

CENTRAL BANK OF THE REPUBLIC OF TURKEY

TUSIAD – CEO FORUM

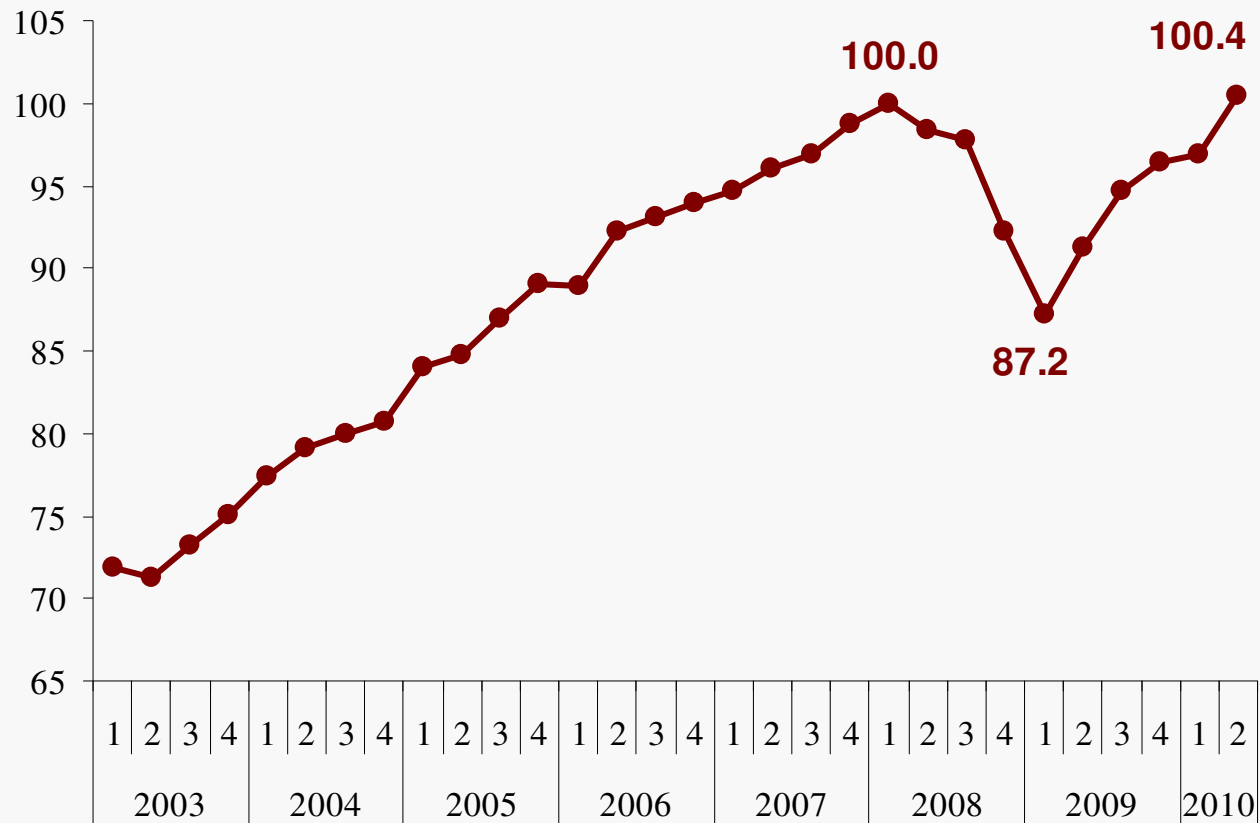
Durmuş YILMAZ

Governor

October 16, 2010

Economic activity is back to its pre-crisis level

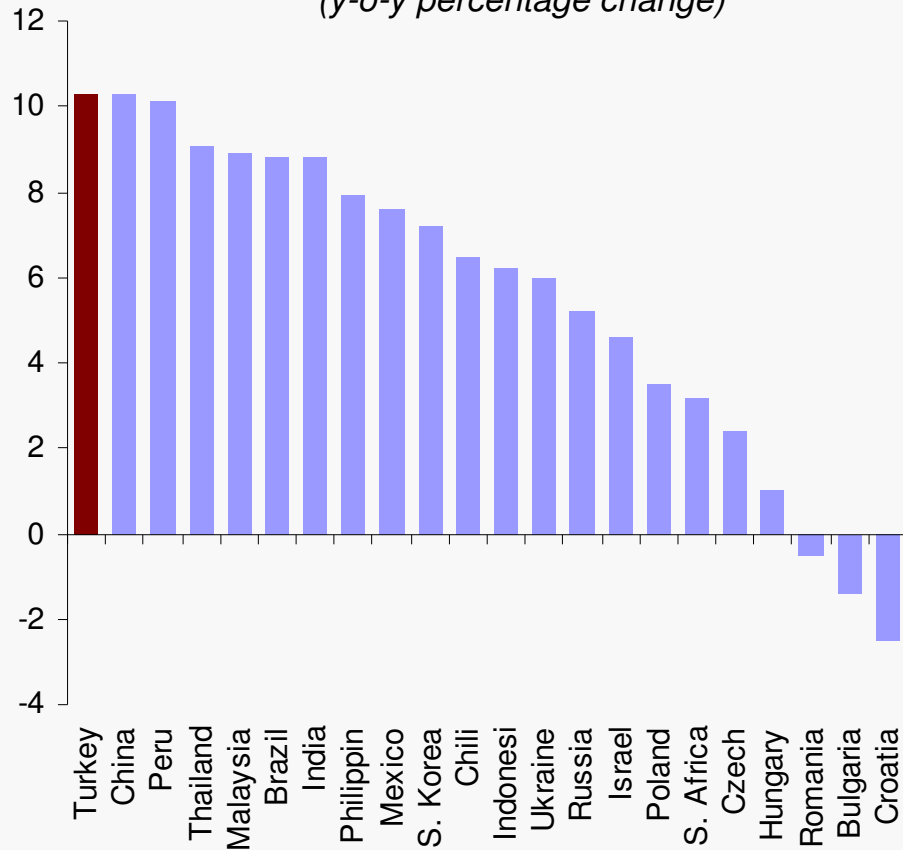
Seasonally-adjusted Real GDP
(2008 Q1=100)



Source: TurkStat, CBT

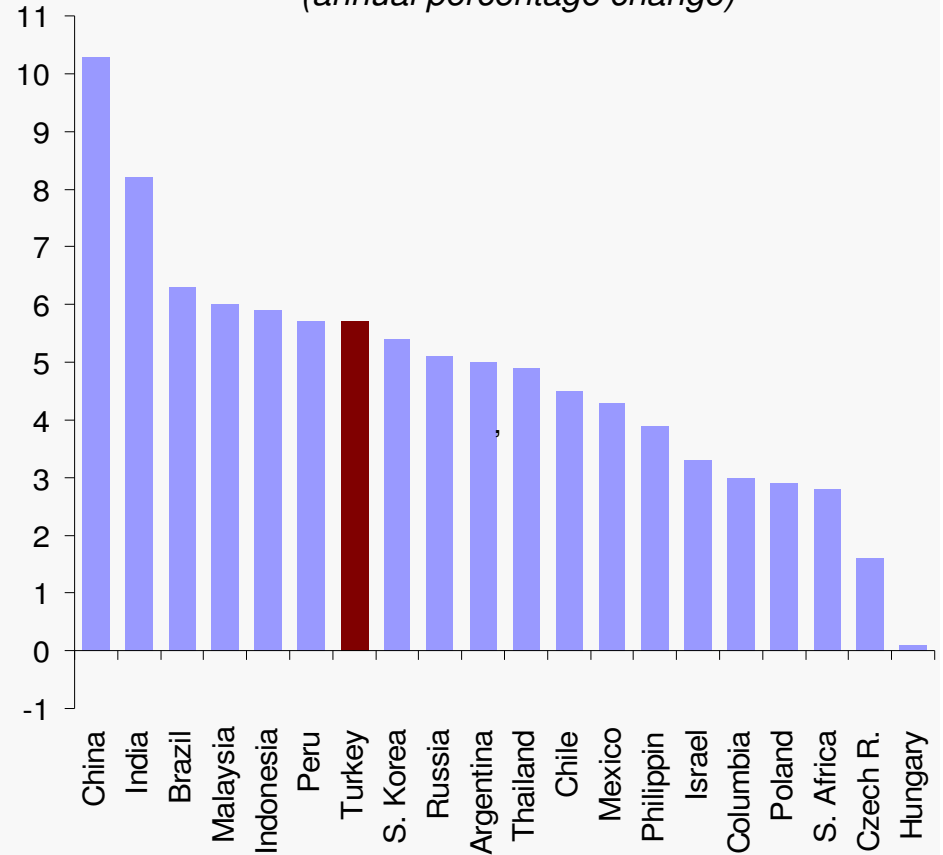
The rate of recovery has surpassed other EMs

Growth Rates in 2010 Q2
(y-o-y percentage change)



Source: Bloomberg, CBT

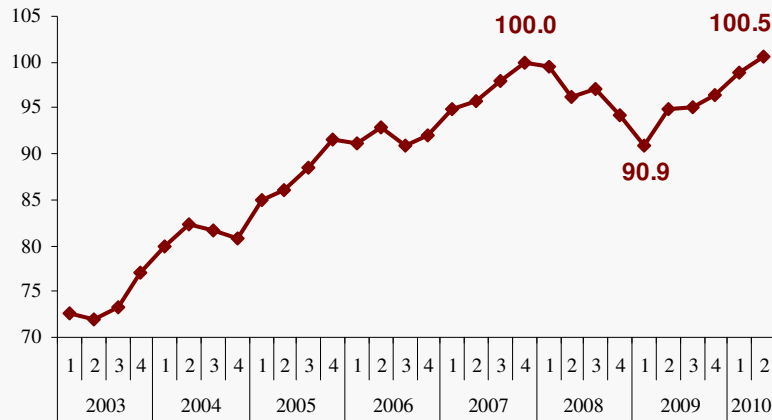
Growth Forecasts for 2010
(annual percentage change)



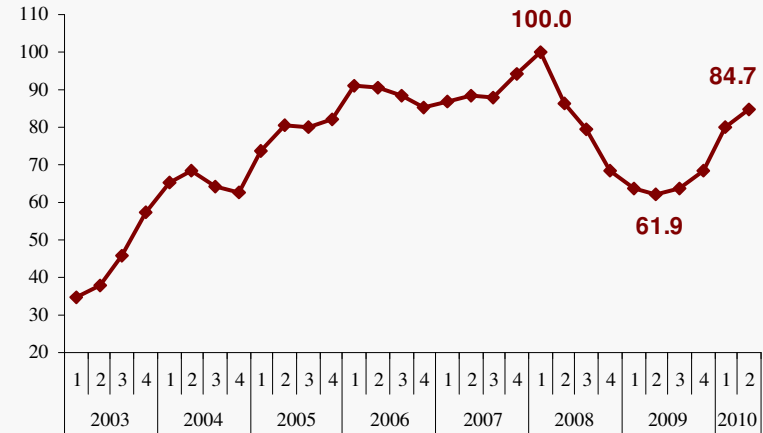
Source: Consensus Forecasts, CBT

Recovery is broad based and private sector driven

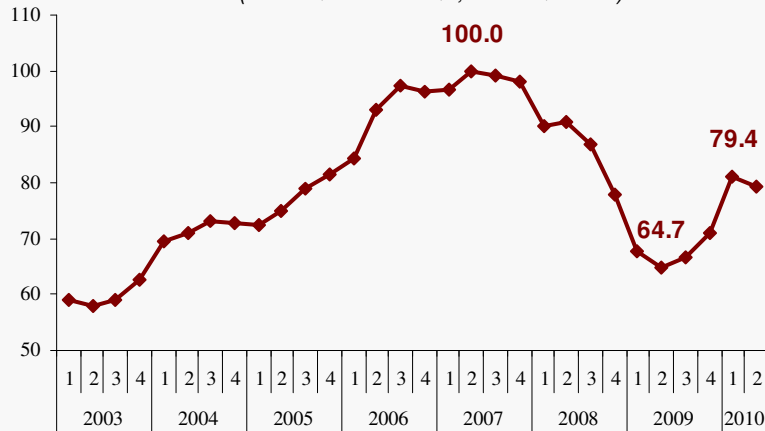
Real Private Consumption Expenditures*
(2003 Q1 – 2010 Q2, 2008 Q1=100)



