Central Bank of the Republic of Turkey

PRESS CONFERENCE FOR THE PRESENTATION OF THE INFLATION REPORT

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26 October 2010, Ankara

Distinguished Guests and Members of the Press,

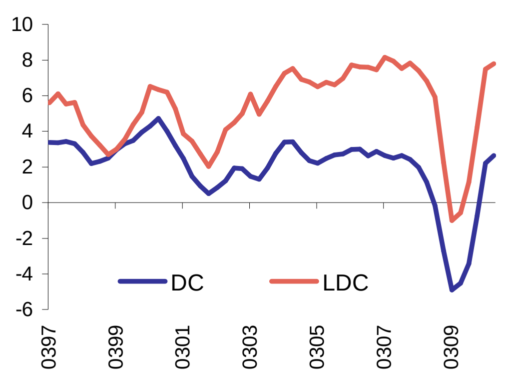
Welcome to the press conference held to convey the main messages of the October 2010 Inflation Report.

The report typically summarizes the economic framework addressed in monetary policy decisions, elaborates global and domestic macroeconomic developments and presents the medium-term inflation forecasts, which have been revised in view of previous quarter developments, along with the monetary policy stance.

Before moving on to the Central Bank's assessments of inflation outlook and economic activity, which I will share with you in detail shortly, I would like to summarize the current global conditions that continue to be determinant of the domestic economic outlook.

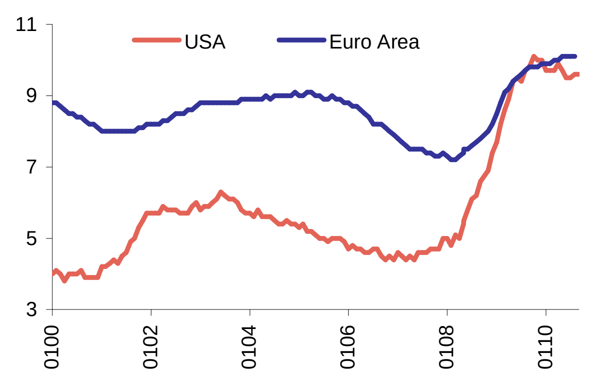
Data released in the third quarter indicate that the recovery will be quite slow and gradual albeit a second contraction in global economic activity is not very probable. The marked decoupling between the developed and developing countries in terms of growth dynamics persisted through the second quarter; where global growth continued to be driven by developing countries (Figure 1). Meanwhile, the persisting negative outlook in the labor markets of developed countries confirms the slow pace of rebound in these economies on the one hand; and leads us to believe that the improvement in employment conditions will take a long time, on the other (Figure 2).

Figure 1: Aggregated Growth Rates
(Percent)



Source: Bloomberg.

Figure 2: Unemployment Rates in Developed Countries
(Percent)

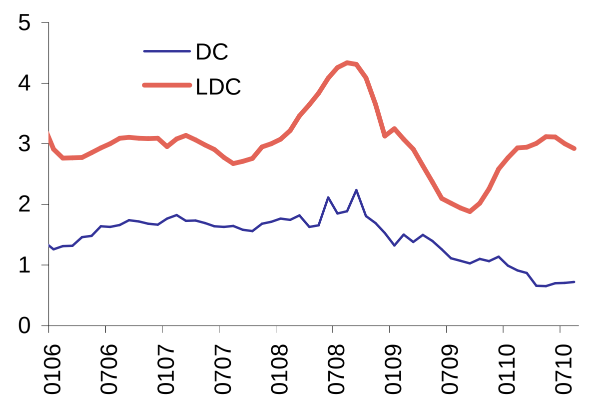


Source: Bloomberg.

Parallel to the weak outlook in economic activity, core inflation indicators in developed countries maintain their historically low levels in the third quarter of 2010 (Figure 3).

Figure 3: Core Consumer Price Inflation in Developed and Developing Countries

(Annual Percentage Change)

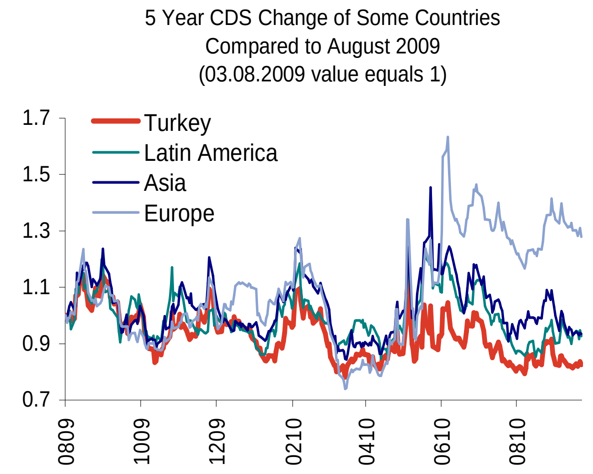


Source: Bloomberg, Datastream, CBT.

In line with the outlook I have summarized, the probability that many developed economies, which are already pursuing exceptionally loose monetary policies, would adopt a second phase of monetary easing has increased. This has strengthened the investors' inclination towards risky assets and therefore has boosted capital inflows to emerging markets, leading to currency appreciation in these countries accompanied by marked increases in commodity prices.

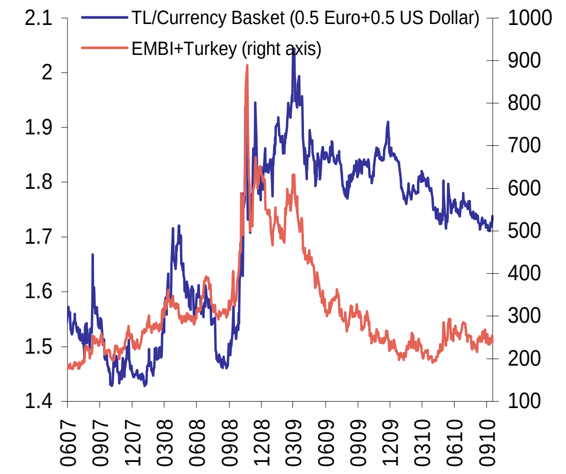
Ample global liquidity and accelerated capital flows that are driven by the increasing search for yield have affected many emerging markets, including Turkey. Favorable developments specific to Turkey have further exacerbated these effects. In particular, a better-than expected recovery in economic activity, indications of a possible upgrade from credit rating agencies, an ease of political uncertainty with the completion of the referendum process, and the signal given by the updated Medium Term Program (MTP) that the fiscal discipline would be maintained, have all contributed to Turkey's relatively better performance. Turkey's risk premium indicators performed better than many countries and continued to remain below pre-crisis levels (Figure 4). Consequently, interest rates have declined, the stock market has soared, and the Turkish lira has strengthened (Figure 5).

Figure 4: Risk Premium Indicators



Source: Bloomberg, CBT.

