

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Adana Chamber of Industry

Durmuş YILMAZ
Governor

17 February 2010

Outline

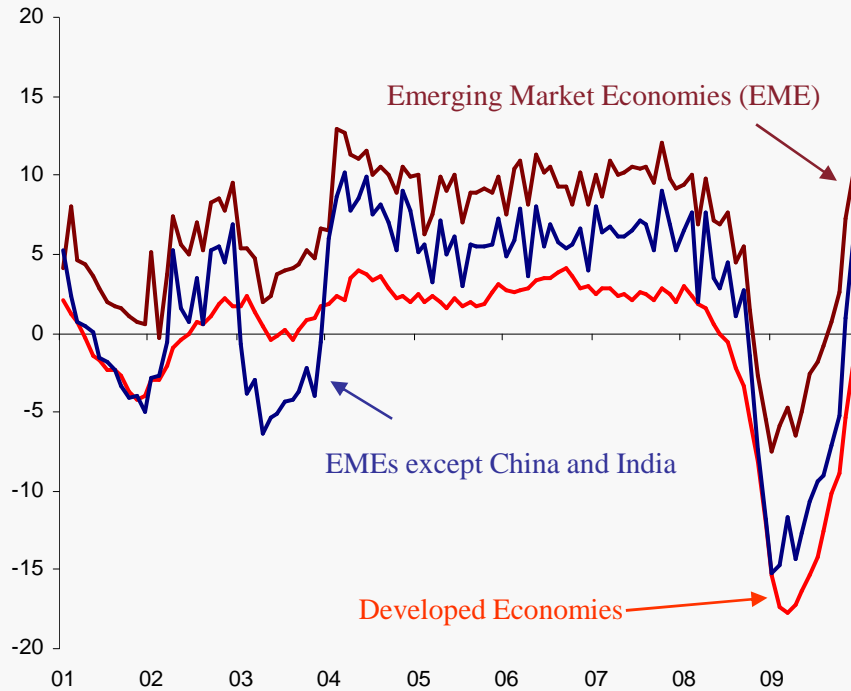
- I. Global Crisis and Signs of Recovery
- II. Monetary Policy Stance
- III. Latest Developments in the Turkish Economy
- IV. Inflation Outlook
- V. Overall Assessment

I. Global Crisis and Signs of Recovery

Signs of Recovery in the Global Economy

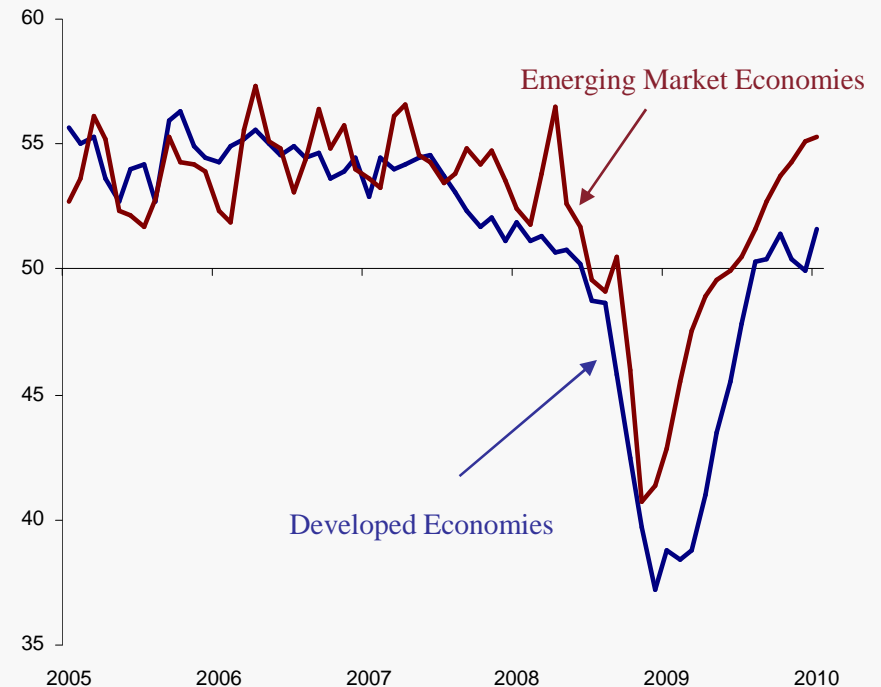
The latest data confirm that the peak of the crisis is behind us and global economic activity has started to recover.

Industrial Production in Developed and Emerging Market Economies
(Jan 2001 – Dec 2009, annual percentage change)



Source: Bloomberg, CBT

PMI in Developed and Emerging Market Economies
(Jan 2005 – Jan 2010)



Source: Bloomberg, CBT

Signs of Recovery in the Global Economy

International institutions and banks revised their growth estimates upwards for the US economy in 2010. Yet, they are less optimistic about the Euro Area.

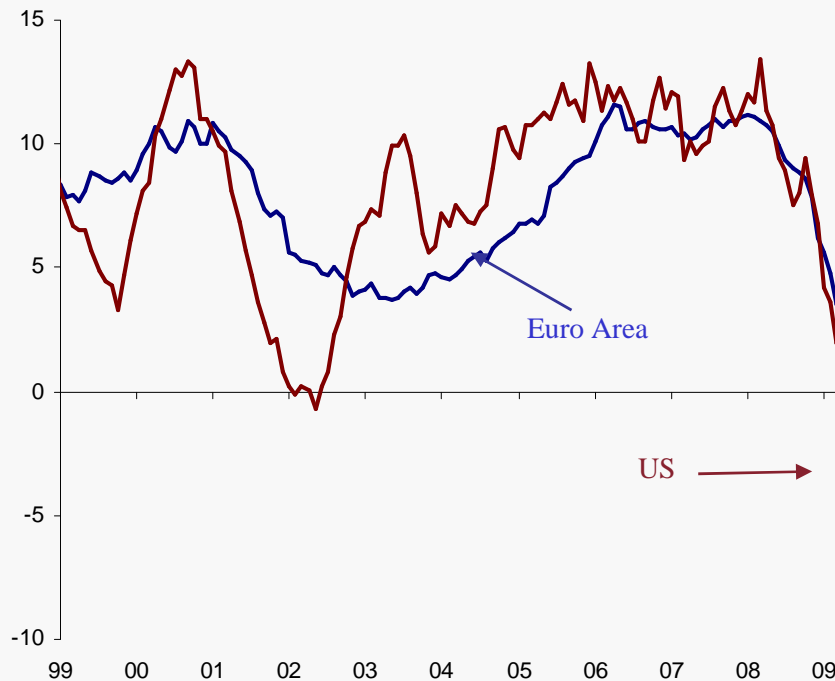
2010 Growth Estimates

	JP Morgan		Deutsche Bank		Consensus		IMF
	Jan 8	Feb 12	Jan 6	Feb 3	Jan 11	Feb 8	Jan 26
US	3.3	3.5	3.5	3.8	2.9	3.1	2.7
Euro Area	2.1	1.6	1.5	1.5	1.3	1.3	1.0
Germany	2.5	1.7	2.1	2.1	1.8	1.7	1.5
France	2.2	2.0	1.5	1.5	1.4	1.4	1.4
Italy	1.7	1.1	1.1	1.1	0.9	0.8	1.0
Japan	1.9	2.0	1.7	1.7	1.3	1.5	1.7
UK	1.7	1.4	1.5	1.5	1.5	1.4	1.3

Global Risks

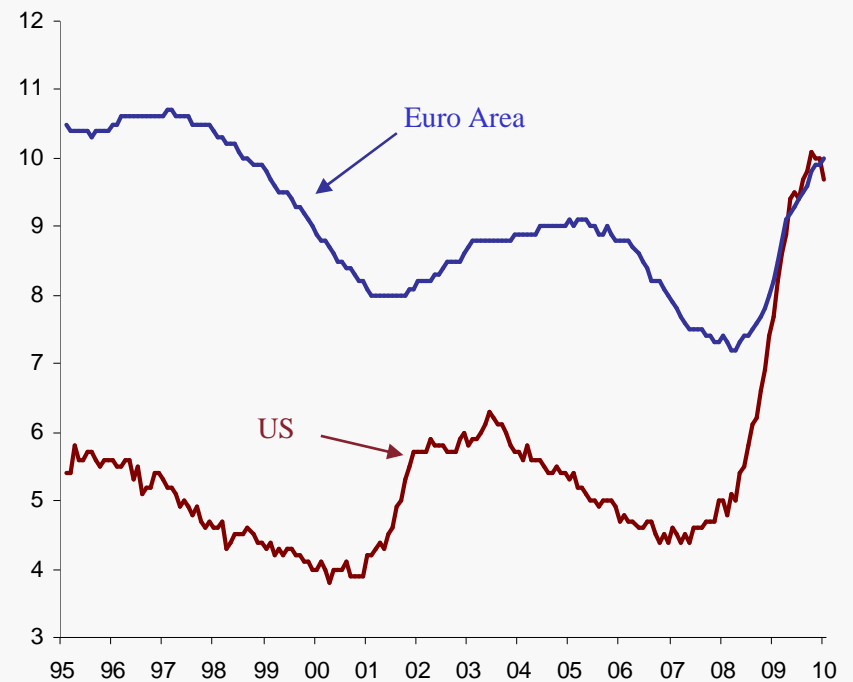
Lingering problems in credit markets and elevated levels of unemployment increase uncertainties for the future.

Credit Developments in US and Euro Area
(Jan 1999 – Dec 2009, annual percentage change)



Source: Bloomberg, CBT

Unemployment Rate in US and Euro Area
(Jan 1995 – Jan 2010, percent)

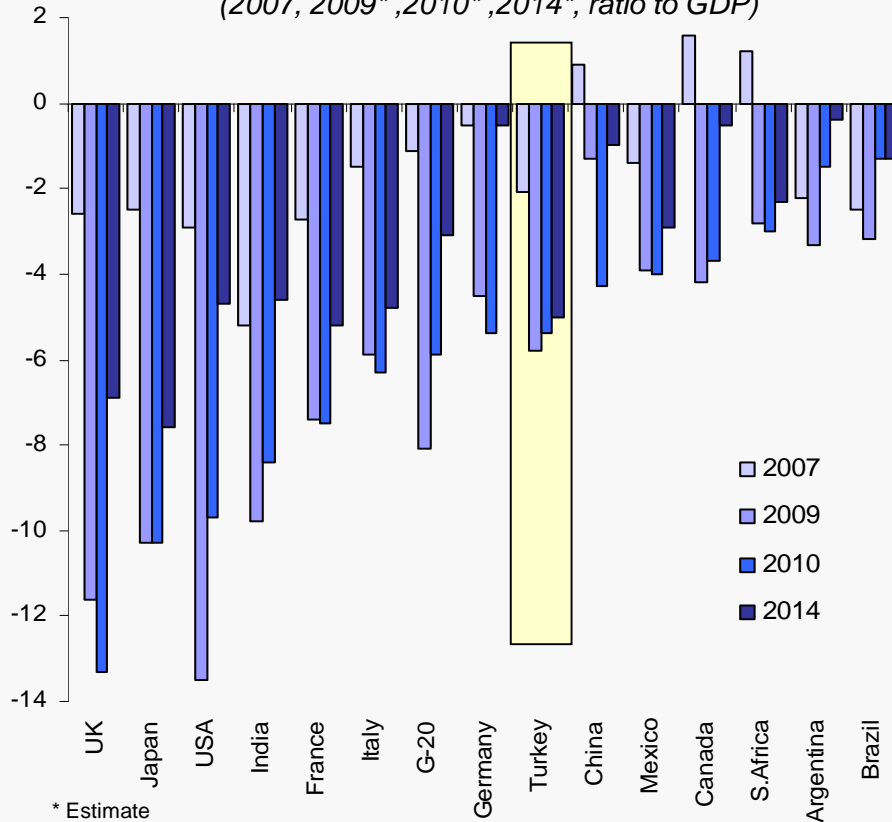


Source: Bloomberg, CBT

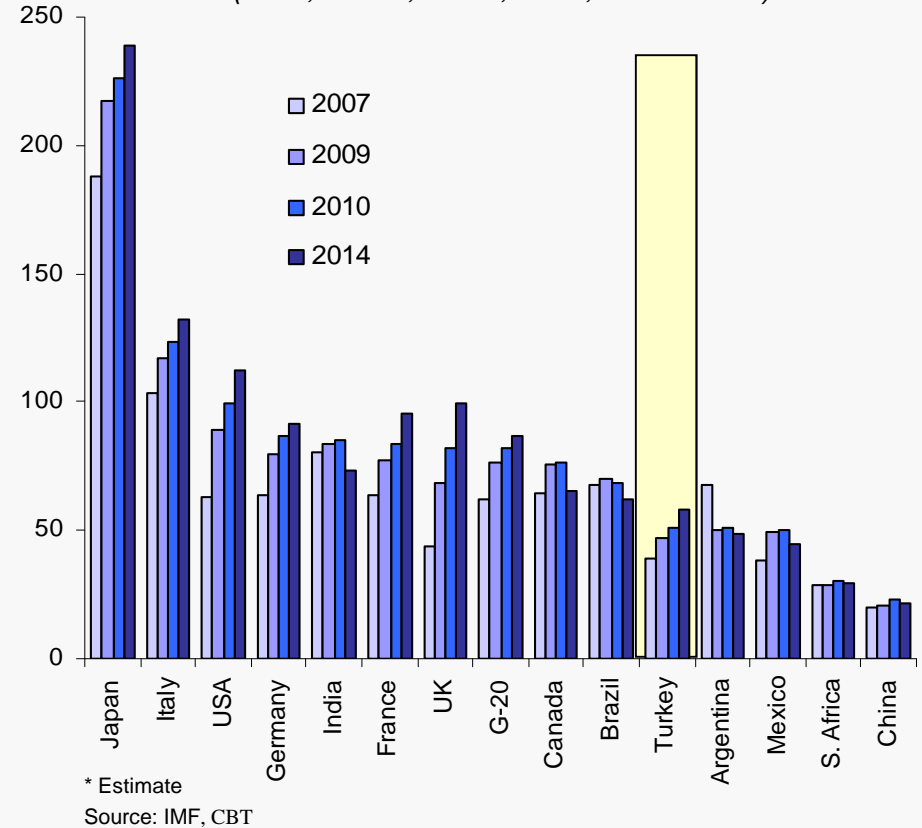
Global Risks

Increasing budget deficits and public debt stocks on a worldwide scale, due to expansionary fiscal policies, especially in developed economies, continue to pose risks on private demand by raising long term interest rates.

Budget Balance of Selected Countries
(2007, 2009*, 2010*, 2014*, ratio to GDP)



Central Government Debt of Selected Countries
(2007, 2009*, 2010*, 2014*, ratio to GDP)

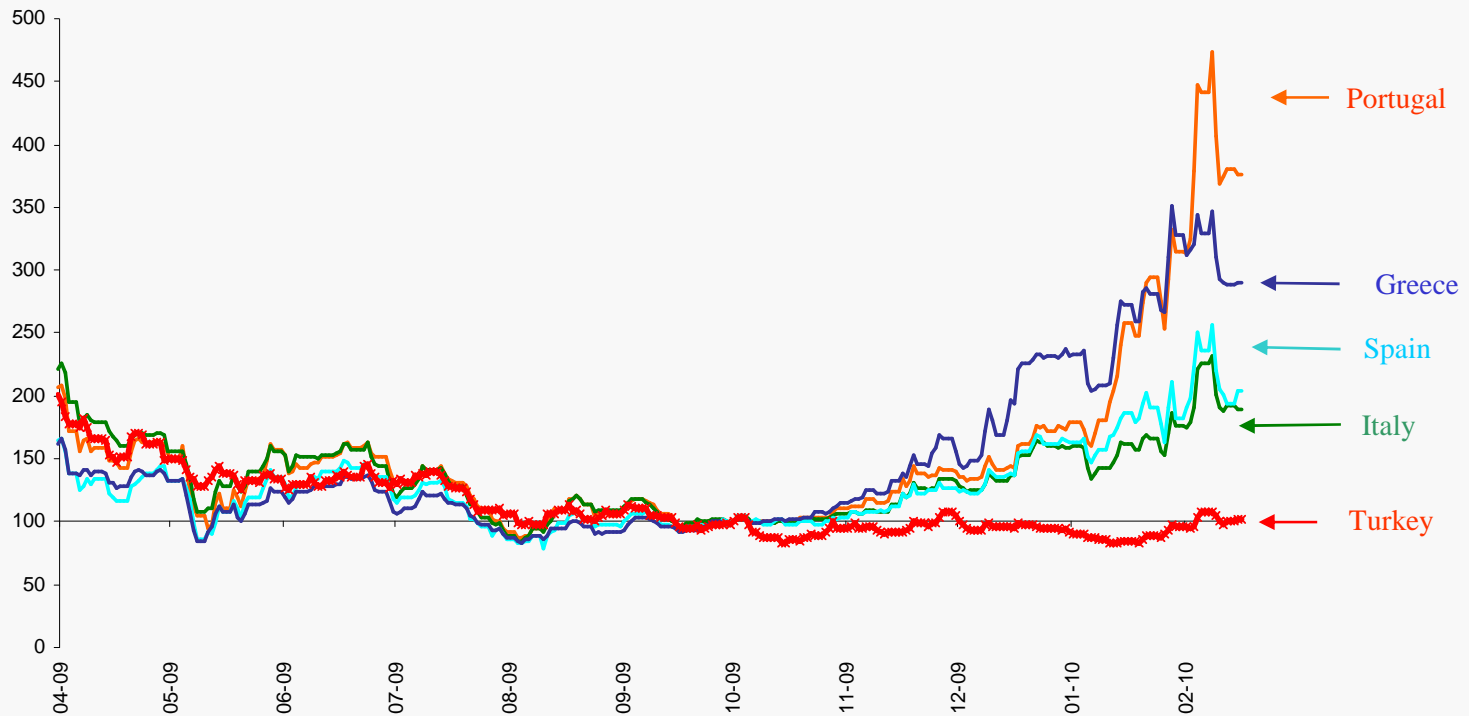


Global Risks

Recently, the risk premia of countries with high level of debt have risen significantly. Meanwhile, Turkey's risk premium has sustained its stable course thanks to her solid financial system and low level of indebtedness.

CDS Premia of Selected Countries

(Apr 2009 – Feb 2010, 1 Oct 2009 = 100)

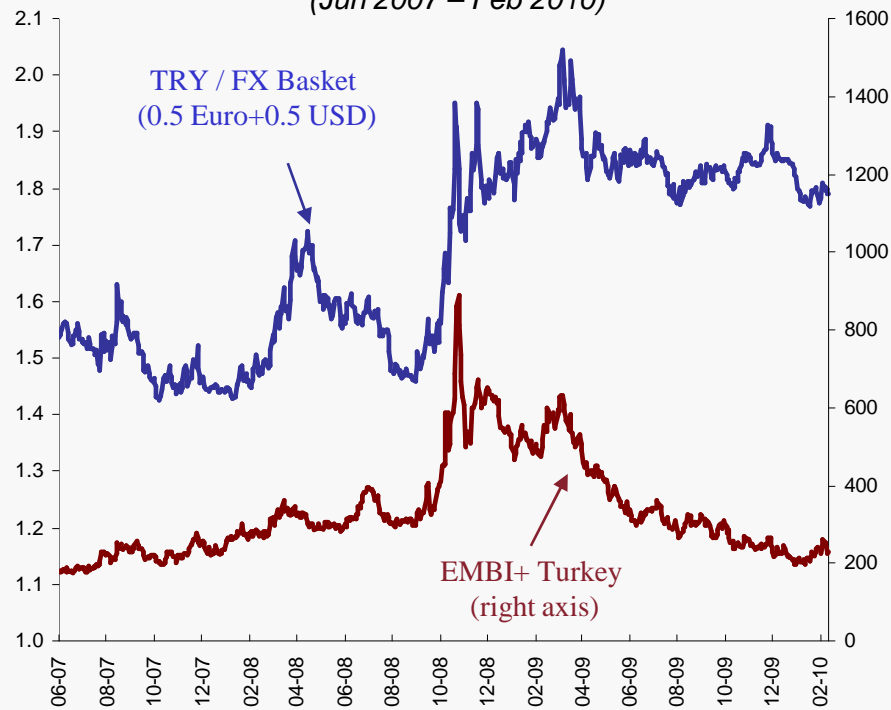


Source: Bloomberg, CBT

Financial Stability in Turkey

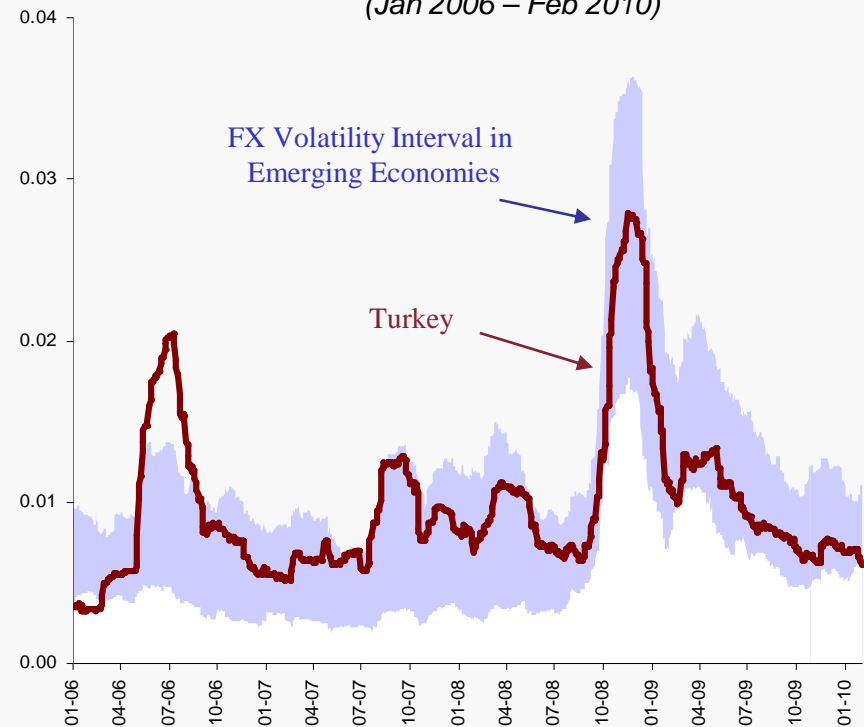
The relatively stable course of the Turkish lira, which used to be one of the currencies with historically high volatility and particular sensitivity to the global risk appetite, continued in the first quarter of 2010.

