



# CENTRAL BANK OF TURKEY

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# Outline

*I – GLOBAL LIQUIDITY PROBLEM & TURKISH MARKETS*

*II – FINANCIAL STABILITY*

*III – LIQUIDITY MANAGEMENT OF THE CENTRAL BANK OF TURKEY*

*IV – INFLATION FORECASTS & MONETARY POLICY STANCE*



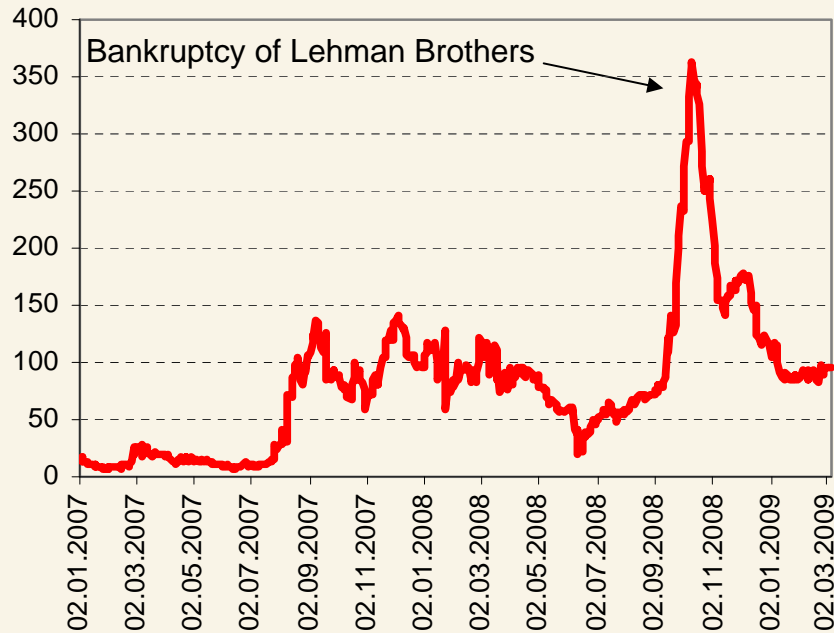
## *I – GLOBAL LIQUIDITY PROBLEM & TURKISH MARKETS*



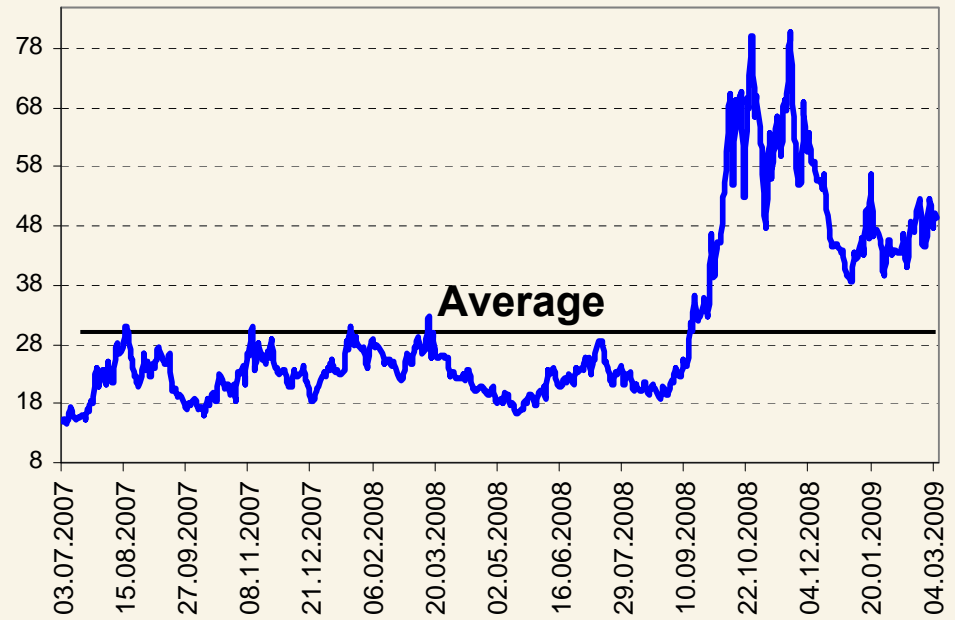
# Global Liquidity Problem

## High Fluctuations in Global Liquidity Conditions

**3 Months LIBOR and Over/Night Swap (OIS) Rates  
Difference (OIS Spread, %)**



**VIX Index (01.2007 – 03.2009)**



\* Note: This difference shows the credibility perception between banks.  
Source: Bloomberg

Source: Bloomberg



# Financial Developments in Turkey (1)

This situation affects Turkey like other countries which are sensitive to global liquidity conditions

