



**TÜRKİYE CUMHURİYET
MERKEZ BANKASI**

**Meeting with the
Association of Economy Reporters**

**Erdem Başçı
Governor**

**August 25, 2012
Ankara**

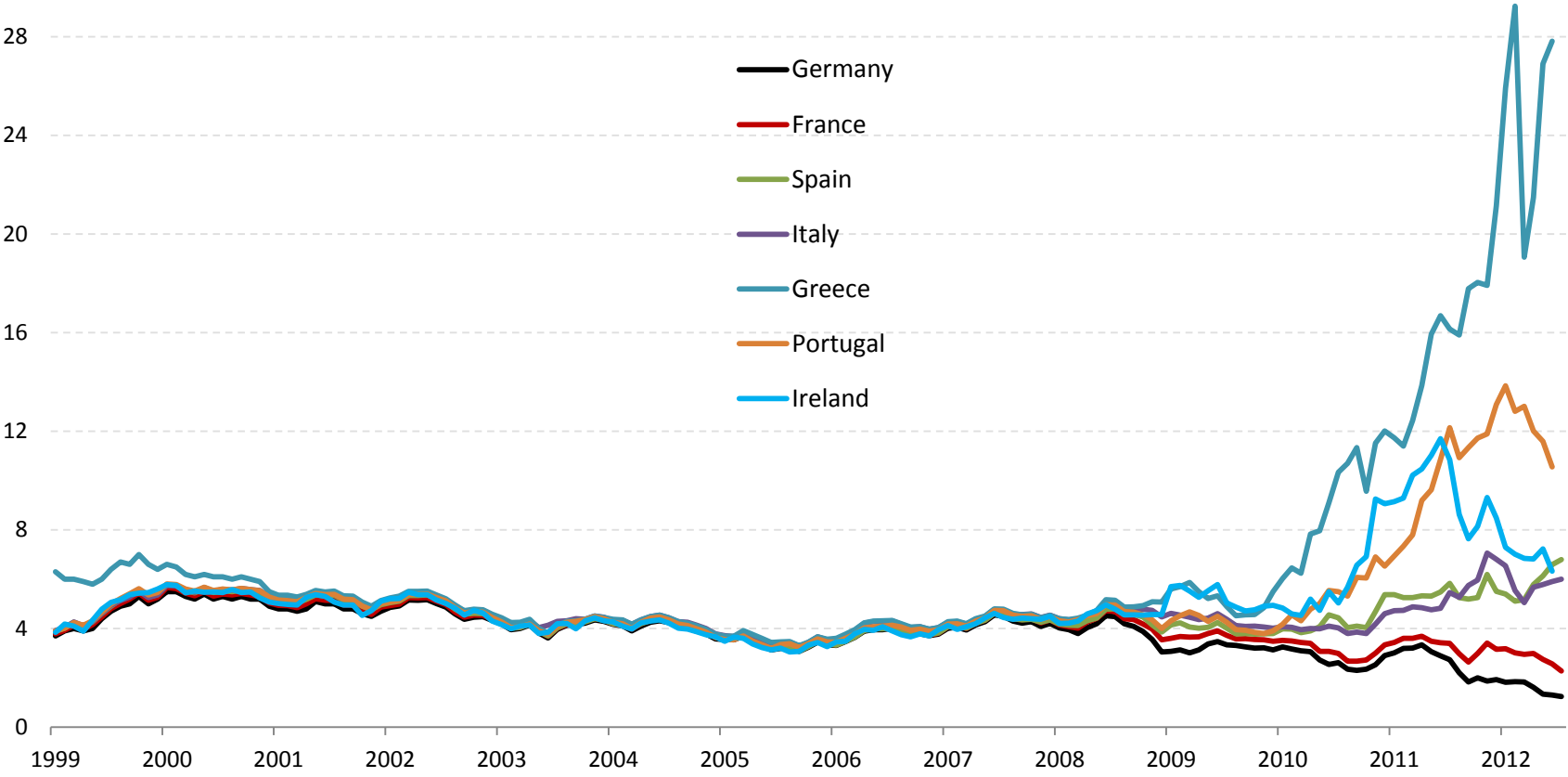
Outline

- I. Financial Instability in Europe**
- II. Financial Stability in Turkey**
- III. Price Stability in Turkey**

FINANCIAL INSTABILITY IN EUROPE

Interest Rates

Interest Rates on 10-Year Bonds (percent)

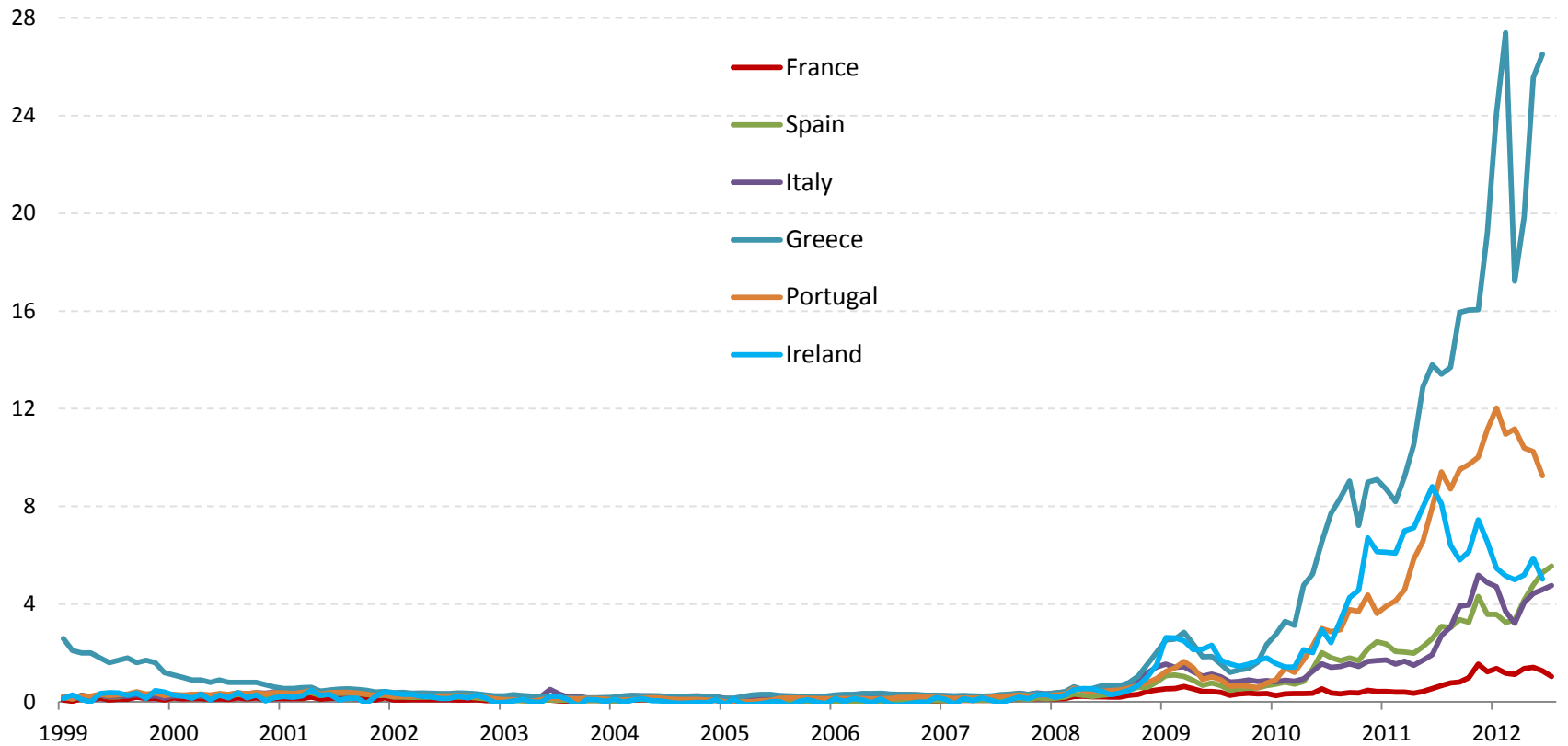


Source: Bloomberg, Datastream, CBRT.

