

PRESS RELEASE

MARCH INFLATION, FORWARD-LOOKING EXPECTATIONS AND INTEREST RATES

I. GENERAL EVALUATION

1. The downward inflationary trend that became evident in February has continued also in March, and the CPI and WPI increased by 1,2 percent and 1,9 percent respectively. Annual inflation figures declined to 65,1 percent in CPI and 77,5 percent in WPI (Table 1).

2. In addition to the factors that led to a decline in inflation in the last month, the favorable agriculture and food prices have kept the March inflation fairly below the expectations. On the other hand, the adverse effect of the increase in crude oil prices on the public prices and the persistence of rigidity in service prices have caused the prices (excluding agriculture and food) to rise higher than February. The CPI (excluding food) increased by 1,6 percent, while WPI (excluding agriculture) increased by 1,9 percent. Even that, we may see clearly from these figures that the inflation has entered into a downward trend.

3. The annual inflation trend - calculated by the de-seasonalized consumer and wholesale price indexes according to the quarterly moving averages - has continued its downward trend in March. As of March, the annual inflation trend

has fallen to 39,7 percent in WPI, and 35,5 percent in CPI. The annual inflation trend is 19,5 in WPI (excluding agriculture) and 43,7 in CPI (excluding food).

Table 1: CPI, WPI and Sub-items

	Yearly % Change		Monthly % Change		
	2001	2002	2002	2002	2002
	March	March	January	February	March
CPI	37,5	65,1	5,3	1,8	1,2
Goods	34,3	77,1	6,4	1,5	0,7
Services	43,1	45,3	3,2	2,3	2,2
Excluding Food	41,7	59,3	3,9	1,3	1,9
WPI	35,1	77,5	4,2	2,6	1,9
Public	31,7	81,2	2,5	0,5	2,0
Private	36,3	76,2	4,8	3,3	1,8
Private Manufacturing	38,2	75,5	2,1	0,7	1,3
Excluding Agriculture	35,8	77,5	2,3	0,6	1,6
Excl.Agricul. and Energy	34,7	76,9	1,9	0,7	1,7

Source: CBRT, SIS

Developments in Consumer Prices

4. Strict implementation of the economic program and realization of the program targets has built up the confidence on the program, and reduced the risk premium, thereby strengthening the Turkish Lira. The sluggish domestic demand and the increased inventories for manufactured products have played an important role on the prices, which has risen lower than expected. In the light of these developments, economic agents reduced their inflation expectations.

5. In the last six-month-period, the food prices, which have been increasing continuously above the general price index on a monthly basis, decreased by 0,5 percent in March. In the recent months higher food prices as well as the decline in real wages and in employment rate had partially incited the demand for

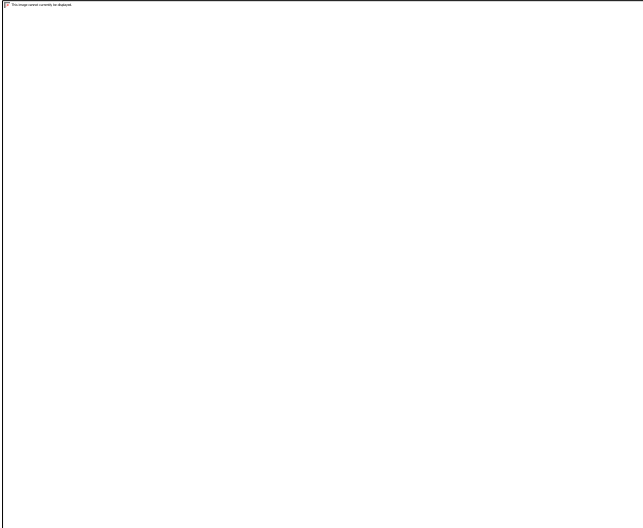
substituting goods. We think that these developments have particularly led to the decline in the prices of processed food in March.

Figure 1: CPI and CPI (Excluding Food)

Yearly % Change



Monthly % Change



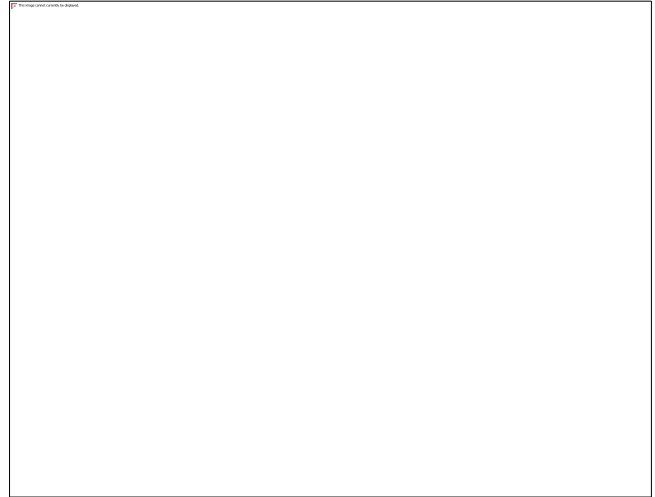
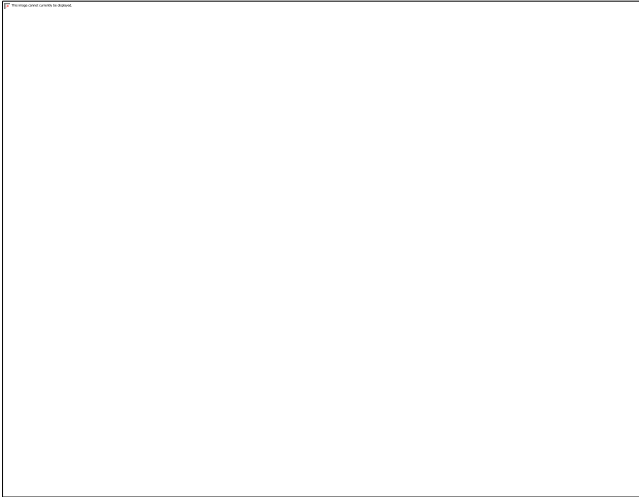
Source: CBRT, SIS.