## Risk Indicators

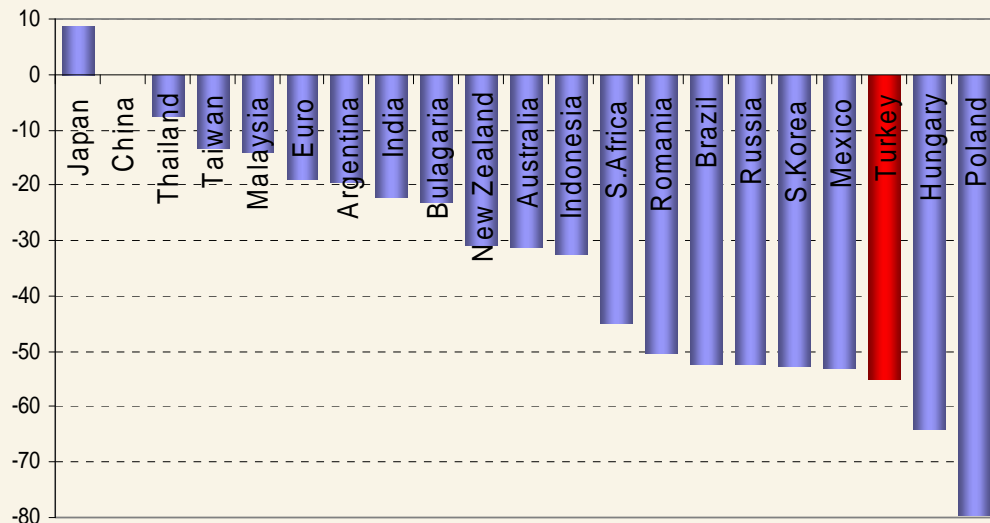
(02.Jan.2008 - 10 March 2009, basis points)



Source: Bloomberg

## Change in the Spot FX Rates vs USD

(between 1 August 2008 and 09 March 2009, percent)



Source: Bloomberg

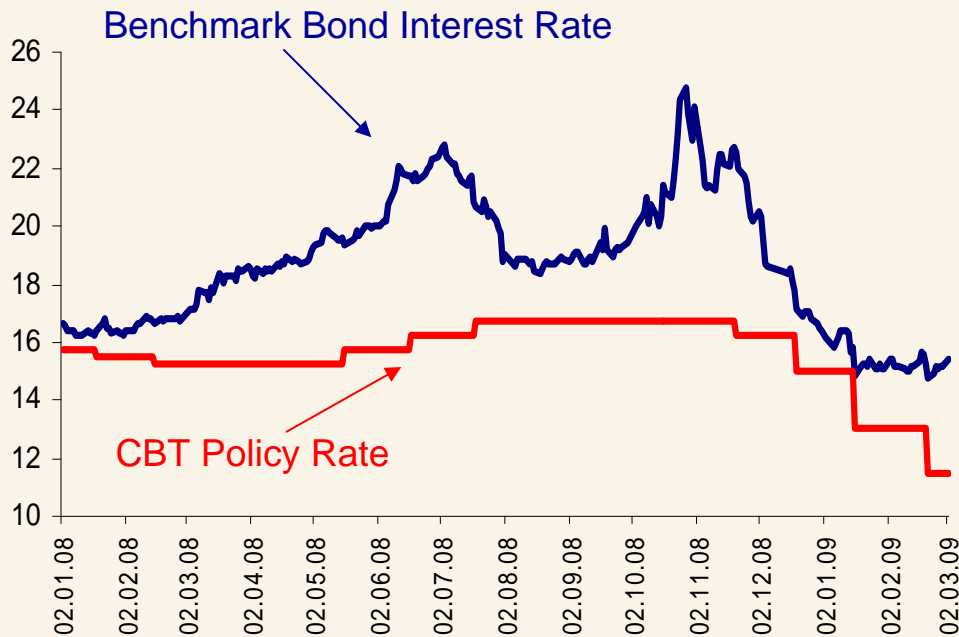


# Financial Developments in Turkey (2)

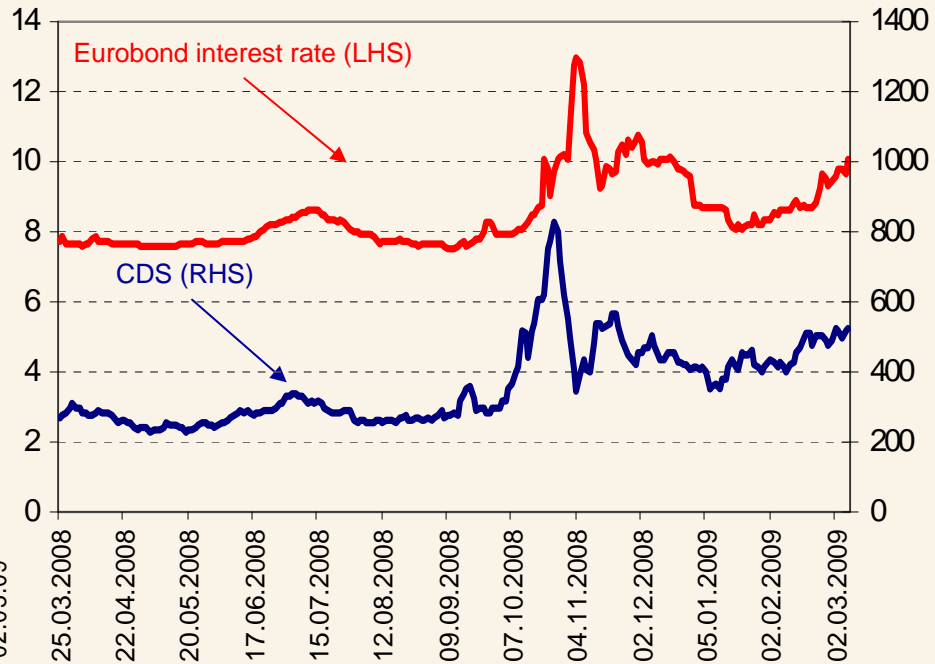
Sharp deterioration in risk appetite have led to increase in interest rate level

