

## DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: September 16, 2010

### Participating Committee Members

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

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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 6.50 percent to 6.25 percent, while lending rate was reduced from 9 percent to 8.75 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate was reduced from 2.50 to 2.25 percent, while lending rate was reduced from 12 to 11.75 percent,
- d) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions was reduced from 8 percent to 7.75 percent.

Recent data releases are in line with the outlook presented in the July Inflation Report. Economic activity is on a milder recovery path following a strong growth in the second quarter. Uncertainties regarding external demand persist, while domestic demand displays a relatively stable outlook. Therefore, 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.

The Committee has restated that inflation would increase temporarily in the short term before reverting to a declining path starting from the last quarter of the year. Core inflation indicators are expected to remain consistent with the medium-term targets.

In light of these developments, 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, the Committee has assessed that current liquidity conditions are appropriate to implement the second step of the technical rate adjustment mentioned in the "Monetary Policy Exit Strategy" published on April 14, 2010 and decided to change the interest rates as indicated above. Moreover, the Committee has indicated that it would be appropriate to proceed with the measures outlined in the exit strategy that were envisaged to be implemented by the end of 2010.

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.