

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: January 17, 2008

Committee Members

Durmuş Yılmaz (Governor), Erdem Başçı, Burhan Göklemmez, M. İbrahim Turhan, Mehmet Yörükoğlu.

The Monetary Policy Committee (The Committee) decided to **lower the policy rates** as follows:

- a) Overnight Interest Rates: Borrowing rate from **15.75 to 15.50 percent**, and lending rate from **20 to 19.50 percent**,
- b) Late Liquidity Window Interest Rates: Borrowing rate applied between 4:00 p.m. – 5:00 p.m. from **11.75 to 11.50 percent**, lending rate from **23 to 22.50 percent**,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions from **19 to 18.50 percent**.

Readings on the last quarter of 2007 suggest that the economy continued to grow at a moderate pace. The lagged effects of monetary tightening and the weakened global credit conditions restrain domestic demand. Moreover, the expected slowdown in global economic activity may lead to a reduction in the contribution of external demand to the economic growth. Accordingly, aggregate demand conditions should continue to support disinflation. In this context, inflation is expected to decelerate despite the risks from food and energy prices.

Drought and energy related supply shocks not only increased inflation temporarily but also had short-term adverse effects on the growth rate. The Committee underlined that the primary goal of the Central Bank is to achieve price stability, and noted that monetary policy remains restrictive even after the recent rate cuts. Yet, the lagged impacts of the recent rate cuts are to be seen. Besides, the Committee will closely monitor the second round effects of elevated food and energy prices as well as developments in incomes policy, on the wage and price setting behavior. The timing of further easing will depend on incoming information regarding global liquidity conditions, external demand, fiscal policy implementation and other factors affecting the medium term inflation outlook.

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.