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**DECISION OF THE MONETARY POLICY COMMITTEE**

**Meeting Date: 23 February 2006**

*Committee Members Who Participated in the Meeting*

Süreyya Serdengeçti (Governor), Erdem Başçı, Şükrü Binay, Güven Sak, Fatih Özatay, Durmuş Yılmaz

(Sedef Ayalp could not participate in the meeting due to being on leave.)

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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, although there seems to be favorable developments in some cost factors, the data announced recently on inflation and economic activity do not significantly change the outlook elaborated in the Inflation Report. The forecasts indicate that the disinflation process, which has come to a halt in the first quarter of 2006, will resume in the second quarter. Despite this downward trend, in light of current data, end-year inflation is more likely to be above 5 percent rather than below 5 percent. The cautious approach in monetary policy should be maintained due to the continuation of price rigidities in the service sector, the reduction of the contribution of supply and demand conditions to inflation, and the continued risks around the costs of raw materials. On the other hand, the decrease in the risk premium has been noted and is being monitored with a view to assessing whether it is going to be enduring or temporary.

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 seems to have been lessened somewhat 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 stance about the future.

The assessments of the Monetary Policy Committee that constitute the rationale of the above-mentioned decision will be published within five working days.