Latest Data: July 2012

Risk Premia

Risk Premia on 10-Year Bonds* (percent)

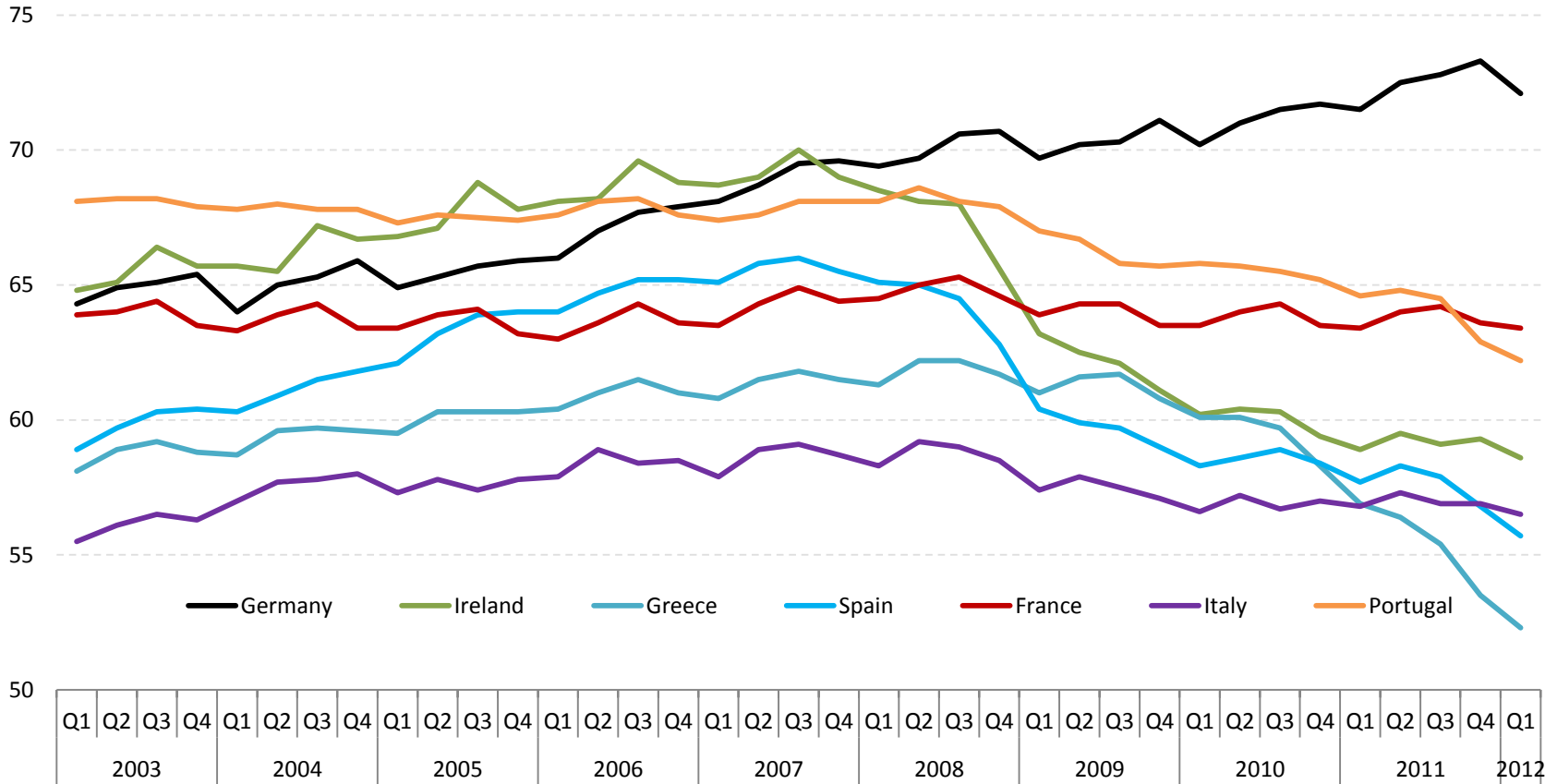


Source: Bloomberg, Datastream, CBRT.

*Bond Yield Spreads in Selected Countries over 10-Year German Bonds
Latest Data: July 2012

Risk Premium and Employment

Employment Rates (percent, ages between 15-64)

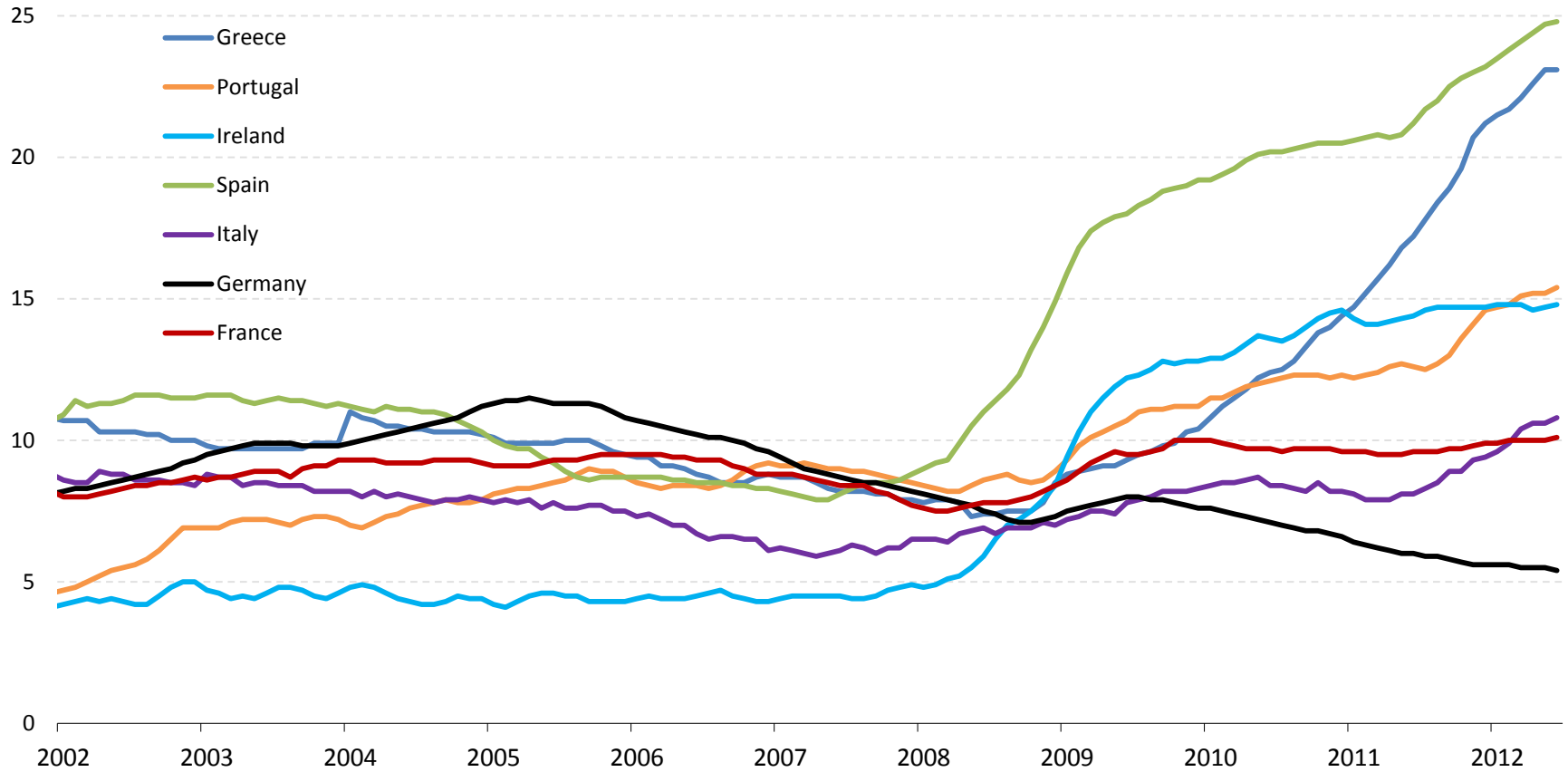


Source: Eurostat, CBRT.

Latest Data: 2012Q1

Risk Premium and Unemployment

Unemployment Rates (percent)



Source: Bloomberg, Eurostat, CBRT.

