

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Durmuş YILMAZ
Governor

**Presentation before the Planning and Budget Commission
of the Grand National Assembly of Turkey**

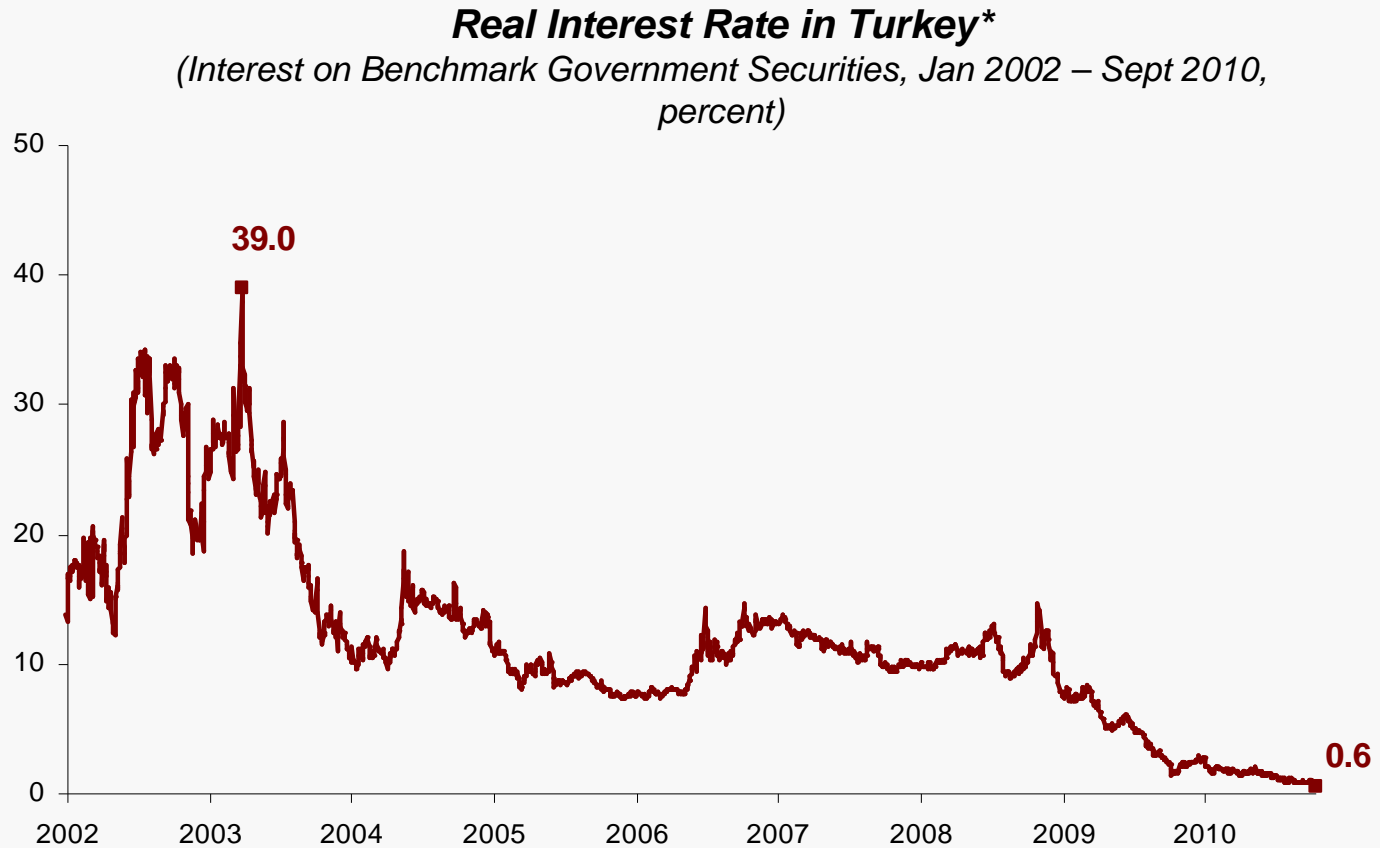
October 2010

Presentation Outline

- I. The Value of Stability**
- II. How to Maintain Economic Stability**
- III. Price Stability**
- IV. Financial Stability**
- V. Global Economic Outlook**
- VI. Recent Developments in the Turkish
Economy**

I. The Value of Stability

Result of Stability: Fall in Interest Rates

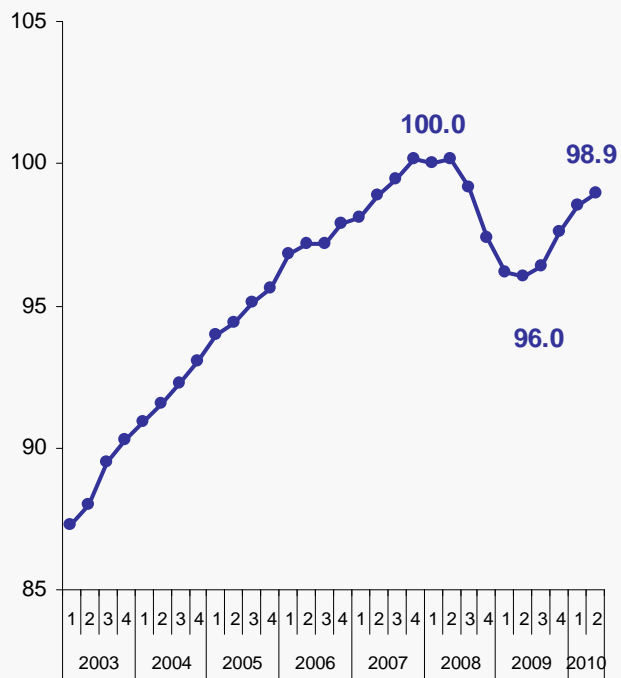


- Inflation expectations for 12 months
- Source: Undersecretariat of Treasury, CBT

Pace of Economic Recovery

USA – GDP*

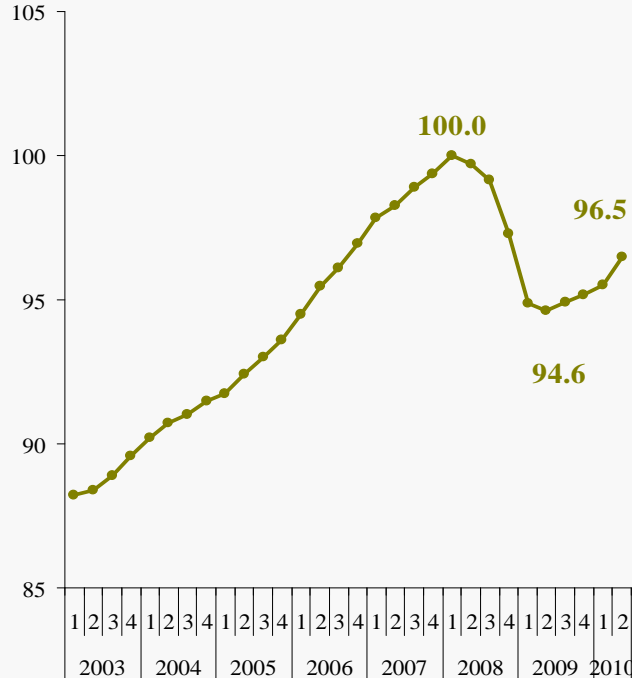
(2003 Q1–2010 Q2, real, 2008 Q1= 100)



*Seasonally Adjusted
Source: Bloomberg, CBT

Euro Area – GDP*

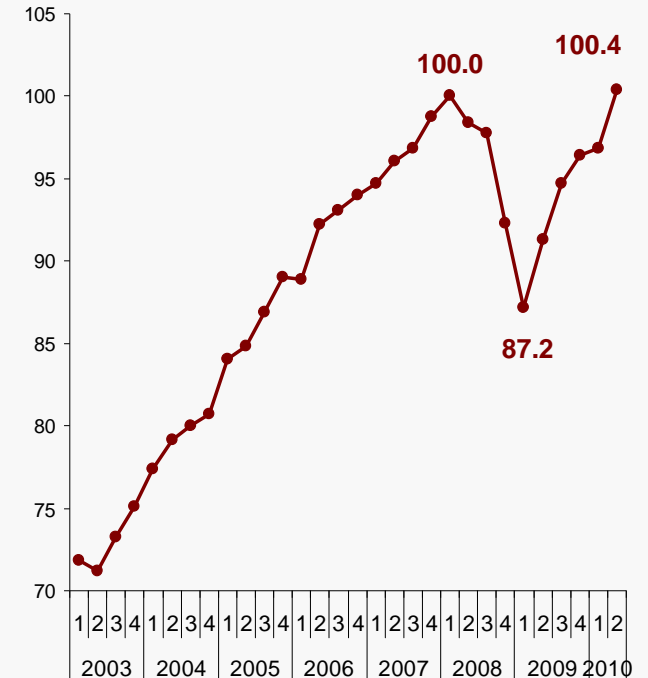
(2003 Q1–2010 Q2, real, 2008 Q1= 100)



*Seasonally Adjusted
Source: Eurostat, CBT

Turkey – GDP*

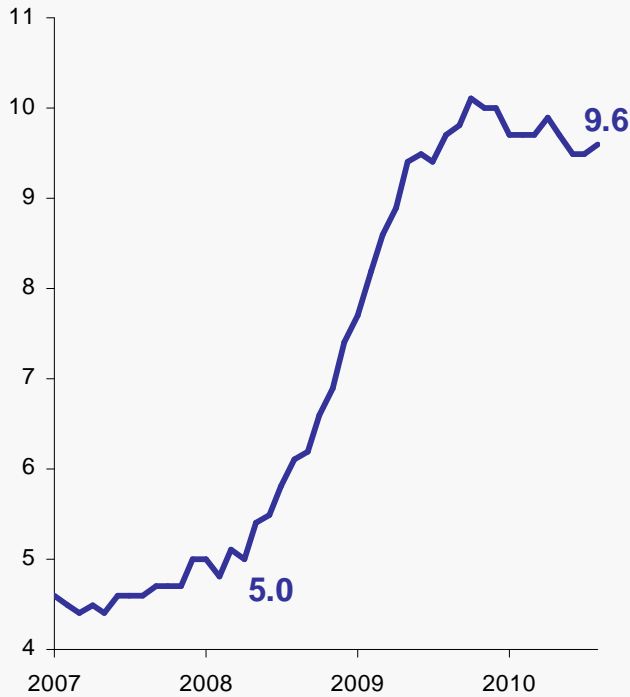
(2003 Q1–2010 Q2, real, 2008 Q1= 100)



*Seasonally Adjusted
Source: TurkStat, CBT

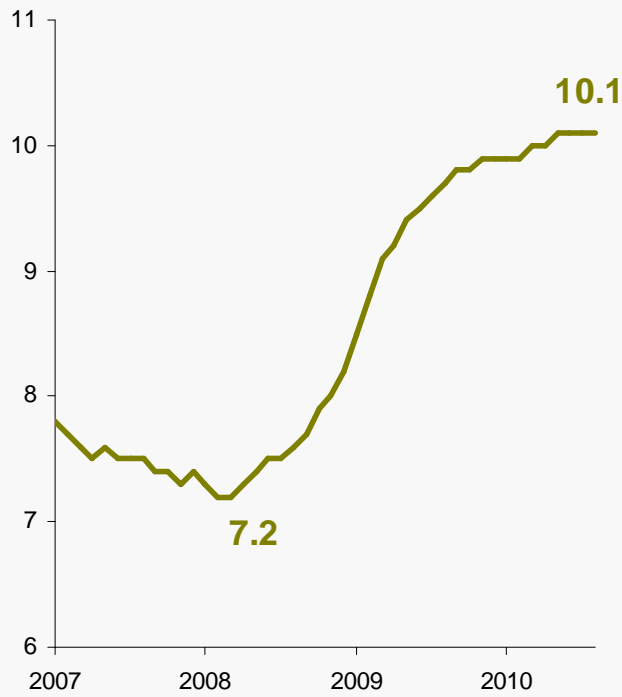
Unemployment Rates

USA – Unemployment Rates*
(Jan 2007 – Aug 2010, percent)



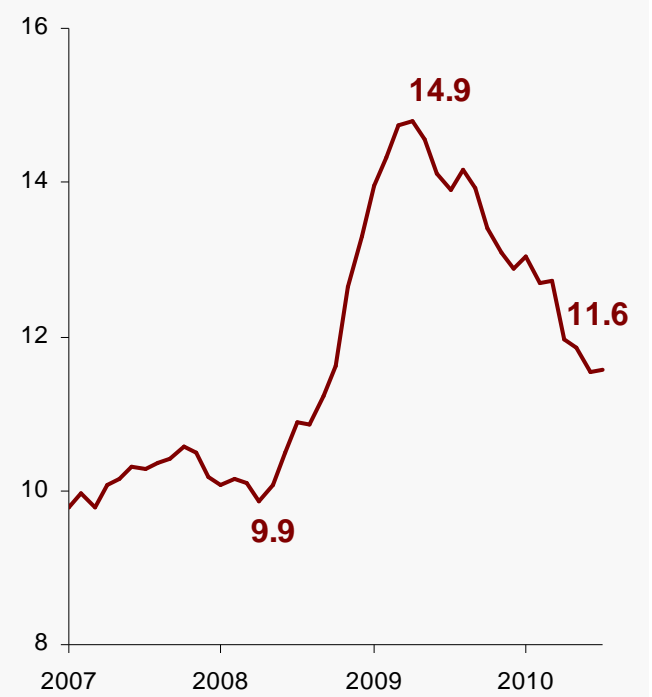
*Seasonally Adjusted
Source: Bloomberg, CBT

Euro Area – Unemployment Rates*
(Jan 2007 – Aug 2010, percent)



*Seasonally Adjusted
Source: Eurostat, CBT

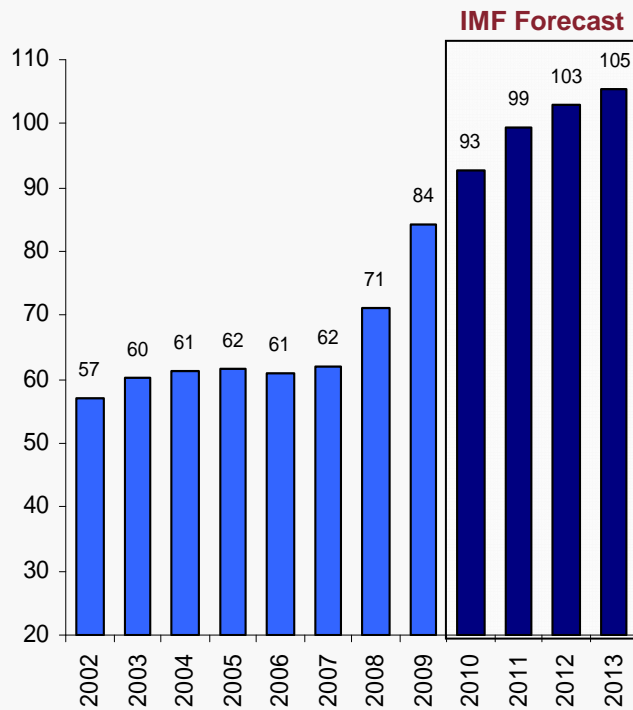
Turkey – Unemployment Rates*
(Jan 2007 – July 2010, percent)



*Seasonally Adjusted
Source: TurkStat, CBT

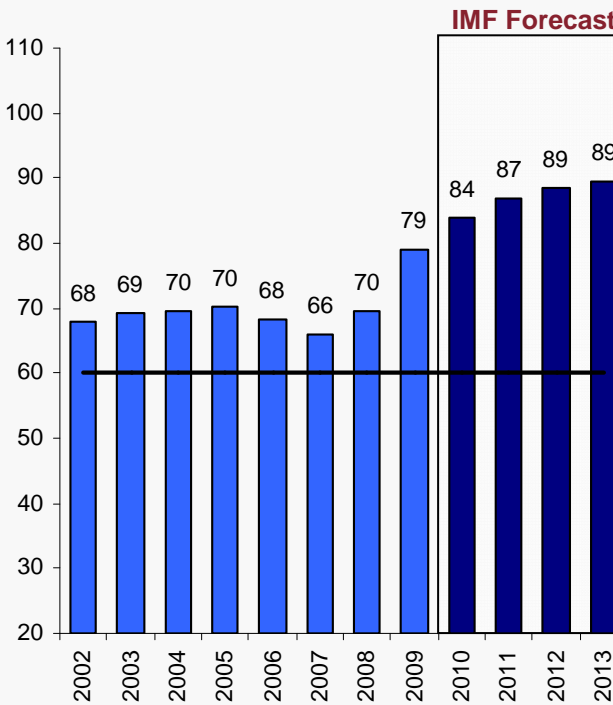
Public Finance

USA - Public Debt
(2002 – 2013, ratio to GDP)



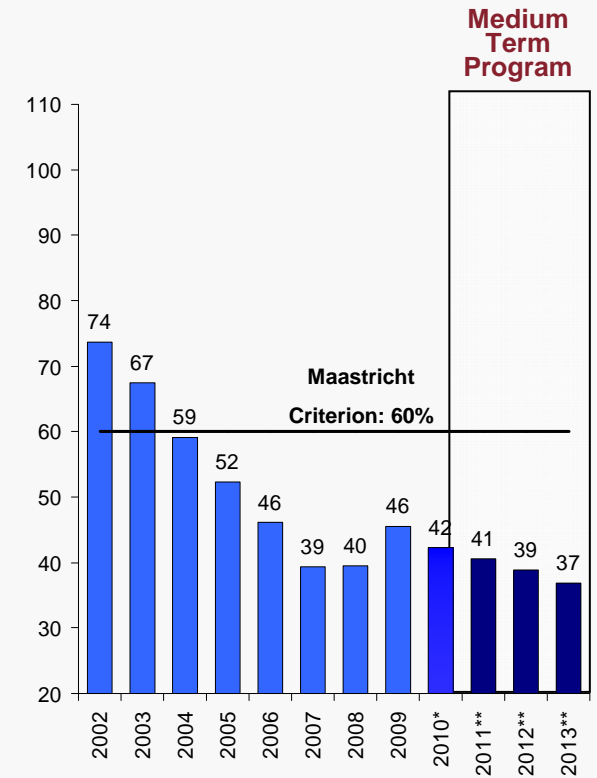
Source: IMF, WEO, CBT

Euro Area - Public Debt
(2002 – 2013, ratio to GDP)



Source: IMF, WEO, CBT

Turkey - Public Debt
(2002 – 2013, ratio to GDP)



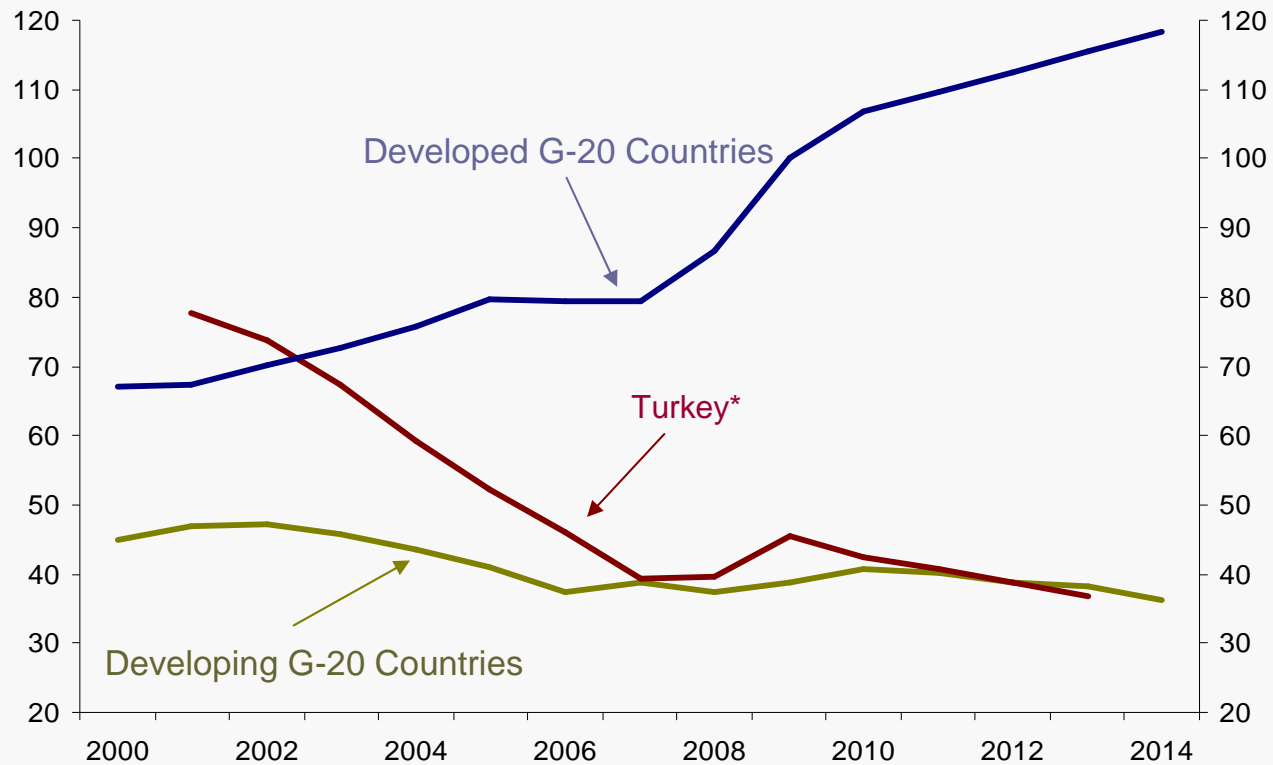
* Forecast

** Medium Term Program (2010 -2013) Targets

Source: Undersecretariat of Treasury, CBT

Public Finance

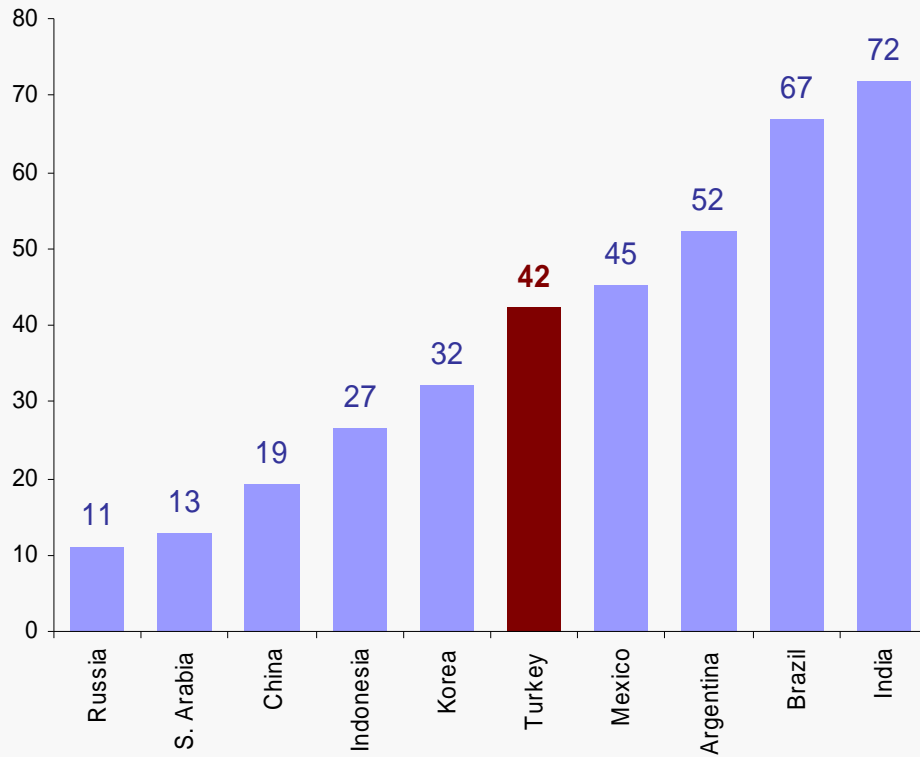
Public Debt Stock
(2000 - 2014, ratio to GDP)



*Medium Term Program (2010 -2013) Targets
Source: IMF WEO October 2010, Treasury, CBT

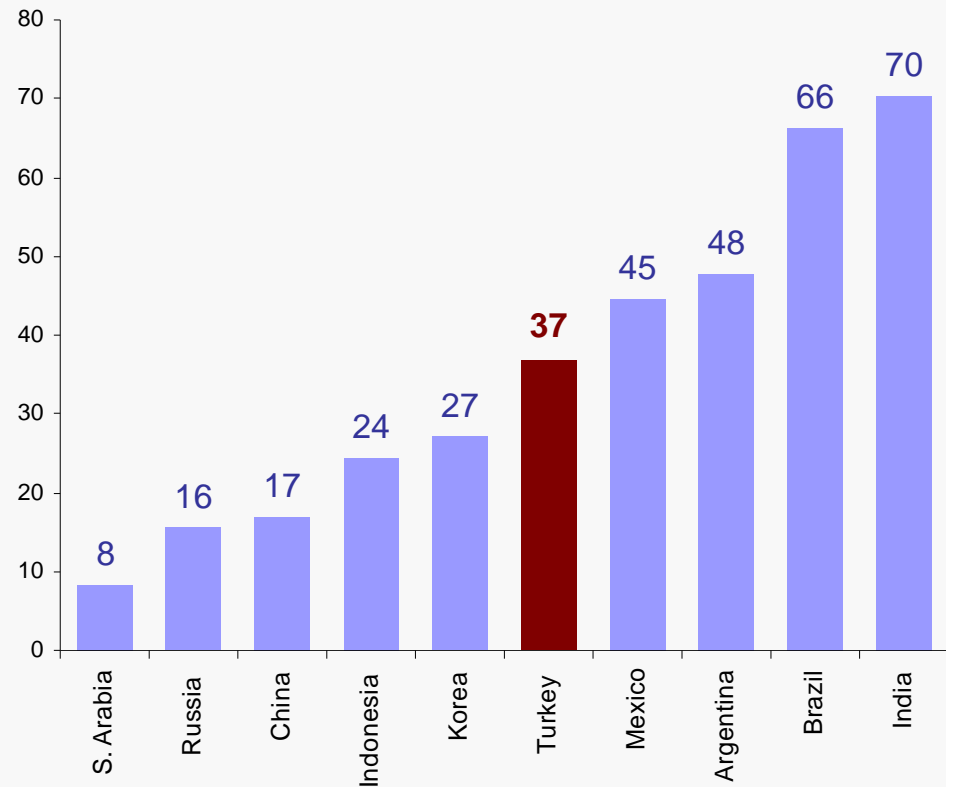
Public Finance

Public Debt Forecasts of Emerging G-20 Countries for 2010
(ratio to GDP, percent)



Source: IMF WEO October 2010, MTP, CBT

Public Debt Forecasts of Emerging G-20 countries for 2013
(ratio to GDP, percent)



Source: IMF WEO October 2010, MTP, CBT

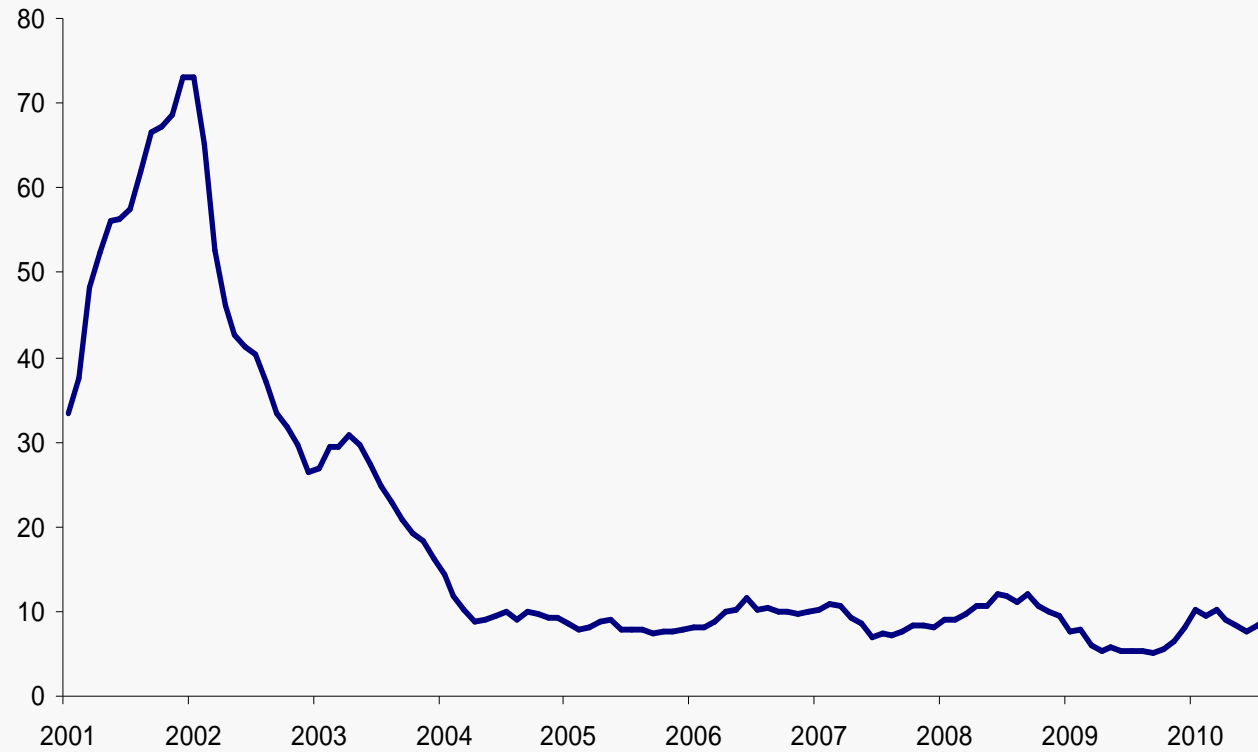
Why did Turkey experience a positive decoupling?

