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DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 23 March 2006

Committee Members Who Participated in the Meeting

Erdem Başçı (Chairman), Şükrü Binay, Rifat Günay, Fatih Özatay, Güven Sak, Durmuş Yılmaz

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

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.

The Monetary Policy Committee has concluded that the recent developments, while supporting short-term inflation forecasts, do not significantly change the medium-term outlook elaborated in the Inflation Report. It is expected that i) the cut in Value Added Tax rates in the textile, ready-wear and leather sectors, ii) the ongoing productivity increases in the manufacturing industry, iii) the fact that the secondary effects of oil price increases are continuing to remain limited, will favorably affect inflation in the short-term. In the light of these developments, it is estimated that the downward trend in annual inflation will resume starting from March, and end-year inflation will come closer to of 5 percent target rate. However, the cautious approach in monetary policy should be maintained in view of a possible increase in perceptions of uncertainty over monetary policy, the continuation of price rigidities in the service sector, the reduction of the contribution of demand conditions to inflation, and the persisting high volatility in the costs of raw materials. Moreover, the international liquidity conditions are being closely monitored.

In the light of currently available information, policy rates are less likely to increase, rather than remain stable or decrease in the medium-term. In the near-term, however, the likelihood of policy rates to remain stable has been declined since the last meeting. This policy perspective will ensure that inflation is in line with the target path around mid-2007. On the other hand, it should be emphasized that any new data and information associated with the inflation outlook will lead the Monetary Policy Committee to potentially revise its future stance.

A broader summary of the assessments of the Monetary Policy Committee will be published within five working days.