FX Basket and EMBI+ Turkey
(Jun 2007 – Feb 2010)



Source: Bloomberg, CBT

FX Volatility of Selected Countries*
(Jan 2006 – Feb 2010)

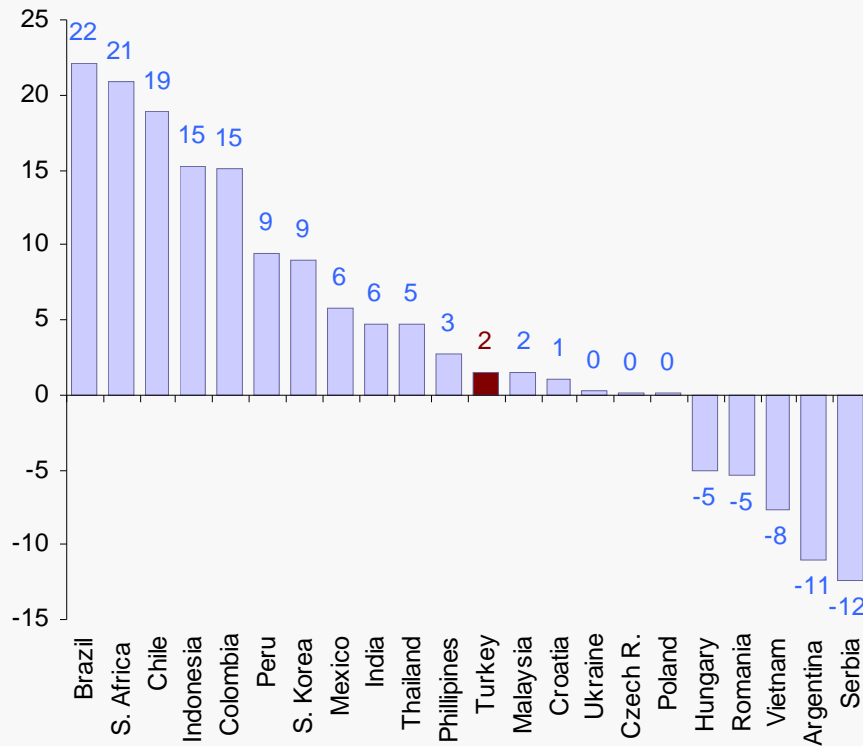


*50 Days of standard deviation; Brazil, Chile, Czech R., Hungary, Mexico, New Zealand, Poland, S.Africa, S.Korea (highest and lowest values)
Source: Bloomberg, CBT

Financial Stability in Turkey

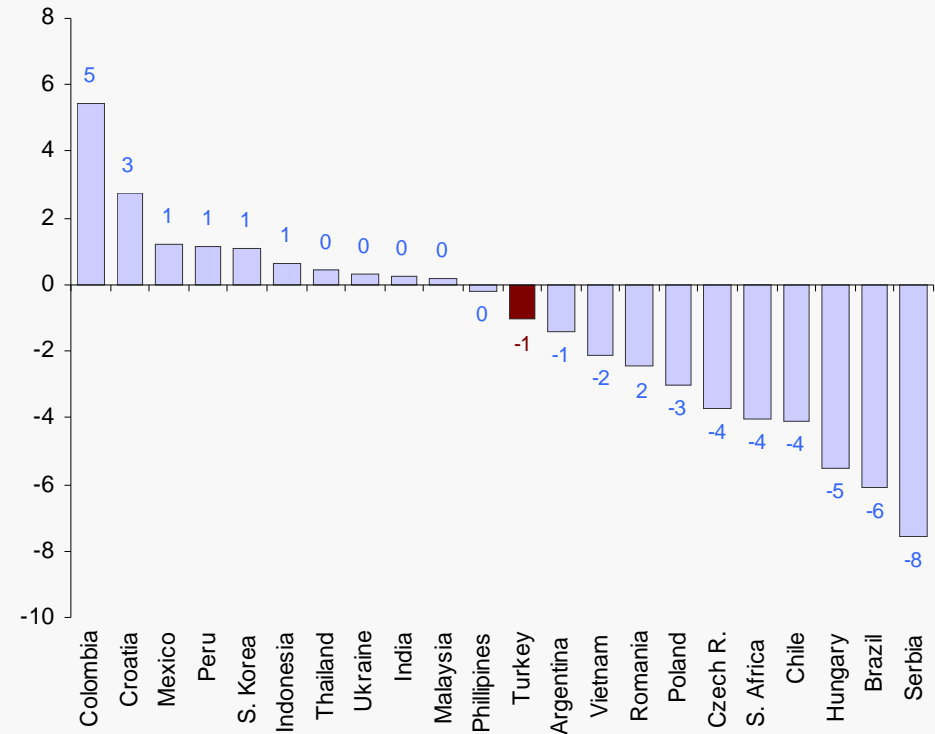
Compared to the currencies of other emerging economies, no significant change is observed in the value of the Turkish lira.

Change in Local Currencies Against US Dollar
(Since Jan 2009, percentage change)



Source: Bloomberg, CBT

Change in Local Currencies Against US Dollar
(Since Jan 2010, percentage change)



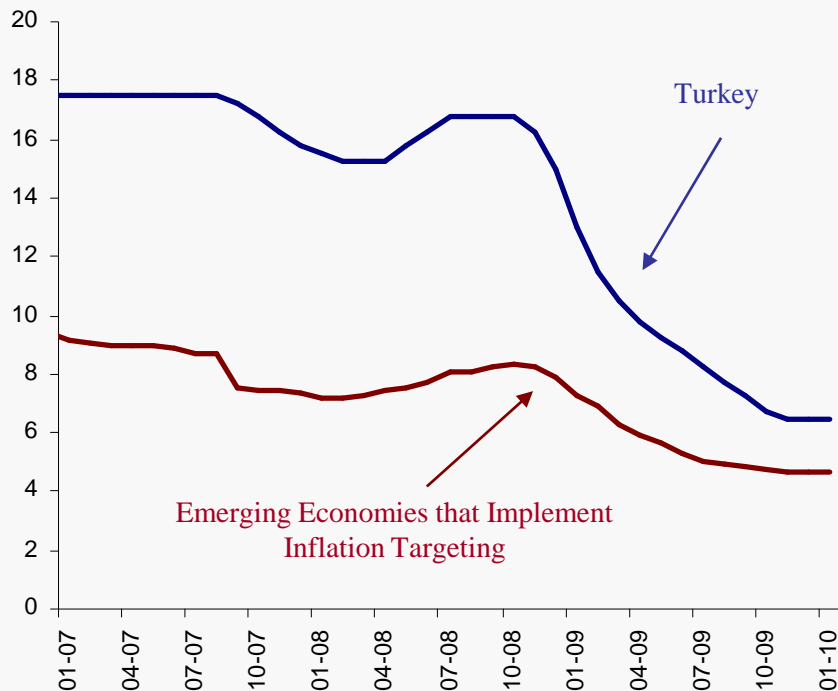
Source: Bloomberg, CBT

II. Monetary Policy Stance

Monetary Policy Stance

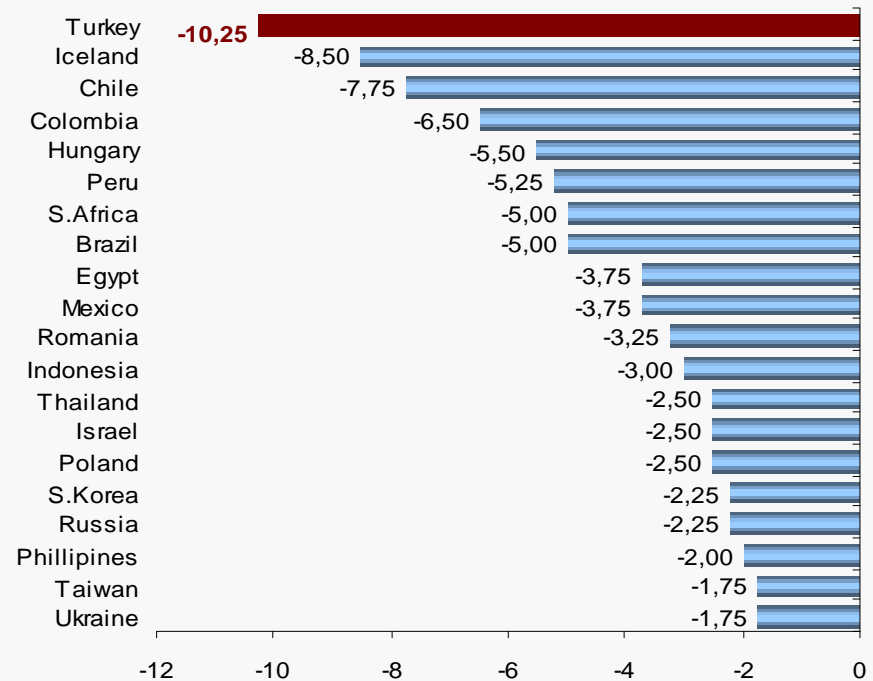
The relative soundness of the financial system in Turkey has enabled the Central Bank of Turkey to focus on restraining the adverse effects of the financial crisis on the Turkish economy without conflicting with the primary objective of maintaining price stability.

Policy Rates in Inflation-Targeting Emerging Economies and in Turkey
(Jan 2007– Jan 2010, percent)



Source: Central Banks, CBT

Changes in Policy Rates in Emerging Markets
(Oct 2008 – Feb 2010, percentage point)

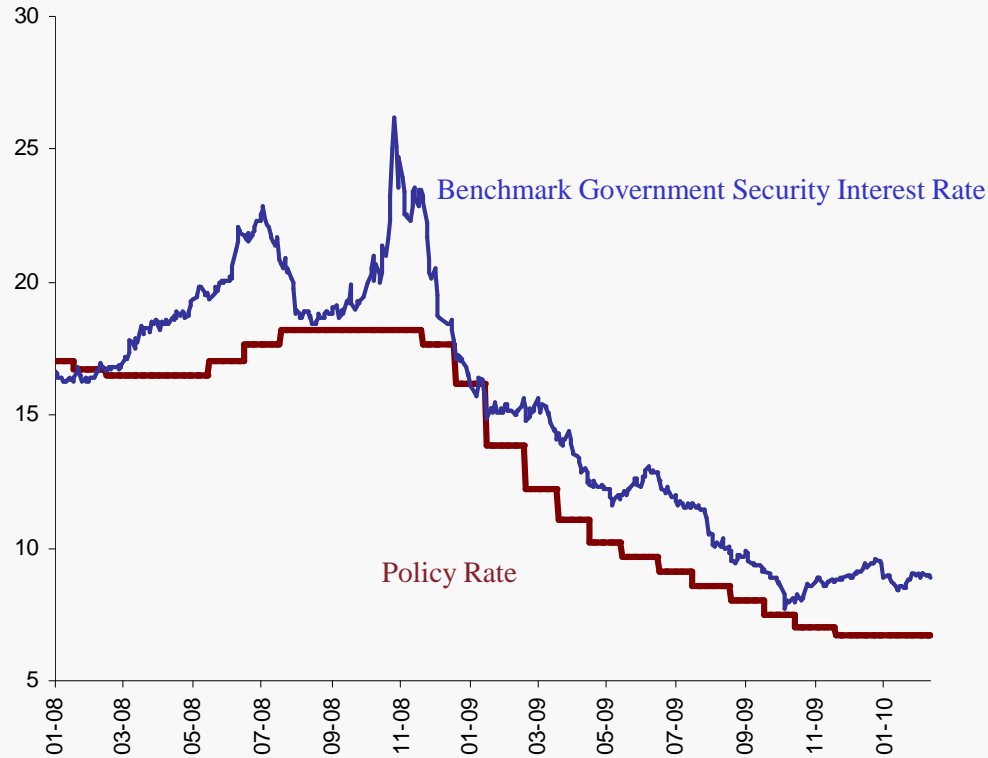


Source: Central Banks, CBT

Monetary Policy Stance

At a time when rising levels of public debt are expected to place upward pressure on interest rates, CBT's policy rates are the main determinant of market rates in Turkey indicating the improved effectiveness of monetary policy.

CBT Policy Rate and Benchmark Government Interest Rate
(1 Jan 2008 – 11 Feb 2010, percent, compound)



Source: BRSA, CBT

	Policy Rate	Change
Sep 08	16,75	0,00
Nov 08	16,25	-0,50
Dec 08	15,00	-1,25
Jan 09	13,00	-2,00
Feb 09	11,50	-1,50
Mar 09	10,50	-1,00
Apr 09	9,75	-0,75
May 09	9,25	-0,50
Jun 09	8,75	-0,50
Jul 09	8,25	-0,50
Aug 09	7,75	-0,50
Sep 09	7,25	-0,50
Oct 09	6,75	-0,50
Nov 09	6,50	-0,25
Dec 09	6,50	0,00
Jan 10	6,50	0,00
Feb 10	6,50	0,00

Monetary Policy Stance

In well-functioning economies, decline in real interest rates during times of recession is an expected development, which Turkey has never experienced before.

Inflation and Policy Rates in Selected Countries

(Feb 2010, percent)

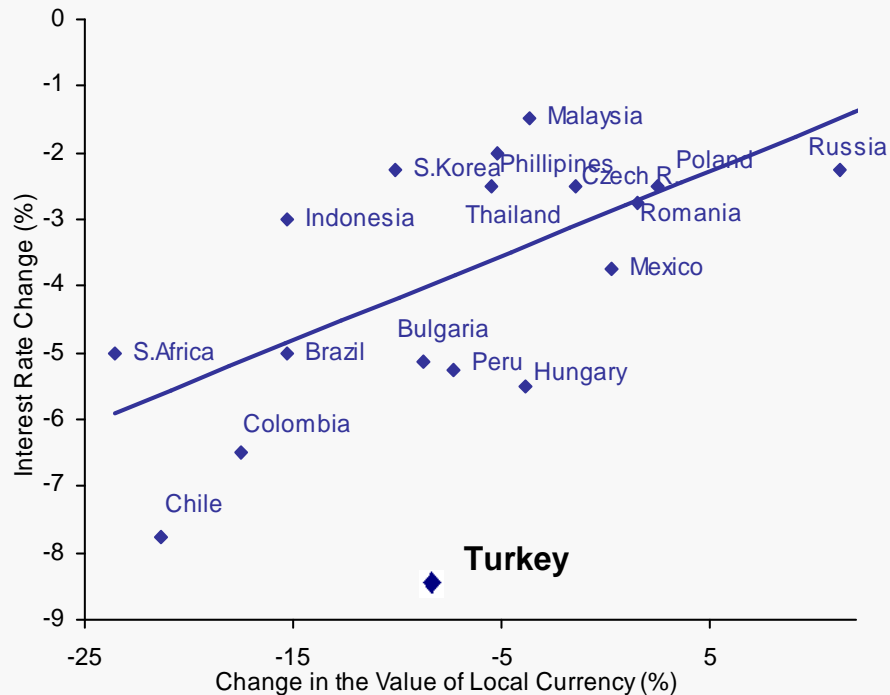
	Policy Rates	2010 Inflation Expectations	Real Policy Rates
Chile	0.50	2.50	-1.95
Thailand	1.25	3.20	-1.89
S.Korea	2.00	3.00	-0.97
Turkey	6.50	7.50	-0.93
Czech R.	1.00	1.45	-0.44
Malaysia	2.00	2.25	-0.24
Phillipines	4.00	4.20	-0.19
Mexico	4.50	4.55	-0.05
S.Africa	7.00	5.90	1.04
Poland	3.50	2.40	1.07
Hungary	6.00	3.80	2.12
China	5.31	3.00	2.24
Brazil	8.75	4.40	4.17

Source: Bloomberg, CBT

Monetary Policy Stance

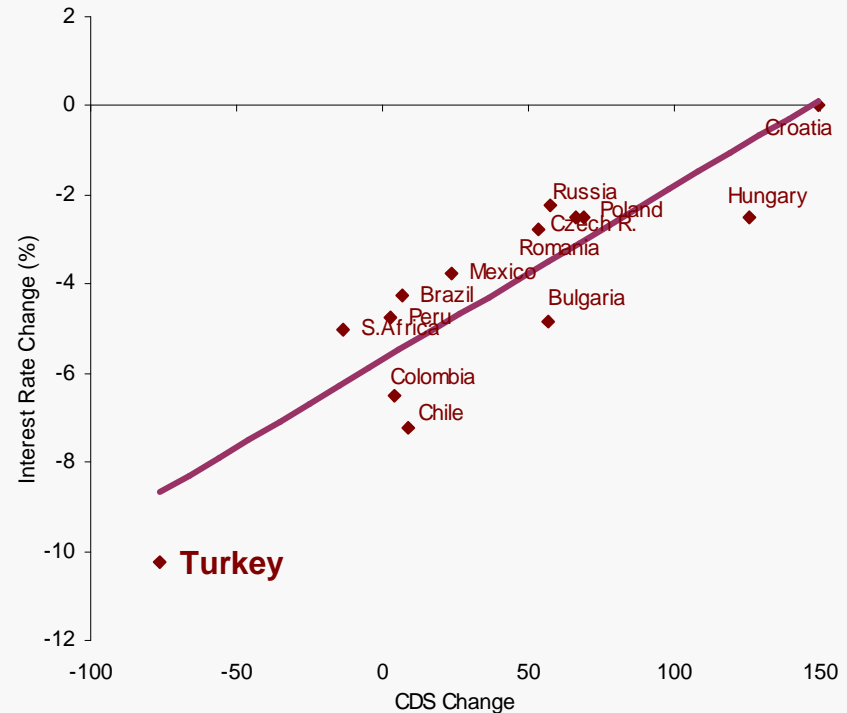
The monetary policy decisions of central banks in emerging economies had very limited short-term effect on their currencies. The value of these currencies were mainly determined by global risk perceptions.

**Interest Rate – Exchange Rate Relation
During the Crisis**
(Nov 2008 – Jan 2010)



Source: Bloomberg, CBT

**Interest Rate – Country Risk Relation
During the Crisis**
(Sep 2008 – Jan 2010)

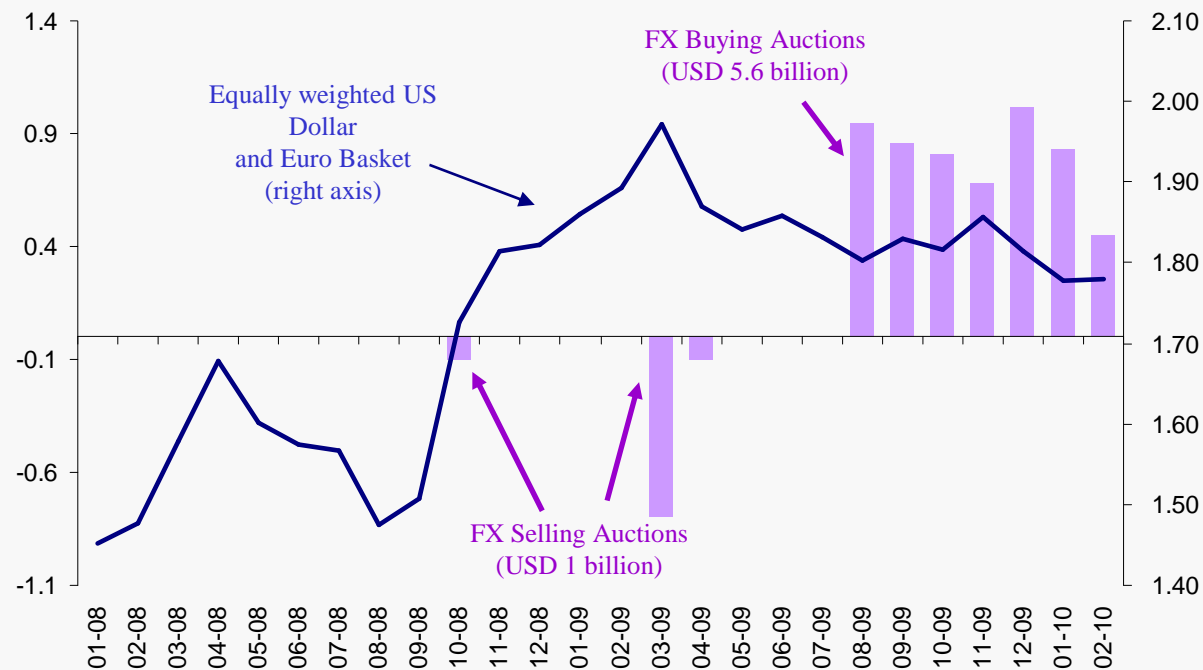


Source: Bloomberg, CBT

Monetary Policy Stance

Since 4 August 2009, the CBT has purchased USD 5.6 billion via foreign exchange buying auctions and injected TRY 8.4 billion into the market.

FX Buying and Selling Auctions against TRY and FX Basket
(Jan 2008 – Feb 2010*)



* As of February 14, 2010

Source: CBT

Monetary Policy Stance

The CBT has purchased TRY 1.5 billion of government securities via auctions from the secondary market since 23 December 2009. The analyses indicate that the purchases of government securities did not have a significant impact on market conditions.

