# Central Bank of the Republic of Turkey

# 77th SHAREHOLDERS' ORDINARY GENERAL MEETING OPENING SPEECH


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## I. Introduction

1. Esteemed Shareholders, Distinguished Guests and Members of the Press, welcome to the 77th Shareholders' Ordinary General Meeting of the Central Bank of the Republic of Turkey.

2. I would like to start my presentation with a brief evaluation of the international financial crisis, which is not only deepening and growing more widespread, but also affecting real economies more seriously every day. Later on, I will summarize the key macroeconomic developments that took place in Turkey in 2008 and then I will share with you my evaluations pertaining to inflation developments and monetary policy implementations.

## II. Global Economic Developments

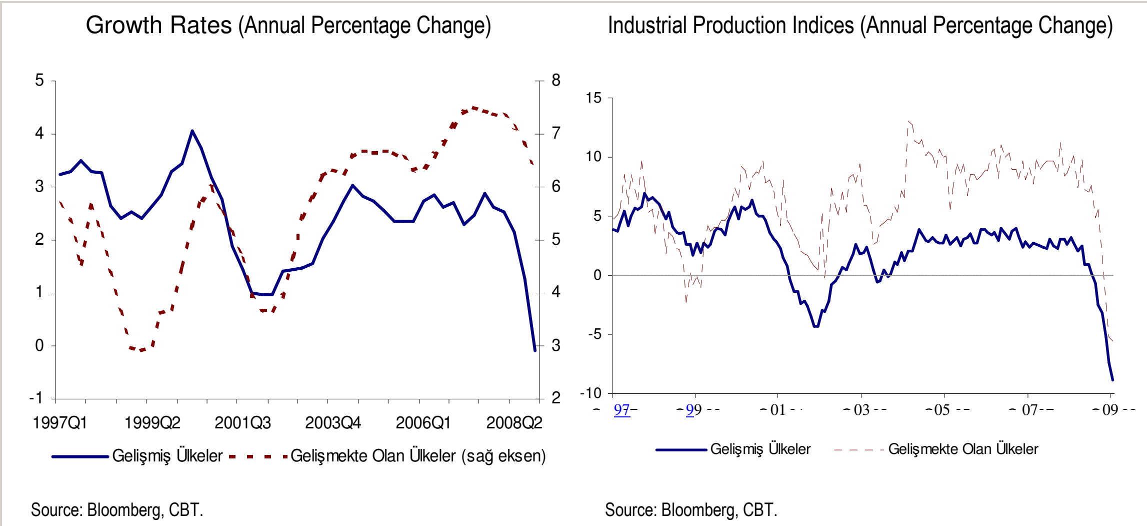
3. The global financial crisis that emerged in the US subprime mortgage market in August 2007, spread to the money and capital markets and became deeper following the bankruptcy of several large financial institutions in the US in September 2008 and the repercussions of the crisis on global financial markets still continue. Moreover, financial turmoil has started to adversely affect the corporate sector too and many countries especially developed countries went into recession, which resulted in economic slowdown becoming more evident globally.

4. While uncertainties regarding the magnitude and severity of the global economic downturn still persist, the liquidity crunch, which emerged as a result of the deterioration in risk perceptions and loss of confidence, was broadly remedied by the coordinated massive interventions of central banks and government authorities. The liquidity operations of the central banks of developed countries and especially the Federal Reserve continued with further expansion to cover new distressed assets.

5. Despite all the measures taken, the sharp drop in confidence driven by the global financial turmoil has started to dampen economic activity on a global scale leading to a significant decrease in growth rates. While the slowdown in global growth became more apparent in the third quarter, indicators related to

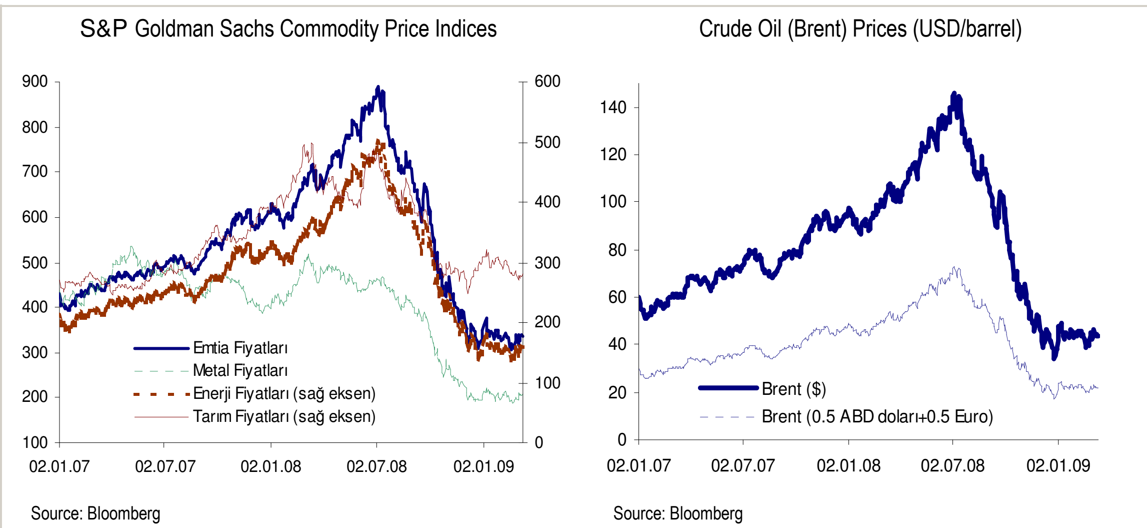
the fourth quarter suggest that the slowdown further intensified and developed countries generated negative growth rates.

**Growth Rates and Industrial Production Indices of Developing and Developed Countries**




6. Commodity and energy prices, which had rapidly been increasing since early 2008, started to plummet as of the final quarter of 2008 due to weaker demand in developing countries and deterioration in the global growth outlook.

**Commodity and Crude Oil Prices**



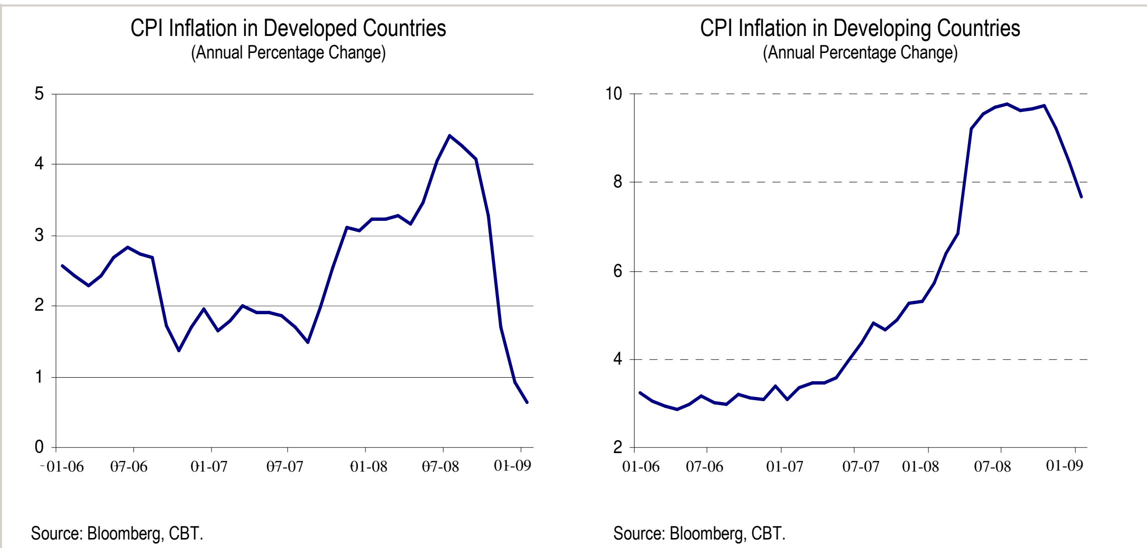

7. After having rallied and played a major role in boosting global inflation in the summer of 2008, international food prices started to fall rapidly as of the third

