

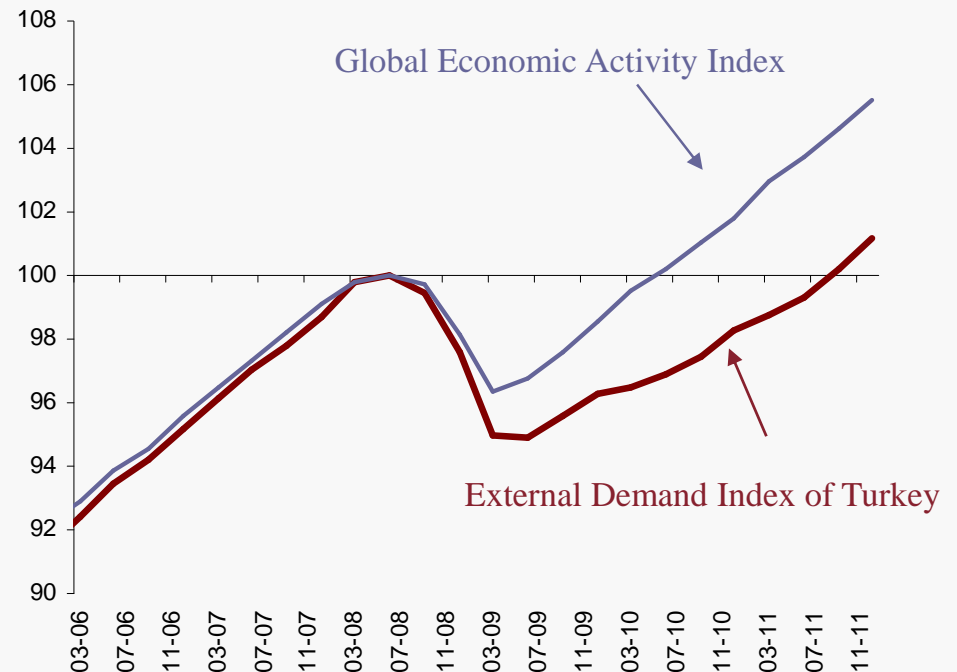
Relatively low level of growth expectations of our biggest export market European Union indicates that recovery in external demand will be slow.

Growth Projections for 2010
(annual percentage change)



Source: IMF, CBT

External Demand Index of Turkey *
(Mar 2006 – December 2011, June 2008=100)



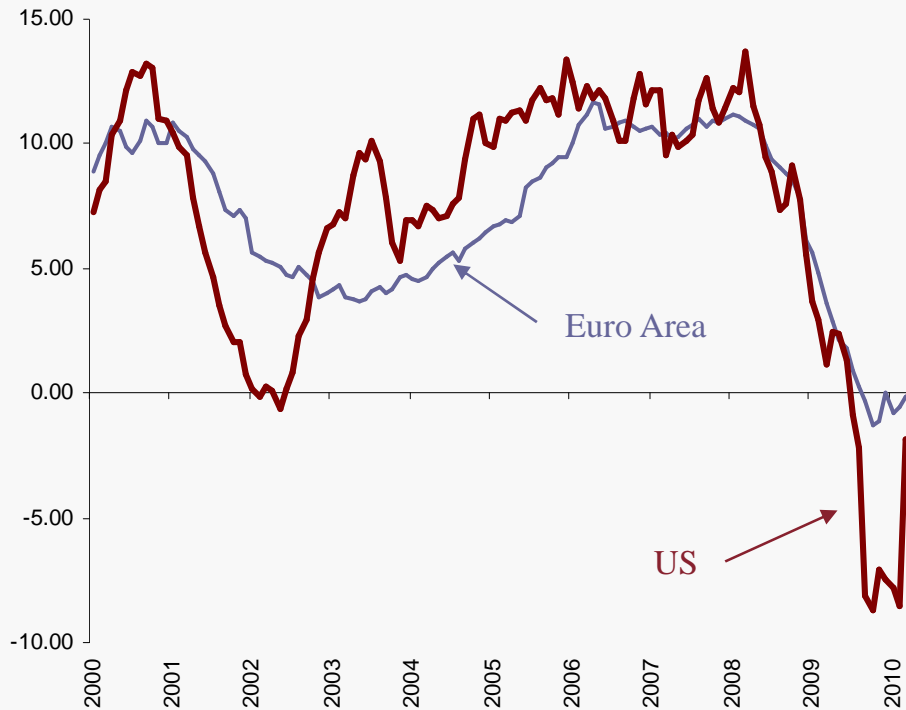
* The shares of countries within the exports of Turkey and weighted GDP data are employed in the calculation of the external demand index of Turkey.

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

Global Risks – Loans and Unemployment

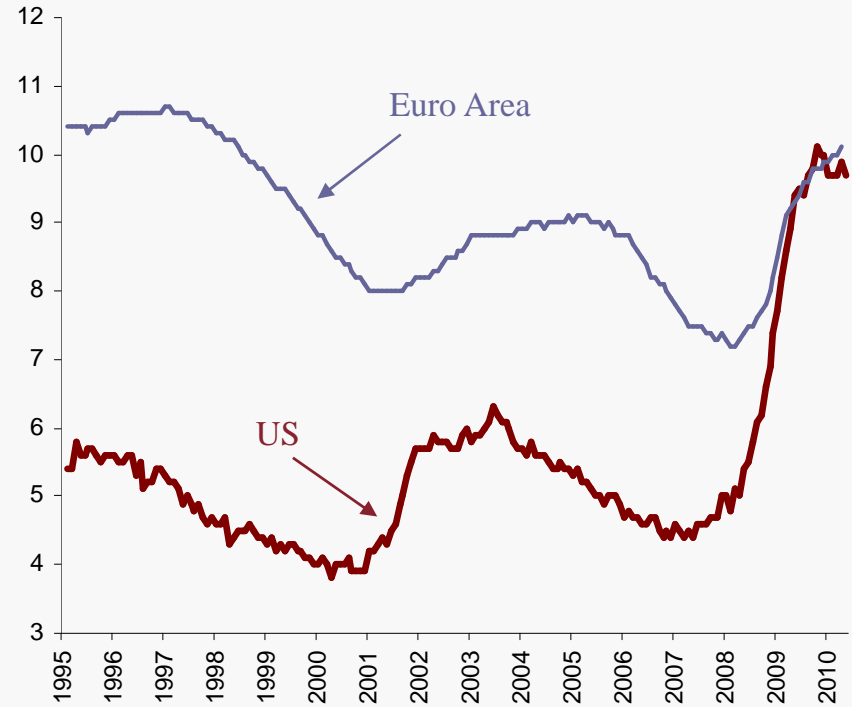
Problems in credit markets linger to some extent and unemployment rates remain at high levels, which in turn increase future uncertainties.

Credit Developments in the US and Euro Area
(Jan 2000 – May 2010, annual percentage change)



Source: Bloomberg, CBT

Unemployment Rates in the US and Euro Area
(Jan 1995 – May 2010, percent)

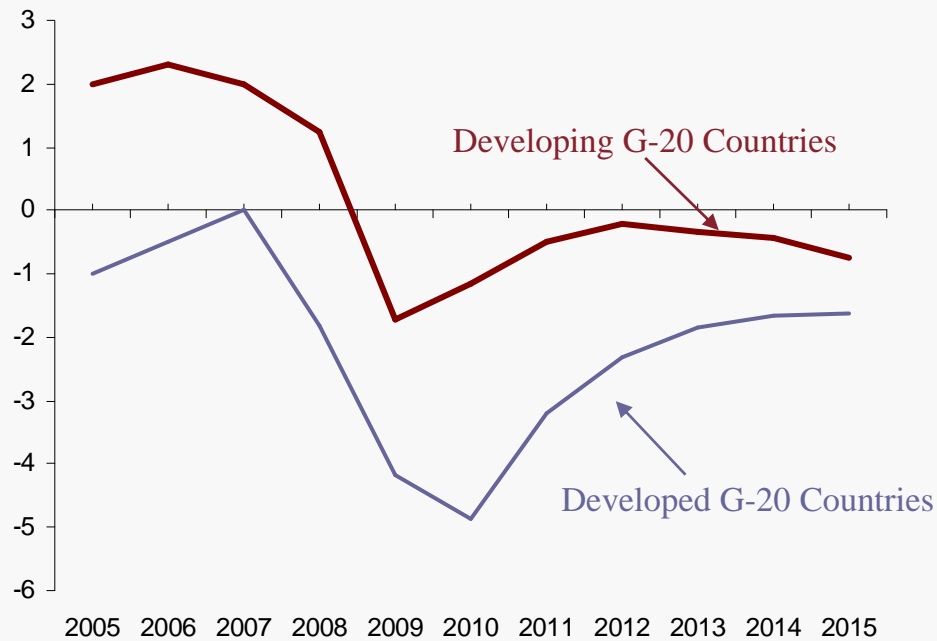


Source: Bloomberg, CBT

Global Risks – Public Finance

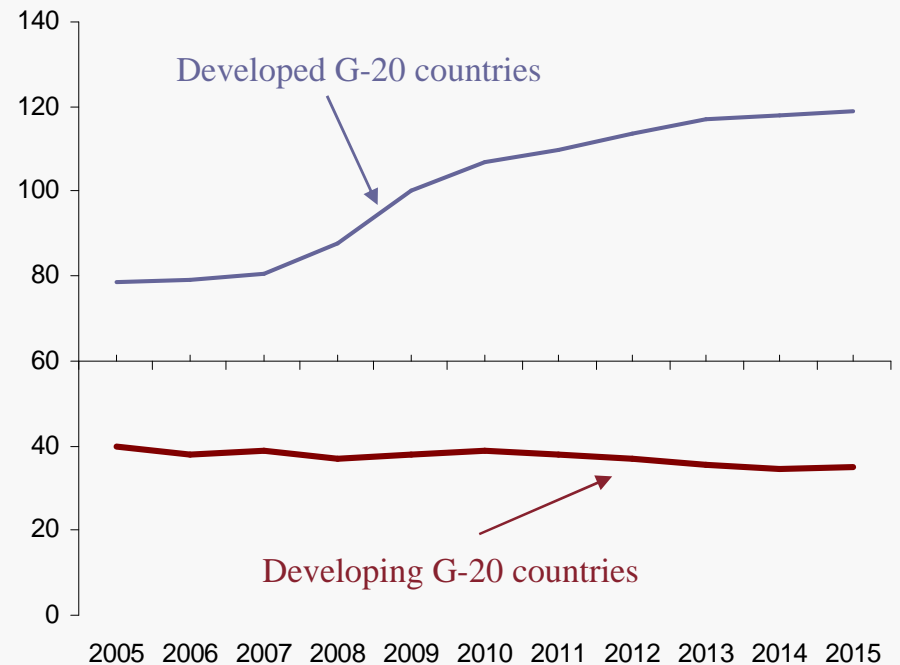
The rapidly increasing budget deficits and public debt stocks resulting from expansionary fiscal policies implemented - especially in developed countries - are important risk factors that can adversely affect private demand by increasing long-term interest rates.

Primary Surplus*
(2005 - 2015, ratio to GDP)



*Cyclical movements-adjusted
Source: IMF WEO Apr 2010

Public Debt Stock
(2005 - 2015, ratio to GDP)

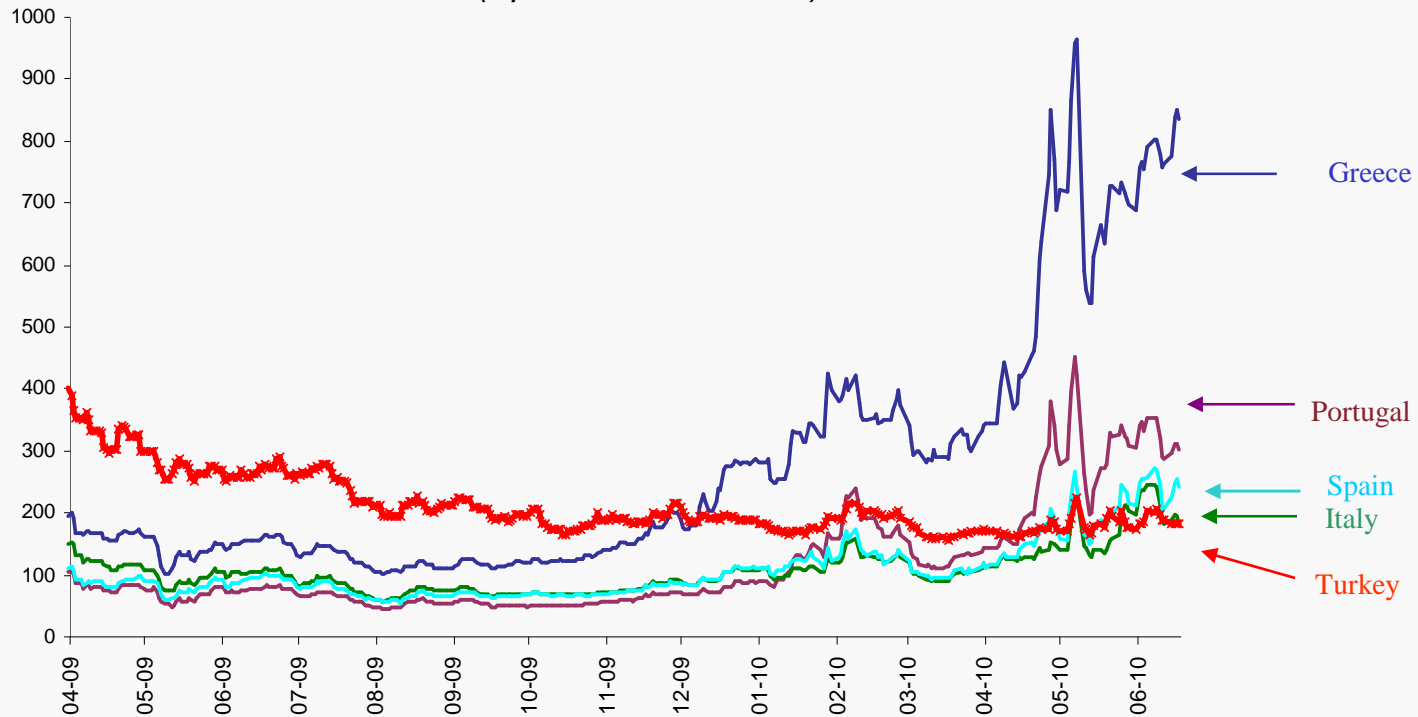


Source: IMF WEO Apr 2010

Global Risks – Risk Premia

Countries with high debt burdens see sharp increases in their risk premia. Meanwhile, the risk premium of Turkey has remained relatively stable thanks to the support of the sound financial sector and the low rate of indebtedness.

CDS Premia of Selected Countries*
(Apr 2009 – Jun 2010)

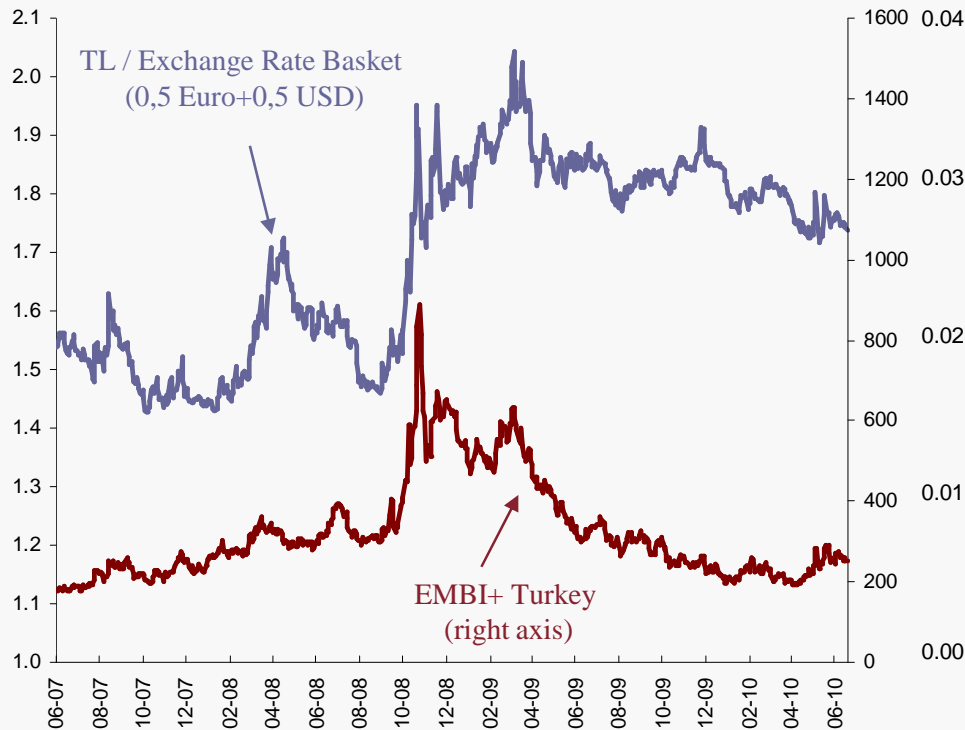


*for 5 Years
Source: Bloomberg, CBT

Financial Stability in Turkey

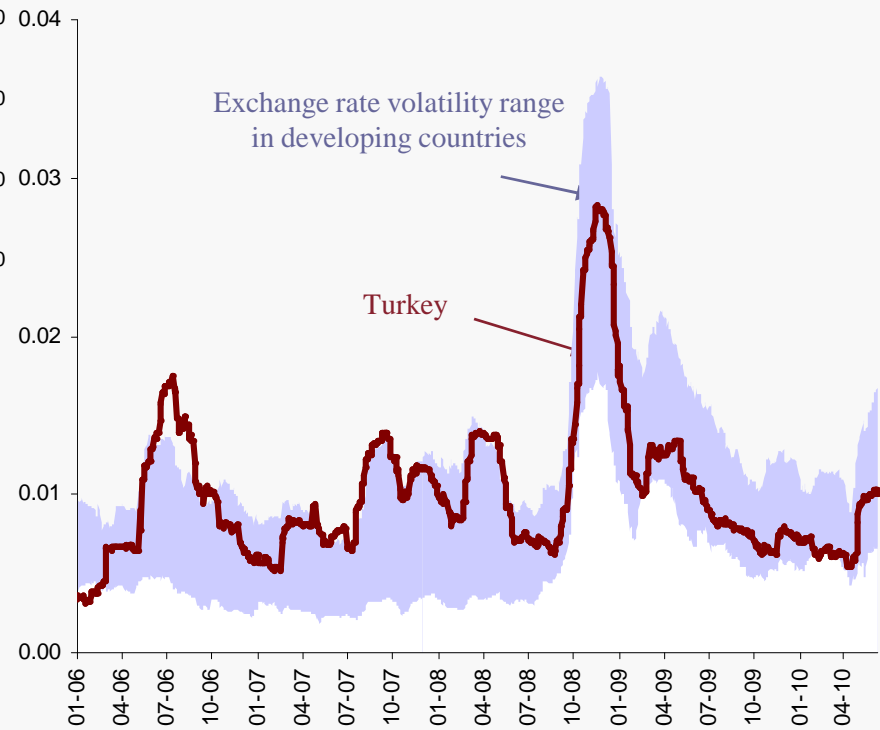
Despite its historically high levels of volatility and extreme susceptibility to the global risk appetite, the relatively stable course of the Turkish lira continued in the first quarter of 2010 as well.

FX Basket and EMBI+ Turkey
(June 2007 – Jun 2010)



Source: Bloomberg, CBT

Exchange Rate Volatility in Selected Countries *
(Jan 2006 – Jun 2010)



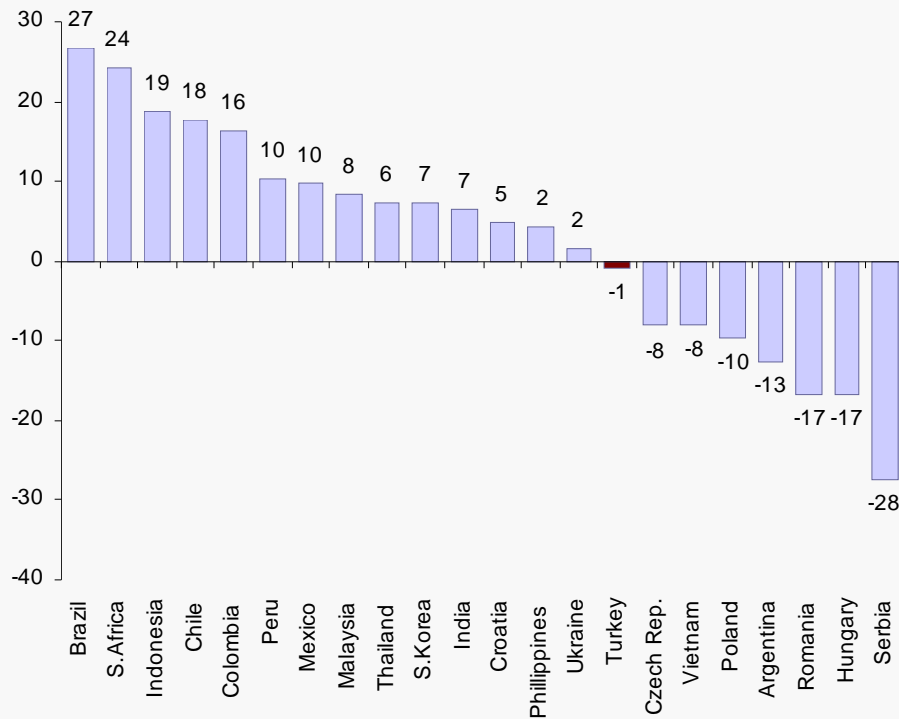
*Standard deviation of 50 days; Brazil, Chile, Czech Rep., Hungary, Mexico, New Zealand, Poland, S. Africa, S. Korea (maximum and minimum values)

Source: Bloomberg, CBT

Financial Stability in Turkey

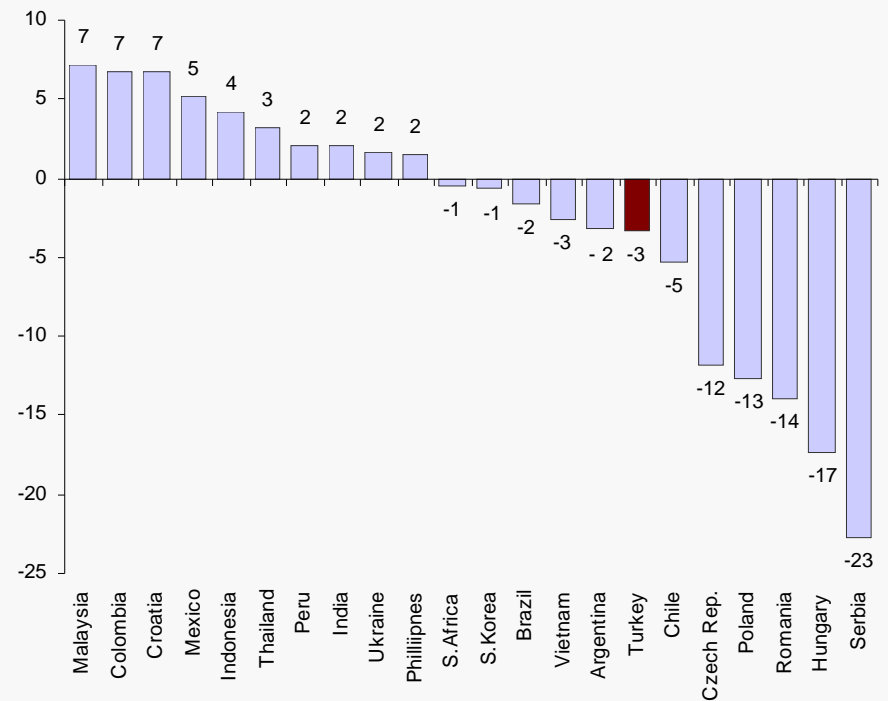
Compared to other developing countries, no significant change has occurred in the value of the Turkish lira.

Appreciation of Local Currencies against US dollar
(as of Jan 2009, percentage change)



Source: Bloomberg, CBT

Appreciation of Local Currencies against US dollar
(as of Jan 2010, percentage change)

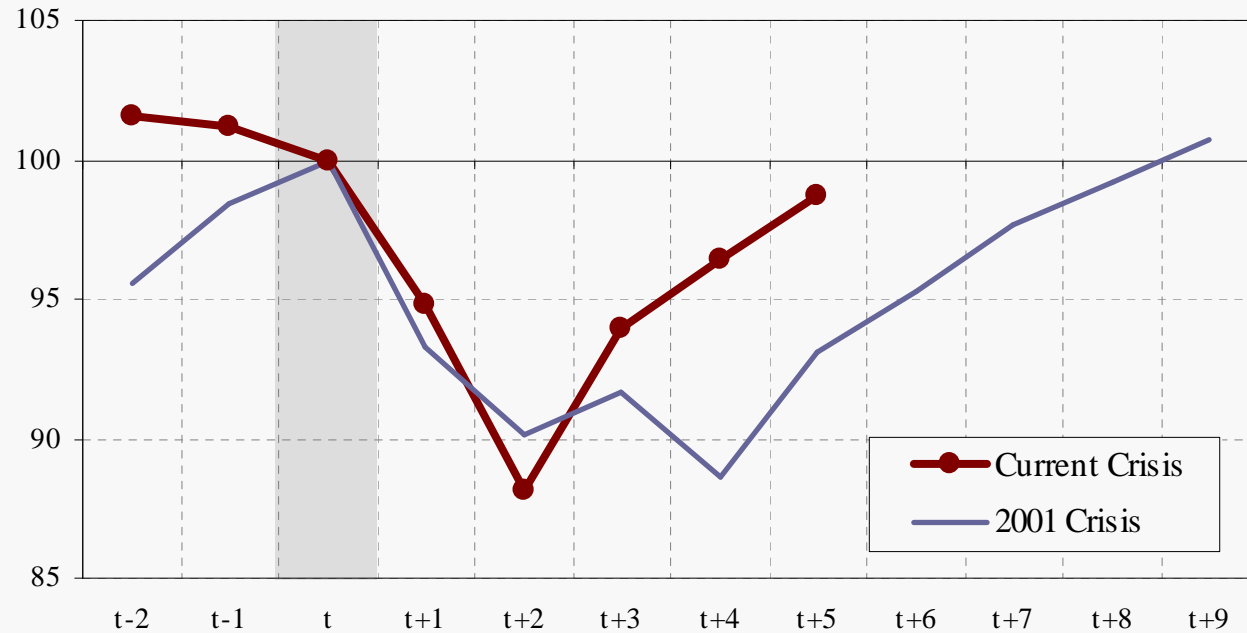


Source: Bloomberg, CBT

Comparison of 2001 and 2008 Crises

Compared to the 2001 crisis, the recovery in economic activity is faster.

