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INFLATION OUTLOOK AND MARKET MEASURES

In the third quarter of 2008, the turmoil in the international financial markets and the elevated commodity prices have continued to exert inflationary pressure globally. Parallel to international developments, the rise in basic inflation parameters continued, and food and energy prices remained as the main drivers of inflation in Turkey in the third quarter of the year. Inflation as of October 2008 was 11.99 %.

In the forthcoming period, however, it is anticipated that ongoing problems in the international credit markets and the global economy would continue to restrain both domestic and external demand for an extended period, limiting the pass-through from exchange rates to domestic prices. Besides, the sharp decline in the prices of oil and other commodities together with the favorable course of food prices is expected to have a favorable impact on disinflation.

Parallel to these developments, in order to contain the deterioration in inflation expectations and to prevent the materialization of second round effects of supply-side shocks, the Monetary Policy Committee (MPC) implemented monetary tightening during May-July period, increasing policy rates by a cumulative of 150 basis point and left policy rates unchanged during the August-October period. In November, in the existing conjuncture, it is anticipated that inflation would display a more rapid fall than envisaged before, and in this respect the policy rate was decreased by 50 basis points.



The Central Bank of Republic of Turkey (CBT) Market Measures

Within the framework of international financial developments, central banks have taken coordinated decisions in an effort to overcome the liquidity squeeze in money markets during the financial crisis, which began in the U.S. money and credit markets and subsequently became global. In line with these efforts, the CBT has taken several measures to maintain the smooth functioning of domestic foreign exchange and credit markets and effective liquidity management:

- The CBT resumed its intermediary activities in the Foreign Exchange Deposit Market, and then raised the transaction limits of banks operating in this market. Following this, the maturity of FX deposits held within the predetermined limits in the Foreign Exchange Deposit Market were extended, while CBT's lending rates for US dollar and Euro have been reduced.
- Foreign exchange buying auctions were suspended.
- The CBT has injected foreign exchange liquidity into the market through foreign exchange selling auctions.



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TRANSITION FROM THE NEW TURKISH LIRA TO THE TURKISH LIRA



On January 1, 2005, six zeros were removed from the Turkish currency and New Turkish Lira banknotes and coins were put into circulation. As the second phase of this operation, the Council of Ministers decided to remove the prefix “New” and revert the name of our traditional currency to “Turkish Lira” to be effective as of January 1, 2009.

Turkish Lira (TL) banknotes, with their new designs, dimensions and improved security features, will be put into circulation on January 1, 2009. The new banknotes will differ from other emission groups of banknotes and include many firsts.

The features of TL banknotes can be listed as such:

- ▶ Series design concept,
- ▶ Subject integrity,
- ▶ Holographic stripe,
- ▶ Iridescent stripe,
- ▶ Tinted banknote paper,
- ▶ A security thread with the value numeral and the letters “TL”, which becomes visible under UV light.

The new banknotes will differ from other emission groups of banknotes and include many firsts.

In the framework of the “series design concept”,

- The design in series includes a common base bearing the crescent and star figure in the background.
- Three different Atatürk portraits from certain angles, which are common on each two subsequent denominations, have been used.
- Security features, which are evenly distributed on both observe and reverse sides, are located in the same place on all denominations.
- Connotative motifs are featured on the obverse and reverse sides of each denomination and coherence is maintained with patterns bearing common features for different denominations.
- The digits in serial and sequence number are increased from 9 to 10 and are scaled down in conformity with the banknote dimensions as regards to the New Turkish Lira.
- Systematic size variation is ensured within the series of denominations.
- Contrast pastel colors are used in consecutive banknotes.



In addition to the existing security features of TL banknotes for the visually impaired, TL banknotes appear in different sizes with raised intaglio printing.

The reverse sides of banknotes feature portraits of Turkish personalities, who are well known in the international arena and have made unique and universally accepted accomplishments along with patterns symbolizing their respective fields of work.

COINS

On the reverse side of each coin minted by the General Directorate of the Turkish State Mint and Printing Plant, the same type of Atatürk relief is used within a circle. The “Turkish Republic” inscription is placed around the Atatürk relief. Various motifs are placed on the obverse side of each coin.



IMF – WORLD BANK ANNUAL MEETINGS

The 2008 Annual Meetings of the International Monetary Fund (IMF) and World Bank were held in Washington DC between 11-13 October 2008. Governor Yılmaz delivered speeches on the Turkish economy at various meetings and exchanged views with foreign investors.

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

An exhibition called “Contemporary Turkish Paintings from the Art Collection of the Central Bank of the Republic of Turkey” was held between 16 October - 5 November 2008 at Frankfurt Chamber of Industry and Commerce within the concept of the “2008 Frankfurt Book Fair Guest of Honor Turkey” activities. The exhibition was opened by Ertuğrul Günay, the Culture and Tourism Minister of Turkey, Hans-Joachim Tonnelier, the President of the Frankfurt Chamber of Industry and Commerce and Durmuş Yılmaz, Governor of the CBT with a cocktail reception on 16 October 2008.

INFLATION REPORT 2008-IV

The Inflation Report 2008-IV was released via a press conference with the participation of Governor Yılmaz and MPC members on October 31, 2008. The Report covers recent developments in international markets, supply and demand conditions, financial markets along with medium term projections and numerical inflation forecasts within the framework of fiscal policy, inflation and monetary policy developments. The Report also includes boxes on several issues; namely “vegetable production forecasts and price developments”, “empirical results of oil prices” and “the sources of growth in the Turkish economy”.

