

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: November 11, 2010

Participating Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, Turalay Kenç,
M. İbrahim Turhan, Abdullah Yavaş, Mehmet Yörükoğlu.

The Monetary Policy Committee (the Committee) has decided to set the short term interest rates as follows:

- a) One-week repo rate (the policy rate) was kept constant at 7 percent,
- b) Overnight Interest Rates: Borrowing rate was reduced from 5.75 percent to 1.75 percent, while lending rate was kept constant at 8.75 percent. The interest rate on borrowing facilities provided for primary dealers via repo transactions was kept constant at 7.75 percent.
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate was reduced from 1.75 percent to 0 percent, while lending rate was kept at 11.75 percent.

Recent data releases suggest that economic activity continues to recover with the support of domestic demand. However, it would take a long time before industrial capacity utilization rates return to their pre-crisis levels, due to weak external demand outlook. Although employment conditions continue to improve, unemployment rates remain at high levels. Therefore, it is expected that inflation would be on a declining path in the forthcoming period, while core inflation indicators would remain consistent with the medium-term targets.

In light of these assessments, the Committee has reiterated that it would be necessary to maintain the policy rate at current levels for some time, and to keep it at low levels for a long period.

Recent surge in capital inflows exacerbates the divergence between the growth rates of domestic and external demand, widening the current account deficit through rapid credit growth and increasing import demand and thus highlighting the risks regarding financial stability. In order to encourage the lengthening of the maturities in the Turkish lira money market transactions, the Committee has decided to allow overnight interest rates to diverge from the policy rate temporarily, when needed. To this end, the Committee has decided to widen the gap between lending and borrowing rates by reducing the borrowing rates by 400 basis points. Moreover, observing the favorable developments in credit conditions, the Committee has indicated that it would be appropriate to proceed with the remaining measures outlined in the exit strategy.

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.