

Monetary and Exchange Rate Policy for 2011

The monetary and exchange rate policy of the Central Bank of the Republic of Turkey (CBRT) for 2011 was announced at a press conference held on December 21, 2010. Governor Yılmaz assessed the recent economic developments and explained in detail the operational framework of monetary policy, exchange rate policy and liquidity management to be implemented throughout 2011. In his presentation, Governor Yılmaz emphasized that the CBRT introduced measures to direct capital inflows driven by global monetary expansion to investment instruments with longer maturities during the last two months of 2010.

Main Pillars

- The inflation targets set for 2011, 2012 and 2013 are 5.5, 5 and 5 percent, respectively. The targets continue to be set jointly with the government as “point targets”.
- The CBRT continues setting an “uncertainty band”, which is 2 percentage points in both directions around the target. If inflation breaches this band, the accountability mechanism is enforced and the CBRT will submit a detailed open letter to the Government at the end of the year.
- The Monetary Policy Committee (MPC) will continue meeting once a month, in accordance with the announced schedule. The release time of the MPC decisions is changed to 2 pm in order to observe the impacts of the meeting on the local financial markets.
- Along with inflation targeting regime, the CBRT will continue implementing floating exchange rate regime in 2011. Under the current exchange rate regime, the foreign exchange rate is not used as a policy tool and the CBRT does not have a nominal or real exchange rate target.
- In 2011, the CBRT will continue accumulating foreign exchange reserves through the flexible foreign exchange buying auction method, in line with the announced schedule.
- The current global conjuncture urges the CBRT to implement a policy composition that entails the effective use of alternative instruments such as liquidity management and required reserves besides the short-term interest rates which are utilized as the key policy instrument in order to meet complementary objectives of price and financial stability.
- In order to maintain financial stability, the CBRT takes measures that aim at extending the maturities of deposits and foreign capital inflows. The implementations such as the differentiation of the required reserve ratios according to maturities and the inclusion of some liability items within the scope of the required reserves should be considered in this context.
- The CBRT works on a new study that aims at lengthening the maturity of FX deposits. A separate analysis will be carried out in 2011 on the extension of maturities of TL-denominated non-deposit liabilities.
- Monetary and Exchange Rate Policy for 2012 will be announced on December 27, 2011.

MPC Meeting Dates

20 January 2011
15 February 2011
23 March 2011
21 April 2011
25 May 2011
23 June 2011
21 July 2011
23 August 2011
20 September 2011
20 October 2011
23 November 2011
22 December 2011

Calendar for the Inflation Report

25 January 2011
28 April 2011
28 July 2011
26 October 2011

Calendar for the Financial Stability Report

30 May 2011
29 November 2011

For further information: www.tcmb.gov.tr (Monetary Policy)

CPIs Having Specified Coverages

The core indicators and their scope, which are compiled as the CPIs having specified coverage by the Turkish Statistical Institute (TURKSTAT), are summarized in the table.

CORE GROUP	SCOPE
A	Excluding seasonal products
B	Excluding unprocessed food products
C	Excluding energy
D	(B) and (C)
E	Excluding (C) and alcoholic beverages and tobacco products
F	Excluding (E) and other goods with administered prices and indirect taxes
G	(F) and (B)
H	Excluding (D) and alcoholic beverages, tobacco products and gold
I	Excluding (C) and food and non-alcoholic beverages, alcoholic beverages, tobacco products and gold

Source TURKSTAT

The CBRT frequently highlights the H and I core inflation figures, for being reliable indicators of the medium-term effect of the monetary policy. These figures showed an increasing course in the first quarter of 2010, followed by a decline in the second quarter. The stable downward trend continued in the third quarter of 2010. Consequently, annual increase of inflation indicators displayed a decline in the last quarter of the year compared to the previous quarter.