quarter of 2008, along with the slowdown in the global economy, the increase in wheat production and the productivity gains in overall grain production. Likewise, prices of basic metals heavily used in industry and construction displayed a significant decline due to the economic downturn especially in industrialized countries.

8. After climbing to a record high of USD 145.7 per barrel in July 2008, international (Brent) crude oil prices began to tumble as of the beginning of the third quarter of 2008 amid reduced demand from industrialized countries. The global oil demand fell in 2008 for the first time since 1983. In the face of falling oil prices, OPEC decreased oil supply to counteract the decline in demand and thus, oil prices assumed a relatively stable course as of early-2009.

9. As a consequence of the economic slowdown spreading across the world, global inflation plummeted. Weakening global demand coupled with rapidly falling international commodity and energy prices caused sharp declines in global inflation figures. The downtrend in CPI inflation of developed countries has recently intensified. The CPI inflation of developing countries has started to display a similar trend.

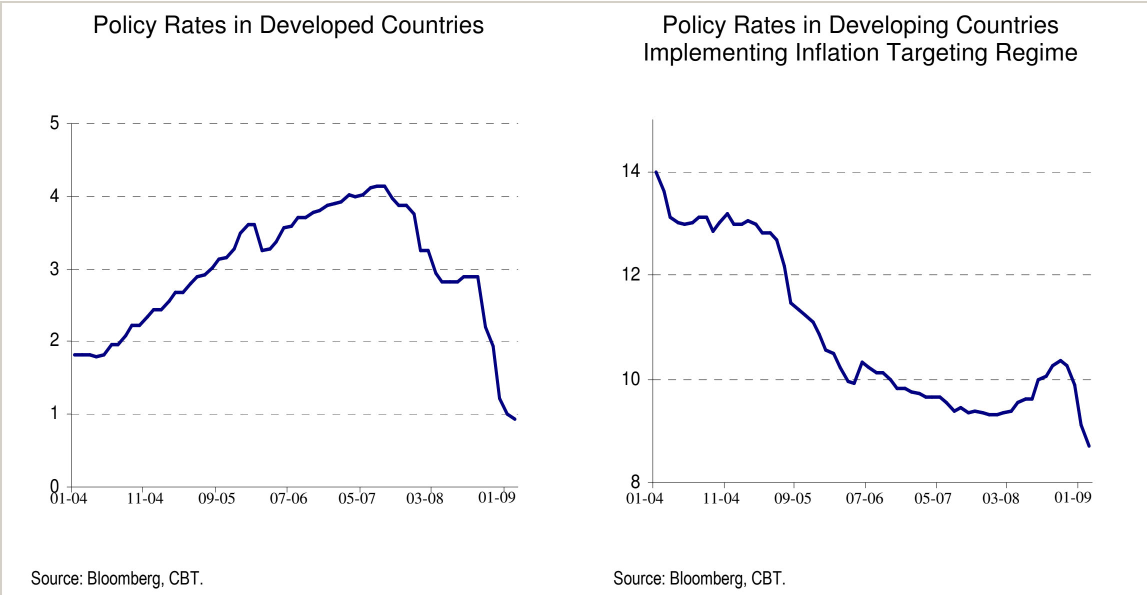
**CPI Inflation in Developed and Developing Countries**




10. In 2008, with the aim of remedying the distress in financial markets, developed countries, especially the US, took measures to increase liquidity and eased policy rates gradually as of the second half of 2008. Amid sudden sales in capital markets and depreciation of local currencies, developing

countries opted to implement a cautious monetary policy at the onset, however, they followed the developed countries and later cut policy rates by large margins after seeing the rapid slowdown in economic activity and slump in commodity prices.

**Policy Rates in Developed Countries and Developing Countries Implementing Inflation Targeting**

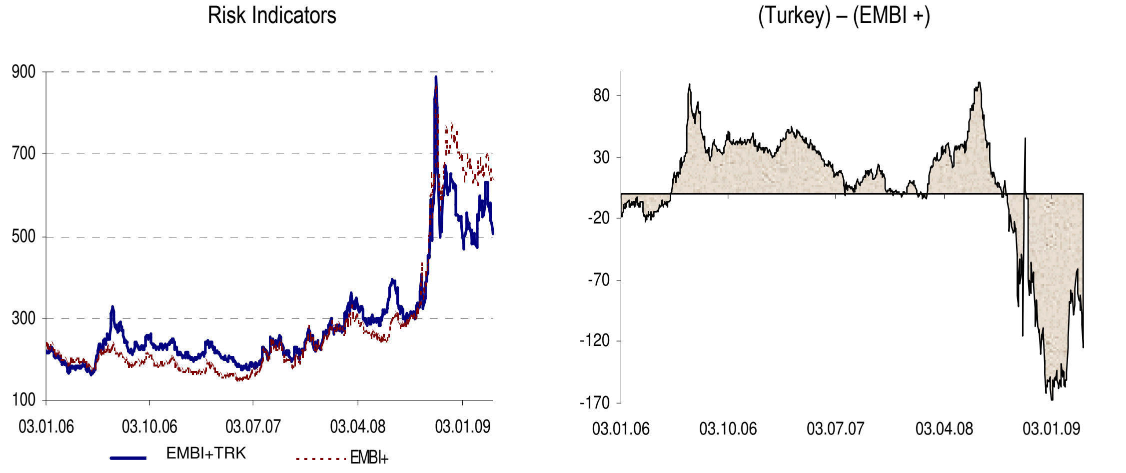



11. After summarizing the developments in the global economy in 2008, now I would like to move on to the effects of the global financial crisis on our economy and the key macroeconomic developments in Turkey.

## III. Developments in Turkish Economy

12. The bankruptcies of several important financial institutions in September 2008 and the spreading fear of recession across the globe and especially in developed countries led to severe deterioration in risk perceptions in developing countries, including Turkey and emerging markets, and caused the risk premium to climb.

**Risk Indicators**



Source: Bloomberg.

