

**DECISION OF THE MONETARY POLICY COMMITTEE**

Meeting Date: July 19, 2012

**Participating Committee Members**

Erdem Başçı (Governor), Ahmet Faruk Aysan, Murat Çetinkaya, Turalay Kenç, Necati Şahin, 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 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. Domestic demand displays a modest recovery as expected, while exports continue to grow despite the weakening global outlook. Overall, aggregate demand conditions support disinflation and current account balance continues to improve gradually.

The Committee has indicated that the year-end inflation forecast is likely to be revised slightly downwards due to recent favorable developments in factors affecting inflation. However, pricing behavior should be closely monitored as inflation will continue to stay above the target for some time. Also considering the prevailing uncertainties regarding the global economy, the Committee has stated that it would be appropriate to preserve the flexibility of the monetary policy. 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 allowance to hold Turkish lira reserve requirements in foreign currency.

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.