GDP in 2001 and 2008 Crises *
(Real level, Seasonally-adjusted)

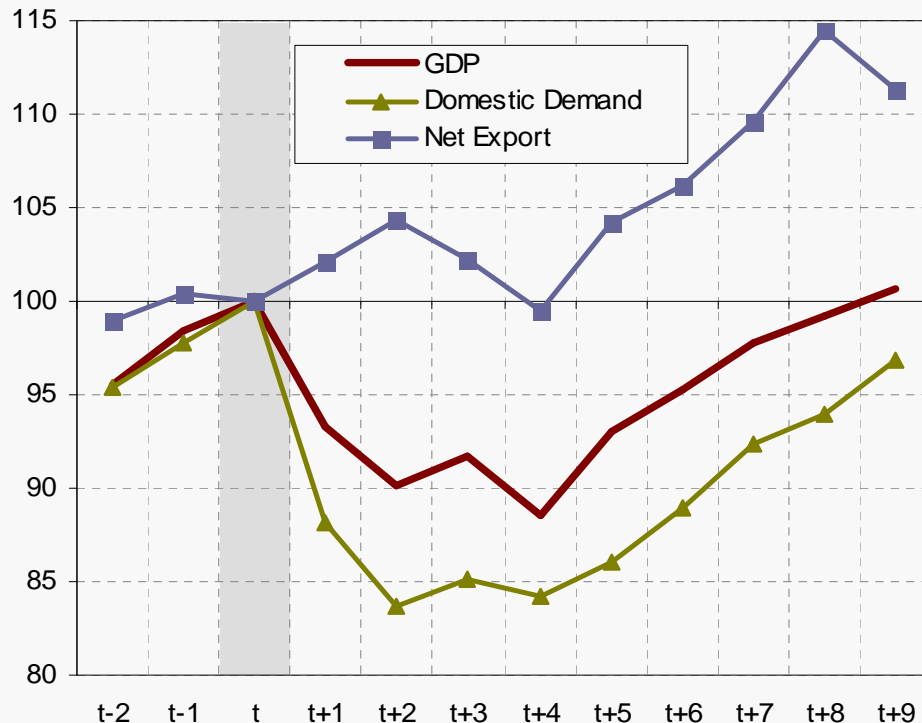


* the value for the term "t" is 100. The t term is 2000Q4 for the 2001 crisis and 2008Q3 ' for the current situation
Source: TurkStat, CBT

Comparison of 2001 and 2008 Crises

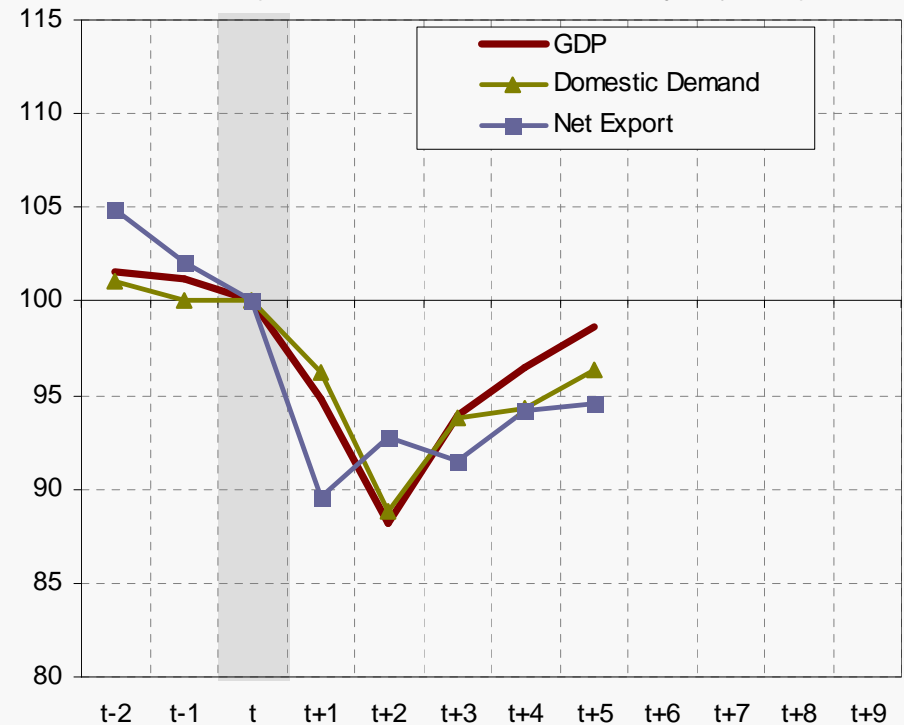
The difference between the current situation and the 2001 crisis is that the Turkish economy is subject to an extraordinary global demand shock. While the contraction in domestic demand remained more limited, contrary to the 2001 crisis, the decline in the net export was higher.

2001 Crisis and the Turkish Economy
(2000 Q2–2003 Q1, Seasonally-adjusted)



*the value for the term "t" is 100. t term is 2000Q4 for the 2001 crisis.
Source: TurkStat, CBT

2008 Crisis and the Turkish Economy
(2008 Q1 – 2009 Q3, Seasonally-adjusted)

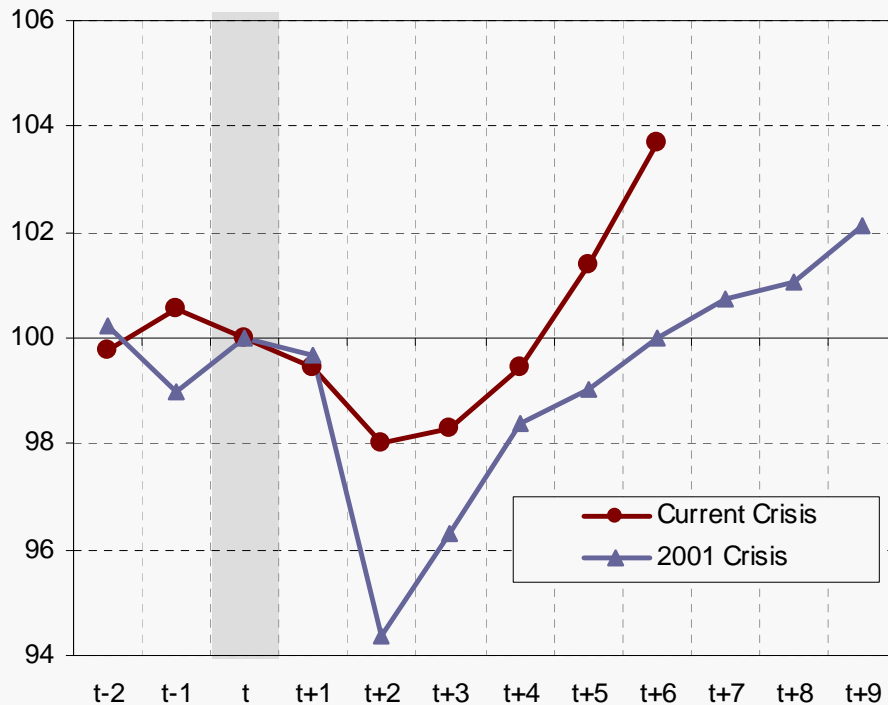


* the value for the term "t" is 100. t term is 2008Q3' for the current situation.
Source: TurkStat, CBT

Labor Market

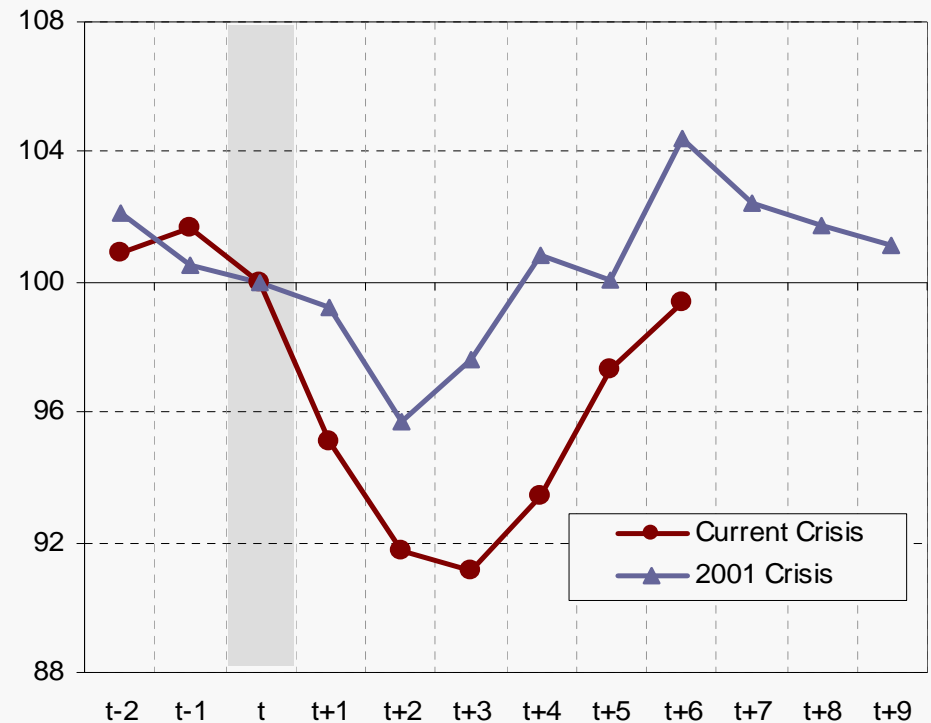
The decline in non-farm employment remained limited compared to the 2001 crisis thanks to support by domestic demand, whereas the fall in industrial employment was sharper due to the external demand shock.

2001-2008 Crises and Non-farm Employment*
(Person, Seasonally-adjusted)



*the value for the term "t" is 100. The t term is 2000Q4 for the 2001 crisis and 2008Q3 ' for the current situation
Source: TurkStat, CBTc

2001-2008 Crises and Industrial Employment*
(Person, Seasonally-adjusted)



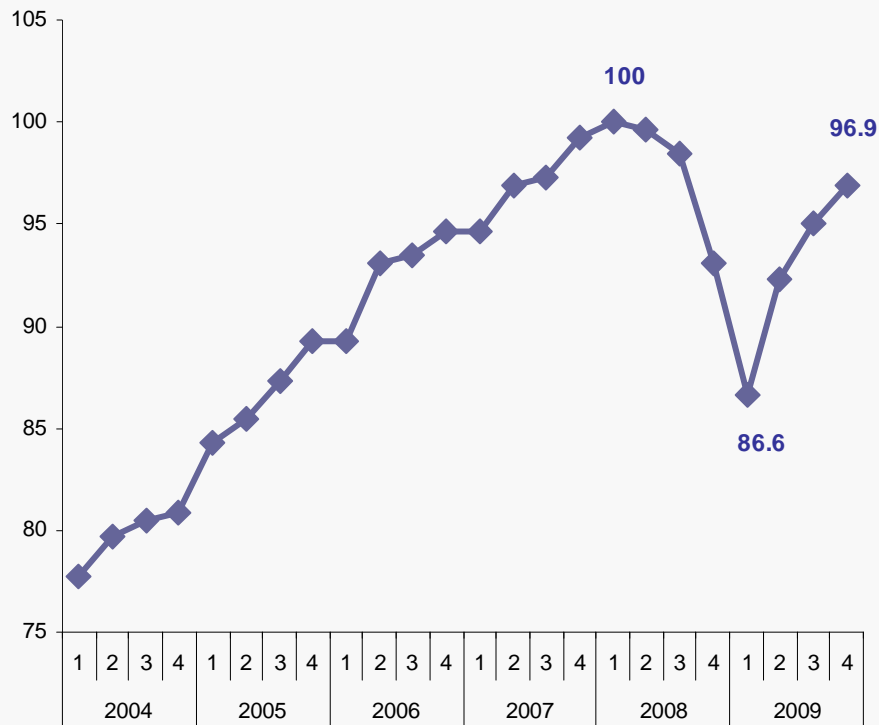
* the value for the term "t" is 100. The t term is 2000Q4 for the 2001 crisis and 2008Q3 ' for the current situation
Source: TurkStat, CBT

III. Latest Developments in the Turkish Economy

Turkish Economy

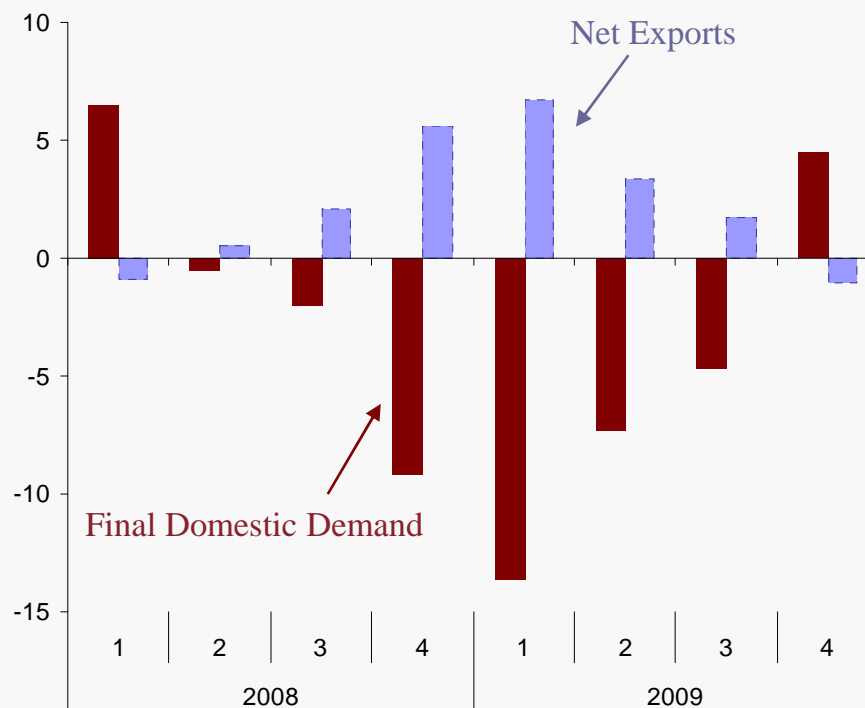
Recently released data indicate that the mild recovery process in economic activity continues.

Seasonally-adjusted Real GDP
(2004 Q1 – 2009 Q4, 2008 Q1=100)



Source: TurkStat, CBT

Growth Components
(2008 Q1 – 2009 Q4, year-on-year, percent contribution)

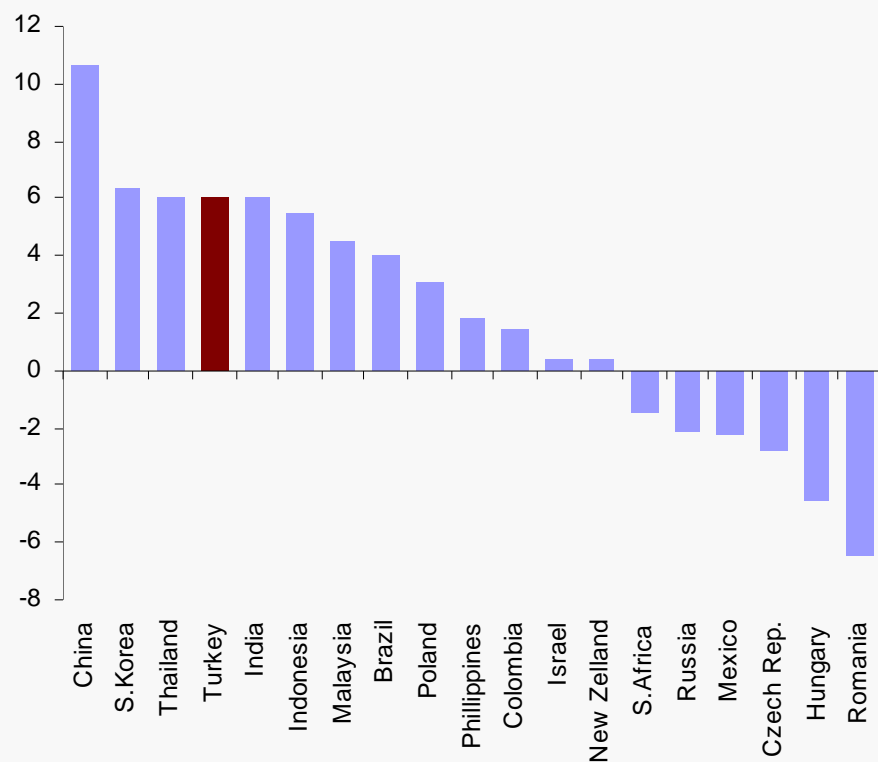


Source: TurkStat, CBT

Turkish Economy

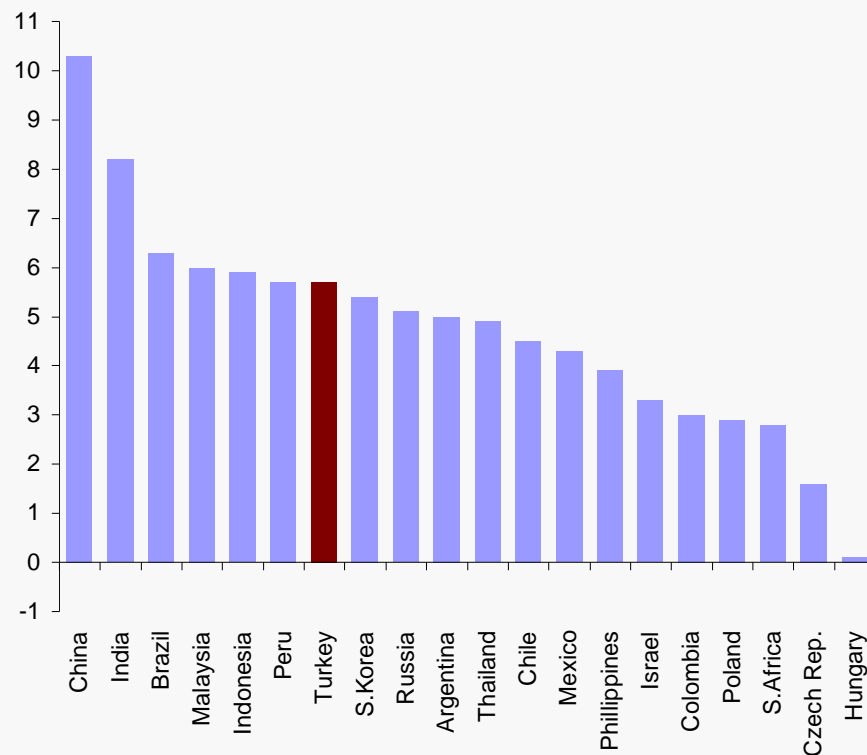
Turkey ranked among the fastest growing countries along with Eastern Asian countries in the last quarter of 2009 and this performance is expected to continue in 2010 as well.

Growth Rates in 2009Q4
(annual percentage change)



Source: Consensus Forecasts, Mar 2010

Growth Rate Expectations for 2010
(annual percentage change)

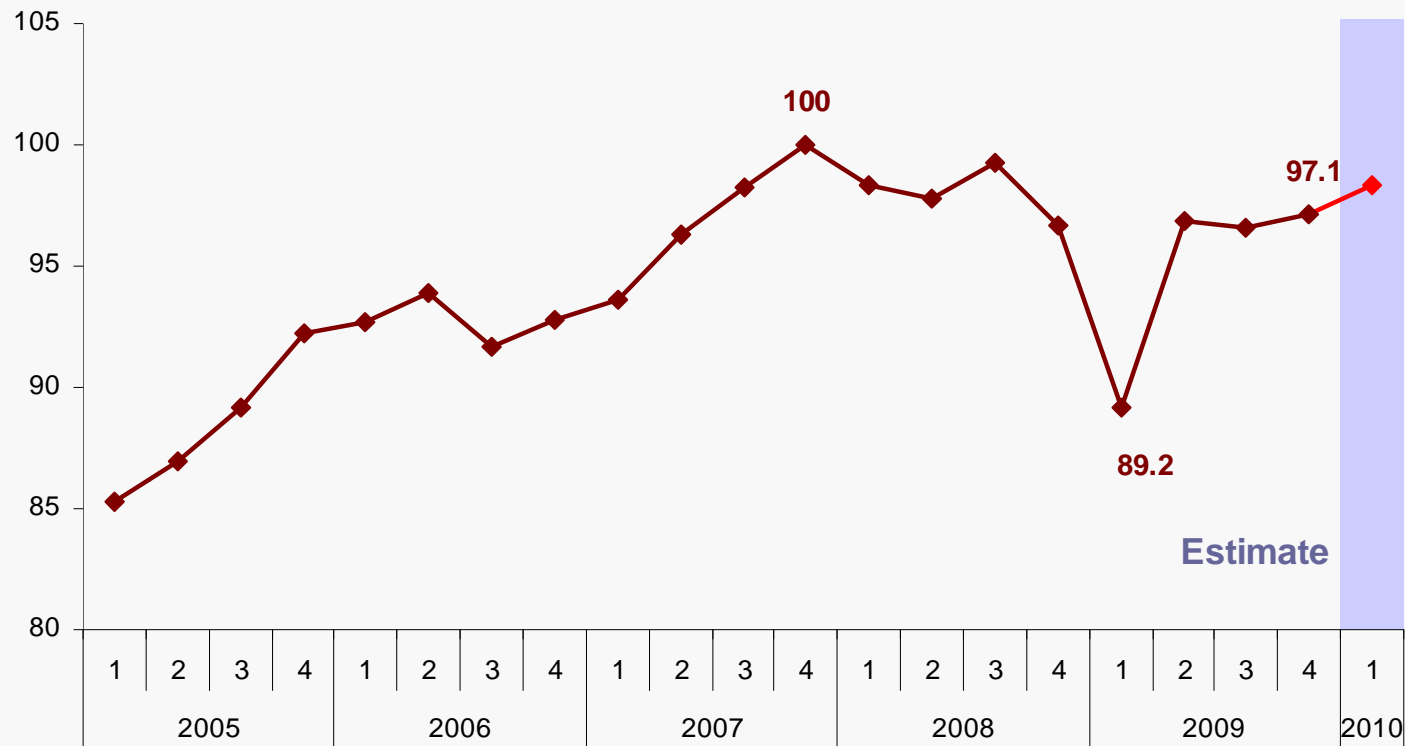


Source: Consensus Forecasts, May 2010

Private Consumption

The gradual recovery in private consumption expenditures continued in the first quarter of the year.

Real Private Consumption Expenditures*
(2005 Q1 – 2010 Q1, 2007 Q4 = 100)

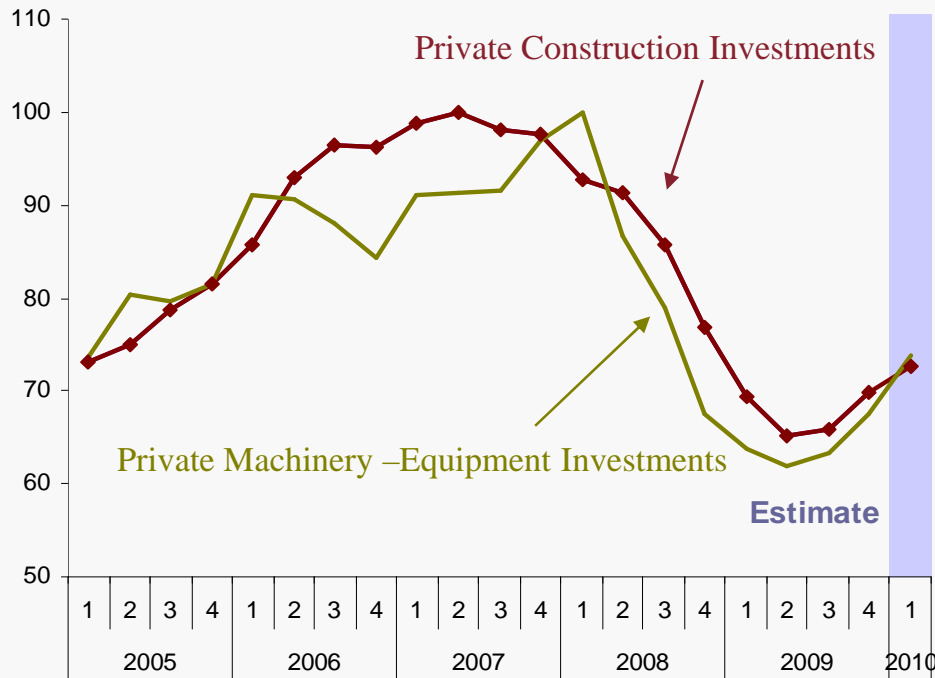


*Seasonally Adjusted
Source: TurkStat, CBT

Private Investment

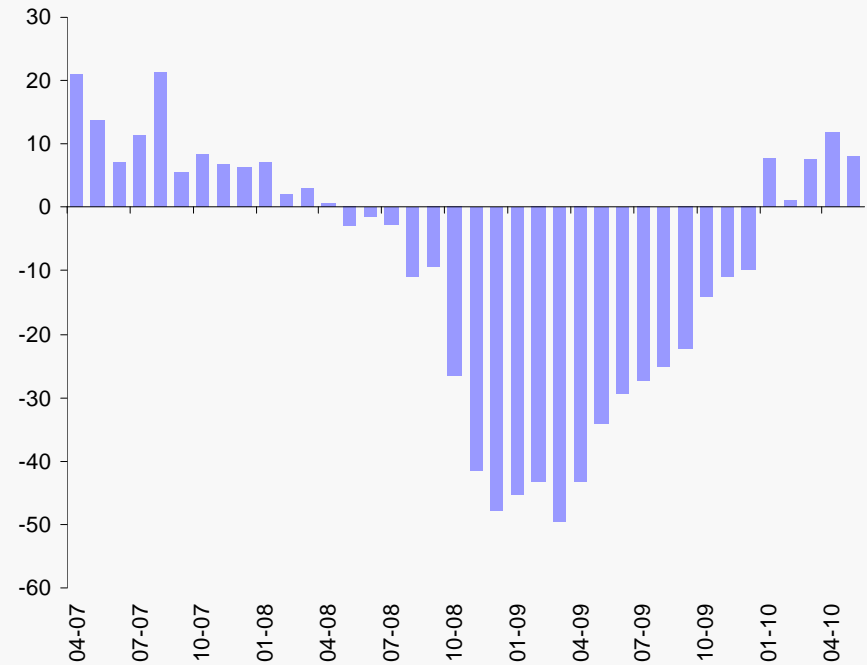
Although private investment expenditures have displayed an upward trend since mid-2009, they still hover around low levels.

