TÜRKİYE CUMHURİYET MERKEZ BANKASI

# Opening Remarks for the Conference on "Policy Responses to Commodity Price Movements"

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Distinguished guests,

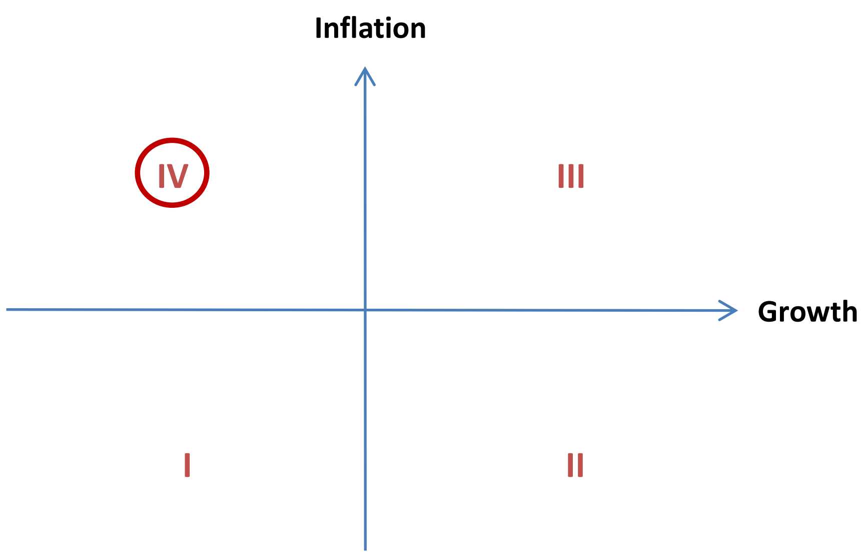
Welcome to the conference on the “Policy Responses to Commodity Price Movements” jointly organized by the International Monetary Fund, the IMF Economic Review and the Central Bank of the Republic of Turkey. As I will deliver another speech in the panel session on the second day of the conference, I will attempt to keep this inaugural speech as brief as possible. As you will recall, we hosted a conference on commodity price volatility in Istanbul last September within the context of G-20 program. These two conferences on similar topics in such a short time are clear indicators of how important the commodity price movements are for the global economy.

Why are commodity prices so important? When we think of what is covered by “commodities” more closely, we also come up with how we should approach this issue. Usually, the term “commodity prices” represent energy prices (mainly the crude oil), food prices and the prices of some main industrial inputs. Energy prices are very closely monitored by economic units and policy makers, for it denotes the cost of one of the most significant inputs for the entire economy. Energy is one of the primary cost factors for firms. It is also a considerable item for households’ heating and transportation expenditures. On the other hand, due to its high share in the expenditures of especially low-income households and corresponding purchasing power effects, food prices are given a great importance by policy makers. Meanwhile, the metals, such as iron ore, copper and aluminum, are among the most important raw materials for the industry and construction sector.

The reason why commodity prices have been frequently attracting attention is the current fluctuations in commodity prices of a magnitude that has not been seen since 2007. Price of brent crude oil, which was USD 50 per barrel in early 2007, climbed to USD 145 within one and a half year. Then, parallel to the deepening global crisis in late 2008, crude oil prices went back to USD 35; and now it is hovering around USD 125. And the uncertainties about oil prices, resulting from demand and supply-side developments, and their potential effects keep the policymakers interest in commodity prices alive in the current economic outlook.

As they are among the risk factors that affect the inflation outlook, we directly referred to commodity prices, mostly to those of crude oil and food, in our latest inflation reports. As a matter of fact, nearly half of the revisions about official inflation forecasts published in our inflation reports in the last couple of years originated from the changes in our assumptions about food and commodity prices. This suggests that the rise in commodity prices may bring about challenges for central banks not only in terms of direct pressures on inflation. The uncertainties due to commodity price fluctuations also stand out as an important issue for the monetary policy communication and expectations management by the central banks.

Structure of the commodity price dynamics is also of great importance for they constitute an input for the monetary policy decisions of the central banks. For example, the sources of the commodity price fluctuations and the nature of the shocks are extremely influential for the determination of the policy responses to these fluctuations. Similarly, not only the level but also the volatility of commodity prices can have a significant effect on the macroeconomic activity. For example, a shock affecting the level of crude oil prices may have a different effect on economy, if it is observed in a period where the volatility of prices is also higher.




As I have briefly mentioned before, an increase in the commodity prices creates downward pressure on the growth prospects, and upward pressure on inflation. In Turkey, the investment incentive package that was announced yesterday will support our economic growth through the supply side, and the tighter monetary policy will eliminate the inflation risks.

The sessions on each day of the conference will provide platforms for studies which are of very rich content and great potential benefit for policymakers. For example, macroeconomic effects of the commodity price dynamics and possible corresponding policy responses are among the main themes elaborated during the conference. Another important issue to be discussed is how the effects of commodity prices on inflation, economic activity and exchange rates differ with respect to different monetary policy regimes. Another important issue is the interaction among different economic policies vis-a-vis the commodity price fluctuations.

Distinguished guests,

Studies included in the program will substantially contribute to the understanding of the commodity price dynamics and the policy responses against the macroeconomic effects of these dynamics. In this context, I would like to thank the organization committee for their efforts for this conference program which gathers very interesting and enlightening studies. I also believe that the conference will provide a platform which will be highly beneficial for the exchange of views among participants.

Thank you very much in advance to all participants for their contribution. Now, I would like to give the floor to Pierre-Olivier Gourinchas, professor of economics at California University-Berkeley and the chief editor of the IMF Economic Review journal to open the first session.