

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: January 16, 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 October Inflation Report. While the slowdown in the private consumption demand continues, the external demand remains relatively strong. Although economic activity has shown a tendency to recover in the last quarter of 2006, overall demand conditions continue to support disinflation. Inflation expectations continue to improve. Nevertheless, the gap between the medium-term inflation expectations and the targets, the risks related to the services price inflation, and the uncertainties in the global economy necessitate keeping the tight policy stance. Moreover, the Committee notes the support from oil prices to the inflation outlook, as well as the uncertainties regarding the unprocessed food prices.

In light of these developments, the Committee assesses that meeting the medium term inflation targets would necessitate 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 the incomes policy as well as the public sector non-interest expenditures on the inflation and the 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.