Figure 5: Performance of the Turkish Lira



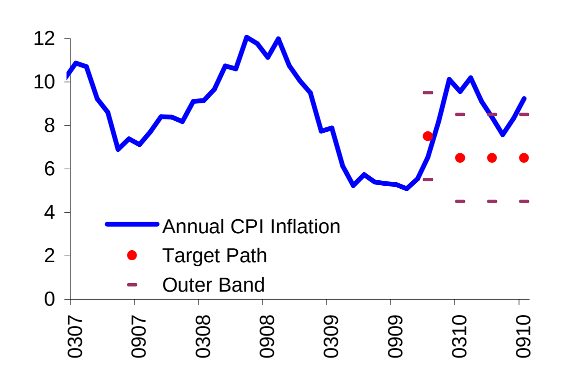
Source: Bloomberg, CBT.

1. Inflation Developments

Having summarized the current global conditions, I would now like to share my evaluation of inflation developments in Turkey that occurred in the last quarter.

In the third quarter of 2010, consumer prices and the annual inflation rate went up to 1.15 percent and 9.24 percent, respectively (Figure 6). This rise in inflation can be attributed to the sharp increases in unprocessed food prices. Meanwhile, the decline in annual services inflation and the positive outlook in prices of staple goods continued; and the main trend of inflation maintained its course consistently with the medium term targets. Thus, rates of quarterly change in all sub-categories remained well below the average figures of past years with the exception of food prices (Figure 7).

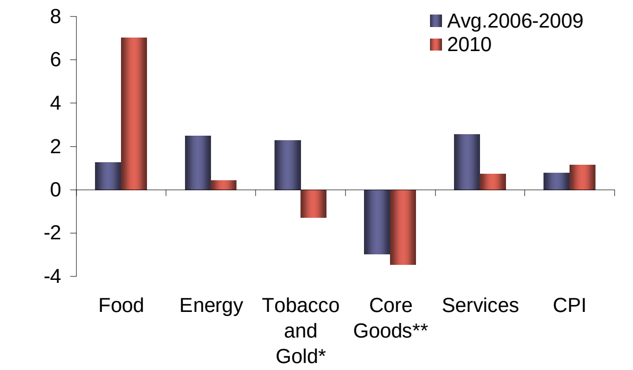
Figure 6: Annual Inflation and Path Consistent with the Target



Source: TurkStat, CBT.

Figure 7: CPI By Categories

(Third Quarter Percentage Change)

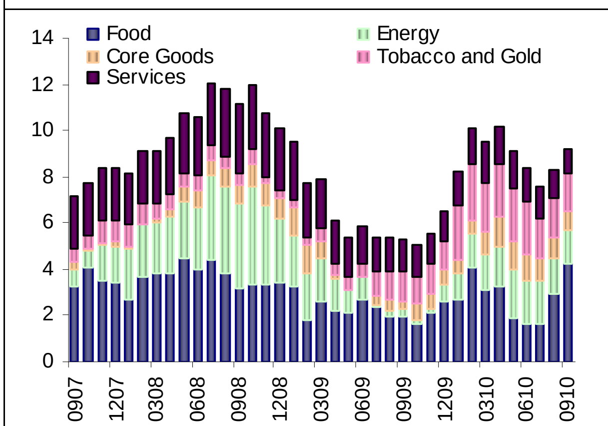


*Core Goods: Goods excluding food, non-alcoholic beverages, energy, alcoholic beverages, tobacco and gold

Source: TurkStat, CBT.

In the third quarter, food prices recorded a sharp increase driven by unprocessed food prices. Thus, the contribution of food prices to annual inflation reached 4.2 percentage points (Figure 8). Unprocessed food prices, which saw sharp slumps in the second quarter, showed substantial increases in the third quarter, bringing annual unprocessed food prices inflation to the historically highest level of 28.74 percent (Figure 9). While fresh fruits and vegetables prices became determinant; the persisting surge in meat prices became another factor influencing the rise in the group prices. At this point, I would like to underline that the fluctuating course in unprocessed food prices increases the volatility of consumer inflation and thus creates significant forecast uncertainty.

Figure 8: Contributions to Annual CPI Inflation

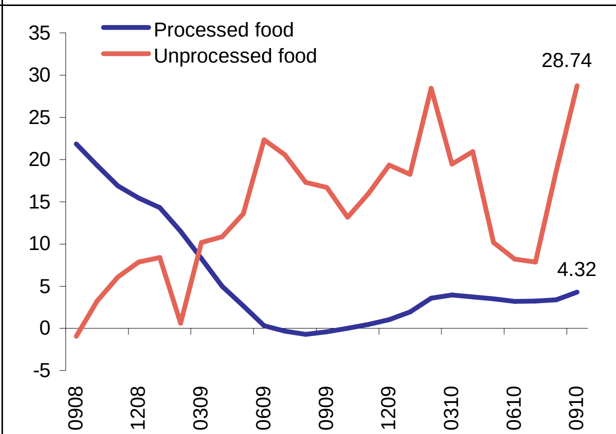


Core Goods: Goods excluding food, non-alcoholic beverages, energy, alcoholic beverages, tobacco and gold
Food and Energy: Food, non-alcoholic beverages and energy.
Tobacco and Gold: Alcoholic beverages, tobacco and gold.

Source: TurkStat, CBT.

Figure 9: Food Prices

(Annual Percentage Change)

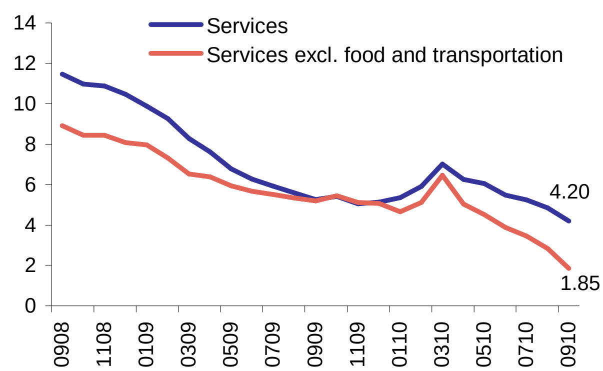


Source: TurkStat, CBT.

In the third quarter, while energy prices followed a horizontal course due to the developments in oil prices, the inflation trend in core goods excluding food, energy, alcoholic beverages, tobacco and gold maintained its low level. Meanwhile, the decline in annual services inflation became more marked than expected. Services prices excluding food and transportation, the sensitivity of which is relatively higher against demand, recorded its lowest level (Figure 10).

Figure 10: Prices of Services Excluding Food and Transportation

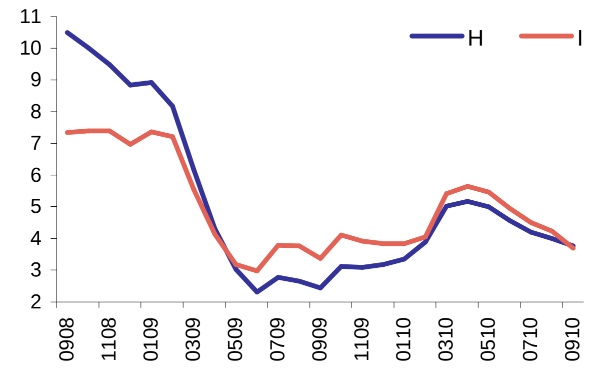
(Annual Percentage Change)



Source: TurkStat, CBT.

