Durmuş Yilmaz: Recent economic and financial developments in Turkey

Opening speech by Mr Durmuş Yilmaz, Governor of the Central Bank of the Republic of Turkey, at the 79th Ordinary Meeting of the General Assembly, Ankara, 12 April 2011.

* * *

Introduction

1. Esteemed Shareholders, Distinguished Guests and Members of the Press, Welcome to the 79th Ordinary Meeting of the General Assembly of the Central Bank of the Republic of Turkey.

2. I would like to start my speech with a brief evaluation of the international economic developments in the aftermath of the global economic crisis. Later on, I will summarize the key macroeconomic developments that took place in Turkey in 2010. Finally, I will share my evaluations pertaining to the recent monetary policy implementations of our Bank and their effects.

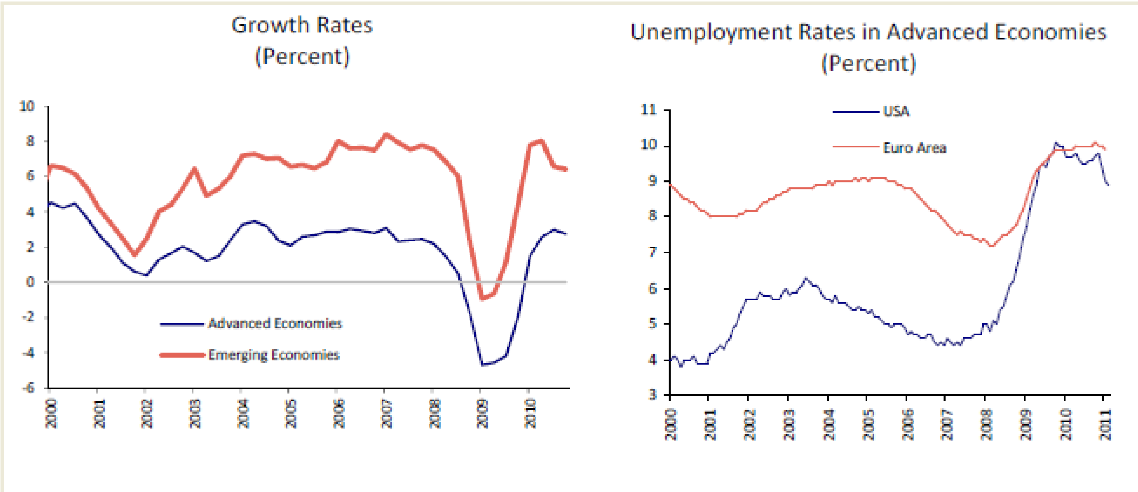
Global economic developments

Distinguished Guests,

3. In 2010, the growth discrepancy between advanced and emerging economies became more pronounced while the global economy continued to recover. In the post-crisis period, economic growth in emerging economies has been robust, and mainly driven by domestic demand. As a matter of fact, most of these economies have already surpassed their pre-crisis production levels. Amid the fast recovery, output gaps in these economies have tended to close, and employment conditions have significantly improved.

4. Meanwhile, advanced economies, the epicenter of the crisis, have continued to exhibit a slow and gradual recovery. Downside risks regarding the pace of recovery in these economies have yet to completely disappear, albeit having gradually waned. As a matter of fact, the contribution of private consumption and investment spending to the recovery in advanced economies has not currently reached the desired level. The ongoing balance-sheet restructuring across households and firms, and the consequent slow and protracted recovery in employment and credit conditions put a cap on private consumption and investment. Furthermore, persisting and mounting concerns over the sustainability of sovereign debt continue to pose downside risks on global economic activity, especially in the euro area. The growing discrepancy between advanced and emerging economies, which became more pronounced in the post-crisis period, is expected to continue for an extended period of time.

Growth and Unemployment Rates



Source: Bloomberg, CBRT.

Source: Bloomberg.

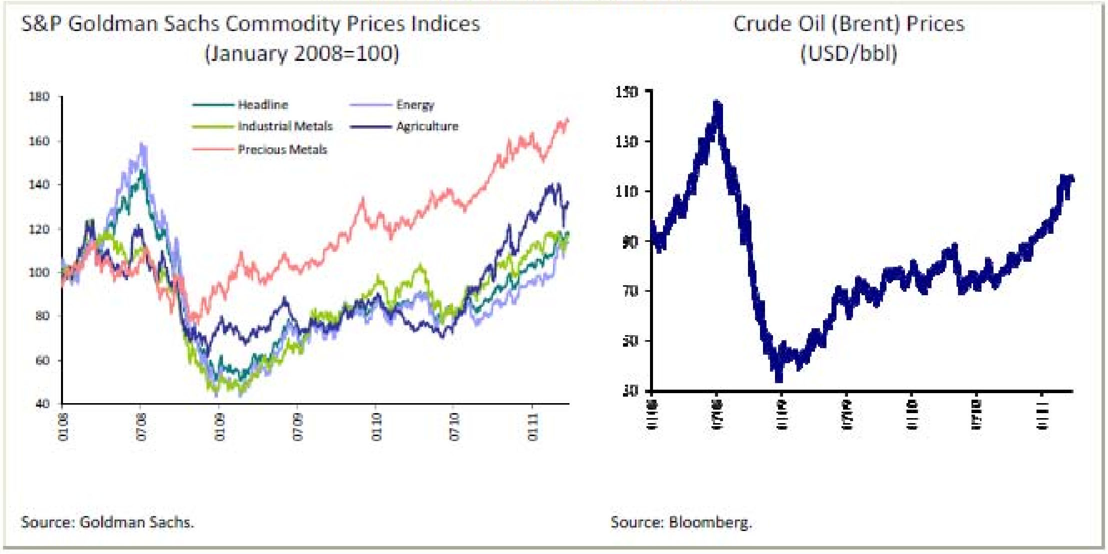
5. The divergence in the pace of recovery between these two country groups has undoubtedly significant implications for inflation and monetary policy. Yet, before moving on to global inflation and the monetary policy outlook, I find it useful to mention the upward trend in commodity prices observed with the recovery process since this upsurge is becoming even more significant for both the global inflation outlook and the monetary policy.

