

**March 17, 2004**

**PRESS RELEASE**  
**ON**  
**THE CBRT INTEREST RATE CUTS**

**I. GENERAL ASSESSMENT**

1. Consumer prices that remained well below the targeted inflation rate both in 2002 and 2003 and downward trend in inflation that further accelerated in the first two months of 2004 demonstrate the remarkable achievement obtained in disinflation efforts. In this process, consumer prices inflation, which was 68.5 percent as end of 2001, came down to 14.3 percent as of February 2004. The main factors underlying this success are, by all means, the tight fiscal and monetary policies implemented in a consistent manner and the structural reforms carried out since the adoption of the program.

2. In our press release issued following the announcement of the January 2004 inflation figures, the importance of fiscal discipline for disinflation efforts was elaborated. It was also underlined that budgetary measures should involve curbing expenditures rather than increasing taxes and resorting to public price adjustments, and within this framework, a “conditional optimism” was expressed for the rest of 2004. In fact, the recently taken expenditure-curbing measures to compensate the impending adverse effects of the increases in the minimum wage and pensions on the budget have increased perceptions that fiscal policy would continue to support the downward trend in inflation for the rest of 2004.

3. The remarkable decline in inflation in the first two months of the year, the absence of a domestic demand pressure, the stability in exchange rates, and the inflation expectations close to the end-year inflation target of 12 percent have all supported the belief that the end-year target for 2004 is attainable. Meanwhile, the rate of increase in the food prices is expected to be relatively high in March, due to rapid increases in agricultural prices stemming from adverse weather conditions in January and February, and tax adjustments on tobacco products. However, it is expected that inflation excluding food prices would remain low. According to the analyses made in light of these developments, and under the main scenario,

in which no exogenous shock is expected, it is considered that the annual inflation will continue coming closer to single digits until May, and will end up the year within the targets although it may show, from June on, some minimal fluctuations that would not jeopardize the inflation target.

4. Undoubtedly, there still remain some risk factors that might jeopardize attaining the inflation target. The most important risk factor is the rigidity in services sector prices, especially the price-setting policy in rents, education and health sectors that is not consistent with the inflation target. A better operating free competitive system in the mentioned sectors will diminish such a risk factor. Meanwhile, supply-oriented fluctuations in food and energy prices that cannot be controlled by the Central Bank remain as a risk factor.

5. It should be borne in mind that Central Bank's ultimate objective is achieving price stability. As a matter of fact, the Central Bank has already focused itself on the prospective obstacles on the way of price stability in 2005. Within this framework, every step taken for enhancing fiscal discipline, adopting principles of good governance, and increasing productivity will enable the Central Bank to maintain its conditional optimism for the future.

## **II. THE CENTRAL BANK INTEREST RATES**

In the light of the evaluations above, starting from 17 March 2004, the Central Bank (CBRT) has decided to cut short-term interest rates applied at CBRT Interbank Money Market and Repo-Reverse Repo Market at Istanbul Stock Exchange as follows:

a) **Overnight Interest Rates:** Borrowing interest rate was cut to **22 percent** from 24 percent and lending interest rate to **27 percent** from 29 percent.

b) **Other Maturity:** One-week borrowing interest rate was cut down to **22 percent** from 24 percent.

c) **Late Liquidity Window Interest Rates:** Within the framework of Late Liquidity Window Facility, CBRT overnight borrowing interest rate applicable between 16:00 – 16:30 Hours at Interbank Money Market was cut to **32 percent** from 34 percent. Borrowing interest rate of 5 percent remained the same.

d) The interest rates on overnight and one-week maturity borrowing facilities provided for primary dealer banks via repo transactions within the framework of open market transactions were cut down to **24 percent** from 26 percent.