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PRESS RELEASE ABOUT THE MAXIMUM INTEREST RATES TO BE APPLIED FOR CREDIT CARD TRANSACTIONS

The monthly maximum contractual interest rate and the monthly maximum default interest rate to be applied for credit card transactions in New Turkish Lira is determined as 5,75 percent and 6,88 percent, respectively.

The monthly maximum contractual interest rates are determined as 5,75 percent for New Turkish Lira, 2,68 percent for US dollar and 2,68 percent for Euro by the Communique No: 2006/1 on Maximum Interest Rates To Be Applied For Credit Card Operations, published in the Official Gazette dated April 2, 2006 and No: 26127. Similarly, the monthly maximum default interest rates are determined as 6,88 percent for New Turkish Lira, 3,34 percent for US dollar and 3,05 percent for Euro.

The interest rates stated above are maximum rates and banks will not be allowed to apply interest rates higher than these rates beginning from June 1, 2006. Banks can freely determine their interest rates provided that they do not surpass these ceiling rates.

According to the third provisional article of Bank Cards and Credit Cards Law, institutions that issue cards should make necessary adjustment in their interest rate calculations within three months in accordance with the provision of this Law. For this reason, banks are obliged to adjust their credit card interest rates in accordance with the maximum interest rates mentioned above, beginning from June 1, 2006. In other words, the maximum interest rates announced by Central Bank of the Republic of Turkey (CBRT) today will be effective between June 1, 2006 and July 2, 2006. Before July 2, 2006, the CBRT will announce the maximum interest rates to be effective for the subsequent 3-month period.

Credit card, in general, is a payment instrument that enables its owner to purchase goods and services at the member businesses without using cash. Moreover, if the credit card users wish to withdraw cash or to delay their credit card spending for a determined period, the relevant spending amounts turn into credit and thus credit card becomes a credit instrument. Institutions issuing credit cards undertake POS (Point of Sale) machines investment cost and membership cost to national and international payment systems, and they are exposed to additional liquidity risk due to unforeseen cash withdrawals.

In that regard, banks tend to determine higher credit card interest rates than those of consumer credits due to higher credit risk because of weak collateral structure and liquidity risk because of unforeseen cash withdrawals. A survey of country practices also reveals that credit card interest rates are determined higher than the interest rates set for consumer credits. However, it is observed that the difference between these rates is much narrower than it is in our country.

For instance, in the USA, the average yearly interest rates applied on consumer credits is 7,5 percent, while the average yearly interest rate applied on credit cards is 12,5 percent. In England, these rates are 14,2 percent and 16,5 percent; 12 percent and 16,8 percent in Australia; and 13,7 percent and 18,8 percent in New Zealand. However, these rates are 22,6 percent (as of January 2006) and 84,8 percent (as of February 2006) in Turkey.

The primary reason of the wider gap in the interest rates between credit card and consumer credit in our country compared to the other countries was the market expectations of a new regulation concerning credit cards beginning from 2005 and the fact that the content of such regulation could not have been foreseen exactly. Moreover, it is considered that the provision of the Consumer Protection Law No: 4077 stating that default interest rate cannot exceed the contractual interest rate by more than thirty percent, would be another reason. This close connection has given rise to the determination of higher contractual interest rates to enable banks to keep the default interest rates higher in an environment where banks can freely determine contractual interest rates.

To prevent this inconvenience, by the Bank Cards And Credit Cards Law No:5464, which became effective on 1 March 2006 it is enacted that the regulation which set the connection between contractual interest rate and default interest rate in the Consumer Protection Law No: 4077 shall not be applied for credit cards. On the other hand, the 26th Article of the Bank Cards And Credit Cards Law gives the Central Bank of the Republic of Turkey the duty of determining the maximum contractual and maximum default interest rates. In addition, the same Law has clearly specified the rights and responsibilities of the related parties to a credit card transaction and regulated the infrastructure and operation of the system.

The legal grounds of the above mentioned Article 26 draw attention to the fact that there are wide gaps among the credit card interest rates applied by banks and moreover, some banks apply interest rates above the sector average. The duty entrusted to our Bank by this Law is to prevent the application of interest rates higher than the sector average, to closely monitor the developments in the credit card market with a view to the financial stability objective and to ensure the stabilization of the credit card interest rates based on market dynamics, rather than intervening directly to interest rates, which is contrary to the free market principles.

Country practices show that in general, the credit interest rates are freely determined in the market. However, some countries may impose ceilings on the interest rates to prevent excessively high interest rates within the framework of consumer protection.

In the French case, it is forbidden by law to implement an interest rate exceeding the sector average by more than thirty three percent. Banque de France makes public the excessive interest rates calculated on a quarterly basis. A similar regulation also exists in Italy and the interest rates to be applied by a bank cannot exceed the average interest rates calculated by the Ministry of Economy by more than fifty percent, after taking the opinion of the Banca d'Italia.

Our Bank has set the monthly maximum interest rates on credit cards by adding 0,5 point market margin to the weighted average interest rates of the banking sector. The same method has been used for determining the maximum default interest rates.

The monthly maximum contractual interest rates applied by banks for their credit card transactions differ between 2,75 percent and 6,5 percent. Therefore, the credit card holders can enjoy a broad spectrum of interest rate alternatives and can freely decide which one to choose. In the coming days, the monthly maximum interest rates applied by banks will be published in our Bank's web site and will be updated regularly if any changes occur. Thus, the credit card holders will be able to choose the banks that apply lower interest rates by checking these interest rates. It is expected that, the preferences of credit card users towards the banks offering lower interest rates are likely to increase the competition in the banking sector and hence to decrease the credit card interest rates. In this regard, it is predicted that the interest rates applicable to credit cards will decline even further in the coming period, by way of competition.