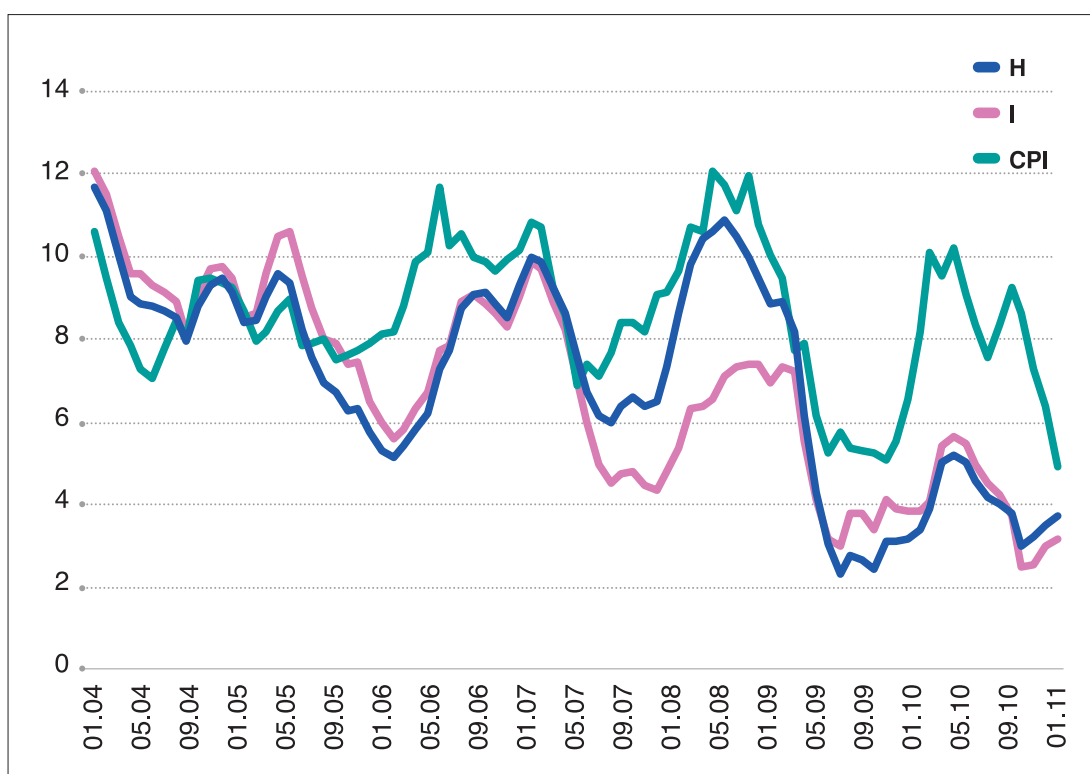
The rise in the first quarter can be largely attributed to cost-push factors and base effect, rather than demand pressure. The low base of 2009 caused by the tax cuts in durable goods and the inventory destocking process has been the main determinant of the increase in core inflation indicators in the said period.

The 3-month averages of monthly changes of seasonally adjusted core inflation data show that the underlying inflation slowed down markedly in the second quarter compared to the first quarter of 2010.

The downward trend in the third quarter was mainly driven by favorable effects of the strong Turkish lira on core goods prices and more-than-expected slowdown in services inflation. Therefore, underlying inflation implied by the core indicators have also trended downwards.

The base effect from the temporary tax incentives in 2009 on durable goods put downward pressure on the year-on-year rate of increase of indicators in October. The indicators recorded a limited increase in the last two months of 2010.

CPIs Having Specified Coverage (H and I) and CPI (Annual % Change)



Inflation Report 2011-I

Governor Yılmaz presented the first Inflation Report of 2011 to the public at a press conference held on January 25. The Report focuses on the new monetary policy strategy which requires the use of multiple instruments in order to achieve domestic and external balances simultaneously aiming at achieving the appropriate conditions for price and financial stability. Furthermore the Report presents medium-term inflation forecasts

that have been revised in the view of previous quarter developments and announces the inflation forecasts under the assumption that the policy mix is adjusted to deliver a limited additional tightening. The Report claims that, unlike the past, global developments not only affect the direction of the policy instruments but also their combination. The Report also contains boxes on the sensitivity of EU periphery to the debt crisis, causes of the

increase in the US long-term nominal bond returns following the second round effect of quantitative easing, sources of volatility in unprocessed food prices, an evaluation of core inflation indicators, financial stability under inflation targeting and the CBRT's action, the role of reserve ratios in monetary policy and sources of revisions to inflation forecasts for 2010 year-end.

For further information: <http://www.tcmb.gov.tr/yeni/eng/> (Publications/Reports)

The International Conference on Financial Education and Financial Awareness: Challenges, Opportunities and Strategies



The CBRT organized an international conference on "Financial Education and Financial Awareness: Challenges, Opportunities and Strategies" in collaboration with the Capital Markets Board of Turkey (CMB) on March 9-12, 2011. The Conference was arranged with the motivation of increasing cooperation and enhancing exchange of

information between national and international authorities on financial education. The main themes were the close relationship between financial awareness and financial stability, the international developments in the field of financial education, country experiences, designing a national strategy on financial education, measuring and evaluating financial literacy.