6. In contrast to the conditions in 2001, monthly price increases in goods remained below the price increases in services in February and March. Prices in goods and services increased by 0,7 percent and 2,2 percent respectively in March. Goods prices (excluding food) rose by 1,5 percent. Price increases in health, culture-entertainment, financial services and restaurant have negatively affected the service sector prices.

Figure 2: Goods and Services Prices

Yearly % Change

Monthly % Change



Source: CBRT, SIS.

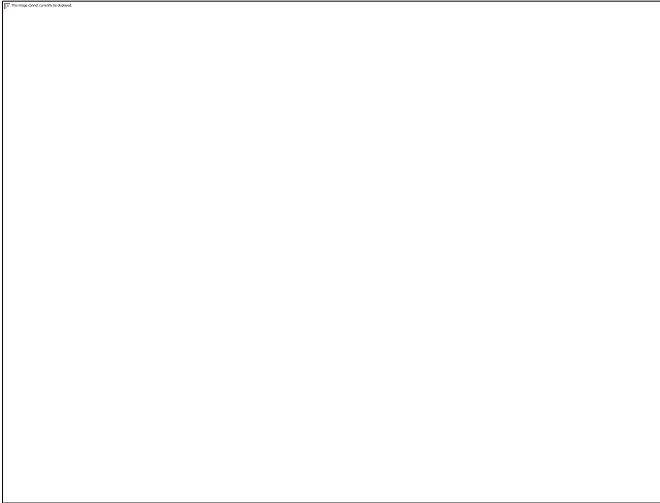
Developments in Wholesale Prices

7. The agricultural prices, which increased well below the last seven year's average, was the main factor determining WPI inflation in March. On the other hand, especially the price increases in public sector manufacturing industry due to increased oil prices have affected the WPI negatively in comparison to February. The price increases in sub-sectors of private manufacturing industry showed significant variations and the general price increase was 1,3 percent. The price increases in the clothing, basic metal and leather products destined to export realized above the general price increases. Also, the decline in electric-gas prices by 0,1 percent has limited the increase in WPI.

Figure 3: WPI and WPI (Excluding Agriculture)

Yearly % Change

Monthly % Change



Source: CBRT, SIS.

II. FORWARD-LOOKING EXPECTATIONS

8. The price increases in March accelerated the downward trend that had already become evident in February. The survey results compiled after the announcement of February inflation figures showed that inflationary expectations were gradually approaching to the end-year target (Graph 4). It is expected that the March price increases, which are below the expectations, will strengthen this favorable trend.

Figure 4: Year-end Inflation Expectations According to the CBRT Survey of Expectations



Source: CBRT.

9 . Strict implementation of the current economic program will prevent the supply and demand side inflationary pressures and will contribute to the acceleration of downward trend in inflation in the period ahead. In this context, if conducted in line with the inflation target, the incomes policy and the pricing policy of public and private sectors will be among the main contributing factors to meeting the end-year inflation target without causing any loss in output.

10. The stability in foreign exchange rates, the resumption of public sector price increases in line with the inflation target will affect positively the production costs and expectations and will contribute to the realization of year-end inflation target. Despite all these favorable developments, the likelihood of persistence in crude oil price increases in international markets, and rigidity in the service sector prices are the risk factors that we must be well aware of.

11. The main economic reasons behind the evident downward trend in inflation will continue to reduce the inflation in two ways: Firstly, the improvements in economic fundamentals do not have influence on inflation immediately, but with a

certain time-lag. Consequently, it is expected that the downward trend in inflation will continue. Second but more important factor is the fact that the current economic policies that caused inflation to decline will be implemented with determination in the future. Combined together, we believe that these two favorable factors will bring the inflation down even further, despite the impending above-mentioned risks.

III. CENTRAL BANK INTEREST RATES

12. In light of the above-mentioned evaluations, we have decided to reduce the short-term interest rates applicable in the Interbank Money Market and in the Istanbul Stock Exchange Repurchase-Reverse Repurchase Market effective from 8 April 2002 as following:

- a) Overnight Interest Rates: Our borrowing rate has been decreased from 54 percent to 51 percent, and our lending rate has been decreased from 61 percent to 58 percent.
- b) Weekly Interest Rates: Our borrowing rate for one week has been decreased from 55 percent to 52 percent.