

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Presentation at the Ankara Chamber of Industry

Durmuş YILMAZ
Governor

25 March 2011

Presentation Outline

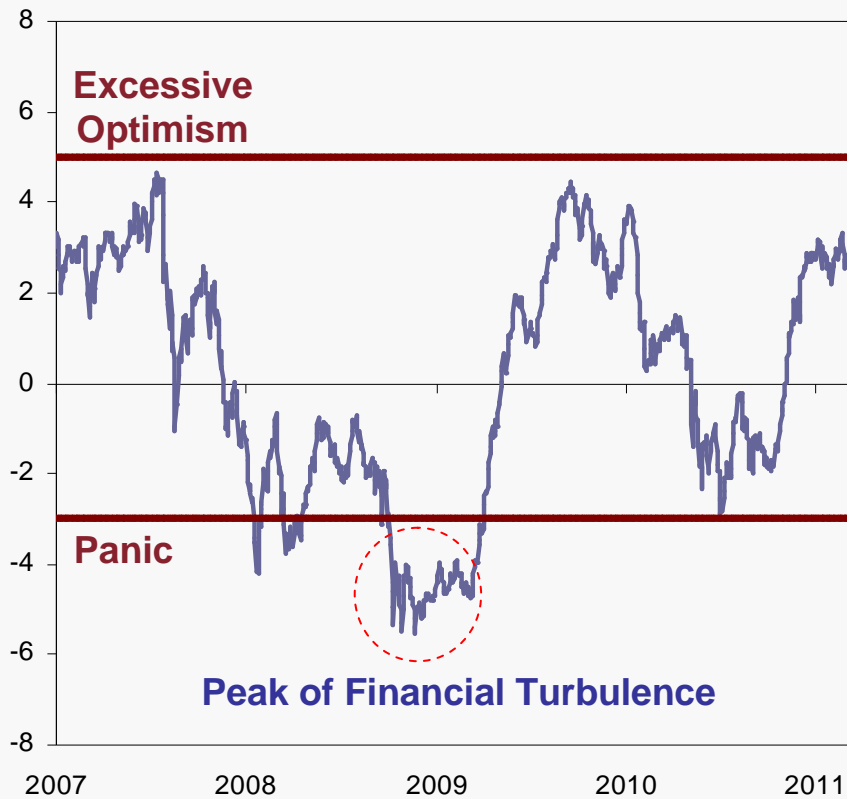
- I. Global Outlook**
- II. Recent Developments in the Turkish Economy**
- III. Inflation Developments**
- IV. Monetary Policy**

I. Global Outlook

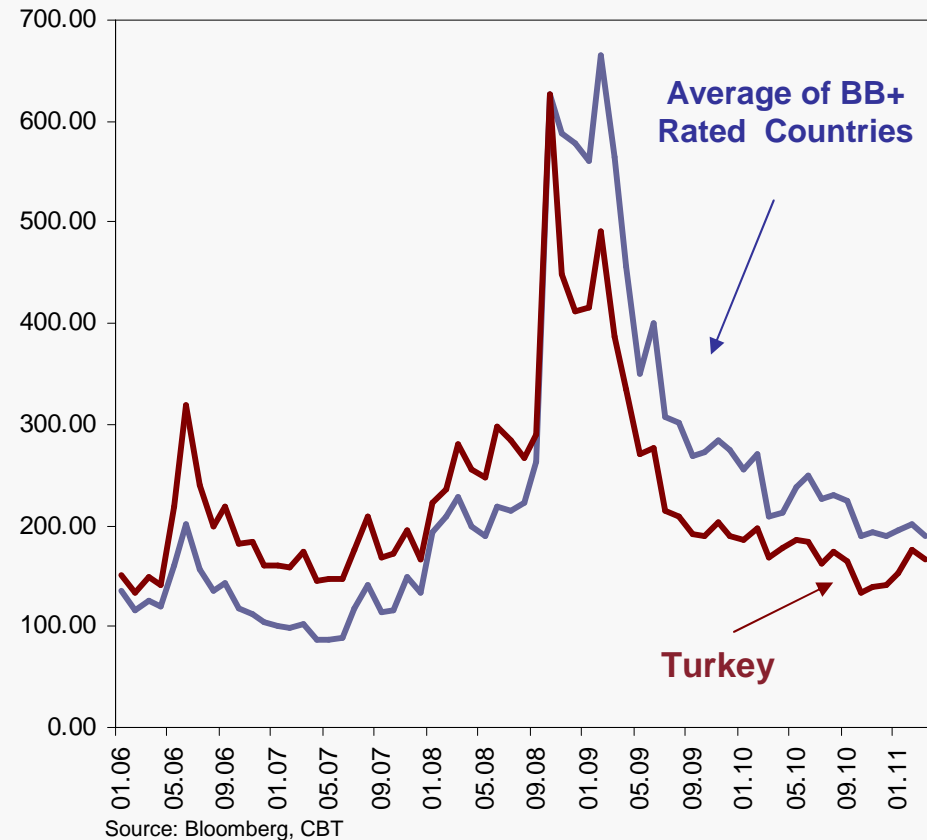
Risk Indicators

The global risk appetite, which had deteriorated due to the concerns on public finances in some European countries, has somewhat recovered recently. Since 2009, Turkey's risk premium has been hovering below those of other countries with similar credit ratings.

Global Risk Appetite Index



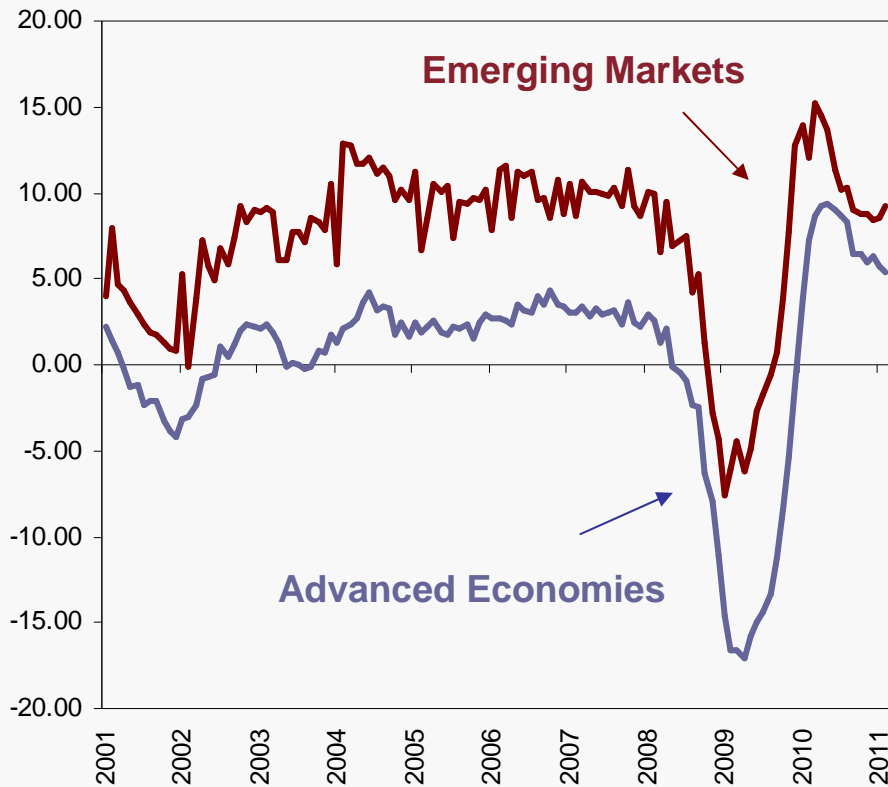
CDS Spreads of Countries Rated BB+



Global Growth

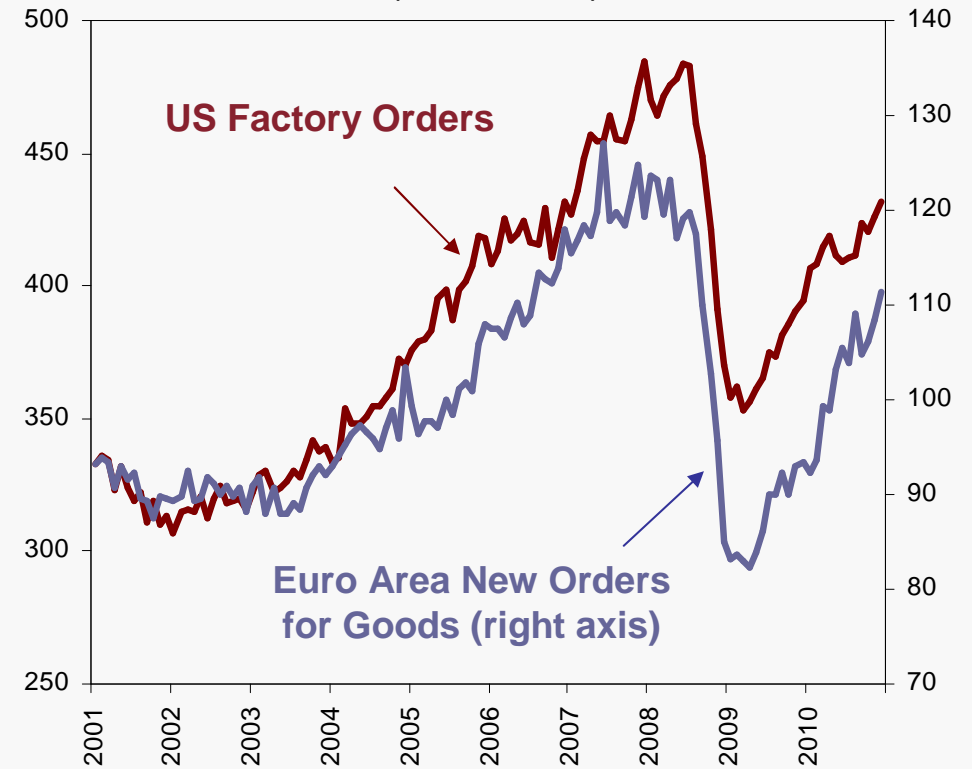
Despite the recovery in financial indicators and economic activity, uncertainties regarding the global economy still persist.

Industrial Production Index
(Annual percentage change)



Source: Bloomberg, CBT

Orders for Goods
(Billion USD)

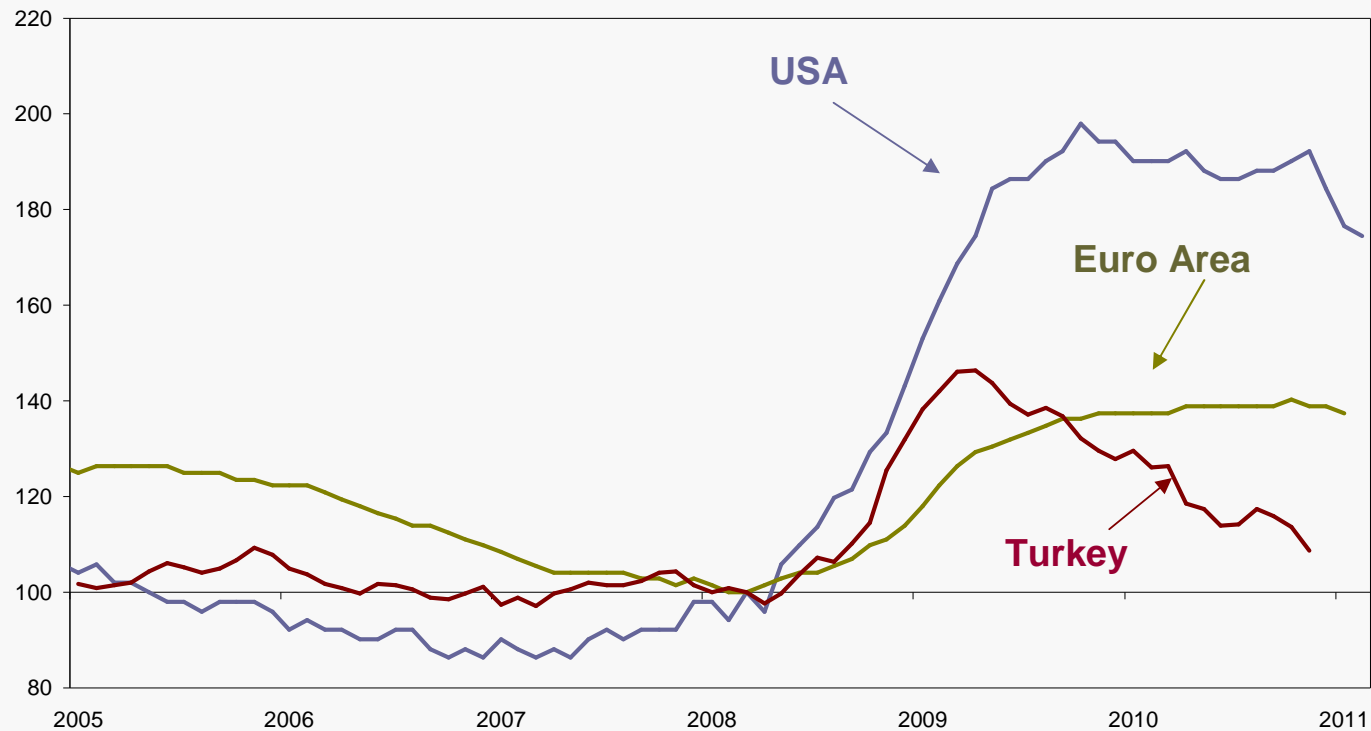


Source: Bloomberg, CBT

Developments in Employment

The unfavorable outlook in the labor markets of developed countries persists. In Turkey, employment conditions are more encouraging, however unemployment rates still remain at high levels.

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

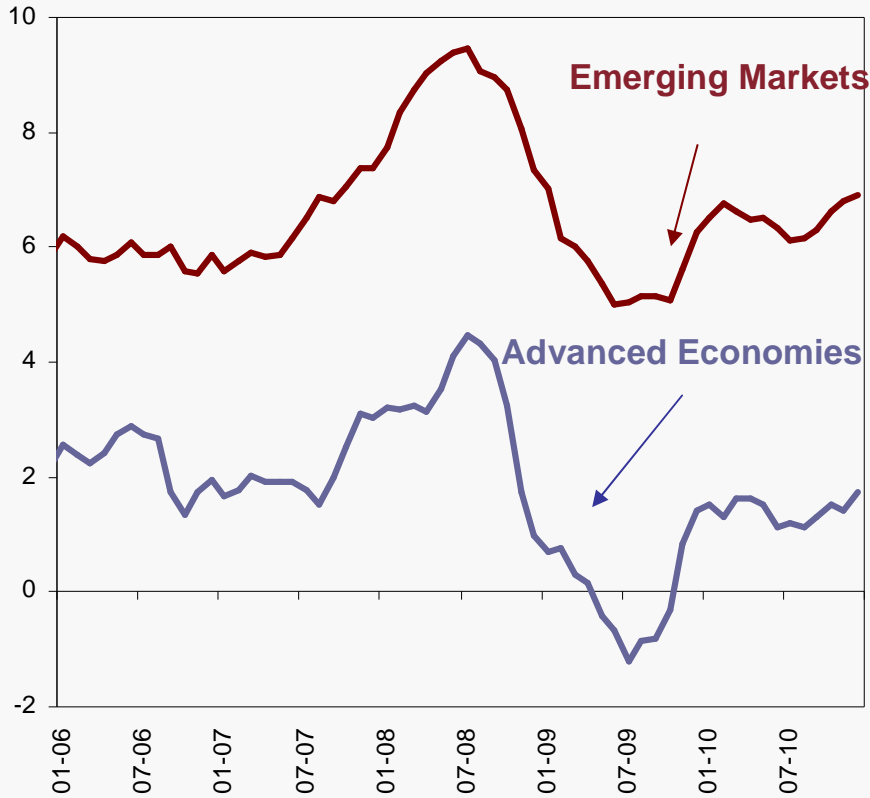


Source: Bloomberg, TURKSTAT, CBT

Global Inflation

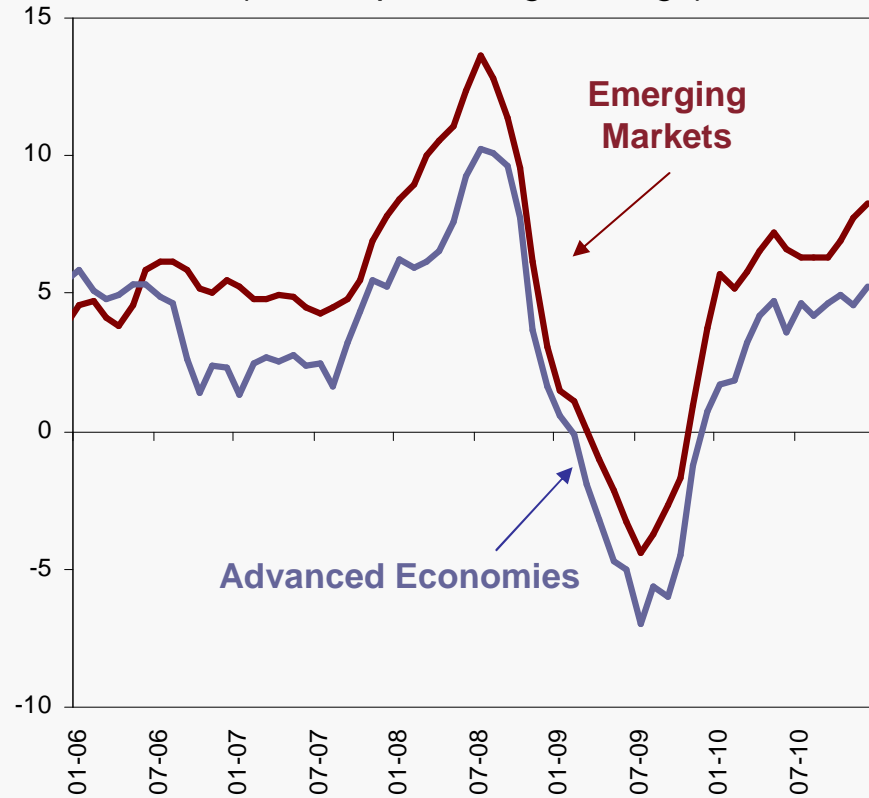
Due to the soaring commodity prices and the lagged effects of the monetary easing process, global inflation risk persists.