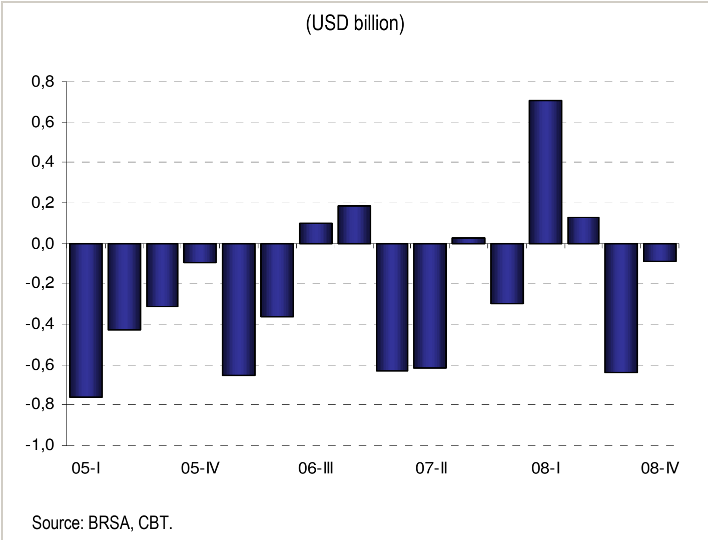
Source: Bloomberg.

13. The risk indicators of the Turkish economy followed a course parallel to those of other developing countries in the August 2007 - October 2008 period and started to become more positive as of October 2008. This development denotes that our economy has become more flexible and resilient in the face of international shocks.

Distinguished guests,

14. The key factor enhancing the resilience of our economy to the global crisis is the stability achieved in our financial system. Since the emergence of the global financial crisis, unlike its emerging market peers, the Turkish banking system has not required a cash stimulus plan. The restructuring plans and reforms, which were put into practice in the aftermath of the 2001 financial crisis at the cost of imposing a heavy burden on the public budget enhanced the Turkish banking system's resilience to shocks compared to banking systems of other countries. Balance sheets free of distressed foreign assets, the strong level of capital adequacy ratios and significantly low levels of FX short positions of the banks facilitate the resilience of Turkish banks.

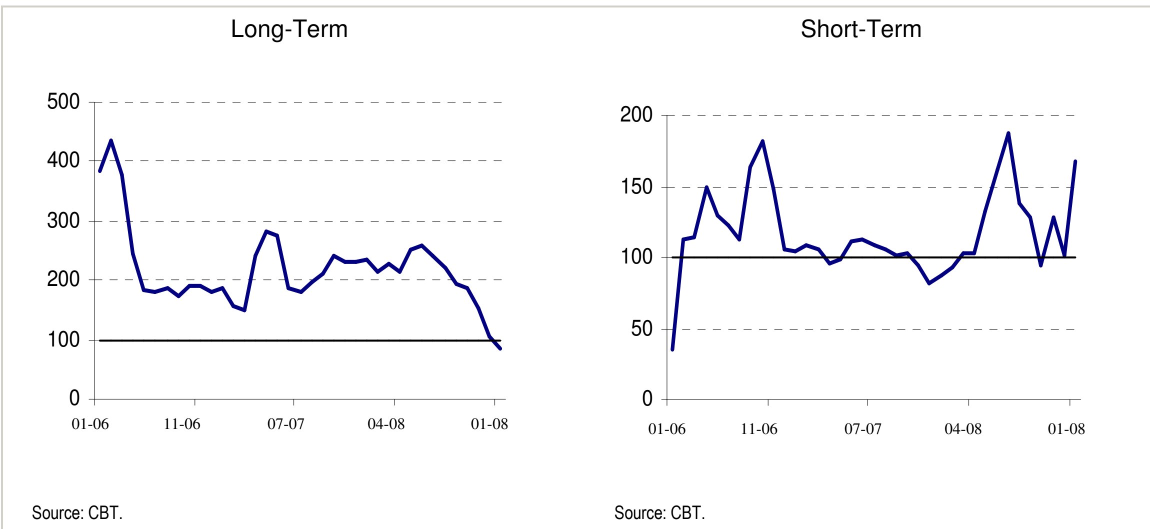
**Net Overall FX Position of the Banks**




15. The global financial crisis makes foreign financing conditions tighter. As financing facilities became more limited, the volume of credits extended to domestic companies by foreign banks has decreased. Long-term borrowing opportunities for companies have been decreasing since the second half of 2008. Meanwhile, it is observed that short-term credits utilized by companies increased in 2008 compared to the previous year.

**Ratio of Companies' Short and Long-Term Credit Utilization to Capital Payments (Percent)**

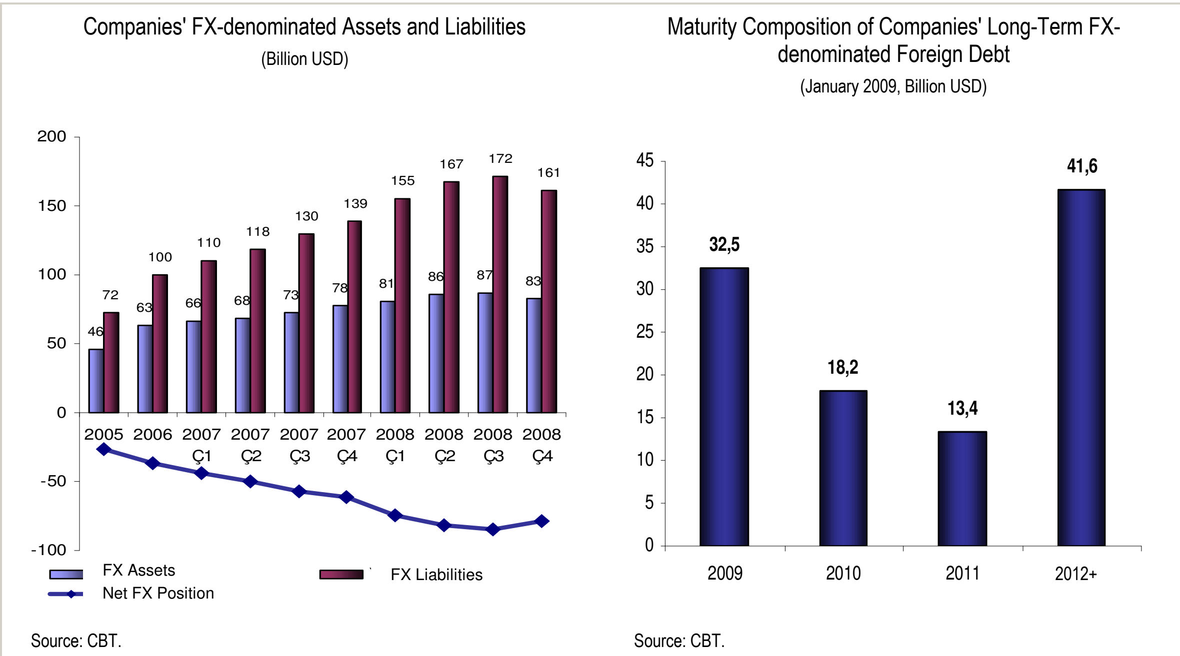
(Quarterly Cumulative)



16. The sharp contraction in domestic and foreign demand driven by global economic developments affects the balance sheets of companies. As borrowings by small and medium-scale enterprises are predominantly TL-denominated, the exchange rate risk borne by these companies is limited. According to the company accounts published by the CBT, 75 percent of small and medium-scale enterprises do not have FX-denominated debt.

