

MONETARY POLICY EXIT STRATEGY

Due to the importance attached to transparency and predictability, on 14 April 2010, the Central Bank of the Republic of Turkey (CBT) announced the general framework of its exit strategy, which includes withdrawing measures taken during the global crisis and normalization operations of monetary policy. In this context, the CBT emphasized that the measures taken primarily with the aim of crisis management would be withdrawn, and as in the rest of the world, the exit strategy in Turkey would be a cautious and gradual process safeguarding financial stability.

The first part of the strategy addresses the "Measures and Exit Strategy for Foreign Exchange Markets":

- Reserve requirement ratio for FX may be increased at a measured and gradual pace.
- Considering developments in global interest rates, the CBT may increase its foreign exchange deposit lending rates.
- After the effects of the developed countries' exit strategies are monitored, the intermediary function of the CBT in the foreign exchange deposit market will be abolished. However, banks will be able to borrow foreign exchange deposits from the CBT within the predetermined borrowing limits. The maturity of the foreign exchange deposits will be decreased from 3 months to 1 week.

The CBT's exit strategy related to foreign exchange liquidity may change as needs arise.

The second part of the strategy deals with the measures and the exit strategy for Turkish lira markets. Considering the allocation of liquidity within the system, in order to:

- prepare the banking sector for technical rate adjustment,
- reduce possible fluctuations in the money markets,
- maintain flexibility in liquidity management against unforeseen developments,

the CBT decided to keep the integrity of both reducing overfunding in the context of the exit strategy and technical interest rate adjustment operations and to adopt a gradual strategy. Accordingly, in the first stage, the amount of liquidity that has been provided as a part of the overfunding policy



will be reduced gradually. In the second stage, in case liquidity shortage evolves in line with expectations, the technical interest rate adjustment process will become operative.

For further information: <http://www.tcmb.gov.tr/yeni/eng/>
(Announcements – Basic Policy Readings)



THE LATEST DEVELOPMENTS IN TURKEY'S CREDIT RATING



FITCH

Long-term Foreign Currency Rating	Date of Revision	Long-term Local Currency Rating	Date of Revision
BB+	03/12/09	BB+	03/12/09
BB-*+	27/10/09	BB-*+	27/10/09
BB-	13/01/05	BB-	13/01/05
B+	09/02/04	B+	02/09/04
B	25/09/03	B+	09/25/03
B-	02/08/01	B-	25/03/03
B+*-	02/04/01	B	05/02/02
BB*-	22/02/01	B-	02/08/01
BB-	27/04/00	B	02/04/01
B+	10/04/00	B+	22/02/01
B+	20/12/96	BB	27/04/00
BB-	26/09/95		
B	10/08/94		

Source: Bloomberg
*Credit rating outlook

The first upgrading of Turkey's sovereign credit rating by three major international credit rating agencies, namely Fitch, Moody's and Standard & Poor's since 2005 came from Fitch in early December 2009. Fitch upgraded Turkey's long-term foreign currency rating by 2 notches to "BB+". One rating upgrade is required for Turkey's rating to reach the investment grade (BBB-). The Agency also indicated that it increased Turkey's long-term local currency rating from "BB" to "BB+" and upgraded Turkey's country ceiling from "BB" to "BBB-". In October 2009, Fitch placed Turkey's long-term foreign and local currency ratings on rating watch positive. The Agency



MOODY'S

Long-Term Foreign Currency Credit Rating	Date of Revision	Long-Term Domestic Currency Credit Rating	Date of Revision
Ba2	08/01/10	Ba2	08/01/10
Ba3	14/12/05	Ba3	14/12/05
B1	21/12/00	B1	11/02/05
B1*+	24/07/00	B2	30/09/04
B1	13/03/97	B3	06/04/01
Ba3*-	09/01/97		
Ba3	02/06/94		
Ba1*-	06/04/94		
Ba1	13/01/94		
Baa3*-	08/10/93		
Baa3	05/05/92		

Source: Bloomberg
*Credit rating outlook

affirmed that, based on the positive watch, Turkey's credit rating could be upgraded before year-end owing to the soundness of the Turkish economy in the face of global turmoil.

Meanwhile, Moody's upgraded Turkey's credit rating by one notch from Ba3 to Ba2 and changed the rating outlook from positive to stable in early January 2010. Two rating upgrades are required for Turkey's rating to reach the investment grade (Baa3). Moody's cited the extreme increase of confidence in Turkey's capacity to resist financial shocks, as the reason behind upgrading the country's sovereign credit rating. Moreover, Moody's stated that Turkey has started to welcome capital inflows again and the economy has started to recover. It was indicated that despite the contraction in the Turkish economy, the resilience that public finance displayed during this crisis as compared to previous crises was noteworthy.