- **The fiscal program announced by Turkey (Medium Term Program):**
 1. Preceding many countries (16 September 2009),
 2. Medium-term,
 3. Internally consistent,
 4. Ambitious (decline in debt ratio as of 2010),
 5. Strictly implemented (without compromise)
- **Fiscal programs announced by developed economies:**
 1. G-20 Toronto Summit Declaration (27 July 2010),
 2. Termination of the increase in debt ratios as of 2016

Price Stability

CPI

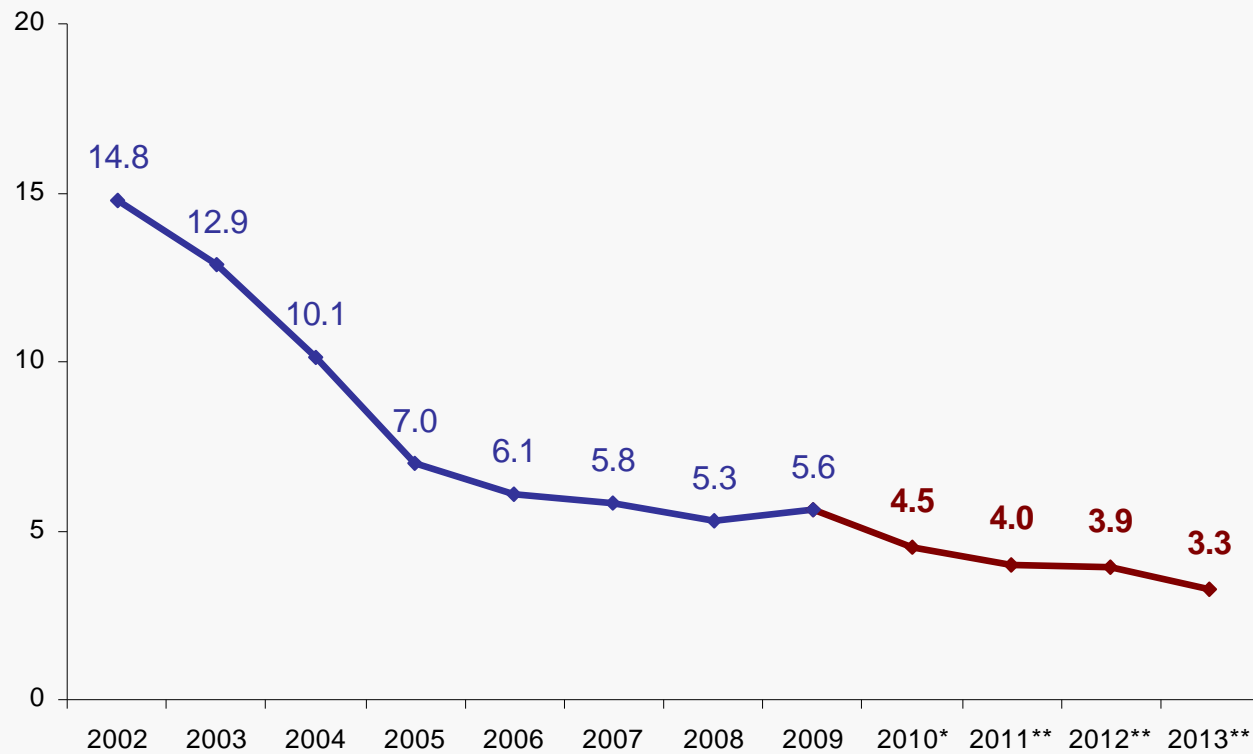
(Feb 2001- Sept 2010, annual percent change)



Source: TurkStat, CBT

Stability and Fiscal Space

Ratio of Interest Expenses to GDP
(2002-2013, percent)



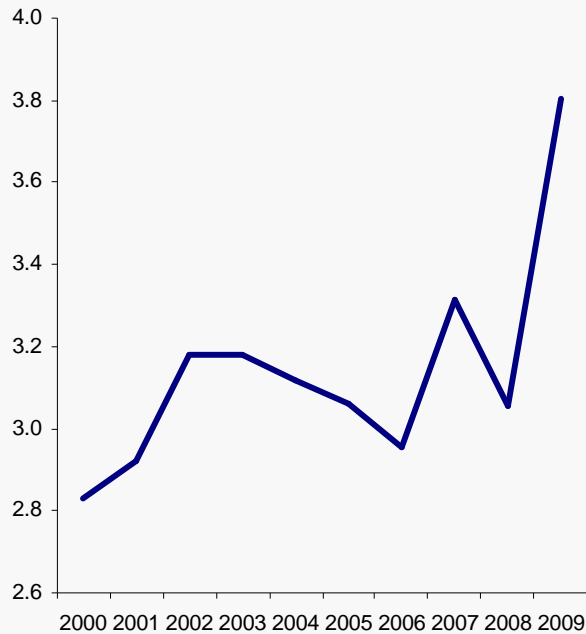
*Forecast

**Medium Term Program

Source: Undersecretariat of Treasury, Ministry of Finance, CBT

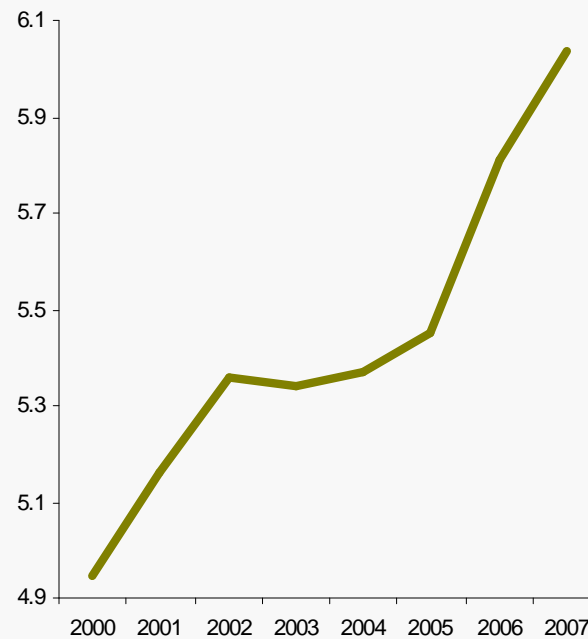
Value of Stability: Education, Healthcare and R&D

Public Sector Education Expenditures
(2000-2009, ratio to GDP, percent)



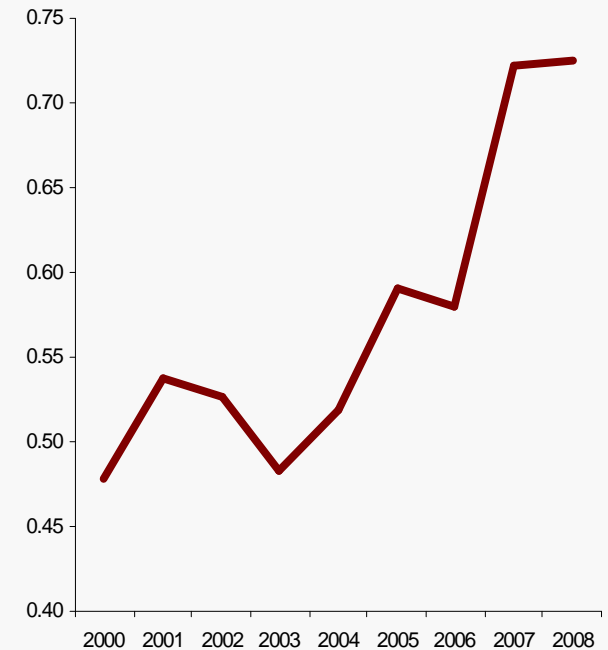
Source: TurkStat, CBT

Total Healthcare Expenditures
(2000-2007, ratio to GDP, percent)



Source: TurkStat, CBT

Total R&D Expenditures
(2000-2008, ratio to GDP, percent)



Source: TurkStat, CBT

II. How to Maintain Economic Stability

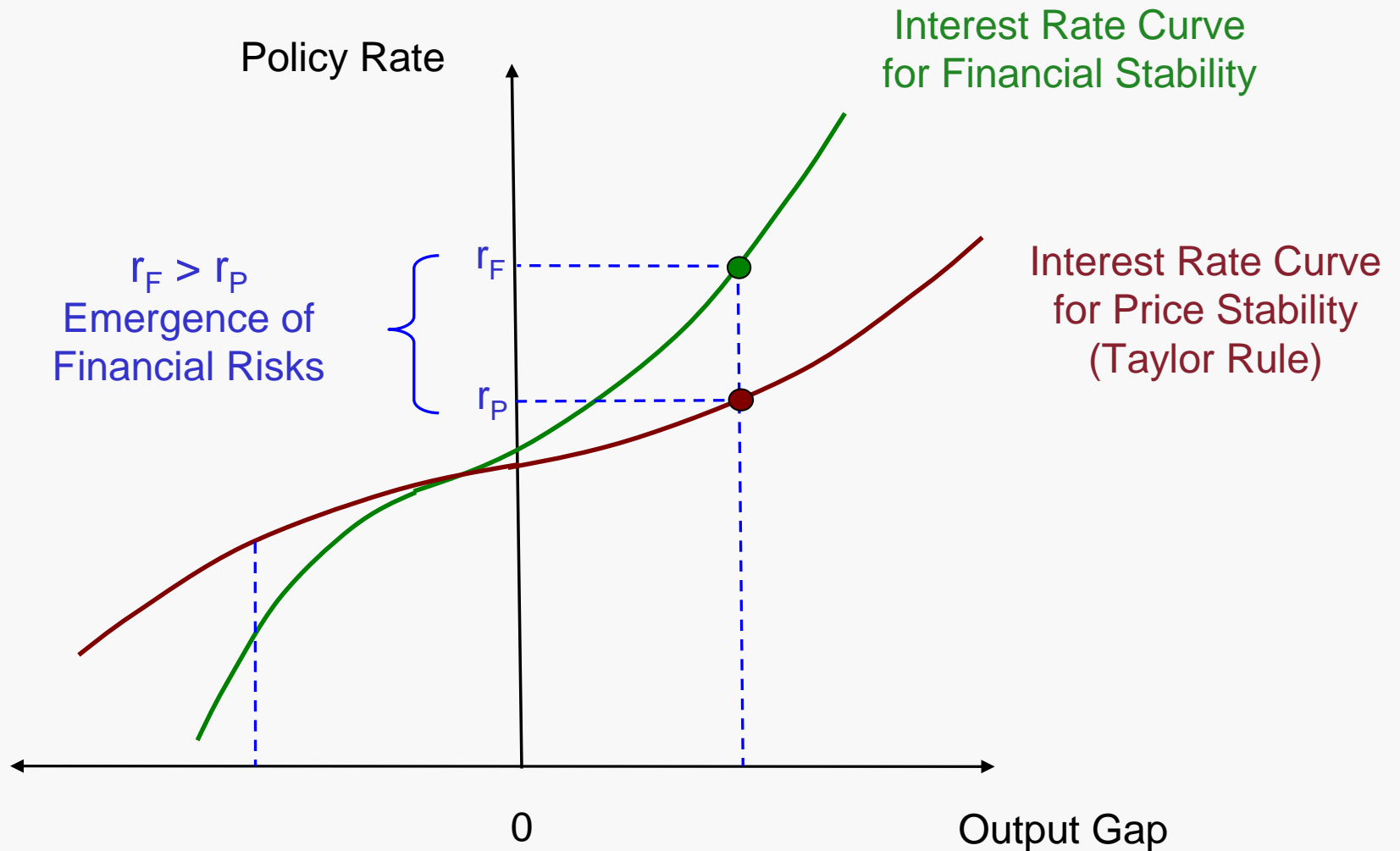
Basic Components of Economic Stability

- **Achieving and sustaining price stability**
- **Strengthening financial stability**
- **Preserving and improving gains from public finance**

Central Banks and Financial Stability

- **Financial stability has come to the forefront on the agenda of policymakers due to developments that took place during and after the global financial crisis.**
- **In an economy, interest rate levels required for price stability and financial stability are not always congruent with each other.**
- **In case of overheating, an interest rate policy that contains inflation could fall short of preventing the emergence of financial risks.**
- **On the other hand, in case of a severe recession, a much lower level of interest rate may be required to restore financial stability.**

Central Banks and Financial Stability

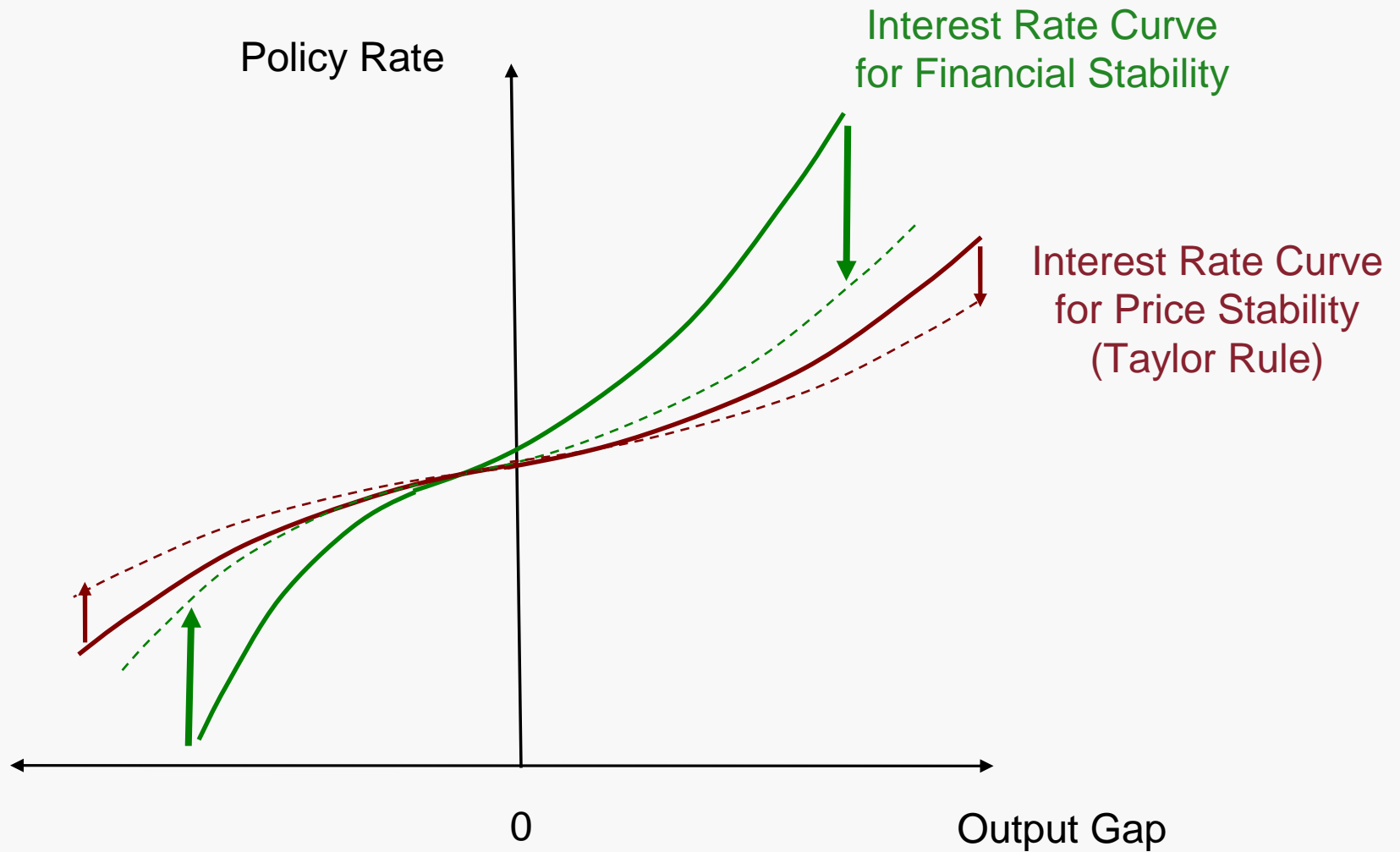


Note: In cases where non-interest instruments are not used

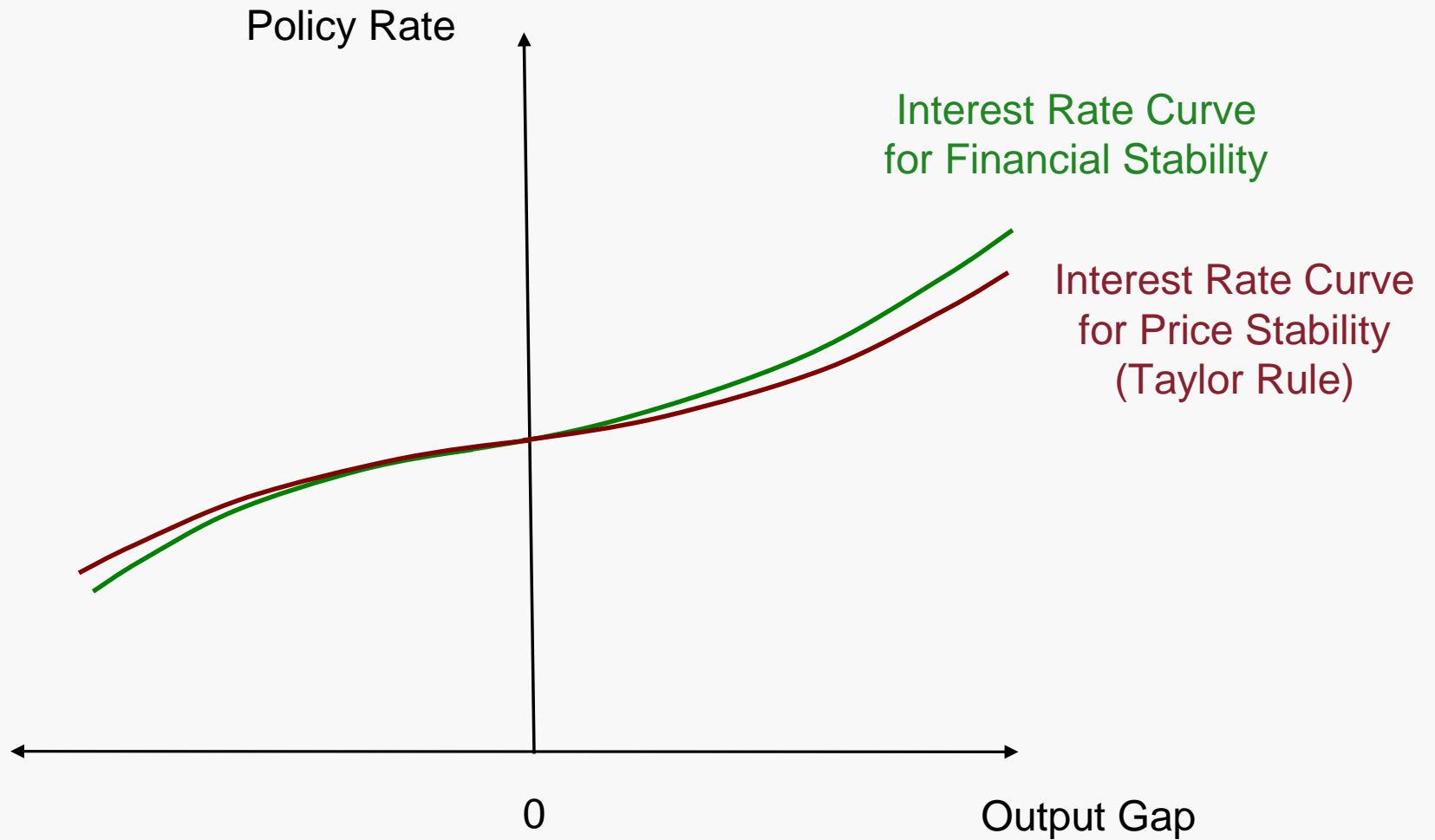
Central Banks and Financial Stability

- One of the primary factors leading to the global financial crisis is that central banks of developed countries ignored financial stability while focusing on price stability.
- For instance, although the Federal Reserve kept inflation at low levels with its monetary policy between 2003 and 2007, it caused an excessive increase in debt ratios and asset prices, contributing to deterioration in financial stability.
- The prudent monetary and fiscal policies followed in Turkey since 2002, and cautious policy implementations by the institutions responsible for financial stability, primarily the Banking Supervision and Regulation Agency (BRSA), coupled with the monetary tightening implemented in the post-2006 period, and the cautious monetary policy stance adopted thereafter have prevented the emergence of risks in our financial system.

Cases where Non-Interest Instruments are Used



Cases where Non-Interest Instruments are Used



Central Banks and Financial Stability

- **The additional measures we have taken recently should be considered preparation for the new conjuncture that may affect the whole world in the upcoming period.**
- **The main feature of this new outlook is the potential risks of overheating, excessive credit growth and emergence of asset bubbles as a result of increasing capital inflows towards reliable and dynamic emerging market economies.**

Central Banks and Financial Stability

- **“To take precautions for enhancing the stability in the financial system and to take regulatory measures with respect to money and foreign exchange markets” (CBRT Law, Article 4)**
- **As stipulated by its Law, the Central Bank is one of the institutions responsible for financial stability in Turkey.**
- **Unlike other institutions in charge of supervision and regulation, the Central Bank approaches financial stability from a macro perspective.**

Financial Stability

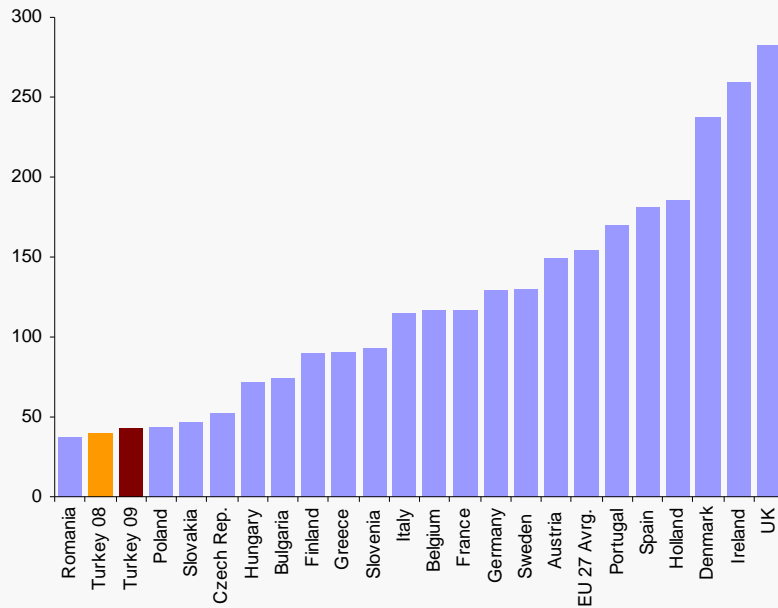
Factors to be considered for financial stability

1. **Debt Ratios: *Use of more equity capital, more prudent borrowing***
2. **Borrowing maturities: *Extending maturities of domestic and foreign borrowing and deposits***
3. **FX Positions: *Strengthening FX positions of public and private sectors***
4. **Risk management processes and method: *More effective management of exchange rate risk via instruments such as the Turkish Derivatives Exchange***

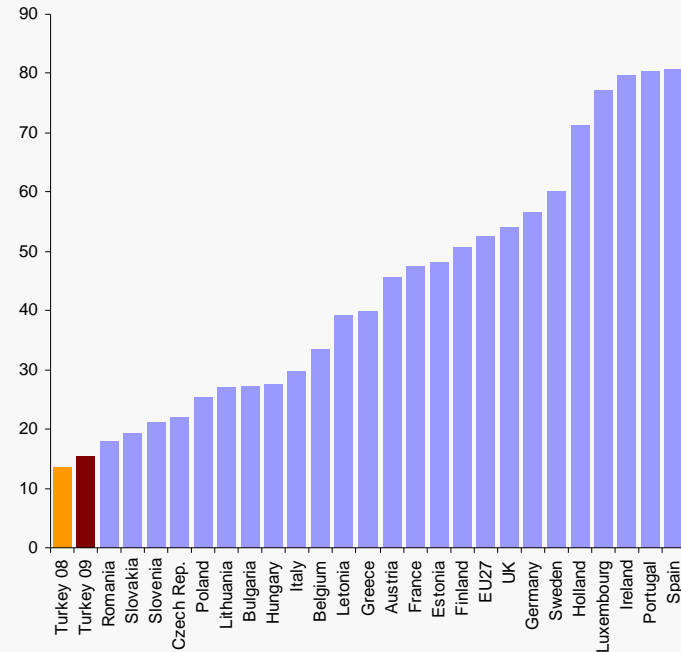
Debt Ratios

In Turkey, the ratio of bank loans and household liabilities to national income is lower compared to other countries. This ensured that Turkey was relatively less influenced by the global financial crisis.

Ratio of Loans to GDP*
(2008, percent)



Ratio of Total Household Liabilities to GDP
(2008, percent)



*Parallel to the data for the EU, non-performing loans and financial leasing receivables are also included in the data for credits in Turkey.

Source: Eurostat, ECB, TurkStat, BRSA, CBT

Source: ECB, TurkStat, CBT

Financial Stability

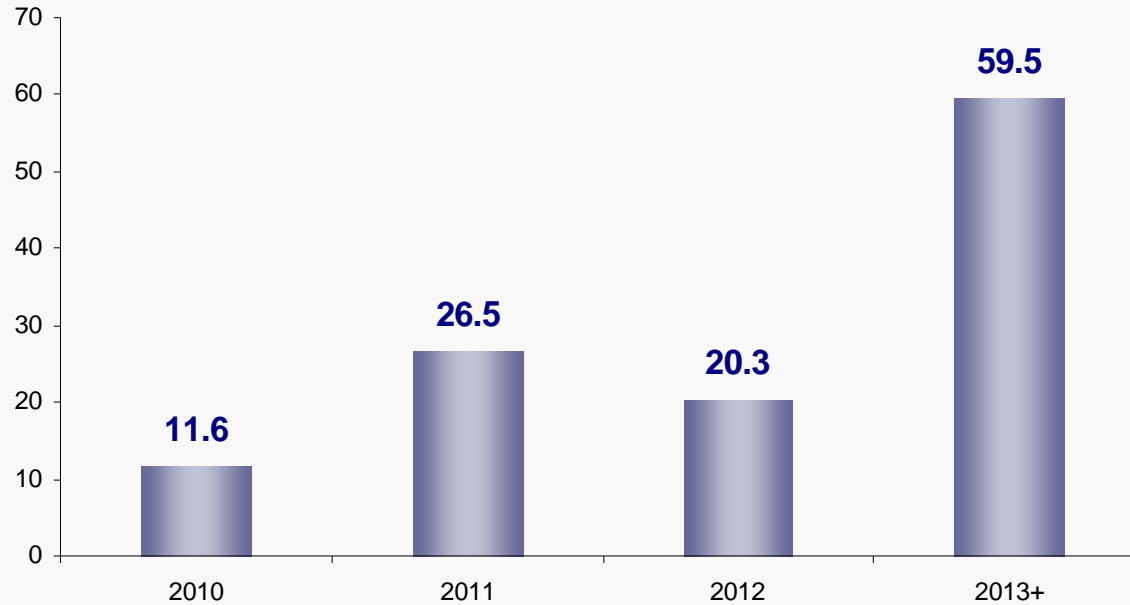
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Maturity of Private Sector Borrowings

The long-term external borrowing of the private sector is approximately USD 118 billion. More than half of this borrowing will be due after 2013.

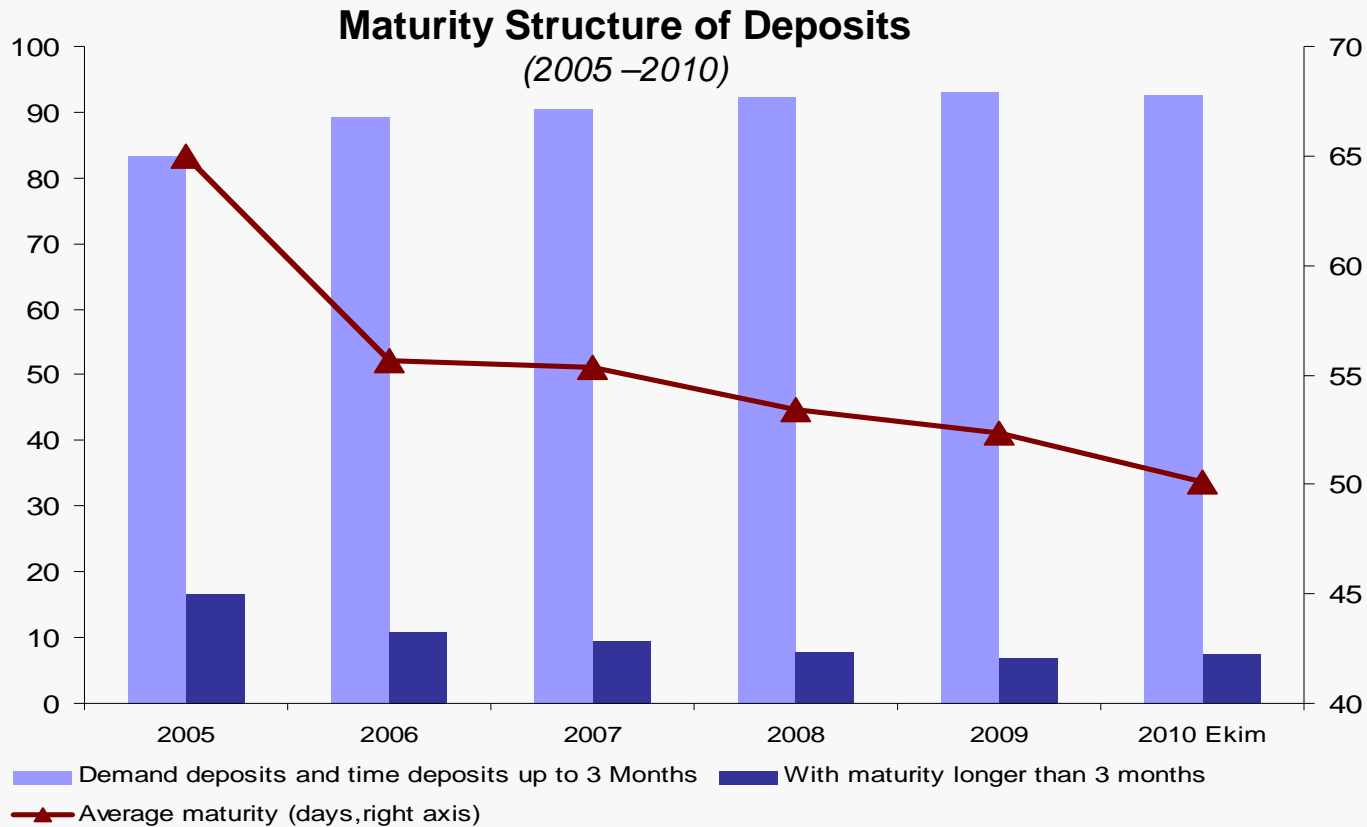
Maturity Composition of Firms' Long-Term FX External Borrowings*
(Aug 2010, billion USD)



* Days to maturity
Source: Central Bank

Maturity Structure of Bank Deposits

The maturity structure of bank deposits in Turkey is short and getting shorter. In this respect, as a measure to strengthen financial stability, the required reserve ratios applied to one-year or longer term deposits may be slightly reduced by the end of the year.



Source: BRSA, CBT

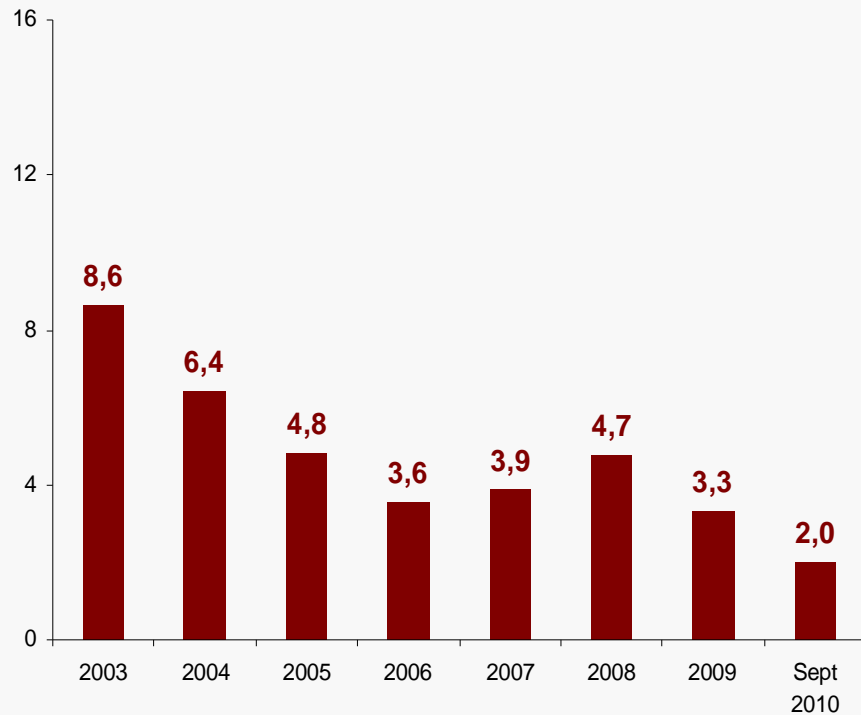
Financial Stability

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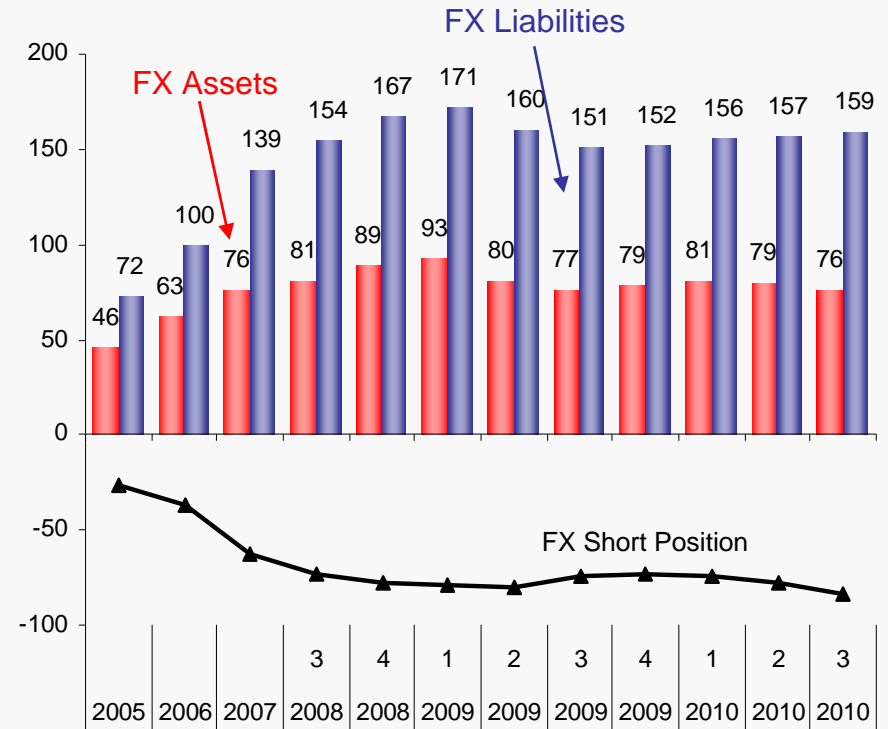
Foreign Exchange Positions

Ratio of FX-Indexed Consumer Loans to Total Consumer Loans
(2003 – Sept 2010, percent)



Source: BRSA, CBT

FX Assets and Liabilities of Firms
(2005 – 2010 Q3, billion USD)

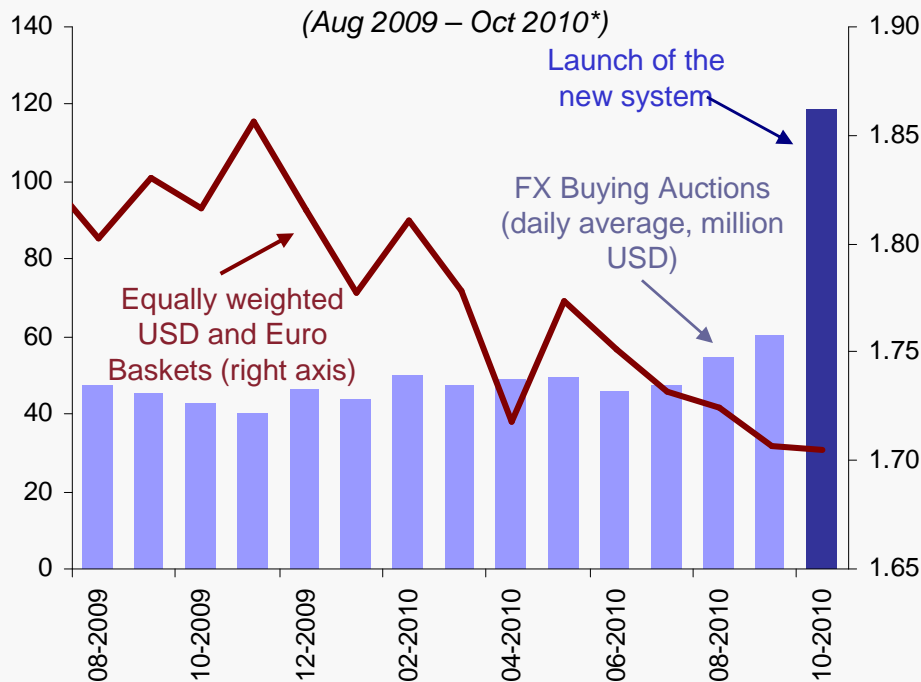


Source: CBT

FX Buying Auctions in Turkey

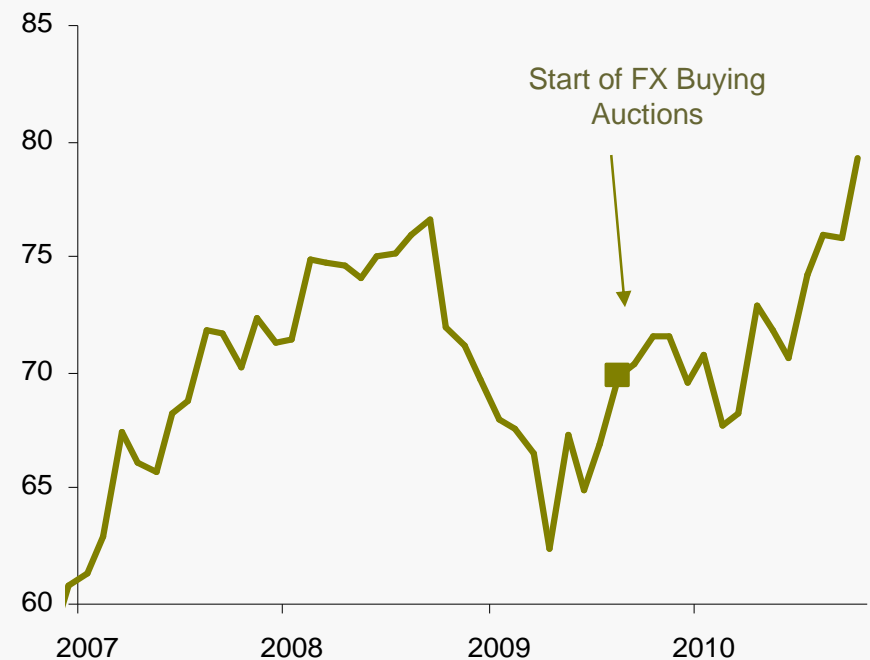
In line with the aim of maintaining financial stability, the CBT held FX selling auctions at times of excessive volatility in exchange rates; and FX Buying Auctions at times of high FX liquidity. Consequently, USD 0.9 billion foreign exchange was sold in the period of March-April 2009, and approximately USD 15 billion has been bought since August 2009.