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



OPEN LETTER

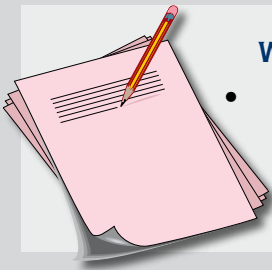
Inflation as of September 2008 was 11.13 %, breaching the upper limit of the uncertainty band, which was set at 8.3 % for the end of the third quarter. The CBT outlined the arguments explaining why inflation exceeded the upper limit of the uncertainty band, assessed the measures taken in order to bring inflation back on target, and presented the medium-term inflation outlook through an “open letter” written to the government and announced to the public on October, 31 2008.

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

THE INTERNATIONAL CONFERENCE ON “GLOBALIZATION, INFLATION AND MONETARY POLICY”

The International Conference on “Globalization, Inflation and Monetary Policy” organized by the CBT was held on November 21-22, 2008. The conference was organized around the following themes; the linkages between globalization, monetary policy and financial stability; the impact of globalization on inflation and business cycles; globalization and monetary policy challenges faced by emerging market economies; the recent global financial turmoil and its policy implications.

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

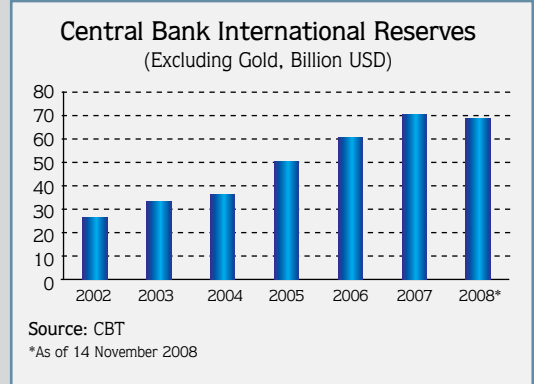
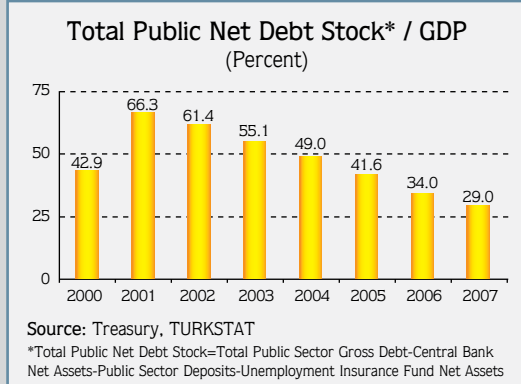
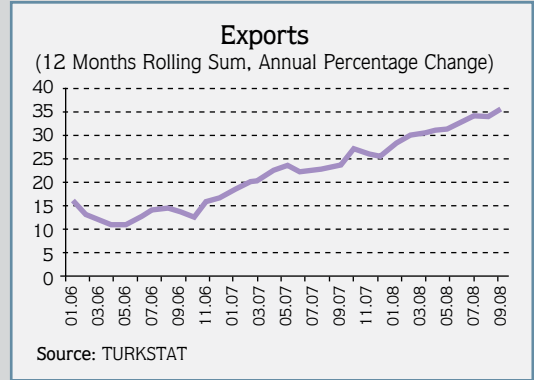
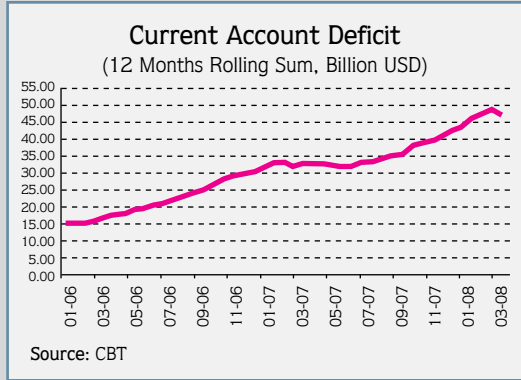


WORKING PAPERS

- “On the Stability of Domestic Financial Market Linkages in the Presence of Time-Varying Volatility” (Thomas J. Flavin, Ekaterini Panopoulou, Deren Ünalımsı, Working Paper No.08/10, September 2008)

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

AT A GLANCE



SECURITY FEATURES OF TURKISH LIRA BANKNOTES

The security features of TL banknotes are classified under 4 groups. These include security features for the public, for professionals, for machines and the ones exclusive to the CBT. Security features for the public can be listed under 6 headings:



1. Intaglio Printing

Located at various positions on the front of the banknotes and can be felt with fingerprints.

2. Latent Number

Concealed denomination numeral can be seen when the note is tilted horizontally at the eye level.

3. Holographic Stripe

The foil is made up of various motifs that are in harmony with the note design. When looking at a banknote from various angles, these motifs display colorful and shiny reflections. "TL" letters in the rectangle change into the value.

4. Iridescent Stripe

Gives different color effects, shifting into a golden yellow. The value and the letters "TL" can be seen when the banknote is tilted.

5. Security Thread

Embedded into the paper and bears the letters "TL" and the value of the note. When holding a banknote to the light, the thread can be seen from both sides as a continuous line.

6. Watermark

Reproduces the small version of the Atatürk's portrait located on the front of banknote and the value. It can be seen from both sides when held up to the light.

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CBT Interest Rates*	Borrowing	Lending
Overnight (%)	16,25	18,75

Central Bank Foreign Exchange Reserves (As of 21 November 2008, Billion USD)	69,14
CPI (Annual % Change, October 2008)	11,99

* As of 21 November 2008.