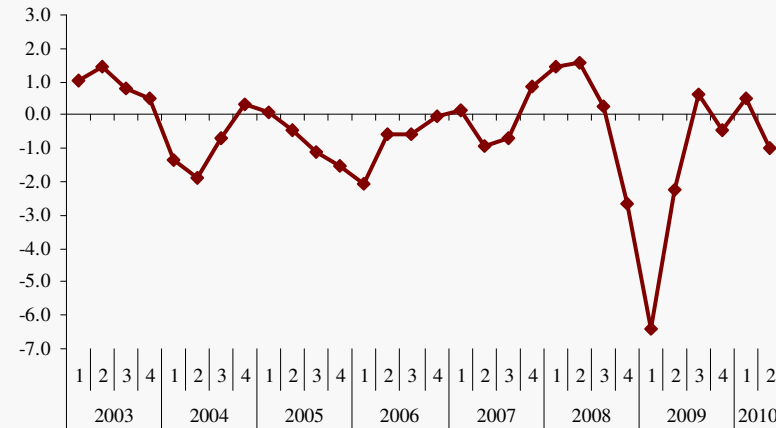
Real Private Machinery –Equipment Investments*
(2003 Q1 – 2010 Q2, 2008 Q1=100)



Real Private Construction Investments*
(2003 Q1 – 2010 Q2, 2008 Q1=100)



Real Stock Expenditures*
(2003 Q1 – 2010 Q2, 2008 Q1=100)



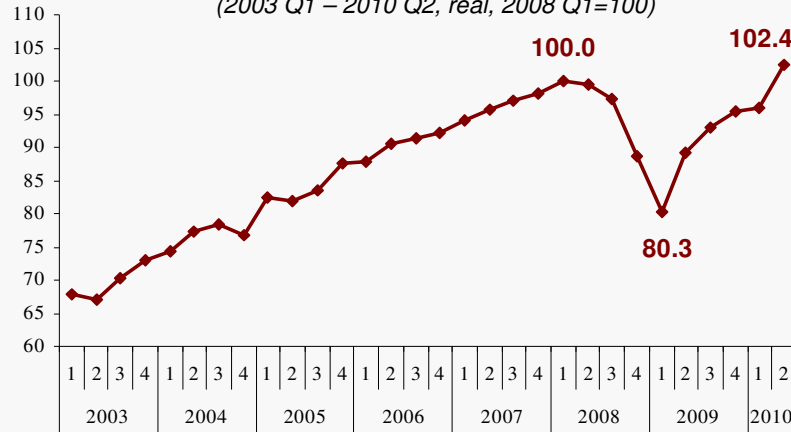
*Seasonally Adjusted
Source: TurkStat, CBT

*Seasonally Adjusted
Source: TurkStat, CBT

Gross Domestic Product

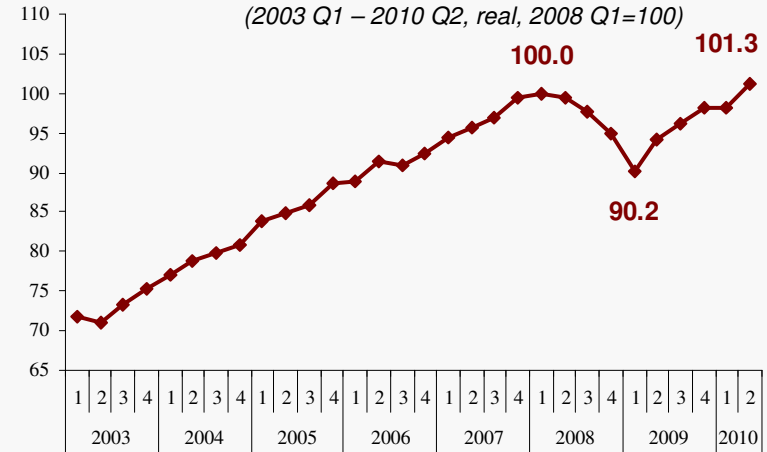
Manufacturing Sector*

(2003 Q1 – 2010 Q2, real, 2008 Q1=100)



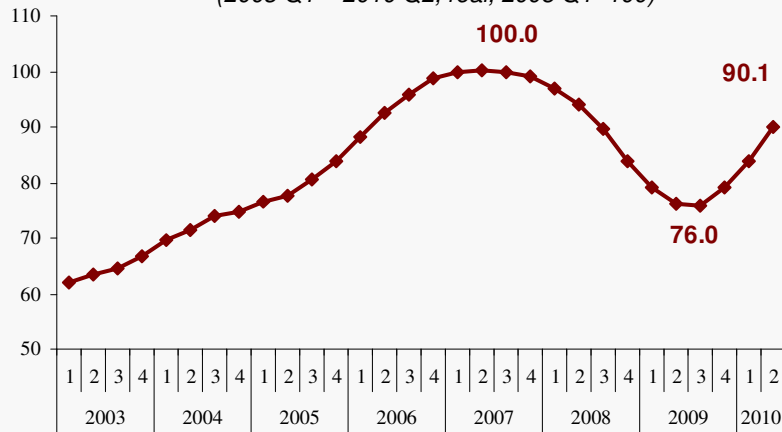
Services Sector*

(2003 Q1 – 2010 Q2, real, 2008 Q1=100)



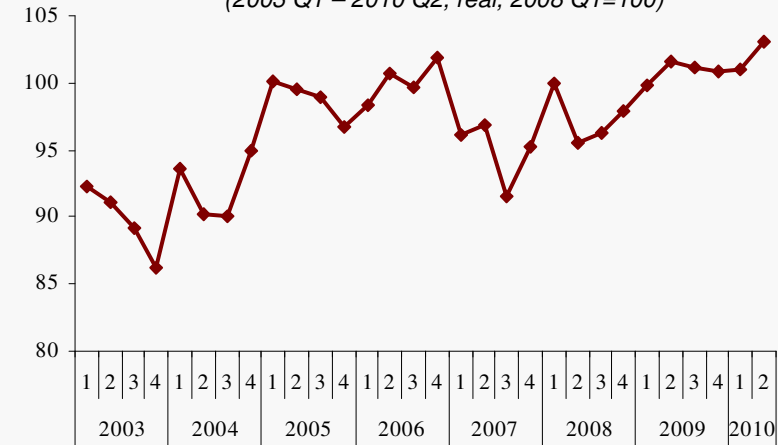
Construction Sector*

(2003 Q1 – 2010 Q2, real, 2008 Q1=100)



Agriculture Sector*

(2003 Q1 – 2010 Q2, real, 2008 Q1=100)

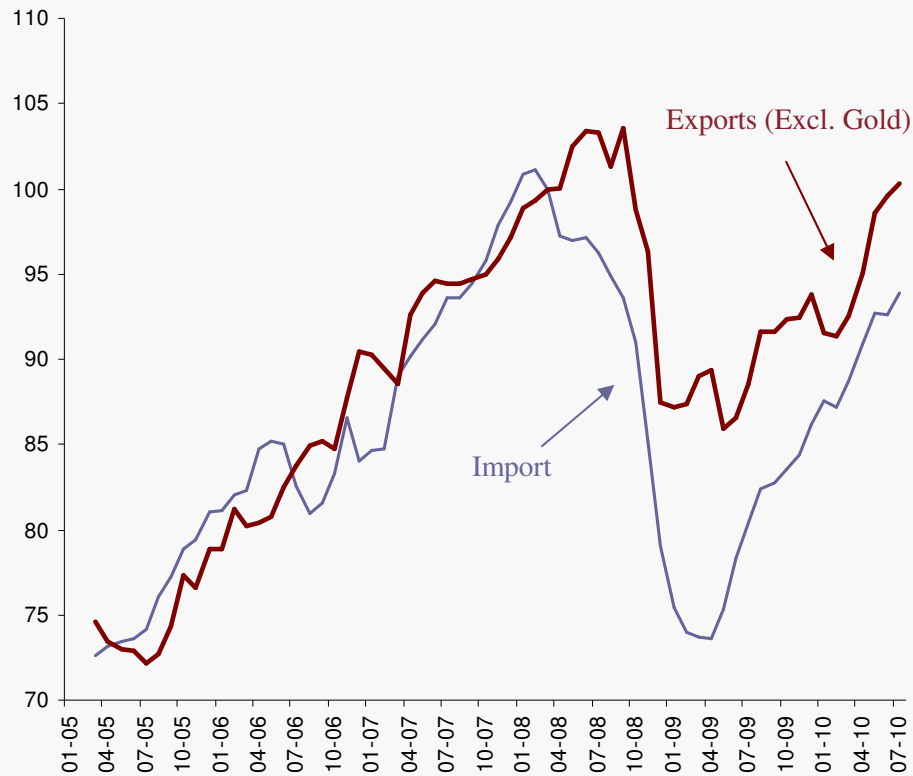


*Seasonally Adjusted
Source: TurkStat, CBT

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Source: TurkStat, CBT

Recovery in external demand is moderate

Real Exports and Imports *
(Jan 2005 – Jul 2010, 2008 Q1 = 100)



* Seasonally Adjusted, 2-month moving average.
Source: TurkStat, CBT

Expectations*
(Jan 2008 – Sep 2010)

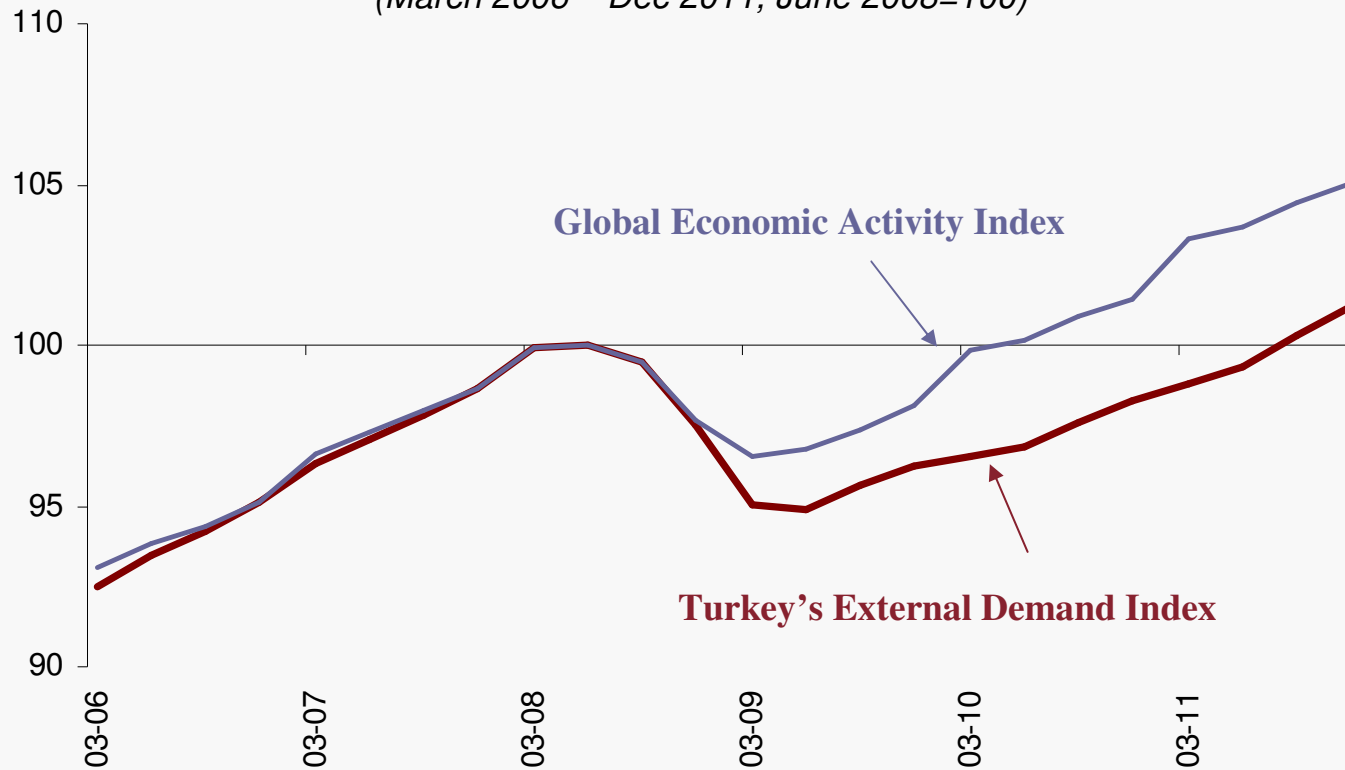


*Seasonally adjusted
Source: CBT

External demand is likely to remain subdued

Turkey's External Demand Index*

(March 2006 – Dec 2011, June 2008=100)