Real Private Investment Expenditures*
(2005 Q1 – 2010 Q1, 2008 Q1 = 100)



*Seasonally Adjusted
Source: TurkStat, CBT

Expectations for Fixed Capital Investment Expenditures
(Apr 2007 – May 2010, percent)

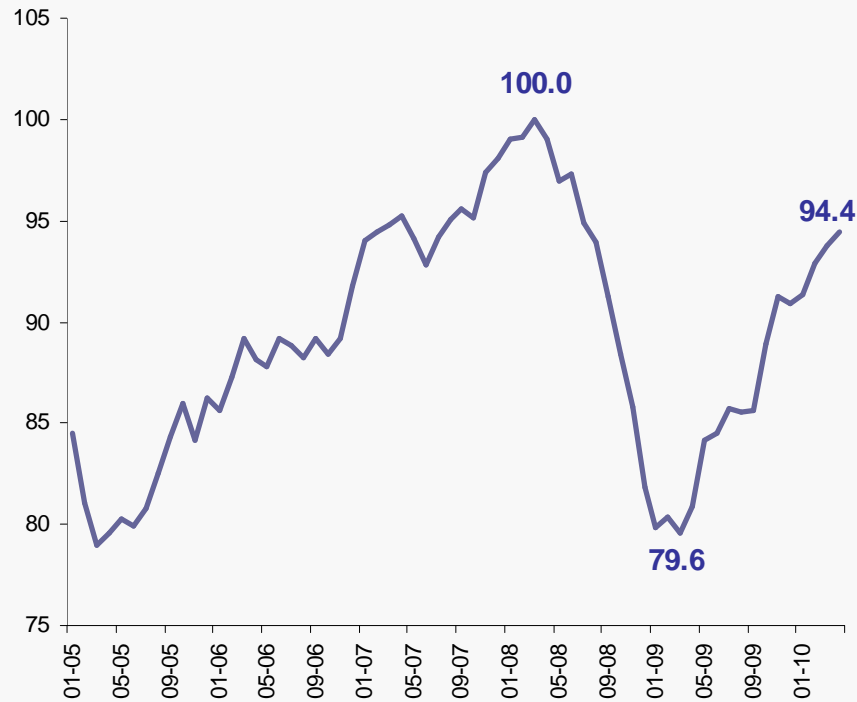


Source: CBT

Production Side

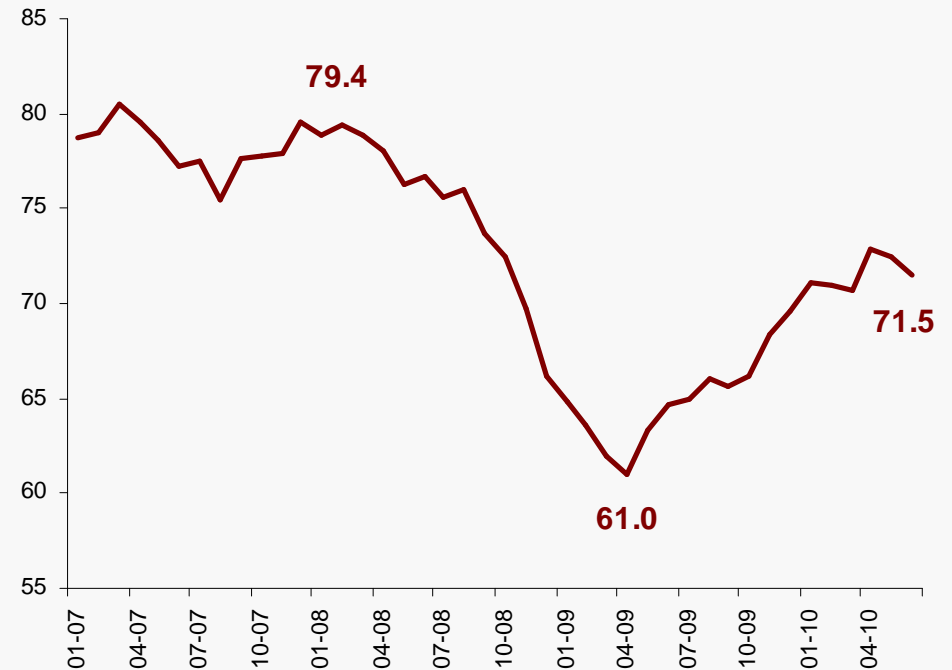
Industrial production has displayed an upward trend since the second quarter of 2009. However, uncertainties over foreign demand impede industrial production from resuming its pre-crisis level.

**Seasonally Adjusted
Industrial Production Index**
(Jan 2005 – Apr 2010, Mart 2008=100)



Source: TurkStat, CBT

**Seasonally Adjusted Capacity Utilization Rate
in Manufacturing Industry**
(Jan 2007 – May 2010, percent)



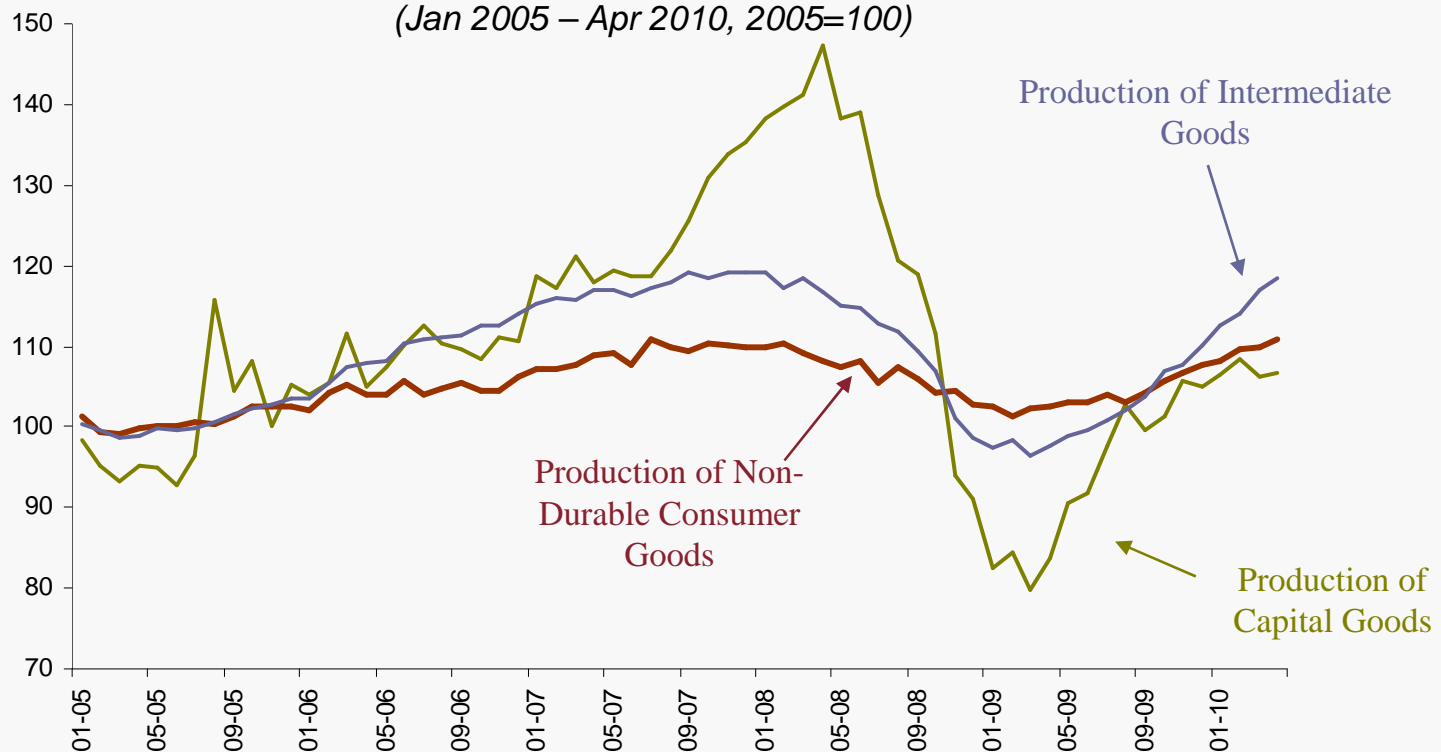
Source: CBT

Production Side

Production of capital goods, intermediate goods and non-durable consumer goods display modest recovery.

*Production of Intermediate Goods, Non-Durable Consumer Goods and Capital Goods**

(Jan 2005 – Apr 2010, 2005=100)

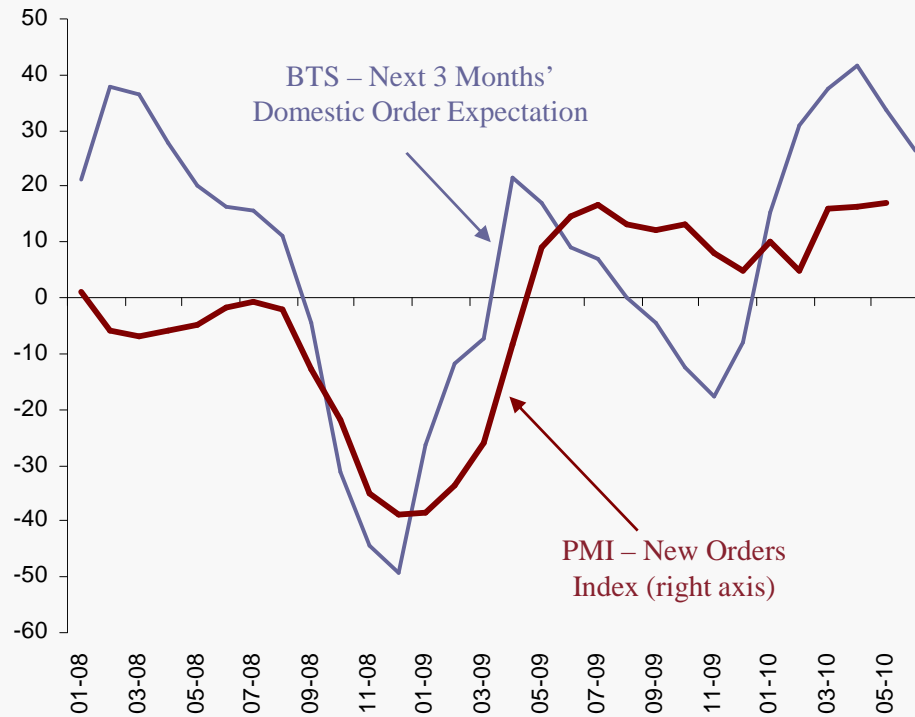


* Seasonally Adjusted
Source: TurkStat, CBT

Demand Indicators

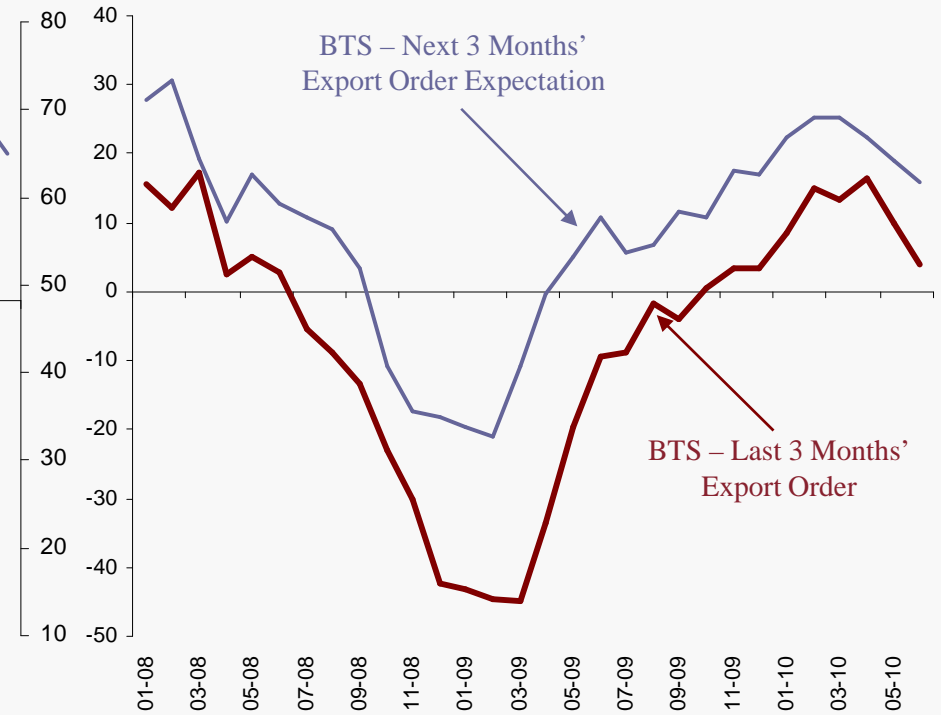
Moderate recovery is observed in domestic and export order expectations for the next three months.

Demand Indicators
(Jan 2008 – Jun 2010)



Source: Markit, CBT

Export Expectations*
(Jan 2008 – Jun 2010)

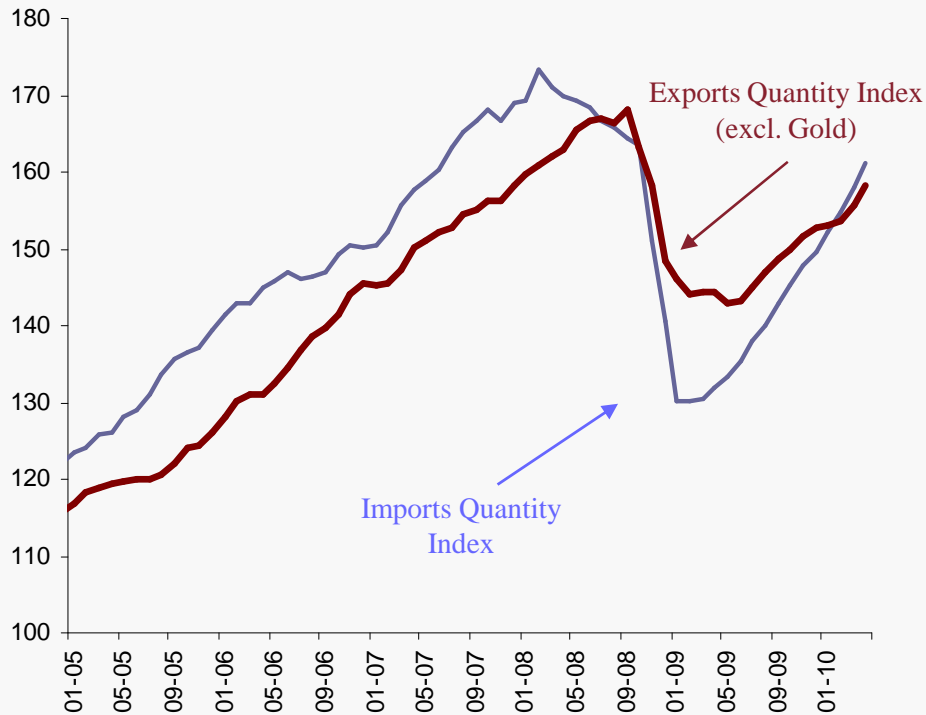


*Seasonally adjusted
Source: CBT

Demand Indicators

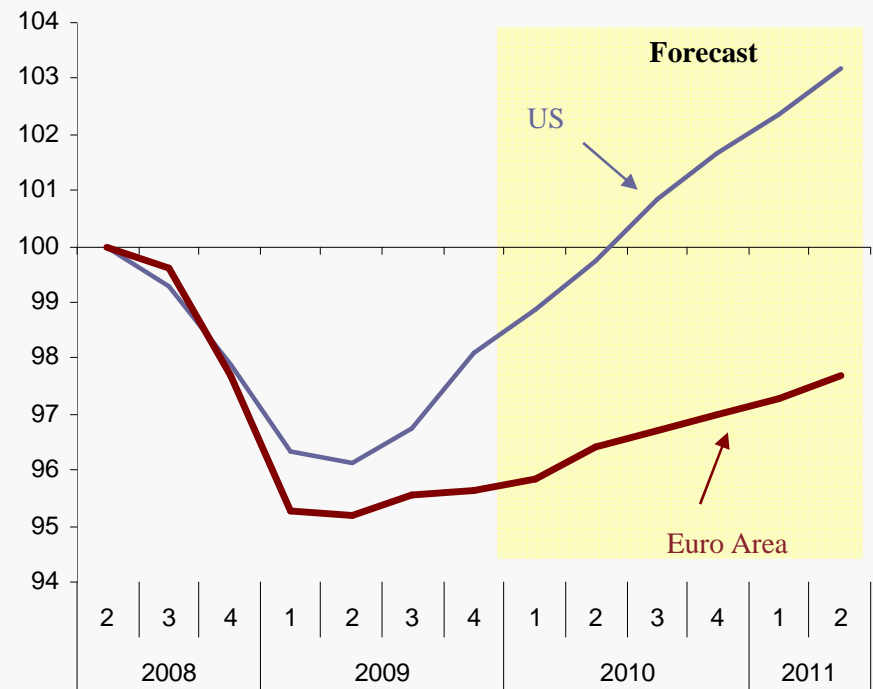
Strong recovery in external demand is not expected without marked improvements in global economic growth. The weak pace of economic recovery especially in the Euro Area poses a downside risk on exports.

Exports and Imports Quantity Indices*
(Jan 2005 – Apr 2010, Jan 2003 = 100)



* Seasonally Adjusted, 2-month moving average, April forecast has been used.
Source: TurkStat, CBT

Growth Rate Forecasts in USA and Euro Area
(2008 Q2 – 2011 Q2, 2008 Q2 = 100)

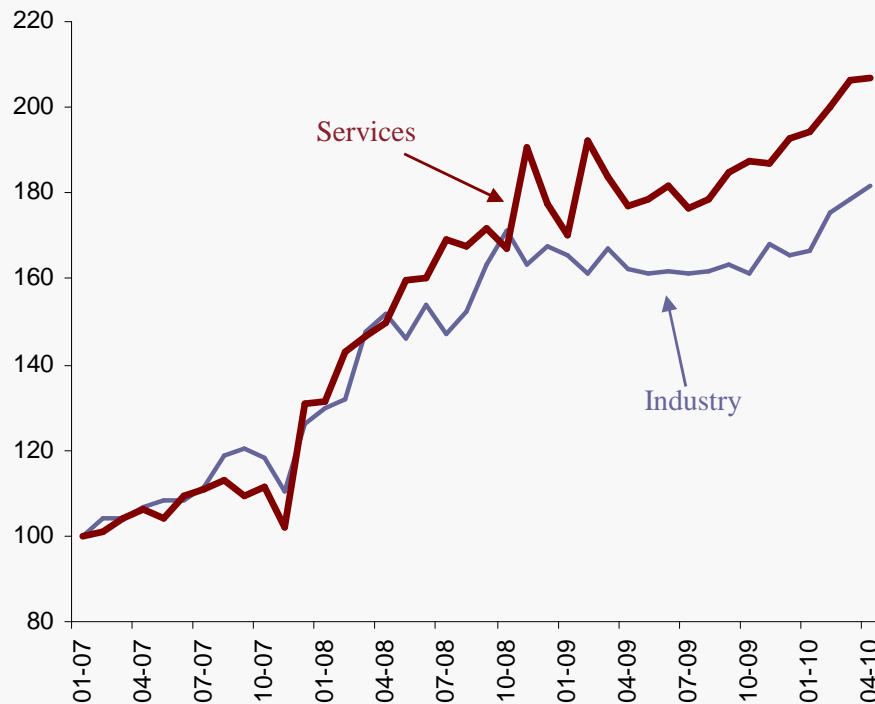


Source: Consensus Forecast, CBT

Demand Indicators

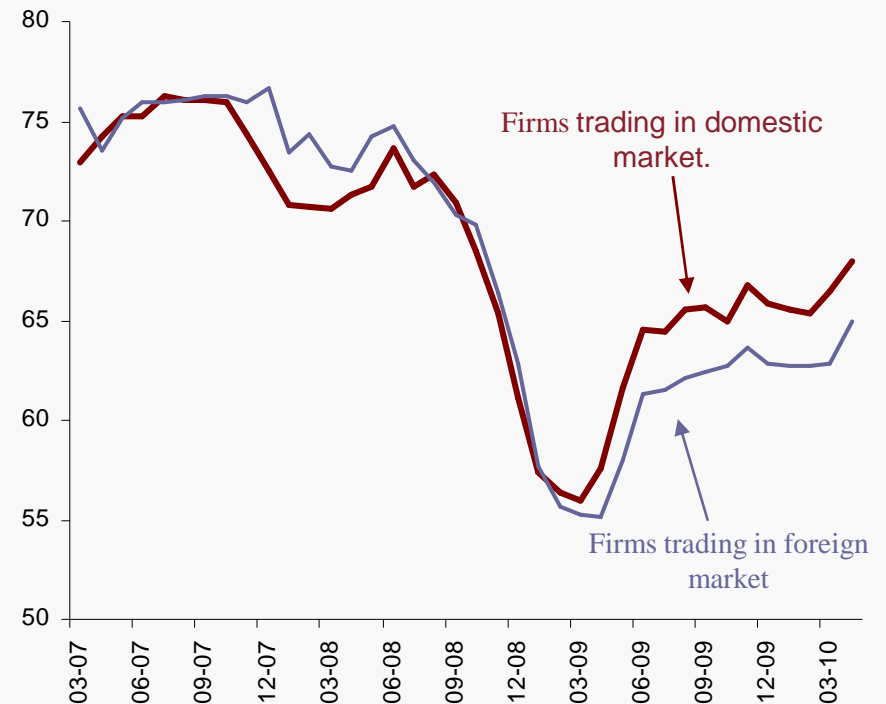
Economic activity is recovering faster in the services sector and domestic-oriented manufacturing sector.

Credit Developments by Sectors
(Jan 2007 – Apr 2010, Jan 2007 = 100)



Source: BRSA, CBT

Capacity Utilization Rates of Firms trading in Domestic and Foreign Markets
(Mar 2007 – Apr 2010)



Source: CBT

Stocks

Uncertainties over aggregate demand make firms less eager to accumulate stock compared to periods of strong growth.

Stock Change*

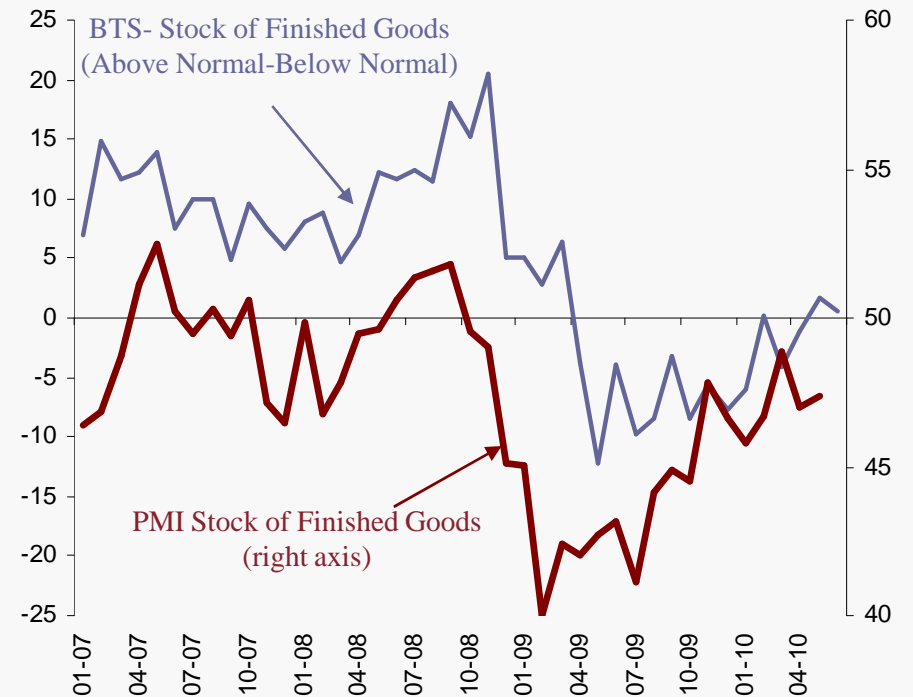
(2005 Q1 – 2010 Q1, deflated by 1998 constant prices, billion TL)



*Seasonally Adjusted
Source: TurkStat, CBT

Stock Indicators of Finished Goods

(Jan 2007 – Jun 2010)

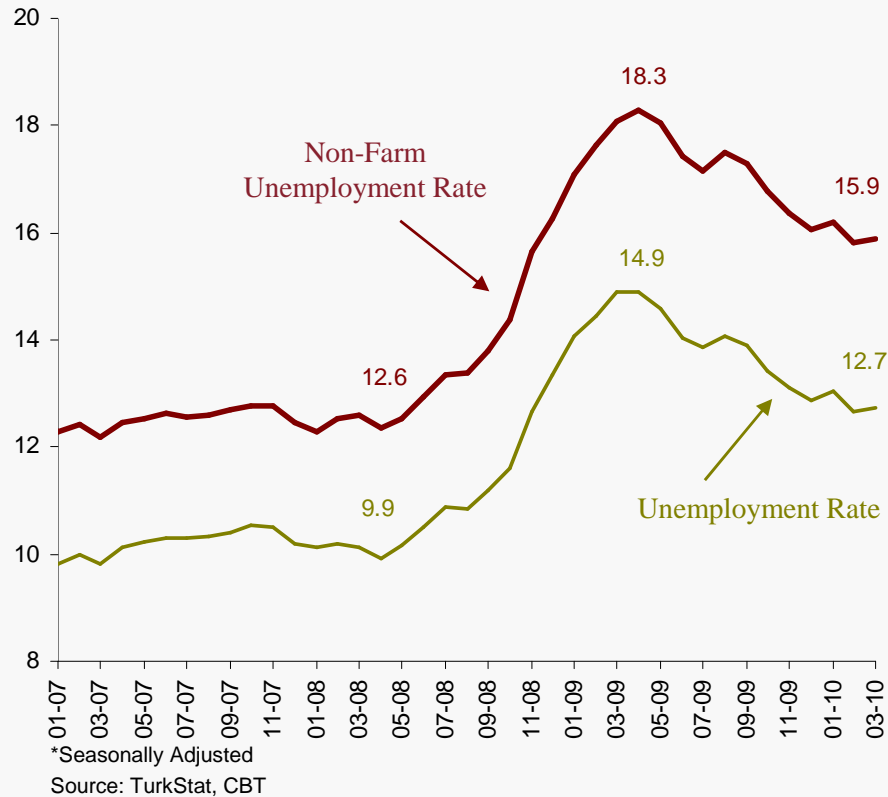


Source: Bloomberg, CBT

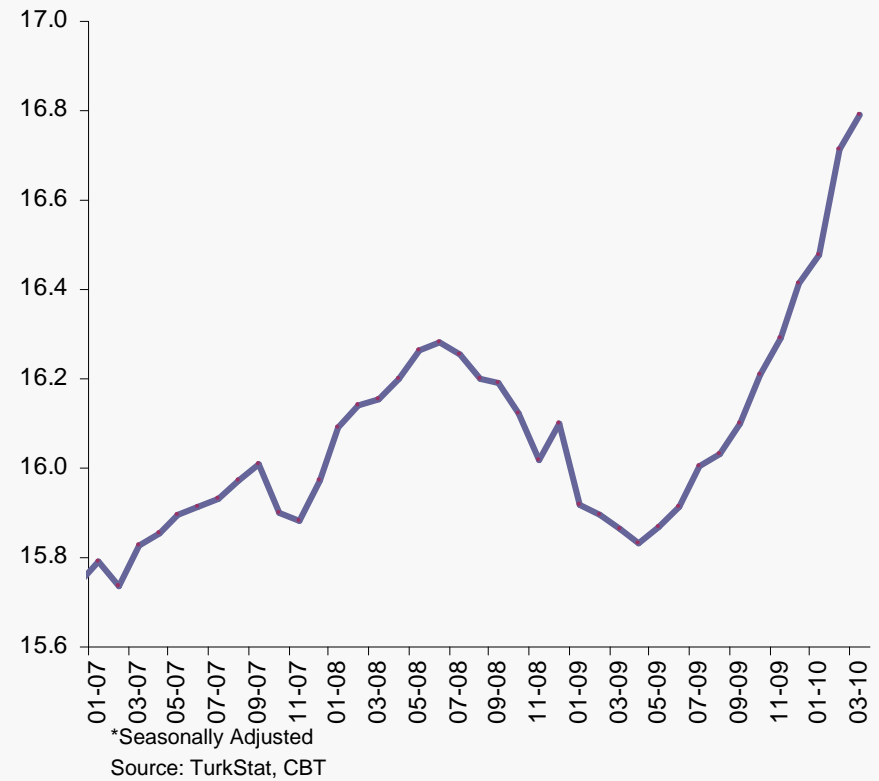
Labor Market

Although there has been a modest improvement in employment conditions, unemployment rates remain at high levels.

