

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: 27 April 2006

Committee Members Who Participated in the Meeting

Durmuş Yılmaz (Governor), Erdem Başçı, Rifat Günay, Çiğdem Köse, Güven Sak (Şükriü Binay could not attend to the meeting as he was on leave)

The Monetary Policy Committee has decided to **cut** short-term interest rates (policy rates) **applied** 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 reduced from 13.50 percent to **13.25** percent, and the CBRT lending interest rate is reduced from 16.50 percent to **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 decreased to **9.25** percent from 9.50 percent. Lending interest rate is decreased to **19.25** percent from 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 reduced to **15.25** percent from 15.50 percent.

The Monetary Policy Committee has concluded that recent developments do not significantly change the medium-term outlook elaborated in the Inflation Report published in January. In the recent period, economic growth displayed a stable trend, investments and increases in productivity continued while secondary effects of the prices of oil and other commodities remained limited. When items such as energy, unprocessed food and alcoholic beverages-tobacco that are beyond the control of monetary policy are excluded, the general trend of inflation is observed to be downwards. Annual inflation is expected to display a downward trend from the second quarter of the year onwards. However, the cautious approach in monetary policy should be maintained in view of the continuation of price increases in the services sector, the weakening contribution of demand conditions to inflation and the persisting high and volatile oil prices. Moreover, the international liquidity conditions are being closely monitored.

In the light of currently available information, policy rates are less likely to increase, rather than decrease or remain stable in the medium-term. It should be noted that new data will be monitored carefully in the near-term. This policy perspective will ensure that inflation is in line with the target path around mid-2007. Meanwhile, it should be emphasized that any new data and 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.