**CBT O/N Interest Rates and Benchmark Bond Interest Rate**  
**Interest Rate**  
(02.01.2008 – 02.03.2009, %)

**Eurobond (30 years) Interest rate (%) and 5 Years CDS (basis points)**  
**Interest Rate**  
(02.2008-03.2009)



Source: CBT



Source: Bloomberg



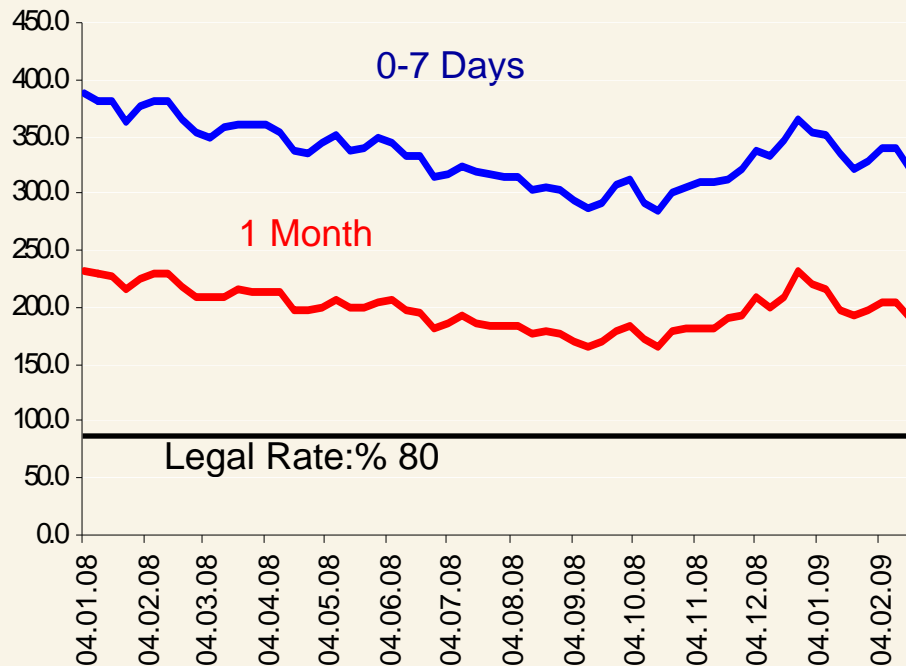
## ***II – FINANCIAL STABILITY***



# Banking System

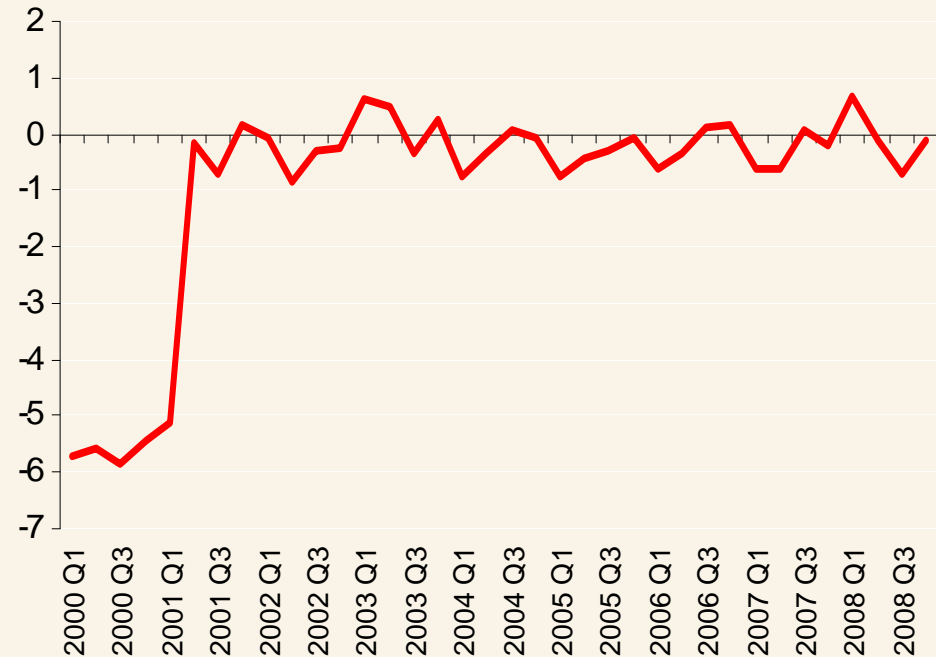
In this crisis period, vulnerabilities of the banking system is relatively low for Turkey.