Unemployment Rates*
(Jan 2007 – Mar 2010, percent)



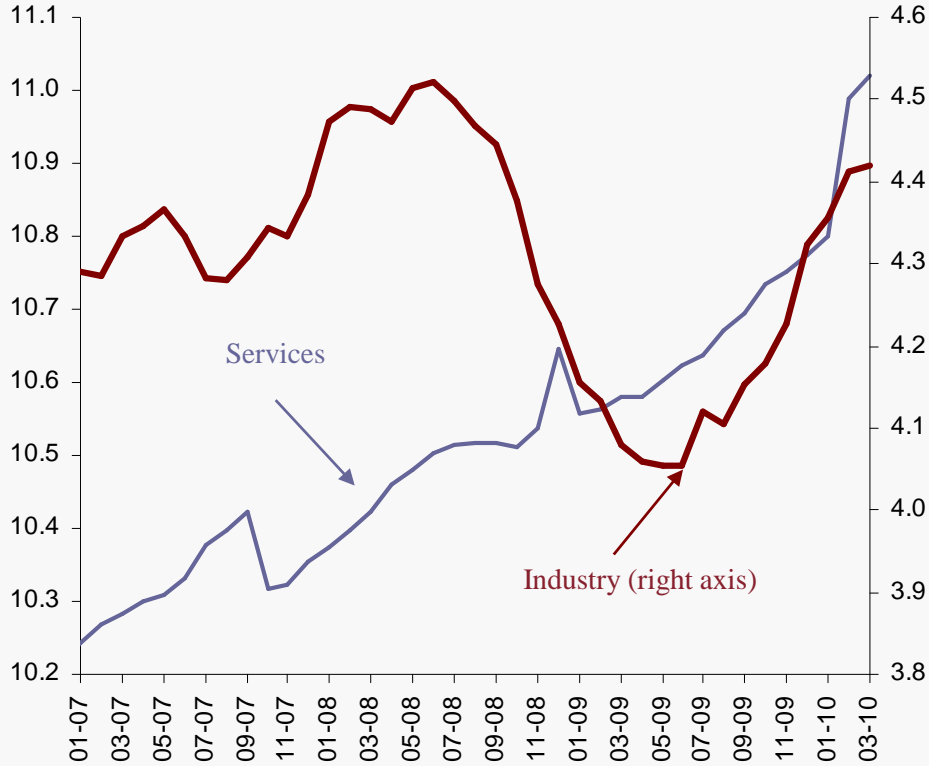
Non-Farm Employment*
(Jan 2007 – Mar 2010, million people)



Labor Market

Industrial employment, which was most adversely affected by the crisis and became the main factor for the rise in non-farm unemployment, continues to increase.

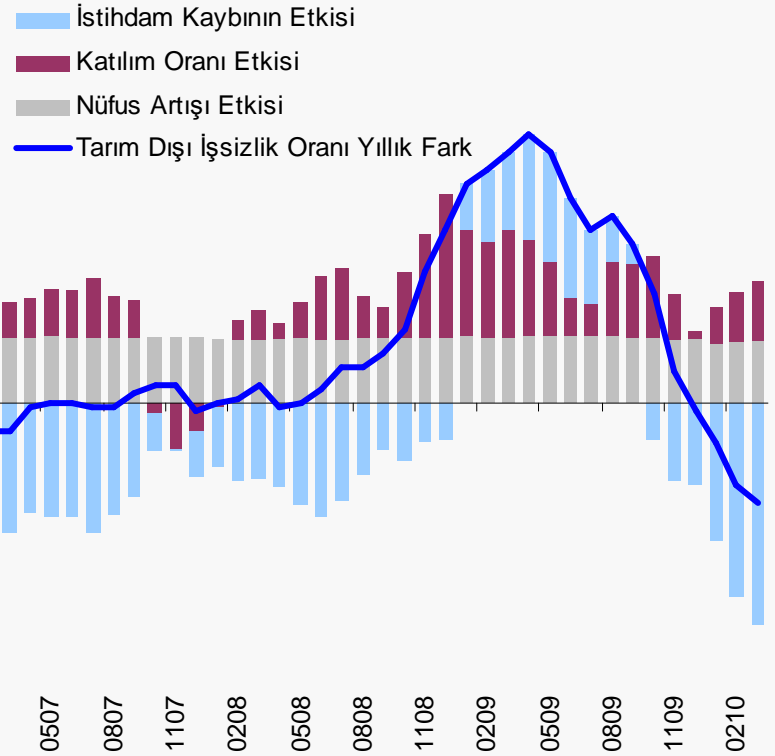
Employment in Industry and Services*
(Jan 2007 - Mar 2010, million people)



* Seasonally Adjusted
Source: TurkStat, CBT

The Distribution of Changes in Non-Farm Unemployment
(Feb 2007 – Mar 2010, annual percentage contribution)

(Feb 2007 – Mar 2010, annual percentage contribution)

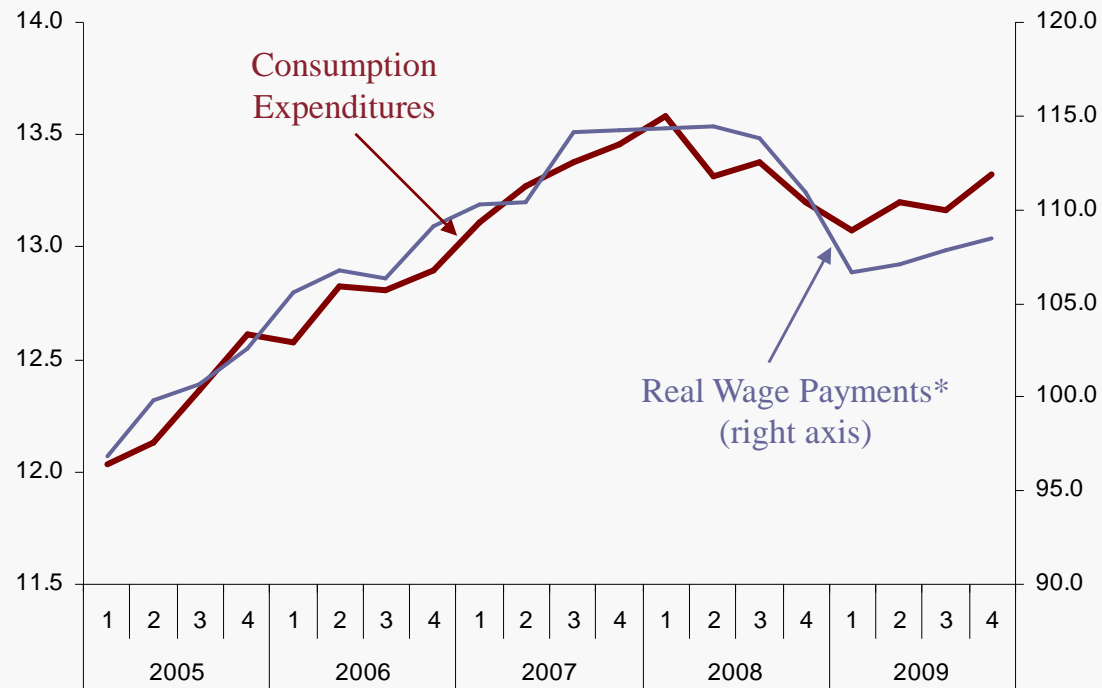


Source: TurkStat, CBT

Real Wage Developments

With moderate recovery in economic activity, real wage payments started to rise again.

Real Wage Payments and Private Consumption
(2005 Q1 – 2009 Q4, deflated by 1998 prices, billion TL)



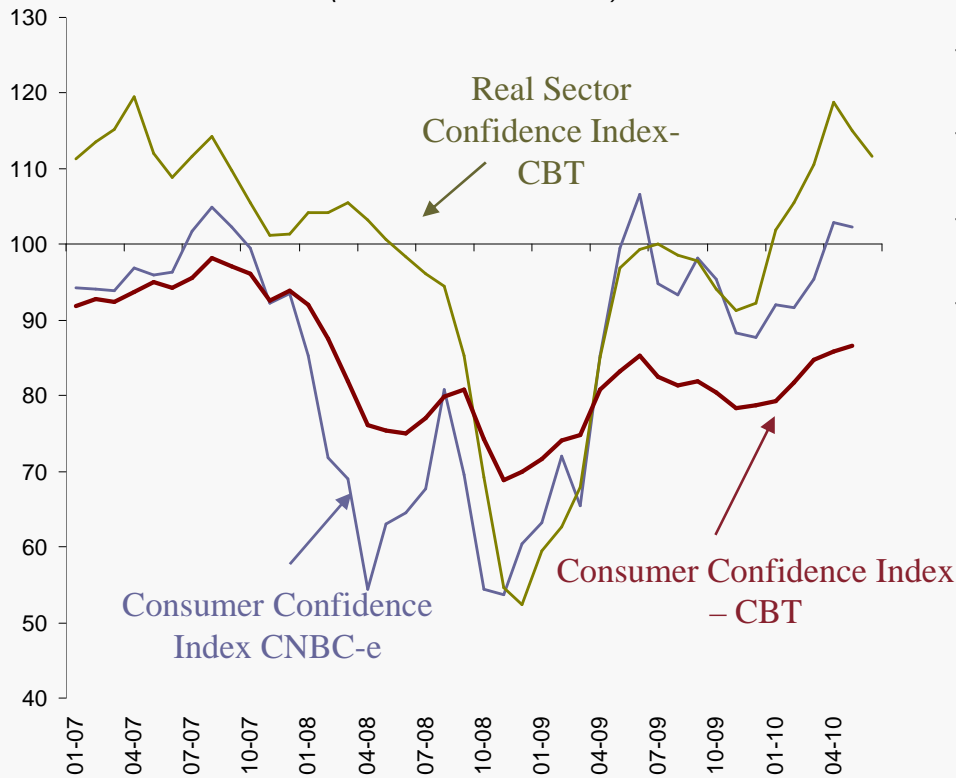
* Weighted average of total wage payments of industry, construction, trade, restaurants-hotels and transportation-communication sectors, seasonally adjusted.

Source: TurkStat, CBT.

Confidence Indices and Leading Indicators

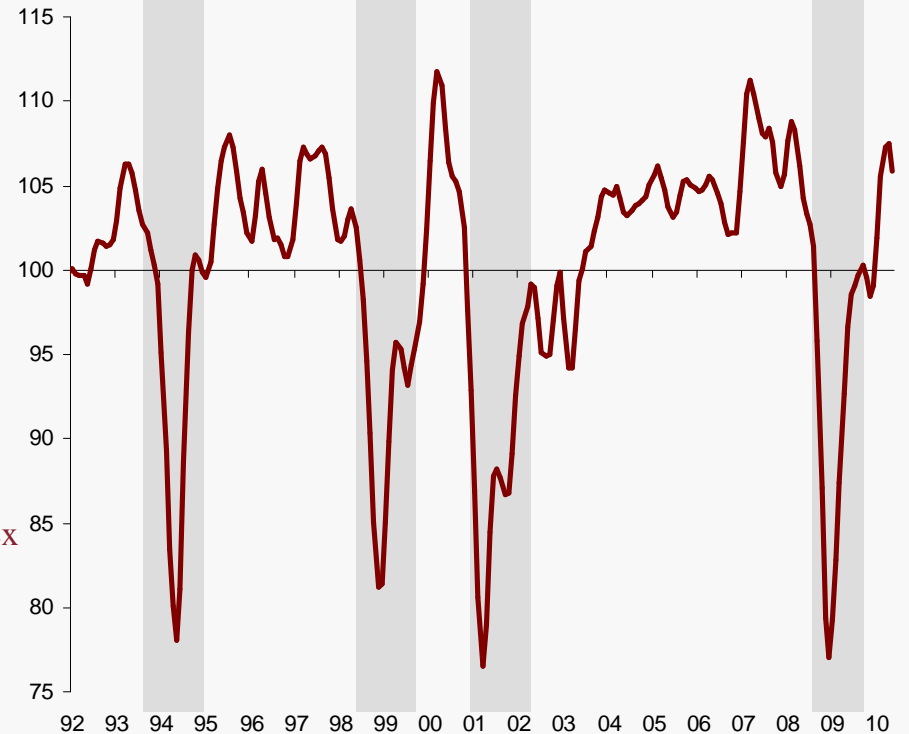
Real sector and confidence indices confirm the recovery in expectations.

Real Sector and Consumer Confidence Indices
(Jan 2007 – Jun 2010)



Source: CNBC-e, CBT

Leading Indicators
(Jan 1992 – May 2010)



Source: CBT

Credit Market

The positive trend in the credit market, which started in the last quarter of 2009, became more evident in the first quarter of 2010.

Weekly Change in Total Credit Volume*
(Jan 2007 – Jun 2010, annualized 13-week moving average)



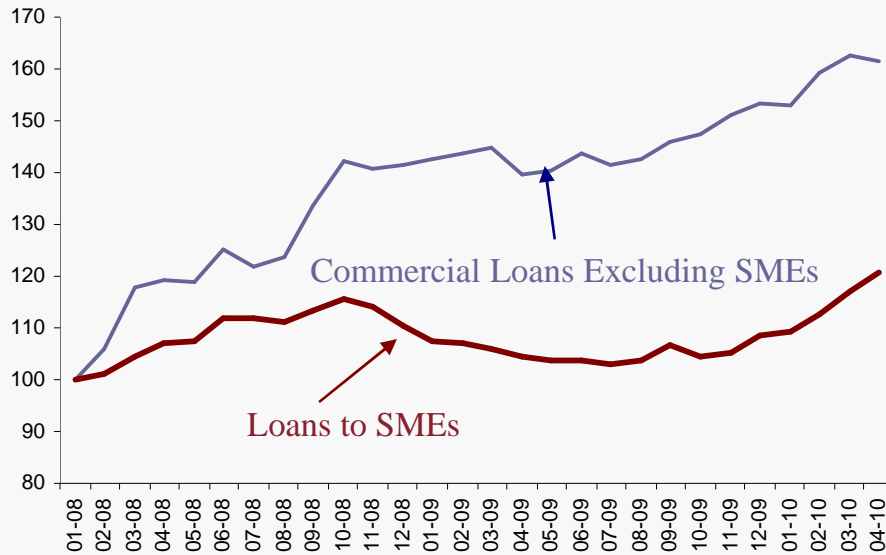
*Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted

Source: BRSA, CBT

Commercial Loans

Tight loan standards affected SMEs more adversely than other firms. Recently, there have been some improvements in NPLs and the amount of credits granted to SMEs.

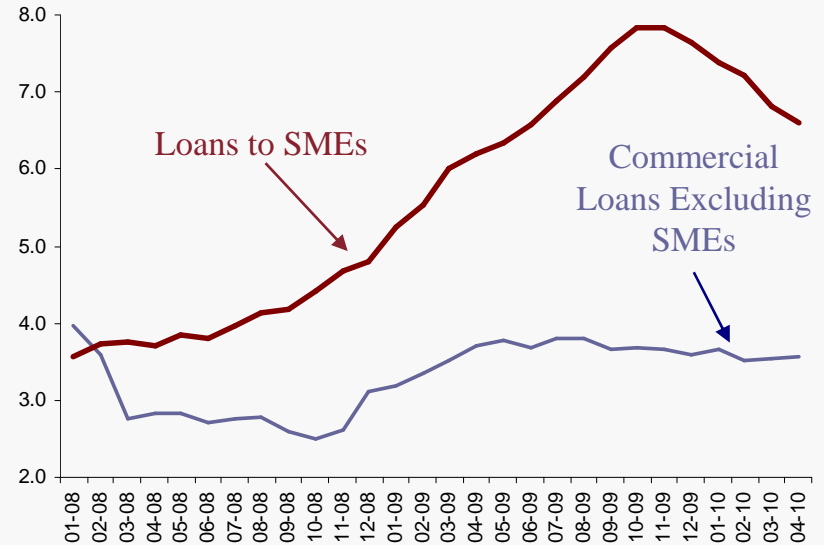
Commercial and SME Loans
(Jan 2008 – Apr 2010, Jan 2008=100)



billion TL	Loans to SMEs	Commercial Loans Excluding SMEs
04.2009	80.0	163.6
04.2010	92.6	189.1

Source: BRSA, CBT

Non-Performing Loans
(Jan 2008 – Apr 2010, percent)



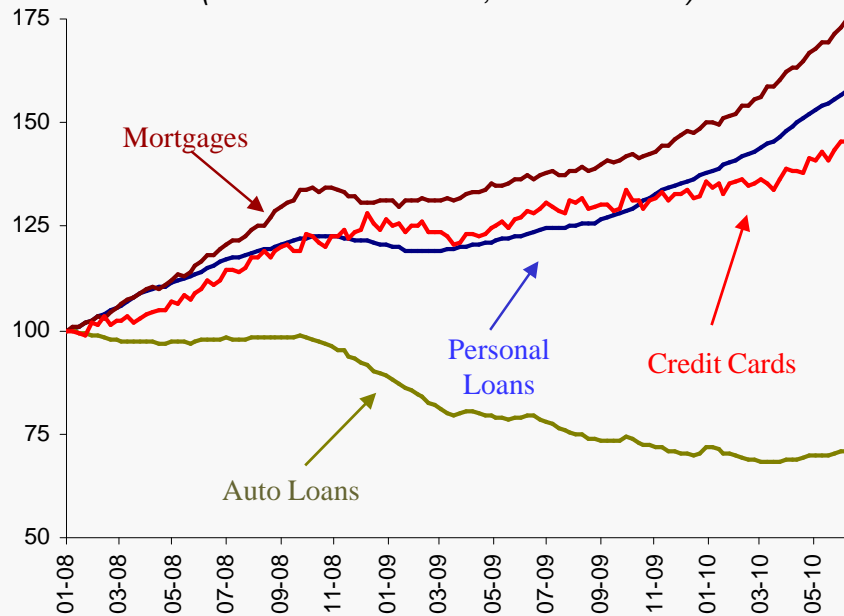
percent	Loans to SMEs	Commercial Loans Excluding SMEs
04.2009	6.2	3.7
04.2010	6.6	3.6

Source: BRSA, CBT

Consumer Loans

In the second quarter of the year, the recovery in consumer loans and the decline in the ratio of non-performing consumer loans continued.

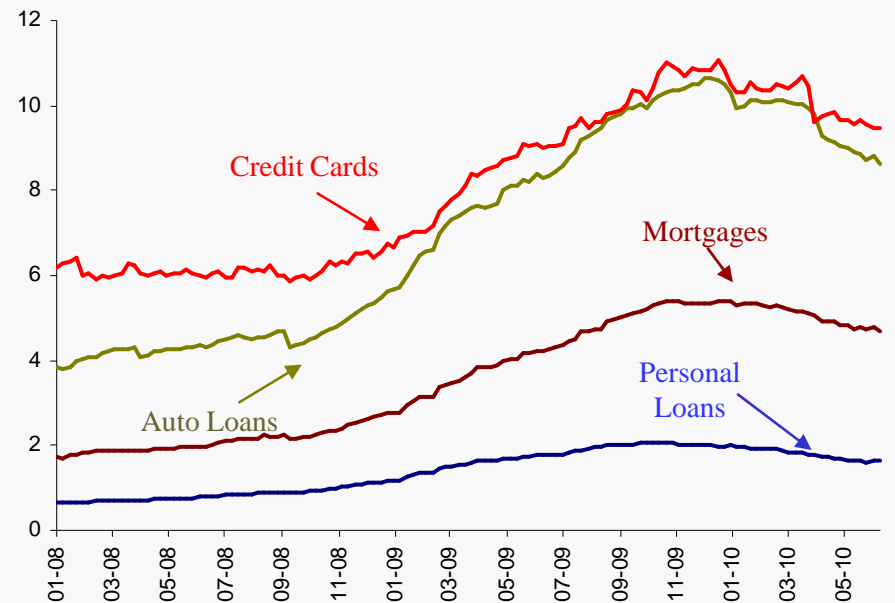
Subcategories of Consumer Loans
(Jan 2008 – Jun 2010, Jan 2008=100)



Billion TL (monthly avg.)	TOTAL	Mortgages	Auto Loans	Personal Loans	Credit Cards
06.08	108.9	37.8	6.0	35.0	30.1
06.09	119.9	40.3	4.8	40.1	34.7
06.10	145.7	51.2	4.3	51.0	39.1

* Deposit Banks
Source: CBT

Ratio of Non-Performing Consumer Loans
(Jan 2008 – Jun 2010, percent)



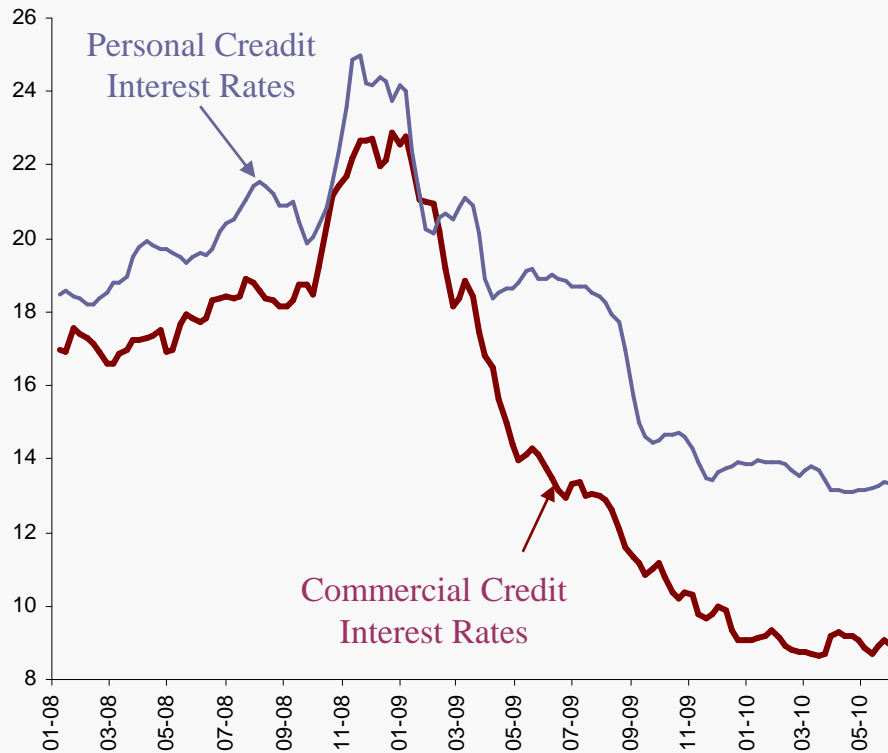
percent	TOTAL	Mortgages	Auto Loans	Personal Loans	Credit Cards
06.08	1.6	0.8	4.5	2.1	6.1
06.09	3.4	1.8	8.5	4.3	9.0
06.10	3.4	1.6	8.6	4.7	9.5

* Deposit Banks
Source: CBT

Credit Conditions

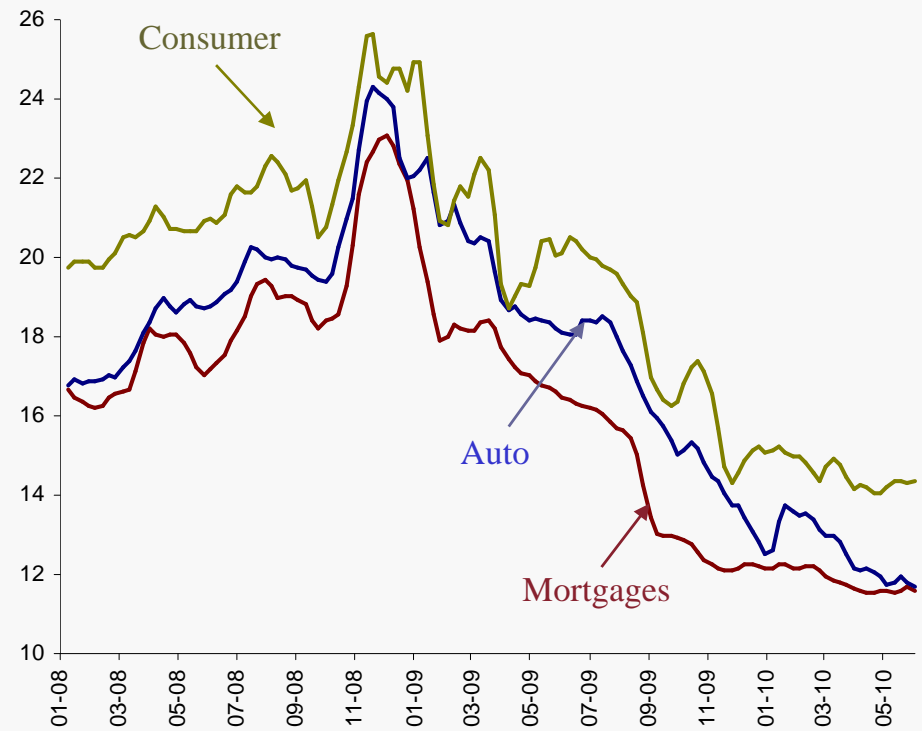
Credit interest rates remain at low levels.

Credit Interest Rates*
(Jan 2008 – Jun 2010, annual percentage)



* 2-week moving average
Source: BRSA, CBT

Consumer Credit Interest Rates*
(Jan 2008 – Jun 2010, annual percentage)



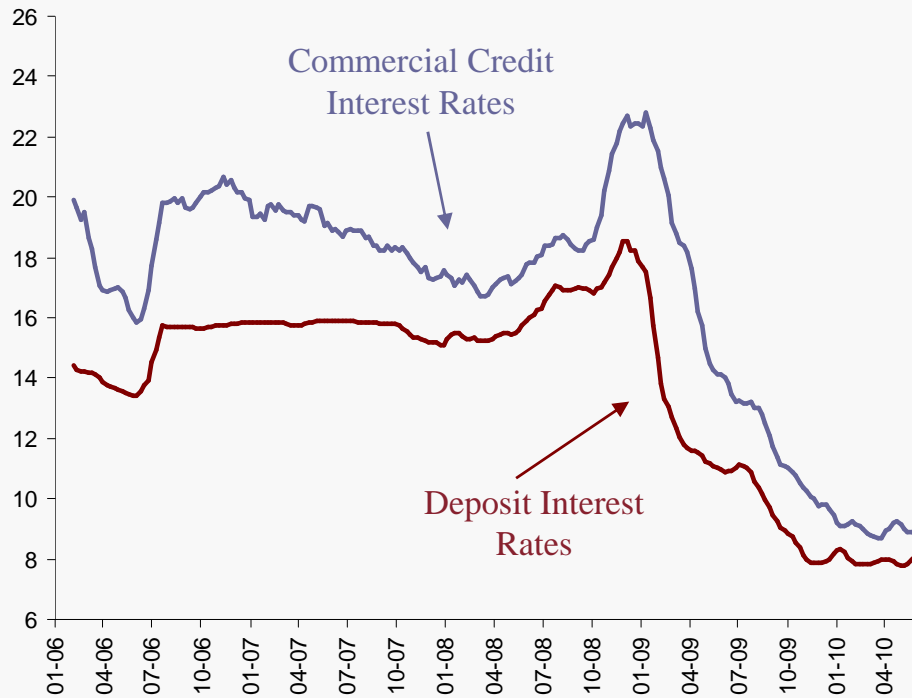
* 2-week moving average
Source: BRSA, CBT

Credit Conditions

The favorable outlook in financial tightness indicators, which became more evident in the last quarter of 2009, continues.

