



INSIDE:

2 Open Letter to the  
Government

3 Publications and News  
from the Central Bank  
of Turkey

4 At a Glance



Central Bank of  
the Republic of Turkey  
Communication and Foreign  
Relations Department  
İstiklal Caddesi No: 10 06100  
Ulus-Ankara Turkey  
Phone: +90 (312) 310 36 46  
e-mail: iletisimbilgi@tcmb.gov.tr

MONETARY AND EXCHANGE RATE POLICY FOR 2008



The monetary and exchange rate policy of the Central Bank of Turkey (CBT) for 2008 was announced with a press conference on 18 December 2007. In the conference, Governor Yılmaz introduced the general framework of the monetary and exchange rate policy for 2008, and also mentioned the essentials of liquidity management.

Main Elements of the Monetary Policy for 2008

Inflation targets will continue to be defined as the annual percentage change of the year-end Consumer Price Index (CPI). Inflation targets that had been previously announced as 4 percent for the years 2008 and 2009 have been kept the same, while the target for 2010 has been set as 4 percent as well by the CBT and the government. The uncertainty band has been kept as 2 percentage points on either side around the point target.

The Inflation Path Consistent with the  
Year-End Target and the Uncertainty Band (%)

	March	June	September	December
Uncertainty band (upper limit)	9.10	8.50	8.30	6.00
Path consistent with the target	7.10	6.50	6.30	4.00
Uncertainty band (lower limit)	5.10	4.50	4.30	2.00

MPC Meeting Dates

17 January 2008  
14 February 2008  
19 March 2008  
17 April 2008  
15 May 2008  
16 June 2008  
17 July 2008  
14 August 2008  
18 September 2008  
22 October 2008  
19 November 2008  
18 December 2008

The Decision Making Process and Communication

The decision of the Monetary Policy Committee (MPC) and the rationale behind the decision will be posted on the website of the CBT by a press release at 7 p.m. on the meeting day. English translation of the decision will be posted on the website on the same day. "Summary of the MPC Meeting" will continue to be posted both in Turkish and English on the CBT website in eight working days following the meeting.

The Inflation Report, which is not only the main communication tool of the monetary policy, but also assumes an important role with respect to accountability principle, will continue to be published quarterly. The "Price Developments" report will be published on the working day following the announcement of inflation data.

In 2008, speeches and presentations of the CBT authorities at the meetings in Turkey or abroad constitute an important pillar of the communication policy. Working papers, booklets, technical notes, conferences and workshops organized by the CBT will be used as effective means of the communication policy.

Inflation Report

31 January 2008  
30 April 2008  
28 July 2008  
31 October 2008

Exchange Rate Policy and Liquidity Management for 2008

Unless extraordinary circumstances are observed in foreign exchange liquidity conditions, foreign exchange buying auctions will continue in 2008.

The CBT will continue to closely monitor the volatility in the exchange rates in 2008, and will directly intervene in the market in case of actual or potential excessive volatilities.

The CBT does not foresee any significant changes in the general framework of the liquidity management for 2008. Hence, overnight interest rates will remain at the level of the CBT borrowing rate. Thus the overnight borrowing rate of the CBT will continue to be the benchmark interest rate with respect to the monetary policy.

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

## OPEN LETTER TO THE GOVERNMENT

The annual CPI inflation outturn by the end of December 2007 was 8.39 percent, breaching the upper limit of the uncertainty band. The CBT wrote the arguments explaining why inflation in 2007 exceeded the year-end target, evaluated the measures taken by the CBT to bring inflation back to target and presented the medium-term inflation outlook through an "open letter" to the government and to the public on 31 January 2008.

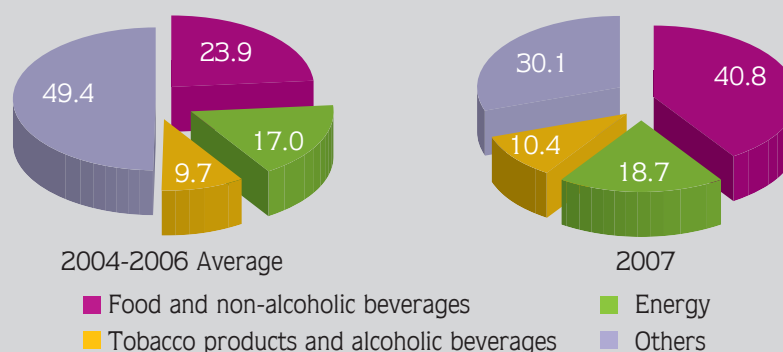
### Reasons for Exceeding the Target

A prolonged shortage of rainfall in Turkey since autumn 2006 has resulted in low crop yields in 2007, which in turn translated to an adverse supply shock. Moreover, factors such as increasing bio-fuel production, strong global demand for food and consequent rises in agricultural commodity prices had an impact not only on the prices of unprocessed food, but also on the prices of processed food. Hence, food prices became the main factor impeding the disinflation process in 2007, with a marked contribution of 3.4 percentage points on headline inflation.