Consumer Price Index
(Annual percentage change)



Source: Bloomberg, CBT

Producer Price Index
(Annual percentage change)



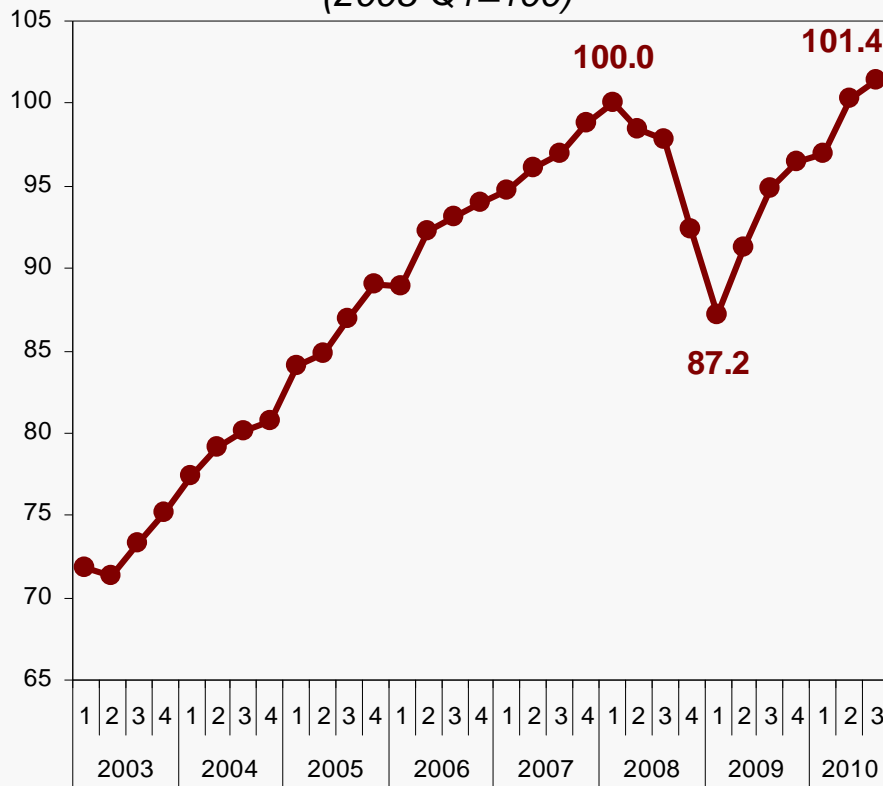
Source: Bloomberg, CBT

II. Recent Developments in the Turkish Economy

GDP is Above the Pre-Crisis Level

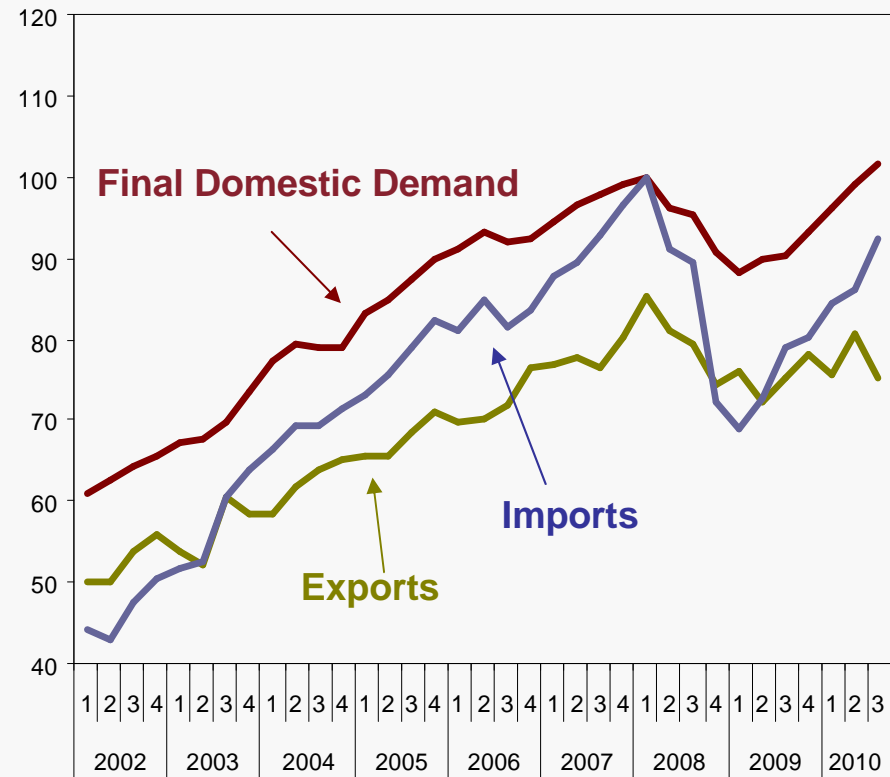
Recent data on economic activity are broadly consistent with the outlook presented in our latest Inflation Report. The growth rate for 2010 is expected to realize significantly above the target set in the Medium Term Program.

Seasonally Adjusted GDP
(2008 Q1=100)



Source: TURKSTAT, CBT

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

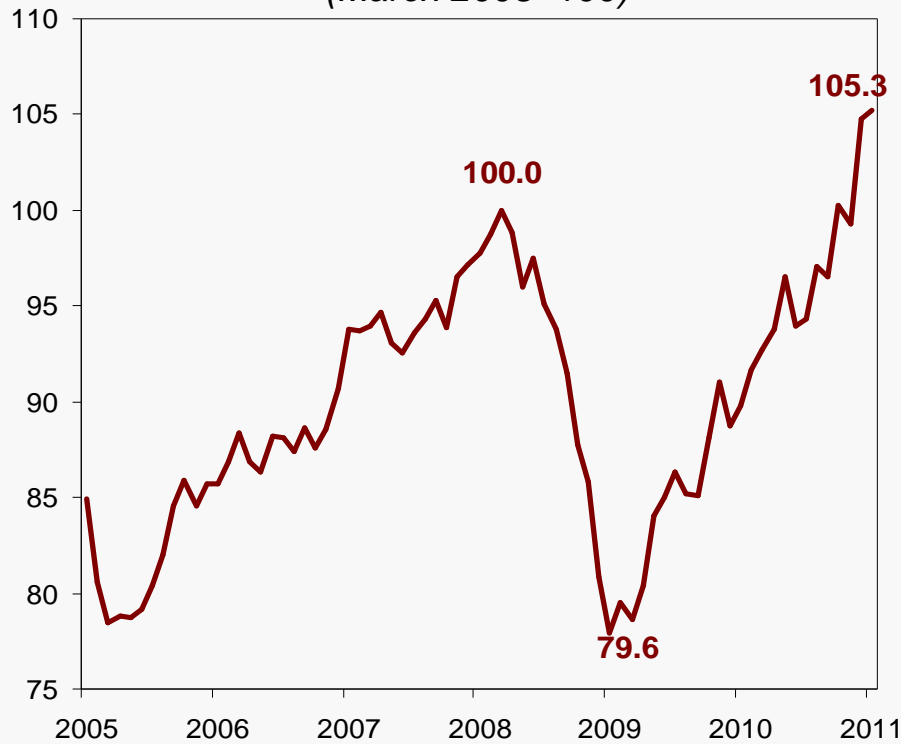


Source: TURKSTAT, CBT

Production Indicators are Upwards

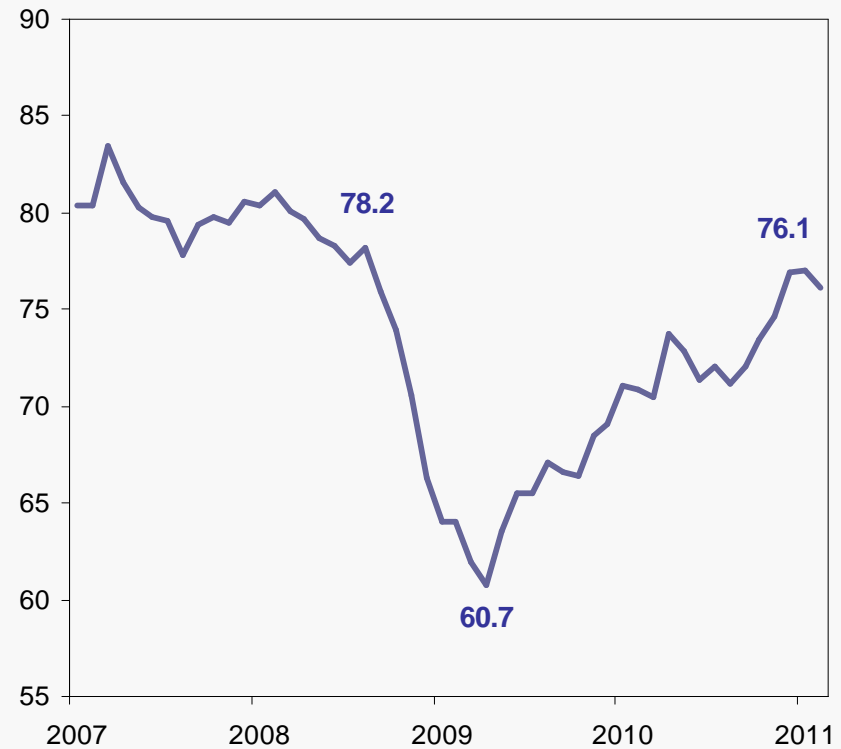
In the final quarter of 2010, significant increases were observed in the industrial production index. However the rise in the index was more moderate in January.

Industrial Production Index
(March 2008=100)



Source: TURKSTAT, CBT

Capacity Utilization Rate

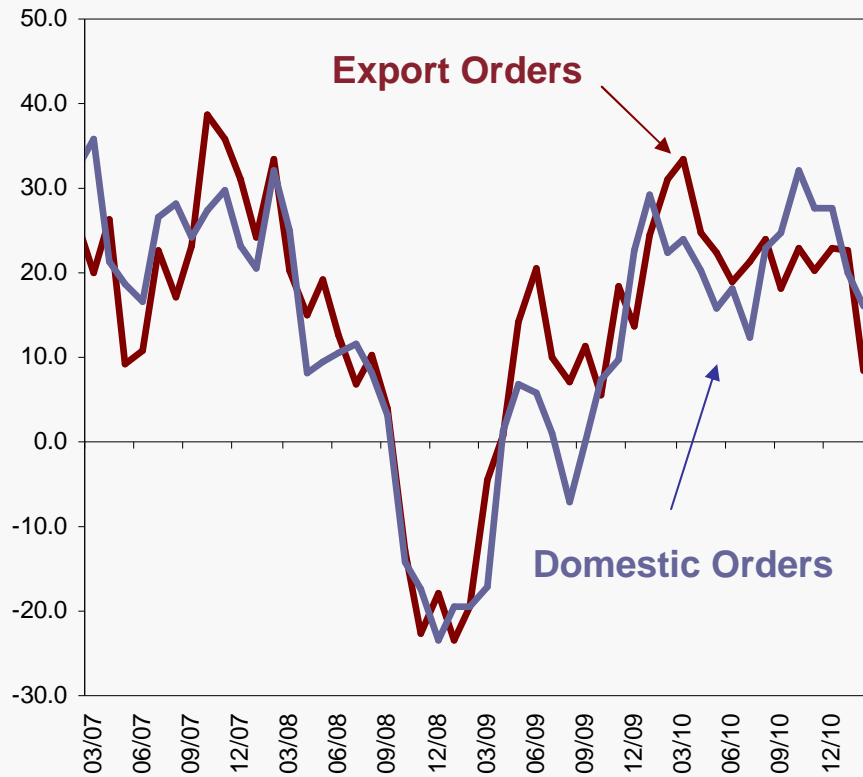


Source: CBT

Trends in Orders

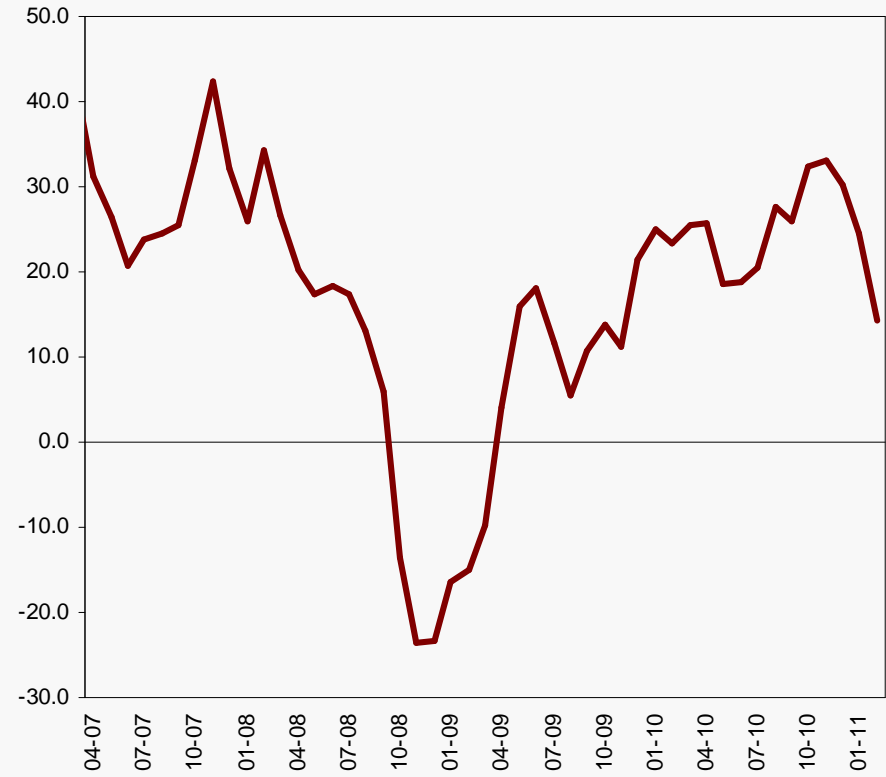
The expectations for production and orders suggest that growth in economic activity in the first quarter of 2011 will be more moderate compared to the previous quarter.

