Durmuş Yilmaz: Press conference for the presentation of the Inflation Report

Speech by Mr Durmuş Yilmaz, Governor of the Central Bank of the Republic of Turkey, at the press conference presenting the third issue of the Inflation Report, Central Bank of the Republic of Turkey, Ankara, 29 July 2009.

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Distinguished Guests and Members of the Press,

Welcome to the press conference to convey the main messages of the July 2009 Inflation Report, one of the most important communication tools of the inflation-targeting regime.

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 the previous quarter developments, along with the monetary policy stance.

As you know, in the summary of Monetary Policy Committee Meeting published yesterday we pointed out that global interest rates are likely to remain at low levels for an extended period, given the significant slowdown in growth and the increase in saving rates. We therefore specified that this view should be emphasized more forcefully to align market yields closer with future policy intentions.

In this framework, as a result of our evaluations with Committee members, we agreed that it would be possible to provide more solid information regarding the policy stance in the upcoming Inflation Report. Before presenting this information to you, I would like to give you a summary of recent developments related to the factors affecting global and domestic inflation.

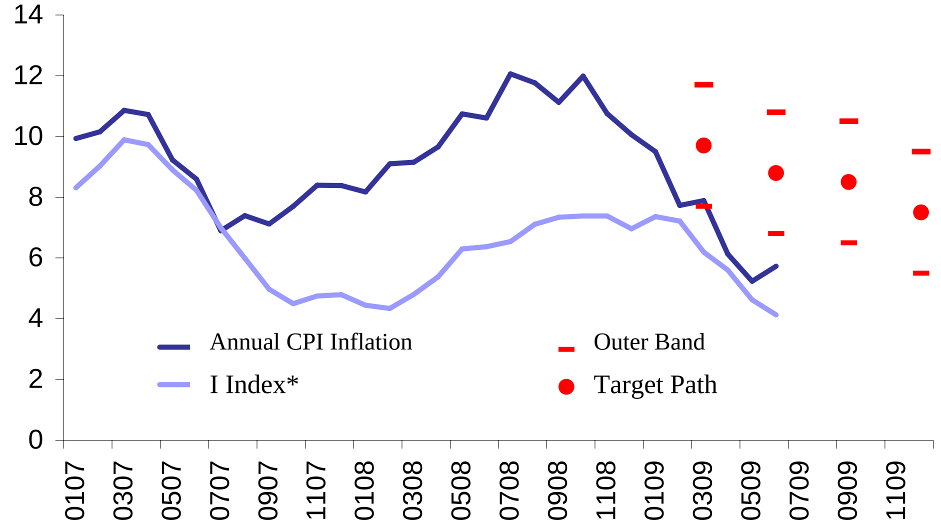
1. Inflation developments

Distinguished Members of the Press,

The second quarter of 2009 was marked by persistence of the adverse effects of the global financial crisis that erupted in developed markets and then spread across the world during the last quarter of 2008. In this period, economic activity maintained its weak course despite the counter-cyclical effects of fiscal and monetary policies implemented extensively in a coordinated manner at global level so as to remedy the excessive shortage of liquidity in markets. While recent data releases on the global financial system and economic activity indicate that the worst may be over, improvements in leading indicators have been slow, problems in credit markets linger, and employment remains in a precarious state, suggesting that the recovery will be anemic and protracted.

The sharp contraction in aggregate demand and the fall in commodity prices since the last quarter of 2008 has led to plummeting inflation rates all over the world. In Turkey, a similar trend has also been observed in the said period and CPI inflation has edged down to 5.73 percent over the last three quarters. Thus, as of June, inflation remained at 6.8 percent, well below the lower limit of the uncertainty band set around the target path (Figure1).

Figure 1: Annual CPI Inflation and Target Path



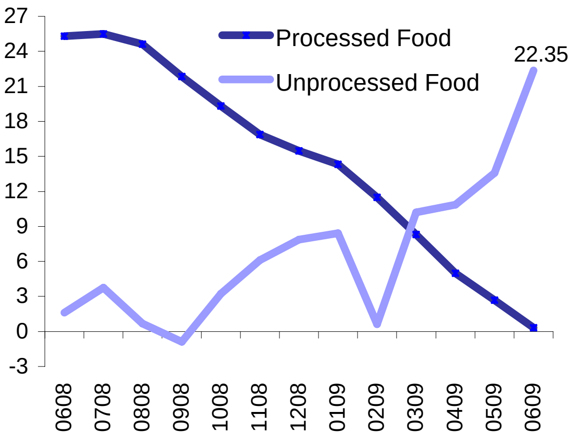
* Temporary tax adjustments corrected I Index.

Source: TURKSTAT, CBT.

In addition to the sharp contraction in aggregate demand; the fall in commodity prices and temporary tax cuts within the scope of fiscal measures were also instrumental in the sharper-than-expected drop in inflation. The fall in commodity prices specifically led to a more-than-anticipated decline in annual processed food and energy inflation. The fall in annual inflation has reached approximately 19 percentage points for processed food prices and 25 percentage points for energy prices since October 2008, when the effects of the turmoil started to prevail (Figure 2 and 3).

Figure 2: Food Prices

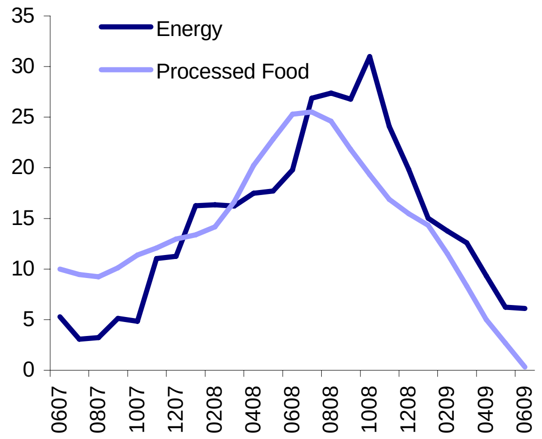
(Annual Percentage Change)



Source: TURKSTAT, CBT.

Figure 3: Energy and Processed Food Prices

(Annual Percentage Change)

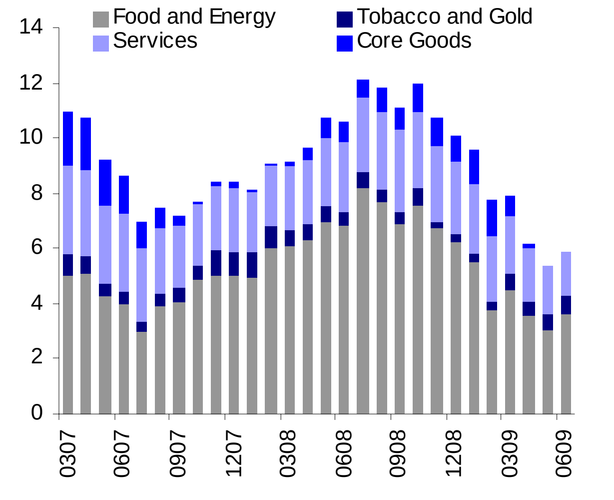


Source: TURKSTAT, CBT.

