

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: May 29, 2012

Participating Committee Members

Erdem Başçı (Governor), Ahmet Faruk Aysan, Turalay Kenç, Necati Şahin, 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 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. While consumption demand shows a significant slowdown in the first quarter, leading indicators suggest a modest recovery for the second quarter. Exports continue to grow at a steady pace. Accordingly, the improvement in the current account balance is expected to continue in the forthcoming period.

Although inflation will display a marked drop in May, it is expected to stay significantly above the target until the last quarter of the year. Accordingly, the current tight policy stance will be maintained in the forthcoming period in order to contain risks regarding pricing behavior. The Committee therefore continues to forecast the year-end inflation to be at 6.5 percent stated in the April Inflation Report.

The Committee stated that, given the prevailing uncertainties regarding the global economy, it would be appropriate to preserve the flexibility of the monetary policy. Therefore, 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. In this respect, shorter episodes of additional monetary tightening may also be implemented, when necessary.

Moreover, in order to support financial stability, the Committee has approved a limited increase in the flexibility regarding 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.