FX Buying Auctions in Exchange of TL and FX Basket



*As of 21 October 2010
Source: CBT

Central Bank's FX Reserves*
(Jan 2007 – Oct 2010, billion USD)



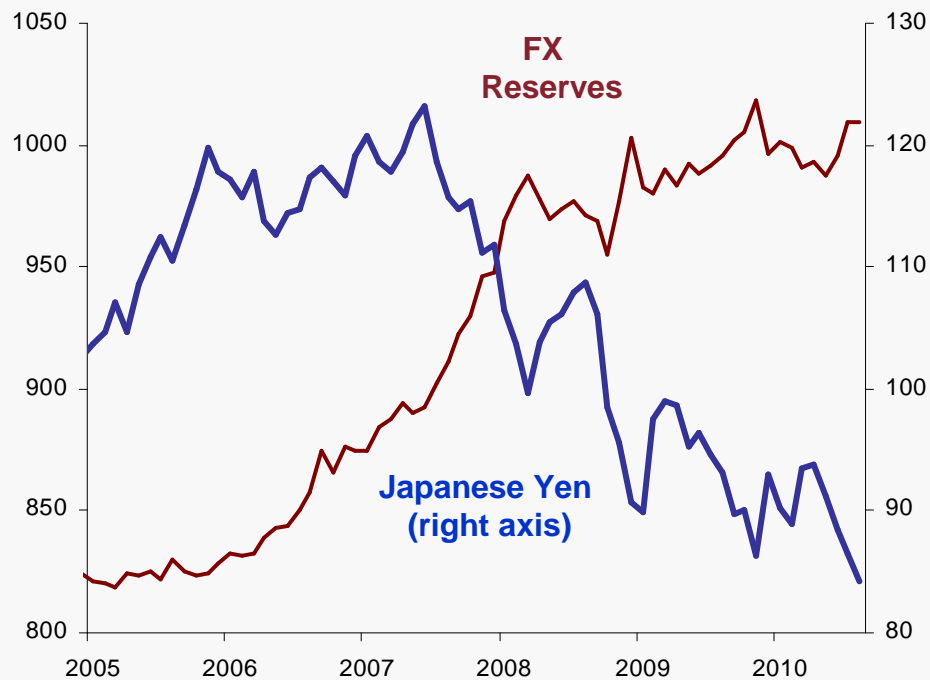
*As of 4 October 2010
Source: CBT

FX Buying Interventions – Country Examples

The effect of countries' massive foreign exchange purchases on their own currencies is limited.

Japan

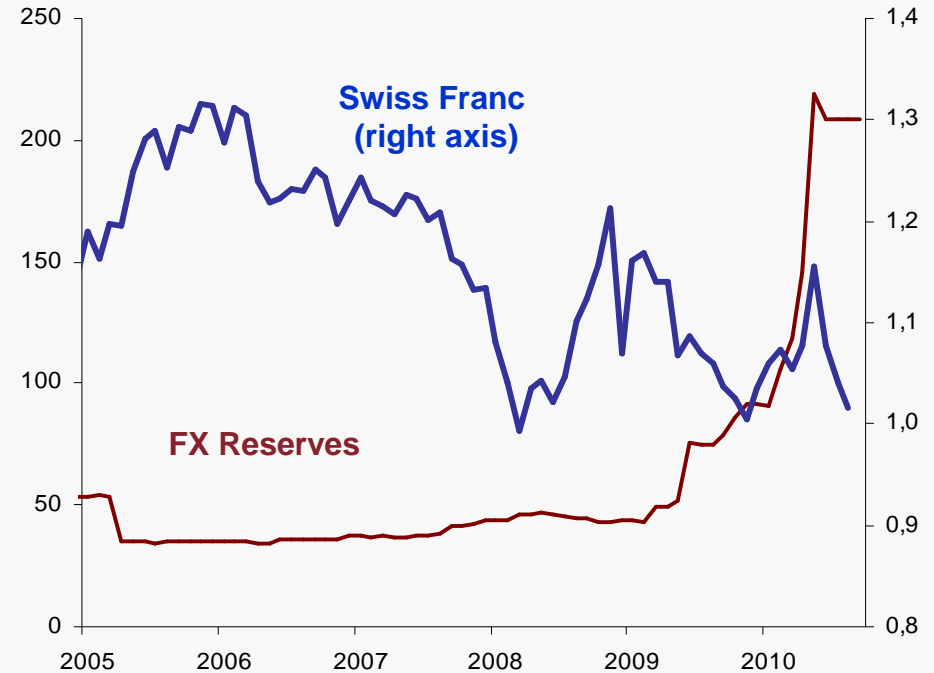
(Value of the local currency in exchange of USD 1, Jan 2005 – Sept 2010)



Source: Bloomberg, CBT

Switzerland

(Value of the local currency in exchange of USD 1, Jan 2005 – Sept 2010)



Source: Bloomberg, CBT

Financial Stability

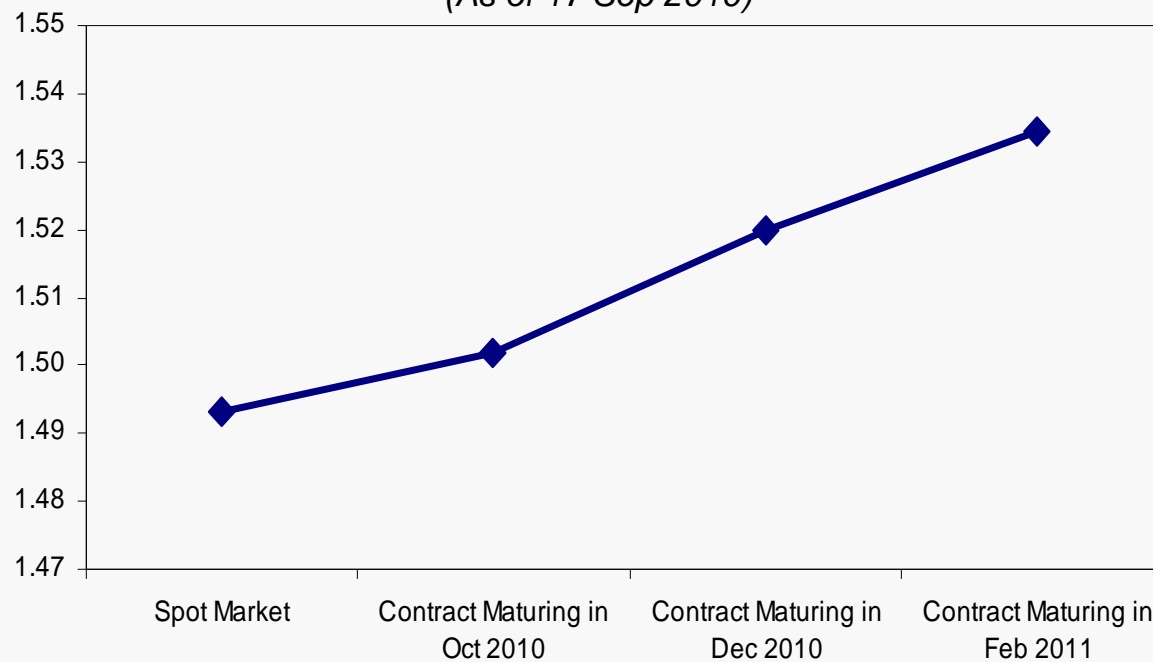
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2. **Debt Maturities:** *Extending maturities of domestic and foreign borrowing and deposits*
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4. **Risk management processes and methods:** *More effective management of exchange rate risk via instruments such as the Turkish Derivatives Exchange*

Forward Transactions to hedge against Exchange Rate Exposure

While making their investment, production and employment decisions, producers should refrain from relying on one-way assumptions about the course of exchange rates in a certain country and should utilize risk management instruments. It is possible to manage foreign exchange positions and risks in a more professional way by using the Turkish Derivatives Exchange (TurkDEX).

Spot and Forward Transaction Prices for Turkish Lira-US Dollar on the Day of Presentation at the Turkish Exporters Assembly
(As of 17 Sep 2010)



Source: TurkDEX, CBT

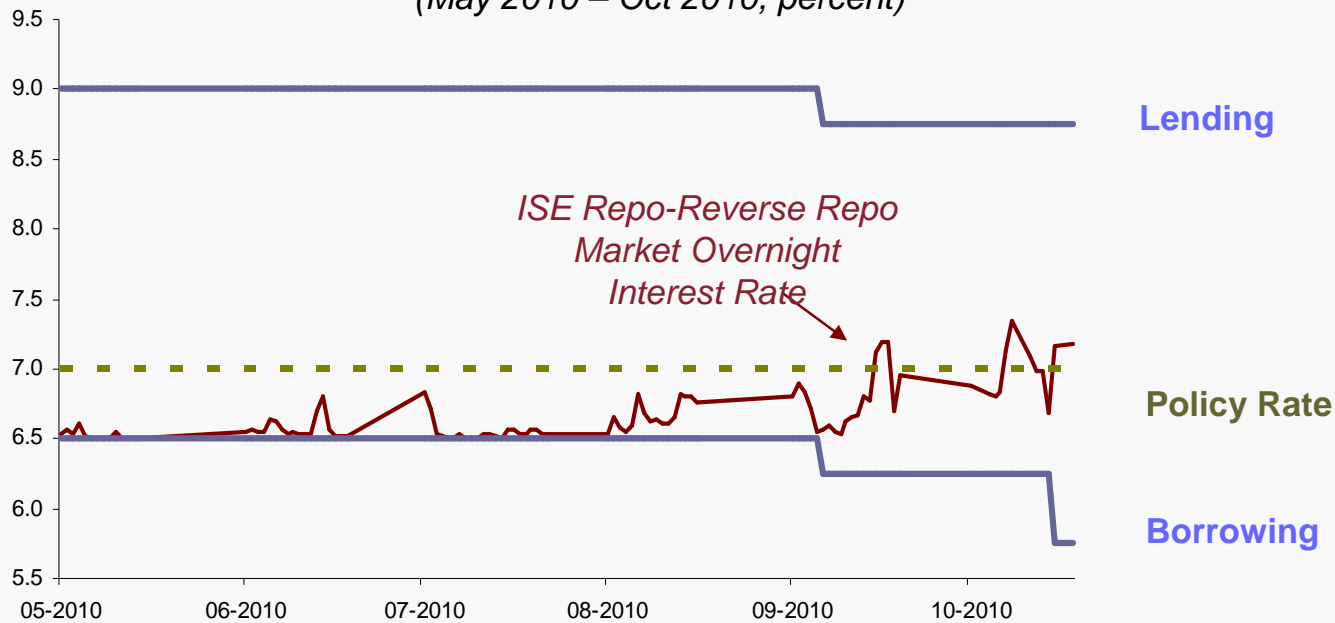
Recent Policy Actions of the CBT

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

Technical Rate Cut

The Central Bank reduced borrowing and lending interest rates by 25 basis points on 16 September and cut borrowing interest rates by 50 basis points on 14 October. These rate cuts do not indicate a loosening in the monetary policy stance. The policy rate was maintained as 7 percent. The decisions taken connote implementation of the technical rate adjustment mentioned in the “Monetary Policy Exit Strategy” and aim to bolster the effective functioning of money markets.

CBT and Market Interest Rates
(May 2010 – Oct 2010, percent)

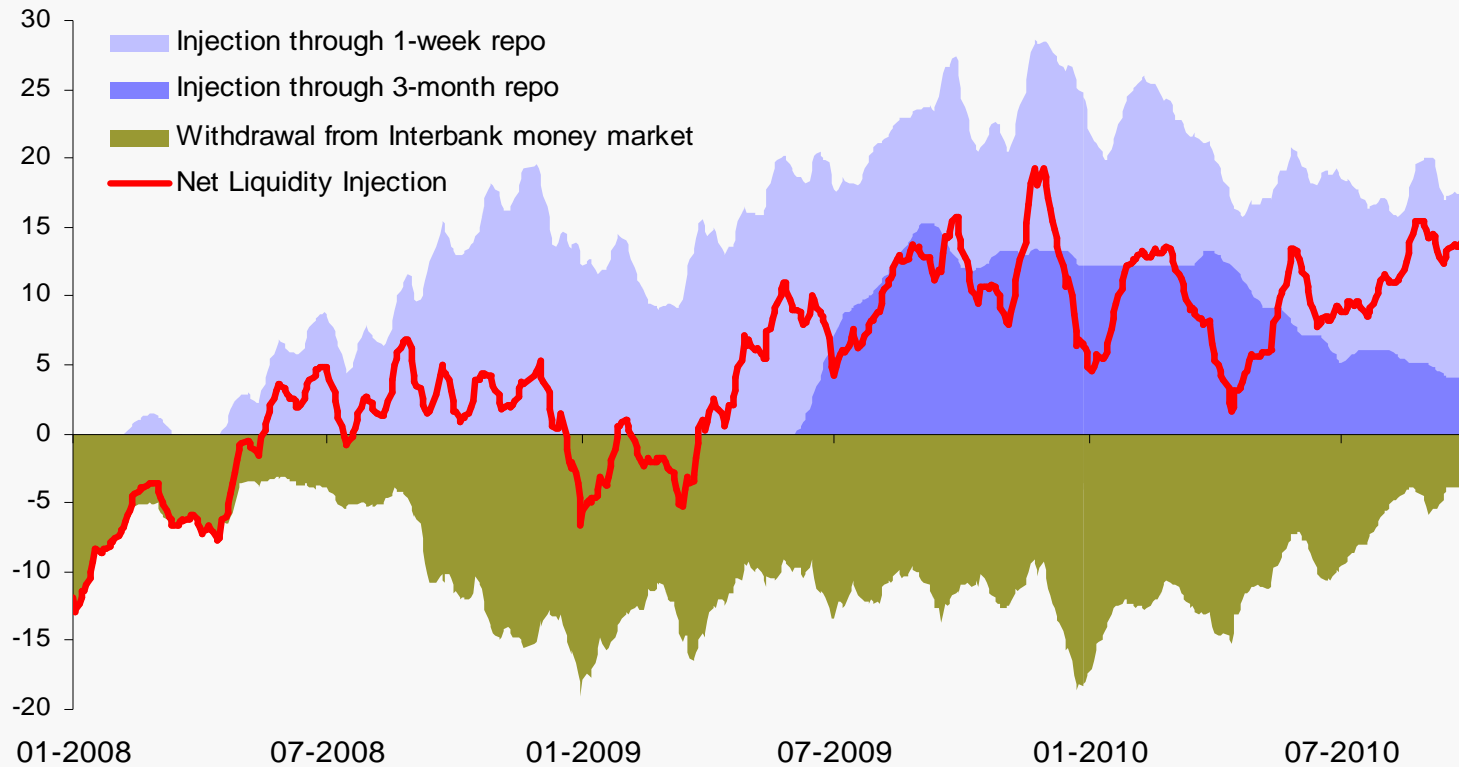


Source: ISE, CBT

Liquidity Management

The Central Bank has provided the banking system with excess liquidity since the second quarter of 2008 and averted a possible liquidity squeeze in the markets.

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

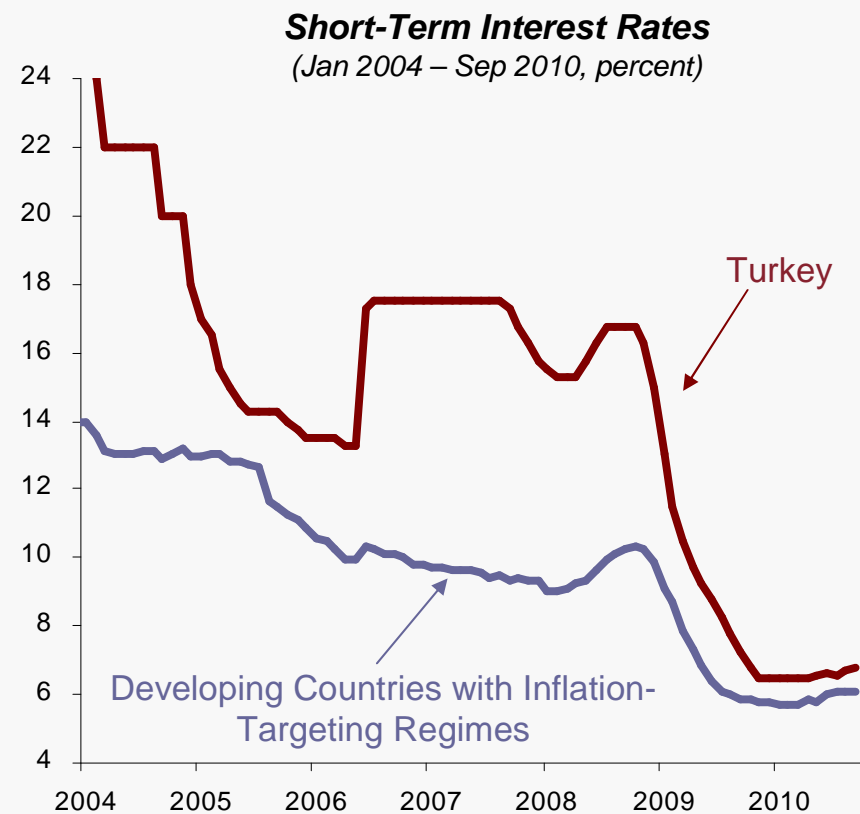
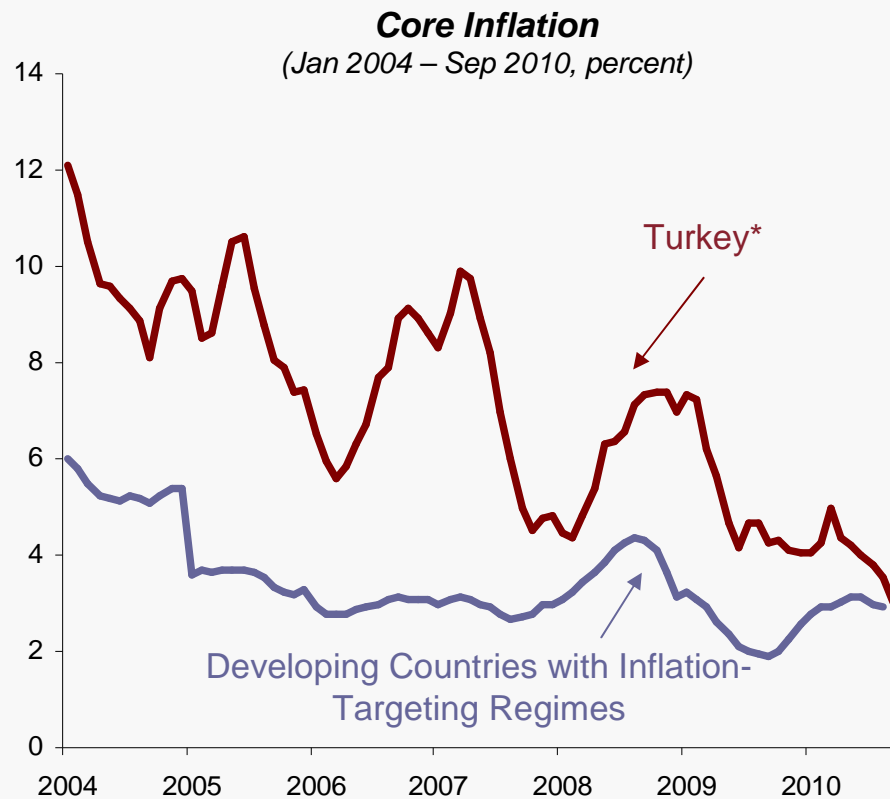


Source: CBT

III. Price Stability

Core Inflation and Policy Rates

In Turkey, both the current level of policy rates and inflation realizations have converged to those of other developing countries with inflation targeting regimes. Nevertheless, there is more to be done regarding price stability.



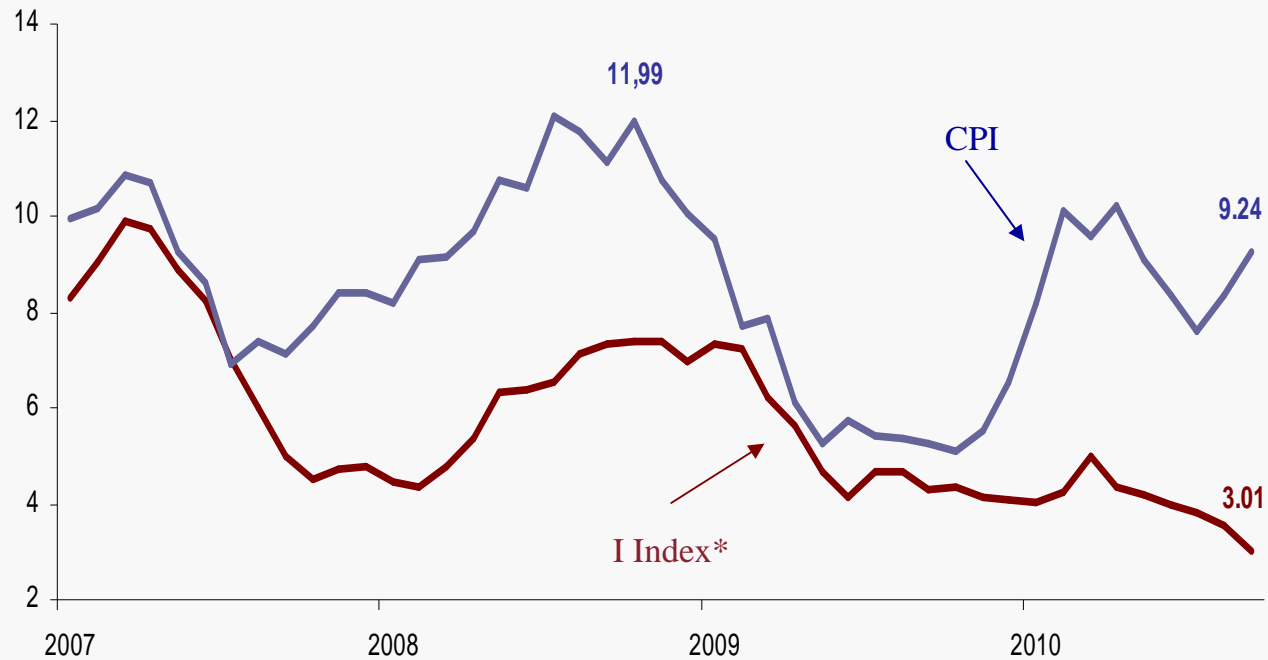
*Adjusted for temporary tax effect
Source: Central Banks, TurkStat, CBT

Source: Central Banks, CBT

Inflation Developments

Annual consumer prices inflation became 9.24 percent in September. The core inflation indicator (I index) of 3.01 percent, adjusted for temporary tax effects, was the lowest level recorded since 2004.

Inflation Indicators
(Jan 2007 – Sep 2010, annual percentage change)



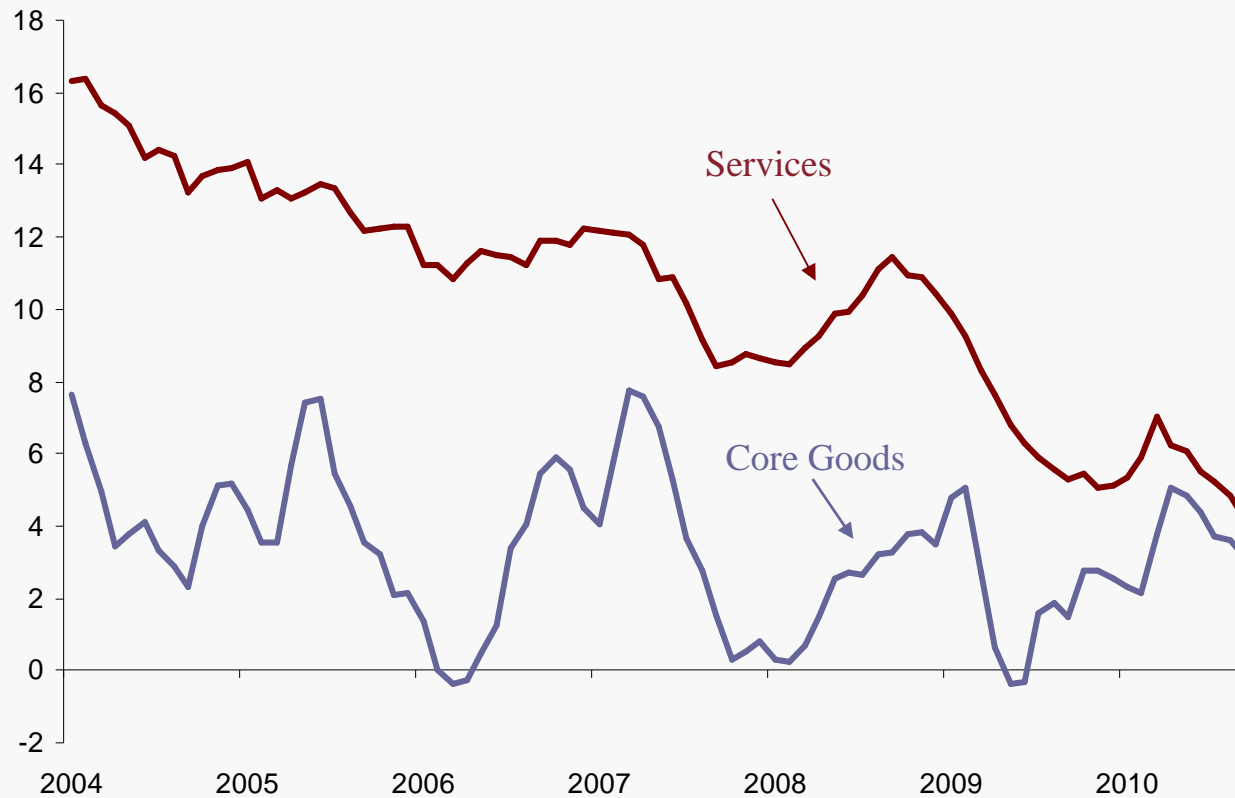
* Adjusted for temporary tax effect

Source: TurkStat, CBT

Components of Inflation

Services and core goods inflation maintained their downward trend.

Goods and Services Inflation
(Jan 2004 – Sep 2010, annual percentage change)

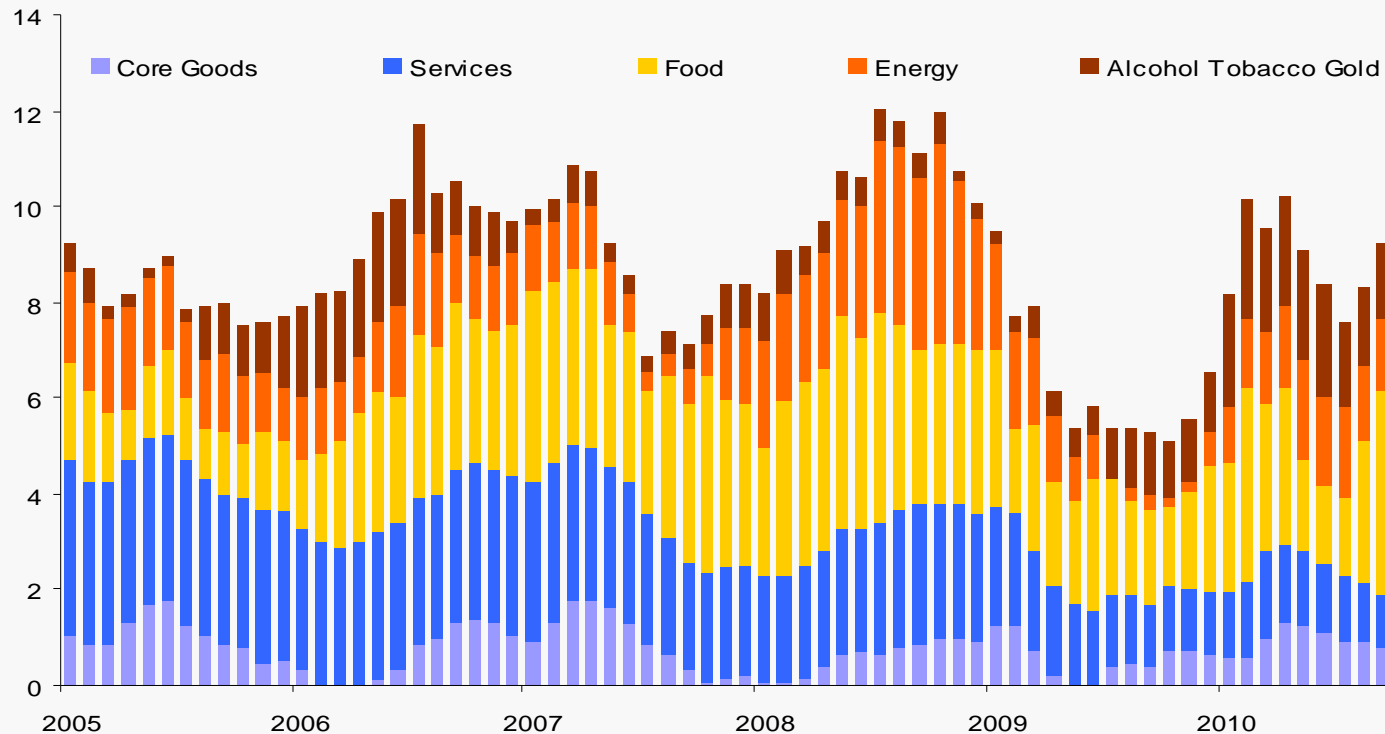


Source: TurkStat, CBT

Inflation Developments

As of September 2010, the contribution of the food group to annual inflation reached 4.2 points.

Contribution to Annual CPI
(Jan 2005 – Sep 2010, percentage points)

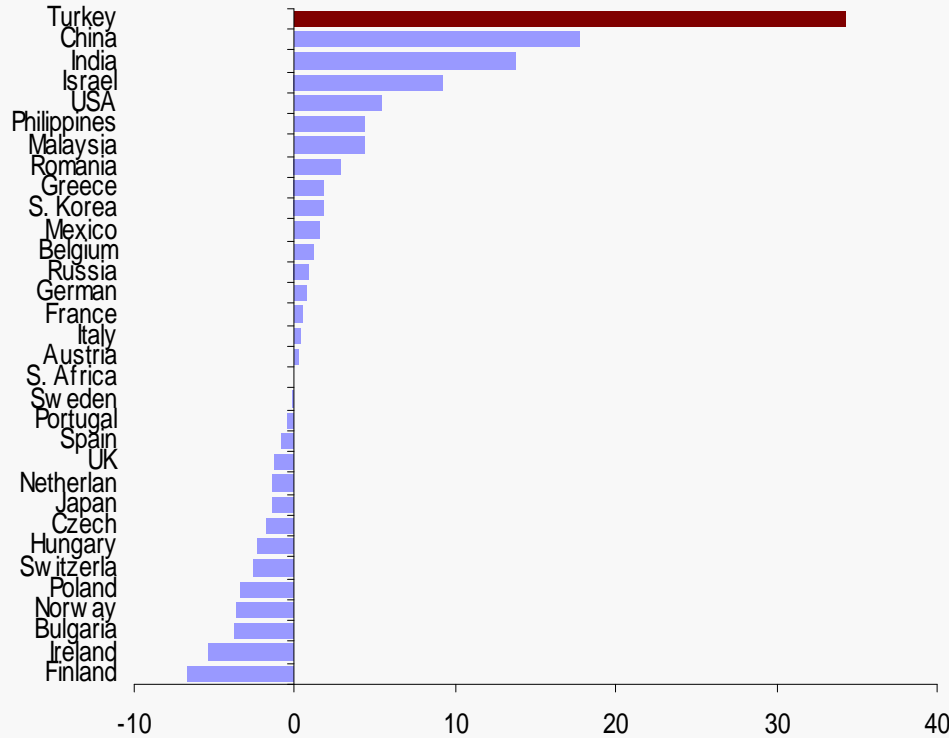


Source: TurkStat, CBT

Food Prices

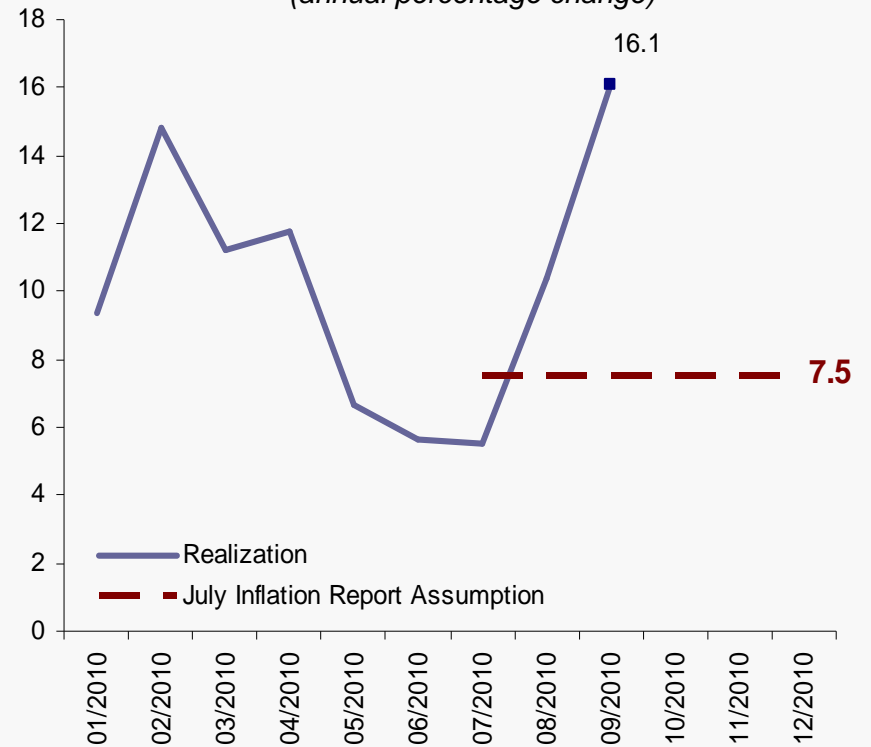
Due to supply-side shocks, inflation in the unprocessed food group still stands at a high level.

