

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: May 16, 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 cut the short term interest rates as follows:

- a) One-week repo rate (the policy rate) has been cut from 5 percent to 4.5 percent.
- b) Overnight Interest Rates: Borrowing rate has been cut from 4 percent to 3.5 percent while lending rate has been cut from 7 percent to 6.5 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been cut from 6.5 percent to 6 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 10 percent to 9.5 percent.

Recent data suggest that domestic and external demand are evolving in line with expectations. Domestic demand follows a healthy recovery while exports slow down due to weak global economic activity. The current policy framework and the decline in commodity prices limit the impact of the increasing economic activity on the current account deficit.

Capital inflows remain strong and credit growth hovers above the reference rate. The Committee indicated that, in order to balance the risks on financial stability, the proper policy would be to keep interest rates low while increasing foreign currency reserves via macroprudential measures. Accordingly, it was deemed appropriate to implement a measured tightening via reserve requirements and reserve options coefficients, while delivering a cut in the short term interest rates.

Ongoing uncertainties regarding the global economy and the volatility in capital flows 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 the weak global demand and the commodity price outlook contain the upward pressures on inflation. In the meantime, the impact of increases in credit and domestic demand 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.