

**CBRT PRESS RELEASE**  
**ON**  
**REALIZATIONS ON THE MONETARY PROGRAM FOR THE JANUARY -**  
**MARCH 2004 PERIOD**

***I. General Evaluation***

1. Performance targets for the end-March Base Money and Net International Reserves, and indicative targets for Net Domestic Assets have been set in accordance with the Letter of Intent dated 31 October 2003. As of end-March, targets set for Net Domestic Assets and Net International Reserves have been achieved, but the Base Money realizations have been above the targeted level.

***II. Base Money***

2. The March ceiling specified as performance criterion for the Base Money in the Letter of Intent is calculated on the average of last five working days of the month. The average Base Money of the last five working days of March stood at TL 16,948 trillion, realizing above the upper limit of TL 16,100 trillion. As was expressed many times by the Central Bank before, this realization has been an anticipated development in the framework of the current monetary policy strategy.
3. As is closely followed by the public as well, the Central Bank shapes its monetary policy according to the consistency of the future course of inflation with the targeted inflation figures. Although targets are set for the base money, developments in the monetary aggregates are evaluated only in the light of their signals about the future inflation. In this framework, the main monetary policy instrument of the Central Bank is the short-term interest rates that are under its control, not the monetary aggregates. Within this process, the current and future interest rates are being determined consistently with the inflation target, and fluctuations in monetary aggregates are tolerated as long as they do not contradict with the inflation target.

4. At this point, it would be useful to fully understand the reasons for the recent expansion in the Base Money, and the signals emerged thereby. Since the second quarter of 2003, the atmosphere of confidence has been re-established in the economy due to the elimination of uncertainties to a great extent, and the strict implementation of the current program. Especially the rapid decline in inflation and in interest rates, and the relative stability in exchange rates are instrumental in the growth of money demand:

- i) The tendency of the economic units to hold and use Turkish lira has increased because of the rapid decline in inflation and interest rates, the stability in exchange rates, and the prospects about the continuation of the favorable developments. The volume of banknotes issued, one of the sub-items of the Base Money, increased by 39,6 percent in 2003 according to the average values of the last five working days, and greatly surpassed the growth rate and the total of inflation rates. The growth in the volume of banknotes issued has continued in the first quarter of 2004 as well, and increased by 10,2 percent as of the last five working days of March, compared to the same period in December 2003.
- ii) In the financial sector, which has expanded and deepened as a result of the increasing confidence in the future, and thanks to the current economic program, the new funds have mainly switched to the TL-denominated investment instruments, by increasing bank deposits as well. On the other hand, the base for deposits subject to the required reserves has increased due to the deposit payments of İmar Bankası, which is in receivership. In line with these developments, the bank deposits within the Base Money rose by 29,4 percent in 2003 according to the last five working days of March. Bank deposits increased by 30,4 percent as of the last five working days of March, compared to the same period of December 2003.

5. This situation indicates that the increase in the base money may have stemmed from a behavioral shift in the money demand rather than a sharp recovery in consumer demand. In other words, exceeding base money targets in an economy, where a sustained and credible economic program is implemented, can be considered as the inevitable result of these positive developments. Thus, during the 7th Revision, the developments in the base money have been evaluated in detail with the IMF authorities, it has been agreed upon that the monetary targets be revised for the rest of the year.
6. It should be underlined once more that the Central Bank's primary objective is achieving price stability, and all economic variables are evaluated from the standpoint of the information they contain about inflation. Likewise, the Central Bank may provide liquidity to the markets in response to changes in money demand as before, unless the inflation target is not threatened. The downward trend in inflation in the first two months of 2004, the lack of an evident domestic demand pressure, the relative stability in exchange rates, and the proximity of inflation expectations to the targeted inflation have all strengthened the belief that the 2004 inflation target would be attained. On the other hand, it is estimated that the increase in food prices will be relatively high in March due to the sharp price increases in agricultural products in January and February resulting from adverse weather conditions, and the tax adjustments made on tobacco products. However, the downward trend in inflation figures excluding food is expected to pursue its modest course. 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.
7. Undoubtedly, the long-term information that the monetary aggregates provide is being taken into consideration, as part of the current monetary policy strategy, and the developments are being followed closely. Although the current developments do not seem to indicate any risky situation, necessary measures will be taken in the event that the movements of monetary aggregates are considered to be a leading indicator of a development that might endanger the inflation target.

### ***III. Net International Reserves and Net Domestic Assets***

8. On the other hand, the lower limit of Net International Reserves realized as (minus) - USD 2.000 Million in end-March. As of 31 March 2004, the realizations concerning Net International Reserves and its sub-items are displayed in the table below:

	Million USD
CBRT Net International Reserves (1)	14.874
Treasury's debt to IMF (2)	14.125
Treasury's debt in terms of foreign exchange (3) (maturity shorter than 1 year)	0
Program definition: Net International Reserves (4 = 1-2-3)	748

Hence, Net International Reserves defined in the program, realized as USD 748 Million and therefore, they stood above the lower limit, (minus) – USD 2.000 Million, which is a performance criterion.

9. The top limit of the Net Domestic Assets, which is the indicative target in the monetary program, is set as TL 29.600 trillion for the end-March and calculated by the average values of the last five working days.

Realizations concerning Net Domestic Assets and its sub items in this period, are displayed in the table below:

	Trillion TL
CBRT Net Domestic Assets (1)	6.987
Treasury's debt to IMF (2)	20.334
Treasury's debt in terms of foreign exchange (3) (maturity shorter than 1 year)	0
Program definition: Net Domestic Assets (4 = 1+2+3)	27.321

Thus, the average of Net Domestic Assets realized as TL 27.321 trillion in the mentioned period, and remained below the top limit of TL 29.600 trillion, which is an indicative target.