S&P

Long-Term Foreign Currency Credit Rating	Date of Revision	Long-Term Domestic Currency Credit Rating	Date of Revision
BB	19/02/10	BB+	19/02/10
BB-	27/06/06	BB	27/06/06
BB-*+	23/01/06	BB*+	23/01/06
BB-	17/08/04	BB	17/08/04
B+	16/10/03	BB-	08/03/04
B	28/07/03	B+	16/10/03
B-	27/04/01	B	28/07/03
B-*-	16/04/01	B-	27/04/01
B*	23/02/01	B*-	16/04/01
B+*-	21/02/01	B*-	23/02/01
B+	25/04/00	B+*-	21/02/01
B	13/12/96	B+	25/04/00
B+	28/04/94		

Source: Bloomberg
*Credit rating outlook

In mid-February, Standard & Poor's upgraded Turkey's long-term foreign currency credit rating to BB and the long-term local currency credit rating to BB+. Two rating upgrades are required for Turkey's rating to reach the investment grade (BBB-). In its statement, Standard & Poor's assessed the outlook to be "positive" and cited that the success of the government in economic and fiscal administration underpins the credit rating; but noted that Turkey's large foreign financing requirement was still the primary risk factor on its credit rating. It was stated in the report that the fiscal plan was realistic and cautious, and alleviated the risks on public finance. Moreover, it was highlighted that despite adverse conditions abroad, the Turkish financial sector remained stable, owing also to the efforts of regulation agencies.

ANNUAL REPORT



The Annual Report for 2009 has been submitted at the 78th Shareholders' Ordinary General Meeting of the Central Bank of the Republic of Turkey. The CBT's operations throughout 2009 have been reported within the framework of the strategic plan, and the comparative financial statements and audit reports have been shared with the public.

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

INFLATION REPORT 2010-II



Governor Yılmaz presented the Inflation Report 2010-II to the public at a press conference held on April 29, 2010. The Report elaborates the general macroeconomic outlook and also includes information boxes on Foreign Demand Index for Turkey, The Role of Meat Prices in Food Price Inflation Spike, The Global Crisis, The Impact of Monetary Policy Decisions on Market Returns, Post-Crisis Exit Strategy, Fiscal Rule and Communication Policy and Inflation Expectations Following Recent Inflation Developments.

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

GOVERNOR YILMAZ'S PRESENTATION BEFORE THE COUNCIL OF MINISTERS

In accordance with the Law on the CBT and the principle of accountability, the Governor submits a report to the Council of Ministers biannually on operations performed by the CBT, as well as the current and future monetary policy actions. In this context, Governor Durmuş Yılmaz delivered a presentation to the Council of Ministers on May 24, 2010. The Governor provided information on international developments, the impact of the global financial crisis on the Turkish economy, latest developments in the Turkish economy, fiscal policy implementations, the inflation outlook and the monetary policy stance.

For further information: <http://www.tcmb.gov.tr/> (Governor's Remarks)

FINANCIAL STABILITY REPORT



The tenth issue of the biannual Financial Stability Report was posted on the CBT's website on May 26, 2010. The Report evaluates international developments within the framework of the measures taken in Europe against the recent financial problems and their impact on the banking sector and the recovery that is expected to be driven by the USA and Asia.

The Report also examines recent macroeconomic developments in the Turkish economy and the financial sector, including profitability, capital adequacy, credit and liquidity risks of the banking sector and the financial infrastructure. The report includes information boxes elaborating issues such as "Draft Law on Fiscal Rule", "Financial Institutions of Systemic Importance", "Basel Banking Committee and Regulations on Capital Adequacy"

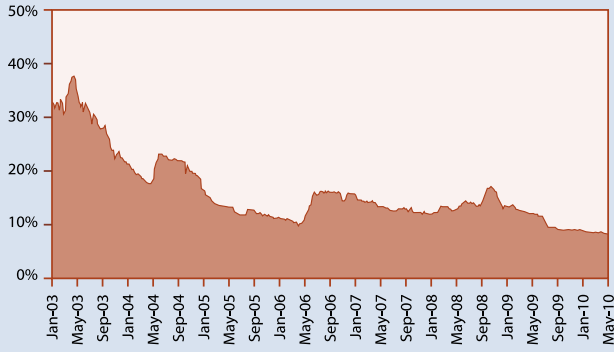
For further information: <http://www.tcmb.gov.tr/> (Publications/ Periodic Publications)

WORKING PAPERS, ECONOMIC NOTES, BOOKS AND RESEARCH

- Welfare Gains from Disinflation in an Economy With Currency Substitution
(H. Murat Özbilgin, Working Paper No. 10/09, May 2010)
- Interest Rates and Real Business Cycles in Emerging Markets
(S. Tolga Tiryaki, Working Paper No. 10/08, May 2010)
- Output and Employment Dynamics in a Model with Social Interactions in Labor Supply
(Yusuf Soner Başkaya, Mustafa Kılınc, Working Paper No. 10/07, May 2010)
- Regulation and the Market for Checks
(Semih Tümen, Working Paper No. 10/06, March 2010)
- On the Sources of Oil Price Fluctuations
(Deren Ünalmiş, İbrahim Ünalmiş, D. Filiz Ünsal, Working Paper No. 10/05, March 2010)
- Optimal Monetary Policy under Sectoral Heterogeneity in Inflation Persistence
(Sevim Kösem Alp, Working Paper No. 10/04, March 2010)
- Recovering Risk-Neutral Densities from Exchange Rate Options: Evidence in Turkey
(Halil İbrahim Aydın, Ahmet Değerli, Pınar Özlü, Working Paper No. 10/03, March 2010)

