

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 25 June 2006

Committee Members Who Participated in the Meeting

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, Güven Sak, M. İbrahim Turhan, Mehmet Yörükoğlu.

(Being abroad, Durmuş Yılmaz has chaired the meeting via tele-conference system.)

The Monetary Policy Committee has decided to **raise** short-term interest rates (policy rates) at the CBRT Interbank Money Market and the Istanbul Stock Exchange Repo-Reverse Repo Market as follows:

a) Overnight Interest Rates: The CBRT borrowing interest rate is raised to **17.25** percent from 15 percent, and the CBRT lending interest rate is raised to **20.25** percent from 18 percent.

b) Late Liquidity Window Interest Rates: Within the framework of the Late Liquidity Window Facility, the CBRT overnight borrowing interest rate applicable between 4:00 p.m. – 4:30 p.m. at Interbank Money Market is raised to **13.25** percent from 11 percent. Lending interest rate is raised to **23.25** percent from 21 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 raised to **19.25** percent from 17 percent.

The Committee perceives that the volatility in international financial markets, which has started in May, basically results from the serious shrinkage in demand for financial assets of developing countries due to portfolio movements triggered by the process of monetary tightening and interest hikes in the developed countries. This demand shrinkage has exerted pressure on both foreign exchange rates and medium and short-term interest rates in developing countries, especially in the last three days, beyond the extent implied by economic fundamentals. Turkey has significantly been influenced by these developments because of the structure of the portfolio held by non-residents.

Recent volatility has the potential to affect the expectations and the risk perceptions, and thus the inflation. The Central Bank will not allow this to happen. In this context, the Central Bank will start deposit-buying auctions in order to reduce the excess New Turkish Lira liquidity in overnight money market via open market transactions with the aim of increasing the effectiveness of monetary policy decisions. Governor Yılmaz has submitted the regulation, which has been drawn up for this purpose, to the Committee. Moreover, the liquidity conditions in the foreign exchange markets have been thoroughly assessed and shrinkage in foreign exchange liquidity was identified. Due to the fact that an effective operating foreign exchange market is a precondition for price stability, the Committee has expressed its full support for the

effective intervention of the Central Bank Head-Office in order to provide foreign exchange liquidity via its tools and mechanisms.

Furthermore, Monetary Policy Committee has reviewed policy rates and has decided to further strengthen monetary tightening in order to improve medium-term inflationary expectations.

A broader and combined summary of the assessments of the Monetary Policy Committee of 20 June and 25 June will be published on 28 June 2006. Besides, starting from July, in order to contribute to the accurate comprehension of monthly inflation data, a technical note on inflation developments will be published within two days following the announcement of price indices. The Inflation Report assessing the reflections of recent economic developments on the medium-term inflation outlook will be published on 28 July 2006.