

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: October 22, 2008

Committee Members

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

The Monetary Policy Committee (The Committee) has decided to adjust the policy rates as follows:

- a) Overnight Interest Rates: Borrowing rate is left unchanged at 16.75 percent, while lending rate is decreased from 20.25 percent to 19.75 percent,
- b) Late Liquidity Window Interest Rates: Borrowing rate between 4:00 p.m. – 5:00 p.m. is left unchanged at 12,75 percent, while lending rate is decreased from 23,25 percent to 22,75 percent,
- c) The interest rate on overnight and one-week maturity borrowing facilities provided for primary dealers via repo transactions is decreased from 19.25 percent to 18.75 percent.

Recent readings indicate a significant slowdown in domestic economic activity. Ongoing problems in international credit markets and the global economy continue to restrain both the domestic and external demand. Inflationary impact of the recent exchange rate movements will be offset by the favorable outlook in food prices and the sharp decline in oil prices. Inflation is expected to display a limited and temporary rise in October due to volatile food prices, yet continue to decline gradually in the medium term. Accordingly, the Committee at this point does not envision a significant revision in medium term inflation forecasts.

However, it should be noted that the intensification of the financial market turmoil requires caution in terms of both the monetary policy and the inflation outlook.

In this respect, the Committee decided to keep borrowing rates –the key policy rates– unchanged, while lowering the lending rates by 50 basis points in order to contain the potential volatility in short term interest rates.

The meeting agenda also included an assessment of the developments in foreign exchange markets. The Committee emphasized the importance of a liquid foreign exchange market under current conditions and stated that supporting the liquidity positions of the banks should be the priority, and suggested that raising the transaction limits at the Foreign Exchange Deposit Markets would be helpful in this regard. Moreover, the Committee agreed that other measures would be implemented as needed.

The Central Bank will continue to take the necessary measures to contain the adverse effects of the global financial turmoil on the domestic economy. Future policy decisions will largely depend on the developments in global markets and their reflections on the local financial markets.

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.