

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: October 14, 2010

Participating 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 set the short term interest rates as follows:

- a) One-week repo rate (the policy rate) was kept constant at 7 percent,
- b) Overnight Interest Rates: Borrowing rate was reduced from 6.25 percent to 5.75 percent, while lending rate was kept constant at 8.75 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate was reduced from 2.25 percent to 1.75 percent, while lending rate was kept at 11.75 percent,
- d) The interest rate on borrowing facilities provided for primary dealers via repo transactions was kept constant at 7.75 percent.

Recent data releases suggest that economic activity continues to recover. Uncertainties regarding external demand persist, while domestic demand displays a relatively stronger outlook. It would take a while before industrial capacity utilization rates return to their pre-crisis levels. Although employment conditions continue to improve, unemployment rates remain at high levels. It is expected that inflation would be on a declining path in the forthcoming period, while core inflation would remain consistent with the medium-term targets.

In light of these assessments, the Committee has reiterated that it would be necessary to maintain policy rates at current levels for some time, and to keep them at low levels for a long period. On the other hand, in order to enhance the efficient functioning of the Turkish lira market, the Committee has decided to reduce the borrowing rates by 50 basis points.

Expectations of more accommodative monetary policies in developed economies have been leading to a surge in capital flows toward emerging markets. This development, coupled with the relative improvement in the creditworthiness of Turkey, exacerbates the risks related to the divergence between the domestic and external demand. While not yet a significant concern regarding financial stability, the Committee has indicated that these developments support the implementation of the “exit strategy” measures. Therefore, the Committee has indicated that it would be appropriate to proceed with the remaining measures outlined in the exit strategy that were envisaged to be implemented by the end of 2010. Moreover, the Committee has judged that the 3-month repo funding is no longer needed.

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.