Yields in Auctions and ISE (23 Dec 2009 – 12 Feb 2010, percent)

CBT's Government Securities Buying Auction	Min	Ave	Max	ISE Weighted Average Compound Yield
23.12.2009	9.45	9.46	9.47	9.46
25.12.2009	9.51	9.52	9.55	9.54
30.12.2009	9.33	9.35	9.44	9.35
06.01.2010	8.93	8.94	8.95	8.94
08.01.2010	8.59	8.60	8.61	8.57
13.01.2010	8.84	8.84	8.84	8.98
15.01.2010	8.39	8.42	8.44	8.42
20.01.2010	8.46	8.47	8.48	8.49
22.01.2010	8.44	8.46	8.49	8.46
27.01.2010	8.94	8.97	9.01	9.01
29.01.2010	8.61	8.62	8.64	8.65
03.02.2010	8.81	8.84	8.88	8.89
05.02.2010	8.18	8.20	8.21	8.21
10.02.2010	8.40	8.47	8.50	8.50
12.02.2010	7.95	7.95	7.95	7.95

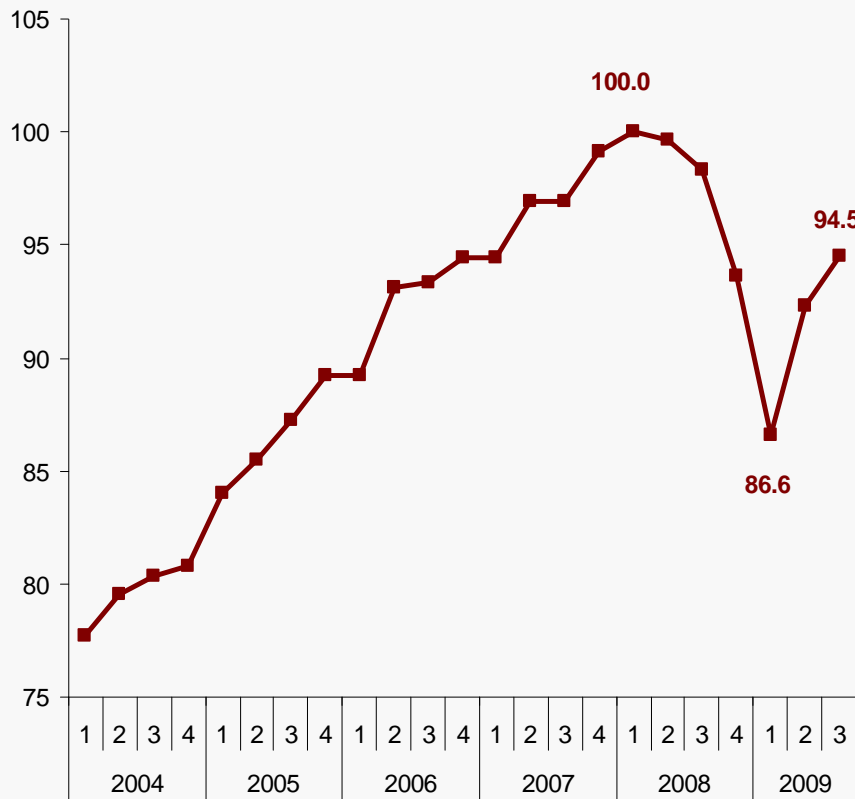
Source: ISE, CBT

III. Latest Developments in the Turkish Economy

The Turkish Economy

Recent data suggest that the moderate recovery in economic activity continues.

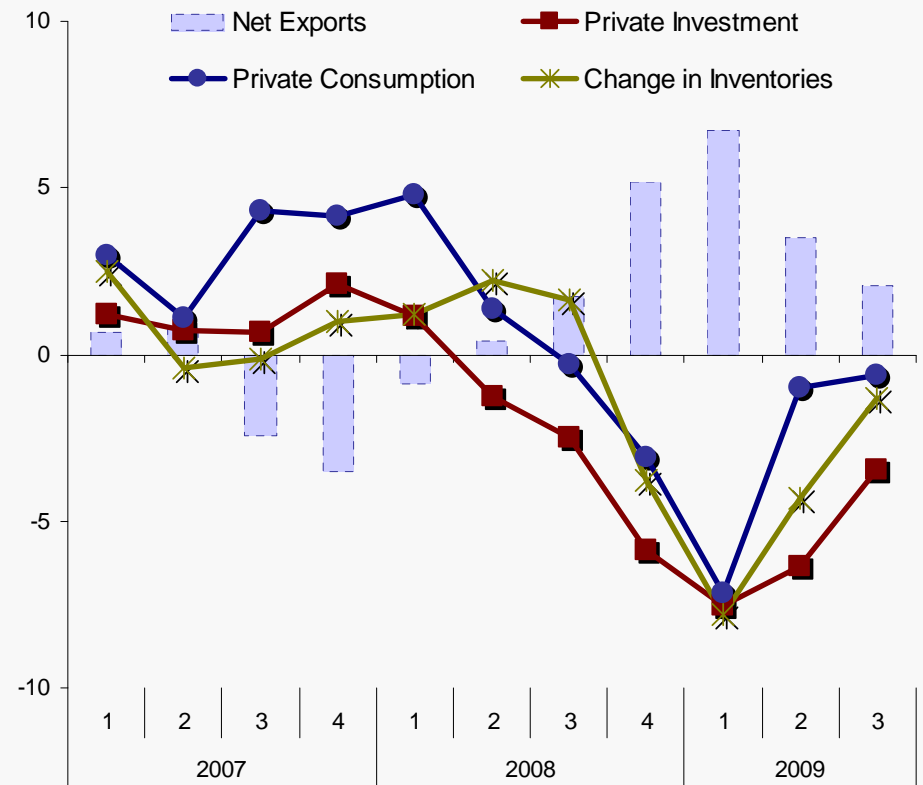
Seasonally Adjusted Real GDP
(2004 Q1 – 2009 Q3, 2008 Q1=100)



Source TURKSTAT, CBT

Components of Growth

(2007 Q1 – 2009 Q3, yoy percentage contribution)

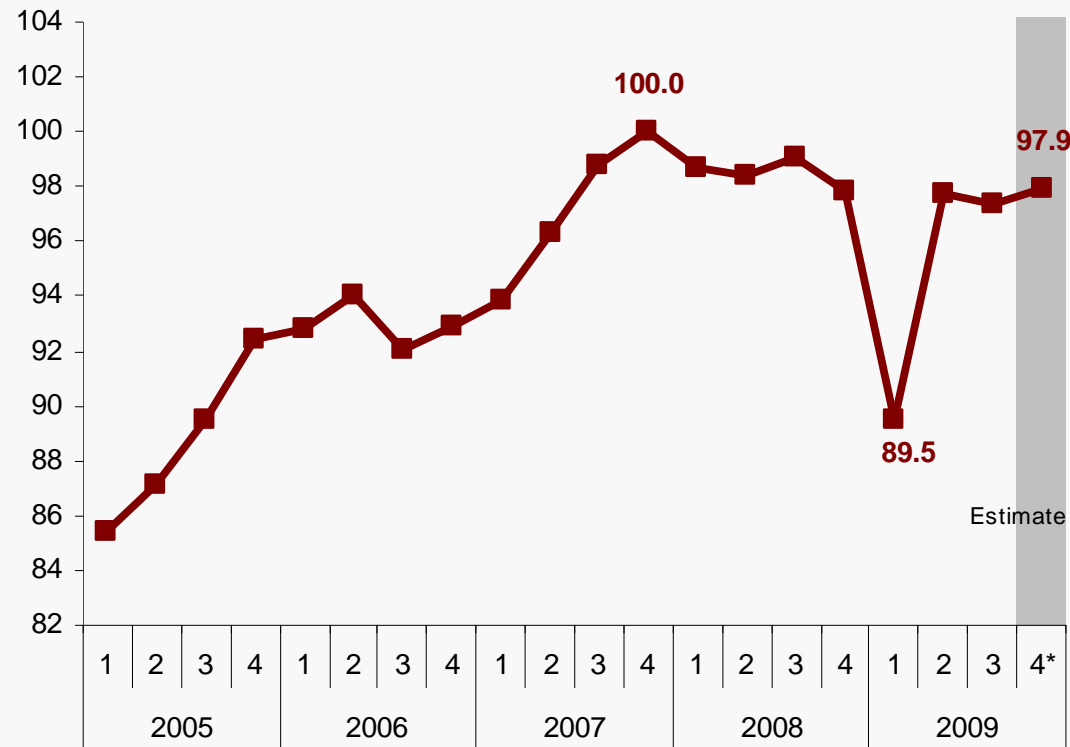


Source: TURKSTAT, CBT

Private Consumption

The gradual recovery in private consumption expenditures is expected to have continued in the last quarter of 2009.

Seasonally Adjusted Real Private Consumption Expenditures
(2005 Q1 – 2009 Q4, 2007 Q4 = 100)

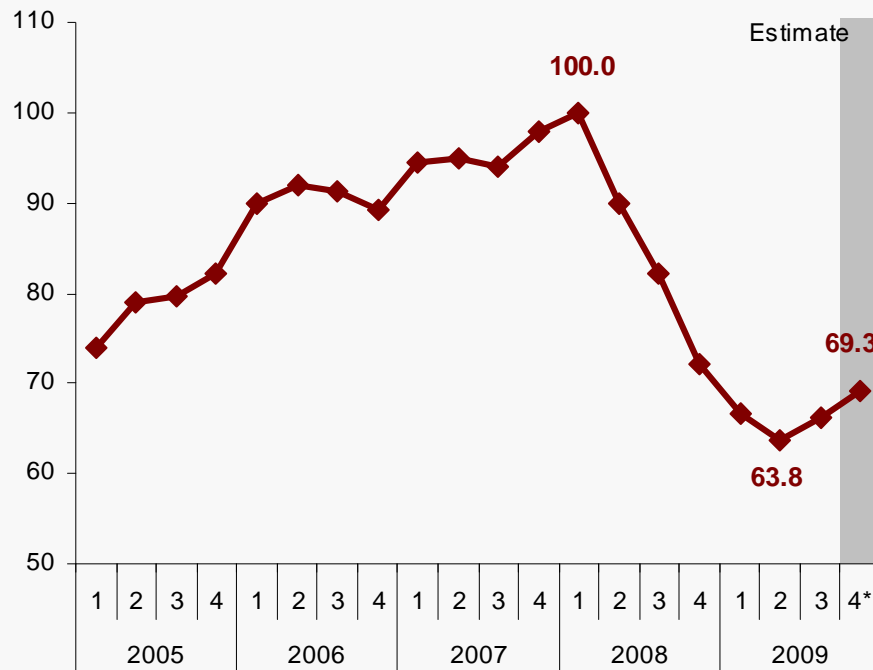


Source: TURKSTAT, CBT

Private Investment

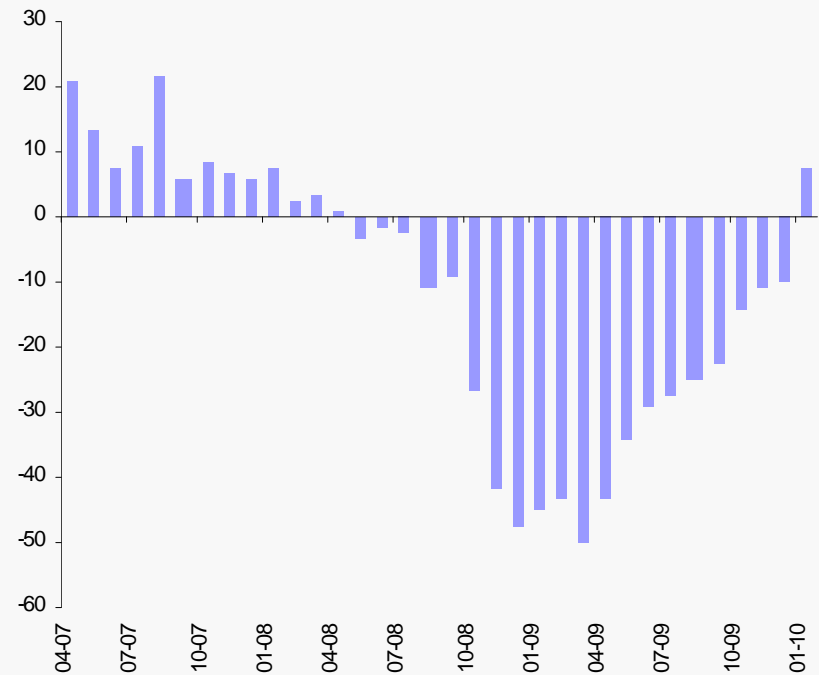
Although private investment expenditures have displayed an upward trend since mid-2009, they still hover at low levels.

Seasonally Adjusted Real Private Investment Expenditures
(2005 Q1 – 2009 Q4, 2008 Q1 = 100)



Source: TURKSTAT, CBT

Expectations for Fixed Capital Investment Expenditures
(Apr 2007 – Jan 2010, percent)

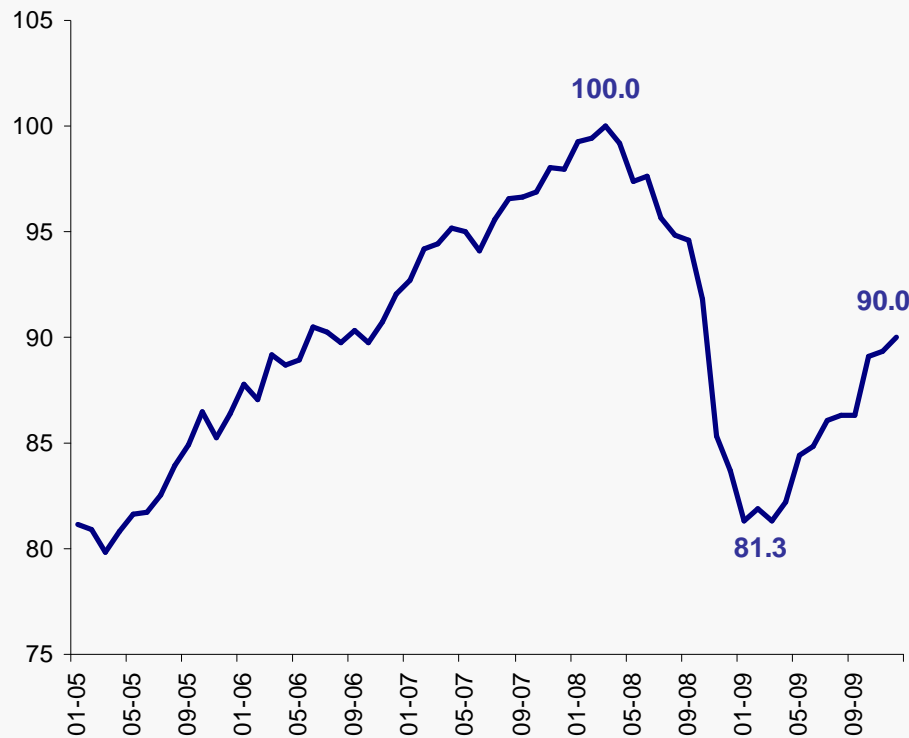


Source: TURKSTAT, CBT

Production Developments

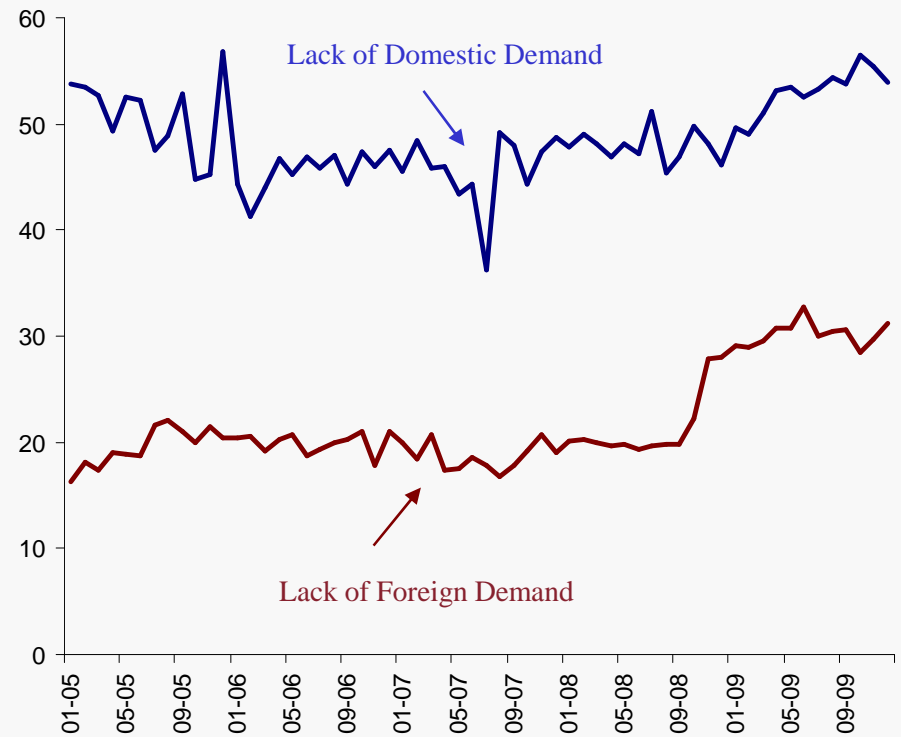
Industrial production has displayed a gradual increase since the second quarter of 2009. However, insufficient domestic and foreign demand continue to prevent manufacturing industries from operating at full capacity.

Seasonally Adjusted Industrial Production Index
(Jan 2005 – Dec 2009, Mar 2008=100)



Source: TURKSTAT, CBT

Reasons for Not Operating at Full Capacity
(Jan 2005 – Dec 2009, percent)

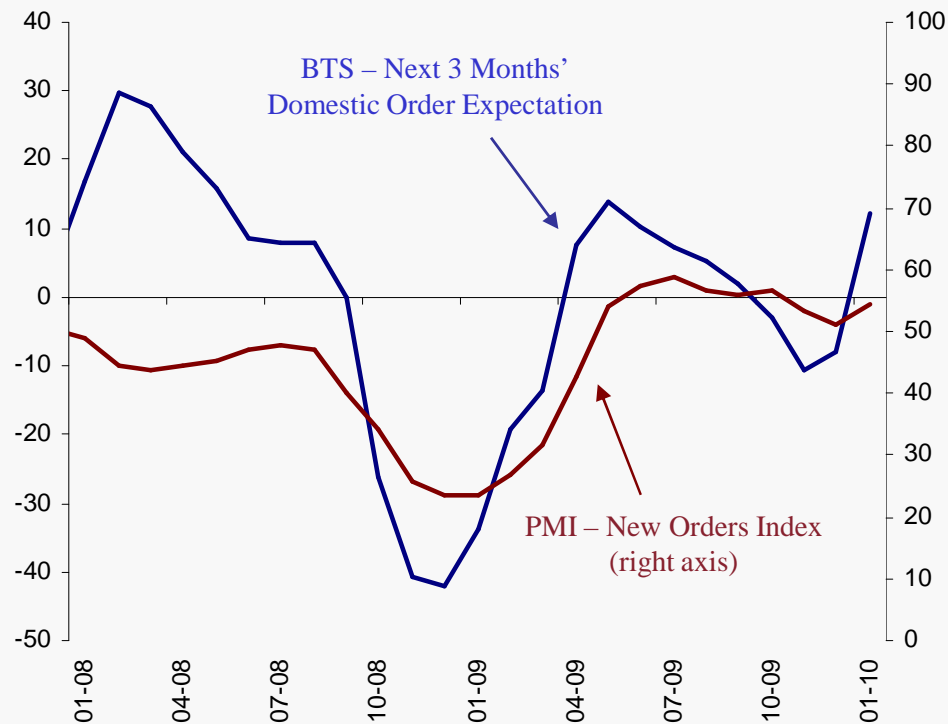


Source: TURKSTAT, CBT

Demand Indicators

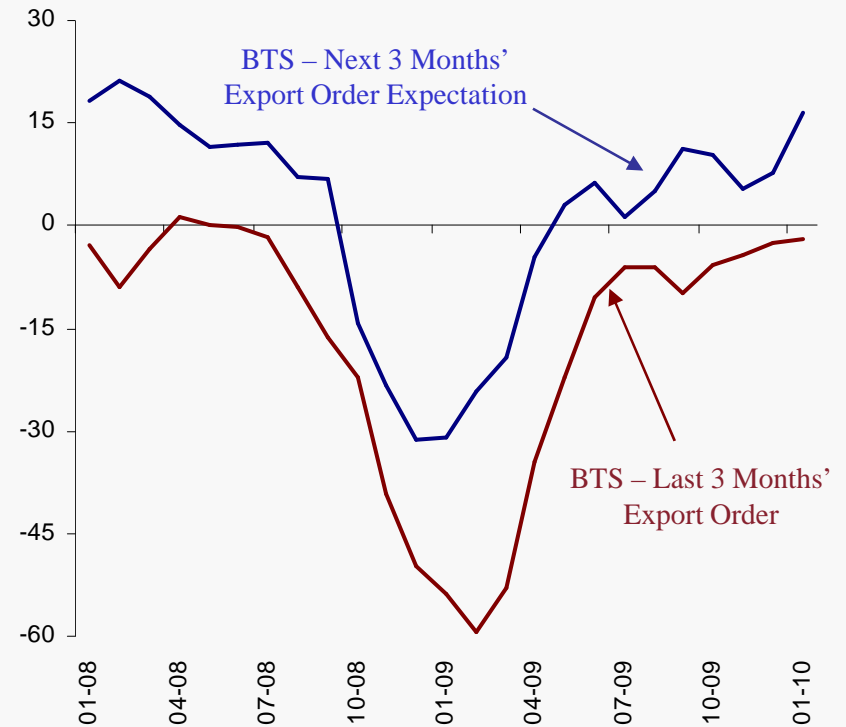
A moderate recovery is observed in the next 3 months' both domestic and export order expectations.