Meat Prices Inflation
(Aug 2010, annual percentage change)



Source: TurkStat, CBT

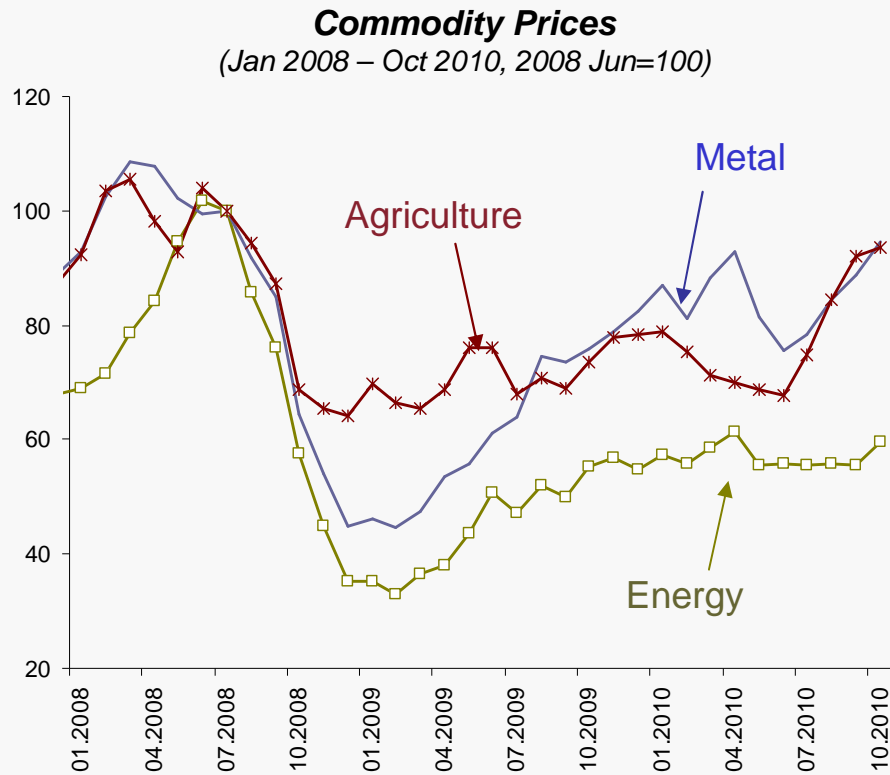
Food Prices Inflation and Assumptions
(annual percentage change)



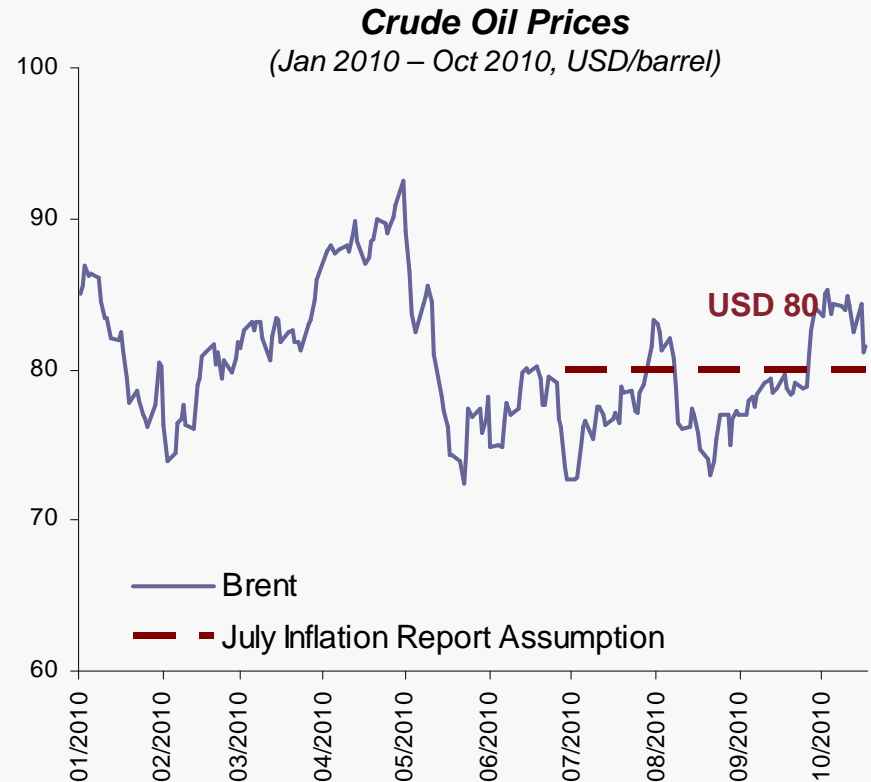
Source: TurkStat, CBT

Commodity Prices

Oil prices follow a consistent path with our assumption in the July Inflation Report.



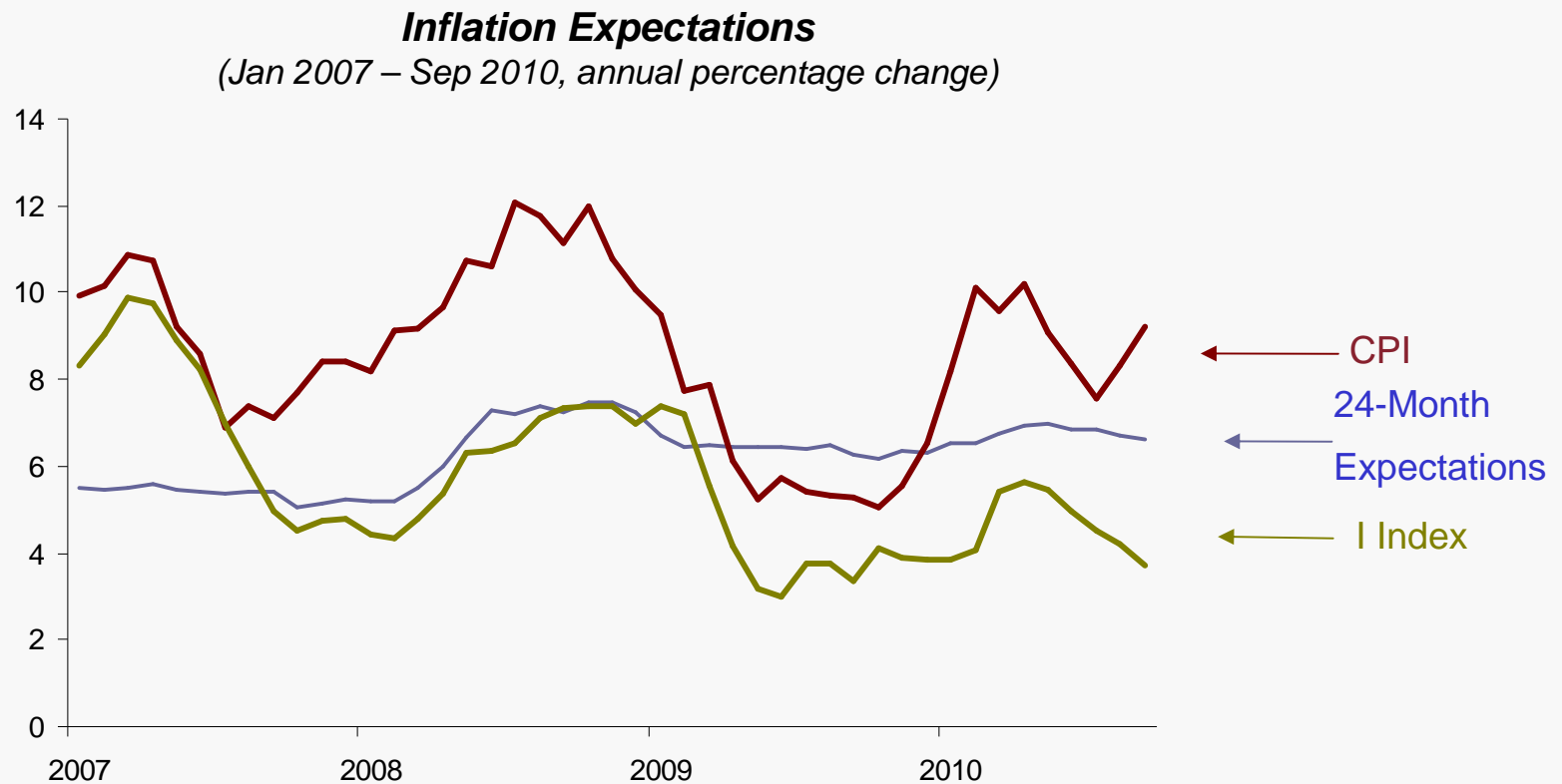
Source: GS, CBT



Source: Bloomberg, CBT

Inflation Expectations

Inflation expectations that increased in the first four months of the year due to the rise in inflation were positively influenced by the gradual removal of 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.

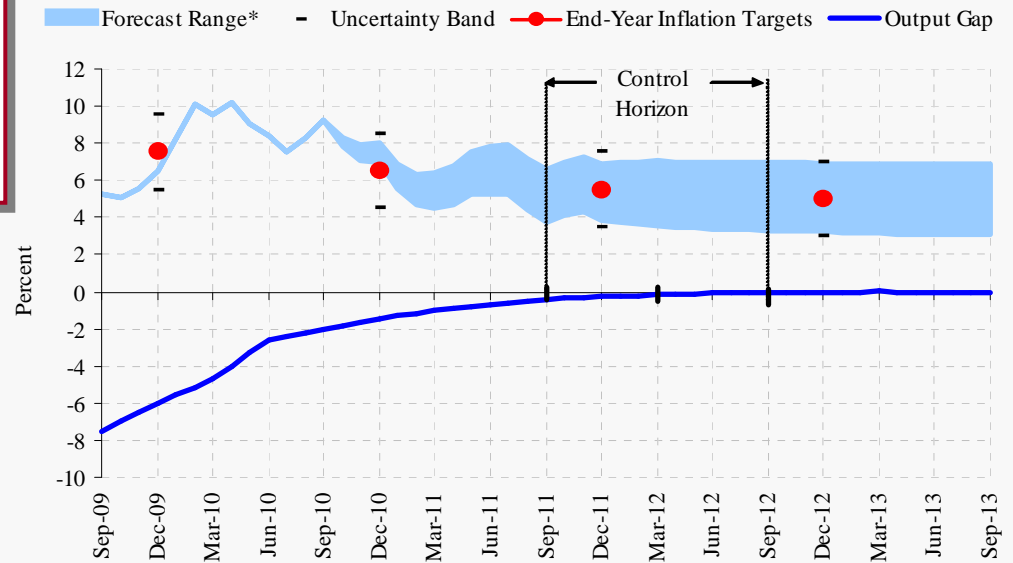
Baseline Scenario Assumptions:

	2010	2011	2012
Oil Prices	USD 80	USD 85	USD 90
Food Prices	10.5%	7%	7%

Inflation Forecasts :

2010	7.5%
2011	5.4%
2012	5.1%

Inflation Realizations, Forecasts and Targets
(Sep 2009 – Sep 2013, percent)



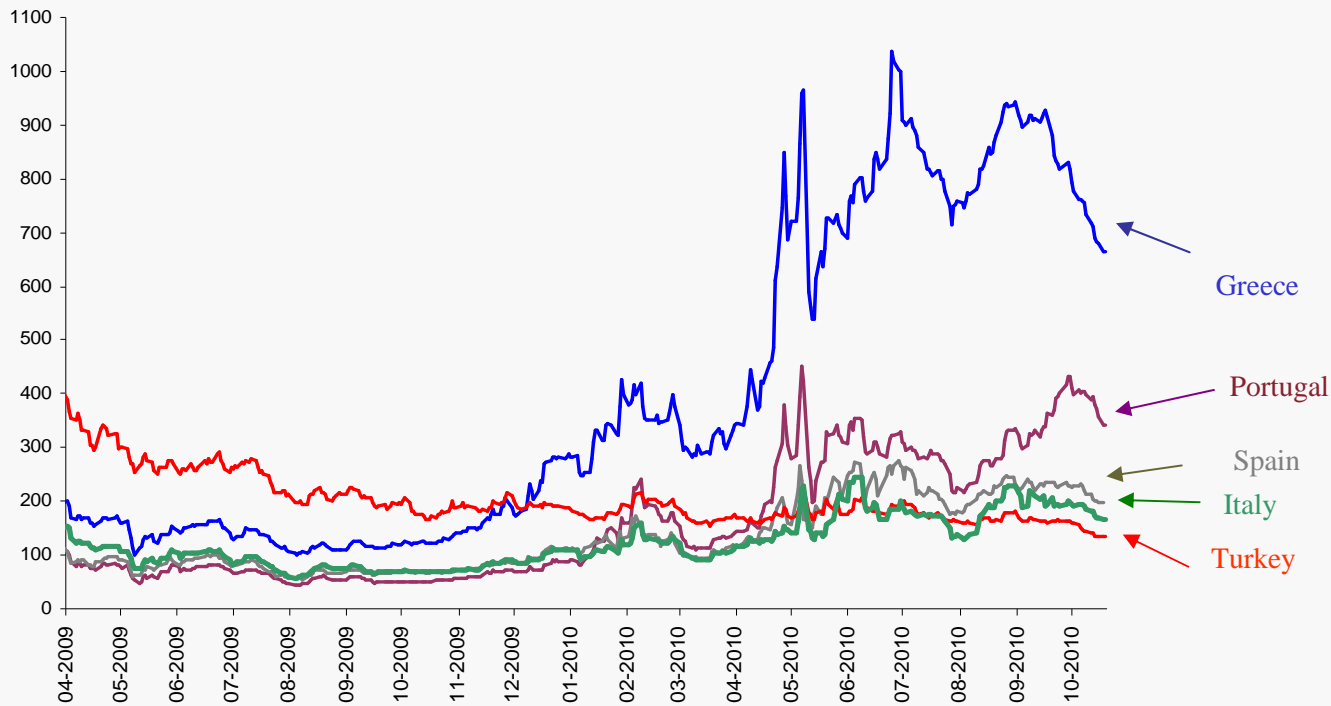
*Indicates a confidence interval of 70 percent.
Source: CBT

IV. Financial Stability

Financial Stability in Turkey

Owing to its robust banking system and low debt ratios, Turkey's risk premium is lower than that of many other countries with *investment grade*.

5-Year CDS Premiums of Selected Countries*
(Apr 2009 – Oct 2010)

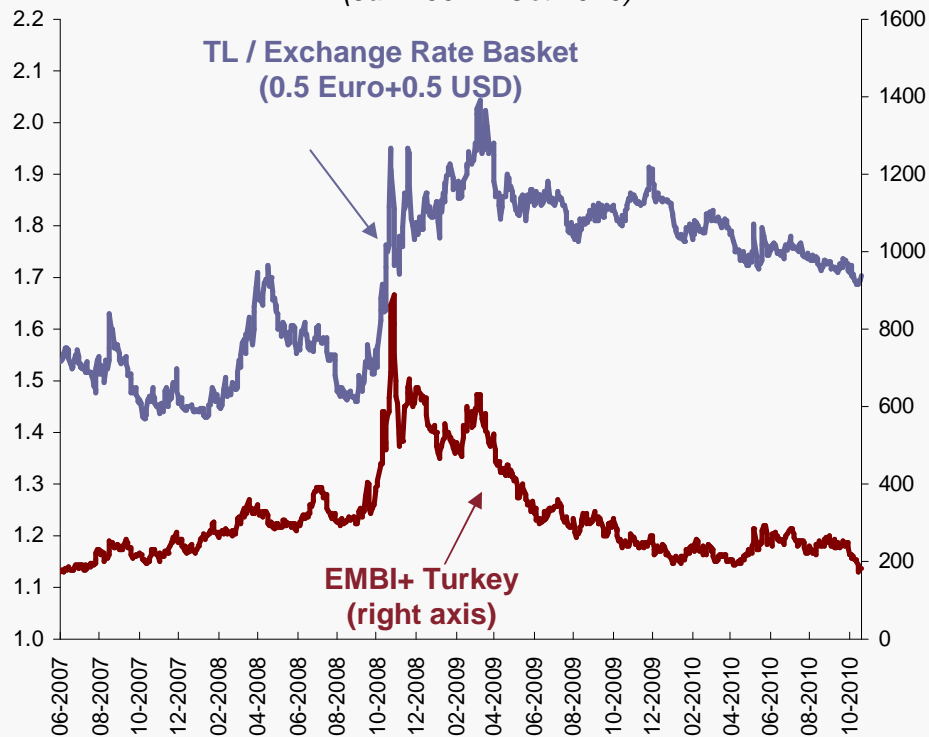


*As of 22 October 2010
Source: Bloomberg, CBT

Financial Stability in Turkey

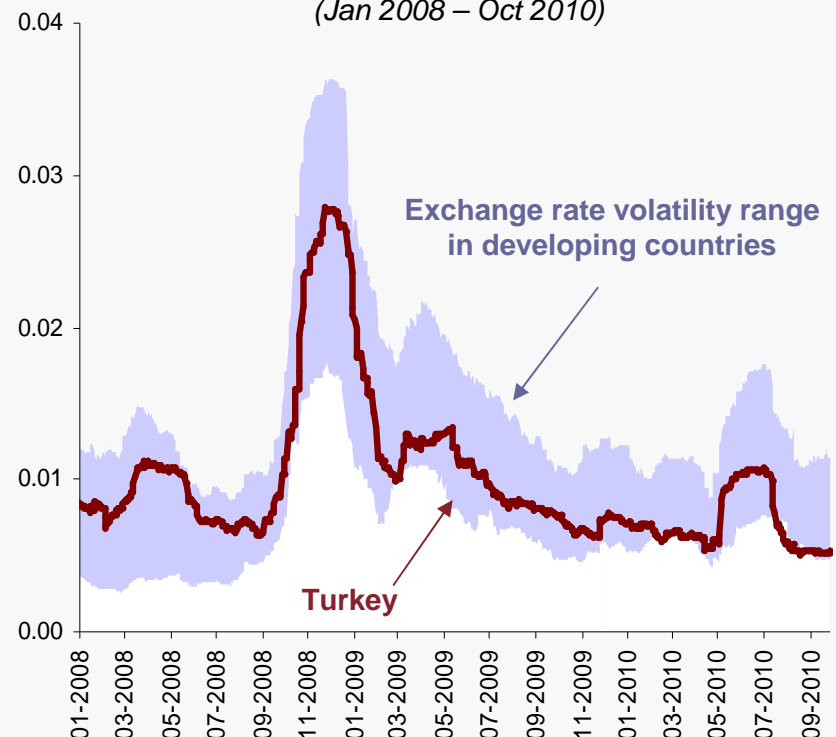
Despite its historically high levels of volatility and extreme susceptibility to global risk appetite, the relatively stable course of the Turkish lira during the global crisis continued in 2010 as well.

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



Source: Bloomberg, CBT

Exchange Rate Volatility in Selected Countries*
(Jan 2008 – Oct 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

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 real interest rates are likely to remain low in the post-crisis period as well.

Real Interest Rates in Selected Countries
(Oct 2010, percent)

	Policy Rates	2010 Inflation Expectations	Real Policy Rates
Thailand	1.75	3.50	-1.69
Chile	2.75	3.50	-0.72
Czech Rep.	0.75	1.50	-0.74
Korea	2.25	2.80	-0.54
Turkey	7.00	7.56	-0.52
Philippines	4.00	4.00	0.00
Mexico	4.50	4.30	0.19
Hungary	5.25	4.70	0.53
Malaysia	2.75	2.00	0.74
Poland	3.50	2.50	0.98
S. Africa	6.00	4.75	1.19
China	5.56	3.00	2.49
Brazil	10.75	5.00	5.48

Source: Bloomberg, CBT

*Real Interest Rates in Turkey**
(Jan 2008 – Oct 2010, 2-year, percent)



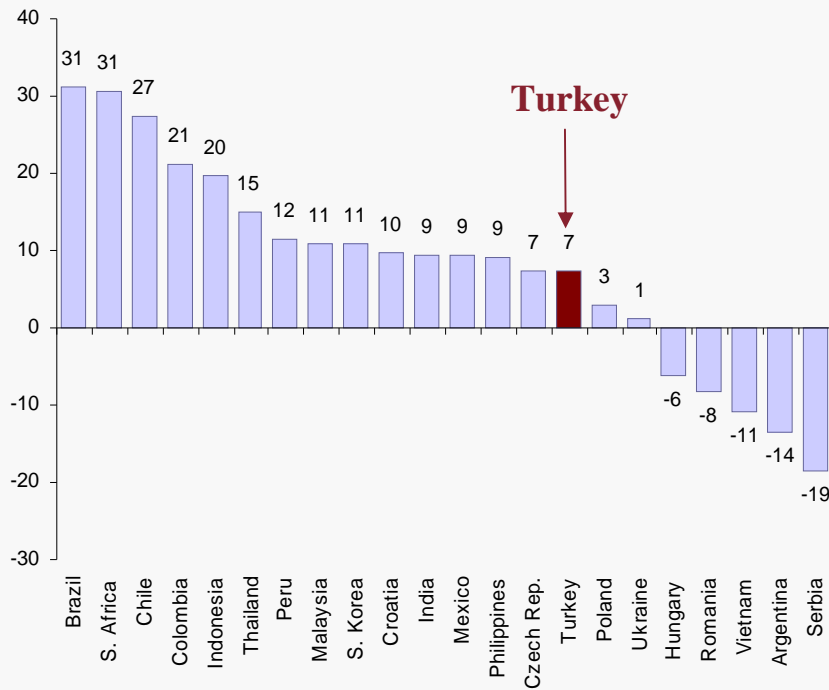
* 2-year nominal interest rates generated by yield curve and inflation expectations over 24 months have been used.

Source: CBT, TurkStat

Financial Stability in Turkey

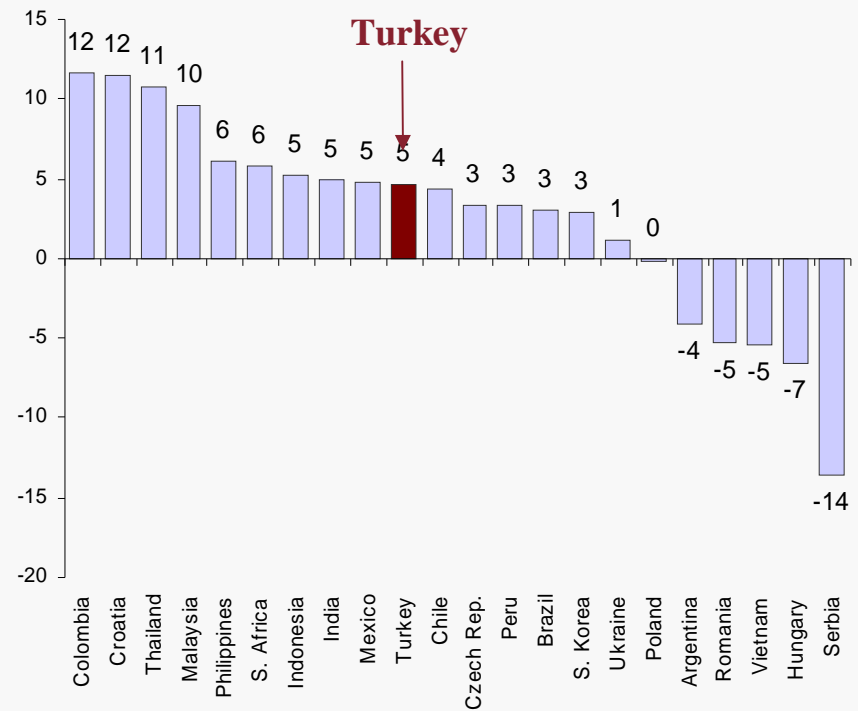
Compared to currencies of other developing countries, no significant change is observed in the value of the Turkish lira.

Change in Local Currencies Against US Dollar
(Since Jan 2009, percentage change)



Source: Bloomberg, CBT

Change in Local Currencies Against US Dollar
(Since Jan 2010, percentage change)

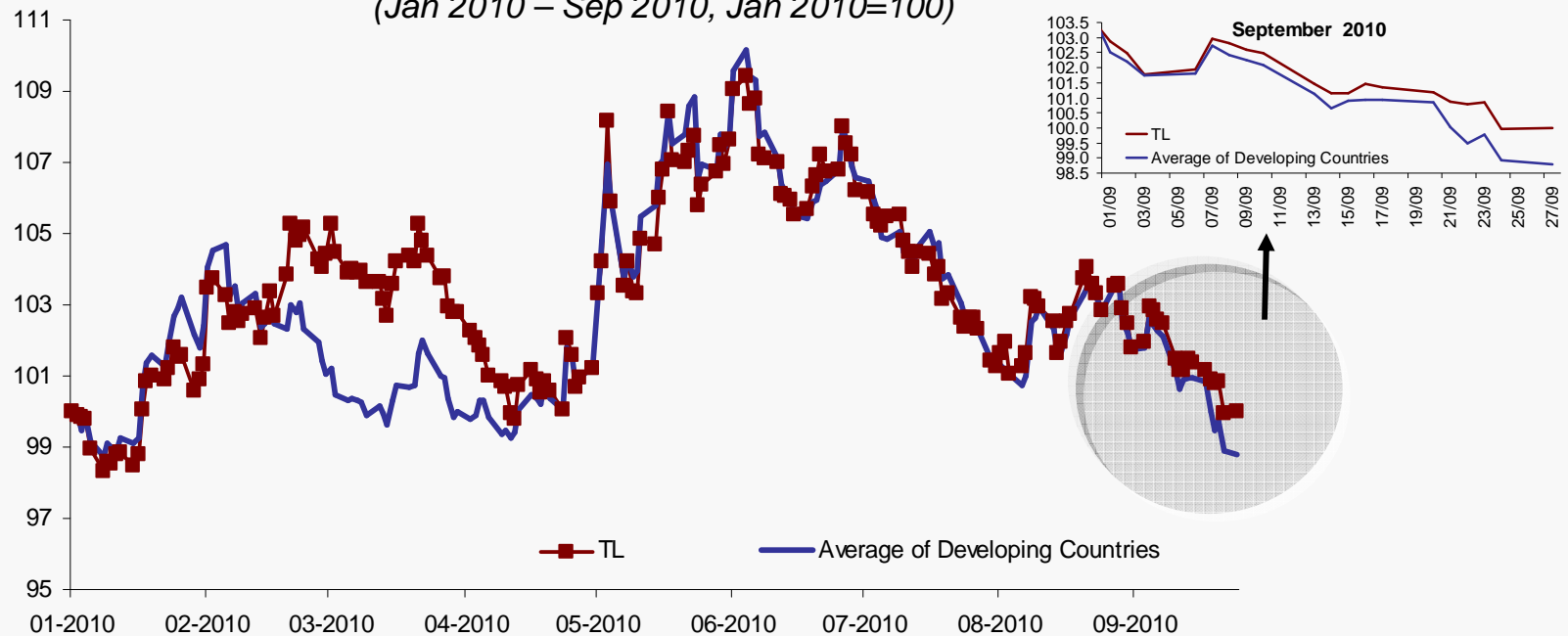


Source: Bloomberg, CBT

Exchange Rate Developments

Due to developing countries achieving macroeconomic stability, high economic growth and productivity gains as well as following loose monetary policies, the currencies of developed economies depreciated against those of emerging ones.

Performance of TL and Emerging Market Currencies against USD*
(Jan 2010 – Sep 2010, Jan 2010=100)



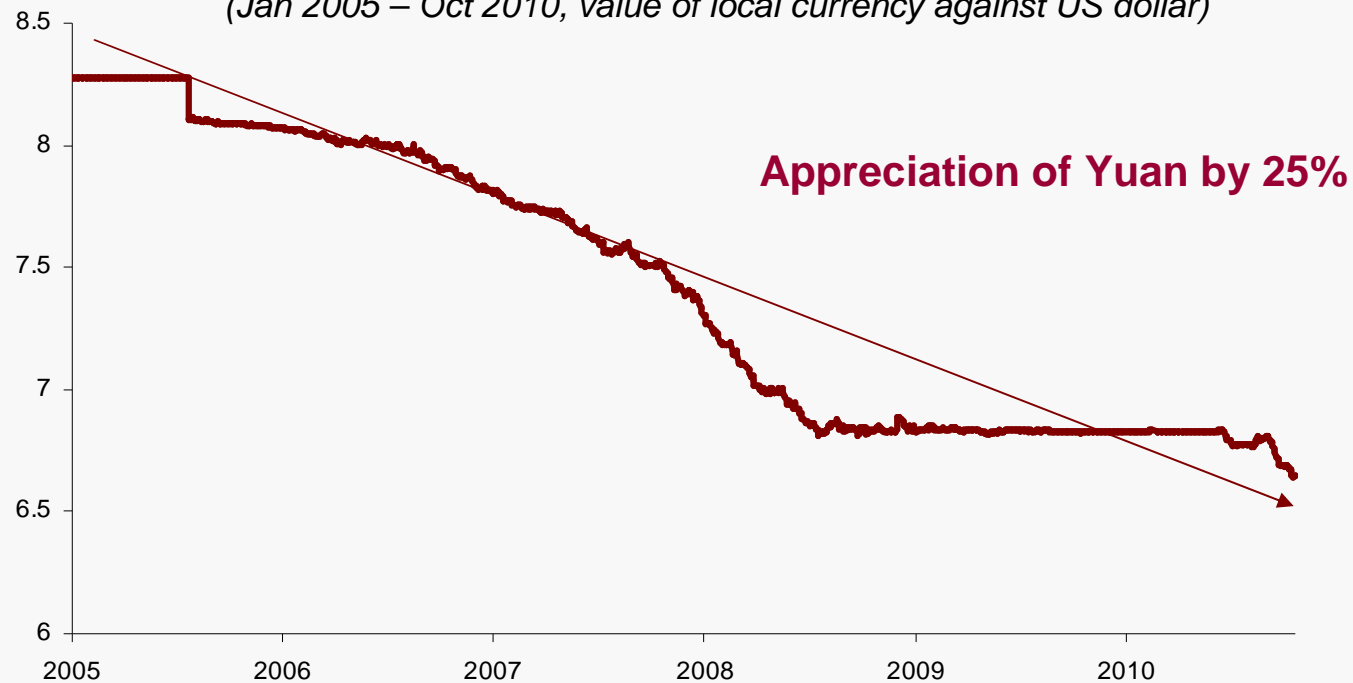
*Average of emerging market currencies is computed as equally weighted average of the currencies of Brazil, Chile, Czech Republic, Hungary, Mexico, Poland, S. Africa, S. Korea and Colombia against the US dollar. Decline means appreciation of the nominal exchange rate.

•Source: Bloomberg, CBT

Exchange Rate Developments

The appreciation trend in Yuan, the local currency of China, which exhibits a higher growth performance and higher productivity increase compared to developed countries, still continues. The Yuan has appreciated by 25 percent against the US dollar since July 2005.

Chinese Yuan, Nominal Exchange Rate Developments
(Jan 2005 – Oct 2010, value of local currency against US dollar)



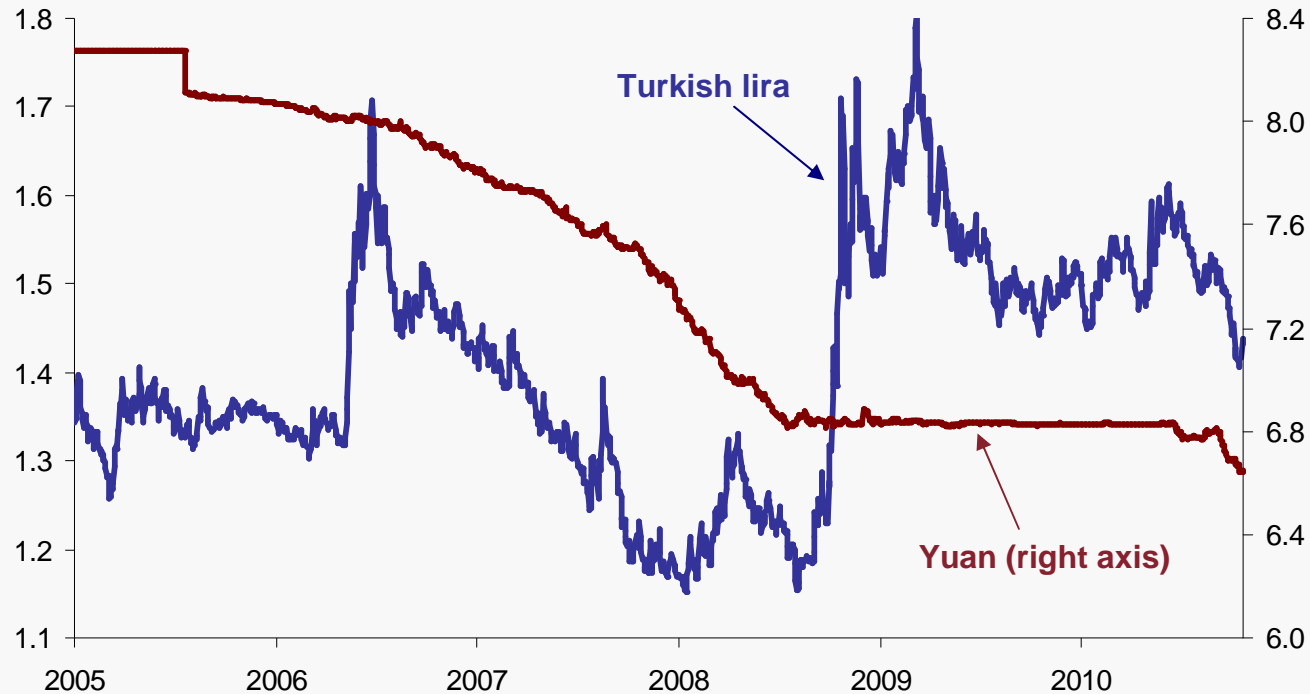
* Decline means appreciation of the nominal exchange rate.

Source: Bloomberg, CBT

Exchange Rate Developments

In the same period, the Turkish lira followed a volatile, yet horizontal course.