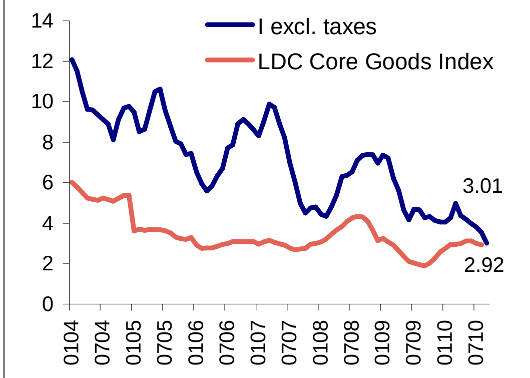
The steady downward tendency in core inflation indicators continued in the third quarter due to this beyond expected slowdown in services prices (Figure 11). The reverberations of the strong course of the Turkish lira on core goods prices were also influential in this development. In this respect, the underlying inflation implied by the core indicators continued to slow down and followed a course consistent with the medium term targets. Accordingly, the gap between Turkish core inflation indicators and those of other developing economies continued to narrow in the third quarter (Figure 12).

Figure 11: Core CPI Indices H and I
(Annual Percentage Change)



Source: TurkStat, CBT.

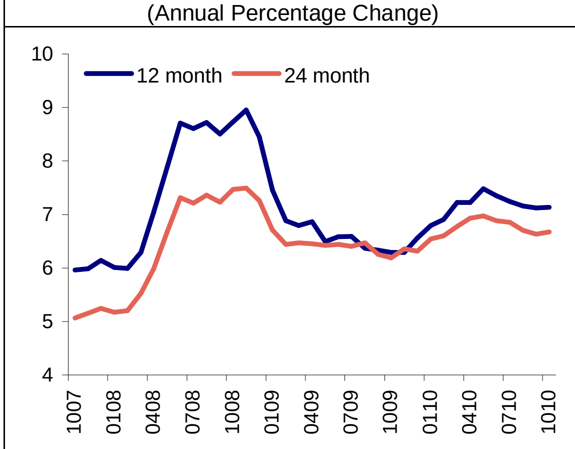
Figure 12: Core Inflation Indicators
(Annual Percentage Change)



Source: Bloomberg, Reuters, CBT.

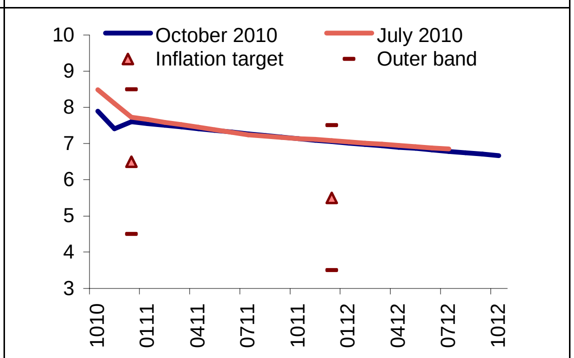
Medium-term inflation expectations, which displayed a downward trend from the second quarter in the framework of these developments, registered a limited decline in the third quarter (Figure 13). Core inflation indicators that steadily went down despite the rise in consumer inflation prevented deterioration of the medium-term expectations in this period. While recent inflation expectations showed a limited quarter-on-quarter decline, it appears that despite longer maturities, expectations did not differ from their previous quarter levels so far (Figure 14). Nevertheless, 12 and 24 month-forward expectations are slightly higher than the figures implied by inflation targets for the ends of 2011 and 2012.

Figure 13: 12 and 24-Month Ahead CPI Expectations*
(Annual Percentage Change)



* CBT Expectations Survey results from the second survey period.
Source: CBT.

Figure 14: Inflation Expectations Curve*
(Annual Percentage Change)



* Calculated by linear interpolation of expectations at different maturities in the CBT Expectations Survey. Expectations are from the second survey period
Source: CBT.

2. Monetary Policy Response

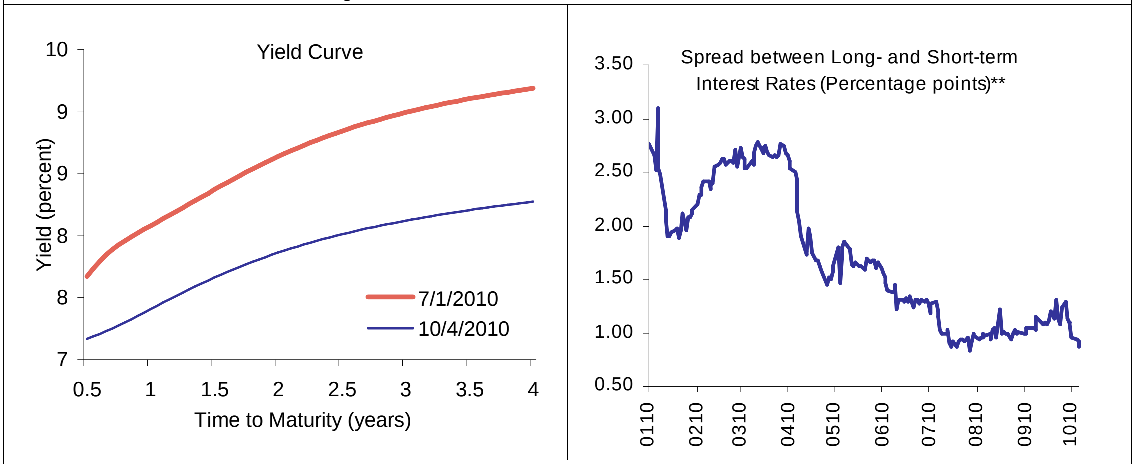
After commenting briefly on inflation developments, I would like to cover the policies pursued by the Central Bank during the last quarter.

Although domestic demand was relatively stronger during the third quarter of 2010, aggregate demand conditions continued to support disinflation due to weak external demand, bringing core inflation to historically low levels. Therefore, the Monetary Policy Committee maintained its stance of keeping policy rates constant for some time, and to keep them at low levels for a long period.

Observing the surge in capital inflows as the last quarter of the year began, in anticipation that the combination of strong domestic demand and weak external demand will continue, I would like to remind you that rapid credit growth coupled with the risks regarding the current account deficit and financial stability necessitates caution. In this respect, considering the favorable developments in credit markets and the ongoing recovery in economic activity, the CBT has, to a large extent, completed the process of reversing the temporary liquidity measures implemented during the crisis period. Accordingly, overfunding of the markets was halted and the required reserve ratios were increased. Moreover, to facilitate the use of alternative macroprudential policy tools, the remuneration of required reserves was terminated and the operational framework of liquidity management was changed. Finally, in order to be more flexible against the variability of capital flows, a new method for foreign exchange purchase auctions was designed and put into effect on 4 October 2010. To this end, a total of USD 1.76 billion was purchased in the first three weeks, USD 1.2 billion of which was additional purchase.

