



MONETARY AND EXCHANGE RATE POLICY FOR 2009

The monetary and exchange rate policy of the Central Bank of Turkey (CBT) for 2009 was announced at a press conference held on 16 December 2008. At the conference, Governor Yılmaz assessed the latest economic developments and explained in detail the operational framework of monetary policy, exchange rate policy and liquidity management for 2009.

MAIN ELEMENTS OF THE MONETARY POLICY FOR 2009

- ▶ Year-end inflation targets for the years 2009, 2010 and 2011, as amended in June 2008, are 7.5 percent, 6.5 percent, 5.5 percent, respectively.
- ▶ The uncertainty band for 2009 has been maintained as two percentage points around the target. In this context, a path consistent with the year-end target has been announced for the end of each quarter.
- ▶ If end-of-quarter inflation figures breach the uncertainty band, the CBT will disclose the reasons for the deviation in the quarterly Inflation Report, along with the measures already taken as well as those to be taken to attain convergence to the target. In case year-end inflation deviates more than two percentage points in either direction, the CBT will draft an open letter to the Government and share this letter with the public.
- ▶ The Monetary Policy Committee (MPC) will continue to meet once a month in 2009 as well, in accordance with the schedule announced beforehand.
- ▶ The CBT will continue to implement the floating exchange rate regime in 2009.
- ▶ The CBT will take the necessary measures for the smooth operation of foreign exchange markets in line with the principle that exchange rates are determined by supply and demand conditions in the market.
- ▶ While drawing up the general framework of liquidity management, the CBT will take into consideration following objectives:
 - ▶ to ensure that short-term interest rates would remain at or revolve around the level set by the MPC,
 - ▶ to ensure the efficient and stable operation of money markets by preventing excessive volatilities in the short-term interest rates,
 - ▶ to ensure the smooth functioning of the payments system,
 - ▶ to provide the operational structure with sufficient flexibility against unexpected developments in the markets.
- ▶ In 2009, significant uncertainties exist regarding liquidity conditions in financial markets. If the liquidity shortage in the market increases and/or becomes pronounced to be permanent, the CBT will rearrange its operational framework of liquidity management.

To find out more: <http://www.tcmb.gov.tr> (Basic Policy Readings)

MPC Meeting Dates:

15 January 2009
 19 February 2009
 19 March 2009
 16 April 2009
 14 May 2009
 16 June 2009
 16 July 2009
 18 August 2009
 17 September 2009
 15 October 2009
 19 November 2009
 17 December 2009

Calendar for the Inflation Report:

26 January 2009
 30 April 2009
 29 July 2009
 27 October 2009

Calendar for the Financial Stability Report:

28 May 2009
 24 November 2009



Current Account Balance

After the 80's with the gradual elimination of all the barriers to capital movements in emerging markets, capital flows between countries accelerated. This transition necessitated monitoring the economic balances from different aspects in comparison to previous periods. In this context, the current account balance indicator is crucial for open economies.

In Turkey, after the 24th January 1980 decisions, especially in the 90's, along with the steps taken to liberalize capital movements, the course of the current account balance became more important as well.

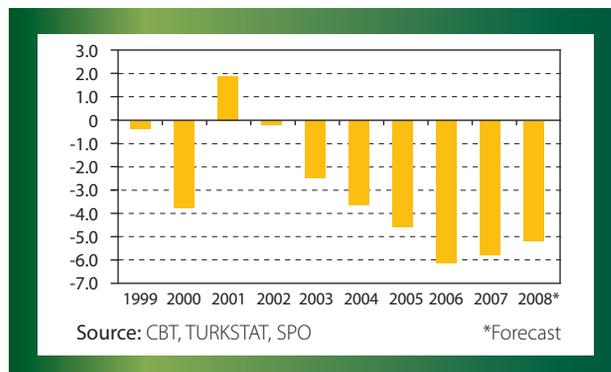
When the current account balance statistics of Turkey from the year 1984 is analyzed, it is observed that the Turkish economy has generally experienced current account deficit and there is a direct and strong relation between the current account deficit and the economic growth rate. The main reason behind is the low domestic savings-investments ratio in the Turkish economy. When domestic investments exceed domestic savings, it is the foreign savings that cover the gap, and this situation is observed as current account deficit. Especially in the 2001-2007 period, thanks to maintaining macroeconomic stability to some extent, falling of inflation rates and of real interest rates the demand for consumption and investment increased at a higher rate than the output, while this increasing demand was covered by foreign savings.

Table 1: Current Account Balances (Billion USD)

1984	-1.4	1989	0.9	1994	2.6	1999	-0.9	2004	-14.4
1985	-1.0	1990	-2.6	1995	-2.3	2000	-9.9	2005	-22.1
1986	-1.5	1991	0.3	1996	-2.4	2001	3.8	2006	-32.1
1987	-0.8	1992	-1.0	1997	-2.6	2002	-0.6	2007	-38.2
1988	1.6	1993	-6.4	1998	2.0	2003	-7.5	2008	-41.4

Source: CBT

Current Account Balance/GDP (Percent)



The other reason behind the strong relation between the growth rate and the current account deficit is the structural features of the economy, which makes the import of intermediate goods indispensable to meet the increasing aggregate demand. In fact, the current account balance in the Turkish economy is mostly affected by the changing energy prices since a considerable part of the economy's energy requirement is met via energy imports, i.e. mainly oil and natural gas imports. In this context, increasing energy prices has a large impact on the current account deficit, and this in turn has an expansionary effect on the current account deficit.