Commercial Credit Interest Rates and Deposit Interest Rates*

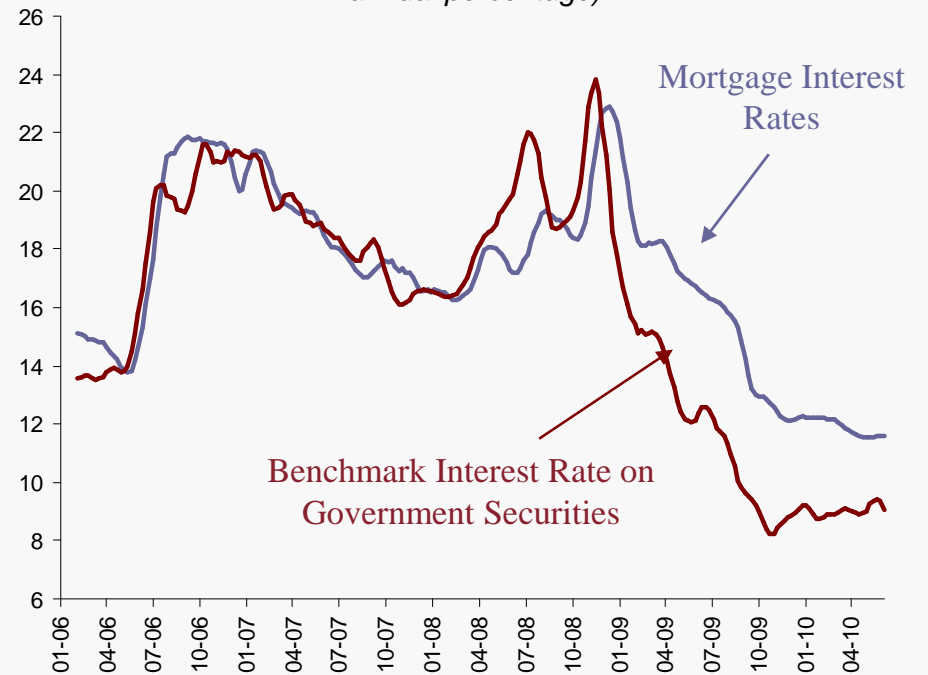
(Jan 2006 – Jun 2010, annual percentage)



* 4-week moving average, Weighted average, flow interest rates.
Source: CBT

Mortgage Interest Rates and Benchmark Interest Rate on Government Securities*

(Jan 2006 – Jun 2010, 4-week moving average, annual percentage)



* 4-week moving average, Weighted average, flow interest rates.
Source: CBT

Credit Conditions

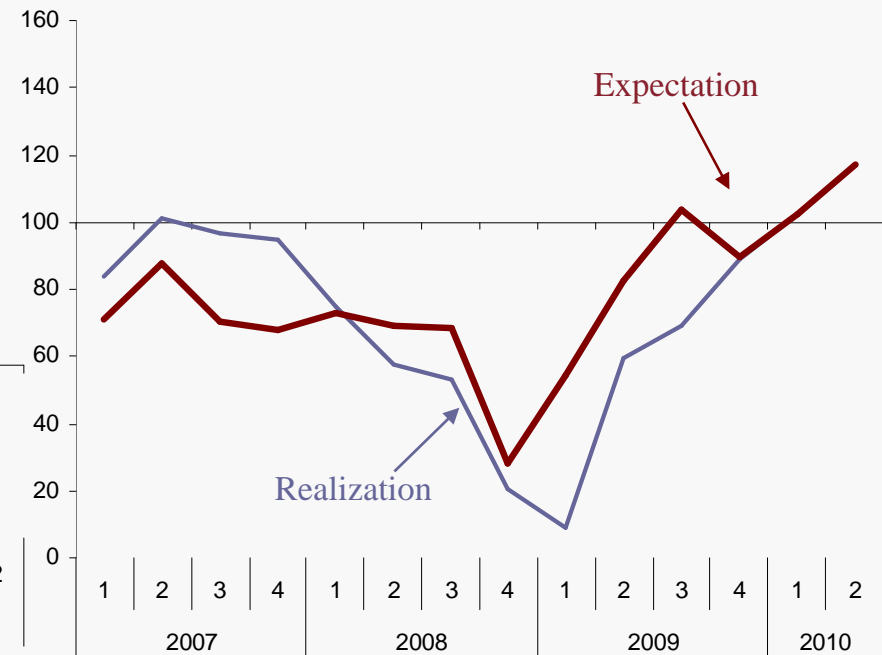
Bank Loans' Tendency Surveys indicate that the demand for commercial loans has slightly improved, and that the negative contribution by investment demand is subsiding.

Demand for Commercial Loans
(2007 Q1 – 2010 Q1)



Source: CBT

Credit Standards for Commercial Loans
(2007 Q1 – 2010 Q1)

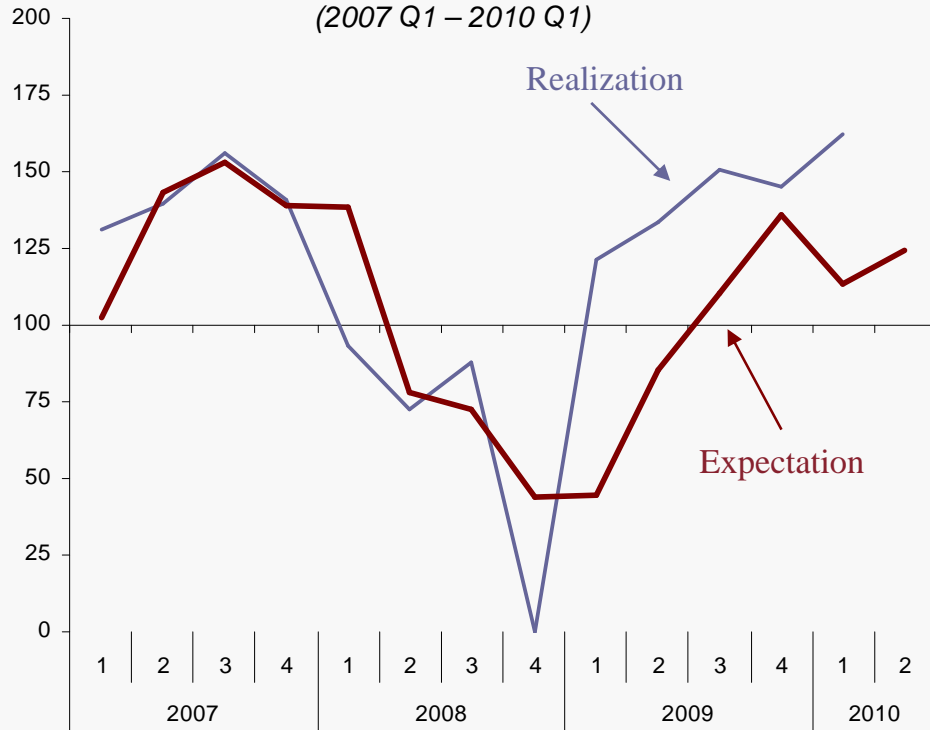


Source: CBT

Credit Conditions

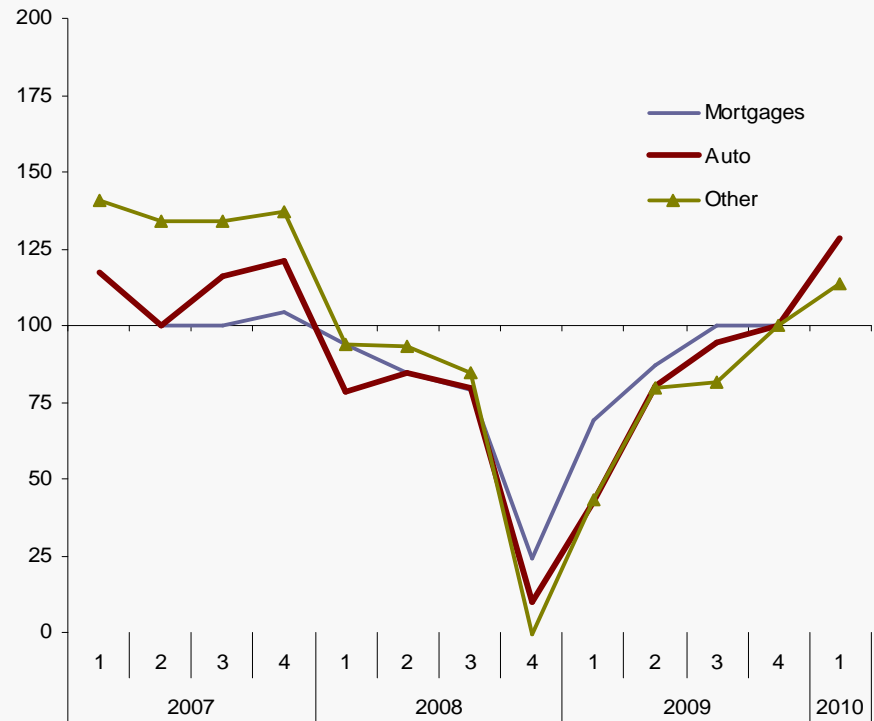
Surveys also suggest that the demand for consumer loans has increased and credit tightening on these loans has ceased.

Demand for Mortgages and Expectations
(2007 Q1 – 2010 Q1)



Source: CBT

Credit Standards for Consumer Loans
(2007 Q1 – 2010 Q1)

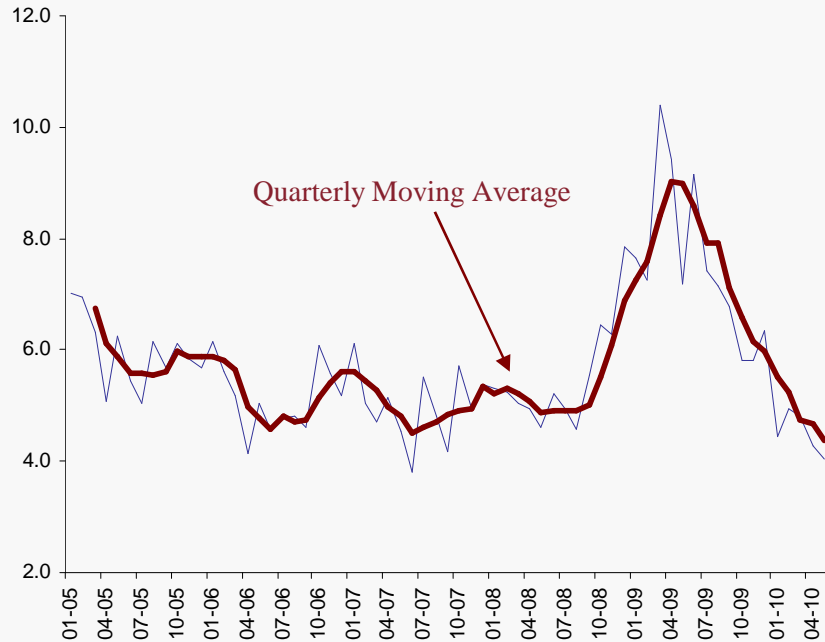


Source: CBT

Commercial Activities

Recently, the number of bad cheques has *clearly* decreased. The rapid increase in the number of new firms proves that economic activity continues to recover.

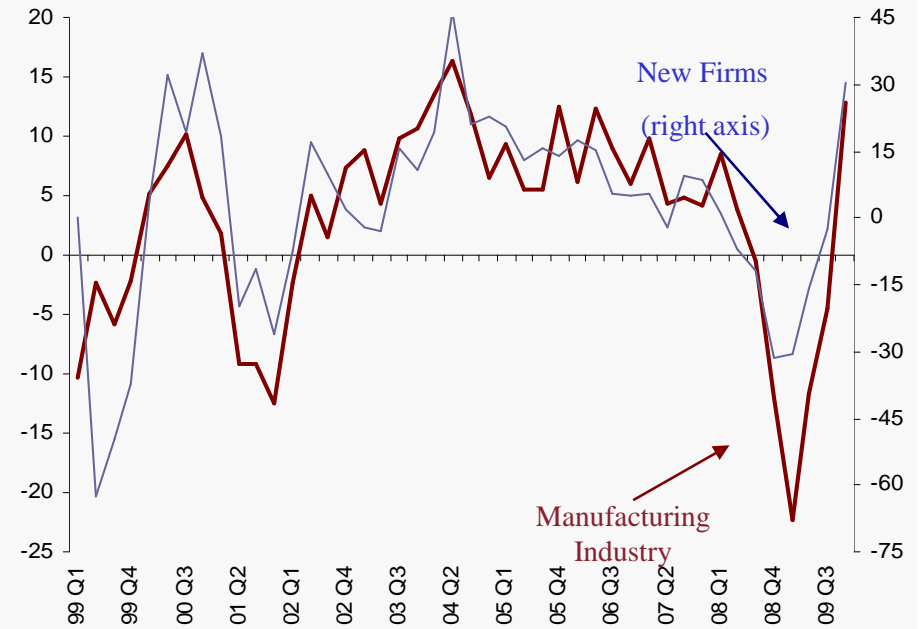
Ratio of the Number of Bad Cheques to Total Cheques
(Jan 2005 – May 2010, percent)



2007	2008	2009-I	2009-II	2009-III	2009-VI	2010-I	2010-II*
5.04	5.60	10.40	9.15	6.79	6.34	4.82	4.52

*As of May 2010
Source: ICHC, CBT

Number of New Firms and GDP Manufacturing Industry
(1999 Q1 – 2009 Q4, yoy percentage change)



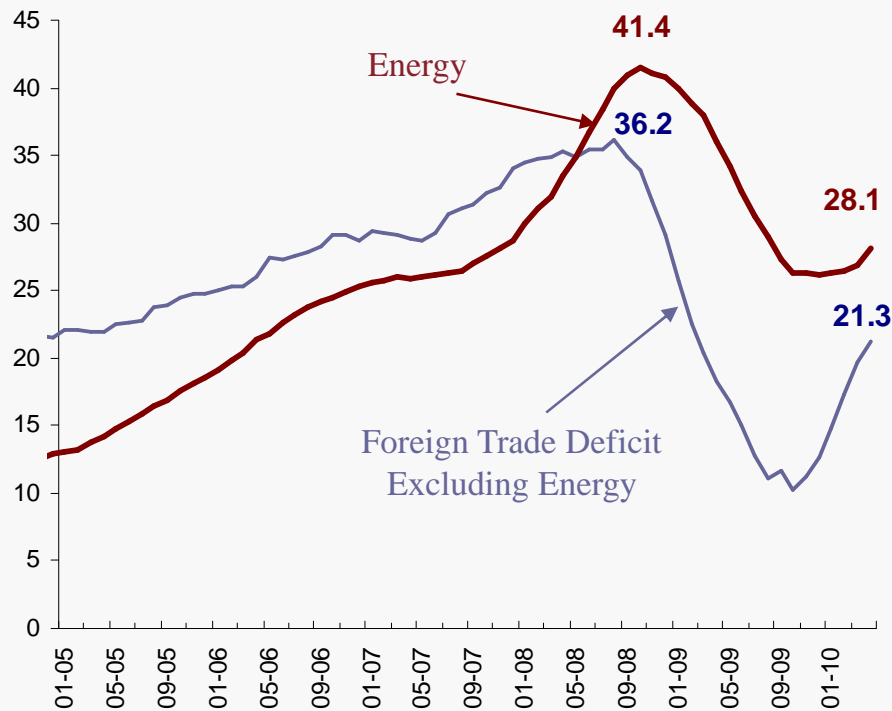
Percentage Change	08-IV	09-I	09-II	09-III	09-IV
Manufacturing Industry	-12.0	-22.3	-11.7	-4.5	12.8
Newly Founded Firms	-31.4	-30.6	-15.8	-2.8	30.5

Source: TurkStat, CBT

Balance of Payments

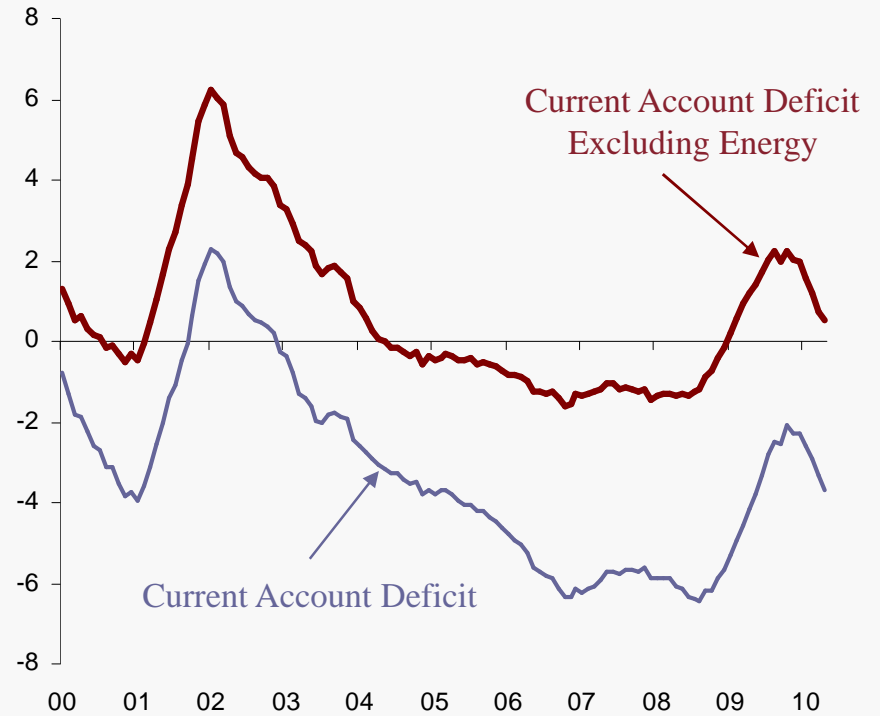
With the revival of economic activity in the second half of 2009, foreign trade deficit started to rise.

Foreign Trade Balance
(Jan 2005 – Apr 2010, billion USD)



Source: TurkStat, CBT

Current Account Balance*
(Jan 2000 – Apr 2010, ratio to GDP, percent)



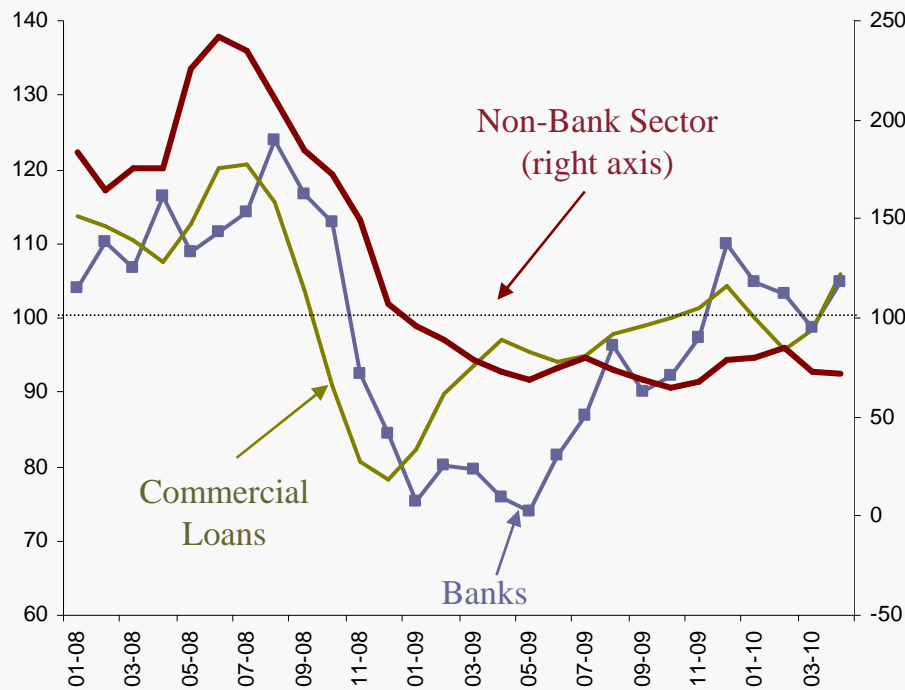
*2010 Q1 estimate
Source: TurkStat, CBT

Balance of Payments

The private sector debt rollover ratio started to stabilize around 100 percent in the first quarter of 2010.

Private Sector Debt Rollover Ratio

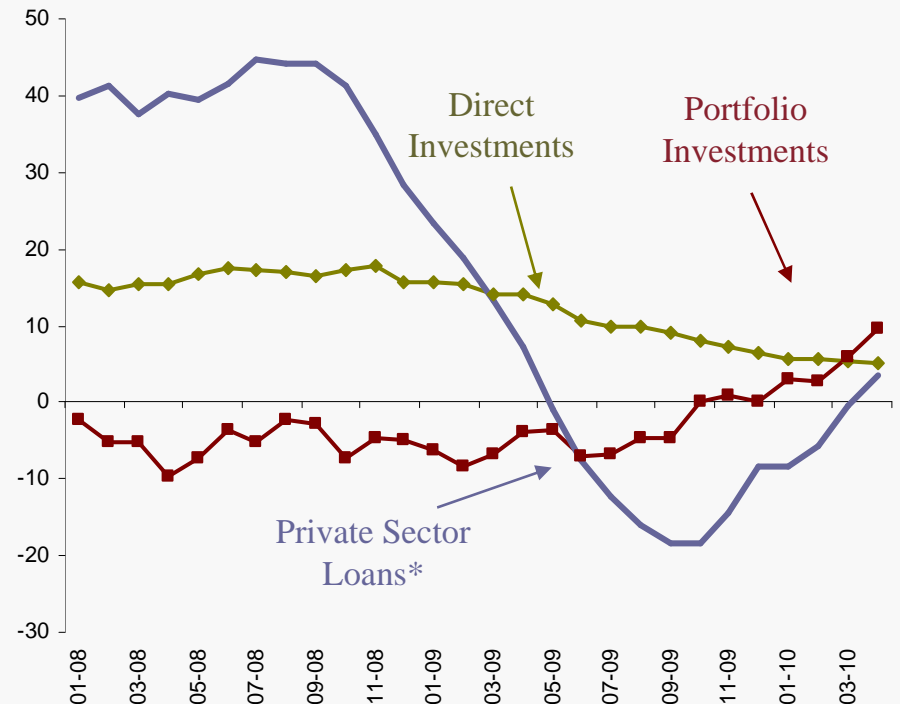
(Jan 2008 – Apr 2010, Ratio of External Debt Utilization to Principal Payments, 3-month moving average, percent)



Source: TurkStat, CBT

Balance of Payments, Some Subcategories

(Jan 2008 – Apr 2010, 12-month cumulative total, billion dollar)

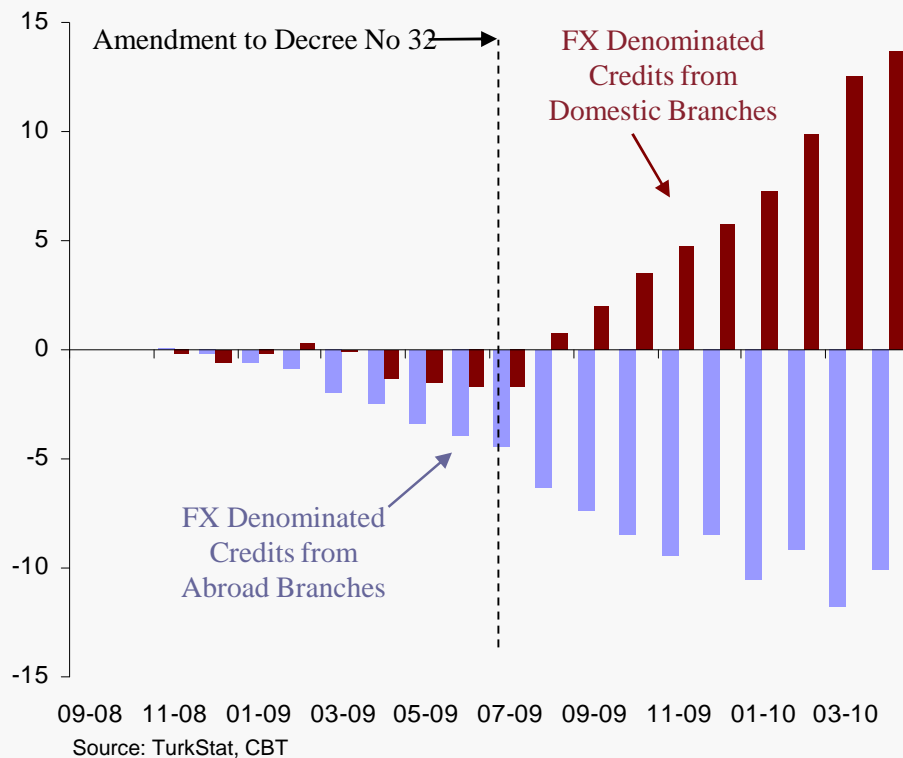


•Effect of amendment to Decree No. 32 is taken out
Source: TurkStat, CBT

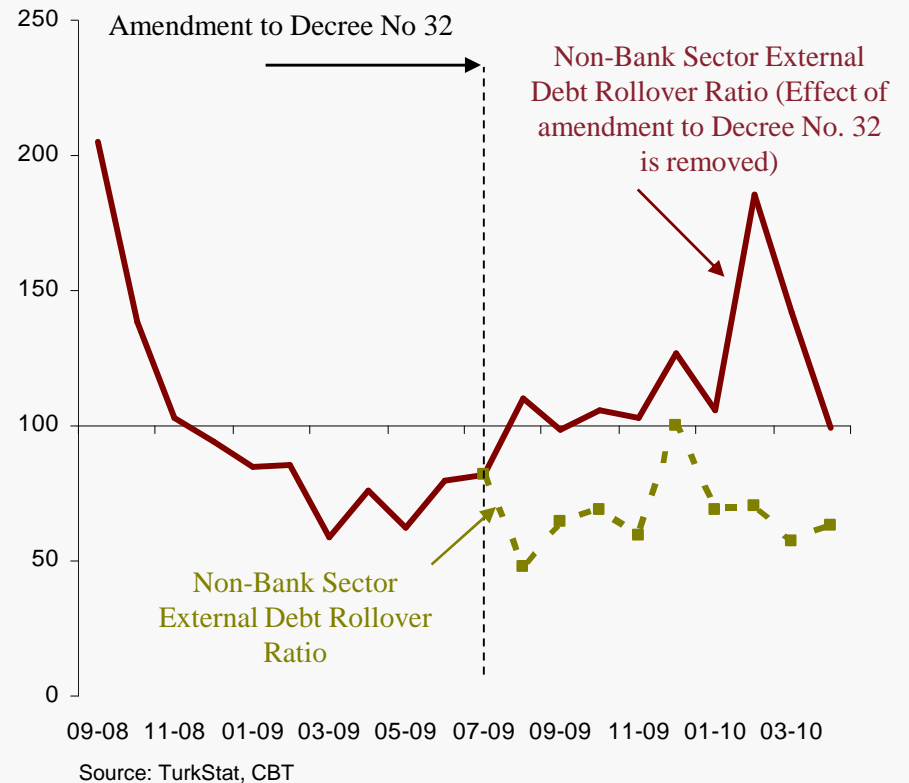
Balance of Payments

When the effect of amendment to Decree No. 32 is removed, the non-bank sector external debt rollover ratio is estimated to be around 100 percent.

