

THE DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 19 October 2006

Committee Members Present at the Meeting

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

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 Monetary Policy Committee considers that, the inflation outlook of the last month did not change significantly compared to the previous period. Leading indicators confirm our earlier conjecture of a moderate slow down in aggregate demand. While the private sector demand indicators are pointing to a significant slowdown, the foreign demand remains relatively strong, though not as much as envisaged before. The improvement in inflation expectations continues. However, the factors such as the continued presence of a gap between the medium-term inflation expectations and the targets, the emergence of new risks related to services prices and the continuation of uncertainties in the global economy necessitate the monetary policy to remain cautious in the medium term.

In light of these developments, the Committee perceives that maintaining the cautious stance is necessary for the inflation rate to converge to the 2007 year-end targets. The Committee closely monitors the lagged effects of the monetary tightening that has been carried out since June. In addition, the impact of the incomes policy and the non-interest public sector expenditures on the 2007 inflation are closely monitored as well. The CBRT will not hesitate to tighten monetary policy, in case developments with unfavorable effects on medium-term inflation outlook are observed.

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

A brief summary of the evaluations of the Committee will be released within five working days.