17. It is observed that FX-denominated loans are utilized mostly by large-scale enterprises and export oriented manufacturing companies. The FX short positions of companies, which was USD 61 billion at the end of 2007, increased to USD 85 billion by the third quarter of 2008, and fell to USD 78 billion in the last quarter of 2008. The maturities of companies' FX-denominated loans are relatively long.

**Companies' FX-denominated Short Position and Maturity Composition**

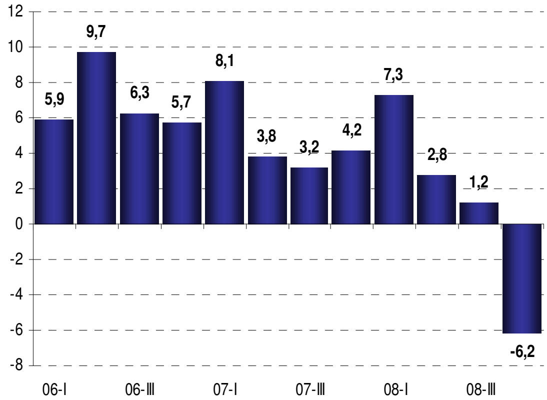



Distinguished Guests,

18. Uncertainties spurred by the global financial crisis led to decreases in investment and consumption expenditures on a global scale. Fuelled by growing problems in the global economy, financing conditions -both domestic and foreign- became tighter and on the back of the contraction in domestic demand, GNP growth started to decelerate as of the second quarter of 2008 and economic activity plummeted in the last quarter.

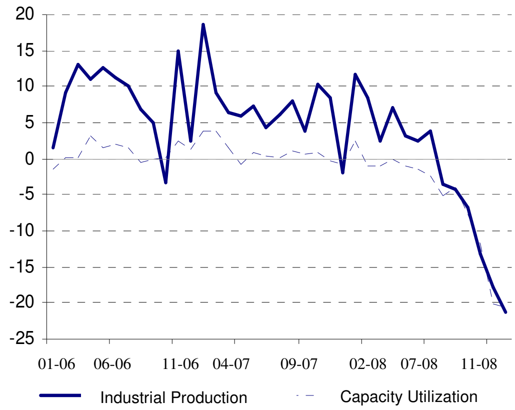
**GNP Growth, Industrial Production Index and Rates of Capacity Utilization**

GNP Growth
(Annual Percentage Change)




Source: TURKSTAT

Industrial Production Index and Rates
of Capacity Utilization
(Annual Percentage Change)

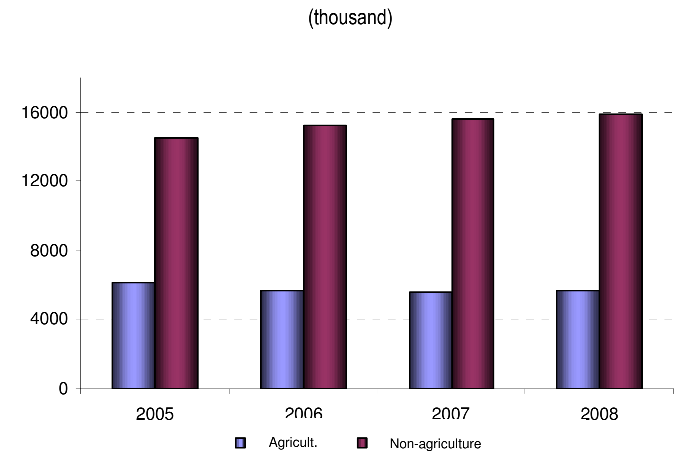



Source: TURKSTAT

19. While the GDP increased by as much as 7.3 percent in annual terms in the first quarter of 2008, growth rates dropped in the second and third quarters to become 2.8 percent and 1.2 percent respectively, due to the global financial crisis that started to take its toll on the Turkish economy. In the last quarter of the year, the growth rate posted a negative figure and became minus 6.2 percent. Thus, the growth rate for 2008 overall became 1.1 percent. While the contribution of special consumption and public expenditures to growth remained limited in 2008, the added contribution of net exports that rose in line with the slowdown in import demand since the second quarter of the year partially restrained the deceleration of growth.

20. The transformation that the Turkish economy underwent in the post-2001 period has caused major changes in the employment structure. While 35 percent of the total employed population was recruited in the agricultural sector in 2002, this ratio fell to 25 percent in 2007. With the recent economic slowdown, this trend reversed temporarily.

**Sectoral Distribution of Employment**



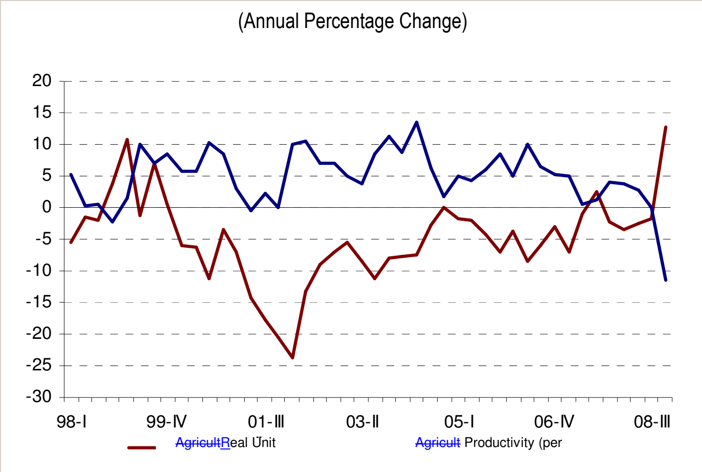
Source: TURKSTAT

21. The process of demographic change in Turkey leads to an increase in the share of working population in overall population and this, in turn, results in the unemployment rate manifesting a certain level of rigidity. However, the recent rise in the unemployment rate is mainly attributable to cyclical factors rather than structural agents. The economic stagnation in 2008 increased the labor force participation rate while curbing the pace of unemployment growth; hence the unemployment rate elevated.

22. Creating new employment opportunities for the growing labor supply is, without a doubt, largely contingent upon the implementation of reforms that would increase resilience and reduce costs in the labor markets. These reforms will also assist in the solution of problems in our social security system by promoting registered employment.

23. Productivity in the manufacturing industry picked up significantly in the post-2001 period. However, it decelerated in line with the easing of economic growth since 2007 and took a sharp plunge in the last quarter of 2008 due to the considerable drop in production. Real unit wages increased at a significant pace in the last quarter of the year, mainly owing to the significant decline in productivity. I would like to underline that the implementation of regulations promoting the investment environment and supporting productivity in the medium term is of great importance for real unit wages to contribute to the disinflation process, as well as the competitiveness of Turkey.