Chinese Yuan and Turkish Lira Exchange Rate Developments
(Jan 2005 – Oct 2010, value of local currency against US dollar)



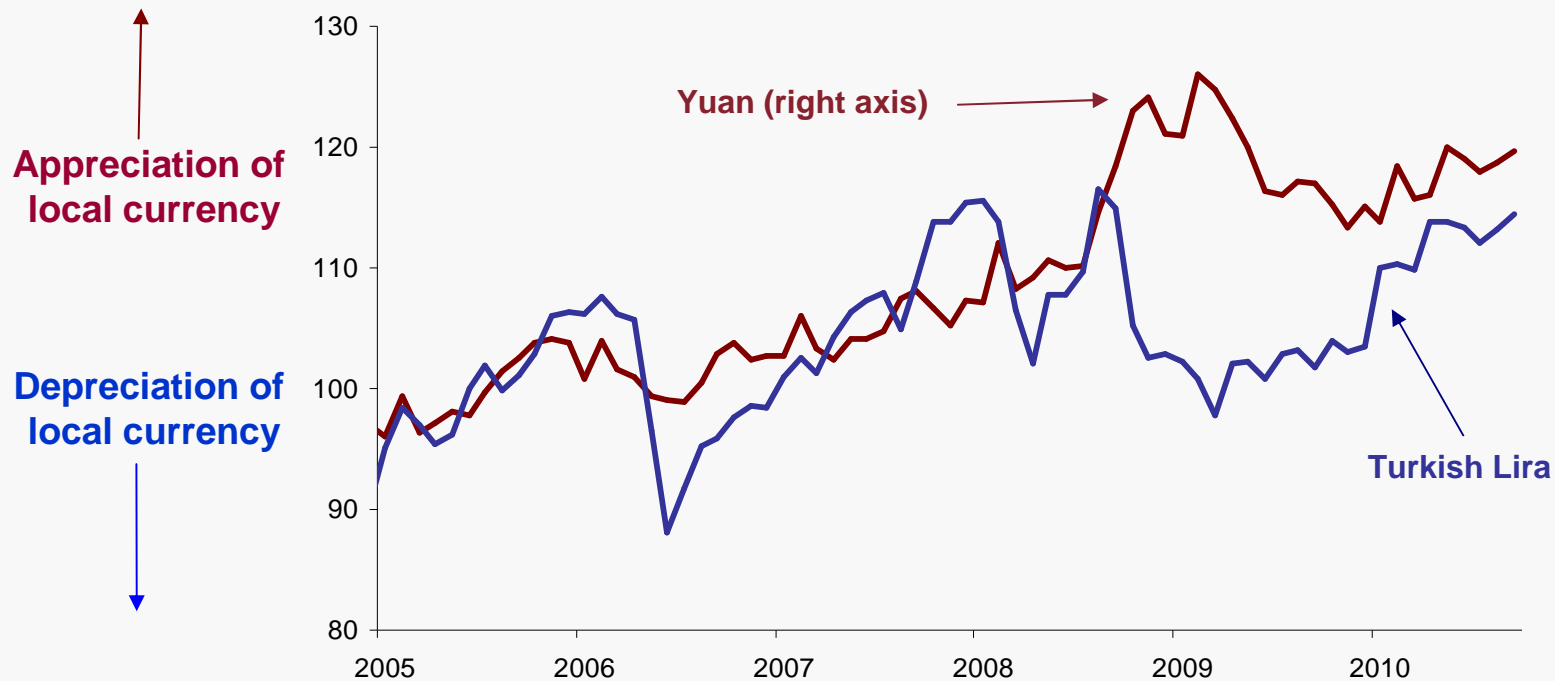
* Decline means appreciation of the nominal exchange rate.

Source: Bloomberg, CBT

Exchange Rate Developments

Adjusted for inflation differences, it is observed that the Yuan has appreciated more than the Turkish lira during the last five years.

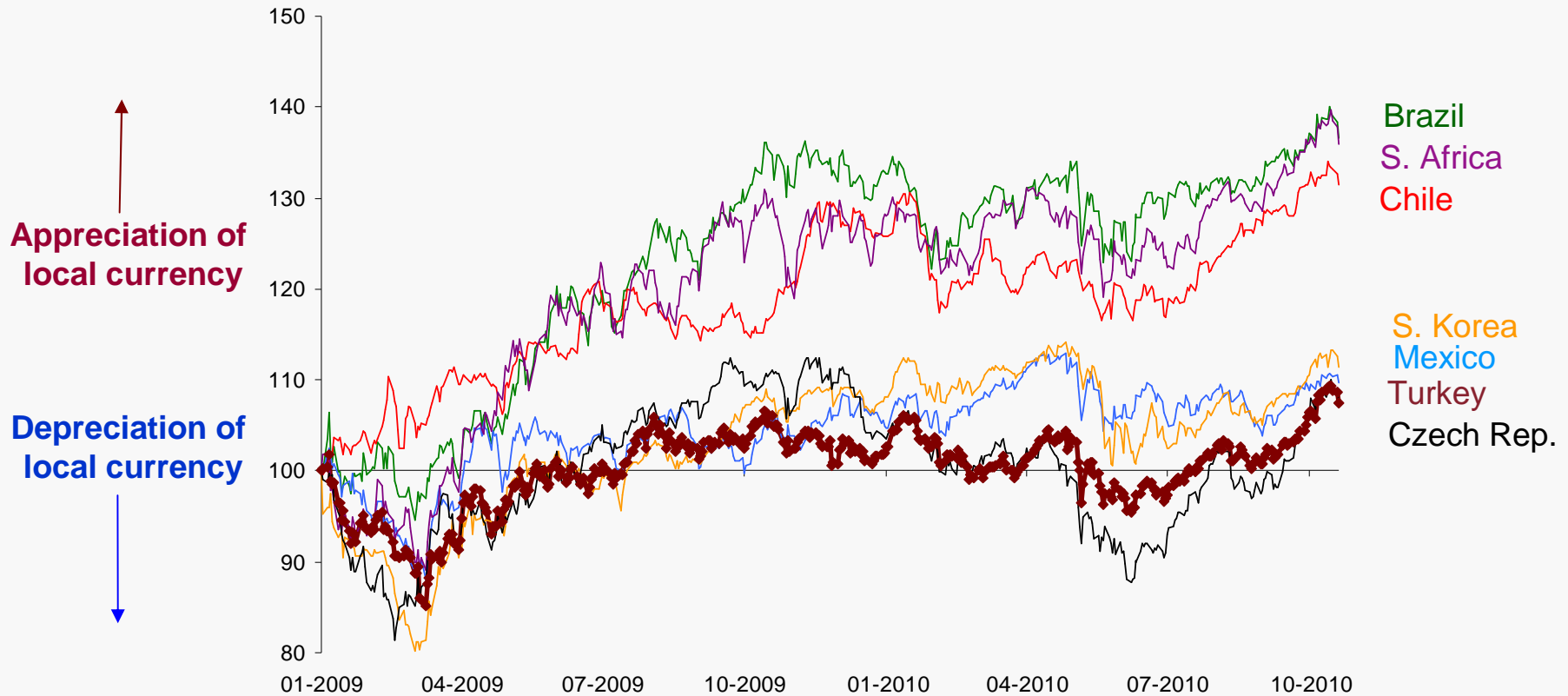
Real Effective Exchange Rates
(Jan 2005 – Sep 2010, CPI-based, 2005=100)



Source: Bloomberg, CBT

Financial Stability in Turkey

Exchange Rate Developments in Selected Countries
(Jan 2009 – Oct 2010, value of local currency against US dollar,
Jan 2009=100)

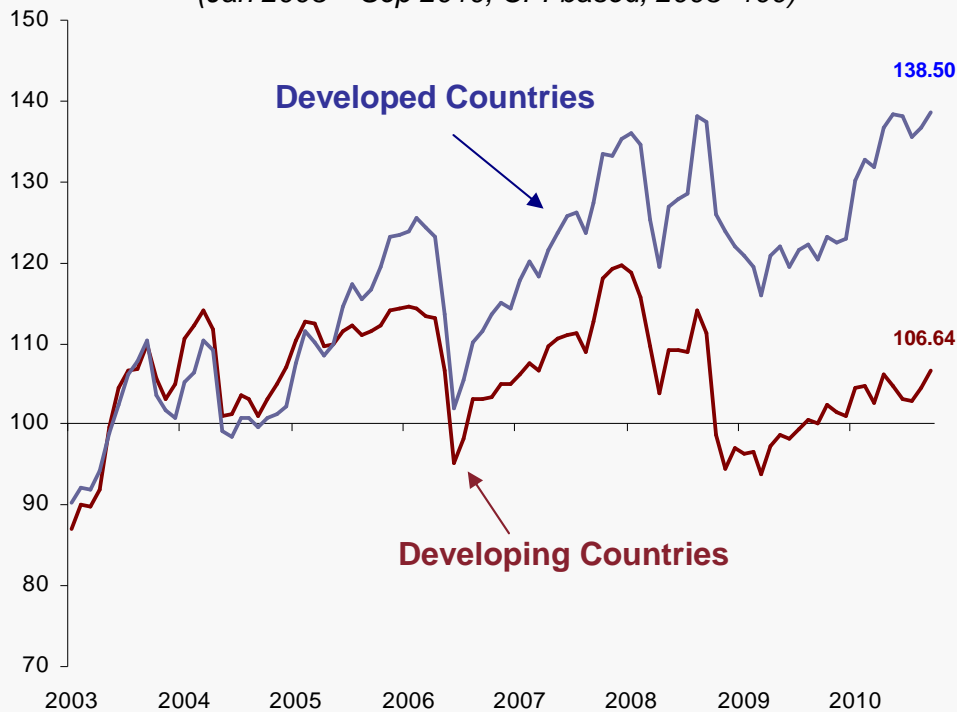


Source: Bloomberg, CBT

Real Exchange Rate Index

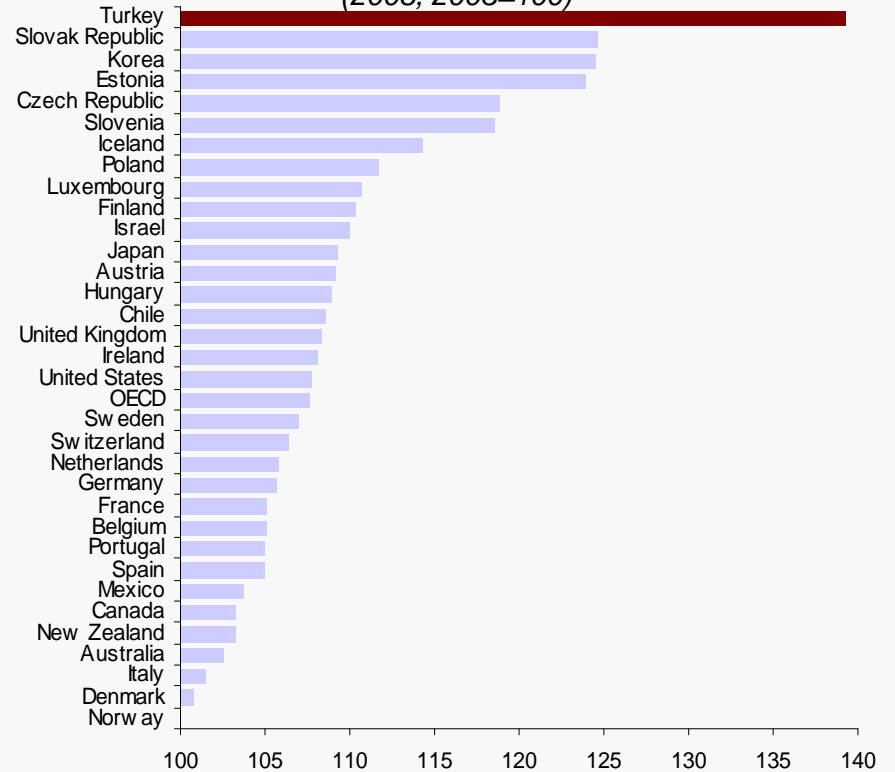
The relatively stable course of the real exchange rate index, along with productivity gains, has underpinned the maintenance of Turkey's competitiveness in foreign trade.

Real Effective Exchange Rate Indices as per Developed and Developing Countries
(Jan 2003 – Sep 2010, CPI-based, 2003=100)



Source: BIS, CBT

Productivity per Employee
(2008, 2003=100)

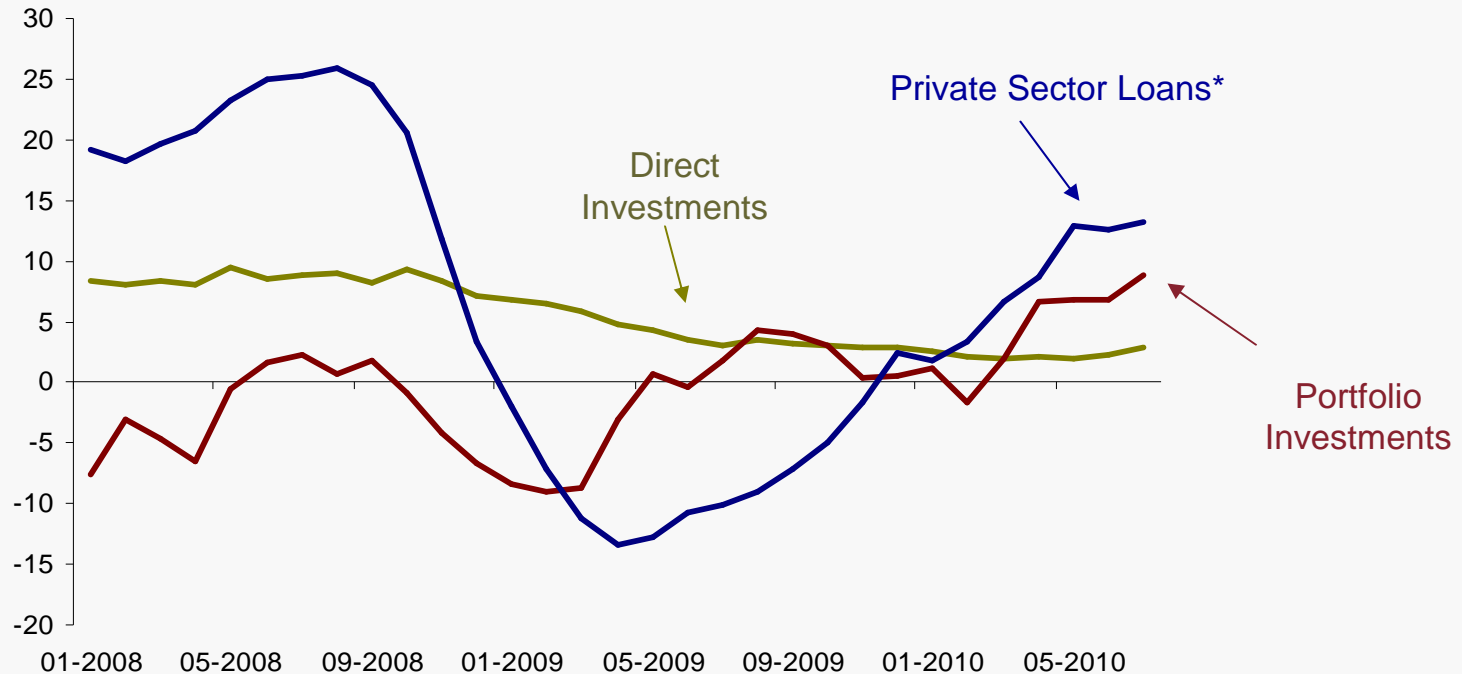


Source: OECD, TurkStat, CBT

Capital Movements

The weak economic course in developed countries accelerates capital flow to countries with high growth potential like Turkey. This, in turn, constitutes a risk factor with regard to financial stability.

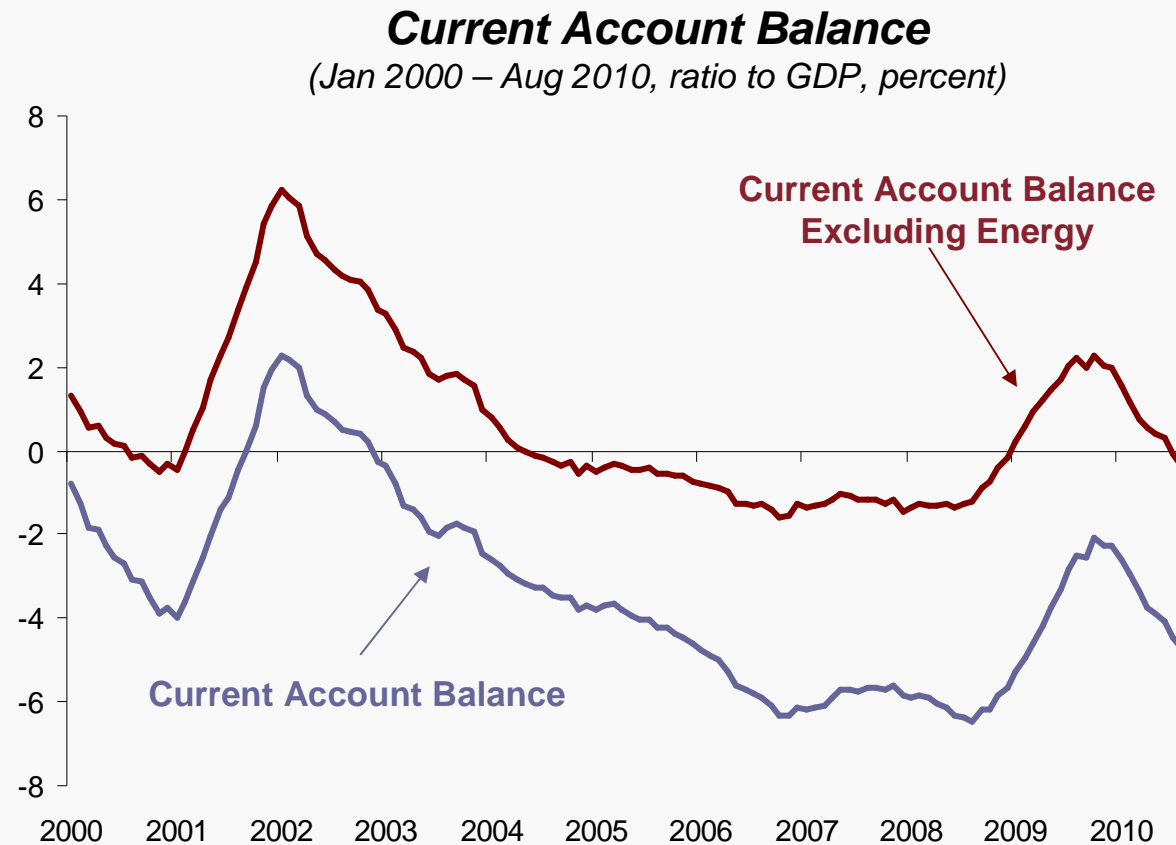
Balance of Payments Sub-Items
(Jan 2008 – Jul 2010, 6 month-cumulative figures, billion USD)



* When the effect of the amendment to Decree No. 32 is taken out
Source: TurkStat, CBT

Current Account Deficit

In this context, the current account deficit is one of the indicators that is closely monitored.



Source. TurkStat, CBT

Sources of Current Account Deficit

Net Public Borrowing
(Budget Deficit)

+ Net Private Sector Borrowing

Current Account Deficit

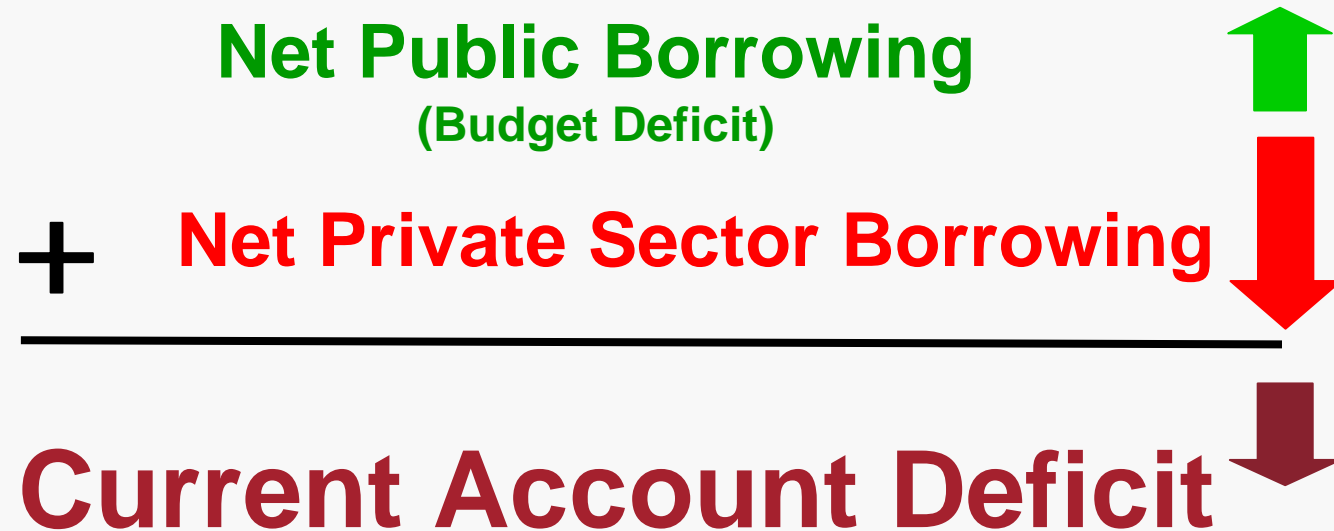
Sources of Current Account Deficit

2002-2008 Period



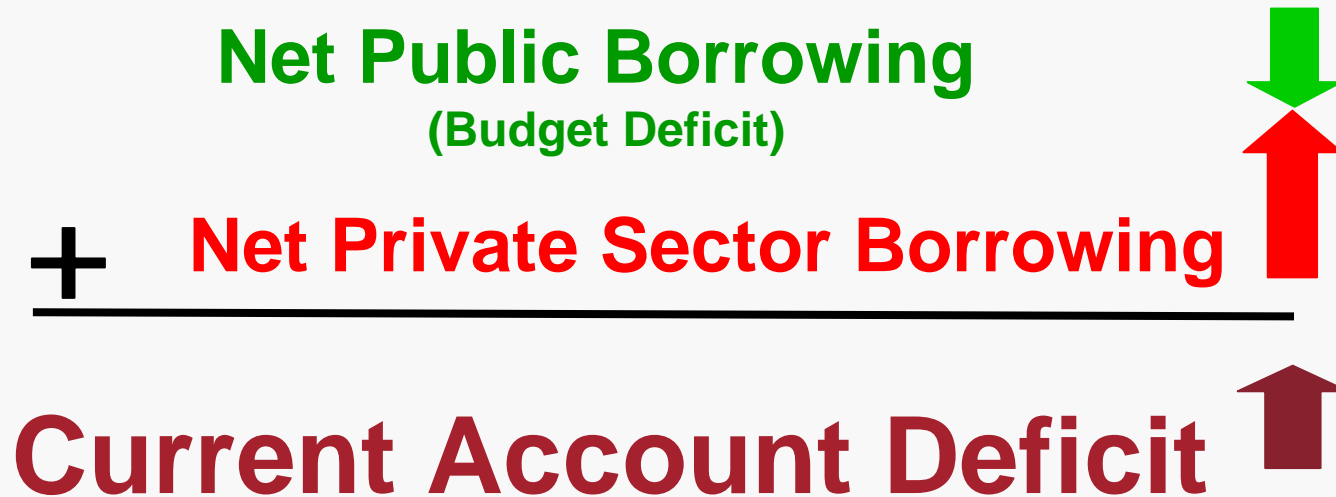
Sources of Current Account Deficit

2009



Sources of Current Account Deficit

2010-2013 Period



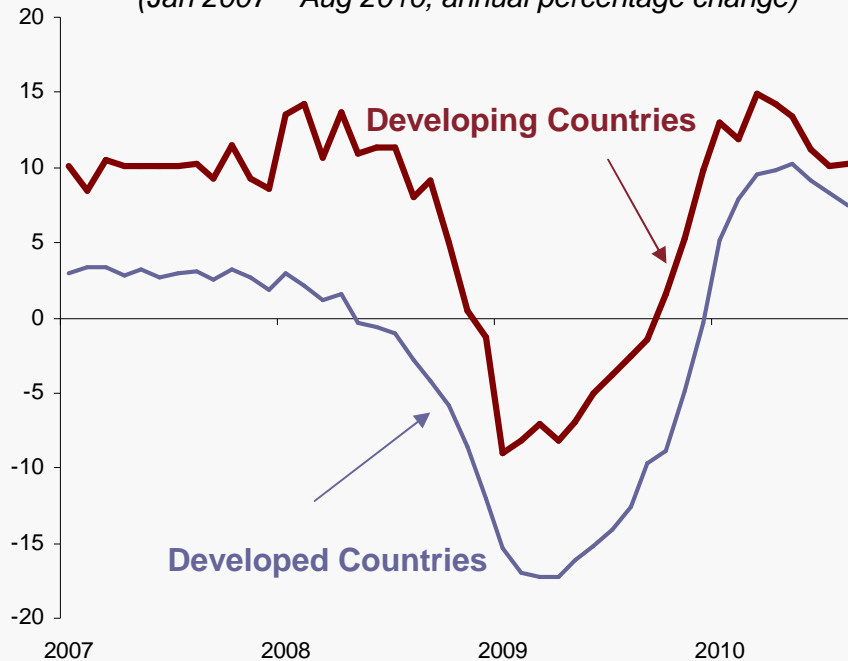
V. Global Economic Outlook

Exit from the Global Crisis

The rebound in the global economy, which became pronounced in the second half of 2009, continued through the first half of 2010. However, recently there have been signals of a recurring global slowdown.

Industrial Production in Developed and Developing Countries

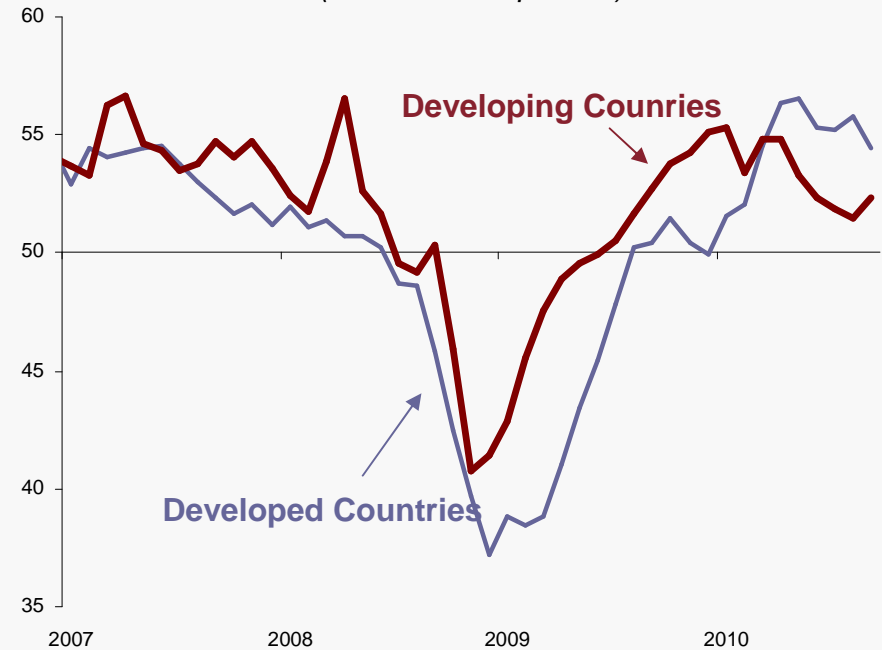
(Jan 2007 – Aug 2010, annual percentage change)



Source: Bloomberg, CBT

Purchasing Managers Index (PMI) in Developed and Developing Countries

(Jan 2007 – Sept 2010)

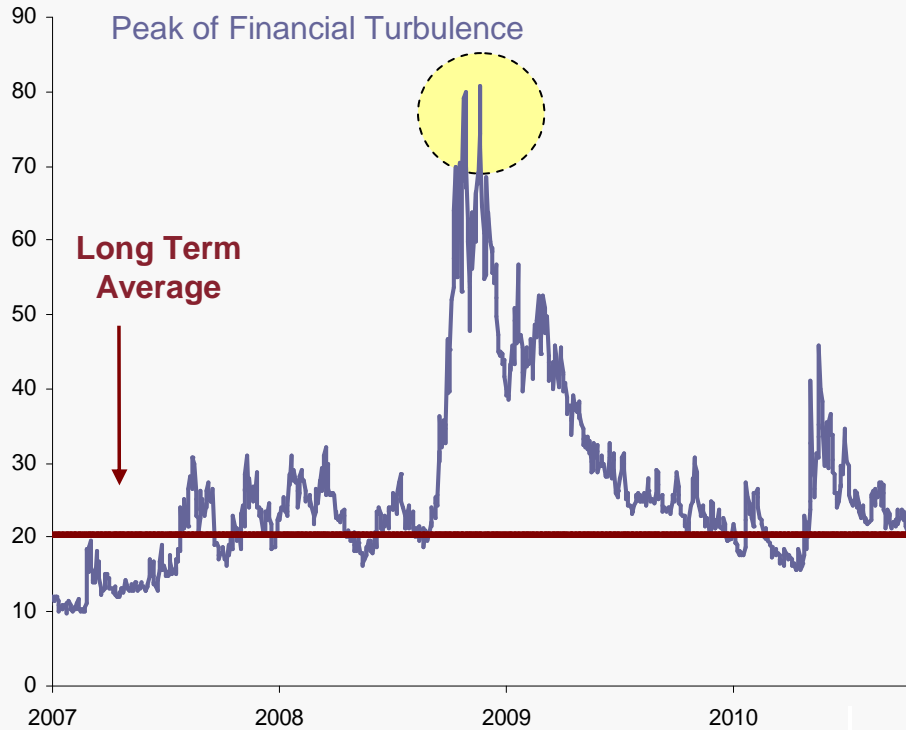


Source: Bloomberg, CBT

Global Risks

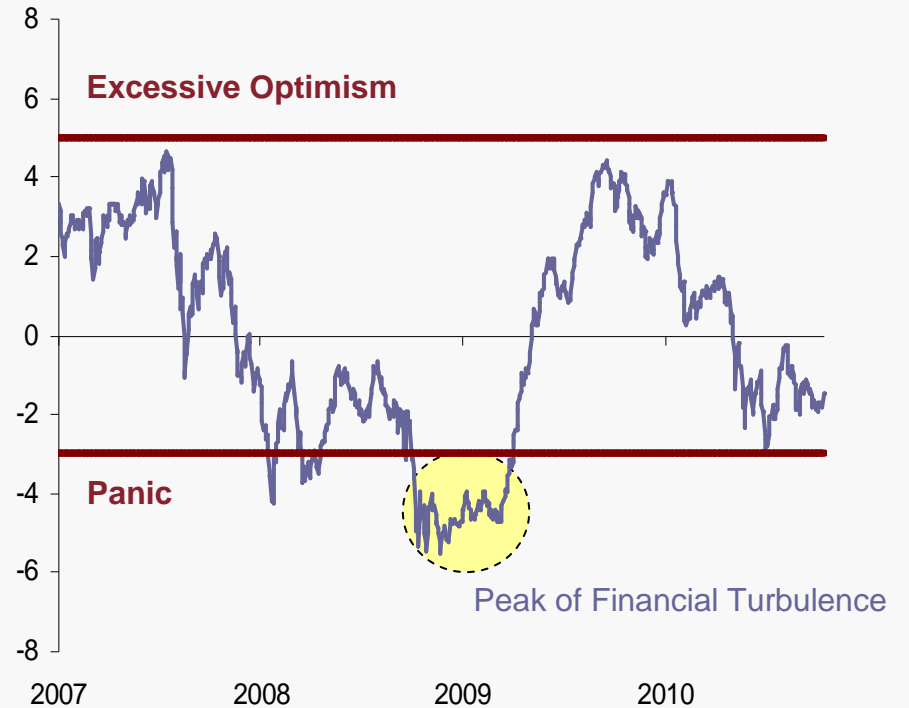
While risk indicators, which deteriorated in the second quarter due to global risk factors, remained unfavorable, the volatility index returned to historical averages.

Volatility Index
(Jan 2007 – Oct 2010)



Source: Bloomberg, CBT

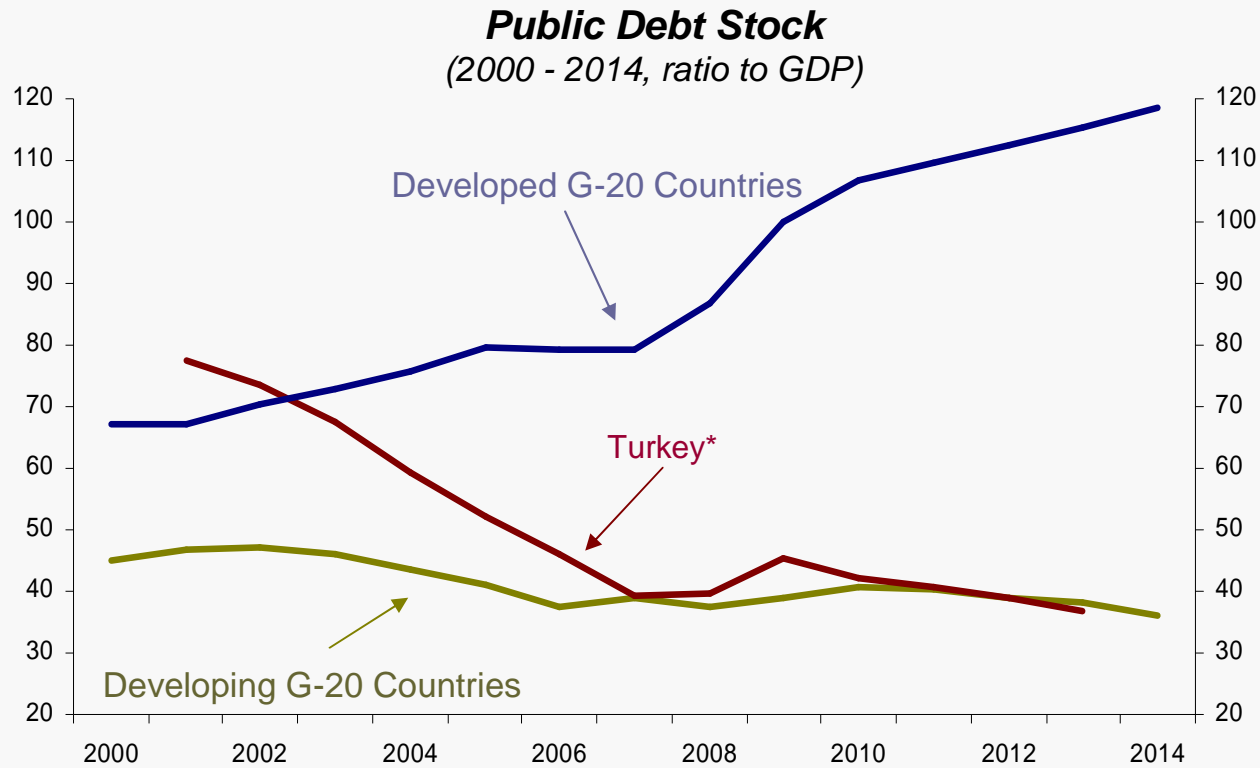
Global Risk Appetite Index
(Jan 2007 – Oct 2010)



Source: Credit Suisse, CBT

Global Risks – Public Finance

The ever-growing public debt stock driven by the expansionary fiscal policies adopted in developed countries constitute an important risk factor. Turkey stands out favorably, thanks to its low public debt stock.