6. The recovery in global economic activity has also been manifested in commodity prices, and the upward trend in commodity prices, which started following the peak of the crisis, continued throughout 2010. In this period, the strong course of economic activity in China and India, two countries that account for a significant share of global commodity demand, reinforced the upward trend in commodity prices. This trend gained pace especially in the second half of the year.

7. Crude oil and agricultural commodity prices which are critical for emerging economies as well as Turkey, increased sharply amid the global economic recovery. The reluctance of OPEC countries to raise quotas and reduction of over production by some member countries bolstered the rise in oil prices. Moreover, recent political tensions in the Middle East and North Africa accelerated the upward trend in oil prices. Adverse weather conditions in major parts of the world in the second half of the year had affected the energy and agricultural prices from demand and supply side respectively, posing additional upward pressure on prices.

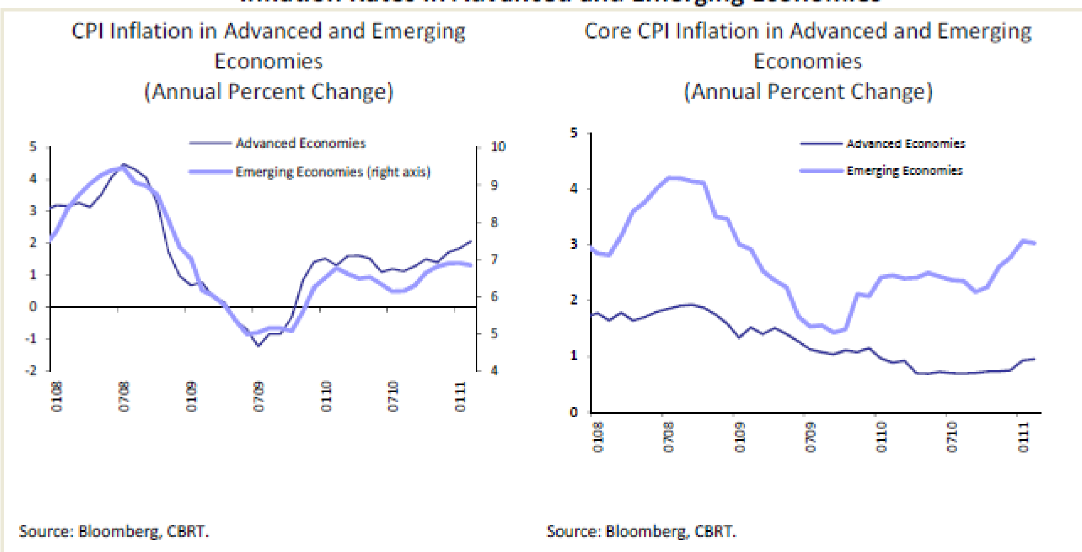
8. Besides increases in oil and agricultural commodity prices, 2010 was also marked by ongoing price increases in industrial and precious metals. The upward trend in the prices of precious metals in this period was primarily driven by the fact that investors use precious metals as a hedge against inflation and economic risks. In addition to these factors, the ample liquidity fuelled by the ongoing quantitative easing in 2010 by major central banks in addition to the increased inflationary risks raised the investment demand for commodities by underpinning price movements in the short term.

Commodity and Crude Oil Prices



9. The upward trend in commodity prices poses an upside risk on inflation in both advanced and emerging economies. As a matter of fact, the effect of the recent increases in commodity prices has been materialized on inflation in many countries and more primarily in emerging economies. One reason for this is the higher share of food and energy in the consumption basket in emerging economies compared to that of advanced economies. Another reason is the rapidly closing output gaps amid the strong course of economic activity in emerging economies causing higher pass through of commodity driven supply-side shocks to prices. Hence, advanced and emerging economies diverge significantly not only in terms of economic activity, but also in terms of inflation outlook.

Inflation Rates in Advanced and Emerging Economies

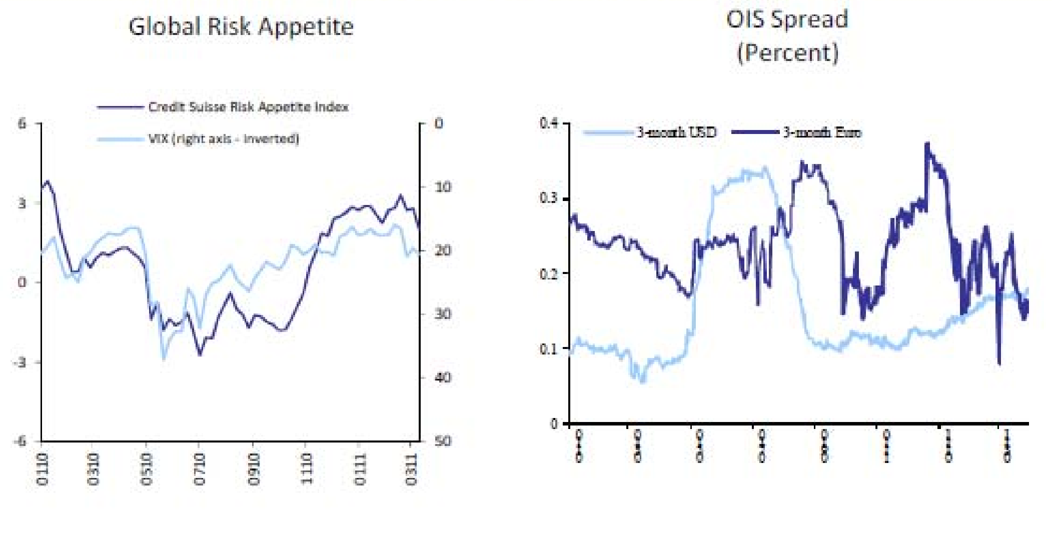


10. This divergence between growth and inflation outlook also led to differences in monetary policy practices between advanced and emerging economies in 2010. In this period, central banks of advanced economies focused on supporting the economic recovery and speeding up the improvement in employment and credit conditions. Accordingly, the low

level of interest rates in advanced economies was maintained, and monetary easing continued in 2010 as well.

11. Ample liquidity as a result of low interest rates and the ongoing quantitative easing in advanced economies encouraged global investors to seek higher returns and demand risky assets. Consequently, emerging economies experienced a surge of capital flows. The divergence between the pace of recovery in advanced and emerging economies in favor of emerging economies, as well as the permanent improvement of the risk sentiment for emerging economies in the post-crisis period also supported these capital inflows. Indeed, the fact that the risk premium indicators in many emerging economies including Turkey are below pre-crisis levels, and the consequent upgrades by credit rating agencies indicate the permanent change in risk sentiment for these countries.

