

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: May 25, 2011

Participating Committee Members

Erdem Başçı (Governor), Burhan Göklemmez, Turalay Kenç, 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 consistent with the outlook presented in the Inflation Report. Private consumption and investment growth rates are moderating after a strong rebound in 2010, while external demand outlook remains weak. Employment conditions continue to improve and unemployment rates are approaching the pre-crisis levels. Low levels of capacity utilization rates suggest that output gap has not closed yet. However, owing to the lagged impact of rising import prices, inflation is expected to increase at a moderate pace over the short term. Moreover, the Committee notes that inflation may exceed the year-end target of 5.5 percent in May due to base effects arising from unprocessed food prices, and follow a volatile path thereafter in line with the path presented in the Inflation Report.

The effects of the tightening measures on credit growth and domestic demand have become more visible in the second quarter. However, both elevated levels of energy and other commodity prices and a weaker external demand outlook postpone the improvement in the current account balance to the last quarter. In light of these assessments and considering the uncertainty regarding the global economy, the Committee has indicated that it would be useful to continue to observe the lagged impacts of the measures taken so far.

Overall, in order to contain the risks towards price stability and financial stability, the Committee has decided to monitor the tightening impact of the existing policy mix 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.