Seasonally Adjusted Demand Indicators
(Jan 2008 – Jan 2010)



Source: Markit, CBT

Seasonally Adjusted Export Expectations
(Jan 2008 – Jan 2010)

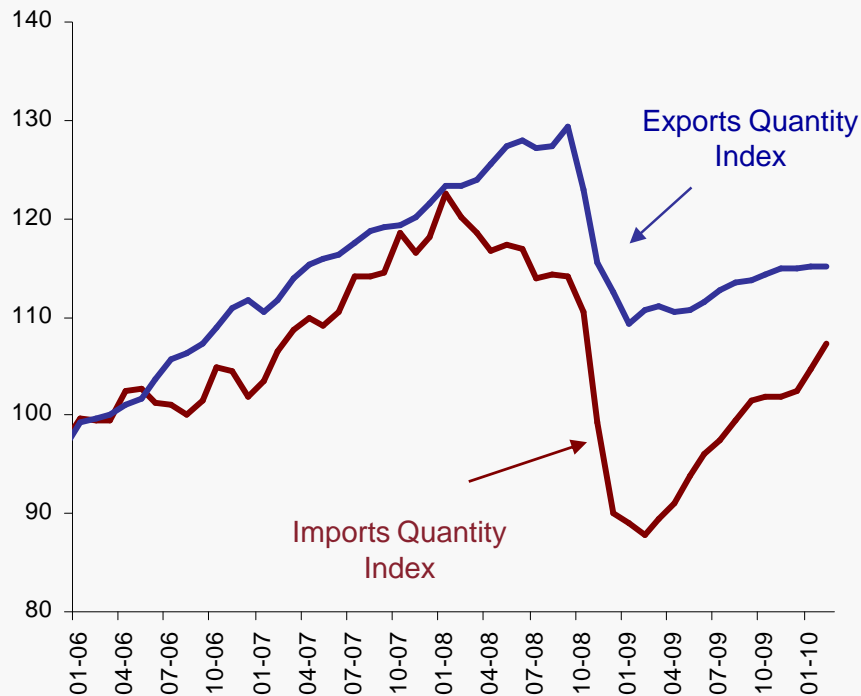


Source: CBT

Foreign Trade Developments

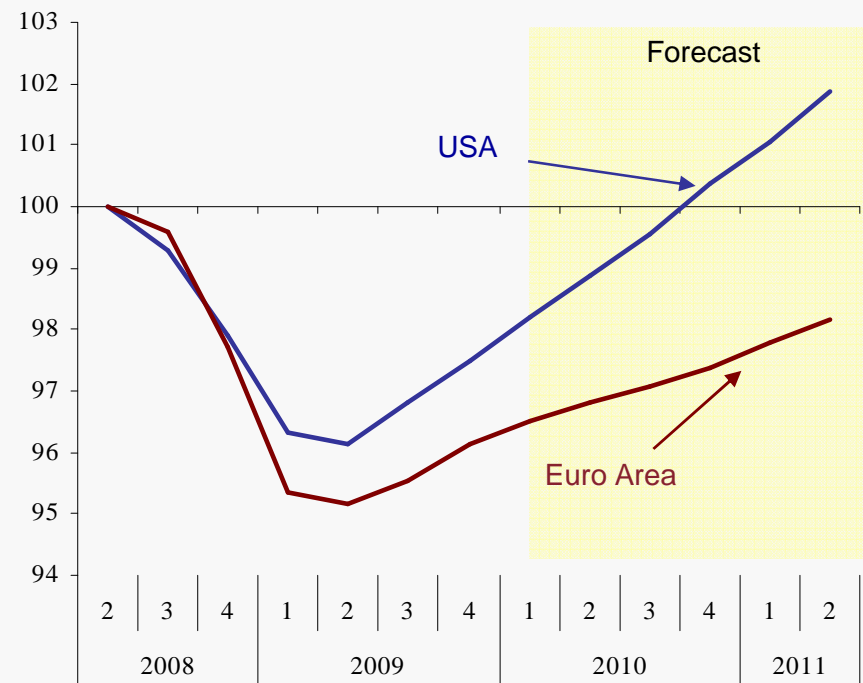
However, strong recovery regarding external demand is not expected without marked improvements in global economic growth. The especially weak pace of economic recovery in the Euro Area poses a downside risk on exports.

Exports and Imports Quantity Indices*
(Jan 2006 – Feb 2010, Jan 2006 = 100)



* Seasonally adjusted, 2 month moving average.
Source: TURKSTAT, CBT

Growth Rate Forecasts in USA and Euro Area
(2008 Q2 – 2011 Q2, 2008 Q2 = 100)



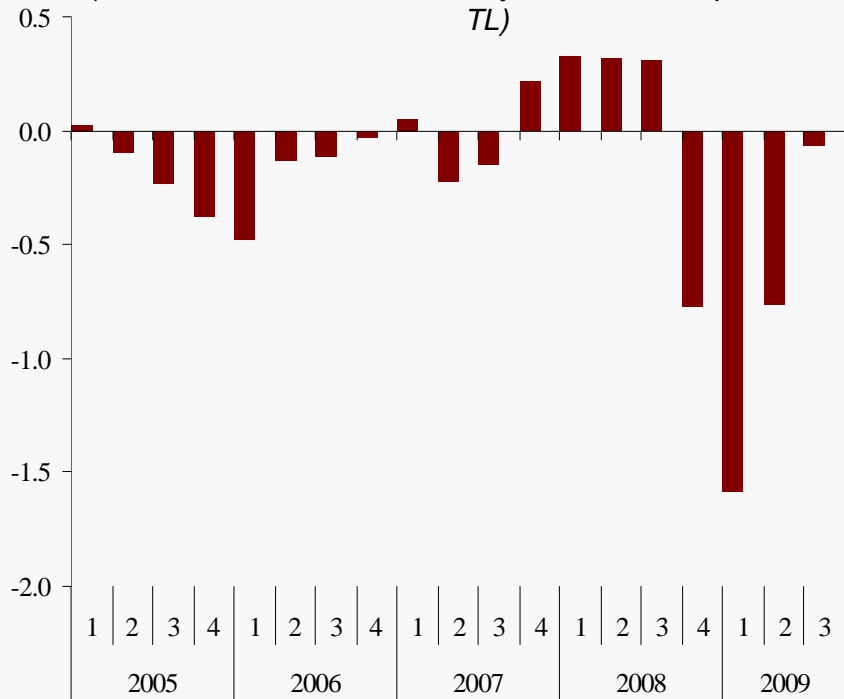
Source: Consensus Forecast

Stocks

Uncertainties regarding aggregate demand lead the firms towards a precautionary production program and to be less eager about stock accumulation compared to the periods of strong growth.

Seasonally Adjusted Changes in Stock

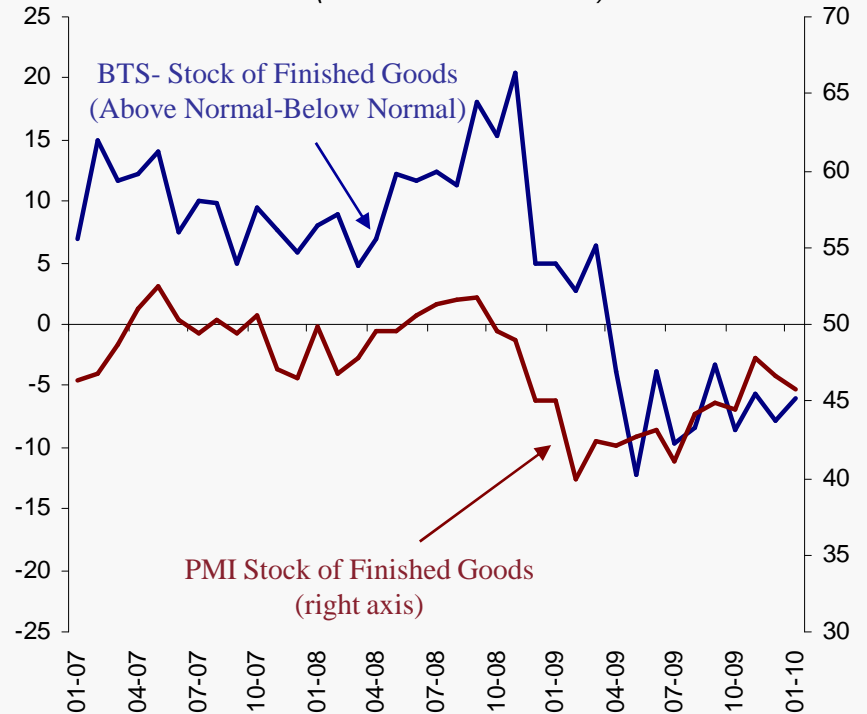
(2005 Q1 – 2009 Q3, deflated by 1998 constant prices, billion TL)



Source: TURKSTAT, CBT

Outlook for Stock of Finished Goods

(Jan 2007 – Jan 2010)

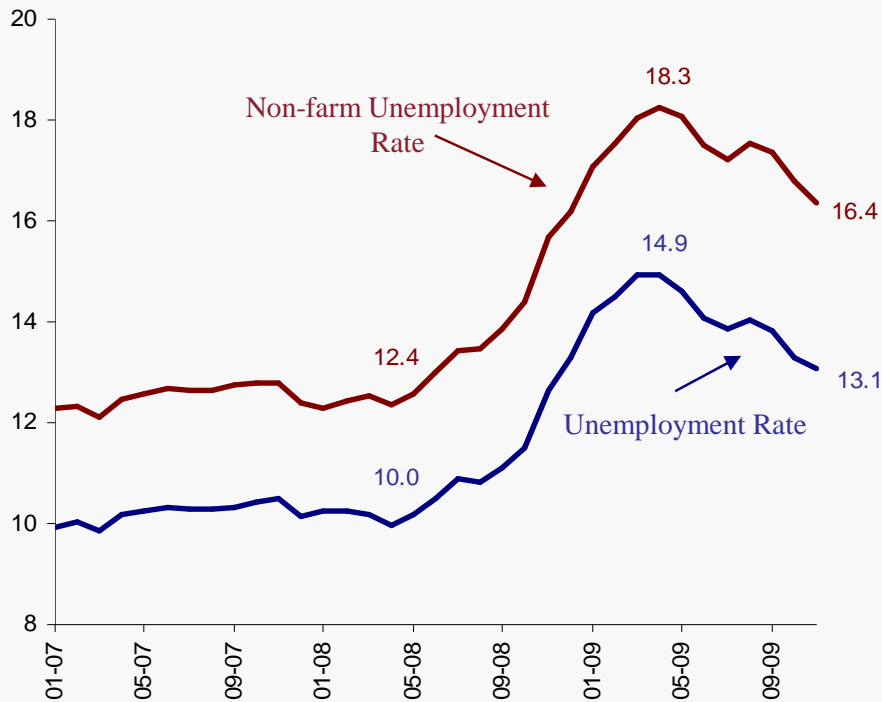


Source: Bloomberg, CBT

Labor Market

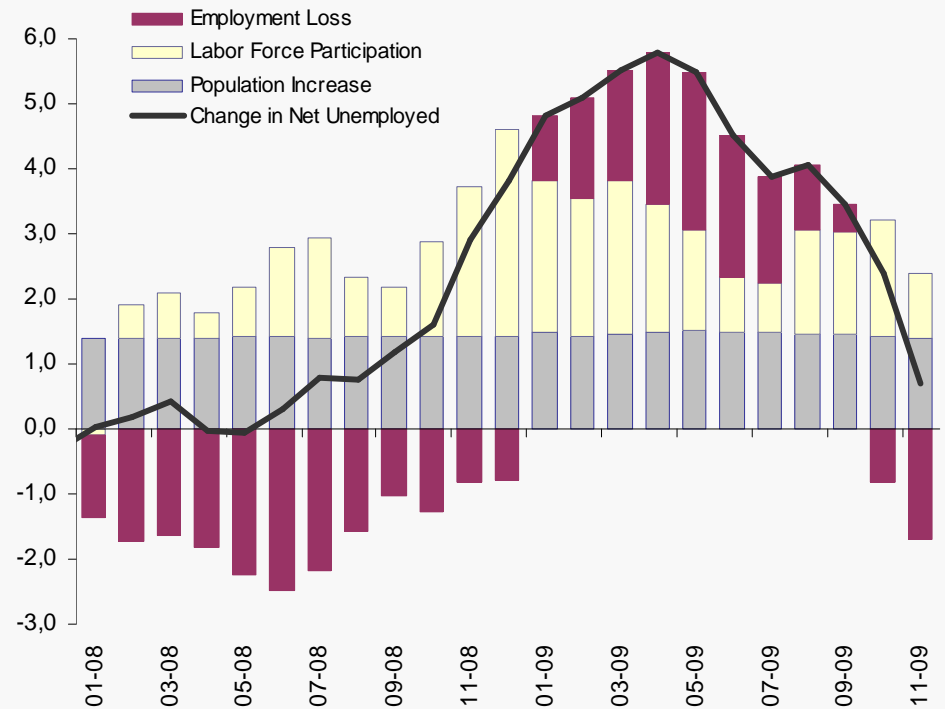
Although there has been a mild improvement in employment conditions, unemployment rates remain at high levels.

Seasonally Adjusted Unemployment Rates
(Jan 2007 - Nov 2009, percent)



Source: TURKSTAT, CBT

The Distribution of Changes in Non-Farm Unemployment
(Jan 2008 - Nov 2009, annual percentage contribution)

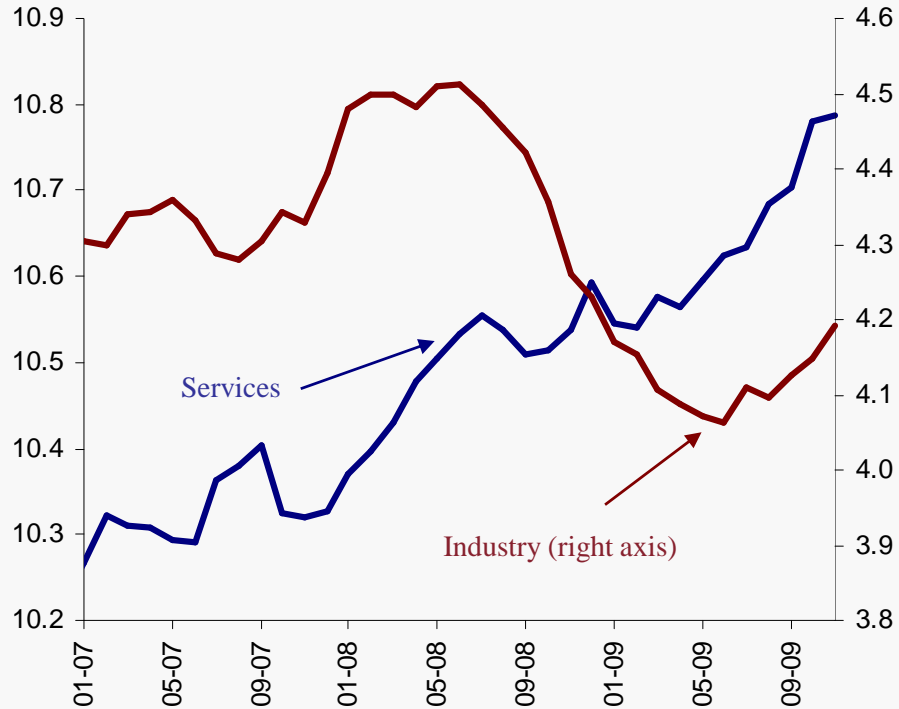


Source: TURKSTAT, CBT

Labor Market

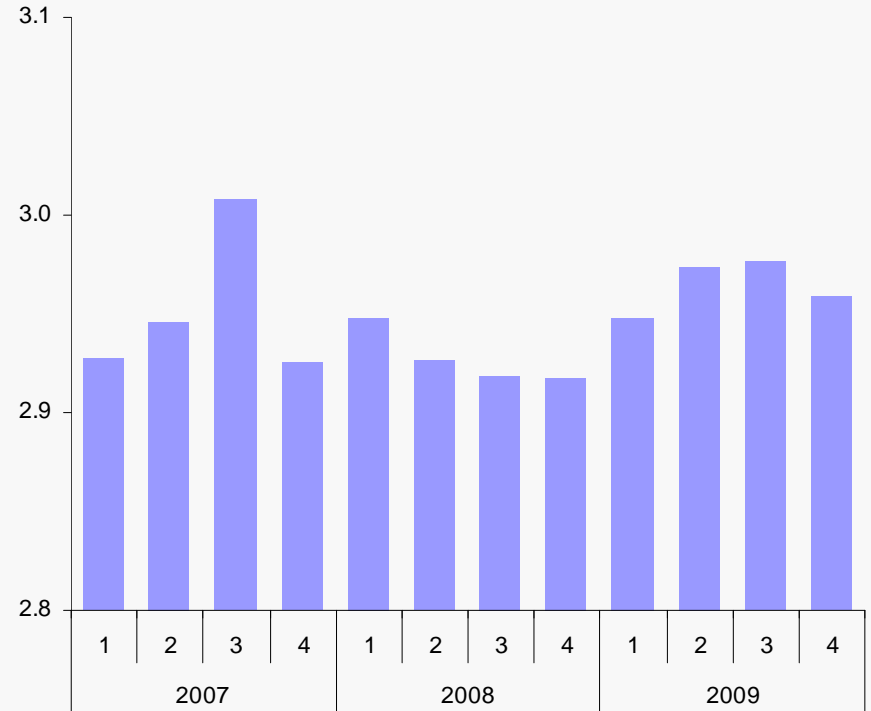
Industrial employment, which was most adversely affected by the crisis and became the main factor for the rise in non-farm unemployment, started to recover moderately.

Employment in Industry and Services
(Jan 2007 - Nov 2009, million people)



* Seasonally Adjusted
Source: TURKSTAT, CBT

Public Sector Employment
(2007 Q1 – 2009 Q4, million people)

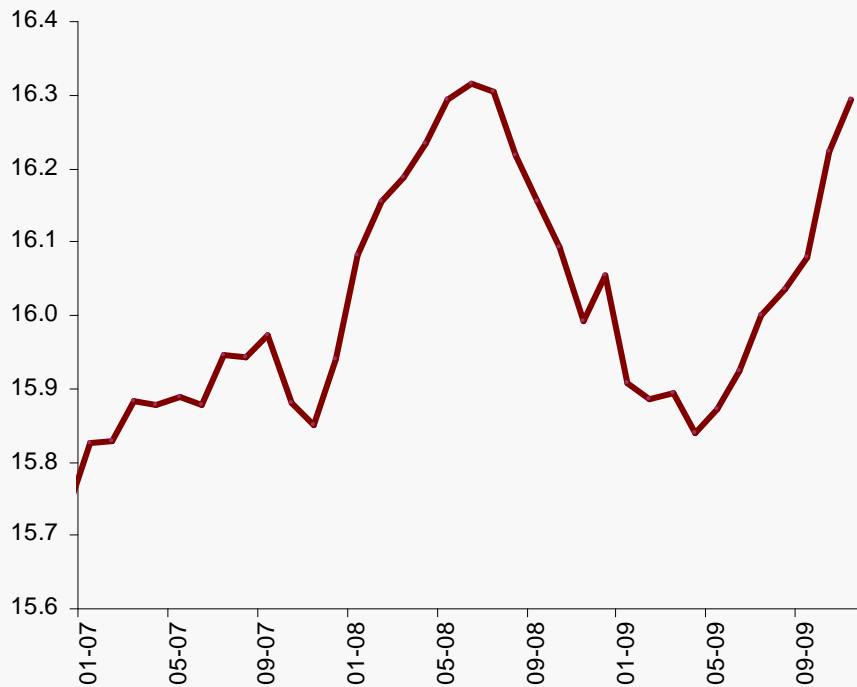


Source: TURKSTAT, CBT

Labor Market

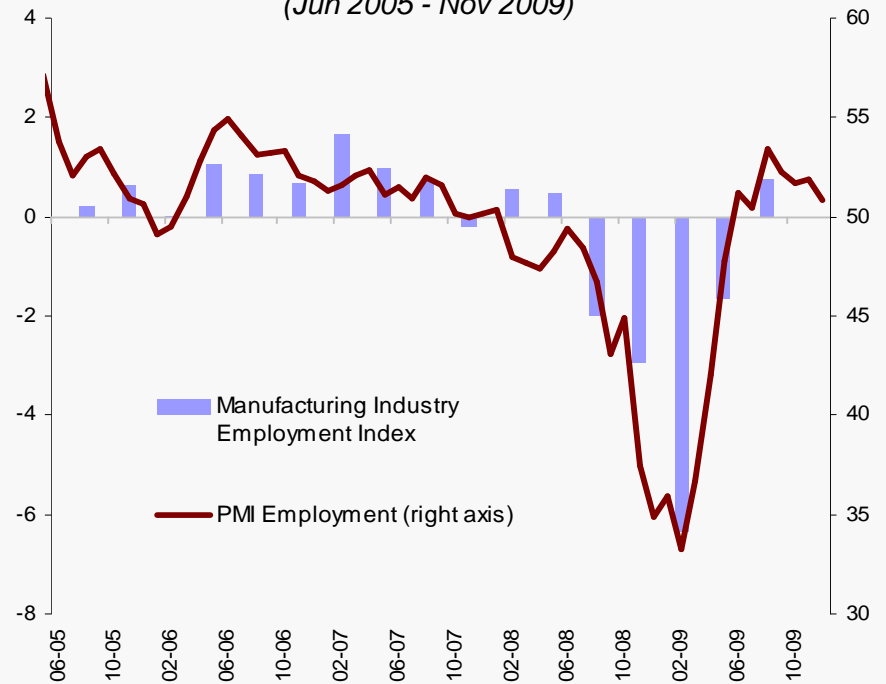
Seasonally adjusted non-farm employment has been on the rise since May 2009.

Seasonally Adjusted Non-farm Employment
(Jan 2007 - Nov 2009, million people)



Source: TURKSTAT, CBT

Employment in Manufacturing Industry (quarterly percentage change) and PMI Employment Index
(Jun 2005 - Nov 2009)

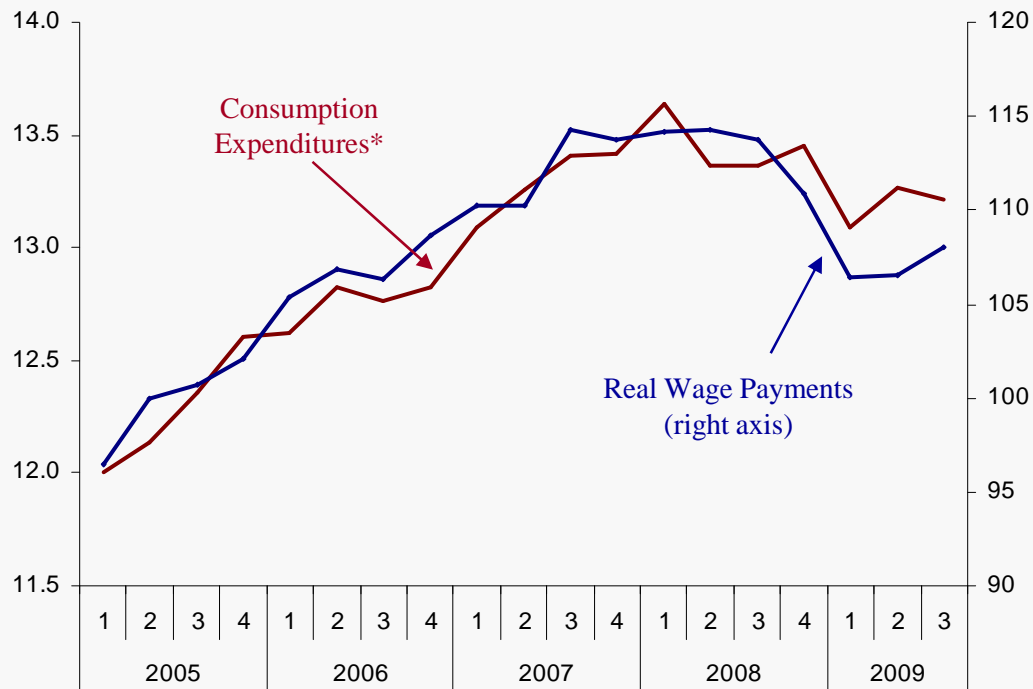


Source: TURKSTAT, Markit, CBT

Real Wage Developments

With the moderate recovery in economic activity, real wage payments started to rise again in the third quarter of 2009, mostly due to trade and industry sectors,.