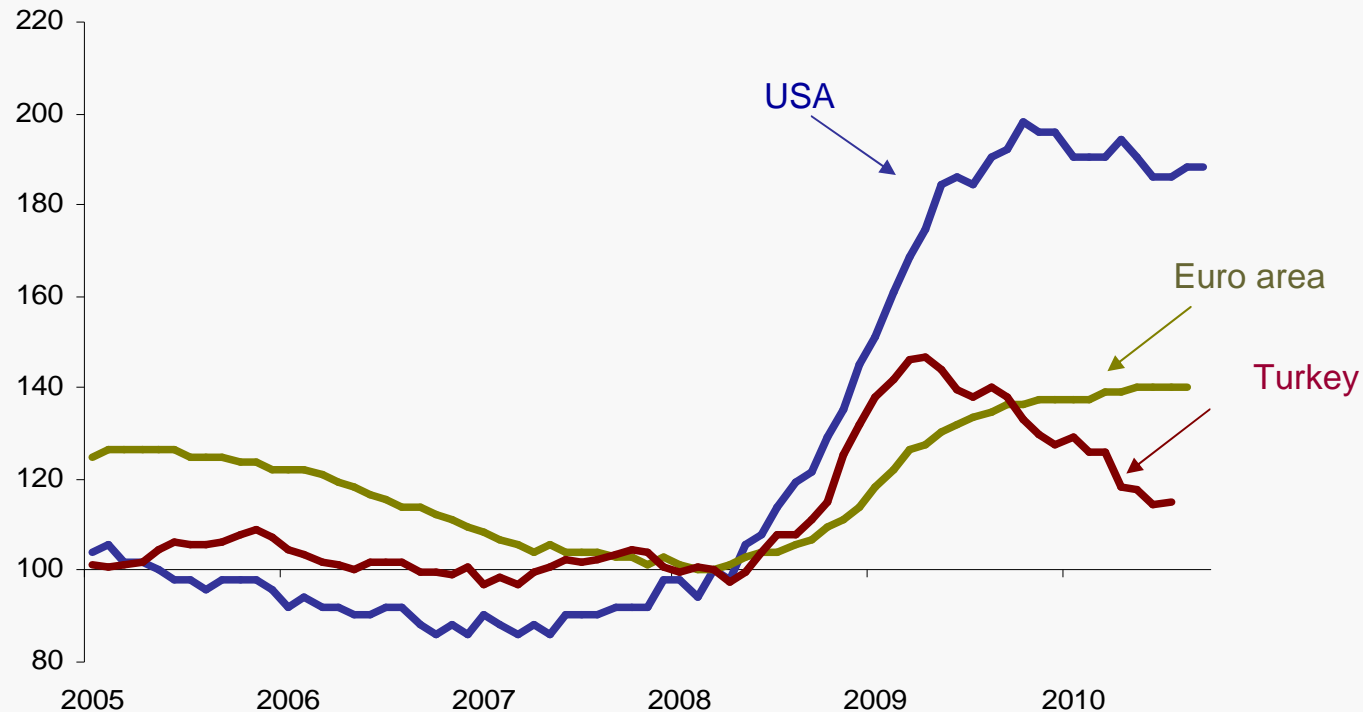


*Medium-Term Program Targets (2010 -2013)
Source: IMF WEO Oct 2010, Treasury, BRSA, CBT

Global Risks – Unemployment

Unemployment is still high in developed countries. As for Turkey, the unemployment rate is still above its pre-crisis level, though it continues to decrease.

Unemployment Rates in Turkey, USA and Euro area
(Jan 2005 – Sept 2010, March 2008 = 100)



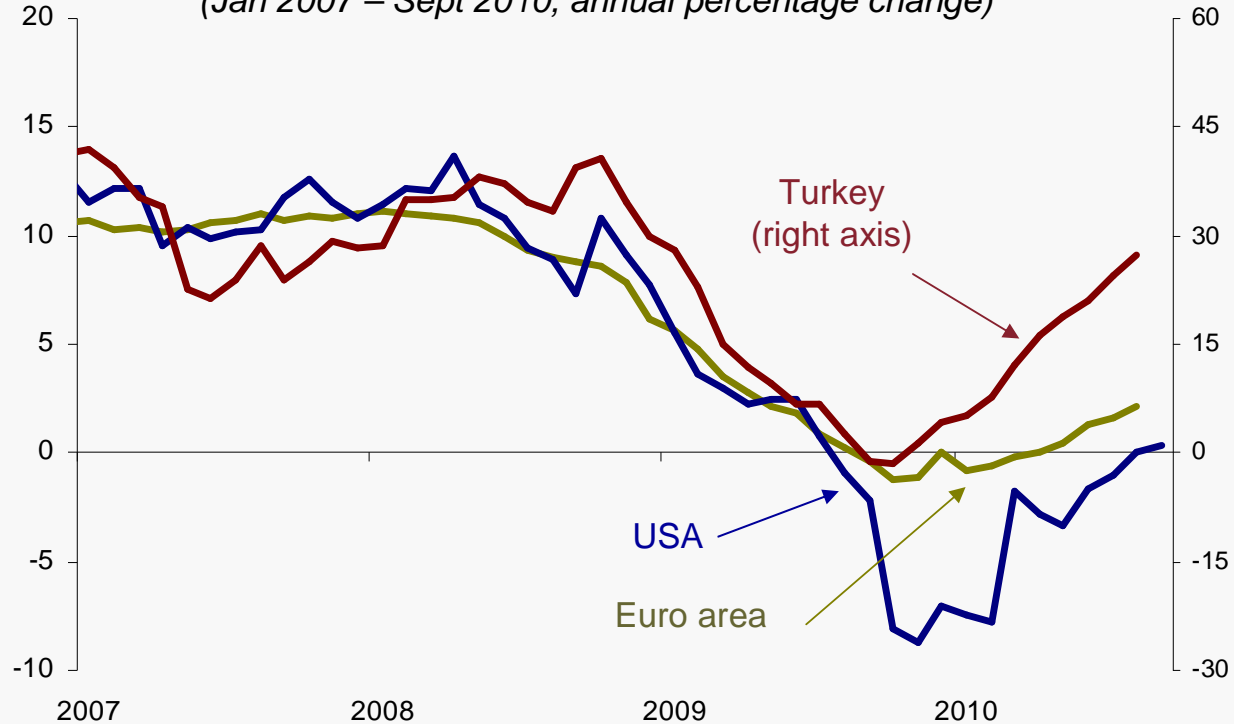
Source: Bloomberg, BRSA, CBT

Global Risks – Loans

As problems in the banking systems of developed countries linger, no significant recovery is observed in credit volume. In Turkey, the rate of increase in credit volume has returned to its average level prior to the crisis.

Credit Developments in USA, Euro area and Turkey

(Jan 2007 – Sept 2010, annual percentage change)

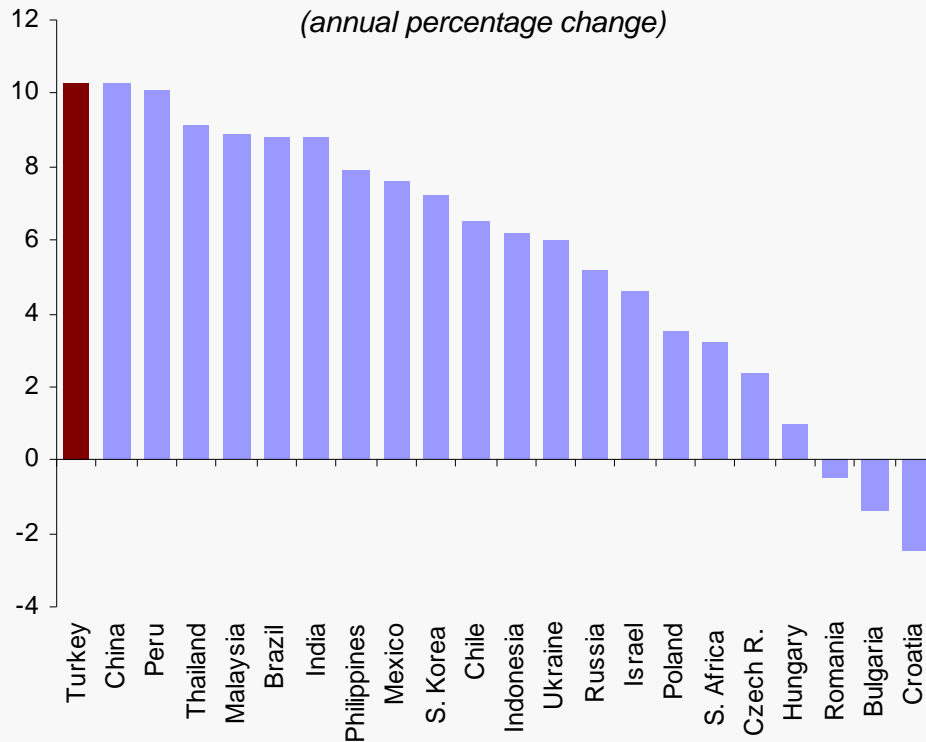


Source: Bloomberg, BRSA, CBT

Decoupling Signals in the Global Economy

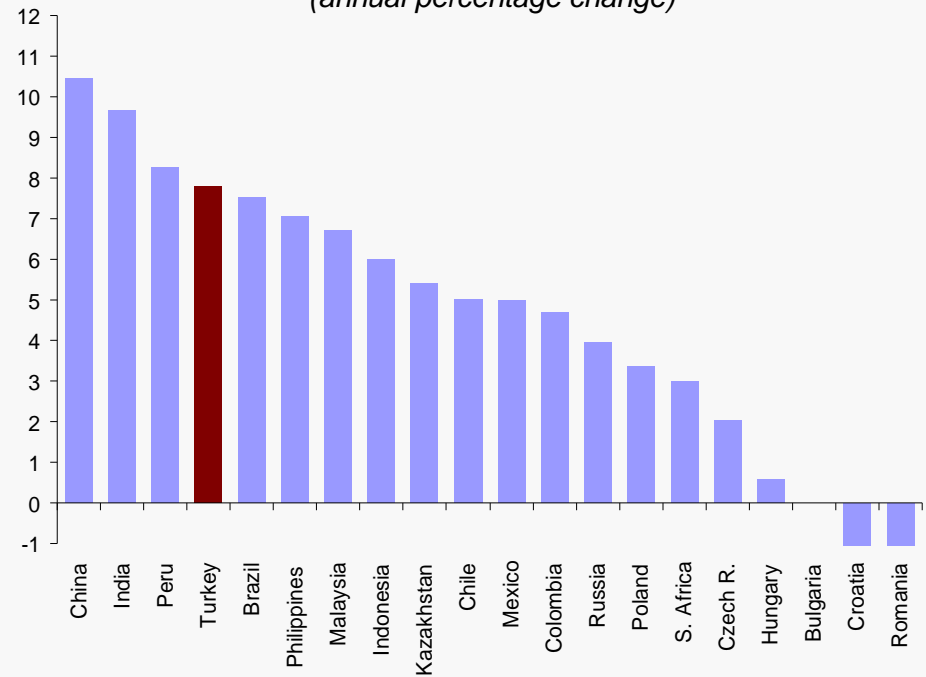
While economic activity in many developing countries including Turkey has displayed a significant rebound, growth data in developed countries and Eastern Europe remain subdued.

Growth Rates in 2010 Q2
(annual percentage change)



Source: Bloomberg, CBT

Growth Prospects for 2010
(annual percentage change)



Source: IMF WEO Oct 2010

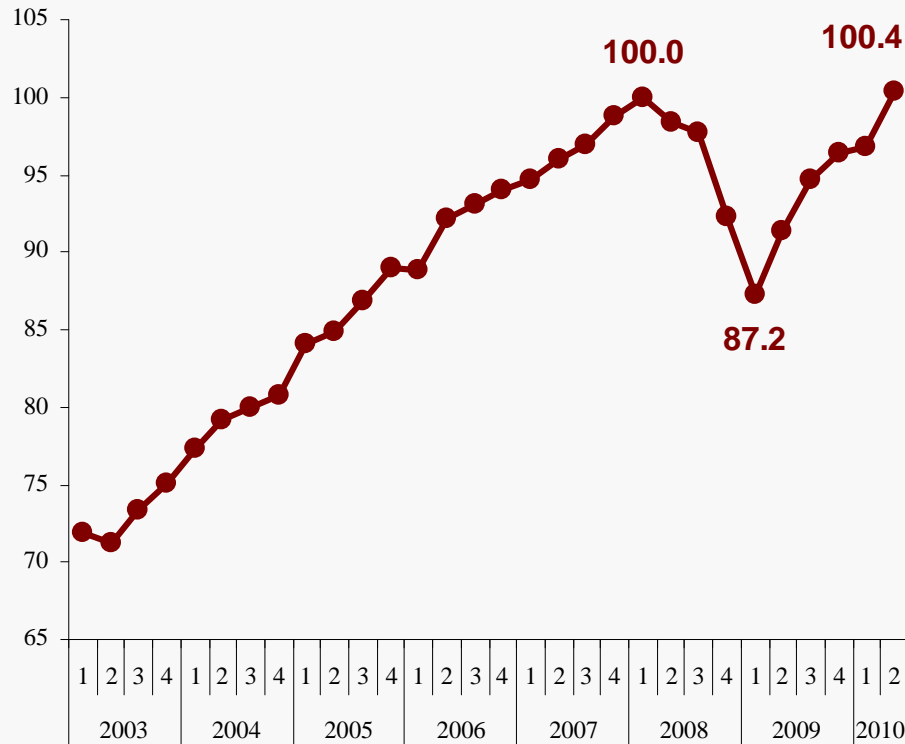
VI. Latest Developments in the Turkish Economy

Gross National Product

The latest data suggest that the recovery in economic activity continues. Turkey's GDP returned to its pre-crisis level in the second quarter of the year.

Seasonally Adjusted GDP

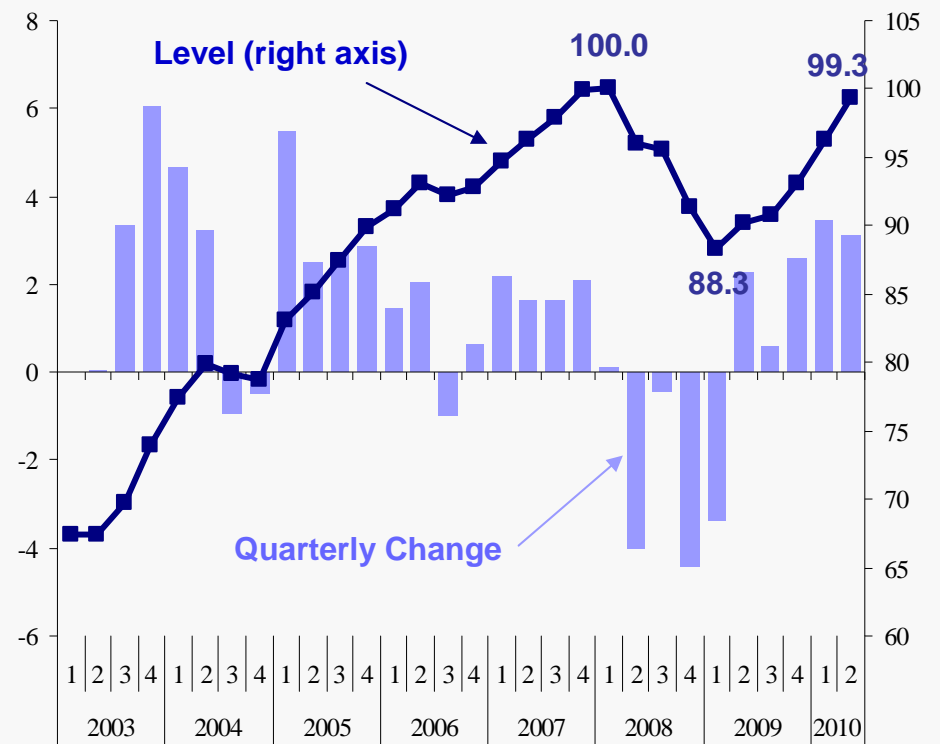
(2003 Q1 – 2010 Q2 constant prices, 2008 Q1 = 100)



Source: TurkStat, CBT

Seasonally Adjusted Final Domestic Demand

(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)

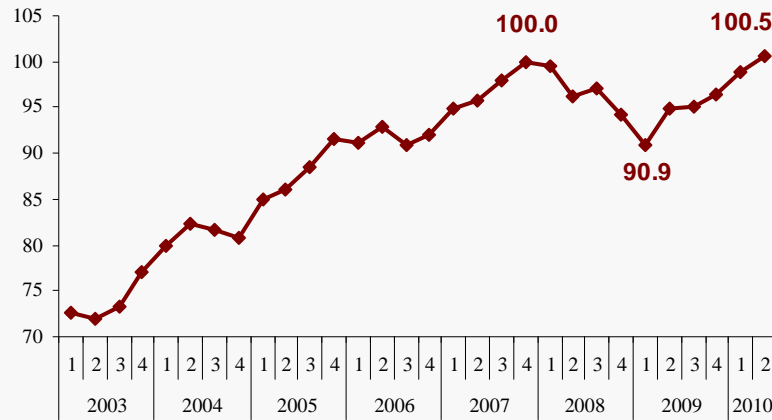


Source: TurkStat, CBT

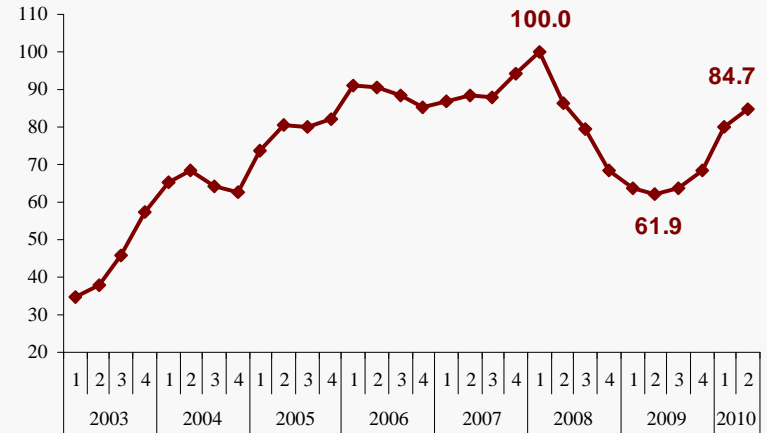
Gross National Product

Private sector consumption and investment expenditures are on a steady upward track.

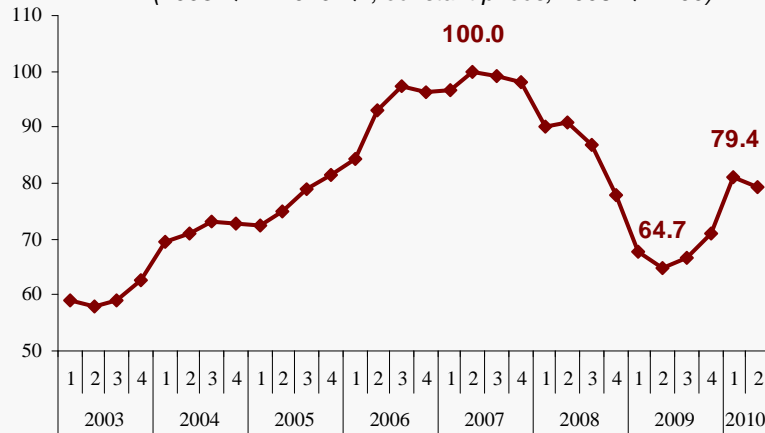
Private Sector Consumption Expenditures*
(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)



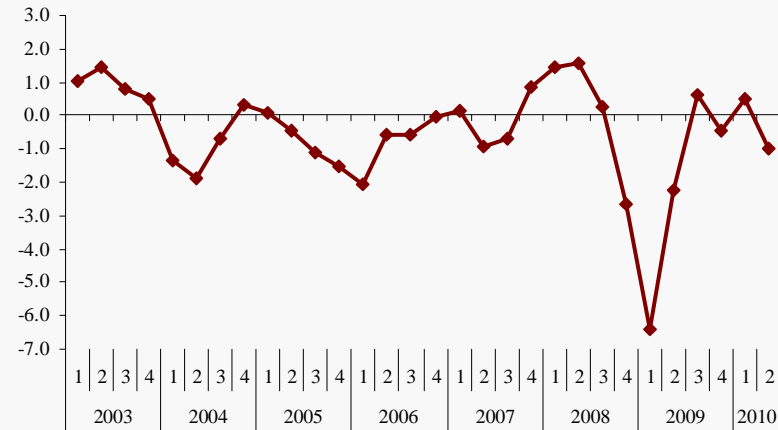
Private Sector Machinery-Equipment Investments*
(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)



Private Sector Construction Investments*
(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)



Stock Expenditures*
(2003 Q1 – 2010 Q2, ratio to GDP, percent)



* Seasonally adjusted
Source: TurkStat, CBT

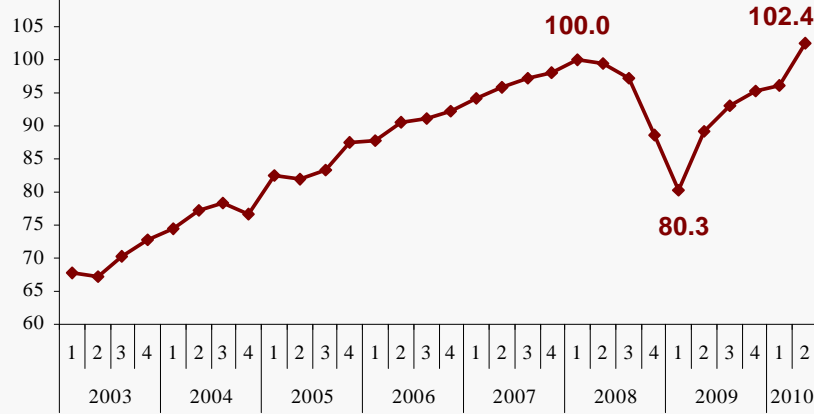
* Seasonally adjusted
Source: TurkStat, CBT

Gross National Product

While the value added of industrial and services sectors posted rapid growth following the standstill in the first quarter, the steady recovery in the value added of the construction sector continued.

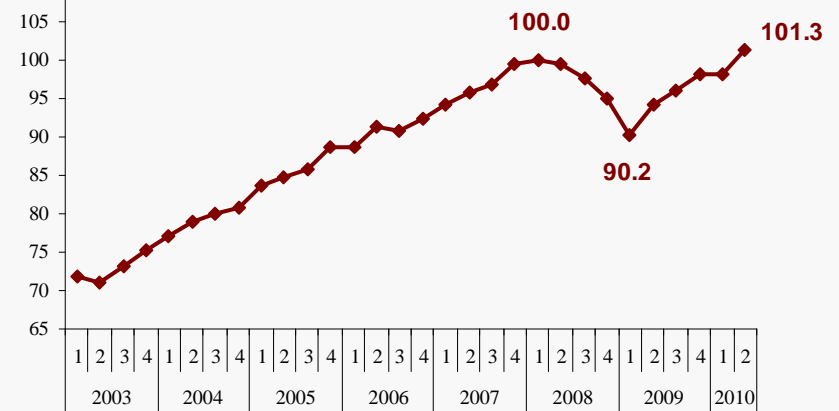
Value Added of the Industrial Sector *

(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)



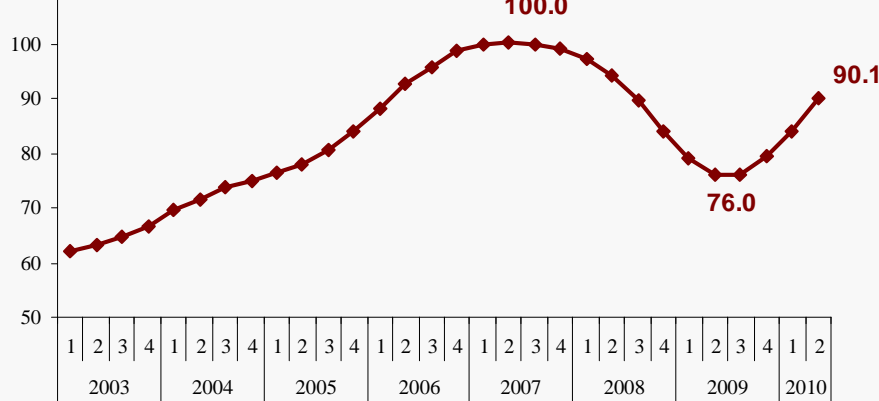
Value Added of the Services Sector*

(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)



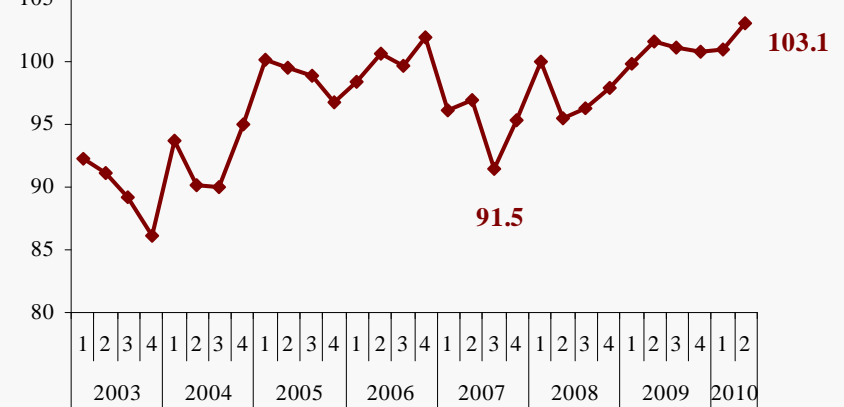
Value Added of the Construction Sector *

(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)



Value Added of the Agricultural Sector *

(2003 Q1 – 2010 Q2, constant prices, 2008 Q1=100)



* Seasonally adjusted

Source: TurkStat, CBT

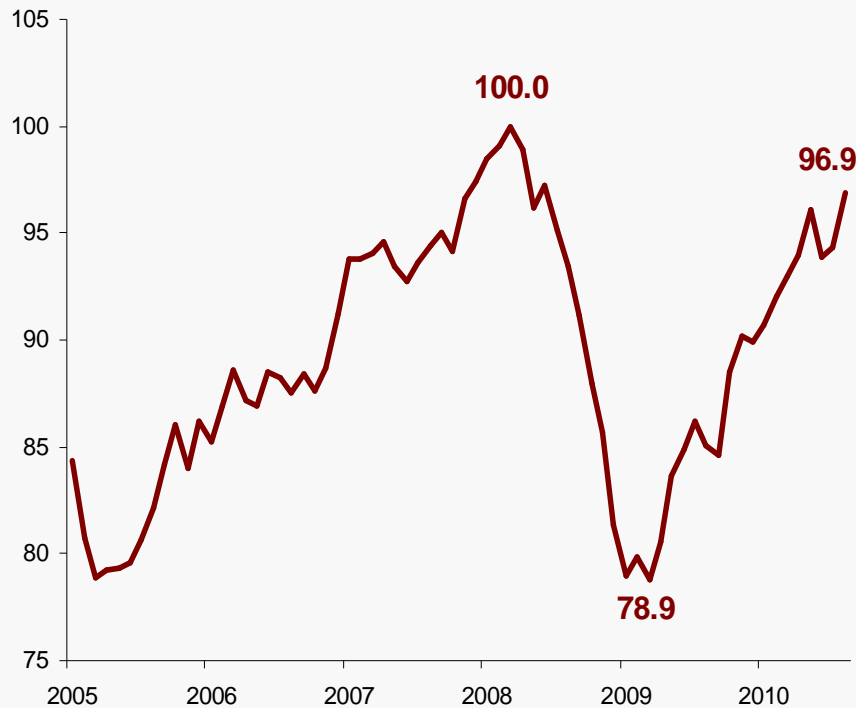
* Seasonally adjusted

Source: TurkStat, CBT

Production Developments

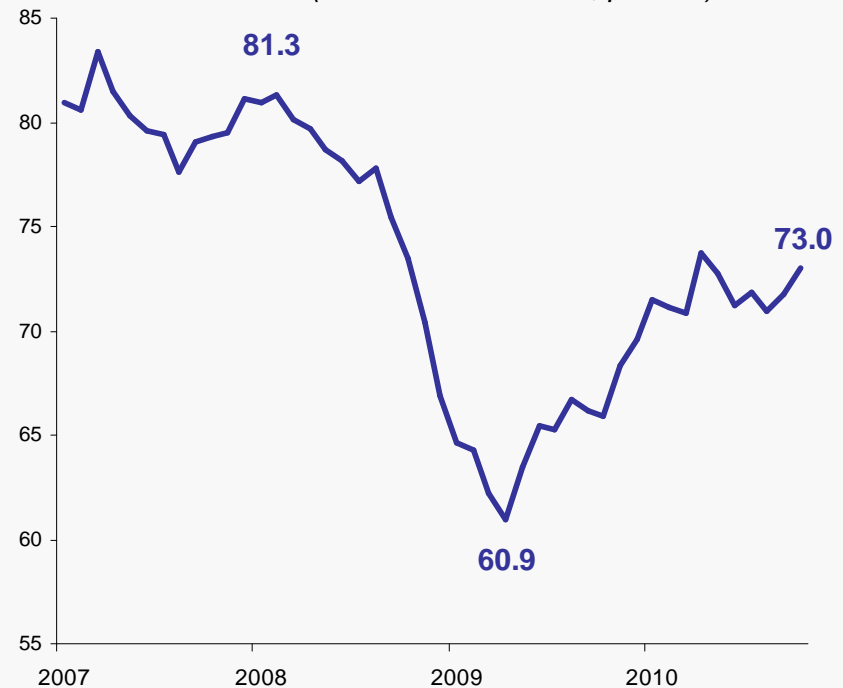
Industrial production has been rising since the second quarter of 2009. However, lingering uncertainties pertaining to external demand delays the return of industrial production to pre-crisis levels.

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



Source: TurkStat, CBT

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



Source: CBT

Production Developments

The recovery in sectors manufacturing goods for domestic markets is stronger than those manufacturing goods for foreign markets.

