

THE DECISION OF THE MONETARY POLICY COMMITTEE ON INTEREST RATES

Meeting Date: 20 July 2006

Committee Members Participated in the Meeting

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

The Monetary Policy Committee (Committee) has decided to **increase** short-term interest rates (policy rates) 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 increased to **17.50 percent** from 17.25 percent, and the overnight lending interest rate is increased to **22.50 percent** from 22.25 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 increased to **13.50 percent** from 13.25 percent while the lending interest rate is increased to **25.50 percent** from 25.25 percent.

c) The interest rates on 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 **21.50 percent** from 21.25 percent.

The Committee perceives that the recent rise in inflation will continue in July due to the lagged exchange rate pass-through. The measures taken in June by the Central Bank is expected to ease the pressures on inflation in the forthcoming period. However, there is still need to remain cautious for inflation because oil and other commodity prices are still increasing and the expectations are not yet in line with the medium-term targets. Taken all these factors into account, the Committee decided to move toward a measured tightening of monetary policy in order to achieve the 2007 year-end inflation target.

In light of the existing risks, the Committee considers that the cautious stance is more likely to continue for some time. Under a cautious stance, the downward trend in inflation is expected to be significant in the second quarter of 2007. In the forthcoming period, the developments in the international liquidity conditions, the course of domestic demand, pricing behavior and the public sector income policy will be monitored closely.

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 brief summary of the assessments of the Monetary Policy Committee will be released within five working days. Following that, the Inflation Report assessing the reflections of recent economic developments on the medium-term inflation outlook will be released on 28 July 2006.