In this period during which the effects of the economic contraction on inflation became more pronounced, annual inflation declined in all main groups excluding food (Figure 4). The constant slowdown in the rate of increase in services prices continued amid weakening domestic demand. Price hikes in the goods group excluding food and energy remained low compared to previous years, which is attributable to the temporary tax cuts (Figure 5).

Figure 4: Contribution to Annual CPI Inflation

(Annual Percentage Change)



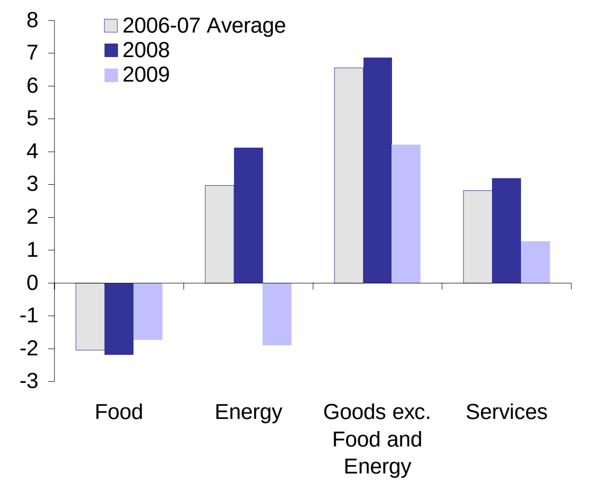
* Food and Energy: Food, non-alcoholic beverages and energy.

** Tobacco and Gold: Alcoholic beverages, tobacco products and gold.

Source: TURKSTAT, CBT.

Figure 5: CPI Sub-Groups

(Second Quarter Percentage Change)

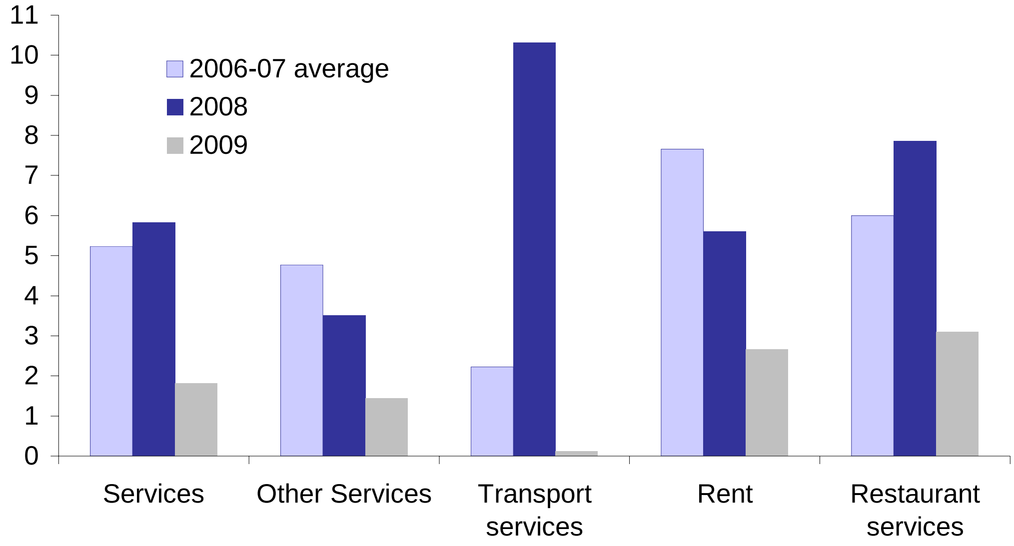


Source: TURKSTAT, CBT.

The annual rate of increase in services prices declined further in the first half of the year amid weakening cost pressures and also because of the lagged effects of the contraction in domestic demand. It is worth noting that annual inflation in services decelerated across all subcategories (Figure 6). Services prices are expected to edge further down in the coming months.

Figure 6: Services Prices

(Percentage Change, First Six Months)



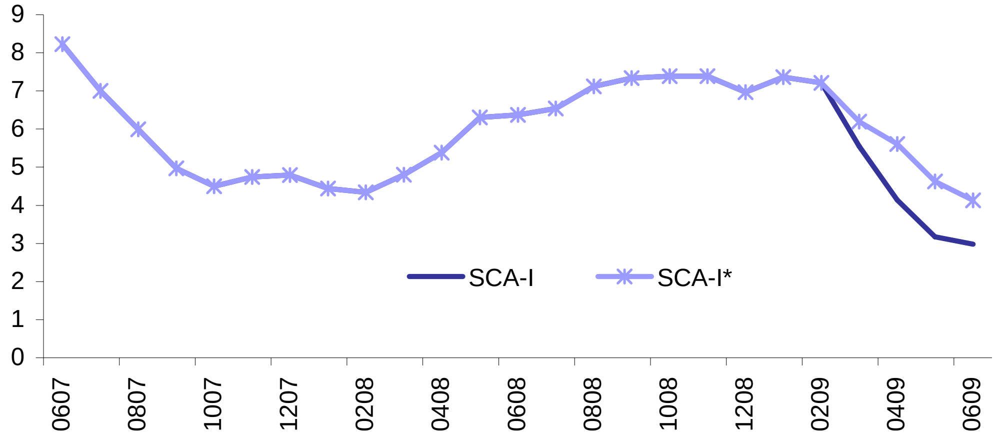
Source: TURKSTAT, CBT.

As I believe that it is essential to decouple movements of the core inflation indicators and the likely effects of tax cuts to better understand the underlying trend of inflation and to evaluate developments more effectively, I would like to further clarify these developments.

By the end of the second quarter of 2009, annual inflation measured by the CPI excluding energy, unprocessed food, alcoholic beverages, tobacco and gold (H index) declined to 2.31 percent while annual inflation measured by the I index, which excludes processed food prices, dropped to 2.98 percent. Although tax cuts contributed significantly to the decline of the core inflation indicators, figures corrected for tax adjustments also confirm that the underlying trend of inflation is downwards, as illustrated in the slide (Figure 7).

Figure 7: Special CPI Aggregates I and I*

(Annual Percentage Change)



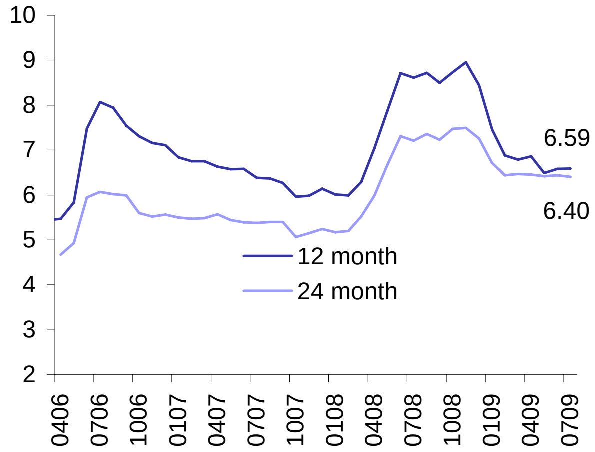
I*: Tax adjustments corrected SCA-I.

Source: ISE, CBT.

Parallel to these developments, while the fall in near-term inflation expectations became more pronounced, medium-term expectations have posted a limited decline and the expectations curve has flattened over the last three months (Figure 8 and 9). Currently, expectations for end-2009 are anchored at 6.09 percent, well below the target. On the other hand, end-2010 inflation expectations, calculated by averaging inflation expectations for 12- and 24-months ahead remain consistent with the target at 6.5 percent.

