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SUMMARY OF THE MONETARY POLICY COMMITTEE MEETING

Meeting Date: March 27, 2012

Inflation Developments

1. In February, consumer prices were up 0.56 percent and annual inflation went down to 10.43 percent. As stated in the previous Summary of the Monetary Policy Committee (the Committee) Meeting, food inflation decreased, while energy prices increased amid the soaring international oil prices in this period. Core inflation indicators posted a decline after a long interval and services maintained their moderate course.

2. Annual inflation in food and nonalcoholic beverages group continued with their downward trends. Amid the sustained favorable outlook in the prices of fresh fruits and vegetables compared to the seasonal averages, unprocessed food inflation went down to 13.21 percent in February. Similarly, annual processed food inflation decreased in this period as it did in January. Nevertheless, leading indicators suggest that annual inflation in both main food groups may increase in March.

3. In February, repercussions of international oil price developments continued through fuel prices and annual energy inflation increased approximately by 1 percentage point to 12.60 percent due to the low base. Uncertainties in oil prices pose upside risks to the inflation outlook. As a matter of fact, leading indicators suggest that the increase in energy prices will persist in March as well.

4. Annual services inflation edged down to 6.27 percent. Annual inflation in transport services, which has recently trended upwards amid the increase in fuel prices, posted a slowdown, while services prices excluding catering and transport remained flat at 4.9 percent. Rent increases stood at low levels in this period as well. Meanwhile, seasonally adjusted prices of services and diffusion index suggest that the underlying trend of service inflation has sustained its mild outlook.

5. Due to the developments in the prices of durable goods, annual inflation in core goods recorded a decline, while seasonally adjusted clothing prices increased further. In line with the alleviation of the cumulative effects of exchange rate movements, the decline annual core goods inflation is expected to continue in the period ahead.

Factors Affecting Inflation

6. Following the robust course in the final quarter of 2011, economic activity displayed a domestic-demand-driven deceleration in the first quarter of 2012. Seasonally adjusted industrial production plummeted in January below the average of the previous quarter. Domestic sales of light and heavy commercial vehicles posted a decline in the January-February period compared to the average of the previous quarter. Moreover, seasonally adjusted consumer loans confirmed the deceleration in domestic demand in the first quarter of the year.

7. Leading indicators suggest a modest recovery in consumption demand in the second quarter. Despite its low level, consumer confidence has improved in recent months. Following the decline in January, expectations on domestic new orders have assumed a gradual recovery trend. Additionally, the absence of any notable setback in new investment plans of the manufacturing firms coupled with the consistent upward trend in non-farm employment indicate that there is no permanent deterioration in expectations on demand. The Committee attributed the slowdown in economic activity in the early 2012 to temporary factors besides the tightening policy measures, and assessed that domestic demand would resume its upward trend in the period ahead.

8. Recent developments indicate that the rebalancing between domestic and external demand continues in the first quarter. Notwithstanding the persisting problems in the European economy, exports continue to grow at a steady pace. The ongoing slowdown in domestic demand and the cumulative depreciation in the Turkish lira continue to restrict the import demand and non-energy current account deficit. Accordingly, despite the elevated oil prices, the gradual improvement in the current account balance is expected to continue in the forthcoming period. The Committee highlighted that the correction in the 12-month cumulative current account deficit, which started in November, would become more pronounced in late March.

9. Labor market data confirm the deceleration in economic activity. Employment in the construction sector continues to decline, employment in the services sector has recently lost pace. However, having noted that the two subsequent months of decline came to a halt in industrial employment, the Committee stated that employment would continue to grow modestly amid the recovery in economic activity. As a matter of fact, survey data point to a partial recovery in job opportunities. Nevertheless, the possible domestic consequences of global uncertainties on economic activity stand out as the factors that may restrain employment growth in the period ahead.

Riskler ve Para Politikası

10. The Committee has indicated that both the level and the composition of the economic activity as well as the bank lending evolve as expected. Accordingly, economic activity is anticipated to pick up gradually starting from the second quarter. Although loan growth rate may accelerate somewhat in the forthcoming period, seasonally adjusted values are expected to stay in line with the assumptions of the January Inflation Report.

11. The Committee has stated that short term inflation developments are also in line with the path projected in the Inflation Report. Oil prices hover at higher levels than assumed in the baseline scenario, leading to a higher than expected path in energy prices. However, so far this is largely offset by the favorable outlook in unprocessed food prices.

12. According to the Committee members, energy prices pose upside risks regarding the short-term inflation outlook, whereas risks are on the downside for unprocessed food prices. Especially, it is stated that possible hikes in electricity and natural gas rates could lead to a significant increase in energy prices. The Committee has underscored that supply side developments will be closely monitored and any deterioration in inflation expectations will not be tolerated.

13. Given the current levels of inflation, it is important to prevent upside risks. Therefore, the Central Bank has implemented a new round of additional monetary tightening in order to eliminate the impact of recent cost developments on inflation expectations. Factors affecting inflation will be closely monitored in the forthcoming period and additional monetary tightening will be repeated, when necessary.

14. Given the prevailing uncertainties regarding the global economy, it would be appropriate to preserve the flexibility of the monetary policy. Therefore, the impact of the measures undertaken on credit, domestic demand, and inflation

expectations will be monitored closely and the funding amount will be adjusted in either direction, as needed.

15. Moreover, taking the liquidity projections into account, the ranges for weekly and monthly Turkish lira funding have been revised. In addition, certain revisions regarding the fraction of required reserves that can be held in gold have been approved. The Committee indicated that these measures will support financial stability, yet they will not have a significant impact on the stance of monetary policy.

16. Monetary policy will continue to focus on price stability while preserving financial stability as a supplementary objective. To this end, the impact of the macroprudential measures taken by the Central Bank and other institutions on the inflation outlook will be assessed carefully. Strengthening the structural reform agenda to ensure the sustainability of the fiscal discipline and reduce the saving deficit will support the relative improvement of Turkey’s sovereign risk, and thus facilitate price stability and financial stability in the medium term. These measures will also provide more flexibility for monetary policy and contribute to social welfare by keeping interest rates of long-term government securities at low levels. In this respect, steps towards the implementation of the structural reforms envisaged by the Medium Term Program remain to be of utmost importance.