Latest Data: June 2012

Determinants of Risk Premium

- I. Liquidity
- II. Solvency

FINANCIAL STABILITY IN TURKEY

Turkey's Risk Premium

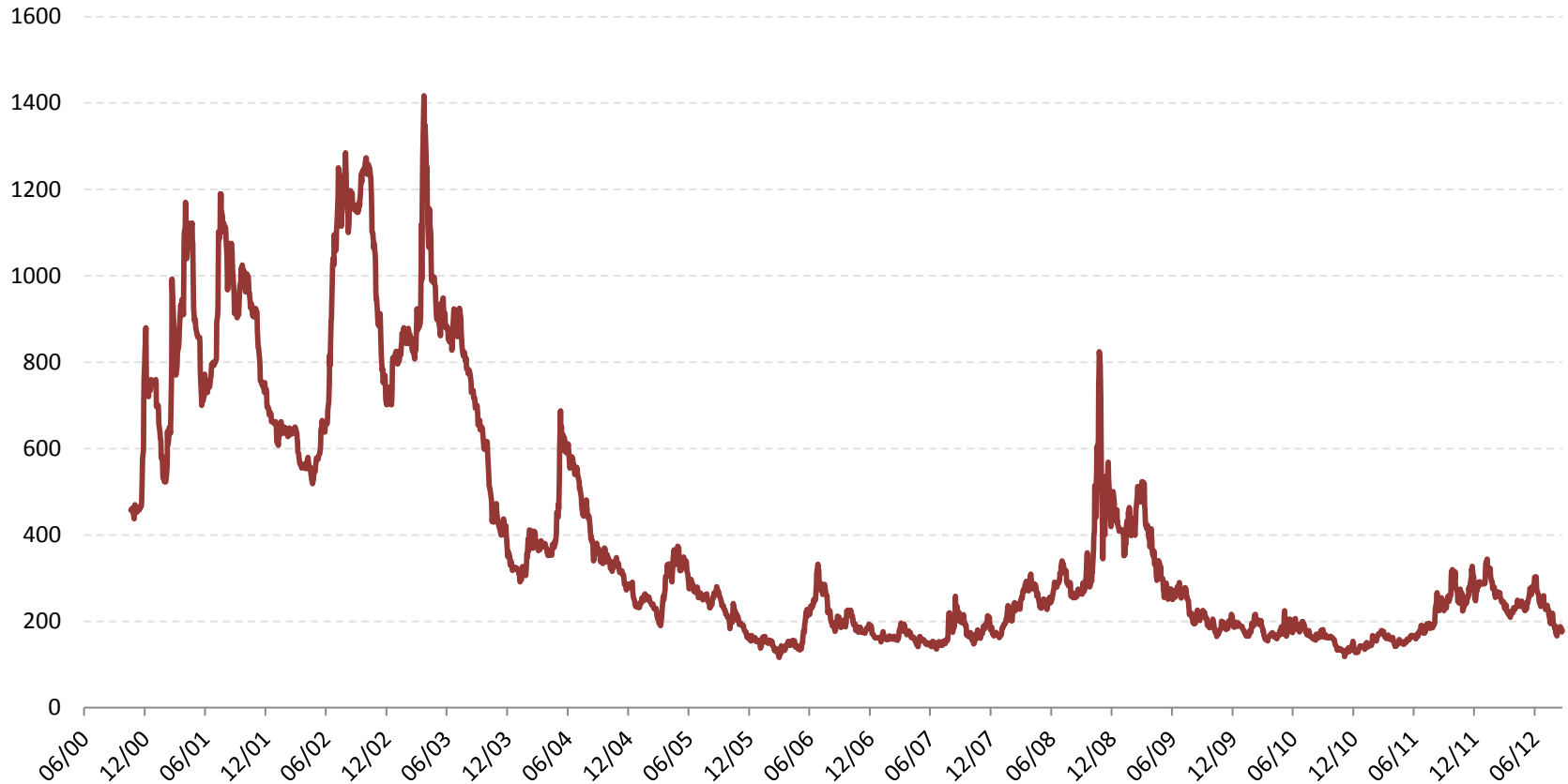
Spread between Turkish and US 10 Year T-bonds



Source: Bloomberg, CBRT.

Turkey's Risk Premium

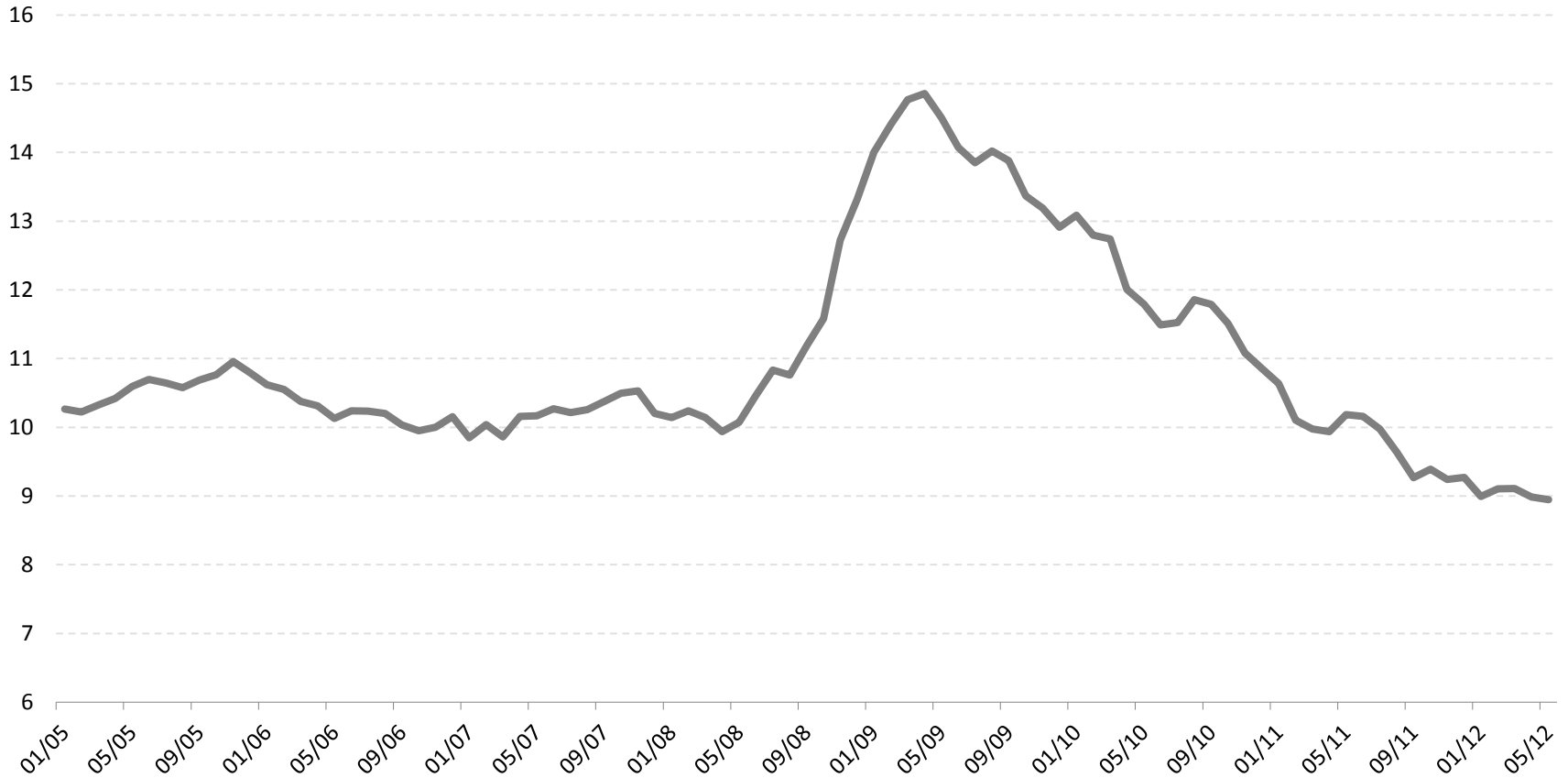
Turkey's 5-Year CDS Spread



Source: Bloomberg, CBRT.