**FX Liquidity Adequacy Ratios**  
(01.01.2008 – 20.02.2009, %)



Source: CBT

**Banking Sector: Net FX Position**  
(2000 Q1 – 2008 Q4, billion USD)



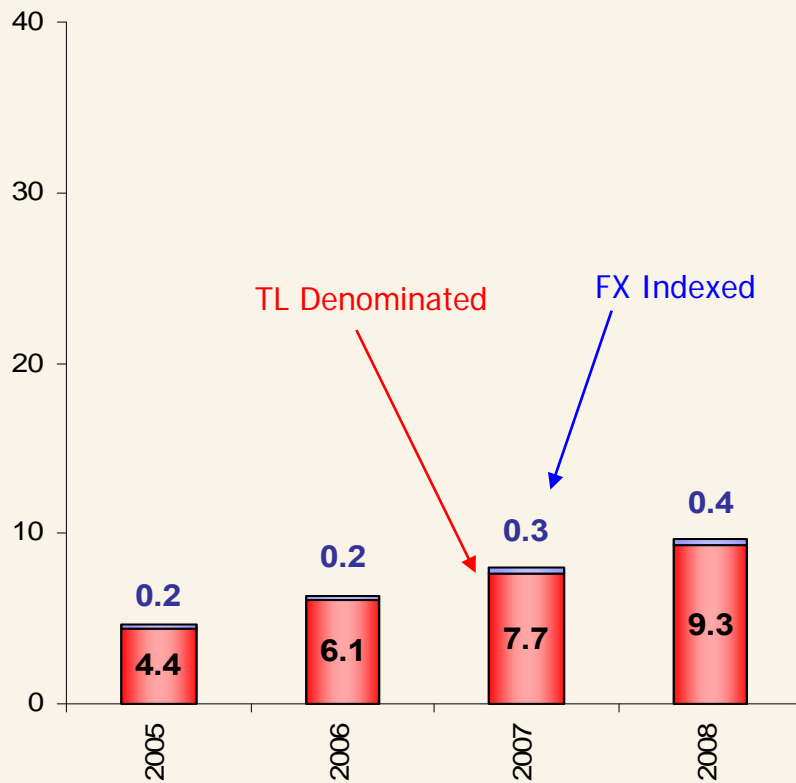
Source: CBT



# Households

## Composition of Consumer Loans

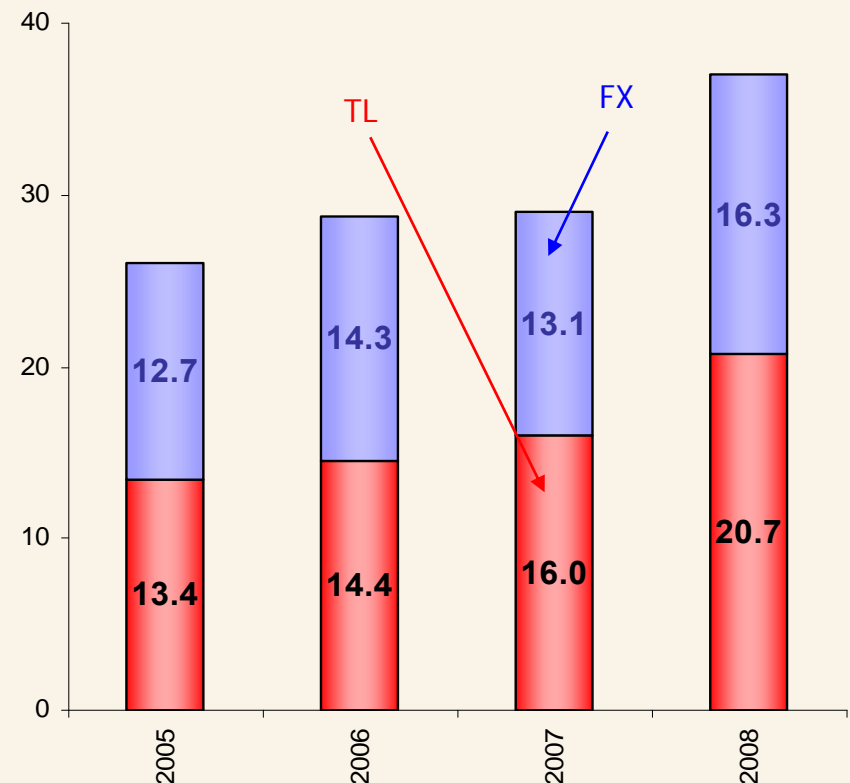
(2005-2008\*, Ratio to GDP)



\* 2008 Forecast  
Source: CBT

## Composition of Saving Deposits

(2005-2008\*, Ratio to GDP)