**Productivity and Real Unit Wages in the Manufacturing Industry ***

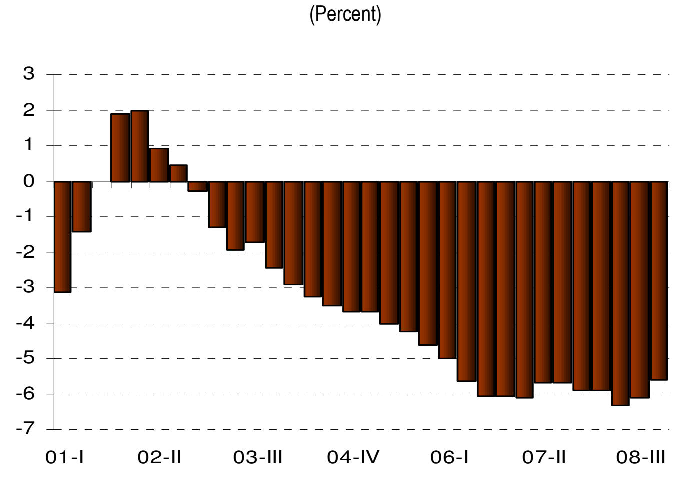



*1997 = 100.
Source: TURKSTAT, CBT.

24. The upward trend both in exports and imports continued in the third quarter of 2008. Recent rises in Turkey's export performance have been replaced, especially since the last quarter of 2008, by a rapid decline due to shrinking global trade and easing foreign demand as a result of global financial turmoil. In 2008, exports outperformed the previous year by a margin of 22 percent and became USD 140.8 billion, owing to basic metal, refined petroleum and vehicles exports. Likewise, imports also took a sharp plunge in response to the easing of domestic demand in the last quarter of the year. Despite the remarkable deceleration in the last quarter of 2008, imports increased by 19.5 percent relative to the previous year and became USD 193.7 billion in overall 2008, due to significant hikes in prices of crude oil and natural gas, refined petroleum, basic metal and chemical products. On balance, foreign trade deficit became USD 52.9 billion.

25. Tourism revenues continued to pick up in 2008 despite the unfavorable effects of the global financial crisis and made an added contribution to the services balance. However, as the increases in tourism revenues lagged behind the expansion of the foreign trade deficit, the current account deficit widened to USD 41.4 billion in 2008. The ratio of the current account deficit to GDP narrowed from 5.9 percent in 2007 down to 5.6 percent in 2008.

**Current Account Balance / GDP***



* Annualized data.
Source: CBT.

26. In the last quarter of the year, when the effects of the global financial crisis started to be felt heavily, private sector long-term debt rollover ratio posted a remarkable decline. Additionally, direct investment inflows declined to their lowest level of the year and portfolio investments recorded net outflows.

27. The extensive structural reforms introduced in the post-2001 (economic) crisis period have helped achieve a more effective and sound operation of the credit mechanism. Expectations of the banking system and of individuals have improved and, in return, the maturities of credits have extended and the volume of credits has increased. The stability attained in economic activity and in the financial system, rapid decline in the public debt stock owing to the fiscal discipline, prudent monetary policy implemented under the inflation targeting regime and rapid integration of the Turkish financial system with the global financial system have made a major contribution to the Turkey's financial system gaining depth.

28. As a consequence, credit volume has entered a significant upward trend recently. However, this trend started to weaken in 2008 with the effects of the global crisis being felt in Turkey and reversed in the last quarter of the year.

| Consumer Loans and Claims from Credit Cards (Quarterly Real Percentage Change) | | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | **2008** | | | |
| | **III** | **IV** | **I** | **II** | **III** | **IV** |
| **Consumer Loans** | 10.0 | 6.6 | 5.6 | 4.8 | 6.7 | -4.9 |
| **Housing** | 10.2 | 5.4 | 6.5 | 4.2 | 4.1 | -4.2 |
| **Automobiles** | -2.0 | -1.4 | -4.5 | -1.9 | 0.2 | -11.9 |
| **Other** | 12.8 | 9.9 | 6.7 | 6.7 | 10.4 | -4.5 |
| **Credit Cards** | 2.4 | 3.2 | 2.2 | 5.9 | 5.4 | 1.2 |

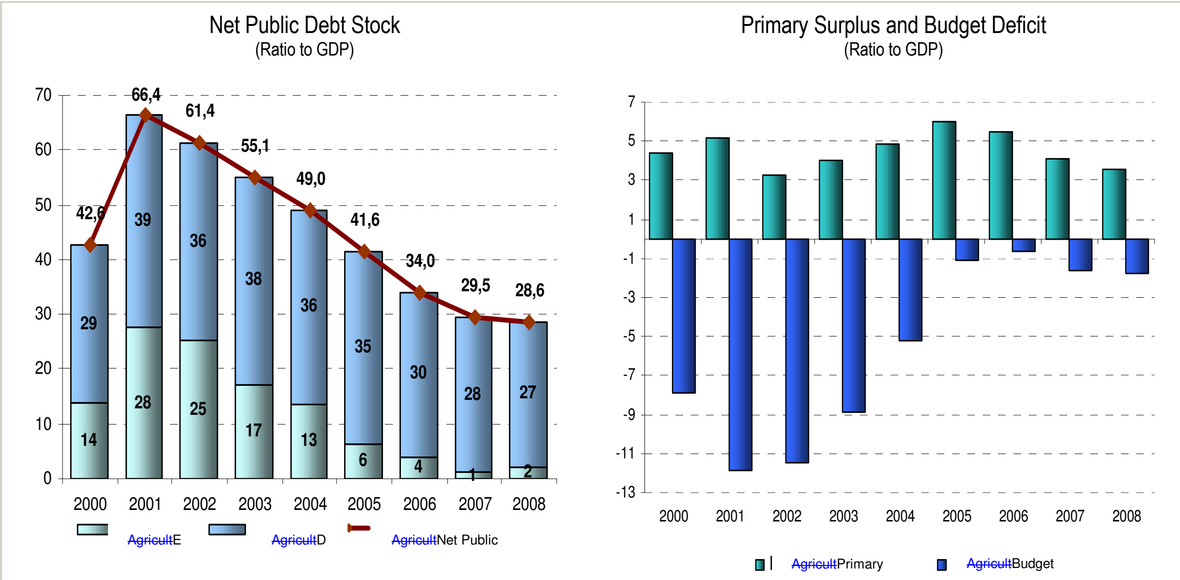
Source: CBT

29. Contraction of the credit volume mirrors both supply and demand side developments. Risks related to reflections of the global economic turmoil, on the one hand, curtail household and corporate credit demands by increasing precautionary saving behaviors and, on the other, cause banks to remain prudent on lending. Although recent measures are believed to bring relief to the credit mechanism, a significant acceleration in credit volume is not expected until the problems in the global economy are overcome.

Distinguished Guests,

30. Public financial policies that have been implemented in Turkey since 2002 are aimed for reducing the ratio of debt stock to national income, therefore to enhance the efficiency of monetary policy by eliminating fiscal dominance. In this period, the target for total public-sector primary surplus emerged as the key parameter of fiscal policy. As I have already mentioned, budget deficits exhibited a marked decrease owing to the resolute implementation of the stability program and maintenance of fiscal discipline in the post-2001 crisis period. Besides, the ratio of total public net debt stock to GDP decreased, also supported to a large extent by the attainment of the high primary surplus targets.

**Total Net Public Debt Stock and Central Government Budget Deficit and Primary Surplus**




Source: Ministry of Finance. Undersecretariat of Treasury.

Source: Ministry of Finance. Undersecretariat of Treasury.

