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GOVERNOR YILMAZ'S PRESENTATION
BEFORE THE COUNCIL OF MINISTERS



In accordance with the Law on the Central Bank of Turkey (CBT) and the principle of accountability, twice a year, the Governor provides the Council of Ministers with information on current economic outlook and the monetary policy actions. In this context, Governor Durmuş Yılmaz made a presentation before the Council of Ministers on 12 November 2007. In the first part of his presentation, Governor Yılmaz pointed out the prerequisites to achieve sustainable growth rate

and single-digit nominal interest rates. The Governor gave information about inflation developments, interest rate and the exchange rate policies of the CBT, growth, employment and balance of payments developments in the second part of his presentation.

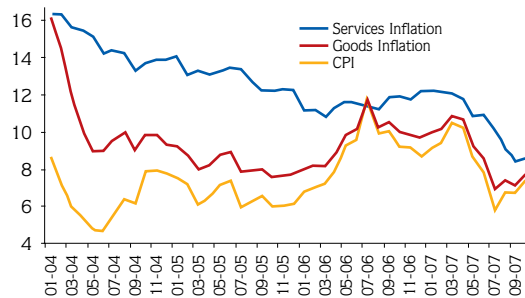
The Governor stated that sustainable growth might only be achieved via establishing macroeconomic stability, continuing structural reforms and enforcing the principles of good governance.

The Governor, underlining the necessity of price stability and sustainable public finance for macroeconomic stability, pointed out that it is not possible to achieve sustainable and high growth rates without price stability. Reminding that the Turkish economy had experienced boom-bust growth cycles during the high inflationary period, Governor Yılmaz stressed that the annual average growth rate boosted to 7.5% since 2002, the year which inflation rate has started to decline.

Governor Yılmaz also underlined that in order to ensure the decline of nominal and real interest rates to reasonable levels in a permanent manner, macroeconomic uncertainty, primarily inflation, have to be diminished, sustainability of public finances has to be ensured by decreasing the public debt stock, economy should be stronger against internal and external shocks via structural reforms, decisive steps should be taken in order to establish confidence in the economy and inflation expectations have to be improved.

Our decisive stance in monetary policy contributes to the fall in medium and long term real interest rates through the control of demand and the management of expectations.

CPI, Services and Goods Inflation
(January 2004 - October 2007, annual % change)



Source : TURKSTAT, CBT

Moreover, Governor Yılmaz said that the Monetary Policy Committee's interest rate cuts that have started earlier than the market expectations had a positive effect on inflation expectations, accelerating the downward trend in medium and long-term interest rates.

In the last part of his presentation, the Governor pointed out that the break of the rigidity of inflation in the services sector is promising and the downward trend in goods inflation has been continuing.



Foreign exchange reserves are important assets of a country and critical for the conduct of monetary and exchange rate policy, particularly for emerging market economies. Therefore, effective foreign exchange reserve management is of great importance. Similar to central banks in many other countries, the CBT is responsible for the management of foreign exchange reserves as well as the associated risks.

Giving priority to national interest, the CBT manages the reserves observing the principles of security, liquidity and return, respectively. To be more precise, in terms of risk and return, the CBT pursues a conservative investment strategy. In the framework of this strategy, the Bank performs all kinds of banking activities in the domestic and international markets, including spot or forward purchases and sales of foreign exchange, securities, derivatives products and gold, as well as lending operations.

In terms of institutional structure, the Board is the highest authority in the CBT governance structure that decides the general framework on policy issues and the implementation of reserve management.

The Board has empowered the Executive Committee and the Foreign Exchange Risk and Investment Committee to take decisions on reserve management operations. Within the context of the said empowerment, every year, a “strategic model portfolio” and “investment strategy” is established as a benchmark. Strategic model portfolio reflects the investment strategy and the risk policy for the related year. The management of foreign exchange reserves within the framework of the said portfolio is entrusted with Foreign Exchange Risk and Investment Committee. The Foreign Exchange Transactions Division of the Markets Department performs the implementation of reserve management, which is the last stage of the institutional decision-making process.



Reserve Management Strategy

The reserve management strategy is mapped out in view of a number of factors such as monetary policy framework, liability structure of the CBT, foreign exchange denominated debt payments on behalf of the Treasury, and debt strategies of the Treasury. During the periods of fixed or managed exchange rate regimes, primary goal of the reserve management strategy was to ensure sufficient liquidity to achieve the exchange rate target. Now, under the floating exchange rate regime, the main idea behind the reserve management strategy of the CBT is to accumulate reserves in order to repay the foreign exchange denominated debts of the Treasury, to ensure the required liquidity against external shocks and to build up confidence to the economy in international financial markets.

RISK MANAGEMENT

The CBT, in order to manage the risks inherent in the international reserve management process, such as market risk, credit risk, liquidity risk and operational risk, pursues an effective risk management strategy while designing the strategic model portfolio. In 1998, a separate risk management division was set up under the Markets Department for the management of risks in a more prudent manner. The Bank invests in less risky and more liquid assets to protect the principal capital and to provide the required liquidity as soon as possible. By this way, it is aimed to keep potential risks that may be faced during the reserve management process within tolerable limits.

After determining return and risks that may turn up in the reserve management process, the measurement, surveillance and reporting of the existing risks are performed by the Foreign Exchange Risk Management Division of the Markets Department on a daily, monthly and quarterly basis.

*
Foreign exchange reserves provide flexibility and freedom in the conduct of effective monetary and foreign exchange policy to the CBT, whose primary objective is to achieve and maintain price stability.
*



IMF AND THE WORLD BANK MEETINGS

2007 Annual Meeting of the International Monetary Fund (IMF) and the World Bank were held in Washington DC on 19-20 October 2007. Governor Durmuş Yılmaz gave speeches on the Turkish economy in various meetings and exchanged views with foreign investors.

