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**“The Monetary and Exchange Rate Policy for 2007”
was announced with a press conference on December 13, 2006.**



Considering both the strategic and the operational framework of the monetary policy in the light of the first year's experience of the inflation targeting regime, Governor Yılmaz explained the general framework of the monetary policy for 2007 in detail and also mentioned the exchange rate policy and the liquidity management.

Main Elements of the Monetary and Exchange Rate Policy for 2007

Inflation targets will continue to be defined as the annual percentage change of consumer price index. Inflation targets that had been previously announced as 4 percent for the years 2007 and 2008 remained the same and the target for 2009 has been set as 4 percent as well. The uncertainty band, which is a mechanism for determining the excessive deviations from the target, has been kept as 2 percentage points in either directions around the point target.

The path consistent with the year-end target and the uncertainty band

	March	June	September	December
Uncertainty band (upper limit)	11.2	8.7	7.3	6.0
Path consistent with the target	9.2	6.7	5.3	4.0
Uncertainty band (lower limit)	7.2	4.7	3.3	2.0

The Monetary Policy Committee (MPC) will continue to meet on a pre-announced schedule. Its decisions and their rationales will be announced by a press release, both in Turkish and English, before 7 pm on the same day with the meeting. Within 8 business days following the meeting, the assessments of the MPC and its views on the inflation outlook will be summarized in the statement named “Summary of the Monetary Policy Committee Meeting” to be announced with a press release alongside its English translation.

**Monetary Policy
Committee Meeting
Schedule**

16 January 2007
15 February 2007
15 March 2007
18 April 2007
14 May 2007
14 June 2007
12 July 2007
14 August 2007
13 September 2007
16 October 2007
14 November 2007
13 December 2007

**Timetable of the
Inflation Report**

29 January 2007
27 April 2007
27 July 2007
26 October 2007

Inflation forecasts, which covered one and a half year period in the Inflation Reports published throughout 2006, will refer to two-year period from 2007 onwards.

Exchange Rate Policy for 2007

- Foreign exchange buying auctions will continue within the framework of the announced program, depending on the liquidity conditions in the foreign exchange market.
- The Central Bank of Turkey (CBT) will continue to monitor the developments in the foreign exchange market and intervene directly in the case of excessive or potential volatility in either direction.



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To find out more: www.tcmb.gov.tr (Basic Policy Readings)

Dollarization: The Turkish Experience

Dollarization, which has been one of the prominent features of globalization, is an issue that most of the emerging market countries, including Turkey, have to tackle.

With the financial liberalization policies of the 1980's, the barriers on foreign exchange



transactions of commercial banks were removed and the Turkish residents were allowed to open foreign exchange deposit accounts. Beginning from that date, both the volume of foreign currency denominated deposits and the share of the foreign exchange denominated assets and liabilities of the banking sector started to grow.

The liberalization policies, accompanied with macroeconomic instability and the lack of necessary structural reforms increased the fragility of the economy to external shocks during 1990's; the average annual inflation climbed to 80 percent and the public sector borrowing requirement reached to 15 percent of GNP.

As of 2001, Turkey was one of the most dollarized economies in the world: the share of foreign exchange deposits in total deposits, which was 25.5 percent in 1990, reached 57.6 percent in 2001. However, the year 2001 can also be marked with the start of the efforts contributing to the de-dollarization process.

In fact, Turkey has been on a track of de-dollarization since then. Despite some pauses due to the developments on both domestic and foreign economic environment, the ratio of foreign exchange deposits to total deposits fell to 37 percent as of January 2007. In this period, the share of foreign exchange in public borrowing decreased, as well.

Looking closer, the efforts to achieve macroeconomic stability have played a crucial role in the process of de-dollarization. As a result of prudent monetary and fiscal policies along with structural reforms, inflation declined to single digits on the way to achieve price stability.

Besides, it is important to note that the central bank independence brought by the amendments made in the CBT Law has contributed not only to the fight against inflation, but also to the de-dollarization process through increasing credibility of the CBT.