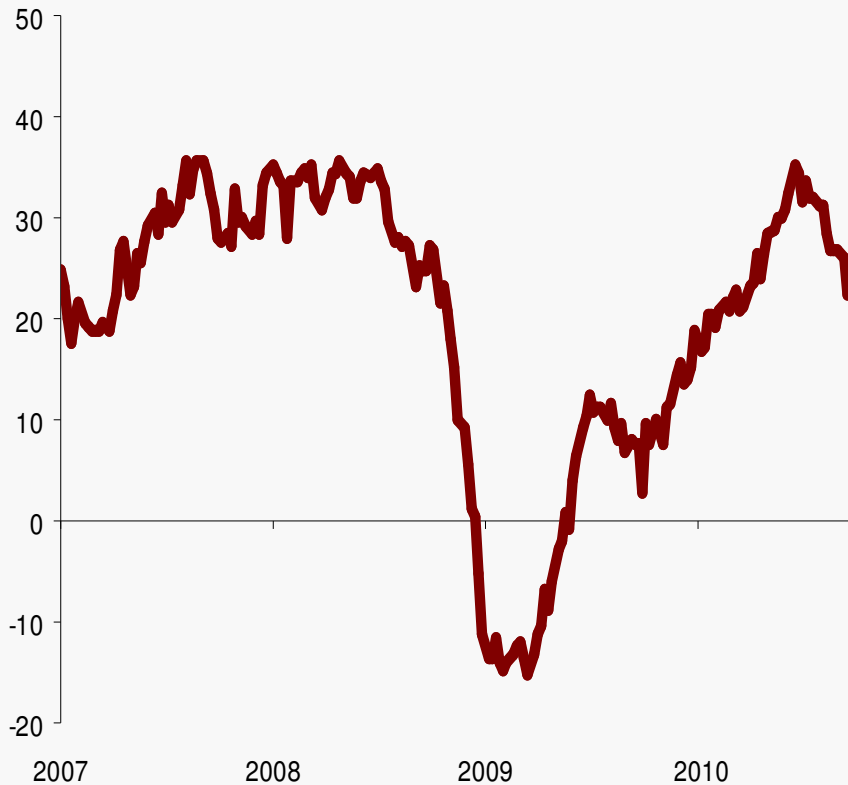
* The shares of countries within the exports of Turkey and weighted GDP data are employed in the calculation of the external demand index of Turkey.

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

... where as recovery in credit market is noteworthy

Weekly Change in Total Credit Volume*

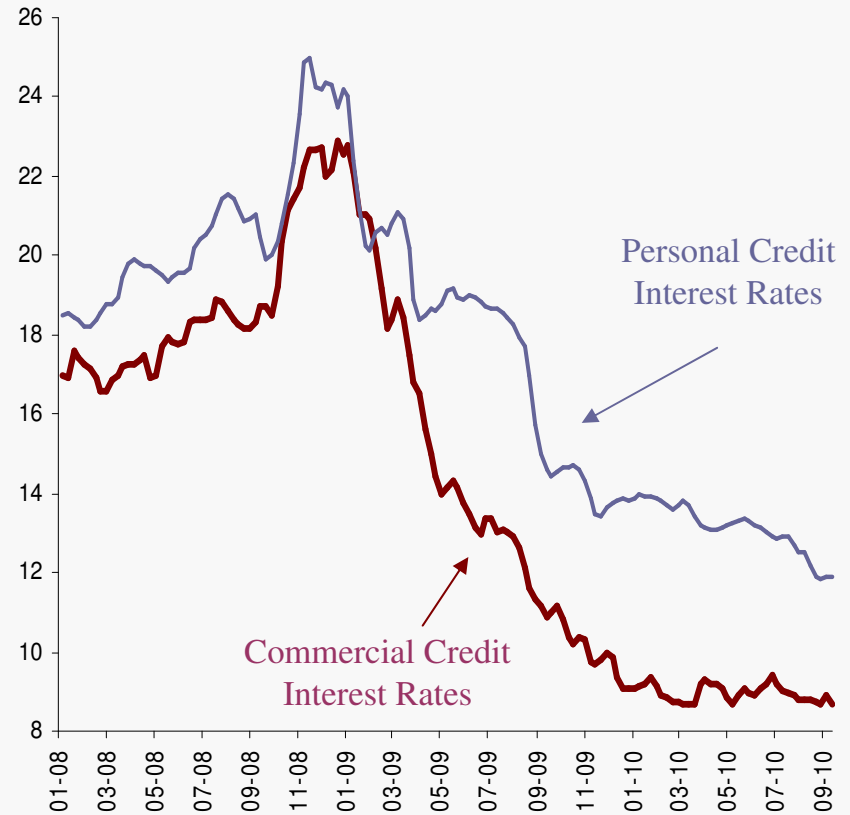
(Jan 2007 – Oct 2010, annualized 13-week moving average)



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

Credit Interest Rates*

(Jan 2008 – Sep 2010, annual percentage)

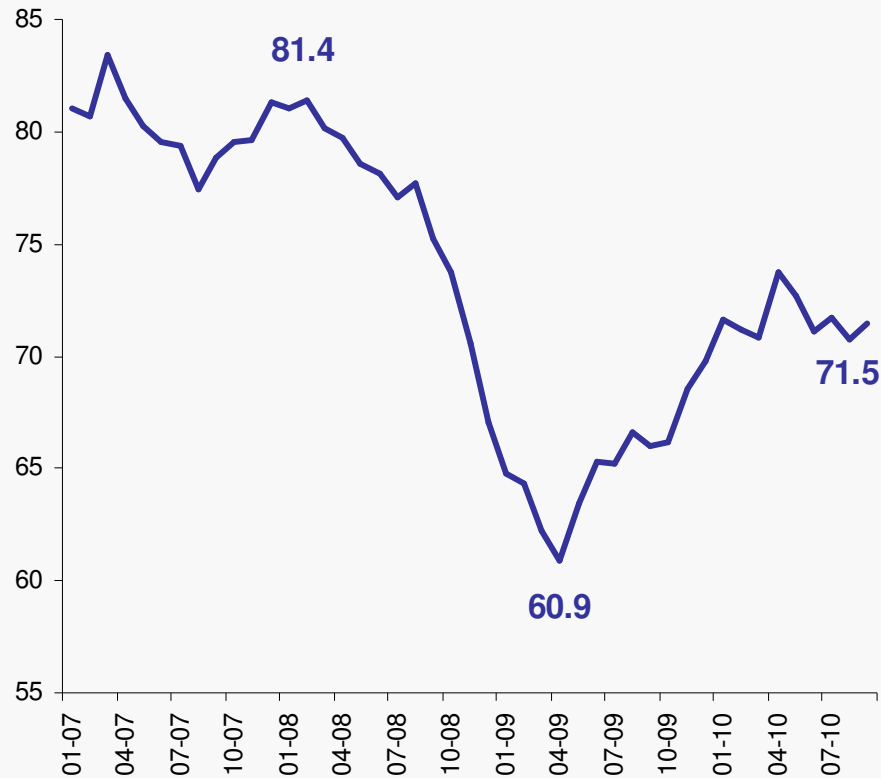


* 2-week moving average
Source: BRSA, CBT

However, the output gap still persists

Seasonally Adjusted Capacity Utilization Rate in Manufacturing Industry

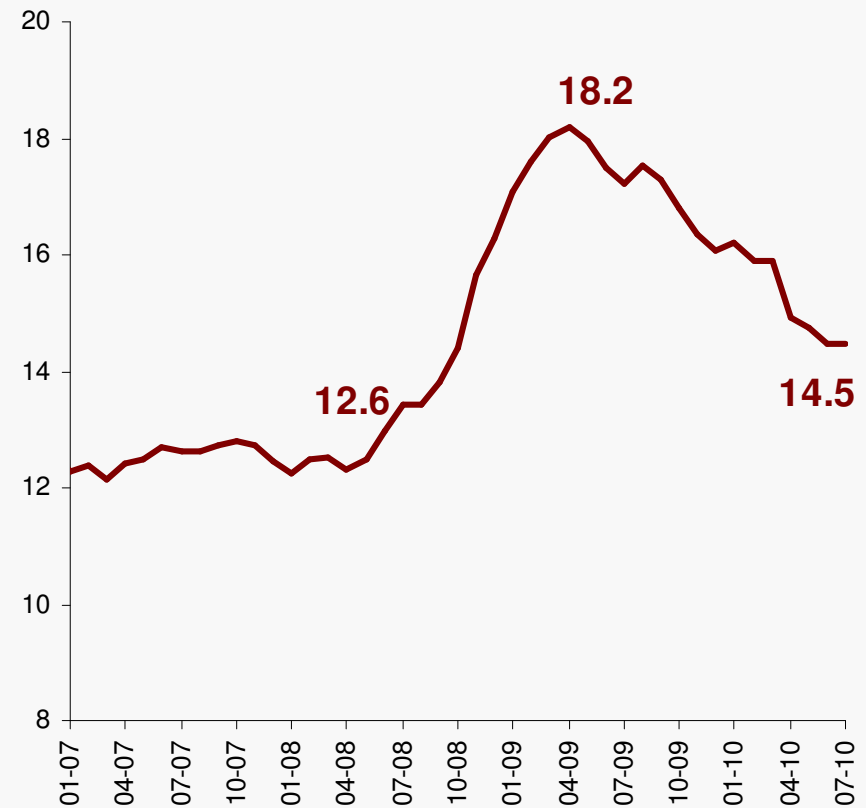
(percent)



