

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: May 18, 2010

Participating Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, Turalay Kenç,
Abdullah Yavaş, Mehmet Yörükoğlu.

Absent: M. İbrahim Turhan (on duty)

The Monetary Policy Committee (The Committee) has decided to keep overnight rates unchanged as follows, and to implement the technical rate adjustment by **setting the one week repo auction rate at 7 percent:**

- a) Overnight Interest Rates: Borrowing rate at 6.50 percent, lending rate at 9 percent,
- b) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate at 2.50 percent, lending rate at 12 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions at 8 percent.

Recent data suggest that the recovery in economic activity is ongoing. Domestic demand is following a stable growth trend, while recent developments indicate that uncertainties regarding external demand would last for a long period. Therefore, it would take a while before industrial capacity utilization rates return to pre-crisis levels. Although employment conditions continue to improve, unemployment rates remain at high levels.

The Committee indicated that core inflation would continue to remain at levels below the end-year target. It was also noted that unprocessed food prices may display a significant fall in May. However, it was stated that the significant gap between inflation expectations and the medium term targets necessitates close monitoring of the pricing behavior.

The Committee stated that market liquidity conditions have evolved as envisaged, and therefore, conditions are appropriate to implement the first step of the technical rate adjustment described in the “Monetary Policy Exit Strategy” published on the 14th of April 2010. Observing that current rates for one week repo auctions fluctuate around 7 percent, the Committee decided to start conducting one week repo auctions via quantity auction with fixed interest rate, in order to eliminate such fluctuations. In this respect, the one week repo rate, which becomes the new policy rate, is set at 7 percent—50 basis points above the overnight borrowing rates, as indicated in the exit strategy document.

Considering the lingering uncertainties regarding global economy, the Committee reiterated that it may be necessary to maintain policy rates at current levels for some time, and to keep them at low levels for a long period.

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.