31. Failure to meet the primary budget balance target in 2008 was largely due to the sharp reduction in tax revenues driven by the fourth-quarter contraction in domestic demand and the increases in budget expenditures.

32. Countries face major cutbacks in production amid slumping total demand and limited access to credit, due to the widening and deepening of the global financial crisis. Thus, it is essential that countries adopt strong fiscal rules that will reduce the adverse effects of the global financial crisis on production and help maintain sustainable economic growth in the medium term. For a counter-cyclical fiscal policy designed for times of economic contraction to be successful and generate a favorable impact on economic policy expectations, it needs to make strong commitments to maintain fiscal discipline in the medium-term. A fiscal policy based on such a framework will increase efficiency of monetary policy by contributing to a decline in medium-term interest rates and the effective functioning of the credit mechanism.

Esteemed Guests,

33. In the last part of my speech, I would like to touch upon the monetary policy strategy that we follow in a fast-changing global conjuncture and in an environment of uncertainty. Let me, first of all, give an evaluation of inflation developments and monetary policy implementations within the scope of the inflation targeting regime. Then, I will refer to the measures taken to minimize

the adverse effects of the global financial crisis on the Turkish economy and the stability of our fiscal system.

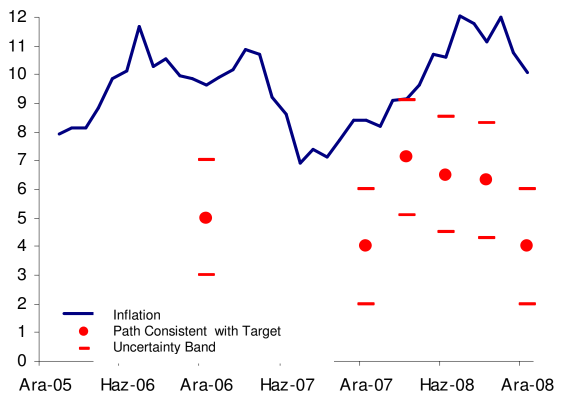
## IV. Inflation Developments and Monetary Policy Implementations

34. Global price hikes in commodities, chiefly in food and oil prices, observed since the adoption of the inflation targeting regime in 2006 have been determinant on inflation developments. Besides, global liquidity conditions turned against emerging markets in the period of May-June 2006, and exerted pressure on their risk premiums and exchange rates. As a result, the effects of the supply shocks began to be felt more heavily.

35. In this period, the Central Bank adopted strong monetary tightening and largely contained inflation realizations and expectations. However, the global rise in inflation in 2007 continued to affect domestic consumer inflation adversely. Inflation expectations followed a similar course with inflation developments; the improvement of expectations on the heels of the inflation targeting regime was interrupted in the periods of supply shocks and global turbulences.

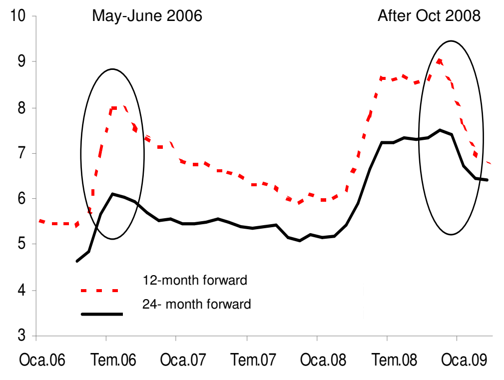
**Annual CPI Inflation, Target Path and Inflation Expectations**

Annual CPI Inflation and Path Consistent with the Target




Source: TURKSTAT. CBT.

Inflation Expectations (2006 January-2009 March Period-Percent)




Source: CBT.

36. The adverse effects of supply factors intensified in the first half of 2008. The said shocks became more likely to persist and the risks related to second-round effects became more pronounced. Besides, surveys conducted by the Central Bank have established that economic units tend to refer to the past inflation rate more frequently while building up their expectations and that the

capacity of current inflation targets in shaping expectations have diminished considerably.

37. All these developments indicated that the conditions for changing inflation targets announced in the General Framework of the Inflation Targeting Regime and Monetary and Exchange Rate Policy for 2006 were fulfilled. Accordingly, the Central Bank proposed to revise the targets in its open letter to the Government on 3 June 2008 and agreed to set new inflation targets for 2009 and 2011 jointly with the Government. Within this framework, inflation targets for 2009 and 2010 were revised to 7.5 percent and 6.5 percent, respectively and the target for the year 2011 was set at 5.5 percent. The revision of inflation targets simultaneously with monetary tightening, contributed significantly to containing inflation expectations in the following period.

**Inflation Targets**

(Annual CPI by the End of the Year)

| | Targets Before Revision | Targets After Revision |
|---|---|---|
| **2009** | 4 | 7.5 |
| **2010** | 4 | 6.5 |
| **2011** | - | 5.5 |

Source: CBT.

Esteemed Guests,

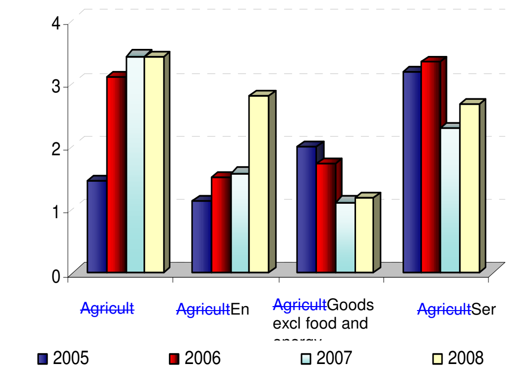
38. Aggregate demand has been in considerable decline since August due to the global financial crisis. In September and October, the high level of uncertainty stemming from global financial market turmoil led to significant depreciation of currencies in emerging markets. The exchange rate pass-through had a less striking impact on consumer prices in the short run than in previous years thanks to the economic slowdown and the decline in import prices. Thus, inflation entered a downward trend in late 2008 in line with the global trend.

39. Yet, the cumulative effects of supply shocks kept annual inflation at relatively high levels and inflation at end-2008 materialized above the target, at 10.1 percent. Elevated commodity prices exerted inflationary pressures all over the world and notwithstanding the downturn most of the emerging economies under inflation targeting faced breaches of their inflation targets at the end of 2008.

40. In terms of subgroups, more than 60 percentage points of inflation at end-2008 was driven by direct impact of the increases in food and energy prices. Despite the weakening of the Turkish lira, annual inflation in prices of goods excluding food and energy was down from the average of a year ago due to the sharp slowdown in economic activity.

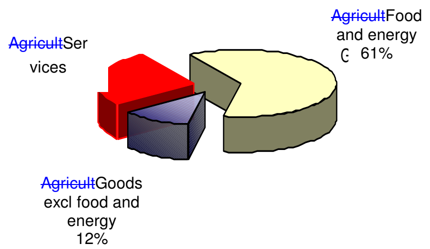
**Contribution to CPI Inflation**

Contribution to Annual CPI Inflation (2005-2008)
(Percentage Points)




Source: TURKSTAT, CBT.