Global Risk Appetite and Risk Premium Indicators

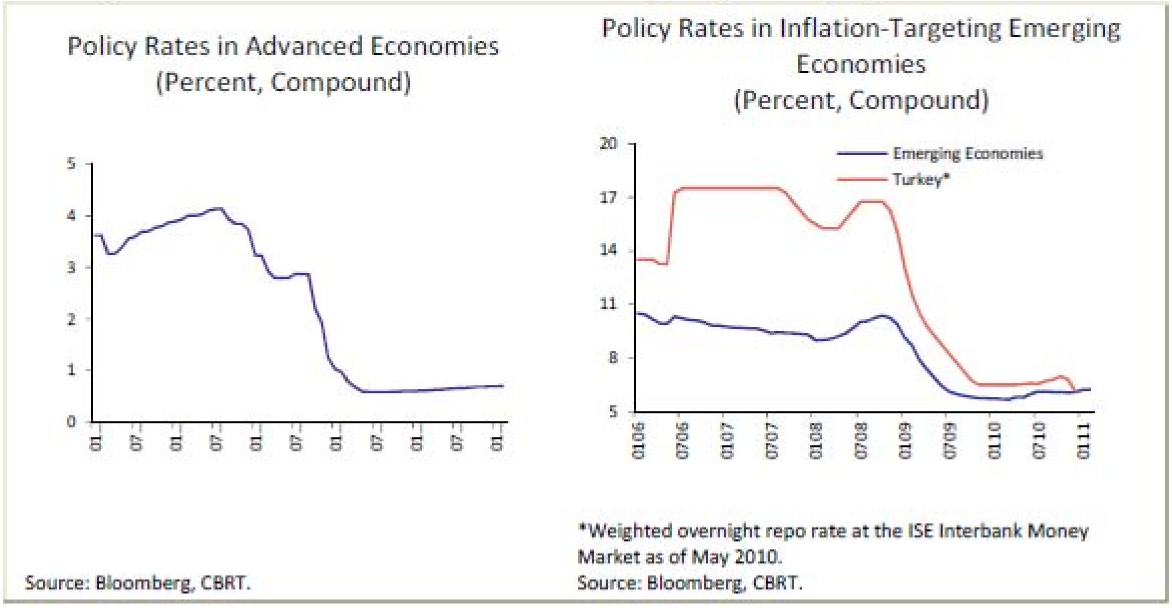


Source: Bloomberg. Source: Bloomberg.

12. As a result of capital inflows, emerging market currencies appreciated and asset prices rose sharply. Furthermore, capital inflows in emerging economies raised concerns over financial stability by fuelling domestic demand and thus causing rapid credit growth.

13. Under these circumstances, central banks of emerging economies focused on containing upside risks on inflation amid the strong rise in domestic demand as well as limiting financial risks due to massive capital flows. Accordingly, many central banks of emerging economies withdrew the liquidity measures adopted during the crisis and embarked on monetary tightening in 2010. Meanwhile, central banks of emerging economies took additional measures against financial and macro financial risks such as excessive credit growth due to accelerated capital inflows, widening current account deficits and the short maturity of the foreign capital. Accordingly, in addition to using policy rates, they opted for a tighter monetary policy stance through the active use of alternative instruments such as required reserve ratios, reserve accumulation and capital controls.

Policy Rates in Advanced and Inflation-Targeting Emerging Economies



14. The monetary tightening in emerging economies through policy rates and alternative instruments is expected to continue in the upcoming period. Meanwhile, advanced economies are expected to end their easing measures in 2011 and to start normalizing policy. In fact, the European Central Bank took the first major step in this regard by raising the policy rate to 1.25 percent in April by 25 basis points.

15. However, as I mentioned previously, it is impossible to claim that downside risks on the global economy have completely faded away. As a matter of fact, recently mounting concerns over debt sustainability in peripheral euro area countries indicate that these risks still remain, albeit to a lower degree. Furthermore, the ongoing surge of commodity prices, especially of oil, stands out as another risk factor that may slow down the global economic recovery.

Distinguished Guests,

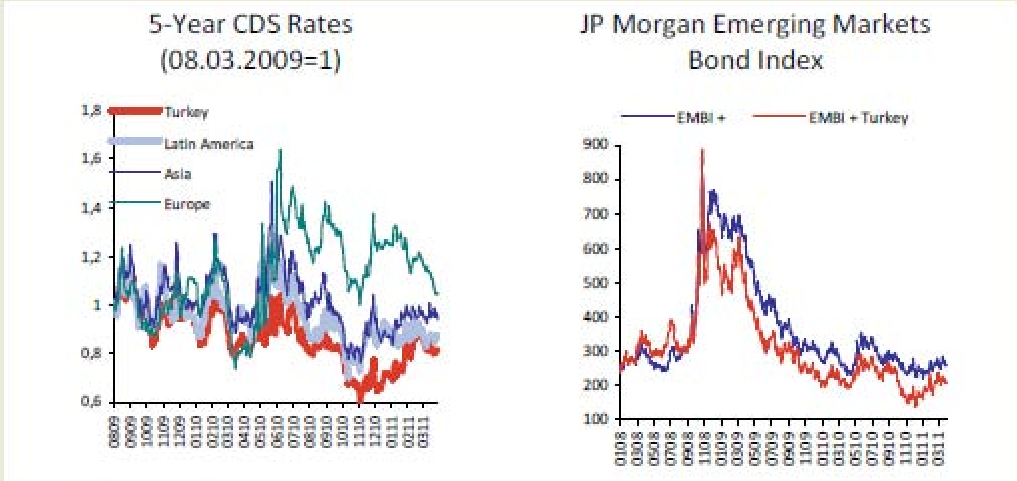
16. In this part of my speech, I would like to evaluate key macroeconomic developments in Turkey in line with the global economic developments in 2010.

Developments in the Turkish economy

17. Adoption of additional easing measures in emerging economies led to growing expectations that low interest rate and ample liquidity conditions in advanced economies would be maintained for an extended period, which in turn increased the global risk appetite in 2010. Consequently, capital inflows to emerging economies accelerated and risk premiums of these countries declined. Meanwhile, risks regarding the debt sustainability of peripheral euro area countries remained vigorous and continued to dominate the financial markets. In fact, renewed concerns over sovereign debt since November increased risk aversion and raised risk premiums across emerging economies.