Unemployment Rate in Turkey

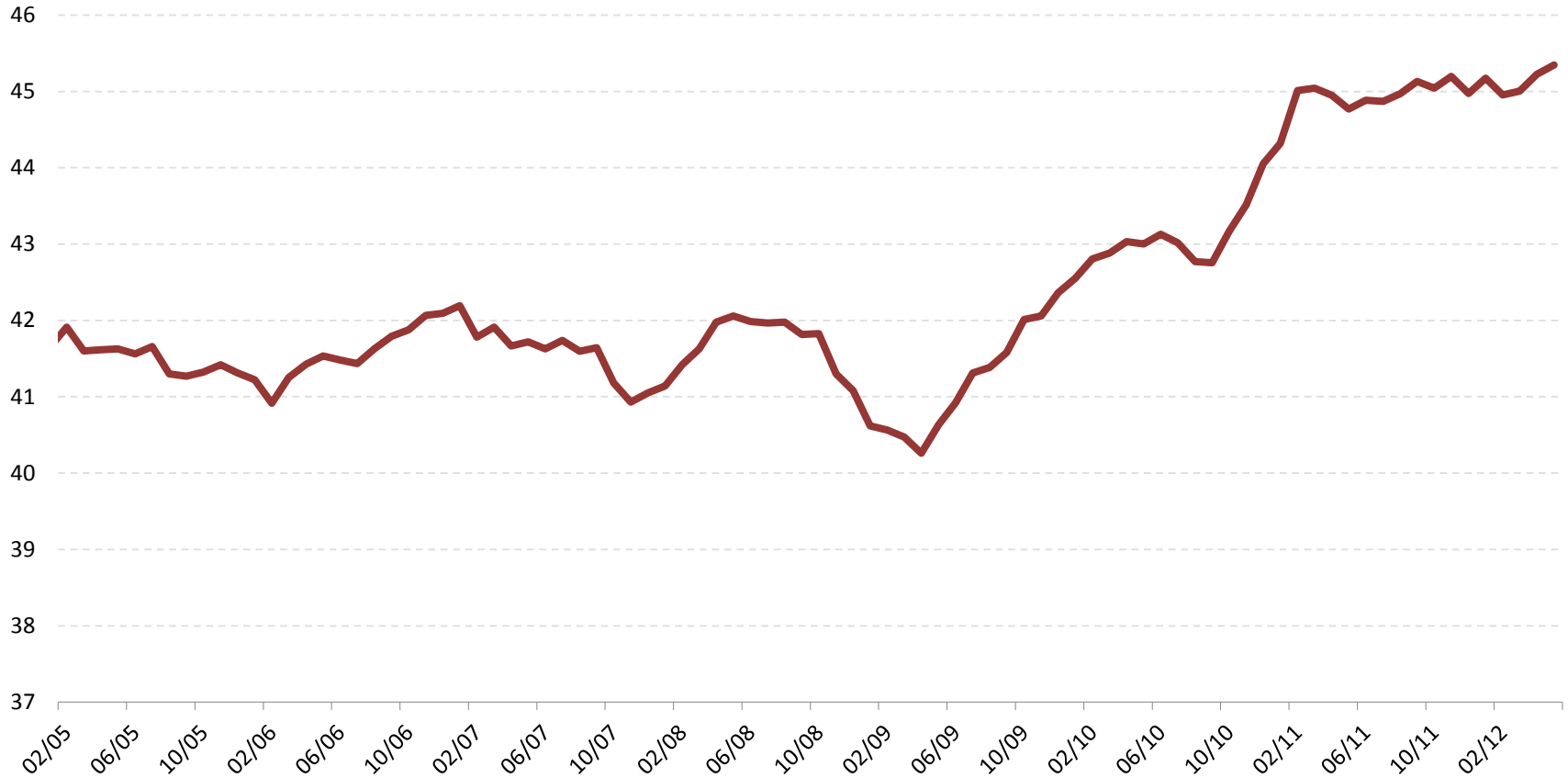
Unemployment Rate
(percent, seasonally-adjusted)



Source: TURKSTAT, CBRT

Employment Rate in Turkey

Employment Rate*
(percent, seasonally-adjusted, over 15 years of age)

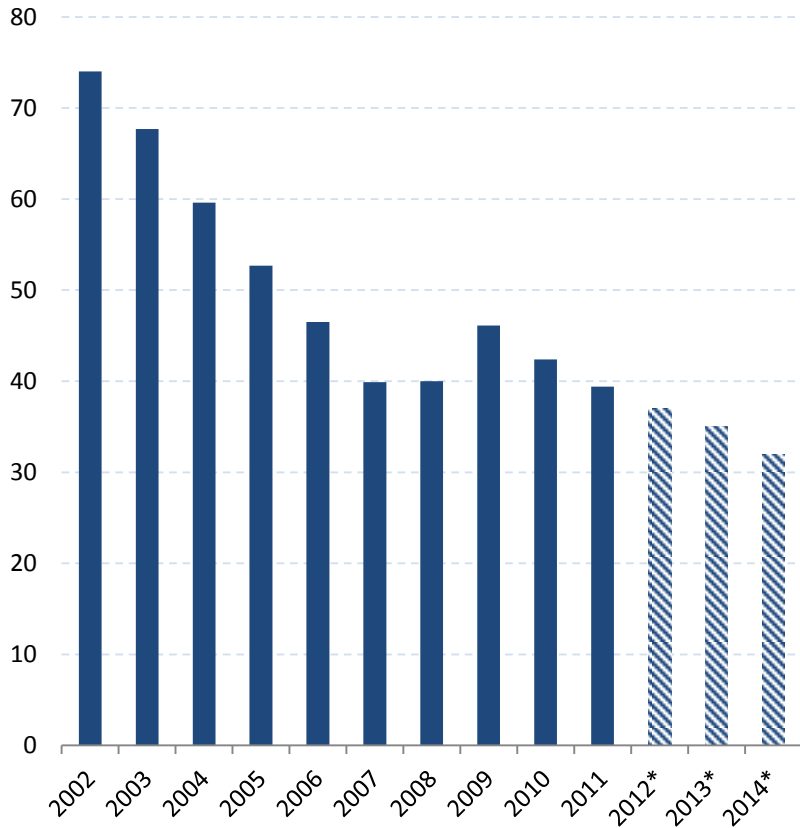


Source: TURKSTAT, CBRT

*Ratio of employed to total population over 15 years of age.

Public Sector Debt

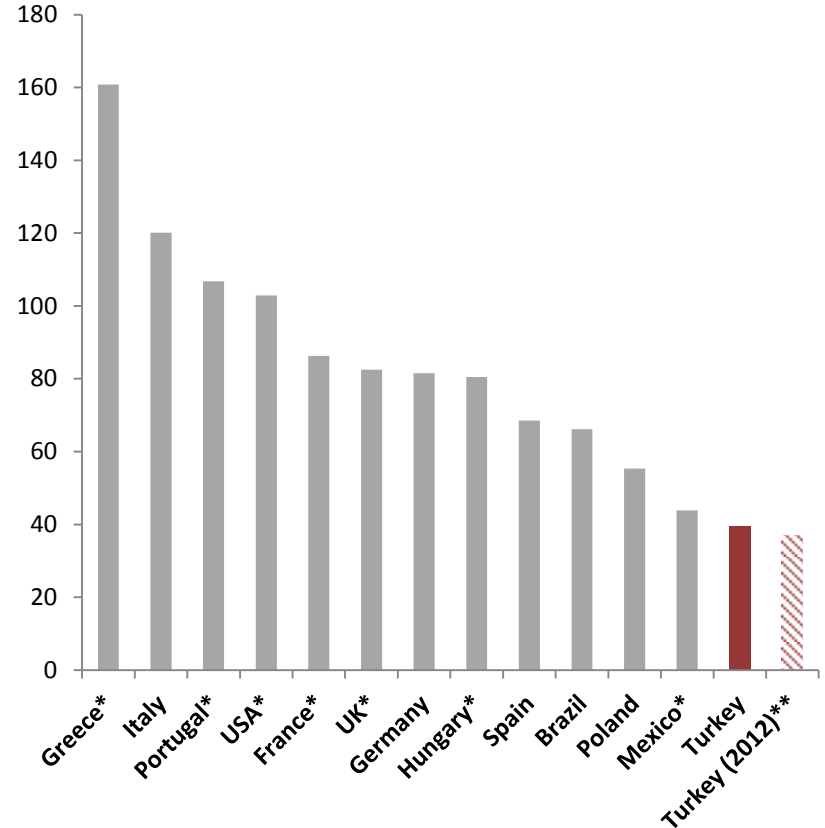
EU-Defined Public Debt Stock (ratio to GDP)



Source: Undersecretariat of Treasury, CBRT

*MTP estimates (2012-2014)

Sovereign Debts (ratio to GDP, percent, 2011)



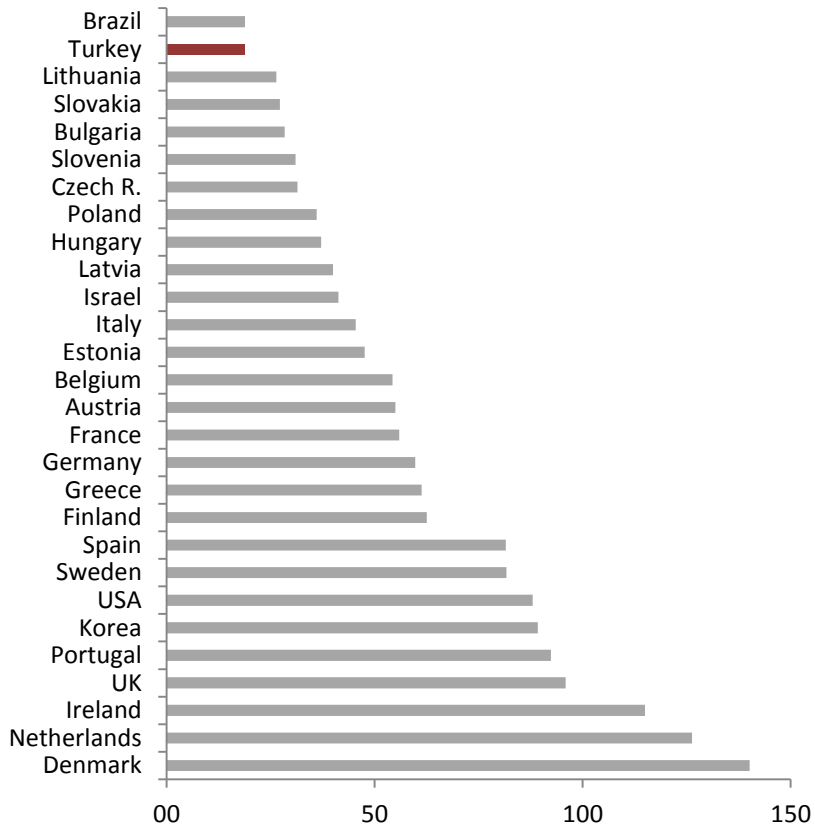
Source: IMF WEO, Ministry of Development, CBRT.

