



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Overview of the Turkish Economy and Monetary Policy Stance

**İbrahim TURHAN
Deputy Governor**

November 2009



Presentation Outline

- I. Monetary Policy Stance
- II. The Global Financial Crisis and Recovery Signs
- III. Financial Stability in Turkey
- IV. Recent Developments in the Turkish Economy
- V. Inflation Outlook

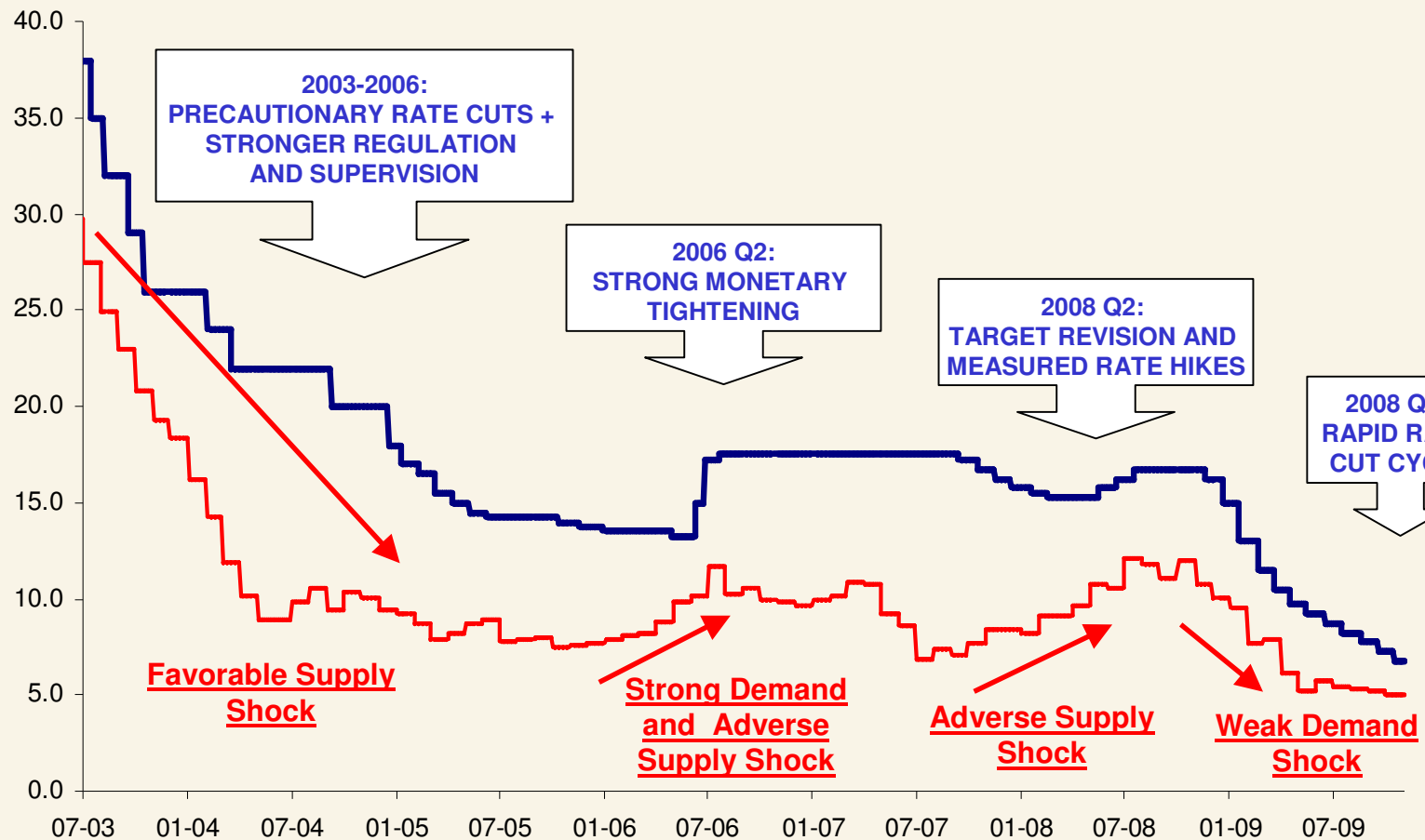


I. Monetary Policy Stance



Policy Stance Overview

CBT Policy Rate and Inflation
(July 2003 – Oct 2009, simple, percent)



Source: CBT



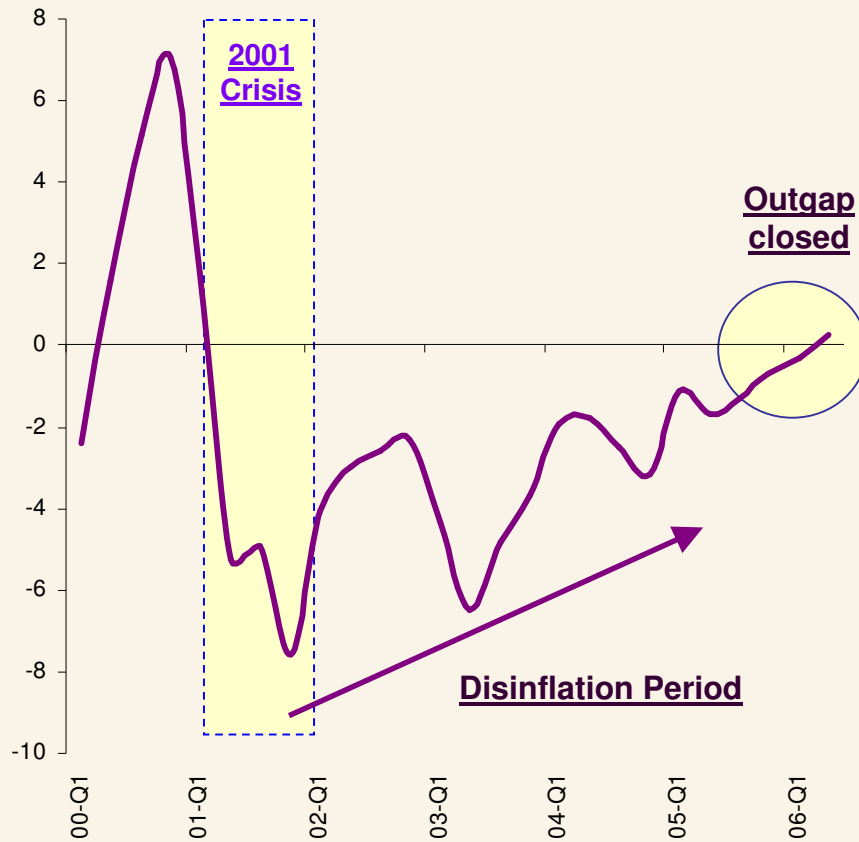
May – June 2006



2006: Rapid Credit Expansion as Output Gap Closed

Output Gap

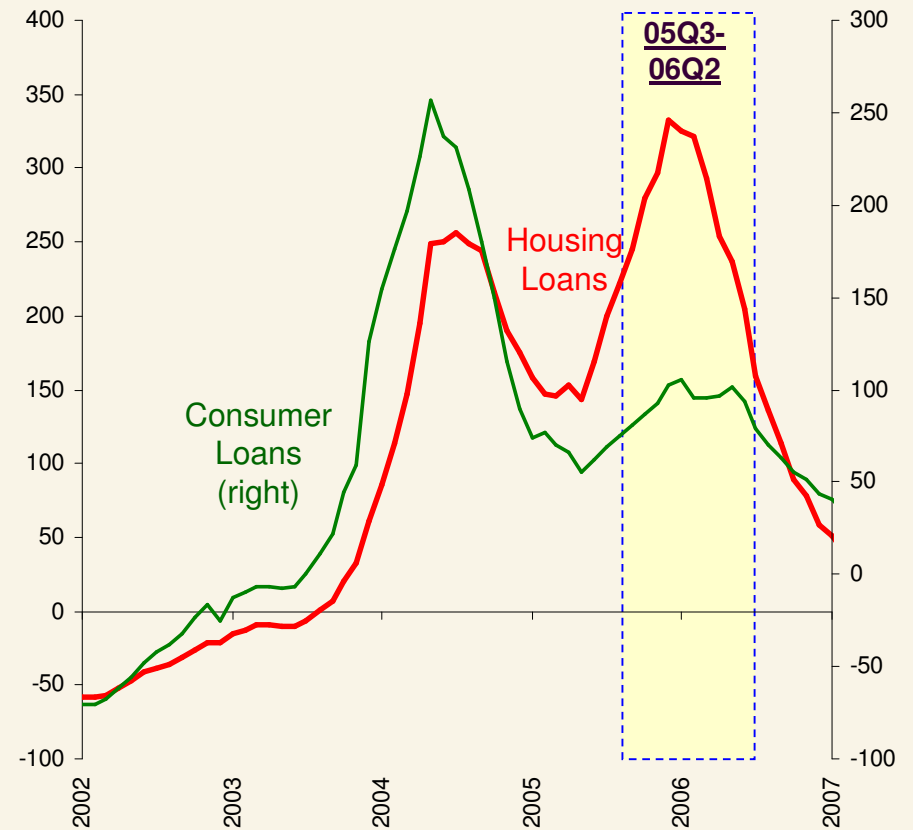
(2000 Q1 – 2006 Q2, percent of GDP)



Source: TURKSTAT, CBT

Consumer and Housing Loans

(Jan 2002 – Dec 2006, annual real percentage change)

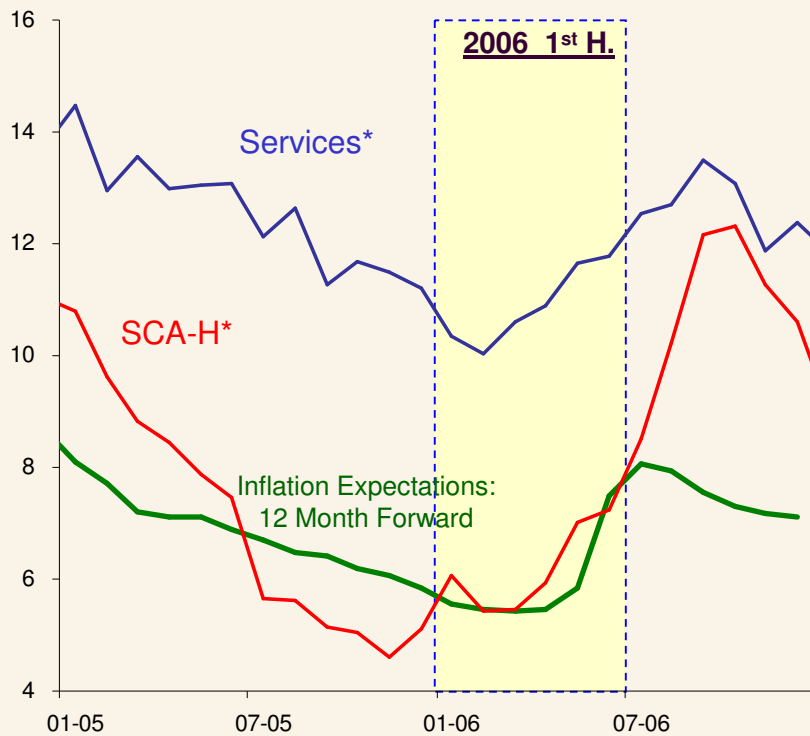


Source: BRSA, CBT



Rising Inflationary Pressures

Inflation Expectations and Indicators of Core Inflation* (Jan 2005 – Dec 2006)



*Seasonally adjusted, annualized monthly change, 6-month average
SCA-H: Excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold
Source: TURKSTAT, CBT

Excess Liquidity in the Market
(Jan 2005 – Dec 2006, weekly average, billion TRY)

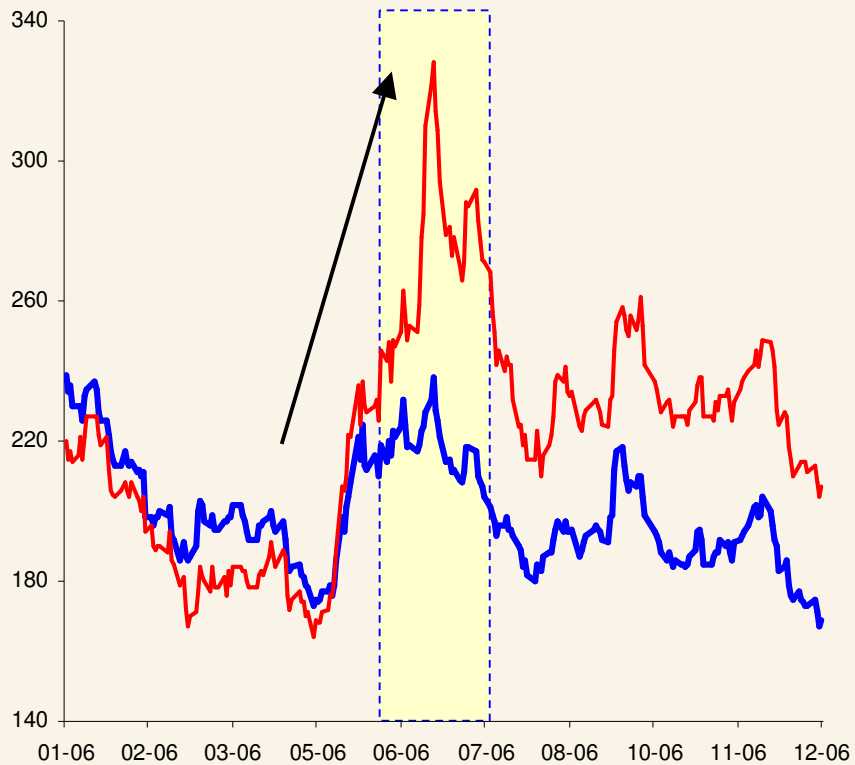


Source: CBT



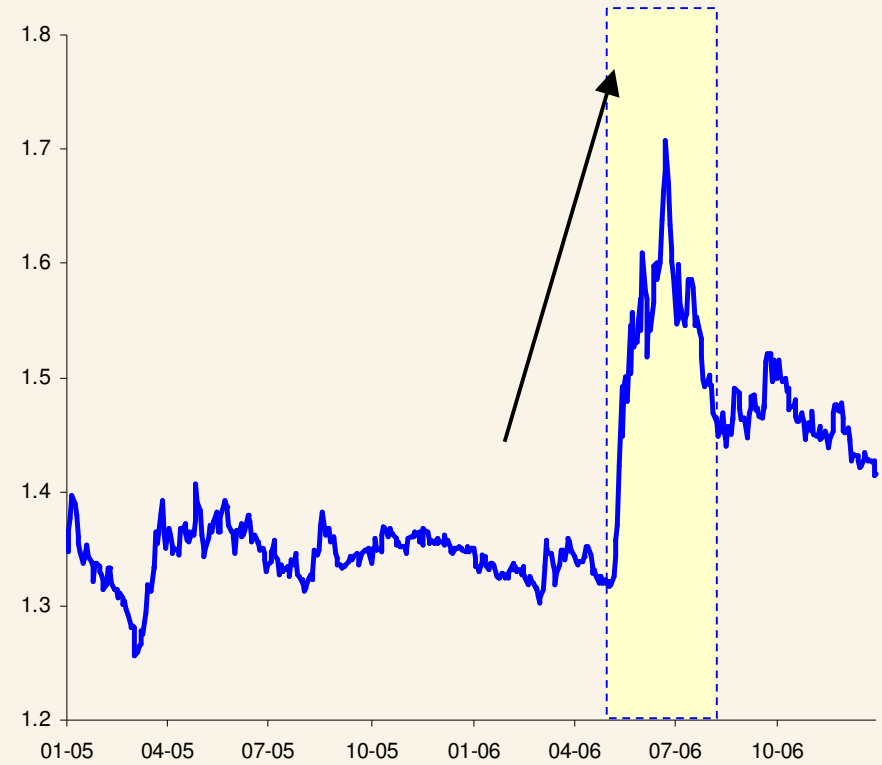
Deterioration in Global Markets

Risk Indicators
(Jan 2006 – Dec 2006, basis point)



Source: JP Morgan, CBT

Exchange Rates: TRY / USD
(Jan 2005 – Dec 2006)

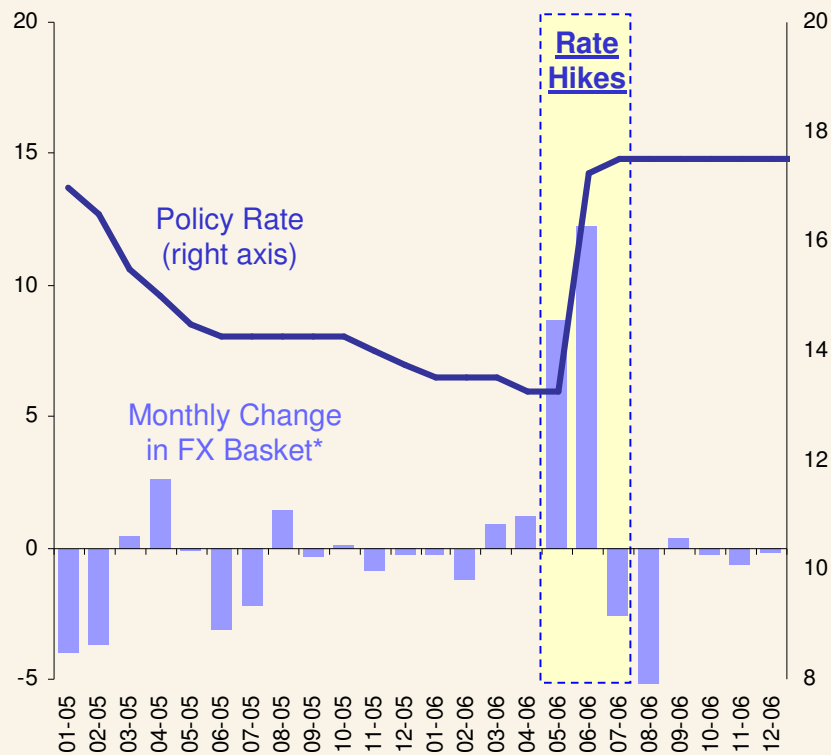


Source: CBT



Monetary Policy Action

CBT Policy Rate and Exchange Rate
(Jan 2005 – Dec 2006)



	Policy Rate	Change
23 Jan 06	13.50	0.00
23 Feb 06	13.50	0.00
23 Mar 06	13.50	0.00
27 Apr 06	13.25	-0.25
25 May 06	13.25	0.00
07 Jun 06	15.00	1.75
20 Jun 06	15.00	0.00
25 Jun 06	17.25	2.25
20 Jul 06	17.50	0.25
24 Aug 06	17.50	0.00
26 Sep 06	17.50	0.00
19 Oct 06	17.50	0.00
23 Nov 06	17.50	0.00
21 Dec 06	17.50	0.00

* Equally weighted US Dollar - Euro basket
Source: CBT

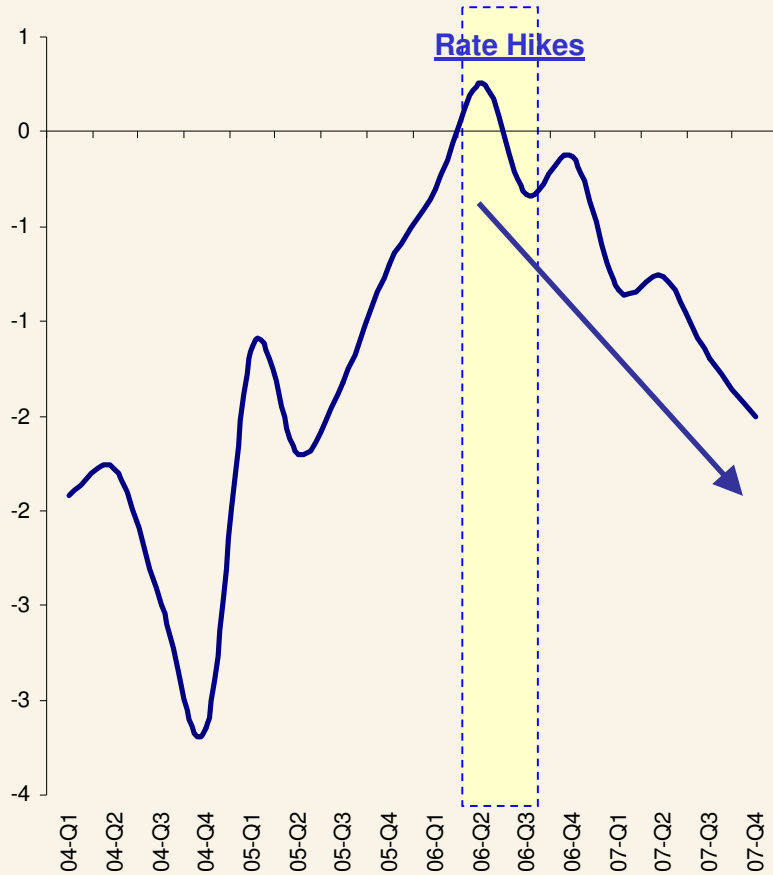


Second Half of 2007



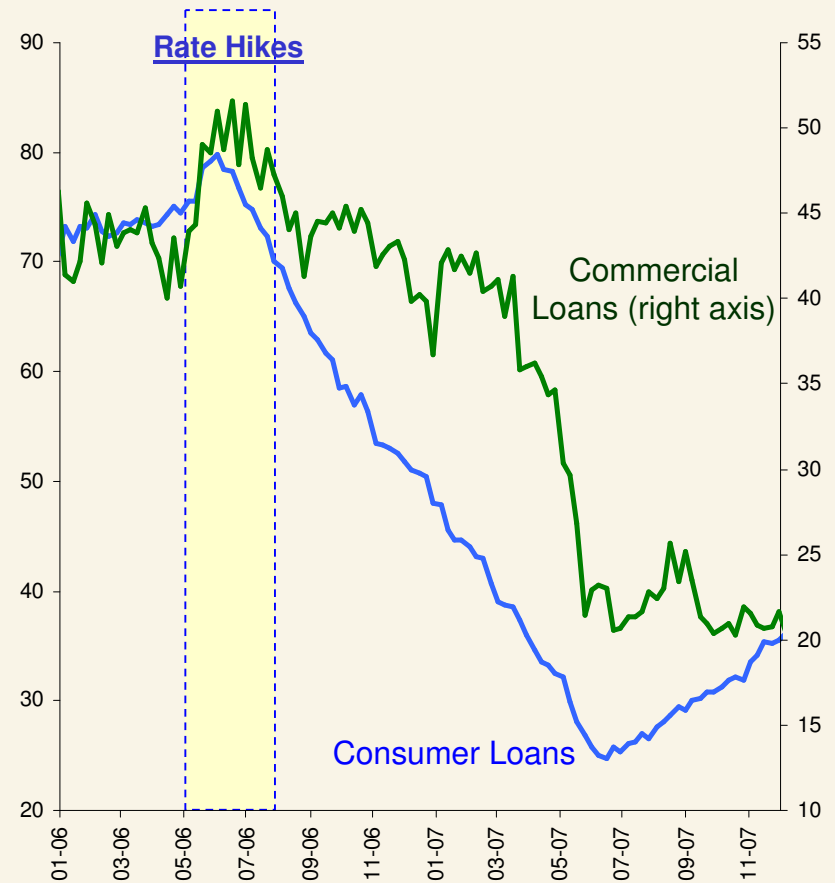
Expanding Output Gap

Output Gap
(2004 Q1 – 2007 Q4, percent of GDP)



Source: TURKSTAT, CBT

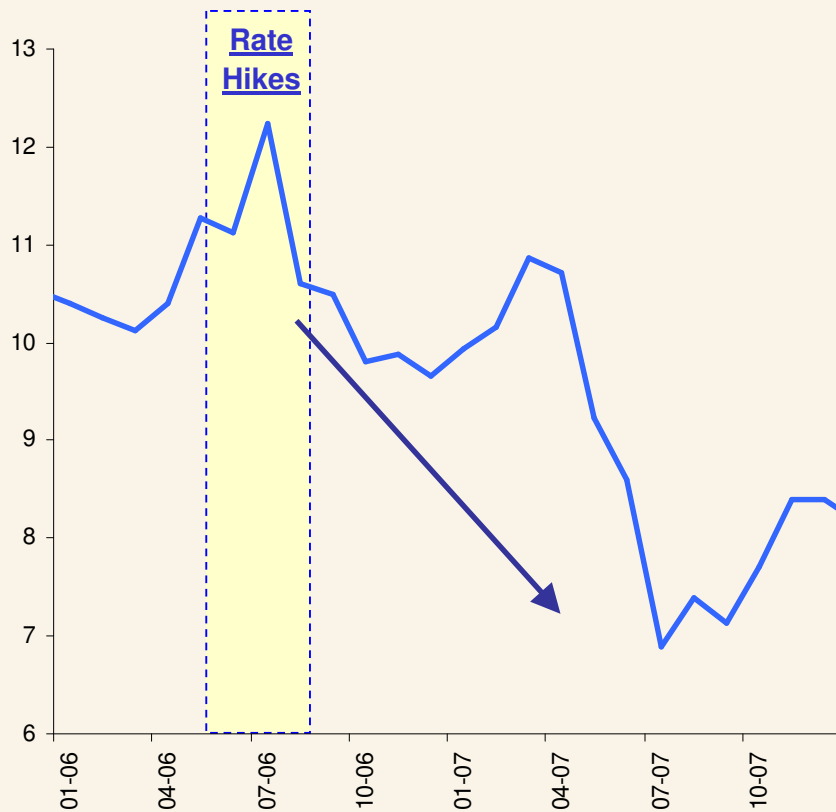
Consumer and Commercial Loans
(Jan 2006 – Aug 2008, annual percentage change)





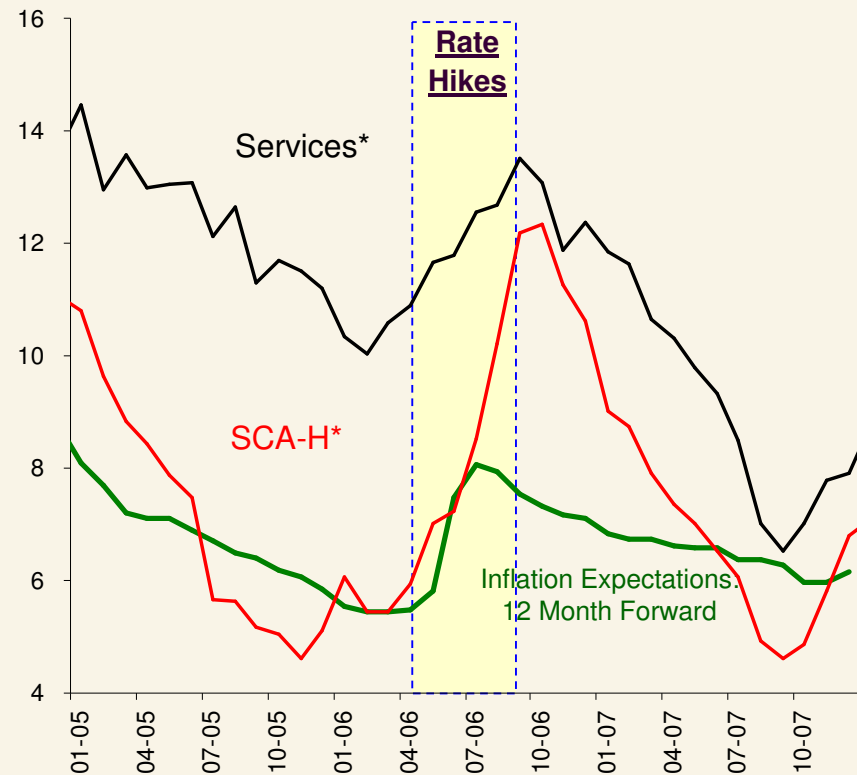
Easing Concerns for Inflation

Consumer Price Index
(Jan 2006 - Dec 2007, percent)



Source: TURKSTAT, CBT

Inflation Expectations and Indicators of Core Inflation* (Jan 2005 – Dec 2007)

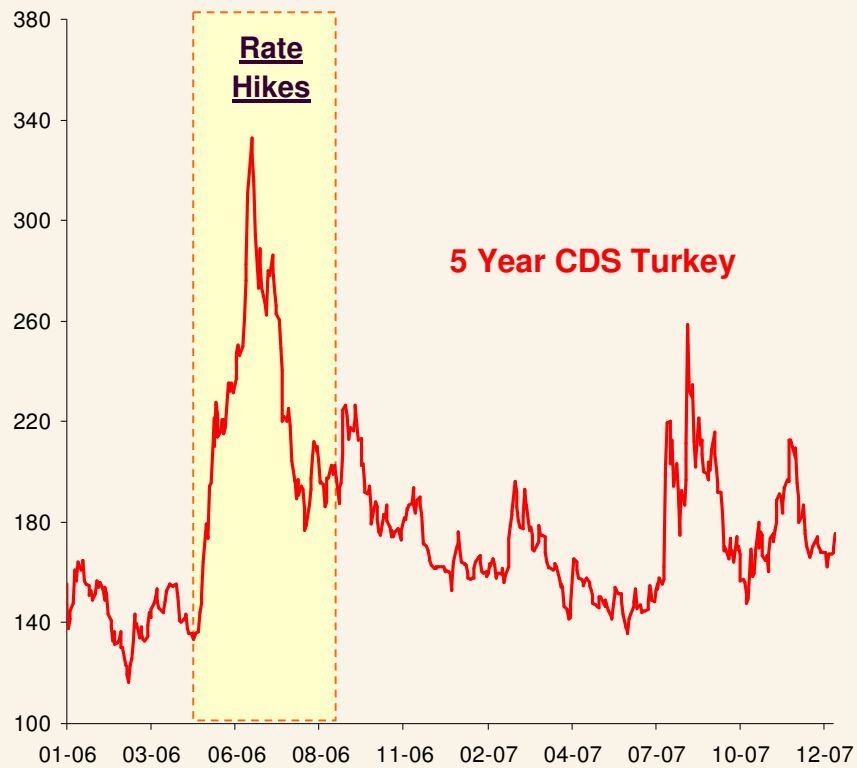


*Seasonally adjusted, annualized monthly change, 6-month average
SCA-H: Excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold
Source: TURKSTAT, CBT



