

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: July 21, 2011

Participating Committee Members

Erdem Başçı (Governor), Turalay Kenç, Necati Şahin, M. İbrahim Turhan, 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 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 data releases are broadly consistent with the outlook presented in the April Inflation Report. Private consumption shows signs of slowdown, investment growth is moderating, and external demand outlook remains weak. Employment conditions continue to improve with unemployment rates back to the pre-crisis levels. Meanwhile, unit labor costs decline due to strong productivity gains, and low levels of capacity utilization rates persist due to weak external demand. Although core inflation is likely display some upward movement over the short term, the increase is expected to be limited due to the slowdown in economic activity.

The recent measures taken by the Banking Regulation and Supervision Agency and the tight fiscal stance support the policy mix implemented by the Central Bank, and thus contribute to the rebalancing of domestic and external demand. The Committee has indicated that, due to the measures taken so far, the domestic demand is now under control and reiterated that the current account balance will start to improve in the final quarter of the year.

In light of these assessments, combined with the heightened uncertainty regarding the global economy and the slowdown in domestic economic activity, the Committee has decided to maintain the current policy mix. The Committee has also stated that it would be appropriate to narrow the interest corridor gradually should the sovereign debt problems regarding some European economies and the concerns on global growth continue to have adverse impact on the risk appetite. The Committee has also stated that all policy instruments may be eased should global economic problems intensify and lead to a contraction in domestic economic activity.

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.