Industrial Production Indices of Firms Manufacturing Goods for Domestic and Foreign Markets

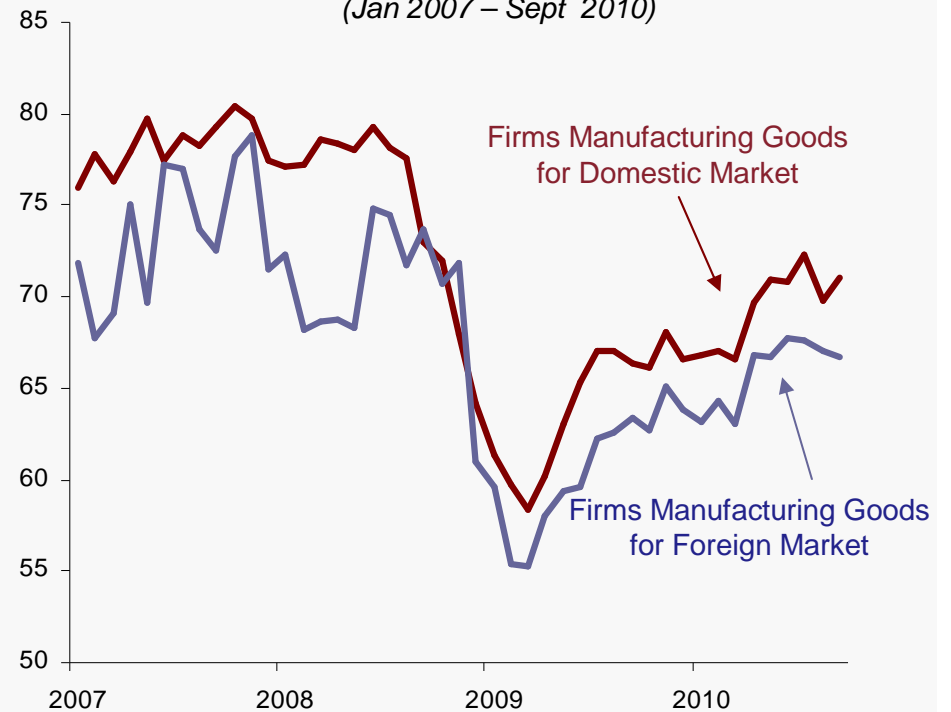
(Jan 2007 – Aug 2010, March 2008=100)



Source: CBT

Capacity Utilization Rates of Firms Manufacturing Goods for Domestic and Foreign Markets

(Jan 2007 – Sept 2010)

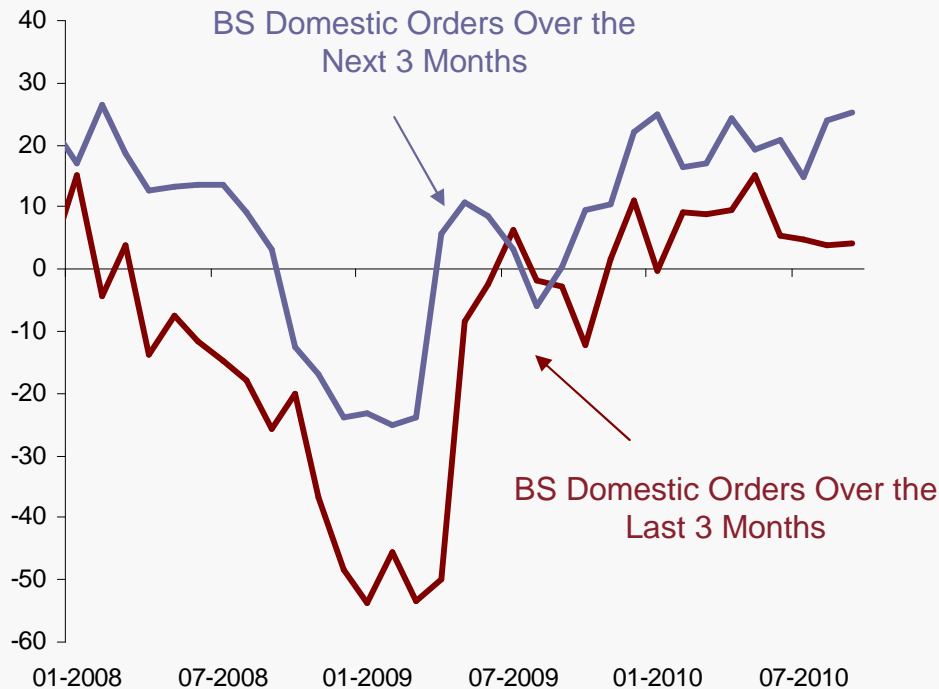


Source: CBT

Orders

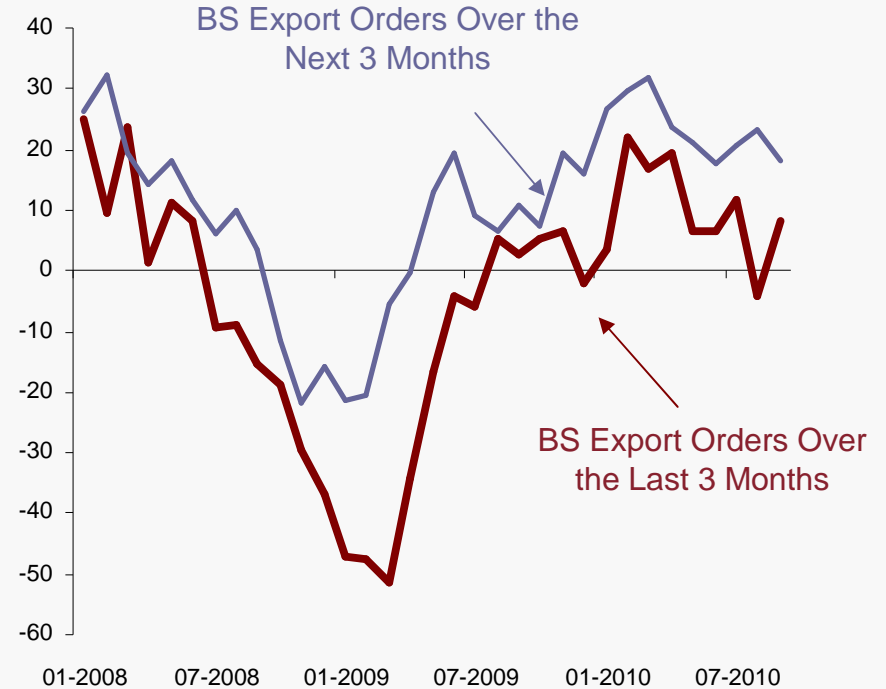
The limited decline in orders in the second quarter due to problems in European economies poses downside risk to the pace of recovery not only in external demand but also in domestic demand.

Domestic Orders*
(Jan 2008 – Sept 2010)



* Seasonally adjusted
Source: CBT

Orders from Foreign Markets *
(Jan 2008 – Sept 2010)

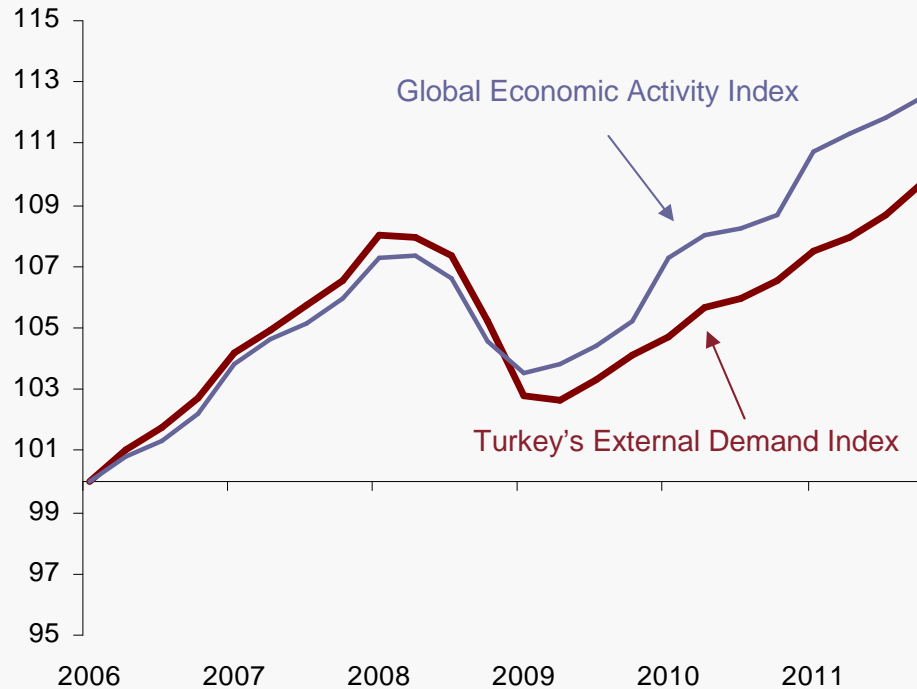


* Seasonally adjusted
Source: CBT

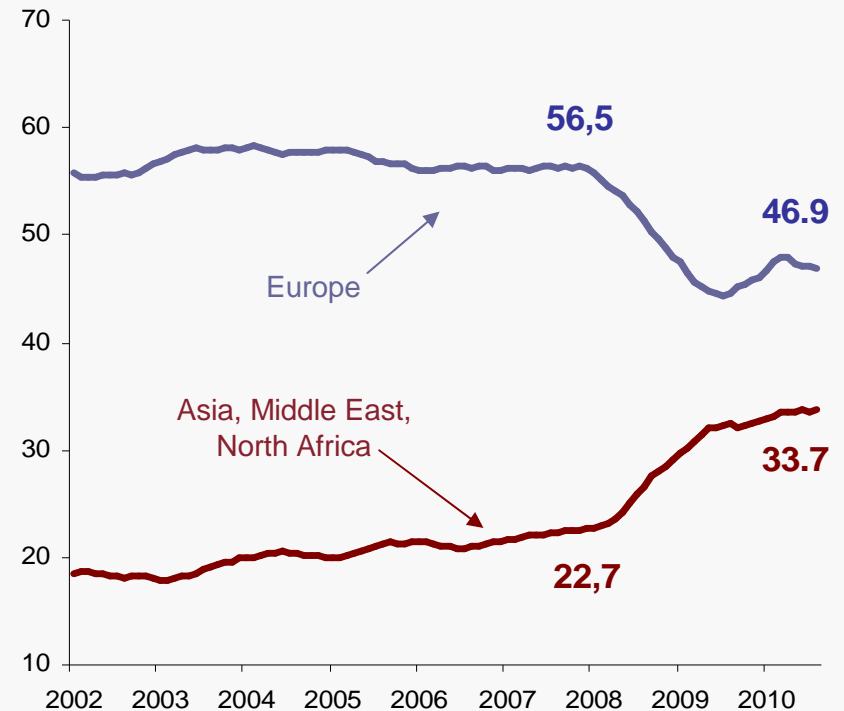
Foreign Demand

The relatively subdued growth expectations in Turkey's largest export market, the European Union, poses a significant risk to foreign demand.

Turkey's External Demand Index*
(March 2006 – Dec 2011, March 2006=100)



Turkey's Export Markets
(Jan 2002 – Aug 2010, percent in total exports)



Source: TURKSTAT, CBRT

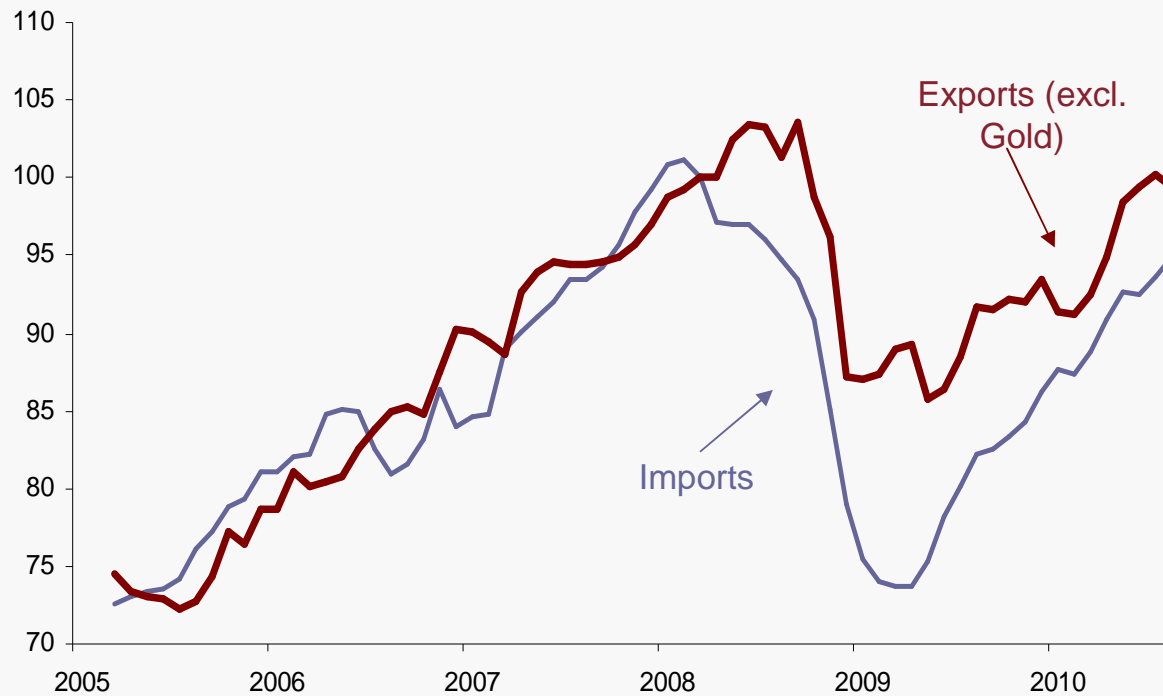
*The shares of countries within the exports of Turkey and weighted GDP data are employed in the calculation of the external demand index of Turkey.

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

Foreign Trade

The gradual recovery in quantity indices of imports and exports in seasonally adjusted terms has continued also recently.

Quantity Indices for Exports and Imports*
(Jan 2005 – Aug 2010, 2008 Q1=100)



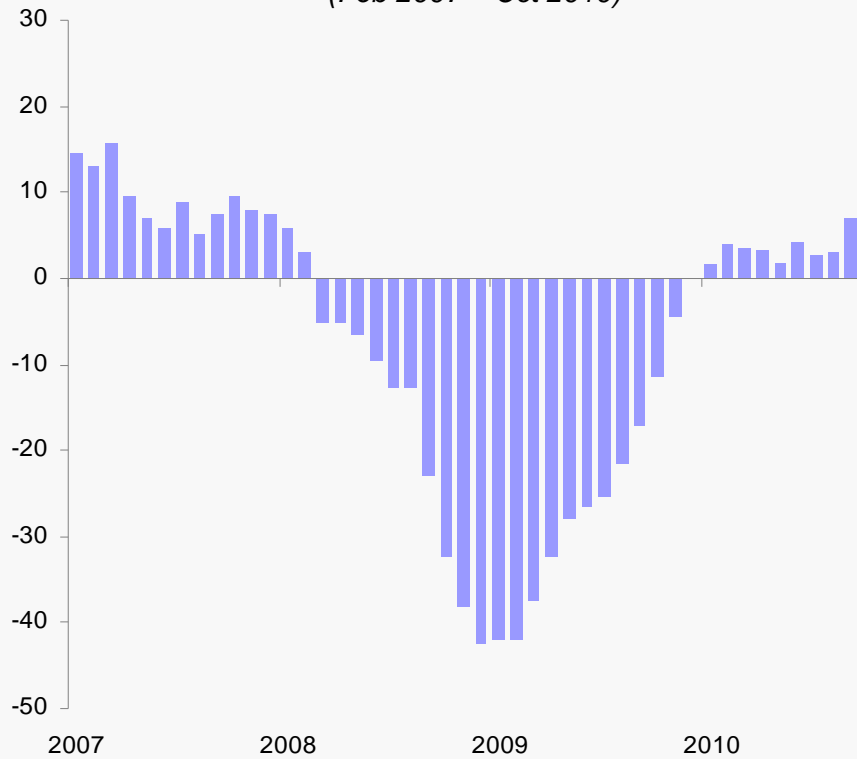
* Seasonally adjusted, 2-month moving average
Source: TurkStat, CBT

Investments

The moderate recovery in investment expenditures is expected to continue in the upcoming period as well.

Expectations for Fixed Capital Investment Expenditures

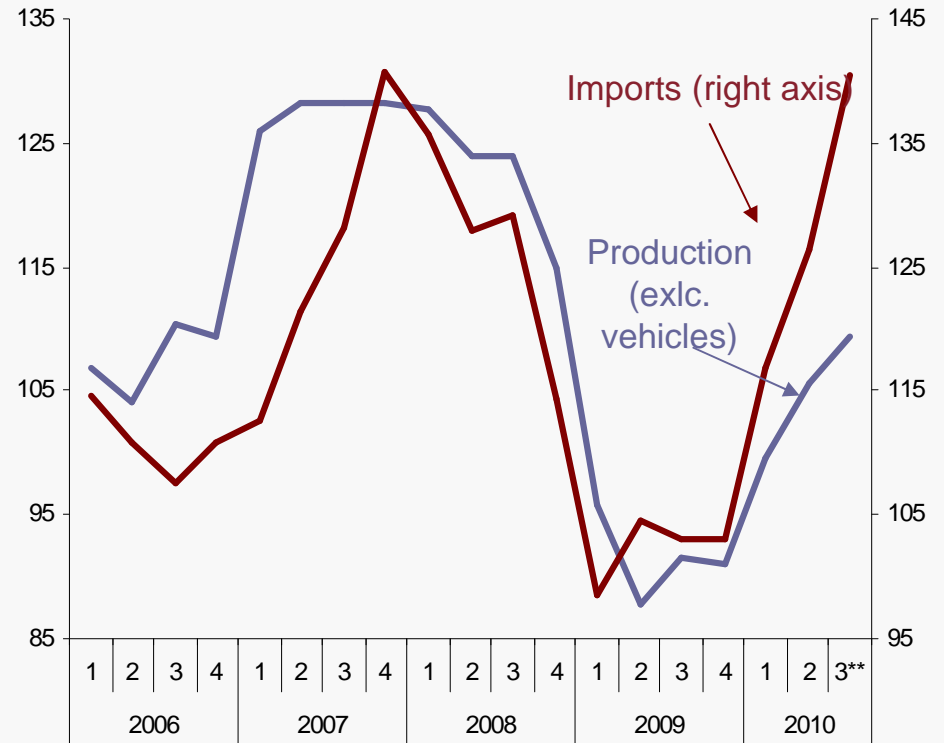
(Feb 2007 – Oct 2010)



Source: CBT

Production and Imports of Capital Goods *

(Jan 2006 – Aug 2010, 2005=100)

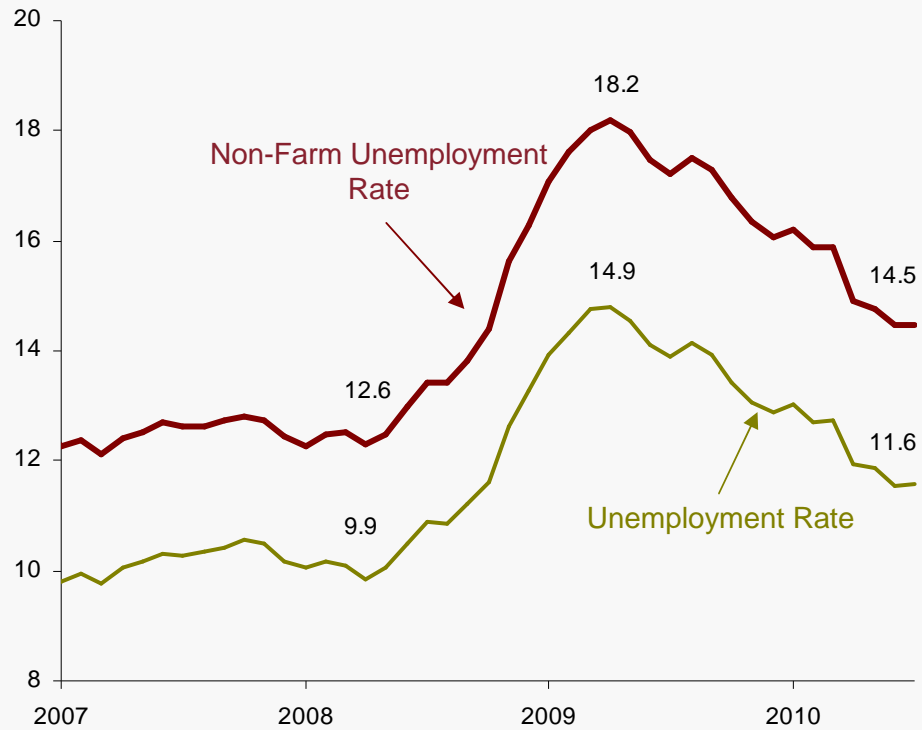


* Seasonally adjusted
** Average of July and August.

Labor Market

Although recovery in labor conditions continues, unemployment rates still remain high.

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



*Seasonally Adjusted
Source: TurkStat, CBT

Non-Farm Unemployment*
(Jan 2007 - July 2010, million people)



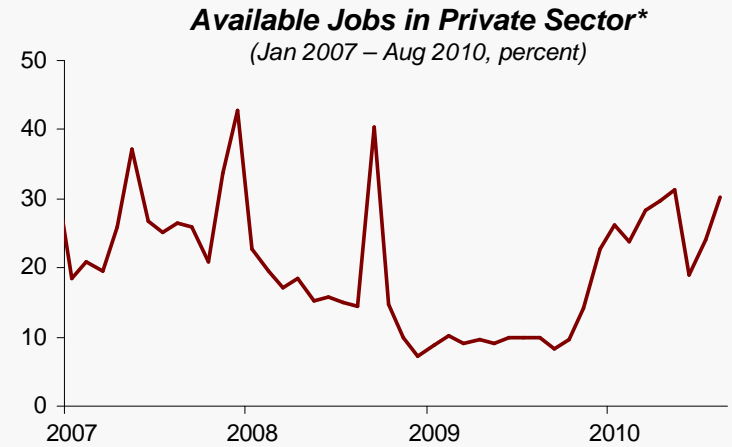
*Seasonally Adjusted
Source: TurkStat, CBT

Labor Market

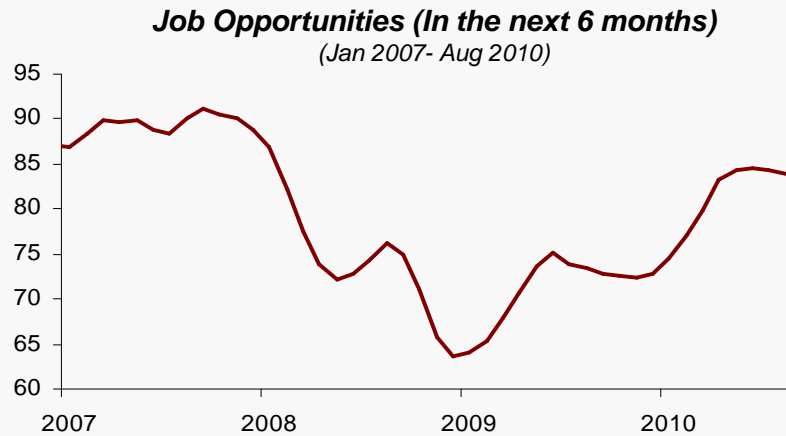
Labor market indicators exhibit positive signals.



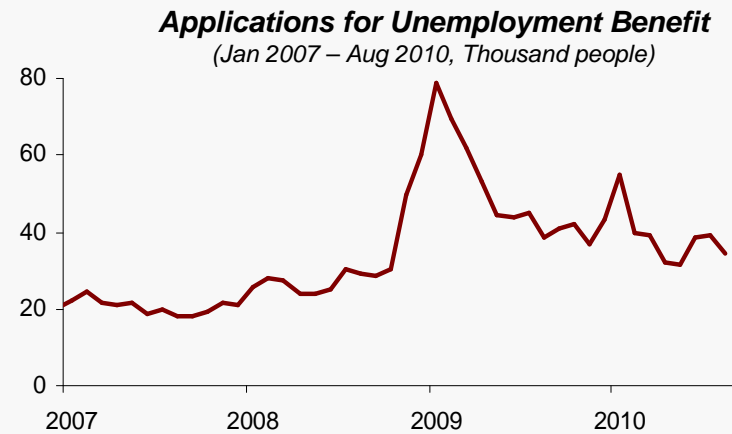
Source: TurkStat Industrial Labor Input Indicators, Markit, CBT



*The ratio of available jobs registered at the Turkish Employment Agency (İŞKUR) to the number of job seekers that have applied to the agency
 Source: İŞKUR, CBT



Source: Consumer Confidence Index, CBT



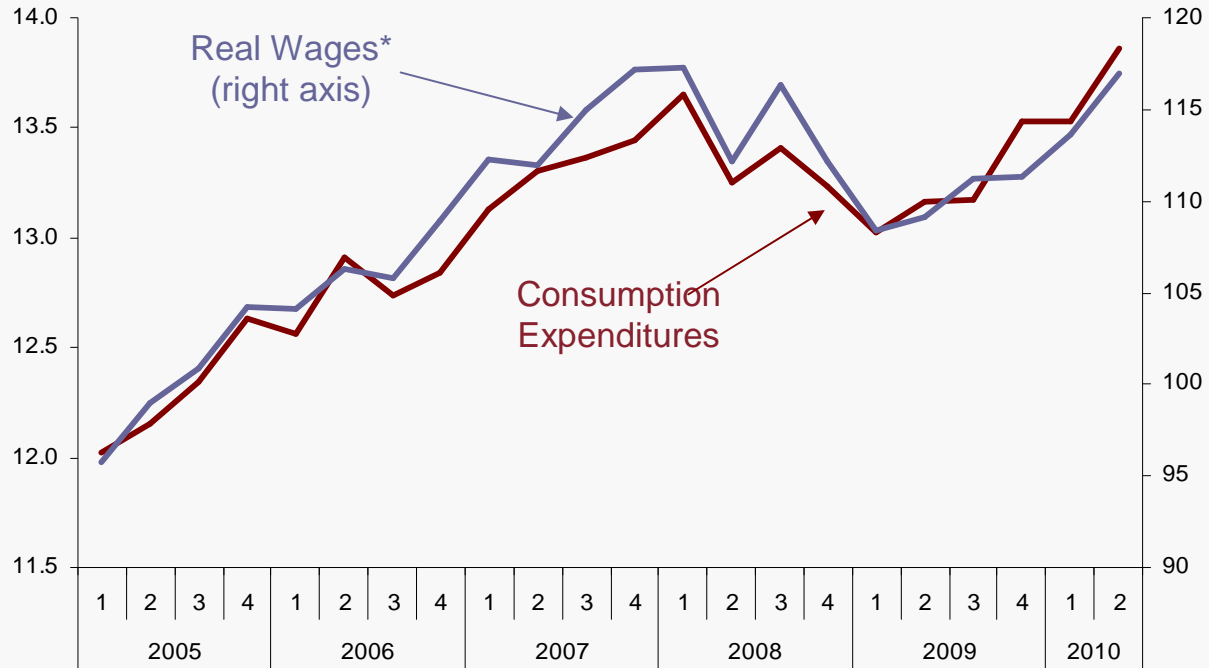
Source: İŞKUR, CBT

Real Wages

In line with the moderate recovery in economic activity, real wages started to rise again underpinning recovery in private consumption expenditures.

Real Wages and Private Consumption Expenditures

(2005 Q1 – 2010 Q2, 1998 constant prices, billion TL)



*Calculated by the weighted average of total wages paid in industrial, construction, trade, restaurant and hotels sectors. Converted to real wages by using the household consumption deflator.

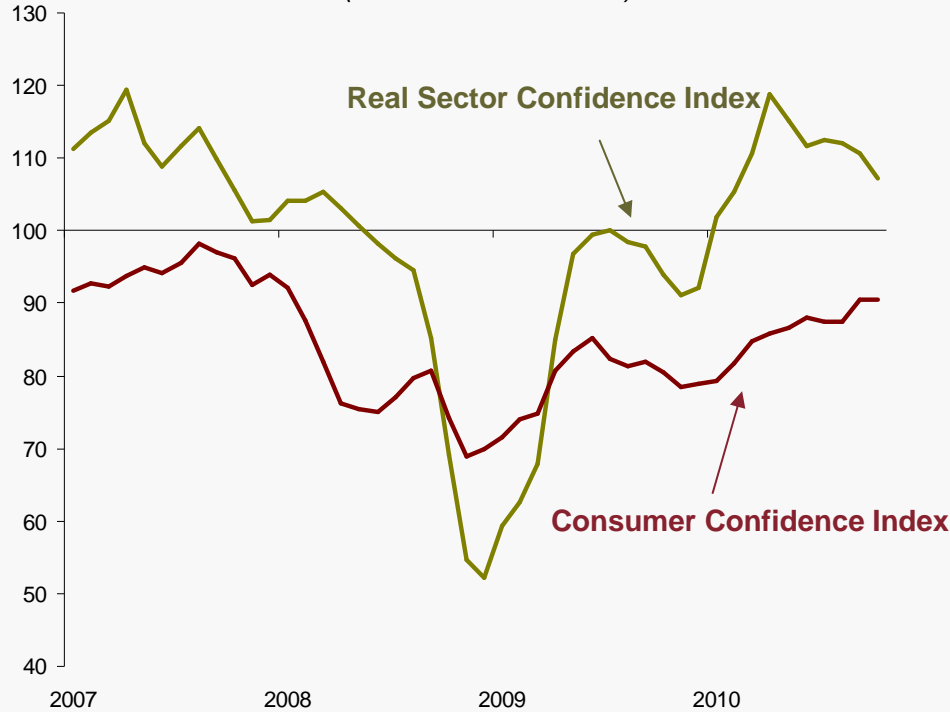
Source: TurkStat, CBT.

Expectations

The limited decline in Leading Indicators and the Real Sector Confidence Index coupled with the low level of the Consumer Confidence Index suggest that recovery in the Turkish economy will be slow and gradual.

Real Sector and Consumer Confidence Indices

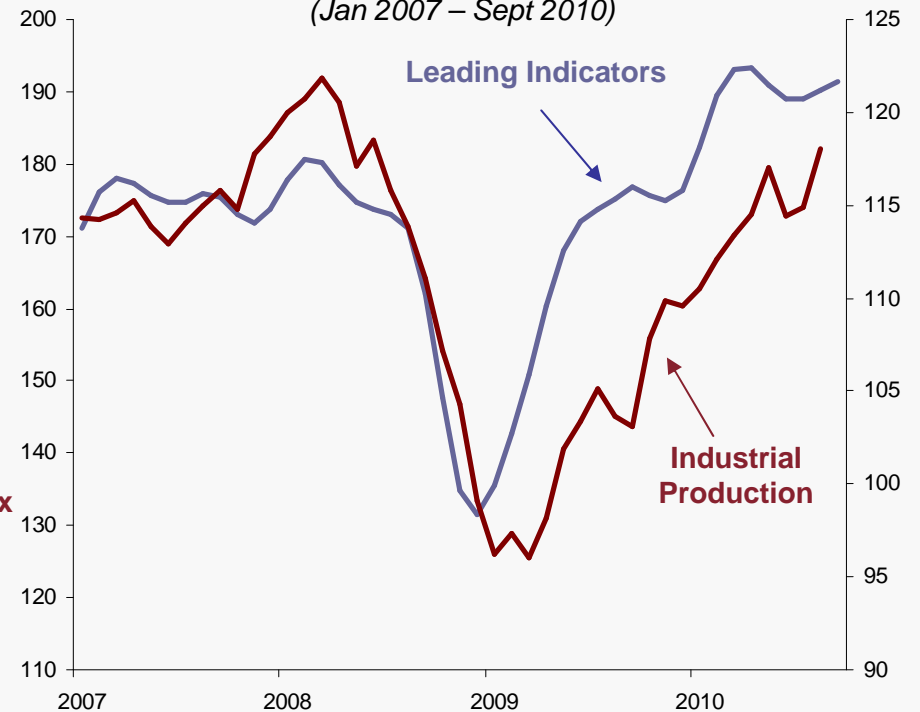
(Jan 2007 – Oct 2010)



Source: CBT

Leading Indicators and Industrial Production Index*

(Jan 2007 – Sept 2010)



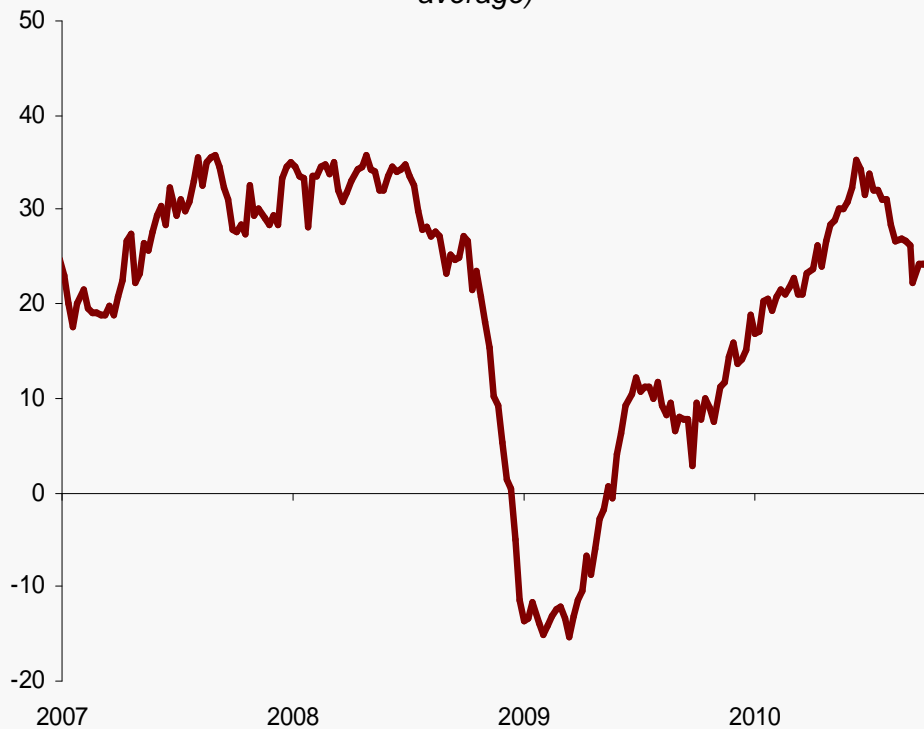
* Seasonally adjusted

Source: CBT

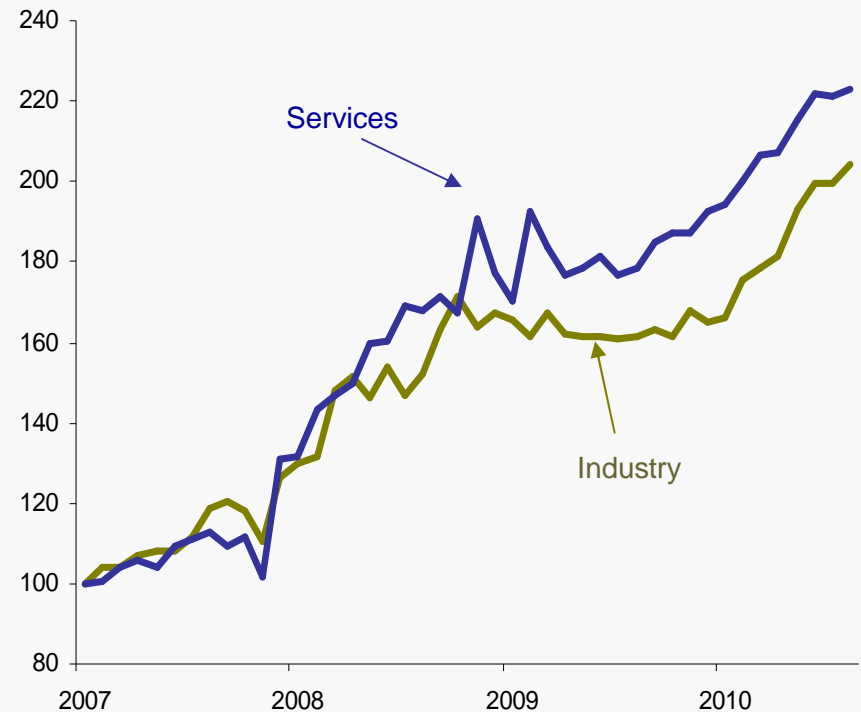
Credit Developments

Bank loans, which displayed a rapid rise in the first half of 2010, are following a more stable trend in the third quarter of the year.

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



Credits by Sectors
(Jan 2007 – Aug 2010, Jan 2007 = 100)



* Total of deposit, development, investment and participation banks and consumer financing companies, adjusted for exchange rates.

