

December 20, 2004

PRESS RELEASE
ON
CBRT INTEREST RATES

I. GENERAL ASSESSMENT

1. The Central Bank (CBRT) has regularly announced its views pertaining to the general macroeconomic outlook and future inflation via press releases under the title of “Inflation and Outlook”. In this context, especially in the reports and announcements issued in the second half of the year, the CBRT outlined its perspective for 2005. The risks that have been underlined include: (i) domestic demand and labor costs may not help reduce inflation as much as they did in the past three years, (ii) the high increase in raw material costs and wholesale prices might start to exert pressure on inflation after some time, (iii) uncertainties about the launch date of membership negotiations with the European Union may lead to fluctuations in the financial markets, (iv) concerns over the sustainability of the current program, (v) price rigidity in the services sector, especially in rents, (vi) the likelihood of adverse developments in international liquidity conditions.
2. The studies for creating a new Economic Program to be implemented in the next three years are about to be finalized. The main pillars of the new economic program will be fiscal and monetary discipline, and structural reforms. The realization of structural reforms will have a positive impact on the quality and sustainability of fiscal discipline. Especially tax and social security reforms are of crucial importance to this end. The policies ensuring that the principles of the current economic program, whose success has been

proven, would be implemented in 2005 and onwards have, to a large extent, removed uncertainties.

3. Meanwhile, the EU decision to start membership talks with Turkey, which was announced at the EU summit on December 17th, 2004, is believed to support the sustainability of reforms within the framework of the program.
4. These developments have reduced the above-mentioned risks in terms of inflation in the coming period. Moreover, according to recently announced data, economic activity lost momentum in the second half of 2004, and the declining deferred demand eased the pressure on domestic demand. These developments were predicted in the CBRT's press release on interest rate cuts dated 8 September 2004, in subsequent announcements, and in the recent press release of 9 December 2004. Moreover, as recently emphasized; factors such as deceleration in the rate of increase in industrial production, imports of intermediary goods, money demand and credits, and the drop in excess liquidity, along with the stabilization of consumer tendency and consumer confidence index, indicate that domestic demand will not reach a level that would bring about inflationary pressure, at least in the short run.
5. All these developments have reinforced our belief that future inflation will pursue a course which is consistent with the targets. Undoubtedly, the CBRT will continue to closely monitor the risks associated to future inflation as usual.

II. THE CENTRAL BANK INTEREST RATES

6. In the light of the evaluations above, the CBRT has decided to cut short-term interest rates applied at the CBRT Interbank Money Market and at the Istanbul Stock Exchange Repo-Reverse Repo Market starting from **20 December 2004** as follows:
 - a) **Overnight Interest Rates:** The borrowing interest rate is lowered to **18 percent** from 20 percent and the lending interest rate to **22 percent** from 24 percent.

- b) **Other Maturities:** The one-week borrowing interest rate is lowered to **18 percent** from 20 percent.
 - c) **Late Liquidity Window Interest Rates:** Within the framework of the Late Liquidity Window Facility, the CBRT overnight borrowing interest rate applicable between 16:00 – 16:30 hours at Interbank Money Market is lowered to **26 percent** from 28 percent. Borrowing interest rate of 5 percent remains 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 are lowered to **20 percent** from 22 percent.
7. Moreover, in line with the developments in foreign exchange liquidity observed in FX markets in May 2004, the interest rate applicable to one-week-maturity foreign exchange deposits provided for banks within their borrowing limits at the CBRT Foreign Exchange and Banknotes Markets, which was cut to 6 percent from 10 percent on 11 May 2004, is raised to **10 percent** in the light of favorable developments in the foreign exchange liquidity of banks and their efficient liquidity management.