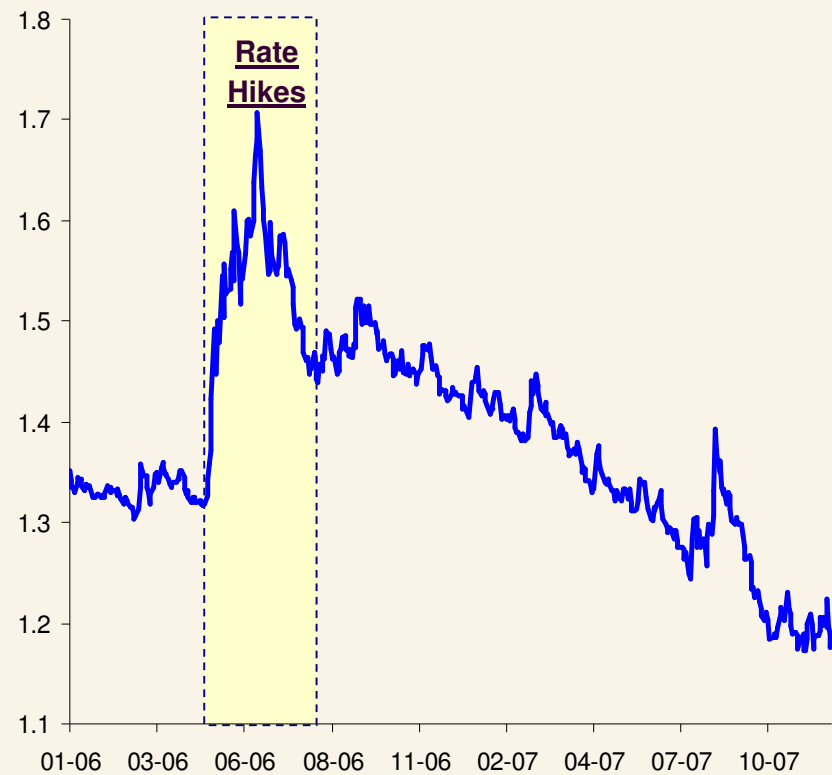
Declining Risk Perceptions

Credit Default Swap (CDS) Premia
(Jan 2006 – Dec 2007, basis points)



Source: Bloomberg, CBT

Exchange Rates: TRY / USD
(Jun 2006 – Dec 2007)



Source: CBT



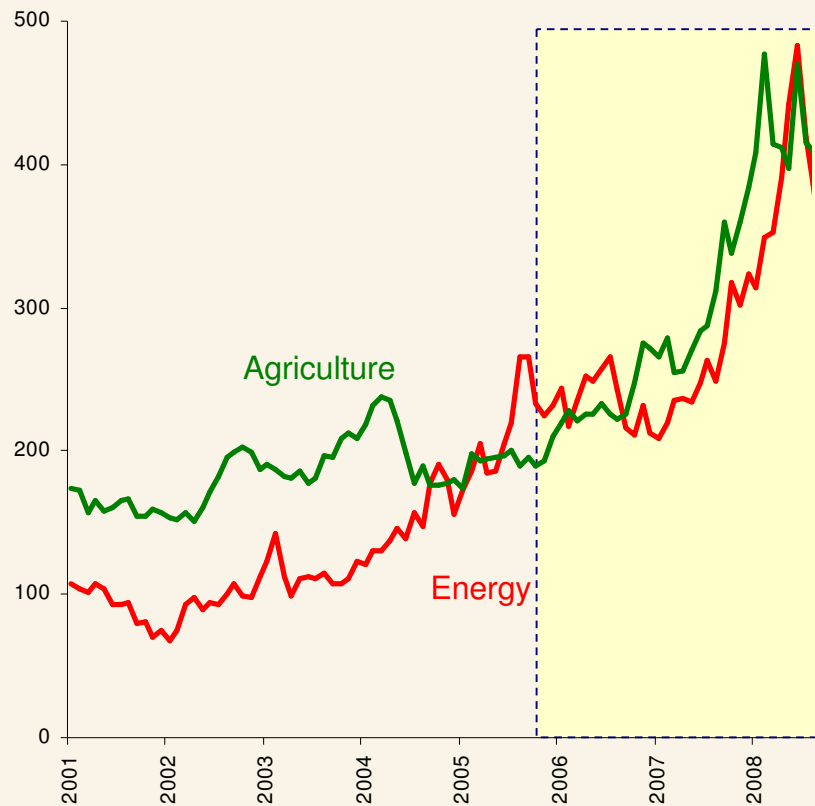
May – Sep 2008



Rising Inflationary Pressures

Commodity Prices

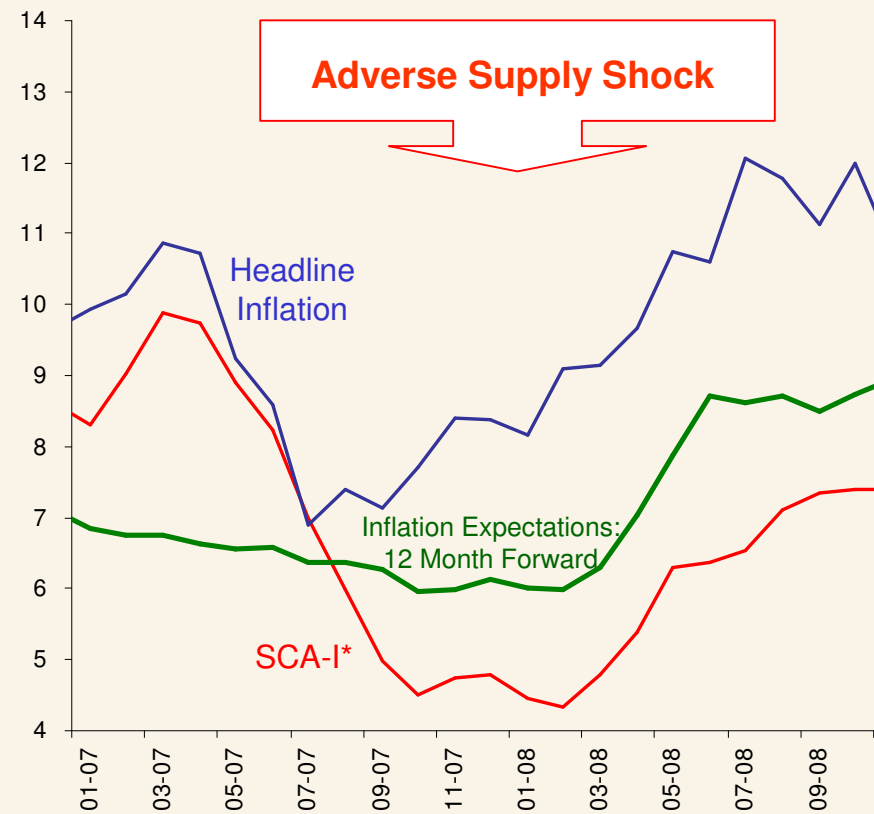
(Jan 2001 – Oct 2008, 2001 = 100)



Source: IMF, CBT

Inflation Expectations and Inflation

(Jan 2006 – Oct 2008)

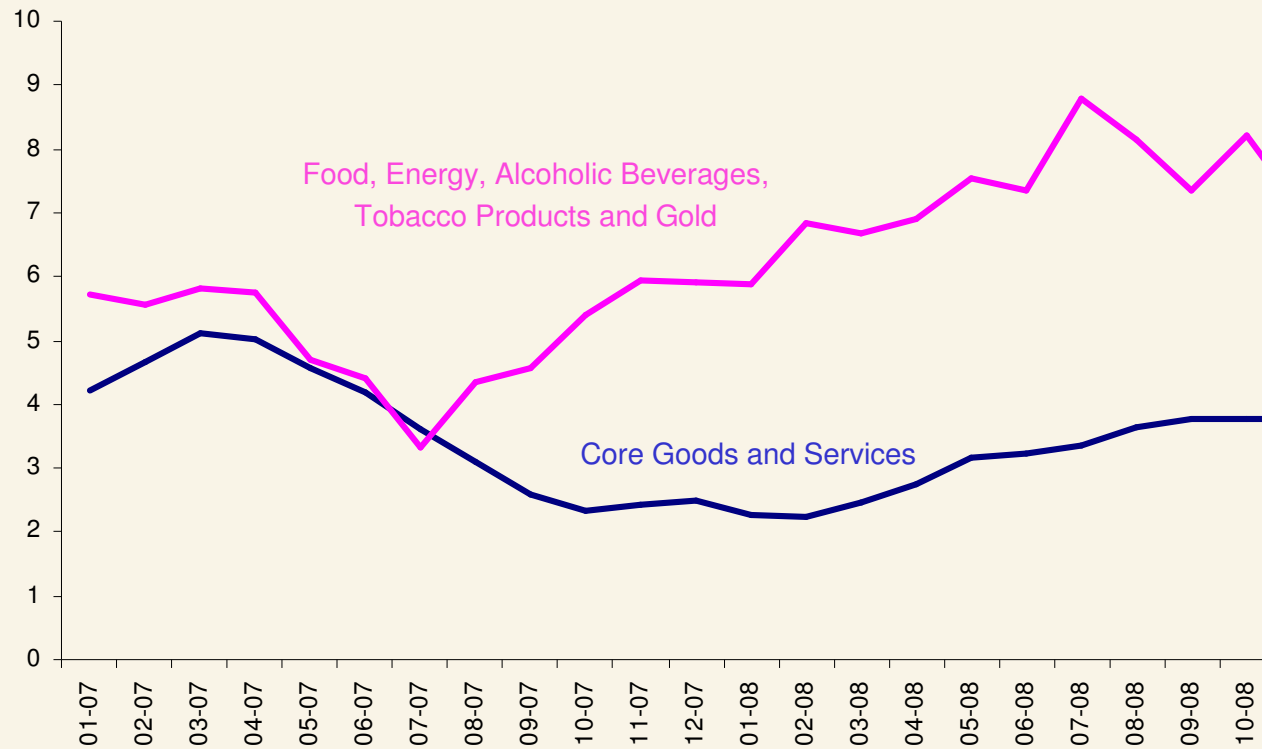


*SCA-I: Excluding food, energy, alcoholic beverages, tobacco products and gold
Source: TURKSTAT, CBT



Rising Inflationary Pressures

Contribution to Headline Inflation
(Jan 2007 – Oct 2008, percentage points)

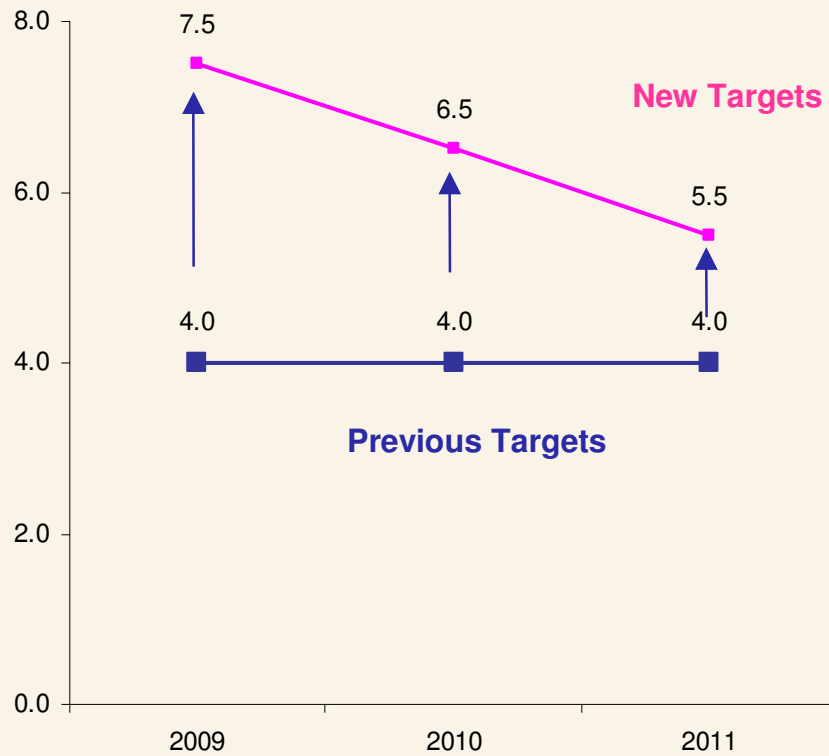


Source: TURKSTAT, CBT



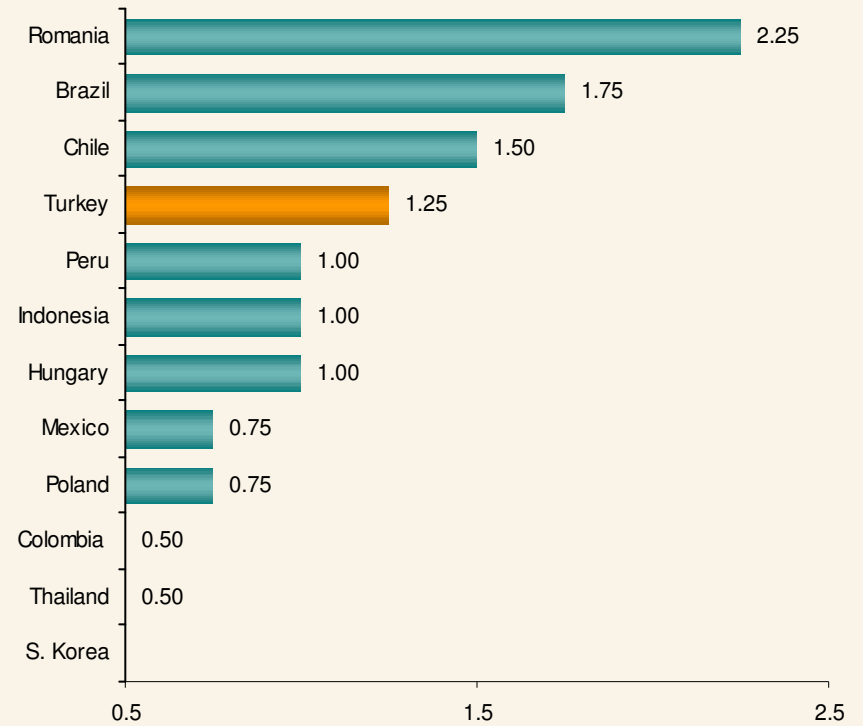
Upward Revision of Inflation Targets

Revision of Medium Term Inflation Targets
(percent)



Source: CBT

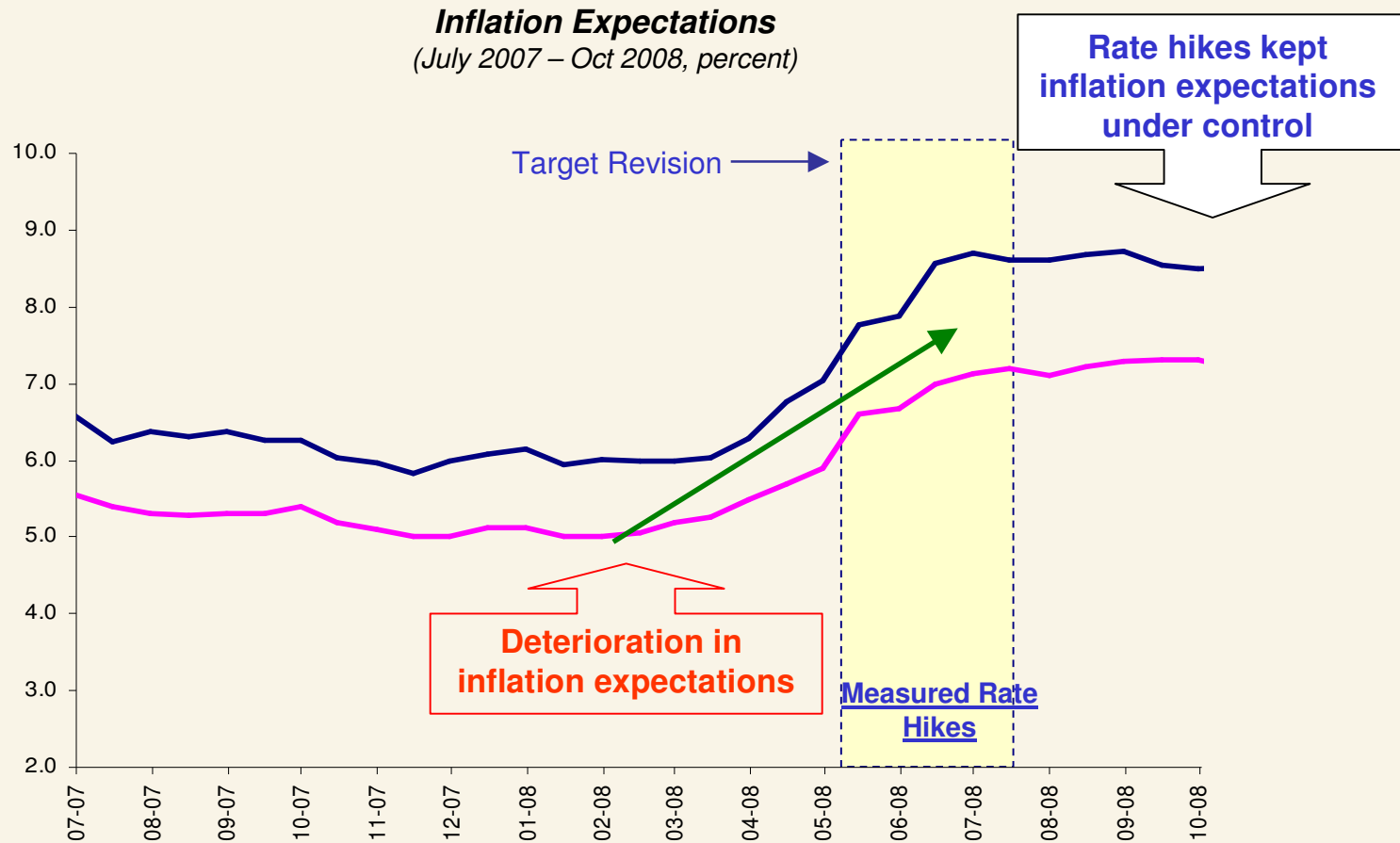
Policy Rate Changes in EM Economies
(Feb 2008- Aug 2008, percent)



Source: Central Banks, CBT



Inflation Expectations





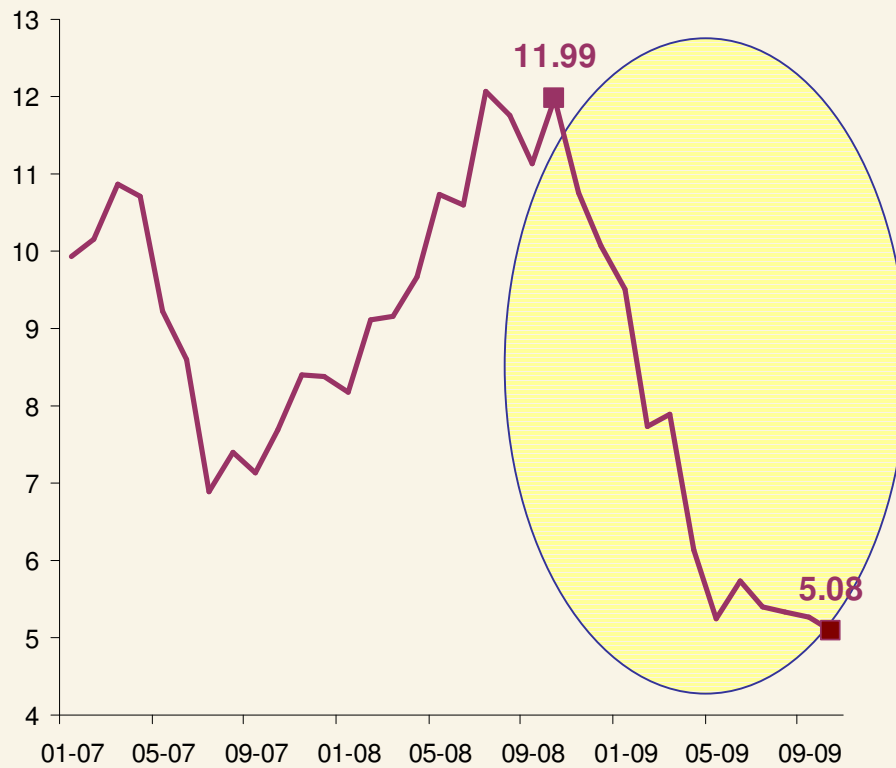
October 2008 Onwards



Easing Inflationary Pressures in the Economy

Consumer Inflation

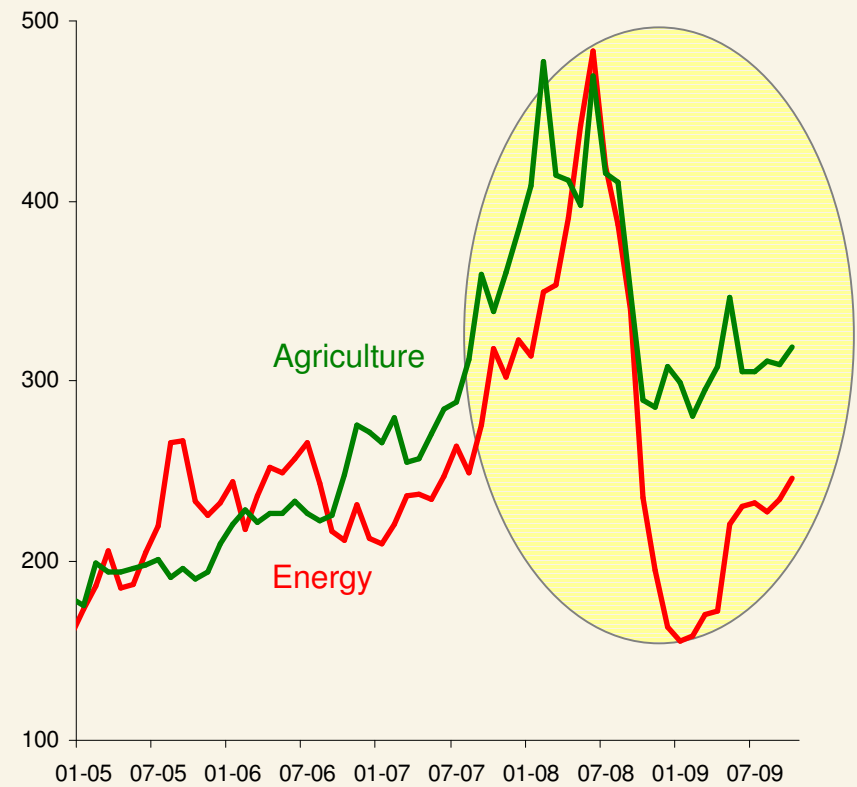
(Jan 2007 – Oct 2009, annual percentage change)



Source: TURKSTAT, CBT

Commodity Prices

(Jan 2005 – Oct 2009, 2001 = 100)

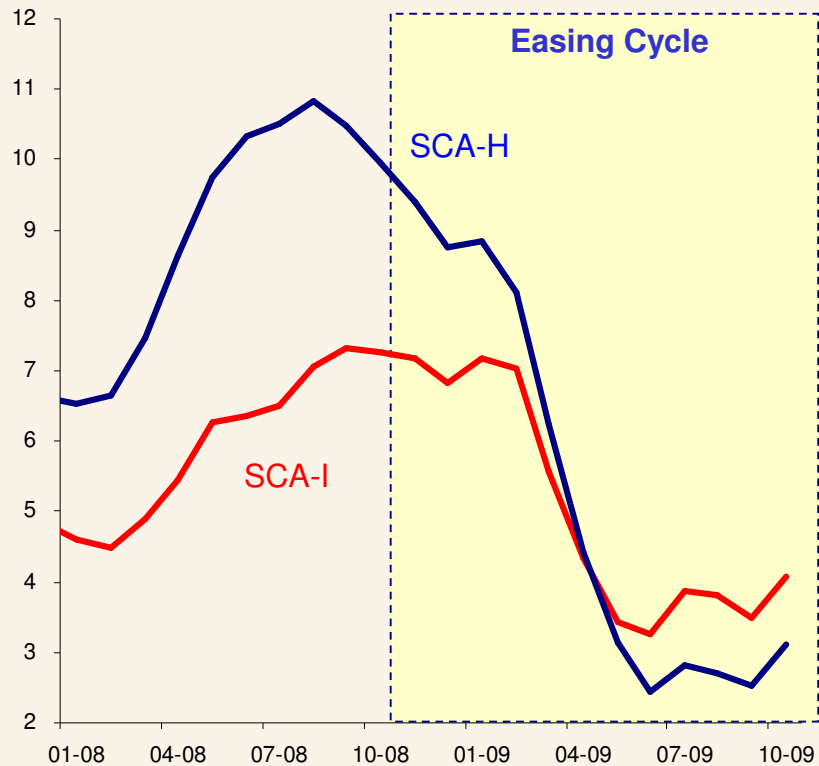


Source: TURKSTAT, CBT

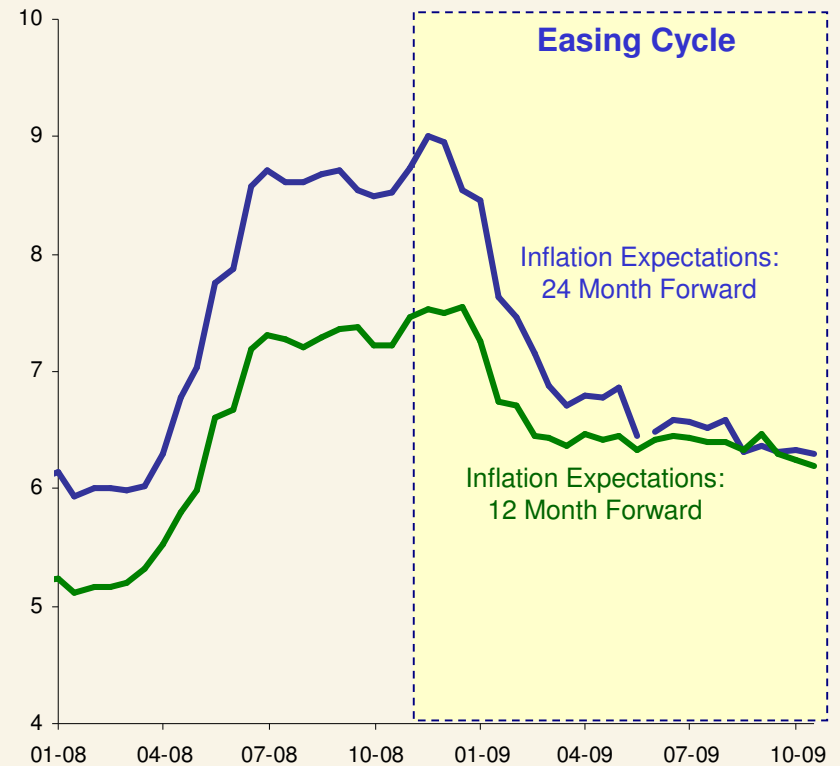


Declining Core Inflation and Expectations

Indicators of Core Inflation*
(Jan 2006 – Oct 2009, annual percentage change)



Inflation Expectations
(Jan 2008 – Oct 2009, percent)



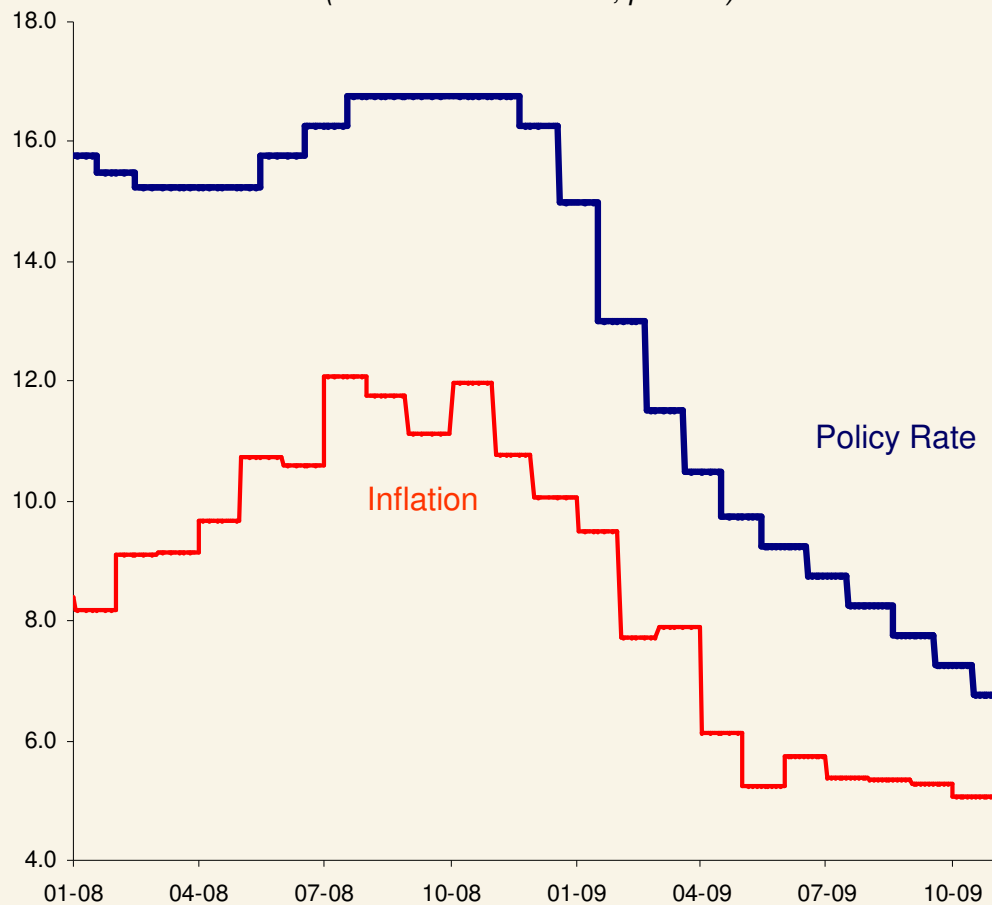
*Seasonally Adjusted
 SCA-I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products and gold
 SCA-H: Excluding unprocessed food products, energy, alcoholic beverages, tobacco products and gold
 Source: TURKSTAT, CBT

Source: CBT



Monetary Policy Action

CBT Policy Rate and CPI
(Jan 2008 – Nov 2009, percent)



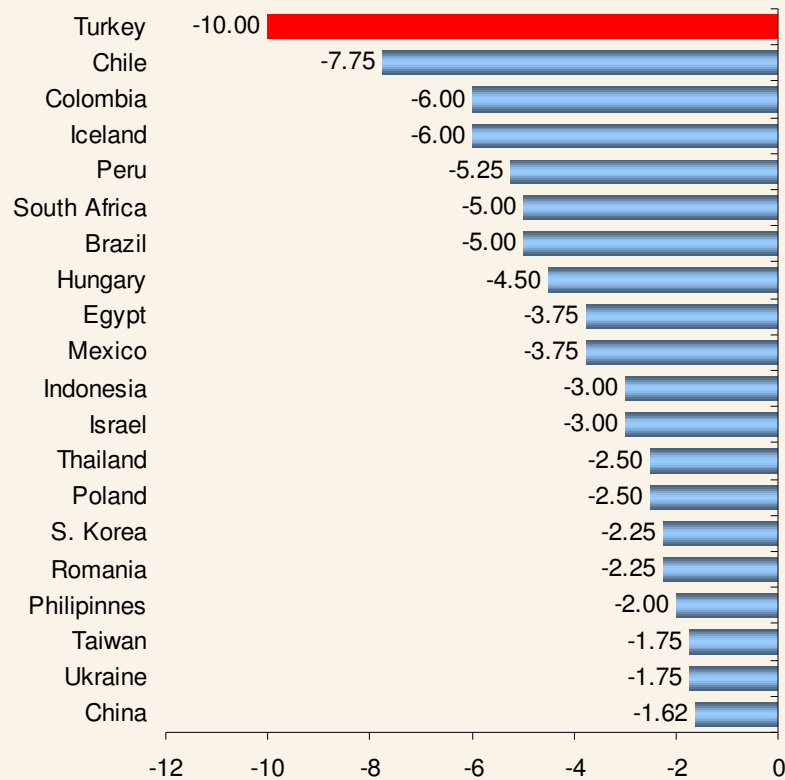
Source: TURKSTAT, CBT

	Policy Rate	Change
October 08	16.75	0.00
November 08	16.25	-0.50
December 08	15.00	-1.25
January 09	13.00	-2.00
February 09	11.50	-1.50
March 09	10.50	-1.00
April 09	9.75	-0.75
May 09	9.25	-0.50
June 09	8.75	-0.50
July 09	8.25	-0.50
August 09	7.75	-0.50
September 09	7.25	-0.50
October 09	6.75	-0.50