Within the framework of these developments, while the yield curve has shifted down across all maturities during the third quarter, the decline was more significant for longer-term interest. Although surging capital inflows towards emerging markets have been effective, factors specific to Turkey have also contributed to the downward shift in the yield curve, as I mentioned at the beginning of my speech. Lower-than-expected core inflation has contributed to the downside movement in the short term, while the drop in longer-term interest rates mostly reflects perceptions that the improvement in the relative creditworthiness of Turkey would become permanent (Figure 15).

Figure 15: Term Structure of Market Rates



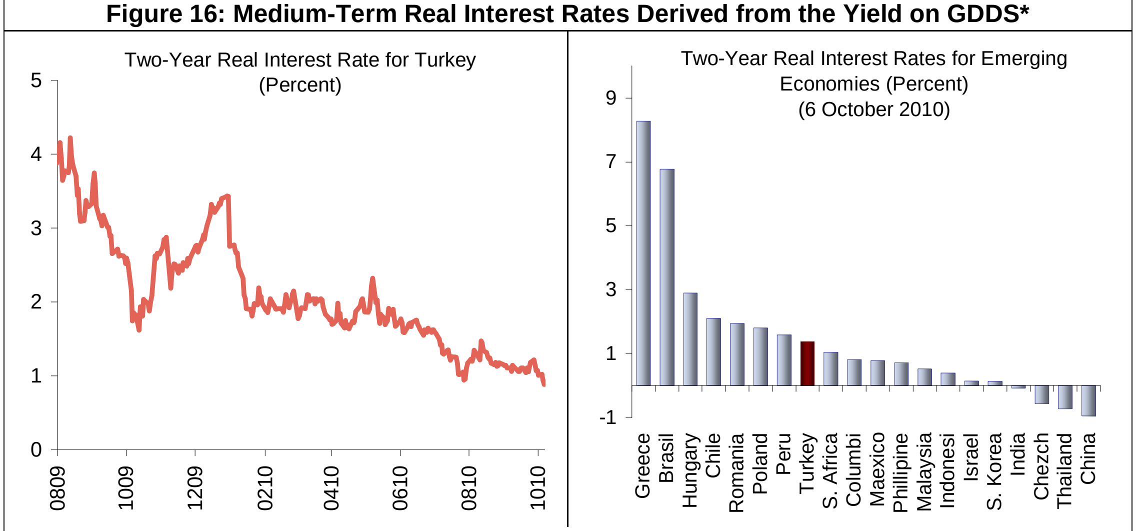
* Calculated from the compounded returns on bonds quoted in ISE Bonds and Bills Market by using Extended Nelson-Siegel (ENS) method.

** The spread between the 4-year and 6-month yields derived from the ENS yield curve, 5-day moving average.

Source: CBT, İSE.

Along with decreasing nominal interest rates, real interest rates have continued to hover at historically low levels during the third quarter. Moreover, Turkey's real interest rates do not differ significantly from those of other emerging markets (Figure 16).

Figure 16: Medium-Term Real Interest Rates Derived from the Yield on GDDS*



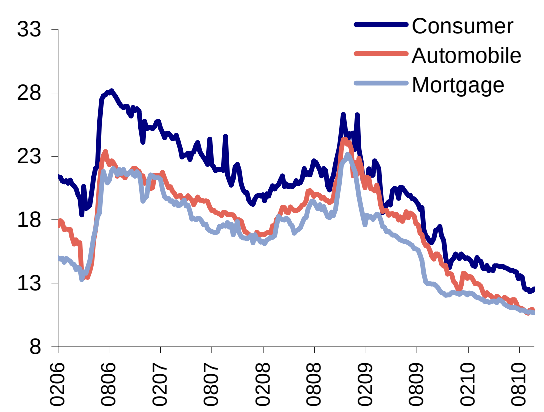
* Two-year real interest rates, calculated using two-year nominal interest rates from the yield curve and inflation expectations from the CBT's Expectations Survey.

Source: İMKB, Bloomberg, CBT.

Meanwhile, with the removal of extra tightness in financial conditions that emerged during the crisis, the effectiveness of the monetary policy on credit market enhanced; thus, the low level of real market rates were better reflected in credit interest rates (Figure 17). Moreover, the lending appetite of banks has improved and expectations for further loosening of lending conditions in the upcoming period have arisen.

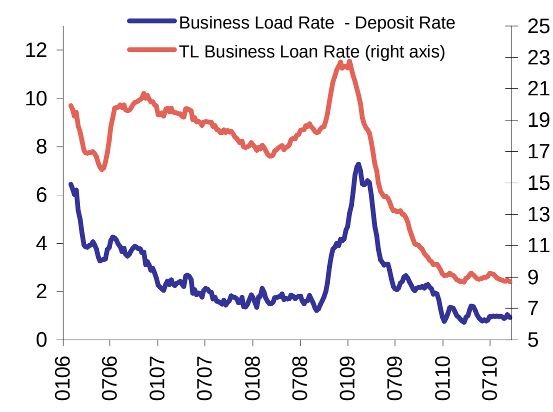
Accordingly, under the current conditions, where commercial loans tend to increase and this increase is spreading across more sectors, the spread between the interest rates of commercial loans and deposits are hovering at historically low levels, pointing to less tightness in credit supply (Figure 18).

Figure 17: Consumer Loan Rates
(Percent)



Source: CBT.

Figure 18: Business Loan and Deposit Rates*
(Percent)



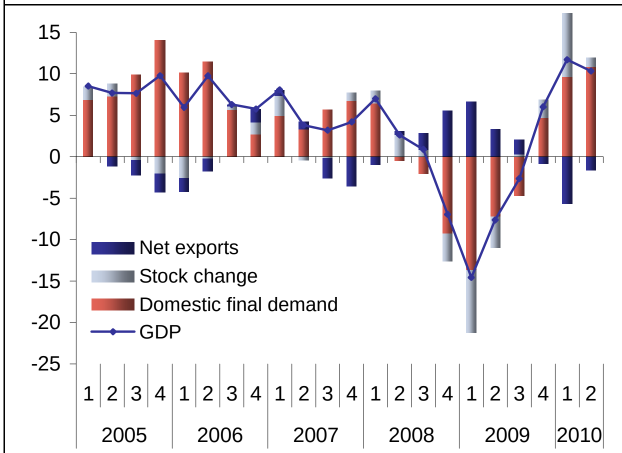
*Annual interest rates, four-week moving average.
Source: CBT.

3.Inflation and Monetary Policy Outlook

After summarizing our monetary policy stance and its impacts on the financial markets, I would now like to share with you the financial outlook and our assumptions underlying our forecasts.