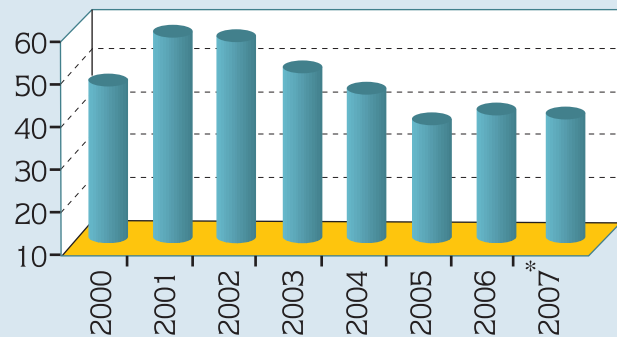
In parallel, the denomination of the Turkish lira, which was implemented by dropping six zeroes from the currency, increased the credibility of the Turkish currency.

The monetary policy framework, which was implemented first as

implicit and then as full-fledged inflation targeting regime together with floating exchange rate regime supported the decline in dollarization. Under the floating exchange rate regime, while the exchange rate volatility has increased, the inflation and its volatility have declined significantly with prudent policies, which prevented the residents from using foreign exchange to a great extent.

However, de-dollarization is a difficult and a long-lasting process that is closely related with the macroeconomic stability. Hence, the continuation of sound monetary and fiscal policies with structural reforms, the institutionalization and credibility of policies are the necessary conditions for decreasing dollarization further in the Turkish economy.

**The Share of FX Deposits in Total Deposits
(Year-End, %)**



*As of January 2007
Source: CBT

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“The efforts to achieve sustainable macroeconomic stability have played a crucial role in the process of de-dollarization.”

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THE CONFERENCE ON “DOLLARIZATION: CONSEQUENCES AND POLICY OPTIONS”

In order to bring the topic of dollarization into the agenda, the CBT held an international conference entitled “Dollarization: Consequences and Policy Options” on December 14-15, 2006 in Istanbul, within the framework of its 75th Anniversary Activities.

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

OPEN LETTER TO THE GOVERNMENT

The annual inflation by the end of December 2006 was realized as 9.65 percent, which is above the upper limit of the uncertainty band regarding the year-end target of 5 percent for 2006. As a result, on January 22, 2007 the CBT announced the reasons why annual inflation was above the upper limit and explained the evolution of possible developments through an “open letter” to the Government and to the public.

The rise in inflation in 2006 was attributed to a combination of several supply shocks, seasonal conditions and certain external factors. In fact, the tendency of the inflation especially in the first seven months of the year was upward. Yet, it started to slow down after August and the year-end inflation became 9.65 percent.

One of the determining factors of inflation in 2006 has been the continuing rise of unprocessed food prices since the last months of 2005 due to the unfavorable weather conditions. Besides, the negative effects caused by the global liquidity changes and the consequent exchange rate fluctuations in May and June led to cumulative rise around 3.5 points in the headline inflation. Finally, the surge in energy and commodity prices, coupled with the depreciation of the currency brought about an increase in domestic energy prices.

The Letter also mentioned the two-pillar package implemented by the CBT as a reaction to the volatility in the financial markets and the consequent rise in inflation expectations. The first pillar of the policy response was a rate hike of 400 percentage points in June followed by 25 basis point increase in July, which sent the markets a clear signal of the Central Bank’s commitment to the medium-term inflation targets. The second pillar of the package was to withdraw the excess New Turkish Lira liquidity in the financial markets via deposit purchase auctions and foreign exchange sales, while raising the lending rate up by a total of 6 percentage points.

The Letter finally stated that the monetary policy needed to remain tight to ensure the convergence to medium term targets and it would stay more attentive against adverse developments than favorable developments regarding inflation outlook.