18. However, what should be highlighted is that despite the volatile course of risk sentiment across emerging economies, Turkey's risk premium indicators performed better than many other countries and remained below pre-crisis levels. This positive development is attributable to country-specific favorable conditions such as upgrades by credit rating agencies, reduced political uncertainty in the aftermath of the referendum period and the revised Medium Term Program (MTP) signaling further fiscal discipline.

Risk Premium Indicators for Emerging Economies



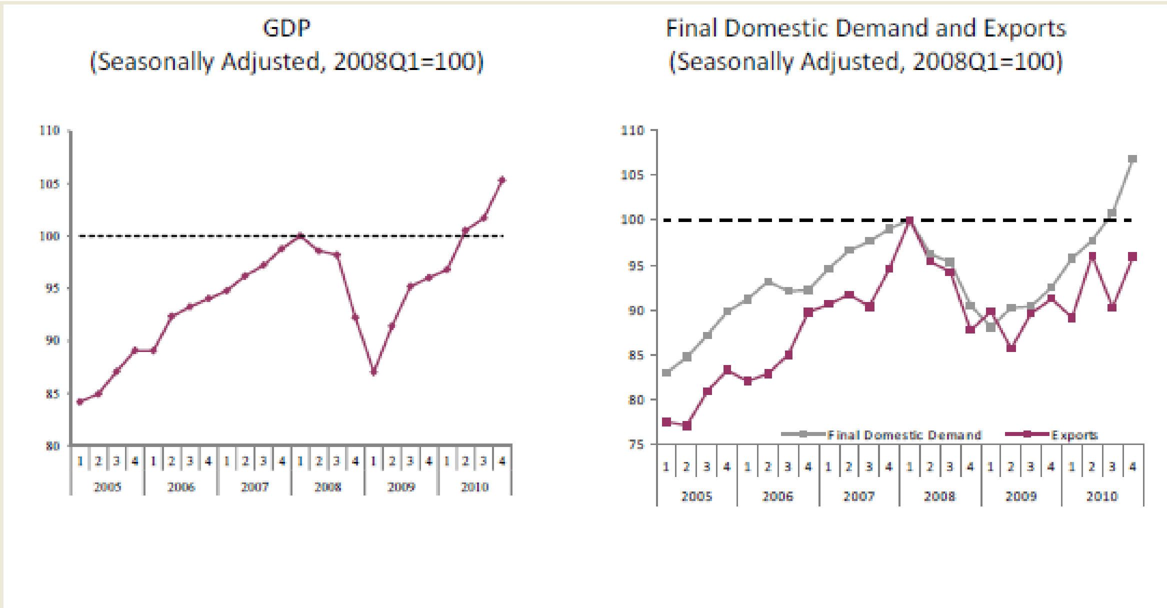
Source: Bloomberg, CBRT.

19. On the other hand, risk premiums have recently increased due to current unrest in the Middle East. Fear of spillover to peripheral countries and the expectations of persistence in oil price hikes deteriorated the risk sentiment. Accordingly, Turkey's risk premium has also increased.

Esteemed Guests,

20. In 2010, fiscal and monetary policies had growingly expansionary effects on domestic demand. Although the weak recovery in advanced economies continued to curb domestic economic activity, Gross Domestic Product (GDP) registered an 8.9 percent increase amid the rapid recovery in domestic demand. Indeed, the main drivers of the GDP growth in this period were private demand for investment and consumption.

GDP, Final Domestic Demand and Exports



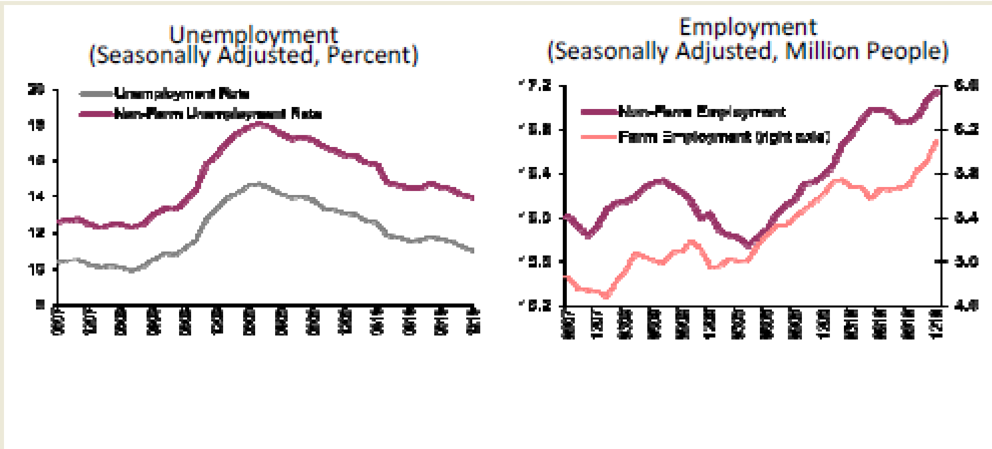
Source: TurkStat.

Source: TurkStat, CBRT.

21. The impact of the global financial crisis on the labor market has subsided and non-farm employment has started to recover rapidly starting from the first quarter of 2009. In 2010, the rise in non-farm employment compensated the crisis driven job losses, and employment in all sectors surpassed the pre-crisis levels.

22. As I have previously mentioned on several occasions, sustainability of the favorable labor market outlook in 2010 is contingent on implementation of the required reforms for enhancing productivity and flexibility in the market. These reforms would also contribute to Turkey's social security system by promoting registered employment.