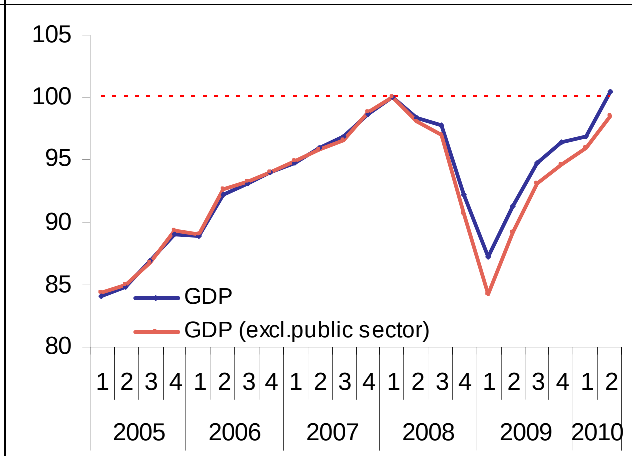
National income data released pertaining to the second quarter of 2010 are broadly consistent with the outlook presented in the July Inflation Report. While the relatively stable recovery in domestic demand continues, exports of goods and services have accelerated. In this context, the Gross Domestic Product (GDP) increased by 10.3 percent compared to the same period last year, (Figure 19). Following the slowdown in the first quarter, the quarterly growth rate of national income began to reaccelerate on the back of high rate increases in exports and public construction sectors compared to the previous quarter, while private growth pursued a relatively more moderate course (Figure 20). Hence, while the GDP reached its pre-crisis level by the second quarter, the GDP excluding public expenditures hovers below the pre-crisis level.

Figure 19: Annual GDP Growth by Quarters and Contribution of Demand Factors to Growth
(Points)



Source: TurkStat.

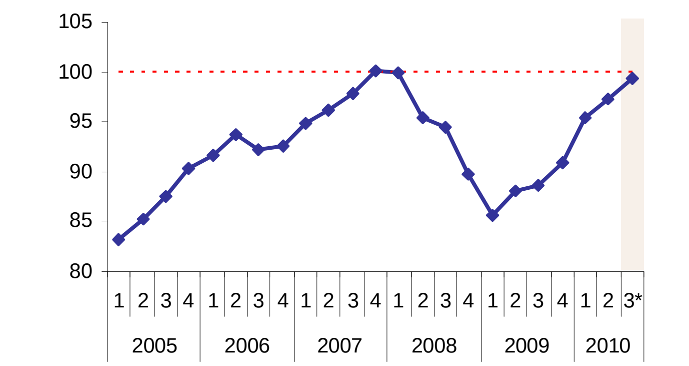
Figure 20: GDP
(Seasonally Adjusted, 2008 Q1=100)



Source: TurkStat, CBT.

Recent data suggest that the recovery in domestic demand is slightly stronger than expected and that a more moderate growth process was assumed in the second half of the year. Indicators pertaining to private sector demand indicate that private sector consumption and investments continued to rise rapidly in the third quarter in annual terms (Figure 21). Consumption and investment expenditures are likely to accelerate in the final quarter of the year with the support of the counter-cyclical stance of monetary and fiscal policies as well as strengthening capital inflows.

Figure 21: Private Demand
(Seasonally Adjusted, 2008 Q1=100)

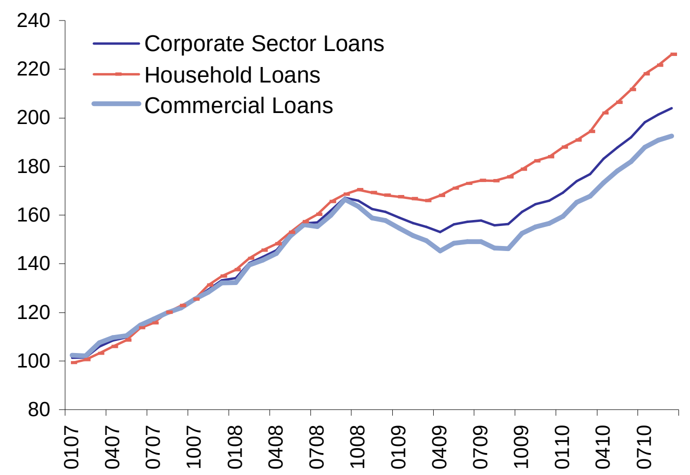


*Forecast.
Source: TurkStat, CBT.

The steady rise in credits confirms continuing recovery in economic activity (Figure 22). Another noteworthy point about this period is that credit expansion continues to extend across a greater part of our economy in terms of both sectors and scale. Low interest rates and easing credit risk indicators suggest that credit growth will be strong, and therefore, the credit channel should continue to underpin domestic demand over the forthcoming period.

Figure 22: Corporate Sector Loans*

(2007=100)

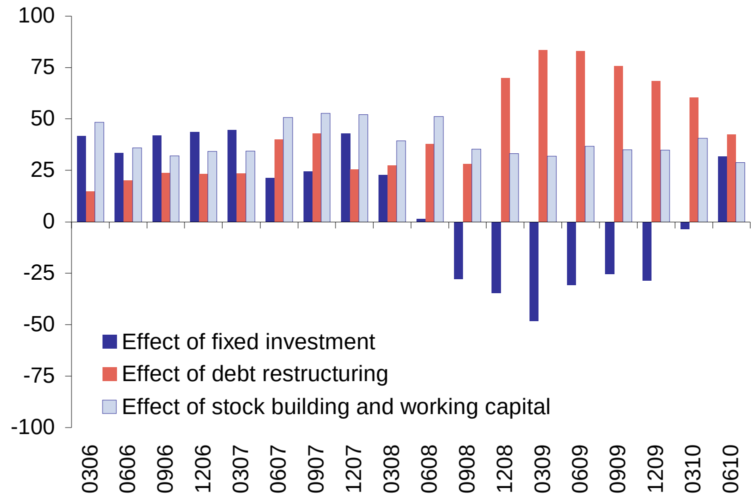


*Corporate loans are composed of household loans and business loans.

Source: CBT.

As supply-side constraints have widely subsided, we believe that credit realizations rather reflect the dynamics pertaining to credit demand. The Loans Tendency Survey suggests that the borrowing motivation of firms tends to change in the post-crisis period. Firms used to demand credits to facilitate debt rollover or to finance their working capital during the crisis. However, as the effects of the crisis tapered off, loans for rolling over debts decreased while loans for investment purposes increased (Figure 23). Actually, GDP data for the first half of the year and other indicators of economic activity suggest that demand for investment loans is on the rise and this outlook is consistent with the recovery in credit demand for investment purposes.

Figure 23: Factors Affecting Demand for Business Loans

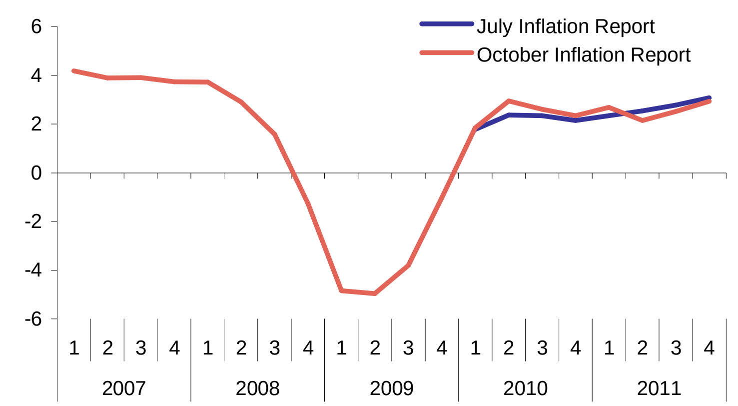


Positive/negative values denote that the factor in questions increases/decreases demand for loans.