Source: CBT

Seasonally Adjusted Non-farm Unemployment Rate

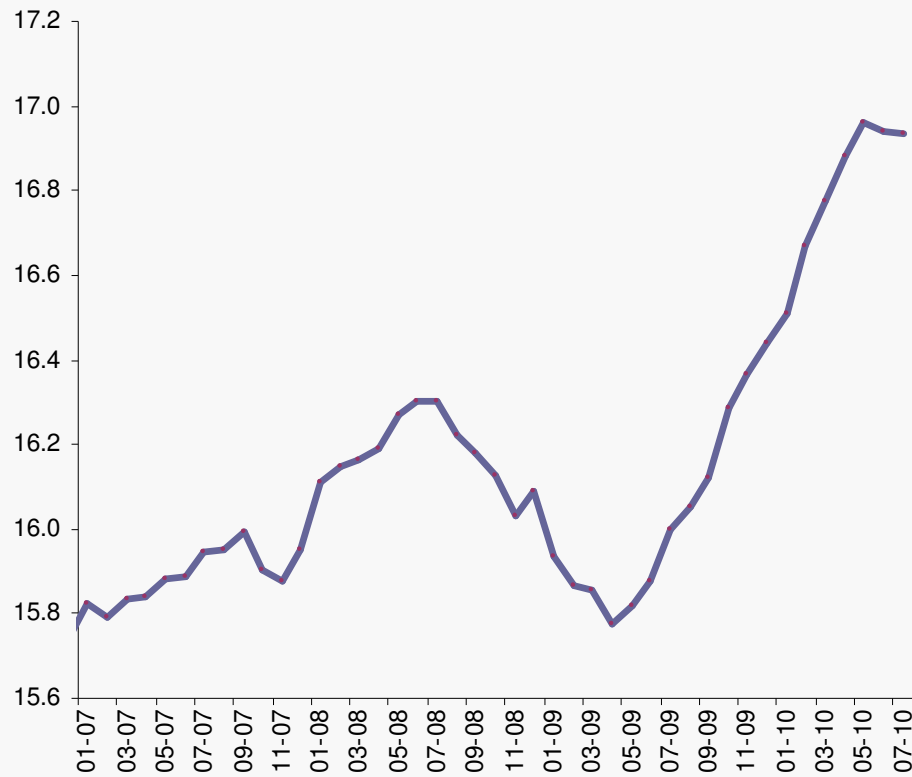
(percent)



Source: Turkstat, CBT

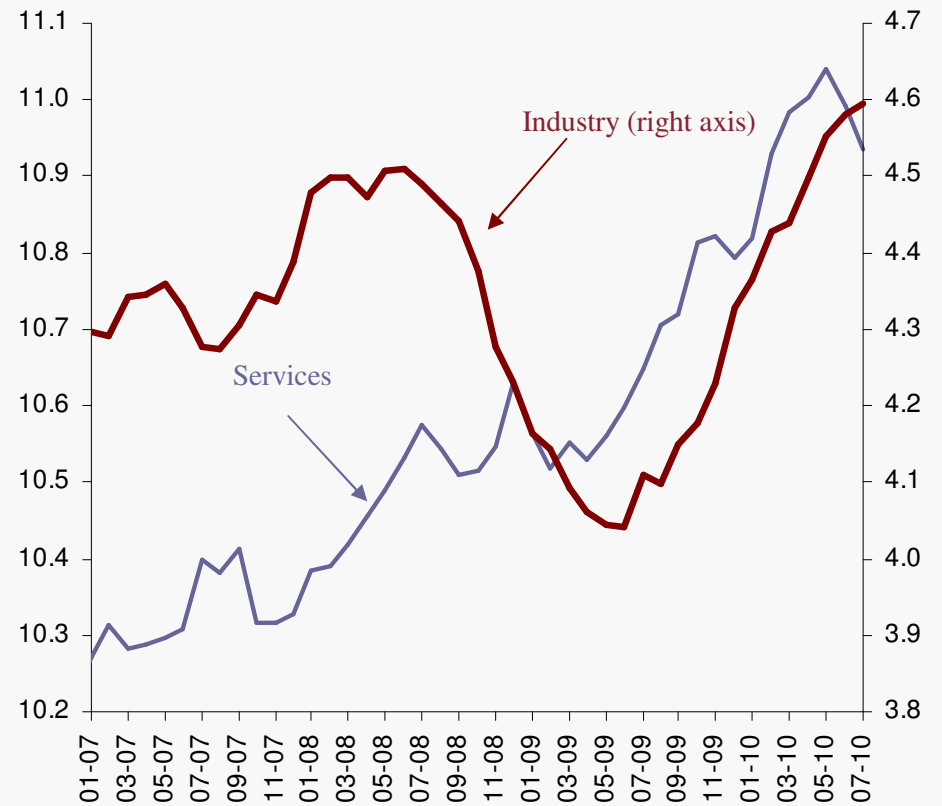
The economy is creating new jobs

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



*Seasonally Adjusted
Source: TurkStat, CBT

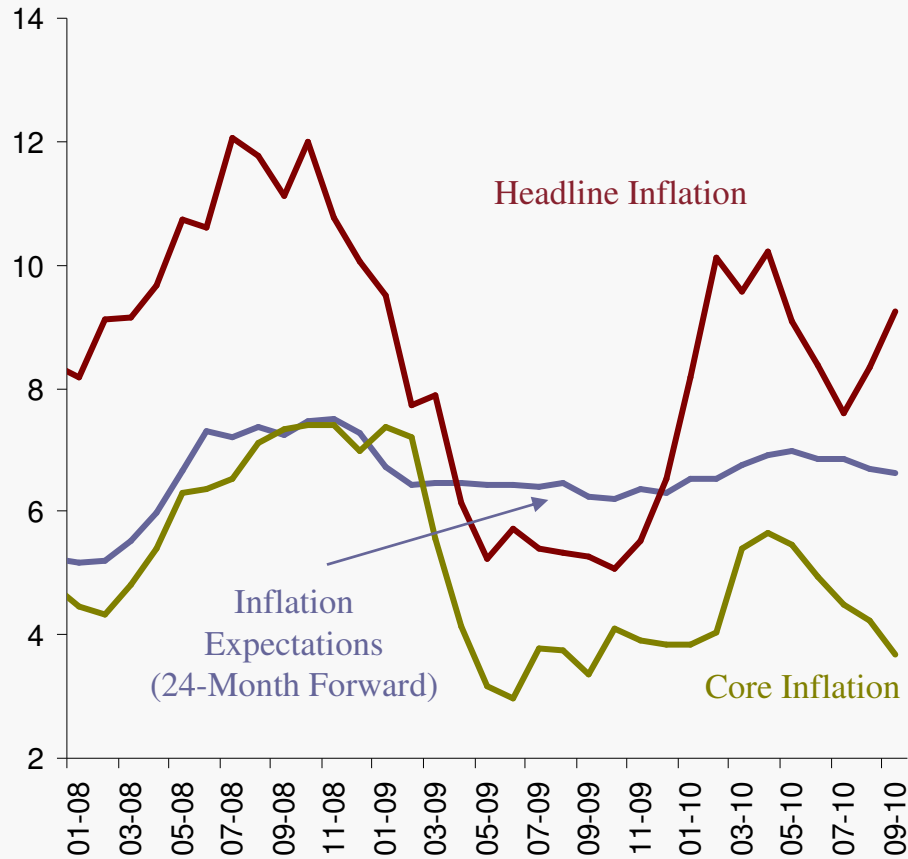
Employment in Industry and Services*
(Jan 2007 – Jul 2010, million people)



* Seasonally Adjusted
Source: TurkStat, CBT

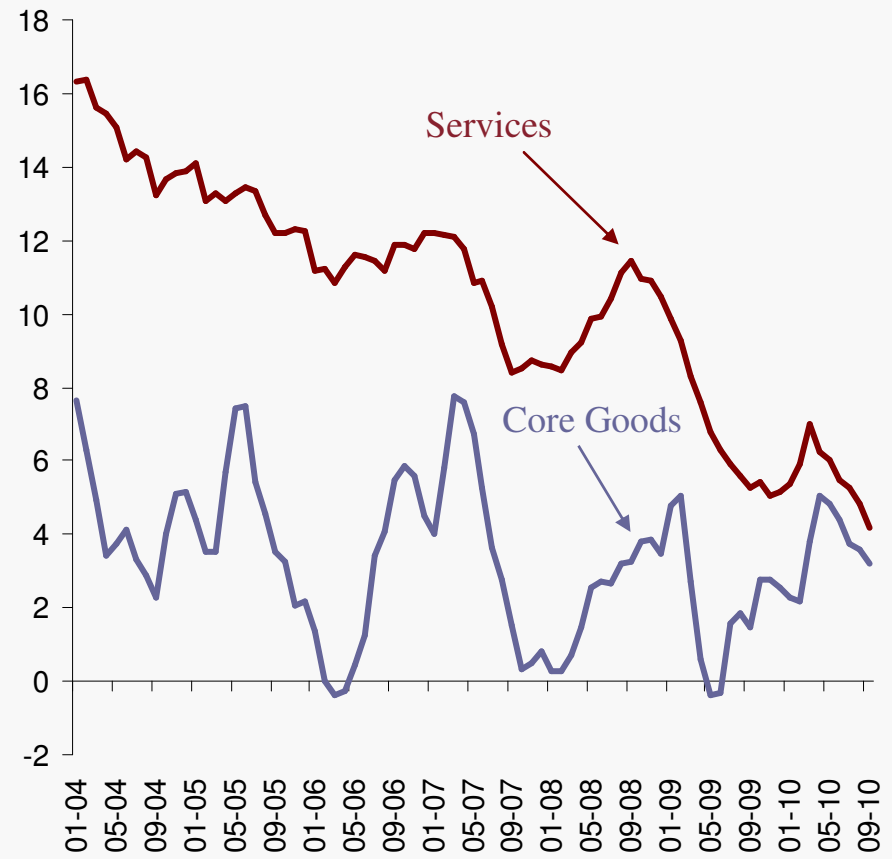
Core inflation is subdued, despite rise in food prices

Inflation and Expectations
(y-o-y percentage change)



Source: TurkStat, CBT

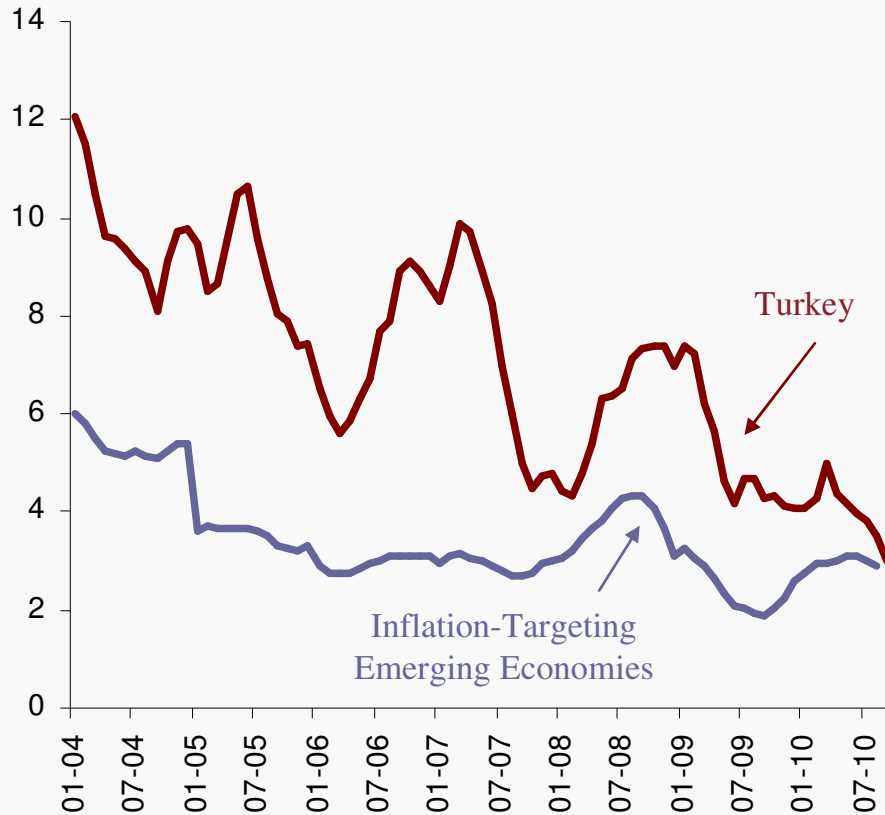
Good and Services Inflation
(y-o-y percentage change)



