

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

**I- GENERAL ASSESSMENT**

1. Fiscal discipline and monetary discipline are the sine qua non conditions for disinflation efforts. As stated in the press release titled “September Inflation and Outlook” issued in early October, the atmosphere of confidence achieved as a result of the positive perceptions of economic agents about the sustainability of the economic program brought along stabilization in exchange rates. Thus, the inflation continued the downward trend not only through the input costs but also through the expectations. Moreover, the fact that the recovery in demand is not yet at a level that would put burden on production potential is another factor that backs up the downward trend in inflation. In September, annual CPI and WPI inflations dropped to 23 percent and 19,1 percent, respectively. These figures have strongly reinforced the perceptions that the inflation target for end-2003 would be achieved.

2. It is clear that the favorable trend in the inflation can only be sustained by uninterrupted continuation of the fiscal discipline and the structural reform process. Within this framework, the determination in pursuing a public sector incomes policy, which is instrumental in inflationary dynamics, in line with the 2004 inflation target, and the measures taken for preserving the budgetary discipline for the rest of 2003 and also in 2004, are all supporting our view that the Turkish economy will continue to move in the right path.

3. On the other hand, in the absence of exogenous shocks, a failure in achieving a satisfactory decline in inflation, despite the improvements in economic fundamentals, can only be attributed to unfavorable expectations. Therefore, matching the expected inflation rate with the targeted inflation rate is of utmost importance. According to the results of the Expectations Survey for the first half of

October, the year-end inflation expectations have fallen to 19,8 percent, below the year-end target of 20 percent, while the expectations for the next 12 months have decreased to 16,5 percent. Considering that the year-end inflation target for 2004 has been set as 12 percent, it is obviously significant to see inflation expectations coming closer to this target. It is also clear, however, that this process needs to be accelerated even further. But this alone may not suffice. What is more important is that, the improvement observed in inflation expectations should also be reflected on the private sector wage and price setting policies and on similar contracts for the next period.

## II. THE CENTRAL BANK INTEREST RATES

4. In the light of the evaluations above, starting from October 15, 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 **26 percent** from 29 percent and lending interest rate to **31 percent** from 35 percent.
- b) **Interest Rates of Other Maturities:** One-week borrowing interest rate was cut to **26 percent** from 29 percent.
- c) **Late Liquidity Window Interest Rates:** In the framework of Late Liquidity Window application, the CBRT overnight borrowing interest rate applicable between 4:00 - 4:30 pm at Interbank Money Market was cut to **36 percent** from 40 percent. Borrowing interest rate of 5 percent remained the same.

Moreover, the interest rates on overnight and one-week maturity borrowing facilities provided for primary dealer banks via repo transactions in the framework of open market operations were cut to **28 percent** from 31 percent.