

**DECISION OF THE MONETARY POLICY COMMITTEE**

Meeting Date: January 22, 2013

**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 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 5 percent to 4.75 while lending rate has been cut from 9 percent to 8.75 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been cut from 8.5 percent to 8.25 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 12 percent to 11.75 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 the recent credit growth has been faster than envisaged, amid accelerating 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 may increase slightly in January due to adjustments in tobacco prices, but will resume its downward trend afterwards. Core inflation indicators are expected to continue their downward trend. 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.