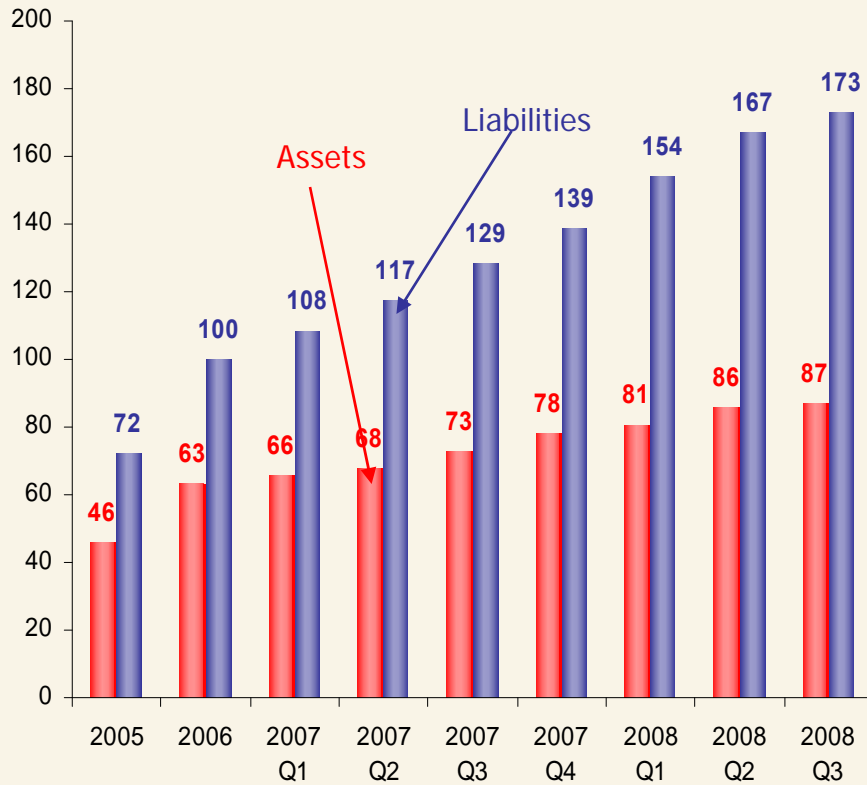


\* 2008 Forecast  
Source: CBT



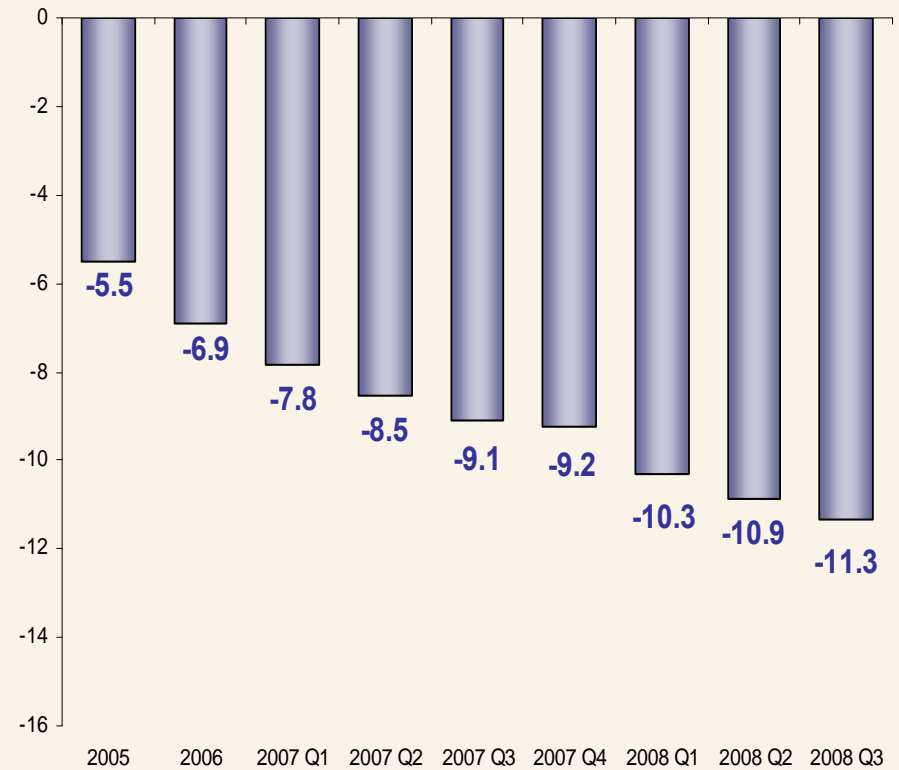
# Firms

**FX Assets and Liabilities of the Corporate Sector**  
(2005 – 2008 Q3, billion USD)



Source: CBT

**FX Position of the Corporate Sector**  
(2005 – 2008 Q3, percent of GDP)



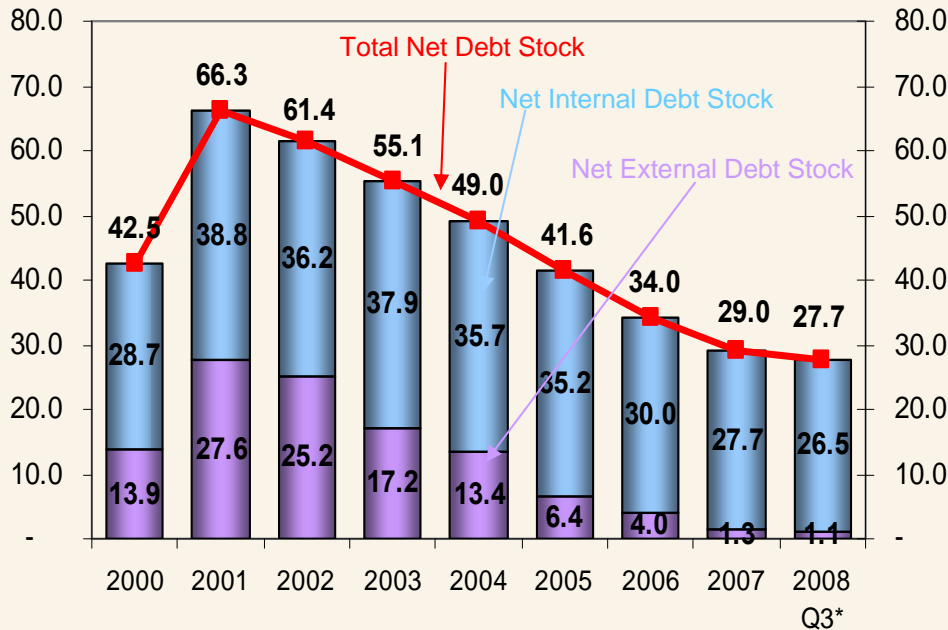
Source: CBT



# Public Sector

Public sector is more resistant to the external shocks compared to the previous years.