Contribution to CPI Inflation in2008
(Percentage Points)

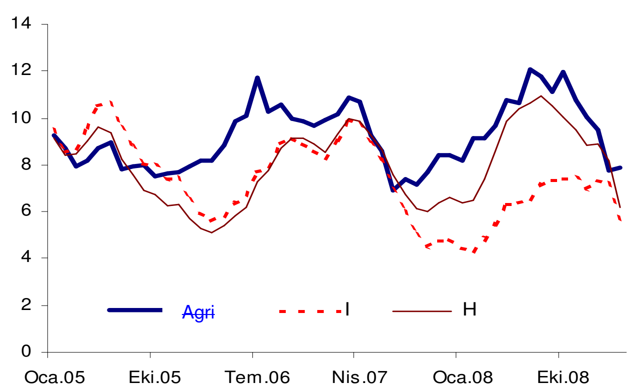



Source: TURKSTAT, CBT.

41. Inflation, excluding food and energy, has remained at remarkably low levels since 2006. Although following an elevated course in the first half of 2007 due to the secondary effects, the trend in core inflation reversed in the last quarter of 2008. Coupled with the slowdown in services inflation, this development is noteworthy as it indicates that the main trend of inflation is downward.

**Main Inflation Indicators and CPI Inflation**

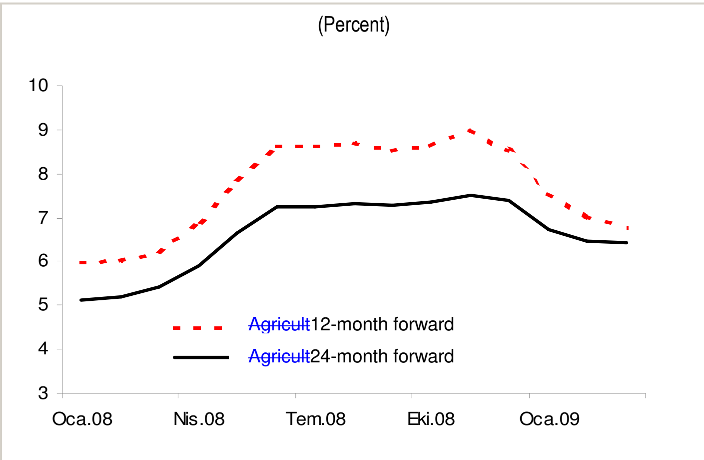
(Annual Percentage Change)




Source: TURKSTAT.

42. Inflation expectations, pursuing a parallel path to inflation developments throughout 2008, increased remarkably in the first half of the year and remained relatively unchanged following the announcement of the new inflation targets in June. As the disinflation process was backed by the demand and cost conditions, a noteworthy recovery was observed as of November. Medium-term inflation expectations have stood at fairly close levels to inflation targets as of April.

**Inflation Expectations in 2008**




Source: CBT.

43. The gradually deepening global financial crisis has stood as a factor of uncertainty. On the other had, it exerted downward pressure on inflation through commodity prices accompanied with easing demand. In this context, the downtrend in inflation, which started in late 2008, lasted through early 2009 due to decreasing pressures on the demand and cost sides. Annual inflation became 7.89 percent in March. Recently released data indicate that the sluggish trend in domestic and foreign demand still persists. It is envisaged that the recovery in economic activities will take time and that the accumulated decreases in the prices of oil and other commodities will have a favorable effect on inflation through energy and food prices. These are predicted to lead to a further continuance of downward trend in inflation. Availing myself of this opportunity, I would like to remind you that we will provide the public with updated evaluations and forecasts regarding the medium term inflation outlook along with possible risks and policy measures in the Inflation Report to be published at the end this month.

44. The uncertainties regarding the global commodity and finance markets and risks related to their reflections on the inflation outlook required monetary policy to remain cautious until late 2008. Despite the slowdown in aggregate demand, the MPC decided to keep policy rates unchanged at the September and October meetings. Likewise, the central banks of developing countries adopted a cautious stance in the same period and maintained the monetary tightening trend launched in early 2008. In the following period, foreseeing that the marked deceleration in aggregate demand and the decline in commodity prices would adequately compensate for the pass-through from exchange rates to prices and that inflation would drop more than expected, the Central Bank launched a policy rate cut cycle as of November 2008.

**Monetary Policy Committee (MPC) Decisions**

| Dates for MPC Meetings | Decision on Interest Rates | Interest Rate* |
|---|---|---|
| **2006** | **+4.0*** | **17.50**** |
| **2007** | **-1.75*** | **15.75**** |
| **2008** | **-0.75*** | **15.00**** |
| 17 January 2008 | -0.25 | 15.50 |
| 14 February 2008 | -0.25 | 15.25 |
| 19 March 2008 | No change | 15.25 |
| 17 April 2008 | No change | 15.25 |
| 15 May 2008 | +0.50 | 15.75 |
| 16 June 2008 | +0.50 | 16.25 |
| 17 July 2008 | +0.50 | 16.75 |
| 14 August 2008 | No change | 16.75 |
| 18 September 2008 | No change | 16.75 |
| 22 October 2008 | No change | 16.75 |
| 19 November 2008 | -0.50 | 16.25 |
| 18 December 2008 | -1.25 | 15.00 |
| 15 January 2009 | -2.00 | 13.00 |
| 19 February 2009 | -1.50 | 11.50 |
| 19 March 2009 | -1.00 | 10.50 |

* Total change introduced throughout the year
** Year-end level
Source: CBT.

45. This cycle of policy rate cuts was accelerated as the released data indicated aggravation of the impacts of the global financial crisis on economic activities. It was also aimed at alleviating the effects of financial tightening thereby. In this period, the accuracy of the CBT's monetary policy decisions were confirmed by the inflation data. Moreover, market interest rates, backed by the improvement in risk perceptions, indicated a considerable decrease. All

these developments produced positive effects on inflation expectations. There was also a noteworthy improvement in medium-term inflation expectations.

46. At this point, it should be underlined that after the transition to the inflation targeting regime, the Central Bank responded differently to the sharp increases in exchange rates in two different periods. While the Central Bank had decided to exercise strong monetary tightening in May-June 2006 period following a global liquidity crisis, this time it opted for a controlled but rapid cycle of policy rate cuts. In contrast to the strong demand conditions observed in 2006, we are currently going through a process of relatively low levels of exchange rate pass-through under waning domestic and foreign demand conditions. This situation, accompanied by tight credit conditions, declining import prices and improving inflation expectations, facilitated non-inflationist policy rate cuts to be made.

47. In this environment of global financial crisis, the Central Bank, in order to prevent setbacks in international credit markets and the global economy from adversely affecting the functioning and stability of the financial system in Turkey and the country's economy in general, has taken the necessary measures in advance. The measures taken by the Central Bank are as follows:

48. Firstly, the Central Bank resumed its activities as an intermediary in the foreign exchange deposit markets in Foreign Exchange and Banknotes Markets on 9 October 2008. Considering the level of the banks' balance sheet aggregates, transaction limits in the said markets were revised as of 14 October and doubled as of 24 October, increasing to USD 10.8 billion in total. The announcement of such measures has raised confidence in the market and averted potential problems to be observed in foreign exchange liquidity flow.

