

THE DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 26 September 2006

Committee Members Participated in the Meeting

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

The Monetary Policy Committee (Committee) has decided to **keep** short-term interest rates (policy rates) **unchanged** in the Inter-bank Money Market and the Istanbul Stock Exchange Repo-Reverse Repo Market as follows:

- a) Overnight Interest Rates: The overnight borrowing interest rate is **17.50** percent, and the overnight lending interest rate is **22.50** percent.
- b) Late Liquidity Window Interest Rates: Within the framework of the Late Liquidity Window Facility, the overnight borrowing interest rate valid between 4:00 p.m. – 4:30 p.m. in the Inter-bank Money Market is **13.50** percent, while the lending interest rate is **25.50** percent.
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealer banks via repo transactions within the framework of open market transactions is **21.50** percent.

The recently available data suggest that inflation outlook has continued to improve. Leading indicators confirm our earlier conjecture that total demand would slow down, albeit not as significantly. Although domestic demand indicators point to a significant slowdown, foreign demand remains relatively strong. Following the policy measures taken by the CBRT in June, inflation expectations continued to improve in September. Furthermore, the recent deceleration in the price increases in items such as energy, unprocessed food, alcoholic beverages-tobacco and gold has had a positive impact on annual inflation figures. However, factors such as the mismatch between the medium-term inflation expectations and the targets, and the continuation of uncertainties in both commodity prices and international liquidity conditions necessitate the monetary policy to remain cautious.

In light of these developments, the Committee assesses that maintaining the cautious stance for a while is necessary for the inflation rate to converge to the 2007 year-end targets. The policy rate is expected to remain close to the CBRT borrowing rate in the upcoming months. The CBRT will not hesitate to implement further tightening, in case there are developments that would suggest an unfavorable medium-term inflation outlook.

It should be emphasized that any new data or information on inflation outlook will potentially lead the Committee to revise its future stance.

A brief summary of the assessments of the Committee will be released within five working days.