Source: CBT.

Despite the relatively robust course of domestic demand, external demand remains subdued in line with the signals for a sluggish recovery in global economy. In other words, lingering problems in the global economy further accentuate decoupling between the pace of recovery in domestic and external demand. In this framework, the negative contribution of net exports in growth is predicted to increase. Moreover, forecasts for global economic activity, which have been revised in the last three months, indicate that there has been no significant improvement in the growth outlook of our trade partners (Figure 24). Therefore, revised forecasts were based on the assumption that external demand conditions would not display a significant change compared to the previous Report.

Figure 24: Export-Weighted Global Economic Activity*
(Annual percentage change)

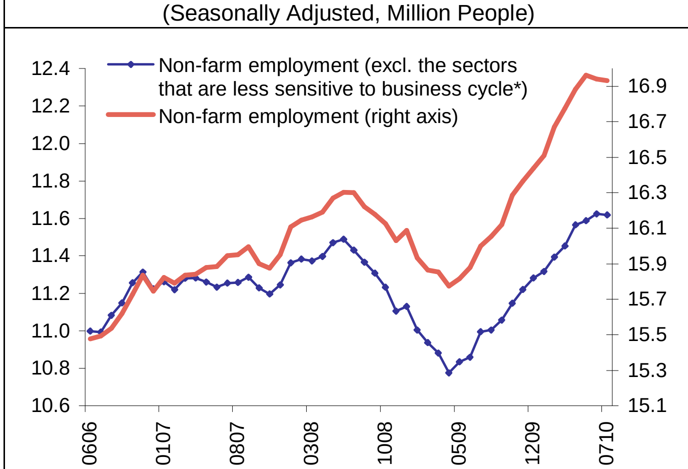


* For the methodology, see Inflation Report 2010-II, Box 2.1 "Foreign Demand Index for Turkey.

Source: CBT, Bloomberg, Consensus Forecasts July and October 2010 Bulletins.

Continued recovery in economic activity fuelled by rapid growth in domestic demand underpins the improvement in employment conditions. Although the rapid recovery observed in non-farm employment since the second quarter of 2009 halted in the third quarter of 2010, leading indicators suggest that this is only temporary (Figure 25). Nevertheless, we expect unemployment rates to remain high for quite some time compared to the pre-crisis period due to the relative slowdown employment growth and high labor force participation rates (Figure 26). Therefore, we envisage no significant pressure on unit labor costs in the upcoming period.

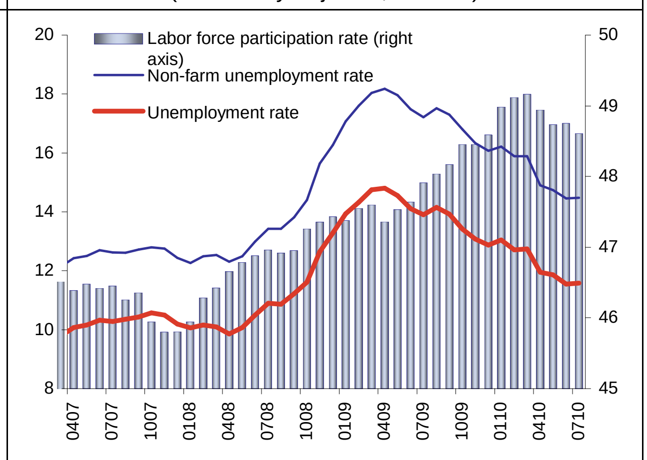
Figure 25: Non-Farm Employment
(Seasonally Adjusted, Million People)



*Sectors that are less sensitive to business cycles: Community Services, Financial institutions, Real-estate leasing and Business services

Source: TurkStat, CBT.

Figure 26:Unemployment Rates
(Seasonally Adjusted, Percent)



Source: TurkStat, CBT.

In light of these assessments, our revised inflation forecasts are based on a framework in which domestic demand is stronger compared to the previous period, external demand continues to restrain domestic economic activity, and thus aggregate demand conditions continue to support disinflation, albeit to a lesser degree.

As for fiscal policy, MTP (Medium-Term Program) projections revised in October constitute the basis of our forecasts. In this respect, we envisage a temporary acceleration in public expenditures for the rest of the year, to be followed by a gradual decline in the ratio of primary expenditures to national income starting from 2011. We also assume that any fiscal space that may arise due to stronger-than-expected economic activity would partially be used to reduce government debt stock, congruent to the counter-cyclical fiscal policy approach. It was envisaged that the ratio of debt stock to GDP would continue to decline and no significant change would be observed in the risk premium throughout the forecast horizon. Moreover, our forecasts are based on the assumption that tax adjustments would be consistent with the inflation targets and automatic pricing mechanisms.

Distinguished members of the press,

Important developments since the July Inflation Report warranted a revision of the assumptions, which our forecasts are based on. I would like to provide some detailed information on these factors to ensure that our forecasts are better understood.

Worse-than-expected outcomes regarding vegetable prices and the slower-than-expected downward correction in meat prices in the third quarter necessitated an upward revision in the assumption for food inflation in the short-term. In this respect, we revised our food inflation assumption from 7.5 percent to 10.5 percent for end-2010, while keeping our assumptions for food inflation for 2011 and 2012 at 7 percent (Table 1). The revision in question pushed our inflation forecast for end-2010 up by 0.8 percentage points.

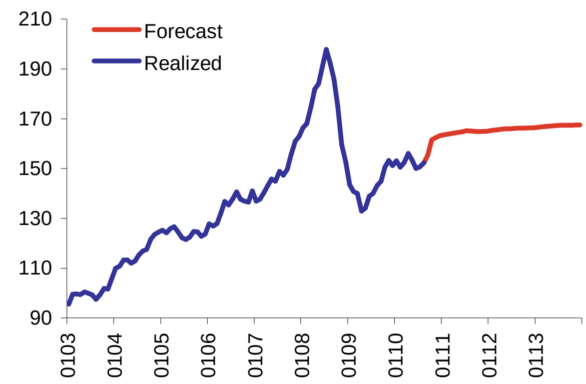
Table 1: Assumptions Underlying Inflation Forecasts		
	July 2010 IR	**October 2010 IR**
Food Prices	2010: 7.5% 2011: 7% 2012: 7%	2010: 10.5% 2011: 7% 2012: 7%
Output Gap	2010 Q1: -4.7 2010 Q2: -3.4 2010 Q3: -2.6	2010 Q1: -4.7 2010 Q2: -2.6 2010 Q3: -2.0
Oil Prices	2010: USD 80 2011: USD 85 2012: USD 90	2010: USD 80 2011: USD 85 2012: USD 90

Although unprocessed food inflation was markedly higher than expected in the third quarter, the deceleration in core goods and services inflation was more significant than envisaged. In other words, the core inflation trend, which pins down the initial point of the medium-term forecasts, has decreased at a faster-than-expected pace. This development necessitated a downward revision of the inflation forecasts for end-2010 by 0.8 percentage points, while also favorably affecting medium-term forecasts.