Source: TurkStat, CBT

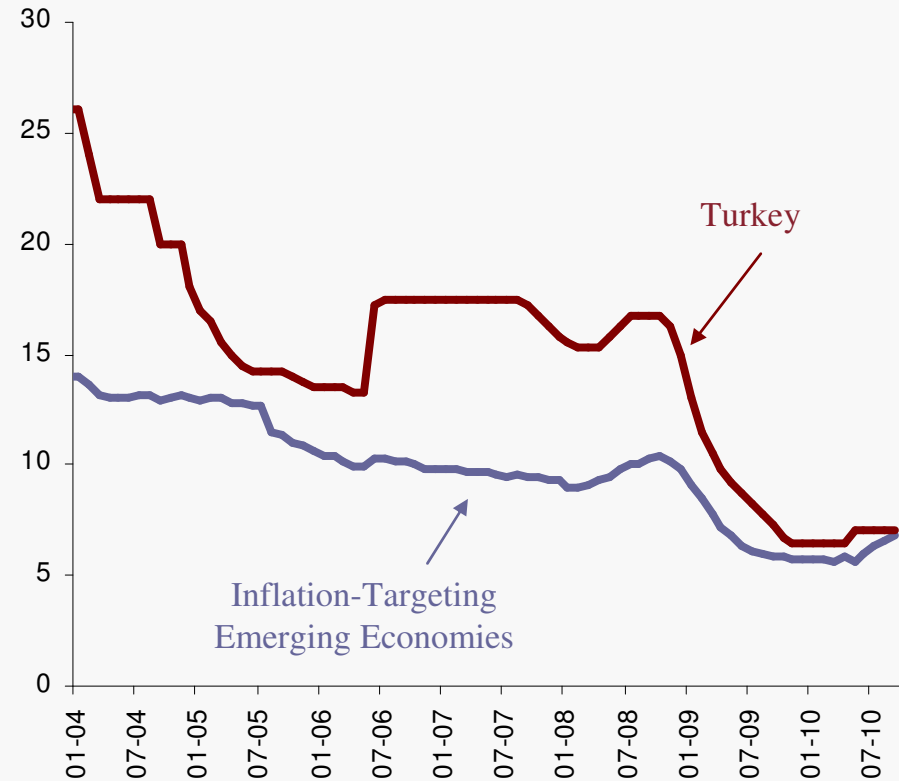
Inflation and policy rates have converged to IT'ers

Core Inflation in Inflation-Targeters (percent)



Source: Central Banks, CBT

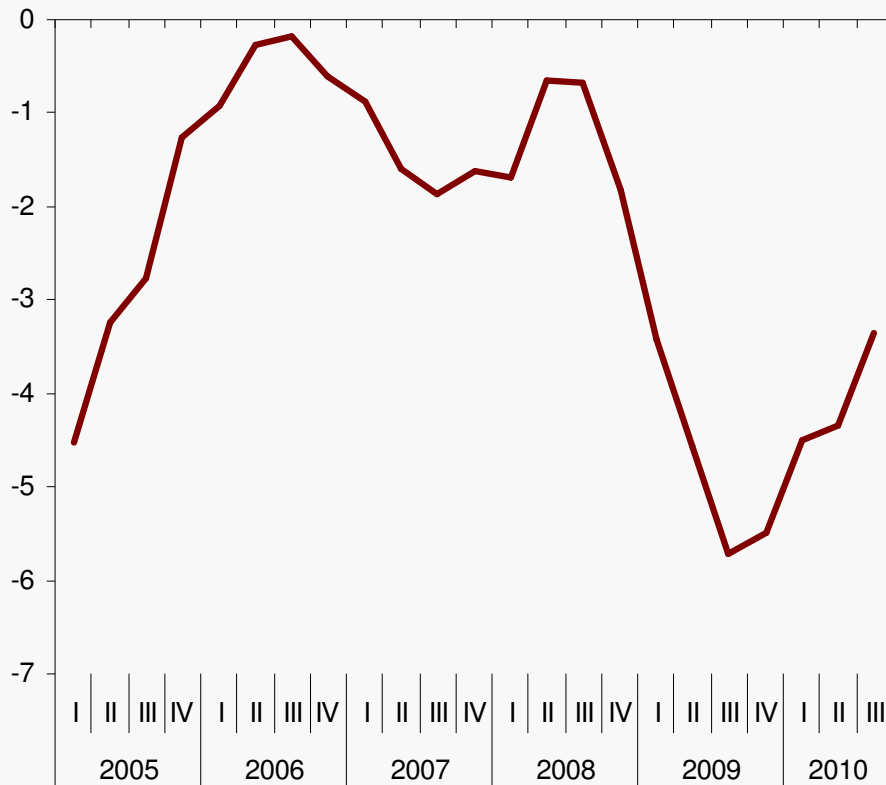
Policy Rates in Inflation-Targeters (percent)



Source: Central Banks, CBT

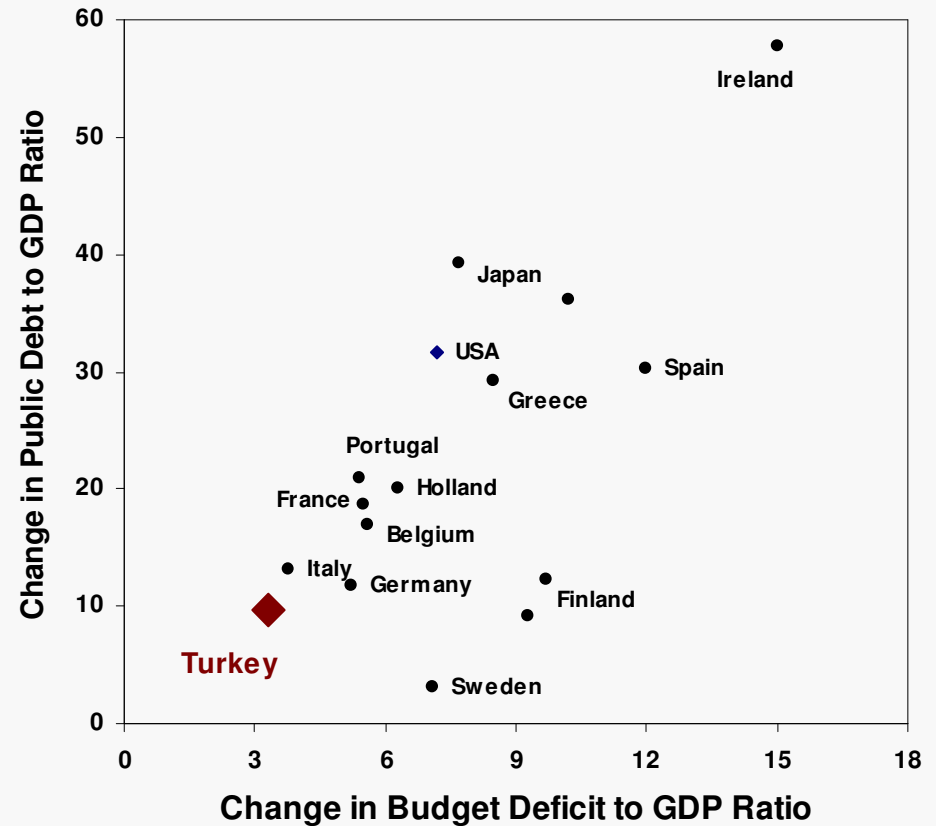
No compromise from fiscal discipline

Central Government Budget Balance
(ratio to GDP, percent)



Source: Ministry of Finance , TurkStat, CBT

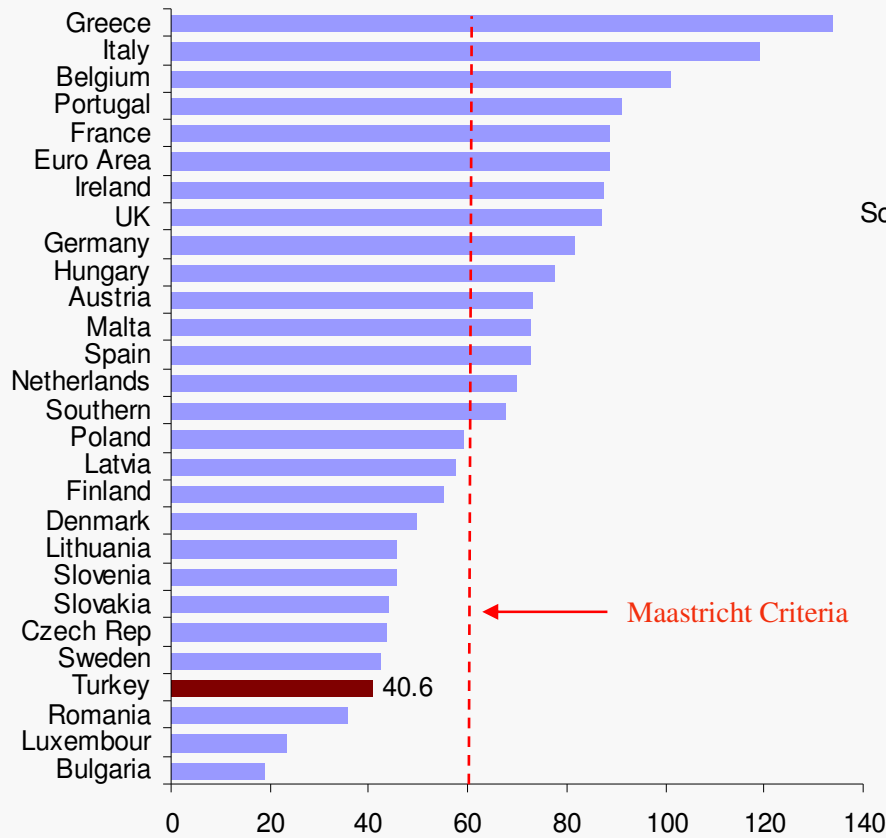
Change in Budget Deficit and Public Debt between 2007 and 2010
(percentage points)



Source: IMF, CT

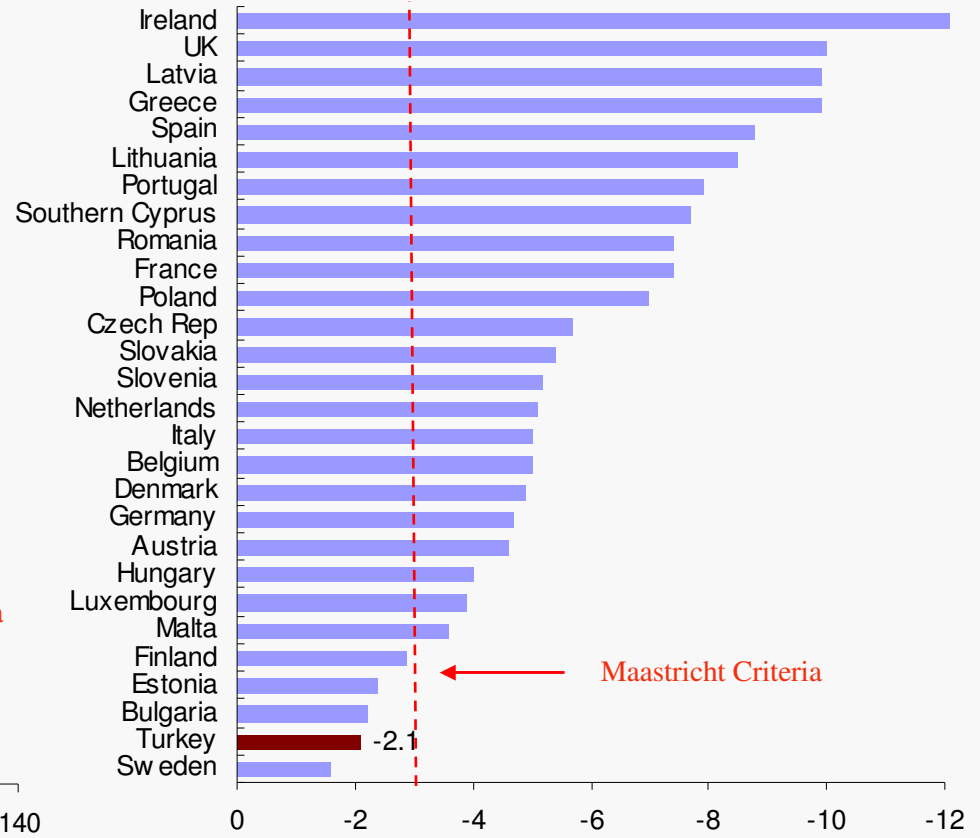
Even brighter outlook in comparative terms

