

**DECISION OF THE MONETARY POLICY COMMITTEE**

Meeting Date: August 23, 2011

**Participating Committee Members**

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

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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 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 data releases confirm the Committee's assessment that global economic activity continues to decelerate. In addition to weak external demand, there is an ongoing slowdown in the domestic demand since the second quarter. The slowdown in credit growth and domestic demand combined with the exchange rate movements have been contributing to the rebalancing of domestic and external demand. Accordingly, the Committee expects a notable improvement in the current account balance in the forthcoming period.

The Committee has noted that inflation may temporarily hover slightly above the levels envisaged in the July Inflation Report and core inflation may continue to rise for some time. However, due to the slowdown in economic activity, it is expected that the second round effects of exchange rate movements would be limited, and thus the increase in inflation would be temporary. Accordingly, the Committee has indicated that inflation outlook for the end of 2012 is consistent with the 5 percent target.

The Committee has agreed that the measures taken at the interim meeting on August 4, 2011 have contained the downside risks for the economy for the time being, and thus decided to keep the policy instruments unchanged at this meeting. However, given the uncertainties regarding the global economy, it is important to monitor all developments closely, and to deliver the required policy response in a timely manner. The Committee has also reiterated that all policy instruments may be eased should global economic problems further intensify and the slowdown in domestic economic activity becomes more pronounced.

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.