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PRESS RELEASE

ON THE CBRT INTEREST RATE CUTS

I. GENERAL EVALUATION

1. Starting from November 2002, the Central Bank of Turkey has underlined three crucial risk factors that may have a negative impact on inflation in 2003, and pursued a cautious strategy while setting interest rates in the light of these risks. These risks are listed as (i) the upsurge in domestic demand beyond predictions in line with the improvement in expectations, (ii) the increase in agriculture and food prices owing to seasonal conditions, (iii) the likelihood of increased production costs due to the pressure exerted by Iraqi war on oil prices and exchange rates. It has also been pointed out that if fiscal discipline and structural reforms were followed without any disruption, exogenous shocks to be created by Iraqi issue might have led to temporary rises in inflation.

2. The Central Bank stressed especially in its press release of March 11, 2003 that the future course of inflation would basically depend on two factors. The first one was economic fundamentals and the second one was the possible impact of Iraqi developments on our country. Moreover, the period starting from the date of the said announcement up until the end of Iraqi issue was called "extraordinary period."

3. In the said announcement it was also underlined that economic fundamentals had been reinforced with the extra measures taken in the framework of the 2003 budget, and with the ongoing monetary discipline. It was clear that the downward trend in inflation would continue also after the "extraordinary period" provided that the economic program was strictly implemented.

4. Furthermore, it was pointed out that there might be some deviations from the main trend during the "extraordinary period" depending on the outcome of Iraqi crisis and if so, this deviation would only be temporary. In fact, the inflationary course is affected by monetary and fiscal discipline, and the environment of confidence created by this discipline and the optimistic expectations ensued thereafter. It was added that the measures taken represented a tight discipline, and the environment of confidence would expand thanks to strict implementations and thus, the impacts of an exogenous shock such as Iraqi crisis would almost certainly remain as a temporary deviation from the basic trend.

5. It will not be wrong to assume that the Iraqi issue has been settled with respect to inflationary analysis, and accordingly the extraordinary period has come to an end. During this period, the inflationary pressure exerted by the cost elements, which emerged especially due to fluctuations in crude oil prices and exchange rates, has now disappeared. Although not considerable, some delayed effects of these movements on prices may later be felt to some extent. On the other hand, according to the current indicators, domestic demand is not expected to exert a significant pressure on inflation at least in the short-term.

6. The Iraqi issue was not the sole reason that led to a deviation, albeit slight, from the main trend of inflation in the first quarter of 2003. There is no doubt that the price increases in agriculture and food products at considerably high levels owing to the weather conditions, and the public price adjustments, which were postponed due to elections, played significant role in this deviation as well. Another impact in the same direction is the "base" effect that was also emphasized in our announcement of March 11, 2003. As is known, two distinct movements were observed around the main downward trend in the 2002 inflation. Although de-seasonalized inflation rates pursued a relatively low course until June, an adverse trend was observed in the rest of 2002. Therefore, even if the said temporary factors did not happen, a significant drop in annual inflation rates in the first half of 2003 was not expected by the Central Bank because of the "base" effect.

7. Undoubtedly, the Central Bank, whose primary objective is price stability, does not make its short-term interest rate decisions in accordance with the temporary movements in inflation that may occur due to exogenous shocks and weather conditions The most important point with respect to our policies is the future trend of inflation, and whether the inflation target will be achieved or not.

8. The 2003 Budget, which was approved by the Turkish Parliament and put into force, is a drastic step that shows the determination of sustained fiscal discipline. Conclusion of the suspended fourth review, which was conducted with the IMF, was another development that dispelled the worries of economic agents on the implementation of the program in recent months. Furthermore, the budget performance and the realizations of some measures taken for establishing fiscal discipline are favorable.

9. Considering the significant drop in the 2002 inflation thanks to the current program, and the developments mentioned above, which signifies a clear expression of intent to continue with this successful program with determination, the Central Bank maintains a cautious optimism over the inflation for the next period. Continuation of this optimism and without making reference to adjective "cautious" will certainly depend on the implementation of the program with the same determination.

II. THE CENTRAL BANK INTEREST RATES

10. In the light of the evaluations above, starting from April 25, 2003, the 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 41 percent from 44 percent and lending interest rate to 48 percent from 51 percent.

b) **Other Maturity:** One-week borrowing interest rate was cut to 41 percent from 44 percent.

c) **Late Liquidity Window Interest Rates:** In the framework of Late Liquidity Window application, the CBRT overnight borrowing interest rate applicable between 16:00 – 16:30 at Interbank Money Market was cut to 53 percent from 56 percent. Borrowing interest rate of 5 percent remained the same.

Moreover, the interest rates on overnight and one-week maturity borrowing facilities provided for banks via repo transactions in the framework of open market operations were cut to 44 percent from 47 percent.