*IMF estimate

**Turkey's 2012 value is from the MTP.

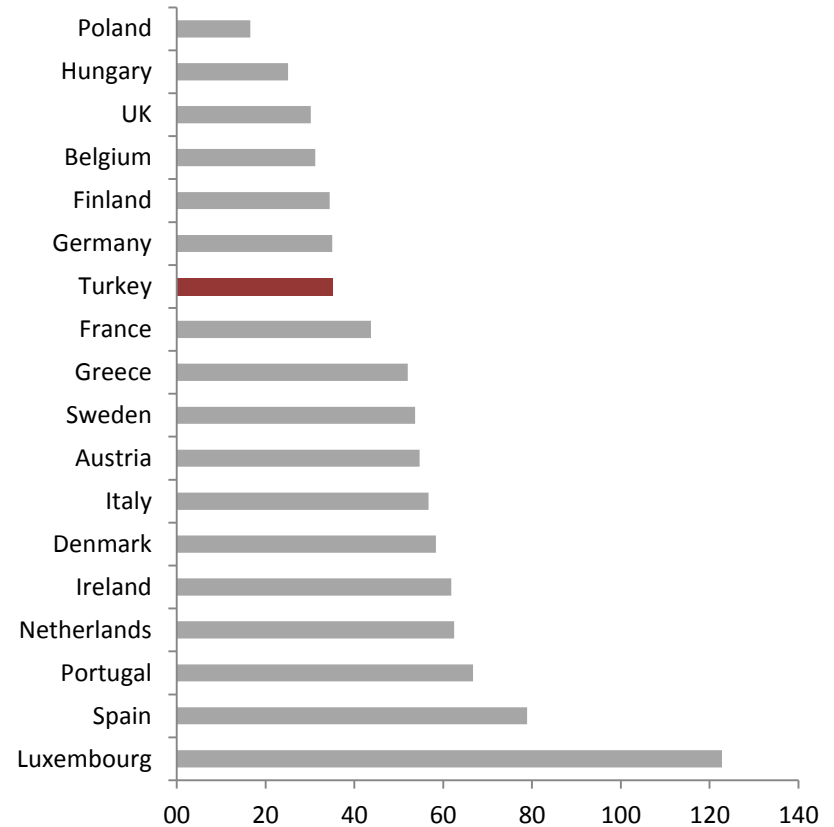
Real Sector Debt

Household Liabilities (ratio to GDP, percent)



Source: ECB, CBRT.

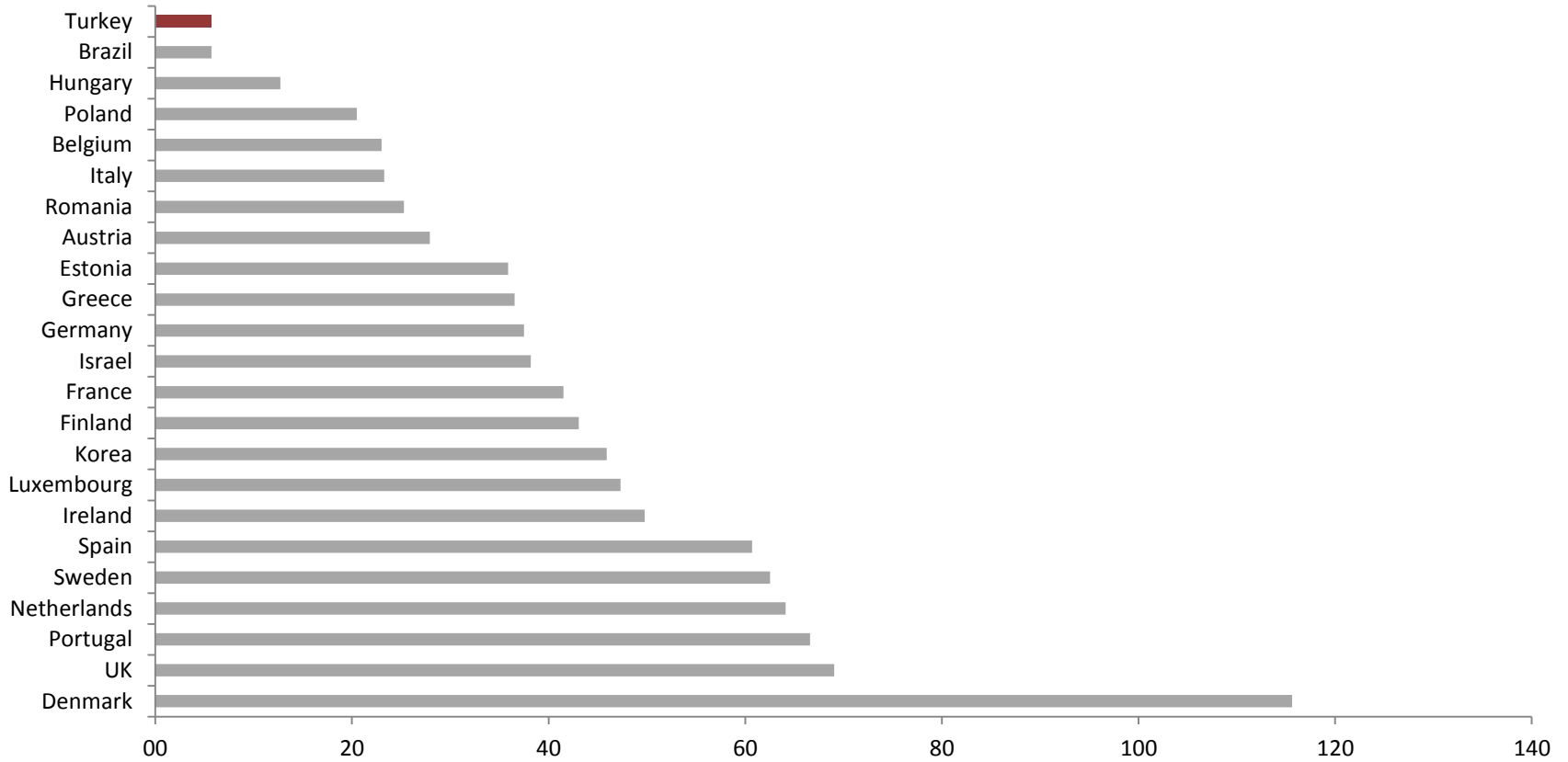
Corporate Liabilities (ratio to GDP, percent)



Source: ECB, CBRT.

Housing Loans

Housing Loans (ratio to GDP, percent)



Source: ECB, CBRT.

What Has Changed with Basel III?

