

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: March 18, 2014

Participating Committee Members

Erdem Başçı (Governor), Ahmet Faruk Aysan, Murat Çetinkaya, 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) Overnight Interest Rates: Marginal Funding Rate at 12 percent, the interest rate on borrowing facilities provided for primary dealers via repo transactions at 11.5 percent, and borrowing rate at 8 percent,
- b) One-week repo rate at 10 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate at 0 percent, lending rate at 15 percent.

The Committee highlighted the upside risks on the inflation outlook and assessed that the strong and frontloaded monetary tightening delivered at the January interim meeting has contained the adverse impact of such risks on the medium term inflation expectations. Yet, inflation is expected to increase until June, partly reflecting base effects. Against this backdrop, inflation expectations and pricing behavior will be closely monitored and the tight monetary policy stance will be maintained until there is a significant improvement in the inflation outlook.

Loan growth continues to slow down in response to the tight monetary policy stance, recent macroprudential measures, and weak capital flows. In line with these developments, the data regarding the first quarter of 2014 indicate some deceleration in private final domestic demand. Meanwhile, with the help of the recovery in foreign demand, the contribution of net exports to economic growth is expected to increase. The Committee expects that such a demand composition will support disinflation and lead to a significant improvement in the current account deficit in 2014.

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.