

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: August 20, 2013

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 constant at 4.5 percent,
- b) Overnight Interest Rates: Borrowing has been kept at 3.5 percent, lending rate has been increased from 7.25 percent to 7.75 percent, and the interest rate on borrowing facilities provided for primary dealers via repo transactions has been kept at 6.75 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 kept at 10.25 percent.

Recent data suggest that domestic and external demand developments are in line with expectations. Domestic demand and exports grow at a moderate pace. Gradual improvement in the current account deficit, excluding gold trade, continues. The current policy framework, with the additional support from recent macroprudential policies, will continue to improve the current account balance.

The weakness in capital flows that started in May due to heightened uncertainty regarding the global monetary policies continues. The Committee has indicated that these developments along with a more cautious monetary policy stance will bring the credit growth rates gradually to more reasonable levels.

Inflation is expected to start falling from August onwards as envisaged. Yet, in order to contain the adverse impact of the above-target inflation indicators on the pricing behavior, the Committee has decided to strengthen the cautious stance of the monetary policy. The cautious stance will be maintained until the inflation outlook is in line with the medium term targets. In this respect, additional monetary tightening will be implemented whenever needed. In order to increase the effectiveness of the additional monetary tightening, the Committee has decided to raise the overnight lending rate from 7.25 percent to 7.75 percent.

Due to ongoing uncertainties regarding the global economy and the volatility in capital flows, it is important to maintain the flexibility of the liquidity management. To this end, developments regarding price stability and financial stability will be closely monitored and necessary adjustments will be made in the composition of Turkish lira liquidity provided by the Central Bank.

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.