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



WORKING PAPERS

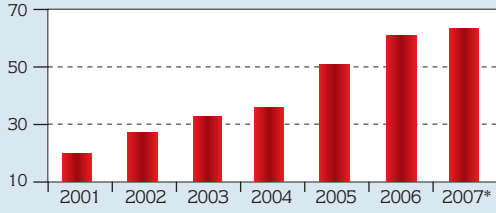
- The Evolution and Determinants of Profitability in Turkish Manufacturing Industry, 1997-2006 (Rauf Gönenç, Gökhan Yılmaz. Working Paper No. 07/01. January 2007)
- Convergence Across Provinces of Turkey: A Spatial Analysis (Altan Aldan, Esmâ Gaygısız. Working Paper No. 06/09. December 2006)
- Corporate Sector Financial Structure in Turkey: A Descriptive Analysis (Halil İ. Aydın, Cafer Kaplan, Mehtap Kesriyeli, Erdal Özmen, Cihan Yalçın, Serkan Yiğit. Working Paper No. 06/07. December 2006)

- The Determinants and Implications of Financial Asset Holdings of Non-Financial Firms in Turkey: An Empirical Investigation (Cafer Kaplan, Erdal Özmen, Cihan Yalçın. Working Paper No. 06/06. December 2006)

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

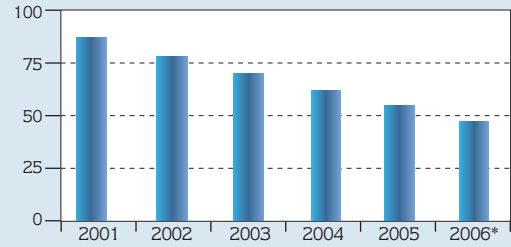
AT A GLANCE

Central Bank Reserves
(Excluding Gold, Billions USD)



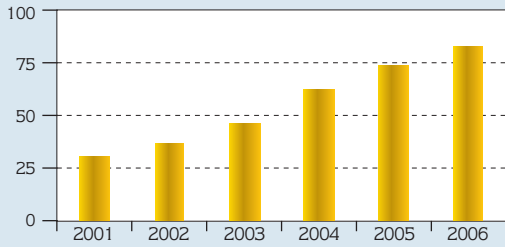
* As of February 16, 2007
Source: CBT

Public Net Debt Stock / GNP



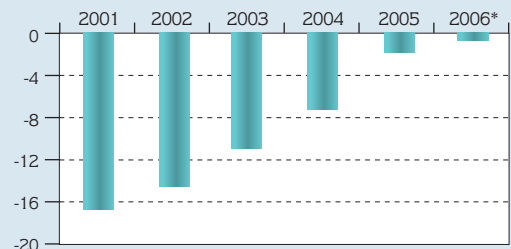
* Estimated
Source: Treasury

Exports
(Billion USD)



Source: TURKSTAT

Budget Balance / GNP



* Estimated
Source: Ministry of Finance

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THE DOCUMENTARY: "THE CENTRAL BANK OF THE REPUBLIC OF TURKEY: FROM PAST TO THE FUTURE"

The CBT, in collaboration with the Turkish Radio and Television Corporation, prepared a documentary entitled "The Central Bank of the Republic of Turkey: From Past to the Future" within the framework of its 75th anniversary activities. The documentary, which is prepared in a DVD format both in Turkish and English languages, aims to shed light on the stages that the CBT has undergone. It is based on the institutional changes that the Bank has experienced as well as the evolution of the policies in line with the changes in the Turkish economy and the social life.

To find out more: <http://www.tcmb.gov.tr> (Films and CD's)



CBT Interest Rates*	Borrowing	Lending
Overnight (%)	17.50	22.50
CBT Exchange Rates*1	FX Buying	FX Selling
Dollar	1.3761	1.3827
Euro	1.8021	1.8108

Central Bank Foreign Exchange Reserves (As of February 16, 2007, Billion USD)	62.20
CPI (Annual % Change, January 2007)	9.93

* As of February 23, 2007, ¹ Indicative