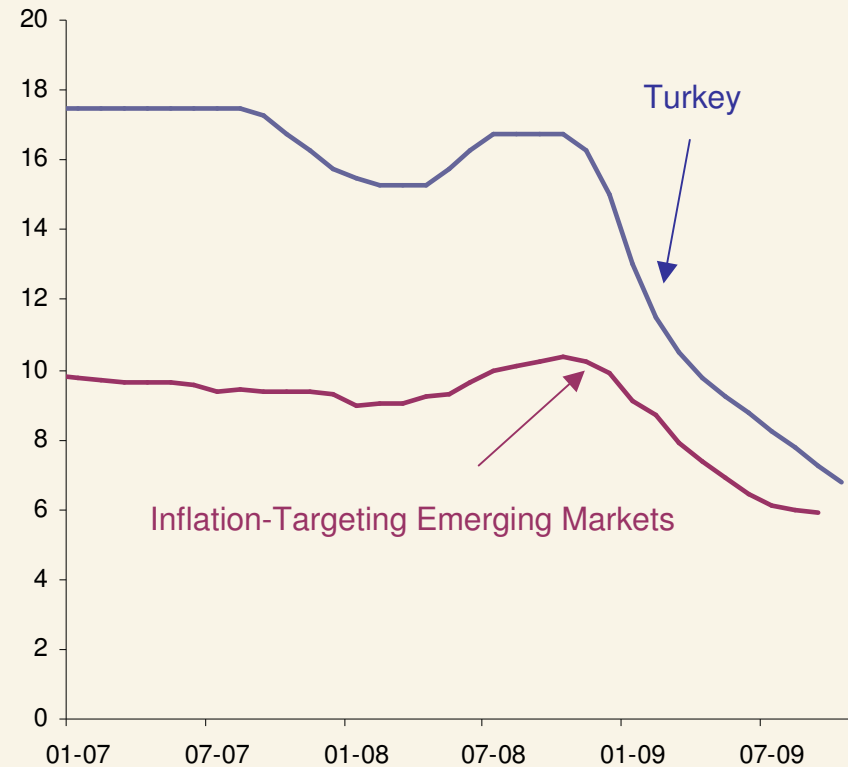
Monetary Policy Action

Change in the Policy Rates of Emerging Market Economies
(Oct 2008 - Oct 2009, percentage points)



Source: Central Banks, CBT

Policy Rates in Inflation-Targeting Emerging Market Economies and Turkey
(Jan 2007 - Oct 2009, percent)

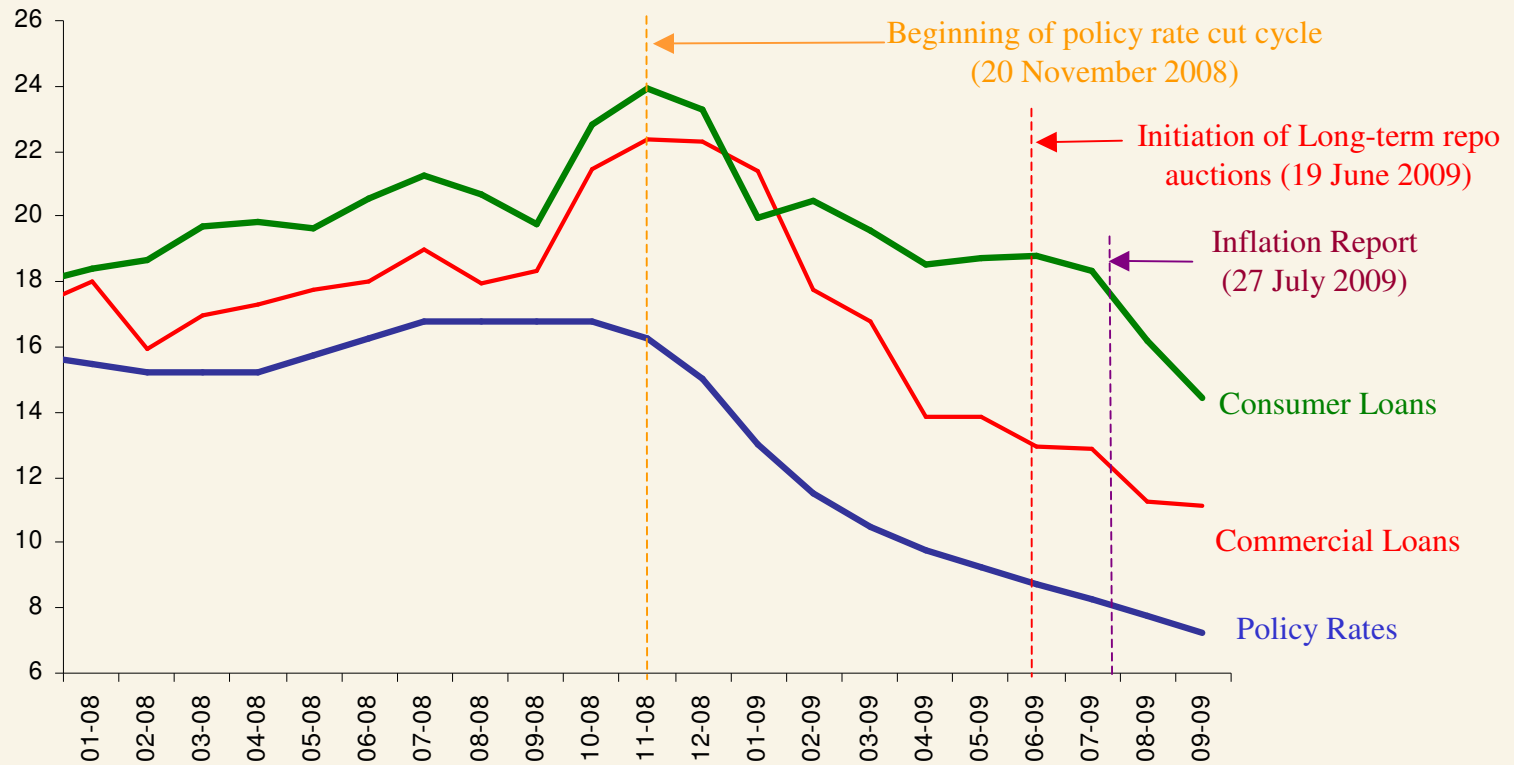


Source: Central Banks, CBT



Response of the Credit Markets

Consumer Loans, Commercial Loans and Policy Rates
(Jan 2008 – Sep 2009, percent)

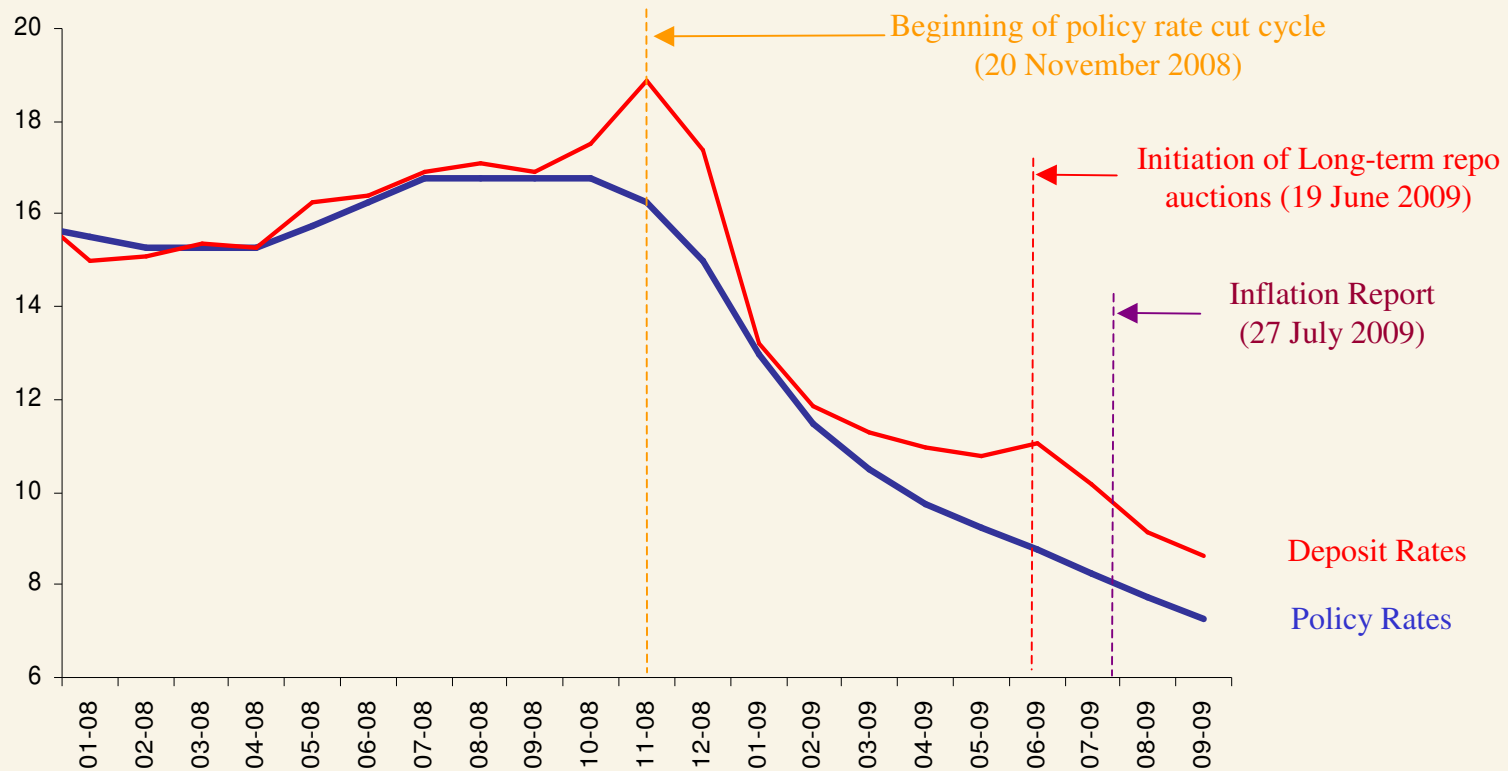


Source: CBT



Response of the Credit Markets

Policy Rates and Average Interest Rates on Deposits*
(Jan 2008 – Sep 2009, percent)

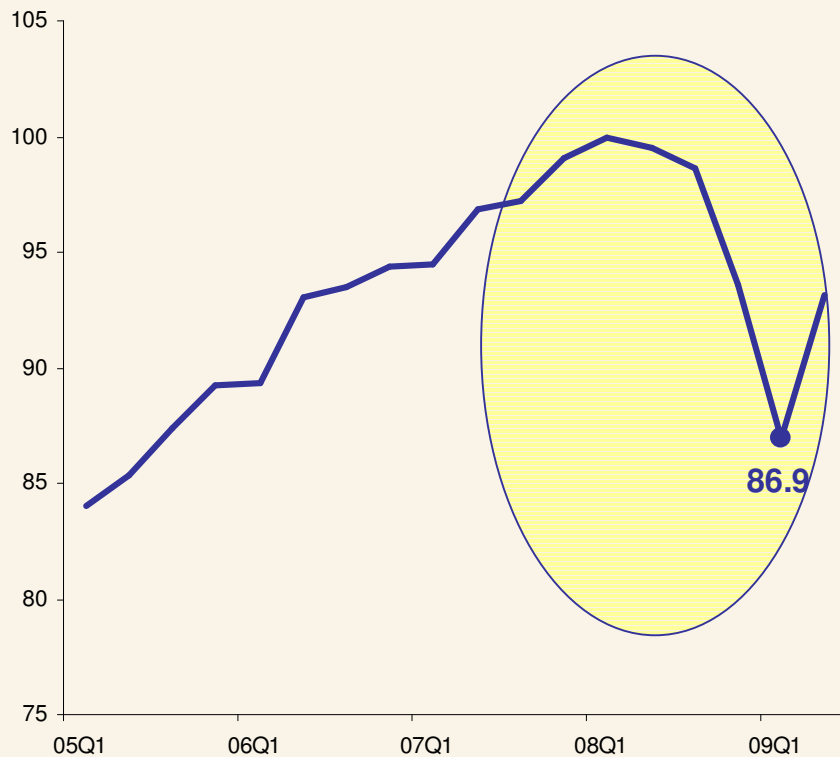


* Weighted average, flow interest rates. Excluding Interbank deposits.
Source: BRSA, CBT



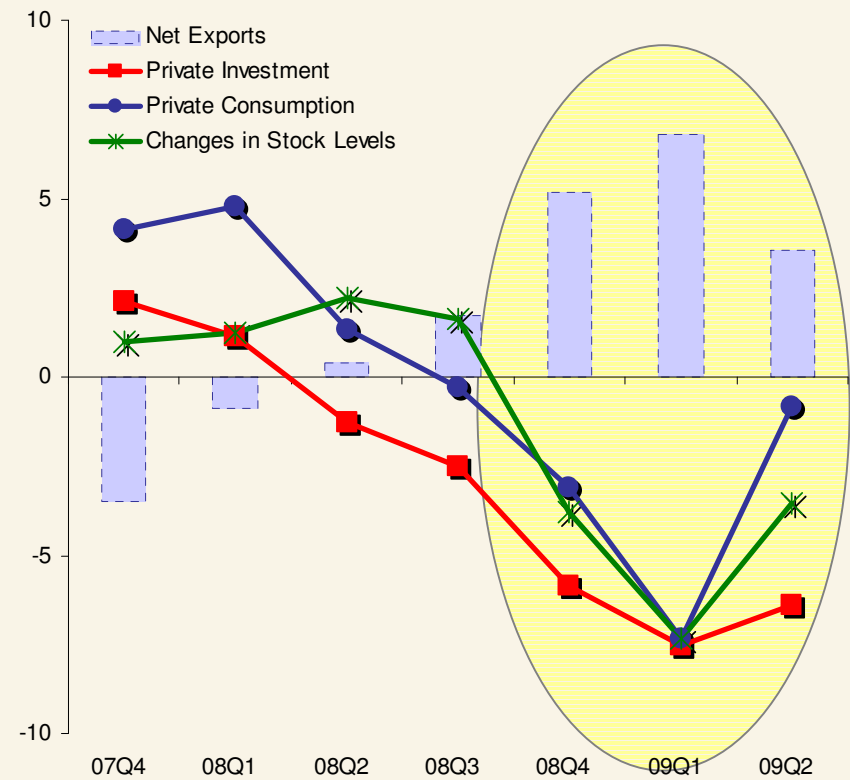
Freefall in the Economy Has Bottomed Out

Seasonally Adjusted Real GDP
(2005 Q1–2009 Q2, 2008 Q1=100)



Source: TURKSTAT, CBT

Growth Components
(2007 Q4 – 2009 Q2, annual percentage contribution)

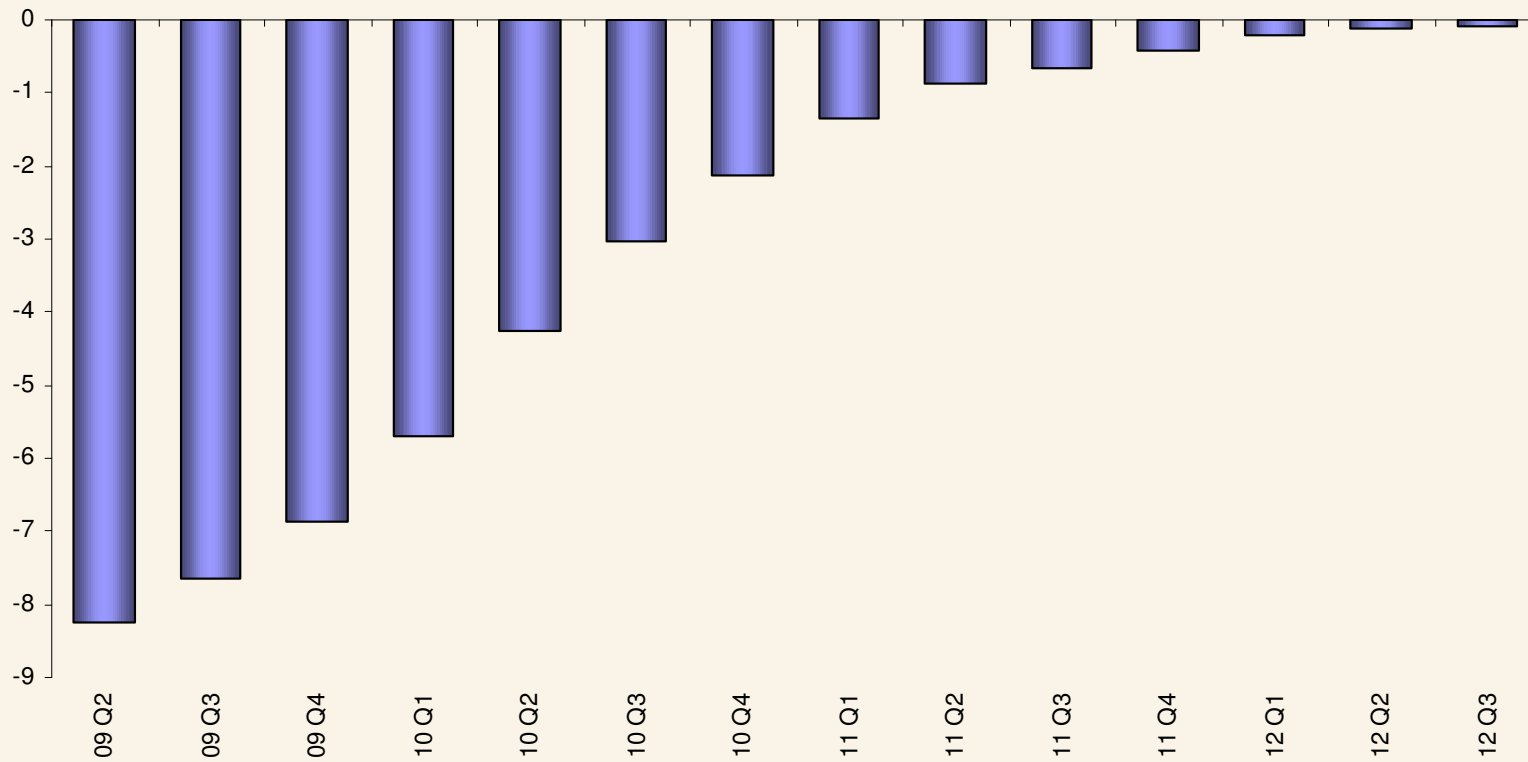


Source: TURKSTAT, CBT



Output Gap to Remain Disinflationary Until mid-2012

Output Gap
(2009 Q2 – 2012 Q3, percent)

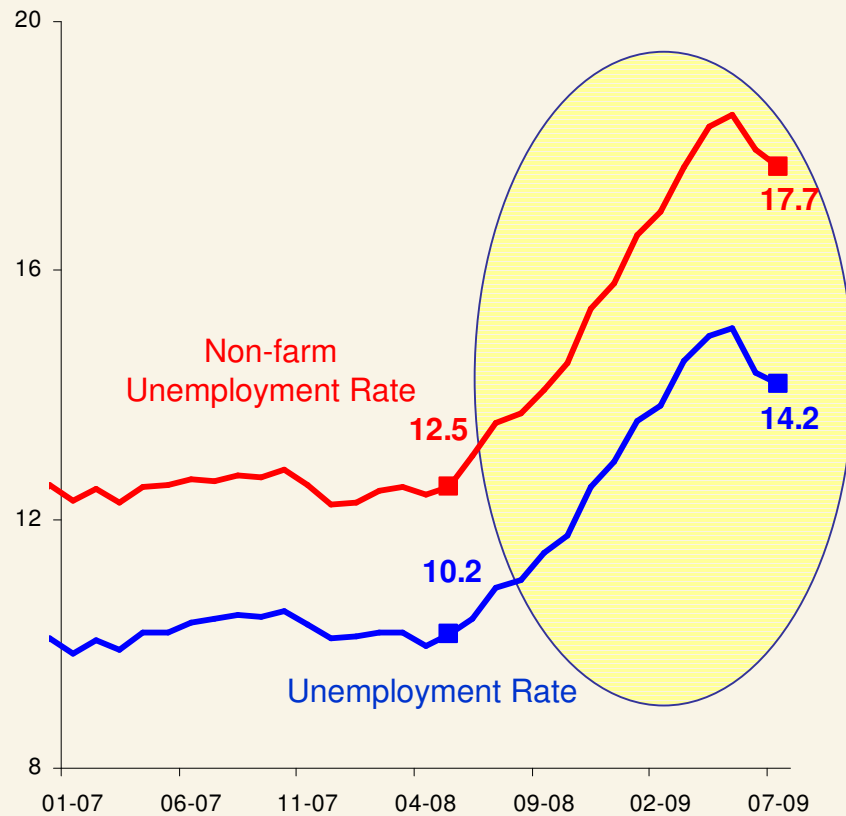


Source: CBT



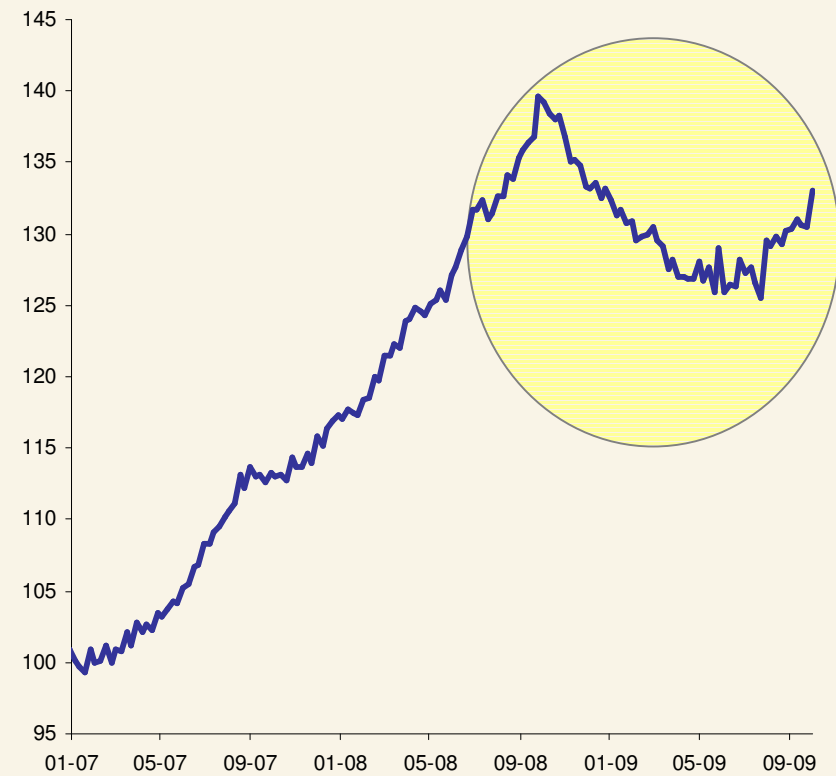
Recent Slight Improvements in Labor and Credit Markets

Unemployment Rates
(Jan 2007 - Jul 2009, percent)



Source: TURKSTAT, CBT

Domestic Credit Volume
(Jan 2007 - Oct 2009, real, Jan 2007=100)



Source: BRSA, CBT



Monetary Policy Stance

Inflation, Policy Rates and Credit Rating of Selected Countries (October 2009, percent)

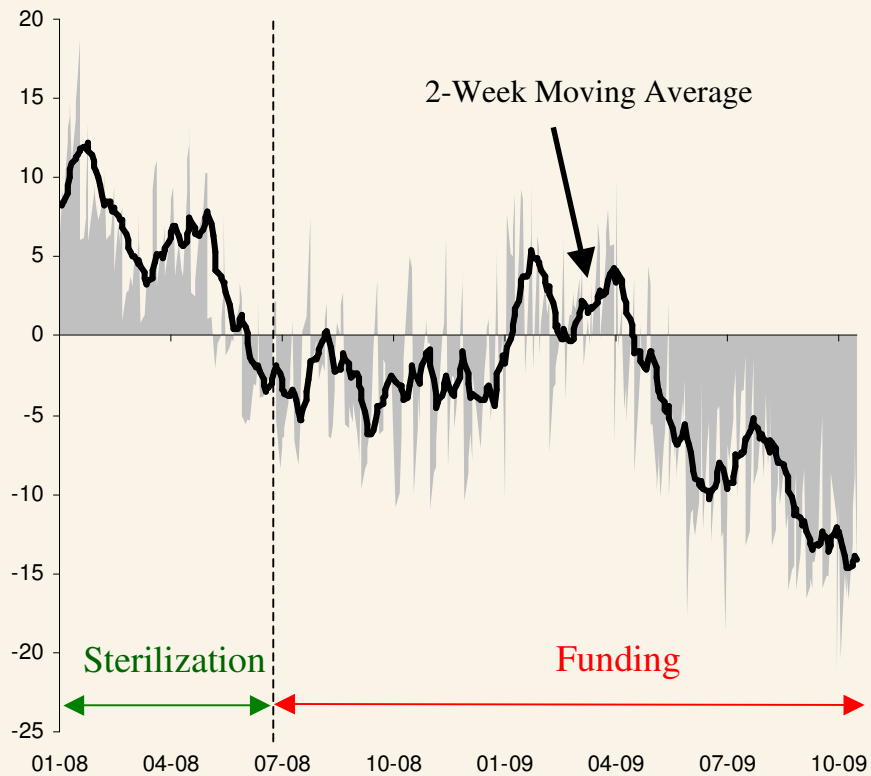
	Credit Rating (S&P)	Outlook	Policy Rate	2010 Inflation Expectations	Real Policy Rate
Chile	A+	stable	0.50	2.70	-2.14
Thailand	BBB+	negative	1.25	2.75	-1.46
S.Korea	A	stable	2.00	2.80	-0.78
Norway	AAA	stable	1.50	2.00	-0.49
Czech Rep.	A	stable	1.25	1.60	-0.34
Colombia	BBB-	stable	4.00	4.10	-0.10
Philippines	BB-	stable	4.00	4.00	0.00
Malaysia	A-	stable	2.00	1.80	0.20
Turkey	BB-	stable	6.75	6.30	0.42
Mexico	BBB+	negative	4.50	3.77	0.70
Indonesia	BB-	positive	6.50	5.71	0.75
Poland	A-	stable	3.50	2.60	0.88
Australia	AAA	stable	3.50	2.37	1.10
S.Africa	BBB+	negative	7.00	5.80	1.13
China	A+	stable	5.31	2.70	2.54
Hungary	BBB-	stable	7.00	4.00	2.88
Brazil	BBB-	stable	8.75	4.40	4.17

Source: Bloomberg, CBT



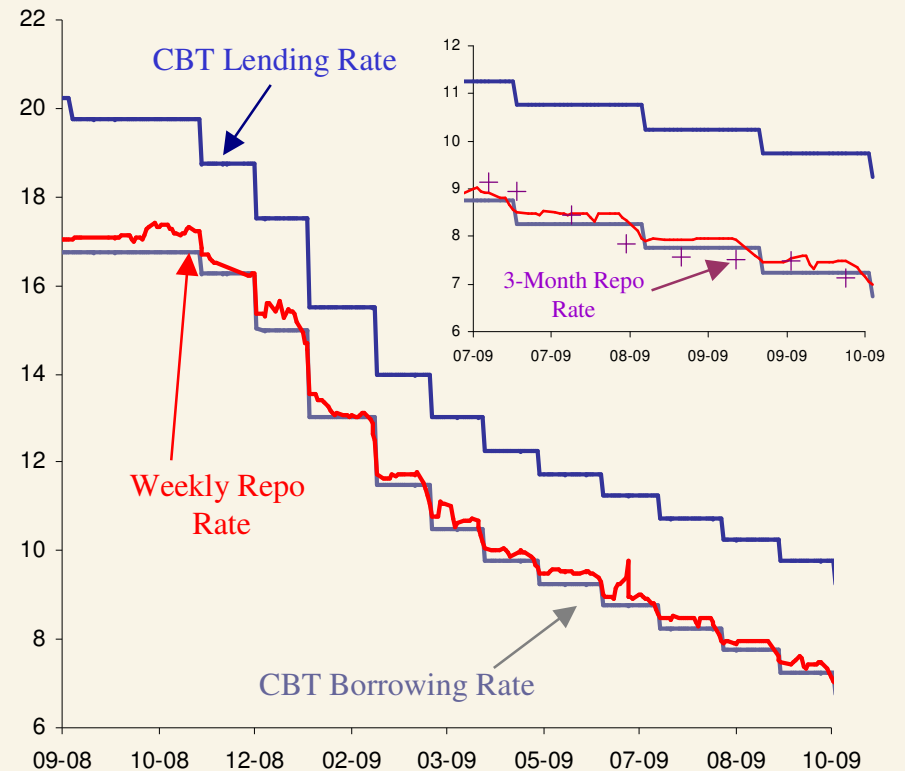
TRY Liquidity Measures

TRY Liquidity Provided by the Central Bank
(1 Jan 2008 – 16 Oct 2009, billion TRY)



Source: CBT

Policy Rate and Repo Rate
(Sep 2008 – Oct 2009, percent)