Figure 8: 12- and 24-Month Ahead CPI Expectations *

(Annual Percentage Change)

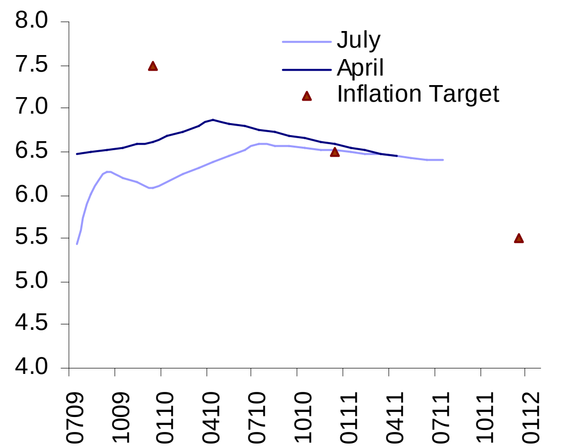


*CBT Business Tendency Survey results from the second survey period

Source: CBT.

Figure 9: Inflation Expectations Curve*

(Annual Percentage Change)



*Calculated using linear interpolation of several maturity yields in the CBT Expectations Survey. Yields are from the second survey period.

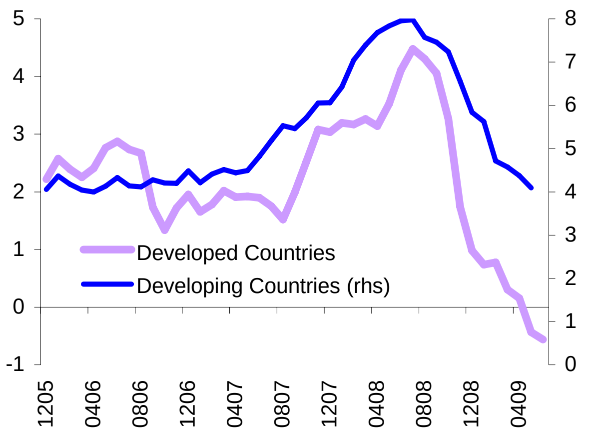
Source: CBT.

Distinguished Members of the Press,

As I mentioned at the beginning of my speech, current global conditions play an instrumental role in inflation developments. Inflation rates have plummeted since the second half of 2008 due to downward pressures arising from demand and cost conditions. This downward trend also prevailed in the second quarter of 2009 (Figure 10 and 11). The trend of consumer price inflation in developed markets turned negative in May/June 2009 and dropped to –0.56 percent in June. Consumer price inflation in emerging markets also continued to lose ground to become 4 percent in June. In other words, inflation rates started to post a significant downward trend globally from the last quarter of 2008 onwards.

Figure 10: CPI in Developed and Emerging Markets

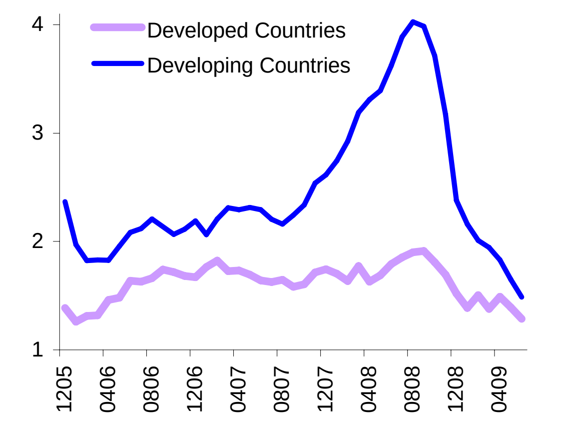
(Annual Percentage Change)



Source: Bloomberg, CBT.

Figure 11: Core CPI in Developed and Emerging Markets

(Annual Percentage Change)



Source: Bloomberg, CBT.

2. Monetary policy response

After making brief remarks on inflation developments, I would now like to touch on the policies pursued by the Central Bank in this period.

Anticipating that inflation would decrease sharply following the last quarter of 2008, when the global financial crisis deepened, the Central Bank of Turkey (CBRT) has focused on alleviating the harsh impact of the global financial crisis on the domestic economy and financial stability. Throughout this process, the CBRT has delivered sizeable cuts in short-term interest rates, while providing liquidity support to financial markets by following a countercyclical monetary policy. In this respect, considering the weak course of demand, the ongoing tightness in lending conditions and the improvement in the inflation outlook, the Central Bank continued the policy rate cuts, which started in November 2008, in the second quarter 2009 as well. Thus, total policy rate cuts reached 850 basis points by July (Table 1).

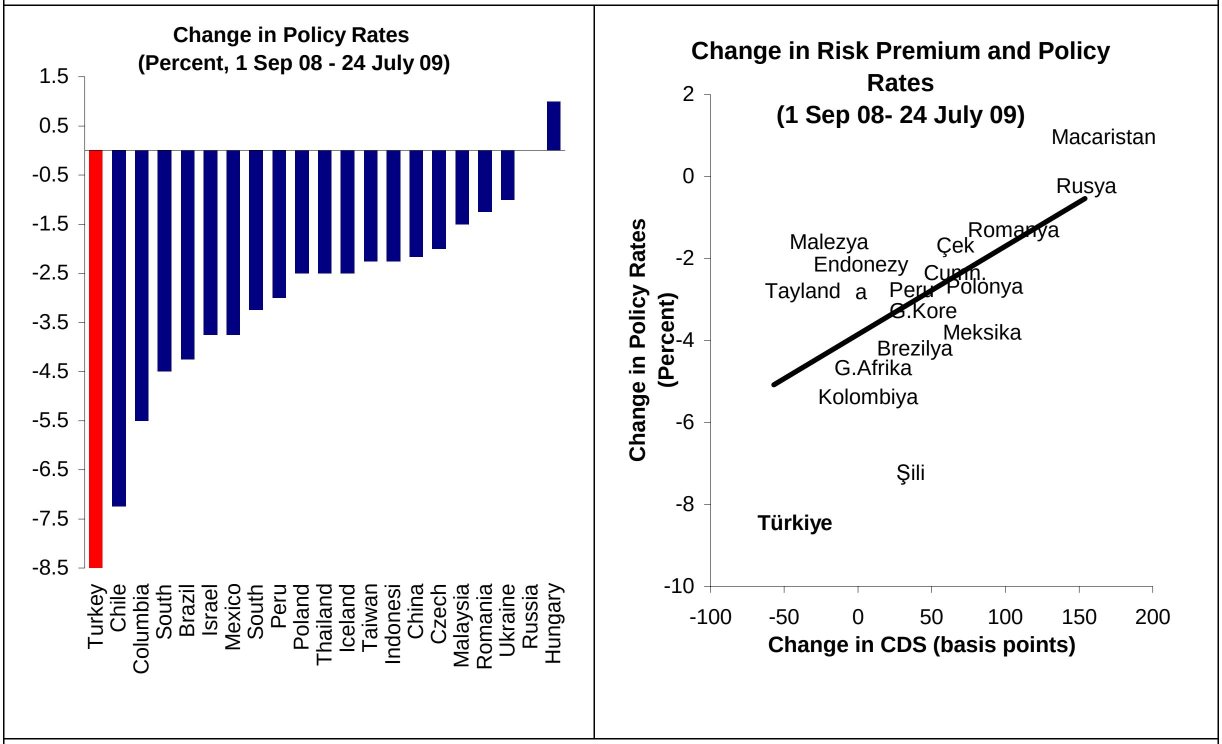
Table 1: Monetary Policy Committee (MPC) Decisions in 2008 and 2009

