

PRESS RELEASE

August 23, 2016

DECISION OF THE MONETARY POLICY COMMITTEE

Participating Committee Members

Murat Çetinkaya (Governor), Ahmet Faruk Aysan, Erkan Kilimci, Murat Uysal, Abdullah Yavaş.

The Monetary Policy Committee (the Committee) has decided to set the short term interest rates as follows:

- a) Overnight Interest Rates: Marginal Funding Rate has been reduced from 8.75 percent to 8.5 percent, and borrowing rate has been kept at 7.25 percent,
- b) One-week repo rate has been kept at 7.5 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate has been kept at 0 percent, and lending rate has been reduced from 10.25 percent to 10 percent.

Annual loan growth continues at reasonable rates in response to the tight monetary policy stance and macroprudential measures. Although developments in tourism revenues will have a negative impact in the short run, the lagged effects of the developments in the terms of trade and the moderate course of consumer loans will continue to contribute to the improvement in the current account balance. While domestic demand is having a positive impact on growth, albeit at a lesser extent, demand from the European Union economies continues to support exports. Accordingly, economic activity displays a moderate and stable course of growth. The Committee assesses that the implementation of the structural reforms would contribute to the potential growth significantly.

The adverse impact of domestic developments in mid-July on market indicators has been largely reversed due to improved global risk appetite and the recent measures. Moreover, the tight monetary policy stance, the cautious macroprudential policies and the effective use of the policy instruments laid out in the road map published in August 2015 have increased the resilience of the economy against shocks. Also considering its contribution to the effectiveness of monetary policy, the Committee decided to take a measured and cautious step towards simplification.

Unprocessed food prices, which have recently shown marked increases, are projected to display a downward correction in the short term. Meanwhile, the core inflation trend is expected to improve gradually. Yet, the developments in the inflation outlook necessitate the maintenance of a tight liquidity stance.

Future monetary policy decisions will be conditional on the inflation outlook. Taking into account inflation expectations, pricing behavior and the course of other factors affecting inflation, the tight monetary policy stance will be maintained.

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.