Real Wage Payments and Private Consumption*
(2005 Q1 – 2009 Q3, deflated by 1998 constant prices, billion TL)



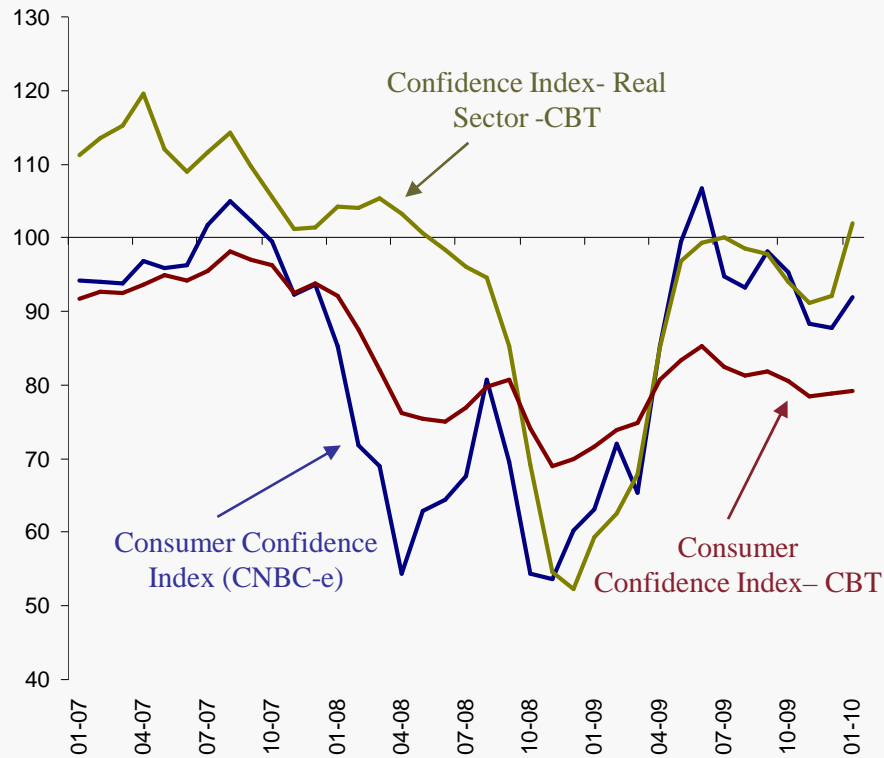
* Weighted average of total wage payments of industry, construction, trade, restaurants-hotels and transportation-communication sectors

Source: TURKSTAT, CBT.

Confidence Indices and Leading Indicators

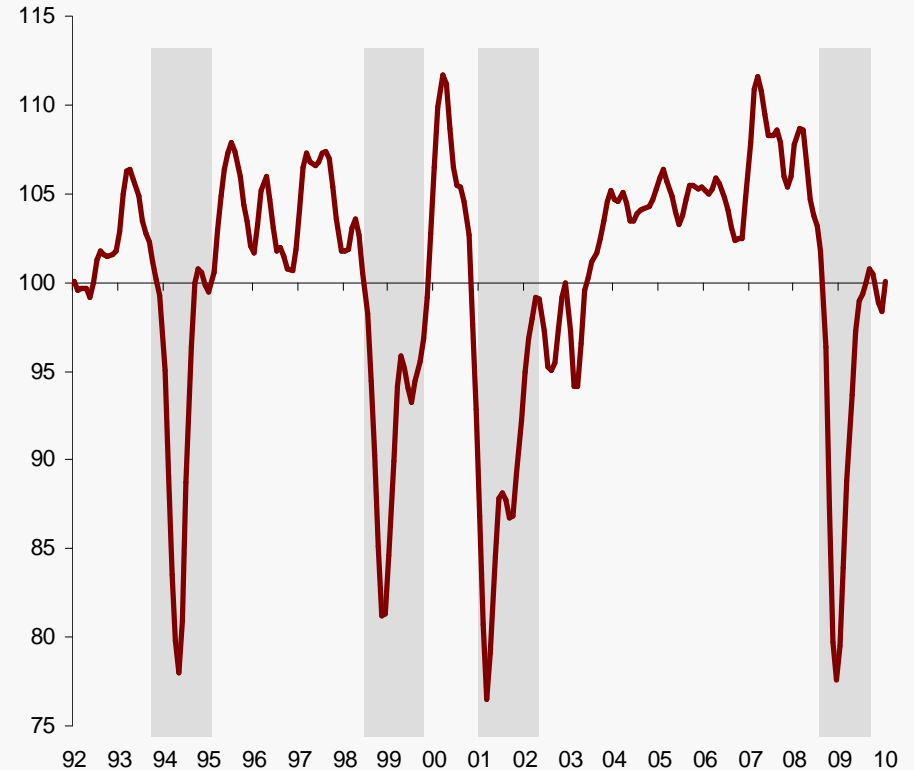
Both corporate sector and consumer confidence indices display a mild recovery.

Confidence Indices
(Jan 2007 – Jan 2010)



Source: CNBC-e, CBT

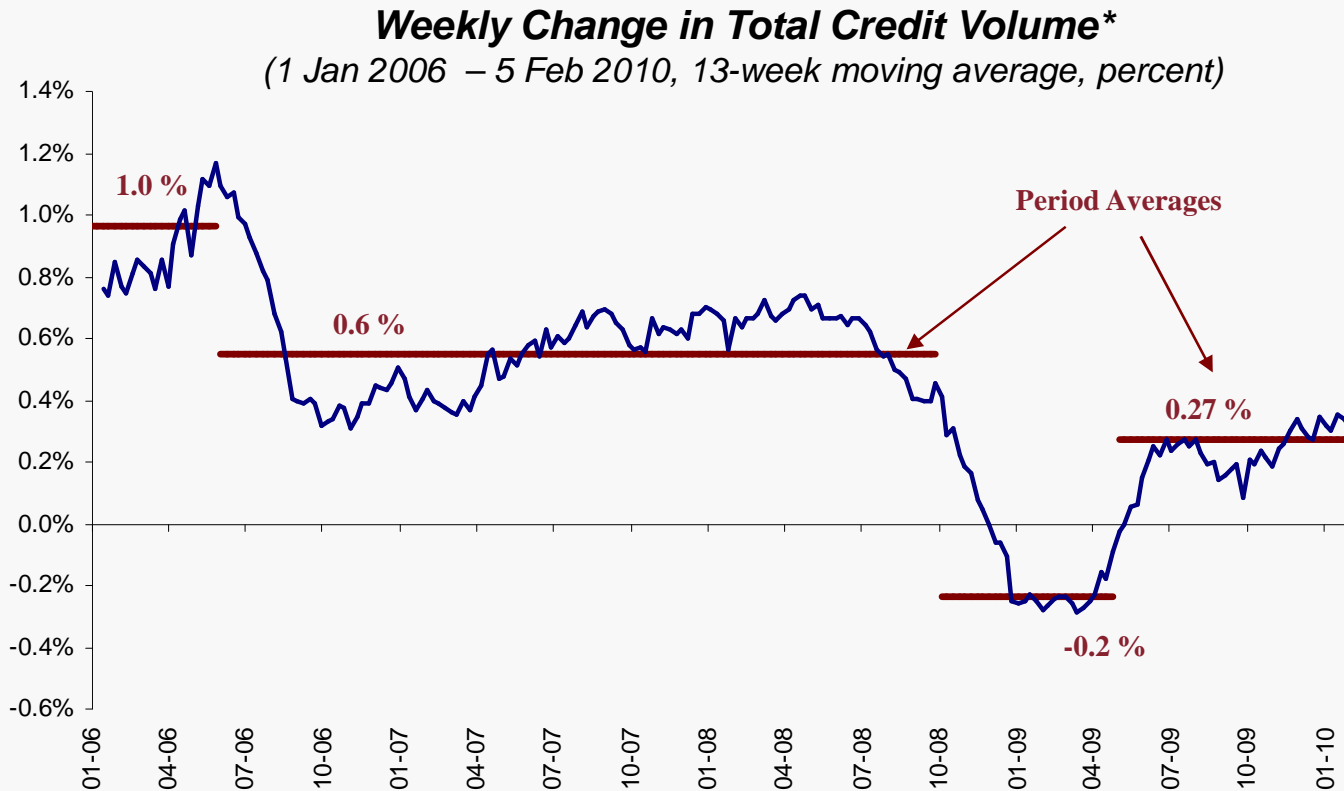
Leading Indicators
(Jan 1992 – Jan 2010)



Source: CBT

Credit Market

With the support of sizeable cuts in policy rates since November 2008 and improvements in global risk perceptions, favorable developments began to be observed in the credit market, with commercial loans in particular picking up significantly.

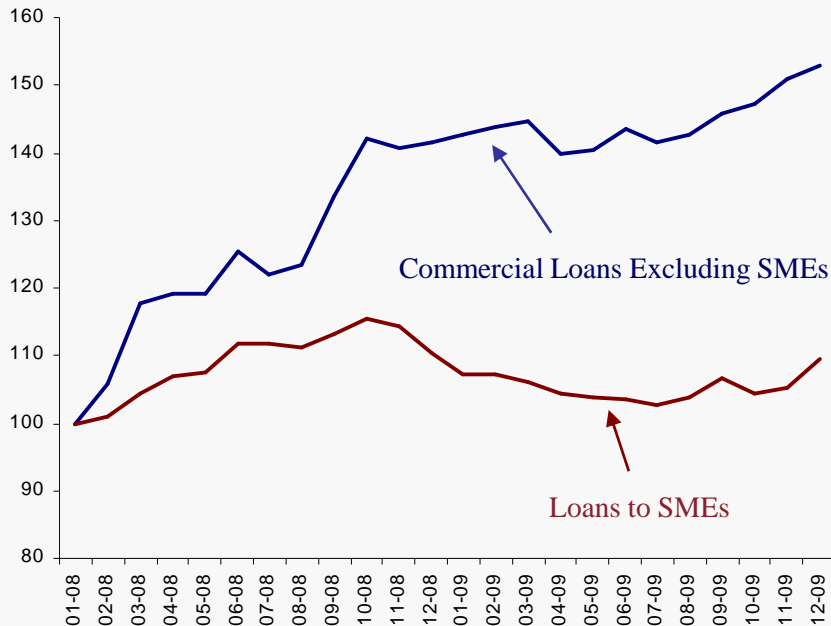


* Total credits extended by deposit, development, investment and participation banks along with consumer financing firms; exchange rate adjusted
Source: BRSA, CBT

Commercial Loans

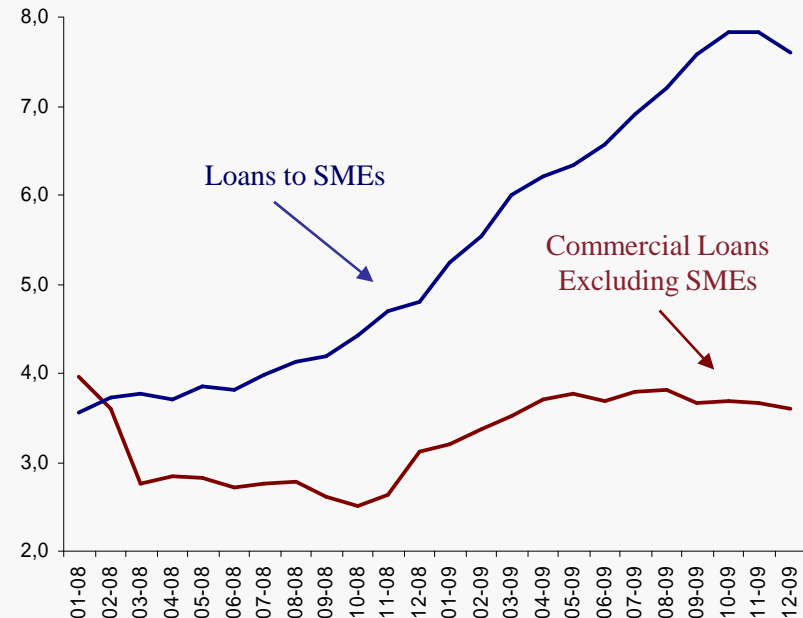
Tight loan standards affected SMEs more adversely than other firms. Recently there have been some improvements in NPLs and the amount of credits granted to SMEs.

Commercial and SME Loans
(Jan 2008 – Dec 2009, Jan 2008=100)



billion TL	Loans to SMEs	Commercial Loans Excl. SMEs
12/2008	84.6	165.7
12/2009	83.9	178.8

Non-Performing Loans
(Jan 2008 – Dec 2009, percent)

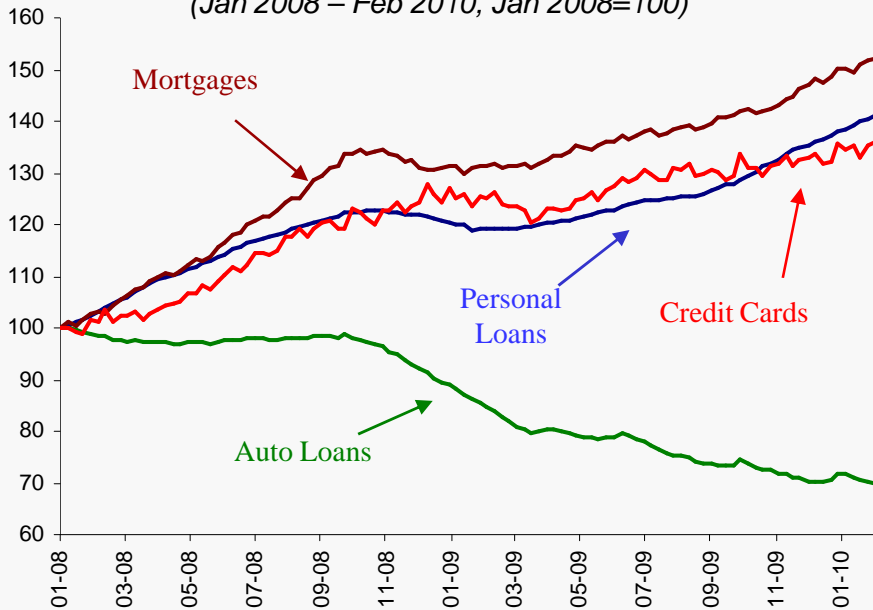


percent	Loans to SMEs	Commercial Loans Excl. SMEs
12/2008	4.8	3.1
12/2009	7.6	3.6

Consumer Loans

In the last quarter of 2009, the recovery in consumer loans continued while ratio of non-performing consumer loans started to decline.

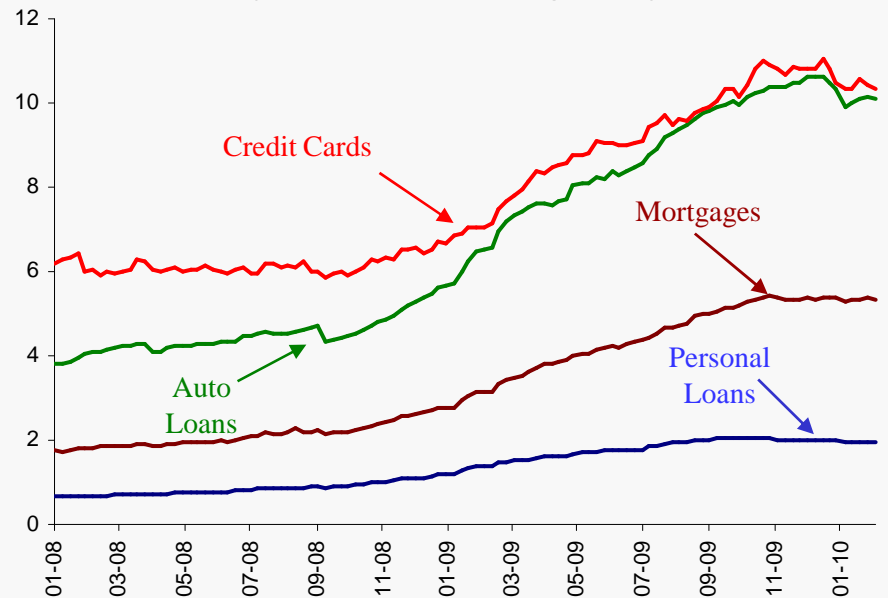
Sub-items of Consumer Loans
(Jan 2008 – Feb 2010, Jan 2008=100)



Billion TL (monthly avg.)	TOTAL	Mortgages	Auto Loans	Personal Loans	Credit Cards
02/08	98.5	34.3	6.0	30.8	27.4
02/09	115.3	38.7	5.0	38.4	33.2
02/10	131.0	45.8	4.3	44.5	36.5

* Deposit Banks
Source: CBT

Ratio of Non-Performing Consumer Loans
(Jan 2008 – Feb 2010, percent)



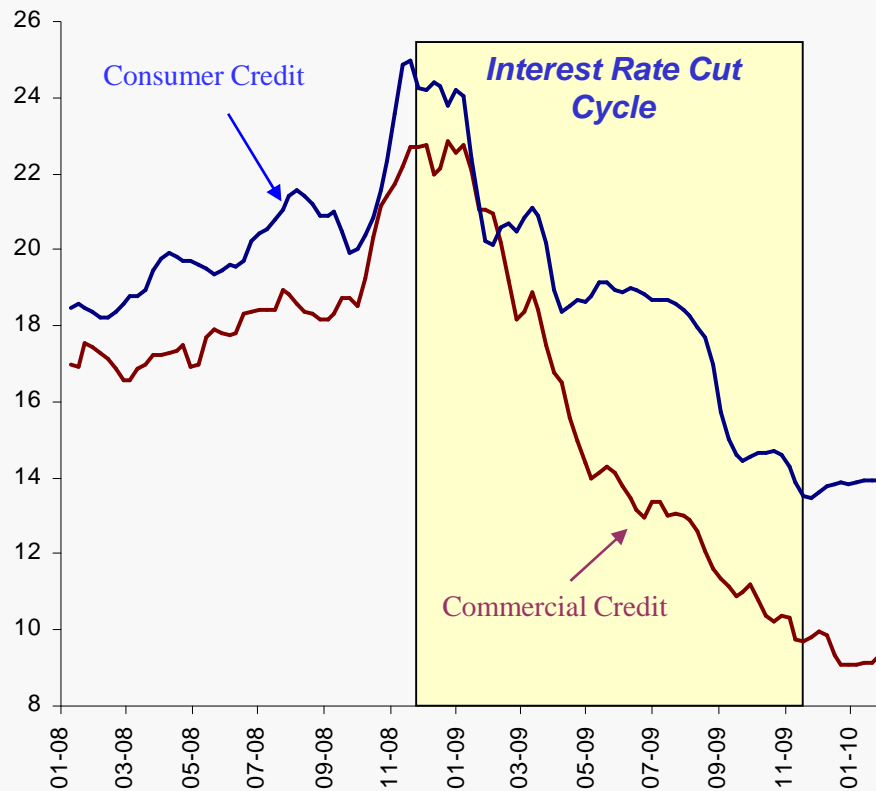
percent	TOTAL	Mortgages	Auto Loans	Personal Loans	Credit Cards
02/08	1.5	0.7	4.2	1.9	5.9
02/09	2.8	1.5	7.2	3.4	7.7
02/10	3.9	1.9	10.1	5.3	10.3

* Deposit Banks
Source: CBT

Credit Conditions

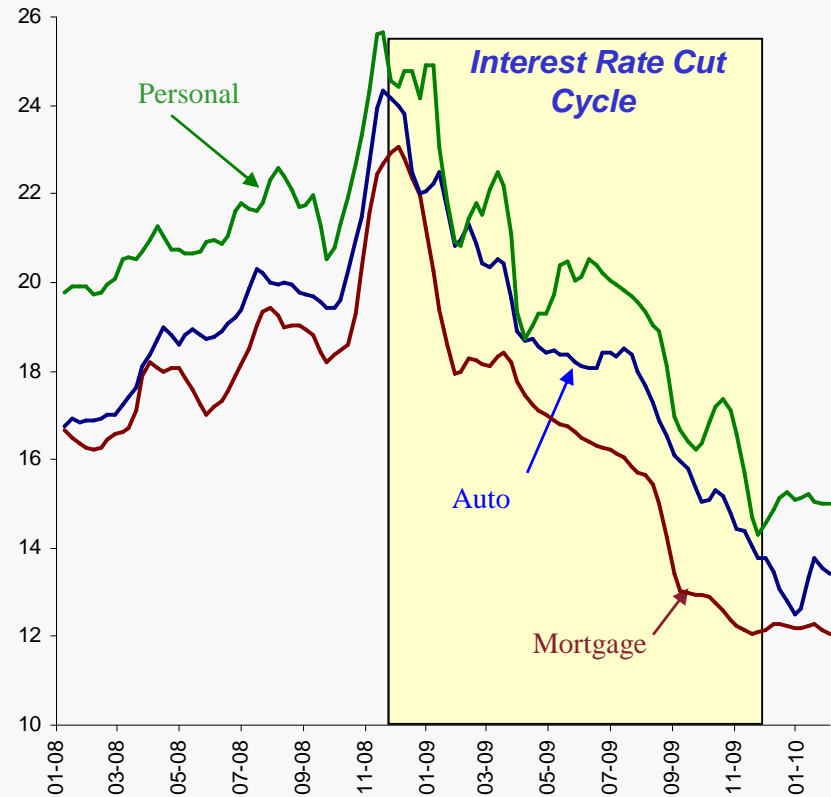
The decline observed in commercial credit interest rates in the third quarter of 2009 continued to some extent in the last quarter.