Unemployment and Employment

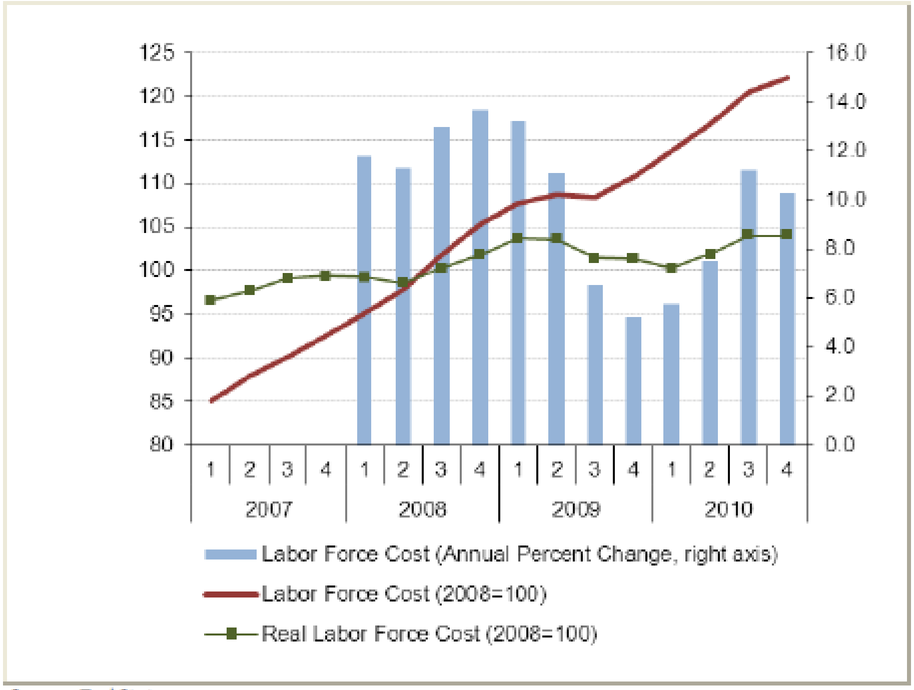


Source: TurkStat, CBRT.

Source: TurkStat, CBRT.

23. Real labor costs, which have gradually been increasing since the second quarter of 2010, remained flat in the final quarter. Unemployment rates hovering above pre-crisis levels continued to contain the rise in unit labor costs, becoming the primary factor restricting the run-up in services prices in 2010.

Hourly Labor Cost



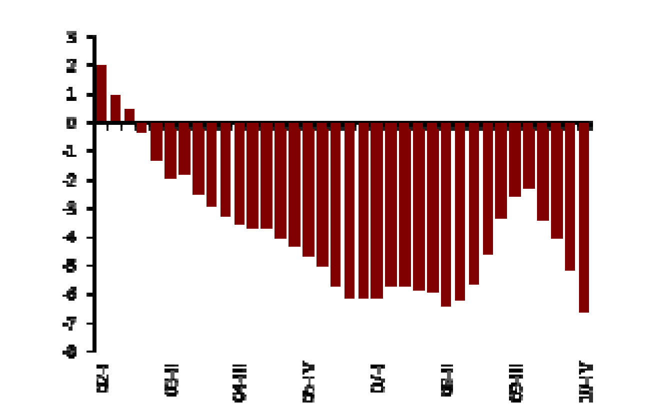
Source: TurkStat.

Esteemed Guests,

24. In 2010, the foreign trade deficit soared amid weak external demand and the rapid recovery in the domestic demand. In addition to the surge in the foreign trade deficit, the run-up in services expenditures further aggravated the current account deficit. In this period, transportation costs also increased due to rise in imports. Thus, the current account deficit, which was down to USD 14.3 billion in 2009, reached USD 48.6 billion in 2010.

25. Recent data indicate that the surge in imports continued in the January-February period in line with the robust domestic demand, and exports continued to recover gradually owing to weak external demand. However, the political unrest in North Africa slows down the recovery in Turkey's exports, and also pushes up our imports through oil price hikes. Therefore, we predict the upward trend in the current account deficit to persist in the short run also taking into account the low base effect from last year. Yet, we also envisage that the dampening effects of our recent policy measures on loans and imports will materialize as of the second quarter of the year.

Current Account Balance/GDP



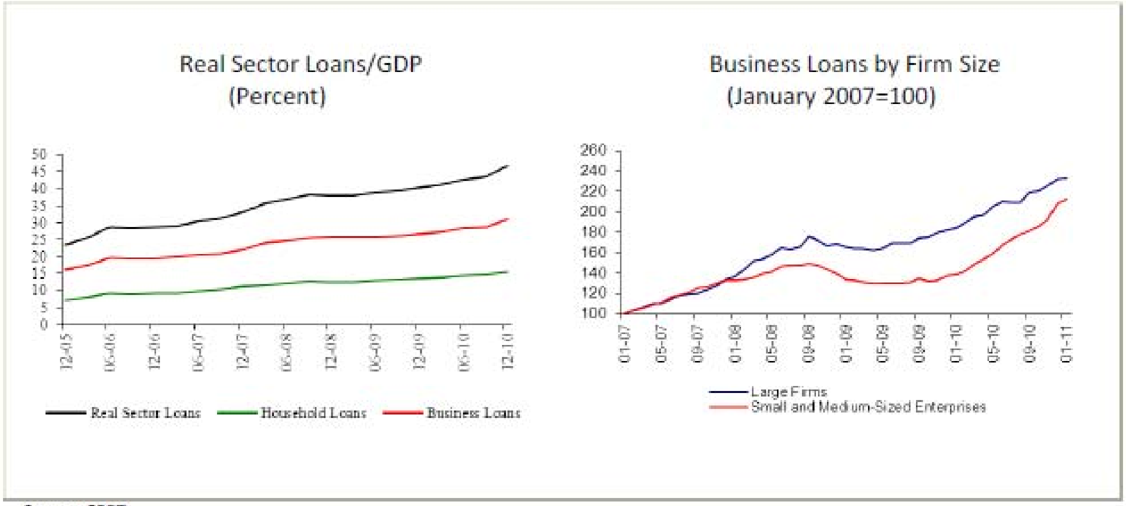
Source: CBRT.

Distinguished Guests,

26. Domestic credit volume, which surged in 2010, accelerated further in the final quarter of the year. As the effects of the crisis waned, the number of sectors utilizing loans increased rapidly and maturities were extended. An analysis of the rise in real sector loans by sub-categories reveals that this rise was supported by the rally in both consumer and business loans. Meanwhile, loan utilization by small and medium-sized enterprises, which were those hit most severely by the crisis, increased as well.