With stronger-than-expected domestic demand data in the last period, the output gap was revised upwards compared to the previous forecast (Table 1). In other words, we base our assumptions on an outlook, in which the contribution of aggregate demand conditions to disinflation in the revised forecast is slightly more limited as opposed to the July Inflation Report. This development has not affected short-term inflation forecasts, but has had some upward impact on medium-term forecasts.

Increased expectations that the developed economies would continue to pursue expansionary monetary policy have led to rapid increases in commodity prices. However, crude oil prices in the futures markets as of October are still largely aligned with the assumptions in the July Inflation Report. In this context, our previous assumption of oil prices are kept unchanged, as you can see on the slide (Table 1). Moreover, based on commodity prices in the futures market, we assume that import prices will exhibit a gradual upward trend throughout the forecast horizon (Figure 27).

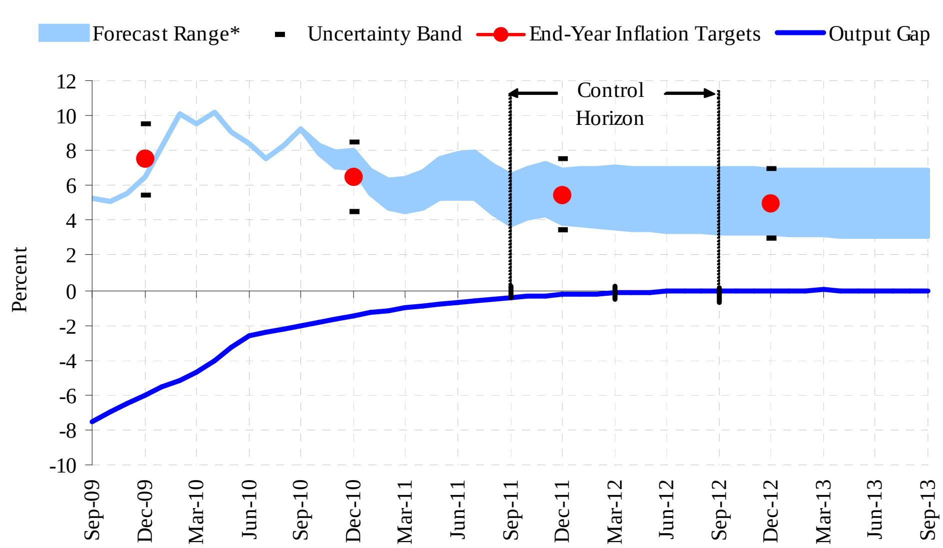
Figure 27: Import Price Index *



*2003 average is taken as 100.
Source: CBT, TurkStat.

Now I would like to share with you our inflation and output gap forecasts produced in line with the framework that I have outlined so far. While producing our forecasts, we assumed that the measures outlined in our exit strategy would be completed during the rest of the year, and that policy rates would be kept constant at current levels for some time to be followed by limited increases starting from the last quarter of 2011, with policy rates staying in single digits throughout the 3-year forecast horizon. Within this framework, we project that, with 70 percent probability, inflation will be between 7 and 8 percent with a mid-point of 7.5 percent at end-2010, and between 3.9 and 6.9 percent with a mid-point of 5.4 percent by the end of 2011. Furthermore, inflation is expected to decline to 5.1 percent by the end of 2012 (Figure 28).

Figure 28: Inflation and Output Gap Forecasts*
(Percent)



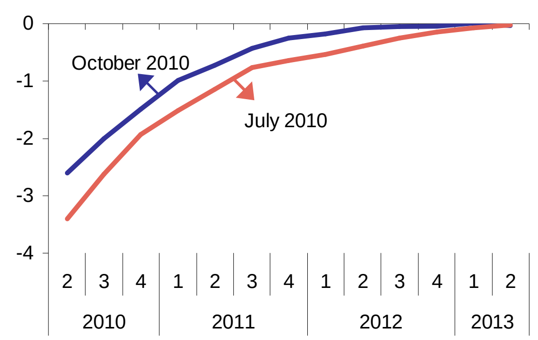
* The shaded region indicates the 70 percent confidence interval for the forecast.

Overall, the impact of the upward revision in the food price assumption is offset by lower-than-expected non-food inflation, leading to an unchanged inflation forecast at 7.5 percent for end-2010. Similarly, the impacts of factors affecting the medium-term inflation outlook have balanced each other out, and consequently there has not been a significant revision in the forecasts.

I think comparison of the forecasts with the ones in the previous Report period would help us to better understand the changes in forecasts. As I have mentioned earlier, considering a relatively stronger recovery in the domestic demand outlook and the second quarter GDP data, our output gap estimates have been revised upwards as of the second quarter of 2010 (Figure 29). The impact of the upward revision in the output gap was largely offset by the downward revision in the underlying inflation trend. Consequently, there has not been a significant change in medium-term inflation forecasts and the monetary policy outlook compared to the previous Report (Figure 30).

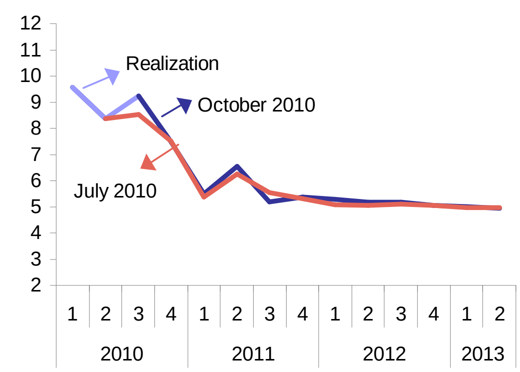
Comparison of July and October 2010 Inflation Report Forecasts

Figure 29: Output Gap Forecasts



Source: CBT.

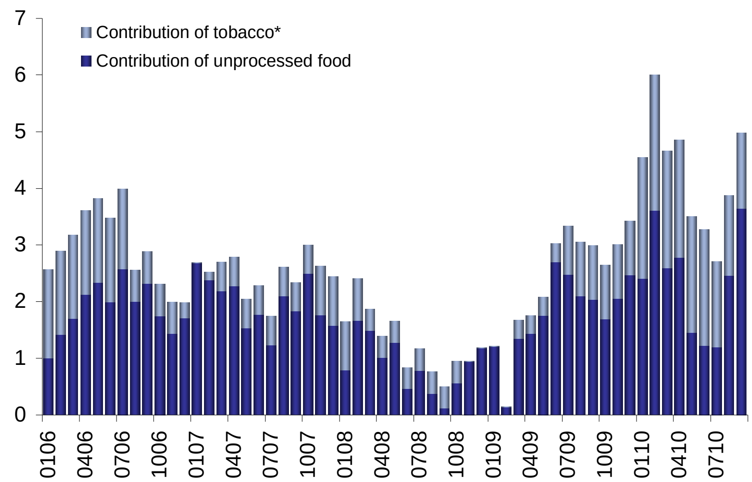
Figure 30: Inflation Forecasts



Source: TurkStat, CBT.