Credit Interest Rates*
(Jan 2008 – Jan 2010, annual percentage)



* 2-week moving average
Source: BRSA, CBT

Consumer Credit Interest Rates*
(Jan 2008 – Jan 2010, annual percentage)

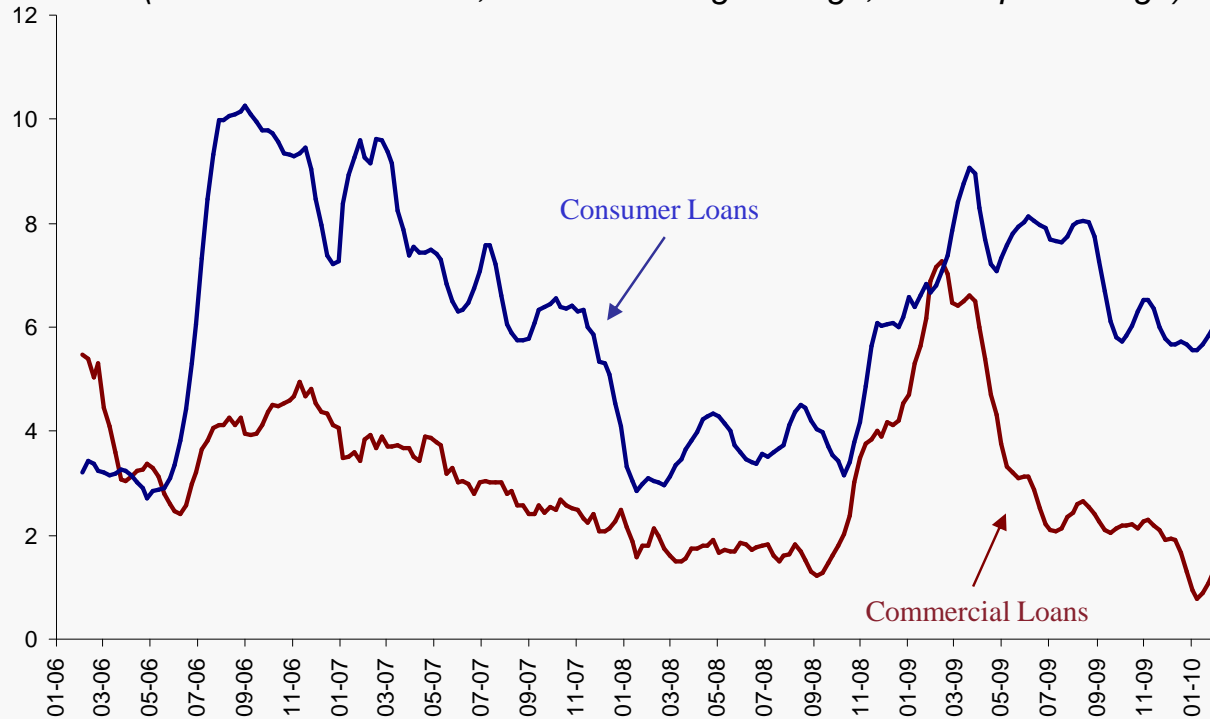


* 2-week moving average
Source: BRSA, CBT

Credit Conditions

Positive reflections of both the 1,025 basis points cumulative interest rate cut since November 2008 and measures taken for liquidity management on credit markets became evident in the fourth quarter of 2009.

Difference between Interest Rates on Loans and Deposits*
(Jan 2006 – Jan 2010, 4-week moving average, annual percentage)



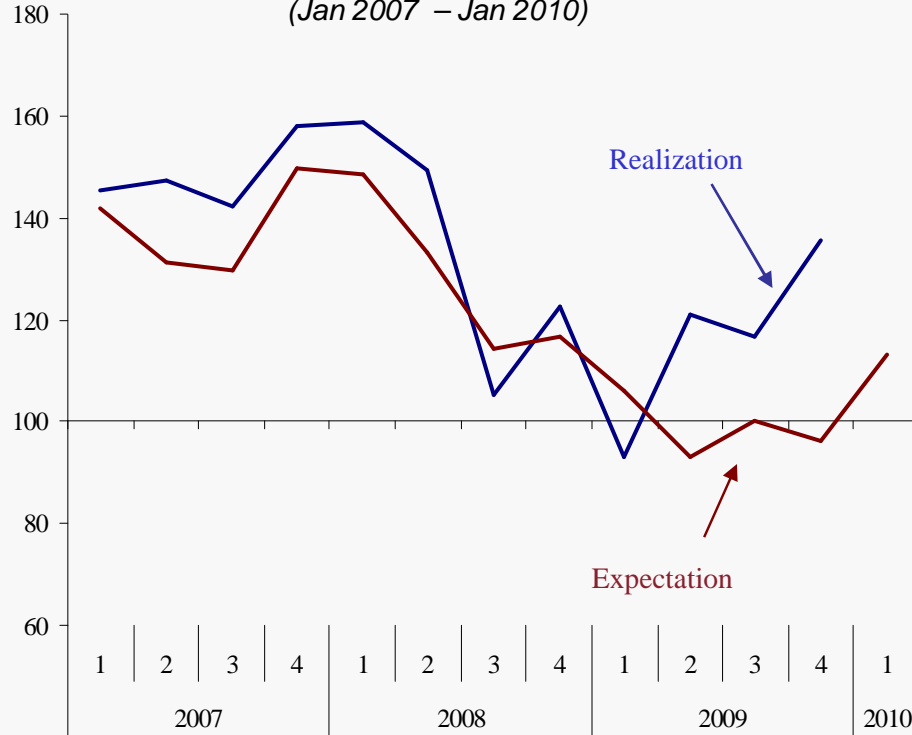
* Weighted average, flow interest rates.

Source: CBT

Credit Conditions

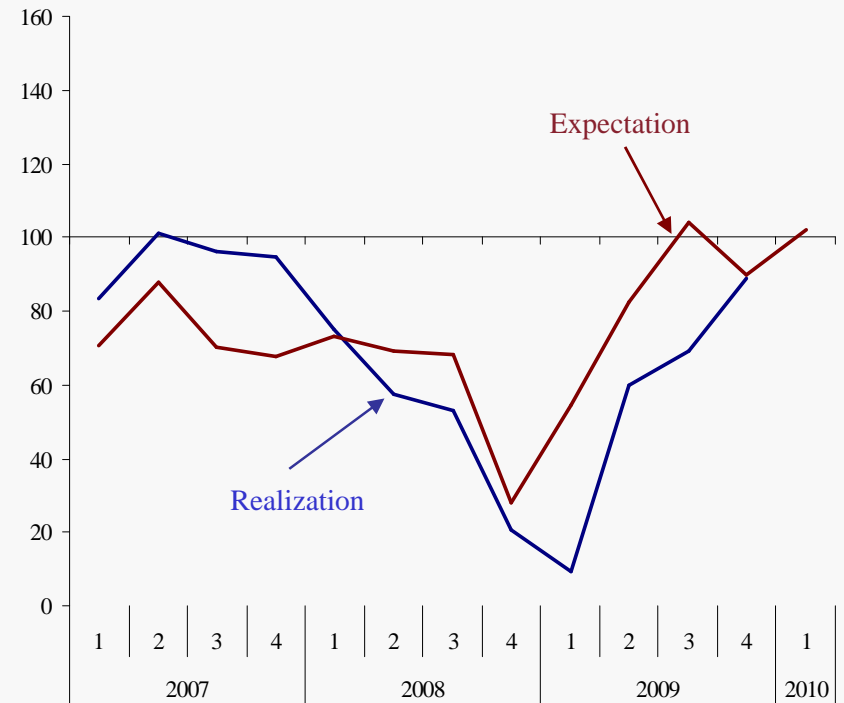
Banks' Loans Tendency Surveys indicate that the demand for commercial loans has slightly improved, but demand for investment loans still maintains its low levels. The tightening tendency of banks' credit standards persists albeit limited.

Demand for Commercial Loans
(Jan 2007 – Jan 2010)



Source: CBT

Credit Standards for Commercial Loans
(Jan 2007 – Jan 2010)

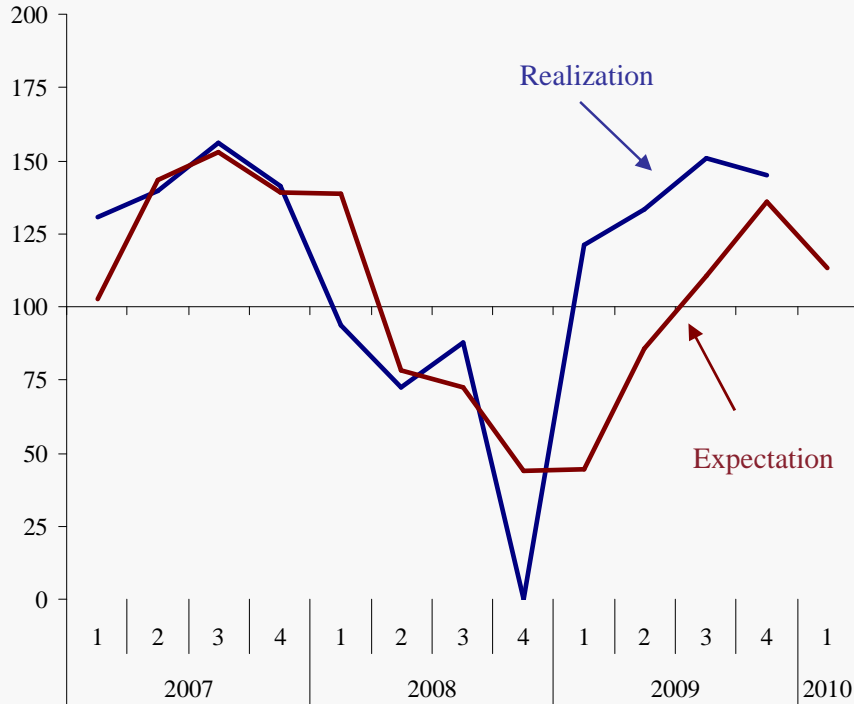


Source: CBT

Credit Conditions

Surveys also suggest that the demand for consumer loans has increased and credit tightening on these loans has ceased.

Demand for Mortgages and Expectations
(Jan 2007 – Jan 2010)



Source: CBT

Credit Standards for Consumer Loans
(Jan 2007 – Jan 2010)

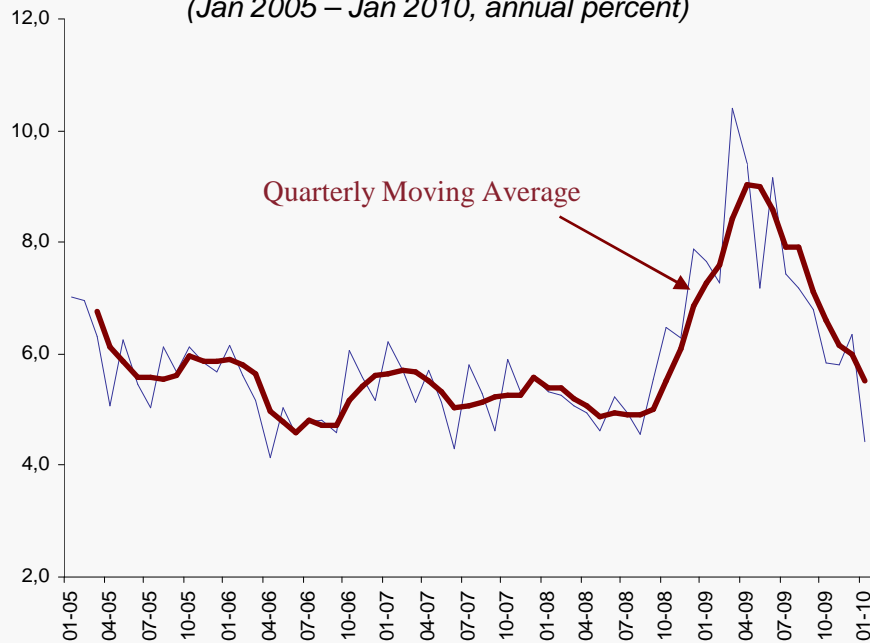


Source: CBT

Commercial Activities

Recently the number of bad cheques has decreased slightly. The increase in the number of new firms proves that economic activity continues to recover.

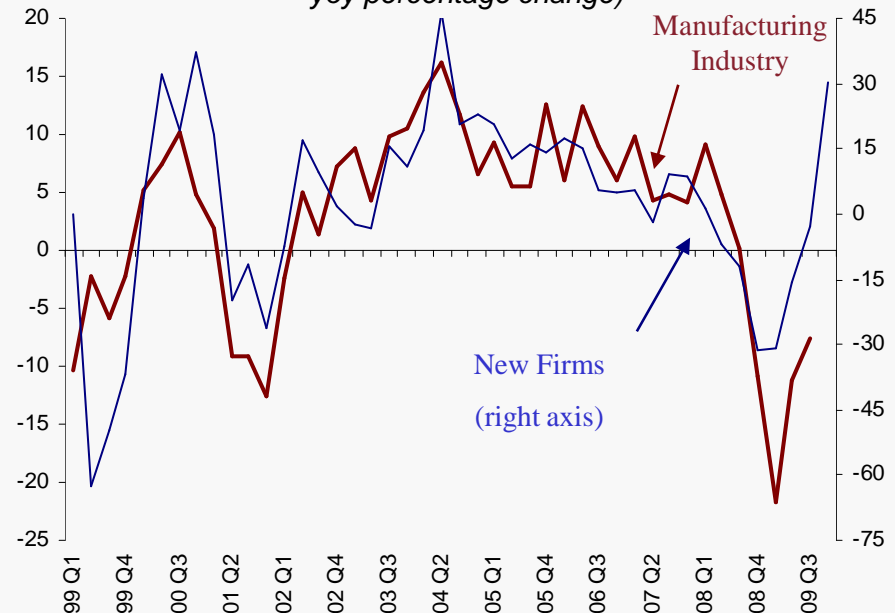
Ratio of the Number of Bad Cheques to Total Cheques
(Jan 2005 – Jan 2010, annual percent)



2007	2008	2009-I	2009-II	2009-III	2009-VI	2010-I*
5.39	5.01	8.44	8.58	7.13	6.34	4.43

* As of January 2010
Source: ICHC , CBT

Number of New Firms (1999 Q1 – 2009 Q4)
GDP Manufacturing Industry (1999 Q1 – 2009 Q3,
yoy percentage change)



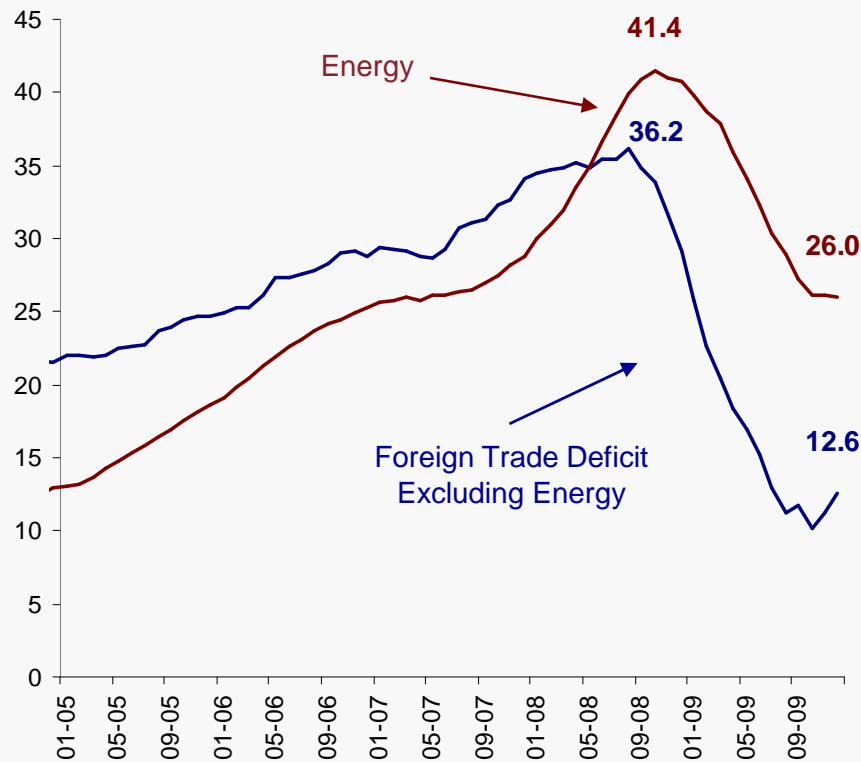
Percentage Change	08-IV	09-I	09-II	09-III	09-IV
Manufacturing Industry	-10.8	-21.8	-11.2	-7.5	
Newly Founded Firms	-31.4	-30.6	-15.8	-2.8	30.5

Source: TURKSTAT, CBT

Balance of Payments

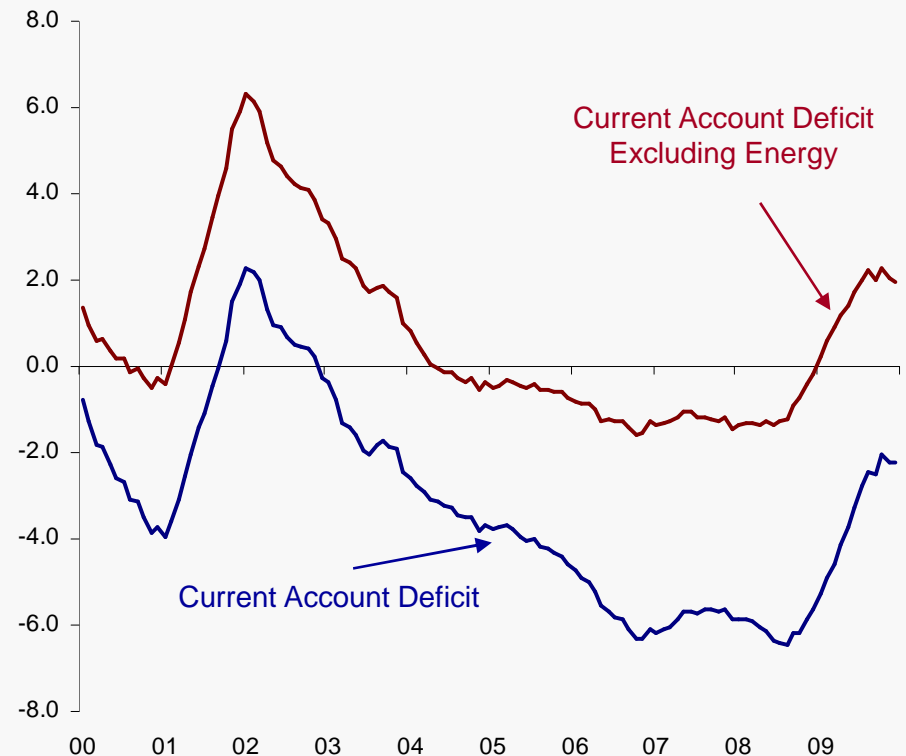
The relative improvement in the current account balance has limited the adverse effects of the global financial crisis by reducing the financing requirement.

Foreign Trade Balance
(Jan 2005 – Dec 2009, billion USD)



Source: TURKSTAT, CBT

Current Account Balance
(Jan 2000 – Dec 2009, ratio to GDP, percent)



Source: TURKSTAT, CBT

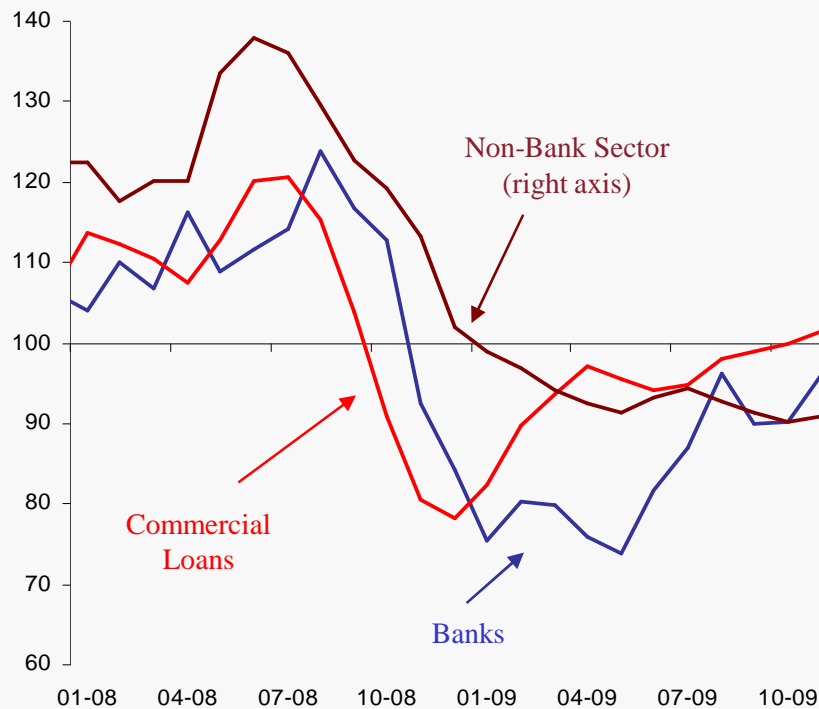
Balance of Payments

The private sector debt rollover ratio increased to 104 percent in the last quarter of 2009. When the effect of amendment to Decree No. 32 is taken out, the non-bank sector external debt rollover ratio is estimated to be above 100 percent.