MPC Meeting Dates	Decision on Interest Rates (Percentage points)	Interest Rate
17 January 2008	-0.25	15.50
14 February 2008	-0.25	15.25
19 March 2008	No change	15.25
17 April 2008	No change	15.25
16 May 2008	+0.50	15.75
17 June 2008	+0.50	16.25
18 July 2008	+0.50	16.75
14 August 2008	No change	16.75
18 September	No change	16.75
22 October 2008	No change	16.75
19 November	-0.50	16.25
18 December	-1.25	15.00
15 January 2009	-2.00	13.00
19 February 2009	-1.50	11.50
19 March 2009	-1.00	10.50
16 April 2009	-0.75	9.75
14 May 2009	-0.50	9.25
16 June 2009	-0.50	8.75
16 July 2009	-0.50	8.25

Source: CBRT.

The proper analysis of global trends and country-specific risk perceptions bears great significance in establishing a better understanding of recent monetary policy decisions. With the global spillover effect of the crisis as of the last quarter of 2008, central banks of emerging markets opted for policy rate cuts above expectations with a view to restricting the negative effects of the global crisis on economic activity. In this period, countries with relatively stable financial markets and lower deterioration in risk premia had more room for maneuver in their monetary policy implementations enabling them to make larger policy rate reductions. Raised awareness regarding the relative soundness of Turkey's financial system in this period, coupled with the expected decline in inflation, set the ground for rapid and bold rate cuts. Acting accordingly, the Central Bank of the Republic of Turkey lowered policy rates more than any other emerging market central bank operating within an inflation targeting framework (Figure 12).

Figure 12: Change in Policy Rates of Developing Countries and the Relationship between Policy Rates and Risk Premium

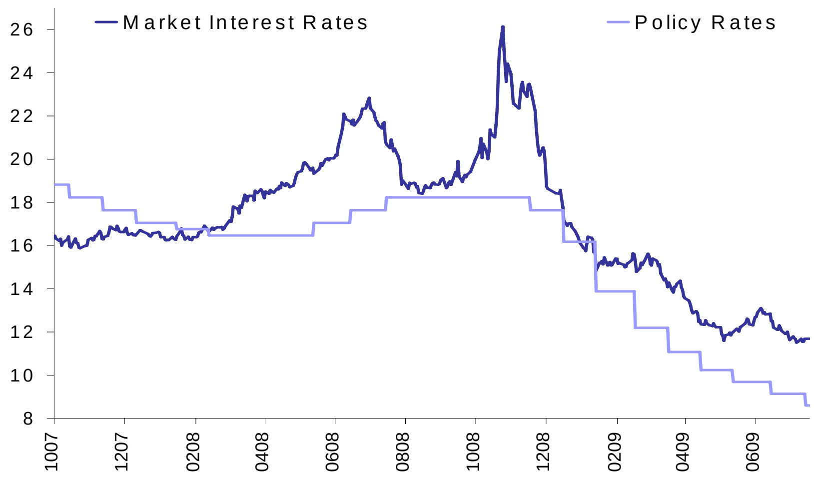


Source: Bloomberg and CBRT.

Data releases on inflation and economic activity since the inception of the cycle of rate cutting and the favorable course of risk indicators have vindicated these preemptive monetary policy decisions and strengthened the impact of policy decisions on expectations, gradually bringing market interest rates down to historically low levels (Figure 13). The Central Bank assesses that the decline in market interest rates is also attributable to policy rate reductions, as well as maintaining flexibility in interest rate decisions in favor of a downward bias and the recovery in risk perceptions in the second quarter of 2009.

The downward trend in market interest rates also reverberated on medium term real interest rates causing real market interest rates to go down compared to the first quarter and to follow a course below the levels of the pre-crisis period (Figure 14). Notwithstanding the fact that a decline in real interest rates in periods of stagnation is an anticipated change in healthy economies, I would like to underline that this has never been witnessed in the Turkish economy before. In this regard, the current level of real interest rates is considered to be a favorable development as it verifies that the Turkish economy is on the path of normalization.

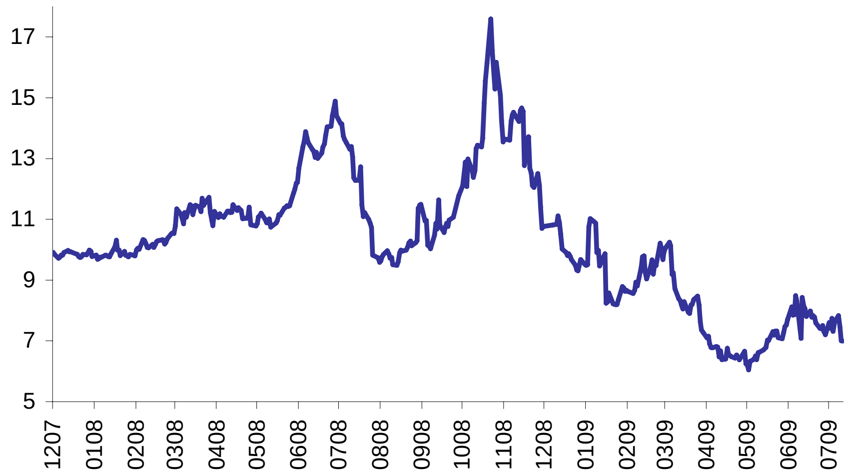
Figure 13: Interest Rate Developments (Percent)



Source: ISE, CBRT.

Figure 14: Medium-Term Real Interest Rates from the Yield on Government Securities*

(Percent)



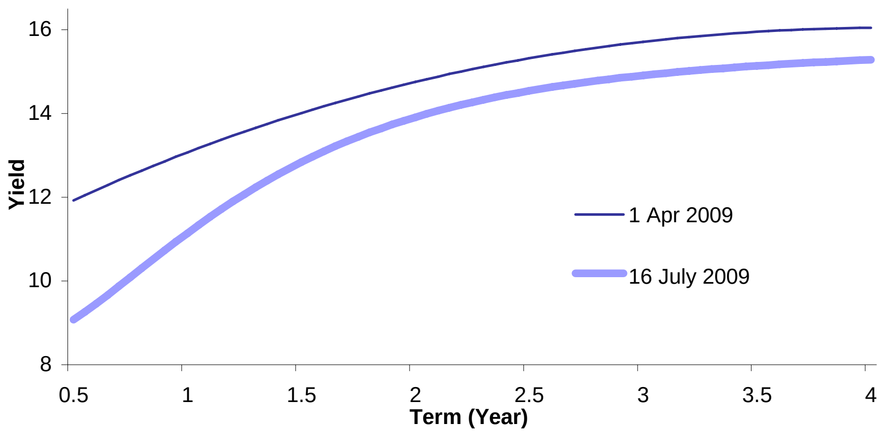
* 2-year real interest rates, calculated using 2-year nominal interest rates from the yield curve and inflation expectations from the CBRT's Expectations Survey.