Order Expectations Over the Next Three Months



Source: Business Tendency Survey, CBT

Production Volume Expectations Over the Next Three Months

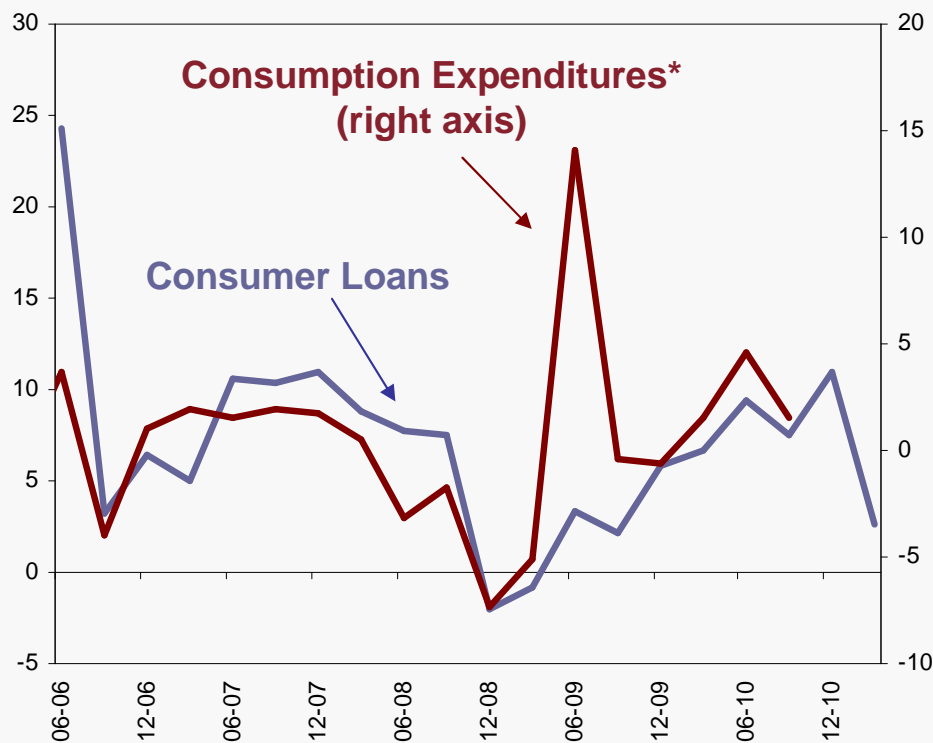


Source: Business Tendency Survey, CBT

Consumption Demand

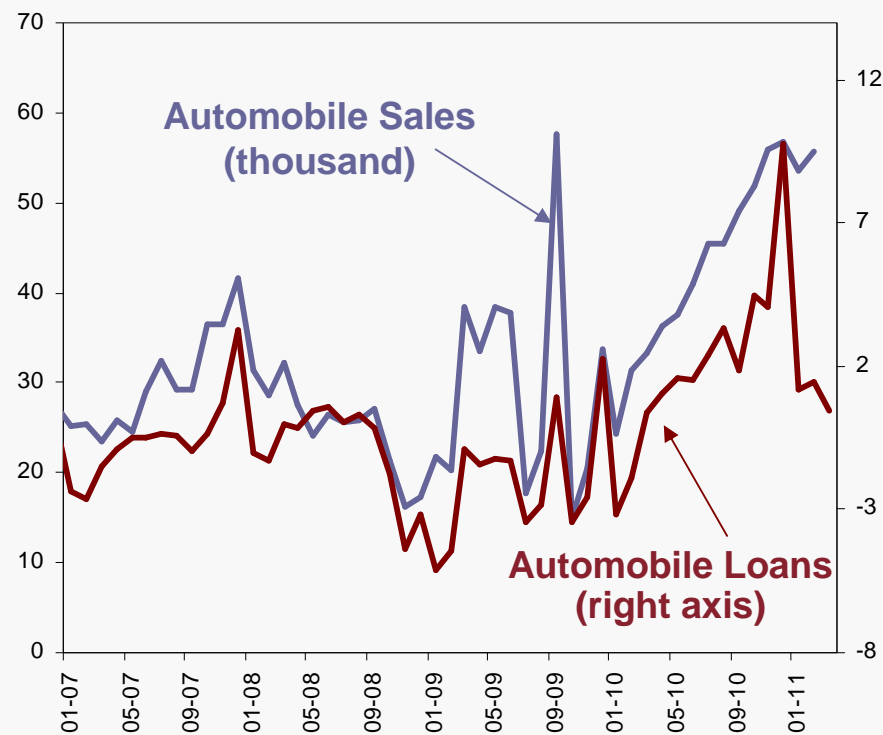
Consumption demand indicators also confirm the outlook that domestic order expectations suggest.

Consumer Loans and Consumption Expenditures
(Quarterly percentage change)



* Seasonally Adjusted: Housing, Water, Electricity, Gas and other Fuels, Furniture, Household Appliances and Maintenance, Transport and Communication, Recreation and Entertainment
Source: TURKSTAT, CBT

Automobile Sales and Loans
(Monthly percentage change)

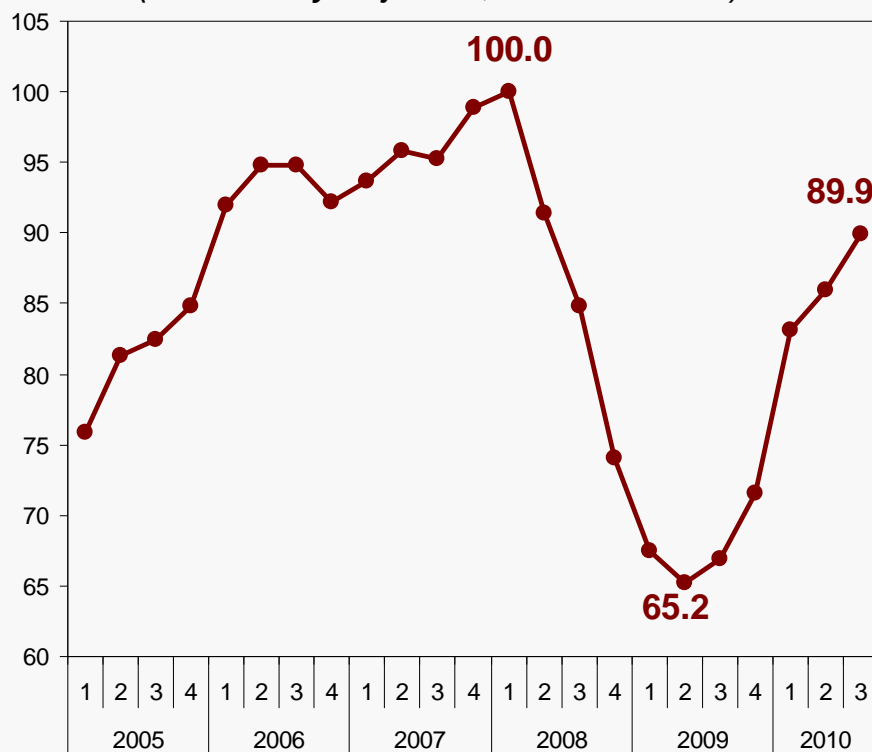


Source: TURKSTAT, CBT

Investment Demand

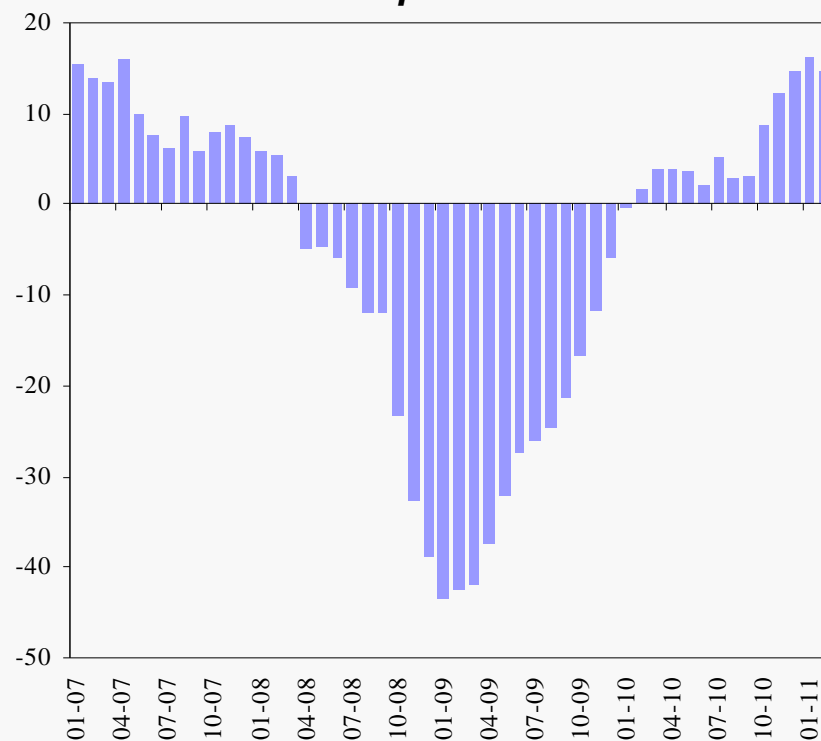
The surge in investment expenditures continues in the first quarter of 2011 as well.

Investment Expenditures
(Seasonally adjusted, 2008 Q1=100)



Source: TURKSTAT, CBT

Expectations for Fixed Capital Investment Expenditures

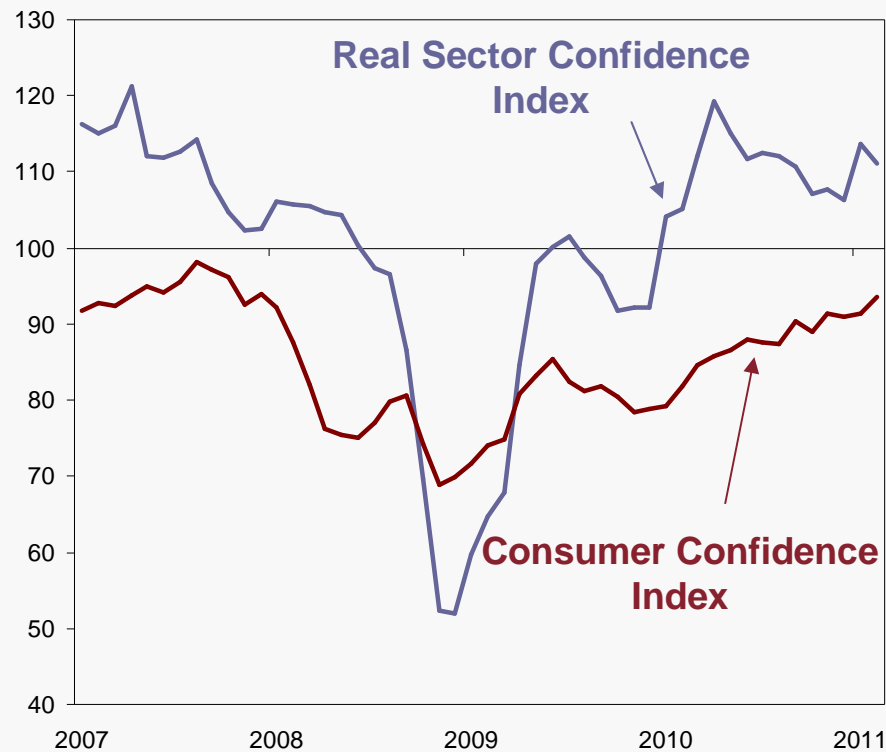


Source: CBT

Expectations

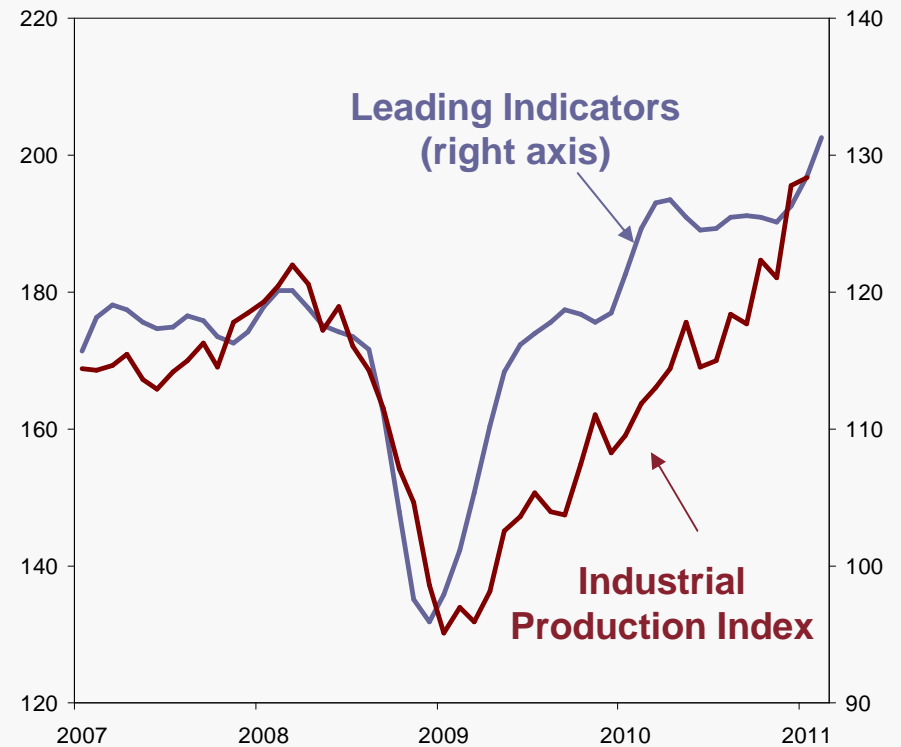
Ongoing recovery in the final quarter of 2010 in the corporate sector and in consumer confidence underpins the rise in domestic demand.

Real Sector and Consumer Confidence Indices



Source: CBT

Leading Indicators and Industrial Production Index*

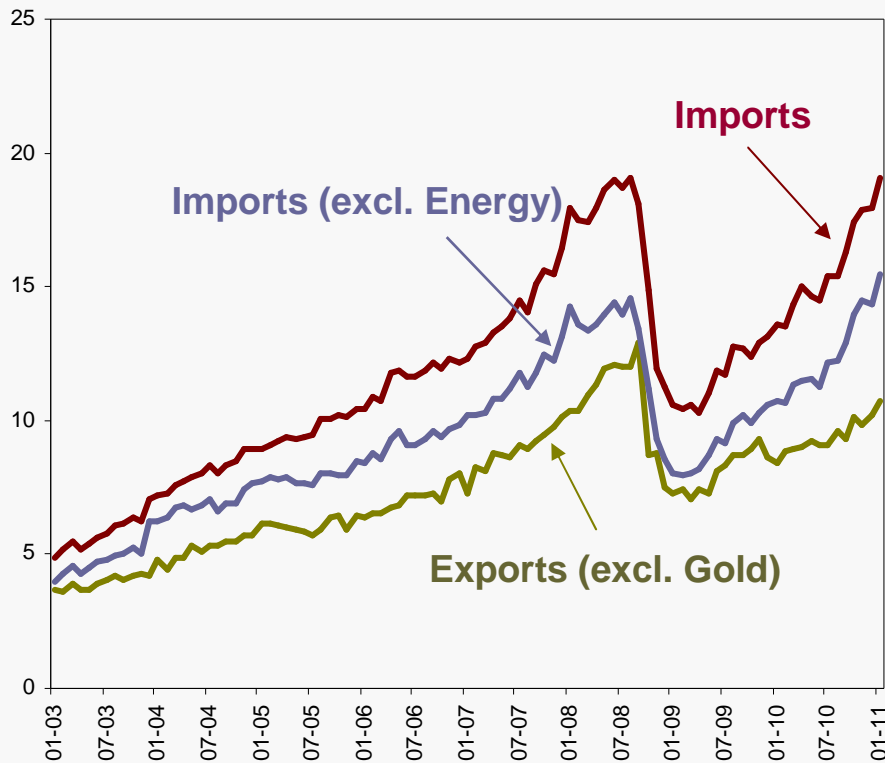


* Seasonally Adjusted
Source: TURKSTAT, CBT

Foreign Trade Developments

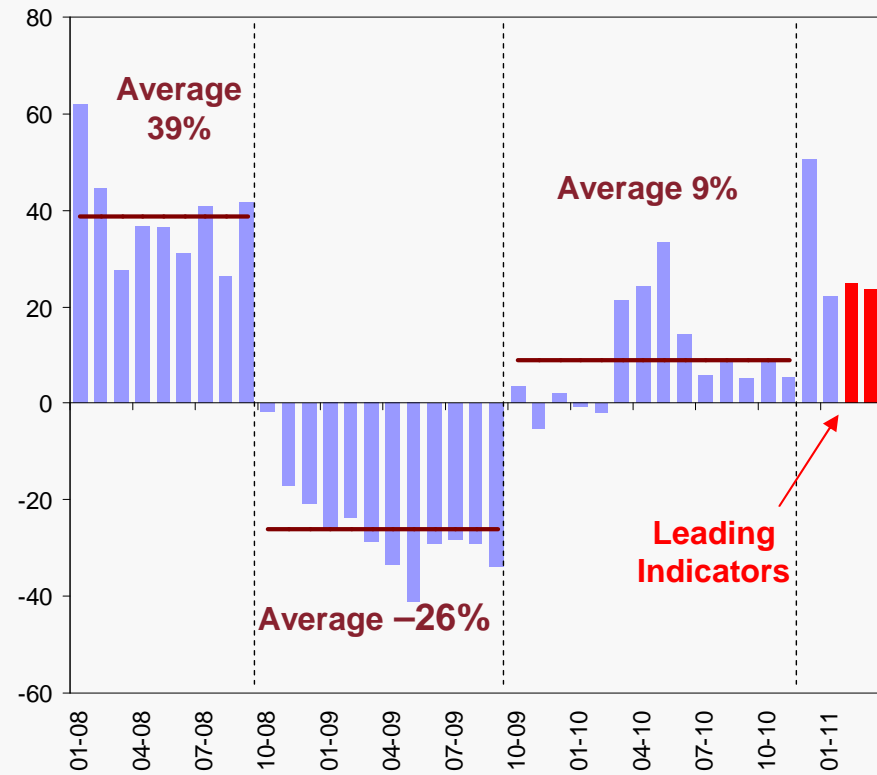
Despite some recent revival, external demand remains relatively subdued.