Private Sector Debt Rollover Ratio

(Jan 2008 – Dec 2009, Ratio of External Debt

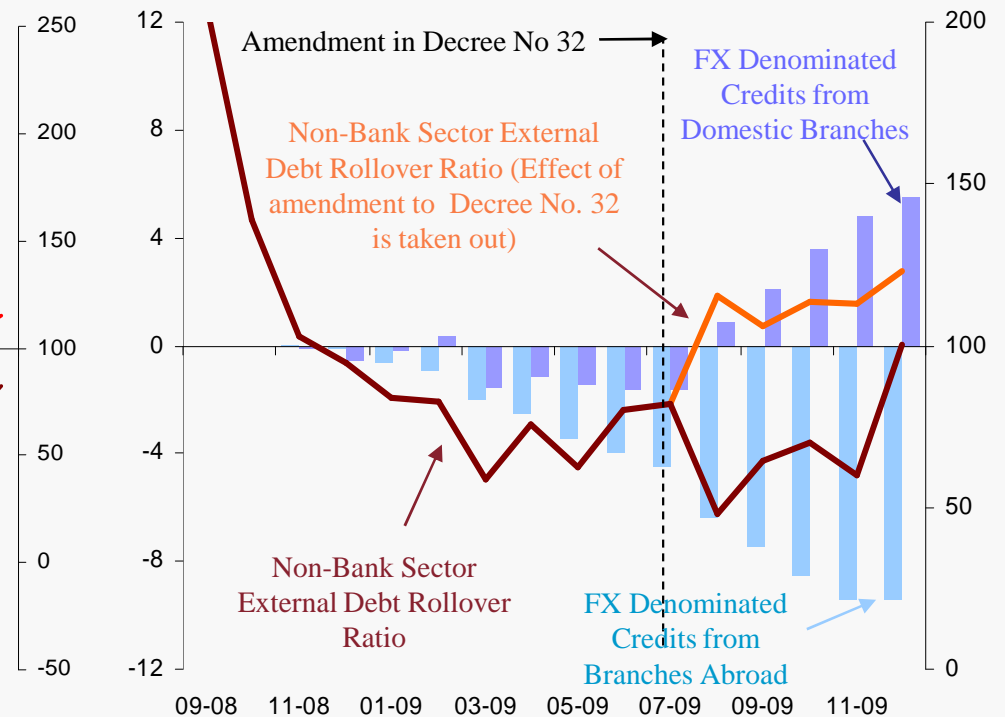
Utilization to Principal Payments, 3-month moving average, percent)



Source: TURKSTAT, CBT

Non-Bank Sector External Debt Rollover Ratio (percent) and Domestic Banks' FX Denominated Credits

(Sep 2008 – Dec 2009, cumulative sum, billion USD)



Source: TURKSTAT, CBT

Balance of Payments

Balance of Payments between October 2008 and December 2009

UTILIZATION	Billion USD
Current Account Balance	-19.8
Loans (Commercial loans, banking sector loans, public sector loans, other sector loans)	-20.0

REASONS FOR THE INCREASE IN NET ERRORS AND OMISSIONS

- ✓ FX deposit transfers from abroad to FX accounts in Turkey due to reasons like the Repatriation Amnesty,
- ✓ Conversion of FX savings in the form of banknotes to Turkish lira deposits in banks,
- ✓ Losses/gains in value during the accounting of FX transactions.

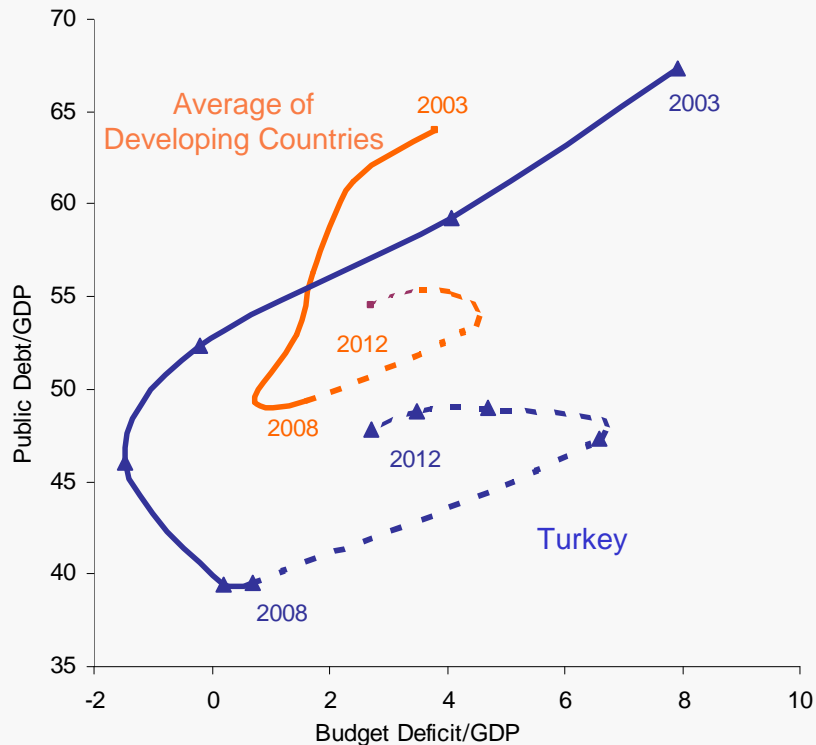
SOURCE	Billion USD
Net Errors and Omissions	15.6
Foreign Direct Investment	9.8
Portfolio Investments (Equity, debt instruments and bank deposits)	2.3
Other	0.6
Reserve Assets	11.5
(Official Reserves)	(5.1)
(FX assets of banks)	(2.0)
(FX assets of other sectors)	(4.4)

Source: TURKSTAT, CBT

Public Finance

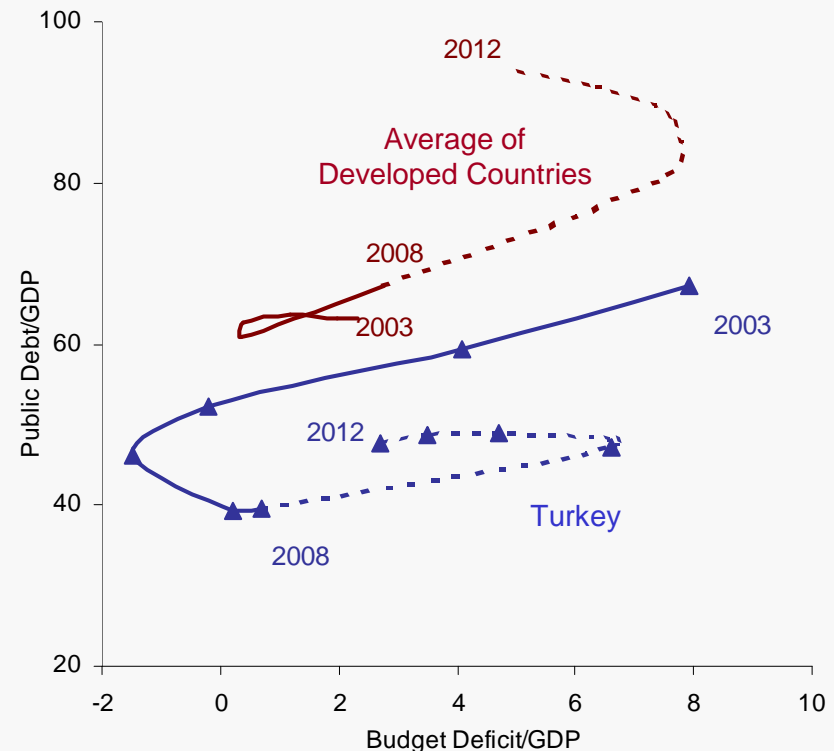
Public debts and budget deficits are increasing on a worldwide scale due to fiscal stimulus and decreasing tax incomes. Turkey will stand out with her low level of public debt.

Public Debt and Budget Deficit of Turkey and Other Developing Countries
(2003-2012, percent)



Source: IMF, Ministry of Finance, Undersec.of Treasury MTP (2010-2012), 2009 Program.

Public Debt and Budget Deficit of Turkey and Developed Countries
(2003-2012, percent)

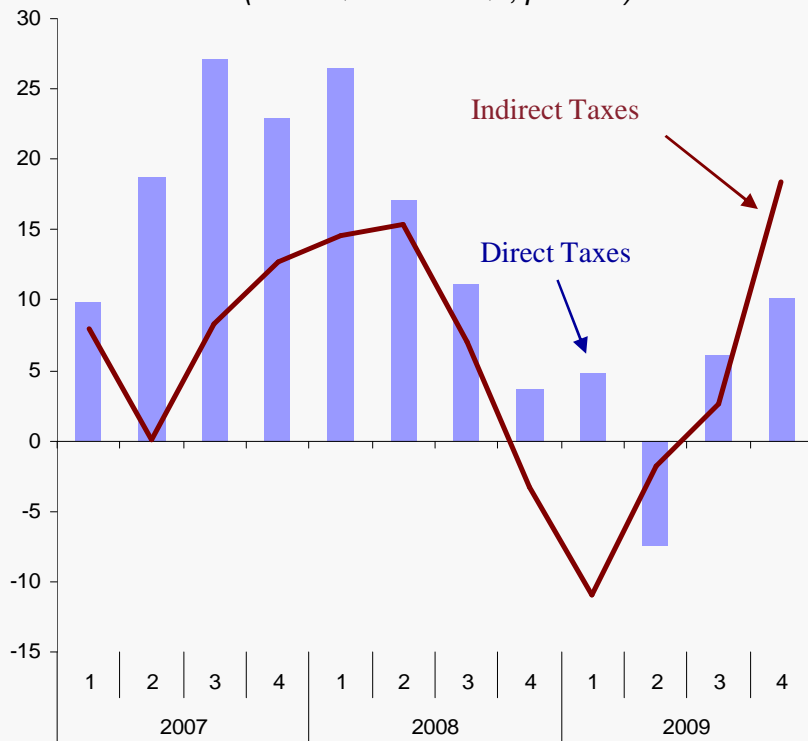


Source: IMF, Ministry of Finance, Undersec.of Treasury MTP (2010-2012), 2009 Program.

Public Finance

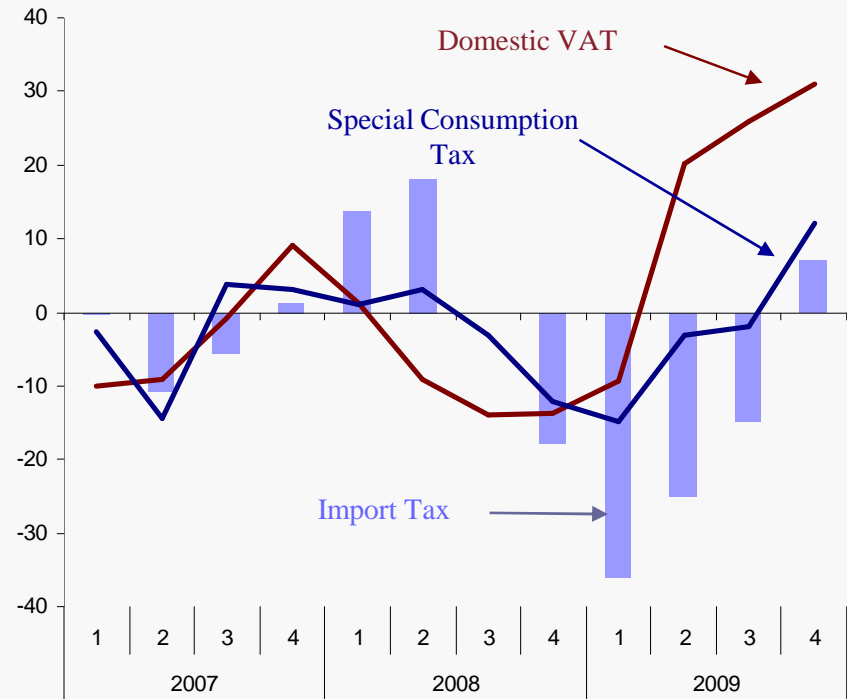
Tax revenues recovered in the last quarter of 2009 owing to the moderate recovery in economic activity.

Change in Tax Revenues
(2007 Q1 – 2009 Q4, percent)



Source: Ministry of Finance, CBT

Change in Indirect Tax Revenues
(2007 Q1 – 2009 Q4, percent)

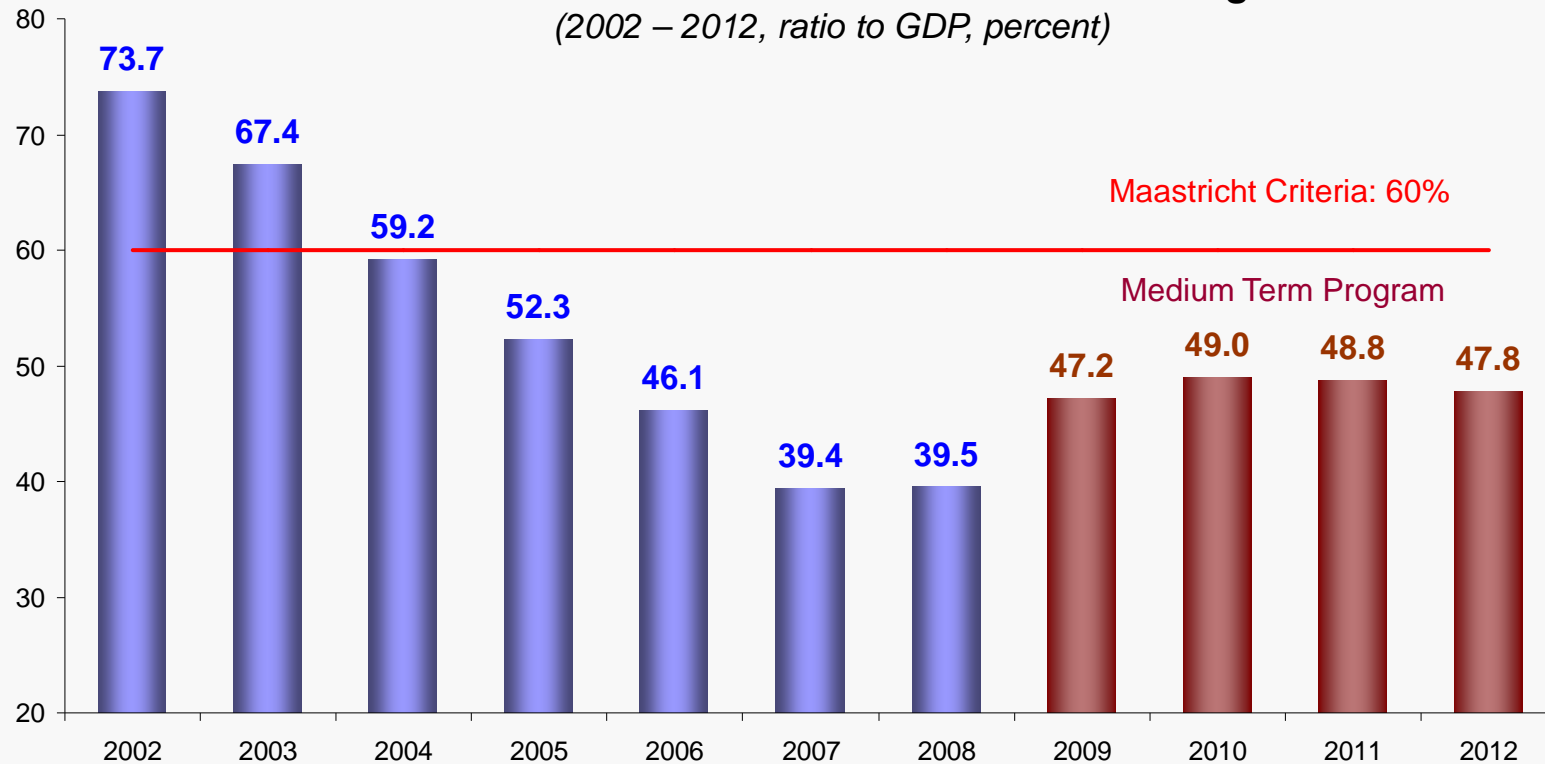


Source: Ministry of Finance, CBT

Public Finance

If the goals set out in the Medium Term Program can be attained by institutional and structural improvements rather than tax and price increases, it will be possible to keep policy rates at single digits throughout the forecast horizon.

EU-Defined Public Debt and Medium-Term Targets
(2002 – 2012, ratio to GDP, percent)



Source: Undersecretariat of Treasury, CBT

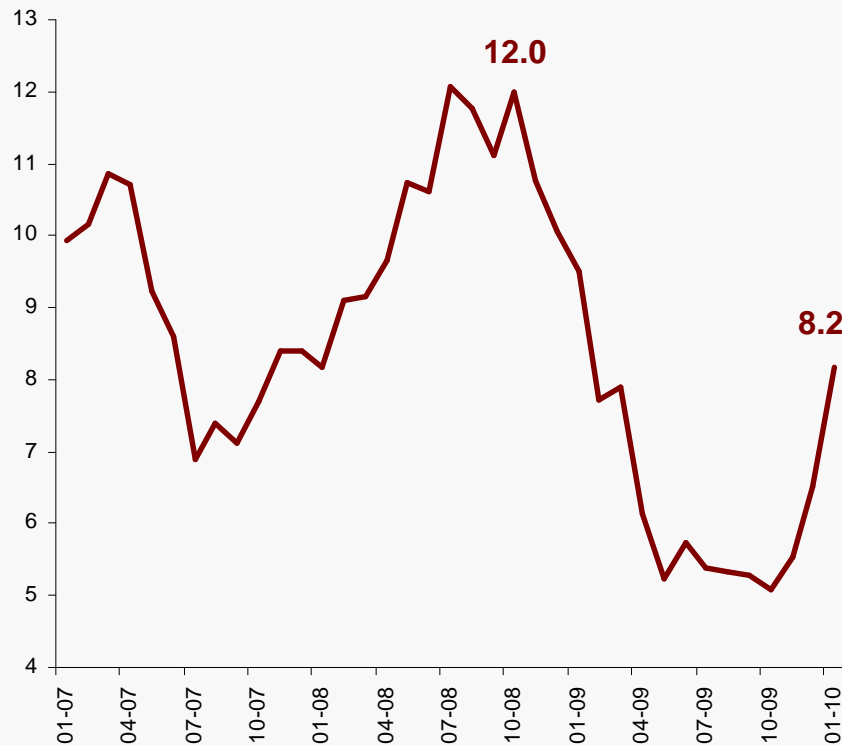
IV. Inflation Outlook

Inflation Developments

Consumer prices went up by 1.85 percent in January and annual inflation became 8.19 percent with a rise of 1.66 points.

Consumer Inflation

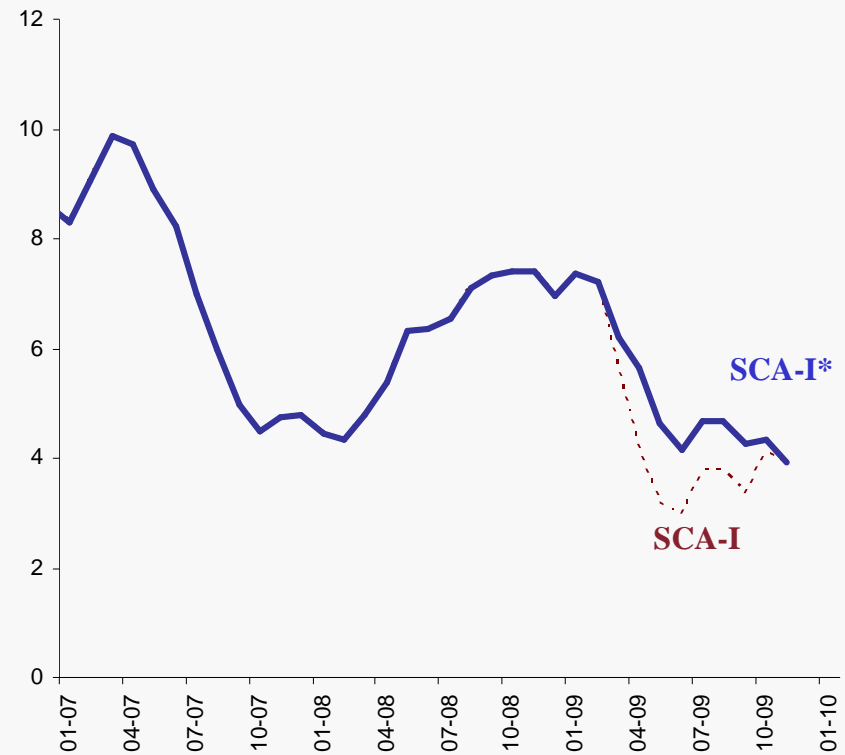
(Jan 2007 – Jan 2010, annual percentage change)



Source: TURKSTAT, CBT

SCA-I Index

(Jan 2007 – Jan 2010, annual percentage change)



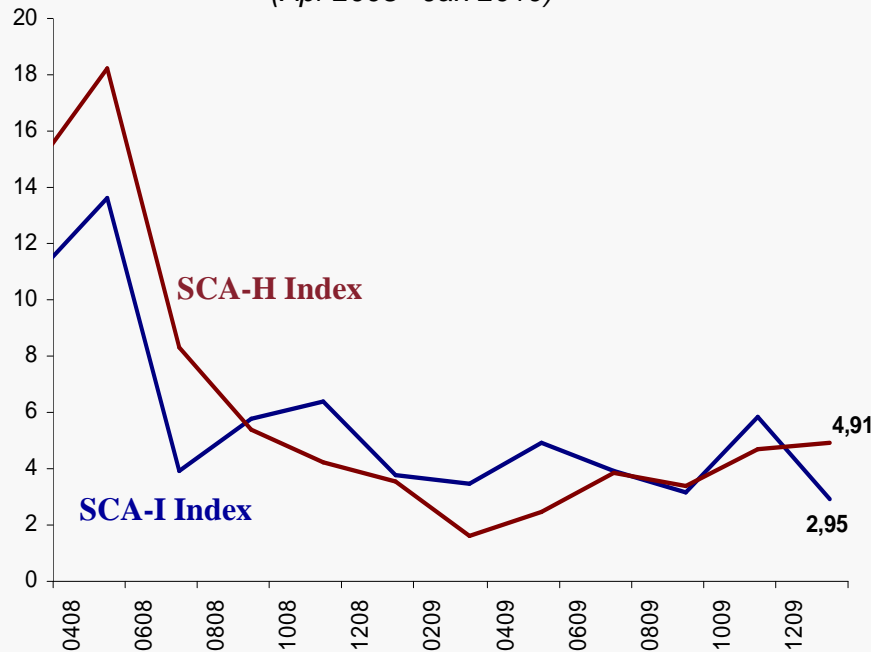
*SCA-I indicator adjusted for the change in tax rates.

