

## DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: August 16, 2012

### 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 keep the short term interest rates constant at the following levels:

- a) One-week repo rate (the policy rate) at 5.75 percent,
- b) Overnight Interest Rates: Borrowing rate at 5 percent, lending rate at 11.5 percent, the interest rate on borrowing facilities provided for primary dealers via repo transactions at 11 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate at 0 percent, lending rate at 14.5 percent.

Recent data confirm that the rebalancing between the domestic and external demand continues as envisaged. Domestic demand displays a modest recovery, while exports continue to grow despite the weakening global outlook. Overall, aggregate demand conditions support disinflation and current account balance continues to improve gradually.

The Committee expects inflation to follow a downward course in the forthcoming period as indicated in July Inflation Report. However, pricing behavior should be closely monitored as inflation will continue to stay above the target for some time.

The Committee has stated that, given the prevailing uncertainties regarding the global economy, it would be appropriate to preserve the flexibility of the monetary policy 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.

Moreover, in order to support financial stability, the Committee has approved an additional increase in the ratio of allowance to hold Turkish lira reserve requirements in foreign currency and gold, and a limited increase in the coefficient of the option to hold foreign exchange for the Turkish lira reserve requirements (reserve option coefficient) for the first tranche.

In light of these developments, the Committee has indicated that interest rate corridor may be narrowed gradually 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.