

## DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: April 21, 2011

### Participating Committee Members

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

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The Monetary Policy Committee (the Committee) has decided to keep the policy rates constant at the following levels:

- a) One-week repo rate (the policy rate) at 6.25 percent,
- b) Overnight Interest Rates: Borrowing rate at 1.50 percent, lending rate at 9 percent, the interest rate on borrowing facilities provided for primary dealers via repo transactions at 8 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate at 0 percent, lending rate at 12 percent.

Recent releases suggest that the economic activity is moderating after a strong print in the last quarter of 2010. However, domestic demand remains strong, while external demand displays a weaker pace. Employment conditions continue to improve, though, unemployment rates remain higher than the pre-crisis levels.

Owing to the lagged impact of rising oil prices as well as base effects, inflation is expected to display an increasing trend over the short term and, after hovering around the target throughout the year, it is expected to end the year somewhat above the target of 5.5 percent. Central Bank of Turkey (CBT) will not react to the first round effects of the increases in oil and other commodity prices. However, second round effects will be closely monitored and a deterioration in the pricing behavior will not be tolerated.

The effects of the measures taken by the CBT since November on credit volume and domestic demand are expected to be more visible starting with the second quarter. However, the Committee has indicated that raising reserve requirements on short term foreign exchange and Turkish lira liabilities would contribute to containing macro financial risks by rebalancing the external and domestic demand. In light of these assessments, in order to contain the risks towards price stability and financial stability, the Committee has decided to monitor the tightening impact of the implemented policy mix—a low policy rate, a wide interest corridor and high reserve requirement ratios—and take additional measures along the same lines, if needed.

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

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