2011 EU Defined Public Debt
(Percent of GDP)



Source: European Commission, MTP, CBT

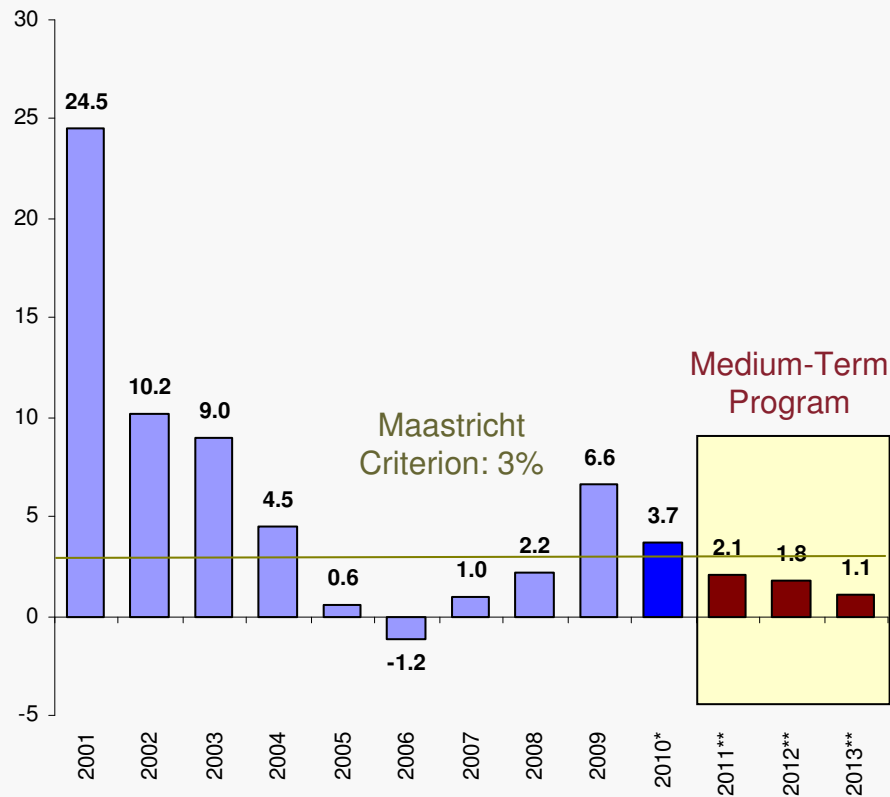
2011 EU Defined Budget Deficit
(Percent of GDP)



Source: European Commission, MTP, CBT

Medium Term Program

Central Government Budget Deficit
(2002 – 2013, percent of GDP)

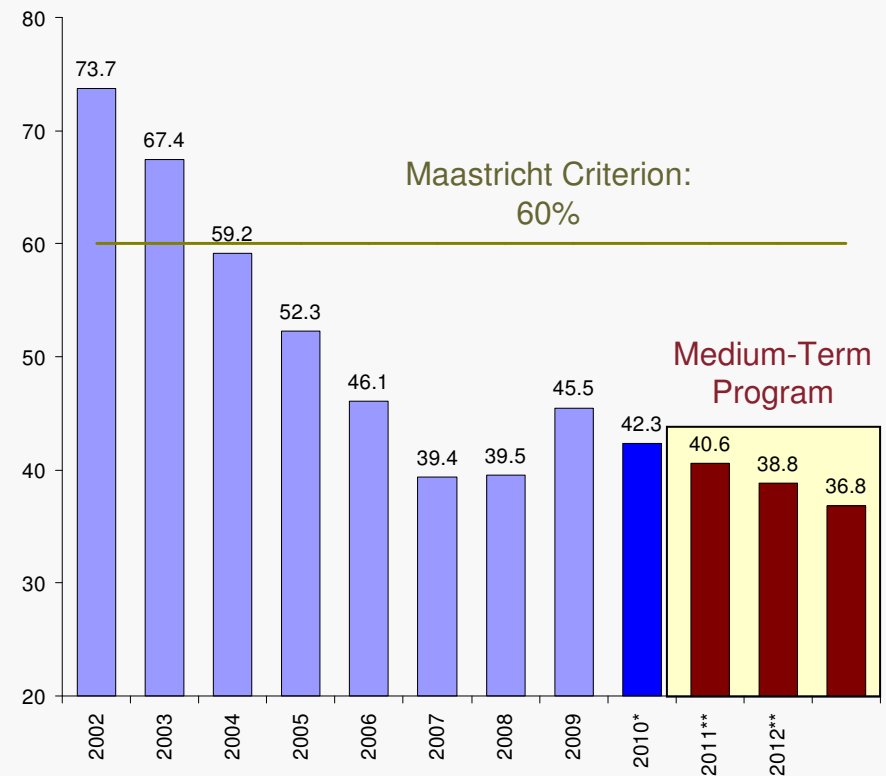


* Forecast

** Medium-Term Program (2011 -2013) Objectives

Source: Ministry of Finance, Medium-Term Program

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



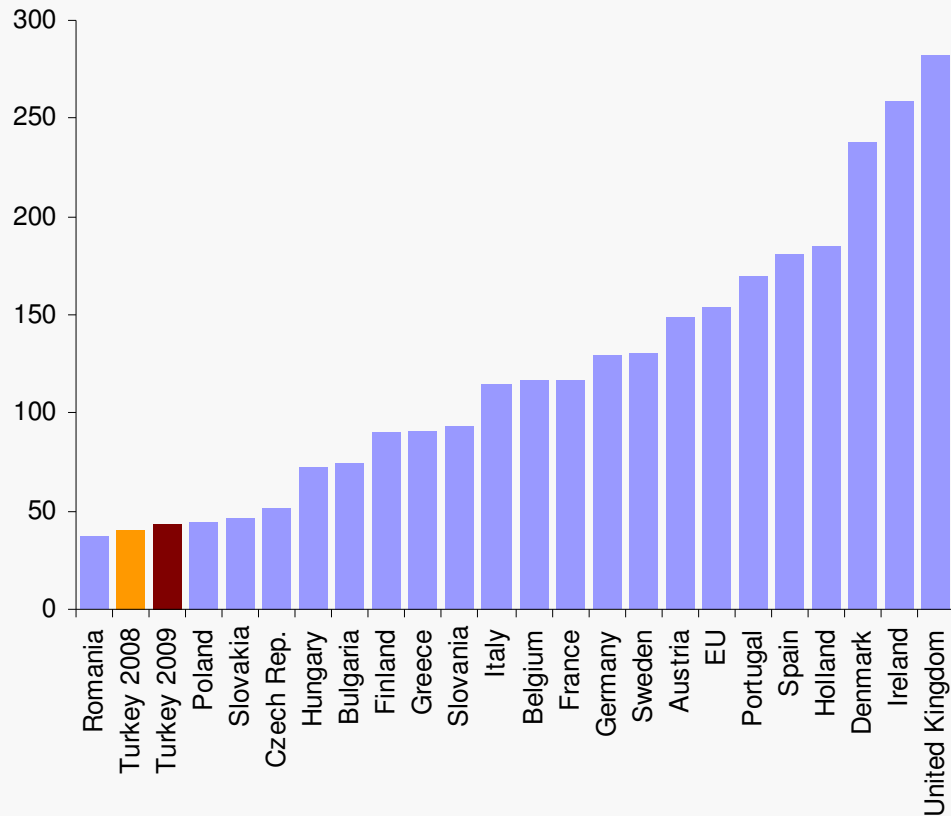
* Forecasts

** Medium-Term Program (2010 -2012) Objectives

Source: Undersecretariat of Treasury, CBT

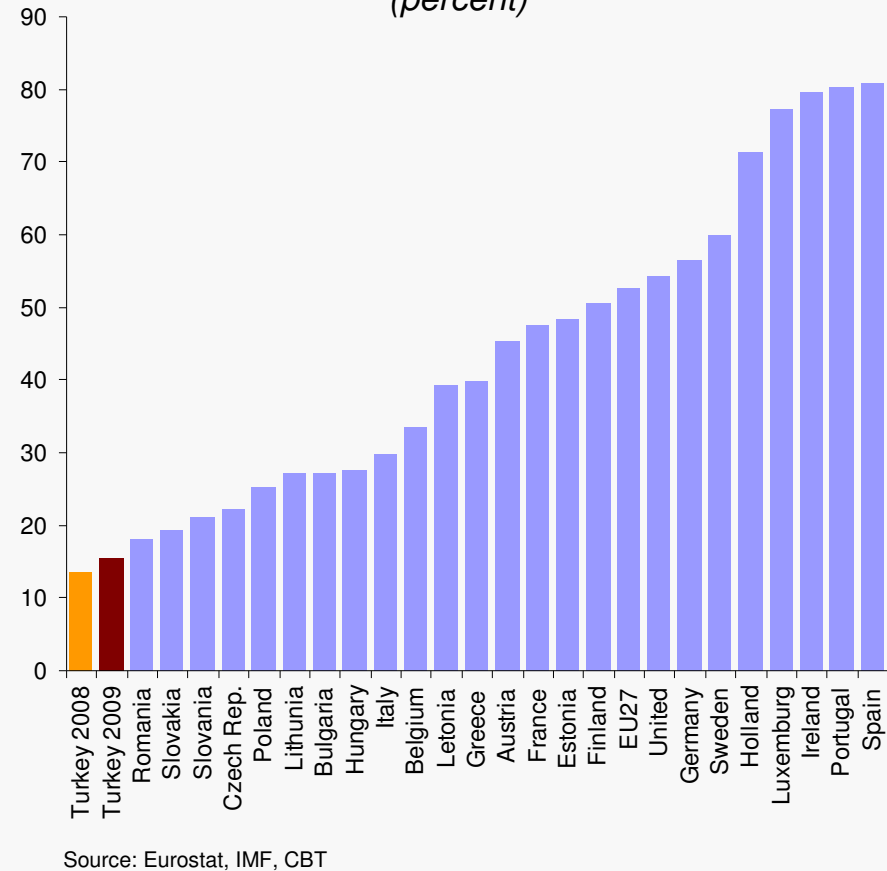
Low leverage support financial stability

Bank Credits to GDP
(percent)



