

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: June 21, 2012

Participating Committee Members

Erdem Başçı (Governor), Ahmet Faruk Aysan, Turalay Kenç, Necati Şahin, Abdullah Yavaş, Mehmet Yörükoğlu

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

- a) One-week repo rate (the policy rate) at 5.75 percent,
- b) Overnight Interest Rates: Borrowing rate at 5 percent, lending rate at 11.5 percent, the interest rate on borrowing facilities provided for primary dealers via repo transactions at 11 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate at 0 percent, lending rate at 14.5 percent.

Recent data confirm that the rebalancing between the domestic and external demand continues as envisaged. While domestic demand shows a significant slowdown in the first quarter, leading indicators suggest a modest recovery for the second quarter. Exports continue to grow despite the weakening global outlook. Overall, aggregate demand conditions support disinflation, and the improvement in the current account balance is expected to continue in the forthcoming period.

Energy and unprocessed food prices follow a more favorable course than envisaged in the April Inflation Report, leading to a better inflation outlook. However, pricing behavior should be closely monitored as inflation will continue to stay above the target for some time. Therefore, additional monetary tightening may be implemented along the guidance presented in the April and May Committee meetings.

The Committee stated that, given the prevailing uncertainties regarding the global economy, it would be appropriate to preserve the flexibility of the monetary policy. Therefore, the impact of the measures undertaken on credit, domestic demand, and inflation expectations will be monitored closely and the funding amount will be adjusted in either direction, as needed.

Moreover, in order to support financial stability, the Committee has approved an additional increase in the flexibility regarding the allowance to hold Turkish lira reserve requirements in foreign currency and gold.

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.