49. Secondly, with a view to strengthening foreign currency positions of the banks, foreign exchange buying auctions were suspended as of 16 October 2008. Thus, the liquidity withdrawn from the foreign exchange market was kept within the system. In the following days, the loss of confidence in the international finance sector adversely affected global liquidity flow; particularly the demand for US dollar liquidity increased. This development led to the emergence of speculative price behaviors in Turkey's foreign exchange markets as well. Against this background, foreign exchange selling auctions were launched on 24 October 2008, the daily sales volume of which was USD

50 million. The said auctions were suspended on account of the favorable developments in the global markets on 30 October 2008. In this period, two auctions were held, through which a total of USD 100 million was sold. Accordingly, in view of ailing price movements in the foreign exchange market, foreign exchange selling auctions were resumed on 10 March 2009. The Central Bank suspended these auctions on 3 April 2009 as a result of easing concerns pertaining to the depth of the foreign exchange market, which was also facilitated by favorable developments in the global markets. In this period during which 18 auctions were held, a total of USD 900 million was sold.

50. Thus, net USD 7.5 billion was bought via buying and selling auctions throughout 2008. The Central Bank gross foreign exchange reserves became USD 71 billion by end-2008.

**The Central Bank Foreign Exchange Interventions and Auctions**
(Million USD)

| Year | Foreign Exchange Buying Auctions | Foreign Exchange Selling Auctions | Foreign Exchange Buying Interventions | Foreign Exchange Selling Interventions | Total Net Foreign Exchange Purchases |
|---|---|---|---|---|---|
| **2002** | 795 | - | 16 | 12 | 799 |
| **2003** | 5.652 | - | 4.229 | - | 9.881 |
| **2004** | 4.104 | - | 1.283 | 9 | 5.378 |
| **2005** | 7.442 | - | 14.565 | - | 22.007 |
| **2006** | 4.296 | 1.000 | 5.441 | 2.105 | 6.632 |
| **2007** | 9.906 | - | - | - | 9.906 |
| **2008** | 7.584 | 100 | - | - | 7.484 |
| **2009*** | - | 900 | - | - | -900 |

*The total amount sold in 18 auctions between 10 March and 2 April 2009.
Source: CBT.

51. As a third measure, as of 21 November 2008, the maturity of FX deposit borrowed by the Banks from the Foreign Exchange and Banknotes Markets-Foreign Exchange Deposit Markets in terms of USD and Euro has been extended from one week to one month. Besides, in the said market, the lending rate that was previously set as 10 percent has been reduced to 7 percent for USD and 9 percent for Euro. In view of recent developments relating to interest rates in international money markets, the Central Bank revised maturities and interest rates to be effective as of 20 February 2009. Hence, the maturity of FX deposit borrowings by banks from the Central Bank

was extended to three months. Additionally, the lending rate for transactions, which the Central Bank is a party to, was reduced to 5.5 percent for US Dollar and 6.5 percent for Euro. Accordingly, the maturity of interbank transactions in the said market was extended from a maximum of one month to three months.

52. As a fourth step, the FX required reserves ratio, which had been 11 percent, was reduced by 2 percentage points to 9 percent on 5 December 2008. Consequently, additional foreign currency liquidity that is equivalent to approximately USD 2.5 billion was provided to the banking system. Thus, to support the reverse dollarization process and to promote YTL deposits and loans, the remuneration on FX required reserves was terminated and the interest rate applied to YTL required reserves was increased.

53. The fifth measure was to increase the limit for pre-shipment and post-shipment export rediscount credits within the scope of the financing facility by USD 500 million to USD 1 billion on 5 December 2008. Besides, the utilization of these credits was facilitated through the revision of application guidelines and conditions for export rediscount credits. The motive behind this decision was to mitigate the adverse effects of global financial turmoil on the corporate sector. Following the announcement of this decision, the utilization of credits was embarked on in the last week of January and a credit of more than USD 400 million in total was utilized by the end of March. Considering total USD 1.7 million loan utilized in 2008, the Central Bank is believed to have considerably contributed to the financing of exports in a period of tight financing conditions.

54. Lastly, as the sixth measure, in early 2009, on 29 January, conditions for the Liquidity Support Facility offered to banks were revised. As you all know, Article 40 of CBT Law authorizes the Bank to extend credits to banks that are the subject of uncertainty and lack of confidence in the event of acceleration of fund withdrawals and uncertainty and lack of confidence in the banking system, in an amount to cover the withdrawal of funds, the conditions of which shall be determined by the Bank. The Central Bank Regulation on the Liquidity Support Facility governing the principles and procedures set forth for the utilization of credit facilities was posted on the CBT website. Accordingly, under extraordinary conditions, banks are allowed to utilize credits as advance payments up to an amount twice as much as their respective equity capitals at the Central Bank Interbank Money Market lending rate against collaterals acceptable at the said market with one-month maturity for a

rollover period not exceeding one year. Thanks to the sound structure and resilience of the banking system against exogenous shocks accompanied by the Central Bank's flexible and efficient liquidity management, there has been no need to resort to this instrument until now.

55. The inflation targeting regime, experiencing hard times in a period of deep global shocks, has been successfully implemented so far. In this period, the Central Bank has aimed for the main objective of achieving price stability within the scope of its powers and liabilities as stipulated by the law and, has supported growth and employment policies provided that they do not conflict with the price stability objective. Moreover, the Central Bank took all the necessary measures in order to maintain financial stability, a prerequisite for price stability. The Bank will continue to implement its policies in pursuit of this goal in the coming period as well. Nevertheless, I deem helpful to remind that particularly in this critical period that we are going through, the implementation of monetary policy by itself is not sufficient to maintain price stability and to mitigate the potential damage that the Turkish economy may incur. As I have mentioned before, monetary policy should be backed by a disciplined fiscal policy and the maintenance of the structural reform process, chiefly the reforms aiming at enhancing the quality of discipline in fiscal policies and ensuring sustained increases in efficiency.

56. On the other hand, the use of public expenditures as a counter-cyclical policy instrument should be considered normal in this period of turmoil. Nevertheless, it should be borne in mind that in the event of an upsurge in public expenditures, a marked increase in the public sector borrowing requirement might obliterate the positive effects of monetary policy by curbing the decline in medium-term market interest rates. Therefore, I would like to once more underline that considering our past experiences, the adoption of a fiscal policy with pre-determined rules, which gives priority to confidence-raising measures and, which is sustainable in the medium term, is crucial.

57. Along with the disinflation process following approximately thirty years of high and chronic inflation, the process of abolishing the old banknotes with many zeros was embarked on 1 January 2005. These zeros used to create problems in daily life as well as in technical fields like accounting, statistics, data processing programs and payment systems and derogate the credit of our currency. This process that started with the removal of six zeros from the Turkish currency and putting the New Turkish lira banknotes and coins into circulation was completed on 1 January 2009 with the removal of the prefix

“New” from the currency. With their renewed designs, systematic size variation and advanced security features, banknotes and coins under the name of “Turkish Lira” and “Kuruş” were put into circulation as of that date. I would like to end my speech by thanking all public institutions and establishments, private companies, the banking sector, vocational organizations, non-governmental organizations and mass-media corporations for the cooperation and support they offered in the campaign for the transition to the Turkish Lira.

Thank you.