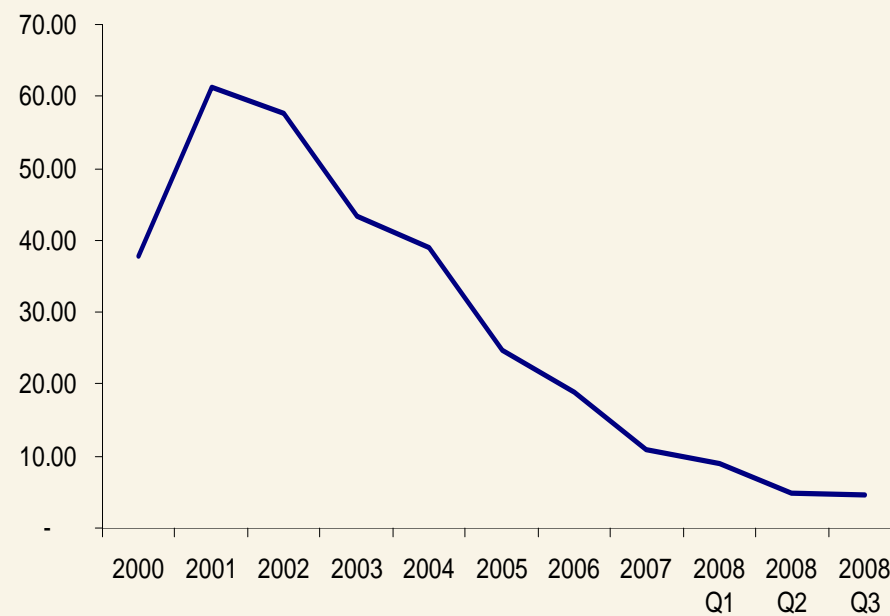
**Public Sector Net Debt Stock / GDP**



Source: CBT

**Net FX Denominated Debt / Net Total Debt**

(2000 – 2008 Q3, %)