Source: Eurostat, IMF, CBT

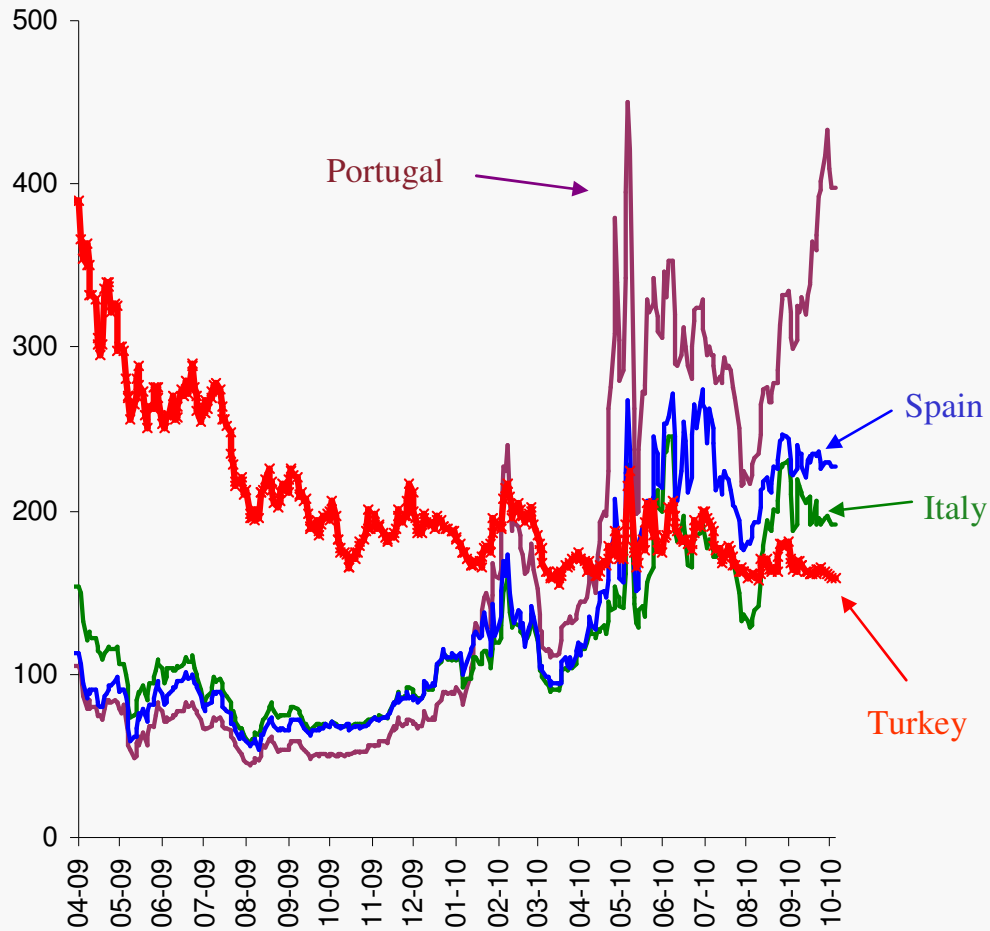
Household Debt to GDP
(percent)



Source: Eurostat, IMF, CBT

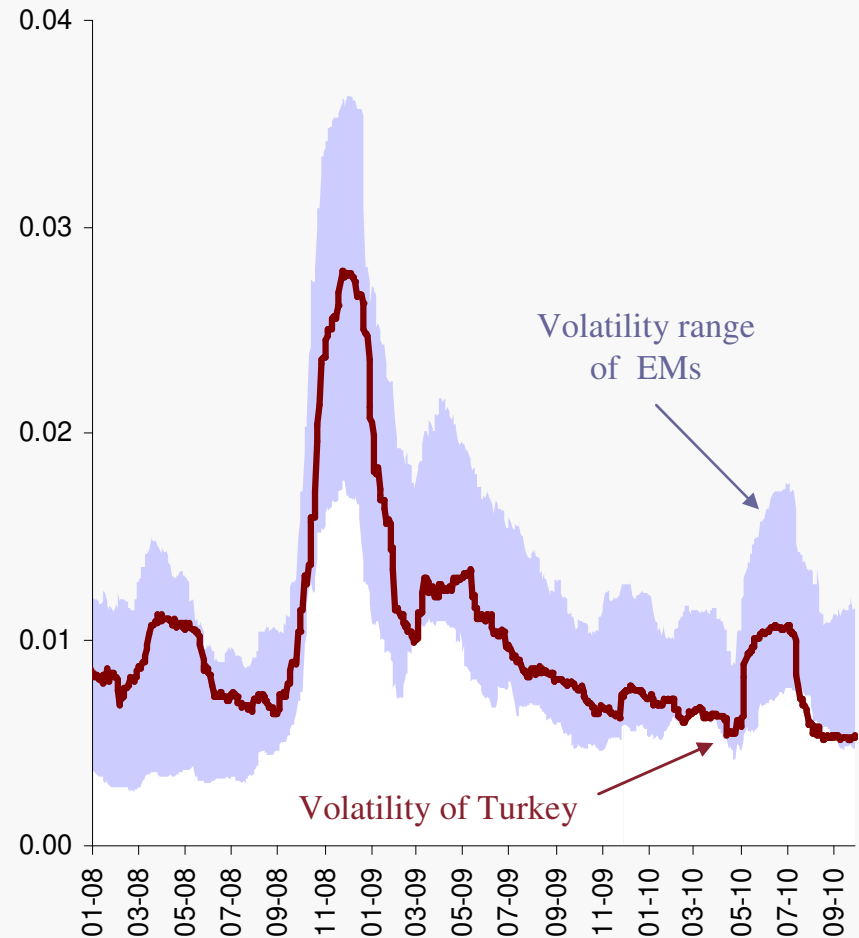
Financial volatility and risk premium remain low

5-year CDS Premium



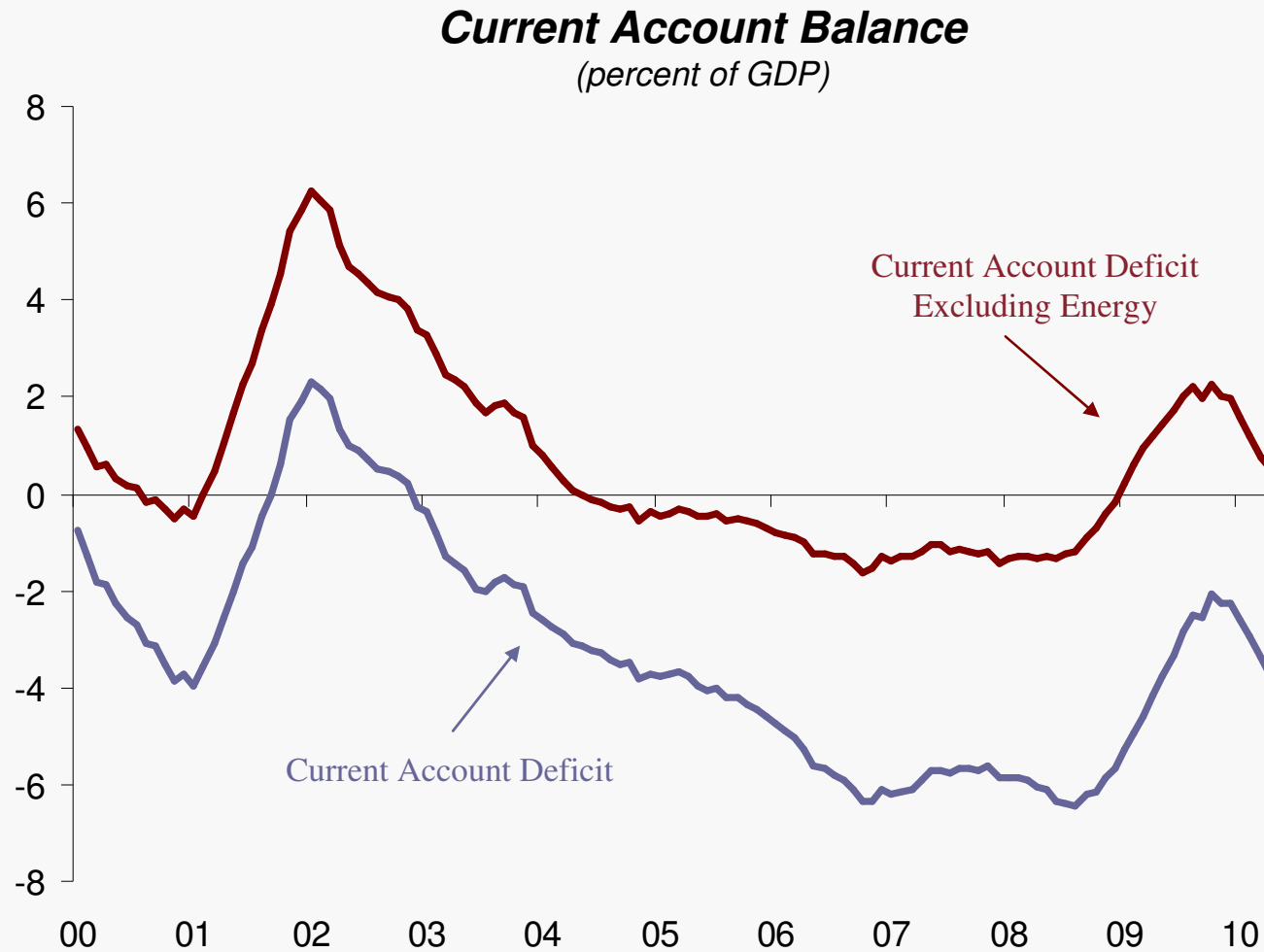
Source: Bloomberg, CBT

Exchange Rate Volatility



Source: Bloomberg, CBT

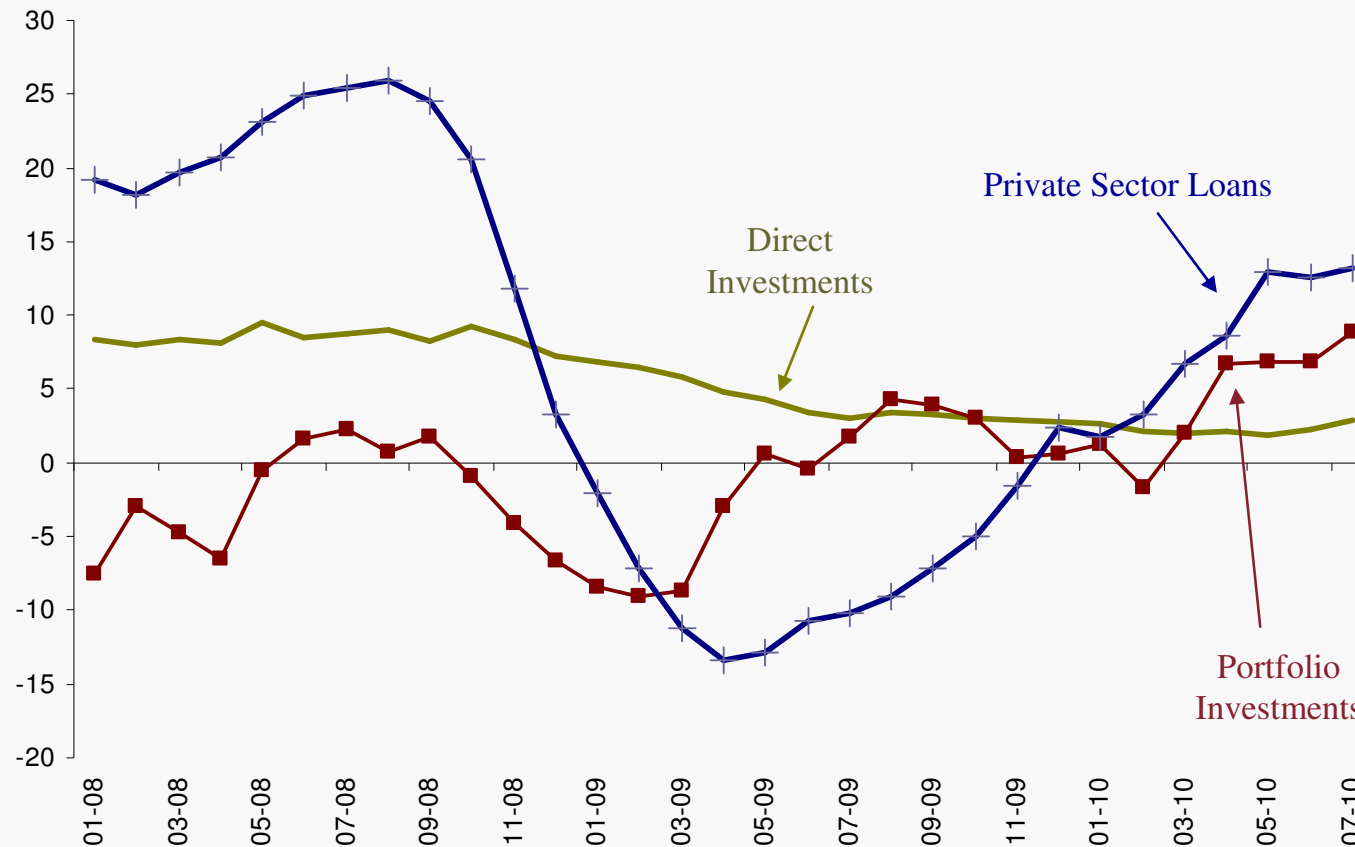
CAD is widening on the back of demand decoupling