Nominal Imports and Exports
(Seasonally adjusted, billion USD)



Source: TURKSTAT, CBT

Exports
(Annual percentage change)

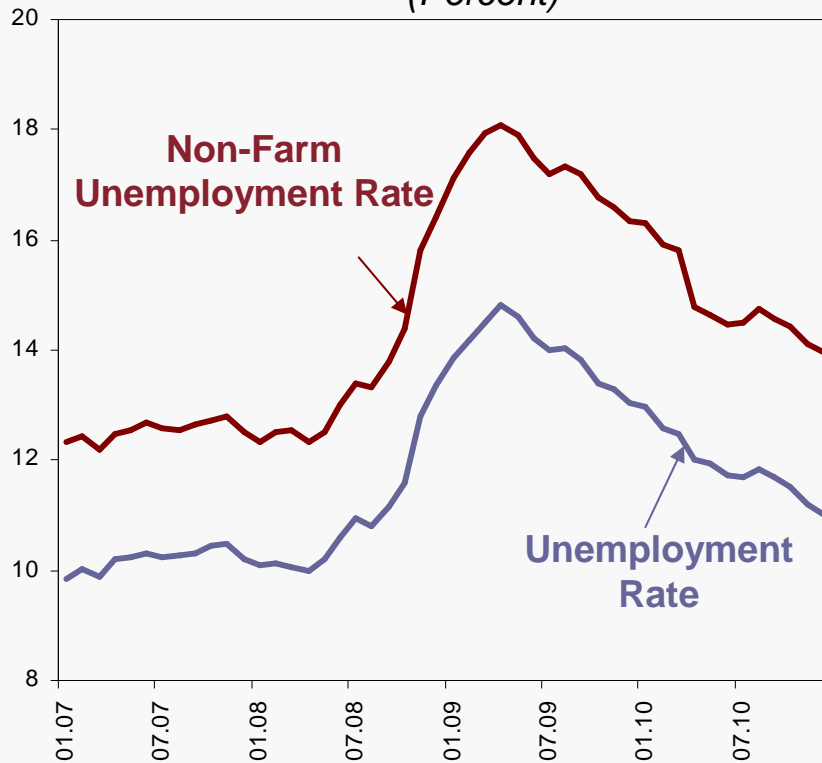


Source: UFT, TURKSTAT, CBT

Recovery in Employment Conditions

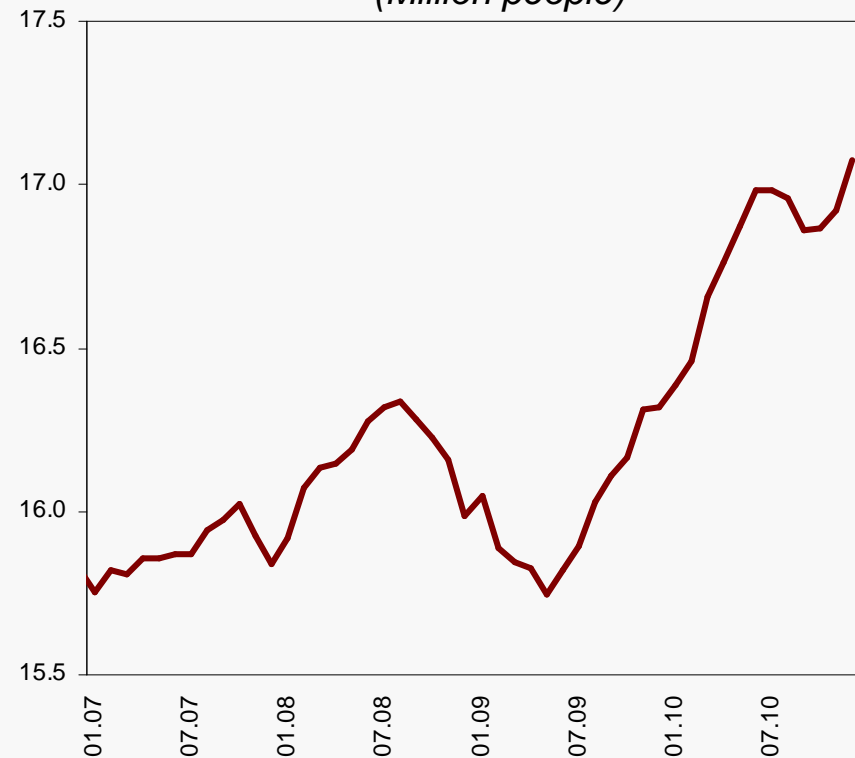
Improvement in employment conditions continues. The pause in non-farm employment in the third quarter of 2010 had been temporary and the increase in non-farm employment has resumed in the last quarter of the year.

Unemployment Rates*
(Percent)



*Seasonally Adjusted
Source: TURKSTAT, CBT

Non-Farm Employment*
(Million people)

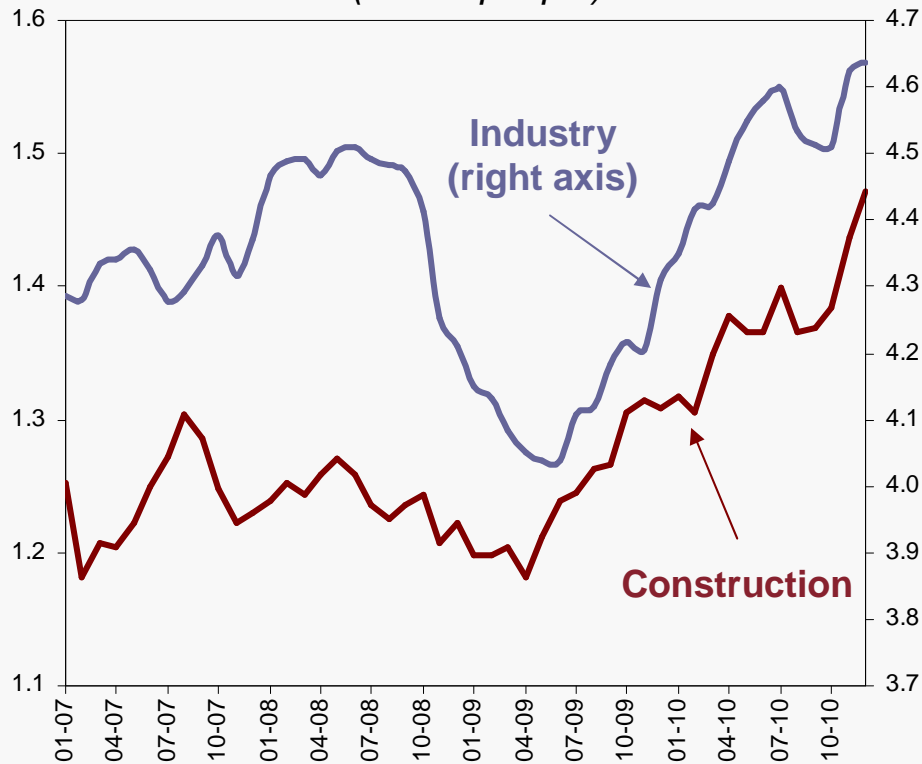


*Seasonally Adjusted
Source: TURKSTAT, CBT

Employment by Sectors

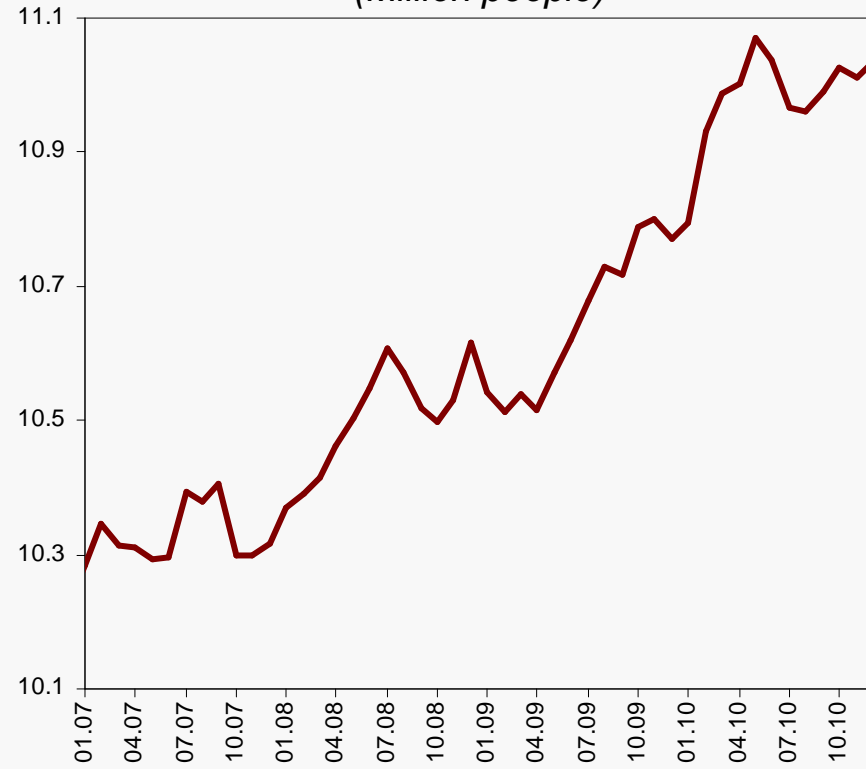
Parallel to the developments in production, employment in construction and industry posted a significant increase in the last quarter.

Employment in Construction and Industry*
(Million people)



* Seasonally Adjusted
Source: TURKSTAT, CBT

Employment in the Services Sector*
(Million people)

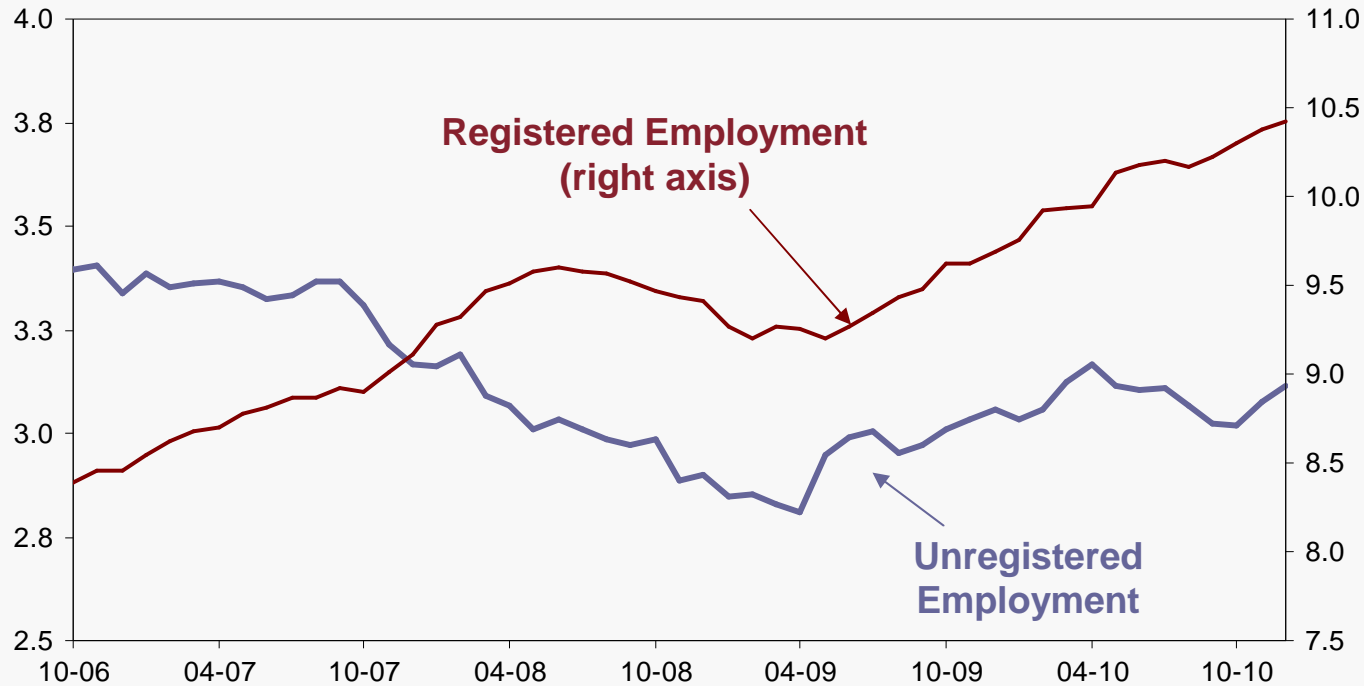


* Seasonally Adjusted
Source: TURKSTAT, CBT

Registered Employment

While the ratio of registered employment for salary and daily wage workers keeps rising; unregistered employment follows a horizontal course.

Registered and Unregistered Employment
(Salary or Daily Wage Workers, million people)

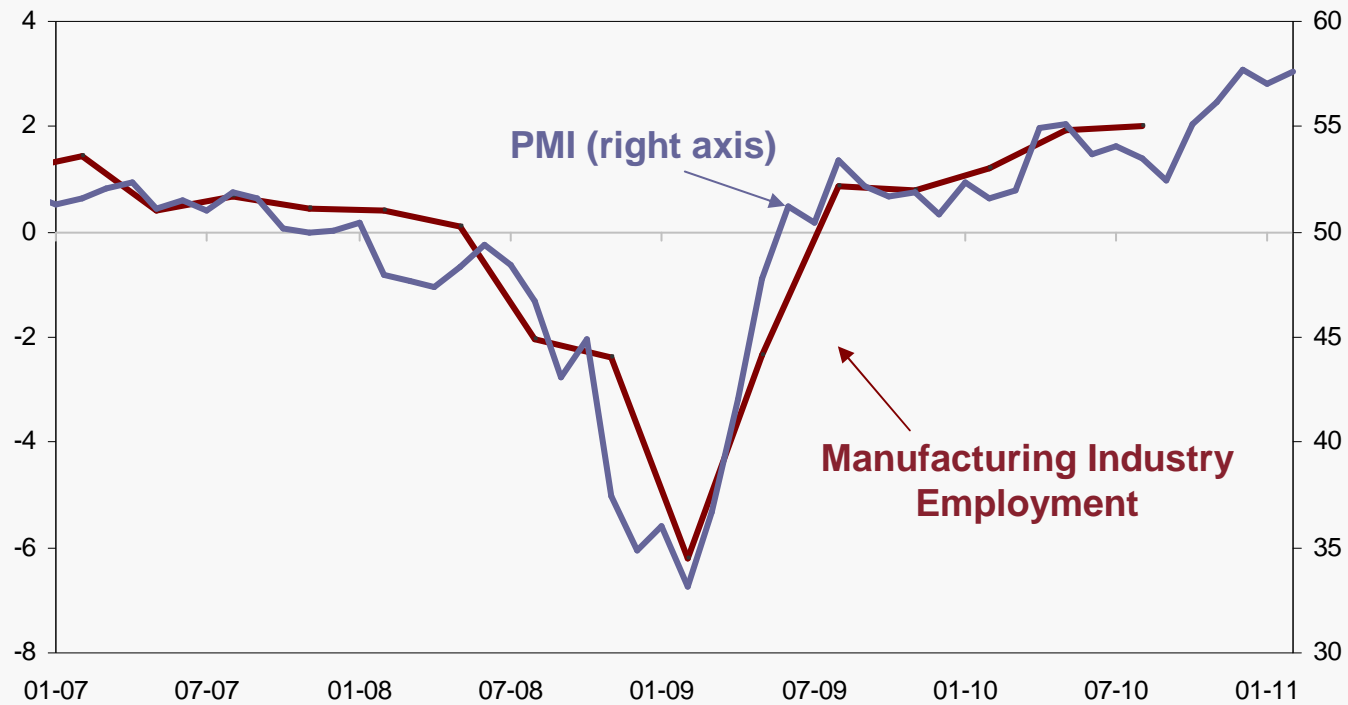


* Seasonally Adjusted
Source: TURKSTAT, CBT

The Labor Market

Leading indicators point out an ongoing increase in industrial employment parallel to the developments in production.