Source: TURKSTAT, CBT

Inflation Developments

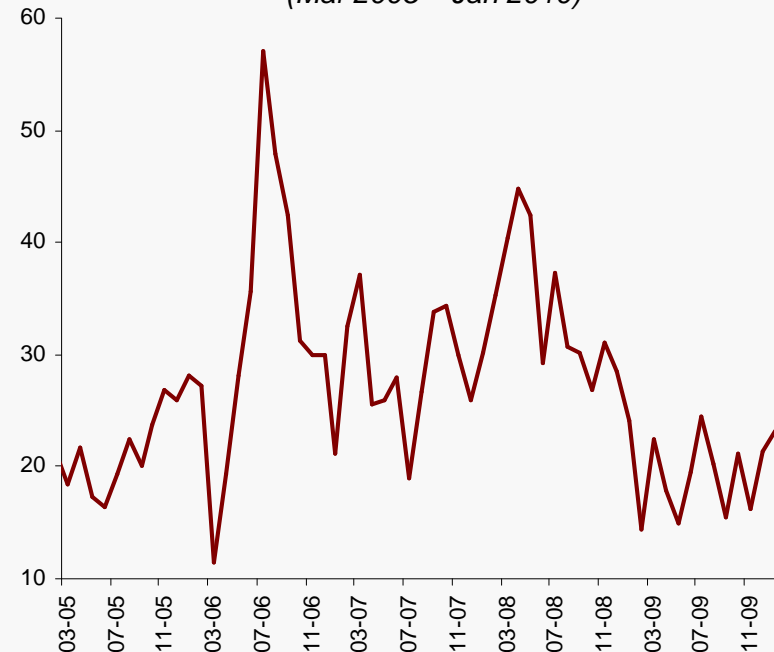
Core inflation indicators are consistent with medium-term inflation targets. The rise in inflation since the last quarter of 2009 does not point to a deterioration in the main trend of inflation.

Core Inflation Indicators*
(Apr 2008– Jan 2010)



* Seasonally and tax-adjusted, 2- month averages
Source: TURKSTAT, CBT

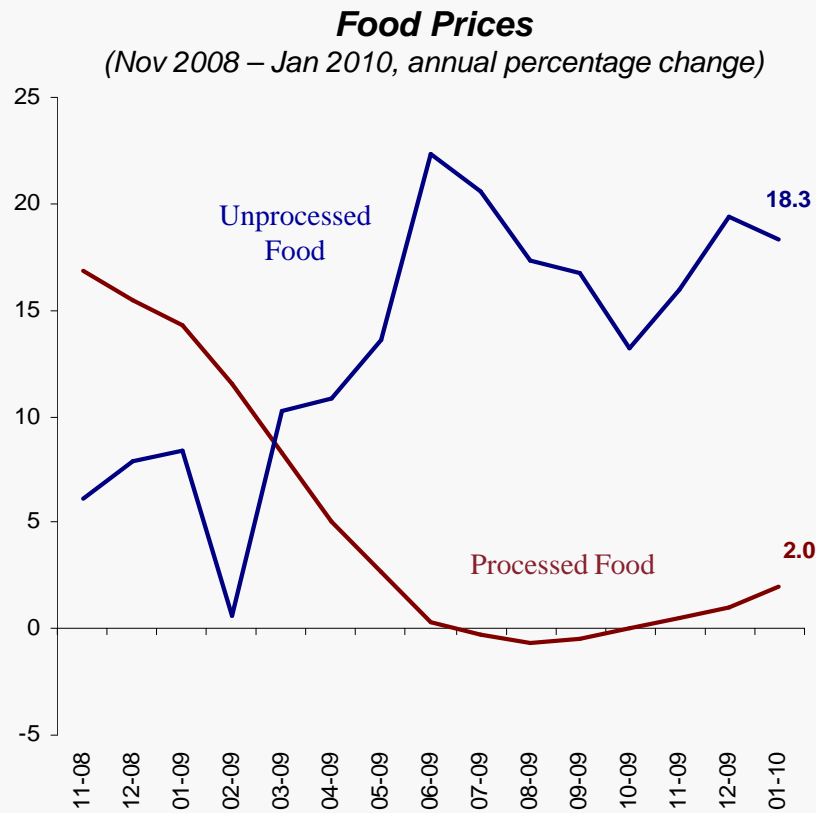
Inflation Diffusion Index*
(Mar 2005 – Jan 2010)



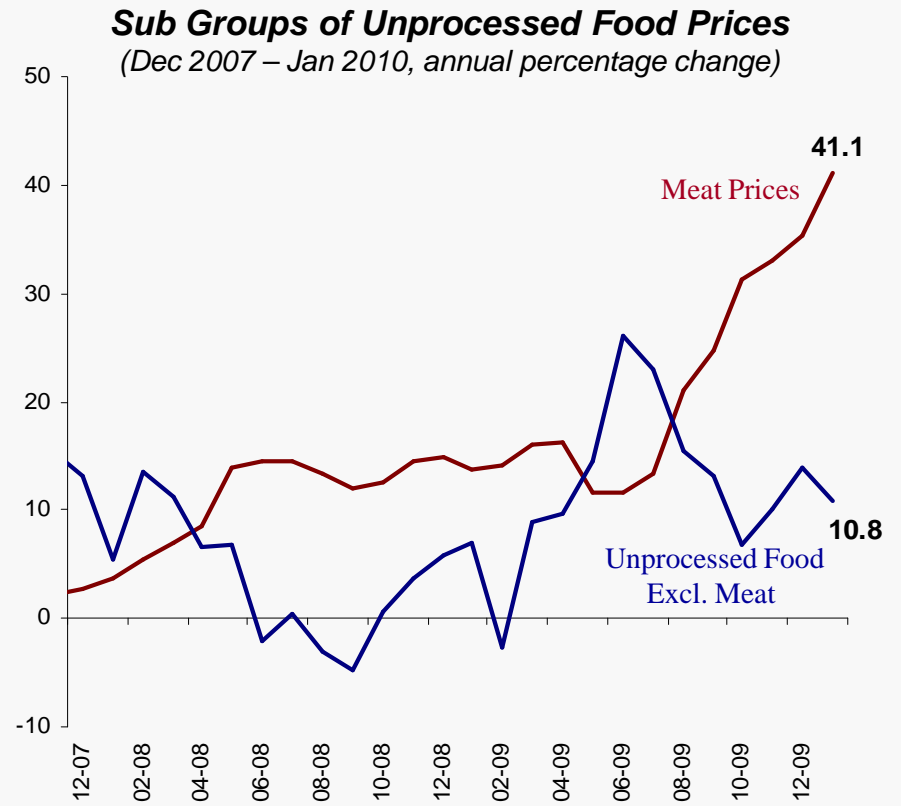
* Seasonally-adjusted 2- month average of the difference between the share of items with increasing prices and the share of items with falling prices in CPI
Source: TURKSTAT, CBT

Inflation Developments

The fluctuating course of unprocessed food prices in Turkey leads to remarkable uncertainty in forecasts.



Source: TURKSTAT, CBT

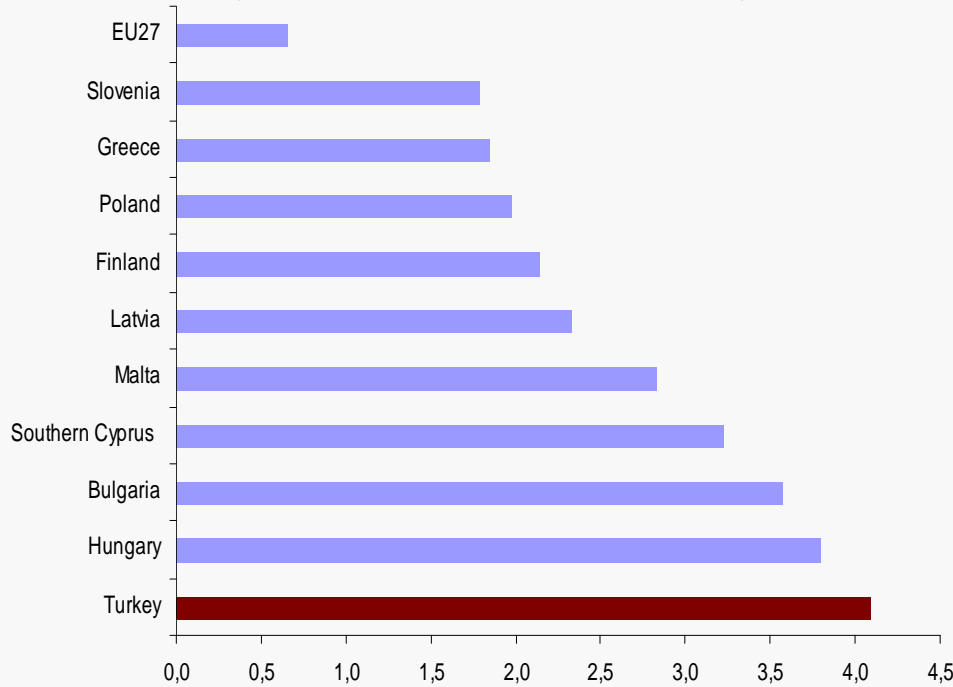


Source: TURKSTAT, CBT

Inflation Developments

Volatility in unprocessed food prices in Turkey is remarkably higher than that in other countries.

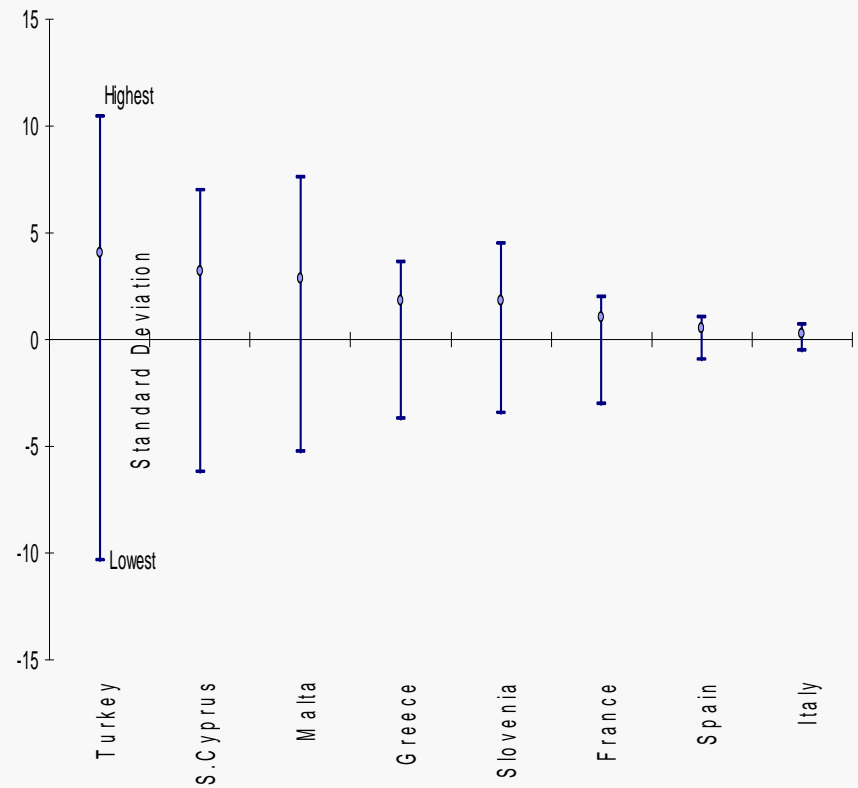
Volatility of Monthly Inflation in Unprocessed Food Prices: Comparison of EU-27 Countries and Turkey*
(2006-2009 Period, Standard Deviation)



*The chart illustrates Turkey and the nine leading countries with the most volatility within EU-27 in the mentioned period.

Source: Eurostat, CBT.

Volatility of Monthly Inflation in Unprocessed Food Prices in Mediterranean Countries
(2006-2009 Period)



Source: Eurostat, CBT.

Inflation Developments

The length of the distribution chain in the food sector, deficiencies in infrastructure, structural problems such as unregistered economy point to the importance of structural arrangements to attain price stability .

	Average	Low	High	Range	Standard Deviation	Volatility Ranking * (in EU-27)
Turkey						
Unprocessed Food	1.0	-10.4	10.4	20.8	4.1	1
Fruits	1.5	-22.3	31.0	53.3	9.4	2
Vegetables	0.9	-20.1	23.4	43.5	9.1	3
Meat	1.2	-7.0	6.4	13.3	2.7	1
EU-27						
Unprocessed Food	0.2	-1.5	1.4	2.8	0.7	
Fruits	0.2	-4.7	4.3	8.9	1.8	
Vegetables	0.2	-4.2	4.8	9.0	2.3	
Meat	0.2	-0.3	0.8	1.1	0.3	

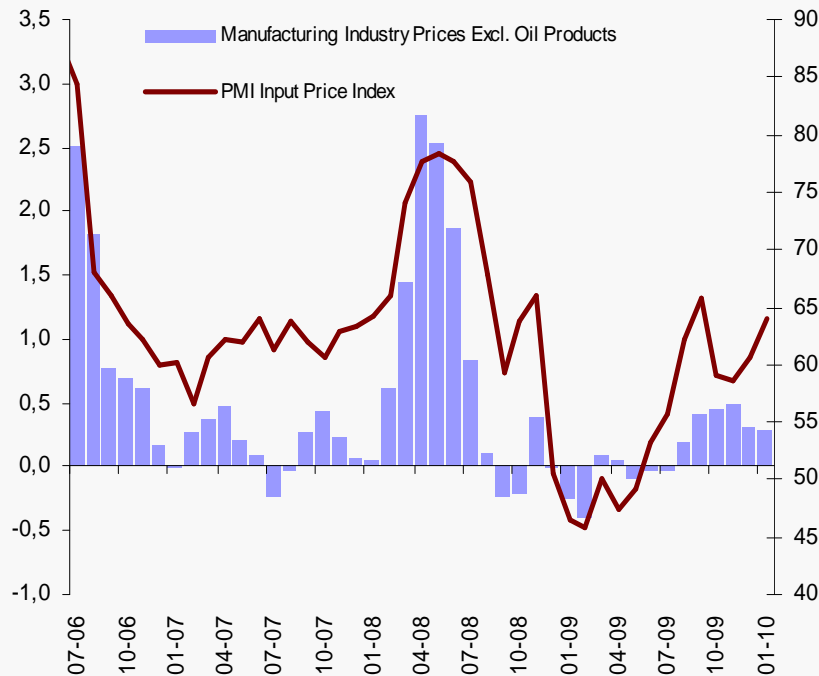
* Ranking is from the most volatile to the least volatile.

Source: Eurostat, CBT

Inflation Developments

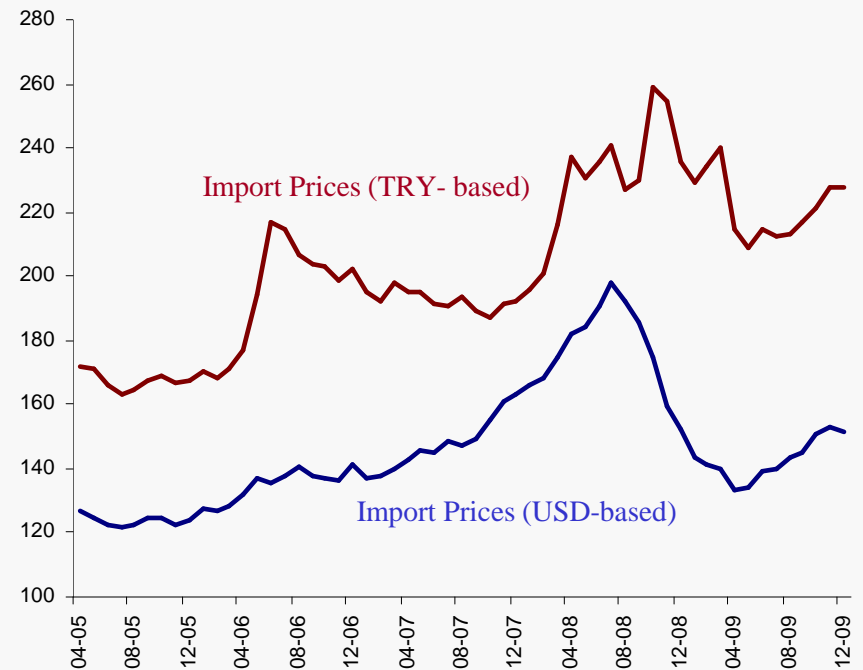
**Input prices do not exert any apparent upside pressure on consumer inflation.
Weak demand conditions limit the spillover effect of the upside
cost-push shocks on domestic prices.**

**Manufacturing Industry Prices and
PMI Input Price Index**
(Jul 2006 – Jan 2010, annual percentage change)



Source: TURKSTAT, CBT

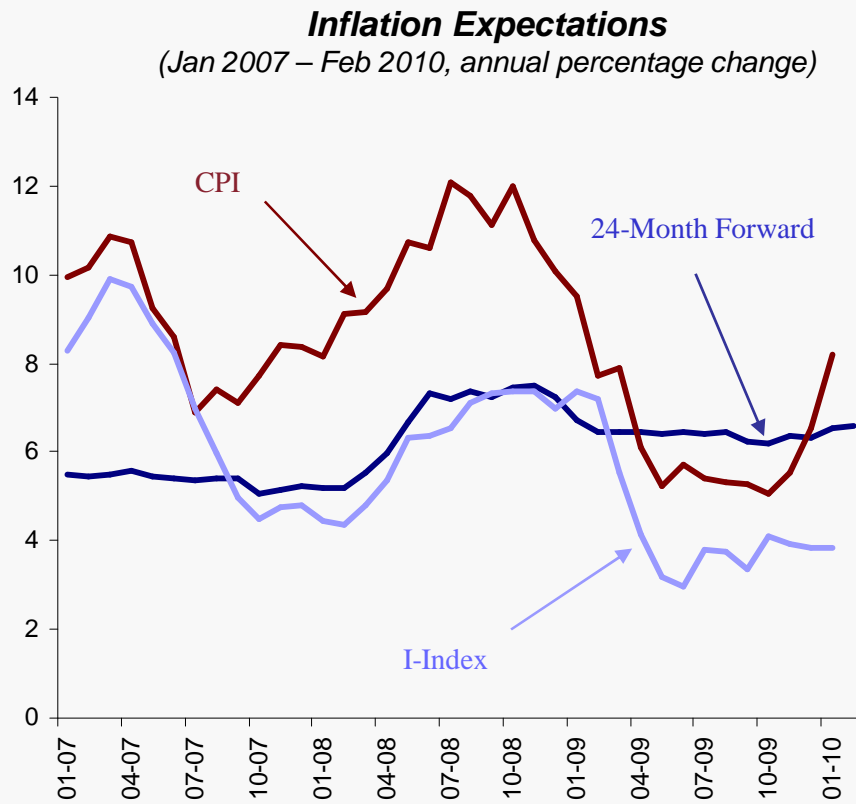
Import Unit Value Index
(Apr 2005 – Dec 2009)



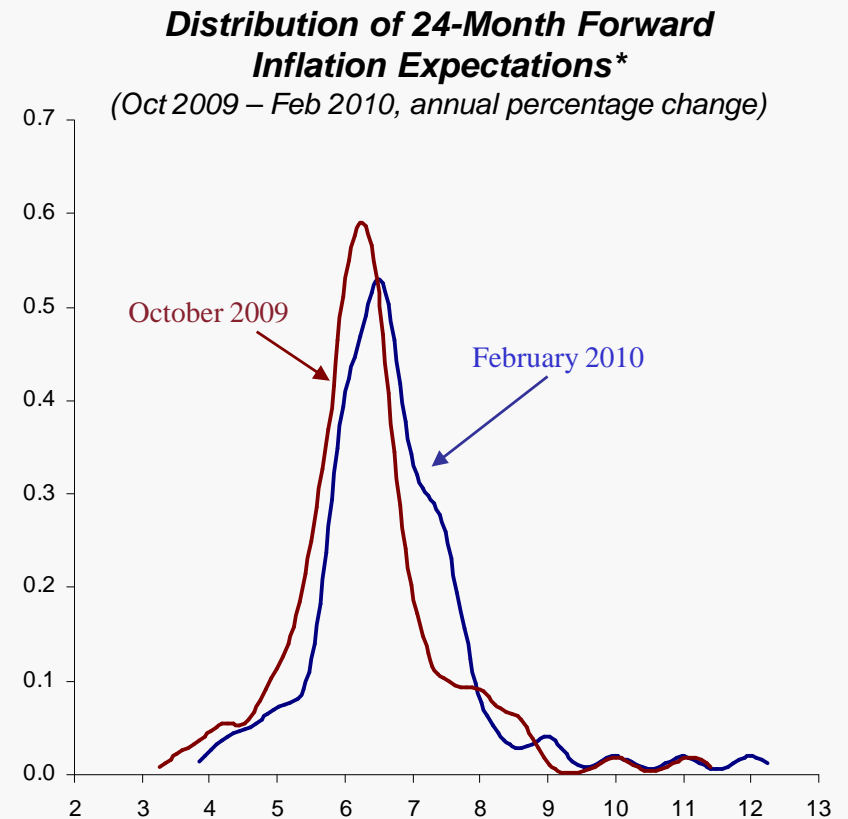
Source: TURKSTAT, CBT

Inflation Expectations

Displaying a downward trend throughout 2009, inflation expectations have increased slightly due also to public price adjustments. However, the change in longer term expectations remained relatively limited.



Source: TURKSTAT, CBT



*Quoted from CBT Survey of Expectations, second period.

Source: CBT

V. Overall Assessment

Overall Assessment

- Optimism in global financial markets and signs of recovery prevail in global economic activity. Nevertheless, uncertainties pertaining to 2010, when the effect of monetary and fiscal measures will fade, still remain significant.
- In the forthcoming period, countries are predicted to be classified in terms of their debt burdens. Turkey is expected to fall within the group of countries with low debt burden thanks to its fiscal discipline, sound banking system and low ratio of household indebtedness.
- Recent data confirm that economic activity in Turkey has started to recover. There is a notable increase in the lending appetite of banks; the tightness in financial conditions has been moderated and the labor market has exhibited signs of recovery, albeit limited.

Overall Assessment

- Tax adjustments, hikes in food prices and base effects have played an important role in the recent rise in inflation.
- Due to these temporary effects, consumer inflation is expected to increase remarkably in February and remain over the target for a while. Similarly, core inflation indicators will also display a limited increase until mid-year due to the base effect.
- Nevertheless, under the assumption that resource utilization would remain low, labor market conditions would have an adverse impact on consumption expenditure, and fiscal policy would generate a gradual depressing effect on the economy, these temporary factors as well as other one-off cost push pressures are not expected to lead to a significant deterioration in general pricing behavior.

Overall Assessment

- The underlying trend implied by core inflation indicators are consistent with medium-term targets; inflation is expected to display a declining trend once the temporary factors taper off.
- Lingering problems across the global economy are still a concern and uncertainties regarding the strength and durability of the recovery remain. Taking these factors into account, it will be necessary to keep policy rates at low levels for an extended period.

CENTRAL BANK OF THE REPUBLIC OF TURKEY

Adana Chamber of Industry

Durmuş YILMAZ
Governor

17 February 2010