

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: July 23, 2013

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 adjust the short term interest rates as follows:

- a) One-week repo rate (the policy rate) has been kept constant at 4.5 percent,
- b) Overnight Interest Rates: Borrowing has been kept at 3.5 percent, lending rate has been increased from 6.5 percent to 7.25 percent, and the interest rate on borrowing facilities provided for primary dealers via repo transactions has been increased from 6 percent to 6.75 percent.
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate has been kept at 0 percent while lending rate has been increased from 9.5 to 10.25 percent.

Recent data suggest that domestic and external demand developments in the second quarter are in line with expectations. Domestic demand follows a healthy recovery while exports grow at a moderate pace. The current policy framework limits the deterioration in current account balance. Accordingly, current account deficit, excluding gold trade, has been on a stable course.

Capital flows have weakened since May due to increasing uncertainty regarding the global monetary policies. Yet, loan growth continues to hover above the reference rate. The Committee has indicated that tightening the monetary policy stance under these circumstances will support financial stability.

Recently, several developments have affected inflation adversely. Surging unprocessed food prices, rising oil prices, and the increased exchange rate volatility may continue to have adverse impact on inflation in the short term. Although the Committee sees these developments as temporary to a large extent, a measured monetary tightening is deemed necessary in order to contain a deterioration in the pricing behavior.

In order to support the price and financial stability, the Committee has decided to raise the upper bound of the interest rate corridor. Cautious stance will be maintained until the inflation outlook is in line with the medium term targets. In this respect, additional monetary tightening will be implemented when necessary.

Due to ongoing uncertainties regarding the global economy and the volatility in capital flows, the Committee has decided to increase the flexibility of the liquidity management. To this end, developments regarding price stability and financial stability will be closely monitored and necessary adjustments will be made in the composition of Turkish lira liquidity provided by the Central Bank.

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.