The crude oil price in December 2007 was nearly 50 percent above the levels registered at the end of 2006. This development, together with the changes in special consumption tax on fuel-oil products and increases in housing water prices, which are administered by municipalities led to an increase in the prices of energy and administrative components. Overall, 1.6 points of the headline inflation resulted from these price hikes.

*Tight monetary conditions continue to support the disinflation process. Despite the recent rate cuts, monetary policy can still be considered to be in the restrictive territory.*

Contribution to Year-end CPI Inflation (% share)



### Measures Taken to Ensure the Convergence of Inflation to the Targets

The volatility in the financial markets in the May-June 2006 period and the consequent deterioration in inflation expectations had compelled the CBT to react decisively by hiking policy rates by a total of 425 basis points in a relatively short period of time and policy rates to be kept on hold for the following 13 months. Strong monetary tightening became effective in moderating private consumption demand. Moreover, the turbulence in mature financial markets in August increased the likelihood of a sooner-than-envisaged slowdown in global economic activity, and thus paved the way for initiating the policy rate cuts that were hinted earlier in the year. Accordingly, the MPC decided to start the measured rate cut cycle in September 2007. As of 31 January 2008, policy rates have been lowered by 200 basis points since then.

### Outlook for Inflation and Monetary Policy

Underlying inflation in the past year was not far away from the medium term targets. Under the assumption that oil and food inflation will follow a more favorable path in 2008 than in 2007, it is fair to expect some contribution to disinflation process in the following period.

The current supply and demand conditions support the disinflation process.

Tight monetary conditions continue to support the disinflation process. Despite the recent rate cuts, monetary policy can still be considered to be in the restrictive territory.

Credits also suggest that monetary conditions are still non-accommodative.

Recent data on global activity suggest that world economic growth is likely to moderate in the forthcoming period.

In this context, further monetary accommodation will depend on the factors affecting medium term inflation outlook.

To find out more: [www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Press Releases)



### GOVERNOR YILMAZ'S PRESENTATION BEFORE THE PLANNING AND BUDGET COMMISSION

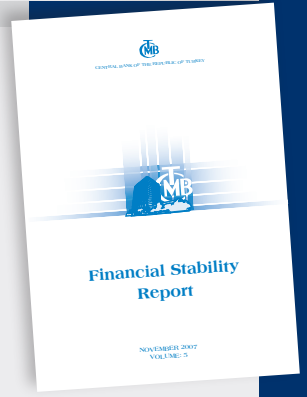
In accordance with the CBRT Law and the principle of accountability, the Governor provides the Planning and Budget Commission of the Grand National Assembly of Turkey with information on the current economic outlook and the monetary policy actions, twice a year. In this context, Governor Yılmaz made a presentation before the Commission on 27 December 2007. In his presentation, Yılmaz gave information about the recent developments in inflation, risks, exchange rate and interest rate policies, structural reforms, growth, employment and balance of payments.

**To find out more:** [www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Governor's Remarks)

### FINANCIAL STABILITY REPORT

The fifth issue of the biannual Financial Stability Report was published on 30 November 2007. The Report examines international developments in the context of the effects of problems experienced in the US sub-prime mortgage markets on global liquidity conditions besides financial stability and measures taken by central banks and the impacts on emerging markets. The Report also analyses macroeconomic developments in the Turkish economy and the structure of the financial sector by examining the banking sector, the sector's profitability, capital adequacy and related risks.

**To find out more:** [www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Publications/Periodic Publications)



### INFLATION REPORT

Inflation Report 2008-I was released through a press conference with the participation of Governor Yılmaz on 31 January 2008. The Report examines the macroeconomic developments in 2007 followed by international economic developments. In this framework, a box evaluating the appreciation of the Chinese yuan and the possible developments is included as well. The Report also analyses inflation developments, aggregate supply and demand conditions, financial markets, public finance developments and risk components in the Turkish economy in detail. Furthermore, the medium-term inflation forecasts are updated.

**To find out more:** [www.tcmb.gov.tr](http://www.tcmb.gov.tr) (Publications/Periodic Publications)



### MEETING OF CENTRAL BANK REPRESENTATIVES

Frankfurt Representative Office of the CBT hosted the traditional meeting of the representative offices of central banks in Frankfurt, Germany on 6 November 2007. Besides the representatives of the Bank of Japan, the Bank of Korea, the Bank of Italy and the People's Bank of China, authorities from the ECB and the Deutsche Bundesbank participated in the meeting. The participants assessed the macroeconomic outlook of their countries and evaluated the effects of the global turmoil in financial markets.

