

## **DECISION OF THE MONETARY POLICY COMMITTEE**

Meeting Date: October 18, 2012

### **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 5.75 percent.
- b) Overnight Interest Rates: Borrowing rate has been kept at 5 percent while lending rate has been cut from 10 percent to 9.5 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been cut from 9.5 percent to 9 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 13 percent to 12.5 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 the weakening global outlook. Overall, aggregate demand conditions support disinflation and current account deficit continues to decline gradually.

The Committee expects the fall in inflation to become more evident during the last quarter of the year. However, a cautious stance regarding pricing behavior is warranted given that inflation will stay above the target rate for some time due to recent increases in administered and energy prices.

Although the risk appetite has improved due to recent developments in financial markets, ongoing uncertainties regarding the global economy necessitate the monetary policy to remain flexible on both sides. 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 stated that increasing the reserve option coefficients and narrowing the interest rate corridor by a measured amount would support financial stability. If deemed necessary, a measured step in the same direction may be taken in the forthcoming period.

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.