➤ Liquidity

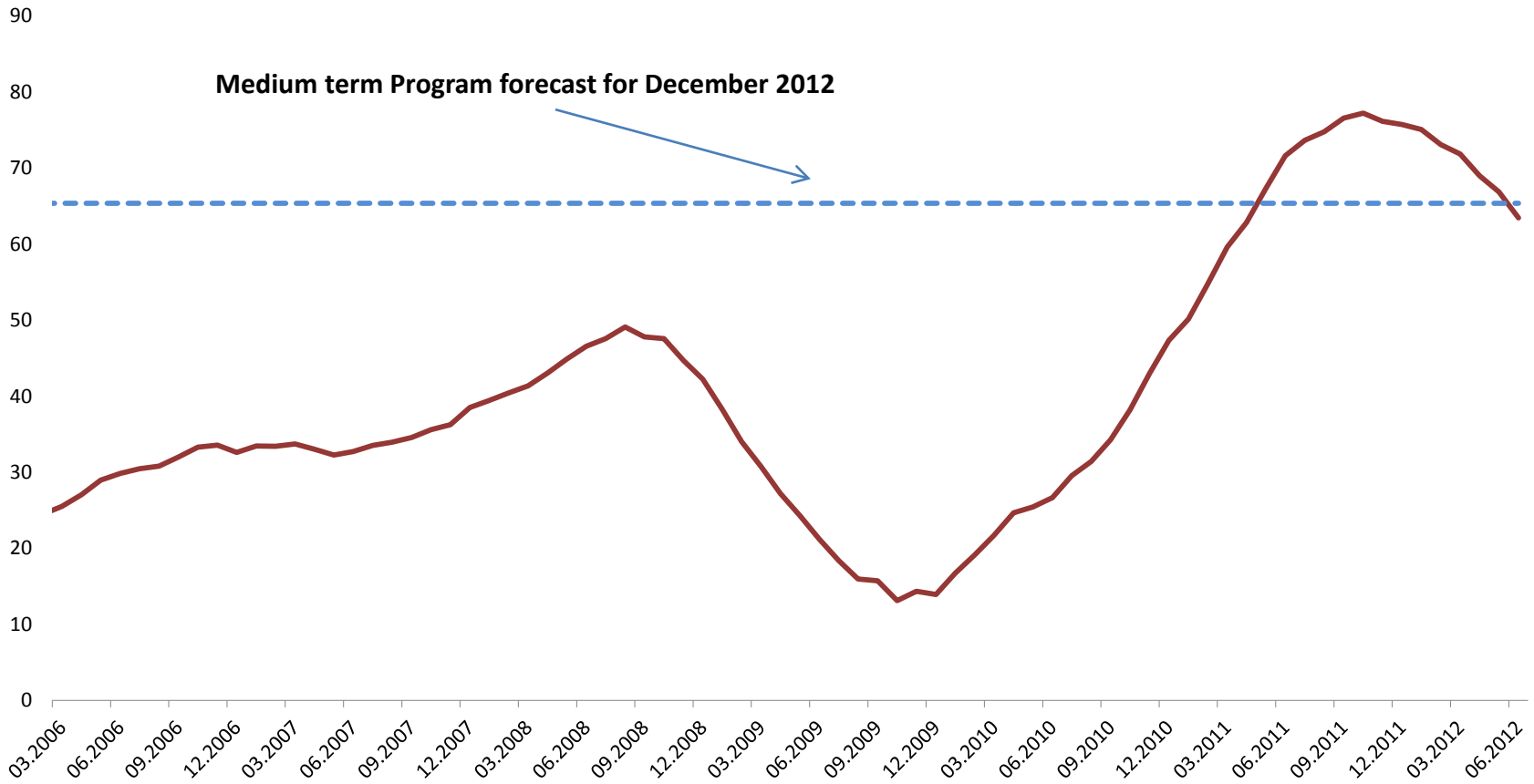
- Liquidity Coverage Ratio
- Net Stable Funding Ratio

➤ Capital Adequacy

- Leverage Ratio
- Capital Adequacy Ratio
- Countercyclical Capital Buffer

Improving External Balance

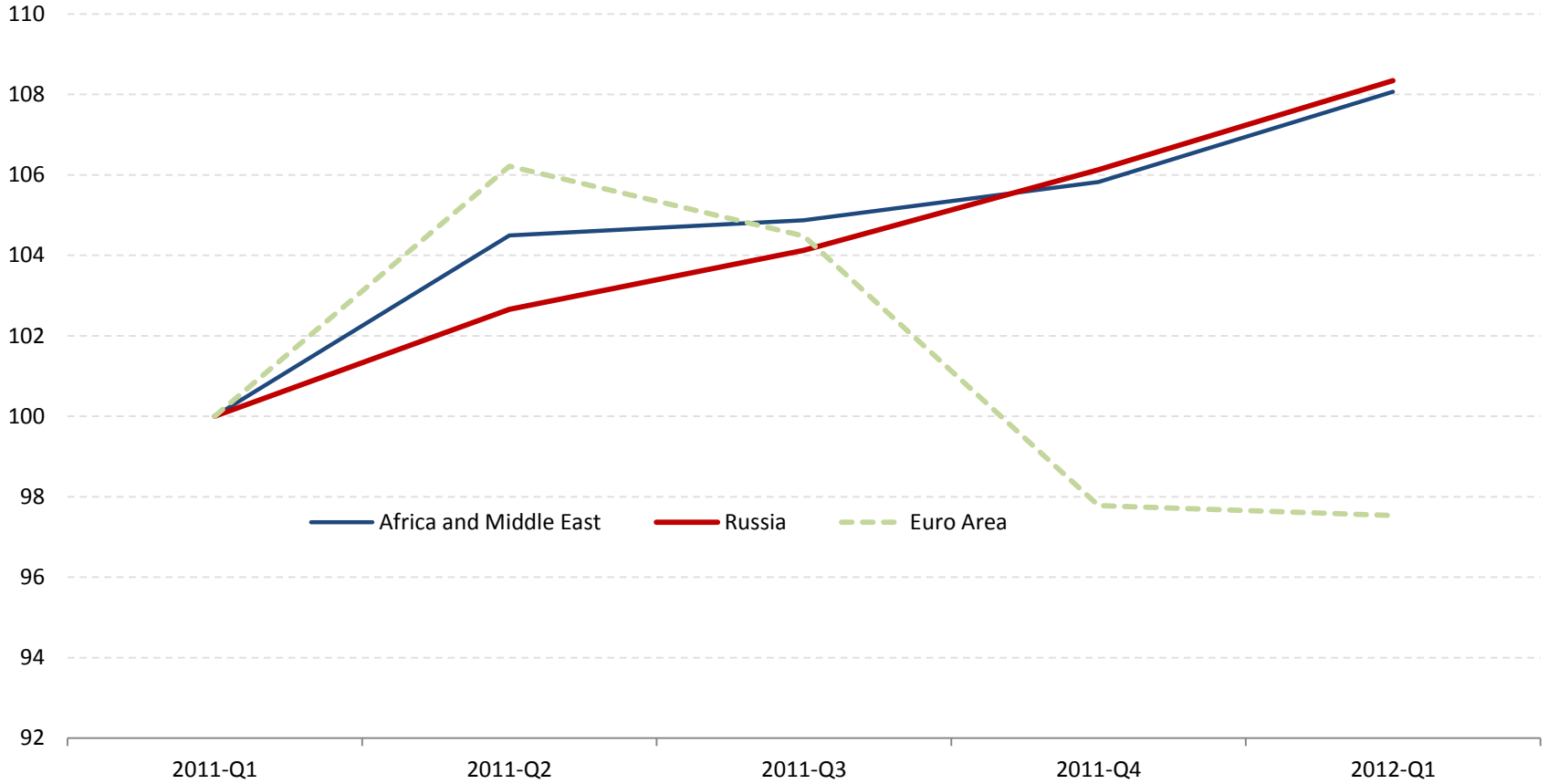
Current Account Deficit (12-month cumulative, mio USD)



Source: CBRT

Imports of Our Main Trading Partners

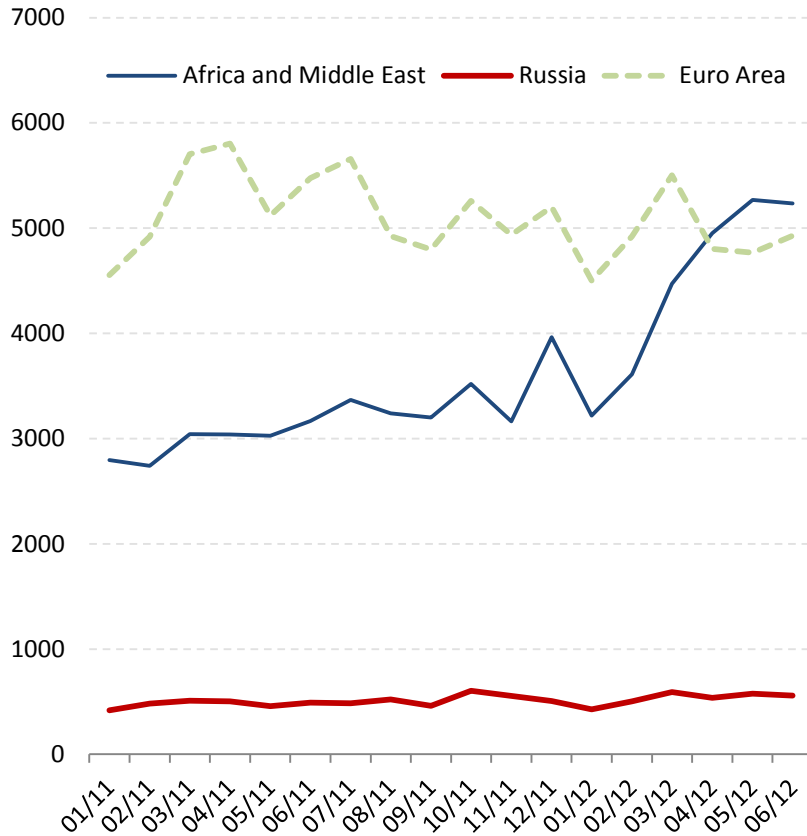
Imports (2011Q1=100)



