

July 29, 2009

Ali BABACAN
Minister of State and Deputy Prime Minister
ANKARA

The Central Bank of Turkey (CBT) has been implementing an inflation targeting regime since the beginning of 2006. This regime establishes a framework under which the CBT is accountable for achieving its main goal of price stability, and for the policies implemented to pursue this goal. Within this framework, as stipulated by Article 42 of the Law, the accountability process is triggered when there is a significant deviation or potential deviation from the established inflation targets.

The inflation target for end-2009 was jointly set with the Government at 7.5 percent. Consistent with the principle of accountability, the CBT policy statement issued on December 16, 2009 entitled "Monetary and Exchange Rate Policy in 2009," disclosed a quarterly path consistent with the end-2009 target along with uncertainty bands. In this context, it was stated that the CBT, in the case inflation falls outside the band *within that year*, would *explain through the Inflation Report* the reasons for the breach, and the measures that would be taken to ensure that inflation would revert to the pre-established targets. Should inflation fall outside the uncertainty band *at the end of the year*, the CBT would write an *open letter to the Government*.

The inflation outturn as of June 2009 was 5.73 percent, breaching the lower limit of the uncertainty band, which was set at 6.8 percent for mid-2009. Accordingly, attached, for your consideration, is the latest Inflation Report issued on July 29, 2009, which explains the reasons for the breach of the target, and the strategy adopted by the CBT to bring inflation back in line with the medium-term targets.

Yours Sincerely,

CENTRAL BANK OF TURKEY
Head Office

Durmuş Yılmaz
Governor

Erdem Başçı
Deputy Governor