Source: ISE, CBRT.

However, the Central Bank considers that market interest rates do not properly reflect the current stance of the monetary policy and statements, and that yield curves should be more horizontal compared to the current situation (Figure 15). In this regard, the proper monitoring and correct understanding of the monetary policy perspective by economic agents, which I will now go on to explain, bears great significance.

Figure 15: Yield Curves*

(Percent)



* Estimated by using the compound returns on the bonds in the ISE Bonds and Bills Market, based on the Extended Nelson-Siegel (ENS) method.

Source: CBRT.

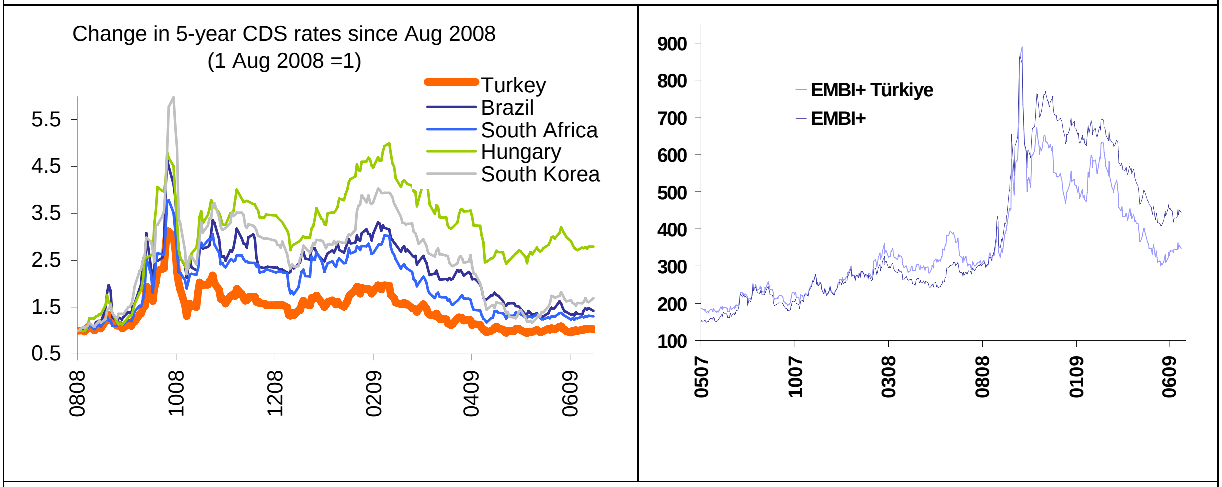
3. Inflation and monetary policy outlook

Distinguished Guests,

Having summarized inflation and monetary policy developments in the second quarter of 2009, in this part of my speech, I would like to share with you the evaluation of the inflation outlook and monetary policy of the Central Bank of Turkey in the upcoming period. In addition, I will also outline the Central Bank's inflation forecasts presented in the Inflation Report, which is to be posted on our website shortly. Firstly, I will briefly touch on the economic framework underlying these forecasts.

In spite of widespread views that the recovery in the global economy will be slow and gradual, perceptions that the worst of the crisis is over led to optimism in global financial markets in the second quarter of the year and an increase in risk appetite. Parallel to the recovery in global risk perceptions, the risk premia of emerging markets fell rapidly and reached almost pre-crisis levels (Figure 16). As was the case throughout the crisis, the risk premium of Turkey followed a relatively lower path compared to other emerging markets.

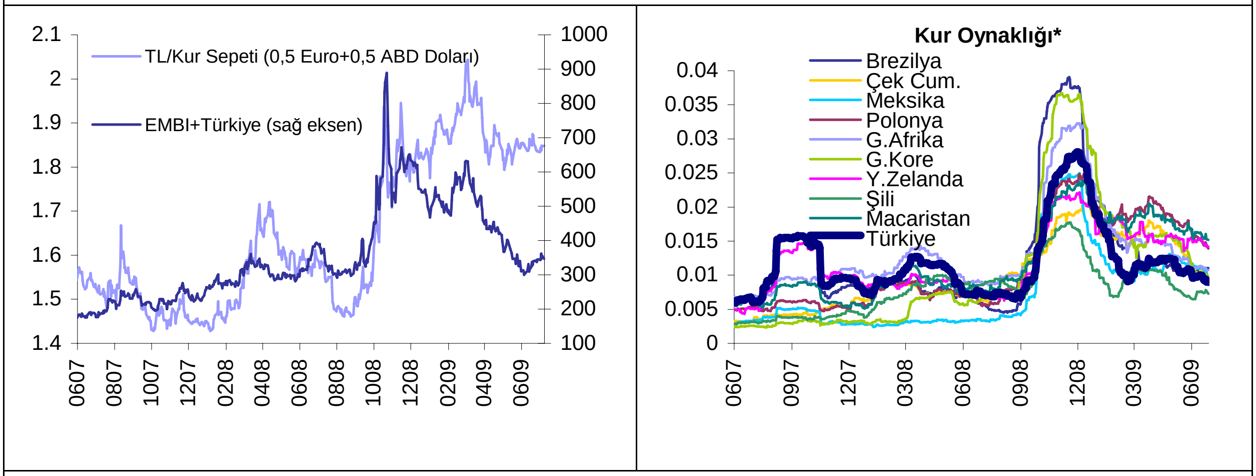
Figure 16: Risk Premium Indicators



Source: Bloomberg, CBRT.

In terms of changes in currency values, the Turkish lira did not significantly differ from other emerging market currencies. However, the relative fall in the volatility of the Turkish lira, which had historically high volatility and extreme sensitivity to the global risk appetite, has become more evident in 2009, when countries' own experiences began to unfold following the worst period of the crisis (Figure 17).

Figure 17: Exchange Rate Developments



Source: Bloomberg and CBRT.

On the other hand, the currencies of emerging markets that implemented policy rate cuts of larger amounts also performed better in the second quarter of the year, as was the case during the entire process of the crisis. This owes its existence to the fact that changes in the risk premia of countries during the crisis are determinants of not only exchange rate performance but also monetary policy decisions of the said countries.

As of the second quarter of the year, policy rate reductions have become partially influential on domestic credit markets. The marked decline in interest rates on loans extended to firms is particularly striking (Figure 18). This has reduced the cost of credits of firms with faltering cash flow, which they utilize to restructure their debts. Thereby, the deterioration in the financial structures of such firms was limited and a permanent damage to the production capacity of the economy was averted. Against the rapid decline in interest rates on loans extended to the corporate sector, fixed and long term loan interest rates still remain high. As a matter of fact, term premia in consumer loans are at relatively high levels and particularly the fall in interest rates on long term loans remains relatively limited (Figure 19).