GOVERNOR YILMAZ WAS AWARDED "THE MOST SUCCESSFUL GOVERNOR OF EMERGING EUROPEAN MARKETS"

Governor Durmuş Yılmaz was awarded "The Most Successful Governor of the Emerging European Markets" by the IMF - World Bank annual meetings' special edition of the magazine "Emerging Markets" for his achievements in monetary policies. In the magazine, it was maintained that Yılmaz has conducted a determined interest rate policy in order to keep inflation under control. The publication also emphasized that Yılmaz had skillfully steered the country's monetary policy in a way to render Turkey a stronger and more credible country, despite the general elections and the subprime mortgage crisis.



INFLATION REPORT

Inflation Report 2007-IV was released with a press conference on 26 October 2007. The Report explicates the macroeconomic developments during the August-October 2007 period, inflation and inflation expectations; aggregate supply and demand conditions, financial markets and public finance developments as well as the medium-term projections. The Report also accentuates that in view of cautious interest rate cuts for the rest of the year and the first few months of 2008 followed by a flat course for some time, inflation is predicted to be at the level of 2.5-5.7% (midpoint 4.1 %) by end-2008.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)

ANNUAL REPORT

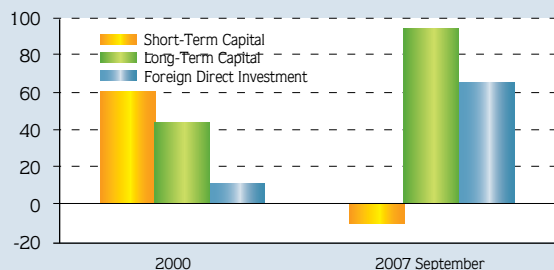
The English version of the 2006 Annual Report that was submitted to the General Assembly in April is released. With its renewed content and format, the Report highlights the Bank's corporate identity. Accordingly, the Report is a concise document by which the CBT's strategic plan, its operations, organizational structure and comparative financial statements with explanations are shared with the public.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)



Financing of Current Account Deficit

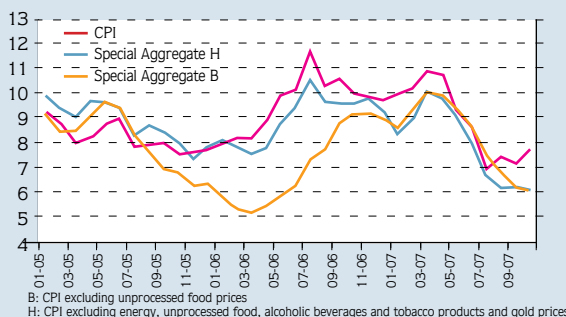
(12 month cumulative, percent)



Source: CBT

Special CPI Aggregates

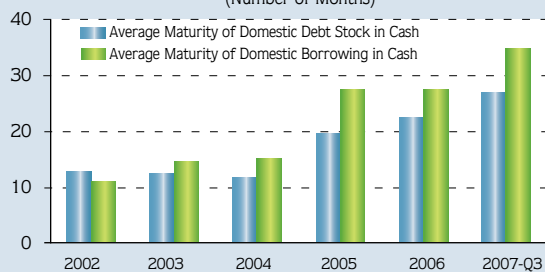
(January 2005 - October 2007, annual % change)



Source: TURKSTAT, CBT

Average Maturity of Domestic Debt Stock in Cash and Average Maturity of Domestic Borrowing in Cash

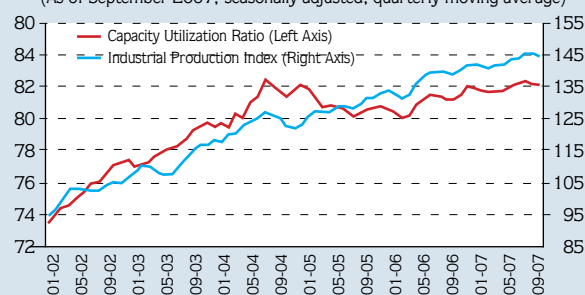
(Number of Months)



Source: Treasury, CBT

Industrial Production Index and Capacity Utilization Ratio

(As of September 2007, seasonally adjusted, quarterly moving average)



Source: TURKSTAT, CBT

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EXHIBITION OF "CONTEMPORARY TURKISH PAINTINGS FROM THE ART COLLECTION CENTRAL BANK OF THE REPUBLIC OF TURKEY"

Exhibition of "Contemporary Turkish Paintings from the Art Collection of the Central Bank of the Republic of Turkey", which was held within the scope of the Federal Reserve System Fine Arts Program, was opened at the Federal Reserve Bank's Art Gallery in Washington D.C. on 21 October 2007 by Governor Durmuş Yılmaz and Ben Bernanke, Governor of the Federal Reserve Bank. In his address at the opening of the exhibition, Bernanke said that the cooperation between the American and Turkish Central Banks has been continuing not only in economic terms, but also in the fields of art and culture. In his speech, Governor Yılmaz reminded the statement of Mustafa Kemal Atatürk, the founder of our republic, "A nation without art has lost one of its lifelines" and underlined that the success of countries are assessed via their attitudes towards the protection and support of arts and cultural heritage. The exhibition will be open until 18 January 2008.



CBT Interest Rates*	Borrowing	Lending
Overnight (%)	16.25	20.75
CBT Exchange Rates*1	FX Buying	FX Selling
Dollar	1.1937	1.1995
Euro	1.7706	1.7791

Central Bank Foreign Exchange Reserves (As of 16 November 2007, Billion USD)	71.36
CPI (Annual % Change, October 2007)	7.70

* As of 23 November 2007, 1 Indicative