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PRESS RELEASE

1. As has been stated in our earlier press releases, the main policy instrument of the Central Bank in the fight against inflation is the short-term interest rates. The Central Bank uses the short-term interest rates with the aim of reducing inflation only.

2. Despite our repeated announcements on the same issue, the Central Bank's current policy has been, for some time, made subject to criticisms, stating that interest rates should also be adjusted by taking other objectives into account. However, the Central Bank's only concern is the inflation and will continue to be so by its law. In other words, growth, foreign trade balance, short positions of banking system and private sector, real interest rates or exchange rates are not the basic variables we have in mind in designing our interest rate policy. It is no doubt that the changes in interest rate based on our inflation forecasts will have influence on such variables.

3. Rehabilitation of financial system is one of the basic goals of the current program. Significant achievements have been made so far in this area. As a matter of fact, an economy whose financial system gets increasingly stronger becomes less susceptible to excessive volatility in exchange rate, as in the case of other economic variables. In the light of this consideration and the past experiences, the Central Bank draws attention to the risks arising from the short or long foreign exchange position, besides other risks. The warnings made by the Central Bank on the exchange rate risk should not be misinterpreted as if it worried about the current level of the exchange rates.

4. In fact, in 2001 and 2002 the Central Bank has monitored the foreign exchange market carefully, and has taken all the necessary measures rapidly in the context of its duties and responsibilities by law in order to ensure that the floating rate regime may function properly. The Central Bank will continue to keep an eye on the foreign exchange market in the coming period too. To this end, a "Foreign Exchange, Foreign Banknotes and Forward Transactions Surveillance System" has been set up. Starting from 1 May 2002, this system will closely observe daily foreign exchange and foreign banknotes buying-selling transactions against Turkish Lira made by banks and special finance houses operating in Turkey. Moreover, the Banking Regulation and Supervision Agency is exercising controls over short foreign exchange positions and is taking measures for the risk exposures.

5. In addition, it has been asserted that high real interest rates could lead to short foreign exchange position and that the Central Bank should cut its interest rates accordingly. Real interest rates are the outcome of the risks arising from past crises, long and volatile inflation. Real interest rates will fall down permanently, only if structural reforms are made unreservedly, fiscal discipline is maintained, the inflation is brought under control, and sustainability of Treasury borrowing is ensured.

6. Adjusting interest rates for considerations other than price stability, which is openly declared by law, might give mixed signals to economic agents about the targets of the Central Bank. Such a wrong policy action might increase the risk premium, and the real interest rates accordingly. The Central Bank and the current program should not even try to indulge in the luxury of making such mistake. This point must be understood very well by all.

7. Furthermore, the Central Bank's optimistic outlook for the future inflation is going on. Persistence in structural reforms, and developments in the basic variables affecting inflation are the main reasons for the ongoing optimism.

8. Among these basic variables, input costs are performing favorably well. According to monthly averages in the period between November 2001 and March 2002, the depreciation of the US dollar and the Euro against the Turkish Lira amounted to 15,2 percent, and 18,2 percent respectively. Public sector prices, which have important influence on the input costs, rose by 8,4 percent only. Moreover, although we do not have the latest figures at hand, the hourly wages in manufacturing industry rose by 6,5 percent only in the last quarter of 2001, which remained below the inflation of that period. It is estimated that wages have little increased in the first quarter of 2002. In light of these figures, it is thought that input costs are not exerting much inflationary pressure, and in particular, the delayed effects of decreasing exchange rates will positively affect the future course of inflation.

9. The outlook for inflation expectations is improving. According to the Central Bank Inflation Survey conducted in the second half of April 2002, the inflation expectation for the year-end consumer prices slumped to 37,0 percent, from 43,6 percent in the second half of March 2002. The expectation for the next 12 months declined to 35,0 percent from 39,6 percent. According to the Central Bank Business Tendency Survey conducted in March 2002, the inflation expectation for the year-end wholesale prices fell to 52;8 percent, from 56,3 percent in February. The expectation for the next 12 months declined to 50,0 percent, from 54,3 percent.

10. We have recently been receiving positive signals about demand and supply figures. Industry output index and capacity utilization ratio are keeping their upward trend. Capacity utilization ratios in the private sector manufacturing industry have realized at 71,3 percent in March 2002, surpassing the 70 percent threshold for the first time since the November 2000 crisis. Moreover, the revenues on VAT, which is excised on imports, are on the rise as of March 2002. These are indicating a revival in the production. In line with these positive signs on the output front, the messages from several firms are indicating signs of recovery in demand. However, we think that an increase in demand will not cause an inflationary pressure for the time being.

11. At this point, we deem it useful to repeat the warning we have made in our earlier announcements. It should be borne in mind that fighting inflation without causing an output loss can be achieved only if the price and incomes policies are pursued by public and private sectors in harmony with the targeted inflation, besides the continuation of structural reforms. In this context, it is important that the private sector should not take advantage from a possible rise in demand as an opportunity to raise their profit margins, by short-term considerations. Their wage and price policies should be determined within the framework of the inflation target. Besides developments in basic variables determining inflation and inflation expectations, the Central Bank will be considering also the price-setting behaviors of the public and private sectors for determining the future course of interest rates.

12. In light of the above analyses, 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 30 April 2002 as follows:

a) Overnight Interest Rates: our borrowing rate has been decreased from 51 percent to 48 percent, and our lending rate has been decreased from 58 percent to 55 percent.

b) Weekly Interest Rates: Our borrowing rate for one week has been decreased from 52 percent to 49 percent.