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

a) Overnight Interest Rates: Borrowing rate is increased from 16.25 percent to 16.75 percent, while lending rate is left unchanged at 20.25 percent,

b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. is increased from 12.25 percent to 12.75 percent, while lending rate is left unchanged at 23.25,

c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions is left unchanged at 19.25.

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 support disinflation. The Committee also finds it worthwhile to mention that the hikes in electricity rates and the last year’s low base will lead to a significant but temporary rise in annual inflation in July.

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 stay at elevated levels for a short period before gradually moderating towards the 7.5 percent target by the end of 2009. 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.

Given the monetary tightening since May, the Committee believes that the current level of the policy rate is supportive of disinflation. Yet, 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 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.

Considering the changing liquidity conditions, the Committee has also decided to reduce the margin between the borrowing and the lending rates by 50 basis points.

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.