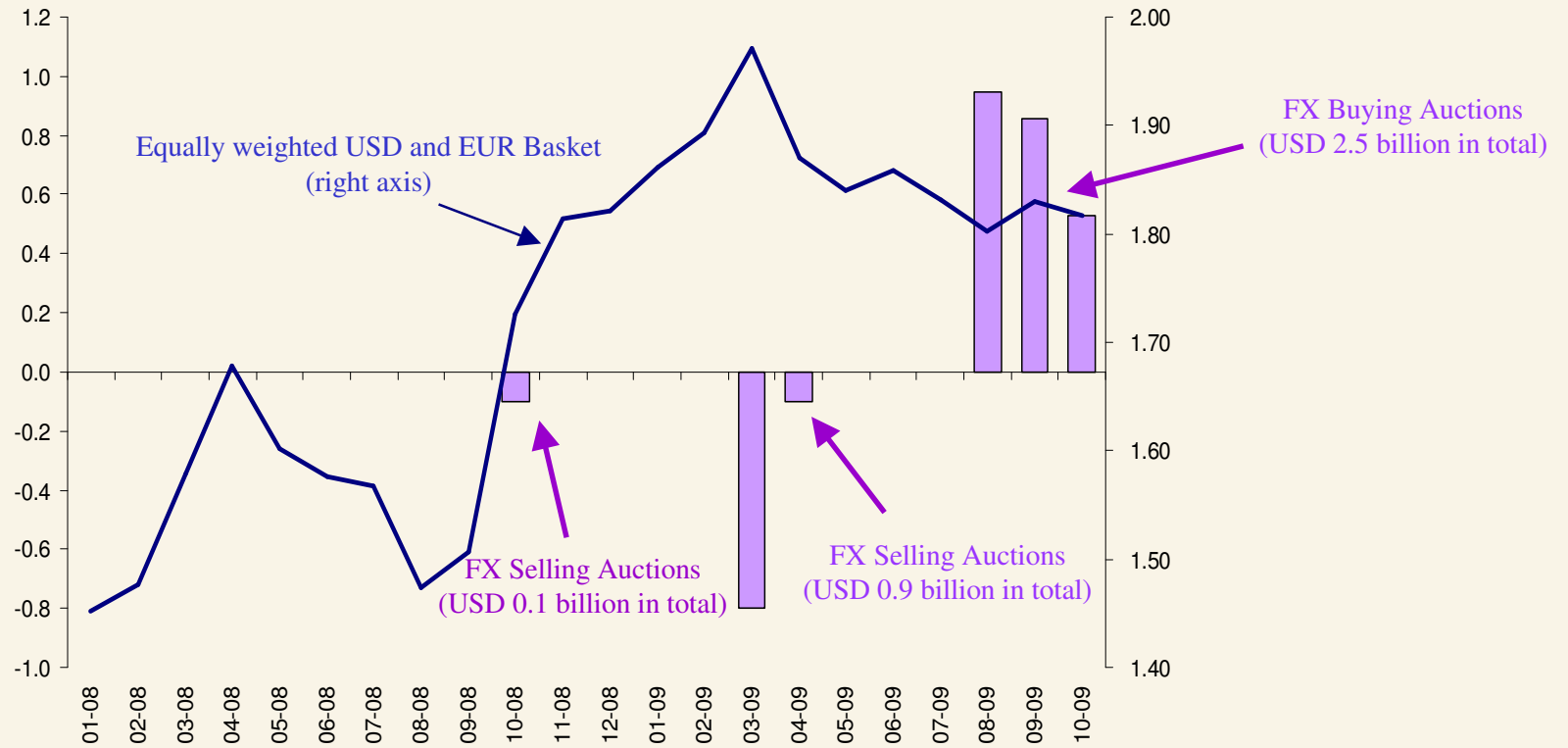


Source: CBT



FX Liquidity Measures

FX Buying and Selling Auctions (monthly cumulative, billion USD)
and FX Basket (equally weighted, Jan 2008 – Oct 2009*)



* As of 16 October 2009
Source: CBT



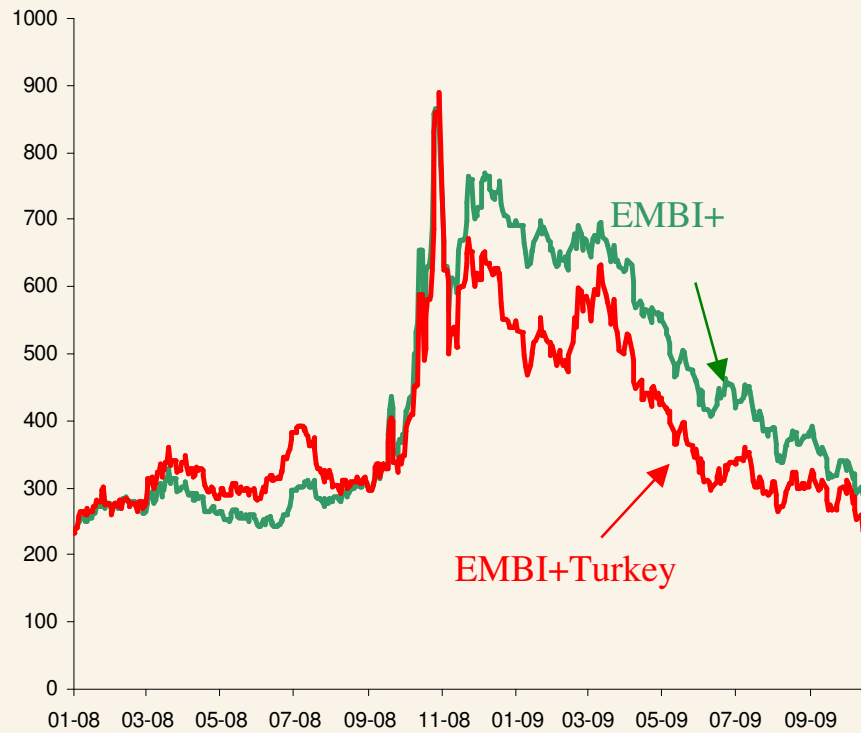
II. Financial Stability in Turkey



Financial Developments in Turkey

Risk Indicators

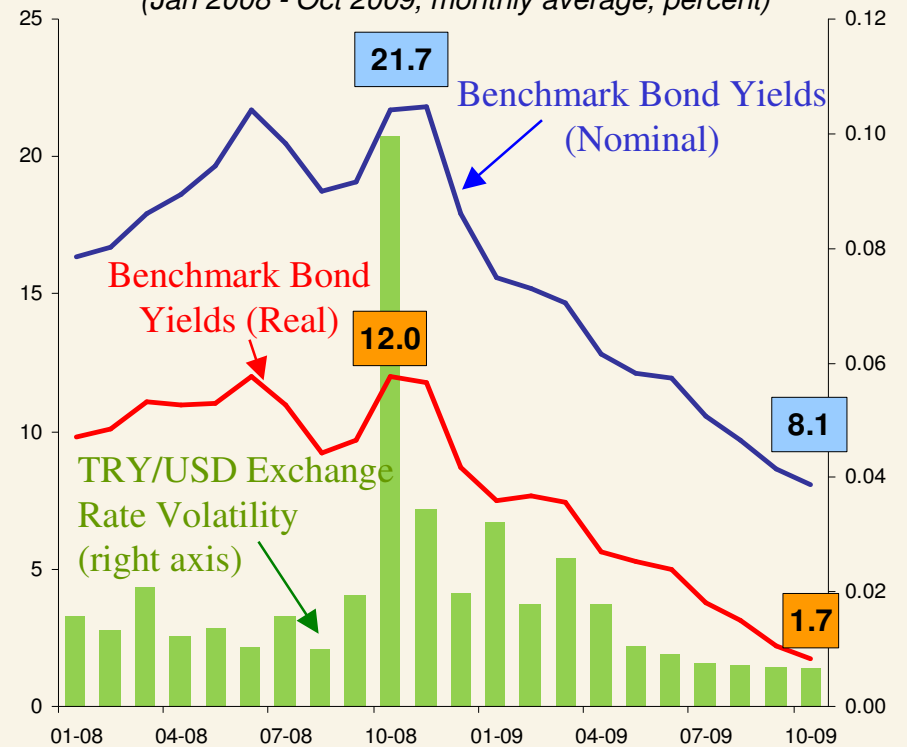
(1 January 2008 - 15 October 2009, basis points)



Source: Bloomberg, CBT

Exchange Rate Volatility and Benchmark Bond Yields

(Jan 2008 - Oct 2009, monthly average, percent)



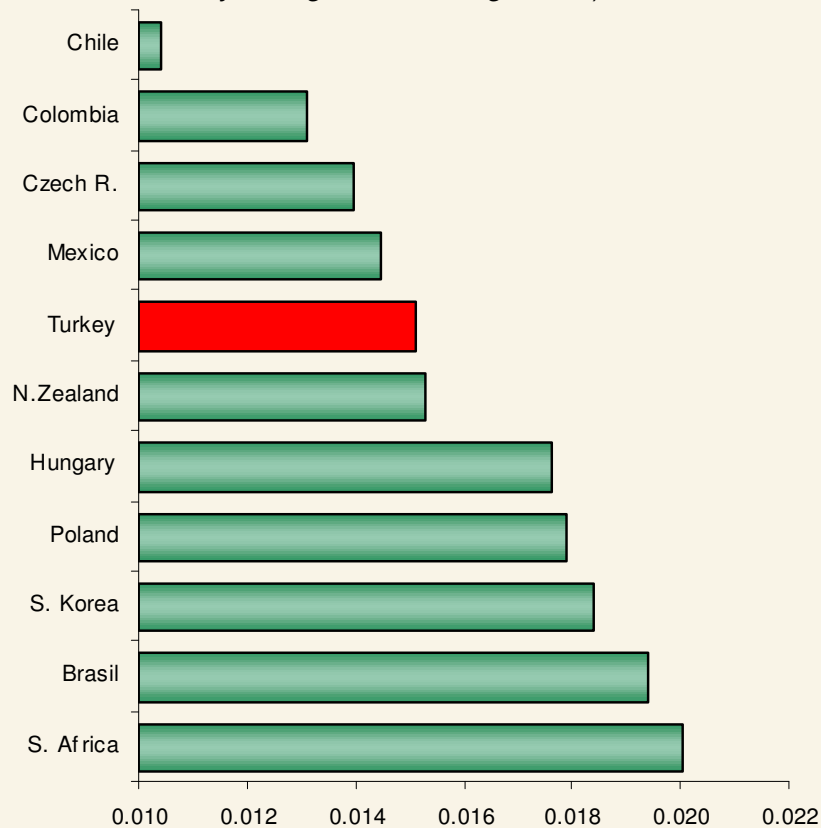
•Based on the inflation expectations for the next 12 months
Source: BRSA, CBT



Financial Stability in Turkey

Exchange Rate Volatility

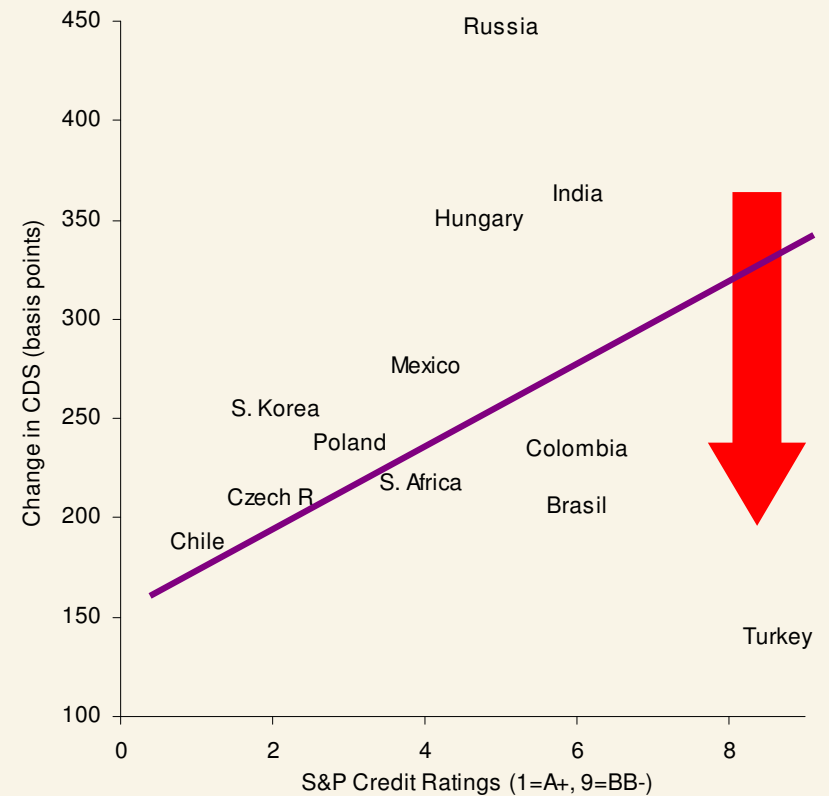
(Sep 2008 - Oct 2009, standard deviation of daily changes in exchange rates)



Source: Bloomberg, CBT

Change in Credit Ratings and Risk Premia of Countries

(Sep 2008 – Mar 2009)



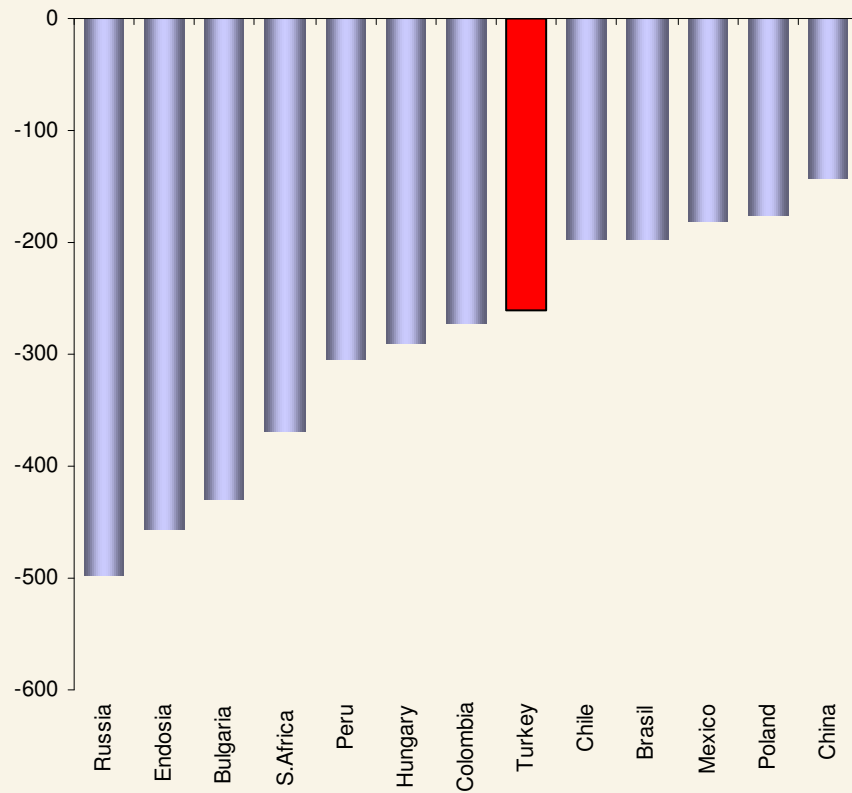
Note: Trend line includes countries except Turkey

Source: Bloomberg, CBT



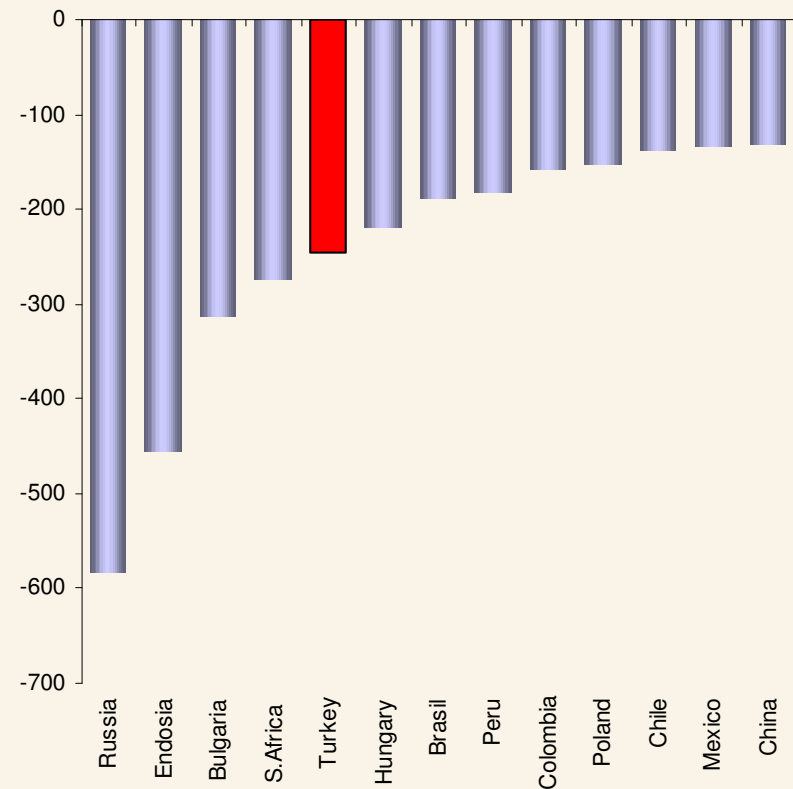
Financial Stability in Turkey

EMBI+ Changes in Markets
(Jan– Sep 2009, basis points)



Source: Bloomberg, CBT

CDS Changes in Markets
(Jan– Sep 2009, basis points)

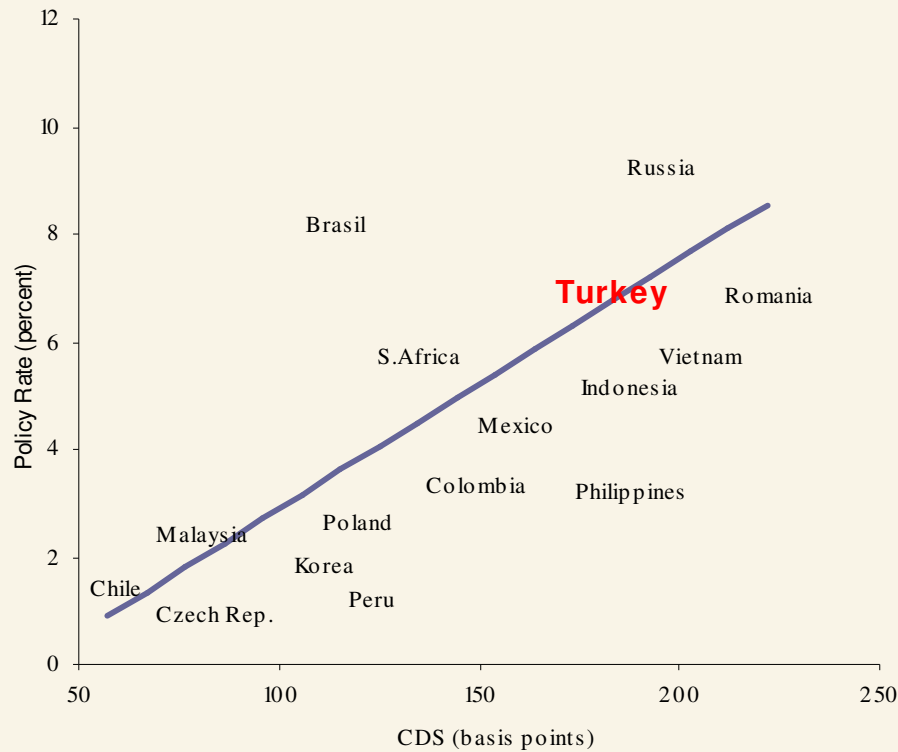


Source: Bloomberg, CBT



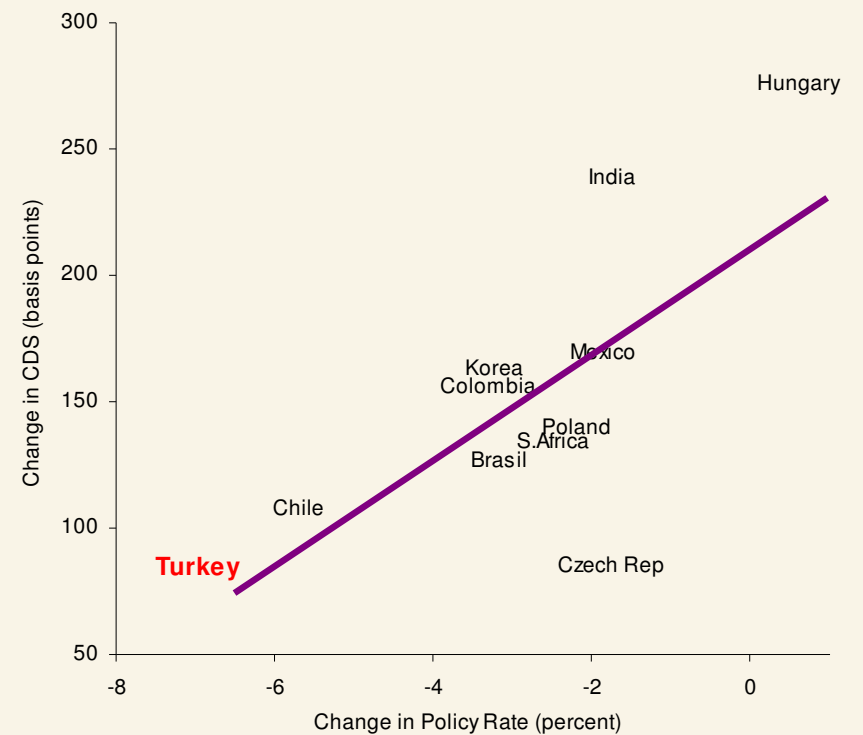
Financial Stability in Turkey

Change in Credit Ratings and Risk Premiums of Countries
(Oct 2009)



Note: Trend line includes countries except Turkey.
Source: Bloomberg, CBT

Change in Policy Rates and Countries' Risk Premia
(12 Sep 2008 - 17 Apr 2009)

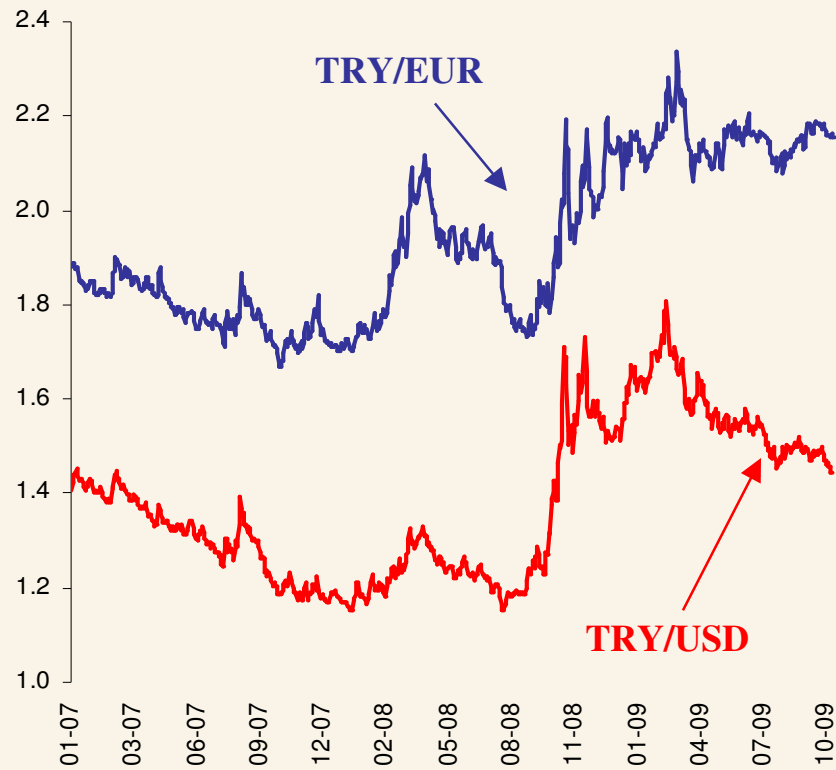


Note: Trend line includes countries except Turkey.
Source: Bloomberg, CBT



Financial Stability in Turkey

Exchange Rates
(Jan 2007 – Oct 2009)



Source: CBT

Euro-Dollar Parity
(Jan 2007 – Oct 2009)

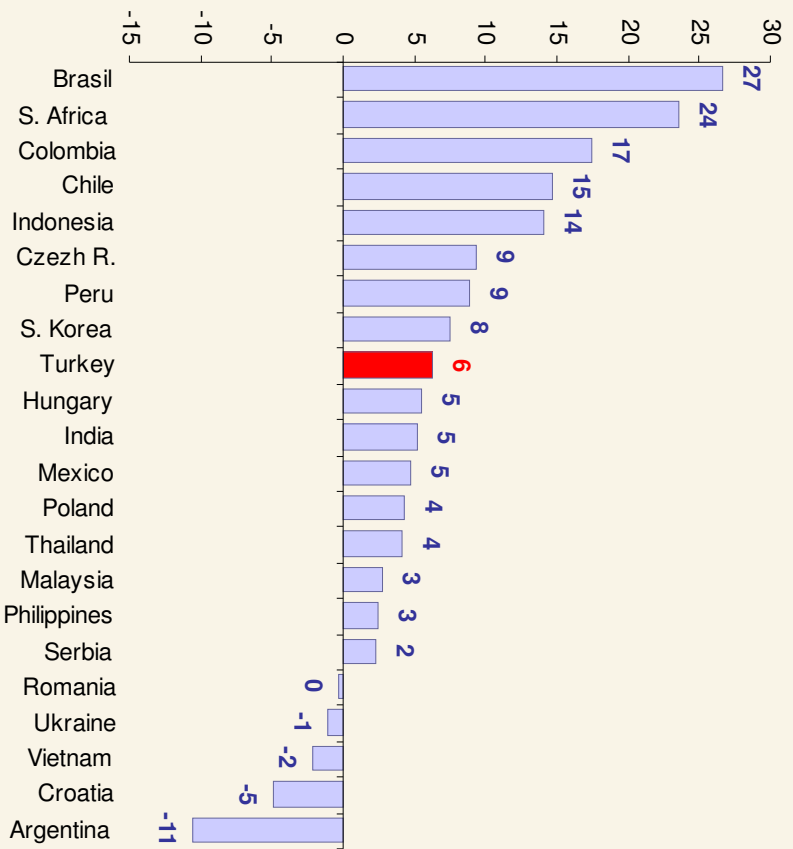


Source: CBT



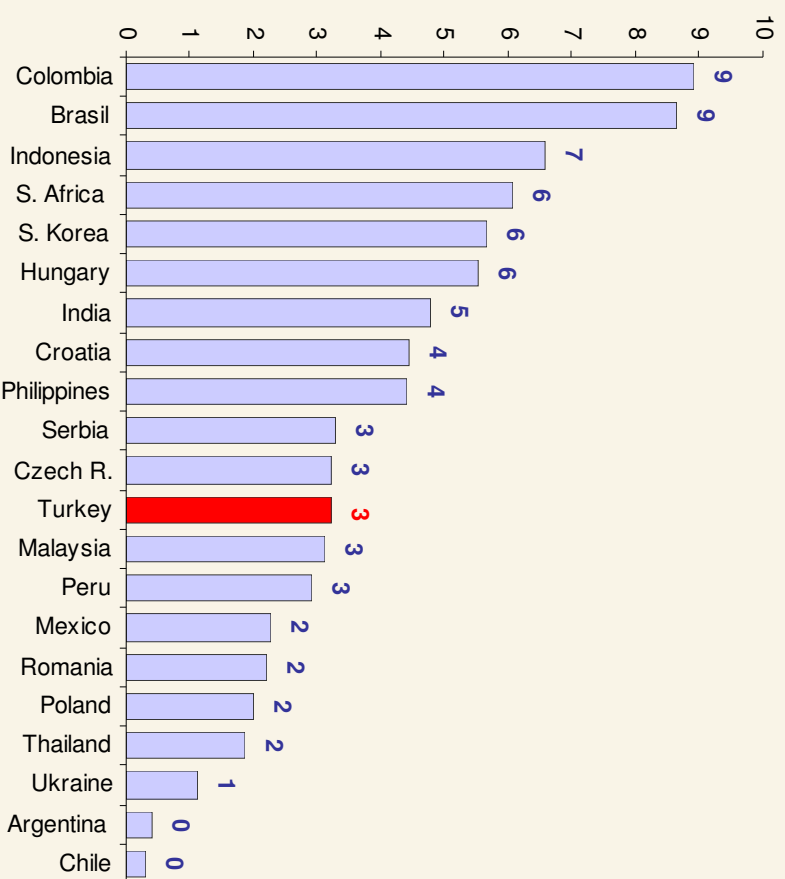
Financial Developments in Turkey

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



Source: Bloomberg, CBT

Change in Local Currencies Against US Dollar
(Since Sep 2009, percent)



Source: Bloomberg, CBT

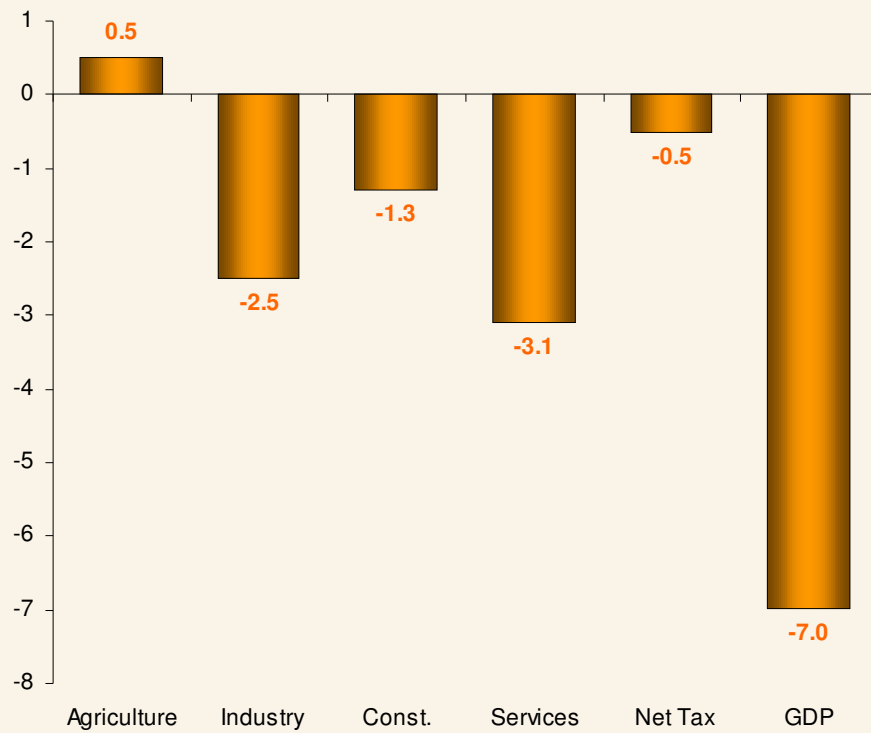


III. Recent Developments in the Turkish Economy



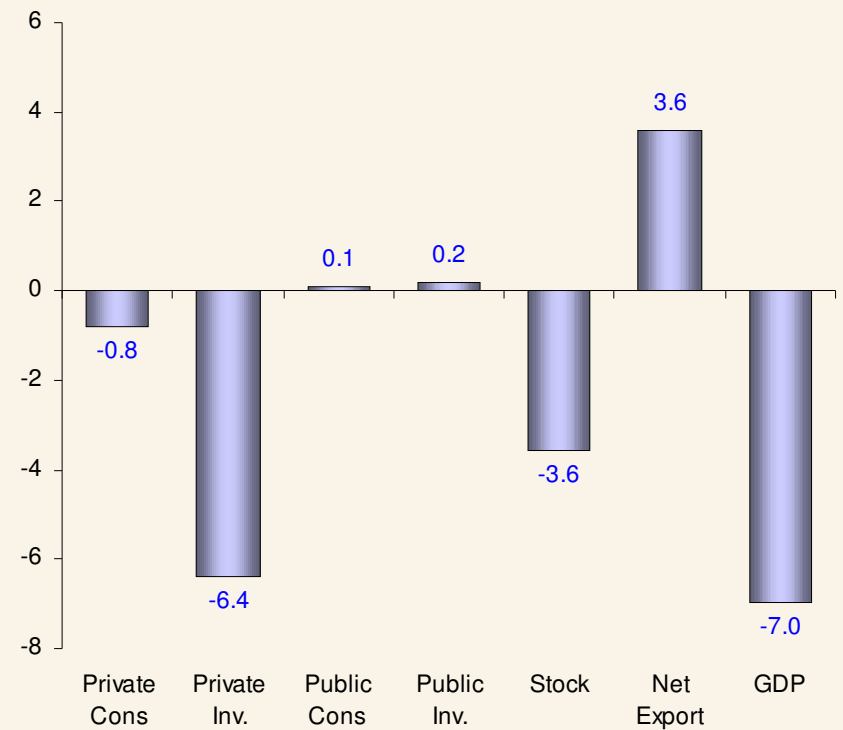
Turkish Economy

Growth Components
(2009 Q2, annual percentage contribution)



