

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: December 16, 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 reduced from 7 percent to 6.5 percent,
- b) Overnight Interest Rates: Borrowing rate was reduced from 1.75 percent to 1.50 percent, while lending rate was increased from 8.75 percent to 9 percent. The interest rate on borrowing facilities provided for primary dealers via repo transactions was increased from 7.75 percent to 8 percent.
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate was kept at 0 percent, while lending rate was increased from 11.75 percent to 12 percent.

Recent releases have been consistent with the outlook presented in the October Inflation Report. Although economic activity continues to recover amid strong domestic demand, it would take a long time before industrial capacity utilization rates return to their pre-crisis levels due to weak external demand. Employment conditions continue to improve, yet unemployment rates remain at high levels. With the additional support of falling unprocessed food prices, inflation is expected to decline in the forthcoming period.

Primary objective of the central bank is to achieve and maintain price stability. Financial stability is one of the fundamental duties of the Central Bank as well. The divergence between domestic and foreign demand growth coupled with a rapid credit expansion is increasing the current account deficit, hence contributing to risks regarding financial stability. Moreover, recent developments and related policy decisions in European and US economies have been exacerbating these risks, necessitating a revision in the domestic policy mix.

In this respect, the Committee has stated that a lower policy rate, a wider interest corridor, combined with higher required reserve ratios would serve as a more effective policy mix. Moreover, with regard to policy measures to enhance financial stability, the Committee has suggested that it would be useful to differentiate the required reserve ratios for different maturities of TL deposits in order to encourage longer term funding, and to widen the scope of the reserve requirements.

The Committee assesses that the net impact of these measures on the monetary conditions will not be expansionary. The effects of today's decisions will be monitored closely and additional measures will be implemented if necessary.

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 eight working days.