

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: October 20, 2011

Participating Committee Members

Erdem Başçı (Governor), Turalay Kenç, Necati Şahin, M. İbrahim Turhan, 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 5.75 percent,
- b) Overnight Interest Rates: Borrowing rate has been kept at 5 percent while lending rate has been increased from 9 percent to 12,5 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been increased from 8 percent to 12 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 increased from 12 percent to 15,5 percent.

Recent data releases suggest that the rebalancing between the domestic and external demand is ongoing as envisaged. With the credit growth decelerating to more reasonable levels, the desired increase in private savings has already started to take place. Accordingly, the Committee has noted that there is a significant improvement in the current account balance and this trend will be more evident in the final quarter of the year.

Inflation will rise significantly in the upcoming months due to the recent excessive depreciation of the Turkish lira, base effects from unprocessed food prices and the recent adjustments in administered prices. The Committee will not tolerate these developments to have an adverse impact on medium term inflation expectations and inflation outlook. In this respect, the Committee has decided to widen the interest rate corridor by increasing the lending rate significantly.

Moreover, in line with the strategy formulated at the interim meeting of August 4, 2011, the Committee will continue to monitor global developments closely and take the needed measures promptly to maintain the stability in the domestic financial markets.

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.