

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: February 19, 2009

Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, 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 13 percent to 11.50 percent, while lending rate is decreased from 15.50 percent to 14 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. is decreased from 9 percent to 7.5 percent, while lending rate is decreased from 18.50 percent to 17 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions is decreased from 14.50 percent to 13 percent.

Recent readings indicate that the domestic economic activity continues to slow down. Problems in international credit markets and the global economy persist, suggesting that it will take some time for the economic activity to recover. Therefore, downward pressures on inflation are expected to prevail. Moreover, ongoing declines in oil and other commodity prices are having a favorable impact on disinflation. Looking ahead, the Committee predicts that the fall in inflation will be more significant in the forthcoming period and will reach the target levels sooner than envisaged. Judging that inflation is likely to significantly undershoot the target at the end of the year, the Committee has decided to lower short-term interest rates by 150 basis points.

The Committee has indicated that the tightness in financial conditions still persist to some degree despite the recent policy rate cuts. The Central Bank will continue to take the necessary measures to contain the adverse effects of the global financial turmoil on the domestic economy, provided that they do not conflict with the price stability objective. Uncertainties regarding the impact of the problems in financial markets on the real economy remain high. The extent and the timing of a possible future rate cut will depend on the factors affecting the inflation outlook.

Moreover, the Committee has underscored the importance of maintaining the smooth functioning of the financial system and the efficient operation of credit markets, and has reached a consensus on implementing additional measures regarding the foreign exchange liquidity.

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.