In the Conference, Deputy Prime Minister and Minister of State Ali Babacan, CBRT Governor Durmuş Yılmaz, CBM Chairman Vedat Akgiray and Chairman of Financial Crimes Investigation Board of Turkey Mürsel Ali Kaplan delivered the opening speeches. Over two hundred professionals from several countries attended the Conference.

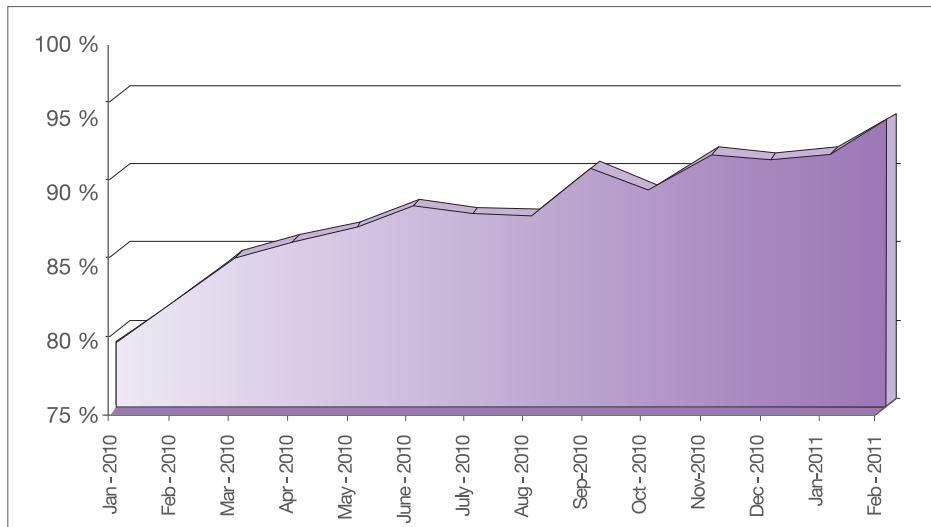
For further information: www.tcmb.gov.tr (Conferences)

Working Papers, Books, Research

- The Interaction Between Monetary and Fiscal Policies in Turkey: An Estimated New Keynesian DSGE Model (Cem Çebi Working Paper No. 11/04, January 2011)
- Productivity and Wage Differentials between Private and Public Sector in the Developing Countries (Arzu Yavuz Working Paper No. 11/03, January 2011)
- Cross-Country Growth Empirics and Model Uncertainty: An Overview (Bülent Ulaşan Working Paper No. 11/02, January 2011)
- Augmented Neoclassical Growth Model: A Replication over the 1960-2000 Period (Bülent Ulaşan Working Paper No. 11/01, January 2011)

For further information: www.tcmb.gov.tr (Publications)

The Consumer Confidence Index*



Source: TURKSTAT, CBRT

93.56%

Consumer Confidence Index
(As of February 2011)

* Consumer Confidence Index calculated from survey results indicates an optimistic outlook, when the index is above 100.



Banks' Loans Tendency Survey

The Banks' Loans Tendency Survey, which has been compiled by the CBRT since the April-June 2004 period, is a quarterly survey monitoring and examining the tendencies of bank loans that are instrumental in financing economic growth. The survey serves to monitor the already observed as well as expected changes in the conditions affecting the supply of loans, the factors that are believed to

be influential on these changes and the demand for credit. The survey is sent to 16 banks—1 public, 9 private and 6 foreign—that have the highest shares in terms of total loans and over 80 % of the total on aggregate. The Survey, which is composed of two main parts, consists of 21 questions. In the first part, there are 7 questions concerning "Loans to Enterprises" and the second part is composed of 13 questions

about "Consumer Loans". Responses to the survey are received by the 20th day of the month following the end of the reporting quarter and evaluated by the end of the same month. Survey results are published on CBRT's website under the dropdown menu Data / Surveys at "Banks Loans Tendency Survey". Aggregated time series are available on the CBRT's Electronic Data Delivery System.

For further information: <http://www.tcmb.gov.tr/yeni/eng/> (Data/Surveys)

CBRT Policy Rate*	Central Bank Foreign Exchange Reserves (As of 25.02.2011, Billion USD)	82.57	
One Week Repo	6.25	CPI (Annual % Change, February 2011)	4.16

*As of February 2011

Issue: 21 March 2011
Published quarterly by the Central Bank of the Republic of Turkey

Owner of behalf of the
Central Bank of the Republic of
Turkey and Managing Editor
Hüseyin Zafer
Printed in
Prestij
Advertising Company

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