

THE STATEMENT OF THE GOVERNOR ON RECENT DEVELOPMENTS

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The February results of the stabilization program, which has been implemented by the beginning of 2000, indicates the positive developments as was observed in January.

Central Bank has reached the targeted aggregates in the framework of exchange rates and monetary policy. Net domestic assets was in the line with the program targets realized as – 1212.4 trillion lira and –1171.7 trillion lira in January and February, respectively. Besides, the monthly crawl of the exchange rate basket was 2.1 percent in January and February and nominal values of the basket realized as 979,160 TRL and 999,723 TRL in these months, respectively. However, due to the appreciation of the US dollar against euro in the international markets, led to higher depreciation of the TRL against US dollar compared to euro. Foreign exchange reserves of the Central Bank reached 24.2 US dollar at the end of February, which was 23.8 billion US dollar in the previous month and net international reserves as was defined in the letter of intent, realized as 16.4 billion US dollar as of February 29, which was 16.3 billion US dollar as of January 31.

Sharp decline in interest rates realized by the announcement of the program. Treasury auction rates, which were 125 percent in February 1999, declined to 41,9 percent in this February. Removal of the exchange rate risk premium on interest rates by exchange rate and monetary program announced by Central Bank and continuation of the credibility in Turkish Economy and in international markets caused a sharp reduction in interest rates.

Besides the rapid increase in budget revenues, the control of primary expenditures led to 480 trillion TRL primary surplus in January. According to the provisional figures announced by the Undersecretariat of Treasury, primary budget balance gave a surplus of 1,2 quadrillion TRL in February. Thus, 199 trillion TRL-primary deficit in the first two months of 1999 is now turn out to be 1,7 quadrillion TRL-primary surplus.

The announcement of the tobacco prices is the first application of agricultural support price policy which is one of the most important part of the program. The tobacco prices were increased by 25 percent in line with the targeted inflation.

According to the State Institute of Statistics, in February, the WPI inflation is 4,1 percent and the CPI inflation is 3,7 percent. As I mentioned before, a sharp reduction in the persistent inflation should not be expected and it would be more realistic to expect that it follows a similar pattern with 1999 price increases in the first quarter of 2000..

When we look at the inflation data at February in detail, we observe that agricultural sector prices, which has an important share in WPI, has increased by 7,6 percent. Although, the severe weather conditions on agricultural sector, which is the most insensitive sector to policy applications, are taken into account, this increase is still higher than expected.

In January, the private sector manufacturing prices, which can be defined as core inflation, accelerated due to the rapid depreciation in the previous months. However, in February it has slowed down. The private manufacturing sector prices increased by 3 percent in February in contrast to 5,8 percent increase in previous month.

Public sector price adjustments at the end of the last year spilled over into the public sector manufacturing prices in January. However, the price increases in this sector has slowed down and realised as 2,7 percent in February. This proves that the pricing behaviour of the firms in public manufacturing sector is consistent with the targeted inflation in 2000. In that sense, in the remaining months of the year the stability in the price of public goods which are used as inputs by the private sector, together with the stability in the exchange rates will lead to a decrease in the production cost of the private manufacturing sectors.

Consumer prices increased by 3.7 percent in February with respect to last month. This increase had been affected by the high increases in food and health sectors. Especially, the food prices rose to 7.6 percent depending on the agricultural prices.

As a summary, in spite of the acceleration in the CPI and WPI inflation rates in January, the slow down especially in the core inflation is remarkable in February. The manufacturing sector prices are expected to slow down due to the reduction in production costs together with the decline in agricultural prices in summer months. This eventually will help the sharp decrease in inflation. Price increases in February, except agricultural prices were in line with our expectations. The rapid decline in the private manufacturing prices with respect to last month implies that, if the strict implementation of disinflation programme continues, the pre-

determined targets can be achieved. As mentioned before, the positive developments of the programme related with the inflation will be more evident in the second half of the year.