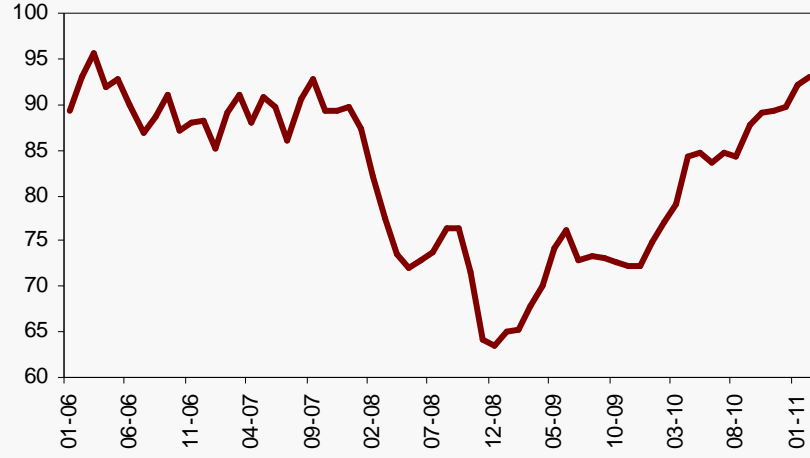
Manufacturing Industry Employment* and PMI Employment Index



* Seasonally Adjusted quarterly change
Source: TURKSTAT, Markit, CBT

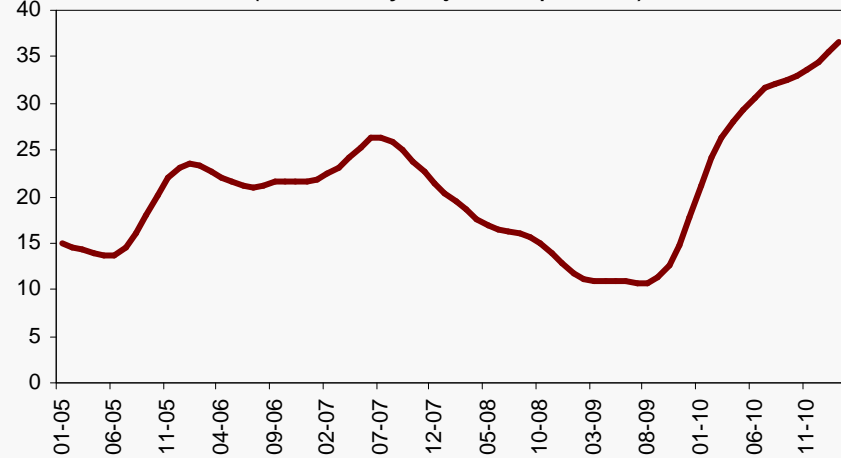
Labor Market Indicators

Employment Opportunities
(Seasonally adjusted)



Source: Business Tendency Survey, CBT

Vacancy Rate*
(Seasonally adjusted, percent)



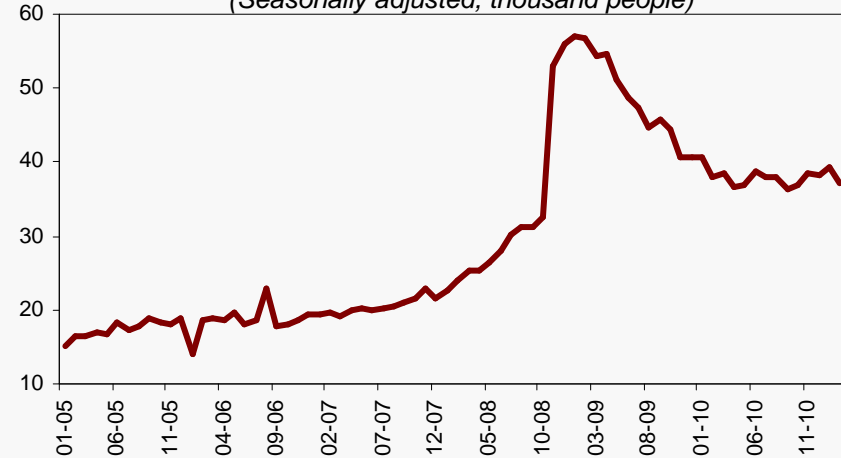
*The ratio of vacant positions (private) registered with İŞKUR (Turkish Employment Agency) to the number of unemployed who applied to İŞKUR to find a job

Kariyer.net New Job Announcements
(Seasonally adjusted, thousand people)



Source: Kariyer.net, CBT

Applications for Unemployment Insurance
(Seasonally adjusted, thousand people)

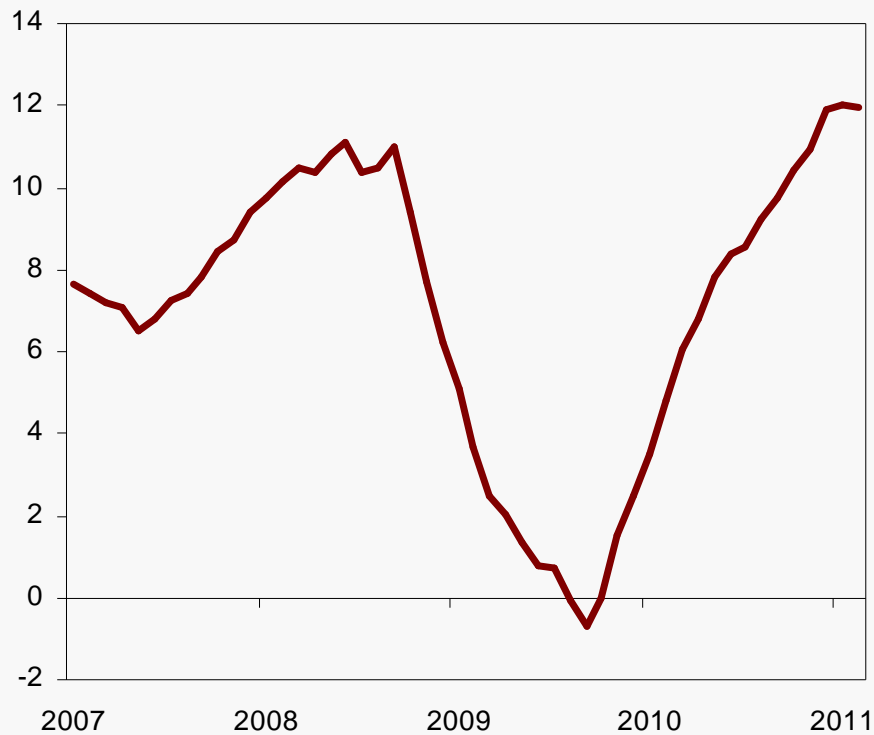


Source: TURKSTAT, CBT

Credit Volume

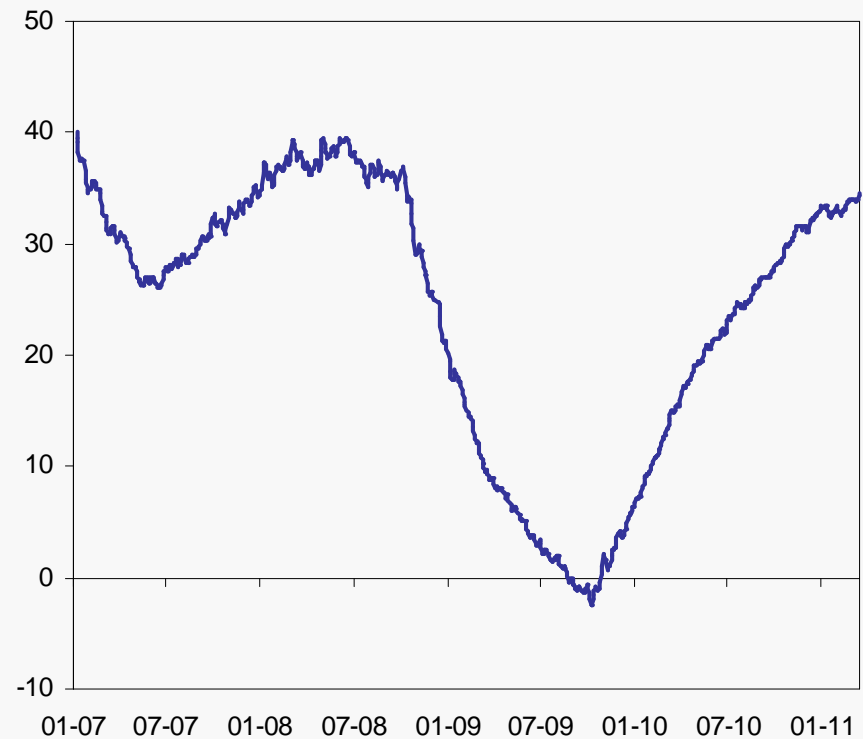
Expansion in credit volume hovers above pre-crisis levels in comparison to the size of the economy.

Ratio of of the Change in the Credit Volume to GDP*
(Year-on-year change)



* Adjusted for the exchange rate effect
Source: TURKSTAT, CBT

Change in the Credit Volume*
(Year-on-year change)

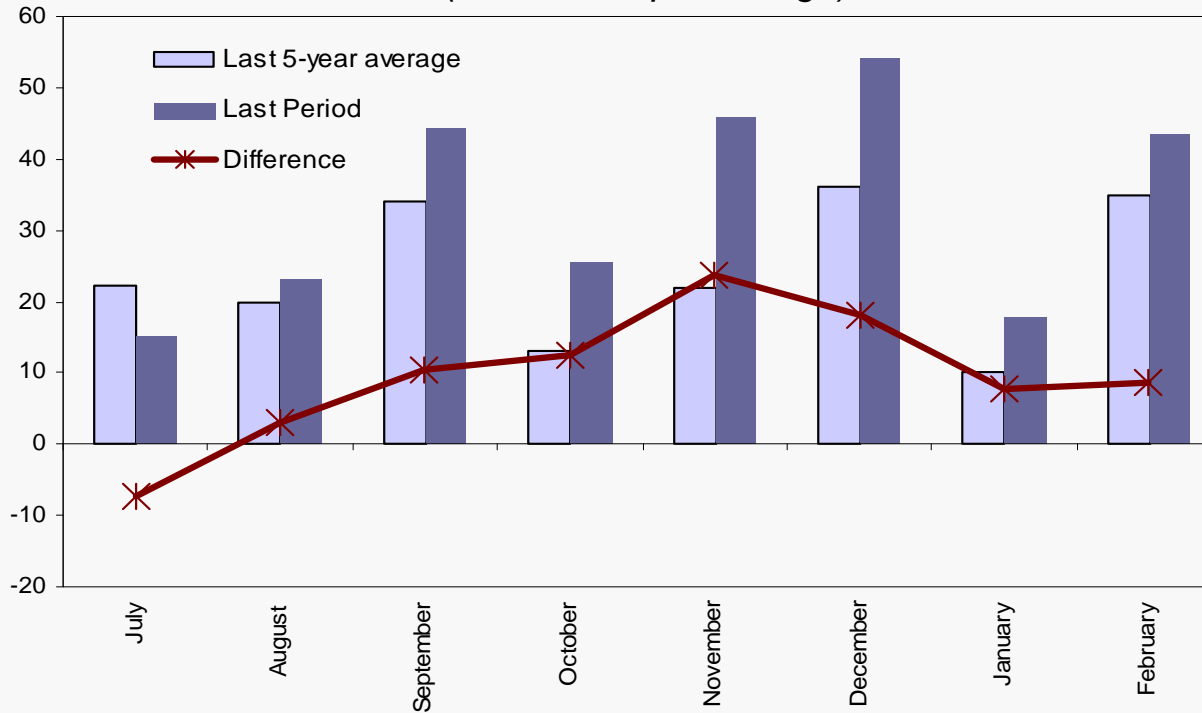


* Adjusted for the exchange rate effect
Source: CBT

Credit Volume

The upward deviation in the amount of newly extended loans compared to the past years' average has assumed a downward trend due to measures taken.

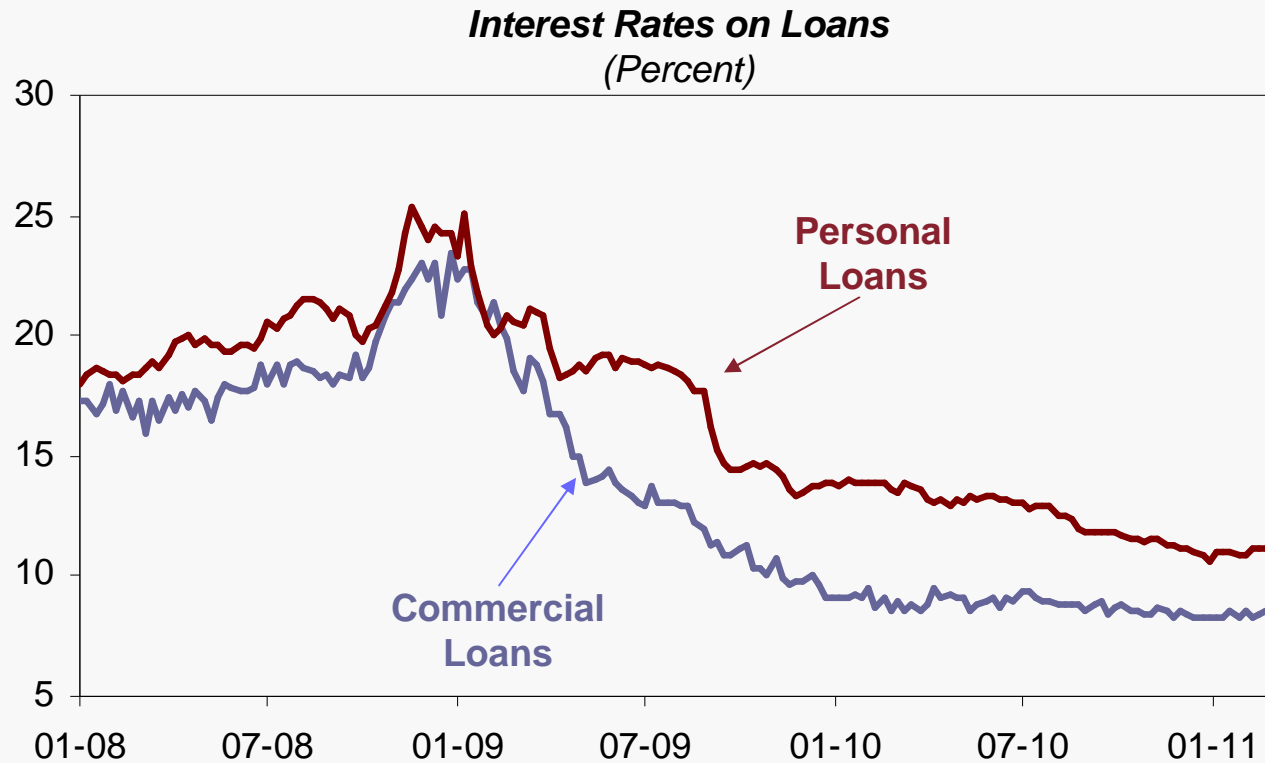
Monthly Change in Credit Volume*
(Annualized percentage)



* Adjusted for the exchange rate effect
Source: TURKSTAT, CBT

Interest Rates on Loans

No apparent change is observed in loan rates. This indicates that recent monetary policy decisions have mostly been effective through the liquidity channel and that banks have started to tighten their lending conditions as per new regulations introduced by the BRSA.

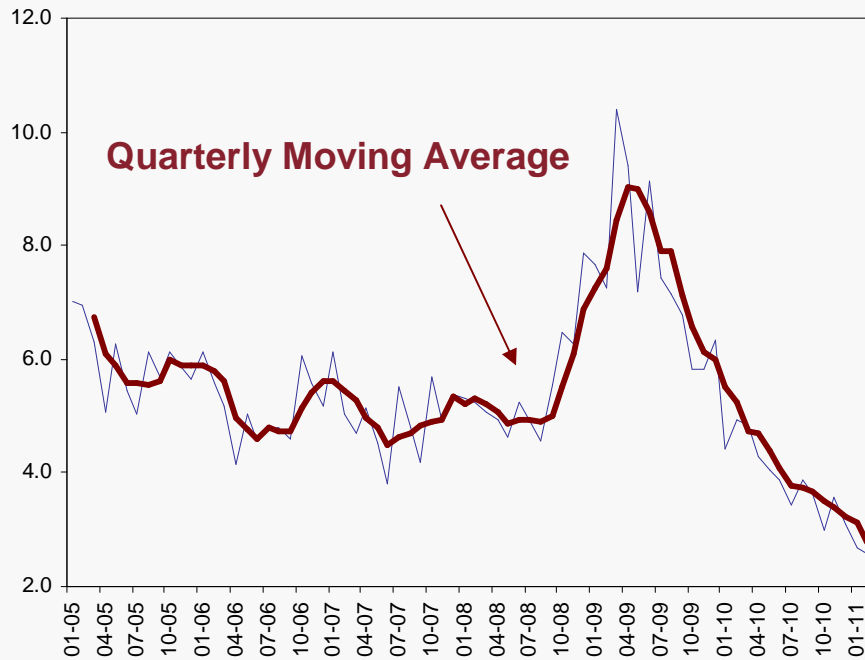


Source: CBT

Commercial Activities

In line with the recovery in economic activity, the drop in the number of overdrawn cheques and the amount of non-performing loans; and the rise in the number of new firms continues.