Source: TurkStat, CBT

Recent surge in capital flows calls for close scrutiny

Balance of Payments Sub-Items
(6 months rolling sum, billion USD)



Source: TurkStat, CBT

Pillars of the new strategic management of CBT

1. **Leverage**: *Use of more equity and less borrowing*
2. **Maturity of Liabilities**: *Closing the duration gap and extending the maturities of domestic and foreign borrowing and deposits*
3. **FX Positions**: *Strengthening FX positions of both public and private sectors*
4. **Risk Management**: *More effective management of exchange rate risk via instruments such as Turkish Derivatives Exchange*

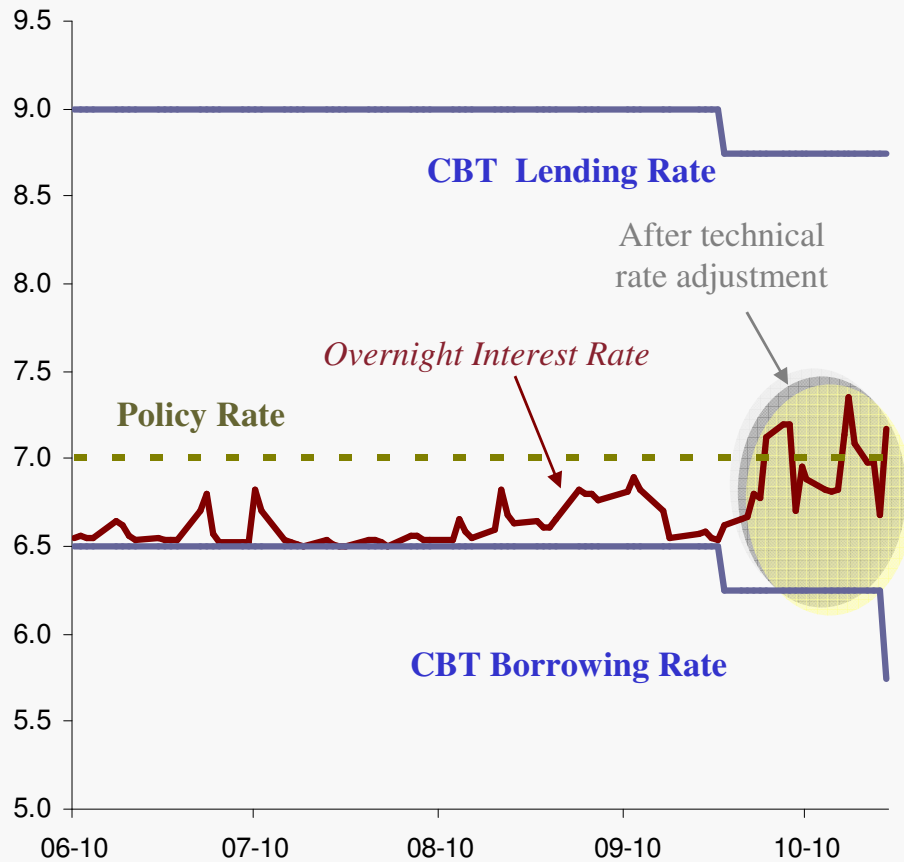
Recent policy actions of the CBT

1. Technical rate adjustment and corridor system for better liquidity management (*September 18, 2010*)
2. Rise in required reserve ratios (*September 23, 2010*)
3. No interest payments on required reserves (*September 23, 2010*)
4. A more flexible mechanism for FX reserve accumulation (*October 4, 2010*)
5. End of 3-month repo auction facility (*October 14, 2010*)
6. 0.5 Reduction in CBT borrowing rate (*October 14, 2010*)

Corridor system and FX purchases

Corridor System and Overnight Rates

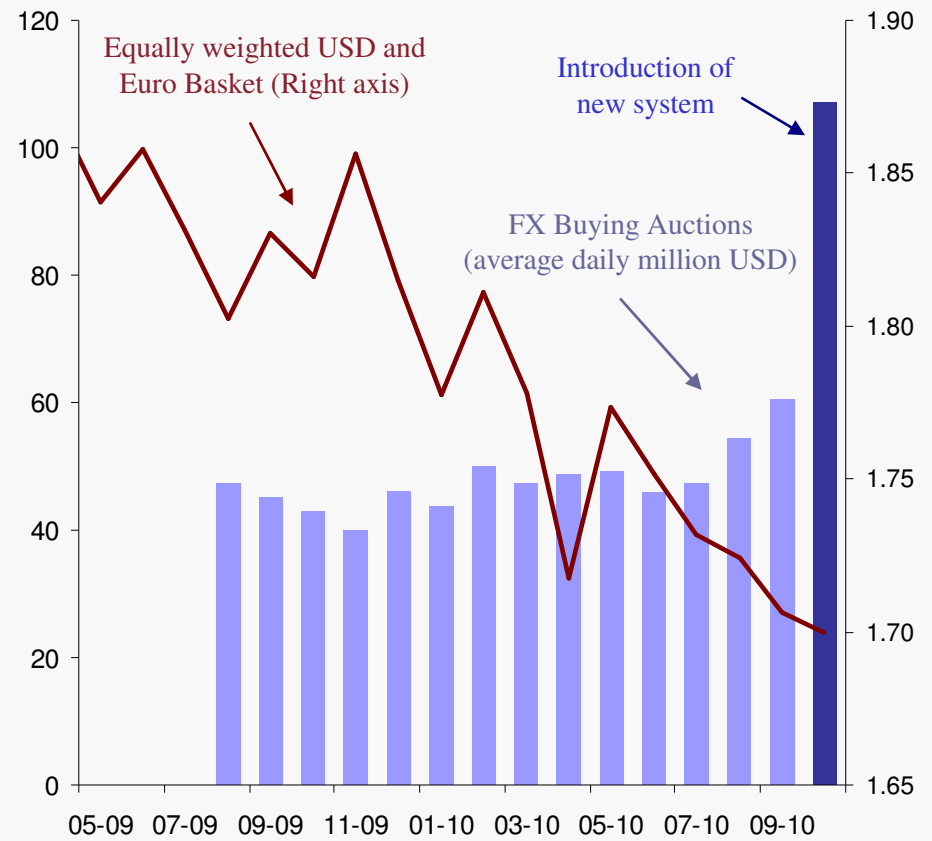
(June 2010 – Oct 2010, percent)



Source: ISE, CBT

FX Buying Auctions and FX Basket

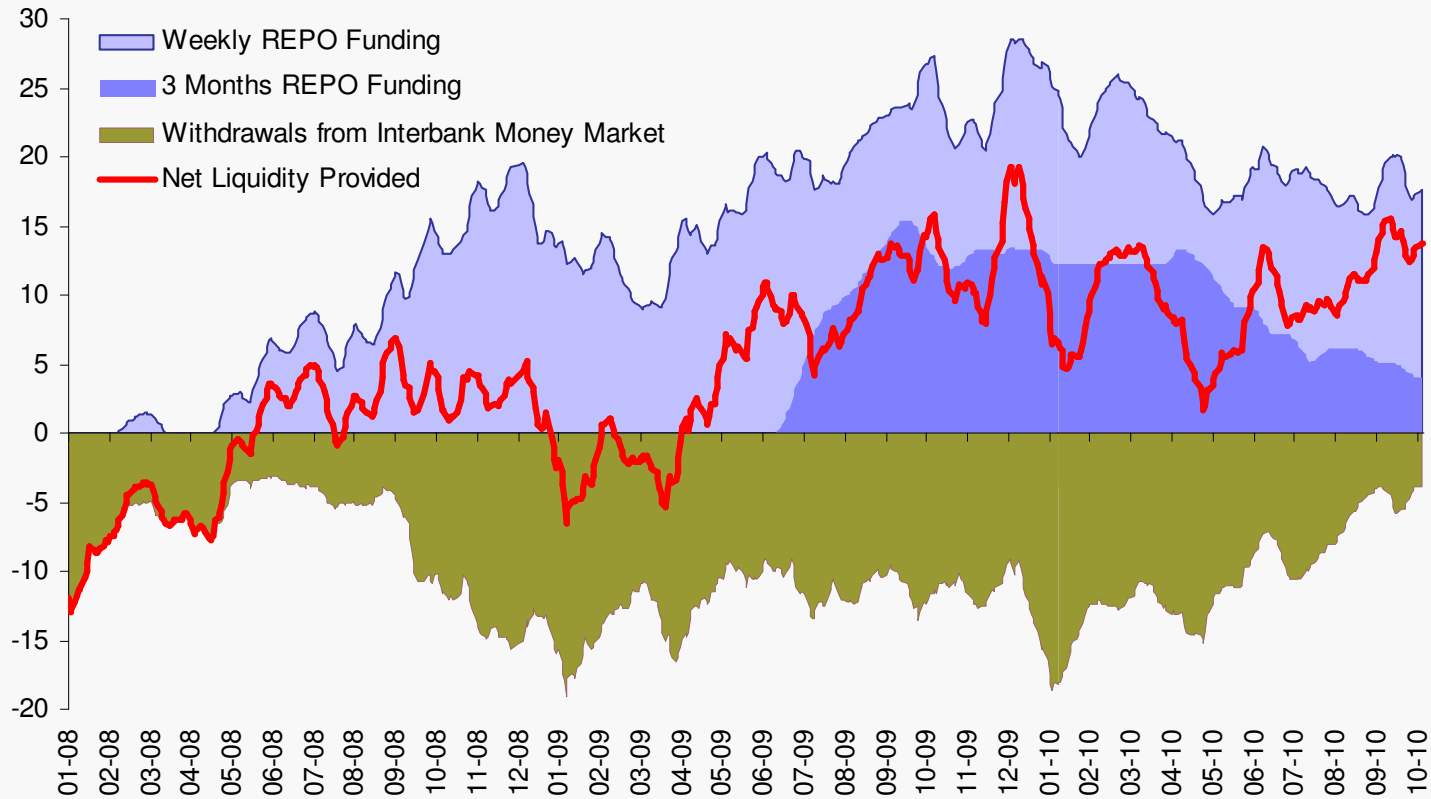
(May 2009 – Oct 2010)



Source: CBT

Liquidity adjustments by CBT

TRY Liquidity
(Jan 2008 – Oct 2010, billion TL)



Source: CBT

Overall Assessment

- **Economic activity has been recovering gradually --- no signs of overheating.**
- **Headwinds from food prices are likely to be transitory, core inflation remains subdued, inflation expectations are stable.**
- **The additional measures we have taken recently should be perceived as a preparation for the new economic environment shaped by intensive capital flows to EMs and high CAD.**
- **Policy rates would be maintained at current levels for some time, and kept at low levels for a long period.**
- **CBT will continue to take measures to enhance the resilience of the economy against the financial risks that we may be exposed to in the medium term.**

Basel III and the Banking Sector in Turkey

July 2010	Turkish Banking Sector (%)	Minimum plus Buffer (2019) (%)
Core Tier I Capital (4.5 %)	16.8	7.0
Core Capital (6 %)	17.4	8.5
Capital Adequacy Ratio (8 %)	19.3	10.5
Leverage Ratio (3 %)	6.4	3.0

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