Source: TURKSTAT, CBT

Growth Components
(2009 Q2, annual percentage contribution)



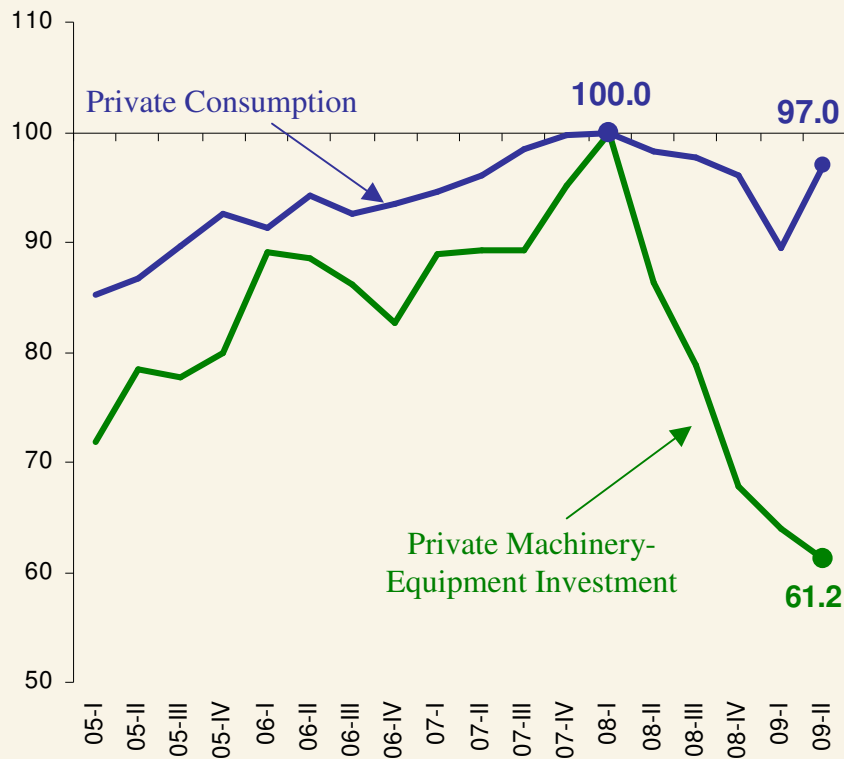
Source: TURKSTAT, CBT



Turkish Economy

GDP Sub-items: Private Consumption and Investment

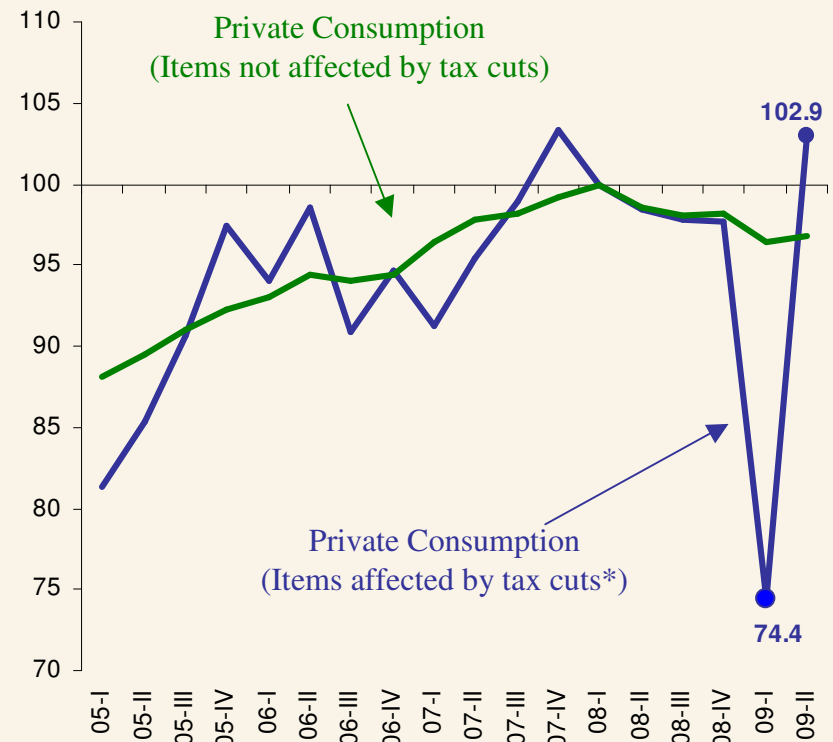
(2005 Q1 – 2009 Q2, SA, 2008 Q1=100)



Source: TURKSTAT, CBT

GDP Sub-items: Private Consumption and Tax Effect

(2005 Q1 – 2009 Q2, SA, 2008 Q1=100)



* Furniture, Household Appliances and Home Improvement Services, and Transport and Communications

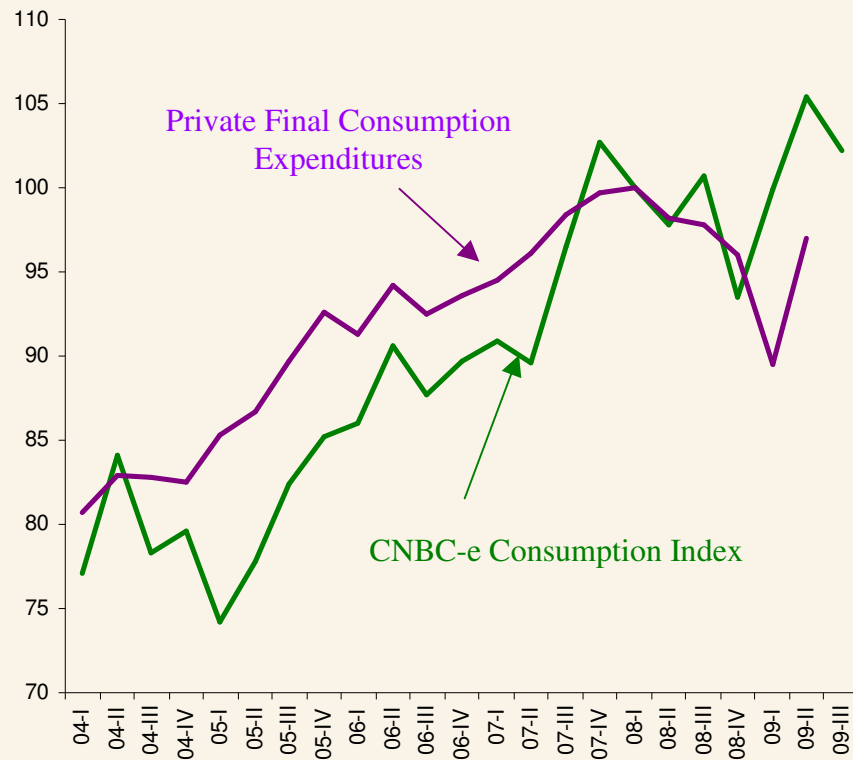
Source: TURKSTAT, CBT



Private Consumption

Consumption Expenditures*

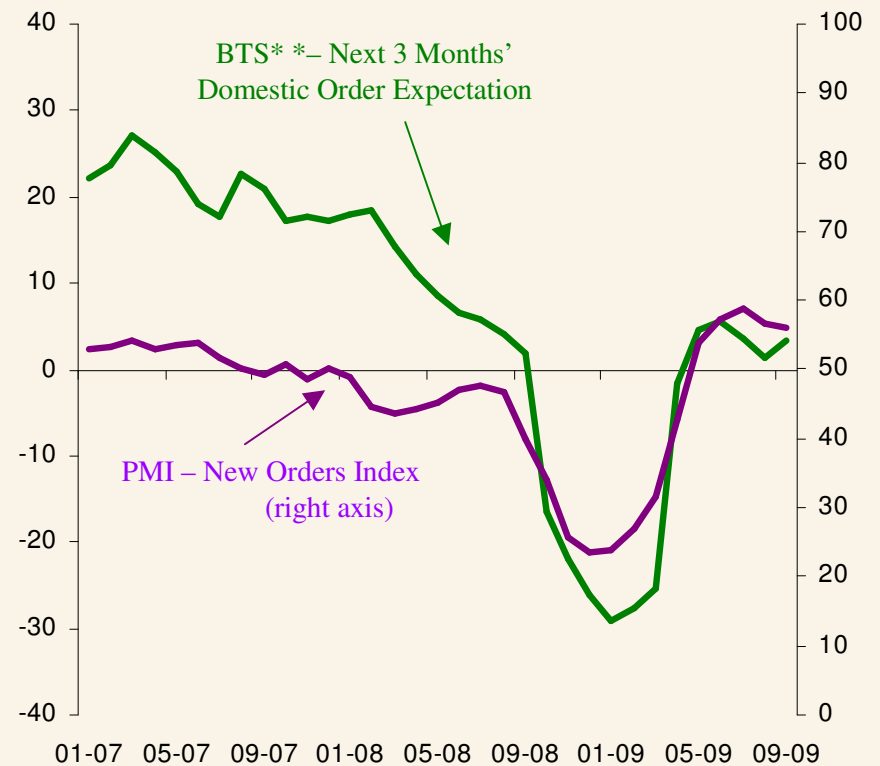
(2004 Q1 – 2009 Q3, percent, 2008 Q1 =100)



*Seasonally adjusted
Source: CNBC, TURKSTAT, CBT

Demand Indicators*

(Jan 2007 – Sep 2009)

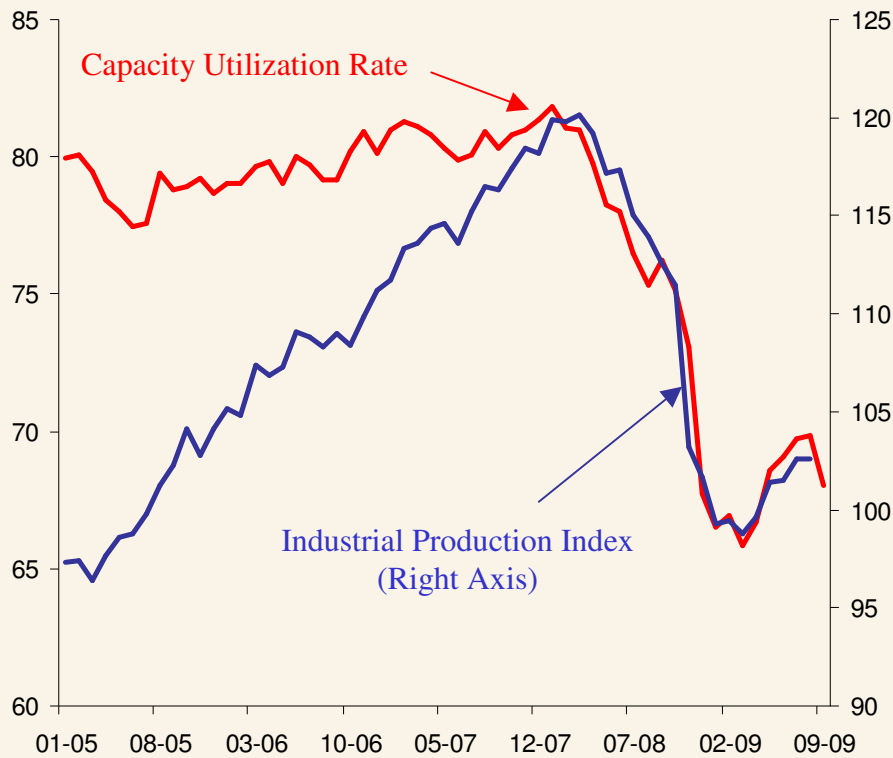


*Seasonally adjusted
**Business Tendency Suurvey
Source: Bloomberg, CBT

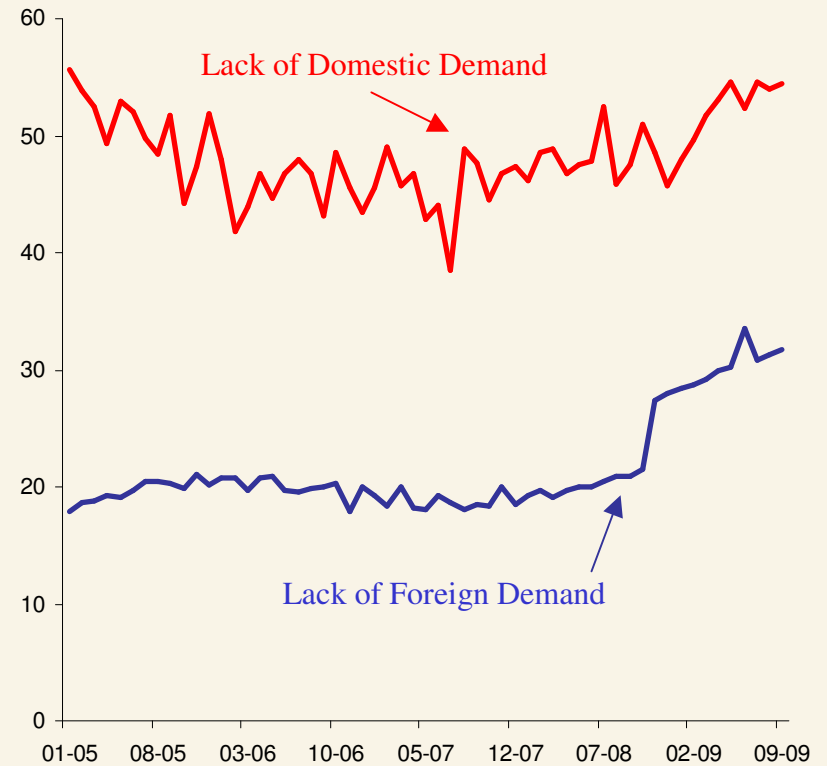


Production Developments

Industrial Production Index* (Jan 2005 – Aug 2009)
Capacity Utilization Rate* (Jan 2005 – Sep 2009)



Reasons for Operating Under Full Capacity
(Jan 2005 – Sep 2009, Percent Share)



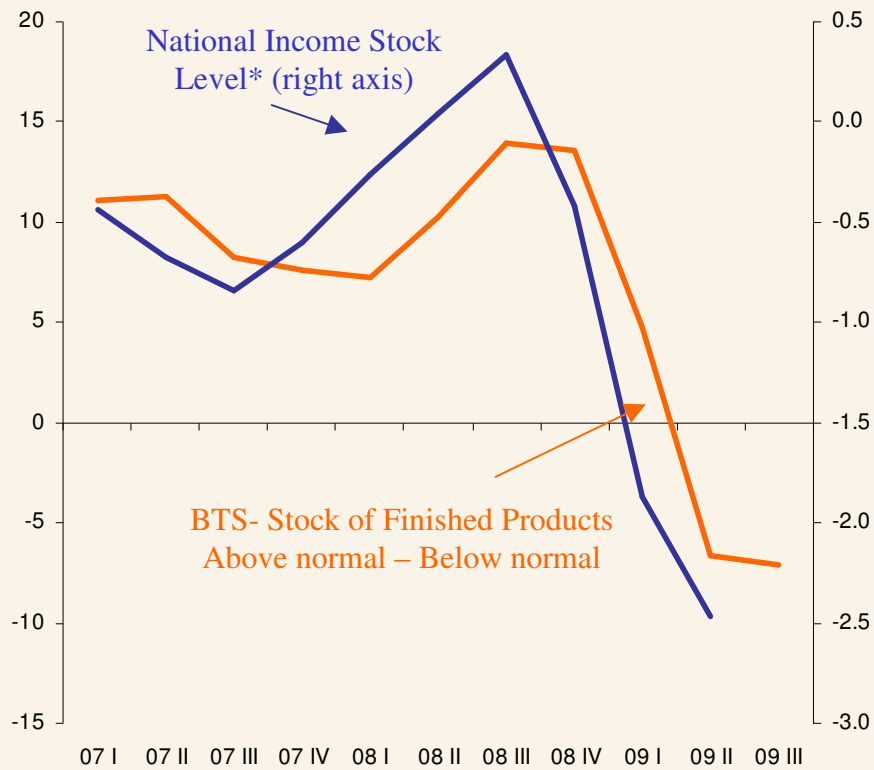
* Seasonally adjusted.
Source: TURKSTAT, CBT

Source: CBT



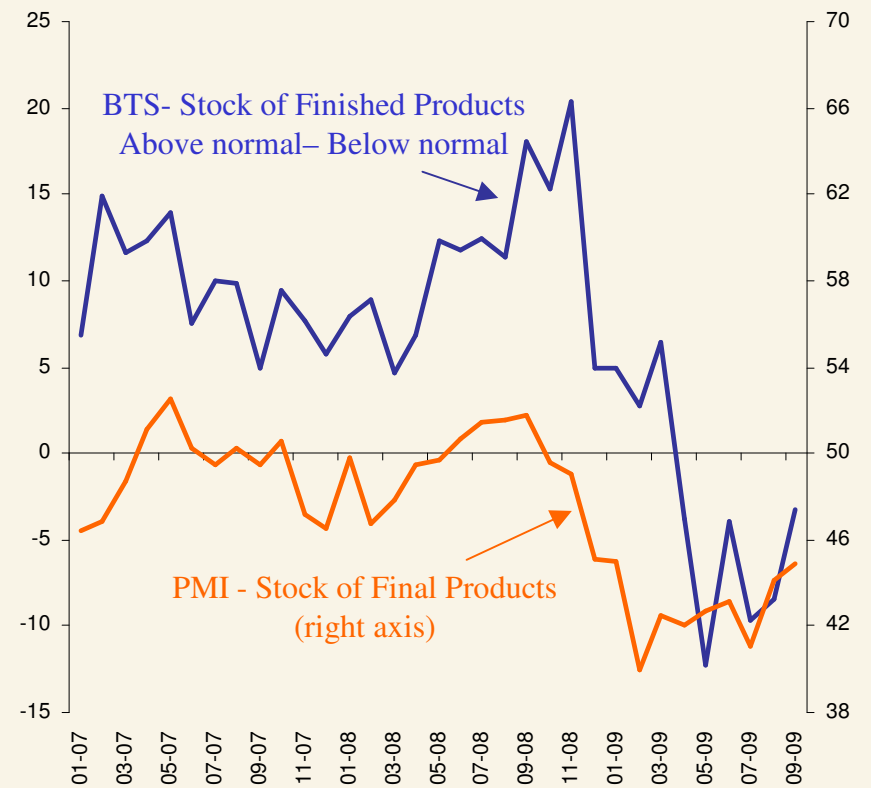
Stocks

Stock Level and Expectations
(2007 Q1 – 2009 Q3)



* Seasonally adjusted
Source: TURKSTAT, CBT

Expectations of the Stock of Finished Products
(Jan 2007– Sep 2009)

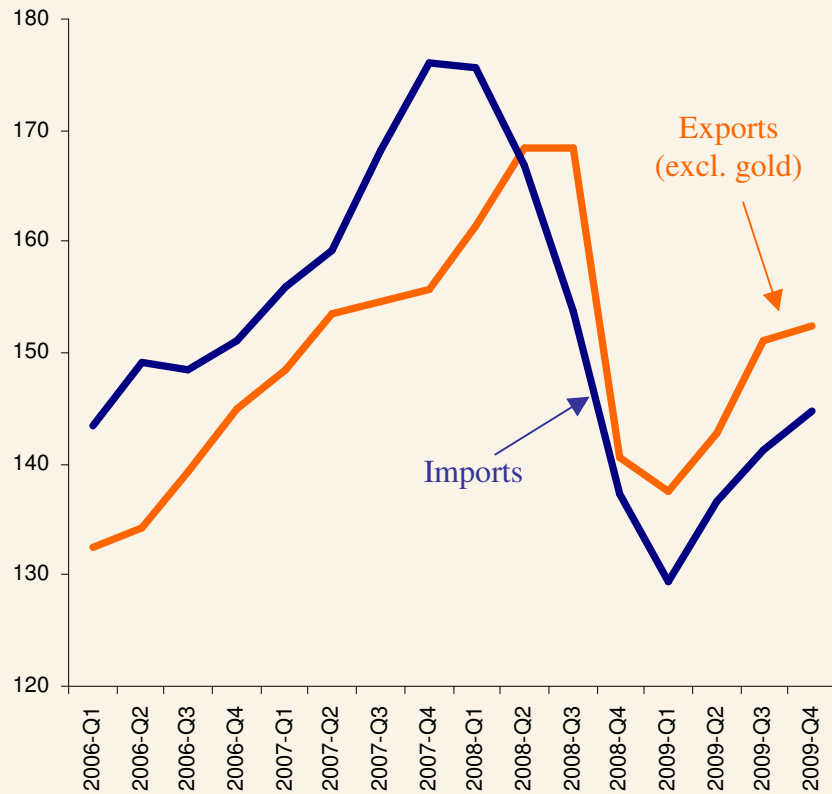


Source: Bloomberg, CBT

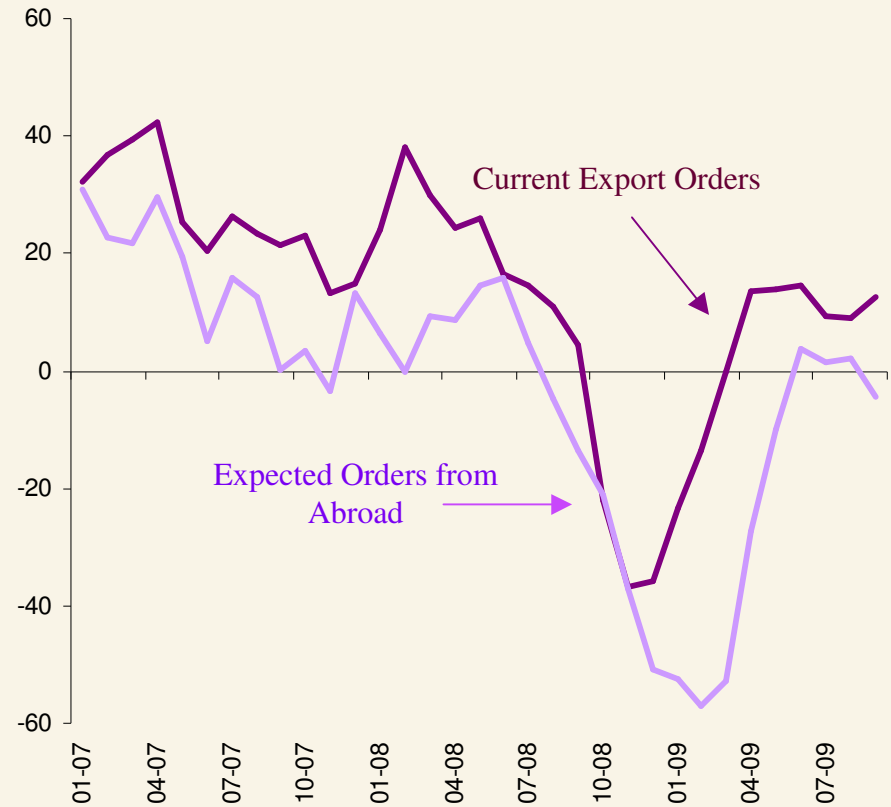


Foreign Demand

Real Exports and Imports*
(2006 Q1–2009 Q4**, 2003=100)



Export Expectations*
(Jan 2007 – Sep 2009)



*Seasonally adjusted for working days

** As of October 2009

Source: TURKSTAT, CBT

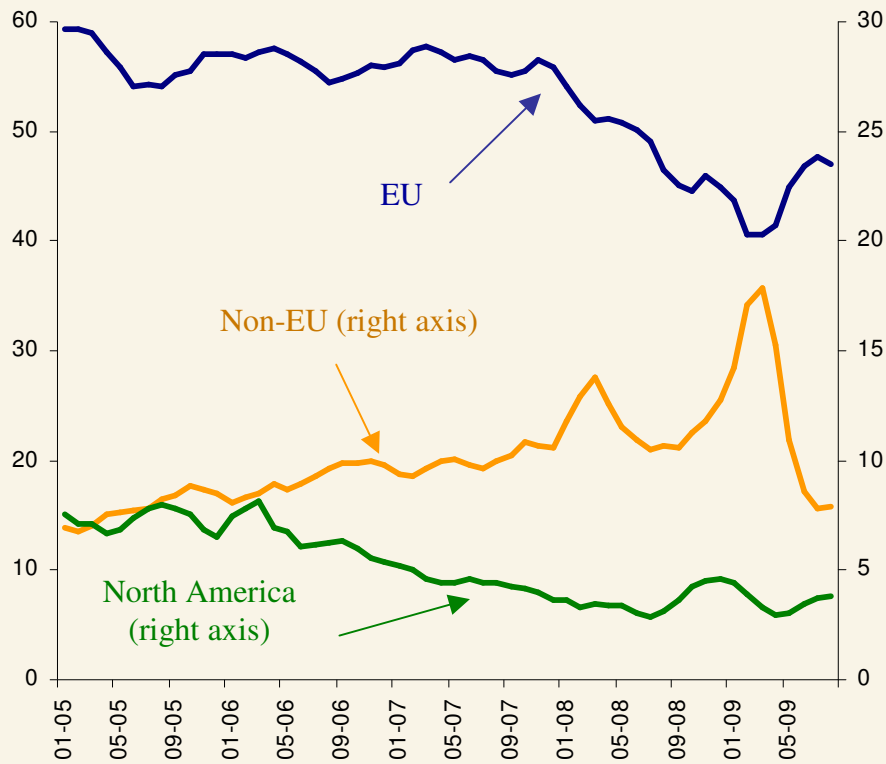
* Difference between increase and decrease in the Business Tendency Survey

Source: TURKSTAT, CBT



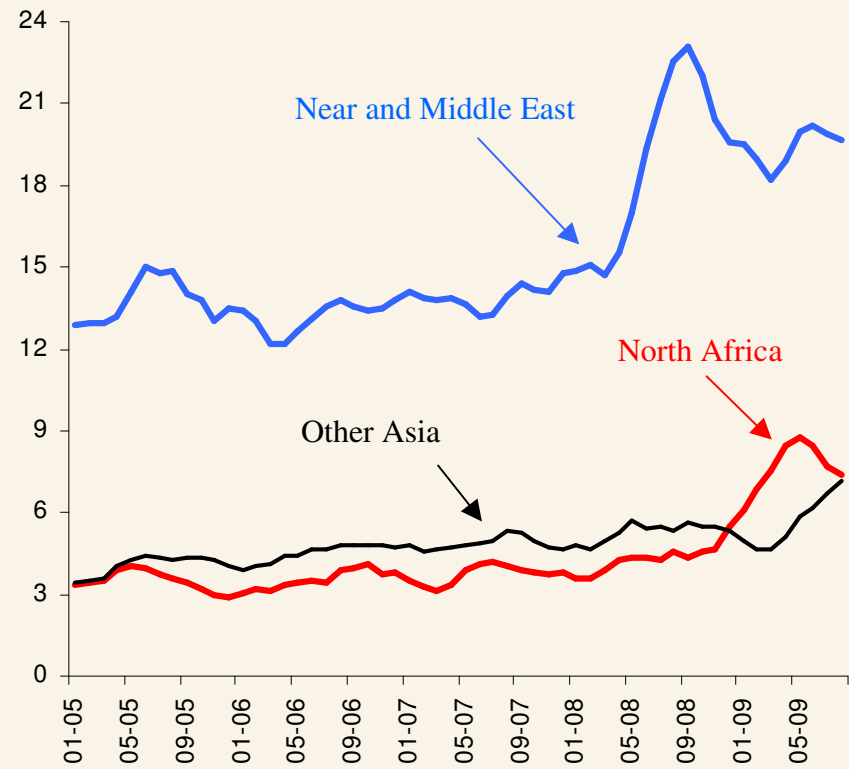
Foreign Demand

Turkey's Selected Export Markets
(Jan 2005 – Aug 2009, percentage share)



Source: TURKSTAT, CBT

Turkey's Selected Export Markets
(Jan 2005 – Aug 2009, percentage share)

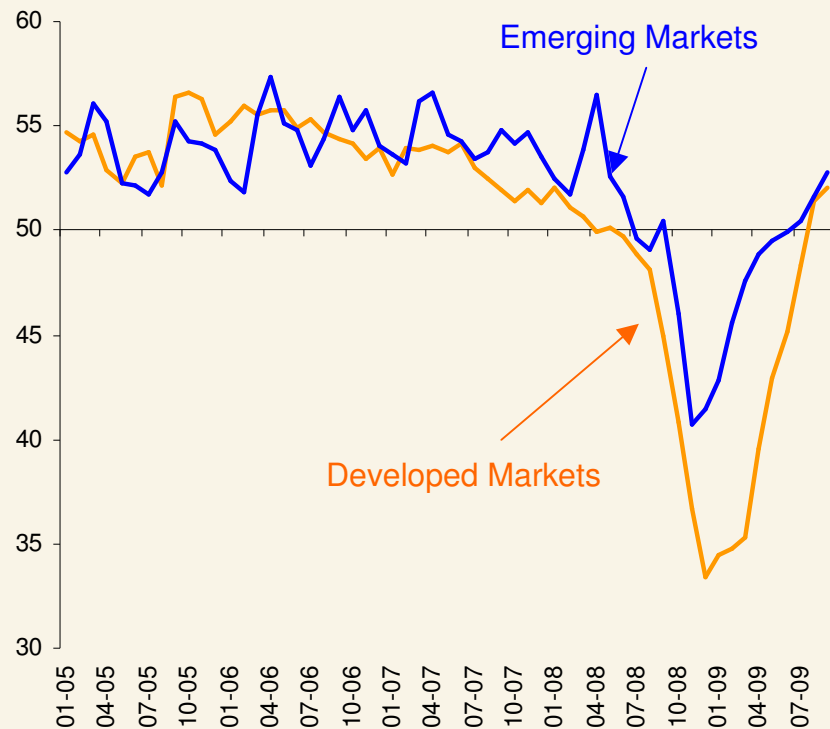


Source: TURKSTAT, CBT



Recovery Signs

PMI in Developed and Emerging Markets
(Jan 2005 – Sep 2009)



