

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: February 19, 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 at 5.5 percent.
- b) Overnight Interest Rates: Borrowing rate has been cut from 4.75 percent to 4.50 percent while lending rate has been cut from 8.75 percent to 8.50 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been cut from 8.25 percent to 8 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 11.75 percent to 11.50 percent.

Recent data confirm that the rebalancing between the domestic and external demand continues as envisaged. Domestic demand follows a moderate pace while exports continue to increase despite weak global activity. Overall, current account deficit continues to decline gradually.

The Committee has indicated that credit growth displays a significant acceleration amid strong capital inflows. In order to contain the risks on financial stability, the proper policy would be to keep interest rates at low levels while continuing with macroprudential measures. Accordingly, it was deemed appropriate to implement a measured tightening through reserve requirements, while delivering a limited downward shift in the interest rate corridor.

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 inflation will continue to fall despite the recent increase in oil prices. Core inflation indicators are also expected to follow a mild course. In the meantime, the impact of increases in administered prices 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.