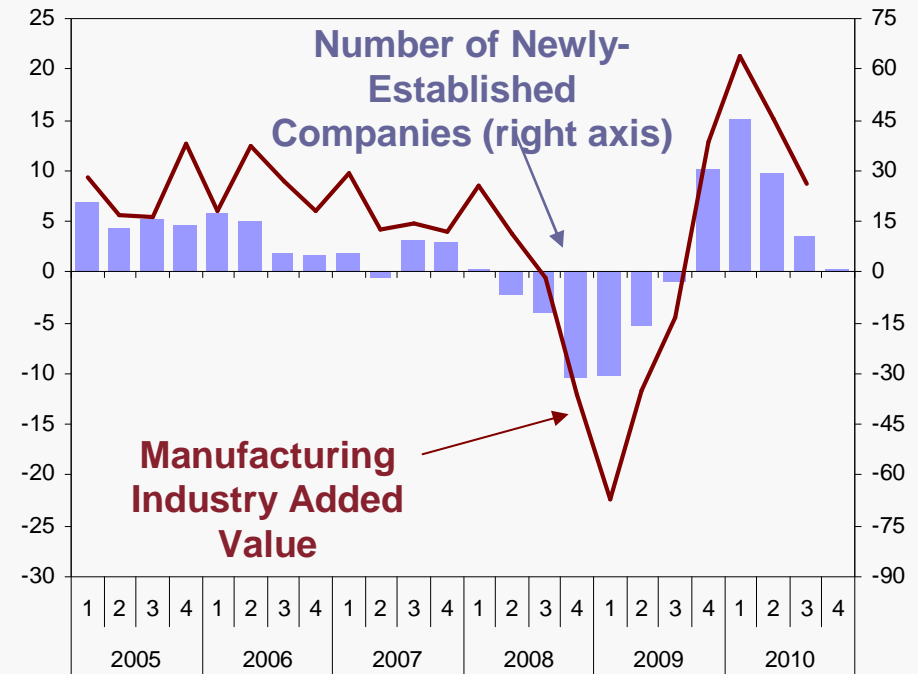
**Ratio of Overdrawn Cheques to Total Cheques
(Percent)**



2009	2010-II	2010-III	2010-IV	2011 Feb	2009-VI
7,66	3,87	3,63	3,94	2,58	6,34

Source: BTOM , CBT

**Number of Newly-Established Companies and
GDP Manufacturing Industry
(Year-on-year percentage change)**

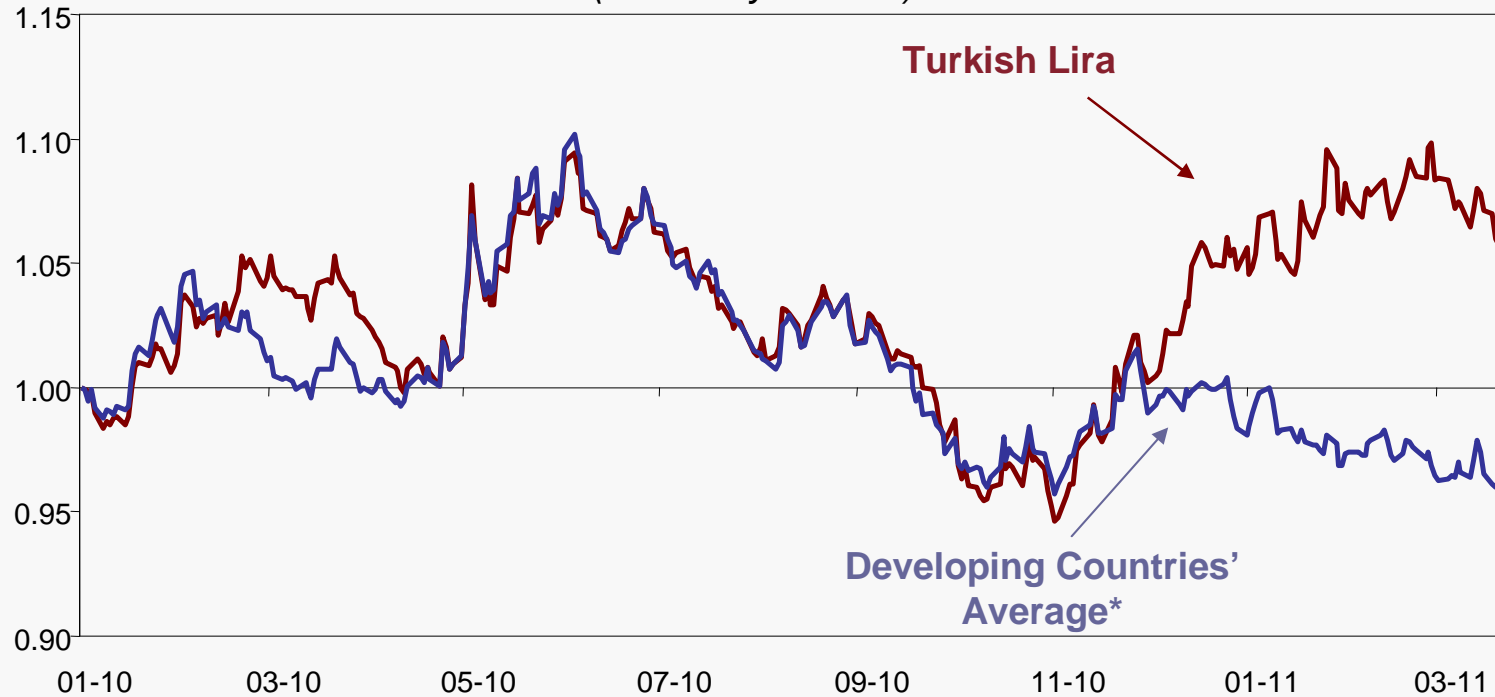


Percentage Change	09-III	09-IV	10-I	10-II	10-III	10-IV
Manufacturing Ind.	-4.5	12.8	21.2	15.2	8.7	
Newly-Established Comp.	-2.8	30.5	45.1	29.1	10.7	0.5

Exchange Rate Developments

Recently, there has been a decoupling between the Turkish lira and currencies of emerging markets.

Value of the US Dollar Against the Turkish Lira and Currencies of Other Emerging Markets
(4 January 2010=1)

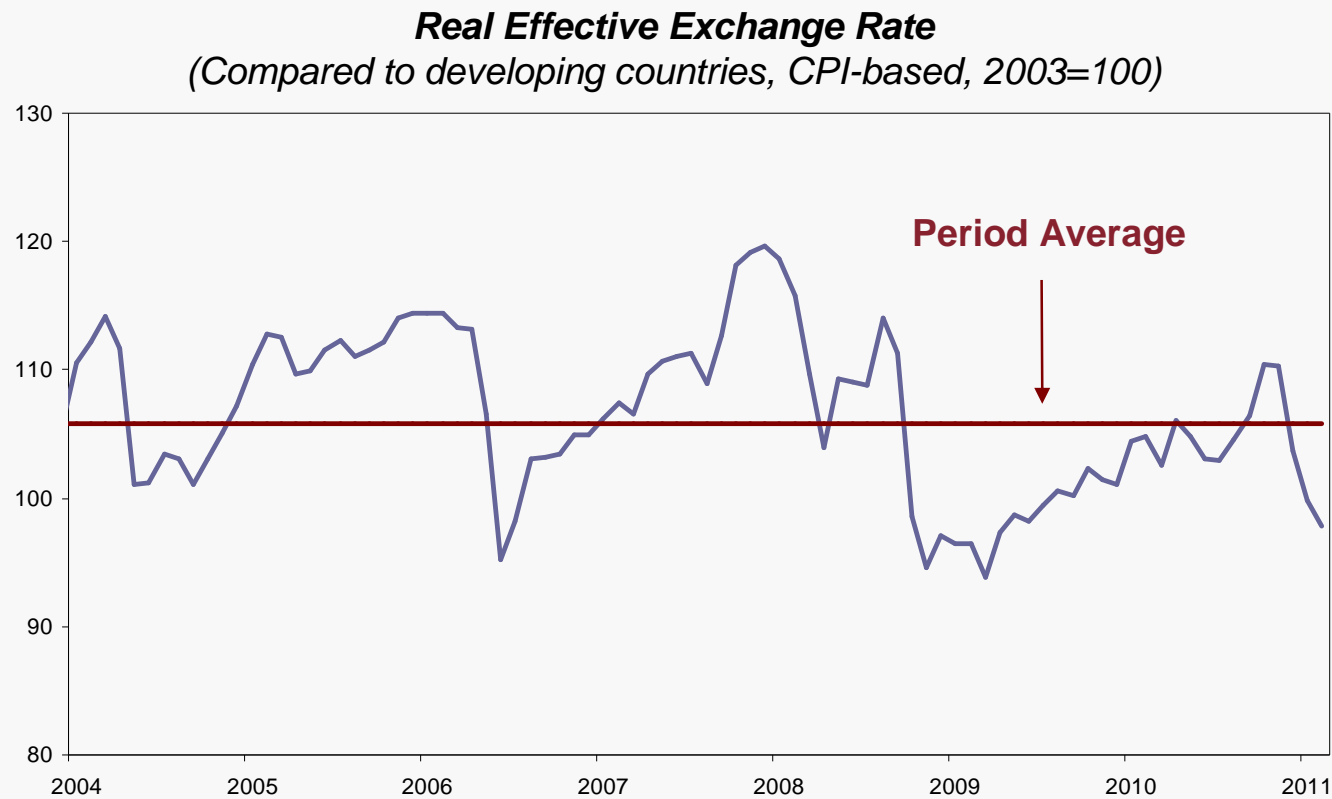


*Brazil, Chile, the Czech Republic, Hungary, Mexico, Poland, S.Africa, Indonesia, S.Korea, Colombia.

Source: Bloomberg, CBT

Real Exchange Rate Developments

The value of the Turkish lira against currencies of developing countries follows a course below the the period average, when adjusted for inflation.

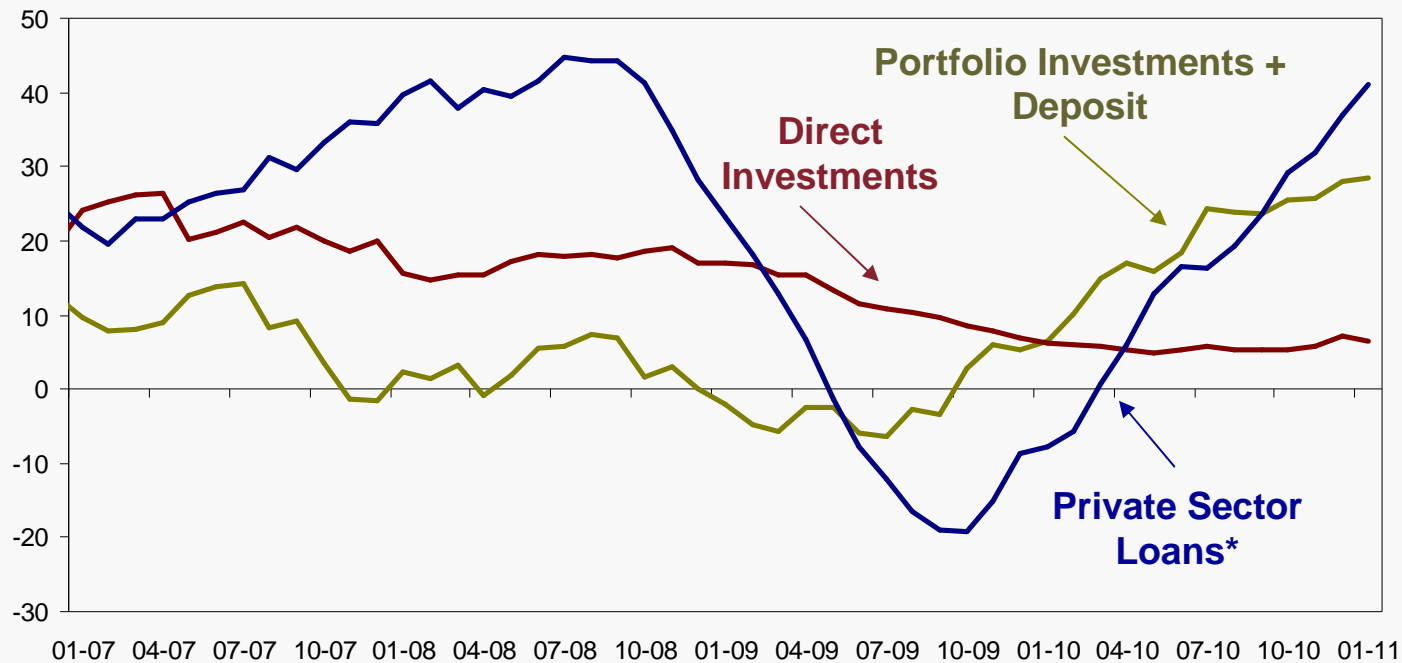


Source: CBT

Capital Flows

Since the onset of the global crisis, the composition of capital flows in Turkey has changed as in other developing countries; the share of direct capital investments shrank, whereas that of portfolio investments increased.

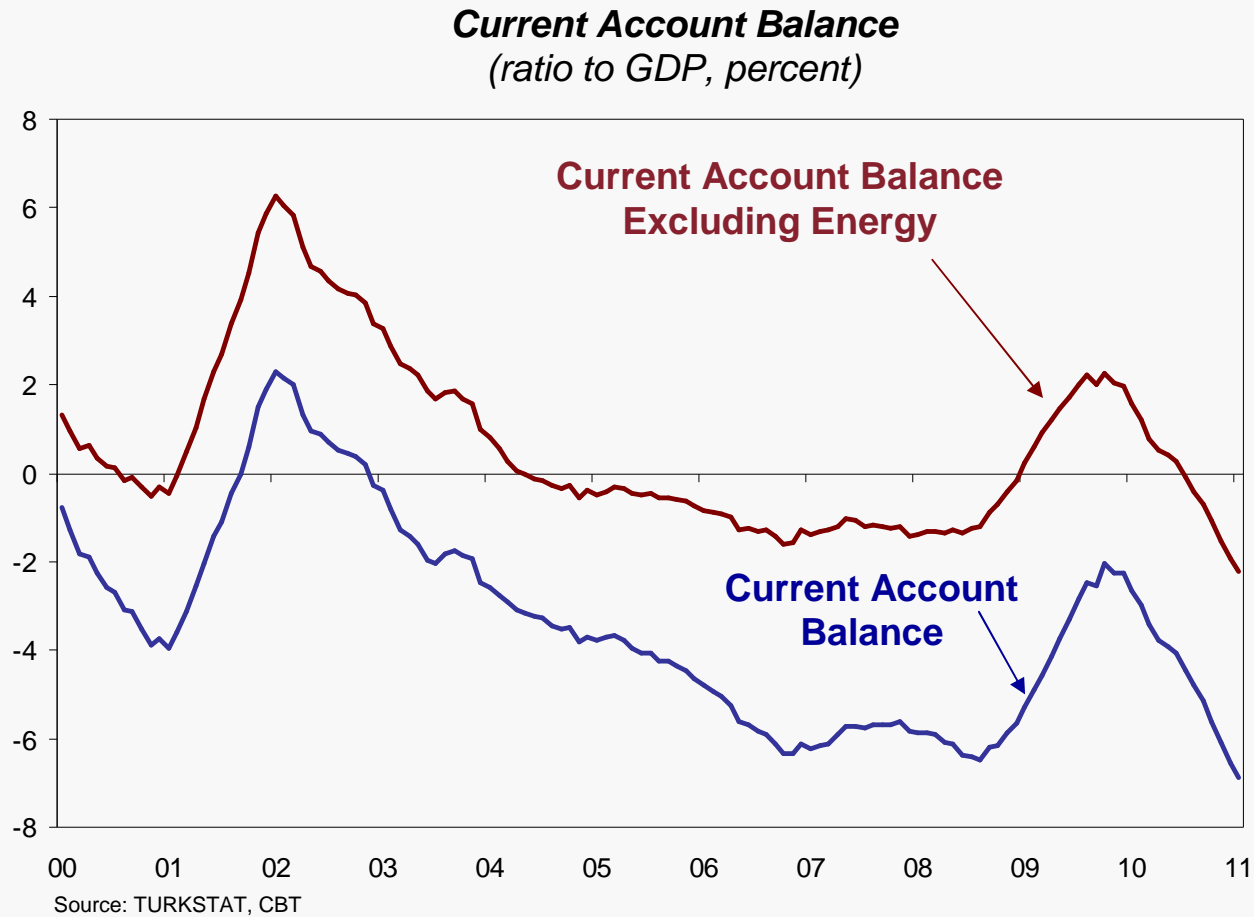
Balance of Payments Sub-Categories
(12-month cumulative aggregate, billion USD)