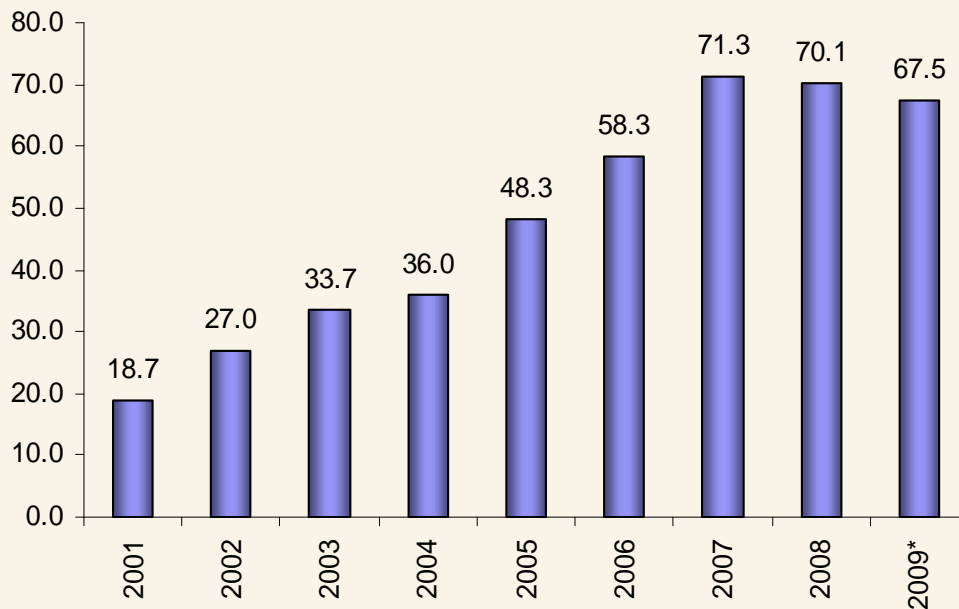
Source: Undersecretariat of Treasury



# FX Reserves of the CBT

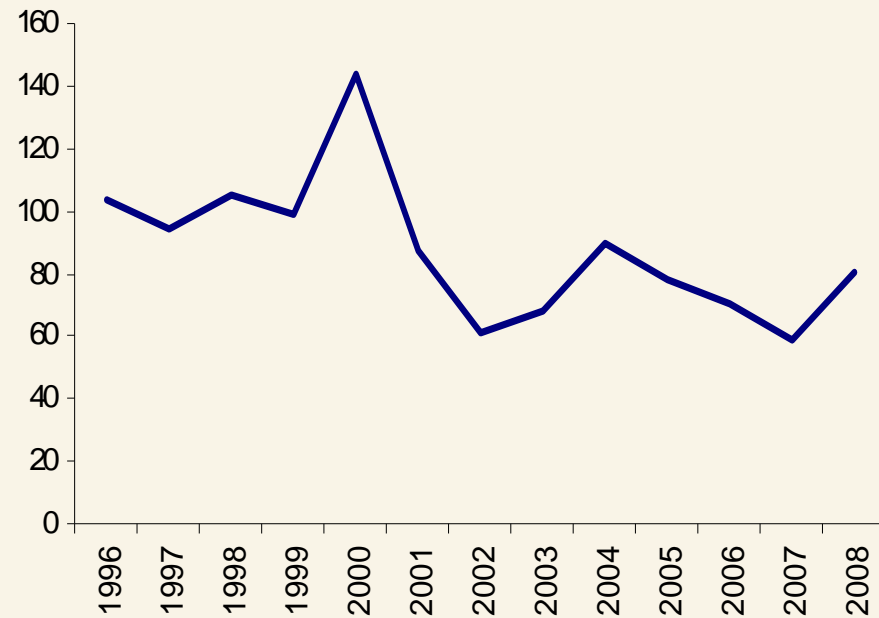
High levels of FX reserves makes the economy more resilient to the adverse impacts of external shocks.

**FX Reserves of the CBT**  
(billion USD)



\* As of Feb. 2009  
Source: CBT

**Short Term Debt / CBT Reserves**  
(2005 – 2008 Q3, percent of GDP)



Source: CBT



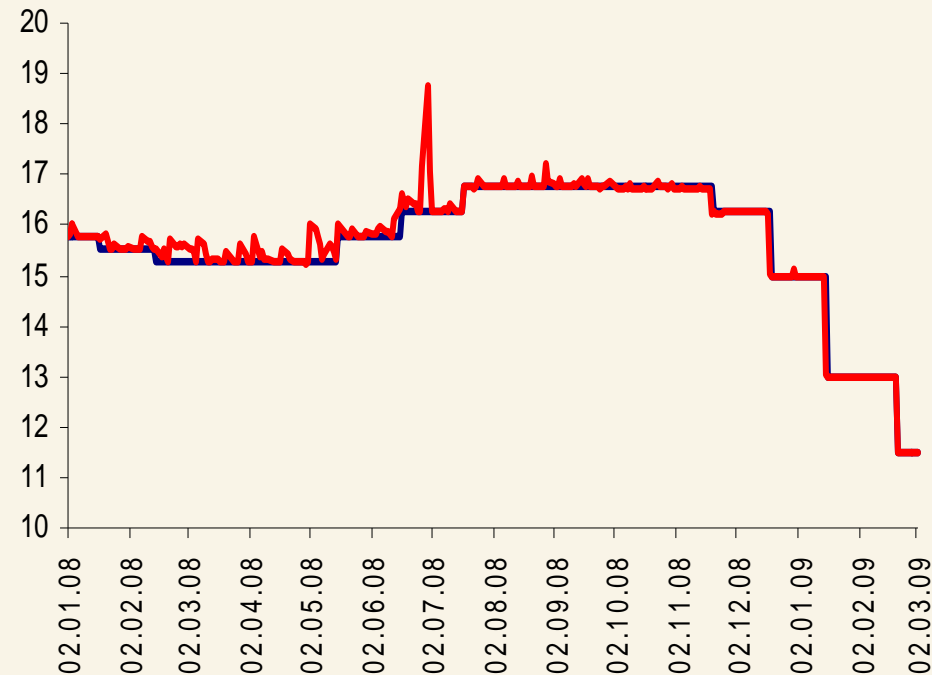
### *III – LIQUIDITY MANAGEMENT OF THE CENTRAL BANK OF TURKEY*



# TL Liquidity Management

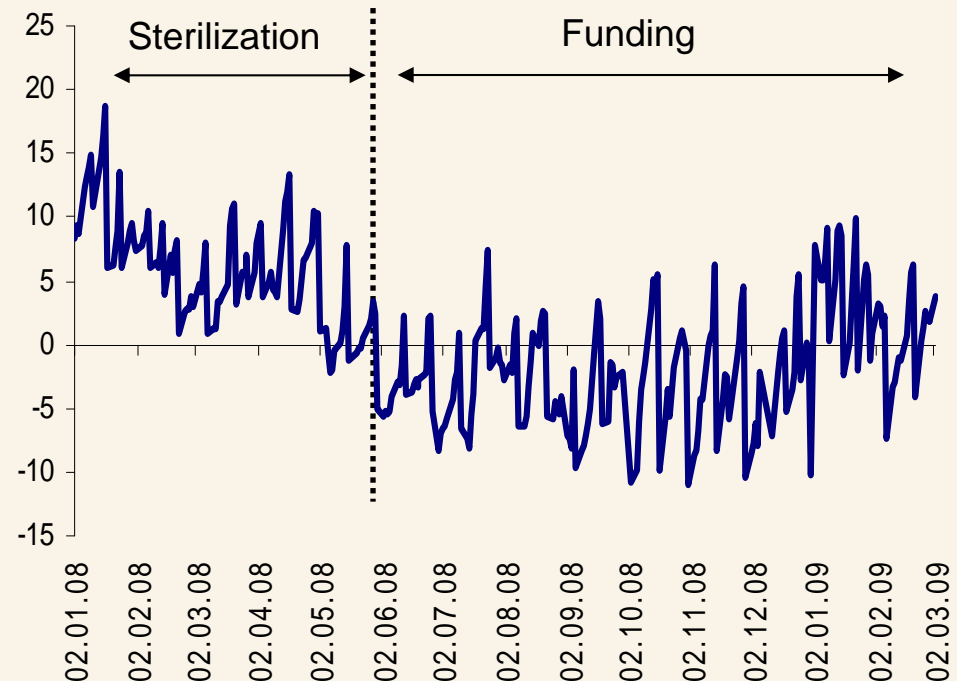
Liquidity management framework of the CBT is fairly flexible and well-structured to manage the liquidity demand of the banking sector.

