

January 24, 2006

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 23 January 2006

Committee Members Who Participated in the Meeting

Süreyya Serdengeçti (Governor), Sedef Ayalp, Erdem Başçı, Şükrü Binay, Güven Sak, Fatih Özatay

(Durmuş Yılmaz could not participate in the meeting due to being on leave.)

The Monetary Policy Committee has concluded that the data announced in the recent period since the last meeting did not lead to a significant change in the inflation and monetary policy outlook. It is estimated that although the downward trend of inflation may be interrupted in the first quarter of 2006, it will resume its trend starting from the second quarter of 2006. Despite this downward trend, in the light of current data the year-end inflation is more likely to be above 5 percent rather than below 5 percent. The major reasons behind this argument are the continuation of price rigidities in the service sector, the diminution of support provided by supply-demand conditions to inflation, the persistence of uncertainties around oil prices and international liquidity conditions and the fact that the other favorable effects have not been effective enough to offset these negative developments. As a result, it has been decided **to keep the short-term interest rates unchanged** at the CBRT Interbank Money Market and at the Istanbul Stock Exchange Repo-Reverse Repo Market as follows:

a) Overnight Interest Rates: The CBRT borrowing interest rate is 13.50 percent, and the CBRT lending interest rate is 16.50 percent,

b) Late Liquidity Window Interest Rates: Within the framework of the Late Liquidity Window Facility, the CBRT overnight borrowing interest rate applicable between 16:00 – 16:30 hours at Interbank Money Market is 9.50 percent. Lending interest rate is 19.50 percent,

c) The interest rates applicable to overnight and one-week maturity borrowing facilities provided for primary dealer banks via repo transactions within the framework of open market transactions are 15.50 percent.

In the light of the currently available information, the short-term interest rates are less likely to move upward, rather than going downward or remaining stable in the medium-term. In the near-term, however, the short-term interest rates are more likely to remain stable. This policy perspective will ensure that the inflation is in line with the target path around mid-2007.

On the other hand, it should be underlined that any new data and information associated with the inflation outlook in the next period will make the Monetary Policy Committee to revise its stance about the future.

The assessments of the Monetary Policy Committee that constitute the rationale of the above-mentioned decision will be published within five working days.