

**DECISION OF THE MONETARY POLICY COMMITTEE**

Meeting Date: March 26, 2013

**Participating Committee Members**

Erdem Başçı (Governor), Ahmet Faruk Aysan, Murat Çetinkaya, Turalay Kenç, Necati Şahin, Abdullah Yavaş, Mehmet Yörükoğlu.

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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 5.5 percent.
- b) Overnight Interest Rates: Borrowing rate has been kept constant at 4.50 percent while lending rate has been cut from 8.50 percent to 7.50 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been cut from 8 percent to 7 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 11.50 percent to 10.50 percent.

Recent data suggest that domestic and external demand are evolving in line with expectations. Domestic demand follows a healthy recovery while exports remain relatively strong despite weak global economic activity. The current account deficit is expected to increase somewhat in the forthcoming period following the revival in domestic demand. However, the current policy framework is expected contain the widening in the current account deficit.

Credit growth has been hovering above the reference rates during the early months of the year amid strong capital inflows. However, there is a deceleration in capital inflows in the recent period. The Committee has decided to increase the effectiveness of the Reserve Options Mechanism gradually in response to the heightened volatility in capital inflows. The automatic stabilizer effect of this mechanism reduces the need for a wider interest rate corridor. In this respect, the interest rate corridor was made more symmetric by cutting the overnight lending rates by 100 basis points.

Ongoing uncertainties regarding the global economy necessitate the monetary policy to remain flexible in both directions. 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 indicated that weak global demand and the commodity price outlook contains the upward pressures on inflation. In the meantime, the impact of increases in credit and domestic demand on the pricing behavior will be monitored closely.

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.