

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: October 15, 2009

Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, Turalay Kenç,
M. İbrahim Turhan, Abdullah Yavaş, Mehmet Yörükoğlu.

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

- a) Overnight Interest Rates: Borrowing rate is decreased from 7.25 percent to 6.75 percent, while lending rate is decreased from 9.75 percent to 9.25 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. is decreased from 3.25 percent to 2.75 percent, while lending rate is decreased from 12.75 percent to 12.25 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions is decreased from 8.75 percent to 8.25 percent.

Recent data releases indicate that, in line with the Committee's previous assessments, the ongoing recovery in economic activity will be gradual and protracted. External demand and domestic investment demand remain weak. Moreover, consumption demand, after having increased markedly during the second quarter, is expected to display a weaker course in the third quarter. Although employment indicators show some improvement, it remains to be seen whether this will turn into a robust recovery. Therefore, inflation is expected to remain at low levels for a long period of time.

Lingering problems across the global economy are not resolved completely and there are still uncertainties regarding the strength of the recovery. Taking these factors into account, the Committee reiterates that it will be necessary for the monetary policy to maintain an easing bias for a long period of time. The Committee notes that, the cumulative policy rate cuts implemented since November 2008, and the improvements in global risk perceptions have started to have favorable effects on credit markets. The Committee indicates that a slowdown in the pace of the rate cuts would be considered in the next meeting depending on the economic data and developments.

In addition, the Committee, after taking liquidity conditions into consideration, has made the assessment that a limited reduction in Turkish Lira reserve requirements would alleviate the tightness in credit conditions, and thus enhance the effectiveness of the expansionary monetary policy.

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.