27. I would like to underline that the vigorous loan utilization was underpinned by measures taken by the CBRT in the aftermath of the crisis with a view to maintain the functionality of the credit markets, as well as by the consequent rapid recovery in economic activity and the favorable economic outlook. Furthermore, ample global liquidity owing to the monetary easing implemented by major central banks and the favorable economic outlook providing low and foreseeable interest rates were also instrumental in stimulating loan utilization. At this point, I would like to highlight that the measures that we adopted in 2010 to contain the negative effects of the rapid credit growth created by ample global liquidity are critical for maintaining financial stability and enhancing resilience to external shocks; yet, their impacts on loans are expected to be observed with a lag. This matter deserves close attention, which is why I will be returning to this issue in the upcoming parts of my speech.

Real Sector Loans and Business Loans by Firm Size



Source: CBRT.

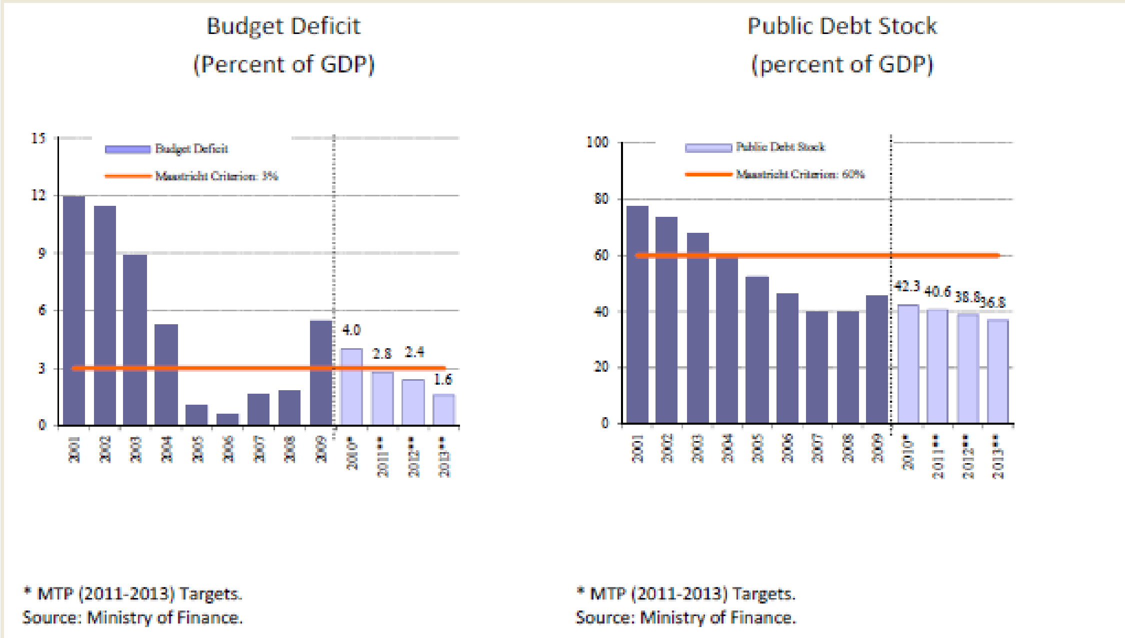
Distinguished Guests,

28. The decline in public revenues due to global crisis driven economic contraction and the comprehensive fiscal stimulus packages to alleviate the effects of the crisis led to large fiscal deficits and rising debt stocks across the globe, especially in advanced economies. Many emerging economies, including Turkey, are on a more stable fiscal footing, as they entered the crisis with relatively low budget deficits and debt stock, adopted relatively less comprehensive fiscal stimulus measures and recovered more swiftly.

29. The October 2010 MTP for the 2011–2013 period envisages a gradual decline in non-interest expenditures to GDP ratio by 2010. In addition, interest expenditures are expected to decrease amid falling domestic borrowing rates. Tax revenues are planned to be raised by legal and administrative measures aiming to enhance tax audits and expand the tax base. It is notable that the ratio of public debt to GDP has reverted to a downward track amid the gradual reduction in the budget deficit.

30. As a matter of fact, the faster-than-expected economic recovery and falling interest expenditures have helped to improve Turkey's fiscal outlook. The increase in tax revenues amid rapid economic growth and tax adjustments were the major drivers of the improved budget balances in 2010. Moreover, the relative slowdown in the growth of non-interest expenditures as well as the significant decline in interest expenditures driven by falling domestic borrowing rates contributed to the improvement in fiscal balances.

Central Government Budget Deficit and EU-Defined General Government Nominal Debt Stock



31. Fiscal indicators in the MTP suggest that the positive outlook, which was also underpinned by the stronger-than-expected recovery in 2010, would continue in the upcoming period. Indeed, the recent data imply that the favorable outlook persists in tandem with the robust economic activity. Nevertheless, I would like to remind that in order to maintain fiscal discipline and ensure that Turkey continues to have more positive readings than other emerging economies, implementation of the institutional and structural reforms set out in the MTP remains critical.

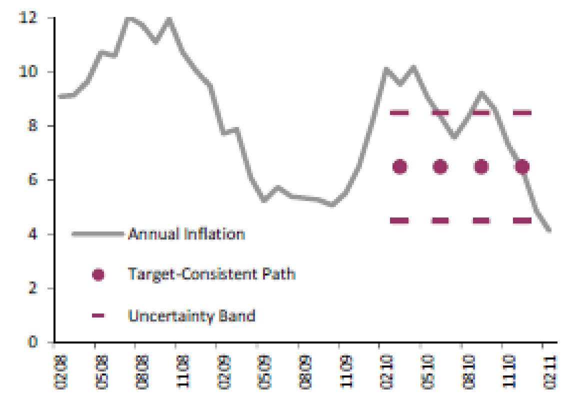
Esteemed Guests,

32. In the last part of my speech, I would like to mention monetary policy decisions in 2010 and the monetary policy strategy that we currently implement. In this context, I will first summarize inflation developments, and then, I will move on to monetary policy implementations within the inflation targeting framework.

Monetary policy decisions and implementations

33. Inflation was mainly determined by tax adjustments and the course of unprocessed food prices in 2010. Core inflation indicators remained low and stable as unemployment rates and capacity utilization rates hovered below pre-crisis levels. Thus, inflation came down to 6.4 percent by the end of 2010, almost reaching the year-end inflation target of 6.5 percent. With the downward revision in food prices, the decline in inflation continued in the first quarter of 2011, and inflation rate was down to 3.99 percent in March 2011.