Source: Bloomberg, CBT

PMI Realizations in Emerging Markets
(Jun 2009 – Sep 2009)

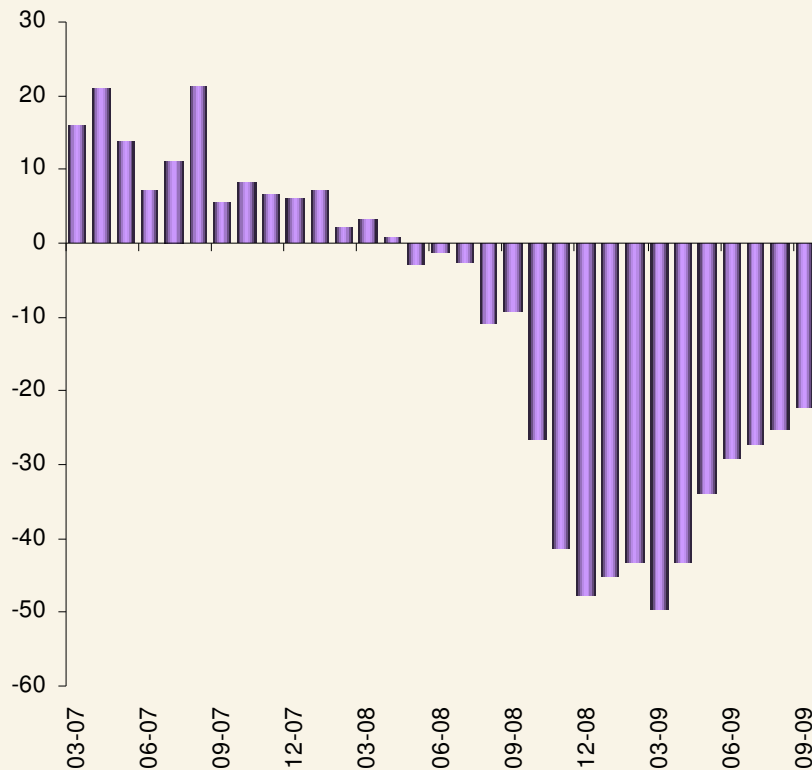
	June	July	August	September
<i>India</i>	55.3	55.3	53.2	55.0
<i>China</i>	53.2	53.3	54.0	54.3
<i>Turkey</i>	53.9	54.0	53.7	53.3
<i>Brazil</i>	48.1	48.0	50.6	52.3
<i>Russia</i>	47.3	48.4	49.6	52.0
<i>Mexico</i>	48.2	50.0	51.5	51.6
<i>Czech Rep.</i>	41.9	43.4	47.0	49.5
<i>Hungary</i>	45.8	49.2	45.8	49.0
<i>S.Africa</i>	39.3	37.3	39.3	48.0

Source: Bloomberg, CBT



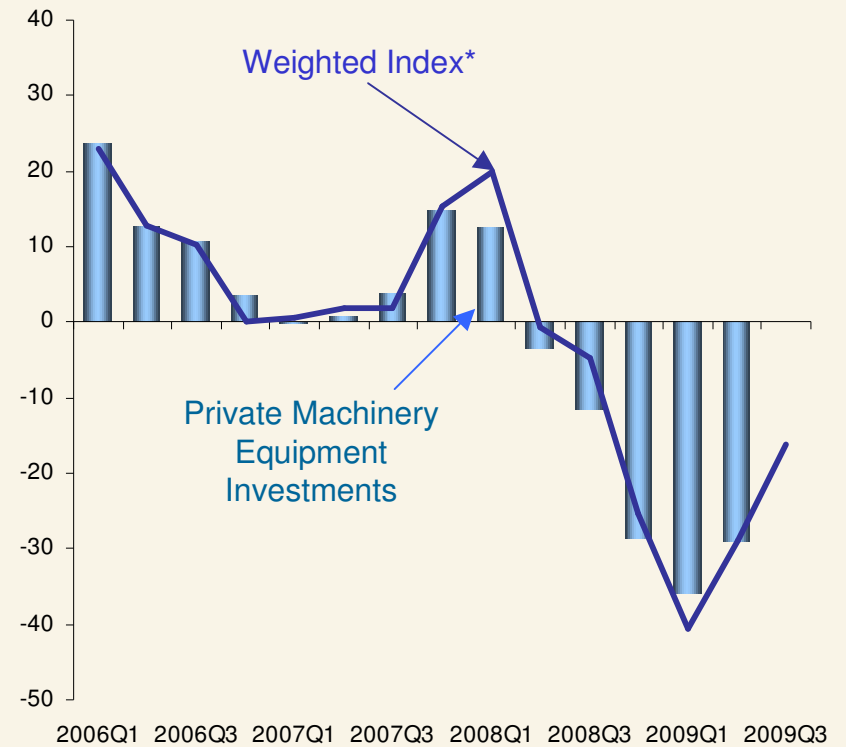
Investment Expectations

Expectations of Fixed Capital Investment Expenditure*
(Mar 2007 – Sep 2009)



* Seasonally adjusted
Source: TURKSTAT, CBT

Investment Indicators
(2006 Q1 – 2009 Q3, annual percentage change)

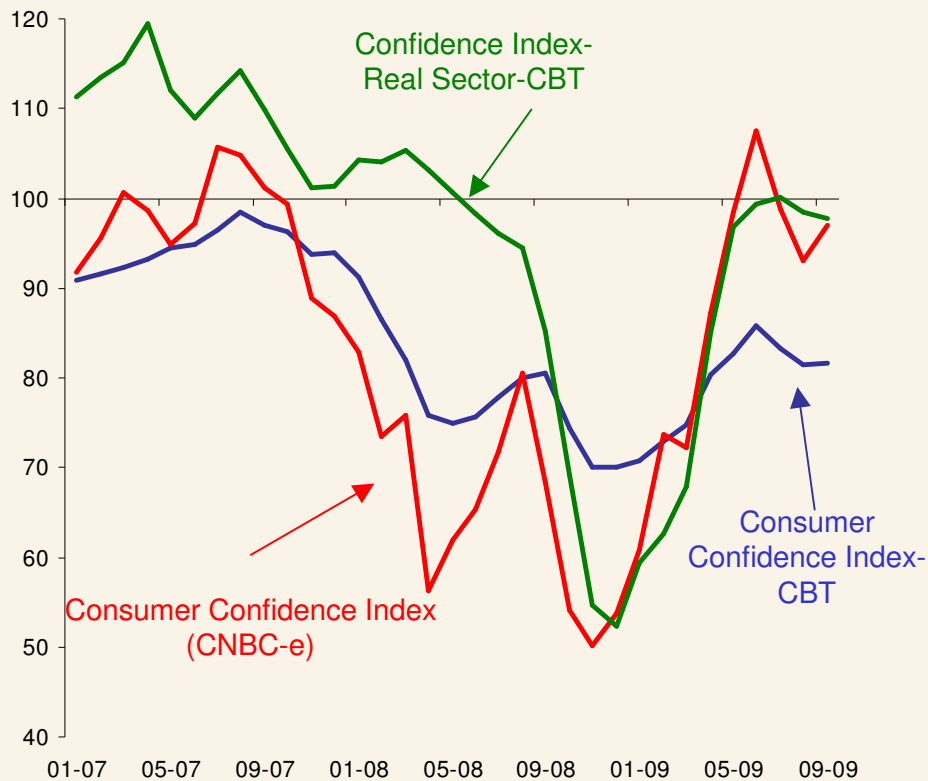


*Index components: Data on production, imports and exports of capital goods
Source: TURKSTAT, CBT



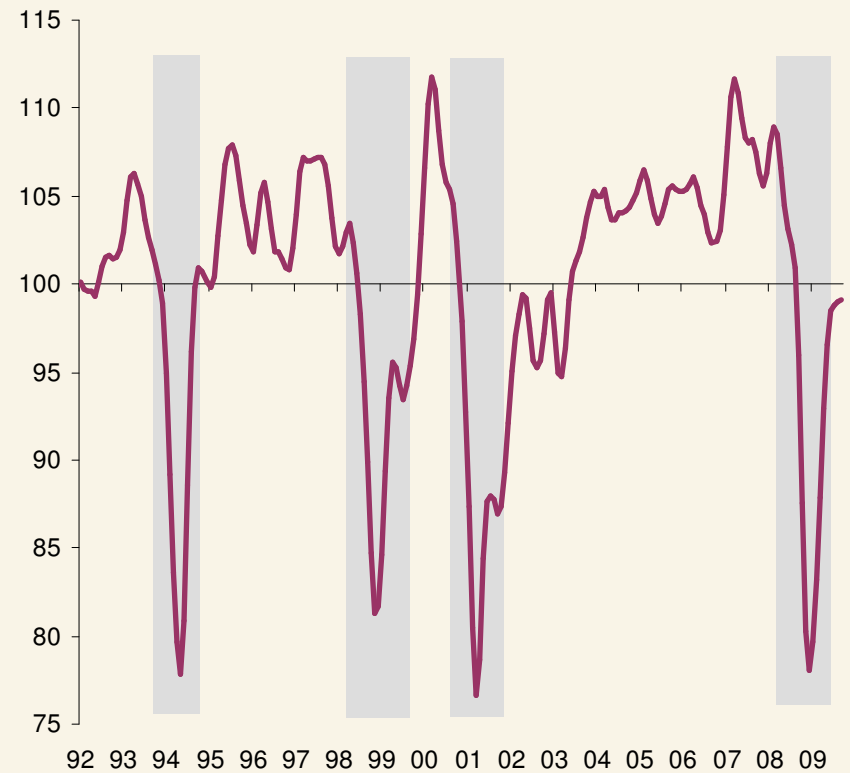
Confidence Indices and Leading Indicators

Corporate Sector and Consumer Confidence Indices
(Jan 2007 – Sep 2009)



Source: CNBC-e, TURKSTAT, CBT

Leading Indicators
(Jan 1992 – Sep 2009)

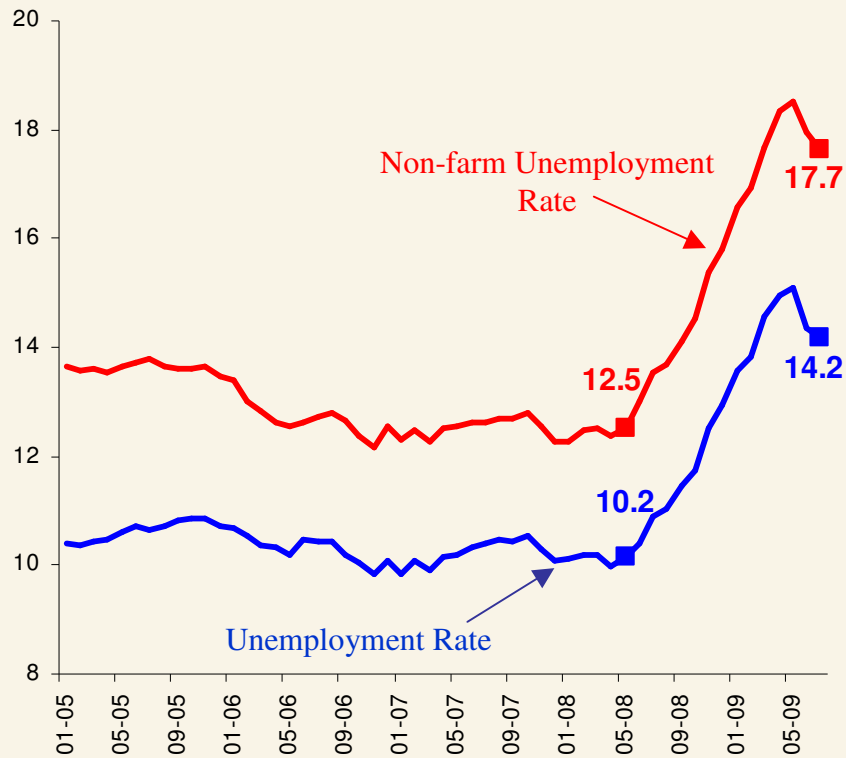


Source: CBT



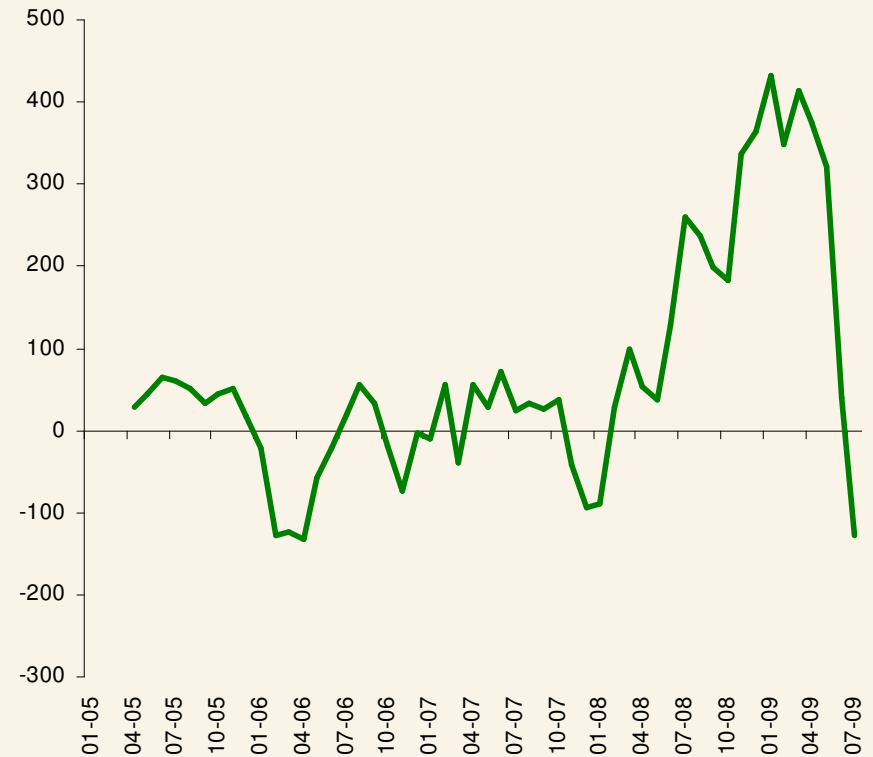
Employment

Unemployment Rates*
(Jan 2005 - Jul 2009, percent)



*Seasonally adjusted
Source: TURKSTAT, CBT

Change in the Number of Non-farm Unemployment*
(Jan 2005 - Jul 2009, quarterly change, thousand)

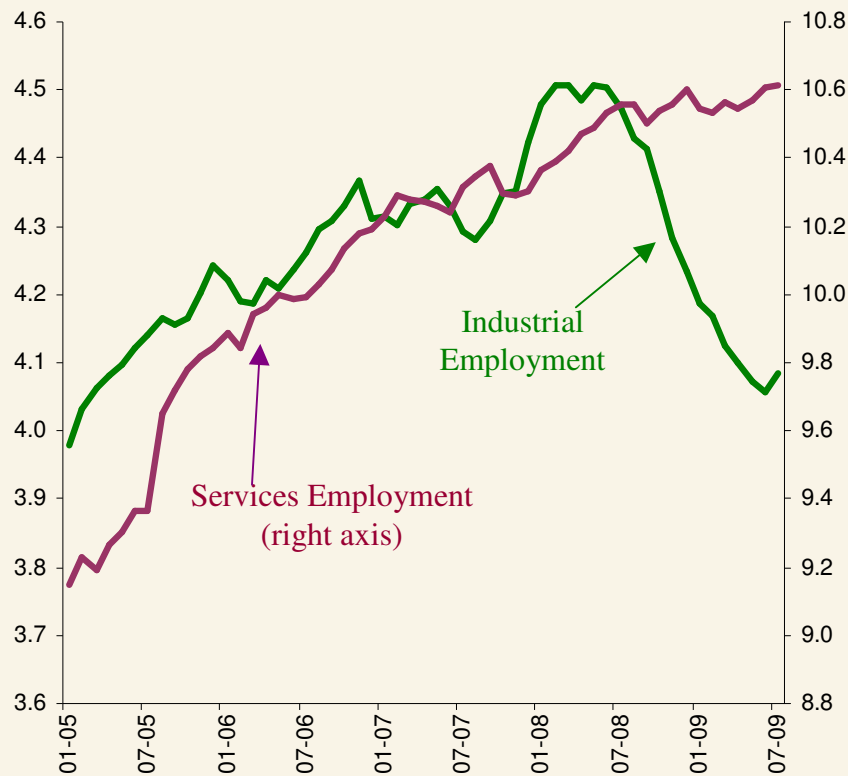


*Seasonally adjusted
Source: TURKSTAT, CBT



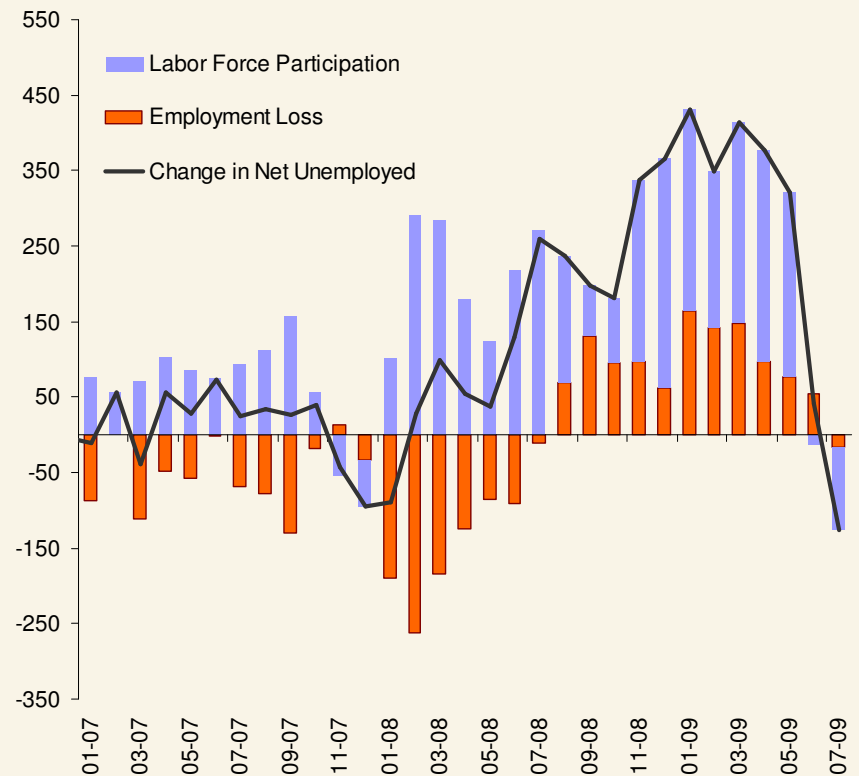
Employment

Employment in Industrial and Services Sectors*
(Jan 2005 - Jul 2009, million)



*Seasonally adjusted
Source: TURKSTAT, CBT

Number of Non-Farm Unemployed*
(Jan 2007 - Jul 2009, quarterly change, thousand)

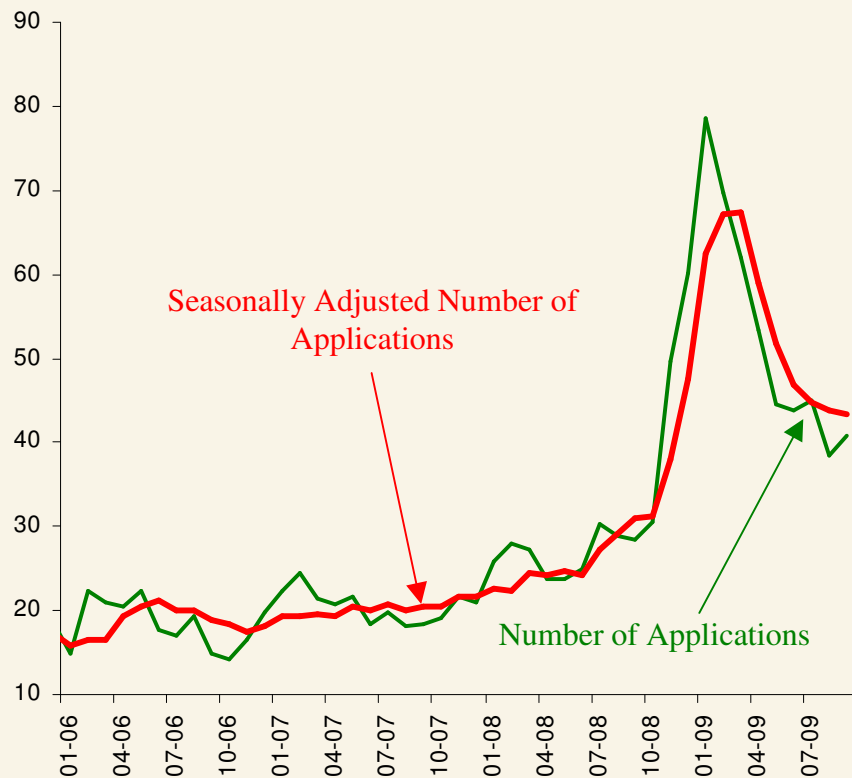


*Seasonally adjusted
Source: TURKSTAT, CBT



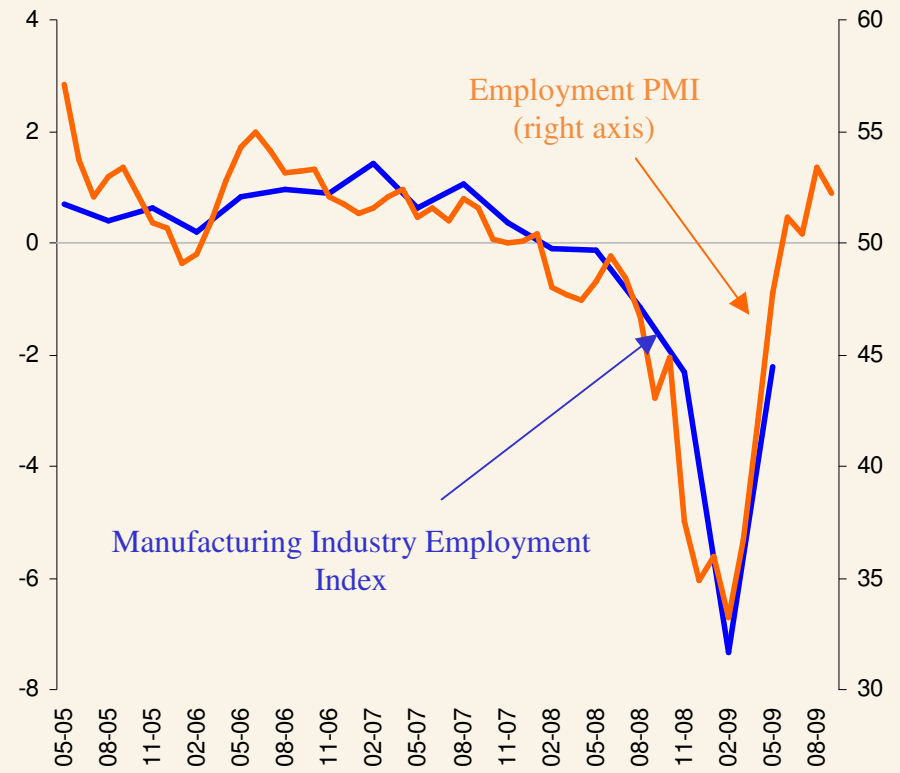
Employment

Applications for Unemployment Benefits
(Jan 2006 - Aug 2009, Thousand)



Source: TURKSTAT, CBT

Manufacturing Industry Employment Index and Employment PMI
(May 2005 - Sep 2009, quarterly percentage change)

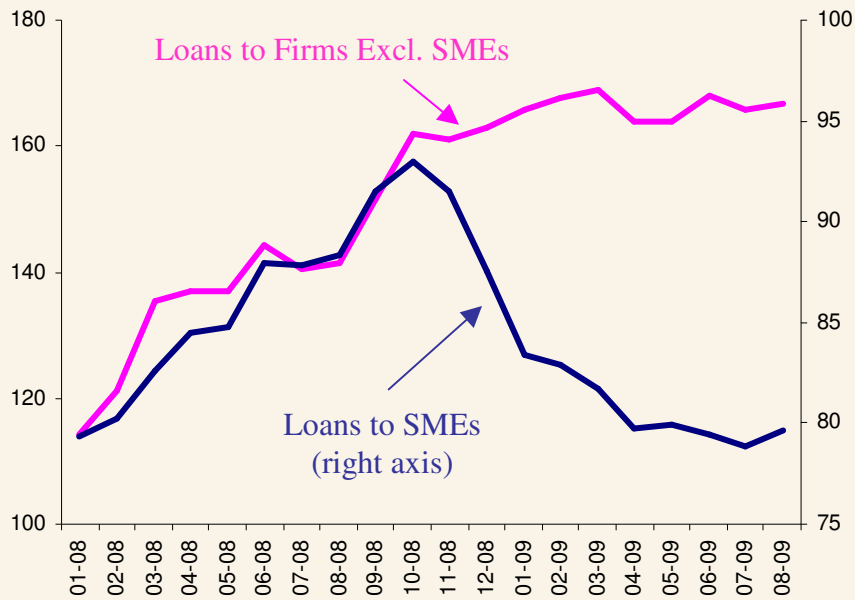


Source: Bloomberg, TURKSTAT, CBT



Commercial Loans

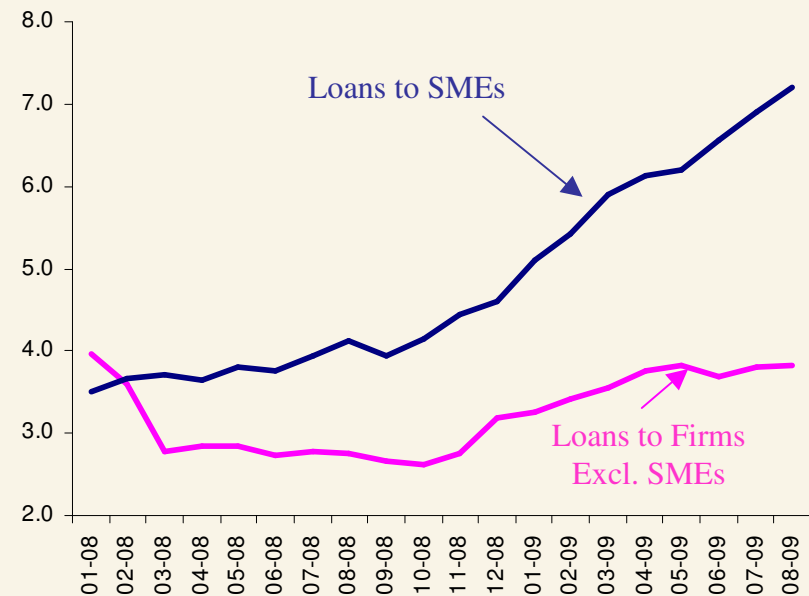
Loans Extended to Firms and SMEs
(Jan 2008 – Aug 2009, billion TRY)



Billion TRY	Loans to SMEs	Loans to Firms Excl. SMEs
08-08	88.3	141.4
08-09	79.7	166.9

Source: BRSA, CBT

NPL Ratio of Loans to Firms and SMEs
(Jan 2008 – Aug 2009, percent)



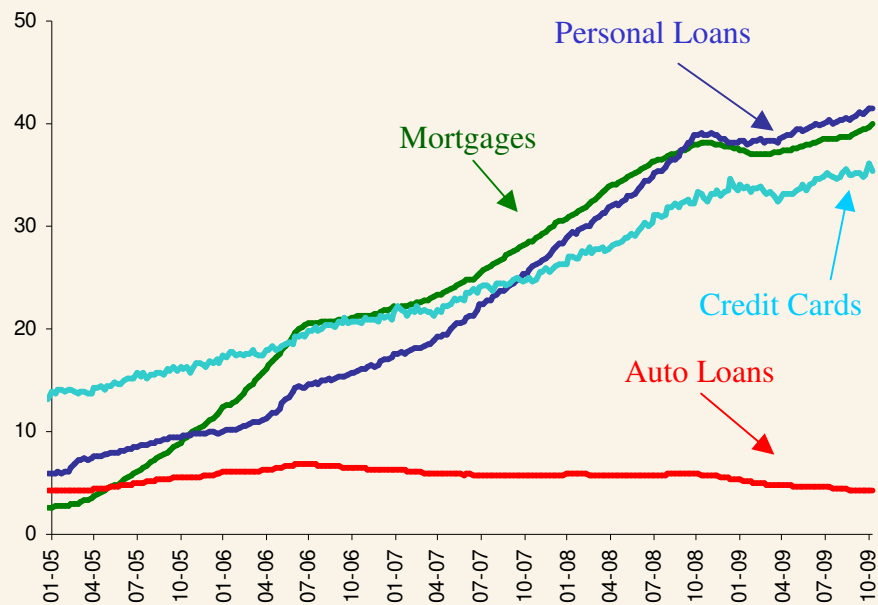
Percent	Loans to SMEs	Loans to Firms Excl. SMEs
08-08	4.1	2.8
08-09	7.2	3.8

Source: BRSA, CBT



Consumer Loans

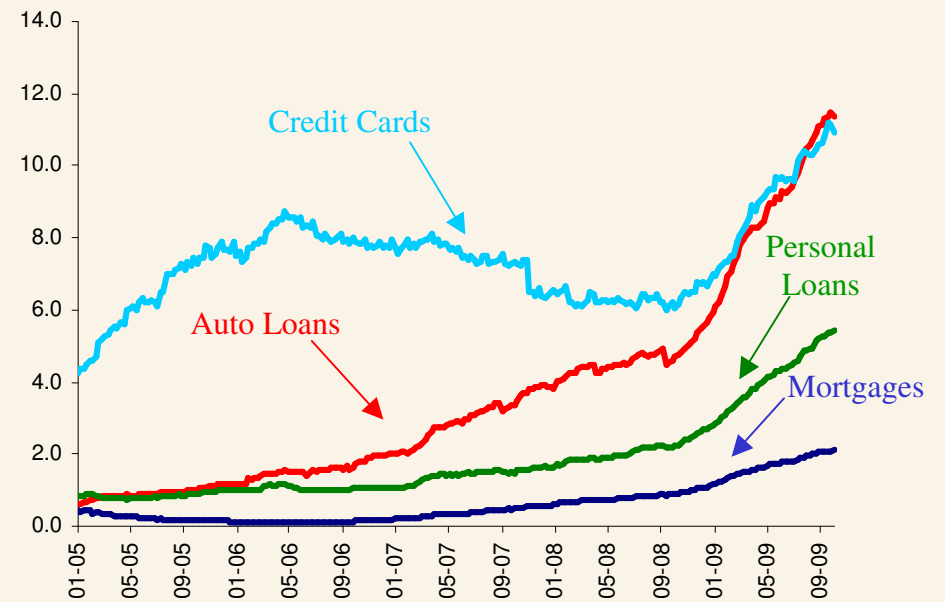
Sub-items of Consumer Loans
(Jan 2005 – Oct 2009, billion TRY)



