

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: May 14, 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.

Recent data on economic activity is broadly consistent with the outlook presented in the April Inflation Report. While the slowdown in private consumption demand continues, foreign demand remains relatively strong. Aggregate demand conditions continue to support disinflation. Against this background, disinflation is expected to become more significant in the upcoming period. Besides, the Committee noted that a partial correction in unprocessed food prices, and the base effect may contribute to the decline in annual inflation in May. However, the Committee, with a medium term perspective, decided to keep the policy rates unchanged against the risks such as the gap between inflation expectations and targets, the backward looking pricing behavior, elevated oil prices, prevailing uncertainties, and the stickiness related to services price inflation.

The monetary tightening since June 2006 is affecting the domestic demand as expected. The lagged effects on inflation are yet to be seen. The potential impacts of the progress in the structural reform agenda and the developments in incomes policy as well as public sector non-interest expenditures on inflation and inflation expectations are carefully evaluated. Within this framework, the Committee assesses that meeting the medium term inflation targets requires the maintenance of the tight policy stance.

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.