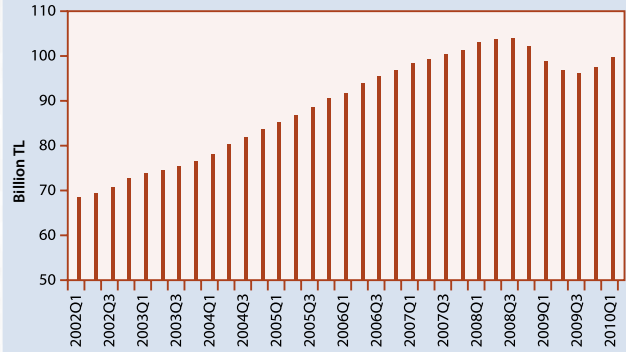
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Interest Rates for Housing Loans (TRY denominated, %)



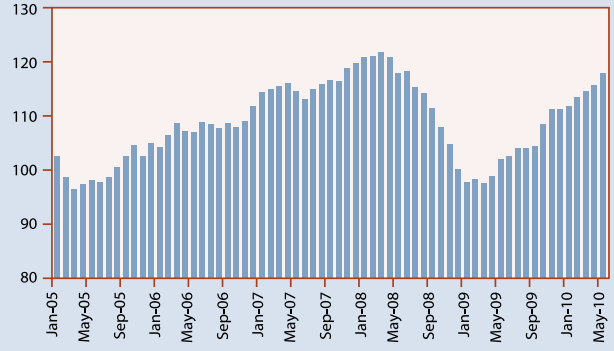
Source: CBT

Gross Domestic Product (4 Quarter Rolling Sum, 1998 Prices)



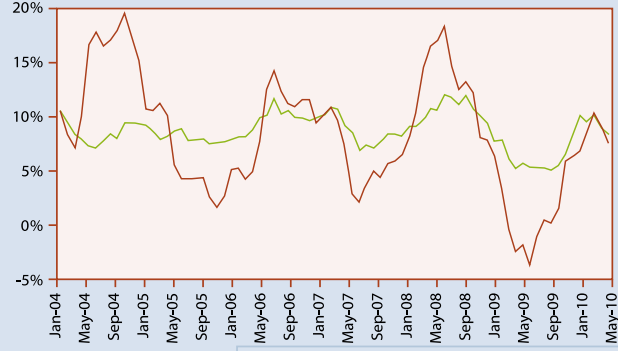
Source: TURKSTAT

Industrial Production Index (Seasonally Adjusted, 2005=100)



Source: TURKSTAT

Consumer Price Index - Producer Price Index (Annual % Change)



Source: TURKSTAT

— Consumer Price Index — Producer Price Index



CONSUMER CONFIDENCE INDEX

Consumer behavior is fairly significant for both economic decision-makers and market players. High level of consumer confidence may trigger the willingness to spend more and increase the tendency for borrowing,

while pessimism may cause consumers to cut down their expenditures and increase their precautionary savings.

In 2003, the Turkish Statistical Institute and the CBT jointly launched a study and the Consumer Tendency Survey was annexed to the Household Labor Force Survey in the form of a module.

The Consumer Tendency Survey covers four fields, which are personal financial standing, the general economy, expenditures and price expectations. The purpose of the survey is to find out the tendencies and expectations of consumers regarding

the general economic course, job opportunities, market developments and personal financial standing and hence determining monthly consumer tendencies in the short-run in order to assess their expenditure behavior as well as their expectations. The Consumer Tendency Survey is a source for the consumer confidence index.

The index is evaluated between 0 and 200. If it is above 100, it means consumer confidence is optimistic. If it is below 100, consumer confidence is pessimistic. 100 refers to a neutral opinion in consumer confidence. The results of the previous month are announced on the first working day following the 15th of each month.

For further information:

<http://www.tcmb.gov.tr/>
(Publications/ Periodic Publications)



CBT Policy Rate*

One Week Repo

7,00

Central Bank Foreign Exchange Reserves (As of 25 June 2010, Billion USD)

70,62

CPI (Annual % Change, June 2010)

8,37

* As of June 2010.

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Central Bank of the Republic of Turkey
Communications and Foreign Relations Department
İstiklal Caddesi No: 10 06100 Ulus-Ankara
Tel: +90 (312) 507 50 00
e-mail: iletisimbilgi@tcmb.gov.tr