Another important aspect of the current account deficit is how it is financed. The capital accounts, which consist of foreign direct investments, portfolio investments and other capital investments, made up the current account balance financing items. Long-term capital inflows and foreign direct investments have significant impact in terms of the financing quality of the current account deficit, and they reduce the degree of vulnerability of the economy.

PRESS CONFERENCE ON TRANSITION FROM “NEW TURKISH LIRA” TO “TURKISH LIRA”

Within the context of the publicity campaign on the transition from New Turkish Lira to Turkish Lira; a press conference was held on 30 December 2008 at the Banknote Printing Plant Department of the CBT. At the conference, Governor Yılmaz gave information about the publicity campaign, banknote printing and distribution, security features of the new banknotes, destruction of old and worn out banknotes and works for the visually impaired. Questions from press members were also answered.



COCKTAIL RECEPTION ON TRANSITION FROM “NEW TURKISH LIRA” TO “TURKISH LIRA”

In celebration of the launch of Turkish Lira banknotes, which were put into circulation on 1 January 2009, the CBT organized a cocktail reception at the Banknote Printing Plant Department of the CBT on 26 January 2009. The State Minister and Deputy Prime Minister Nazım Ekren, The State Minister Mehmet Şimşek, the employees of the CBT and bureaucrats attended the reception hosted by Governor Yılmaz. In his speech, Governor Yılmaz appreciated the efforts and support of all institutions and the employees of the CBT.

INFLATION REPORT 2009 – I

The Inflation Report, which is one of the most important communication tools of the inflation targeting regime that is being implemented, was released and announced with a press conference with the participation of Governor Yılmaz and the MPC members on 26 January 2009. The Report includes monetary policy developments, inflation outlook, quantitative forecasts of inflation and the possible risks regarding the inflation outlook.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)



OPEN LETTER

Inflation outturn as of December 2008 was 10.06 percent, breaching the upper limit of the uncertainty band around the target, which was set at 6 percent for the year-end. Accordingly, the CBT explained the reason for this breach and presented the inflation outlook through an "open letter" written to the Government and announced to the public on 26 January 2009.

To find out more: <http://www.tcmb.gov.tr> (Announcements)



WORLD ECONOMIC FORUM ANNUAL MEETINGS

The World Economic Forum Annual Meeting which has brought top business leaders, international political leaders, intellectuals and journalists together to share and discuss global issues since 1971, was held between 28 January - 1 February 2009 in Davos. In the Forum, the main theme of which was "Shaping the Post-Crisis World", issues such as global financial crisis, oil prices and global security, climate changes and the security of food and water were dealt with. Governor Yılmaz attended the meetings at the Forum, in which more than 40 heads of the state and governments participated.

WORKING PAPERS

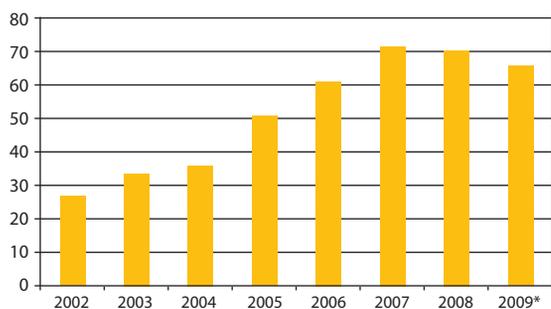
- ▶ Sticky Rents and the Stability of Housing Cycles (Erdem Başçı, İsmail Sağlam Working Paper No. 09/02, February 2009)
- ▶ Inflation Targeting and Exchange Rate Dynamics: Evidence From Turkey (K. Azim Özdemir, Serkan Yiğit Working Paper No. 09/01, February 2009)

To find out more: <http://www.tcmb.gov.tr> (Publications/Research Papers)



AT A GLANCE

Central Bank International Reserves (Excluding Gold, Billion USD)



Source: CBT

*As of 20.02.2009

Inflation (CPI) (Year-on-Year Percentage Change)



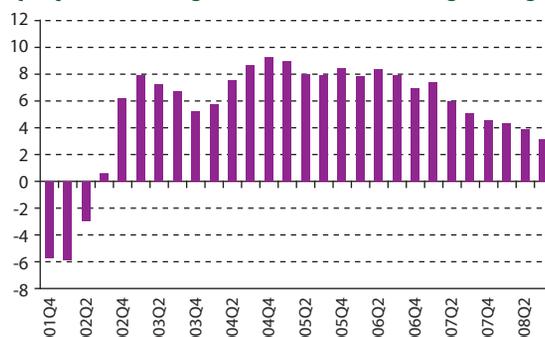
Source: Turkstat

Current Account Deficit (12-Month Rolling Sum, Billion USD)

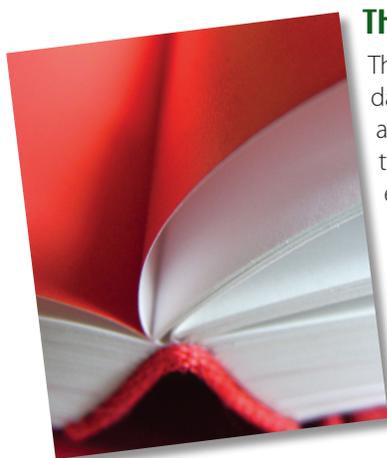


Source: CBT

GDP Growth Rate (4-Quarter Rolling Year-on-Year Percentage Change)



Source: Turkstat



THE CBT LIBRARY

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To find out more: <http://www.tcmb.gov.tr> (Library)

CBT Interest Rates*	Borrowing	Lending	Central Bank Foreign Exchange Reserves (As of 20 February 2009, Billion USD)	66.32
Overnight (%)	11.50	14.00	CPI (Annual % Change, January 2009)	9.50

* As of 20 February 2009.

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