

DECISION OF THE MONETARY POLICY COMMITTEE

Meeting Date: December 22, 2011

Participating Committee Members

Erdem Başçı (Governor), Ahmet Faruk Aysan, Turalay Kenç, Necati Şahin,
M. İbrahim Turhan, Abdullah Yavaş, Mehmet Yörükoğlu.

The Monetary Policy Committee (the Committee) has decided to keep the short term interest rates constant at the following levels:

- a) One-week repo rate (the policy rate) at 5.75 percent,
- b) Overnight Interest Rates: Borrowing rate at 5 percent, lending rate at 12.5 percent, the interest rate on borrowing facilities provided for primary dealers via repo transactions at 12 percent,
- c) Late Liquidity Window Interest Rates (between 4:00 p.m. – 5:00 p.m.): Borrowing rate at 0 percent, lending rate at 15.5 percent.

Data on the third quarter of the year confirms that the rebalancing between the domestic and external demand is ongoing as envisaged. Consumption demand is decelerating and the contribution of net external demand to growth is increasing. Accordingly, the improvement in the current account balance is becoming more pronounced.

The Committee has noted that inflation will increase in December due to the base effects from unprocessed food prices. The Central Bank delivered a strong tightening in October in order to prevent the potential second round effects of a 2011 year-end inflation that will exceed the target significantly. Although recent data releases suggest that the economic activity is stronger than expected, domestic demand is expected to follow a moderate path due to monetary tightening. In fact, the slowdown in the consumer loan growth is becoming more pronounced. Therefore, the Committee expects second round effects of the temporary price movements to remain contained and inflation to fall gradually throughout 2012, converging to 5 percent target during the final months of the year.

The Committee has indicated that tight monetary policy should be maintained for a while in order to keep inflation outlook consistent with the medium term targets. However, given the prevailing uncertainties regarding global economy, it would be appropriate to preserve the flexibility of monetary policy. Therefore, the impact of the measures undertaken on credit, domestic demand, and inflation expectations will be monitored closely and the amount of Turkish lira funding via one-week repo auctions will be timely adjusted on either direction, if needed.

Moreover, the Committee has determined the main components of the “Monetary and Exchange Rate Policy in 2012” document, to be published on Tuesday 27th of December.

In line with the strategy formulated at the interim meeting of August 4, 2011, the Committee will continue to monitor global developments closely and take the needed measures promptly to maintain the stability in the domestic financial markets.

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.