

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: December 18, 2012

Participating Committee Members

Erdem Başçı (Governor), Ahmet Faruk Aysan, Murat Çetinkaya, Necati Şahin, Abdullah Yavaş, Mehmet Yörükoğlu. **Absent:** Turalay Kenç (on duty).

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

- a) One-week repo rate (the policy rate) has been cut from 5.75 percent to 5.5 percent.
- b) Overnight Interest Rates: Borrowing rate has been kept at 5 percent while lending rate has been kept at 9 percent. Interest rate on borrowing facilities provided for primary dealers via repo transactions has been kept at 8.5 percent.
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate has been kept at 0 percent while lending rate has been kept at 12 percent.

Recent data confirm that the rebalancing between the domestic and external demand continues as envisaged. Domestic demand follows a moderate pace while exports continue to increase despite weakening global activity. Overall, aggregate demand conditions support disinflation and current account deficit continues to decline gradually.

Confidence indices and credit growth show a marked increase, supported by the accommodative liquidity policies implemented by the Central Bank since mid-year and the relative improvement in the risk appetite. Therefore, the contribution of domestic demand to economic growth is expected to increase in the forthcoming period.

The Committee expects that year-end inflation will be significantly lower than the forecast presented in the October Inflation Report, owing to the favorable course of unprocessed food prices. However, indirect effects of recent increases in administered and energy prices are closely monitored in terms of the medium term inflation outlook.

The Committee has stated that, in order to contain the risks on financial stability in the face of accelerating capital inflows, the proper policy would be to keep interest rates at low levels while continuing with macroprudential measures. Accordingly, the Committee has indicated that, in order to support financial stability, it would be appropriate to take additional steps using reserve requirements, while delivering a limited cut in the policy rate. In the following period, if deemed necessary for financial stability, a measured adjustment in the interest rate corridor might also be considered.

Ongoing uncertainties regarding the global economy necessitate the monetary policy to remain flexible in both directions. Therefore, the impact of the measures undertaken on credit, domestic demand, and inflation expectations will be monitored closely and the funding amount will be adjusted in either direction, as needed.

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.