

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: May 15, 2008

Committee Members

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

The Monetary Policy Committee (The Committee) has decided to increase the policy rates as follows:

- a) Overnight Interest Rates: Borrowing rate from 15.25 percent to 15.75 percent, and lending rate from 19.25 percent to 19.75 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. from 11.25 percent to 11.75 percent, lending rate from 22.25 percent to 22.75 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions from 18.25 percent to 18.75 percent.

Recent readings confirm the outlook presented in the April Inflation Report. Lagged pass-through impact of the exchange rate movements and rising energy and processed food prices may lead to a temporary rise in inflation in the short term. Difficulties in international credit markets continue to restrain the domestic demand, while external demand remains strong. Overall, aggregate demand conditions will continue to support disinflation.

The Committee expects inflation to start decelerating in the last quarter of the year, ending 2009 at around 6.7 percent, as forecasted in the April Inflation Report. In the forthcoming period, monetary policy decisions will be geared towards keeping inflation close to these forecasts. Therefore, it is important that economic agents align their expectations with the Central Bank forecasts.

The Central Bank will continue to take the necessary measures to prevent the potential second-round effects of the adverse developments in food and energy prices. Accordingly, the Committee will consider the possibility of a further measured rate hike in the next meeting. The **extent and timing** of possible future rate hike will depend on developments in global markets, external demand, fiscal policy implementation, and other factors affecting the medium term inflation outlook.

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

The summary of the Monetary Policy Committee Meeting will be released within eight working days.