

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: June 16, 2008

Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, M. İbrahim Turhan, Abdullah Yavaş, Mehmet Yörükoğlu.

The Monetary Policy Committee (The Committee) has decided to increase the policy rates as follows:

- a) Overnight Interest Rates: Borrowing rate from 15.75 percent to 16.25 percent, and lending rate from 19.75 percent to 20.25 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. from 11.75 percent to 12.25 percent, lending rate from 22.75 percent to 23.25 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions from 18.75 percent to 19.25 percent.

Recent readings on the supply and demand conditions are largely in line with the predictions of the April Inflation Report. Difficulties in international credit markets continue to restrain the domestic demand, while external demand displays a relatively strong course. Overall, aggregate demand conditions will support disinflation.

The Committee notes that recently there have been favorable developments in unprocessed food prices, while oil prices have followed a significantly higher course than the prices assumed in the baseline scenario in the April Inflation Report. Consequently, inflation is expected to decelerate starting from the last quarter of the year, ending 2009 close to the 7.5 percent inflation target. Adverse impacts of the supply side shocks on the economy will be more limited should the economic agents align their expectations for the next three years with the target rates of 7,5 percent, 6.5 percent and 5.5 percent, respectively.

Ongoing uncertainties and supply side shocks continue to pose risks on inflation. The Central Bank will consider a further measured rate hike when needed, so as to prevent the potential second-round effects of such risk factors. The **extent and timing** of a possible future rate hike will depend on developments in global markets, external demand, fiscal policy implementation, and other factors affecting the medium term inflation outlook.

It should be emphasized that any new data or information related to the inflation outlook may lead the Committee to revise its stance.

The summary of the Monetary Policy Committee Meeting will be released within eight working days.