In sum, assuming that policy rates would stay constant for sometime and remain at low levels for a long period, our revised forecasts suggest that aggregate demand conditions would continue to support disinflation for a while. Under current conditions, inflation is expected to follow a marked downward trend over the next two quarters and decline to levels consistent with medium-term targets as of mid-2011, as the adverse impact of the temporary price movements taper off. Considering that the increases in unprocessed food and tobacco prices—which are beyond the control of monetary policy account for 5 percentage points of current annual inflation, it is clear that there is sizeable room for disinflation from this channel (Figure 31).

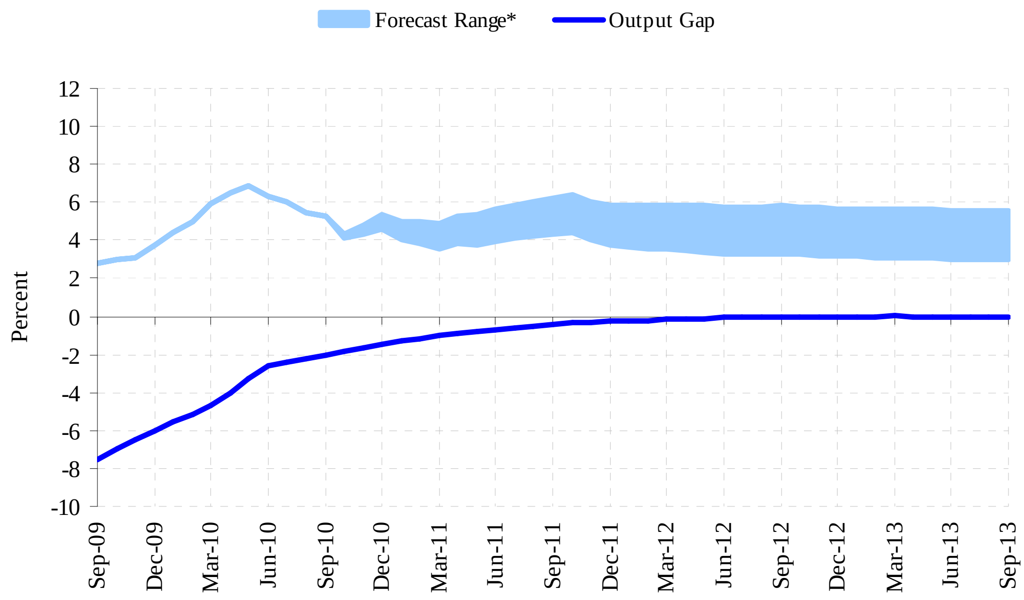
Figure 31: Contribution of Unprocessed Food and Tobacco* to Annual Inflation *



*Tobacco: Alcoholic beverages and tobacco.
Source: TurkStat, CBT.

Factors that are beyond the control of monetary policy, such as fluctuations in unprocessed food prices and tax adjustments related to tobacco products, created significant forecast uncertainty by increasing the volatility of consumer inflation. This, in turn, has created a challenge for us to understand the underlying inflation correctly and to manage expectations. In this context, I believe that it would be useful in terms of transparency and predictability, to share with the public the assumptions we make relating to the said groups while making forecasts and our inflation expectations excluding these groups. Accordingly, we assume that annual inflation in unprocessed food products will be 17 percent for end-2010 and 9 percent for the following two years. Meanwhile, the annual rate of increase in the tobacco and alcoholic beverages group index is expected to be 24 percent at end-2010 and to hover around levels consistent with inflation targets in subsequent years. Within this scope, we expect the inflation indicator excluding unprocessed food and tobacco and alcoholic beverages to follow a volatile trend in the first half of 2011 due to the base effect and to gain stability slightly above 4 percent in the medium term (Figure 32).

Figure 32: Inflation Forecast Excluding Unprocessed Food and Tobacco**



* The shaded region indicates the 70 percent confidence interval for the forecast.
**Tobacco: Alcoholic beverages and tobacco.

At this point, I would like to underline once more that any new data or information regarding the inflation outlook may lead to a change in the monetary policy stance. Therefore, I would particularly like to highlight that assumptions regarding future stance of monetary policy underlying the inflation forecasts should not be perceived as a commitment on behalf of the CBT.

4.Risks

In the last part of my speech, I would like to elaborate the risks regarding the inflation outlook in the upcoming period and prospective monetary policy strategies to be implemented should these risks materialize.

Developments regarding global economic activity would continue to be the main factor shaping inflation dynamics and the monetary policy outlook. Recently, leading indicators of economic activity continue to slow down, underscoring downside risks especially regarding the US economy. Furthermore, ongoing problems in credit, real estate, and labor markets across developed economies and uncertainties regarding the impact of fiscal consolidations suggest that the downside risks regarding the pace of global growth are likely to persist for some time. Should the global economy face a longer-than-anticipated period of anemic growth, the monetary tightening envisaged to start in the final quarter of 2011 under the baseline scenario might be postponed.

Moreover, an outcome whereby global economic problems intensify and contribute to a contraction of domestic economic activity, may trigger a new easing cycle. By contrast, monetary tightening may be implemented at an earlier stage, should the recovery in economic activity turn out to be faster than expected.

The weakness in the global economic outlook not only delays recovery in external demand but also leads to continuing expansionary monetary policies across developed economies, which in turn fuel domestic demand through an acceleration of capital inflows to emerging markets. Should capital inflows continue, the divergence in the growth rates between domestic and external demand is likely to intensify in the forthcoming period. Additional policy instruments, other than the short-term policy rates, would be needed to curb risks emanating from this channel. In this respect, should the disparity between domestic demand and external demand continue and be accompanied by rapid credit expansion and deterioration of the current account balance, all to lead to financial stability concerns, it would be necessary to utilize other monetary policy instruments such as reserve requirement ratios and liquidity management facilities more effectively.

Food and commodity price inflation has accelerated recently. The aggregate demand is not yet at a level to exert inflationary pressures. Along with this, the strength of the Turkish lira limits the pass-through from food and commodity inflation to core goods and services inflation. However, the potential second-round effects continue to pose a risk, if increases in food and commodity prices persist. Should such a risk materialize and lead to a deterioration in price setting behavior, which in turn hampers the attainment of medium-term inflation targets, a tightening earlier than the one envisaged in the baseline scenario would be considered.

Distinguished Guests,

The CBT will continue to monitor fiscal policy developments closely while formulating monetary policy. Increasing public savings and maintaining the fiscal discipline are essential to control the current account deficit driven by the disparity between domestic and external demand. The medium-term perspective included in the revised Medium Term Program (MTP) is seen as an important step in this direction. Accordingly, our revised forecasts take the projections of public expenditures in the MTP as given, while tax adjustments are assumed to be consistent with inflation targets and automatic pricing mechanisms. Should the fiscal stance deviate significantly from this framework in a way to have adverse effects on the medium-term inflation outlook, a revision in the monetary policy stance may be considered.

Monetary policy will continue to focus on achieving lasting price stability in the period ahead. Strengthening the commitment to fiscal discipline and the structural reform agenda would support the improvement of Turkey’s sovereign risk, and thus facilitate macroeconomic and price stability. In this respect, on closing my remarks, I would like to remind you once more that timely implementation of the structural reforms envisaged by the MTP and the European Union accession process remain to be of utmost importance. Thank you for your participation.