Source: BRSA, CBT

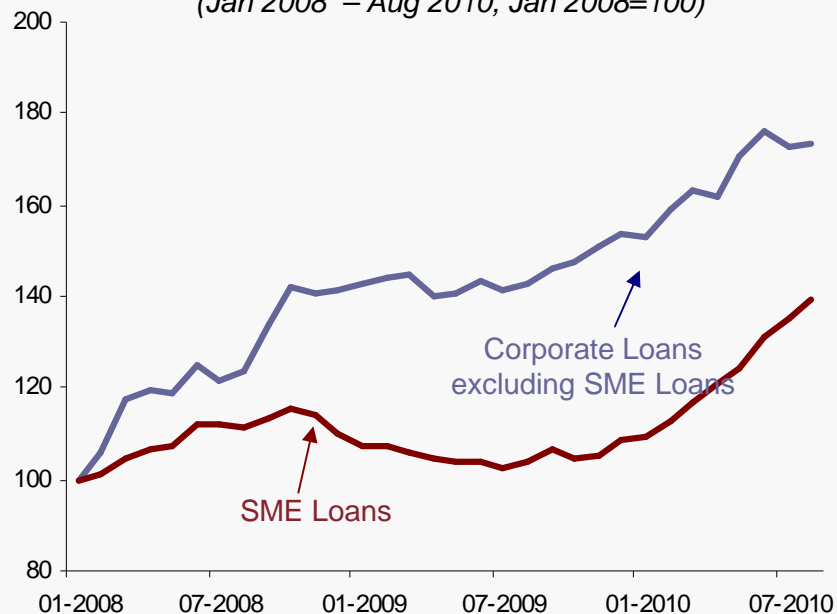
Source: BRSA, CBT

Corporate Loans

With the improvement in access to borrowing opportunities, the volume of loans extended to SMEs, which were most severely affected by the crisis, displayed a significant rise. Meanwhile, the Non-Performing Loan ratio of these firms is also decreasing.

Loans Extended to Firms and SMEs

(Jan 2008 – Aug 2010, Jan 2008=100)

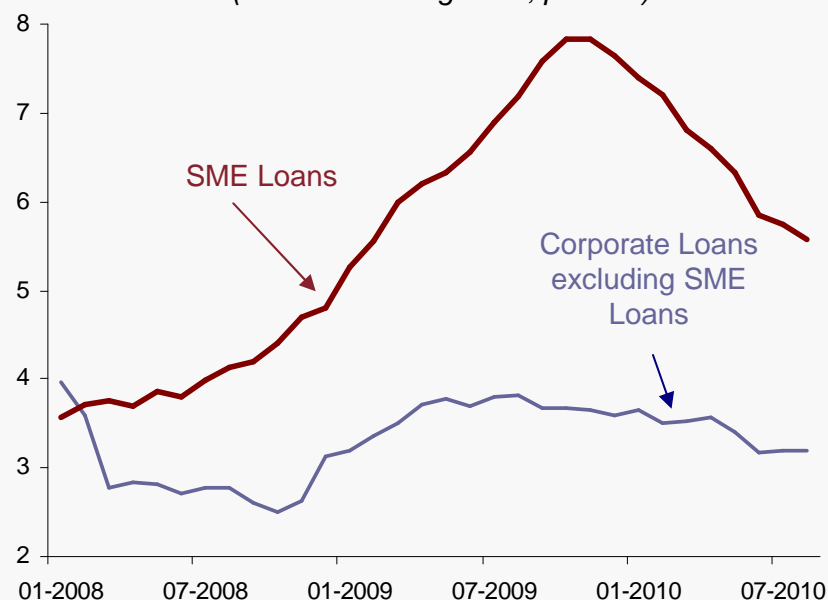


billion TL	SME Loans	Corporate Loans excl. SME Loans
08/2009	79.6	166.9
08/2010	106.9	202.6

Source: BRSA, CBT

NPL Ratio

(Jan 2008 – Aug 2010, percent)



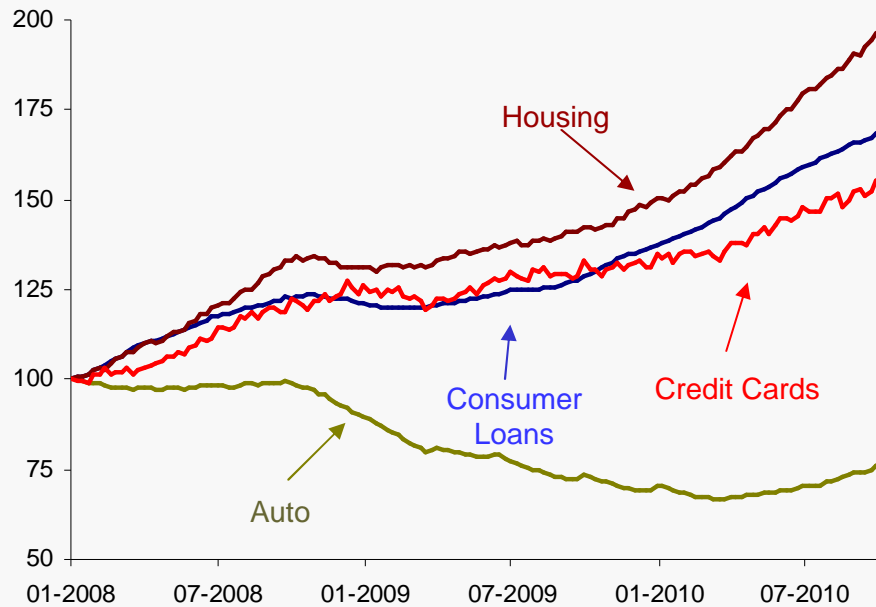
Percent	SME Loans	Corporate Loans excl. SME Loans
08/2009	7.2	3.8
08/2010	5.6	3.2

Source: BRSA, CBT

Retail Loans

The improvement in retail loans continued in the third quarter as well and Non-Performing Loan ratios continued to decrease.

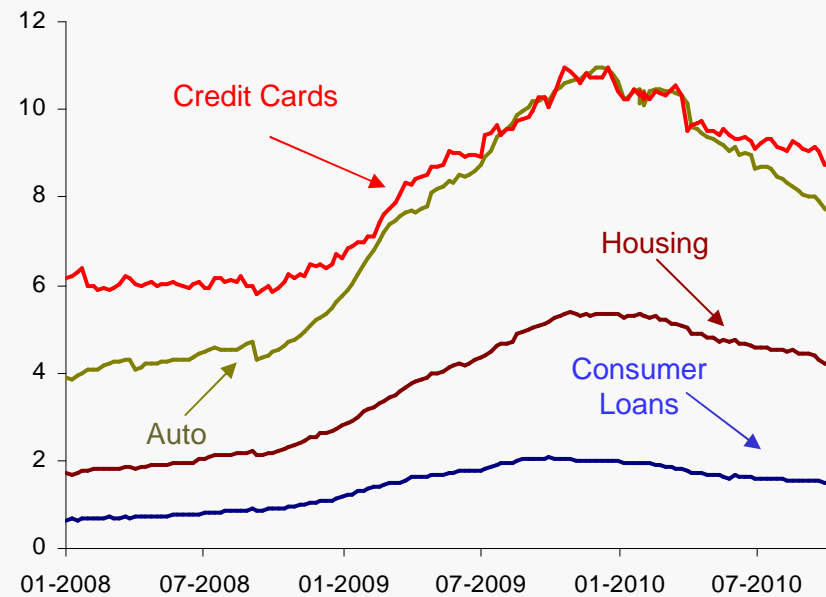
Sub-Categories of Retail Loans*
(Jan 2008 – Oct 2010, Jan 2008=100)



Billion TL (monthly average)	TOTAL	Housing	Auto	Consumer	Credit Cards
10/08	115.2	38.1	5.8	39.0	32.3
10/09	120.2	39.9	4.3	41.5	34.5
10/10	155.4	52.4	4.5	57.5	41.0

* Deposit Banks
Source: BRSA, CBT

NPL Ratio in Retail Loans*
(Jan 2008 – Oct 2010, percent)



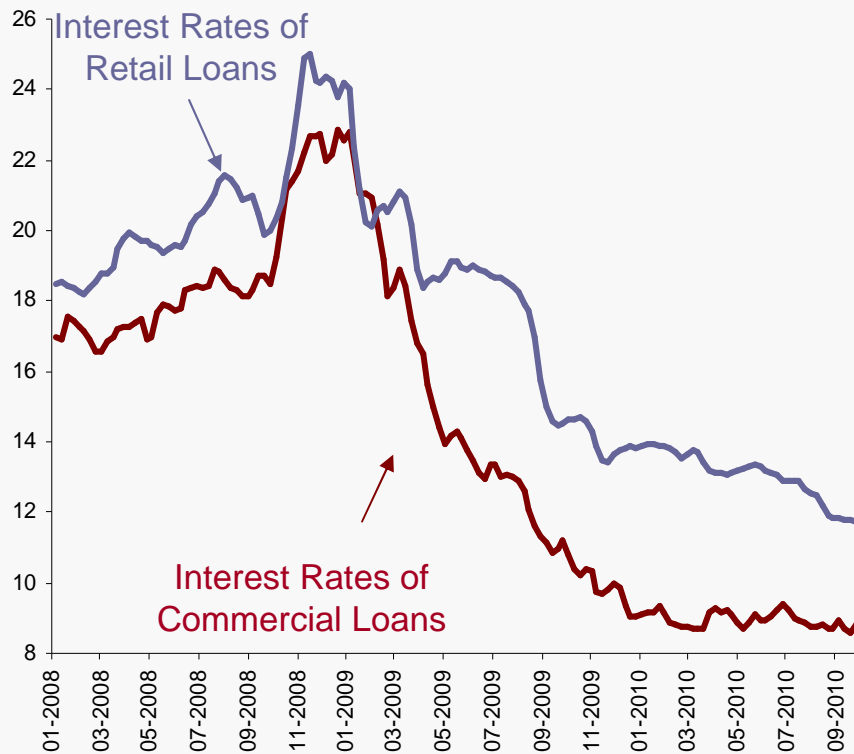
percent	TOTAL	Housing	Auto	Consumer	Credit Cards
10/08	1.6	0.9	4.5	2.2	6.0
10/09	3.2	2.1	10.4	5.3	10.4
10/10	3.6	1.5	7.7	4.2	8.8

* Deposit Banks
Source: BRSA, CBT

Credit Conditions

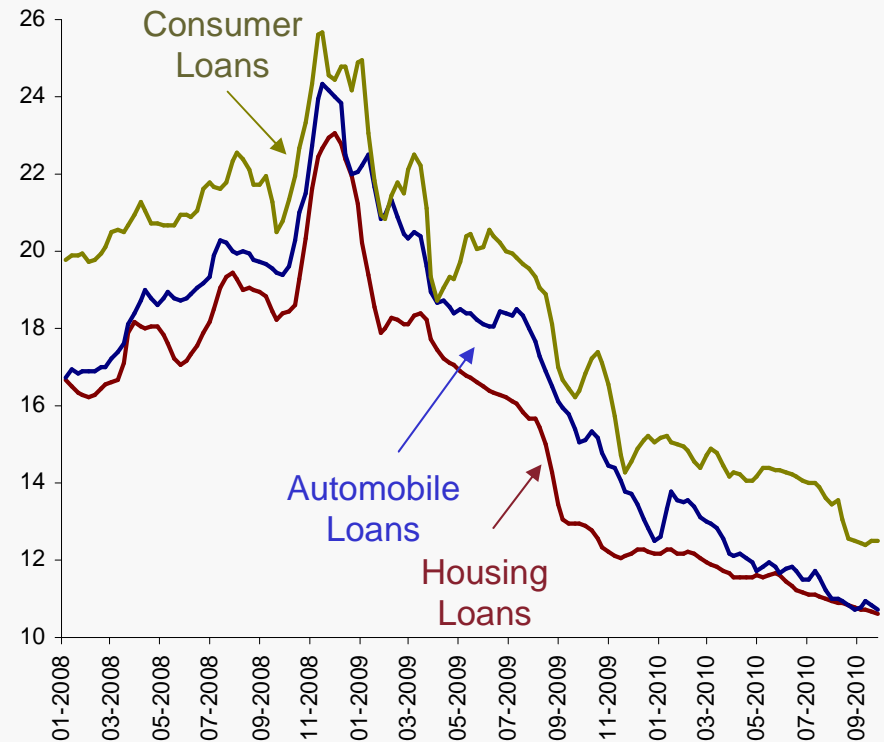
Interest rates on loans are still low.

Interest Rates of Loans*
(Jan 2008 – Oct 2010, annual percent)



•2-week moving average
Source: BRSA, CBT

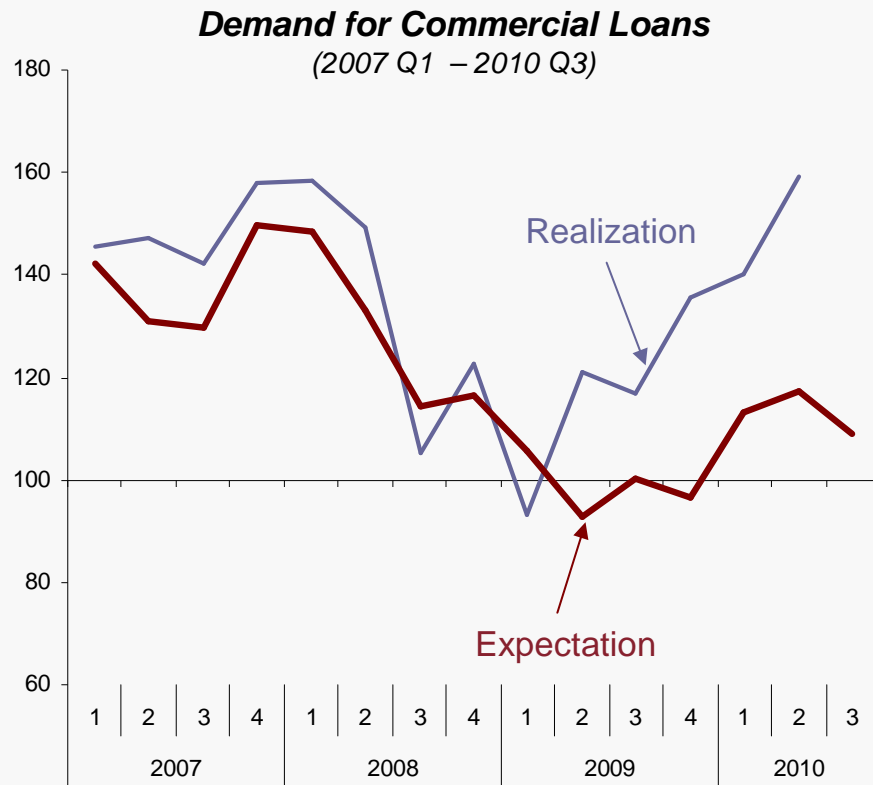
Interest Rates of Consumer Loans*
(Jan 2008 – Oct 2010, annual percent)



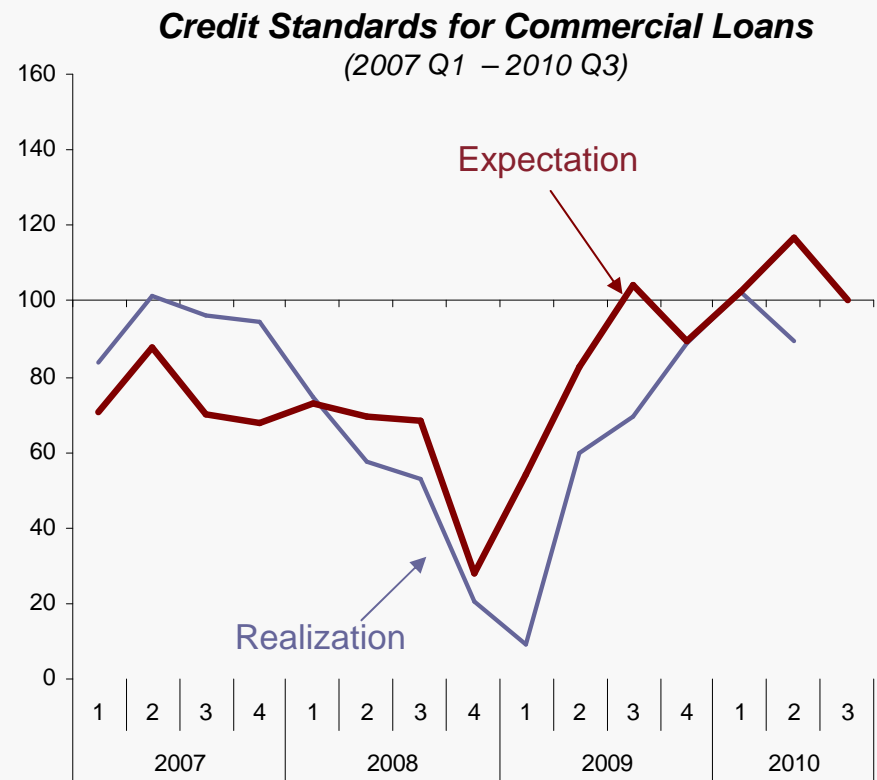
* 2-week moving average
Source: BRSA, CBT

Credit Conditions

The results of the Loans Tendency Surveys suggest firms' demand for credits is on the rise. The tightness in lending conditions is now over.



Source: CBT



Source: CBT

Commercial Activities

The number of bad cheques has displayed a significant decline recently. The rapid rise in the number of new firms proves that economic activity continues to recover.

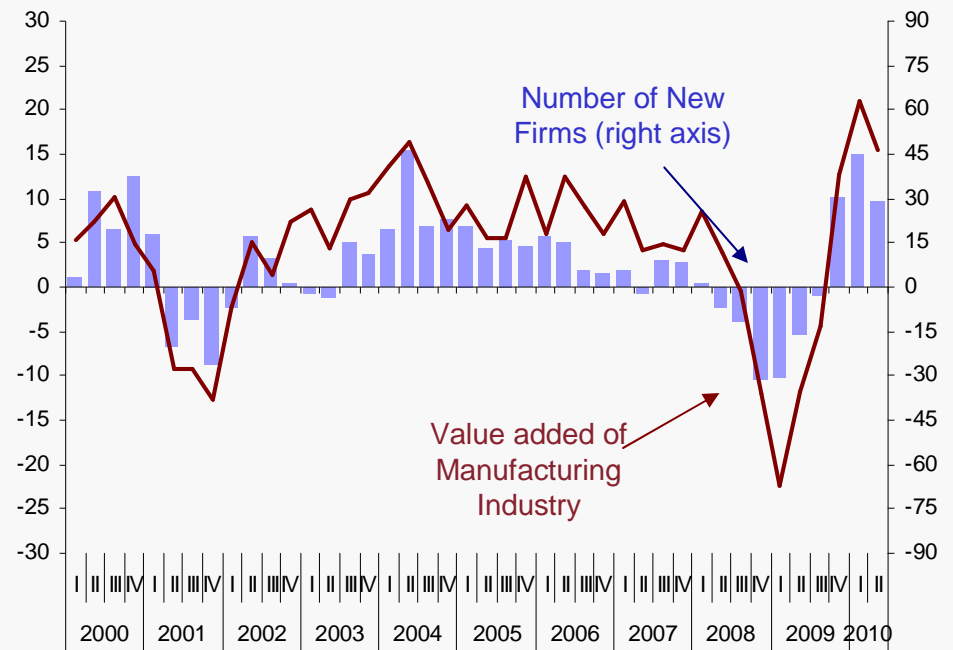
Ratio of the Number of Bad Cheques to Total Cheques
(Jan 2005 – Sept 2010, percent)



2008	2009	2010-I	2010-II	2010-III
5.60	7.66	4.82	3.87	3.63

Source: ICHC , CBT

Number of New Firms and GDP Manufacturing Industry
(2000 Q1 – 2010 Q2, yoy percentage change)



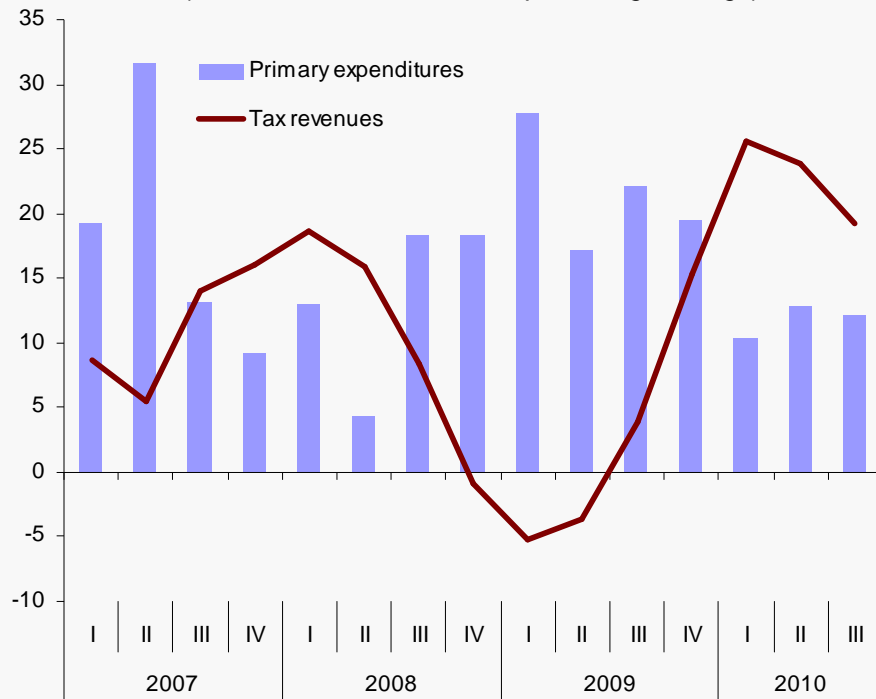
Percentage change	09-I	09-II	09-III	09-IV	10-I	10-II
Manufacturing	-22.3	-11.7	-4.5	12.8	21.0	15.4
New Firms	-30.6	-15.8	-2.8	30.5	45.1	29.1

Source: TOBB, TurkStat, CBT

Public Finance

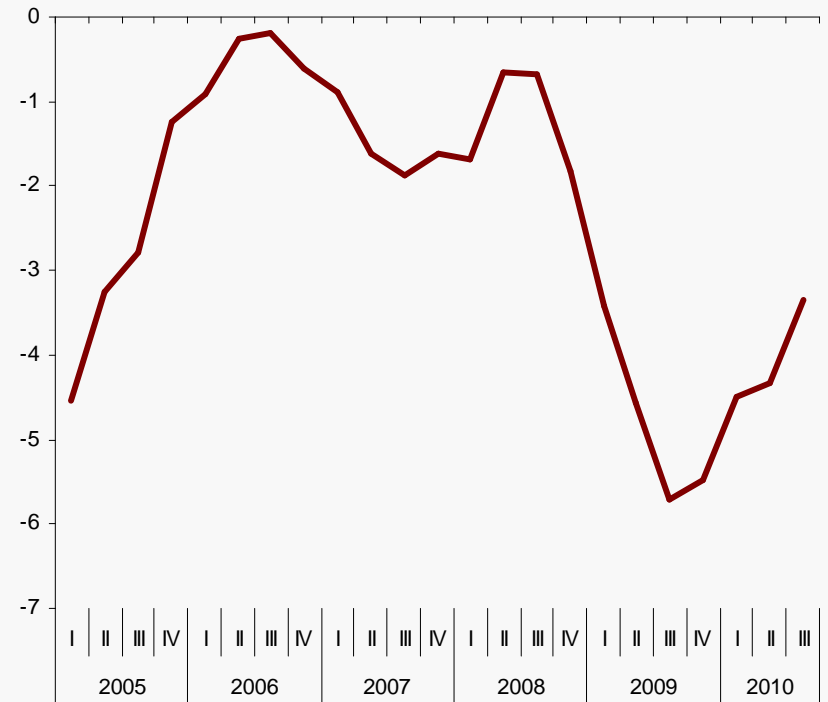
While the rise in tax revenues continue due to the rebound in economic activity, primary budget expenditures have displayed a relatively limited increase. Budget balances have been improving significantly since the last quarter of 2009.

Central Government Tax Revenues and Primary Expenditures
(2007 Q1 – 2010 Q3, annual percentage change)



Source: Ministry of Finance , CBT

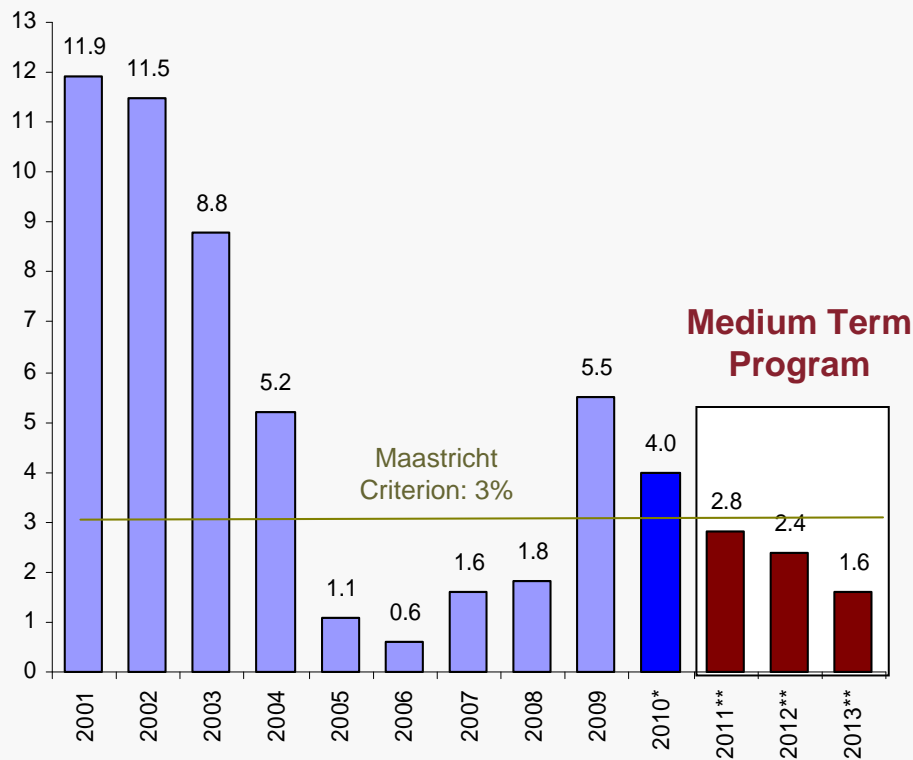
Central Government Budget Balance
(2005 Q1 – 2010 Q3, ratio to GDP, percent)



Source: Ministry of Finance, TurkStat, CBT

Public Finance

Central Government Budget Deficit
(2001 – 2013, Ratio to GDP)

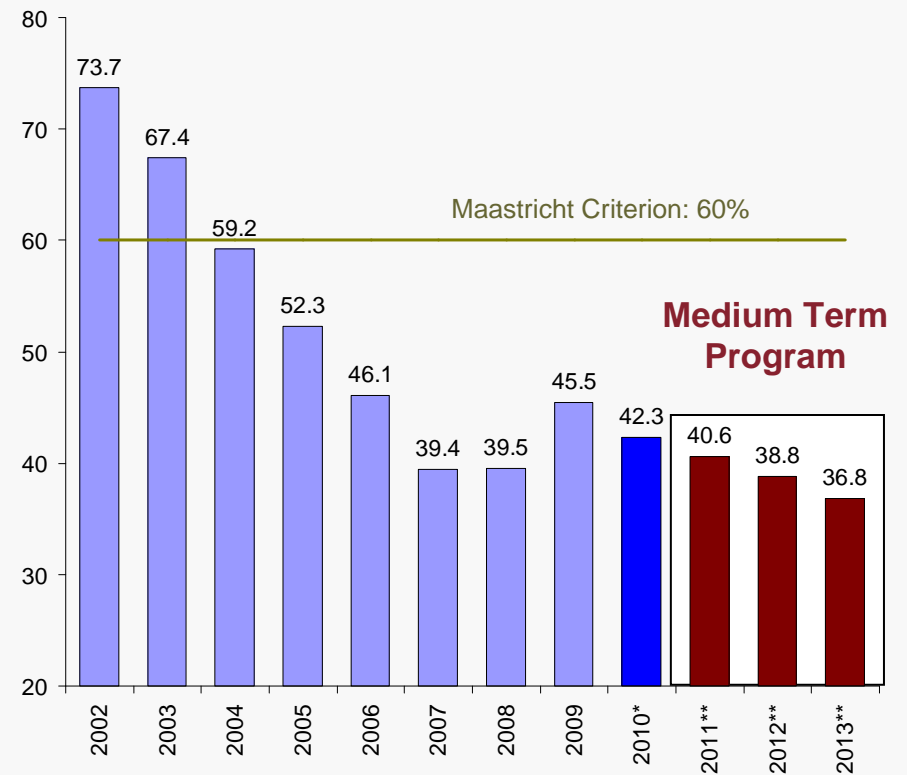


* Forecast

** Medium Term Program (MTP) Targets (2010 – 2013)

Source: Ministry of Finance, Medium Term Program

EU-defined Public Debt
(2002 – 2012, Ratio to GDP)



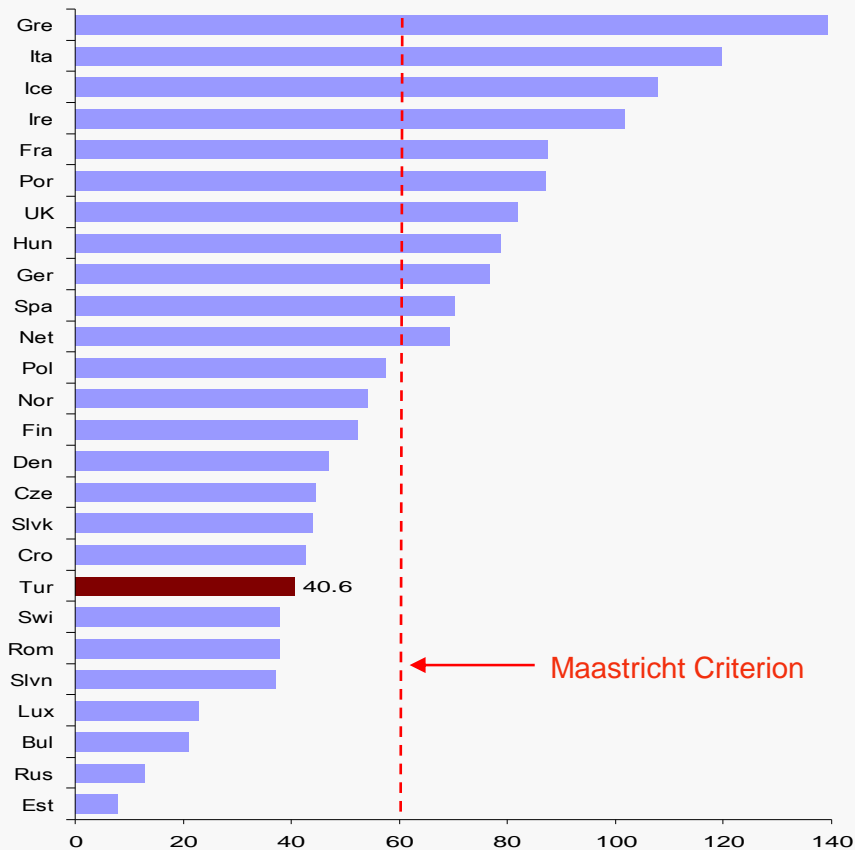
* Forecast

** Medium Term Program (MTP) Targets (2010 – 2013)

Source: Undersecretariat of Treasury, CBT

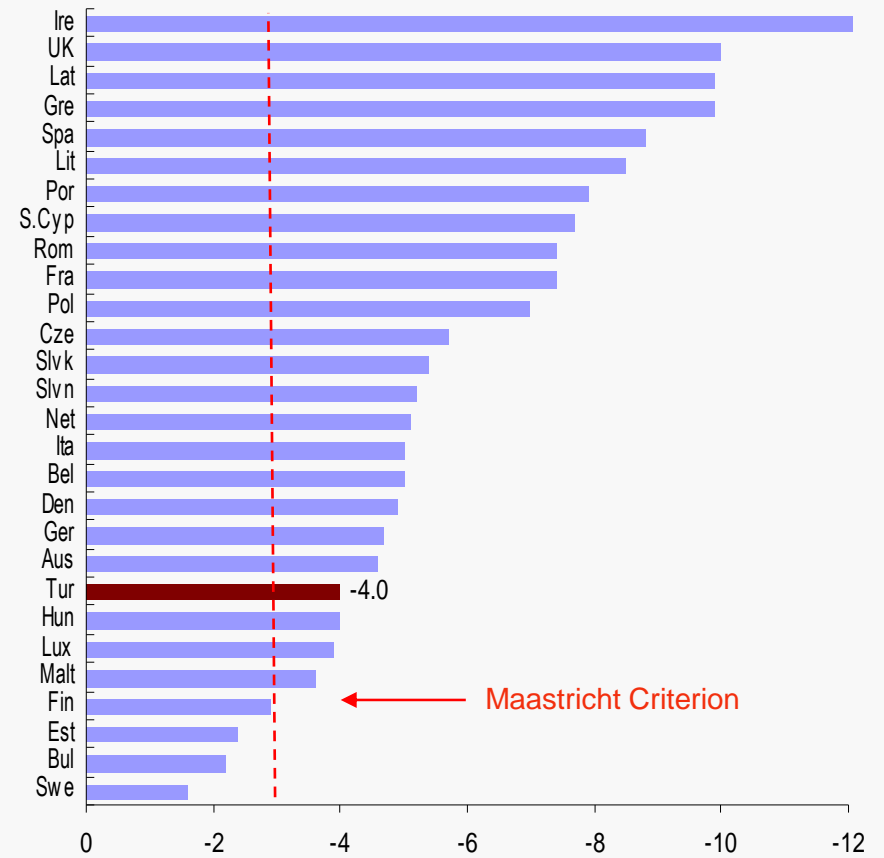
Public Finance: Comparative Outlook

Public Debt Forecast for 2011
(Ratio to GDP, percent)



Source: IMF WEO October 2010, MTP, CBT

Budget Deficit Forecast for 2011
(Ratio to GDP, percent)



•Budget Deficit excluding privatization revenues within the framework of MTP.

•Source: European Commission, MTP, CBT

Evaluation

- The most recent data suggest that the recovery in economic activity continues.
- Domestic demand displays a relatively strong outlook while uncertainties pertaining to foreign demand linger.
- It is envisaged that it will take time for capacity utilization to return to pre-crisis levels.
- Although the recovery in labor conditions continues, unemployment rates still remain high.
- Inflation is expected to head significantly downwards in the upcoming months and core inflation indicators are expected to remain consistent with the medium-term targets.

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Durmuş YILMAZ
Governor

**Presentation before the Planning and Budget Commission
of the Grand National Assembly of Turkey**

October 2010