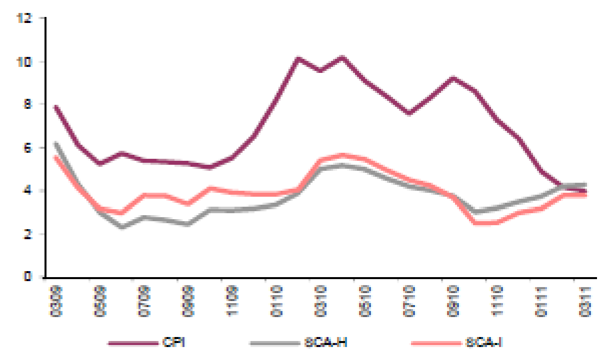
Annual CPI Inflation and Target-Consistent Path



Source: TurkStat, CBRT.

34. Core inflation indicator SCA-H (consumer price index excluding energy, unprocessed food, alcoholic beverages, tobacco and gold) increased 3.49 percent year-on-year while SCA-I (SCA-H excluding processed food) registered an all-time year-end low of 2.99 percent. In the first quarter of 2011, despite a slight upward movement, the annual rate of increase in core inflation indicators remained relatively low.

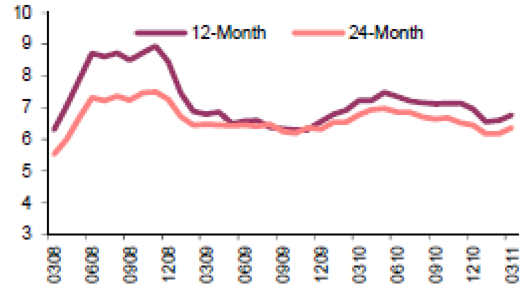
Core Inflation Indicators and CPI Inflation



Source: TurkStat, CBRT.

35. Although year-end inflation expectations fluctuated due to the volatile course of food prices throughout 2010, medium-term expectations remained basically unchanged. As of the first quarter of 2011, the 24-month ahead inflation expectation stands at 6.29 percent, hovering slightly above our medium-term target of 5 percent.

12 and 24-Month-Ahead CPI Expectations*



*CBRT Survey of Expectations, second survey period results.
Source: TurkStat, CBRT.

36. Inflation may rise in the short term due to lagged effects of oil prices and base effect. I would hereby like to remind you that we will be more extensively providing the public with updated evaluations and forecasts on the medium-term inflation outlook along with possible risks and policy measures, in the Inflation Report to be published on April 28, 2011.

Distinguished Guests,

37. Following the deepening of the global financial crisis, we focused on policies to contain the adverse effects of the crisis on economic activity and financial stability, while also overseeing price stability. Accordingly, our Bank slashed policy rates and kept them at low levels for quite some time in addition to deploying supportive liquidity measures.

38. In view of the normalization in money and credit markets amid waning effects of the global crisis on financial markets, we announced our exit strategy on April 14, 2010, which encompasses the withdrawal of crisis measures and the normalization process of the monetary policy. Unlike other emerging economies, Turkey entered the global crisis with a strong and well-regulated banking system as well as a flexible and efficient liquidity management tailored to previous crisis experience. Hence, our balance sheet deteriorated only slightly due to anti-crisis measures and we were not forced to adopt radical measures during the crisis. Thus, our exit strategy was simple compared to those of many other central banks.

39. As part of the exit strategy and also considering the favorable developments in credit markets and the recovery in economic activity, the CBRT started to withdraw the temporary liquidity measures introduced during the crisis. Hence, the excess liquidity provided to the market was gradually drained in tandem with the normalization process. Moreover, as the first step of the technical rate adjustment process, the 1-week repo rate was adopted as the key policy rate in May.

40. Euro area sovereign debt problems starting from May 2010 led to renewed uncertainties regarding external demand. This outlook confirmed our projection that policy rates should be kept at low levels for an extended period. Hence, the monetary policy stance was maintained and policy rates were held fixed at low levels throughout May-August 2010.

Monetary Policy Committee Meetings and Policy Rates in 2010-2011

Meeting Dates	Overnight Borrowing Rate	1-week Repo Auction Rate
January 14, 2010	6.5	-
February 16, 2010	6.5	-
March 18, 2010	6.5	-
April 13, 2010	6.5	-
May 18, 2010	6.5	7
June 17, 2010	6.5	7
July 15, 2010	6.5	7
August 19, 2010	6.5	7
September 16, 2010	6.25	7
October 14, 2010	5.75	7
November 11, 2010	1.75	7
December 16, 2010	1.5	6.5
January 20, 2011	1.5	6.25
February 15, 2011	1.5	6.25
March 23, 2011	1.5	6.25

* On May 18, 2010, 1-week repo rate was adopted as the key policy rate and was set 50 basis points above the overnight borrowing rate at 7 percent.
Source: CBRT.

41. After necessary conditions to implement the second step of the technical rate adjustment process within the exit strategy were attained, overnight interest rates were reduced by 25 basis points in September 2010. With the completion of the gradual technical interest rate adjustment process in line with the exit strategy, 1-week repo auctions have been the main funding instrument of the CBRT. However, with other short-term lending and borrowing options being granted overnight and in order to harmonize maturities of similar liquidity management tools, it was decided that the repo facility, which was extended to primary dealers within the open market operations framework, would only be available at overnight maturity starting from October 15, 2010, and 3-month repo auctions were terminated.

42. Furthermore, with the objective to bring foreign exchange liquidity facilities orderly and gradually back to pre-crisis levels as part of the exit strategy, the foreign exchange reserve requirement ratio was raised by a total of 2 percentage points to 11 percent with the adjustments in April, July and September. Moreover, in view of the improved international liquidity conditions and the increase in foreign exchange liquidity of the banking system, our Bank has terminated its intermediary role in the Foreign Exchange Deposit Market as of October 15, 2010. In addition, the maturity of the foreign exchange deposits borrowed within the pre-determined borrowing limits by banks from the CBRT was reduced to one week, as was the case before October 2008.

Distinguished Guests,

43. The quantitative easing adopted in the last quarter of 2010 by some major central banks and the consequent boost in capital flows to emerging markets have necessitated significant changes to our monetary policy strategy. Short-term capital inflows feeding the divergence between domestic and external demand caused current account deficit to widen rapidly, thus necessitating macroprudential measures. Hence, we jointly use liquidity management facilities and reserve requirements as well as policy rates in order to achieve price stability and financial stability.

