

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 7 June 2006

Committee Members Who Participated in the Meeting

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

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

a) Overnight Interest Rates: The CBRT borrowing interest rate is increased to **15 percent** from 13.25 percent, and the CBRT lending interest rate is increased to **18 percent** from 16.25 percent.

b) Late Liquidity Window Interest Rates: Within the framework of the Late Liquidity Window Facility, the CBRT overnight borrowing interest rate applicable between 4:00 p.m. – 4:30 p.m. at Interbank Money Market is increased to **11 percent** from 9.25 percent. Lending interest rate is increased to **21 percent** from 19.25 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 increased to **17 percent** from 15.25 percent.

According to the April and May inflation figures, the annual inflation rate significantly exceeded the target path. Moreover, annual inflation figures to be recorded in the next months might further go up temporarily, with the pass-through effect of the exchange rate movements arising from the recent volatility in financial markets. The Monetary Policy Committee has deemed it necessary to revise the policy rates in order not to let such temporary developments cause permanent effects on the medium-term expectations and pricing behaviors, and also to make sure that the medium-term inflation trend is kept in line with the targets.

In light of currently available information, the policy rates are less likely to rise in the short-term, compared to the previous period. However, it should be reminded that the direction of monetary policy decisions might change conditional on developments pertaining to inflation outlook. Policy decisions will be based on a perspective in which inflation would converge to the target towards the end of 2007. Therefore, accompanied by the envisioned decline in inflation, the direction of policy rates would be downward as well in the medium-term.

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

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