Billion TRY	TOTAL	Mortgages	Automobiles	Personal Loans	Credit Cards
10-07	86.1	29.0	5.7	26.5	24.9
10-08	115.3	38.2	5.7	39.1	32.3
10-09	120.3	39.9	4.3	41.5	34.5

Source: BRSA, CBT

Ratio of Non-Performing Consumer Loans
(Jan 2005 – Oct 2009, percent)



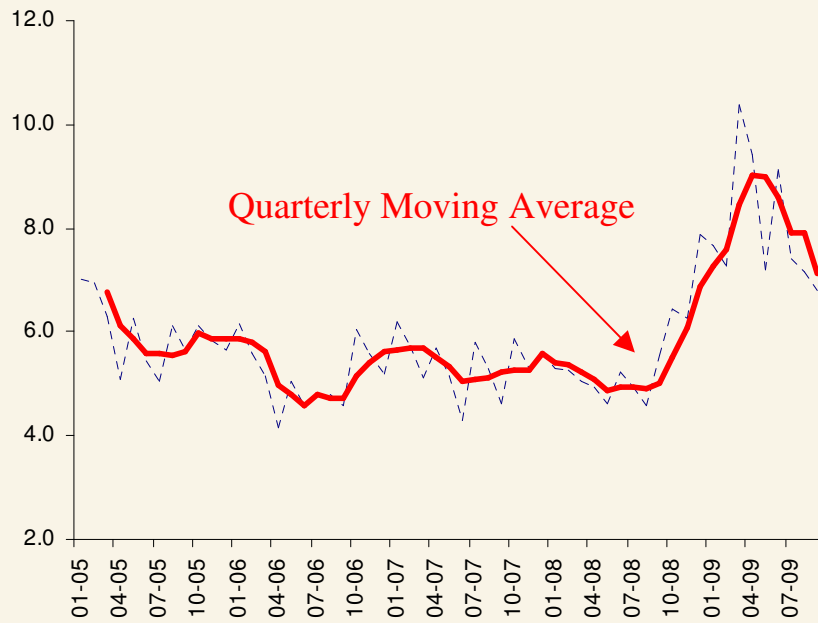
Percent	TOTAL	Mortgages	Automobiles	Personal Loans	Credit Cards
10-07	3.0	0.5	3.5	1.6	7.3
10-08	3.1	0.9	4.7	2.3	6.2
10-09	6.3	2.1	11.6	5.6	11.3

Source: BRSA, CBT



Commercial Activities

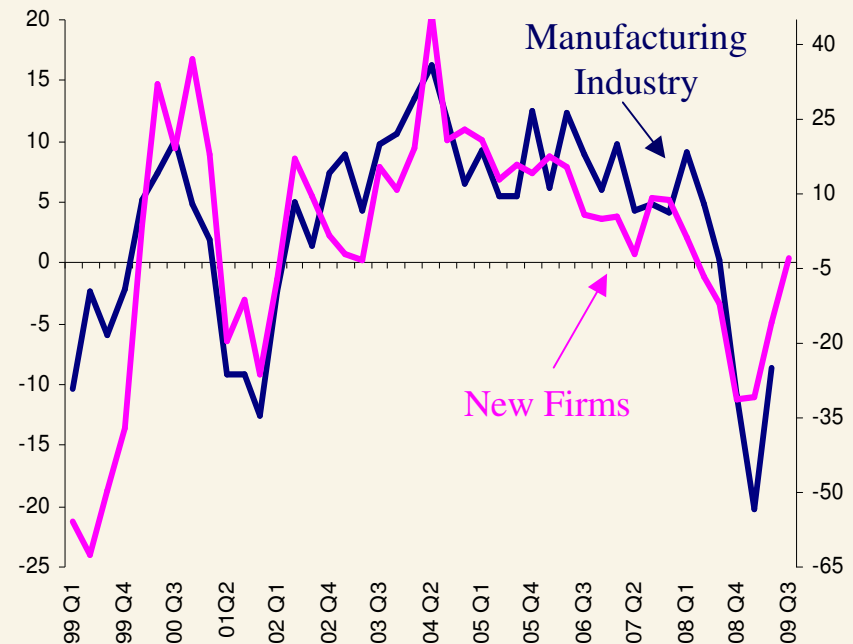
Ratio of the Number of Bad Cheques to Total Cheques
(Jan 2005 – Sep 2009, percent)



2006	2007	08-III	08-IV	09-I	09-II	09-III
5.14	5.39	5.01	6.87	8.44	8.58	7.13

Source: ICHC , CBT

Number of New Firms and Manufacturing Industry
(1999 Q1 – 2009 Q3, annual percentage change)



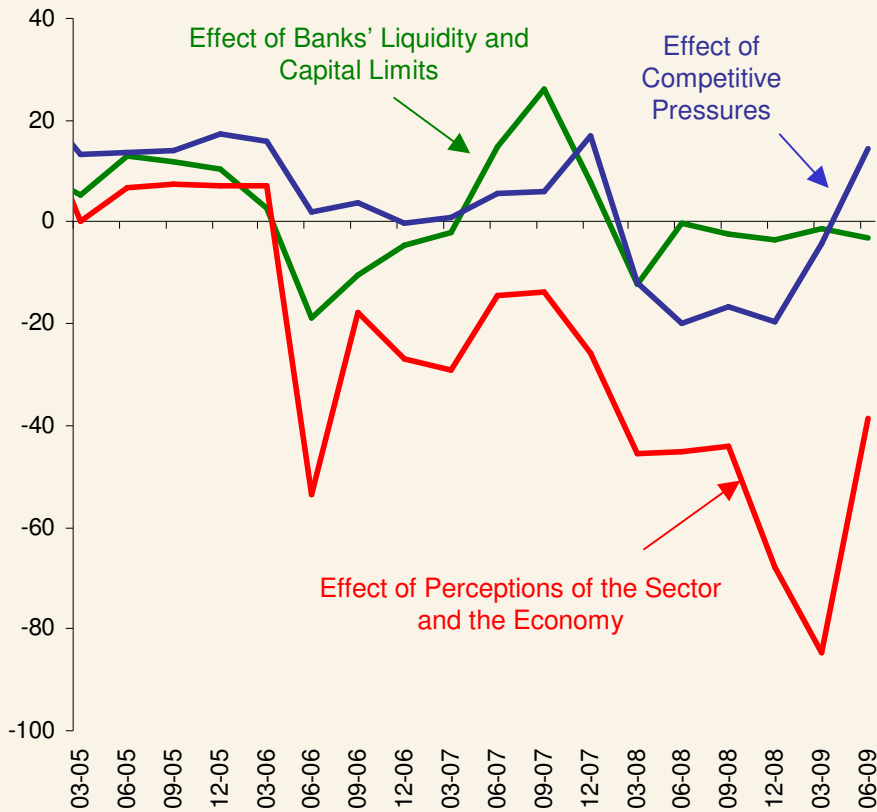
Percentage Change	07	08-IV	09-I	09-II	09-III
Manufacturing Industry	5.6	-10.8	-20.2	-8.7	
Newly Founded Firms	5.0	-31.4	-30.6	-15.8	-2.8

Source: TURSTAT, CBT



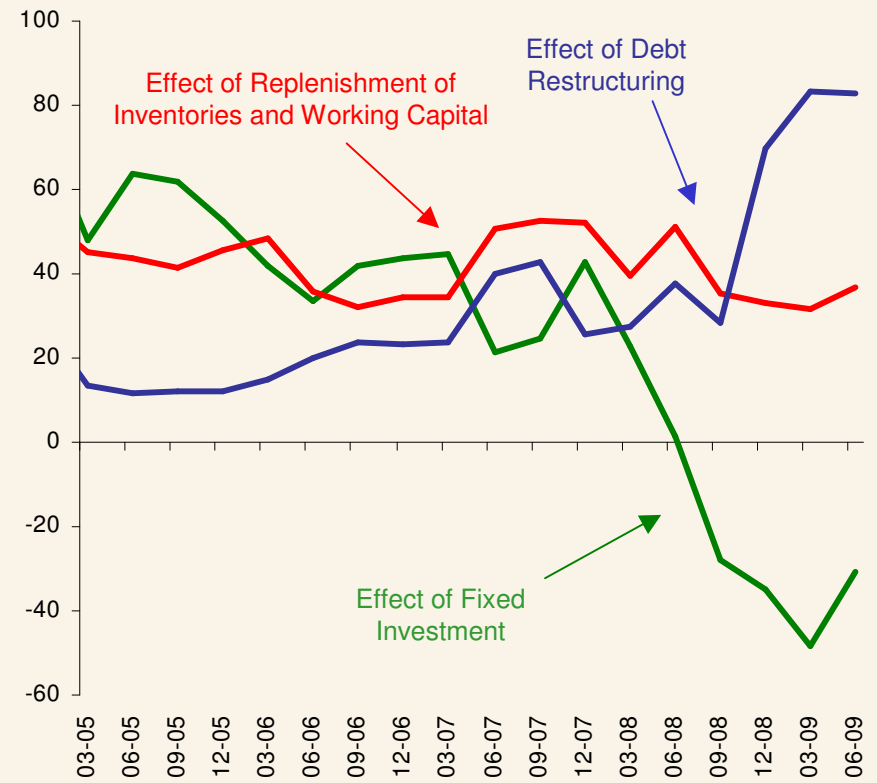
Results of Banks' Loan Tendency Survey

Factors Affecting Credit Supply (Mar 2005- Jun 2009)



Source: CBT

Factors Affecting Credit Demand (Mar 2005- Jun 2009)

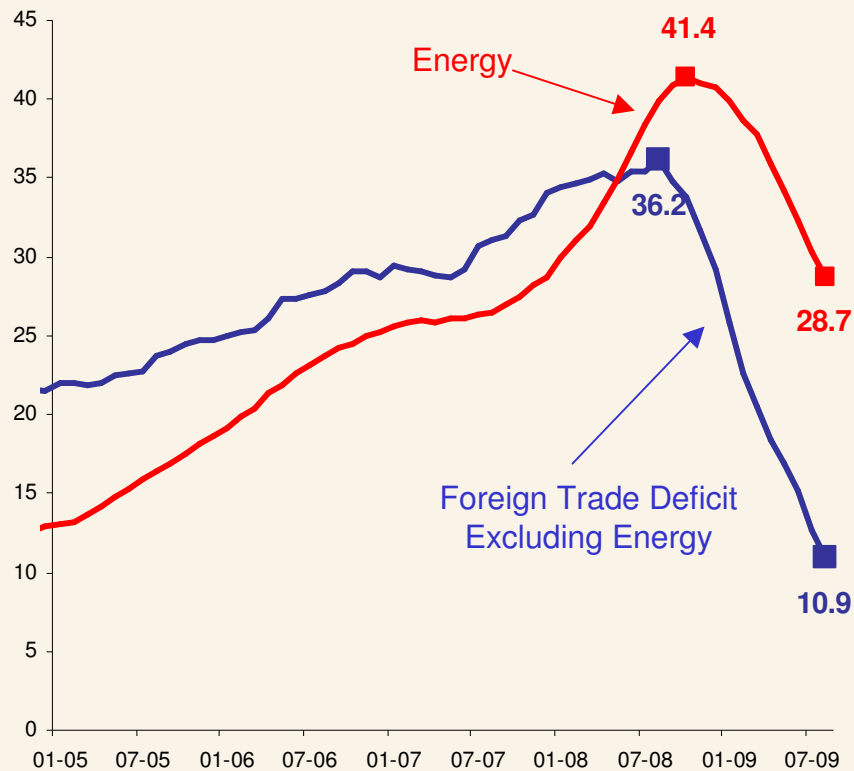


Source: CBT



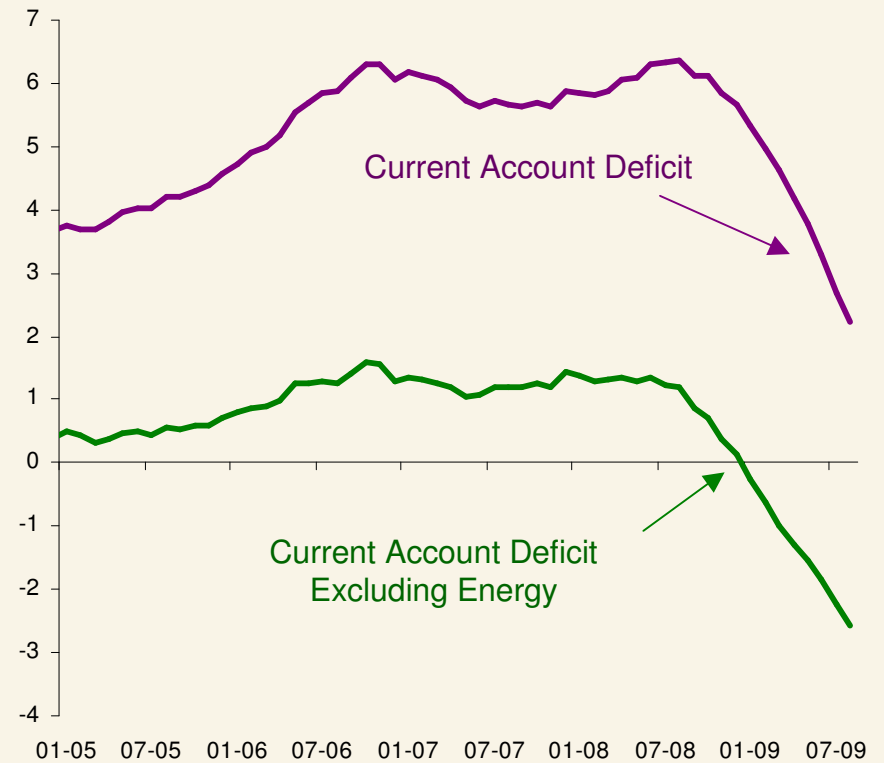
Balance of Payments

Foreign Trade Deficit
(Jan 2005 – Aug 2009, billion USD)



Source: TURKSTAT, CBT

Current Account Balance
(Jan 2005 – Aug 2009, ratio to GDP, percent)



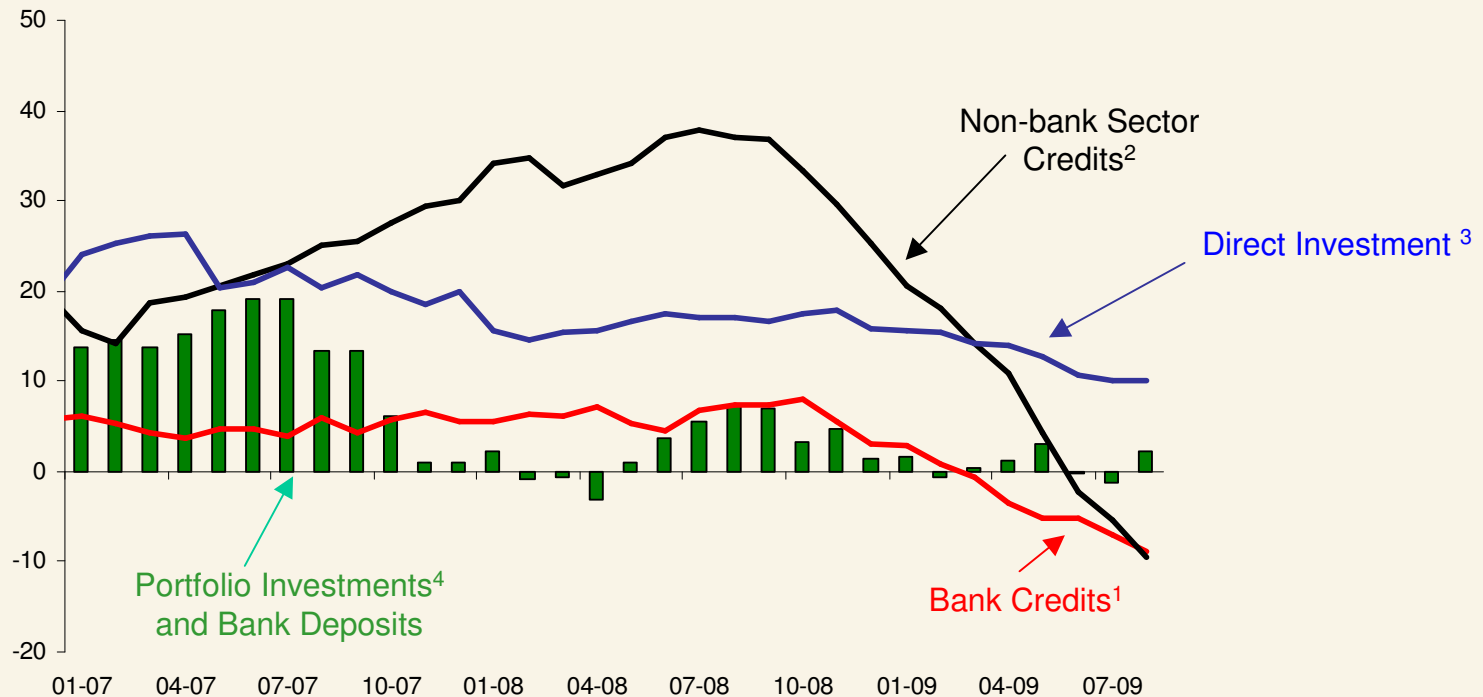
Source: TURKSTAT, CBT



Balance of Payments

Capital Account Figures

(Jan 2007 – Aug 2009, 12 month moving sum, billion US Dollar)



¹ **Bank Credits:** Net credit usage of banking sector from abroad

² **Non-bank Sector Credits:** Net credit usage of non-banking sector from abroad

³ **Direct Investment :** Foreign Direct Investment

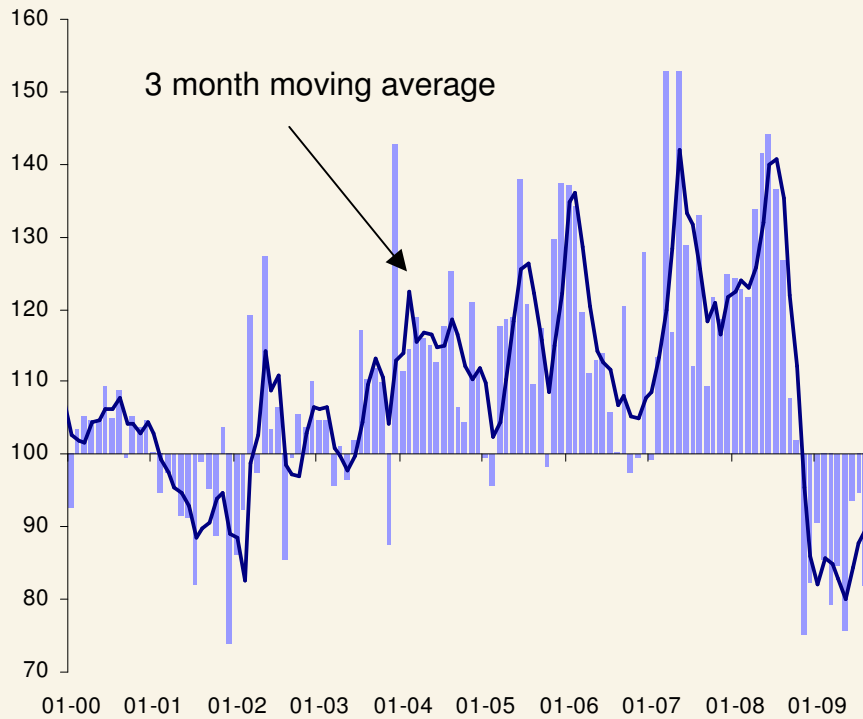
⁴ **Portfolio Investments:** Equity and treasury bill purchases of foreign residents

Source: TURKSTAT, CBT



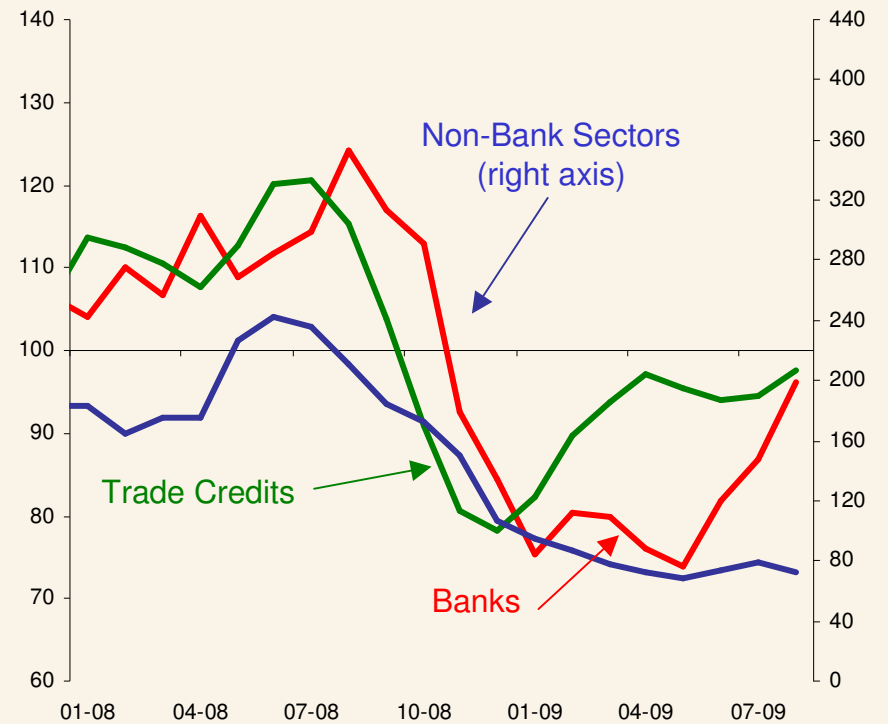
Balance of Payments

Private Sector Debt Rol-over Ratio*
(Jan 2000 – Aug 2009, percent)



*Total of short and long-term commercial, banking sector and other sector credits.
Ratio of External Debt Utilization to capital payments
Source: TURKSTAT, CBT

Private Sector Debt Roll-over Ratio*
(Jan 2008 – Aug 2009, percent)



*Total of short and long-term credits
Ratio of External Debt Utilization to capital payments
•Source: TURKSTAT, CBT



Balance of Payments

Balance of Payments in October 2008- August 2009 period

UTILIZATION	Billion USD
Current Account Balance	-12.3
Portfolio Investments (Equity, debt instruments and bank deposits)	0.0
Loans (Commercial loans, banking sector loans, real sector loans, public sector loans)	-19.1

Source: TURKSTAT, CBT

SOURCE	Billion USD
Net Errors and Omissions	12.6
Foreign Direct Investment	8.8
Other	2.3
Reserve Assets	7.7
(Official reserves)	(5.9)
(FX deposits in banks)	(-2.6)
(FX assets of other sectors)	(4.4)

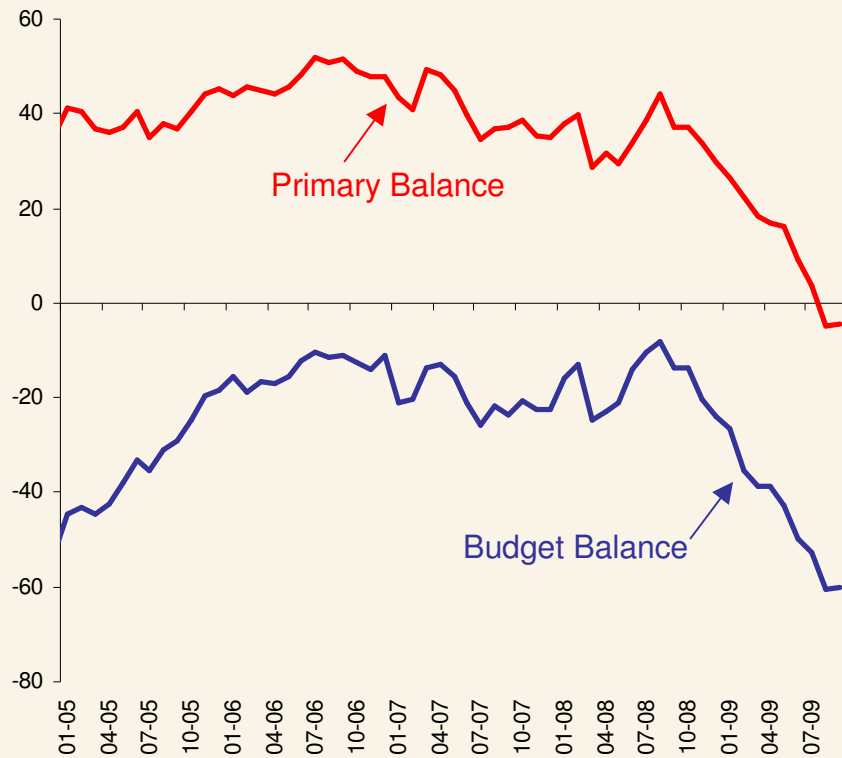
NET ERRORS AND OMISSIONS ITEM

- ✓ FX deposit transfers from abroad to FX accounts in Turkey due to reasons like the Repatriation Amnesty.
- ✓ Conversion of FX savings not registered in the banking sector to Turkish Lira.
- ✓ Foreign currency losses/gains realized during the accounting of FX transactions.



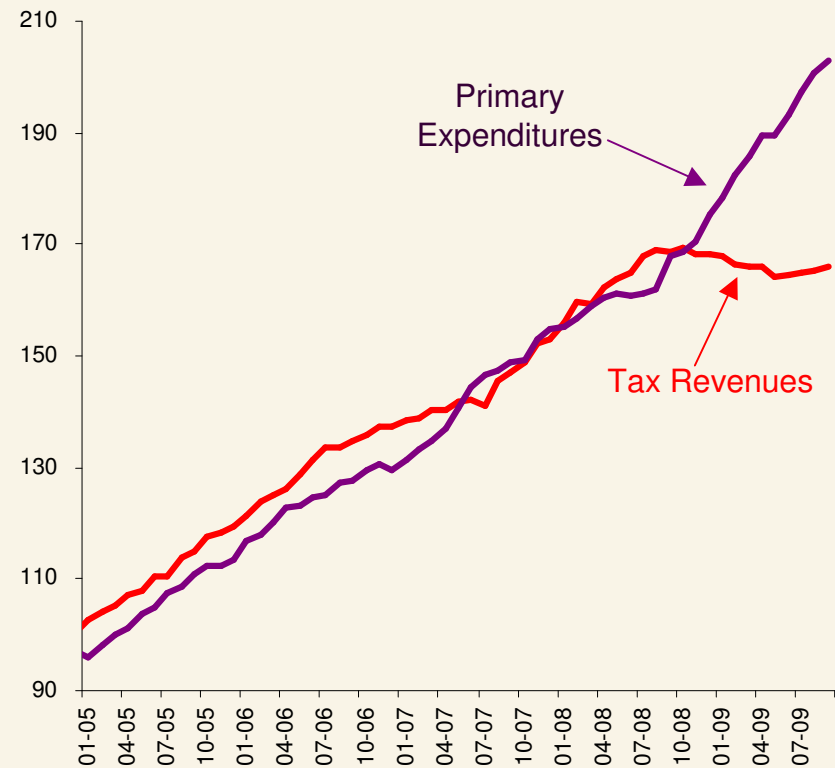
Public Sector

Central Government Budget and Primary Balance
(Jan 2005 – Sep 2009, real 12 month cumulative, billion TRY)



Source: Ministry of Finance, CBT

General Budget Primary Expenditures and Tax Revenues
(Jan 2005 – Sep 2009, real 12 month cumulative, billion TRY)

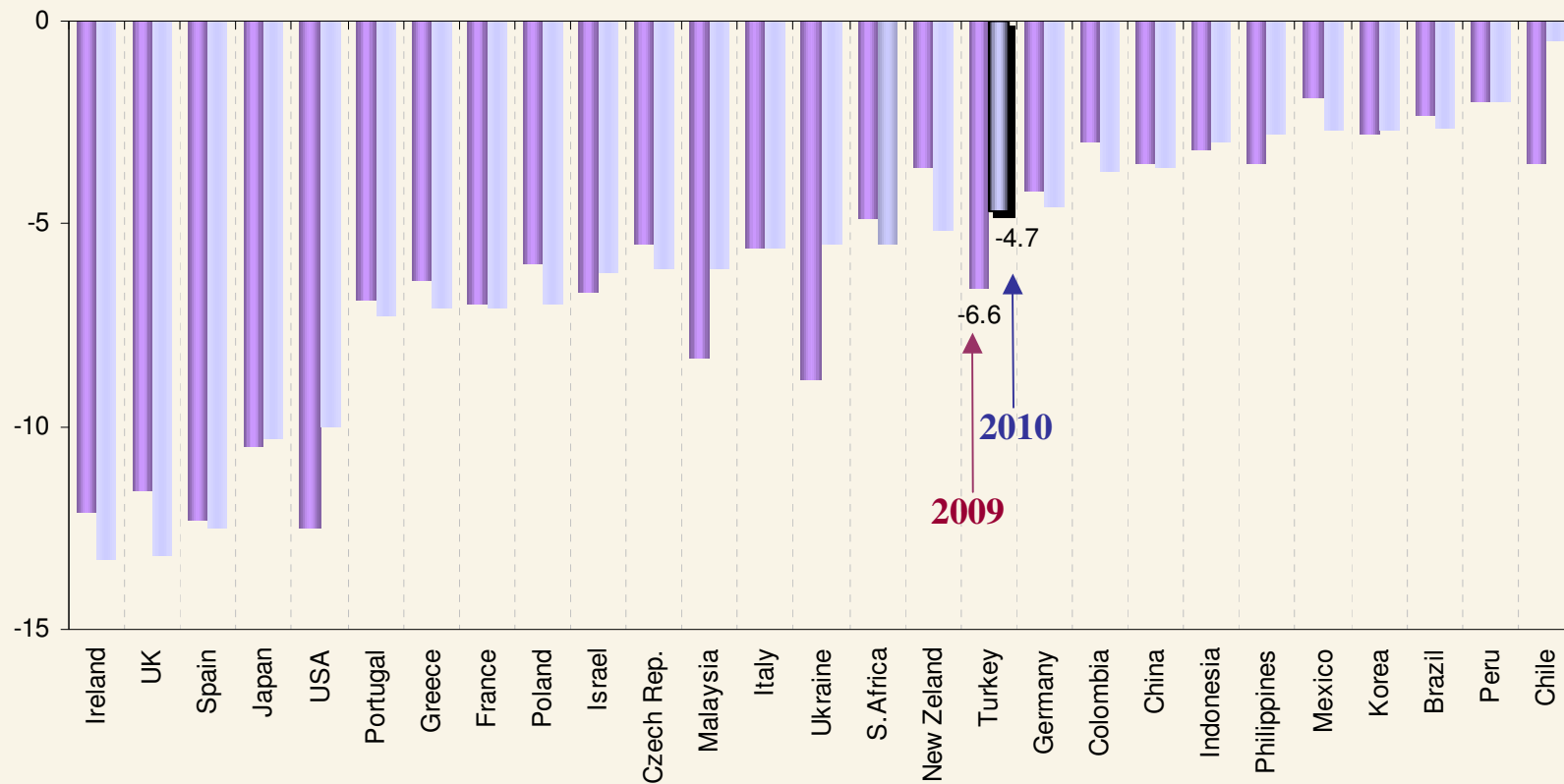


Source: Ministry of Finance, CBT



Public Sector

Budget Deficit Forecasts in Selected Countries*
(2009-2010, Ratio to GDP, percent)