44. In line with the new policy design, the TL required reserve ratio was raised by 0.50 points each in September and November to 6 percent. Additionally, in order to more effectively use the required reserve ratio as a tool to contain macroeconomic and financial risks, interest payments on TL reserve requirements was terminated in September.

45. Due to the accelerated capital inflows, our Bank reduced its overnight borrowing rate from 5.75 percent to 1.50 percent in November, and increased the lending rate by 0.25 points to 9 percent. Late liquidity window rates were accordingly revised. Besides these measures, with an extensive arrangement made in December, the TL required reserve ratios were differentiated by maturity and the reserve requirement base was expanded to include certain foreign and domestic repo transactions which were formerly not subject to reserve requirement. This arrangement aims to reduce maturity mismatch in banks' balance sheets by extending the maturity of banking sector liabilities and also aims to encourage long-term capital flows.

Decisions on TL Required Reserve Ratios
(Percent)

Decision Date	Sight	<1-month	<3-month	<6-month	<1-year	≥1-year	Cumulative	Other*,**	Weighted Average
October 16, 2009	5	5	5	5	5	5	5	5	5
September 23, 2010	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
November 12, 2010	6	6	6	6	6	6	6	6	6
December 17, 2010	8	8	7	7	6	5	5	8	7.4
January 24, 2011	12	10	9	7	6	5	5	9	9.4
March 23, 2011	15	15	13	9	6	5	5	13	13.7

* Excluding deposits and participation funds.
**As of December 17, 2010, all repo transactions excluding transactions with the CBRT and Interbank transactions have been subject to reserve requirement.
Source: CBRT.

46. The ongoing strong course of credits as well as other domestic demand indicators in March implied that additional monetary tightening would be necessary. The CBRT assessed that implementing monetary tightening through reserve requirements, rather than using policy rates, would be more effective in containing macro financial risks resulting from the divergence of domestic and external demand. In this respect, the CBRT decided to deliver a notable hike in the weighted average of required reserve rates on short term liabilities. Accordingly, TL required reserve ratios for sight deposits and short-term deposits/participation accounts and other liabilities were raised. Our measures regarding the required reserves are displayed on the slide. With the last arrangement to be effective as of April 15, 2011 in addition to prior adjustments since October 2010, a total of TL 38 billion liquidity will have been withdrawn from the market.

47. Our measures are expected to have an impact on domestic demand and credits starting from the second quarter. The adopted policy measures ultimately aim to contain macro financial risks by inducing a more balanced growth path for aggregate demand components. The recent outlook of export orders for domestic and foreign markets exhibiting a more balanced pattern suggests that policy measures have started to become effective.

Distinguished Guests,

48. I would like to remind you that we continued to implement floating exchange rate regime along with inflation targeting regime in 2010. In line with its general strategy to maintain a strong foreign exchange position, the CBRT designs foreign exchange buying auctions at times when supply is higher than the demand for foreign currency, and also assuring to affect the free market conditions at the minimum level. Accordingly, the daily amount to be purchased in foreign exchange auctions was increased in August on the back of a stable increase in capital inflows to Turkey as well as to other emerging economies. With a view to strengthen foreign exchange reserves, the CBRT modified its method of foreign exchange buying auctions effective as of October 4, 2010 in order to benefit more effectively

from capital inflows and to enhance resilience against volatility in these capital flows. In this regard, the CBRT may raise the amount to be bought at regular foreign exchange auctions in order to accelerate foreign exchange purchases if liquidity conditions ease on global financial market developments and capital inflows remain strong. In case the CBRT decides to accelerate foreign exchange purchases, the additional amount that may be purchased will be announced on the first working day of the week.

Foreign Exchange Purchases through New Auctions

Period	Additional Amount	Total Amount
October 2010	1,500	2,220
November 2010	1,340	1,940
December 2010	420	1,691
January 2011	-	1,000
February 2011	-	950
March 2011	-	1,150
Total	3,260	8,951

Source: CBRT.

49. Given that the new method provides sufficient flexibility to build up reserves at times when foreign exchange supply increases relative to foreign exchange demand, The CBRT decided that banks would no more hold option at regular auctions starting from January 3, 2011. Moreover, the daily amount of purchase was raised to USD 50 million in order to avoid a possible sharp decline in CBRT"s foreign exchange purchases due to termination of options. The amount purchased through foreign exchange auctions totaled USD 14.9 billion in 2010. Gross foreign exchange reserves excluding gold amounting to USD 80.7 billion at end-2010, increased to USD 86.2 billion as of March 2011.

Distinguished Guests

50. The general framework of the monetary and exchange rate policy for 2011 was disclosed to public by the release of the "Monetary and Exchange Rate Policy for 2011" on December 21, 2010. Accordingly, the CBRT will continue with the inflation targeting and floating exchange rate regimes in 2011. The inflation target for end-2011 has been set at 5.5 percent and the uncertainty band has been maintained at 2 percentage points in both directions.

51. In line with our primary objective of achieving and maintaining price stability, we will continue to monitor macroeconomic risks and financial stability, and hence, take measures towards enhancing the effectiveness of the monetary policy and liquidity management in 2011. Accordingly, in the upcoming period, the CBRT may alter its liquidity management strategy to meet the emerging needs and actively use additional policy tools, such as the corridor between borrowing and lending rates and reserve requirements, to maximize the effectiveness of the 1-week repo auction rate, the main policy tool, and to contain macro financial risks.

52. In the period ahead, monetary policy will continue to focus on achieving price stability on a permanent basis. To this end, the impact of the macroprudential measures taken by the CBRT and other relevant institutions on the inflation outlook will be considered carefully. Fulfillment of the commitments to fiscal discipline in the medium term and strengthening the structural reform agenda will contribute to the improvement of Turkey's sovereign risk, and thus, support macroeconomic stability as well as price stability. Sustaining the fiscal discipline will also provide room for monetary policy maneuver, supporting the social welfare by keeping interest rates permanently at low levels. In this

respect, I would like to conclude my remarks by underlining that timely implementation of the structural reforms envisaged by the MTP and the European Union accession process remains to be of utmost importance.

Thank you.