

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: February 14, 2008

Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemez, M. İbrahim Turhan, Mehmet Yörüköglu.

The Monetary Policy Committee (The Committee) decided to lower the policy rates as follows:

- a) Overnight Interest Rates: Borrowing rate from 15.50 to 15.25 percent, and lending rate from 19.50 to 19.25 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate applied between 4:00 p.m. – 5:00 p.m. from 11.50 to 11.25 percent, lending rate from 22.50 to 22.25 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions from 18.50 to 18.25 percent.

Recent readings on economic activity suggest that the economy continues to grow at a moderate pace. Weakened global credit conditions restrain domestic demand. Moreover, the expected slowdown in global economic activity may lead to a reduction in the contribution of external demand to the economic growth in the medium term. Accordingly, aggregate demand conditions will continue to support disinflation. In this context, inflation is expected to decelerate in the medium term despite risks from food and energy prices.

The Committee underlined that the primary goal of the Central Bank of Turkey (CBT) is to achieve price stability, and noted that monetary policy remains restrictive even after the recent rate cuts. Although unprocessed food prices may display temporary fluctuations, inflation excluding energy and food items is expected to remain close to 4 percent. Yet, ongoing uncertainties in the global economy and the risks to the price setting behavior compel the CBT to be attentive to the incoming information. Accordingly, the Committee will closely monitor the lagged impacts of the recent rate cuts. Besides, the second round effects on the wage and price setting behavior of elevated food and energy prices and of the developments in incomes policy will be watched closely. The timing of further easing will depend on developments regarding global market conditions, external demand, fiscal policy implementation, and other factors affecting the medium term inflation outlook.

It should be emphasized that any new data or information related to the inflation outlook may lead the Committee to revise its stance.

The summary of the Monetary Policy Committee Meeting will be released within eight working days.