

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: February 15, 2007

Committee Members

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

The Monetary Policy Committee (The Committee) has decided to **keep** short-term interest rates (policy rates) **unchanged** as follows:

- a) Overnight Interest Rates: Borrowing rate at **17.50** percent, and lending rate at **22.50** percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate applied between 4:00 p.m. – 4:30 p.m. at **13.50** percent, lending rate at **25.50** percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions at **21.50** percent.

The Committee evaluates the recent data as broadly consistent with the outlook presented in the Inflation Report. The rise in inflation in January did not change the medium term inflation outlook as it can be attributed to developments in unprocessed food prices. Annual inflation may exhibit a downward movement in February due to a possible correction in unprocessed food prices and may have an upward movement in March owing to possible administered price hikes. Yet, the disinflation trend will become more discernible starting from the second quarter. While the slowdown in private consumption demand continues, external demand remains relatively strong. Aggregate demand conditions continue to support disinflation. Moreover, medium-term inflation expectations continue to improve. Nevertheless, the gap between expectations and the targets, the risks related to services price inflation, and uncertainties in the global economy necessitate keeping the tight policy stance.

In light of these developments, the Committee assesses that meeting the medium term inflation targets requires the maintenance of the cautious policy stance. The Committee closely monitors the lagged effects of the monetary tightening since June 2006. Moreover, the potential impact of the progress in the structural reform agenda and the developments in incomes policy as well as public sector non-interest expenditures on inflation and inflation expectations are carefully evaluated. The Central Bank will not hesitate to tighten monetary policy in case of any new developments that would adversely affect the medium-term inflation outlook.

It should be emphasized that any new data or information related to the inflation outlook will lead the Committee to reconsider its stance.

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