Domestic Banks' FX Denominated Credits
(Sep 2008 – Apr 2010, cumulative total, billion USD)



External Debt Rollover Ratio of Non-Bank Sector
(Sep 2008 – Apr 2010, percent)



Balance of Payments

Balance of Payments between January 2009 and December 2009

UTILIZATION	Billion USD
Current Account Balance	14.0
Loans	13.9
(Commercial Loans)	(1.2)
(Banking Sector Loans)	(4.1)
(Public Sector Loans)	(-0.9)
(Corporate Sector Loans)	(9.5)
Other	2.7

Source: TurkStat, CBT

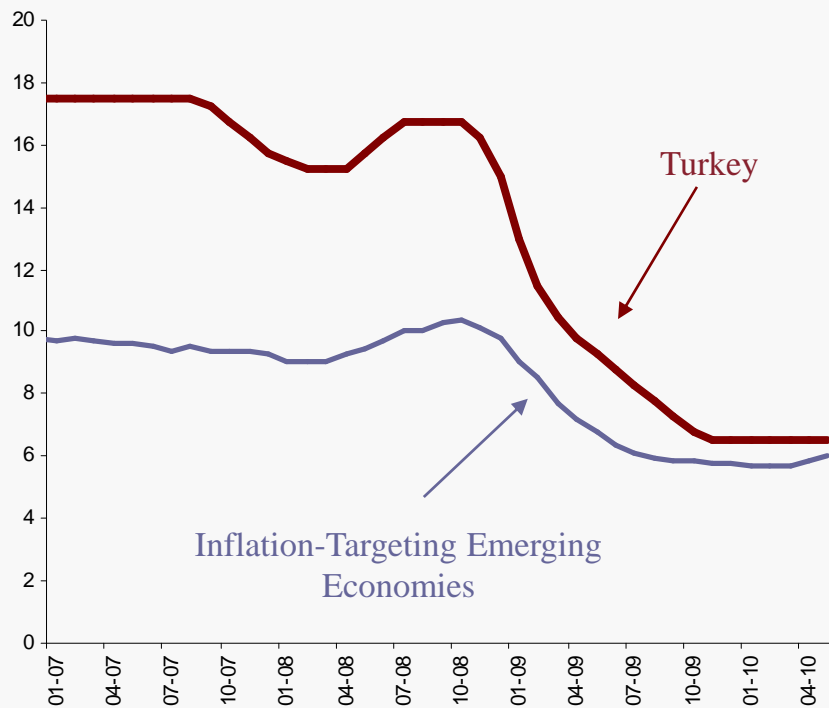
SOURCE	Billion USD
Net Errors and Omissions	4.7
Foreign Direct Investment	6.3
Portfolio Investments	7.5
(Equity)	(2.8)
(Debt instruments)	(0.1)
(Bank deposits)	(7.5)
Reserve Assets	12.0
(Official Reserves)	(-0.1)
(FX assets of banks)	(6.1)
(Deposits of other sectors)	(6.0)

IV. Monetary Policy Stance

Monetary Policy Stance

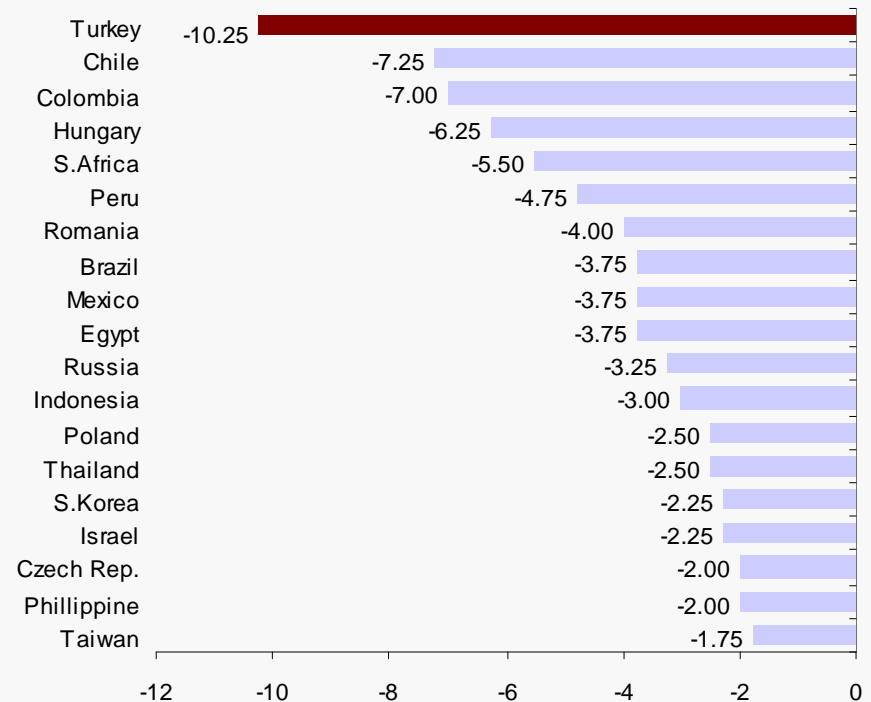
The relative soundness of the financial system in Turkey has enabled the Central Bank of Turkey to focus on restraining the adverse effects of the financial crisis on the Turkish economy without conflicting with the primary objective of maintaining price stability.

Policy Rates in Inflation-Targeting Emerging Economies and in Turkey
(Jan 2007– May 2010, percent)



Source: Central Banks, CBT

Changes in Policy Rates in Emerging Markets
(Nov 2008 – Jun 2010, percentage point)



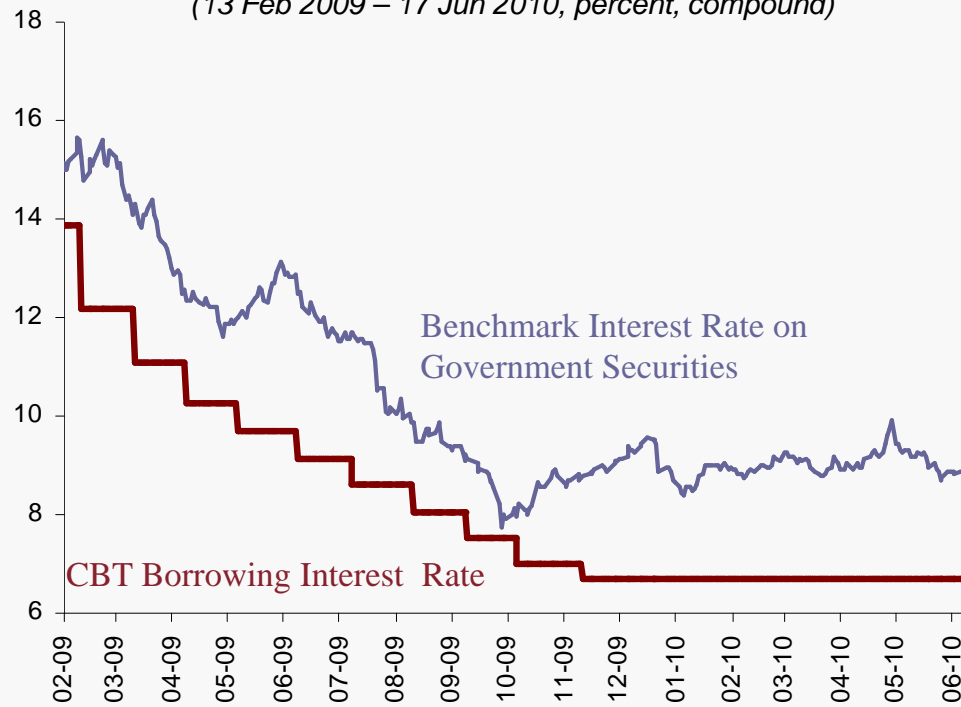
Source: Central Banks, CBT

Monetary Policy Stance

At a time when rising levels of public debt worldwide are expected to place upward pressure on interest rates, CBT's policy rates are the main determinant of market rates in Turkey and this confirms the effectiveness of monetary policy.

CBT Borrowing Interest Rate and Benchmark Interest Rate on Government Securities

(13 Feb 2009 – 17 Jun 2010, percent, compound)



Source: BRSA, CBT

	Borrowing Interest Rate	Change
Nov 08	16.25	-0.50
Dec 08	15.00	-1.25
Jan 09	13.00	-2.00
Feb 09	11.50	-1.50
Mar 09	10.50	-1.00
Apr 09	9.75	-0.75
May 09	9.25	-0.50
June 09	8.75	-0.50
July 09	8.25	-0.50
Aug 09	7.75	-0.50
Sep 09	7.25	-0.50
Oct 09	6.75	-0.50
Nov 09	6.50	-0.25
Dec 09	6.50	0.00
Jan 10	6.50	0.00
Feb 10	6.50	0.00
Mar 10	6.50	0.00
Apr 10	6.50	0.00
May 10	6.50	0.00
Jun 10	6.50	0.00

Monetary Policy Stance

In well-functioning economies, a decline in real interest rates during times of recession is an expected development, which Turkey has never experienced before.

Inflation and Policy Rates in Selected Countries

(Jun 2010, percent)

	Policy Rates	2010 Inflation Expectations	Real Policy Rates
Chile	1.00	3.50	-2.42
Thailand	1.25	3.50	-2.17
Turkey*	6.50	8.01	-1.40
Czech Rep.	0.75	1.50	-0.74
S.Korea	2.00	2.75	-0.73
Phillipines	4.00	4.60	-0.57
Mexico	4.50	5.00	-0.48
Malaysia	2.50	2.10	0.39
Hungary	5.25	4.40	0.81
S.Africa	6.50	5.40	1.04
Poland	3.50	2.30	1.17
China	5.31	3.40	1.85
Brazil	10.25	5.45	4.55

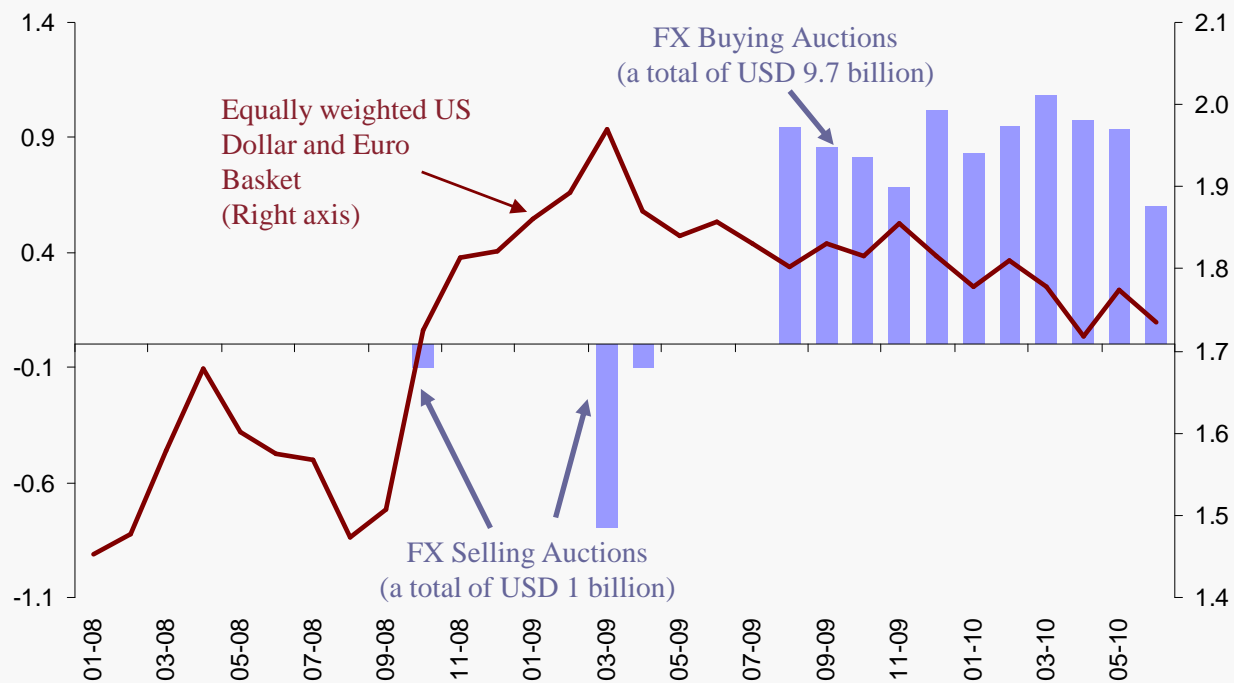
* Borrowing interest rate

Source: Bloomberg, CBT

Monetary Policy Stance

Since 4 August 2009, the CBT has purchased USD 9.7 billion via foreign exchange buying auctions and injected around TRY 14.6 billion into the market.

FX Buying and Selling Auctions against TRY and the FX Basket
(Jan 2008 – Jun 2010*)



*As of June 18, 2010

Source: CBT

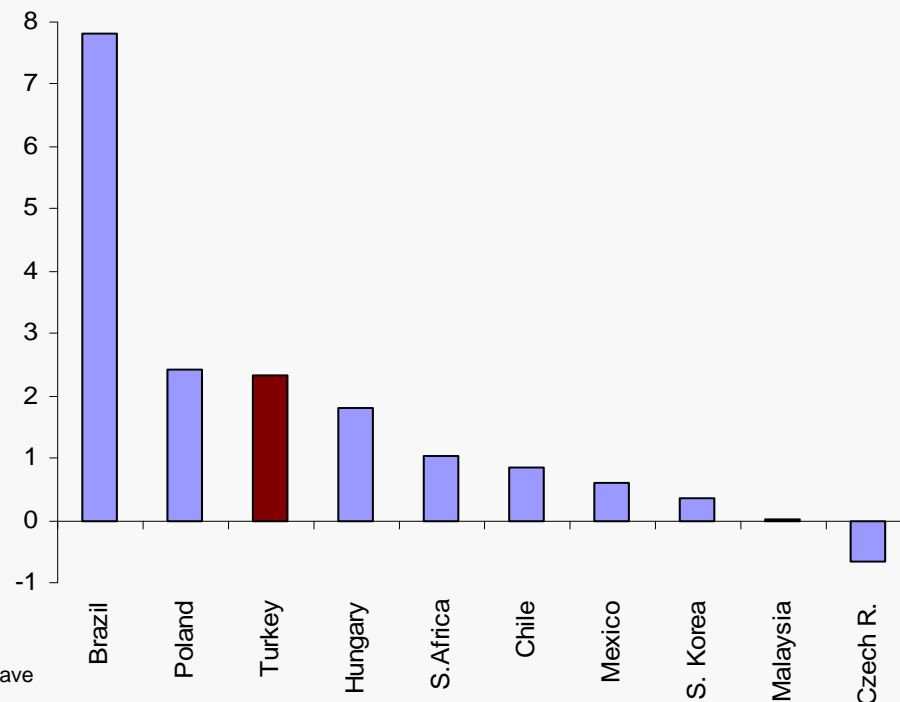
Real Interest Rates

Real market interest rates, which displayed a steady decline on the back of CBT's policy rate cuts, did not turn upwards despite the recovery in economic activity and this suggests that, in the post-crisis period, real interest rates are likely to remain below the pre-crisis level.

Real Interest Rates in Turkey*
(Jun 2009 – Jun 2010, 2-year, percent)



Real Interest Rates in Developing Countries*
(2-year, percent)



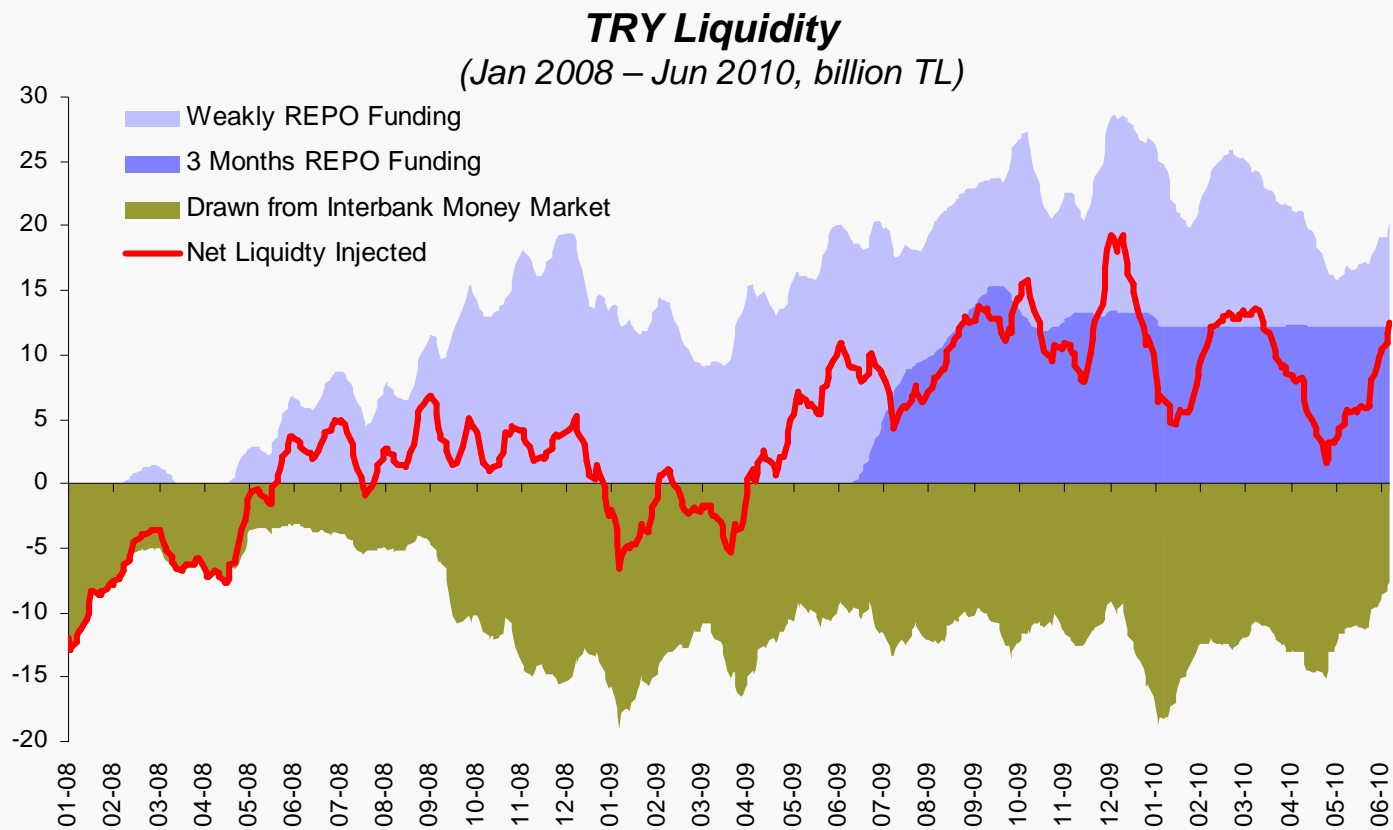
* 2-year nominal interest rates generated by yield curve and inflation expectations over 24 months have been used.

Source: CBT, TurkStat

Source: Bloomberg, Consensus Forecast CBT

Exit Strategy

The Central Bank has been providing the banking system with more liquidity than needed since the second quarter of 2008. With the gradual normalization of global markets, the CBT announced details of its Exit Strategy on 14 Apr 2010.



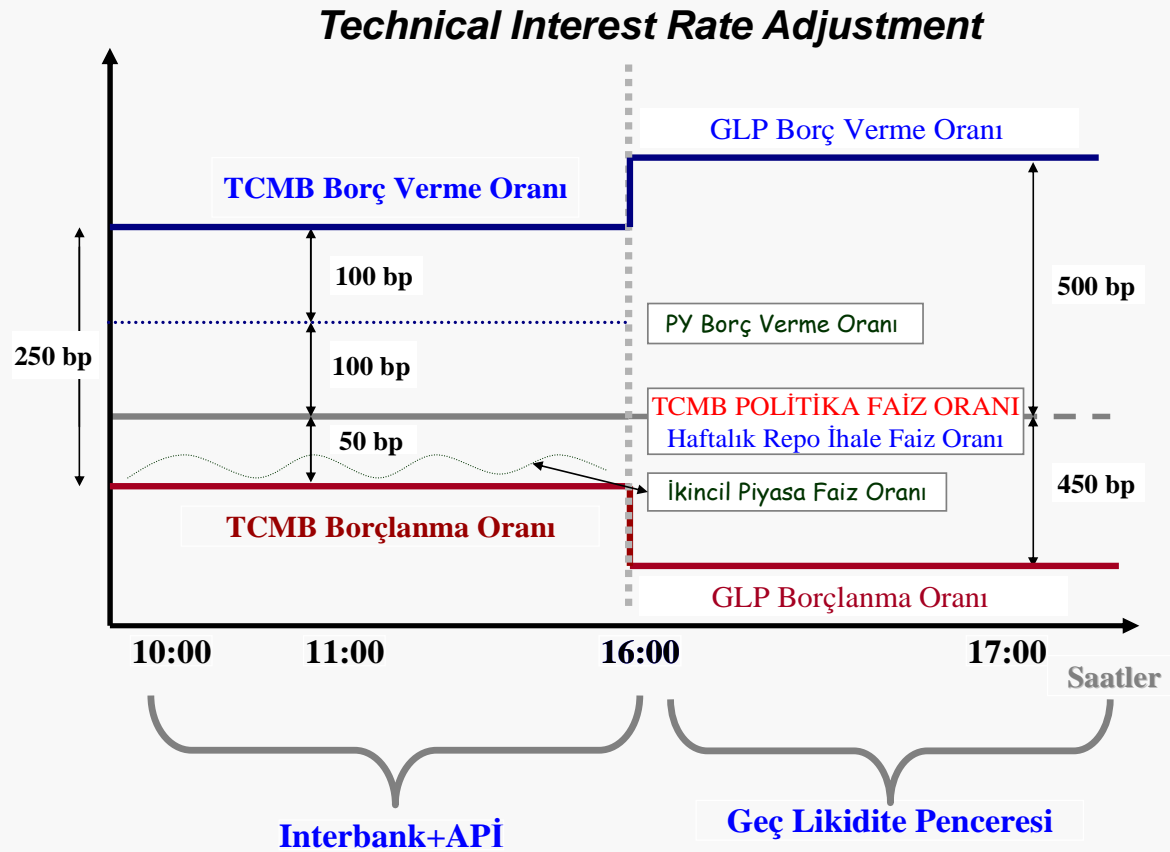
Source: CBT

Exit Strategy – FX Liquidity

- The FX required reserves ratio may gradually be increased at a measured pace,
- Foreign exchange deposit lending rates announced by the Central Bank may be increased in line with developments in global interest rates,
- The intermediary function of the Central Bank in the foreign exchange deposit market will be abolished after the effects of developed countries' exit strategies are monitored; and the maturity of the foreign exchange deposits will be decreased from 3 months to 1 week.

Technical Interest Rate Adjustment – First Step

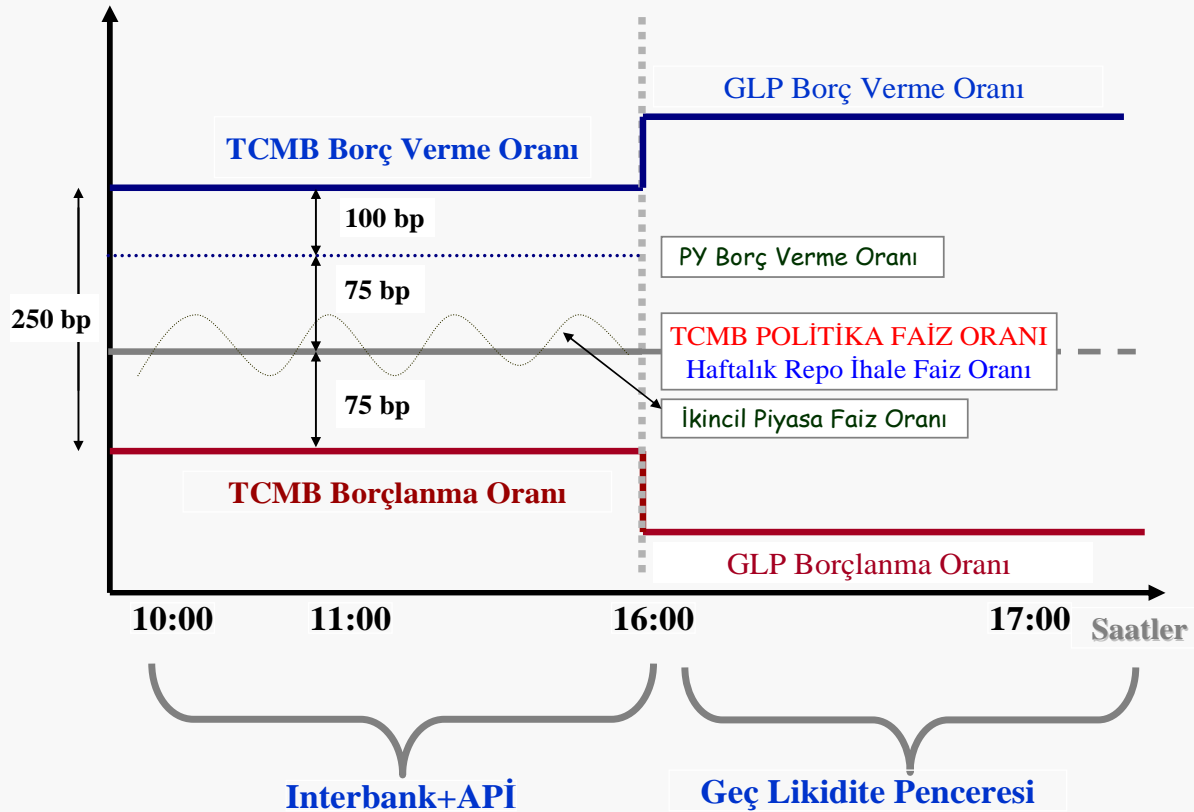
In the first stage of our exit strategy, the amount of liquidity that was provided as part of the overfunding policy has been gradually reduced and in the second stage, the technical interest rate adjustment was made. Accordingly, the one-week maturity repo auction rate became the policy rate.