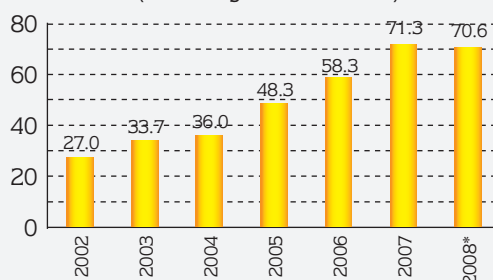


### MAWLANA CONCERT

In the year 2007, UNESCO celebrated the 800<sup>th</sup> birthday anniversary of Mawlana Jalal-ud-Din Balkhi Rumi, eminent philosopher and mystical poet. In the context of the cultural activities of the CBT, a concert dedicated to Mawlana was held in Ankara on 28 December 2007. At the concert, poems of Mawlana that were translated into contemporary Turkish and composed by Conductor İhsan Özer were performed by soloist Ahmet Özhan and the Symphony and Classical Turkish Music Orchestra.

## AT A GLANCE

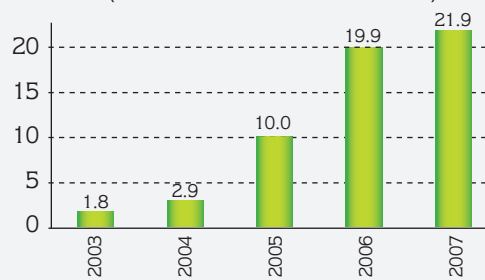
### Central Bank Reserves (Excluding Gold, bio USD)



Source: CBT

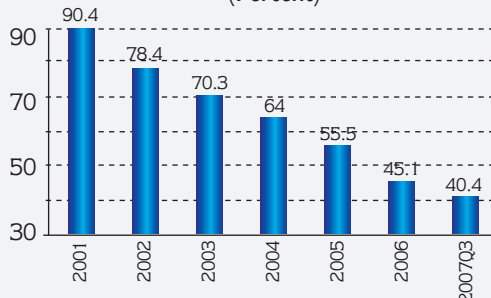
\* As of 15 February 2008

### Foreign Direct Investment Inflows (12 month cumulative, bio USD)



Source: CBT

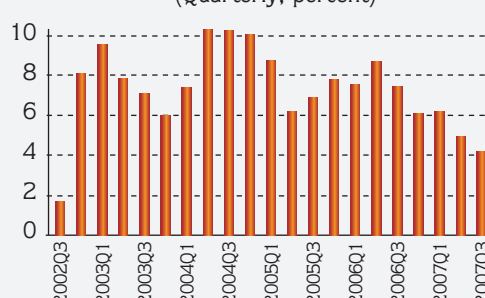
### Total Public Net Debt Stock\* / GNP (Percent)



Source: Treasury, Turkstat

\* Total Public Net Debt Stock= Total Public Sector Gross Debt-Central Bank Net Assets-Public Sector Deposits-Unemployment Insurance Fund Net Assets

### GNP Growth Rate (Quarterly, percent)



Source: Turkstat

## CBT ART COLLECTION

In the early years of the Republic of Turkey, the purchase and collection of art were on the agenda, and the state institutions led this initiative in line with the decision to "put works of art in the official offices of the state". In



Bedri Rahmi Eyüboğlu, 1957, Centipede



Cahit Güraydın, 1986,  
Haydarpaşa Train Station

this regard the CBT played a leading role in acquiring and collecting works of art, with its earliest such acquisitions coming in the 1930s. Since then the CBT have formed a collection, which summarizes the development of Turkish painting. The initiatives of the Art Board established in 1991 have renewed and enriched the collection along contemporary lines. Additionally in recent years important steps have been taken to evaluate, exhibit and catalogue this accumulated artistic wealth. Today there are more than 800 works of art in the collection. The art collection is a symbol of the CBT's policies in culture and art.

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

Published quarterly by  
the Central Bank of the  
Republic of Turkey  
Issue: 9  
March 2008

**Owner on behalf of the  
Central Bank of the  
Republic of Turkey and  
Responsible Editor:**  
Nesrin Doğaneli

#### Publication Board:

Aydın Özmen  
İlhan Koçaker  
Ufuk Şenol  
Yücel Yazar  
Gamze Doğan  
Ayşen Üstün  
Tangül Hınçal  
Dilek Kalındemir  
Mesut Kümbetlioğlu  
Zeynep Özge Yetkin

#### Publication:

Central Bank of the  
Republic of Turkey  
Banknote Printing Works  
Department

For Subscription:  
[iletisimbilgi@tcmb.gov.tr](mailto:iletisimbilgi@tcmb.gov.tr)

Distributed free of charge

CBT Interest Rates*	Borrowing	Lending
Overnight (%)	15.25	19.25

Central Bank Foreign Exchange Reserves (As of 15 February 2008, Billion USD)	70.55
CPI (Annual % Change, January 2008)	8.17

\* As of 25 February 2008.

## CORRECTION

In the "CPI, Services and Goods Inflation" graph of the 8<sup>th</sup> CBRT Bulletin, the legend names "Goods Inflation" and "CPI" were mistakenly used in place of each other.