

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: September 18, 2012

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 at 5.75 percent.
- b) Overnight Interest Rates: Borrowing rate has been kept at 5 percent while lending rate has been cut from 11.5 percent to 10 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been cut from 11 percent to 9.5 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 cut from 14.5 percent to 13 percent.

Recent data confirm that the rebalancing between the domestic and external demand continues as envisaged. As of the third quarter, domestic demand follows a moderate pace, while exports continue to increase despite the weakening global outlook. Overall, aggregate demand conditions support disinflation and current account deficit continues to improve gradually.

The Committee expects the fall in inflation to become more evident during the last quarter of the year. However, given the recent increases in energy prices and given that inflation will continue to stay above the target for some time, a cautious stance regarding pricing behavior is warranted.

Although the risk appetite has improved in financial markets due to recent developments, ongoing uncertainties regarding the global economy necessitate the monetary policy to remain flexible on both sides. 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.

The Committee has stated that increasing the reserve option coefficients and narrowing the interest rate corridor would support financial stability. If deemed necessary, a measured step in the same direction may be taken in the forthcoming period.

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.