Technical Interest Rate Adjustment– Second Step

As the liquidity shortage increases in line with expectations, the margin between CBT O/N borrowing and one week repo auction rates may be widened. The secondary market average O/N rate will be targeted to fluctuate around the one week repo rate.

Example: Technical Interest Rate Adjustment – Second Step

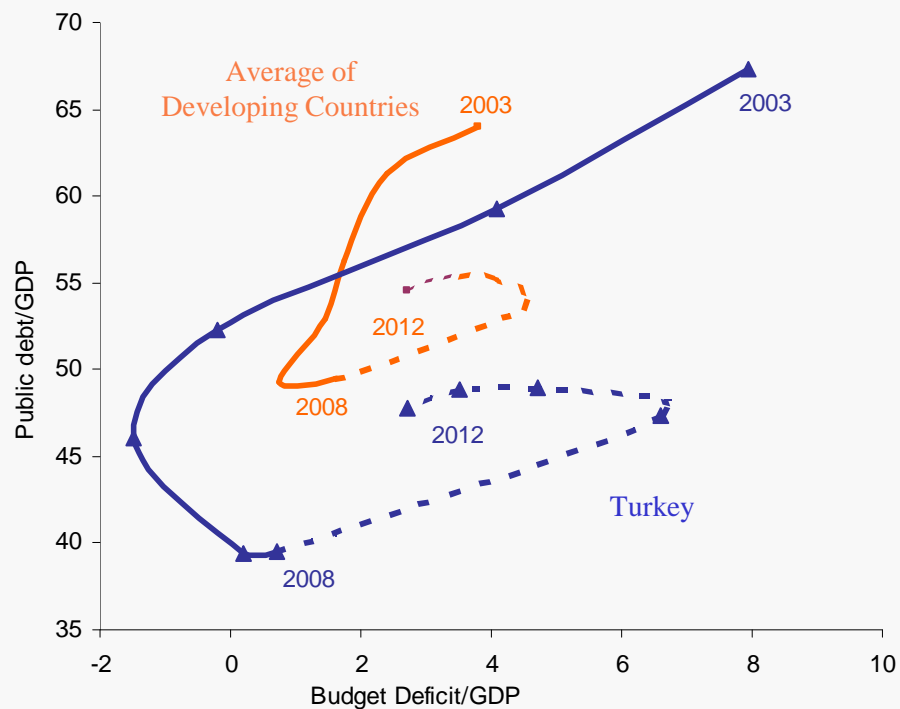


IV. Fiscal Policy

Public Finance

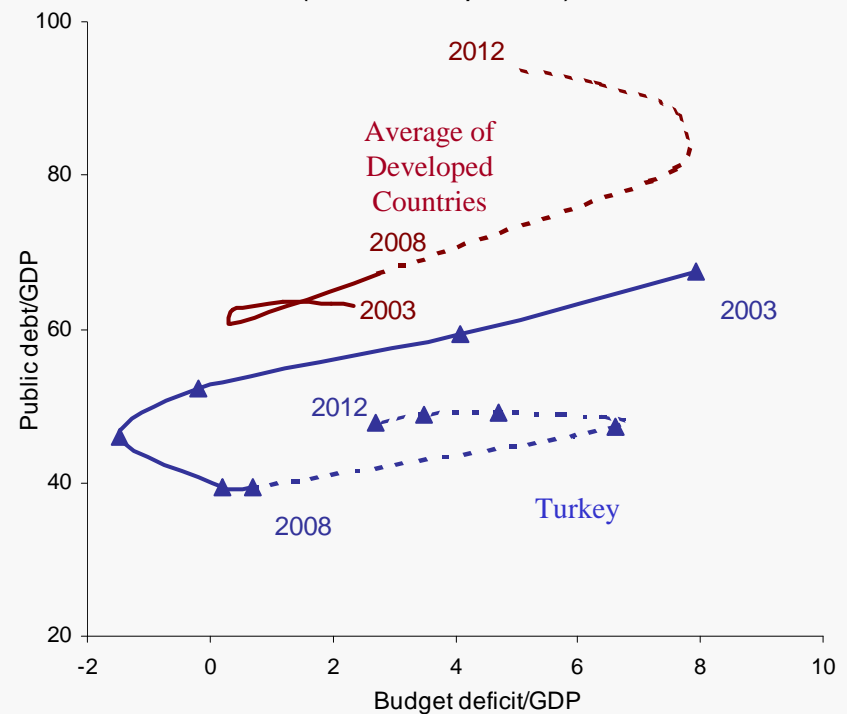
Budget deficits and public debts increased rapidly worldwide due to the measures taken against the crisis and the decrease in tax revenues. Turkey is likely to stand out with her low public debt.

Public Debt and Budget Deficit in Turkey and Developing Countries
(2003-2012, percent)



Source: IMF, Ministry of Finance, Undersecretariat of Treasury, Medium-Term Program (2010-2012), Program for 2009

Public Debt and Budget Deficit in Turkey and Developed Countries
(2003-2012, percent)

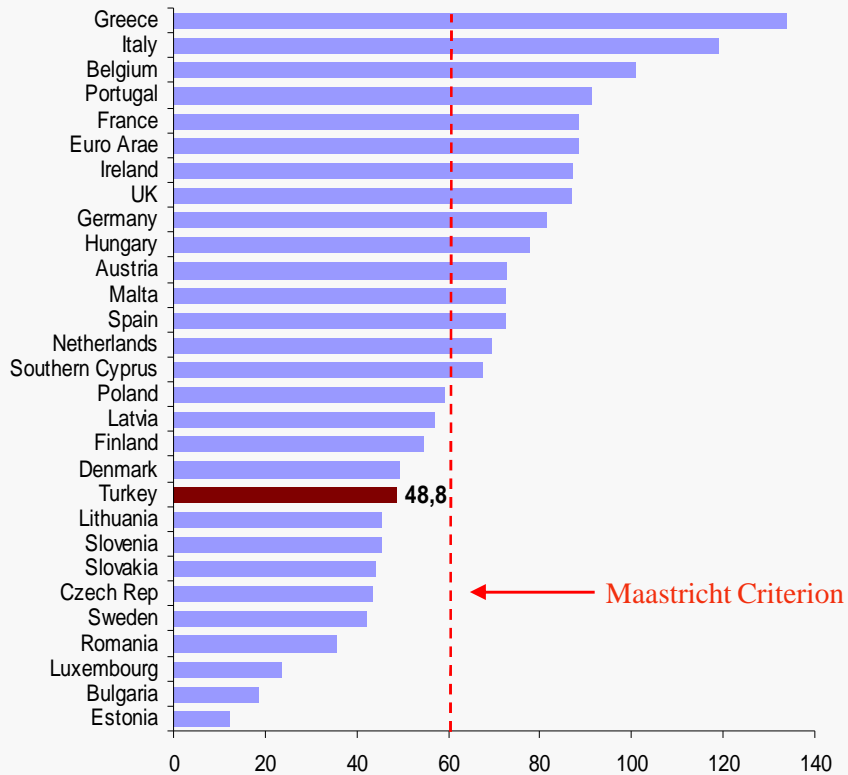


Source: IMF, Ministry of Finance, Undersecretariat of Treasury, Medium-Term Program (2010-2012), Program for 2009

Public Finance

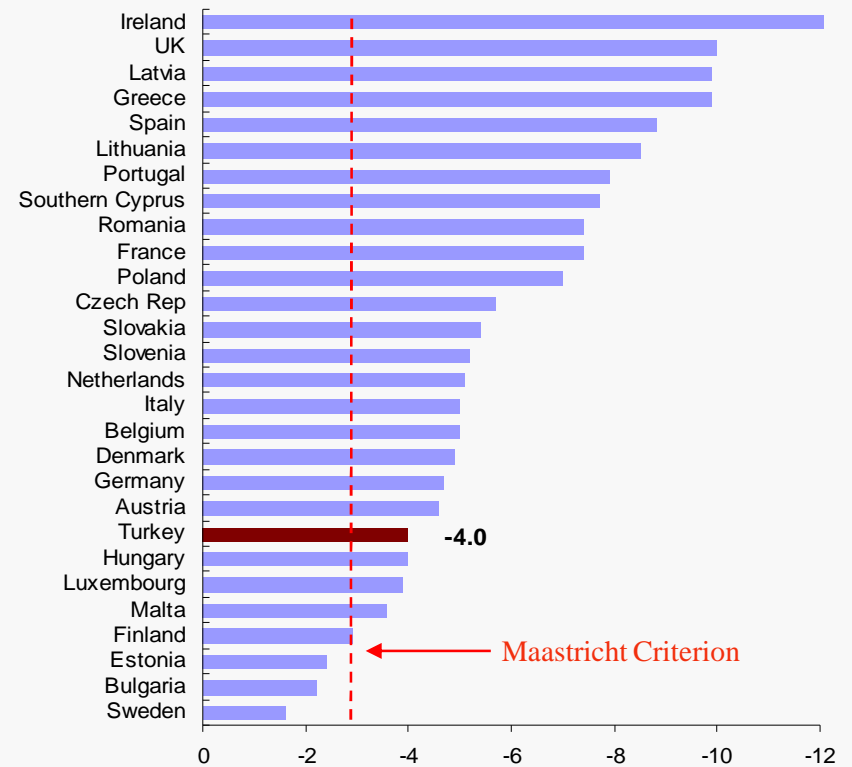
Budget deficits and public debts increased rapidly in European countries because of low growth rates and the measures taken during the crisis.

Public Debt Estimates for EU Countries and Turkey for 2011
(Ratio to GDP, percent)



Source: European Commission, MTP, CBT

Budget Deficit Estimates for EU Countries and Turkey for 2011
(Ratio to GDP, percent)



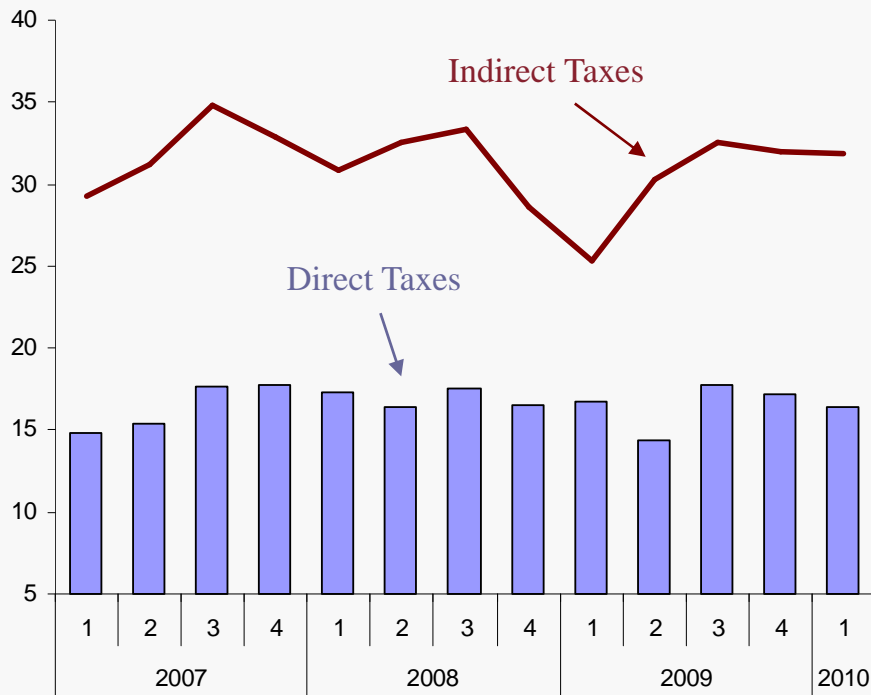
Source: European Commission, MTP, CBT

Public Finance

The recovery in tax revenues, which started as of the last quarter of 2009, continued in the first quarter of 2010 and played an important role in the favorable performance of the primary budget balance.

Tax Revenues

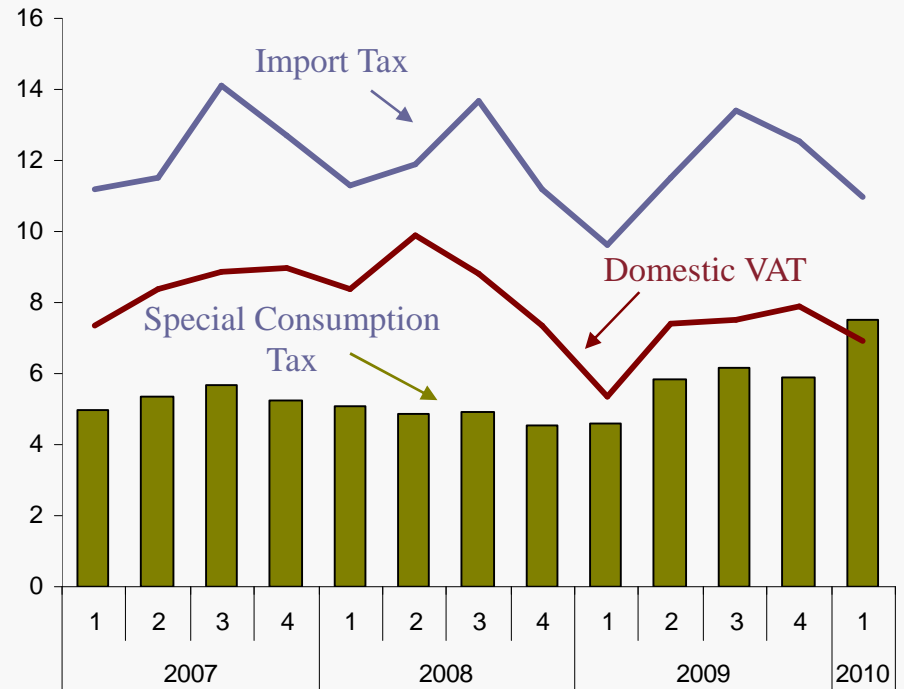
(2007 Q1 – 2010 Q1, million TL, quarterly real sum)



Source: Ministry of Finance, CBT

Indirect Tax Revenues

(2007 Q1 – 2010 Q1, million TL, quarterly real sum)



Source: Ministry of Finance, CBT

Fiscal Rule

The Fiscal Rule, which is planned to be introduced as of 2011, is expected to further reinforce fiscal discipline and contribute to establishing and maintaining macroeconomic stability and thus to enhancing the effectiveness of monetary policy.

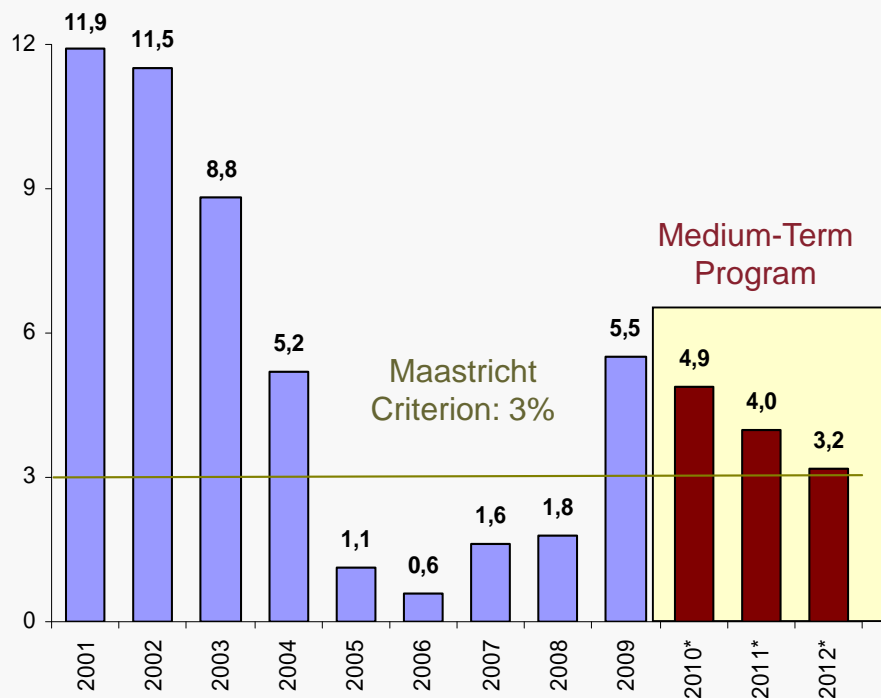
$$\Delta a = -0.33 (a_{t-1} - 1) - 0.33 (b - 5)$$

- Δa : Revision of the ratio of the central government deficit to GDP
- a_{t-1} : Ratio of the central government deficit to GDP for the previous year
- b : Growth rate of the real GDP

Public Finance

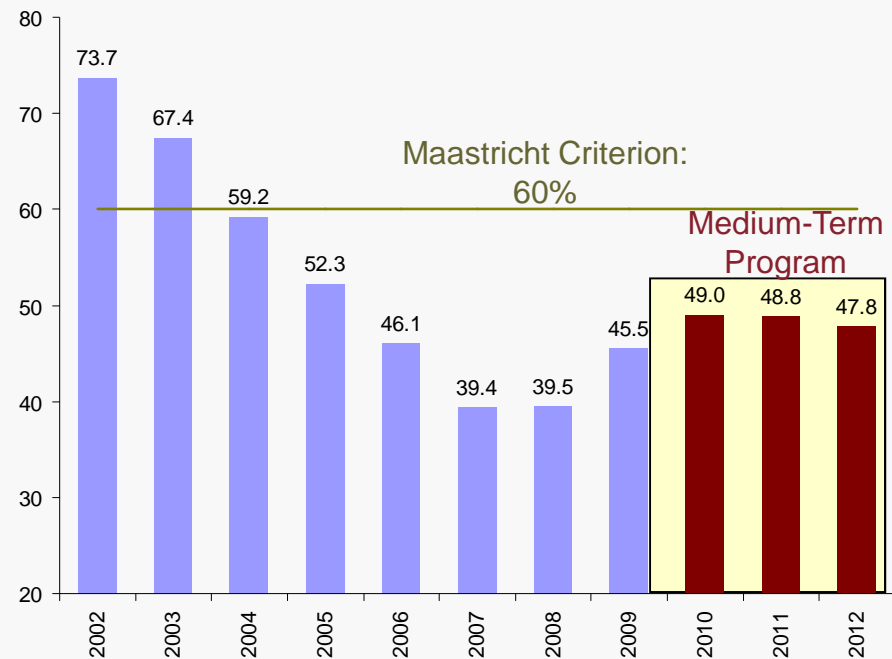
The fiscal rule stipulates that using the additional rise in tax revenues in years in which economic growth surpasses the threshold of 5 percent will provide room for maneuver to reduce public debt, which in turn will enable the implementation of a countercyclical monetary policy.

Central Government Budget Deficit
(2002 – 2012, Ratio to GDP, percent)



*Medium-Term Program (2010 -2012) Objectives
Source: Ministry of Finance, Medium-Term Program

EU Defined Public Debt
(2002 – 2012, Ratio to GDP, percent)



*Medium-Term Program (2010 -2012) Objectives
Source: Undersecretariat of Treasury, CBT

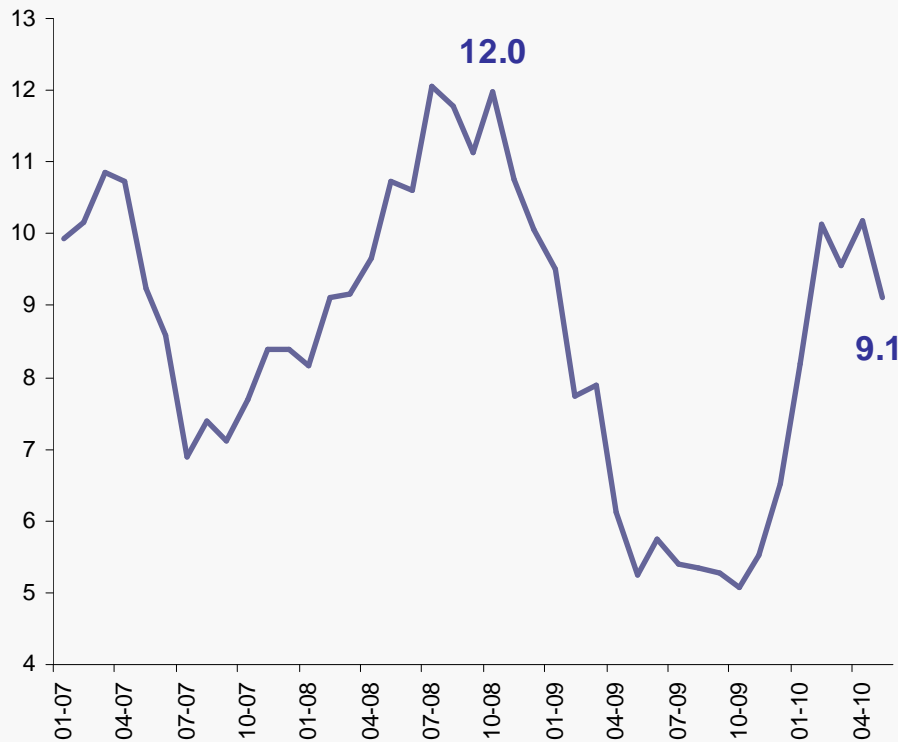
IV. Inflation Outlook

Inflation Developments

In May, year-on-year consumer prices inflation became 9.10 percent.

Consumer Prices Inflation

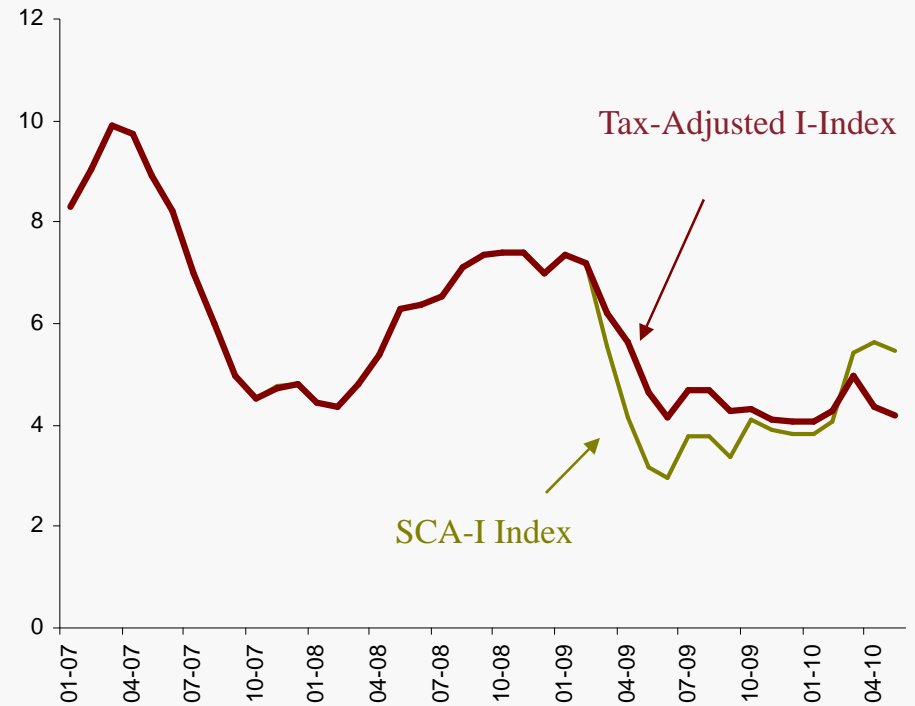
(Jan 2007 – May 2010, annual percentage change)



Source: TurkStat, CBT

SCA-I Index

(Jan 2007 – May 2010, annual percentage change)



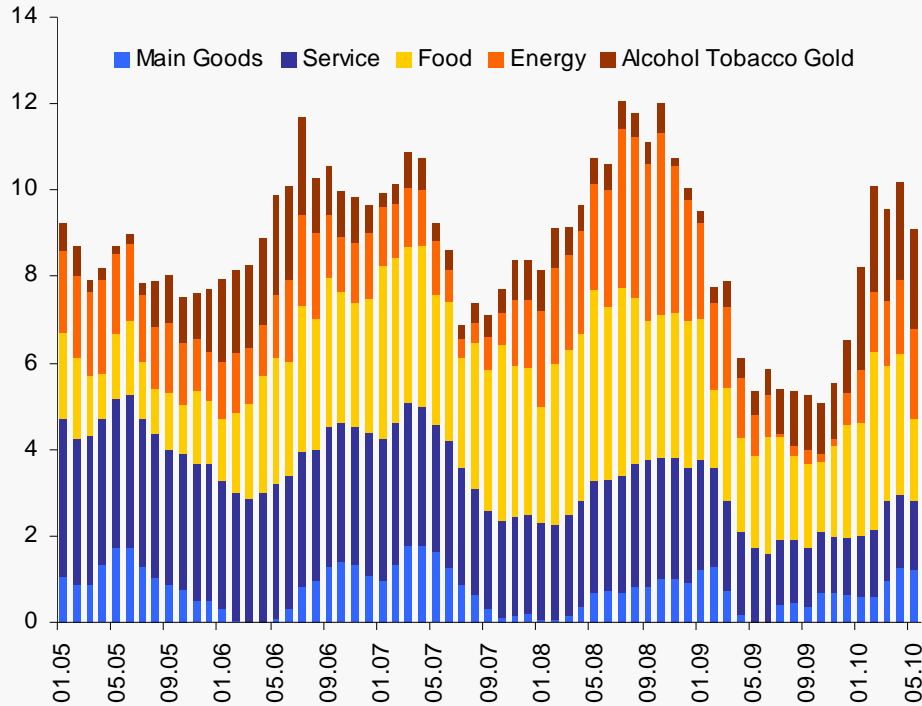
*SCA-I indicator adjusted for the change in tax rates.

Source: TurkStat, CBT

Inflation Developments

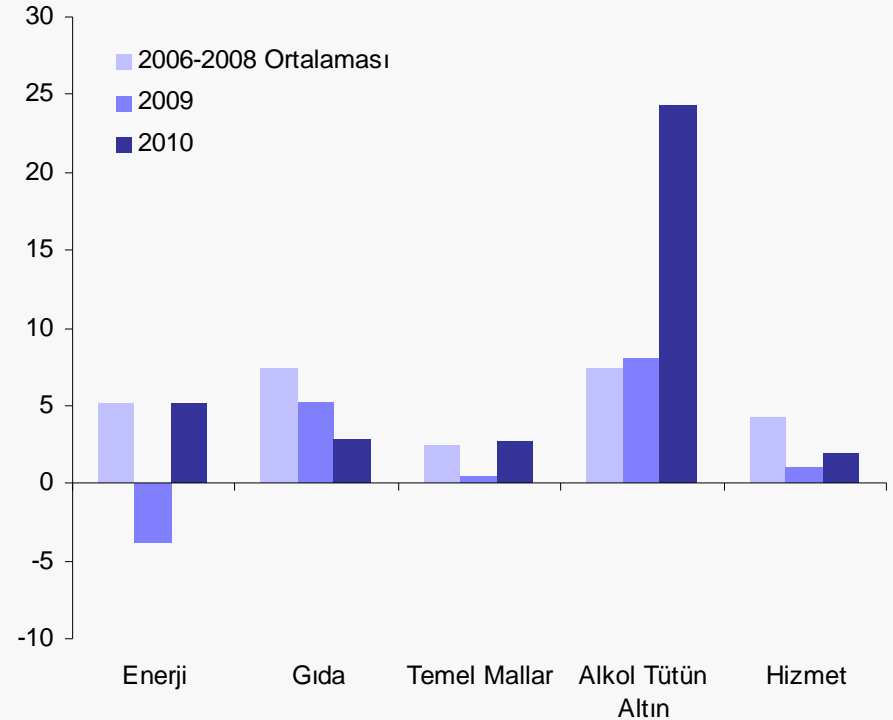
In May 2010, the contribution of food and energy items to annual inflation decreased to 4 points.