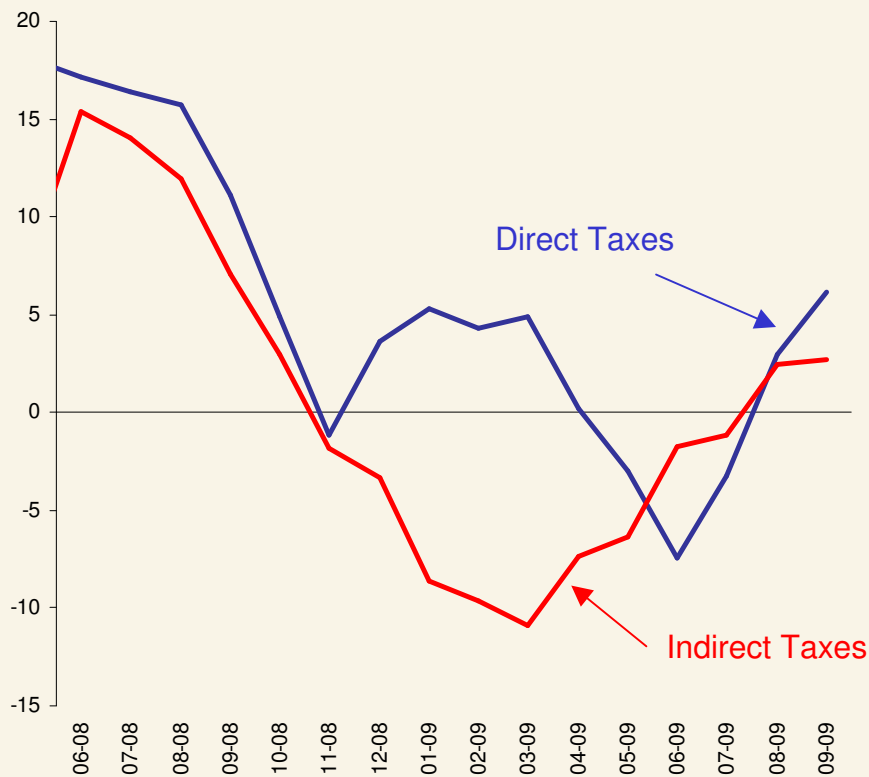


*Medium Term Program forecasts are used for Turkey and IMF forecasts for the rest.
Source: IMF, GS, Treasury, CBT



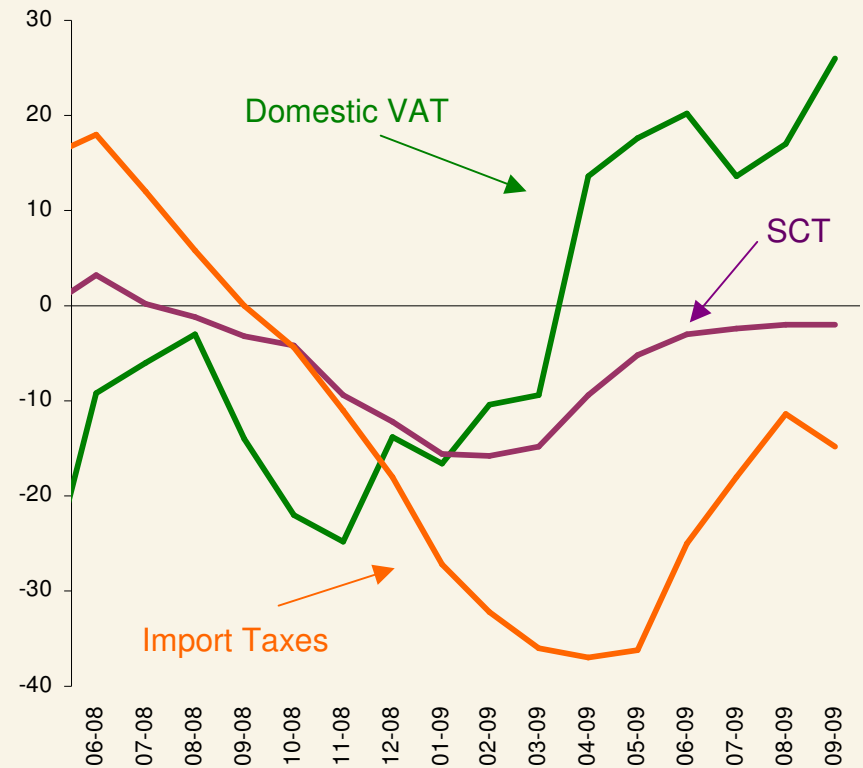
Public Sector

Change in Tax Revenues
(Jun 2008 – Sep 2009, monthly moving average, percent)



Source: Ministry of Finance, CBT

Components of Indirect Tax Revenues
(Jun 2008 – Sep 2009, monthly moving average, percent)



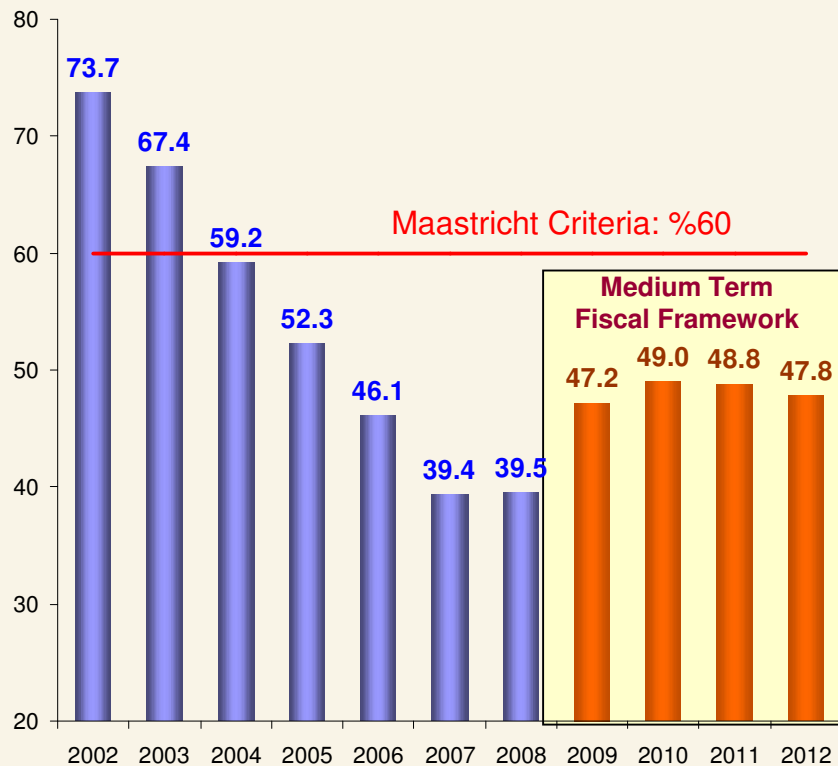
Source: Ministry of Finance, CBT



Public Sector

EU Defined Public Debt Stock and Medium Term Targets

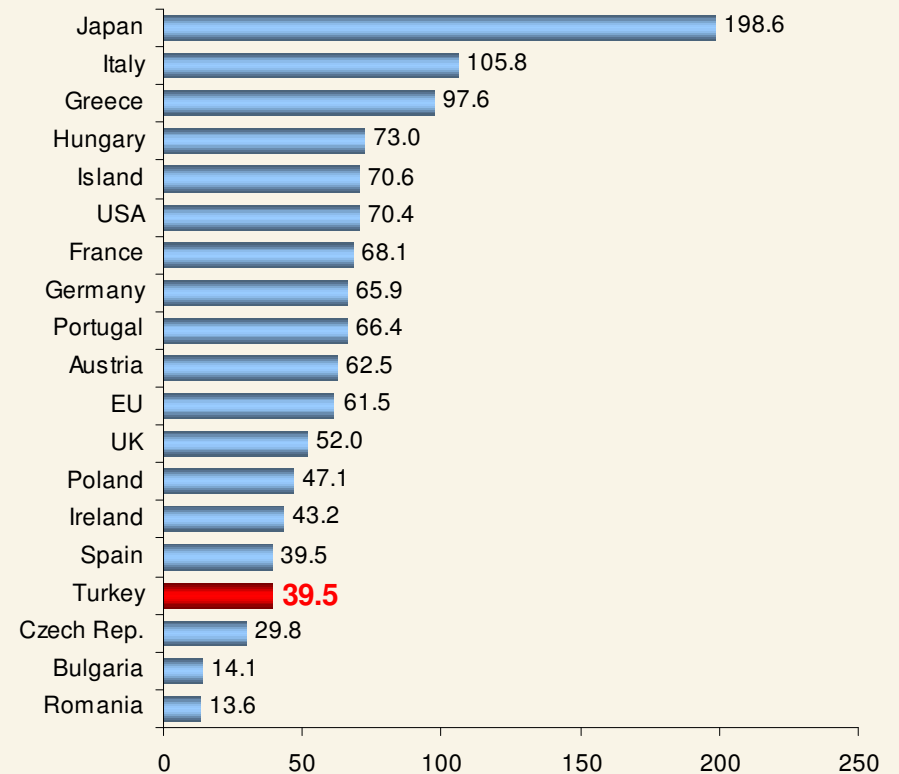
(2002 – 2012, Ratio to GDP, percent)



Source: Treasury

Budget Deficit in Selected Countries

(2008, Ratio to GDP, percent)



Source: EUROSTAT, IMF, CBT

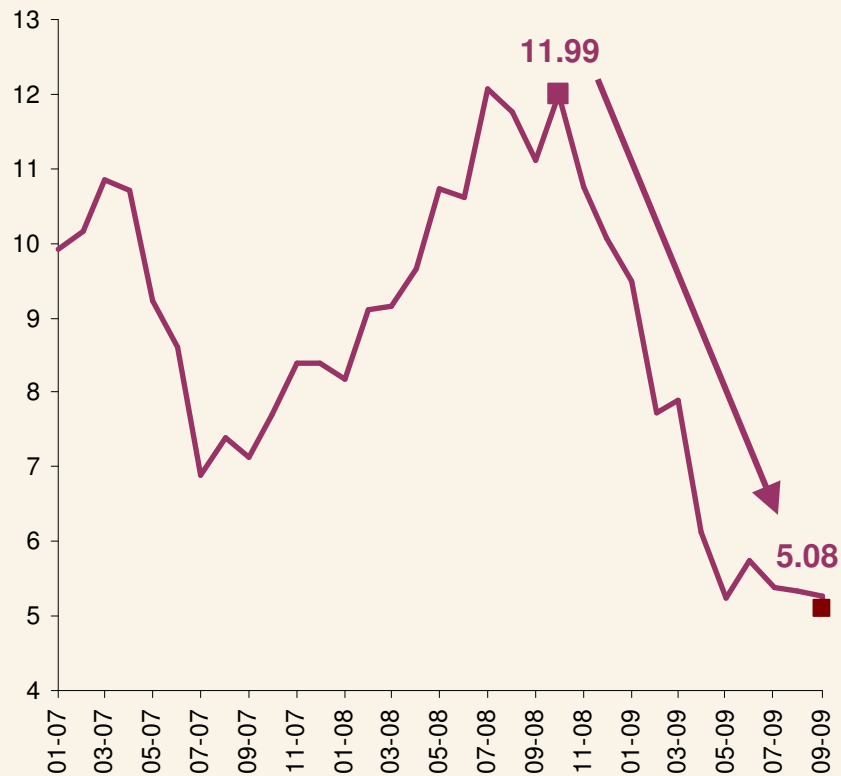


IV. Inflation Outlook



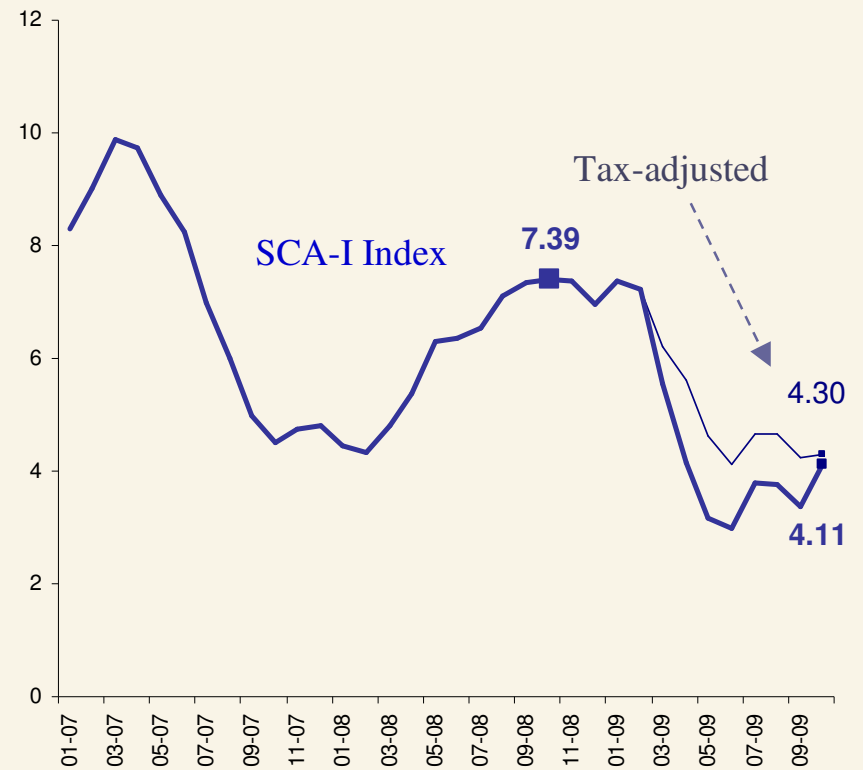
Inflation Developments

Consumer Price Index
(Jan 2007 – Oct 2009, annual percentage change)



Source: TURKSTAT, CBT

Indicators of Core Inflation
(Jan 2007 – Sep 2009, annual percentage change)



Source: TURKSTAT, CBT

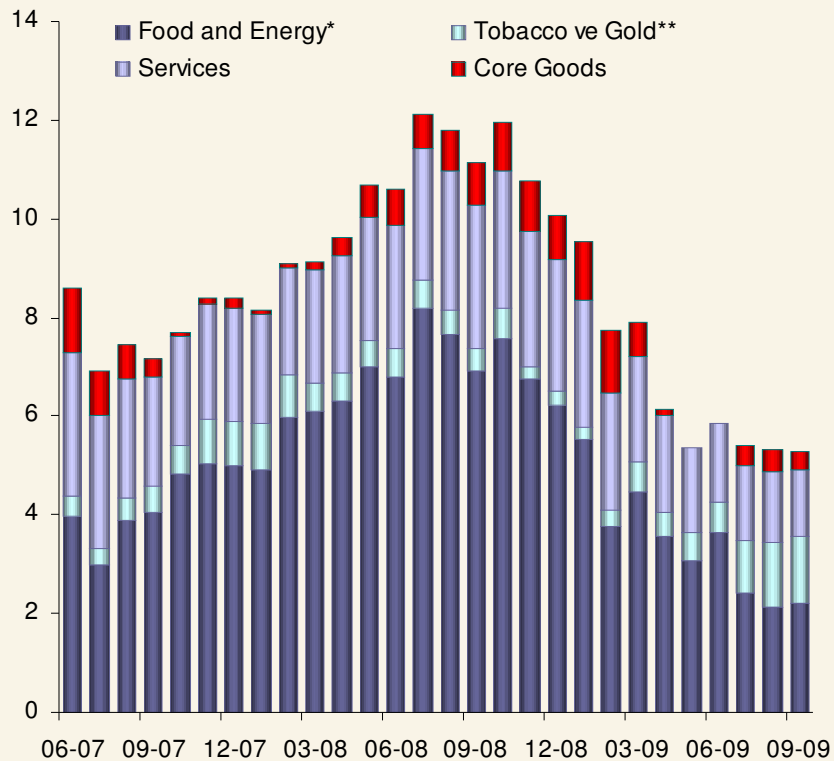
SCA-I: Excluding energy, food and non-alcoholic beverages, alcoholic beverages and tobacco products and gold



Inflation Developments

Contribution of Certain Sub-categories to Annual CPI Inflation

(Jun 2007 – Oct 2009, annual percentage change)

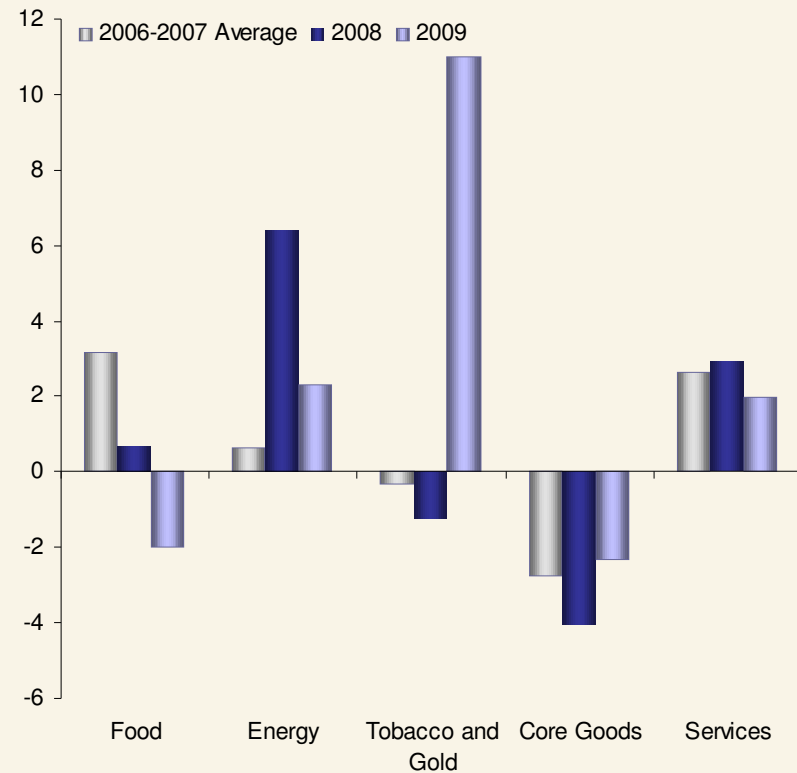


Source: TURKSTAT, CBT

* Food and Energy: Food, nonalcoholic beverages and energy

** Tobacco and Gold: Alcoholic beverages and tobacco and gold.

First 10-Month Cumulative Inflation of Groups

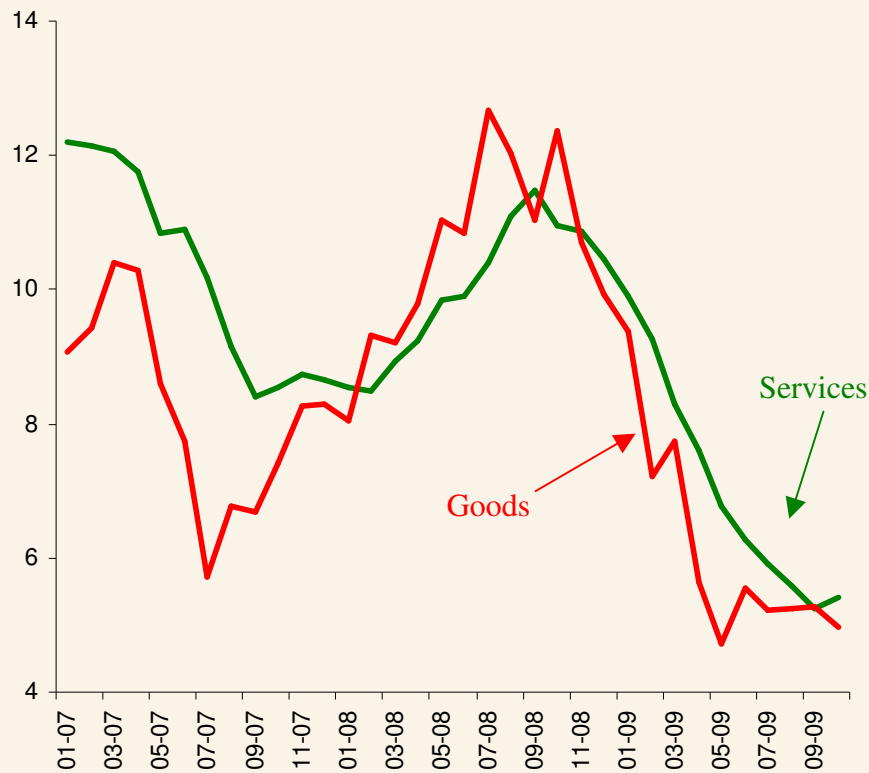


Source: TURKSTAT, CBT



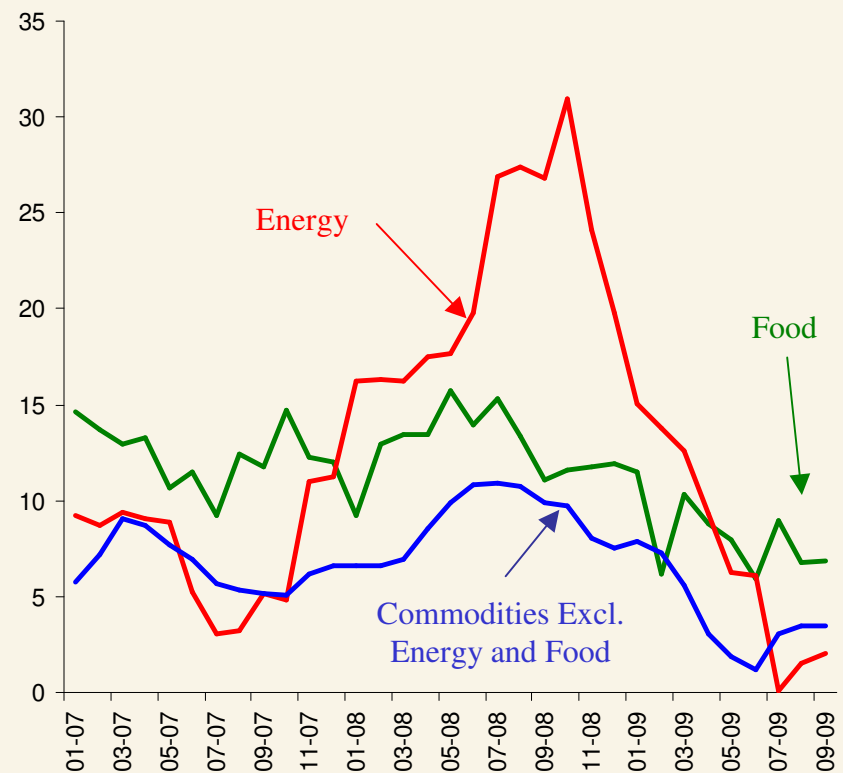
Inflation Developments

Goods and Services Inflation
(Jan 2007 – Oct 2009, annual percentage change)



Source: TURKSTAT, CBT

Components of Goods Inflation
(Jan 2007 – Oct 2009, annual percentage change)



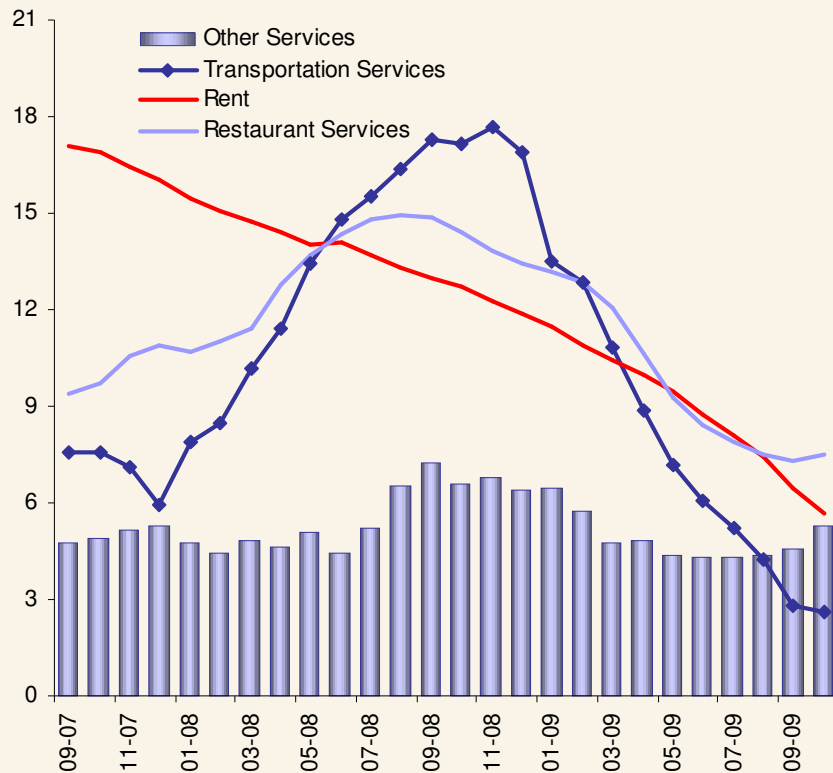
Source: TURKSTAT, CBT



Inflation Developments

Services Inflation

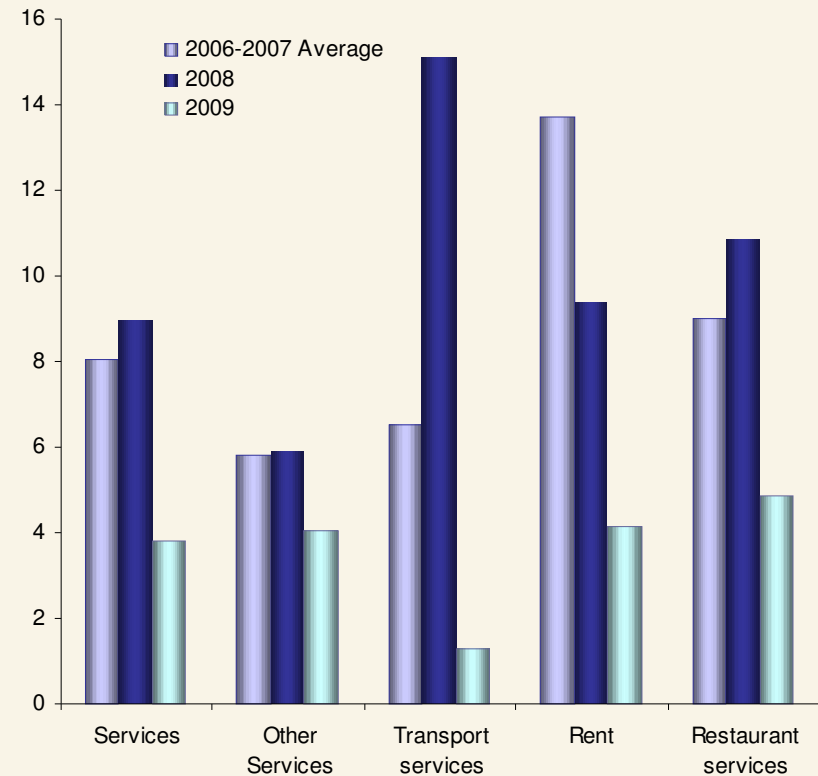
(Sep 2007 – Oct 2009, annual percentage change)



Source: TURKSTAT, CBT

Services Group Inflation

(First 10 months change)

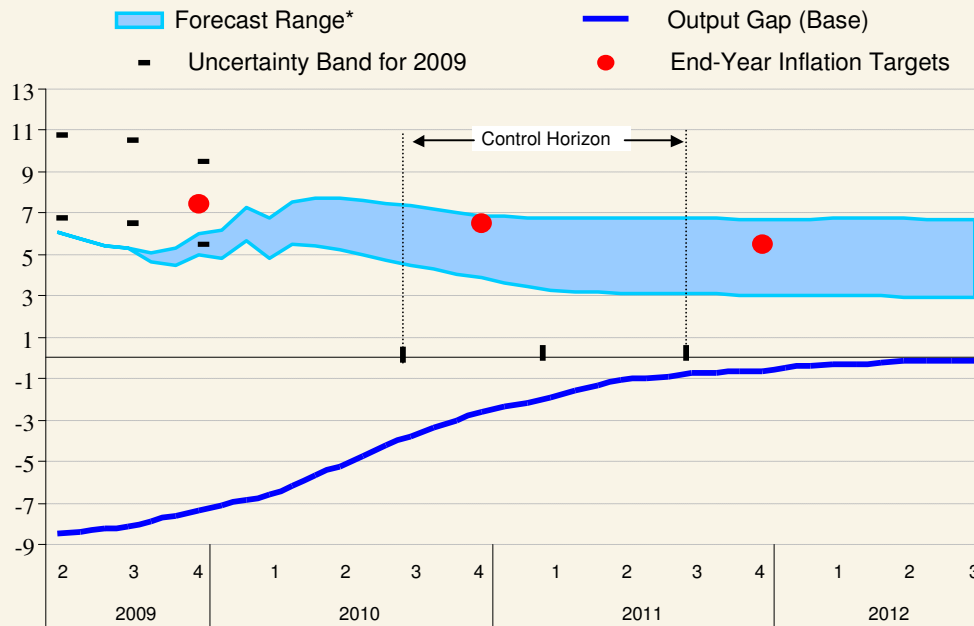


Source: TURKSTAT, CBT



Inflation and Output Gap

Inflation and Output Gap Forecasts *(2009 Q2 –2009 Q3, annual percentage change)*



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

Source: TURKSTAT, CBT

- Assuming a limited amount of further easing and constant policy rate until the end of 2010, with 70 percent probability:
- Inflation will be between 5.0 and 6.0 percent with a mid-point of 5.5 percent at end-2009.
- Between 3.9 and 6.9 percent with a mid-point of 5.4 percent by the end of 2010.
- Inflation is expected to decline to 4.9 percent by the end of 2011 and to 4.8 percent by the third quarter of 2012.



CENTRAL BANK OF THE REPUBLIC OF TURKEY

Overview of the Turkish Economy and Monetary Policy Stance

İbrahim TURHAN
Deputy Governor

November 2009