**Policy Rate and Repo-Reverse Repo Market O / N Interest Rate**  
(02.01.2008 – 02.03.2009, %)



Source: CBT

**TL Liquidity Supplied By the CBT**  
(02.01.2008 – 02.03.2009, billion TL)



Source: CBT



## TL Liquidity Management (2)

The Central Bank of Turkey assured market participants that it will ensure smooth operation of payment systems.

**In case of the TL liquidity shortage :**

- May extend the maturity of repo operations.*
- Directly purchase government securities.*
- May reduce TL denominated required reserves.*



# FX Liquidity Management

**The Central Bank of Turkey is aware of the importance of the banking sector's FX liquidity especially at the crisis times. Therefore, the CBT implemented several precautionary measures.**

## **The main measures are :**

- Resumed its role to act as an intermediary in the FX Deposit Market*
- Increased the transaction limits of the banks in FX Deposit Market (5.4 billion USD → 10.8 billion USD).*
- In accordance with the floating exchange rate regime the CBT introduced the daily FX selling auctions (Started at 24 October 2008 and ended at 30 October 2008).*
- Decreased the FX reserve requirements (from 11 % to 9 %).*

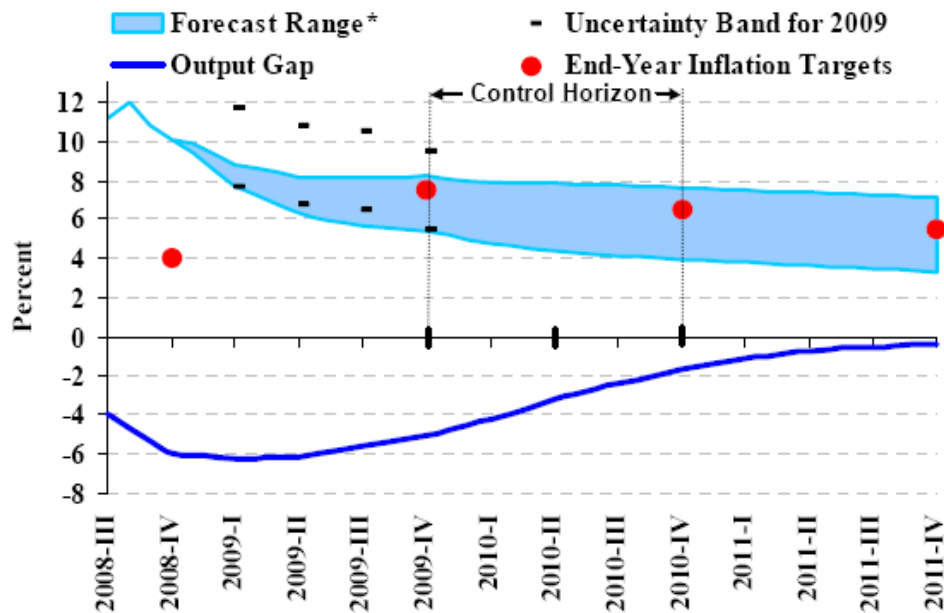


## *IV – INFLATION FORECASTS & MONETARY POLICY STANCE*



# Inflation Forecasts and Policy Rates

**Inflation Forecasts**



\*The shaded region indicates the 70 percent confidence interval for the forecast.

**CBT INTEREST RATES (%)**

Overnight (O/N)		
Date	Borrowing	Lending
02.01.06	13.5	16.5
28.04.06	13.3	16.3
08.06.06	15.0	18.0
26.06.06	17.3	20.3
28.06.06	17.3	22.3
21.07.06	17.5	22.5
14.09.07	17.3	22.3
17.10.07	16.8	21.5
15.11.07	16.3	20.8
14.12.07	15.8	20.0
18.01.08	15.5	19.5
15.02.08	15.3	19.3
16.05.08	15.8	19.8
17.06.08	16.3	20.3
18.07.08	16.8	20.3
23.10.08	16.8	19.8
20.11.08	16.3	18.8
19.12.08	15.0	17.5
16.01.09	13.0	15.5
19.02.09	11.5	14.0

	Target :	Forecast:
<b>2008</b>	<b>4</b>	<b>10.06*</b>
<b>2009</b>	<b>7.5</b>	<b>6.8</b>
<b>2010</b>	<b>6.5</b>	<b>5.8</b>
<b>2011</b>	<b>5.5</b>	<b>5.2</b>

\* Realization

Source: CBT



**Thank You.**