Source: Bloomberg, IFS, CBRT

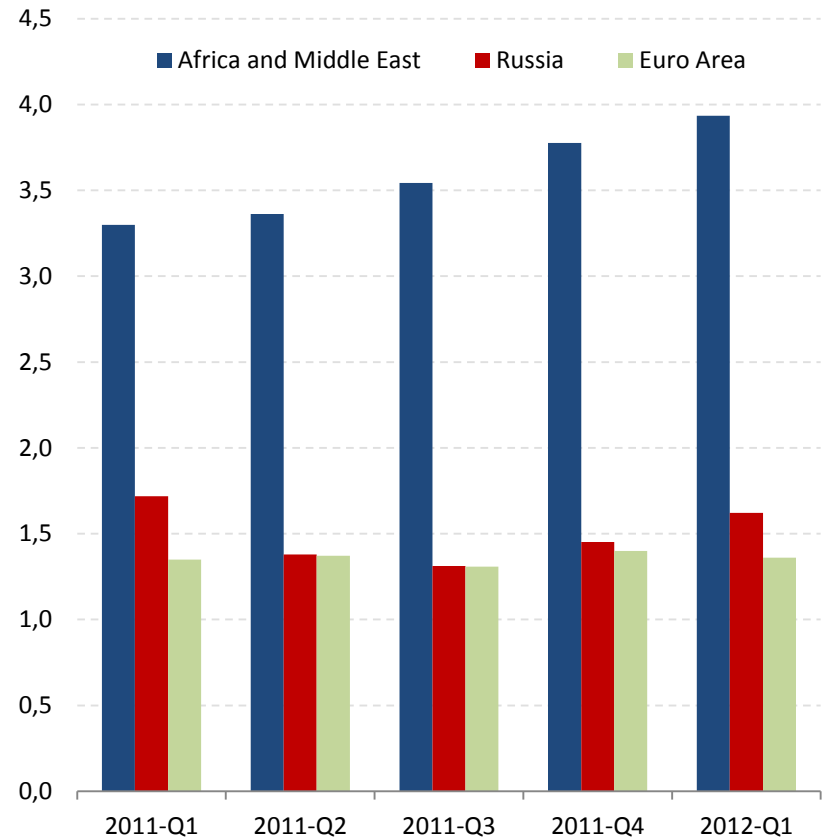
Exports: Market Diversification

Exports (monthly, mio USD)



Source: Bloomberg, IFS, CBRT

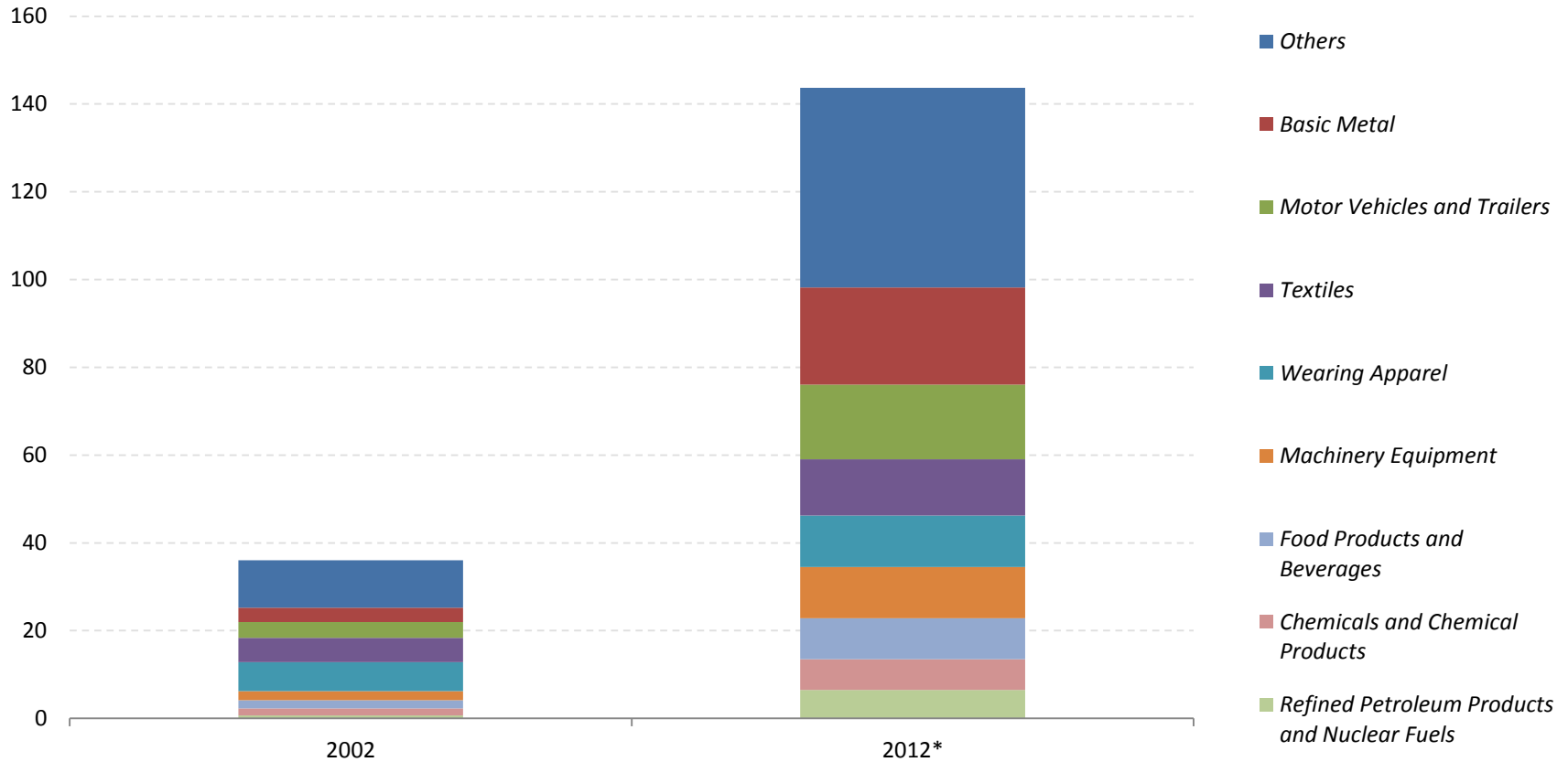
Share of Turkey in Region Imports



Source: Bloomberg, IFS, CBRT

Exports: Product Diversification

Eight Leading Export Sectors (bio USD)



Source: TURKSTAT, CBRT

*Past 12 months total

Composition of Short-Term Foreign Debt Stock

Short-Term Foreign Debt Stock*

	SHORT-TERM EXTERNAL DEBTS*	TOTAL EXTERNAL DEBTS	RATIO
PUBLIC SECTOR	19,131	102,109	18.7
GENERAL GOVERNMENT	6,060	84,605	7.2
Central Government	5,639	80,786	7.0
Local Administrations	415	3,798	10.9
Funds	6	21	28.6
FINANCIAL INSTITUTIONS	12,918	16,225	79.6
Public Banks	12,918	16,225	79.6
NON-FINANCIAL INSTITUTIONS	153	1,279	12.0
SOEs	153	1,157	13.2
Others	0	122	0.0
CBRT	4,519	8,718	51.8
PRIVATE SECTOR	120,433	213,208	56.5
FINANCIAL INSTITUTIONS	69,082	102,122	67.6
Banks	57,606	84,333	68.3
Non-banking Institutions	11,476	17,789	64.5
NON-FINANCIAL INSTITUTIONS	51,351	111,086	46.2
TOTAL	144,083	324,035	44.5

Source: Treasury, CBRT.