* Adjusted for the effect of the amendment to the Decree No. 32
Source: CBT

Current Account

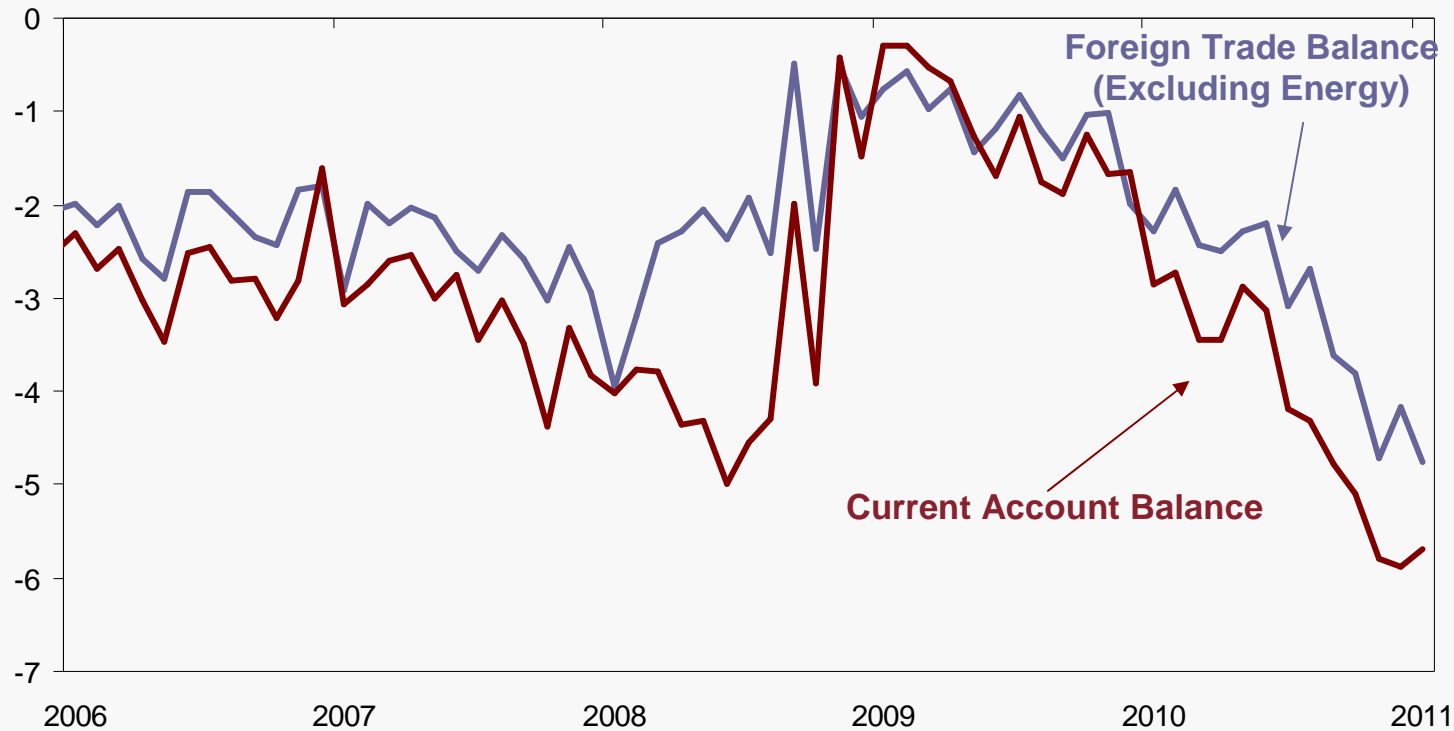
The measures taken are led by the foreseen recent increase in the current account deficit.



Current Account

Seasonally adjusted current account deficit and foreign trade deficit data indicate a recovery. Countercyclical effects of the measures are expected to be evident starting from the second quarter of the year.

Foreign Trade Deficit Excluding Energy and Current Account Balance
(Seasonally Adjusted, billion USD)

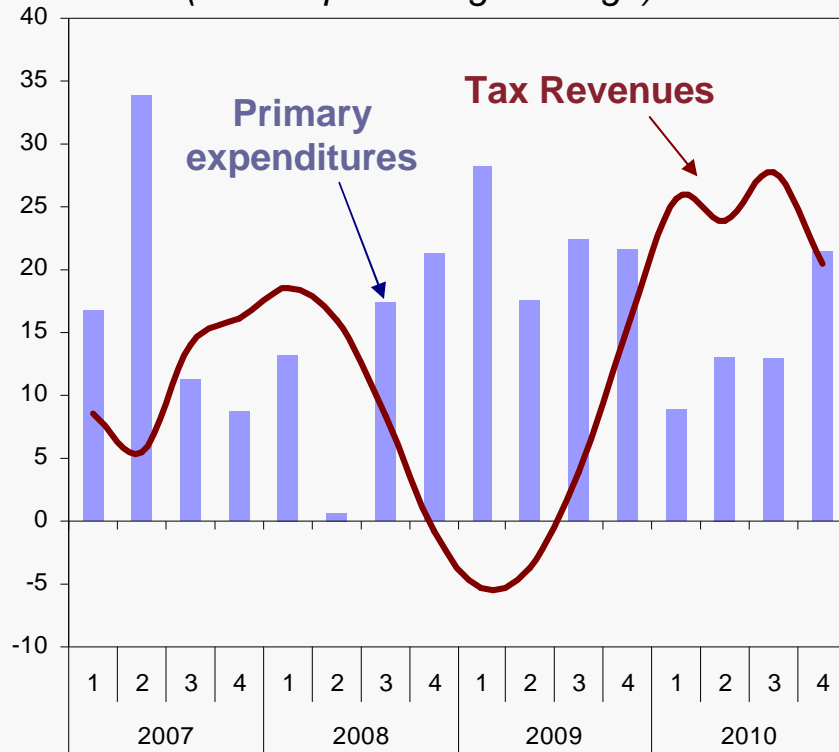


Source: TURKSTAT, CBT

Public Finance

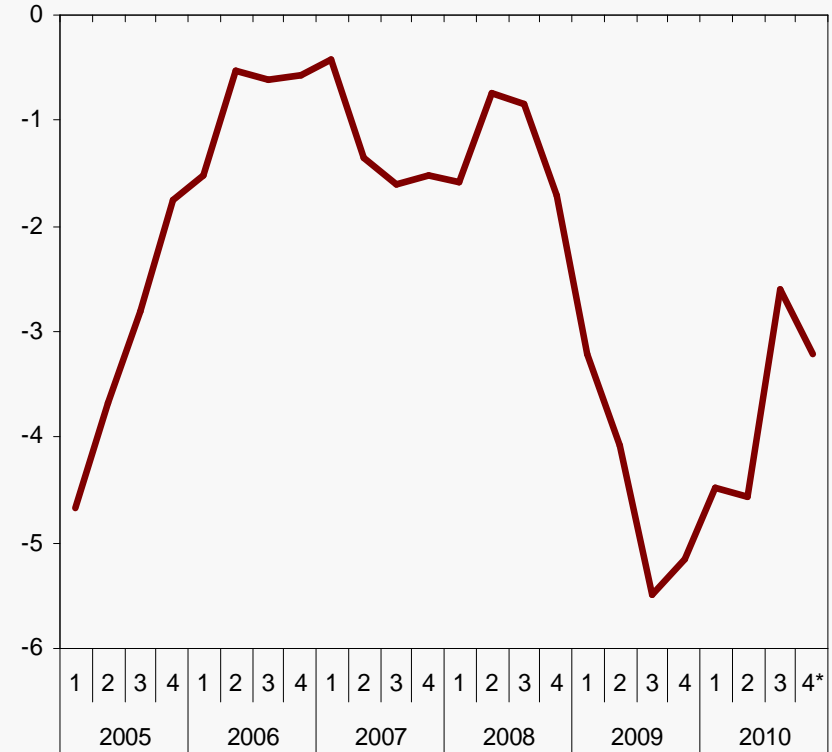
Robust economic recovery led to an increase in tax income, a portion of which was used to reduce public debt. This had a positive impact on expectations for the maintenance of fiscal discipline.

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



Source: Ministry of Finance , CBT

Treasury Cash Balance
(Ratio to GDP, percent)



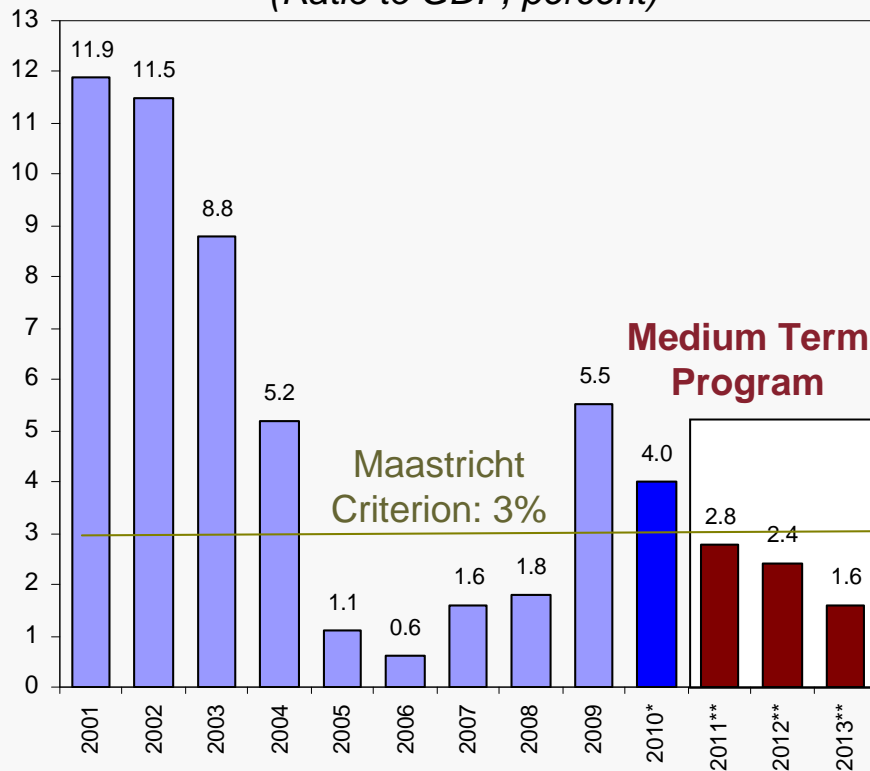
*Forecast

Source: Undersecretariat of Treasury, TURKSTAT, CBT

Public Finance

It is envisaged that the ratio of budget deficit to GDP will fall behind the Maastricht criterion in 2011 and the decline in public debt stock will continue in the period 2011-2013.

Central Government Budget Deficit
(Ratio to GDP, percent)

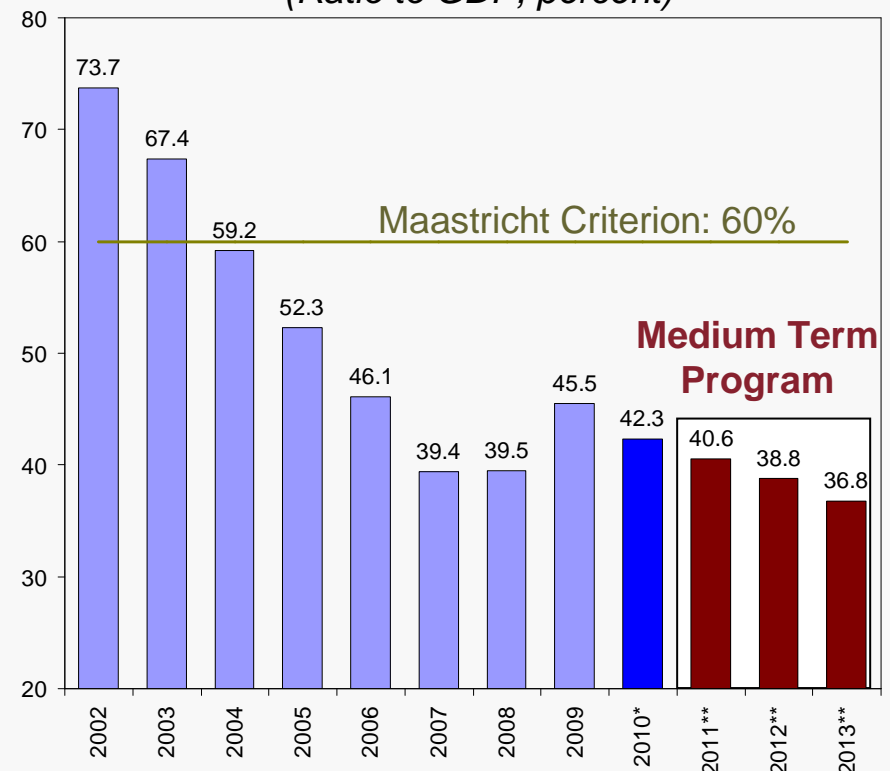


* Forecast

** Medium Term Program Targets (2010 -2013)

Source: Ministry of Finance, Medium Term Program

EU-Defined Public Debt
(Ratio to GDP, percent)



* Forecast

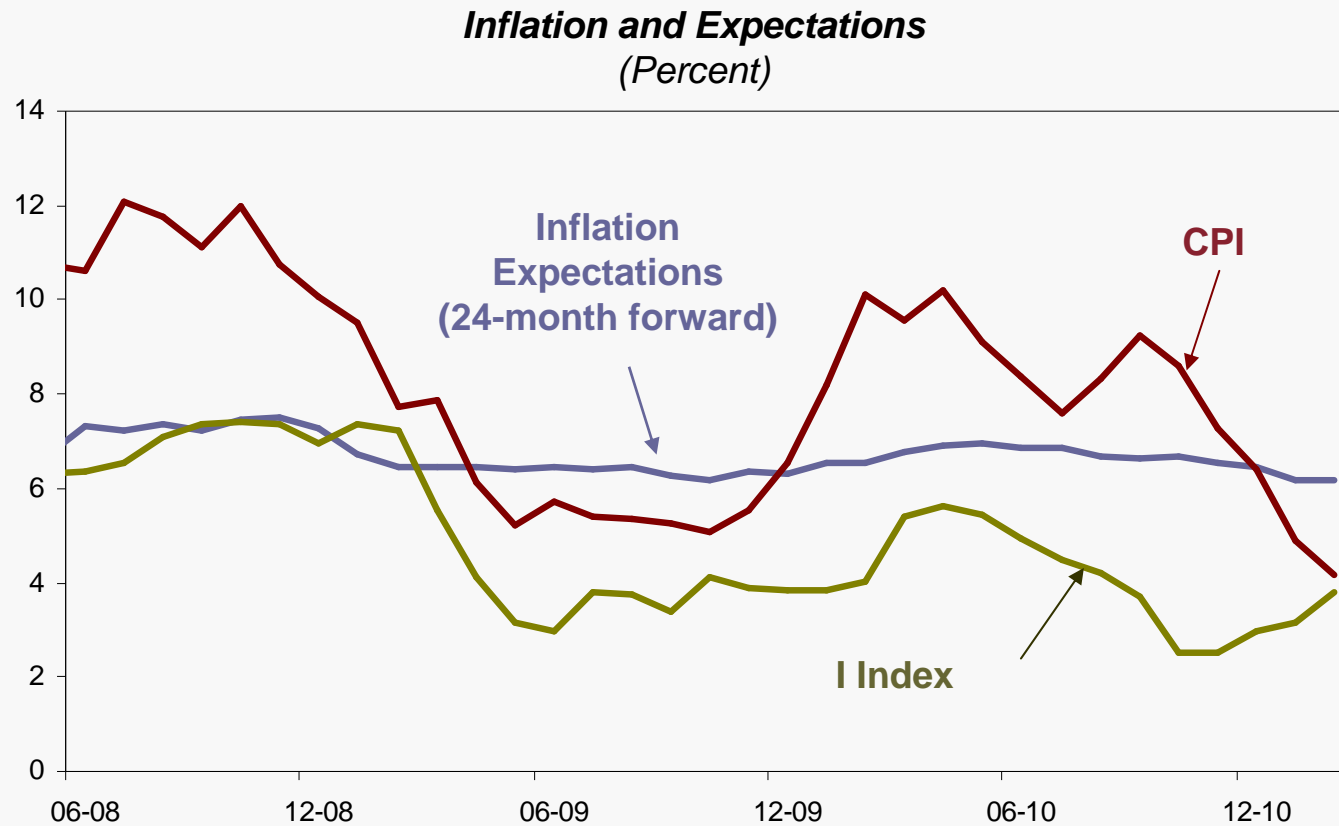
** Medium Term Program Targets (2010 -2013)

Source: Undersecretariat of Treasury, CBT

III. Inflation Developments

Inflation Developments

Despite supply-side shocks in energy and food prices, no deterioration is observed in pricing behaviors; core inflation indicators remain consistent with medium term targets.

