

## DECISION OF THE MONETARY POLICY COMMITTEE

*Meeting Date: 25 May 2006*

### *Committee Members Who Participated in the Meeting*

Durmuş Yılmaz (Governor), Erdem Başçı, Rifat Günay, Çiğdem Köse, Güven Sak (Şükriü Binay could not attend to the meeting as he was on leave)

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The Monetary Policy Committee has decided to **keep** short-term interest rates (policy rates) **unchanged** 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 13.25 percent, and the CBRT lending interest rate is 16.25 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 9.25 percent. Lending interest rate is 19.25 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 15.25 percent.

The Committee perceives that the latest incoming data about output, demand and inflation are largely consistent with the medium-term outlook elaborated in the Inflation Report, putting aside the recent volatility in financial markets. Despite the rise in inflation during the first four months of 2006, the rate of increase in the index, including April, which is calculated by excluding items such as alcoholic beverages-tobacco, energy, gold and unprocessed food that are beyond the control of monetary policy, remains steady at low levels. However, after the recent financial turbulences, it has become more likely that inflation might realize above the 2006 year-end inflation target.

The Central Bank will surely respond if there are strong indications that the inflation could considerably deviate from the targets in the medium-term. In light of available information, it should be noted that, although it is still early to change the medium-term outlook, the policy rates are less likely to decrease in the short-term. In the coming period, the policy rate decisions will be conditional on the international liquidity conditions, changes in risk premiums and other developments. The direction and magnitude of policy response can vary depending on whether the effects of fluctuations are temporary or permanent.

It should be emphasized that any new data and information associated with the inflation outlook will potentially lead the Monetary Policy Committee to revise its future stance.

A broader summary of the assessments of the Monetary Policy Committee will be published on Friday, 26<sup>th</sup> May 2006.

