

PRESS RELEASE
ON
SEPTEMBER 2005 REALIZATIONS OF THE MONETARY PROGRAM

I- General Evaluation

1. Under the 2005 monetary program, performance targets for Base Money and Net International Reserves, and indicative targets for Net Domestic Assets were set for the end-September 2005 in accordance with the Letter of Intent dated 26 April 2005. The targets for Net International Reserves and Net Domestic Assets have been met as of end-September. However, the Base Money realizations have remained above the target level. The details of the targets and realized figures are given below:

II- Base Money

2. The Base Money, as calculated by the average value of the last five working days of September, stood at YTL 26.835 million, remaining above the upper limit of YTL 24.700 million.

3. The current monetary policy is shaped according to the consistency of the future course of inflation with the targeted inflation figures. Therefore, developments in monetary aggregates are evaluated only in the light of their signals about future inflation.

4. As is known, the relationship between the monetary aggregates and inflation has weakened under the past chronic inflation environment, particularly after the 1990's. The widespread confidence in the macroeconomic policies created by the successful implementation of the current program in recent years has increased the financial deepening and the reverse currency substitution. This development, in turn, leads to a real increase in money demand, making its forecast complicated. For this reason, it has been announced in the letters of intent since 2001 that the targets set for Base Money can be revised in line with developments if necessary. Thus, the targets for Base Money can be changed during the year in light of the evaluation as to whether the monetary expansion is inflationary or not.

5. As has been the case every year since 2002, the Base Money continued to grow rapidly in 2005. Starting from June, the targets set for the second half of 2005 needed to be revised and the IMF authorities agreed upon this change. However, monetary targets have not been revised since the IMF review could not be completed.

6. At this point, the reasons of the recent expansion in the Base Money and the signals given by these developments should be analyzed properly:

- i) It is obvious that the rapid decline in inflation and interest rates, the stability of exchange rates and expectations for the continuation of the favorable developments in the economy have increased the preference of economic agents for holding and using the New Turkish Lira. As a matter of fact, the volume of banknotes issued, which is one of the sub-items of the Base Money, grew by 31 percent in the period of September 2004-September 2005 as to the average value of the last five working days.
- ii) In the financial sector, which has started to expand and deepen as a result of the current economic program and increased confidence, new funds have largely directed to YTL-denominated investment instruments. In this period, bank deposits have had the largest share. Deposit interest rates, which have given limited response to the interest rate cuts of the Central Bank due to the increased competition among banks and the relatively decreased liquidity, remained higher compared to the other investment instruments in 2005. Accordingly, besides financial deepening, shift of funds from the Government Securities Portfolio to deposits has been observed especially in the non-banking sector. YTL deposits held with the Central Bank, which is one of the sub-items of the Base Money, increased by 35 percent in the period of September 2004-September 2005 as to the average value of the last five working days.
- ii) According to the average value of the last five working days, the rate of growth in the Base Money was 32 percent, surpassing that of the nominal GNP in the period of September 2004-September 2005.

7. In fact, the Central Bank considers the growth in money demand as a favorable development resulting from the increase in economic stability. In this framework, the

latest monetary expansion is not considered to be inflationary. However, its signals regarding the inflation trend in the medium and long-term are closely monitored.

III- Net International Reserves and Net Domestic Assets

8. The floor specified as performance criterion on the Net International Reserves under the monetary program was USD 2.750 million for end- September.

Figures pertaining to the Net International Reserves and its sub-items as of September 30, 2005 are as follows:

(Million USD)		
Central Bank Net International Reserves	(1)	28.551
Treasury's Debt to IMF	(2)	15.382
Treasury's FX-denominated debt with a maturity less than one year	(3)	0.0
Net International Reserves under the IMF program	(4=1-2-3)	13.169

Thus, Net International Reserves specified in the program became USD 13.169 million standing above the floor of USD 2.750 million, which is the performance criterion.

9. As end of September, the indicative ceiling for Net Domestic Assets under the monetary program was specified as YTL 37,800 million, as calculated by the average value of the last five working days.

Figures pertaining to Net Domestic Assets and its sub-items for the said period are shown in the following table.

(Million YTL)		
Central Bank Net Domestic Assets	(1)	472
Treasury's Debt to the IMF	(2)	23.229
Treasury's FX-denominated debt with a maturity less than one year	(3)	0
Net Domestic Assets under the IMF program	(4=1+2+3)	23.701

Therefore, the average Net Domestic Assets stood at YTL 23.701 million in the mentioned period, remaining below the indicative upper limit of YTL 37,800 million.

10. The Net International Reserves that have exceeded the predicted level due to the fact that the Central Bank purchased more foreign exchange than what was planned in the FX-buying auction program, and the Net Domestic Assets that have remained below the targeted

level are all pointing to the fact that the developments in the Central Bank balance sheet are healthy.