

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: June 23, 2011

Participating Committee Members

Erdem Başçı (Governor), Turalay Kenç, Necati Şahin, 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, while external demand outlook remains weak. Employment conditions continue to improve with unemployment rates back to the pre-crisis levels. Meanwhile, unit labor costs decline due to strong productivity gains and low levels of capacity utilization rates persist due to weak external demand. However, given the lagged impact of rising import prices and base effects, core inflation is expected to increase at a moderate pace over the short term. Moreover, the Committee notes that the jump in unprocessed food inflation would largely reverse in June and annual inflation would fall back to the path forecasted in the Inflation Report.

The recent measures taken by the Banking Regulation and Supervision Agency will contribute to the rebalancing of domestic and external demand. The Committee has reiterated that, owing to the measures taken so far, the current account balance will start to improve in the final quarter of the year. In light of these assessments, combined with the ongoing uncertainty regarding the global economy and the slowdown in domestic economic activity, the Committee has decided to maintain the current policy stance.

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.