Contribution to Annual CPI Inflation
(Jan 2005 – May 2010, annual percentage change)



Source: TurkStat, CBT

CPI by Groups
(Percentage Change in the first 5 months)

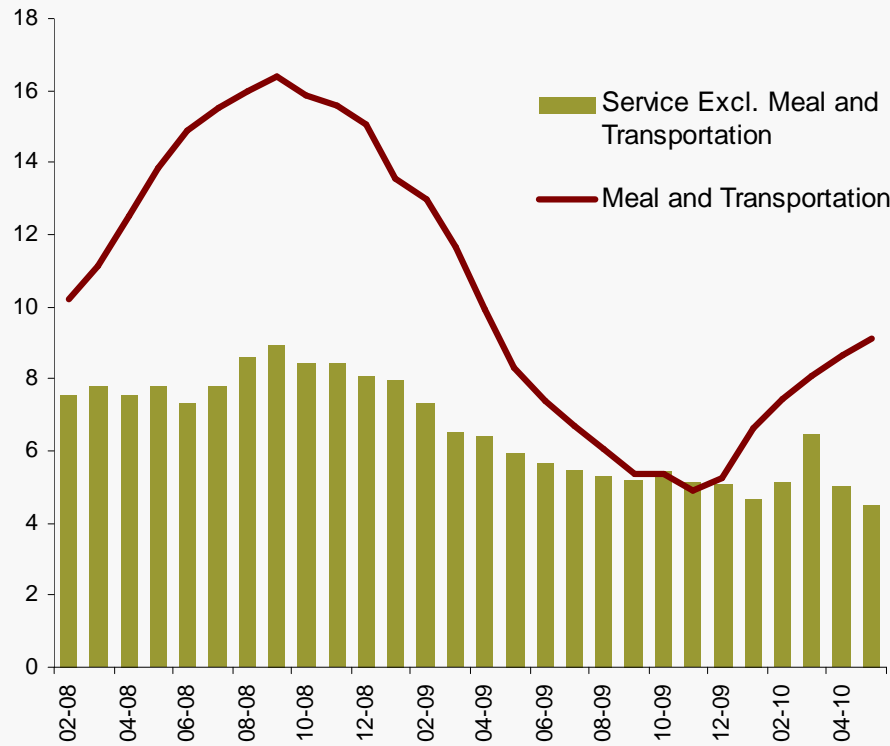


Source: TurkStat, CBT

Inflation Developments

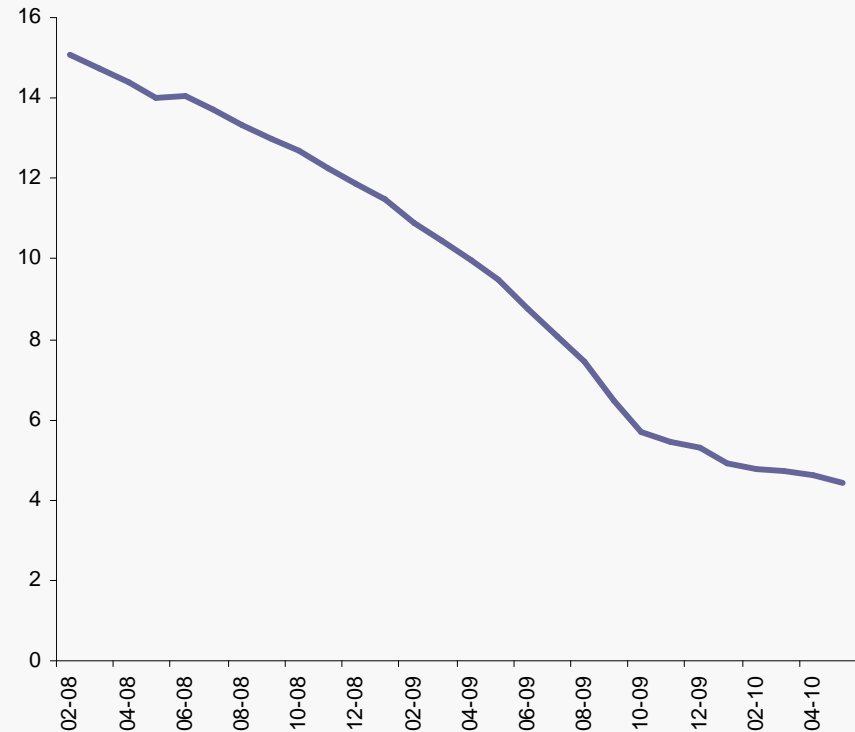
Annual services inflation decreased to 6.05 percent owing to the decline in communication group prices.

Services Group Prices
(Feb 2008 – May 2010, annual percentage change)



Source: TurkStat, CBT

Real Rent
(Mar 2008 – May 2010, annual percentage change)



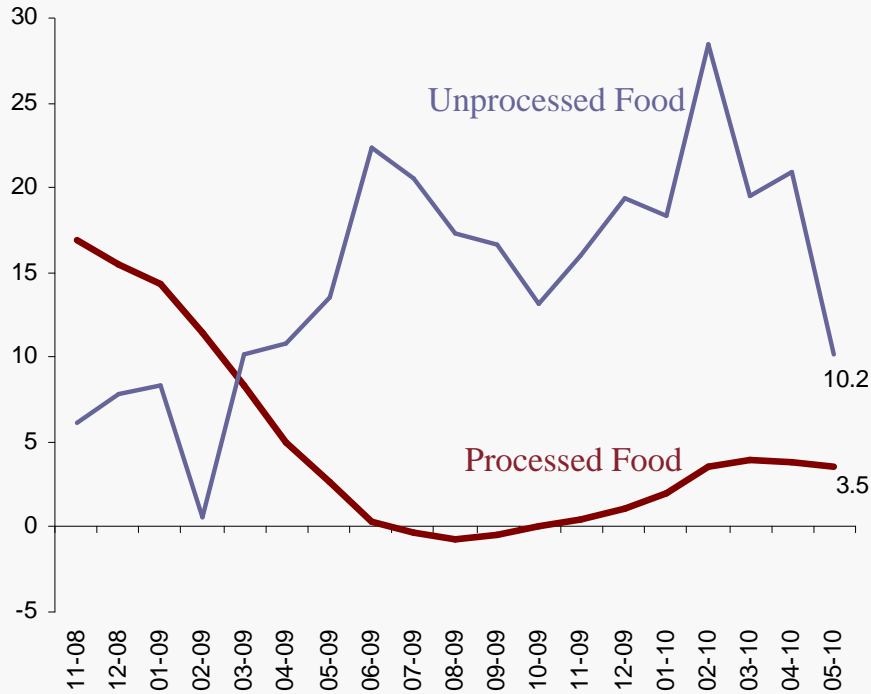
Source: TurkStat, CBT

Inflation Developments

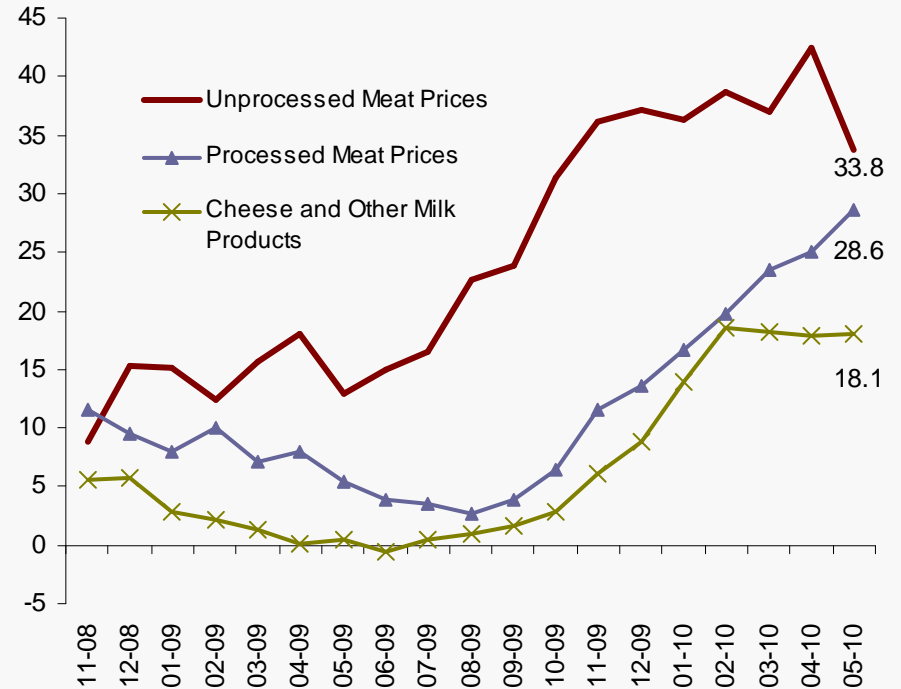
In Turkey, unprocessed food prices display a fluctuating course and that leads to significant uncertainty with respect to forecasting.

Food Prices

(Nov 2008 – May 2010, annual percentage change)



Source: TurkStat, CBT

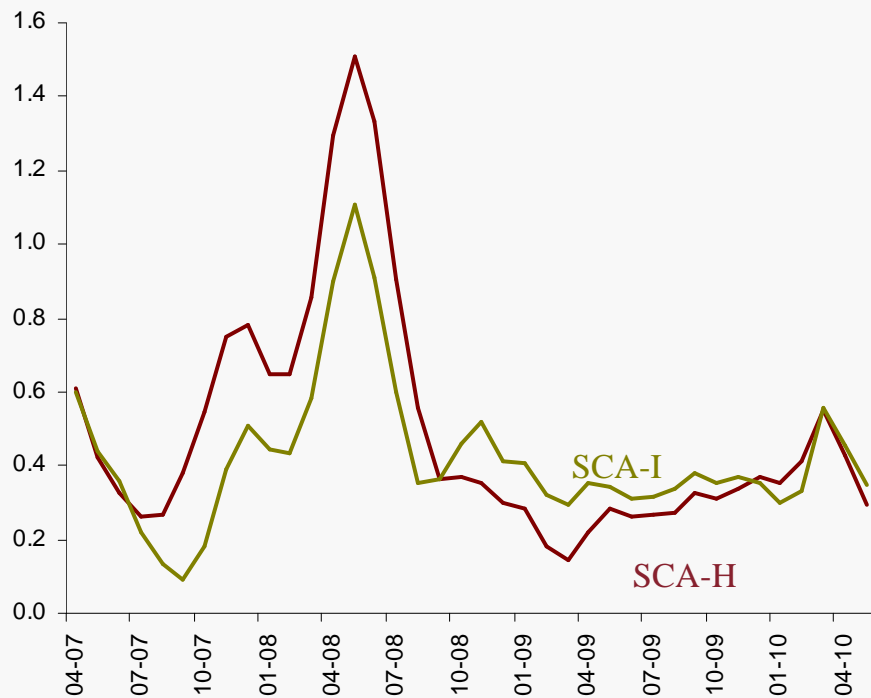


Source: TurkStat, CBT

Inflation Developments

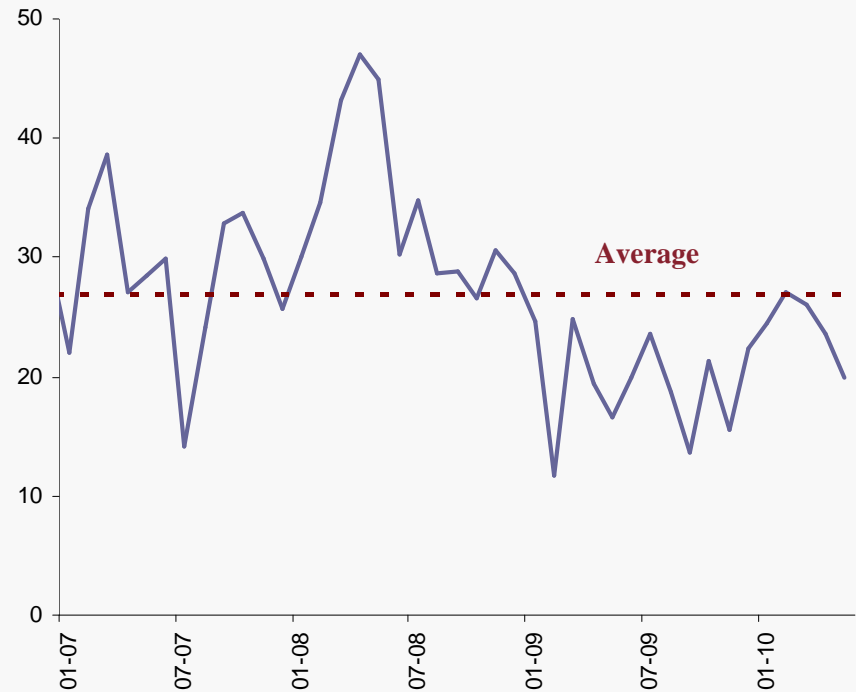
While the severe declines in the prices of unprocessed foods are effective in decline of annual inflation, core inflation indicators remained consistent with the medium-term targets.

Key Inflation Indicators*
(Apr 2007 – May 2010)



* Quarterly averages, seasonally and tax adjusted
Source: TurkStat, CBT

Inflation Diffusion Index*
(Jan 2007 – May 2010)

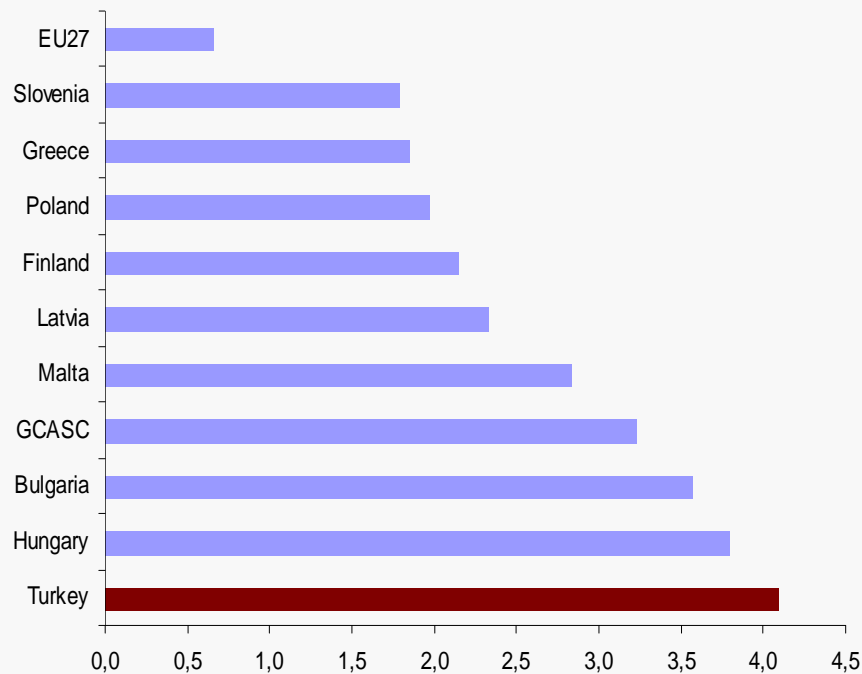


* Seasonally adjusted 2-month averages of the difference between the shares in CPI of items with increasing prices and items with falling prices.
Source: TurkStat, CBT.

Inflation Developments

Volatility in unprocessed food prices in Turkey is quite high compared to other countries.

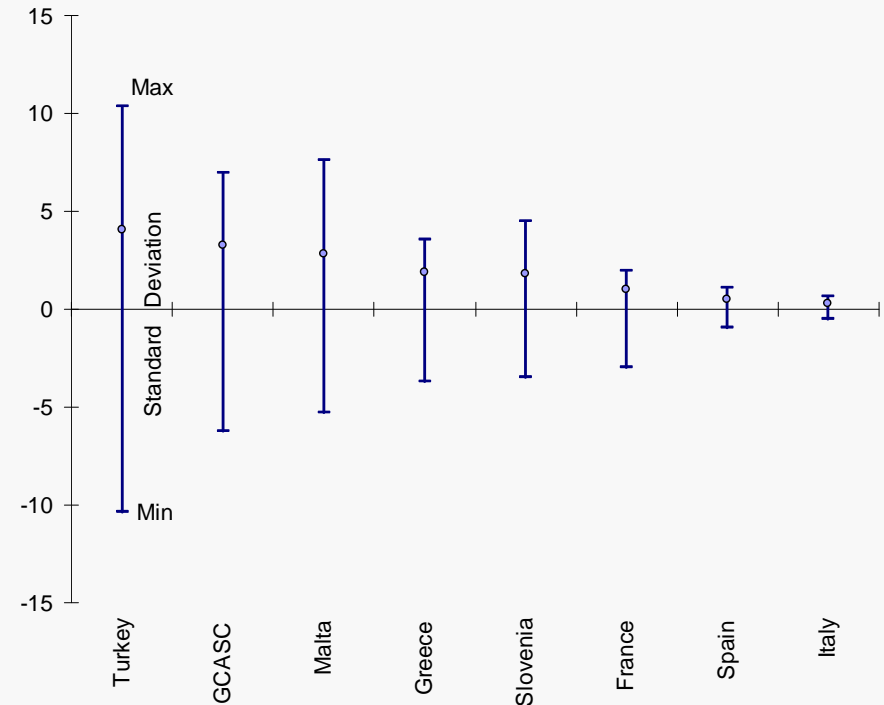
**Monthly Volatility in Unprocessed Food Prices:
Comparison between EU-27 Countries and Turkey***
(2006-2009 Period, Standard Deviation)



*The chart illustrates Turkey and nine of the EU-27 countries with the highest volatility in the mentioned period.

Source: Eurostat, CBT.

**Monthly Volatility in Unprocessed Food
Prices in Mediterranean Countries**
(2006 - 2009 Period)



Source: Eurostat, CBT.

Inflation Developments

Long distribution chains, infrastructure deficiencies and unregistered economic activities in the food sector highlight the importance of structural arrangements for attaining price stability.

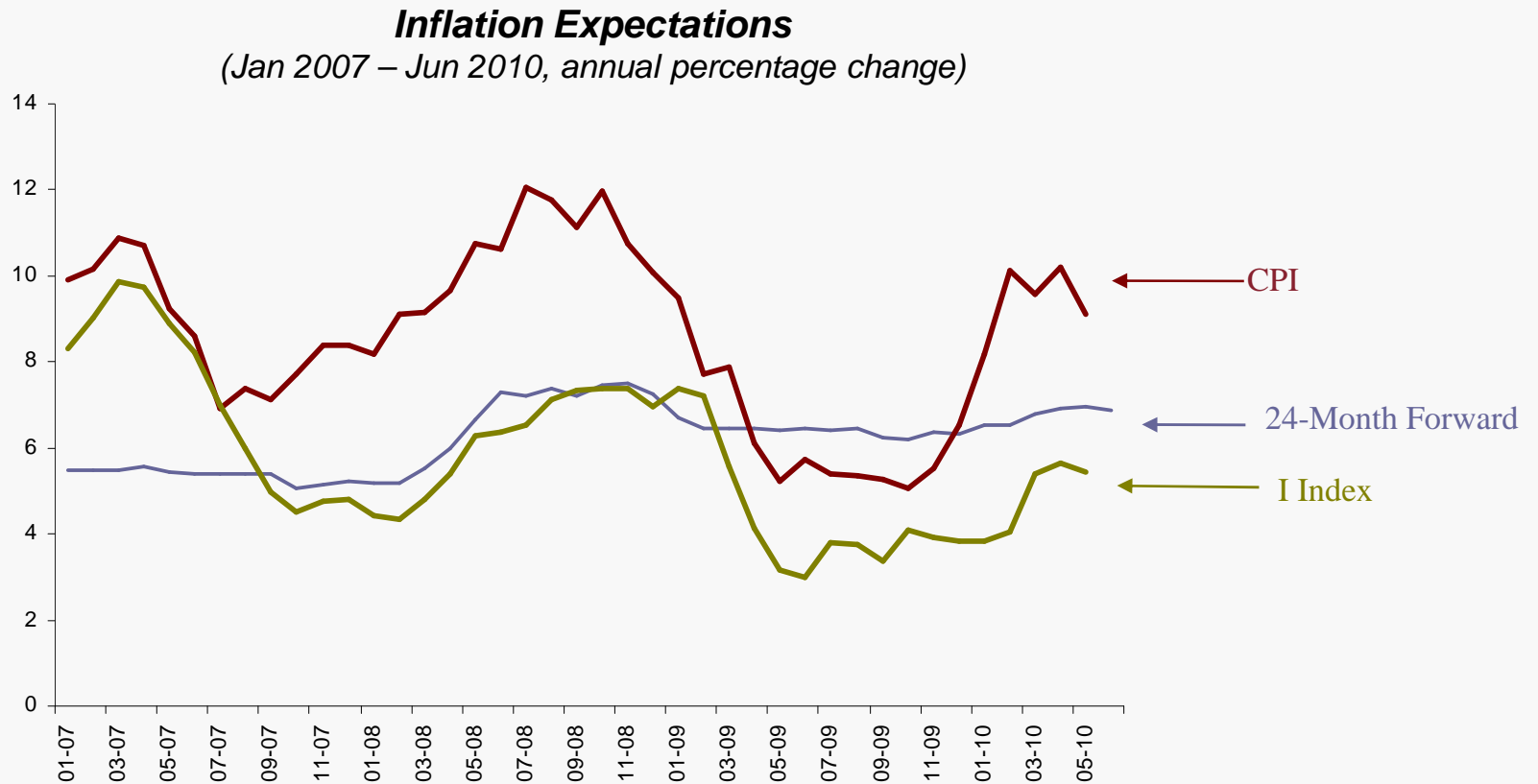
	Average	Lowest	Highest	Width	Standard Deviation	Volatility Ranking* (as per EU-27)
Turkey						
Unprocessed Food	1,0	-10,4	10,4	20,8	4,1	1
Fruits	1,5	-22,3	31,0	53,3	9,4	2
Vegetables	0,9	-20,1	23,4	43,5	9,1	3
Meat	1,2	-7,0	6,4	13,3	2,7	1
EU-27						
Unprocessed Food	0,2	-1,5	1,4	2,8	0,7	
Fruits	0,2	-4,7	4,3	8,9	1,8	
Vegetables	0,2	-4,2	4,8	9,0	2,3	
Meat	0,2	-0,3	0,8	1,1	0,3	

* Ranking from the most volatile to the least volatile.

Source: Eurostat, CBT

Inflation Expectations

The inflation expectations that increased due to rising inflation in the first four months of the year, were positively affected with the gradual waning of the temporary factors.



Source: TurkStat, CBT

Inflation Forecasts

Annual inflation is expected to overshoot the end-2010 target of 6.5 percent and remain consistent with the end-2011 and 2012 targets of 5.5 and 5.0 percent, respectively.

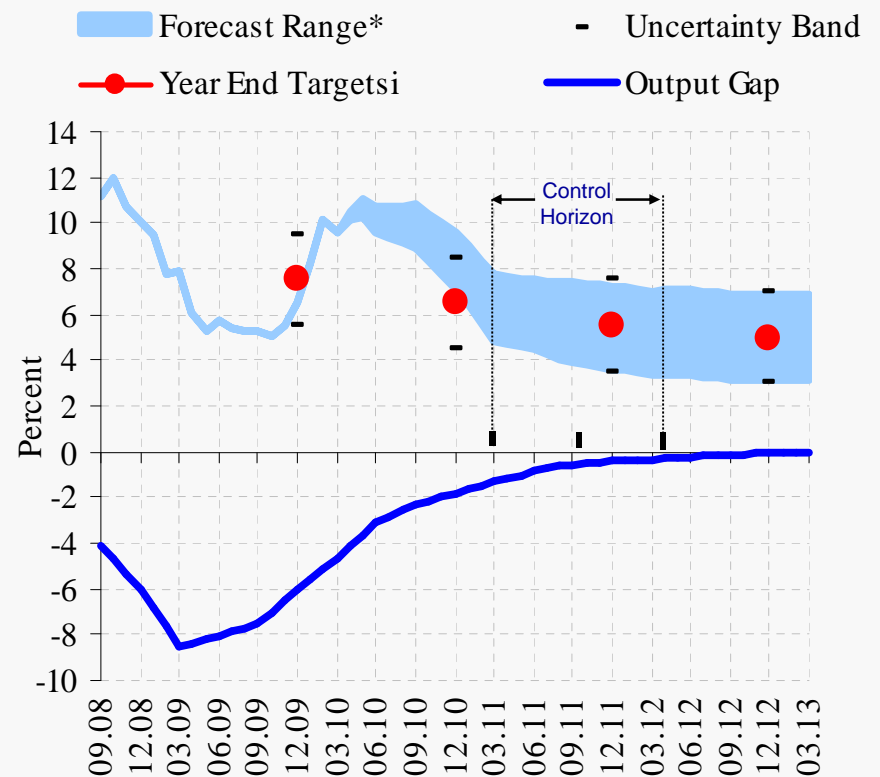
Baseline scenario assumptions:

	2010	2011	2012
Oil Prices	\$ 85	\$ 90	\$ 90
Food Prices	9 %	7 %	7 %

Inflation Forecasts :

2010	8.4 %
2011	5.4 %
2012	5.0 %

Inflation Realizations, Forecasts and Targets
(Sep 2008 – Mar 2013, percent)



*Indicates a confidence interval of 70 percent.
Source: CBT

Conclusion

- Data pertaining to the first quarter of 2010 indicate that recovery in domestic demand has grown more stable and become widespread.
- The increase in labor compensation alongside employment growth has been supporting the recovery in private consumption demand.
- The contribution of the developments in credit markets to domestic economic activity has increased recently.

Conclusion

- Nevertheless, uncertainties pertaining to the global economy persist and no apparent rebound is observed in foreign demand yet.
- Despite the recent partial recovery, resource utilization remains subdued and this continues to be a drag on investment and employment.
- Therefore, the recovery in economic activity is expected to be a gradual one and capacity utilization rates are not likely to return to pre-crisis levels for an extended period.

Conclusion

- Inflation in the coming months, may display a more favorable outlook than envisaged in the April Inflation Report. Beside this, when the possible effects of the less restrictive import regulations for red meat and oil price developments are taken into consideration, the realization of inflation will be able to be closer to the target of 6.5 percent as compared to the 2010 year-end estimates of April Inflation Report.
- However, the pricing behavior is closely monitored due to the inflation expectations, which are still above the medium-term targets.
- In the light of the uncertainties regarding global economy and positive developments in inflation, it is considered to maintain policy rates at current levels for some time, and to keep them at low levels for a long period.

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation before the Council of Ministers

Durmuş YILMAZ
Governor

24 May 2010