*Days to maturity by end-June 2012

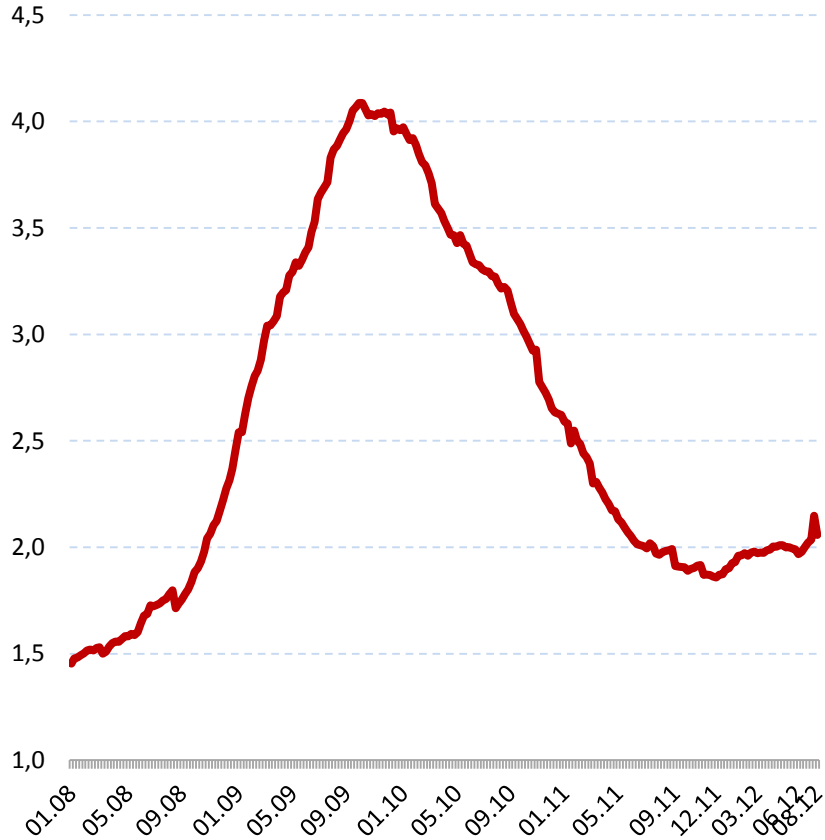
Greenspan-Guidotti Rule

$$\frac{\text{Net International Reserves}}{\text{Short-term Foreign Debt}} \geq \%100$$

* By the end of June-2012, for Turkey, **net international reserves** (including gold and commercial bank reserves) are **\$113,3 billion**, **short-term foreign debt stock** – excluding foreign branches - is **\$118,3 billion**, and **Reserve/STFD ratio** is % 95,8.

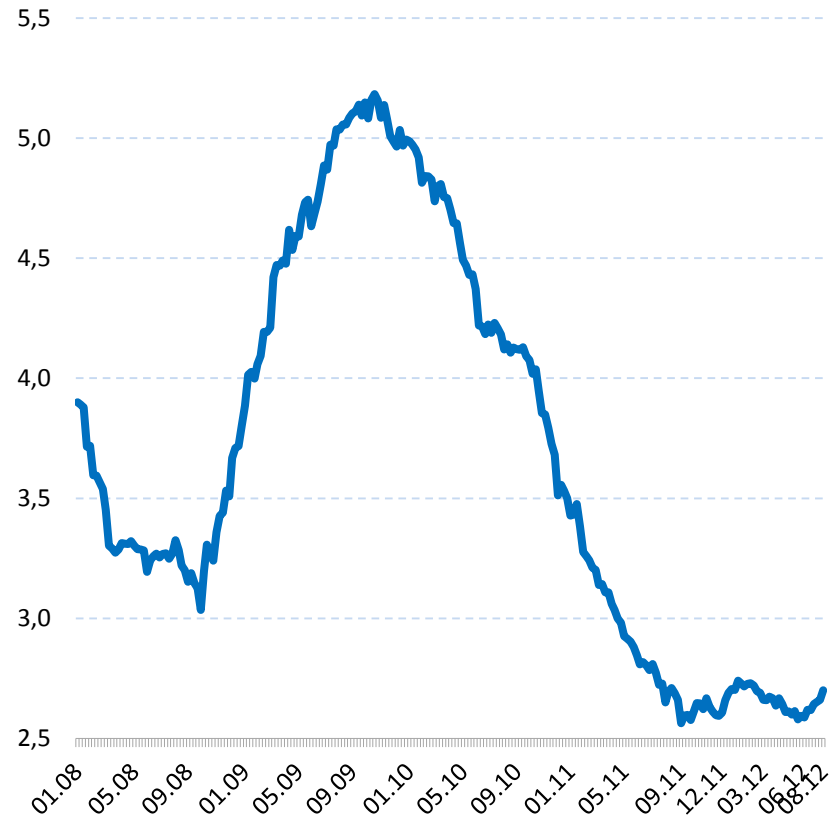
Non-Performing Loans (NPLs)

NPL Ratios for Consumer Loans (percent)



Source: CBRT.

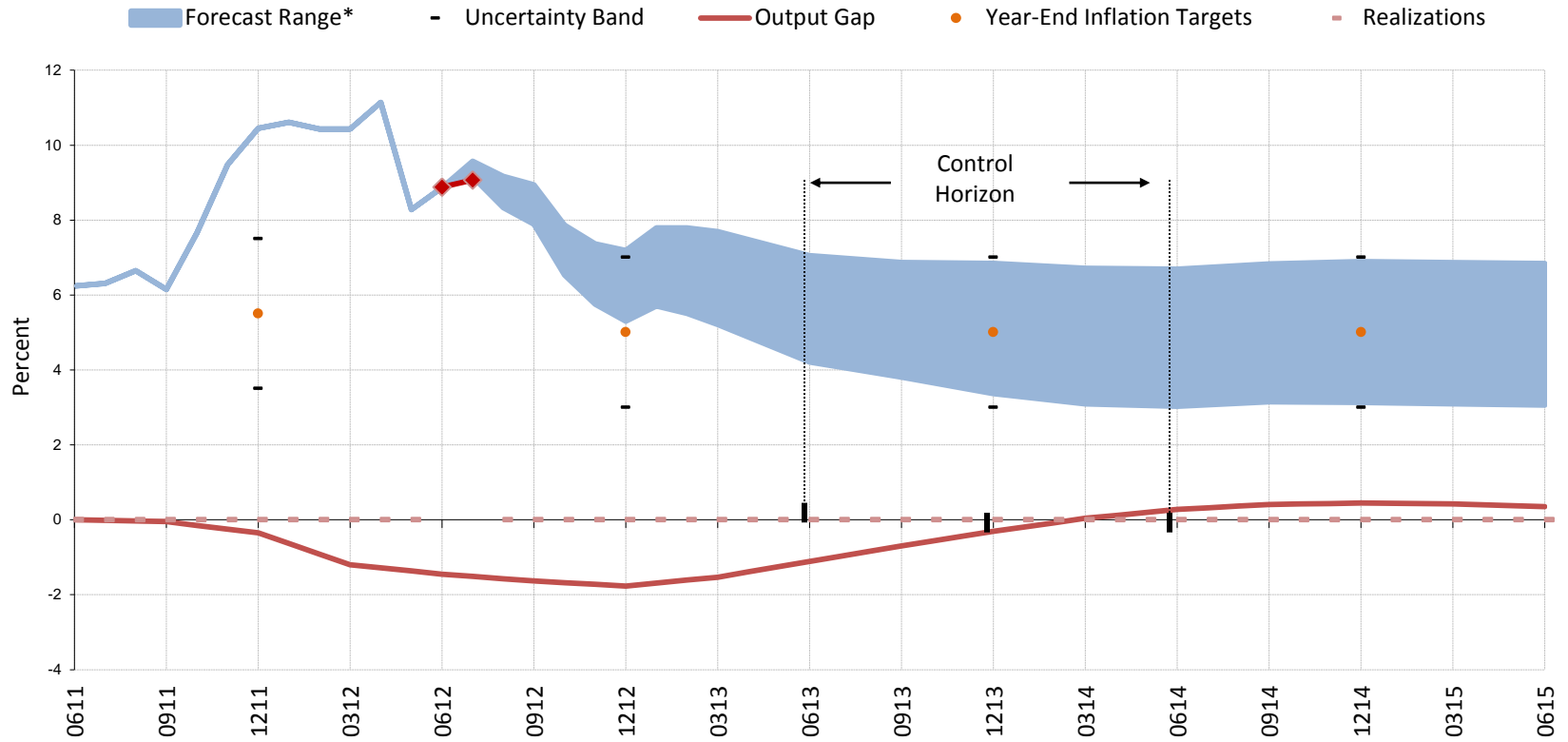
NPL Ratios for Corporate Loans (percent)



Source: CBRT.

PRICE STABILITY IN TURKEY

Inflation Forecasts and Realizations



Source: TURKSTAT, CBRT

Summary

- There is a strong negative correlation between country risk premia and employment.
- Any step taken to improve Turkey's risk premium will continue to support not only employment but growth as well.
- The decline in inflation will accelerate in late-2012.
- Rebalancing between the domestic and external demand continues as envisaged.
- The improvement in current account deficit that started in October 2011 is expected to continue.



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