



CENTRAL BANK OF
THE REPUBLIC OF TURKEY

inflation report

2011-I



Contents

1. OVERVIEW	1
1.1. Inflation Developments	1
1.2. Monetary Policy Developments	3
1.3. Inflation and Monetary Policy Outlook	5
1.4. Risks and Monetary Policy	13
2. INTERNATIONAL ECONOMIC DEVELOPMENTS	17
2.1. Global Growth	18
2.2. Commodity Prices	20
2.3. Global Inflation	21
2.4. Financial Conditions and Risk Indicators	22
2.5. Global Monetary Policy Developments	24
3. INFLATION DEVELOPMENTS	35
3.1. Inflation	35
3.2. Expectations	43
4. SUPPLY AND DEMAND DEVELOPMENTS	53
4.1. Gross Domestic Product Developments and Domestic Demand	53
4.2. External Demand	56
4.3. Labor Market	59
5. FINANCIAL MARKETS AND FINANCIAL INTERMEDIATION	65
5.1. Financial Markets	65
5.2. Financial Intermediation and Loans	76
6. PUBLIC FINANCE	87
6.1. Budget Developments	88
6.2. Developments in Debt Stock	91
7. MEDIUM TERM PROJECTIONS	95
7.1. Recent Monetary Policy Decisions	95
7.2. Current State of the Economy, Short-Term Outlook and Assumptions	97
7.3. Medium Term Outlook	102
7.4. Risks and Monetary Policy	105
Boxes	
Box 2.1. The Sensitivity of the EU Periphery to the Debt Crisis	28
Box 2.2. Causes of the Increase in the US Long-term Nominal Bond Returns Following the Second Round of Quantitative Easing	31
Box 3.1. Sources of Volatility in Unprocessed Food Prices	44
Box 3.2. An Evaluation of Core Inflation Indicators	49
Box 5.1. The Derivative Markets and the Recent Developments in the Foreign Exchange Markets	82
Box 7.1. Financial Stability Under Inflation Targeting: The CBRT's Actions	107
Box 7.2. The Role of Reserve Requirements in Monetary Policy	110
Box 7.3. Sources of Revisions to Inflation Forecasts for 2010 Year-End	115