Figure 18: Interest Rates on Commercial Loans*

(Percent)

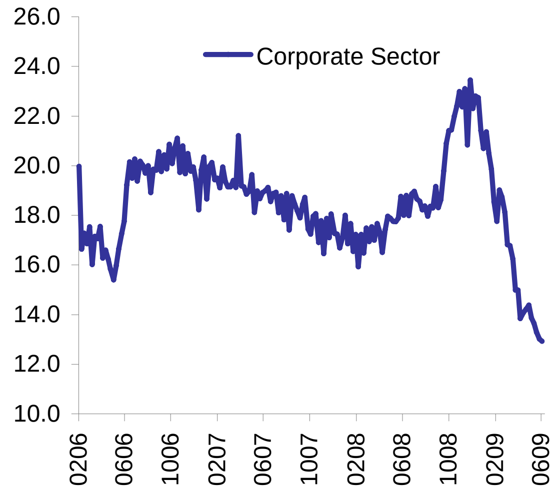
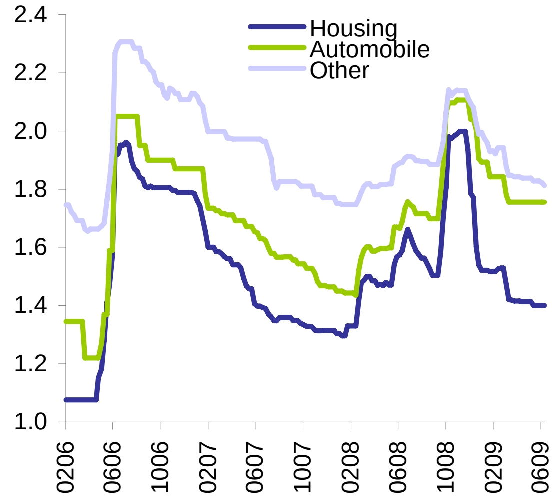


Figure 19: Interest Rates on Consumer Loans*

(Percent)



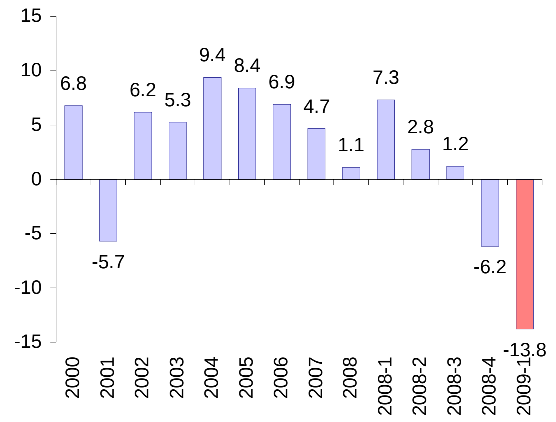
*Interest rates on consumer loans and commercial loans are calculated on monthly and annual basis, respectively.

Source: CBRT.

While the Gross Domestic Product went down by 13.8 percent in the first quarter of 2009 compared to the same period of 2008, seasonally adjusted data indicated that contraction intensified in this period (Figure 20 and 21). Despite the relative soundness of the Turkish financial sector, the contraction in economic activity became more severe. What underlies this consequence is the composition of exports, mainly of products sensitive to foreign conjuncture; susceptibility of production to global credit conditions and Turkey's high capacity level at the onset of the crisis. During this period, besides the tightness in financial conditions, a sharp contraction in domestic demand was also experienced due to spreading perceptions of uncertainty and increasing precautionary saving tendency. In this context, the downside contribution of aggregate demand conditions to inflation increased evidently.

Figure 20: GDP Growth by Periods

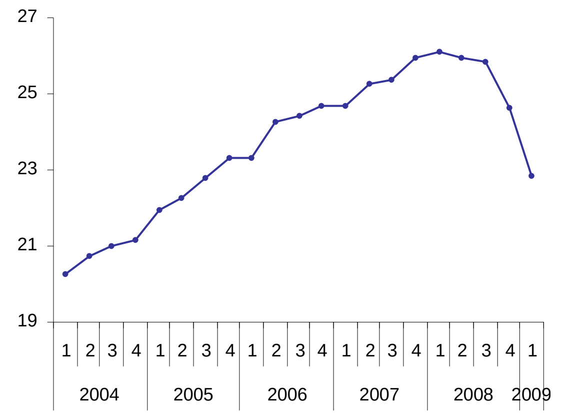
(Percent)



Source: TURKSTAT

Figure 21: GDP

(Seasonally adjusted, at 1998 Prices, billion TL)

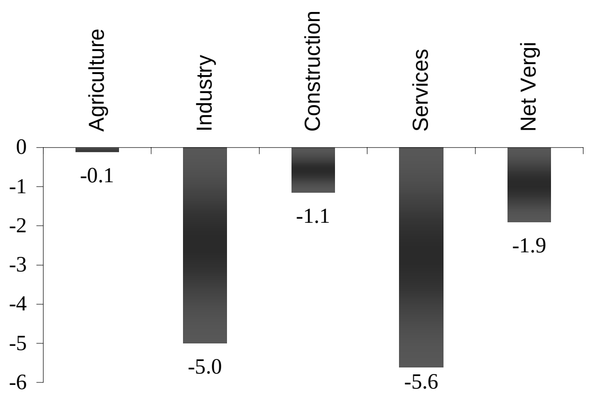


Source: TURKSTAT, CBRT.

An analysis of national income developments in terms of production in the first quarter of 2009 reveals that value added has decelerated in all sectors on an annual basis. Parallel to the sharp contraction in industrial activity, value added in the services sector became the component contributing most-negatively- to growth (Figure 22). On the other hand, making the said comparison in terms of expenditures, besides the sharp contraction in private sector demand, the negative contribution of stock change is remarkable. In this period, the contribution of net exports to growth went up due to the sharp deceleration in imports. Public expenditures, as you can see on the slide, restricted the fall in domestic demand with a contribution of approximately 1.2 points to growth (Figure 23).

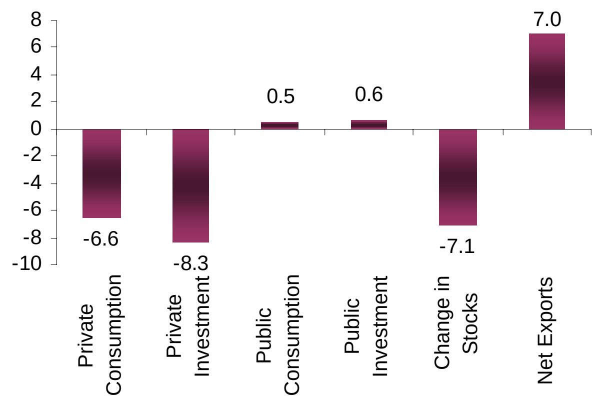
Figure 22: Contribution to Growth from Production

(Percentage Points)



Source: TURKSTAT.

Figure 23: Contribution to Growth from Expenditures (Percentage Points)

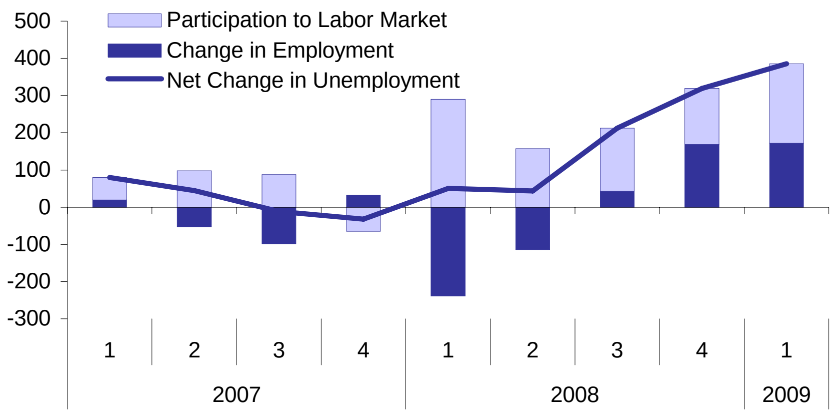


Source: TURKSTAT.

