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THE DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 24 August 2006

Committee Members Participated in the Meeting

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

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 have confirmed our earlier conjecture that the economic activity would slow down, albeit not as significantly, in the second half of 2006 due to sluggish domestic demand. The measures taken in June by the Central Bank and its determination to attain medium targets have eased the medium-term inflationary pressures. In August, not only the pessimistic sentiments about inflation came to an end, but also the expectations started to show a slight improvement. Moreover, there has been a slight improvement international liquidity conditions. In light of these developments, the Monetary Policy Committee perceives that the medium-term inflation outlook has become slightly more favorable. However, the factors such as the continuation of risks arising from oil and other commodity prices, the mismatch between the expectations and the medium-term targets, and the uncertainties in the international liquidity conditions necessitate the monetary policy to remain cautious. In addition, it should be emphasized that the implementation of the incomes policy in line with the program targets is crucial for attaining the 2007 inflation target.

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. As stated in earlier announcements and reports, the Central Bank will not hesitate to implement further tightening if the incoming data suggest an unfavorable medium-term inflation outlook.

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

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