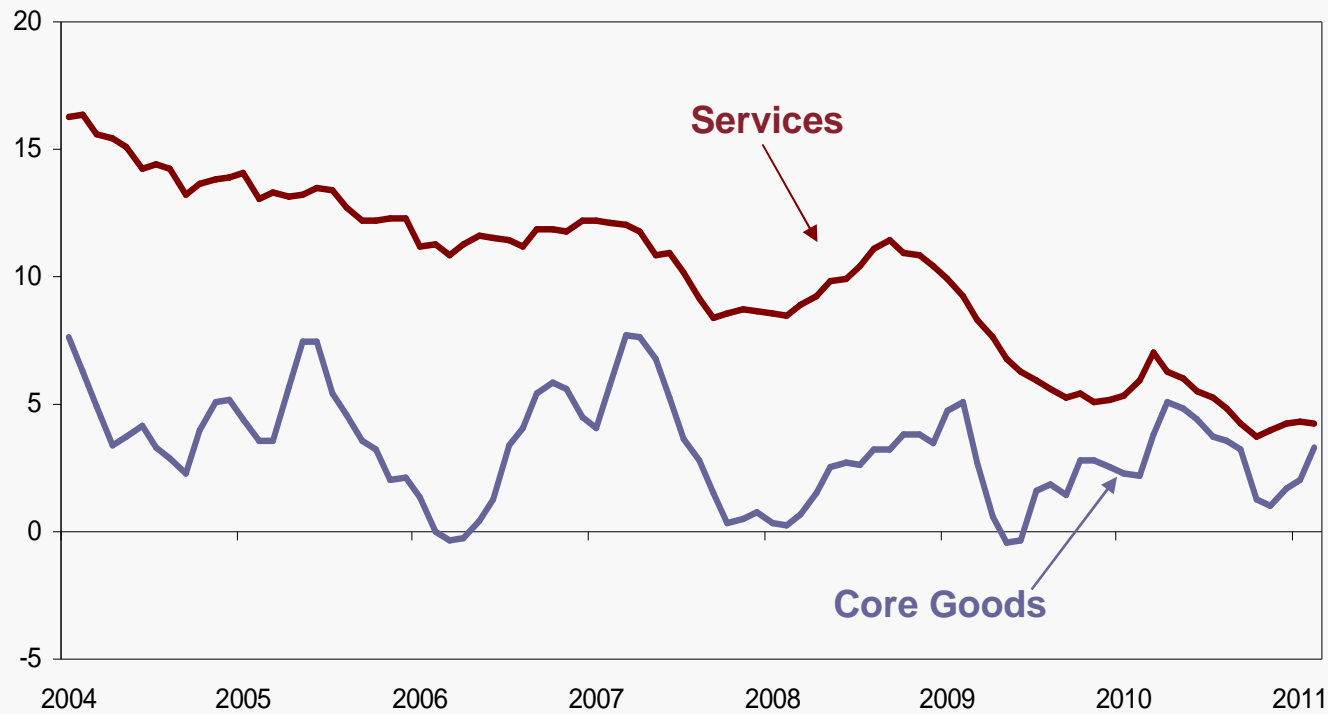


Source: TURKSTAT, CBT

Inflation Developments

Services inflation remains subdued. Core goods inflation increased slightly on the back of the rise in import prices.

Goods and Services Inflation
(Percent)

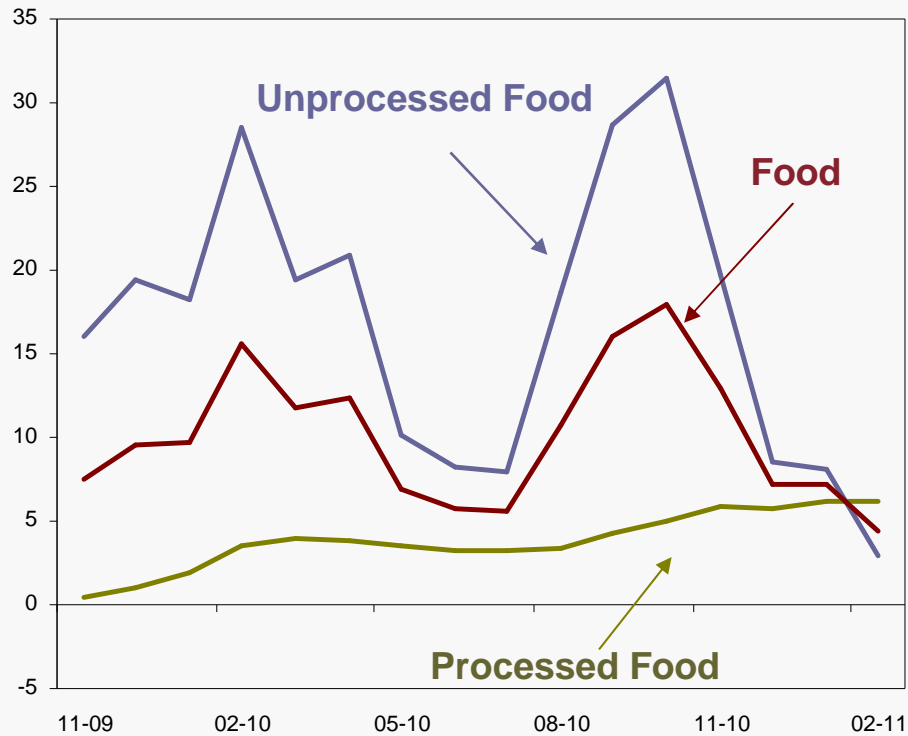


Source: TURKSTAT, CBT

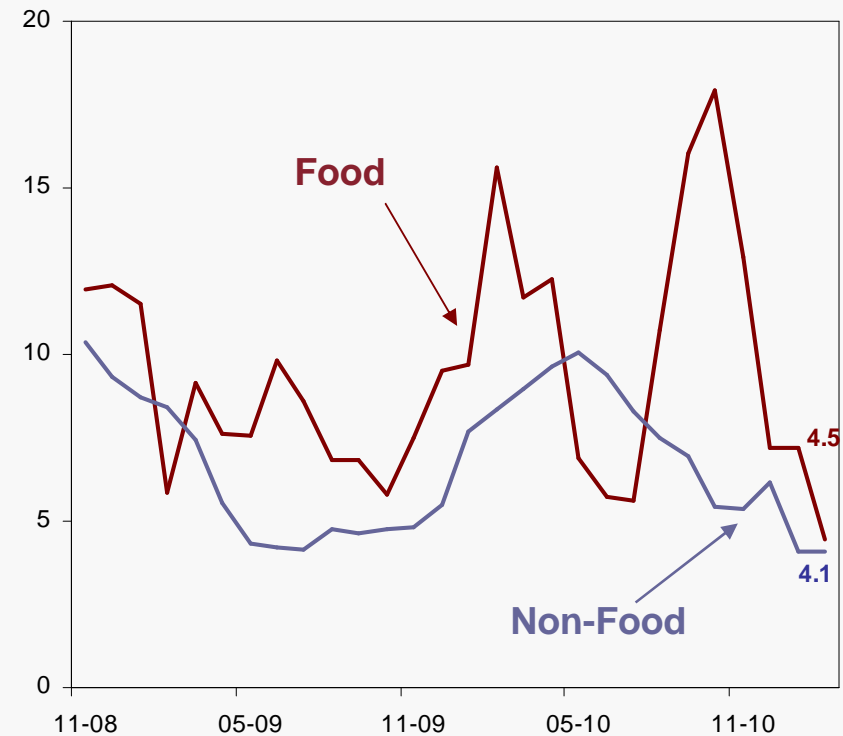
Inflation Developments

Processed food inflation is predicted to rise gradually in the upcoming period in line with the upward trend in global food prices.

Inflation in Food Prices
(Percent)



Source: TURKSTAT, CBT



Source: TURKSTAT, CBT

IV. Monetary Policy

Need for New Policy Tools

- It is essential for the sake of financial stability that the rapid recovery in economic activity since mid-2009 follows a more stable course in terms of domestic and external demand in 2011.
- Measures taken by the Central Bank since November aim to reduce macro-financial risks by leading to a more balanced growth path, mainly through a slowdown in import growth.
- Besides, monetary tightening would restrain domestic demand side pressures on inflation.

Diversification of Policy Tools

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

Phases in Monetary Policy

- **Phase-1** : Full Liquidity Support (after the collapse of Lehman Brothers, September 2008)
- **Phase-2**: Monetary Exit Strategy (April 2010)
- **Phase-3** : New Policy Mix (starting from November 2010)

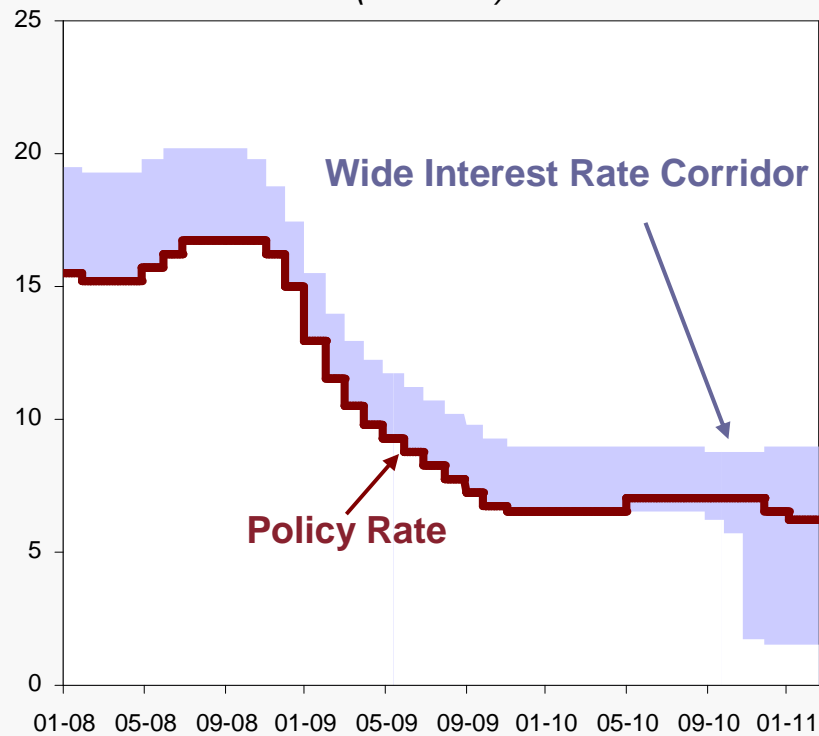
Financial Stability: Objectives

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

Policy Rate and Reserve Requirement Ratios

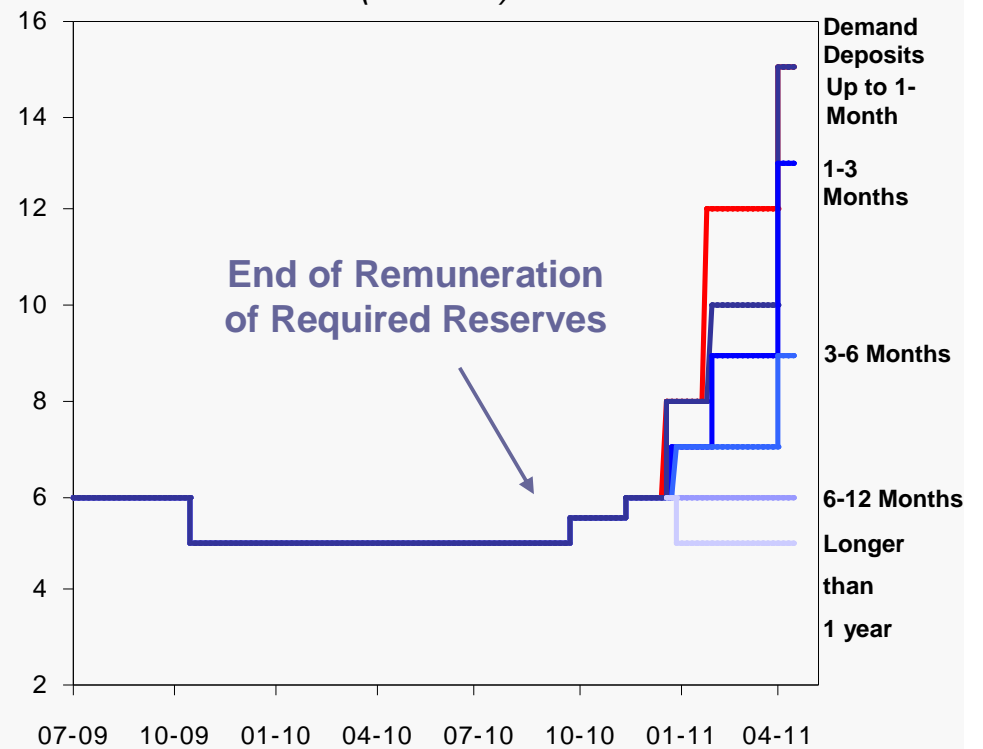
The CBT will closely monitor the tightening impact of the implemented policy mix, consisting of a low policy rate, a wide interest rate corridor and high reserve requirement ratios, and will take additional measures along the same line, if needed.

**Policy Rate and Interest Rate Corridor
(Percent)**



Source: CBT

**Reserve Requirement Ratios
(Percent)**



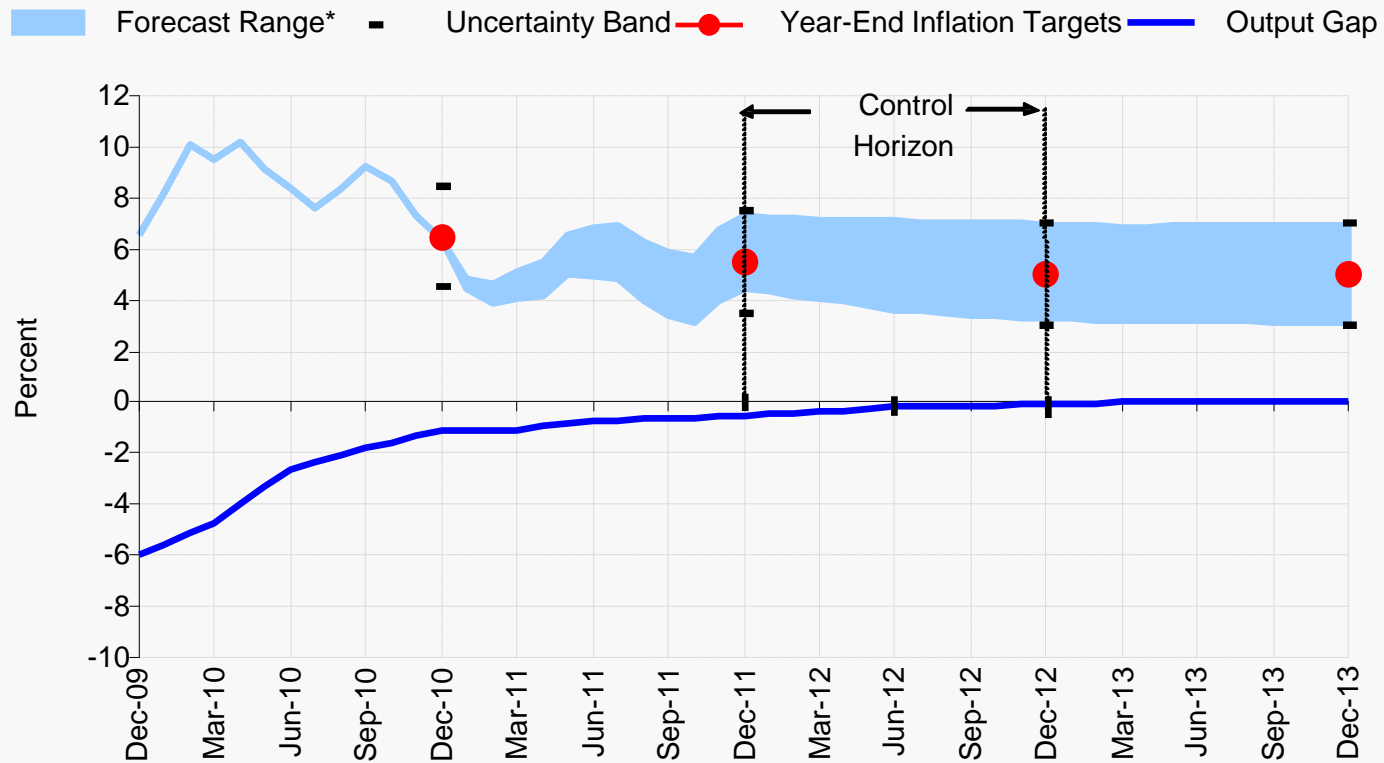
Measures by Other Authorities

- Fiscal discipline
- No FX indexed loans to households
- Initiating domestic currency bond issuance
- Loan/value restrictions
- Tax hikes on certain consumer loans
- Restrictions on credit card borrowing

Price Stability

Inflation is predicted to be slightly above the year-end target of 5.5 percent due to rising energy and other commodity prices.

Inflation and Output Gap Forecasts



Source: CBT

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