Uncertainties in demand conditions driven by the global turmoil lead firms to adopt a cautious approach regarding production activities. In this context, the low capacity utilization rates and the weak course of propensity to invest continue to limit employment conditions. In the first quarter of 2009, with the accelerating slowdown in economic activity, the negative course of the labor market intensified in comparison with the previous quarter, and the increase in unemployment rates continued, also due to the increase in labor force participation rates (Figure 24).

Figure 24: Composition of the Change in Non-Agricultural Unemployment

(Seasonally adjusted, Quarterly Difference, Thousand People)

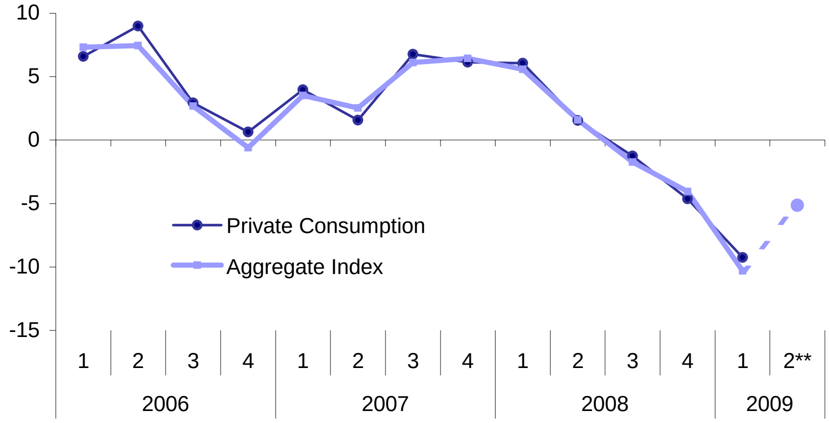


Source: TURKSTAT, CBRT.

Recent data include signs of partial recovery in domestic demand conditions and economic activity in line with the policy rate cut cycle, accompanied by the financial measures (Figure 25). However, the negative effects of uncertainties in aggregate demand and low capacity utilization rates on investments and employment are expected to last in the upcoming period as well. Besides, high levels of unemployment are expected to restrict private consumption expenditures. In addition to these, considering the ongoing partial tightness in financial conditions, the Central Bank considers that the uncertainties pertaining to the strength and endurance of the recent partial revival in demand may not yet have come to an end.

Figure 25: Aggregate Index of Consumer Sentiment* and Private Consumption Expenditures

(Annual Percentage Change)



*The index is compiled by the CBRT by using production and imports of consumer goods.

** Comprises data pertaining to April-May period.

Source: TURKSTAT, CBRT.

Distinguished Members of the Press,

The nature of the period we are going through increases the importance of monitoring data pertaining to the speed and timing of global recovery, with respect to the foreign demand outlook. Since the last Report period, growth forecasts for 2009 for the US economy have been quite stable while those for the Eurozone have been revised downwards. Meanwhile, global growth forecasts for 2010 were revised upwards by a small margin in the last quarter. An analysis of regional growth forecasts reveals that the upward revision in the Eurozone for end-2010 has been more limited compared to the revision in the US economy. To sum up, while forecasts for global economic activity have become relatively more stable in the last quarter, the outlook for the "recovery process in the Eurozone – our main trade partner – to be anemic and protracted" has strengthened (Table 2).

Table 2. Forecasts for Annual Growth

	2009		2010	
	Previous Forecast	New Forecast	Previous Forecast	New Forecast
IMF				
World	-1,3	-1,4	1,9	2,5
Developed Countries	-3,8	-3,8	0,0	0,6
USA	-2,8	-2,6	0,0	0,8
Eurozone	-4,2	-4,8	-0,4	-0,3
Developing Countries	1,6	1,5	4,0	4,7
OECD				
All OECD Members	-4,3	-4,1	-0,1	0,7
USA	-4,0	-2,8	0,0	0,9
Eurozone	-4,1	-4,8	-0,3	0,0
Consensus Forecasts *				
World	-2,1	-2,6	1,9	2,1
USA	-2,7	-2,6	1,8	2,1
Eurozone	-3,4	-4,4	0,3	0,4

Source: IMF World Economic Outlook, April and IMF World Economic Outlook Update, July.

OECD Economic Outlook, Interim Report, March and OECD Economic Outlook, 2009/I, June.

*Consensus Forecasts, April and Consensus Forecasts, July.

In sum, assessing domestic and external demand developments together, revised forecasts for medium-term inflation are based on a framework where aggregate demand conditions would support disinflation for a long period of time.

Distinguished Guests,

Despite the realization that recovery in the global economy will be slow, increasing perceptions regarding the worst part of the crisis being over caused a rebound in commodity prices. In line with this development, oil prices hovered above the previous assumption of oil prices at USD 55 per barrel in the Inflation Report of April. Our assumption for oil prices have been revised in line with the average of futures prices registered in the first half of July. Within this framework, oil prices were assumed to be USD 60 on average in 2009 and around USD 70 in 2010 and thereafter. On the other hand, projections for food inflation of 7.5 percent for end-2009 and 6 percent for the following years have been maintained.

The impact of exchange rate movements on input costs since the last quarter of 2008 was offset by declining import prices. Therefore, import prices denominated in domestic currency did not display significant changes. While generating medium-term forecasts, it was assumed that imported input costs would increase gradually, in line with the anticipated slow recovery in global economic activity.

