

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: February 21, 2012

Participating Committee Members

Erdem Başçı (Governor), Ahmet Faruk Aysan, Necati Şahin, Abdullah Yavaş, Mehmet Yörükoğlu **Absent:** Turalay Kenç (on duty).

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 12.5 percent to 11.5 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been cut from 12 percent to 11 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 15.5 percent to 14.5 percent.

Recent data releases confirm that the rebalancing between the domestic and external demand is ongoing as envisaged. Final domestic demand is decelerating while the contribution of net external demand to growth is increasing. Accordingly, the rebalancing process and the improvement in the current account deficit will continue in the forthcoming period.

Starting from February, core inflation indicators are expected to follow a downward path due to favorable cost factors. Also considering the recent expansionary monetary policy decisions throughout the globe, the Committee has decided to cut the upper limit of the interest rate corridor. Yet, the Committee has indicated that the cautious monetary policy stance should be maintained for a while in order to keep inflation outlook consistent with the medium term targets.

However, given the prevailing uncertainties regarding the global economy, it would be appropriate to preserve the flexibility of the monetary policy. Therefore, the impact of the measures undertaken on credit, domestic demand, and inflation expectations will be monitored closely and the amount of Turkish lira funding via one-week repo auctions will be adjusted in either direction, as needed.

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.