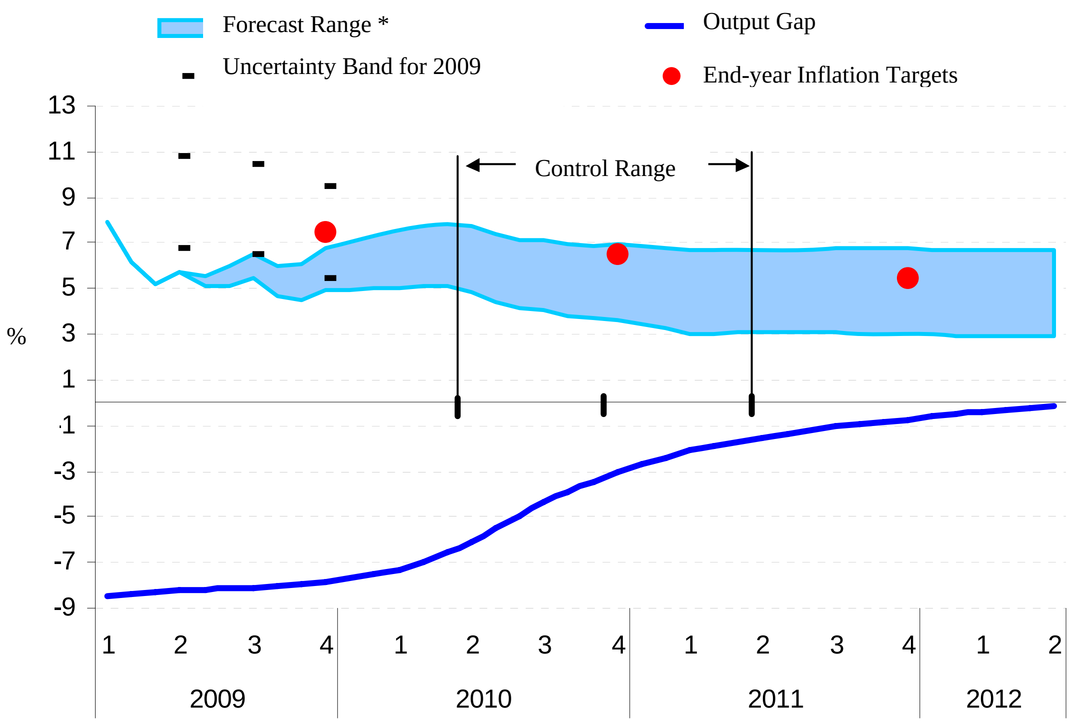
Furthermore, revised forecasts envisage that world interest rates will remain low for an extended period of time. Regarding fiscal policy, it is assumed that fiscal discipline will be established within a medium-term program. Moreover, it is assumed that adjustments in taxes/administered prices in the second half of 2009 will add around 1.5 percentage points to 2009 inflation.

Distinguished members of the Press and Esteemed Guests,

Against this background, assuming that there is further easing in policy rates in the near term followed by no change until the end of 2010, medium-term forecasts suggest that, with 70 percent probability, inflation will be between 4.9 and 6.9 percent with a mid-point of 5.9 percent at the end of 2009, and between 3.7 and 6.9 percent with a mid-point of 5.3 percent at the end of 2010. Furthermore, inflation is expected to come down to 4.9 percent by the end of 2011 and to 4.8 percent by mid-2012 (Figure 26).

Figure 26: Inflation and Output Gap Forecasts*

(Percent)



* Indicates a 70-percent confidence interval for the forecast.

Revised forecasts indicate that even if policy rates are kept at low levels for an extended period, aggregate demand conditions will continue to underpin the disinflation process over the next two years. Forecasts also indicate that significant base effects may lead to some inflation volatility in the short term. As cumulative inflation during the first half of 2009 has been historically low at 1.83 percent, it is estimated that inflation will rise in the first half of 2010 due to base effects (Figure 26). As the impact of adjustments in taxes and administered prices made for the sake of budget balance will ease, we forecast that inflation will display a downward trend starting from the second half of 2010 and stabilize slightly below the end-2011 target of 5.5 percent. It is critical to note that inflation would be less persistent and thus the economic recovery would be smoother if economic agents adopt these forecasts as a benchmark in their pricing decisions.

I would like to underline that any new data or information regarding the inflation outlook may lead to a change in the monetary policy stance. Therefore, assumptions on future policy rates underlying the inflation forecast should not be perceived as a commitment on behalf of the CBRT.

Risks

Distinguished Members of the Press,

In the last part of my presentation, I would like to mention the risks with respect to the inflation outlook in the upcoming period and give some information pertaining to the probable monetary policy strategy should these risks materialize.

As I have mentioned earlier in my speech, despite having partially receded, the risks regarding the global economy are still important for the inflation and monetary policy outlook. In particular, ongoing problems in credit and labor markets pose downside risks on global activity. Should global conditions and consequently domestic economic activity further deteriorate, the CBRT would consider another cycle of rate cuts, and then maintain policy rates at low single digits for an extended period of time.

Another possible scenario is a surge in capital inflows to emerging markets owing to the relative improvement in creditworthiness of these countries. In this context, receding risk premia and appreciating currencies would present downside risks regarding inflation prospects. These circumstances could also trigger acceleration in rate cuts, or another easing cycle, which could then bring policy rates which hover around low single digits for a prolonged period of time.

Increasing budget deficits worldwide continue to pose risks on inflation expectations and thus on global interest rates in the long term. The medium-term forecasts presented above envisage that the slow recovery in global economic activity and rising saving rates will keep global interest rates at low levels for an extended period. However, the lack of a clear exit strategy from global fiscal stimulus packages creates upside risks regarding global inflation rates and therefore longer-term global interest rates.

Counter-cyclical fiscal policies to curb the contractionary effect of the crisis on economic activity, which have also been introduced in Turkey in line with global trends, have accelerated the rise in budget deficit. The relatively low level of public sector indebtedness in Turkey compared to other countries implies that we have a broad fiscal space. However, when the maturity composition of borrowing, the level of interest rates and the depth of financial markets are taken into account, it is observed that the fiscal space is not broad enough for countercyclical fiscal policies. Therefore, backing up the short-term increase in budget deficit with a medium-term program ensuring the sustainability of debt dynamics is crucial for maintaining our risk premium at relatively low levels.

Accordingly, domestic perceptions regarding public finance are very important for the monetary policy strategy to be implemented in the medium-term, especially after 2011. The global crisis has raised awareness as to the resilience of our financial system and helped risk indicators to perform better compared to other developing countries and enabled a fast rate-cut cycle. Thus, single-digits were finally achieved in short-term interest rates after many years. Meanwhile, the level of medium and long-term market interest rates still remain elevated. The present conjuncture offers an important opportunity to achieve and maintain single digits in market interest rates throughout the forecast horizon of three years. Achieving and maintaining single digits in medium and long-term market interest rates will depend on establishing fiscal discipline. The introduction of a satisfactory perspective for fiscal discipline in the upcoming period would not only decrease the risk premium but would also help to keep policy rates at low levels for an extended period of time. Therefore, should a concrete medium-term fiscal program, which safeguards the sustainability of debt dynamics and budget discipline, be established, it is possible that market interest rates will remain at low levels permanently.

Distinguished members of the press,

To sum up, growing perceptions that recovery in the global economy will be slow and gradual, saving rates will remain high and global interest rates will remain low for quite some time; enabling monetary policy to provide a more concrete perspective for the future. Within this framework, forecasts are based on an outlook, which envisages that short-term interest rates will be somewhat further eased and not raised until the end of 2010. The monetary policy for 2011 and thereafter will be determined according to the course of variables affecting the inflation outlook. With the end of the crisis, should the fiscal discipline be re-established in a gradual and forceful manner, short-term interest rates are projected to remain in single-digits throughout the forecast horizon of three years.

Distinguished guests,

Even if our primary objective is to achieve price stability, I would like to reiterate that we will continue to take all the necessary measures and use all policy instruments available in a timely and due manner should the likelihood arise that problems in international markets adversely affect domestic financial markets. Therefore, strengthening the commitment to fiscal discipline and the structural reform agenda is also critical to facilitate expectations management and to support the effectiveness of monetary policy decisions. In this respect, the utmost importance is attached to the commitment to the European Union accession process, and timely implementation of the structural reforms. I would like to underline that we will be closely monitoring developments pertaining to public finance while determining our medium-term monetary policy strategies. Thank you very much for your attention.